Rent Survey | October 2016

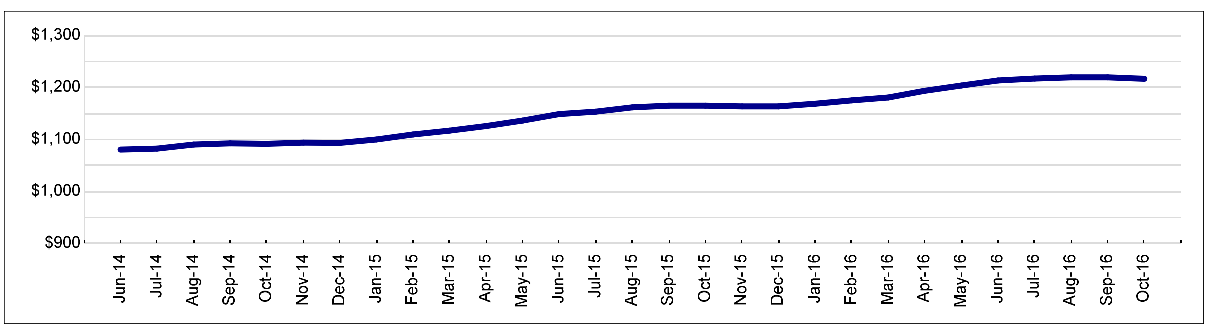
Multifamily Rents Moderate, but Remain Strong

Continuing a trend of steady deceleration, average U.S. monthly rents fell by $3 in October, to $1,216, according to Yardi Matrix's monthly survey of 123 markets. Although relatively slight, the decline in rents was the biggest drop in three years, since the average fell by $3 in October 2013. On a year-over-year basis, rents grew 4.4% nationwide in October, a 30-basis-point decline from September and a 230-basis-point fall from the recent high of 6.7%, in October 2015. The decline demonstrates a reversion to more "normal" rent growth that we forecast at the beginning of the year. Given the seasonal nature of apartment rents, the consistency of growth in recent years represents more of a historical outlier than the current moderation.

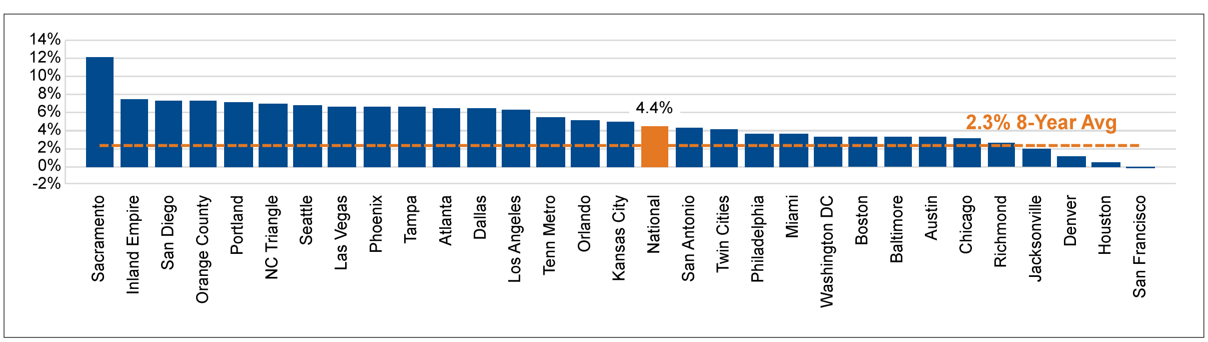
What is causing the deceleration? There are a number of factors, but two stand out. One is that the outsize growth of 9-plus percent seen in so many metros through late 2015 and early 2016 has moderated. Sacramento, which tops our survey with a surprising 12.1% year-over-year growth, is the only metro above 7.4%. The other key factor is that the spate of supply of high-end Lifestyle apartments has effectively put a lid on rent growth in some metros, in some cases in tandem with a slowing rate of job growth. The rate of growth remains higher for lower-cost Renter-by-Necessity units than upscale Lifestyle units.

The deceleration is far from being a sign that the sector is overheated. Fundamentals in most markets continue to be strong. Occupancies of stabilized properties are not far from cyclical highs, while the growing population coupled with strong job numbers is producing above-trend household formation that leads to demand for apartments. Some 26 of our top 30 metros are above the 2.3% long-term average for rent growth, and we expect that to continue in most markets. Metros where rent growth has dropped swiftly (i.e., San Francisco, Houston and Denver) have issues with supply, affordability and/or job growth.

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes



National averages include 119 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

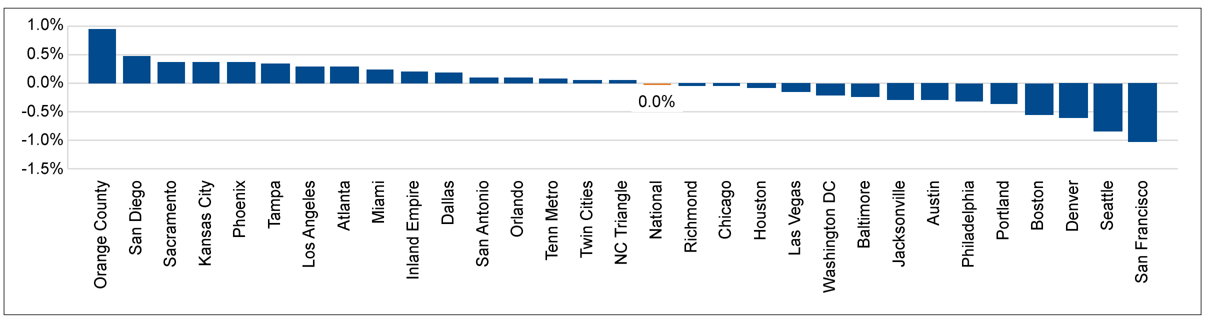
Trailing 3 Months: Rents Flat Overall; Lifestyle Drops in Many Metros

Nationwide, multifamily rents were flat on a trailing three-month (T-3) basis in October, marking a 20 basis-point decline from September. The data shows a weakness in higher-end Lifestyle properties, where rents fell -0.2%. Rents in the working-class Renter-by-Necessity (RBN) segment grew 0.1%. The T-3 numbers this month are affected by seasonality, as they compare rent growth during a traditionally weaker period (the beginning of fall) with rents during the spring, which are usually stronger. That said, it has been a long time since so many metros had negative numbers. Almost half (14) of the top 30 metros had negative T-3 growth overall, while 70% (21) had negative growth in the Lifestyle segment.

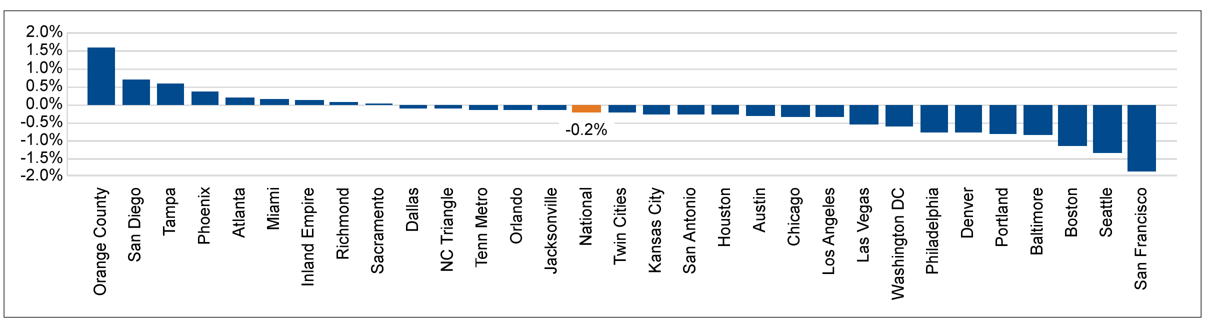
Metros that trailed overall included San Francisco (-1.0%), Seattle (-0.8%), Denver (-0.6%), Boston (-0.5%) and Portland (-0.4%). Lifestyle was dragged down by San Francisco (-1.8%), Seattle (-1.4%), Boston (-1.2%), Baltimore (-0.9%) and Portland (-0.8%). Except for Baltimore, these markets were among the leaders in rent growth earlier this year and have suffered from some combination of too much supply, particularly on the high end; rents growing faster than most tenants could reasonably afford; and a slowdown in job growth.

Growth was led by Orange County (0.9%) and San Diego (0.5%), which saw strong gains in Lifestyle rents. Sacramento, Phoenix and Kansas City (all 0.4%) and Tampa (0.3%) also posted steady increases.

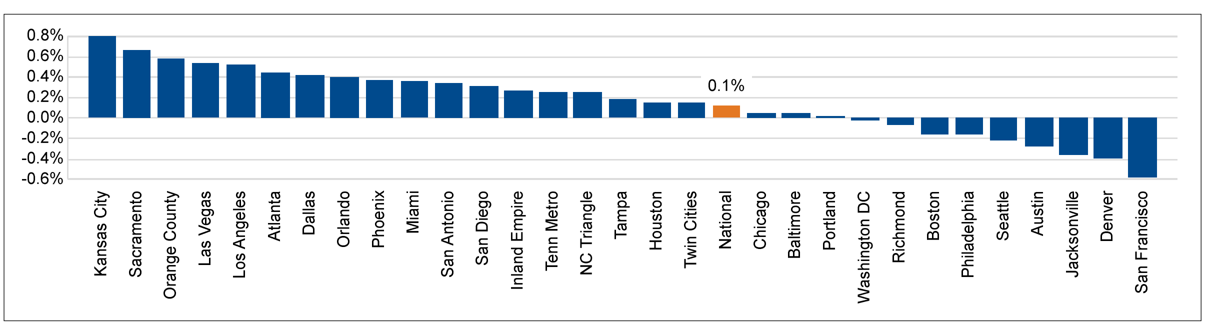
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



Trailing 3 Months Sequential—Renter-by-Necessity Asset Class

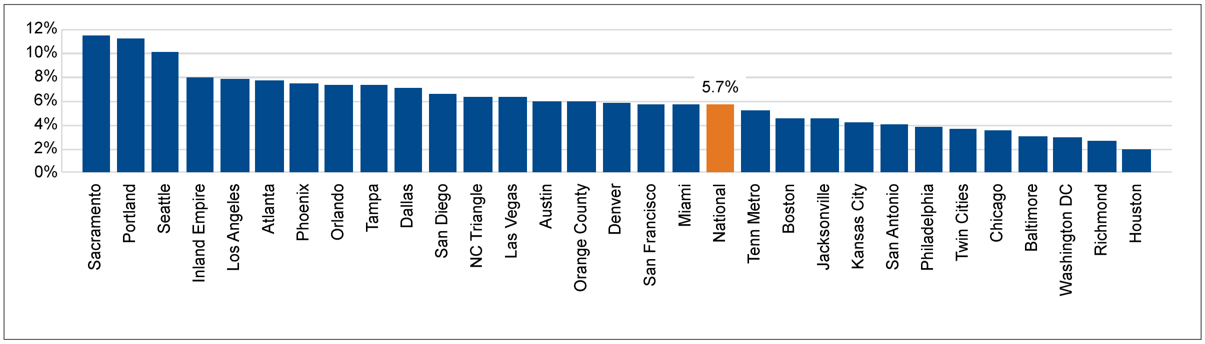


Trailing 12 Months: West Coast Metros Remain on Top as Average Falls

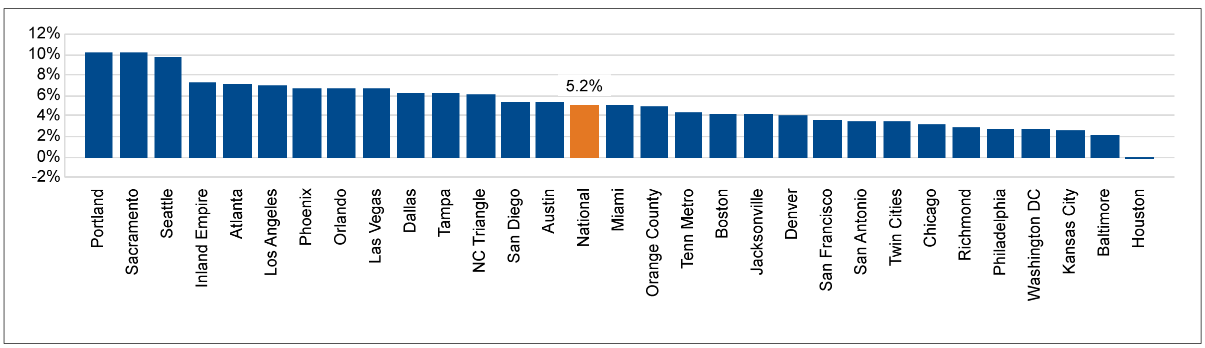
Rents grew at 5.7% on a trailing 12-month (T-12) basis in October, down 20 basis points from the previous month. Renter-by-Necessity once again led the gains, with 6.0% growth, compared to 5.2% for Lifestyle. The T-12 survey represents the change in the average rent during the preceding one-year period compared to the previous one-year period.

The top five metros—Sacramento, Portland, Seattle, the Inland Empire and Los Angeles—are all on the West Coast, while the next five—Atlanta, Phoenix, Orlando, Tampa and Dallas—are in the South. Because the metric averages performance over the course of a year, the ranking changes more slowly and reflects the general trend of growth toward the West and South. Houston is an exception: Its loss of energy sector jobs and heavy supply growth put it last in the T-12 rankings, at 1.9% overall and -0.2% for Lifestyle properties. Other weak metros were in the Mid-Atlantic: Richmond (2.7%), Washington (2.9%) and Baltimore (3.1%).

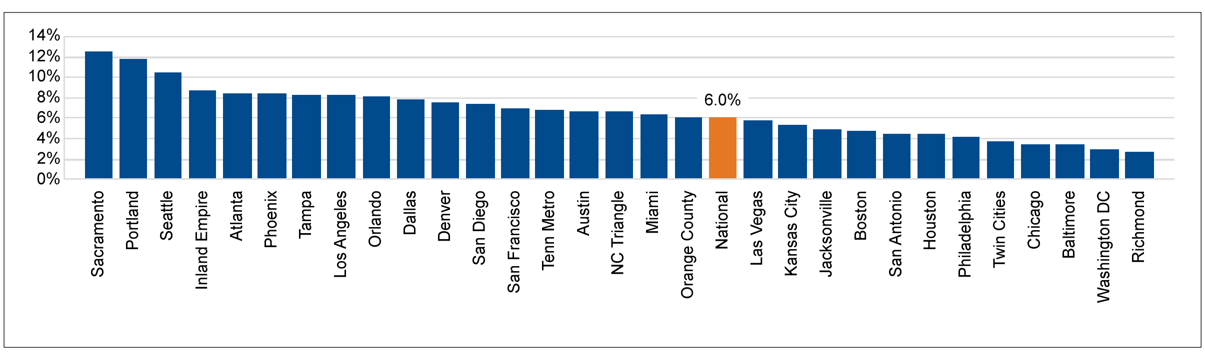
Trailing 12 Months Year-Over-Year—All Asset Classes



Trailing 12 Months Year-Over-Year—Lifestyle Asset Class



Trailing 12 Months Year-Over-Year—Renter-by-Necessity Asset Class



Employment, Supply and Occupancy Trends; Forecast Rent Growth

The nexus between multifamily supply and economic development, although not precise, is evident in rent growth trends. In many of the metros leading in rent growth, job growth is far above supply growth, while many of the underperformers have an overabundance of supply compared to employment gains. There are other factors—such as affordability of existing stock—but ultimately fundamental drivers play a major role.

Sacramento, which leads the nation in year-over-year rent growth (12.1%) through October, has increased its job base by 2.5% in the 12 months ending in August while adding only 0.5% to supply in the year ending in October. That, along with the metro's relative affordability compared to its Bay Area peers, has fueled double-digit rent gains throughout the year. The Inland Empire, second in the national rent growth ranking at 7.4%, is likewise affordable compared to Los Angeles and sports 3.0% job growth versus a 1.2% supply increase. Orange County (7.2% rent growth) has added jobs at a 2.9% rate while adding only 1.2% to supply. The other spot in the top four metros for rent growth is San Diego, which has 2.6% supply growth and 2.5% job growth.

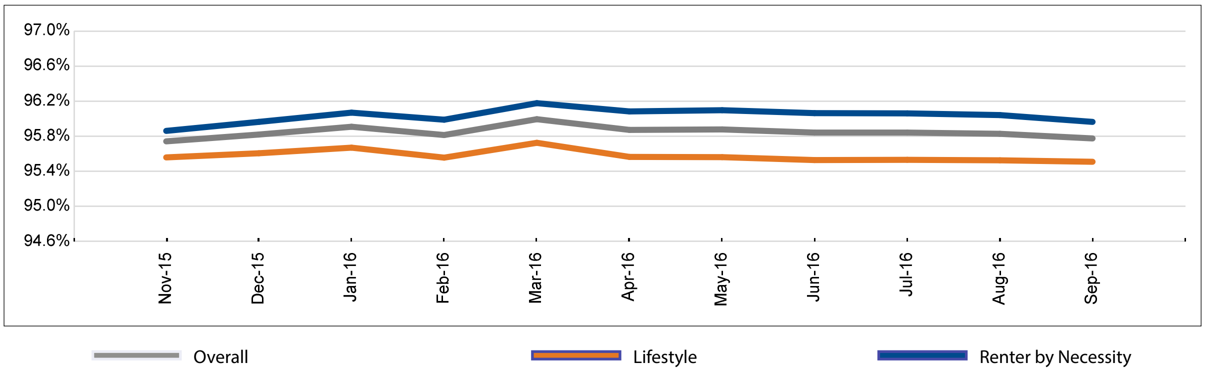
On the other side are metros with more supply than jobs, such as Houston, where rents grew 0.4% year-over-year, with 0.3% job gains and supply additions of 2.6%; Denver, where rents rose 1.1%, with 3.1% job growth and 4.1% added to supply; and Austin, where rents rose 3.2%, with 3.8% job growth and 5.3% added to supply. In some metros, supply growth is needed to make up for a lack of inventory, but ultimately demand is critical.

Market	Forecast Rent Growth (YE 2016)	Y-o-Y Job Growth (6-mo. moving avg.) as of August 2016	Completions as a % of Total Stock as of October 2016	Occupancy Rates as of August 2016	Occupancy Rates as of September 2016
Sacramento	10.1%	2.5%	0.5%	96.9%	96.9%
Seattle	9.8%	3.5%	4.5%	96.4%	96.3%
Portland	8.6%	3.0%	4.0%	96.3%	96.1%
Phoenix	8.6%	3.2%	2.8%	95.7%	95.4%
Inland Empire	7.9%	3.0%	1.2%	96.8%	96.6%
Las Vegas	7.5%	2.7%	1.6%	95.3%	95.2%
Orlando	7.3%	3.9%	3.3%	96.3%	96.2%
Nash/Knox	7.1%	3.1%	3.8%	96.6%	96.5%
San Francisco	6.5%	3.1%	1.8%	96.5%	96.4%
Dallas	6.4%	3.6%	2.0%	96.0%	95.9%
San Diego	6.3%	2.5%	2.6%	97.1%	97.1%
Miami	6.2%	2.7%	2.9%	95.6%	95.5%
NC Triangle	5.7%	2.7%	3.5%	95.9%	95.9%
Orange County	5.6%	2.9%	1.2%	97.1%	97.1%
Los Angeles	5.6%	2.3%	1.3%	96.9%	96.8%
Tampa	5.5%	3.2%	1.6%	95.8%	95.6%
Atlanta	5.5%	2.9%	2.0%	95.0%	95.1%
Denver	5.4%	3.1%	4.1%	95.7%	95.8%
Austin	5.4%	3.8%	5.3%	95.2%	95.3%
Philadelphia	5.2%	2.3%	1.6%	96.1%	96.1%
Boston	4.2%	1.7%	2.6%	96.9%	96.8%
Kansas City	3.5%	1.3%	1.8%	95.5%	95.5%
Twin Cities	3.5%	1.7%	1.9%	97.7%	97.7%
Jacksonville	3.4%	3.6%	0.6%	95.4%	95.3%
Chicago	3.4%	1.5%	1.9%	96.0%	96.0%
Baltimore	2.8%	2.2%	1.7%	95.4%	95.5%
Richmond	2.7%	2.1%	1.0%	95.6%	95.5%
San Antonio	2.6%	2.4%	3.9%	94.4%	94.5%
Washington, D.C.	2.4%	2.3%	2.3%	96.2%	96.2%
Houston	1.6%	0.3%	2.6%	93.9%	93.8%

Occupancy and Asset Classes

Occupancy for stabilized properties dropped by 10 basis points to 95.8% in September. The change was driven by a 10-basis-point decrease in Renter-by-Necessity properties to 95.9%. Lifestyle occupancy was unchanged at 95.6%. Even though supply is growing in many metros, demand generally remains strong enough to keep pace. The only metros in which occupancy changed by more than 10 basis points in either direction were Phoenix at -0.3% and Portland, Tampa and the Inland Empire, all at -0.2%.

Occupancy—All Asset Classes by Month

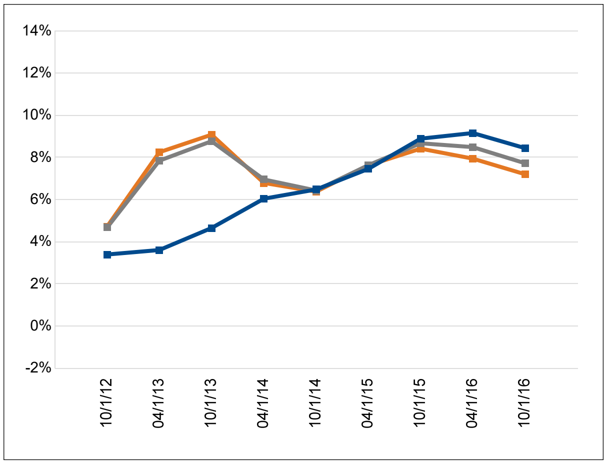


Year-Over-Year Rent Growth, Other Markets

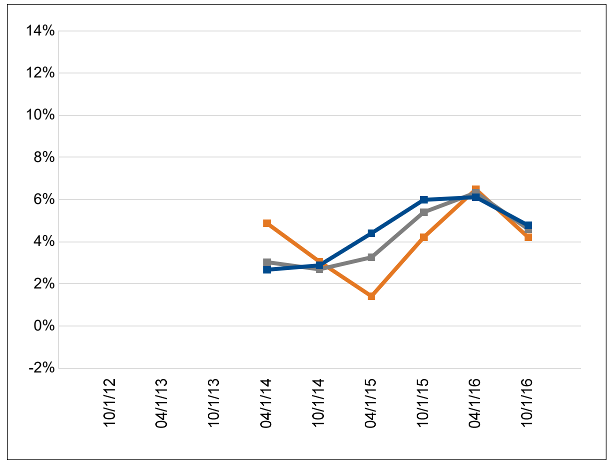
Market	October 2016		
	Overall	Lifestyle	Renter by Necessity
Tacoma	13.5%	14.7%	12.3%
Reno	9.4%	12.0%	8.1%
Colorado Springs	9.4%	10.3%	9.1%
San Fernando	8.4%	5.2%	8.9%
Central Valley	7.4%	6.3%	7.9%
SW Florida Coast	4.9%	3.6%	6.1%
Northern New Jersey	4.6%	5.1%	4.5%
Tucson	4.3%	7.6%	3.3%
Long Island	3.3%	3.5%	3.3%
St. Louis	3.2%	2.3%	3.7%
Indianapolis	3.1%	4.7%	2.0%
NC Triad	3.1%	3.8%	3.0%
Louisville	2.8%	1.1%	3.2%
Albuquerque	2.5%	5.9%	2.0%
Central East Texas	2.3%	2.2%	2.3%
Bridgeport - New Haven	1.5%	1.7%	0.7%
El Paso	0.4%	0.4%	0.4%

Market Rent Growth by Asset Class

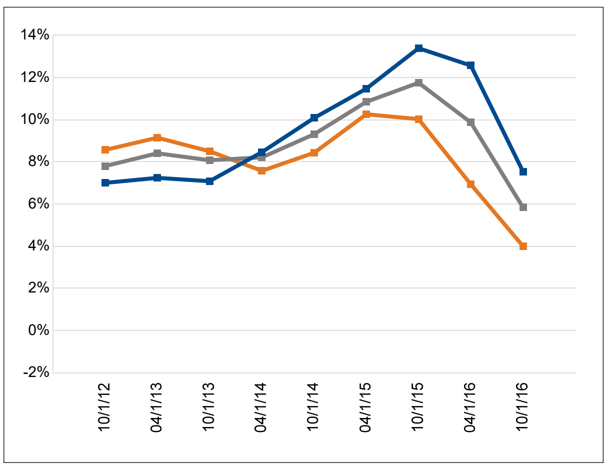
Atlanta



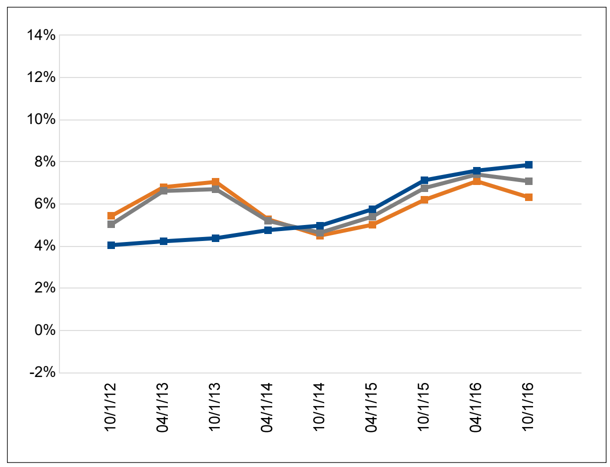
Boston



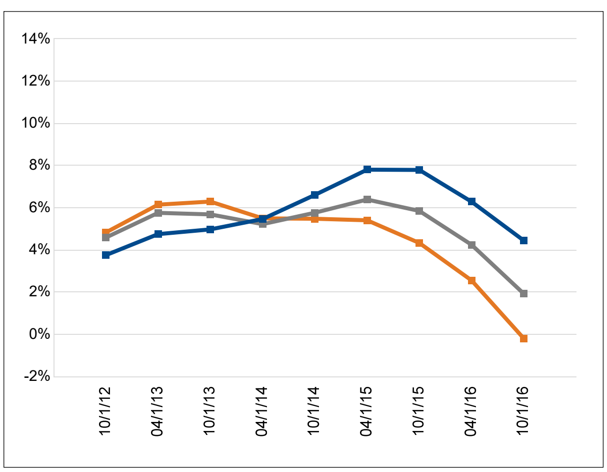
Denver



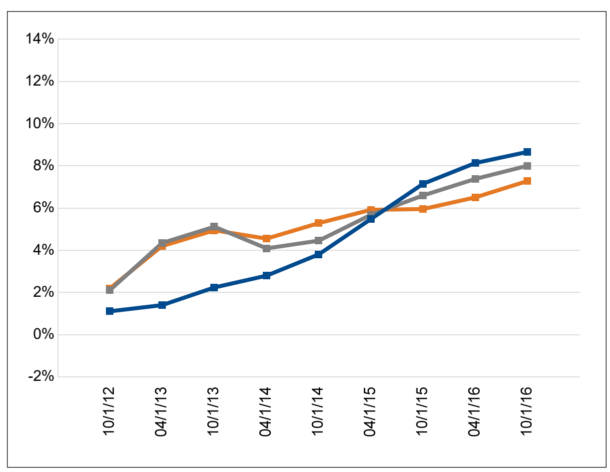
Dallas



Houston

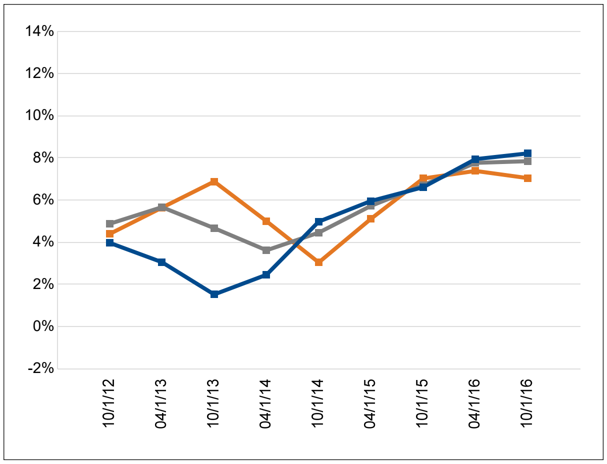


Inland Empire

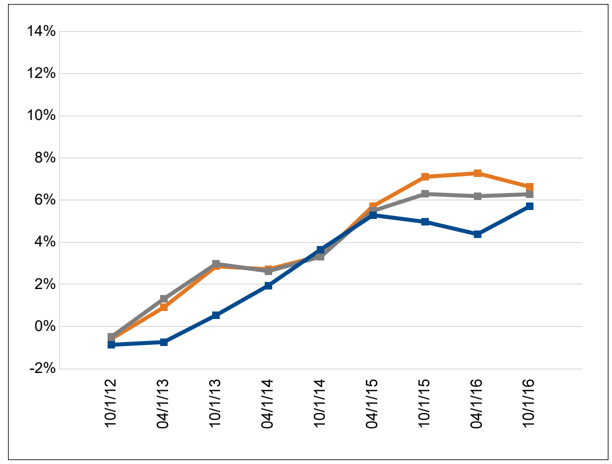


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter by Necessity

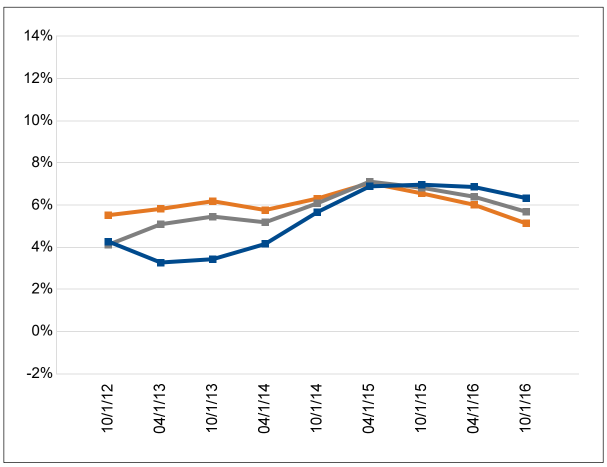
Los Angeles



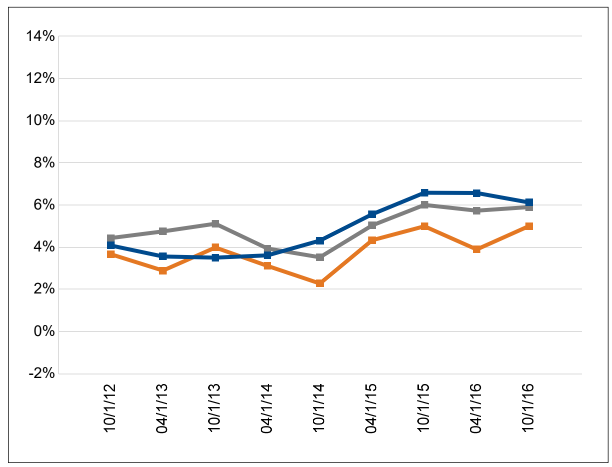
Las Vegas



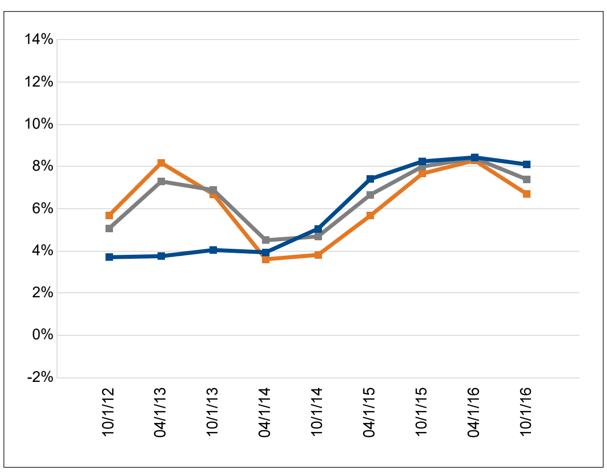
Miami



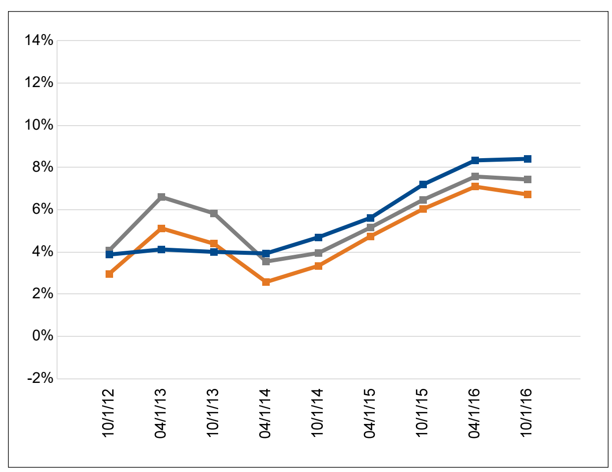
Orange County



Orlando

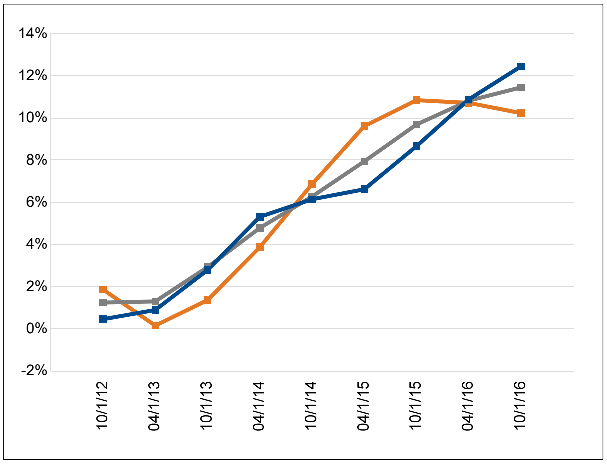


Phoenix

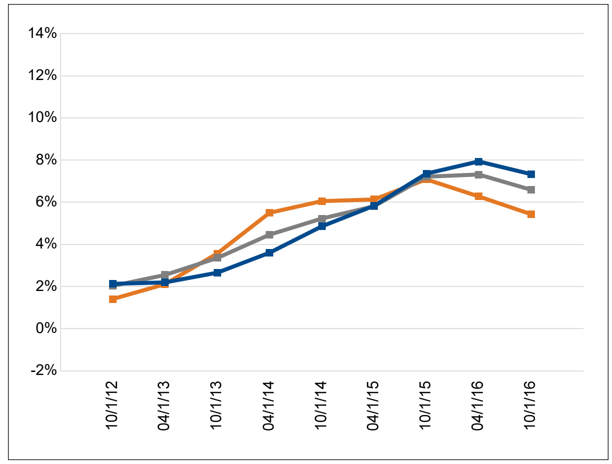


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter by Necessity

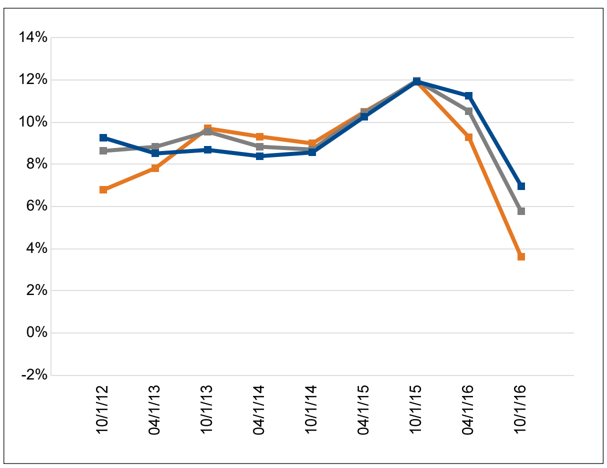
Sacramento



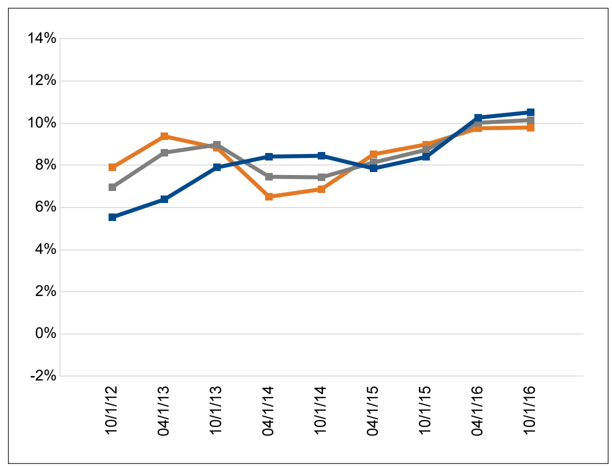
San Diego



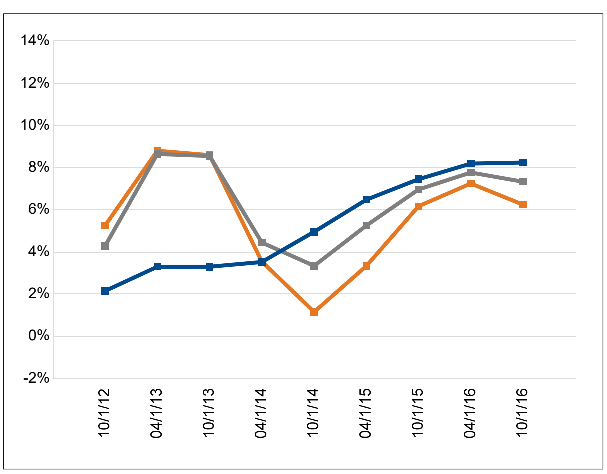
San Francisco



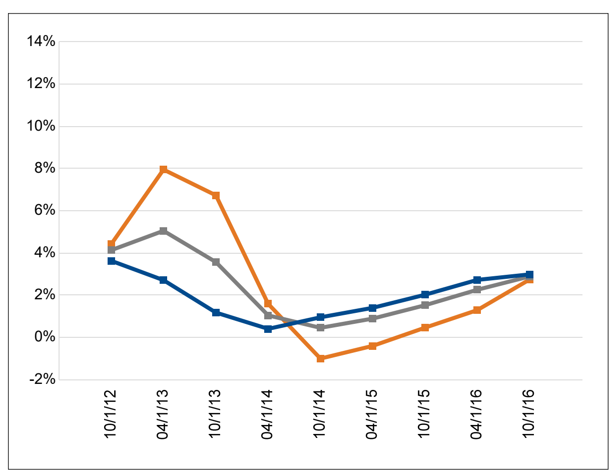
Seattle



Tampa



Washington, D.C.



Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter by Necessity

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter by Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvement Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Contacts

- **Jeff Adler**, Vice President & General Manager of Yardi Matrix: Jeff.Adler@Yardi.com, 1-800-866-1124 x2403
- **Jack Kern**, Director of Research and Publications: Jack.Kern@Yardi.com, 1-800-866-1124 x2444
- **Paul Fiorilla**, Associate Director of Research: Paul.Fiorilla@Yardi.com, 1-800-866-1124 x5764

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