Rent Survey | November 2017

U.S. Multifamily Settles Into Moderate Growth Pattern

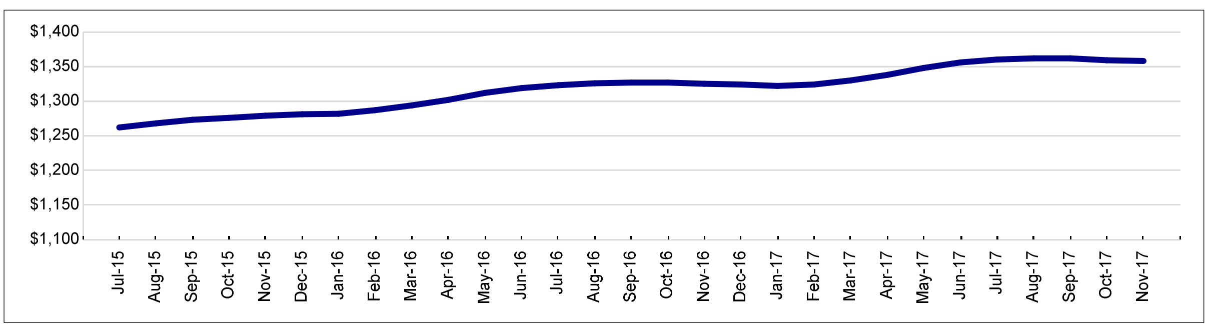
U.S. multifamily rents fell slightly for the second straight month, but the good news is that rates are stabilizing at moderate growth levels. Average U.S. rents fell $1 in November, down to $1,358, according to Yardi Matrix's monthly survey of 121 markets. Despite the slight drop in overall rents, though, the year-over-year rate of growth increased to 2.5% nationwide in November, up 10 basis points over October. Overall rents are now $4 off their all-time high of $1,362, which was achieved in September.

Despite the slight dip, which can be attributed in part to seasonal factors, November's survey signals the strength of the market. The overall growth rate remains steady amid headwinds that include a cycle high of new supply, the declining affordability of big coastal metros and a slowdown in technology industry employment growth that is starting to put pressure on rent gains in the Pacific Northwest. Apartments in the popular technology and lifestyle centers such as Seattle, San Jose, Denver and Portland have seemingly defied gravity for a long time, but rent growth rates have returned to moderate levels.

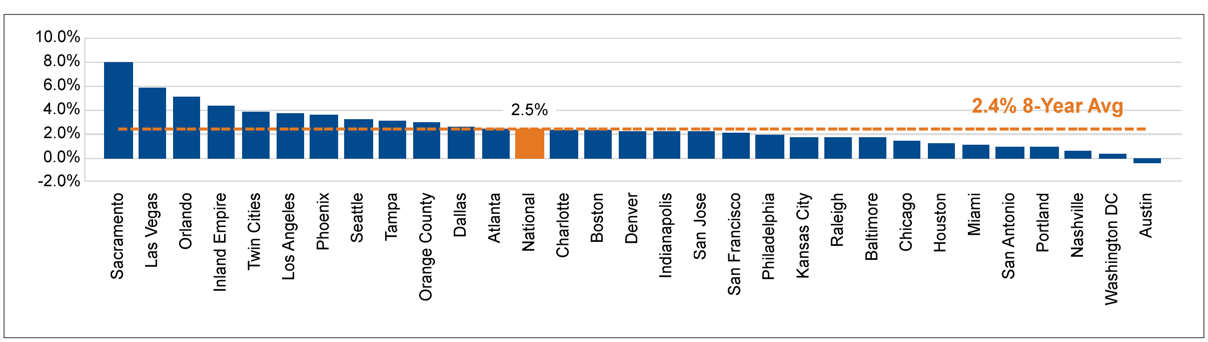
The deceleration is largely caused by the wave of supply in those metros that might be worse if not for the construction labor shortage that has delayed projects by an average of four to five months. As a consequence, even though Yardi Matrix tracks about 600,000 units under construction nationally, only about 300,000 units will be delivered in 2017.

Meanwhile, Houston continues to bounce back, due to the effects of Hurricane Harvey. After two years of negative growth, the metro had its second month in the black and is up 1.2% year-over-year. The hurricane displaced thousands of households, took upwards of 50,000 apartment units out of commission temporarily and slowed down the new construction pipeline.

National Average Rents

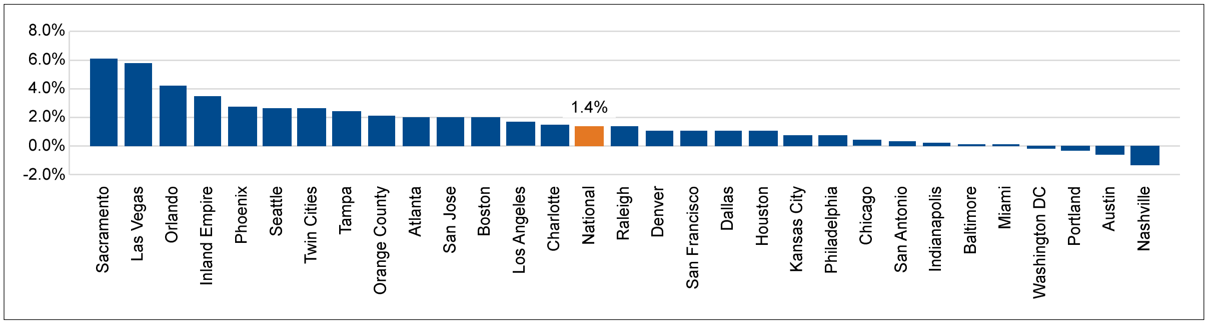


Year-Over-Year Rent Growth—All Asset Classes

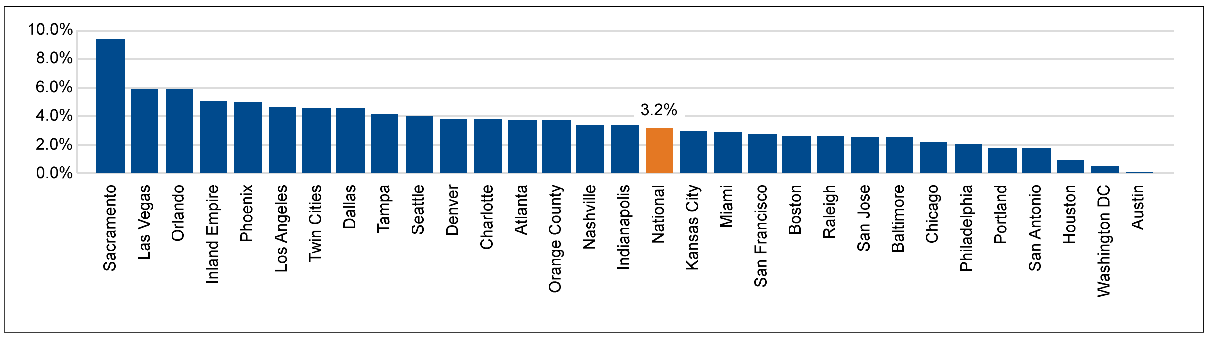


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

Year-Over-Year Rent Growth—Lifestyle Asset Class



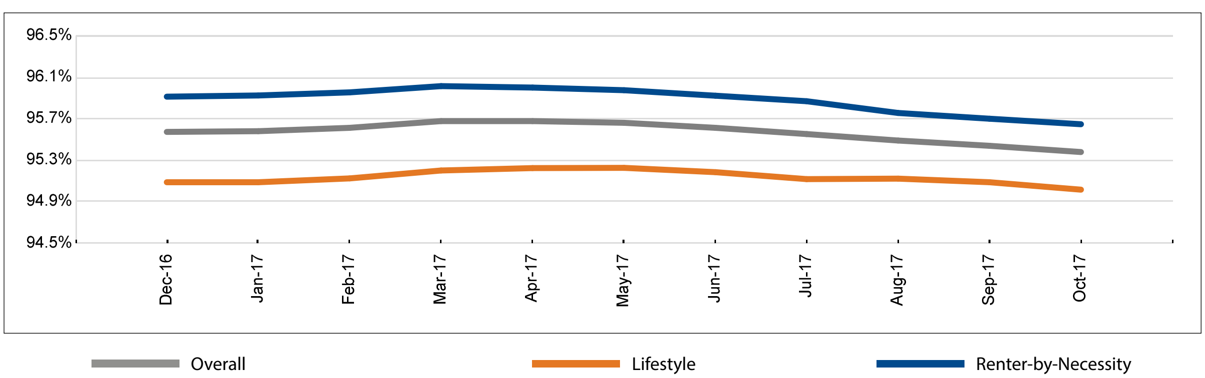
Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Occupancy and Asset Classes

Occupancy of stabilized units edged downward to 95.5% in October, falling 10 basis points month-over-month and 30 basis points year-over-year. Despite the decline, occupancy remains strong throughout the country, with a few exceptions in high-supply markets. For example, Nashville occupancy fell1.0% in the past year, as new completions amounted to 4.6% of stock. Lifestyle assets (95.2%) trail RBN (95.7%) in occupancy levels. Over the last year, Lifestyle occupancy declined only 10 basis points, compared to a 30-basis-point drop for RBN units.

Occupancy—All Asset Classes by Month



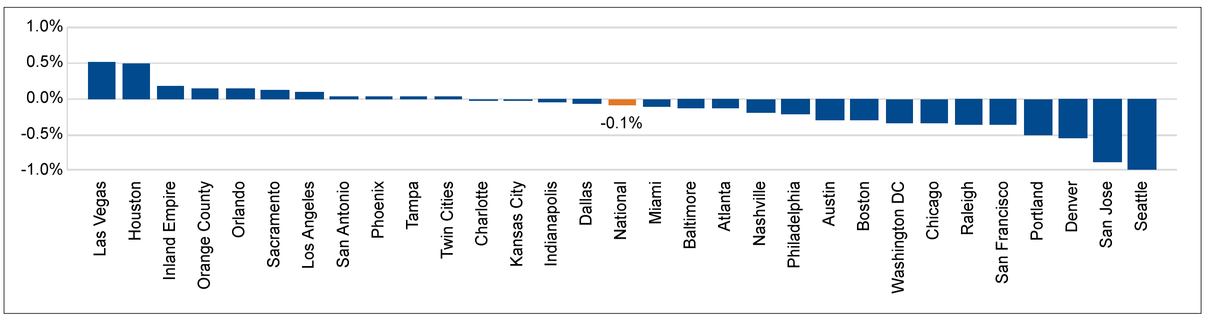
Trailing 3 Months: Sunbelt Up, Pacific Northwest Down

Rents fell 0.1% on a trailing three-month basis (T-3) in November. T-3 rent growth, which compares the last three months to the previous three months, reflects recent trends and may not be indicative of long-term growth. The markets with the weakest growth were concentrated among technology-based economies with significant recent new construction. Seattle (-1.0%), San Jose (-0.9%) and Denver (-0.5%) saw the largest declines on a T-3 basis, as new supply has taken its time to absorb and job creation has moderated. Other markets that registered declines of 30 basis points or more include Portland; San Francisco; Raleigh; Washington, D.C.; Boston; Chicago; and Austin.

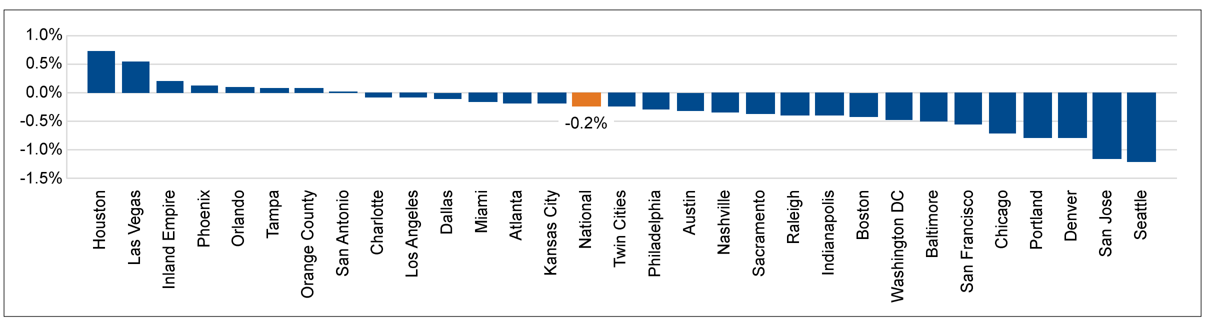
All major markets that recorded positive T-3 rent growth are located in the Sunbelt., led by Las Vegas and Houston (0.5%). With its warm climate and low costs, Las Vegas continues to attract workers, while Houston is receiving a strong boost in the aftermath of Hurricane Harvey.

Once again, the RBN segment (-0.2%) outgained Lifestyle units (0.0%), as workforce housing remained in higher demand. Houston (0.7%) led all markets in Lifestyle, and the trend will likely continue in the short term, as single-family homeowners join the rental market while their homes are repaired. In contrast, Seattle (-1.2%) was weakest in the Lifestyle segment, as a glut of new supply has outpaced demand at the high end.

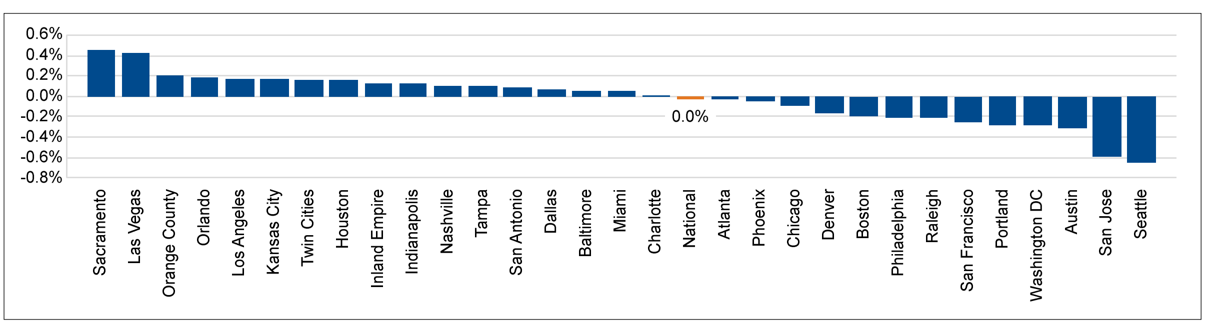
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

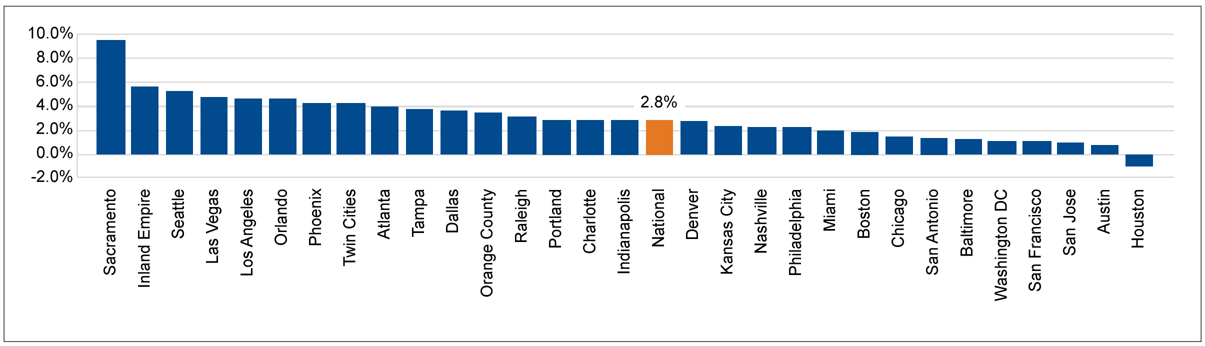


Trailing 12 Months: Despite Deceleration, Sacramento Stays on Top

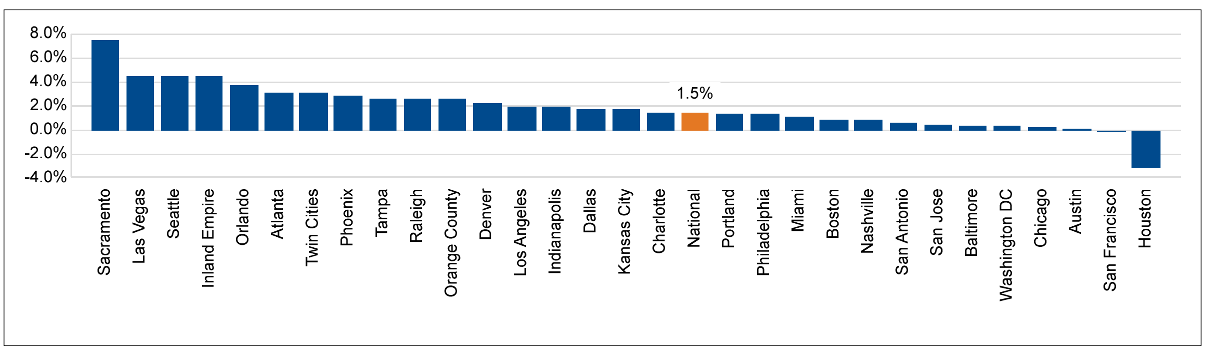
Rents increased 2.8% on a trailing 12-month basis (T-12) in November, down 10 basis points from October. T-12 rent growth is calculated using a longer time frame, and market movements are slower compared to those using the T-3 basis. As new deliveries continue to come online nationwide at the high end, Lifestyle rent growth (1.5%) trails RBN (3.9%) by a significant margin.

Sacramento (9.4%) leads the nation in rent growth, although deceleration is apparent in the California capital. The Inland Empire (5.6%), Seattle (5.2%) and Las Vegas (4.7%) also performed well, as a combination of strong employment growth and relative affordability propel rent growth in secondary markets. Gateway metros such as Chicago (1.5%), Washington, D.C., and San Francisco (both 1.1%) remain near the bottom of the rankings, while Houston (-1.0%) is the only major metro posting negative numbers. Expect Houston to rebound, however, as the gains seen in the year-over-year and T-3 metrics will soon impact the T-12 figures.

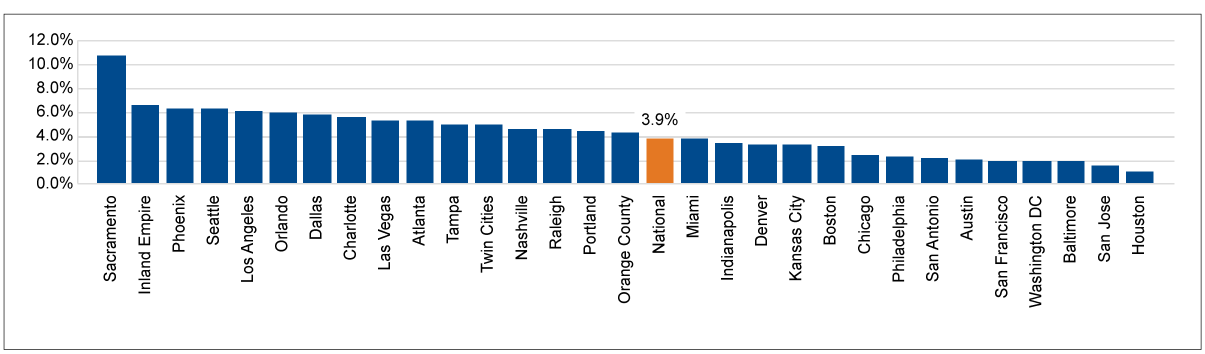
Trailing 12 Months Year-Over-Year—All Asset Classes



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

Short-term changes in rents have to be taken with a grain of salt, but it is hard to ignore the fact that growth has turned negative for the entire Pacific Northwest and Western U.S. technology corridor. The bottom five among major metros in trailing three-month rent growth are Seattle (-1.0%), San Jose (-0.9%), Denver (-0.5%), Portland (-0.5%) and San Francisco (-0.4%). The slowdown comes from heavy new supply as job growth begins to weaken. Seattle, for example, has seen a 4.4% increase in new supply in the 12 months ending in November, while job growth clocked in at 2.5% year-over-year. That's a strong gain but still a decline from recent years, as the metro added jobs at a rate that topped 3% for 24 months through April 2017. Apartment occupancy for stabilized properties in Seattle fell 40 basis points year-over-year, to 95.9% as of October.

Other metros in the region have similar stories. San Jose's job growth fell to 1.4% year-over-year as of October, down more than 100 basis points from a year ago, while 3.2% was added to inventory. Portland's job growth, above 3.0% through almost all of 2015 and 2016, is now 2.3% year-over-year, and robust supply growth has caused the occupancy rate to decline 40 basis points to 95.7%. Denver's job growth reached 4.0% in parts of 2014 and 2015, but has cooled to 2.3% year-over-year, with new supply adding 3.2% to stock year-over-year through October. San Francisco's job growth topped 3.0% from mid-2012 to the beginning of this year and now stands at 1.7% year-over-year, while occupancies fell 30 basis points from a year ago. All of these metros have generally positive fundamentals, but rent growth is likely to cool until demand and affordability pick up to prior levels.

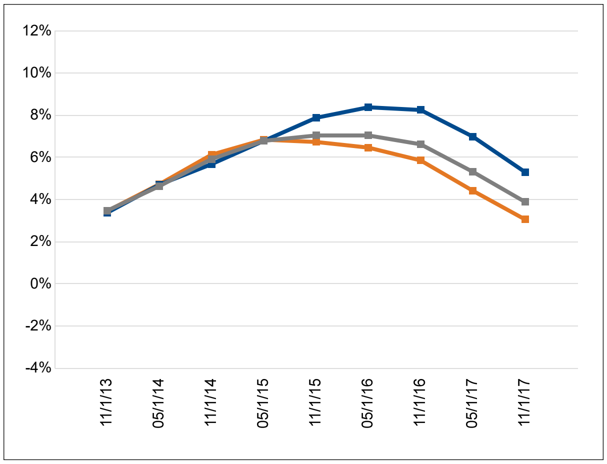
Market	YoY Rent Growth as of Nov - 17	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of Sept - 17	Completions as % of Total Stock as of Nov - 17	Occupancy Rates as of Oct - 16	Occupancy Rates as of Oct - 17
Sacramento	8.0%	7.5%	1.6%	0.5%	97.0%	97.0%
Las Vegas	5.8%	6.0%	3.0%	1.5%	95.3%	95.0%
Orlando	5.1%	5.0%	3.3%	2.8%	96.1%	96.1%
Seattle	3.1%	5.0%	2.5%	4.4%	96.3%	95.9%
Phoenix	3.5%	4.9%	2.2%	2.3%	94.9%	94.9%
Twin Cities	3.9%	4.6%	2.3%	2.5%	97.9%	97.7%
Los Angeles	3.7%	4.5%	1.3%	2.4%	97.2%	96.7%
Inland Empire	4.4%	4.4%	2.9%	0.9%	96.5%	96.0%
Dallas	2.6%	4.4%	3.0%	2.4%	95.7%	95.3%
Atlanta	2.5%	4.1%	3.2%	2.6%	94.9%	94.7%
Denver	2.3%	4.0%	2.3%	3.2%	95.1%	95.2%
Tampa	3.1%	3.7%	2.8%	2.6%	95.8%	95.8%
Raleigh	1.6%	3.2%	2.8%	3.2%	95.5%	95.3%
Orange County	2.9%	3.0%	0.4%	2.3%	97.0%	96.3%
Boston	2.3%	2.9%	1.9%	3.0%	96.7%	96.6%
San Francisco	2.1%	2.8%	1.7%	2.2%	96.6%	96.3%
Indianapolis	2.2%	2.6%	2.0%	1.5%	94.5%	94.3%
Philadelphia	1.9%	2.5%	1.8%	1.8%	96.0%	95.9%
San Jose	2.2%	2.5%	1.4%	3.2%	96.1%	96.2%
Nashville	0.5%	2.5%	3.3%	4.6%	96.1%	95.1%
Chicago	1.4%	2.4%	0.6%	2.4%	95.6%	95.2%
Houston	1.2%	2.2%	1.5%	2.7%	93.4%	93.2%
Charlotte	2.3%	1.9%	2.6%	4.2%	95.9%	95.5%
Kansas City	1.7%	1.8%	1.8%	2.2%	95.3%	95.1%
Baltimore	1.6%	1.8%	1.3%	1.8%	95.0%	94.9%
Miami Metro	1.1%	1.7%	2.4%	4.3%	95.8%	95.0%
San Antonio	0.9%	1.5%	2.3%	2.4%	94.1%	93.6%
Portland	0.9%	1.0%	2.3%	2.2%	96.1%	95.7%
Washington, DC	0.3%	1.0%	1.8%	2.0%	95.9%	95.4%
Austin	-0.4%	1.0%	2.6%	2.8%	95.1%	94.5%

Year-Over-Year Rent Growth, Other Markets

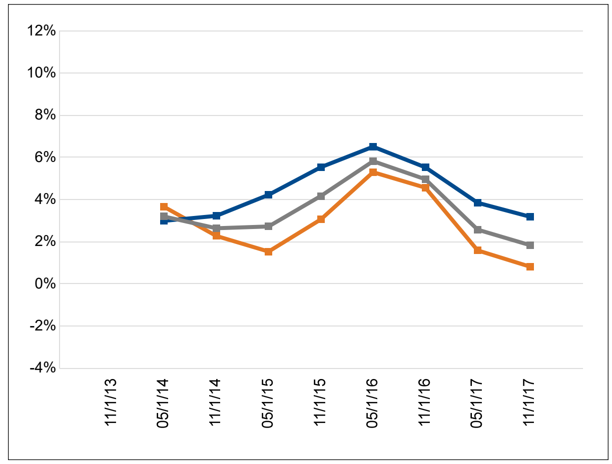
Market	November 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	9.6%	8.0%	10.7%
Tacoma	7.1%	5.8%	8.4%
Central Valley	5.6%	3.0%	6.3%
Colorado Springs	5.5%	4.6%	6.7%
Tucson	4.8%	3.8%	5.1%
San Fernando Valley	4.7%	2.0%	6.2%
Long Island	3.1%	2.4%	3.4%
Albuquerque	3.0%	1.4%	3.9%
Bridgeport - New Haven	2.4%	3.6%	1.6%
Indianapolis	2.2%	0.3%	3.4%
NC Triad	2.1%	1.5%	3.5%
Louisville	2.0%	1.2%	2.4%
SW Florida Coast	1.5%	1.6%	1.3%
Northern New Jersey	1.5%	0.1%	2.9%
St. Louis	1.4%	0.1%	1.8%
El Paso	0.7%	0.3%	0.9%
Central East Texas	-2.4%	-3.2%	-1.9%

Market Rent Growth by Asset Class

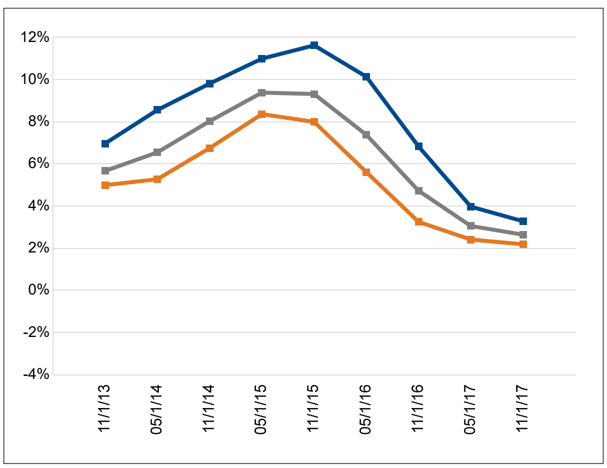
Atlanta



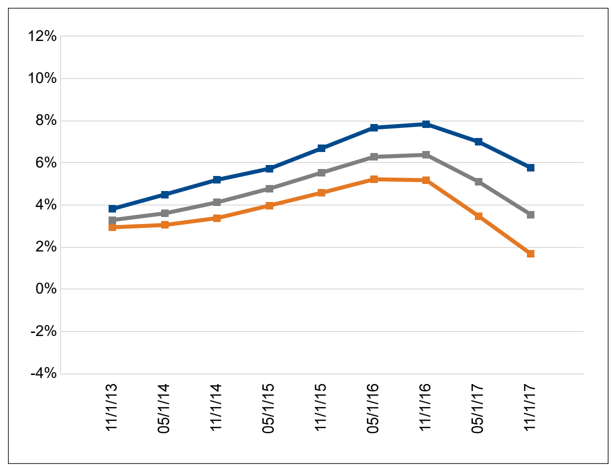
Boston



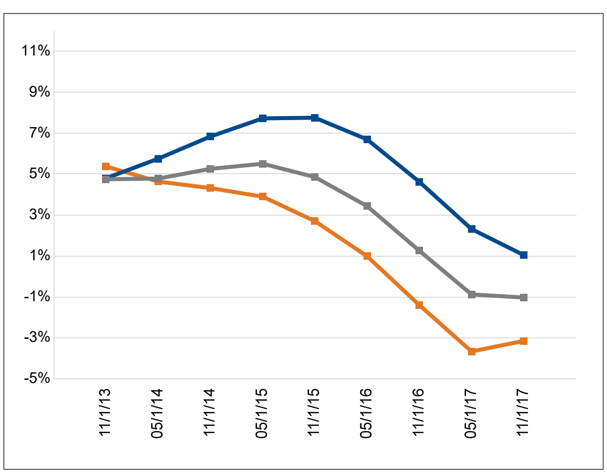
Denver



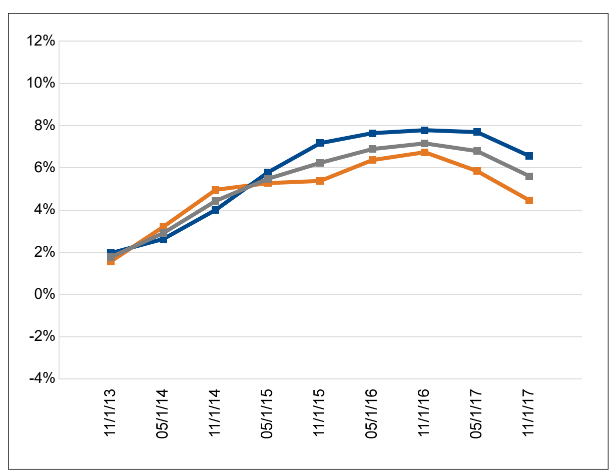
Dallas



Houston

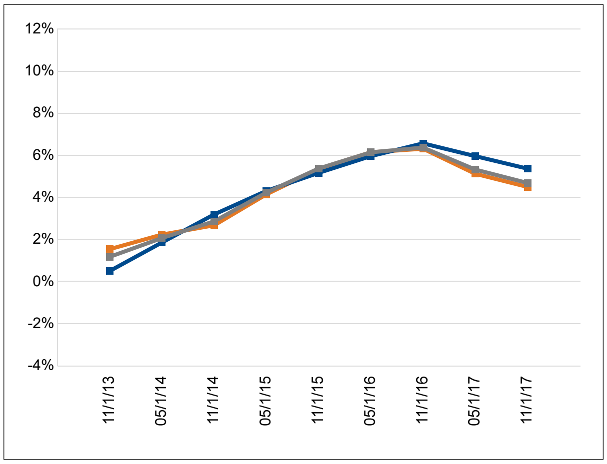


Inland Empire

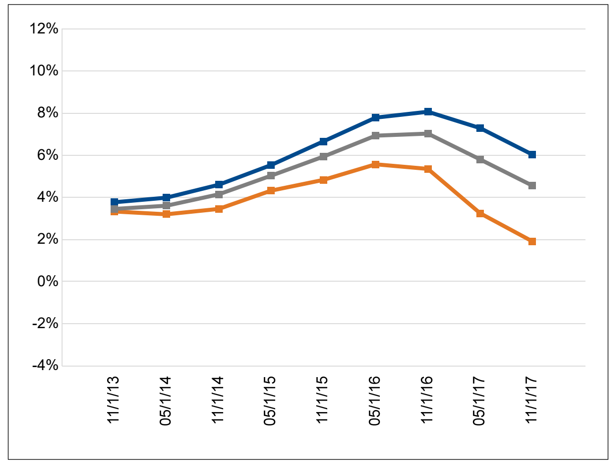


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

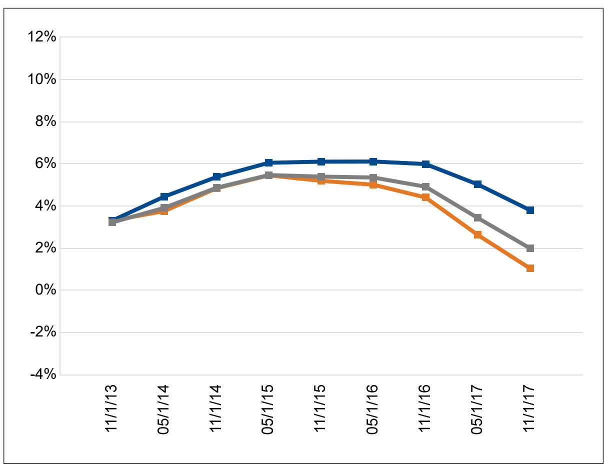
Las Vegas



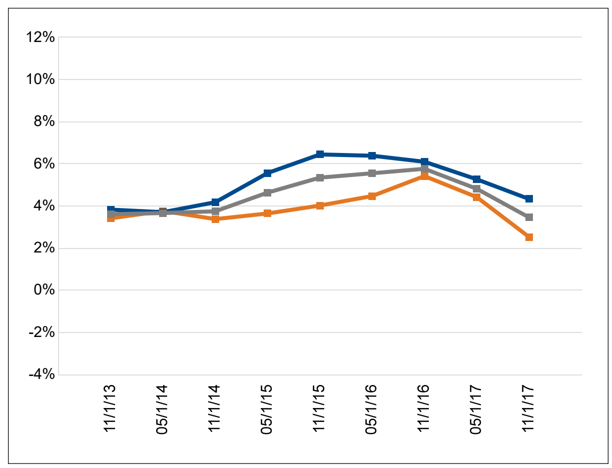
Los Angeles



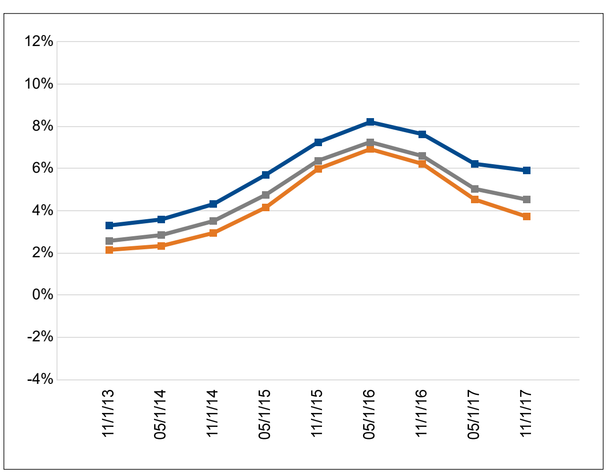
Miami



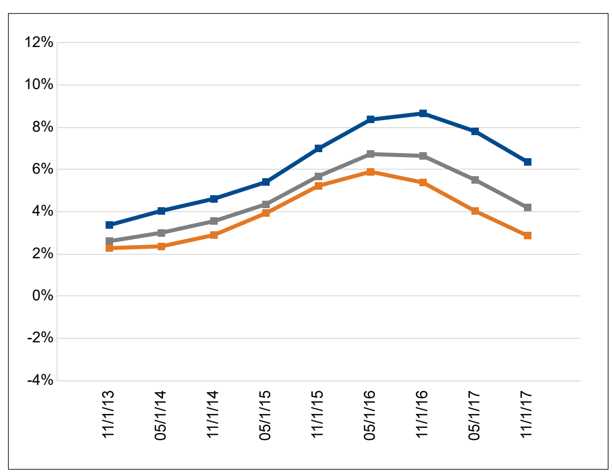
Orange County



Orlando

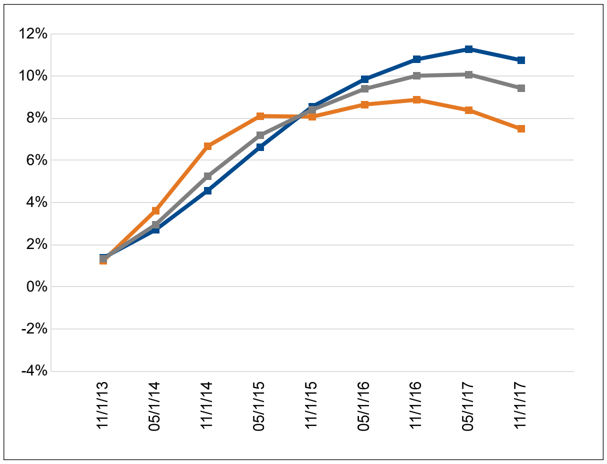


Phoenix

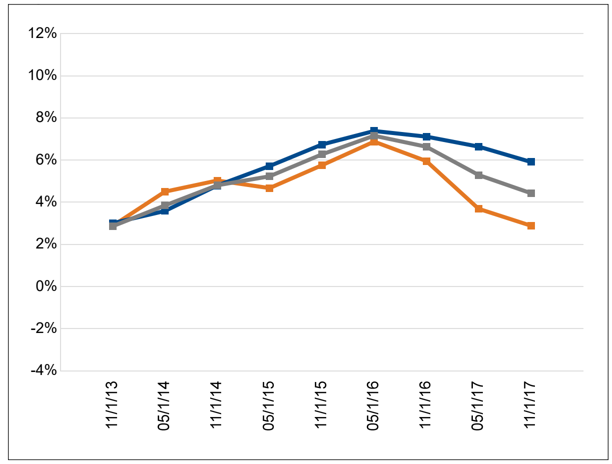


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

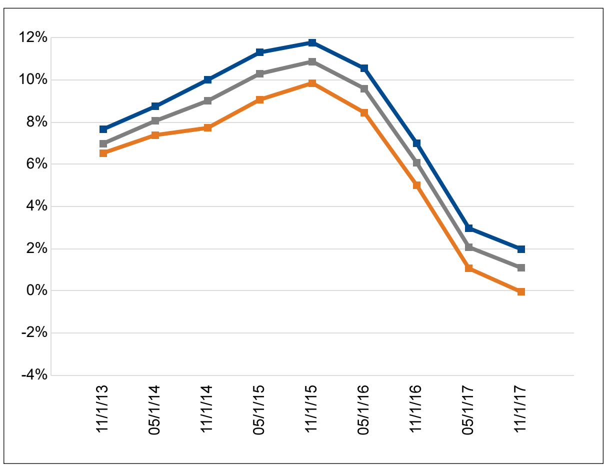
Sacramento



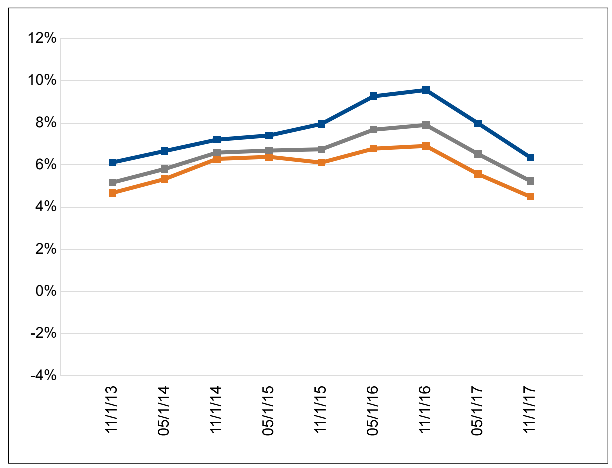
San Diego



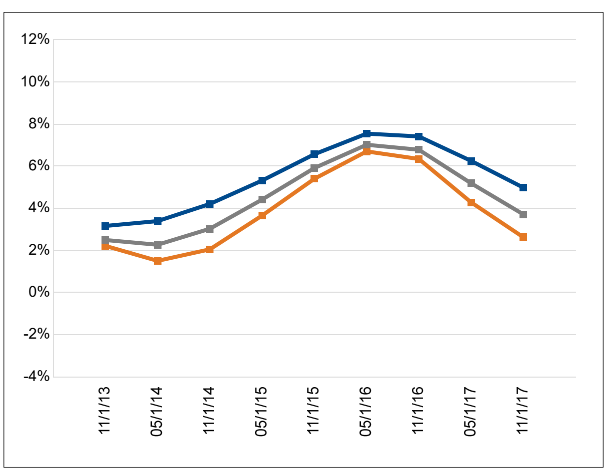
San Francisco



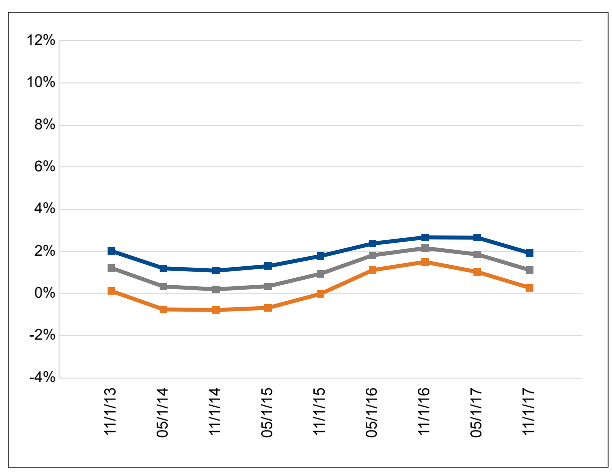
Seattle



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, police officers, firefighters, 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.

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