Rent Survey | December 2017

Apartment Rent Gains Slow in 2017. What's in Store for 2018?

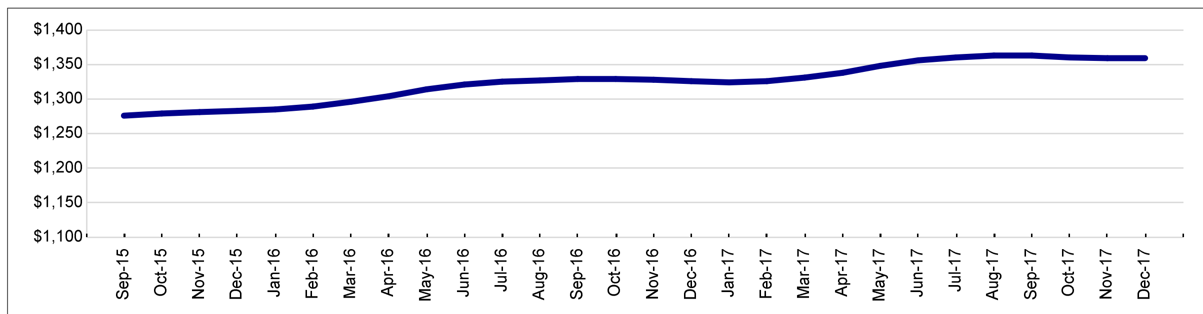
U.S. multifamily rents did not change in December, remaining at $1,359, and ended the year up 2.5%, according to Yardi Matrix's monthly survey of 121 markets. While that represents a solid gain, it also is the smallest annual increase since 2010, when rents fell 0.4%. Since then, rents have grown by at least 3.3% every year, peaking at 5.4% in 2015 and declining to 3.4% in 2016.

December's year-over-year 2.5% increase was up 20 basis points over the previous month, and overall rents are $4 off their all-time high of $1,363, which was achieved in September. Rents were down 0.3% in the fourth quarter, which is only the second negative quarter of growth nationally since the second quarter of 2010 (rents also fell 0.2% in the fourth quarter of 2016). Although the results are somewhat negative compared to recent history, what's notable is how consistently strong the market has performed during the entire recovery.

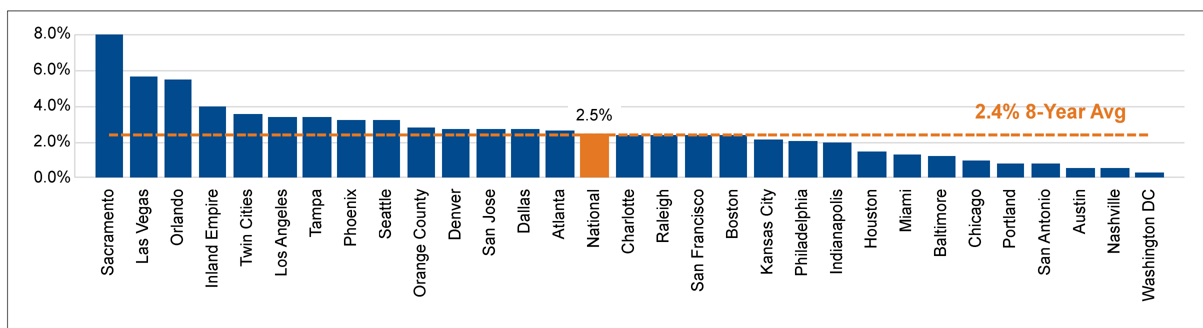
The question for 2018 is how much more steam is left in the market, whether the deceleration will continue or if it will level off or turn negative. Our view is that growth will continue at roughly the same rate nationally, led by strong demand. The economy shows no signs of slowing down, as GDP comes off two strong quarters and should get at least a boost from lower corporate and personal tax rates, while job growth continues to impress. Combined with the growth of the young adult population, household formation should remain robust.

The consistent national numbers mask a great deal of movement on the metro and submarket level. Secondary markets such as Sacramento, Orlando, Las Vegas, Salt Lake City and Colorado Springs with affordable rents and growing populations should see above-trend increases. Business-friendly markets such as Dallas and Atlanta should see a slowdown in rent increases, but see moderate gains nonetheless, while expensive coastal markets such as New York City and markets with excessive supply growth are likely to see little or no gains.

National Average Rents

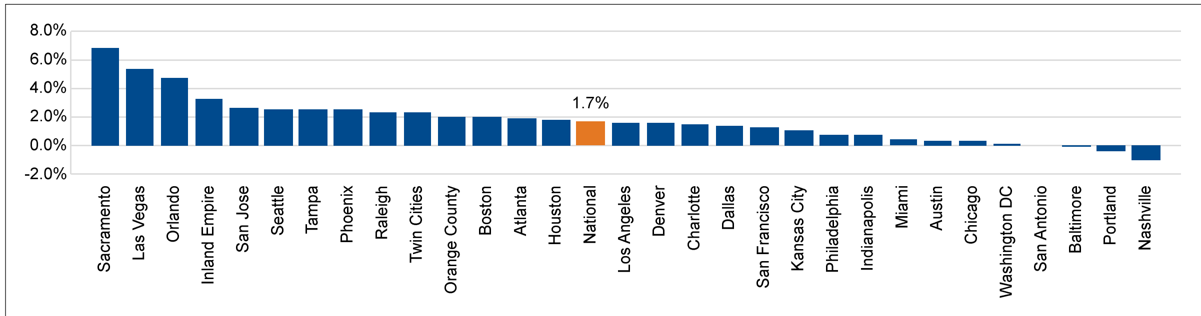


Year-Over-Year Rent Growth—All Asset Classes

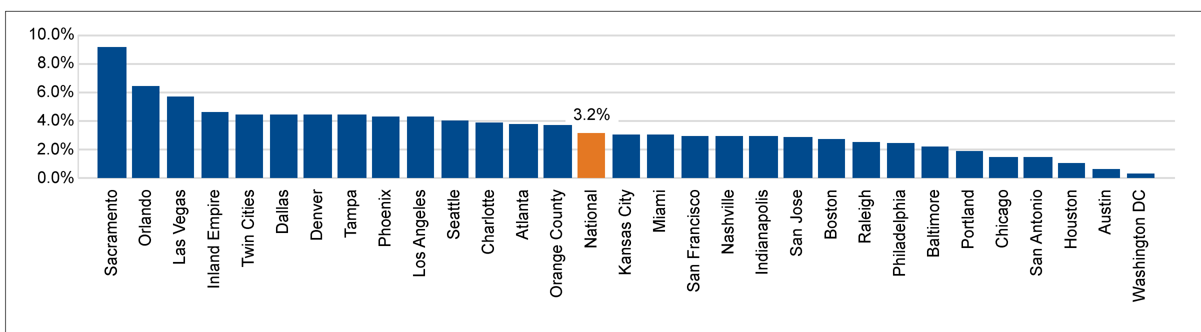


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

Year-Over-Year Rent Growth—Lifestyle Asset Class



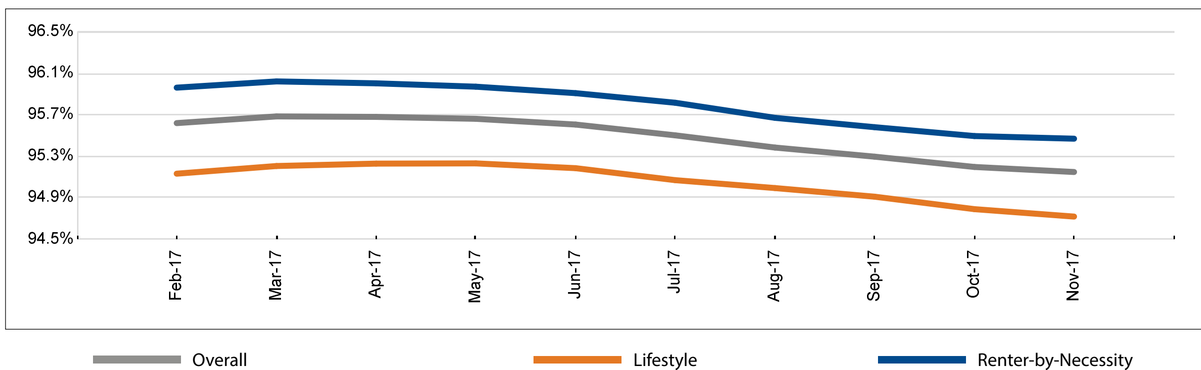
Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Occupancy and Asset Classes

Heavy supply growth has caused occupancy of stabilized properties to drop 50 basis points over the last six months, to 95.3% as of November. With deliveries expected to reach a cycle peak of 360,000 in 2018, we forecast the occupancy rate to continue its downward trajectory in 2018. While occupancy has fallen in both property classes, a 60-basis-point spread remains between RBN (95.5%) and Lifestyle (94.9%) occupancies, as most new deliveries have been of luxury units.

Occupancy—All Asset Classes by Month



Overall Lifestyle Renter-by-Necessity

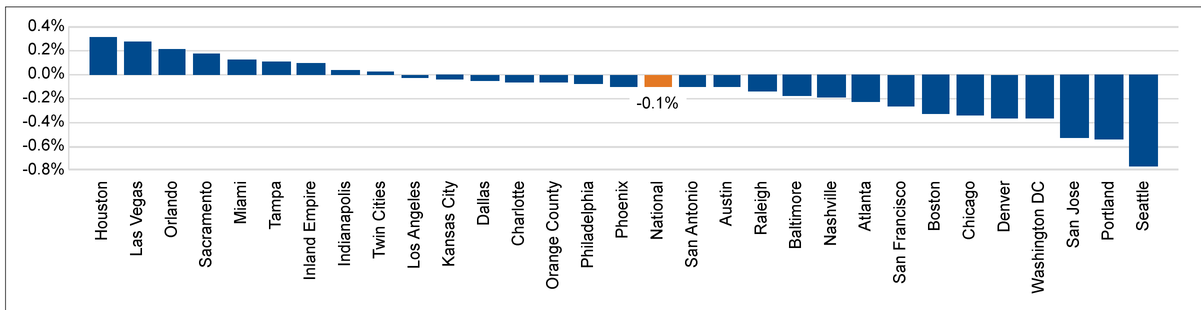
Trailing 3 Months: Houston, Florida Boosted by Hurricanes

For the second consecutive month, rents fell 0.1% on a trailing three-month basis (T-3), which is not atypical of fourth quarter seasonality. 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. Nationwide, RBN assets (0.0%) outperformed Lifestyle units (-0.2%), as new supply continues to have a negative impact on luxury rents. Of the Matrix Top 30 markets, only three had faster rent growth in Lifestyle assets compared to RBN.

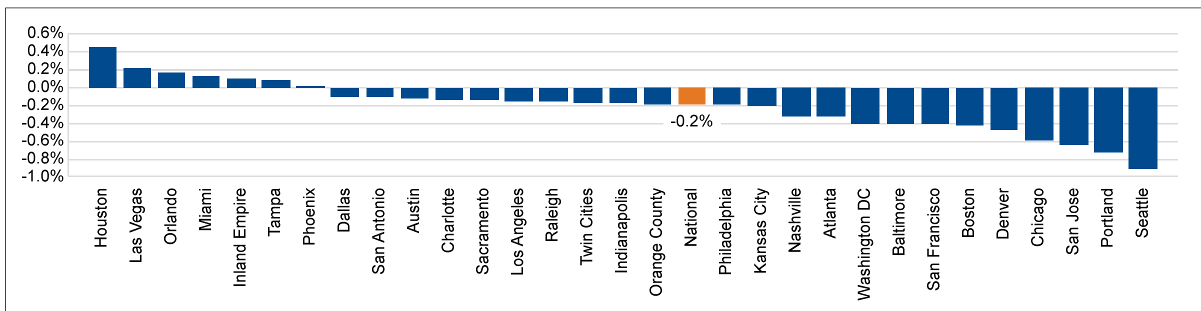
T-3 rent growth was led by Houston (0.3%). Its rental market received a shot in the arm from Hurricane Harvey as displaced homeowners were forced to rent following the storm. Houston's growth is led by the Lifestyle segment (0.4%), which has outperformed RBN (0.1%). Houston's year-over-year growth is 1.8%, compared to -2.7% in the month before Harvey. Orlando, Miami and Tampa were also among the top metros for T-3 rent growth. A similar trend to Houston may be occurring in Florida, as demand for housing increases, in part due to the migration from Puerto Rico in the wake of the 2017 hurricane season.

West Coast markets, specifically those in the Pacific Northwest, were the weakest on a T-3 basis. Seattle (-0.8%), Portland (-0.5%) and San Jose (-0.5%) saw rents decline due to a combination of oversupply and historically expensive rent levels.

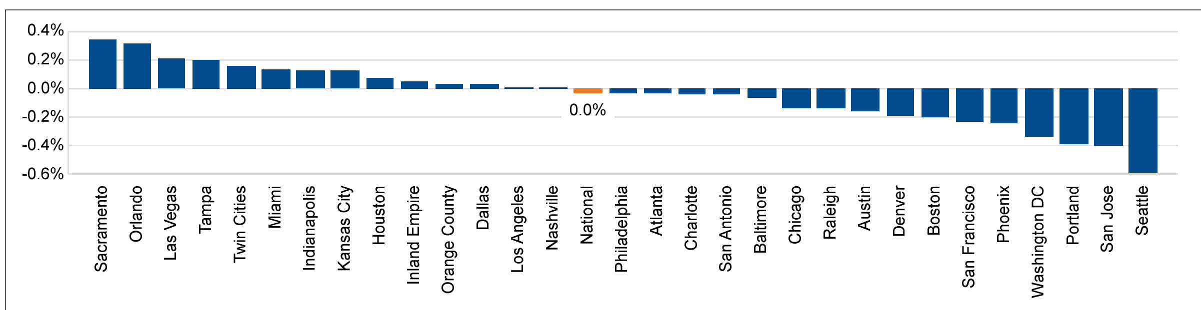
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

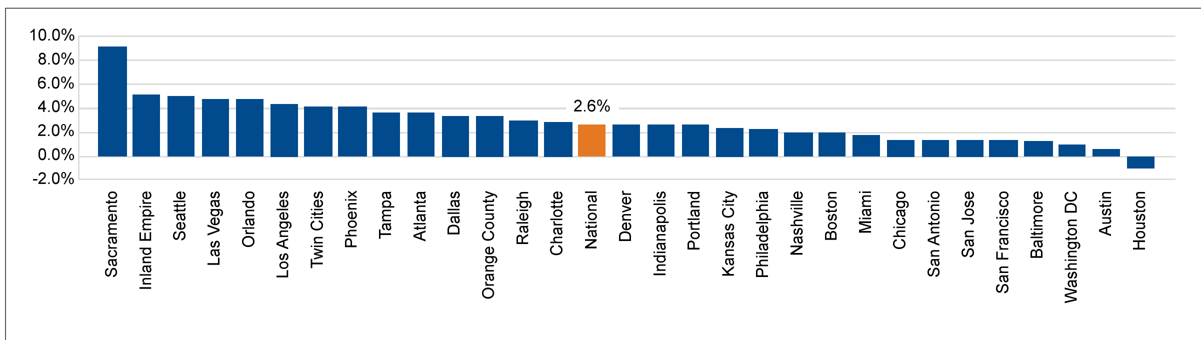


Trailing 12 Months: Lagging Effect Shows Continued Deceleration

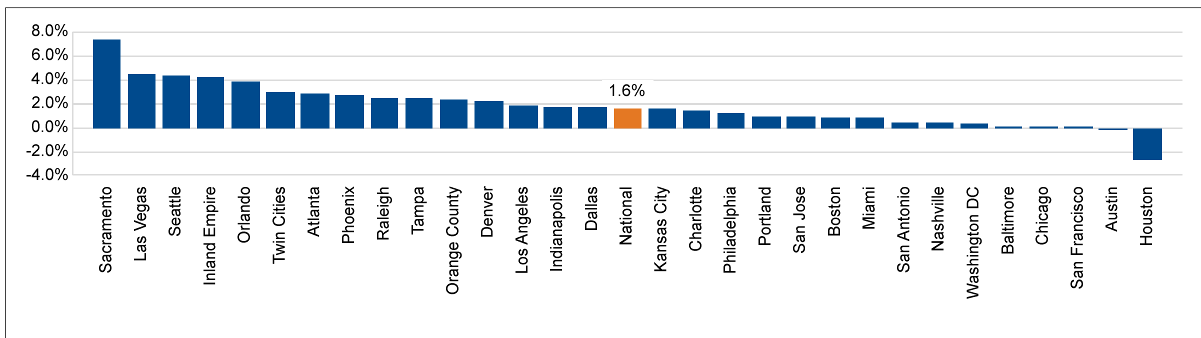
Rents increased 2.6% on a trailing 12-month basis (T-12) in December, down 10 basis points from November. T-12 rent growth is calculated using a longer time frame, and market movements are slower compared to those using the T-3 basis. The T-12 data only begins to capture the 2017 supply levels, but nonetheless, significant high-end supply has had a decelerating effect, especially on Lifestyle units, which underperformed RBN by 220 basis points.

Sacramento (9.1%) continued to be the fastest-growing market for T-12 rents, outpacing the second-ranked Inland Empire by 400 basis points. Other strong markets were generally concentrated in the South and West, with Seattle (4.9%), Las Vegas and Orlando (both 4.7%) showing significant rent increases. The Mid-Atlantic and Texas had the slowest-growing rents, with the weakest-performing T-12 markets being Houston (-1.0%); Austin (0.5%); Washington, D.C. (1.0%); and Baltimore (1.2%).

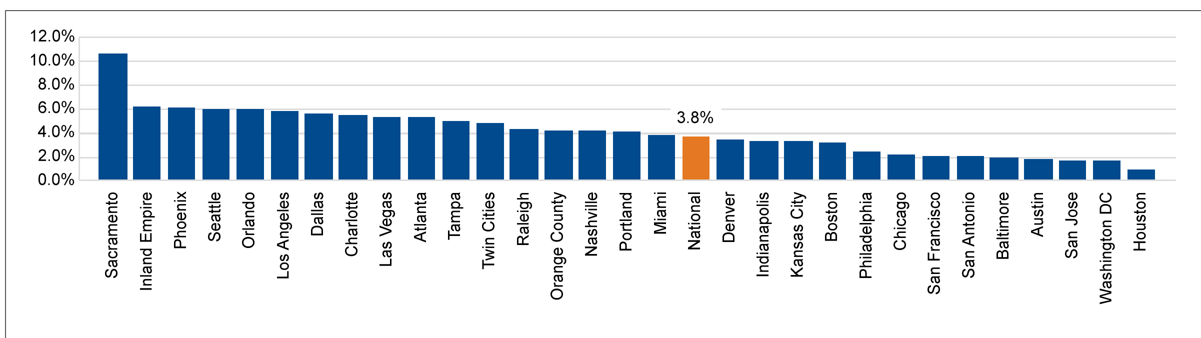
Trailing 12 Months Year-Over-Year—All Asset Classes



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

Apartment supply will reach a cycle peak of roughly 300,000 in 2017, and with 600,000 units under construction is expected to grow by another 20% in 2018. Nationally, the occupancy rate of stabilized properties has declined 40 basis points year-over-year and stood at 95.3% as of November. Is the growth in supply having an impact on rent growth? Deliveries are not even across metros, of course, and neither is demand. Looking at the metros with the biggest drops in occupancy rates in the year ending in November, the answer seems to be "yes."

Nashville saw the biggest decline in occupancy rates, falling 130 basis points to 94.8% (as of November). Rent growth in the Music City dropped to 0.5% in December 2017 from 5.2% a year earlier. Nashville added 5.7% to multifamily stock during that time, the biggest percentage increase among major U.S. metros.

Miami and San Antonio round out the top three in occupancy declines, each falling 100 basis points year-over-year. Miami's occupancy rate stood at 94.9%, with year-over-year rent growth dropping to 1.3% as of December from 3.1% a year earlier. At 93%, San Antonio has the lowest occupancy rate among major metros, and rent growth has dipped to 0.8% in December from 2.9% a year earlier. Other metros with above-average declines in occupancy rates include Seattle and Orange County (-0.9%); Dallas and Portland (-0.7%); and the Inland Empire, Raleigh, San Francisco, Chicago, Washington, D.C., and Austin (-0.6%). During that time, those metros either have been mired in weak rent growth (Washington and Chicago) or have seen precipitous declines (such as Seattle, Portland and Austin).

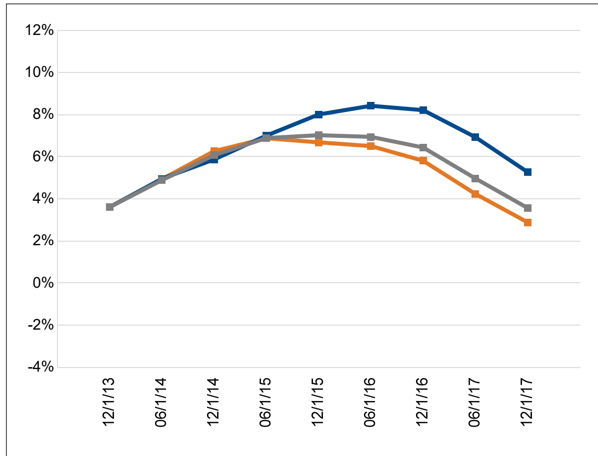
Market	YoY Rent Growth as of Dec - 17	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of Oct - 17	Completions as % of Total Stock as of Dec - 17	Occupancy Rates as of Nov - 16	Occupancy Rates as of Nov - 17
Sacramento	8.0%	7.5%	1.8%	0.5%	97.0%	96.8%
Las Vegas	5.6%	6.0%	3.0%	1.7%	95.3%	94.9%
Orlando	5.5%	5.0%	3.2%	2.8%	96.0%	95.7%
Seattle	3.2%	5.0%	2.4%	4.6%	96.3%	95.4%
Phoenix	3.2%	4.9%	2.2%	2.2%	94.8%	94.6%
Twin Cities	3.6%	4.6%	2.5%	2.4%	97.8%	97.5%
Los Angeles	3.4%	4.5%	1.3%	2.2%	97.1%	96.7%
Inland Empire	4.0%	4.4%	2.9%	0.8%	96.6%	96.0%
Dallas	2.7%	4.4%	2.9%	2.3%	95.7%	95.0%
Atlanta	2.6%	4.1%	3.0%	2.5%	94.8%	94.4%
Denver	2.8%	4.0%	2.2%	2.8%	95.0%	95.0%
Tampa	3.4%	3.7%	2.8%	2.6%	95.6%	95.4%
Raleigh	2.4%	3.2%	3.0%	3.2%	95.4%	94.8%
Orange County	2.8%	3.0%	0.5%	2.6%	97.0%	96.1%
Boston	2.4%	2.9%	2.0%	3.2%	96.6%	96.6%
San Francisco	2.4%	2.8%	1.7%	2.2%	96.6%	96.0%
Indianapolis	2.0%	2.6%	2.0%	1.6%	94.5%	94.0%
Philadelphia	2.1%	2.5%	1.8%	1.7%	96.0%	95.6%
San Jose	2.7%	2.5%	1.4%	3.3%	96.0%	96.0%
Nashville	0.5%	2.5%	3.1%	5.7%	96.1%	94.8%
Chicago	1.0%	2.4%	0.7%	2.3%	95.6%	95.0%
Houston	1.5%	2.2%	1.5%	2.9%	93.3%	93.1%
Charlotte	2.4%	1.9%	2.5%	3.2%	95.8%	95.4%
Kansas City	2.1%	1.8%	1.6%	2.5%	95.3%	95.1%
Baltimore	1.2%	1.8%	1.3%	1.7%	94.9%	94.7%
Miami Metro	1.3%	1.7%	2.5%	4.0%	95.9%	94.9%
San Antonio	0.8%	1.5%	2.4%	2.9%	94.0%	93.0%
Portland	0.8%	1.0%	2.4%	2.3%	96.0%	95.3%
Washington DC	0.3%	1.0%	1.8%	2.0%	95.8%	95.2%
Austin	0.5%	1.0%	2.4%	3.3%	94.8%	94.2%

Year-Over-Year Rent Growth, Other Markets

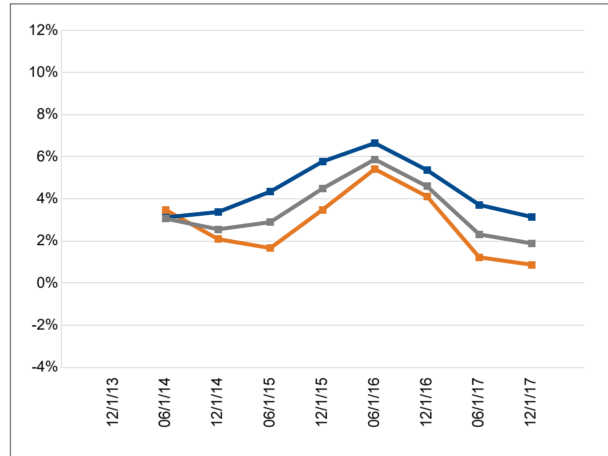
Market	December 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	9.9%	8.4%	10.9%
Tacoma	6.5%	5.6%	7.3%
Central Valley	5.4%	3.6%	6.0%
Colorado Springs	4.8%	4.9%	4.9%
San Fernando Valley	4.6%	2.6%	5.6%
Tucson	4.5%	3.7%	4.8%
Long Island	3.9%	3.7%	3.9%
Albuquerque	3.4%	2.3%	4.4%
Louisville	2.5%	1.2%	3.4%
NC Triad	2.4%	1.8%	3.4%
Bridgeport–New Haven	2.3%	3.4%	1.4%
Indianapolis	2.0%	0.7%	2.9%
SW Florida Coast	1.6%	1.1%	2.7%
Northern New Jersey	1.4%	0.0%	2.6%
St. Louis	1.1%	-0.2%	1.5%
El Paso	1.1%	1.3%	1.0%
Central East Texas	-2.0%	-2.8%	-1.7%

Market Rent Growth by Asset Class

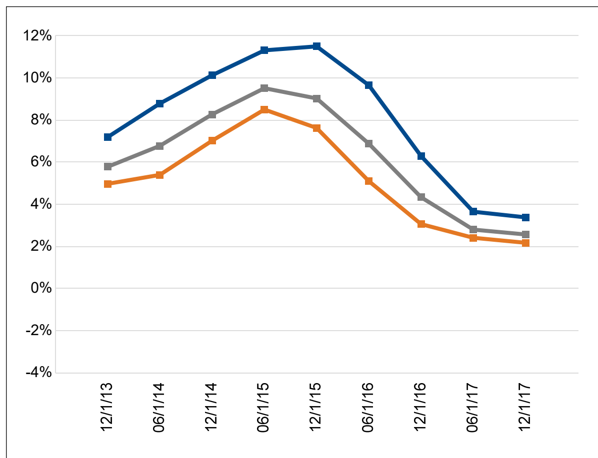
Atlanta



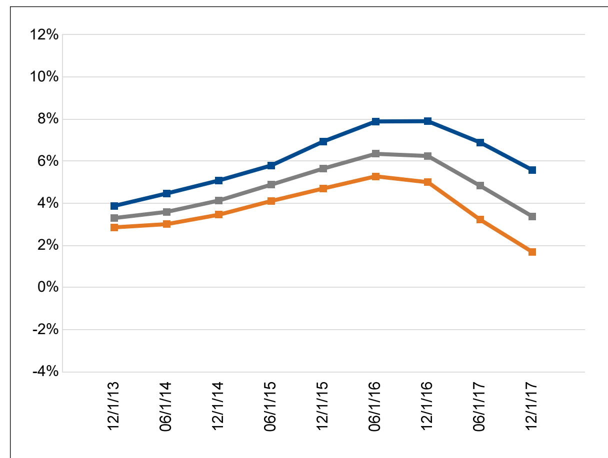
Boston



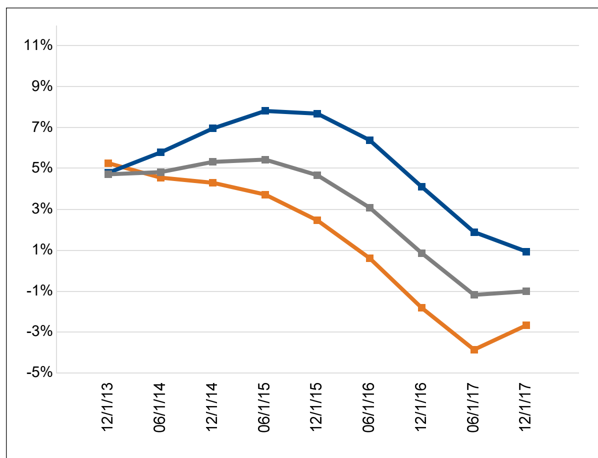
Denver



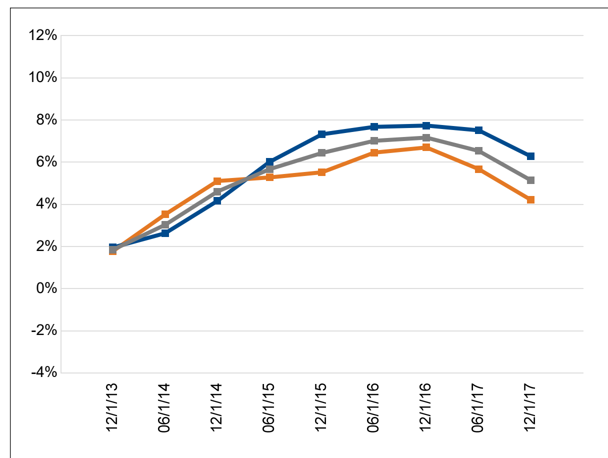
Dallas



Houston

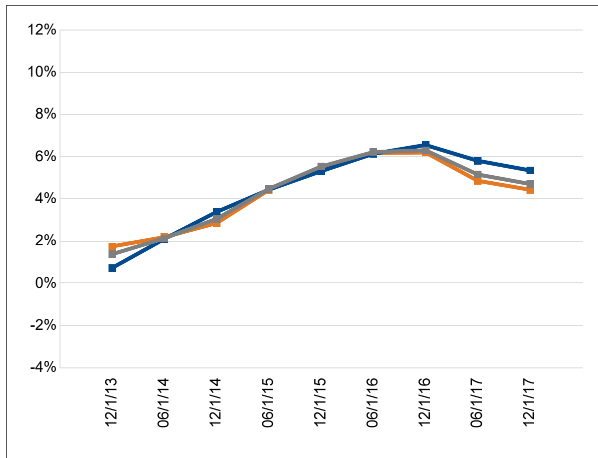


Inland Empire

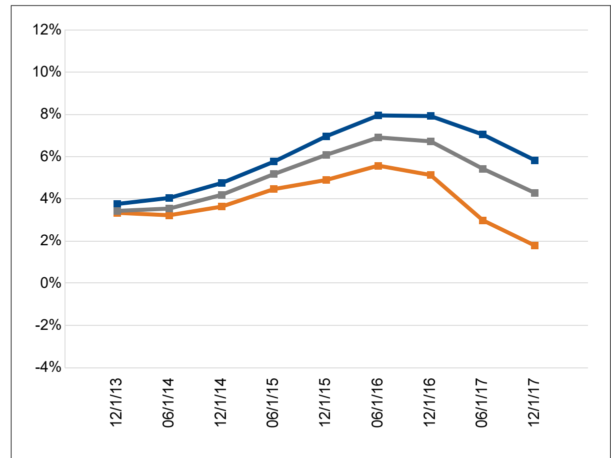


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

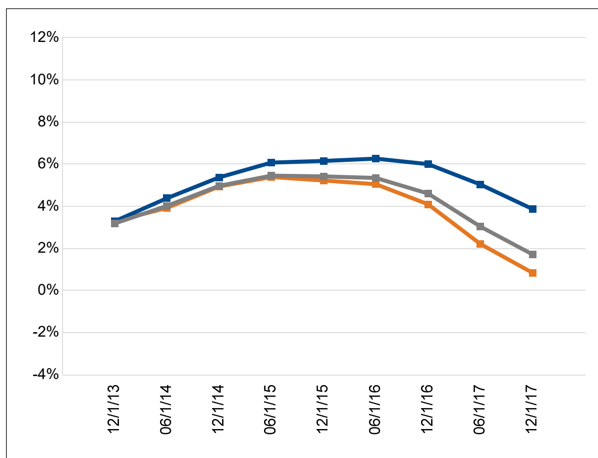
Las Vegas



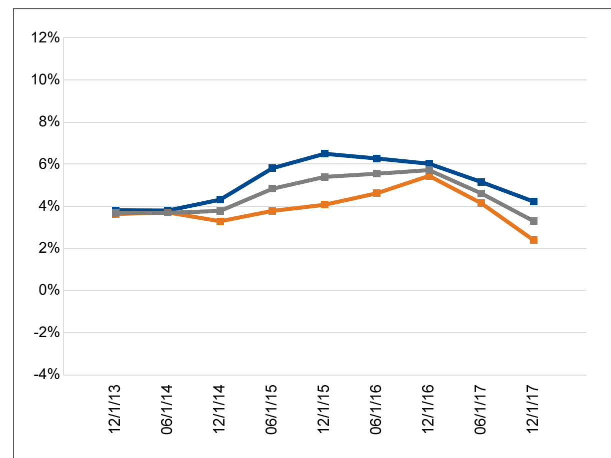
Los Angeles



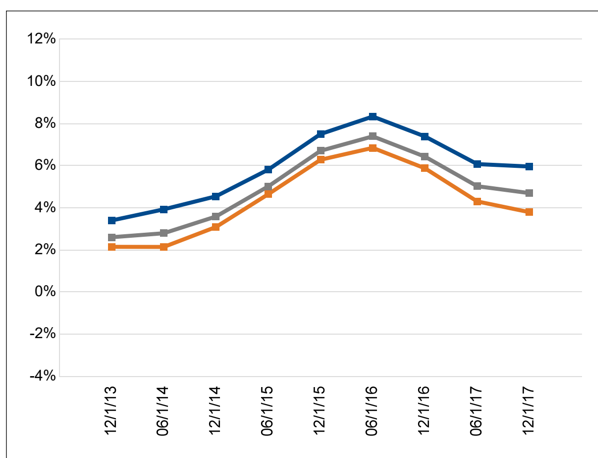
Miami



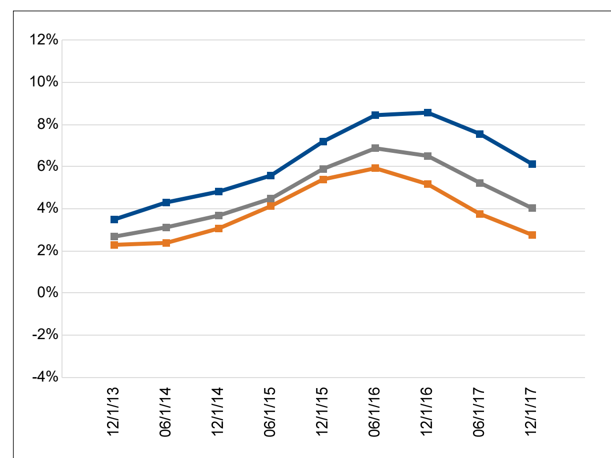
Orange County



Orlando

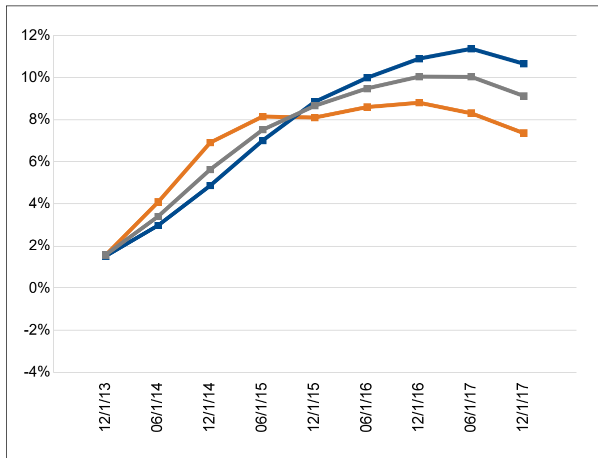


Phoenix

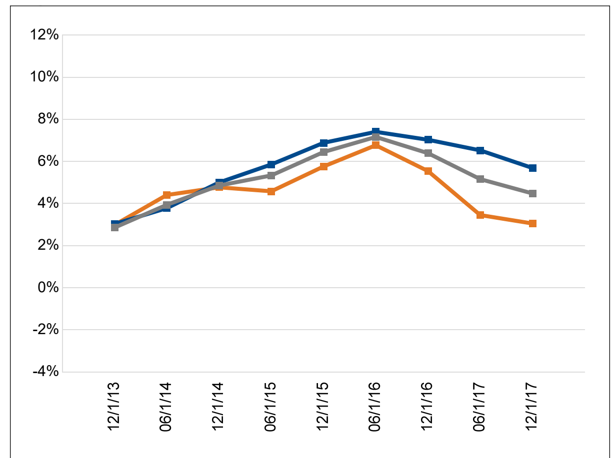


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

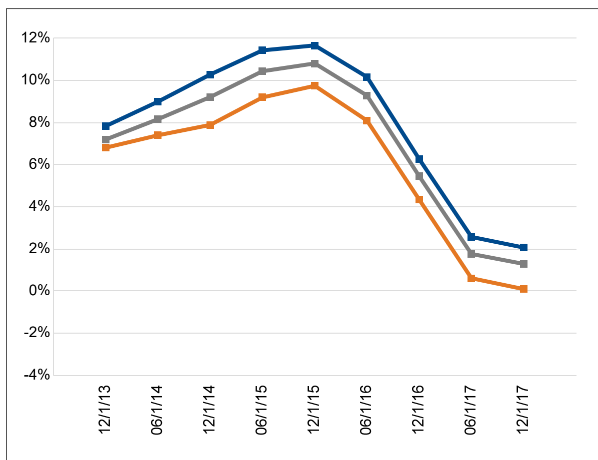
Sacramento



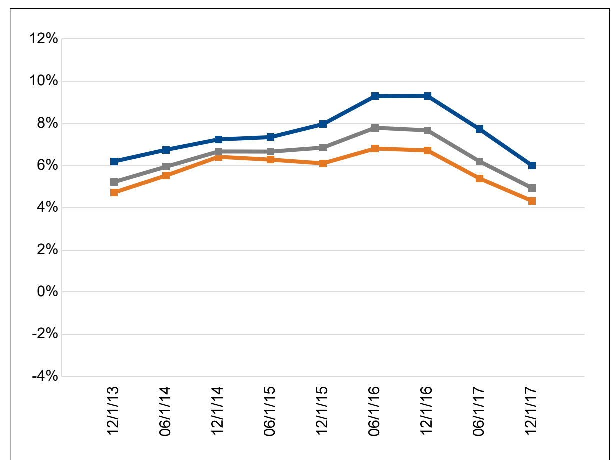
San Diego



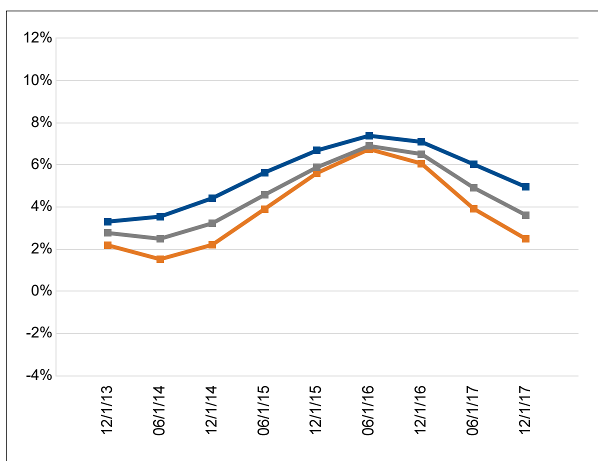
San Francisco



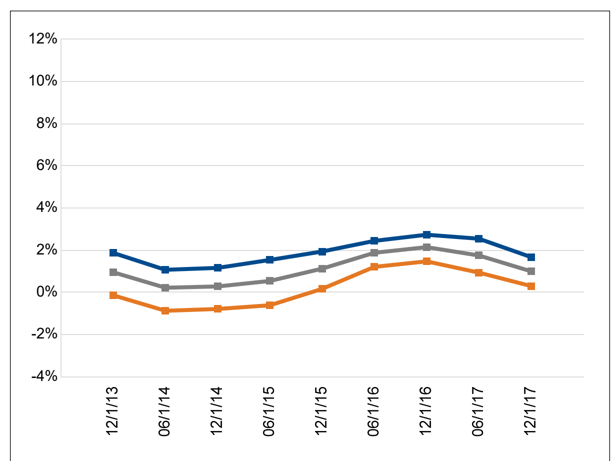
Seattle



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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