Yardi® Matrix

Multifamily Monthly

April 2018

Multifamily Rent Growth Springs Into Gear

- U.S. multifamily rents continued their strong seasonal gains in April, rising $4 to $1,377, and have now increased by $10 over the last two months, the market's best performance since last spring. On a year-over-year basis, rents are up 2.4% through April, down 20 basis points from the previous month but well within the 2.5% growth range that the market has averaged since early 2017.
- The healthy seasonal gains are a good sign that rent growth will remain resilient despite the headwinds faced by the market, particularly the peaking supply pipeline that has produced deceleration in some metros.
- Orlando maintained its lead atop the metro rankings for the third straight month, while Sacramento is showing signs of coming back to earth after a long period of explosive growth.

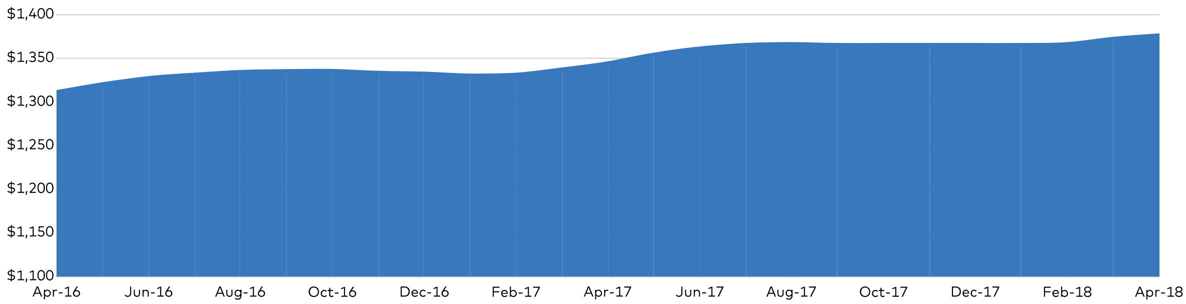
After two years of decelerating rent growth, the multifamily market's performance this spring posed a test: Rent growth historically has been highest in the spring—would that hold true this year or would rents stay flat as they did from summer 2017 through February 2018 due to the surging amount of deliveries that have caused the occupancy rate to drop in almost every metro?

In that regard, April's performance should be a relief to worrywarts, as U.S. rents grew by $4 during the month and are up $10 over two months. And growth was fairly widespread, with only Raleigh failing to see gains over the last quarter.

Standouts include the late-cycle markets that have seen the highest growth rates in recent months, such as Orlando, Tampa, Las Vegas and Phoenix. Sacramento remains among the top markets but is falling back to earth after a period of rapid gains. Some high-growth Western tech markets—such as San Jose, Seattle, Denver and San Francisco—where rent increases had decelerated the most between 2015 and the end of 2017, showed signs of perking up, with gains at above-trend levels in the latest three-month period.

The big picture is that even though the occupancy rate is dropping slowly closer to the historical average, the market is in a healthy position for the long term. Demand is expected to remain high, while overall housing stock is growing at roughly the same number as new households. Multifamily supply is out of skew in some metros and submarkets, either because the total number of units is too great or the type of supply is not balanced with the demand for units affordable to working families. In those areas, rents will flatten or even drop slightly. By and large, however, signs suggest rents will keep growing moderately or better.

National Average Rents



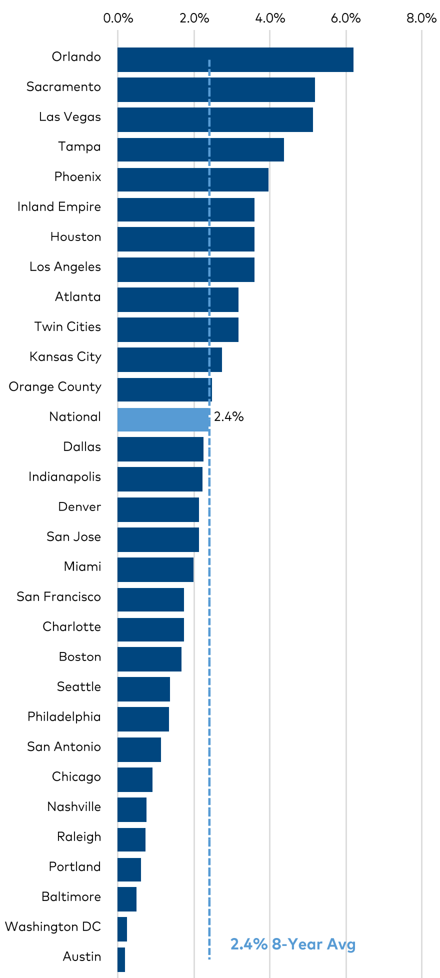
National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

Year-Over-Year Rent Growth: Sunbelt Cities Continue to Lead the Way

- U.S. multifamily rents grew 2.4% year-over-year through April, a 20-basis-point decline from March. While rents fluctuated modestly for the past year, it appears deceleration has reached a resistance level at about 2.5%. Orlando (6.2%) once again led the nation, as strong demographic and migration trends have boosted the central Florida metro. Sacramento (5.2%) remained in second place, but has shown significant signs of deceleration recently, after years of double-digit rent growth. Other strong markets include the Sunbelt cities of Las Vegas (5.1%), Tampa (4.4%) and Phoenix (4.0%), as warm climates, strong job growth and domestic migration have helped them thrive.

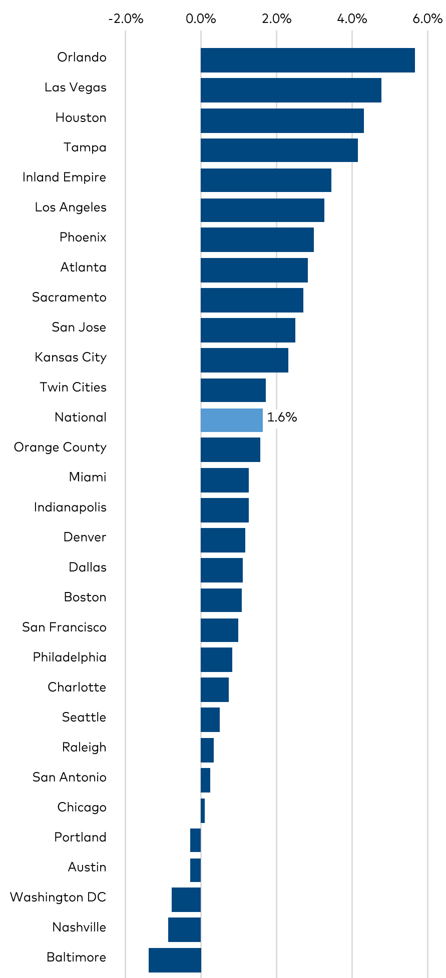
- The Renter-by-Necessity (3.0%) market maintained its 140-basis-point rent growth spread compared to Lifestyle units (1.6%), as demand remains high for affordable housing.

Year-Over-Year Rent Growth—All Asset Classes



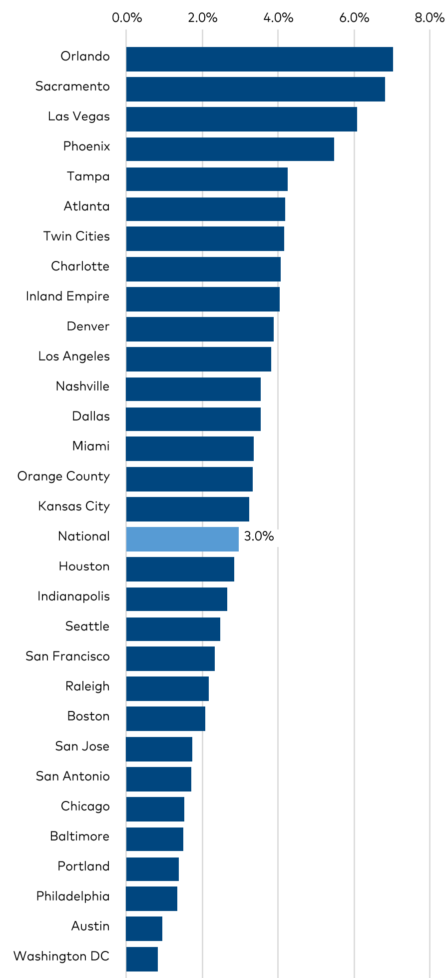
Source: *YardiMatrix*

Year-Over-Year Rent Growth—Lifestyle Asset Class



Source: *YardiMatrix*

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



Source: *YardiMatrix*

Trailing 3 Months:
Growth Accelerates in Prime Renter Season

- Rents are growing nationwide, as the prime renter season is underway.
- San Jose led all markets over the last three months despite limited affordability.

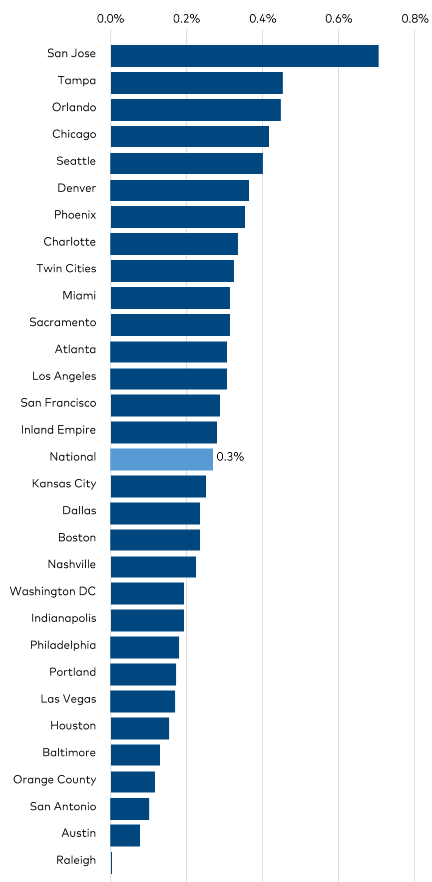
Rents increased 0.3% on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The T-3 reflects short-term changes and may not be indicative of long-term trends.

Spring is often the busiest time for apartment rentals and historically has seen the most rent growth. This year appears to be no different, indicating that rents will continue to grow as healthy demand helps to mitigate the effects of the delivery pipeline, which is expected to bring 360,000 units into the market in 2018.

San Jose (0.7%) led all markets on a T-3 basis even as high rents cause affordability issues in the South Bay Area. The strong economy continues to add jobs in the tech sector and thus supports multifamily in Silicon Valley.

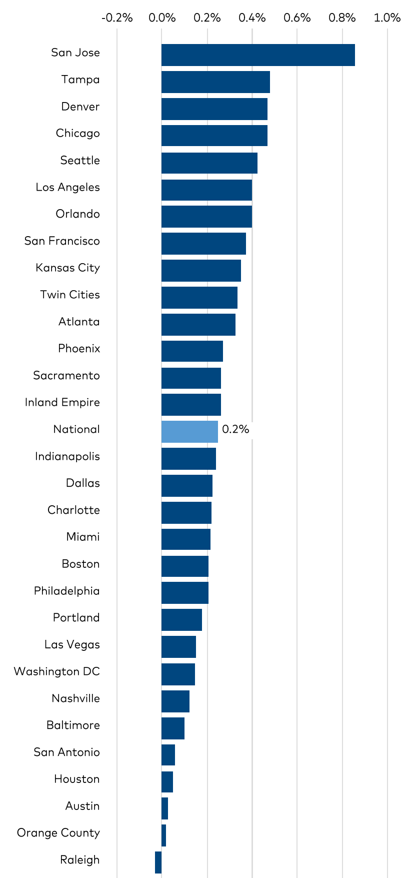
Chicago, Denver and Seattle (all 0.4%) bounced back in April after short-term rent declines impacted them in late 2017 and early 2018.

Trailing 3 Months Sequential—
All Asset Classes



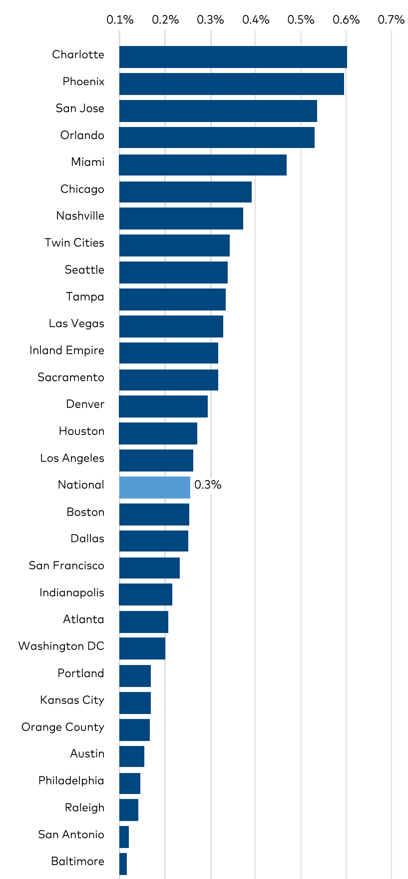
Source: YardiMatrix

Trailing 3 Months Sequential—
Lifestyle Asset Class



Source: YardiMatrix

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



Source: YardiMatrix

Employment, Supply and Occupancy Trends; Forecast Rent Growth

- Despite the challenge faced by supply growth and the deceleration in rents from the top of the cycle, job growth continues apace at more than 180,000 per month and the economy is still strong.
- Although occupancy rates are under pressure, demand for multifamily units remains robust in most markets, which means rents still have room for growth.
- Metros with declining occupancy rates have the weakest rent growth metrics.

In recent months, we've been discussing the clear connection between rent growth and occupancy rates, and April's data once again shows the link. The occupancy rate on stabilized properties has dropped by 100 basis points or more year-over-year through March in 11 of our top 30 metros. Only one of those metros (Sacramento) has rent increases above the 2.4% national average over the last year, and the average increase is 1.3%.

To be sure, the occupancy rate has dropped by 80 basis points to 94.9% on a national level, so most of our surveyed markets have some level of slippage. But it is difficult for rents to grow much when deliveries provide an increasing number of options for renters.

The most extreme changes in occupancy rate are in Seattle, Raleigh and Nashville, all of which saw a 160-basis-point reduction through March. Seattle's year-over-year rent growth has fallen to 1.4% from 5.4% a year ago, while Nashville's fell to 0.8% from 2.6% a year ago and Raleigh's dropped to 0.7% from 3.3% a year ago.

Other metros with occupancy declines have similar stories. Dallas' occupancy rate for stabilized properties dropped 140 basis points, while rent growth fell to 2.2% in April from 3.3% a year ago. Portland and San Antonio saw a 120-basis-point decline in occupancy rates through March. In Portland, rent growth fell to 0.6% from 2.9% a year ago, while San Antonio saw rent growth fall to 1.1% from 1.6% a year ago. Even Sacramento, where rent growth remains above trend, saw a deceleration after the occupancy rate dropped 100 basis points. Rent growth declined to 5.2% year-over-year from 9.9% a year ago.

As we have stressed before, we are not bearish on these metros, most of which have vibrant economies and strong long-term prospects. But investors must realize that rent growth will remain weaker until inventory is absorbed.

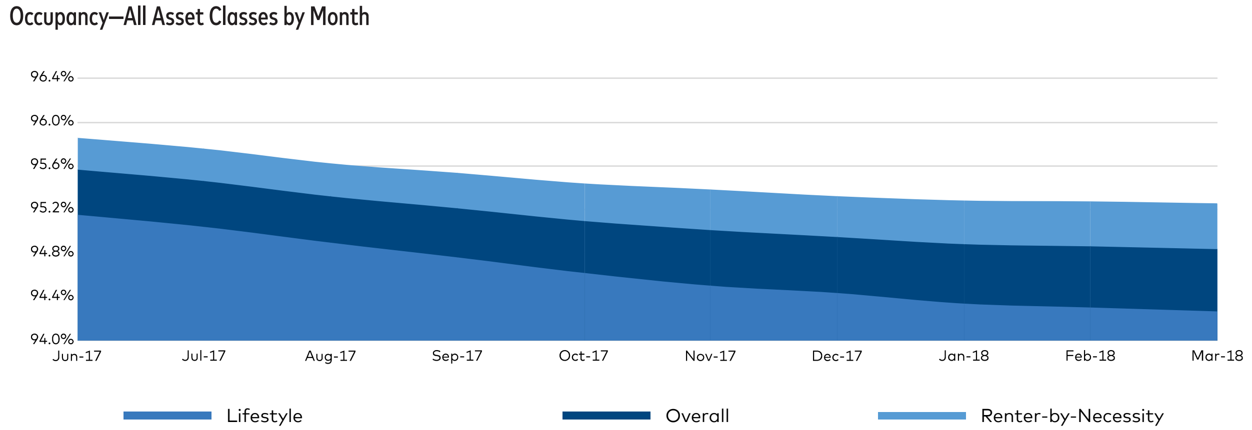
And then there is Houston, the only metro with an occupancy rate increase, and Phoenix and Los Angeles, which saw the smallest declines. Those three averaged 3.7% rent growth through April.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Apr - 18	Forecast Rent Growth (YE 2018)	YoY Job Growth (6-mo. moving avg.) as of Feb - 18	Completions as % of Total Stock as of Apr - 18	Occupancy Rates as of Mar - 17	Occupancy Rates as of Mar - 18
Sacramento	5.2%	7.2%	2.5%	0.3%	97.2%	96.2%
Phoenix	4.0%	5.0%	2.7%	2.4%	95.2%	95.0%
Inland Empire	3.6%	4.9%	3.7%	0.8%	96.6%	95.9%
Las Vegas	5.1%	4.8%	2.5%	1.4%	95.4%	94.6%
Seattle	1.4%	4.8%	2.9%	4.5%	96.5%	94.9%
Los Angeles	3.6%	4.7%	1.3%	1.8%	97.1%	96.6%
Orlando	6.2%	4.5%	2.4%	3.1%	96.4%	95.7%
Dallas	2.2%	4.4%	2.7%	2.3%	95.7%	94.3%
Tampa	4.4%	3.7%	1.7%	2.9%	95.7%	95.1%
Atlanta	3.2%	3.7%	1.9%	2.2%	94.5%	93.9%
Twin Cities	3.2%	3.7%	1.1%	1.9%	98.0%	97.1%
Raleigh	0.7%	3.5%	2.1%	2.7%	95.5%	93.9%
Orange County	2.5%	3.1%	1.9%	2.8%	96.8%	95.9%
Denver	2.1%	3.0%	2.3%	3.9%	95.5%	94.6%
Indianapolis	2.2%	3.0%	1.2%	1.7%	94.6%	94.0%
Chicago	0.9%	2.8%	0.6%	2.9%	95.3%	94.3%
San Francisco	1.7%	2.8%	1.9%	2.0%	96.6%	95.7%
Boston	1.7%	2.6%	1.0%	3.4%	97.0%	96.2%
San Jose	2.1%	2.4%	2.8%	2.4%	96.3%	95.7%
Houston	3.6%	2.3%	1.8%	2.5%	93.3%	93.7%
Miami Metro	2.0%	2.3%	0.7%	4.0%	95.8%	95.1%
Philadelphia	1.3%	2.3%	1.0%	1.9%	96.1%	95.1%
Charlotte	1.7%	2.2%	2.9%	2.8%	95.8%	94.9%
Nashville	0.8%	2.1%	2.6%	5.4%	95.9%	94.3%
Kansas City	2.7%	2.0%	1.4%	2.1%	95.5%	94.6%
San Antonio	1.1%	2.0%	2.1%	2.9%	93.6%	92.4%
Austin	0.2%	1.6%	3.2%	4.3%	94.6%	93.6%
Baltimore	0.5%	1.5%	0.8%	2.0%	94.9%	94.1%
Portland	0.6%	1.5%	2.3%	2.8%	96.0%	94.8%
Washington DC	0.2%	1.3%	1.2%	2.1%	95.9%	94.8%

Source: YardiMatrix

Occupancy & Asset Classes



Source: YardiMatrix

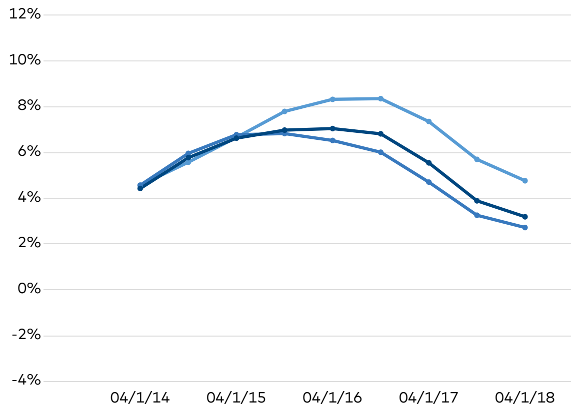
Year-Over-Year Rent Growth, Other Markets

Market	April 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	9.8%	7.4%	11.5%
Central Valley	5.3%	3.9%	5.4%
Tacoma	4.9%	3.8%	6.1%
Tucson	4.3%	4.8%	4.1%
Colorado Springs	4.2%	3.2%	5.3%
San Fernando Valley	4.2%	3.4%	4.6%
Long Island	3.4%	2.3%	4.0%
SW Florida Coast	3.0%	3.2%	3.1%
NC Triad	2.8%	2.3%	3.3%
Indianapolis	2.2%	1.3%	2.6%
Louisville	2.0%	1.0%	2.6%
Bridgeport–New Haven	2.0%	2.0%	1.8%
Northern New Jersey	1.6%	0.8%	2.7%
El Paso	1.5%	2.6%	1.0%
St. Louis	1.2%	-1.1%	2.3%
Albuquerque	1.0%	0.9%	1.2%
Central East Texas	-2.3%	-3.2%	-2.2%

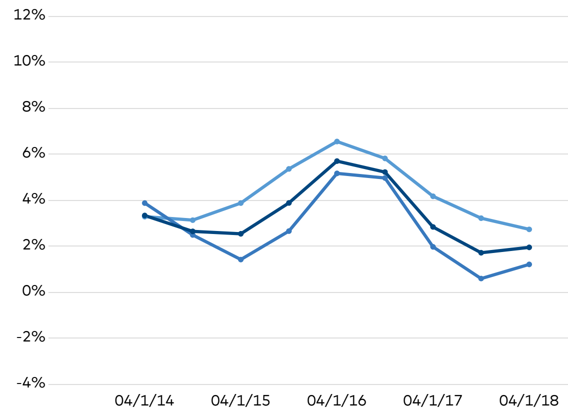
Source: YardiMatrix

Market Rent Growth by Asset Class

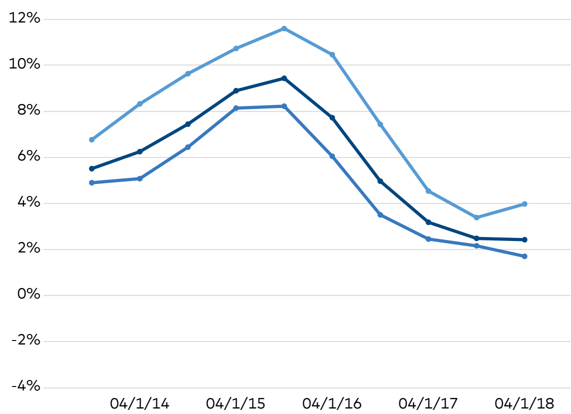
Atlanta



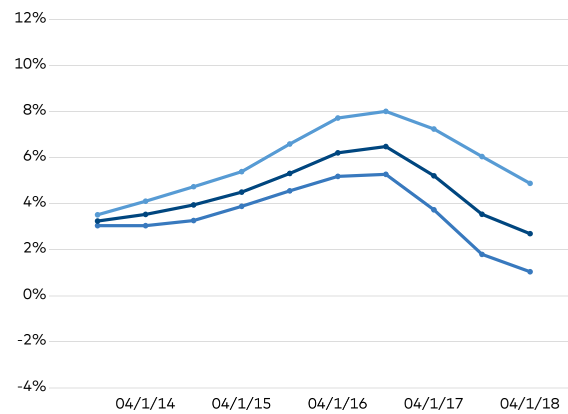
Boston



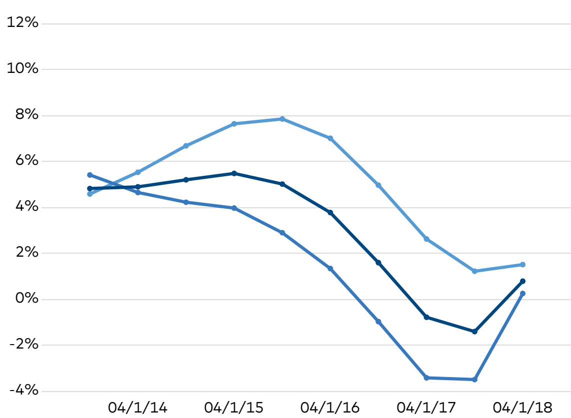
Denver



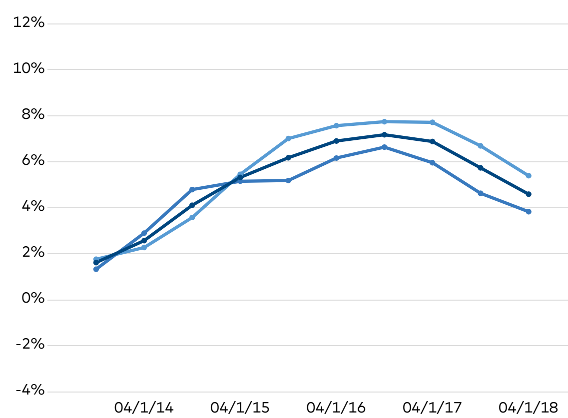
Dallas



Houston



Inland Empire

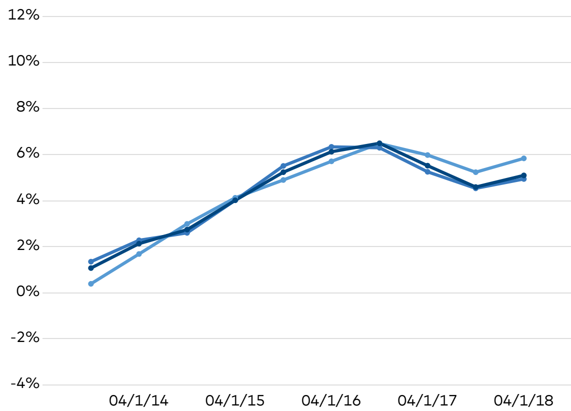


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

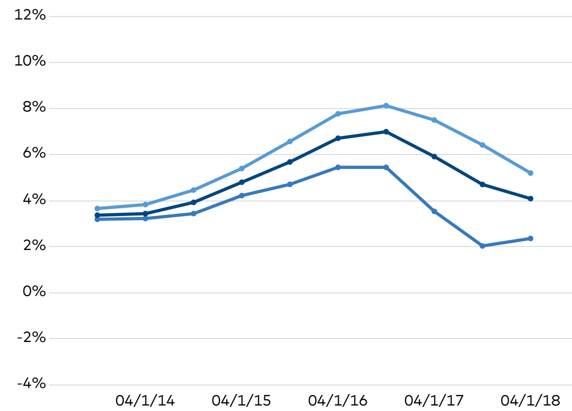
Source: YardiMatrix

Market Rent Growth by Asset Class

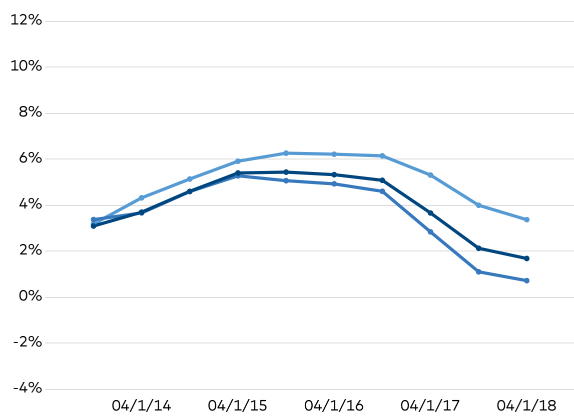
Las Vegas



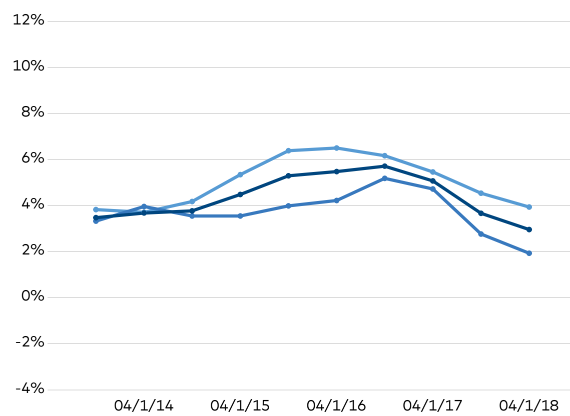
Los Angeles



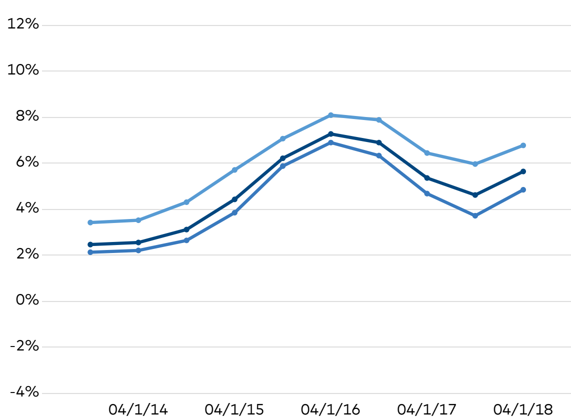
Miami



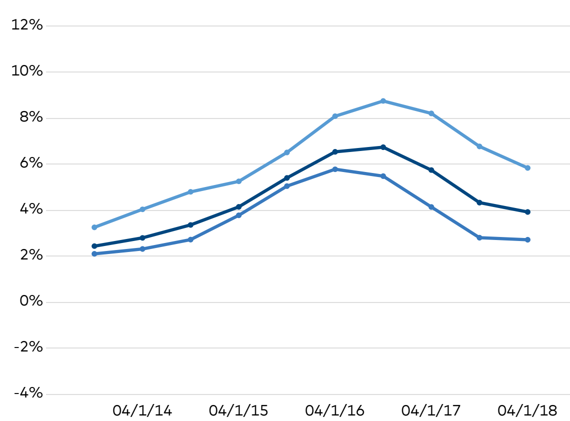
Orange County



Orlando



Phoenix

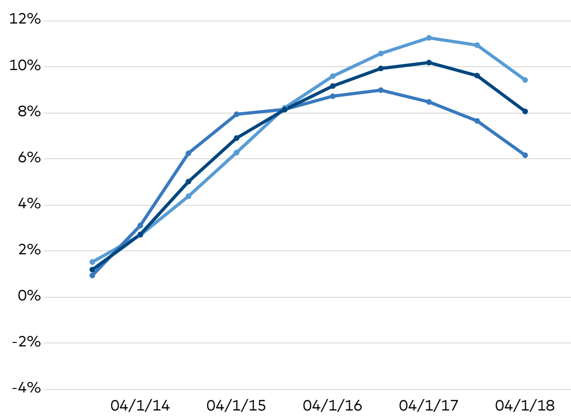


Trailing 12 Months Overall　Trailing 12 Months Lifestyle　Trailing 12 Months Renter-by-Necessity

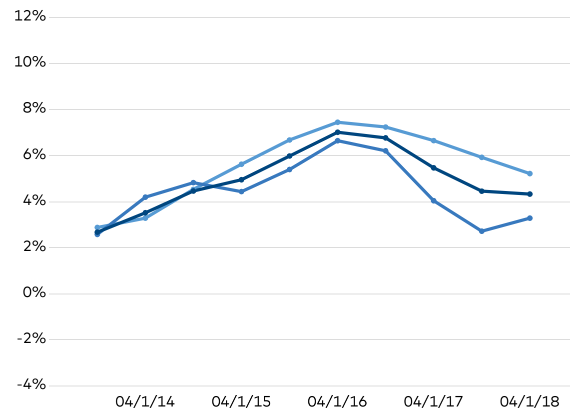
Source: YardiMatrix

Market Rent Growth by Asset Class

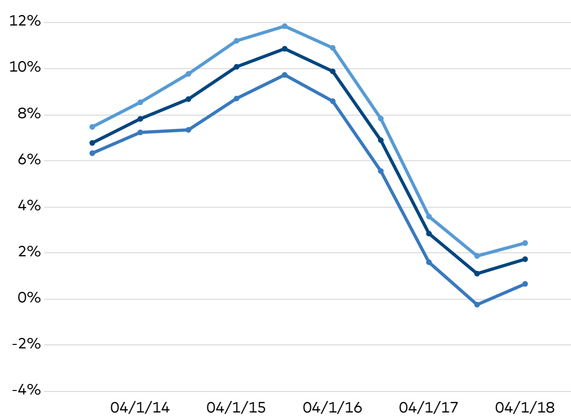
Sacramento



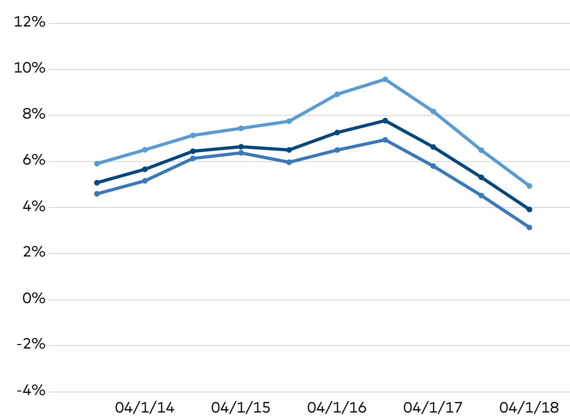
San Diego



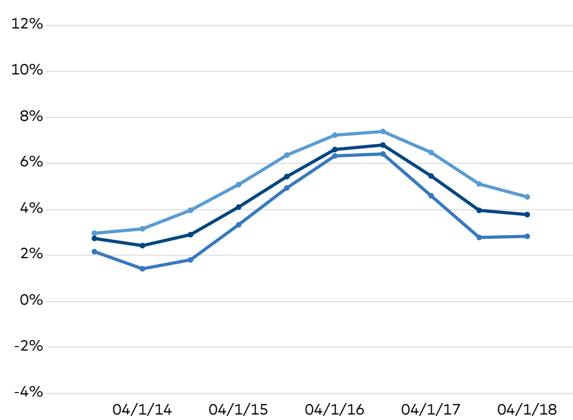
San Francisco



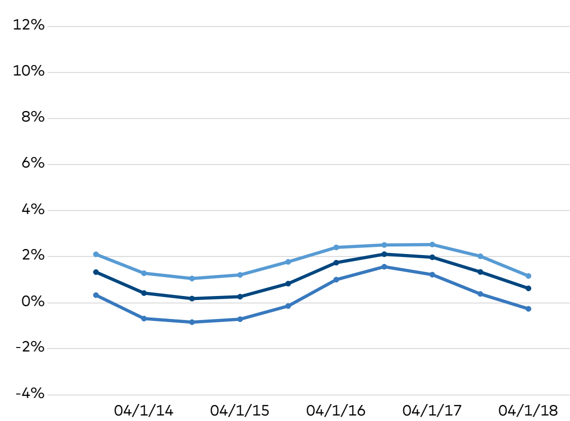
Seattle



Tampa



Washington, D.C.



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

Source: YardiMatrix

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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