Yardi® Matrix

# Multifamily Monthly

May 2018

# Holding Pattern:
# Rents Up, Rate of Growth Down in May

- U.S. multifamily rents increased in May, rising $4 to $1,381. However, growth was weaker than last spring, prompting the year-over-year increase to fall to 2.0%, down from 2.5% in April. The 50-basis-point drop is the largest one-month decline in more than six years.

- Rents continue to grow moderately in most metros and are up $15 year-to-date, but that's weaker than last year's $25 increase for the same period—hence the decline in the rate of growth. Increases are being held back by the spate of projects coming online.

- Outsize gains are becoming rare. Orlando maintained its top spot with 5.3% year-over-year growth, followed by Las Vegas at 4.9%. After that, though, no metro had an increase above 4.0%.

U.S. multifamily rents are on the rise—up $14 over the last three months and 1.1% year-to-date through May—but growth is weaker than at any time in the current cycle. Year-over-year growth fell to 2.0% in May, down 70 basis points over the last two months and at its lowest point since 2011.

What are we to make of the conflicting signals? At the moment, not too much. May's performance continued a two-year pattern of rent deceleration primarily attributable to pressure from deliveries in most metros. That has taken a toll on occupancy rates and growth, even in markets with strong demand. With more than 600,000 units under construction and likely to be completed within two years, deliveries will continue to pressure rents.

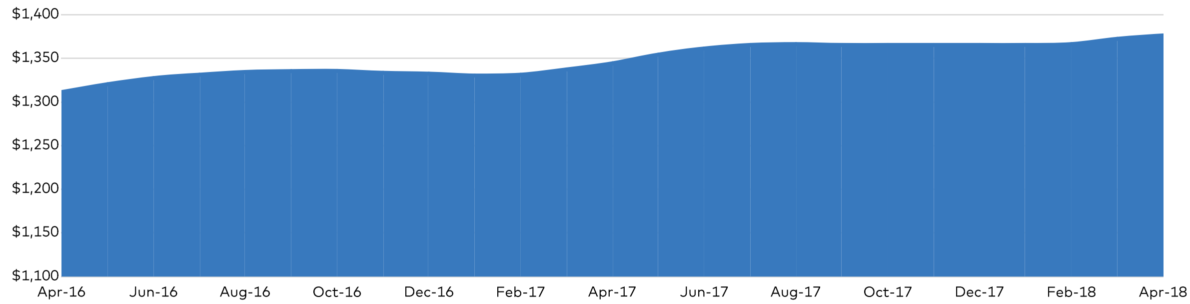
However, the impact of the new supply will be concentrated in:

1) Submarkets with the most deliveries. Occupancy patterns are inconsistent within metros, and areas with the most construction have been hit the hardest.

2) Luxury apartments, which constitute almost 90% of new construction. Lifestyle rents are negative year-over-year in high-delivery metros Seattle, Portland, Nashville, Austin and Washington, D.C.

As we've said before, to point out these facts is not to be bearish. The economy is favorable, with steady job growth, near full employment and consumer spending seemingly poised for a boost from the tax cuts. We expect overall demand will hold up. But it is important to adjust expectations in the near term. Growth will come—from the right locations and efficient management.

## National Average Rents

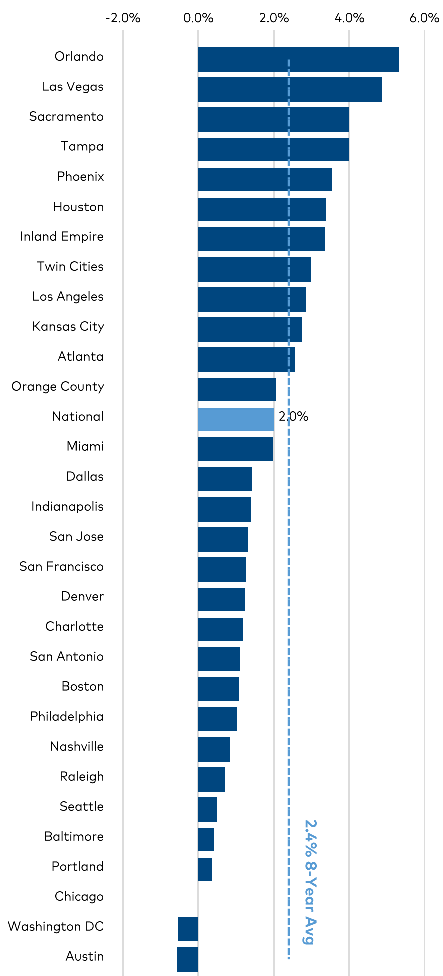



*National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.*
*All data provided by YardiMatrix.*

# Year-Over-Year Rent Growth:
# Orlando Remains Hot as Deceleration Continues

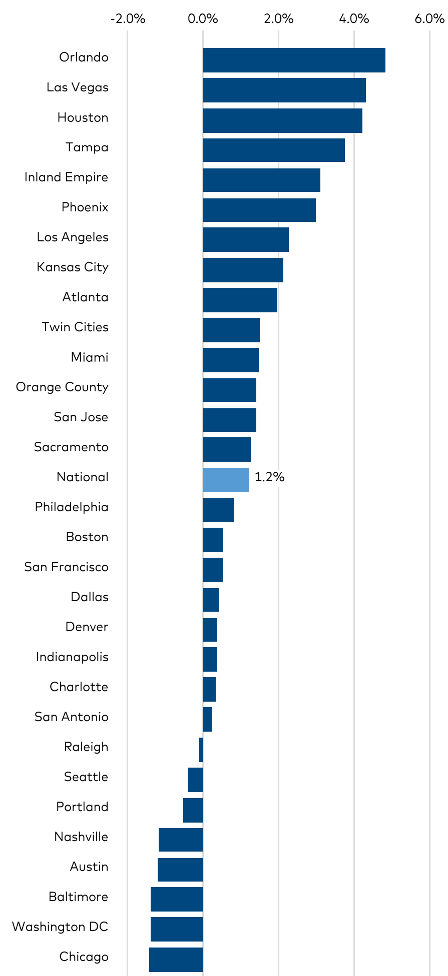
- With strong job growth and domestic migration as the driving factors, Orlando maintained the top spot in our rankings with year-over-year rent growth of 5.3%.
- Southern and Western Sunbelt metros also performed well in May, as Las Vegas (4.9%), Sacramento and Tampa (both 4.0%) followed Orlando. Employment and population growth is strongest in secondary and traditionally late-cycle markets.
- Decelerating rent growth can be seen nationwide, as the glut of new supply in places such as Austin (-0.5% Y-O-Y rent growth), Portland (0.4%) and Seattle (0.5%) has stalled rent growth after rapid increases in 2016 and 2017.

### Year-Over-Year Rent Growth— All Asset Classes



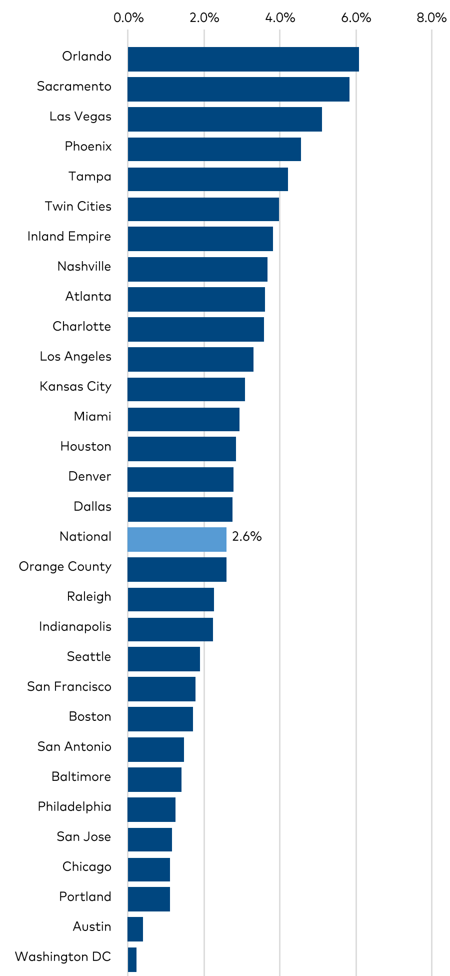

Source: Yardi Matrix

### Year-Over-Year Rent Growth— Lifestyle Asset Class




Source: Yardi Matrix

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




Source: Yardi Matrix

# Trailing 3 Months: Seasonality Apparent but Weaker Than 2017

- Rents are increasing during the prime renter season, but not as significantly as in years past.
- High-supply markets are experiencing volatility as short-term rent growth rebounds.

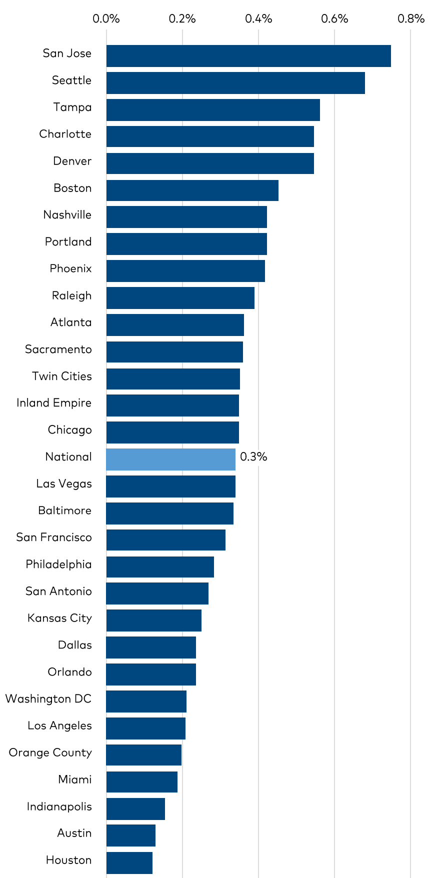
For the second consecutive month, rents increased 0.3% on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The T-3 reflects short-term changes and may not represent long-term trends.

As is often the case, the spring brings about rent growth as renters search for new housing and relocate more than in other seasons. Rent gains thus far in 2018, however, have been muted compared to prior years, as new supply has had a dampening effect on seasonal rent growth and occupancy.

San Jose (0.7%) remains atop our rankings, followed by Seattle (0.7%). Short-term rent growth in Seattle marks a turnaround from the end of 2017, when rents declined. Significant deliveries there will likely keep rents from growing as rapidly as they had in 2016 and early 2017.

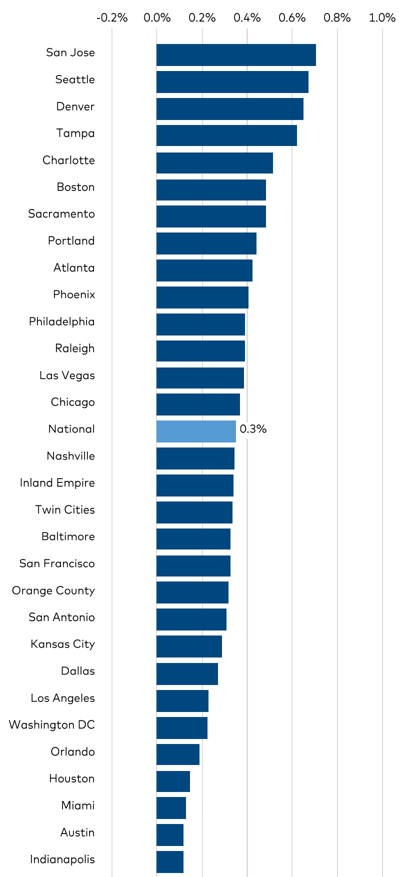
On a T-3 basis, both Lifestyle and RBN rents grew 0.3%.

**Trailing 3 Months Sequential—All Asset Classes**



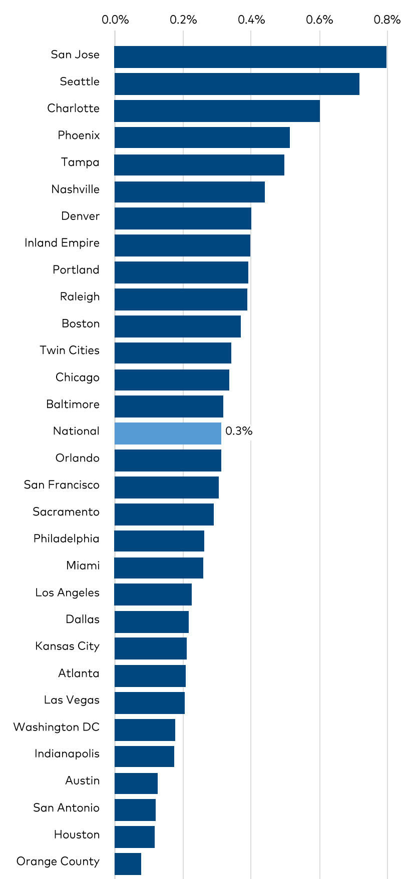

*Source: Yardi Matrix*

**Trailing 3 Months Sequential—Lifestyle Asset Class**




*Source: Yardi Matrix*

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




*Source: Yardi Matrix*

# Employment, Supply and Occupancy Trends; Forecast Rent Growth

- Supply pressures are driving occupancy declines as well as rent deceleration, as most major metros have increased vacancy year-over-year. The hardest-hit metros are secondary markets, where new supply exceeded 3% of existing stock.
- Deliveries will continue, with roughly 300,000 units expected to come online in 2018. Further rent deceleration and occupancy declines will likely occur in popular secondary markets.
- Job growth remains strong; however, the tight labor market continues to test the boundaries of full employment.


Just as rent growth has slowed from its cycle peak, so too has occupancy in most of our top 30 metros. Only two, Phoenix (0.1%) and Houston (0.5%), had year-over-year occupancy increases in April. Roughly half of the top 30 metros had occupancy declines of 1.0% or greater. New supply has been delivered rapidly but absorbed slowly, and markets with outsize development activity—such as Seattle (-1.6% occupancy decline), Dallas and Raleigh (both -1.4%)—have felt the most pressure.

The national average occupancy fell to 94.9% in April and has declined 80 basis points year-over-year. While demand remains strong, the absorption of newly completed units and those that will deliver in the coming months will likely dampen rent growth in most markets.

Yardi Matrix projects roughly 300,000 new units to be delivered in 2018, most of them at the high end. Throughout the current cycle, the majority of new units have been luxury, and as a result, rent growth has been bifurcated: In the RBN segment, it has decelerated in recent months but remains relatively insulated due to the large disparity in newly delivered units. Spreads between Lifestyle and RBN units may continue to grow, especially in high-supply markets, in the coming months.

Employment gains continue to anchor the economy; however, with the labor market growing exceedingly tighter, job growth has decelerated. The prospect of additional job gains of 200,000 per month seems unlikely, which coupled with growing apartment supply will increase headwinds for the multifamily industry.

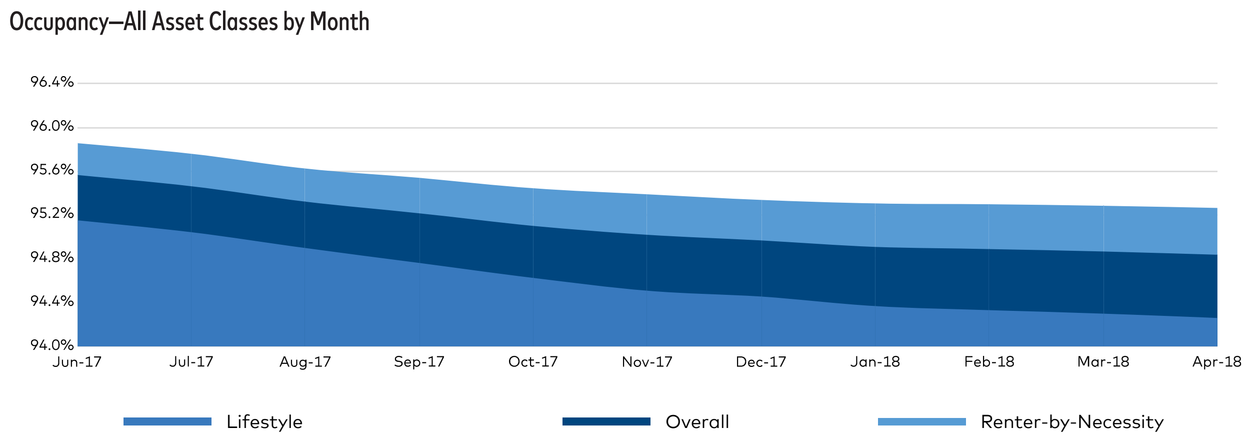
Despite a 17-year low in the unemployment rate and continued job growth, wage inflation remains low, unable to break 3%. Given the tight labor market, though, wages may begin to grow in the latter half of 2018 and into 2019. Growing wages can be a catalyst for the multifamily market, and may mitigate some of the supply headwinds currently impacting apartments.

# Employment, Supply and Occupancy Trends; Forecast Rent Growth

| Market | YoY Rent Growth as of May - 18 | Forecast Rent Growth (YE 2018) | YoY Job Growth (6-mo. moving avg.) as of Mar - 18 | Completions as % of Total Stock as of May - 18 | Occupancy Rates as of Apr - 17 | Occupancy Rates as of Apr - 18 |
|---|---|---|---|---|---|---|
| Sacramento | 4.0% | 6.5% | 2.5% | 0.5% | 97.2% | 96.3% |
| Phoenix | 3.5% | 5.6% | 2.8% | 2.2% | 95.1% | 95.2% |
| Inland Empire | 3.4% | 4.5% | 3.7% | 0.8% | 96.4% | 95.9% |
| Las Vegas | 4.9% | 3.6% | 2.5% | 1.7% | 95.4% | 94.7% |
| Seattle | 0.5% | 4.7% | 3.1% | 4.7% | 96.5% | 94.9% |
| Los Angeles | 2.9% | 4.3% | 1.3% | 1.8% | 97.0% | 96.5% |
| Orlando | 5.3% | 5.1% | 2.8% | 2.9% | 96.4% | 95.8% |
| Dallas | 1.4% | 3.1% | 2.8% | 2.4% | 95.7% | 94.3% |
| Tampa | 4.0% | 3.9% | 2.0% | 2.8% | 95.8% | 95.1% |
| Atlanta | 2.6% | 2.8% | 1.9% | 2.4% | 94.6% | 93.9% |
| Twin Cities | 3.0% | 4.0% | 1.1% | 2.0% | 98.1% | 97.0% |
| Raleigh | 0.7% | 2.3% | 2.2% | 3.0% | 95.5% | 94.1% |
| Orange County | 2.1% | 1.7% | 1.8% | 3.1% | 96.7% | 95.7% |
| Denver | 1.2% | 3.0% | 2.4% | 3.8% | 95.6% | 94.5% |
| Indianapolis | 1.4% | 2.7% | 1.3% | 1.4% | 94.7% | 94.0% |
| Chicago | 0.0% | 3.3% | 0.6% | 2.8% | 95.3% | 94.2% |
| San Francisco | 1.3% | 3.0% | 1.9% | 1.7% | 96.6% | 95.7% |
| Boston | 1.1% | 2.8% | 1.0% | 3.2% | 96.9% | 96.1% |
| San Jose | 1.3% | 3.1% | 2.9% | 2.1% | 96.4% | 95.7% |
| Houston | 3.4% | 1.8% | 2.0% | 2.5% | 93.2% | 93.7% |
| Miami Metro | 2.0% | 3.0% | 1.1% | 3.7% | 95.7% | 95.1% |
| Philadelphia | 1.0% | 2.4% | 1.1% | 2.0% | 96.1% | 95.0% |
| Charlotte | 1.2% | 2.7% | 3.0% | 3.2% | 95.9% | 94.9% |
| Nashville | 0.8% | 1.8% | 2.5% | 5.9% | 95.7% | 94.3% |
| Kansas City | 2.7% | 2.2% | 1.5% | 2.3% | 95.5% | 94.7% |
| San Antonio | 1.1% | 1.8% | 2.1% | 2.3% | 93.6% | 92.3% |
| Austin | -0.5% | 1.0% | 3.4% | 4.3% | 94.6% | 93.6% |
| Baltimore | 0.4% | 1.7% | 0.9% | 1.9% | 94.9% | 94.2% |
| Portland | 0.4% | 1.4% | 2.2% | 2.9% | 96.1% | 94.8% |
| Washington DC | -0.5% | 1.4% | 1.2% | 1.8% | 95.8% | 94.9% |

*Source: Yardi Matrix*

# Occupancy & Asset Classes




*Source: Yardi Matrix*

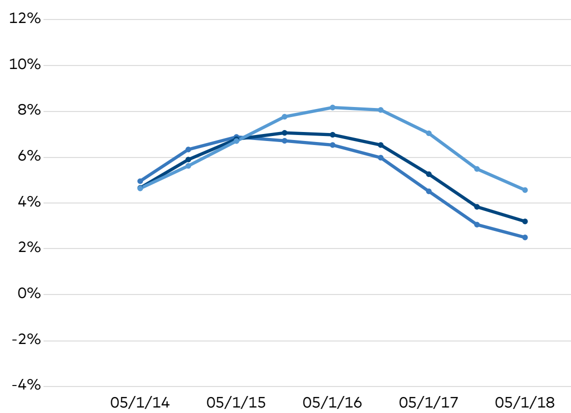
# Year-Over-Year Rent Growth, Other Markets

| Market | May 2018 | | |
|---|---|---|---|
| | Overall | Lifestyle | Renter-by-Necessity |
| Reno | 9.4% | 6.5% | 11.4% |
| Central Valley | 4.9% | 3.4% | 5.2% |
| Tacoma | 4.4% | 3.1% | 5.5% |
| Tucson | 4.0% | 4.6% | 3.7% |
| Long Island | 3.4% | 3.2% | 3.6% |
| San Fernando Valley | 3.2% | 1.8% | 3.8% |
| SW Florida Coast | 3.0% | 2.1% | 4.2% |
| Salt Lake City | 2.9% | 3.3% | 2.8% |
| Colorado Springs | 2.8% | 1.3% | 4.1% |
| NC Triad | 2.4% | 2.2% | 2.7% |
| Northern New Jersey | 1.9% | 0.9% | 2.9% |
| Louisville | 1.8% | 0.8% | 2.3% |
| Bridgeport–New Haven | 1.7% | 1.4% | 1.7% |
| Albuquerque | 1.5% | 0.9% | 1.6% |
| Indianapolis | 1.4% | 0.4% | 2.2% |
| El Paso | 1.2% | 2.7% | 0.6% |
| St. Louis | 0.8% | -1.4% | 1.7% |
| Central East Texas | -2.2% | -3.3% | -1.9% |

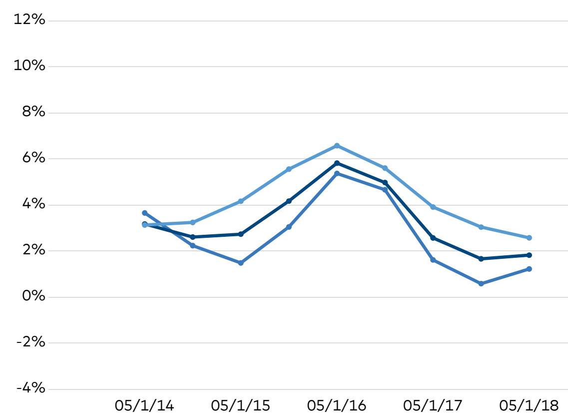
*Source: Yardi Matrix*

# Market Rent Growth by Asset Class

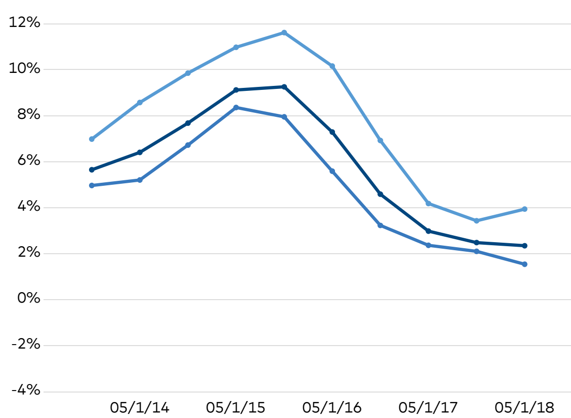
## Atlanta



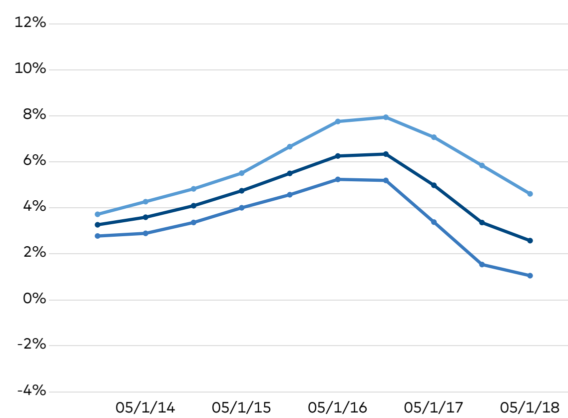

## Boston



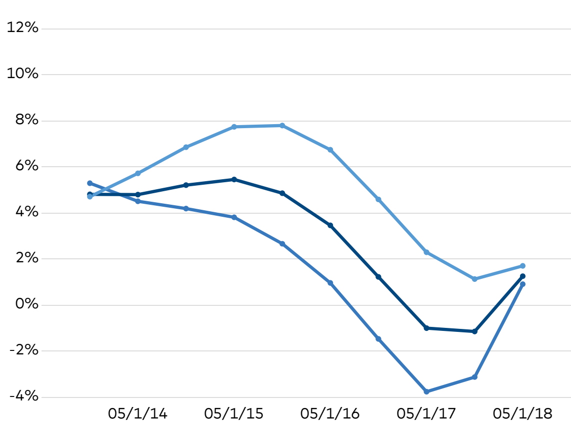

## Denver



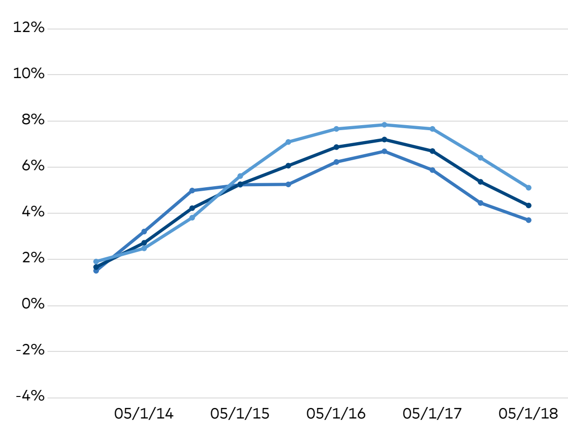

## Dallas




## Houston




## Inland Empire

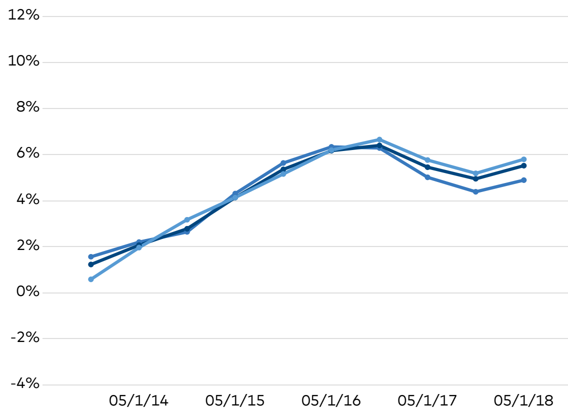



Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

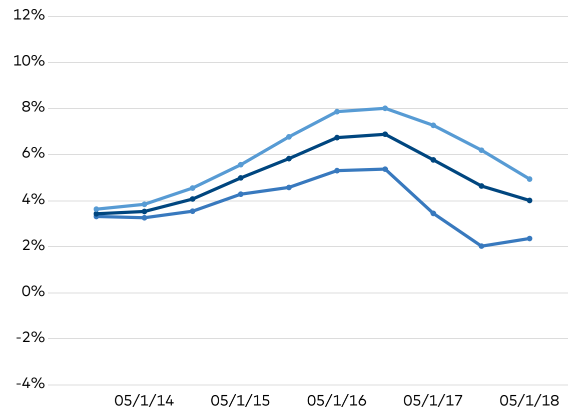
*Source: Yardi Matrix*

# Market Rent Growth by Asset Class

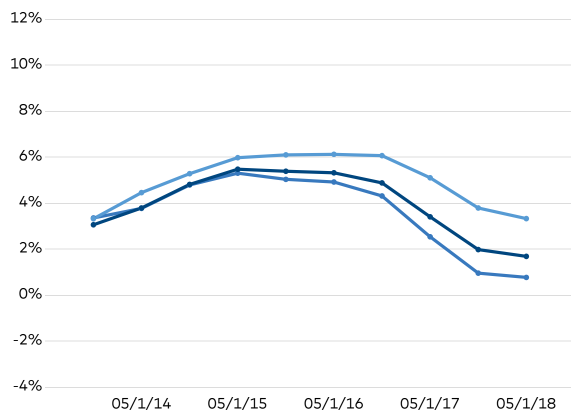
### Las Vegas



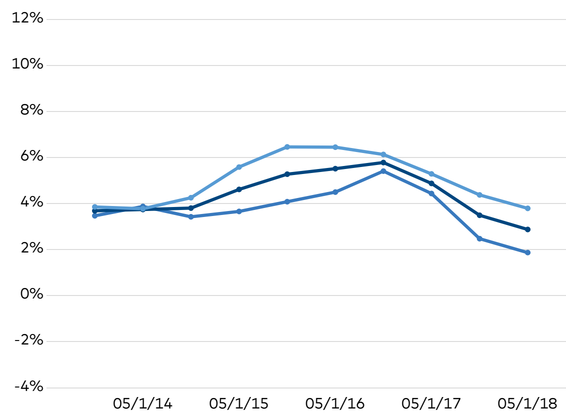

### Los Angeles



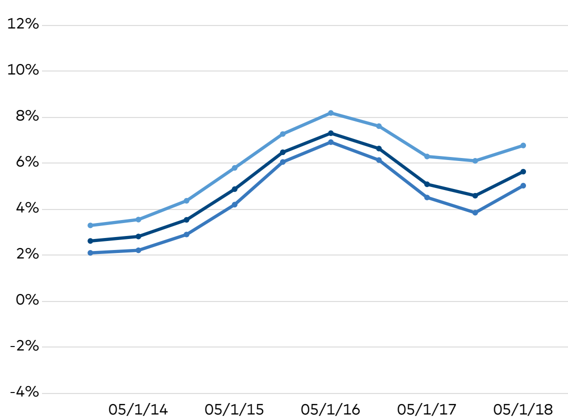

### Miami



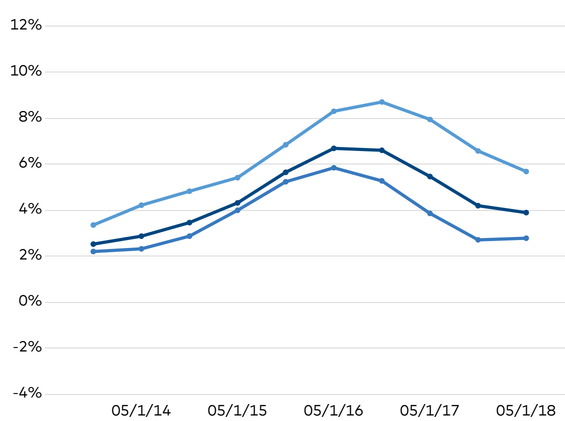

### Orange County




### Orlando




### Phoenix

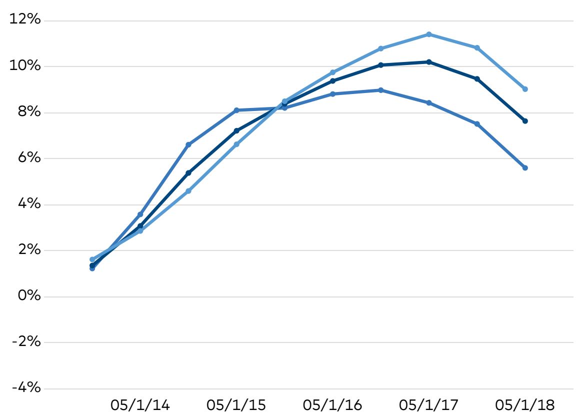



Trailing 12 Months Overall | Trailing 12 Months Lifestyle | Trailing 12 Months Renter-by-Necessity

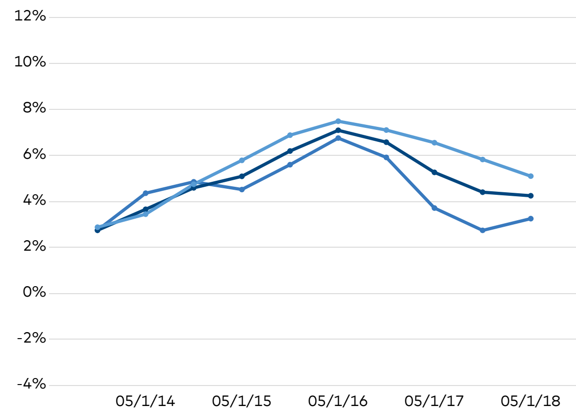
*Source: Yardi Matrix*

# Market Rent Growth by Asset Class

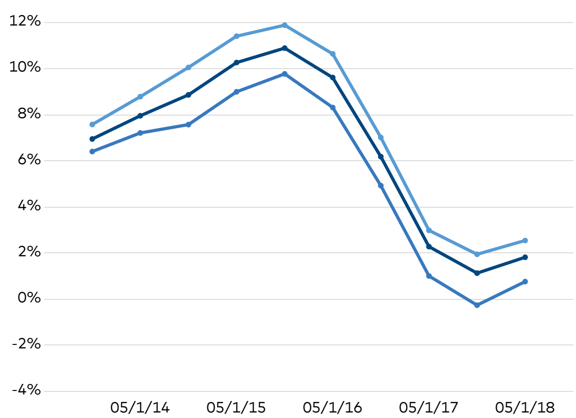
### Sacramento



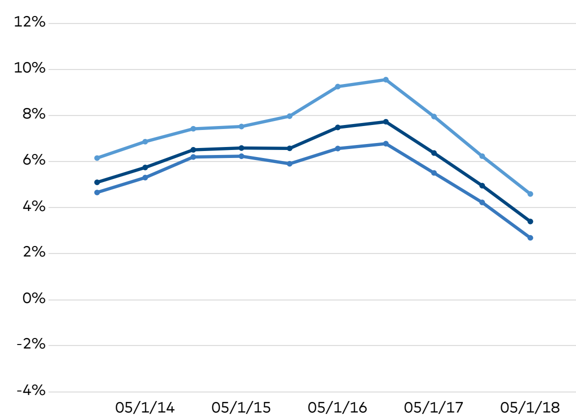

### San Diego



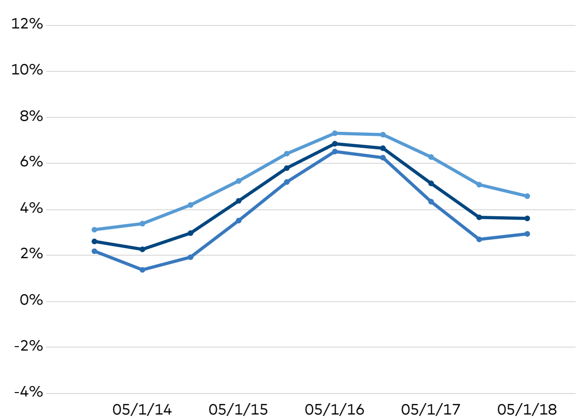

### San Francisco



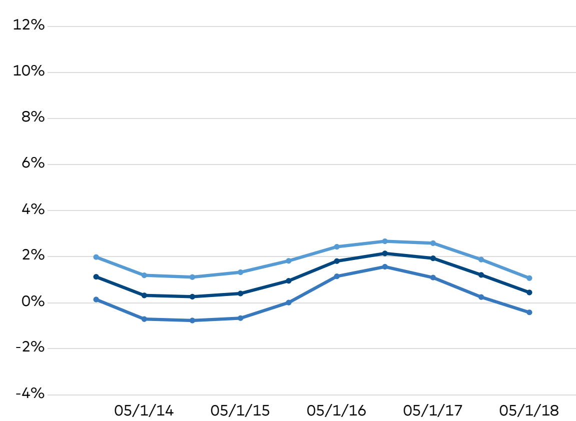

### Seattle




### Tampa




### Washington, D.C.




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

*Source: Yardi Matrix*

# 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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