Yardi® Matrix

Multifamily National Report

August 2018

Occupancies, Rents Rise in Resilient Multifamily Market

- Buoyed by the strong economy and continued healthy demand, average U.S. multifamily rents rose $2 in August to $1,412, up 3.1% year-over-year and 10 basis points from July. Rents have grown steadily all year, and have reached record highs seven months in a row.
- The sector's performance is highlighted by rising occupancy rates in the face of robust supply growth. Since January, the occupancy rate for stabilized properties has increased 25 basis points—particularly impressive, considering that 2018 is on pace for a third straight year of some 300,000 new units.
- Growth continues to be led by metros in the South and West, which occupy the top nine spots in the ranking.

How much time is left in the commercial real estate cycle is a topic of much discussion. There are few modern examples of cycles that last more than eight years, so every quarter the market goes without a downturn seems to be tempting fate in the eyes of many observers.

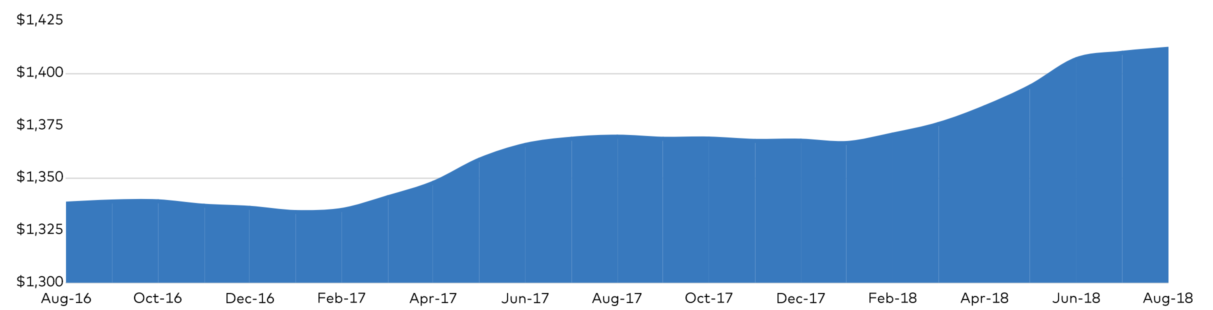
The multifamily market, however, shows no signs of nearing the end of its cycle. While it might be overstating the case to say that the sector is picking up steam, August rent data indicates that deceleration no longer seems to be an accurate term for the state of the market.

Thus far in 2018, occupancy rates for stabilized properties have increased by 25 basis points in the face of heavy supply growth. Meanwhile, rent growth on the national level has gradually increased to 3.1% year-over-year, the highest it has been since January 2017. Rents have risen steadily since bottoming at 2.2% in September 2017. That sure doesn't look like a market in the throes of deceleration. But can it continue?

The numbers indicate that the multifamily market is being driven by strong fundamental metrics. The economy is on track to add about 2.5 million jobs in 2018 amid low unemployment and slowly increasing wage growth. Combined with other factors, such as the secular increase in the number of renter-age young adults and urban migration, the growth of new renter households seems poised to continue.

That demand—which is helping to prop up occupancies and fuel rent growth—looks to have some staying power. We remain cautious about how much rents can increase; the upside is limited by supply growth in many metros and how much renters can afford. Yet the outlook seems to justify confidence in the sector. Investors continue to pour money into multifamily assets, with at least two major institutions in recent months pledging $2 billion for acquisitions. That has helped acquisition yields to stay steady, despite the upticks in interest rates over the past year.

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.

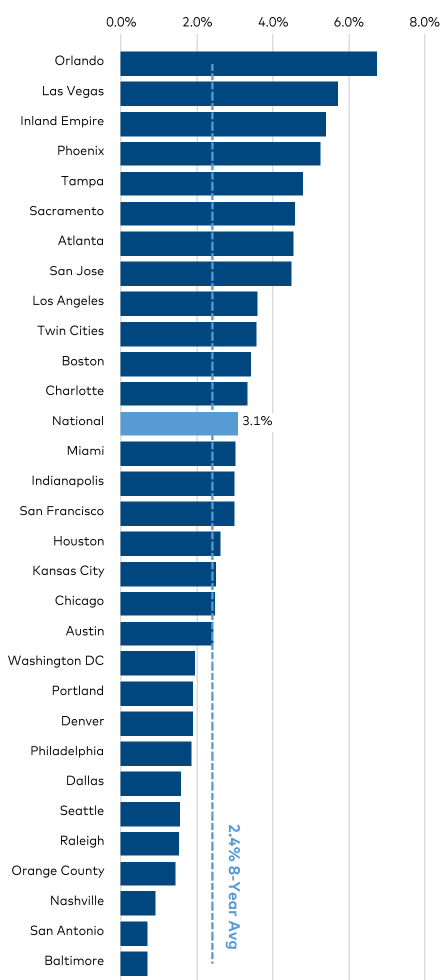
Year-Over-Year Rent Growth:
Domestic Migration Driving Growth in Secondary Markets

- Rents increased 3.1% nationwide in August, as the multifamily industry maintains consistent growth. Fundamentals appear to be in balance, as moderate rent appreciation, steady occupancy rates and new deliveries are supported by strong demand for apartments.

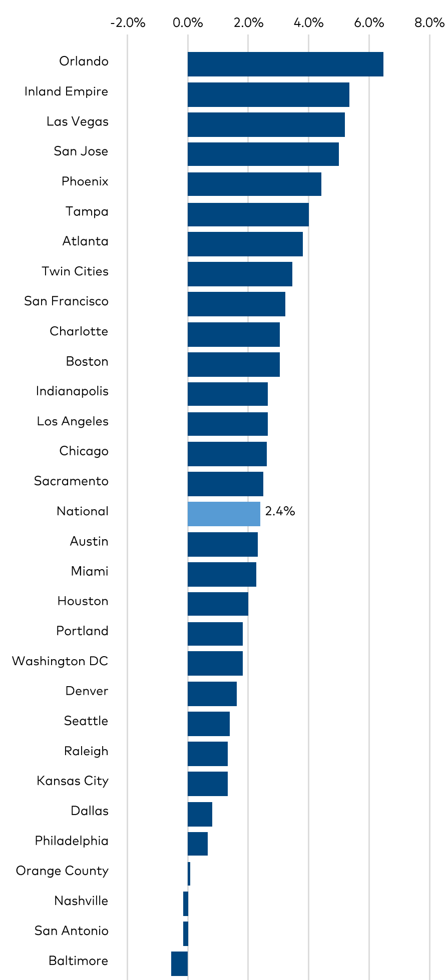
- Orlando (6.7%) once again led the top 30 metros on a year-over-year basis, while other popular retirement metros Las Vegas (5.7%), Phoenix (5.3%), and Tampa (4.8%), were also among the top performers. The Inland Empire (5.4%) ranked third overall, as Los Angeles residents continue to migrate eastward in search of more affordable housing.

- Renter By Necessity (3.5%) continues to outperform Lifestyle (2.4%) as new supply hinders rent growth of luxury units.

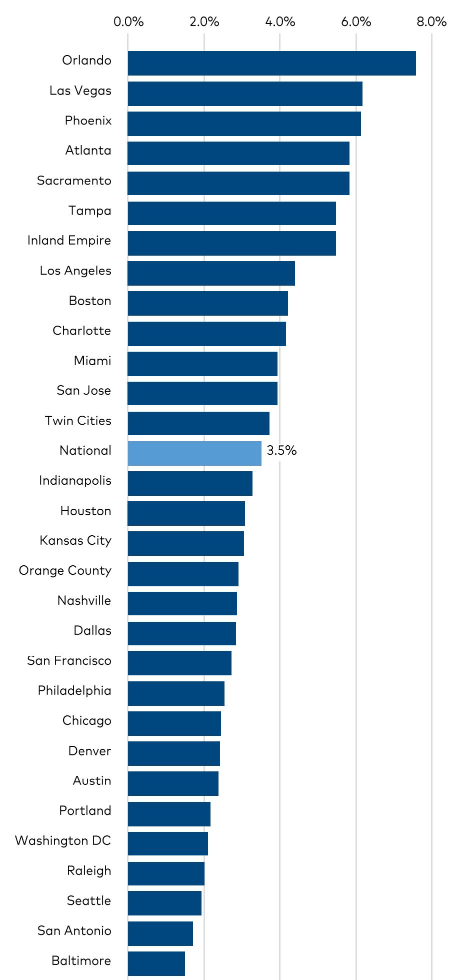
Year-Over-Year Rent Growth— All Asset Classes



Year-Over-Year Rent Growth— Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months:
Major Southern Markets Bounce Back

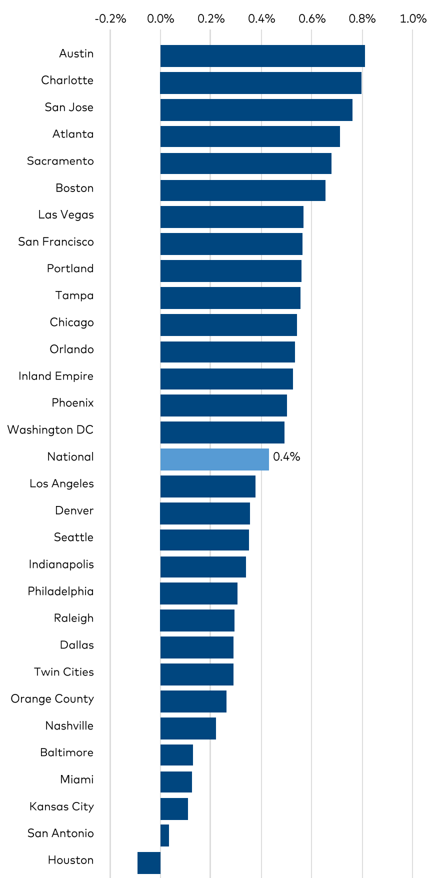
- Austin, Atlanta and Charlotte grew rapidly after negative T-3 rent growth to start the year.
- Houston (-0.1%) and San Antonio (0.0%) were the only metros in our ranking to not increase on a T-3 basis.

Rents increased 0.4% nationally on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. Both Lifestyle and RBN rents increased 0.4% on a T-3 basis, as the spread between asset classes has converged. The T-3 reflects short-term changes and may not represent long-term trends.

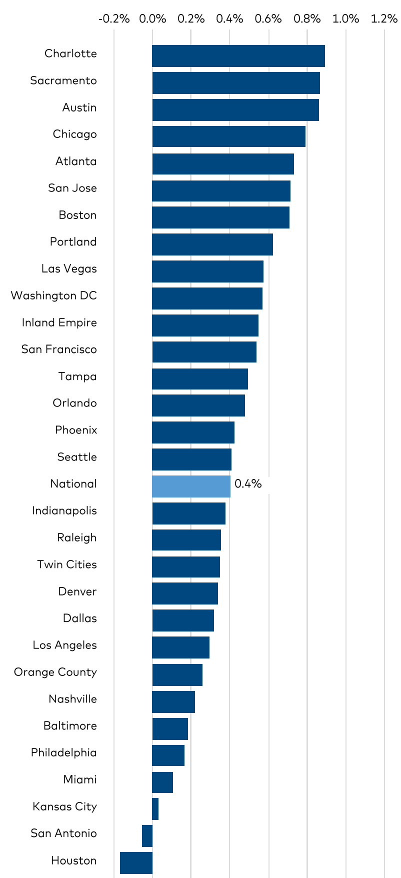
Austin, Charlotte (both 0.8%) and Atlanta (0.7%), all of which had some periods of negative growth in late 2017/early 2018, led the top 30 markets in August. Struggles in these markets stemmed from the significant volume of deliveries. However, healthy demand drivers have helped the occupancy rate rebound, leading to the resumption of robust rent growth so far in 2018.

New supply and softening demand put Houston (-0.1%) and San Antonio (flat) at the bottom of this month's T-3 rankings. Houston may have seen the end of the bounce it got in the wake of Hurricane Harvey, although it's too soon to come to a definitive conclusion.

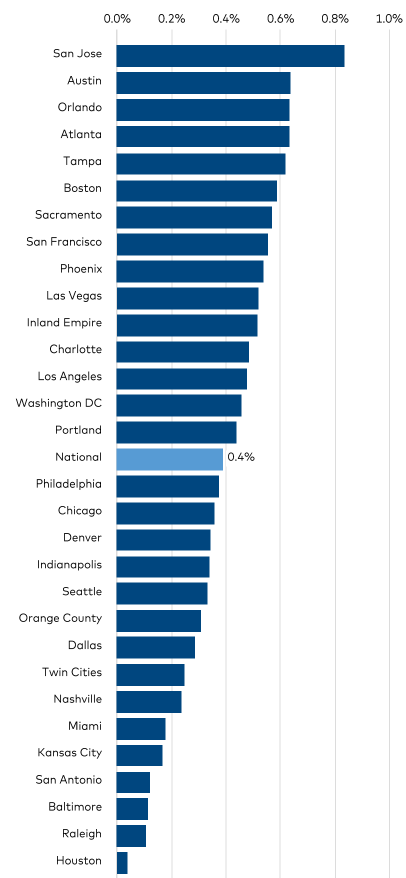
**Trailing 3 Months Sequential—
All Asset Classes**



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



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



Source: Yardi Matrix

Employment, Supply and Occupancy Trends; Forecast Rent Growth

- Secondary markets in the South and West continue to lead rent growth, but gains are widespread. Of the 30 metros covered by our survey, 21 (70%) recorded year-over-year increases of more than 1.5%.
- The resiliency of the market is demonstrated by the rebound in metros that saw declining occupancy rates and flagging rent gains at the beginning of 2018.
- The apparent takeaway: Supply pressures may be temporary, and markets with strong economic performance will bounce back as long as demand holds.

Occupancy rates for stabilized multifamily properties peaked in late 2016 and fell by nearly a full percentage point to 95.0% by the beginning of 2018. That raised worries that the supply pipeline was overextended and would put the brakes on rent growth, particularly in markets where deliveries were well above norms and occupancy rates had dipped the most.

Eight months into 2018, though, occupancy has picked up—significantly, in some metros—putting earlier fears to rest. Rates have increased by 50 basis points or more in six metros, at least 40 basis points in nine, and 25 basis points nationally.

Metros with the largest gains in occupancy rates year-to-date through July include: San Jose (75 bps), Portland and Las Vegas (70 bps each), Seattle (65 bps), Nashville (60 bps), Austin (55 bps), Denver (45 bps), and Washington, D.C., and Kansas City (40 bps each). Not surprisingly, rent growth has recently gained momentum in almost all of those metros.

Rents in San Jose rose 80 bps on a trailing three-month basis, while growth was also strong in Austin (80 bps), Portland, Las Vegas (60 bps each), Washington (50 bps), Denver (40 bps) and Seattle (30 bps). Only Nashville (20 bps), which has among the nation's strongest development pipelines, and Kansas City (10 bps), a perennial slow-growth metro, did not experience a notable bump.

There also seems to be a link between improved occupancy and resurgent rent gains in technology-focused metros, such as San Jose, Portland, Seattle, Denver and Austin, where rent growth decelerated sharply in late 2017. The message is that new supply will eventually be absorbed as long as demand remains consistent.

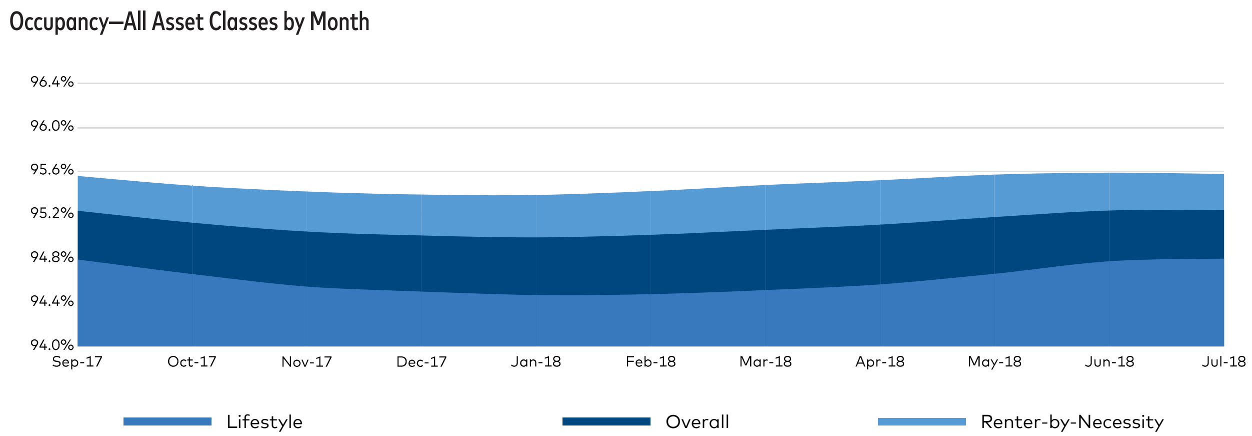
Nationally, rent appreciation remains closely tied to supply growth and local job markets. Of the 30 metros in our survey, the 10 with the highest rent growth saw employment (2.6%) increase more than supply (1.8%) over the last year. The converse was true for the 10 metros at the bottom of the rent growth rankings. In those metros, supply (3.3%) outpaced employment (2.2%) over the last year.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Aug- 18	Forecast Rent Growth (YE 2018)	YoY Job Growth (6-mo. moving avg.) as of Jun - 18	Completions as % of Total Stock as of Aug - 18	Occupancy Rates as of Jul - 17	Occupancy Rates as of Jul - 18
Sacramento	4.6%	6.5%	2.3%	0.5%	97.0%	96.3%
Phoenix	5.3%	5.6%	3.0%	3.1%	94.9%	95.2%
Orlando	6.7%	5.1%	3.1%	3.0%	96.2%	95.8%
Seattle	1.5%	4.7%	3.1%	4.8%	96.0%	95.8%
Inland Empire	5.4%	4.5%	3.5%	0.9%	96.1%	96.1%
Los Angeles	3.6%	4.3%	1.5%	1.2%	96.9%	96.6%
Twin Cities	3.6%	4.0%	1.1%	2.1%	97.9%	97.3%
Tampa	4.8%	3.9%	2.3%	1.6%	95.7%	95.6%
Las Vegas	5.7%	3.6%	2.7%	2.0%	95.1%	95.4%
Chicago	2.5%	3.3%	0.7%	2.8%	95.2%	94.8%
San Jose	4.5%	3.1%	3.1%	1.6%	96.3%	96.4%
Dallas	1.6%	3.1%	3.0%	3.1%	95.4%	94.6%
San Francisco	3.0%	3.0%	1.8%	1.4%	96.4%	95.9%
Miami Metro	3.0%	3.0%	1.1%	3.5%	95.4%	95.1%
Denver	1.9%	3.0%	2.8%	4.9%	95.5%	95.3%
Boston	3.4%	2.8%	1.2%	2.5%	96.7%	96.4%
Atlanta	4.5%	2.8%	1.8%	2.0%	94.6%	94.3%
Charlotte	3.3%	2.7%	2.8%	3.4%	95.7%	95.1%
Indianapolis	3.0%	2.7%	1.4%	0.8%	94.5%	94.5%
Philadelphia	1.8%	2.4%	1.2%	1.8%	95.9%	95.6%
Raleigh	1.5%	2.3%	2.4%	3.3%	95.4%	94.6%
Kansas City	2.5%	2.2%	1.7%	2.0%	95.5%	95.4%
Houston	2.6%	1.8%	2.6%	2.0%	93.2%	93.9%
San Antonio	0.7%	1.8%	2.1%	2.2%	93.4%	93.1%
Nashville	0.9%	1.8%	2.4%	5.2%	95.4%	95.1%
Orange County	1.4%	1.7%	1.6%	2.6%	96.5%	95.8%
Baltimore	0.7%	1.7%	1.4%	2.1%	94.9%	94.6%
Washington, DC	1.9%	1.4%	1.3%	1.9%	95.6%	95.4%
Portland	1.9%	1.4%	2.1%	2.9%	95.9%	95.9%
Austin	2.4%	1.0%	3.5%	5.1%	94.6%	94.4%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

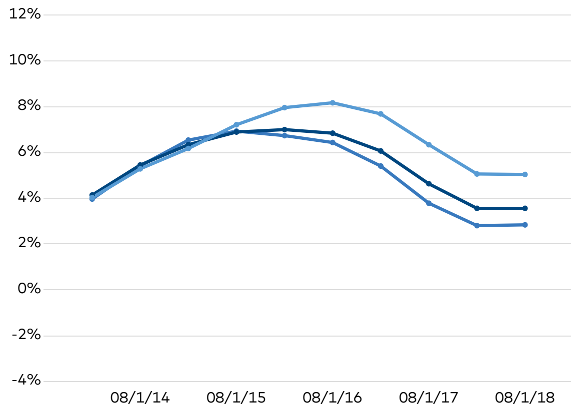
Year-Over-Year Rent Growth, Other Markets

Market	August 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	8.9%	4.6%	12.0%
Tacoma	5.0%	5.2%	4.8%
Central Valley	4.6%	3.7%	4.8%
SW Florida Coast	4.3%	3.4%	5.5%
Tucson	4.2%	2.7%	4.9%
San Fernando Valley	3.6%	2.5%	4.1%
Salt Lake City	3.4%	2.4%	4.5%
NC Triad	3.1%	2.7%	3.8%
Colorado Springs	3.1%	1.7%	4.1%
El Paso	3.1%	3.0%	3.0%
Long Island	2.9%	1.7%	3.3%
Northern New Jersey	2.6%	2.3%	2.8%
Louisville	2.2%	2.1%	2.0%
Bridgeport–New Haven	1.9%	0.9%	2.8%
Albuquerque	1.4%	1.5%	1.7%
St. Louis	0.9%	-0.6%	1.2%
Central East Texas	-1.2%	-3.5%	0.0%

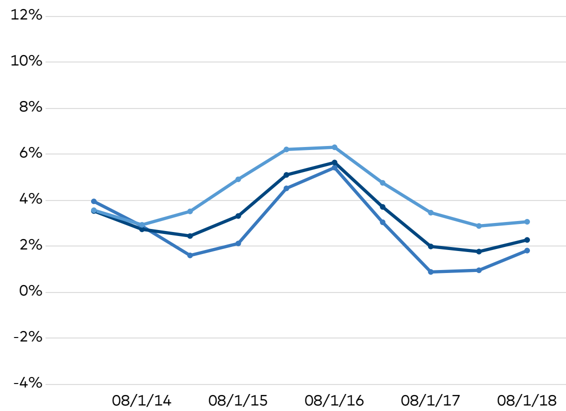
Source: Yardi Matrix

Market Rent Growth by Asset Class

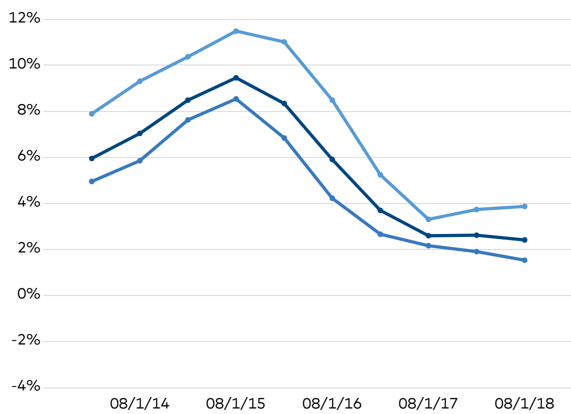
Atlanta



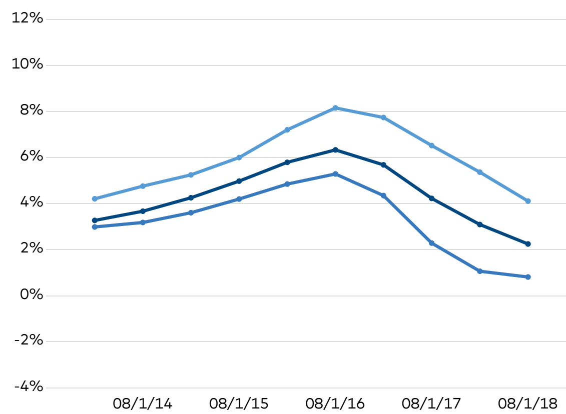
Boston



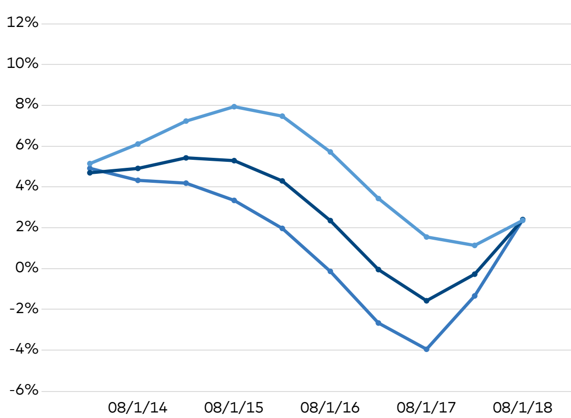
Denver



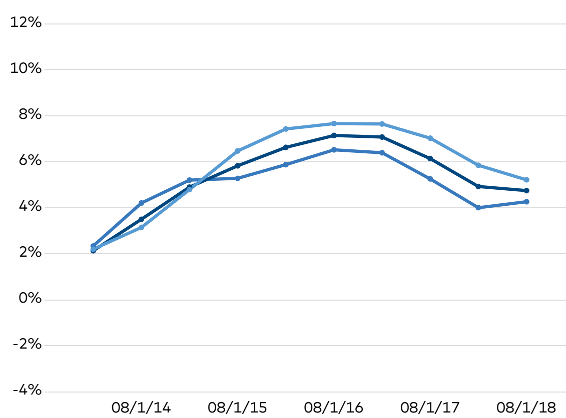
Dallas



Houston



Inland Empire

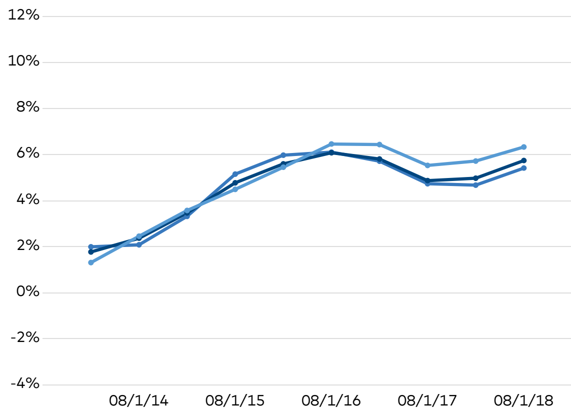


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

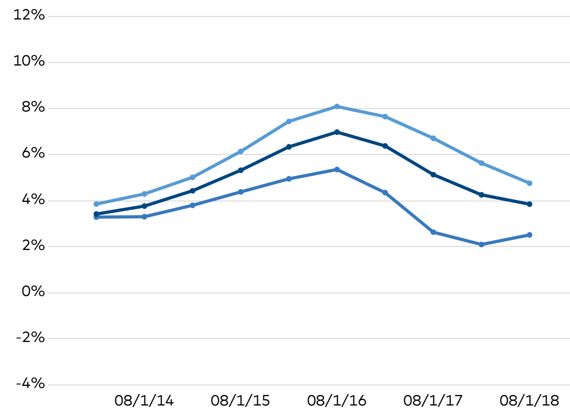
Source: Yardi Matrix

Market Rent Growth by Asset Class

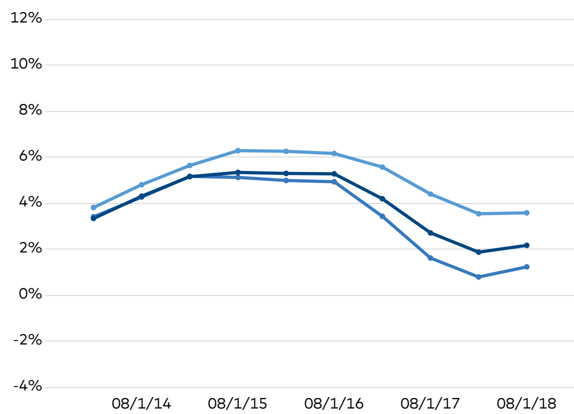
Las Vegas



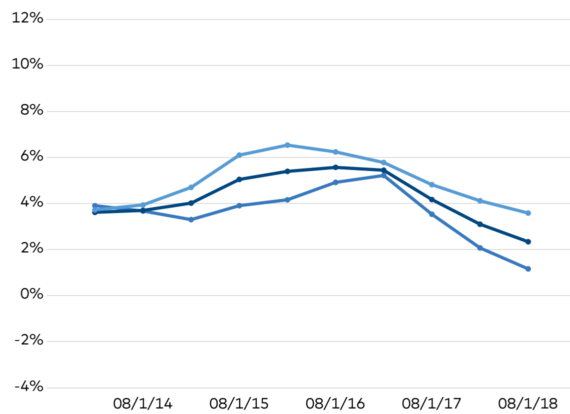
Los Angeles



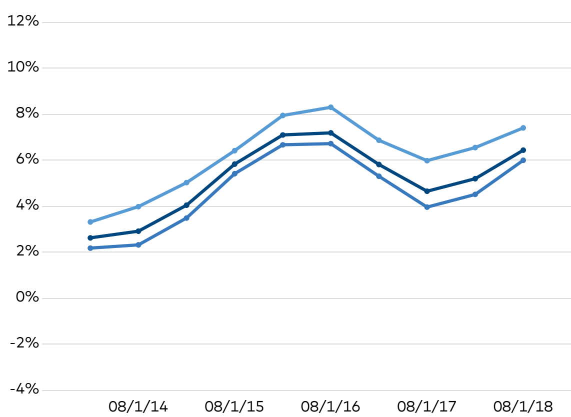
Miami



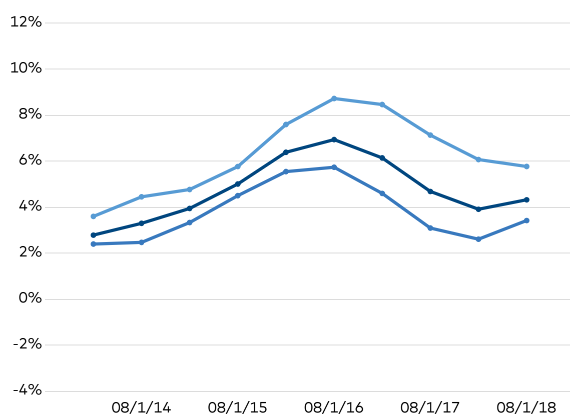
Orange County



Orlando



Phoenix

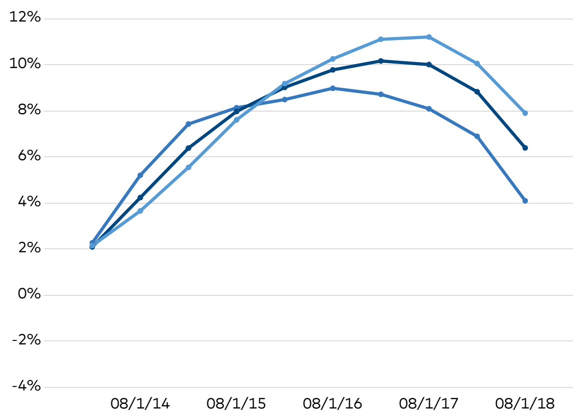


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

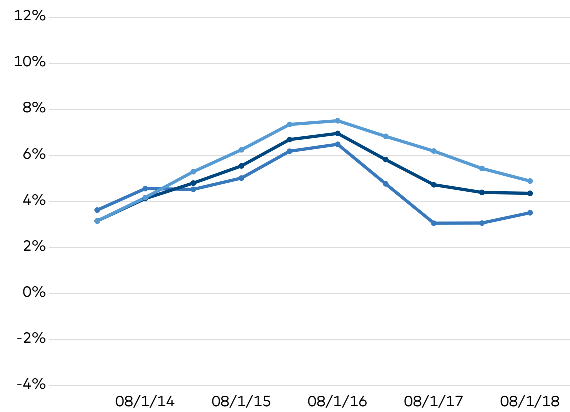
Source: Yardi Matrix

Market Rent Growth by Asset Class

Sacramento



San Diego



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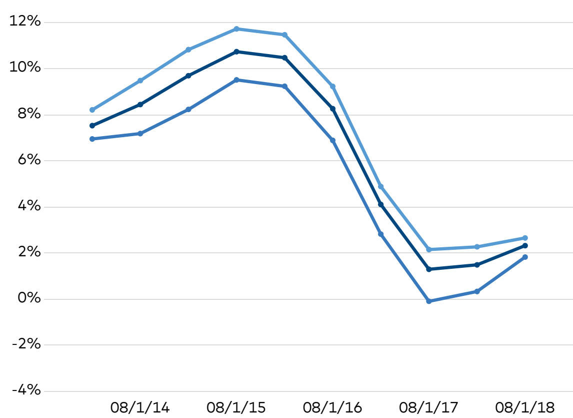
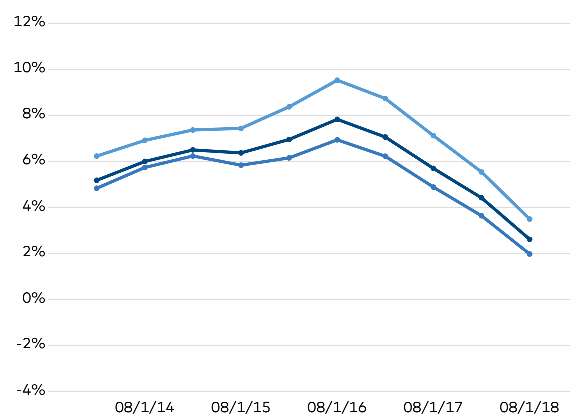
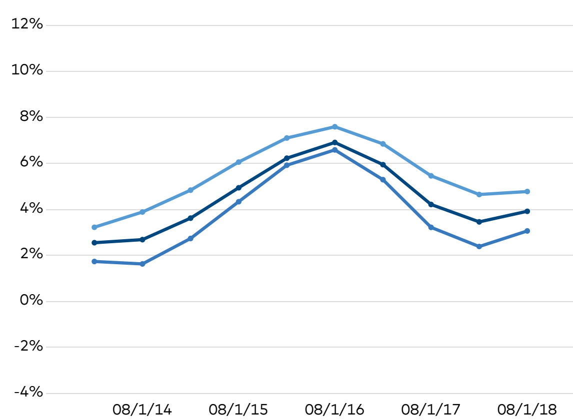


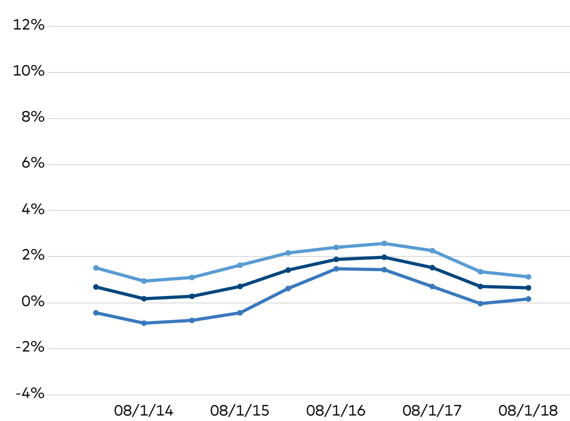
Seattle



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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