Yardi® Matrix

Multifamily National Report

September 2018

Multifamily Demand Remains Strong

- U.S. multifamily rents were essentially flat in September, dropping $1 to $1,412, while year-over-year growth was unchanged at 3.0%. It was the first month rents had not increased since January.
- Rents rose 0.3% in the third quarter and were up 3.1% year-to-date through September. The increases are down from the peak years of the cycle (rents were up 4.6% through three quarters in 2015), but looking through a long-term lens represent very solid growth.
- Maybe the most encouraging metric is that the occupancy rate of stabilized properties has increased in recent months, a sign that demand remains solid in the face of a heavy development pipeline.

Although multifamily rents fell slightly in September, the overall picture painted by the data is positive. A $1 decline is insignificant, especially at the start of the fall, when rent growth traditionally begins to hibernate for winter. The 0.3% growth in the third quarter is slightly disappointing compared to same-period results in recent years. However, through three quarters, the average national rent has grown $42, or 3.1%, which is a good year by most any book and (if we're being honest) exceeds expectations for the market when the year started.

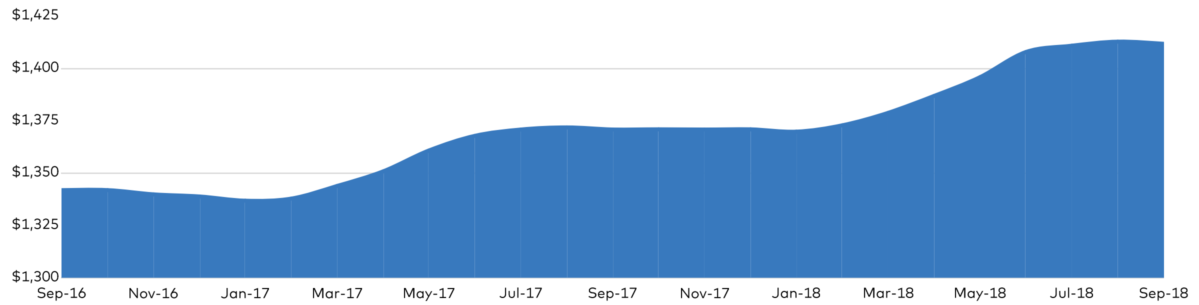
But the really good news comes from demand. One of the major concerns of the market has been how occupancy rates would hold up to the steady wave of new supply. National occupancy rates slipped by about 100 basis points in 2016-2017 after deliveries topped 300,000 per year starting in 2015. Even though occupancies were coming down from record highs, the trend line created some apprehension.

Overall occupancy rates of stabilized properties bottomed at 95.0% in late 2017/early 2018, but since then have slowly climbed back up to 95.4%. Renter-by-Necessity properties have an even higher rate, at 95.6%, reflecting demand for units that working households can afford. This is encouraging for a couple of reasons.

One is that it confirms our view of market fundamentals: Long-term demand for rentals is likely to remain high for a variety of demographic and social reasons. The renter-age population is growing, the economy is strong and there is demand from retirees downsizing from single-family houses.

The other encouraging sign is at the metro level. Some metros with a robust delivery pipeline that had the biggest declines in occupancy rates have bounced back. Basically, demand was strong and the market has been able to absorb the excess units over time. More on this later. Deliveries will remain in the 300,000-unit range through 2019, and we will continue to monitor the impact.

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.

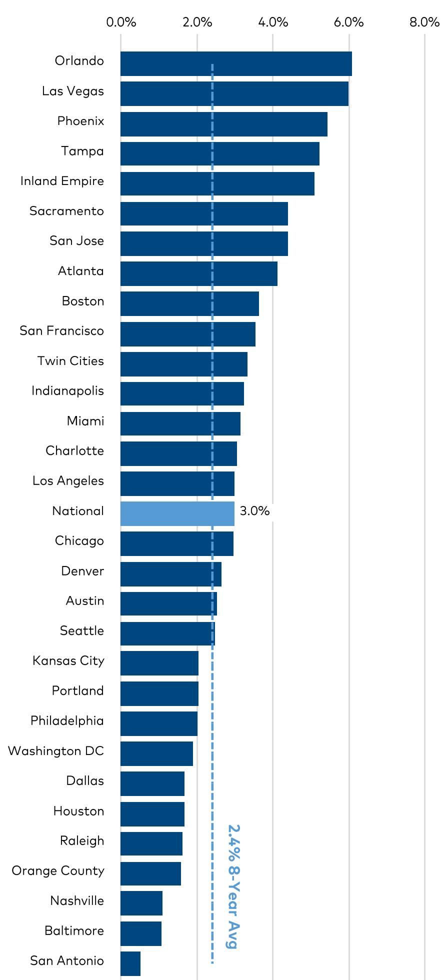
Year-Over-Year Rent Growth:
Southern Secondary Markets Continue to Lead

- Rents increased 3.0% year-over-year in September, unchanged from August. Overall rents have slowly accelerated over the past 12 months, since reaching a recent low of 2.2% in September 2017. Rents of Lifestyle properties increased 2.6%, while RBN rents were up 3.3%.

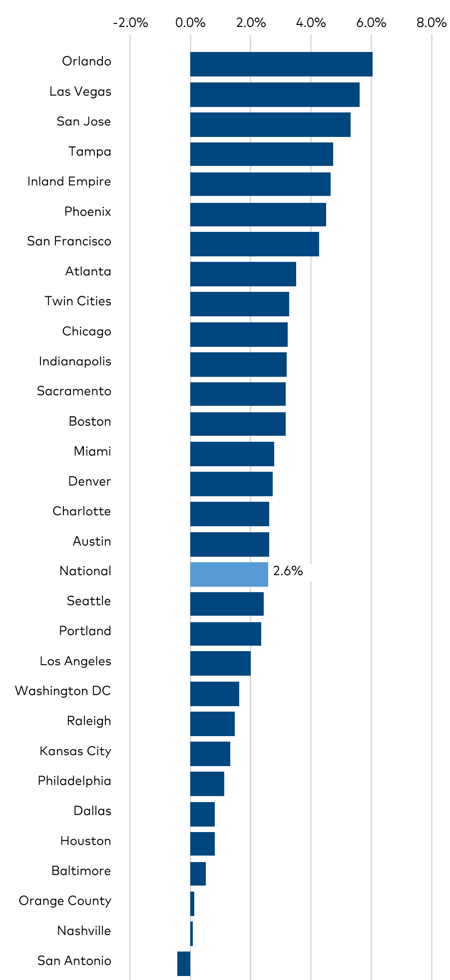
- Orlando (6.1%) remained atop the rankings of our top 30 markets, although it has continued to decelerate in recent months. The slowest-growing metro was San Antonio (0.5%). Overall, the rent growth spread among the top 30 metros has contracted. The spread between the highest- and lowest-growing markets was 560 basis points. For perspective, that spread was 890 basis points a year ago, when Sacramento had 7.3% rent growth while Houston rents fell 1.6%.

- Las Vegas (6.0%) and Phoenix (5.4%) remained near the top, while primary markets Boston (3.6%) and San Francisco (3.5%) also outperformed the national average despite affordability issues.

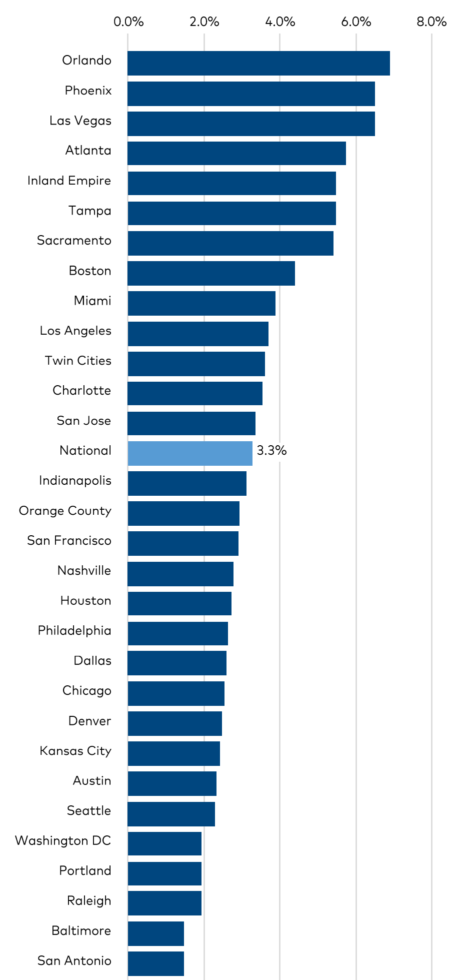
Year-Over-Year Rent Growth—All Asset Classes



Year-Over-Year Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months: Rent Growth Flattens as Summer Ends

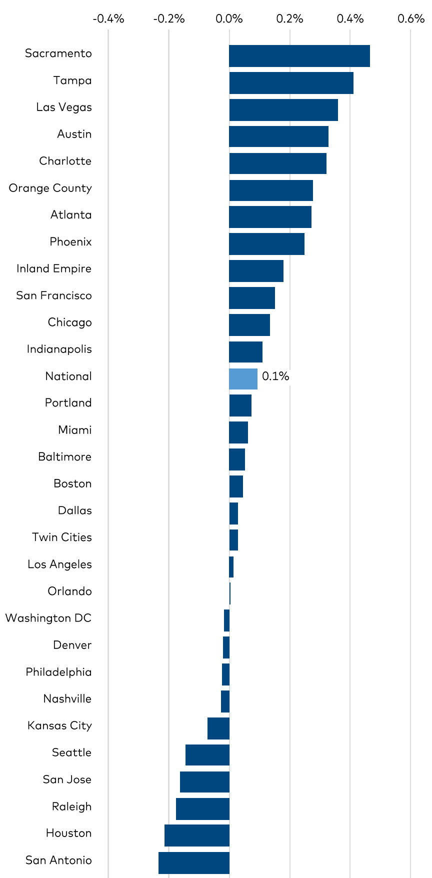
- National T-3 rent growth in September was 0.1%, down 30 basis points from August, reflecting the end of the normal seasonal summer growth period.
- Sacramento (0.5%) returned to the top of the rankings, while Orlando fell flat.

Rents increased 0.1% nationally on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The seasonal slowdown was expected, as the late summer months are often weaker than the spring rental season, yet the deceleration is worth noting.

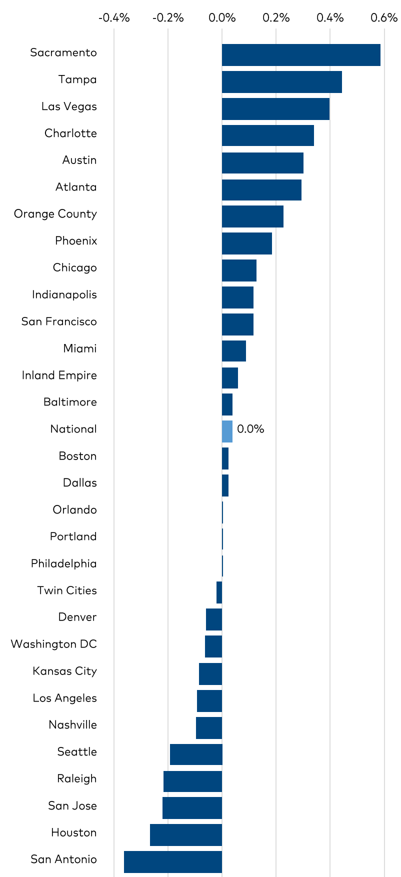
Of our top 30 markets, exactly half saw rent growth decline or remain flat on a T-3 basis, while the other 15 markets had muted growth: between 10 and 50 basis points. Sacramento once again led the nation, after a period of slowing rent growth in early 2018. Other strong markets include the popular retiree metros of Tampa and Las Vegas (both 0.4%). Orlando, which continues to lead in YOY rent growth, has decelerated on a T-3 basis, and rents were flat in September. High-supply Texas markets Houston and San Antonio (-0.2%) trailed the rankings.

Lifestyle rents were flat nationwide, while RBN rents posted a minimal 10 basis point gain.

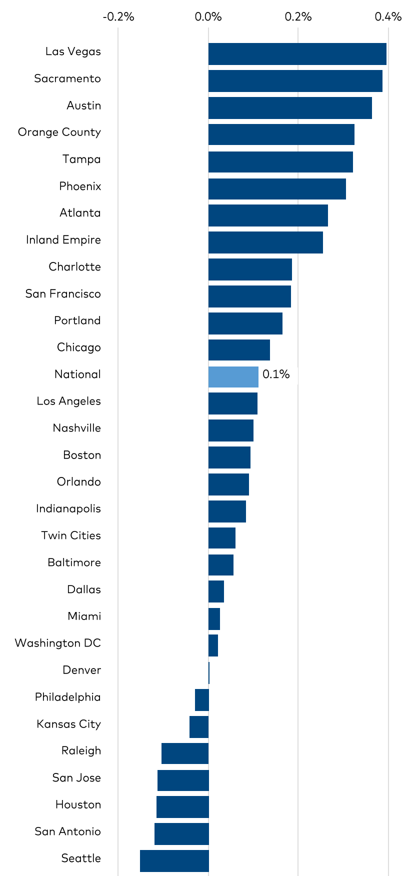
Trailing 3 Months Sequential—All Asset Classes



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

- Occupancy increased in many markets despite new supply, as strong population and migration growth fueled apartment demand.
- Rent forecasts are moderate across most major metros, in line with steady rent growth seen thus far in 2018.
- The apparent takeaway: Multifamily fundamentals are in balance in most markets. Despite continued new supply, rents and occupancy appear well positioned for steady growth in the coming year.

Occupancy rates for stabilized properties on a national level picked up after flattening out at 95.0% in January 2018. Occupancy reached 95.4% in August, and for the first time in more than 18 months, the national year-over-year occupancy change was not negative. Strong demand for housing has led to steady absorption, even as new development has reached a cycle peak in the past three years.

Perhaps more interesting, many metros with high levels of new supply have had year-over-year increases in occupancy. Nashville, Denver and Seattle have all seen occupancy tick up 10 basis points, while Austin's occupancy rate is up 30 basis points from a year ago. Each of these markets have added at least 4.5% of new apartment stock in the past 12 months.

Las Vegas continues to be one of the hottest apartment markets in the nation, as strong demand drivers and muted supply provide a significant boost. Not only did rents grow 6.0% in the past 12 months, doubling the national average, but occupancy rates increased 0.7%, the highest in the country. In-migration from Los Angeles has helped secondary metros including Las Vegas and the Inland Empire, which also ranked in the top five for rent growth at 5.1%. Conversely, L.A. rent growth was 3.0% and occupancy fell 20 basis points from August of last year.

Other markets gaining occupancy include Houston (0.5%), Phoenix (0.4%), Portland and San Jose (both 0.3%). With the exception of Houston, which has traditionally trailed the national average occupancy rate, each of these markets has occupancy above 95%, implying that the demand for new apartment units remains constant, and a plateau or decline in new construction will likely lead to high rent growth.

These markets are not alone, as evidenced by continued employment gains and occupancy increases. Many of the top 30 markets seem poised for moderate to healthy growth in multifamily fundamentals in the coming year.

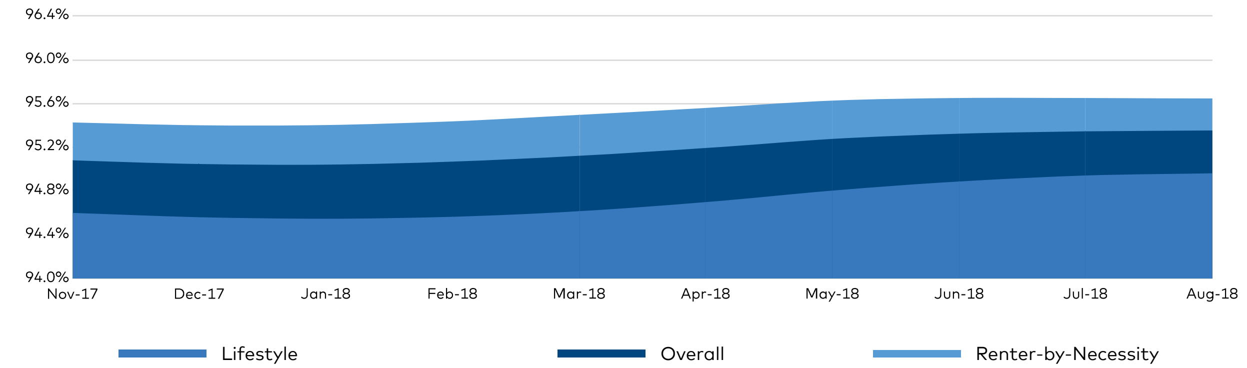
Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Sept- 18	Forecast Rent Growth (YE 2018)	YoY Job Growth (6-mo. moving avg.) as of July - 18	Completions as % of Total Stock as of Sept - 18	Occupancy Rates as of Aug - 17	Occupancy Rates as of Aug - 18
Sacramento	4.4%	6.5%	2.1%	0.5%	96.9%	96.4%
Phoenix	5.4%	5.6%	3.0%	3.1%	94.8%	95.2%
Orlando	6.1%	5.1%	3.2%	3.2%	96.0%	95.9%
Seattle	2.4%	4.7%	3.2%	4.5%	95.8%	95.9%
Inland Empire	5.1%	4.5%	3.5%	0.7%	96.0%	96.1%
Los Angeles	3.0%	4.3%	1.4%	1.4%	96.8%	96.6%
Twin Cities	3.3%	4.0%	1.3%	2.2%	97.8%	97.1%
Tampa	5.2%	3.9%	2.3%	1.8%	95.6%	95.8%
Las Vegas	6.0%	3.6%	2.9%	2.0%	94.9%	95.6%
Chicago	2.9%	3.3%	0.8%	2.7%	95.0%	94.9%
San Jose	4.4%	3.1%	3.1%	1.2%	96.1%	96.3%
Dallas	1.7%	3.1%	3.2%	3.4%	95.2%	94.7%
San Francisco	3.5%	3.0%	1.7%	1.4%	96.2%	96.1%
Miami Metro	3.1%	3.0%	1.2%	4.0%	95.3%	95.1%
Denver	2.6%	3.0%	2.9%	5.0%	95.4%	95.5%
Boston	3.6%	2.8%	1.4%	2.3%	96.6%	96.3%
Atlanta	4.1%	2.8%	1.9%	2.3%	94.5%	94.5%
Charlotte	3.0%	2.7%	2.7%	3.4%	95.6%	95.3%
Indianapolis	3.2%	2.7%	1.4%	1.2%	94.5%	94.7%
Philadelphia	2.0%	2.4%	1.5%	1.5%	95.7%	95.9%
Raleigh	1.6%	2.3%	2.6%	3.7%	95.1%	94.9%
Kansas City	2.0%	2.2%	1.7%	2.0%	95.3%	95.4%
Houston	1.7%	1.8%	2.7%	2.0%	93.3%	93.8%
San Antonio	0.5%	1.8%	1.9%	2.7%	93.4%	93.3%
Nashville	1.1%	1.8%	2.3%	5.6%	95.3%	95.4%
Orange County	1.6%	1.7%	1.4%	2.6%	96.4%	95.9%
Baltimore	1.1%	1.7%	1.5%	2.2%	94.7%	94.7%
Washington DC	1.9%	1.4%	1.5%	1.9%	95.4%	95.5%
Portland	2.0%	1.4%	2.0%	2.7%	95.8%	96.1%
Austin	2.5%	1.0%	3.4%	5.2%	94.5%	94.8%

Source: Yardi Matrix

Occupancy & Asset Classes

Occupancy—All Asset Classes by Month



Source: Yardi Matrix

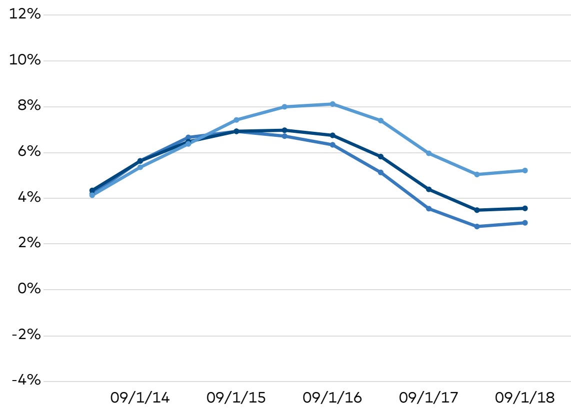
Year-Over-Year Rent Growth, Other Markets

Market	September 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	9.2%	5.6%	12.2%
SW Florida Coast	4.8%	4.1%	6.0%
Tacoma	4.7%	4.9%	4.4%
Tucson	4.5%	3.0%	5.2%
NC Triad	4.1%	3.5%	5.0%
Central Valley	3.8%	3.2%	3.9%
Indianapolis	3.2%	3.2%	3.1%
San Fernando Valley	3.2%	2.4%	3.7%
El Paso	3.0%	2.8%	3.3%
Salt Lake City	2.7%	1.2%	3.8%
Colorado Springs	2.4%	1.1%	3.8%
Bridgeport–New Haven	2.3%	1.3%	2.9%
Northern New Jersey	2.1%	1.9%	2.3%
Louisville	2.1%	1.6%	2.4%
Long Island	1.8%	-0.1%	2.6%
Albuquerque	1.3%	1.0%	1.7%
Central East Texas	-0.5%	-3.0%	0.7%
St. Louis	0.0%	-0.9%	0.2%

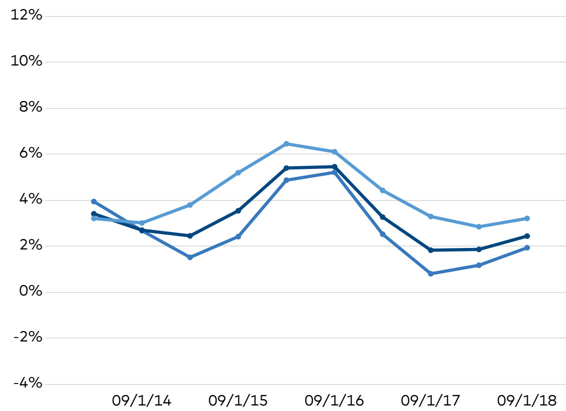
Source: Yardi Matrix

Market Rent Growth by Asset Class

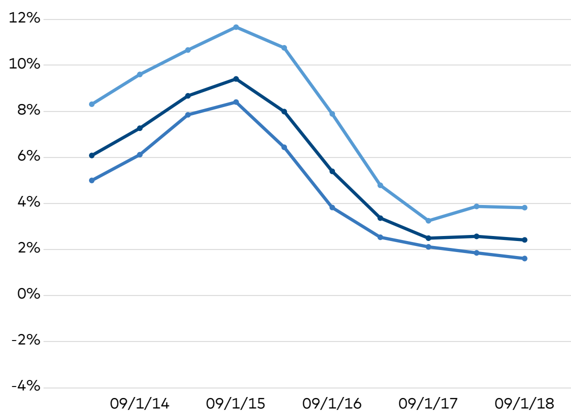
Atlanta



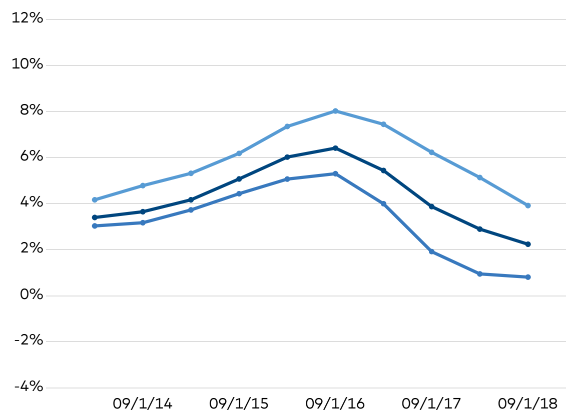
Boston



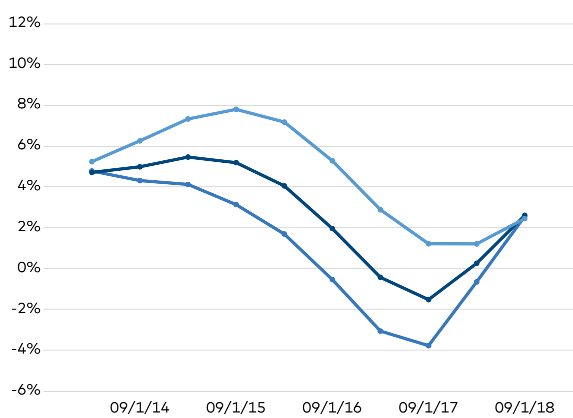
Denver



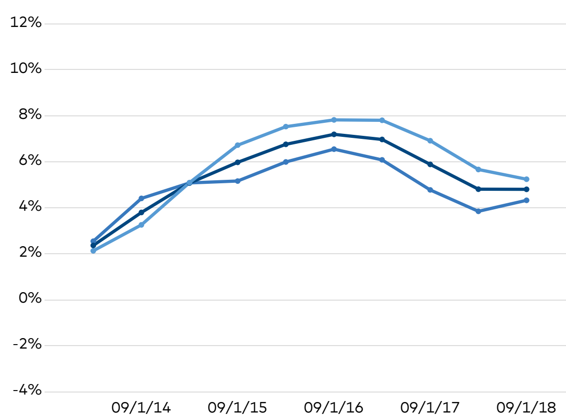
Dallas



Houston



Inland Empire

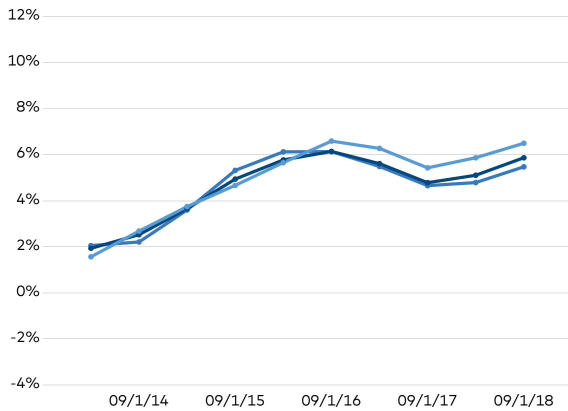


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

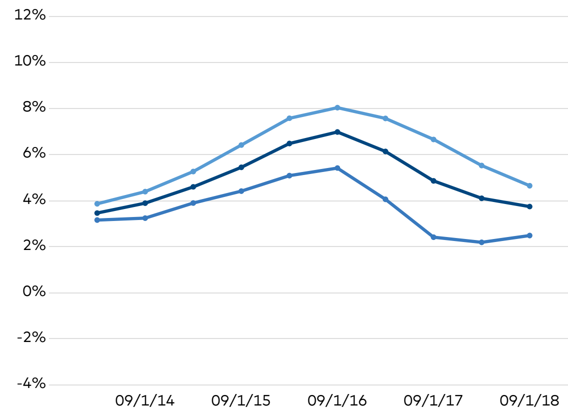
Source: Yardi Matrix

Market Rent Growth by Asset Class

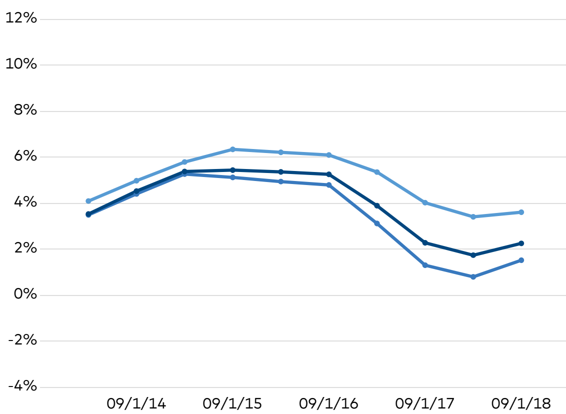
Las Vegas



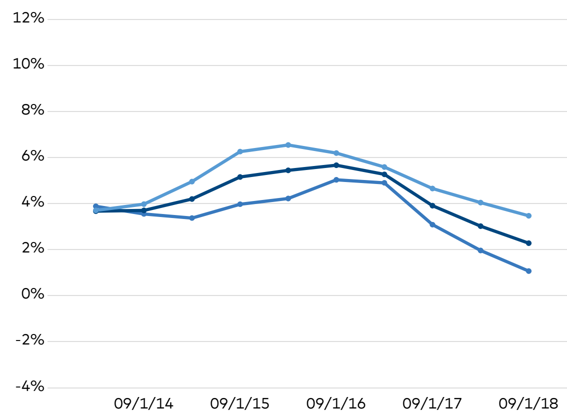
Los Angeles



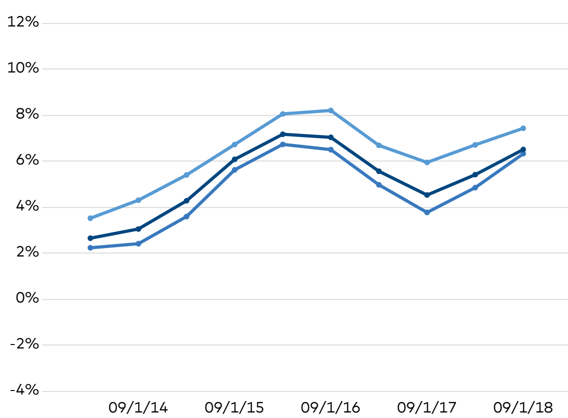
Miami



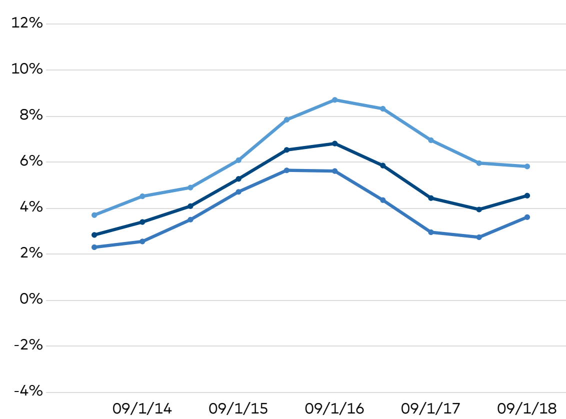
Orange County



Orlando



Phoenix

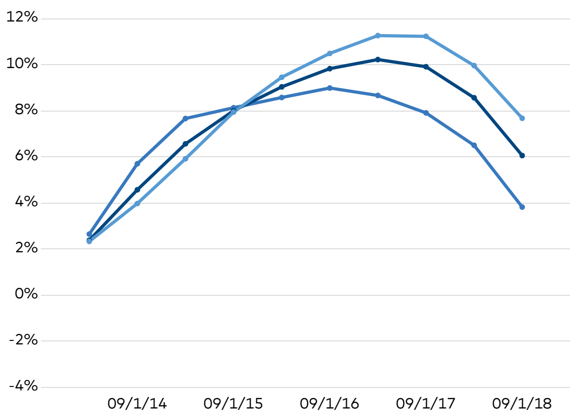


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

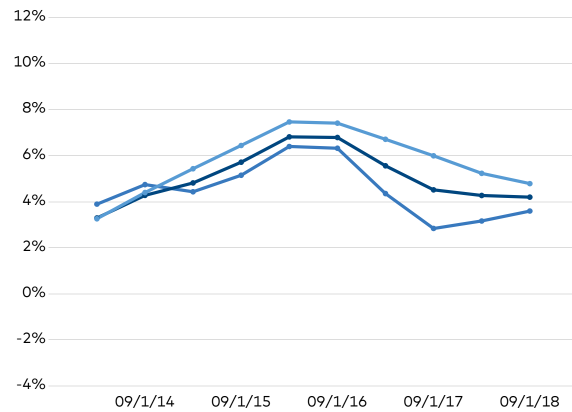
Source: Yardi Matrix

Market Rent Growth by Asset Class

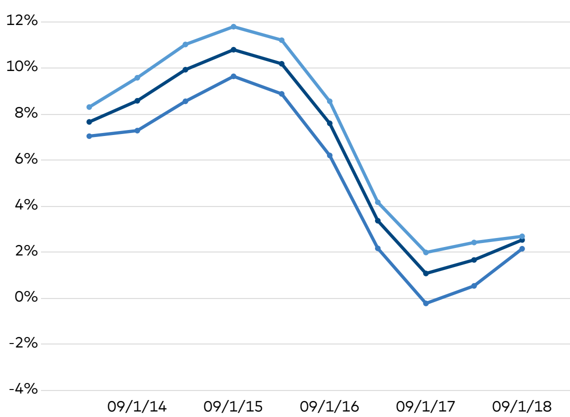
Sacramento



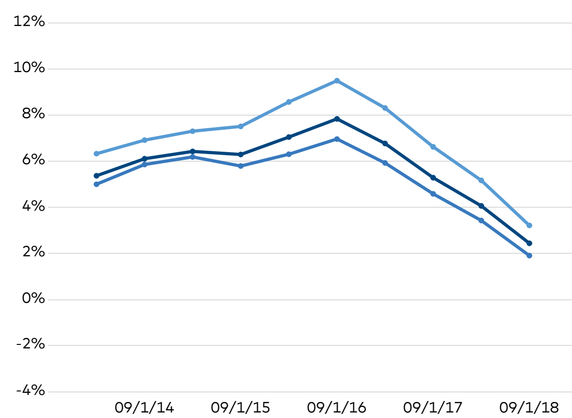
San Diego



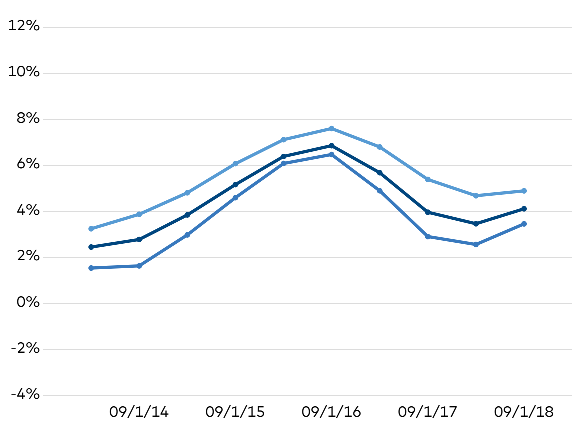
San Francisco



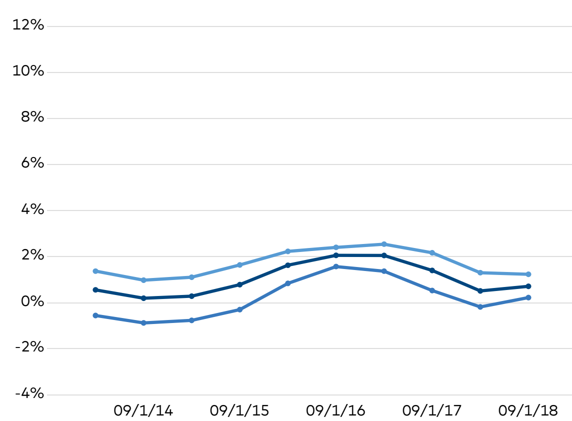
Seattle



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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