Yardi® Matrix

Multifamily National Report

October 2018

Sizzling Rent Growth in the Southwest

- U.S. multifamily rents were flat for the second straight month in October, dropping $1 to $1,420, while year-over-year growth was unchanged at 3.3%.
- Nationally, rent growth is hitting its seasonal slowdown phase, but there is a wide discrepancy in metro performance. Rent gains have accelerated over the last three months in warm-weather markets that include Las Vegas, Phoenix and Atlanta, while Seattle, Boston and San Jose have cooled off.
- We expect that the full-year rent increase for 2018 will remain near the year-to-date figure of 3.3%, with occupancy rates stable at current high levels.

The people have spoken, and the results of the midterm elections indicate there will be change in the political landscape with the Republican-run House flipping to Democrats, who will now have the power to write the federal budget and act as a brake on the Trump administration. Several state governorships also changed parties as a result of the election.

Whatever the resulting change in policy, there doesn't appear to be much change in the performance of the multifamily market. Rent growth nationally is consistently in the low-3% range, with occupancy remaining stable despite the growth in supply. The market's groove will be hard to knock off course as long as employment and wage growth maintain their current path.

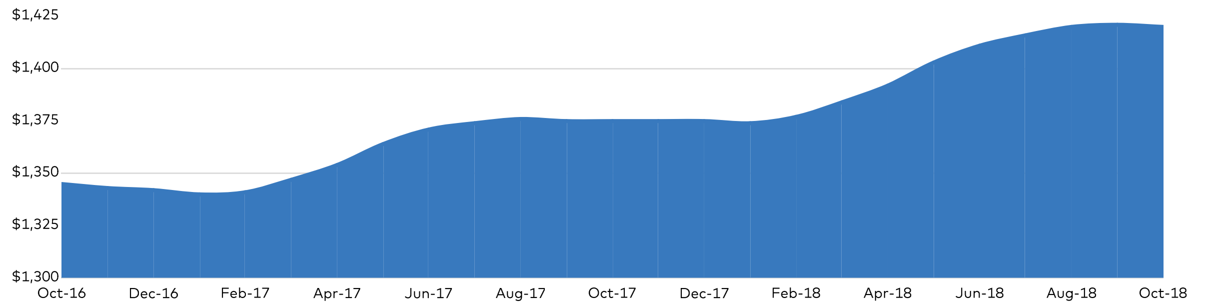
The strong gains are led by Southwest markets Las Vegas and Phoenix, both of which have seen strong acceleration since the beginning of the year. Las Vegas leads U.S. metros with 7.4% year-over-year growth through October, up from 5.8% in January, while Phoenix rose to 7.0% in October from 4.0% in January.

Both markets benefit from their long-term population shifts and healthy job growth. Affordability and the impacts of 2017 tax reform have positioned Las Vegas to benefit from the outmigration of people and businesses from California and other high-cost regions. Phoenix is attractive due to its weather, while its economy increasingly attracting a diverse set of businesses.

The strength of the national market is demonstrated by the fact that rent growth is less than 2% in only a handful of metros, and the lowest is Houston at 1.6%. No market is even remotely in trouble.

Short-term trends show that some metros have had recent rent decreases concentrated in the high-end segment. Boston (-0.7%), Seattle and San Jose (-0.6%), Chicago (-0.5%), and Portland and Washington D.C. (-0.4%) saw declines in Lifestyle rents on a trailing-three month basis. Those losses can be primarily attributed to an increase in deliveries of luxury units.

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.

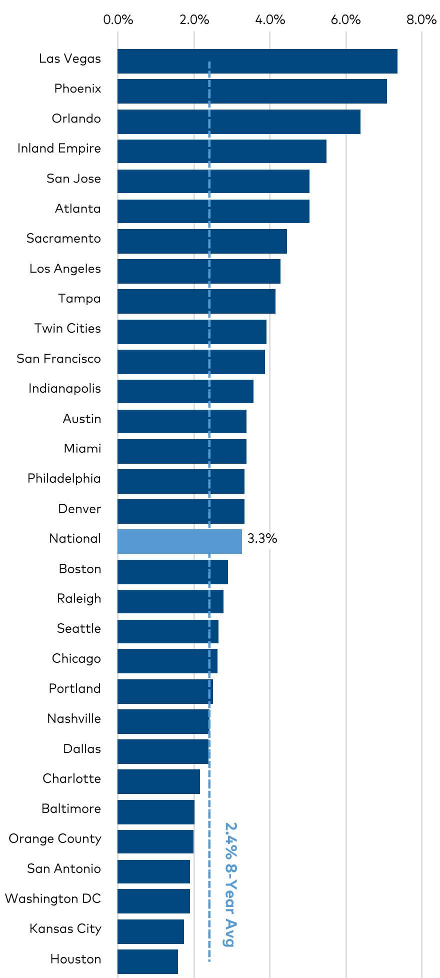
Year-Over-Year Rent Growth:
Rent Increases Remain Consistent

- Rents increased 3.3% year-over-year in October. The rate of growth has increased more than 100 basis points in the past 12 months. Rent-by-necessity units (3.9%) once again outpaced Lifestyle (2.6%); however, strong growth in both sectors underscores high demand for rental housing.

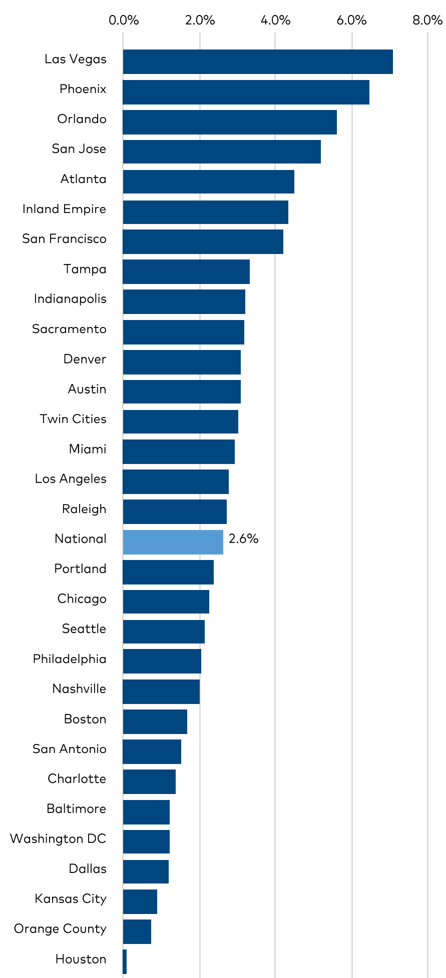
- Las Vegas (7.4%) was the fastest growing of our Top 30 markets, as limited new supply and strong demand combine to boost rents. A similar story is taking shape in Phoenix (7.1%), where strong demand is being fueled by rapid employment growth and domestic migration. Orlando (6.4%), the Inland Empire (5.5%) and Atlanta (5.0%), all markets that exhibit relative affordability and strong employment growth, round out our top 5 markets.

- Significant new supply, particularly at the high end, has been a headwind for Lifestyle properties in Dallas (1.2%) and Houston (0.1%).

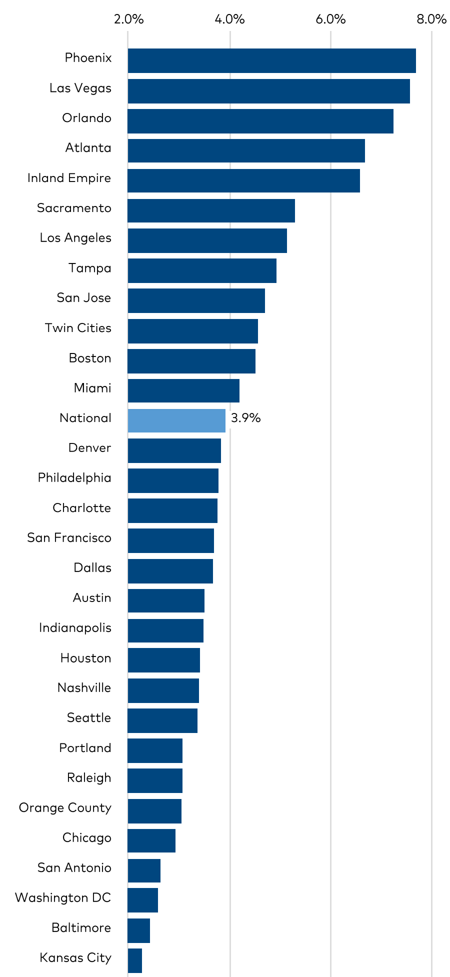
Year-Over-Year Rent Growth—
All Asset Classes



Year-Over-Year Rent Growth—
Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months:
Seasonality Impacts Seattle, Boston, San Jose

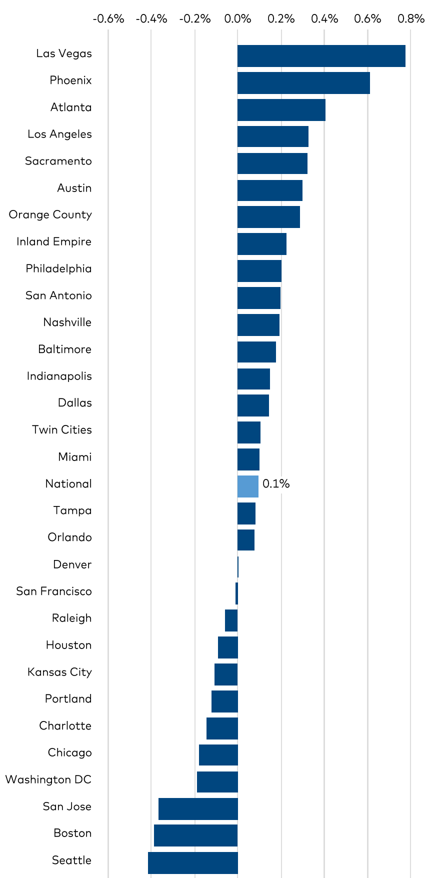
- National T-3 rent growth in October was 0.1%, down 10 basis points from September, and down 50 basis points from its summer high in July.
- Las Vegas (0.8%) and Phoenix (0.6%) led the T-3 rankings, while Boston, Seattle and San Jose (all -0.4%) lagged.

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 T-3 ranking demonstrates short-term changes and not necessarily long-term trends.

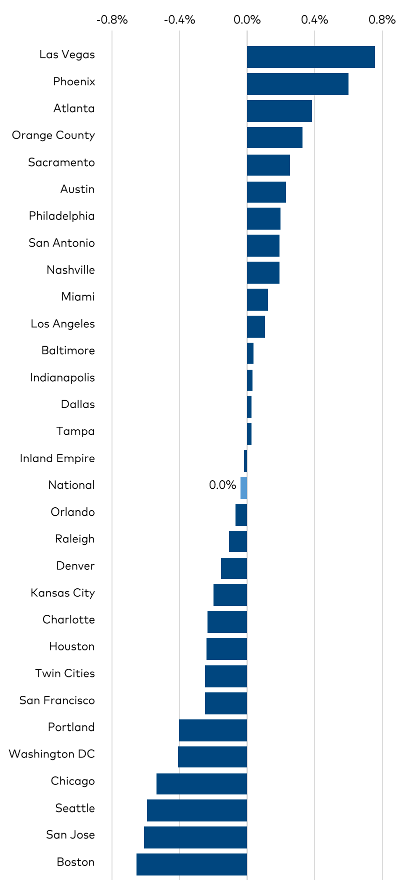
After a few years of continuous rent growth, historical seasonality patterns have been amplified in recent months. Some of the best-performing markets throughout the summer including Seattle, Boston and San Jose fell to the bottom of our rankings as a result of falling rents in September and October.

Las Vegas and Phoenix, however, continued to surge forward as strong employment growth and domestic migration boosted rents across the affordability spectrum. In both markets, T-3 rent growth was equal between Lifestyle and RBN. Las Vegas rents increased 0.8% while Phoenix grew 0.6%.

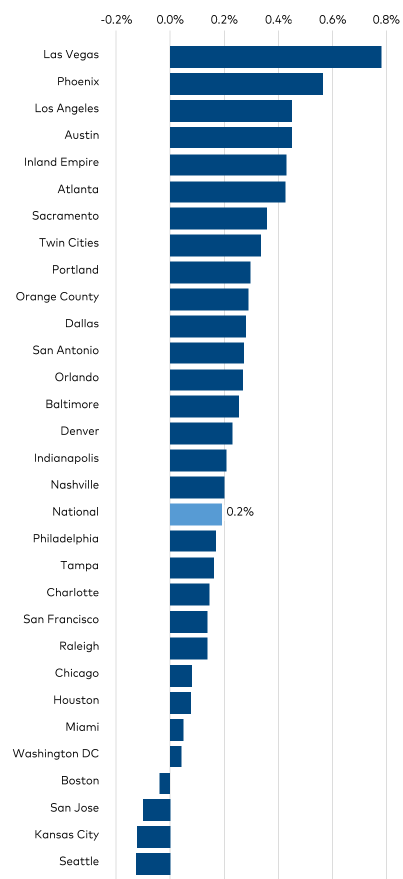
Trailing 3 Months Sequential—All Asset Classes



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

- It's a relief to put the election season and the steady stream of political advertisements and political posturing behind us, but the election has ramifications for the industry.
- The Democrats' pending takeover of the House of Representatives in January 2019 dims the likelihood of significant legislation being passed. However, that could prompt a push to pass legislation before the end of the year.
- Reform of the GSEs was difficult when Republicans controlled both chambers of Congress, and a legislative solution seems even less likely now.

As we write, a handful of races remain too close to call, but the shape of the next Congress is pretty well set. Republicans will retain control of the Senate, while Democrats will control the House. What does that mean for the issues facing the industry, such as the reform of the Government-Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac, or the regulatory rollback on the banking industry?

At first blush, it seems probable that the split between the chambers will make it more difficult to achieve any legislative solutions. Not only due to partisan rancor, but also because of the policy divide between the two parties. For example, there may be a small chance of passing another bill like the bank regulatory reform that was signed into law in the spring. Among other things, that bill reduced the number of banks that were required to submit to stress tests, enacted restrictions on high-volatility real estate loans (HVCRE), and reduced limitations on trading by small banks.

Given that, it would seem counterintuitive to think that it will be possible to pass a legislative reform of the GSEs. The effort has been seen as a futile pursuit for years because of differences in ideology, first between President Obama and Congress, and more recently between House and Senate Republicans. The current chairman of the House Finance Committee, Texan Jeb Hensarling, has long tried to dismantle the GSEs, while his Senate counterpart, Mike Crapo of Idaho, has approached the issue in a more bipartisan fashion. So there remains a small chance that House Democrats will have more in common on the issue with Senate Republicans than the current Republican leadership. A possible complication is that the incoming chairwoman of the House Finance Committee, California Rep. Maxine Waters, is expected to focus on housing affordability.

More likely is some type of administrative changes imposed by Trump administration agency heads. Trump soon gets to appoint a new head of the Federal Housing Finance Agency (FHFA), which oversees the GSEs. There are limits to what can be done administratively, but the administration could change the agencies' footprint by altering their lending caps (which were recently maintained at $35 billion for 2019), or by changing the rules under which loans are exempt from the caps.

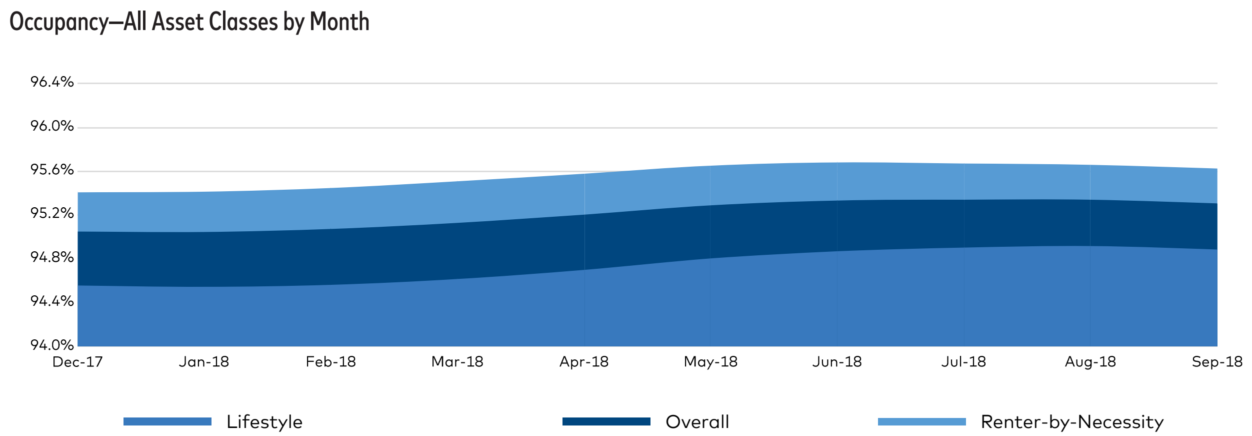
The administration did just tighten the rules surrounding "green" loans that are exempt from the cap. To qualify, borrowers now have to show a 30% increase in efficiency, up from 25%, and half of the increase must come from energy savings.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Oct- 18	Forecast Rent Growth (YE 2018)	YoY Job Growth (6-mo. moving avg.) as of Sept - 18	Completions as % of Total Stock as of Oct - 18	Occupancy Rates as of Sept - 17	Occupancy Rates as of Sept - 18
San Jose	5.0%	7.7%	3.1%	1.2%	96.0%	96.1%
Orlando	6.4%	7.3%	5.1%	3.1%	95.9%	95.7%
Phoenix	7.1%	6.9%	5.6%	2.9%	94.7%	95.2%
Seattle	2.6%	6.8%	4.7%	4.1%	95.6%	95.6%
Charlotte	2.2%	6.3%	2.7%	3.7%	95.5%	95.1%
Chicago	2.6%	6.0%	3.3%	2.6%	94.8%	94.8%
Inland Empire	5.5%	5.9%	4.5%	0.5%	96.0%	96.1%
Sacramento	4.5%	5.8%	6.5%	0.7%	96.8%	96.3%
Boston	2.9%	5.8%	2.8%	3.1%	96.4%	96.3%
Las Vegas	7.4%	5.7%	3.6%	1.9%	94.8%	95.5%
Atlanta	5.0%	5.6%	2.8%	2.1%	94.4%	94.5%
Tampa	4.2%	5.6%	3.9%	1.5%	95.4%	95.6%
San Francisco	3.9%	5.5%	3.0%	1.4%	96.1%	96.2%
Twin Cities	3.9%	5.4%	4.0%	2.4%	97.7%	97.2%
Los Angeles	4.3%	5.2%	4.3%	1.2%	96.8%	96.6%
Denver	3.3%	4.7%	3.0%	4.9%	95.2%	95.4%
Portland	2.5%	4.7%	1.4%	3.0%	95.6%	96.0%
Austin	3.4%	4.1%	1.0%	4.6%	94.3%	95.0%
Washington DC	1.9%	4.0%	1.4%	2.0%	95.3%	95.5%
Indianapolis	3.6%	3.8%	2.7%	1.1%	94.4%	94.6%
Raleigh	2.8%	3.8%	2.3%	3.7%	94.9%	94.9%
Nashville	2.4%	3.7%	1.8%	6.3%	95.1%	95.1%
Miami Metro	3.4%	3.7%	3.0%	4.4%	95.3%	95.1%
Philadelphia	3.3%	3.7%	2.4%	1.4%	95.6%	95.8%
Dallas	2.4%	3.2%	3.1%	3.5%	95.0%	94.6%
Kansas City	1.7%	3.0%	2.2%	2.3%	95.2%	95.4%
San Antonio	1.9%	2.2%	1.8%	2.9%	93.2%	93.2%
Baltimore	2.0%	2.0%	1.7%	2.1%	94.6%	94.6%
Houston	1.6%	1.8%	1.8%	1.8%	93.6%	93.7%
Orange County	2.0%	1.8%	1.7%	2.5%	96.3%	96.0%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

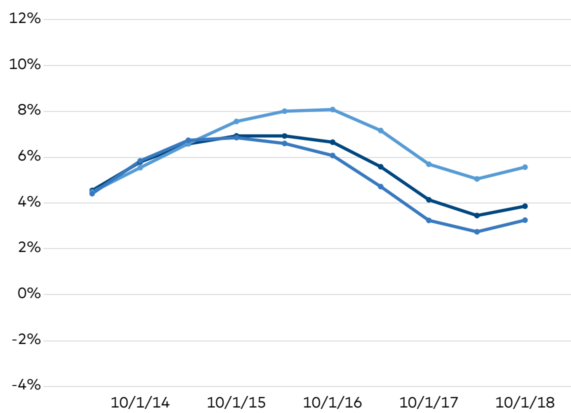
Year-Over-Year Rent Growth, Other Markets

Market	October 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	8.2%	4.6%	11.0%
Central Valley	5.3%	5.4%	5.3%
Tacoma	4.9%	4.8%	5.0%
Tucson	4.6%	4.8%	4.6%
NC Triad	4.6%	4.6%	4.7%
San Fernando Valley	4.4%	3.0%	5.2%
SW Florida Coast	4.0%	3.2%	5.6%
Salt Lake City	3.8%	2.3%	5.0%
El Paso	3.8%	3.9%	3.8%
Indianapolis	3.6%	3.2%	3.5%
Albuquerque	2.9%	4.1%	2.3%
Long Island	2.8%	2.6%	3.0%
Northern New Jersey	2.3%	2.0%	2.7%
Louisville	1.8%	1.2%	2.3%
Colorado Springs	1.8%	1.2%	2.4%
Bridgeport - New Haven	1.6%	0.2%	2.7%
St. Louis	1.3%	0.9%	1.2%
Central East Texas	-0.7%	-1.9%	-0.1%

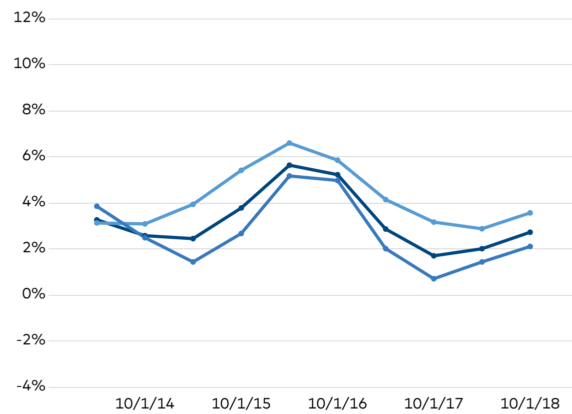
Source: Yardi Matrix

Market Rent Growth by Asset Class

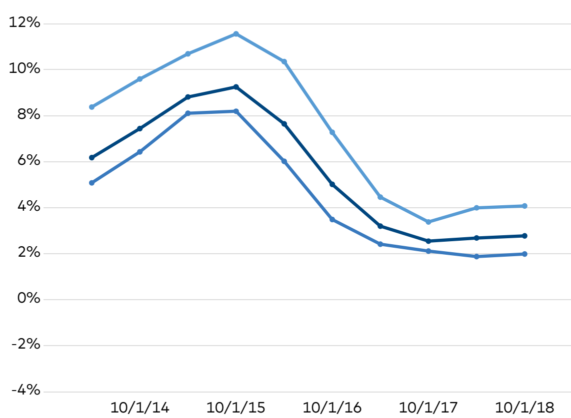
Atlanta



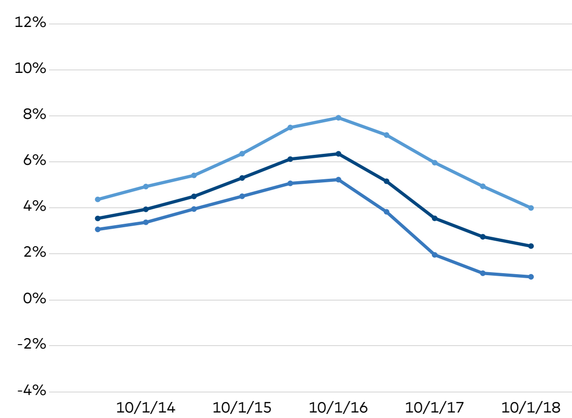
Boston



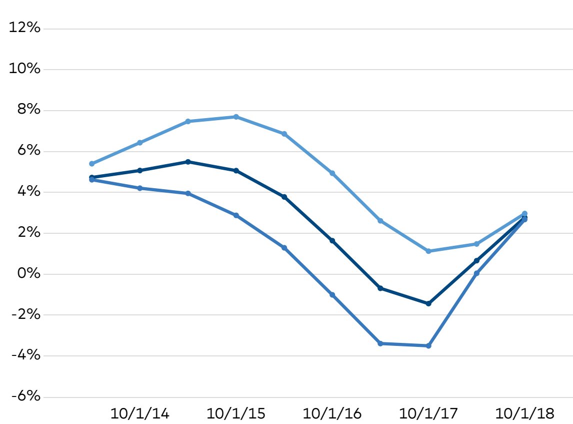
Denver



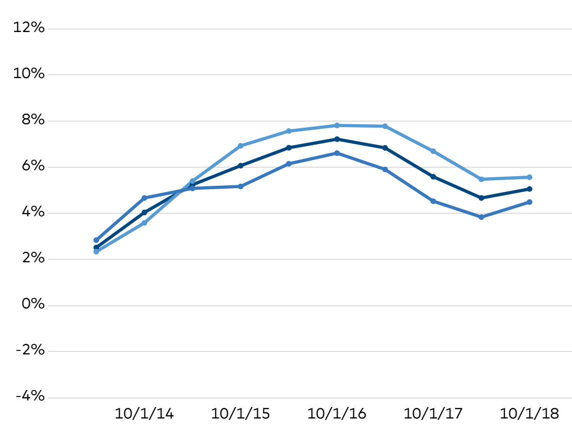
Dallas



Houston



Inland Empire

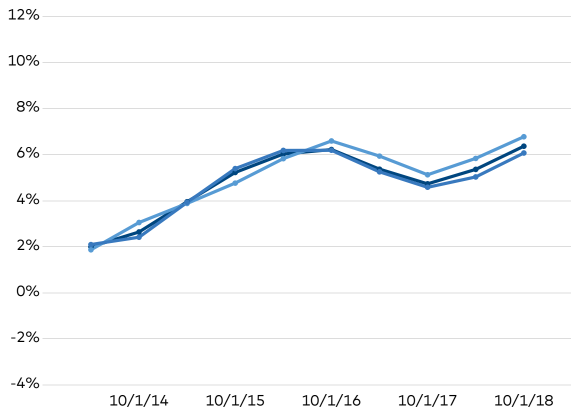


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

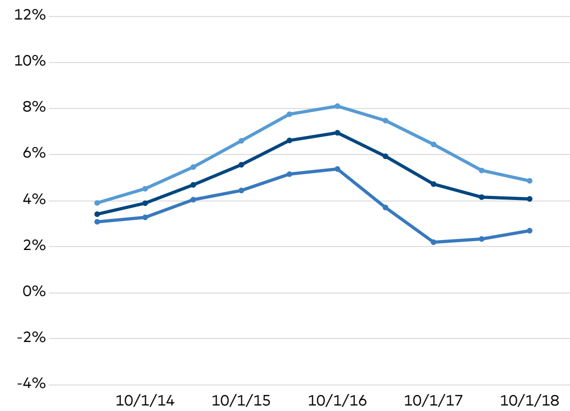
Source: Yardi Matrix

Market Rent Growth by Asset Class

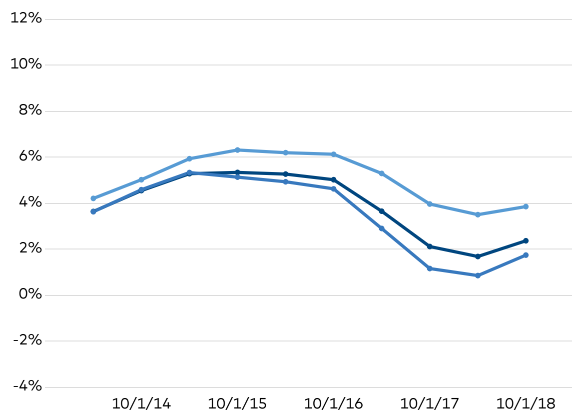
Las Vegas



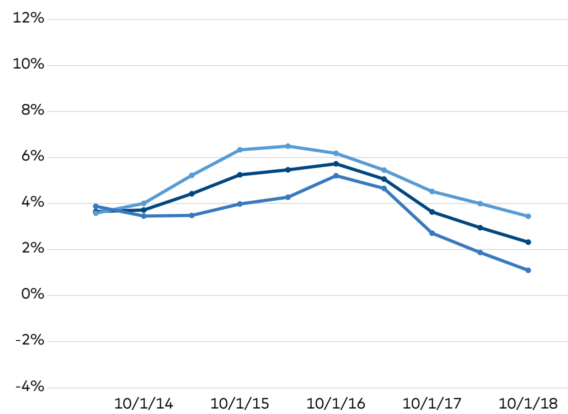
Los Angeles



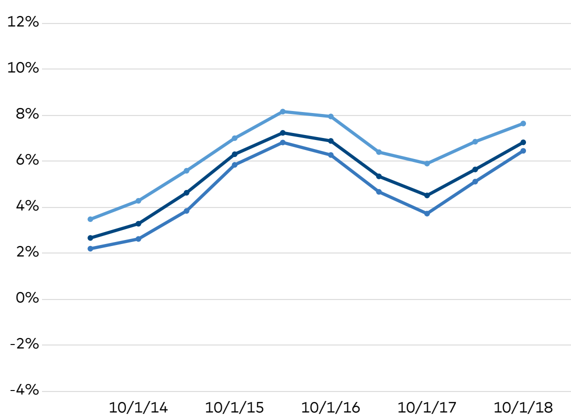
Miami



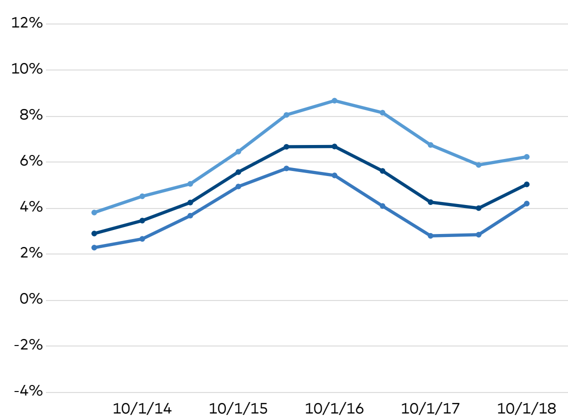
Orange County



Orlando



Phoenix

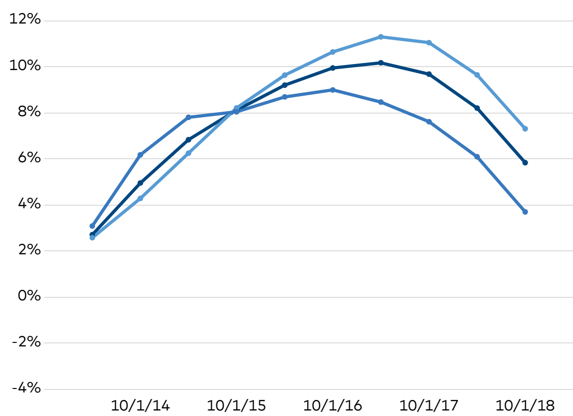


Trailing 12 Months Overall Trailing 12 Months Lifestyle Trailing 12 Months Renter-by-Necessity

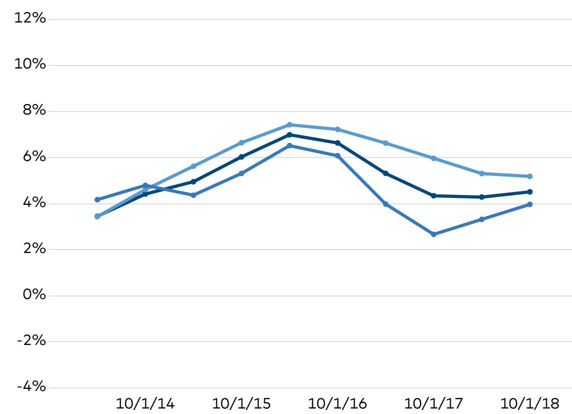
Source: Yardi Matrix

Market Rent Growth by Asset Class

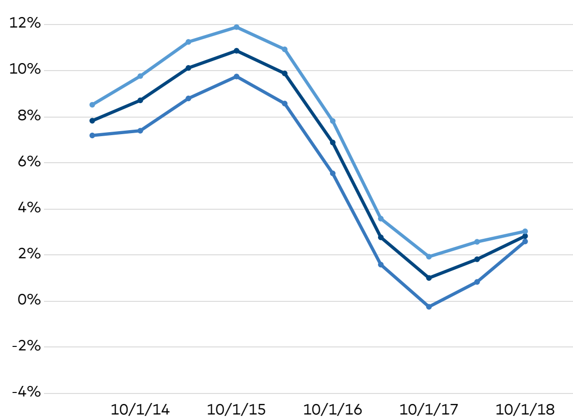
Sacramento



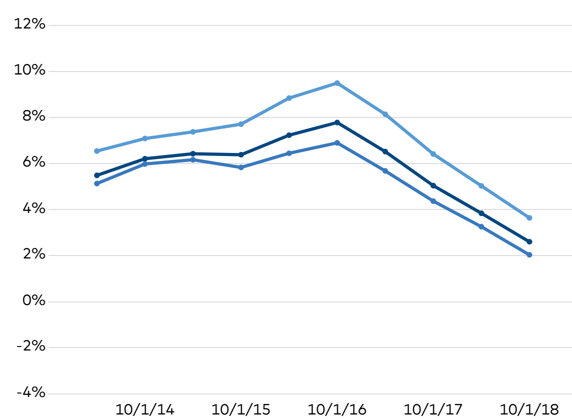
San Diego



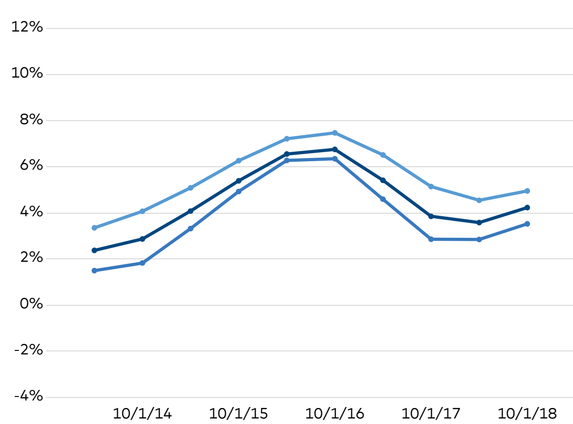
San Francisco



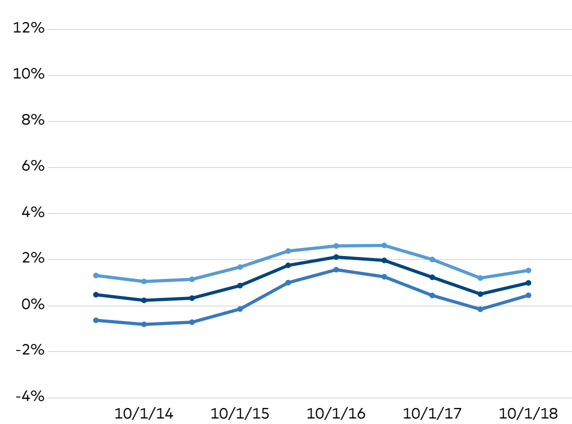
Seattle



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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