Yardi® Matrix

Multifamily National Report

January 2019

Multifamily Shines Bright on Investment Landscape

- U.S. multifamily rents did not change in January, remaining at $1,420, while year-over-year growth rose 10 basis points to 3.3%. Rents are at the same level they were in August.
- Market players are largely optimistic about the prospects for the sector's performance in 2019, based on the discussion at the National Multifamily Housing Council's annual conference in San Diego last week. Demand trends are expected to remain strong.
- Las Vegas (7.9%), Phoenix (6.5%) and Atlanta (5.9%) comprise the top 3 metros, with each producing growth in the normally slow winter season.

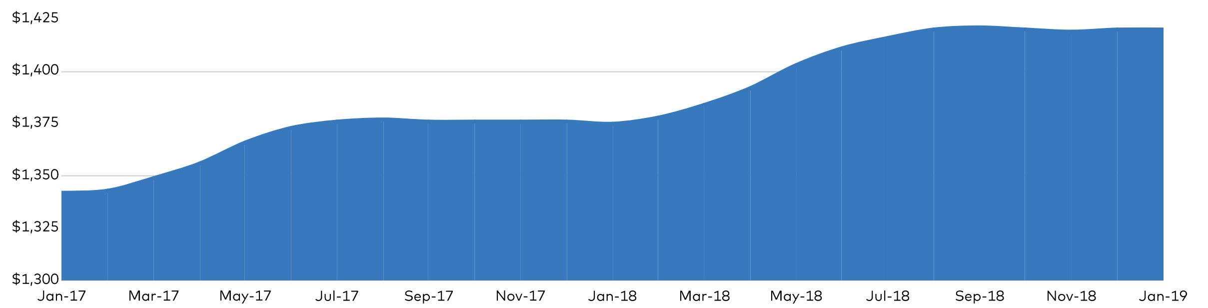
The National Multifamily Housing Council gathered in temperate San Diego last week as much of the country was blasted by extreme cold. The juxtaposition could be seen as a metaphor for the multifamily sector, which remains a bright spot on the investment landscape relative to other sectors both inside and outside commercial real estate.

Multifamily continues to run strong in terms of performance and popularity as an investment alternative. Other real estate property types—such as office, retail and hotel—have long-term structural demand issues, while non-real estate sectors including stocks, corporate bonds, emerging markets and housing are showing signs of strain as the cycle lengthens.

January's rent performance was once again healthy. Overall, U.S. rents remained flat at $1,420 per month from December and have in fact stayed at the same level since August. The lack of growth during the winter is a normal seasonal pattern. Year-over-year growth was up 10 basis points to 3.3% in January, and the annual growth rate has topped 3% for six months. Such performance gives no indication that multifamily rent growth is on its last legs in the cycle. Growth was led by Las Vegas (7.9%), Phoenix (6.5%) and Atlanta (5.9%).

Panelists at the NMHC conference were bullish on multifamily. Speakers by and large expect demand to remain strong up and down the age spectrum. The 20-to-34-year-old age category, which has the highest percentage of renter households, will continue to grow for several more years. Some speakers noted that household renters above that age group are increasingly remaining in rental housing (both single-family homes and multifamily) rather than purchasing homes. One noted that the demographic of some luxury apartment buildings encompasses an average age above 40 and average income above $200,000. Retirees are also downsizing from suburban homes and divorcing at a faster rate, which creates apartment demand.

National Average Rents

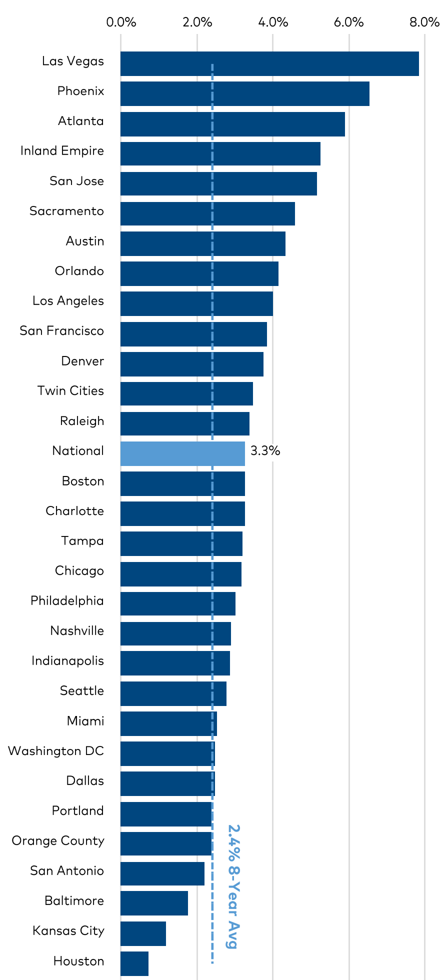


National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

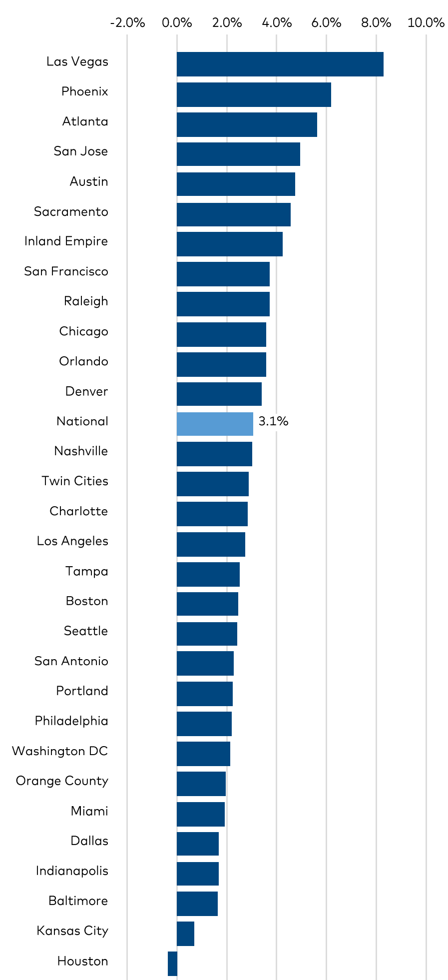
Year-Over-Year Rent Growth: Acceleration Begins 2019

- Rents increased 3.3% year-over-year in January, up 10 basis points from December and matching the highest rent growth since November 2016. Rents increased by 2% or more in all but three of the top 30 metros in January.
- Growth in the top markets is accelerating, led by Las Vegas (7.9%), Phoenix (6.5%) and Atlanta (5.9%). Each of these markets is at or approaching its cycle high for rent growth. West Coast markets are showing strong signs of growth, as five of the top 10 markets are in California.
- The gap between RBN and Lifestyle rent growth is contracting. RBN rent growth was 3.8% in January, just 70 basis points above Lifestyle rent growth, and January is the first month with the spread under 1% since 2014.

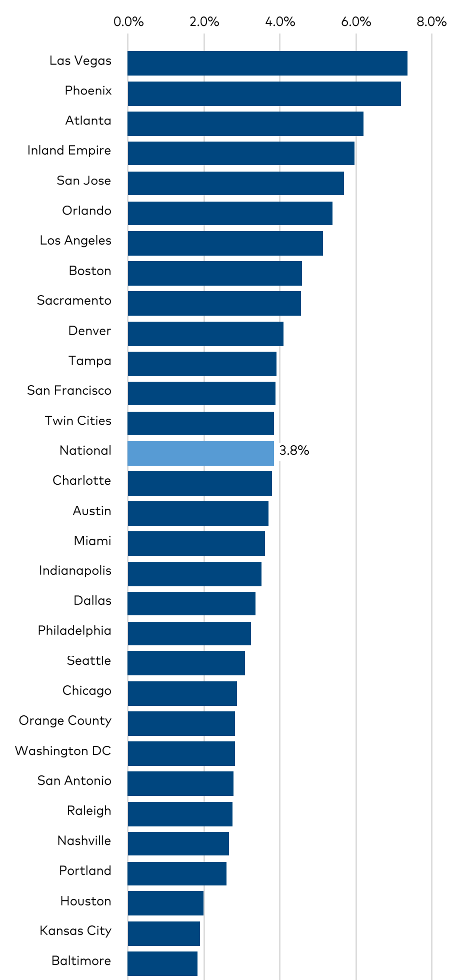
Year-Over-Year Rent Growth—All Asset Classes



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 Remains Stable Through Winter

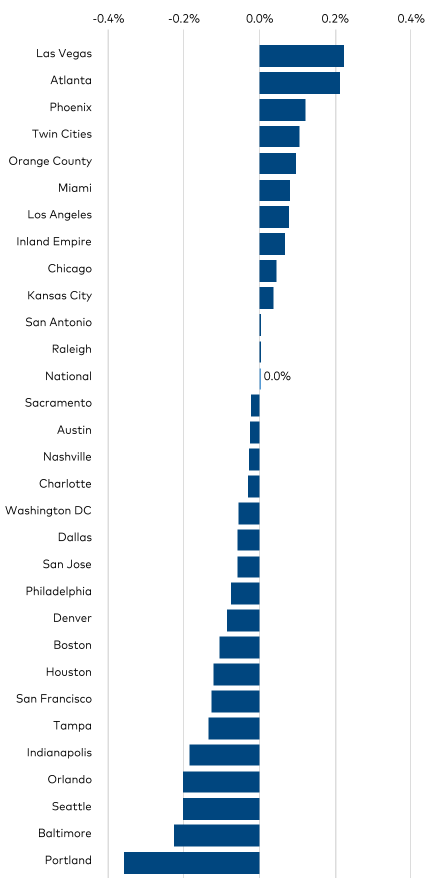
- Rents were once again flat nationwide on a T-3 basis in January, as seasonality continues.
- Sunbelt markets with strong year-over-year growth topped the T-3 rankings.

Rents were unchanged 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. Recent rent stability, especially during the historically weak winter season, is a welcome sight for the multifamily industry.

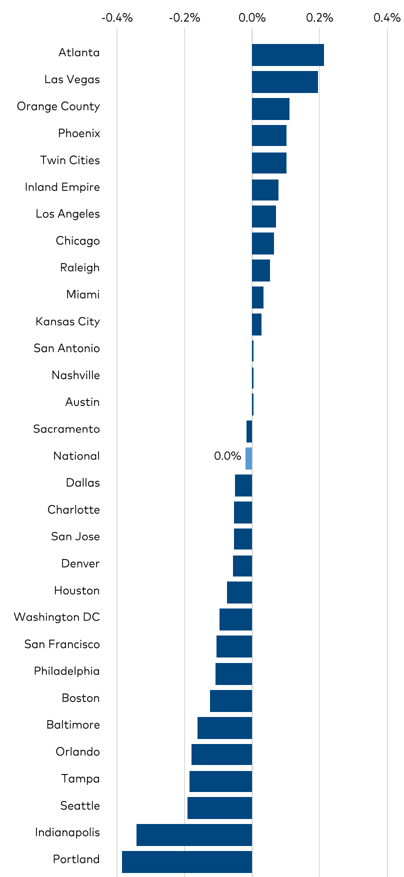
Las Vegas and Atlanta (both 0.2%) were the fastest-growing markets, propelled by strong job growth and healthy demographics. Portland (-0.4%) and Indianapolis (-0.3%) were at the bottom of our rankings.

While seasonality played a role in most markets at the bottom of the rankings, the spread is narrow between the top and bottom markets. Continued job and wage growth will likely push T-3 rents up in most markets over the next few months as the prime rental season begins. Fundamentals are in place for growth throughout 2019, with deliveries expected to fall in line with recent years and demand remaining strong.

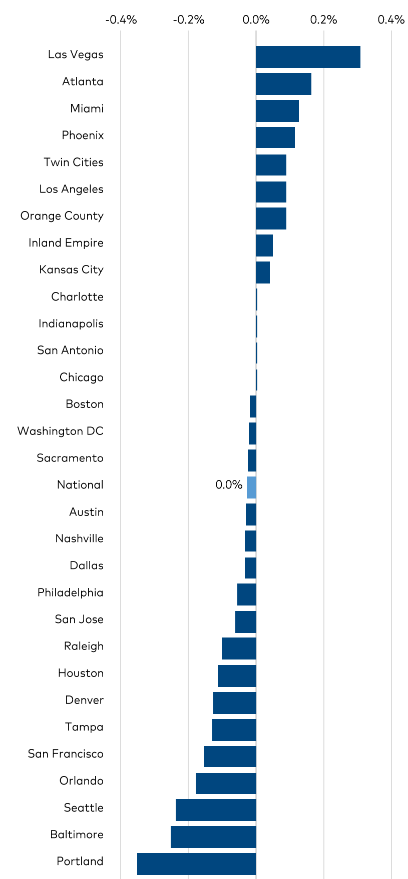
Trailing 3 Months Sequential—All Asset Classes



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

- One topic of conversation at the NMHC conference was the lower yield expectations among investors. Appreciation gains are likely to be modest in coming years.
- Fannie Mae and Freddie Mac are expected to operate as normal in 2019, but new regulatory leadership could change the way they operate starting in 2020.
- The ability to develop affordable housing continues to be a sore spot. NMHC panelists talked about frustration with inconsistent enforcement of regulations and the high costs of building.

Some of the other themes that emerged from the NMHC conference last week:

■ **Lower yield expectations.** As the cycle gets closer to the end, return expectations have to be tempered among both equity and debt investors. Capitalization rates are close to all-time lows, while worries about the economy's strength are mounting and interest rates are volatile. Although it's hard to see prices falling while the capital flow into the industry remains so strong, few expect much growth in appreciation values over the next couple of years, so investors must plan accordingly.

One featured speaker recommended that investors look more seriously at secondary and tertiary markets, contending that their higher going-in yield more than makes up for faster rent growth and better liquidity in primary markets.

There is a similar dynamic on the debt side. Private equity debt funds are providing an increasing share of the mortgages on transitional and value-add properties as banks move away from riskier loans. Debt funds have become aggressive on pricing, and loan spreads have dropped from the L+500-550 basis-point range a few years ago to the L+225-275 basis-point range now. Lenders have held their ground on leverage and many other terms, but there is concern that debt funds will be forced to be more aggressive on terms and proceeds in order to meet yield hurdles.

■ **Uncertainty about the government's role.** Fannie Mae and Freddie Mac have 2019 allocations in place, so this year should be another for the status quo. But the Trump administration has nominated new leadership at the agencies' regulator that could usher in changes in coming years.

Also, there has been a rush to create opportunity zone funds to invest in housing, but few deals have taken place since the law went into effect at the end of 2017 because regulatory guidance on some questions remains unanswered.

■ **Development of affordable housing.** The cost and difficulty of building new continues to frustrate developers. Although 300,000 units a year are delivered nationally, high land and regulatory costs make it near impossible to build units affordable to the middle class. Points of discussion included using modular construction, which has caught on elsewhere in the world; the need for consistent enforcement and interpretation of existing rules; and the benefit of well-crafted subsidies.

■ **Greater diversity.** The industry is slowly increasing the diversity of its workforce, bringing in younger voices as well as more women and minorities.

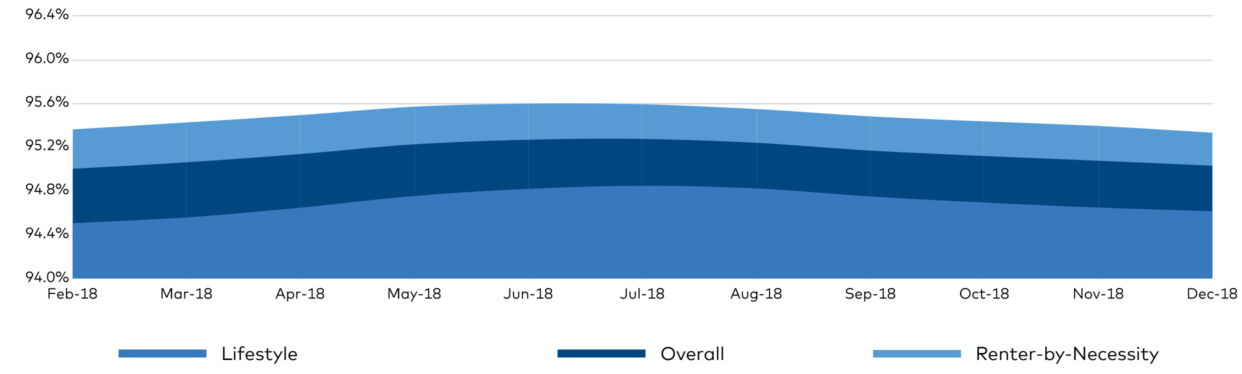
Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Jan - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of Nov - 18	Completions as % of Total Stock as of Jan - 19	Occupancy Rates as of Dec - 17	Occupancy Rates as of Dec - 18
Sacramento	4.6%	6.5%	1.5%	1.1%	96.4%	96.2%
Inland Empire	5.3%	4.5%	3.0%	0.3%	95.9%	96.2%
Dallas	2.5%	4.3%	3.0%	3.1%	94.5%	94.4%
Orlando	4.2%	4.0%	4.3%	2.8%	95.8%	95.4%
Las Vegas	7.9%	4.0%	3.6%	2.4%	94.4%	95.1%
Seattle	2.8%	4.0%	3.5%	4.4%	95.2%	95.2%
Los Angeles	4.0%	4.0%	1.3%	1.7%	96.7%	96.5%
Phoenix	6.5%	3.9%	3.6%	3.1%	94.8%	95.3%
Twin Cities	3.5%	3.6%	1.9%	2.8%	97.3%	96.9%
Orange County	2.4%	3.5%	0.7%	2.4%	96.0%	96.0%
Raleigh	3.4%	3.4%	2.9%	3.1%	94.3%	94.8%
Denver	3.7%	3.4%	2.8%	5.4%	94.9%	94.9%
Atlanta	5.9%	3.3%	2.1%	1.8%	94.1%	94.4%
Tampa	3.2%	3.3%	2.6%	2.6%	95.2%	95.2%
Indianapolis	2.9%	3.2%	1.7%	0.9%	94.0%	94.3%
Boston	3.3%	2.7%	1.9%	3.2%	96.2%	96.2%
San Francisco	3.8%	2.7%	1.7%	1.7%	95.8%	95.9%
Charlotte	3.3%	2.4%	2.6%	3.5%	95.1%	95.1%
San Jose	5.2%	2.4%	3.3%	1.1%	95.7%	95.7%
Chicago	3.2%	2.4%	0.9%	1.7%	94.5%	94.3%
Kansas City	1.2%	2.3%	1.9%	2.4%	94.8%	94.6%
Philadelphia	3.0%	2.2%	1.7%	1.5%	95.3%	95.5%
Houston	0.7%	2.2%	3.7%	1.5%	93.7%	92.9%
Miami Metro	2.5%	2.1%	2.2%	4.4%	95.2%	95.0%
Austin	4.3%	2.0%	3.5%	4.5%	94.0%	94.7%
Nashville	2.9%	2.0%	1.9%	5.9%	94.6%	94.8%
Portland	2.4%	1.9%	2.4%	3.0%	95.1%	95.5%
San Antonio	2.2%	1.9%	1.1%	3.0%	92.6%	93.2%
Washington DC	2.5%	1.3%	1.9%	1.9%	95.1%	95.4%
Baltimore	1.8%	1.3%	1.7%	2.0%	94.4%	94.4%

Source: Yardi Matrix

Occupancy & Asset Classes

Occupancy—All Asset Classes by Month



Source: Yardi Matrix

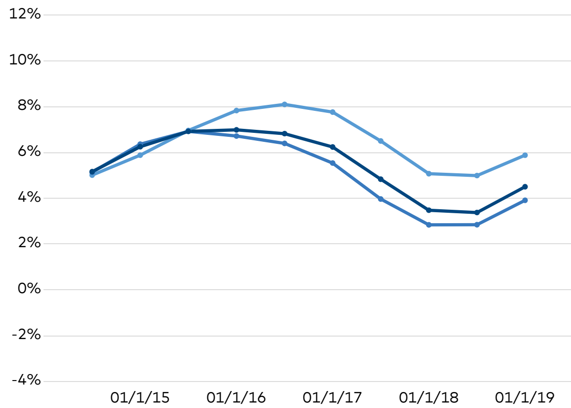
Year-Over-Year Rent Growth, Other Markets

Market	January 2019		
	Overall	Lifestyle	Renter-by-Necessity
Reno	8.8%	6.9%	10.1%
Tacoma	5.5%	5.7%	5.0%
Tucson	5.3%	5.2%	5.1%
Central Valley	5.1%	5.9%	5.0%
NC Triad	5.0%	4.9%	4.5%
San Fernando Valley	4.9%	3.5%	5.7%
El Paso	4.8%	3.1%	5.3%
Salt Lake City	4.3%	2.8%	5.6%
Albuquerque	4.2%	5.7%	3.4%
Long Island	3.2%	3.4%	3.2%
Indianapolis	2.9%	1.7%	3.5%
Colorado Springs	2.7%	2.3%	3.3%
Louisville	2.6%	3.7%	2.3%
Northern New Jersey	2.1%	2.2%	2.3%
SW Florida Coast	2.0%	1.3%	3.1%
St. Louis	1.5%	1.7%	1.7%
Bridgeport - New Haven	1.5%	0.5%	2.2%
Central East Texas	-0.9%	-2.3%	-0.6%

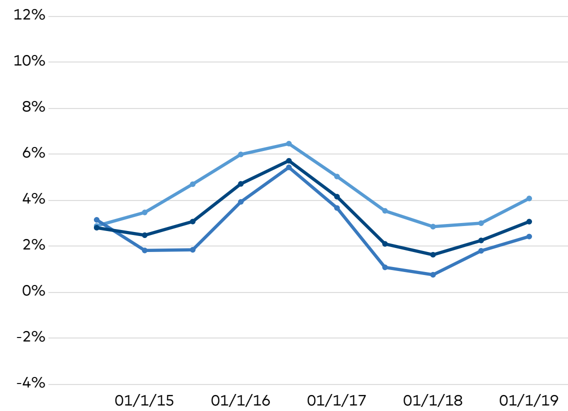
Source: Yardi Matrix

Market Rent Growth by Asset Class

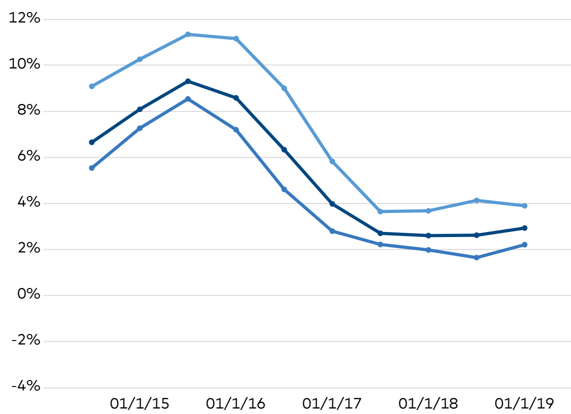
Atlanta



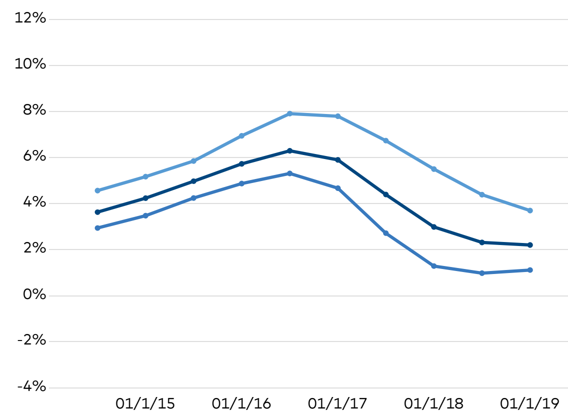
Boston



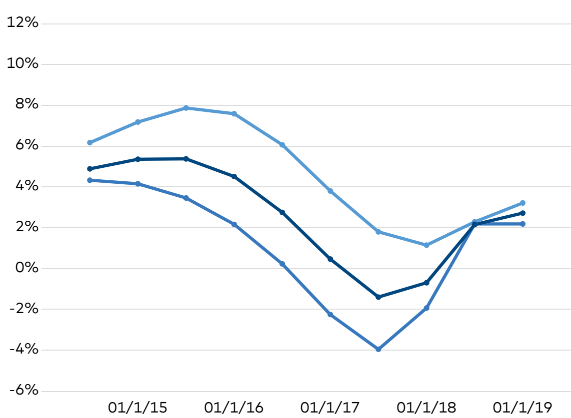
Denver



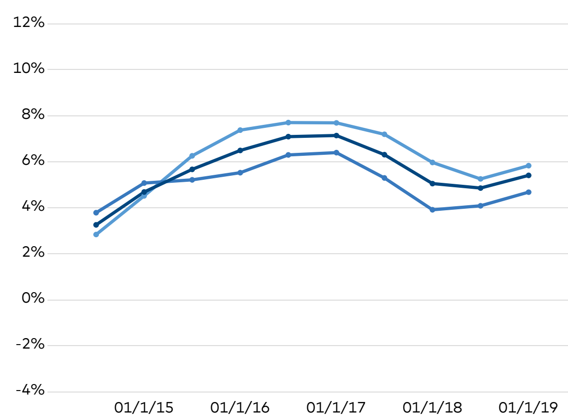
Dallas



Houston



Inland Empire

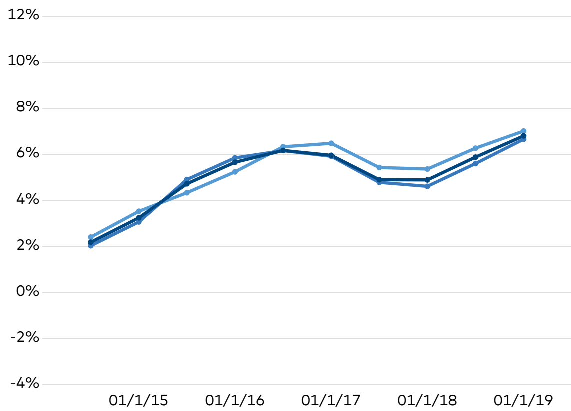


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

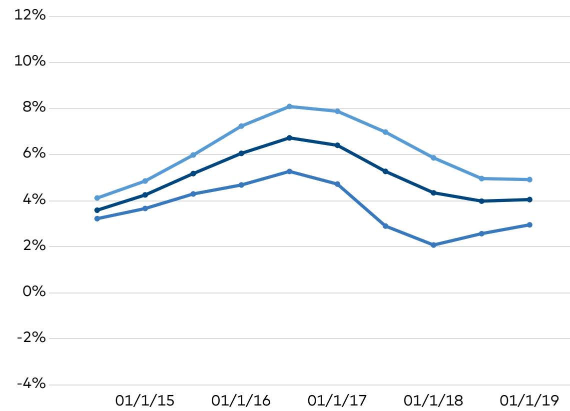
Source: Yardi Matrix

Market Rent Growth by Asset Class

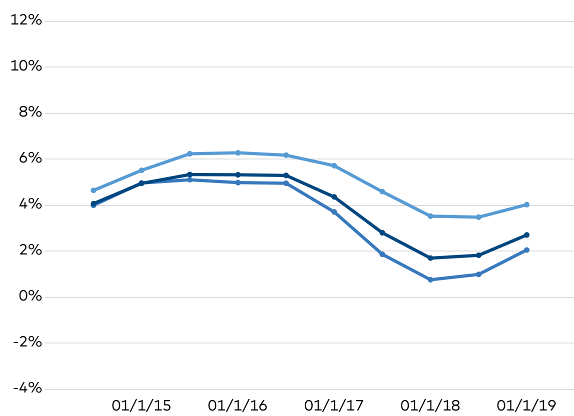
Las Vegas



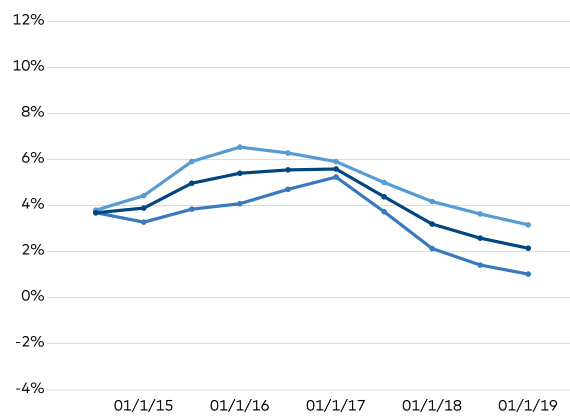
Los Angeles



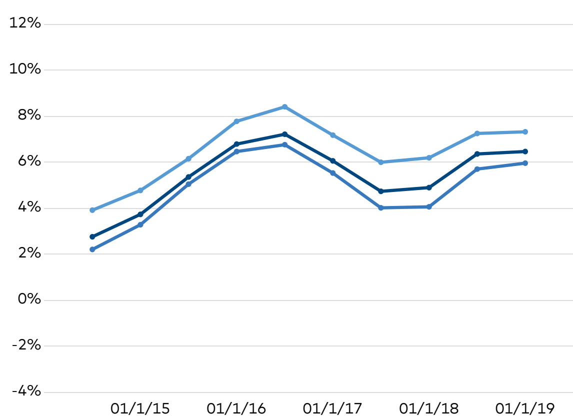
Miami



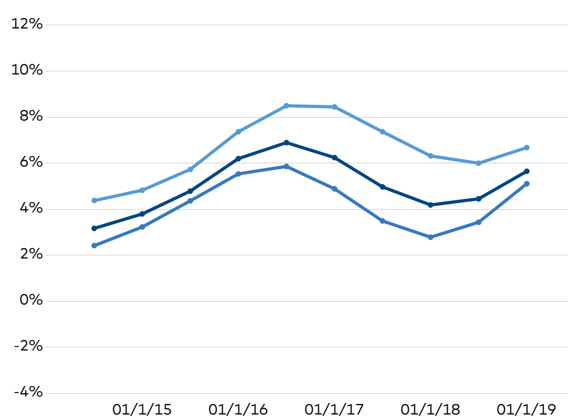
Orange County



Orlando



Phoenix

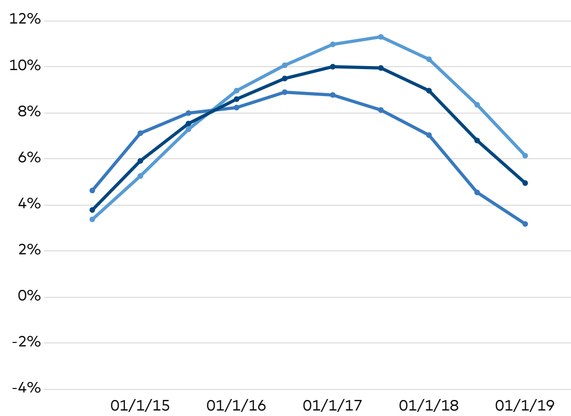


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

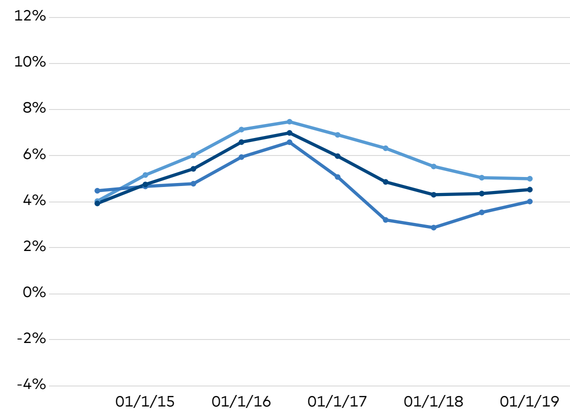
Source: Yardi Matrix

Market Rent Growth by Asset Class

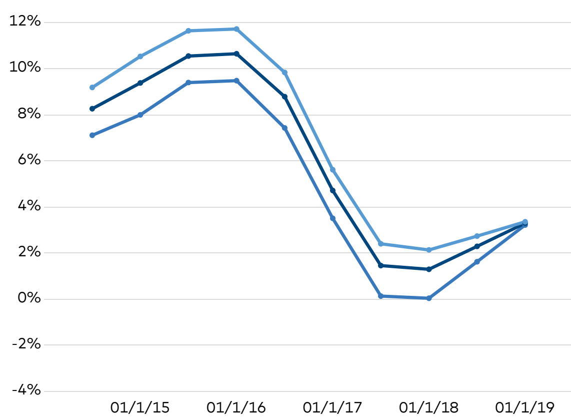
Sacramento



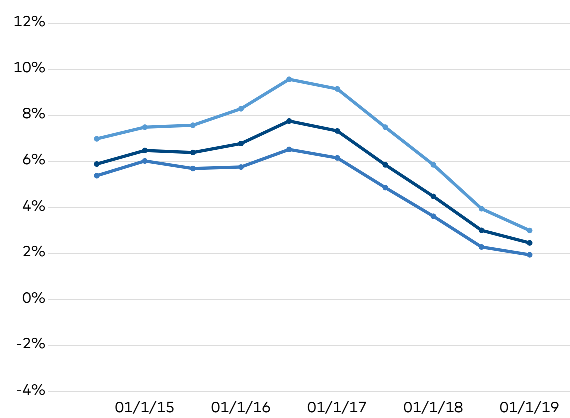
San Diego



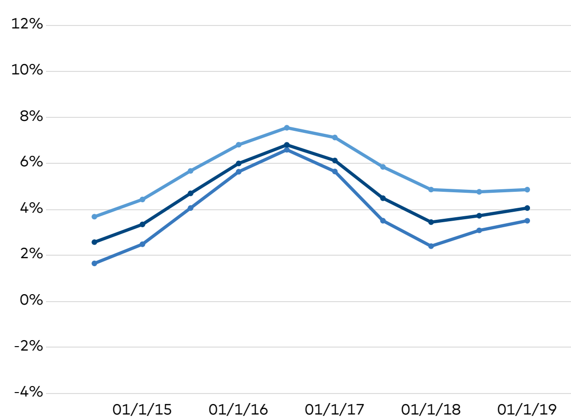
San Francisco



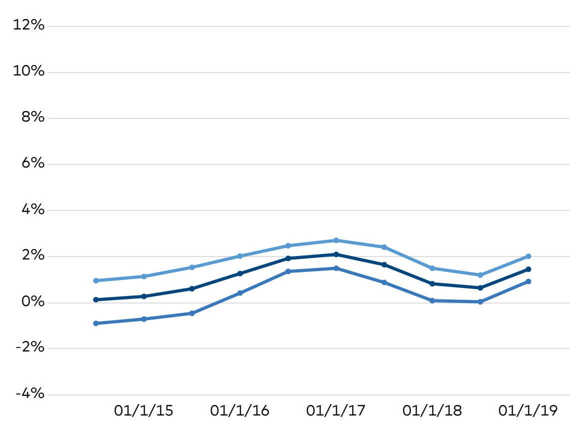
Seattle



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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