Yardi® Matrix

Multifamily National Report

June 2019

First Half Ends With a Flourish for Multifamily

- A year of moderate rent growth turned serious in June, as the average U.S. multifamily rent increased by $12 to $1,465. Year-over-year growth increased to 3.3%, up by 40 basis points from May.
- Average U.S. rents grew by 2.6% in the first half of 2019, and 2.0% in the second quarter. Although growth tends to slow down in the second half of most years, the multifamily market's extended run of strong performance does not appear to be winding down soon.
- Las Vegas (8.4% year-over-year growth) and Phoenix (8.1%) remain blazing hot, but the strong gains are not limited to any particular region. Rents in every metro on our Top 30 list increased by at least 1.3% on a trailing 12-month basis in the second quarter.

Multifamily rent growth started slowly in 2019 compared to some recent years, raising the specter of an end to the long string of positive growth, or even a slowdown to levels closer to the 2.5% long-term average. However, rents rose robustly in the second quarter, and the market's consistent growth once again shows no signs of waning.

After a $12 jump in June, average rents increased by 2.0% in the second quarter of 2019, and they are up 2.6% so far this year. Those are not the biggest percentage increases achieved in recent years, but both come close to the best performance seen in this extremely favorable economic cycle.

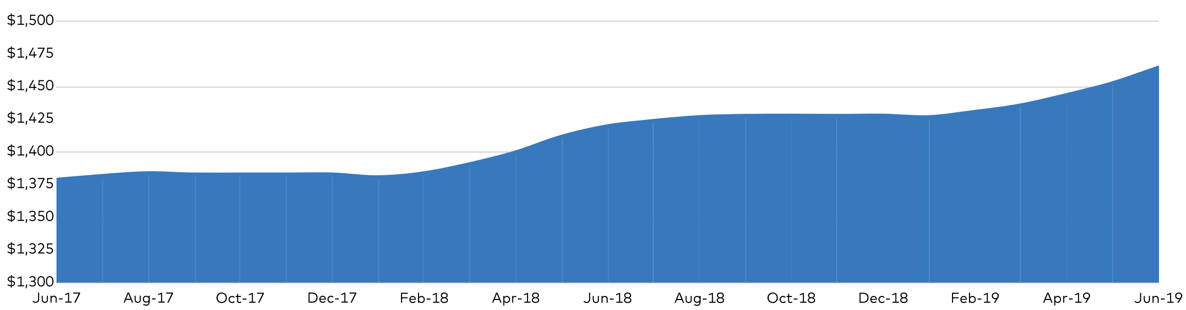
As has been the case for years, favorable fundamentals are behind the shift. The economy has added 172,000 jobs per month this year, a slowdown from the 200,000-per-month average since the recovery began in 2010 but solid growth considering the below-4.0% unemployment rate and the lateness of the economic cycle.

Meanwhile, the latest Census Bureau numbers show that the number of renter households climbed to an all-time high in the first quarter of 2019. After exploding for several years in the wake of the Great Recession, renter household growth was relatively flat for the last two years. But the number increased by more than 600,000 in the first quarter to 43.8 million.

Absent an unforeseen exogenous event, demand for multifamily shows no signs of abating. That doesn't address whether rent growth can remain elevated, but rents have stayed at above-trend levels during several years of robust supply increases and ongoing issues with affordability, so it seems foolish to discount the market's potential to maintain its performance over the near term.

While fast-growing South and West markets remain atop the rent growth rankings, the only two metros to fall below 2.5% growth over the last 12 months were Miami (2.2%) and Houston (0.8%).

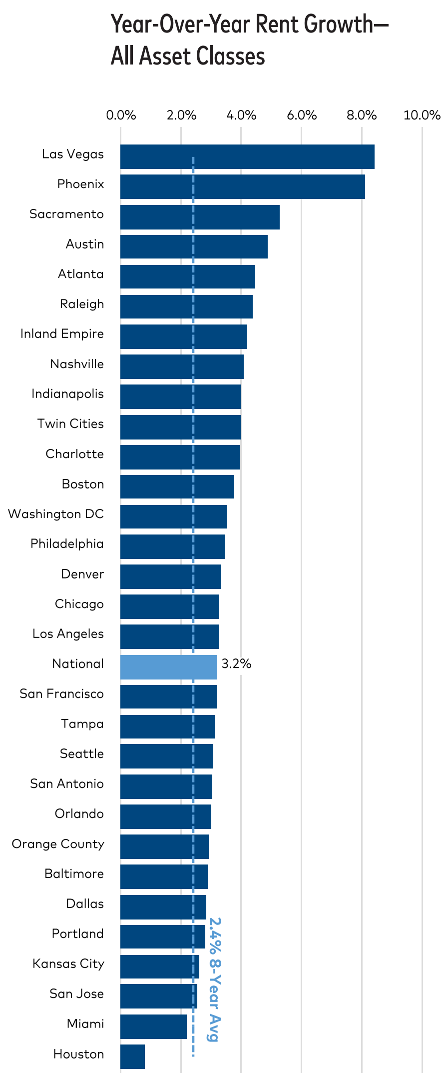
National Average Rents

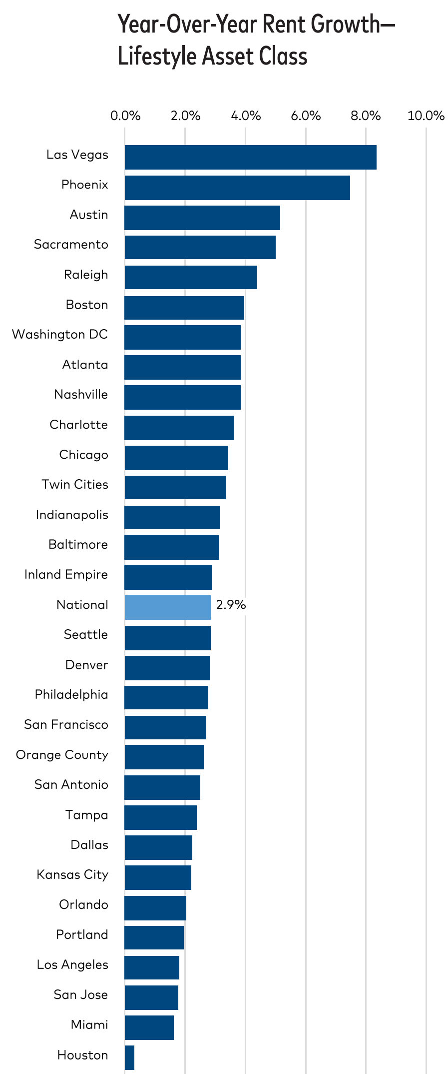


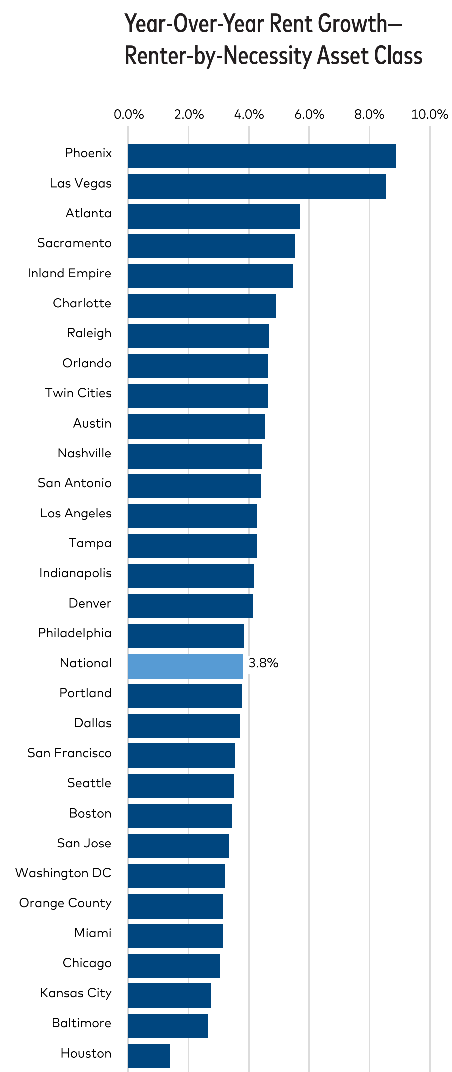
National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

Year-Over-Year Rent Growth
Luxury Properties Closing the Rent Growth Gap

- Rents increased 3.2% year-over-year in June, up 30 basis points from a revised 2.9% in May.
- Las Vegas (8.4%), Phoenix (8.1%) and Sacramento (5.3%) lead the rankings, as strong migration and relatively modest new supply drive outsize rent growth. Not far behind, however, Austin (4.9%) and Nashville (4.1%) are both in the top 10 for rent growth, despite having some of the highest recent completions and among the most robust new development pipelines in the country. Job growth and lifestyle amenities continue to draw in migrants and keep demand for multifamily strong.
- The gap between Lifestyle rents (2.9%) and RBN (3.8%) continues to contract, as wages rise and affordability issues intensify. After years of rapid rent growth, working-class renters are struggling to afford housing, while Lifestyle renters—many of whom have had wages, incomes and wealth rise faster than the national average—are able to pay higher rents despite vast new supply.







Source: Yardi Matrix

Trailing 3 Months:
Short-Term Trend: Increases Everywhere

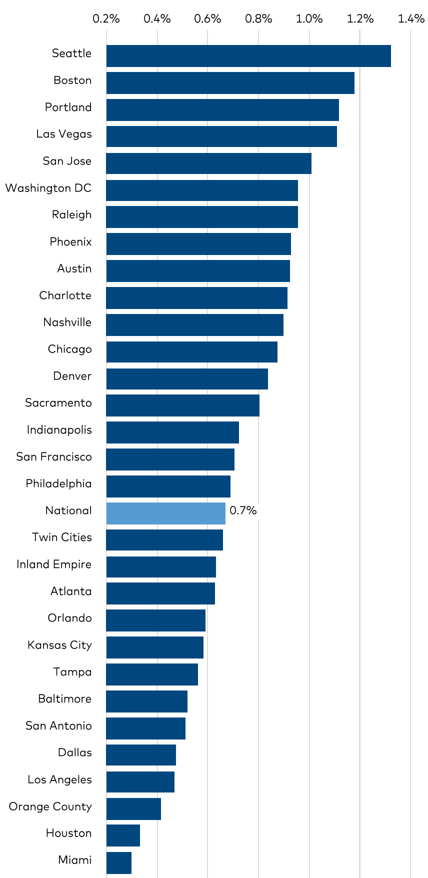
- Rents increased 0.7% nationally in June on a T-3 basis, a 20-basis-point increase from the previous month.
- Lifestyle rents rose faster than RBN for the first time in recent years. Affordability and rent control measures may be impacting growth.

Rents increased 0.7% 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.

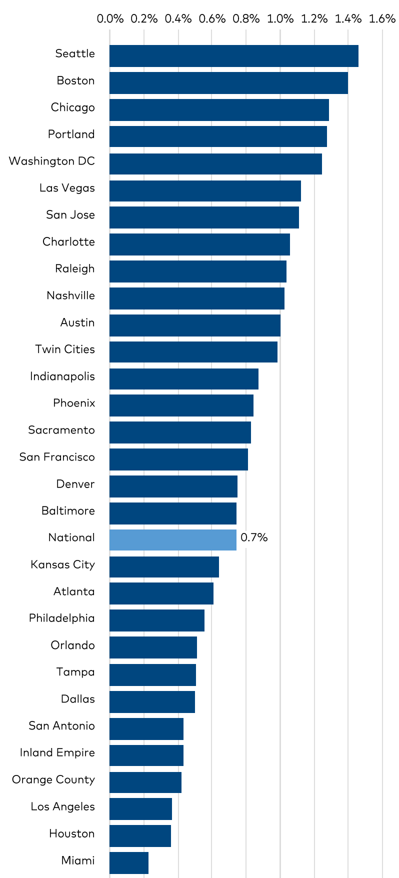
All markets in our top 30 had rent increases on a T-3 basis in June, led by Seattle (1.3%), Boston (1.2%) and Portland (1.1%). Miami and Houston (both 0.3%) had the weakest growth. Lifestyle rents outpaced RBN rents in 17 of the top 30 markets, indicating healthy demand for the new luxury product being delivered in many cities.

Housing affordability has recently come into the spotlight, not just for the real estate industry but for the 2020 presidential candidates, as well. Rent control legislation has passed in New York and Oregon, with a number of other states also introducing bills. Many of these bills focus on rent control for older stock, most of it RBN. As rent control expands, the ability to raise rents may put a ceiling on RBN rent growth and continue to narrow the gap between Lifestyle and RBN rent growth.

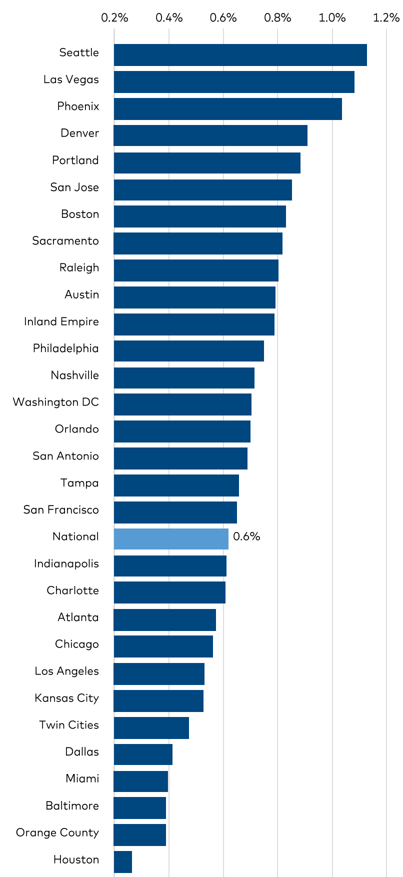
Trailing 3 Months Sequential— All Asset Classes



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

- Houston has not joined the rent growth party that the rest of the country is experiencing. Year-over-year rent growth as of June was 0.8%, well below other major metros.
- The lag can't be explained by a poor economy, as job growth remains robust, or a shock in the energy industry, which has been stable in recent years.
- Houston's occupancy rate has dropped 110 basis points in a year, due to large increases in new supply since 2013 and the dissipation in the bump that followed Hurricane Harvey.

What's the matter with Houston? In the midst of an exceptional period for the multifamily market, it stands out as a laggard in rent growth. Houston's average rent grew a meager 0.8% year-over-year through June, by far the lowest increase of major metros nationally.

Houston is underperforming traditionally slow-growth markets in the Midwest—for example, Indianapolis (4.0%), Chicago (3.3%) and Kansas City (2.6%)—and the high-cost Northeast—including Boston (3.8%), Washington, D.C. (3.5%) and Philadelphia (3.3%).

Houston's poor performance would be easier to understand in a period of falling oil prices, given the slew of energy companies based there. However, oil prices have been relatively stable since the steep drop in 2014-15, and mining jobs have grown over the last 12 months. Houston can't blame the local economy, either, as the metro has added jobs at a solid 2.5% rate on a six-month trailing basis as of May. Nor is it recent construction, as the metro's rate of new deliveries has fallen to 1.2% through mid-year.

So what's the issue? Likely, Houston's difficulties stem from a combination of factors, including the cumulative effect of new supply over time, the mismatch between demand and supply as it relates to quality, and the hangover effects from Hurricane Harvey. Supply growth has slowed since the beginning of 2018, but Houston added 70,000 multifamily units in properties of 50 units or more between 2013 and 2018. The evidence is that the market needs more time to digest all of that stock. Houston's occupancy rate as of May was 92.6%, the lowest of the Matrix top 30 metros and down by 110 basis points year-over-year. And even at a slower growth rate, more than 11,000 units are scheduled to come online in 2019.

Some of the biggest occupancy drops since January 2018 have been in areas affected by the September 2017 hurricane. For example, lower occupancy rates in West Houston submarkets include Addicks Reservoir (-5.0%) and Fort Bend County (-3.1%). In East Houston, the biggest declines have been in Cloverleaf (-3.2%) and William P. Hobby Airport (-3.0%). Houston's rent growth was weak before Harvey, and while it got a bump afterwards when people were forced to move into apartments because their homes were destroyed, they have gradually returned to their homes.

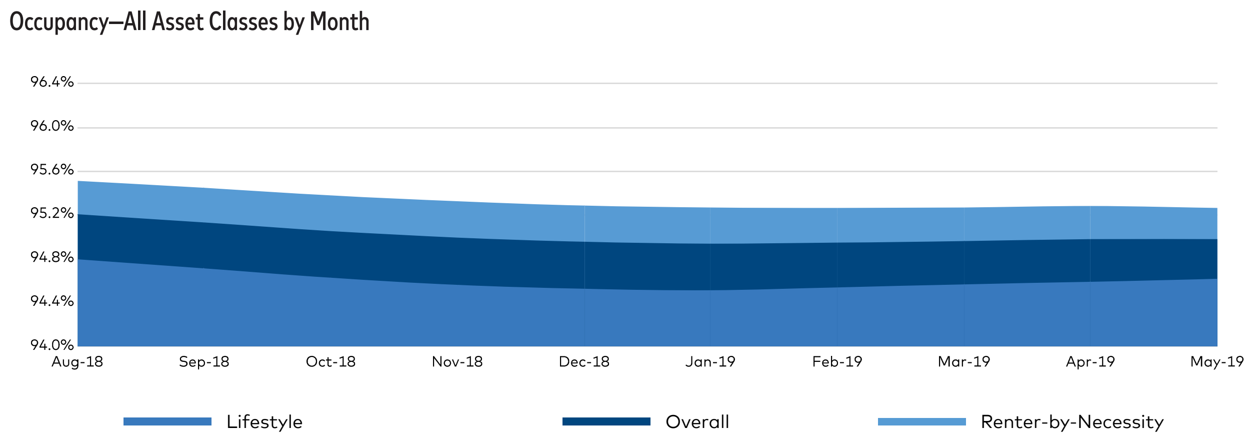
Houston's long-term prognosis remains healthy. The metro has a fast-growing and increasingly diversified economy. But it needs time to absorb the long-term growth in inventory and adjust to the current financial realities.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Jun - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of May - 19	Completions as % of Total Stock as of Jun - 19	Occupancy Rates as of May - 18	Occupancy Rates as of May - 19
Las Vegas	8.4%	5.4%	2.8%	1.6%	95.0%	95.4%
Phoenix	8.1%	5.3%	3.0%	3.1%	95.2%	95.6%
Nashville	4.1%	4.1%	2.9%	4.5%	95.1%	95.0%
Orlando	3.0%	4.0%	3.6%	3.1%	95.9%	95.1%
Raleigh	4.4%	4.0%	1.0%	3.3%	94.4%	94.6%
Twin Cities	4.0%	4.0%	0.0%	2.7%	97.2%	96.7%
Seattle	3.1%	3.9%	2.5%	5.0%	95.7%	95.6%
Sacramento	5.3%	3.8%	2.8%	0.5%	96.4%	96.4%
Austin	4.9%	3.7%	2.3%	3.9%	94.3%	94.5%
Inland Empire	4.2%	3.6%	1.7%	0.7%	96.1%	96.0%
Los Angeles	3.2%	3.5%	0.9%	2.0%	96.7%	96.4%
Atlanta	4.5%	3.5%	2.1%	2.1%	94.2%	94.2%
Boston	3.8%	3.5%	0.6%	2.9%	96.3%	96.2%
Tampa	3.1%	3.5%	2.1%	2.3%	95.5%	94.9%
Miami Metro	2.2%	3.4%	2.0%	4.2%	95.2%	95.2%
Kansas City	2.6%	3.4%	1.0%	2.8%	95.2%	94.6%
Charlotte	3.9%	3.3%	2.3%	4.0%	95.1%	95.0%
Dallas	2.8%	3.3%	2.9%	3.0%	94.5%	94.2%
San Jose	2.5%	3.3%	2.4%	1.5%	96.3%	95.9%
Indianapolis	4.0%	3.1%	0.5%	1.1%	94.3%	94.2%
Philadelphia	3.5%	3.0%	1.1%	0.8%	95.6%	95.6%
Chicago	3.3%	2.8%	1.3%	1.9%	94.9%	94.4%
San Francisco	3.2%	2.8%	2.3%	1.7%	96.1%	95.8%
San Antonio	3.0%	2.6%	2.0%	2.8%	92.9%	92.9%
Washington DC	3.5%	2.6%	0.8%	1.4%	95.4%	95.4%
Denver	3.3%	2.6%	1.8%	4.5%	95.2%	94.9%
Orange County	2.9%	2.3%	1.0%	1.1%	95.9%	95.9%
Baltimore	2.9%	2.0%	0.8%	1.1%	94.5%	95.0%
Houston	0.8%	1.9%	2.5%	1.2%	93.7%	92.6%
Portland	2.8%	1.9%	2.0%	2.9%	95.7%	95.4%

Source: Yardi Matrix

Occupancy & Asset Classes



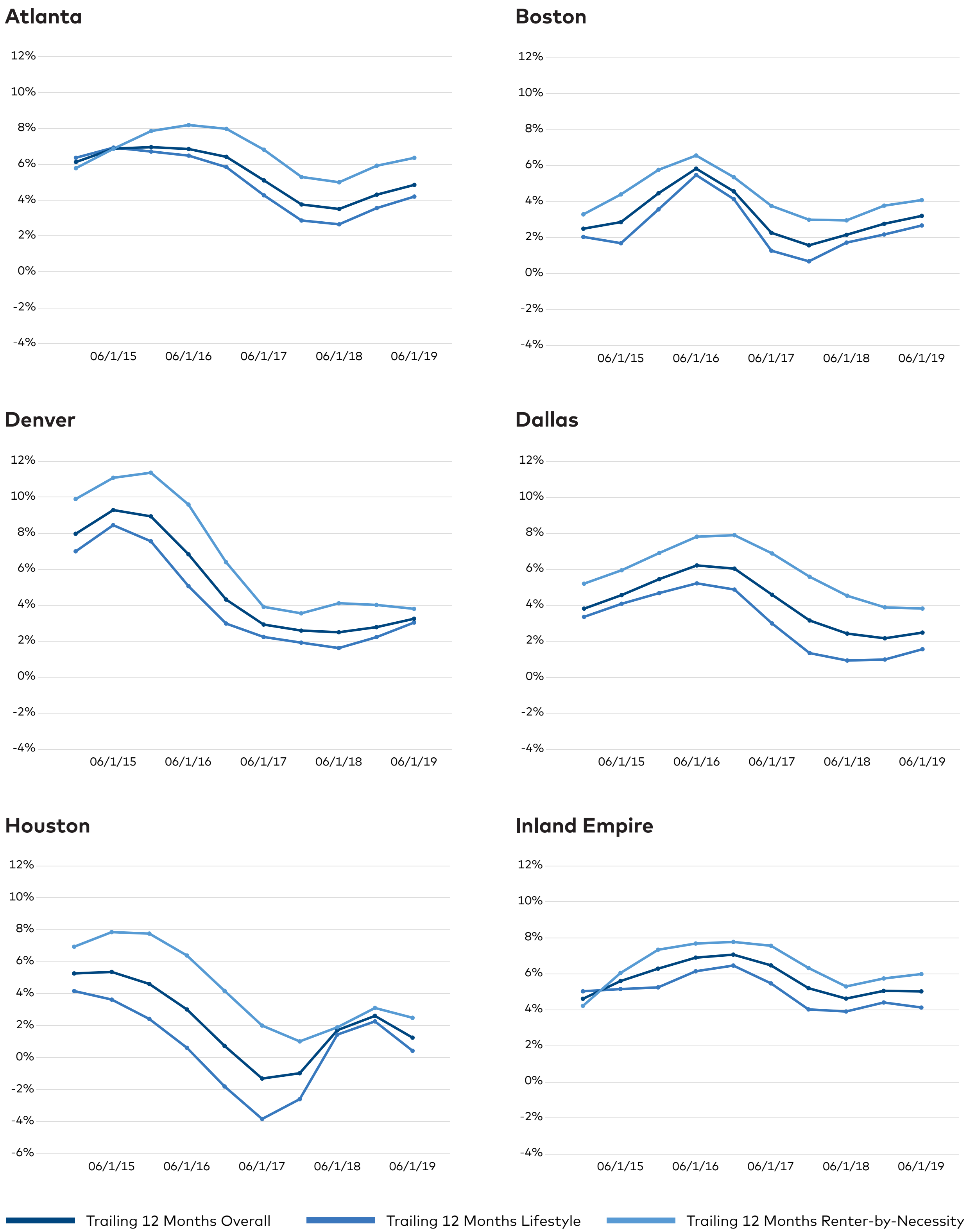
Source: Yardi Matrix

Year-Over-Year Rent Growth, Other Markets

Market	June 2019		
	Overall	Lifestyle	Renter-by-Necessity
Tucson	6.1%	6.5%	5.9%
Tacoma	5.7%	5.5%	6.0%
Albuquerque	5.5%	7.2%	4.8%
Colorado Springs	5.1%	4.4%	6.0%
Long Island	5.1%	4.8%	5.2%
Central Valley	5.0%	1.1%	6.0%
NC Triad	4.8%	6.2%	3.7%
Indianapolis	4.0%	3.2%	4.2%
Salt Lake City	3.7%	2.1%	4.8%
San Fernando Valley	3.6%	2.4%	4.2%
Reno	3.5%	1.6%	5.0%
Louisville	3.4%	2.2%	4.1%
Bridgeport–New Haven	3.1%	3.8%	2.5%
St. Louis	2.4%	1.6%	2.9%
El Paso	2.3%	1.2%	2.8%
Northern New Jersey	2.1%	1.1%	3.3%
Central East Texas	1.9%	3.3%	1.3%
SW Florida Coast	1.0%	0.0%	2.8%

Source: Yardi Matrix

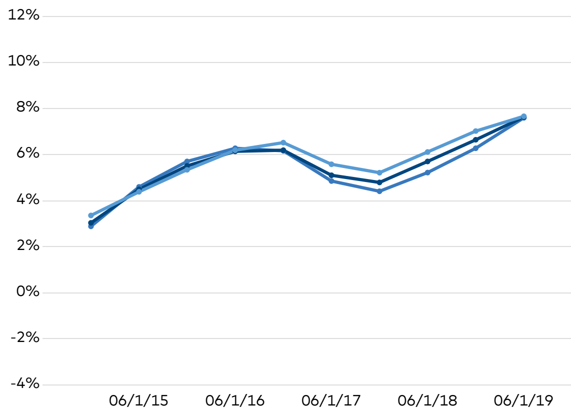
Market Rent Growth by Asset Class



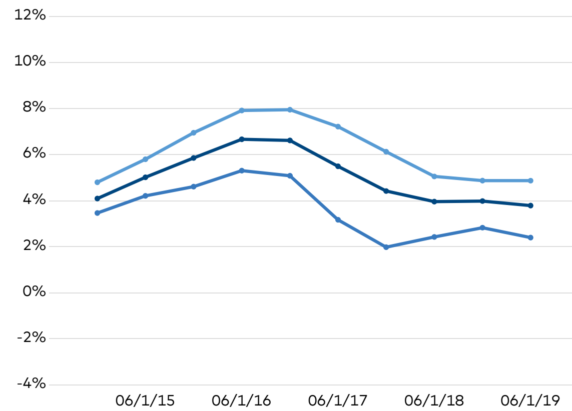
Source: Yardi Matrix

Market Rent Growth by Asset Class

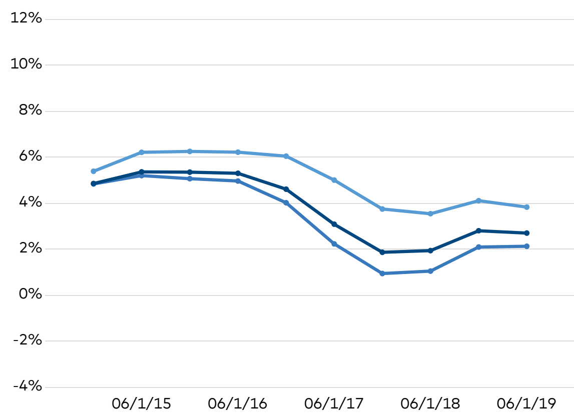
Las Vegas



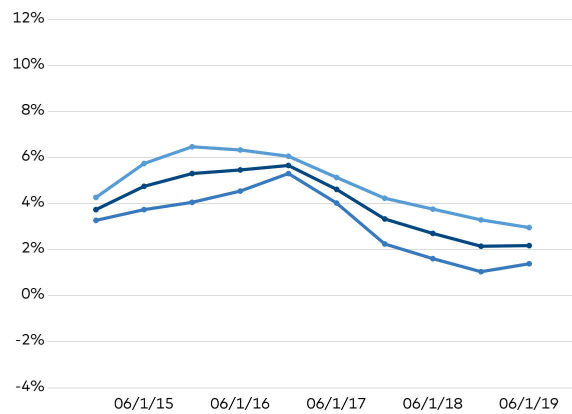
Los Angeles



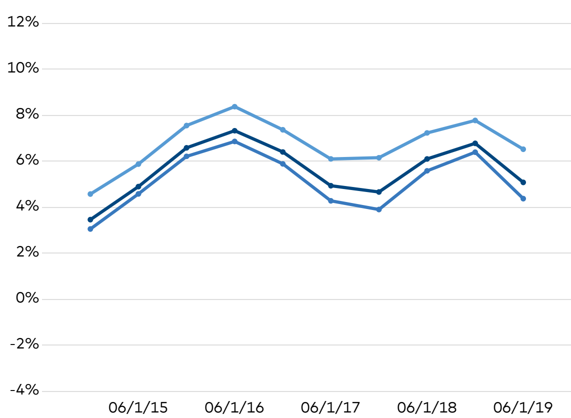
Miami



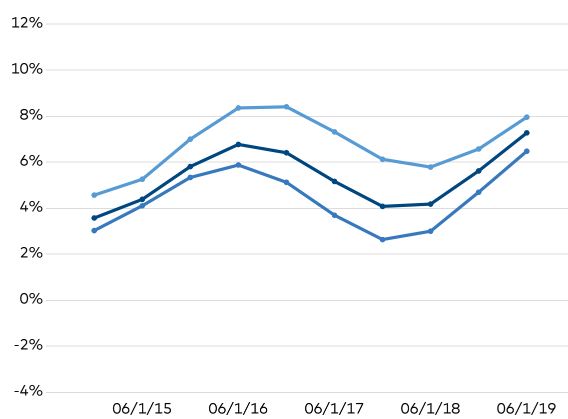
Orange County



Orlando



Phoenix

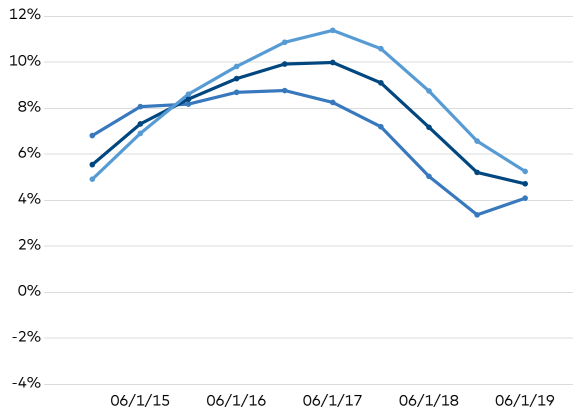


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

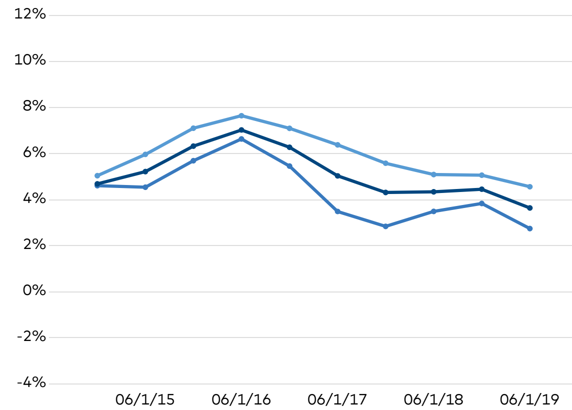
Source: Yardi Matrix

Market Rent Growth by Asset Class

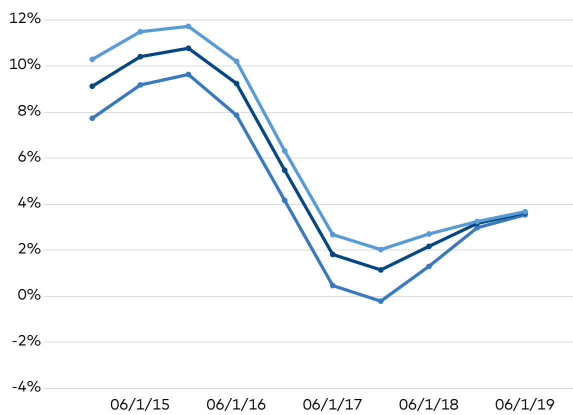
Sacramento



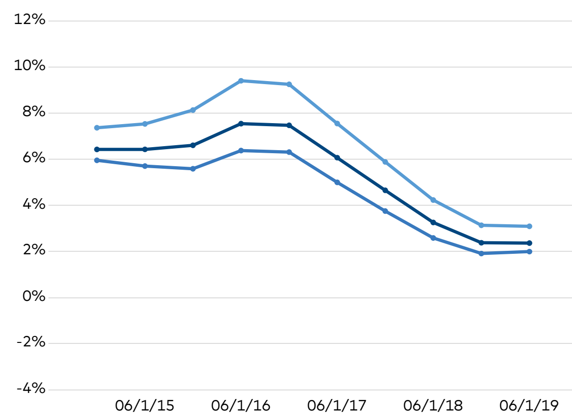
San Diego



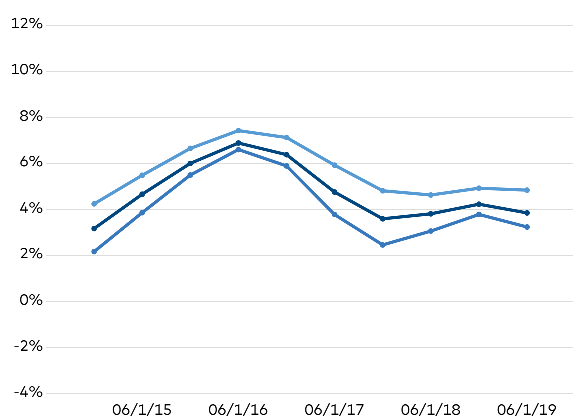
San Francisco



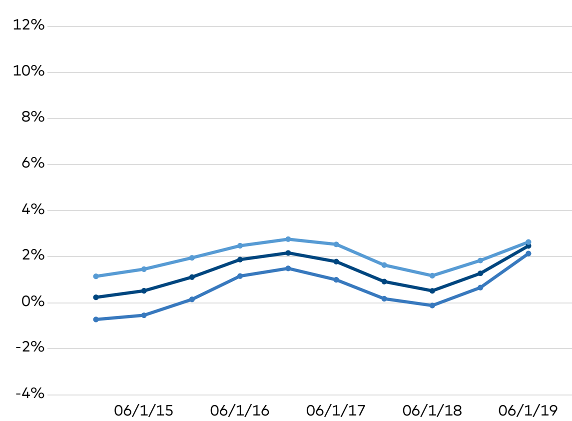
Seattle



Tampa



Washington, D.C.



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

Source: Yardi Matrix

Definitions

Reported Market Sets:

- National rent values and occupancy derived from core 60 markets with years of tracked data that makes a consistent basket of data
- All 133 markets, including any that have been recently released

Average Rents: Average Same-Store index rent (mean), rolled up from unit mix level to metro area level, weighted by units

Rent Growth, Year-Over-Year: Year-over-year change in average market rents, as calculated by same month

Rent Growth, Quarterly: Year-over-year change in average market rents, as calculated by same quarter average. Partially completed quarters are only compared to partial quarters.

Forecast Rent Growth: Year-over-year change in average forecasted market rents, as calculated by same month

Market rent: Converted rent that reflects of the effect of differences in relevant attributes that hold reasonably quantifiable value.

Actual (effective) rent: Monthly rate charged to residents to occupy an apartment and is shown as-is without additional concessions or adjustments.

Same-Store index rent: Rents adjusted to new supply as it joins the market

Employment Totals: Total employment figures and categories provided by Bureau of Labor Statistics, seasonally adjusted

Employment Data Geography: Comprises entirety of United States, which Matrix data covers 90% of US metro population. Reported information is for MSAs that overlap Matrix Markets.

Market: Generally corresponds to a Standard Metropolitan Statistical Area (SMSA), as defined by the United States Bureau of Statistics, though large SMSA are split into 2 or more Markets

Metro: 1 or more Matrix markets representing an economic area. Shown with combined Matrix markets when necessary, and do not necessarily fully overlap an SMSA.

Occupancy Rates: Ratio of occupied unit count and total unit count, as provided by phone surveys and postal records. Excludes exception properties: closed by disaster/renovation, affordable, and other relevant characteristics.

Completions as % of Total Stock: Ratio of number of units completed in past 12 months and total number of completed units

Ratings:

- Lifestyle/Renters by Choice
- Discretionary—has sufficient wealth to own but choose rent
- Renters by Necessity
- High Mid-Range—has substantial income but insufficient wealth to acquire home/condo
- Low Mid-Range—Office workers, police officers, technical workers, teachers, etc
- Workforce—blue-collar households, which may barely meet rent demands and likely pay distortional share of income toward rent
- Other Categories
- Student—may span range of income capability
- Military—subject to relocation
- Subsidized—Partially to fully subsidized by a governmental agency subsidy. Can extend to middle-income households in high-cost markets.

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.

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research & Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl
Institutional Research Manager
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Yardi® Matrix