Yardi® Matrix

Multifamily National Report

September 2019

Multifamily Growth Slows but Still Strong

- Multifamily rent growth flattened in September, as the average U.S. multifamily rent declined by $1 to $1,471. Year-over-year rent growth fell 20 basis points but remains at a healthy 3.2%.
- U.S. rents rose 0.3% in the third quarter of 2019, and rents have grown 2.9% through the first three quarters of 2019. That represents a slight slowdown from the same periods over the last few years, but the performance is very respectable compared to long-term historical trends.
- Las Vegas (6.8%), Phoenix (6.1%) and Sacramento (4.7%) remain unshakeable at the top of the metro rankings, but beyond those markets there is a lot of movement. For example, growth has moderated in Florida metros Tampa and Orlando (both 2.4%) and Miami (2.2%).

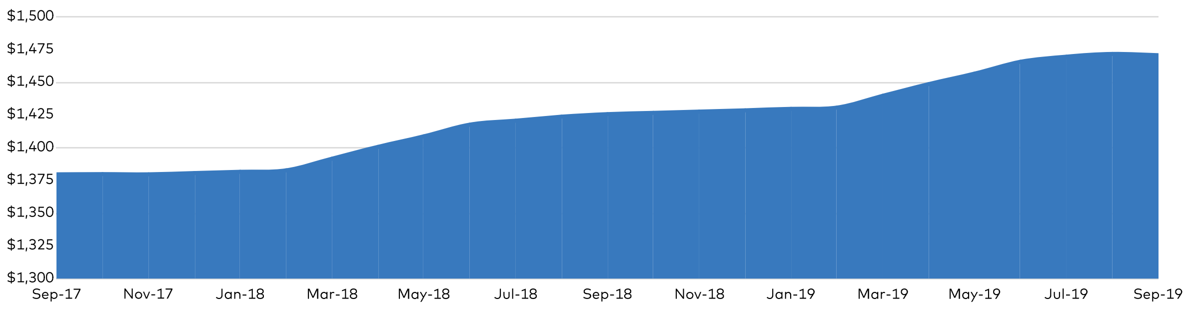
As volatility once again rears its head in the larger financial world, the multifamily market remains the picture of stability. Although the average U.S. multifamily rent was relatively flat—falling $1 to $1,471—in September, the market is on track for another year of above-average rent gains.

Now that three quarters are in the books, 2019 is looking to be another solid year. Rents nationally are up 2.9% year-to-date through September, so full-year growth is on track to reach 3.0% for the sixth time in the last seven years. Rents in the third quarter were up 0.3%, which is one of the weaker third-quarter performances in recent years, but there is no evidence to indicate that that slow, steady growth will not continue for a while. On a metro level, Houston is the only major city that has consistently underperformed its long-term history.

Contrast the recent up-and-down of the stock and bond markets with the consistent growth in the multifamily industry, and it's easy to see why investor demand for apartments remains so strong. While financial markets have also gained this year, over the last four quarters economic growth has declined, and the equity market news has gyrated daily over news about trade, manufacturing and global growth. That has caused (at times) short-term bond yields to increase above those of long-term bonds.

Meanwhile, apartment rents have increased by at least the 2.5% long-term average for seven years running, with no signs that this will slow down. The average national occupancy rate has been above 95.0% for several years, and housing trends would indicate that demand will remain strong for some time to come. Add to that the recent news that the government will support multifamily financing though the end of 2020 (more on that later), and it's no wonder that investors looking for a safe haven and surprise-free returns have identified multifamily as an asset class in which to increase allocations.

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.

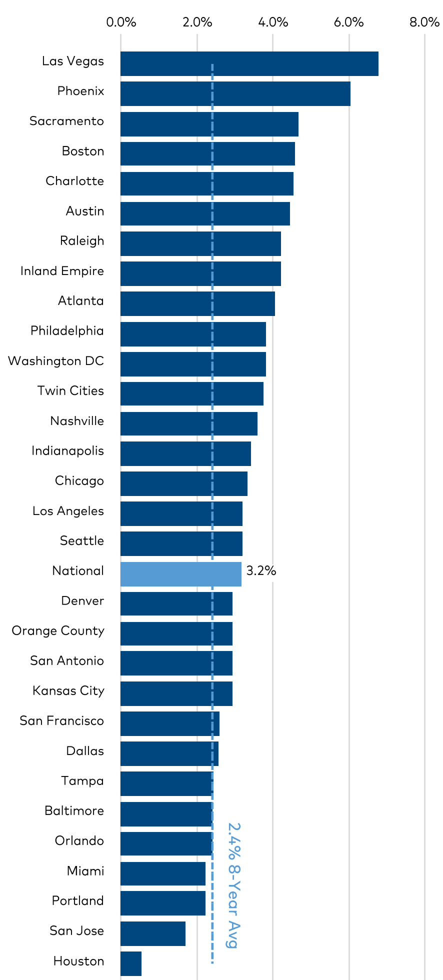
Year-Over-Year Rent Growth
Research, Tech Cities Grow; Desert Southwest Dominates

- Rent growth decelerated 20 basis points to 3.2% nationwide on a year-over-year basis in September. Despite the slight reduction in growth, rents will likely remain steady through the fall and winter months as demand is elevated and new supply gets absorbed.

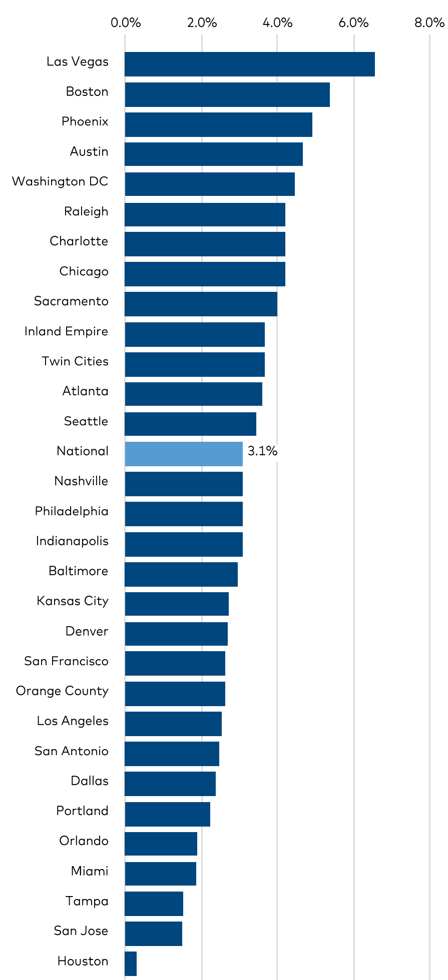
- While Las Vegas (6.8%) and Phoenix (6.1%) remain atop our rankings, Boston (4.6%), Austin (4.4%) and Raleigh (4.2%) all rank among the top 10 rent growth markets. These cities, known for their acclaimed universities and high-paying research and technology jobs, have the demographic and economic fundamentals to sustain rent growth even in the face of fairly heavy new-supply additions.

- The rent growth spread between RBN (3.3%) and Lifestyle (3.1%) continues to narrow and has now reached its closest point in eight years. The parity indicates a strong and stable growth trajectory throughout the multifamily industry.

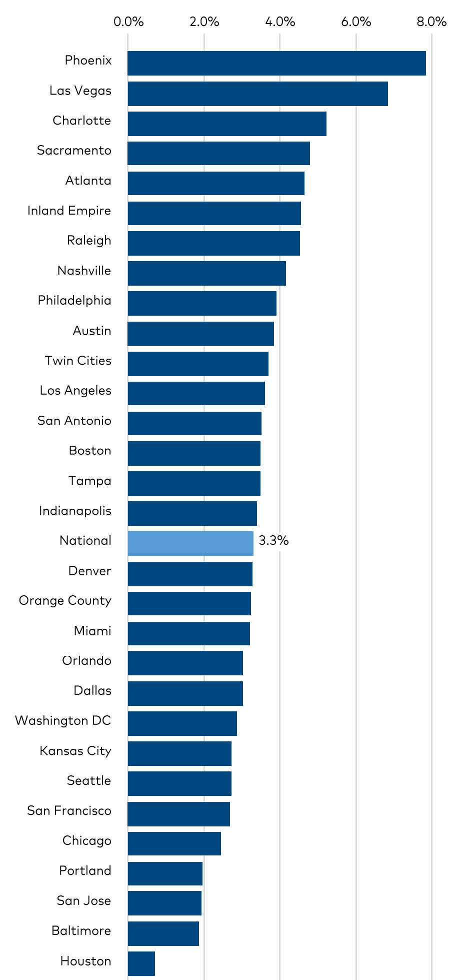
Year-Over-Year Rent Growth— All Asset Classes



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 Returns; Largest Gains in Southern California

- Rent growth cooled to 0.1% on a trailing three-month (T-3) basis in September, decelerating from 0.3% in August.

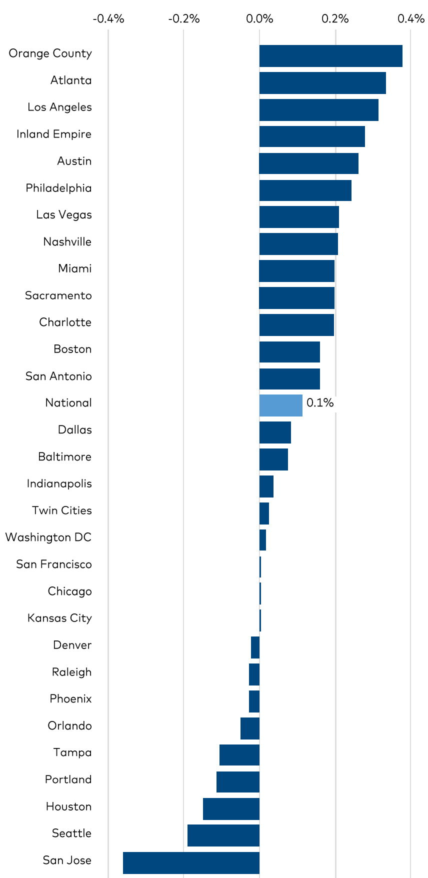
- As the calendar turns to fall, T-3 rent growth has turned negative in a few markets. It will likely impact additional markets through the remainder of 2019.

Rents increased 0.1% nationally on a trailing 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.

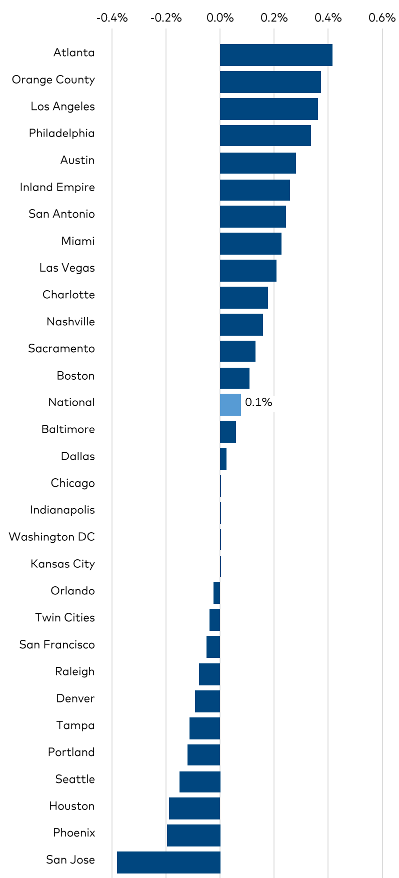
Traditionally, seasonality has had a downward impact on multifamily rents during the last few months of the year, and 2019 appears headed for the same trend. T-3 rent growth was flat or negative in 16 of the top 30 markets, one month after rents grew in all 30 markets. Orange County (0.4%), the Inland Empire and Los Angeles (both 0.3%) were the strongest-performing markets on a T-3 basis, despite high costs of living and newly enacted rent control legislation. For the second consecutive month, Lifestyle and RBN units had equal rent growth (0.1%) on a T-3 basis.

San Jose (-0.4%) fell to the bottom of the rankings, and rents decelerated significantly on a year-over-year basis as well, an indication that the sky-high rents may be under pressure in the Bay Area.

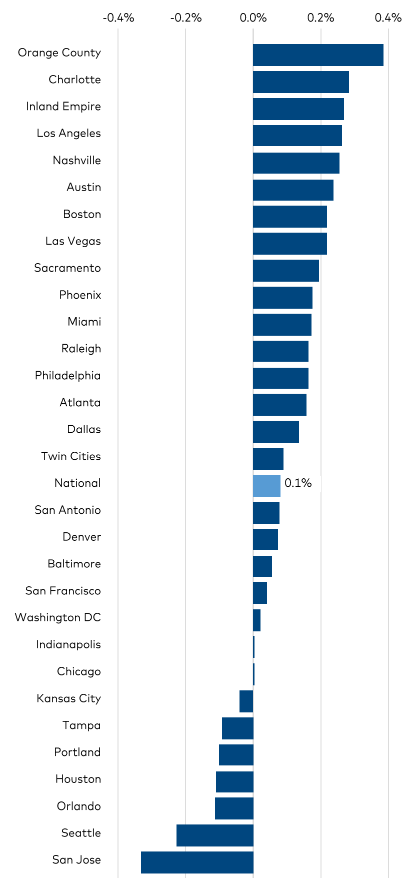
Trailing 3 Months Sequential—All Asset Classes



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

- The FHFA and Treasury Department recently announced plans to take Fannie Mae and Freddie Mac out of conservatorship and reduce their market share. The agencies have dominated the apartment lending market since the financial crisis.
- While details are worked out in Congress and with capital markets stakeholders, Fannie and Freddie will continue lending at record levels.
- The plan will avoid disruption in the housing market, though lenders that want to increase market share may be disappointed.

Government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac will soon be able to keep their profits (up to a limit), a big step in the Trump administration's plan to lift them out of conservatorship and reduce their footprint in the market.

The Sept. 30 announcement by the Federal Housing Finance Agency will end the profit sweep in which the federal Treasury received the two GSEs' profits. The sweep was implemented in 2011 to repay the government's bailout of Fannie and Freddie in the wake of the 2008 financial crisis. However, the agencies have long since paid back the capital—the government has taken about $300 billion of profits, nearly twice what it spent to prop up the GSEs.

A plan to reform the agencies was introduced in the last month by the FHFA and Treasury Department. The plan encompasses removing Fannie and Freddie from conservatorship, recapitalizing them, and subjecting them to capital requirements that put them on more equal footing with competitors. The FHFA will allow the GSEs to retain a combined $45 billion in capital, which is a first step, but far from their eventual need to operate independently.

Since the financial crisis, Fannie and Freddie have played an increasingly large role in financing multifamily properties, originating about 45% of all apartment loans in the last two years. The agencies' share of the total outstanding multifamily debt had increased to 40 percent at year-end 2018, up from 25 percent in 2007. The GSEs generated roughly $145 billion of loans through their correspondent programs in 2018, up from about $55 billion in 2013.

The goal of the reform plan announced last month involves shrinking the agencies' role in the multifamily market, but in the near term they will be able to lend at current record levels. The FHFA will allow them each to originate $20 billion per quarter through the end of 2020, essentially setting volume at a combined $160 billion for 2020.

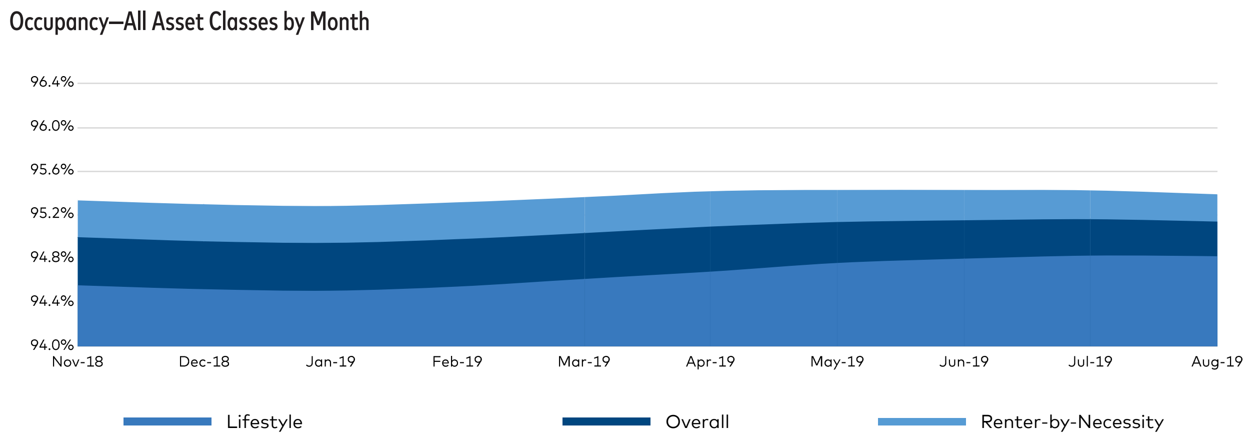
A healthy capital market has been a key to the strong performance of the multifamily sector in this economic cycle. Coming out of the financial crisis, multifamily had an advantage over the other commercial property types, as it had a source of financing that wasn't as easily available to offices or malls or industrial properties. Today, there are plenty of lenders that would like to increase market share, but the Treasury elected to keep the status quo while a long-term plan to clarify the agencies' role is worked out.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Sept - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of July - 19	Completions as % of Total Stock as of Sept - 19	Occupancy Rates as of August - 18	Occupancy Rates as of August - 19
Las Vegas	6.8%	7.6%	2.5%	1.2%	94.9%	95.4%
Seattle	3.2%	6.5%	2.8%	5.0%	95.5%	95.8%
Phoenix	6.1%	6.3%	3.0%	2.6%	95.2%	95.3%
Boston	4.6%	6.1%	0.8%	3.1%	96.4%	96.4%
Charlotte	4.5%	6.1%	2.5%	4.4%	95.1%	95.2%
Raleigh	4.2%	5.8%	1.2%	2.7%	94.8%	94.7%
Sacramento	4.7%	5.7%	2.3%	0.8%	96.3%	96.4%
Nashville	3.6%	5.7%	2.5%	4.2%	95.1%	95.3%
Austin	4.4%	5.1%	2.3%	3.8%	94.9%	94.9%
San Jose	1.7%	4.8%	2.5%	2.1%	95.9%	95.9%
Portland	2.2%	4.8%	2.0%	2.7%	95.8%	95.7%
Orlando	2.4%	4.8%	3.7%	2.6%	95.7%	95.1%
Twin Cities	3.8%	4.7%	0.1%	2.5%	97.1%	96.9%
Atlanta	4.1%	4.7%	2.1%	2.1%	94.4%	94.2%
Washington DC	3.8%	4.6%	0.9%	2.0%	95.5%	95.6%
San Francisco	2.6%	4.6%	2.3%	2.2%	96.1%	95.8%
Inland Empire	4.2%	4.5%	1.8%	1.2%	96.2%	96.1%
Chicago	3.3%	4.4%	1.4%	2.7%	94.7%	94.6%
Philadelphia	3.8%	4.4%	1.2%	0.7%	95.8%	95.7%
Tampa	2.4%	4.3%	2.2%	3.0%	95.4%	94.9%
Indianapolis	3.4%	4.1%	0.7%	1.4%	94.5%	94.5%
San Antonio	2.9%	4.0%	1.9%	2.3%	93.1%	93.2%
Kansas City	2.9%	3.9%	1.3%	2.8%	95.0%	95.0%
Denver	2.9%	3.8%	1.7%	4.4%	95.3%	95.2%
Los Angeles	3.2%	3.8%	1.1%	2.3%	96.6%	96.4%
Dallas	2.6%	3.3%	3.1%	2.5%	94.6%	94.4%
Baltimore	2.4%	3.3%	0.8%	1.0%	94.6%	95.0%
Miami Metro	2.2%	3.2%	2.2%	3.9%	95.2%	95.1%
Orange County	2.9%	2.7%	1.2%	1.4%	96.0%	96.0%
Houston	0.5%	2.0%	2.7%	1.2%	93.3%	93.0%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

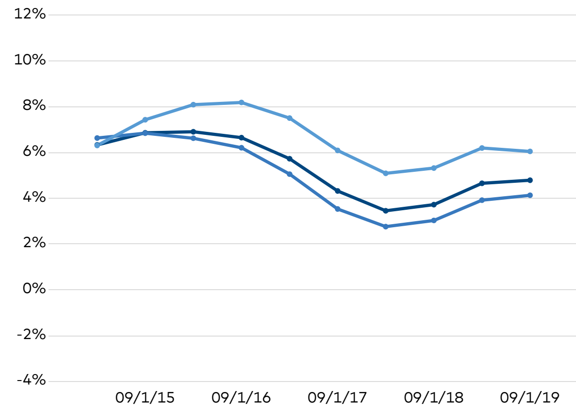
Year-Over-Year Rent Growth, Other Markets

Market	September 2019		
	Overall	Lifestyle	Renter-by-Necessity
Tacoma	5.3%	5.4%	4.8%
Colorado Springs	5.2%	4.3%	6.6%
Tucson	5.1%	4.5%	5.4%
Long Island	5.0%	5.0%	5.0%
Louisville	4.3%	3.6%	4.6%
Albuquerque	4.3%	5.1%	3.8%
NC Triad	4.1%	4.6%	3.8%
Central Valley	4.0%	1.3%	4.7%
Indianapolis	3.4%	3.1%	3.4%
St. Louis	3.3%	2.0%	3.9%
San Fernando Valley	3.0%	3.0%	3.1%
Bridgeport–New Haven	2.8%	3.5%	2.3%
Salt Lake City	2.6%	1.7%	3.4%
Northern New Jersey	2.2%	1.6%	2.9%
Central East Texas	1.8%	1.3%	2.4%
Reno	1.3%	0.1%	2.4%
El Paso	1.2%	0.3%	1.4%
SW Florida Coast	0.8%	0.7%	1.3%

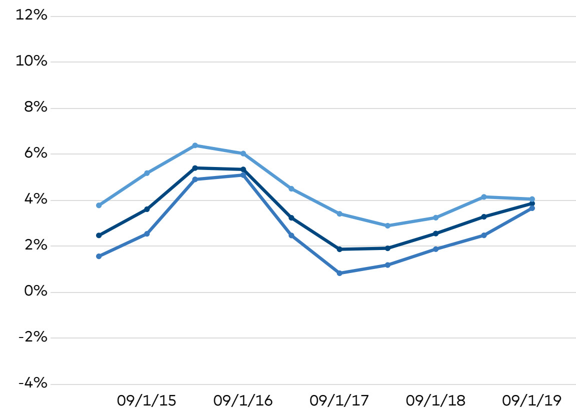
Source: Yardi Matrix

Market Rent Growth by Asset Class

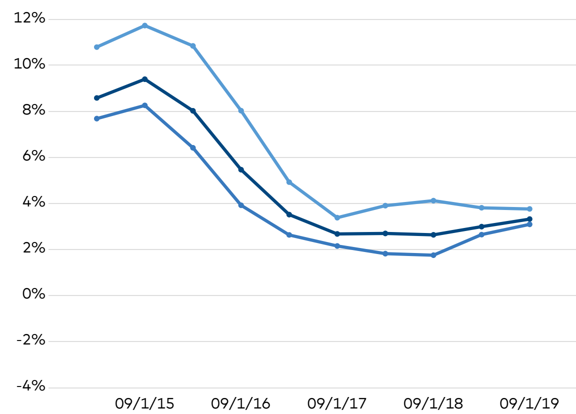
Atlanta



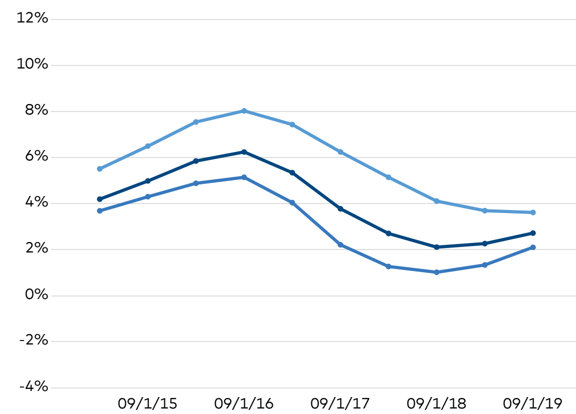
Boston



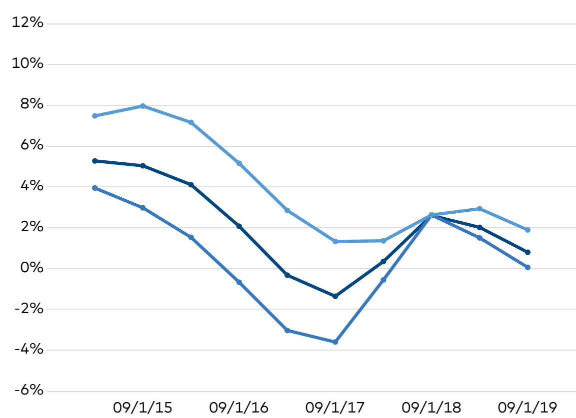
Denver



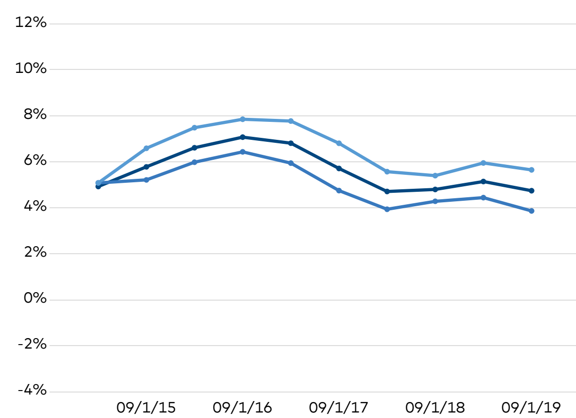
Dallas



Houston



Inland Empire

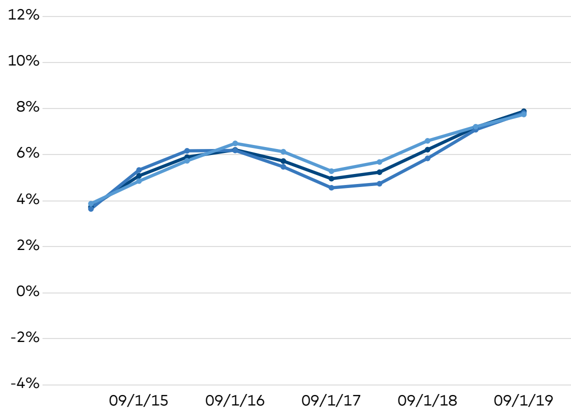


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

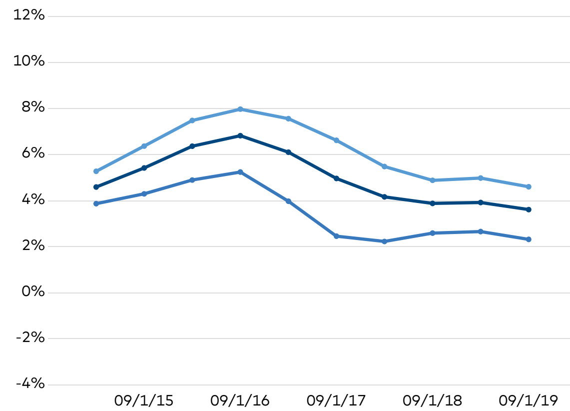
Source: Yardi Matrix

Market Rent Growth by Asset Class

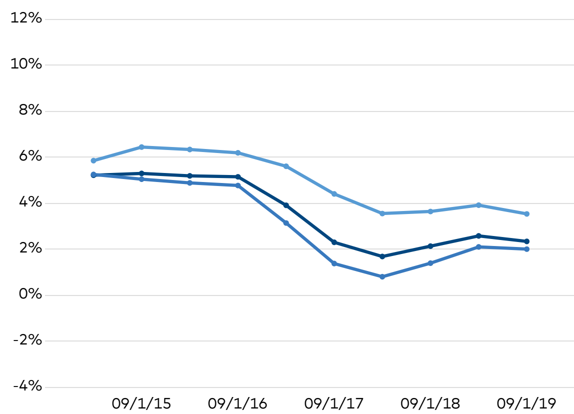
Las Vegas



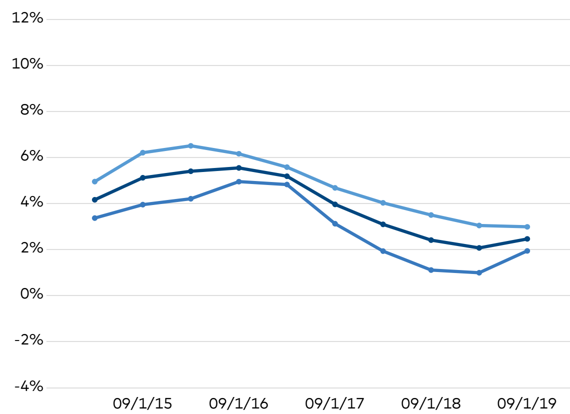
Los Angeles



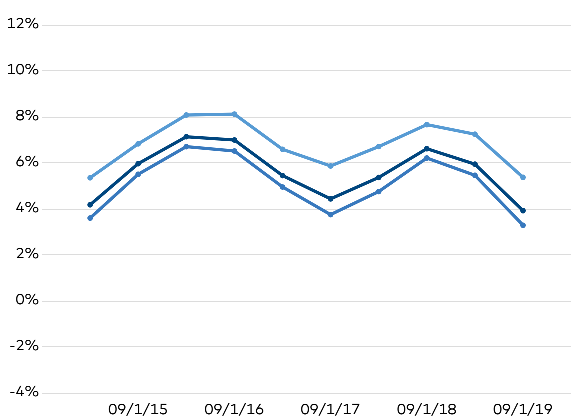
Miami



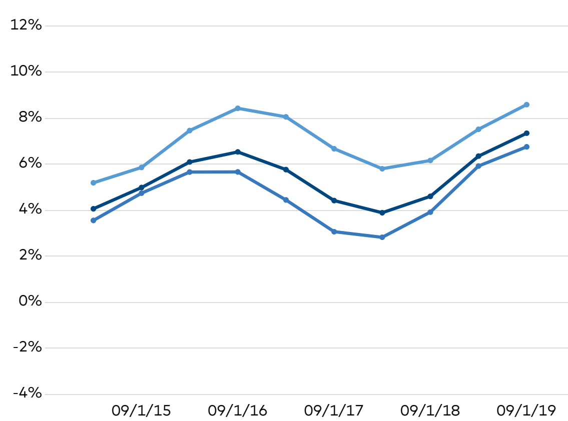
Orange County



Orlando



Phoenix

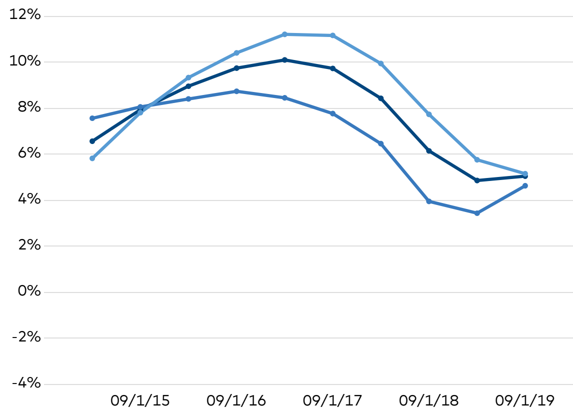


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

Source: Yardi Matrix

Market Rent Growth by Asset Class

Sacramento



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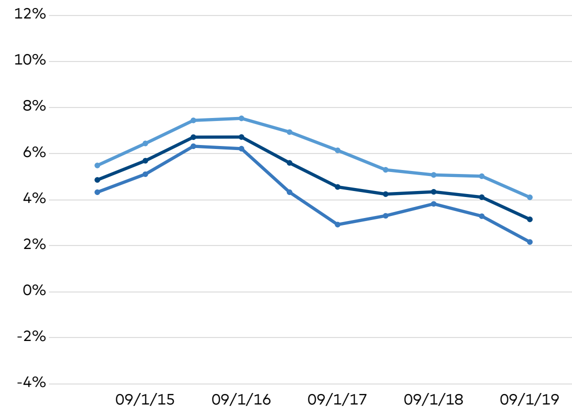
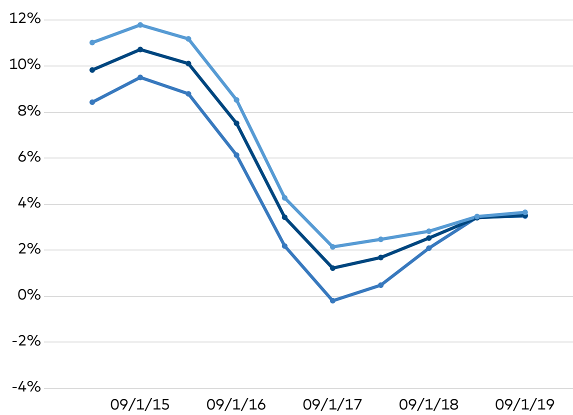
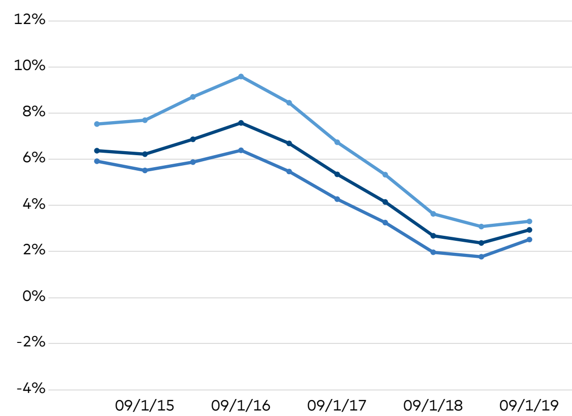


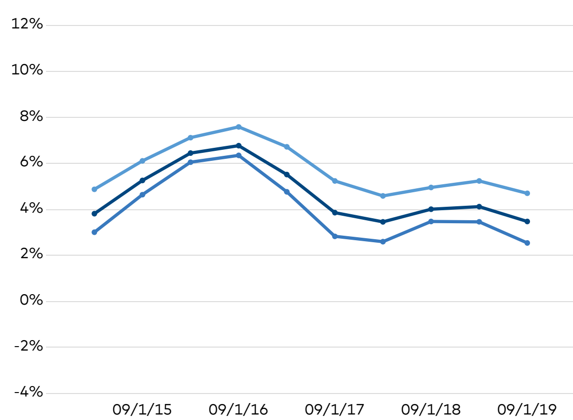
San Francisco



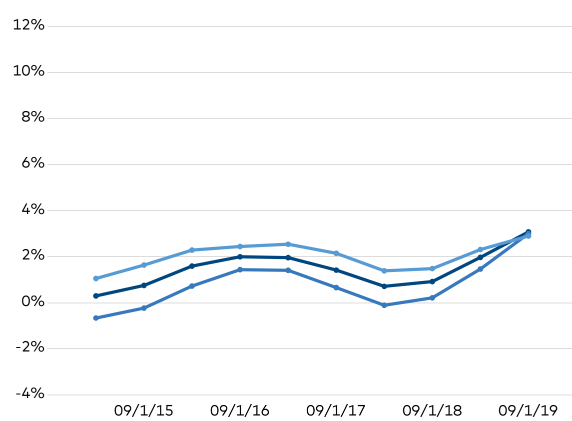
Seattle



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

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