Yardi® Matrix

Multifamily National Report

October 2019

Healthy Demand Buoys Multifamily Growth

- Multifamily rent growth inched upward in October, as the average U.S. multifamily rent increased by $1 to $1,476. Year-over-year rent growth remained at 3.2%.
- Although subject to some seasonality by metro, the multifamily market continues to consistently produce strong rent growth. Of the 30 major markets covered here, 17 saw year-over-year rent growth of at least 3.3% and only two (San Jose and Houston) were much below the 2.5% long-term average.
- The extended period of good performance has produced one bad side effect: legislation enacted in three states to limit rent growth and pressure to act in more states. After a period of below-par growth in housing stock, the U.S. needs more units built, but rent control moves the needle in the opposite direction.

The multifamily market continued its strong performance into the fourth quarter, as demand remains almost insatiable. Average U.S. rents rose $1 in October to $1,476, reaching yet another all-time high, and year-over-year growth has been at least 3.0% for more than a year.

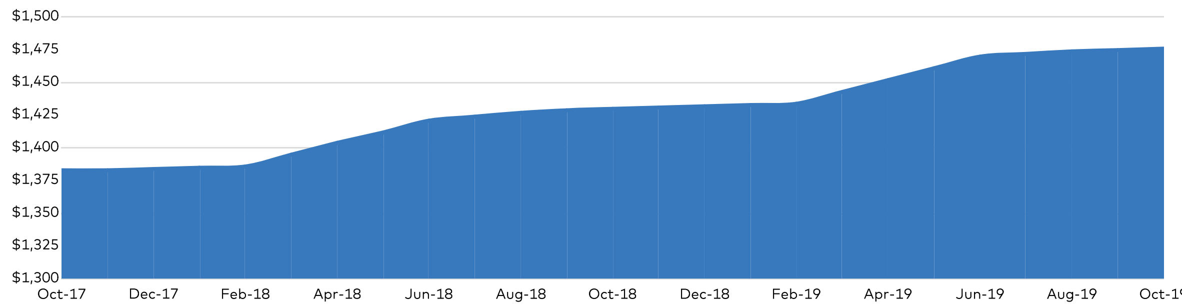
There is more seasonality displayed on the metro level, but other than Houston, no metro has remained near the bottom of our rankings for long. Those among the top gainers for years include Phoenix (7.9%), Las Vegas (6.4%) and Sacramento (4.8%). Those consistently above-trend but a notch below the leaders include Raleigh (5.1%), the Inland Empire (4.9%) and Charlotte (4.8%).

Nashville (4.6%) and Austin (4.3%) are high-growth metros that have had some seasonal weakness over the last 12 months but have bounced back due to exceptionally strong demand. Both have increased occupancy rates of stabilized properties year-over-year through September (Nashville by 60 basis points to 95.5% and Austin by 20 basis points to 95.0%) due to strong demand despite very active supply growth. In fact, both metros absorbed more than 4.2% of stock over the last 12 months.

Seattle, which celebrates its Major League Soccer championship this week, is the poster child for robust demand. The metro managed to increase occupancy by 40 basis points to 95.8% over the last year despite increasing total stock by more than 5.0%. Seattle led the nation in net absoption during that time at more than 14,000 units. The growth can continue as long as technology giants keep growing and Seattle remains popular among young knowledge workers.

One metro in a seasonal slump is San Jose. Rent growth in the metro fell to 1.2% year-over-year, matching Houston for last place. But fundamentals remain healthy, so the dip is likely based on affordability and should be temporary.

National Average Rents



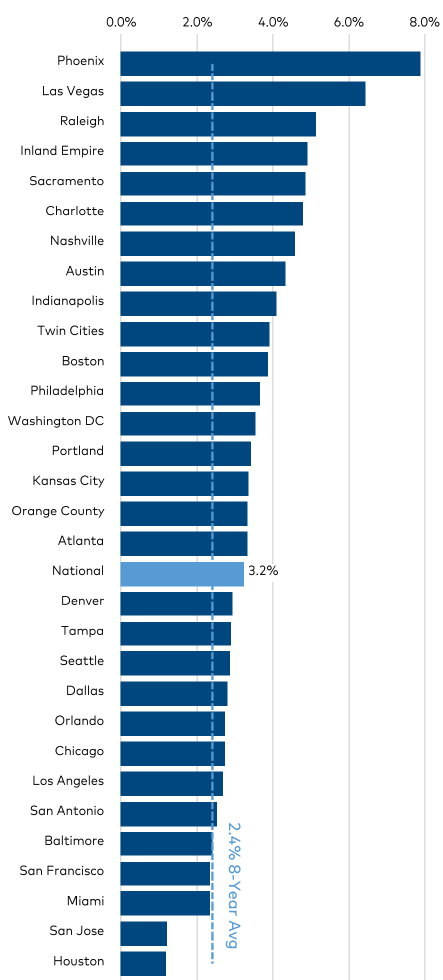
National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

Year-Over-Year Rent Growth
Strong Rent Growth in Southeast Despite High Supply

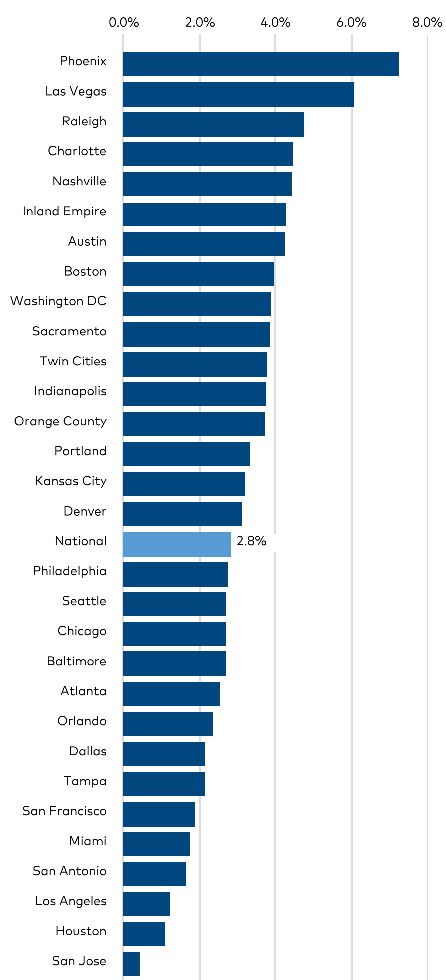
- Rent growth remained strong, increasing 3.2% nationwide on a year-over-year basis in October. Rent growth has been steady for the past few months, after decelerating from a 2019 high of 3.5% in May. The fourth quarter is often a slower time for rent growth, but continuous demand and a slowly growing economy will likely keep rent growth above its long-term average.

- Phoenix (7.9%) and Las Vegas (6.4%) remain at the top of our rankings. However, three Southeastern markets that have absorbed significant amounts of new supply have recently re-entered the top 10. Raleigh (5.1%), Charlotte (4.8%) and Nashville (4.6%) have some of the strongest demographic demand for multifamily housing in the nation, but high deliveries had weighed on rent growth for much of the past few years. However, absorption remains very strong, and rents are growing accordingly. Austin (4.3%) is another market, with similar supply and demand characteristics, that is once again outperforming from a rent growth perspective.

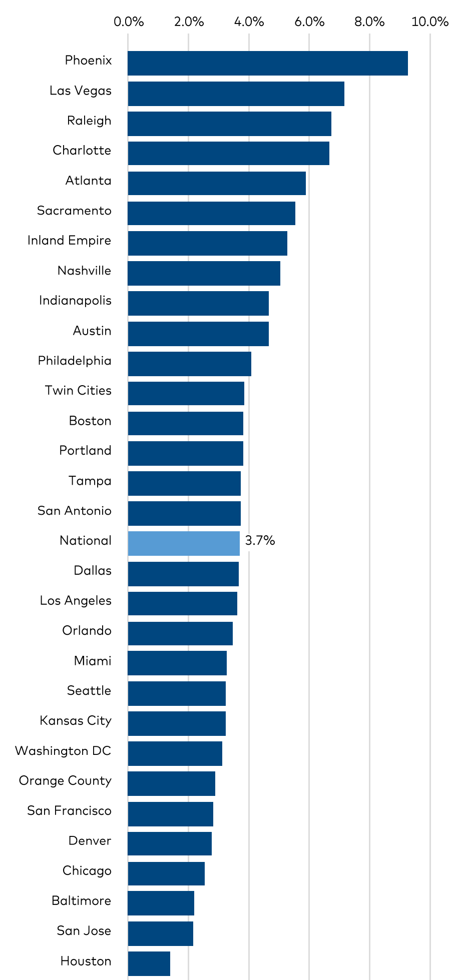
Year-Over-Year Rent Growth—All Asset Classes



Year-Over-Year Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

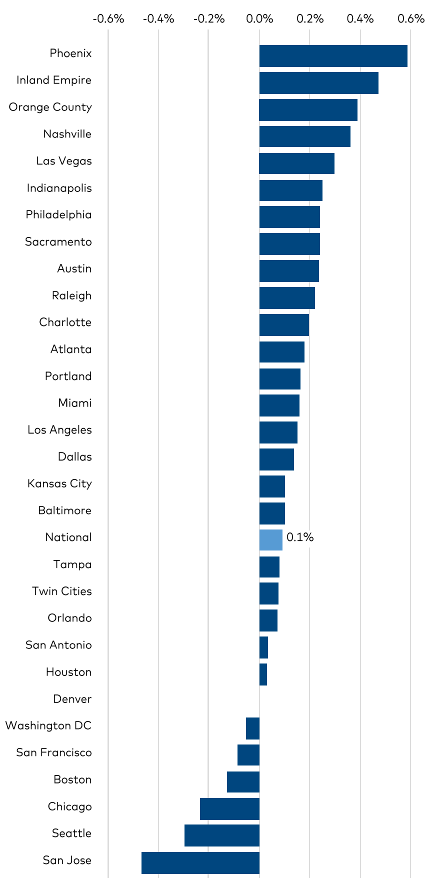
Trailing 3 Months: Short-term Volatility in Tech Markets

- Rent growth remained level, increasing 0.1% on a trailing three-month (T-3) basis in October.
- Southern and Western markets increased the fastest, while tech markets including San Jose, Seattle, Boston and San Francisco slowed the most.

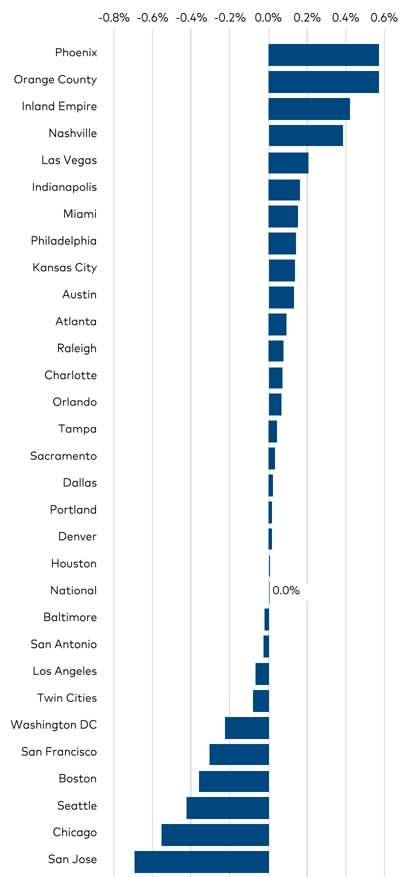
Rents increased 0.1% nationally on a trailing T-3 basis, which compares the last three months to the previous three months. The T-3 ranking demonstrates short-term changes and not necessarily long-term trends.

Q4 usually brings slower rent growth in most markets, although warm-weather metros are sometimes immune to seasonality. Phoenix (0.6%), the Inland Empire (0.5%) and Orange County (0.4%) led all markets in T-3 rent growth, and seven of the top 10 markets were in warm climates. Major tech markets including San Jose (-0.5%), Seattle (-0.3%), Boston and San Francisco (-0.1%) saw the sharpest declines in October. These same tech markets have also been the most volatile on a short-term basis, as they were at or near the top of the T-3 rankings a few months ago. With the high competition for top tech talent in these markets, there seems to be a correlation with rapidly growing rents in the summer, when recent graduates are moving and finding their first job, followed by a significant seasonal slowdown.

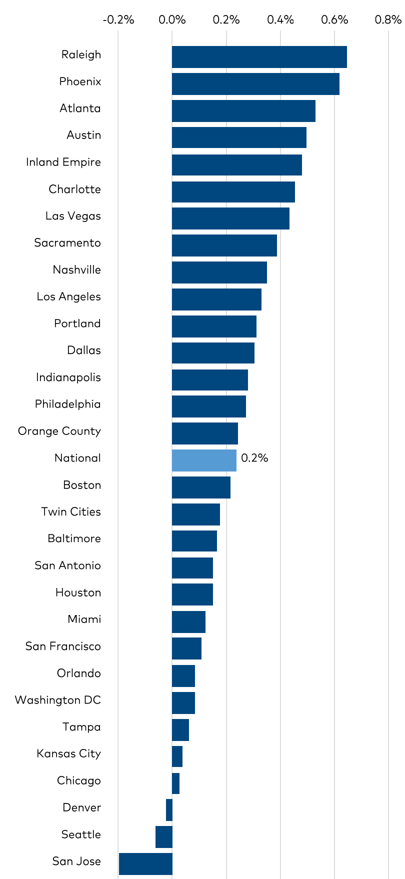
Trailing 3 Months Sequential—All Asset Classes



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

- Strong growth in multifamily rents during the current economic cycle has led to an increase in rent-burdened households and political pressure to act.
- So far this year, Oregon, New York and California have passed measures to limit rent increases, and more than a dozen other states are considering laws.
- Rent control has proven to be a counterproductive solution in that it reduces investment and limits badly needed new supply.

Multifamily sector performance has been stellar for years, with the average U.S. apartment rent up by 32% since January 2012, according to Yardi Matrix. That success has created pressure for legislation to put a lid on rent growth. Rent growth means the number of rent-burdened households is rising. More than 20 million renter households spend over 30% of income on housing, and 80% of renters and 63% of owners making less than $30,000 are cost burdened, according to the Joint Center for Housing Studies at Harvard University.

Over the past year, legislators in three states—Oregon, New York and California—have passed rent control measures, and more than a dozen other states are considering legislation to limit rent growth. Oregon's rent control law is the least onerous, allowing landlords of properties 15 years or older to increase rents by 7% plus the cost of inflation. California's rent control law sets its rent cap at 5% plus the cost of inflation, also for properties 15 years or older. In addition, California made it more difficult to evict tenants.

New York's law is much more punitive. Owners formerly had the ability to raise rents by 20 percent when stabilized units were vacated, and they were able to deregulate units when rents reached $2,775 and/or the tenants had an income of $200,000 per year for at least two years. Now increases are limited to an index set by a New York City rent board, historically 1-2% annually.

Owners also used to be able to increase rents in conjunction with capital improvements to properties. Now, however, landlords can only get rent increases on $15,000 of improvements over a 15-year period. If landlords can't recoup capital spent on improvements, they won't make the improvements or will do it with lesser-quality materials.

It's possible to overstate the short-term impact of rent control on the institutional CRE market, but these laws are likely to prove counterproductive over time. Limiting rents on tenants that stay in place increases the cost burden on those who move or enter the market for the first time. It limits the amount of new development, which exacerbates affordability by decreasing the amount of stock. What's more, if repairs aren't funded, it will lead to a deterioration of existing stock.

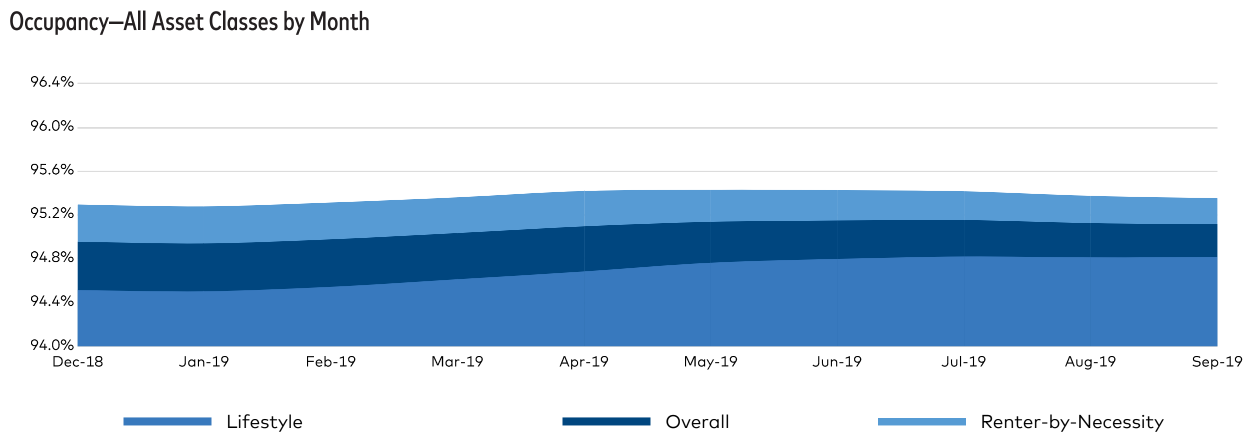
Legislatures need to address the affordable housing crisis, but the best solution involves making it easier to build units that low- and middle-class households can afford. That means reducing exclusionary zoning, allowing more density, alleviating red tape and fees for developers, and subsidizing developments.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Oct - 19	YoY Job Growth (6-mo. moving avg.) as of Sept - 19	Completions as % of Total Stock as of Oct - 19	Occupancy Rates as of Sept - 18	Occupancy Rates as of Sept - 19
Las Vegas	6.4%	2.3%	1.4%	95.1%	95.1%
Phoenix	7.9%	2.9%	3.0%	95.2%	95.1%
Seattle	2.9%	3.1%	5.1%	95.4%	95.8%
Boston	3.9%	1.2%	2.1%	96.4%	96.6%
Charlotte	4.8%	2.5%	4.1%	95.1%	95.1%
Raleigh	5.1%	1.4%	3.3%	94.8%	94.8%
Sacramento	4.8%	1.8%	0.7%	96.2%	96.3%
Austin	4.3%	2.2%	3.5%	94.8%	95.0%
Nashville	4.6%	2.1%	3.2%	94.9%	95.5%
Portland	3.4%	2.0%	2.4%	95.7%	95.8%
Washington DC	3.5%	1.0%	2.0%	95.5%	95.6%
Atlanta	3.3%	1.9%	2.3%	94.4%	94.2%
Inland Empire	4.9%	2.1%	1.0%	96.1%	96.0%
Chicago	2.7%	1.3%	2.8%	94.6%	94.7%
Philadelphia	3.7%	1.2%	0.8%	95.7%	95.8%
Orlando	2.8%	3.7%	2.7%	95.5%	95.1%
Twin Cities	3.9%	0.1%	2.5%	97.0%	96.9%
San Francisco	2.4%	2.3%	2.1%	96.1%	95.8%
Los Angeles	2.7%	1.2%	2.3%	96.6%	96.4%
San Antonio	2.5%	2.0%	2.3%	93.2%	93.1%
Tampa	2.9%	2.1%	3.1%	95.3%	94.9%
Indianapolis	4.1%	0.8%	1.5%	94.5%	94.4%
Kansas City	3.3%	1.5%	2.4%	94.9%	94.9%
San Jose	1.2%	2.6%	2.1%	95.7%	95.9%
Denver	2.9%	1.7%	4.4%	95.1%	95.1%
Dallas	2.8%	3.2%	2.7%	94.5%	94.4%
Baltimore	2.4%	0.9%	1.1%	94.6%	95.0%
Miami Metro	2.4%	2.2%	3.7%	95.1%	95.0%
Orange County	3.3%	1.2%	1.3%	96.0%	96.0%
Houston	1.2%	2.8%	1.2%	93.1%	93.0%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

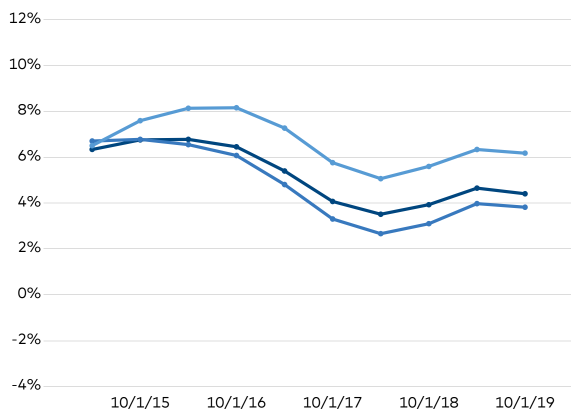
Year-Over-Year Rent Growth, Other Markets

Market	October 2019		
	Overall	Lifestyle	Renter-by-Necessity
Colorado Springs	6.3%	5.4%	7.6%
Albuquerque	6.2%	7.6%	5.4%
Tucson	6.0%	4.4%	6.6%
Central Valley	5.6%	3.2%	6.1%
Tacoma	5.6%	5.2%	5.9%
NC Triad	5.1%	5.4%	5.0%
Long Island	4.4%	3.0%	5.0%
Indianapolis	4.1%	3.7%	4.7%
St. Louis	4.0%	3.0%	4.6%
Louisville	3.5%	2.5%	4.3%
Salt Lake City	3.4%	2.2%	4.1%
San Fernando Valley	3.2%	3.1%	3.3%
Reno	2.8%	1.1%	4.1%
Bridgeport-New Haven	2.5%	2.2%	2.9%
Central East Texas	2.3%	2.0%	2.7%
El Paso	2.2%	1.7%	2.2%
Northern New Jersey	2.1%	1.4%	3.1%
SW Florida Coast	1.1%	0.8%	1.5%

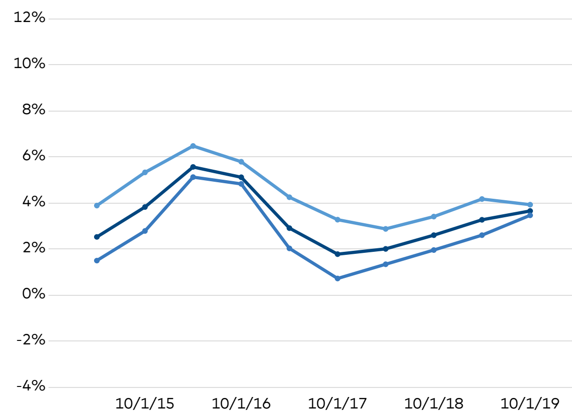
Source: Yardi Matrix

Market Rent Growth by Asset Class

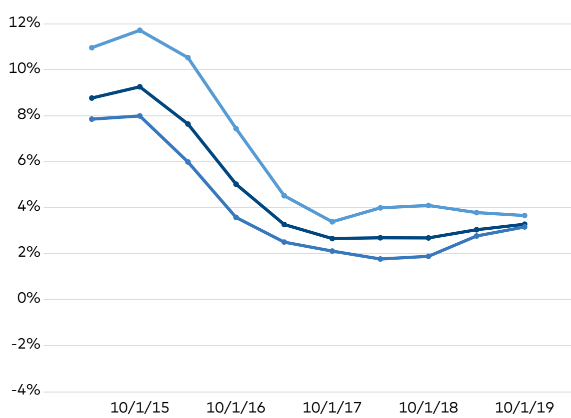
Atlanta



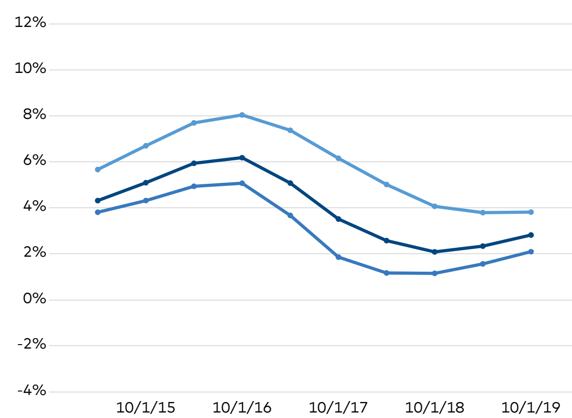
Boston



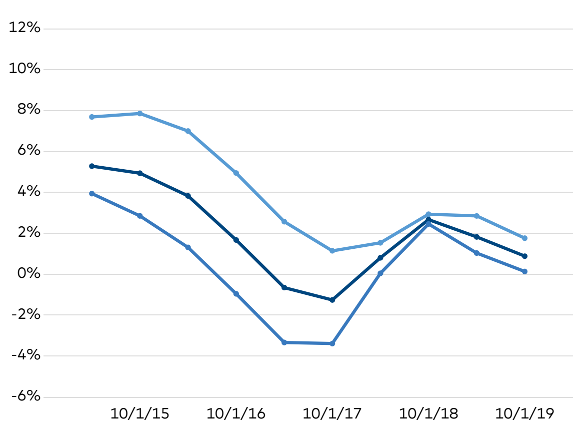
Denver



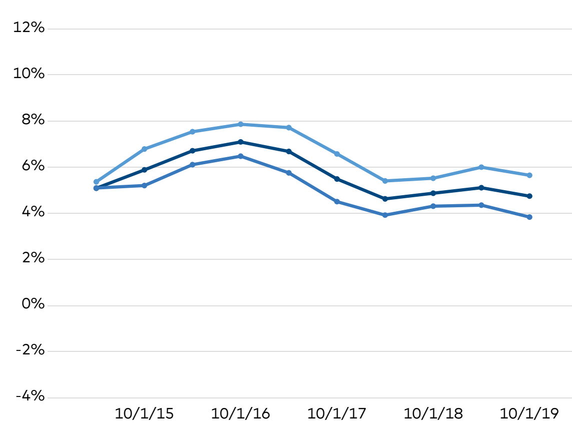
Dallas



Houston



Inland Empire

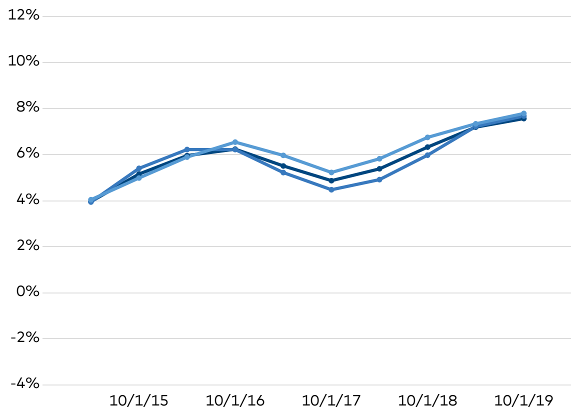


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

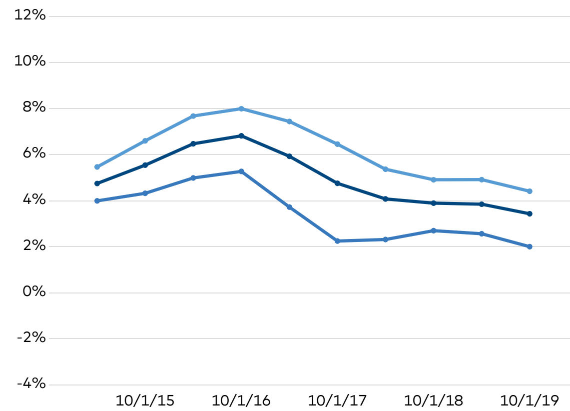
Source: Yardi Matrix

Market Rent Growth by Asset Class

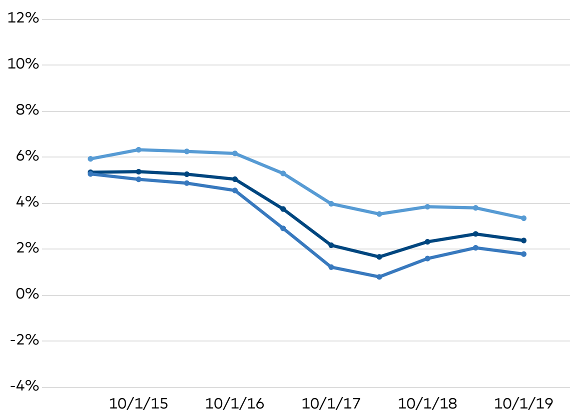
Las Vegas



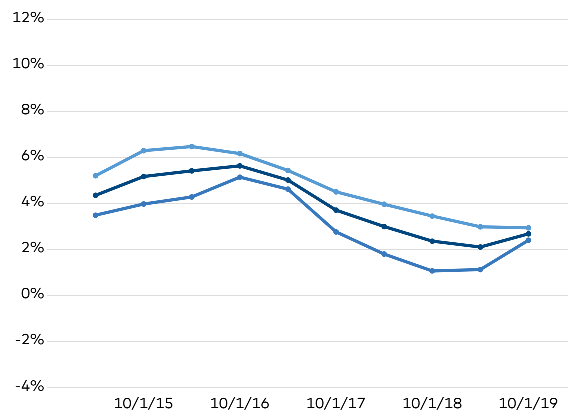
Los Angeles



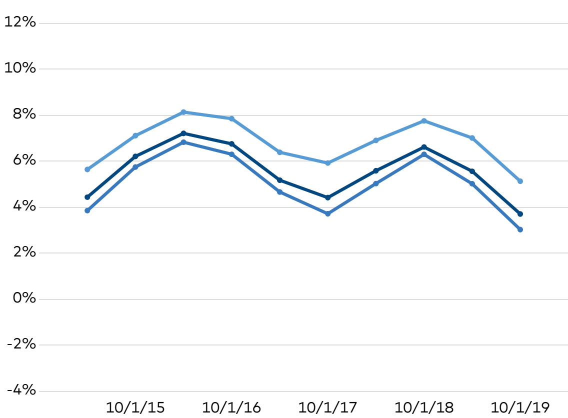
Miami



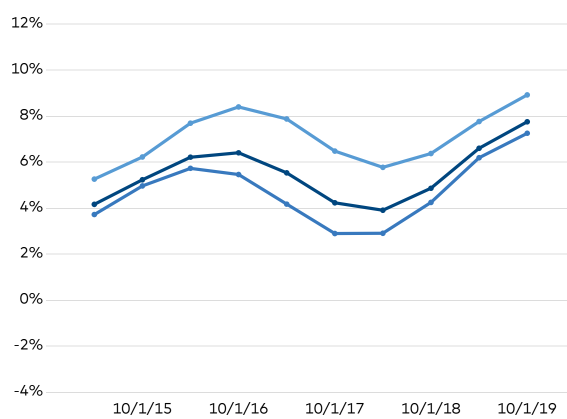
Orange County



Orlando



Phoenix

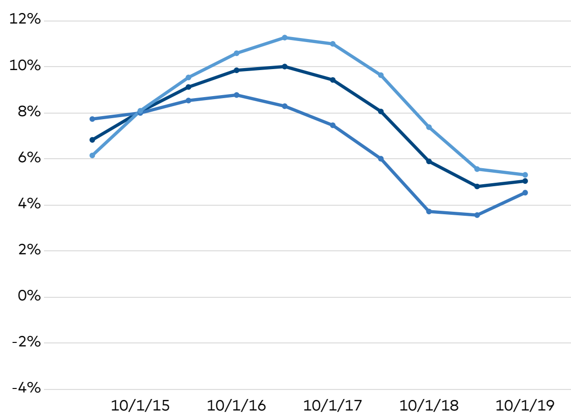


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

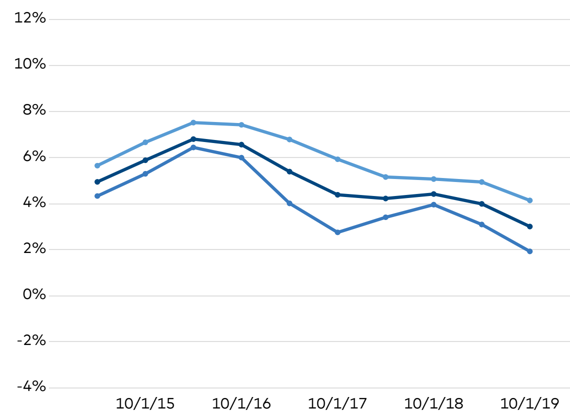
Source: Yardi Matrix

Market Rent Growth by Asset Class

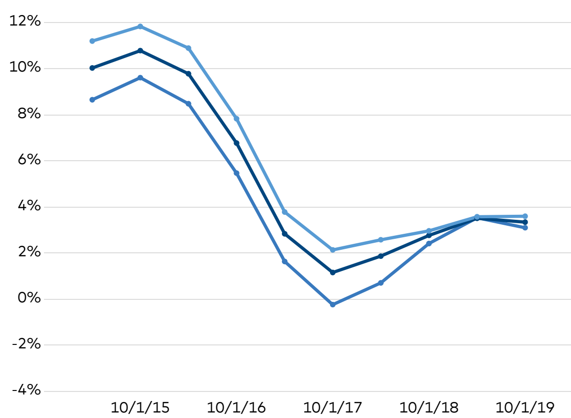
Sacramento



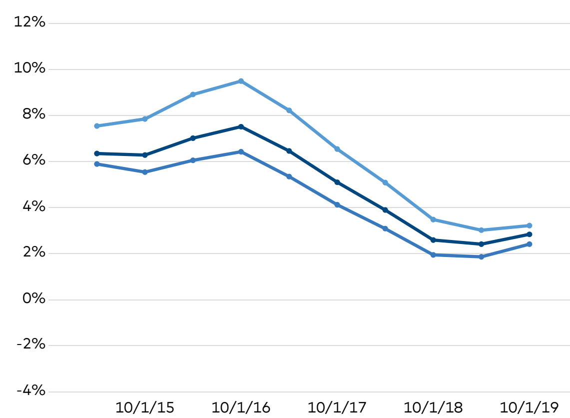
San Diego



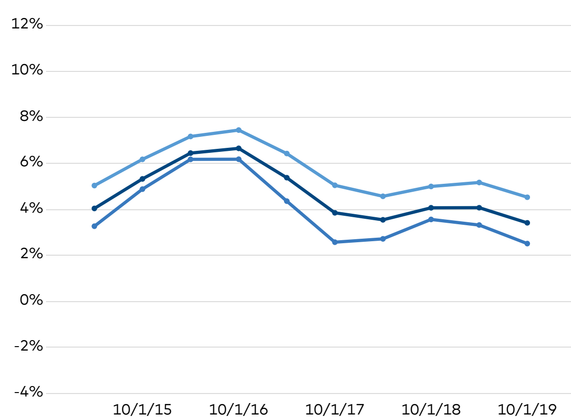
San Francisco



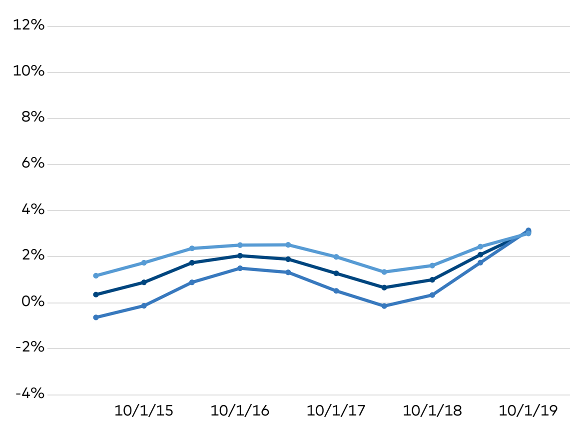
Seattle



Tampa



Washington, D.C.



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

Source: Yardi Matrix

Definitions

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.

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