Rent Survey | January 2017

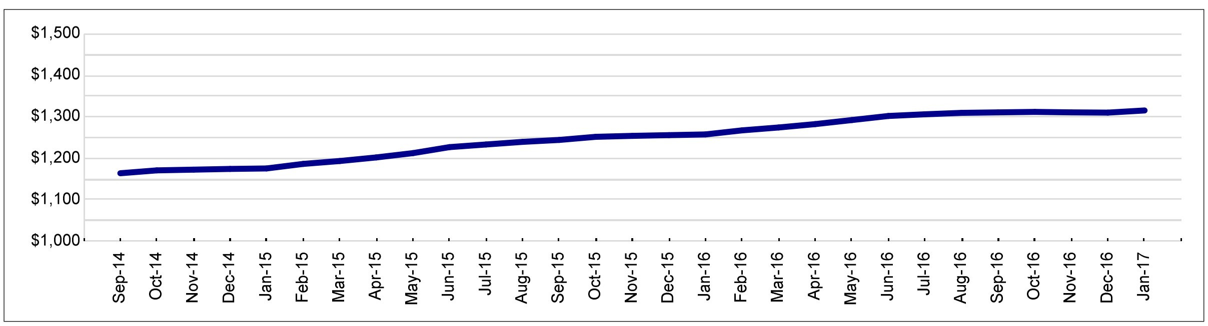
Multifamily Rents Flex Muscles in 2017 Kick-Off

Average U.S. monthly rents rose by $5 in January, demonstrating strength to start the year after a seasonal flattening at the end of 2016. Rents increased to $1,315, according to Yardi Matrix's monthly survey of 124 markets. On a year-over-year basis, rents were up 4.6% nationwide in January, a 30-basis-point increase from December, though still 240 basis points below the recent high of 7.0% in January 2016.

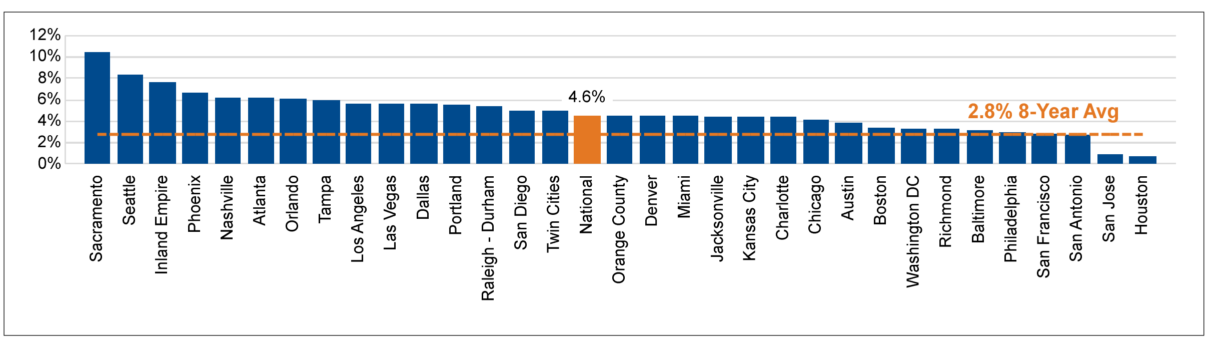
With a handful of exceptions, rent gains continue to be led by the high-population growth centers in the West and South. In fact, of the 15 metros that beat the national average in our Matrix Monthly survey of top 30 markets, all but one (Minneapolis) could be characterized that way. Sacramento (10.5%) once again tops the survey, followed by Seattle (8.4%), where high demand has led to resiliency in rent growth despite a large amount of new supply, and the Inland Empire (7.6%), which, like Sacramento, has high barriers to development and is underserved by new supply. Interestingly, the worst-performing metros—Houston (0.7%), San Jose (0.9%) and San Antonio and San Francisco (2.8%)—are situated in the same regions. Houston and San Jose are the only two metros below the long-term average of 2.7%.

The surprisingly robust start to the year demonstrates the industry's ongoing positive fundamental drivers, which aren't expected to change significantly in 2017, even if rents are likely to decelerate slightly due to the growth in supply in many metros. Positive demand drivers include the increase in the number of Millennials and Baby Boomers, the growing propensity for older Americans to rent and the healthy economy that has produced steady improvement in employment and household formations. All of these factors are multi-year trends that have more years to run, which has led to a great deal of optimism in the multifamily market, although concerns remain about the amount of supply being added in many metros.

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes



National averages include 119 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

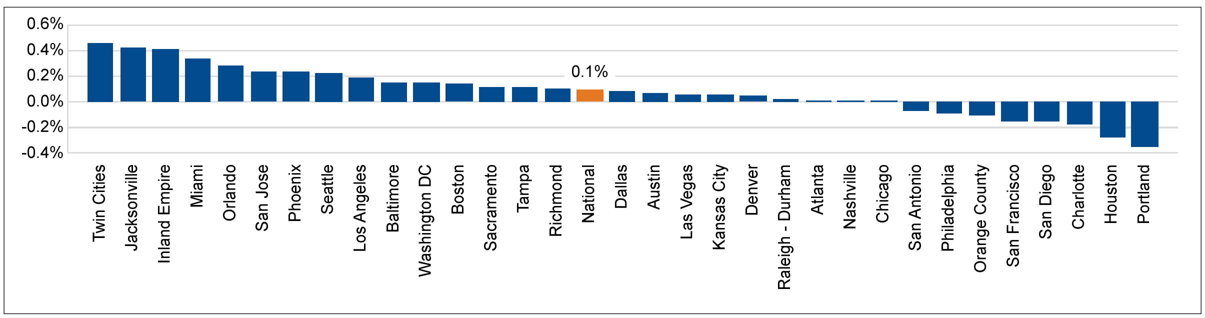
Trailing 3 Months: Twin Cities Up, Portland Down, Sacramento Slowing

Nationally, multifamily rents grew 0.1% on a trailing three-month (T-3) basis in January, marking a 10-basis-point increase from December. The working-class Renter-by-Necessity (RBN) segment grew by 0.1%, outperforming the higher-end Lifestyle segment, which was flat. Roughly 20% of our reported markets experienced rent declines in RBN, compared to almost half of the markets for Lifestyle rents. The T-3 survey captures short-term changes in rents that may or may not be indicative of future trends.

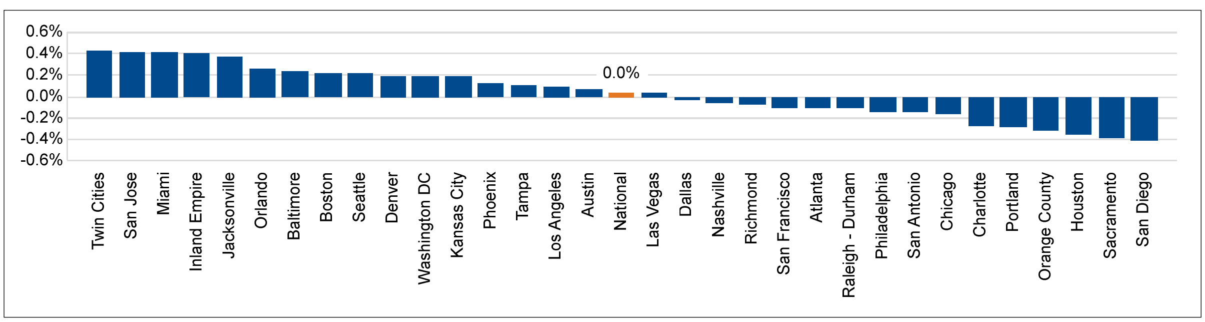
Top markets on a T-3 basis were generally found in the Sunbelt region, where seasonality tends to have less of an impact on rent growth. One exception was the Twin Cities, which led T-3 growth in January at 0.5%. Other strong markets included Jacksonville and the Inland Empire (both 0.4%) and Miami and Orlando (0.3%).

On the other end of the spectrum, some of the best-performing markets of the last two years have started to experience negative T-3 rent growth. Portland fell 0.3%, while San Francisco, Charlotte and San Diego all declined by 0.2%. Portland and San Francisco are decelerating in large part due to issues of affordability, while Charlotte is likely feeling the effects of the influx of the heavy supply pipeline. Sacramento, which has led the nation with double-digit rent increases most of the past year, saw a 0.4% decline in T-3 Lifestyle rents, possibly a sign that the market's growth will begin to decelerate.

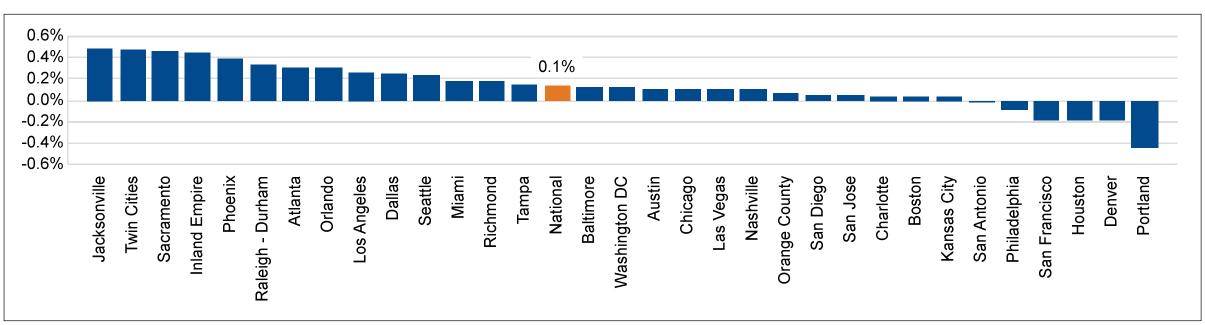
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



Trailing 3 Months Sequential—Renter-by-Necessity Asset Class



Employment, Supply and Occupancy Trends; Forecast Rent Growth

With hardy fundamental drivers and healthy capital markets, there is a lot to be optimistic about in the multifamily sector for 2017. That's not to say there aren't concerns, mostly centered around the amount of new supply and the economy. Nationally, we foresee about 320,000 units to be delivered this year, the most by far in the current cycle. Although absorption is still strong and the national occupancy rate for stabilized properties is high at 95.6%, the number of new units in many metros will lead to a deceleration in rent growth. Metros adding a significant amount of supply to total stock include Nashville (5.7%), Seattle and Miami (5.5%), Denver (4.9%), Boston (4.3%), San Antonio and Dallas (3.7%), Austin (3.3%), Raleigh-Durham (3.1%) and Portland (3.0%). Rent growth is likely to be strong this year in many of these markets, but the new supply will have an effect, particularly among higher-end Lifestyle assets, where the supply is concentrated.

We remain optimistic about the country's growth prospects under a less-regulated economy, but the emphasis on tariffs and limiting immigration in the administration's early days bears watching.

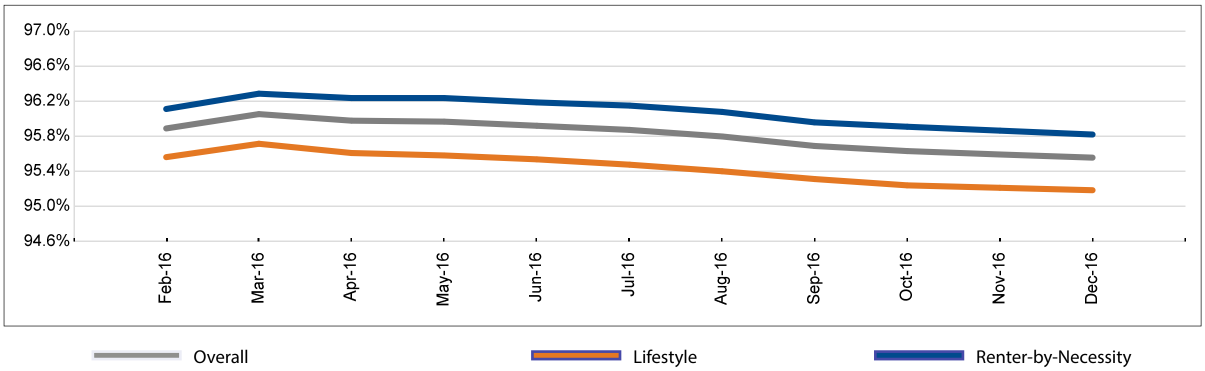
One final note: Readers who notice slight changes in the Matrix Monthly's overall rent and year-over-year growth numbers are not wrong. Starting with this month's survey, we are using a methodology that incorporates more recent-vintage properties into the sample, which will produce more accurate averages at the national and metro levels.

Market	Rent Growth YoY 2016 to 2017	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of Dec - 16	Completions as a % of Total Stock as of Jan - 17	Occupancy Rates as of Nov - 16	Occupancy Rates as of Dec - 16
Sacramento	10.4%	10.2%	2.6%	0.5%	96.7%	96.6%
Seattle	8.4%	9.4%	3.7%	5.2%	95.9%	95.8%
Nashville	6.2%	8.8%	3.0%	3.8%	96.2%	96.1%
Atlanta	6.2%	8.3%	2.7%	2.0%	95.0%	95.0%
Portland	5.5%	8.1%	2.8%	2.9%	95.8%	95.7%
Austin	3.9%	7.9%	3.0%	5.3%	95.1%	95.0%
San Francisco	2.8%	7.8%	2.6%	2.3%	96.3%	96.2%
Inland Empire	7.6%	7.6%	2.4%	1.2%	96.5%	96.5%
Charlotte	4.36	7.1%	2.3%	5.7%	95.9%	95.8%
Raleigh	5.4%	7.0%	2.5%	2.1%	95.9%	95.8%
Phoenix	6.7%	6.7%	2.4%	2.8%	94.7%	94.7%
Orlando	6.1%	6.6%	4.0%	2.9%	95.9%	95.8%
Orange County	4.6%	6.5%	2.7%	1.4%	96.9%	96.8%
Dallas	5.7%	6.3%	3.4%	2.1%	95.8%	95.7%
San Diego	5.0%	6.0%	2.2%	2.0%	97.0%	97.0%
San Jose	0.9%	6.0%	3.4%	1.8%	95.7%	95.7%
Tampa	6.0%	6.0%	2.8%	1.6%	95.3%	95.3%
Denver	4.5%	5.5%	3.3%	4.5%	95.1%	95.0%
Los Angeles	5.7%	5.5%	1.9%	3.0%	96.9%	96.8%
Kansas City	4.4%	5.2%	1.1%	2.4%	95.2%	95.2%
Miami	4.5%	5.2%	1.5%	4.0%	95.6%	95.6%
Boston	3.4%	4.9%	1.8%	2.4%	96.5%	96.6%
Las Vegas	5.7%	4.5%	2.4%	1.2%	95.0%	95.1%
Houston	0.7%	4.2%	0.5%	3.0%	93.5%	93.5%
Philadelphia	3.0%	4.2%	2.0%	1.3%	96.1%	96.0%
Chicago	4.2%	4.0%	1.2%	2.6%	95.6%	95.5%
Washington, DC	3.4%	3.8%	2.3%	2.5%	95.9%	95.8%
Richmond	3.1%	3.5%	1.4%	1.0%	95.3%	95.3%
San Antonio	2.8%	3.5%	1.9%	3.7%	94.4%	94.3%
Jacksonville	4.4%	3.1%	3.9%	1.0%	94.7%	94.6%
Twin Cities	5.0%	2.8%	1.7%	1.2%	97.7%	97.6%
Baltimore	3.1%	2.6%	2.0%	1.4%	95.2%	95.1%

Occupancy and Asset Classes

The occupancy rate for stabilized properties nationally ticked down slightly to 95.6% in November, a drop of 10 basis points. Renter-by-Necessity properties remained at 95.8%, while Lifestyle occupancy fell 20 basis points to 95.3%. Despite the drop, occupancy remains stable, although it could begin to rise slightly given the more than 300,000 units of new supply in the pipeline in 2017.

Occupancy—All Asset Classes by Month



Year-Over-Year Rent Growth, Other Markets

Market	December 2016		
	Overall	Lifestyle	Renter-by-Necessity
Reno	12.1%	11.6%	12.3%
Tacoma	11.5%	11.5%	11.5%
Colorado Springs	11.0%	10.4%	11.0%
Central Valley	6.8%	6.1%	8.2%
San Fernando	6.5%	6.7%	5.7%
Tucson	5.6%	4.5%	6.5%
Northern New Jersey	5.4%	4.6%	3.8%
Long Island	4.9%	3.4%	6.9%
SW Florida Coast	4.7%	5.5%	3.8%
Indianapolis	4.3%	3.8%	4.8%
Albuquerque	3.9%	2.4%	5.8%
Bridgeport - New Haven	3.2%	3.0%	3.5%
NC Triad	3.2%	2.9%	3.3%
St. Louis	2.9%	2.3%	4.4%
Central East Texas	2.5%	1.3%	4.3%
Louisville	1.7%	1.2%	1.9%
El Paso	1.2%	1.1%	1.6%

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, policemen, firemen, 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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