Rent Survey | February 2017

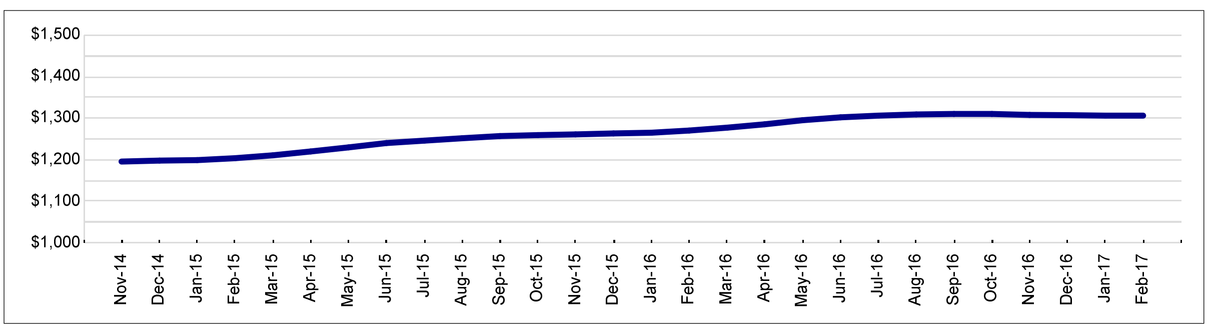
Multifamily Rents Flat in February

Average U.S. monthly rents were unchanged in February, as the rate of increase trends back to the long-term average. Rents remained at $1,306, according to Yardi Matrix's monthly survey of 124 markets. On a year-over-year basis, rents were up 2.8% nationwide in February, down 40 basis points from January and roughly half the 5.5% growth rate of a year ago. Although they have ridden up and down a little, rents are the same as they were in July 2016.

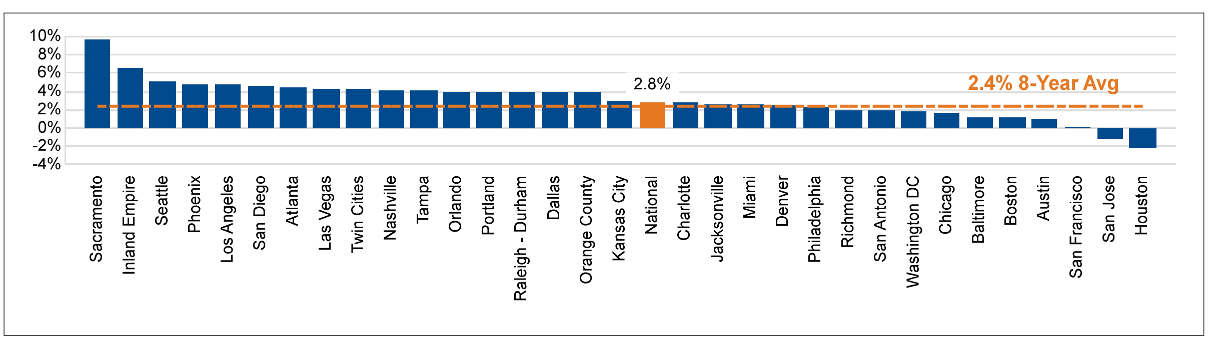
Other than Sacramento—which rose 9.7% year-over-year and has topped the ranking of metros for many months—and the Inland Empire (which rose 6.5%), most of the largest U.S. metros are reverting to modest growth levels. Rent growth was between 2% and 5% year-over-year in 20 of the top 30 metros, with California dominating both the top and bottom of the list. The Golden State claimed four of the top six metros, with Sacramento and the Inland Empire joined by Los Angeles (fifth at 4.7%) and San Diego (sixth at 4.6%). Meanwhile, two other California markets ranked among the bottom three markets: San Jose (-1.1%) and San Francisco (0.2%), which have flattened after a long stretch of high growth due largely to affordability issues. Houston remained last, at -2.1%, though with energy prices stabilizing and job growth starting to pick up, the market has likely seen its bottom.

We continue to stress that the deceleration is not unexpected or a sign of long-term weakness in the sector. Household formation should remain robust in 2017, and although new supply might overshoot demand in the short term, we expect occupancy rates to remain close to all-time highs. The key to multifamily fundamentals this year will be the performance of the economy. Even if the market does not live up to the financial sector's elevated expectations or the high-growth agenda takes longer to have an impact, at a minimum the economy should continue to grow moderately, which is still a good scenario for commercial real estate.

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes



National averages include 124 markets tracked by Matrix, not just the 32 metros featured in the report. All data provided by YardiMatrix.

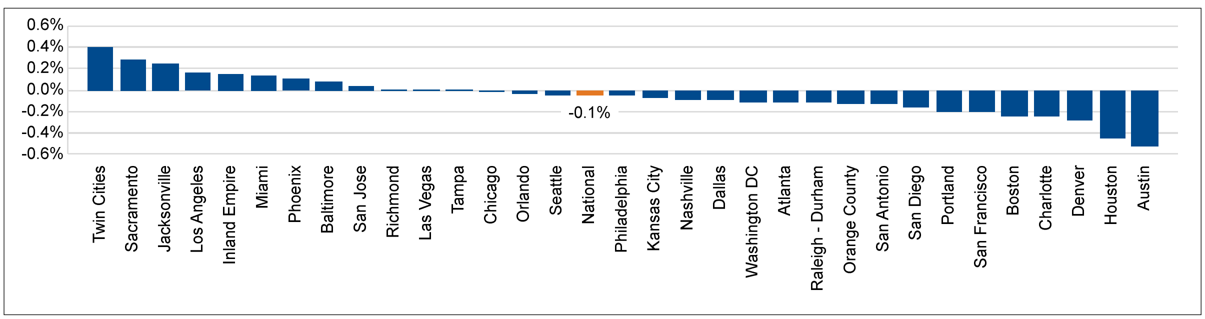
Trailing 3 Months: Lifestyle Rents Fall, While RBN Remains Strong

On a trailing three-month (T-3) basis, multifamily rents dropped five basis points. The overall decline was driven by the high-end Lifestyle segment, which fell 0.2%, while the working-class Renter-by-Necessity (RBN) sector increased 0.1%. Softness in the Lifestyle segment continues to be a theme in early 2017, as only three of the top 30 metros experienced rent gains at the high end. RBN remains relatively strong, as rents in 22 of the top 30 metros increased on a T-3 basis.

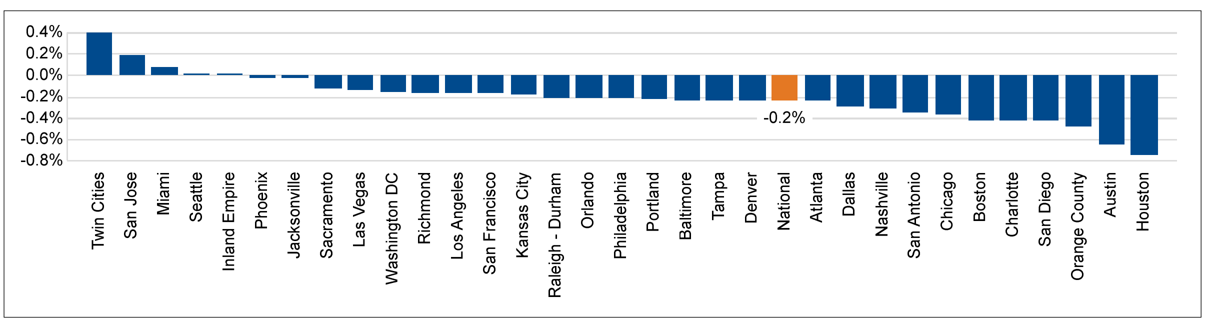
The Twin Cities once again outperformed on a T-3 basis, as rents increased 0.4%. Rent growth in the metro was evenly distributed between the Lifestyle and RBN segments. Florida and California metros were also among the best performing on a T-3 basis, with Sacramento (0.3%), Jacksonville (0.2%), Los Angeles (0.2%), the Inland Empire (0.1%) and Miami (0.1%) following the Twin Cities.

Metros with significant new supply fell to the bottom of the T-3 performance ranking, as Austin (-0.5%), Houston (-0.5%) and Denver (-0.3%) saw significant declines. As new supply is absorbed, these metros—along with others such as San Antonio, Charlotte and Portland—could experience short-term weakness, especially among Lifestyle units.

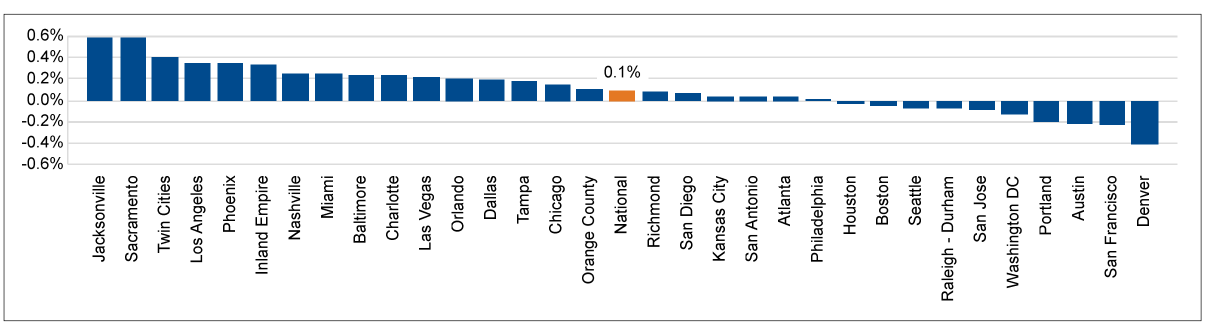
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

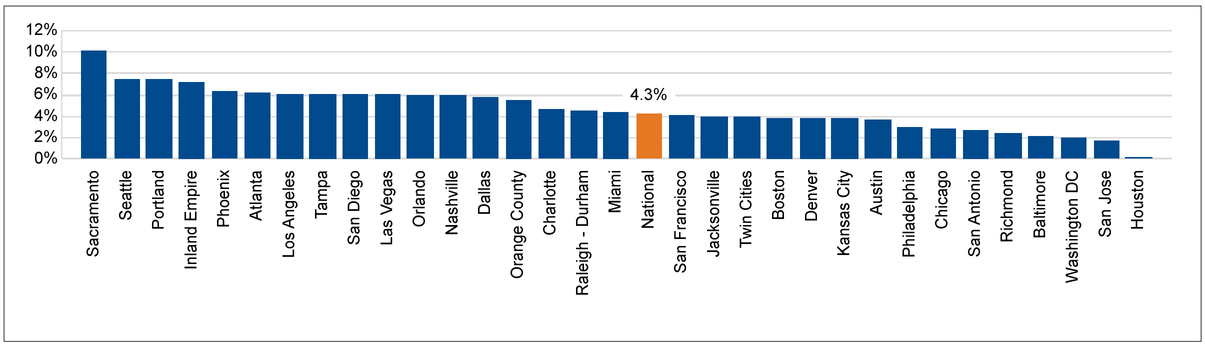


Trailing 12 Months: Deceleration Continues in T-12

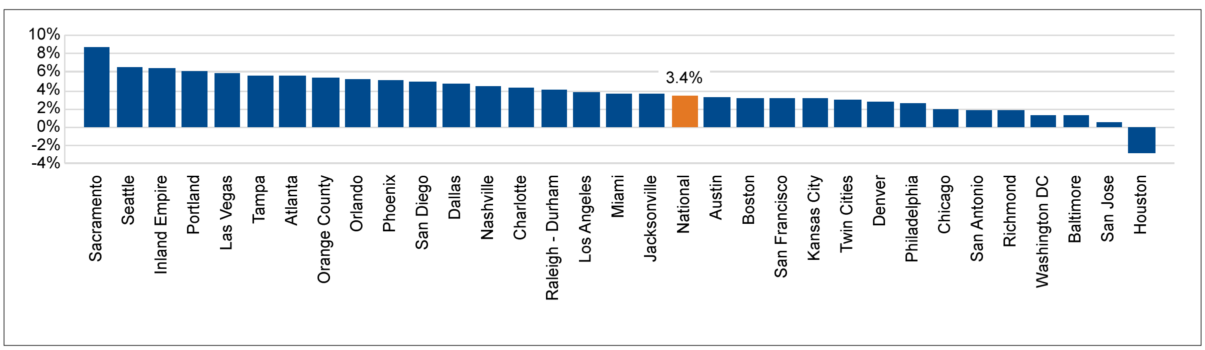
Across the country, rents increased 4.3% on a trailing 12-month (T-12) basis in February. Once again, the RBN sector led rent gains, increasing 5.2% compared to 3.4% growth in the Lifestyle segment. The T-12 calculation compares the last 12 months to the previous 12 months, and therefore shows a lag in deceleration compared to the year-over-year numbers.

Sacramento, at 8.7%, experienced the strongest T-12 rent growth, and has remained one of the strongest metros for rent growth for most of the past year. Next came Seattle (6.6%) and the Inland Empire (6.4%). Houston, at -2.7%, was the only metro in the top 30 to record negative rent growth on a T-12 basis. It is still feeling the effects of the drop in oil prices in early 2016.

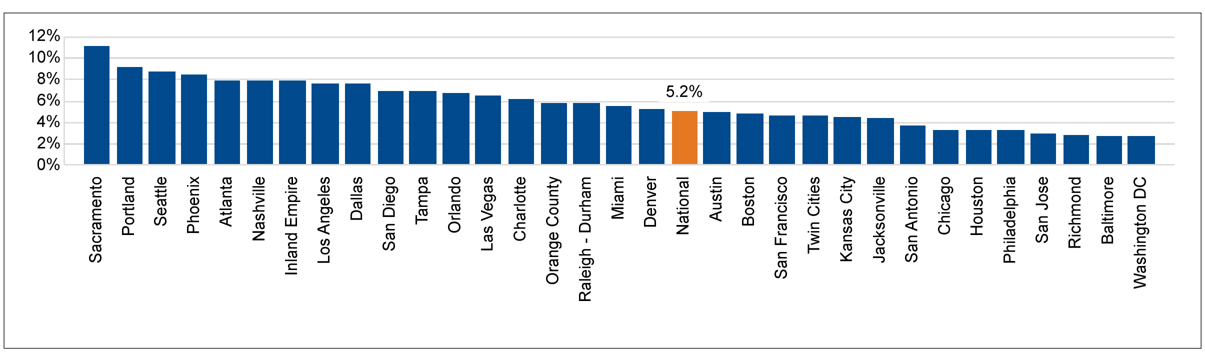
Trailing 12 Months Year-Over-Year—All Asset Classes



Trailing 12 Months Year-Over-Year—Lifestyle Asset Class



Trailing 12 Months Year-Over-Year—Renter-by-Necessity Asset Class



Employment, Supply and Occupancy Trends; Forecast Rent Growth

While the deceleration in rent growth and decline in occupancy continue, the overall state of the multifamily market remains strong. A glut of new supply and a moderating employment market have helped apartment fundamentals revert to more normal levels. New supply is concentrated in a small subset of secondary markets, mainly located in the South and West. The Charlotte metro will increase its housing stock 6.3% in 2017, along with other popular metros such as Seattle (4.9%), Austin (4.8%) and Miami (4.7%). Rents decelerated in each of these metros throughout 2016, and the trend is likely to continue through the remainder of 2017, as new supply significantly outpaces job growth. However, each metro is seen as attractive for Millennials and business development, so the short-term softness should give way to long-term strength in the future.

Elsewhere, new construction remains limited; as a result, markets such as Sacramento and the Twin Cities continue to experience strong rent growth.

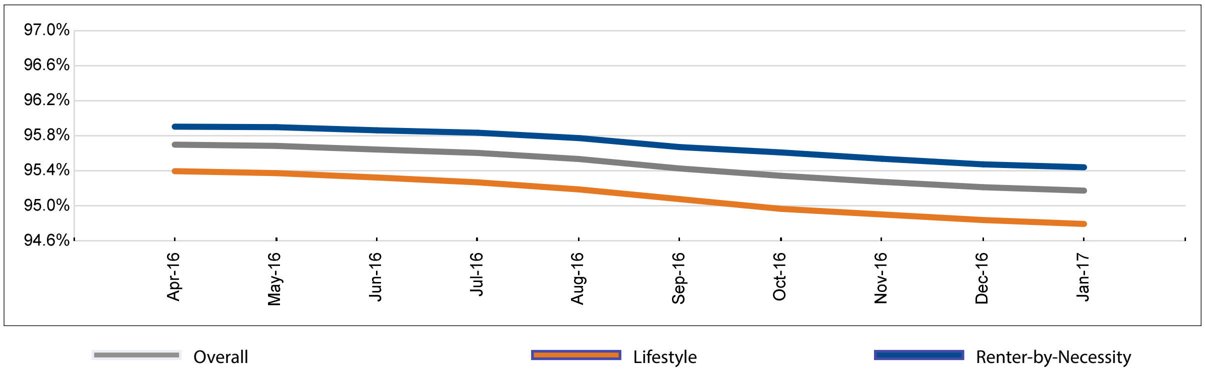
You may notice a change in recent figures reported in the Yardi Matrix Monthly; we have modified our data collection methodology to include our total property set in our calculations.

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 % of Total Stock as of Feb - 17	Occupancy Rates as of Dec - 16	Occupancy Rates as of Jan - 16
Sacramento	9.7%	9.5%	2.8%	0.7%	96.6%	96.5%
Seattle	5.1%	7.6%	3.7%	4.9%	95.7%	95.6%
Inland Empire	6.5%	7.6%	2.4%	1.2%	96.2%	96.2%
Phoenix	4.8%	6.0%	2.0%	2.8%	94.2%	94.1%
Orlando	3.9%	5.8%	3.9%	3.0%	95.6%	95.6%
Tampa	4.0%	5.8%	2.6%	1.4%	95.1%	95.2%
Dallas	3.9%	5.6%	3.4%	2.0%	95.4%	95.3%
Los Angeles	4.7%	5.5%	1.7%	3.8%	96.6%	96.6%
Portland	3.9%	5.0%	2.7%	2.7%	95.5%	95.5%
Orange County	3.8%	5.0%	2.5%	1.2%	96.7%	96.7%
Las Vegas	4.3%	5.0%	2.4%	1.3%	95.1%	94.9%
Atlanta	4.4%	4.7%	2.7%	2.0%	94.5%	94.4%
Miami	3.0%	4.6%	1.5%	4.7%	95.6%	95.6%
Nashville	4.1%	4.5%	3.0%	4.0%	95.8%	95.6%
San Diego	4.6%	4.5%	2.1%	1.9%	96.7%	96.7%
Raleigh	3.9%	4.2%	2.5%	2.3%	95.2%	95.2%
Twin Cities	4.3%	4.2%	1.7%	1.2%	97.3%	97.2%
San Francisco	0.2%	3.8%	2.4%	1.9%	96.1%	96.0%
Charlotte	2.8%	3.8%	2.1%	6.3%	95.4%	95.3%
Denver	2.4%	3.5%	3.3%	4.2%	94.6%	94.5%
Richmond	1.9%	3.5%	1.0%	0.9%	94.8%	94.8%
Philadelphia	2.2%	3.4%	1.8%	1.1%	95.8%	95.7%
Chicago	1.6%	3.3%	1.0%	2.9%	95.3%	95.2%
Kansas City	2.9%	3.1%	1.1%	2.2%	94.5%	94.5%
Jacksonville	2.7%	3.1%	3.9%	1.3%	94.6%	94.7%
Austin	1.0%	2.5%	2.7%	4.8%	94.5%	94.4%
San Antonio	1.9%	2.0%	1.9%	4.0%	93.8%	93.7%
Washington DC	1.8%	1.9%	2.2%	2.1%	95.6%	95.6%
Boston	1.1%	1.8%	1.8%	1.8%	96.5%	96.6%
Baltimore	1.2%	1.7%	1.8%	1.5%	94.7%	94.6%
San Jose	-1.2%	1.5%	3.4%	1.9%	95.4%	95.4%
Houston	-2.1%	0.7%	0.5%	3.0%	93.0%	93.0%

Occupancy and Asset Classes

The national occupancy rate for stabilized properties remained flat at 95.2% in January. Occupancy has trended downward since its 12-month high in March 2016 as new supply has been absorbed. While national occupancy rates dropped roughly 50 basis points over the past 12 months, occupancy rates in high-construction markets such as Denver and Houston have fallen more than 1.0%. Most new units have been added at the high end. As a result, RBN occupancy outpaces Lifestyle occupancy by 50 basis points.

Occupancy—All Asset Classes by Month

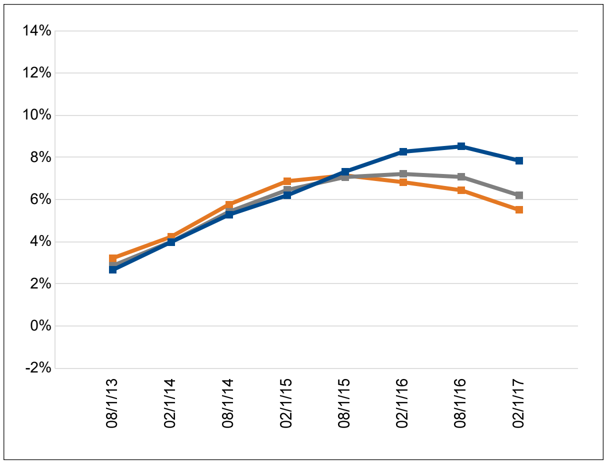


Year-Over-Year Rent Growth, Other Markets

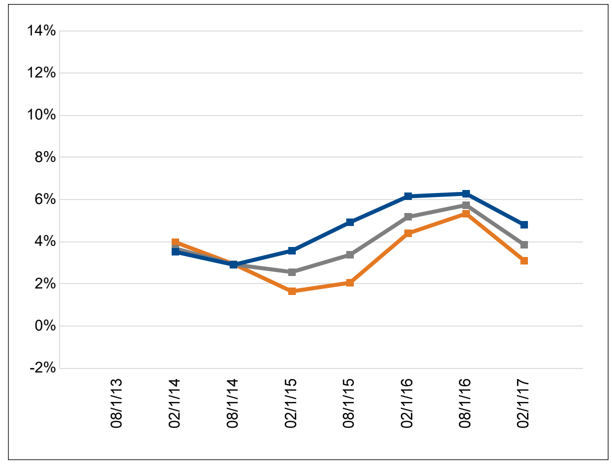
Market	January 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	10.2%	10.5%	10.1%
Tacoma	10.1%	9.7%	10.4%
Colorado Springs	8.5%	8.7%	8.4%
Central Valley	6.5%	6.3%	6.4%
San Fernando	4.8%	2.0%	6.3%
SW Florida Coast	3.7%	2.0%	5.7%
Tucson	3.7%	2.5%	4.2%
Indianapolis	3.4%	3.0%	3.6%
NC Triad	3.3%	2.5%	4.0%
Long Island	3.1%	2.9%	3.2%
Northern New Jersey	2.7%	1.8%	3.5%
Albuquerque	2.4%	1.8%	2.9%
Louisville	2.2%	0.6%	2.9%
St. Louis	2.1%	2.6%	1.9%
Central East Texas	1.6%	1.1%	1.8%
Bridgeport - New Haven	1.2%	-0.2%	2.1%
El Paso	-0.4%	-0.9%	-0.1%

Market Rent Growth by Asset Class

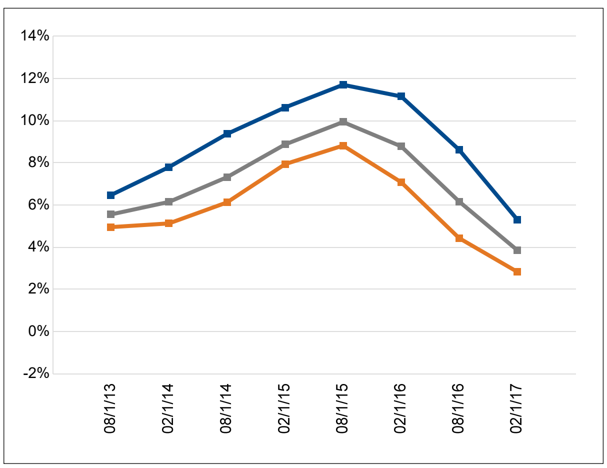
Atlanta



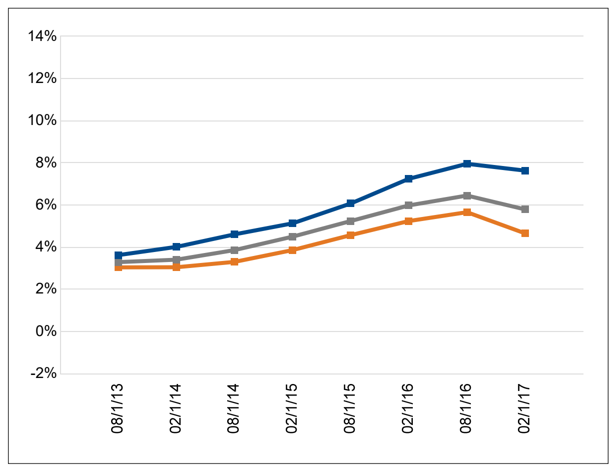
Boston



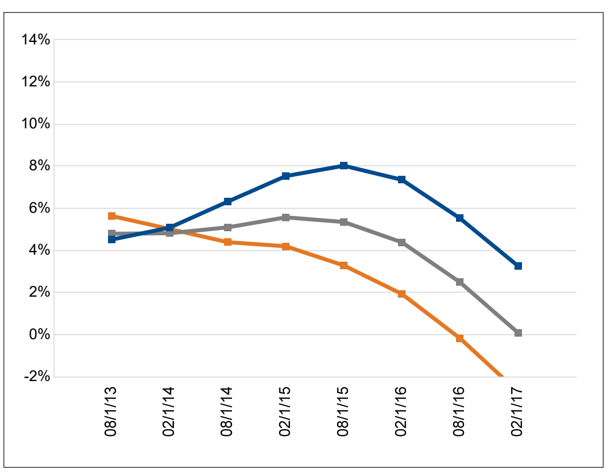
Denver



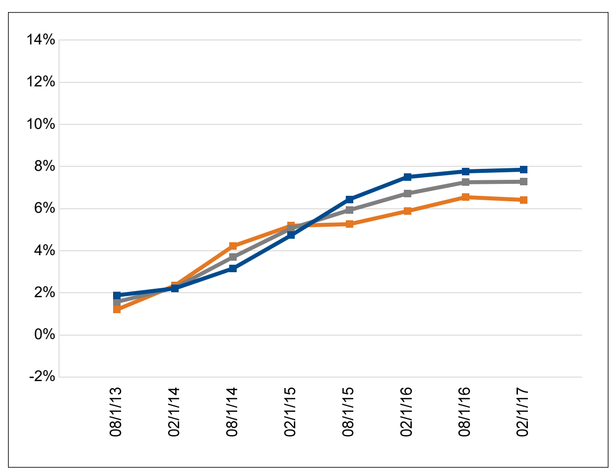
Dallas



Houston

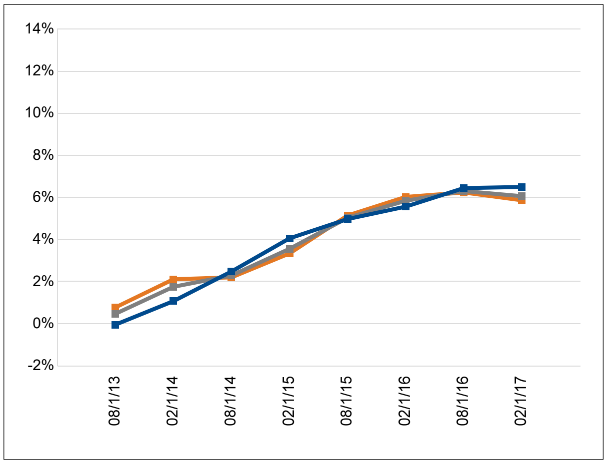


Inland Empire

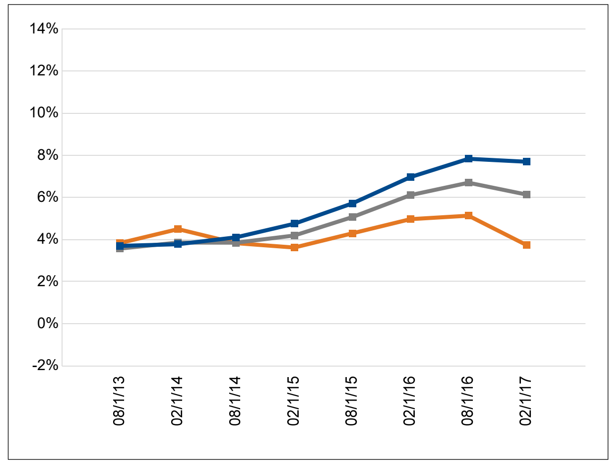


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter by Necessity

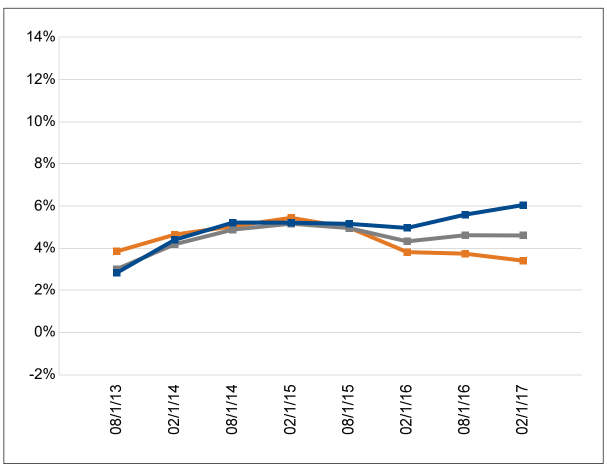
Las Vegas



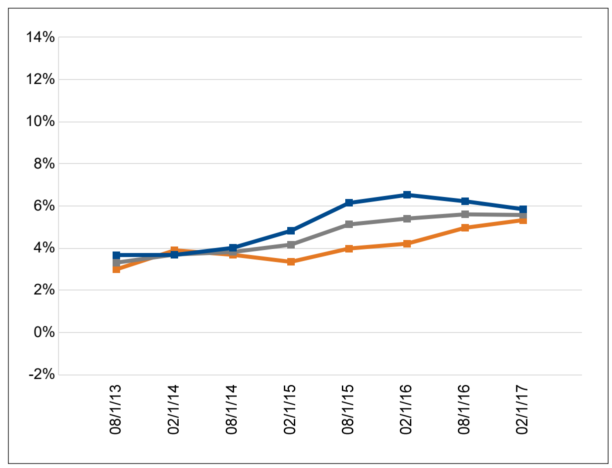
Los Angeles



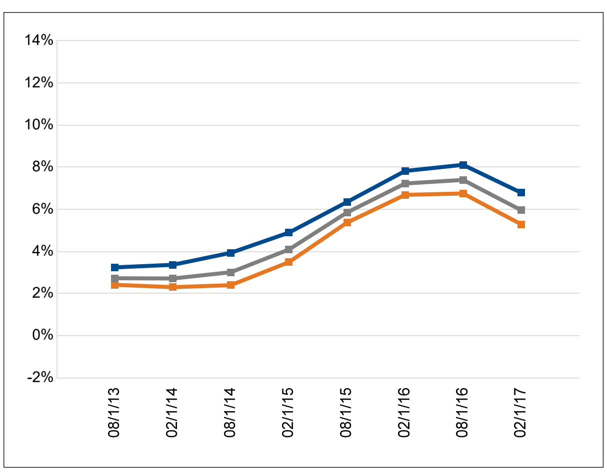
Miami



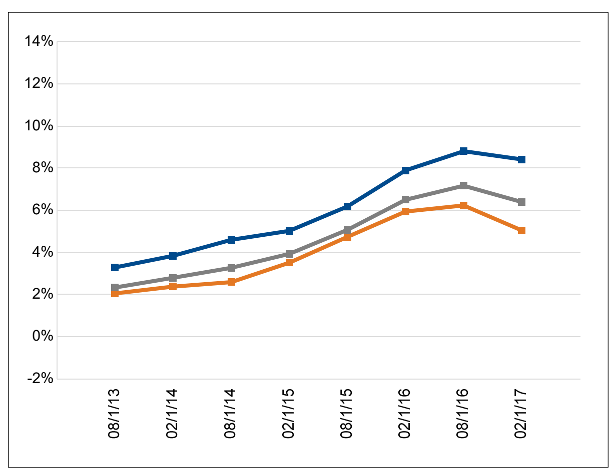
Orange County



Orlando

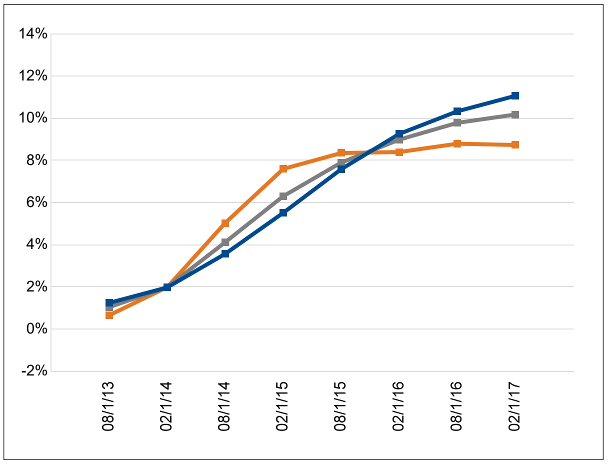


Phoenix

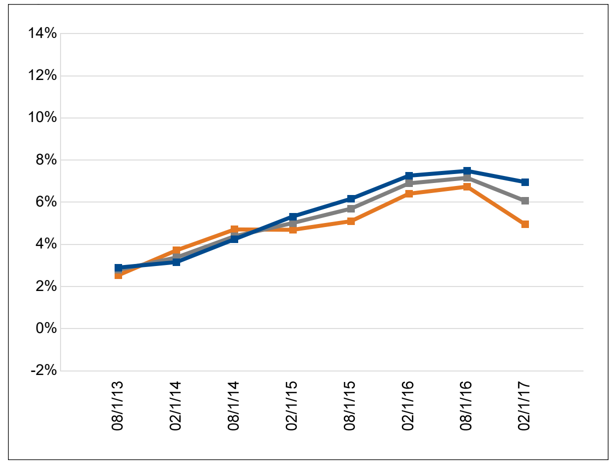


Trailing 12 Months Overall　Trailing 12 Months Lifestyle　Trailing 12 Months Renter by Necessity

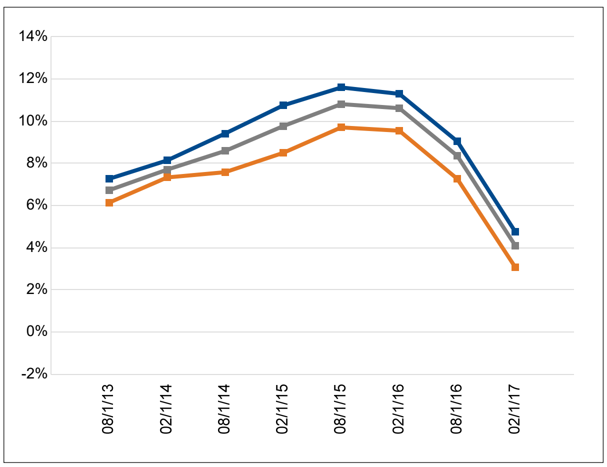
Sacramento



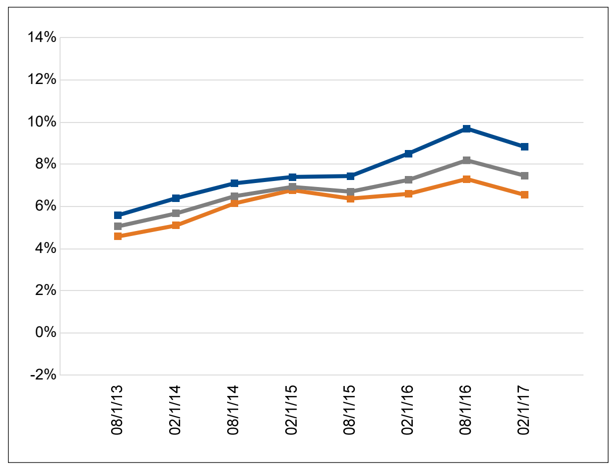
San Diego



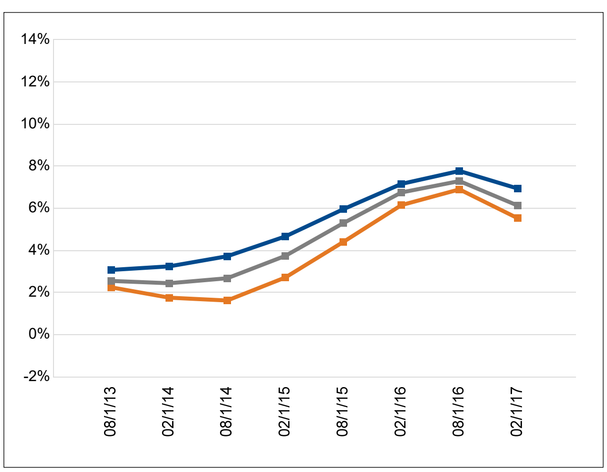
San Francisco



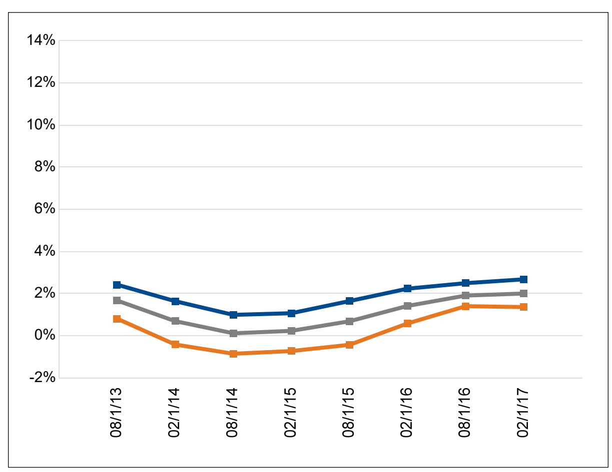
Seattle



Tampa



Washington, D.C.



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

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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