Rent Survey | March 2017

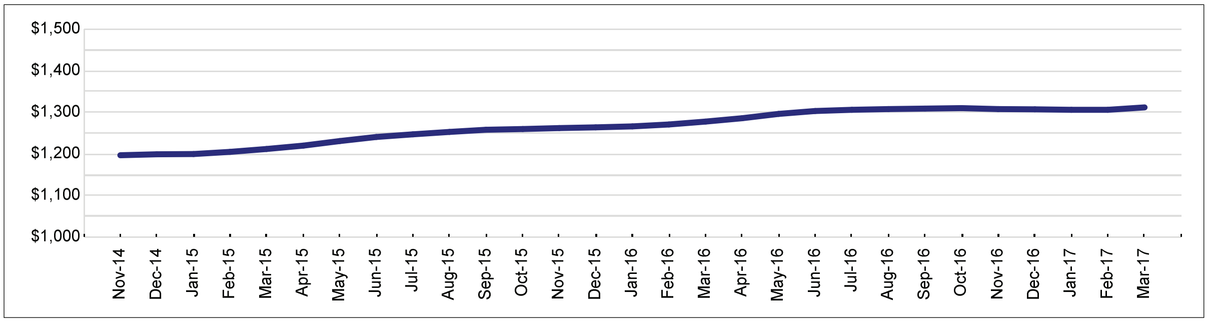
Multifamily Market Springs to Life with Solid Gain

After a lackluster winter, rents posted solid gains in March, although the rate of growth continued to decelerate. Average U.S. monthly rents rose $6 to $1,312, according to Yardi Matrix's monthly survey of 121 markets. On a year-over-year basis, rents were up 2.7% nationwide in March, down 10 basis points from February and exactly half the 5.4% growth rate of a year ago.

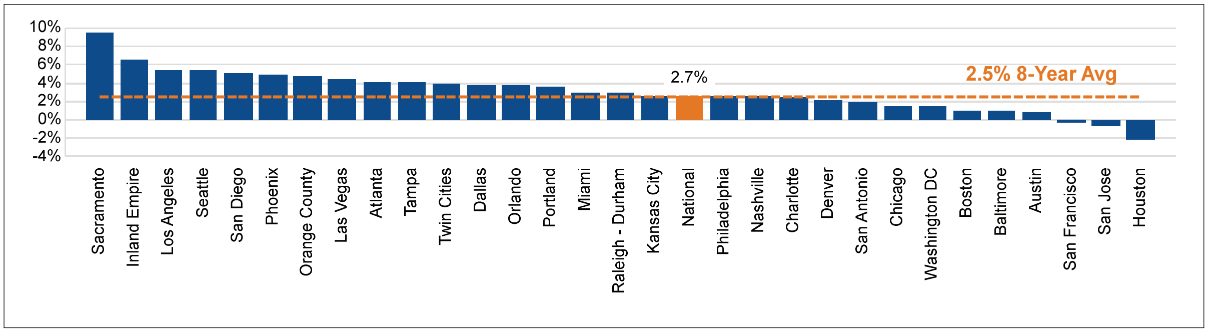
March's performance marked the first monthly increase in five months and the most significant gain since June, when rents also rose 0.5% month-over-month. Rents overall were flat in the seven months between July and February. To some degree that is seasonal, as the spring typically ushers in higher rents because tenants tend to move more as the weather improves, but the slowdown also reflected the effect in some markets of the growing supply pipeline and issues of affordability. While it is no doubt good to see rents go up again, March's numbers don't change our basic view of the market. We have forecast rents to moderate from the unsustainably high levels they reached at times in 2015 and 2016, but at the same time supply/demand fundamentals are healthy in most markets, and rents should rise in the 3% range for the year.

Among the issues the multifamily market will face this year is how demand reacts to changes in the economy. The Federal Reserve raised short-term interest rates in March, as the economy continues to produce 200,000-plus jobs per month, while the Consumer Price Index is topping the 2% target rate after an extended period of weak growth. Further healthy economic expansion could lead to more rate increases in 2017, which would raise borrowing rates and put pressure on historically low property yields. At the same time, the failure to repeal the Affordable Care Act demonstrates that the pro-growth changes in tax and regulatory policy and the increase in infrastructure spending that were envisioned by the market will be (at best) watered down or delayed by process or (at worst) stalled completely due to fractures among the parties in Washington.

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes



National averages include 121 markets tracked by Matrix, not just the 32 metros featured in the report. All data provided by YardiMatrix.

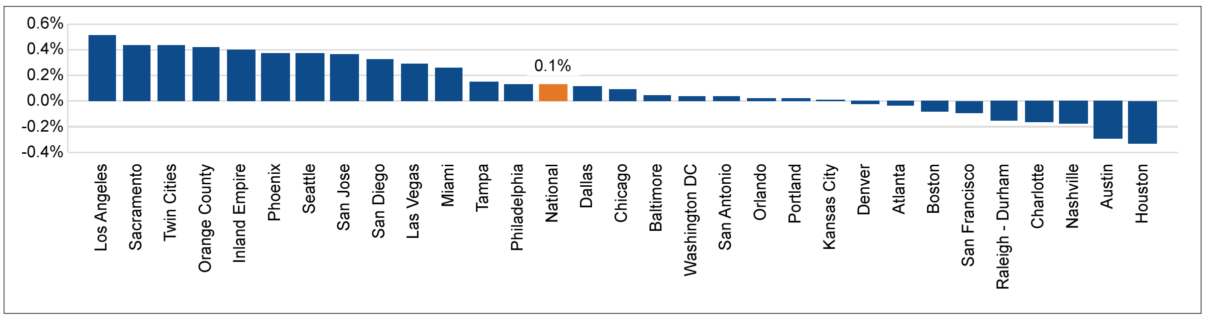
Trailing 3 Months: RBN Leads Moderate Increases

On a trailing three-month (T-3) basis, multifamily rents increased 0.1% in March, up 20 basis points from -0.1% in February. The gains came entirely from the working-class Renter-by-Necessity (RBN) segment, which increased by 0.2%, while the high-end Lifestyle segment was flat. The RBN segment remains stronger than the Lifestyle, as the growing supply of luxury apartments continues to impact rent growth in many metros.

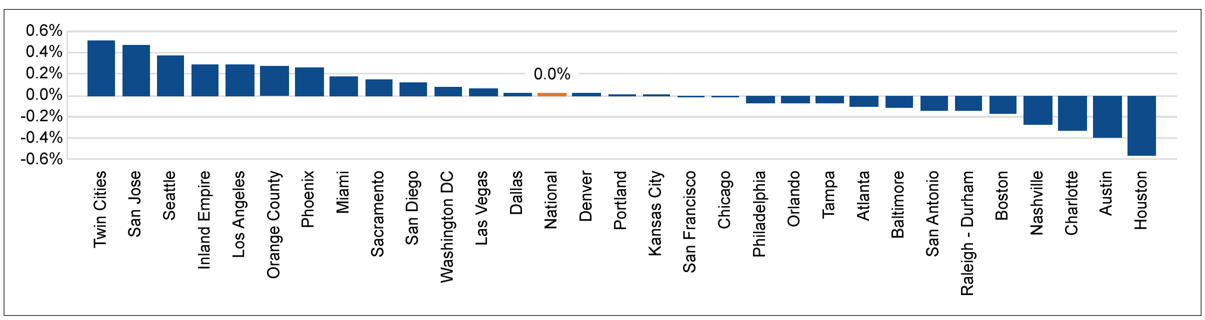
Los Angeles led all metros at 0.5%, while the Southern California metros of Orange County (0.4%), the Inland Empire (0.4%) and San Diego (0.3%) also performed well. Overall, the best-performing metros were once again found across the southern U.S. and in California, as these markets do not tend to experience the same seasonality effects as colder regions. The one exception continues to be the Twin Cities, which grew 0.4% overall and 0.5% in the Lifestyle segment, the highest growth of any metro in the nation. Strong demographics, low occupancy (97.2% for stabilized properties) and limited new supply (1.3% added to stock in the 12 months ending in March) are propelling rents in the Twin Cities.

Significant construction continues to have a dampening effect on rents in a number of metros. Rents declined in Houston and Austin (both by -0.3%) as well as other markets across the Southeast—such as Raleigh, Charlotte and Nashville (all by -0.2%)—that have seen a glut of supply come online.

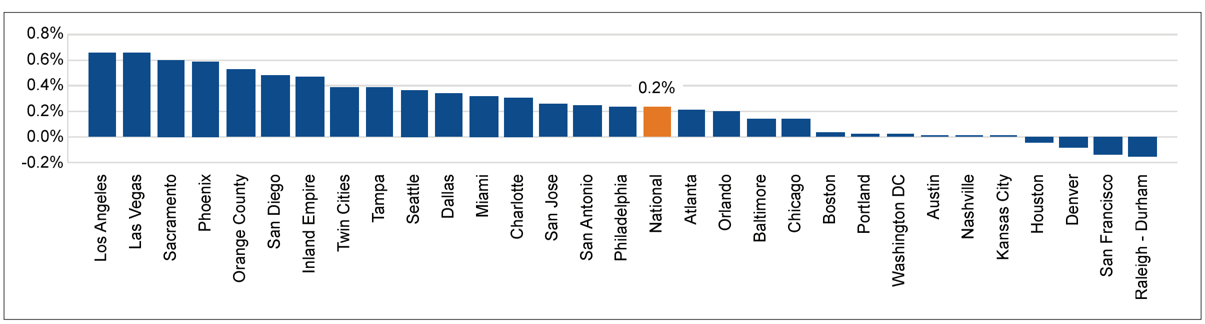
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

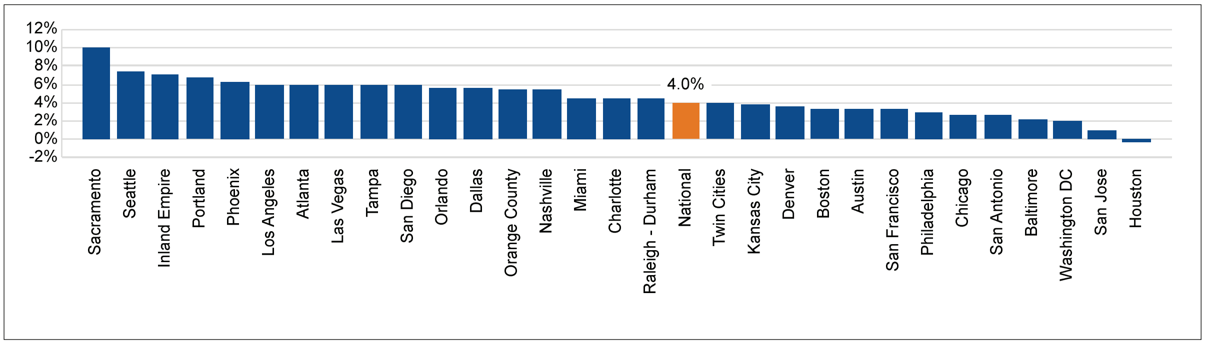


Trailing 12 Months: Widening Gap Between RBN and Lifestyle

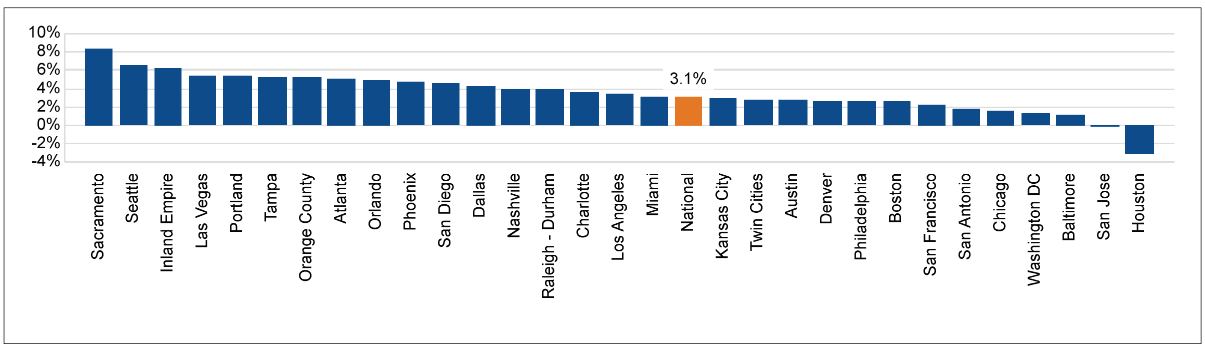
Rents increased 4.0% on a trailing 12-month (T-12) basis in March, down 30 basis points from February as the ongoing deceleration trend continues. RBN (4.9%) continues to outpace Lifestyle (3.1%), as significant new luxury apartment completions have led to faster deceleration in lifestyle units. While that dynamic is not new, the gap between the two segments is growing. As recently as November, the average T-12 RBN gains were 80 basis points more than Lifestyle. As of this month, the average difference between the segments has climbed to 180 basis points.

Markets in the Pacific Northwest led rent gains on a T-12 basis, with Sacramento (10.1%), Seattle (7.5%) and Portland (6.8%) registering strong growth. At the other end were Houston (-0.2%), San Jose (1.1%) and Washington, D.C. (2.0%), where rent growth was weak as a result of some combination of new supply, affordability and a slowing economy.

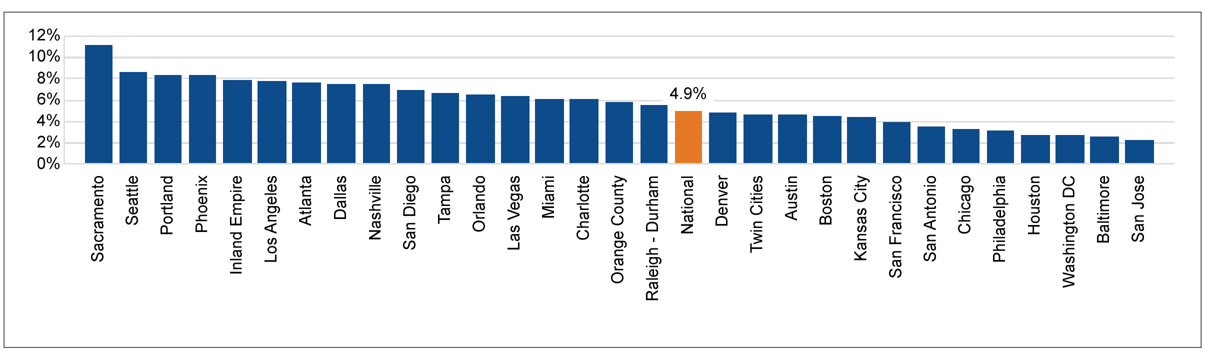
Trailing 12 Months Year-Over-Year—All Asset Classes



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

Multifamily fundamentals remain healthy, with new supply being absorbed and rent growth close to its long-term average. Although rent growth continues to decelerate, market fundamentals are stable and poised to continue in the current growth cycle.

Employment growth in 2017 is off to a strong start, as more than 235,000 jobs were added to the labor force in both January and February. Unemployment remains low at 4.7%, and labor force participation increased to 63.0%, providing further evidence of a labor market at or near full employment. The tight labor force, as well as indications of rising inflation, encouraged the Federal Reserve to raise its benchmark interest rate 25 basis points. Since the Fed meeting in mid-March, however, interest rates have decreased in the face of increased pessimism as to whether the new administration will be able to achieve the economic growth it promoted during the presidential campaign.

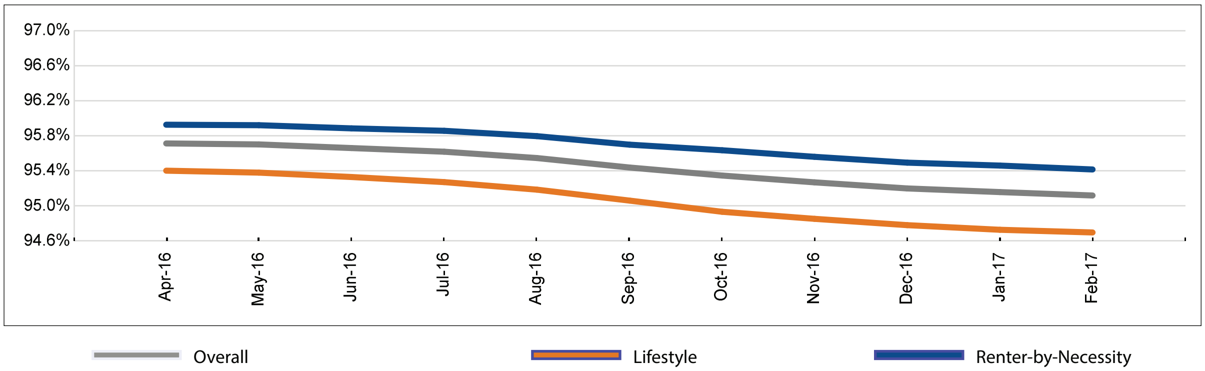
Real estate development has led to significant demand for construction, and the sector added 58,000 jobs in February, roughly 25% of total new employment. Indeed, there are concerns that the shortage of workers may lead to delays or increased labor costs for multifamily projects. Growing apartment supply is concentrated in southern and western markets such as Houston, Austin, Miami, Charlotte, Nashville, Los Angeles and Seattle.

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 March - 17	Occupancy Rates as of Jan - 16	Occupancy Rates as of Feb - 16
Sacramento	9.4%	9.5%	2.8%	0.6%	96.4%	96.4%
Seattle	5.4%	8.3%	3.4%	3.8%	95.9%	95.9%
Inland Empire	6.5%	7.6%	2.4%	0.7%	96.2%	96.1%
Phoenix	5.0%	6.0%	2.0%	2.3%	94.3%	94.3%
Orlando	3.8%	5.8%	3.9%	2.5%	95.6%	95.5%
Tampa	4.0%	5.8%	2.6%	1.2%	95.1%	95.1%
Dallas	3.8%	5.5%	3.4%	1.9%	95.3%	95.2%
Los Angeles	5.5%	5.5%	1.7%	3.7%	96.6%	96.5%
Miami	2.9%	5.3%	1.5%	4.3%	96.6%	96.5%
Las Vegas	4.4%	5.0%	2.4%	1.2%	95.0%	95.0%
Orange County	4.7%	5.0%	2.5%	1.2%	96.6%	96.5%
Portland	3.6%	5.0%	2.7%	2.8%	95.4%	95.4%
Atlanta	4.0%	4.7%	2.7%	1.8%	94.2%	94.2%
Nashville	2.5%	4.5%	3.0%	4.5%	95.6%	95.4%
San Diego	5.0%	4.5%	2.1%	1.6%	96.8%	96.8%
Raleigh	2.9%	4.2%	2.5%	2.3%	95.1%	95.1%
Charlotte	2.5%	3.8%	2.1%	5.7%	95.2%	95.2%
San Francisco	-0.4%	3.8%	2.4%	1.8%	96.1%	96.2%
Indianapolis	2.9%	3.7%	1.6%	1.4%	93.9%	93.8%
Denver	2.1%	3.5%	3.3%	3.6%	94.3%	94.3%
Philadelphia	2.5%	3.4%	1.8%	0.9%	95.7%	95.6%
Chicago	1.5%	3.3%	1.0%	2.7%	95.2%	95.2%
Twin Cities	4.0%	3.2%	1.7%	1.3%	97.2%	97.2%
Kansas City	2.7%	3.1%	1.1%	2.1%	94.6%	94.6%
Austin	0.8%	2.5%	2.7%	4.4%	94.4%	94.3%
San Antonio	2.0%	2.0%	1.9%	3.7%	93.5%	93.4%
Washington, DC	1.4%	1.9%	2.2%	1.7%	95.6%	95.6%
Boston	1.0%	1.8%	1.8%	1.9%	96.5%	96.5%
Baltimore	1.0%	1.7%	1.8%	1.4%	94.6%	94.5%
San Jose	-0.6%	1.5%	3.4%	2.4%	95.6%	95.6%
Houston	-2.2%	0.7%	0.5%	3.0%	92.9%	92.9%

Occupancy and Asset Classes

Nationwide, occupancy of stabilized properties was unchanged in February at 95.2%. Occupancy in the Lifestyle category dropped 10 basis points to 94.8%, while occupancy in the RBN sector was unchanged at 95.4%. Among our top markets, occupancy changed by more than 10 basis points in only one. The biggest change came in Nashville, which fell 0.2% month over month to 95.4%, as the growth in new supply is strong. Developers added 4.5% to stock in the 12 months ending in March.

Occupancy—All Asset Classes by Month

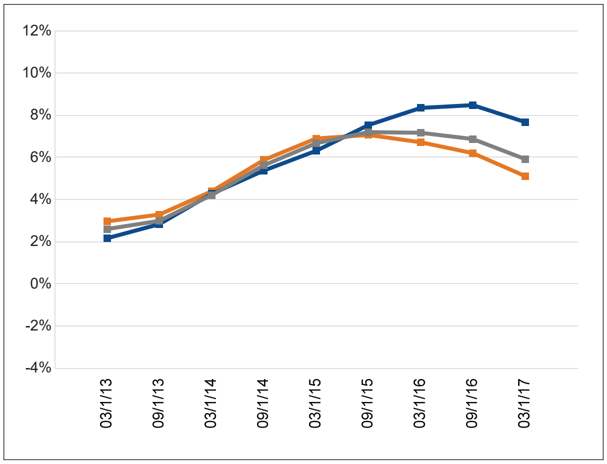


Year-Over-Year Rent Growth, Other Markets

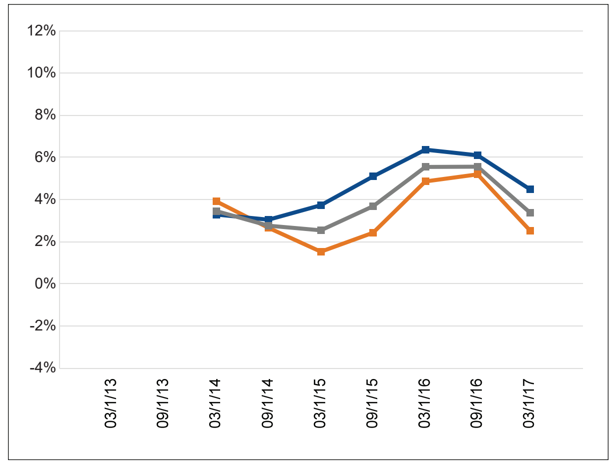
Market	March 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	10.3%	8.9%	11.0%
Tacoma	8.8%	8.3%	9.1%
Colorado Springs	8.5%	8.5%	8.5%
Central Valley	6.1%	5.9%	6.3%
San Fernando	5.1%	2.8%	6.5%
SW Florida Coast	3.7%	1.5%	6.2%
Tucson	3.7%	2.1%	4.3%
NC Triad	3.0%	2.5%	3.2%
Indianapolis	2.9%	2.3%	3.2%
Long Island	2.9%	2.7%	2.9%
Albuquerque	2.6%	2.6%	2.7%
Louisville	2.2%	0.7%	2.9%
St. Louis	2.0%	2.7%	1.8%
Bridgeport - New Haven	1.6%	0.6%	2.2%
Northern New Jersey	1.6%	1.0%	2.3%
Central East Texas	1.3%	1.0%	1.4%
El Paso	-0.7%	-1.3%	-0.6%

Market Rent Growth by Asset Class

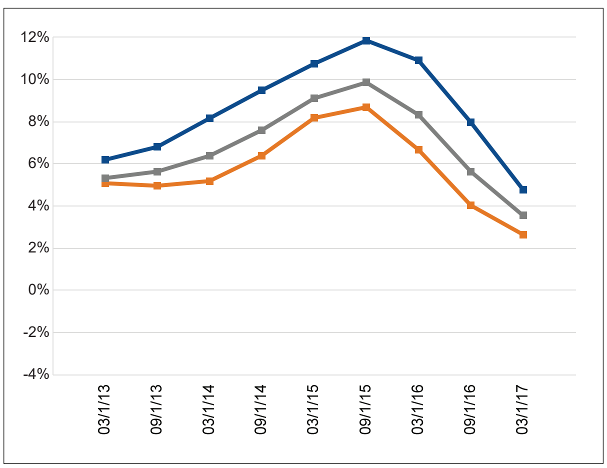
Atlanta



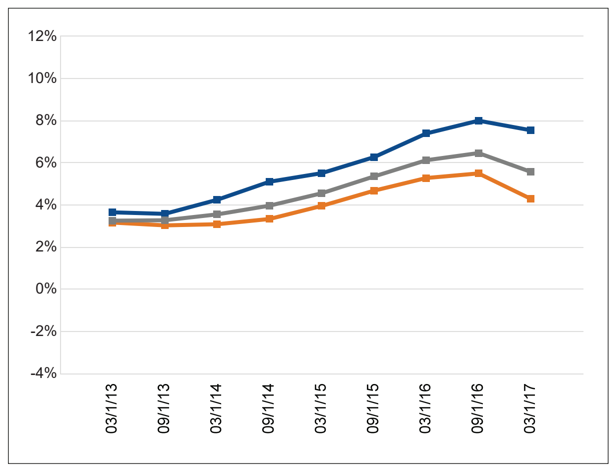
Boston



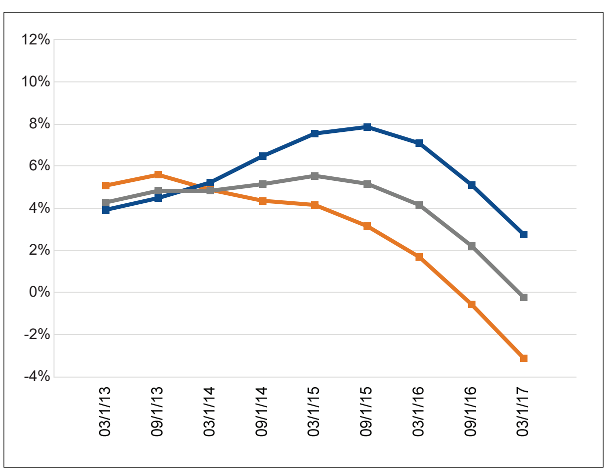
Denver



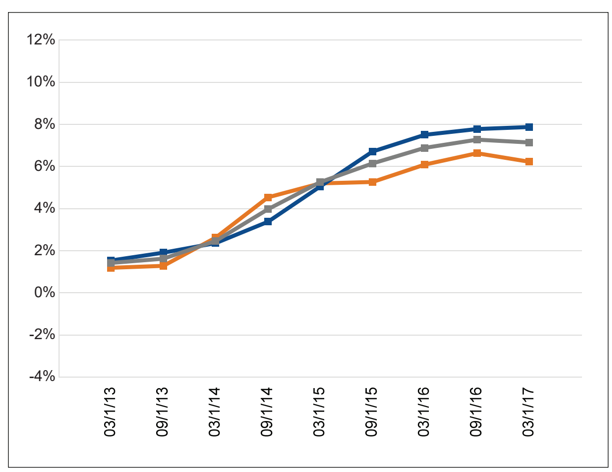
Dallas



Houston

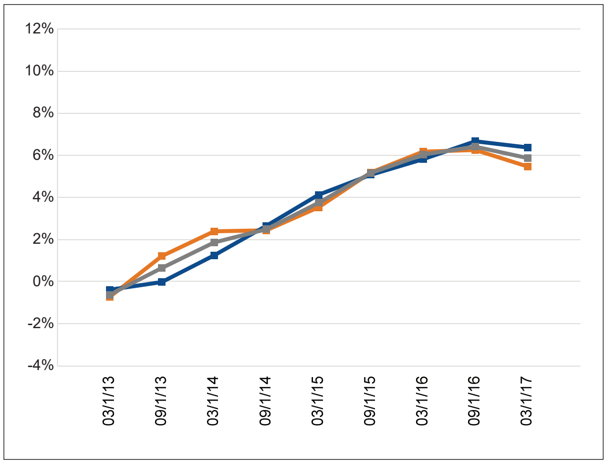


Inland Empire

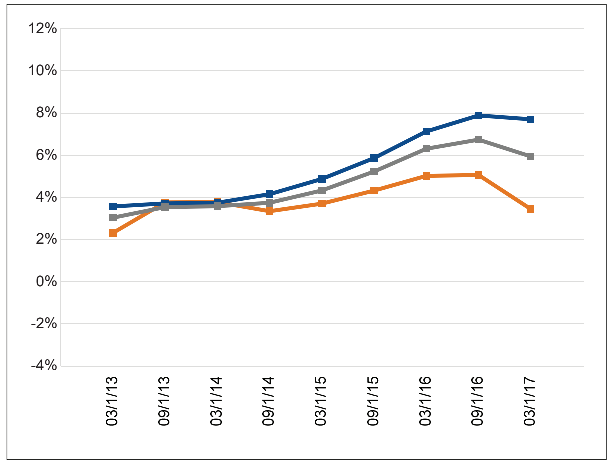


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

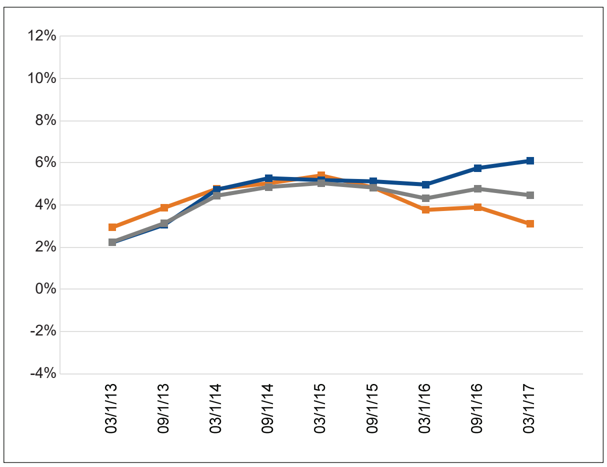
Las Vegas



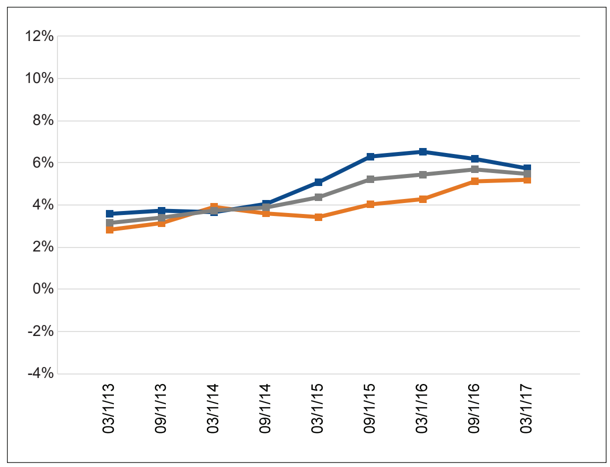
Los Angeles



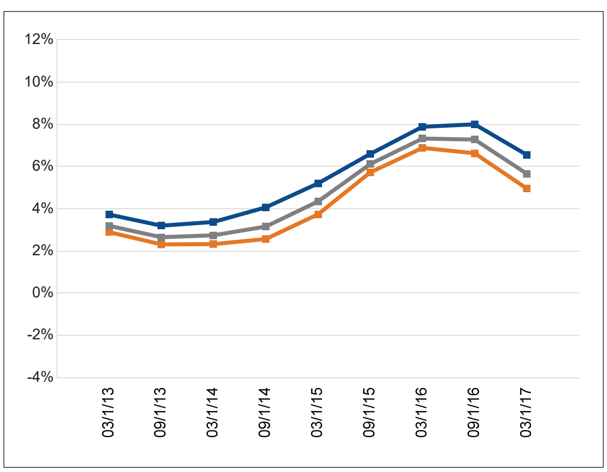
Miami



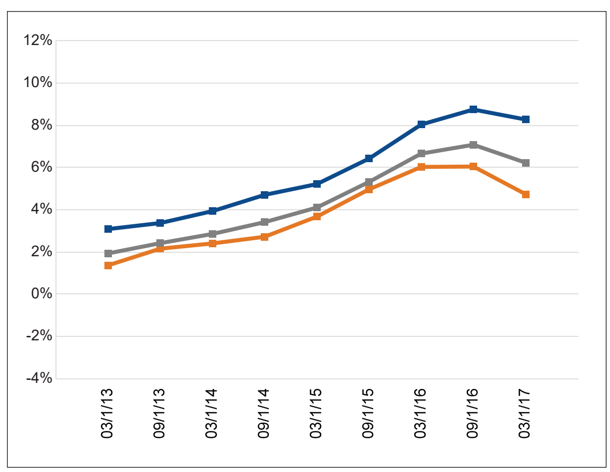
Orange County



Orlando

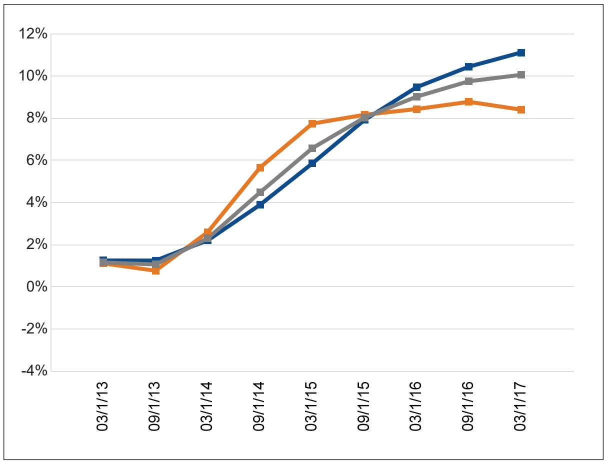


Phoenix

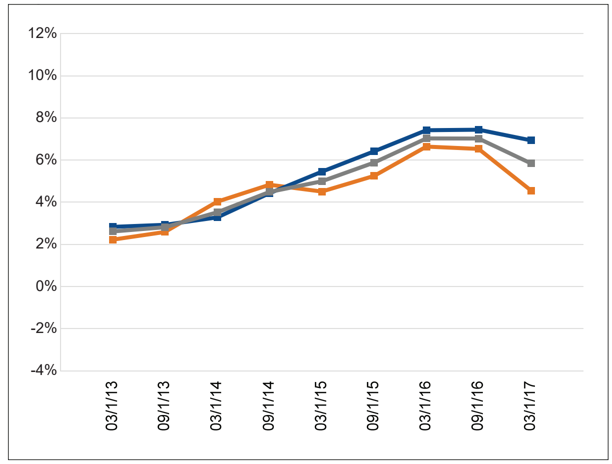


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

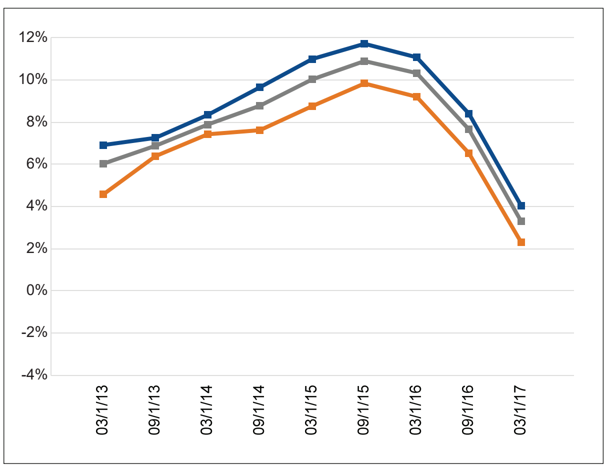
Sacramento



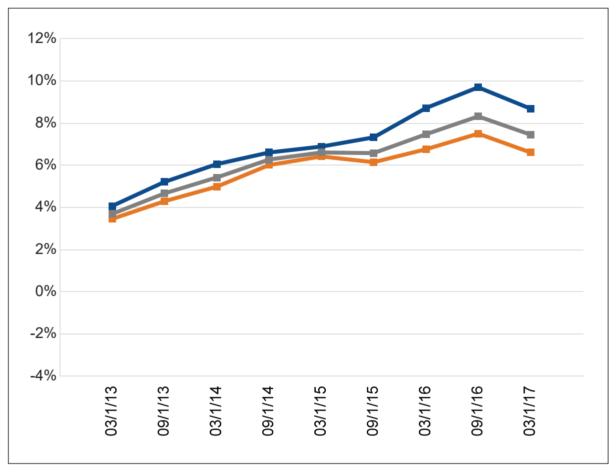
San Diego



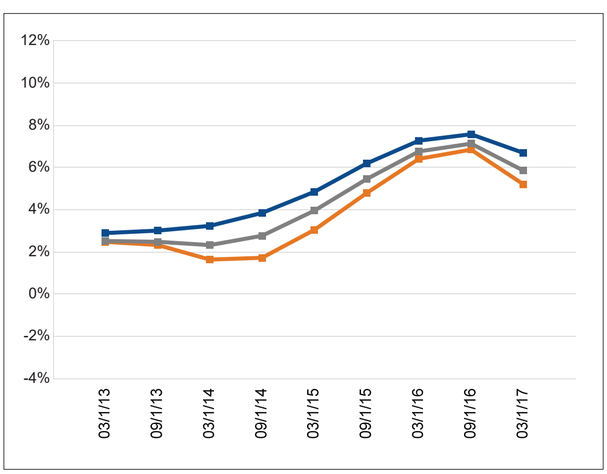
San Francisco



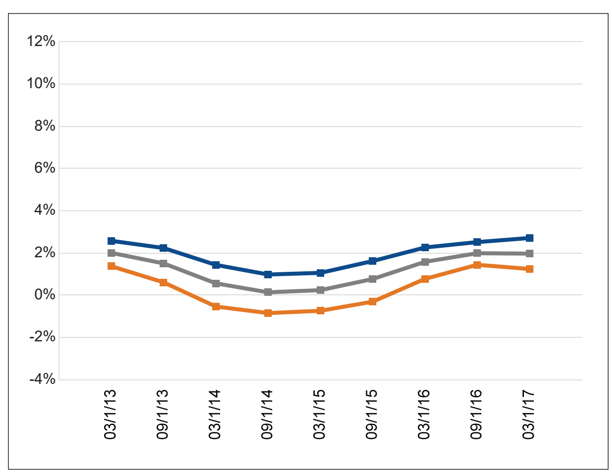
Seattle



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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