# Rent Survey | April 2017

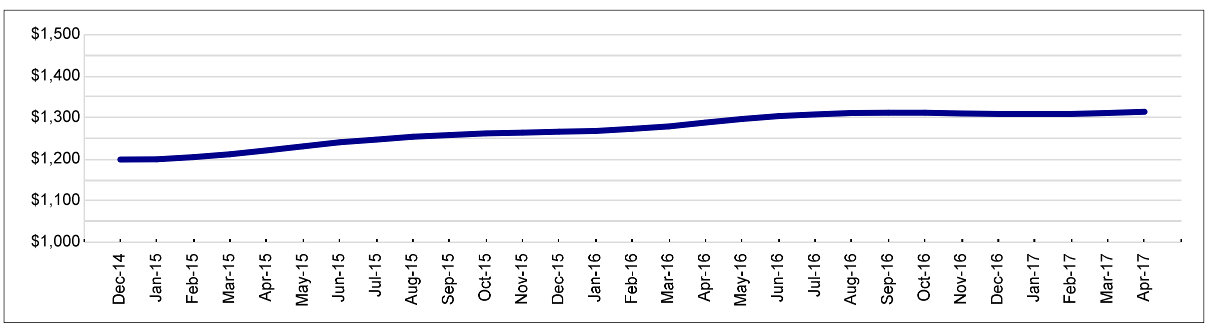
## Multifamily Rents Up; Rate of Growth Continues to Slow

Multifamily rents rose slightly in April, but the rate of growth slid once again and now stands below the long-term average growth rate. Average U.S. monthly rents rose $3 to $1,314, according to Yardi Matrix's monthly survey of 121 markets. On a year-over-year basis, rents were up 2.0% nationwide in April, down 50 basis points from March and well below the 5.5% growth rate of a year ago. The 2.0% year-over-year increase is the lowest it's been since April 2011, when rents were up only 1.5%.

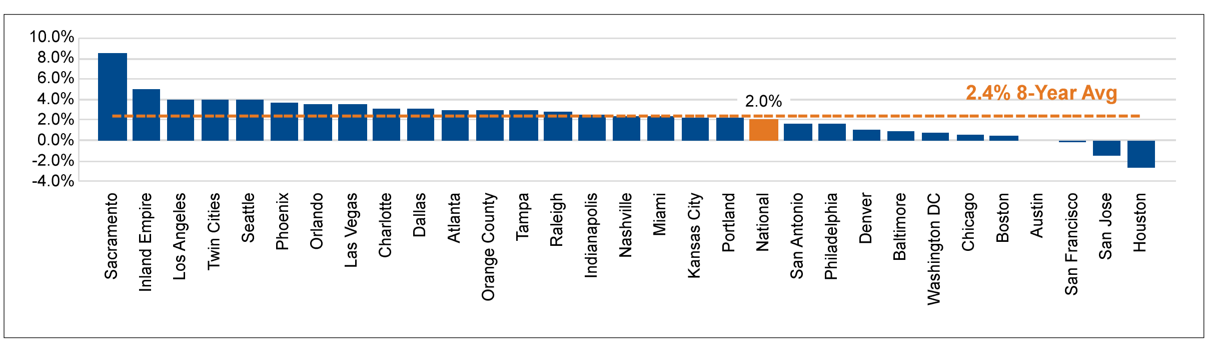
As we have said for months, the deceleration is expected, given the rapid increase in supply and the inevitable return to growth that is more in line with income gains. Rents have (in most metros and most segments) far exceeded the rate of income growth in recent years, when the number of renters increased rapidly while supply nosedived in the wake of the last recession. Now rents are peaking and have become difficult to afford for the average resident in many metros, while supply is at cyclical peaks. We expect upwards of 363,000 units to come online in 2017, with the number of deliveries declining in 2018 and 2019.

Evidence of the impact of new supply includes the difference in growth between property segments. Nationally, rents of working-class Renter-by-Necessity (RBN) properties have increased by a solid 3.3% year-over-year, while upscale Lifestyle properties have risen by only 0.7%. Roughly 80% of the new supply is in the Lifestyle segment, which is aimed at high-income Millennials and downsizing Baby Boomers, while demand in many metros is driven by middle-class renters. The biggest impact is being felt in metros that have heavy supply growth, and the effect is exacerbated when rents are above trend. Examples of the biggest differences between RBN and Lifestyle rent growth include: Houston 5.3% (0.5% RBN, -4.7% Lifestyle); Los Angeles 4.8% (5.8% RBN, 1.0% Lifestyle); Dallas 4.4% (5.6% RBN, 1.2% Lifestyle); Charlotte 4.4% (6.3% RBN, 1.9% Lifestyle); Sacramento 4.2% (10.1% RBN, 5.9% Lifestyle); and Miami 3.9% (4.7% RBN, 0.6% Lifestyle).

### 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.*

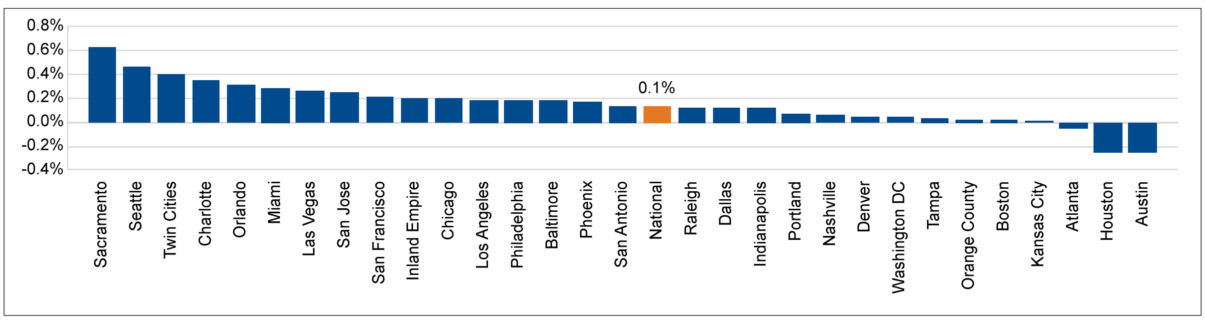
## Trailing 3 Months: Rents Rise Incrementally, Led by RBN

Rents increased 0.1% on a trailing three-month (T-3) basis in April, equaling the pace set in March. The gains all came from the Renter-by-Necessity segment (0.2%), while Lifestyle rents were unchanged, as half of our Matrix Monthly markets registered flat or negative rent growth during the month. The RBN segment fared slightly better, as rents grew in 24 of our top 30 markets. The T-3 segment measures short-term changes in rent growth that may not be indicative of long-term trends.

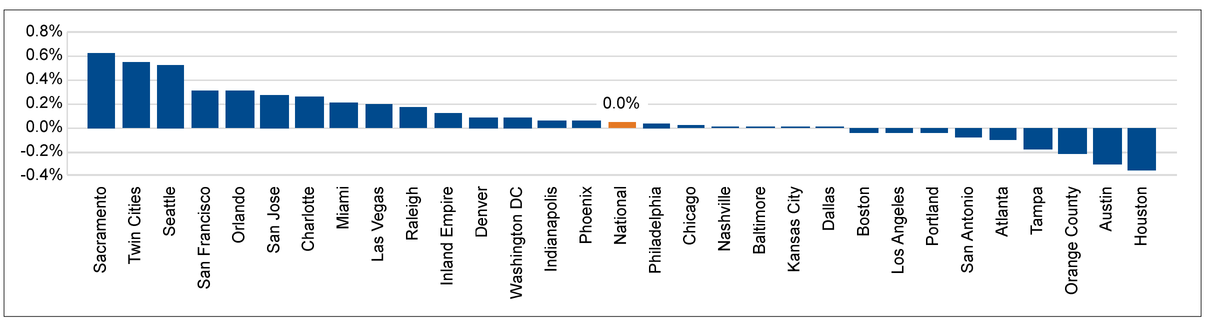
Sacramento (0.6%) once again led all markets in T-3 rent growth, and outperforming markets continue to be located in secondary cities in the Southeast and West. That said, Mid-Atlantic metros Philadelphia and Baltimore (both 0.2%) outpaced the national average. On the other end of the spectrum, Houston and Austin (both -0.3%) continue to decline on a T-3 basis, indicating that the combination of new completions and slower economic growth remains a headwind for the multifamily industry in certain markets.

The Twin Cities and Seattle (both 0.5%), as well as San Francisco (0.3%), had strong Lifestyle rent growth as job gains and income growth drove high-end rents forward. Conversely, RBN rent growth in Charlotte (0.6%), along with Las Vegas and Miami (both 0.5%), outperformed as renters clamored to find more affordable housing amidst the growth of luxury supply.

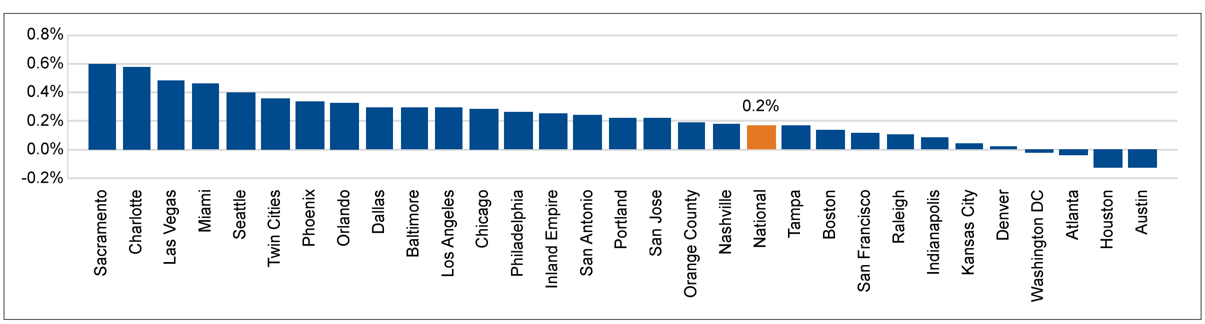
**Trailing 3 Months Sequential—All Asset Classes**




**Trailing 3 Months Sequential—Lifestyle Asset Class**




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

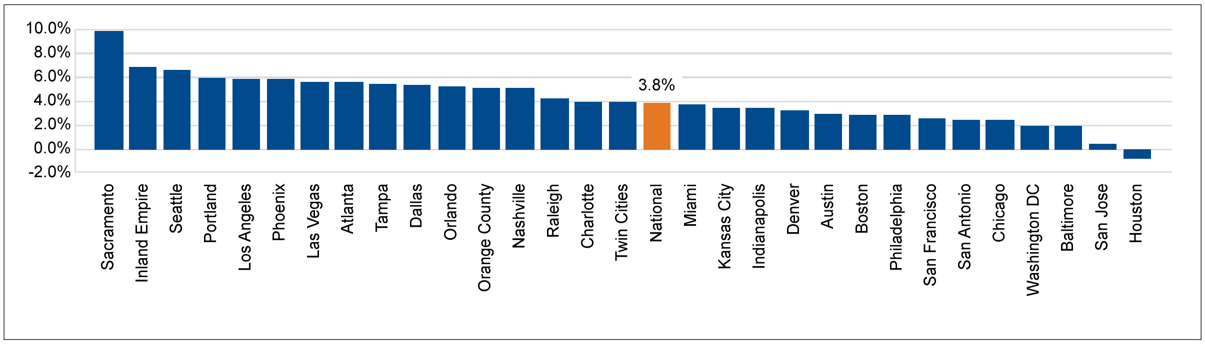


## Trailing 12 Months: Rent Gains Continue to Moderate

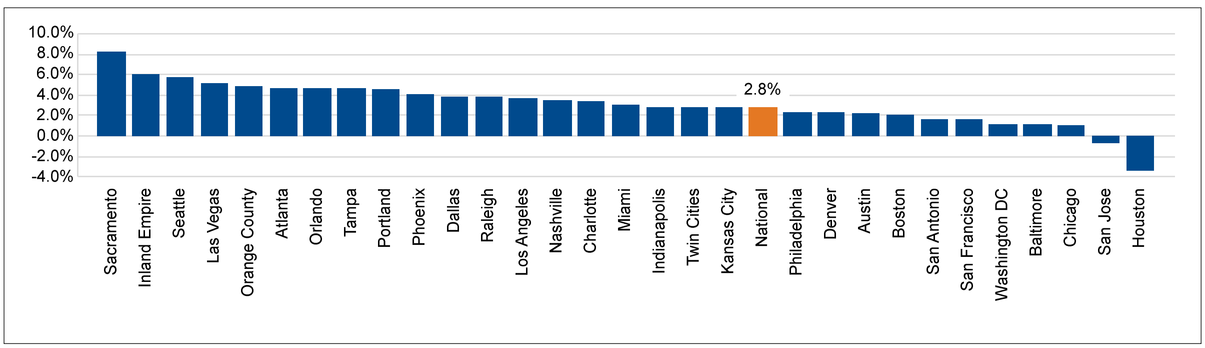
On a trailing 12-month basis (T-12), rents grew 3.8% in April, down 20 basis points from March, as rent gains continue to moderate. RBN rent growth was 4.8% in April, and now exceeds Lifestyle gains by 200 basis points, as the gap between workforce housing and luxury apartments continues to widen. The surge of new Lifestyle supply has limited the pricing power of many apartment owners in secondary markets in the South and West, as well as primary coastal markets.

Sacramento (9.9%) led overall rent growth on a T-12 basis, as strong job growth, limited supply and relative affordability compared to the Bay Area supports the continued upward trajectory of rents. The Inland Empire (6.9%), Seattle (6.6%) and Portland (6.0%) also led the nation, as steady economic fundamentals and population gains support the multifamily housing market.

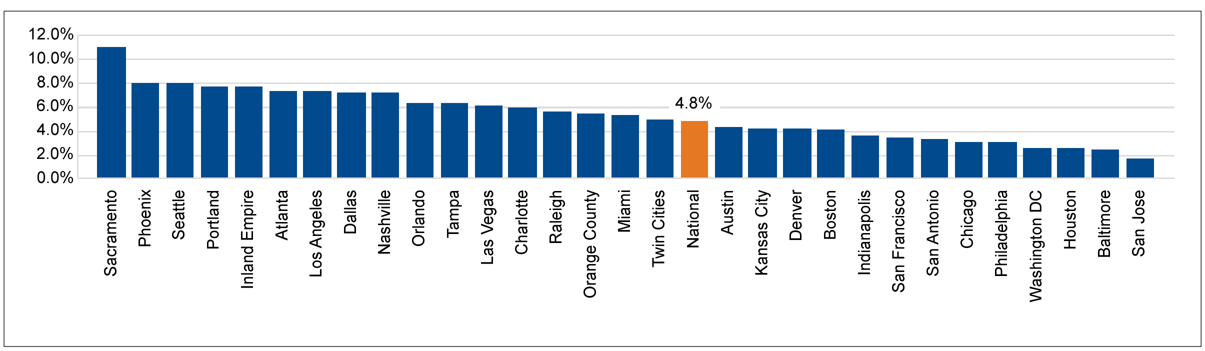
### Trailing 12 Months Year-Over-Year—All Asset Classes




### 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

We expect that rent gains will be rocky over the next 12 to 24 months as the market digests the wave of new supply coming online. Apartment owners should moderate expectations during that time, even though we expect fundamentals to remain strong and the long-term demographic picture looks positive.

Completions are swelling in major and secondary markets across the country. Markets such as San Francisco, Denver and Austin—which saw near double-digit rent growth as recently as 18 months ago—now face a wave of new apartments that are causing the rent growth to flatten or decline in some segments. Other markets—such as Charlotte (completions represent 5.8% of total stock), Nashville (4.9%) and Miami (3.5%)—maintain solid rent growth overall but will likely see a significant deceleration as new units compete with existing stock. Expect to see negative rent growth and concessions for new lifestyle properties, while outsize demand for workforce housing should continue to drive rent gains in the RBN segment.

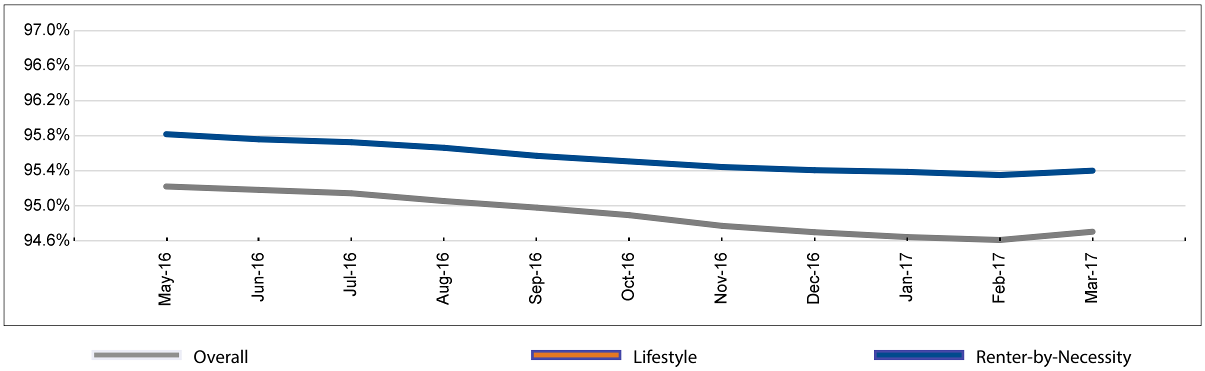
Job growth remains robust and is supporting absorption of the new housing supply, although rent growth will be limited by slowly growing wages. We anticipate 2017 will be the high-water mark for apartment completions, and given the strong pent-up demand for housing, the apartment market has significant long-term upside potential, but it may be some time before we see above-trend growth again.

| Market | Rent Growth YoY 2016 to 2017 | Forecast Rent Growth (YE 2017) | YoY Job Growth (6-mo. moving avg.) as of Feb - 16 | Completions as % of Total Stock as of April - 17 | Occupancy Rates as of Feb - 17 | Occupancy Rates as of March - 17 |
|---|---|---|---|---|---|---|
| Sacramento | 8.5% | 9.5% | 2.6% | 0.6% | 96.5% | 96.6% |
| Seattle | 4.0% | 8.3% | 3.2% | 4.3% | 95.6% | 95.9% |
| Inland Empire | 5.0% | 7.6% | 2.9% | 0.6% | 96.1% | 96.1% |
| Phoenix | 3.6% | 6.0% | 2.7% | 1.8% | 93.9% | 94.1% |
| Orlando | 3.6% | 5.8% | 4.0% | 1.7% | 95.1% | 95.2% |
| Tampa | 2.9% | 5.8% | 3.3% | 1.0% | 94.9% | 95.0% |
| Dallas | 3.0% | 5.5% | 3.5% | 1.9% | 94.9% | 95.1% |
| Los Angeles | 4.0% | 5.5% | 1.9% | 2.6% | 96.2% | 96.3% |
| Miami Metro | 2.3% | 5.3% | 2.6% | 3.5% | 94.8% | 94.8% |
| Las Vegas | 3.5% | 5.0% | 3.2% | 1.3% | 94.7% | 94.9% |
| Orange County | 3.0% | 5.0% | 1.4% | 1.0% | 96.5% | 96.4% |
| Portland | 2.2% | 5.0% | 2.3% | 2.9% | 94.7% | 94.8% |
| Atlanta | 3.0% | 4.7% | 3.6% | 1.7% | 93.3% | 93.5% |
| Nashville | 2.3% | 4.5% | 3.6% | 4.9% | 93.8% | 93.5% |
| Raleigh | 2.8% | 4.2% | 2.9% | 2.4% | 94.4% | 94.2% |
| Charlotte | 3.0% | 3.8% | 3.4% | 5.8% | 93.8% | 94.2% |
| San Francisco | -0.1% | 3.8% | 2.8% | 2.2% | 96.1% | 96.1% |
| Indianapolis | 2.6% | 3.7% | 2.1% | 1.1% | 93.7% | 93.7% |
| Denver | 1.0% | 3.5% | 2.2% | 4.1% | 93.8% | 93.7% |
| Philadelphia | 1.6% | 3.4% | 2.0% | 1.1% | 95.3% | 95.4% |
| Chicago | 0.7% | 3.3% | 0.8% | 2.7% | 94.1% | 94.4% |
| Twin Cities | 4.0% | 3.2% | 1.6% | 1.5% | 97.0% | 97.2% |
| Kansas City | 2.2% | 3.1% | 2.3% | 1.8% | 94.1% | 94.3% |
| Austin | 0.0% | 2.5% | 3.3% | 4.1% | 93.6% | 93.6% |
| San Antonio | 1.7% | 2.0% | 2.6% | 3.2% | 92.5% | 92.6% |
| Washington, DC | 0.8% | 1.9% | 1.5% | 1.8% | 94.9% | 95.0% |
| Boston | 0.4% | 1.8% | 1.5% | 1.6% | 95.9% | 96.0% |
| Baltimore | 0.9% | 1.7% | 1.0% | 1.3% | 94.3% | 94.3% |
| San Jose | -1.5% | 1.5% | 2.4% | 2.4% | 95.3% | 95.3% |
| Houston | -2.5% | 0.7% | 0.4% | 3.2% | 91.9% | 92.0% |
| Houston | -2.2% | 0.7% | 0.5% | 3.0% | 92.9% | 92.9% |

## Occupancy and Asset Classes

Occupancy of stabilized properties was a strong 94.8% nationally as of March, a 10 basis point uptick over February. Although occupancy rates are stable nationally, new supply is having an impact in markets such as Denver (-1.5% year-over-year), Charlotte and Austin (both -1.2%). On the opposite side of the development spectrum, low-construction markets such as the Twin Cities (97.2%), Sacramento (96.6%) and Orange County (96.4%) all maintain historically high occupancy levels.

### Occupancy—All Asset Classes by Month

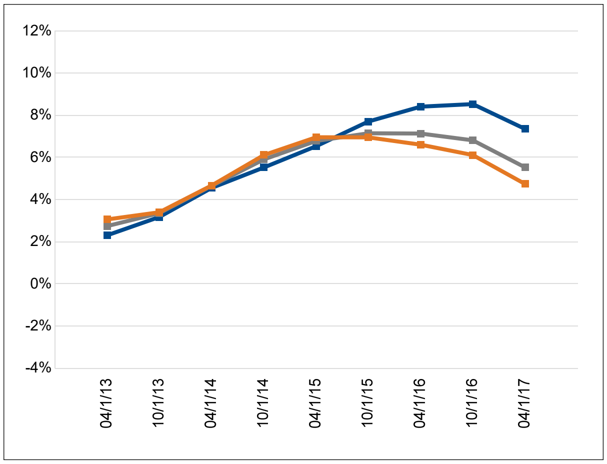



## Year-Over-Year Rent Growth, Other Markets

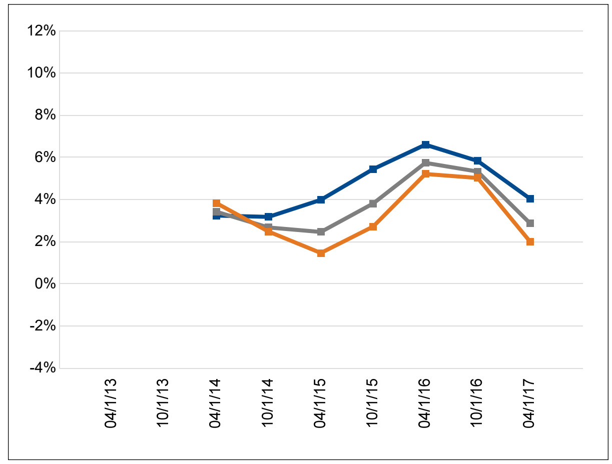
| Market | April 2017 | | |
|---|---|---|---|
| | Overall | Lifestyle | Renter-by-Necessity |
| Reno | 10.2% | 9.7% | 10.6% |
| Colorado Springs | 9.2% | 9.4% | 8.9% |
| Tacoma | 8.3% | 7.3% | 9.0% |
| Central Valley | 5.5% | 5.4% | 5.8% |
| San Fernando Valley | 4.2% | 1.9% | 5.6% |
| NC Triad | 3.1% | 2.5% | 3.6% |
| Tucson | 2.9% | 2.5% | 3.0% |
| Long Island | 2.7% | 1.9% | 3.0% |
| Indianapolis | 2.6% | 2.1% | 2.6% |
| SW Florida Coast | 2.4% | 0.7% | 4.2% |
| Northern New Jersey | 2.1% | 1.6% | 2.5% |
| Louisville | 2.1% | 0.4% | 2.6% |
| Albuquerque | 1.7% | 1.2% | 2.0% |
| Central East Texas | 1.2% | 0.6% | 1.3% |
| St. Louis | 1.2% | 1.9% | 1.0% |
| Bridgeport - New Haven | 0.7% | -1.1% | 1.7% |
| El Paso | -0.7% | -1.0% | -0.7% |

## Market Rent Growth by Asset Class

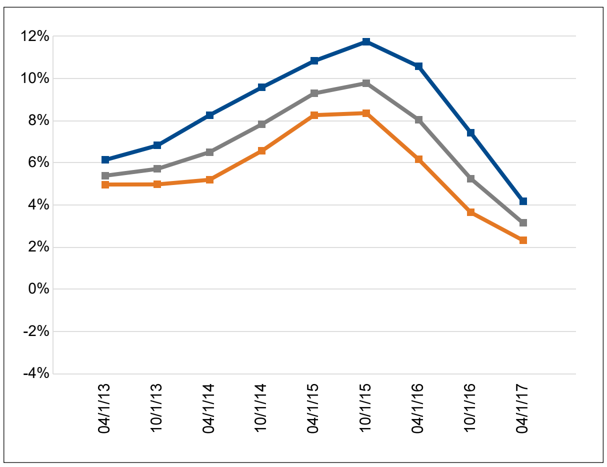
### Atlanta



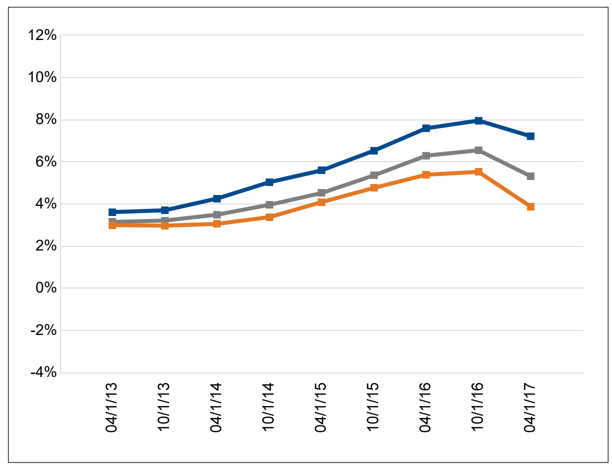

### Boston



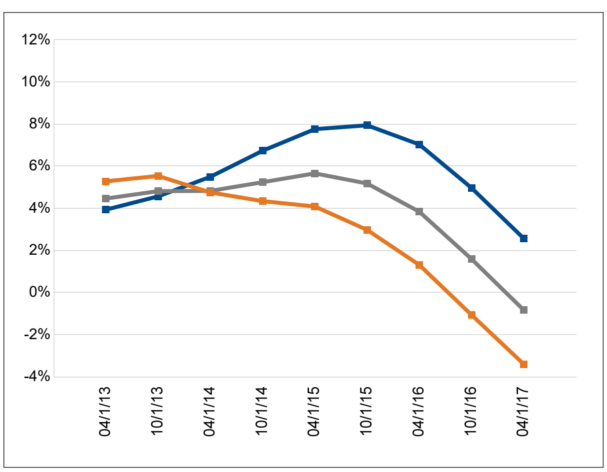

### Denver



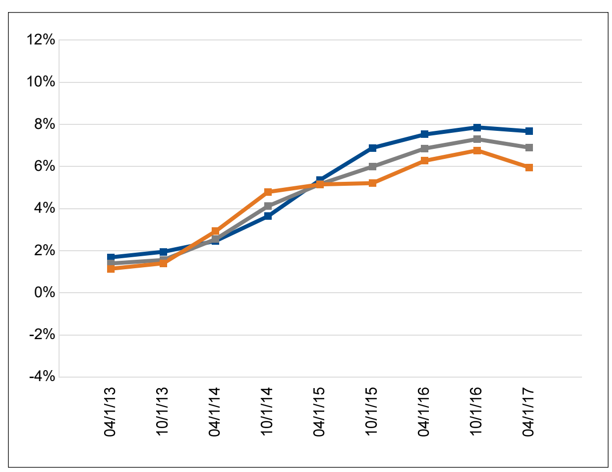

### Dallas




### Houston

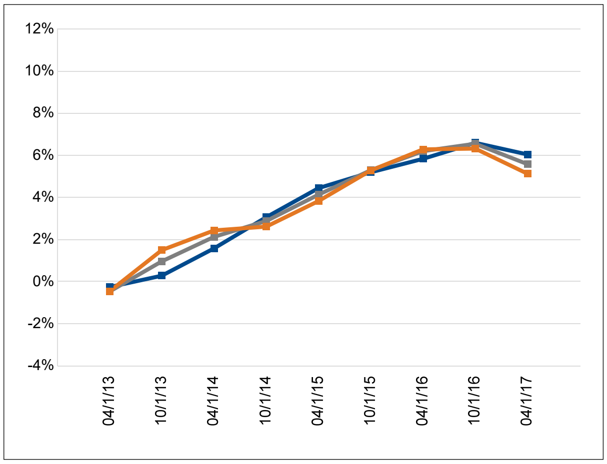



### Inland Empire

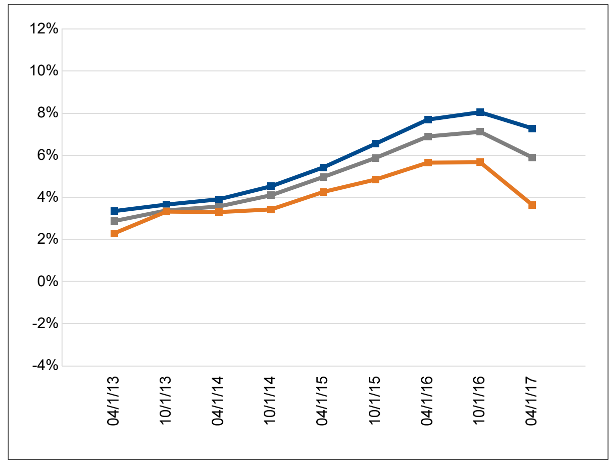



Trailing 12 Months Overall    Trailing 12 Months Lifestyle    Trailing 12 Months Renter-by-Necessity

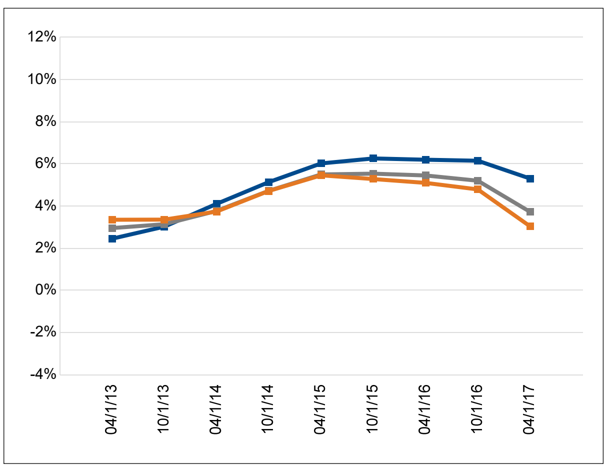
## Las Vegas



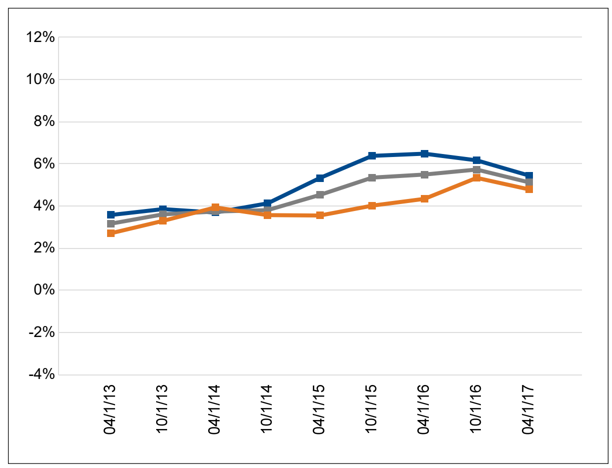

## Los Angeles



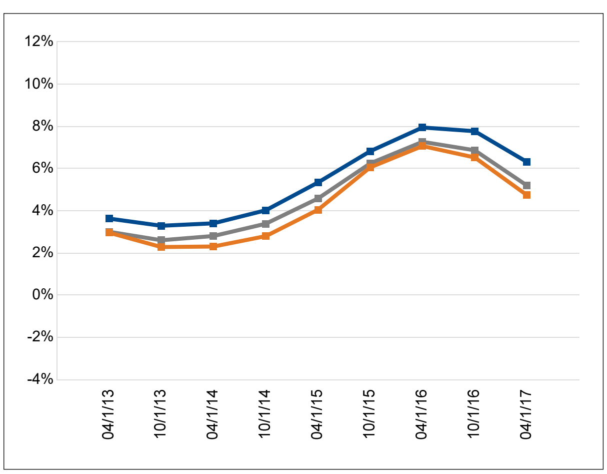

## Miami



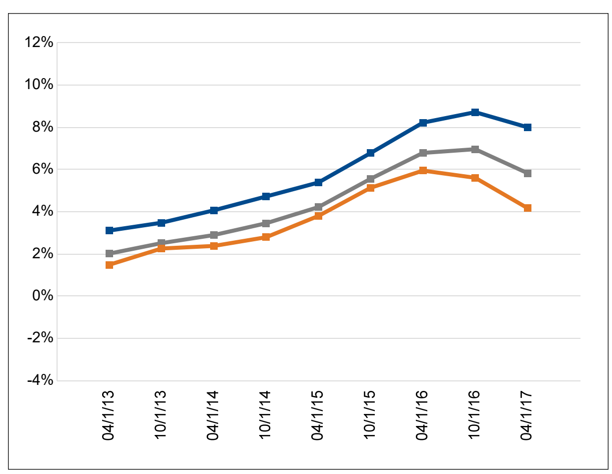

## Orange County




## Orlando

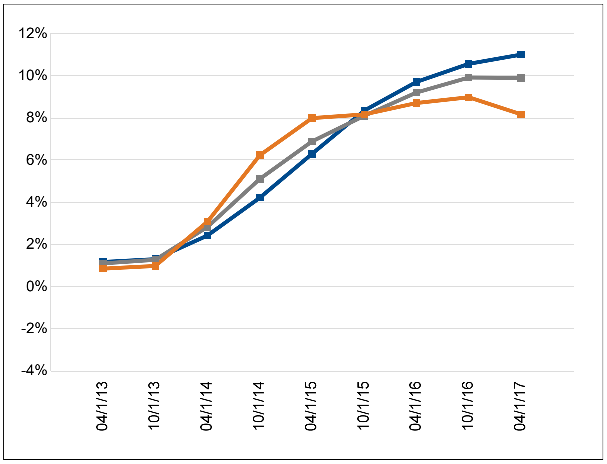



## Phoenix

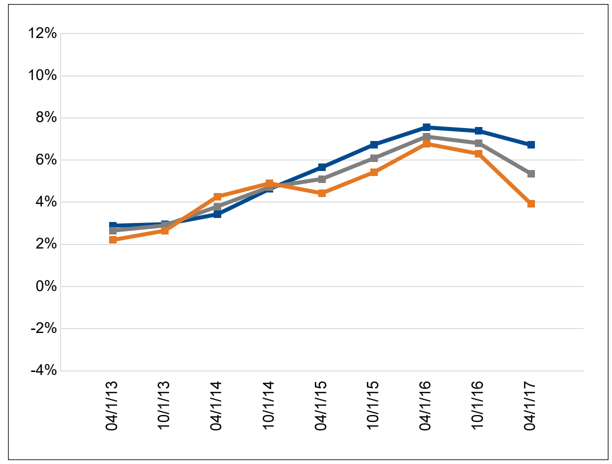



Trailing 12 Months Overall    Trailing 12 Months Lifestyle    Trailing 12 Months Renter-by-Necessity

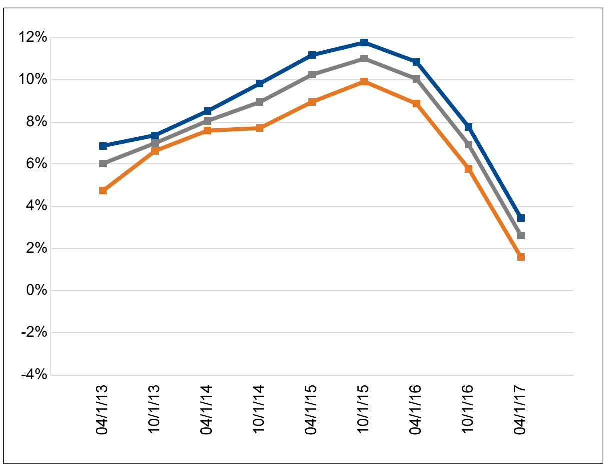
## Sacramento



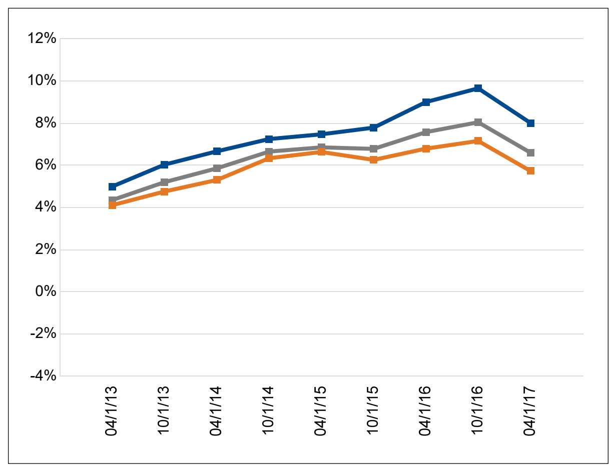

## San Diego



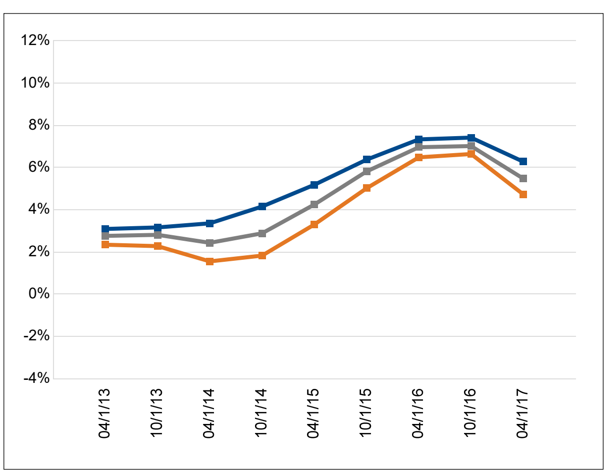

## San Francisco



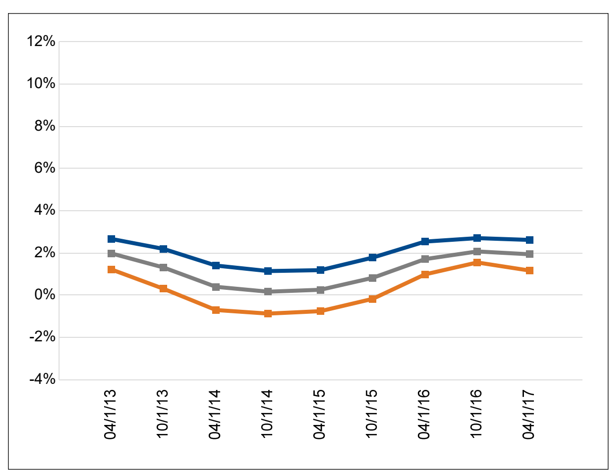

## Seattle




## 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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