Rent Survey | May 2017

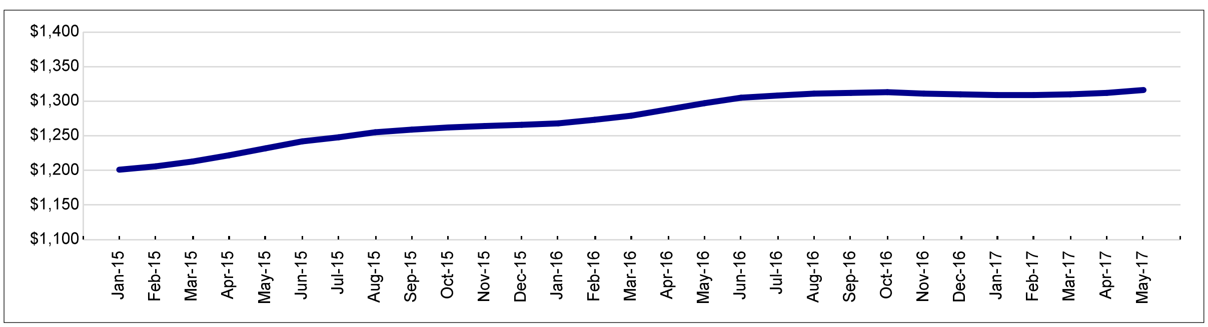
Unlucky 13: Rate of Multifamily Rent Growth Slides Again

U.S. multifamily rents increased in May for the third month in a row, while the rate of growth continues to decelerate. Average U.S. monthly rents rose $4 to $1,316, according to Yardi Matrix's monthly survey of 121 markets. On a year-over-year basis, rents were up 1.5% nationwide in May, down 40 basis points from April, 90 basis points from March and well below the 5.3% growth rate of a year ago. Deceleration is more than firmly established, as the year-over-year growth rate has decreased for 13 straight months since reaching 5.4% in April 2016. The last time the year-over-year increase was as low as 1.5% was in April 2011.

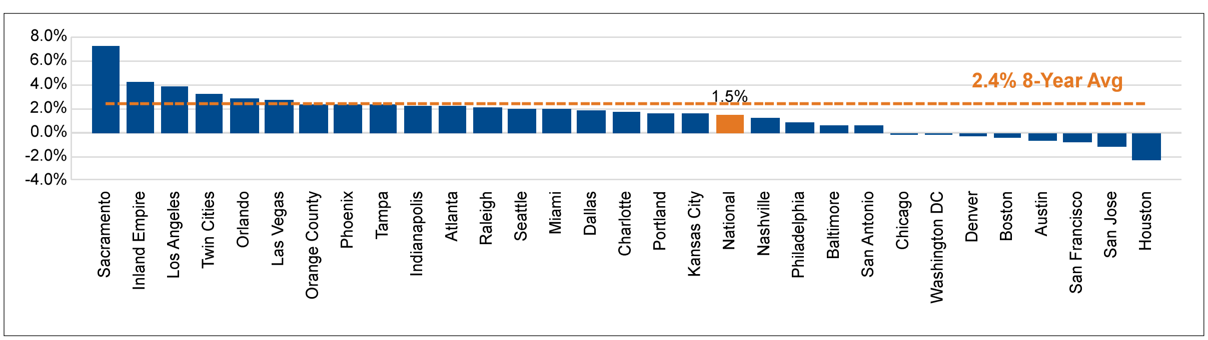
Driving the rent deceleration is the increase in supply nationally combined with issues that vary by market, such as slowing demand or affordability. We expect 360,000 units to come online in 2017, on top of 281,000 new units in 2016. Evidence that the supply is taking a toll comes from the difference in rent growth between upscale Lifestyle units, where the new developments are concentrated, and working-class Renter-by-Necessity (RBN) units. Nationally, Lifestyle rents have been flat (0.0%) year-over-year, while RBN rents are up a moderate 2.6%. On a metro level, Sacramento (7.3%) continues to lead in rent growth, followed by the Inland Empire (4.2%) and Los Angeles (3.9%). The biggest impact of the deceleration might be the high-growth warm-weather metros such as Orlando (2.8%), Phoenix (2.3%), Atlanta (2.2%) and Dallas (1.8%), where demand remains healthy but rent increases are being held back by new construction.

Although the slowing rate of rent growth is not unexpected—coming as it did on the heels of several years of outsized increases—the questions facing the market now include how low the rate of growth will go and how long growth will remain in the doldrums. The answers may well depend on how long the supply spigot remains open and how well the economy performs. We anticipate that supply will peak this year, although it will remain relatively robust in 2018 and 2019.

National Average Rents

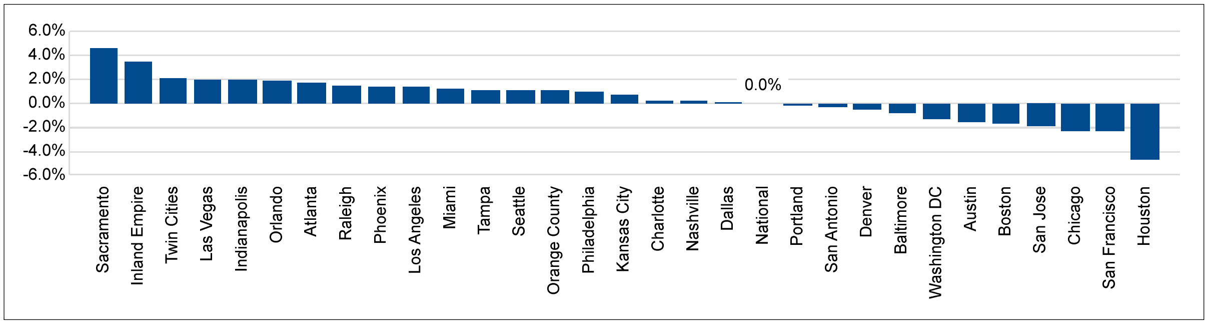


Year-Over-Year Rent Growth—All Asset Classes

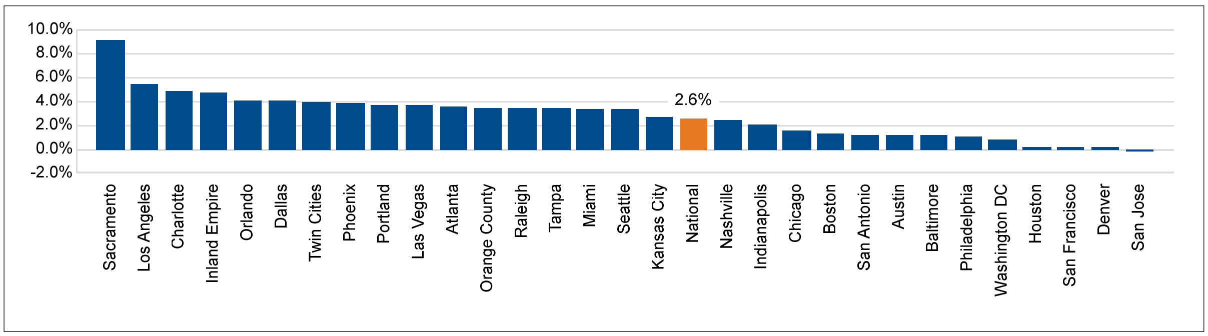


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

Year-Over-Year Rent Growth—Lifestyle Asset Class



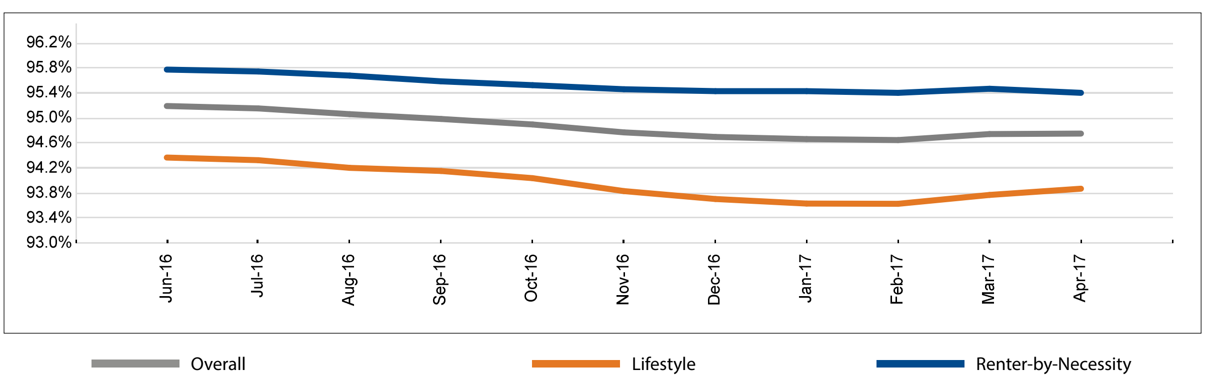
Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Occupancy and Asset Classes

Overall occupancy of stabilized properties was 94.8% nationwide as of April, unchanged from March but down 50 basis points year-over-year. The occupancy rate of Lifestyle properties rose 10 basis points to 94.0% in April, but remains down 60 basis points year-over-year. RBN occupancy rates dropped 10 basis points in April to 95.3%, and have declined by 0.5% year-over-year. New supply continues to have a negative short-term effect on occupancy levels.

Occupancy—All Asset Classes by Month



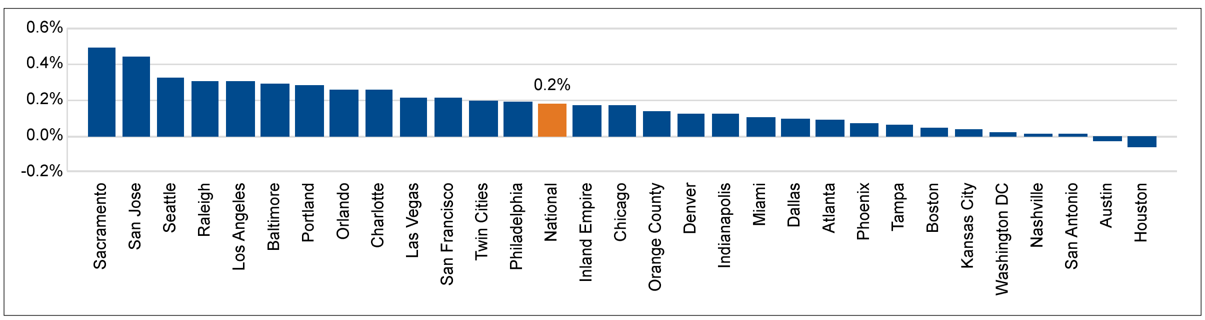
Trailing 3 Months: Rents Up Modestly

Rents increased 0.2% on a trailing three-month (T-3) basis in May, up 10 basis points from March. The Renter-by-Necessity segment (0.2%) led gains, while Lifestyle rents rose 0.1%. The T-3 segment measures short-term changes in rent growth that may not be indicative of long-term trends.

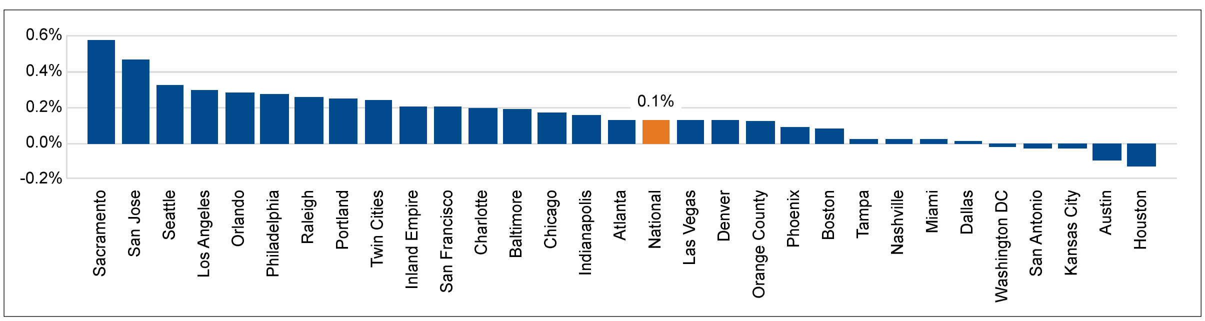
The T-3 numbers don't have a lot of good news. Only two metros—Sacramento (0.5%) and San Jose (0.4%)—rose more than 0.3%, and that was just barely. Rent growth is normally strong in the spring, which is why the rate of growth is lower than previous years while overall rents are rising moderately. Anybody looking for a silver lining, however, would note that there are virtually no negative numbers in the survey save for Houston, down a miniscule 0.1%. That could be a sign that the market's bottom encompasses modest rent increases.

The year-over-year numbers show a large difference between Lifestyle and RBN in many metros. The difference in growth between the two categories was highest in Houston (5.0%, or -4.7% for Lifestyle and 0.3% for RBN); Charlotte (4.6%, 0.2% for Lifestyle and 4.8% for RBN); Sacramento (4.5%, or 4.5% for Lifestyle and 9.0% for RBN); San Diego (4.3%, or 0.2% for Lifestyle and 4.5% for RBN); Los Angeles (4.1%, or 1.3% for Lifestyle and 5.4% for RBN) and Dallas (4.0%, or 0.1% for Lifestyle and 4.1% for RBN). Metros with the least difference include Indianapolis (2.0% for both Lifestyle and RBN) and Philadelphia (0.1%, or 1.0% for Lifestyle and 1.1% for RBN).

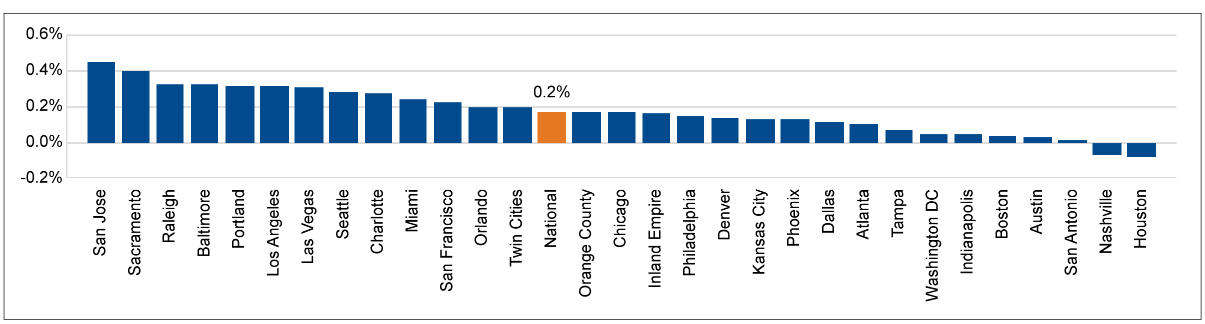
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

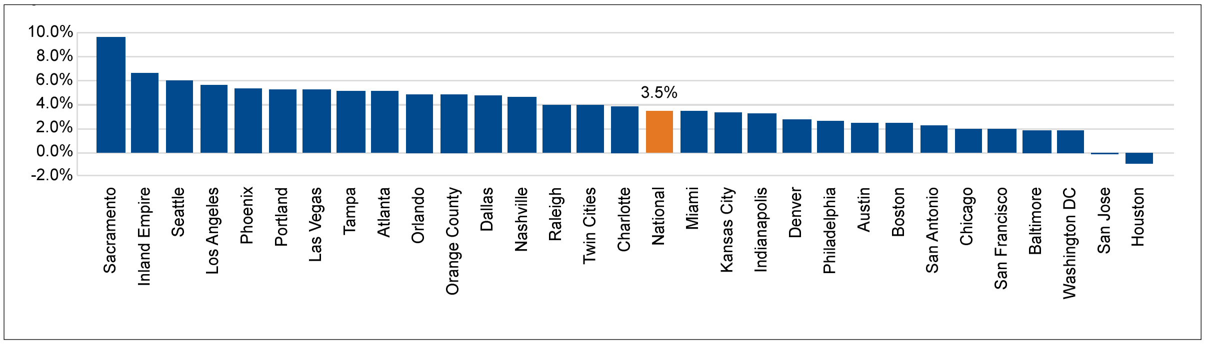


Trailing 12 Months: Rent Gains Continue to Moderate

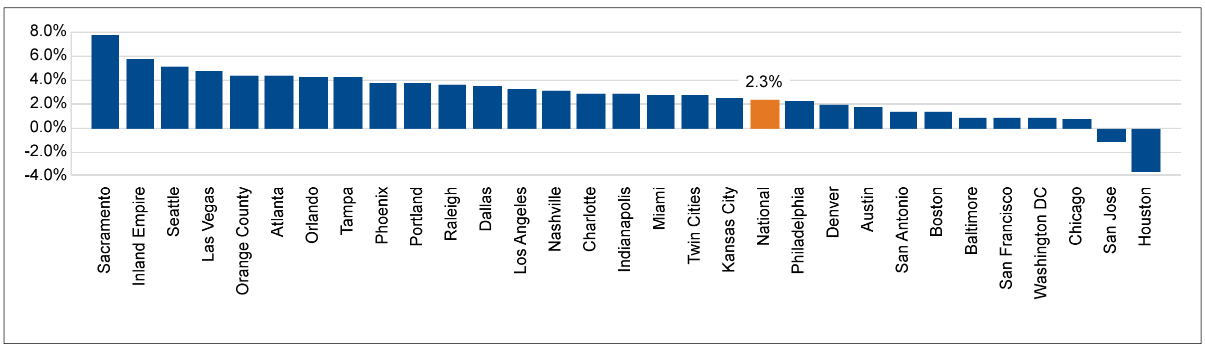
On a trailing 12-month basis (T-12), rents grew 3.5% in May, down 30 basis points from April, as the national deceleration trend continues. RBN led rent growth in May at 4.5%, outpacing Lifestyle, which rose by 2.3%. New supply of high-end units has had a dampening effect on Lifestyle rent growth for much of the past two years.

West Coast markets Sacramento (9.7%), the Inland Empire (6.6%) and Seattle (5.9%) continue to lead the nation on a T-12 basis, as steady employment and real estate fundamentals support rent growth. However, Houston (-1.0%) remains the only market with negative overall T-12 rent growth, as the glut of new supply continues to be met with weaker economic improvement due to low and stagnant energy prices. More specifically, rents in Houston's Lifestyle segment fell 3.7% on a T-12 basis.

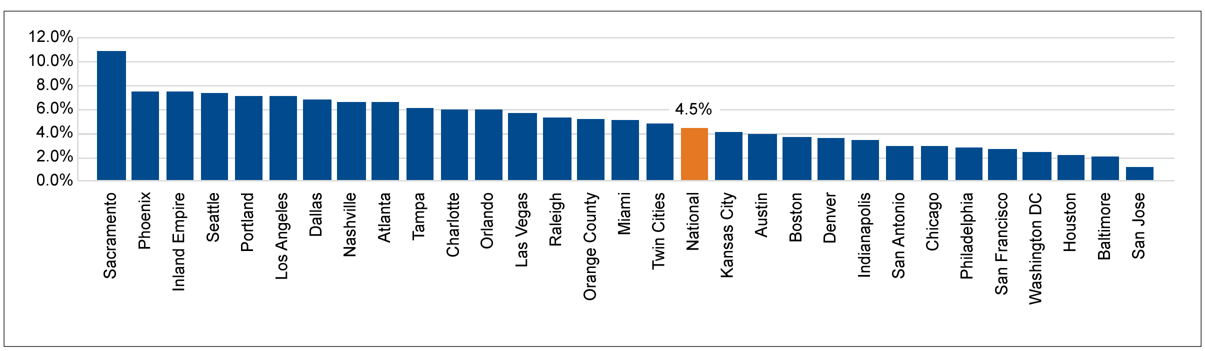
Trailing 12 Months Year-Over-Year—All Asset Classes



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

Supply growth continues to play a significant role in nationwide rent deceleration, as markets with a great deal of new supply are feeling pressure. Apartment deliveries will likely peak in 2017, which will stress the pricing power of apartment owners in the short term.

Supply growth is heaviest in rapidly expanding markets in the South and West. Metros in which completions will add more than 3.0% to total stock in 2017 include Charlotte, Nashville, Austin, Houston, Miami and Denver. The new supply has contributed to a decline in occupancy over the past year in those metros. The biggest drop was in Nashville, where occupancy rates fell 1.7% year-over-year as of April, followed by Houston (down 1.2%), and Denver and Austin (both down 1.0%). Markets with less development have not been completely unaffected by the decline in occupancy, although the impact has been significantly less extreme. Completions represent less than 1% of stock in California markets such as Sacramento, the Inland Empire and Orange County, and the year-over-year occupancy decline in each market is less than 30 basis points.

Despite the glut of new supply hitting the market in 2017, a number of factors indicate long-term momentum for the apartment sector. Steady job growth, low single-family home starts and pent-up housing demand from the 83 million-strong Millennial generation should enable the multifamily industry to bounce back after it weathers the current turbulence.

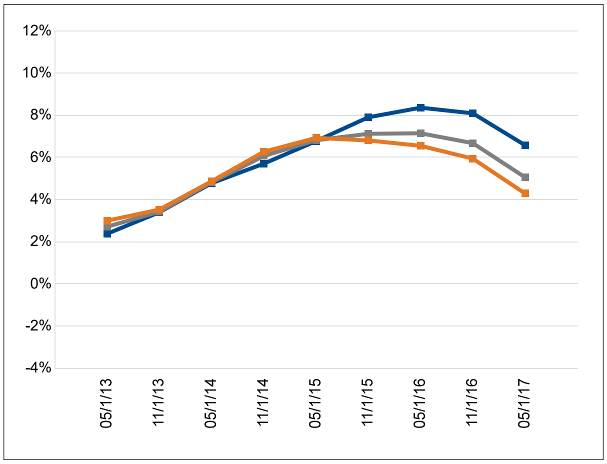
Market	YoY Rent Growth as of April - 17	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of March - 17	Completions as % of Total Stock as of May - 17	Occupancy Rates as of March - 17	Occupancy Rates as of April - 17
Sacramento	7.3%	8.2%	2.3%	0.6%	96.6%	96.6%
Inland Empire	4.2%	6.1%	2.9%	0.5%	96.1%	96.1%
Phoenix	2.3%	5.3%	2.6%	1.7%	94.2%	94.4%
Los Angeles	3.9%	5.0%	1.8%	2.8%	96.3%	96.2%
Seattle	2.0%	4.9%	3.2%	4.1%	95.6%	95.5%
Las Vegas	2.7%	4.5%	3.1%	1.1%	95.1%	95.2%
Tampa	2.3%	4.5%	3.3%	0.9%	95.0%	95.1%
Dallas	1.8%	4.3%	3.6%	1.8%	95.1%	95.0%
Orlando	2.8%	4.2%	3.8%	1.6%	95.3%	95.4%
Orange County	2.4%	4.1%	1.3%	0.9%	96.5%	96.5%
Twin Cities	3.2%	3.9%	1.6%	1.4%	97.2%	97.0%
Nashville	1.2%	3.8%	3.6%	3.9%	93.7%	93.9%
Miami Metro	1.9%	3.6%	2.5%	3.3%	94.8%	94.9%
Atlanta	2.2%	3.5%	3.6%	1.4%	93.5%	93.5%
Indianapolis	2.2%	3.0%	2.0%	0.8%	94.0%	93.8%
Raleigh	2.1%	3.0%	2.8%	2.2%	94.2%	94.1%
Kansas City	1.6%	2.6%	2.4%	1.5%	94.3%	94.2%
Philadelphia	0.9%	2.6%	2.0%	1.0%	95.4%	95.4%
Chicago	-0.1%	2.5%	0.7%	2.6%	94.4%	94.6%
Portland	1.6%	2.5%	2.2%	2.2%	94.8%	94.6%
Charlotte	1.7%	2.5%	3.2%	5.0%	94.2%	94.4%
San Antonio	0.5%	2.3%	2.5%	3.2%	92.6%	92.8%
Denver	-0.3%	2.0%	2.2%	4.1%	93.9%	93.9%
Baltimore	0.6%	1.4%	1.0%	1.2%	94.3%	94.4%
Washington, DC	-0.1%	1.4%	1.5%	1.8%	95.0%	95.2%
Boston	-0.4%	1.1%	1.5%	1.6%	96.0%	96.1%
Austin	-0.6%	1.1%	3.3%	3.8%	93.7%	93.8%
Houston	-2.3%	0.5%	0.6%	3.0%	91.9%	91.9%
San Jose	-1.1%	0.5%	2.4%	2.2%	95.3%	95.4%
San Francisco	-0.8%	0.0%	2.7%	2.0%	96.1%	96.0%

Year-Over-Year Rent Growth, Other Markets

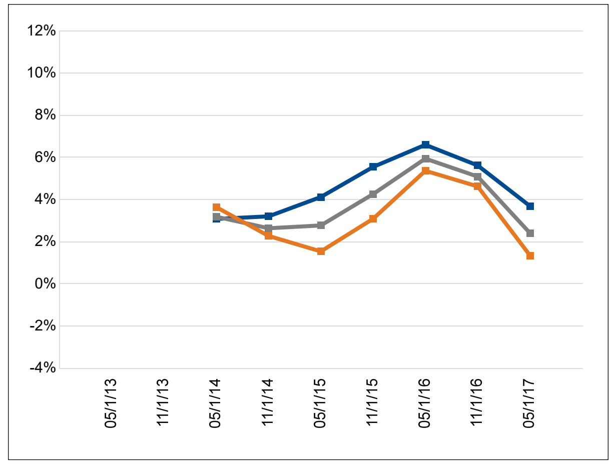
Market	May 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	10.1%	11.2%	9.5%
Colorado Springs	9.3%	9.5%	9.0%
Tacoma	7.0%	5.8%	8.3%
Central Valley	5.2%	4.3%	5.4%
San Fernando Valley	3.7%	1.7%	4.8%
Long Island	3.4%	1.7%	4.2%
Tucson	3.3%	2.8%	3.4%
NC Triad	2.6%	2.4%	3.0%
Indianapolis	2.2%	2.0%	2.0%
SW Florida Coast	2.0%	1.4%	3.0%
Albuquerque	1.8%	0.9%	2.3%
Louisville	1.7%	0.4%	2.2%
Northern New Jersey	1.5%	0.8%	2.2%
Central East Texas	0.5%	0.0%	0.5%
Bridgeport - New Haven	0.4%	-0.9%	1.4%
St. Louis	0.3%	0.8%	0.1%
El Paso	-0.7%	-0.9%	-0.7%

Market Rent Growth by Asset Class

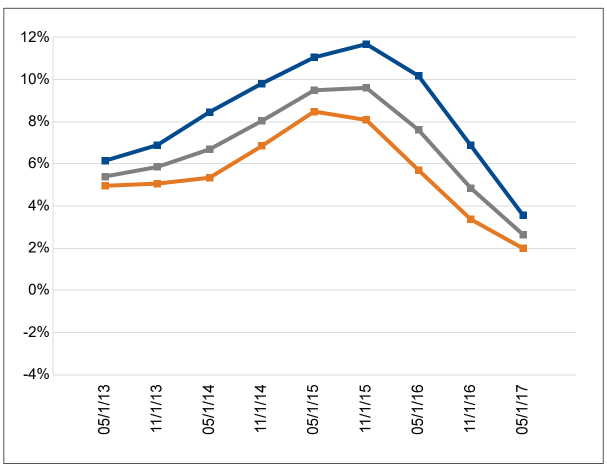
Atlanta



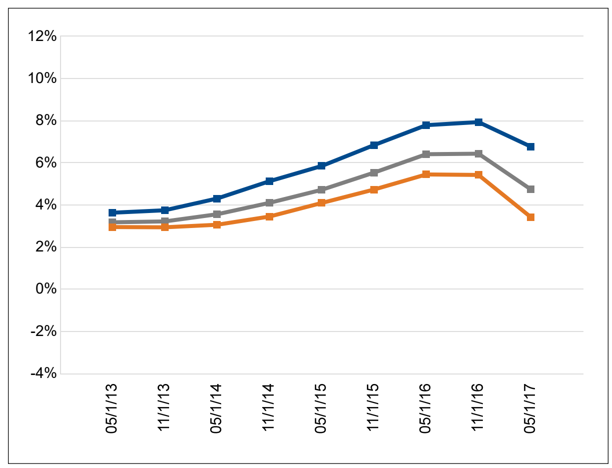
Boston



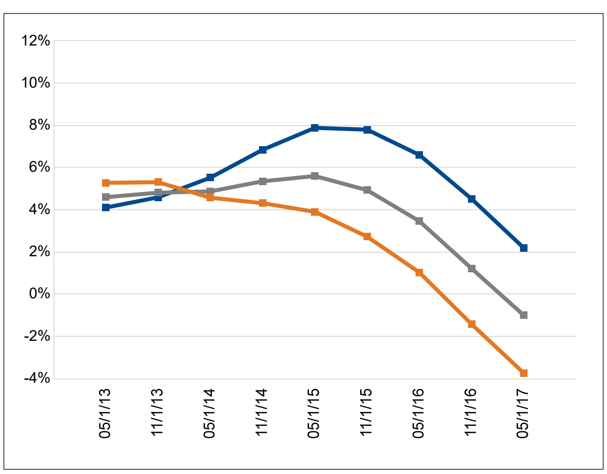
Denver



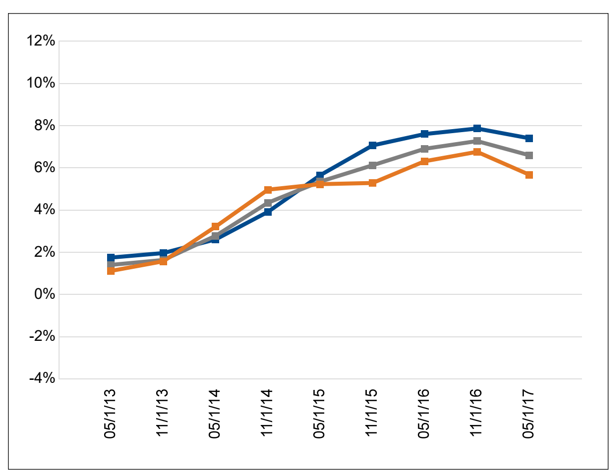
Dallas



Houston

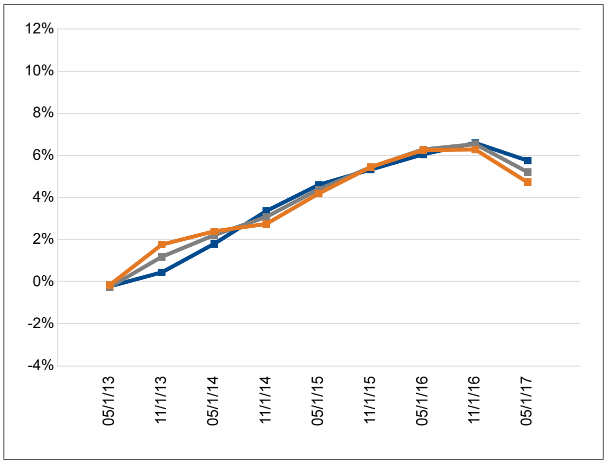


Inland Empire

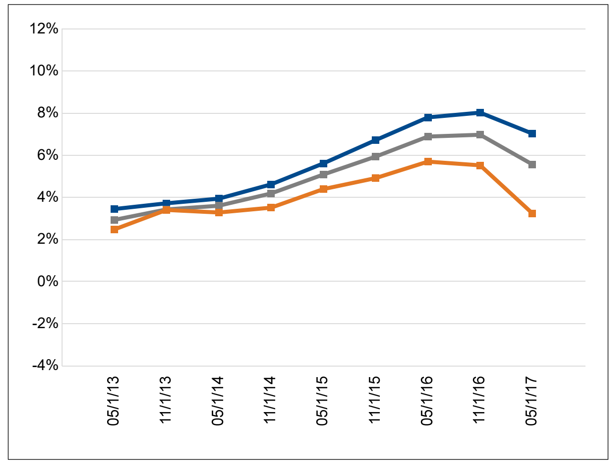


Trailing 12 Months Overall Trailing 12 Months Lifestyle Trailing 12 Months Renter-by-Necessity

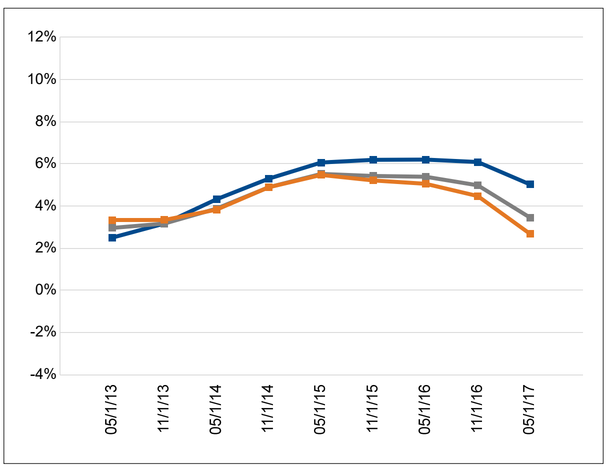
Las Vegas



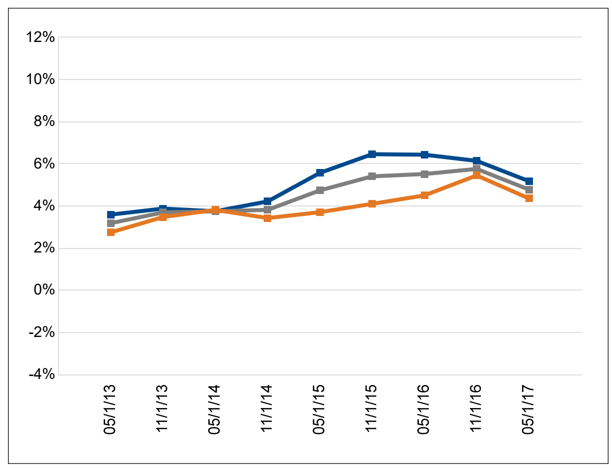
Los Angeles



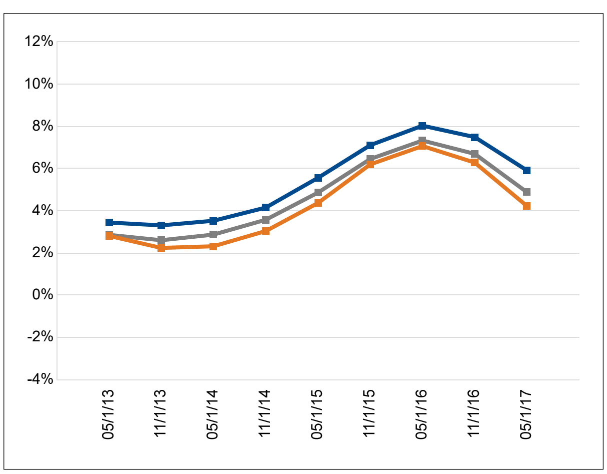
Miami



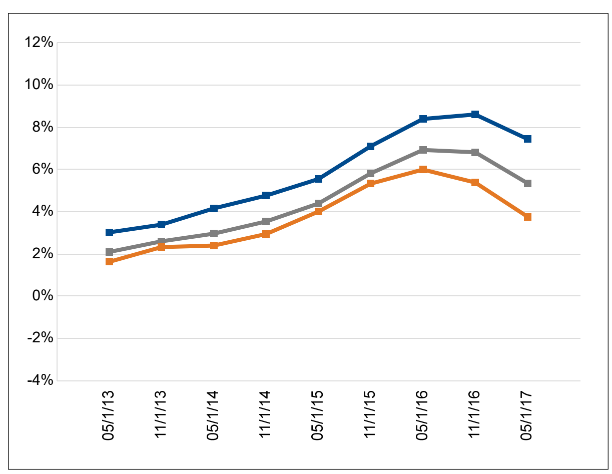
Orange County



Orlando

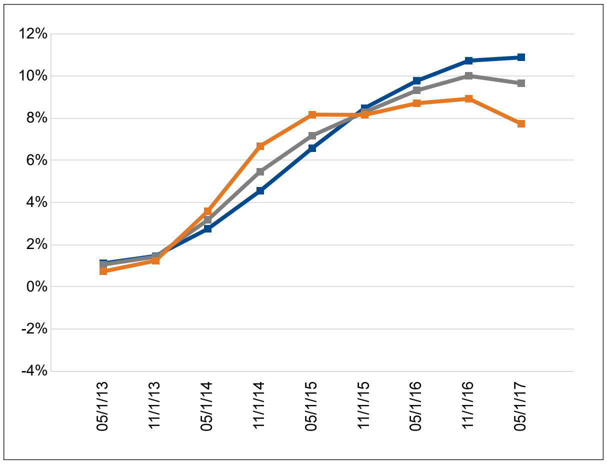


Phoenix

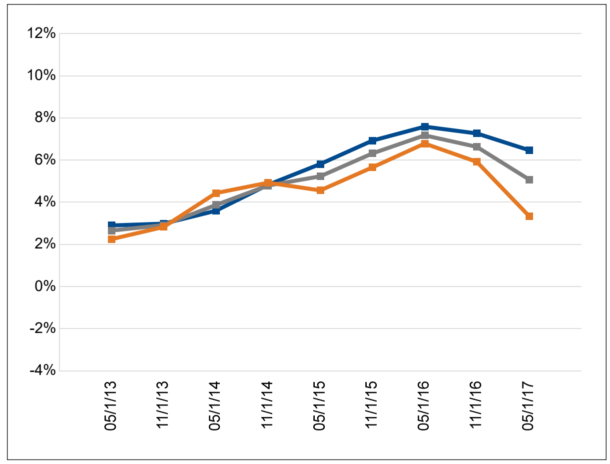


Trailing 12 Months Overall | Trailing 12 Months Lifestyle | Trailing 12 Months Renter-by-Necessity

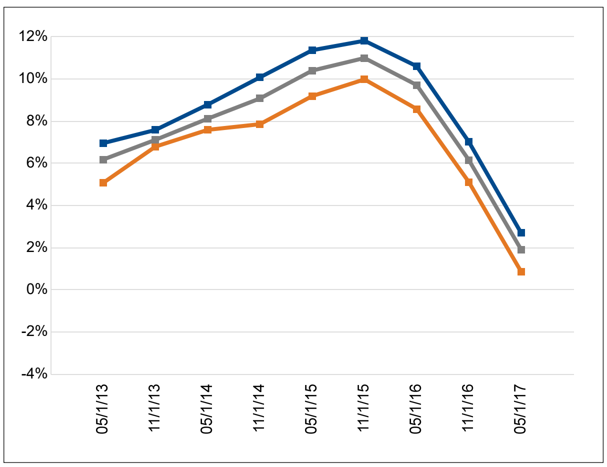
Sacramento



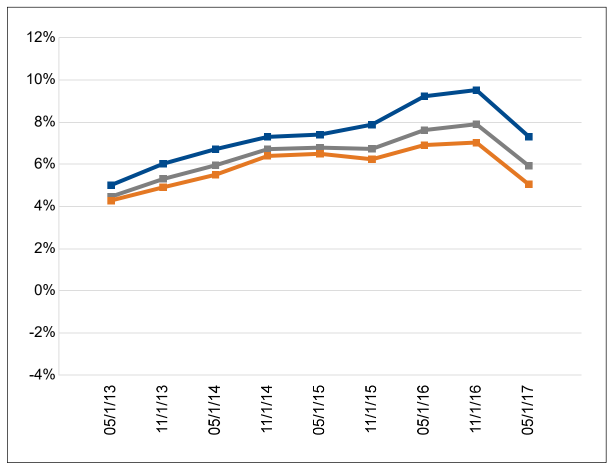
San Diego



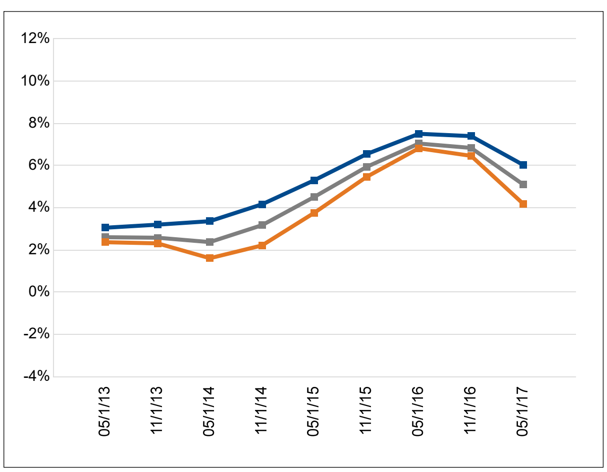
San Francisco



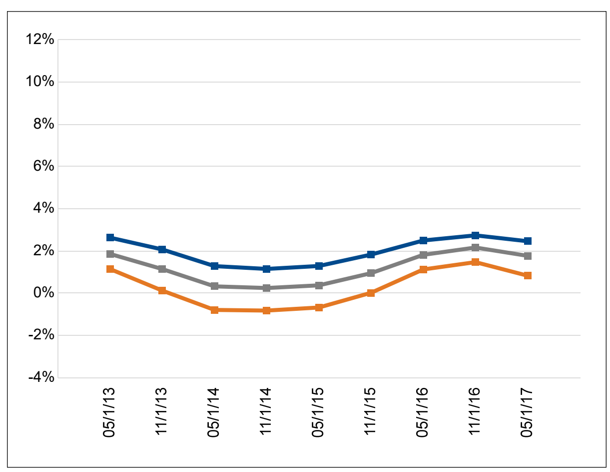
Seattle



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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