Rent Survey | June 2017

No Swoon: Multifamily Rents Jump by $12 in June

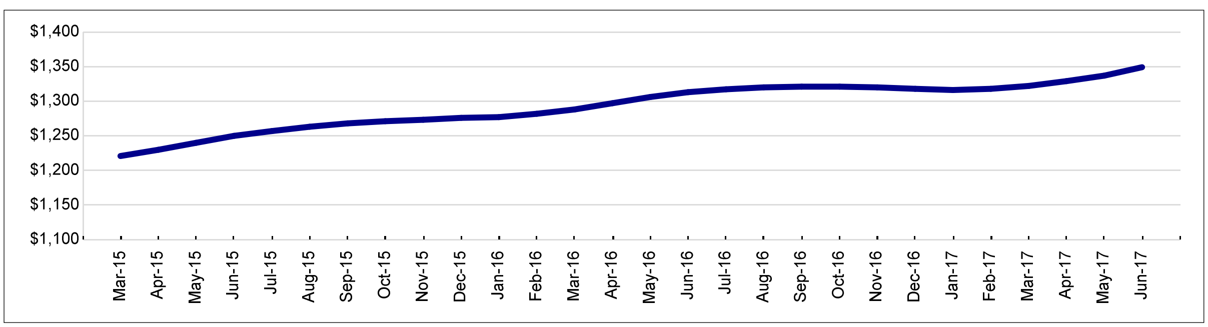
U.S. multifamily rents stopped their long, slow deceleration in a big way in June, posting the largest one-month increase in several years. Overall, average U.S. monthly rents rose $12 to $1,349, according to Yardi Matrix's monthly survey of 121 markets. On a year-over-year basis, rents were up 2.7% nationwide in June, 30 basis points above May. Although actual rents now have increased for several months in a row, June marked the first month since January 2016, when rents hit 5.7% year-over-year growth, in which the rate of growth increased from the previous month.

The strong showing should provide some comfort to the market. Although fundamentals have continued to be healthy, with no let-up in demand in most metros and occupancy rates relatively high, the long period of a sliding rate of rent growth led to worries that the market was on track for a sustained correction. But there appears to be some steam left in the rally.

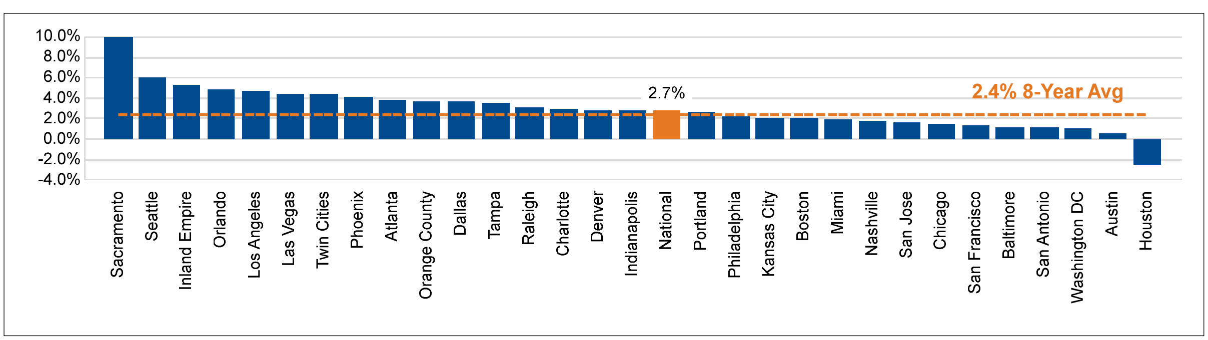
June's heady performance was due to several factors. In part it was seasonal, as rent growth tends to be stronger in the spring. Another factor is that there was a rebound in markets such as Seattle, Denver, Boston and San Francisco, which in recent months had fallen off their once-robust pace. Those were among the metros with healthy gains in the trailing three-month survey, which tracked second quarter results. Also noteworthy is the ongoing strength of some secondary and tertiary metros, such as Reno, Tacoma and Colorado Springs. Reno is benefiting from the influx of economic activity created by Tesla's huge battery plant, while Tacoma and Colorado Springs are reaping the spillover effect from nearby Seattle and Denver.

Despite June's positive gains, deceleration in multifamily rents is likely to continue as a result of the 360,000-plus new units coming online this year and expectations for a weaker second half (more on this later).

National Average Rents

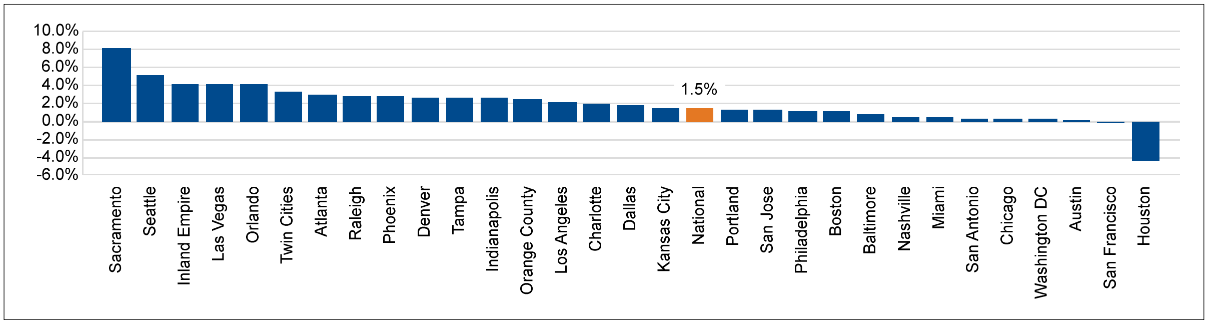


Year-Over-Year Rent Growth—All Asset Classes

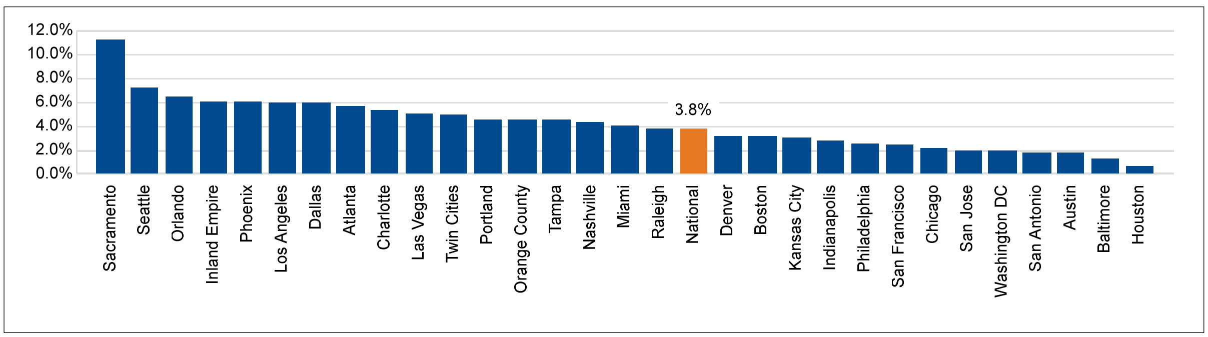


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

Year-Over-Year Rent Growth—Lifestyle Asset Class



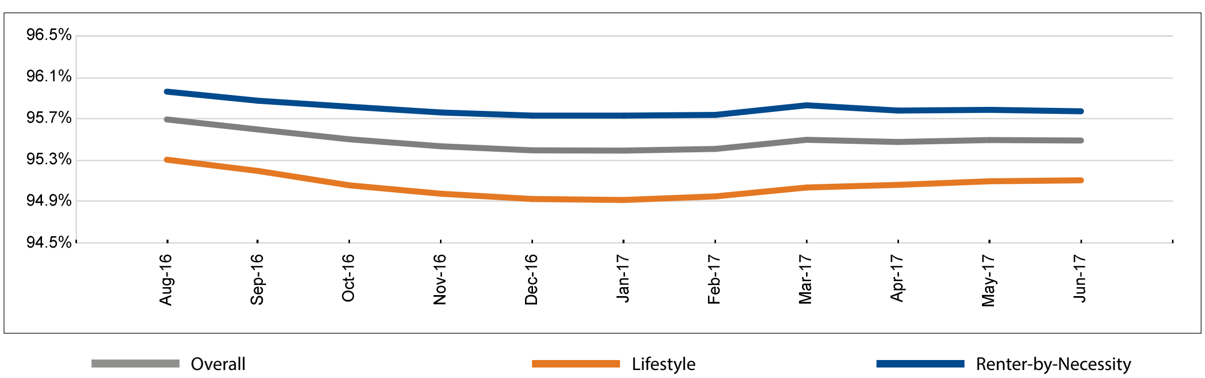
Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Occupancy and Asset Classes

Overall occupancy of stabilized properties was 95.6% nationwide as of June, unchanged from May and down 20 basis points year-over-year. Last year saw the highest rate of completions in this cycle, and the market expects another peak to be reached in 2017. As new supply is absorbed, occupancy rates will likely fall, especially in construction-heavy submarkets such as downtown Portland and Hyde Park in Austin, which have seen occupancy decline by more than 3% in the past year.

Occupancy—All Asset Classes by Month



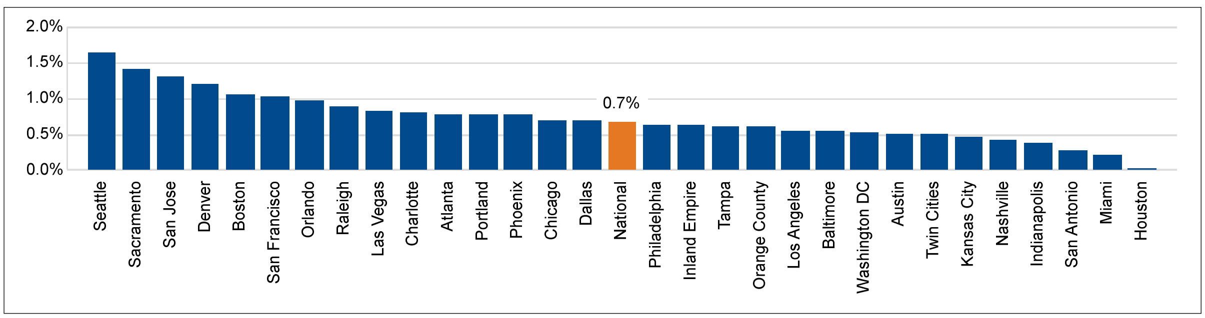
Trailing 3 Months: Lifestyle Rents Show Some Strength

Rents increased 0.7% on a trailing three-month (T-3) basis in June, up 20 basis points from May, as the prime renter season of April, May and June helped push rents upward. For the first time in many months, the Lifestyle segment (0.7% gain) outpaced the RBN (0.6%), indicating strength for high-end properties. The T-3 segment measures short-term changes in rent growth that may not be indicative of long-term trends.

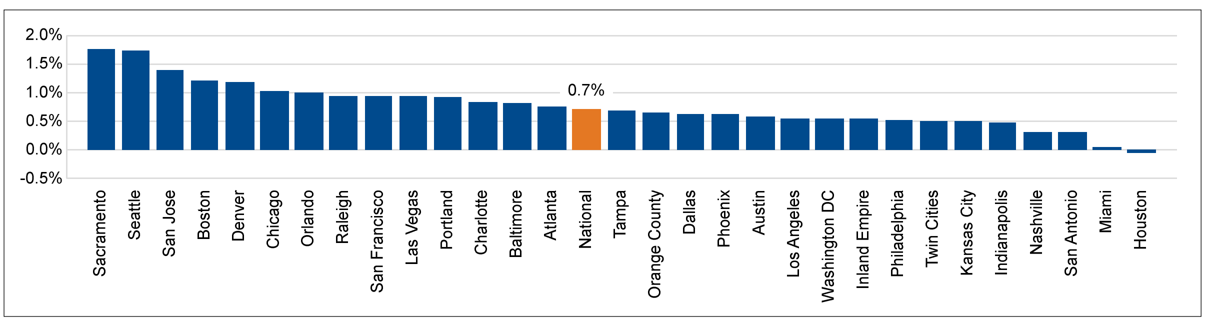
The June T-3 numbers mark an interesting reversal from recent trends. While the top two markets, Seattle and Sacramento, have been outperforming consistently for a few years now, the next four top performers—San Jose, Denver, Boston and San Francisco—were near the bottom of the rankings just three months ago. These markets—each of which rose 1.0% or more on a T-3 basis—had seen rents decelerate this year after robust increases in 2015 and 2016. Nationwide, the T-3 figures are strong, as none of the top 30 markets experienced negative growth. Even Houston, which remains mired in the decline in energy prices and its heavy supply pipeline, registered flat growth on a T-3 basis in June.

While many of the top markets for Lifestyle were also the top RBN markets, Lifestyle rents outpaced RBN in almost every market. If it continues, this trend bodes well for developers of new properties, since most of the recent completions have been delivered at the high end.

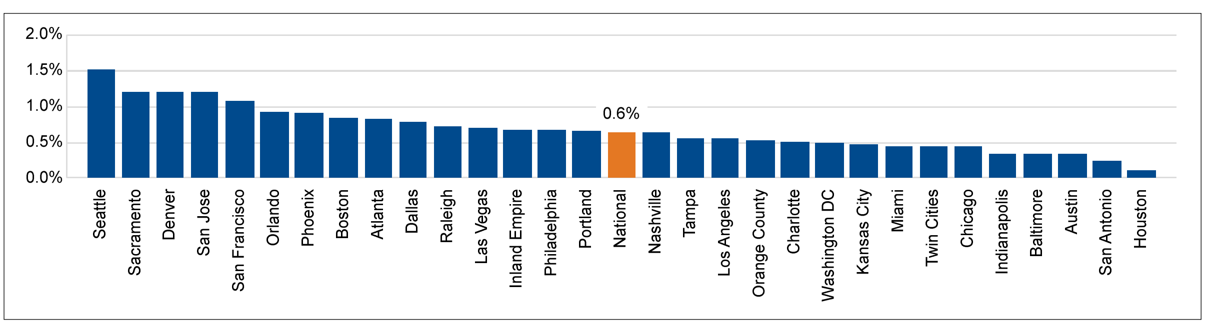
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

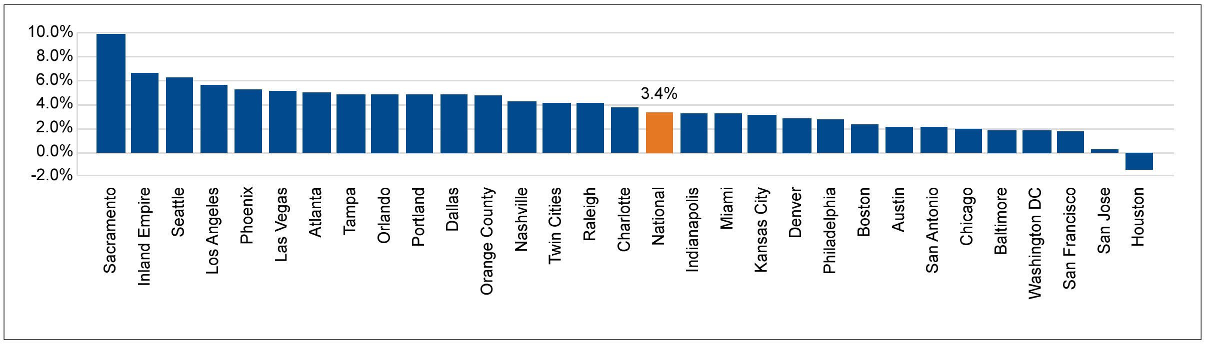


Trailing 12 Months: Sacramento, Inland Empire Maintain Top Status

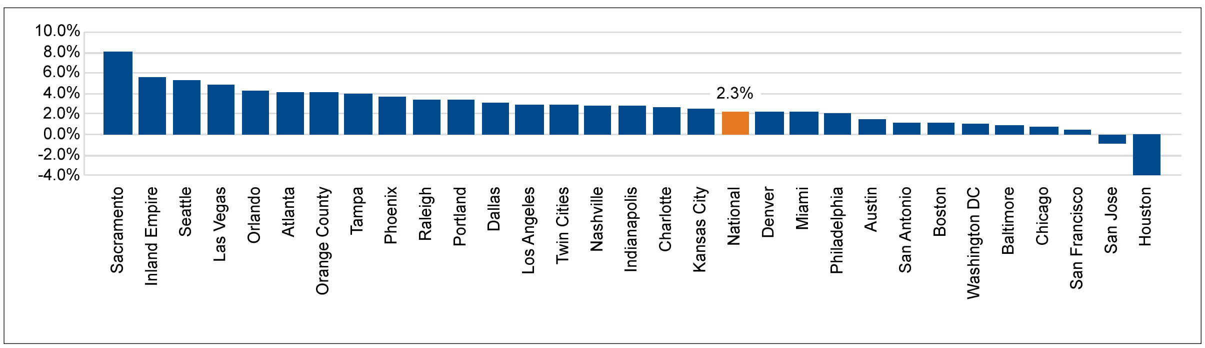
On a trailing 12-month basis (T-12), rents grew 3.4% in June, down 20 basis points from May, as the national deceleration trend continues. The spread between RBN (4.6%) and Lifestyle (2.3%) clearly shows the effect that new high-end units have had on rent growth over the past few years.

Once again, West Coast markets Sacramento (9.9%), the Inland Empire (6.6%) and Seattle (6.2%) led the nation on a T-12 basis. Other strong performers included secondary Sunbelt markets such as Phoenix, Las Vegas, Atlanta, Tampa and Orlando. Only Houston remains in negative figures for T-12 rent growth, as its housing market searches for a bottom of its current trough. The rest of the country, while not experiencing outsized gains, seems to be steady on a T-12 basis. Continuous new supply, however, will likely further the overall trend of deceleration.

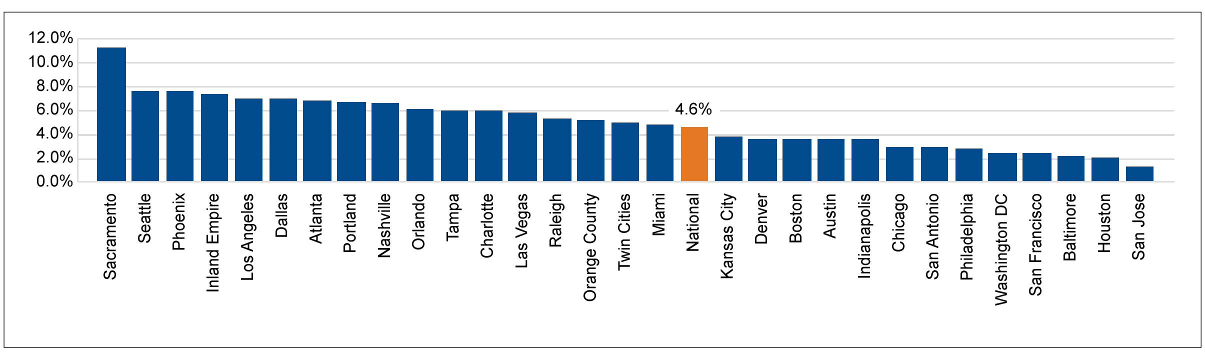
Trailing 12 Months Year-Over-Year—All Asset Classes



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

The first half of 2017 was largely positive for the multifamily industry. Despite deceleration in the rate of growth, average U.S. rents rose $31, and rents are up 2.7% year-over-year, which is slightly better than the long-term average. And though there is concern that the market is past its peak, the 2.7% growth rate over the first half of 2017 compares favorably to the first half of recent years.

However, if recent history holds, growth will be much slower in the second half. In each of the last five years, rent increases slowed after the mid-year mark. In the second half of 2016, rents grew 0.4%, down from 2.9% in the first half. In 2015, which produced the frothiest gains of the current cycle, rent growth slowed to 2.1% in the second half from 4.1% in the first half. In 2014, another overall banner year, rents rose 1.7% in the second half after a 2.8% uptick in the first half. In 2013, the second half produced a 1.2% increase after a 2.1% pickup in the first half. And in 2012, rents increased 1.2% in the second half after a 2.3% first-half gain.

We expect the second half of 2017 to follow the same pattern, and not just because of the seasonality of multifamily rents. The factors that are causing the deceleration—rent gains will revert to historical levels and be more in line with wage growth, and the increases in supply in 2017 and 2018 will reduce occupancy levels in many metros—have not changed. Occupancy rates are falling significantly in high-supply markets—as much as 80 basis points year-over-year in Portland and Austin.

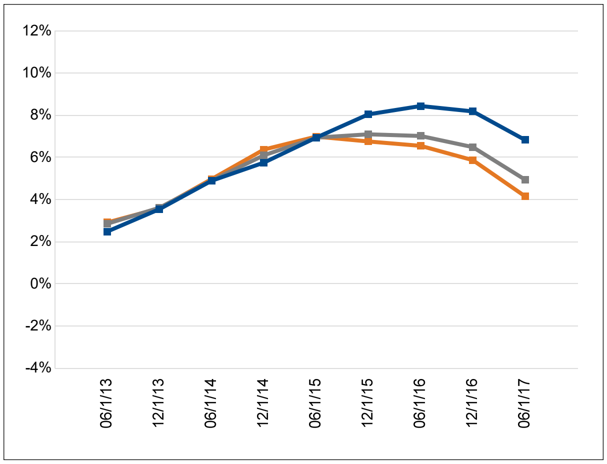
Market	YoY Rent Growth as of June - 17	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of May - 17	Completions as % of Total Stock as of June - 17	Occupancy Rates as of June - 16	Occupancy Rates as of June - 17
Sacramento	9.9%	8.2%	1.6%	0.6%	97.0%	96.8%
Inland Empire	5.2%	6.1%	3.1%	0.6%	96.5%	96.3%
Phoenix	4.1%	5.3%	2.5%	1.8%	95.5%	95.0%
Los Angeles	4.7%	5.0%	1.6%	2.8%	96.9%	96.5%
Seattle	6.0%	4.9%	2.9%	4.2%	96.3%	96.2%
Las Vegas	4.4%	4.5%	3.1%	1.2%	95.3%	95.6%
Tampa	3.5%	4.5%	3.1%	1.1%	96.0%	95.6%
Dallas	3.6%	4.3%	3.5%	1.9%	95.9%	95.6%
Orlando	4.9%	4.2%	3.8%	1.6%	96.3%	96.2%
Orange County	3.6%	4.1%	0.9%	1.1%	96.9%	96.5%
Twin Cities	4.4%	3.9%	1.6%	1.6%	97.6%	97.7%
Nashville	1.8%	3.8%	3.7%	3.3%	96.3%	95.7%
Miami Metro	1.9%	3.6%	2.5%	3.6%	95.7%	95.4%
Atlanta	3.8%	3.5%	3.6%	1.4%	95.0%	94.3%
Indianapolis	2.7%	3.0%	1.9%	0.9%	94.9%	94.6%
Raleigh	3.2%	3.0%	2.7%	2.2%	95.4%	95.6%
Kansas City	2.1%	2.6%	2.3%	1.5%	95.5%	95.2%
Philadelphia	2.2%	2.6%	1.9%	1.1%	96.0%	96.0%
Chicago	1.5%	2.5%	0.6%	2.6%	95.8%	95.5%
Portland	2.7%	2.5%	1.9%	2.2%	96.4%	95.6%
Charlotte	3.0%	2.5%	3.0%	4.4%	96.2%	95.7%
San Antonio	1.1%	2.3%	2.5%	2.8%	94.4%	93.8%
Denver	2.8%	2.0%	2.3%	4.0%	95.6%	95.5%
Baltimore	1.2%	1.4%	1.1%	1.3%	95.2%	94.9%
Washington, DC	1.0%	1.4%	1.5%	1.6%	96.1%	95.8%
Boston	2.1%	1.1%	1.5%	1.6%	96.9%	96.7%
Austin	0.6%	1.1%	3.1%	3.8%	95.4%	94.6%
Houston	-2.4%	0.5%	1.0%	2.9%	93.7%	93.1%
San Jose	1.6%	0.5%	2.0%	1.9%	96.0%	96.0%
San Francisco	1.4%	0.0%	2.3%	1.8%	96.4%	96.3%

Year-Over-Year Rent Growth, Other Markets

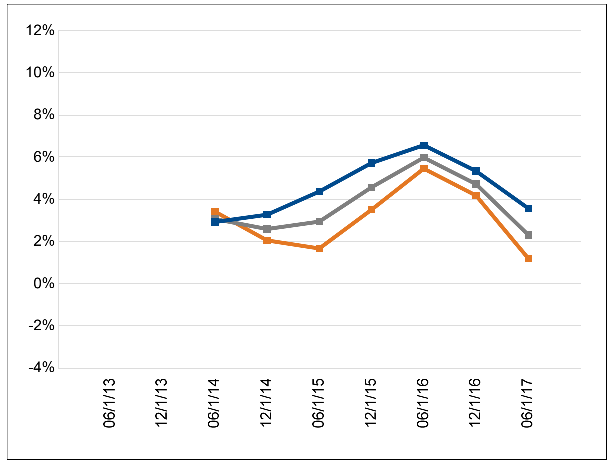
Market	June 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	14.6%	15.3%	14.1%
Colorado Springs	10.2%	9.7%	10.4%
Tacoma	9.3%	7.9%	10.9%
Central Valley	6.1%	4.7%	6.4%
San Fernando Valley	5.6%	3.3%	6.7%
Long Island	4.5%	3.3%	5.0%
NC Triad	4.1%	3.9%	4.9%
Tucson	3.8%	2.8%	4.1%
Albuquerque	3.1%	2.3%	3.6%
SW Florida Coast	3.0%	2.7%	3.7%
Indianapolis	2.7%	2.6%	2.8%
Northern New Jersey	2.6%	1.6%	3.4%
Louisville	2.4%	1.5%	2.8%
St. Louis	1.5%	0.8%	1.5%
Bridgeport - New Haven	1.3%	1.2%	1.4%
El Paso	-0.4%	-0.8%	0.0%
Central East Texas	-0.4%	-0.6%	-0.3%

Market Rent Growth by Asset Class

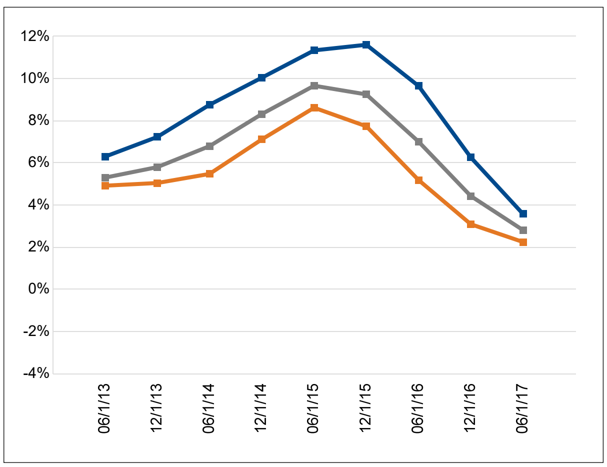
Atlanta



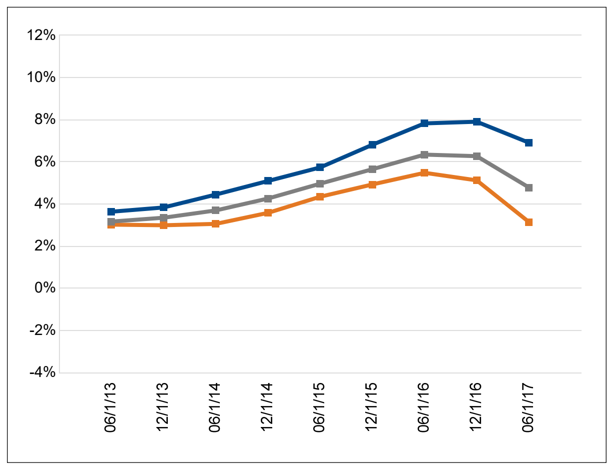
Boston



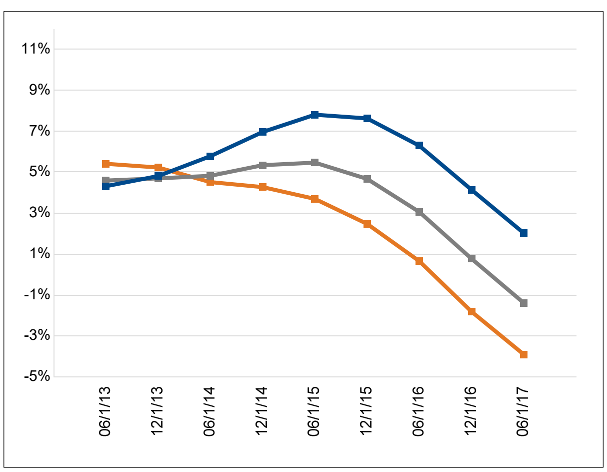
Denver



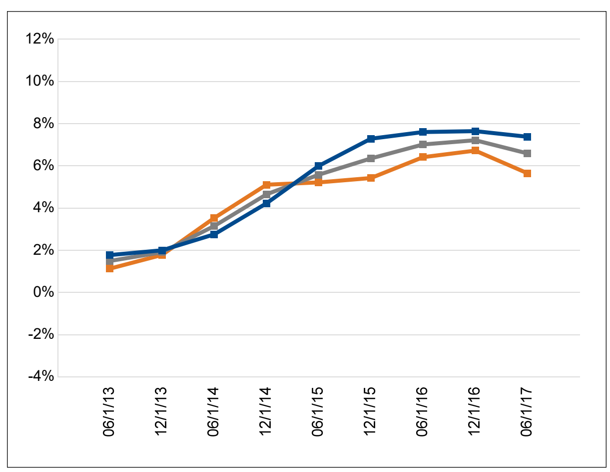
Dallas



Houston

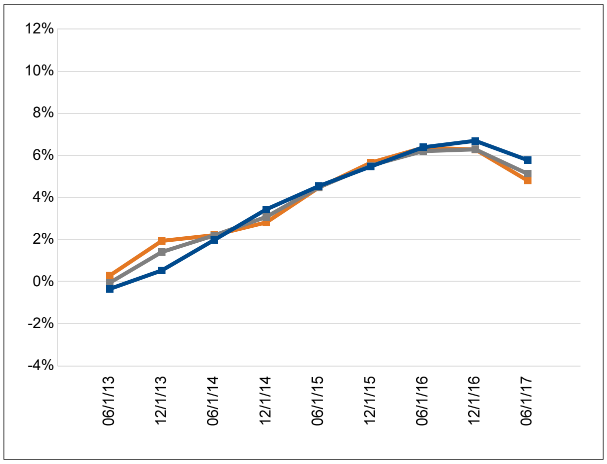


Inland Empire

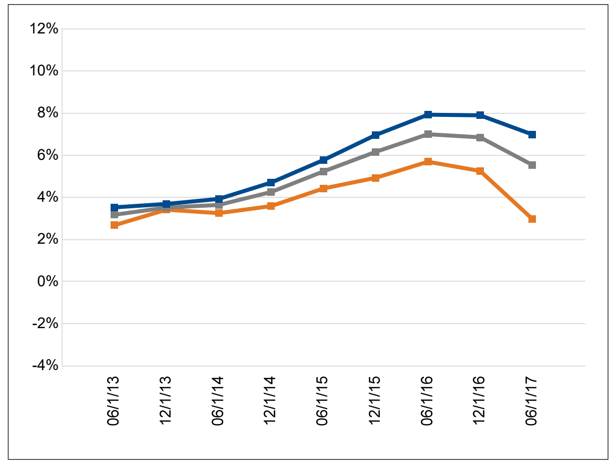


Trailing 12 Months Overall
Trailing 12 Months Lifestyle
Trailing 12 Months Renter-by-Necessity

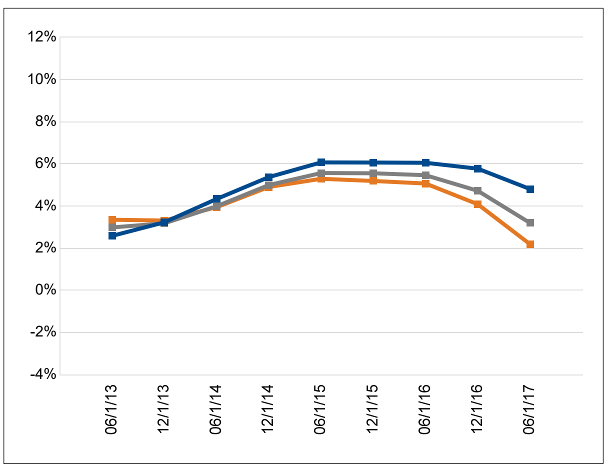
Las Vegas



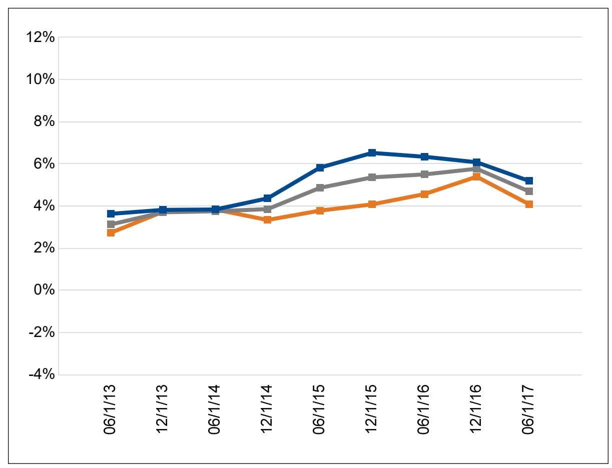
Los Angeles



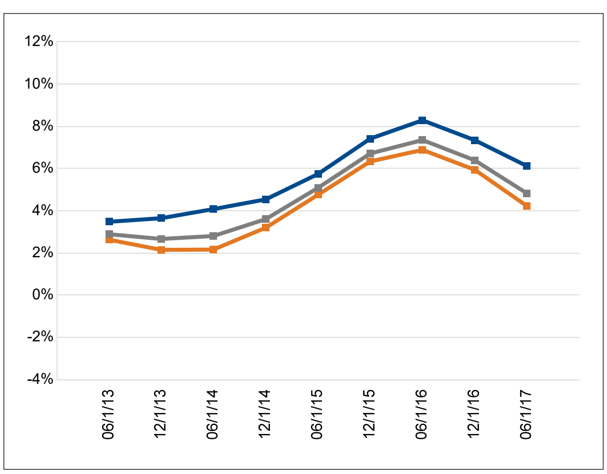
Miami



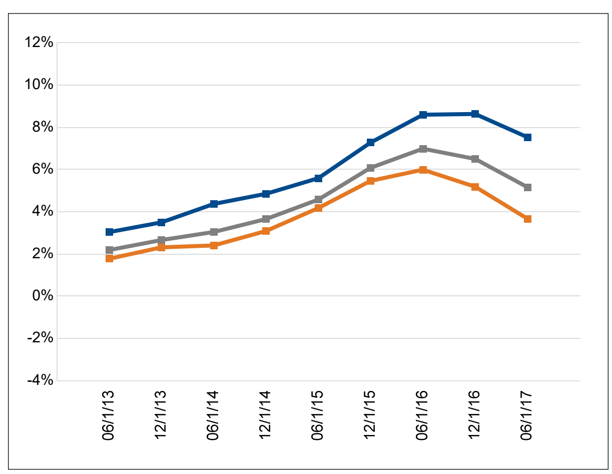
Orange County



Orlando

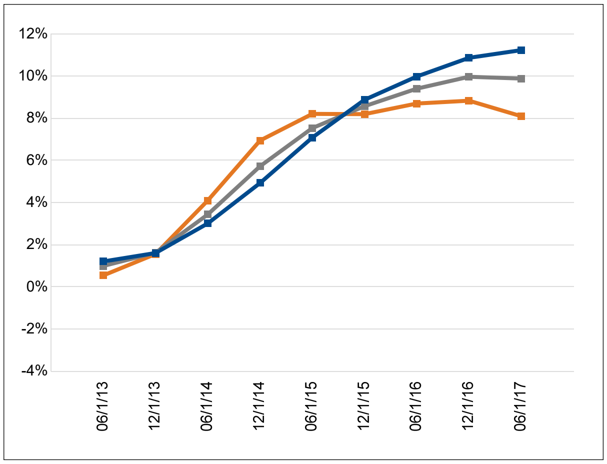


Phoenix

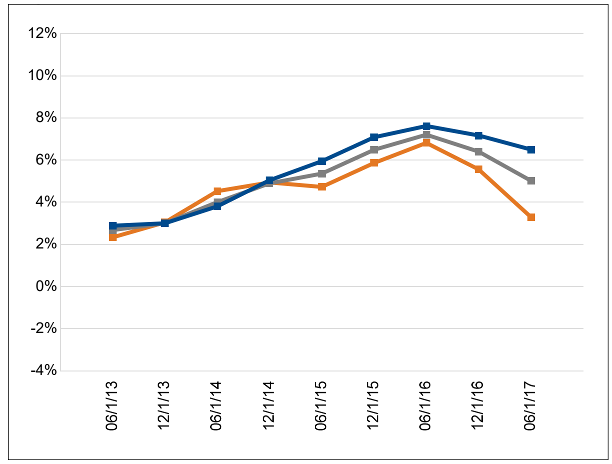


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

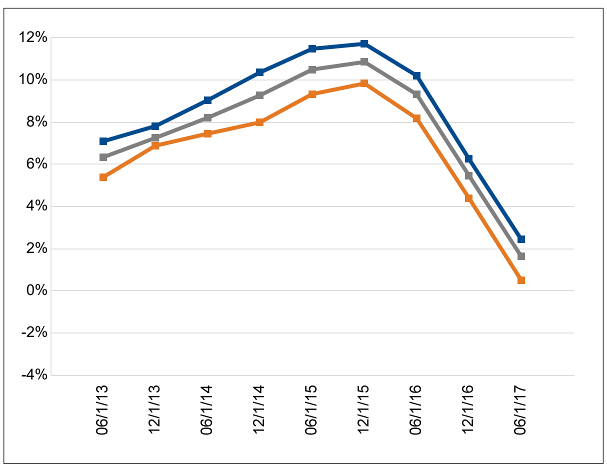
Sacramento



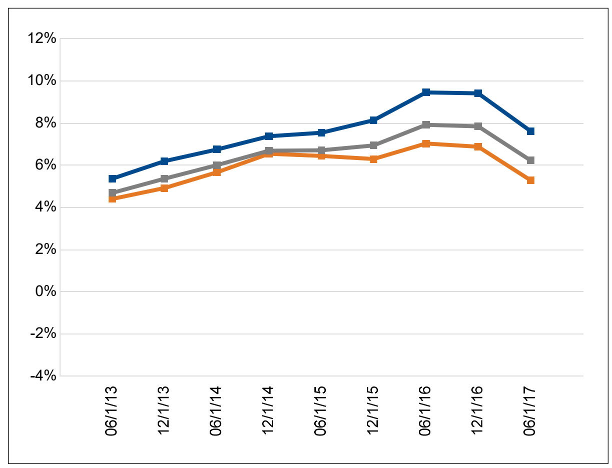
San Diego



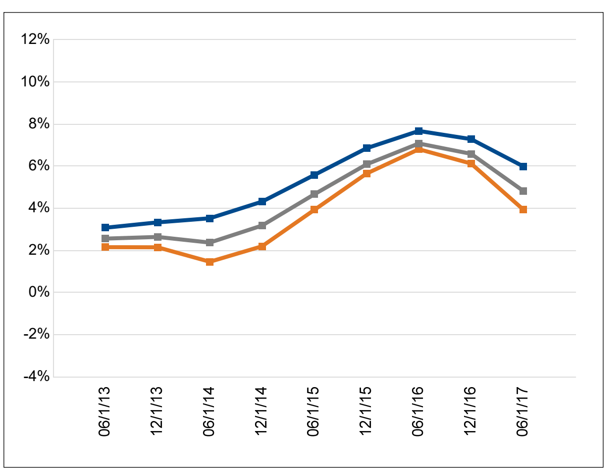
San Francisco



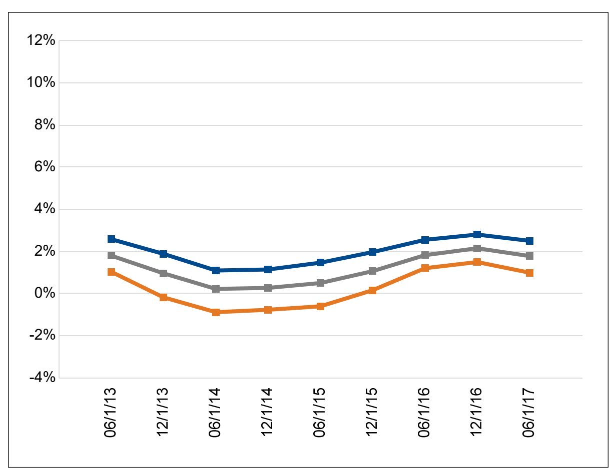
Seattle



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.

Contacts

- **Jeff Adler**, Vice President & General Manager of Yardi Matrix: Jeff.Adler@Yardi.com, 1-800-866-1124 x2403
- **Jack Kern**, Director of Research and Publications: Jack.Kern@Yardi.com, 1-800-866-1124 x2444
- **Paul Fiorilla**, Associate Director of Research: Paul.Fiorilla@Yardi.com, 1-800-866-1124 x5764

To Subscribe

- **Hollie Zepke**, Audience Development Specialist: Hollie.Zepke@Yardi.com, 1-800-866-1124 x5389