Rent Survey | July 2017

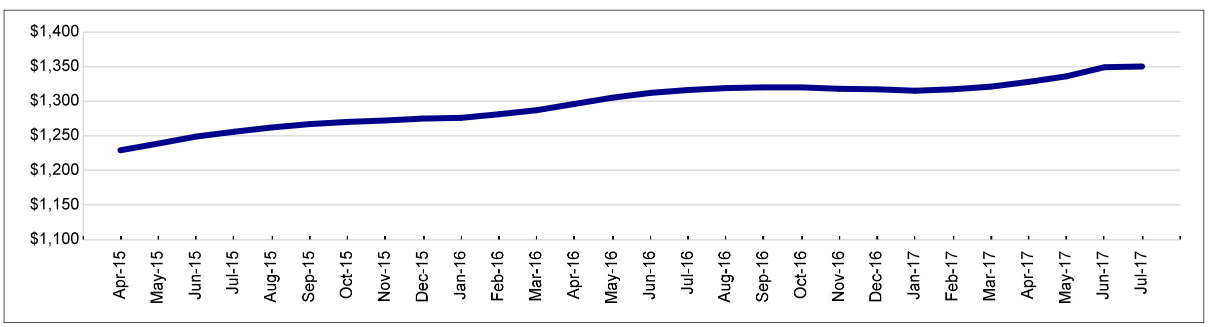
Multifamily Rent Growth Stabilizes in July; Market Solid Overall

Sequential rent growth was virtually flat in July, but the U.S. multifamily market remained in an overall healthy state. Average U.S. monthly rents rose $1 to $1,350, according to Yardi Matrix's monthly survey of 121 markets. On a year-over-year basis, rents were up 2.6% nationwide in July, a 10-basis-point decline from June. Actual rents have increased every month this year, and are up 2.7% year-to-date.

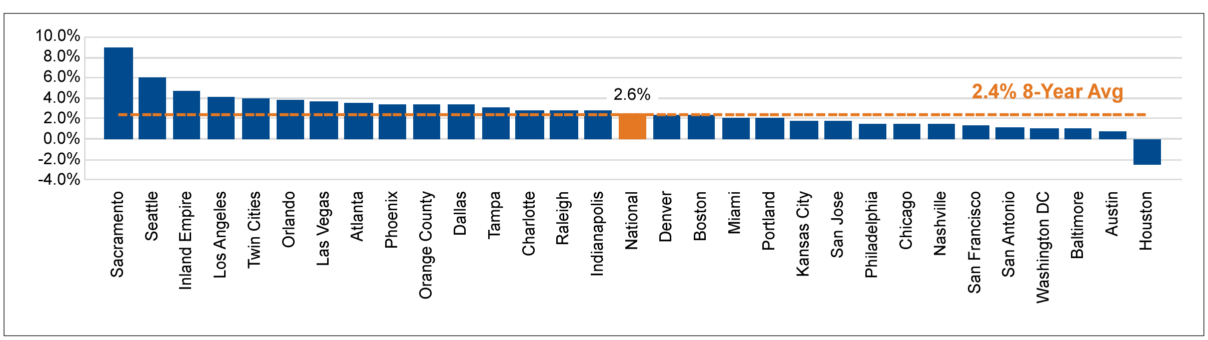
Despite the marginal increase in July, and although we expect the rent gains to slow down in the second half, the survey paints the multifamily market in a good light. For one thing, rent growth tends to moderate in the second half of the year, and the gains achieved so far in the year already put 2017 above the average long-term increase. Trend-wise, the market is in an extended period of rate-growth deceleration, coming down from unsustainably high increases—as high as 5.7% in early 2016. Another positive sign is the broad-based stability among metros. Of the top 30 metros in the Matrix Monthly survey, only one (Houston) has negative results year-over-year, and 19 have increases of 2.0% or more. And several of the markets that are at 2.0% or less—such as Portland, San Francisco and San Jose—are coming off periods of outsize gains and have recently showed signs of perking up again. Recent results are encouraging: On a trailing three-month basis, no markets had negative numbers, and 25 of the top 30 metros saw solid gains of 0.4% or more. With few exceptions, metros are seeing outsize gains at best and moderate gains at worst.

Perhaps most important, absorption continues to drive fundamentals. There has been little slowdown in job growth this year, despite the inability of Congress to implement new federal policy. New jobs are helping to fuel household formation that drives demand for apartments. That is keeping occupancies near historically high levels even though new supply is expected to hit a cycle high of 360,000 in 2017. The downside of new completions includes increased concessions for high-end units and growing vacancies in some submarkets.

National Average Rents

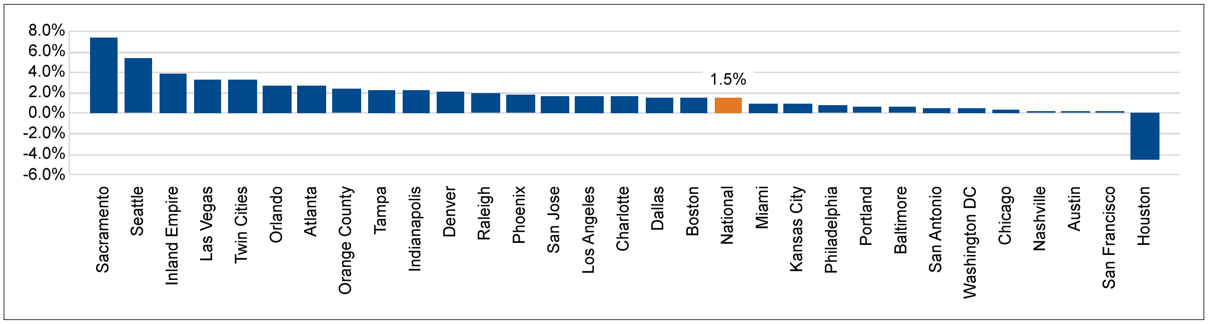


Year-Over-Year Rent Growth—All Asset Classes

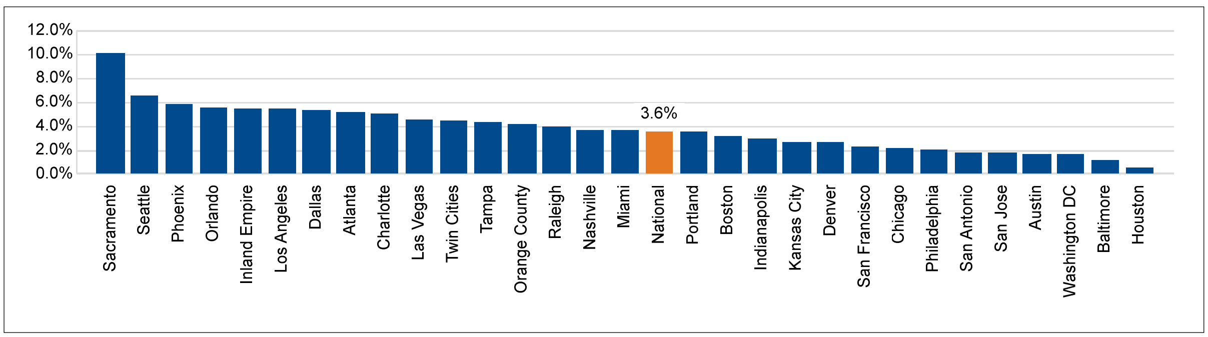


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

Year-Over-Year Rent Growth—Lifestyle Asset Class



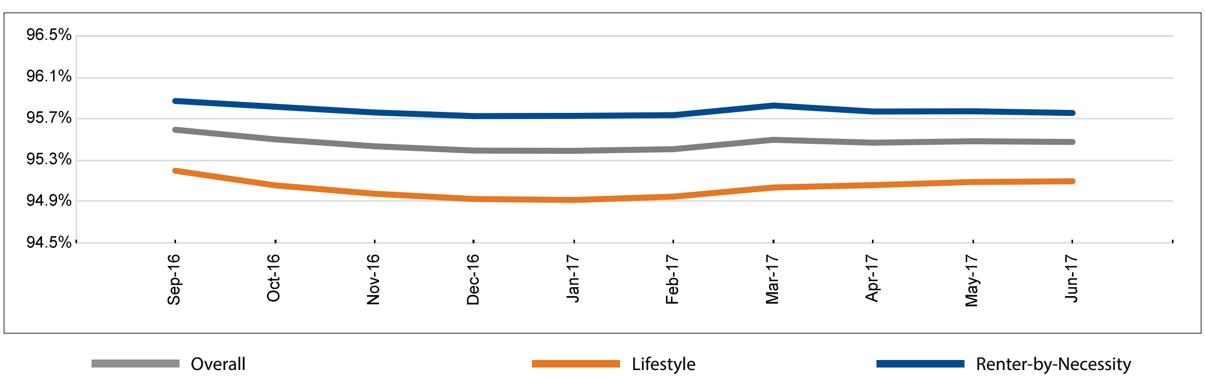
Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Occupancy and Asset Classes

Overall occupancy of stabilized properties was 95.5% nationwide as of June, down 10 basis points from May and down 30 basis points year-over-year. The drop from the previous month was driven by a 10-basis-point decline in occupancy of Renter-by-Necessity properties, which fell 95.7%, down from 95.8% in May and 96.0% a year ago. The Lifestyle property occupancy rate was 95.2% in June, unchanged from May and 30 basis points less than a year ago.

Occupancy—All Asset Classes by Month



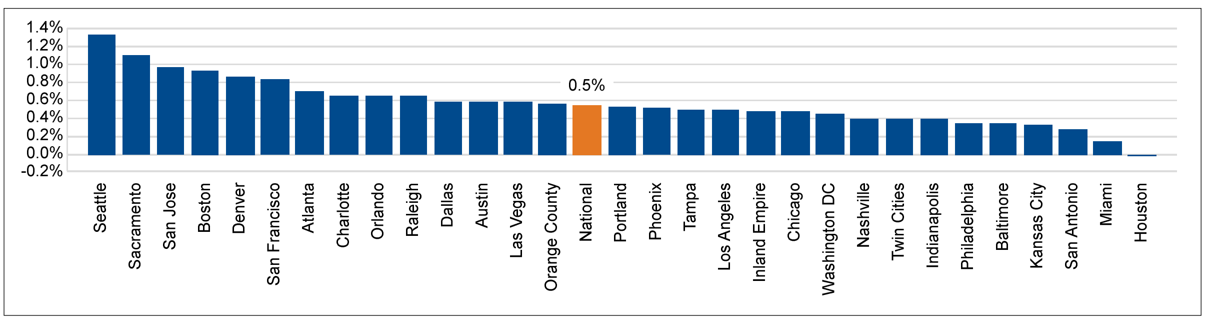
Trailing 3 Months: Strong Gains Continue in South and West

Rents increased 0.5% on a trailing three-month (T-3) basis in July, down 20 basis points from June. Despite the slight deceleration in T-3 rent growth, the overall numbers look steady, as the late spring and summer renting season helped push rents upward. The Lifestyle segment (0.6%) outpaced the RBN segment (0.5%) for the second consecutive month, indicating strength for high-end rentals. The T-3 segment measures short-term changes in rent growth that may not be indicative of long-term trends.

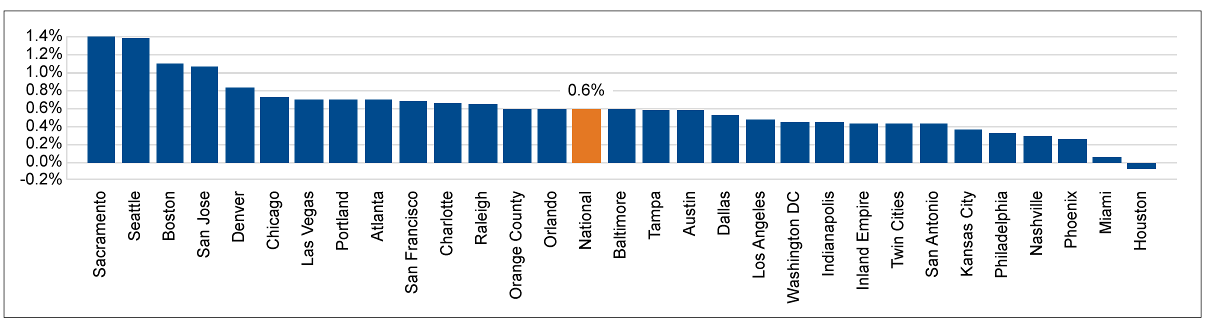
Gains continue to be regionally focused. With the exception of Boston (0.8%), all markets that exceeded the national average were located in the West or Southeast. Seattle (1.3%), Sacramento (1.1%) and San Jose (1.0%) led the way, while other markets that performed well included Atlanta (0.7%) and Charlotte and Orlando (both 0.6%). Markets in the Midwest and Northeast—such as Washington, D.C., the Twin Cities (both 0.4%) and Kansas City (0.3%)—lagged the national average, yet still managed to post robust gains. Houston once again lagged the top 30 with no change.

Lifestyle maintained its recent trend, outperforming RBN rents on a T-3 basis in almost all markets. The few markets where RBN rents grew faster were Houston, Miami and Philadelphia, where high demand for workforce units drove rents upward.

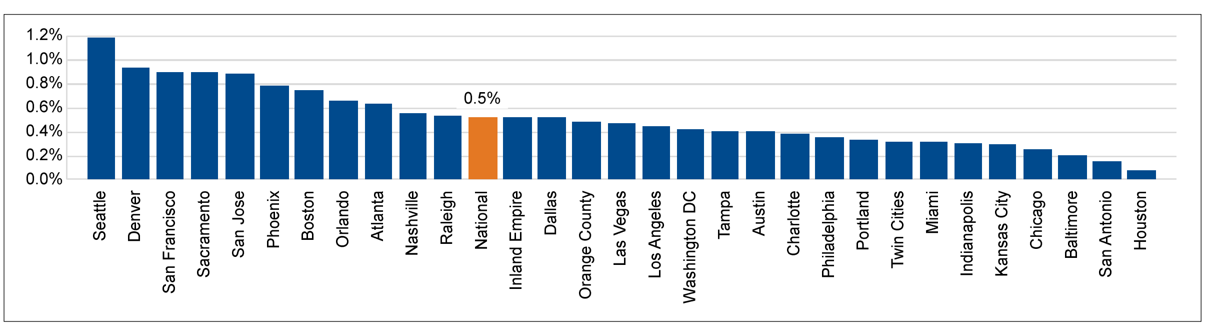
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

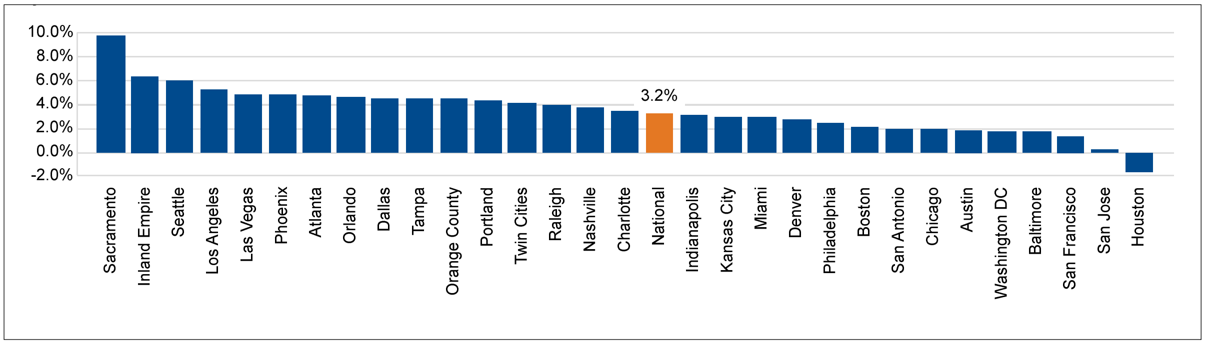


Trailing 12 Months: Growth Remains Steady, Led by West Coast

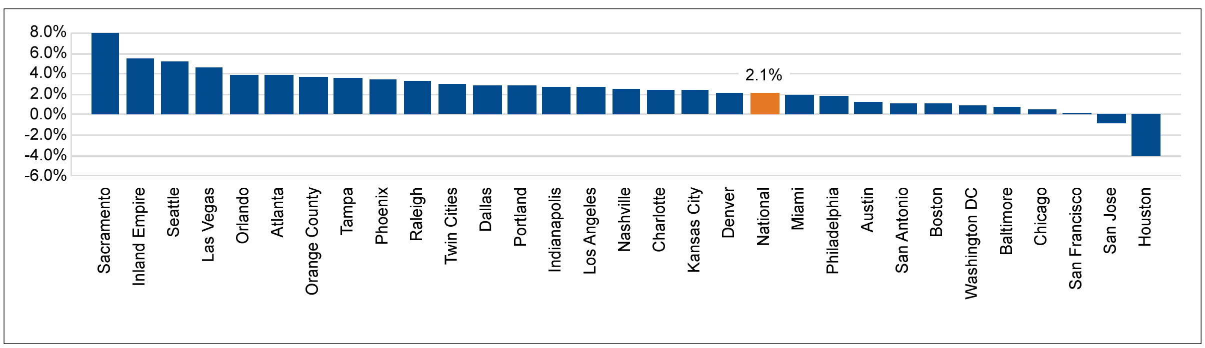
Rents grew 3.2% year-over-year on a trailing 12-month basis through July, down 20 basis points from June, as the national deceleration trend persists. The spread between RBN (4.4%) and Lifestyle (2.1%) continues to widen, and July marked the largest spread between asset classes in eight years. As new supply enters the market—mostly at the high end—rent growth for luxury units has stalled.

Once again, West Coast markets Sacramento (9.8%), the Inland Empire (6.4%) and Seattle (5.9%) led the nation. But growth has been solid for the rest of the country, as 13 of the top 30 markets had T-12 rent growth of 4.0% or more. Only Houston (-1.6% overall and -4.1% for Lifestyle units) produced negative figures, as its housing market searches for a bottom to its current trough. Continuous new supply nationwide, however, will likely further the overall trend of deceleration.

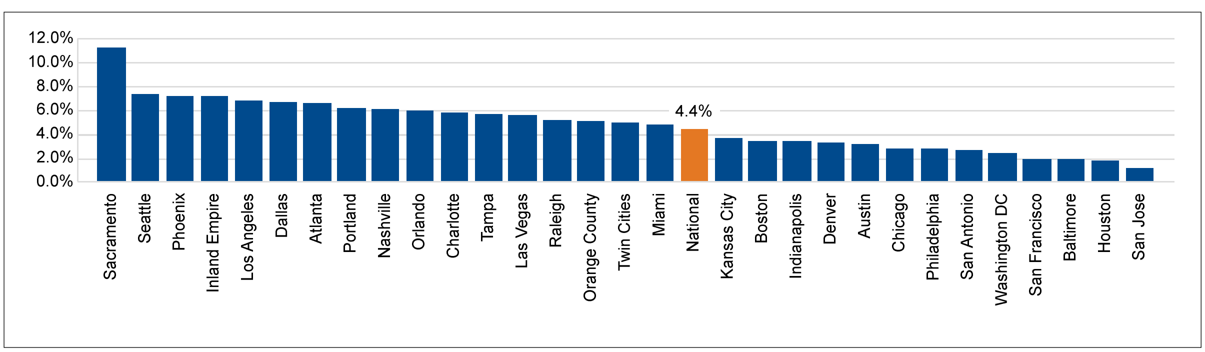
Trailing 12 Months Year-Over-Year—All Asset Classes



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

One of the multifamily market's most pleasant surprises is how the occupancy rate has held up in the face of growing supply in recent years. We expect 360,000 units to be delivered in 2017, which would make a two-year total of 640,000 units. However, demand has held firm—led by robust job growth, the increasing Millennial population and downsizing Baby Boomers—so the overall occupancy rate has dropped only 30 basis points on a national level year-over-year through June. Even with a 30-basis-point drop, occupancies remain well above historical averages, so the market is far from red-alert status.

That said, in real estate, averages are less important than what is happening at the local level. Matrix Monthly metros with above-average occupancy rate declines over the past year include Portland and Austin (each -0.8%); Nashville, Atlanta and San Antonio (-0.7%); Phoenix, Charlotte and Houston (-0.6%); and Los Angeles, Tampa, Orange County, Indianapolis and Chicago (-0.4%). Most of the outsize declines in occupancy rates by submarket are due to heavy doses of new stock, but factors such as affordability also play a role.

Examples of steep year-over-year submarket drops include Piedmont (-7.0%) and Downtown (-3.0%) in Portland; Pleasant Hill East (-2.9%) and Oak Hill (-2.8%) in Austin; Douglasville (-2.4%) and Roswell/Alpharetta (-2.1%) in Atlanta; the Southeast Side (-3.0%) in San Antonio; Foxcroft (-3.7%) in Charlotte; George Bush Park (-3.8%) and Bellaire (-2.5%) in Houston; and Midtown/Music Row (-2.9%) in Nashville.

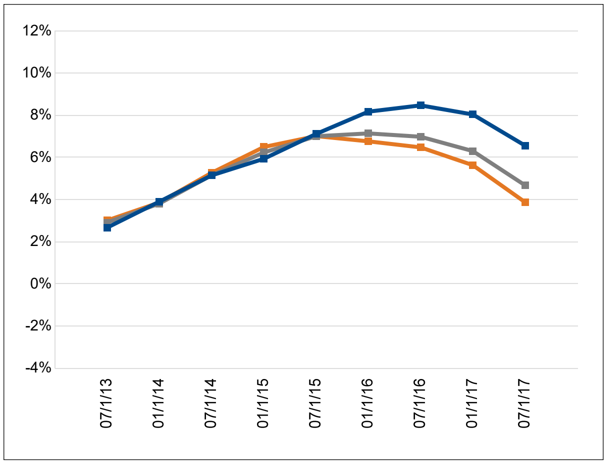
Market	YoY Rent Growth as of July - 17	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of June - 17	Completions as % of Total Stock as of July - 17	Occupancy Rates as of July - 16	Occupancy Rates as of July - 17
Sacramento	8.9%	8.2%	1.7%	0.6%	97.0%	96.8%
Inland Empire	4.7%	6.1%	3.3%	0.6%	96.5%	96.3%
Phoenix	3.4%	5.3%	2.6%	1.6%	95.5%	94.9%
Los Angeles	4.1%	5.0%	1.6%	2.1%	96.9%	96.5%
Seattle	6.0%	4.9%	2.9%	3.6%	96.3%	96.2%
Las Vegas	3.6%	4.5%	3.3%	1.2%	95.3%	95.5%
Tampa	3.2%	4.5%	3.2%	1.4%	96.0%	95.6%
Dallas	3.3%	4.3%	3.5%	1.8%	95.9%	95.6%
Orlando	3.8%	4.2%	3.9%	1.2%	96.3%	96.2%
Orange County	3.4%	4.1%	0.9%	1.2%	96.9%	96.5%
Twin Cities	4.0%	3.9%	2.1%	1.1%	97.6%	97.7%
Nashville	1.5%	3.8%	3.7%	3.2%	96.3%	95.6%
Miami Metro	2.1%	3.6%	2.7%	3.1%	95.7%	95.4%
Atlanta	3.5%	3.5%	3.6%	1.6%	95.0%	94.3%
Indianapolis	2.7%	3.0%	2.1%	0.9%	94.9%	94.5%
Raleigh	2.8%	3.0%	2.7%	2.2%	95.4%	95.6%
Kansas City	1.8%	2.6%	2.4%	1.4%	95.5%	95.2%
Philadelphia	1.5%	2.6%	2.0%	1.0%	96.0%	96.0%
Chicago	1.5%	2.5%	0.8%	2.4%	95.9%	95.5%
Portland	2.0%	2.5%	1.9%	1.8%	96.4%	95.6%
Charlotte	2.8%	2.5%	2.9%	3.4%	96.2%	95.6%
San Antonio	1.1%	2.3%	2.4%	2.8%	94.4%	93.7%
Denver	2.3%	2.0%	2.4%	3.4%	95.6%	95.5%
Baltimore	1.0%	1.4%	1.2%	1.1%	95.2%	94.9%
Washington, DC	1.1%	1.4%	1.6%	1.6%	96.1%	95.8%
Boston	2.3%	1.1%	1.6%	1.3%	96.9%	96.7%
Austin	0.7%	1.1%	3.0%	3.3%	95.4%	94.6%
Houston	-2.5%	0.5%	1.2%	2.4%	93.7%	93.1%
San Jose	1.8%	0.5%	1.8%	1.8%	96.0%	96.0%
San Francisco	1.4%	0.0%	2.2%	1.5%	96.4%	96.3%

Year-Over-Year Rent Growth, Other Markets

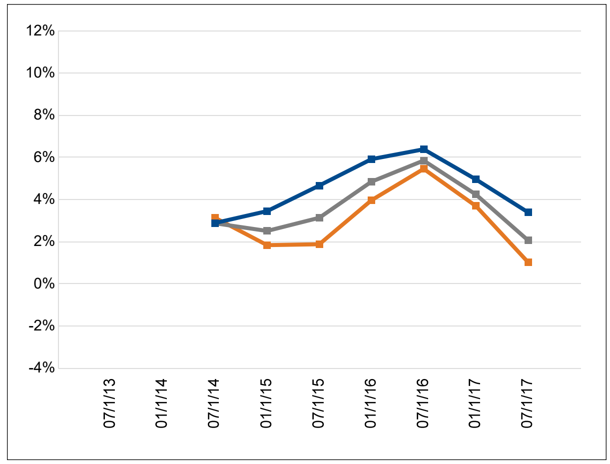
Market	July 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	13.8%	15.7%	12.4%
Colorado Springs	8.6%	8.1%	8.8%
Tacoma	8.6%	7.4%	9.7%
Central Valley	5.1%	3.7%	5.6%
San Fernando Valley	4.8%	2.9%	5.8%
Tucson	4.0%	3.4%	4.3%
Long Island	3.8%	2.6%	4.3%
NC Triad	3.5%	3.2%	4.5%
Albuquerque	2.9%	2.1%	3.6%
Louisville	2.9%	2.5%	2.9%
Indianapolis	2.7%	2.3%	3.0%
Northern New Jersey	2.5%	1.7%	3.2%
SW Florida Coast	2.4%	1.9%	3.4%
St. Louis	1.2%	0.3%	1.4%
Bridgeport - New Haven	1.0%	0.8%	1.2%
El Paso	0.3%	-0.7%	0.6%
Central East Texas	-0.9%	-1.1%	-0.9%

Market Rent Growth by Asset Class

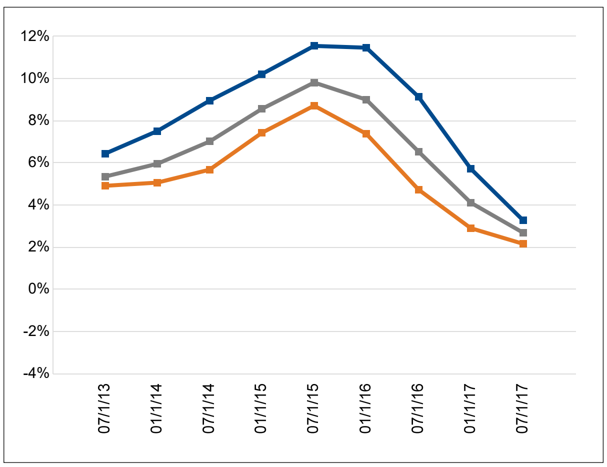
Atlanta



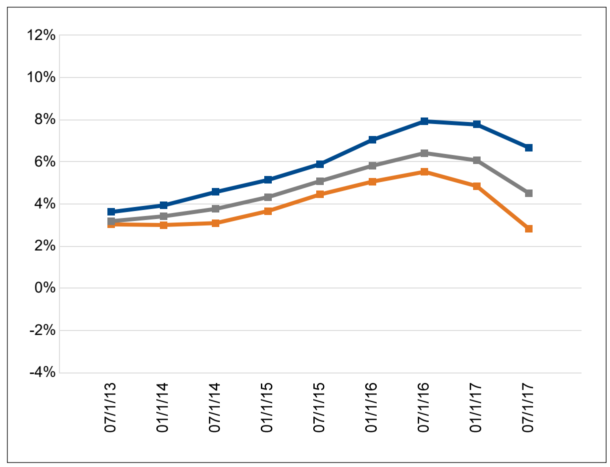
Boston



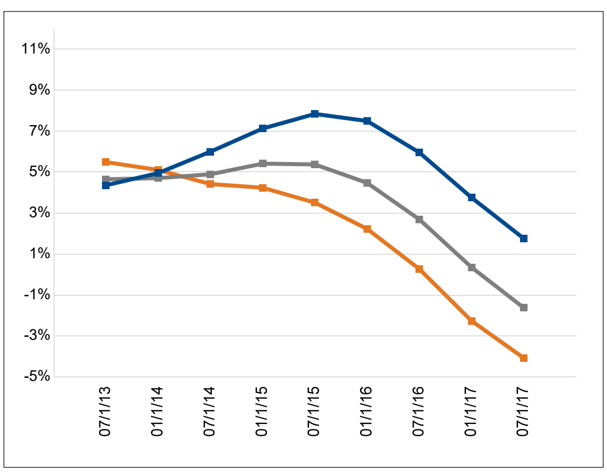
Denver



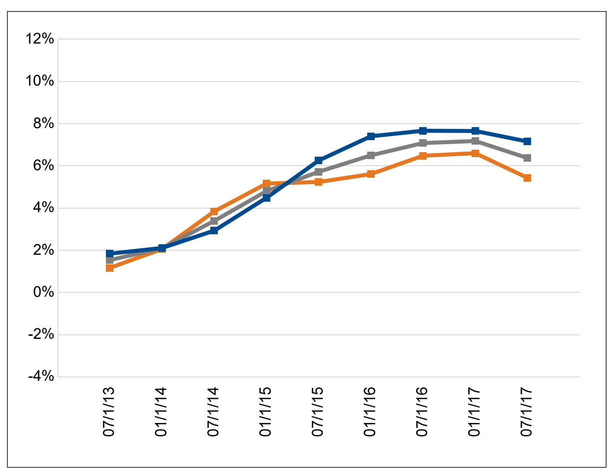
Dallas



Houston

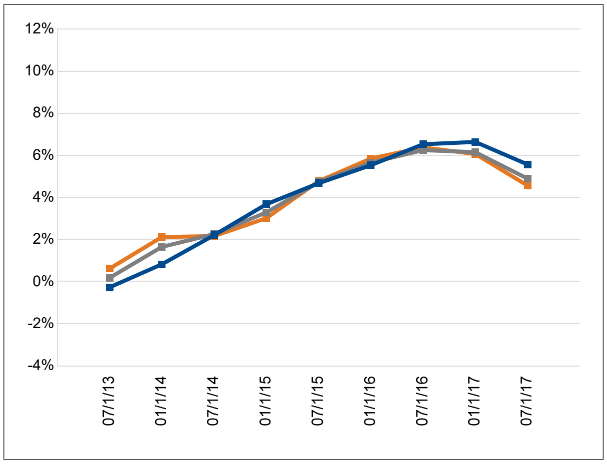


Inland Empire

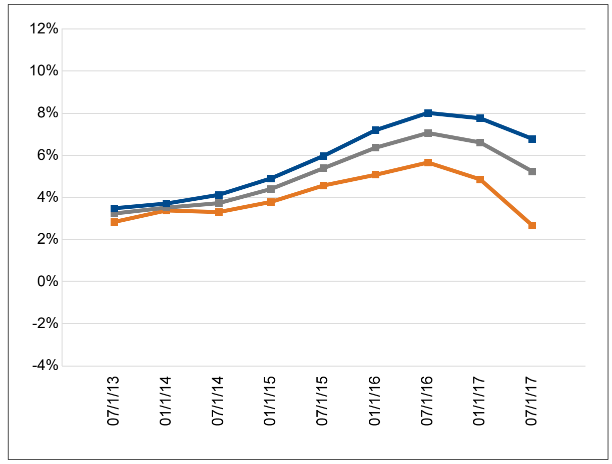


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

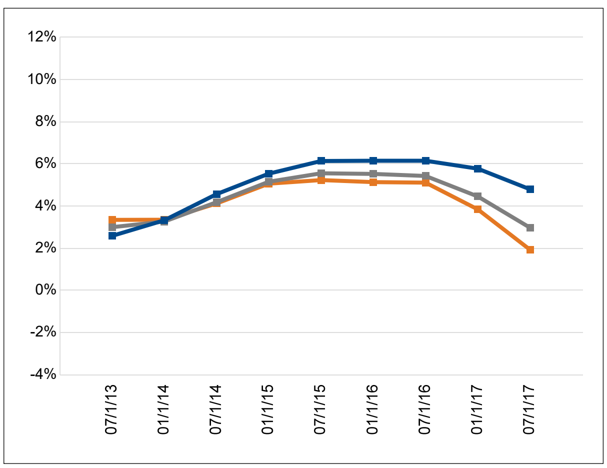
Las Vegas



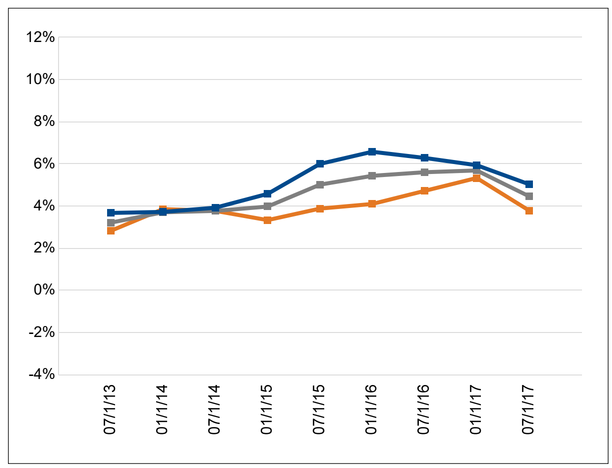
Los Angeles



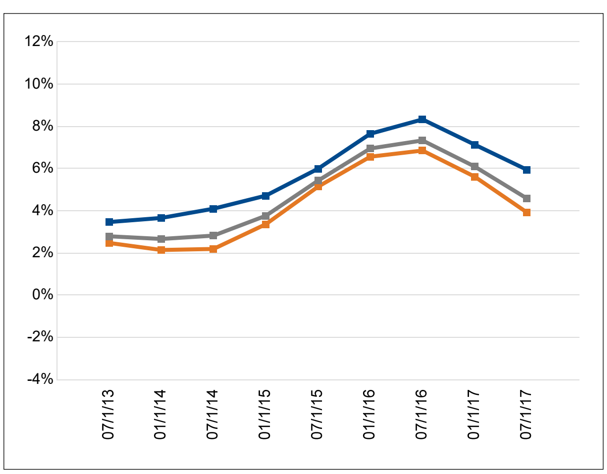
Miami



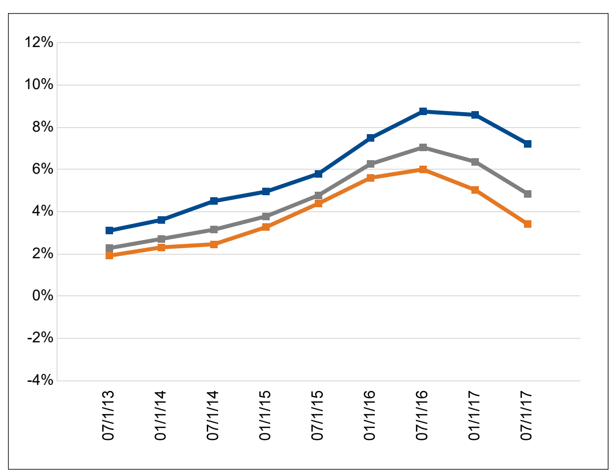
Orange County



Orlando

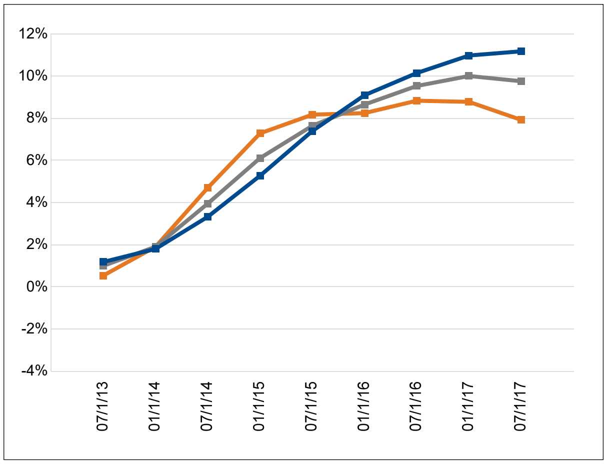


Phoenix

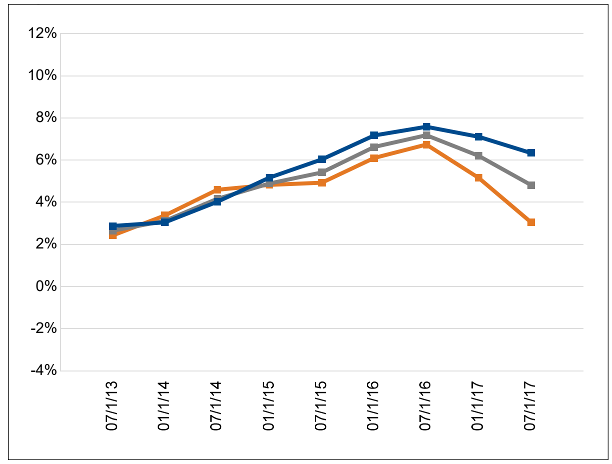


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

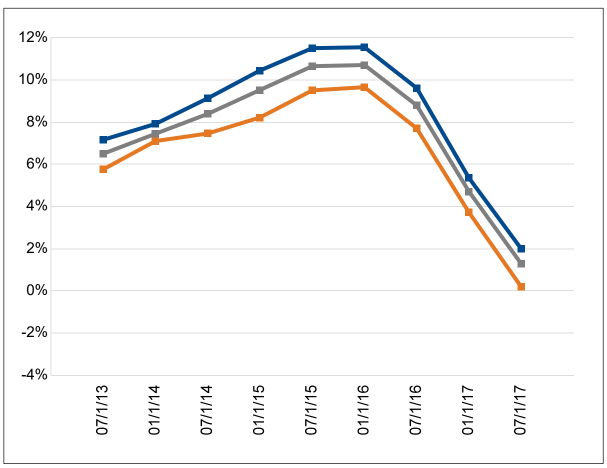
Sacramento



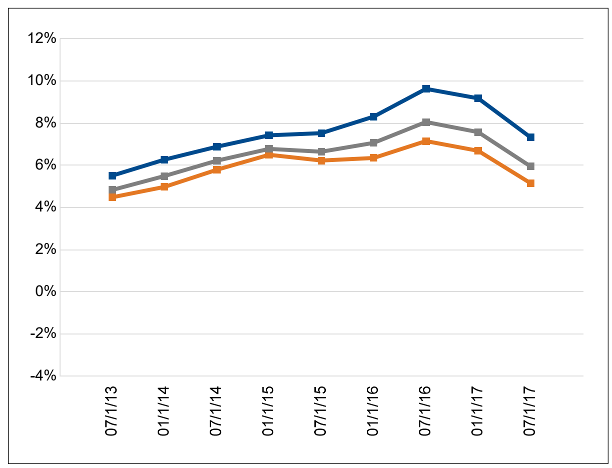
San Diego



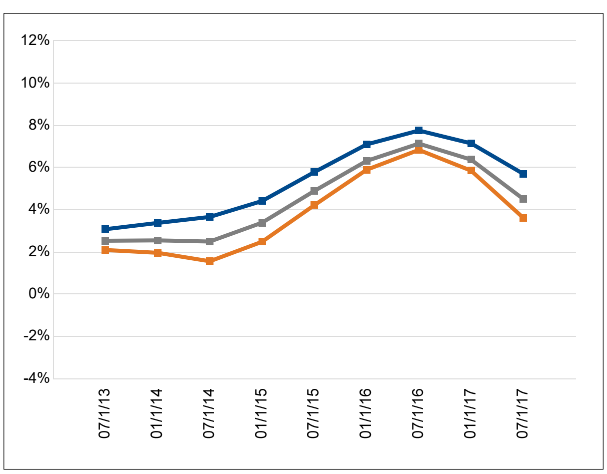
San Francisco



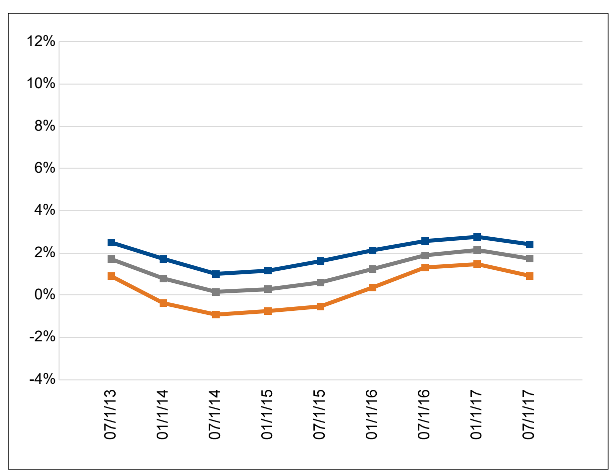
Seattle



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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