Rent Survey | September 2017

U.S. Multifamily Rents Stagnant in Third Quarter

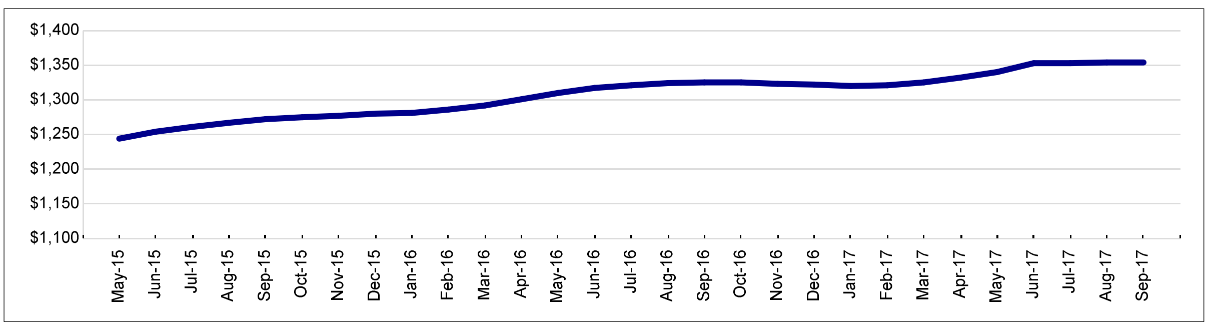
U.S. monthly rents were flat in September, remaining at $1,354, according to Yardi Matrix's monthly survey of 121 markets, yet they continue to decelerate on a year-over-year basis. Rents were up 2.2% nationwide in September, a 10-basis-point decline from August. After a strong first half, in which average rents grew by $33, they experienced a summer slowdown, increasing by only $1 in the third quarter.

Through three quarters, rents have grown 2.6% this year. While that's a solid increase, it falls short of the sector's stellar performance in recent years. Rents rose 3.4% through three quarters in 2016, 4.9% in 2015, 4.0% in 2014 and 3.1% in 2013. Rent growth tends to slow down in the fourth quarter, when fewer people move, so if things hold to form, gains for the year could be already baked in.

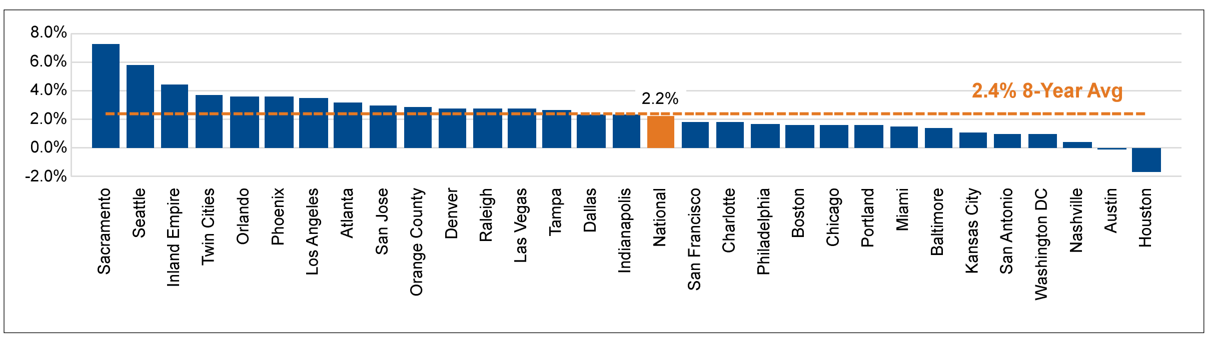
The direction of rents depends on several factors, including the performance of the economy, the pace of new deliveries, and in some metros the impact of the recent major hurricanes. The economy continues to churn out 150,000 to 200,000 jobs per month, which is a positive for demand. Meanwhile, deliveries are slowing. Despite a cycle-high 480,000 apartment units under construction, the number of deliveries has declined throughout the year, as developers are finding it hard to find qualified workers. One-third of construction firms reported that labor quality was their biggest problem, according to the August survey of the National Federation of Independent Businesses, a small-business trade group based in Washington, D.C. Some 88 percent of all survey respondents said they found it hard to fill some jobs.

The labor shortage is expected to worsen in some areas as workers migrate to Houston and Florida to assist in the efforts to rebuild after Hurricanes Harvey and Irma. Upwards of 50,000 multifamily units suffered damage in Houston, where the multifamily market should get a boost as displaced households find a temporary spot to relocate.

National Average Rents

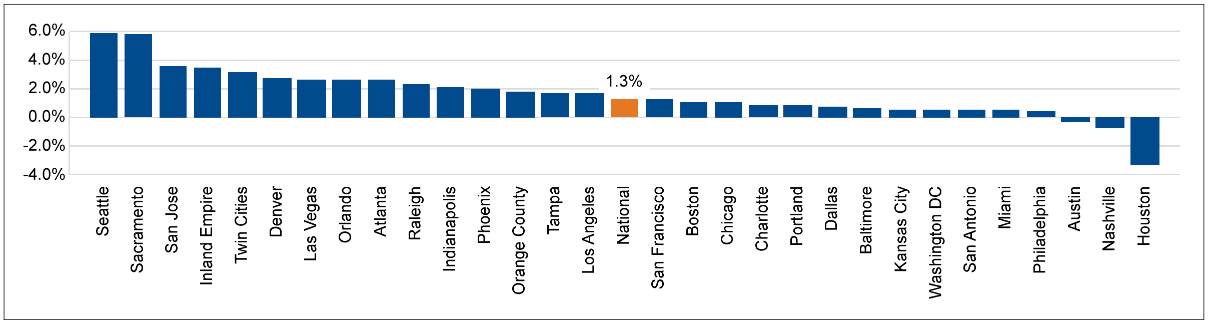


Year-Over-Year Rent Growth—All Asset Classes

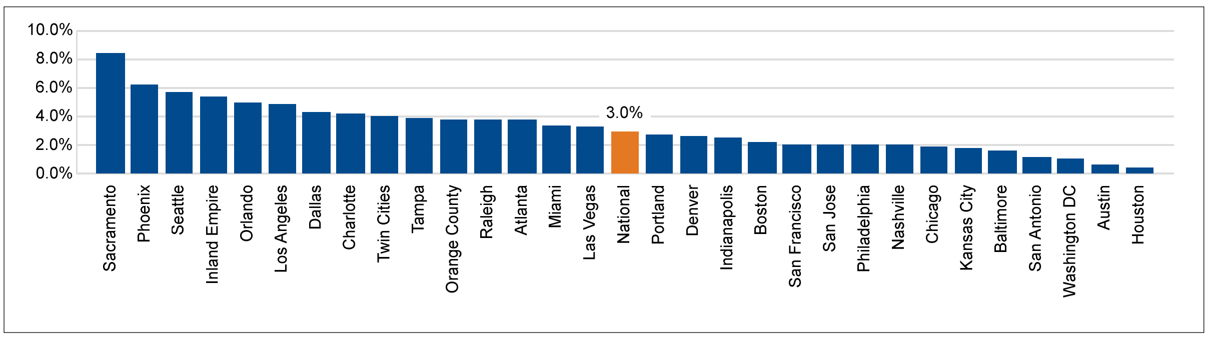


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

Year-Over-Year Rent Growth—Lifestyle Asset Class



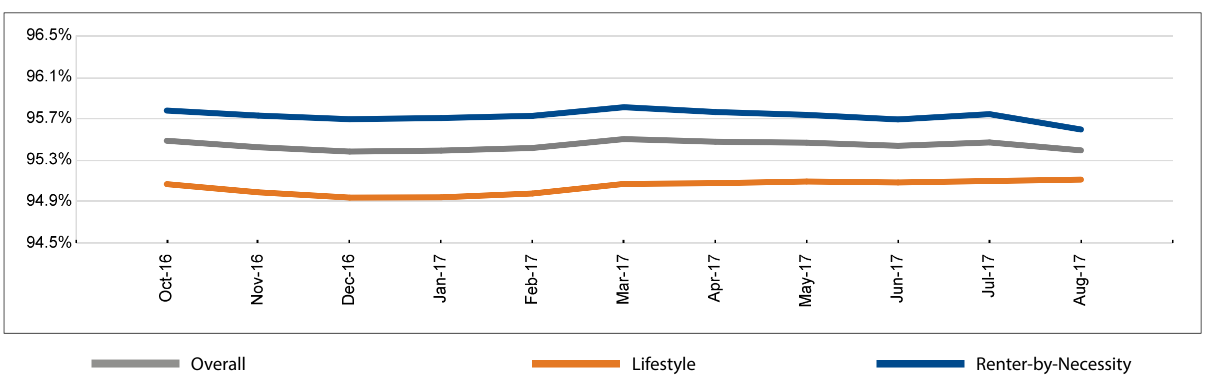
Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Occupancy and Asset Classes

Overall occupancy of stabilized properties was 95.5% nationwide as of August, a 10-basis-point decline from July and a 20-basis-point drop year-over-year. Delays in new development continue to support strong occupancy rates, and housing damage caused by recent hurricanes in the Southeast may put upward pressure on occupancy. The spread between Renter-by-Necessity (RBN) assets (95.6%) and Lifestyle assets (95.2%) narrowed to 40 basis points, continuing the 10-month trend of tighter vacancy spreads between asset classes.

Occupancy—All Asset Classes by Month



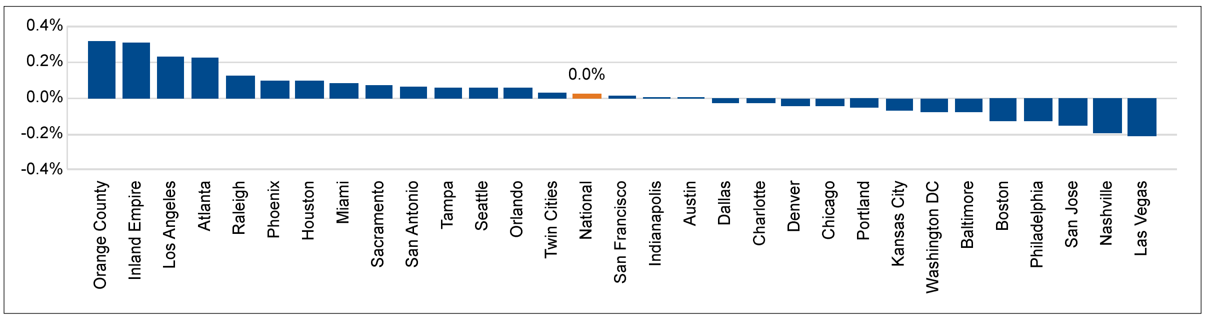
Trailing 3 Months: Rent Growth Retreats After Strong Summer

After a strong summer, rent growth on a trailing three-month basis (T-3) receded and was flat in September. The strong rental months of April, May and June led to significant rent increases, and thus strong rent growth on a T-3 basis. However, rents flattened through the latter part of the summer on a national level.

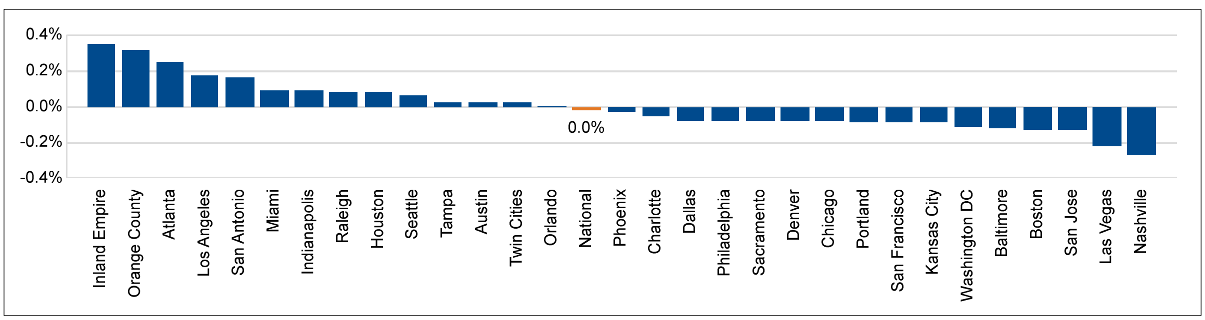
Southern California markets dominated the T-3 rent growth rankings in September as Orange County and the Inland Empire (both 0.3%) led the nation. Other strong metros included Los Angeles and Atlanta (both 0.2%). As the calendar turns to autumn, rent growth often faces a seasonal slowdown in certain markets, although Sunbelt metros are usually less affected. While rent in most markets continued to grow or remained unchanged on a T-3 basis, eight markets saw T-3 rent declines. Nashville, Las Vegas and San Jose (all -0.2%) experienced the steepest declines, as an oversupply and affordability issues continue to impact these markets.

RBN assets outperformed Lifestyle assets, as national rents increased 0.1% for RBN apartments. Phoenix was the leading metro for RBN rent growth, up 0.3%, compared to flat rent growth for Lifestyle apartments in the Valley of the Sun. The divergence of rent growth between the two asset classes is also apparent in the year-over-year data for Phoenix. RBN rent growth was 6.2% year-over-year, while Lifestyle rents increased 2.0%. If this trend continues, affordability issues may emerge for workforce housing in Phoenix.

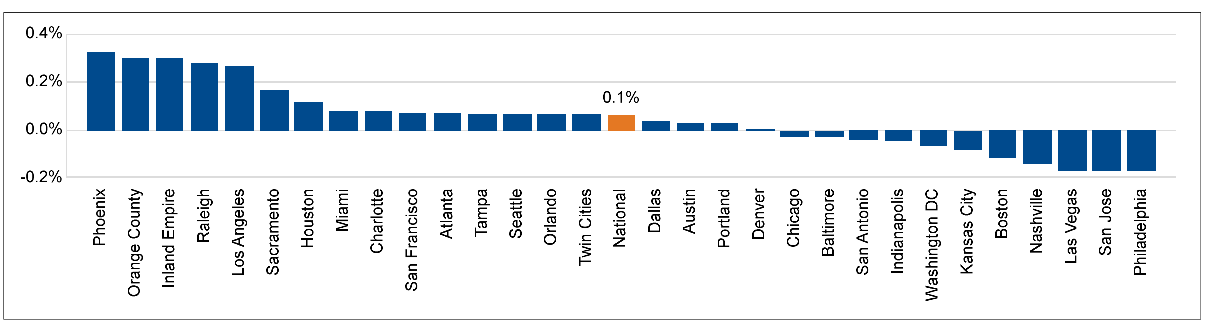
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

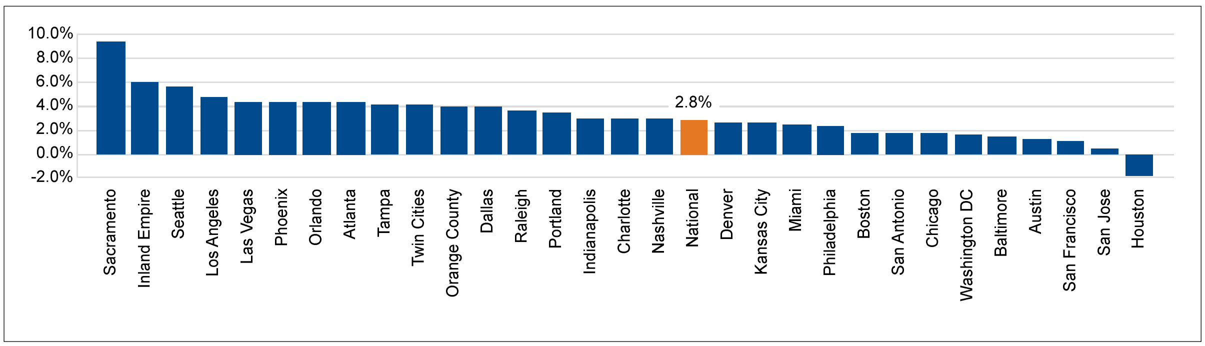


Trailing 12 Months: Slow Deceleration Continues Across the Nation

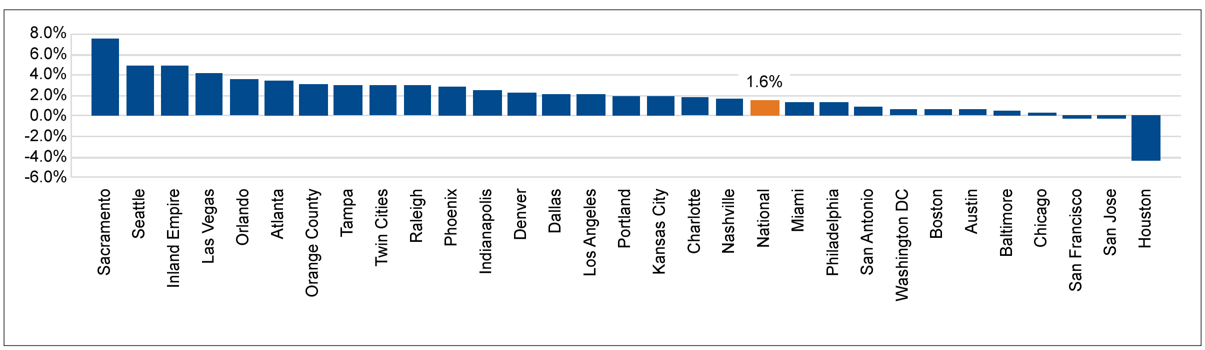
Rents increased 2.8% on a trailing 12-month basis (T-12) in September, down 20 basis points from August, as the national deceleration trend continues. RBN rent growth (4.0%) outpaced Lifestyle (1.6%), and the spread between the two asset classes widened once more.

Sacramento (9.3%) experienced the fastest rent growth on a T-12 basis, and California's capital has remained the fastest-growing rent market for multiple years. Just as rapid rent growth caught up with parts of the Bay Area, such as San Francisco and San Jose, leading to strong rent gains in Sacramento, the long run of outsize rent growth may be creating affordability problems in Sacramento. Other strong markets for T-12 rent growth include coastal and Sunbelt metros such as the Inland Empire (5.9%), Seattle (5.6%), Los Angeles (4.7%) and Phoenix (4.3%). Houston remains negative on a T-12 rent growth basis. However, in the aftermath of Hurricane Harvey, rent growth will likely return to positive territory.

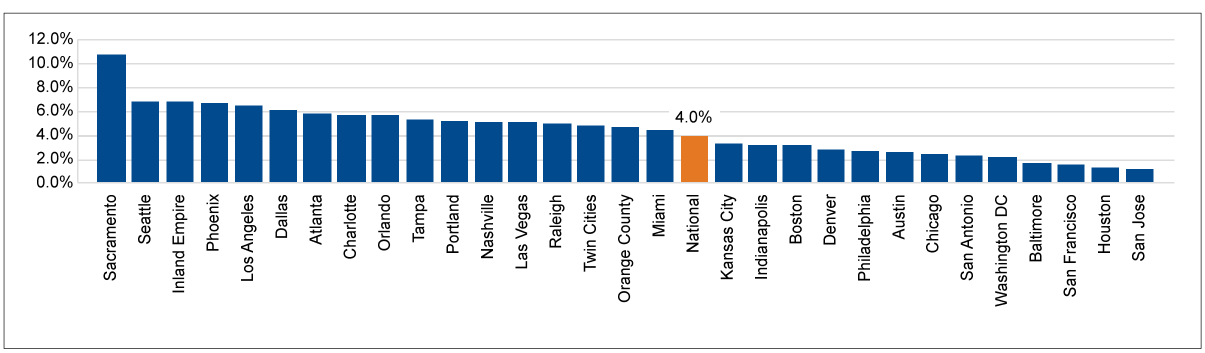
Trailing 12 Months Year-Over-Year—All Asset Classes



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 rent growth has not only decelerated over the last year, the trend is pervasive throughout the country. Nationally, average U.S. rent increases fell to 2.2% year-over-year through September, down from 4.2% in September 2016. The top-performing markets in September 2017 are the same three as a year earlier: Sacramento, the Inland Empire and Seattle. But the rate of growth for each has slowed significantly, with Sacramento falling to 7.3% in 2017 from 10.2% in 2016, the Inland Empire to 4.5% from 7.5%, and Seattle to 5.8% from 7.3%.

Still, we don't believe it's time to turn out the lights on the expansion in the multifamily sector. Demand should remain healthy for the next few years, due to job growth, as well as social and demographic trends. Capital forces remain healthy. Multifamily owners have no lack of debt providers, led by Fannie Mae and Freddie Mac. And despite a decrease in completed transactions, there is more equity capital chasing multifamily assets than sellers. Acquisition yields might not go any lower, but they won't go much higher, either.

The increase in total stock has depressed rent growth, as a spread-out delivery schedule gives the market more time to absorb new supply. That should keep vacancies from growing too fast, if at all, and support modest growth in rents over the next 18 to 24 months in most markets.

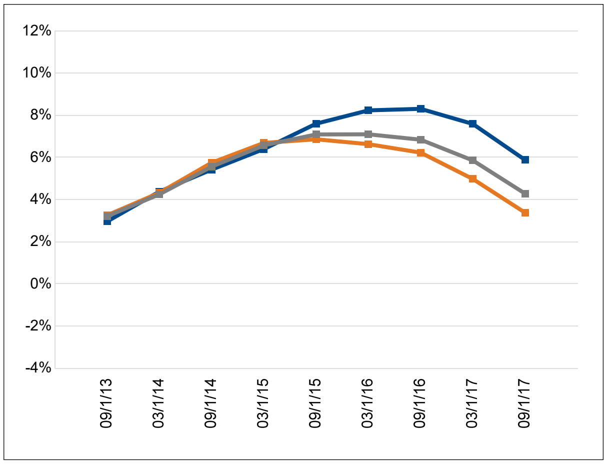
Market	YoY Rent Growth as of Sept - 17	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of July - 17	Completions as % of Total Stock as of Sept - 17	Occupancy Rates as of Aug - 16	Occupancy Rates as of Aug - 17
Sacramento	7.3%	8.2%	1.7%	0.6%	96.9%	96.9%
Seattle	5.8%	5.0%	2.8%	5.3%	96.2%	95.9%
Inland Empire	4.5%	4.8%	3.3%	0.9%	96.5%	95.9%
Twin Cities	3.7%	4.1%	2.3%	2.2%	97.7%	97.6%
Orlando	3.6%	4.2%	3.7%	2.4%	96.2%	96.2%
Phoenix	3.6%	4.8%	2.5%	2.0%	95.1%	94.9%
Los Angeles	3.5%	3.9%	1.6%	2.4%	96.9%	96.4%
Atlanta	3.1%	3.6%	3.5%	2.1%	94.9%	94.7%
Orange County	2.9%	3.0%	0.9%	2.2%	96.9%	96.3%
San Jose	2.9%	1.2%	1.6%	4.1%	96.0%	96.1%
Denver	2.8%	2.0%	2.4%	3.3%	95.4%	95.6%
Raleigh	2.8%	3.0%	2.7%	3.0%	95.5%	95.5%
Las Vegas	2.7%	3.5%	3.1%	1.2%	95.2%	95.1%
Tampa	2.7%	3.8%	3.1%	2.3%	95.9%	95.7%
Dallas	2.4%	4.3%	3.3%	2.1%	95.8%	95.5%
Indianapolis	2.4%	3.0%	1.9%	1.3%	94.8%	94.2%
Charlotte	1.8%	2.5%	2.8%	4.4%	96.0%	95.5%
San Francisco	1.8%	0.8%	2.0%	2.9%	96.4%	96.3%
Philadelphia	1.7%	1.8%	2.0%	1.9%	96.0%	96.0%
Boston	1.6%	2.4%	1.7%	2.9%	96.8%	96.8%
Chicago	1.6%	2.3%	0.8%	2.4%	95.6%	95.3%
Portland	1.6%	2.5%	2.1%	2.0%	96.2%	95.7%
Miami Metro	1.5%	2.9%	2.7%	4.5%	95.6%	95.1%
Baltimore	1.4%	1.4%	1.3%	1.3%	95.0%	94.8%
Kansas City	1.1%	2.3%	2.4%	1.6%	95.5%	95.3%
San Antonio	1.0%	1.5%	2.3%	3.1%	94.2%	93.7%
Washington, DC	1.0%	1.5%	1.8%	2.5%	95.9%	95.6%
Nashville	0.4%	2.0%	3.6%	4.8%	96.2%	95.3%
Austin	-0.1%	1.1%	2.8%	3.2%	95.3%	94.6%
Houston	-1.6%	-0.7%	1.4%	2.8%	93.6%	92.9%

Year-Over-Year Rent Growth, Other Markets

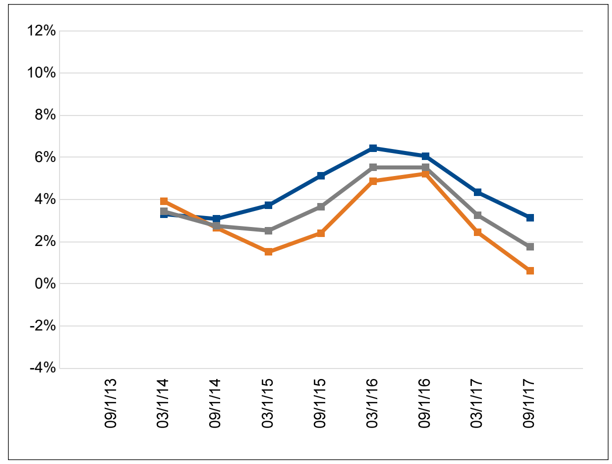
Market	September 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	10.7%	9.9%	11.7%
Colorado Springs	7.6%	8.3%	6.8%
Tacoma	7.5%	5.9%	8.9%
Central Valley	4.5%	2.5%	4.9%
Long Island	4.1%	4.3%	4.0%
San Fernando Valley	4.0%	1.6%	5.3%
Tucson	3.9%	4.2%	3.8%
Albuquerque	2.9%	2.8%	2.7%
Indianapolis	2.4%	2.1%	2.6%
Louisville	2.4%	1.6%	2.9%
NC Triad	2.4%	1.9%	3.4%
Northern New Jersey	2.2%	1.1%	3.5%
Bridgeport - New Haven	1.1%	1.4%	1.0%
St. Louis	0.9%	0.4%	0.9%
SW Florida Coast	0.7%	0.7%	0.5%
El Paso	0.3%	-0.2%	0.3%
Central East Texas	-1.8%	-2.6%	-1.6%

Market Rent Growth by Asset Class

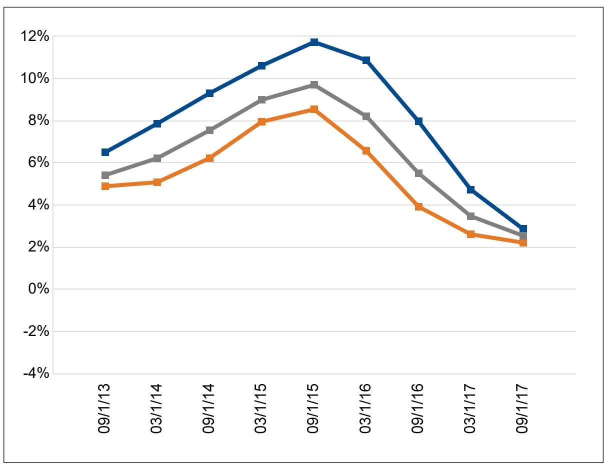
Atlanta



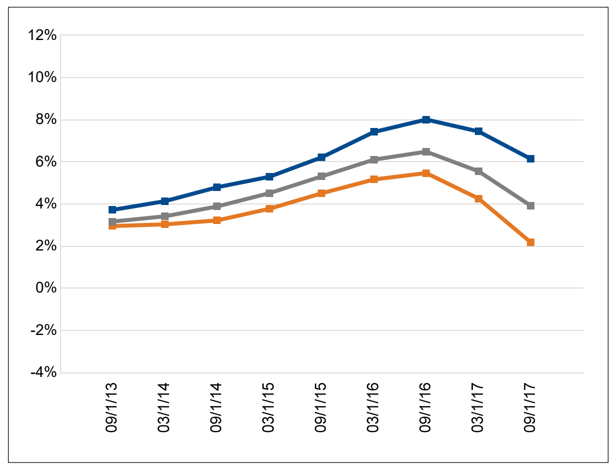
Boston



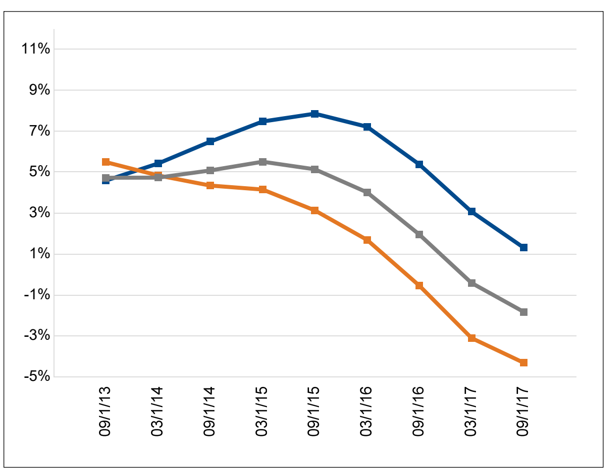
Denver



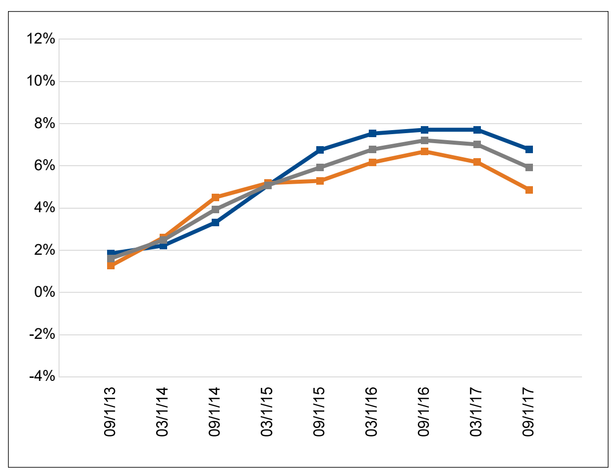
Dallas



Houston

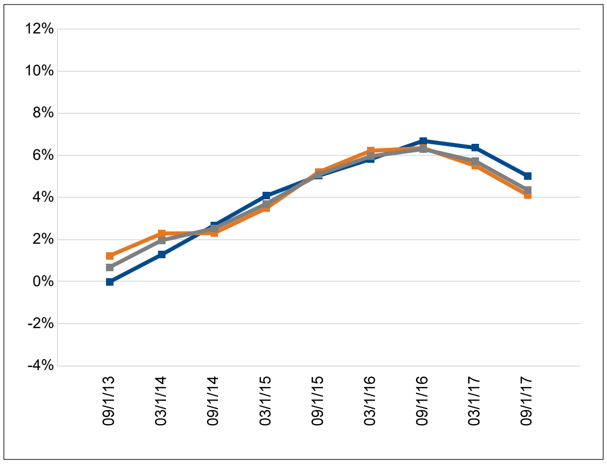


Inland Empire

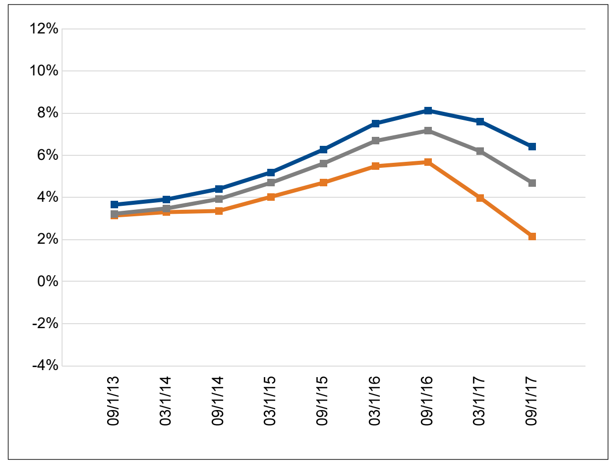


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

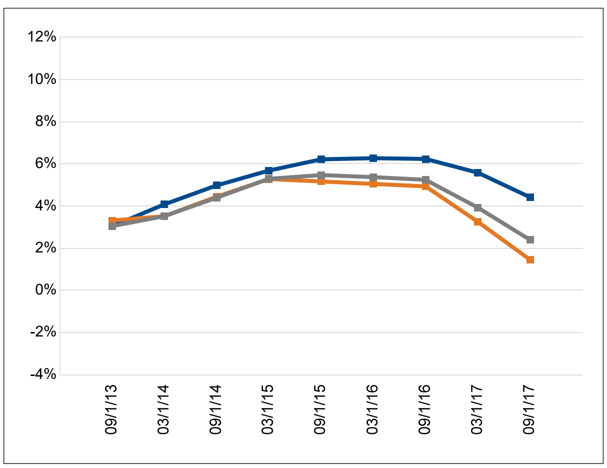
Las Vegas



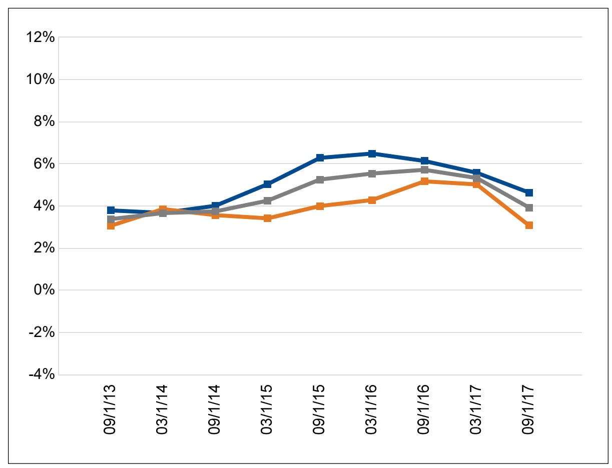
Los Angeles



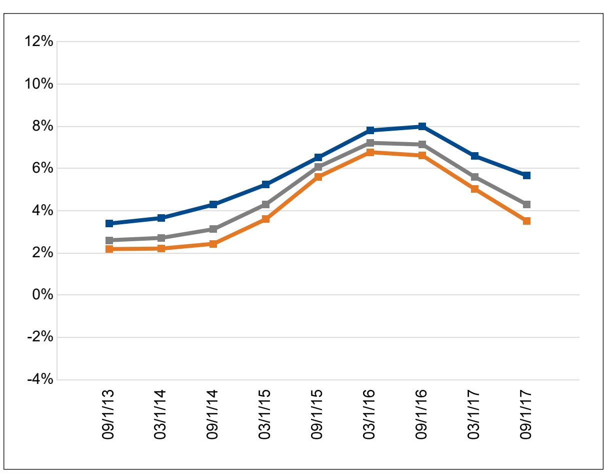
Miami



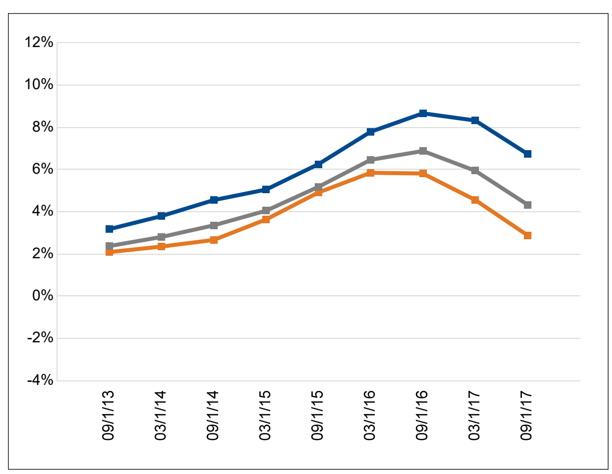
Orange County



Orlando

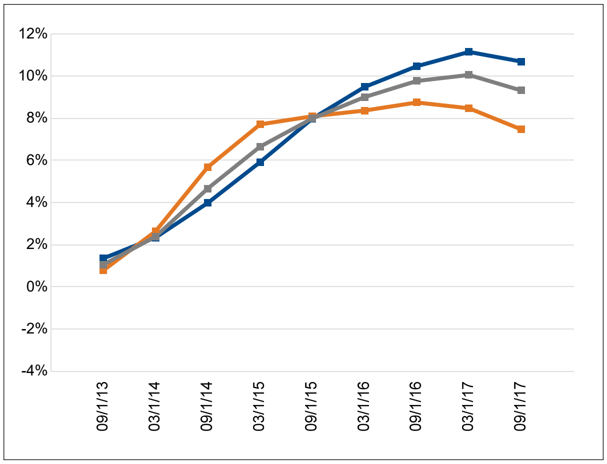


Phoenix

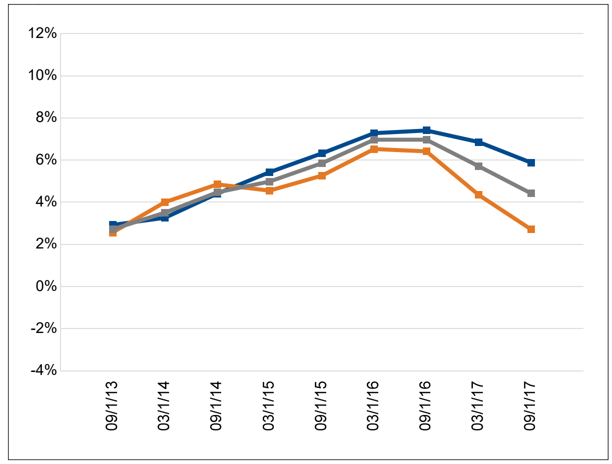


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

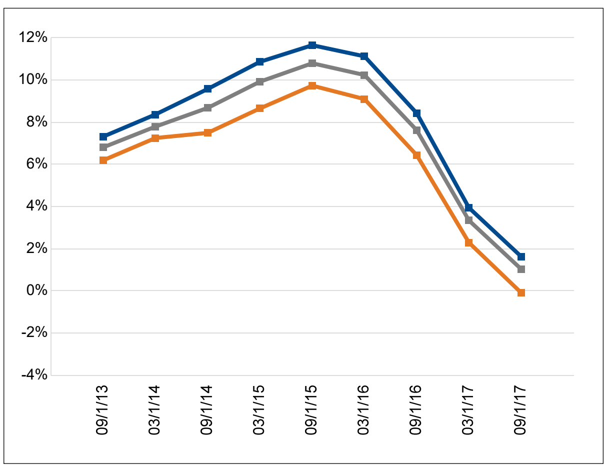
Sacramento



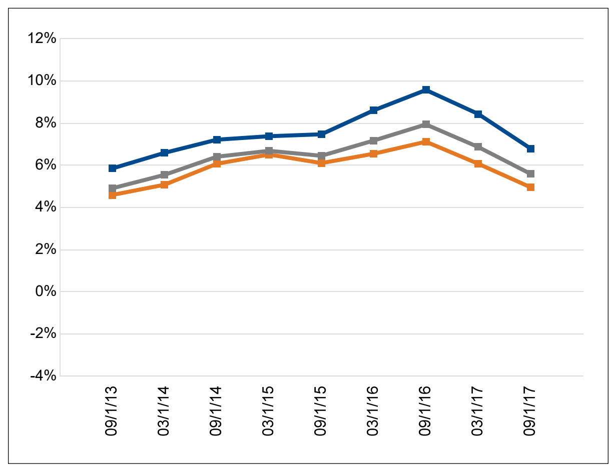
San Diego



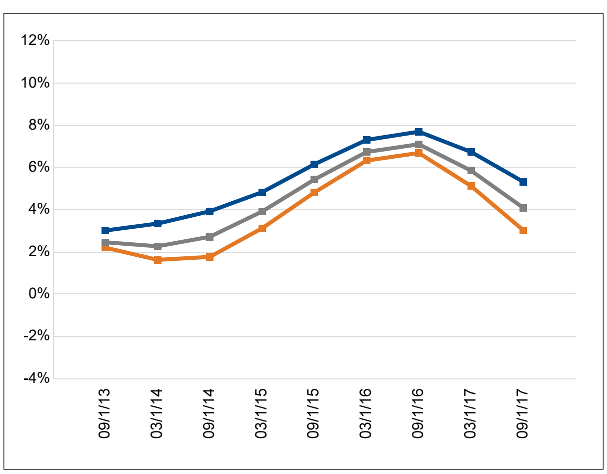
San Francisco



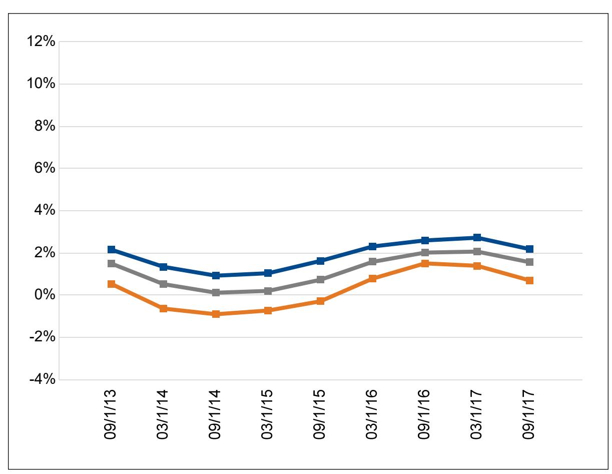
Seattle



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, police officers, firefighters, 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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