Rent Survey | October 2017

U.S. Multifamily Rents Fall in October; Houston Back in Black

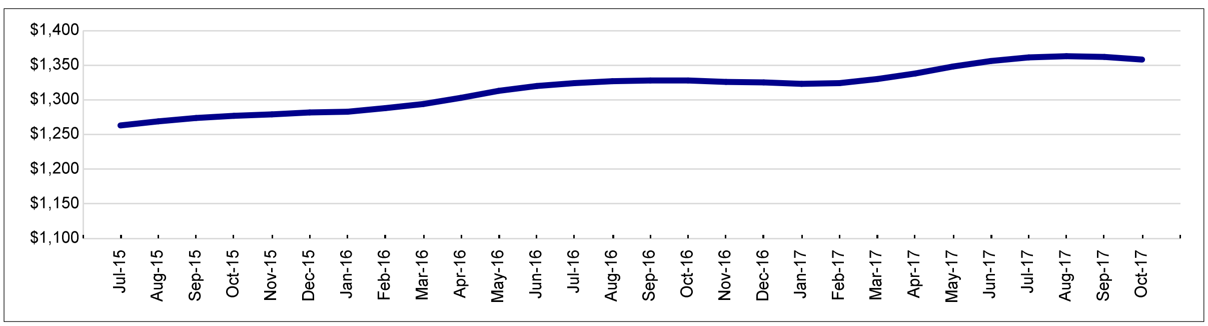
Amid some topsy-turvy results on the metro level that include a rebound in Houston, U.S. monthly rents fell $4 in October, down to $1,358, according to Yardi Matrix's monthly survey of 121 markets. The national deceleration on a year-over-year basis continued, with rents up 2.3% nationwide in October, a 30 basis-point decline from September.

Overall, the drop on a national level is no surprise. It comes at the beginning of the fourth quarter, when rent growth tends to slow due to seasonal factors. Moreover, the multifamily segment is in the midst of an extended deceleration from the cycle highs of 2016. Nationally, rents are only $5 off their all-time peak set in August and are $30 above their level a year ago.

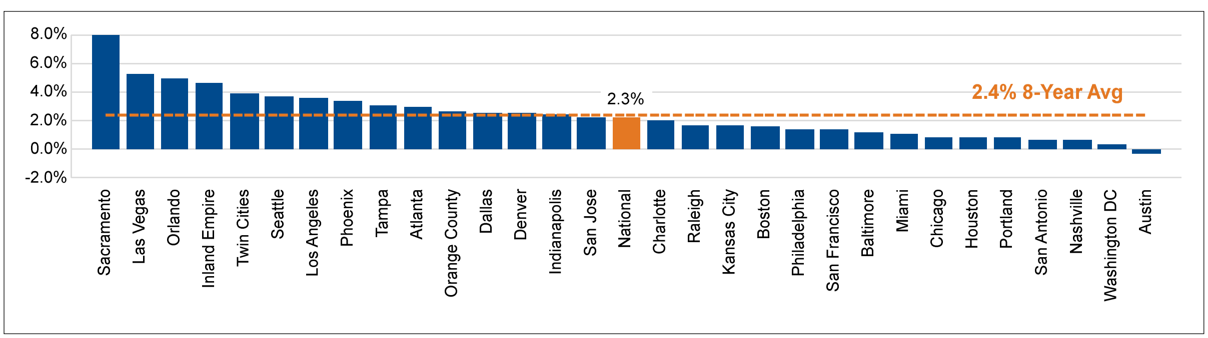
That said, some of the results run counter to recent performance. Although Sacramento (up 7.9% year-over-year, a whopping 260 basis points higher than its nearest competitor) remains seemingly unshakeable atop the top 30 metros in our ranking, the performance of other metros is evolving. Las Vegas (5.3%) climbed to second place in the rankings after a strong showing over the last few months. Meanwhile, Seattle (3.7%) fell from the second spot to sixth, and the entire Pacific Northwest is showing signs of weakness. The region was consistently among the top in rent growth through much of the current cycle, but is now a prime example of the deceleration caused in large part by heavy construction of luxury supply.

October was the first month in which the aftereffects of Hurricane Harvey could be measured, and it has given Houston a bounce. Rent growth in Houston is up 0.8% year-over-year through October, a 100-basis point improvement over -0.2% in September and the metro's first positive month since July 2016. Upward of 45,000 apartment units and 100,000 housing units went out of commission as a result of Harvey.

National Average Rents

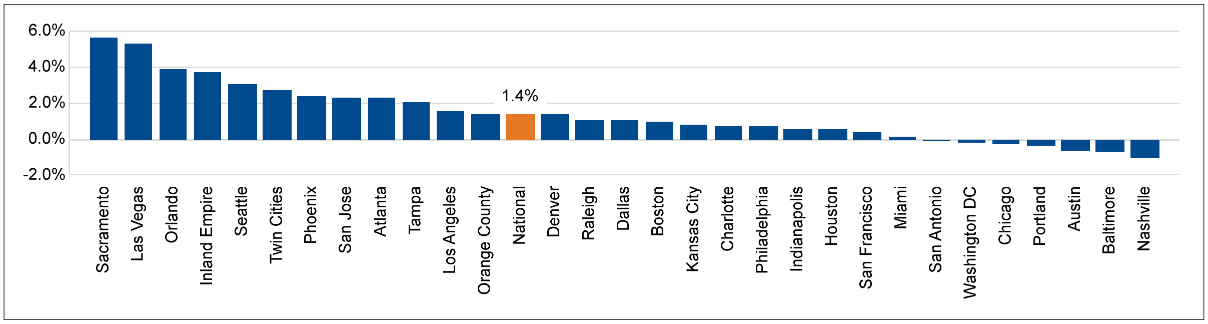


Year-Over-Year Rent Growth—All Asset Classes

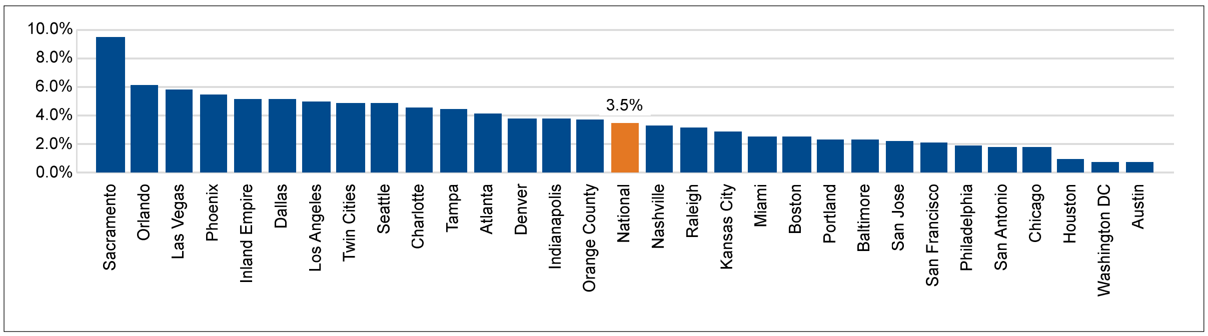


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

Year-Over-Year Rent Growth—Lifestyle Asset Class



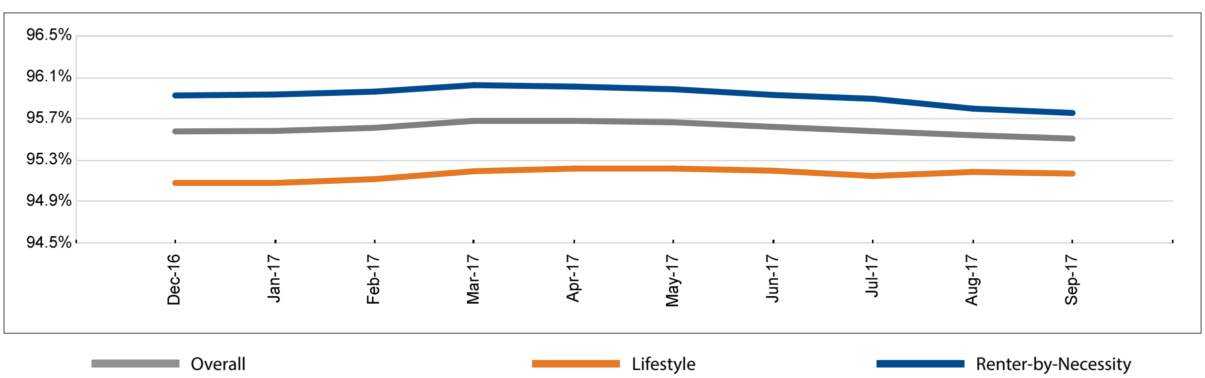
Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Occupancy and Asset Classes

Occupancy (95.6%) remained unchanged in September and continues its strength, even in light of the significant supply entering the market over the past few years. Since September 2016, occupancy has trended slightly downward but has stayed within a range of 20 basis points. Lifestyle (95.3%) trails Renter-by-Necessity (RBN) occupancy (95.8%) by 50 basis points, as most of the recent supply has been added at the high end, but both asset classes are well occupied.

Occupancy—All Asset Classes by Month



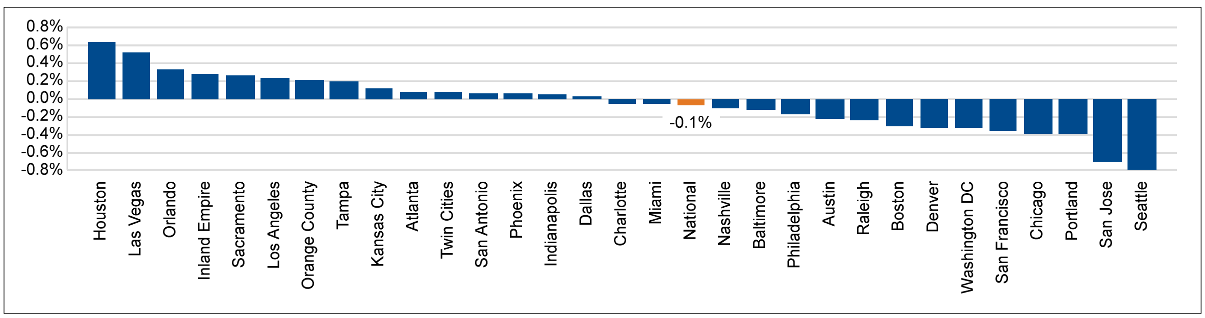
Trailing 3 Months: Rent Growth Turns Negative in Many Markets

Nationwide, rent growth on a trailing three-month basis (T-3) turned negative in October, falling 0.1% after remaining flat in September. T-3 rent growth, which compares the last three months to the previous three months, reflects more recent trends. A number of markets that experienced strong rent growth through the summer months have retreated and posted negative rent growth in October. Seattle (-0.8%), San Jose (-0.7%) and San Francisco (-0.4%) were among the weakest-performing markets.

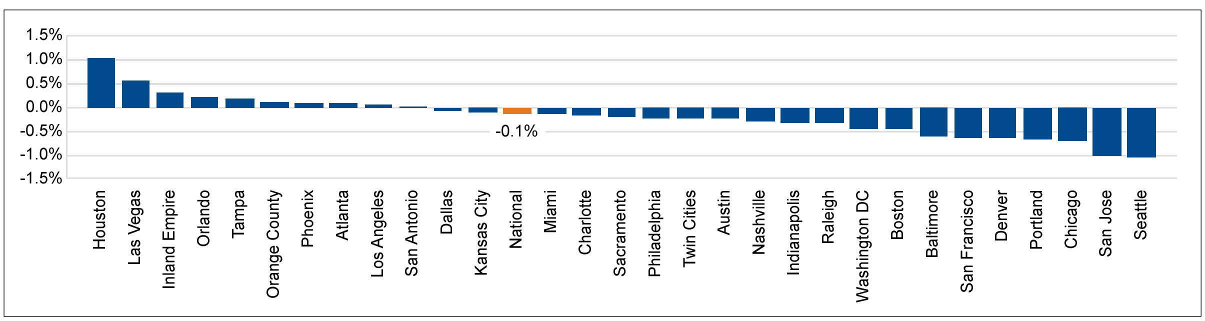
Houston, however, emerged as one of the fastest-growing markets on a T-3 basis, as rents increased 0.6%. Rents ticked up as a result of Hurricane Harvey, which left many Houstonians in need of housing. Other strong markets included Las Vegas (0.5%), Orlando, the Inland Empire and Sacramento (all 0.3%). Orlando may continue to see strong rent growth in the short term, as some Floridians and Puerto Ricans relocate after Hurricanes Irma and Maria left significant housing damage in their wake.

Lifestyle rents exhibited a wider range of growth compared to RBN, as Houston (1.0%) was the top-performing market, while Seattle (-1.0%) was the lowest. Sacramento (0.6%) topped growth in RBN, followed by Las Vegas (0.5%), Orlando and Los Angeles (both 0.4%). On a nationwide basis, RBN continues to outpace Lifestyle, as workforce housing increased 0.1% while high-end rents declined 0.1%.

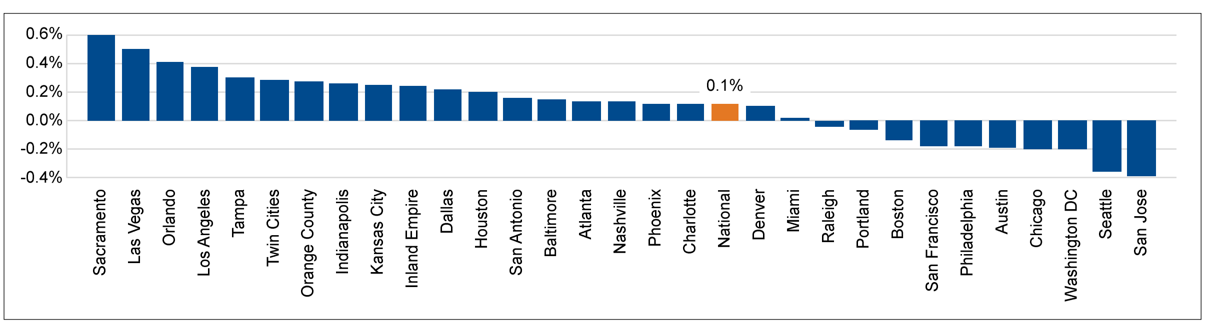
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

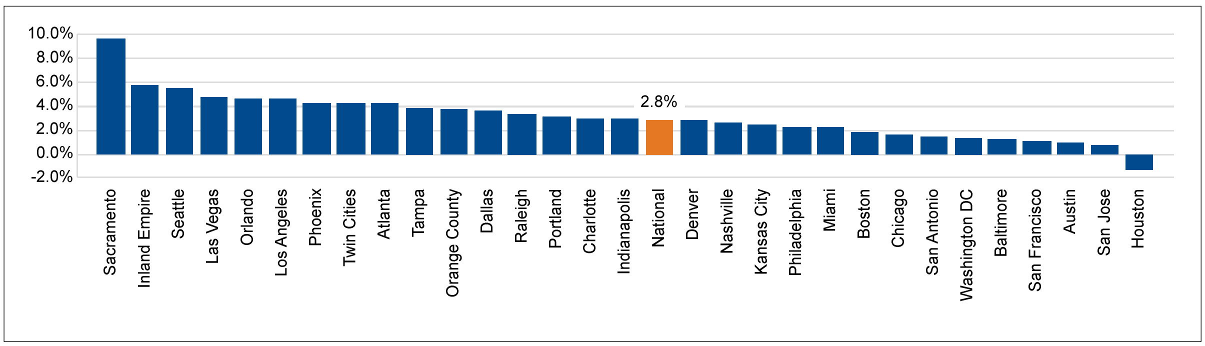


Trailing 12 Months: Deceleration Apparent, but Most Markets Steady

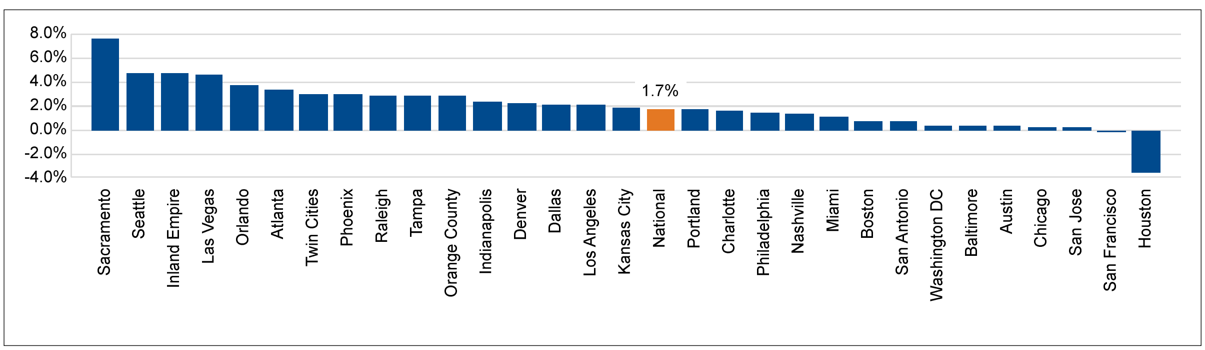
Rents grew 2.8% on a trailing 12-month basis (T-12) in October, down 20 basis points from September. A significant spread between asset classes remained, as RBN (4.1%) outpaced Lifestyle (1.7%). T-12 rent growth is calculated using a longer time frame, and market movements are slower compared to those using the T-3 basis.

Sacramento (9.6%) continues to lead the nation in rent growth. Western markets such as the Inland Empire (5.7%), Seattle (5.5%) and Las Vegas (4.7%) also performed well, as secondary markets remain attractive for Millennials and Baby Boomers alike interested in a more affordable lifestyle than gateway cities offer. Houston (-1.7%), San Jose (0.7%) and Austin (0.9%) rank near the bottom for T-12 rent growth, although Houston should rebound in the coming months. Austin faces short-term supply issues, while San Jose is confronted with an affordability issue, and both markets may see slow rent growth in the near term.

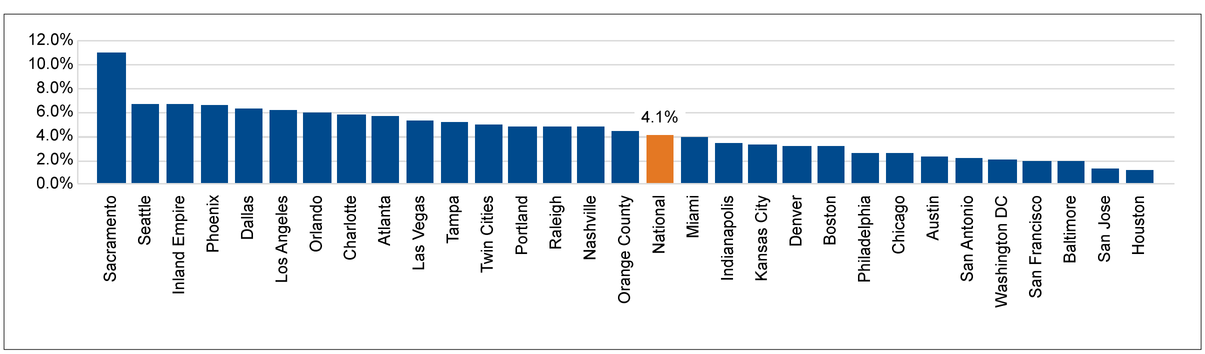
Trailing 12 Months Year-Over-Year—All Asset Classes



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

As multifamily rents have slowly moderated nationally over the past 18 months, there have been larger shifts at the metro and regional levels. On the positive side, Sacramento (7.9% year-over-year growth through October) has been impervious to a slump, leading the U.S. the entire year. The metro benefits from its proximity to the high-rent Bay Area and the dearth of new apartment supply. Las Vegas (5.3%) and Orlando (5.0%), whose tourism-led economies have been in high gear, rank second and third for year-over-year growth. Las Vegas has had strong employment increases in the leisure and hospitality sector, which comprises 30% of the workforce, and in construction. Orlando has added more than 15,000 hospitality jobs over the past year. Rent gains in both metros are led by the Renter-by-Necessity category, which houses working-class residents. Orlando's RBN segment is up 6.1% year-over-year, while Las Vegas' is up 5.8%.

Rounding out the top 5 are the Inland Empire (4.6%), home to the thriving West Coast port which has strong barriers to new supply, and Twin Cities (4.0%), which has consistently topped the nation in occupancy rates as supply continues to lag demand for housing in its dynamic economy.

The weight of new supply is an impediment to some of the metros at the bottom of the top-ranked group. Austin (-0.3%), the only metro with a negative year-over-year growth rate, has added more than 3% to stock over the past year and has seen occupancy drop 70 basis points over that time. Demand is strong in Nashville (0.7%), but the metro has added nearly 5% to its stock with a resulting 90 basis-point drop in occupancy.

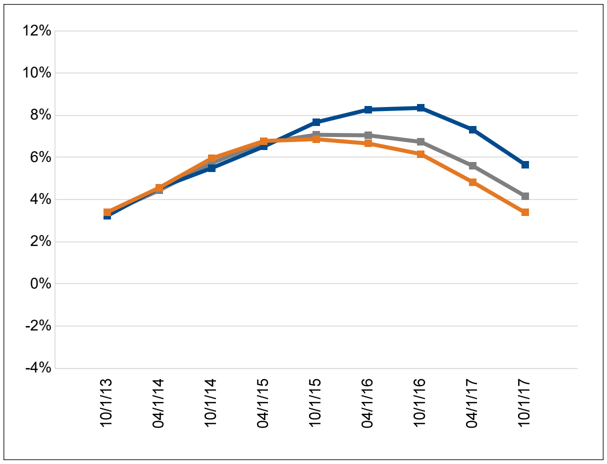
Market	YoY Rent Growth as of Oct - 17	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of Sept - 17	Completions as % of Total Stock as of Oct - 17	Occupancy Rates as of Sept - 16	Occupancy Rates as of Sept - 17
Sacramento	7.9%	8.2%	1.6%	0.5%	97.1%	97.1%
Seattle	3.7%	5.0%	2.5%	4.9%	96.3%	96.0%
Inland Empire	4.6%	4.8%	2.9%	0.7%	96.6%	96.2%
Phoenix	3.3%	4.8%	2.2%	2.4%	95.1%	94.9%
Dallas	2.6%	4.3%	3.0%	2.3%	95.8%	95.4%
Orlando	5.0%	4.2%	3.3%	2.8%	96.2%	96.1%
Twin Cities	4.0%	4.1%	2.3%	2.3%	97.9%	97.9%
Los Angeles	3.6%	3.9%	1.3%	2.6%	97.3%	96.8%
Tampa	3.1%	3.8%	2.8%	2.9%	95.9%	95.8%
Atlanta	2.9%	3.6%	3.2%	2.3%	95.0%	94.9%
Las Vegas	5.3%	3.5%	3.0%	1.5%	95.3%	95.2%
Indianapolis	2.5%	3.0%	2.0%	1.5%	94.7%	94.3%
Orange County	2.6%	3.0%	0.4%	2.3%	97.0%	96.5%
Raleigh	1.7%	3.0%	2.8%	3.2%	95.6%	95.5%
Miami Metro	1.1%	2.9%	2.4%	4.3%	95.8%	95.1%
Charlotte	2.0%	2.5%	2.6%	4.7%	96.0%	95.6%
Portland	0.8%	2.5%	2.3%	2.1%	96.2%	95.9%
Boston	1.6%	2.4%	1.9%	3.1%	96.9%	96.9%
Chicago	0.9%	2.3%	0.6%	2.3%	95.7%	95.3%
Kansas City	1.7%	2.3%	1.8%	2.3%	95.5%	95.4%
Denver	2.5%	2.0%	2.3%	3.3%	95.4%	95.6%
Nashville	0.7%	2.0%	3.3%	4.9%	96.3%	95.3%
Philadelphia	1.4%	1.8%	1.8%	1.9%	96.1%	96.0%
San Antonio	0.7%	1.5%	2.3%	2.5%	94.3%	93.7%
Washington DC	0.3%	1.5%	1.8%	2.3%	96.0%	95.6%
Baltimore	1.2%	1.4%	1.3%	1.3%	95.1%	95.0%
San Jose	2.3%	1.2%	1.4%	3.2%	96.1%	96.4%
Austin	-0.3%	1.1%	2.6%	3.0%	95.3%	94.6%
San Francisco	1.4%	0.8%	1.7%	2.8%	96.6%	96.5%
Houston	0.8%	-0.7%	1.5%	2.9%	93.6%	93.2%

Year-Over-Year Rent Growth, Other Markets

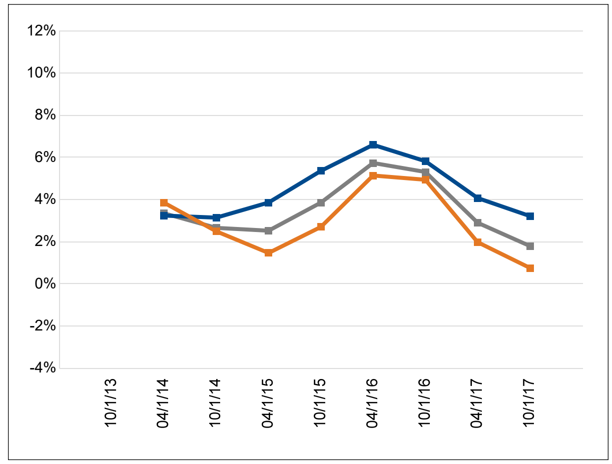
Market	October 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	10.8%	9.5%	12.0%
Tacoma	7.5%	5.8%	9.2%
Colorado Springs	7.0%	6.7%	7.5%
Central Valley	5.8%	3.1%	6.6%
Tucson	4.5%	3.5%	5.0%
San Fernando Valley	4.4%	1.6%	6.0%
Long Island	4.1%	3.5%	4.4%
Albuquerque	2.9%	1.1%	3.6%
Indianapolis	2.5%	0.5%	3.8%
Louisville	2.1%	0.9%	2.6%
NC Triad	2.1%	1.6%	3.4%
Bridgeport - New Haven	1.9%	2.6%	1.4%
Northern New Jersey	1.7%	0.1%	3.2%
SW Florida Coast	1.2%	0.7%	1.8%
St. Louis	1.0%	-0.4%	1.5%
El Paso	0.4%	0.4%	0.4%
Central East Texas	-1.9%	-2.8%	-1.4%

Market Rent Growth by Asset Class

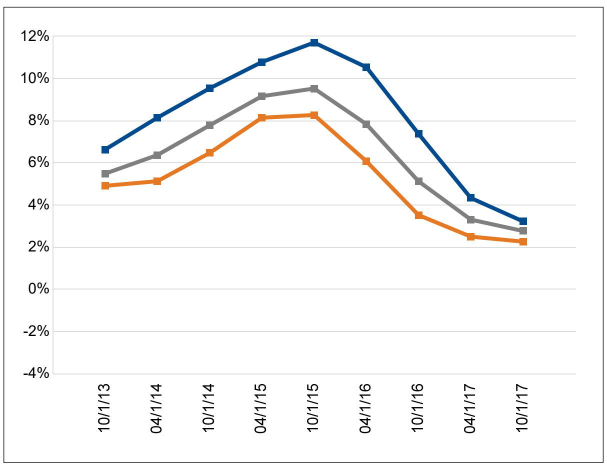
Atlanta



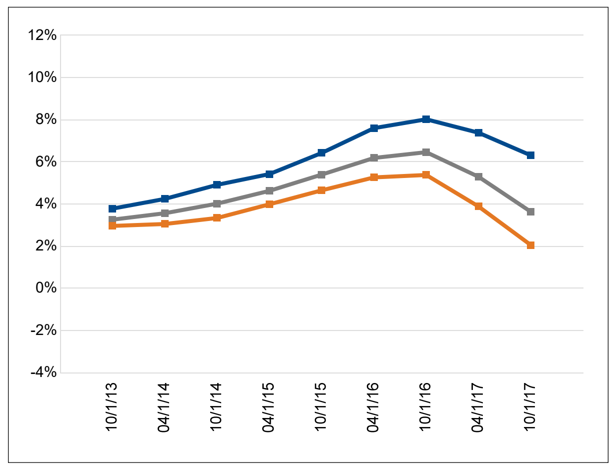
Boston



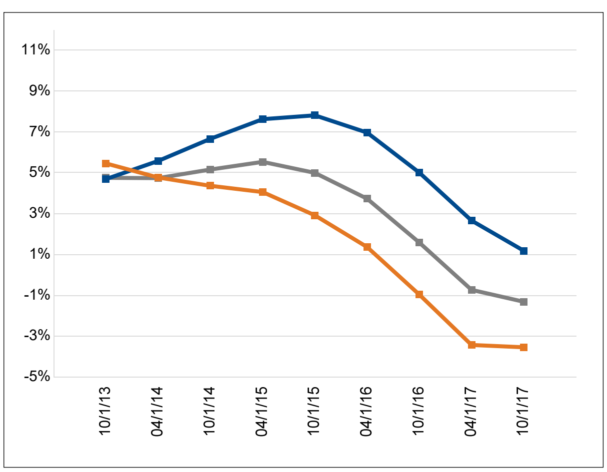
Denver



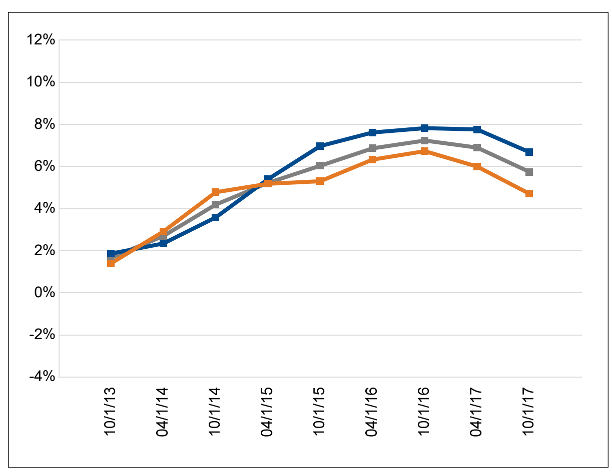
Dallas



Houston

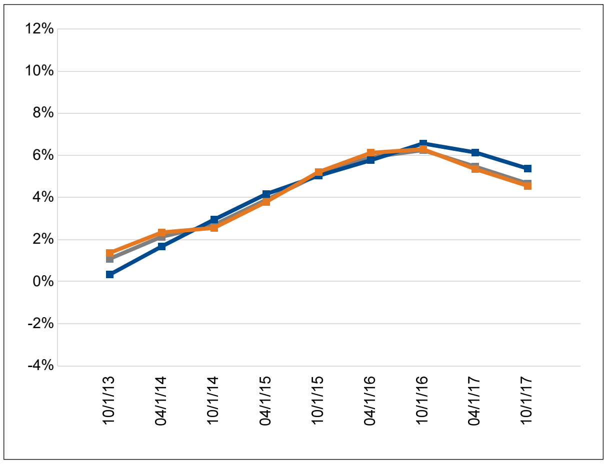


Inland Empire

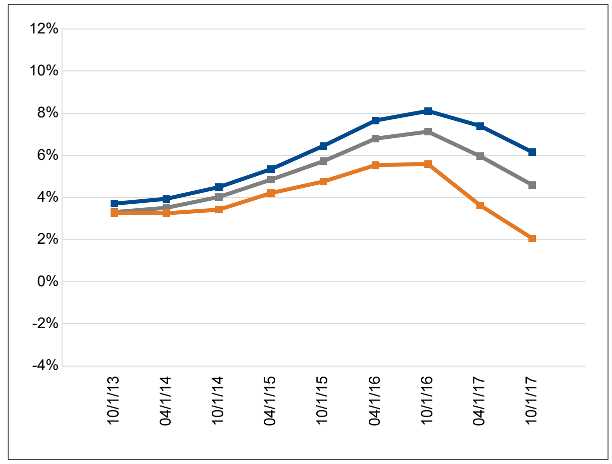


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

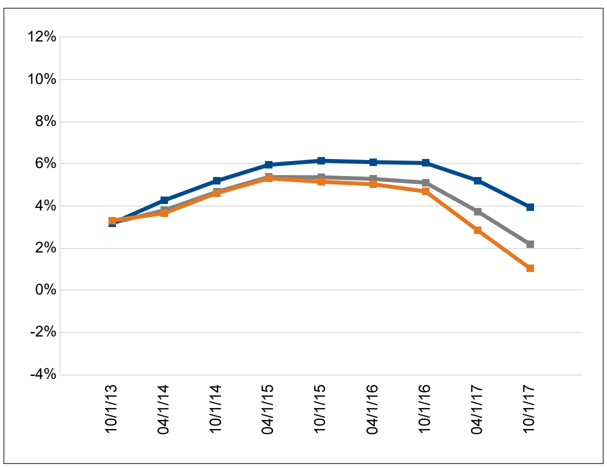
Las Vegas



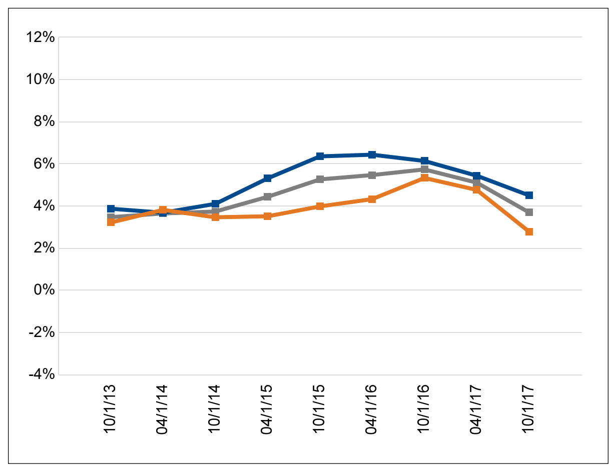
Los Angeles



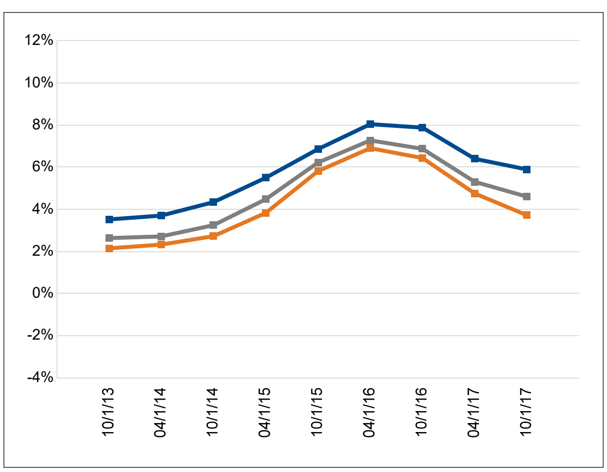
Miami



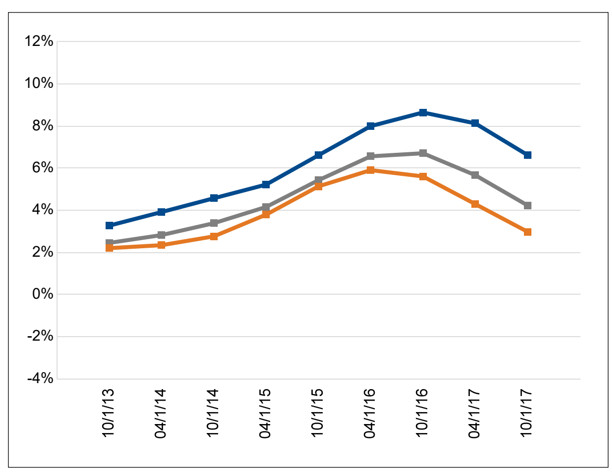
Orange County



Orlando

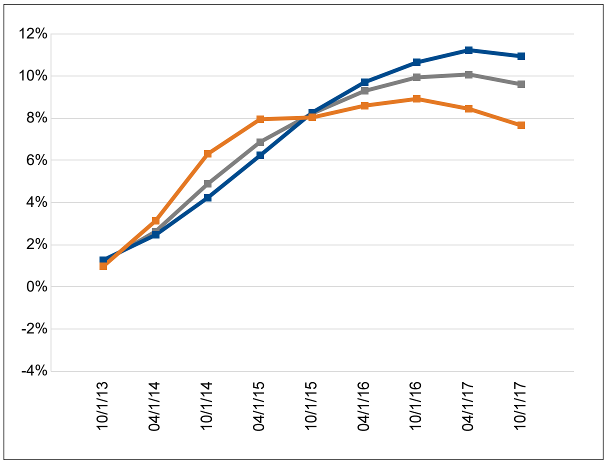


Phoenix

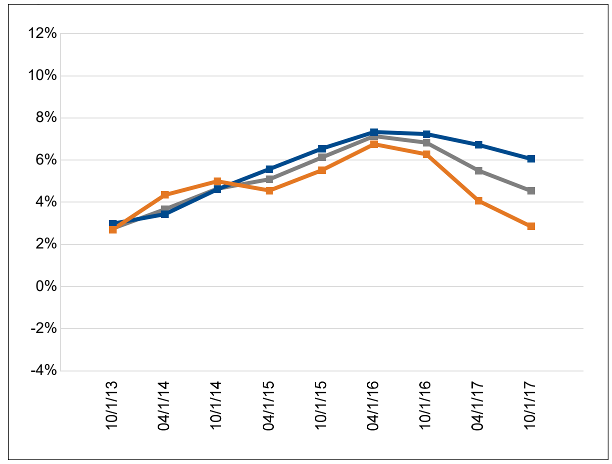


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

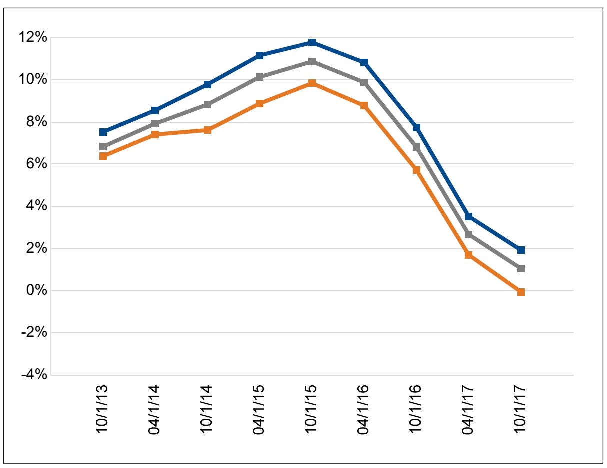
Sacramento



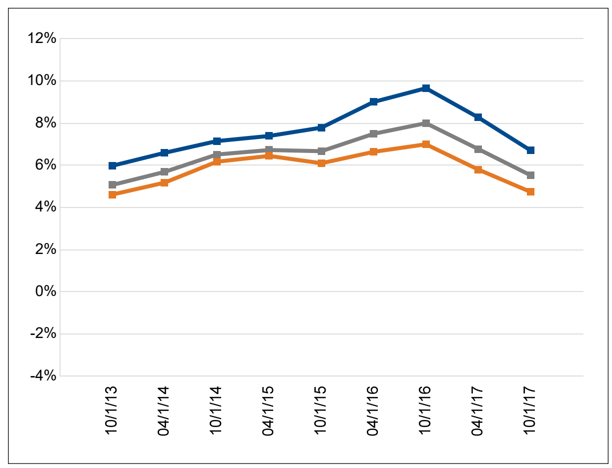
San Diego



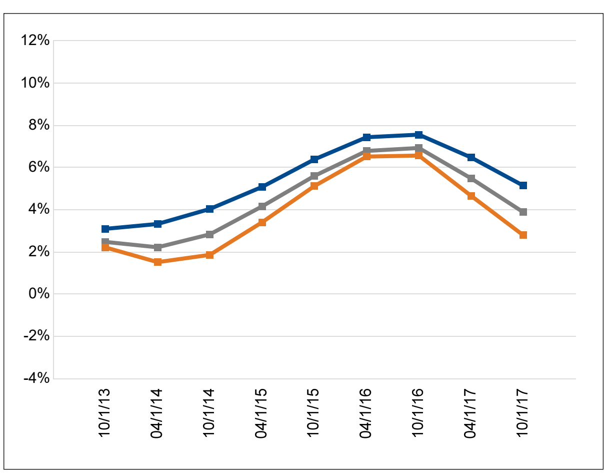
San Francisco



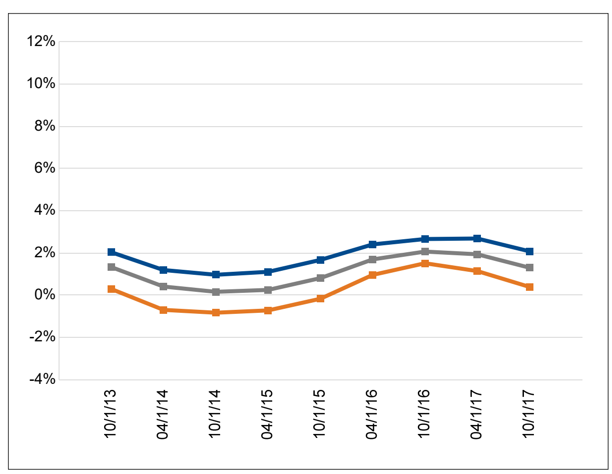
Seattle



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.

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