Yardi Matrix

National Multifamily Report

December 2022

Strong Growth in 2022, but Multifamily Rents Feel Strain

- Multifamily rents fell again in December under the strain of weakening demand. U.S. asking rents dropped $4 during the month to $1,715, while year-over-year growth declined by 80 basis points to 6.2%, the lowest level since May 2021.
- For the full year in 2022, rents increased by 6.2%, the second-highest annual growth this century, only behind 2021's growth of nearly 15%. With the market entering 2023 with a variety of concerns about the economy and affordability, we expect rent growth in 2023 will be closer to historical levels.
- Deceleration is also hitting the single-family rental market. The average U.S. asking rent dropped $8 in December to $2,083, while the year-over-year increase fell by 100 basis points to 4.8%.

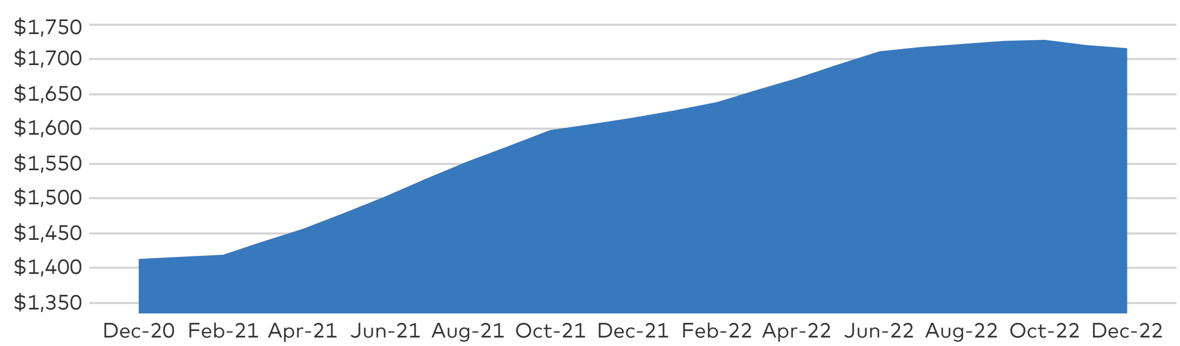
The book has now been closed on an eventful 2022, in which U.S. multifamily asking rents rose 6.2%. The year started as a continuation of 2021, with rents rising through the normally tepid first quarter and posting strong gains in the spring. However, as the economy and demand began to cool in the fall, rents began their inevitable deceleration. Nationally, asking rents fell 0.2% in December and 0.6% in the fourth quarter.

In 2023, we expect the market to behave in a more traditional manner, at least nationally. Asking rents should remain flat or fall slightly through the spring, when growth typically is strongest. Then rents will rise moderately, though nowhere near the outsize levels of the last two years.

Our outlook is colored by the demand-supply equation. Demand for apartments is moderating from 2021 record levels as the economy cools, excess household savings are depleted, affordability is stretched and the post-pandemic migration is played out. Meanwhile, 2023 should be a strong year for new supply. More than 400,000 units are expected to come online in 2023. Deliveries will be concentrated in markets with high population growth such as Austin, Nashville, Charlotte and Orlando, which to some degree will dampen the increases in rent growth that come with high in-migration.

Gateway markets are bouncing back, owing to the combination of weak supply growth and rebounding demand. More companies are requiring a return to the office, and—after being down significantly for several years—immigration reached one million in the year ending July 2022, per the U.S. Census Bureau. Not all of those immigrants were new to the U.S., but it's still a good sign for big metros where immigrants tend to land. Despite headwinds, there are positive forces that will keep the industry healthy in 2023.

National Average Rents

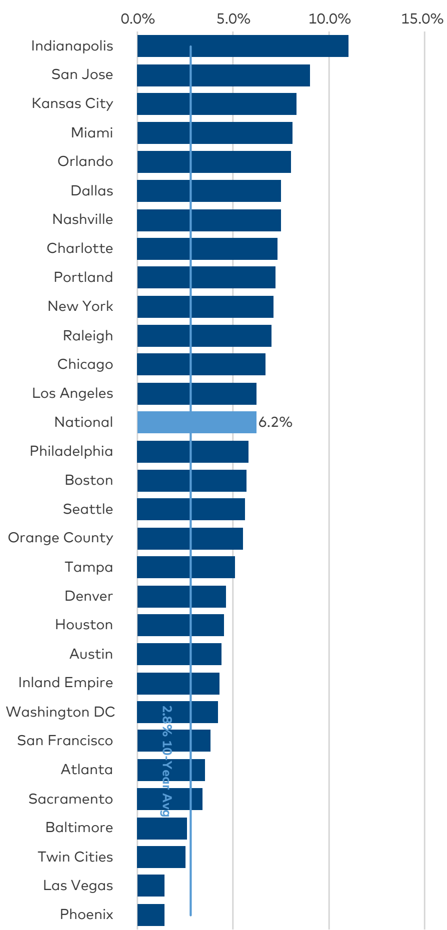


National averages include 136 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by Yardi Matrix.

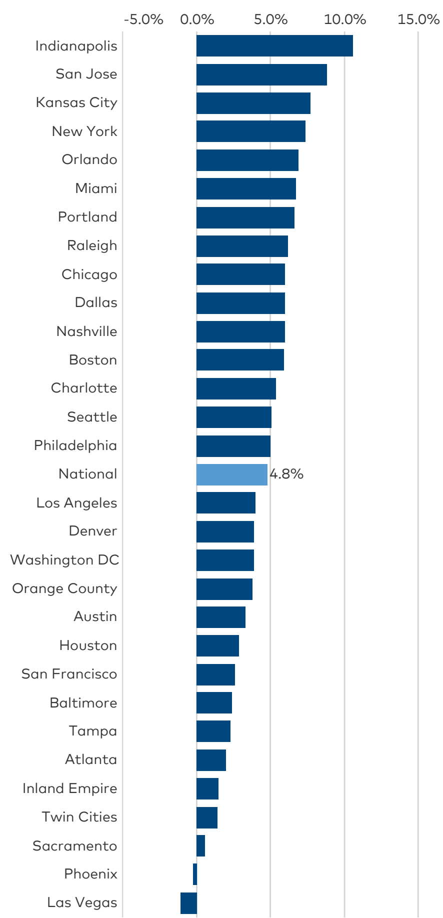
Year-Over-Year Rent Growth: Occupancy Rates Ebb in High-Delivery Markets

- National asking rent growth fell to 6.2% year-over-year, down 80 basis points from November. Indianapolis (11.4%) once again held the top spot among Yardi Matrix's top 30 metros, followed by San Jose (9.0%), Kansas City (8.3%), Miami (8.1%) and Orlando (8.0%). All of the top 30 metros continue to have positive rent growth year-over-year, but only two—Indianapolis (0.4%) and New York (0.3%)—recorded rent growth in the fourth quarter of 2022.
- The national occupancy rate continues to fall as demand weakens (though it is still positive overall) and deliveries abound in some markets. Of the top 30 Matrix metros, the nine with deliveries of at least 2.5% of stock in 2022 saw occupancy rates drop by an average of 100 basis points. Only three of the 30 metros have had an increase in occupancy rates year-over-year: San Jose (0.7%) and New York and San Francisco (0.2%), while Chicago (-0.1%), Washington, D.C. (-0.2%) and Los Angeles (-0.3%) were only slightly negative.

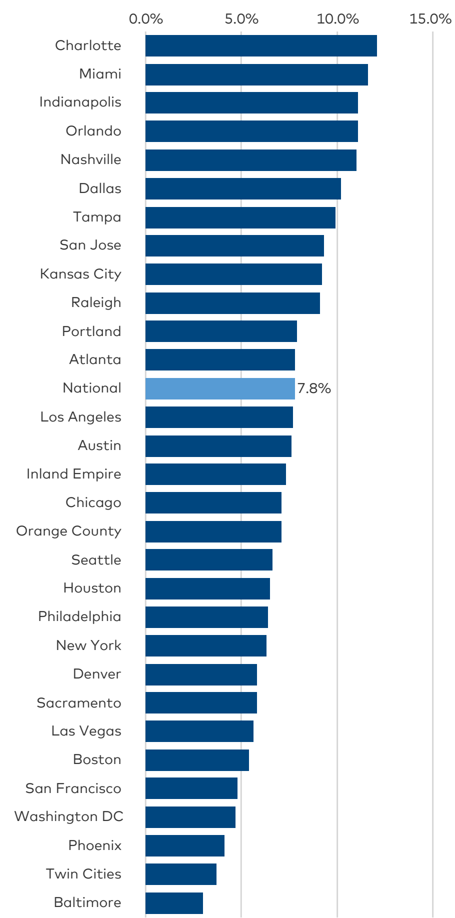
Year-Over-Year Rent Growth—All Asset Classes



Year-Over-Year Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Short-Term Rent Changes: Widespread Rent Drop in December

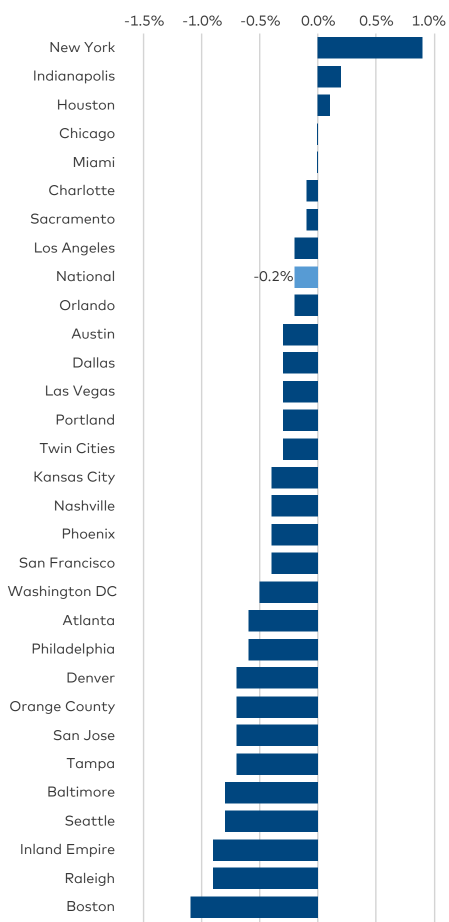
- The average U.S. multifamily asking rent fell $4, or 0.2%, in December.
- The decline in rents was concentrated in the high-end Lifestyle segment, which recorded a drop of 0.3%. Renter-by-Necessity rents fell by 0.1% in December.

Average U.S. multifamily asking rents dropped $4 in December to $1,715, and were down by $10 in the fourth quarter. The December results were broad-based, with 25 of the top 30 metros posting negative growth. Monthly change isn't always a sign of longer-term trends, but December demonstrates the market's deceleration.

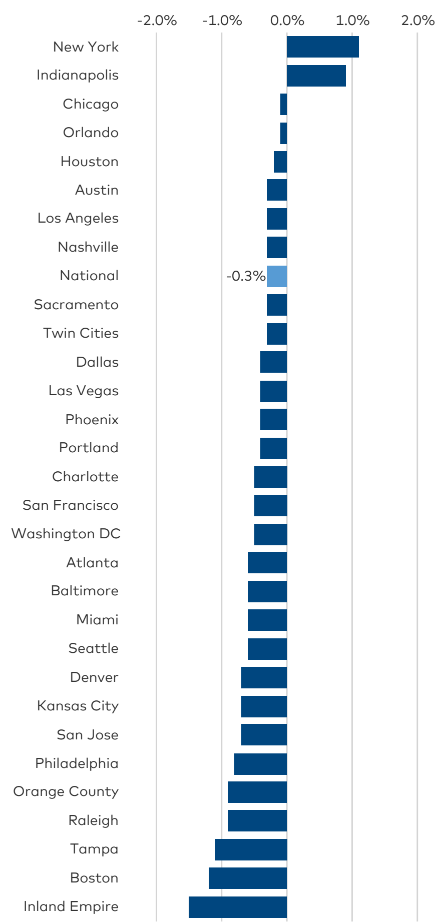
Rents increased only in New York (0.9%), Indianapolis (0.2%) and Houston (0.1%). In the top 30 metros by property class, 28 had negative growth in Lifestyle units, and 19 saw rents slip in Renter-by-Necessity units.

Boston had the biggest monthly drop at -1.1%, although rents rose 5.7% for the year. Raleigh and the Inland Empire, markets that had strong increases in the cycle, recorded 0.9% decreases for the month. San Jose's asking rents fell 0.7% for the month, a sign that the market may be cooling, though rents were up 9.0% for the year amid gains in occupancy rates.

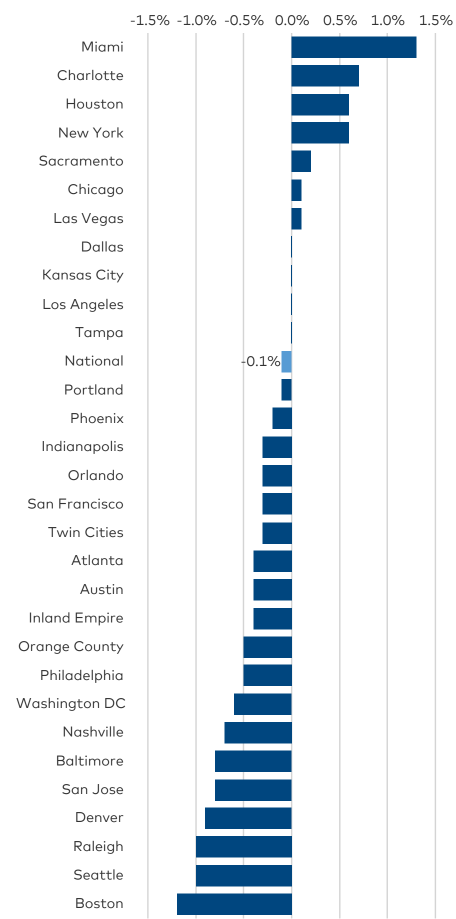
Month-Over-Month Rent Growth—All Asset Classes



Month-Over-Month Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Transacted Rents:
Renewal Rents Continued to Rise in October

- Nationally, renewal rents were still surging in the fall, rising 11.8% year-over-year through October, up 30 basis points from September. The growth reflects property owners continuing the process of bringing rents of existing tenants closer to asking rates. October's renewal rate growth is likely at or near its apex, since asking rents have been negative since November. Florida metros Miami (19.2%), Tampa (18.9%) and Orlando (16.6%) were all in the top four, while Raleigh (16.9%) and New York (14.2%) rounded out the top five.

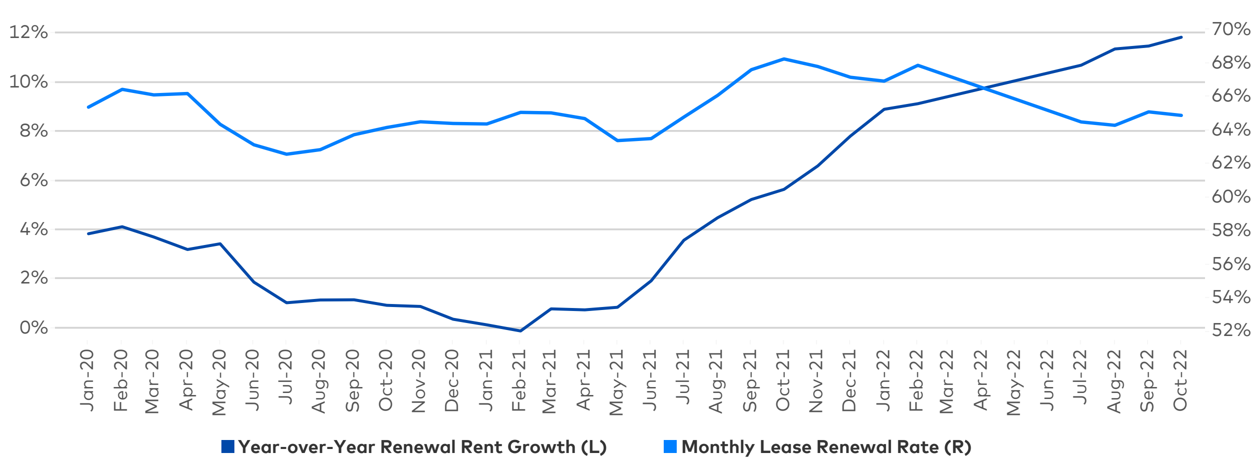
- National lease renewals were 64.9% in October, down slightly from the prior month. Renewal rates have settled into a range near 65% after peaking in the fourth quarter of 2021. Lease renewal rates varied much by metro, led by Philadelphia (77.8%) and Baltimore (70.2%), while they were less than half in San Francisco (48.5%) and Los Angeles (49.3%).

Market	YoY Renewal Rent Growth	Monthly Lease Renewal Rate
Miami Metro	19.2%	67.6%
Tampa	18.9%	65.5%
Raleigh	16.9%	65.2%
Orlando	16.6%	69.8%
New York	14.2%	68.7%
Phoenix	13.8%	63.4%
Charlotte	13.8%	62.7%
Dallas–Ft. Worth	13.3%	63.0%
Las Vegas	12.9%	65.2%
Austin	11.9%	58.1%
Atlanta	11.6%	65.5%
Portland	10.8%	61.9%
Denver	10.6%	60.9%
Inland Empire	10.5%	59.8%
Orange County	10.3%	66.0%

Market	YoY Renewal Rent Growth	Monthly Lease Renewal Rate
Nashville	10.1%	58.7%
Indianapolis	9.4%	66.9%
Washington DC	9.4%	58.6%
Boston	9.3%	68.7%
Philadelphia	9.3%	77.8%
Baltimore	9.1%	70.2%
Seattle	9.1%	56.9%
Sacramento	8.8%	57.7%
Kansas City	8.7%	71.6%
San Jose	8.4%	50.0%
Houston	7.2%	67.1%
Los Angeles	6.2%	49.3%
Chicago	6.1%	64.7%
Twin Cities	5.1%	62.5%
San Francisco	4.0%	48.5%

Source: Yardi Matrix Expert, data as of October 2022

National Lease Renewals and Renewal Rent Growth



Source: Yardi Matrix Expert

Supply, Demand and Demographics: How Will Multifamily React as Conditons Change?

- The multifamily market is starting the new year with rapidly evolving conditions that in some ways are unprecedented.
- Multifamily's reaction to the rapid increase in interest rates and resulting weakening of the job market will be closely watched.
- 2023 could see weaker household formation and demand. Meanwhile, transaction activity will be affected by uncertainty about values.

In some ways, multifamily enters 2023 in a typical change of cycles. The market ran hot for two years, with national asking rents increasing 22% in 2021/22. Rents will decelerate this year and usher in the next cycle. However, the lingering impact of COVID-19 and extraordinary financial engineering make this cycle unique. Multifamily performance in 2023 will be studied for many years because it is at the intersection of multiple trends involving the economy, rents, demand and the capital markets.

The biggest issue is how multifamily fundamentals will react to higher short-term interest rates in the post-pandemic world. Actual interest rates are not high by historical standards, but the pace of the increase has been unprecedented. The Federal Reserve raised policy rates 425 basis points over seven months in 2022. The Fed is acting to curtail inflation, not only in general but to cut growth of housing costs, which represent one-third of the Consumer Price Index.

The impact of higher rates on single-family housing prices was immediate and measurable—sales plunged as purchasing homes became significantly less affordable—but the impact on multifamily is more nuanced. Demand for rentals is higher to the extent potential homebuyers continue to rent longer. But there are downsides for apartments. One is that there is increasing single-family rental supply from homeowners that can't sell homes and instead decide to change them into rentals.

A bigger downside from the fight against inflation is an economic slowdown that will curtail job growth and possibly lead to a recession in the second half of 2023. For multifamily, that could mean fewer households forming as the labor market weakens and less migration from people moving to accept new jobs. A recent paper on migration patterns from 2008-2019 by researchers at the Chicago Federal Reserve connected increased domestic migration starting in 2016 to the tightening labor market. "(M)ore young people, especially those with a college education, moved to MSAs with higher shares of white-collar/professional jobs," the paper concluded.

Rate increases also have wreaked havoc on the capital side of the market, as multifamily sales and mortgage activity have slowed due to uncertainty about the economy and pricing. The upshot is that however the market shakes out, 2023 will be noteworthy.

Single-Family Build-to-Rent Segment: SFRs Face Increased Competition

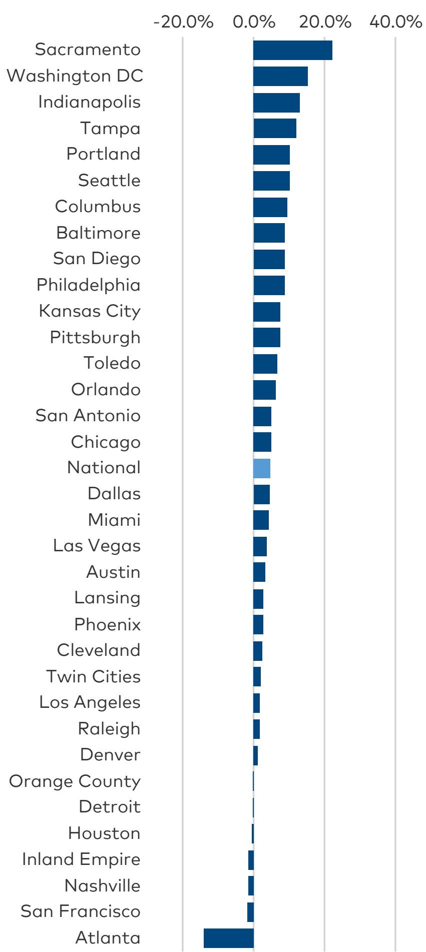
- National asking rates for single-family rentals increased 4.8% year-over-year in December, a decrease of 100 basis points from November's year-over-year increase.
- U.S. occupancy rates decreased 1.4% year-over-year through November, but were unchanged from the previous month at 95.8%.

The average national asking rate for SFRs fell for the second straight month, to $2,083 in December. SFR asking rents have now fallen $12 over the last two months as housing demand begins to weaken.

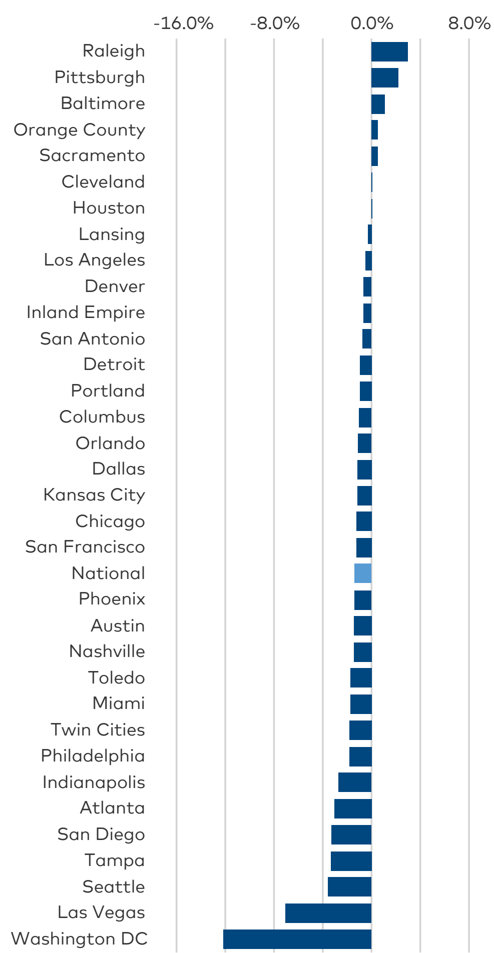
Rising mortgage rates are impacting the SFR sector as the number of home sales has dropped. In some cases, owners are giving up trying to sell and are turning homes into rentals, which increases the amount of competitive stock for SFRs. Some 9% of U.S. home sellers switched listings from sale to rental in November, according to John Burns Real Estate Consulting. The highest rate of sellers switching to rentals was in the Southwest (17%), Florida (15%) and the Northwest (14%), per Burns REC.

Note: Yardi Matrix covers single-family built-to-rent communities of 50 homes and larger.

Year-Over-Year Rent Growth—Single-Family Rentals



Year-Over-Year Occupancy Change—Single-Family Rentals



Source: Yardi Matrix

Multifamily Rent-to-Income Ratios as of November 2022

Market	All Units	Lifestyle Units	Renter-by-Necessity Units
New York	34.6%	30.6%	38.7%
Orange County	34.1%	31.3%	36.3%
Baltimore	32.5%	28.3%	34.8%
Orlando	32.2%	31.6%	32.8%
Los Angeles	32.0%	28.6%	34.8%
Inland Empire	30.9%	28.3%	33.1%
Nashville	30.5%	27.7%	32.8%
Las Vegas	30.2%	28.2%	34.2%
Washington DC	30.1%	27.0%	33.0%
Seattle	29.9%	31.0%	29.6%
Atlanta	29.7%	29.2%	31.0%
Portland	29.5%	27.8%	31.9%
Chicago	29.5%	28.4%	30.2%
Sacramento	29.4%	28.2%	30.4%
Denver	28.9%	27.0%	31.7%
Philadelphia	28.9%	27.1%	30.1%
Phoenix	28.7%	26.6%	31.0%
Boston	28.5%	26.9%	31.6%
Miami	27.8%	27.4%	29.3%
Houston	27.5%	25.7%	29.8%
San Jose	27.4%	25.0%	28.5%
Dallas	27.4%	26.0%	29.8%
Charlotte	27.3%	25.7%	31.6%
San Francisco	27.2%	25.0%	30.6%
Raleigh	26.5%	25.8%	28.0%
Indianapolis	25.7%	22.8%	27.8%
Austin	25.5%	24.2%	28.7%
Twin Cities	25.4%	21.7%	27.1%
Tampa	25.0%	24.2%	25.6%
Kansas City	24.2%	23.4%	24.9%

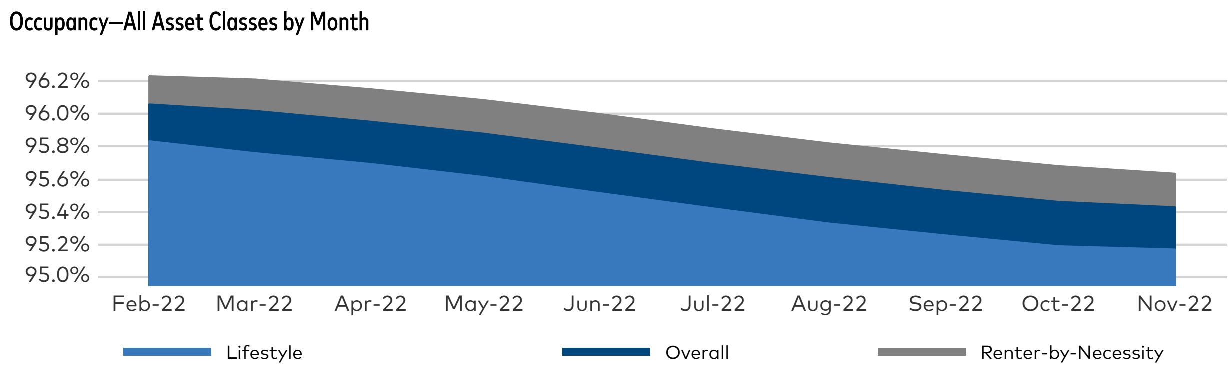
Rent-to-Income ratios sorted by all units, highest to lowest. Source: Yardi Systems Screening Data
The Yardi Matrix data service covers rent-to-income ratios monthly back to January 2019 for 112 markets broken out by property type

Employment and Supply Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Dec - 22	Forecast Rent Growth as of 12/31/22 for YE 2022	YoY Job Growth (6-mo. moving avg.) as of Oct - 22	Completions as % of Total Stock as of Dec - 22
Indianapolis	11.0%	11.0%	3.0%	0.8%
San Jose	9.0%	8.4%	5.2%	1.0%
Kansas City	8.3%	8.8%	1.4%	1.6%
Miami Metro	8.1%	9.1%	5.5%	3.8%
Orlando	8.0%	7.7%	5.4%	2.8%
Nashville	7.5%	7.8%	5.9%	4.0%
Dallas	7.5%	7.6%	7.1%	2.5%
Charlotte	7.3%	7.4%	5.2%	3.3%
Portland	7.2%	7.6%	5.5%	2.8%
New York	7.1%	6.0%	5.6%	1.0%
Raleigh	7.0%	7.8%	4.3%	2.6%
Chicago	6.7%	6.7%	4.3%	1.6%
Los Angeles	6.2%	6.6%	4.5%	1.9%
Philadelphia	5.8%	6.2%	4.0%	1.0%
Boston	5.7%	6.7%	4.2%	2.1%
Seattle	5.6%	6.5%	5.5%	4.3%
Orange County	5.5%	6.1%	4.6%	1.0%
Tampa	5.1%	6.0%	4.6%	3.0%
Denver	4.6%	5.3%	3.8%	3.4%
Houston	4.5%	4.2%	6.2%	2.4%
Austin	4.4%	4.6%	5.8%	4.6%
Inland Empire	4.3%	4.7%	5.6%	0.3%
Washington DC	4.2%	4.9%	2.5%	2.1%
San Francisco	3.8%	4.3%	4.9%	2.4%
Atlanta	3.5%	4.2%	5.7%	2.2%
Sacramento	3.4%	3.5%	3.6%	1.4%
Baltimore	2.6%	3.4%	3.2%	0.7%
Twin Cities	2.5%	2.2%	3.5%	4.4%
Phoenix	1.4%	1.3%	4.0%	3.5%
Las Vegas	1.4%	1.3%	6.4%	1.0%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

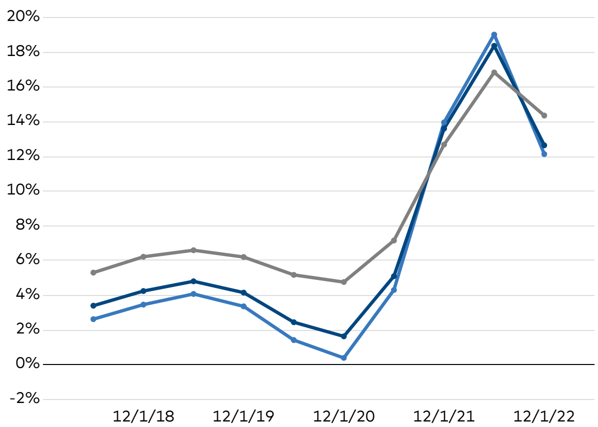
Year-Over-Year Rent Growth, Other Markets

Market	December 2022		
	Overall	Lifestyle	Renter-by-Necessity
Albuquerque	10.7%	7.3%	12.9%
Central East Texas	10.5%	8.2%	12.7%
Louisville	9.9%	6.0%	12.3%
Northern New Jersey	8.6%	9.4%	8.3%
NC Triad	8.5%	5.8%	12.0%
St. Louis	8.5%	8.3%	8.4%
SW Florida Coast	8.2%	7.1%	11.1%
El Paso	7.8%	6.6%	8.3%
Salt Lake City	7.5%	6.1%	8.7%
Bridgeport–New Haven	6.8%	7.5%	6.2%
Long Island	6.6%	5.8%	7.1%
Central Valley	6.2%	0.4%	7.9%
Tucson	5.5%	0.2%	8.4%
San Fernando Valley	5.2%	3.1%	6.7%
Tacoma	5.1%	3.9%	6.4%
Colorado Springs	4.8%	4.7%	4.8%
Jacksonville	4.4%	0.8%	11.3%
Reno	0.8%	-1.6%	3.0%

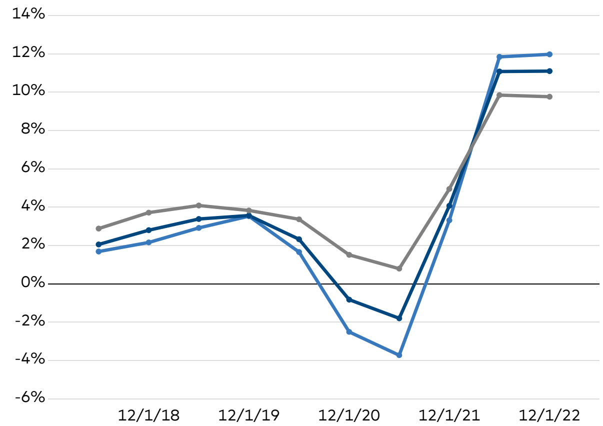
Source: Yardi Matrix

Market Rent Growth by Asset Class

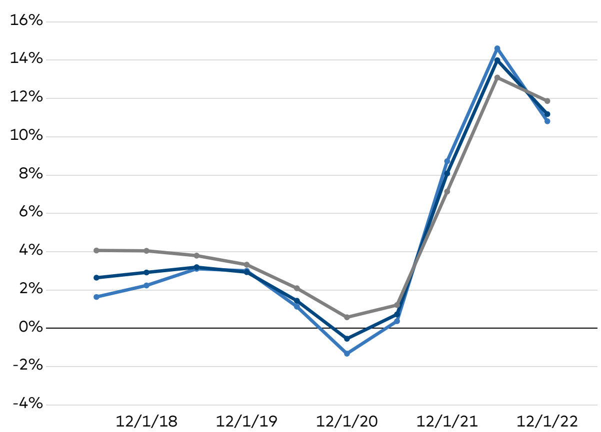
Atlanta



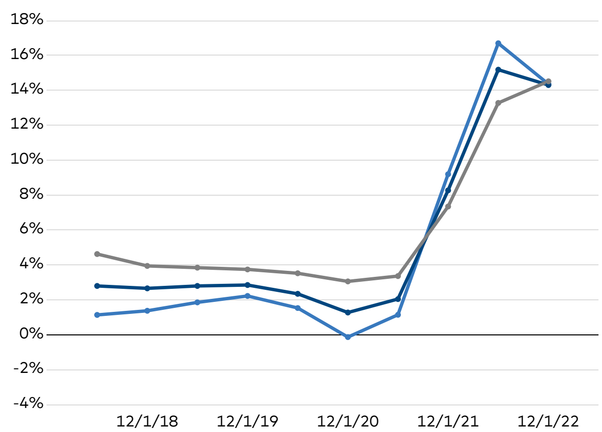
Boston



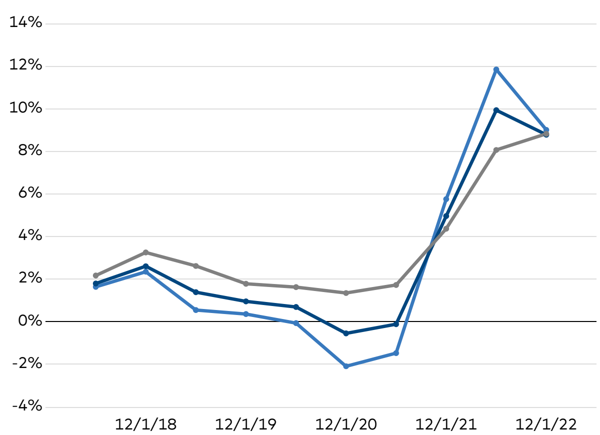
Dallas



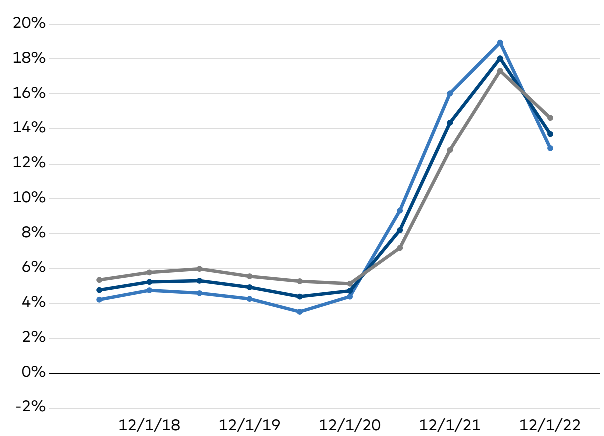
Denver



Houston



Inland Empire

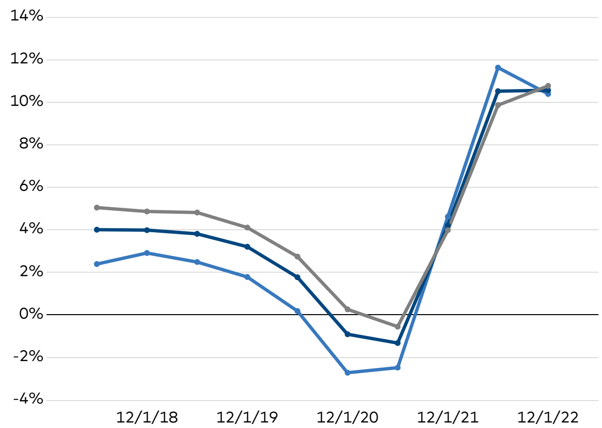


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

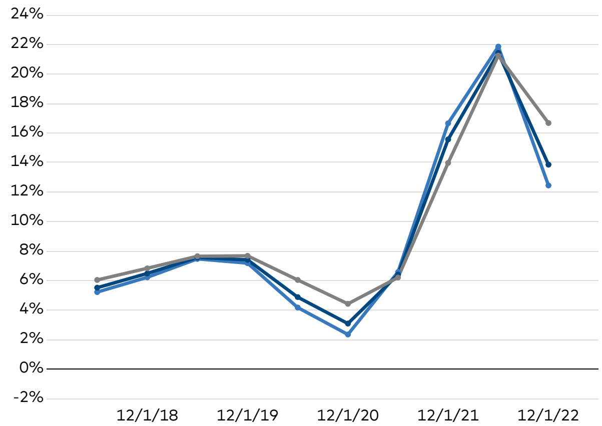
Source: Yardi Matrix

Market Rent Growth by Asset Class

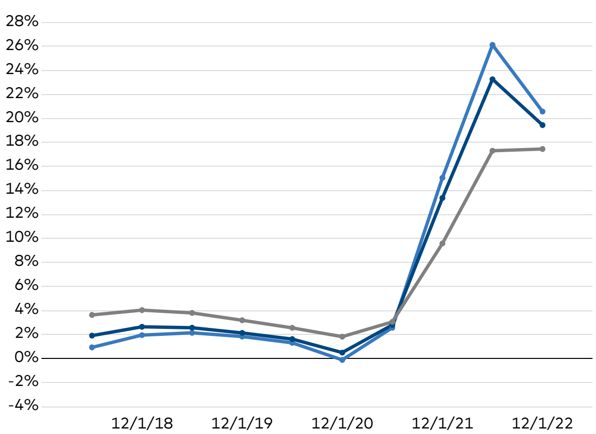
Las Vegas



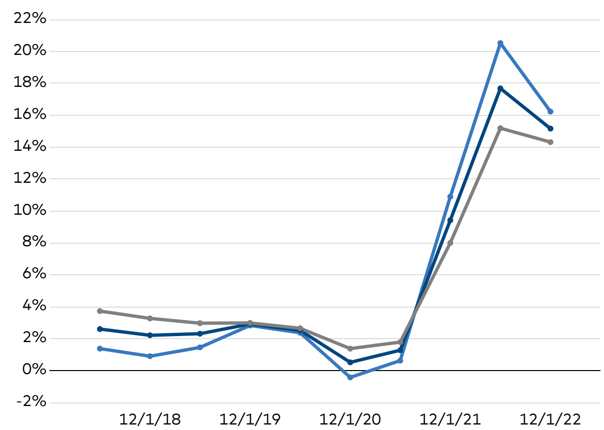
Los Angeles



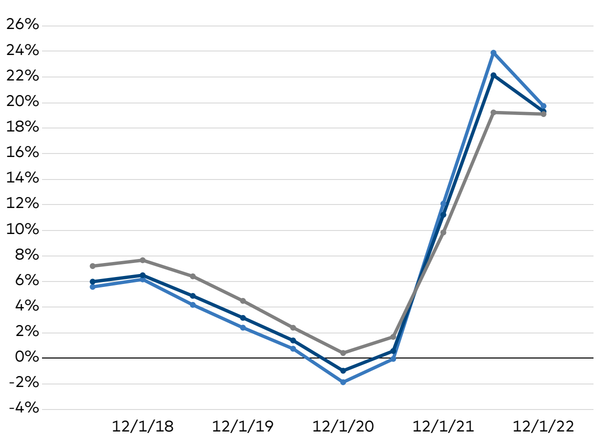
Miami



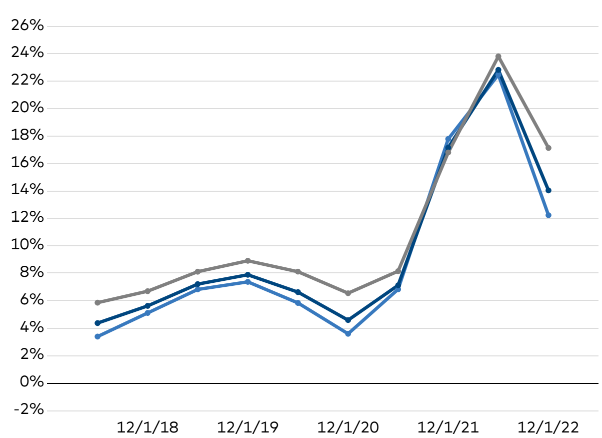
Orange County



Orlando



Phoenix

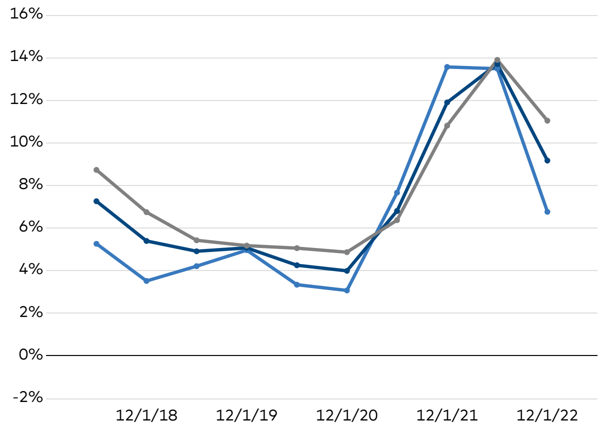


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

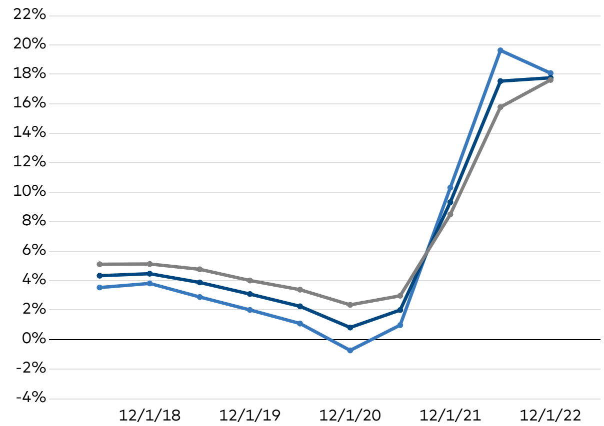
Source: Yardi Matrix

Market Rent Growth by Asset Class

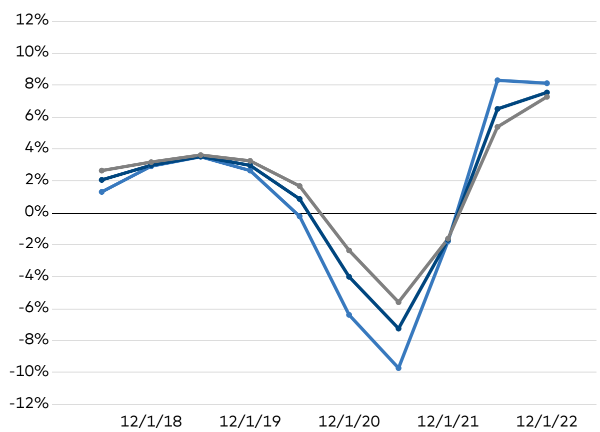
Sacramento



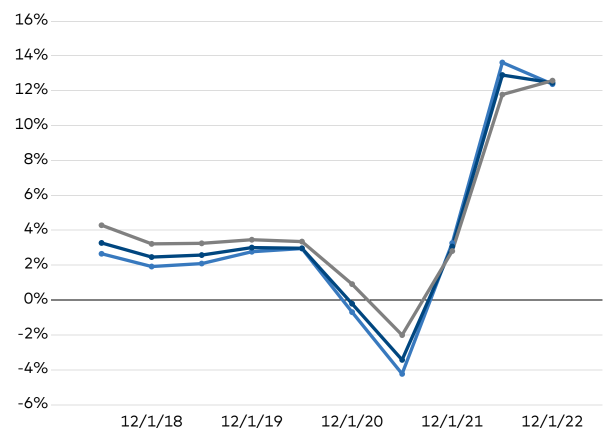
San Diego



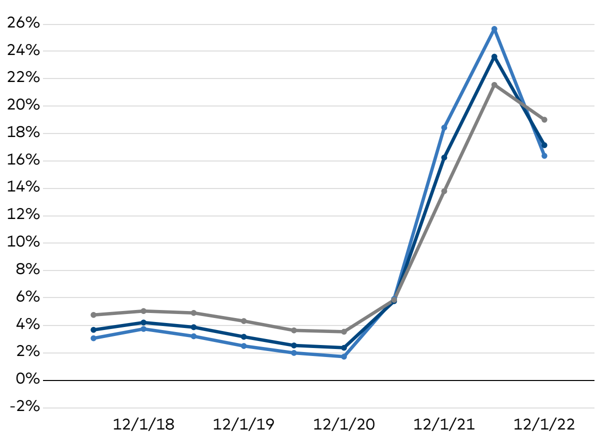
San Francisco



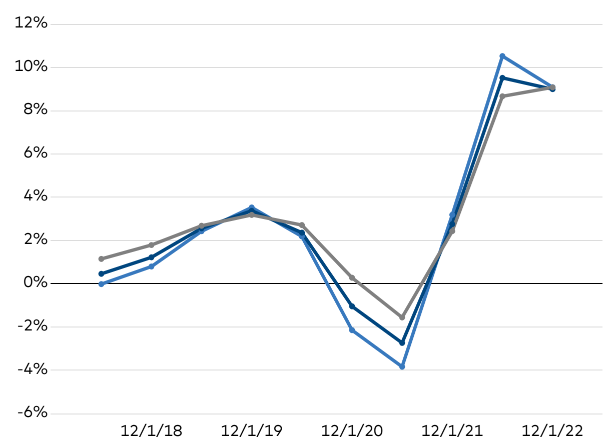
Seattle



Tampa



Washington, D.C.



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

Source: Yardi Matrix

Definitions

Reported Market Sets:

National multifamily rent and occupancy values derived from all 136 markets with years of tracked data that makes a consistent basket of data.

Market: Generally corresponds to a Standard Metropolitan Statistical Area (SMSA), as defined by the United States Bureau of Statistics, though large SMSA are split into 2 or more markets.

Metro: One or more Matrix markets representing an economic area. Shown with combined Matrix markets when necessary, and do not necessarily fully overlap an SMSA.

Average Market Rent: Average rent rolled up from the unit mix level to metro area level and weighted by number of units. Rent data is stabilized, meaning rent values for properties are only included 12 months after the properties' completion date.

Rent Growth, Year-Over-Year: Year-over-year change in average market rents, as calculated by same month.

Forecasted Rent Growth: Year-over-year change in average forecasted market rents, as calculated by same month.

Renewal Lease Rent Per Unit: Monthly rent per unit for renewal leases.

Renewal Lease Rent Change Percent: Percentage of monthly rent change between renewals and their corresponding previous leases for the same resident. Only includes renewal leases where the lease term length is no more than 3 months longer or shorter than the previous lease.

Expiring Lease Renewal Percent: Percentage of expiring leases for which residents have renewed. Excludes leases from which the tenant moved out prior to the month of the expiration.

Rent-to-Income Ratio: Rent is the monthly rent as stated, no fees or utilities. Income is as stated on applications.

Occupancy Rates: Ratio of occupied unit count and total unit count, as provided by phone surveys and postal records. Excludes exception properties: closed by disaster/renovation, affordable and other relevant characteristics.

Completions as % of Total Stock: Ratio of number of units completed in past 12 months and total number of completed units.

Employment Totals: Total employment figures and categories provided by the Bureau of Labor Statistics, seasonally adjusted.

Single-Family Rental: A property where 50% or more of the units are either stand-alone buildings OR have direct access garages with no neighbors above or below the unit.

Ratings:

Lifestyle/Renters by Choice

- Discretionary—has sufficient wealth to own but choose rent

Renters by Necessity

- High Mid-Range—has substantial income but insufficient wealth to acquire home/condo
- Low Mid-Range—Office workers, police officers, technical workers, teachers, etc
- Workforce—blue-collar households, which may barely meet rent demands and likely pay distortional share of income toward rent

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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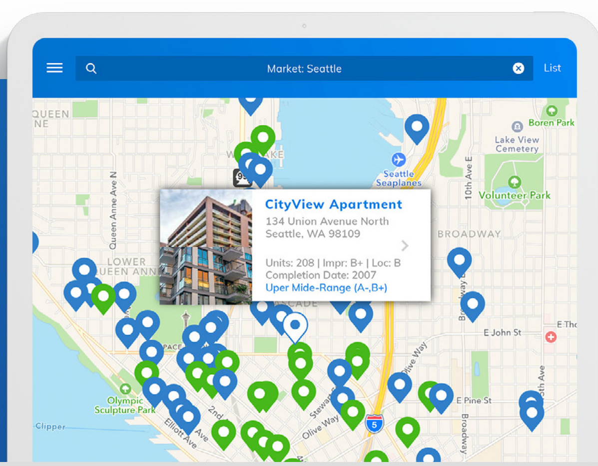
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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