

2018 Economic Outlook and Market Implications

Jeff Adler

Vice President & General Manager
Yardi Matrix

2018 **NMHC** APARTMENT
STRATEGIES
OUTLOOK
CONFERENCE



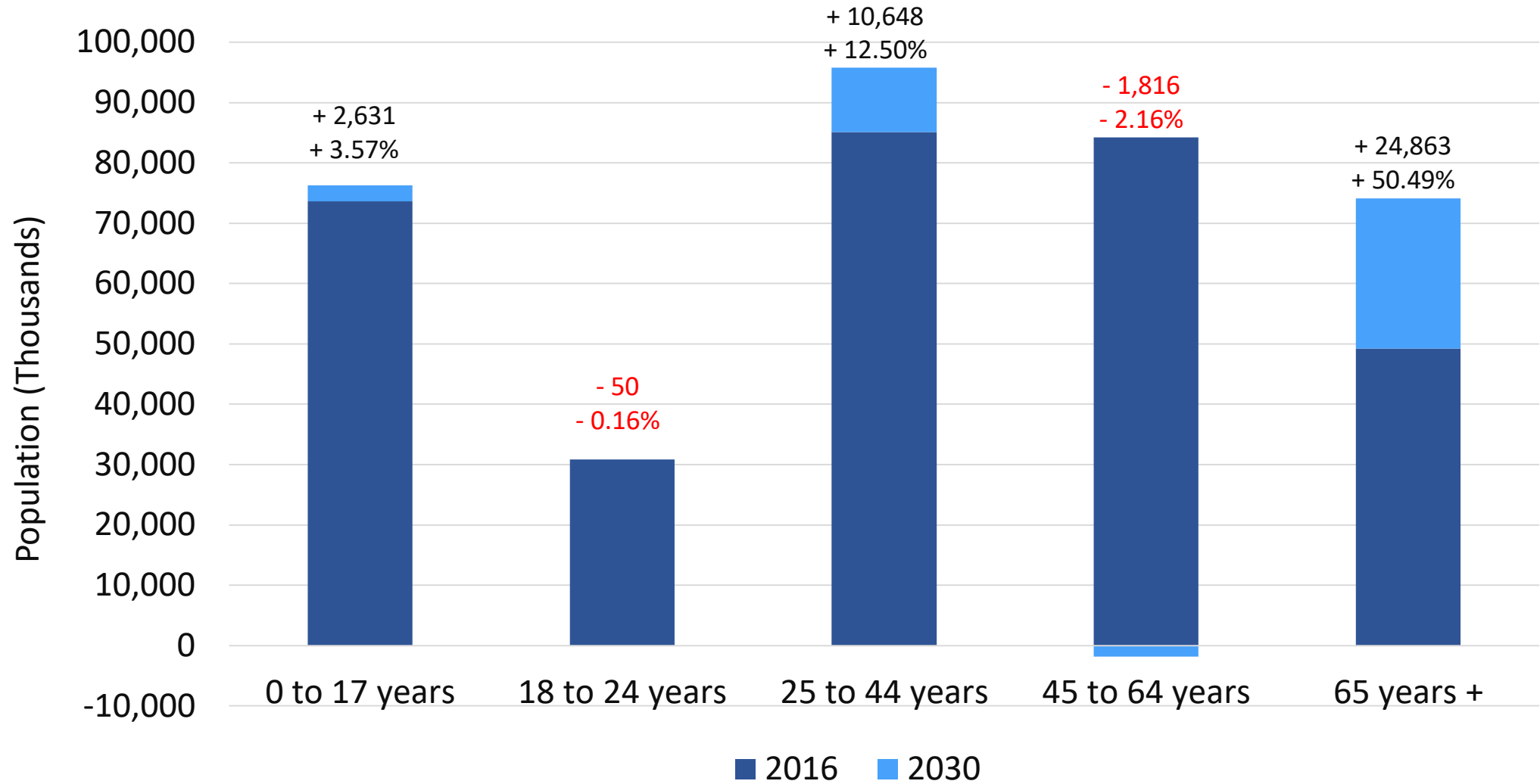
@ApartmentWire
#NMHCstrategies

Late in the Cycle Investment Themes: 2018-2020

- While “late in the cycle,” we still have several more up years to run
 - Demand fundamentals are solid, GDP growth is accelerating, Alternative Investment returns/yields globally are low
 - High, but slowly deteriorating, occupancy on stabilized properties; Sub-mkts with new supply impacted the most
 - Top Core Markets and CBDs are the areas showing near –term weakness
 - Decelerating rent growth- ~2-3% overall nationally; but divergence among previously “overlooked” segments
- Investment Capital is Searching Further Afield for Rent Growth and Investment Yield; A Much Tougher Grind
 - “Non-Top 40” Cities- smaller markets with lower cost of living that can still attract knowledge industries
 - “Non-CBD” Neighborhoods- tilted more towards workforce/rent by necessity areas and Class B/C assets outside CBDs
 - “Non-Traditional” Sub-Types- <50 units, older properties
- Dislocation in Commercial Real Estate Debt Markets, driven by regulatory influences, has restrained growth in new construction financing
 - Dislocations in Bank and CMBS debt markets have extended the apartment rental growth up-cycle
 - The new supply pipeline of Class A assets is cresting; the need at Class B is acute; but values have gotten ahead of fundamentals



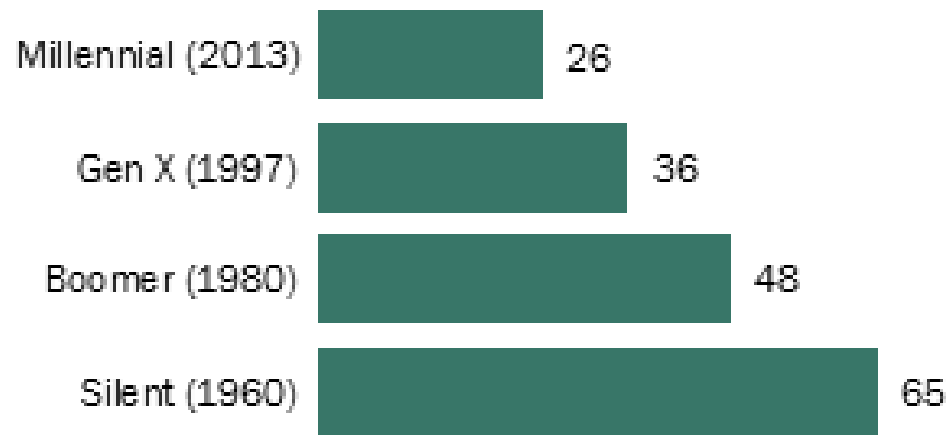
Age Cohorts Today vs 2030



Millennial Tailwinds

The Decline in Marriage Among the Young

% married at age 18 to 32, by generation



Source: Data from 1980, 1997 and 2013 are from the March Current Population Survey; 1960 data are from the 1960 Census

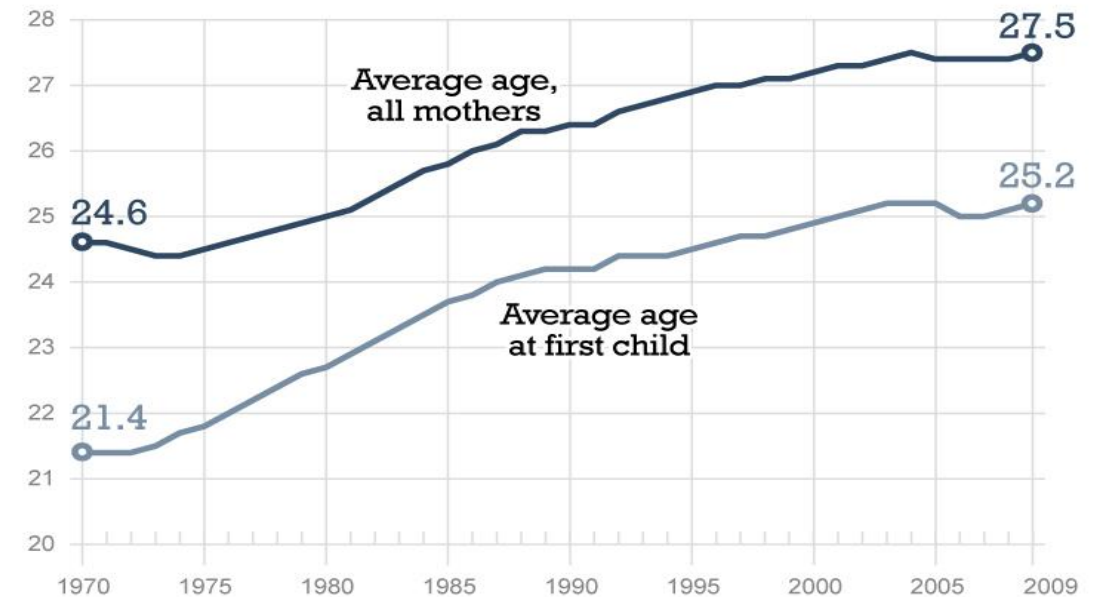
PEW RESEARCH CENTER

FACT:

The average age of first-time mothers has steadily increased

Since 1970, the average age of mothers giving birth to their first child has increased from 21 to 25. For all births, the average age of the mother has increased by about three years over this same period.

AVERAGE AGE OF MOTHER



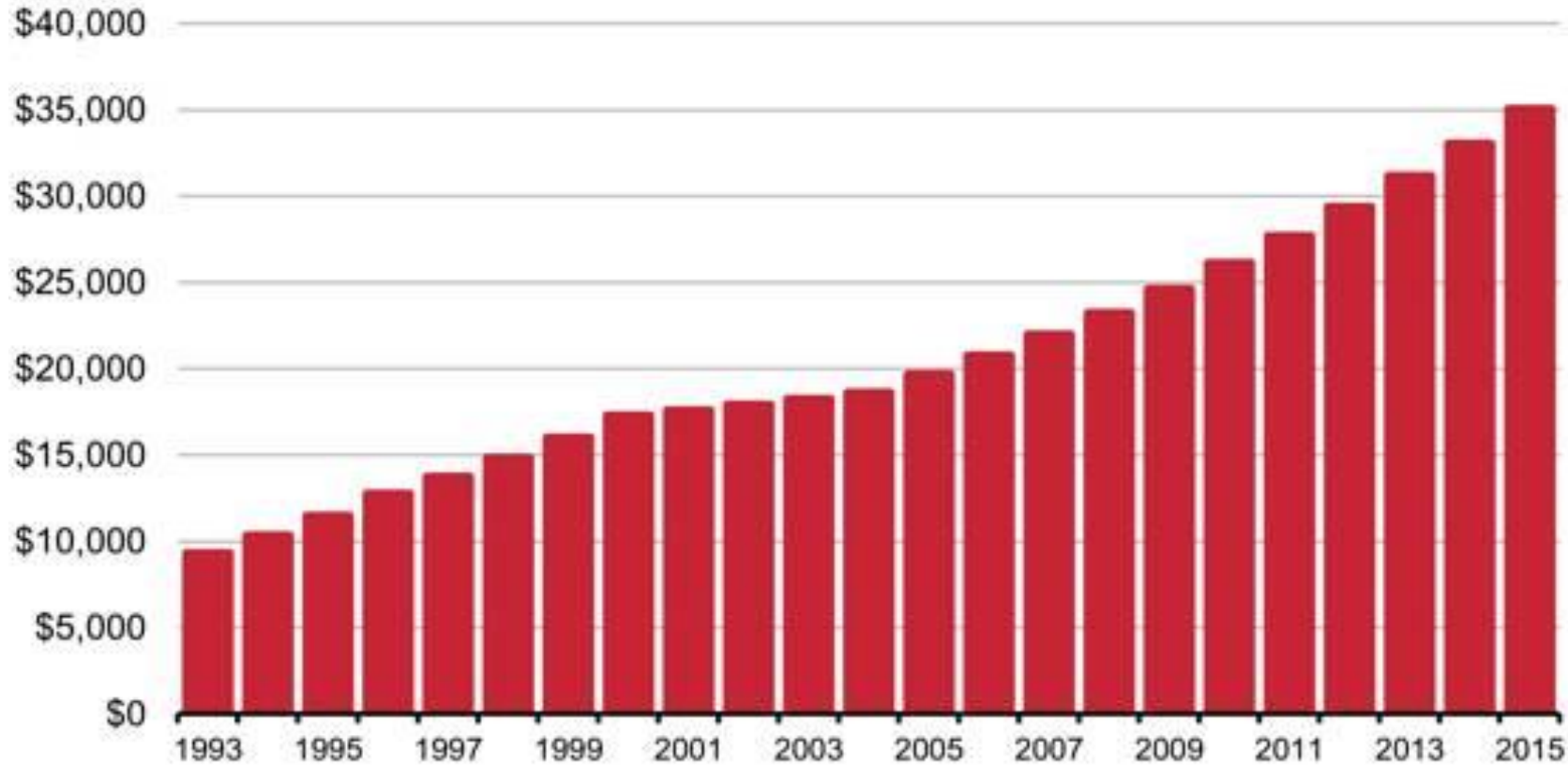
Source: National Center for Health Statistics, National Vital Statistics Reports, 2011.



Student Debt Increased 274% Since 1993

Head of the Class

Average debt per borrower in each year's graduating class



Source: Mark Kantrowitz | WSJ.com

CAGR Comparison

<u>Student Debt</u>	<u>Med HH Income*</u>
5.8%	0.1%

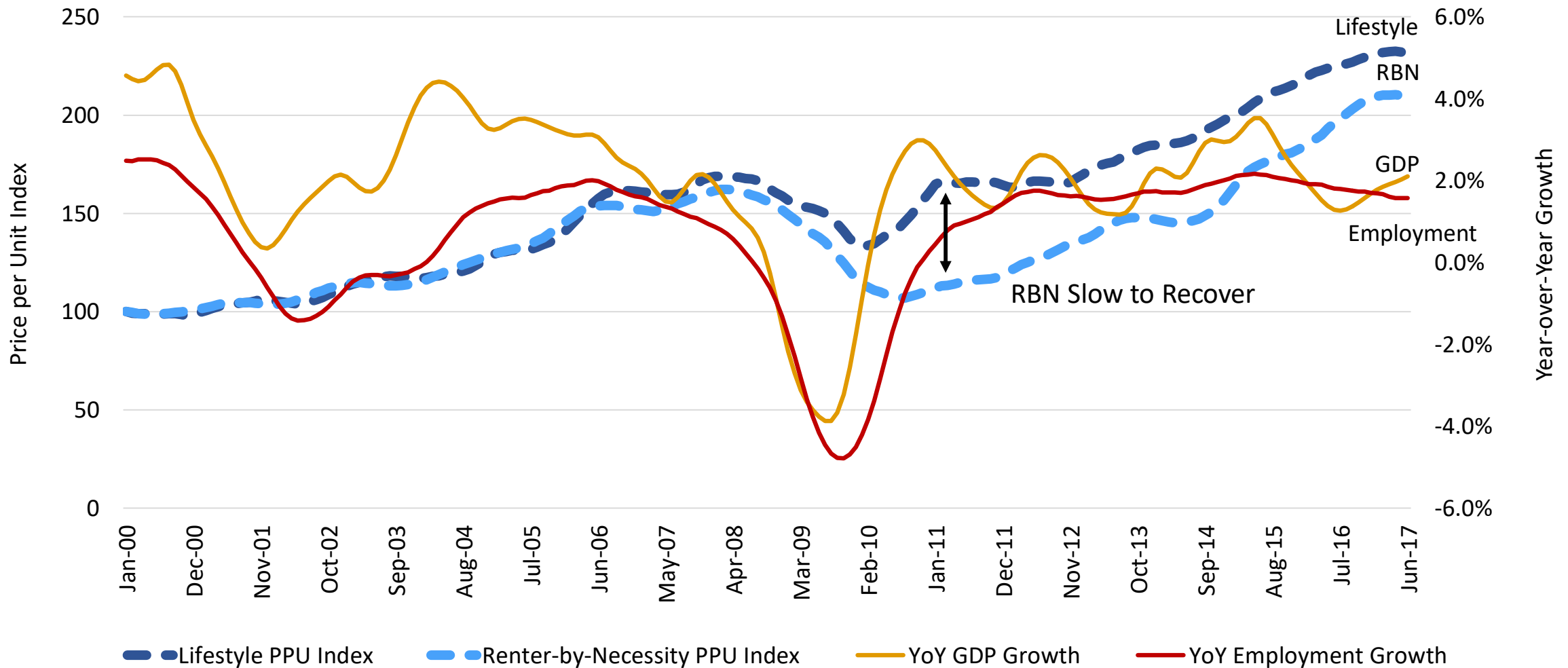
1993 – 2004: 89% increase

2004 – 2015: 97% increase

*College Educated



Asset Values Exceeded GDP Growth Since 2015



● Lifestyle PPU Index

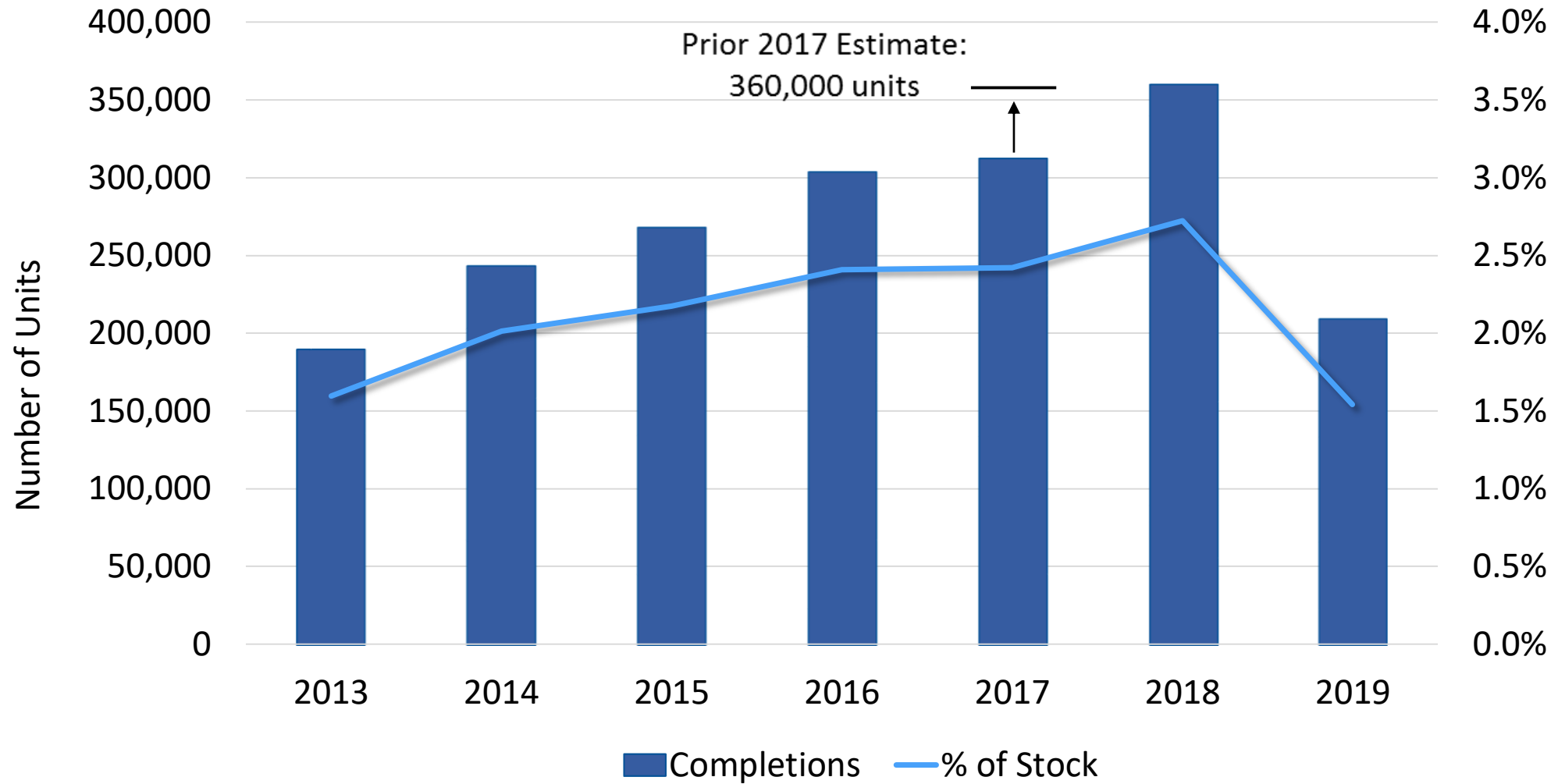
● Renter-by-Necessity PPU Index

— YoY GDP Growth

— YoY Employment Growth

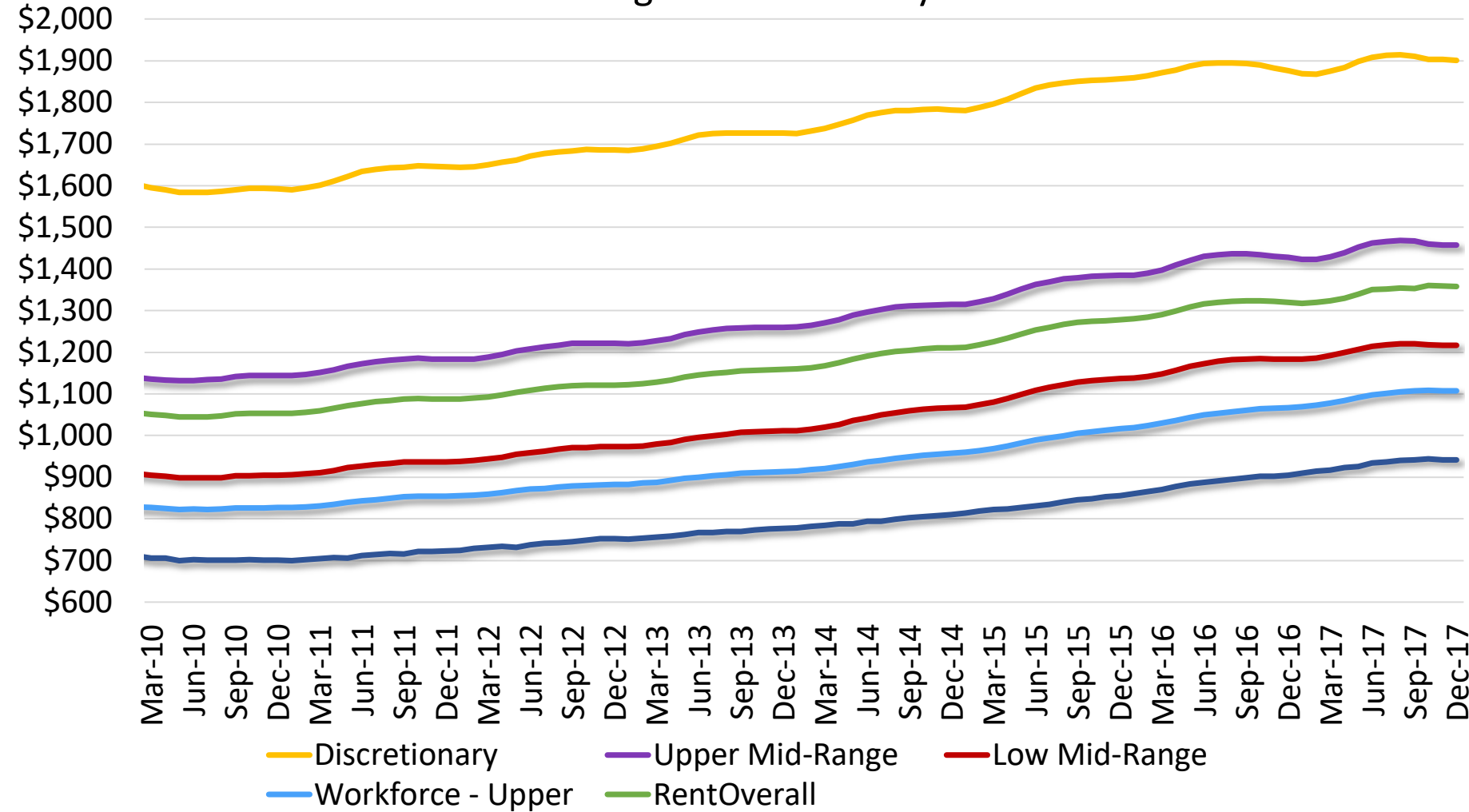


Supply Levels Reduced Due to Construction Delays



Rent Spreads Are Wide

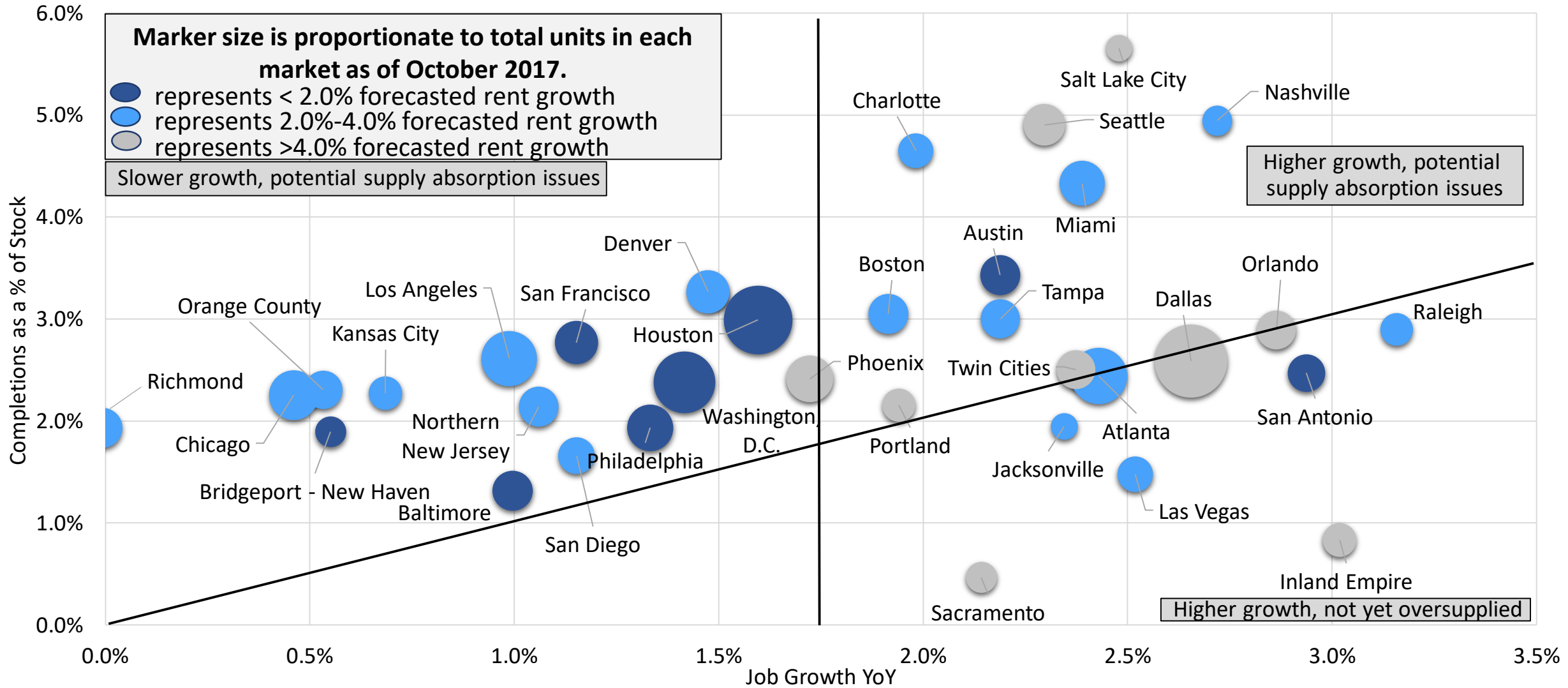
Average Rental Rate by Asset Class



2010-2017 CAGR	
2.9%	Discretionary
4.2%	Upper Mid-Range
5.0%	Low Mid-Range
4.9%	Workforce - Upper
4.8%	Workforce - Lower
4.3%	Overall

	Dec. 2010	Dec. 2017
Discretionary-Upper-Mid	\$449	\$443
Discretionary-Lower-Mid	\$688	\$684

Expect a Bumpy 18-24 months



Rent Growth Forecasts

Top 20 Forecasted Rent Growth Markets

Market	YOY 2018	2019	2020
Reno	9.5%	8.2%	7.3%
Sacramento	7.2%	6.5%	6.2%
Tacoma	6.6%	5.9%	5.4%
Colorado Springs	6.5%	4.0%	3.8%
Eastern Los Angeles County	6.0%	5.0%	5.0%
Spokane	5.7%	5.2%	4.0%
Central Valley	5.7%	5.2%	4.5%
Eugene	5.0%	4.8%	4.6%
Boise	5.0%	4.5%	3.4%
Phoenix	5.0%	4.0%	3.0%

Market	YOY 2018	2019	2020
Inland Empire	4.9%	4.6%	4.4%
Salt Lake City	4.9%	4.7%	4.5%
Las Vegas	4.8%	4.1%	3.5%
Suburban Dallas	4.8%	4.5%	4.3%
Seattle	4.8%	4.5%	4.0%
North Central Florida	4.5%	4.0%	3.8%
Orlando	4.5%	4.2%	4.1%
Fort Worth	4.4%	4.5%	3.4%
Columbus	4.3%	3.6%	3.2%
Suburban Atlanta	4.2%	3.8%	3.7%

National

2018	2019	2020
2.5%	2.9%	2.8%

*YOY 2018 data is Dec 2017-Dec 2018. Data ranked by 2018 values.

Source: Yardi®Matrix



Rent Growth Forecasts

Bottom 20 Forecasted Rent Growth Markets

Market	YOY 2018	2019	2020
West Houston	1.7%	1.9%	2.1%
Austin	1.6%	2.1%	2.9%
Wichita	1.6%	1.7%	1.7%
Washington DC - Suburban Maryland	1.5%	1.6%	1.5%
Omaha	1.5%	1.5%	1.5%
Portland	1.5%	2.0%	2.3%
Baltimore	1.5%	1.3%	1.4%
New Orleans	1.4%	1.8%	2.0%
Mobile	1.2%	1.6%	2.0%
Tulsa	1.2%	1.3%	1.4%

Market	YOY 2018	2019	2020
Columbus GA	1.1%	1.2%	1.3%
Northern Virginia	1.1%	1.0%	1.6%
Central East Texas	1.0%	1.2%	1.5%
Baton Rouge	0.9%	1.5%	1.9%
Oklahoma City	0.8%	1.3%	1.1%
McAllen	0.8%	1.0%	1.2%
Corpus Christi	0.8%	0.5%	0.4%
El Paso	0.7%	0.6%	0.5%
Amarillo	0.4%	0.6%	0.4%
Manhattan	-1.0%	0.8%	1.1%

National

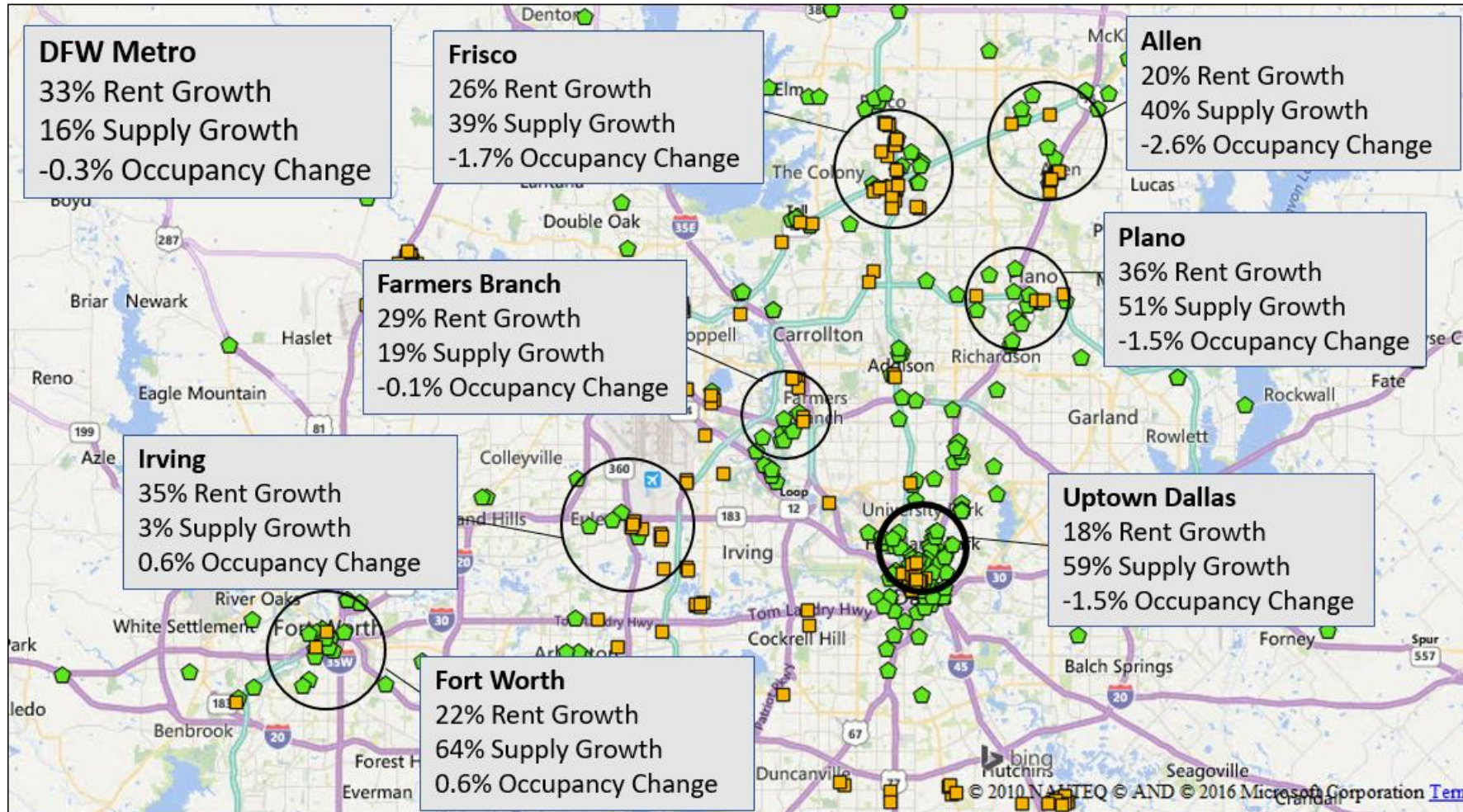
2018	2019	2020
2.5%	2.9%	2.8%

*YOY 2018 data is Dec 2017-Dec 2018. Data ranked by 2018 values.

Source: Yardi®Matrix



Intellectual Capital Nodes – Dallas-Fort Worth



■ Office Development

◆ Multifamily Development

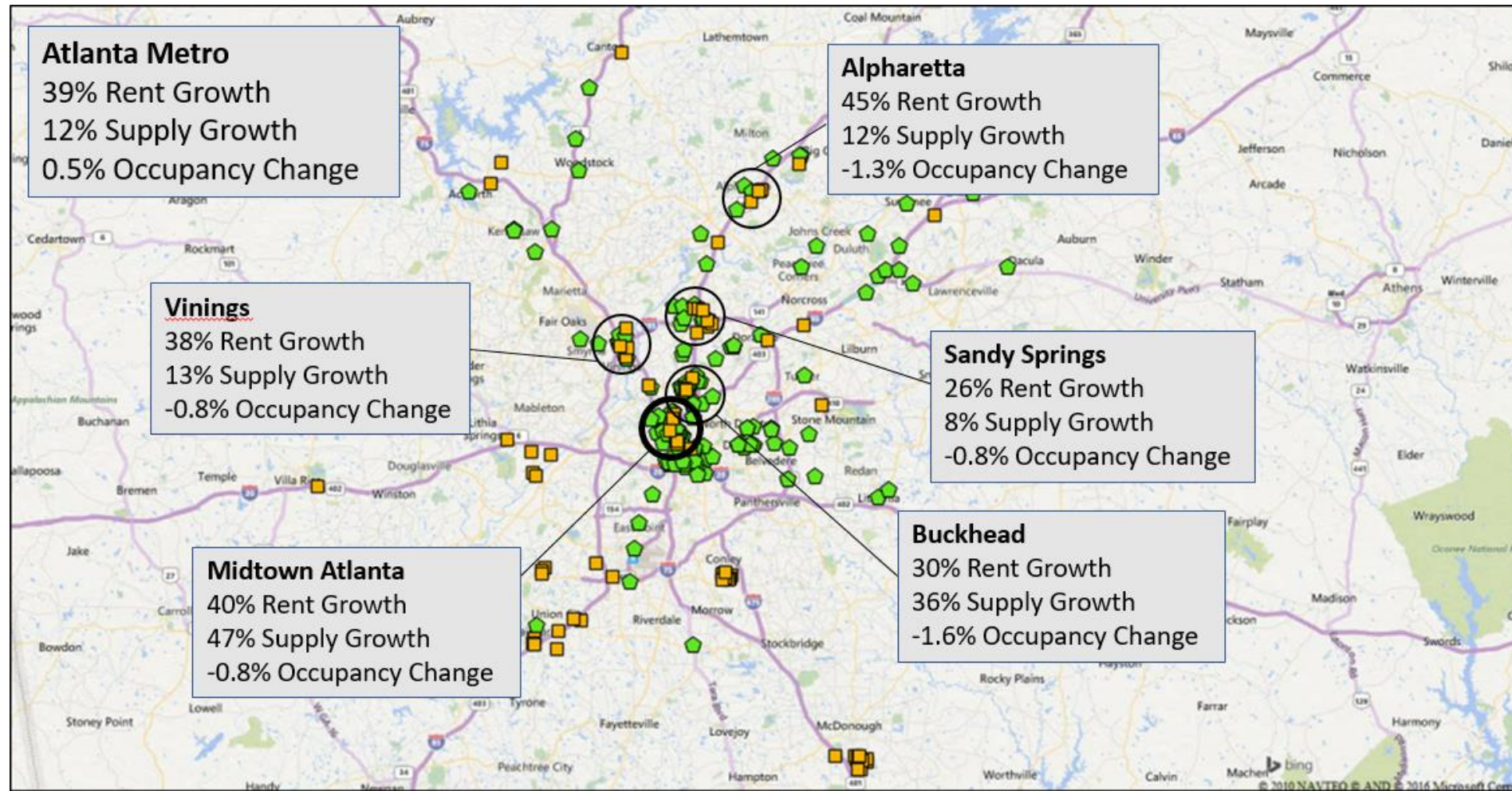
*Multifamily rent growth based on Dec 2012 through Dec 2017

*Change in multifamily occupancy based on Nov 2016 through Nov 2017

Source: Yardi® Matrix



Intellectual Capital Nodes – Atlanta



■ Office Development

◆ Multifamily Development

*Multifamily rent growth based on Dec 2012 through Dec 2017

*Change in multifamily occupancy based on Nov 2016 through Nov 2017

Source: Yardi® Matrix



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Contact Information

Thank you! We are happy to answer any questions. Please contact:

Jeff Adler

Vice President & General Manager

Yardi Matrix

Jeff.Adler@Yardi.com, 1-800-866-1124 x2403



Thank you to NMHC 2018 for inviting us to participate in the Apartment Strategies Outlook Conference today.

