National Multifamily Report

March 2023

Multifamily Rents Advance as Economic Doubts Swirl

- With demand remaining firm, multifamily rents rose slightly in March. The average U.S. asking rent rose $3 in March to $1,706. Year-over-year growth fell to 4.0% nationally, 90 basis points less than February and the lowest level since rents started an unprecedented climb in April 2021.
- Although financial markets remain volatile due to the collapse of several banks, multifamily property fundamentals are stable. Rents and the national occupancy rate were unchanged during the first quarter of 2023, and 21 of the top 30 Matrix metros recorded rent gains in March.
- Single-family rental rates increased in March by $5 to $2,079, while the year-over-year increase fell by 80 basis points to 2.8%. Occupancy rates decreased in February by 10 basis points, but remain strong at 95.5%.

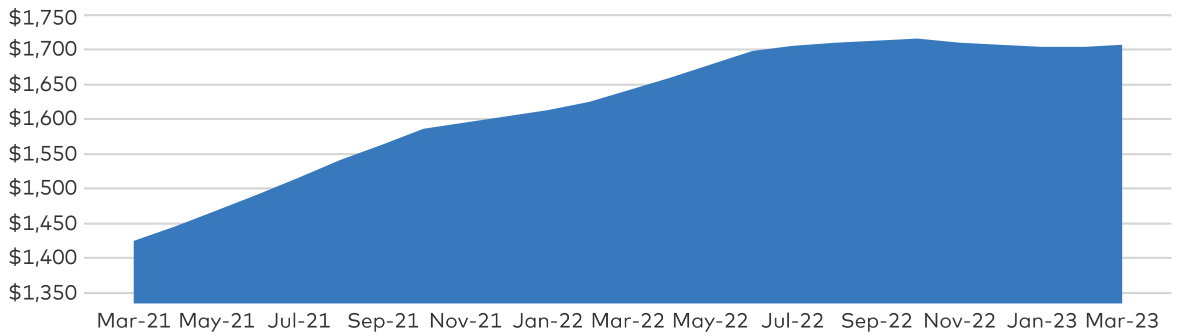
The first quarter produced no gains for multifamily rents for the first time in a decade, but the results come as somewhat of a relief. Multifamily demand held up well despite the attention given to the Federal Reserve-induced economic slowdown, bank failures and the deceleration from the outsize rent gains of the last two years. Rents and occupancy are stable as the market heads into the growth season.

With affordability a growing concern and consumers constrained by high inflation, it is likely that rent growth in 2023 will be modest. Yet a multifamily hard landing is not yet in the cards, since household formation is still boosted by the tight job market, high single-family home prices and mortgage rates are keeping homeownership out of reach for some renters, and consumer balance sheets remain strong (for now). The big question continues to be how the economy will react to sharp interest rate increases.

The Federal Reserve has three choices, according to Mohamed El-Erian, chief economic advisor at Allianz and former chief executive at PIMCO: to slam the brakes on the economy and cause a sharp recession, to change the inflation target to a number above 2% (which he noted is an arbitrary target), or to ease up on rate increases and promise inflation will return to 2% while waiting to see if the economy stabilizes at 3-4% inflation.

El-Erian, speaking at the recent Pension Real Estate Association spring conference, urged policymakers to pass intelligent infrastructure spending, pro-growth reform of the Tax Code, policies such as funding childcare to increase the workforce, and more public-private partnerships. Despite challenges, he said that the strength of the U.S. economy and labor market is significant, and he predicted getting through the current crisis with minimal damage. “It will be a bumpy ride, but we will end up in a better place,” he said.

National Average Rents



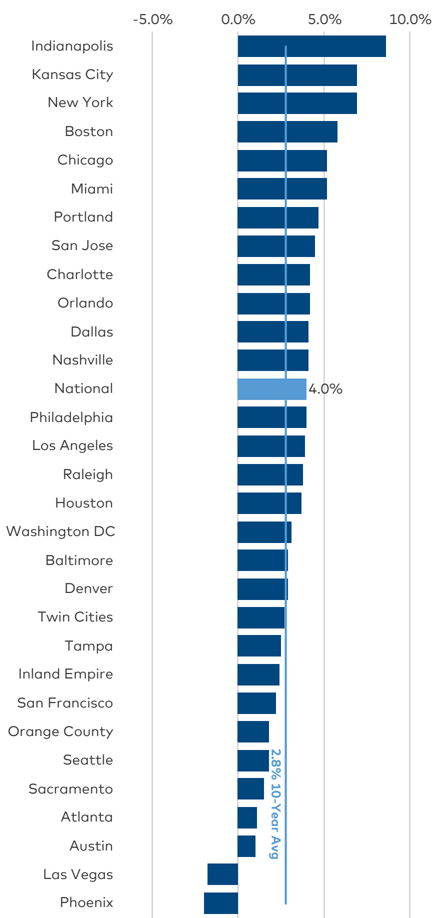
National averages include 136 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by Yardi Matrix.

Year-Over-Year Rent Growth: Asking Rent Increases Fall to 4.0% YoY

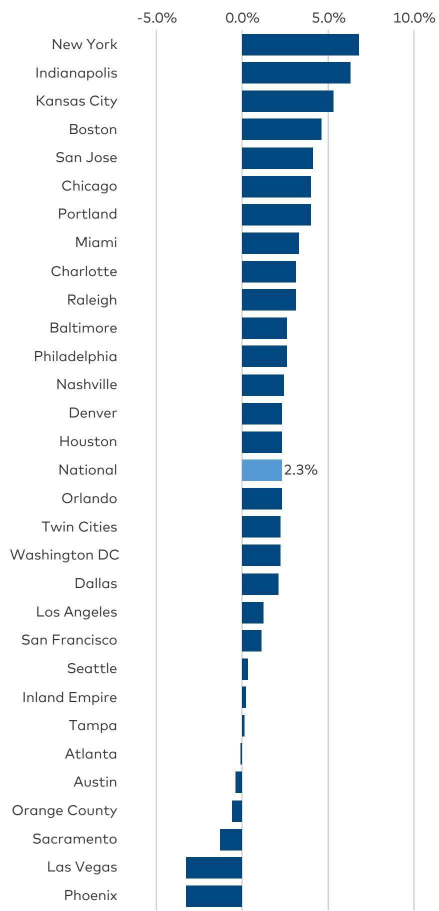
- Although average U.S. asking rents increased in March, the year-over-year rate of growth continued to decelerate to 4.0%, down 90 basis points from February. The national occupancy rate declined by 10 basis points to 95.1%, due to a decline by that amount in Renter-by-Necessity occupancy rates, which fell to 95.2% in February. Demand has largely held up across the country, though the economy is expected to soften in the second half of the year.

- Metros in the Midwest and Northeast remain atop the Matrix top 30 metro rankings, led by Indianapolis (8.6%), New York and Kansas City (6.9%), Boston (5.8%) and Chicago (5.2%). Kansas City, not typically a high-growth market, is boosted by its strong economy, long-term population growth and relatively few deliveries. Although total employment took a hit in recent months, the unemployment rate is extremely low at 2.7%, with 12-month gains led by leisure and hospitality, construction and manufacturing. New apartment deliveries totaled only 1.6% of stock as of March.

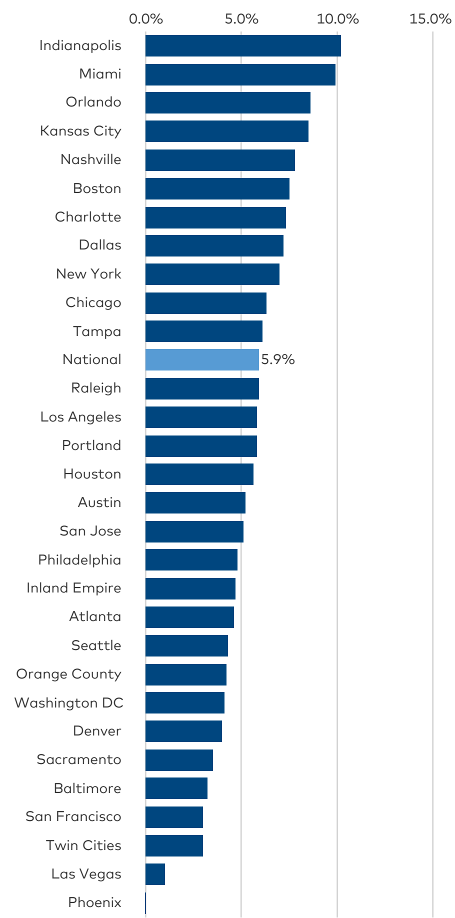
Year-Over-Year Rent Growth—All Asset Classes



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: Acela Corridor Metros Lead March Increases

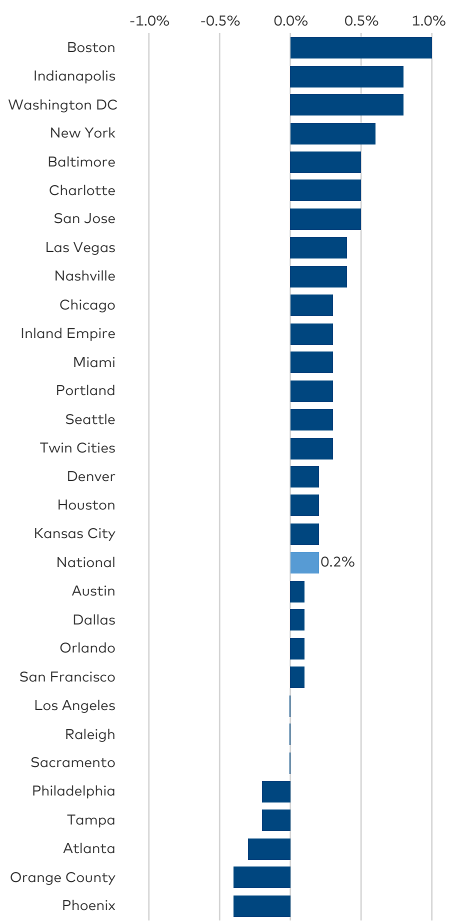
- The average U.S. multifamily asking rent increased $3 to $1,706 in March.
- Rents increased 0.3% month-over-month in the Renter-by-Necessity segment and 0.2% in the luxury Lifestyle segment.

Asking rent growth nationally turned positive last month after four months in which rents dropped overall. Monthly gains were led by Acela Corridor metros: Boston (1.0%), Washington, D.C. (0.8%), New York (0.6%) and Baltimore (0.5%) were all in the top five, along with Indianapolis (0.8%), which continues to show strength.

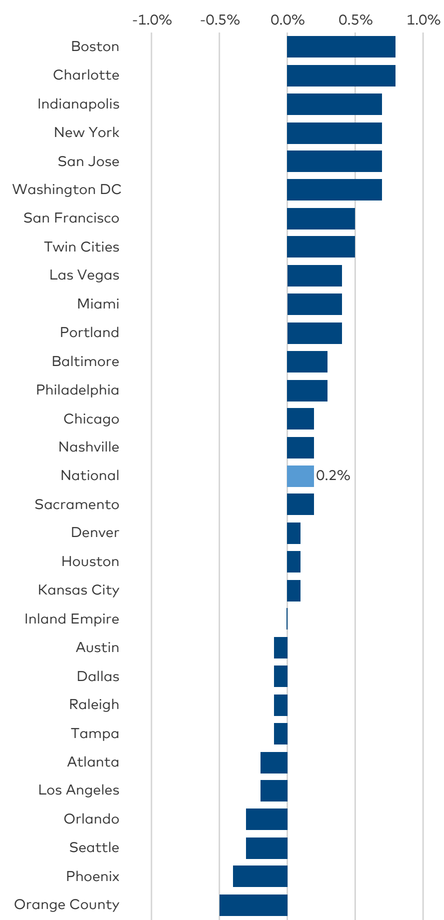
The biggest change in March was in the Lifestyle segment, in which most metros posted negative growth a month ago. Nineteen of the top 30 metros recorded increases in March, while only 10 saw monthly decreases. In the RBN segment, 21 metros recorded monthly increases, while only eight saw decreases.

The bifurcation between Lifestyle and RBN remains high in Seattle, a sign that high costs are focusing demand on lower-price units. In March, RBN asking rents increased 1.3%, while Lifestyle rents dropped (-0.3%). Over the last three months, Seattle's RBN rents have increased by 0.3%, while Lifestyle rents have dropped (-0.7%).

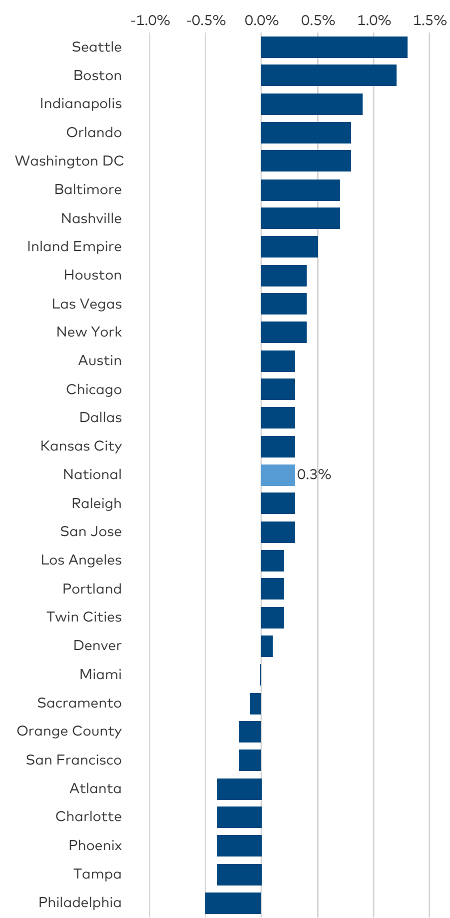
Month-Over-Month Rent Growth—All Asset Classes



Month-Over-Month Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Transacted Rents:
Renewal Rent Growth Bucks Downward Trend

- In a surprise, renewal rent growth nationally increased by 30 basis points to 9.3% year-over-year through January. Renewal rent growth for in-place tenants had been gradually waning since peaking at 11.0% in the fall, and is soon expected to drop closer to the levels of asking rent growth, which is at 4.0% as of March. However, the short-term increase demonstrates that many renters have the wherewithal to afford increases, that demand is not falling as significantly as feared, and that tenants looking to move to reduce their monthly charges have limited options in many metros.

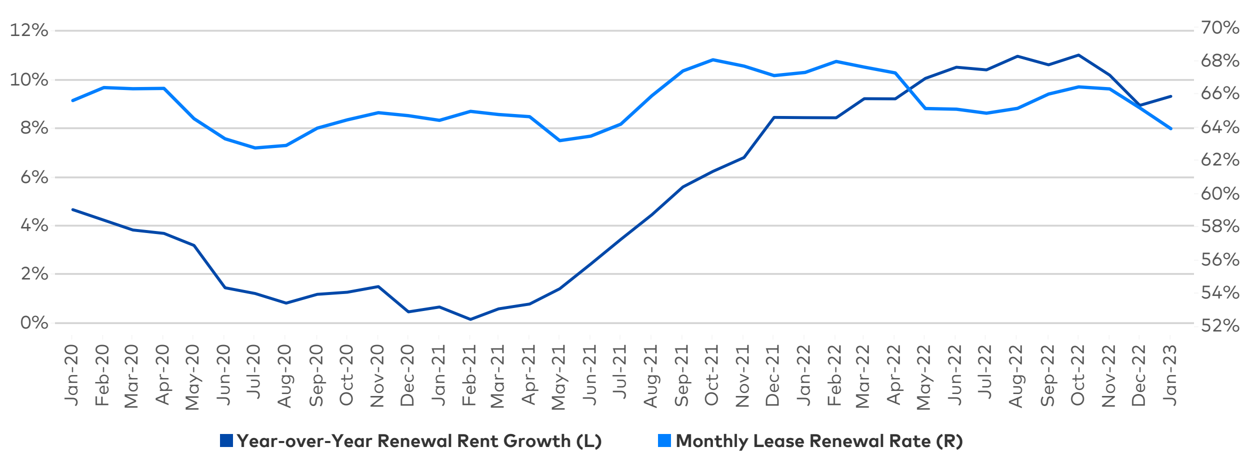
- National lease renewal rates were 63.9% in January, down from 65.2% in December. Renewal rates have been very consistent over the past year, both nationally and on a metro level. That could change as a wave of supply comes online if absorption does not stay positive.

Market	YoY Renewal Rent Growth	Monthly Lease Renewal Rate
Miami Metro	16.7%	67.1%
New York	16.1%	55.3%
Raleigh	13.1%	64.6%
Austin	12.8%	57.7%
Orlando	12.1%	66.2%
Tampa	10.8%	62.2%
Phoenix	10.5%	61.3%
Inland Empire	10.3%	54.5%
Las Vegas	9.7%	62.3%
Nashville	9.6%	57.9%
Los Angeles	8.9%	44.6%
San Jose	8.8%	49.5%
Kansas City	8.7%	67.4%
Charlotte	8.7%	63.5%
Denver	8.5%	59.4%

Market	YoY Renewal Rent Growth	Monthly Lease Renewal Rate
Dallas–Ft. Worth	8.1%	63.7%
Boston	8.0%	61.0%
Philadelphia	8.0%	79.1%
Orange County	7.9%	61.2%
Atlanta	7.9%	65.1%
Portland	7.6%	60.6%
Indianapolis	7.4%	66.2%
Sacramento	6.9%	57.0%
Seattle	6.4%	58.5%
Baltimore	6.1%	64.5%
Houston	5.9%	63.7%
Chicago	5.6%	63.4%
San Francisco	4.2%	50.3%
Twin Cities	3.8%	59.6%
Washington DC	2.1%	59.6%

Source: Yardi Matrix Expert, data as of January 2023

National Lease Renewals and Renewal Rent Growth



Source: Yardi Matrix Expert

Supply, Demand and Demographics: Industry Weighs Effect of Banking Crisis

- The recent collapse of several banks has put a spotlight on the impact of Federal Reserve policy.
- Interest rate hikes contributed to the failure of several regional and small banks, starting with SVB Bank.
- While systemic risk is low, banks are likely to become more cautious in lending on commercial properties in coming months.

Concerns about multifamily entering 2023 centered around the potential impact of the Federal Reserve's aggressive rate hikes on the economy and housing demand. Recently, however, rate hikes highlighted another worry more immediate to the industry: the health of banks.

Three medium-size banks have failed, and international bank Credit Suisse has been bought by UBS in recent weeks, owing in part to the decline in value of the banks' existing investments as interest rates rise. Though it is unlikely that another GFC-type crash is on the horizon, Mohamed El-Erian, chief economic advisor at Allianz and former chief executive at PIMCO, said at the PREA spring conference in Seattle that any drop in bank liquidity is a blow to debt-dependent multifamily investment.

"Smaller banks hold a disproportionately large share of commercial real estate loans, and the potential for a Minsky Moment is rising," notes Jack Mullen of Summer Street Advisors. "While banks assess the health of their portfolios, they are likely to become cautious about lending on commercial properties."

Small and regional banks' share of commercial mortgage lending rose to 22% in 1H 2022, double 2013 levels, according to a PREA presentation by Christopher Ludeman, CBRE's global president of capital markets, and Roy March, chief executive of Eastdil Secured. Meanwhile, non-bank financial lenders increased their market share to 16% in 1H 2022 as traditional debt sources such as money-center banks and CMBS reduced lending. CMBS commercial mortgage market share fell to 13% in 1H 2022, down from 25% in 2013.

An even bigger issue is cost, as rates for five-year loans range from 5.3% for low-leverage agency debt to 6-7% for banks and CMBS and 8%-plus for construction debt. Ludeman and March noted that today's tighter loan standards produce roughly 20-25% less proceeds than borrowers could have gotten before rates rose a year ago. Maturity defaults will rise; the only question is by how much. Multifamily CMBS loans in special servicing remained low at 2.7% as of February, per Trepp, but the rate has been inching up in recent months.

Banks are assessing asset risk to determine how aggressive they want to be. "Bank lending will be curtailed—but that will create opportunities for other, non-bank lenders," Mullen said.

Single-Family Build-to-Rent Segment: Demand Picks Up as Capital Costs Rise

- National asking rates for single-family rentals increased by $5 to $2,079 in March, while year-over-year growth declined by 80 basis points to 2.8%.

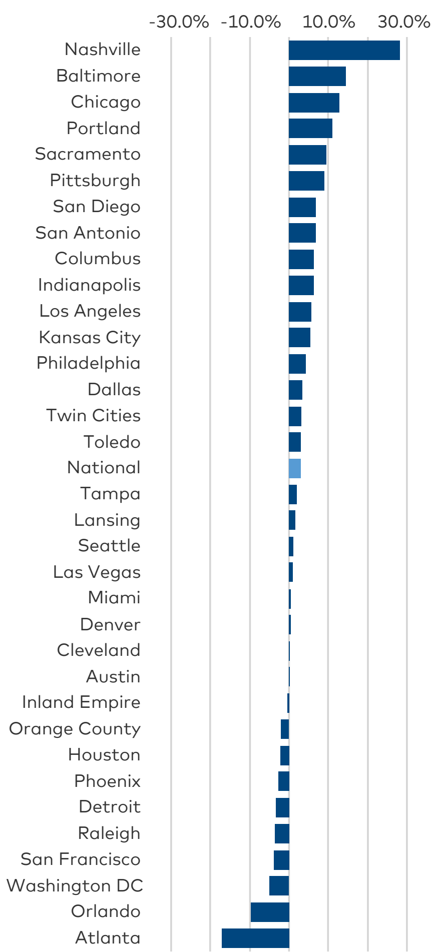
- U.S. occupancy rates fell 10 basis points in February to 95.5%, down 0.6 percentage points from the same month a year ago.

After a weak 4Q 2022, demand for SFRs picked up in the first quarter of 2023, though the capital climate remains challenging. Single-family home sales are still tepid, as mortgage rates and prices remain high, driving demand from renters that want the amenities of a house but don't have the resources to buy one. SFR rents and occupancy rates remain strong.

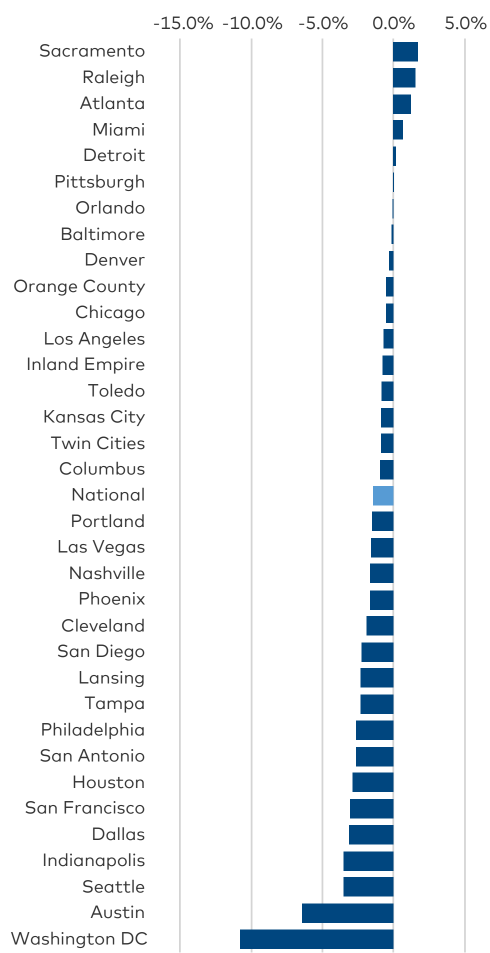
At the same time, tight capital markets conditions have created issues for SFR owners, some of which have announced layoffs and/or cutbacks in acquisition plans. More SFR investors are growing through build-to-rent programs, although the increased cost of construction financing is complicating those efforts, as well.

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 February 2023

Market	All Units	Lifestyle Units	Renter-by-Necessity Units
Sacramento	42.9%	29.1%	59.5%
Los Angeles	33.4%	28.5%	37.2%
Washington DC	33.2%	29.3%	35.9%
Orange County	33.1%	29.6%	35.8%
Orlando	33.0%	31.3%	35.5%
Baltimore	32.8%	29.4%	34.2%
Inland Empire	31.0%	29.9%	31.9%
Tampa	30.8%	29.1%	32.5%
Nashville	30.7%	27.6%	33.1%
Las Vegas	30.1%	29.0%	32.3%
Philadelphia	30.0%	27.2%	31.9%
Chicago	29.9%	26.9%	31.5%
Portland	29.7%	27.9%	32.6%
Twin Cities	29.6%	27.4%	31.6%
Atlanta	29.4%	29.1%	29.9%
San Francisco	29.1%	26.0%	32.0%
New York	29.1%	27.1%	31.6%
Phoenix	29.0%	27.3%	30.9%
Charlotte	29.0%	27.8%	31.2%
Denver	28.7%	27.2%	30.9%
Seattle	28.5%	26.1%	32.4%
Houston	28.2%	25.6%	31.1%
San Jose	28.2%	23.8%	32.6%
Boston	27.9%	25.3%	34.2%
Dallas	27.9%	26.8%	29.7%
Raleigh	27.4%	26.9%	28.7%
Miami	27.0%	23.9%	36.0%
Austin	25.9%	25.2%	28.1%
Indianapolis	25.2%	23.3%	26.6%
Kansas City	24.6%	23.3%	25.8%

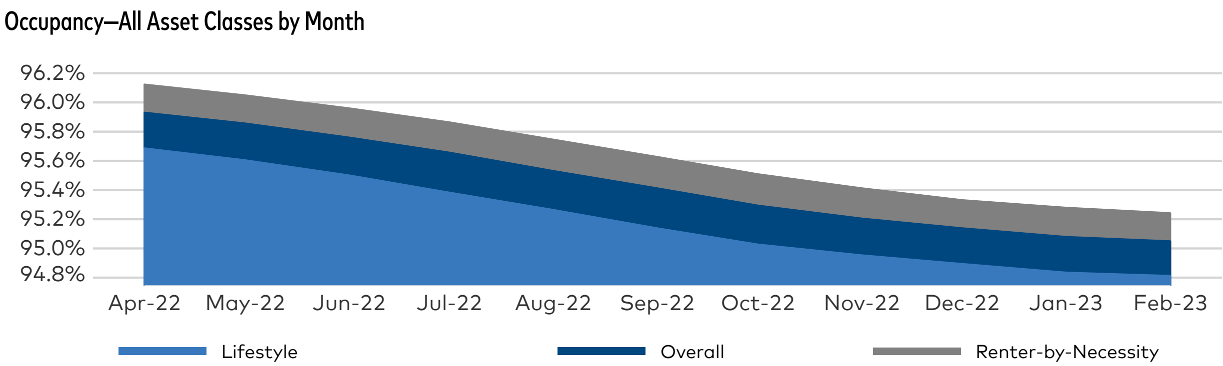
Rent-to-Income ratios sorted by all units, highest to lowest. Source: Yardi Systems Screening Data
The Yardi Matrix data service covers rent-to-income ratios monthly back to January 2019 for 112 markets broken out by property type

Employment and Supply Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Mar - 23	Forecast Rent Growth as of 3/1/23 for YE 2023	YoY Job Growth (6-mo. moving avg.) as of Dec - 22	Completions as % of Total Stock as of Mar - 23
Indianapolis	8.6%	3.1%	2.5%	0.6%
Kansas City	6.9%	2.7%	1.7%	1.6%
New York	6.9%	3.2%	5.0%	1.1%
Boston	5.8%	3.4%	4.0%	2.6%
Miami Metro	5.2%	3.0%	5.1%	3.7%
Chicago	5.2%	2.4%	3.9%	1.5%
Portland	4.7%	2.9%	5.4%	2.8%
San Jose	4.5%	3.3%	4.8%	1.5%
Orlando	4.2%	2.5%	4.6%	3.1%
Charlotte	4.2%	3.6%	5.3%	2.7%
Nashville	4.1%	3.4%	5.3%	3.4%
Dallas	4.1%	2.3%	6.5%	2.0%
Philadelphia	4.0%	2.0%	3.7%	1.0%
Los Angeles	3.9%	2.8%	4.0%	1.5%
Raleigh	3.8%	3.0%	4.6%	2.6%
Houston	3.7%	2.3%	6.0%	2.1%
Washington DC	3.1%	2.4%	2.1%	1.7%
Baltimore	2.9%	2.5%	2.7%	0.4%
Denver	2.9%	2.1%	3.5%	3.6%
Twin Cities	2.7%	2.1%	3.5%	4.1%
Tampa	2.5%	2.5%	4.6%	3.2%
Inland Empire	2.4%	2.9%	5.2%	0.4%
San Francisco	2.2%	2.6%	4.3%	2.6%
Seattle	1.8%	2.9%	5.1%	3.7%
Orange County	1.8%	2.6%	4.4%	1.1%
Sacramento	1.5%	1.8%	3.2%	1.3%
Atlanta	1.1%	2.3%	5.1%	2.2%
Austin	1.0%	3.1%	5.0%	4.9%
Las Vegas	-1.8%	2.3%	5.1%	1.5%
Phoenix	-2.0%	1.4%	3.9%	3.3%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

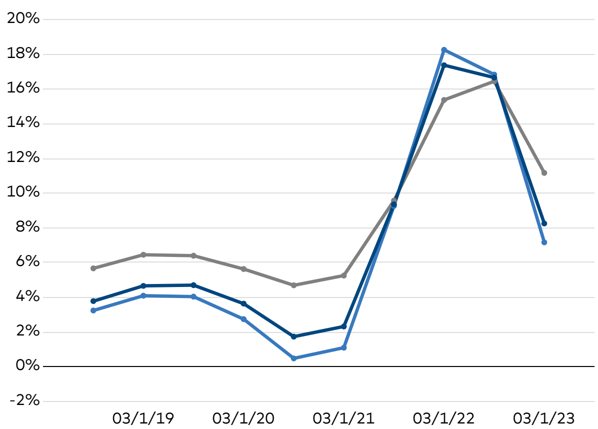
Year-Over-Year Rent Growth, Other Markets

Market	March 2023		
	Overall	**Lifestyle**	**Renter-by-Necessity**
Albuquerque	8.3%	7.1%	9.1%
Central East Texas	8.3%	5.8%	9.7%
El Paso	7.9%	10.6%	7.0%
Northern New Jersey	7.8%	7.5%	8.3%
Louisville	7.1%	3.0%	9.2%
St. Louis	5.7%	4.9%	6.3%
Long Island	4.8%	3.8%	5.3%
NC Triad	4.7%	1.9%	8.8%
Bridgeport–New Haven	4.6%	3.0%	5.6%
SW Florida Coast	4.5%	4.0%	6.3%
San Fernando Valley	4.1%	2.0%	5.5%
Central Valley	4.0%	0.3%	5.0%
Jacksonville	3.1%	-0.3%	9.0%
Tucson	2.9%	-2.0%	4.7%
Salt Lake City	2.8%	0.9%	4.7%
Colorado Springs	2.2%	1.5%	3.0%
Tacoma	1.9%	0.2%	3.9%
Reno	-1.1%	-3.3%	0.7%

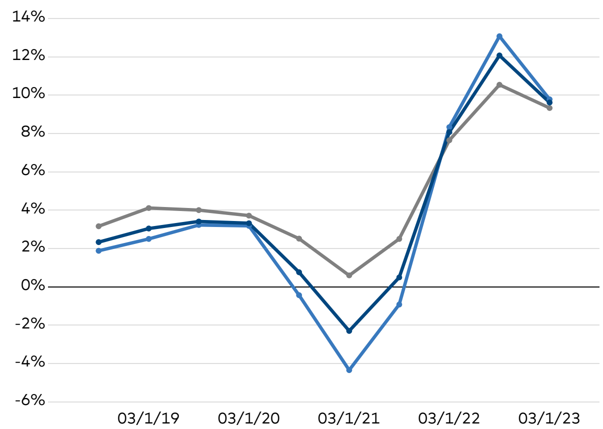
Source: Yardi Matrix

Market Rent Growth by Asset Class

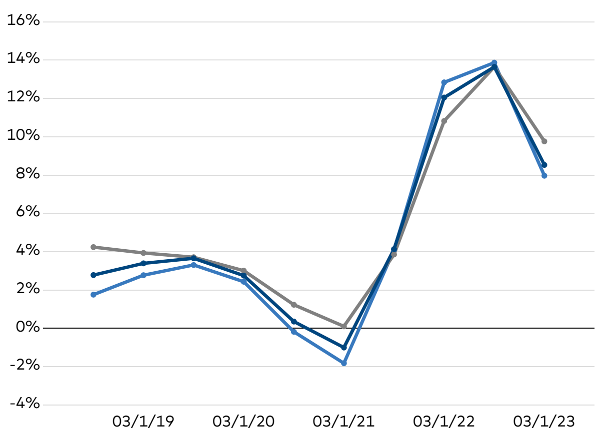
Atlanta



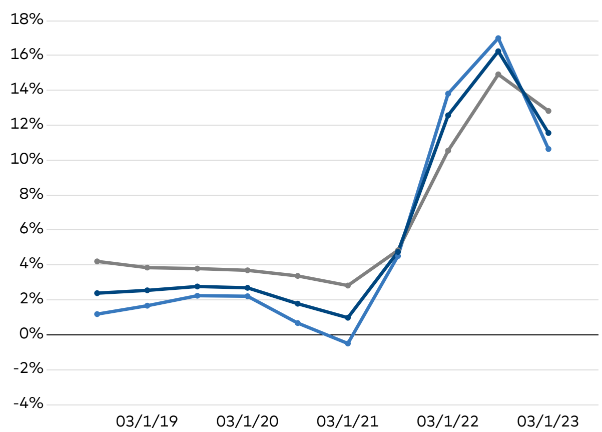
Boston



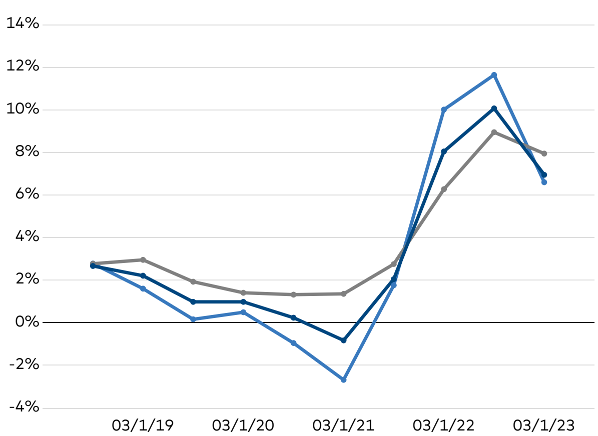
Dallas



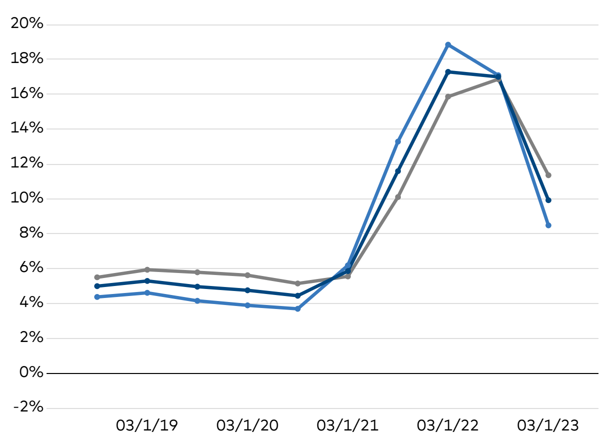
Denver



Houston



Inland Empire

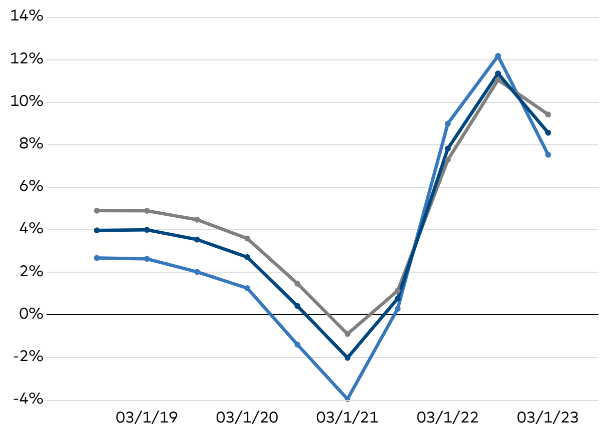


Trailing 12 Months Overall Trailing 12 Months Lifestyle Trailing 12 Months Renter-by-Necessity

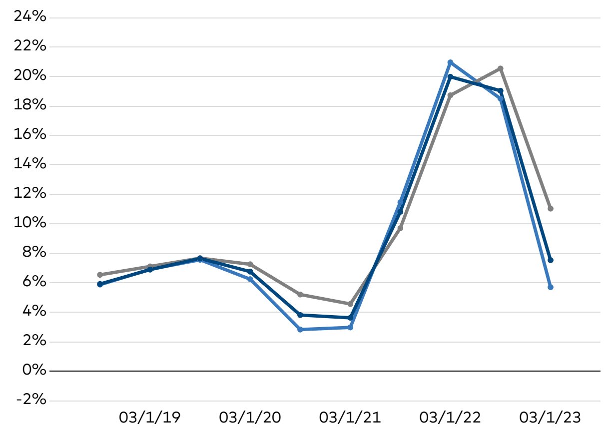
Source: Yardi Matrix

Market Rent Growth by Asset Class

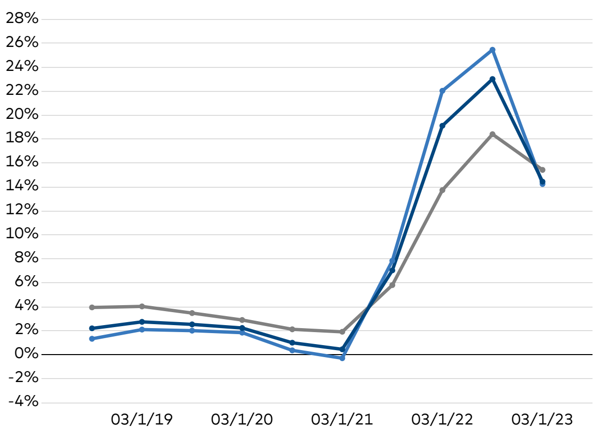
Las Vegas



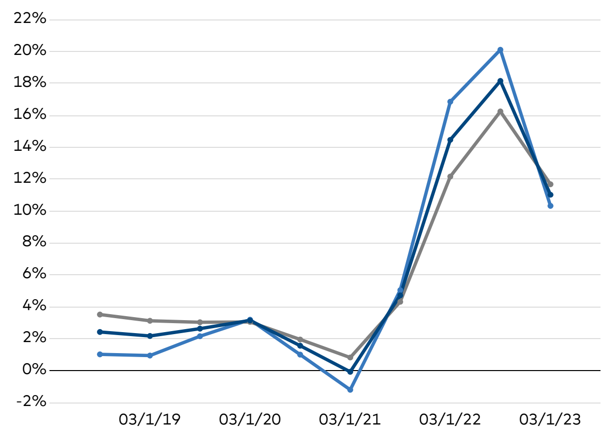
Los Angeles



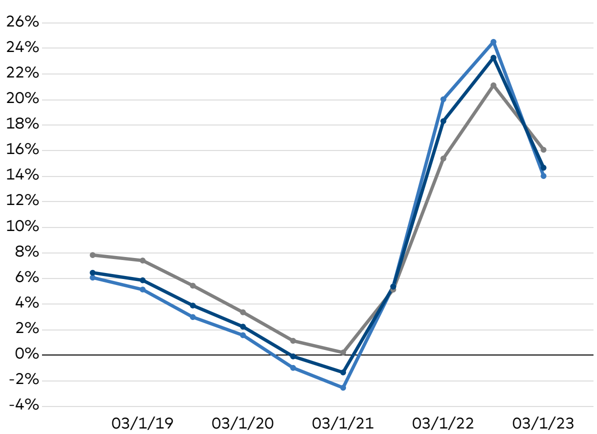
Miami



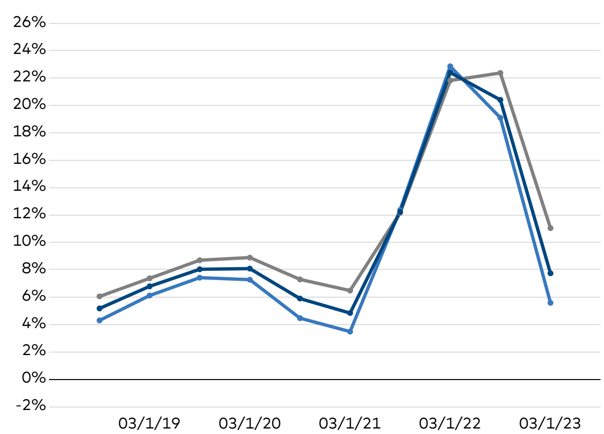
Orange County



Orlando



Phoenix

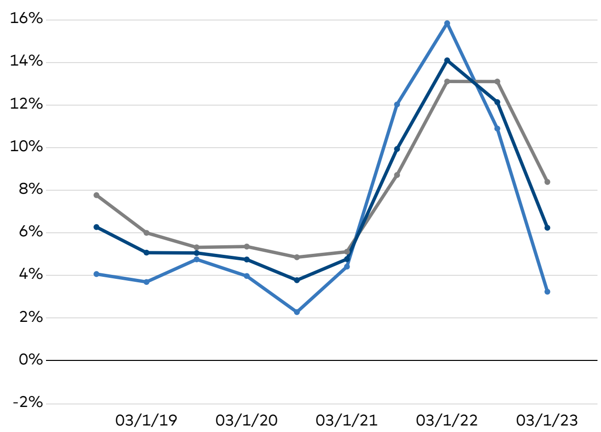


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

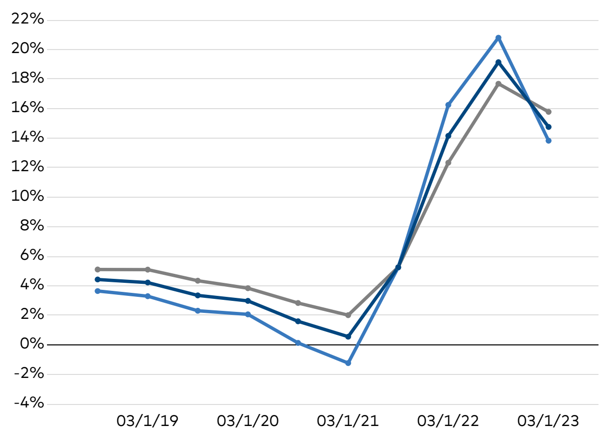
Source: Yardi Matrix

Market Rent Growth by Asset Class

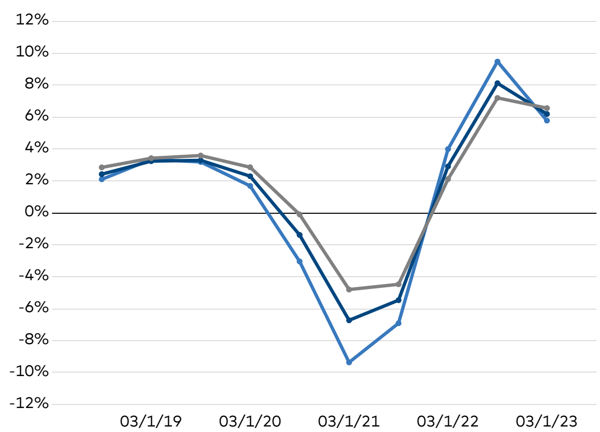
Sacramento



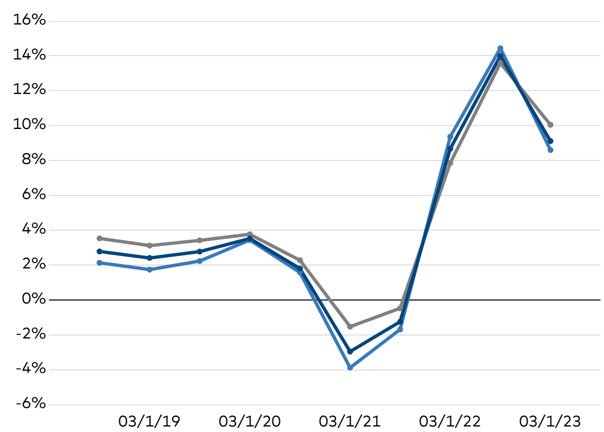
San Diego



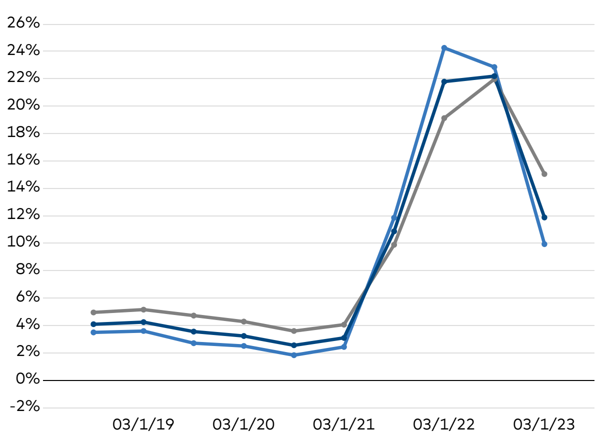
San Francisco



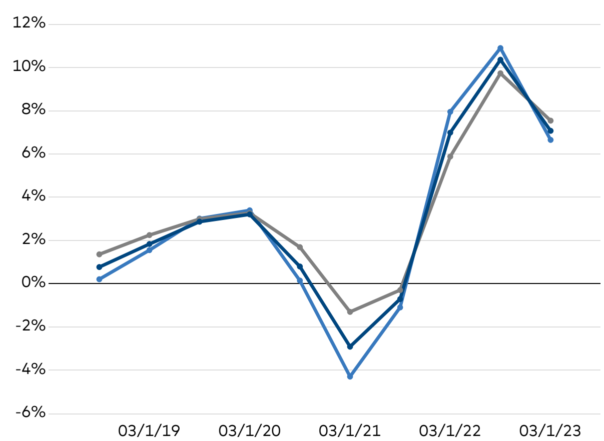
Seattle



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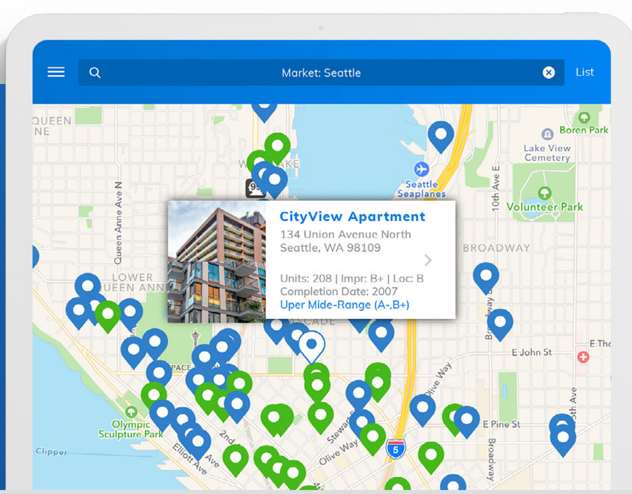
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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