Yardi® Matrix

Multifamily Monthly

January 2018

New Year Brings Little Change In U.S. Multifamily Rents

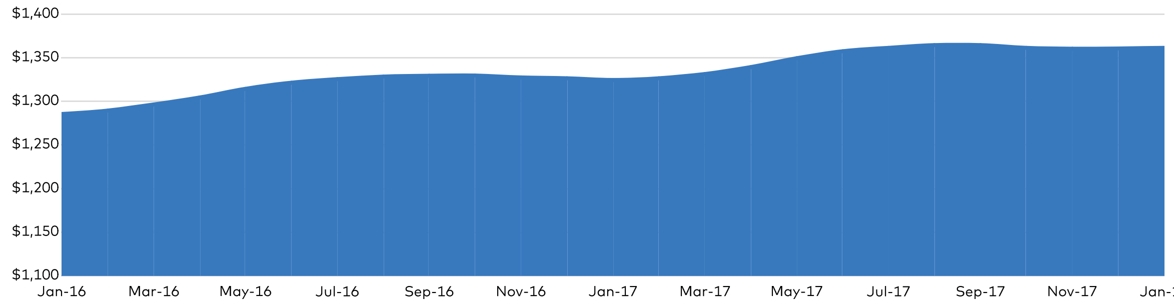
- U.S. multifamily rents continue to muddle along, rising $1 in January to $1,362, the same level they were at in July. On a year-over-year basis, rents have increased 2.8% through January, up 20 basis points from December.
- After two years of consistent, above-trend increases, rent growth has remained within a fairly narrow band over the past year, with a high of 3.0% and a low of 2.4%. Rent growth tends to be flat through the winter, so the next few months should provide a clue as to the type of growth we will see in 2018. We expect multifamily rent growth to remain in the 2.5% range.
- At the metro level, rent growth is trending toward the median. A full two-thirds of our top 30 metros are within 100 basis points of the national average.

The U.S. multifamily market started the year much as it ended the last one, with little change in rents overall. And while the outsize growth of 2015 and 2016 has largely petered out, some late-stage metros are still performing well above the average.

Sacramento tops the list of metros once again, with 8.1% year-over-year growth that is 220 basis points above the next metro. Sacramento rents have mushroomed in recent years, up a full 40% over the past four years. The average rent in Sacramento did not reach the $1,000 mark until February 2014, yet it stood at $1,393 in January 2018. The metro continues to benefit from its proximity to its expensive neighbor San Francisco, where the average rent is $2,545, forcing residents to go far afield to find affordable housing. Sacramento rents are also boosted by a weak supply pipeline. Only 0.3% was added to apartment stock over the past 12 months, and the occupancy rate of stabilized properties was 96.7% as of December. Other top metros for rent growth are Las Vegas (5.9% year-over-year), Orlando (5.6%) and Tampa (4.2%). These three metros have some common elements: All are low-cost markets with warm climates, growing populations and strong job growth.

Weather may also be a minor factor. Some of the Florida metros have additional demand from people fleeing Puerto Rico, where parts of the island remain without power after Hurricane Maria. Houston has rebounded from Hurricane Harvey, with rents up 2.1% year-over-year.

National Average Rents

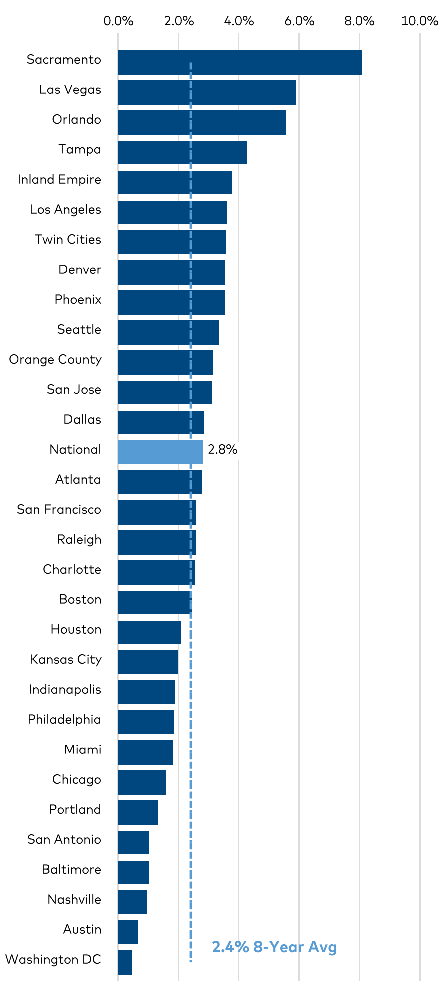


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

Year-Over-Year Rent Growth

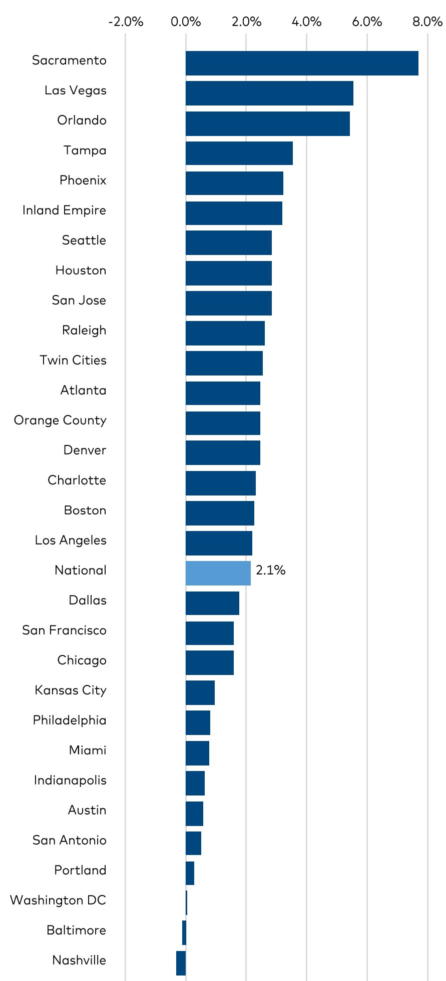
- Overall U.S. rent growth ticked upward in January, increasing 2.8% year-over-year, compared to 2.6% growth in the month-earlier period.
- Renter-by-Necessity (RBN) properties (3.3%) outperformed Lifestyle (2.1%), with demand for more affordable units and significant new Lifestyle supply causing the gap between segments.
- Sacramento continues to lead all metros, with 8.1% rent growth. However, rental increases are generally decelerating in the California capital. Las Vegas (5.9%), Orlando (5.6%) and Tampa (4.2%) show signs of emerging strength in rents.

Year-Over-Year Rent Growth—All Asset Classes



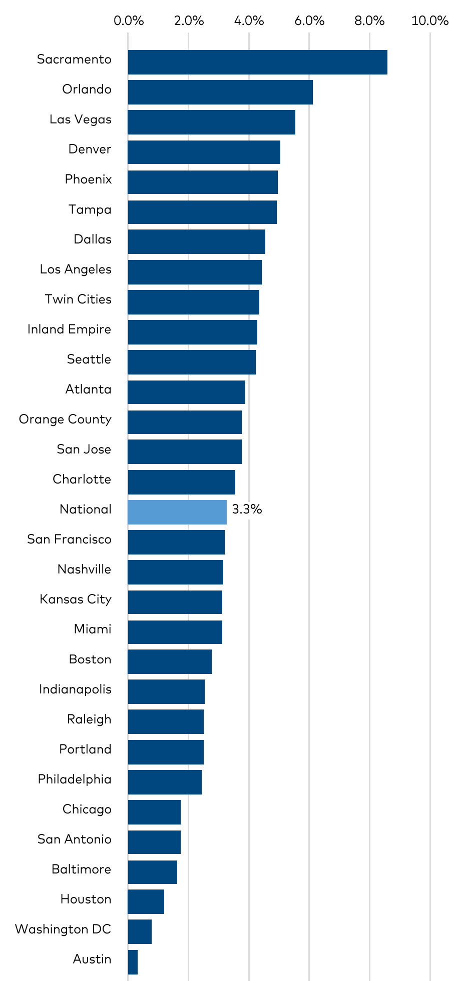
Source: YardiMatrix

Year-Over-Year Rent Growth—Lifestyle Asset Class



Source: YardiMatrix

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



Source: YardiMatrix

Trailing 3 Months: Rent Growth Turns Negative in Many Markets

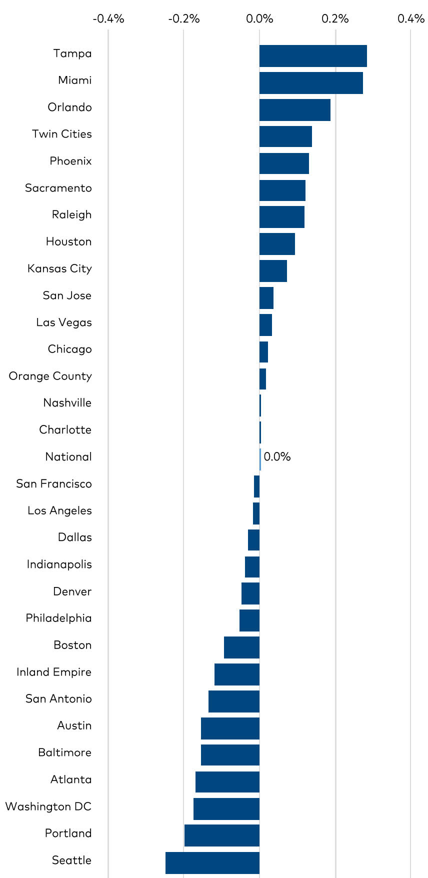
- Rent gains are led by warm-weather markets, as seasonal factors impact northern locations.
- Growth is flat in high-supply markets, reflecting upward momentum from previous months.

Nationwide, rent growth in January was unchanged on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The T-3 reflects short-term changes and may not be indicative of long-term trends.

Increases were strongest in Tampa and Miami (both 0.3%) and Orlando (0.2%), as three factors propelled the Florida markets forward. Tight labor markets, in-migration from Puerto Rico and the warm climate combined to push these generally late-stage markets to the top of our rankings. Rent growth was flat in high-supply markets such as Denver, Charlotte and Nashville, after each market had significant negative rent growth in the prior three months.

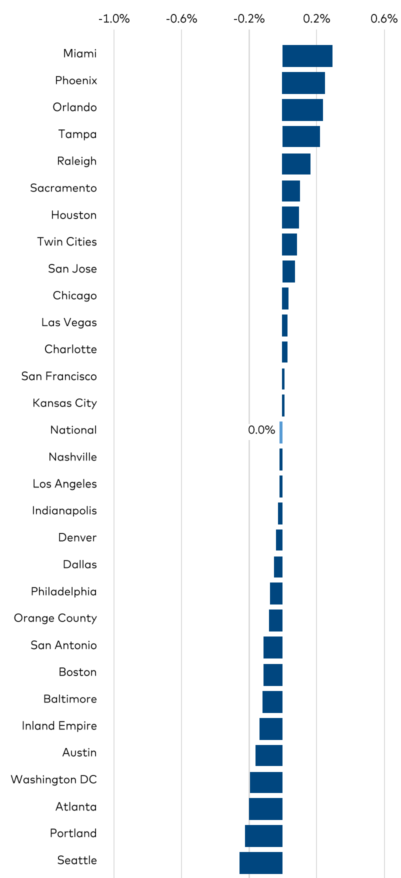
The Pacific Northwest is dealing with both supply and affordability issues, as Seattle (-0.3%) and Portland (-0.2%) found themselves at the bottom of the T-3 rankings for the second straight month.

Trailing 3 Months Sequential—All Asset Classes



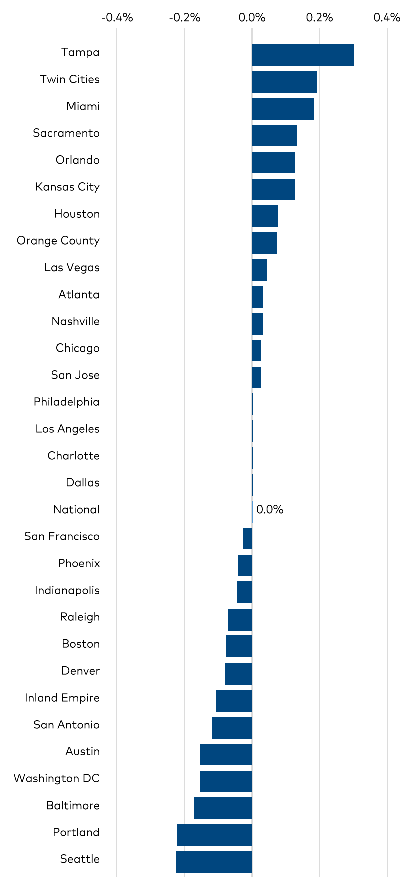
Source: YardiMatrix

Trailing 3 Months Sequential—Lifestyle Asset Class



Source: YardiMatrix

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



Source: YardiMatrix

Employment, Supply and Occupancy Trends; Forecast Rent Growth

- Despite strong renter demand, the new-supply pipeline is weighing on occupancy rates in many markets.
- Most of the markets at the bottom of the rent growth tables are absorbing an above-trend amount of new supply.
- New supply is necessary, and most of the pain should be temporary, while the new units are absorbed.

With roughly 300,000 new units delivered in 2017, the national occupancy rate fell by 50 basis points to 95.2%. The impact was the same on both Lifestyle properties (94.7% occupancy as of December 2017) and RBN properties (95.4%).

Of the bottom six metros in rent growth, all but Baltimore (1.0% year-over-year through January) added new supply at a rate above the national average.

- Washington, D.C., which at 0.5% saw the lowest increase in rents over the last 12 months, added 2.2% to stock over that period, and occupancies declined by 70 basis points to 95.1%.
- Austin, with rent growth at 0.6% year-over-year, increased stock by 3.5%, prompting the occupancy rate to decline by 50 basis points to 94.1%.
- Nashville led the nation in deliveries as a percentage of stock (5.2%), and saw an occupancy decline of 140 basis points, to 94.6%. Rent growth slid to 0.9%.
- San Antonio (1.0% rent growth) added 3.4% to stock over the last year, leading the occupancy rate to drop by 90 basis points to 92.9%, the lowest level of our top 30 metros.
- Portland (1.3% rent growth) added 2.4% to inventory over the last 12 months, and the occupancy rate fell 100 basis points to 95.0%.

To be sure, new supply is necessary to meet the current and future demand for housing and to help with the growing affordability problem in many metros. The overall occupancy rate is healthy, and a minor decline brought about by new development in some markets is not a major concern. What's more, the new permits have started to decline, so the amount of deliveries is likely to peak in 2018. That said, rent growth will weaken as the new stock is absorbed.

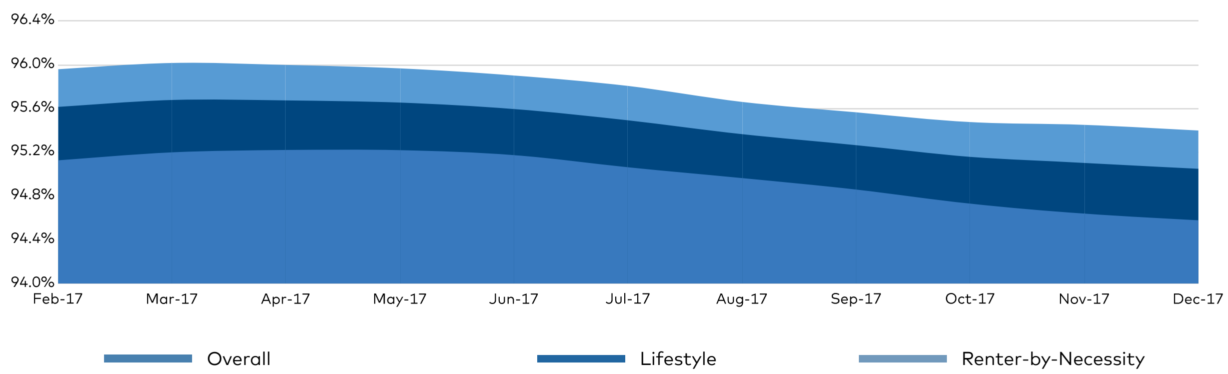
Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Jan - 18	Forecast Rent Growth (YE 2018)	YoY Job Growth (6-mo. moving avg.) as of Nov - 17	Completions as % of Total Stock as of Jan - 18	Occupancy Rates as of Dec - 16	Occupancy Rates as of Dec - 17
Sacramento	8.1%	7.2%	1.9%	0.3%	97.0%	96.7%
Phoenix	3.5%	5.0%	2.1%	2.1%	94.8%	94.6%
Inland Empire	3.8%	4.9%	3.0%	0.9%	96.6%	95.9%
Las Vegas	5.9%	4.8%	2.8%	1.3%	95.3%	94.7%
Seattle	3.3%	4.8%	2.4%	4.8%	96.3%	95.1%
Los Angeles	3.6%	4.7%	1.3%	2.1%	97.1%	96.6%
Orlando	5.6%	4.5%	3.0%	3.0%	96.0%	95.7%
Dallas	2.8%	4.4%	2.9%	2.4%	95.7%	94.9%
Tampa	4.2%	3.7%	2.7%	2.6%	95.7%	95.2%
Atlanta	2.8%	3.7%	2.8%	2.6%	94.6%	94.2%
Twin Cities	3.6%	3.7%	2.4%	2.5%	97.9%	97.5%
Raleigh	2.6%	3.5%	3.1%	3.1%	95.4%	94.5%
Orange County	3.2%	3.1%	0.6%	2.6%	96.9%	96.0%
Denver	3.5%	3.0%	2.1%	3.1%	94.8%	95.0%
Indianapolis	1.9%	3.0%	2.0%	1.8%	94.4%	94.1%
Chicago	1.6%	2.8%	0.6%	2.3%	95.5%	94.9%
San Francisco	2.6%	2.8%	1.6%	2.3%	96.6%	95.8%
Boston	2.5%	2.6%	2.0%	3.3%	96.8%	96.5%
San Jose	3.1%	2.4%	1.5%	2.7%	96.1%	95.8%
Houston	2.1%	2.3%	1.5%	2.9%	93.2%	93.2%
Miami	1.8%	2.3%	2.3%	3.9%	95.9%	95.0%
Philadelphia	1.8%	2.3%	1.7%	1.3%	96.0%	95.4%
Charlotte	2.5%	2.2%	2.3%	3.0%	95.8%	95.3%
Nashville	0.9%	2.1%	2.9%	5.2%	96.0%	94.6%
Kansas City	2.0%	2.0%	1.4%	2.6%	95.2%	95.0%
San Antonio	1.0%	2.0%	2.6%	3.4%	93.8%	92.9%
Austin	0.6%	1.6%	2.4%	3.5%	94.6%	94.1%
Baltimore	1.0%	1.5%	1.4%	1.6%	94.9%	94.5%
Portland	1.3%	1.5%	2.4%	2.4%	96.0%	95.0%
Washington DC	0.5%	1.3%	1.9%	2.2%	95.8%	95.1%

Source: YardiMatrix

Occupancy & Asset Classes

Occupancy—All Asset Classes by Month



Source: YardiMatrix

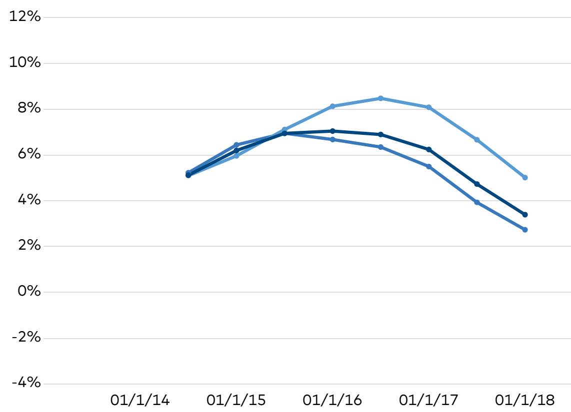
Year-Over-Year Rent Growth, Other Markets

Market	January 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	10.0%	7.2%	11.8%
Tacoma	6.6%	5.8%	7.2%
Central Valley	5.1%	3.2%	5.5%
Colorado Springs	4.8%	5.3%	4.8%
San Fernando Valley	4.7%	3.5%	5.5%
Long Island	4.0%	4.1%	3.9%
Tucson	3.6%	2.9%	3.9%
NC Triad	3.1%	2.7%	3.8%
Albuquerque	3.0%	2.4%	3.5%
Louisville	2.4%	1.5%	2.9%
Bridgeport–New Haven	2.4%	3.9%	1.3%
SW Florida Coast	2.2%	1.8%	3.0%
Indianapolis	1.9%	0.6%	2.5%
Northern New Jersey	1.8%	0.7%	2.8%
El Paso	1.3%	1.2%	1.4%
St. Louis	1.0%	-0.5%	1.5%
Central East Texas	-2.5%	-3.3%	-2.2%

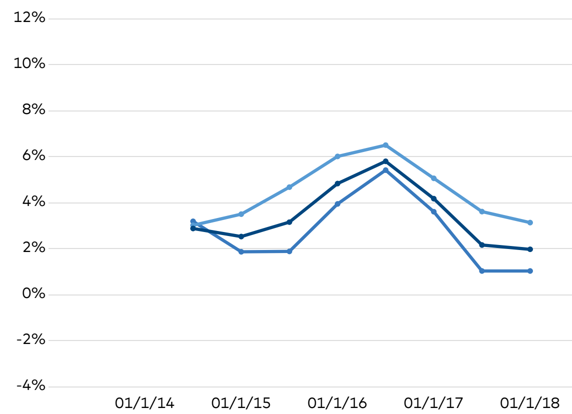
Source: YardiMatrix

Market Rent Growth by Asset Class

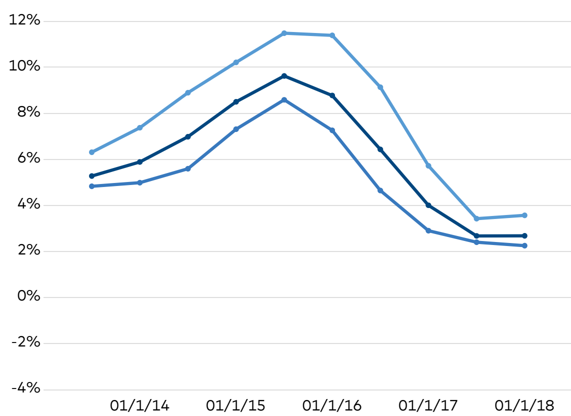
Atlanta



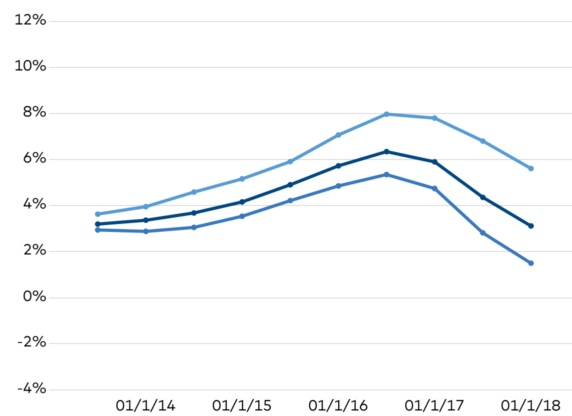
Boston



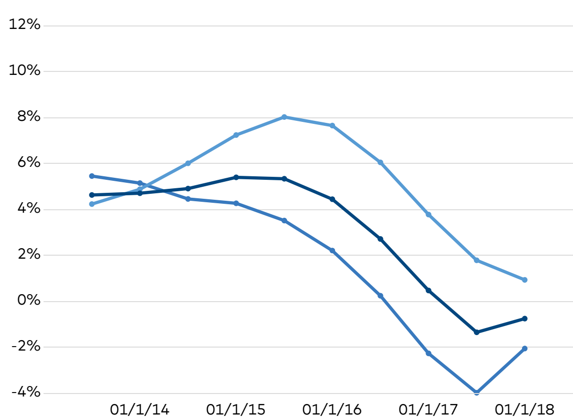
Denver



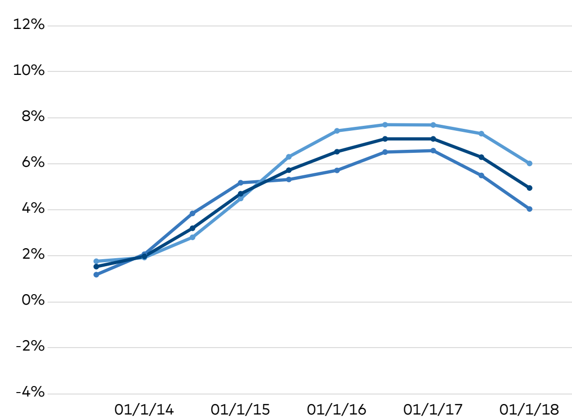
Dallas



Houston



Inland Empire

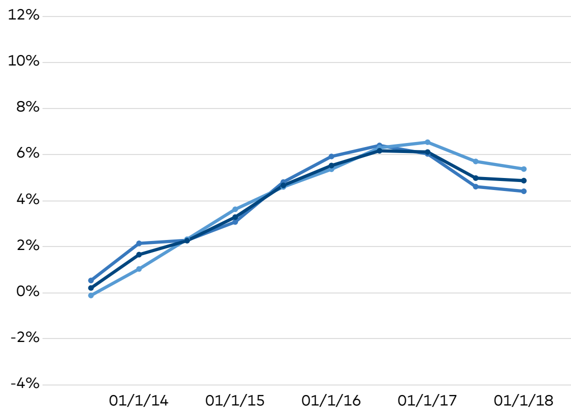


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

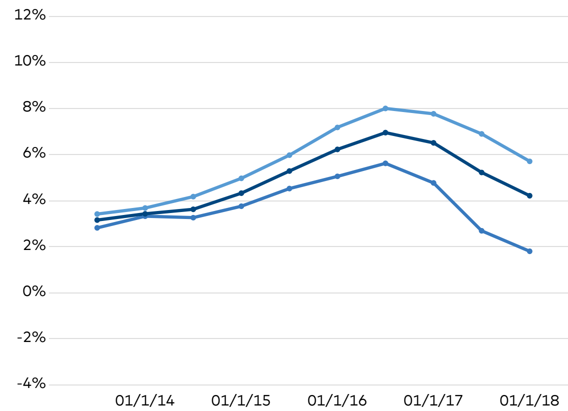
Source: YardiMatrix

Market Rent Growth by Asset Class

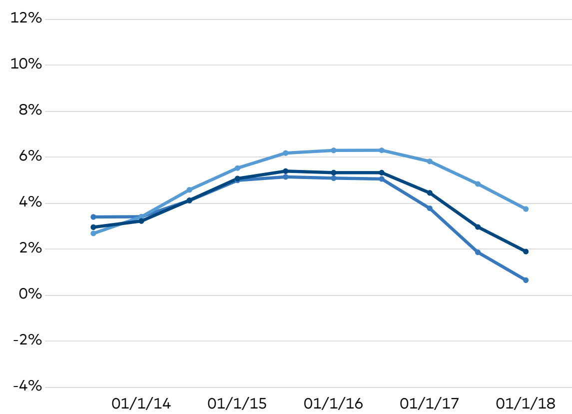
Las Vegas



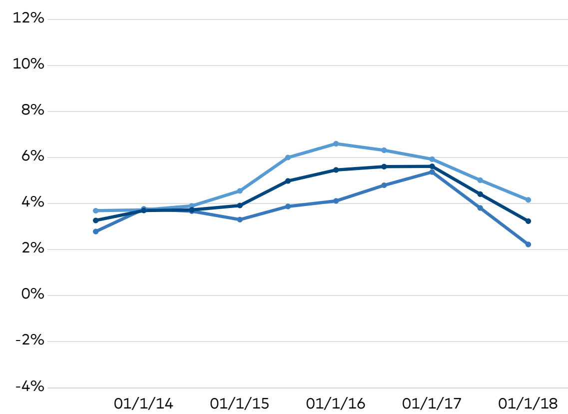
Los Angeles



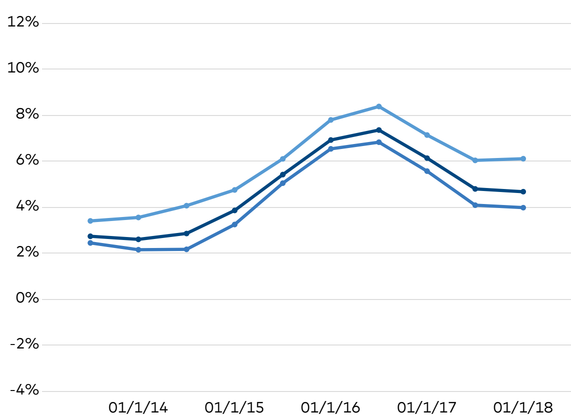
Miami



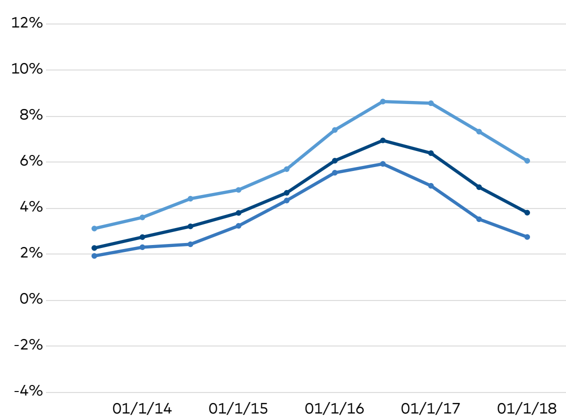
Orange County



Orlando



Phoenix

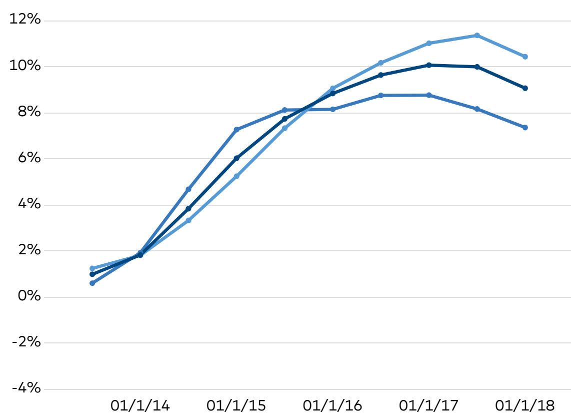


Trailing 12 Months Overall | Trailing 12 Months Lifestyle | Trailing 12 Months Renter-by-Necessity

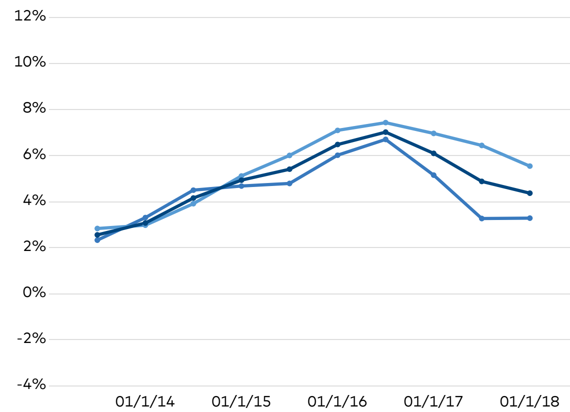
Source: YardiMatrix

Market Rent Growth by Asset Class

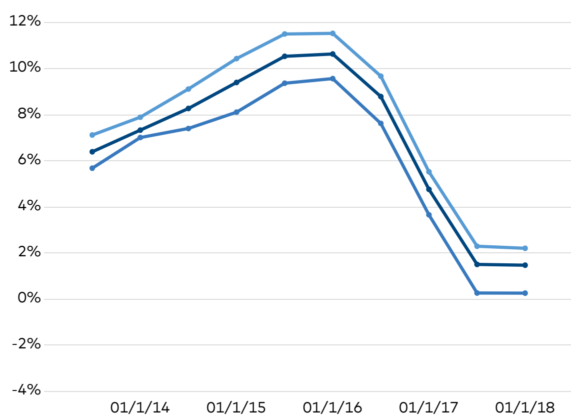
Sacramento



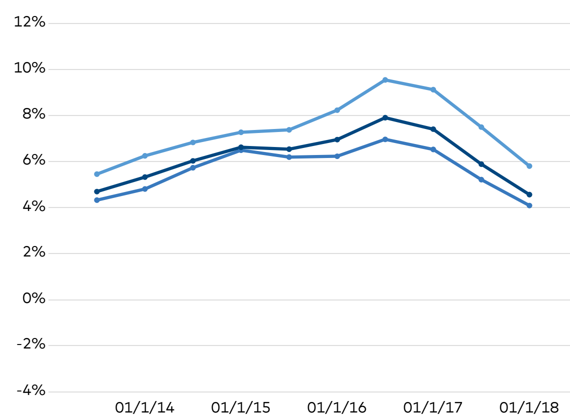
San Diego



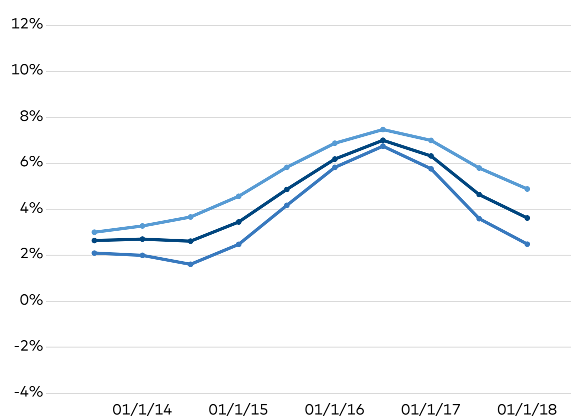
San Francisco



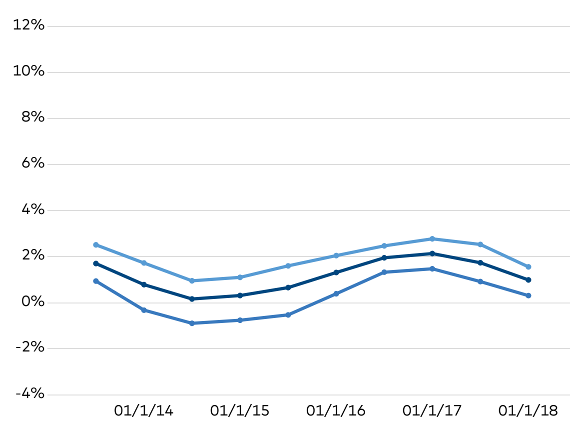
Seattle



Tampa



Washington, D.C.



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

Source: YardiMatrix

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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