Yardi® Matrix

Multifamily Monthly

March 2018

Rents Climb in March; Orlando Maintains Top Spot

- After being basically flat since last summer, U.S. multifamily rents rose $4, to $1,371, in March. Even so, growth dropped 10 basis points on a year-over-year basis to 2.5%, as rent acceleration did not keep pace with previous years.
- March's performance is decidedly mixed. It is encouraging to see rents growing at a time when the overall trend is toward deceleration. Rents had not moved more than $1 in either direction since last July. On the other hand, first-quarter rent gains were weaker than previous years. Rents increased by $5 and were up 0.4% in the first quarter. That's the smallest increase for a first quarter since 2011.
- After surpassing Sacramento last month, Orlando maintained its lead atop the metro rankings, which are dominated by warm-weather metros with surging demand.

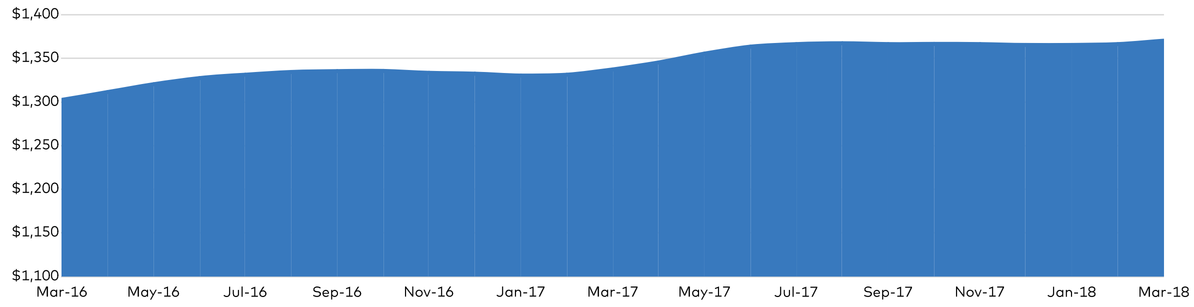
Multifamily rents in March produced their best performance since last summer. Average U.S. rents increased by $4, which has to be a relief to an industry wondering whether the positive growth cycle has run its course—or if it hasn't, then how much steam is left. Rents have decelerated since peaking at a 5.4% year-over-year growth rate in early 2016. The average national rent was the same in February as it was in July 2017.

With mounting concerns over peaking supply, declining occupancy rates and affordability issues in many metros, it is natural to wonder whether flattening growth since last summer was a natural seasonal pattern or if rents would remain flat for an extended period. Some 620,000 units have been added to total stock over the last two years, resulting in a 100-basis-point drop in occupancy.

Although the questions about growth are far from settled, the $4 increase in March is encouraging. Gains are led mostly by secondary and tertiary metros—Orlando (7.0%), Las Vegas (5.2%), the Inland Empire (4.4%), Phoenix (4.3%) and Tampa (4.2%) were among the top six—experiencing healthy demand due to strong late-stage economies and affordable housing costs. What's more, national average rent growth has settled around 2.5%, ranging between 2.3% and 2.7% for 14 straight months. It wouldn't surprise us if it remained in that range for another 14 months.

The next few months will be telling, however. Rent growth in the first quarter was weak compared to the first quarter of recent years. Gains averaged 1.0% in the first quarter of the last three years. We would expect growth to continue over the next quarter, though. And we expect it to remain concentrated in metros with migrating jobs and population.

National Average Rents

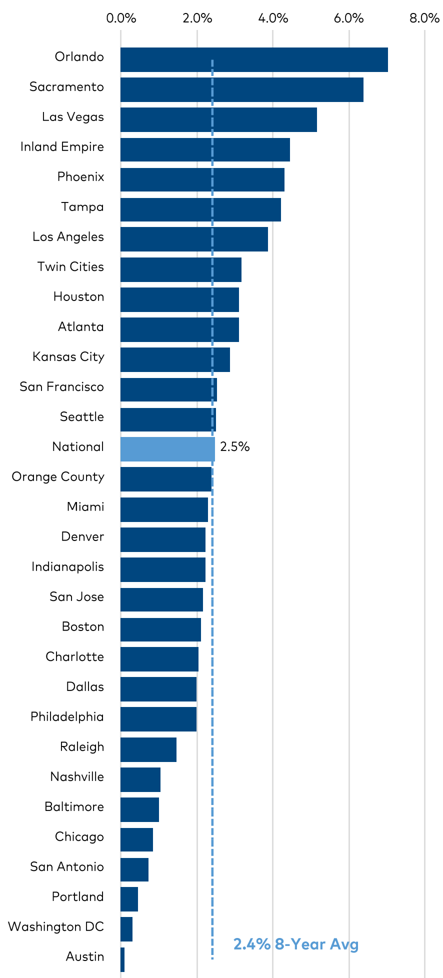


National averages include 125 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

Year-Over-Year Rent Growth: All Top 30 Markets Show Growth

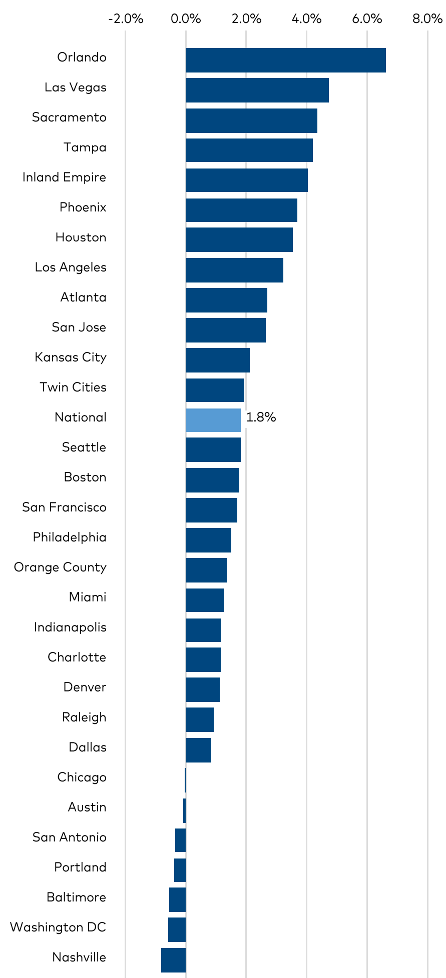
- Rents grew 2.5% on a year-over-year basis in March, a 10-basis point decline from February, as overall deceleration continues. Orlando (7.0%) led the nation for the second consecutive month, while other Sunbelt metros such as Las Vegas (5.2%), the Inland Empire (4.4%) and Phoenix (4.3%) all performed well. After topping our rankings for the last two years, Sacramento was second for the second consecutive month, with 6.4% rent growth.
- Renter-by-Necessity (RBN) properties (3.2%) maintained a 140-basis-point rent growth spread over Lifestyle apartments (1.8%) as new high-end supply weighs on Lifestyle rents.
- All markets in the Matrix top 30 had year-over-year rental increases.

Year-Over-Year Rent Growth—All Asset Classes



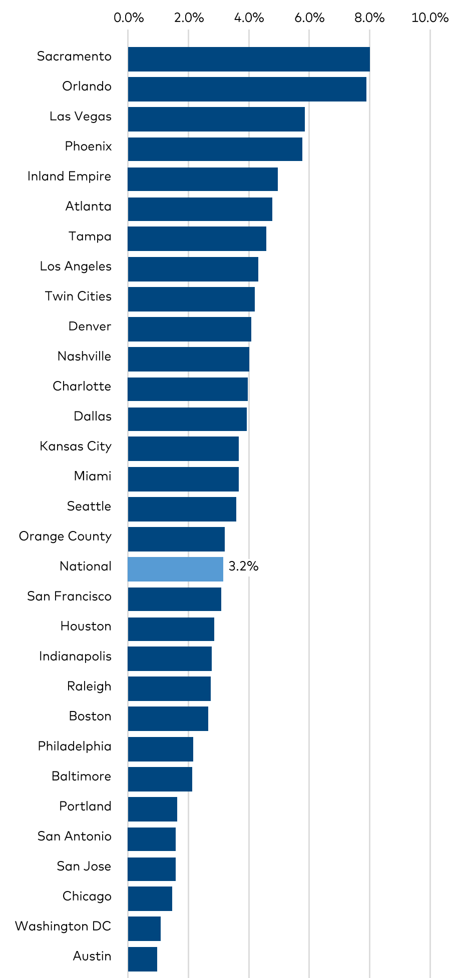
Source: YardiMatrix

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 Returns as Spring Begins

- Rent gains accelerated in top markets as prime rental season approaches.
- Both RBN and Lifestyle growth picked up, although RBN still leads.

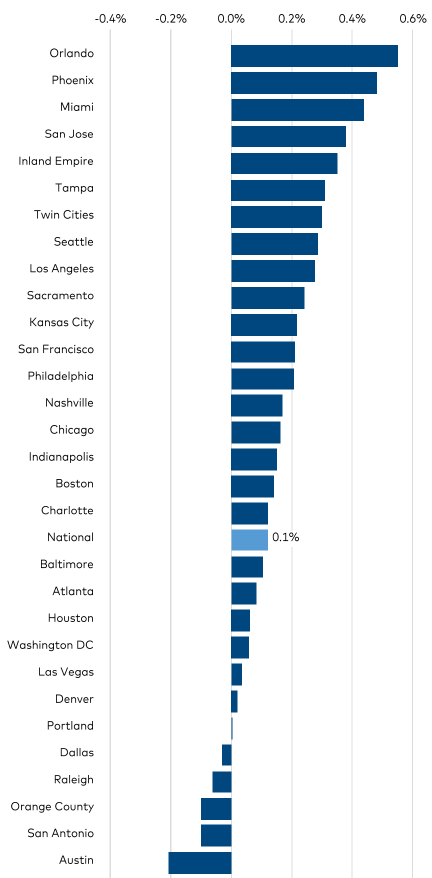
Rents increased 0.1% on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The T-3 reflects short-term changes and may not be indicative of long-term trends.

Orlando (0.6%), Phoenix (0.5%) and Miami (0.4%) had the strongest rent growth in March, which is historically the beginning of the most active rental season. What's more, these markets are not as affected by seasonality as markets in other parts of the country.

Rents declined in markets such as Raleigh, San Antonio and Austin, as new construction impacted both rent growth and occupancy. Austin's occupancy fell 70 basis points over the past 12 months, while San Antonio (-1.3%) and Raleigh (-1.2%) saw more drastic declines.

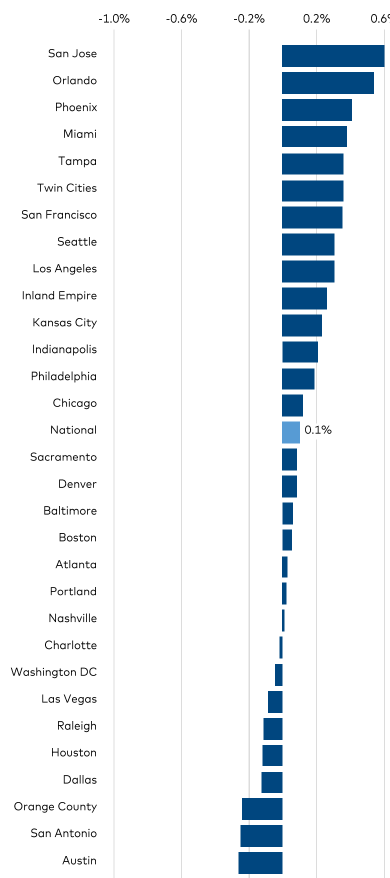
San Jose (0.7%) led all metros in Lifestyle growth, as Silicon Valley rents are rising in the short term, despite some of the highest rents in the country.

Trailing 3 Months Sequential—All Asset Classes



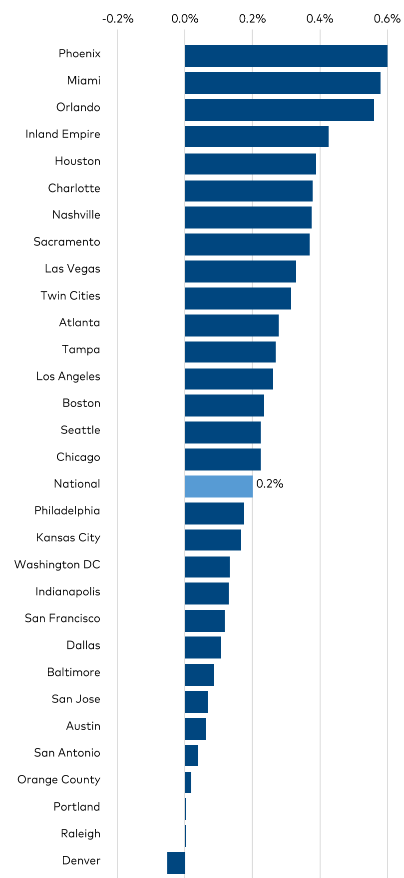
Source: YardiMatrix

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

- Deliveries are expected to hit a cycle peak of 360,000 in 2018. As a result, occupancy will continue its steady downward movement.
- Occupancy declined in all of the top 30 markets over the last 12 months, with Houston being the lone exception.
- Outsize job growth, especially in Sunbelt markets, supports long-term apartment fundamentals.

While rent deceleration has dominated headlines for the better part of two years, data points to declining occupancy as the main trend, in light of the current influx of supply. Not only has rent growth rapidly slowed in Nashville and Seattle, but over the past 12 months occupancy has fallen by 150 basis points or more in both markets. Seven of the Matrix Monthly 30 markets saw occupancy fall by 100 basis points or more, and in each of those markets, apartment completions rose by more than 2% of total stock over the last 12 months.

Houston was the only metro in which the occupancy rate increased, up 40 basis points to 93.6%, as the recovering energy market combined with the effects of Hurricane Harvey to boost apartment fundamentals.

While the occupancy data may appear to be doom and gloom, there are signs of optimism as job growth in markets such as Nashville, San Antonio, Dallas (all up 2.7% year-over-year) and Seattle (2.4%) are well above the national average, indicating short-term supply issues will likely give way to longer-term strength for demand.

Late-cycle markets such as Las Vegas and Orlando (both with 2.9% employment growth) have vaulted to the top of our rent growth rankings. Typically, these markets have outperformed toward the end of real estate cycles, as tourism and the leisure-and-hospitality market drive their economies. Demographics also appear to be supporting Las Vegas and Orlando, as both markets ranked in the top 10 for population growth in 2017.

Also exhibiting robust employment gains were:

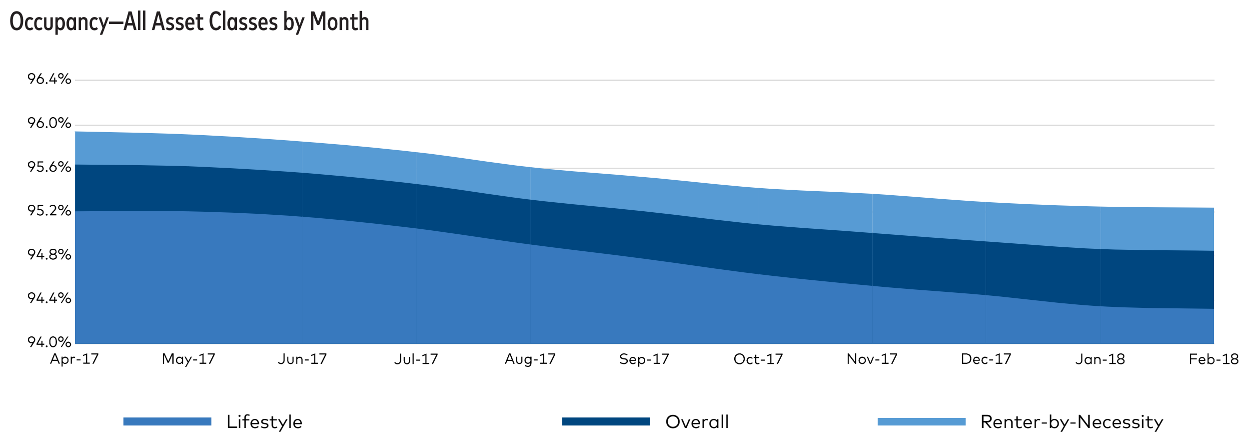
- Raleigh, where rent growth and occupancy have declined due to significant supply but 3.0% year-over-year job growth offers a bright long-term outlook.
- Atlanta, which with 2.6% job growth and only a 40-basis-point decline in occupancy experienced one of the lowest declines in the country.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Mar - 18	Forecast Rent Growth (YE 2018)	YoY Job Growth (6-mo. moving avg.) as of Dec - 17	Completions as % of Total Stock as of Mar - 18	Occupancy Rates as of Feb - 17	Occupancy Rates as of Feb - 18
Sacramento	6.4%	7.2%	1.9%	0.3%	97.1%	96.4%
Phoenix	4.3%	5.0%	1.9%	2.4%	95.1%	94.7%
Inland Empire	4.4%	4.9%	3.0%	0.8%	96.6%	95.7%
Las Vegas	5.2%	4.8%	2.9%	1.3%	95.3%	94.5%
Seattle	2.5%	4.8%	2.4%	4.8%	96.4%	94.9%
Los Angeles	3.9%	4.7%	1.2%	2.0%	97.1%	96.6%
Orlando	7.0%	4.5%	2.9%	3.1%	96.2%	95.6%
Dallas	2.0%	4.4%	2.7%	2.3%	95.7%	94.4%
Tampa	4.2%	3.7%	2.5%	2.9%	95.6%	95.0%
Atlanta	3.1%	3.7%	2.6%	2.6%	94.4%	94.0%
Twin Cities	3.2%	3.7%	2.3%	2.1%	97.9%	97.2%
Raleigh	1.5%	3.5%	3.0%	2.8%	95.3%	94.1%
Orange County	2.4%	3.1%	0.7%	2.7%	96.8%	96.0%
Denver	2.2%	3.0%	2.1%	3.3%	95.2%	94.6%
Indianapolis	2.2%	3.0%	1.9%	1.6%	94.4%	93.9%
Chicago	0.8%	2.8%	0.6%	2.7%	95.3%	94.4%
San Francisco	2.5%	2.8%	1.5%	2.2%	96.5%	95.7%
Boston	2.1%	2.6%	2.0%	3.3%	96.9%	96.3%
San Jose	2.2%	2.4%	1.5%	2.4%	96.2%	95.5%
Houston	3.1%	2.3%	1.5%	2.8%	93.2%	93.6%
Miami	2.3%	2.3%	2.1%	4.7%	95.9%	95.0%
Philadelphia	2.0%	2.3%	1.5%	1.8%	96.0%	95.2%
Charlotte	2.0%	2.2%	2.0%	2.9%	95.8%	95.0%
Nashville	1.0%	2.1%	2.7%	5.1%	95.9%	94.3%
Kansas City	2.9%	2.0%	1.1%	2.5%	95.4%	94.7%
San Antonio	0.7%	2.0%	2.7%	2.8%	93.6%	92.3%
Austin	0.1%	1.6%	2.5%	4.0%	94.5%	93.8%
Baltimore	1.0%	1.5%	1.3%	1.9%	94.8%	94.2%
Portland	0.4%	1.5%	2.4%	2.3%	96.0%	94.7%
Washington DC	0.3%	1.3%	1.8%	2.1%	95.8%	94.8%

Source: YardiMatrix

Occupancy & Asset Classes



Source: YardiMatrix

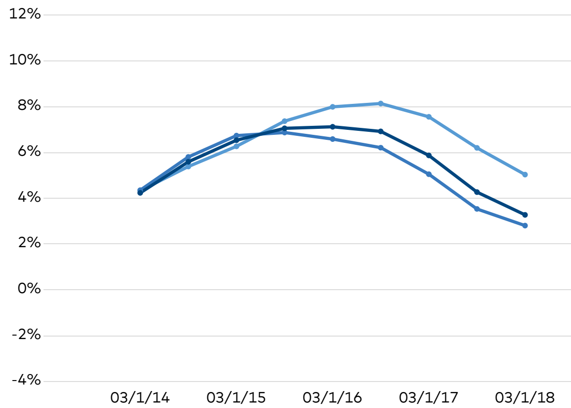
Year-Over-Year Rent Growth, Other Markets

Market	March 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	10.3%	9.2%	11.1%
Tacoma	7.0%	5.8%	8.1%
Central Valley	4.8%	3.6%	5.0%
Colorado Springs	4.8%	4.1%	5.6%
San Fernando Valley	4.6%	3.3%	5.4%
Tucson	4.2%	4.2%	4.0%
Long Island	3.9%	3.3%	4.2%
NC Triad	3.1%	2.7%	3.5%
SW Florida Coast	2.6%	2.9%	2.2%
Indianapolis	2.2%	1.2%	2.8%
Northern New Jersey	1.9%	0.5%	3.0%
El Paso	1.8%	3.1%	1.2%
Louisville	1.5%	-0.6%	2.7%
St. Louis	1.5%	-1.3%	2.1%
Bridgeport–New Haven	1.3%	1.3%	1.5%
Albuquerque	0.7%	0.3%	0.8%
Central East Texas	-2.1%	-3.3%	-1.8%

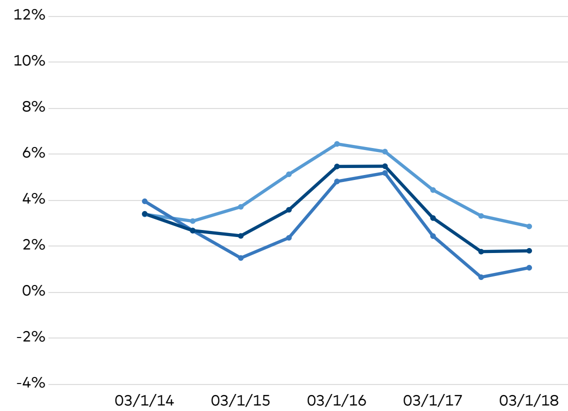
Source: YardiMatrix

Market Rent Growth by Asset Class

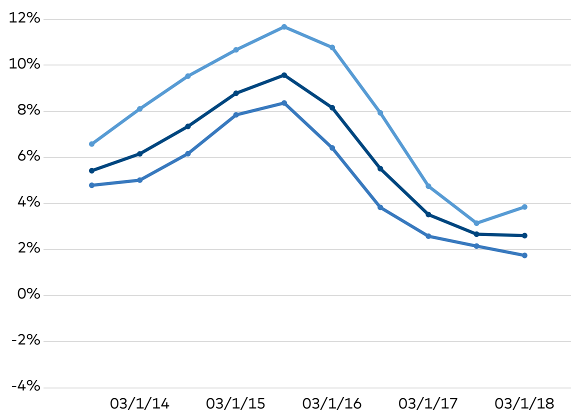
Atlanta



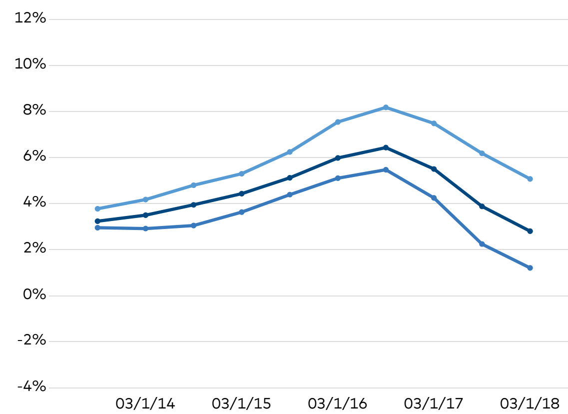
Boston



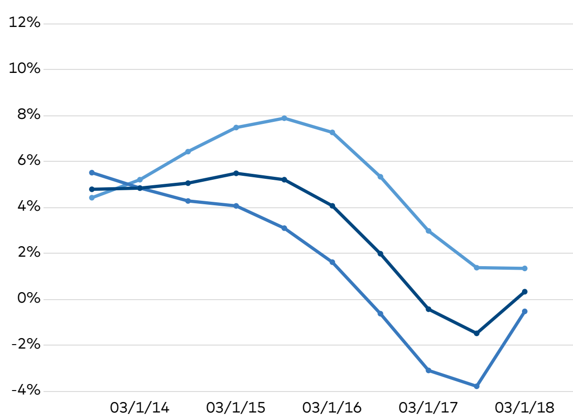
Denver



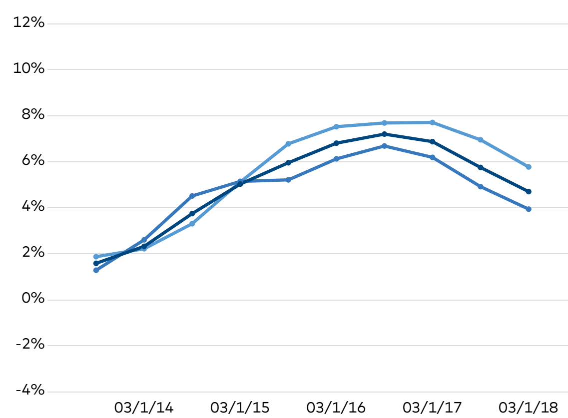
Dallas



Houston



Inland Empire

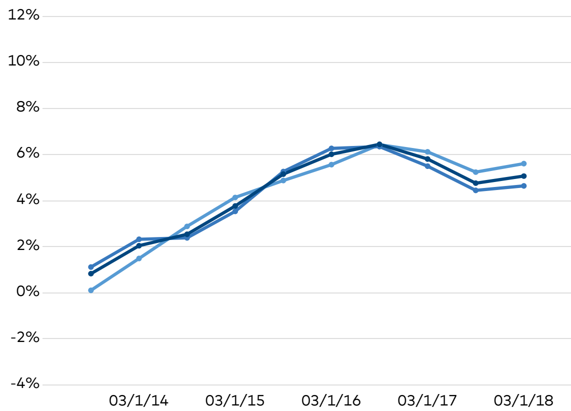


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

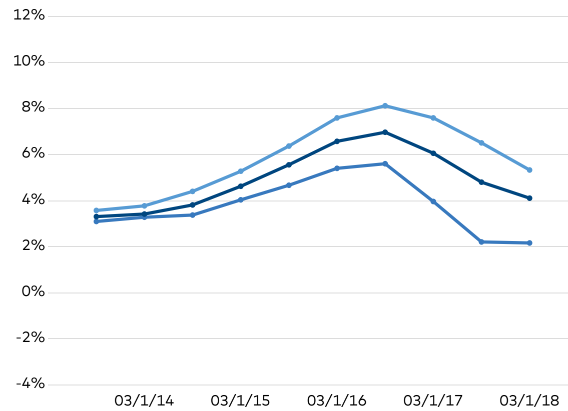
Source: YardiMatrix

Market Rent Growth by Asset Class

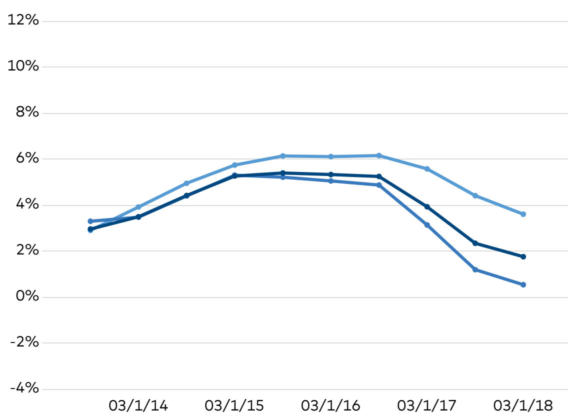
Las Vegas



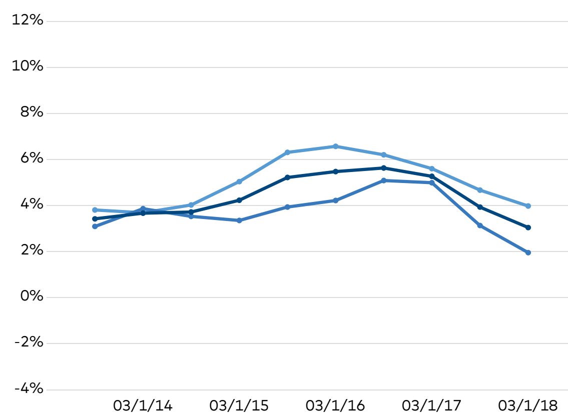
Los Angeles



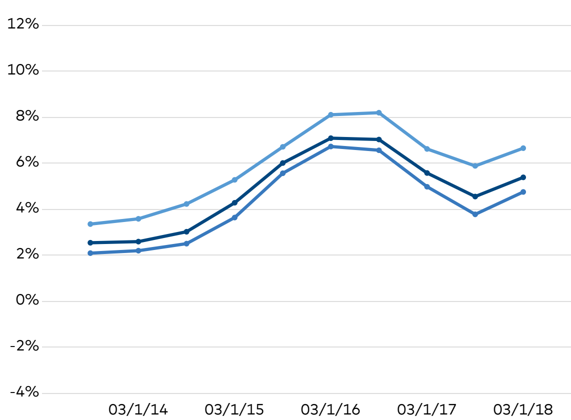
Miami



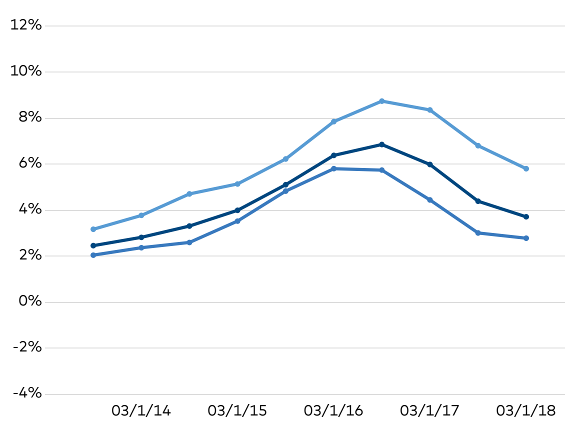
Orange County



Orlando



Phoenix

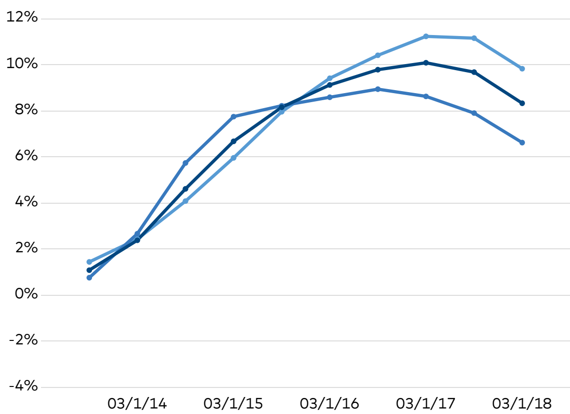


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

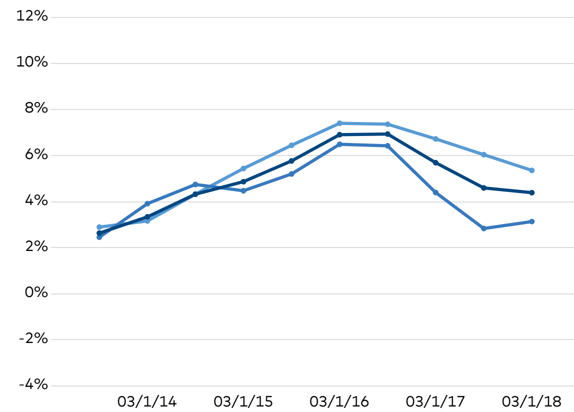
Source: YardiMatrix

Market Rent Growth by Asset Class

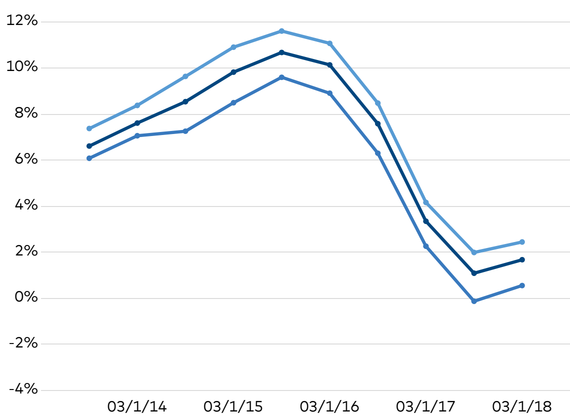
Sacramento



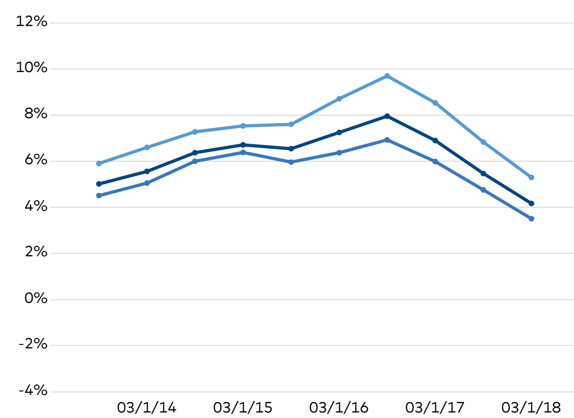
San Diego



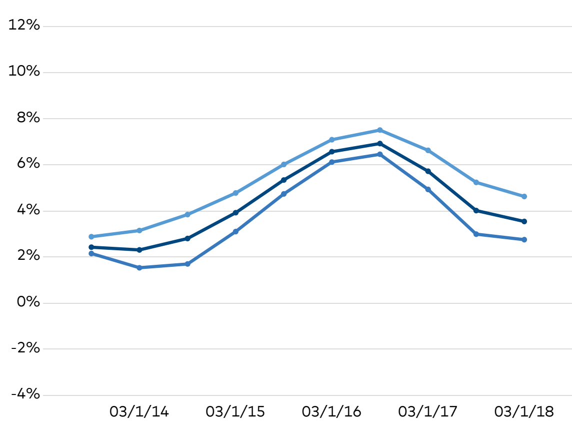
San Francisco



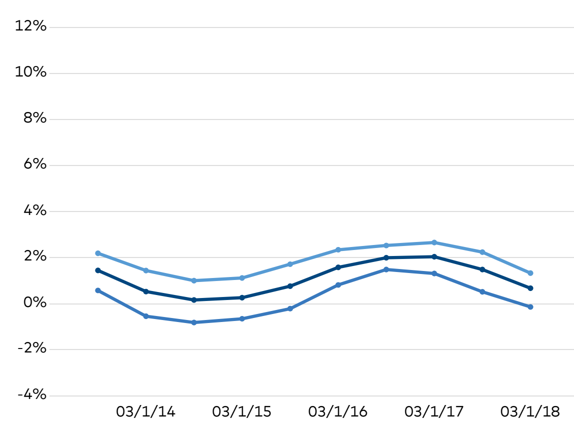
Seattle



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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