Yardi® Matrix

Multifamily National Report

June 2018

Multifamily Finishes First Half With Strong Kick

- The first half ended well for the U.S. multifamily market, as rents rose $12 in June to an all-time high of $1,405. Year-over-year, rents are up 2.9% as of June, a 20-basis-point increase over the previous month. The strong performance is a good sign that demand generally is holding up and that robust supply growth is not an impediment to rent growth in most markets.
- Rents grew by 2.1% during the second quarter and 2.6% during the first half. Those numbers compare favorably to most years except the peak years of the cycle in 2015 and 2016.
- Recent performance has been strong across the board, although gains continue to be highest in booming secondary markets such as Orlando (7.4%), Las Vegas (5.6%) and the Inland Empire (5.6%).

The resilient U.S. multifamily market demonstrated its strength and consistency in the first half of 2018. Despite headwinds presented by consistent supply growth and lack of affordability in many major metros, rents continue to grow steadily. Average U.S. rents increased by $29 in the second quarter, up 2.1% for the quarter, 2.6% for the first half and 2.9% year-over-year.

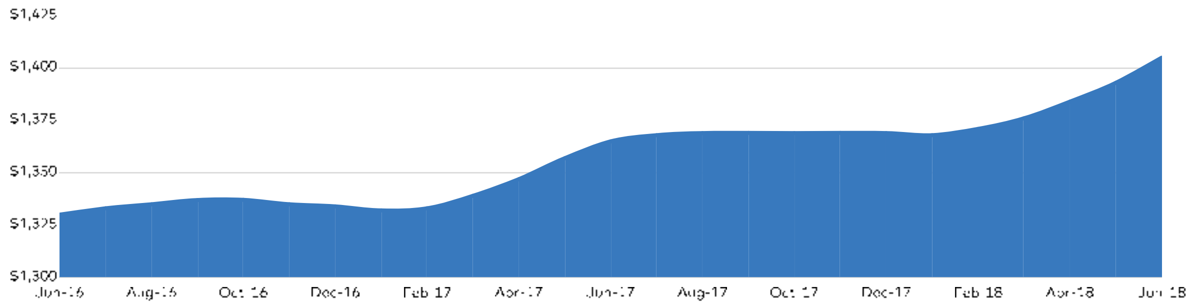
The quarterly number is the highest since rents grew by 2.3% in the second quarter of 2015. The first-half growth number was last topped in the first half of 2016, when rents increased by 2.9%. The healthy showing might put to rest fears that rent deceleration from the peak 2015/16 years will turn into flattening or negative growth.

Rents changed little between last June and the end of the first quarter, which raised some doubts about the strength of property income growth. For one thing, the market is in the middle of a four-year period in which 1.2 million units are being added, leading to a cooling off in some previously high-growth metros such as Nashville, Portland and Austin. Other concerns include affordability—which has sharply curtailed rent increases in markets such as New York and San Francisco—and whether the long economic cycle is finally coming to an end.

All those issues created legitimate questions about the ongoing strength of the market. However, the doubts seem to have been answered by the healthy and widespread gains we are seeing so far this year.

Strong apartment rent growth in the spring is normal and isn't indicative of the future. But the picture that emerges from the first-half numbers is reassuring. Late-stage metros boosted by a wave of population growth, low housing costs and healthy employment gains continue to see outsize rent gains. Meanwhile, technology-led metros such as San Jose, San Francisco and Seattle—where rents have decelerated sharply—rebounded with robust second-quarter gains.

National Average Rents

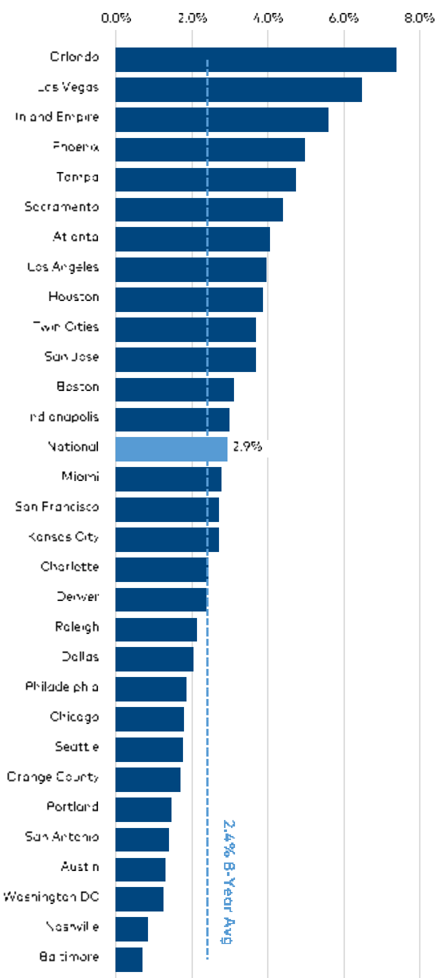


National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

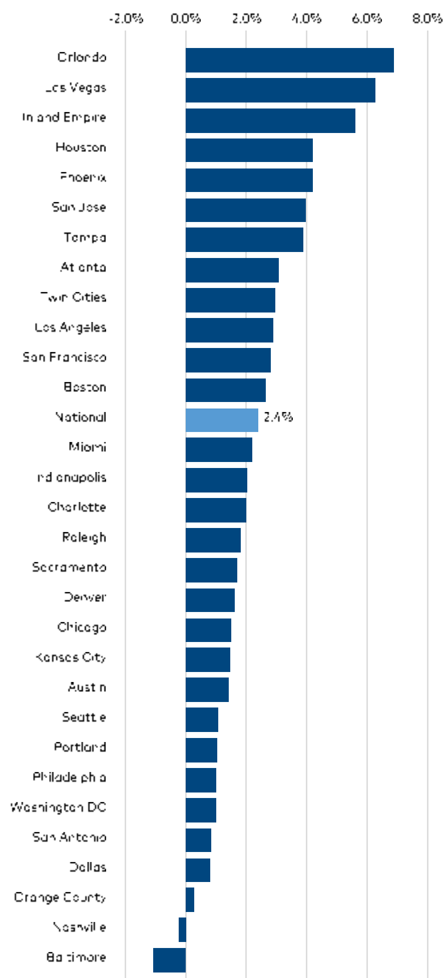
Year-Over-Year Rent Growth: Orlando Continues to Accelerate; Southwest Close Behind

- Rents increased 2.9% nationally on a year-over-year basis in June, as stronger-than-anticipated rent growth capped off the first half of 2018.
- Orlando continues to lead the nation (7.4%), as rent growth in central Florida has accelerated over the past 12 months. Secondary markets in the Southwest also had strong growth, as Las Vegas (6.5%), the Inland Empire (5.6%) and Phoenix (5.0%) are attractive relocation markets for southern and coastal Californians looking for a more affordable cost of living.
- Renter-by-Necessity (3.4%) assets continue to outperform Lifestyle (2.4%), as demand for lower-cost housing remains high.

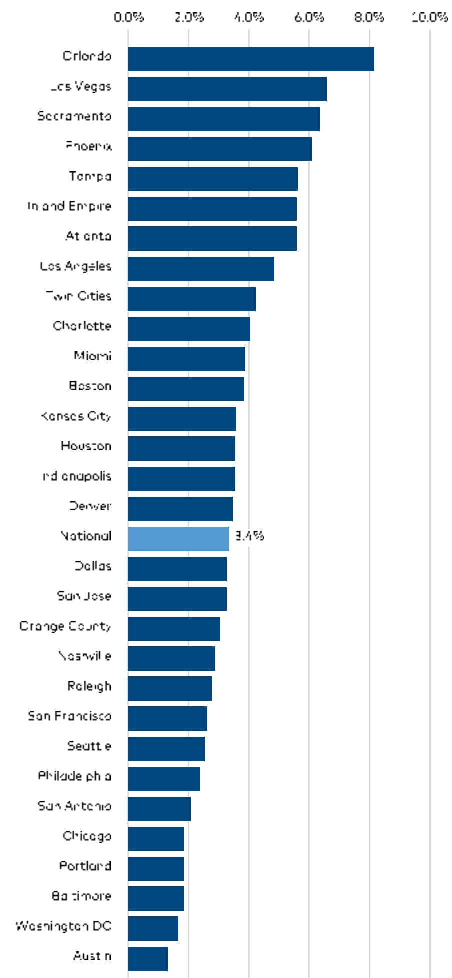
Year-Over-Year Rent Growth— All Asset Classes



Year-Over-Year Rent Growth— Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months:
Spring Rental Season Drives Tech Market Growth

- After a strong rental season, tech-focused metros have regained growth momentum.
- The top 30 metros were all positive, although Houston slowed after strong growth in the past nine months.

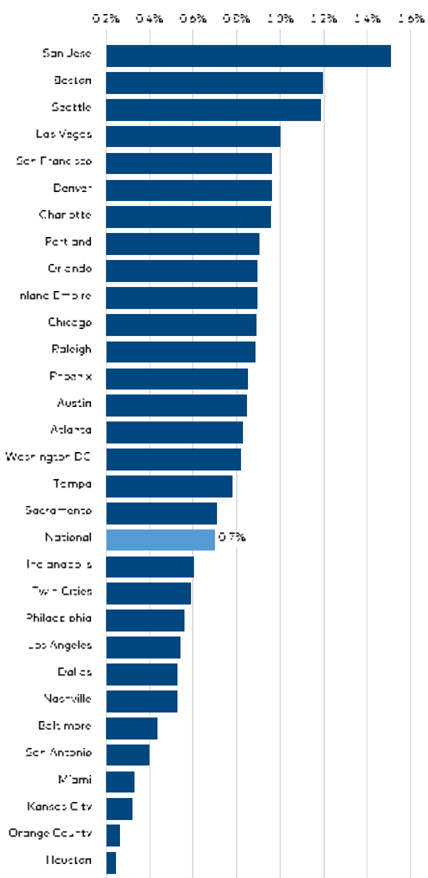
Rents increased 0.7% nationally on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The T-3 reflects short-term changes and may not represent long-term trends.

The spring rental season brought accelerated growth for a number of markets that had been struggling at the end of 2017 and into 2018. The strongest rent growth was in technology-focused economies such as San Jose (1.5%), Boston, Seattle (both 1.2%) and San Francisco (1.0%). Resurgent T-3 rent growth is a welcome sight for landlords, which had seen significant rent growth deceleration, as these markets are among the most expensive in the nation.

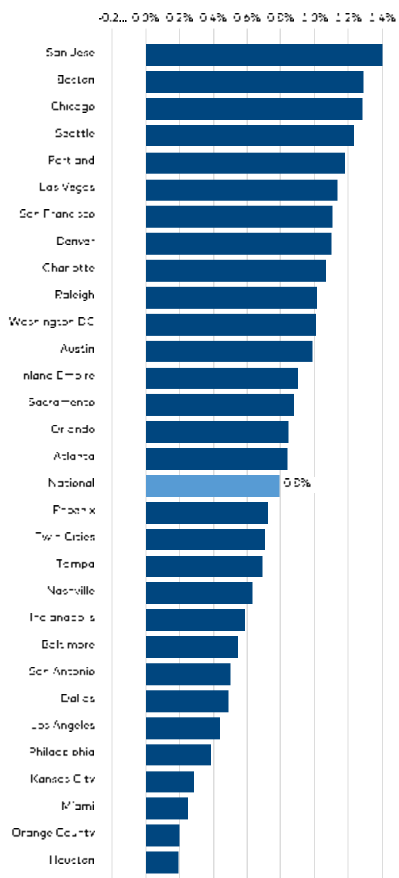
Denver and Charlotte (1.0%) had a strong spring despite ample new supply entering the markets.

Houston (0.2%) was the weakest market on a T-3 basis, as the rent pop following Hurricane Harvey appears to be subsiding.

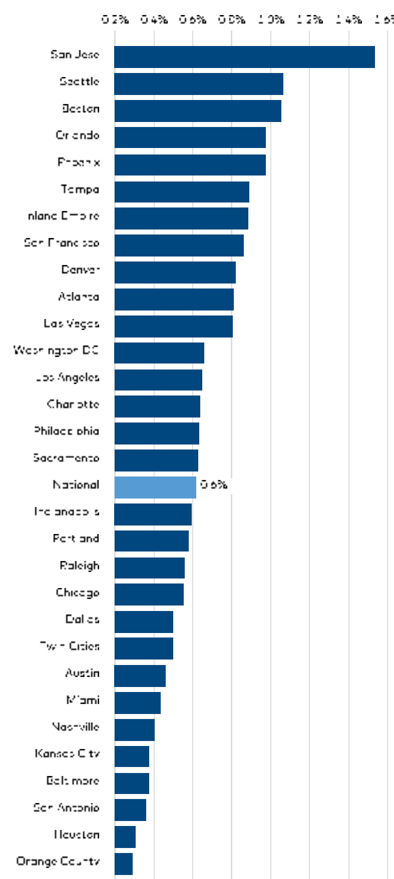
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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



Source: Yardi Matrix

Employment, Supply and Occupancy Trends; Forecast Rent Growth

- Strong second-quarter performance demonstrates the basic health of the multifamily market, despite headwinds that have led rents to decelerate in most markets over the last two years.
- A number of metros with economies led by the technology industry bounced back with strong gains in the first half after rent growth stalled in the second half of 2017.
- It's not entirely clear why these metros experienced the same volatility in concert. Possibly it's because these markets have strong economies that produce demand for apartments that has not abated, despite issues such as high costs and growing competition from new supply.

What a difference six months makes.

Last December, the most prominent technology-rich metros—including Seattle, Portland, San Jose, Denver, Boston and San Francisco—were congregated at the bottom of the rent growth tables. Rents declined by at least 0.3%—with Seattle down by 0.8%—on a trailing three-month (T-3) basis in each metro.

Rent deceleration at the time was not necessarily unusual. The winter months are seasonally slow and the nation as a whole fell 0.1% on a T-3 basis as of December 2017. Individually, each of those metros was coming off a period of above-trend rent growth, so a flattening or decline in recent growth was understandable. The only noticeable element was that the metros seemed to act so much in concert.

Flash forward six months, and the story has reversed. The trendy tech metros that were struggling at the end of 2017 have changed course and have led the surging rent growth in the first half of 2018. Some examples (all on a T-3 basis):

- San Jose, at -0.5% in December 2017, was up 1.5% in June 2018, a difference of 200 basis points.
- Seattle went from -0.8% to 1.2%, also a change of 200 basis points.
- Boston went from -0.3% to 1.2%, a change of 150 basis points.
- A 140-basis-point swing was seen in Portland (from -0.5% to 0.9%) and Denver (-0.4% to 1.0%).
- A 130-basis-point swing occurred in San Francisco (-0.3% to 1.0%).

To reiterate, it's not unusual to see short-term volatility in rent growth on a metro level. That's why our Matrix Monthly reports balance short-term and longer-term numbers. However, the similarity in performance is striking. The reason the metros are acting so much in concert is not entirely clear. These metros do have similar economic profiles and growth paths over time. The lesson could be that demand has remained robust, and until that changes, weakness in rent growth will likely be temporary.

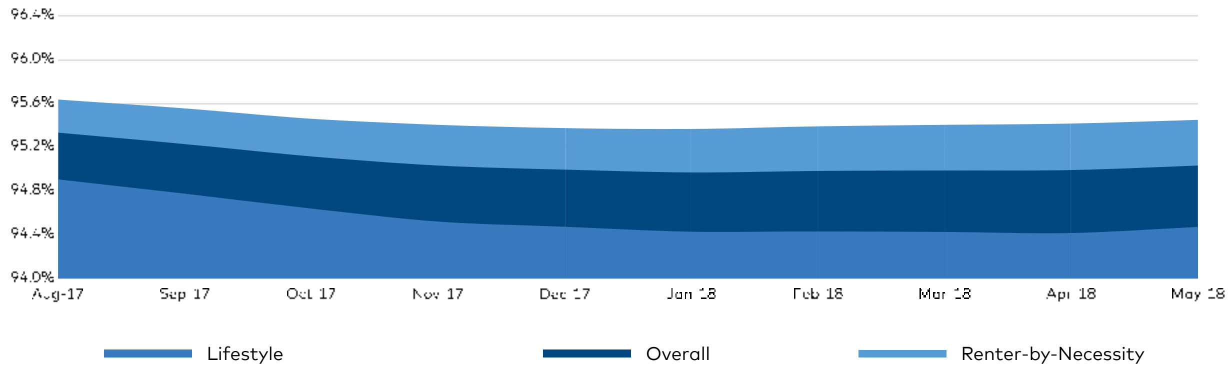
Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Jun - 18	Forecast Rent Growth (YE 2018)	YoY Job Growth (6-mo. moving avg.) as of Apr - 18	Completions as % of Total Stock as of May - 18	Occupancy Rates as of Apr - 17	Occupancy Rates as of Apr - 18
Sacramento	4.4%	6.5%	2.5%	0.4%	97.2%	96.3%
Phoenix	5.0%	5.6%	2.8%	2.5%	95.1%	95.3%
Orlando	7.4%	5.1%	2.9%	2.9%	96.4%	96.0%
Seattle	1.8%	4.7%	3.1%	5.1%	96.4%	95.3%
Inland Empire	5.6%	4.5%	3.7%	0.8%	96.4%	96.0%
Los Angeles	4.0%	4.3%	1.4%	1.5%	96.9%	96.6%
Twin Cities	3.7%	4.0%	0.9%	2.2%	98.1%	97.1%
Tampa	4.7%	3.9%	2.1%	2.7%	95.8%	95.4%
Las Vegas	6.5%	3.6%	2.5%	2.0%	95.4%	95.0%
Chicago	1.8%	3.3%	0.6%	2.6%	95.3%	94.5%
San Jose	3.7%	3.1%	3.1%	1.9%	96.4%	96.3%
Dallas	2.0%	3.1%	2.9%	2.6%	95.7%	94.4%
San Francisco	2.7%	3.0%	1.9%	1.7%	96.5%	95.9%
Miami Metro	2.8%	3.0%	1.0%	4.0%	95.6%	95.2%
Denver	2.4%	3.0%	2.6%	4.2%	95.7%	94.8%
Boston	3.1%	2.8%	1.0%	3.4%	97.0%	96.3%
Atlanta	4.1%	2.8%	1.8%	2.1%	94.6%	94.0%
Charlotte	2.4%	2.7%	2.9%	2.9%	95.8%	94.9%
Indianapolis	3.0%	2.7%	1.3%	1.4%	94.6%	94.2%
Philadelphia	1.8%	2.4%	1.1%	2.0%	96.1%	95.2%
Raleigh	2.1%	2.3%	2.2%	3.1%	95.6%	94.2%
Kansas City	2.7%	2.2%	1.4%	2.2%	95.6%	95.1%
Houston	3.9%	1.8%	2.3%	2.4%	93.2%	93.8%
San Antonio	1.4%	1.8%	2.1%	2.1%	93.7%	92.6%
Nashville	0.8%	1.8%	2.4%	5.8%	95.7%	94.8%
Orange County	1.7%	1.7%	1.8%	3.1%	96.6%	95.8%
Baltimore	0.7%	1.7%	1.0%	2.0%	94.9%	94.5%
Washington DC	1.2%	1.4%	1.2%	1.9%	95.8%	95.1%
Portland	1.5%	1.4%	2.1%	2.6%	96.1%	95.2%
Austin	1.3%	1.0%	3.5%	4.5%	94.7%	93.7%

Source: Yardi Matrix

Occupancy & Asset Classes

Occupancy—All Asset Classes by Month



Source: Yardi Matrix

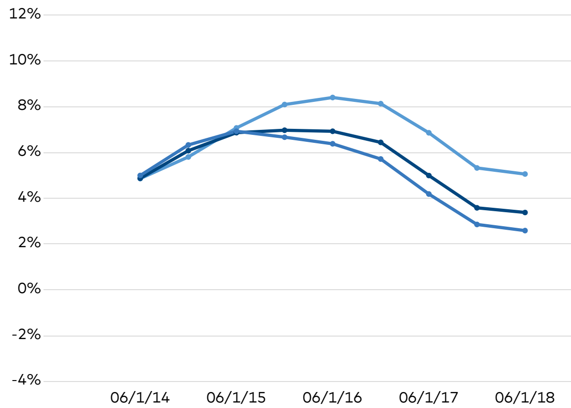
Year-Over-Year Rent Growth, Other Markets

Market	June 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	7.9%	4.8%	10.2%
Tacoma	5.7%	5.6%	5.6%
Central Valley	5.2%	3.9%	5.5%
Tucson	4.3%	3.3%	4.5%
San Fernando Valley	4.1%	3.0%	4.7%
Salt Lake City	4.0%	3.3%	4.4%
SW Florida Coast	3.3%	2.6%	4.2%
Indianapolis	3.0%	2.0%	3.5%
Colorado Springs	2.8%	1.2%	4.2%
NC Triad	2.7%	1.5%	4.3%
Long Island	2.7%	2.6%	2.7%
El Paso	2.5%	1.8%	2.6%
Louisville	2.3%	1.7%	2.7%
Northern New Jersey	2.2%	1.7%	2.6%
Albuquerque	1.9%	1.3%	2.1%
Bridgeport–New Haven	1.9%	0.9%	2.6%
St. Louis	1.1%	-0.7%	2.0%
Central East Texas	-2.2%	-4.8%	-1.1%

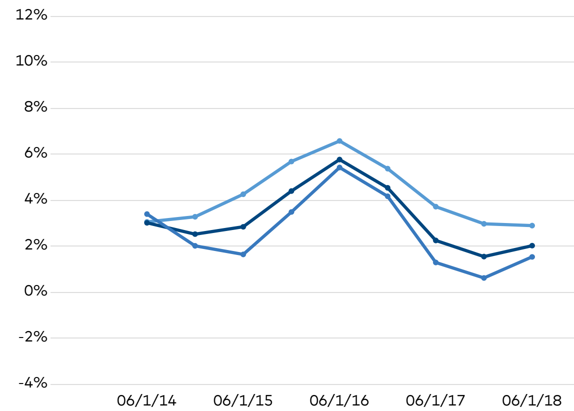
Source: Yardi Matrix

Market Rent Growth by Asset Class

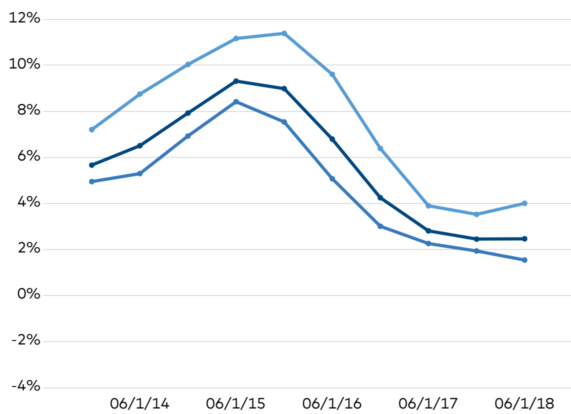
Atlanta



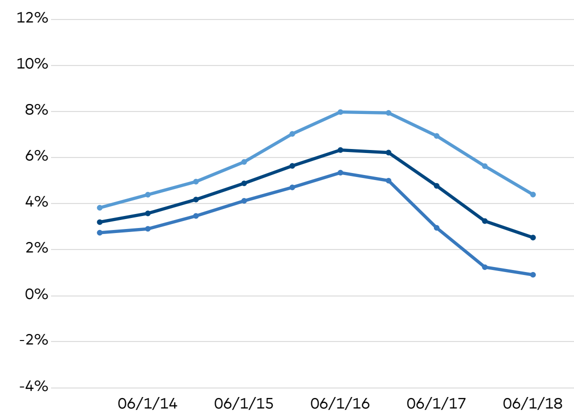
Boston



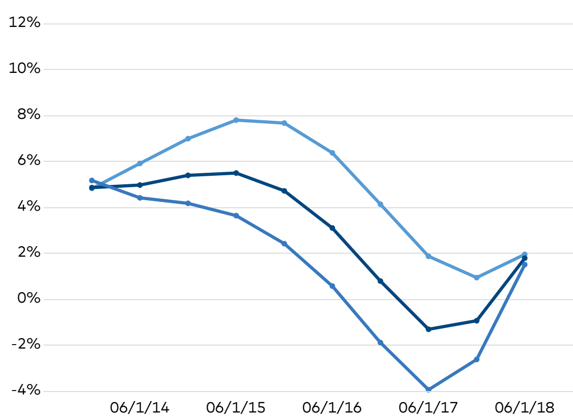
Denver



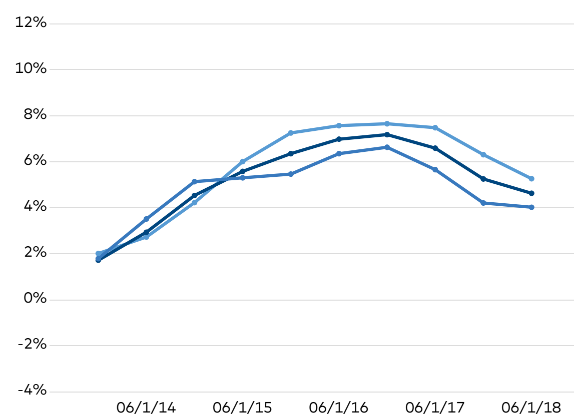
Dallas



Houston



Inland Empire

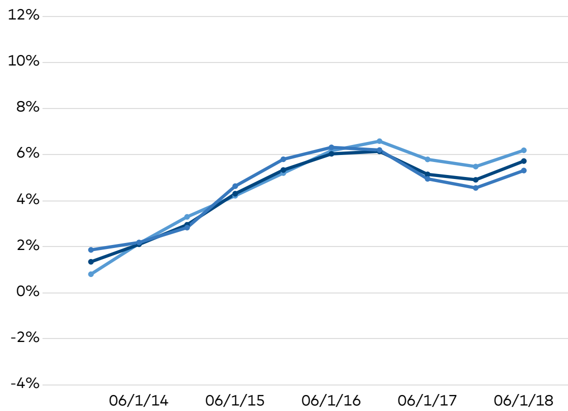


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

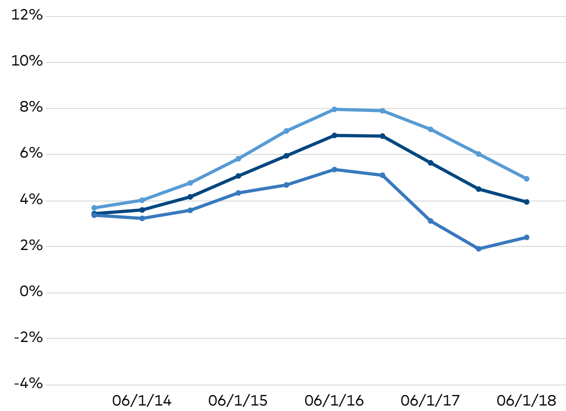
Source: Yardi Matrix

Market Rent Growth by Asset Class

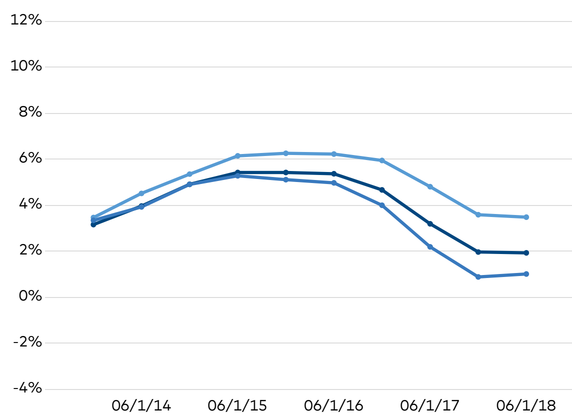
Las Vegas



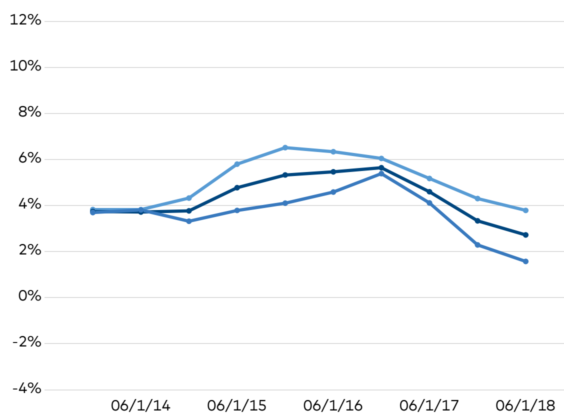
Los Angeles



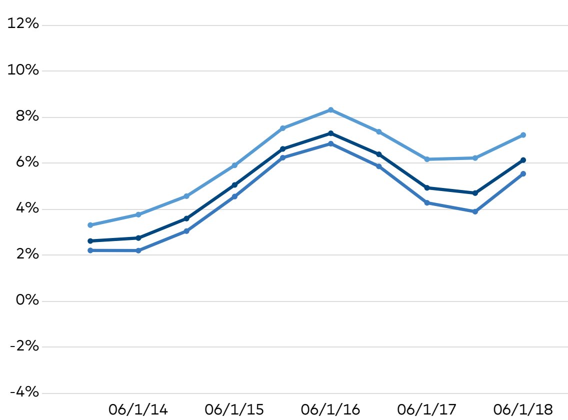
Miami



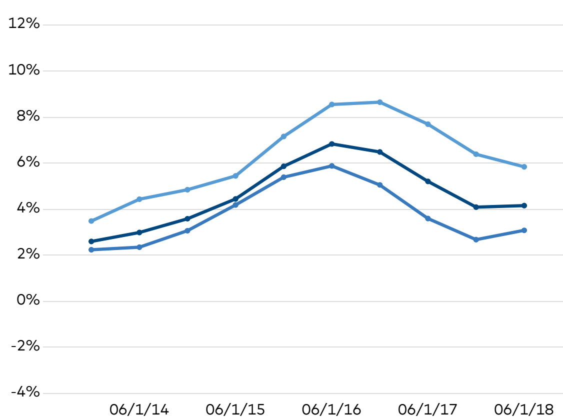
Orange County



Orlando



Phoenix

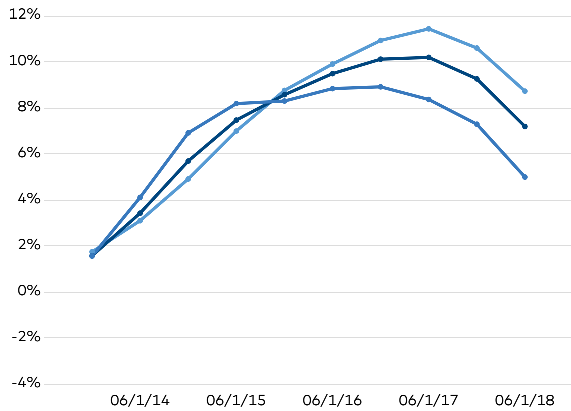


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

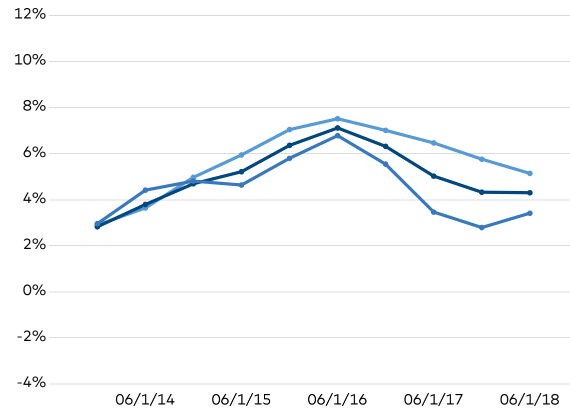
Source: Yardi Matrix

Market Rent Growth by Asset Class

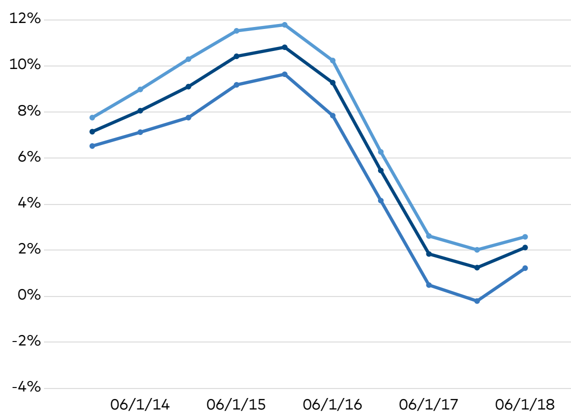
Sacramento



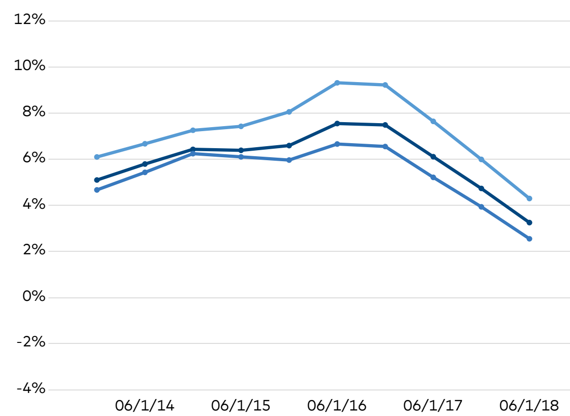
San Diego



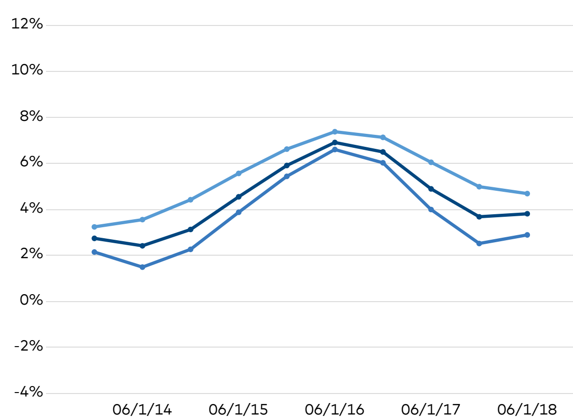
San Francisco



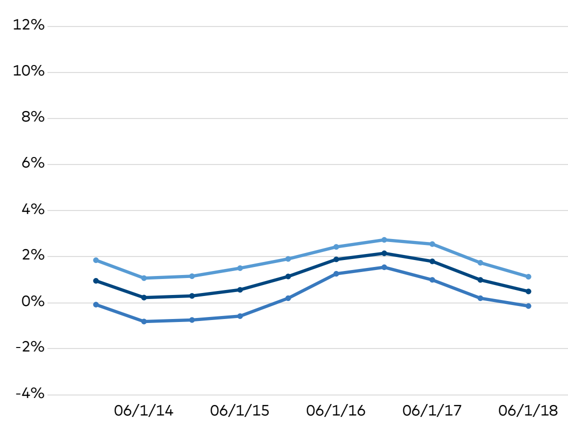
Seattle



Tampa



Washington, D.C.



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

Source: Yardi Matrix

Definitions

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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