Yardi® Matrix

Multifamily National Report

July 2018

Healthy Demand Lifts Multifamily Rents Amidst Supply Growth

- The multifamily market continues to demonstrate steadiness, as average U.S. rents rose $3 in July to an all-time high of $1,409. Year-over-year, rents are up 2.8%, down 10 basis points from June.
- Rents are up $41, or 3.0% year-to-date, which is in line with growth figures during the same period in recent years. That's encouraging because it once again shows that the expansion has not run out of steam despite headwinds of increased supply and affordability issues.
- Growth continues to be led by secondary markets in the throes of strong late-cycle economic performance.

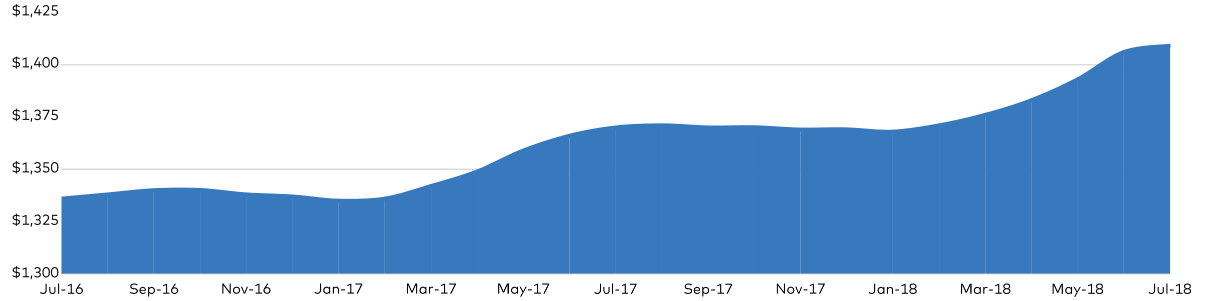
Buoyed by strong second-quarter economic growth and healthy demand, multifamily rents advanced again in July. One could say the market is experiencing typical summer growth, a good sign considering the length of the cycle, which has some worried that the party might be nearing its end.

Recent numbers may show otherwise, however. Rent increases are healthy almost across the board, led by growing secondary markets that include Orlando (6.9%), Las Vegas (5.8%), the Inland Empire (5.5%) and Phoenix (4.9%). The strength is extended to technology centers such as San Jose, Seattle, San Francisco, Boston and Portland, which have been among the leaders in rent gains over the past three months.

Highlighting the market's performance is the 20-basis-point increase in the occupancy rate (to 95.3%) among stabilized properties year-to-date. Metros such as Dallas, Charlotte, Nashville and Denver have improved their occupancy rates despite copious amounts of new supply. With deliveries in their third year of cycle peaks, the increase in occupancy rates demonstrates the resilience of apartment demand.

Economic conditions remain favorable for the multifamily industry, especially in secondary markets that are leading the nation in employment growth. Domestic migratory patterns are also driving demand in key markets in Florida and the Desert Southwest. Households received an income boost via the 2017 tax reform package, which has allowed many to afford higher rents. However, economic headwinds are mounting in the form of tariffs and a lower bound to the unemployment rate. We anticipate continued steady growth for the apartment sector, but supply and macroeconomic challenges will likely limit outsize growth.

National Average Rents

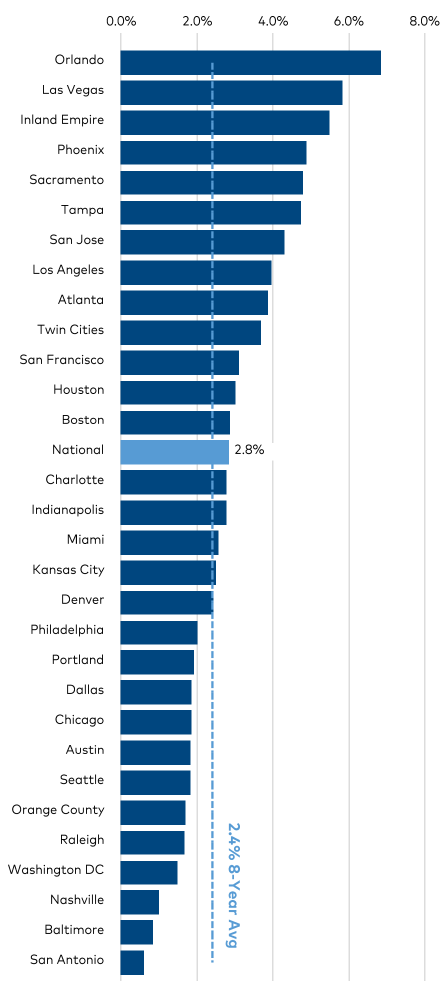


National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

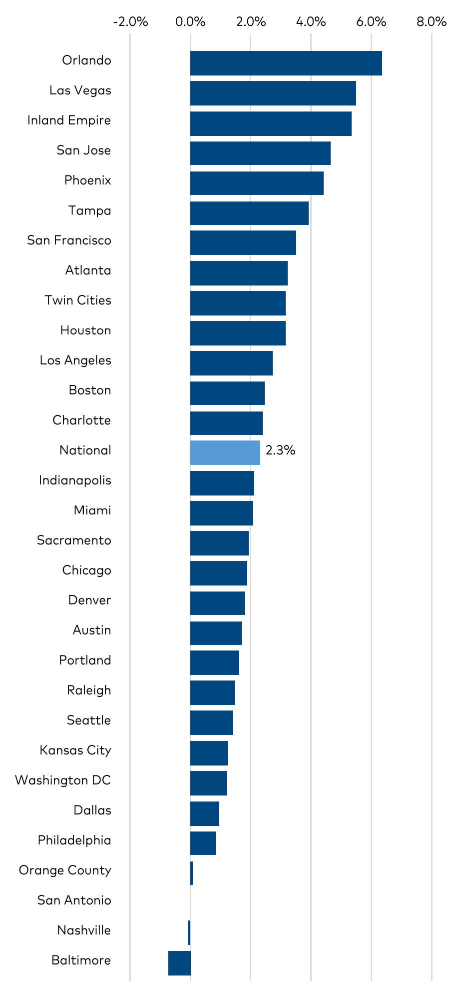
Year-Over-Year Rent Growth: Top 30 Metros Rise; Secondary Sunbelt Markets Lead

- Rents increased 2.8% year-over-year nationwide, marking a 10-basis-point decline from June. Growth maintained overall strength despite the rapid increase in new supply.
- Rents grew year-over-year in each of the top 30 metros, led by Orlando (6.9%), Las Vegas (5.8%), the Inland Empire (5.5%) and Phoenix (4.9%). Strong demand fundamentals led by growing employment and relative affordability have propelled these markets to lead the nation. Slower-growing markets such as San Antonio (0.6%), Baltimore (0.8%) and Washington, D.C. (1.5%) are dealing with a mixture of heavy new supply and weaker demand.
- RBN (3.3%) units are outperforming Lifestyle (2.3%), although the spread declined in recent months.

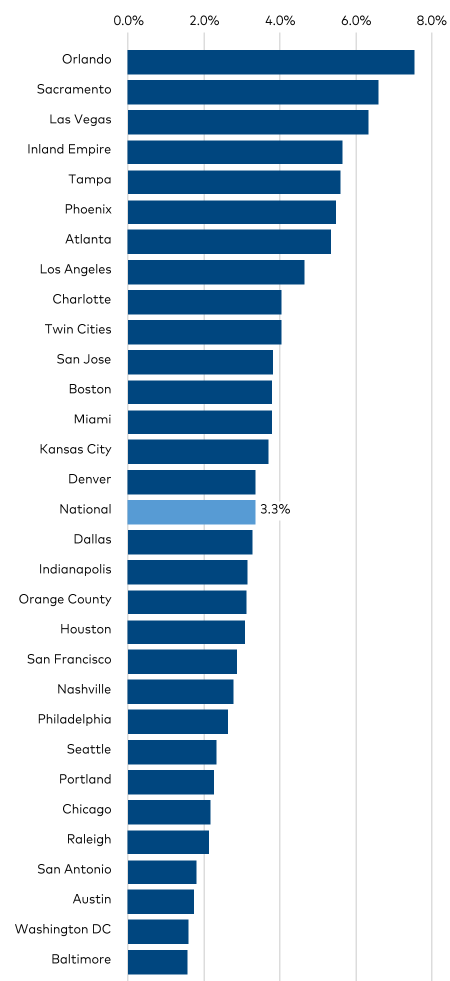
Year-Over-Year Rent Growth—All Asset Classes



Year-Over-Year Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months: Tech Markets Bounce Back in Spring and Summer

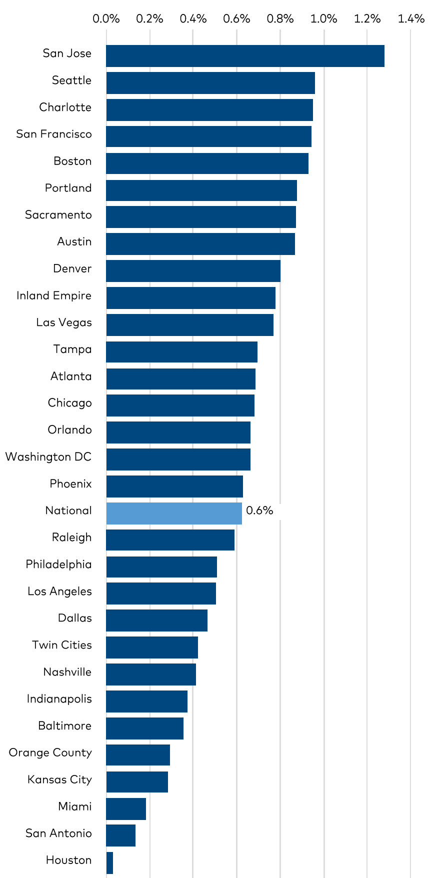
- Six key technology markets were in the top 10 for T-3 rent growth.
- Lifestyle and RBN rent growth were very similar on a T-3 basis.

Rents increased 0.6% 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.

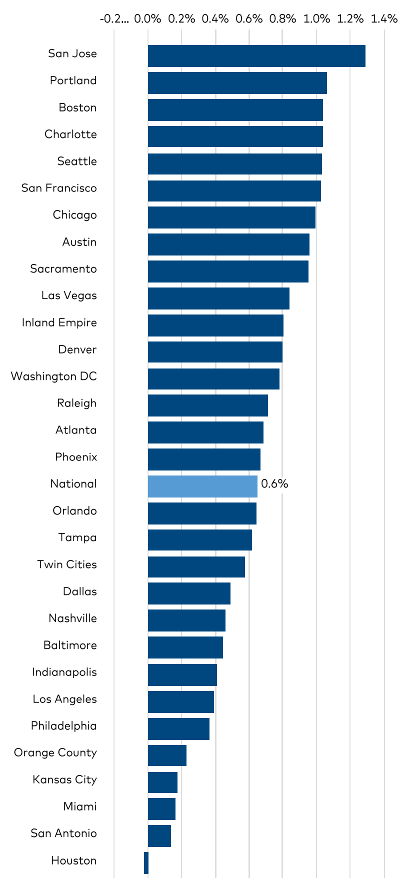
The strong spring rental season extended into July, especially in key tech markets such as San Jose (1.3%), Seattle (1.0%), San Francisco, Boston, Austin (all 0.9%) and Denver (0.8%). Affordability has become a serious concern for these markets in recent years, but increasing rents, albeit short term, are a welcome sign for owners and operators.

After months of significant spreads between Lifestyle and RBN rent growth, the gap has disappeared, and in fact Lifestyle rent growth outpaced RBN rent growth by 10 basis points, nationally. While new supply continues to flood the market at the high-end level, this trend indicates that renters were willing and able to upgrade into higher-quality product through the spring and early summer.

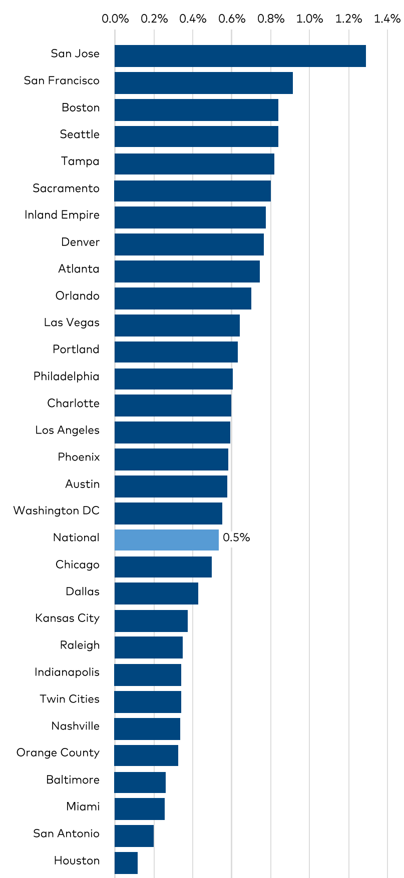
Trailing 3 Months Sequential—All Asset Classes



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

- Nationwide occupancy has rebounded after reaching a resistance level at 95%. RBN maintains a 60-basis-point spread to Lifestyle occupancy; however, both rates have increased from lows at the beginning of 2018.
- Low unemployment, a strengthening economy and benefits of tax reform appear to be underpinning absorption and rent growth.
- Occupancy changes remain negative in most top 30 metros, but the rate of decline is slowing, while overall occupancy levels remain well within the normal range.

Despite heavy new supply over the past three years, the multifamily industry continues its forward trajectory. Although rent growth has decelerated since the beginning of 2017, rents continue to increase steadily. The moderation in rents was caused in part by the decline in occupancy rates to 95.0% at the end of last year, but they increased to 95.2% during the first half of 2018.

The vast majority of new supply in recent years has been delivered in the top 30 metros. As a result, the average occupancy rate in those metros fell roughly 100 basis points in 2016 and 2017. Some metros with the biggest supply growth—Nashville, Portland, Raleigh and Seattle, for example—also saw the most deceleration in rent growth.

However, some of these markets seem to have turned the corner. Nashville, for example, saw a 150-basis-point decline in its occupancy rate during calendar year 2017 due to elevated deliveries. The rate recovered by 60 basis points to 95.1% during the first half of 2018. During that time, rent growth increased by 70 basis points to 1.0%. The occupancy rate has also increased this year in Phoenix, Denver, Dallas and Charlotte.

That occupancies are healthy despite the abundant delivery schedule in those markets speaks to the healthy demand for apartments stemming from the growth in renter-age households and the strong economy. It also demonstrates the significant long-term growth potential in those metros.

Nearly 10 years into the current economic expansion, fundamentals are surprising economists and driving growth across sectors. The unemployment rates remain historically low, and workers continue to come off the sidelines, as the underemployment rate and participation rate have both improved in recent months.

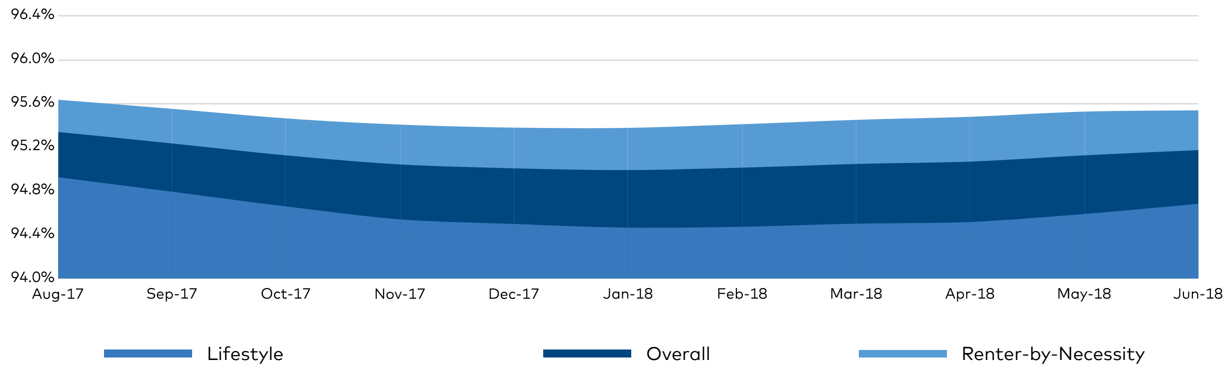
Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Jul - 18	Forecast Rent Growth (YE 2018)	YoY Job Growth (6-mo. moving avg.) as of May - 18	Completions as % of Total Stock as of Jun - 18	Occupancy Rates as of Jun - 17	Occupancy Rates as of Jun - 18
Sacramento	4.8%	6.5%	2.4%	0.5%	97.1%	96.3%
Phoenix	4.9%	5.6%	2.9%	2.5%	95.0%	95.3%
Orlando	6.9%	5.1%	3.0%	2.8%	96.3%	95.8%
Seattle	1.8%	4.7%	3.2%	5.3%	96.2%	95.7%
Inland Empire	5.5%	4.5%	3.6%	0.9%	96.3%	96.1%
Los Angeles	4.0%	4.3%	1.4%	1.3%	96.9%	96.6%
Twin Cities	3.7%	4.0%	0.9%	2.3%	98.1%	97.2%
Tampa	4.7%	3.9%	2.2%	1.8%	95.8%	95.6%
Las Vegas	5.8%	3.6%	2.6%	1.8%	95.3%	95.2%
Chicago	1.8%	3.3%	0.6%	2.6%	95.3%	94.9%
San Jose	4.3%	3.1%	3.1%	2.3%	96.3%	96.3%
Dallas	1.9%	3.1%	3.0%	2.9%	95.6%	94.5%
San Francisco	3.1%	3.0%	1.9%	1.6%	96.4%	95.9%
Miami Metro	2.6%	3.0%	1.0%	4.0%	95.5%	95.2%
Denver	2.4%	3.0%	2.7%	4.7%	95.7%	95.2%
Boston	2.9%	2.8%	1.1%	3.1%	96.8%	96.3%
Atlanta	3.9%	2.8%	1.8%	2.4%	94.6%	94.1%
Charlotte	2.8%	2.7%	2.9%	3.3%	95.9%	95.1%
Indianapolis	2.8%	2.7%	1.4%	1.1%	94.6%	94.5%
Philadelphia	2.0%	2.4%	1.1%	1.9%	96.0%	95.4%
Raleigh	1.7%	2.3%	2.2%	3.3%	95.6%	94.4%
Kansas City	2.5%	2.2%	1.5%	2.0%	95.6%	95.3%
Houston	3.0%	1.8%	2.4%	2.2%	93.2%	93.9%
San Antonio	0.6%	1.8%	2.2%	2.0%	93.5%	92.8%
Nashville	1.0%	1.8%	2.4%	5.3%	95.7%	95.1%
Orange County	1.7%	1.7%	1.7%	2.8%	96.6%	95.7%
Baltimore	0.8%	1.7%	1.1%	2.0%	94.9%	94.5%
Washington DC	1.5%	1.4%	1.2%	1.9%	95.7%	95.3%
Portland	1.9%	1.4%	2.2%	2.7%	96.0%	95.6%
Austin	1.8%	1.0%	3.5%	5.0%	94.7%	94.0%

Source: Yardi Matrix

Occupancy & Asset Classes

Occupancy—All Asset Classes by Month



Source: Yardi Matrix

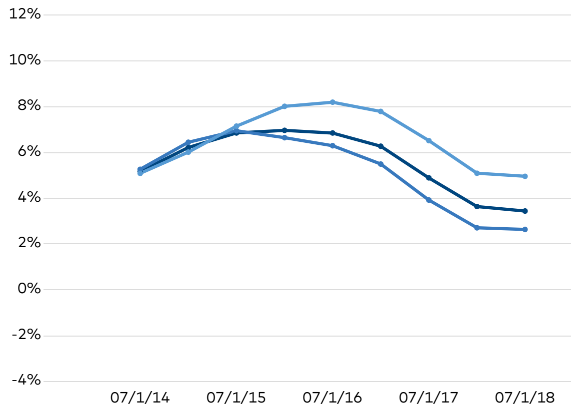
Year-Over-Year Rent Growth, Other Markets

Market	July 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	8.3%	3.7%	11.5%
Tacoma	5.3%	5.2%	5.2%
Central Valley	5.3%	4.6%	5.3%
Tucson	4.1%	3.1%	4.7%
San Fernando Valley	3.8%	2.8%	4.3%
Long Island	3.6%	3.0%	3.8%
Salt Lake City	3.4%	2.7%	4.1%
SW Florida Coast	3.3%	3.0%	4.3%
Colorado Springs	3.0%	2.1%	3.9%
NC Triad	2.9%	1.8%	4.0%
Indianapolis	2.8%	2.1%	3.1%
Northern New Jersey	2.6%	2.1%	3.1%
Louisville	2.5%	1.6%	2.7%
El Paso	2.4%	2.2%	2.4%
Bridgeport - New Haven	2.1%	1.4%	2.8%
Albuquerque	1.8%	1.2%	2.2%
St. Louis	0.7%	-0.6%	1.4%
Central East Texas	-1.3%	-3.3%	-0.3%

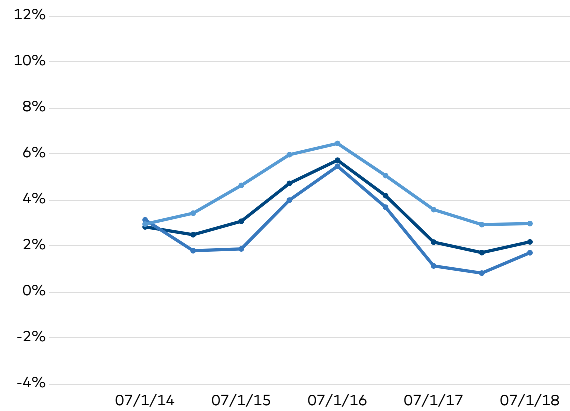
Source: Yardi Matrix

Market Rent Growth by Asset Class

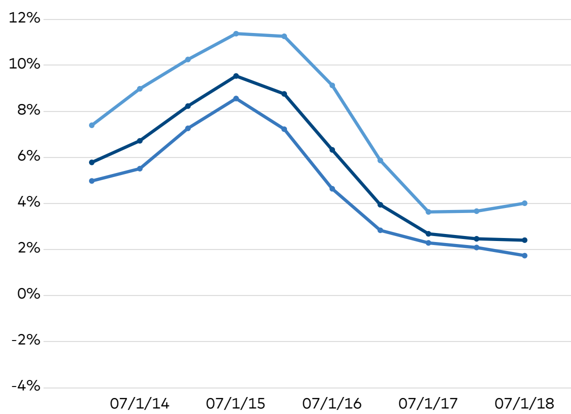
Atlanta



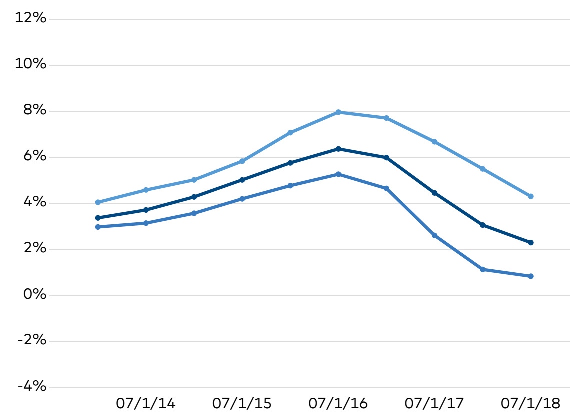
Boston



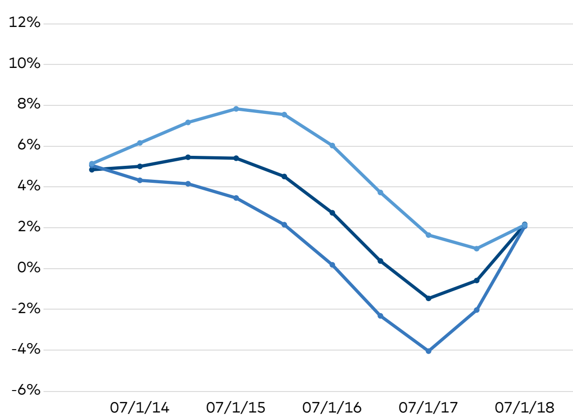
Denver



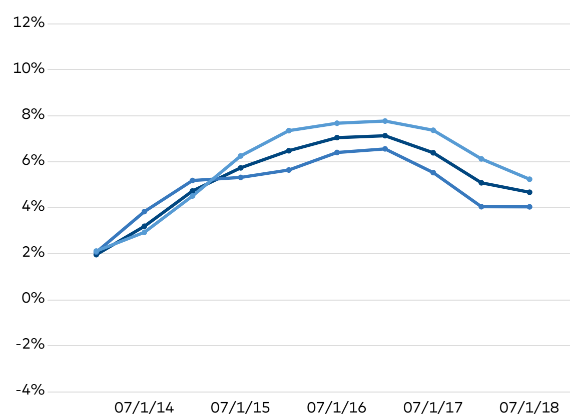
Dallas



Houston



Inland Empire

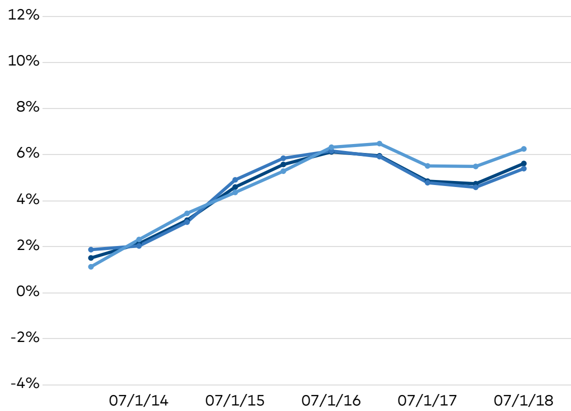


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

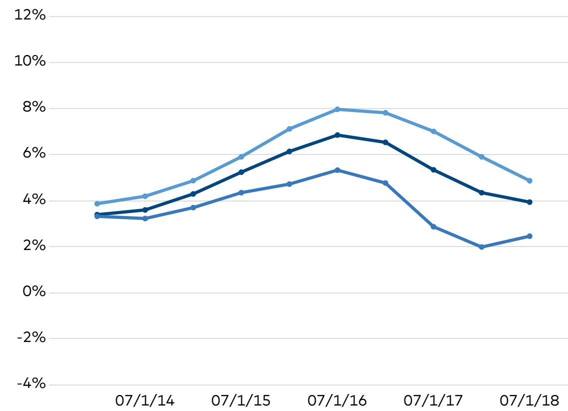
Source: Yardi Matrix

Market Rent Growth by Asset Class

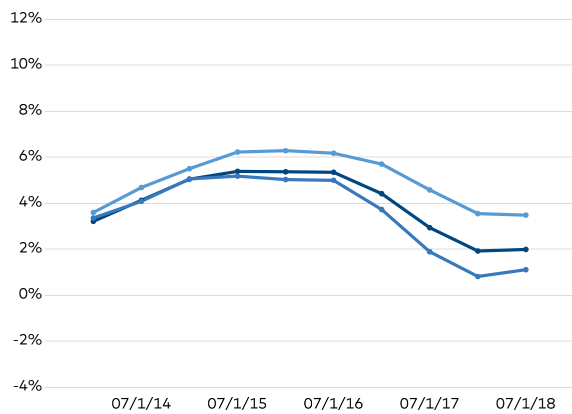
Las Vegas



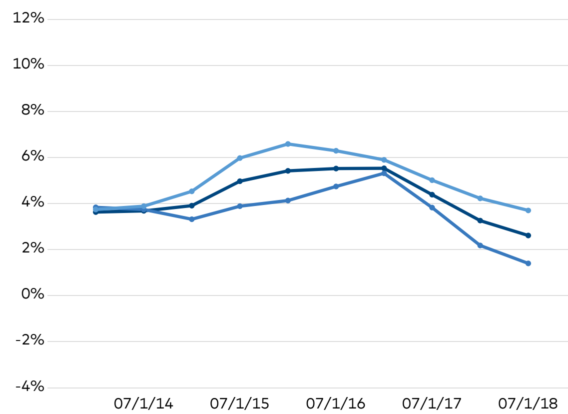
Los Angeles



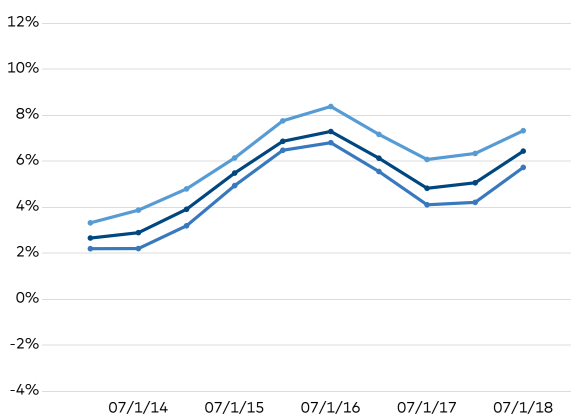
Miami



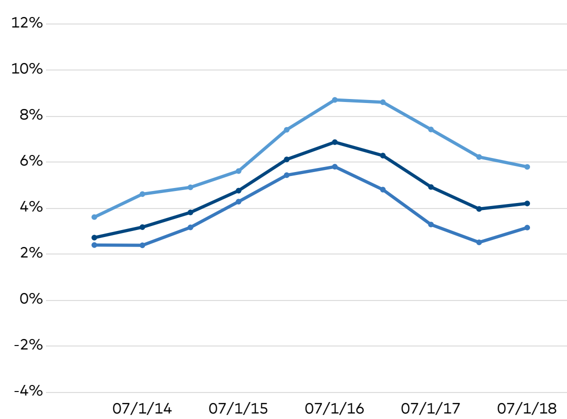
Orange County



Orlando



Phoenix

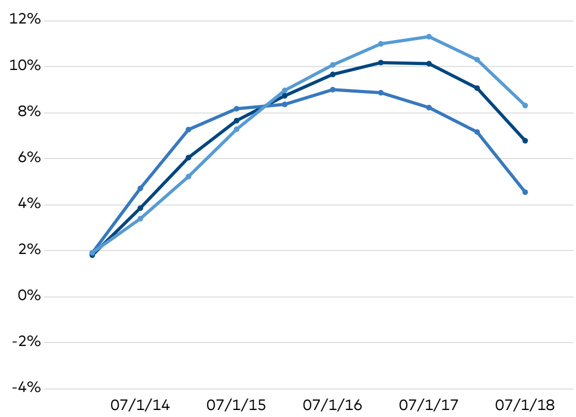


Trailing 12 Months Overall | Trailing 12 Months Lifestyle | Trailing 12 Months Renter-by-Necessity

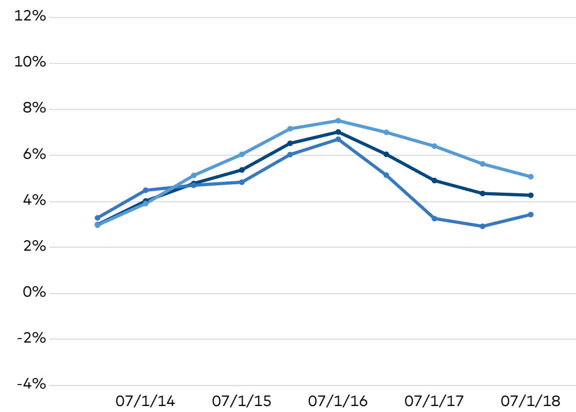
Source: Yardi Matrix

Market Rent Growth by Asset Class

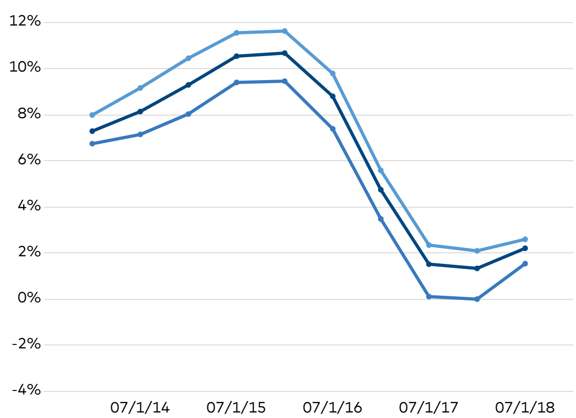
Sacramento



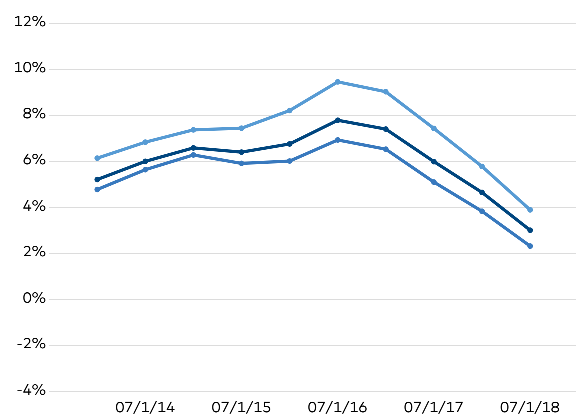
San Diego



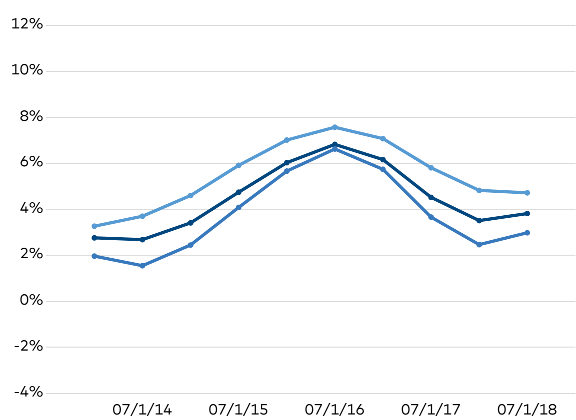
San Francisco



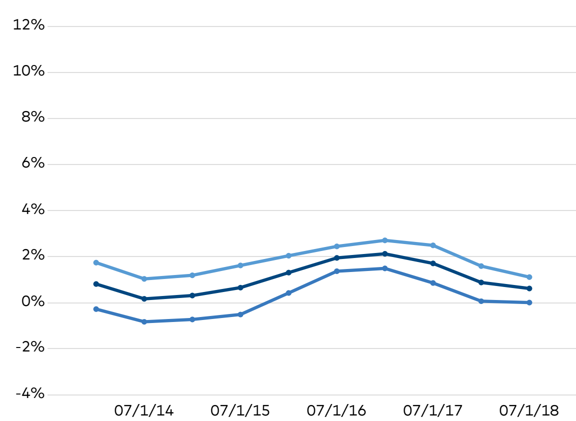
Seattle



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.

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern
Director of Research & Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Chris Nebenzahl
Institutional Research Manager
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200