Yardi® Matrix

Multifamily National Report

December 2018

Multifamily: Calm Amid the Storm

- U.S. multifamily rents remained at $1,419 in December, and year-over-year growth was 3.2%, also unchanged from November. Rent growth has been flat since the summer.
- 2018 proved to be a solid year for the multifamily sector, and 3.2% rent growth slightly exceeded going-in expectations. Despite the recent volatility in the financial markets, we foresee more of the same in 2019, with strong demand producing rent growth just shy of 3% nationally.
- Las Vegas (7.3%), Phoenix (6.5%) and the Inland Empire (5.5%) are the Top 3 metros, highlighting a trend of outperformance among secondary markets. Rent growth in 2019 will again be led by metros in the Southwest, West and South regions.

The multifamily sector just wrapped up its eighth straight year of robust performance. Since January 2011, rents nationally have increased by 31%, while annual rent growth has been at least 2.9% in every year save 2017. Rent growth has topped 3% in six of the last eight years.

That's impressive performance, but it also breeds worry that the cycle has extended almost as far as it can. Real estate rarely has performed so well for so long. That said, there are reasons to believe multifamily fundamentals will remain vigorous in 2019 and beyond.

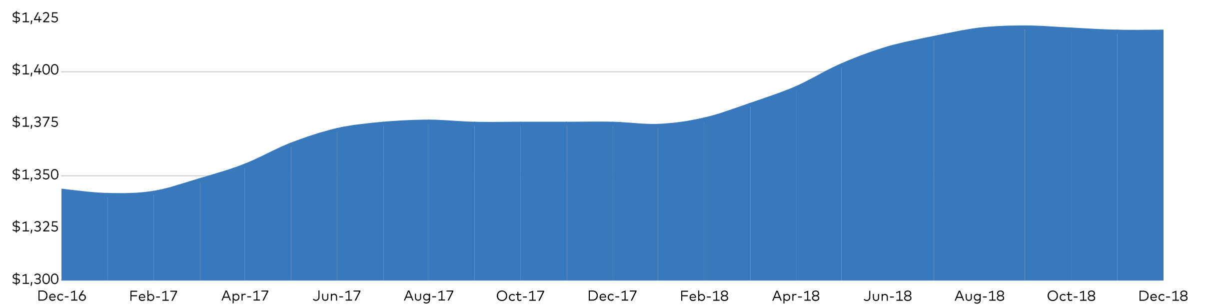
The chief reason is that the strong demand underpinning the sector's success shows no signs of letting up. Since the beginning of the run in 2011, some 8.9 million households have formed in the U.S., an annual average of 1.1 million. And the number of prime renter-age individuals is expected to grow for another few years.

Meanwhile, job growth remains robust, and social factors—such as student loan debt that limits first-time homebuyers, families remaining renters longer, and retirees downsizing and moving into rentals—are also likely to maintain demand for multifamily.

Multifamily could be taking a trajectory much like hotels, which have had nine consecutive years of above-trend revenue growth. Hotels benefit from business profitability and travel, but also from lifestyle changes that lead individuals to spend more on experiences.

The biggest obstacle to rent growth remains the supply pipeline, as the market approaches another year of about 300,000 deliveries. Submarkets in the urban cores of secondary markets including Dallas, Denver and Nashville, are likely to see growth stymied in the short term.

National Average Rents

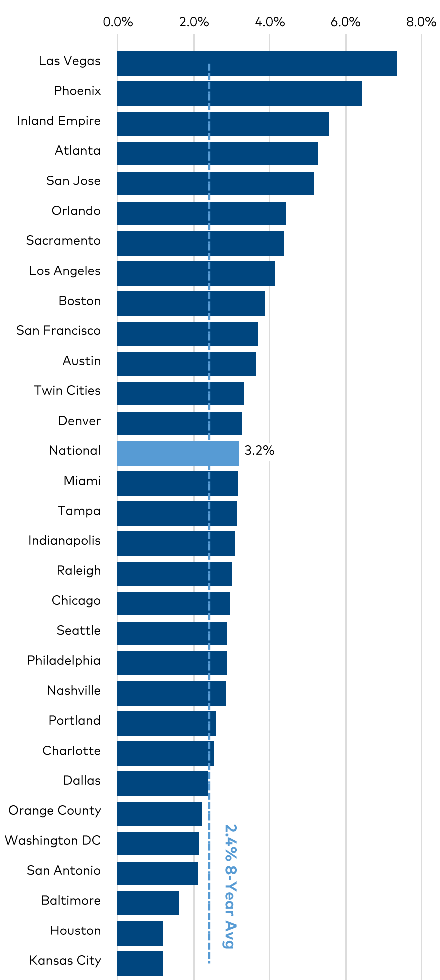


National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

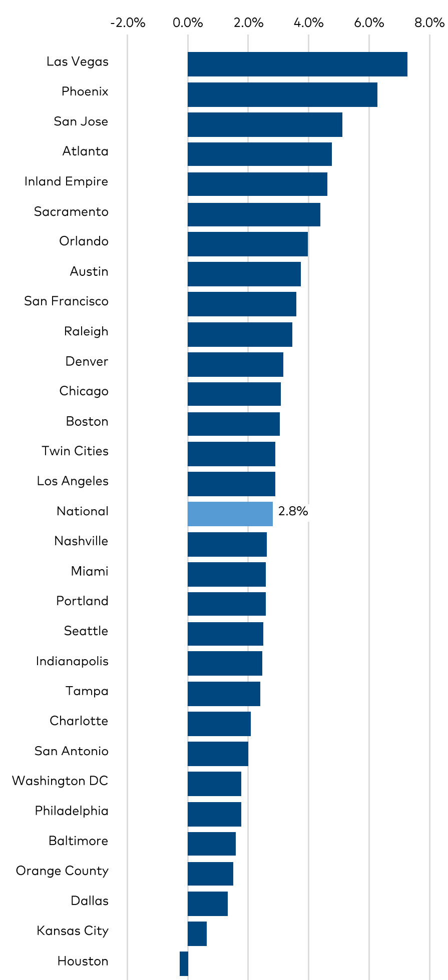
Year-Over-Year Rent Growth: December Caps Off Surprisingly Strong Year

- Rents increased 3.2% year-over-year in December, equaling the growth rate in November. Nation-wide, year-over-year rent growth has been 3% or higher for the past six months, and accelerated steadily throughout early 2018 before flattening in the last three months.
- Late-stage markets Las Vegas (7.3%) and Phoenix (6.5%) remain atop our rankings, as job and population growth drive demand in the desert. Both markets are benefiting from migration out of high-cost and tax-prohibitive areas in California and the Midwest. Job growth in tech and finance have attracted educated Millennials, and warm weather and a lower cost of living continue to bring retiring Baby Boomers.
- Considering the late stage of the current cycle and significant new supply that has been added in the past three years, multifamily rent growth performed quite well and exceeded expectations in 2018.

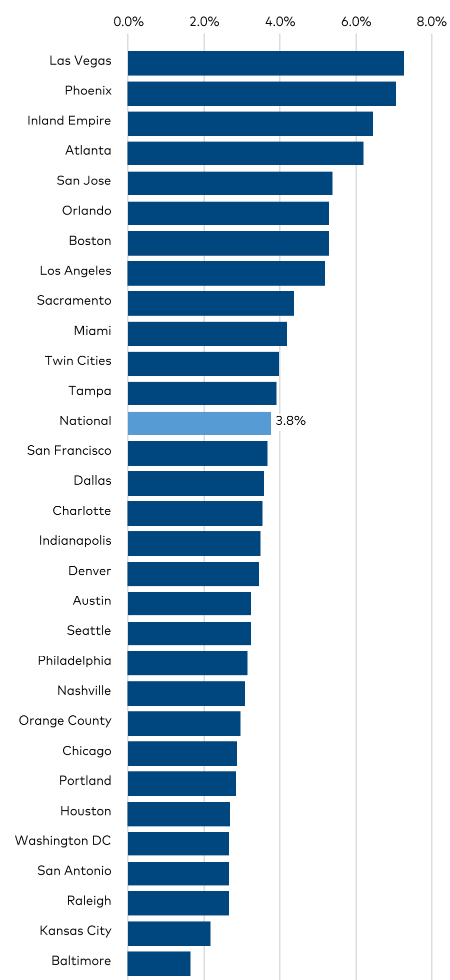
Year-Over-Year Rent Growth— All Asset Classes



Year-Over-Year Rent Growth— Lifestyle Asset Class



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



Source: Yardi Matrix

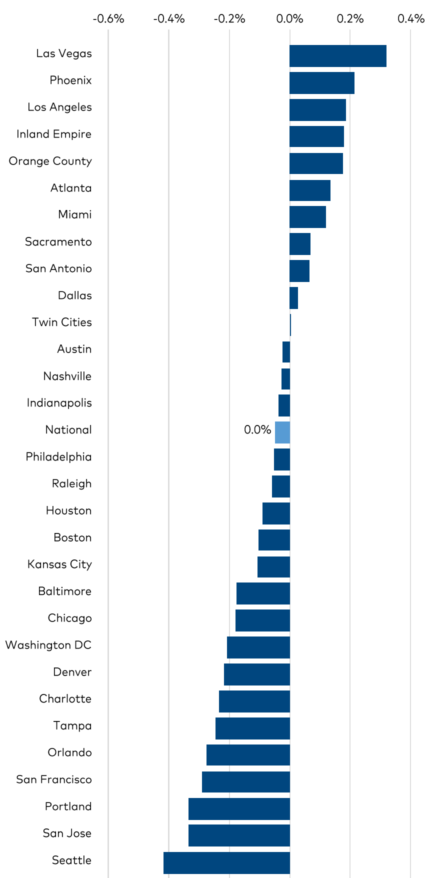
Trailing 3 Months:
Typical Renter Off-Season Returns to Most Markets

- Rents were flat nationwide on a T-3 basis in December, as seasonality continues.
- Southwest markets see the strongest rent growth, including parts of Southern California.

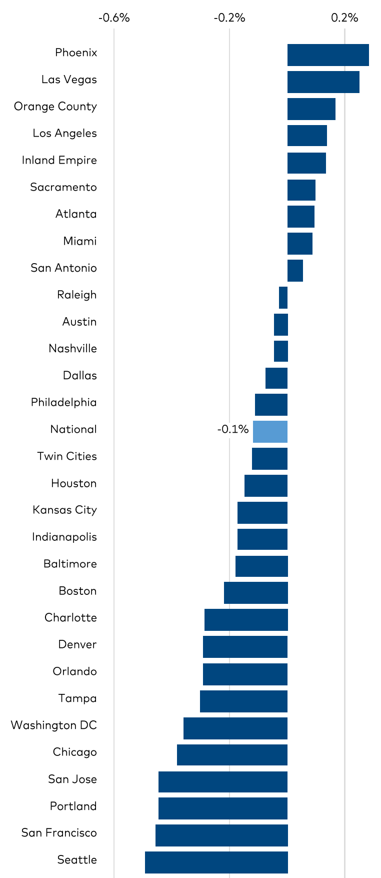
Rents were unchanged nationally on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The T-3 ranking demonstrates short-term changes and not necessarily long-term trends.

Most of the T-3 rent growth numbers can be explained by seasonality patterns, as the last three months of the calendar year are typically the slowest time for rent growth, especially in cold weather markets in the Northeast and Midwest. Las Vegas (0.3%) and Phoenix (0.2%) were the fastest-growing markets, as limited new supply and strong domestic migration continue to push rents higher. Interestingly, Los Angeles, the Inland Empire and Orange County (all 0.2%) also had strong rent growth compared to the rest of the country. Rents in November and December may have received an extra boost following the failure to repeal California's Costa-Hawkins Rental Housing Act, which would have allowed municipalities to institute rent control.

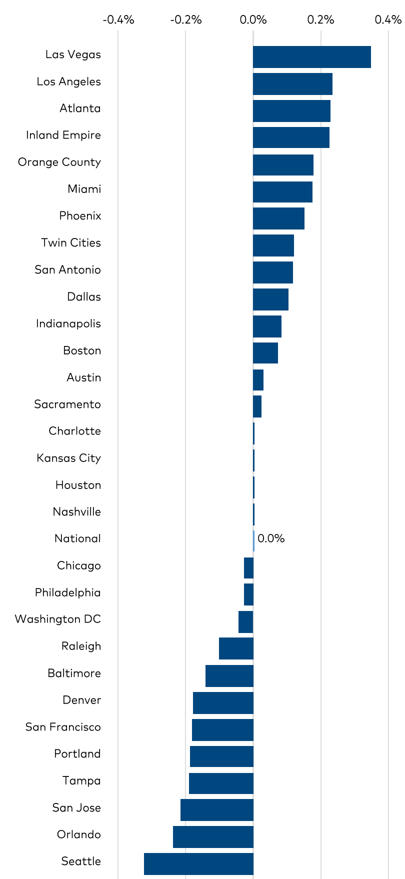
Trailing 3 Months Sequential—All Asset Classes



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

- Volatility in the financial markets over the last few months has been caused by concerns about a slowdown in global economic growth and policy uncertainty that includes the potential for increasing tariff fights.
- Despite the volatility in stocks and unexpected rally in Treasury prices, economic fundamentals such as employment and GDP remain healthy.
- Demand for real estate such as multifamily is not likely to fluctuate much in the short term, and volatility could even bring capital into the sector.

Writing about the financial markets is a sober task and usually not anything like, say, writing about sports or the weather, which change from day to day (or even faster). However, the last few months have turned that idea on its head.

Financial market volatility exploded in the fourth quarter of 2018, and has continued into 2019. Stock market indexes gyrate wildly, sometimes daily, and bond prices have rallied unexpectedly.

The whipsaw changes are disturbing markets, and clearly investors are spooked. Markets are reacting to policy uncertainty, resulting in the continued flattening of the yield curve. The Fed has been on a steady course, increasing interest rates quarterly since the end of 2016. However, the 10-year Treasury has fallen 60 basis points in the past two months, and the spread between overnight rates and the 10-year is now down to roughly 15 basis points. Fed Chair Jerome Powell recently indicated that the Fed may slow its tightening in 2019, and as a result, both equity and bond markets bounced back quickly.

Growth is slowing in countries around the world, including China, where banks are tightening credit and U.S.-based companies such as Apple have seen reduced sales. The growing threat of a trade war is also generating headlines. Meanwhile, Europe's economies are expected to slow this year, and it's hard to see a happy resolution to Brexit, although it needs to have some type of determination by the end of the first quarter. Countries in the Americas are also facing crises.

The obvious question is whether the volatility is a sign of a coming recession. Despite the economic headwinds, fundamentals of the economy have remained relatively solid. December's job growth was excellent, and unemployment is near historical lows. Wage growth, consumer spending and inflation are healthy. Business confidence being down is never a good sign for the economy. But while it is likely that GDP growth will decelerate in 2019, the economy remains far from a recession.

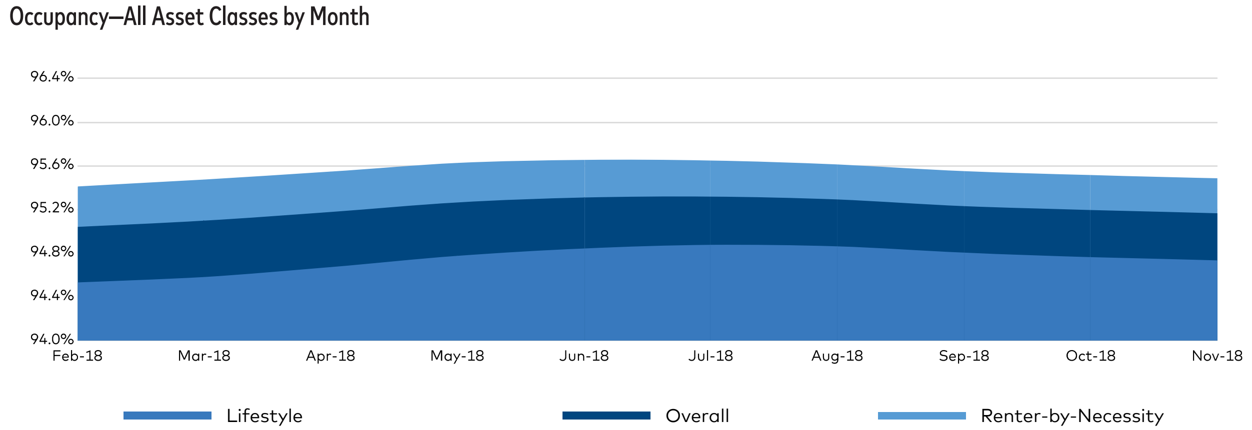
Another important question is what this means for commercial real estate. In the short term, very little. Space demand for property types such as multifamily, office and industrial is based on long-term drivers and isn't likely to change much. U.S. commercial real estate is a favored asset for global investors, and volatility in stocks and bonds might even draw more capital into the sector, especially for stable assets and primary markets. Investors should have strong operations and management in place, but fundamentals are unlikely to change soon.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Dec - 18	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of Oct - 18	Completions as % of Total Stock as of Dec - 18	Occupancy Rates as of Nov - 17	Occupancy Rates as of Nov - 18
Sacramento	4.4%	6.5%	1.5%	1.1%	96.5%	96.3%
Inland Empire	5.5%	4.5%	3.2%	0.3%	95.9%	96.3%
Dallas	2.4%	4.3%	3.2%	3.5%	94.6%	94.5%
Orlando	4.4%	4.0%	4.0%	3.1%	95.8%	95.5%
Las Vegas	7.3%	4.0%	3.4%	2.0%	94.3%	95.3%
Seattle	2.9%	4.0%	3.5%	4.2%	95.2%	95.3%
Los Angeles	4.2%	4.0%	1.3%	1.7%	96.7%	96.6%
Phoenix	6.5%	3.9%	3.4%	2.7%	94.7%	95.3%
Twin Cities	3.3%	3.6%	1.8%	2.6%	97.4%	97.1%
Orange County	2.2%	3.5%	0.8%	2.3%	96.0%	96.1%
Raleigh	3.0%	3.4%	2.9%	3.6%	94.4%	94.8%
Denver	3.3%	3.4%	2.9%	5.4%	94.9%	95.1%
Atlanta	5.3%	3.3%	2.1%	2.0%	94.2%	94.5%
Tampa	3.1%	3.3%	2.6%	2.3%	95.2%	95.4%
Indianapolis	3.1%	3.2%	1.7%	0.9%	94.2%	94.6%
Boston	3.9%	2.7%	1.8%	3.0%	96.2%	96.4%
San Francisco	3.7%	2.7%	1.7%	1.5%	95.8%	96.0%
Charlotte	2.5%	2.4%	2.7%	3.4%	95.2%	95.1%
San Jose	5.2%	2.4%	3.2%	1.2%	95.7%	95.7%
Chicago	3.0%	2.4%	0.9%	2.0%	94.7%	94.6%
Kansas City	1.2%	2.3%	1.9%	2.4%	95.0%	94.9%
Philadelphia	2.9%	2.2%	1.7%	1.4%	95.3%	95.6%
Houston	1.2%	2.2%	3.5%	1.8%	93.7%	93.2%
Miami Metro	3.2%	2.1%	2.0%	4.5%	95.3%	95.1%
Austin	3.6%	2.0%	3.5%	4.6%	94.1%	94.9%
Nashville	2.8%	2.0%	1.9%	5.8%	94.7%	94.9%
Portland	2.6%	1.9%	2.4%	3.3%	95.2%	95.6%
San Antonio	2.1%	1.9%	1.3%	3.1%	92.8%	93.5%
Washington DC	2.1%	1.3%	1.8%	2.1%	95.1%	95.4%
Baltimore	1.6%	1.3%	1.7%	2.0%	94.5%	94.4%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

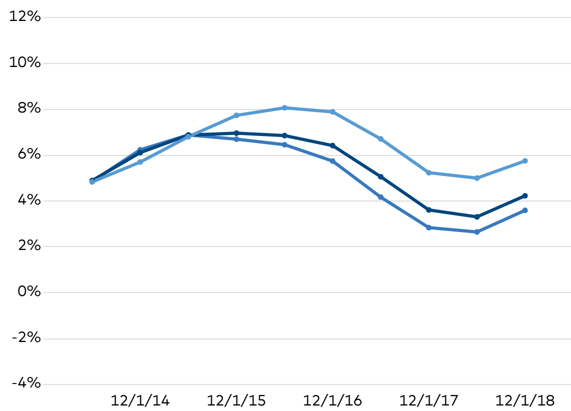
Year-Over-Year Rent Growth, Other Markets

Market	December 2018		
	Overall	Lifestyle	Renter-by-Necessity
Reno	8.2%	5.6%	10.3%
Central Valley	5.0%	5.6%	5.1%
San Fernando Valley	4.7%	3.4%	5.5%
Tacoma	4.6%	4.5%	4.7%
Salt Lake City	4.5%	2.9%	5.8%
Tucson	4.4%	4.3%	4.6%
NC Triad	4.4%	4.6%	4.4%
El Paso	4.0%	3.3%	4.3%
Albuquerque	3.2%	4.5%	2.4%
Indianapolis	3.1%	2.5%	3.5%
SW Florida Coast	2.9%	2.1%	4.4%
Long Island	2.6%	2.6%	2.7%
Colorado Springs	2.4%	1.4%	3.3%
Louisville	2.1%	2.2%	2.0%
Northern New Jersey	1.9%	1.7%	2.2%
Bridgeport–New Haven	1.5%	0.5%	2.2%
St. Louis	1.4%	1.4%	1.4%
Central East Texas	-0.7%	-1.7%	-0.3%

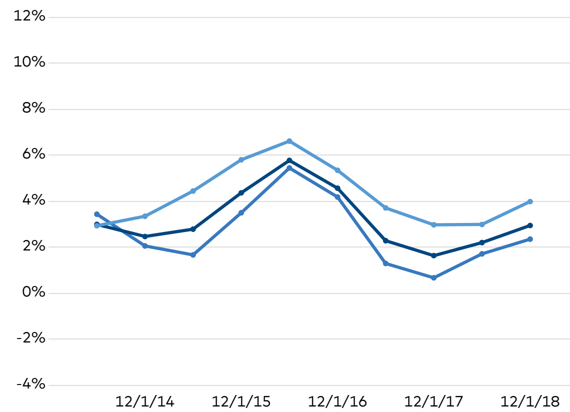
Source: Yardi Matrix

Market Rent Growth by Asset Class

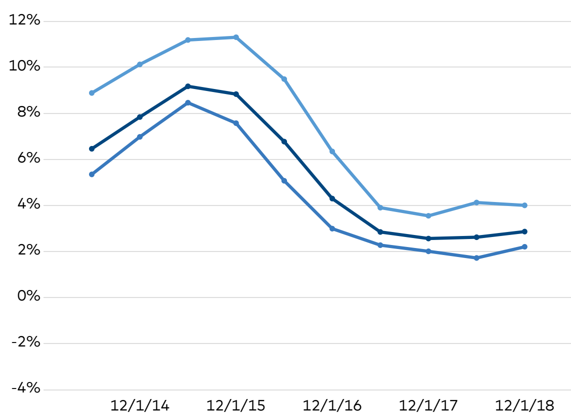
Atlanta



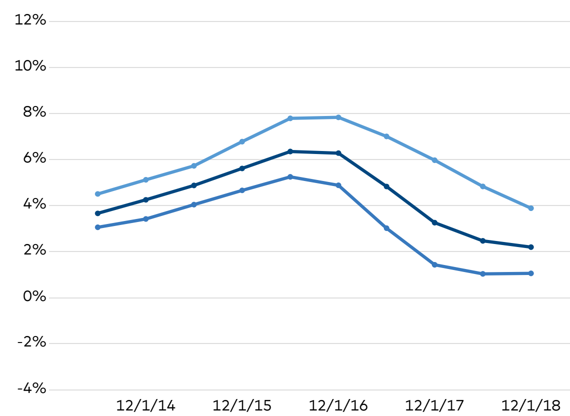
Boston



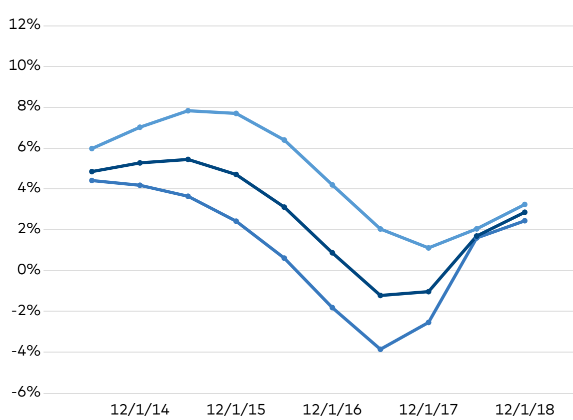
Denver



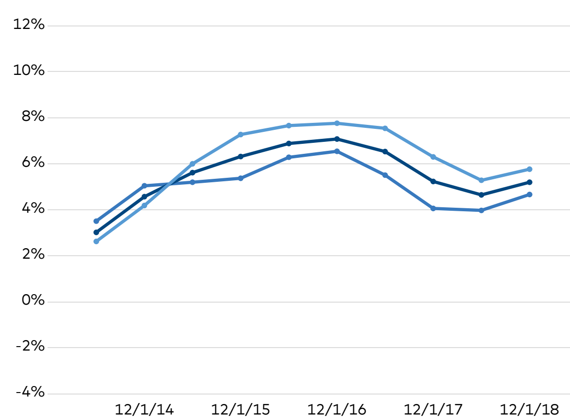
Dallas



Houston



Inland Empire

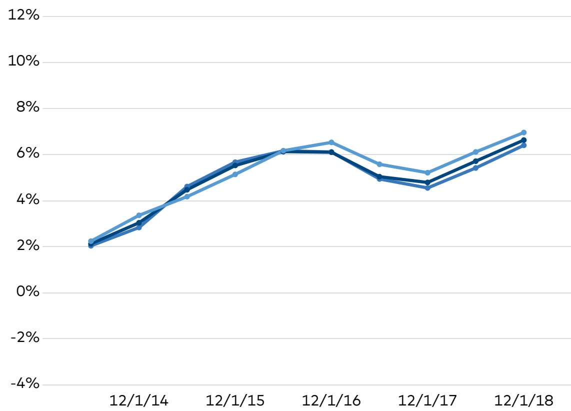


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

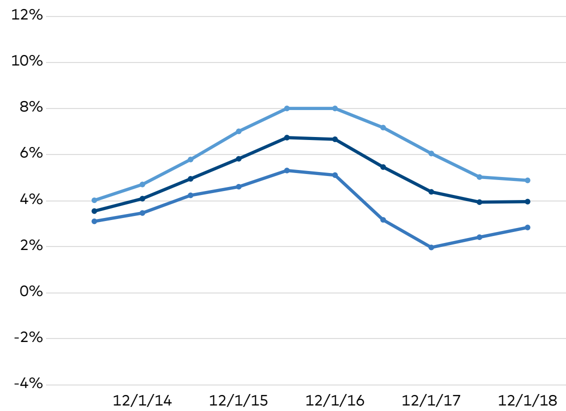
Source: Yardi Matrix

Market Rent Growth by Asset Class

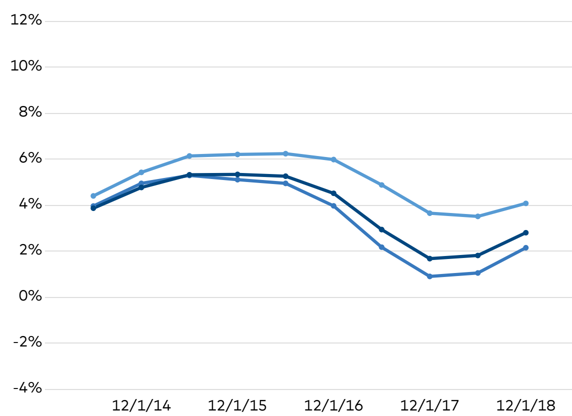
Las Vegas



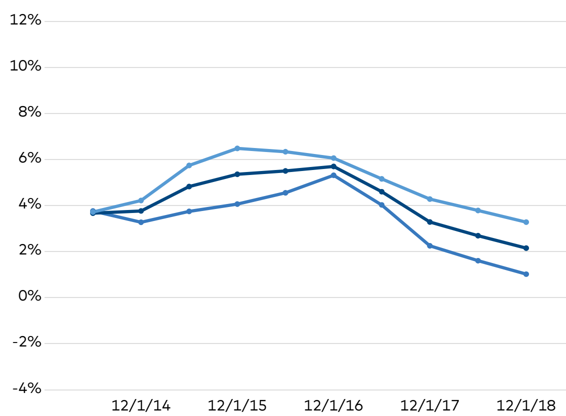
Los Angeles



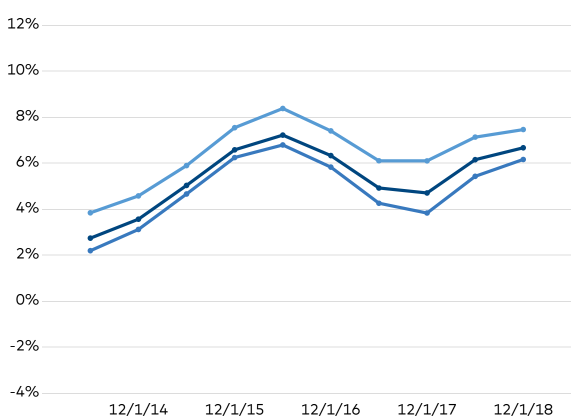
Miami



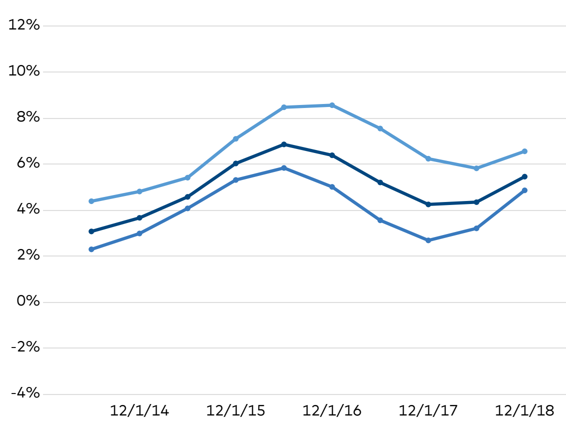
Orange County



Orlando



Phoenix

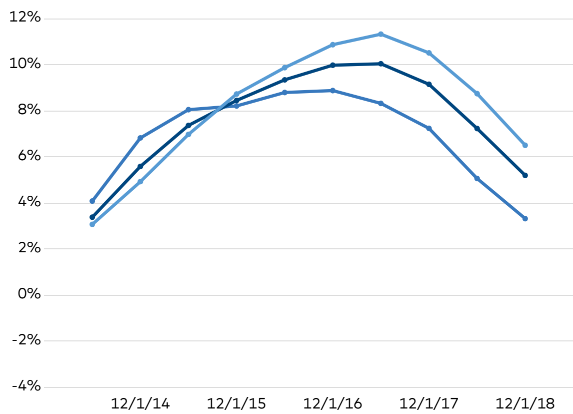


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

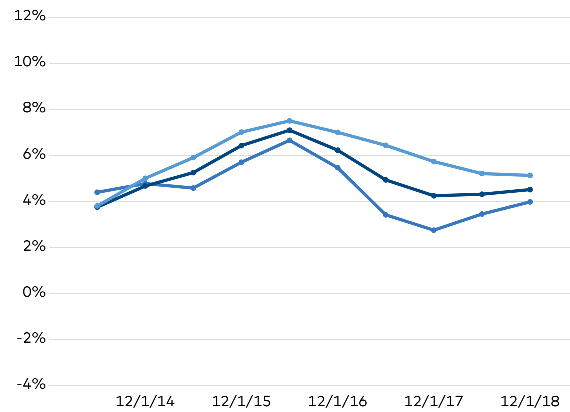
Source: Yardi Matrix

Market Rent Growth by Asset Class

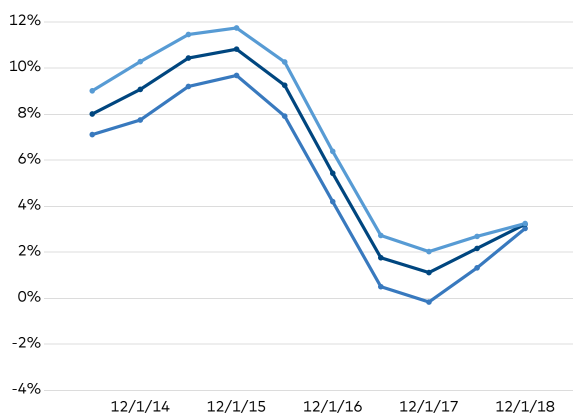
Sacramento



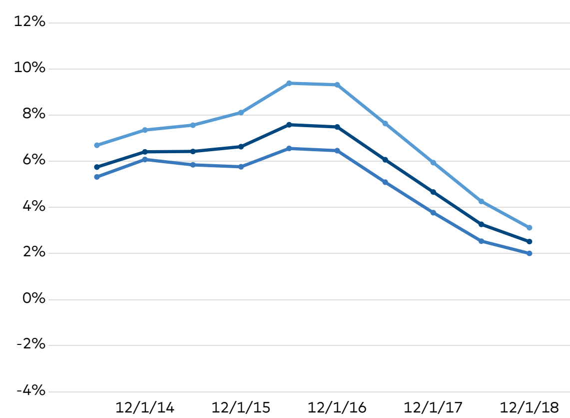
San Diego



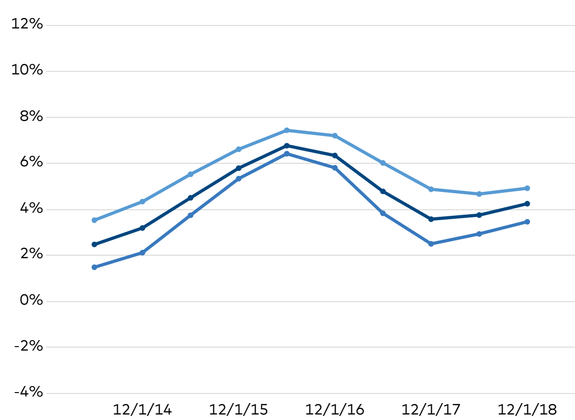
San Francisco



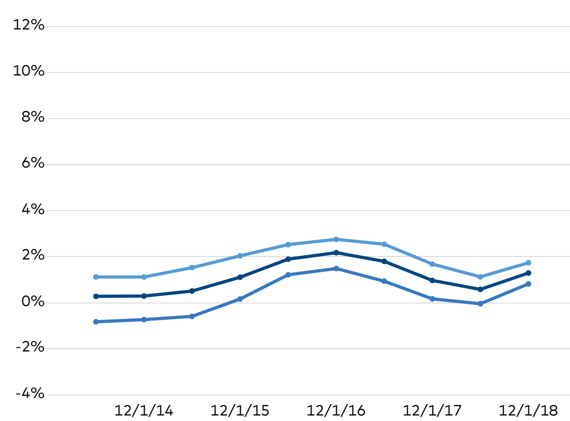
Seattle



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

Yardi® Matrix