Yardi® Matrix

Multifamily National Report

March 2019

Steady First Quarter for Multifamily

- U.S. multifamily rents increased by $4 in March to $1,430. However, year-over-year growth dropped by 20 basis points to 3.2%, as rent growth was slightly less than the same period in 2018.
- Nationally, rents were up 0.4% in the first quarter. The numbers demonstrate consistent growth, although not as strong as other first quarters in recent years. For example, rents grew by at least 0.8% in the first quarter between 2014 and 2016. Still, the market's consistency remains a point in its favor.
- Las Vegas (7.5%) and Phoenix (7.2%) continued to top the nation's growth in March on a year-over-year basis. Rent growth remains strong across the board, with Kansas City and Houston the only metros in our ranking that saw gains below 2.0% in March.

For multifamily, it's a small world, after all. Well, at least lately.

As the market's cycle advances, rent increases are dominated more and more by secondary and tertiary markets that are producing a disproportionate share of economic and population growth, and where rents are low enough that they can be raised without overly burdening tenants.

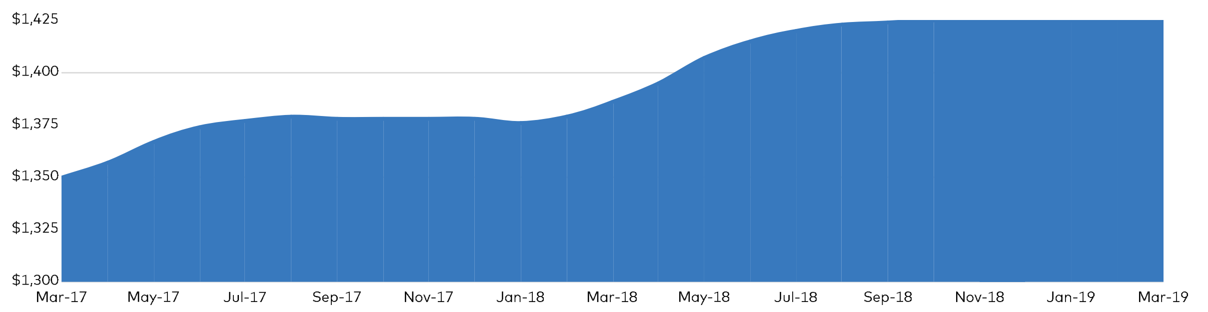
Metros in our top 30 with year-over-year growth of 4.0% or more include Las Vegas, Phoenix, Atlanta, the Inland Empire, Sacramento and Austin. Smaller metros with gains of 5.0% or more include Reno, Tucson and Tacoma. Metros with rent growth of 0.3% or more on a trailing three-month basis are Raleigh, Phoenix, the Twin Cities, Kansas City and Las Vegas, all relatively small markets.

What those markets share is above-trend job and/or population growth that has stimulated demand for multifamily. That has helped rents to rise steadily even where there is healthy supply growth. Austin, for example, has added 4.0% to its total stock in the past year, while the Twin Cities metro is up 3.1% and Raleigh 3.0%. Rents in some high-growth markets (Sacramento and the Inland Empire are examples) do benefit from weak new supply. But markets can prosper despite a heavy supply pipeline if conditions—particularly demand and cost factors—are otherwise healthy enough.

To be sure, bigger markets are not performing poorly—not even close. San Francisco (3.9% year-over-year) and Los Angeles (3.4%) are seeing rent growth above the 3.2% national average, and primary metros Boston (3.1%), Chicago (2.7%) and Washington, D.C. (2.5%) are not far below it.

The dynamics continue to be healthy almost everywhere. That gives investors a choice between potentially higher growth and higher yields in faster-growing, less-liquid markets, or slower, steadier growth in larger, more liquid markets.

National Average Rents

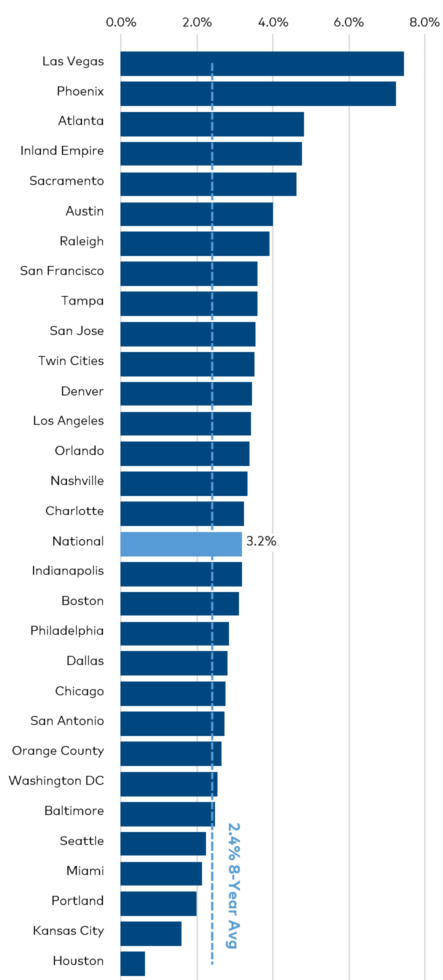


National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

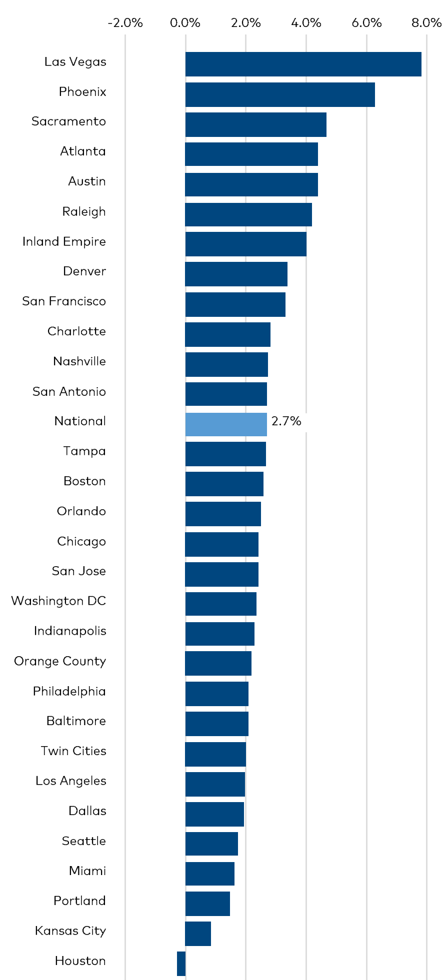
Year-Over-Year Rent Growth: Rents Rise in All Top 30 Markets

- Rents increased 3.2% year-over-year in March, a 20 basis-point decline from February. Despite the modest slowdown, rent growth remains healthy across most markets.
- Las Vegas (7.5%) and Phoenix (7.2%) continue to hold the top two places in our rankings, with Las Vegas pulling slightly ahead in March. Among the top 30 metros, Las Vegas and Phoenix have a significant advantage over other markets, as Atlanta and the Inland Empire (both 4.8%) are the next-fastest-growing metros.
- Despite the large gap at the top of our rankings, all of the top 30 markets are performing well. In fact, 25 of them had rent growth of 2.5% or greater in March, and none of the top 30 saw rents decline. Portland (2.0%) ranked near the bottom, and is a market to monitor as the effects of recent rent control legislation are realized.

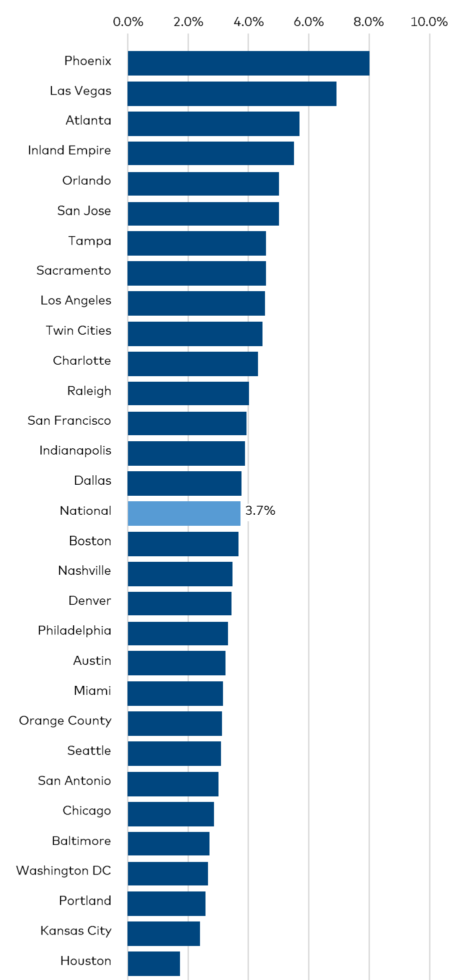
Year-Over-Year Rent Growth—All Asset Classes



Year-Over-Year Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months: Rent Growth Strong at the Start of Spring

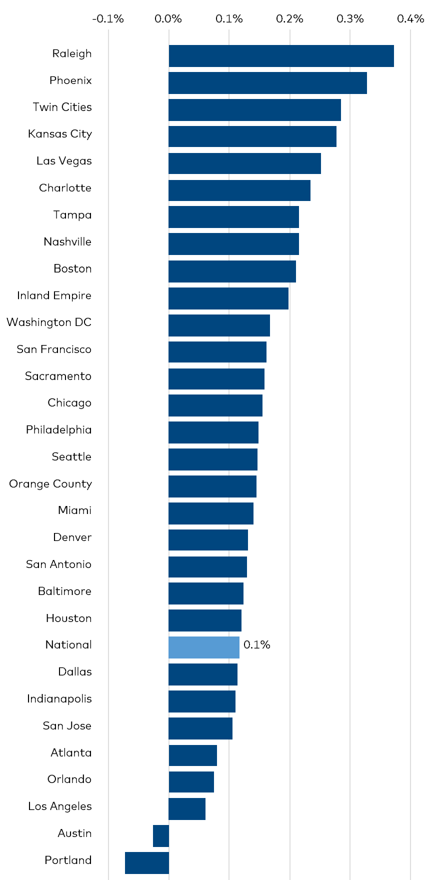
- Rents increased 0.1% in March on a T-3 basis, as short-term rent increases continue to signal a strong spring rental season.
- Raleigh led with 0.4% growth, followed by a geographic mix including Phoenix, the Twin Cities, Kansas City and Las Vegas (all 0.3%).

Rents increased 0.1% 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.

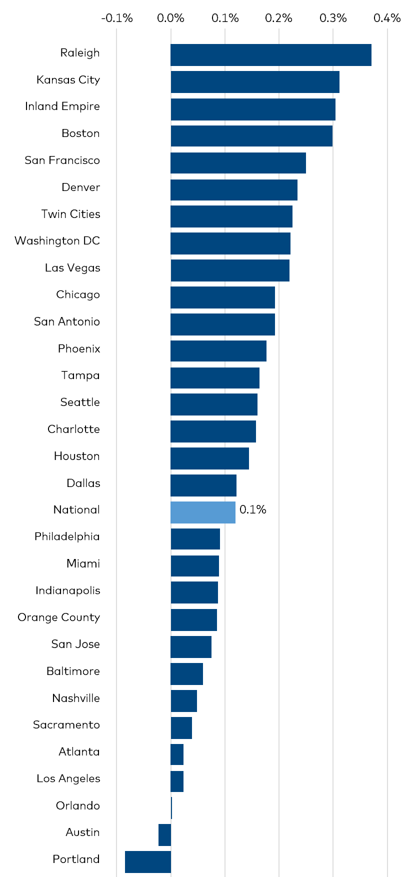
Despite strong new supply growth over the past few years, Raleigh posted the strongest rent growth on a T-3 basis, indicating that absorption remains strong in North Carolina. Charlotte (0.2%) was also near the top of our rankings on a T-3 basis. With strong technology, finance and education employment, as well as favorable costs of living and doing business, Carolina markets are well poised for fundamental growth compared to their larger coastal peers.

As rental season comes into full swing, all but one market, Portland, had positive T-3 rent growth. Oregon recently passed rent control through the state legislature. While the initial bill allows for rent growth well above the national average, many in the industry are concerned it will lead to more stringent regulation.

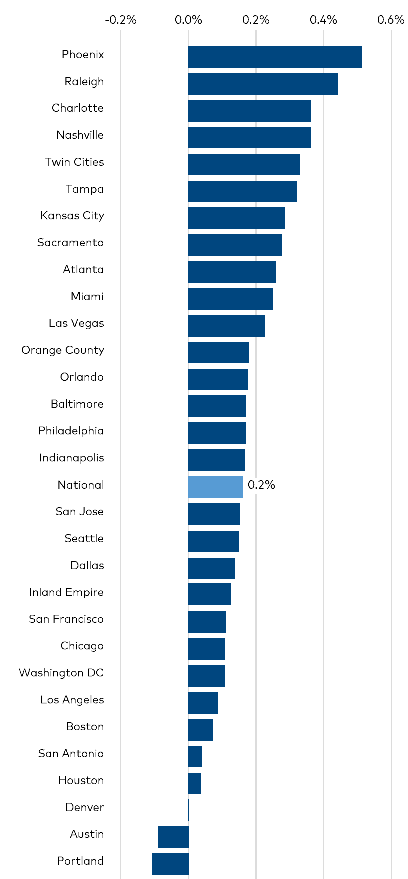
Trailing 3 Months Sequential—All Asset Classes



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

- February's weak job growth number and decelerating GDP growth are signs that the expansion is slowing.
- In response to those and other developments, the Federal Reserve said it would only hike policy rates once in 2019 and not at all in 2020. Treasury rates dropped sharply as investors worry about weaker growth.
- While slower growth is not good for the multifamily market, tenant demand is likely to remain robust and investor demand shows no signs of weakening.

The Federal Reserve's decision to put rate increases on hold, coming on the heels of February's weak job growth and decelerating fourth-quarter GDP, has created concerns about the economy's health. Should the multifamily industry be worried?

The short answer is no, not yet. But at the same time, as growth decelerates, the economy loses some of its ability to absorb negative pressures.

A survey of members by the National Association of Business Economists found the consensus GDP forecast for 2019 to be 2.4%, down from 2.9% in 2018. Growth is expected to reach 2.0% in 2020. The largest drags on the economy are expected to be trade policy and slower global growth.

Only 20,000 jobs were added in February, the economy's worst performance since September 2017. But it's more important to keep an eye on the larger picture, as monthly numbers can be noisy. The slowing of job growth is relatively slight: The rolling three-month average is 186,000, while the six-month average is 190,000 and the 12-month average is 209,000.

Job growth is likely to continue to moderate—after all, the U-6 unemployment rate, which measures those out of work and underemployed, is down to 7.3%, its lowest level since March 2001. The number of workers that can be pulled off the sidelines is diminishing. Immigration, another traditional source of workers, has become a political football for which Congress needs to create effective policy for the long-term health of the economy.

Reacting to the slowing economy, the fact that inflation is not in danger of exceeding its 2% target and the market's volatile reaction to the prospect of higher rates, the Fed has indicated that it plans only one rate increase over the next two years. In response, 10-year Treasury yields have dropped sharply. As of late March, the yield on the 10-year Treasury fell to 2.4%, down more than 80 basis points from its high-water mark in November and the lowest level since December 2017.

What's this mean for multifamily? Economic and job growth remain the most important drivers. Given demographic trends, we expect demand to stay healthy as long as growth remains positive. And stable interest rates are a positive for commercial real estate, which benefits from the low cost of capital.

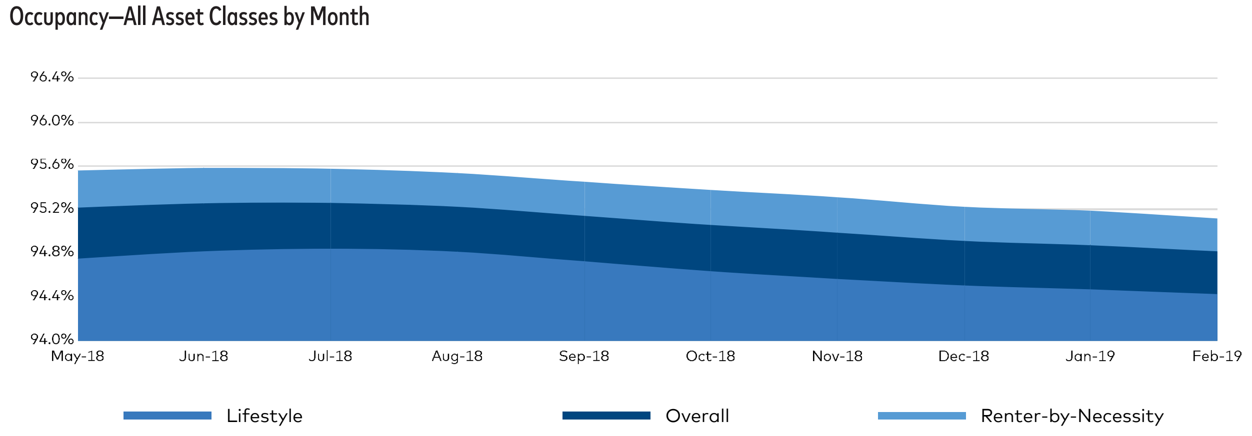
So even though a recession is not on the immediate horizon, growth is likely to slow. But barring some major negative shock, multifamily tenant demand should continue to perform well and it should remain a popular product for investors.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Mar - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of Feb - 19	Completions as % of Total Stock as of Mar 19	Occupancy Rates as of Feb - 18	Occupancy Rates as of Feb- 19
Sacramento	4.6%	6.5%	3.0%	0.8%	96.3%	96.1%
Inland Empire	4.8%	4.5%	2.2%	0.5%	95.9%	96.1%
Dallas	2.8%	4.3%	2.6%	3.3%	94.4%	94.0%
Las Vegas	7.5%	4.0%	3.0%	2.3%	94.5%	94.9%
Los Angeles	3.4%	4.0%	0.8%	2.2%	96.6%	96.4%
Orlando	3.4%	4.0%	3.9%	2.9%	95.9%	95.0%
Seattle	2.2%	4.0%	2.4%	4.9%	95.3%	95.2%
Phoenix	7.2%	3.9%	3.2%	2.9%	95.1%	95.2%
Twin Cities	3.5%	3.6%	0.4%	3.1%	97.2%	96.6%
Orange County	2.6%	3.5%	1.2%	1.9%	95.9%	95.9%
Denver	3.4%	3.4%	2.1%	5.1%	94.9%	94.6%
Raleigh	3.9%	3.4%	1.1%	3.0%	94.0%	94.6%
Tampa	3.6%	3.3%	2.5%	2.1%	95.3%	95.0%
Atlanta	4.8%	3.3%	2.1%	1.7%	94.0%	94.2%
Indianapolis	3.2%	3.2%	0.7%	1.0%	94.0%	93.9%
Boston	3.1%	2.7%	0.7%	3.1%	96.2%	96.1%
San Francisco	3.6%	2.7%	2.2%	1.6%	95.8%	95.8%
Charlotte	3.2%	2.4%	2.2%	3.9%	95.1%	95.0%
Chicago	2.7%	2.4%	1.2%	1.7%	94.5%	94.3%
San Jose	3.5%	2.4%	2.0%	1.0%	95.8%	95.7%
Kansas City	1.6%	2.3%	0.8%	2.6%	94.8%	94.4%
Philadelphia	2.8%	2.2%	1.0%	1.0%	95.3%	95.5%
Houston	0.6%	2.2%	2.6%	1.3%	93.8%	92.4%
Austin	4.0%	2.0%	2.7%	4.0%	93.8%	94.4%
Nashville	3.3%	2.0%	3.1%	4.6%	94.7%	94.5%
Miami Metro	2.1%	1.9%	2.4%	3.8%	95.3%	95.1%
Portland	2.0%	1.9%	1.7%	2.5%	95.2%	95.2%
San Antonio	2.7%	1.9%	1.8%	3.1%	92.6%	92.8%
Washington DC	2.5%	1.3%	0.8%	1.9%	95.2%	95.3%
Baltimore	2.5%	1.3%	0.7%	1.6%	94.4%	94.7%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

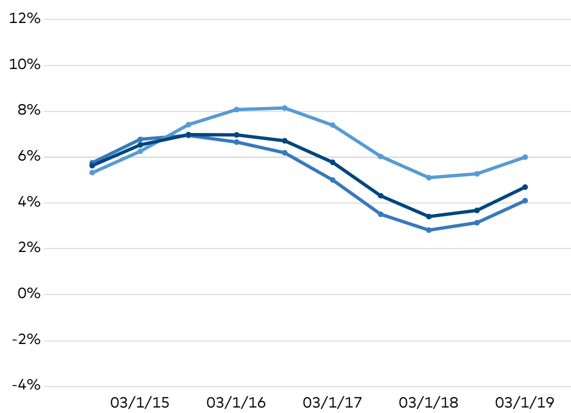
Year-Over-Year Rent Growth, Other Markets

Market	March 2019		
	Overall	**Lifestyle**	**Renter-by-Necessity**
Reno	6.8%	4.2%	8.7%
Tucson	6.2%	7.7%	5.6%
Central Valley	5.2%	3.2%	5.7%
Tacoma	5.0%	5.6%	4.6%
NC Triad	4.6%	5.3%	3.6%
Albuquerque	4.5%	5.6%	4.1%
Long Island	4.3%	4.5%	4.2%
San Fernando Valley	3.5%	2.1%	4.4%
Colorado Springs	3.3%	2.9%	4.0%
El Paso	3.2%	2.4%	3.4%
Indianapolis	3.2%	2.3%	3.9%
Salt Lake City	3.2%	1.5%	4.8%
Louisville	2.8%	3.7%	2.7%
Northern New Jersey	2.4%	1.6%	3.0%
Bridgeport–New Haven	2.3%	1.0%	3.5%
St. Louis	1.9%	0.8%	2.3%
SW Florida Coast	1.6%	0.9%	2.9%
Central East Texas	0.4%	0.2%	0.7%

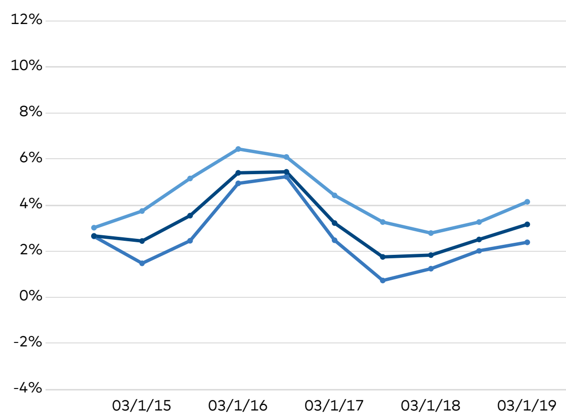
Source: Yardi Matrix

Market Rent Growth by Asset Class

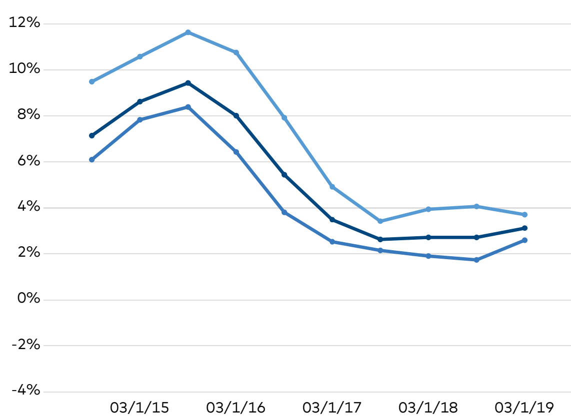
Atlanta



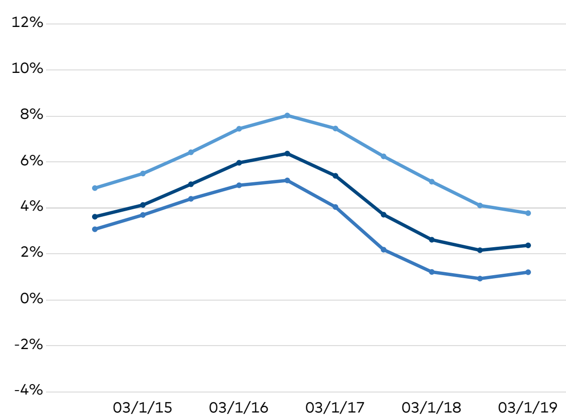
Boston



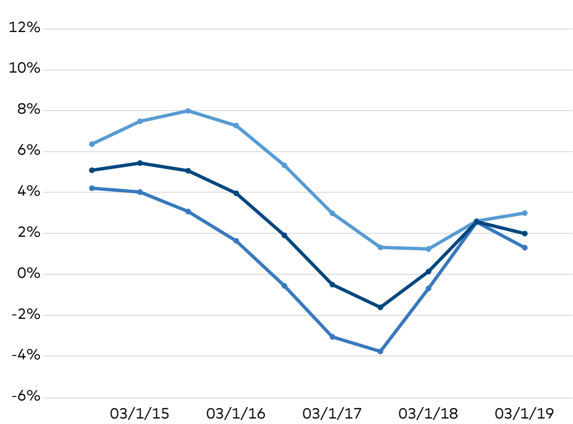
Denver



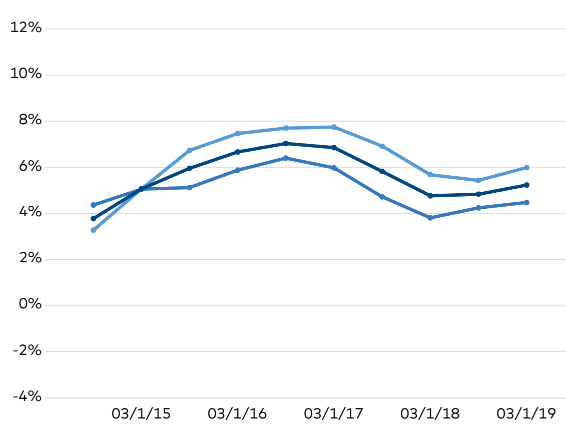
Dallas



Houston



Inland Empire

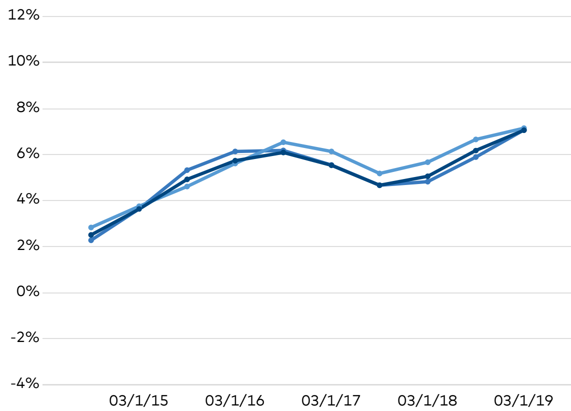


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

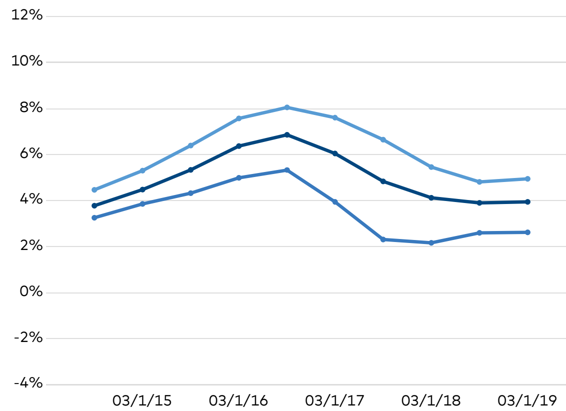
Source: Yardi Matrix

Market Rent Growth by Asset Class

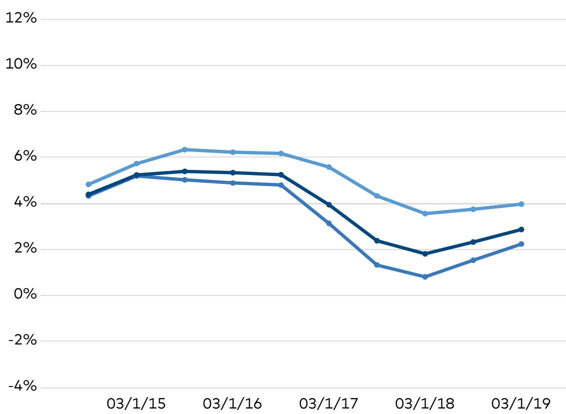
Las Vegas



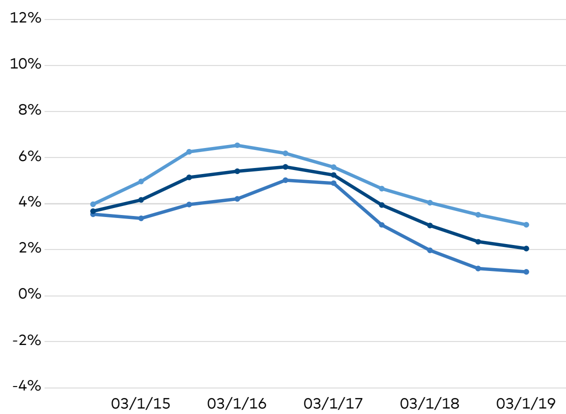
Los Angeles



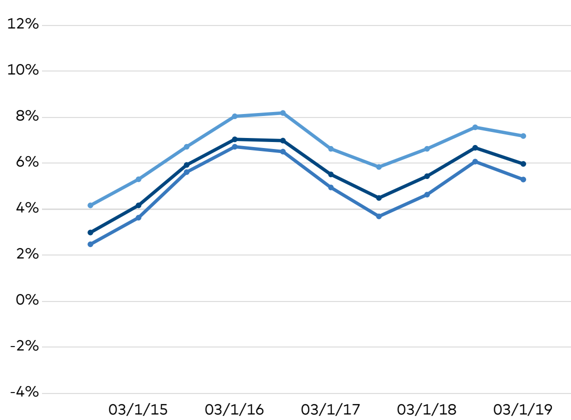
Miami



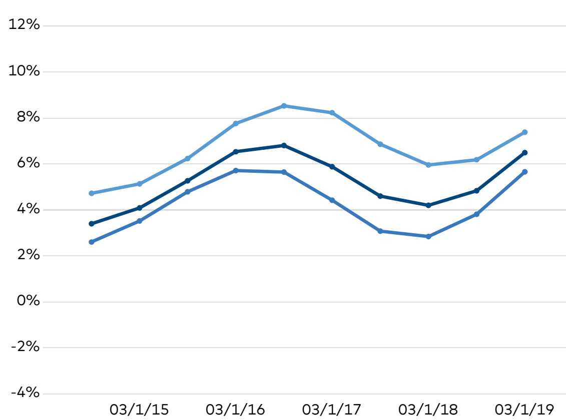
Orange County



Orlando



Phoenix

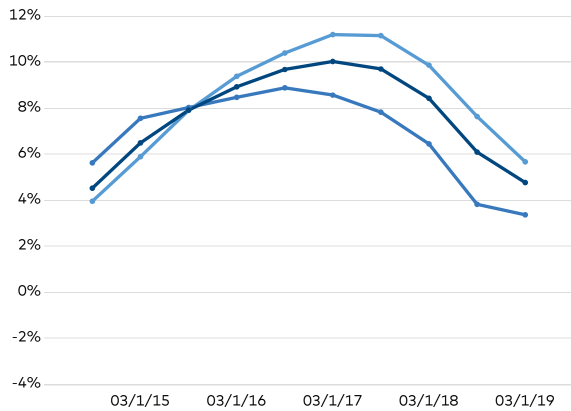


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

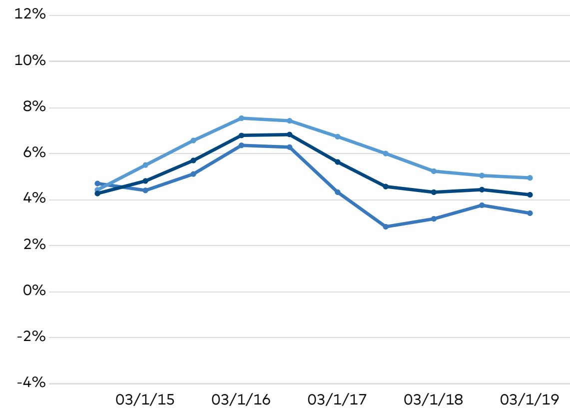
Source: Yardi Matrix

Market Rent Growth by Asset Class

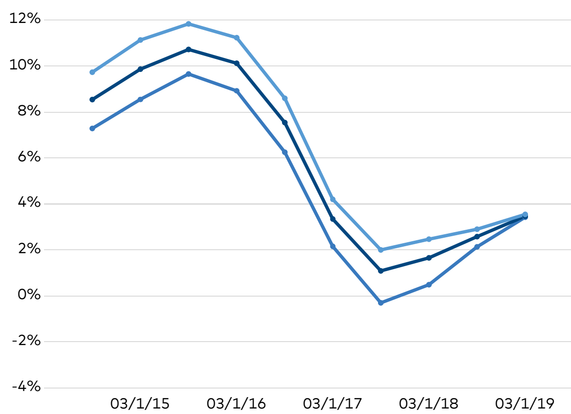
Sacramento



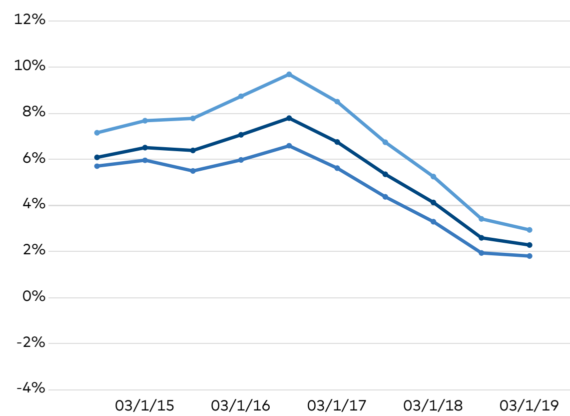
San Diego



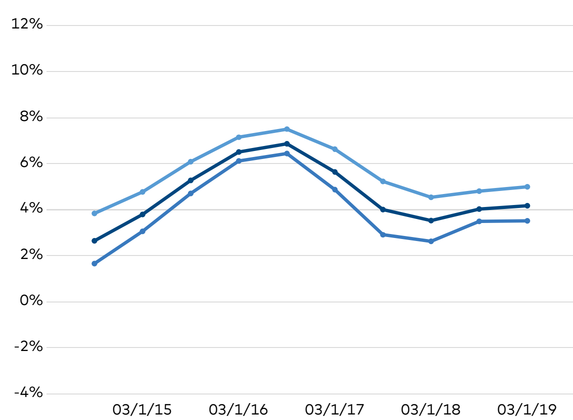
San Francisco



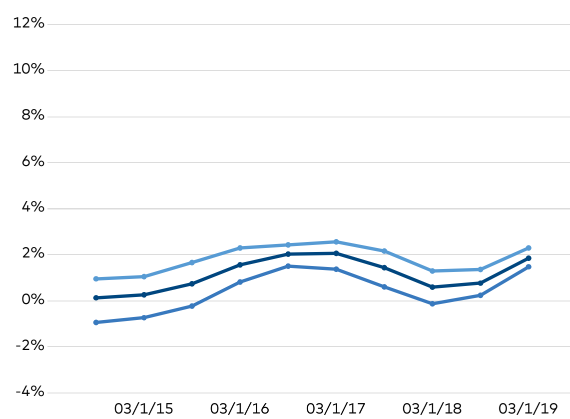
Seattle



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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