Yardi® Matrix

Multifamily National Report

April 2019

Multifamily Rent Growth Remains Consistent

- U.S. multifamily rents increased by $5 in April to $1,436. Year-over-year growth fell to 3.0%, down 30 basis points from March, as the growth was less than in previous years.
- Market performance has been remarkably consistent over time and across geographic zones. Growth continues to be highest in lifestyle metros in the Southwest, Southeast and California, but other than Houston there aren't many markets in which growth trails long-term averages by any significant degree.
- Multifamily absorption remains robust, as the economy continues to pump out jobs and demographic factors are still positive. The occupancy rate for stable properties has dipped only 10 basis points year-to-date, though new supply continues to grow at about 300,000 units per year.

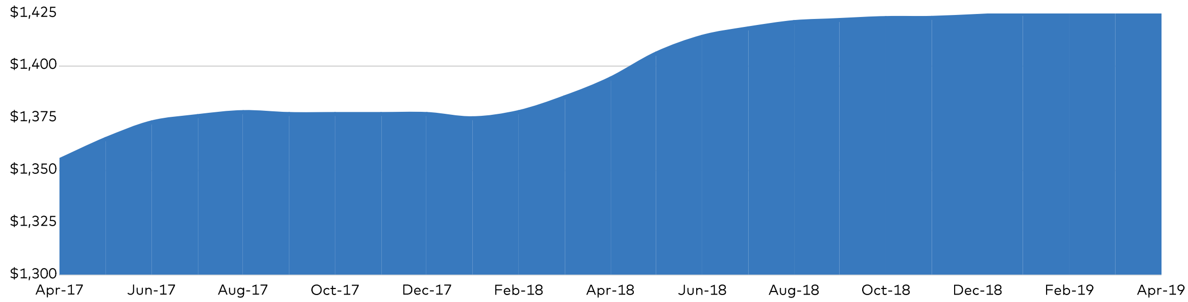
U.S. multifamily rents continue to increase at a steady rate, albeit slightly slower than in recent years. Nationwide, rents were up a healthy 3.0% year-over-year in April. Year-to-date, rents are up 0.8%, which is a solid number although less than the growth rate during that period in recent years.

With the prime rent growth season just starting, it remains to be seen whether this year's gains will be stellar or merely average, but in any event there seems to be no reason to think the multifamily juggernaut is going to hit the pause button. Absorption is strong, as the national occupancy rate for stable properties is 94.8% and has dropped only 10 basis points year-to-date despite the delivery pipeline adding some 300,000 units per year.

The economy continues to pump out 200,000 or so jobs each month, providing a good environment for young workers to form households. Meanwhile, the recent trend toward increasing homeownership hit a snag in the first quarter, as the homeownership rate dropped 60 basis points to 64.2%. Some of that undoubtedly had to do with the fourth quarter increase in mortgage rates. Interest rates have dropped again over the last couple of months, which might boost prospects, but the sensitivity to rates illustrates the fragility of the financial wherewithal of potential buyers.

On the metro level, the Southwest is king, as Phoenix caught up to Las Vegas in April for the highest growth rate at 7.3%. Four of the top 10 are in the Southeast: Atlanta (4.8%), Raleigh (3.7%), Tampa (3.6%) and Charlotte (3.4%). Growth remains consistent across regions, though. Mid-Atlantic metros—which have had weaker growth during this cycle owing to tepid population gains and low affordability levels—are uniformly solid. Philadelphia is up 3.0% year-over-year, while Baltimore is at 2.4% and Washington, D.C., at 2.3%. Houston ranked last with a 0.6% year-over-year gain. At 92.3%, it also has the lowest occupancy rate of our major metros.

National Average Rents

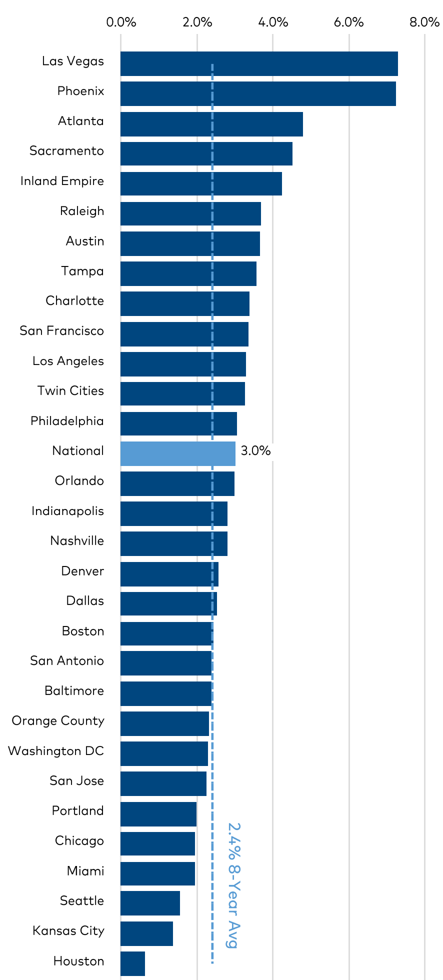


National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

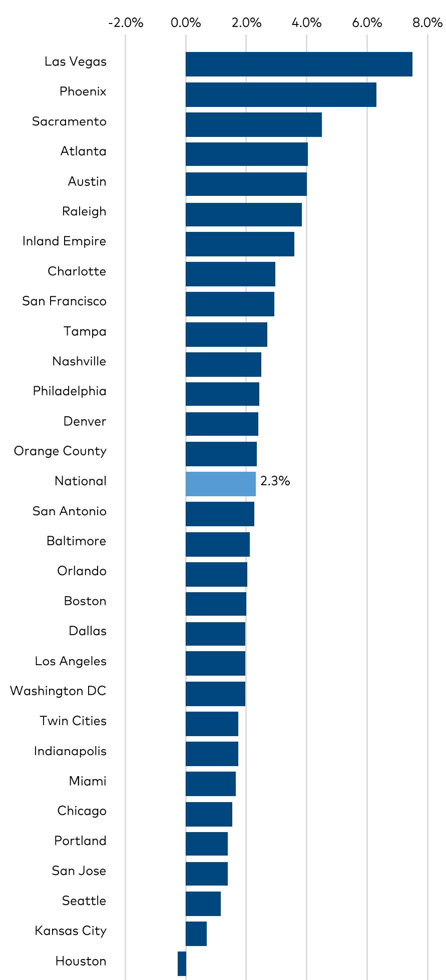
Year-Over-Year Rent Growth: Markets Reverting to the Mean

- Rents increased 3.0% year-over-year in April, marking a 30-basis-point decline from March and a 60-basis-point reduction from the beginning of the year. Most markets are regressing toward the national mean, and 22 of our top 30 markets have rent growth between 2% and 4%.
- Las Vegas and Phoenix (tied at 7.3%) top the overall rankings. Both markets also led our rankings by asset class. Phoenix Renter by Necessity (RBN) increased 8.0%, compared to 6.3% growth for Lifestyle. In Las Vegas, however, Lifestyle units (7.5%) outpaced RBN units (6.8%), and it is one of the only markets in the nation where luxury rents are growing faster than workforce rents.
- Rents increased in all of the top 30 markets over the past year. At 0.6%, Houston was the only market with a gain of less than 1.4%.

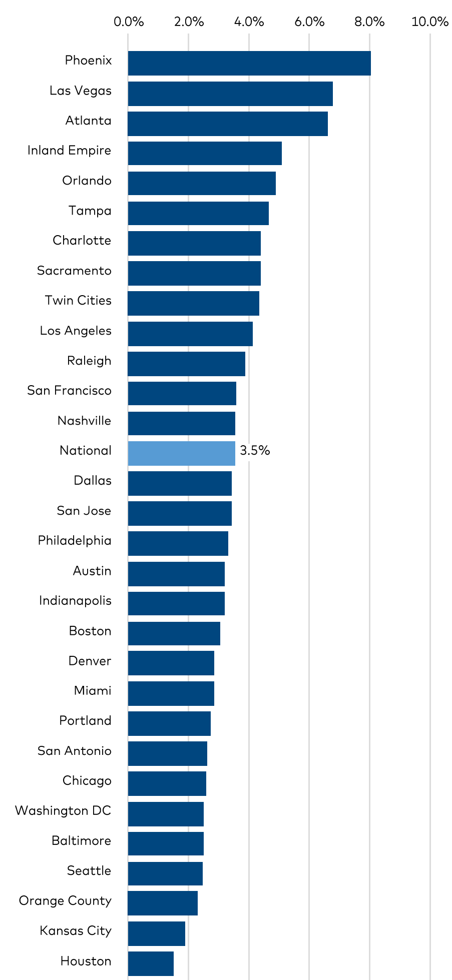
Year-Over-Year Rent Growth— All Asset Classes



Year-Over-Year Rent Growth— Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months:
Gains for All as Spring Rental Season Hits Stride

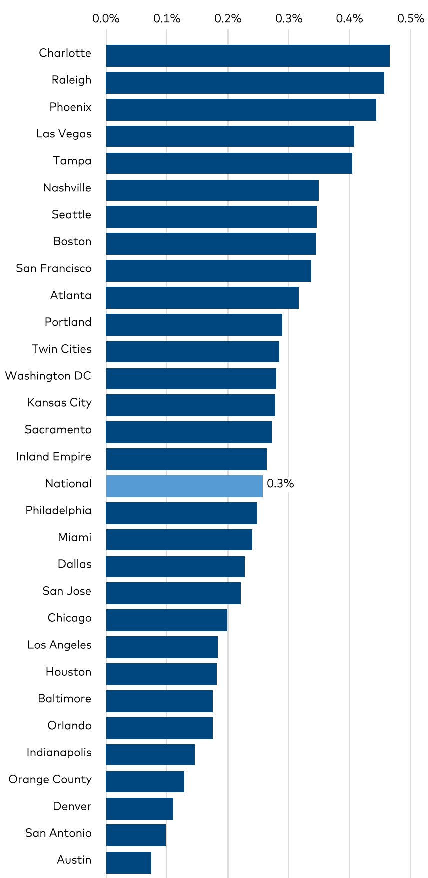
- Rents increased 0.3% nationally in April on a T-3 basis, and the recent acceleration is indicative of a traditional rental season.
- Raleigh and Charlotte (both 0.5%) led the nation, followed by the strong growth markets of Phoenix and Las Vegas (both 0.4%).

Rents increased 0.3% 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.

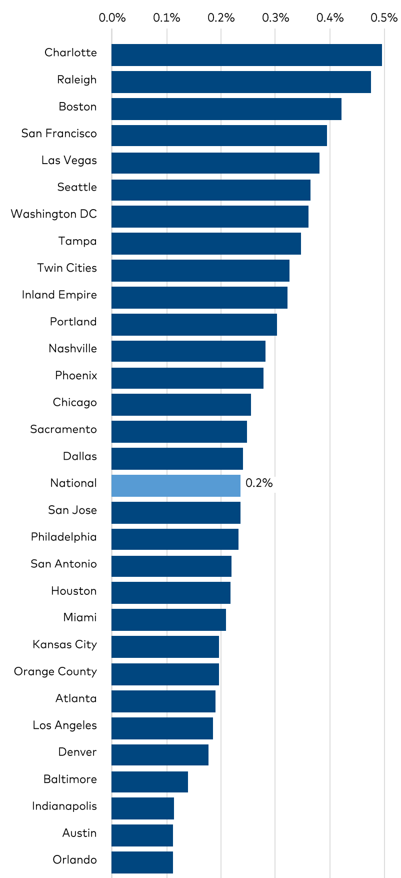
North Carolina metros Raleigh and Charlotte emerged as the fastest-growing rental markets in recent months, with both up 0.5%. A strong business climate temperate weather, and attractive employment opportunities have bolstered housing demand in the Tar Heel State.

Rents in most markets across the country have been solid on a T-3 basis, with all but five of the top 30 growing 0.2% or more. Gateway markets San Francisco, Washington, D.C., and Boston all increased 0.3%, an indication of potential strength. In recent years, gateway markets have generally underperformed secondary markets that have large and growing tech employment hubs. Demographic shifts to more affordable markets in the South and West have contributed to stronger rent growth outside of gateway cities.

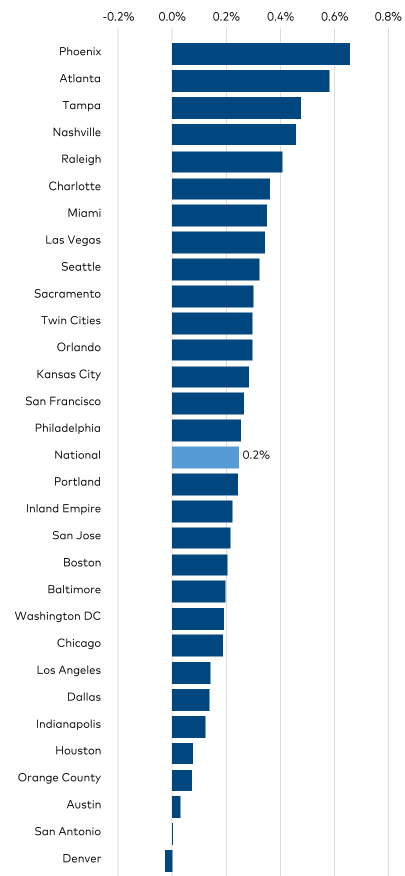
Trailing 3 Months Sequential—
All Asset Classes



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

- Fannie Mae and Freddie Mac originated $30.3 billion of loans in 1Q19, up nearly 20% from the same period a year ago.
- The agencies have raised the spread between "capped" and "uncapped" loans as part of an effort to not too quickly use up their $35 billion annual allocation that is set by the Federal Housing Finance Agency.
- **The discount for loans that qualify for the agencies' green and affordable lending programs has risen recently to 30 to 55 basis points.**

Multifamily property owners may or may not want to "go green" on their own—but they may have little choice if they want to borrow from Fannie Mae or Freddie Mac later this year.

The government-sponsored enterprises (GSEs) recently increased the pricing differential between loans with no strings attached (known as "capped" loans) and loans that require the borrower to improve energy efficiency or service low-income tenants ("uncapped" loans). The agencies are limited to $35 billion of capped loans in 2019, but they can originate an unlimited number of uncapped loans.

Fannie and Freddie originated $30.3 billion of loans combined in the first quarter, up about 20% from 1Q18. Their success at winning deals puts them in danger of using capped allocations long before the year is done. As a result, the agencies are pulling back on the throttle by increasing quoted spreads on capped loans. The hope is to slow down capped originations and encourage borrowers to take advantage of the uncapped programs.

Interest in the green program is particularly high. Regulations regarding green loans were tightened this year because it was deemed too easy to qualify. Property owners now must improve water and energy usage by 30% to qualify, up from 15%.

The difference in pricing between the capped and uncapped loans was thin early in the year, anywhere between 5 and 20 basis points, but the gap has grown to 30 to 55 basis points. Many borrowers are willing to pay the cost to retrofit toilets, lighting and heating systems if they can shave a half a percentage point from loan payments. Depending on loan terms such as maturity date and loan-to-value ratio, most GSE loans right now have coupons of 3.75% to 4.5%.

Fannie and Freddie issued $20.2 billion of CMBS in the first quarter, down slightly year-over-year, according to "Commercial Mortgage Alert," but the agencies are on track to match the $95 billion of CMBS floated in 2017 and 2018. Their growth is taking place in the face of potential changes to their mandates as the Trump administration gains control over the regulatory wheels. New Federal Housing Finance Agency director Mark Calabria has been a proponent of reducing their footprint.

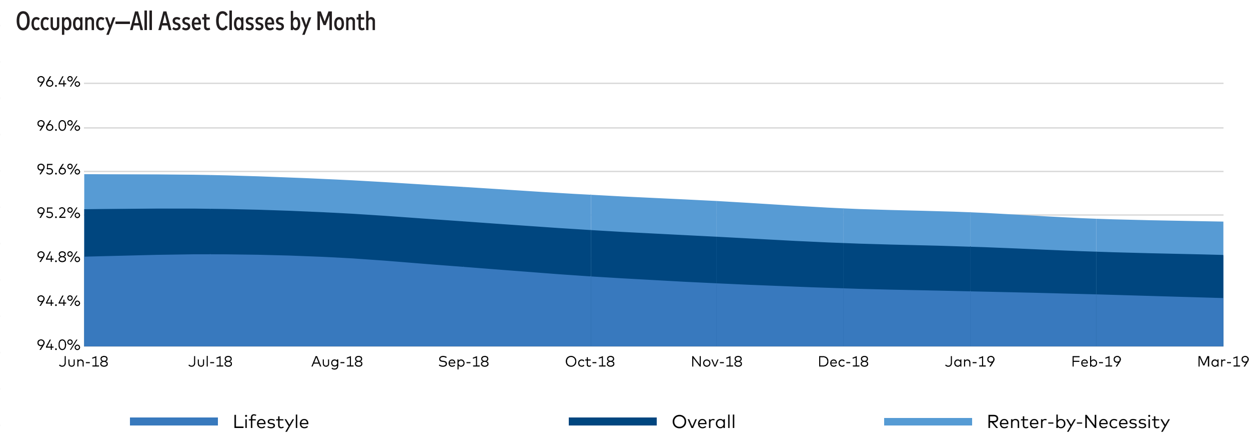
For now, the GSEs remain the biggest lenders in the multifamily market, but life companies and CMBS players are eager to increase their share of a segment considered less risky than loans to other property types. CMBS programs, which were major multifamily lenders until the financial crisis and have largely been shut out since then, are becoming more aggressive on multifamily loan bids.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Apr - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of Mar - 19	Completions as % of Total Stock as of Apr - 19	Occupancy Rates as of Mar - 18	Occupancy Rates as of Mar - 19
Las Vegas	7.3%	5.4%	2.9%	1.8%	94.6%	94.9%
Phoenix	7.3%	5.1%	3.1%	2.9%	95.2%	95.3%
Orlando	3.0%	4.3%	3.6%	3.3%	95.9%	95.0%
Nashville	2.8%	4.2%	3.1%	4.4%	94.8%	94.6%
Austin	3.7%	4.1%	2.5%	3.8%	93.9%	94.4%
Seattle	1.5%	4.0%	2.4%	5.2%	95.3%	95.2%
Twin Cities	3.3%	3.9%	0.2%	2.9%	97.2%	96.6%
Raleigh	3.7%	3.8%	1.0%	4.1%	94.0%	94.7%
Sacramento	4.5%	3.8%	2.9%	0.8%	96.3%	96.2%
Los Angeles	3.3%	3.7%	0.8%	2.1%	96.6%	96.3%
Inland Empire	4.2%	3.7%	1.9%	0.5%	96.0%	96.0%
Atlanta	4.8%	3.5%	2.1%	1.7%	94.1%	94.3%
San Jose	2.2%	3.5%	2.1%	1.2%	95.9%	95.7%
Boston	2.4%	3.5%	0.7%	2.9%	96.2%	96.1%
Miami Metro	1.9%	3.4%	2.1%	3.6%	95.3%	95.1%
Tampa	3.6%	3.4%	2.2%	2.2%	95.5%	95.0%
Kansas City	1.4%	3.3%	0.8%	3.0%	94.9%	94.3%
Dallas	2.5%	3.3%	2.7%	3.3%	94.4%	94.1%
Indianapolis	2.8%	3.2%	0.7%	1.0%	94.1%	94.0%
Charlotte	3.4%	3.1%	2.3%	4.0%	95.0%	95.0%
Chicago	2.0%	2.8%	1.2%	1.8%	94.6%	94.3%
Denver	2.5%	2.8%	2.0%	4.5%	95.0%	94.5%
Philadelphia	3.0%	2.8%	1.1%	0.8%	95.4%	95.5%
San Francisco	3.3%	2.8%	2.3%	1.6%	95.9%	95.7%
Washington DC	2.3%	2.6%	0.8%	1.8%	95.3%	95.3%
San Antonio	2.4%	2.6%	1.9%	2.7%	92.7%	92.8%
Orange County	2.3%	2.4%	1.1%	1.9%	95.9%	95.9%
Houston	0.6%	1.9%	2.5%	1.4%	93.8%	92.3%
Baltimore	2.4%	1.9%	0.7%	1.3%	94.4%	94.7%
Portland	2.0%	1.9%	1.8%	2.6%	95.4%	95.2%

Source: Yardi Matrix

Occupancy & Asset Classes



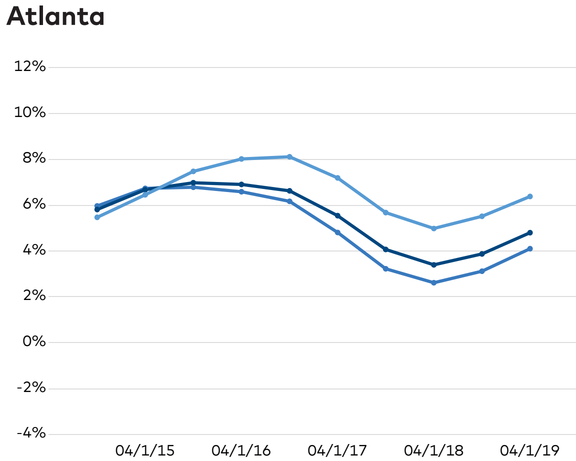
Source: Yardi Matrix

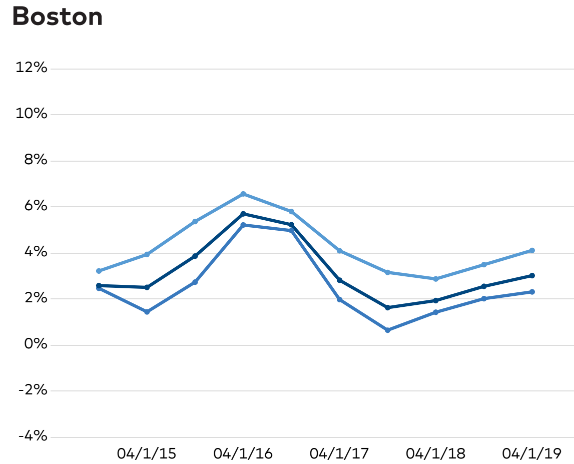
Year-Over-Year Rent Growth, Other Markets

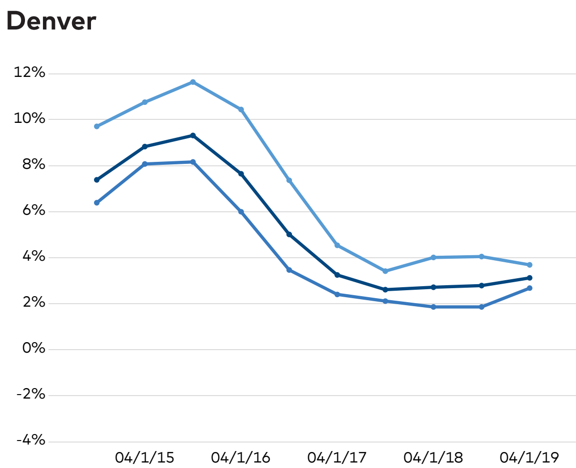
Market	April 2019		
	Overall	Lifestyle	Renter-by-Necessity
Tucson	6.4%	7.9%	5.8%
Reno	5.2%	2.7%	7.1%
Tacoma	5.1%	5.4%	5.2%
NC Triad	5.0%	6.1%	4.1%
Central Valley	4.8%	1.9%	5.4%
Albuquerque	4.7%	5.9%	4.4%
Long Island	4.6%	4.8%	4.5%
San Fernando Valley	3.7%	2.4%	4.5%
Salt Lake City	3.7%	2.2%	5.0%
Indianapolis	2.8%	1.7%	3.2%
El Paso	2.8%	2.0%	3.0%
Colorado Springs	2.7%	1.9%	3.3%
Louisville	2.6%	2.8%	2.7%
Northern New Jersey	2.2%	1.2%	2.9%
Bridgeport–New Haven	2.1%	1.0%	2.8%
SW Florida Coast	2.1%	0.8%	4.2%
St. Louis	1.9%	0.8%	2.2%
Central East Texas	1.1%	0.9%	1.4%

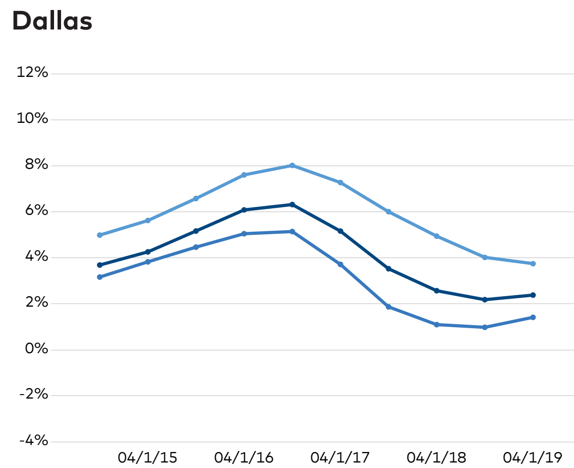
Source: Yardi Matrix

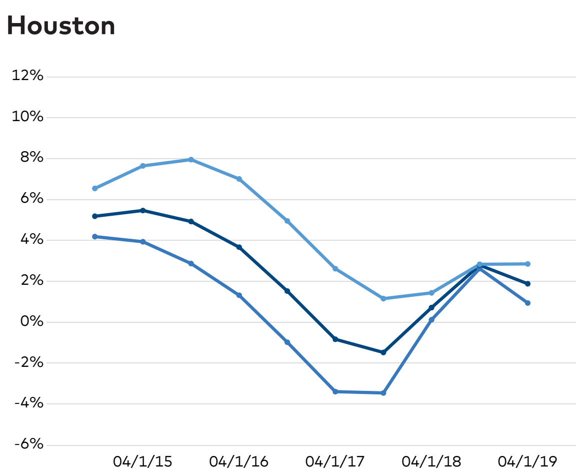
Market Rent Growth by Asset Class

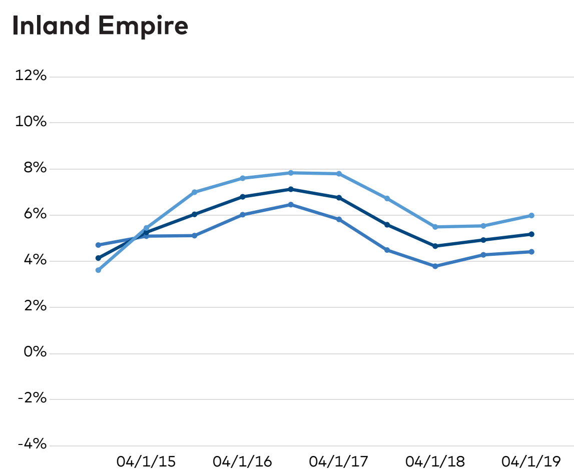










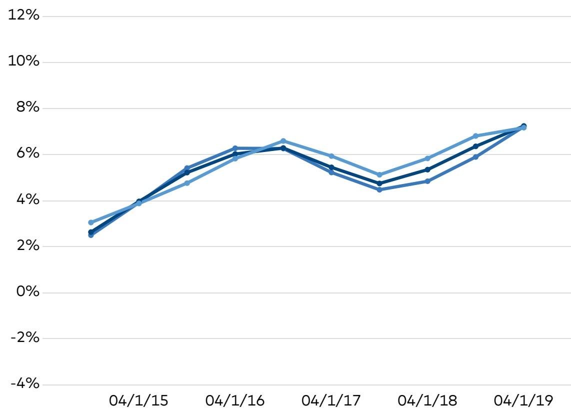


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

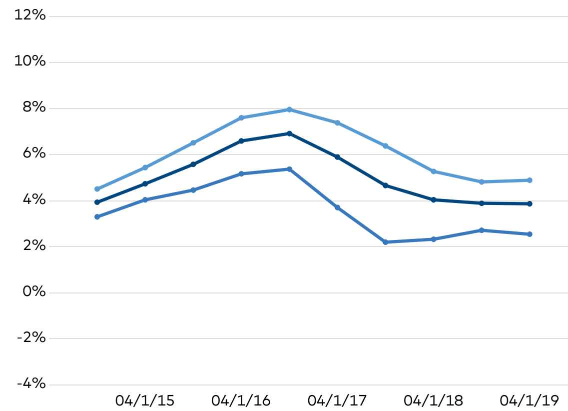
Source: Yardi Matrix

Market Rent Growth by Asset Class

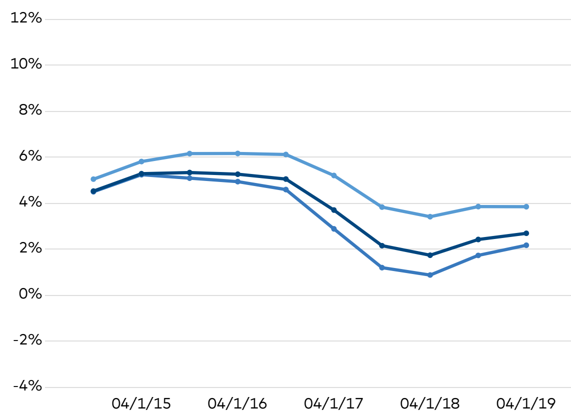
Las Vegas



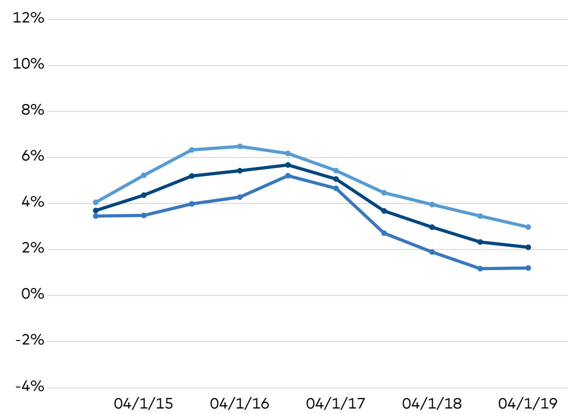
Los Angeles



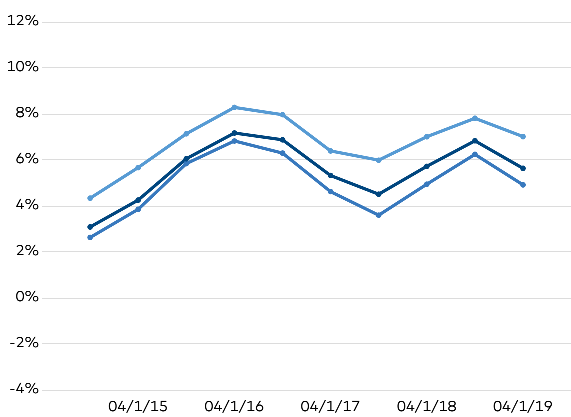
Miami



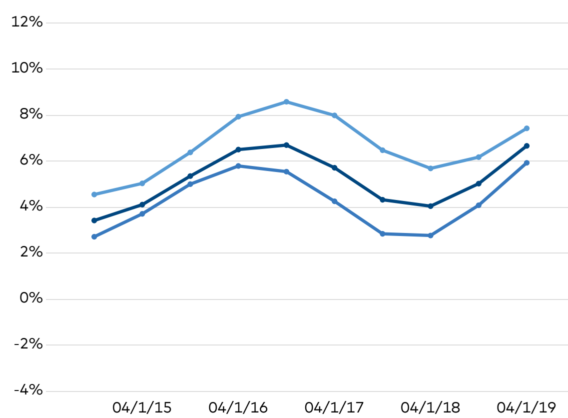
Orange County



Orlando



Phoenix

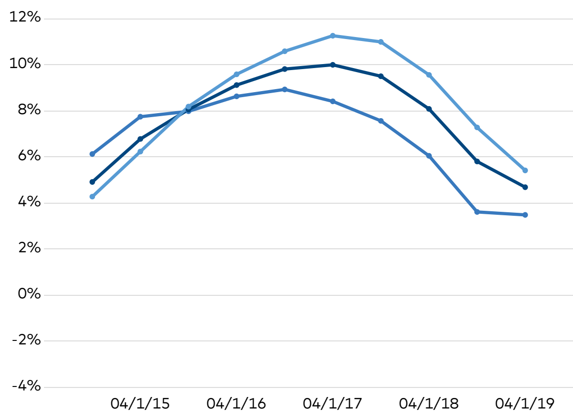


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

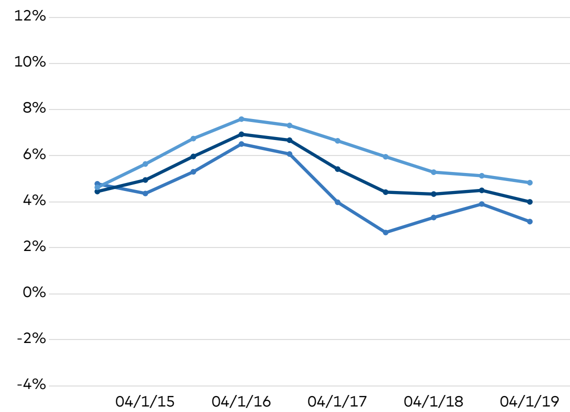
Source: Yardi Matrix

Market Rent Growth by Asset Class

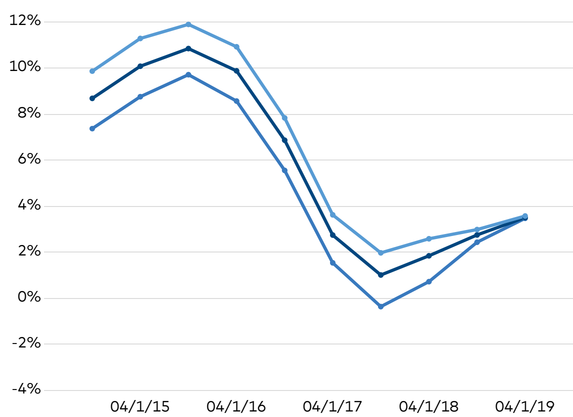
Sacramento



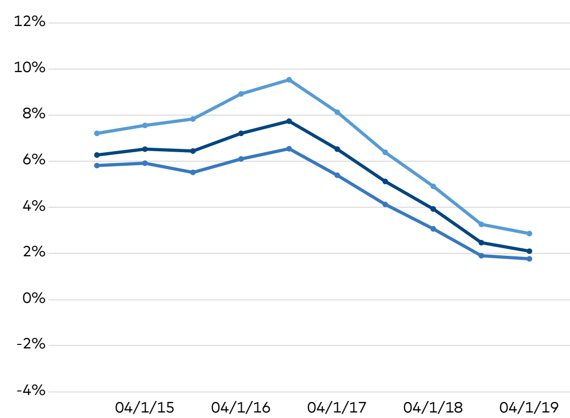
San Diego



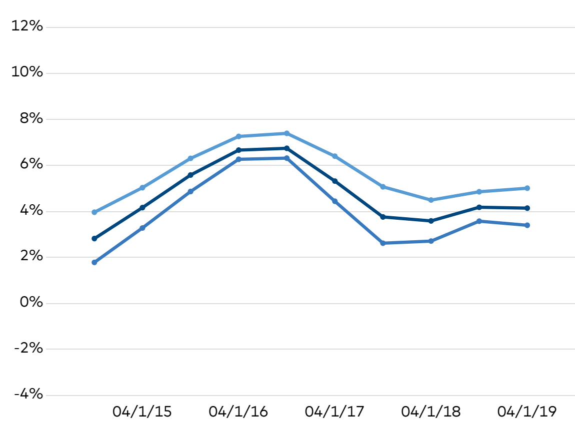
San Francisco



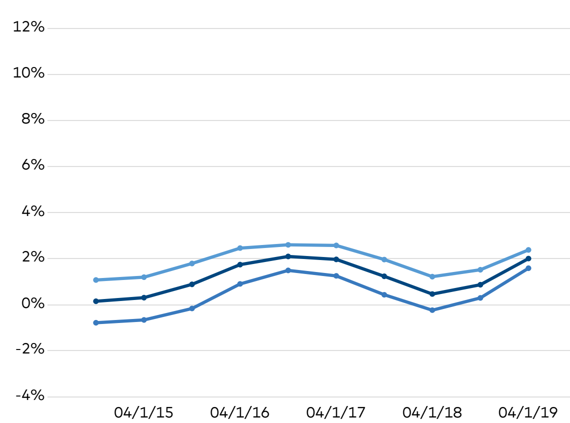
Seattle



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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