Yardi® Matrix

Multifamily National Report

May 2019

Multifamily Rents Increase, But Slow

- U.S. multifamily rents increased by $5 in May to $1,442. Because rents increased less than they did in the same month in 2018, year-over-year growth fell 50 basis points from April to 2.5%.
- Although rent gains are in line with the long-term average, 2019 is shaping up to be weaker than the last few, much more robust, years. Year-over-year rent growth has dropped 80 basis points over two months and 110 basis points over three months.
- After sharing the spotlight with Las Vegas last month as the top metros, Phoenix pulled ahead in May atop our list of major metros with a 6.8% growth rate. Las Vegas is second at 6.6%, followed by Sacramento (4.1%) and Atlanta (3.9%).

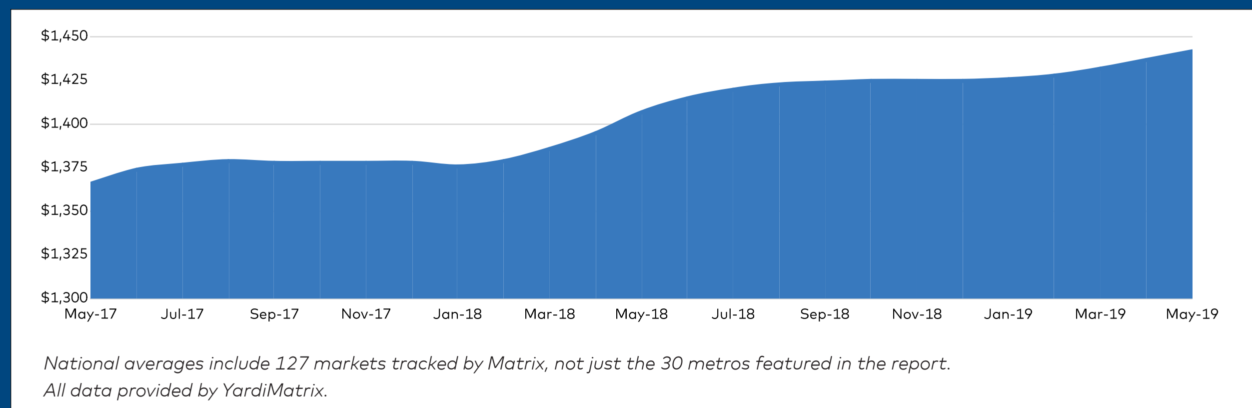
The average U.S. multifamily rent has grown $14 over the last three months, which is a decent performance but far short of the levels of recent years. Year-to-date through May, rents were up 1.2%—again, good but not up to the recent past. In fact, over the last six years, only in 2017 (1.7%) did rent growth fail to reach 2.0% year-to-date through May. The last year in which rents rose less than 1.2% through May was 2011, when the economy was pulling out of the recession.

This is notable because the bulk of rent growth tends to occur in the first half of the year. If the past is any guide, 2019 would be hard-pressed to continue the bullish outcomes of the last six years if things don't improve quickly. Of course, it's too soon to draw conclusions from one moderate season of rent increases. Rent growth slowed below 3.0% for most of 2017 before rising back again through most of 2018 and early 2019.

Most markets continue to be in good shape, with only a handful producing rent growth of less than 1.5% year-over-year. Occupancy levels of stabilized properties have dropped slightly—down by 30 basis points to 94.9% year-over-year through April—which indicates that the growth in supply is taking its toll in some markets. For example, Houston's occupancy rate was down more than 100 basis points to 92.4% in April. Although the metro's job growth remains strong and deliveries have moderated post-Harvey, Houston's 0.4% rent growth as of May has it wallowing at the bottom of the metro rankings.

Other metros seemingly impacted by the amount of deliveries include Kansas City, Denver and Seattle. Kansas City has added 3.0% to its multifamily stock over the past year, and the occupancy rate of stabilized properties has fallen by 60 basis points to 94.4%. The metro's growth is a paltry 1.0% year-over-year. Demand is not an issue in Denver or Seattle, but deliveries are putting a damper on rent increases.

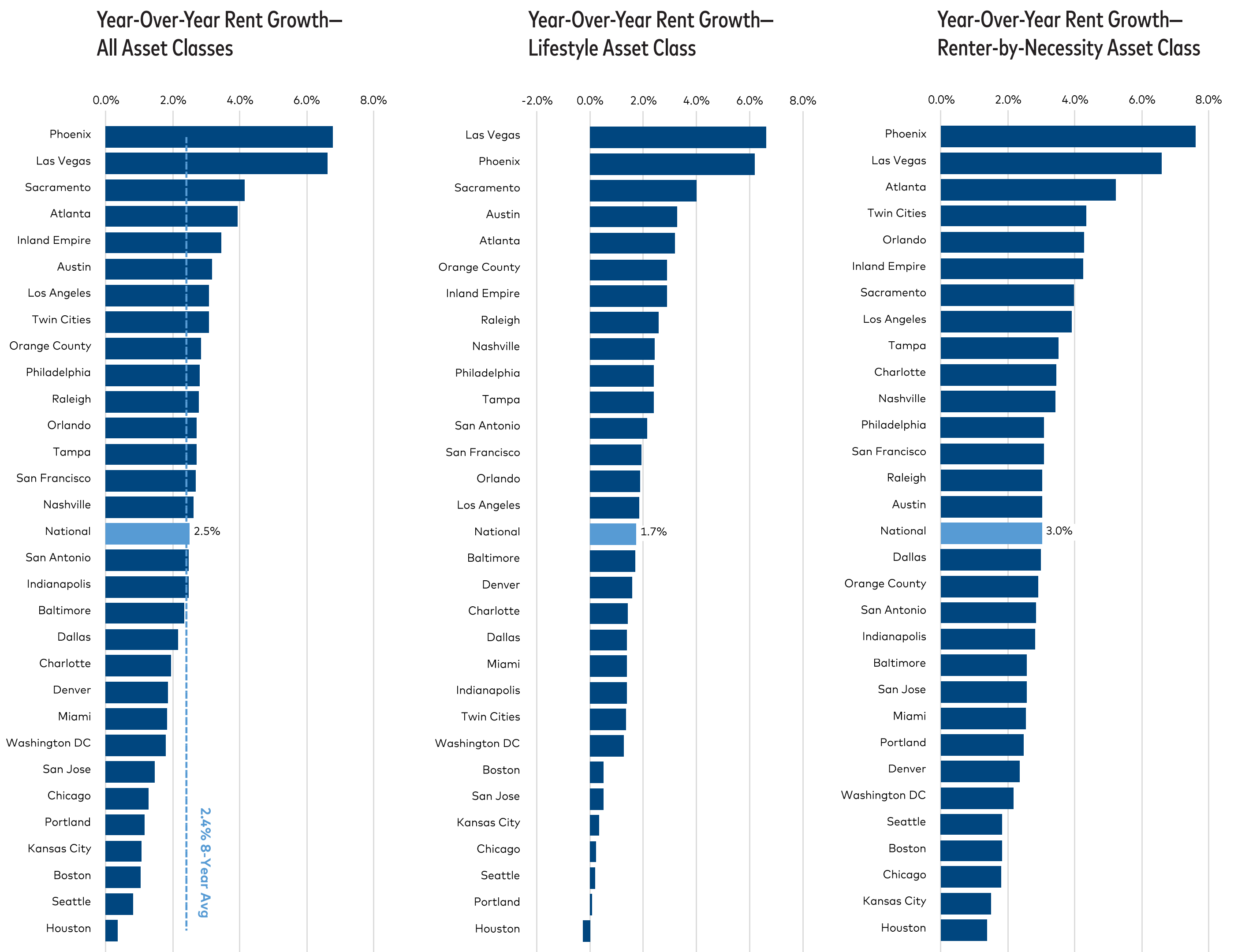
National Average Rents



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
Demand in the Desert: Phoenix and Las Vegas on Top

- Rents increased 2.5% year-over-year in May, down 50 basis points from April and 80 basis points from March. The year-to-date increase of 1.2% is the slowest rate of growth since 2011.
- Renter by Necessity (3.0%) continues to grow at a faster rate than Lifestyle (1.7%). Only eight metros top the 2.5% overall national average in Lifestyle rents, but 22 metros top 2.5% growth in RBN rents.
- Phoenix (6.8%) overtook Las Vegas (6.6%) in May to lead the rankings. The metros are one and two in both Lifestyle and RBN rent growth, and both have increased occupancy rates of stabilized properties by 20 basis points over the past year (Las Vegas to 95.0% and Phoenix to 95.5%) despite adding a significant amount of new supply. Meanwhile, Houston (0.4%) and Seattle (0.8%) have the weakest growth.



Source: Yardi Matrix

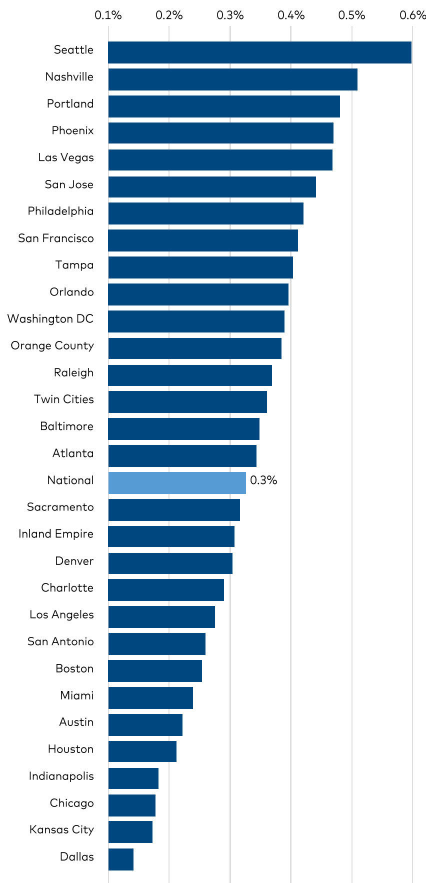
Trailing 3 Months: Short-Term Trend: Seattle Up, Dallas Down

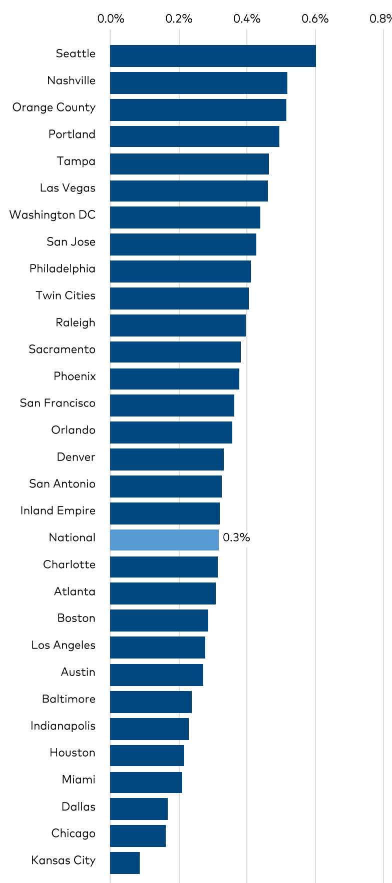
- Rents increased 0.3% nationally in May on a T-3 basis; no change from the previous month.
- Bucking recent trends, Lifestyle and Renter by Necessity both grew at the same 0.3% rate. RBN growth has been much higher in recent years.

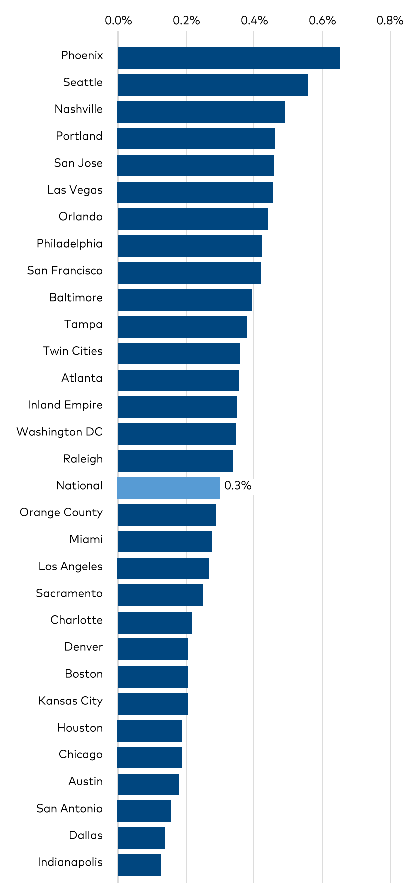
Rents increased 0.3% nationally on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The T-3 ranking demonstrates short-term changes and not necessarily long-term trends.

Seattle (0.6%) and Nashville, Portland, Phoenix and Las Vegas (all 0.5%) had the highest recent growth. While Phoenix and Las Vegas have regularly been among the leaders in rent growth for several years, the other top metros have been less consistent. Despite its recent surge, Seattle's rent growth is only up 0.8% over the past year. Nashville (2.6% year-over-year) and Portland (1.2%) have also taken turns near the bottom of the rent growth tables over the past year. All three metros have strong growth characteristics but have had to deal with heavy supply pipelines, which has led to inconsistency in rent changes.

Dallas (0.1%) is at the bottom of the ranking. But with one of the fastest-growing job markets in the country and rent growth consistently near or above the national average, it bears watching.







Source: Yardi Matrix

Employment, Supply and Occupancy Trends; Forecast Rent Growth

- Interest rates have plunged further and faster than anybody in the market would have predicted. The 10-year Treasury rate was below 2.1% the first week of June, more than 100 basis points below the 3.2% rate less than eight months ago.
- Economists are nervous about a slowing economy, citing trade uncertainty, stock market volatility and weakening global growth.
- Slower growth could be a net negative for commercial real estate demand, but the industry also benefits from low rates.

If "Forecasting Treasury Rates" were a Jeopardy category, it is unlikely even recent champion prodigy James Holzhauer would get the right answers. When the 10-year Treasury rate hit a cycle high of 3.2% last October, opinions were mixed about whether and/or how much they would continue to increase, but few (if any) economists predicted the surprisingly steep drop-off since then.

What caused the rapid decline in rates, and is this a bad omen for commercial real estate? With regard to the first question, the outlook for the economy turned, well, not exactly bearish but certainly less positive than last year, when GDP growth was topping 3%.

The National Association of Business Economists released a survey this week that found a growing number of prognosticators increasing the odds that a recession will start in 2020. Even though a recession in the near term remains a minority opinion, however, the downside risks are growing. The biggest reason cited is trade uncertainty, with 88% of economists surveyed downgrading growth forecasts because of President Trump's policies on trade, which include tariffs on imports from China and Mexico. The other top reasons cited for the weaker growth outlook are stock market volatility and slowing global growth.

The new tariffs announced on Mexican goods start at 5% and could go as high as 25% if Mexico doesn't satisfy the administration's demands with regard to immigration. Disrupting trade with Mexico hits closer to home than a change in relations with China, but beyond that the constant shifting of the U.S. negotiating positions has left the business community unable to form long-term plans. Additionally, the resulting inflation in construction materials comes when rising costs make it difficult to build affordable housing in the U.S.

"The tariffs are likely to push up the cost of some construction materials and trigger retaliatory steps by Mexico that could lead U.S. export-oriented firms and transportation facilities to reduce or cancel construction projects," according to a report this week by the Association of General Contractors of America.

Another worry is the inversion of one closely watched yield curve measure: The 10-year Treasury rate dipped below the three-month Treasury rate in late May, which in the past has presaged recessions. The two-year Treasury rate remains higher than the 10-year rate.

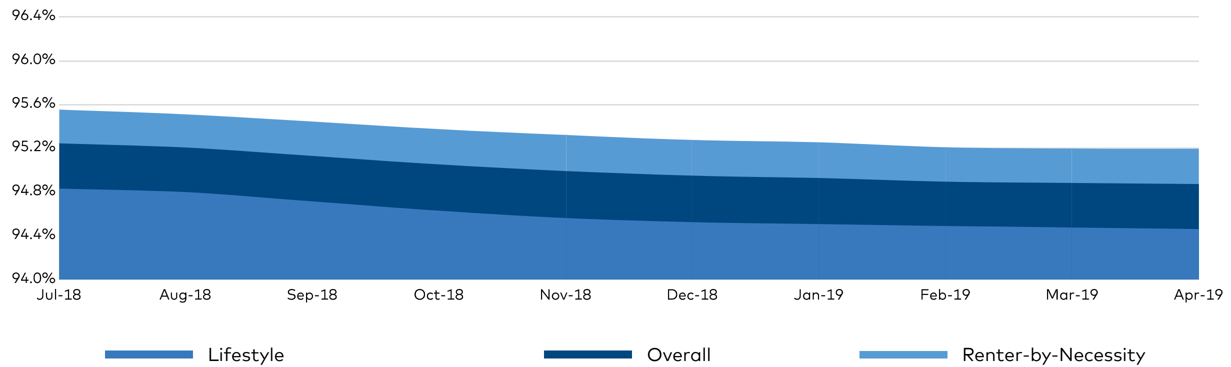
All this said, it's not certain that this is bad news for commercial real estate. The industry has typically prospered in low-rate environments.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of May - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of Mar - 19	Completions as % of Total Stock as of May - 19	Occupancy Rates as of Apr - 18	Occupancy Rates as of Apr - 19
Las Vegas	6.6%	5.4%	2.9%	2.0%	94.8%	95.0%
Phoenix	6.8%	5.3%	3.1%	3.2%	95.3%	95.5%
Nashville	2.6%	4.1%	3.1%	4.3%	94.9%	94.7%
Orlando	2.7%	4.0%	3.6%	3.2%	95.9%	95.0%
Raleigh	2.8%	4.0%	1.0%	3.6%	94.2%	94.7%
Twin Cities	3.1%	4.0%	0.2%	3.0%	97.2%	96.6%
Seattle	0.8%	3.9%	2.4%	5.0%	95.5%	95.3%
Sacramento	4.1%	3.8%	2.9%	0.6%	96.4%	96.3%
Austin	3.2%	3.7%	2.5%	3.5%	94.1%	94.3%
Inland Empire	3.5%	3.6%	1.9%	0.7%	96.1%	96.0%
Los Angeles	3.1%	3.5%	0.8%	2.0%	96.6%	96.4%
Atlanta	3.9%	3.5%	2.1%	2.3%	94.1%	94.2%
Boston	1.0%	3.5%	0.7%	3.2%	96.2%	96.1%
Tampa	2.7%	3.5%	2.2%	2.2%	95.5%	94.9%
Miami Metro	1.8%	3.4%	2.1%	3.9%	95.2%	95.1%
Kansas City	1.0%	3.4%	0.8%	3.0%	95.0%	94.4%
Charlotte	1.9%	3.3%	2.3%	3.8%	95.1%	95.0%
Dallas	2.2%	3.3%	2.7%	3.0%	94.4%	94.1%
San Jose	1.5%	3.3%	2.1%	1.5%	96.1%	95.8%
Indianapolis	2.5%	3.1%	0.7%	1.2%	94.2%	93.9%
Philadelphia	2.8%	3.0%	1.1%	0.6%	95.4%	95.5%
Chicago	1.3%	2.8%	1.2%	1.9%	94.7%	94.4%
San Francisco	2.7%	2.8%	2.3%	1.7%	96.0%	95.8%
San Antonio	2.5%	2.6%	1.9%	2.6%	92.7%	92.9%
Washington DC	1.8%	2.6%	0.8%	1.6%	95.4%	95.3%
Denver	1.8%	2.6%	2.0%	4.4%	95.1%	94.7%
Orange County	2.8%	2.3%	1.1%	1.1%	95.9%	95.9%
Baltimore	2.4%	2.0%	0.7%	1.3%	94.5%	94.8%
Houston	0.4%	1.9%	2.5%	1.3%	93.8%	92.4%
Portland	1.2%	1.9%	1.8%	2.5%	95.5%	95.2%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

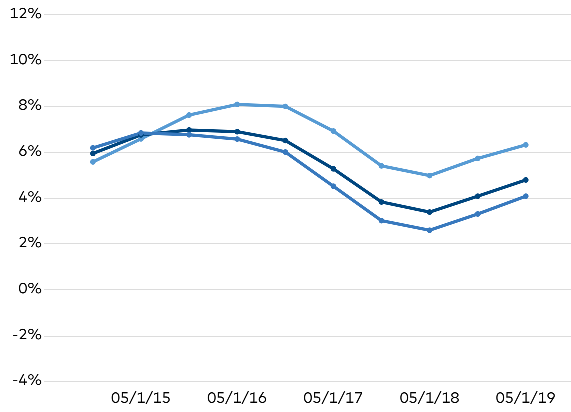
Year-Over-Year Rent Growth, Other Markets

Market	May 2019		
	Overall	Lifestyle	Renter-by-Necessity
Tucson	6.3%	7.9%	5.6%
Central Valley	4.6%	1.3%	5.5%
Long Island	4.6%	5.5%	4.2%
NC Triad	4.5%	5.6%	3.3%
Albuquerque	4.4%	5.3%	4.2%
Reno	4.3%	2.7%	5.5%
Tacoma	4.3%	4.1%	4.7%
San Fernando Valley	3.1%	1.9%	3.9%
Salt Lake City	3.0%	1.9%	4.0%
Colorado Springs	2.8%	2.1%	3.6%
Indianapolis	2.5%	1.4%	2.8%
El Paso	2.4%	2.6%	2.4%
Louisville	2.0%	2.0%	2.2%
Northern New Jersey	1.9%	0.7%	3.0%
St. Louis	1.7%	0.2%	2.2%
Bridgeport–New Haven	1.7%	0.8%	2.6%
SW Florida Coast	1.0%	-0.1%	2.7%
Central East Texas	0.9%	1.4%	0.9%

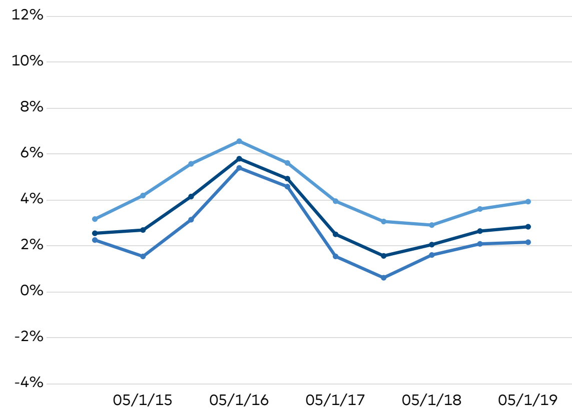
Source: Yardi Matrix

Market Rent Growth by Asset Class

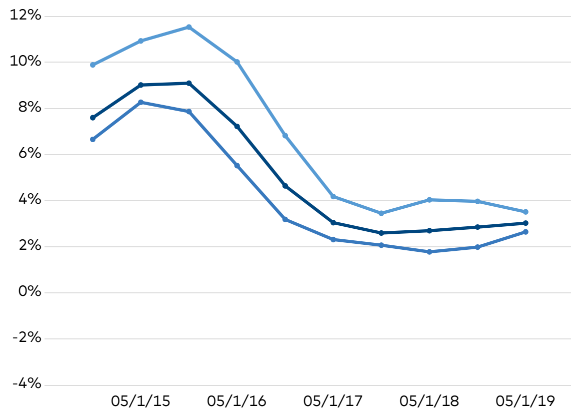
Atlanta



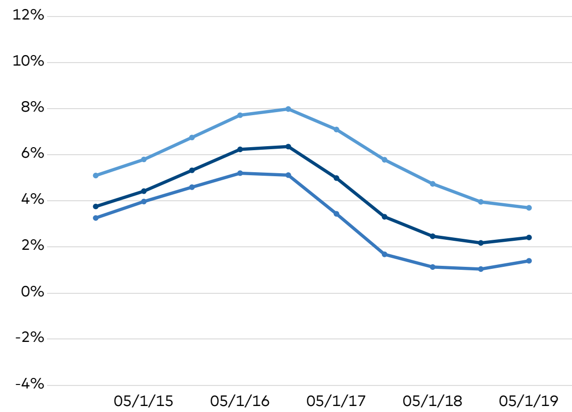
Boston



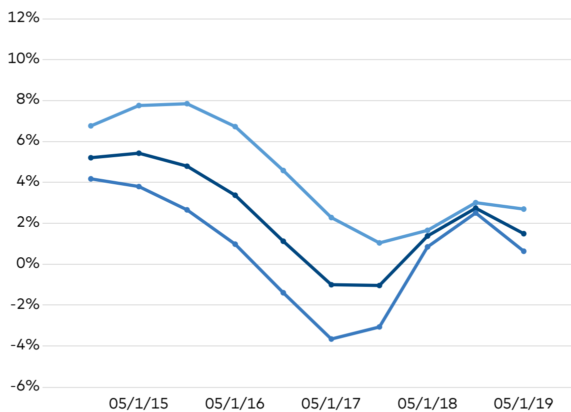
Denver



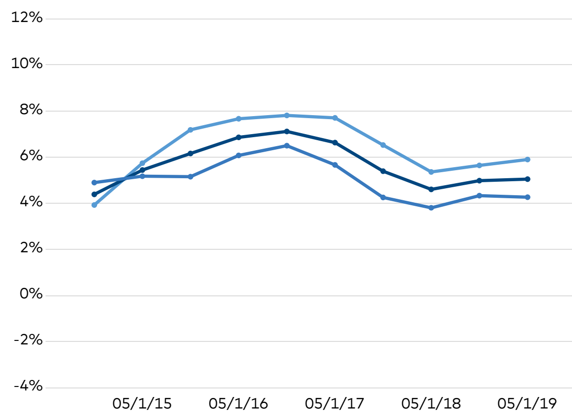
Dallas



Houston



Inland Empire

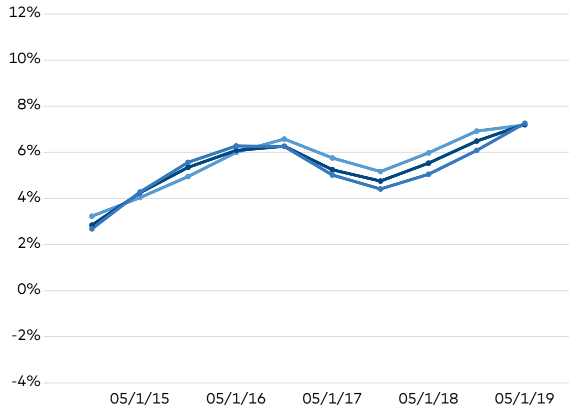


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

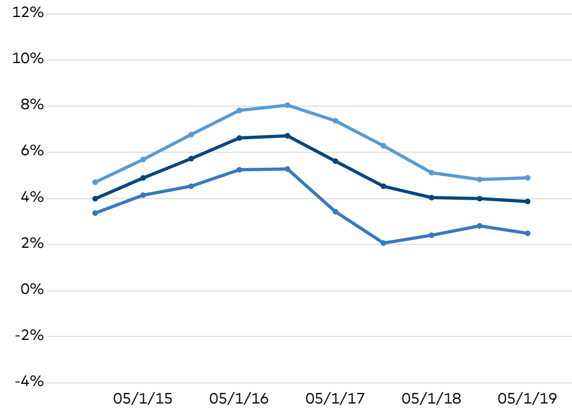
Source: Yardi Matrix

Market Rent Growth by Asset Class

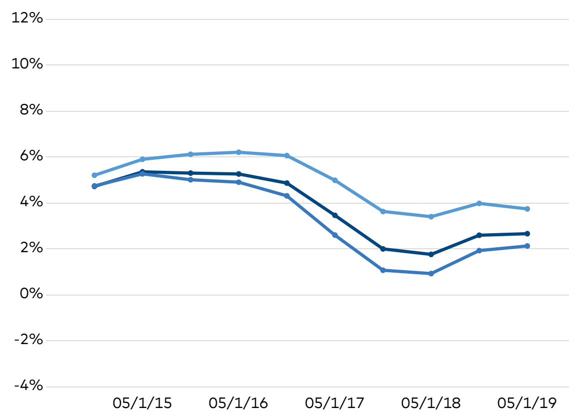
Las Vegas



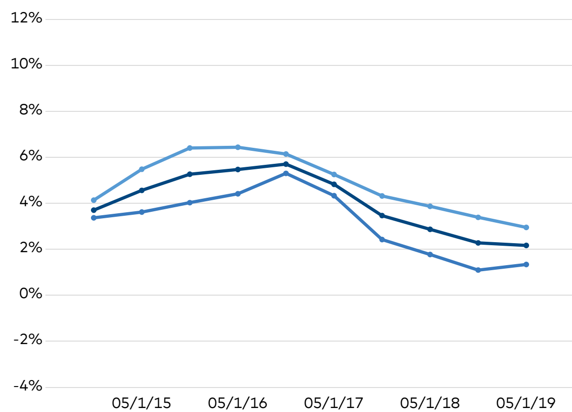
Los Angeles



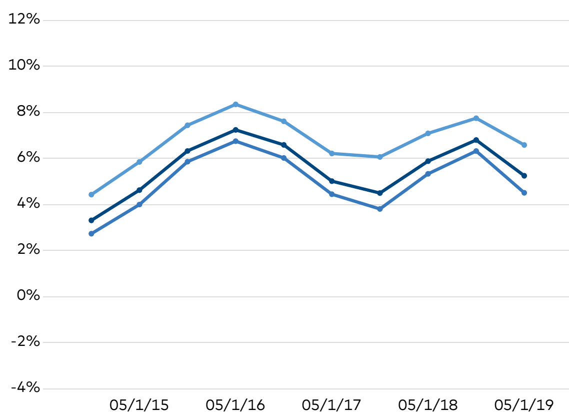
Miami



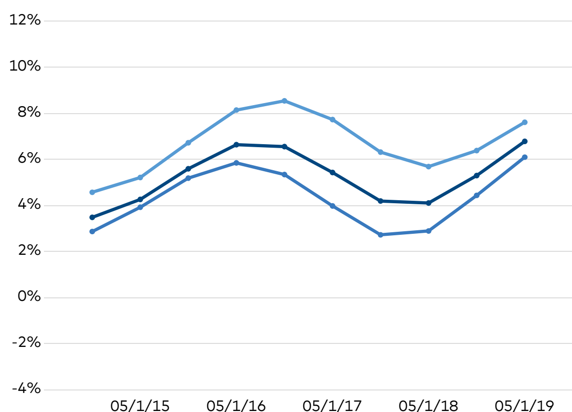
Orange County



Orlando



Phoenix

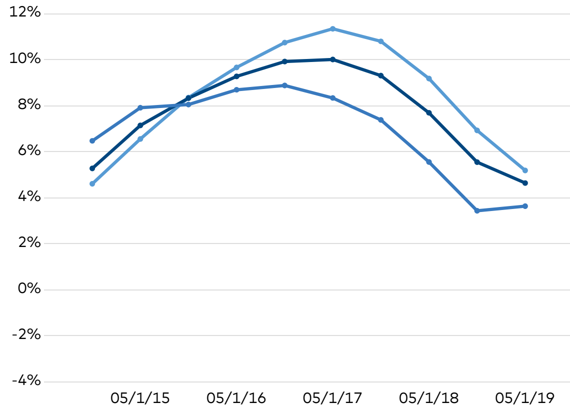


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

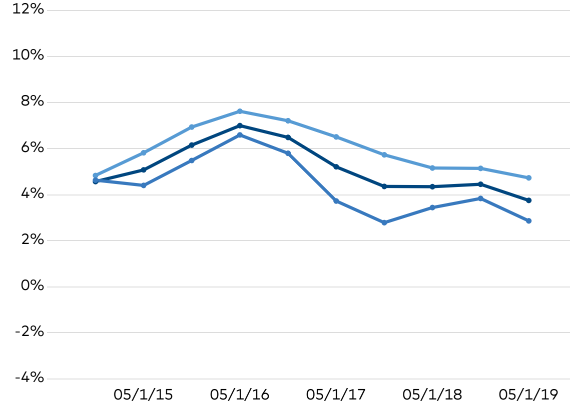
Source: Yardi Matrix

Market Rent Growth by Asset Class

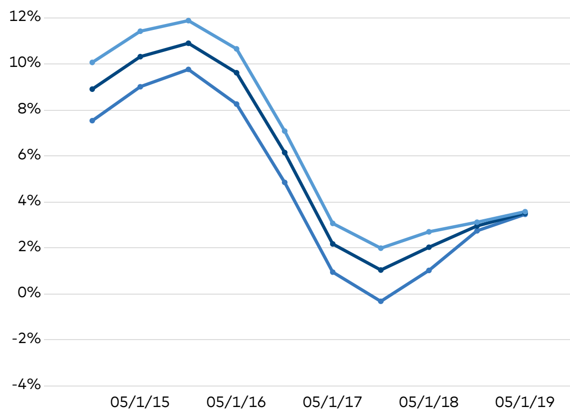
Sacramento



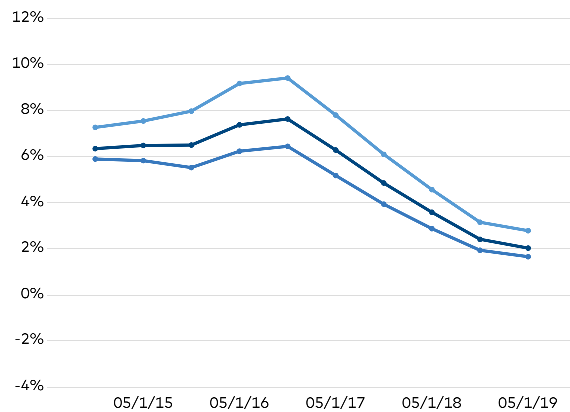
San Diego



San Francisco



Seattle



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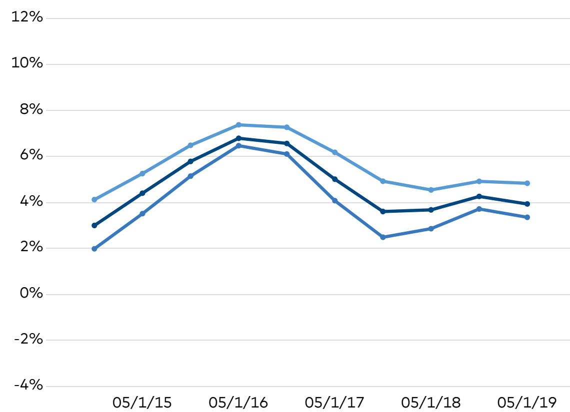
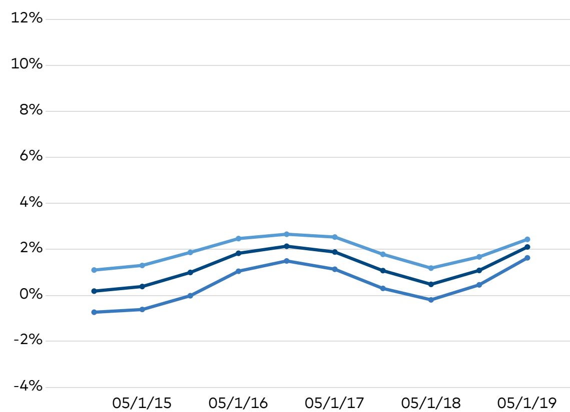


Washington, D.C.



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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