Yardi® Matrix

Multifamily National Report

December 2019

Weak End to a Solid Year

- The average U.S. rent fell $1 in December to $1,474, with the growth rate falling 10 basis points from November. That said, U.S. multifamily rents finished a remarkably consistent 2019 up 3.0%. Year-over-year growth remained between 3.0% and 3.3% the entire year.

- Rents were essentially flat for the fourth quarter, which is a normal seasonal trend. The last time rents grew significantly during the end of the year was 2014 and 2015.

- Rent growth continues to be strong in all regions, led by secondary markets in the West and Southeast. Phoenix, Las Vegas, Sacramento and Nashville were among the top-performing metros all year. However, growth decelerated significantly during the year in some metros, notably San Jose, Orlando and Denver.

2019 will go down as a year without much drama in the multifamily sector, but market players would take a few more years just like it. U.S. rent growth was a solid 3.0%, and the year-over-year rate stayed within a 30-basis-point band all year.

Fundamentally, the market is sound, with no red flags on the immediate horizon. Despite deliveries of roughly 300,000 units for the year, the occupancy rate for stabilized properties was 94.9% as of November, down only 10 basis points over the last year. The healthy job market, averaging 180,000 new jobs per month, and the unemployment rate of 3.5% helped produce steady absorption.

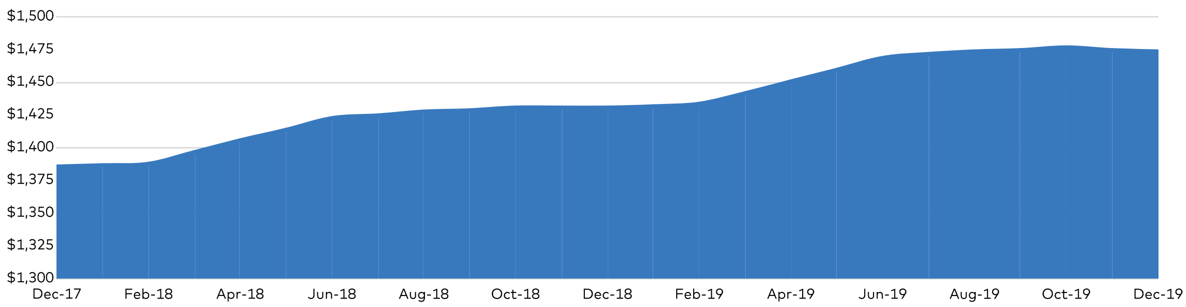
On the metro level, gains have been fairly distributed. Of the top 30 metros in our ranking, 21 saw rents increase by 2.6% or more, led by Phoenix (7.7%), Las Vegas (5.4%) and Sacramento (5.1%). Growth also accelerated during the year in mature metros such as Philadelphia (3.9%), Washington, D.C. (3.8%) and Boston (3.6%).

The news was weaker in several markets that saw rents decelerate over the course of 2019. Orlando's rent growth ended the year at 1.3% after it was 5.2% in January. San Jose started at 4.7% and ended up -0.3%. San Francisco started at 4.5% and ended at 1.6%. And Denver started at 3.4% and ended at 1.5%.

The Bay Area is weakening due to concern over growth in startup technology firms, the feeble IPO market and the lack of affordable housing, which is prompting large employers to seek cheaper markets. Other metros are digesting heavy supply pipelines. Orlando saw occupancy drop 50 basis points year-over-year to 94.8% as of November. Deliveries in Denver added 4.4% to stock, among the highest rates of new supply nationwide.

All of these metros have a strong economic base, so it would seem likely that growth will rebound. Despite pockets of concern, 2020 should be a healthy year.

National Average Rents

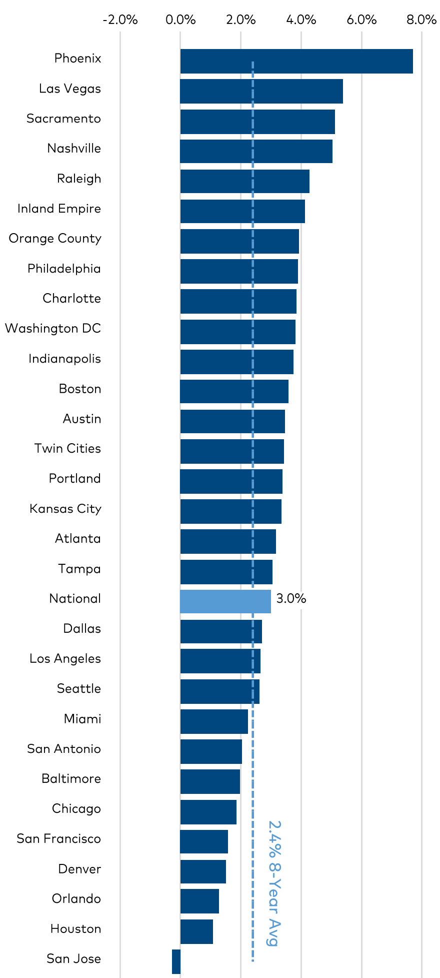


National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

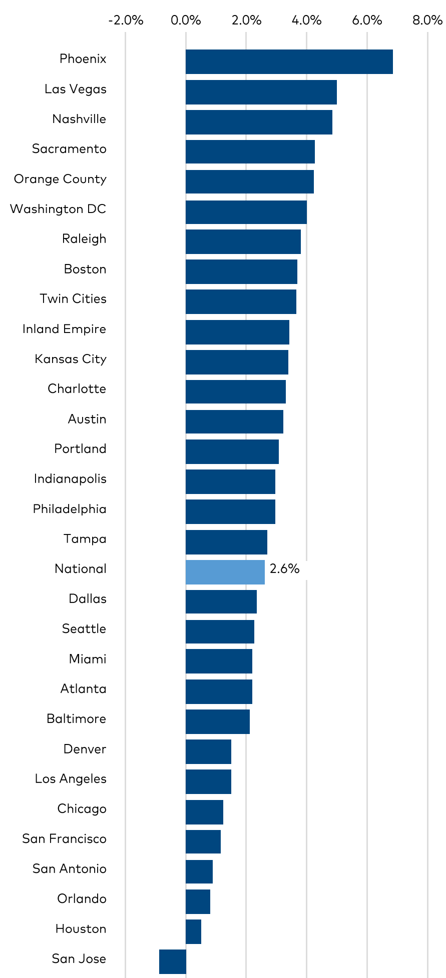
Year-Over-Year Rent Growth
Rent Gains Soften but Steady Demand Remains

- Rent growth softened, yet again, to 3.0% on a year-over-year basis in December, down 10 basis points from November. Year-over-year rent growth is at its lowest level since May 2018, when it reached 2.9%.
- Phoenix (7.7%) and Las Vegas (5.4%) have topped the rankings together for 16 months—and counting. The last time these two markets did not top the charts was in September 2018, when Orlando claimed the first-place position, with Las Vegas and Phoenix following closely behind.
- Three California markets—Sacramento (5.1%), the Inland Empire (4.1%) and Orange County (3.9%)—ranked in the top 10. Despite California's affordability issues and the recent passage of statewide rent control, these three markets continue to find a way to increase rents.

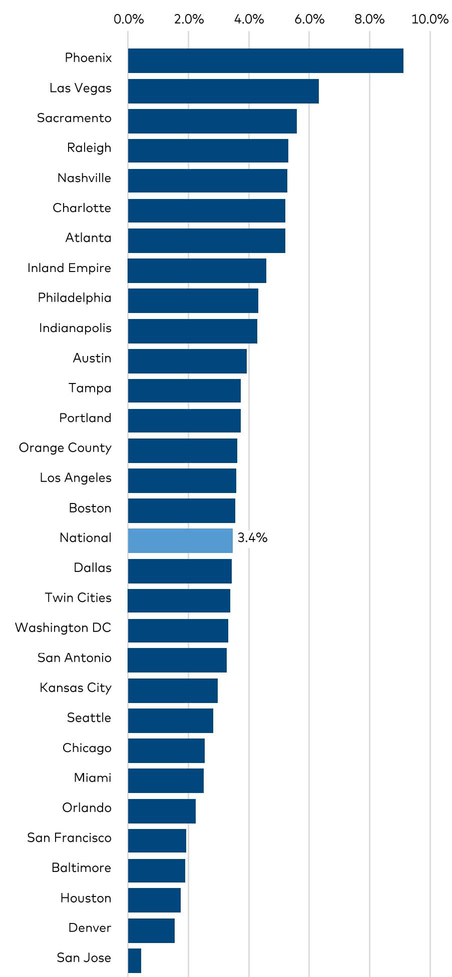
Year-Over-Year Rent Growth— All Asset Classes



Year-Over-Year Rent Growth— Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months:
The OC and Phoenix Tops in Short-Term Growth

- Rent growth nationally was flat in December on a trailing three-month (T-3) basis, with no change from November.

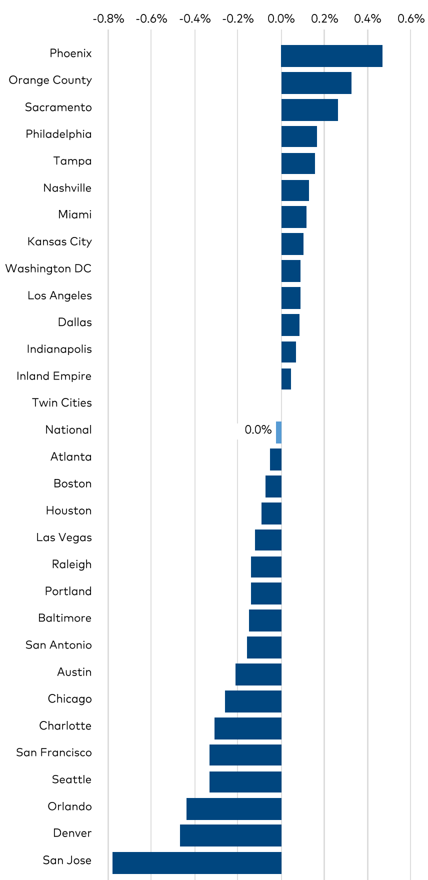
- Only nine markets showed Lifestyle rents rising on a T-3 basis. Growth in the Renter-by-Necessity segment was stronger, with 15 markets experiencing positive growth.

Rents were flat 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.

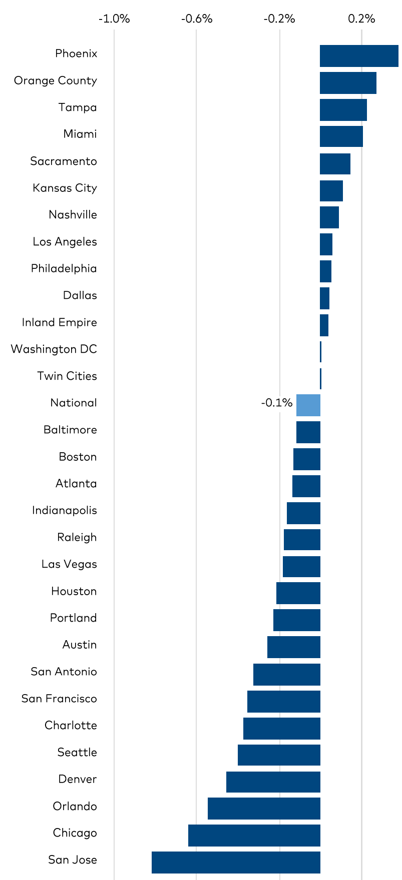
Gains were led by Phoenix (0.5%), Orange County and Sacramento (both 0.3%). Seasonality continues to be a factor, with 16 metros experiencing negative T-3 rent growth. Orlando (-0.4%), Denver (-0.5%) and San Jose (-0.8%) fell to the bottom of the rankings. Orlando and Denver have experienced strong population and job growth over the past few years, but recently population growth has been decelerating, possibly indicating an affordability issue, as residents continue to seek lower-cost alternative markets.

Philadelphia (0.2%) is a new addition to the top five. New supply in Philadelphia has been limited (4.8% of existing stock is currently under construction), which has allowed for short-term rent increases.

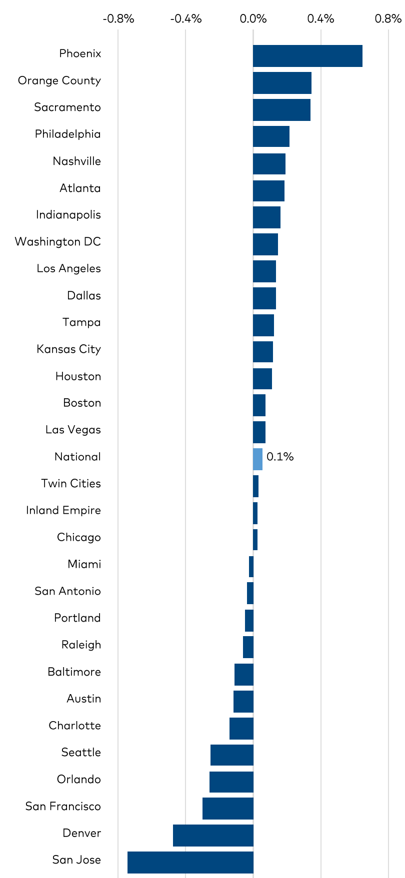
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



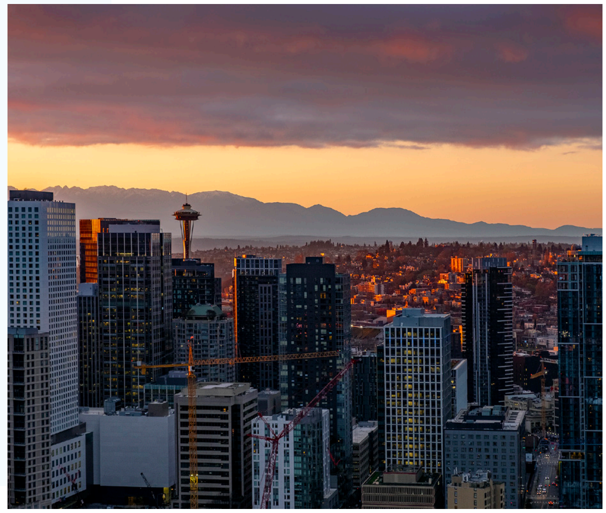
Trailing 3 Months Sequential—Renter-by-Necessity Asset Class



Source: Yardi Matrix

Employment, Supply and Occupancy Trends; Forecast Rent Growth

- Multifamily continues to benefit from abundant debt capital sources. Total apartment lending in 2019 was on track to reach 2018's record $338 billion.
- Fannie Mae and Freddie Mac continue to be the leading providers, but the CMBS market came on strong in the second half of 2019.
- CMBS benefited from the decline in Treasury spreads, which helped make the segment more competitive. In 2019, $12.5 billion of CMBS was backed by multifamily, more than double the volume in the prior year.



Fannie Mae and Freddie Mac have been the leading providers of multifamily debt in recent years, but other lender types such as non-agency CMBS are increasing market share in the segment.

CMBS more than doubled its origination of multifamily loans in 2019, boosted by low interest rates and the Treasury department's announcement of a GSE reform plan in the fall. CMBS issuers securitized $12.5 billion of multifamily loans in 2019, up 107.7% from the $5.7 billion of multifamily loans securitized in 2018. Multifamily accounted for 12.5% of the CMBS market's $95.2 billion total in 2019, up from 7.6% of total issuance the previous year (all data from "Commercial Mortgage Alert"). Some $8.2 billion of 2019's multifamily non-agency CMBS issuance —or nearly 70% of the annual total—came during the fourth quarter.

What happened? The drop in Treasury spreads in 2019 made CMBS more competitive versus other loan types. CMBS volume rose to $95.2 billion in 2019, from $75.2 billion in 2018. CMBS loan quotes react to market forces more quickly than those of competitors because pricing is based on daily changes to market conditions.

As interest rates declined, the average weighted coupon of loans in CMBS deals fell to 3.7% in the fourth quarter, compared to 4.7% in 2018. Borrowers are eager to lock in long-term debt at attractive rates and relatively full leverage offered by securitization programs. Portfolio lenders have longer-term considerations and more flexibility.

The other reason for the surge in non-agency multifamily CMBS was that Fannie and Freddie paused slightly following the Treasury announcement that they would each have hard caps of $100 billion to lend between Sept. 1, 2019, and the end of 2020, and would not be able to surpass the caps for loans with green or affordable components. The agencies reacted by raising spreads, which made them less competitive. Both wanted to slow down their output so as not to burn through allocations too quickly.

Despite the agencies' slight cutback, total lending on multifamily properties continues to soar. Some $168 billion of multifamily loans from all sources was originated in the first half of 2019, putting the market on track to roughly match the 2018 record of $338 billion, according to data compiled by the CRE Finance Council. Fannie and Freddie accounted for 39% of first-half volume, which is down slightly from the 40%-plus of recent years but they remain the largest source of debt. In addition to CMBS, specialty lenders such as private equity funds have increased activity.

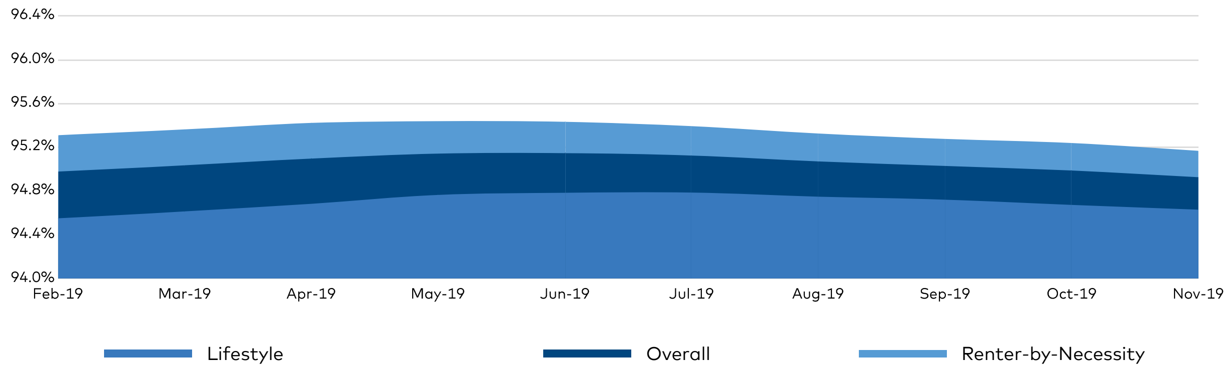
Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Dec - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of Nov - 19	Completions as % of Total Stock as of Dec - 19	Occupancy Rates as of Nov - 18	Occupancy Rates as of Nov - 19
Phoenix	7.7%	7.8%	2.8%	2.8%	95.3%	95.0%
Las Vegas	5.4%	6.8%	2.1%	1.4%	95.0%	94.9%
Nashville	5.0%	5.5%	1.8%	2.9%	94.7%	95.3%
Inland Empire	4.1%	5.2%	2.2%	1.3%	96.1%	95.9%
Raleigh	4.3%	4.9%	2.1%	3.4%	94.7%	94.7%
Sacramento	5.1%	4.8%	1.6%	0.8%	96.2%	96.0%
Charlotte	3.8%	4.8%	2.4%	4.3%	95.0%	95.0%
Austin	3.5%	4.7%	2.3%	3.2%	94.6%	94.8%
Portland	3.4%	4.5%	1.9%	2.6%	95.4%	95.4%
Indianapolis	3.7%	4.1%	0.8%	1.4%	94.3%	94.2%
Philadelphia	3.9%	4.0%	1.1%	1.2%	95.5%	95.6%
Twin Cities	3.4%	3.9%	0.0%	2.3%	96.8%	96.7%
Atlanta	3.1%	3.7%	1.9%	2.5%	94.3%	94.0%
Orange County	3.9%	3.6%	1.2%	1.2%	96.0%	96.0%
Orlando	1.3%	3.3%	3.5%	2.8%	95.3%	94.8%
Kansas City	3.3%	3.2%	1.5%	1.9%	94.6%	94.8%
Boston	3.6%	3.2%	1.4%	2.6%	96.3%	96.5%
Washington DC	3.8%	3.2%	1.3%	2.0%	95.4%	95.4%
Seattle	2.6%	3.2%	3.2%	4.4%	95.2%	95.4%
Tampa	3.0%	3.2%	2.1%	2.4%	95.1%	94.7%
Los Angeles	2.6%	2.9%	1.4%	2.0%	96.5%	96.2%
San Antonio	2.0%	2.8%	2.4%	1.8%	93.1%	93.1%
Dallas	2.7%	2.7%	3.1%	3.2%	94.3%	94.2%
Denver	1.5%	2.7%	2.0%	4.4%	94.9%	94.7%
San Francisco	1.6%	2.6%	2.3%	2.7%	95.9%	95.6%
Miami Metro	2.2%	2.4%	2.0%	3.6%	95.2%	94.9%
Baltimore	1.9%	2.3%	1.0%	0.8%	94.6%	94.7%
Chicago	1.9%	1.9%	1.1%	3.1%	94.5%	94.3%
Houston	1.1%	1.8%	2.7%	1.3%	92.7%	92.9%
San Jose	-0.3%	1.5%	2.7%	2.1%	95.6%	95.7%

Source: Yardi Matrix

Occupancy & Asset Classes

Occupancy—All Asset Classes by Month



Source: Yardi Matrix

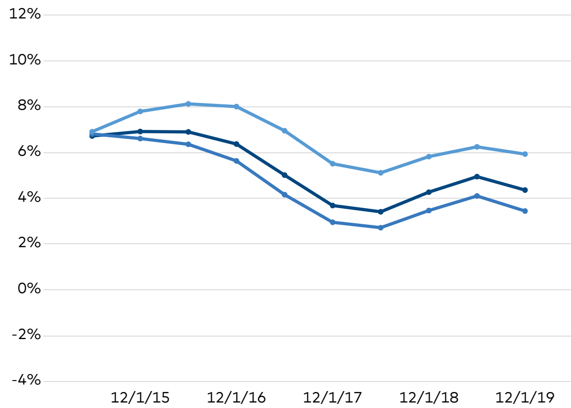
Year-Over-Year Rent Growth, Other Markets

Market	November 2019		
	Overall	Lifestyle	Renter-by-Necessity
Colorado Springs	6.3%	5.2%	7.6%
Albuquerque	6.0%	7.6%	5.0%
Central Valley	5.7%	3.7%	6.4%
Tucson	5.5%	4.1%	6.2%
Tacoma	5.4%	4.9%	6.3%
NC Triad	4.7%	4.6%	5.1%
Indianapolis	3.7%	3.0%	4.3%
Long Island	3.7%	1.6%	4.7%
Louisville	3.5%	1.4%	4.7%
St. Louis	3.2%	2.6%	3.5%
Central East Texas	2.7%	3.4%	1.8%
Jacksonville	2.6%	1.3%	4.1%
Salt Lake City	2.5%	1.9%	2.8%
El Paso	2.4%	2.0%	2.6%
San Fernando Valley	2.4%	1.9%	2.7%
Reno	2.2%	0.7%	3.3%
Northern New Jersey	2.1%	1.0%	3.4%
Bridgeport–New Haven	1.4%	1.2%	1.7%
SW Florida Coast	1.3%	1.4%	1.1%

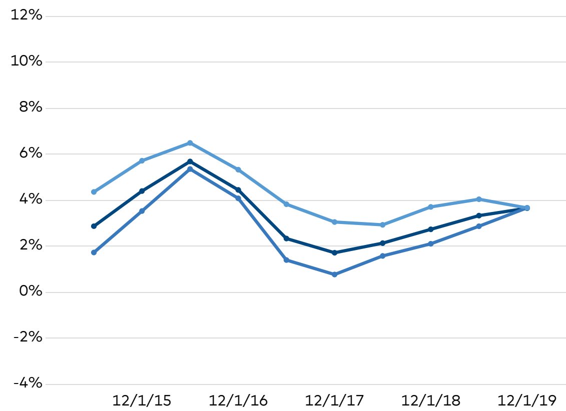
Source: Yardi Matrix

Market Rent Growth by Asset Class

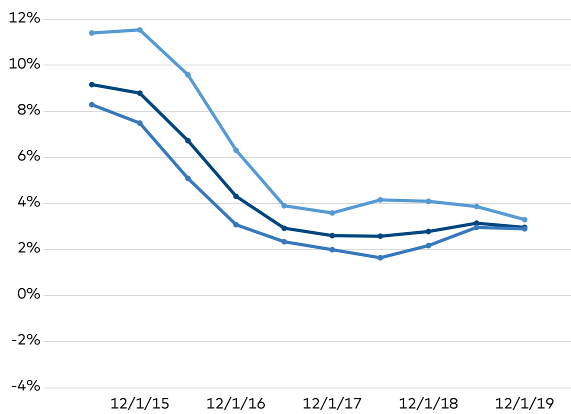
Atlanta



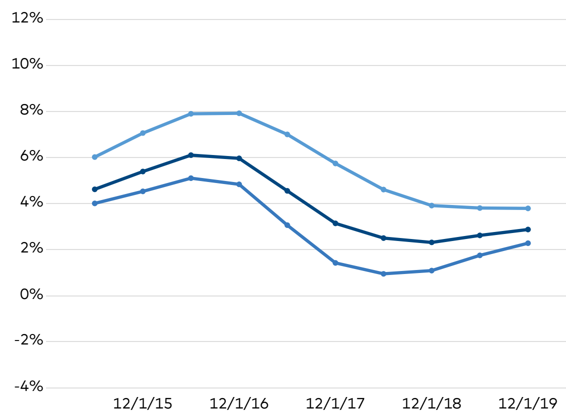
Boston



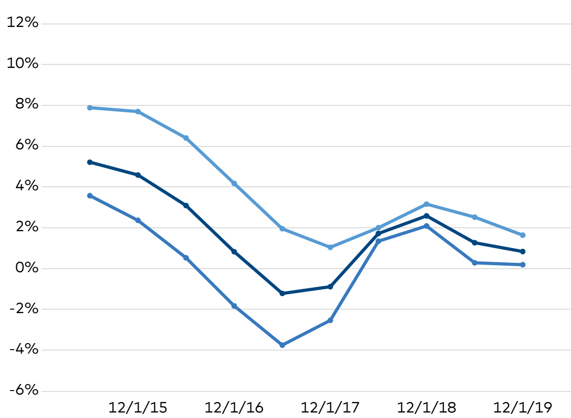
Denver



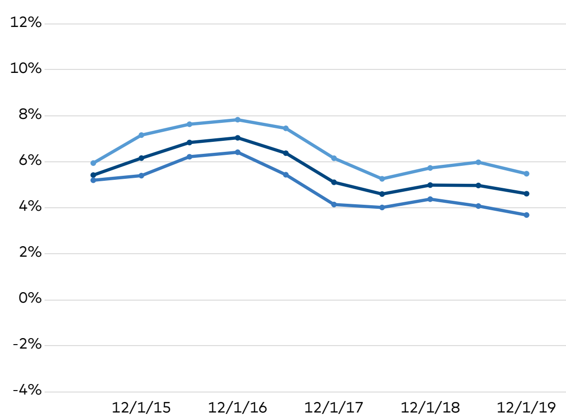
Dallas



Houston



Inland Empire

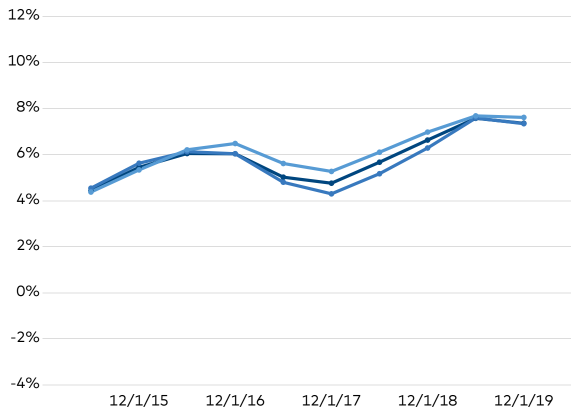


Trailing 12 Months Overall | Trailing 12 Months Lifestyle | Trailing 12 Months Renter-by-Necessity

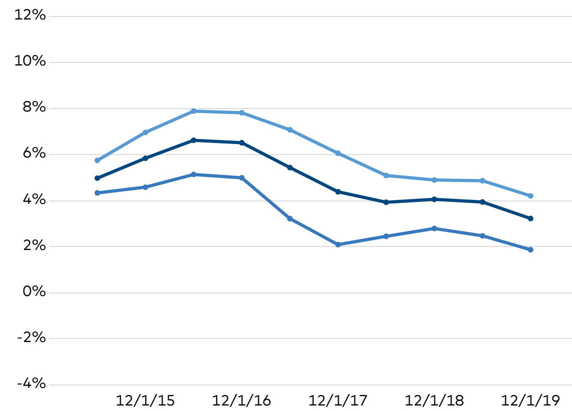
Source: Yardi Matrix

Market Rent Growth by Asset Class

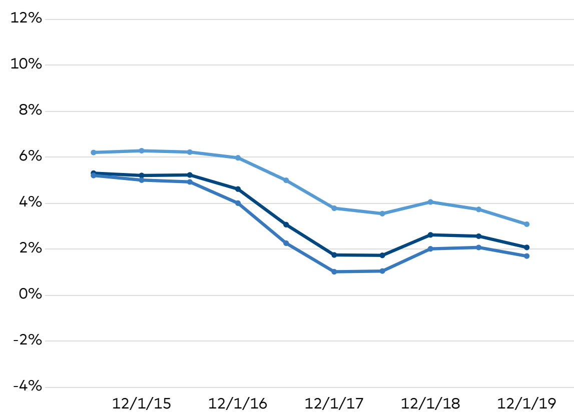
Las Vegas



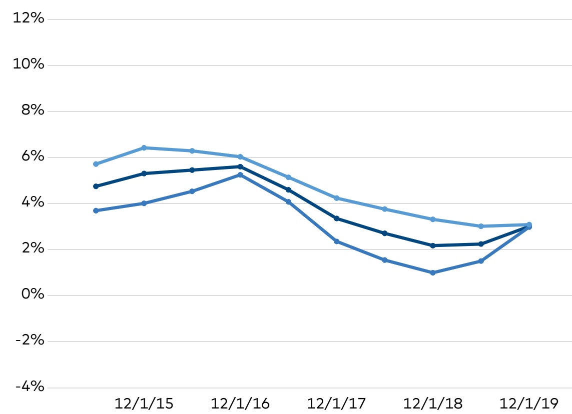
Los Angeles



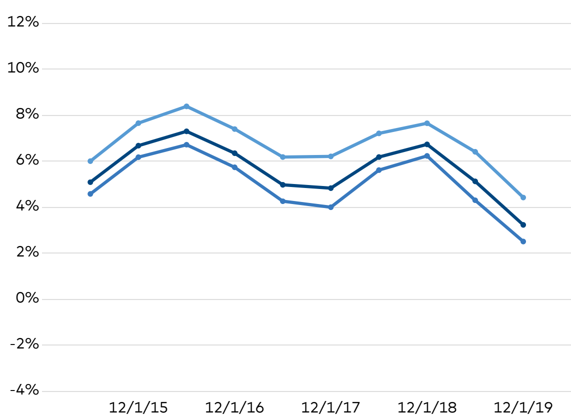
Miami



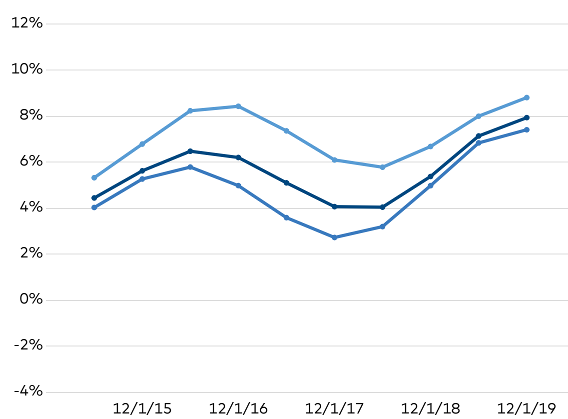
Orange County



Orlando



Phoenix

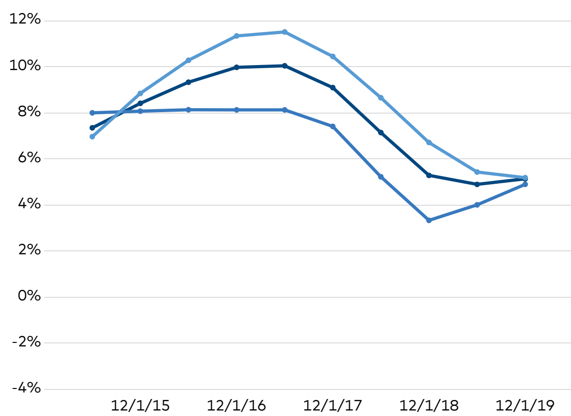


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

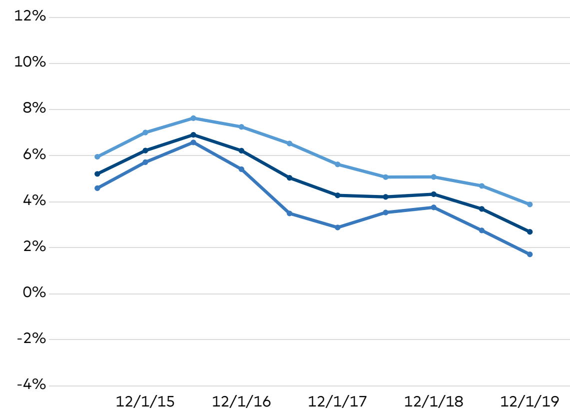
Source: Yardi Matrix

Market Rent Growth by Asset Class

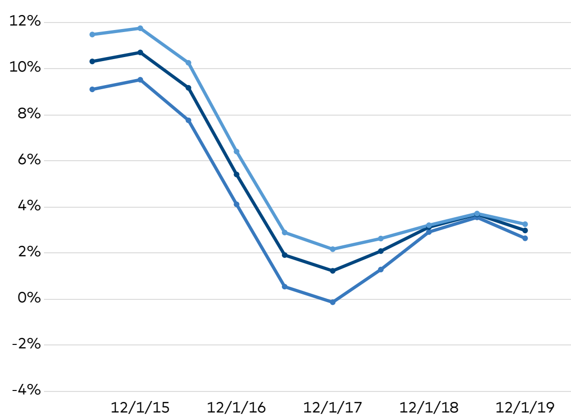
Sacramento



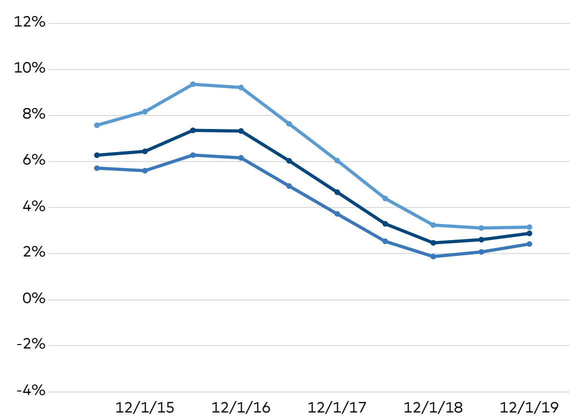
San Diego



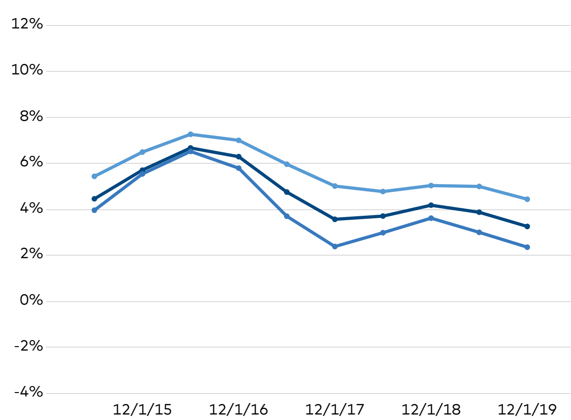
San Francisco



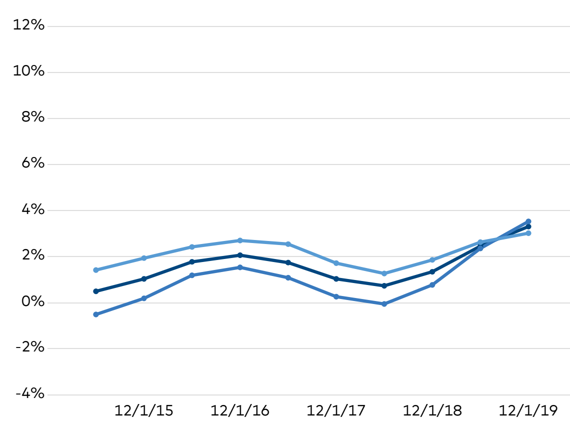
Seattle



Tampa



Washington, D.C.



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

Source: Yardi Matrix

Definitions

Reported Market Sets:

- National rent values and occupancy derived from core 60 markets with years of tracked data that makes a consistent basket of data
- All 133 markets, including any that have been recently released

Average Rents: Average Same-Store index rent (mean), rolled up from unit mix level to metro area level, weighted by units

Rent Growth, Year-Over-Year: Year-over-year change in average market rents, as calculated by same month

Rent Growth, Quarterly: Year-over-year change in average market rents, as calculated by same quarter average. Partially completed quarters are only compared to partial quarters.

Forecast Rent Growth: Year-over-year change in average forecasted market rents, as calculated by same month

Market rent: Converted rent that reflects of the effect of differences in relevant attributes that hold reasonably quantifiable value.

Actual (effective) rent: Monthly rate charged to residents to occupy an apartment and is shown as-is without additional concessions or adjustments.

Same-Store index rent: Rents adjusted to new supply as it joins the market

Employment Totals: Total employment figures and categories provided by Bureau of Labor Statistics, seasonally adjusted

Employment Data Geography: Comprises entirety of United States, which Matrix data covers 90% of US metro population. Reported information is for MSAs that overlap Matrix Markets.

Market: Generally corresponds to a Standard Metropolitan Statistical Area (SMSA), as defined by the United States Bureau of Statistics, though large SMSA are split into 2 or more Markets

Metro: 1 or more Matrix markets representing an economic area. Shown with combined Matrix markets when necessary, and do not necessarily fully overlap an SMSA.

Occupancy Rates: Ratio of occupied unit count and total unit count, as provided by phone surveys and postal records. Excludes exception properties: closed by disaster/renovation, affordable, and other relevant characteristics.

Completions as % of Total Stock: Ratio of number of units completed in past 12 months and total number of completed units

Ratings:

- Lifestyle/Renters by Choice
- Discretionary—has sufficient wealth to own but choose rent
- Renters by Necessity
- High Mid-Range—has substantial income but insufficient wealth to acquire home/condo
- Low Mid-Range—Office workers, police officers, technical workers, teachers, etc
- Workforce—blue-collar households, which may barely meet rent demands and likely pay distortional share of income toward rent
- Other Categories
- Student—may span range of income capability
- Military—subject to relocation
- Subsidized—Partially to fully subsidized by a governmental agency subsidy. Can extend to middle-income households in high-cost markets.

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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