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Regional Trends in Multifamily

- Multifamily property performance has been stellar throughout most of the country during the current economic cycle, but even so there have been distinct regional differences in fundamental measures, investor demand and economic growth.

- The West, Southwest and Southeast have outperformed in metrics such as rent growth, employment growth and transaction volume, according to a Yardi Matrix study of multifamily performance in 130 metros. Although growth was less robust in the Northeast and Midwest, those regions did exhibit steady gains in most fundamental categories.

- Yardi's study looked at rent growth, occupancy, supply growth and transaction activity over a four-year period between 2016 and 2019. We broke down performance by five major U.S. regions (Northeast, Midwest, West, Southwest and Southeast). We also looked at four-year employment and rent growth data by metro, region and several broader economic categories (gateway, secondary, tertiary and technology markets).

- The West and Southwest have led in rent growth for most of the economic cycle, but on a regional basis the gains converged in 2019. There was only a 30-basis-point difference between the metro with the most rent growth (the West, at 3.3%) and the Northeast and Southwest (3.0%).

- Occupancy rates of stabilized properties at the end of 2019 were at least 94.6% in every region but the Southwest (93.7%). The Northeast led with an extremely strong average occupancy rate of 96.5%.

- More than half (52.1%) of all the 298,000 units delivered in 2019 were in the Southeast (84,923) or West (70,434). All told, total completions fell 10.9% in 2019, as projects are taking longer from start to finish due to labor shortages and delays by local jurisdictions.

- Investment dollars are flowing to the Southeast and West, which accounted for 60.0% of the $119.5 billion of transaction activity in 2019. Deal flow lagged in the Midwest and Northeast.

Rents

- The Northeast ($2,066) and West ($1,824) have the highest rents in the country, while the Midwest ($1,091) lagged the $1,383 national average at the end of 2019. In the Northeast, New York City and its suburbs had the highest rents, led by Manhattan ($4,208) and Brooklyn ($2,942). In the West, areas with the highest rents include the San Francisco Peninsula ($3,165) and Los Angeles ($2,551).

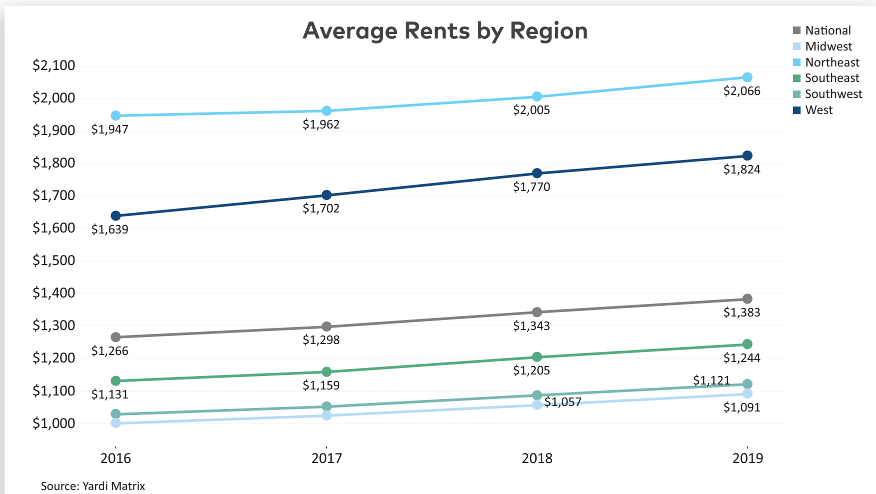
- Several years into a strong rent growth cycle, gains were remarkably consistent across the country, as a mere 30 basis points separated the five regions in rent increases. The West had the highest rent growth (3.3%), while the Southwest and Northeast were the lowest at 3.0%. During the previous three years, rent growth was led by the West with the Northeast the weakest, although the spread between the regions was much higher. The gap between the West and Northeast was 330 basis points in 2016, 290 basis points in 2017 and 180 basis points in 2018.

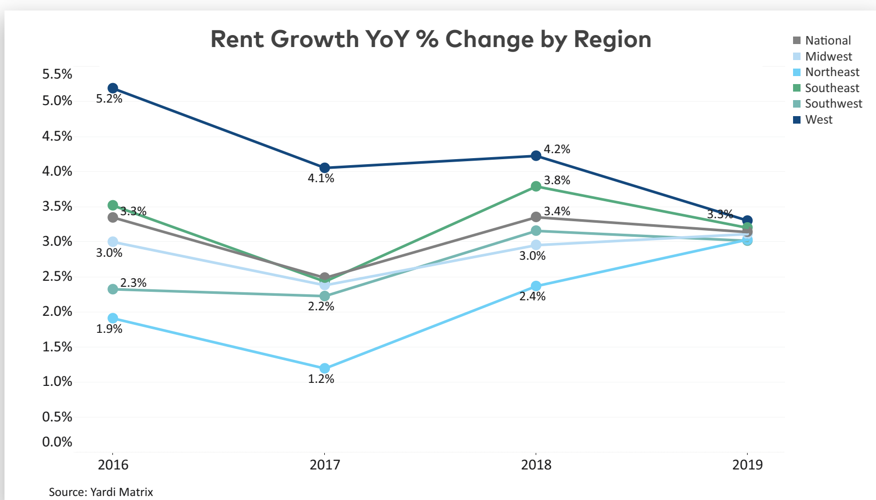
- The convergence between regions is the result of several factors. Some metros in the West that experienced outsize gains in recent years due to a wave of demand slowed down to more normal rent increases. Metros where rent growth has declined in recent years include parts of San Francisco, Seattle, Los Angeles and San Diego. Technology firms have either reduced hiring or moved workers out of high-cost metros into areas where employees could better afford rents.

- Another reason rent growth has cooled in some regions is the growth in deliveries. Rent growth fell 60 basis points in 2019 year-over-year, as demand could not keep up with supply growth in metros such as Orlando, Atlanta and Miami.

- Meanwhile, rent growth accelerated in the Northeast in 2019 due to strong performance from metros such as Washington, D.C., Boston, Philadelphia and New York boroughs Queens and Brooklyn. Demand has been strong for newly built Lifestyle units.

- Although it's unlikely that rent growth will remain as geographically consistent as it was

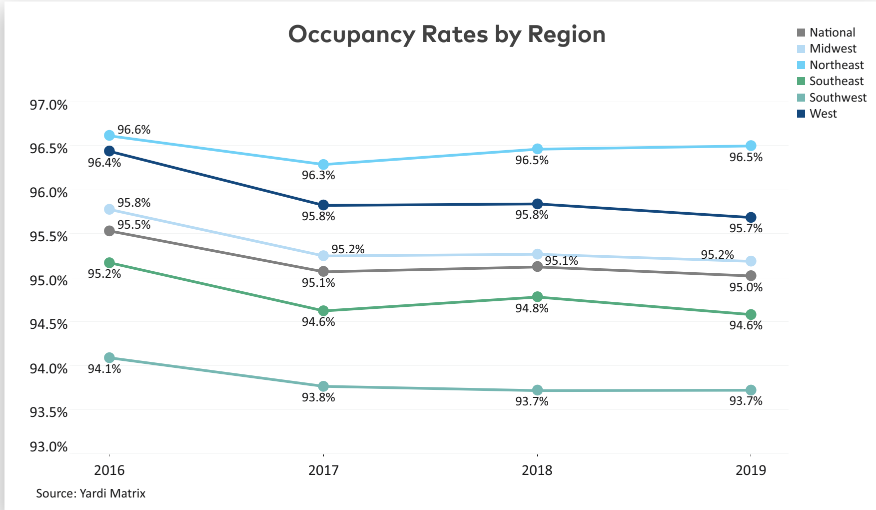




in 2019, the multifamily market is benefiting from strong demographic and population trends and the demand for new housing.

Occupancy

- The national occupancy rate of stabilized properties has dropped 50 basis points over the last four years but remains a healthy 95.0%.



- At 96.5%, the Northeast has the highest occupancy rate, led by the New York City metro submarkets of Queens and Brooklyn (99.0%), Manhattan (98.3%) and Northern New Jersey (96.6%). The New York City data includes only stabilized market-rate properties. However, the lack of vacancies speaks to the demand for units in New York and how the cost of construction and regulatory environment have snuffed out badly needed development.

- The West (95.7%) also topped the national average, led by San Diego and Los Angeles (96.0%) and Orange County (95.9%). The high occupancy rates in many California metros depict the same issues as the East Coast—namely, a hostile environment for developers and demand for housing of all types.

- The Southwest (93.7%) lags in occupancy rates, with the major contributors being Houston (92.7%), Oklahoma City (92.8%) and San Antonio (93.0%). The Southwest, particularly metros in Texas, is almost a mirror image of the situation in the Northeast and West: Land is plentiful and development is much easier to complete.

- Nationally, occupancy rates dropped 10 basis points in 2019. Rates were flat in the Northeast and Southwest, and dropped slightly in the other regions.

Transactions

- Robust demand to add multifamily properties to portfolios pushed deal flow to an all-time high of $119.5 billion in 2019. Transaction volume of U.S. properties with 50 units or more was up 3.2% over 2018's previous high-water mark of $115.8 billion. Investors are voting with their wallets for regions of the country with higher growth prospects, as the Southeast ($38.2 billion) and West ($33.4 billion) accounted for 60% of all transactions.

- Volume in the Southeast was strong across most major regional centers, including Atlanta ($8.3 billion), Tampa ($3.8 billion), Northern Virginia ($3.4 billion), Charlotte ($3.0 billion) and Orlando ($2.8 billion).

- Volume in the West was led by Seattle ($5.5 billion), San Francisco ($5.3 billion), Denver ($5.0 billion) and Las Vegas, where $3.4 billion of multifamily assets changed hands.

- Deal flow in the Northeast in 2019 was only $16.0 billion, in part because of a steep drop in New York City transactions. Only $3.2 billion of market-rate properties changed hands in the boroughs of Manhattan, Brooklyn and Queens in 2019, down from $5.9 billion in 2018. Some of that 46.1% decline was the result of investors' decisions to shun the market after the state implemented onerous rent control measures that prevent landlords from raising rents for property improvements, among other things.

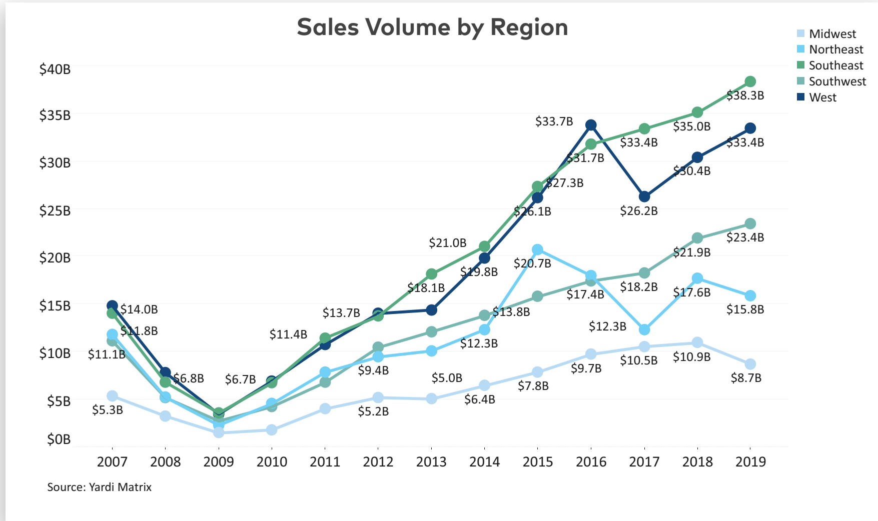
- The West ($247,000 per unit) and Northeast ($189,000 per unit) led in sales price per unit, both above the $156,000-per-unit national average. The high cost reflects the higher rents and income of properties in those regions.

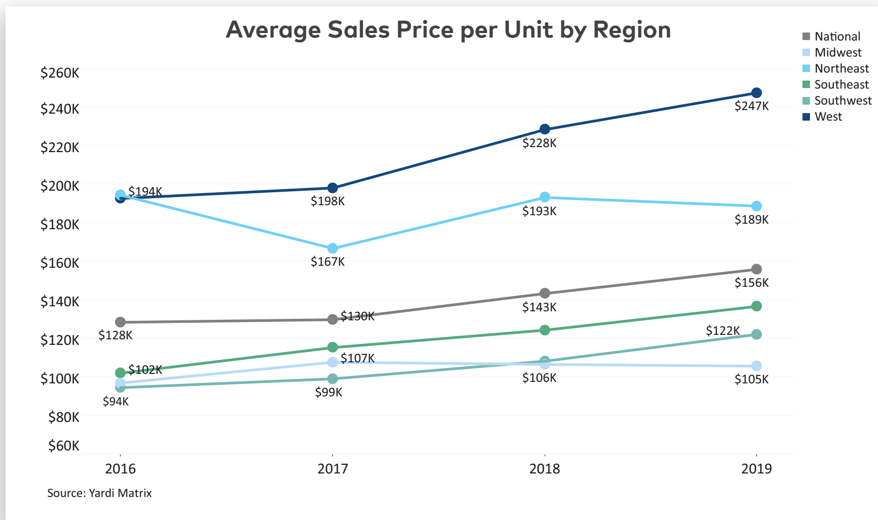
Supply

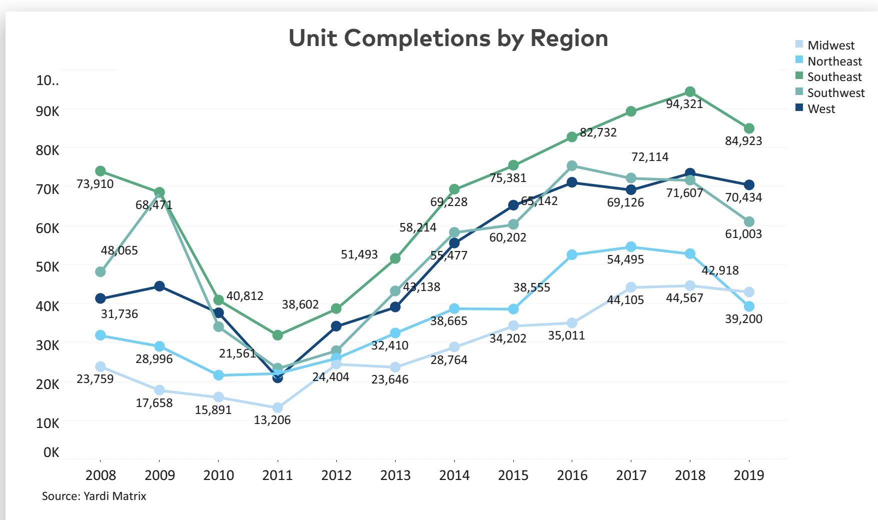
- Just shy of 300,000 units were delivered in 2019, a drop of 10.9% from the prior year. The number of units under construction remains high, so the decline in completions is because projects are taking longer from start to finish due to labor shortages and delays by local jurisdictions.

- The Southeast (84,923) and West (70,434) accounted for more than half (52.1%) of all the 298,000 units delivered in 2019, which is natural since those regions are experiencing the fastest growth in population and employment.

- Deliveries in the Southeast in 2019 were led by Atlanta (12,100), Miami and Charlotte (7,700), Orlando (6,500) and Tampa (5,700). Deliveries in the West were led by Denver (13,100), Seattle (11,000) and the San Francisco Bay Area (10,400).







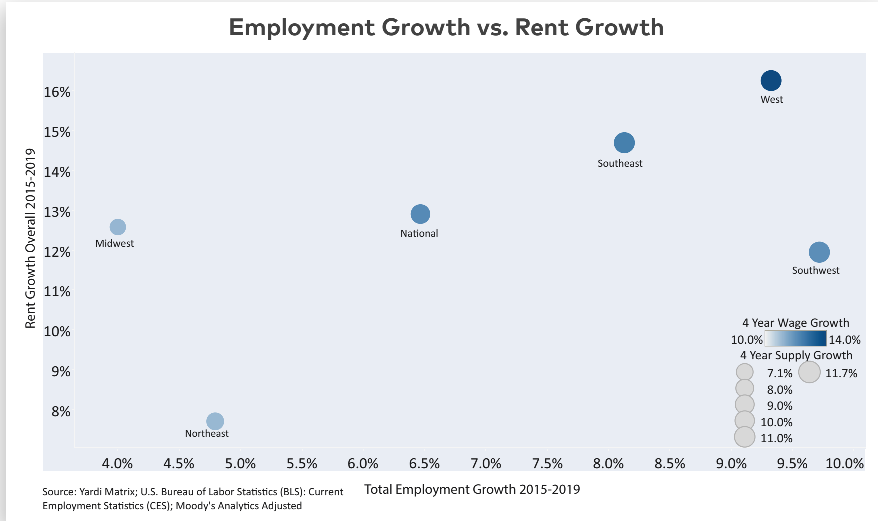
■ Yardi Matrix tracks more than 700,000 units that are currently under construction, so deliveries should remain constant for another two years. Despite the high volume, new supply remains overly concentrated in high-end properties and in developer-friendly markets.

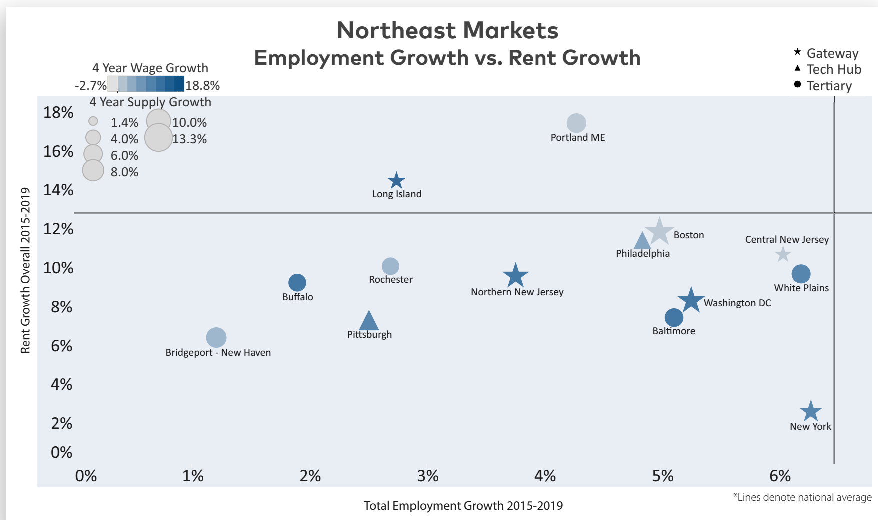
Rent Growth vs. Employment Growth

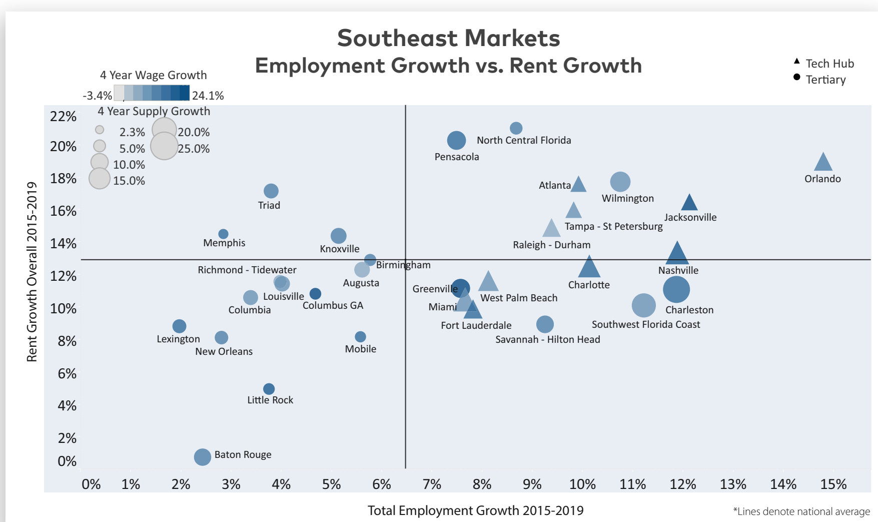
■ We charted rent, employment, supply and wage growth over a four-year period by region and by metro within each region.

■ The West and Southeast outperformed the national average in both rent and employment growth. The Southwest had the highest employment growth, but rent growth was slightly below the national average. The Northeast lagged in rent growth and employment growth. The Midwest had the weakest employment growth, but rent growth was just shy of the national average.

■ No metro in the Northeast outperformed the national average in employment growth, and most of the region underperformed the national average for both rent and employment growth. Rent growth in New York City was particularly weak, as rents are difficult to afford and rent control limits the growth of rents in stabilized properties.





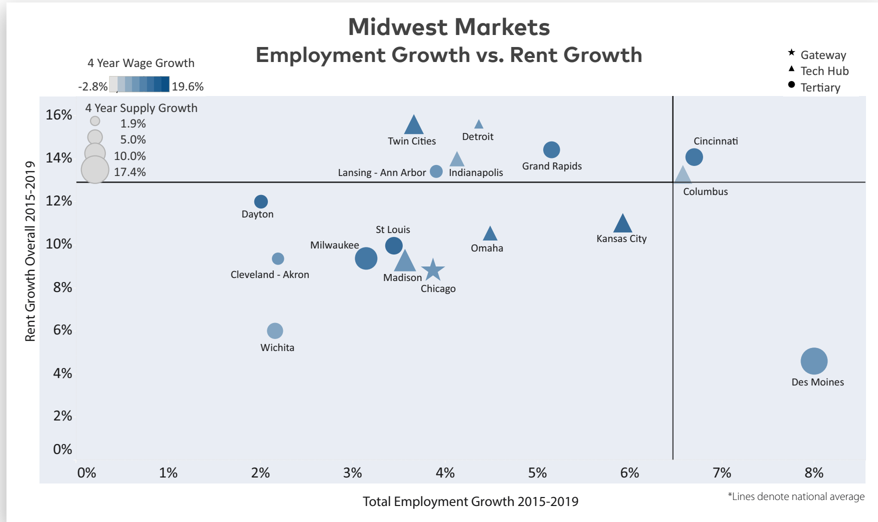


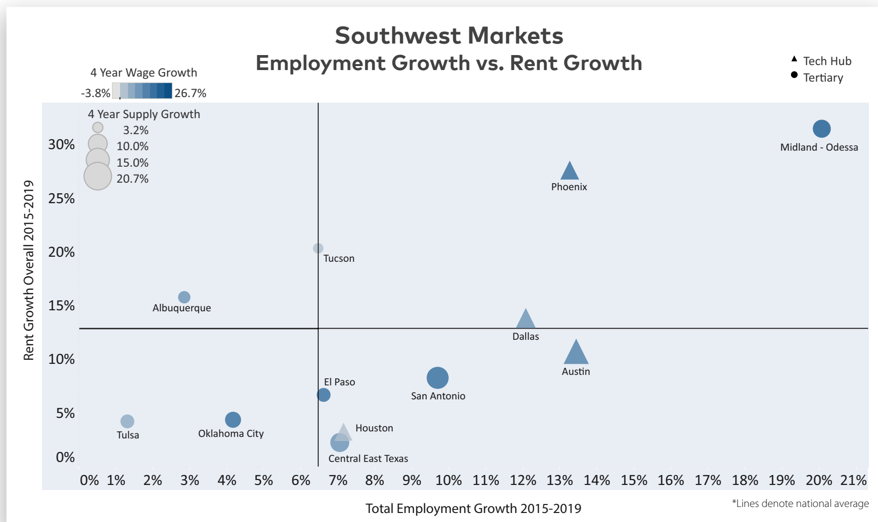
■ The Southeast had metros distributed throughout the scale, but a number of major metros (Orlando, Jacksonville, Atlanta, Tampa and Nashville) outperformed the national average in rent and employment growth. Underperforming metros in the Southeast were mostly tertiary markets such as Baton Rouge and Little Rock.

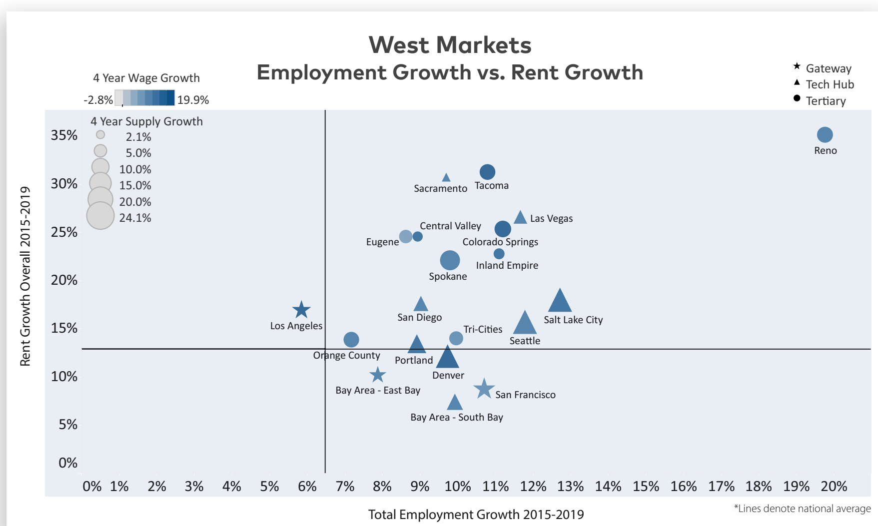
■ The Midwest performed better in rent growth than employment over the last four years. Cincinnati and Columbus were bright spots that outperformed in both rent and employment growth, and Kansas City barely trailed both averages. The Twin Cities, with a 96.8% occupancy rate, was among the regional leaders in rent growth.

■ Phoenix and tiny Midland-Odessa stood out as outperformers in the Southwest, both putting up rent and employment growth well in excess of the national average. Dallas and Austin also shone in job growth with strong rent growth, although Austin's rent growth faltered in 2019 due to sustained supply growth.

■ Not a single West metro trailed the national average in both rent and employment growth, and most outperformed in both categories. Although the best performance was posted by secondary and tertiary markets in Sacramento, Las Vegas and Salt Lake City, major met-







ros San Francisco, Los Angeles, Seattle and Denver put up strong numbers.

Conclusions

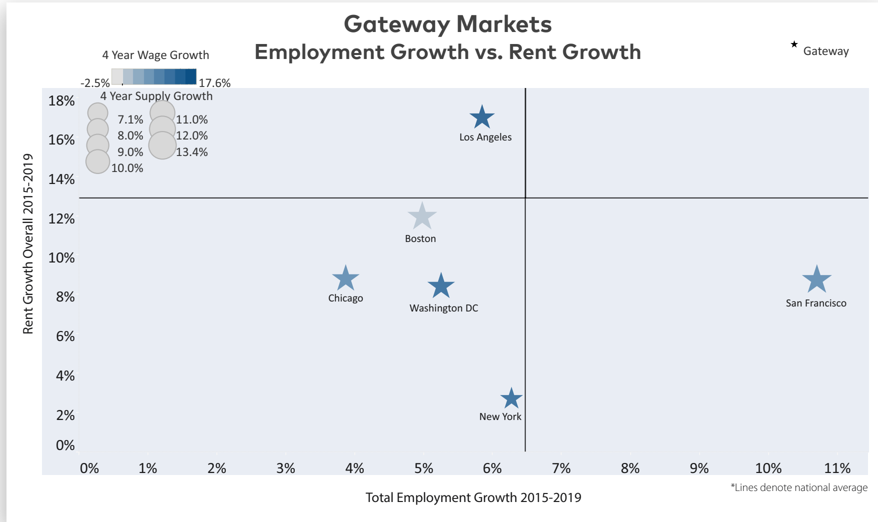
- Multifamily performance in this cycle has been exceptional, and investors continue to pour money into the sector. Metros in the West and Southwest have been consistently strong, but all regions have their strong points.

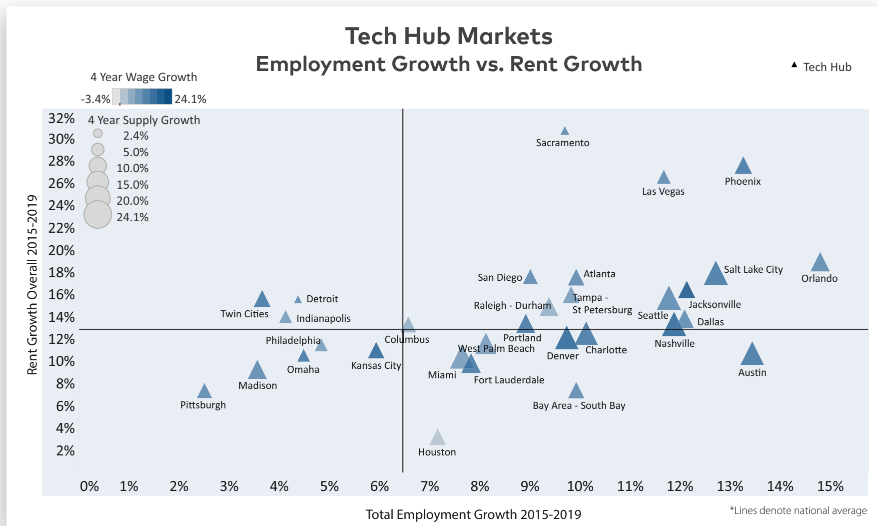
- Investors may be smart to focus capital on the fastest-growing regions, but regions with slower growth have their advantages, as well. For example, the Northeast has had weaker rent growth but higher occupancy rates provide a cushion if and when the economy slows.

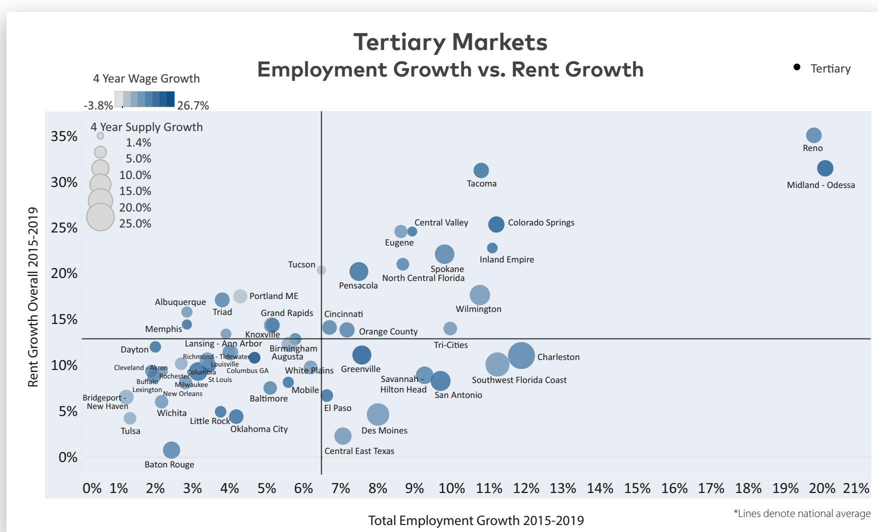
- Rent growth has been strongest in the fastest-growing part of the country, but rents are slowing in some of those metros due to supply growth. What's more, U.S. economic growth is forecast to moderate in upcoming years, which has regional implications.

- Investors should deploy capital based on strategic objectives, such as the choice between income growth and capital preservation, or some combination of the two.

—Paul Fiorilla, Director of Research







Regional Metros

Midwest	Northeast	Southeast	Southwest	West
Chicago	Albany	Asheville	Albuquerque	Anchorage
Cincinnati	Allentown-Bethlehem	Atlanta	Amarillo	Bay Area - South Bay
Cleveland - Akron	Baltimore	Augusta	Austin	Boise
Columbus	Boston	Baton Rouge	Central East Texas	Central Coast
Dayton	Bridgeport - New Haven	Birmingham	Corpus Christi	Central Valley
Des Moines	Brooklyn	Charleston	Dallas	Colorado Springs
Detroit	Buffalo	Charlotte	El Paso	Denver
Fort Wayne	Central New Jersey	Chattanooga	Houston	Eugene
Grand Rapids	Harrisburg	Columbia	Lubbock	Honolulu
Indianapolis	Long Island	Columbus GA	McAllen	Inland Empire
Kansas City	Manhattan	Greenville	Midland - Odessa	Las Vegas
Lafayette	Northern New Jersey	Huntsville	Oklahoma City	Los Angeles
Lansing - Ann Arbor	Philadelphia	Jackson	Phoenix	Orange County
Madison	Pittsburgh	Jacksonville	San Antonio	Portland
Milwaukee	Portland ME	Knoxville	Tucson	Reno
Omaha	Providence	Lafayette - Lake Charles	Tulsa	Sacramento
South Bend	Queens	Lexington		Salt Lake City
St Louis	Rochester	Little Rock		San Diego
Toledo	Scranton-Wilkes-Barre	Louisville		San Francisco
Twin Cities	Syracuse	Macon		Seattle
Wichita	Washington DC	Memphis		Spokane
Youngstown	White Plains	Miami Metro		Tacoma
	Worcester - Springfield	Mobile		Tri-Cities
		Nashville		
		New Orleans		
		North Central Florida		
		Orlando		
		Pensacola		
		Raleigh - Durham		
		Richmond - Tidewater		
		Savannah - Hilton Head		
		Southwest Florida Coast		
		Tallahassee		
		Tampa - St Petersburg		
		Triad		
		Wilmington		