Yardi® Matrix

Multifamily National Report

August 2019

Multifamily Growth Continues like Clockwork

- The multifamily market's healthy growth was displayed in August, when the average U.S. multifamily rent increased by $2 to $1,472. Although year-over-year growth fell 10 basis points from July to 3.3%, rent growth has remained exceptionally consistent, and has been at least 2.7% since the beginning of 2018.
- Rent growth is healthy to above-trend in virtually every major market. Las Vegas (7.6%), Phoenix (7.0%) and Sacramento (5.0%) have been among the top metros for rent growth for some time, while other markets have been taking turns at the next level.
- Consistency extends in a number of directions. For example, the growth for the luxury Lifestyle segment has increased to roughly the same level as that of the Renter-by-Necessity segment.

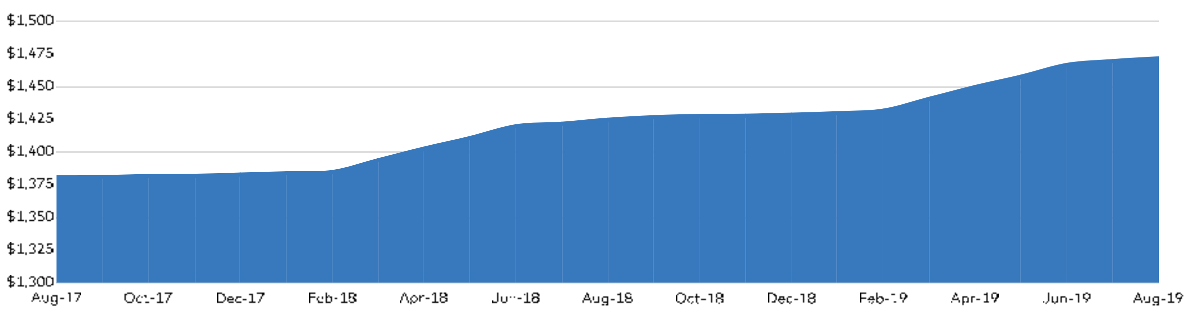
Another month, another good performance by the multifamily market in August, as the average U.S. rent increased by $2 to $1,472. Although year-over-year growth declined slightly from the previous month to 3.3%, long-term growth has been steady at more than 3.0% for a year and above the long-term average since the end of 2017.

The market's accomplishments are not a mystery—the combination of strong demographic trends, social changes that create demand for apartments, demand for new housing and the country's long period of economic growth have propelled the segment. With the exception of the economy's performance, most of those trends are long term in nature. So while the signs of economic risk (further discussed later) such as the inversion of the yield curve have to be taken seriously, long-term trends remain more favorable for multifamily than for other segments of the economy or even commercial real estate, which will be helpful if and when the economy starts to slow down.

The general story for much of the cycle has been the strength of markets that have burgeoning technology industries and in-migration of young workers—and that hasn't changed, even as individual metros move around the rankings. For example, Boston's rent growth lagged a year ago, but in recent months a surge has pushed gains to 5.1% year-over-year. Although overall job growth in Beantown has cooled slightly, it has seen strong increases in high-paying industries and demand for luxury units has been robust. Over the last three months, Boston Lifestyle units rose 0.7%.

Austin has also experienced a recent lift. With a steady growth of technology jobs and young knowledge workers, total employment was up 2.2% year-over-year through July, while office-using employment was up more than twice that. Occupancy has remained steady in stabilized properties—at 94.8% as of July—despite growth in stock, up 3.7% year-over-year through August. Lifestyle rents increased 0.7% over the last three months.

National Average Rents



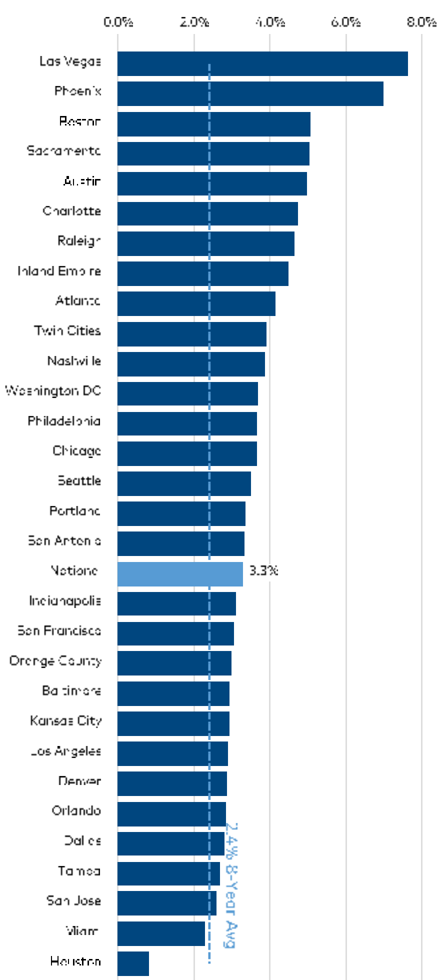
National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

Year-Over-Year Rent Growth
Occupancy Drives Change in Metro Performance

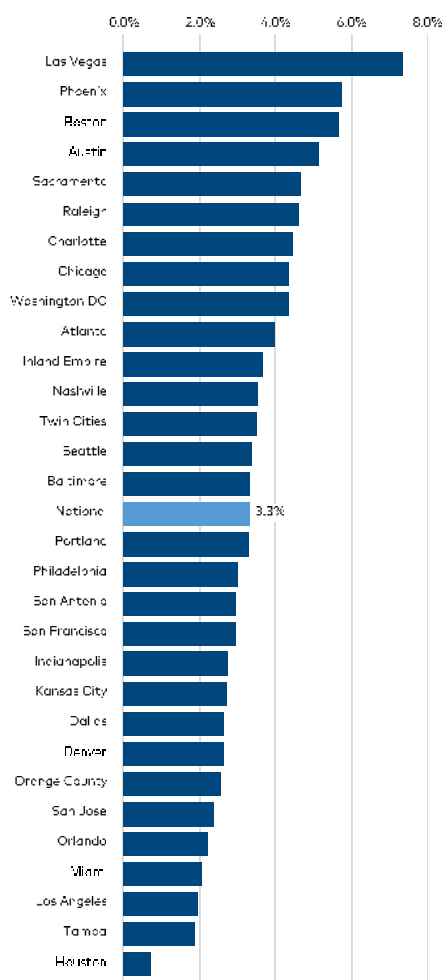
- U.S. multifamily rent growth rose by 3.3% year-over-year in August. Lifestyle rents increased by 3.3%, while Renter-by-Necessity rose by 3.6%.

- Occupancy rates of stable properties have changed little nationally, down 10 basis points year-over-year to 95.1% as of July. However, there is movement within metros. Baltimore's occupancy rate is up 40 basis points year-over-year to 95.0%, which has helped push rent growth up to 2.9% year-over-year as of August. Although still below the national average, Baltimore for several years had been among the worst-performing metros, with rent growth below 1.0% for much of 2018. On the negative side, Houston, Orlando (both -0.6%) and Tampa (-0.5%) have seen declines in occupancy rates over the last year that have impacted rent growth. Houston has been scraping the bottom in the rent tables for a while, but Orlando and Tampa have had declines in rent growth as occupancy has slipped. Orlando's rent growth was 2.8% as of August, down from 7.0% a year ago.

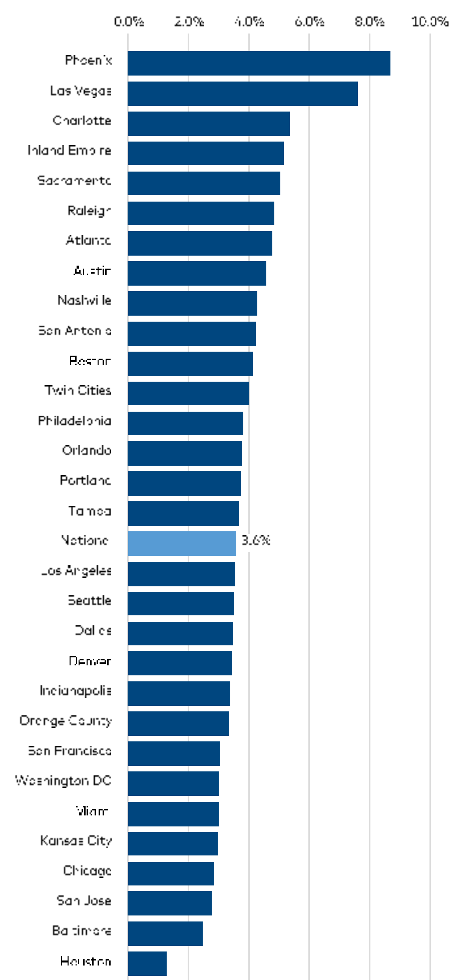
Year-Over-Year Rent Growth—All Asset Classes



Year-Over-Year Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Trailing 3 Months:
Boston, Austin Lead Recent Gains

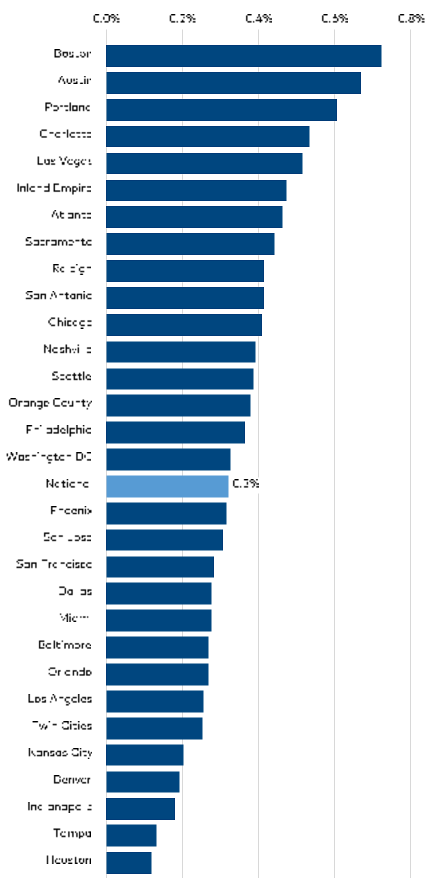
- Rents rose 0.3% nationally in August on a trailing three-month basis, a strong rate of increase but a 20-basis-point decrease from July.
- There was equality among property classes, as rents of luxury Lifestyle properties and working-class Renter-by-Necessity units both gained 0.3%.

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.

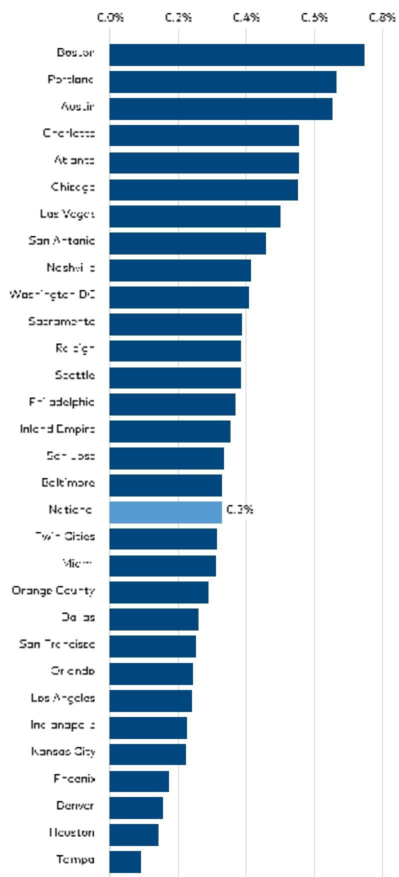
Gains were led by Boston and Austin (both 0.7%) and Portland (0.6%). All three metros have experienced substantial increases in rent growth over the past year. As of August, Austin's rent growth was 5.0%, compared to 2.6% a year ago. Boston is up 5.1%, compared to 3.2% a year ago, while Portland is up 3.3%, vs. 2.1% a year ago. All three have strong economies, with Portland and Austin seeing job growth well above the national average.

No metros saw a decrease in rents, but Tampa and Houston (both 0.1%) saw the weakest gains. Tampa's job growth is strong (2.1% year-over-year), but it has some softness in rents due to a robust delivery pipeline, with 3.0% added to stock over the past year. Rent growth was a respectable 2.7% as of August, but was down from 4.3% a year ago.

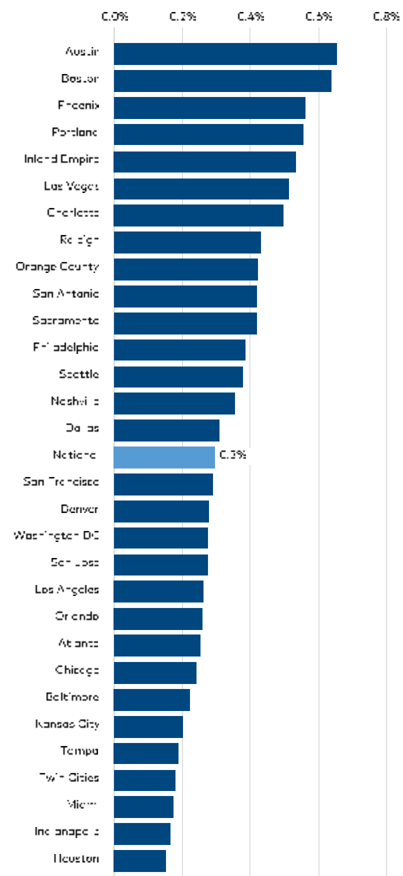
Trailing 3 Months Sequential—All Asset Classes



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

- Market volatility and the inversion of the yield curve are producing concerns about the stability of the economic cycle, despite fairly healthy fundamental factors such as employment numbers.
- Much of the concern is generated by issues that could be characterized as political risk, such as the trade war with China and global growth in Europe and Asia.
- The multifamily market is also seeing an increase in potential moves toward rent control. All of these need to be monitored.

The U.S. economy hummed along in a Goldilocks "not too hot, not too cold" pattern for a decade after the Great Recession. Following volatility in the fourth quarter of 2018, the market steadied in the first half this year, and all seemed calm.

Volatility, however, returned with a vengeance this summer. The 10-year Treasury rate has fallen more than 170 basis points to less than 1.5% and has inverted at various times below the three-month and two-year Treasury bond yields, a sign that bond investors are nervous about a recession. Inverted yield curves have preceded most recent recessions by nine to 15 months. Meanwhile, the equity market has gyrated based on news, especially about potential tariffs on China.

What's striking about the market volatility is that it is reacting less to fundamental issues than to political risk. The U.S. economy continues to perform well. Job growth has slowed somewhat this year to about 170,000 new jobs per month, but that's to be expected with the unemployment rate at historic lows and many employers struggling to find qualified workers. Consumer spending is up by a healthy 4% per year, which is good if not as robust as one might expect given the employment data. GDP growth is slowing to the low-2% range, but that only seems underperforming in relation to the post-tax cut stimulus growth in 2018.

The growing risk comes from the political side, on several levels. The market is reacting to global challenges, particularly the intractable trade dispute between the U.S. and China. The administration's tariffs have inflated prices of consumer products, increased construction costs and reduced imports from China. The most affected by the situation include farmers and ports in the Inland Empire and New Jersey. Other political risks to growth on the global level include unrest in Hong Kong and the U.K.'s hard-to-understand game of chicken with the European Union over Brexit.

The U.S. commercial real estate market has its own political risks, including new rent control laws in place in New York and Oregon, and the growing chorus to enact rent control in other parts of the country. New York's rent control has had an immediate negative impact on property values and will likely lead to less supply and deterioration of existing rent-stabilized stock. Home rule in states such as California has allowed NIMBYism to stifle badly needed housing development, and attempts at more regional approaches are failing.

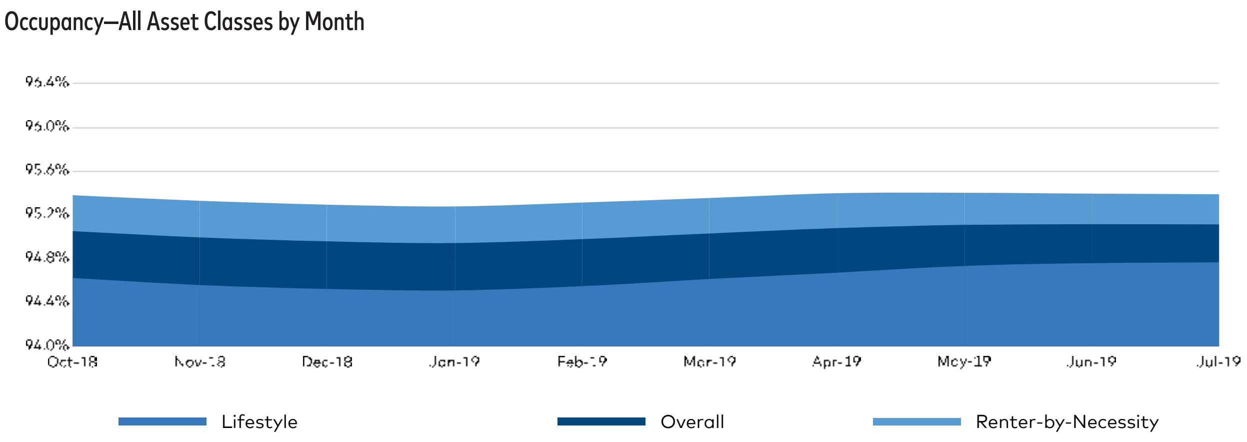
Given the underlying economic performance and favorable demographic trends, it will take more than some bad policy to disrupt the multifamily market, but it's also prudent to be watchful of events and to plan accordingly.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Aug - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of June - 19	Completions as % of Total Stock as of Aug - 19	Occupancy Rates as of July - 18	Occupancy Rates as of July - 19
Las Vegas	7.6%	7.6%	2.7%	1.6%	95.2%	95.4%
Seattle	3.5%	6.5%	2.6%	5.0%	95.6%	95.8%
Phoenix	7.0%	6.3%	3.1%	2.7%	95.2%	95.3%
Boston	5.1%	6.1%	0.7%	2.6%	96.4%	96.3%
Charlotte	4.7%	6.1%	2.4%	4.1%	95.1%	95.2%
Raleigh	4.6%	5.8%	1.1%	3.2%	94.7%	94.6%
Sacramento	5.0%	5.7%	2.5%	0.6%	96.3%	96.5%
Nashville	3.9%	5.7%	2.8%	4.3%	95.1%	95.2%
Austin	5.0%	5.1%	2.2%	3.7%	94.8%	94.7%
San Jose	2.6%	4.8%	2.5%	2.2%	96.1%	95.8%
Portland	3.3%	4.8%	2.1%	2.9%	95.9%	95.7%
Orlando	2.8%	4.8%	3.7%	2.7%	95.8%	95.2%
Twin Cities	3.9%	4.7%	0.1%	2.3%	97.2%	97.0%
Atlanta	4.2%	4.7%	2.1%	2.2%	94.3%	94.2%
Washington DC	3.7%	4.6%	0.8%	1.7%	95.5%	95.5%
San Francisco	3.0%	4.6%	2.3%	1.8%	96.1%	95.9%
Inland Empire	4.5%	4.5%	1.7%	1.1%	96.1%	96.2%
Chicago	3.6%	4.4%	1.4%	2.6%	94.8%	94.6%
Philadelphia	3.7%	4.4%	1.2%	0.6%	95.8%	95.8%
Tampa	2.7%	4.3%	2.1%	3.0%	95.5%	95.0%
Indianapolis	3.1%	4.1%	0.7%	1.2%	94.5%	94.5%
San Antonio	3.3%	4.0%	1.9%	2.8%	93.1%	93.0%
Kansas City	2.9%	3.9%	1.3%	2.8%	95.1%	94.9%
Denver	2.9%	3.8%	1.8%	4.2%	95.3%	95.2%
Los Angeles	2.9%	3.8%	1.0%	2.2%	96.7%	96.4%
Dallas	2.8%	3.3%	3.0%	2.6%	94.6%	94.4%
Baltimore	2.9%	3.3%	0.8%	0.8%	94.6%	95.0%
Miami Metro	2.3%	3.2%	2.1%	4.2%	95.1%	95.0%
Orange County	3.0%	2.7%	1.1%	1.3%	96.0%	96.1%
Houston	0.8%	2.0%	2.6%	1.1%	93.5%	92.9%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

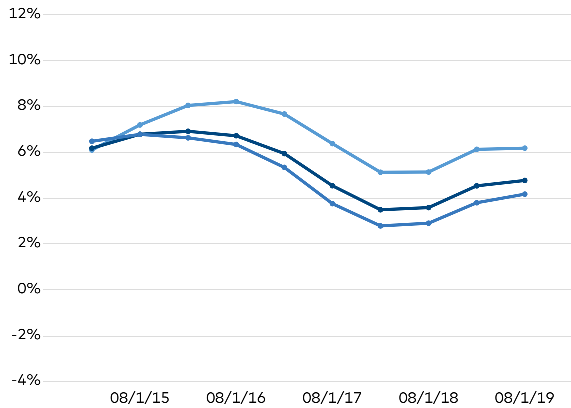
Year-Over-Year Rent Growth, Other Markets

Market	August 2019		
	Overall	Lifestyle	Renter-by-Necessity
Tucson	6.1%	6.3%	5.9%
Colorado Springs	5.7%	5.3%	6.4%
Tacoma	5.3%	5.3%	5.0%
Albuquerque	4.8%	5.7%	4.4%
Long Island	4.8%	4.4%	4.9%
Louisville	4.2%	3.6%	4.3%
NC Triad	4.2%	4.8%	3.5%
Central Valley	4.2%	0.6%	5.2%
San Fernando Valley	3.5%	3.3%	3.6%
Salt Lake City	3.4%	2.3%	4.2%
Bridgeport–New Haven	3.2%	3.9%	2.8%
Indianapolis	3.1%	2.7%	3.4%
Northern New Jersey	2.3%	1.4%	2.9%
St. Louis	2.2%	1.4%	2.8%
SW Florida Coast	1.8%	1.4%	2.5%
Central East Texas	1.8%	1.3%	2.1%
Reno	1.7%	0.8%	2.5%
El Paso	1.2%	-0.3%	1.4%

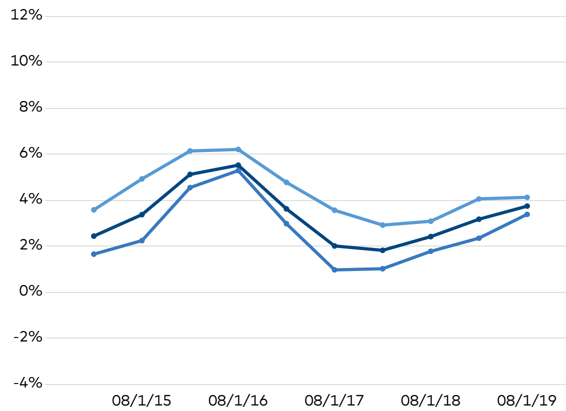
Source: Yardi Matrix

Market Rent Growth by Asset Class

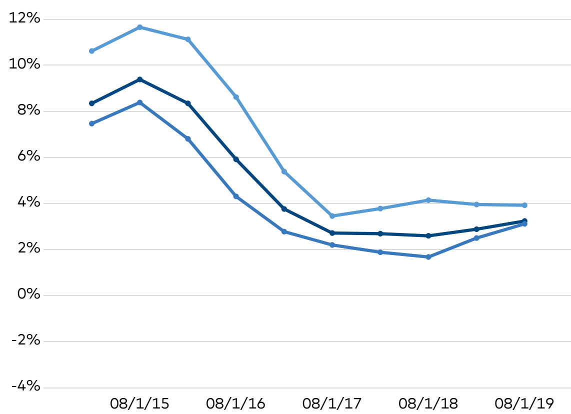
Atlanta



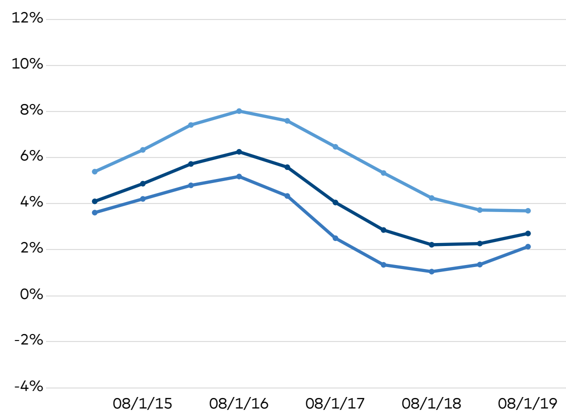
Boston



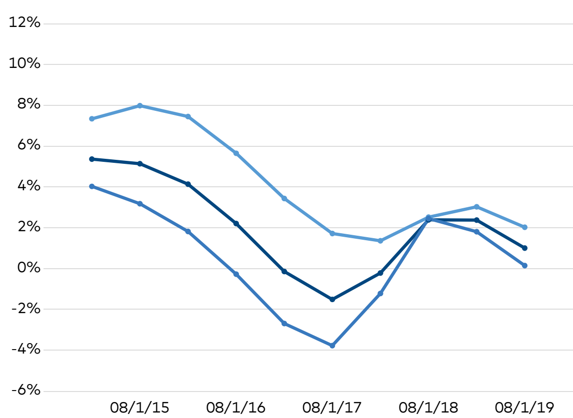
Denver



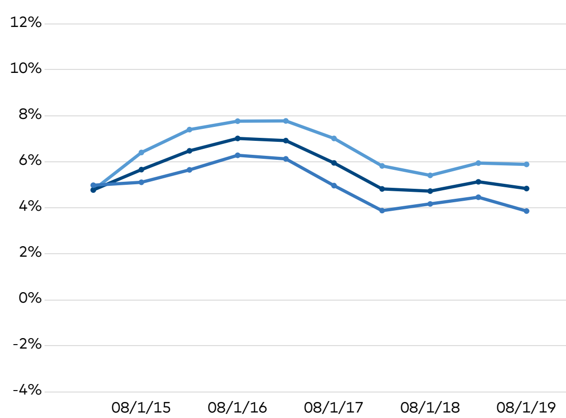
Dallas



Houston



Inland Empire

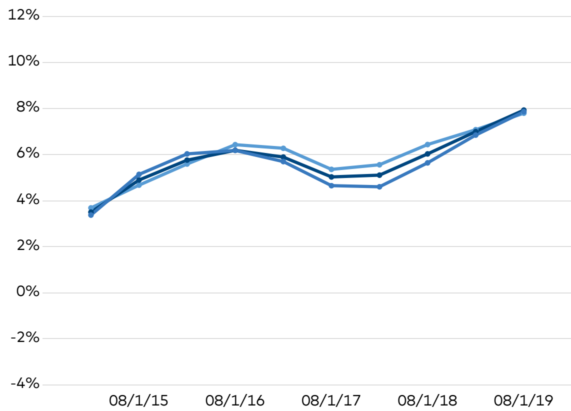


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

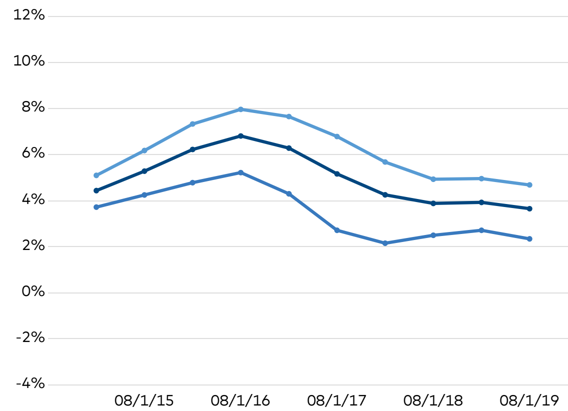
Source: Yardi Matrix

Market Rent Growth by Asset Class

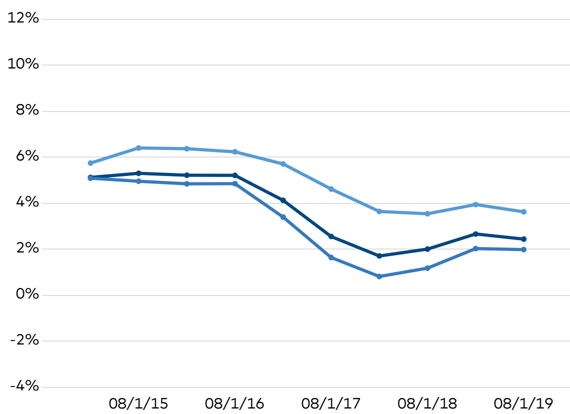
Las Vegas



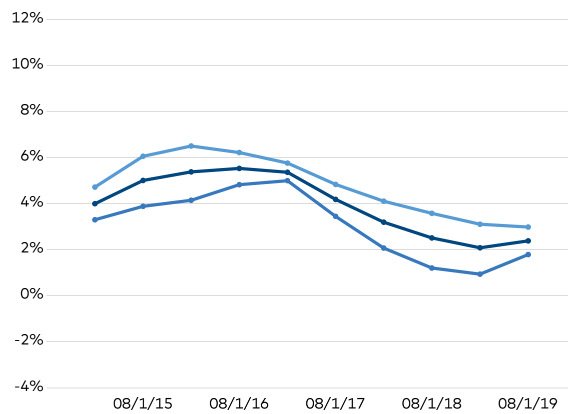
Los Angeles



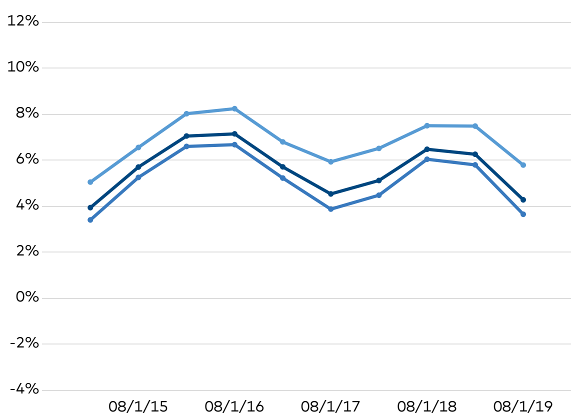
Miami



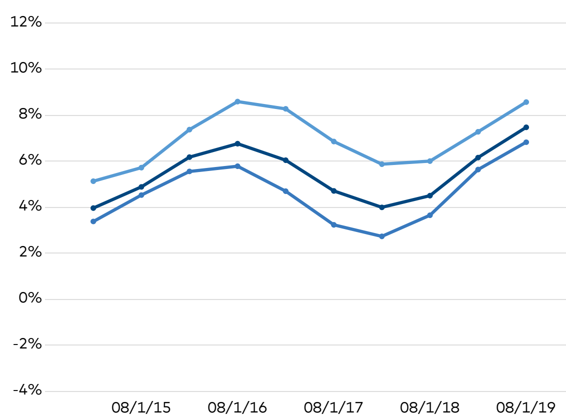
Orange County



Orlando



Phoenix

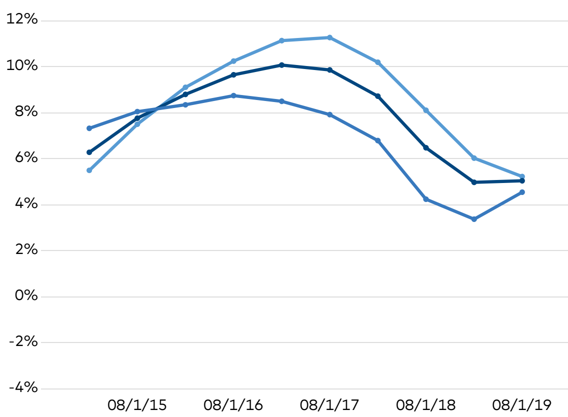


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

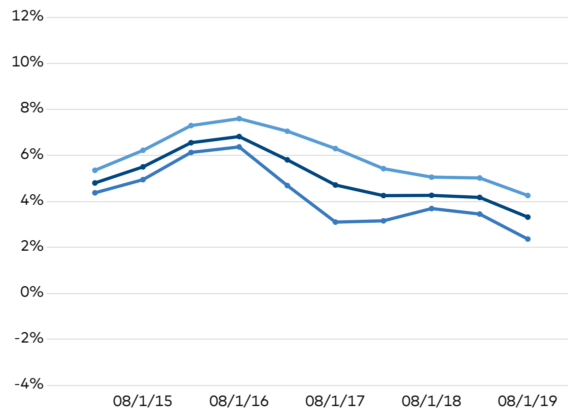
Source: Yardi Matrix

Market Rent Growth by Asset Class

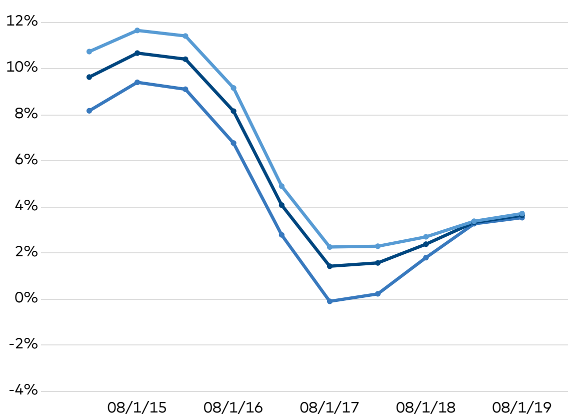
Sacramento



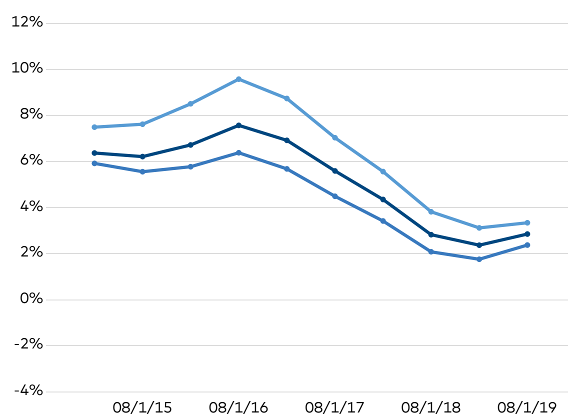
San Diego



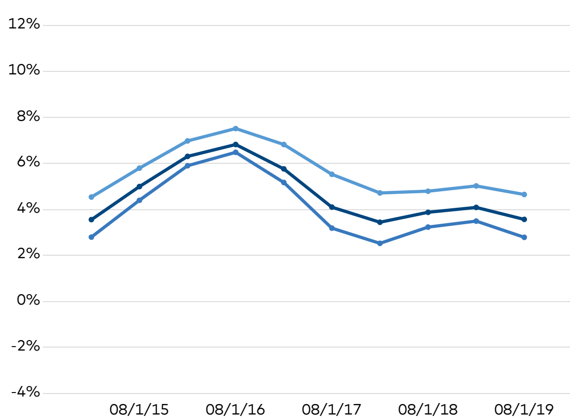
San Francisco



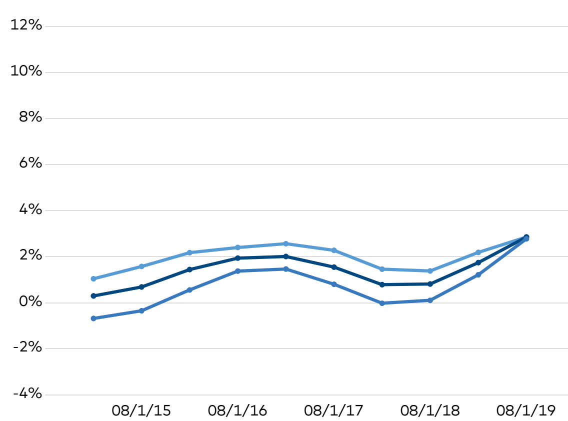
Seattle



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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