

## Rent Survey | August 2016

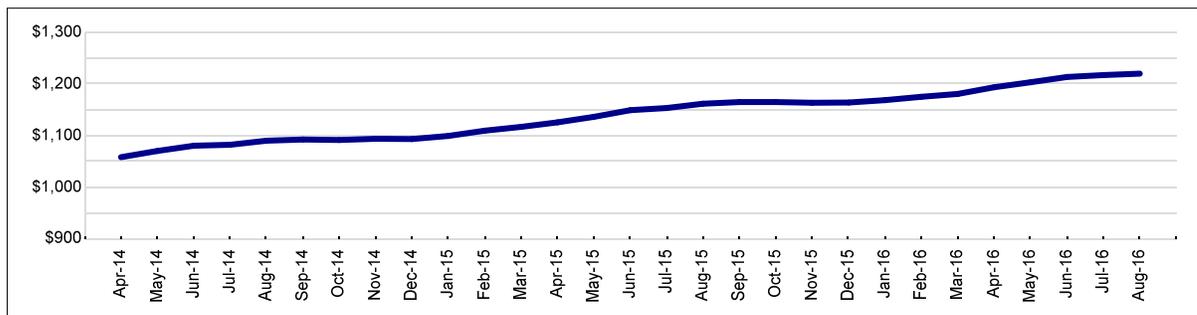
### Multifamily Rents Decelerate as Tech Metros Slide

U.S. multifamily rents inched up in August as the anticipated deceleration in growth started to take hold. Average U.S. rents increased by \$3 in August, to their eighth consecutive monthly record of \$1,220, according to Yardi Matrix's monthly survey of 120 markets. On a year-over-year basis, rents were up 5.0%, which is down 50 basis points from the previous month, 110 basis points from April and 170 basis points from the recent peak last October.

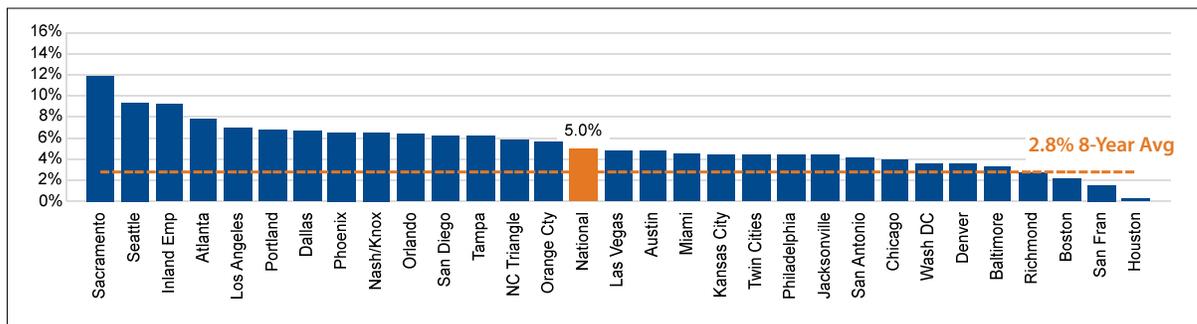
Even though overall rent growth is cooling, fundamentals in most of the country remain strong. Occupancy rates have declined slightly, but they remain extremely high across the country. Job growth has slowed a bit, but continues at a pace of roughly two million per year, enough to keep apartment demand generally robust. The number of metros with outside year-over-year rent gains has declined to a small number compared to the second half of 2015 and early 2016, but 18 of Yardi Matrix's top 30 metros—60%—have seen solid growth of between 4 and 7% over the past year. Rent increases were led by Sacramento (11.9%), Seattle (9.3%) and the Inland Empire (9.2%).

The recent deceleration has been most pronounced in some technology-centric metros, which are coming back to earth due to the combination of waning demand and affordability issues in the face of growing supply. San Francisco, which had 12% growth in rents in 2015, has slowed to 1.6% year-over-year through August. Denver's year-over-year growth rate has fallen to 3.5% in August after rising by 11% in 2015. Other markets that have seen significant deceleration include Austin (up 4.8% year-over-year through August compared to 6.9% growth in 2015) and Boston (2.2%) year-over-year, compared to 5.2% in 2015). Although these metros were not as frothy as San Francisco or Denver, they are both tech-led markets in which growth has declined by about four percentage points in recent months.

#### National Average Rents



#### Year-Over-Year Rent Growth—All Asset Classes



National averages include 119 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

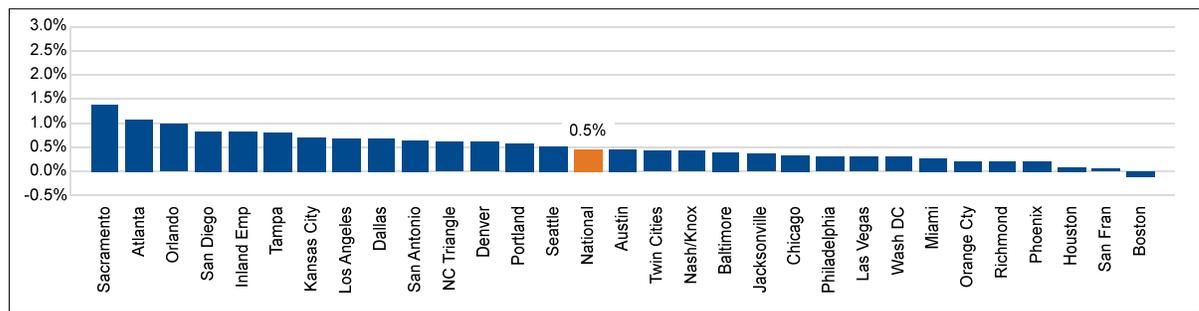
## Trailing 3 Months: Sun Belt, Southern California Stay Strong

Nationally, U.S. multifamily rents rose 0.5% on a trailing three-month (T-3) basis in August, down 10 basis points from the prior month. Working-class Renter-by-Necessity assets led gains with a 0.5% increase, while the high-end Lifestyle segment grew 0.4% on a T-3 basis. The T-3 survey captures short-term shifts in rents. While these movements may not be indicative of sustainable trends, they do suggest markets accelerating or decelerating in the near term.

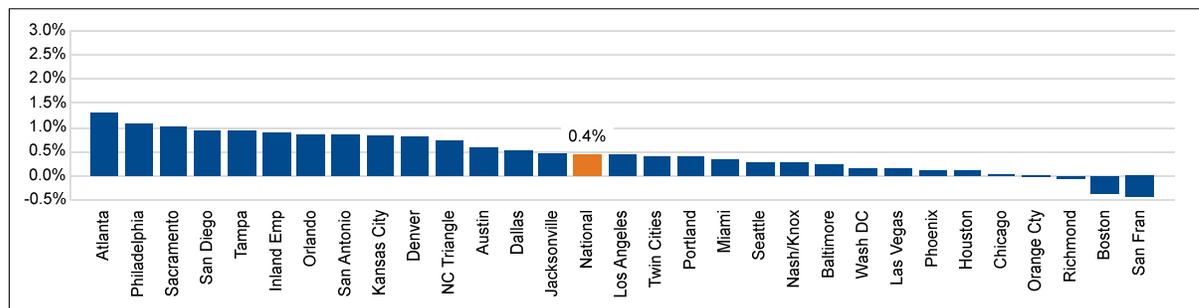
Sacramento, which has been among the leading metros for rent growth all year, continued its heady increases, leading on a T-3 basis at 1.4%. Sun Belt metros Atlanta (1.1%), Orlando (1.0%) and Tampa (0.8%) were among the top six, an indication that less expensive markets with healthy lifestyle amenities are attracting businesses and workers in the latter stages of the economic recovery. Metros in Southern California—San Diego (0.8%), the Inland Empire (0.8%) and Los Angeles (0.7%)—also are seeing strong growth, as demand remains high.

On the other end of the spectrum, Boston (-0.1%), San Francisco (0.1%) and Houston (0.1%) lagged the rankings. Seattle (0.3) and Las Vegas (0.1%) also fell sharply from the rankings a month ago, which could presage a slowdown in the second half.

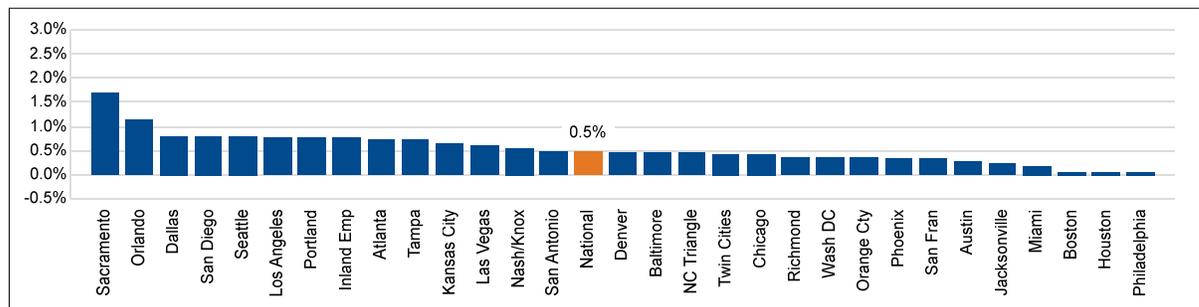
### Trailing 3 Months Sequential—All Asset Classes



### Trailing 3 Months Sequential—Lifestyle Asset Class



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

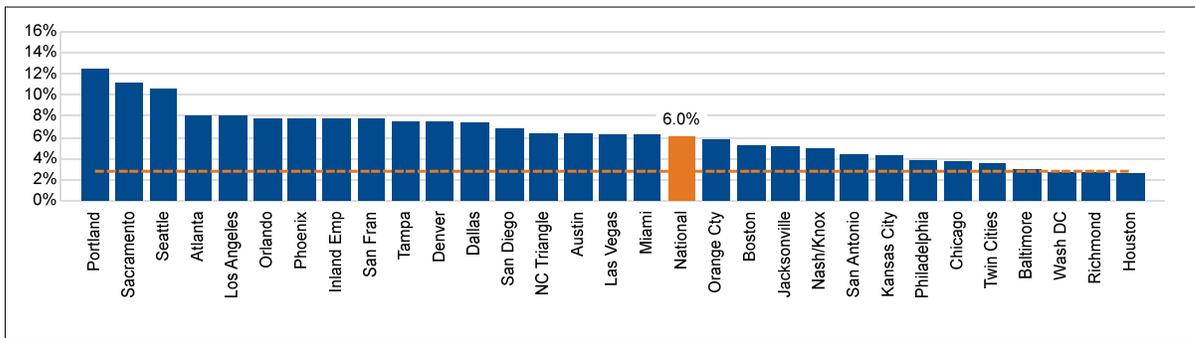


## Trailing 12 Months: Strong Across the Board

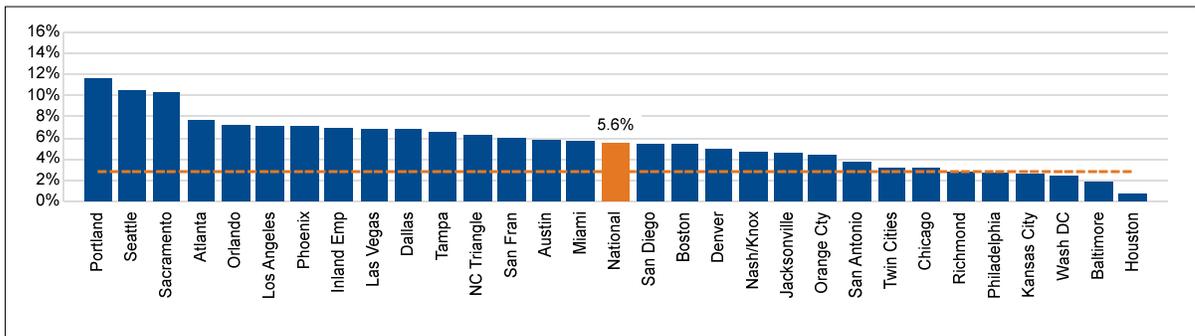
Rents grew 6.0% in June on a trailing 12-month (T-12) basis, which is down 10 basis points from July. The T-12 survey represents the change in the average rent during the preceding one-year period. Because the results are averaged, the rankings change more gradually than a simple year-over-year calculation. Gains were led by Portland (12.5%), Sacramento (11.2%) and Seattle (10.8%), although Portland and Seattle are starting to show signs of moderating to more sustainable increases.

Growth was 70 basis points higher for RBN properties (6.3%) than for Lifestyle properties (5.6%). Markets with big differences between the two include Denver (9.9% for RBN and 4.9% for Lifestyle), San Francisco (8.8% for RBN and 5.9% for Lifestyle), San Diego (7.6% for RBN and 5.4% for Lifestyle), Kansas City (5.5% for RBN and 2.5% for Lifestyle), Houston (4.9% for RBN and 0.7% for Lifestyle) and Philadelphia (4.2% for RBN and 2.7% for Lifestyle).

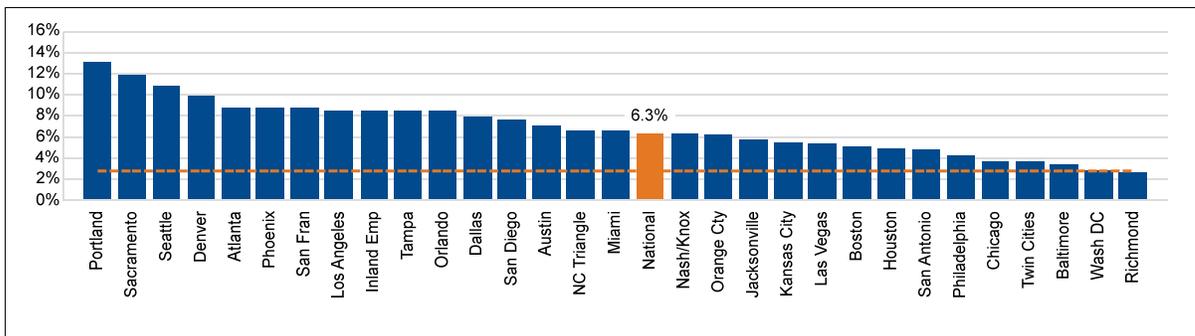
### Trailing 12 Months Year-Over-Year – All Asset Classes



### Trailing 12 Months Year-Over-Year – Lifestyle Asset Class



### Trailing 12 Months Year-Over-Year – Renter-by-Necessity Asset Class



## Employment, Supply and Occupancy Trends and Forecast Rent Growth

The deceleration in rents is in line with expectations. We forecast 4.5% growth for 2016, so if anything, year-to-date increases have surprised on the upside. The slowdown is less cause for concern than the natural byproduct of limits when income growth is between 2 and 3%. In that environment, rent growth can only return to more moderate levels.

Rent growth generally remains solid in much of the country. Rents are rising between 5 and 8% in many metros in the Sun Belt, Southwest and Southern California. Fundamentals are strong, and those markets could see continued gains above historical growth rates. Even markets in the East (Philadelphia; Washington, D.C.; and Baltimore) and the Midwest (Kansas City and Chicago) are seeing 3 to 5% growth, which is reasonably strong by historical standards in those areas.

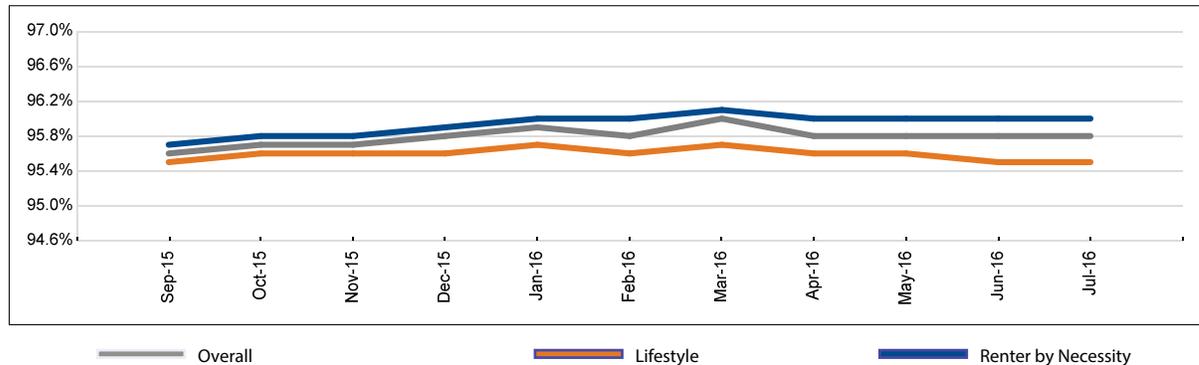
The fastest deceleration is limited to metros that are seeing a combination of slowing job growth and increased supply. Houston has had 10,000 units completed to date, and another 15,000 are expected to be completed by year-end. Other examples are Austin (6,700 year-to-date and 7,700 more by year-end); San Francisco (3,900 year-to-date and 11,000 more by year-end); Denver (6,200 year-to-date and 5,500 more by year-end); urban Boston (2,900 year-to-date and 4,300 more by year-end); and to a lesser degree Portland (2,200 year-to-date and 2,700 by year-end). These metros will see more moderate growth until this supply is absorbed.

Market	Forecast Rent Growth (YE 2016)	Y-o-Y Job Growth (6-mo. moving avg.) as of June 2016	Completions as a % of Total Stock as of August 2016	Occupancy Rates as of June 2016	Occupancy Rates as of July 2016
San Francisco	10.5%	3.4%	1.8%	96.4%	96.4%
Sacramento	8.8%	2.6%	0.3%	97.0%	97.0%
Portland	8.8%	3.1%	3.9%	96.4%	96.3%
Dallas	7.3%	3.6%	2.1%	96.0%	96.0%
Seattle	7.2%	3.3%	4.8%	96.2%	96.2%
Los Angeles	7.1%	2.5%	1.1%	96.9%	97.0%
Inland Empire	6.8%	3.3%	1.2%	96.7%	96.7%
Atlanta	6.4%	3.0%	2.1%	94.8%	94.8%
Orlando	6.3%	4.0%	3.8%	96.2%	96.2%
Denver	6.3%	2.9%	4.4%	95.7%	95.7%
Austin	5.8%	4.2%	4.1%	95.0%	94.9%
Miami	5.6%	2.7%	2.8%	95.7%	95.7%
Tampa	5.5%	3.3%	1.6%	95.8%	95.8%
San Diego	5.5%	2.7%	2.4%	97.1%	97.1%
Phoenix	5.4%	3.5%	3.0%	95.8%	95.9%
Orange County	4.5%	3.0%	1.8%	97.0%	96.9%
Las Vegas	4.2%	2.5%	1.7%	95.2%	95.2%
Nash/Knox	4.2%	3.2%	3.7%	96.6%	96.6%
Jacksonville	4.0%	3.6%	1.8%	95.6%	95.7%
Houston	3.4%	0.3%	2.7%	94.0%	94.0%
San Antonio	3.3%	2.7%	4.0%	94.3%	94.3%
Kansas City	3.1%	1.4%	2.5%	95.7%	95.7%
Boston	3.0%	1.7%	2.6%	96.8%	96.8%
NC Triangle	2.0%	2.7%	4.1%	95.7%	95.7%
Chicago	2.0%	1.5%	1.7%	96.2%	96.2%
Twin Cities	1.5%	1.6%	2.2%	97.5%	97.4%
Richmond	1.4%	2.3%	1.2%	95.6%	95.6%
Philadelphia	1.3%	2.3%	1.5%	96.1%	96.2%
Washington DC	1.2%	2.3%	2.7%	96.2%	96.2%
Baltimore	1.0%	2.0%	1.7%	95.8%	95.7%

## Occupancy and Asset Classes

The U.S. multifamily occupancy rate for stabilized assets was unchanged in July at 95.8%. Stabilized RBN (96.0%) and Lifestyle properties (95.5%) also were unchanged. Both categories are near historical highs and have dropped only about 10 basis points in recent months. RBN has outperformed Lifestyle since September 2015, mostly because of the growing amount of new Lifestyle supply nationally. Three out of four new units built are in the Lifestyle category.

### Occupancy—All Asset Classes by Month

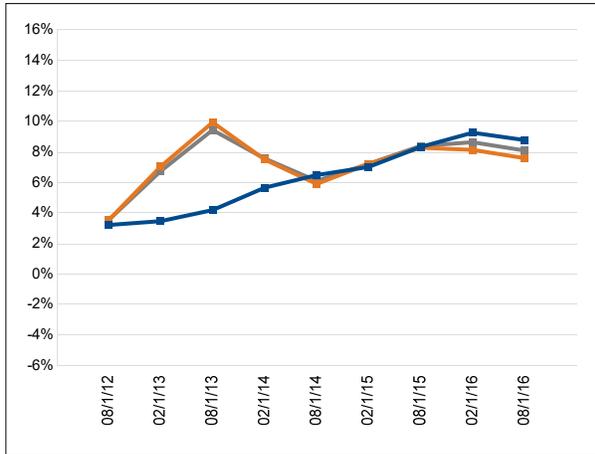


## Year-over-Year Rent Growth, Other Markets

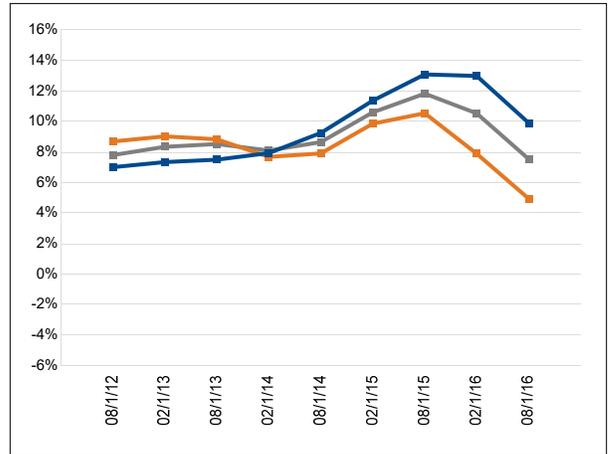
Market	July 2016		
	Overall	Lifestyle	Renter by Necessity
Tacoma	12.7%	14.8%	10.8%
Reno	11.6%	14.5%	10.0%
Colorado Springs	10.9%	12.3%	10.4%
San Fernando	9.2%	8.6%	9.6%
Central Valley	8.1%	5.5%	8.6%
SW Florida Coast	6.8%	4.3%	9.1%
Northern New Jersey	5.1%	5.9%	4.9%
Louisville	4.6%	4.9%	4.4%
Tucson	4.3%	6.5%	3.7%
NC Triad	3.8%	2.8%	4.7%
Long Island	3.7%	3.5%	3.9%
Albuquerque	3.5%	4.5%	2.8%
St Louis	3.5%	5.8%	3.0%
Indianapolis	3.4%	3.6%	3.1%
Central East Texas	2.9%	4.2%	2.7%
Bridgeport - New Haven	2.7%	2.2%	3.0%
El Paso	1.0%	2.5%	0.2%

# Market Rent Growth by Asset Class

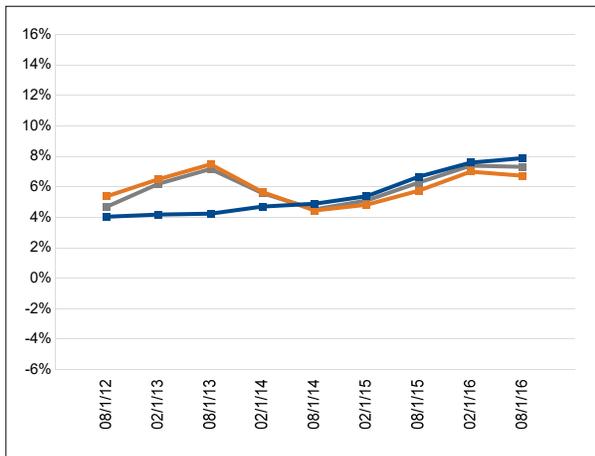
**Atlanta**



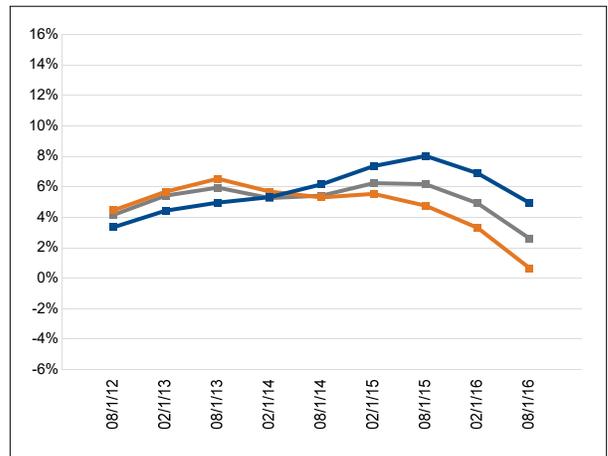
**Denver**



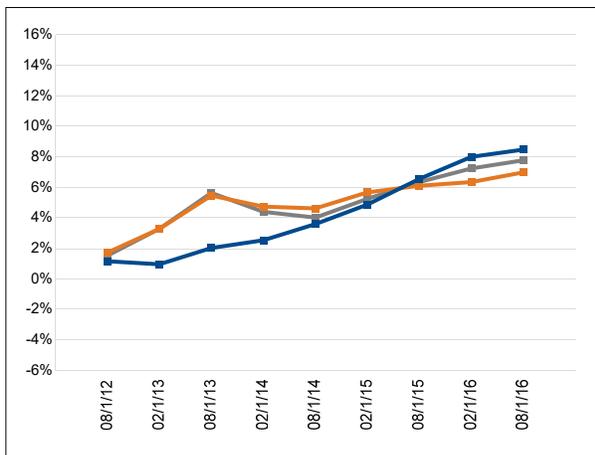
**Dallas**



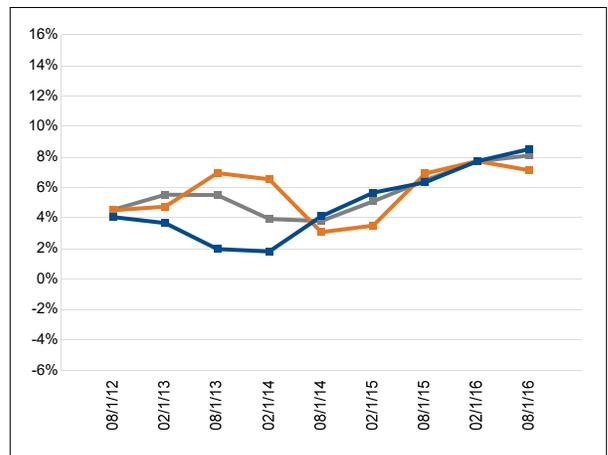
**Houston**



**Inland Empire**

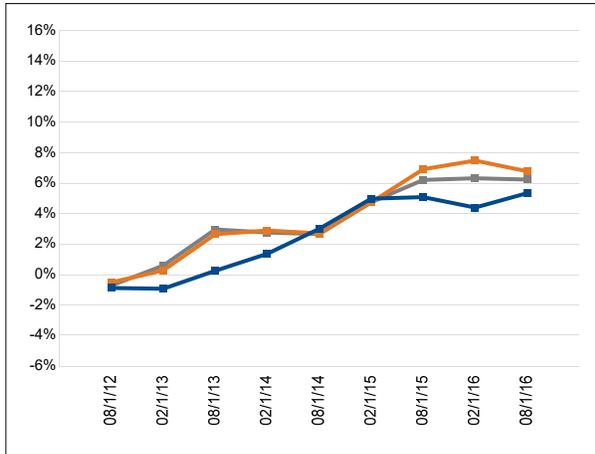


**Los Angeles**

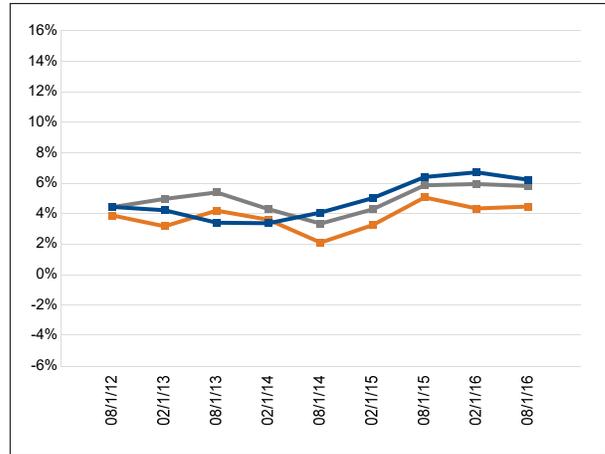


— Trailing 12 Months Overall     
 — Trailing 12 Months Lifestyle     
 — Trailing 12 Months Renter by Necessity

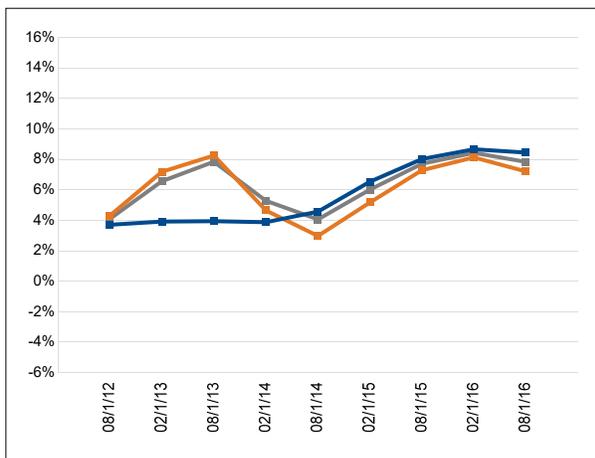
### Las Vegas



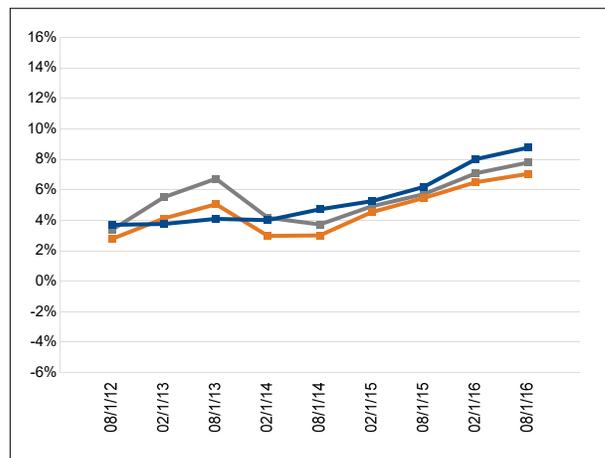
### Orange County



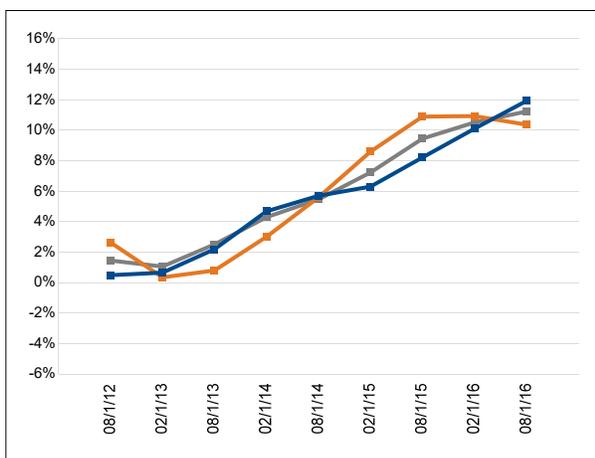
### Orlando



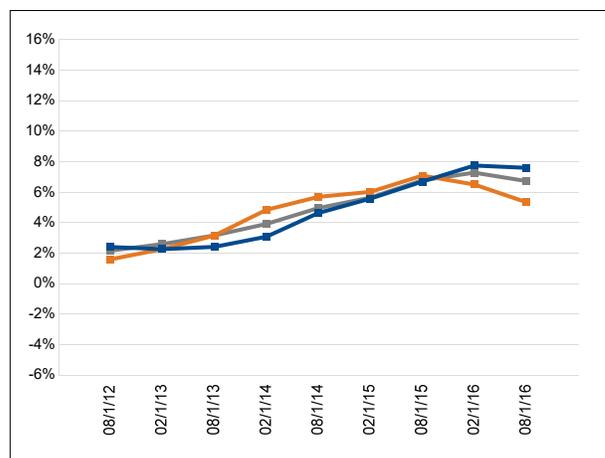
### Phoenix



### Sacramento

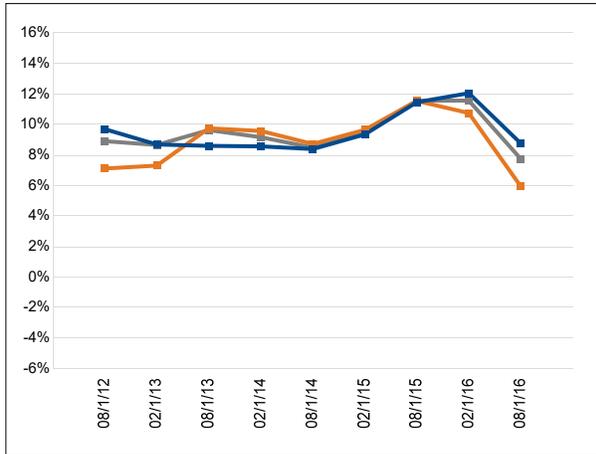


### San Diego

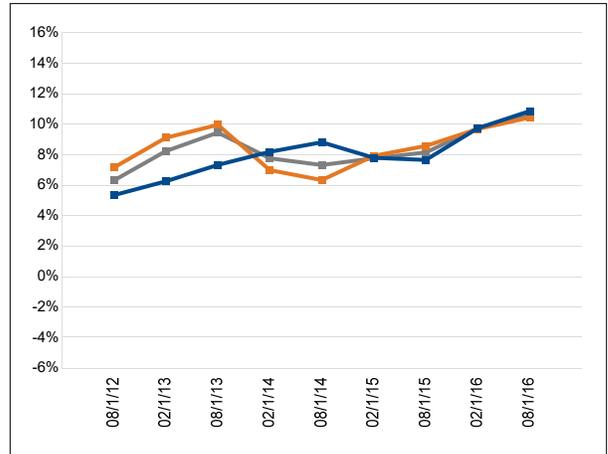


— Trailing 12 Months Overall     
 — Trailing 12 Months Lifestyle     
 — Trailing 12 Months Renter by Necessity

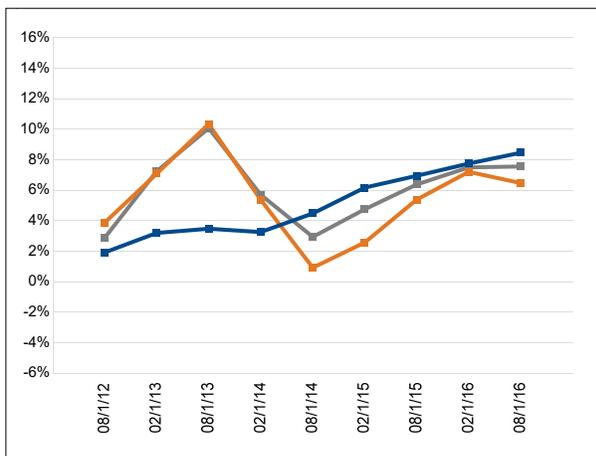
### San Francisco



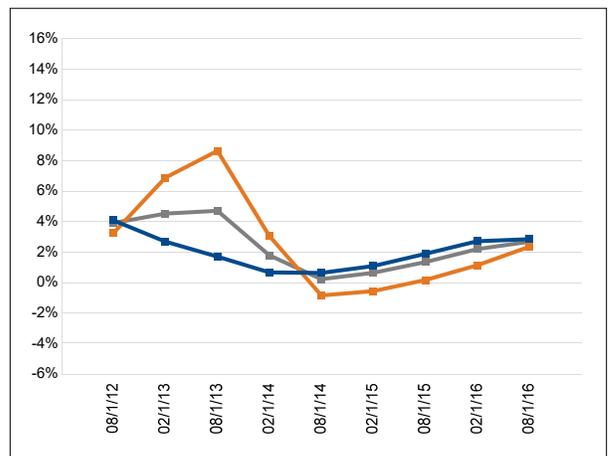
### Seattle



### Tampa



### Washington, D.C.



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

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## 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, policemen, firemen, 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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

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