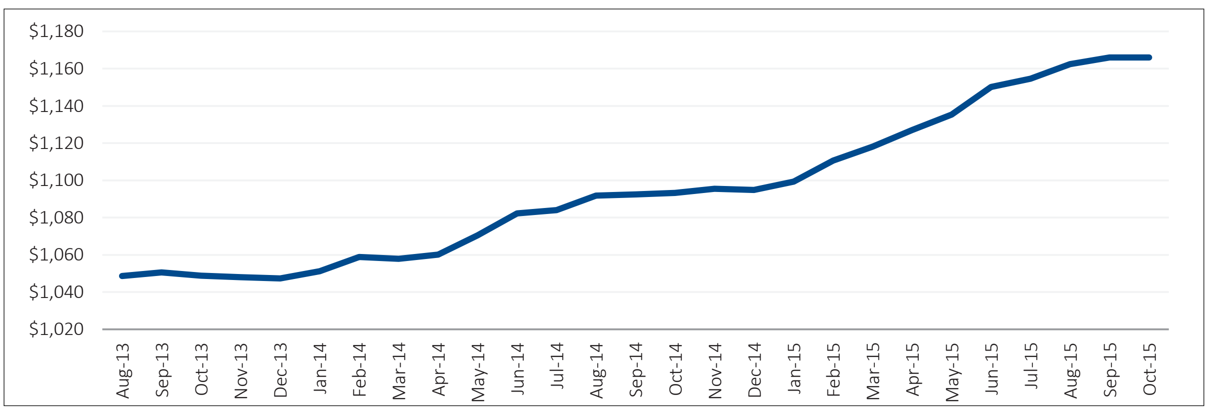
Rent Survey | October 2015

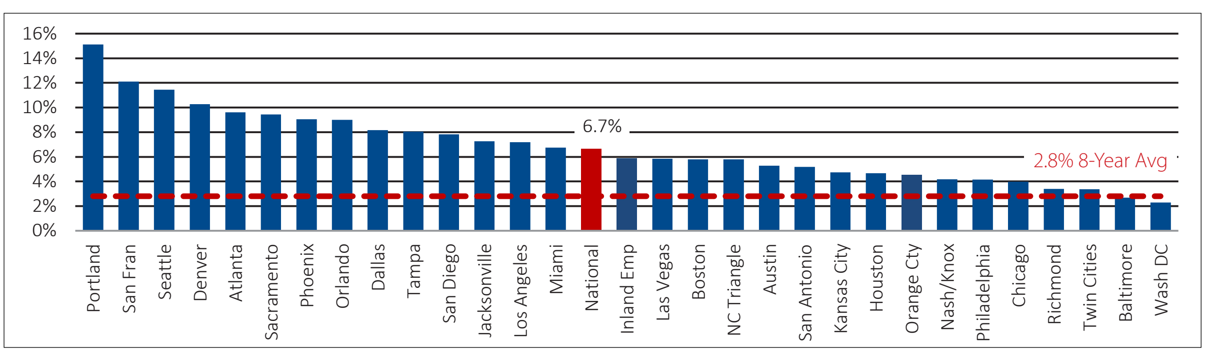
Multifamily Rent Growth Pauses, Signs of Rotation Appear

- Finally taking a break from their upward march, U.S. multifamily rents flattened in October, staying level at $1,166, consistent with the same pattern over the last two years. The survey was the first in 2015 in which rents did not rise month-over-month.
- The rate of growth moderated slightly, as October's year-over-year increase of 6.7% was 10 basis points lower than September's post-recession high-water level. Even so, the growth rate remains well above the 2.8% average of the last eight years.
- Although the rankings for year-over-year growth among our top 30 markets have not changed significantly -- Portland (15.1%), San Francisco (12.1%), Seattle (11.5%) and Denver (10.3%) remain at the top with double-digit increases, while Washington DC (2.3%), Baltimore (2.7%), and Twin Cities and Richmond (3.4%) remain near the bottom -- we are starting to see a rotation among markets.
- There are signs that growth is starting to moderate in some of the high-flying metros, while other markets such as Atlanta, Orlando, Phoenix, Dallas and Tampa are displaying later-stage strength. This isn't to say that we expect wholesale changes in the rent trends, or that overall growth is weakening substantially, but we could be seeing the beginning of a natural rotation in growth.
- Another trend to watch is the short-term bifurcation in which growth in higher-end Lifestyle properties has cooled relative to working-class Rent By Necessity properties.

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes

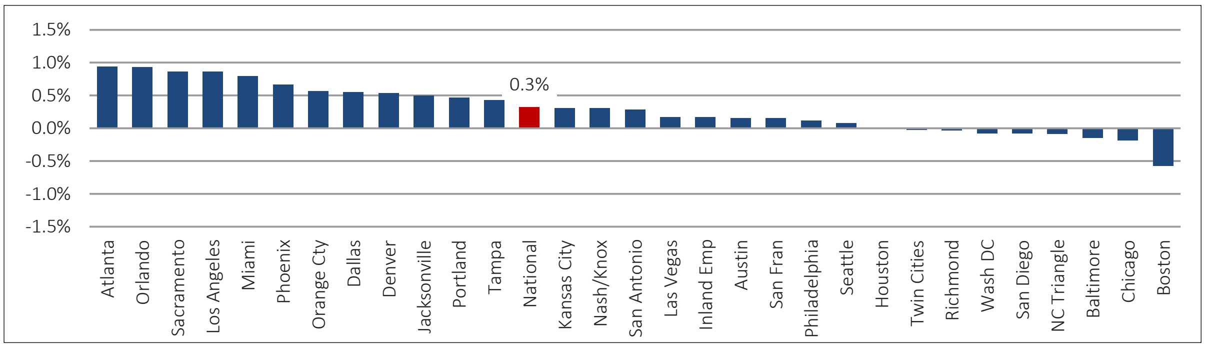


National averages include 111 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

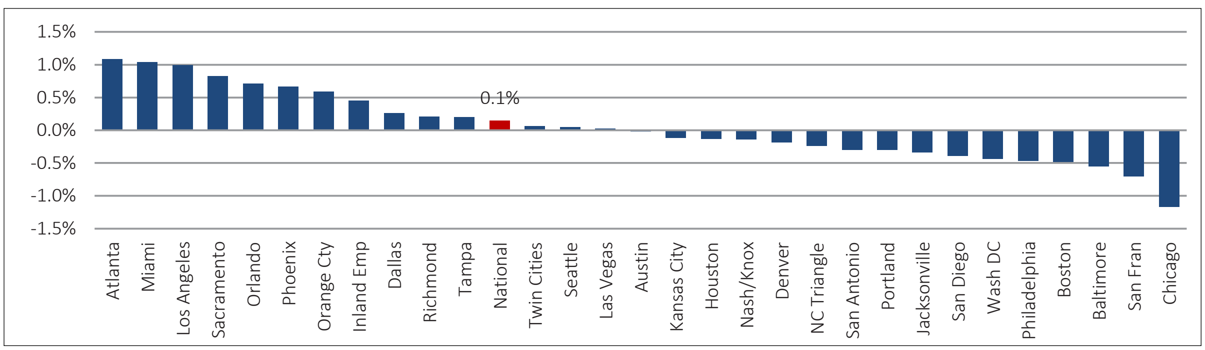
Trailing 3 Months: Atlanta, Orlando Rise While Portland, SF, Denver Slip

- Nationally, rents rose by an average of 0.3% on a trailing three-month basis compared to the prior-year period, a 20-basis-point decease from last month. The T-3 survey captures short-term changes in rents that may or may not be indicative of future trends.
- Rising to the top of the October ranking are Atlanta and Orlando, while cities such as Miami, Phoenix and Dallas all rose from their positions in previous months. At the same time, Denver, San Francisco and Portland, which have dominated both the long-term and short-term rankings, slipped to the middle. Rent growth in Boston, which had some momentum in the summer, has stalled at -0.6% over the last three months.
- There is a stark difference between the Lifestyle category, in which rents were flat nationally and negative in more than half of the metros,and Rent By Necessity, which remained largely positive.

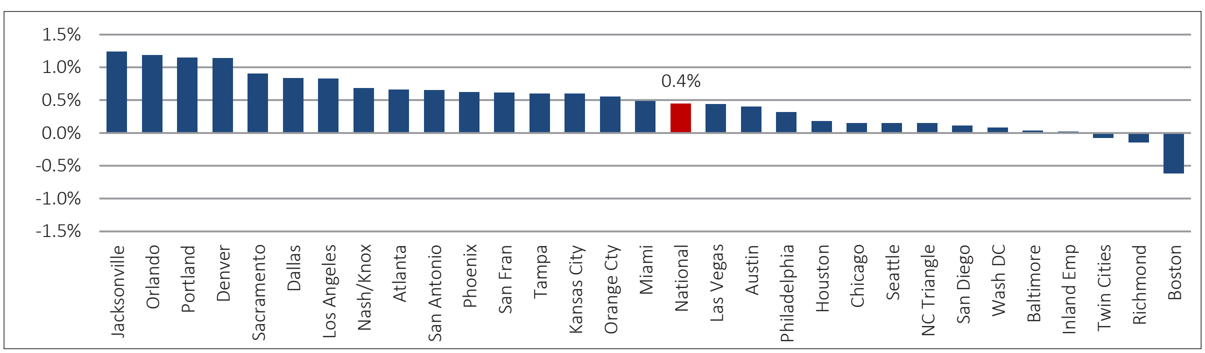
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



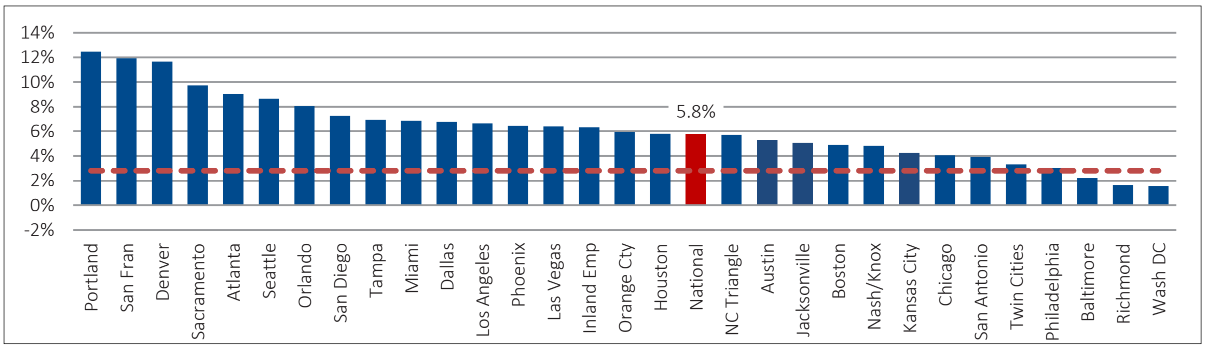
Trailing 3 Months Sequential—Rent by Necessity Asset Class



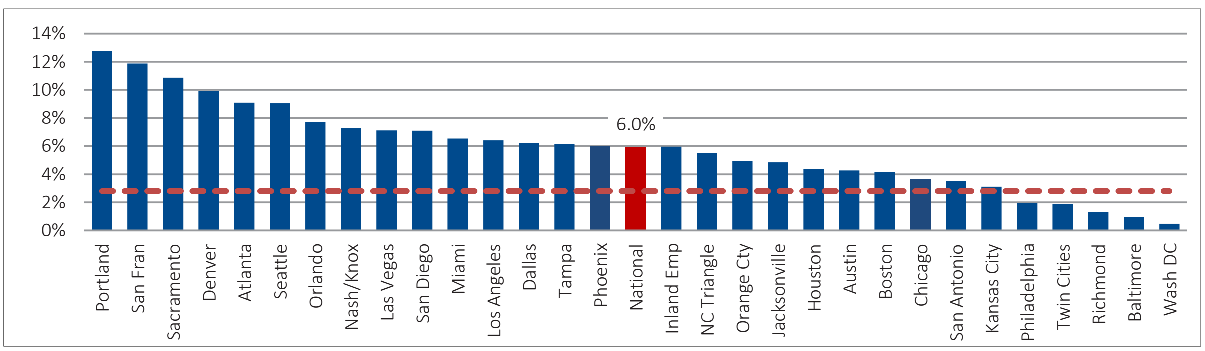
Trailing 12 Months: Lifestyle Leads Strong Growth, But Shift is Brewing

- Nationally, rents grew by 5.8% on a trailing 12-month basis, which averages the last 12 months compared to the prior-year period. That represented a 20-basis-point increase over September. Upscale Lifestyle properties rose 6.0% on a T-12 basis, outperforming the working-class Rent By Necessity segment, which rose by 5.7%.
- However, in recent months, Lifestyle growth has started to level off and Rent By Necessity has begun to outperform. The cooling off of Lifestyle growth is not surprising. Supply of high-end properties is rising rapidly in many markets, while affordability issues produce more demand on the lower end of the quality spectrum. The recent cooling off in the Lifestyle segment has spread to hot markets such as San Francisco, San Diego, Portland and Denver, which have all seen negative growth over the last three months. Boston is the only metro with negative growth in both Lifestyle and RBN properties on a T-3 basis.

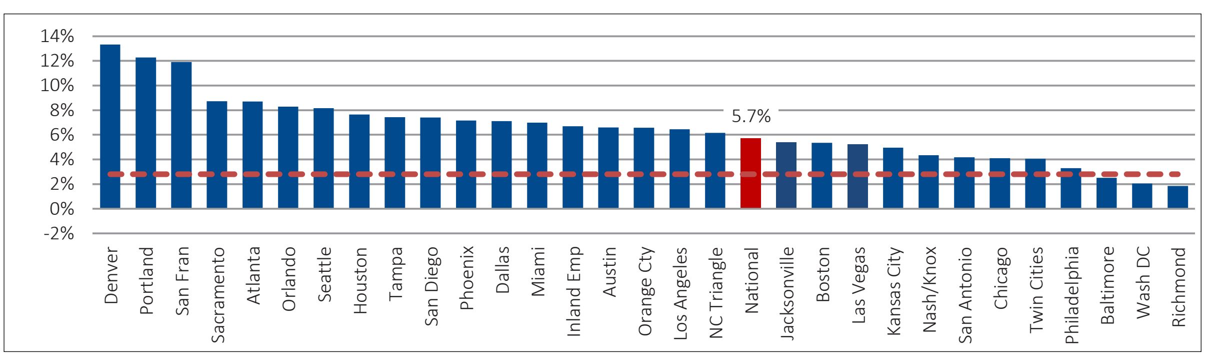
Trailing 12 Months Year-Over-Year—All Asset Classes



Trailing 12 Months Year-Over-Year—Lifestyle Asset Class



Trailing 12 Months Year-Over-Year—Rent by Necessity Asset Class



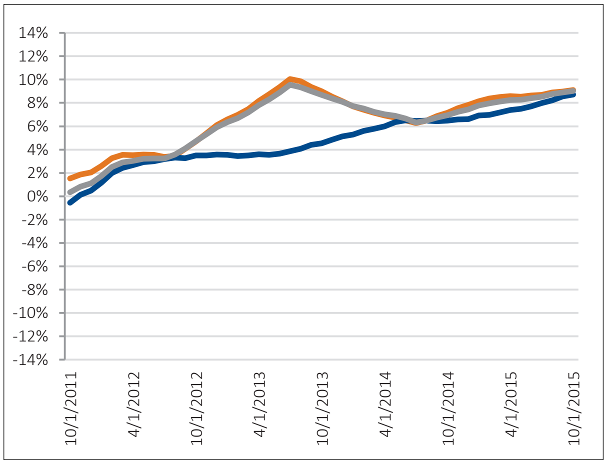
Employment/Supply Trends and Forecast Rent Growth

- Although it is too early to declare a definitive trend, there are signs that rent growth is beginning to rotate from the western tech axis to markets with late-stage growth. Rents are strong in markets such as Atlanta, Orlando, Miami, Phoenix, Dallas, Jacksonville and Tampa, driven by robust job markets that are drawing growth in population and demand for housing. Those metros have averaged year-over-year job growth of between 2.8% (Phoenix and Jacksonville) and 3.9% (Orlando), according to the Bureau of Labor Statistics.
- Dallas, demonstrating its diverse economic base, has not been affected by the drop in energy prices. Adding jobs at a 3.6% rate year-over-year, Dallas has remained in the top 10 in both the 3-month and 12-month rankings. Houston has seen rent growth decelerate, particularly in the lifestyle segment, as the job engine has stalled in recent months.
- Meanwhile, in the latest T-3 month survey, Denver dropped to ninth, Portland 11th, San Francisco 19th and Seattle 21st. Again, while the sample is too small to draw firm conclusions, this could be the first sign of the inevitable moderation in rent growth to more sustainable levels.

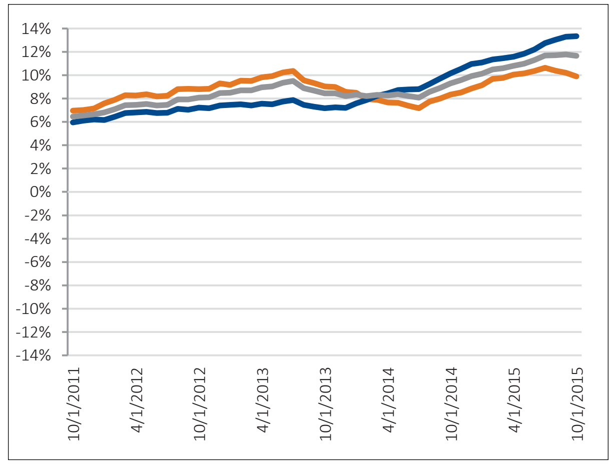
Market	Forecasted Rent Growth (YE 2015)	YTD Rent Growth As of October 2015	YoY Job Growth (6-mo moving avg) As of August 2015	Completions as a % of Total Stock As of October 2015
Portland	11.5%	14.1%	3.3%	2.3%
San Francisco	11.3%	11.0%	3.8%	2.8%
Denver	10.5%	10.0%	3.0%	4.1%
Sacramento	9.3%	9.6%	2.6%	0.7%
Seattle	9.0%	9.2%	3.7%	4.7%
Atlanta	8.1%	8.6%	3.2%	2.1%
Inland Empire	7.8%	5.3%	3.9%	0.8%
Miami	7.1%	5.6%	3.1%	3.4%
San Diego	7.0%	6.3%	3.1%	1.6%
Orlando	6.8%	8.7%	3.9%	2.4%
Las Vegas	6.8%	5.0%	2.9%	0.9%
Dallas	6.7%	6.7%	3.6%	2.1%
Houston	6.6%	3.5%	2.1%	2.4%
Orange County	6.3%	4.1%	3.4%	2.2%
Phoenix	6.0%	6.9%	2.8%	1.6%
Austin	6.0%	6.2%	3.3%	4.4%
Nash/Knox	6.0%	2.9%	3.1%	1.9%
Los Angeles	5.8%	7.4%	2.4%	1.7%
Tampa	5.8%	6.6%	3.0%	2.6%
Boston	4.5%	5.6%	2.1%	3.0%
NC Triangle	4.5%	5.0%	3.0%	4.4%
Kansas City	4.5%	4.0%	1.8%	2.5%
Jacksonville	4.3%	6.8%	2.6%	2.2%
San Antonio	4.0%	4.8%	3.2%	2.3%
Chicago	3.0%	3.4%	1.3%	1.7%
Twin Cities	2.8%	2.1%	1.9%	2.3%
Philadelphia	2.4%	3.3%	1.2%	1.1%
Baltimore	1.8%	2.1%	2.0%	1.1%
Richmond	1.5%	3.1%	0.7%	2.1%
Washington DC	0.9%	3.6%	2.0%	2.8%

Market Rent Growth by Asset Class

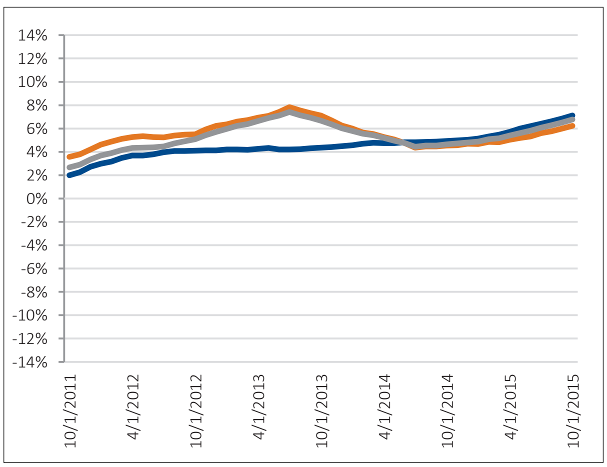
Atlanta



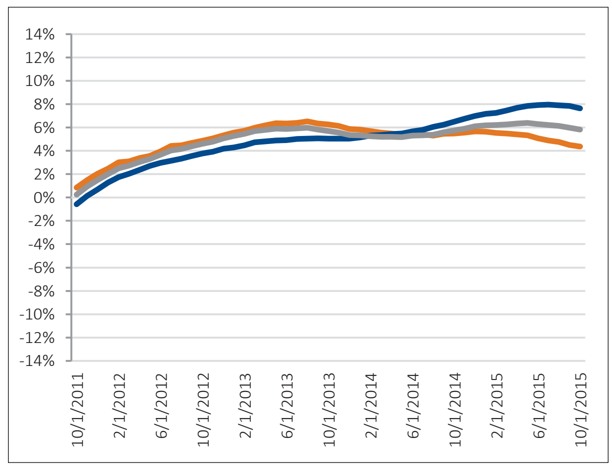
Denver



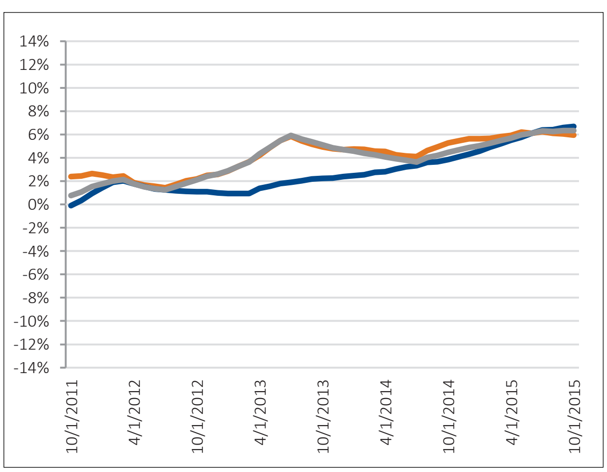
Dallas



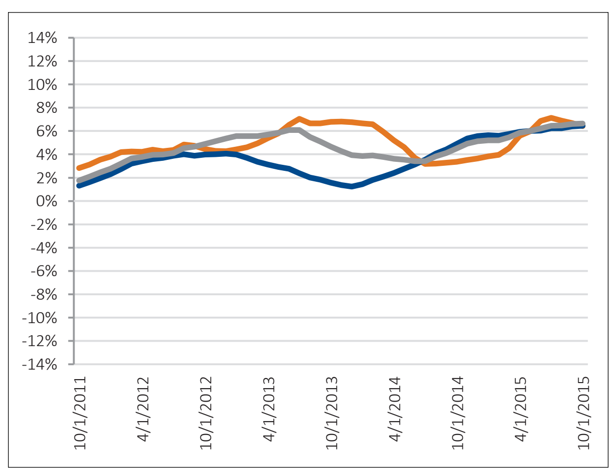
Houston



Inland Empire

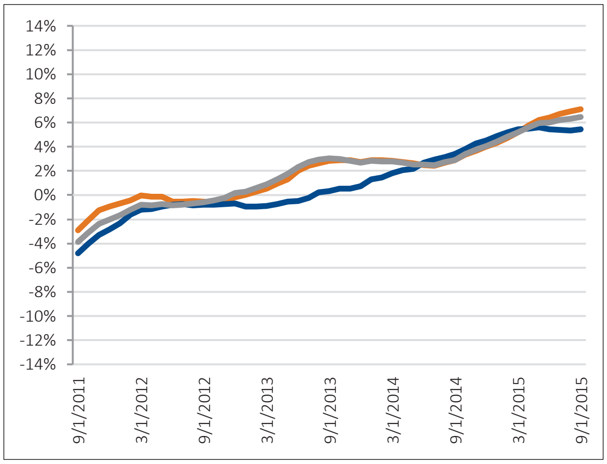


Los Angeles

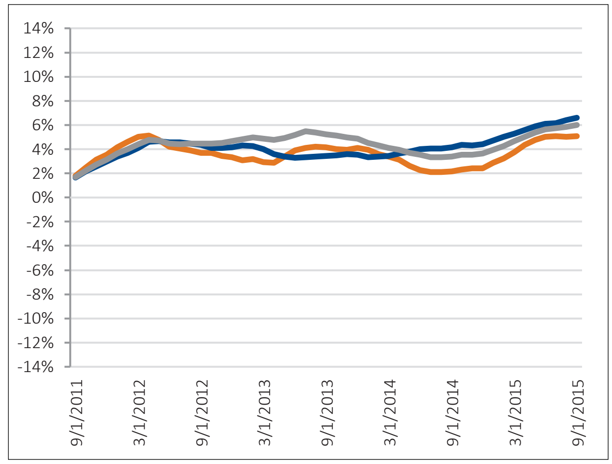


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Rent By Necessity

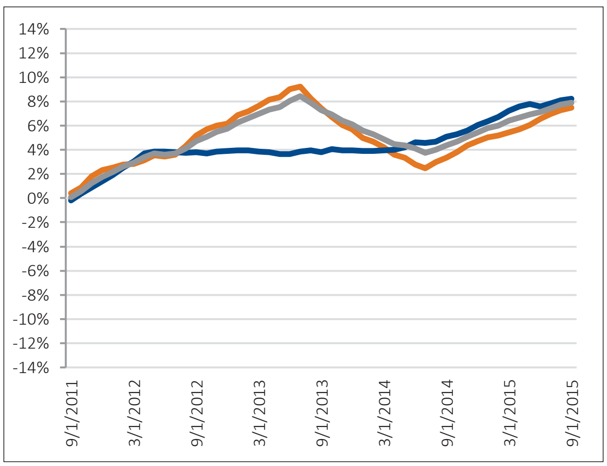
Las Vegas



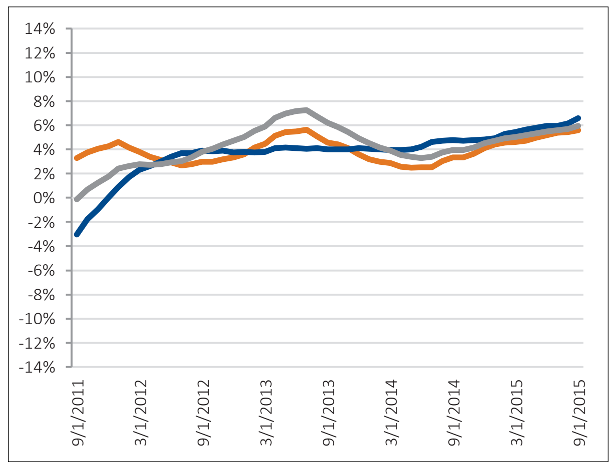
Orange County



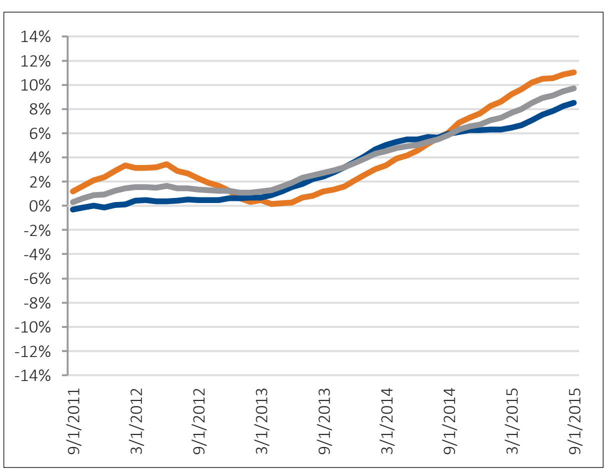
Orlando



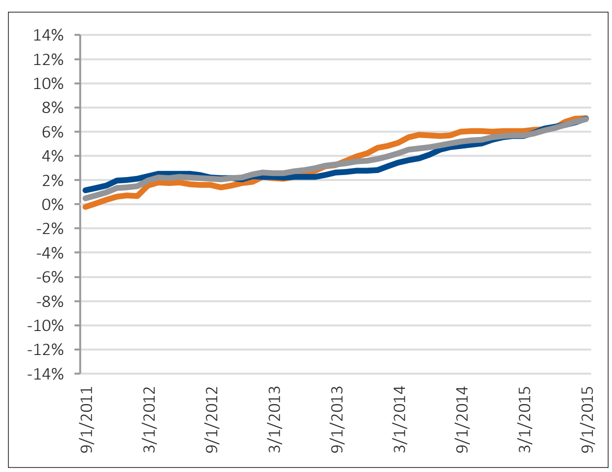
Phoenix



Sacramento

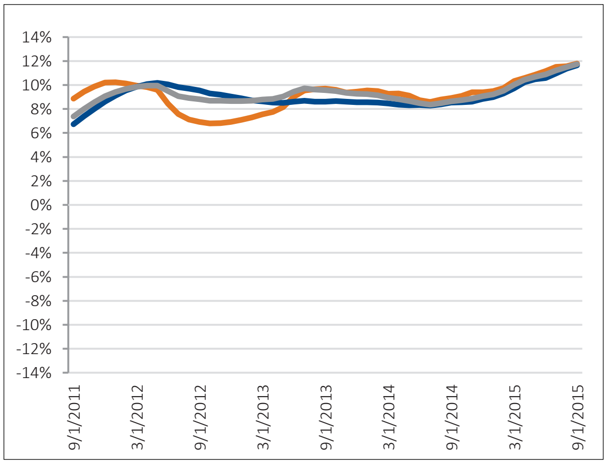


San Diego

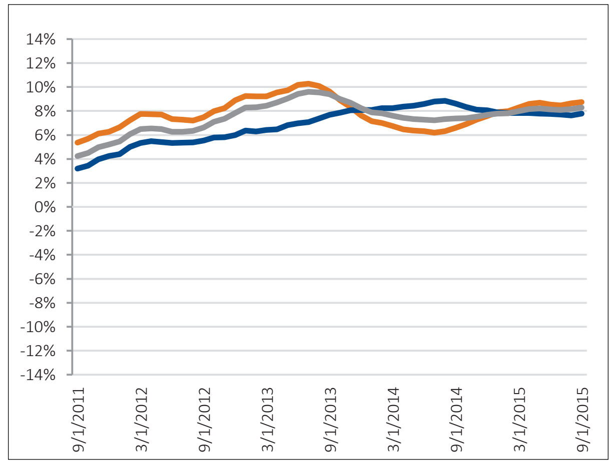


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Rent By Necessity

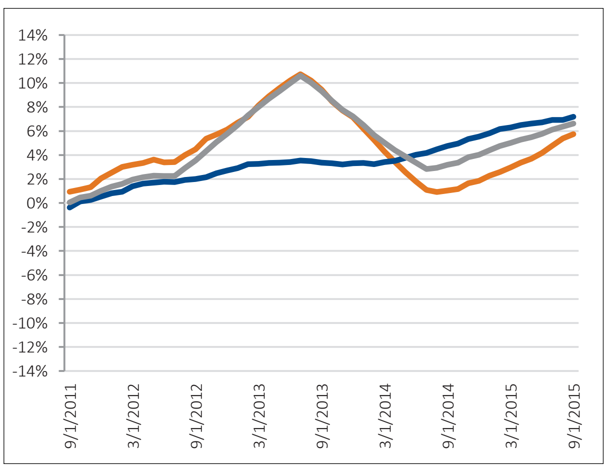
San Francisco



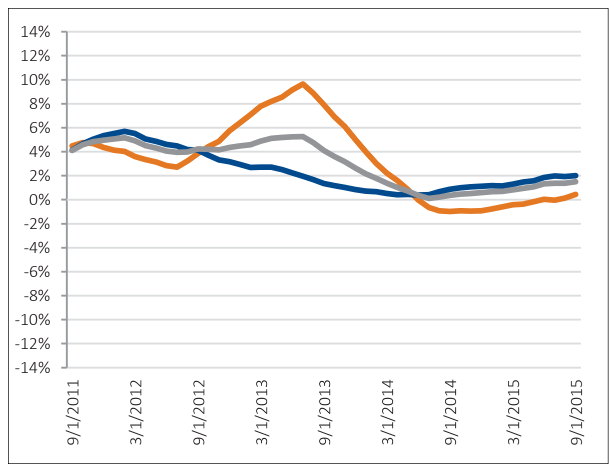
Seattle



Tampa



Washington, DC



Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Rent By Necessity

Appendix: Year-over-Year Rent Growth for Non-Reported Markets

Market	October 2015		
	Overall	Lifestyle	Rent-by-Necessity
San Fernando	8.7%	5.8%	9.6%
Bridgeport - New Haven	2.6%	2.8%	0.8%
Central East Texas	3.1%	2.0%	3.2%
Central Valley	5.9%	4.0%	6.3%
Colorado Springs	8.4%	5.9%	10.0%
El Paso	0.3%	2.4%	-0.6%
Indianapolis	2.7%	2.7%	2.1%
Long Island	3.9%	6.7%	3.2%
Louisville	2.7%	-0.6%	3.3%
Northern New Jersey	4.8%	4.8%	4.8%
Reno	7.2%	8.9%	6.3%
SW Florida Coast	10.5%	9.0%	11.8%
Tacoma	10.8%	11.4%	10.3%
Triad	2.2%	0.8%	3.3%
Tucson	3.2%	4.6%	2.8%
St Louis	2.1%	1.3%	2.2%
Albuquerque	2.7%	4.0%	1.7%

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 who 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	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of 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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