Rent Survey | September 2016

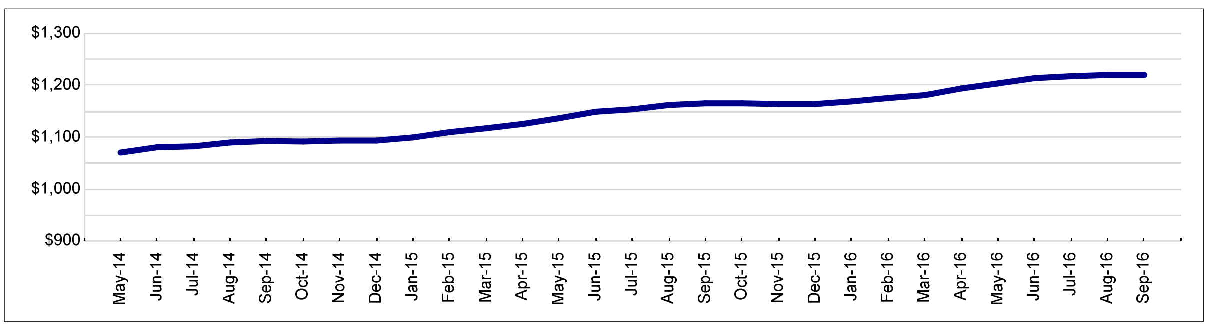
Multifamily Rent Deceleration Persists

The deceleration of multifamily rents continued in September. Although basically flat, average U.S. monthly rents dropped for the first time since November 2015, falling to $1,219, compared to $1,220 in August, according to Yardi Matrix's monthly survey of 123 markets. On a year-over-year basis, rents grew 4.7% nationwide in September, a 30-basis-point decline from August and a 200-basis-point fall from the recent high in October 2015.

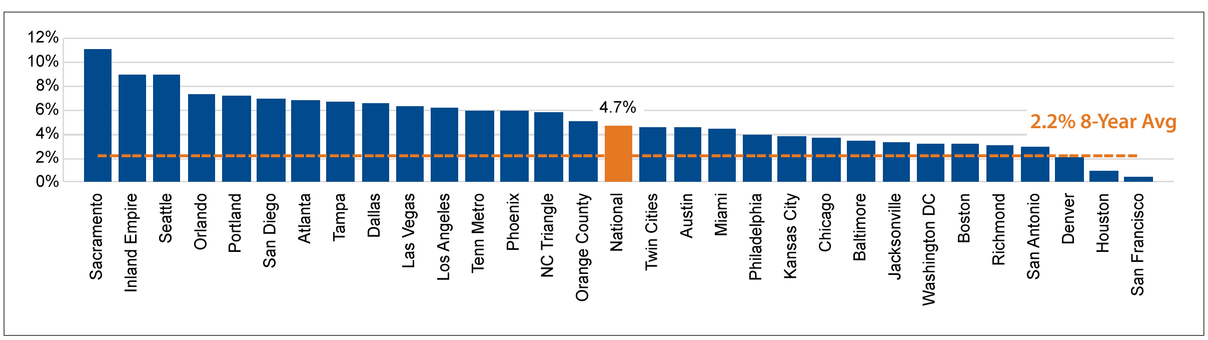
While rent growth keeps decreasing, multifamily fundamentals remain strong. Occupancy has remained unchanged since May and is staying near historic highs. The employment sector, while not as robust as it once was, has been creating jobs at a steady pace. Demand for multifamily housing is forecast to remain high, as Millennial household formation continues and Boomers seek to downsize and re-enter the rental market. Despite the deceleration trends, 26 of Yardi Matrix's top 30 markets experienced year-over-year rent growth of 3% or better in September. Once again, year-over-year rent increases were led by Sacramento (11.1%), followed by the Inland Empire and Seattle (both at 9.0%). Rent growth has significantly outpaced economic expansion and wage growth in the last three years, and the recent deceleration aligns with historical rent growth rates.

Completions of new apartment units are projected to reach 360,000 in 2016, marking the largest number of annual completions in the current cycle. New supply, coupled with slower albeit strong and steady macroeconomic fundamentals, will maintain a downward pressure on rent growth. Significant supply increases are occurring in San Francisco, Denver and Houston, metros where rent growth was 2% or below on a year-over-year basis in September. As supply is absorbed and construction moderates, these metros will likely revert back to a stable long-term growth rate.

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.

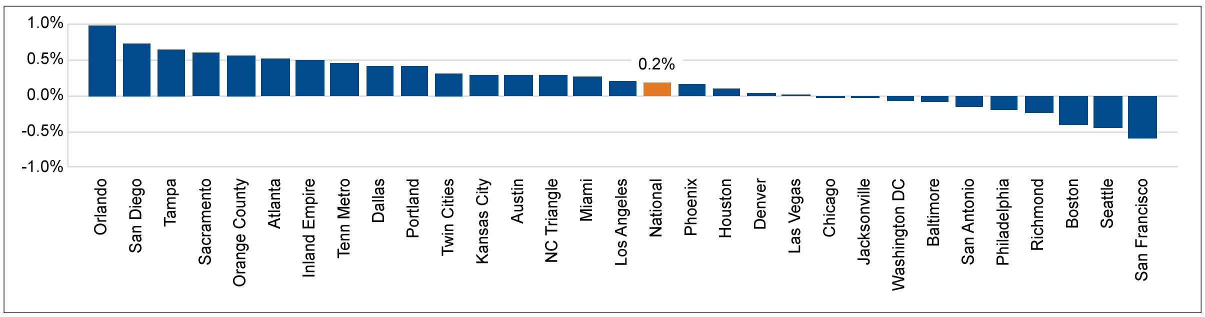
Trailing 3 Months: Warm Weather Metros Remain Hot

Nationwide, multifamily rents grew 0.2% on a trailing three-month (T-3) basis in September, marking a 0.3% decline from August. The continuing deceleration trend and a seasonality effect contributed to the slower rent gains. April, May and June are typically the strongest months of the year for rental demand. On a T-3 basis, the working-class Renter-by-Necessity (RBN) segment grew 0.3%, while the high-end Lifestyle segment was essentially flat. A significant portion of new supply across the country has come in at the high end, as builders and developers recognize significantly higher returns and experience relatively equal costs to build Lifestyle apartments.

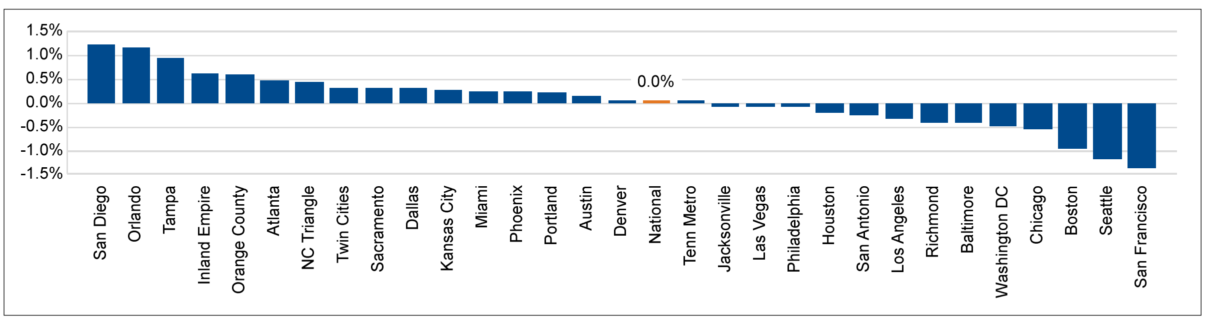
Metros in Florida and California led the nation with strong T-3 rent growth, as Orlando grew 1.0%. Other leading markets included San Diego (0.7%), Tampa (0.7%), Sacramento (0.6%), and Orange County (0.6%). These markets performed well in both the Lifestyle and RBN segments, indicating that multifamily demand remains strong across the board.

Boston (-0.4%) , Seattle (-0.5%) and San Francisco (-0.6%) exhibited the weakest performance. The heady prices and increased supply resulting from their past few years of strong rent growth appears to have put a damper on rent appreciation.

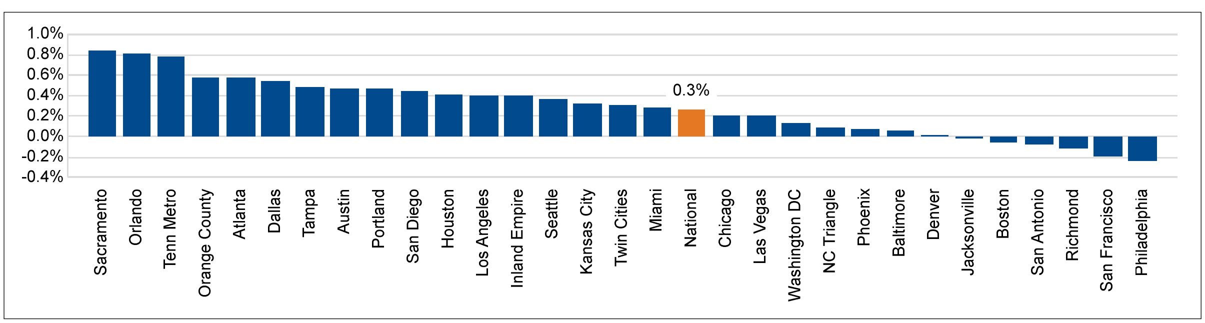
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

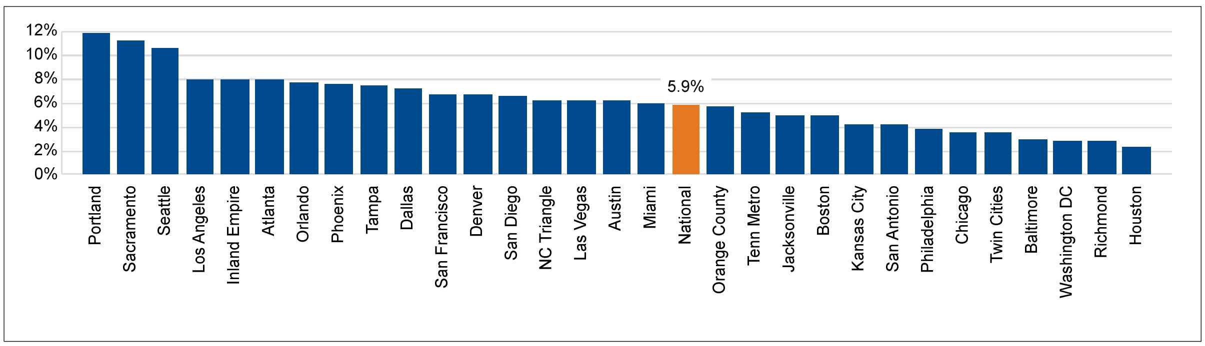


Trailing 12 Months: Effects of Lifestyle Construction Persist

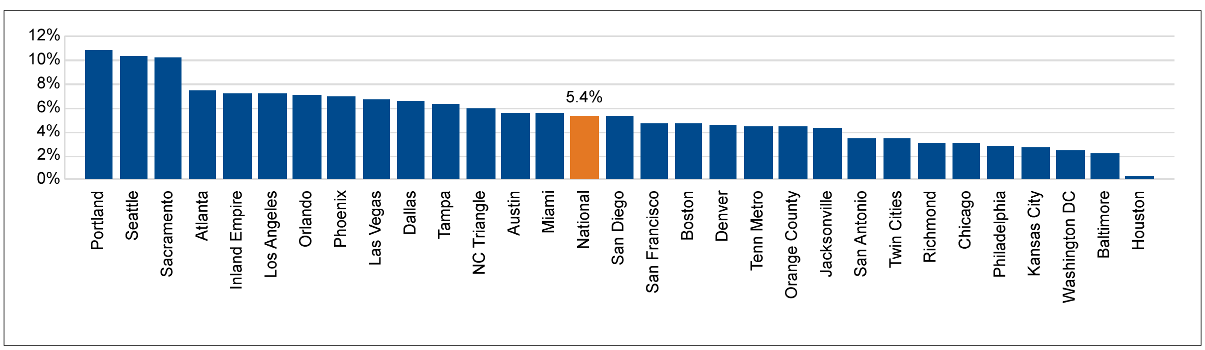
Rents grew at 5.9% on a trailing 12-month (T-12) basis in September. The T-12 survey represents the change in the average rent during the preceding one-year period. National rent growth remains strong, but signs of deceleration persist. Leading markets continue to be located in the Pacific Northwest and California, with Portland (11.9%), Sacramento (11.2%) and Seattle (10.6%) topping the T-12 survey in September.

Across the country, rent growth for RBN units outpaced Lifestyle units by 80 basis points, as the demand for more affordable housing remains high. Two metros with the largest discrepancy between housing segments are Denver (8.7% RBN growth vs. 4.5% Lifestyle growth) and Houston (4.7% RBN growth vs. 0.3% Lifestyle growth). While the significant growth of Lifestyle units in these two metros has dragged down overall rent growth, the RBN rental market remains strong.

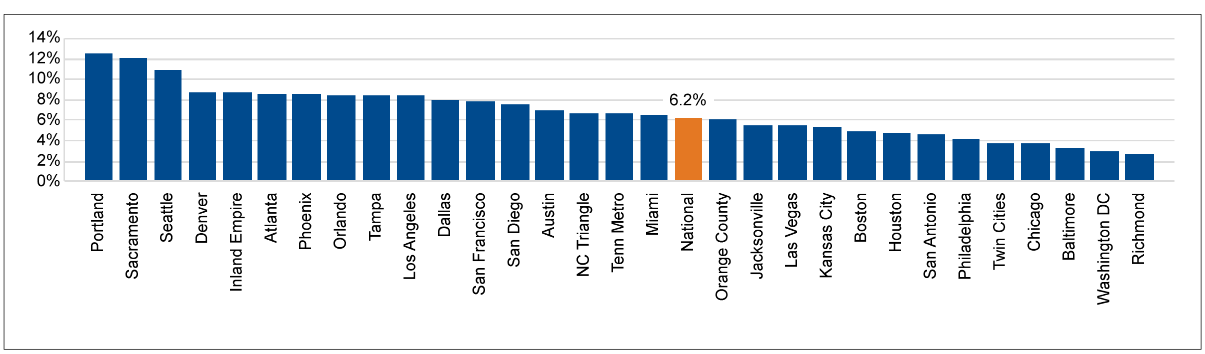
Trailing 12 Months Year-Over-Year—All Asset Classes



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 continued rent deceleration is in line with expectations. While year-over-year rent growth has declined since last October, it remains strong at 4.7%. Yardi Matrix has forecast 2016 rent growth of 4.5%, as we approach a more normal and sustainable long-term growth level. Income gains of 2-3% are insufficient to continuously support nationwide rent growth in the 5-6% range.

While the national average rent growth rate has slowed, certain metros on the West Coast and in the Southeast remain hot. Secondary cities that have not seen extremely high levels of new construction—such as Sacramento, Portland and Orlando—continue to outpace the rest of the nation, with year-over-year rent growth exceeding 7%. Sun Belt metros including Los Angeles, Dallas, Tampa and Atlanta maintain strong but not overheated rent growth in the 6-7% range.

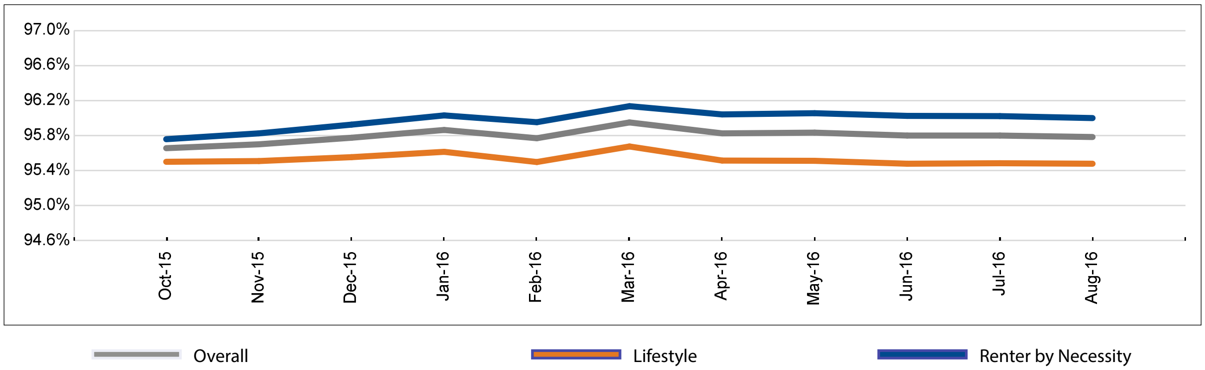
As has been the case for the past several months, the fastest deceleration is seen in markets with slowing job growth and large amounts of supply coming online. Examples include tech-centric metros San Francisco (13,500 units coming online in 2016) and Denver (11,600 new units) have seen rent growth drop to below 2% on a year-over-year basis. Houston also ranks among the slowest metros for rent growth, as the energy industry has been hurt by declining oil and gas prices. However, deceleration in Houston may have flattened. Houston rent growth was 0.9% on a year-over-year basis in September, compared to 0.2% in August.

Market	Forecast Rent Growth (YE 2016)	Y-o-Y Job Growth (6-mo. moving avg.) as of July 2016	Completions as a % of Total Stock as of September 2016	Occupancy Rates as of July 2016	Occupancy Rates as of August 2016
San Francisco	10.5%	3.3%	1.9%	96.4%	96.5%
Sacramento	8.8%	2.5%	0.3%	96.8%	96.8%
Portland	8.8%	3.0%	3.9%	96.3%	96.3%
Dallas	7.3%	3.6%	2.2%	96.0%	95.9%
Seattle	7.2%	3.5%	4.8%	96.3%	96.3%
Los Angeles	7.1%	2.4%	1.2%	96.9%	96.8%
Inland Empire	6.8%	3.1%	1.2%	96.7%	96.7%
Atlanta	6.4%	3.0%	2.1%	94.9%	94.9%
Orlando	6.3%	3.9%	3.5%	96.3%	96.2%
Denver	6.3%	3.1%	4.1%	95.7%	95.7%
Austin	5.8%	4.0%	4.5%	95.1%	95.1%
Miami	5.6%	2.7%	2.9%	95.7%	95.6%
Tampa	5.5%	3.2%	1.6%	95.8%	95.7%
San Diego	5.5%	2.6%	2.5%	97.1%	97.1%
Phoenix	5.4%	3.4%	2.8%	95.8%	95.7%
Orange County	4.5%	3.0%	1.5%	97.0%	97.0%
Las Vegas	4.2%	2.6%	1.7%	95.3%	95.2%
Nashville/Knoxville	4.2%	3.2%	4.0%	96.5%	96.5%
Jacksonville	4.0%	3.5%	1.2%	95.3%	95.3%
Houston	3.4%	0.3%	2.7%	93.9%	93.9%
San Antonio	3.3%	2.5%	3.9%	94.4%	94.4%
Kansas City	3.1%	1.3%	2.2%	95.5%	95.5%
Boston	3.0%	1.7%	3.0%	97.0%	96.9%
NC Triangle	2.0%	2.6%	4.0%	95.8%	95.8%
Chicago	2.0%	1.5%	1.8%	96.0%	96.0%
Twin Cities	1.5%	1.6%	2.2%	97.5%	97.6%
Richmond	1.4%	2.2%	0.9%	95.4%	95.5%
Philadelphia	1.3%	2.3%	1.6%	96.2%	96.1%
Washington, D.C.	1.2%	2.4%	2.4%	96.2%	96.2%
Baltimore	1.0%	2.2%	1.5%	95.6%	95.5%

Occupancy and Asset Classes

August occupancy remains flat at 95.8%, as it has been for most of the summer. While most of the new multifamily product entering the market is in the Lifestyle segment, occupancy in both segments remains very similar. Stabilized RBN occupancy was 95.9% in August, while Lifestyle occupancy was only slightly lower at 95.6%.

Occupancy—All Asset Classes by Month

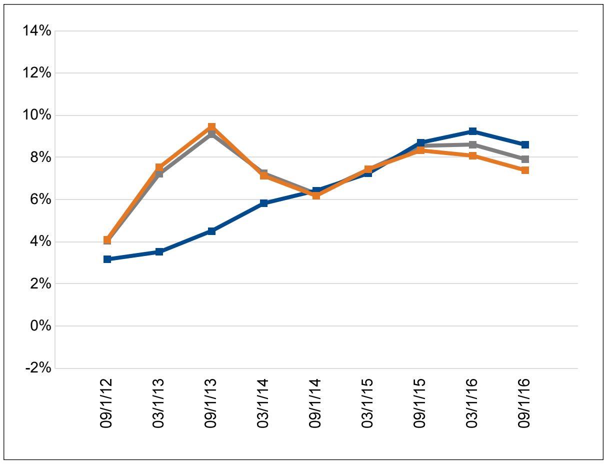


Year-over-Year Rent Growth, Other Markets

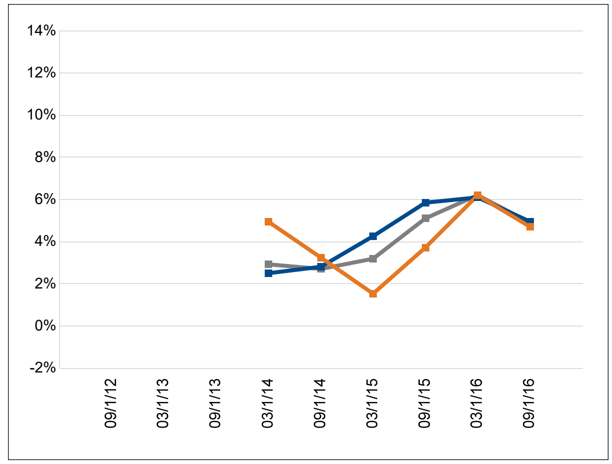
Market	September 2016		
	Overall	Lifestyle	Renter by Necessity
Tacoma	13.2%	16.2%	10.7%
Reno	11.0%	12.7%	10.1%
Colorado Springs	9.5%	10.7%	9.0%
San Fernando	8.7%	9.1%	8.6%
Central Valley	7.7%	6.5%	7.8%
SW Florida Coast	5.7%	3.2%	8.0%
Northern New Jersey	4.3%	4.0%	4.5%
Tucson	4.1%	2.7%	4.5%
Long Island	3.7%	2.8%	4.2%
St. Louis	3.5%	3.4%	3.5%
Indianapolis	3.4%	3.8%	3.1%
NC Triad	3.2%	2.7%	3.7%
Louisville	3.1%	3.1%	3.1%
Albuquerque	2.9%	3.7%	2.4%
Central East Texas	2.5%	4.2%	2.2%
Bridgeport - New Haven	0.9%	-0.4%	1.6%
El Paso	0.2%	1.8%	-0.2%

Market Rent Growth by Asset Class

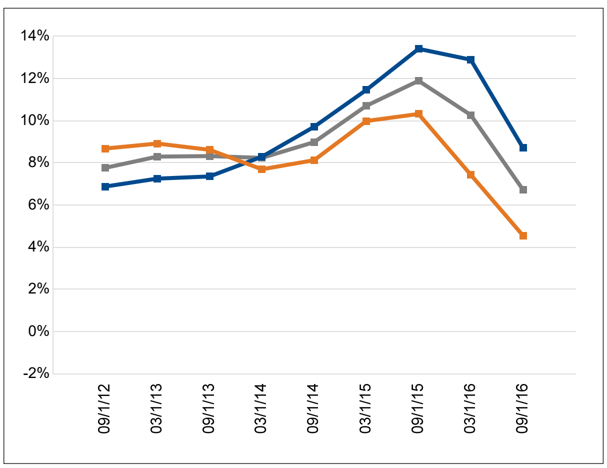
Atlanta



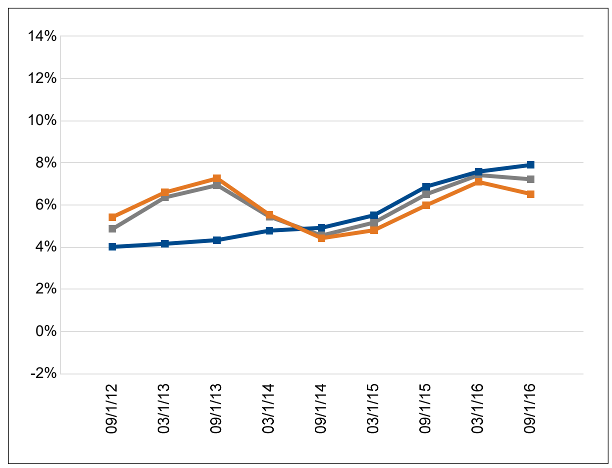
Boston



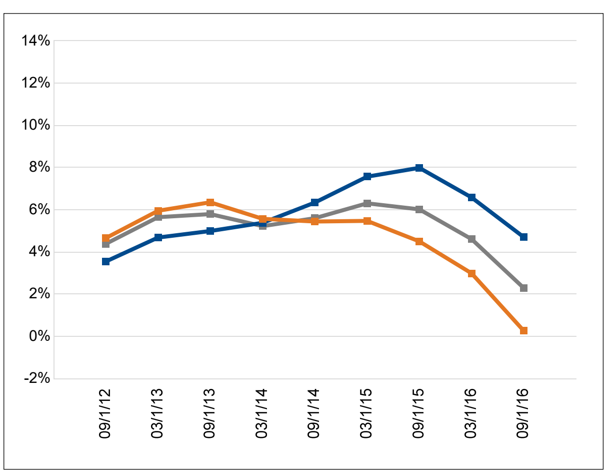
Denver



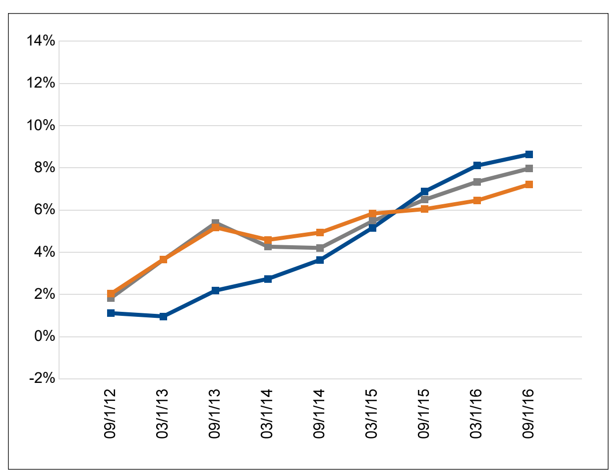
Dallas



Houston

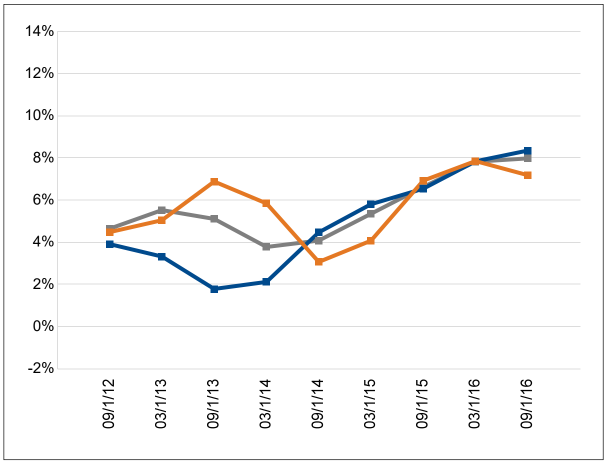


Inland Empire

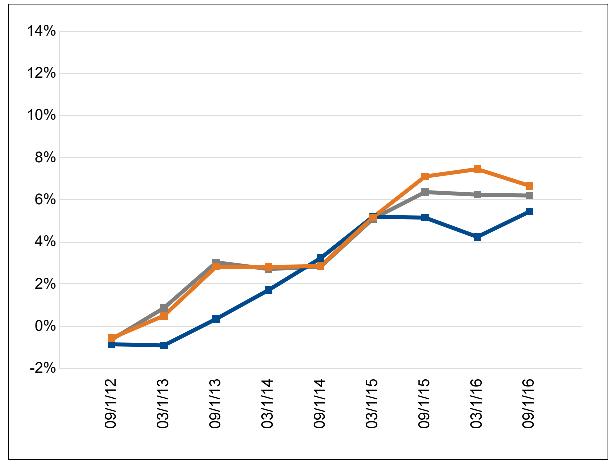


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter by Necessity

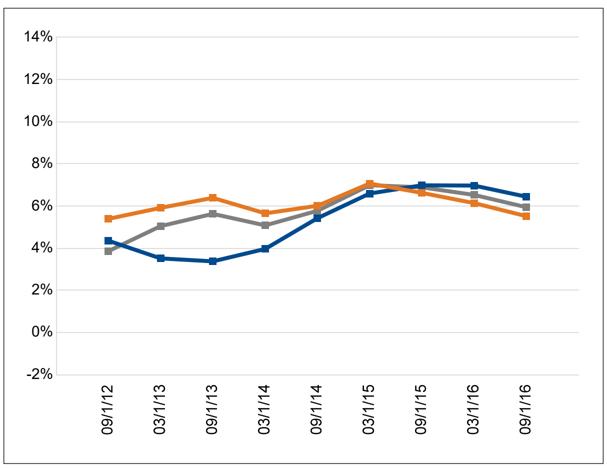
Los Angeles



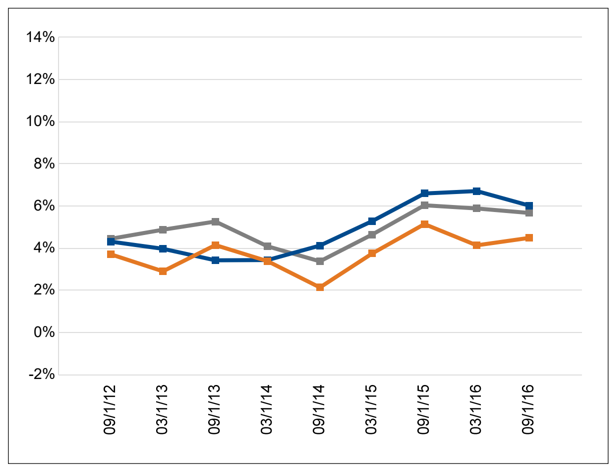
Las Vegas



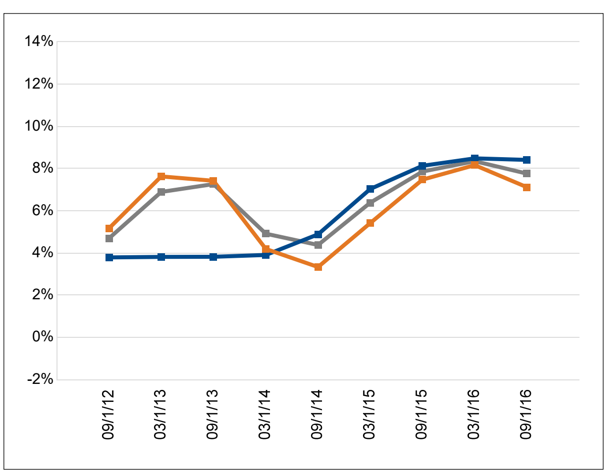
Miami



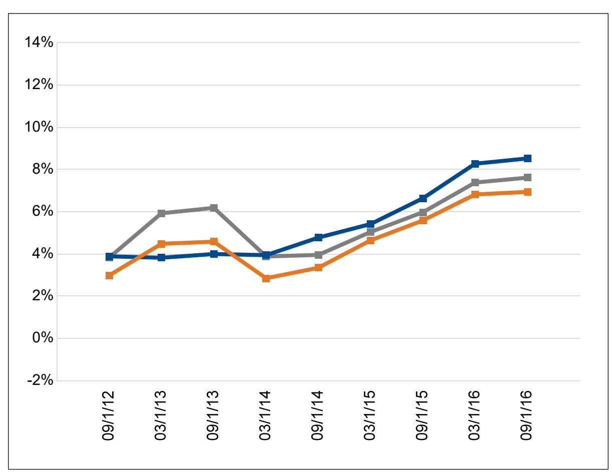
Orange County



Orlando

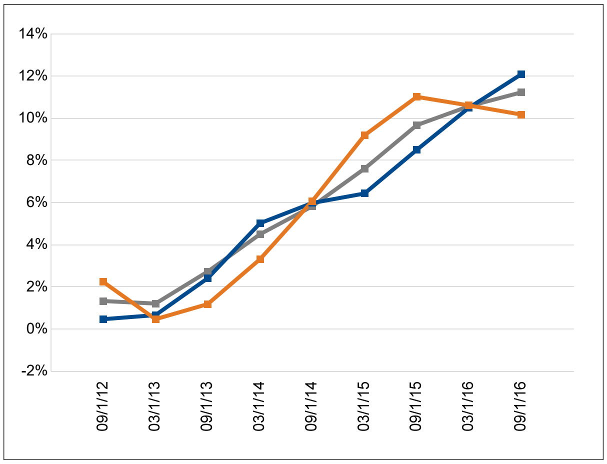


Phoenix

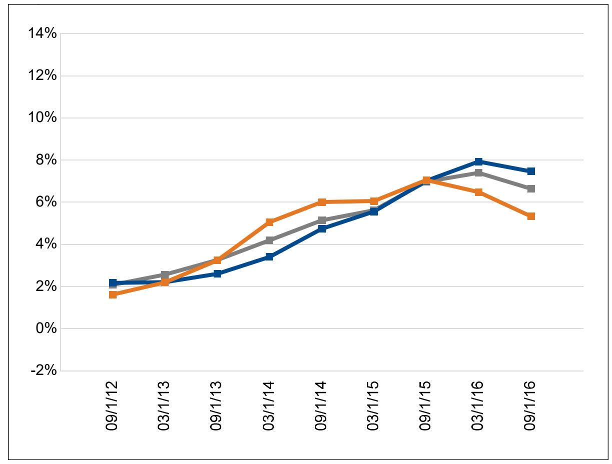


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter by Necessity

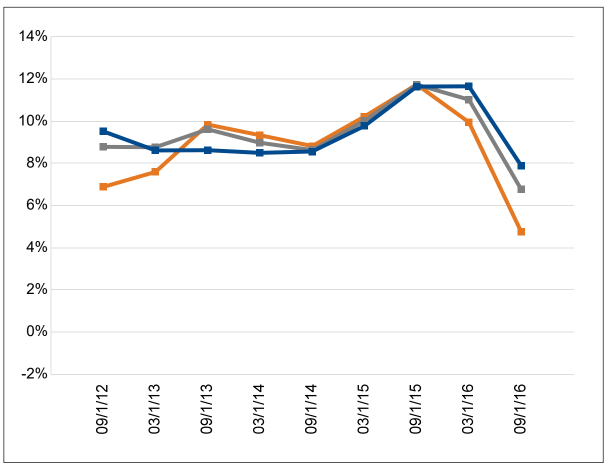
Sacramento



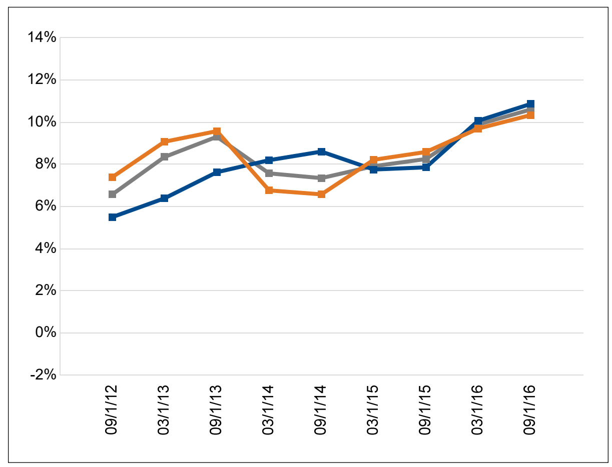
San Diego



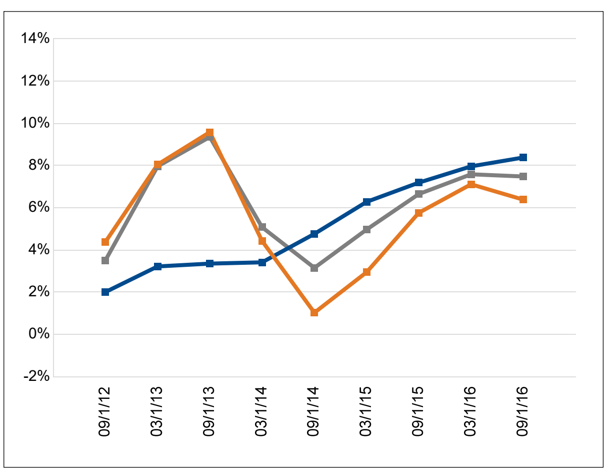
San Francisco



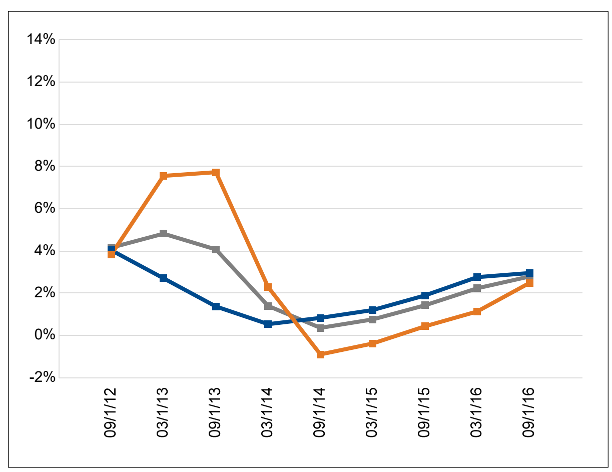
Seattle



Tampa



Washington, D.C.



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

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 or call Ron Brock, Jr., at 480-663-1149 x2404.

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