Rent Survey | August 2015

Multifamily Rent Growth Remains Strong, To Be Tested

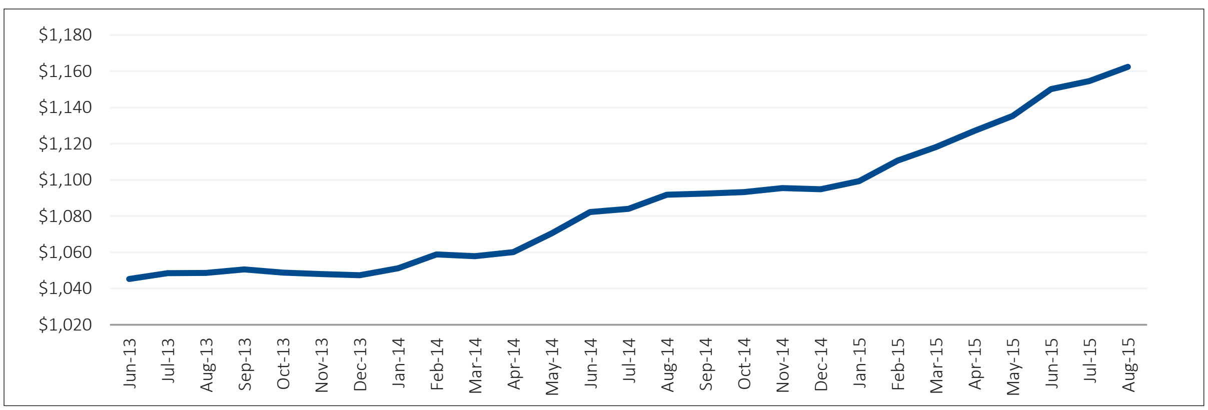
- U.S. multifamily rent growth maintained its bullish growth in August, rising by $7 to yet another record high of $1,162, according to a survey of the 107 markets covered by Yardi Matrix. Perhaps more importantly, the numbers in August matched July's 6.5% year-over-year increase, which indicates that rent growth does not seem to be slowing down.

- That said, the recent volatility in the equity market will pose a significant test to the segment going forward. Although the major causes of the sudden 10% decline in stock values -- the collapse of stock prices and currency depreciation in China, slower growth in emerging markets and fears that U.S. stocks were overvalued after a bull run -- are not directly related to real estate, recent history demonstrates that exogenous shocks can play an outsized role in roiling the U.S. economy.

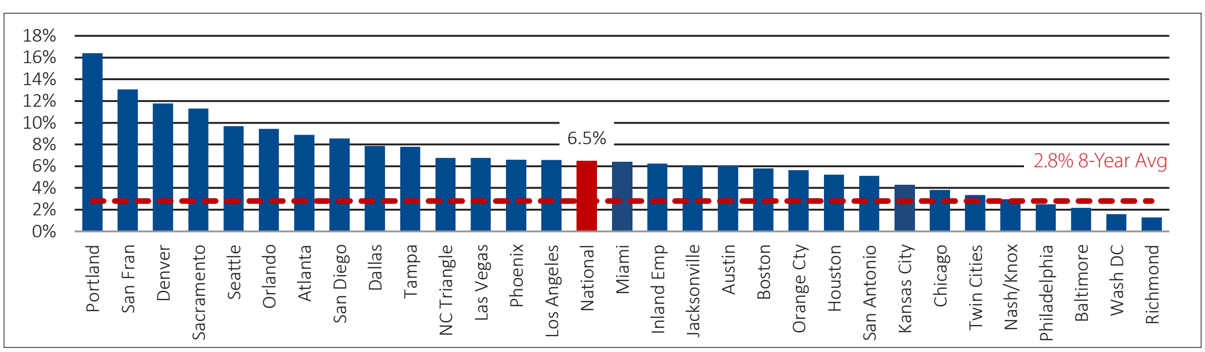
- Our view is that U.S. multifamily fundamentals will remain strong. The demographic and demand trends that have produced historically low apartment vacancy rates will not be easily turned around. It is possible but unlikely that contagium from the problems in China and the eurozone could cut into U.S. exports and lead to slower GDP growth in the U.S. It is somewhat more possible that panicked financial markets could create a liquidity-type crisis that could bleed into the general economy, but at this point we also see that as unlikely.

- There are potential upsides to U.S. real estate as well. One is that the Federal Reserve will maintain low interest rates, which, whatever the general economic impact, has helped to boost commercial real estate values. Another is that the instability elsewhere will lead global investors to allot even more capital to the sector.

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes

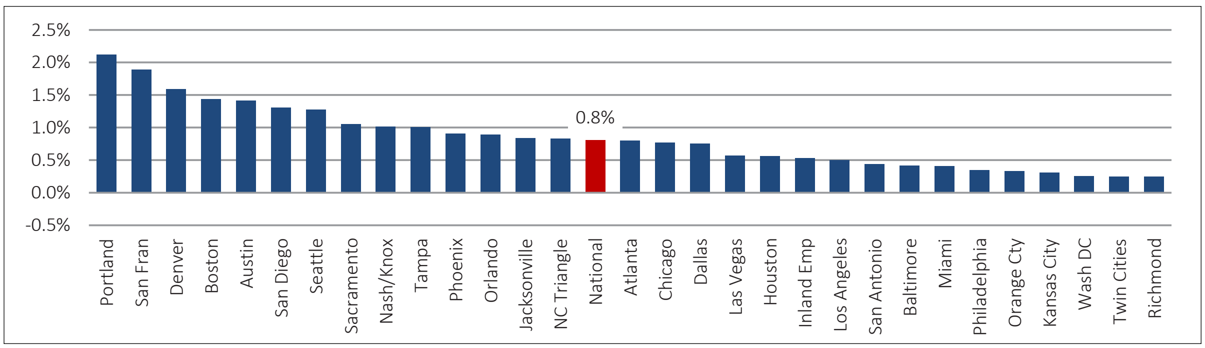


National averages include 107 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

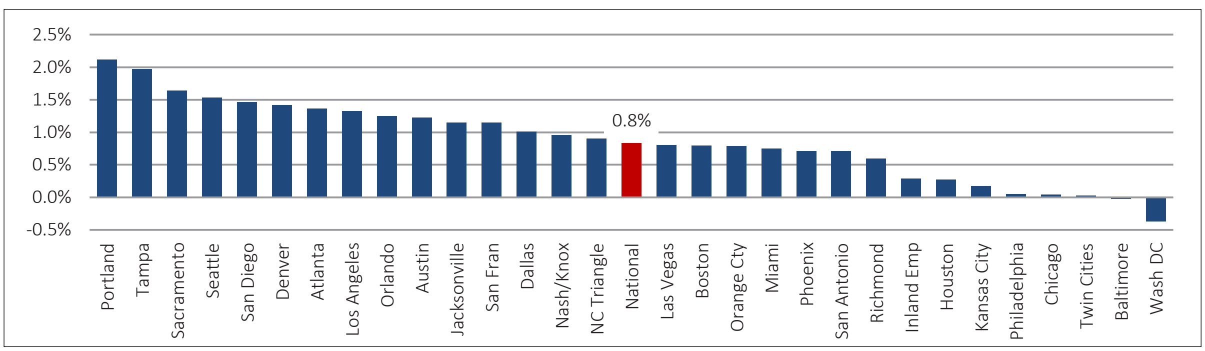
Trailing 3 Months: Not Much Change to Believe In

- Rents rose by an average 0.8% on a trailing 3-month basis compared to the prior-year period, the same rate of increase as last month. The T-3 increase was the same for both higher-end Lifestyle properties and working-class Rent By Necessity properties.
- There was very little change in the order of the markets, which indicates a mid-summer slowdown in rent growth. The top 5, 10 and 15 markets were all the same as last month, although the order slightly changed. Portland, San Francisco and Denver remained 1,2 and 3, while Boston rose to 4th from 5th, switching places with Austin.
- In the Lifestyle segment, Tampa rose to second with a 2.0% increase, demonstrating momentum for new luxury units, while Washington D.C. fell by 0.4%, perhaps a sign of the impact of the glut of new high-end units. Meanwhile, in Baltimore Rent By Necessity rose by a robust 0.9% while Lifestyle rents were essentially flat.

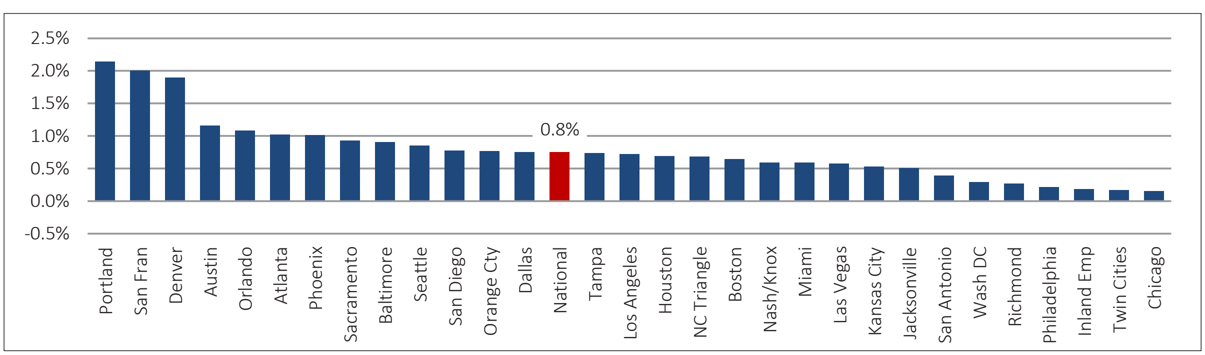
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



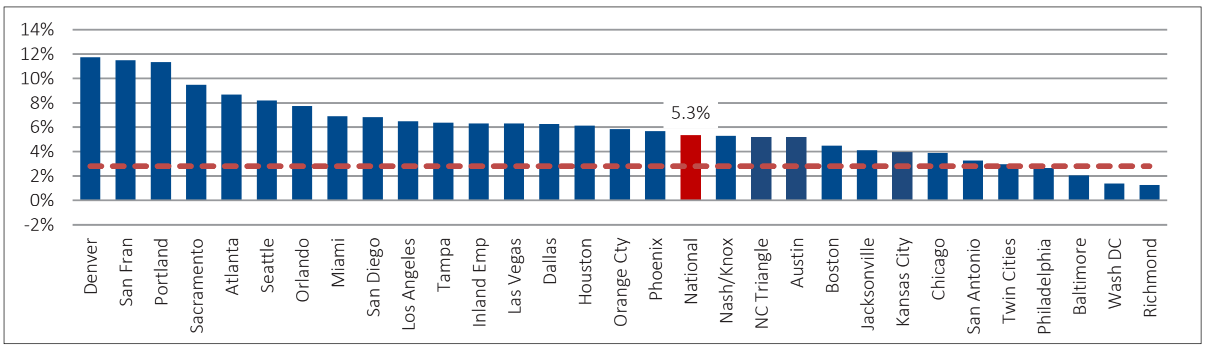
Trailing 3 Months Sequential—Rent by Necessity Asset Class



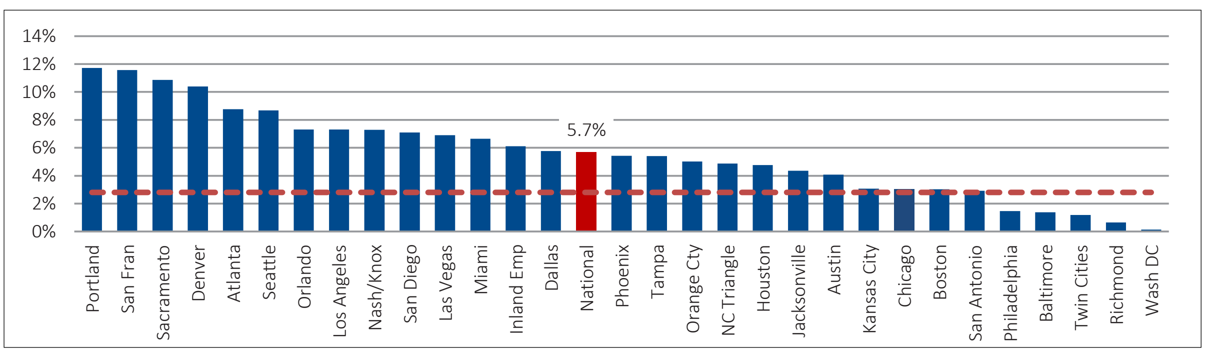
Trailing 12 Months: Growth Still Strong; Texas-Sized Concerns About Oil

- Nationally, rents grew by 5.3% on a trailing 12-month basis, which averages the last 12 months compared to the prior-year period, a 30-basis-point increase over July. Upscale Lifestyle properties rose 5.7%, outperforming the working-class Rent By Necessity segment, which rose by 5.3%.
- Rent growth continues to be strongest in the West and South, which encompassed the top 13 metros on the list. Meanwhile, the Mid-Atlantic continues to be relatively weak, with Richmond, Washington DC, Baltimore and Philadelphia claiming the bottom four slots in the ranking.
- Dallas, Houston, Austin and San Antonio remain above the long-term average, but growth has cooled. What's more, after the price of a barrel of crude dropped below $40 (near six-year lows) in late August on weak global demand, it appears that prices are likely to remain low for at least the rest of the year, which could be a blow to job growth in Texas metros.

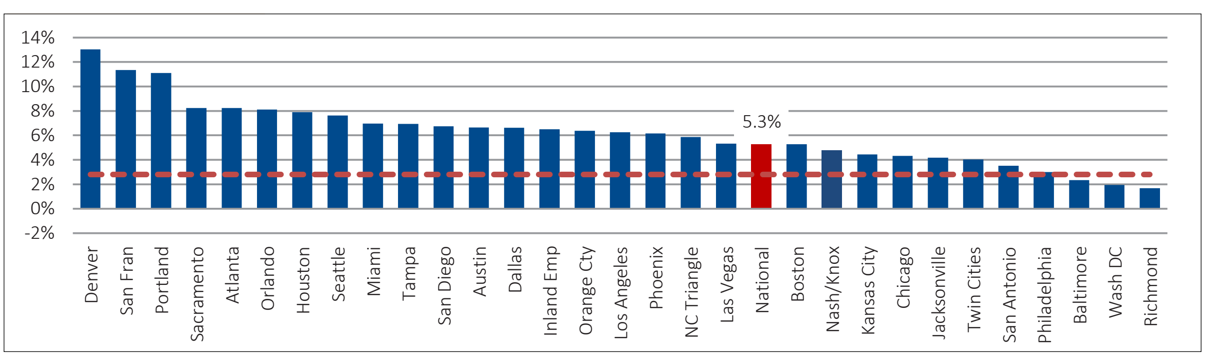
Trailing 12 Months Year-Over-Year—All Asset Classes



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



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



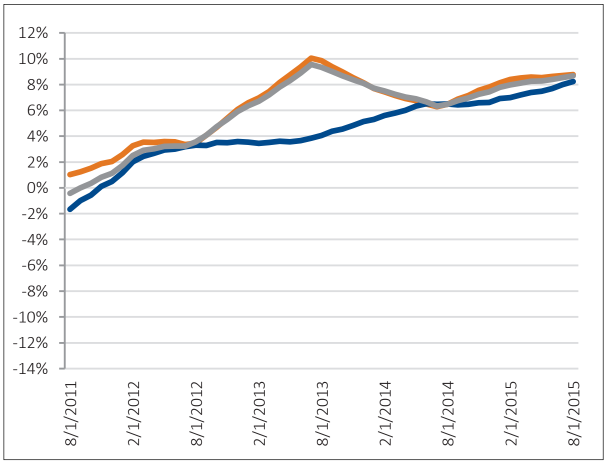
Employment/Supply Trends and Forecast Rent Growth

- Job growth continued to be strong through mid-year in the top 30 metros in Yardi's monthly survey, with all but a handful above the 2.3% national average. Leaders in the six-month average year-over-year through June include Inland Empire (4.1%), Orlando (4.0%) and San Francisco and Dallas (3.9%).
- Given today's market conditions, it's logical to assume that employment growth is not likely to maintain the same high rate. For one thing, demand for U.S. exports will likely drop as countries such as China devalue their currencies. Metros that depend on oil were losing jobs when oil was $60 a barrel, if they remain near $40, more cuts are probable. And as we saw during the long, slow recovery, employers are reticent to hire en masse during times of financial market uncertainty.
- Consequently, while we don't expect a serious downturn in the economy or a major slowdown in job growth, the market turmoil does provide another reason to warn that today's buoyant rate of rent increases cannot continue forever, and market players need to be intelligent about expectations for growth.

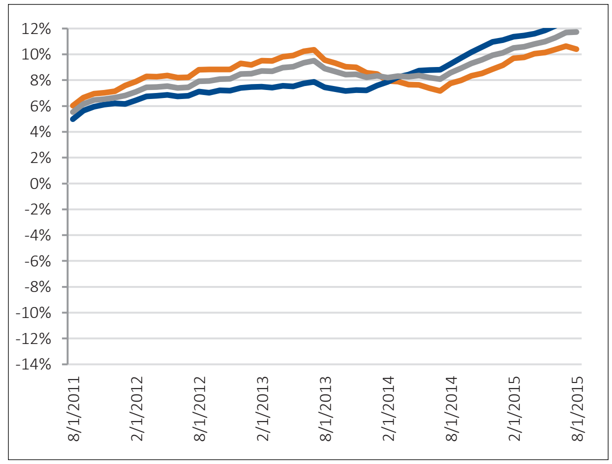
Market	YoY Job Growth (6-mo moving avg) As of June 2015	Completions as a % of Total Stock As of August 2015	Forecast Rent Growth (YE 2015)	YTD Rent Growth As of August 2015
Portland	3.0%	2.1%	11.0%	15.3%
San Francisco	3.9%	3.1%	10.5%	11.7%
Denver	3.5%	4.0%	9.3%	10.3%
Sacramento	2.6%	0.7%	8.5%	9.4%
Seattle	3.5%	4.1%	8.5%	9.6%
Atlanta	3.6%	1.8%	7.0%	7.2%
Inland Empire	4.1%	1.4%	7.0%	4.5%
Miami	3.4%	3.5%	6.3%	4.0%
Orlando	4.0%	2.4%	6.0%	8.0%
Houston	2.7%	2.7%	5.8%	3.7%
Dallas	3.9%	2.1%	5.6%	6.3%
San Diego	3.0%	1.7%	5.5%	6.7%
Orange County	3.3%	2.1%	5.5%	3.7%
Austin	3.1%	5.4%	5.0%	6.6%
Nash/Knox	3.0%	1.8%	5.0%	2.2%
Phoenix	2.9%	1.6%	5.0%	5.1%
Las Vegas	3.0%	0.9%	5.0%	5.9%
Tampa	2.9%	2.7%	5.0%	6.6%
Los Angeles	2.5%	2.4%	4.8%	5.8%
NC Triangle	3.2%	4.5%	4.0%	6.1%
Kansas City	2.3%	1.7%	4.0%	3.5%
Boston	1.8%	2.7%	3.8%	6.4%
Jacksonville	2.6%	1.3%	3.5%	5.4%
San Antonio	3.4%	2.2%	3.0%	4.7%
Chicago	1.4%	1.6%	2.3%	3.5%
Twin Cities	1.9%	2.5%	2.3%	2.2%
Philadelphia	1.4%	1.0%	1.8%	3.0%
Baltimore	1.7%	0.9%	1.0%	2.8%
Richmond	0.9%	1.7%	1.0%	3.2%
Washington DC	1.8%	2.5%	0.3%	4.1%

Market Rent Growth by Asset Class

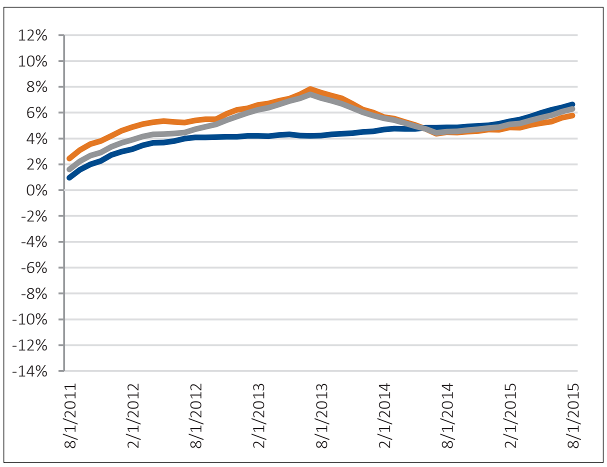
Atlanta



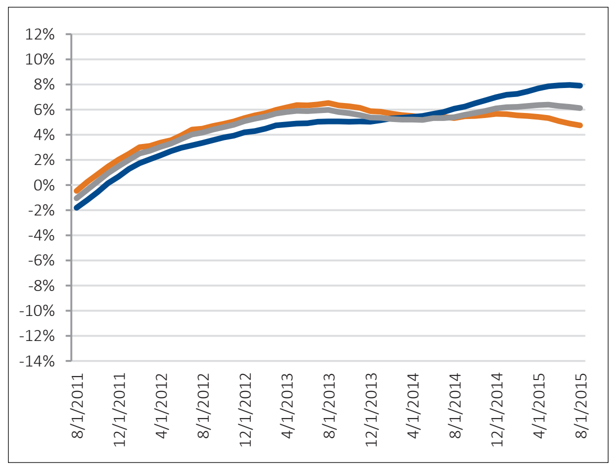
Denver



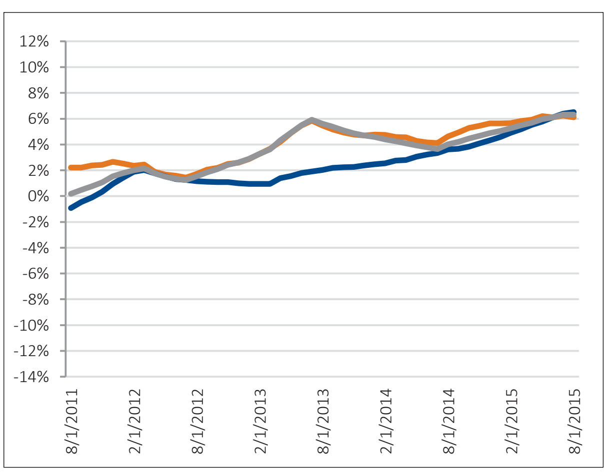
Dallas



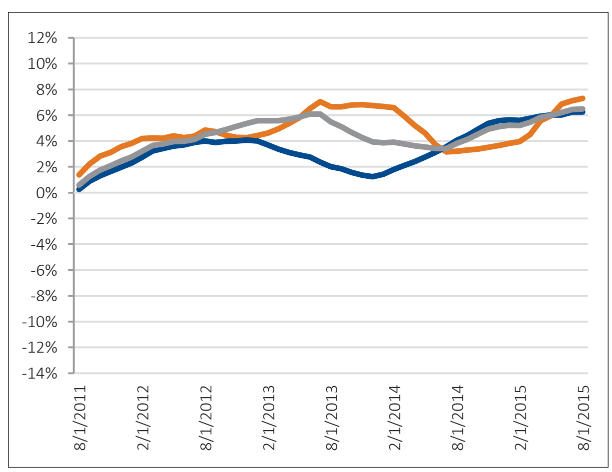
Houston



Inland Empire

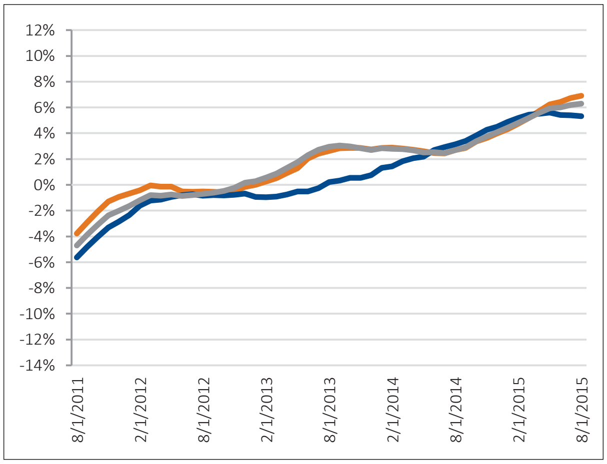


Los Angeles

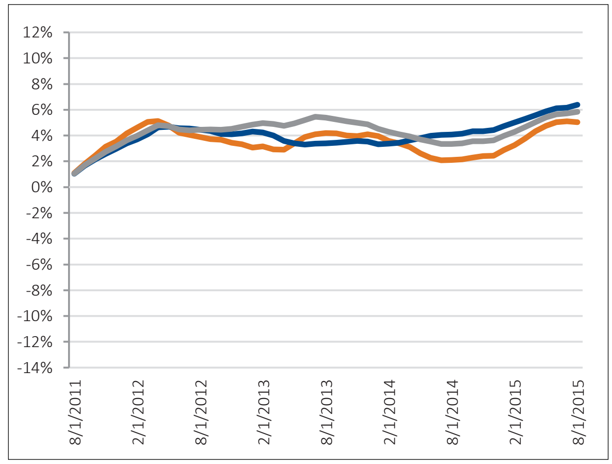


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Rent By Necessity

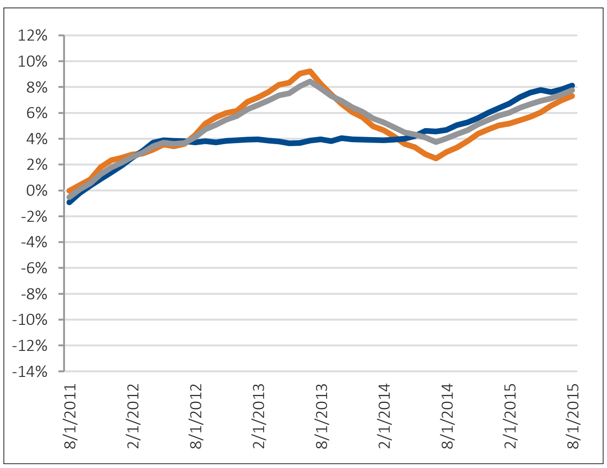
Las Vegas



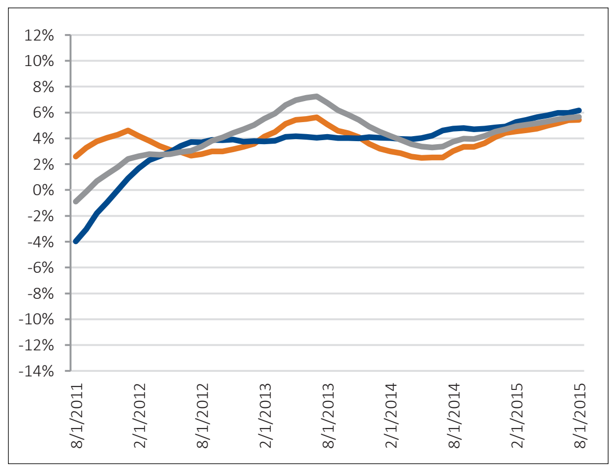
Orange County



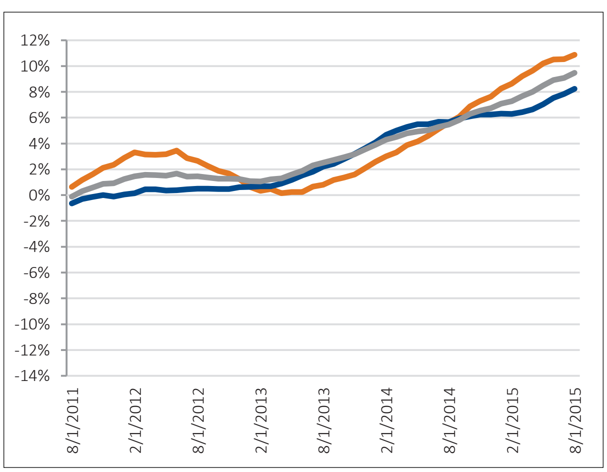
Orlando



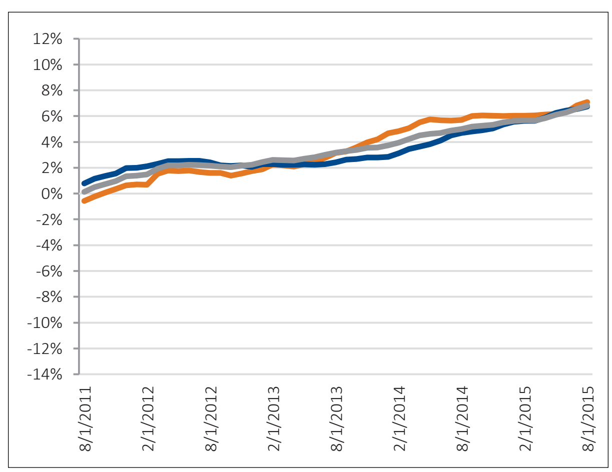
Phoenix



Sacramento

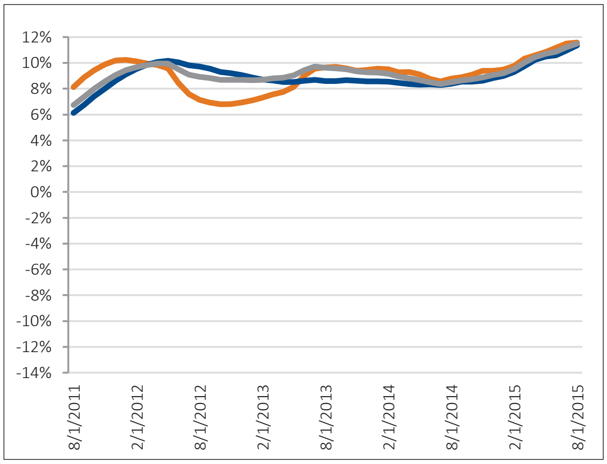


San Diego

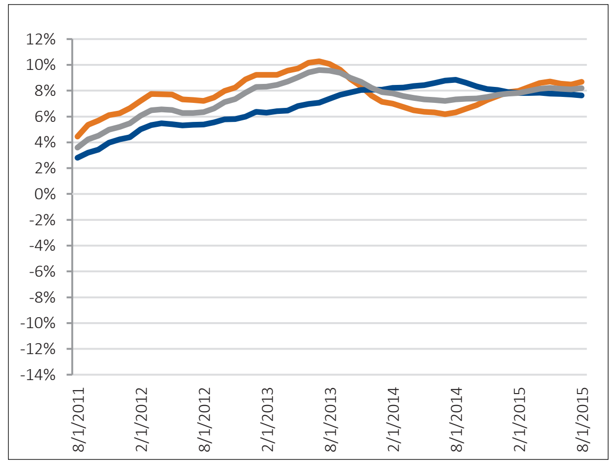


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Rent By Necessity

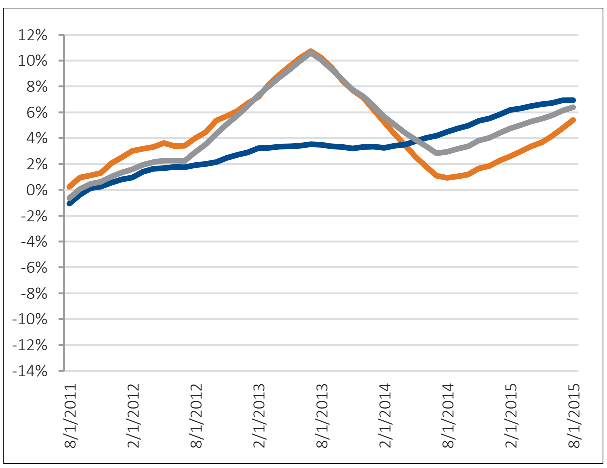
San Francisco



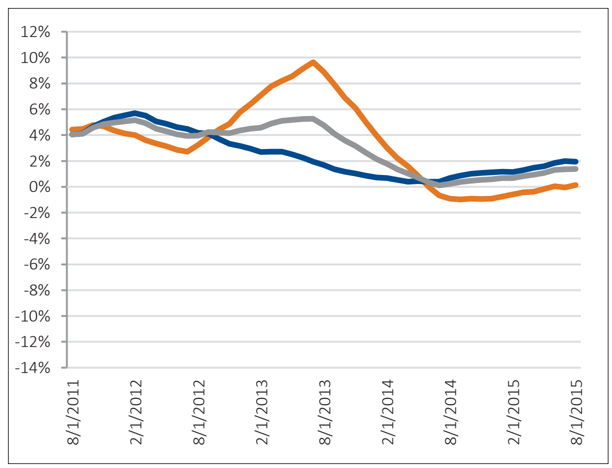
Seattle



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	August 2015		
	Overall	Lifestyle	Rent-by-Necessity
San Fernando	8.4%	7.0%	8.7%
Bridgeport - New Haven	1.6%	0.6%	2.3%
Central East Texas	2.9%	2.5%	2.9%
Central Valley	6.5%	5.3%	6.7%
Colorado Springs	6.1%	4.6%	7.4%
El Paso	-0.5%	0.1%	-1.0%
Indianapolis	2.1%	0.3%	2.9%
Long Island	3.7%	3.6%	3.8%
Louisville	2.8%	1.6%	3.0%
Northern New Jersey	3.3%	1.9%	4.0%
Reno	8.5%	10.5%	7.5%
SW Florida Coast	9.0%	7.7%	10.3%
Tacoma	7.6%	6.6%	8.5%
Triad	3.2%	4.2%	2.5%
Tucson	2.4%	2.0%	2.5%
St Louis	2.4%	0.9%	2.7%
Albuquerque	2.1%	2.3%	1.9%

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…
- *Blue collar households*, who may barely meet rent demands each month, and who likely pay a disproportionate share of their income toward rent.
- *Subsidized households*, who 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 as well 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 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 Context® is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster, more efficiently, with more accurate end results.

The Pierce-Eislen 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 YardiMatrix™ and subscribing, please visit www.pi-ei.com or call Ron Brock, Jr at 480-663-1149 x2404.

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