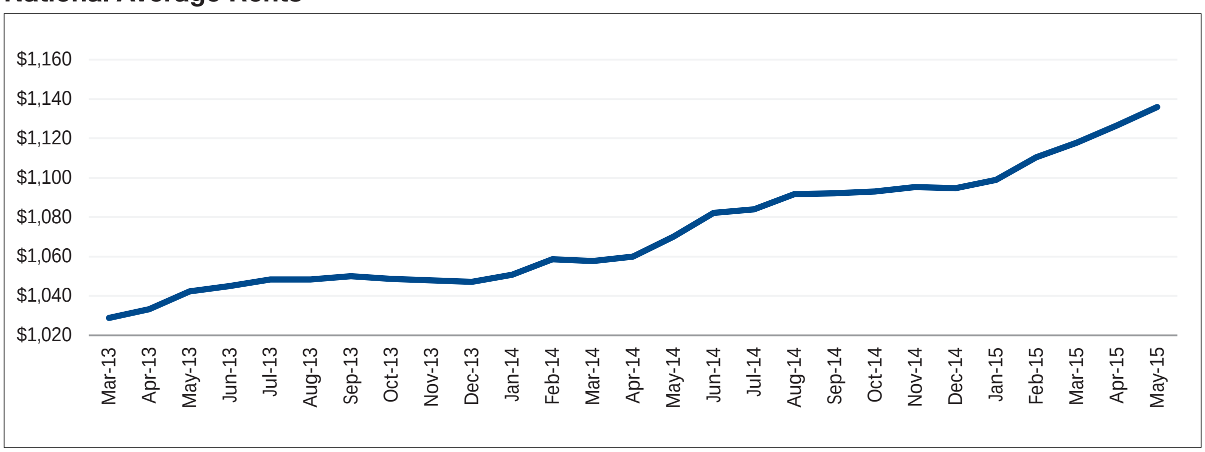
Rent Survey | May 2015

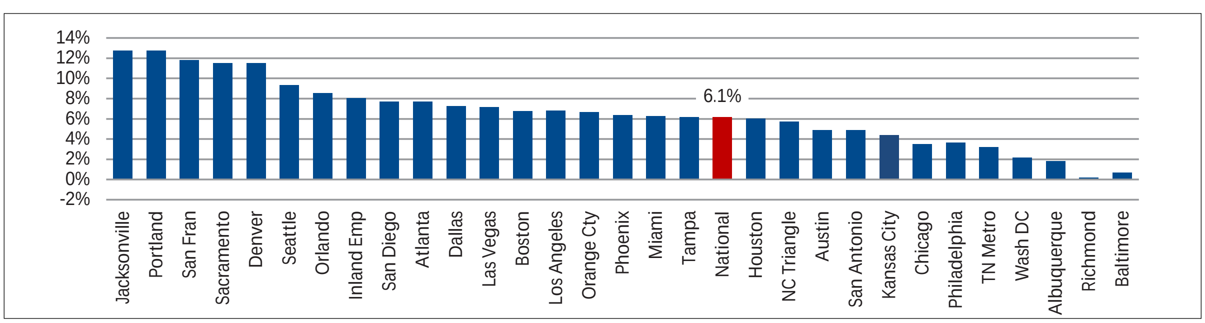
Rents Resume Upward March, Led by West, Southeast Metros

- Multifamily properties produced another robust month of rent growth in May. Average rents in Yardi Matrix's national survey of 61 markets rose to a record-high $1,136 in May, up 0.8% month-over-month, 2.3% over the past three months and 6.1% year-over-year. Headed into the summer season when people move more and rents tend to grow more, the market could be on track to exceed our forecast for 4.9% annual growth in 2015.
- Rent growth continues to be strongest in metros in the West and South, reflecting the robust job markets and population gains. Over the last 12 months ending in May, rents grew by more than double-digit percentages in five metros: Jacksonville and Portland (12.7%), San Francisco (11.9%), Sacramento (11.8%) and Denver (11.5%).
- Rents grew by 2% or less in only a handful of markets, including Baltimore (0.6%) and Washington DC (2.1%). However, some markets in the Northeast and Atlantic Seaboard are showing signs of improvement, as demand is rising for units in the urban core and absorption catches up with generally weak supply growth.
- Rent growth has weakened in Nashville, which increased a below-par 3.2% year-over-year and is the only metro in which rents have declined over the last three months. Job growth is focused on the lower-paid service sector.
- With crude oil prices stabilized and even some forecasts for increases for later this year, fears that Houston's multifamily market will weaken significantly may be overblown. Houston has produced growth in line with the national averages: up 6.0% year-over-year, 0.8% on a T3-sequential basis and 6.4% on a T12-month basis.

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes



National averages include 94 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

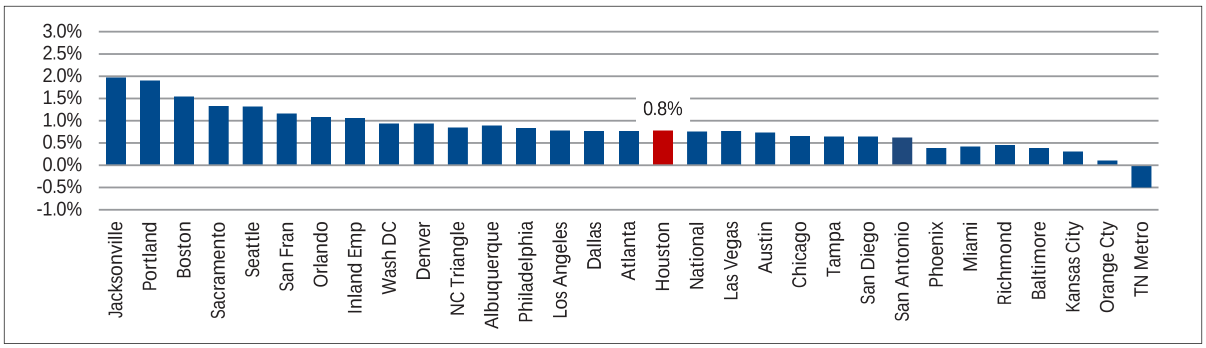
Trailing 3 Months: Boston, Washington DC Show Signs of Life

- On a trailing 3-month basis, rents in Yardi Matrix's 61-market national survey rose 0.8%, a healthy showing that indicates that rent growth didn't pause a whole lot in the spring. Growth was the same for both Lifestyle and Rent By Necessity properties. Weak supply and healthy job growth helped drive Jacksonville's Rent By Necessity market up by a whopping 2.9% average per month over the last three months.

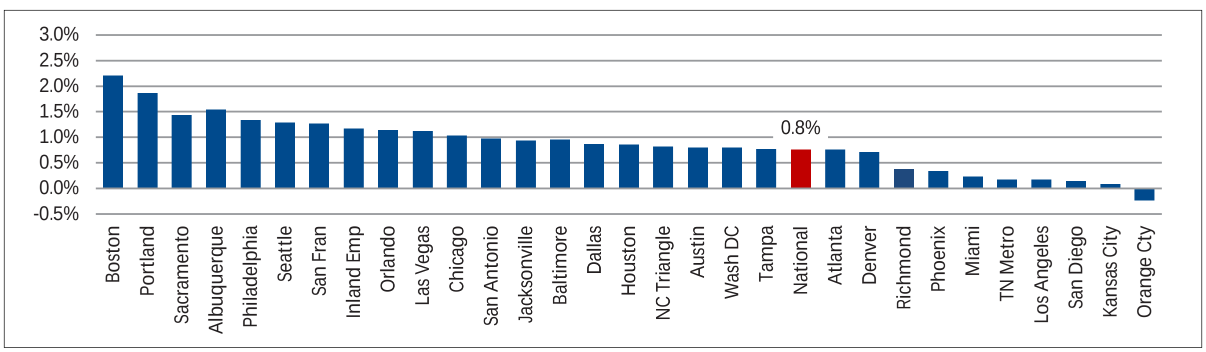
- Boston (1.4%), Philadelphia and Washington DC (0.9%), all large markets on the East Coast, were among the top 11 metros in rent growth over the last three months. This is notable because all three metros have been near the bottom of rent growth compared to other metros in recent quarters.

- Boston and Philadelphia's growth comes largely from the strong performance of upper-end Lifestyle properties, a sign of growth in high-income jobs and gentrification of more-expensive urban areas. Washington is beginning to show signs of strong absorption from its bloated supply pipeline.

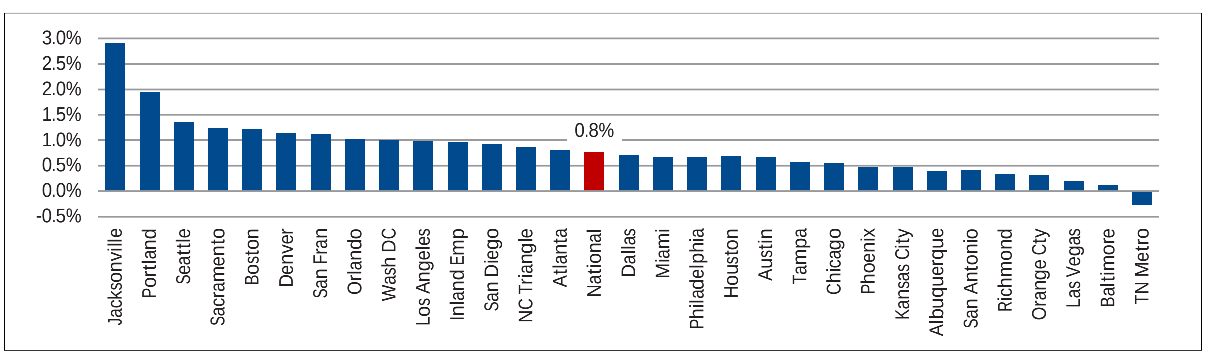
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



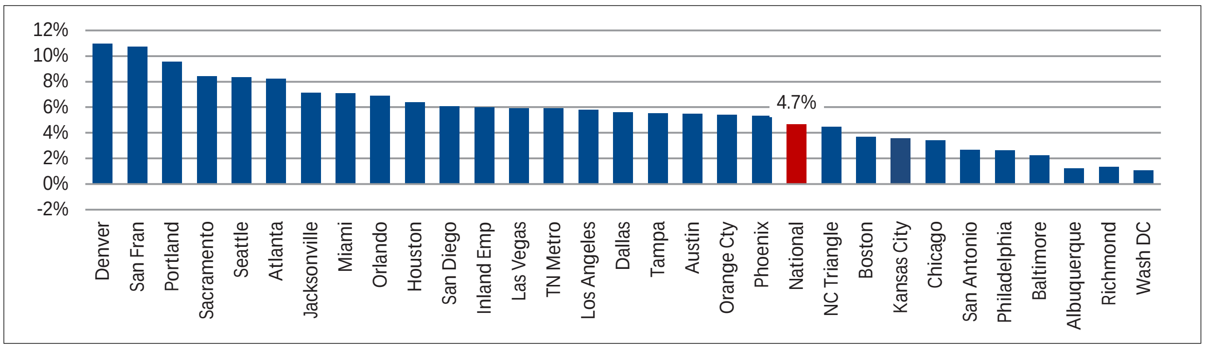
Trailing 3 Months Sequential—Rent by Necessity Asset Class



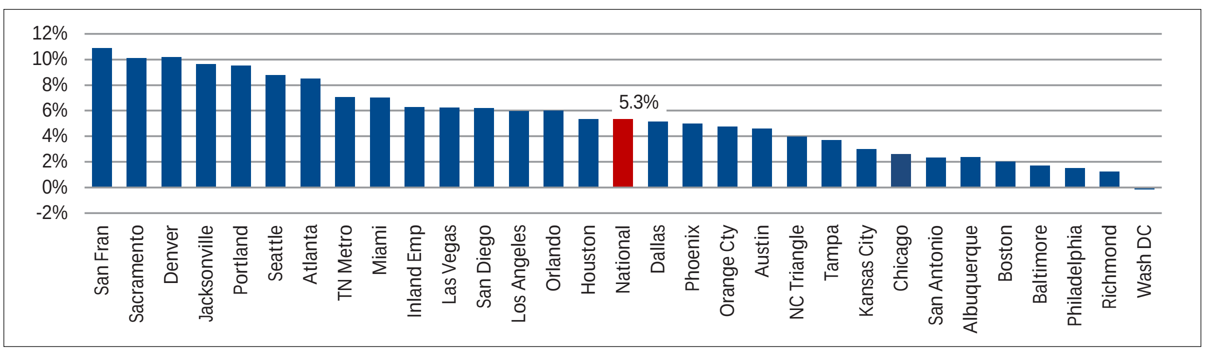
Trailing 12 Months: Ranking Dominated by Metros in West, South

- Nationally, rents increased by 4.7% on a trailing 12-month basis, with Lifestyle increasing by 5.3% compared to 4.5% for Rent By Necessity.
- Western metros maintained their position on the top of the rankings. Denver, San Francisco and Portland remained the top 3 in the same order as the April Matrix Monthly survey, while Sacramento moved up to the fourth spot and Seattle was fifth for the second straight month.
- Denver is being led by its working-class Rent By Necessity segment, which has increased by 11.8% on a T12-month basis and 1.1% on a sequential 3-month basis, compared to 10.1% and 0.7%, respectively, for Lifestyle. Denver's large growth in supply is concentrated in the luxury segment. The supply of apartments at lower price points is not growing in line with demand, which leads to higher rent growth in the working-class segment.
- Despite recent signs of percolating rent growth, Washington DC is at the bottom for the year, at 1.1%.

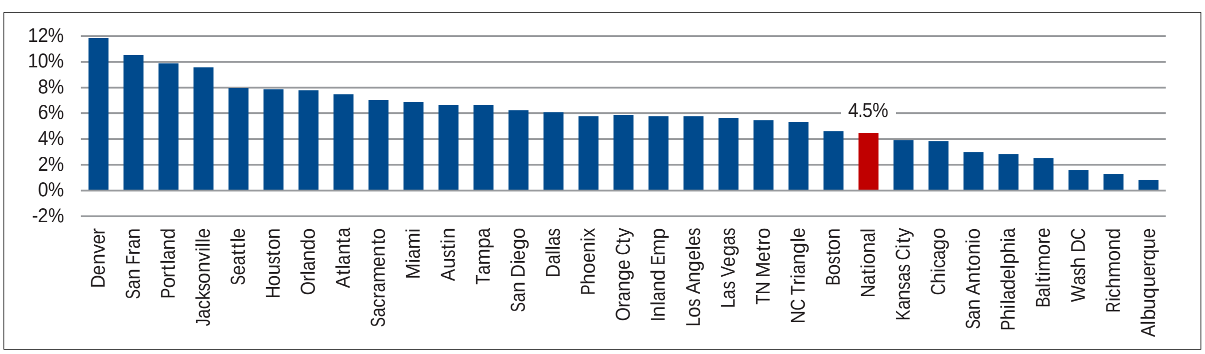
Trailing 12 Months Year-Over-Year—All Asset Classes



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



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



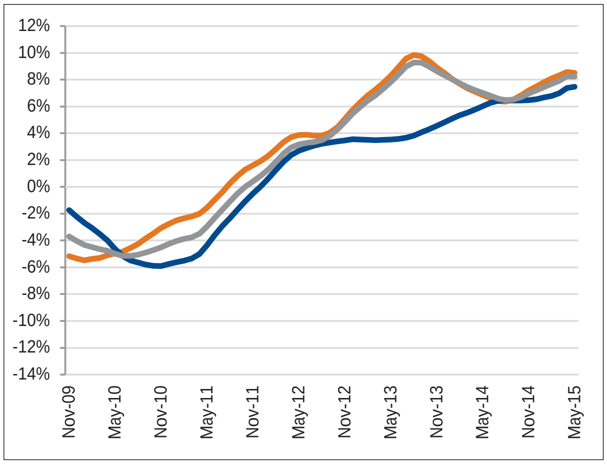
Employment/Supply Trends and Forecast Rent Growth

- Job growth continues to be strong, exceeding the rate of new supply in most markets, including: Atlanta (2.8%), Inland Empire (2.7%), Sacramento and Las Vegas (2.5%), Dallas (2.1%) and Jacksonville (1.5%).
- Many markets where the ratio of job growth to new supply is negative – such as Austin (-2.0%), San Francisco (-0.5%) and Seattle (-0.4%) – are performing well. In part, that speaks to the pent-up demand that built up in the wake of the last downturn during several years when job growth was high and new supply was low.
- It is also possible that new jobs are producing more apartment demand than suggested by historical numbers due to the declining homeownership rate, which hit a cyclical low of 63.7% nationally in the first quarter. The reasons include that Millennials are more likely to want to rent than buy a home for lifestyle purposes, house prices are increasing and are unaffordable in many large metros such as San Francisco and Seattle, and some potential first-time homebuyers can't meet banks have maintained stringent credit and down payment requirements.

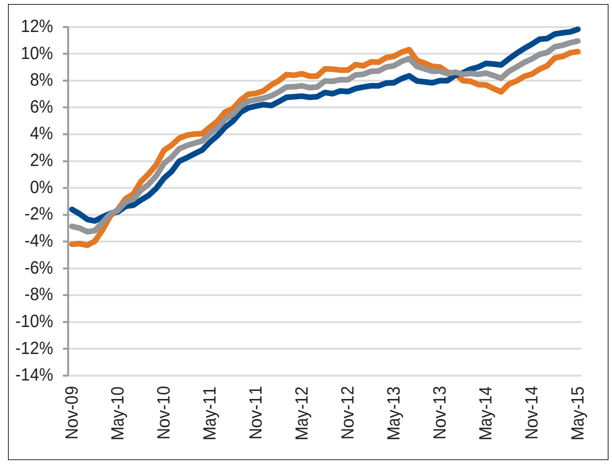
Market	YoY Job Growth (6-mo moving avg) As of Mar 2015	Completions as a % of Total Stock As of May 2015	Forecast Rent Growth (YE 2015)
San Francisco	2.8%	3.3%	11.1%
Portland	3.0%	2.2%	10.0%
Denver	3.8%	3.6%	9.5%
Sacramento	2.9%	0.4%	9.0%
Seattle	3.3%	3.7%	8.0%
Houston	3.5%	2.7%	7.5%
Atlanta	3.9%	1.1%	7.5%
Miami	3.7%	3.2%	7.5%
Austin	3.1%	5.1%	6.5%
San Fernando	2.3%	0.3%	6.5%
Orlando	4.1%	2.6%	6.0%
TN Metro	3.1%	2.2%	6.0%
Phoenix	2.8%	1.3%	5.8%
San Diego	2.8%	1.8%	5.8%
Inland Empire	4.2%	1.5%	5.5%
Las Vegas	3.4%	0.9%	5.5%
Orange County	3.2%	2.2%	5.5%
Tampa	2.7%	2.5%	5.5%
Dallas	3.9%	1.8%	5.5%
Los Angeles	2.3%	2.0%	5.0%
NC Triangle	3.1%	4.6%	4.0%
Jacksonville	2.8%	1.3%	4.0%
San Antonio	3.5%	2.5%	4.0%
Boston	1.6%	2.4%	3.5%
Chicago	0.8%	1.8%	3.5%
Kansas City	2.6%	1.5%	3.0%
Baltimore	1.4%	1.0%	2.5%
Philadelphia	1.3%	1.0%	1.8%
Richmond	1.0%	1.2%	1.5%
Albuquerque	1.3%	0.6%	1.0%
Washington DC	1.4%	3.0%	0.8%

Market Rent Growth by Asset Class

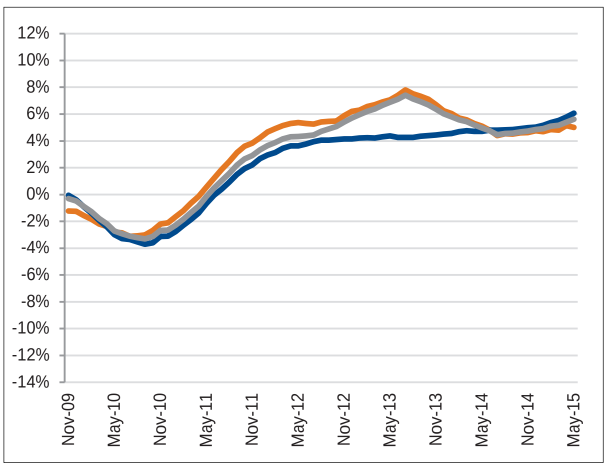
Atlanta



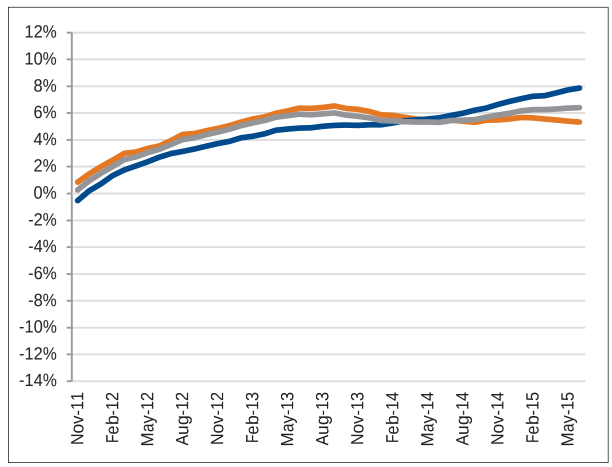
Denver



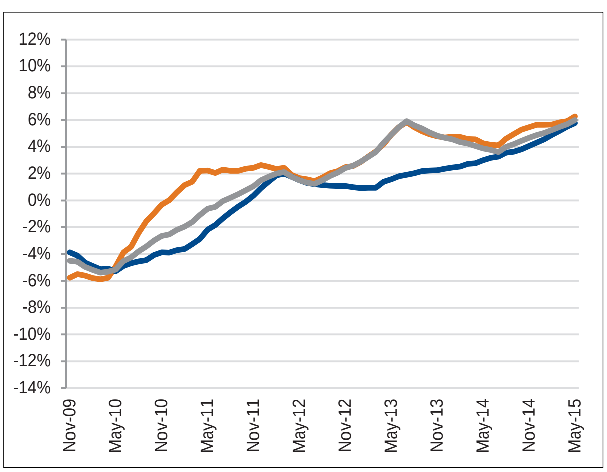
Dallas



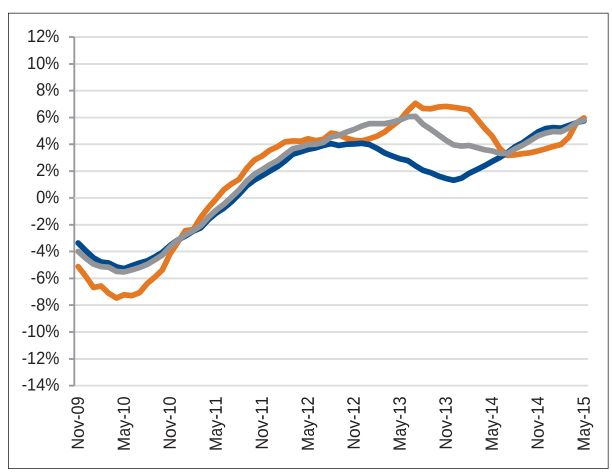
Houston



Inland Empire

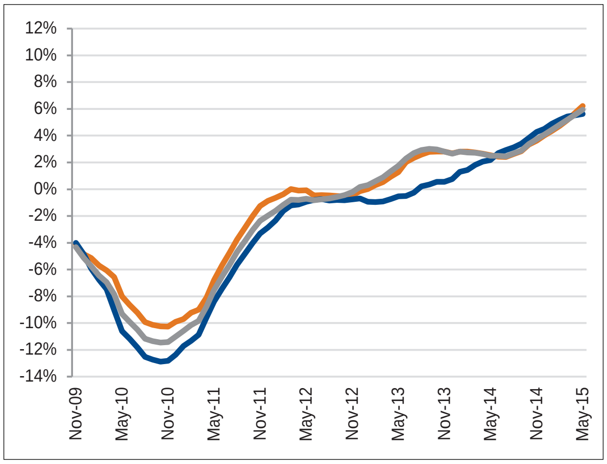


Los Angeles

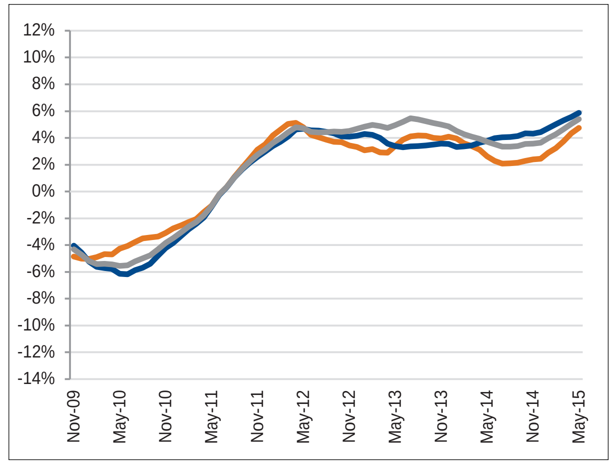


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Rent By Necessity

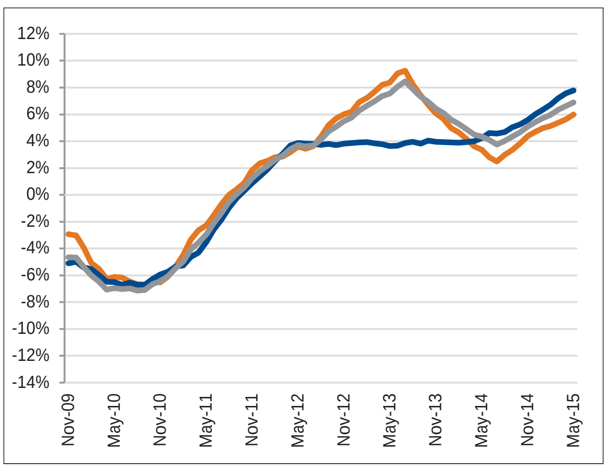
Las Vegas



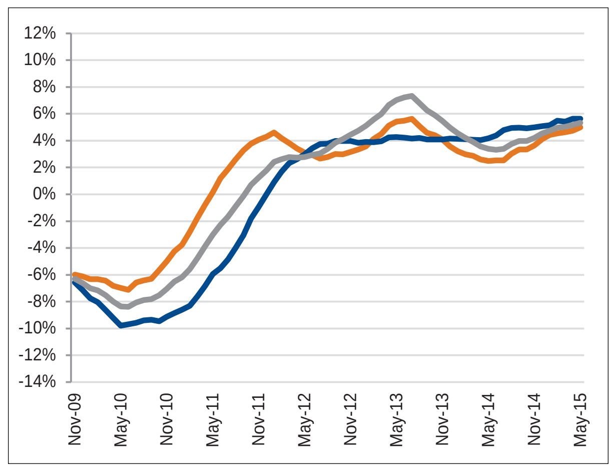
Orange County



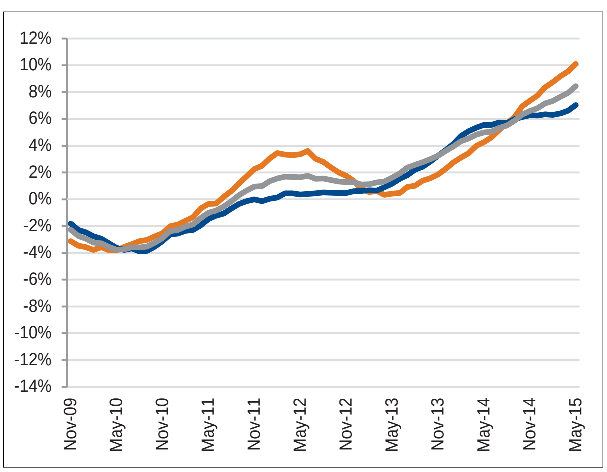
Orlando



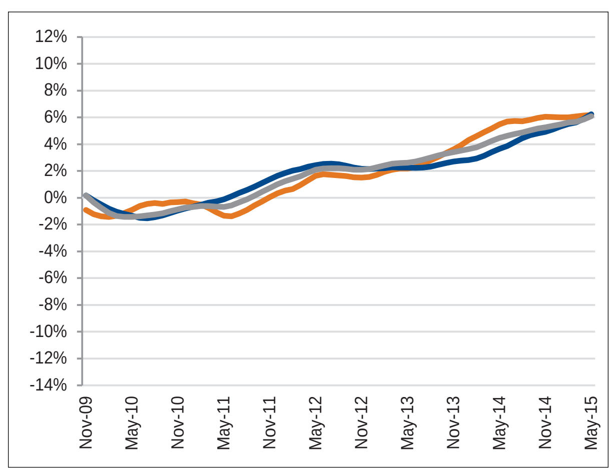
Phoenix



Sacramento

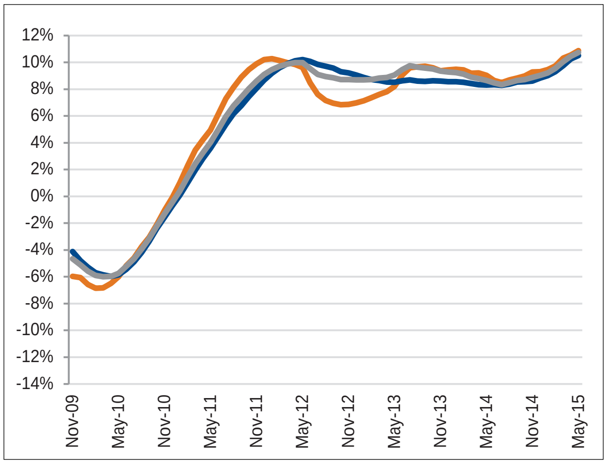


San Diego

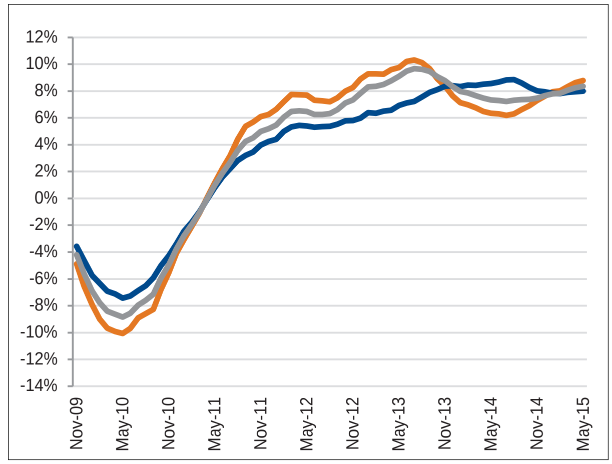


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Rent By Necessity

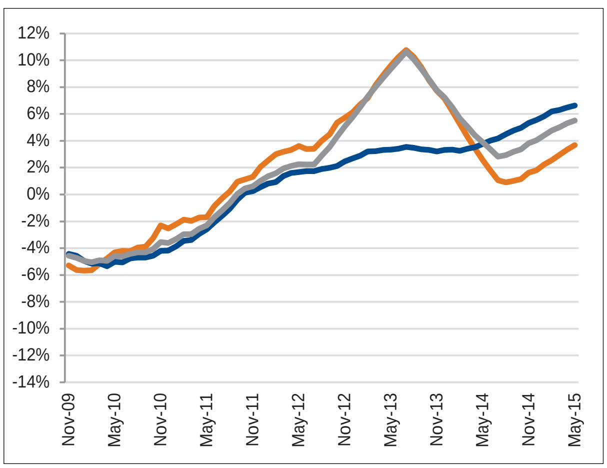
San Francisco



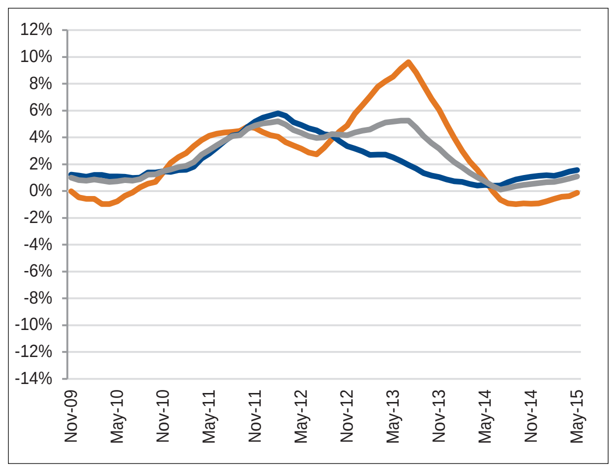
Seattle



Tampa



Washington DC



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

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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