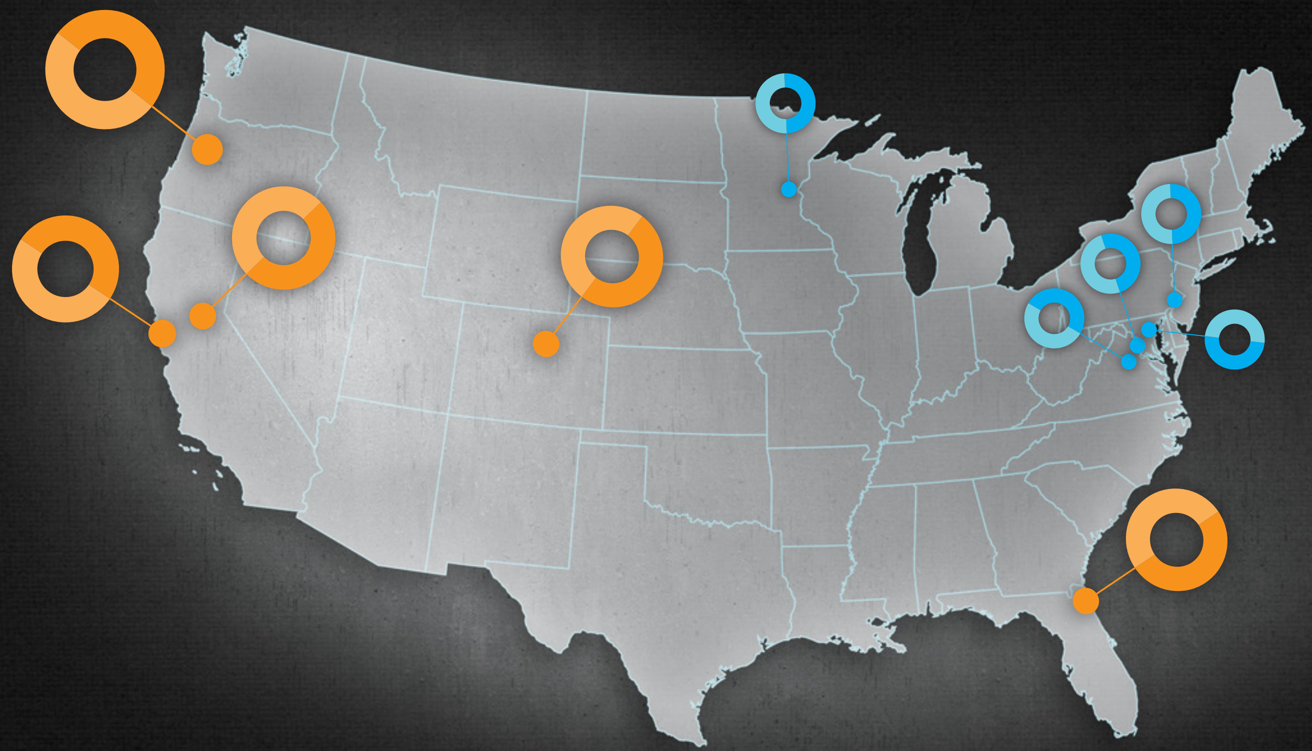
YARDI® Matrix

US Multifamily Outlook

Summer 2015



A Business Services & Healthcare Lead Job Growth

B Boomers Highlight Apartment Demand

C Absorption Up & Rents Growing

Market Analysis

Summer, 2015

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Executive Summary

The multifamily market has been performing so well for so long that it feels like it is entering a bubble phase. Time will tell, of course, but the cycle might have some legs left. No doubt the outsized gains in rents and property values will have to level off eventually, as the rate of increase in many metros far exceeds the growth in the economy and wages. Even so, in our view demand for apartments will continue to be above-trend for at least the next couple of years. Strong demographic headwinds and healthy job growth will enable the market to keep rolling along and prevent any type of serious downturn, even if it returns to a more sustainable level of growth.

Demand for apartments will be underpinned by another year of 2 million-plus new jobs, the above-trend household formations of Millennials and the ongoing move of Baby Boomers into urban apartments.

Our forecast at the beginning of the year for solid 5% rent growth seems almost too conservative now, as rents have grown by 6.2% over the first half with no slowdown in sight.

Even though the employment situation is not ideal – the worker participation rate remains too low and wage growth remains too weak – all in all there could be worse scenarios for commercial real estate. As good as the total growth numbers and unemployment rate look, the job market is not strong enough to push interest rates meaningfully higher, which is good news because real estate has benefited from the low-rate environment. Low rates help keep commercial real estate attractive to investors, who continue to load up on multifamily properties. As the cycle stretches over time, capital is increasingly trickling from primary to secondary and tertiary markets and from stable to value-add assets.