Yardi® Matrix

Multifamily National Report

February 2019

Multifamily Growth: No Signs of Slowing

- U.S. multifamily rents rose $2 in February to $1,426 and year-over-year growth remained at 3.6%, as January was revised upward from 3.3% to 3.6%. Annual growth is the highest it has been since late 2016.
- Rent growth has steadily increased since bottoming at 2.2% in the fall of 2017. The consistent growth is a sign of the strength of the sector's fundamentals and an indication that the cycle has a ways to run.
- Phoenix (8.0%) has taken over the top spot in the rankings, edging out the former leader, Las Vegas (7.9%). Sacramento, Atlanta and the Inland Empire also have year-over-year growth topping 5.0%. Portland, Kansas City and Houston are the only metros below 2.0% growth year-over-year.

The staying power of the cycle is a major concern in a market that has had an unusually long run without a downturn. Multifamily, however, continues to defy those worries, and the latest numbers are evidence that the market has strength to perform well for a while, even if the economy or other commercial real estate segments slow down.

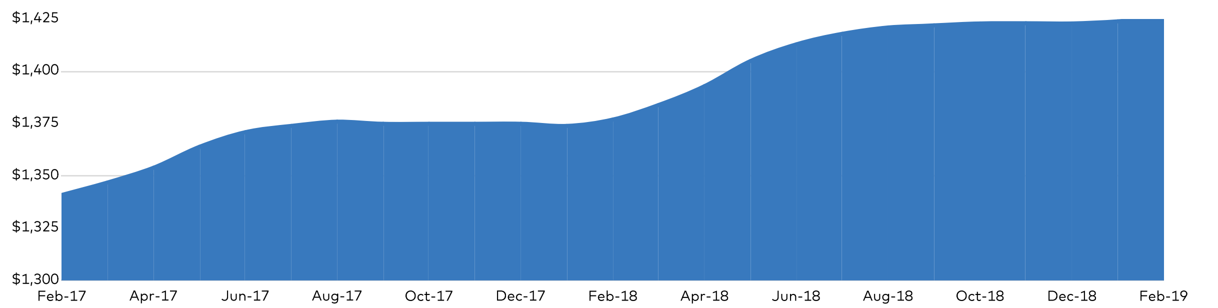
Multifamily rent growth accelerated through the first stage of the recovery, peaking in 2016 in the mid-5% range. The growth made sense coming on the heels of a housing supply gap—demand rose sharply as the economy recovered, while new supply of all housing (single- and multifamily) dropped by more than half coming out of the financial crisis. Rents then decelerated for more than a year to a low point of 2.2% in late 2017 as supply and demand came more into balance.

At that point, it looked like rents could remain in the 2% range, since multifamily supply has reverted roughly back to pre-crisis levels and demand was expected to level out. Instead, the market has slowly rebounded, with the growth rate climbing up to 3.6%. And it looks as if the optimistic outlook is coming to pass. Demand has shown no signs of slowing, as the job market has remained very strong, with unemployment below 4% and wage growth accelerating to more than 3%.

Metros with strong population gains and healthy job growth have benefited the most from the demand picture. Phoenix and Las Vegas are well above the rest, with growth dominated by Southwest and West Coast markets. Other top rent growth markets—such as Sacramento and the Inland Empire—are near the top due to the combination of robust demand and weak supply growth.

The market is just about to enter the part of the year where most of the annual rent growth typically occurs. All signs point to this year being no different. Occupancy rates have ticked down slightly, but absorption has been no problem.

National Average Rents

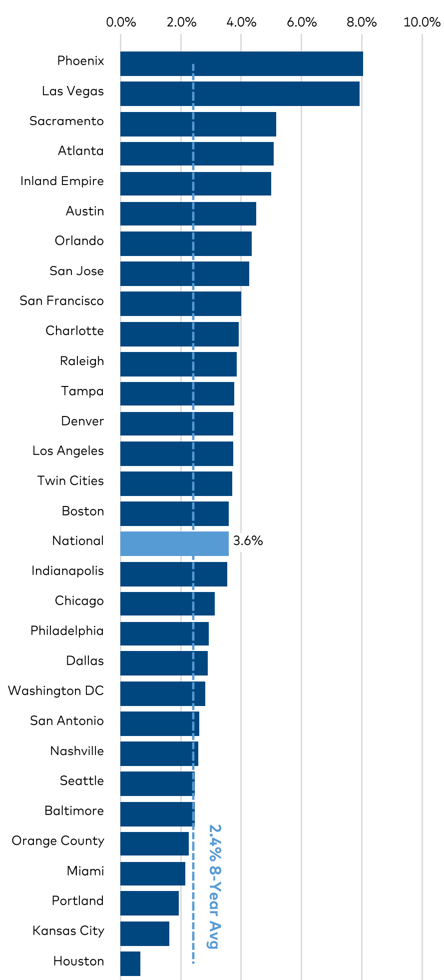


National averages include 127 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

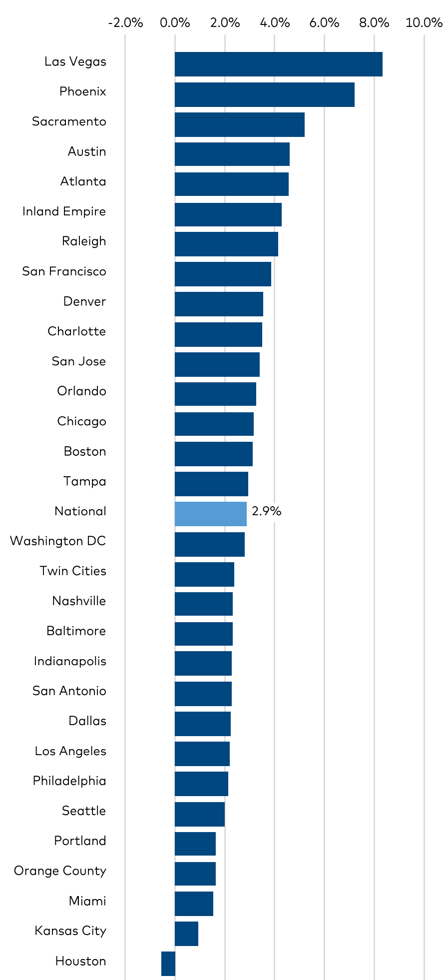
Year-Over-Year Rent Growth: Rate Hits Level Last Seen in 2016

- Rents increased 3.6% year-over-year in February, no change from January. The growth rate matches levels last seen in late 2016.
- The desert Southwest continues to lead our rankings of top markets, as Phoenix (8.0%) and Las Vegas (7.9%) charge ahead. The gap between the top two markets and the rest of the nation is expanding, as well. Sacramento (5.1%) ranks third, with growth nearly 300 basis points less.
- The gap between RBN and Lifestyle rent growth has begun to widen again, reaching 120 basis points in February. That being said, however, rent growth in both asset classes remains strong on a national level, with Lifestyle rents increasing 2.9% and RBN rents increasing 4.1%.

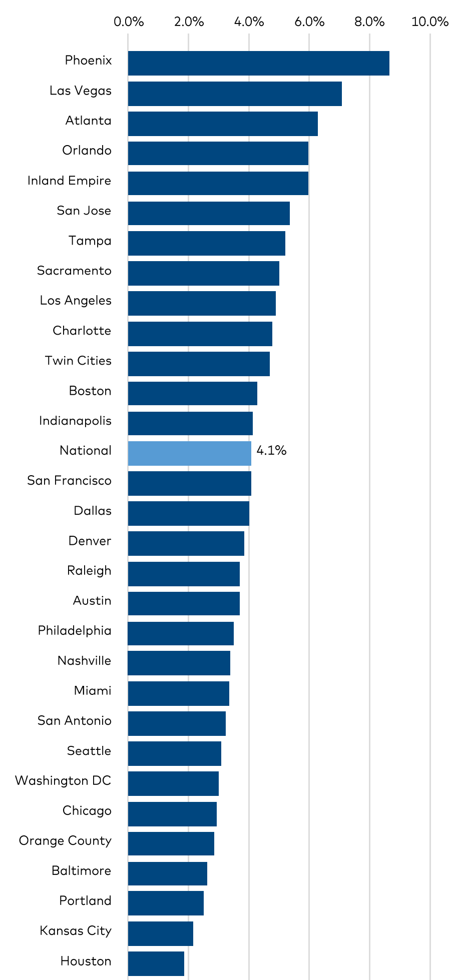
Year-Over-Year Rent Growth—All Asset Classes



Year-Over-Year Rent Growth—Lifestyle Asset Class



Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Source: Yardi Matrix

Trailing 3 Months:
Rents Begin to Rise Ahead of Spring

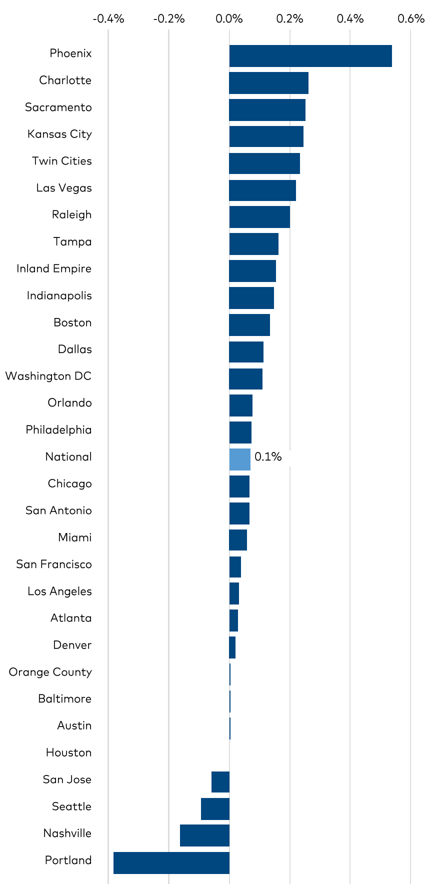
- Rents increased 0.1% in February on a T-3 basis, an early indication that 2019's spring season may be strong.
- Phoenix once again led all markets, but Charlotte and Kansas City have experienced robust recent growth.

Rents increased 0.1% nationally on a trailing three-month (T-3) basis, which compares the last three months to the previous three months. The T-3 ranking demonstrates short-term changes and not necessarily long-term trends.

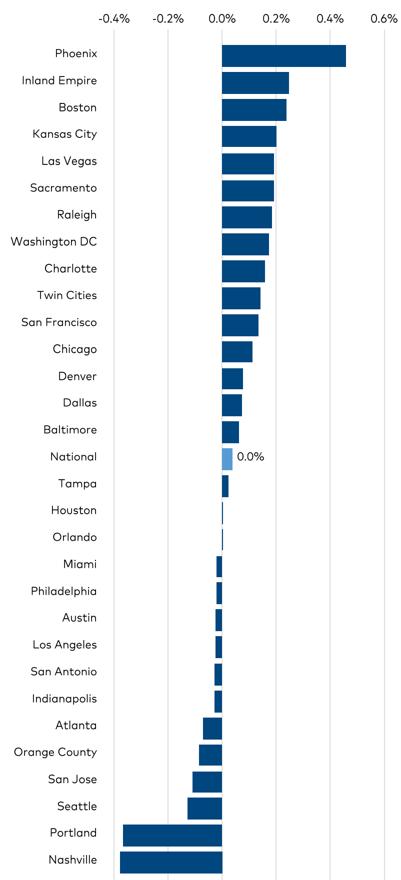
While we are still a month or two away from the beginning of the typical rental season, strong T-3 numbers in February may indicate stronger rent increases through the remainder of the first half of 2019. Phoenix (0.5%) led all markets on a T-3 basis, followed by Charlotte and Sacramento (both 0.3%). A few northern markets including Kansas City and the Twin Cities (both 0.2%) had strong rent growth despite the cold winter.

Only four markets had T-3 declines in February: San Jose and Seattle (both -0.1%), Nashville (-0.2%) and Portland (-0.4%). Oregon recently passed statewide rent control limits, allowing for rent growth of 7% plus the rate of inflation and exempting properties less than 15 years old. Future legislation may further limit rent increases.

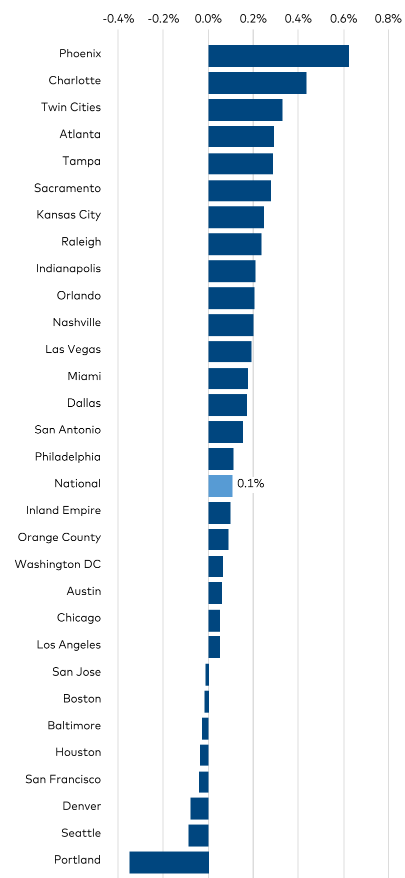
Trailing 3 Months Sequential— All Asset Classes



Trailing 3 Months Sequential— Lifestyle Asset Class



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



Source: Yardi Matrix

Employment, Supply and Occupancy Trends; Forecast Rent Growth

- The U.S. homeownership rate increased to 64.8% in the fourth quarter, a 60-basis-point increase over the previous year.
- The age group with the largest growth in homeownership is 35-to-44-year-olds, giving rise to the question of whether older Millennials are ready to settle down like their parents.
- The preferences of the 80 million-strong Millennial generation has ramifications for the multifamily industry, especially since development is focused on urban and infill locations.

The decline in single-family ownership after the financial crisis contributed to demand for multifamily housing during the past decade. The homeownership rate peaked in the fourth quarter of 2004 at 69.2% and bottomed at 62.9% in the second quarter of 2016. In a nation with 126 million households, a 4 percentage-point drop in homeownership equals millions of additional renters. (Although the relationship between owning and renting is not 1-to-1, since there are other options, like shared household arrangements and living with relatives.)

So it is notable that the homeownership rate has climbed over the past year to 64.8% in the fourth quarter of 2018, from 64.2% a year earlier. All age groups saw an increase year-over-year except for 65-plus, which declined 40 basis points to 78.8%.

The most significant change came from 35-to-44-year-olds, whose homeownership rose 220 basis points year-over-year to 61.1% in 4Q18. What's interesting about this is that it could portend social change heralded by some analysts, who have forecast that Millennials were merely delaying—not shelving—marriage and family. In this scenario, older Millennials will increasingly settle down in the suburbs, have children and seek to re-create the picket-fence lifestyle of their parents. If that's correct, there could be a weakening of demand for urban apartments, since these households will give up the more amenity-rich cities and inner-ring suburbs in favor of better schools and more privacy.

Could this be the start of a longer-term trend? Possibly. The data would have to change more significantly and for a longer period of time before we can make any pronouncements with certainty. As it stands, homeownership is still far below peak levels. For 35-to-44-year-olds, the homeownership rate peaked at 70.1% in the first quarter of 2005. And before the last recession, we would have to go back to 1995 before the overall homeownership rate was less than 65%.

As it stands now, much apartment development is concentrated in urban locations and near mass transit. The low-rise suburban developments of the 1970s and 1980s remain relatively rare. If the recent homeownership trend continues, that would mean new supply is geared toward areas where demand might weaken going forward.

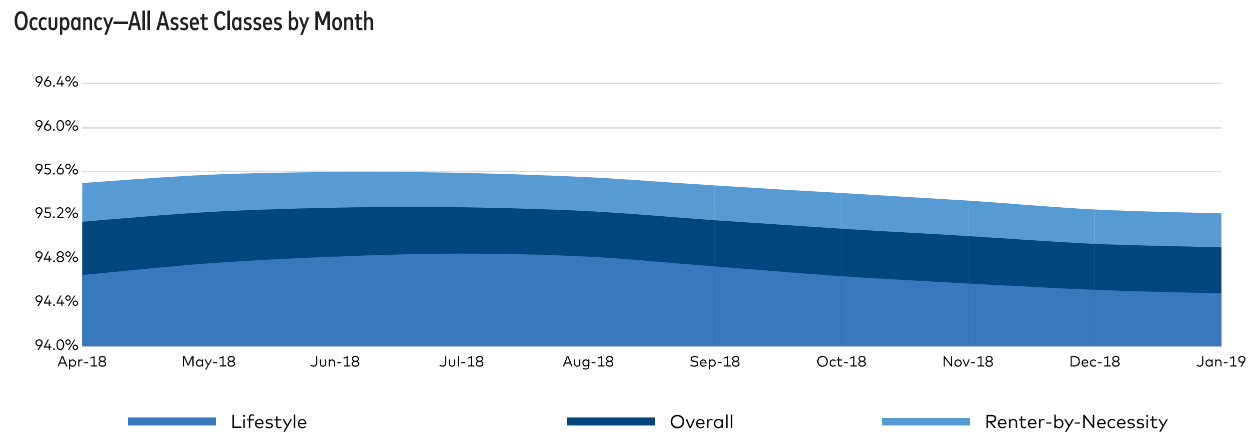
To be sure, none of this is certain. For young families, homeownership is constrained by high college debts and tight credit standards. And how much of the 80 million Millennial generation want to own homes, and precisely where, remains an open question. At the same time, the 65-plus group shows an increasing openness to rent. But it will be important to stay abreast of the trends.

Employment, Supply and Occupancy Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Feb - 19	Forecast Rent Growth (YE 2019)	YoY Job Growth (6-mo. moving avg.) as of Dec - 18	Completions as % of Total Stock as of Feb - 19	Occupancy Rates as of Jan - 18	Occupancy Rates as of Jan - 19
Sacramento	5.1%	6.5%	1.5%	0.8%	96.3%	96.2%
Inland Empire	5.0%	4.5%	2.8%	0.3%	95.9%	96.1%
Dallas	2.9%	4.3%	3.0%	3.1%	94.4%	94.2%
Las Vegas	7.9%	4.0%	3.7%	2.4%	94.4%	94.9%
Los Angeles	3.7%	4.0%	1.3%	2.2%	96.6%	96.5%
Orlando	4.4%	4.0%	4.4%	2.9%	95.9%	95.1%
Seattle	2.5%	4.0%	3.6%	4.8%	95.2%	95.1%
Phoenix	8.0%	3.9%	3.7%	3.0%	95.0%	95.2%
Twin Cities	3.7%	3.6%	1.8%	2.8%	97.2%	96.8%
Orange County	2.3%	3.5%	0.5%	2.1%	95.9%	95.9%
Denver	3.7%	3.4%	2.7%	5.3%	94.9%	94.7%
Raleigh	3.8%	3.4%	2.9%	3.1%	94.2%	94.7%
Tampa	3.8%	3.3%	2.5%	2.5%	95.3%	95.1%
Atlanta	5.1%	3.3%	2.2%	1.6%	94.1%	94.3%
Indianapolis	3.5%	3.2%	1.9%	1.0%	94.0%	94.1%
Boston	3.6%	2.7%	1.9%	3.1%	96.2%	96.2%
San Francisco	4.0%	2.7%	1.8%	1.9%	95.8%	95.8%
Charlotte	3.9%	2.4%	2.5%	3.8%	95.1%	95.0%
Chicago	3.1%	2.4%	0.9%	1.4%	94.5%	94.3%
San Jose	4.3%	2.4%	3.2%	1.1%	95.7%	95.6%
Kansas City	1.6%	2.3%	1.7%	2.4%	94.8%	94.4%
Philadelphia	2.9%	2.2%	1.7%	1.1%	95.3%	95.5%
Houston	0.6%	2.2%	3.8%	1.3%	93.7%	92.6%
Austin	4.5%	2.0%	3.5%	4.3%	93.9%	94.5%
Nashville	2.6%	2.0%	1.9%	5.6%	94.6%	94.6%
Miami Metro	2.1%	1.9%	2.3%	4.3%	95.3%	95.0%
Portland	1.9%	1.9%	2.4%	2.5%	95.2%	95.3%
San Antonio	2.6%	1.9%	1.0%	3.1%	92.6%	93.0%
Washington DC	2.8%	1.3%	1.9%	2.0%	95.1%	95.3%
Baltimore	2.5%	1.3%	1.8%	1.8%	94.4%	94.6%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

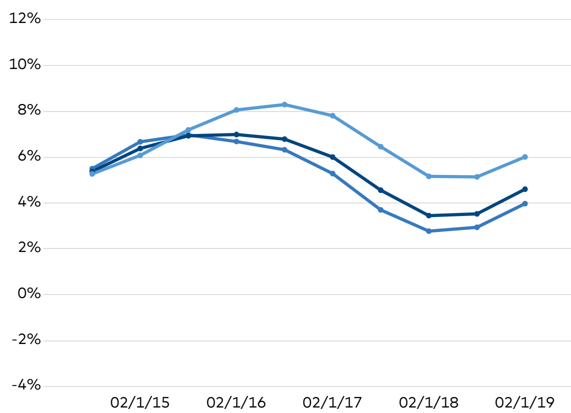
Year-Over-Year Rent Growth, Other Markets

Market	February 2019		
	Overall	Lifestyle	Renter-by-Necessity
Reno	7.5%	5.0%	9.5%
Tucson	6.8%	7.3%	6.4%
Tacoma	5.9%	6.8%	5.1%
Central Valley	5.6%	3.9%	6.0%
NC Triad	4.8%	5.6%	3.9%
Albuquerque	4.7%	5.7%	4.4%
El Paso	4.1%	2.8%	4.6%
San Fernando Valley	3.9%	2.3%	4.9%
Salt Lake City	3.8%	1.9%	5.5%
Colorado Springs	3.8%	3.3%	4.3%
Indianapolis	3.5%	2.3%	4.1%
Long Island	3.5%	4.2%	3.2%
Louisville	3.1%	4.7%	2.8%
Northern New Jersey	2.8%	2.1%	3.3%
St. Louis	2.1%	0.4%	2.8%
Bridgeport–New Haven	1.9%	0.8%	3.0%
SW Florida Coast	1.5%	1.0%	2.1%
Central East Texas	0.4%	-0.4%	0.8%

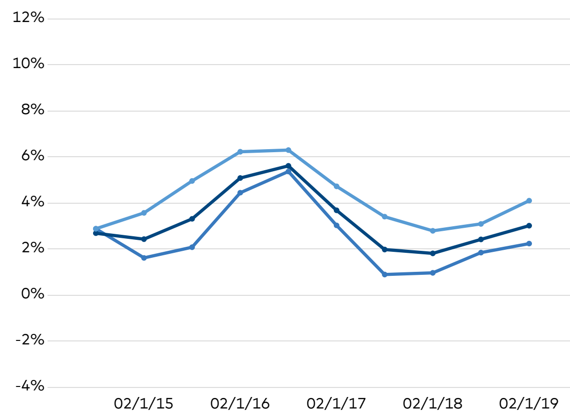
Source: Yardi Matrix

Market Rent Growth by Asset Class

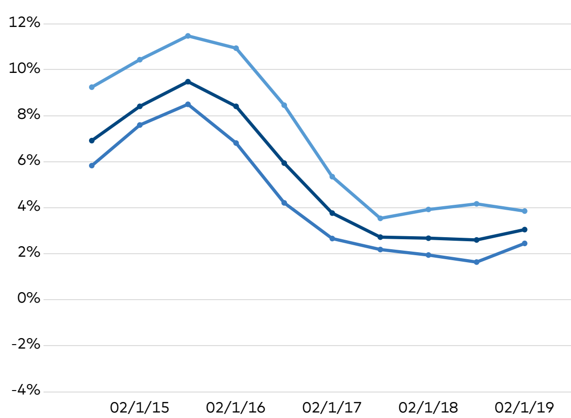
Atlanta



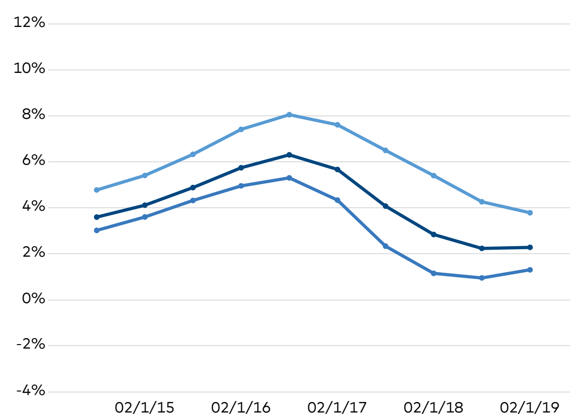
Boston



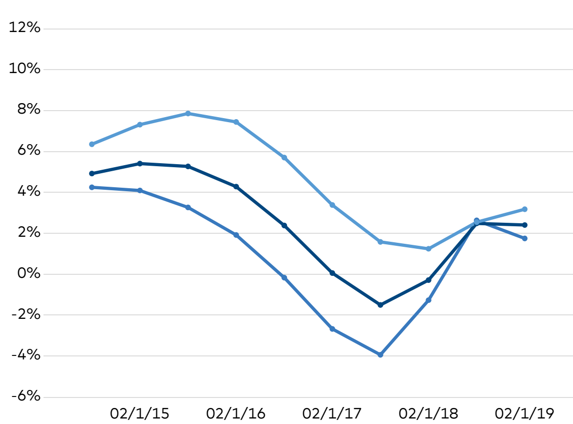
Denver



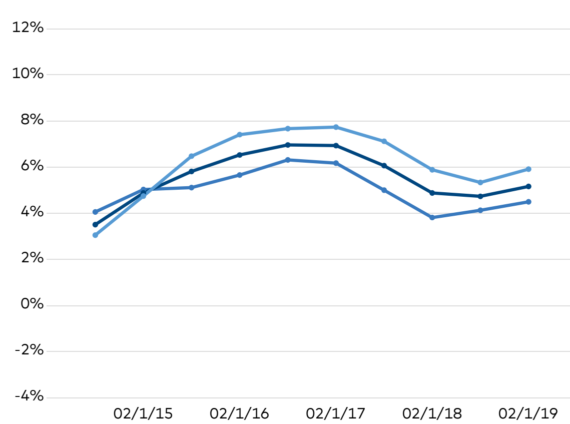
Dallas



Houston



Inland Empire

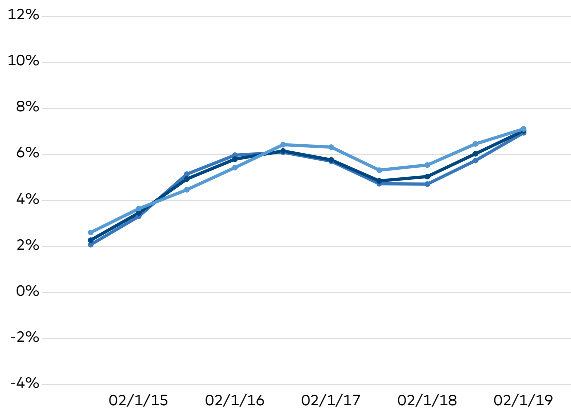


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

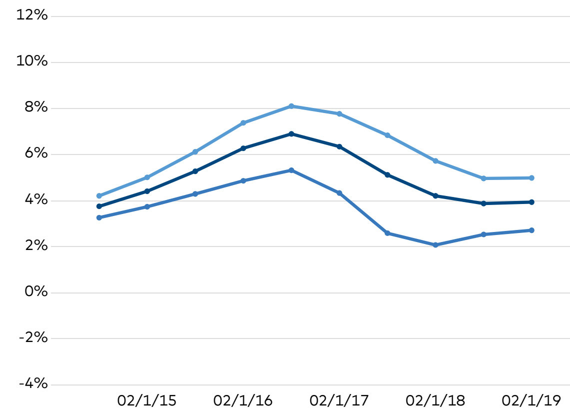
Source: Yardi Matrix

Market Rent Growth by Asset Class

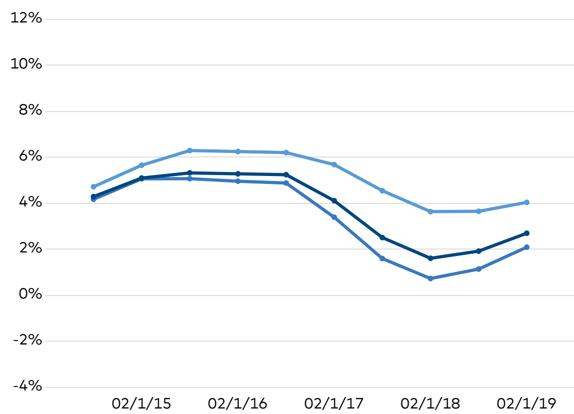
Las Vegas



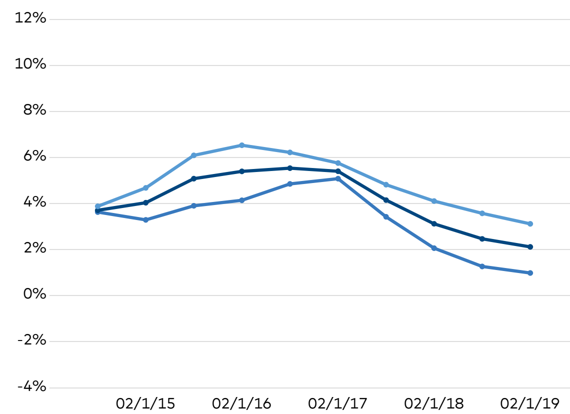
Los Angeles



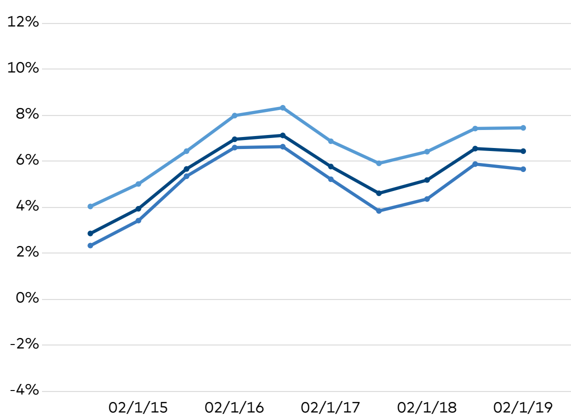
Miami



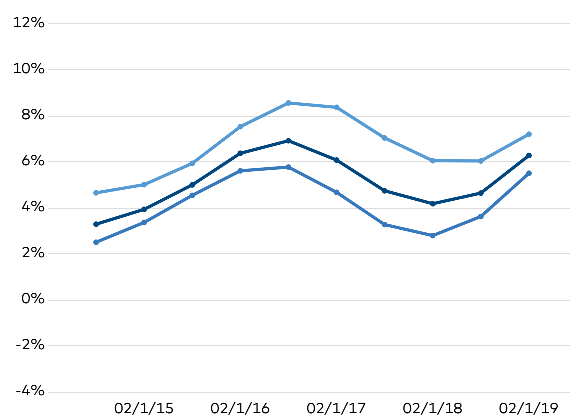
Orange County



Orlando



Phoenix

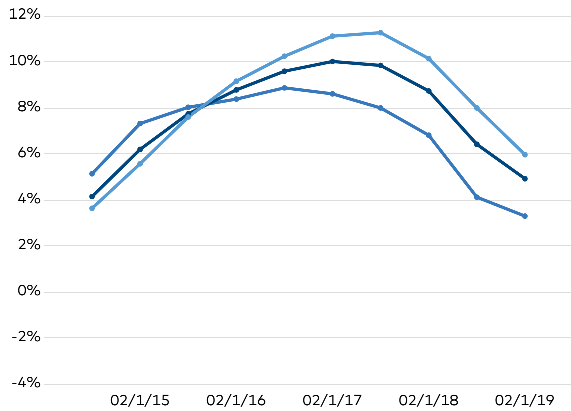


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

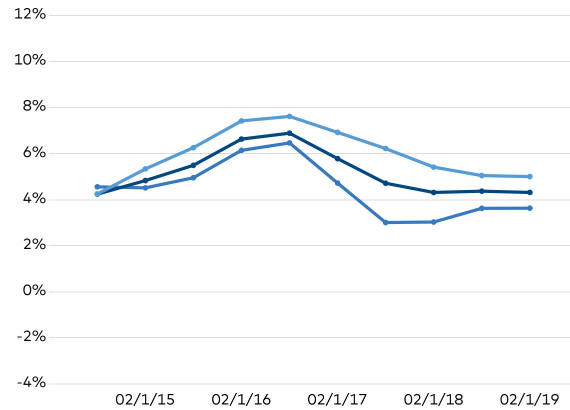
Source: Yardi Matrix

Market Rent Growth by Asset Class

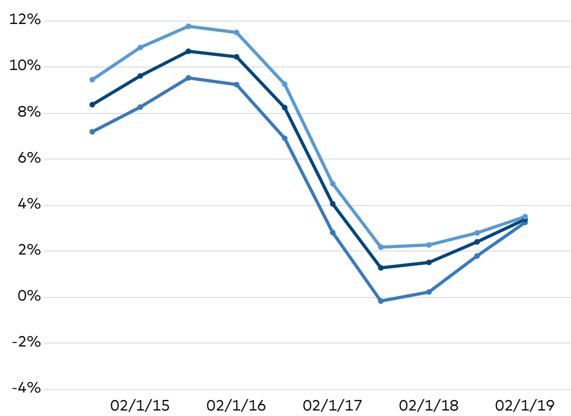
Sacramento



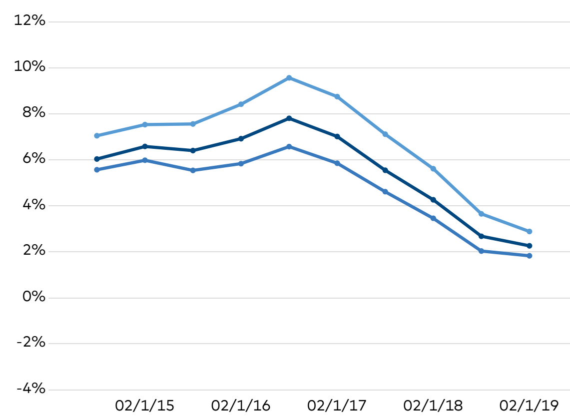
San Diego



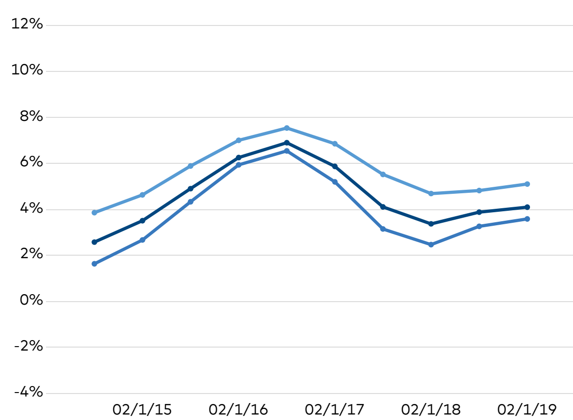
San Francisco



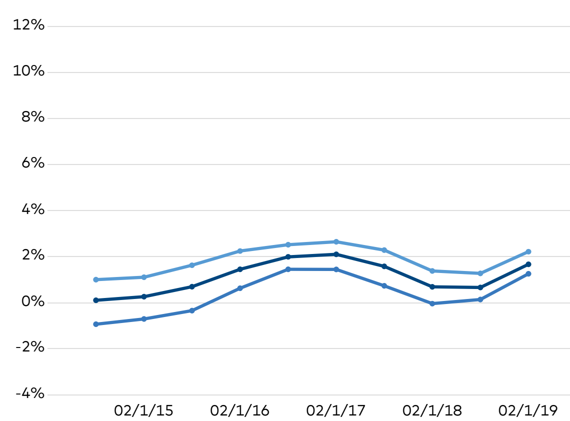
Seattle



Tampa



Washington, D.C.



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

Source: Yardi Matrix

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, police officers, firefighters, 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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