Rent Survey | August 2017

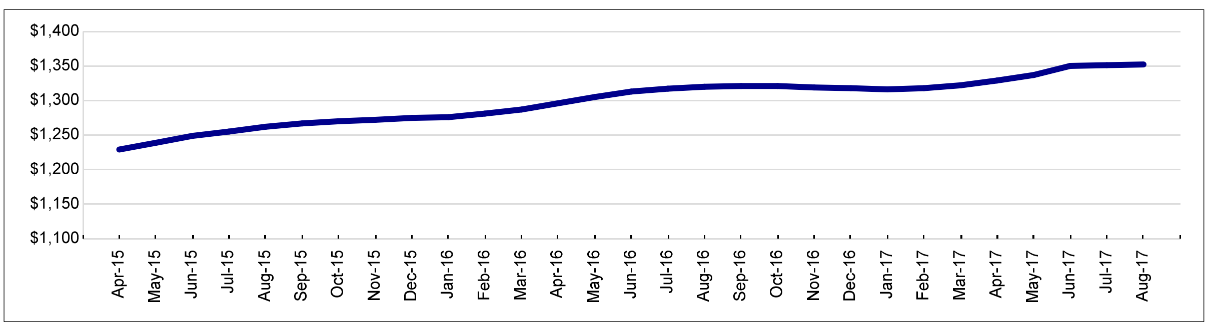
Construction Delays Supporting Multifamily Rents

Amid a slowdown in completions, average U.S. monthly rents were basically flat in August, rising $1 to $1,352, according to Yardi Matrix's monthly survey of 121 markets. On a year-over-year basis, rents were up 2.4% nationwide, a 20-basis-point decline from July. Although overall gains have slowed during the summer months, August kept alive a streak during which rents have increased every month this year.

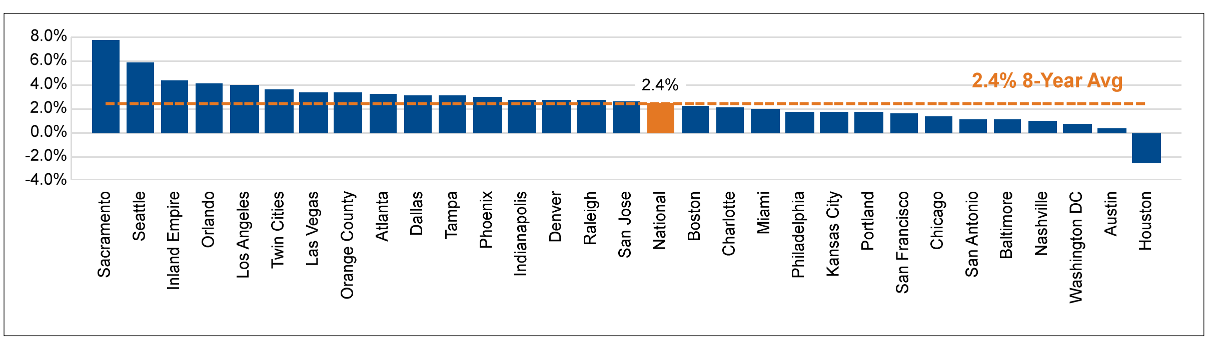
With the economy holding up well and multifamily demand remaining consistently strong, the big story in the market is supply. The amount of new luxury units has been arguably the most important factor in rent growth over the past year. That has particularly impacted markets with a large supply pipeline—such as Houston, Austin, San Francisco, Washington, D.C., and Nashville—where rent growth has decelerated rapidly. However, there are signs that new supply is slowing. Deliveries averaged 17,700 per month in 2016, but fell to 14,500 in the first quarter of 2017, 12,700 in the second quarter and fewer than 10,000 in July and August. Yardi Matrix's database shows that roughly one-third of the 480,000 units currently under construction in the U.S. are being delayed by an average of 7.5 months. Northern New Jersey, which has a large immigrant population, leads in the percentage of properties delayed; about half of the 9,500 units under construction in the metro are facing delays in completion. While construction timetables are not an exact science, the calculation takes into account how long project completion is taking compared to historical norms.

The primary reason for the delays is the critical shortage of construction workers, which is not a new trend but is being exacerbated by the Trump administration's more restrictive immigration policies. As a result, we are reducing our forecast for new deliveries in 2017 to 300,000, considerably fewer than the 360,000 we had expected and only slightly more than the 281,000 that came online in 2016. We now believe that the supply cycle will peak in 2018, with 360,000 new units delivered.

National Average Rents

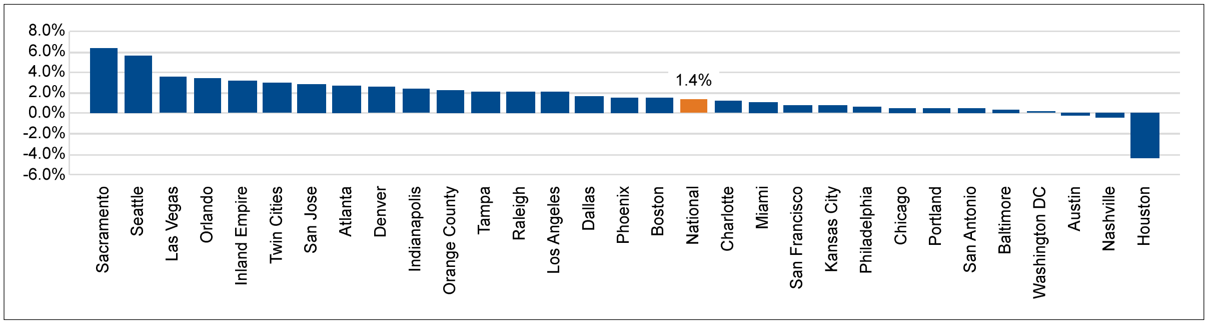


Year-Over-Year Rent Growth—All Asset Classes

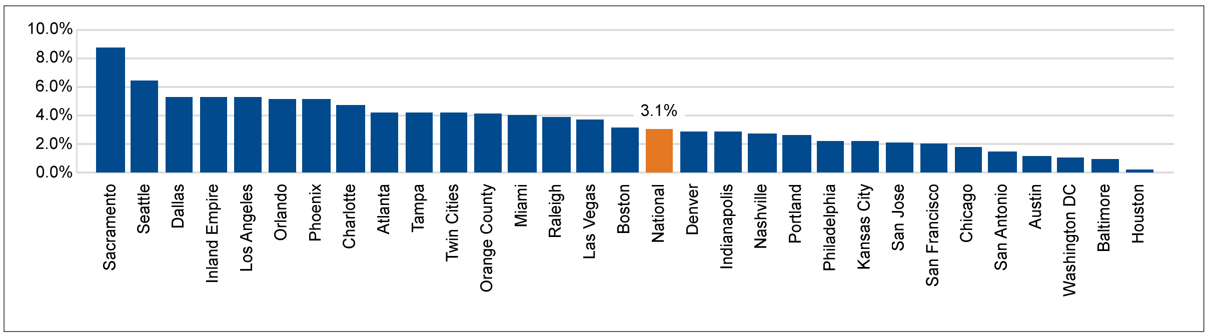


National averages include 121 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

Year-Over-Year Rent Growth—Lifestyle Asset Class



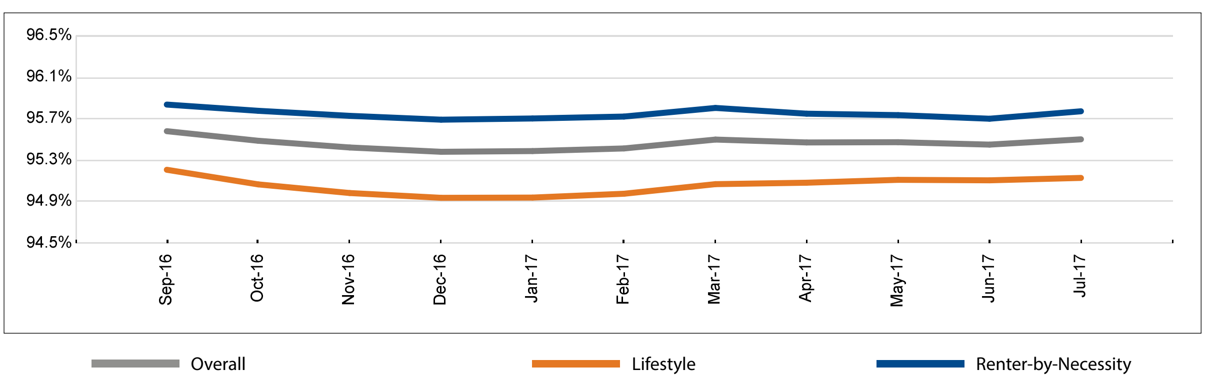
Year-Over-Year Rent Growth—Renter-by-Necessity Asset Class



Occupancy and Asset Classes

Overall, occupancy of stabilized properties was 95.6% nationwide as of July, unchanged from June and down 20 basis points year over year. As new development projects are delayed and absorption continues, occupancy has remained well above 95%. Renter by Necessity (RBN) assets (95.8%) maintain a 50 basis-point spread in occupancy compared to Lifestyle assets (95.3%), although the spread has been narrowing this year as newly completed Lifestyle units are absorbed.

Occupancy—All Asset Classes by Month



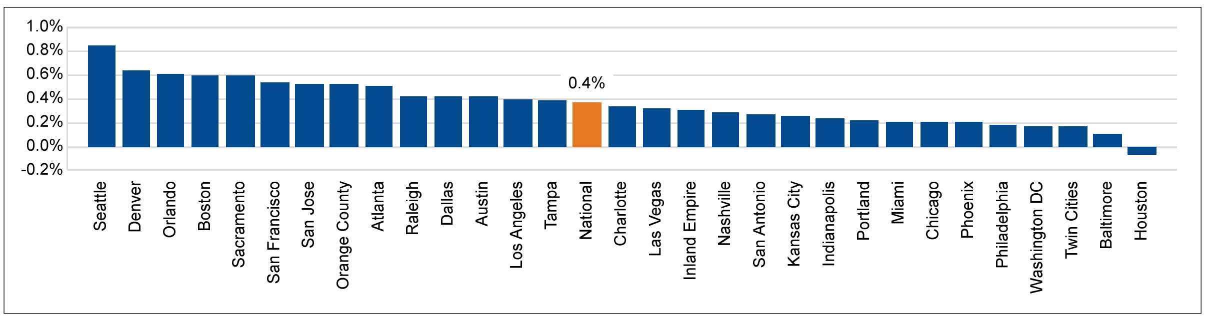
Trailing 3 Months: Rent Growth Indicates Steady Summer Season

Rents increased 0.4% on a trailing three-month (T-3) basis in August, down 10 basis points from July. As construction delays have led to longer development periods and lower-than-expected 2017 deliveries, rents have stabilized in some markets that had decelerated as the result of high levels of new supply. That has helped pump some life into Lifestyle rents, as most construction has been at the high end. Lifestyle (0.4%) outperformed RBN (0.3%) over the T-3 period. The T-3 segment measures short-term changes in rent growth that may not be indicative of long-term trends.

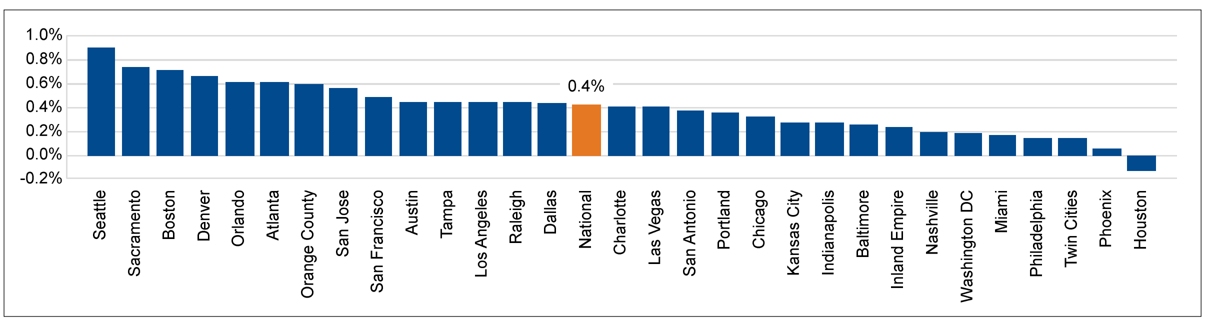
Two markets characterized by heavy construction, Seattle (0.8%) and Denver (0.6%), led the nation in rent growth on a T-3 basis, and seem to be benefiting from the delays in deliveries. Other rebounding markets that may have benefited from delays include Boston (0.6%), San Francisco and San Jose (both 0.5%), indicating that demand remains high. Houston (-0.1%) remains the only market experiencing declining rents on a T-3 basis, as supply and demand remain imbalanced.

Seattle topped the nation in Lifestyle (0.9%) and RBN (0.8%). While Sacramento continues to lead the nation in rent growth on a year-over-year basis, Seattle may soon overtake California's capital if recent trends continue. That would indicate strong absorption, considering the significant development in the Seattle market.

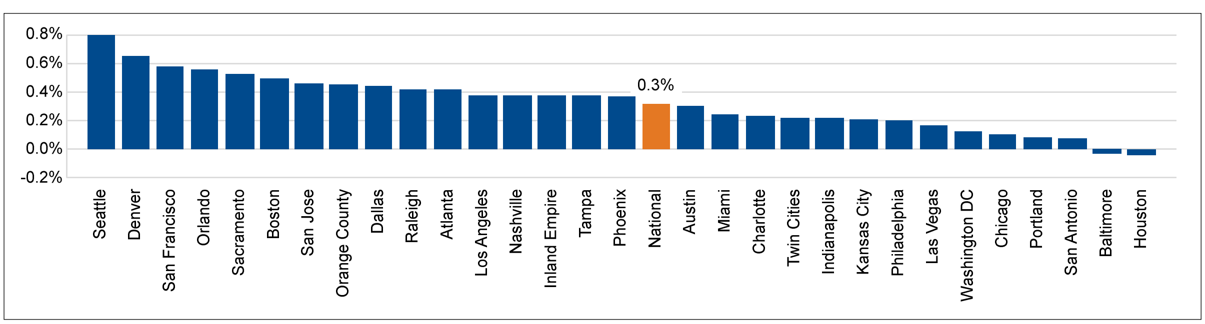
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

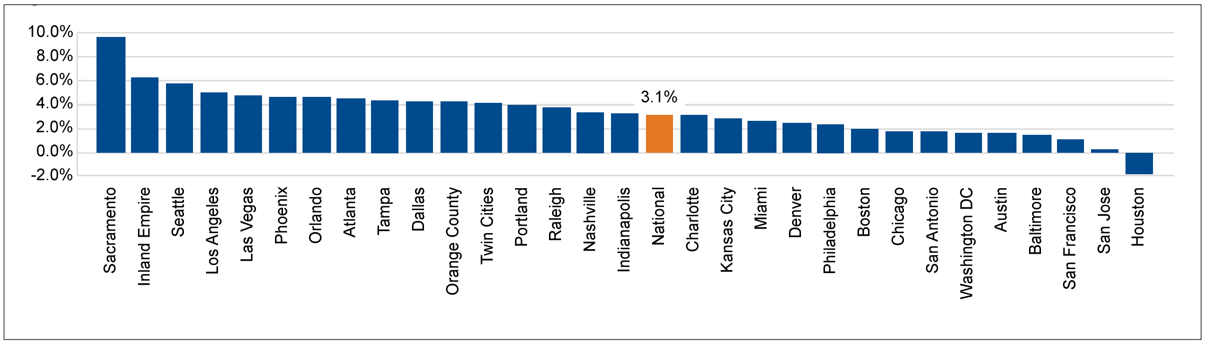


Trailing 12 Months: Deceleration Continues, Albeit at a Slower Pace

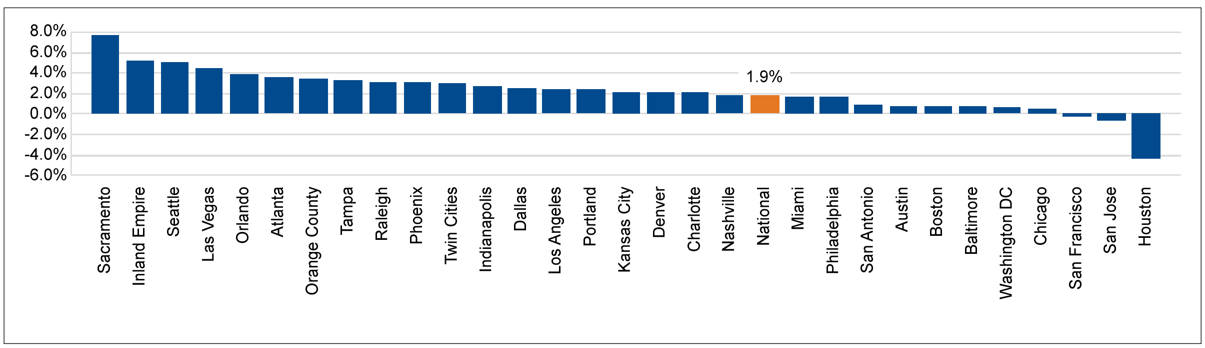
Rents grew 3.1% year over year on a trailing 12-month basis (T-12) through August, down 10 basis points from July, as the national deceleration trend persists. RBN rent growth (4.1%) outpaced Lifestyle (1.9%), as Lifestyle rent growth fell below 2% for the first time since October 2011.

Sacramento (9.6%) remained the strongest market on a T-12 basis; its rent growth over the past few years has been driven by a combination of strong demand coming from markets in the San Francisco Bay area, modest new supply, and steady job formation. The next 10 highest rent growth markets can be found in the South or West Coast, as population and job growth continue to outperform the national average in such places as Seattle, Phoenix, Atlanta, Orlando and Dallas. Gateway markets San Francisco, Boston and Washington, D.C., find themselves near the bottom of the T-12 rankings, as domestic outmigration and rising rents put pressure on the local apartment markets.

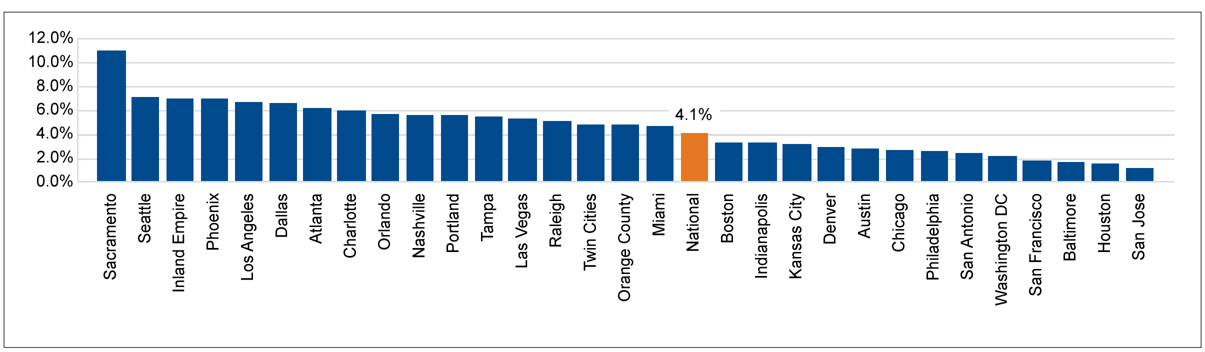
Trailing 12 Months Year-Over-Year—All Asset Classes



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; Forecast Rent Growth

Delays in apartment deliveries have implications for rents, especially in metros in which rent growth has decelerated as the number of new units exceeded absorption. One example would be Austin, where completions as a percentage of stock are among the highest in the country and rent growth slipped to 0.3% year over year as of August, despite little letup in demand. Another case is San Francisco, where rent growth dipped from double digits in early 2016 to 1.6% year over year as of August. Or Nashville, a high-demand market where rent increases declined to 0.9% year over year through August due to one of the nation's busiest construction pipelines. Rent growth in these metros has rebounded in recent months, with solid gains on a T-3 basis in San Francisco (0.5%), Austin (0.4%) and Nashville (0.3%). While it would be simplistic to attribute all of the recent performance to a single factor, clearly the delay in new deliveries is having an impact. Evidence is can be found in the surge in Lifestyle property rents, which are up 0.4% on a T-3 basis, slightly above the RBN segment (0.3%). Lifestyle property rents had been flat in previous months at the same time that RBN assets were seeing much larger gains.

As has been the case for some time, Houston merits special mention. The Texas metro has underperformed due to the struggling energy sector and surging supply. Now it faces a test in the recovery from Hurricane Harvey. It's far too early to assess the damage, but if the past is a guide, multifamily fundamentals could benefit as damaged stock is taken off the market and residents scramble for places to live.

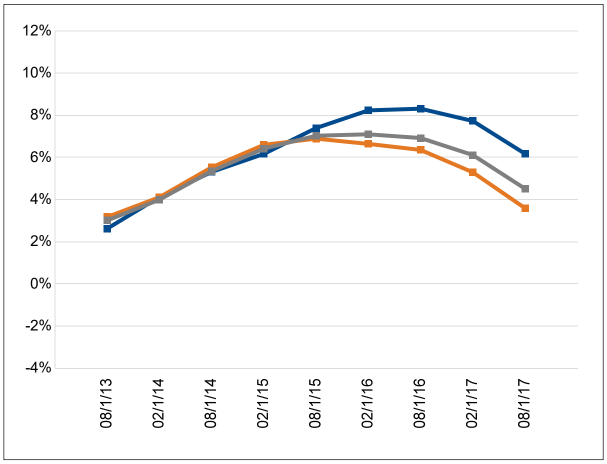
Market	YoY Rent Growth as of Aug - 17	Forecast Rent Growth (YE 2017)	YoY Job Growth (6-mo. moving avg.) as of July - 17	Completions as % of Total Stock as of Aug - 17	Occupancy Rates as of July - 16	Occupancy Rates as of July - 17
Sacramento	7.7%	8.2%	1.7%	0.9%	96.9%	96.9%
Seattle	5.9%	5.0%	2.8%	4.1%	96.3%	96.2%
Inland Empire	4.3%	4.8%	3.3%	0.7%	96.6%	96.1%
Phoenix	3.0%	4.8%	2.5%	1.7%	95.4%	94.9%
Dallas	3.1%	4.3%	3.3%	1.9%	95.8%	95.5%
Orlando	4.1%	4.2%	3.7%	2.3%	96.3%	96.2%
Twin Cities	3.6%	4.1%	2.3%	1.8%	97.7%	97.9%
Los Angeles	4.0%	3.9%	1.6%	2.3%	97.0%	96.7%
Tampa	3.0%	3.8%	3.1%	2.3%	95.9%	95.8%
Atlanta	3.2%	3.6%	3.5%	1.8%	95.0%	94.5%
Las Vegas	3.4%	3.5%	3.1%	1.3%	95.2%	95.3%
Indianapolis	2.7%	3.0%	1.9%	0.9%	94.7%	94.4%
Orange County	3.3%	3.0%	0.9%	1.7%	96.9%	96.5%
Raleigh	2.7%	3.0%	2.7%	2.6%	95.4%	95.6%
Miami Metro	2.0%	2.9%	2.7%	3.3%	95.7%	95.2%
Charlotte	2.1%	2.5%	2.8%	4.2%	96.1%	95.6%
Portland	1.7%	2.5%	2.1%	1.8%	96.4%	95.7%
Boston	2.2%	2.4%	1.7%	2.0%	96.8%	97.0%
Chicago	1.3%	2.3%	0.8%	2.6%	95.8%	95.5%
Kansas City	1.7%	2.3%	2.4%	1.4%	95.4%	95.3%
Denver	2.7%	2.0%	2.4%	3.2%	95.5%	95.6%
Nashville	0.9%	2.0%	3.6%	3.6%	96.3%	95.4%
Philadelphia	1.7%	1.8%	2.0%	1.1%	96.0%	96.1%
San Antonio	1.1%	1.5%	2.3%	2.9%	94.3%	93.7%
Washington DC	0.8%	1.5%	1.8%	2.0%	96.0%	95.7%
Baltimore	1.1%	1.4%	1.3%	1.4%	95.1%	95.0%
San Jose	2.6%	1.2%	1.6%	2.6%	96.0%	96.4%
Austin	0.3%	1.1%	2.8%	3.5%	95.5%	94.5%
San Francisco	1.6%	0.8%	2.0%	2.0%	96.4%	96.4%
Houston	-2.5%	-0.7%	1.4%	2.5%	93.7%	93.1%

Year-Over-Year Rent Growth, Other Markets

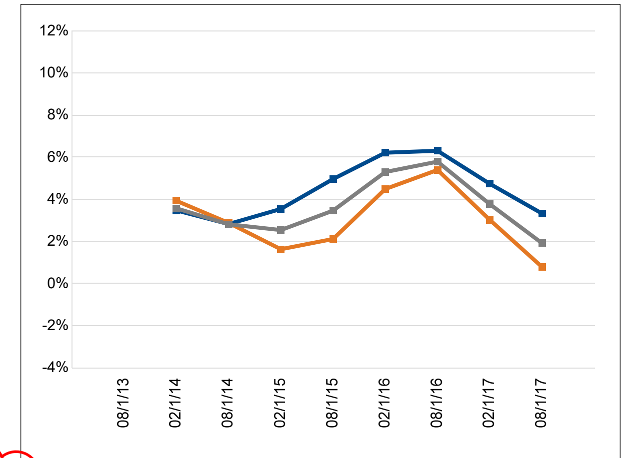
Market	August 2017		
	Overall	Lifestyle	Renter-by-Necessity
Reno	12.3%	12.3%	12.3%
Tacoma	8.1%	6.8%	9.6%
Colorado Springs	7.6%	7.7%	7.3%
Central Valley	4.9%	3.1%	5.2%
San Fernando Valley	4.6%	2.9%	5.5%
Long Island	3.6%	3.2%	3.8%
Tucson	3.6%	3.6%	3.8%
NC Triad	3.3%	3.0%	4.1%
Indianapolis	2.7%	2.4%	2.8%
Albuquerque	2.7%	1.9%	3.1%
Louisville	2.4%	0.9%	3.2%
Northern New Jersey	1.8%	0.9%	2.7%
Bridgeport - New Haven	1.5%	1.3%	1.5%
St. Louis	0.9%	-0.1%	0.9%
SW Florida Coast	0.3%	0.4%	0.7%
El Paso	0.1%	-0.5%	0.4%
Central East Texas	-2.0%	-2.6%	-1.7%

Market Rent Growth by Asset Class

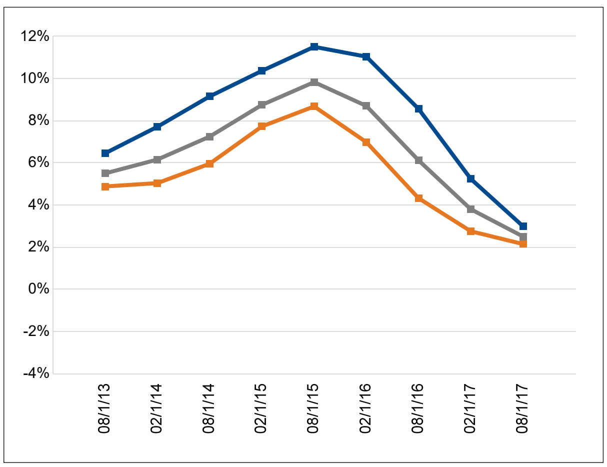
Atlanta



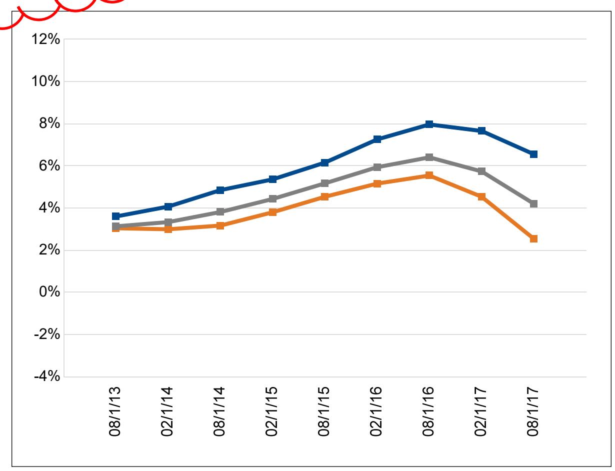
Boston



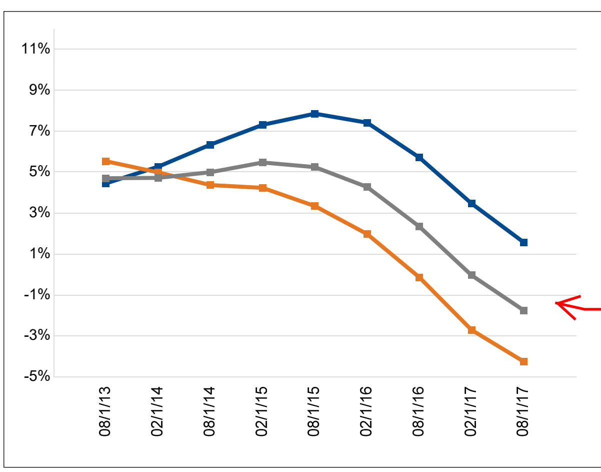
Denver



Dallas

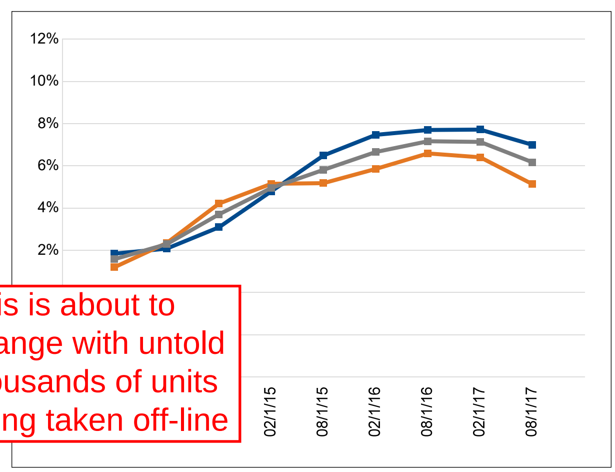


Houston



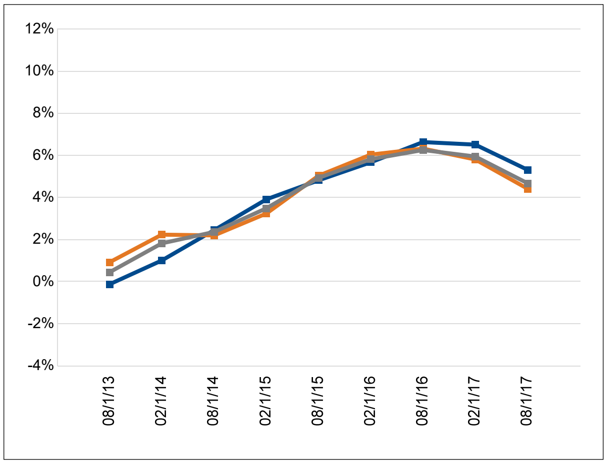
This is about to change with untold thousands of units being taken off-line

Inland Empire

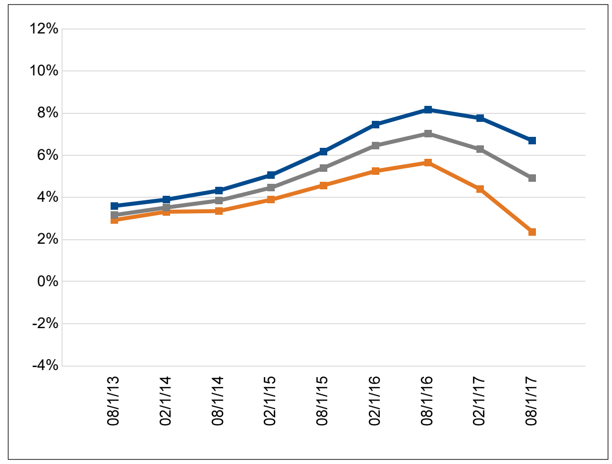


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

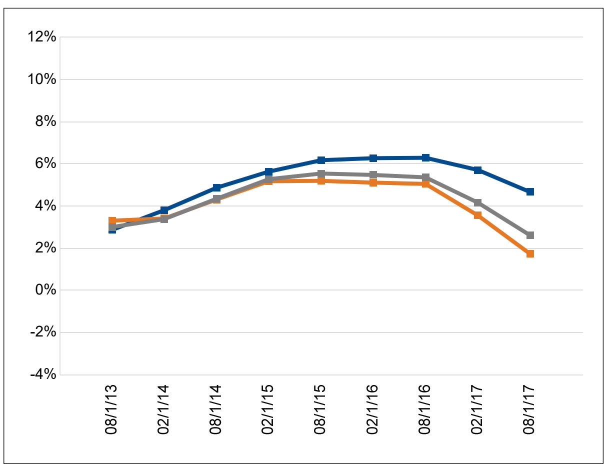
Las Vegas



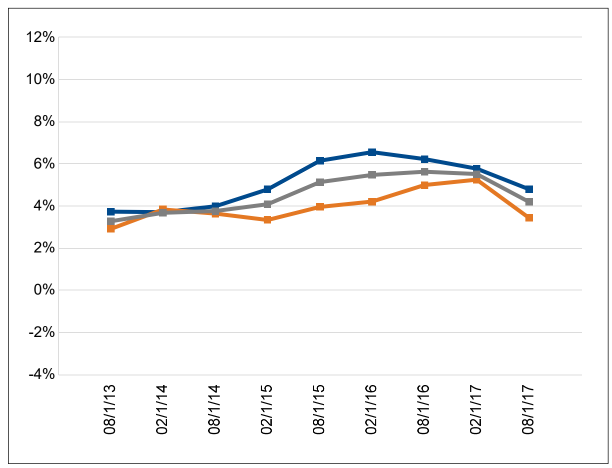
Los Angeles



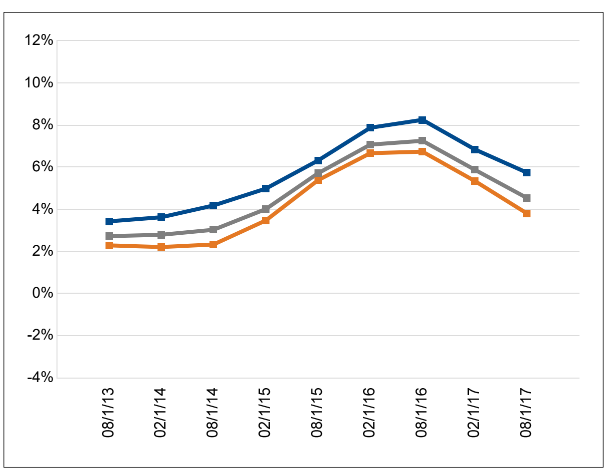
Miami



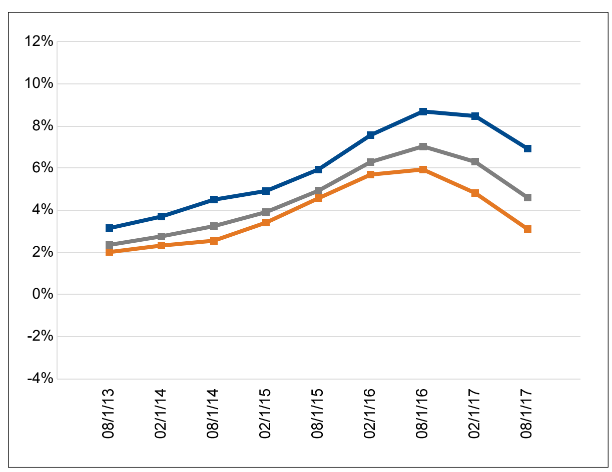
Orange County



Orlando

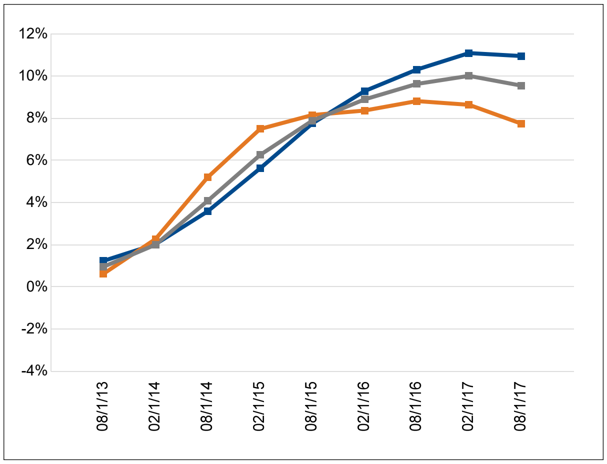


Phoenix

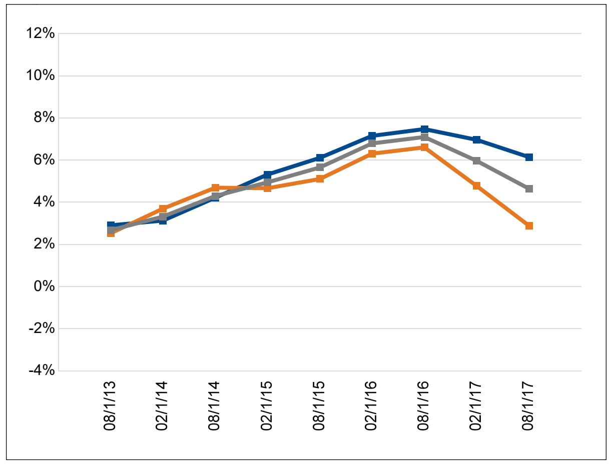


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter-by-Necessity

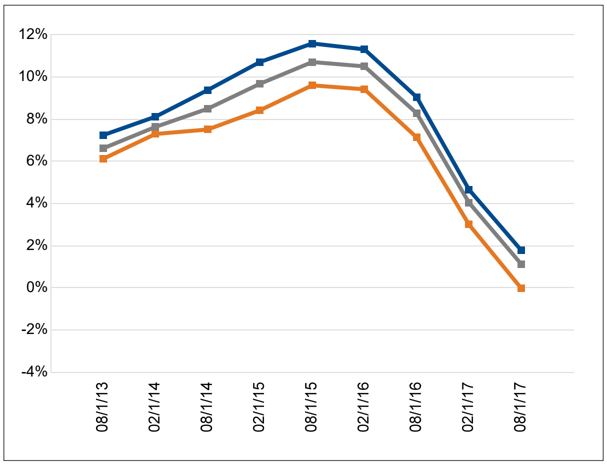
Sacramento



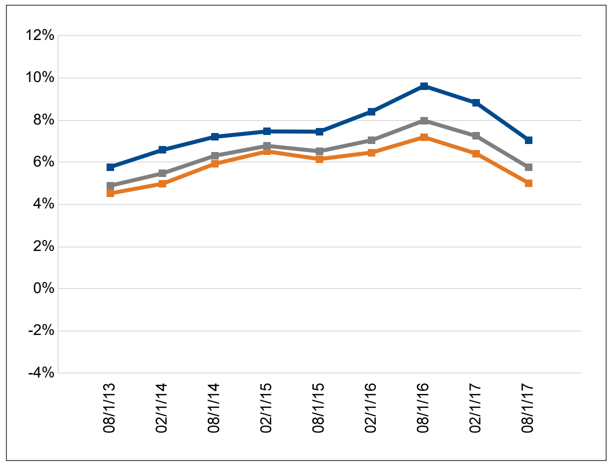
San Diego



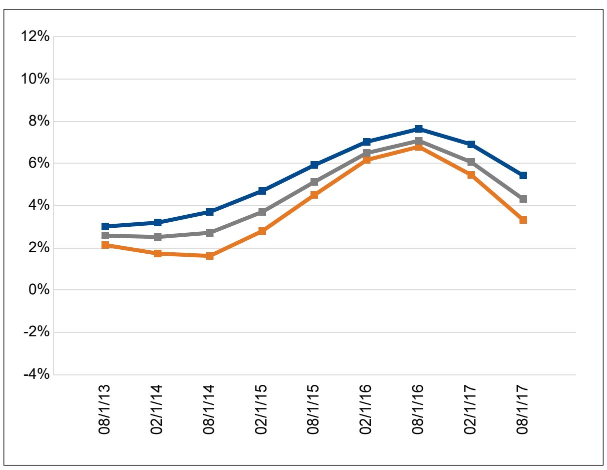
San Francisco



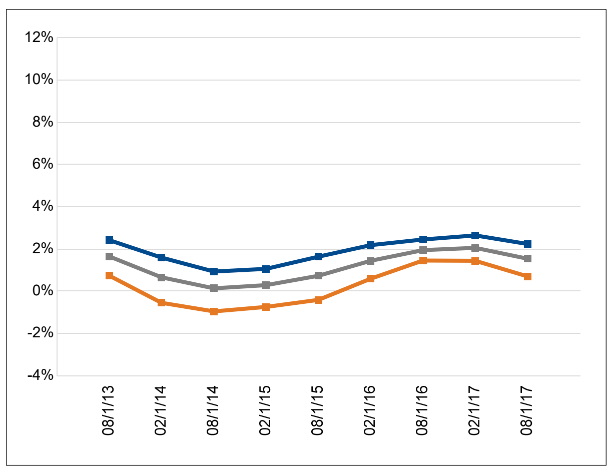
Seattle



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, 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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