

Rent Survey | June 2016

No Spring Break for Multifamily Rent Gains

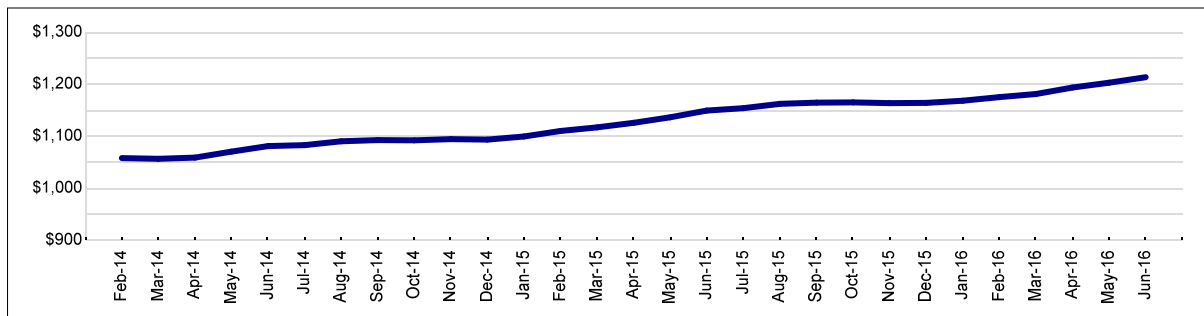
Showing no signs of moderating, U.S. apartment rents rose another \$10 in June, the third straight month of double-digit gains, according to Yardi Matrix's monthly survey of 119 markets. Rents climbed 0.9% in June to yet another all-time high of \$1,213.

Rents were up 2.7% in the second quarter, and 5.6% year-over-year. Despite the robust gains, though, year-over-year rent growth fell 30 basis points in June and was down 110 basis points from the recent high in October, so rents are in some sense moderating.

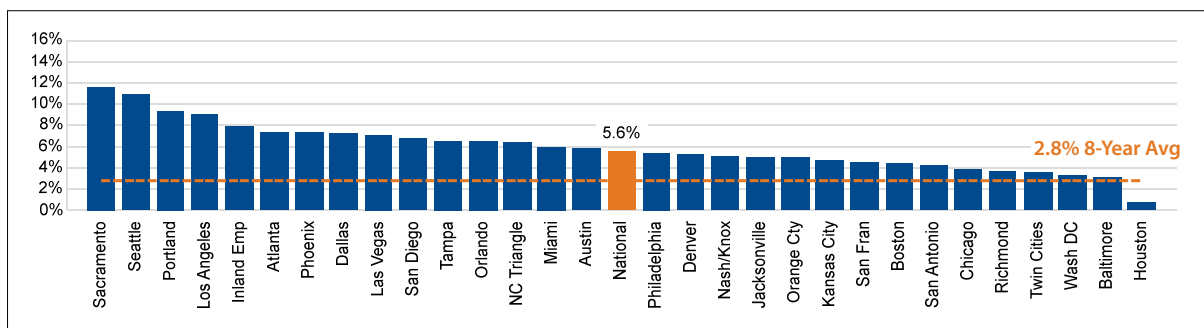
That said, year-to-date, average U.S. rents are up 4.2%, which is almost as much as our full-year forecast. Seasonally, the second quarter is usually above trend for apartments (rents rose 2.9% in the second quarter of 2015), so while the bulk of 2016 rent gains may be behind us, rent growth may continue to surprise on the upside. With household formations on an upswing for reasons that include the healthy employment market and rising Millennial population, demand remains high. That means that occupancies of stabilized properties are level or improving in some metros, even as a growing amount of supply comes online. Yardi Matrix's national vacancy rate for stabilized assets was 96.1% in May for the third straight month. Increases were recorded that month in a number of metros, including Boston at 40 basis points; the Twin Cities, Tampa and Orlando at 30 basis points; Washington, D.C. , at 20 basis points; and Philadelphia at 10 basis points.

The big question of the day has to do with Brexit, or Britain's vote to exit the European Union, which is roiling global financial markets. We foresee little immediate impact on the U.S. multifamily market, largely because the U.S. is a relatively small trading partner, but the real danger is the potential that the process of splitting the European Union could create upheaval in global financial markets (more later).

National Average Rents



Year-Over-Year Rent Growth—All Asset Classes

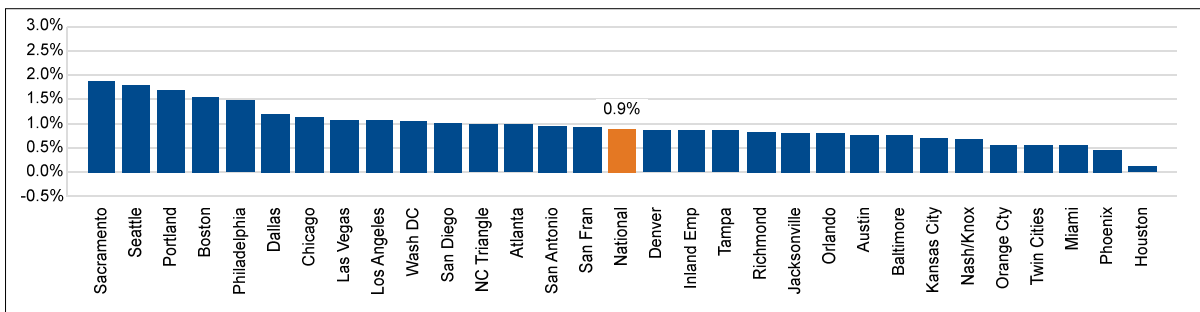


National averages include 119 markets tracked by Matrix, not just the 30 metros featured in the report. All data provided by YardiMatrix.

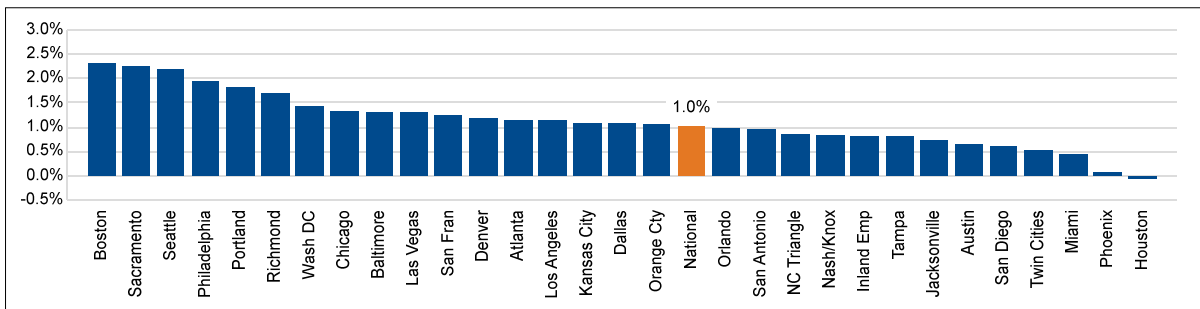
Trailing 3 Months: Lifestyle Drives Rents in Northeast, Mid-Atlantic

- Nationally, U.S. multifamily rents rose 0.9% on a trailing three-month (T-3) basis in June, up 10 basis points from the prior month. The T-3 survey captures short-term shifts in rents. While these movements may not be indicative of sustainable trends, they do suggest markets accelerating or decelerating in the near term.
- The high-end Lifestyle segment led gains with 1.0% growth on a T-3 basis, while rents for working-class Renter-by-Necessity assets were up 0.8%. Gains were broad-based. Thirteen of the 30 Matrix Monthly metros recorded increases of 1.0% or more on a T-3 basis, while all but Houston (0.1%) were up by at least 0.5%. Houston continues to suffer from weakness in the energy sector and huge supply increases.
- The T-3 rankings were led by some of the markets that have performed well throughout the cycle, including Sacramento (1.9%), Seattle (1.8%), Portland (1.7%), and Dallas and Los Angeles (1.1%).
- Metros in the Northeast, Mid-Atlantic and Midwest—which have generally lagged in rent growth in recent years—showed signs of strength. Many of these metros were led by gains in the Lifestyle segment, a sign that a boom in new supply in the luxury units is not producing a drag on rents—at least, not yet. Examples include Boston (2.3% Lifestyle, 1.6% overall), Philadelphia (2.0% Lifestyle, 1.5% overall), Chicago (1.3% Lifestyle, 1.1% overall), Richmond (1.7% Lifestyle, 0.8% overall), Washington, D.C. (1.4% Lifestyle, 1.0% overall) and Baltimore (1.3% Lifestyle, 0.8% overall).

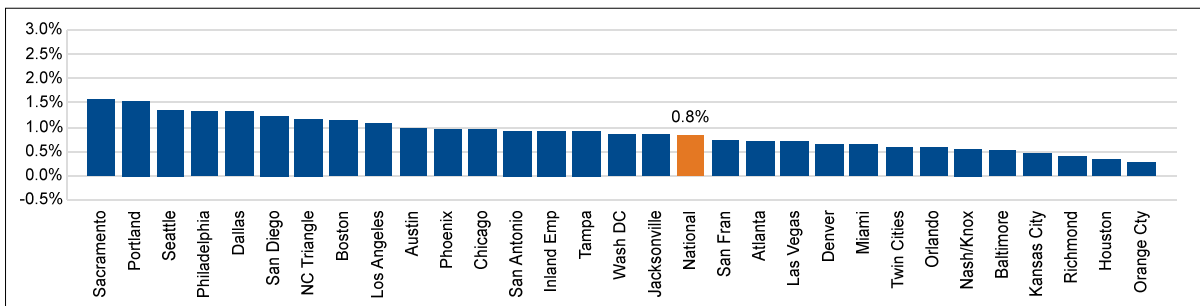
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



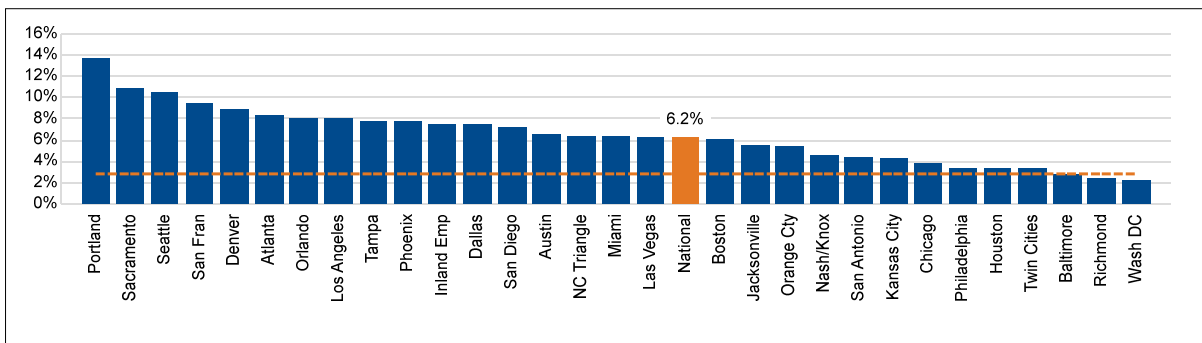
Trailing 3 Months Sequential—Renter-by-Necessity Asset Class



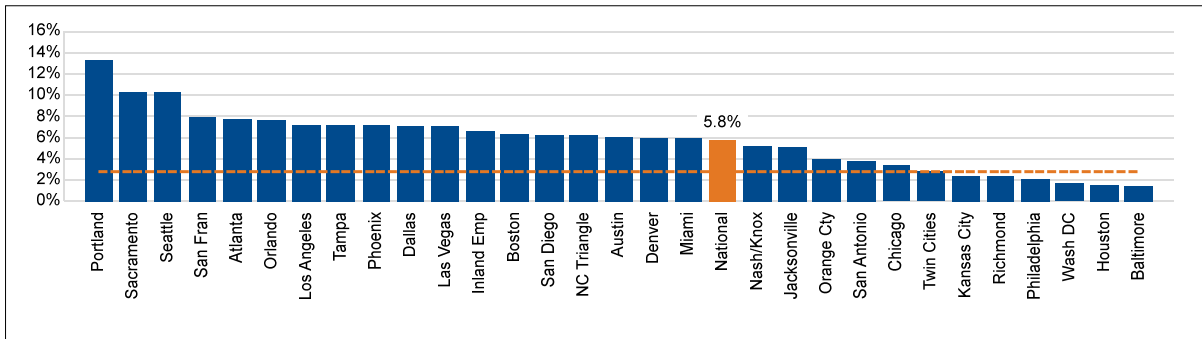
Trailing 12 Months: West Coast Still On Top

- Rents grew 6.2% on a trailing 12-month (T-12) basis in June, representing the change in the average rent during the preceding one-year period. The results were little changed from May. Overall, rents fell by 10 basis points on a T-12 basis due to a dip in Lifestyle rents to 5.8%, from 5.9%. The Renter-by-Necessity segment remained the same at 6.5%.
- The West Coast—Portland, Sacramento, Seattle, San Francisco, Los Angeles, the Inland Empire and San Diego—continues to perform above the national average, while Southern markets Atlanta, Orlando and Tampa remain among the top 10 metros. Recent strength displayed by Lifestyle properties in the North and East could signal a rotation is in the works, but it is too soon to tell.

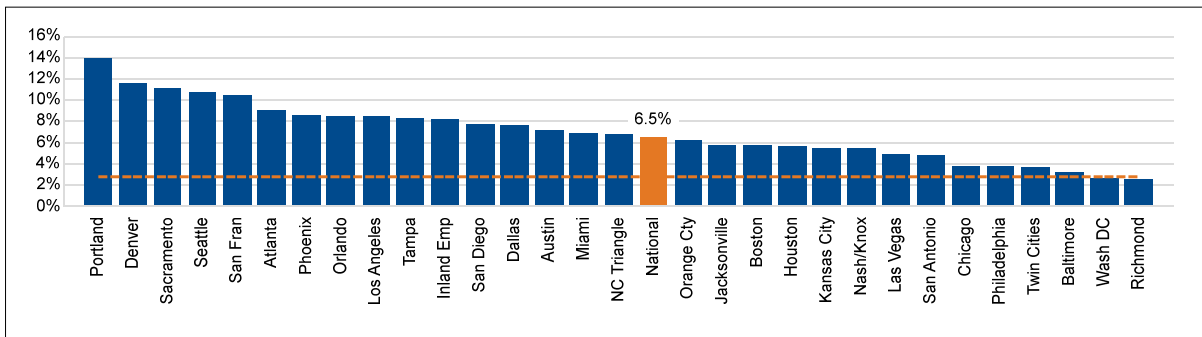
Trailing 12 Months Year-Over-Year—All Asset Classes



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 and Forecast Rent Growth

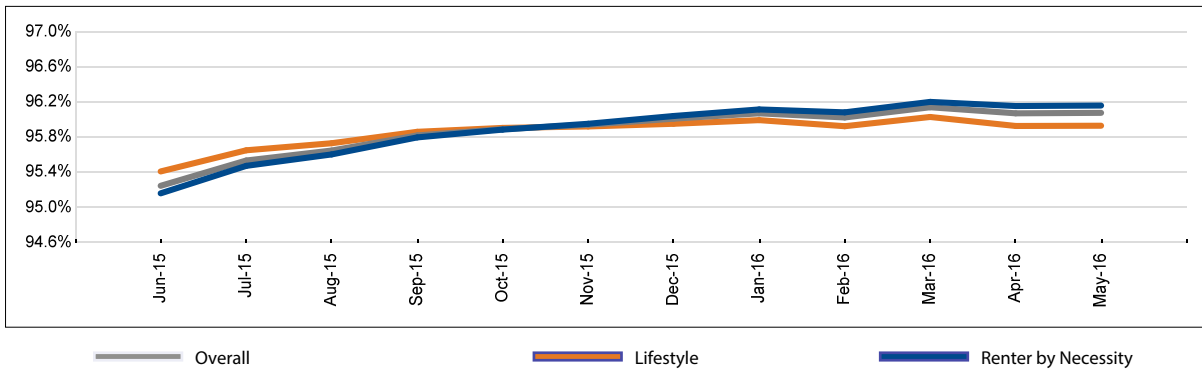
- So what to make of Brexit? As mentioned earlier, we believe the near-term impact on the U.S. apartment market will be limited. For one thing, it's hard to say when changes in policy might take effect. Britain has as long as two years to negotiate terms of its withdrawal, and there are indications that new leadership may want to drag that out. Plus, as a global market, the U.K. is relatively small. Less than 4% of U.S. goods end up there, so reduced demand from Britain could have little tangible effect on U.S. GDP.
- That said, history teaches that anything that upsets the global financial markets must be taken seriously. In the immediate wake of the vote, the global stock markets fell. The negotiations will usher in a potentially long period of uncertainty, which could lead global corporations to pause hiring and growth plans. Volatility in the capital markets could increase costs for securitized lenders, resulting in higher mortgage costs for borrowers.
- But there could be positives for U.S. real estate. Uncertainty overseas is likely to increase demand for 10-year U.S. Treasury bonds and slow the Federal Reserve's plans to increase rates. Global investors, which seemed to pull back on capital allocations to the U.S. in the first half of 2016, might decide to increase investments in safe asset classes such as multifamily. And New York might benefit if financial institutions decide London is no longer the most suitable location as a global banking center. The bottom line, though, is that there is nothing to suggest a major impact on U.S. multifamily fundamentals, while much about the situation remains fluid.

Market	Forecast Rent Growth (YE 2016)	Y-o-Y Job Growth (6-mo. moving avg.) as of April 2016	Completions as a % of Total Stock as of June 2016	Occupancy Rates as of April 2016	Occupancy Rates as of May 2016
San Francisco	10.5%	3.6%	2.2%	96.8%	96.6%
Sacramento	8.8%	2.7%	0.4%	96.7%	96.7%
Portland	8.8%	3.2%	3.3%	96.1%	96.2%
Dallas	7.3%	3.7%	2.5%	96.0%	96.1%
Seattle	7.2%	3.1%	4.4%	96.1%	96.1%
Los Angeles	7.1%	2.3%	1.0%	97.0%	97.1%
Inland Empire	6.8%	3.4%	1.1%	97.1%	97.2%
Atlanta	6.4%	3.1%	2.3%	95.4%	95.5%
Orlando	6.3%	4.1%	3.3%	95.4%	95.7%
Denver	6.3%	2.7%	4.3%	95.6%	95.6%
Austin	5.8%	4.5%	4.4%	95.0%	95.2%
Miami	5.6%	2.6%	2.5%	96.3%	96.3%
Tampa	5.5%	3.3%	1.9%	95.6%	95.9%
San Diego	5.5%	2.8%	1.7%	97.0%	97.2%
Phoenix	5.4%	3.6%	2.8%	96.0%	96.0%
Orange County	4.5%	2.9%	1.8%	97.2%	97.2%
Las Vegas	4.2%	2.5%	1.8%	95.0%	95.2%
Nash/Knox	4.2%	3.3%	3.2%	96.7%	96.8%
Jacksonville	4.0%	3.7%	2.1%	95.2%	95.3%
Houston	3.4%	0.5%	2.3%	94.7%	94.8%
San Antonio	3.3%	2.7%	3.7%	95.0%	95.0%
Kansas City	3.1%	1.4%	2.7%	96.1%	95.8%
Boston	3.0%	1.5%	2.4%	96.3%	96.7%
NC Triangle	2.0%	2.9%	3.3%	96.0%	96.1%
Chicago	2.0%	1.6%	1.4%	96.5%	96.5%
Twin Cities	1.5%	1.6%	2.2%	96.6%	96.9%
Richmond	1.4%	2.5%	1.6%	96.2%	96.2%
Philadelphia	1.3%	2.0%	1.6%	96.4%	96.5%
Washington DC	1.2%	2.3%	2.7%	96.2%	96.4%
Baltimore	1.0%	1.7%	1.5%	96.2%	96.2%

Occupancy and Asset Classes

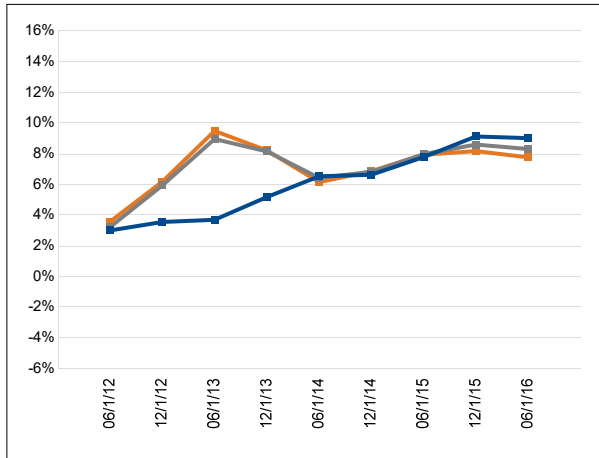
- The U.S. multifamily occupancy rate for stabilized assets remains extremely strong, and has leveled off at 96.1% for the past three months. Stabilized Renter-by-Necessity properties have been outperforming Lifestyle assets since September 2015.

Occupancy—All Asset Classes by Month

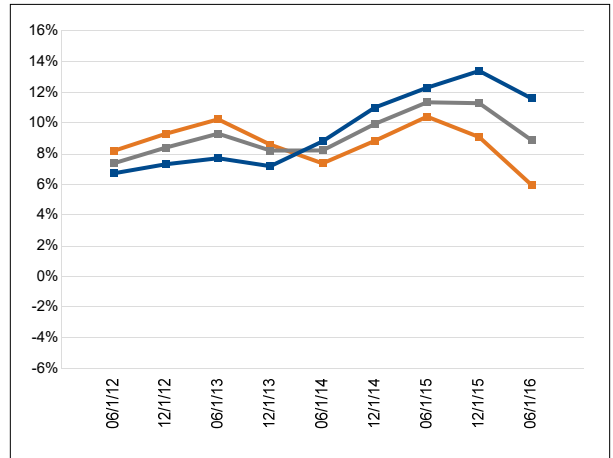


Market Rent Growth by Asset Class

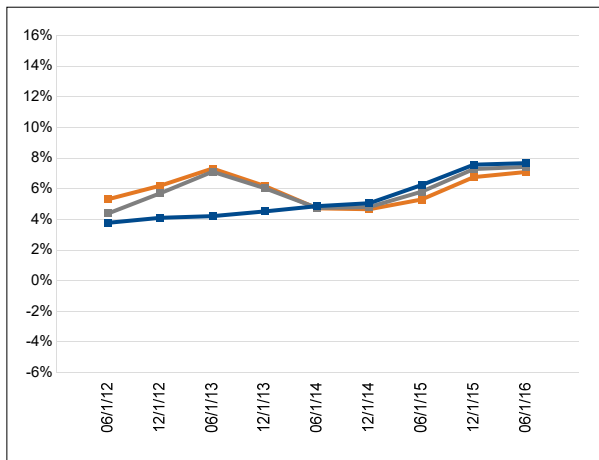
Atlanta



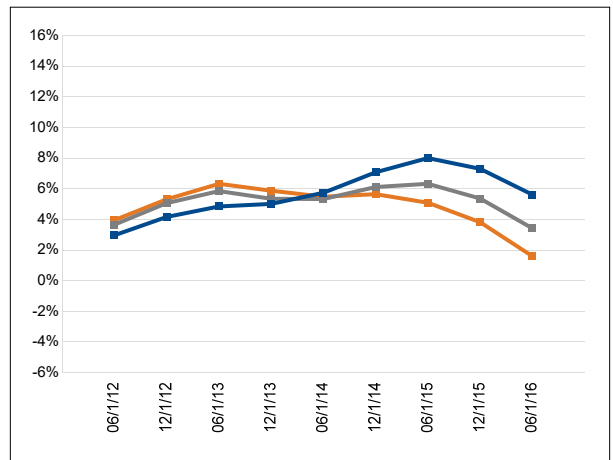
Denver



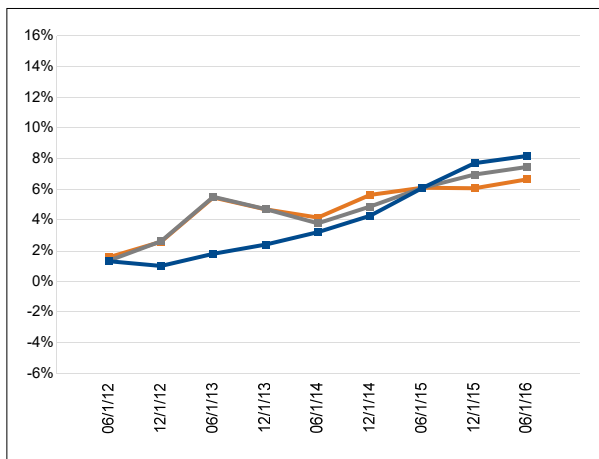
Dallas



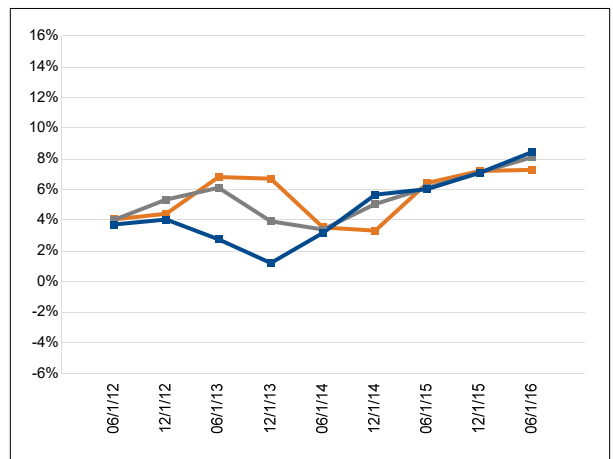
Houston



Inland Empire

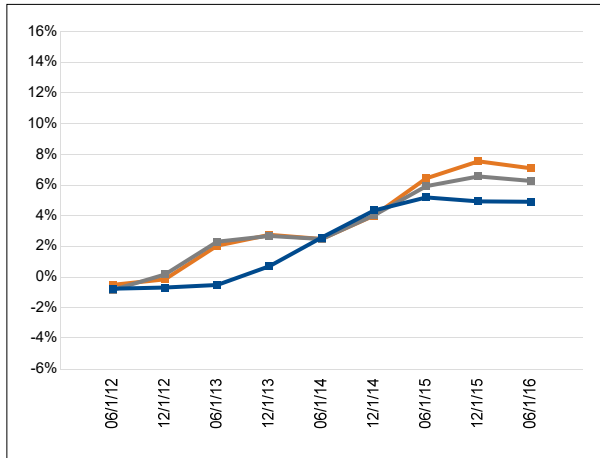


Los Angeles

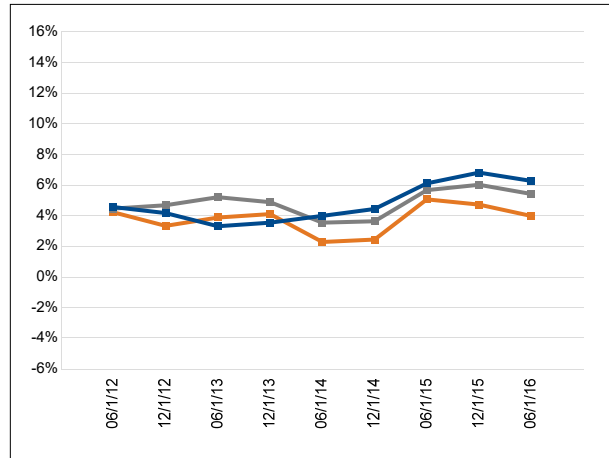


Trailing 12 Months Overall Trailing 12 Months Lifestyle Trailing 12 Months Renter by Necessity

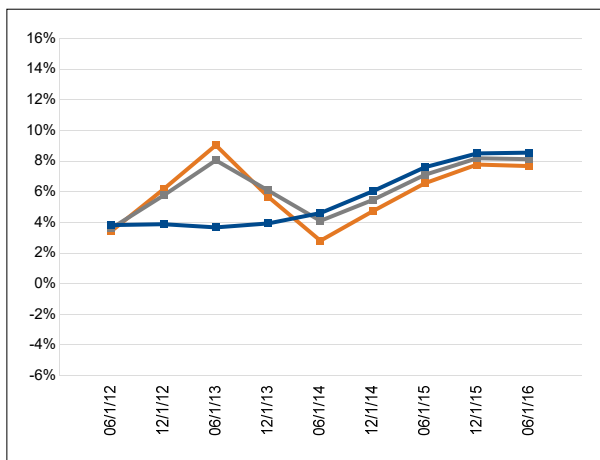
Las Vegas



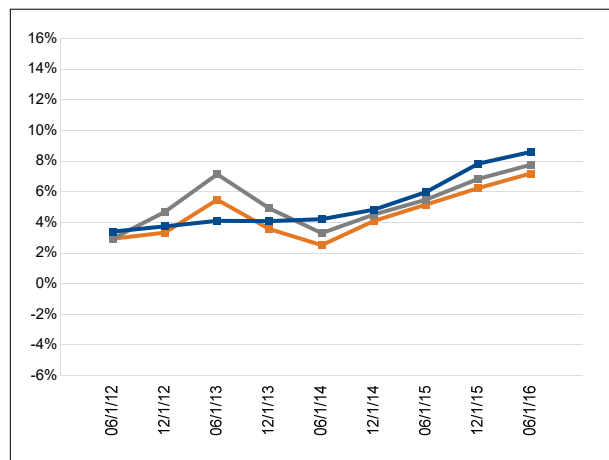
Orange County



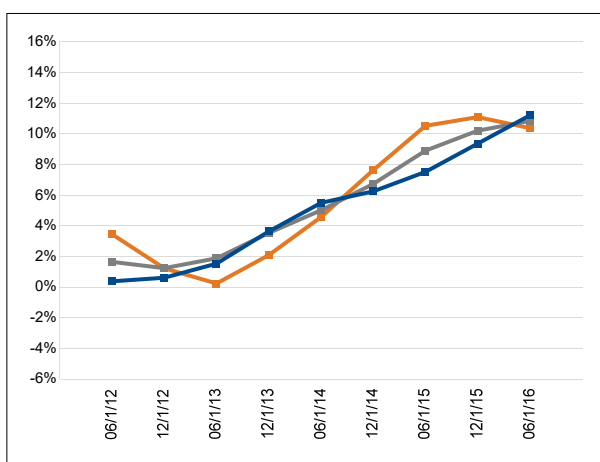
Orlando



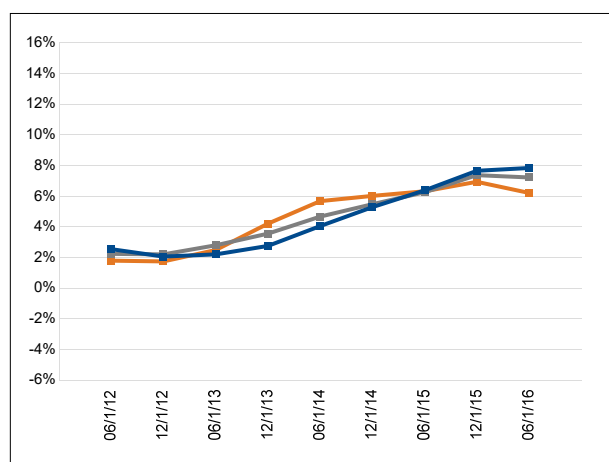
Phoenix



Sacramento

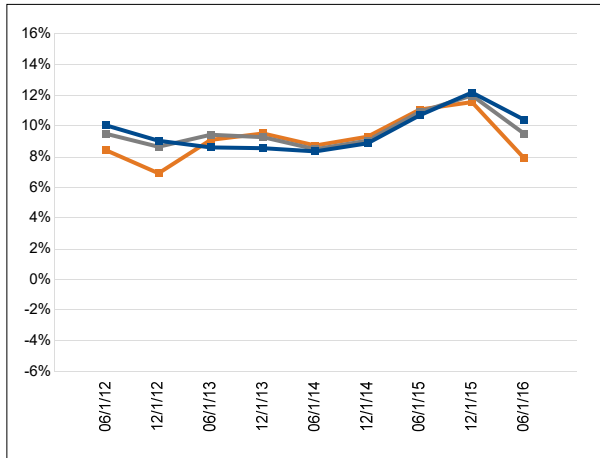


San Diego

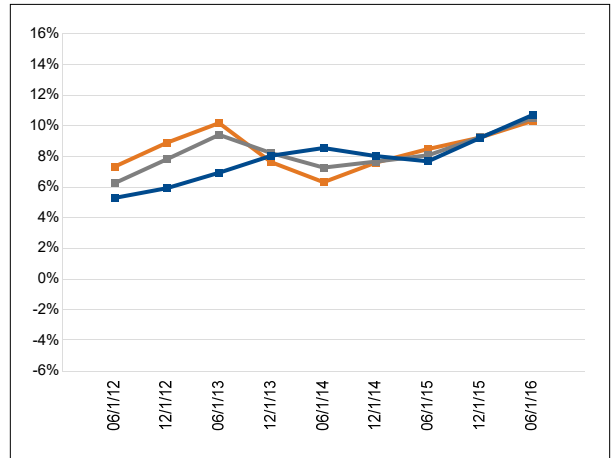


— Trailing 12 Months Overall
 — Trailing 12 Months Lifestyle
 — Trailing 12 Months Renter by Necessity

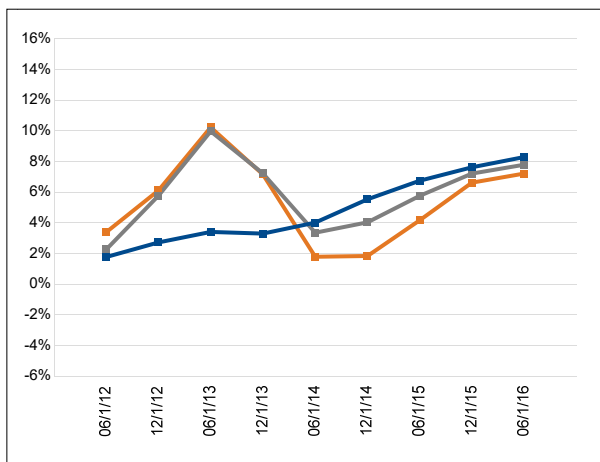
San Francisco



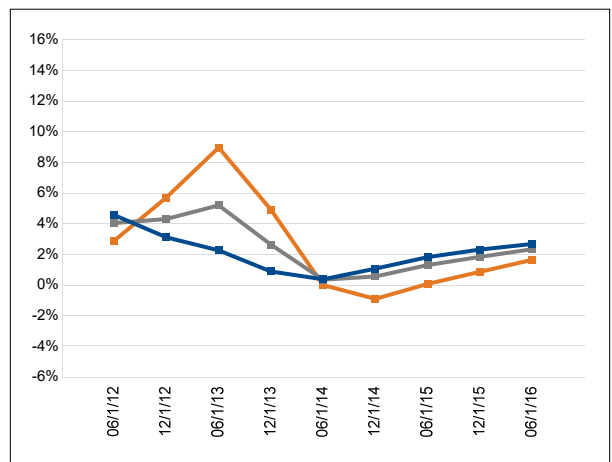
Seattle



Tampa



Washington, D.C.



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

Appendix: Year-over-Year Rent Growth for Non-Reported Markets

Market	June 2016		
	Overall	Lifestyle	Renter by Necessity
Tacoma	11.6%	14.7%	8.8%
Reno	11.1%	13.4%	9.9%
Colorado Springs	8.5%	9.8%	7.9%
San Fernando	8.4%	8.2%	8.5%
SW Florida Coast	7.4%	5.6%	9.0%
Central Valley	6.7%	6.3%	6.8%
Tucson	5.2%	7.9%	4.4%
Indianapolis	4.2%	3.9%	4.2%
Northern New Jersey	4.0%	3.5%	4.4%
Long Island	3.7%	2.4%	4.2%
Louisville	3.5%	4.1%	3.1%
NC Triad	3.4%	2.4%	4.1%
St. Louis	3.2%	1.9%	3.5%
El Paso	2.1%	3.2%	1.5%
Central East Texas	1.9%	2.0%	1.9%
Bridgeport - New Haven	1.7%	0.1%	1.9%
Albuquerque	0.6%	0.4%	0.8%

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, 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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