Rent Survey | November 2016

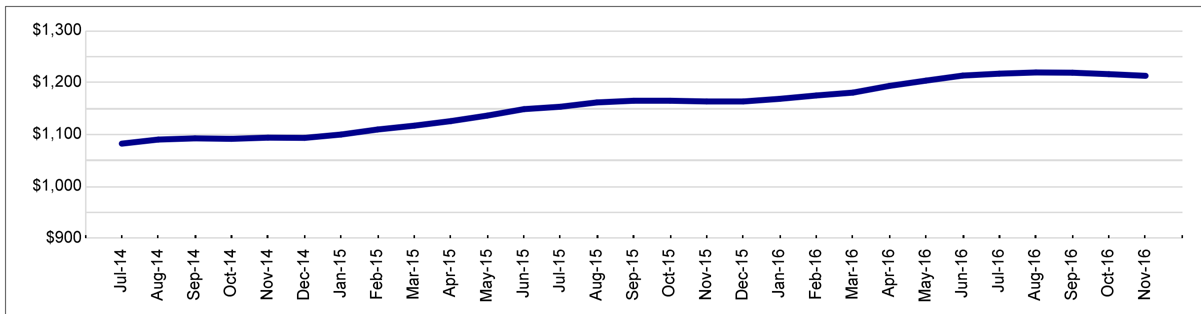
Moderation Continues for Multifamily Rents

Average U.S. monthly rents fell slightly in November for the third straight month, as growth continues to moderate. Rents dropped by $2 in November, to $1,214, according to Yardi Matrix's monthly survey of 123 markets, and are down $5 from the peak reached in August. On a year-over-year basis, rents grew 4.3% nationwide in November, a 10-basis-point decline from October and a 240-basis-point drop from the recent high of 6.7%, in October 2015.

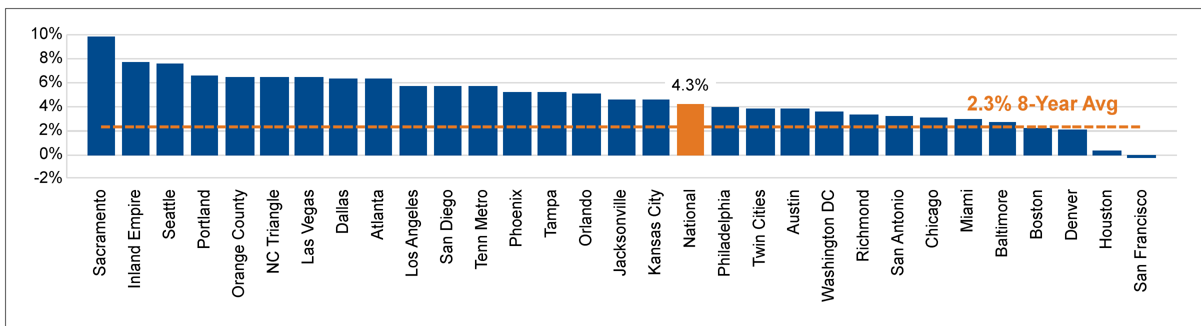
Reasons for the decline include seasonality and the ongoing supply-demand imbalance in the luxury sector of many markets. Rent growth normally slows or reverses in the latter part of the year, as fewer people move during the holidays. The other reason for the slowdown is the drop in growth in the high-end Lifestyle segment, which declined by 0.2% in the trailing three-month period. The increased supply of Lifestyle units puts pressure on the segment's performance, particularly in markets with weakening job growth. Sacramento still leads the nation year-over-year, though the metro's growth rate has moderated to 9.0%.

Despite the moderation, we once again stress that the multifamily market will be in good shape going forward. Rent growth remains 200 basis points above the long-term average and fundamentals are strong. The occupancy rate for stabilized properties—at 95.8%—has moved only slightly despite the addition of 300,000 new units in 2016. That reflects robust absorption in most metros that we expect will continue, no matter who occupies the White House. In fact, while the results of the recent U.S. election—with Donald Trump winning the presidency and Republicans gaining complete control of Congress—will bring major change in policies, producing both opportunities and challenges for commercial real estate, the basic strength of the multifamily market is likely baked in by demographics and social trends.

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.

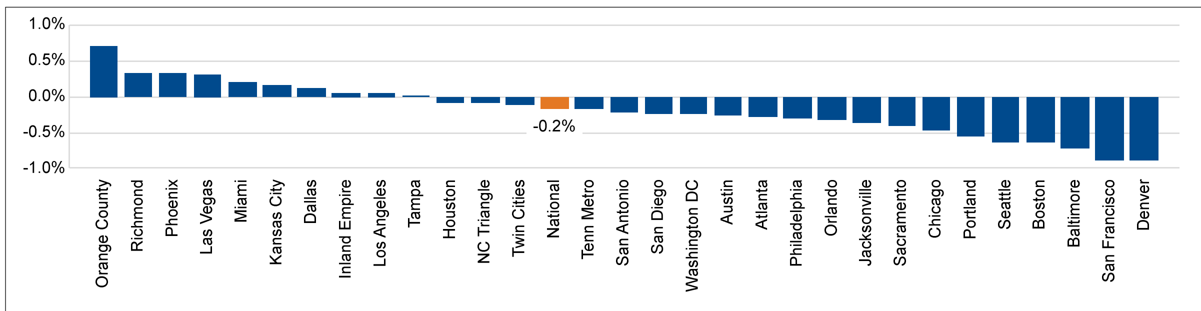
Trailing 3 Months: Lifestyle Weakness Drops T3 Rents

Nationally, multifamily rents fell 0.2% on a trailing three-month (T-3) basis in November, marking a 20-basis-point decline from October. The T3 numbers reflect a mixture of seasonality and the impact of supply and affordability issues, particularly in higher-end Lifestyle properties, where rents fell -0.4%. Rents in the working-class Renter-by-Necessity (RBN) segment were unchanged. Two-thirds (20) of the top 30 metros had negative T-3 growth overall, while 23 had negative growth in the Lifestyle segment.

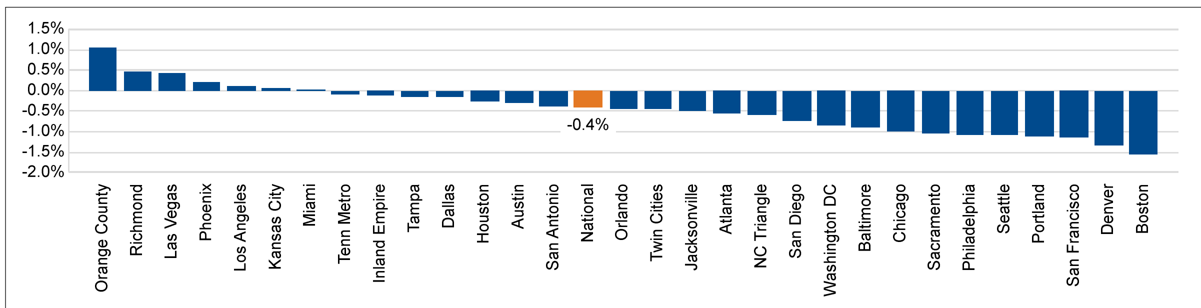
The T-3 survey captures short-term changes in rents that may or may not be indicative of future trends, but overall, the losers were led by Denver (-0.9%), San Francisco (-0.9%), Baltimore (-0.7%), Boston (-0.6%), Seattle (-0.6%) and Portland (-0.6%). Most of those metros were at the high end of rent growth earlier in the year; the flip to the bottom reflects the facts that rents were due to revert to the mean and/or that the markets are feeling the pinch of new supply. In particular, Denver, San Francisco, Seattle and Portland are high-growth metros that will continue to see strong demand and job growth, though rent increases are likely to stabilize at lower levels, following the huge run-ups.

On the high end of the ranking are mostly warm-weather metros where seasonality is less of a factor, including Orange County (0.7%), Richmond (0.3%), Phoenix (0.3%), Las Vegas (0.3%) and Miami (0.2%).

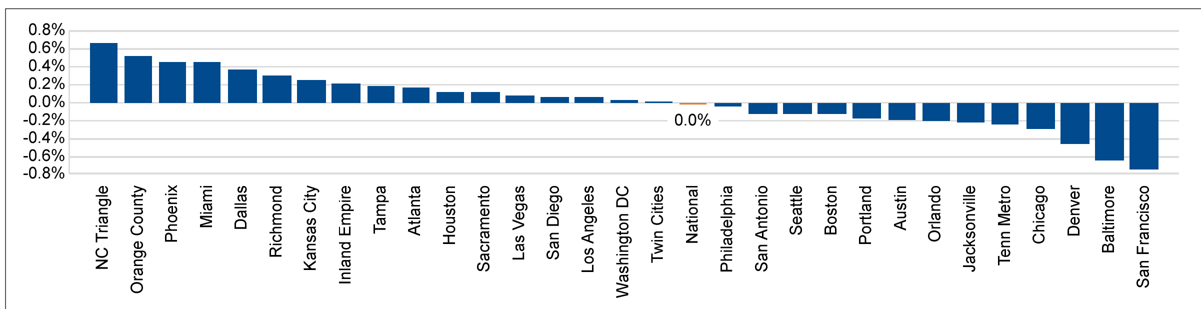
Trailing 3 Months Sequential—All Asset Classes



Trailing 3 Months Sequential—Lifestyle Asset Class



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

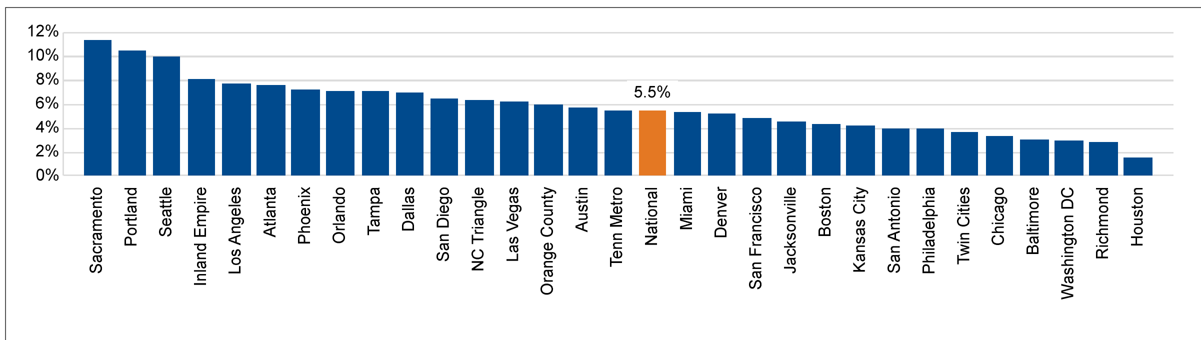


Trailing 12 Months: Pacific Northwest Metros Still Top T12 Ranking

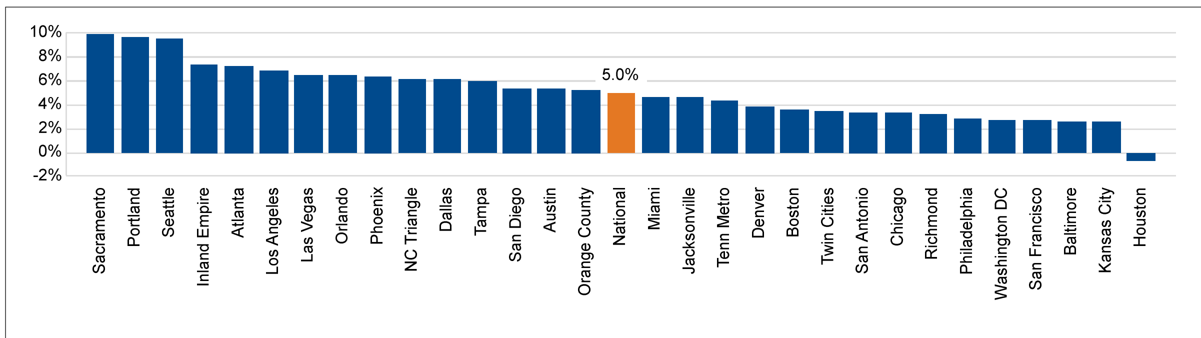
Rents grew at 5.5% on a trailing 12-month (T-12) basis in November, down 20 basis points from the previous month. Renter-by-Necessity once again led the gains, with 5.8% growth, compared to 5.0% for Lifestyle. The T-12 survey represents the change in the average rent during the preceding one-year period compared to the previous one-year period.

Because they are averaged, T12 rankings move slowly. November rankings are led by West Coast metros Sacramento, Portland and Seattle, even as growth in the latter two has slowed on a year-over-year basis, which is consistent with the experience of most metros. Of our top 30 metros, 22 were within 200 basis points of the national average year-over-year. That reflects a move to more stable conditions nationwide. Growth is moderating in some metros, such as San Francisco, while others were down and are moving up. Washington, D.C., and Richmond, for example, show recent improvement in their year-over-year numbers.

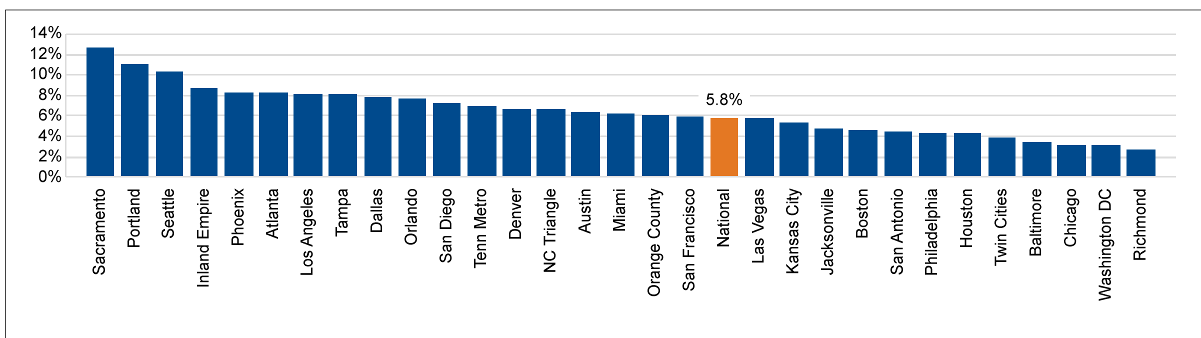
Trailing 12 Months Year-Over-Year—All Asset Classes



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

Will the change in administrations come January have a major impact on the multifamily market? Probably not—at least in the short term. Most important, demand for apartments is the result of long-term demographic developments that include the growth of the prime-renter-age Millennial generation and the increasing number of retirees among the large Baby Boomer cohort. Social trends—such as preference to live in urban areas without cars, later marriages, fewer children and inability to raise down payments for mortgages—are likely to continue.

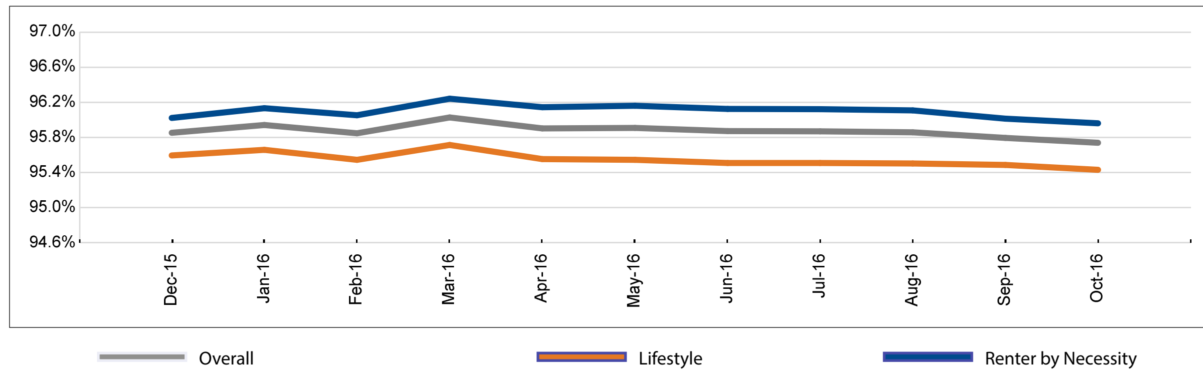
No doubt there will be policy shifts that affect real estate. Interest rates are rising, with 10-year U.S. Treasury rates up roughly 50 basis points in the weeks following the election. That will increase the cost of debt financing and has the potential to push acquisition yields up if rates go much higher. Republicans have pledged to cut regulations on businesses, which is expected to spur economic growth. Restrictions on banks (including Dodd-Frank, higher capital levies and stress tests) that have led to reduced lending, particularly on new construction, are likely to be cut back. That will free capital for more development, which is good if it doesn't also erode the market discipline that has largely prevented overdevelopment during the current recovery. There remains a lot unknown about potential changes to policies of direct impact, such as reform of the government-sponsored enterprises, which are the main lenders on multifamily properties. The bottom line is that any major policy changes, if there are any, will take time to implement and go into effect.

Market	Y-o-Y Job Growth (6-mo. moving avg.) as of September 2016	Completions as a % of Total Stock as of November 2016	Occupancy Rates as of September 2016	Occupancy Rates as of October 2016
San Francisco	3.0%	2.1%	96.4%	96.3%
Sacramento	2.5%	0.7%	96.9%	96.9%
Portland	2.9%	3.4%	96.1%	96.1%
Dallas	3.6%	2.0%	95.9%	95.9%
Seattle	3.6%	4.5%	96.1%	96.1%
Los Angeles	2.2%	1.7%	96.9%	96.8%
Inland Empire	2.8%	1.4%	96.6%	96.5%
Atlanta	2.9%	1.9%	95.1%	95.2%
Orlando	4.0%	3.3%	96.2%	96.1%
Denver	3.2%	4.6%	95.8%	95.6%
Austin	3.6%	5.1%	95.3%	95.2%
Miami	2.7%	2.9%	95.5%	95.6%
Tampa	3.0%	1.5%	95.6%	95.5%
San Diego	2.4%	2.4%	97.2%	97.0%
Phoenix	3.0%	2.7%	95.5%	95.2%
Orange County	2.9%	1.3%	97.1%	96.9%
Las Vegas	2.6%	1.7%	95.2%	95.2%
Nash/Knox	2.9%	3.4%	96.4%	96.4%
Jacksonville	3.8%	1.0%	95.3%	95.1%
Houston	0.4%	3.1%	93.8%	93.7%
San Antonio	2.3%	4.3%	94.6%	94.5%
Kansas City	1.2%	1.8%	95.5%	95.3%
Boston	1.8%	2.8%	96.8%	96.8%
NC Triangle	2.5%	3.4%	96.0%	95.9%
Chicago	1.4%	2.2%	95.9%	95.9%
Twin Cities	1.7%	1.6%	97.7%	97.7%
Richmond	1.8%	0.9%	95.5%	95.4%
Philadelphia	2.2%	1.6%	96.2%	96.2%
Washington, D.C.	2.3%	2.4%	96.2%	96.1%
Baltimore	2.1%	1.6%	95.5%	95.4%

Occupancy and Asset Classes

The occupancy rate for stabilized properties nationally was unchanged at 95.8% in October. Renter-by-Necessity properties remained at 95.9%, while Lifestyle occupancy was unchanged at 95.6%. The only metros in which occupancy changed by more than 10 basis points in either direction were Phoenix at -0.3% and Denver, San Diego, Orange County, Jacksonville and Kansas City, all at -0.2%.

Occupancy—All Asset Classes by Month

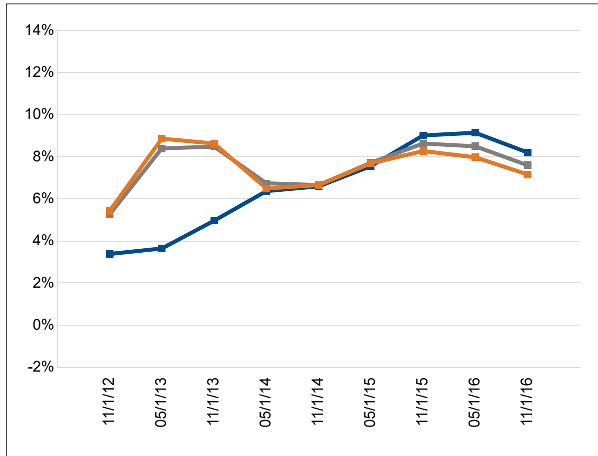


Year-Over-Year Rent Growth, Other Markets

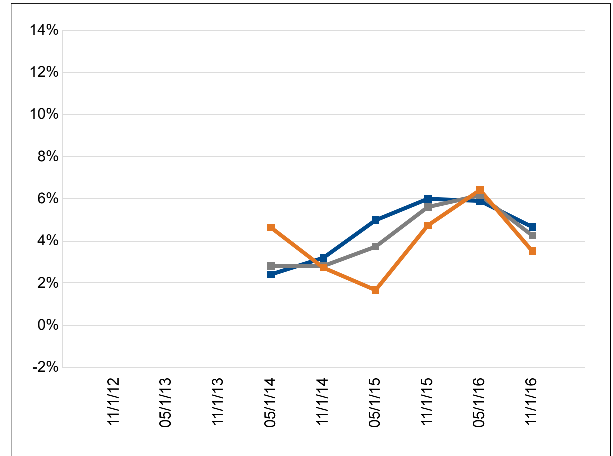
Market	November 2016		
	Overall	Lifestyle	Renter by Necessity
Tacoma	12.1%	12.4%	11.9%
Reno	10.6%	13.0%	9.4%
Colorado Springs	10.1%	12.9%	7.9%
Central Valley	8.1%	5.1%	8.6%
San Fernando	6.9%	7.7%	6.8%
SW Florida Coast	4.8%	3.0%	6.6%
Northern New Jersey	4.5%	3.1%	5.2%
Tucson	4.4%	8.1%	3.4%
NC Triad	4.1%	4.9%	3.6%
Louisville	4.0%	1.5%	4.6%
Indianapolis	3.6%	4.0%	3.4%
Long Island	2.9%	5.3%	2.2%
Albuquerque	2.7%	4.4%	1.5%
St. Louis	2.7%	2.3%	2.8%
Central East Texas	2.2%	3.1%	2.0%
Bridgeport - New Haven	1.0%	0.1%	1.6%
El Paso	-0.2%	0.0%	-0.3%

Market Rent Growth by Asset Class

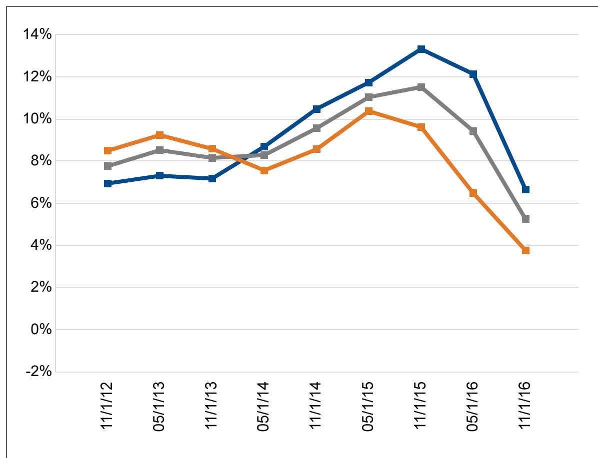
Atlanta



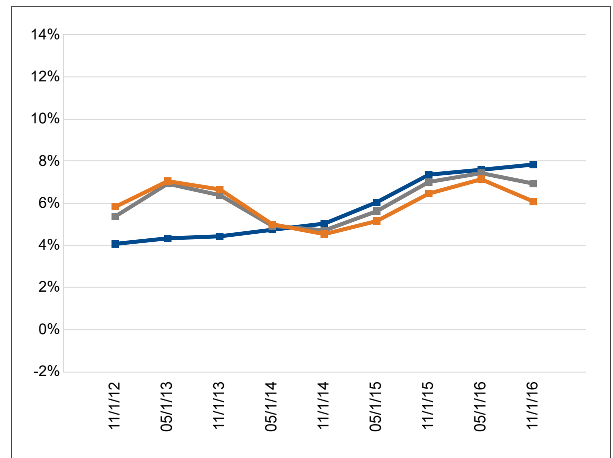
Boston



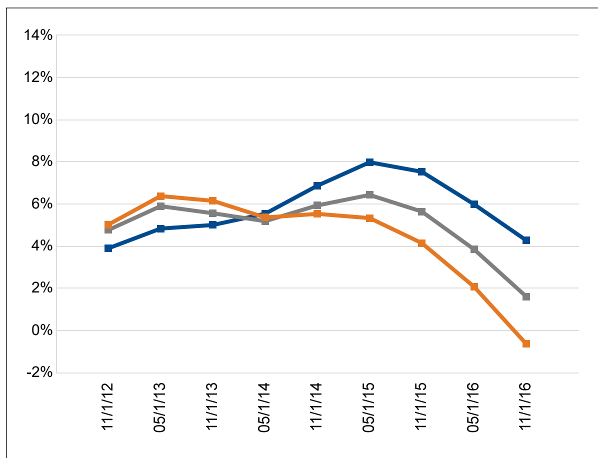
Denver



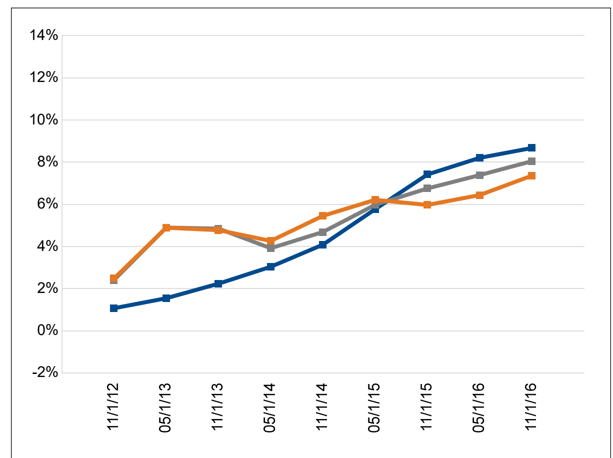
Dallas



Houston

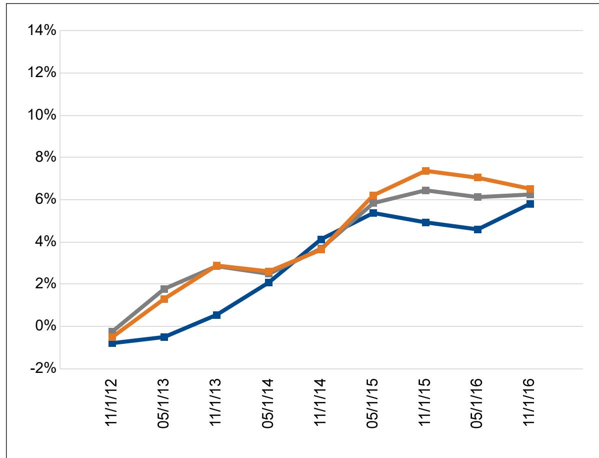


Inland Empire

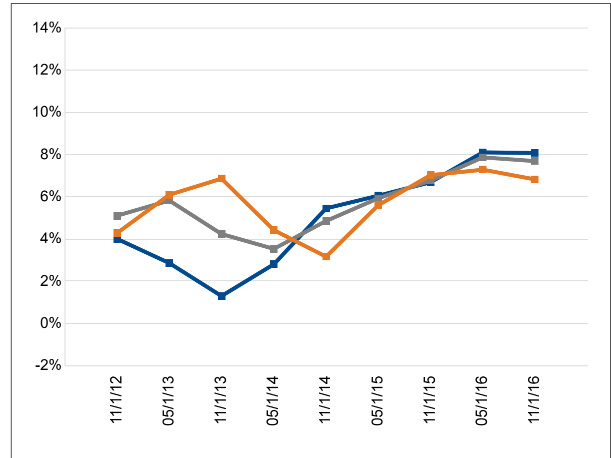


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter by Necessity

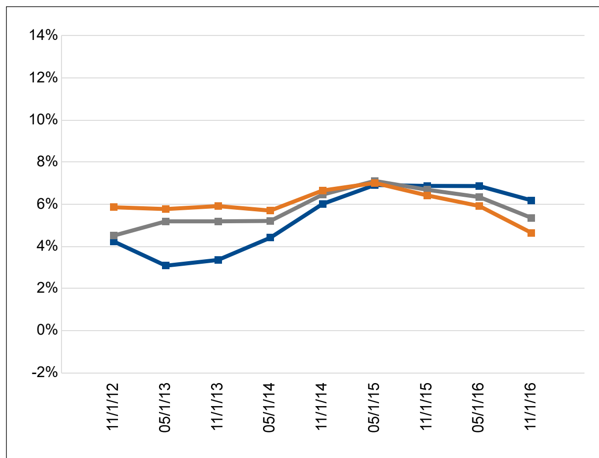
Las Vegas



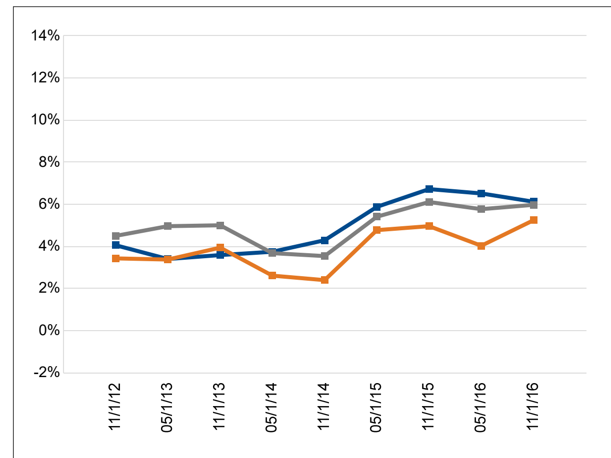
Los Angeles



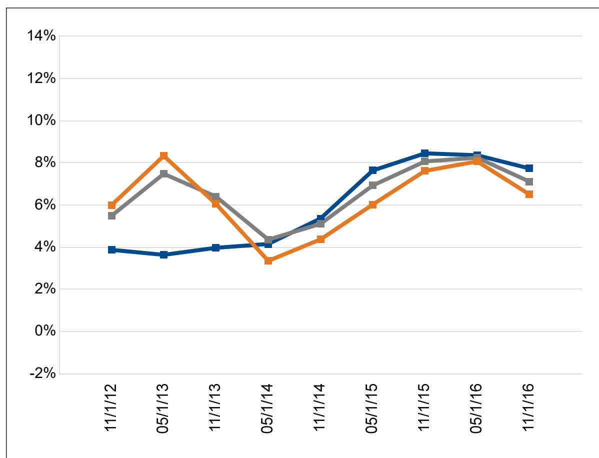
Miami



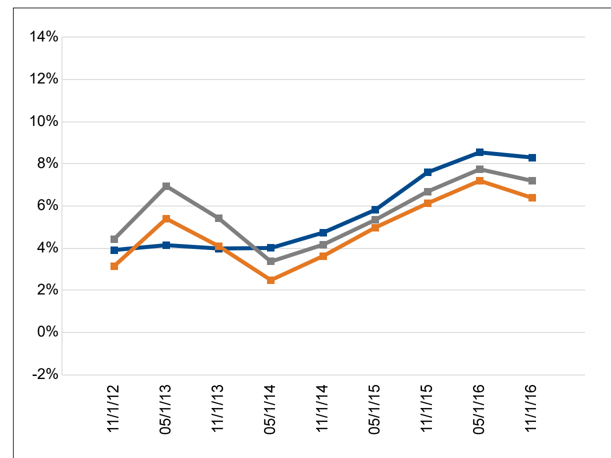
Orange County



Orlando

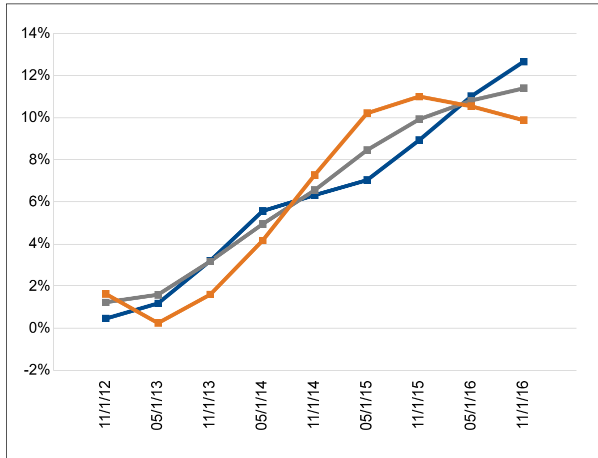


Phoenix

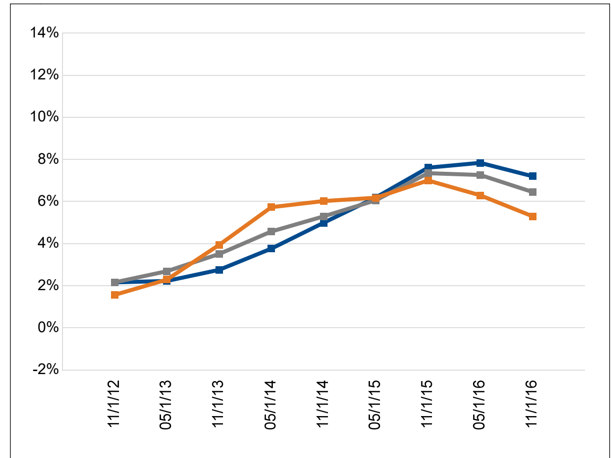


Trailing 12 Months Overall — Trailing 12 Months Lifestyle — Trailing 12 Months Renter by Necessity

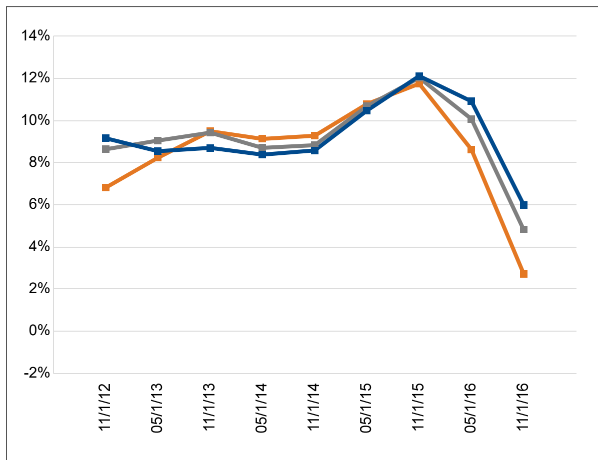
Sacramento



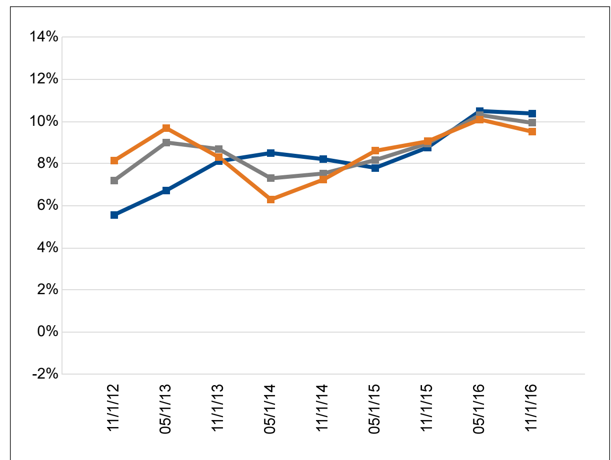
San Diego



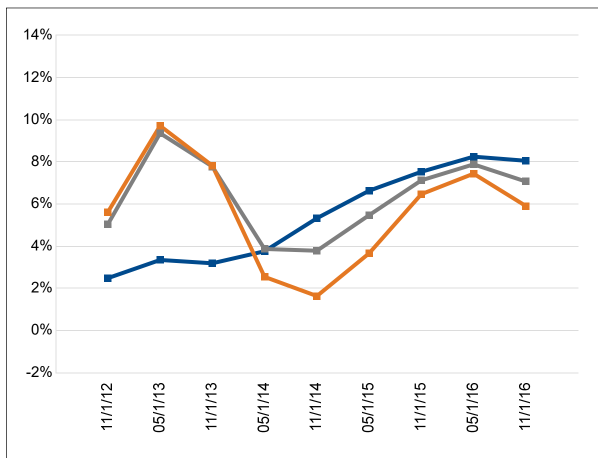
San Francisco



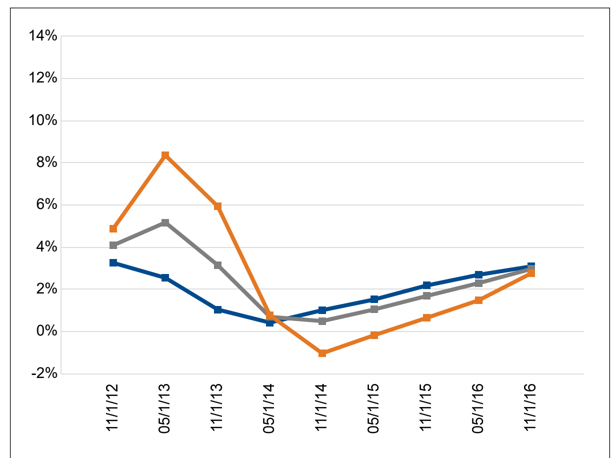
Seattle



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, 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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