Yardi Matrix

National Multifamily Report

October 2020

Growing Divergence Between Primary, Secondary Markets

- Multifamily rents were flat for the third consecutive month in October, but the national numbers appear misleading, as the sector is experiencing an ever-increasing divergence between outperforming and underperforming markets. On a year-over-year basis, rents fell 0.6% nationwide.
- Secondary and tertiary markets are performing the best, as high costs and limited community amenities drive outmigration from gateway markets. The Inland Empire (6.0%), Sacramento (5.0%), Las Vegas (3.9%) and Phoenix (3.8%) lead our top 30 markets, with each market benefiting from migration out of the Bay Area and Los Angeles.
- Not surprisingly, New York (-10.0%), San Francisco (-8.2%), Washington, D.C. (-3.7%), Boston (-3.1%), Chicago (-2.9%) and Los Angeles (-2.8%) all fell at or near the bottom of our rankings.

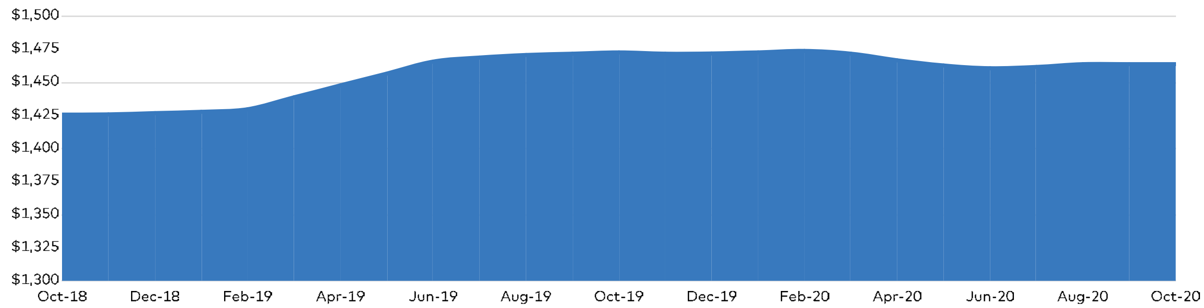
With each passing month, outmigration from large gateway markets to secondary and tertiary tech hubs is amplifying. At this point, the apparent winners are markets in close proximity to large gateways but with significantly lower costs of living.

The Inland Empire (6.0%) and Sacramento (5.0%) lead our top 30 market rankings for year-over-year rent growth, as the neighboring Los Angeles and San Francisco continue to bear the brunt of renters moving out. The average rent in the Inland Empire ($1,669) is 23% less than the average rent in Los Angeles, and the average rent in Sacramento ($1,609) is 34% less than the average rent in San Francisco. As many workers, especially those in creative and knowledge-based industries, enjoy increased flexibility to work remotely, many individuals are weighing the costs and limitations of gateway markets versus the benefits of smaller cities and are choosing to relocate.

The same is happening in tertiary markets, with Boise (8.1%), Huntsville (6.8%) and Portland, Maine (6.5%) leading all markets in rent growth. These tertiary markets have a strong tech presence and are attracting people from expensive coastal markets. Other popular tech hubs including Tampa (2.8%), Atlanta (1.9%), Charlotte (1.6%) and Raleigh (0.6%) may have lower rent growth, but that is likely a function of continued significant new supply. Demand remains strong, as gateway residents are not only moving to nearby secondary metros but also relocating to other tech hubs in the Sun Belt and Southwest.

Primary markets will not suffer forever, but their recovery will depend on how much newly relocated individuals enjoy their adopted homes and cities and whether they choose to stay.

National Average Rents



National averages include 132 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by YardiMatrix.

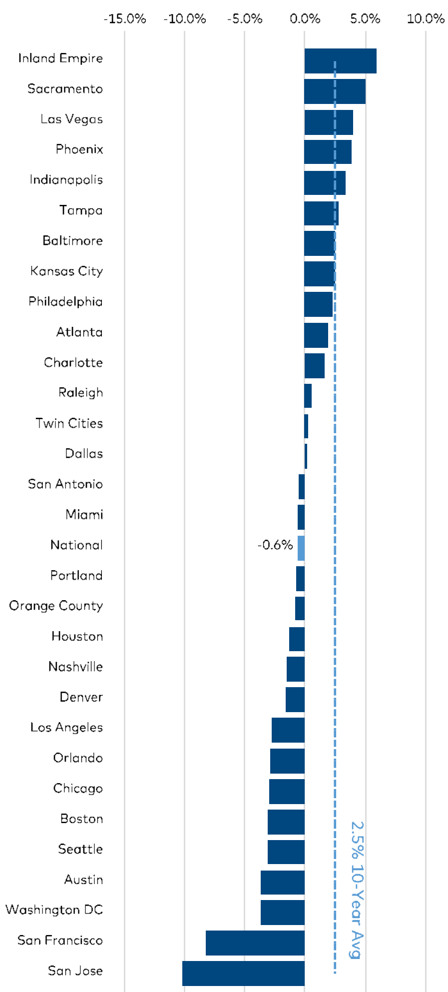
Year-Over-Year Rent Growth: Lower-Cost Metros Continue to Outperform

- Rents declined 0.6% year-over-year in September, despite remaining flat for the past three months. While the national growth rate continues to tick steadily lower, the story remains split between dense urban cores and less dense suburban and secondary market locations.

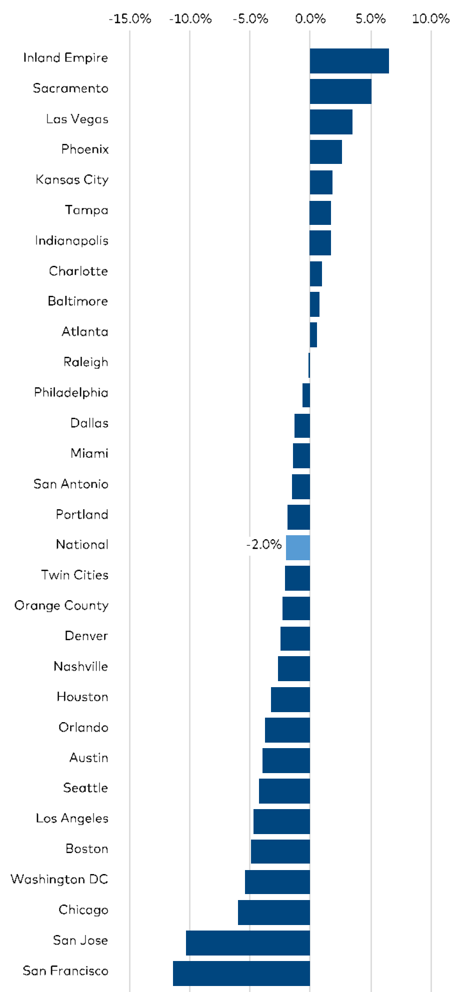
- San Jose (-10.2%), New York (-10.0%) and San Francisco (-8.2%) are the slowest-growing markets, impacted by the tech industry having led the remote work movement. Firms including Google, Facebook and Salesforce made it abundantly clear that employees do not need to return to the office until mid-2021 at the earliest. With many Bay Area and New York cultural amenities closed, residents are relocating. The question now shifts to, "Will these relocations be temporary or permanent?"

- Lifestyle assets (-2.0% nationally) trail Renter-by-Necessity assets (1.1%) as housing affordability continues to be a key issue on many people's minds.

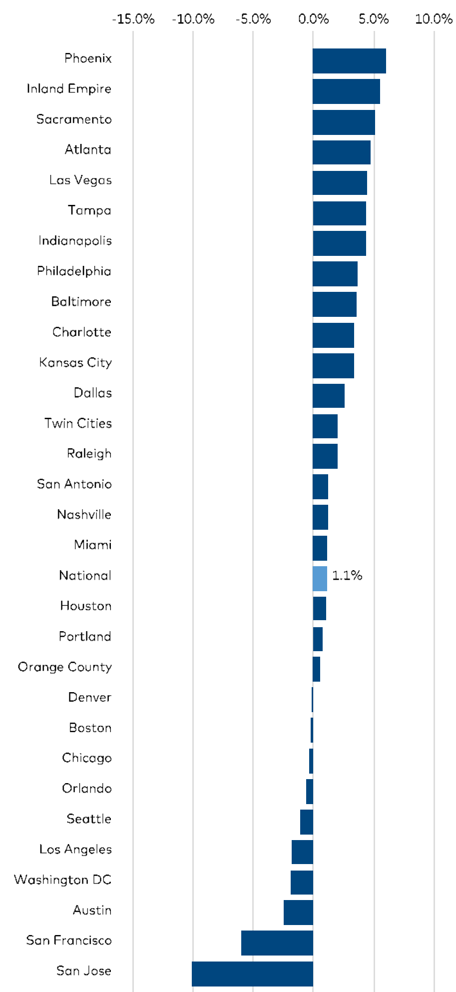
Year-Over-Year Rent Growth— All Asset Classes



Year-Over-Year Rent Growth— Lifestyle Asset Class



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



Source: Yardi Matrix

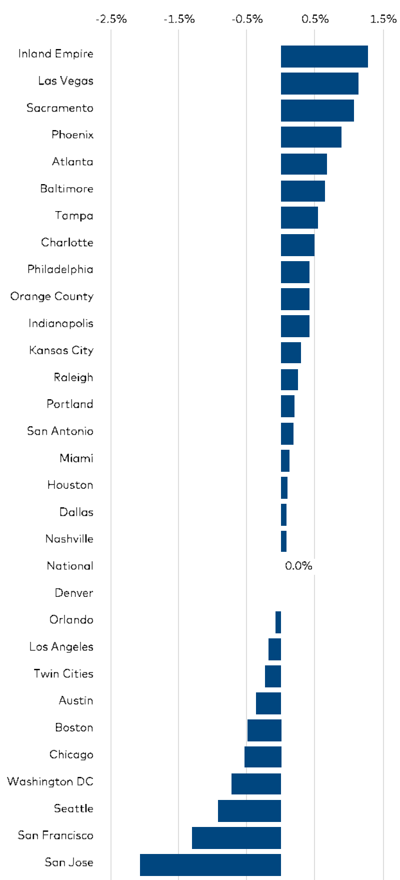
Short-Term Rent Changes: 2020 Has a New Leasing Season in Some Secondary Cities

- Short-term rent growth was flat in October nationwide. However, most secondary markets saw rents increase month-over-month.
- In addition to the six gateway markets, only Orlando, Austin, Seattle and Minneapolis experienced month-over-month rent declines.

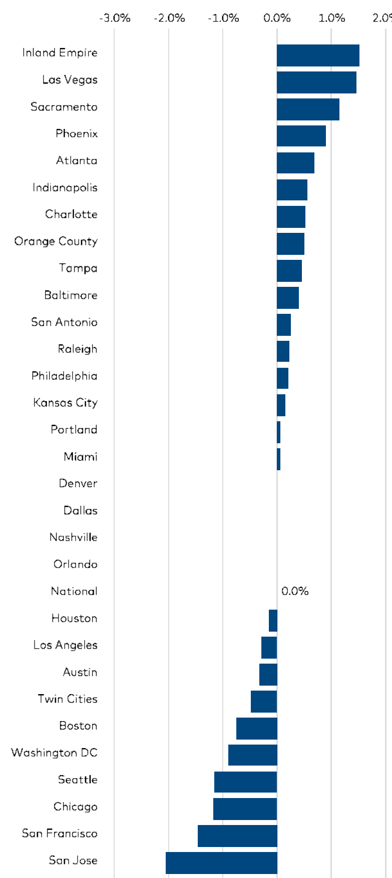
Rents were flat month-over-month in October for the third consecutive month. However, secondary markets made significant rent gains, with the Inland Empire, Las Vegas, Sacramento and Phoenix all increasing 1 percent or more on a monthly basis. These markets tend to outperform during fall and winter months, as they are not susceptible to seasonal weather that slows renting in northern markets, but this year's performance is even better than normal, as migration into these markets continues to increase.

Rents are falling in gateway markets, as some analysts predict five years of outmigration has been accelerated into the past six months. Dedensification to both suburban submarkets and smaller markets has hurt the urban cores of the major markets. Some secondary markets—including Seattle, Austin and Minneapolis—are also getting squeezed on both rent and occupancy, specifically in their urban submarkets.

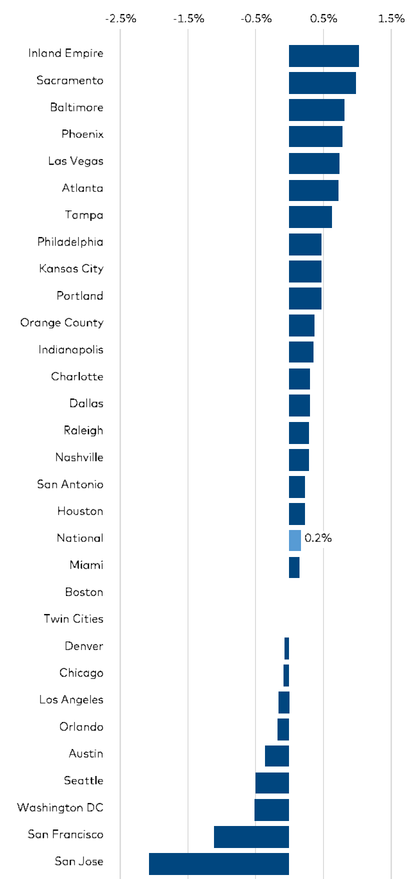
Month-Over-Month Rent Growth—All Asset Classes



Month-Over-Month Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Employment and Supply Trends; Forecast Rent Growth

- The employment market continues to recover, as 638,000 jobs were added back to the labor force in October and the unemployment rate fell to 6.9%, less than half of its peak from earlier this year.
- Jobless claims remain elevated, with more than 700,000 new unemployment claims filed each week. As cold winter temperatures further challenge the service industry to meet social distancing guidelines as COVID cases reach new peaks, it may be particularly beset by additional layoffs and furloughs.

Since the employment market bottomed out in late spring, job gains have been strong and steady on a monthly basis. However, our economy and our labor market are still far from their peak at the end of 2019 and the early months of 2020. In October, the unemployment rate fell below 7% nationwide, but a deeper look into the numbers shows that the current economic and employment situation varies drastically among wage and education levels.

Workers with a bachelor's degree or higher have suffered less job loss, as many knowledge-based positions have been able to transition to working remotely, with less impact on productivity. Unemployment rates for bachelor's degree holders have rebounded to near pre-recession levels. On the other hand, individuals without a high school diploma or with no secondary education continue to experience much higher levels of unemployment and a slower recovery.

Among specific employment sectors, service jobs—including restaurants, bars, hotels and entertainment venues—have been the hardest hit. The end of the summer offered some promise, as virus counts fell and warmer weather allowed people to socialize outside. However, in recent months, COVID-19 cases have spiked again. Not only are cooler temperatures forcing many businesses back inside but local governments are debating and beginning to implement new economic restrictions. Curfews, capacity limits and mask wearing are the preferred regulations at this point, but more restrictive protocols could be coming down the road.

President-elect Joe Biden has made public health and containing COVID-19 his main priority, which may have short-term negative effects on employment but will likely lead to a stronger and faster recovery in 2021. Promising news on Pfizer's COVID-19 vaccine has economists optimistic that the recovery will take place sooner than previously anticipated.

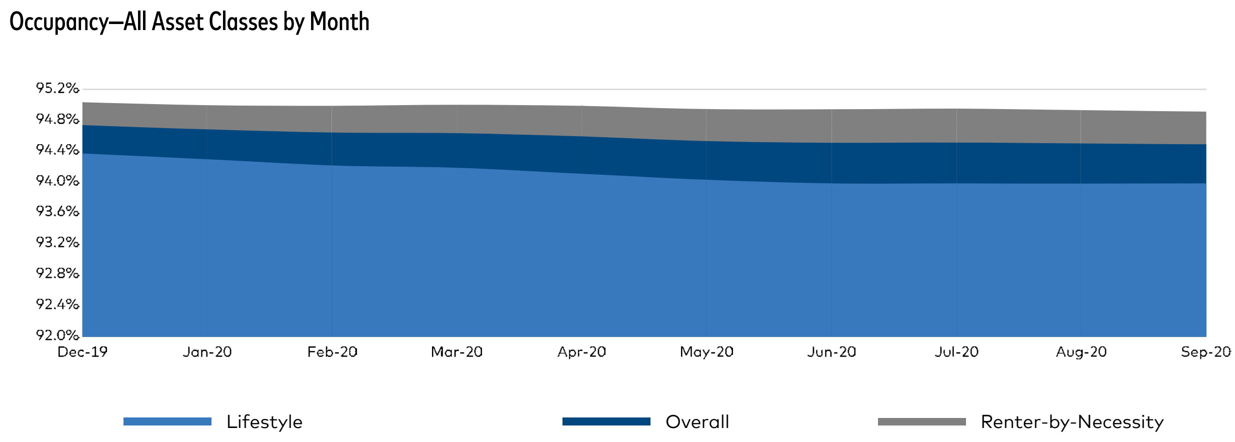
There will likely be another round of government stimulus, but given the divided Congress, the total package will be less than if the Senate had flipped Democratic. For apartment owners and operators, additional stimulus and unemployment benefits paid to residents will help cover housing costs, especially in the workforce housing sector, where job loss is most concentrated. As the pandemic grinds on, there does appear to be hope for an economic recovery on the horizon, although there may be a few more months of pain in the near term.

Employment and Supply Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Oct - 20	Forecast Rent Growth (YE 2020)	YoY Job Growth (6-mo. moving avg.) as of Sep - 20	Completions as % of Total Stock as of Oct - 20
Sacramento	5.0%	3.6%	-9.8%	1.7%
Inland Empire	6.0%	3.2%	-9.9%	1.7%
Phoenix	3.8%	2.9%	-4.2%	2.6%
Charlotte	1.6%	2.5%	-8.9%	3.1%
Kansas City	2.5%	2.4%	-6.2%	1.8%
Indianapolis	3.4%	2.1%	-5.9%	1.1%
Baltimore	2.6%	1.8%	-8.6%	1.1%
Tampa	2.8%	1.6%	-5.6%	1.6%
Las Vegas	3.9%	1.4%	-15.8%	1.3%
Atlanta	1.9%	1.2%	-6.1%	2.1%
Philadelphia	2.3%	1.0%	-10.5%	1.6%
Twin Cities	0.2%	0.6%	-9.5%	2.7%
Dallas	0.2%	0.5%	-4.7%	2.9%
Miami Metro	-0.6%	0.5%	-9.0%	3.1%
Raleigh	0.6%	0.3%	-9.7%	3.4%
San Jose	-10.2%	-8.5%	-9.2%	1.5%
San Francisco	-8.2%	-6.8%	-12.2%	2.0%
Austin	-3.6%	-3.4%	-5.1%	4.1%
Boston	-3.1%	-2.9%	-12.9%	2.5%
Washington DC	-3.7%	-2.7%	-7.5%	2.0%
Portland	-0.7%	-2.6%	-9.5%	2.6%
Los Angeles	-2.8%	-2.2%	-10.9%	2.1%
Orange County	-0.8%	-2.1%	-12.5%	0.9%
Orlando	-2.8%	-2.1%	-10.5%	2.8%
Houston	-1.3%	-1.9%	-6.4%	2.0%
Nashville	-1.5%	-1.8%	-7.7%	2.8%
San Antonio	-0.5%	-1.7%	-5.5%	2.6%
Chicago	-2.9%	-1.6%	-9.6%	2.3%
Denver	-1.6%	-0.8%	-6.5%	4.8%
Seattle	-3.1%	-0.4%	-10.0%	2.9%

Source: Yardi Matrix

Occupancy & Asset Classes



Source: Yardi Matrix

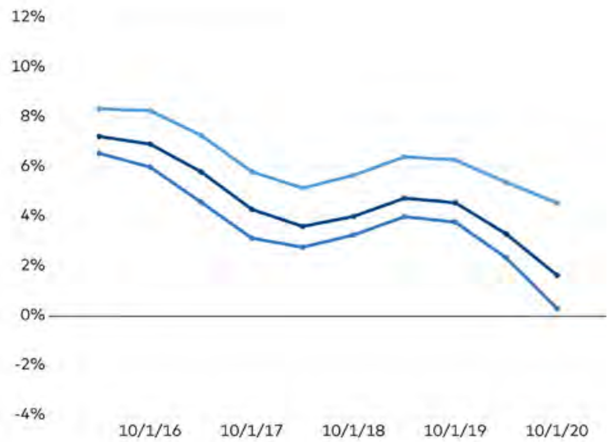
Year-Over-Year Rent Growth, Other Markets

Market	October 2020		
	Overall	Lifestyle	Renter-by-Necessity
NC Triad	5.5%	4.4%	6.4%
Central Valley	5.5%	5.4%	5.8%
Tucson	5.0%	2.3%	6.4%
Albuquerque	4.9%	4.6%	5.1%
Tacoma	4.7%	4.7%	5.0%
Reno	4.5%	5.2%	4.0%
Colorado Springs	3.7%	3.4%	3.9%
Central East Texas	3.4%	4.5%	2.4%
Indianapolis	3.4%	1.7%	4.3%
Long Island	3.0%	0.9%	4.0%
Jacksonville	2.8%	2.5%	3.4%
St. Louis	2.5%	0.3%	3.3%
El Paso	2.4%	0.9%	2.8%
Louisville	2.4%	2.2%	2.4%
Bridgeport–New Haven	2.1%	1.0%	3.1%
Salt Lake City	1.9%	0.2%	3.3%
SW Florida Coast	-0.4%	-0.4%	-0.1%
San Fernando Valley	-0.7%	-2.5%	0.3%
Northern New Jersey	-0.8%	-3.9%	2.1%

Source: Yardi Matrix

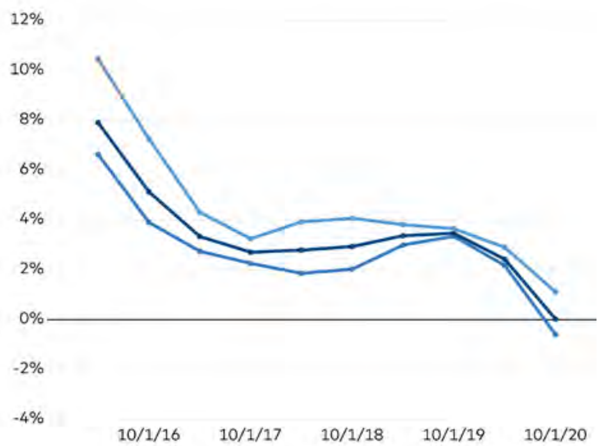
Market Rent Growth by Asset Class

Atlanta

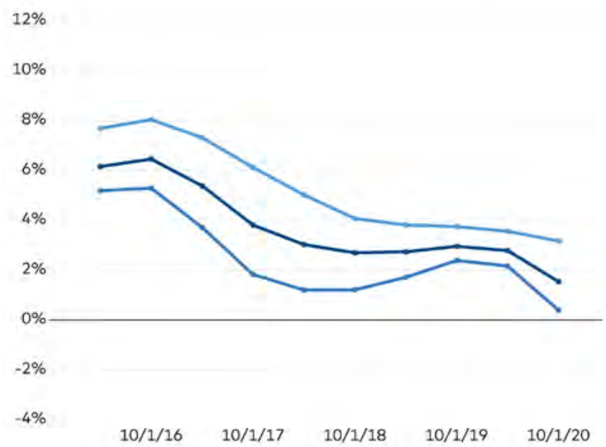


Boston

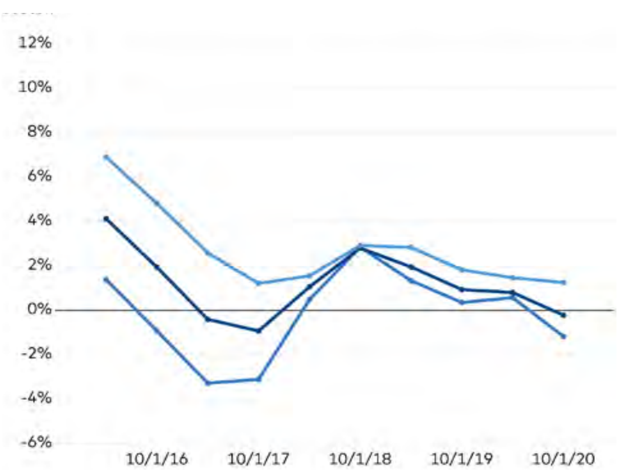
Denver



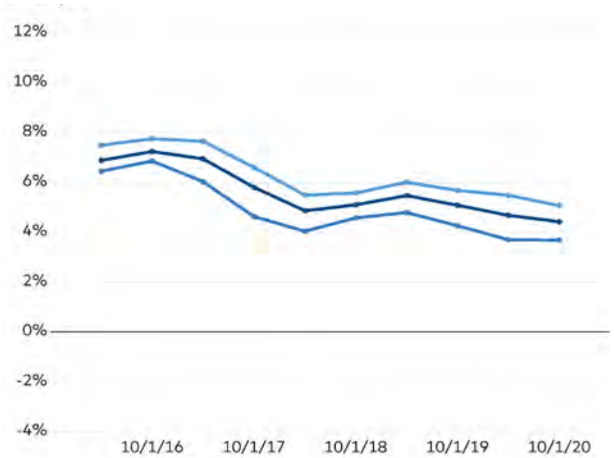
Dallas



Houston



Inland Empire

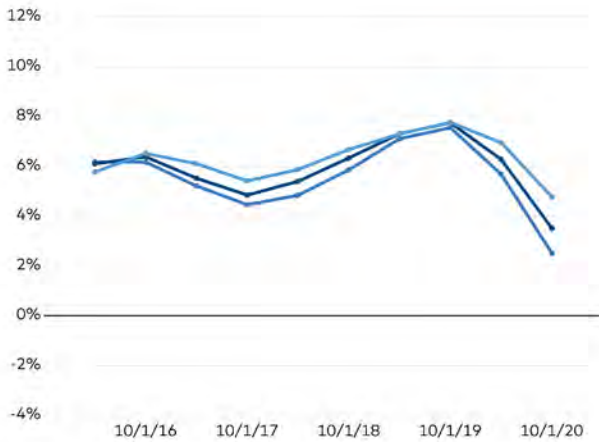


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

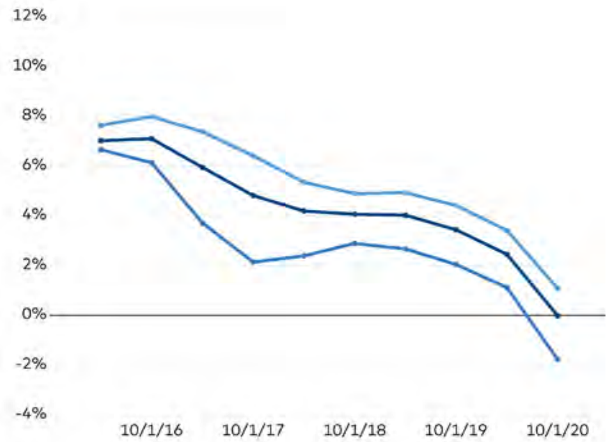
Source: Yardi Matrix

Market Rent Growth by Asset Class

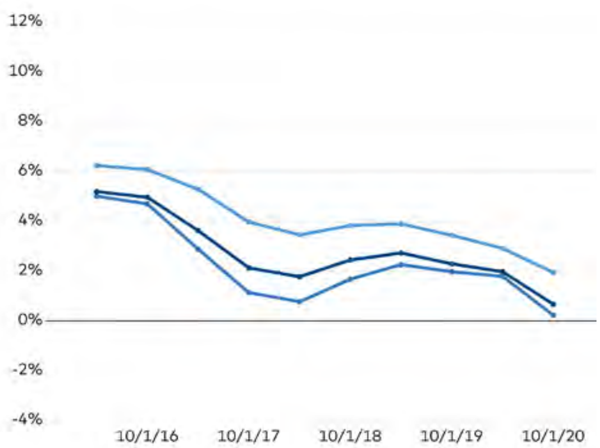
Las Vegas



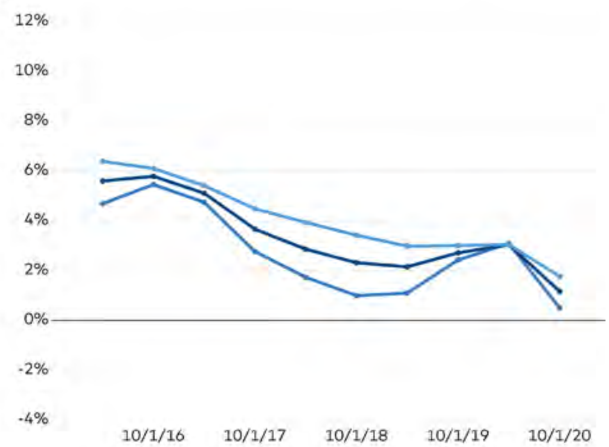
Los Angeles



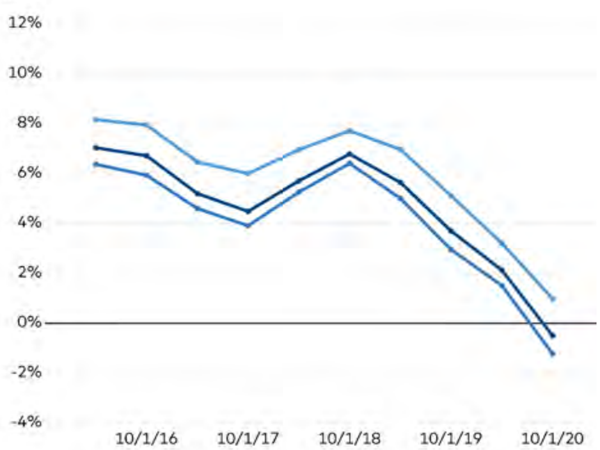
Miami



Orange County



Orlando



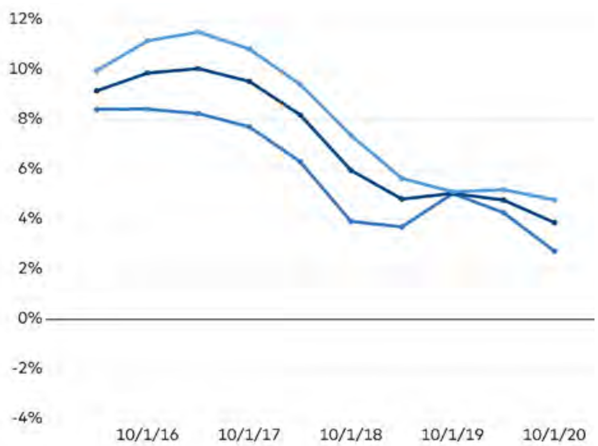
Phoenix

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

Source: Yardi Matrix

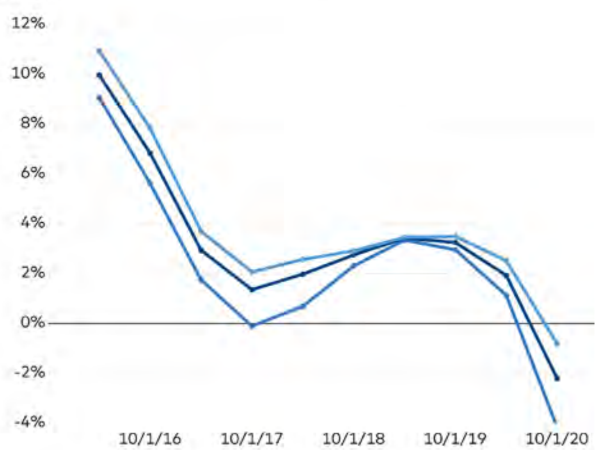
Market Rent Growth by Asset Class

Sacramento

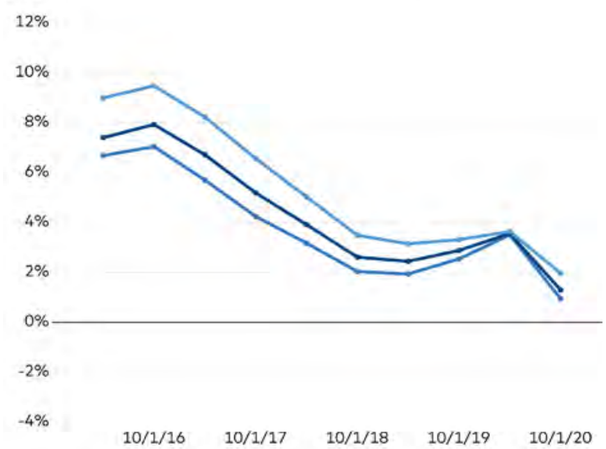


San Diego

San Francisco

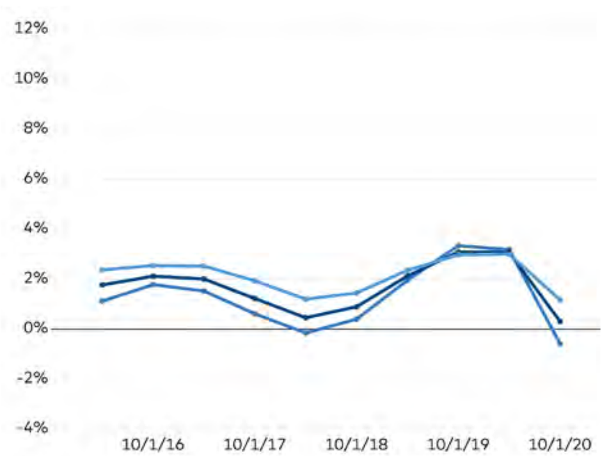


Seattle



Tampa

Washington, D.C.



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

Source: Yardi Matrix

Definitions

Reported Market Sets:

- National rent values and occupancy derived from core 60 markets with years of tracked data that makes a consistent basket of data
- All 133 markets, including any that have been recently released

Average Rents: Average Same-Store index rent (mean), rolled up from unit mix level to metro area level, weighted by units

Rent Growth, Year-Over-Year: Year-over-year change in average market rents, as calculated by same month

Rent Growth, Quarterly: Year-over-year change in average market rents, as calculated by same quarter average. Partially completed quarters are only compared to partial quarters.

Forecast Rent Growth: Year-over-year change in average forecasted market rents, as calculated by same month

Market rent: Converted rent that reflects of the effect of differences in relevant attributes that hold reasonably quantifiable value.

Actual (effective) rent: Monthly rate charged to residents to occupy an apartment and is shown as-is without additional concessions or adjustments.

Same-Store index rent: Rents adjusted to new supply as it joins the market

Employment Totals: Total employment figures and categories provided by Bureau of Labor Statistics, seasonally adjusted

Employment Data Geography: Comprises entirety of United States, which Matrix data covers 90% of US metro population. Reported information is for MSAs that overlap Matrix Markets.

Market: Generally corresponds to a Standard Metropolitan Statistical Area (SMSA), as defined by the United States Bureau of Statistics, though large SMSA are split into 2 or more Markets

Metro: 1 or more Matrix markets representing an economic area. Shown with combined Matrix markets when necessary, and do not necessarily fully overlap an SMSA.

Occupancy Rates: Ratio of occupied unit count and total unit count, as provided by phone surveys and postal records. Excludes exception properties: closed by disaster/renovation, affordable, and other relevant characteristics.

Completions as % of Total Stock: Ratio of number of units completed in past 12 months and total number of completed units

Ratings:

- Lifestyle/Renters by Choice
- Discretionary—has sufficient wealth to own but choose rent
- Renters by Necessity
- High Mid-Range—has substantial income but insufficient wealth to acquire home/condo
- Low Mid-Range—Office workers, police officers, technical workers, teachers, etc
- Workforce—blue-collar households, which may barely meet rent demands and likely pay distortional share of income toward rent
- Other Categories
- Student—may span range of income capability
- Military—subject to relocation
- Subsidized—Partially to fully subsidized by a governmental agency subsidy. Can extend to middle-income households in high-cost markets.

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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