Yardi Matrix

National Multifamily Report

October 2022

Rate Hikes Loom Over the Industry as Rents Moderate

- Multifamily rents rose modestly in October amid weakening demand and decelerating year-over-year growth. U.S. asking rents increased $3 in October to $1,727. Year-over-year growth fell to 8.2%, the lowest level since the summer of 2021.

- The deceleration in asking rents remains gradual, as every one of the Matrix top 30 metros produced year-over-year rent increases. But there are worries about how the multifamily market will react to the rapid increase in short-term interest rates as the Federal Reserve attempts to reduce inflation.

- The single-family rental market is cooling from its recent red-hot performance. The average U.S. asking rent was unchanged at $2,088 in October, while the year-over-year increase fell by 160 basis points to 6.6%.

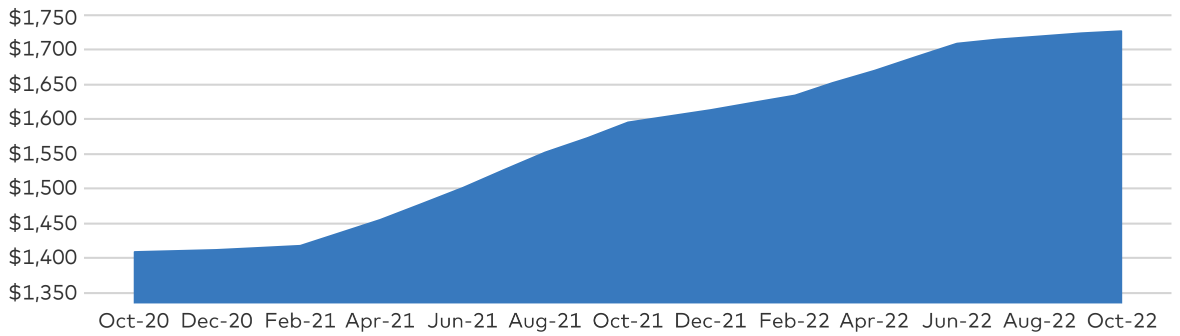
Deceleration of multifamily rents continued in October, with the average U.S. asking rent posting a small increase over the previous month while year-over-year growth fell by 130 basis points to 8.2%, down from its 15.3% peak in the first quarter. Despite softening rent growth, 25 of Matrix's top 30 metros have year-over-year growth of 5.0% or more. The U.S. occupancy rate has dropped 50 basis points over the past year, but the national 95.5% rate remains above the long-term average.

Despite the overall strong performance reflected in the current data, much of the attention in the industry has been taken over by the rapid growth in interest rates and the impact on demand and property values. The Federal Reserve last week increased short-term borrowing rates another 75 basis points, bringing the target range from 3.75% to 4%, the highest level since 2008. Just as important, Fed Chair Jerome Powell indicated that rates will keep increasing.

The inevitable economic slowdown raises questions about when the impact will start to be felt and how much the sector will be affected. Demand has weakened since the first quarter due to slowing job growth and concerns over the macroeconomic environment. The robust household formation that drove demand in 2021 is no longer in effect.

With debt costs higher and still rising, property sales and new construction are set to slow. It's difficult to trade when values are uncertain and banks are sure to cut back on financing construction for projects that have not yet broken ground, even though the country faces a housing shortage. Still, high rates create a sliver of good news for multifamily. With home mortgage rates up to 7.3% as of early November, first-time homebuyers are being frozen out of the market, according to the National Association of Realtors, and will be forced to remain in rentals.

National Average Rents



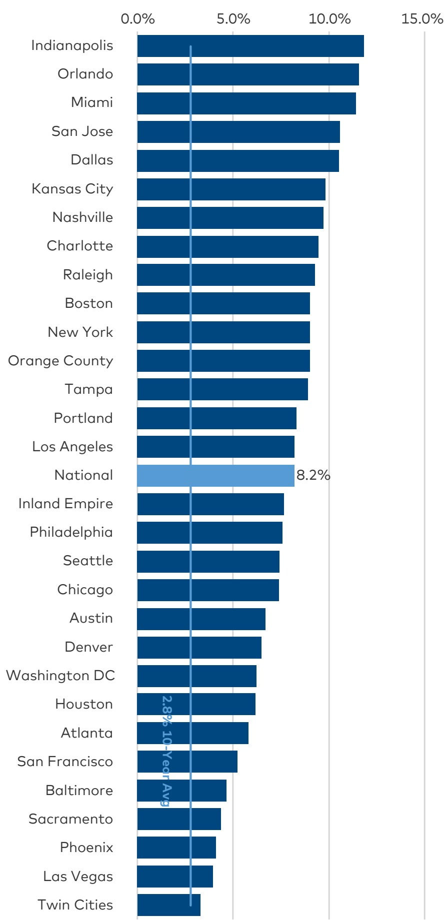
National averages include 136 markets tracked by Matrix, not just the 30 metros featured in the report.
All data provided by Yardi Matrix.

Year-Over-Year Rent Growth:
High-Flying Metros See Rent Growth Cooling

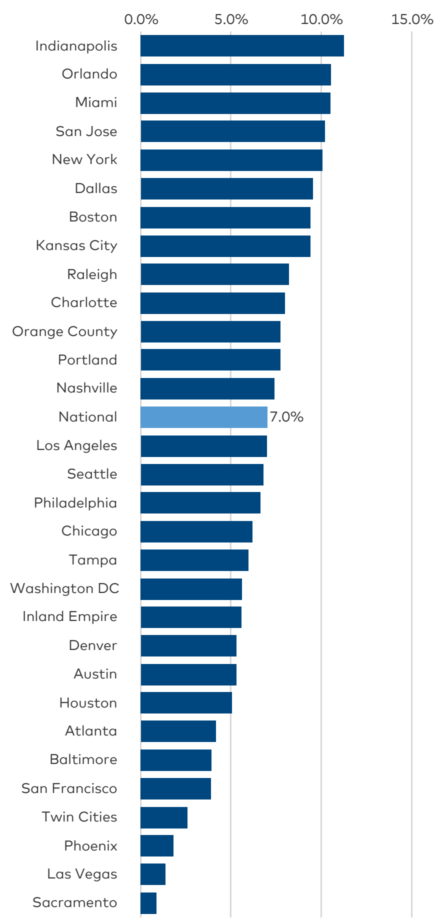
- As the entire market moderates, the outsize rent growth seen in many metros over the past 12-18 months is coming down. Just a few months ago, a handful of metros recorded 20%-plus rent growth. In October, only five of the Matrix top 30 metros produced double-digit year-over-year growth: Indianapolis (11.8%), Orlando (11.6%), Miami (11.4%), San Jose (10.6%) and Dallas (10.5%).

- One of the main drivers of cooling rent growth is weakening absorption. Occupancy rates of stabilized properties are negative year-over-year in 24 of the Top 30 metros and occupancies have fallen at least 0.5% in 19 of them. Metros in which occupancy rates have dropped by at least 1.0% year-over-year include the Inland Empire (-1.0%), Tampa and Atlanta (-1.1%), Sacramento (-1.3%), and Phoenix and Las Vegas (-1.8%).

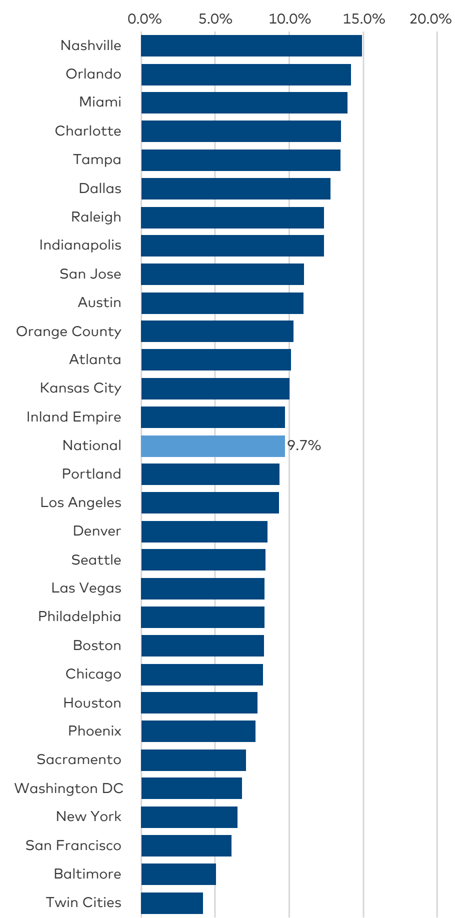
Year-Over-Year Rent Growth— All Asset Classes



Year-Over-Year Rent Growth— Lifestyle Asset Class



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



Source: Yardi Matrix

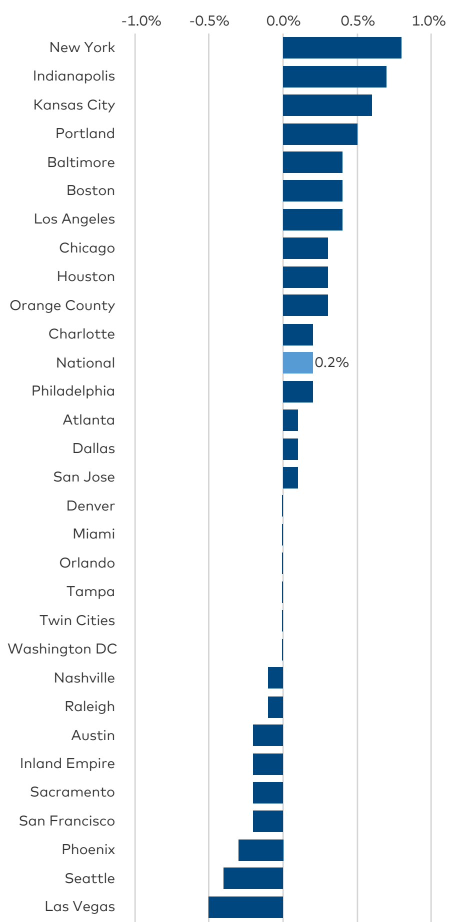
Short-Term Rent Changes:
Renter-by Necessity Units Account for October Increases

- Average U.S. multifamily rents rose $3, or 0.2%, in October.
- All of the gains came from the Renter-by-Necessity segment, which increased by 40 basis points in October, while rents in high-end Lifestyle units were unchanged.

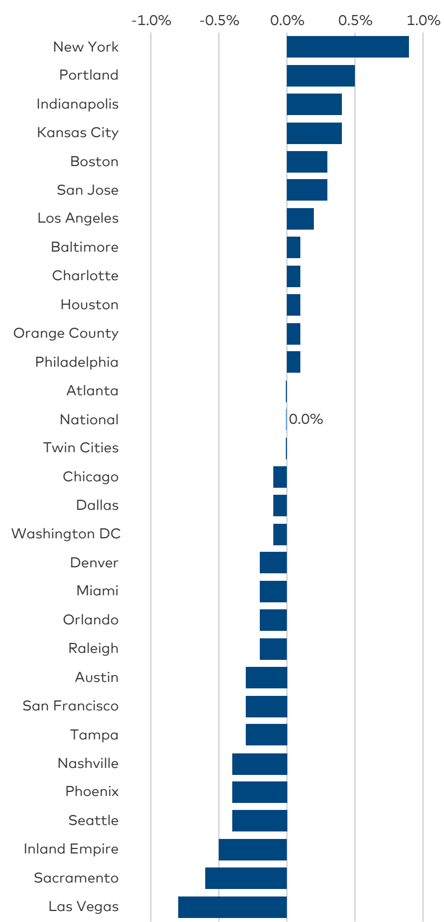
Multifamily asking rents continued to rise modestly in October, though cracks are starting to appear as absorption and demand start to weaken. Month-over-month rent growth in October was led by New York (0.8%), Indianapolis (0.7%), Kansas City (0.6%) and Portland (0.5%). These metros benefit from low levels of new supply that are less than the national average.

Once again there was a bifurcation of property quality. Sixteen of the Top 30 metros recorded negative growth in the Lifestyle category, led by Las Vegas (-0.8%), Sacramento (-0.6%) and the Inland Empire (-0.5%). Meanwhile, only four metros saw negative growth in Renter-by-Necessity units. While it is difficult to draw hard conclusions from monthly numbers, it could be a sign that renters are becoming unable or unwilling to pay high rents.

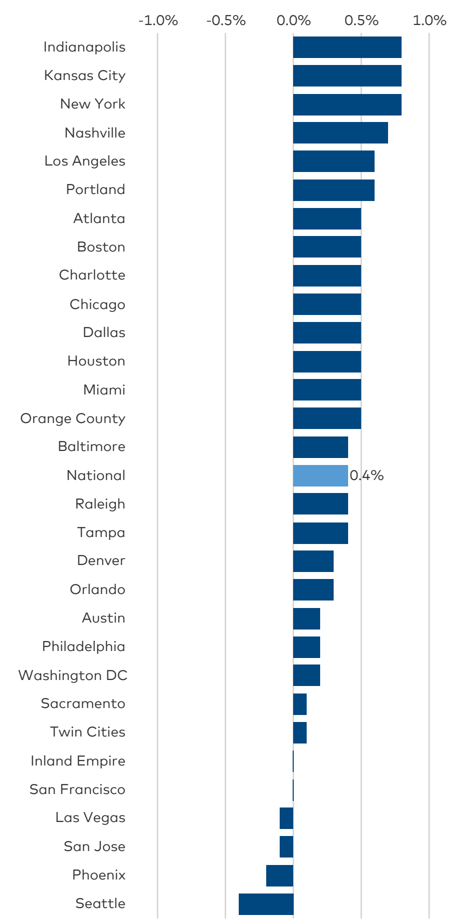
Month-Over-Month Rent Growth—All Asset Classes



Month-Over-Month Rent Growth—Lifestyle Asset Class



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



Source: Yardi Matrix

Transacted Rents:
Lease Renewals Continue Slide; Rent Growth Stays Strong

- National lease renewals fell in September to 60.2%, continuing a slide from the peak of 68.0% in the fourth quarter of 2021. The lower renewal numbers reflect a general weakening of overall demand and waning levels of affordability. Metros with the highest lease renewal rates in September include Philadelphia (73.8%), Kansas City (67.9%) and Baltimore (66.9%), while renewal rates were lowest in West Coast metros Los Angeles (41.6%), San Francisco (43.1%), San Jose (43.9%) and Seattle (50.2%).

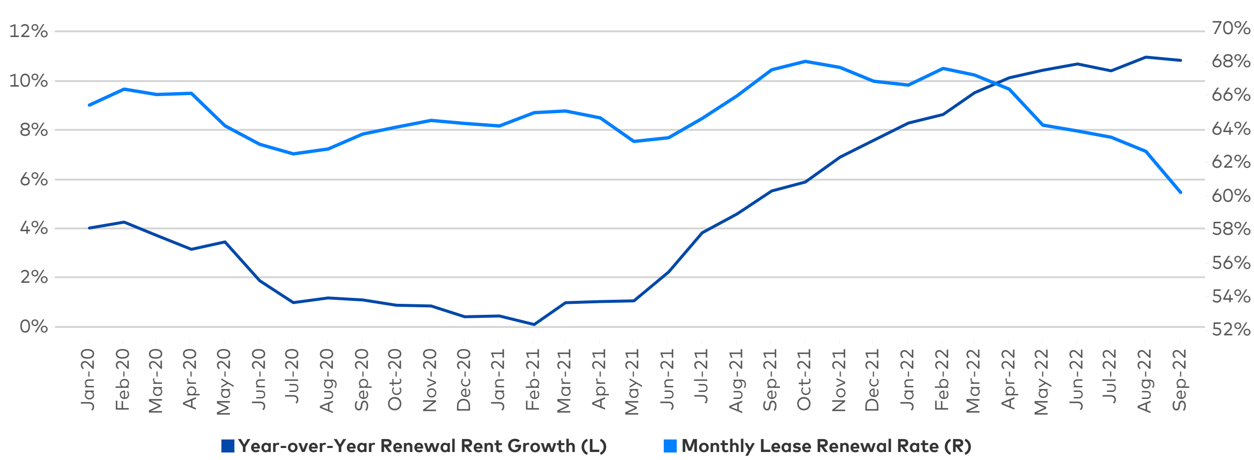
- National renewal rents increased 10.9% on a year-over-year basis in September, a slight 10-basis-point decline from August. Renewal rents are now rising faster than overall rent growth, and are rising significantly higher in some metros, which means they are likely to moderate.

Market	YoY Renewal Rent Growth	Monthly Lease Renewal Rate
Miami Metro	20.4%	63.6%
Tampa	19.1%	60.3%
Raleigh	18.8%	62.9%
Orlando	15.9%	62.5%
Nashville	15.7%	53.6%
Phoenix	15.0%	60.4%
Las Vegas	15.0%	61.0%
Charlotte	14.9%	57.1%
Austin	14.8%	57.3%
Dallas–Ft. Worth	14.2%	58.3%
Atlanta	12.0%	61.3%
Boston	11.2%	60.4%
Kansas City	10.7%	67.9%
New York	10.6%	63.0%
Denver	10.2%	55.4%

Market	YoY Renewal Rent Growth	Monthly Lease Renewal Rate
Sacramento	10.1%	55.0%
Baltimore	9.8%	66.9%
Inland Empire	9.8%	52.3%
Indianapolis	9.5%	61.9%
Orange County	8.8%	59.4%
Philadelphia	8.6%	73.8%
Portland	8.3%	54.4%
Washington DC	7.4%	53.9%
Twin Cities	7.2%	56.9%
Seattle	7.1%	50.2%
Los Angeles	6.2%	41.6%
Chicago	6.2%	62.4%
Houston	6.0%	59.0%
San Jose	5.1%	43.9%
San Francisco	3.7%	43.1%

Source: Yardi Matrix Expert, data as of September 2022

National Lease Renewals and Renewal Rent Growth



Source: Yardi Matrix Expert

Supply, Demand and Demographics: Upcoming Opportunity Focused on Debt

- Rising interest rates have created a different paradigm in the multifamily market.
- Higher debt costs and expectations of weak rent growth have cut into sales activity and property values.
- Investors have to find opportunity in other areas, including originating senior and construction loans and mezzanine capital.

The multifamily market has changed dramatically in recent months. Rising rates have weakened demand and rent growth, while transaction activity is slowing as market players gauge how far values are dropping. The Fed's aggressive moves to contain inflation have led commercial real estate investors to downgrade the economic outlook, increasing the likelihood of a recession and the expected depth of that downturn.

The impact on multifamily prices and deal flow is significant. Multifamily had reached record-high prices and capitalization rates in the spring amid record-breaking rent growth over the last 18 months, but now multifamily values are being hit with a double whammy.

After falling to the 3% range, mortgage rates have risen to 6-7%. That's well above the average multifamily capitalization rate of 4.5% achieved by sellers through the spring of this year. Buying properties at an initial yield lower than the mortgage rate is a risky proposition when rent growth is strong, but now rent growth is decelerating and a recession looms on the horizon.

It sounds foreboding, but there is opportunity for multifamily investors in a market in which mortgage rates remain persistently high. One example is originating debt as traditional lenders move to the sidelines. Commercial banks are well-capitalized but exercising extreme caution on commercial real estate, while weak demand for bonds is hindering lenders that rely on securitization as an execution.

Investors with balance sheets to hold mortgages can originate loans with 6% coupons in the senior part of the capital stack. Another lending opportunity is construction loans, as large banks are cutting back on lending for new development as they face scrutiny from regulators.

For investors that are not equipped for senior or construction debt, there is a brewing opportunity for mezzanine debt and preferred equity—"gap capital"—from owners squeezed by the increase in mortgage rates. This involves properties that find themselves short of capital refinancing low-rate loans originated in recent years at higher interest rates and lower loan-to-value ratios. Some investors are already raising funds to provide mezzanine financing to property owners that find themselves in a bind. Gap capital—typically in the 50-80% slice of the capital stack—is currently priced in the 12-15% range.

Single-Family Build-to-Rent Segment: SFR Performance Starts to Weaken

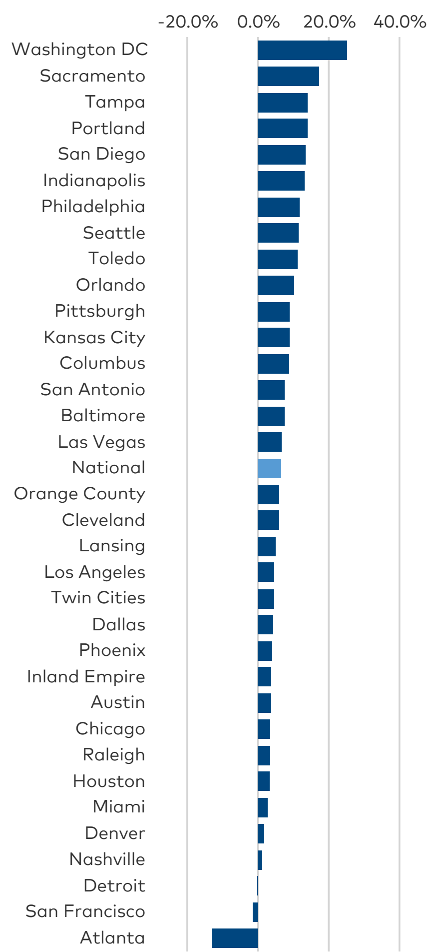
- National asking rents for single-family rentals increased 6.6% year-over-year in October, a decrease of 160 basis points from September.
- U.S. occupancy rates decreased 1.3% year-over-year in September, although they remain strong at 96.1%.

The average national asking rent for SFRs held firm at $2,088 in October. Rents have flattened out in recent months after a period of explosive rent growth that ran between 2020 and earlier this year.

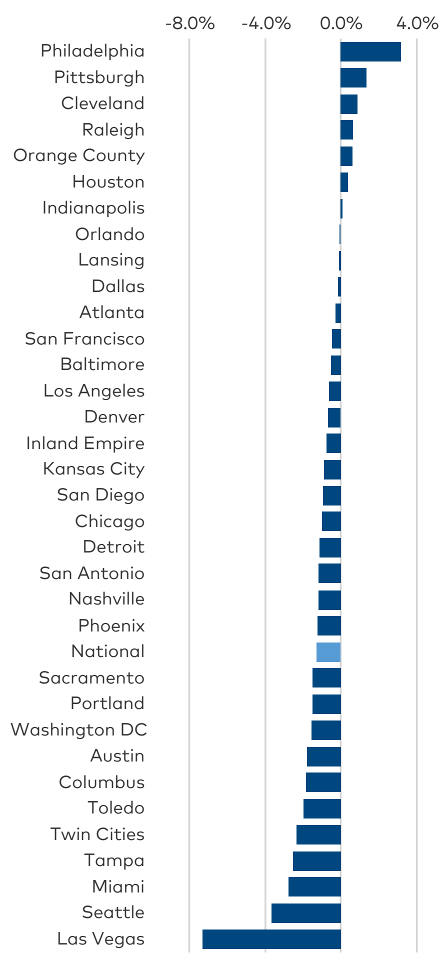
The turmoil in the housing market as a result of increasing mortgage rates is bound to have an impact on the SFR market. With mortgage rates north of 7%, many households are unable to purchase homes. First-time homebuyers comprised just 26% of all home sales in the year ending June 2022, the lowest number ever in a survey conducted by the National Association of Realtors. These households unable to afford to purchase are likely to rent either apartments or single-family homes.

Note: Yardi Matrix covers single-family built-to-rent communities of 50 homes and larger.

Year-Over-Year Rent Growth—Single-Family Rentals



Year-Over-Year Occupancy Change—Single-Family Rentals



Source: Yardi Matrix

Multifamily Rent-to-Income Ratios as of September 2022

Market	All Units	Lifestyle Units	Renter-by-Necessity Units
New York	36.7%	35.5%	37.8%
Washington DC	34.6%	31.4%	36.8%
San Francisco	34.2%	30.1%	38.0%
Los Angeles	33.8%	29.6%	37.0%
Baltimore	32.2%	30.2%	33.2%
Sacramento	32.2%	28.2%	39.3%
Orlando	32.1%	32.0%	32.2%
Inland Empire	31.6%	28.5%	34.1%
Orange County	31.5%	29.2%	33.7%
Nashville	31.1%	25.7%	35.7%
Portland	31.0%	27.9%	36.0%
Tampa	30.3%	29.1%	31.8%
Las Vegas	29.6%	27.9%	34.7%
Seattle	29.6%	26.5%	34.2%
Denver	29.4%	27.3%	32.6%
Phoenix	29.0%	26.8%	31.6%
Boston	28.9%	26.6%	33.9%
Atlanta	28.8%	28.8%	28.8%
Twin Cities	28.8%	26.3%	31.0%
Chicago	28.4%	27.0%	29.2%
Charlotte	28.2%	26.6%	31.4%
Dallas	28.0%	26.3%	30.7%
Miami	27.8%	26.5%	31.9%
Philadelphia	27.7%	25.4%	29.0%
Raleigh	27.7%	26.4%	30.5%
San Jose	27.5%	24.9%	30.9%
Houston	27.0%	24.3%	31.0%
Austin	26.9%	25.6%	29.4%
Indianapolis	25.2%	22.5%	26.9%
Kansas City	24.9%	23.1%	26.1%

Rent-to-Income ratios sorted by all units, highest to lowest. Source: Yardi Systems Screening Data
The Yardi Matrix data service covers rent-to-income ratios monthly back to January 2019 for 112 markets broken out by property type

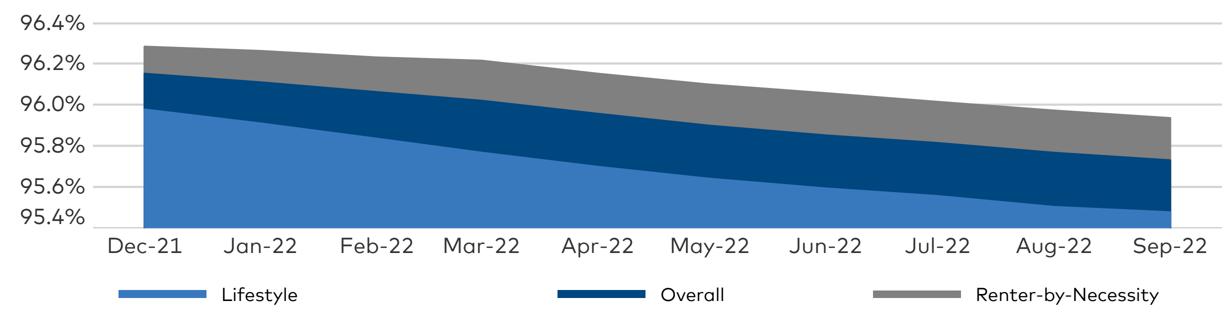
Employment and Supply Trends; Forecast Rent Growth

Market	YoY Rent Growth as of Oct - 22	Forecast Rent Growth as of 10/31/22 for YE 2022	YoY Job Growth (6-mo. moving avg.) as of Aug - 22	Completions as % of Total Stock as of Oct - 22
Indianapolis	11.8%	10.2%	3.3%	1.3%
Orlando	11.6%	8.8%	6.3%	3.3%
Miami Metro	11.4%	10.1%	5.6%	4.3%
San Jose	10.6%	9.0%	5.4%	3.1%
Dallas	10.5%	8.2%	7.4%	2.7%
Kansas City	9.8%	8.1%	1.4%	1.8%
Nashville	9.7%	8.9%	6.2%	4.2%
Charlotte	9.4%	7.6%	4.6%	3.3%
Raleigh	9.3%	8.0%	4.3%	2.6%
Boston	9.0%	8.9%	4.5%	2.4%
New York	9.0%	6.2%	5.9%	1.0%
Orange County	9.0%	7.0%	4.8%	0.9%
Tampa	8.9%	8.2%	4.8%	3.2%
Portland	8.3%	7.2%	5.3%	2.5%
Los Angeles	8.2%	6.4%	5.1%	2.1%
Inland Empire	7.7%	3.8%	5.8%	0.4%
Philadelphia	7.6%	5.5%	4.1%	1.1%
Seattle	7.4%	6.2%	5.9%	3.9%
Chicago	7.4%	5.3%	4.5%	1.9%
Austin	6.7%	6.9%	6.7%	4.9%
Denver	6.5%	6.0%	4.3%	2.7%
Houston	6.2%	4.3%	6.0%	2.4%
Washington DC	6.2%	6.4%	2.9%	2.3%
Atlanta	5.8%	3.5%	6.1%	1.9%
San Francisco	5.2%	6.9%	5.5%	2.4%
Baltimore	4.7%	4.2%	3.5%	0.7%
Sacramento	4.4%	6.1%	4.1%	1.4%
Phoenix	4.1%	3.3%	3.9%	3.2%
Las Vegas	3.9%	3.7%	8.4%	1.3%
Twin Cities	3.3%	2.9%	3.0%	3.9%

Source: Yardi Matrix

Occupancy & Asset Classes

Occupancy—All Asset Classes by Month



Source: Yardi Matrix

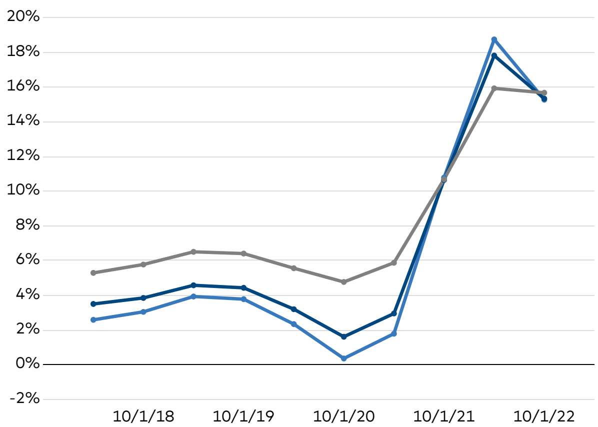
Year-Over-Year Rent Growth, Other Markets

Market	October 2022		
	Overall	Lifestyle	Renter-by-Necessity
El Paso	11.2%	10.5%	11.6%
Northern New Jersey	11.1%	13.3%	9.0%
SW Florida Coast	10.9%	9.6%	13.9%
Salt Lake City	10.8%	9.5%	11.9%
Central East Texas	10.7%	8.9%	12.7%
NC Triad	10.5%	7.3%	14.5%
Albuquerque	10.5%	6.8%	13.0%
Louisville	9.9%	7.9%	11.2%
St. Louis	8.6%	7.6%	9.3%
Tucson	8.5%	2.5%	11.5%
Central Valley	7.8%	1.4%	9.8%
Bridgeport–New Haven	7.6%	8.7%	6.8%
San Fernando Valley	6.9%	6.2%	7.5%
Jacksonville	6.7%	3.1%	14.0%
Long Island	6.3%	6.3%	6.3%
Tacoma	6.2%	5.0%	7.5%
Colorado Springs	5.7%	4.7%	6.9%
Reno	3.2%	1.9%	4.3%

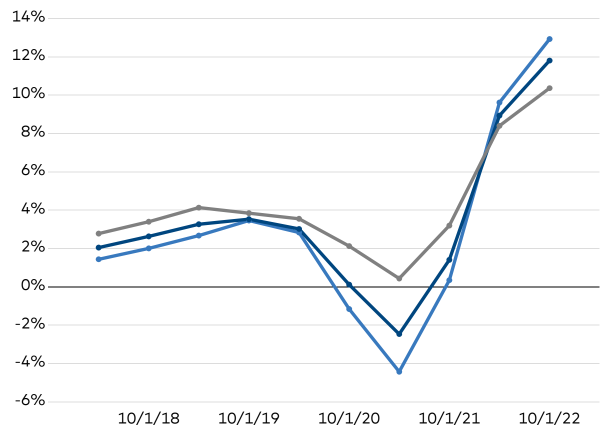
Source: Yardi Matrix

Market Rent Growth by Asset Class

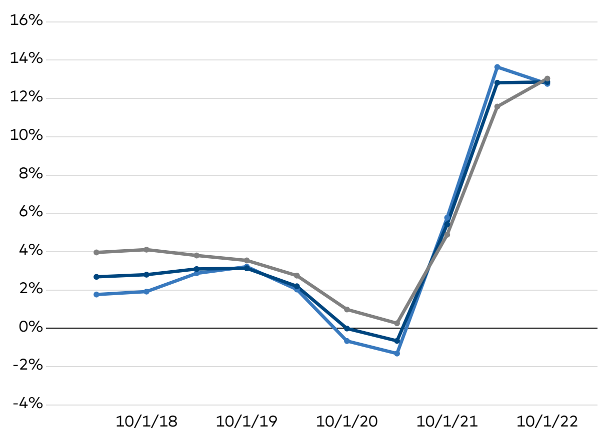
Atlanta



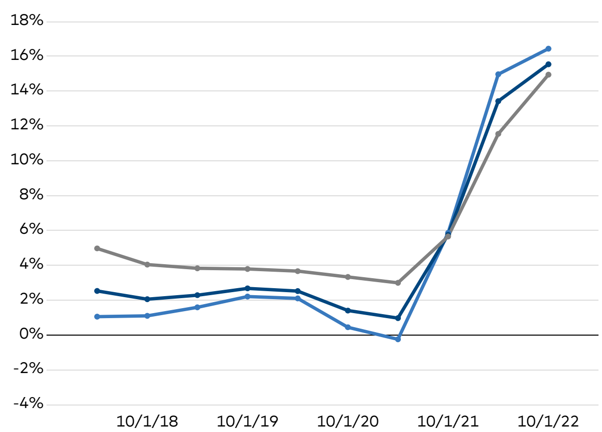
Boston



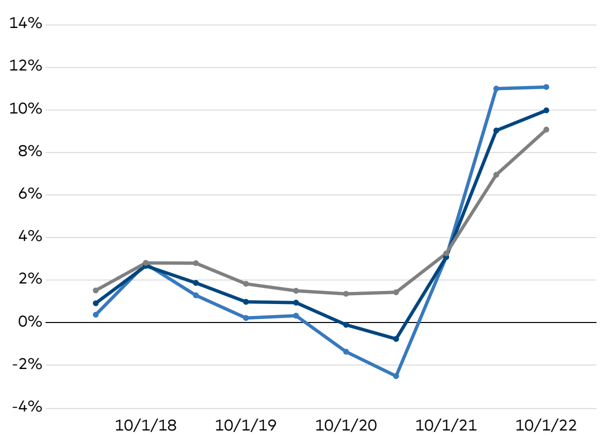
Dallas



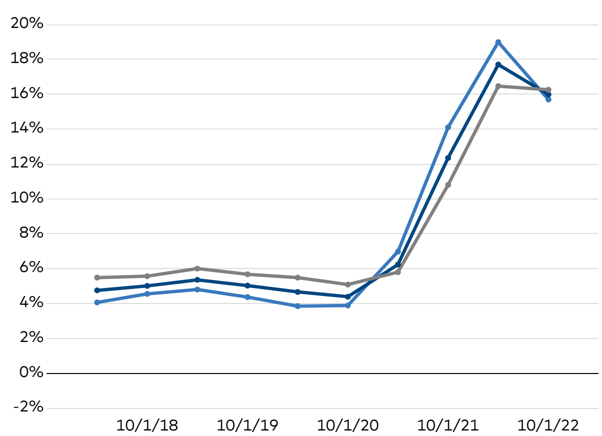
Denver



Houston



Inland Empire

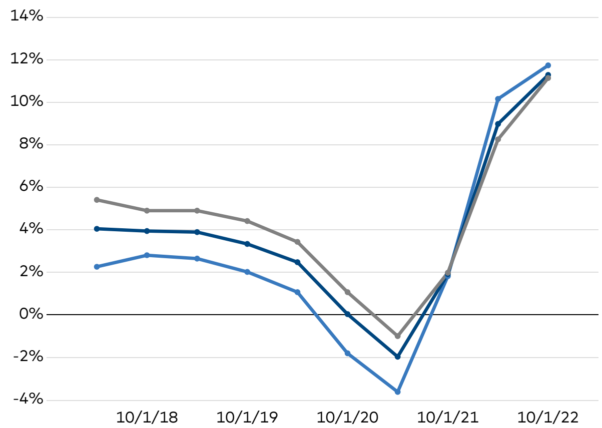


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

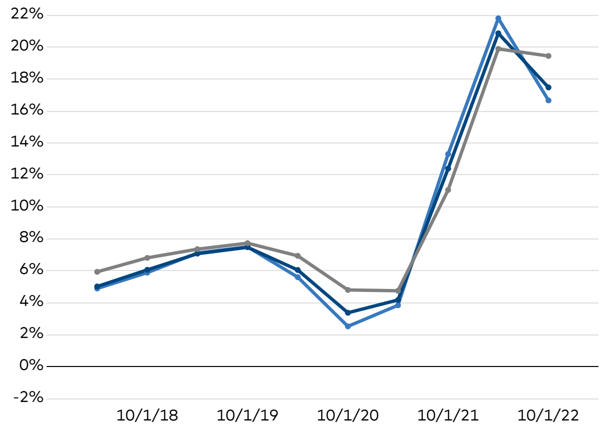
Source: Yardi Matrix

Market Rent Growth by Asset Class

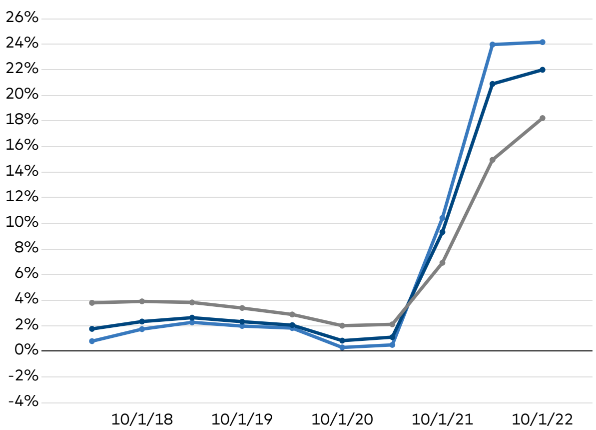
Las Vegas



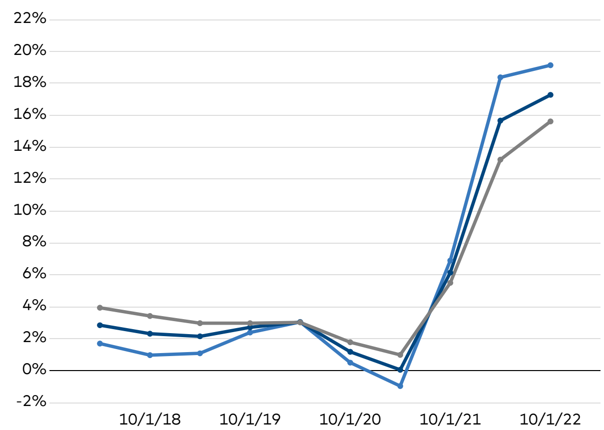
Los Angeles



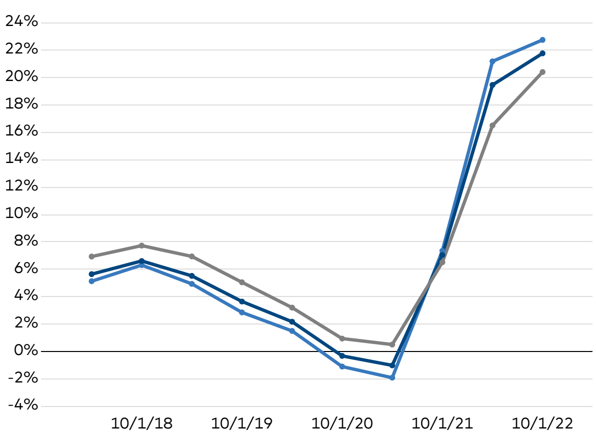
Miami



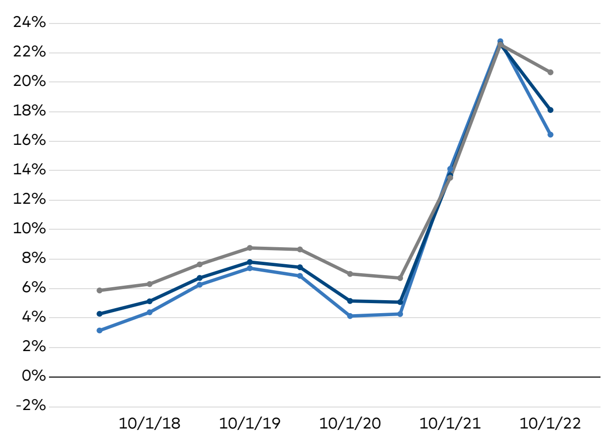
Orange County



Orlando



Phoenix

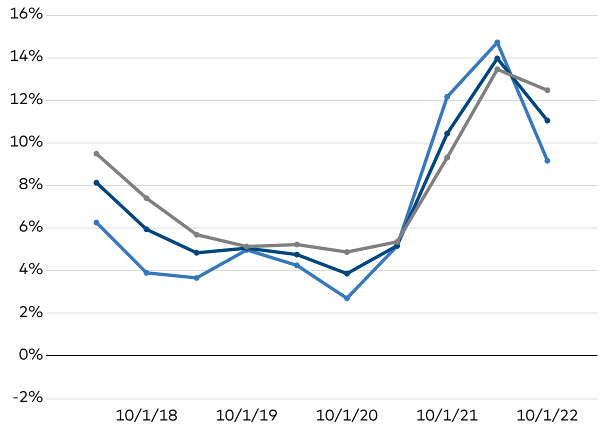


Trailing 12 Months Overall   Trailing 12 Months Lifestyle   Trailing 12 Months Renter-by-Necessity

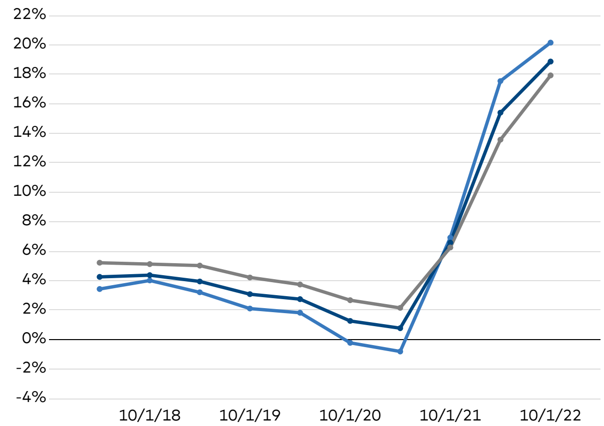
Source: Yardi Matrix

Market Rent Growth by Asset Class

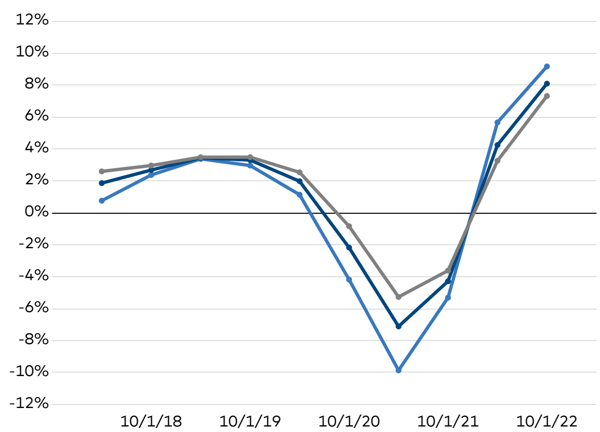
Sacramento



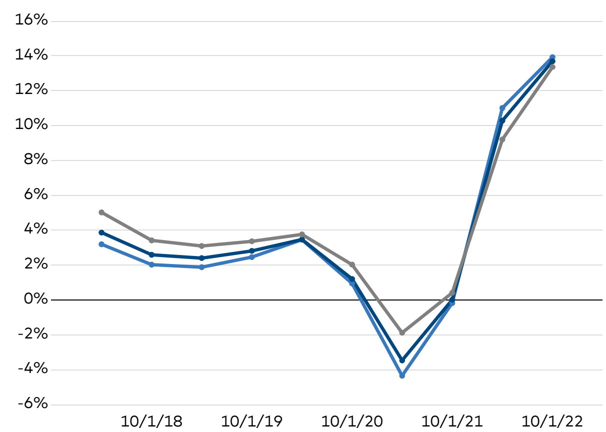
San Diego



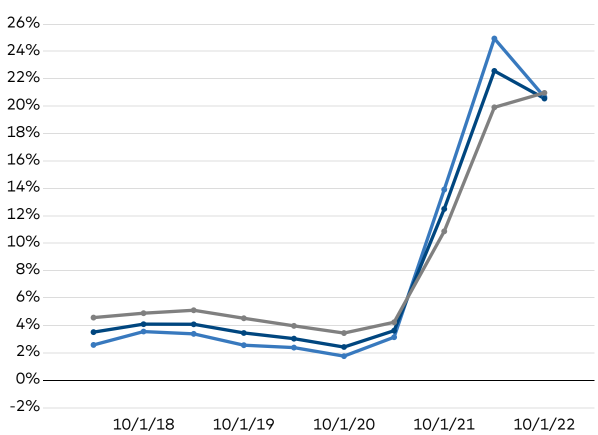
San Francisco



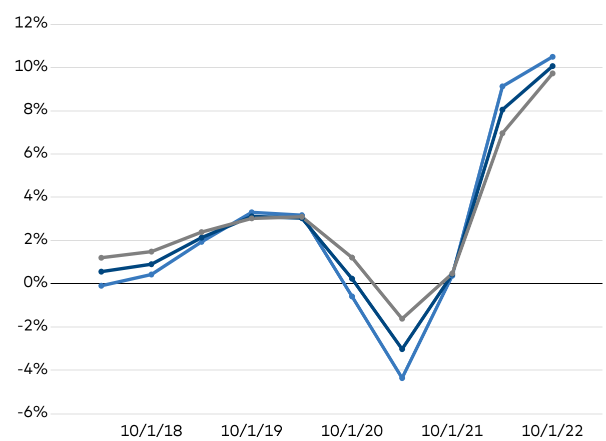
Seattle



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 multifamily rent and occupancy values derived from all 136 markets with years of tracked data that makes a consistent basket of data.

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

Average Market Rent: Average rent rolled up from the unit mix level to metro area level and weighted by number of units. Rent data is stabilized, meaning rent values for properties are only included 12 months after the properties' completion date.

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

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

Renewal Lease Rent Per Unit: Monthly rent per unit for renewal leases.

Renewal Lease Rent Change Percent: Percentage of monthly rent change between renewals and their corresponding previous leases for the same resident. Only includes renewal leases where the lease term length is no more than 3 months longer or shorter than the previous lease.

Expiring Lease Renewal Percent: Percentage of expiring leases for which residents have renewed. Excludes leases from which the tenant moved out prior to the month of the expiration.

Rent-to-Income Ratio: Rent is the monthly rent as stated, no fees or utilities. Income is as stated on applications.

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.

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

Single-Family Rental: A property where 50% or more of the units are either stand-alone buildings OR have direct access garages with no neighbors above or below the unit.

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

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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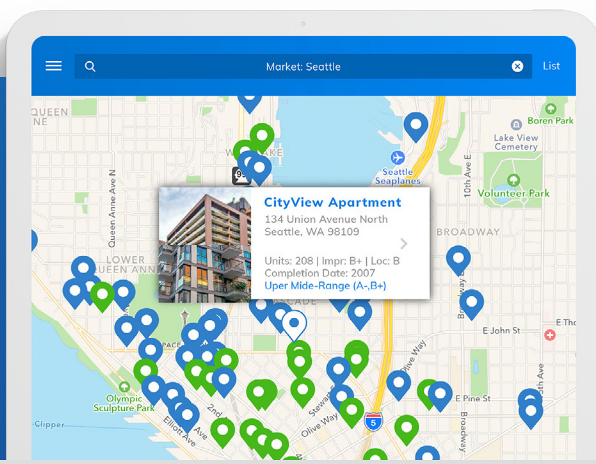
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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