Marcus & Millichap

2015
NATIONAL APARTMENT REPORT

Real Estate Investment Research

To Our Valued Clients:

Economic and investment conditions are the healthiest they have been in years. Accelerated hiring, together with the rebound in U.S. GDP growth in the second and third quarters of 2014, set the economy on a self-sustaining course of expansion, broadly led by uptrends in business and residential investment, exports and consumption. This coalescence of positive trends prompted the Federal Reserve to transition to a more “normal” monetary policy and conclude its quantitative easing program. Should interest rates rise as a result, it is unlikely to be dramatic and the increase will be balanced against strong job growth and an uptick in inflation, both of which would be healthy for commercial real estate and revenues. The coming year will not be without challenges, however. Weaker economic growth in Europe and Asia will weigh on U.S. momentum while continued geopolitical unrest in parts of the Middle East will remain at risk of flare-up. Lower oil prices could also be a double-edged sword, boosting economic growth while hampering the performance of metros with a high dependence on energy sector jobs.

The compelling story behind apartment demand remains the continuing narrative of the echo boomer, or millennial, generation driving absorption for rental housing. Strengthened job creation and the maturation of this age cohort produced robust demand for apartments, reminiscent of the impact of the baby boomer generation in the 1980s. Approximately 1.6 million millennials, an age cohort with the highest propensity to rent, will come of age in the next five years. In addition, the number of young adults living with family members remains well above the long-term average and will unwind over the next few years as unemployment falls, further lifting housing needs.

The recent upswing in supply appears manageable as well. Aside from the short-term challenges potentially created at the sub-market level, dramatic gains in net absorption have lifted demand to its highest level in nearly a decade and have kept pace with new supply increases. In addition, the national vacancy rate is projected to remain below its historical average, effective rent growth will continue to surpass its long-term average, and the decision of renting versus homebuying will remain at parity through 2015.

The coming year brings new investment opportunities as positive dynamics spread beyond core markets and drive performance results. We hope this report offers useful insights on a variety of trends, markets and investment strategies, and our investment professionals look forward to assisting you in meeting your goals.

Sincerely,

John S. Sebree
Vice President, National Director
National Multi Housing Group

John Chang
First Vice President,
Research Services

2015 National Apartment Report

Marcus & Millichap

National Perspective

Market Overviews

Client Services

Developed by Hessam Nadji, Senior Vice President, Chief Strategy Officer and John Chang, First Vice President, Research Services. The Capital Markets section was co-authored by William E. Hughes, Senior Vice President, Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap market analysts and investment brokerage professionals nationwide.

National Apartment Index (NAI)

- Metros with the lowest vacancy rates and strongest job, rent and demographic trends ranked highest. Oakland (#4) joined low-vacancy leaders San Francisco (#1), New York City (#2), and San Jose (#3). Rent gains advanced Los Angeles (#8). Excellent metrics lifted Miami (#9), but Seattle-Tacoma (#11) lost pace on rising vacancy. Houston (#16) tumbled on heightened energy sector risk.
- Phoenix (#17) and Atlanta (#25) led on job gains and absorption. Supply caused slippage for Dallas/Fort Worth (#18). Stable occupancy but decelerating rents caused a three- to five-point decline for Boston (#19), Philadelphia (#24) and Baltimore (#29). Washington, D.C., (#30) slid three points because of supply and soft rents.
- Midwestern markets occupy the majority of lower ranks. Metros exhibiting the weakest demographic and job trends receded five to seven points, including Louisville (#34), Pittsburgh (#39) and Detroit (#44). Tourism and services lifted Las Vegas (#37) and all of the Florida metros.

National Economy

- GDP measured 3.5 percent growth as of third quarter 2014, following a rate of 4.6 percent in the prior quarter. Nominal retail sales stand 18 percent higher than the prior peak, or 5.8 percent adjusted for inflation. Employers added 2.7 million jobs, a 2.0 percent increase, regaining all of the jobs lost in the recession.
- Accelerated consumer spending, housing, manufacturing and trade, parallel with an improved fiscal outlook, will energize business and residential fixed investment, boosting employment and wage growth. GDP is forecast at 3.1 percent in 2015 and the economy will generate an estimated 2.9 million to 3.1 million new jobs.
- The Federal Reserve concluded its quantitative easing program, beginning the transition to “normal” monetary policy.

National Apartment Overview

- Apartments outperformed expectations for 2014. The national vacancy rate dipped as low as 4.2 percent, ending the year at 4.7 percent. Strong job gains, demographic tailwinds and a sustained preference for multifamily renting stimulated renter household formations. Homeownership drifted to a 19-year low of 64.4 percent.
- The number of new units delivered in 2014 totaled 238,000, marking a 14-year high, and completions were met by a surge in pent-up demand of 270,000 apartments. Supply totaling 210,000 units in 2015 will likely surpass demand for 186,000 rentals, increasing vacancy to 4.8 percent.
- New supply tempered CBD rent growth and mid- to lower-tier assets led effective rent growth of 3.8 percent. Despite a rapid lease-up in new units, competition from new supply will likely pare overall effective rent growth to 3.0-3.5 percent in 2015.

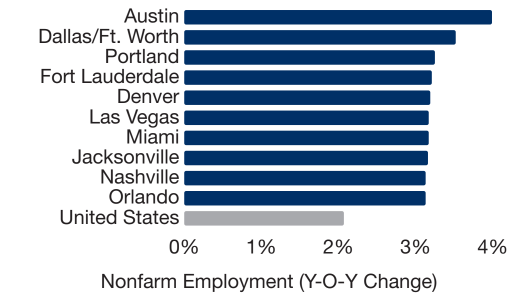
Capital Markets

- Positive macroeconomic conditions will support NOIs, mitigating possible upticks in interest rates. Debt terms will stay favorable, supporting liquidity. Yields in top-tier assets and markets will flatten while cap rates outside core markets and assets tighten. Lenders will likely absorb minor shocks in spreads.
- Despite strong space fundamentals today, apartment dynamics have matured. Key attributes to monitor include the impact of new supply, alignment of incomes with rents, and future rent growth projections.

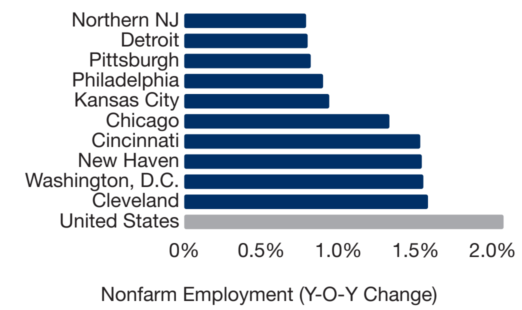
Investment Outlook

- Apartment values now measure 13 percent above the 2007 peak, awash in capital and investor sentiment. The forces shaping demand in this cycle do not appear to be tailing off, creating and sustaining demand momentum in a period of historically low vacancy rates.
- Existing Class A assets may be priced at a premium to replacement cost. Development and renovation may offer better risk-adjusted returns. Permit levels will be a key indicator, along with absorption of current supply, vacancy and economic trends such as falling energy prices and their effect on energy-related markets.

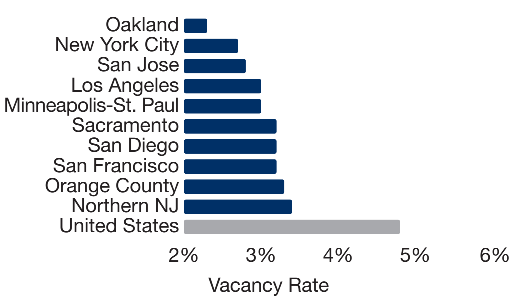
Markets with the Highest Expected 2015 Employment Growth



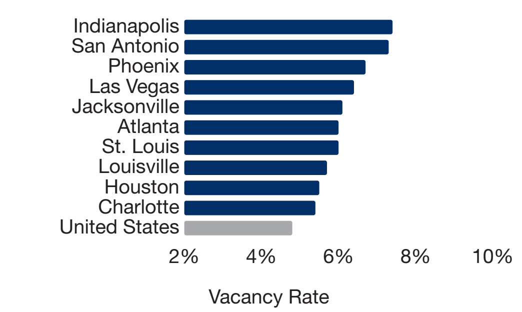
Markets with the Lowest Expected 2015 Employment Growth



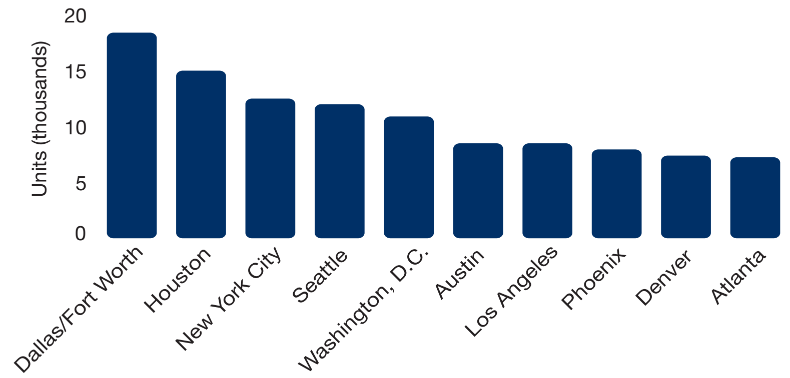
Markets with the Lowest Expected 2015 Vacancy Rates



Markets with the Highest Expected 2015 Vacancy Rates



Markets with the Highest Expected 2015 Completions



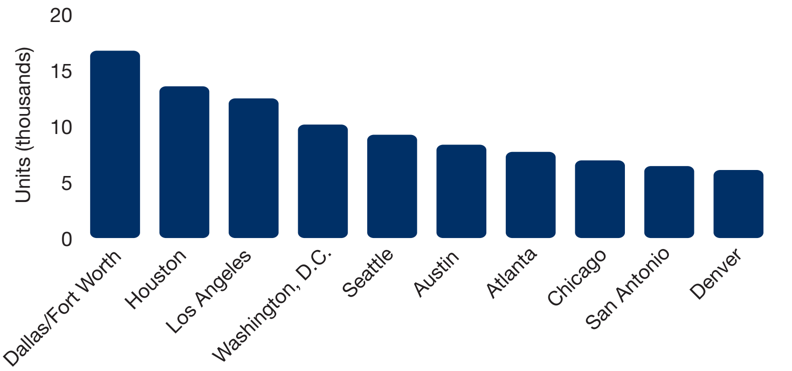
Bay Area Leads Index; Gateway Markets Dominate Top Quartile

With few exceptions, shared characteristics of top performers include markets with barriers to entry, sub-5 percent vacancy, above-average job prospects and rent growth, and households with the highest propensity to rent. San Francisco (#1) slipped by New York City (#2), ranking ahead in relative job and rent growth. San Jose (#3) and Oakland (#4) both surged five spots, with technology still bolstering demand in San Jose. Oakland posts the tightest vacancy and strongest rent growth in the Index. New supply and rising vacancy caused Denver (#5) to slip two spots, despite impressive demographic and performance metrics. Northern California metros outperformed San Diego (#6) and Orange County (#14), down one and three spots, respectively. Los Angeles (#8) tied with Nashville (#27), for the strongest run in the Index, seven points. Broad-based rent gains and the fourth-tightest vacancy elevated Los Angeles; ramped-up job growth carried Nashville. Weaker demographics and a low propensity to rent caused Minneapolis-St. Paul (#7) to fall three spots. Excellent metrics and a long-term sub-4 percent vacancy rate advanced Miami (#9) four rungs. Despite tight vacancy, weak job and demographic trends hurt Northern New Jersey (#10), which lost four spots. Seattle-Tacoma (#11) and Portland (#12) lost pace on supply concerns and rising vacancy. Austin's (#13) vibrant job and demographic trends resulted in a five-point move up; Houston (#16) tumbled four points on heightened risk in the energy sector as prices fall during a supply upswing. Chicago (#15) rounds out the top rankings, up two places, aided by low supply risk and strong demand.

Mix of High Growth, Expansive Markets and Stable, Low-Volatility Markets Occupy Middle Ranks

Phoenix (#17) advanced five places, benefiting from the strongest demographic trends, and Atlanta (#25) rose six places, on job gains and aggressive rent growth. Dallas/Fort Worth (#18) shines on most metrics, except new construction, which caused a four-point slippage. Similarly, San Antonio (#28) dropped two points on supply concerns amid weak rent growth. Softer rent gains than its Southern California neighbors caused Riverside-San Bernardino (#20) to slip one place. Three usually stable, low-volatility markets each fell in the rankings. Boston (#19) declined three places, while Philadelphia (#24) and Baltimore (#29) fell four and five rungs, respectively. Occupancy remains stable in those markets, but rent growth has decelerated.

Markets with the Highest Expected 2015 Absorption



Tampa-St. Petersburg (#22) and Fort Lauderdale (#26) climbed one and three spots, respectively, driven by solid growth in trade and services. A brief supply imbalance, the fourth-lowest rent growth and new supply pushed Washington, D.C., (#30) down three spots.

Florida and Las Vegas Advance, but Slow Growth Midwestern Markets Saturate the Lower Rankings

The tourism, trade and service sectors lifted the Florida markets and Las Vegas (#37) in the Index. Orlando (#32) and Jacksonville (#41) gained four and three spots, respectively, while West Palm Beach (#38) remained unchanged. Las Vegas advanced four spots. Many Midwestern markets in this echelon have low vacancy and volatility, little supply and moderate demand. Columbus (#36) and Indianapolis (#46) both slipped one rung, but Cincinnati (#42) held firm. The largest vacancy decline in the Index advanced Cleveland (#40) three spots. Markets with slow population and job growth and exhibiting negative demographic trends reflected the biggest negative Index swings, including Louisville (#34), down 6 spots, and Pittsburgh (#39) and Detroit (#44), which posted respective losses of seven and five places.

Index Methodology

The NAI ranks 46 major apartment markets based upon a series of 12-month, forward-looking economic and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecast employment growth, vacancy, construction, housing affordability and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to indicate relative supply and demand conditions at the market level.

Users of the Index are cautioned to keep several important points in mind. First, the NAI is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a top-ranked market. Second, the NAI is a snapshot of a one-year time horizon. A market facing difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NAI is an ordinal Index, and differences in rankings should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

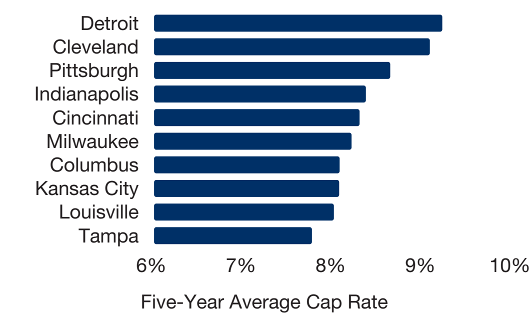
MSA	Rank 2015	Rank 2014[1]	14-15 Change
San Francisco	1	2	▲ 1
New York City	2	1	▼ 1
San Jose	3	8	▲ 5
Oakland	4	9	▲ 5
Denver	5	3	▼ 2
San Diego	6	5	▼ 1
Minneapolis-St. Paul	7	4	▼ 3
Los Angeles	8	15	▲ 7
Miami	9	13	▲ 4
Northern New Jersey	10	6	▼ 4
Seattle-Tacoma	11	7	▼ 4
Portland	12	10	▼ 2
Austin	13	18	▲ 5
Orange County	14	11	▼ 3
Chicago	15	17	▲ 2
Houston	16	12	▼ 4
Phoenix	17	22	▲ 5
Dallas/Fort Worth	18	14	▼ 4
Boston	19	16	▼ 3
Riverside-San Bernardino	20	19	▼ 1
Salt Lake City	21	21	■ 0
Tampa-St. Petersburg	22	23	▲ 1
Milwaukee	23	25	▲ 2
Philadelphia	24	20	▼ 4
Atlanta	25	31	▲ 6
Fort Lauderdale	26	29	▲ 3
Nashville	27	34	▲ 7
San Antonio	28	26	▼ 2
Baltimore	29	24	▼ 5
Washington, D.C.	30	27	▼ 3
Charlotte	31	30	▼ 1
Orlando	32	36	▲ 4
Sacramento	33	33	■ 0
Louisville	34	28	▼ 6
Kansas City	35	37	▲ 2
Columbus	36	35	▼ 1
Las Vegas	37	41	▲ 4
West Palm Beach	38	38	■ 0
Pittsburgh	39	32	▼ 7
Cleveland	40	43	▲ 3
Jacksonville	41	44	▲ 3
Cincinnati	42	42	■ 0
New Haven	43	40	▼ 3
Detroit	44	39	▼ 5
St. Louis	45	46	▲ 1
Indianapolis	46	45	▼ 1

[1] See National Apartment Index Note on page 60.

Yield Index

MSA	Rank
Detroit	1
Cleveland	2
Pittsburgh	3
Indianapolis	4
Cincinnati	5
Milwaukee	6
Columbus	7
Kansas City	8
Louisville	9
Tampa-St. Petersburg	10

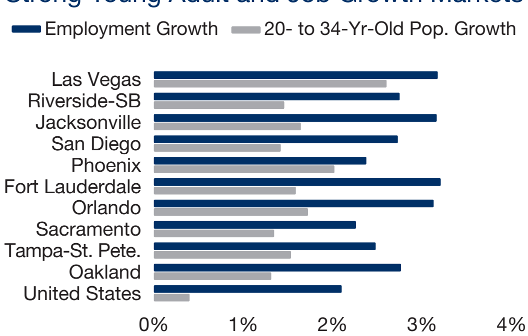
High Yield Markets



Emerging Demand Index

MSA	Rank
Las Vegas	1
Riverside-San Bernardino	2
Jacksonville	3
San Diego	4
Phoenix	5
Fort Lauderdale	6
Orlando	7
Sacramento	8
Tampa-St. Petersburg	9
Oakland	10

Strong Young Adult and Job Growth Markets



Premium-Yield Markets Bolster Returns

Investors are increasingly pursuing yields into secondary and tertiary markets despite risk often associated with those areas. The superior returns there can warrant the risk, particularly when the economy is building momentum and performance gains have not yet been baked into pricing. Although this Index highlights markets with higher than average cap rates, premier submarkets within these metros may carry premium pricing. Exit strategies from high-yield markets can be a risk factor, as market performance does not always align with investment horizons. Though a five-year hold period will often work with market dynamics to support transaction opportunities, these markets are better suited for open-ended or long-term hold strategies.

The Midwest is home to the top five markets in this year's Yield Index, which features Detroit in the top position. Rental housing demand in the metro remains strong, pushing the vacancy rate to a multi-year low in 2014, and only a slight increase is projected this year while the local economy continues to display renewed vigor. Cleveland, the second-ranked market in this year's Yield Index, also offers investors potentially superior yields. A diversifying economy, low vacancy and steady rent growth will sustain attention from yield-driven investors in the year ahead. As the third metro in the Index, Pittsburgh also features a diverse economy and a sizable student-age population that supports demand for rental housing. As the biggest metro in the Marcellus Shale area, the metro's economy will continue to grow as oil and gas companies expand and establish a larger regional presence. Indianapolis occupies the fourth position in the Yield Index. Payrolls in the metro will expand at a faster pace than the U.S. rate of growth in 2015 and drive apartment demand, attracting additional investors in search of higher yields. Cincinnati rounds out the top five markets in the Index.

Young Adults Pen New Leases in Emerging Markets

The Emerging Demand Index highlights markets where the growing young adult population will drive apartment demand and where strong job gains will unlock this potential. During the recession, many younger workers were relegated to living with parents as employment searches dragged on. Other young adults assumed jobs outside of their fields or settled for part-time work, formally placing them into the ranks of the underemployed. As payrolls have expanded unevenly across the nation, millennials are moving into apartments at a varying pace. This Index exhibits markets where demand sourced from young workers will be greatest in 2015.

Las Vegas tops the Emerging Demand Index as the rebounding leisure and hospitality industry recovers from the doldrums of the most recent downturn. A greater number of tourists are flocking to America's playground, generating jobs for casino workers. In the second slot of the Index, the Inland Empire is reaping the benefits from a resurgent industrial sector and as an affordable alternative to nearby Los Angeles and Orange counties. Jacksonville, which was one of the last markets to emerge from the recession, claims the third spot in this ranking. San Diego, which surpassed the pre-recession employment high watermark sooner than any other Southern California metro, benefits from home prices that are far beyond what most millennials can afford. Phoenix rounds out the top five, as technology and back-office positions boost the ranks of employed young workers.

Revenue Potential Provides Opportunity for Attractive Offers

Approximately 40 percent of major U.S. apartment markets have yet to fully recover from price reductions incurred during the recession. Several of these metros, though, have recorded significant occupancy and rent growth in recent years, driving property revenues well beyond previous cyclical peaks. Markets with the most sizable lag in values, relative to revenue growth, comprise our Opportunity Index, as they may offer outsized near-term upside potential in the form of price appreciation. Risks in these markets can run high due to supply-side pressure and/or less-than-ideal demand-side drivers, and most rank in the lower half of our 2015 NAI.

Orlando occupies the top spot in this Index. Per-unit prices in the metro are off more than 30 percent from their cyclical peak, despite a nearly 16 percent gain in revenues. Orlando, along with Tampa-St. Petersburg (#4) and Fort Lauderdale (#7), were among the top condo-conversion markets in the nation during the housing boom, which undoubtedly inflated apartment prices, though the loss of apartment stock and resulting increase in competition among investors also came into play. In Indianapolis (#2), prices are down 27 percent from their pre-recession peak, which appears extreme relative to revenue growth, and when viewed against the metro's above-average employment forecast for 2015. Job growth in Pittsburgh (#3), on other hand, is expected to fall well below the U.S. rate, and vacancy in the metro will rise. At a respective 0.8 percent and 5.0 percent, though, employment growth and vacancy in Pittsburgh will remain favorable compared with long-term averages, maintaining upward pressure on rents and supporting property values. In Detroit (#5), revenues are up 14 percent from their pre-recession peak but prices remain at a 16 percent deficit. Similar to Pittsburgh, vacancy in the metro will tick up this year, but the metro's overall rate will remain well below its historical norm.

Tenant Demand Fuels Occupancy to Spark Octane Index

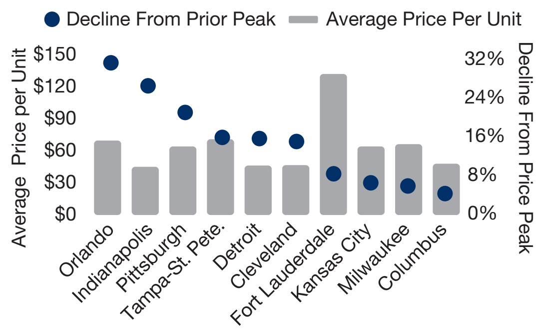
Markets facing significant demand pressure that is likely to outstrip new supply over the coming year are highlighted by the High Octane Index. These markets, driven by rising employment and strong demographics, will likely encounter significantly higher absorption than development, resulting in falling vacancies. As a result, rent pressure in these markets will likely outpace the national average, driving NOI momentum and values. While some recognizable metros, such as the high-growth Texas markets, made the top 10, other, smaller markets also rose to the top of the Index.

A vigorous pace of job creation will drive demand growth of more than 4 percent this year in Austin, the top-ranked market in this year's High Octane Index. A sizable population of young residents unable to purchase homes in the metro's most desirable areas will also supplement demand in Austin. Another Texas market, San Antonio, claims the second spot in the Index, reflecting a 4.1 percent jump in demand that will exceed an increase in supply. Two Florida markets, Orlando and Tampa-St. Petersburg, occupy the third and fifth positions in the Index. Job growth and the challenges many renters face in transitioning to homeownership will continue to support a strong rate of absorption in the apartment sector in each market. Jacksonville also claims a spot in the top five markets. Strong hiring trends will generate new rental households, supporting a projected drop in the vacancy rate this year as completions taper.

Opportunity Index

MSA	Rank
Orlando	1
Indianapolis	2
Pittsburgh	3
Tampa-St. Petersburg	4
Detroit	5
Cleveland	6
Fort Lauderdale	7
Kansas City	8
Columbus	9
Milwaukee	10

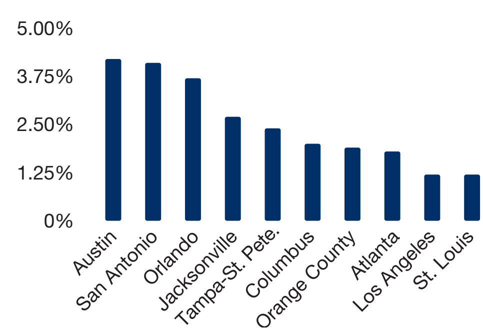
Pricing Discount From Peak



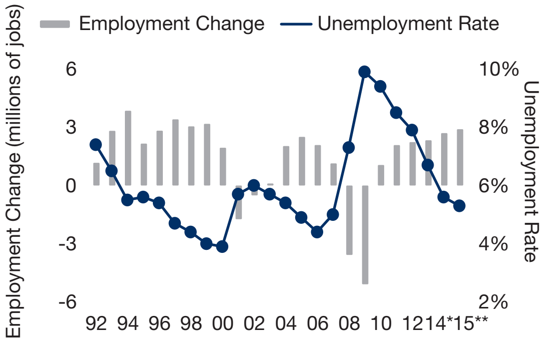
High Octane Index

MSA	Rank
Austin	1
San Antonio	2
Orlando	3
Jacksonville	4
Tampa-St. Petersburg	5
Columbus	6
Atlanta	7
Orange County	8
Los Angeles	9
St. Louis	10

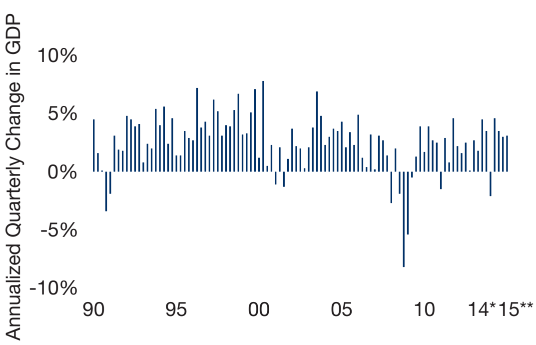
Excess Demand Markets



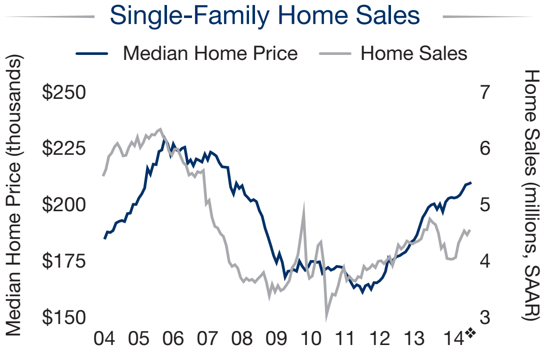
Employment vs. Unemployment



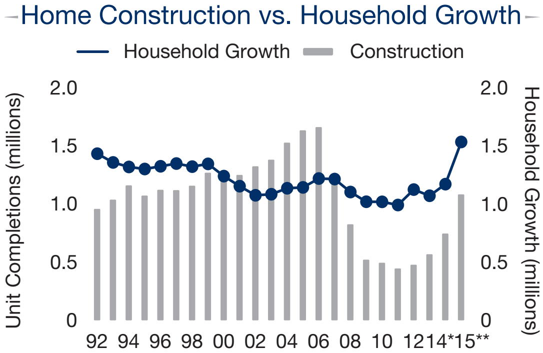
U.S. GDP



Single-Family Home Sales



Home Construction vs. Household Growth



* Estimate ** Forecast ❖ Through Third Quarter

U.S. Payrolls Advance to New Heights as Consumers Take Reins and Government Relaxes Intervention

Steady domestic demand, accelerated hiring and strengthening business investment kept the U.S. economic recovery on point throughout 2014, despite a wide range of headwinds. Economic indicators confirm that a self-sustaining expansion will extend into 2015 and beyond. Third-quarter GDP measured 3.5 percent growth in preliminary readings, on the heels of a rate of 4.6 percent in the prior quarter, and payrolls continued to build momentum, with approximately 2.7 million jobs added in 2014. Not only has the U.S. more than regained the jobs lost during the recession, this growth cycle has now outpaced the 8.2 million jobs added in the economic expansion of the last decade. Monthly job gains exceeded 200,000 positions almost every month this year, and unemployment ticked down to 5.8 percent. Moreover, the increase in the number of hours worked, decrease in the number of workers in part-time jobs for economic reasons, and sharp decline in the unemployment rate for workers with less than a high-school diploma reflect improvement at a structural level.

Numerous headwinds restrained economic performance last year and several could reemerge in 2015. Aside from the Polar Vortex, sharply declining oil prices, instability in the Middle East and Ukraine, slow European and Asian economic growth, and the Ebola scare all remain potential risks in the coming year. Weak global demand and a stronger U.S. dollar may have pared U.S. trade levels, but robust domestic demand helped offset impediments to growth. Nominal retail sales now stand 18 percent higher than their prior peak, or 5.8 percent adjusted for inflation, while consumer confidence surged 5.4 points in October to a post-recession high of 94.5. The durability of the economy together with escalating consumer and business confidence led the Federal Reserve to conclude its quantitative easing program, beginning the transition to “normal” monetary policy — a movement that will define the coming year.

2015 National Economic Outlook

- **Consumer Spending, Housing and Manufacturing Propel Growth**: GDP is forecast to grow by 3.1 percent and the U.S. should add an estimated 2.9 million to 3.1 million jobs in 2015. Further declines in oil prices could tamp down near-term investment and hiring in energy-related business, but the silver lining of lower gasoline prices will expand discretionary consumer spending. Efforts to subdue the downtrend in homeownership by reducing the minimum required downpayment could boost single-family housing while lofty sales of autos and durable goods expand the manufacturing sector.
- **Demographics, Jobs and Income Growth Drive Housing Demand**: The pace of household creation will rise as approximately 1.6 million 20- to 34-year-old echo boomers come of age over the next five years. With unemployment rates falling for this age cohort, they will support increasing economic growth. Considering two-thirds of these young adults typically rent, apartment demand should remain robust.
- **Fed Walks a Tight Rope Flanked by Debt Ceiling and Budget Debates**: Inflation remains in check, but the significant liquidity injected into the system creates the potential for rapid economic acceleration and inflationary pressure. Midterm elections swung to the GOP, but Congress remains highly divided, creating political gridlock risk as budgets come due in 2015.

Favorable Demographic Trends Propel Demand; Operators Brace for Another Year of Significant Construction

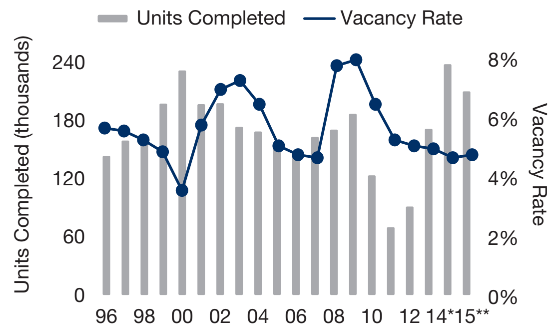
The apartment sector resoundingly outperformed consensus expectations in 2014. With the national vacancy rate at equilibrium or tighter for the previous four years, enormous pent-up demand surpassed the total number of units delivered. Expensive, high-density urban product comprised the majority of new supply, which was rapidly assimilated by large, high-demand gateway metros such as Houston, Dallas, New York City, the San Francisco Bay Area, Los Angeles and Washington, D.C. The addition of 238,000 units marked a 14-year high for new supply; similarly, net absorption surged to nearly 270,000 units, the highest level in nearly a decade. Key factors included strong, consistent employment gains, favorable demographic tailwinds and a sustained lifestyle preference for multifamily renting. The homeownership rate descended to a 19-year low of 64.4 percent as of third quarter, not altogether surprising given the social narrative of mobility, flexibility and burdensome student debt following the financial crisis.

The national apartment vacancy rate was 4.2 percent as of third quarter before another wave of supply delivered in the seasonally low-demand fourth quarter, pushing vacancy up to 4.7 percent at year end. Although new supply curbed CBD rent growth, the undersupplied suburban, mid-tier product has fueled rising rents. Most markets continued to favor owners, as same-store rents re-accelerated to a robust 3.8 percent annualized growth. New supply may present short-term challenges at the submarket level, but several factors affirm the positive apartment outlook. The demographic windfall still has legs, not only due to the size of the millennial age cohort, but also steady immigration, a higher number of household formations and changes in household composition.

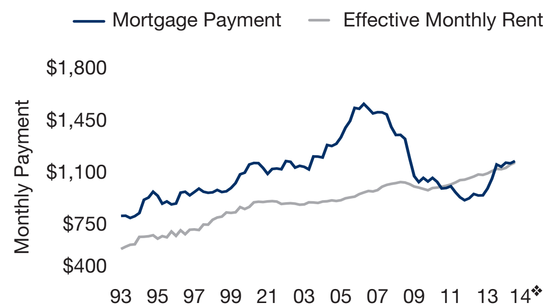
2015 National Apartment Outlook

- **Treading Water with New Supply:** An uptick in vacancy to 4.8 percent by year-end 2015 is projected, along with an increase of 3.0 to 3.5 percent effective rent growth. Forecast completions will total nearly 210,000 units, down from last year but just ahead of the demand forecast for 186,000 units. Permits remain the wild card, with those for 5-plus units just ahead of historical norm at 369,000 units as of third quarter 2014.
- **Employment and Outstanding Demographic Trends Buoy Demand:** Rising employment will fuel immigration and elevate the level of new household formations to 1.5 million in 2015. The extension of employment gains to workers at lower levels of educational attainment will facilitate the creation of new households, prompting young adults in college and those living with their parents for economic reasons to consider moving out. The number of 18- to 34-year-olds living at home remains 3.3 million above the long-term average, supporting apartment demand as this trend presumably unwinds. Another 1.6 million millennials, an age cohort with a 68 percent propensity to rent, will come of age in the next five years.
- **Infill Locations and Secondary Markets Attract Value-Add Investors:** Lower-tier properties will lead rent gains as top-tier assets compete for tenants. These Class B/C properties face more demand than supply in most metro areas, which will support rent appreciation. Risks include affordability pressures as rent gains have surpassed wage and income growth, possibly tamping down future rent gains in mid-tier product.

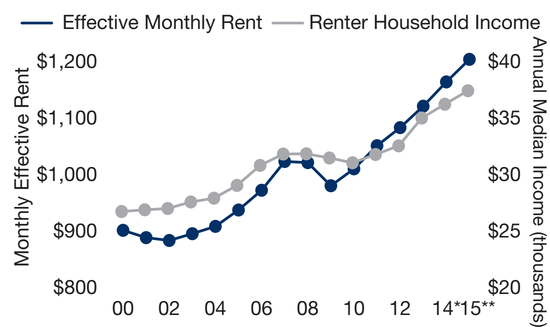
Completions vs. Vacancy



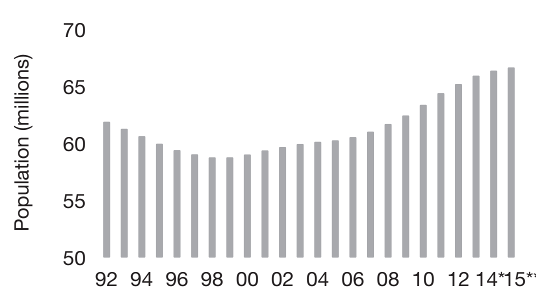
Monthly Rent vs. Mortgage



Rents Outpace Income Growth

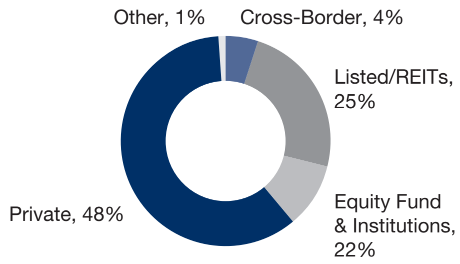


20- to 34-Year-Old Population

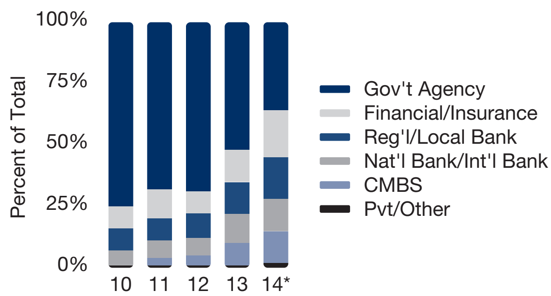


* Estimate ** Forecast ❖ Through Third Quarter

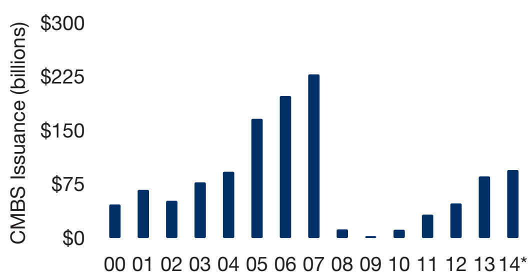
Apartment Acquisitions by Buyer Type+



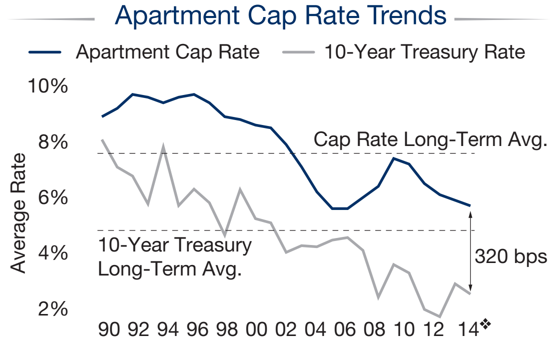
Apartment Mortgage Originations by Lender



CMBS Issuance



Apartment Cap Rate Trends



Note: Sales $1M and above

* Estimate ❖ Through Third Quarter

\+ Trailing 12 Months Through Third Quarter

Acquisition Financing Abundant; Interest Rates Poised to Rise

Sustained economic momentum, robust investor demand and lender optimism created a healthy and diverse marketplace for U.S. commercial real estate investment. Despite the end of the Fed's quantitative easing program, low interest rates remain a key driver of the abundant capital in the market. Equity spreads over mortgage and Treasury rates are still wide from a historical perspective, cushioning investments from the eventual rise in interest rates and cap rates. As the liquidity impact of Fed intervention begins to fade, other forces that influence the trajectory of interest rates will take on renewed importance, including the timing and magnitude of rate changes, investor sentiment, income growth, inflation and global capital flows. Heated competition among lenders has resulted in a modest easing in underwriting standards, without apparent undue risk-taking. Loan-to-value measures remain below peak levels and have changed little over the past year. Similarly, investor confidence and appetite for risk have increased, assuming more leasing and development risk and expanding into a greater number of secondary markets despite ongoing cap rate compression.

The mandated reduction in multifamily mortgage originations by government-sponsored enterprises created more opportunities for private-sector lenders to step up and fill the gap. In addition, multifamily mortgage originations grew 41 percent year over year through the third quarter, leading to a significant increase in activity. GSEs originated 36 percent of loans, followed by financial/insurance companies for a combined 19 percent and regional and local banks at 17 percent. CMBS issuance continues to climb at a relatively quick pace, nearly achieving another post-crisis high watermark of $100 billion in 2014.

2015 Capital Markets Outlook

- **Debt and Equity Markets Remain Healthy, Despite Higher Interest Rates:** Favorable macroeconomic conditions support commercial real estate operating performance and solid revenue growth, mitigating possible upticks in interest rates. Debt terms should stay favorable, supporting liquidity and reducing the risk of an abrupt change in cap rates. Another round of debt-ceiling discussions and budget debates could constrain the pace of economic growth early in 2015.
- **Underwriting in Aggressive Markets Requires Selectivity of Assets and Submarkets:** Further reductions in GSE market share, which accounts for more than half of originations in secondary and tertiary markets, will open new opportunities for mezzanine lenders, CMBS conduits and banks. Although fundamentals remain quite strong today, the dynamics in the apartment sector have matured and lenders should set realistic assumptions. Key attributes to monitor include the impact of new supply, how well demographic profiles and incomes align with current rents, and future rent growth assumptions.
- **Abundance of Multifamily Capital Pressures Cap Rates:** Investment capital seeking higher yields will flow to secondary and tertiary markets, as well as outlying areas of primary markets, supporting continued compression in overall cap rates. Yields in top-tier assets in primary markets remain flat while cap rates in Class B/C and secondary/tertiary markets continue to tighten. Lenders will likely absorb minor shocks in the spreads, supporting steady transaction velocity.

Steady Performance Gains Buoy Investor Demand; Buyers Pursue Secondary and Tertiary Markets

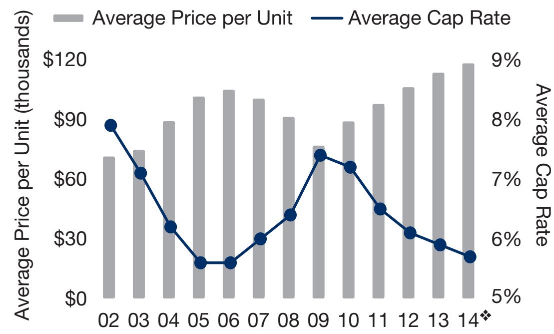
The apartment sector remains awash in capital and unwavering investor sentiment. Apartment values now measure 13 percent above the 2007 peak and overall cap rates have decreased over the past year to 5.7 percent. The dialogue about high prices and low yields that began in 2013 spilled over into 2014 and will continue into this year. Historically low vacancy rates, demand momentum and the undeniable demographic support from the millennial generation will continue to unfold, all of which signals that rent gains and values will not abate anytime soon. The powerful determinants of demand shaping this cycle do not appear to be close to tailing off, having formed a wave of pent-up demand that thus far has coincided with the initial surge of new supply. However, the introduction of expensive new supply has slowed the pace of rent growth in urban submarkets and the heavy lifting of overall rent growth is attributed to undersupplied, suburban Class B/C product. As of third quarter 2014, CBD rents posted 2.6 percent growth compared with 4.0 percent for the suburbs.

Apartment sales activity surged in the first three quarters of 2014, posting a 17 percent increase year over year led by allocations outside core metros. Cap rates continued to compress across all market tiers, with the sharpest contraction in secondary and tertiary markets. While major metros, including New York City, Los Angeles, San Francisco and Washington, D.C., still account for a large share of sales, select secondary and tertiary markets reflect significant upticks in velocity. Cap rates in primary markets fell 10 basis points to 5.2 percent, while prices increased 8.3 percent to $186,000 per unit. Secondary markets posted the strongest price appreciation, up 13.0 percent to $118,000 per unit. Transaction volume ramped up strongly in tertiary markets, but pricing has a ways to go yet, rising only 1.6 percent to $78,000, while cap rates declined 50 basis points to 7.2 percent.

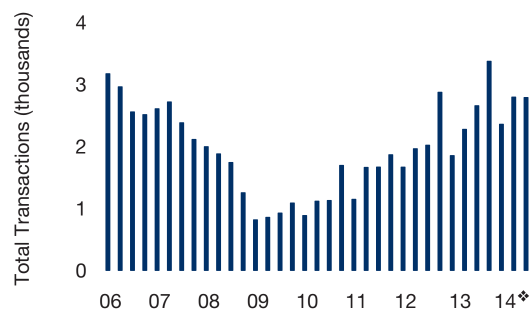
2015 Investment Outlook

- **Debt and Equity Spreads Narrow as Higher Sales Push Values:** Total sales activity will likely approach the peak levels of 2005 and 2006 this year. The current debt spread of approximately 200 basis points remains similar to 2007, but equity spreads at 140 basis points are in a much better position to absorb moderately higher rates than at the 2007 peak. Low yields and scarcity of product on the market by necessity will shift demand to secondary and tertiary markets.
- **Market Selection Critical for Class A Development or Class B Redevelopment Strategies:** Existing Class A assets may be priced at a premium to replacement cost, so development and renovation may offer better risk-adjusted returns. Permit levels will be a key indicator, along with absorption of current supply, vacancy, and economic trends such as falling energy prices and their effect on energy-related markets.
- **New Supply May Moderate NOI Growth:** The significant pickup in job and wage growth, immigration, consumer confidence and lifestyle choices that favor renting over homeownership will support occupancy and revenue gains, but some markets will feel the impact of competing units.

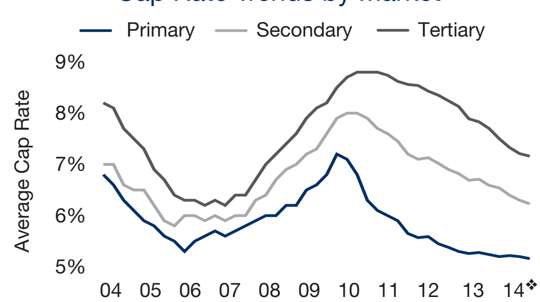
Price and Cap Rate Trends



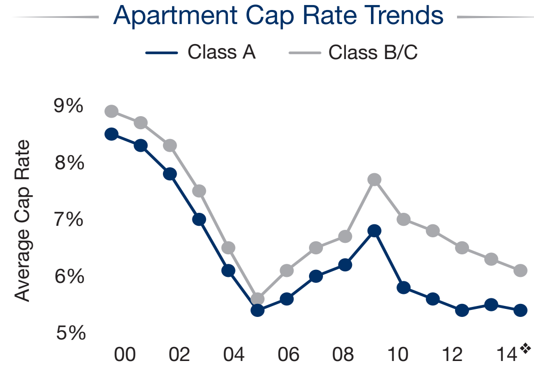
U.S. Apartment Transactions by Quarter



Cap Rate Trends by Market



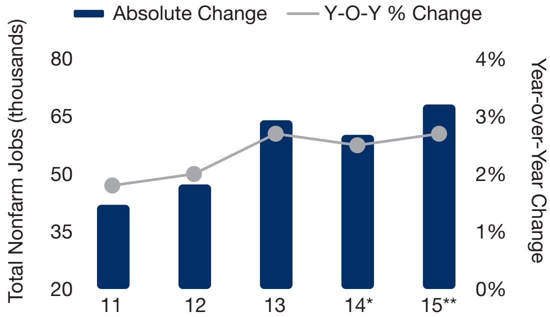
Apartment Cap Rate Trends



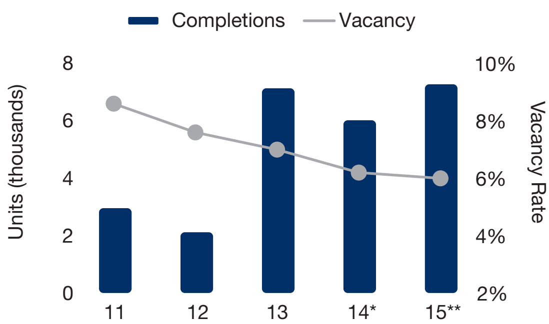
❖ Through Third Quarter

National Apartment Index | Up 6 Places | 2015 Rank: 25 | 2014 Rank: 31

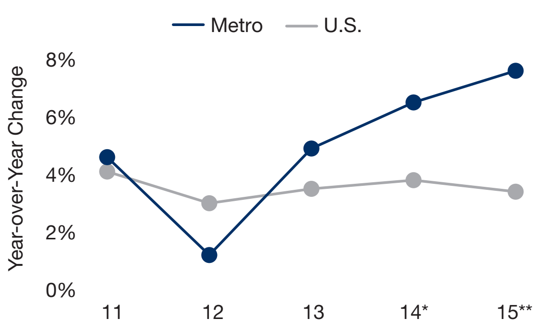
Employment Trends



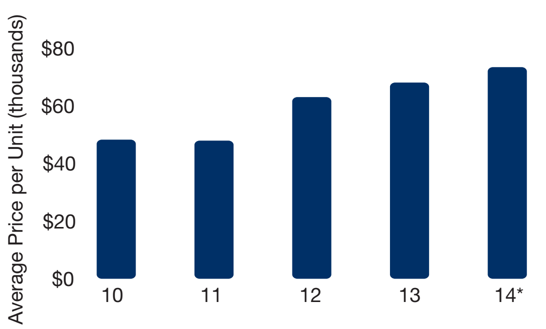
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Atlanta Apartment Construction Booming; Yet Vacancy Retreats Amid Broad-Based Employment Gains

A wave of apartment inventory will be delivered this year, though vacancy will tighten as robust employment growth fuels housing demand. Last year, nearly every sector contributed to gains, helping the metro recoup all jobs lost during the recession. Supported by the growing distribution and tech industries, employers are expected to increase hiring in 2015. Brighter job prospects will attract more residents to Atlanta, helping the formation of nearly 34,000 new households this year. Additionally, construction of the Braves and Falcons stadiums and the State Farm campus, which will house 3,000 workers in Dunwoody, is attracting tenants to nearby apartments. Capitalizing on growing demand, developers will deliver the largest addition to stock in five years. Construction is concentrated in Downtown, Midtown and Buckhead. In these areas, home prices and a downpayment are out of reach for potential homeowners, keeping more people in the renter pool and supporting absorption of newer units. Strengthening demand will pull down vacancy, giving property owners more leverage to raise rents this year.

Atlanta's favorable demographics and improving economic outlook are attracting more investors to local multifamily assets. Increased buyer competition will contribute to an intense bidding environment, motivating more owners to list their properties. Still, buyer demand will outpace the limited amount of for-sale inventory, and investors will have to put their best offer forward to acquire assets. Properties located in downtown Atlanta, Buckhead and Midtown, as well as affluent northern suburbs, particularly Marietta and Alpharetta, will garner the strongest interest. In these areas, stabilized Class B assets trade in the mid-5 to low-6 percent cap rate range. Investors seeking higher returns will target properties located south of the perimeter in College Park, East Point and Hapeville.

2015 Market Outlook

- **2015 NAI Rank:** 25, Up 6 Places. New household formation will strengthen apartments and help propel Atlanta's climb in the NAI.
- **Employment Forecast:** Atlanta employers will hire 68,000 workers in 2015, expanding payrolls 2.7 percent. Last year, 60,100 jobs were created.
- **Construction Forecast:** Apartment inventory will increase 1.6 percent this year as developers complete 7,250 units, up from the 6,600 rentals delivered in 2014.
- **Vacancy Forecast:** Elevated tenant demand will result in vacancy falling 20 basis points on net absorption of 7,700 units to 6 percent in 2015. Vacancy dropped 80 basis points one year earlier.
- **Rent Forecast:** Operators will boost rents 7.6 percent to $990 per month, up from the 6.5 percent increase last year.
- **Investment Forecast:** Elevated tenant demand and low vacancy have erased the fear of overbuilding in the metro. Improving performance will continue to attract investors to Atlanta, boosting competition.

Market Forecast | Employment: 2.7% ▲ | Construction: 650 ▲ | Vacancy: 20 bps ▼ | Effective Rents: 7.6% ▲

Outsized Growth in Renter-Age Population Driving Austin Apartment Demand

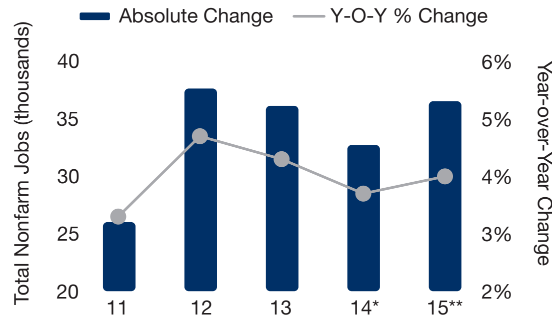
Austin's apartment market remains poised for another strong year in 2015 thanks to above-average job growth, in-migration and household formation. Elevated hiring in the tech sector, in particular, will continue to support outsized expansion in Austin's prime renter age cohort, which this year is forecast to grow at a rate five times the U.S. average. While local tech companies pay some of the most generous salaries in the nation relative to the cost of living, many well-paid young professionals prefer renting for its flexibility and the lack of maintenance required. This bodes well for the local Class A sector, particularly in submarkets where major high-tech employers are concentrated. The Class B/C sector, on the other hand, which already boasts below-average vacancy, stands to benefit tremendously from strong growth in traditionally lower-paying employment sectors. The leisure and hospitality and trade sectors, for example, are forecast to collectively account for roughly two-thirds of the metro's job creation this year.

Interest in Austin apartments has grown significantly, but for-sale inventory remains limited, sustaining a highly competitive bidding environment. Equity funds and institutional investors in the market remain focused on sizable performing properties, where cap rates have tightened to the low- to mid-5 percent range. At the same time, many smaller private buyers are targeting Class B-minus/C assets in close-in submarkets, which may offer substantial rental upside as luxury and high-end units come online nearby. Marketwide, cap rates for Class B/C deals hover in the low- to mid-6 percent range, though properties in prime locations can trade at premiums.

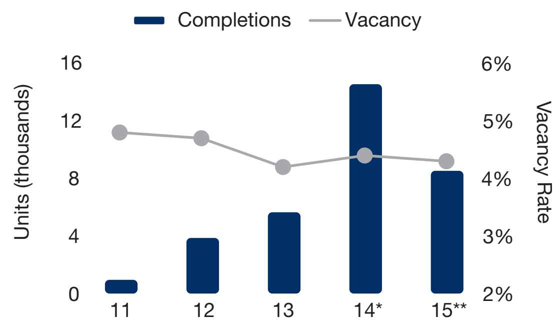
2015 Market Outlook

- **2015 NAI Rank:** 13, Up 5 Places. With a jump in this year's NAI, Austin is the top-ranked market in the Texas contingent.
- **Employment Forecast:** Austin will lead the nation in job growth in 2015. During the year, metrowide employment is forecast to rise 4.0 percent with the addition of 36,500 positions. Last year, payrolls grew 3.7 percent.
- **Construction Forecast:** Apartment completions in Austin will slow dramatically this year. Overall, an estimated 8,500 units are forecast to come online, compared with a record high of 14,500 apartments in 2014.
- **Vacancy Forecast:** Vacancy will dip 10 basis points to 4.3 percent in 2015. Despite a surge in apartment inventory last year, vacancy ticked up just 20 basis points.
- **Rent Forecast:** Austin will record some of the most significant rent growth in the nation this year. Metrowide, rents will rise 4.5 percent to an average of $1,142 per month, which reflects a modest acceleration from 2014, when rents grew 6.9 percent.
- **Investment Forecast:** Investors who have turned around value-add properties over the past few years may find 2015 an opportune time to divest; the combination of low cap rates, elevated buyer demand, and a favorable financing climate should continue to support strong valuations.

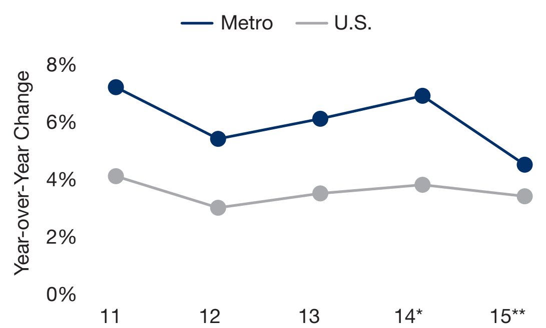
Employment Trends



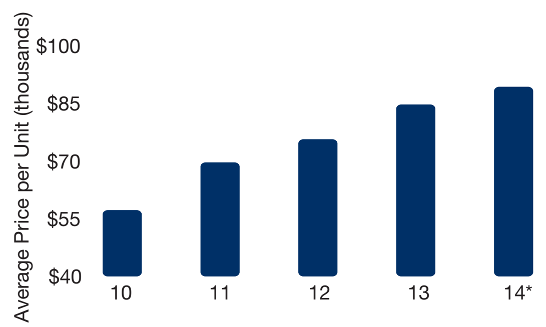
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

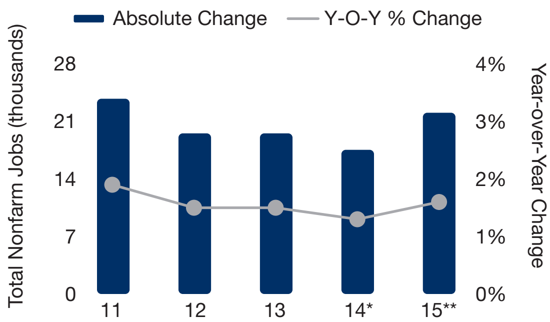
* Estimate ** Forecast

Employment: 4.0% ▲ Construction: 6,000 ▼ Vacancy: 10 bps ▼ Effective Rents: 4.5% ▲ Market Forecast

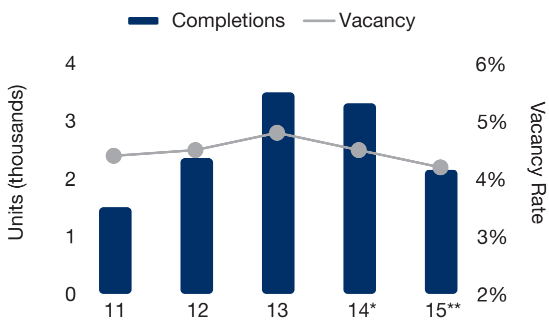
Marcus & Millichap

National Apartment Index | Down 5 Places | 2015 Rank: 29 | 2014 Rank: 24

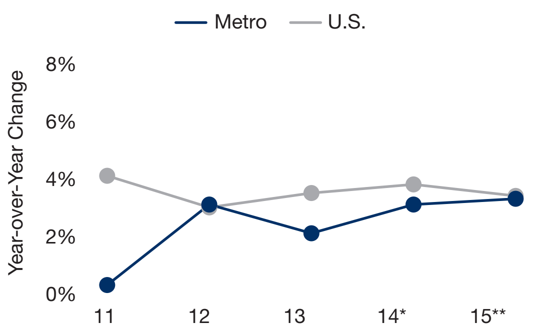
Employment Trends



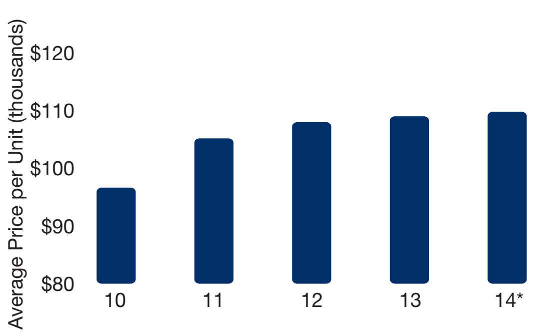
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Baltimore Buyers Seek Stable Yields; Peripheral Neighborhoods Provide Value-Add Options

Baltimore metro employers will add positions in the government and education and health services sectors, drawing more college-educated, young workers who seek to rent apartments in live-work-play environments. To support growth, city officials recently approved a $1.1 billion investment in schools and a 14-mile light-rail system that will revitalize the city's infrastructure and boost employment. Public and private investors are spending $20 billion on real estate projects in the core such as 520 Park and Marketplace at Fells Point apartments. While many residents may work downtown and in other Baltimore employment centers, a small portion live in the metro for relatively affordable housing options and make the 40-mile commute to Washington, D.C., for work. Though, as Baltimore has grown, a larger portion of workers transit into the area for work from smaller towns. As new residents enter the market, developers are optimistic and continue to deliver apartments, with a focus on downtown Baltimore, close to the entertainment centers, universities, hospitals and other major employers. While this area is a big draw for younger renters, suburban households will also seek rental units; some of the lowest vacancies in the metro area are in Towson, Hunt Valley, Annapolis and northern Maryland.

High-net-worth investors will scour the Baltimore metro for higher returns than proximate Washington, D.C., as comparable assets in the metro provide a 100 to 200 point lead on first-year yields versus the nation's capital. Buyers seeking more stable returns will ink deals in the neighborhoods of Mount Vernon, Fells Point and Bolton Hill. Those with a preference for relatively higher cap rates can browse listings in Reservoir Hill and Park Heights. Opportunistic investors seeking value-add deals with mid-range cap rates will head north of Interstate 83 to downtown for assets in Greenmount West and Station North neighborhoods.

2015 Market Outlook

- **2015 NAI Rank:** 29, Down 5 Places. Despite positive demographic trends and public works projects that will lift the local economy, Baltimore slipped in the NAI due to job growth below the projected U.S. rate of increase.
- **Employment Forecast:** Employers will increase jobs by 1.6 percent, adding 22,000 to payrolls in 2015, outpacing last year's 1.3 percent rise.
- **Construction Forecast:** Keeping pace with housing demand, developers will add 2,150 units this year, lifting supply by 1.1 percent. Apartment inventory had a gain of 1.7 percent in 2014.
- **Vacancy Forecast:** While jobs and household formation rise, average vacancy will drop to 4.2 percent, another 30-basis point cut as in 2014.
- **Rent Forecast:** The average effective rent will bump up 3.3 percent in 2015 to $1,258 per month as new construction is cut by a third of last year's number. Rents rose 3.1 percent last year.
- **Investment Forecast:** Low interest rates will motivate investors to make acquisitions, expanding the buyer pool and creating competition for properties in the Baltimore metro.

Market Forecast | Employment: 1.6% ▲ | Construction: 1,150 ▼ | Vacancy: 30 bps ▼ | Effective Rents: 3.3% ▲

High-Wage Jobs Fuel Housing Demand; Luxury Apartments Test Strong Fundamentals

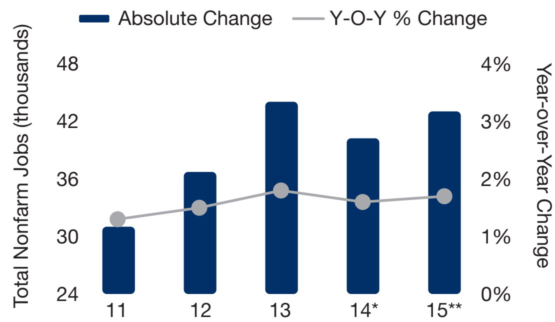
Young professionals are moving to Boston in search of higher-paying jobs generated by the booming healthcare and tech industries. While pharmaceutical companies, including GE Healthcare, Amgen and Novartis AG, are consolidating operations elsewhere, they are expanding in Boston and Cambridge. The increased pace of hiring this year will support household formation, elevating housing demand. Many potential homeowners will forgo buying, preferring short commute times and the lifestyle renting offers. Additionally, home prices in the most desirable areas — downtown Boston, Seaport District and Cambridge — are far above the market median price. Multifamily developers have focused their attention in these areas over the past year and will continue to develop at nearly the same pace in 2015. Strong tenant demand kept pace with the wave of new inventory last year, maintaining sub-4 percent vacancy. This year, however, new completions will put slight upward pressure on vacancy and, as a result, the pace of rent growth will slow.

Transaction velocity will remain on par with the heightened activity over the past two years. Despite strong buyer interest in local properties, steady demand drivers and consistent rent gains are limiting for-sale inventory. Owners have shown little motivation to divest and often hold assets for long periods because of steady cash flow. Many of the listings that are available consist of older value-add buildings or Class A core product that target a limited segment of the buyer pool. High-quality properties in the urban core will continue to garner strong attention from foreign investors, institutions and well-capitalized private buyers.

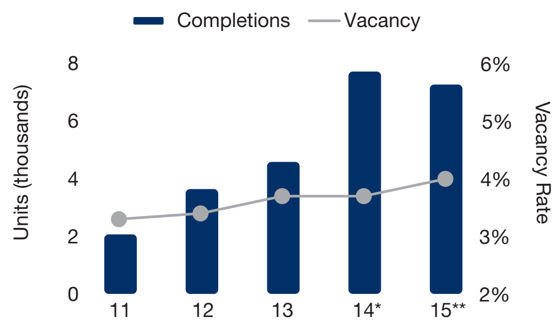
2015 Market Outlook

- **2015 NAI Rank:** 19, Down 3 Places. Boston receded three positions but remains in the top 20 of the Index due to a sizable renter-age population and a moderation in development.
- **Employment Forecast:** Employers in Boston will create 43,000 positions during 2015, a 1.7 percent annual increase. Last year, 40,200 workers were hired.
- **Construction Forecast:** Inventory will expand 1.6 percent this year with the delivery of 7,250 units. In 2014, 7,700 apartments were delivered.
- **Vacancy Forecast:** Significant supply additions will contribute to a 30-basis point rise in vacancy, putting the rate at 4 percent in 2015. Vacancy was unchanged last year.
- **Rent Forecast:** In 2015, average rents will advance 1.9 percent to $1,780 per month. Rents surged 4.5 percent one year ago.
- **Investment Forecast:** Investors will remain somewhat cautious while searching for properties in submarkets receiving a significant boost in inventory. Still, healthy property performance will sustain buyer interest in the metro.

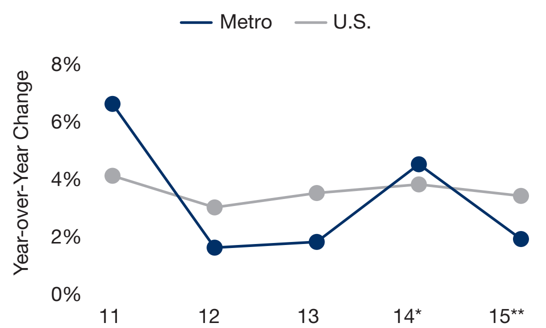
Employment Trends



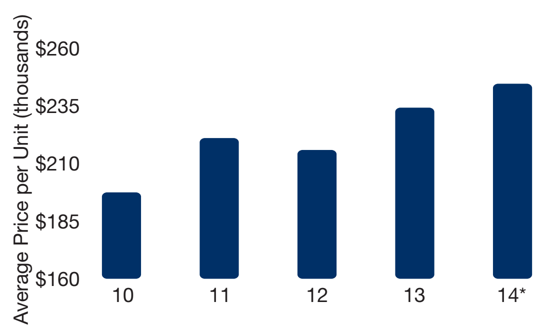
Supply and Demand



Effective Rent Trends



Sales Trends



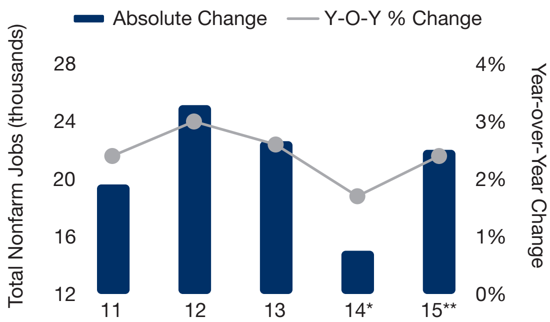
Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

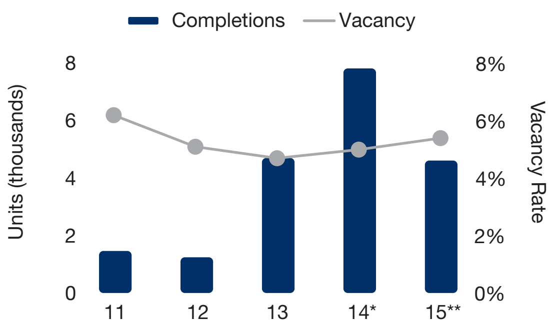
Employment: 1.7% ▲ Construction: 450 ▼ Vacancy: 30 bps ▲ Effective Rents: 1.9% ▲ Market Forecast

National Apartment Index | Down 1 Place | 2015 Rank: 31 | 2014 Rank: 30

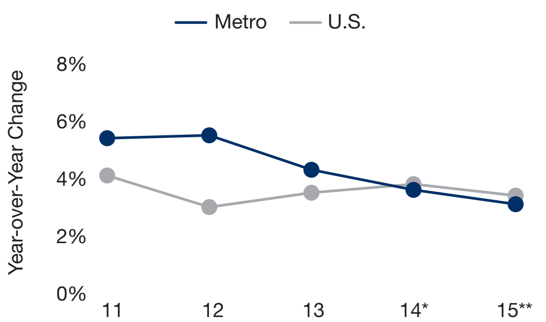
Employment Trends



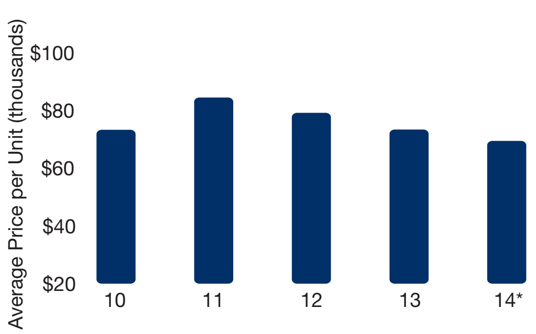
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Rising Rents Draw Out-of-State Buyers As Charlotte's Construction Pipeline Slows

Charlotte's growing economy has made it an attractive destination for young professionals, increasing apartment demand and encouraging development and rent growth. Employers are expanding their footprints across the metro, pushing total employment well beyond the pre-recession peak. In Uptown, AvidXchange announced plans to hire 600 workers and build a new headquarters at the N.C. Music Factory. Manufacturing companies such as Daimler and GKN Driveline are also adding hundreds of jobs, creating demand for rentals in suburban areas. The strong job market is attracting millennials to the metro, pushing up demand, especially in the amenity-rich urban core. Young adults between 20 and 34 years old are the largest renters group, and in Charlotte, this demographic segment is expected to increase 2.1 percent this year, more than five times the national average. Though the construction pipeline is going to slow significantly from last year's accelerated pace, three years of elevated completion volumes will push up vacancy into the low-5 percent range. The rise in vacancy will be temporary as demand builds and new units are leased up throughout the year. Growing renter competition will enable operators to lift effective rents for the fifth year in a row.

Long-term rent growth potential and lower yields than many other large markets along the East Coast will attract a large pool of investors to the Charlotte metro, creating intense competition for listings. Additionally, a low interest rate will provide buyers with sufficient leverage to make acquisitions, expanding investor demand. As the price gap between buyers and sellers narrows, transaction velocity will rise as more owners are drawn off the sidelines. An intense bidding environment for assets in desirable locations will push yield-sensitive buyers to the suburbs where first-year returns can exceed 7 percent. Institutional buyers are targeting best-in-class assets in Uptown, which can trade in the low- to mid-5 percent range.

2015 Market Outlook

- **2015 NAI Rank:** 31, Down 1 Place. Charlotte slid one spot in the NAI behind high vacancy and below-average rent growth.
- **Employment Forecast:** Charlotte employers will create 22,000 jobs this year, expanding total employment 2.4 percent. In 2014, payrolls increased by 15,000 workers.
- **Construction Forecast:** After delivering 7,800 units last year, the construction pipeline will slow considerably as 4,600 rentals are delivered this year, raising rental stock 3.4 percent.
- **Vacancy Forecast:** Average vacancy in Charlotte will move up 40 basis points to 5.4 percent in 2015, following a 30-basis point rise last year.
- **Rent Forecast:** Operators will lift effective rents 3.1 percent this year to $925 per month. In 2014, effective rents rose 3.6 percent. Since 2010, rents advanced 4.0 percent per year on average.
- **Investment Forecast:** The large supply of newly delivered apartment complexes will add additional opportunities for institutional investors.

Market Forecast: Employment: 2.4% ▲ Construction: 3,200 ▼ Vacancy: 40 bps ▲ Effective Rents: 3.1% ▲

Deliveries Surge to Meet New Renter Demand, Forming Headwinds Against Operational Gains

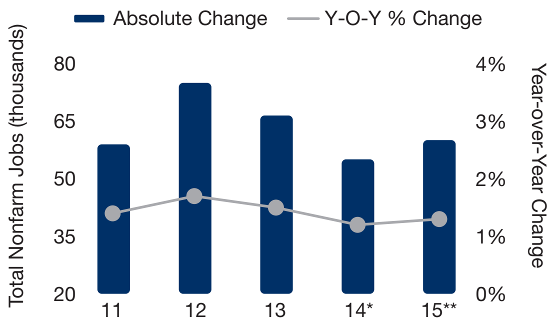
Chicago's apartment market will stage another strong performance in 2015, with vacancy and rents set to improve even as completions rise to the highest level on record since at least 2000. During the year, more than 4,000 apartments will come online in the city. The Streeterville/River North area, home to Motorola's new global headquarters, will lead in-city completions during 2015, followed by The Loop, which recorded significant tightening last year despite a 10 percent increase in rental inventory. Citywide, multiple condo projects are in the works, but only a limited number of units will come online this year, and the impact on the luxury apartment market should be negligible, for now. In the suburbs, apartment deliveries this year will be concentrated almost exclusively near employment hubs or transit stations in North Cook County and in the Lake County/Kenosha submarket, which both boast vacancy rates well below the suburban average.

Investors and lenders will remain optimistic about the Chicago apartment market through 2015, even as completions rise. The metro appeals to an array of investors. REITs and institutions appear to have set their sights on in-city high-rises and other large Class A deals, while many private investors are targeting older properties with significant upside potential. Value-add deals in the metro include assets with long-standing tenants paying below-market rents or aging buildings in the city that can be rehabbed and repositioned to attract young professionals. Overall, the combination of strong demand and the highly favorable lending climate has driven prices in the Chicago metro to record-high levels, while the average cap rate, at approximately 6.7 percent, is within 30 basis points of the cyclical trough reached in 2007.

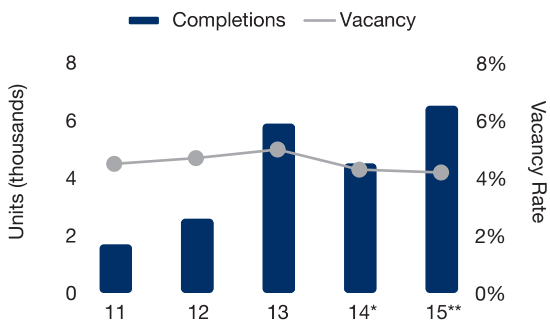
2015 Market Outlook

- **2015 NAI Rank:** 15, Up 2 Places. Chicago climbed two places in the NAI due to positive economic trends.
- **Employment Forecast:** Local payrolls will rise 1.3 percent in 2015 with the addition of 60,000 jobs. In 2014, employment growth reached 1.2 percent and was attributable, in large part, to elevated hiring in the tech sector.
- **Construction Forecast:** During 2015, nearly 6,500 apartments will be delivered, which reflects a roughly 1 percent increase in inventory. Last year, 4,500 units were brought online in the metro.
- **Vacancy Forecast:** Elevated completions will slow the pace of vacancy improvement in the Chicago metro. After a 70-basis point drop in 2014, vacancy will dip another 10 basis points to 4.2 percent this year.
- **Rent Forecast:** Owners will restrain rent growth to maintain occupancy in 2015. Effective rents will tick up 3.3 percent to $1,297 per month, compared with last year's pace of 3.5 percent.
- **Investment Forecast:** Renter demand in the West Loop will rise further as companies including Google expand their presence and more retail is brought online. Investor demand will follow suit, elevating competition and prices for older apartments and other buildings suitable for conversion.

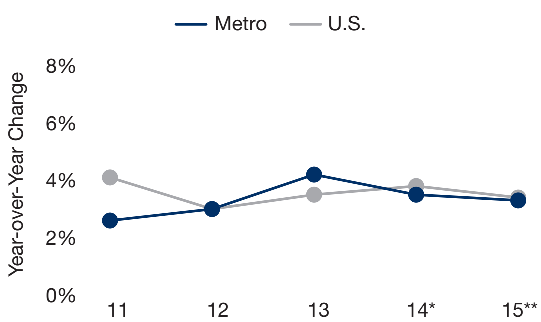
Employment Trends



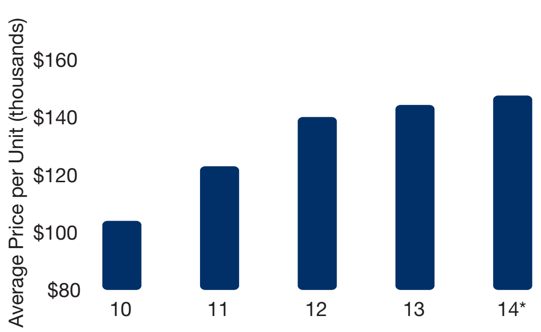
Supply and Demand



Effective Rent Trends



Sales Trends



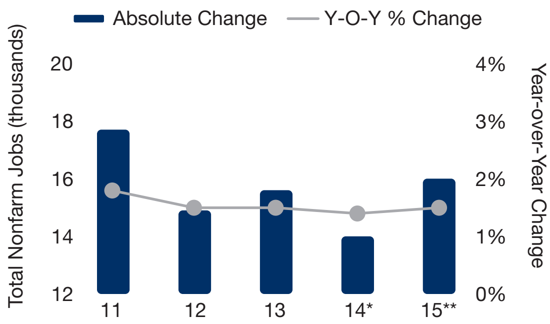
Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

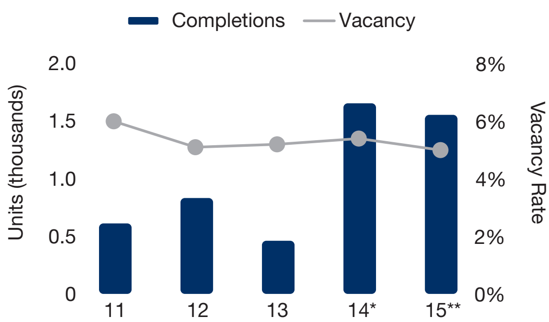
Employment: 1.3% ▲ Construction: 2,000 ▲ Vacancy: 10 bps ▼ Effective Rents: 3.3% ▲ Market Forecast

National Apartment Index | No Change | 2015 Rank: 42 | 2014 Rank: 42

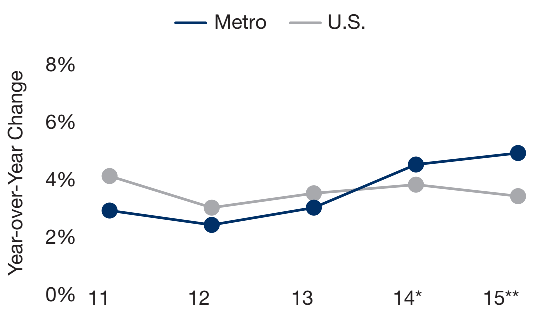
Employment Trends



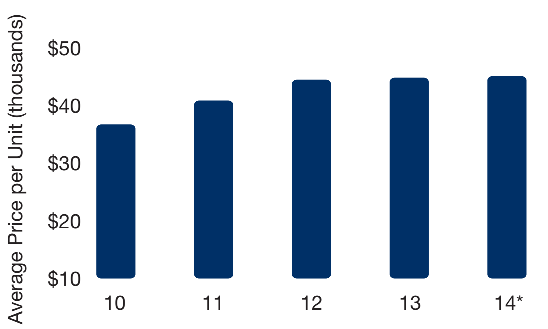
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Demographics and Jobs Drive Developer Confidence; Mixed-Use Projects Ready for Anticipated Streetcar

As some of the metro's Fortune 500 companies expand in 2015, household creation in Cincinnati will accelerate, increasing demand for rental housing. Last year, Dunnhumby, Convergys, Kroger and Procter & Gamble began filling openings for qualified technology workers by aggressively recruiting new college graduates and professionals. Kroger also announced plans to add 1,200 permanent employees in Cincinnati; 50 are corporate office jobs and the remaining are in grocery stores metrowide. The broad spectrum of new positions will create demand for both luxury rentals in the major employment hubs and Class B/C units throughout the city. Developers are responding with new projects focused within urban locales such as the central business district, which draws young professionals seeking a live-work-play lifestyle. One of these complexes, The Banks, is a phased mixed-use development along the Ohio River, situated between Paul Brown Stadium and Great American Ball Park. The public and privately funded venture contains residential, office, hotel and retail uses and will be near the planned Streetcar route. Though development of rental units will remain elevated close to last year's levels, supply will fall short of expected demand, pushing vacancy down to 5 percent by year end.

The appeal of favorable demographics and strong operations will bring more investors to the Cincinnati metro this year. Rents will rise along with developer optimism in this middle market, as an influx of projects are brought online. These new developments will garner interest from institutional players, while high-net-worth individuals will seek the area's value-add plays in proximity to the city's high-traffic locations. Investors from other regions will continue to express interest in the market with aggressive bids. The high investment demand for available listings is already indicated by a four-year trend of compressing cap rates, which will continue to fall at a moderate pace.

2015 Market Outlook

- **2015 NAI Rank:** 42, No Change. Cincinnati maintained its spot in the ranking this year as soft employment gains and low population growth in the prime renter cohorts remained in place.
- **Employment Forecast:** Employers will boost hiring by 16,000 jobs this year, an increase of 1.5 percent. Last year, 14,000 positions were generated.
- **Construction Forecast:** This year, 1,550 units will be completed, bumping up supply by 1 percent, a slight trim from last year's number. In the previous year 1,650 rentals were delivered.
- **Vacancy Forecast:** Vacancy will compress 40 basis points to 5 percent in 2015, erasing the 20-basis point lift one year ago.
- **Rent Forecast:** Effective rent will expand 4.9 percent year over year to $860 per month, building on the 4.5 percent rise in the prior year.
- **Investment Forecast:** High-net-worth investors will keep a close eye on the metro as household formation advances and operations tighten. Motivated buyers will find that yield opportunities are flourishing in this market.

Market Forecast | Employment: 1.5% ▲ | Construction: 100 ▼ | Vacancy: 40 bps ▼ | Effective Rents: 4.9% ▲

National Convention Puts Spotlight on Cleveland, Bolsters New Development Opportunities and Jobs

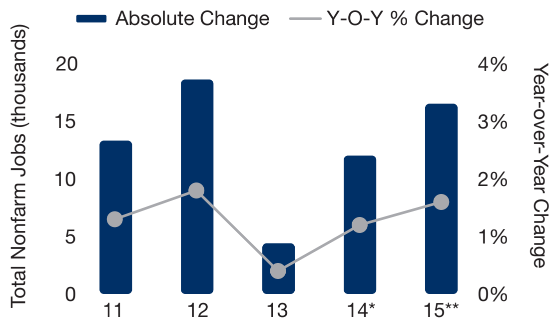
Cranes are filling the sky in downtown Cleveland, creating new jobs and boosting demand for rentals. Only a few years ago, the focus was on the development of the Convention Center and Medical Mart that would drive tourism and generate jobs. The attention shifted in 2014 when Cleveland was confirmed to host the 2016 Republican National Convention, which will keep developers active. Several hospitality projects are planned or underway in the region, including the 600-room Hilton and 206-room Le Meridien. These projects are giving a boost to the construction sector and upon completion will generate leisure and hospitality positions. Additionally, a resurgence in residential demand downtown has resulted in a significant amount of office-to-apartment conversions. After the apartment construction cycle hit a peak in 2014, completions will moderately slow this year, though they will still trend above the five-year average. Outside downtown, new supply is concentrated in the central and the eastern regions of the metro, where housing demand is highest. Despite two years of heightened construction, strong demand will push vacancy below 4 percent, triggering rent growth. Operators in areas with significant new supply, however, may require leasing incentives.

Investors seeking higher returns in secondary markets will expand their portfolios in Cleveland. Steadily improving property performance and a vibrant downtown are gaining the attention of more out-of-state investors and boosting demand for local assets. Properties located downtown and in University Circle will be the most sought after and the most challenging to find. As a result, national investors targeting properties measuring more than 200 units will stretch their search outside the core, in established employment hubs and affluent neighborhoods. Local buyers, meanwhile, will target complexes with 50 units or fewer that require minor capital improvements in order to lift rents to market rate.

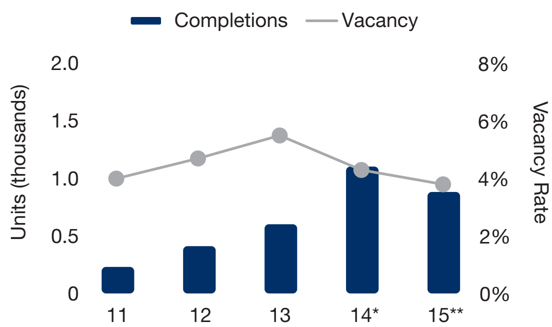
2015 Market Outlook

- **2015 NAI Rank:** 40, Up 3 Places. Cleveland inched up three places in the NAI due to a 50-basis point vacancy decline, the nation's largest decrease.
- **Employment Forecast:** The Cleveland metro will gain 16,500 jobs in 2015, a 1.6 percent increase. Last year, 12,000 positions were created.
- **Construction Forecast:** Developers will complete 880 apartments in 2015, expanding inventory 0.5 percent. This is slightly down from the 1,100 units that came online in 2014.
- **Vacancy Forecast:** Net absorption of 1,650 units will pull vacancy down by 50 basis points this year to 3.8 percent. One year earlier, vacancy tumbled 120 basis points.
- **Rent Forecast:** Tightening conditions will prompt owners to lift rents 2.5 percent to $832 per month, marking a third year of growth. Rents rose 2.1 percent last year.
- **Investment Forecast:** Operators of larger complexes may find this an opportune time to list their assets while supply is limited and investor demand is high.

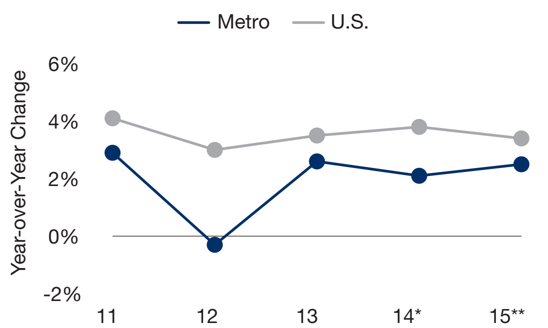
Employment Trends



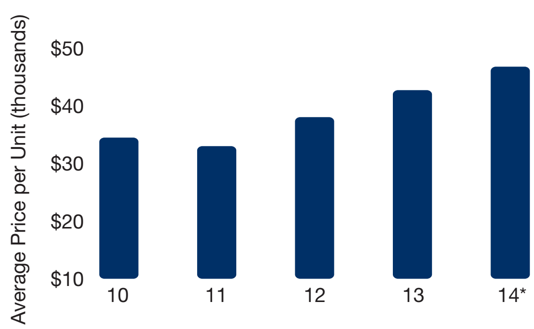
Supply and Demand



Effective Rent Trends



Sales Trends

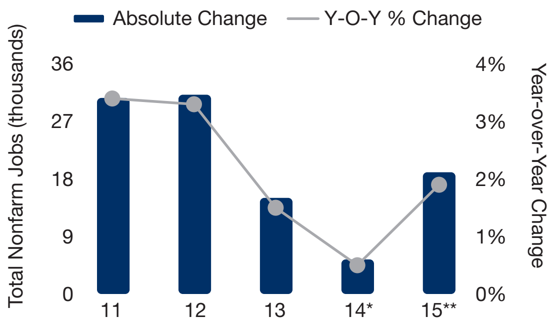


Sources: CoStar Group, Inc., Real Capital Analytics

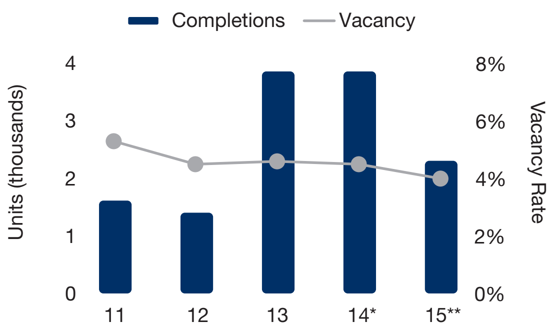
* Estimate ** Forecast

National Apartment Index | Down 1 Place | 2015 Rank: 36 | 2014 Rank: 35

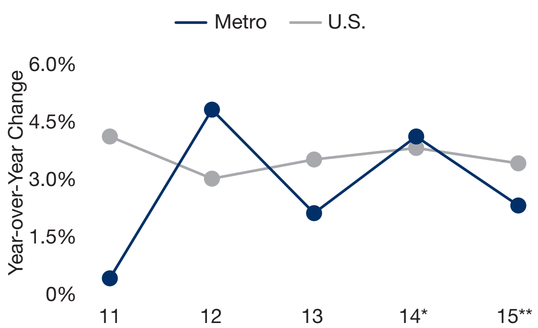
Employment Trends



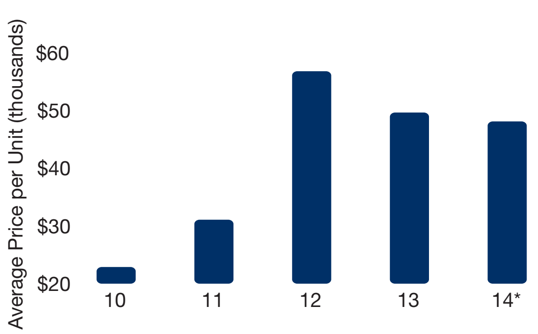
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Solid Job Gains and Student Demand Drive Apartment Performance; Vacancy Tightens

A slowdown in construction amid steady employment growth and household formation will tighten vacancy in the Columbus apartment market this year. Government hiring and the thriving distribution and logistics sector are contributing to a rise in employment, outpacing last year's lackluster growth. Zulily and Amazon will add a combined 1,000 workers over the next few years, while Donatos and Kroger announced significant staff expansions. In addition to strengthening employment, the metro's large population of students and recent graduates is generating demand for rentals. Developers capitalized on elevated demand last year, and new supply hit a peak. The number of completions will fall in 2015 though will remain above the five-year average. New additions are heavily concentrated near Ohio State University and downtown. The reduced pace of construction will weigh less heavily on existing inventory. Net absorption of nearly 3,000 units will put downward pressure on vacancy and the rate will fall to its lowest level in more than a decade.

Strong demand drivers and widening access to acquisition financing are attracting investors to Columbus. Despite elevated buyer interest, transaction velocity will be limited to a shallow pool of for-sale inventory as owners hold onto properties that provide steady cash flows. However, rent growth is slowing and investors are still willing to pay lower cap rates, which will motivate owners who are on the fence to divest. Assets in areas with favorable demographics such as downtown, New Albany, Dublin and Polaris garner the strongest interest. Additionally, an increasing number of out-of-state investors are searching in the metro, lured by comparably higher yields offered in secondary markets. Cap rates will remain relatively flat this year. First-year returns start in the low-6 percent range for Class A assets and trend up to 250 basis points higher for Class C properties.

2015 Market Outlook

- **2015 NAI Rank:** 36, Down 1 Place. A shrinking prime-renter-cohort population resulted in a one-spot slip in the NAI for Columbus.
- **Employment Forecast:** This year, employment will grow 1.9 percent as 19,000 positions are created. Last year, 5,400 jobs were added.
- **Construction Forecast:** Developers will complete 2,300 units in 2015, expanding inventory 1.5 percent. This is down from the 3,850 apartments delivered last year.
- **Vacancy Forecast:** Lower competition from new supply and strong tenant demand will pull vacancy down 50 basis points to 4 percent this year, building on the 10-basis point reduction in 2014.
- **Rent Forecast:** Tightening conditions will give operators leverage to lift rents. Average rents will advance 2.3 percent to $812 per month, marking a sixth consecutive year of gains.
- **Investment Forecast:** Strengthening fundamentals in tertiary markets outside of Columbus will attract investors searching for value-add opportunities and slightly higher yields.

Market Forecast | Employment: 1.9% ▲ | Construction: 1,550 ▼ | Vacancy: 50 bps ▼ | Effective Rents: 2.3% ▲

Outsized Job Growth Drives Renter Demand, Keeps Vacancy Near Record Low

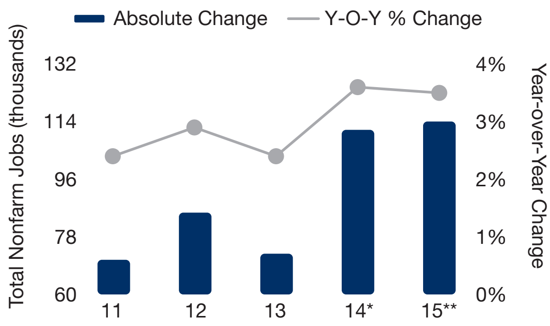
Job creation, net migration and household formation are driving renter demand in Dallas/Fort Worth, and vacancy will remain at historically low levels during 2015 despite surging deliveries. Slumping oil prices will ease employment momentum, but the diversified economy will remain robust. Thousands of luxury apartments are slated for completion this year in the Dallas area, specifically in the northwest suburbs, Oak Lawn/Park Cities and Intown submarkets. Demand for these Class A-plus units is rising as companies expand or relocate into the market. Firms such as Toyota, State Farm, Omnitracs and Active Network will create thousands of professional jobs in the area over the next few years. In Fort Worth, completions will be concentrated in the Intown, University areas and northern Fort Worth suburban neighborhoods. Strong job growth across all industries will provide a steady pool of prospective renters and keep absorption in line with deliveries this year.

Investors are optimistic about the Metroplex, and strong economic growth, favorable demographics and advancing property operations will lead to an increased buyer pool this year. Deliveries will remain elevated compared with last year's levels, and investors will become more mindful of completions in specific submarkets. However, the Metroplex's history of absorbing large influxes of supply combined with another year of projected nation-leading job growth should ease concerns. Out-of-state buyers became more active in the market over the last 12 months, and their presence will build through 2015. These investors, many from California, are targeting performing Class B/B-minus properties with cap rates around 7 percent. Many local buyers are shifting their focus to close-in Class C assets that may present strong upside potential. Cap rates for these assets will start in the low- to mid-7 percent range.

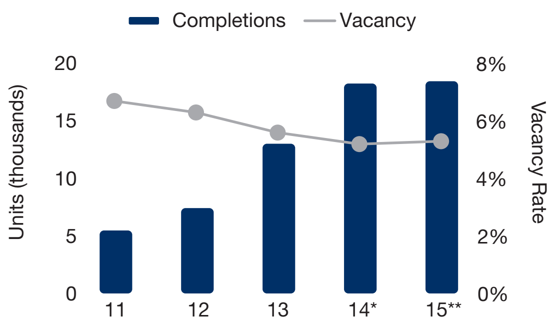
2015 Market Outlook

- **2015 NAI Rank:** 18, Down 4 Places. Employment will grow substantially, but elevated completions pushed down the Metroplex in the NAI.
- **Employment Forecast:** Payrolls will rise 3.5 percent with the creation of 113,900 jobs this year in the Metroplex. In 2014, employers generated 111,300 positions, an annual expansion of 3.6 percent.
- **Construction Forecast:** Developers will complete 18,400 apartments in 2015. Last year 18,200 units were delivered.
- **Vacancy Forecast:** In 2014, vacancy reached a 13-year low, falling 10 basis points year over year. As deliveries continue to surge in 2015, vacancy will tick up slightly to 5.3 percent, up just 10 basis points from last year.
- **Rent Forecast:** Average asking rents will rise to $954 per month in 2015, an annual increase of 5.1 percent. This growth slows slightly from the 5.3 percent advance last year.
- **Investment Forecast:** Smaller, early-vintage assets will remain in strong demand through 2015, especially in submarkets where significant amounts of luxury apartments are coming online.

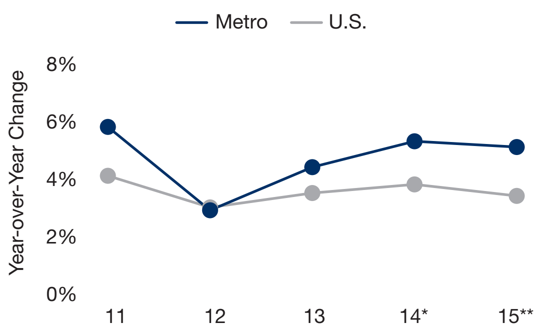
Employment Trends



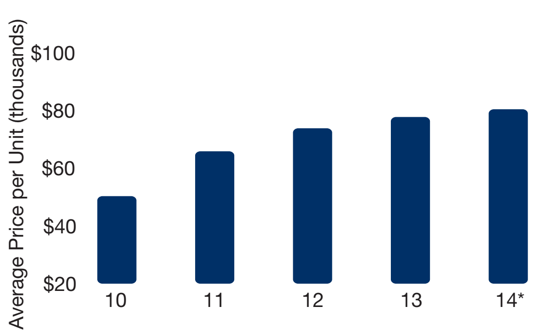
Supply and Demand



Effective Rent Trends



Sales Trends

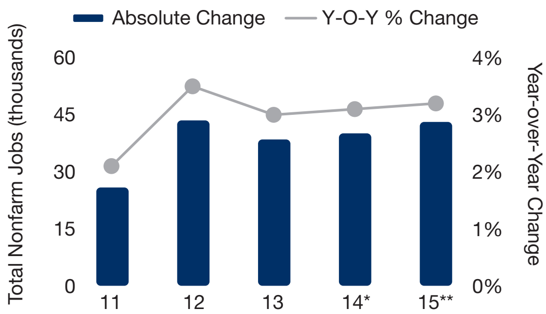


Sources: CoStar Group, Inc., Real Capital Analytics

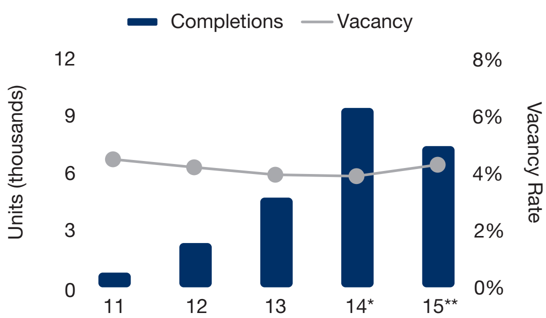
* Estimate ** Forecast

National Apartment Index | Down 2 Places | 2015 Rank: 5 | 2014 Rank: 3

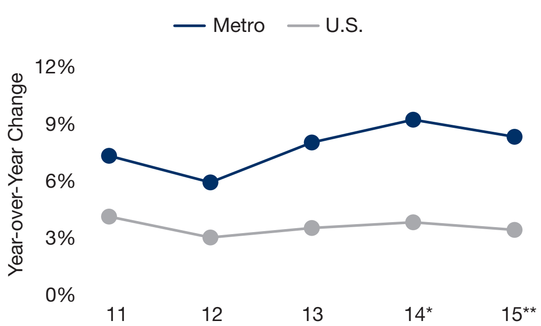
Employment Trends



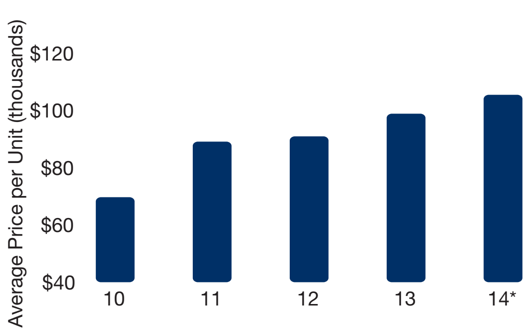
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Growing Denver Economy, Surging Rents Stir Investor Demand

Strong job gains in the Denver metro will drive apartment demand this year, pushing up rents and increasing property incomes. Nearly every employment sector will add jobs, strengthening economic growth. Lockheed Martin recently announced plans to create roughly 500 high-paying aerospace jobs over the next eight years. Employment increases will keep developer optimism high; however, after a near record-setting pace in 2014, the construction pipeline will begin to ebb this year. Nearly half of all completions in 2015 will still be heavily concentrated near the urban core. Over the past several years, absorption has kept pace with increasing development; however, this year deliveries will outpace demand, elevating marketwide vacancy into the low-4 percent range. Yet, the rise in vacancy will be temporary as construction slows and new projects lease up. High demand for rentals will enable operators to lift rents at one of the fastest paces nationwide. Over the last few years Denver has ranked among the top major metros for rent growth, posting annual gains well above 5 percent since 2010.

Tight vacancy and rising income streams will drive up NOIs, attracting the attention of a wide array of investors from across the country and creating a competitive bidding environment for appropriately priced assets. Intense buyer appetite for assets in the Denver area will encourage owners who are looking to capitalize on recent appreciation to bring properties to market, supporting transaction velocity. Elevated prices in downtown Denver will push many private investors to look in suburban areas. Assets west of the urban core will receive the most attention from these investors due to the area's supply constraints and proximity to downtown. Meanwhile, well-funded private equity and institutional buyers seeking additional yield will target listings of larger properties in the southeastern portion of the metro, especially in Centennial and Aurora.

2015 Market Outlook

- **2015 NAI Rank:** 5, Down 2 Places. Despite the second-highest rate of rent growth in the nation, Denver slipped two positions in the NAI.
- **Employment Forecast:** Hiring will expand 3.2 percent this year as employers add 43,000 workers to payrolls. Last year, 40,000 positions were created in the metro.
- **Construction Forecast:** After bringing online 9,400 units last year, developers will slow the pace of completions in 2015 to 7,400 rentals, a 2.9 percent increase in rental inventory.
- **Vacancy Forecast:** This year vacancy will move up 40 basis points to 4.3 percent. A 10-basis point decline in vacancy was recorded in 2014.
- **Rent Forecast:** Following a 9.2 percent surge in effective rents last year, operators will lift rents an additional 8.3 percent in 2015.
- **Investment Forecast:** Recent deliveries of Class A apartments in downtown Denver will present new opportunities for institutional buyers. However, those looking for higher cap rates will search for properties near the Denver Tech Center and Interlocken.

Market Forecast | Employment: 3.2% ▲ | Construction: 2,000 ▼ | Vacancy: 40 bps ▲ | Effective Rents: 8.3% ▲

Escalating Detroit Apartment Performance Ignites Development Cycle

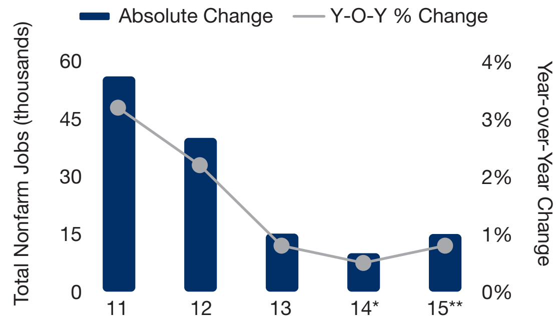
Demand for apartments in the Detroit metro will keep occupancy elevated through 2015, even as construction reaches a 10-year high. Jobs created by redevelopment projects will generate new demand in many neighborhoods throughout the metro. Significant interest surrounds the $650 million Red Wings arena and entertainment district, which encompasses 45 blocks in the lower Cass Corridor. This project will create an estimated 5,500 construction jobs by completion in 2017. Thousands of other jobs will come from the M-1 light-rail project that will travel through the downtown and midtown areas of Detroit, where vacancy is especially low. In these two locations, rent growth has reached levels that allow ground-up apartment development to be feasible. The Royal Oak, Auburn Hills and Plymouth suburbs also have new buildings underway. Higher home prices in desirable neighborhoods within these cities preclude many tenants from transitioning to homeownership, keeping rental demand elevated.

Detroit's improving financial outlook post-bankruptcy, the redeveloping urban landscape and a selection of properties with relatively higher yields compared with other markets of its size are coming together to draw new investors to the area. The added interest has elevated buyer demand well above available supply, creating a competitive pricing environment. Attention is particularly intense for assets in the downtown and midtown areas of the city where apartments are favored by many young professionals and empty nesters seeking an urban lifestyle. Buyers who target properties with value-add potential may seek assets near the numerous redevelopment projects throughout the metro.

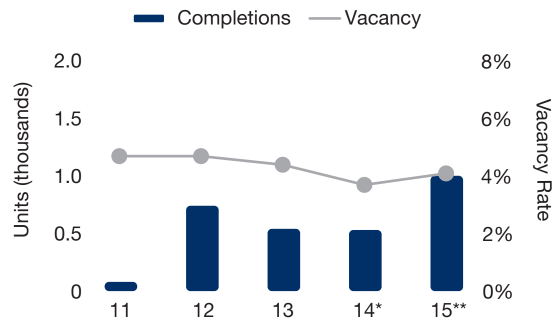
2015 Market Outlook

- **2015 NAI Rank:** 44, Down 5 Places. Slow job growth and an affordable housing market resulted in a five-spot fall for Detroit in the Index.
- **Employment Forecast:** Payrolls will expand 0.8 percent in 2015 as local employers add 15,000 workers. This is an increase from last year's 0.5 percent gain.
- **Construction Forecast:** This year, developers will bring 1,000 apartments into service, a 0.3 percent advance in inventory. This is the highest rate of completions since 2005. During 2014, 525 rentals were delivered throughout the metro.
- **Vacancy Forecast:** The rise in deliveries amid restrained job growth and an improving housing market will push up vacancy 40 basis points to 4.1 percent in 2015. Last year, vacancy fell 70 basis points.
- **Rent Forecast:** As vacancy inches upward, owners will restrain rent growth. During 2015, effective rents will edge up 1.1 percent to $839 per month, following a 2.2 percent climb in 2014.
- **Investment Forecast:** Stabilized assets will offer buyers upside potential through rent increases and should garner added investor attention throughout 2015.

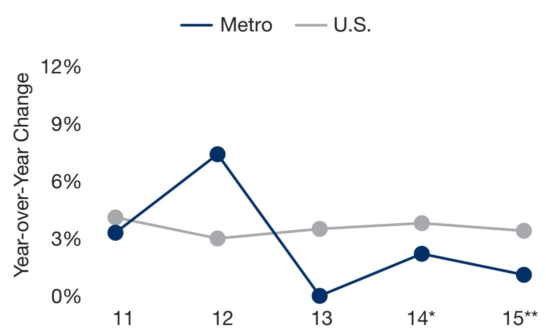
Employment Trends



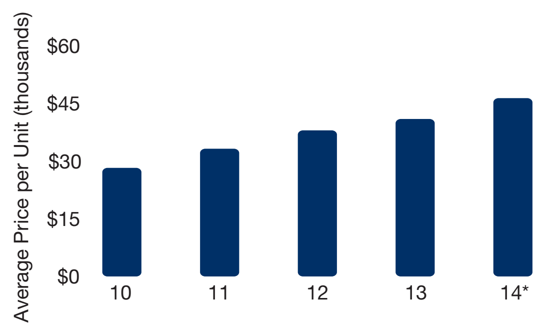
Supply and Demand



Effective Rent Trends



Sales Trends



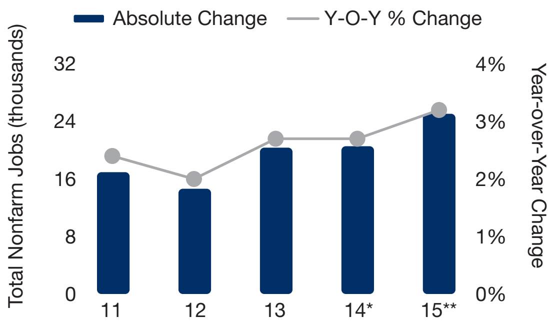
Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

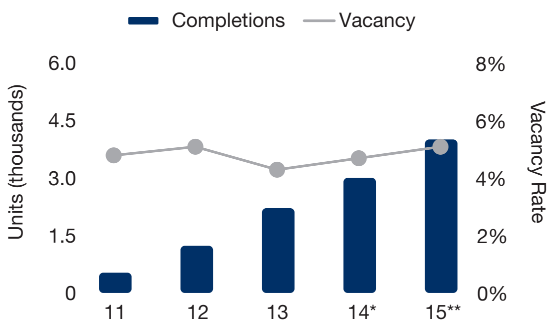
Fort Lauderdale

National Apartment Index | Up 3 Places | 2015 Rank: 26 | 2014 Rank: 29

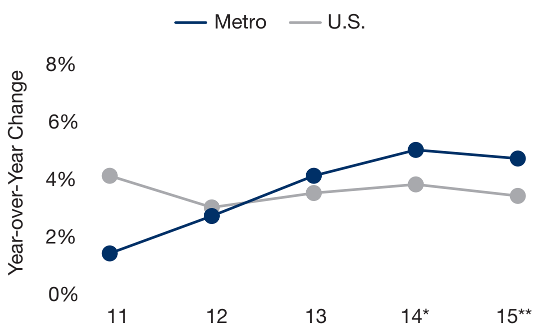
Employment Trends



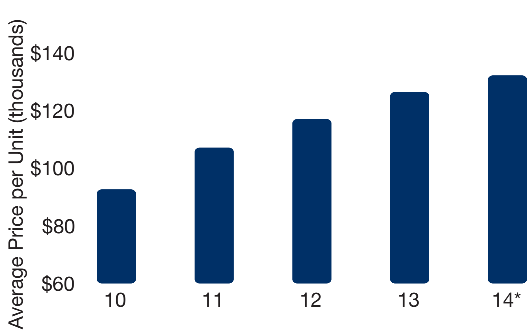
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

New Complexes Will Lift Broward Vacancy, But Sellers and Investors Remain Undeterred

With the vacancy rate in Broward County hovering around the 5 percent mark, the apartment market is on firm footing and positioned to offer property owners additional opportunities to augment NOIs. Employers are hiring at a respectable pace and in-migration numbers closely resemble the pattern in place prior to the recession, and both trends are providing steady support for rental housing demand. Although the number of occupied units will rise again this year as new rental households are formed in Broward, apartment stock will grow at a faster rate as developers bring hundreds of units online. Most of the new rentals with completion dates in 2015 will come online in the first half of the year. Countywide vacancy will rise as a result and recede to the forecast level in the second half as demand partially catches up. Completions this year are concentrated in a few communities in the county, including Miramar and Pompano Beach.

Property prices in Broward have climbed consistently over the past four years, reflecting pitched competition among investors. Cap rates average in the low-6 percent range and dip lower for underperforming properties with below-market rents that can be renovated. Value-add opportunities will remain highly sought after in the months ahead, but investors potentially priced out of this segment could revert to stable, cash-flowing assets. In particular, the vast stock of Class B and C properties in communities including Hollywood and Davie appear positioned to retain tenants employed in low- and middle-tier service occupations with minimal leasing incentives. Large private capital sources and institutions, meanwhile, may receive additional opportunities to supplement portfolios as new complexes complete lease-up.

2015 Market Outlook

- **2015 NAI Rank:** 26, Up 3 Places. Although the vacancy rate will rise in Broward County this year, one of the nation's highest rates of job growth lifted the market in this year's Index.
- **Employment Forecast:** Employers will add 25,000 jobs in 2015 to expand payrolls 3.2 percent, besting last year's 2.7 percent gain. The most significant gain this year will occur in the professional and business services sector, which will add 5,900 positions.
- **Construction Forecast:** Developers will bring online 4,000 units in 2015, the greatest annual amount in 15 years. The total includes roughly 1,500 units in the Fort Lauderdale submarket. In the preceding year, 3,000 rentals were completed countywide.
- **Vacancy Forecast:** Vacancy will rise 40 basis points to 5.1 percent, repeating last year's increase.
- **Rent Forecast:** The average rent will advance 4.7 percent in 2015 to $1,372 per month. With the increase, the average rent will have gained 24.0 percent since the low point six years ago.
- **Investment Forecast:** Higher prices and intense investor competition for apartments raise the probability for sellers to fulfill price objectives.

Market Forecast | Employment: 3.2% ▲ | Construction: 1,000 ▲ | Vacancy: 40 bps ▲ | Effective Rents: 4.7% ▲

Apartment Deliveries Rising in Houston But Appear Well Aligned with Renter Demand

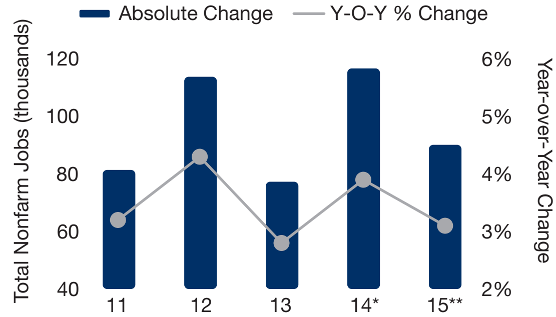
The Houston metro will experience another year of strong economic growth as corporate expansion attracts new residents. Though a slide in oil prices that began in late 2014 introduces significant uncertainty into the outlook, the diversified employment base offers potential for steady job creation in other segments of the economy, including education and health services. In addition, lower gas prices could lift employment in consumer-related sectors such as retail. Apartment development in Houston has fallen short of new renter demand for the past several years, but a balance will emerge in 2015 as deliveries continue to rise. A sizable share of the units completed in 2014 or scheduled for completion this year are concentrated in higher-rent central and near-west submarkets, though, and present minimal competition to properties elsewhere in the metro. That said, deliveries will begin to tick up in The Woodlands/Spring area, but renter demand stands to rise dramatically as ExxonMobil's new campus and other large office developments fill with workers. Metrowide, the vacancy rate is expected to remain near its lowest level in the last decade, providing sufficient leverage for local apartment owners to achieve strong rent growth.

Out-of-state buyers will continue to bolster demand for apartment assets in the Houston metro, though a shortage of for-sale inventory will likely persist, limiting transaction velocity. Interest will remain particularly strong for 1970s- and 1980s-vintage properties within the Inner Loop, as they may offer substantial rental upside as thousands of luxury apartments come online. Meanwhile, ongoing expansion of the port and shipping channel, as well as new healthcare development, should encourage more investment in the eastern and southern portions of the metro this year.

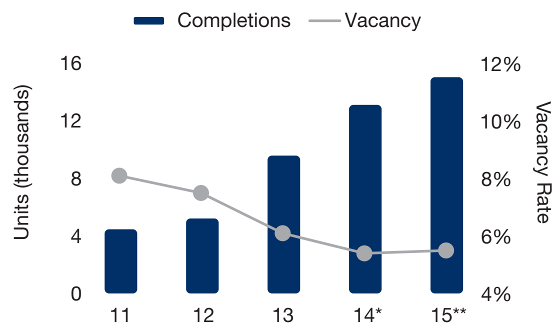
2015 Market Outlook

- **2015 NAI Rank:** 16, Down 4 Places. Solid rent growth was offset by a tick up in vacancy, moving Houston down in the Index.
- **Employment Forecast:** Houston will remain among the top-ranked metros for job growth in 2015. Local employment will rise 3.1 percent this year, following a gain of 3.9 percent in 2014 with 116,500 jobs.
- **Construction Forecast:** Houston apartment inventory will rise 2.4 percent this year with the addition of 15,000 rentals. In 2014, nearly 13,100 units were completed.
- **Vacancy Forecast:** Local apartment vacancy will tick up 10 basis points in 2015; however, at 5.5 percent, the rate will remain well below the metro's historical norm. Last year, vacancy declined 70 basis points.
- **Rent Forecast:** On average, effective rents in Houston will advance 6.1 percent to $1,013 per month. In 2014, rent growth reached 5.2 percent.
- **Investment Forecast:** Value-add deals in the urban core and high-demand suburbs will attract significant investor attention. Tertiary areas, such as Texas City, tend to offer relatively attractive cap rates and should garner more interest this year as job creation in blue-collar industries intensifies.

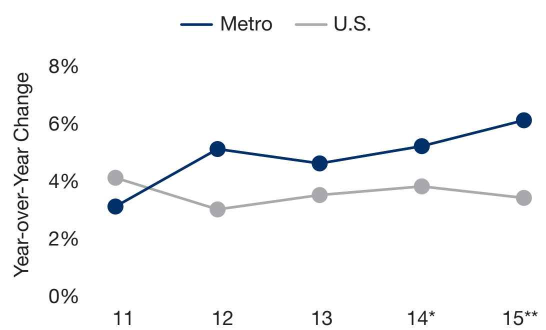
Employment Trends



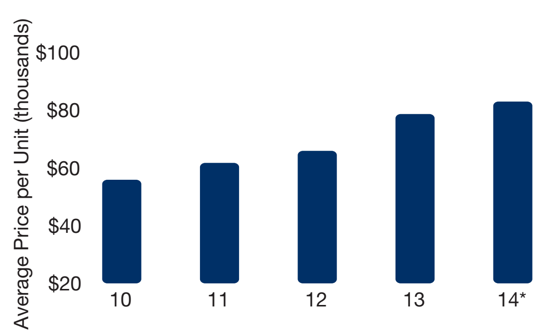
Supply and Demand



Effective Rent Trends



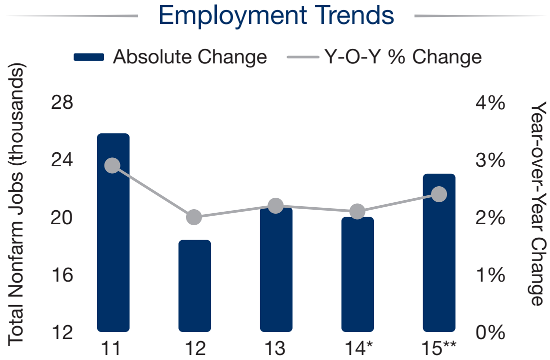
Sales Trends

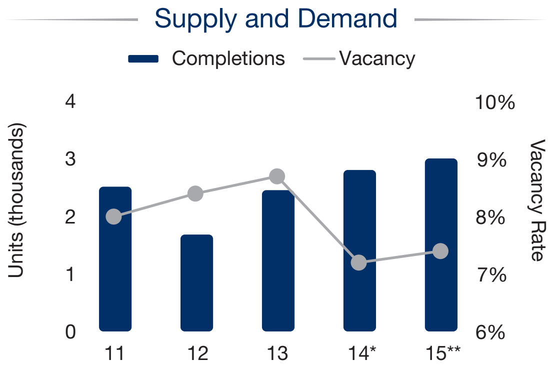


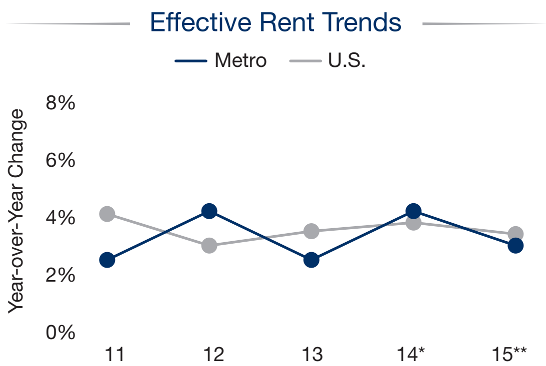
Sources: CoStar Group, Inc., Real Capital Analytics

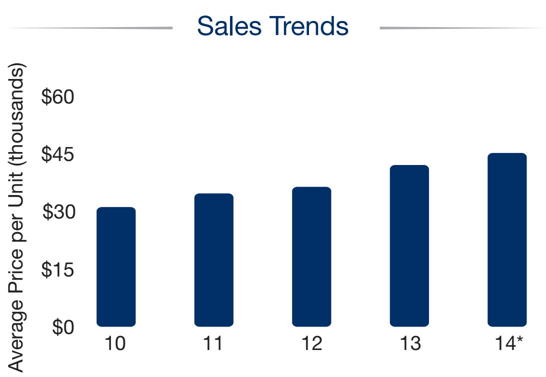
* Estimate ** Forecast

National Apartment Index | Down 1 Place | 2015 Rank: 46 | 2014 Rank: 45









Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Developers Drive Construction to 14-Year High, Attracting New Investors to Indianapolis

Job growth will propel apartment demand in 2015 as employers add thousands of workers to payrolls. Many of these jobs will be located in downtown Indianapolis, where ongoing revitalization efforts are attracting employers and bringing new residents to the area. One of the largest developments underway downtown is the redevelopment of the former Market Square Arena. The project will make major strides this year in its dual role as a divisional headquarters for Cummins that will house 400 workers and as a 300-unit apartment building. Construction is not limited to downtown as builders are also active in Hamilton and Boone counties. In these and many other areas of the metro, it is typically more expensive to rent a recently built apartment than pay the mortgage on a median-priced existing single-family residence. Homes in the most sought-after neighborhoods, however, price higher and are beyond the means of many tenants, motivating those who desire to remain in the neighborhood to rent.

Indianapolis' growing economy and vast supply of new inventory are drawing the attention of out-of-state buyers, many of whom are interested in smaller markets to capture larger returns. Although the Indianapolis market registers among the highest vacancy rates among major metropolitan areas, the rate is not especially volatile. Despite the delivery of more than 5,000 units in the past two years, vacancy has sat in a relatively tight band, whetting investors' interest. Properties located in downtown Indianapolis and north into Hamilton County remain the primary focus of many buyers. A lack of available inventory for sale creates a competitive bidding environment and may require buyers to expand their investment parameters and move down in quality or size.

2015 Market Outlook

- **2015 NAI Rank:** 46, Down 1 Place. Indianapolis slipped one place to the last spot in the ranking due to elevated completions and high vacancy.
- **Employment Forecast:** Local employers will increase payrolls by 2.4 percent in 2015 as 23,000 jobs are generated. This is up from a 2.1 percent expansion last year.
- **Construction Forecast:** The pace of apartment construction will continue an upward trend this year as developers complete 3,000 units, up slightly from the 2,800 rentals brought online in 2014.
- **Vacancy Forecast:** Elevated deliveries, coupled with a strengthening housing market, will nudge up vacancy 20 basis points in 2015 to 7.4 percent. Last year, vacancy dropped 150 basis points.
- **Rent Forecast:** The rise in vacancy will slow rent growth this year. Effective rents will climb 3.0 percent to $786 per month, following a 4.2 percent advance in the prior 12 months.
- **Investment Forecast:** Higher first-year yields than are available in many larger markets will attract additional investors to apartment assets in Indianapolis this year.

Market Forecast | Employment: 2.4% ▲ | Construction: 200 ▲ | Vacancy: 20 bps ▲ | Effective Rents: 3.0% ▲

Sound Property Operations Regained in Jacksonville; Owners Target Capital Flowing From Other Metros

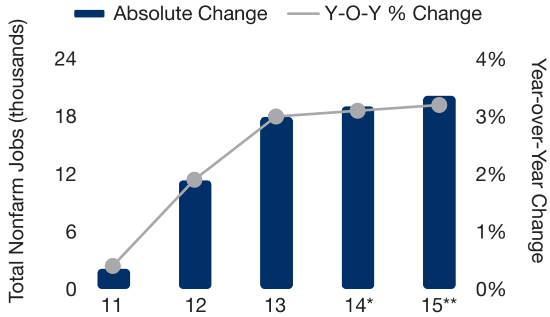
Often overlooked among Florida's other large metros, the Jacksonville apartment market will be on the rise during 2015, riding a growing local economy and strengthening property operations. All of the jobs lost during the recession have been recovered and several industries are expanding once again, creating jobs and new rental households in their wake. A cluster of manufacturers in aerospace and aviation continue to form at Cecil Airport, while restaurants and bars are also flourishing and adding workers. As demand drivers gain momentum, the apartment sector is also nearing the conclusion of a significant upswing in rental construction. Units at new complexes were well absorbed, which will encourage developers and keep alive prospects for additional rentals in areas such as downtown Jacksonville, where stock has not been upgraded.

The local investment market remains upbeat and bright prospects are drawing additional capital from other markets where pricing has increased and competition has intensified. Cap rates in all deals in Jacksonville fall within the mid-6 to low-7 percent band but can exceed the top end of the range for some Class B and Class C assets. Interest in this segment remains keen, but deal flow suffers from a lack of listings. Areas of interest include the west side of Jacksonville, and property owners there who have completed upgrades following distressed purchases a few years ago have prime opportunities to realize price objectives in a sale. Elsewhere in the metro, the high-density Southside has been a venue for institutional or private capital purchases of large Class A complexes. New, leased-up properties may provide additional opportunities for investors.

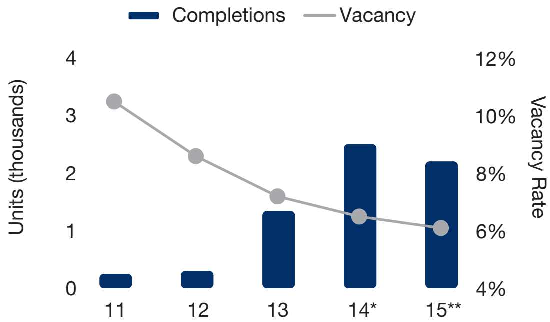
2015 Market Outlook

- **2015 NAI Rank:** 41, Up 3 Places. Above-average employment growth and strong projected gains in the millennial population propelled Jacksonville up three places in this year's ranking.
- **Employment Forecast:** Employers will add 20,100 jobs in 2015, representing a 3.2 percent increase in payrolls; 19,000 positions were created last year.
- **Construction Forecast:** In 2015, 2,200 apartments will come online, less than last year's total of 2,500 rentals. This year's completions include 69 units of student housing serving Jacksonville University.
- **Vacancy Forecast:** Strengthening housing demand will lower vacancy 40 basis points in 2015 to 6.1 percent. In 2014, the vacancy rate slipped 70 basis points.
- **Rent Forecast:** The average rent in the metro will increase 4.3 percent in 2015 to $868 per month. A year-over-year gain of 3.5 percent was logged last year.
- **Investment Forecast:** Complexes in working-class neighborhoods throughout the metro will post strong performance as job creation accelerates and new rental leases are penned, strengthening operations and enticing additional transactions.

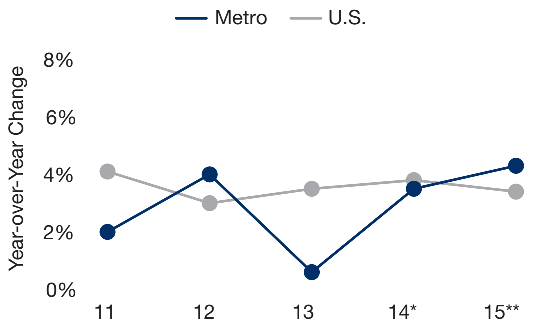
Employment Trends



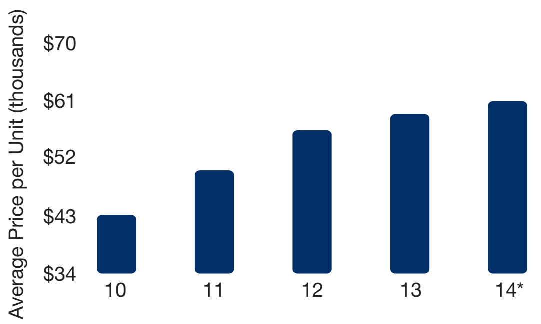
Supply and Demand



Effective Rent Trends



Sales Trends



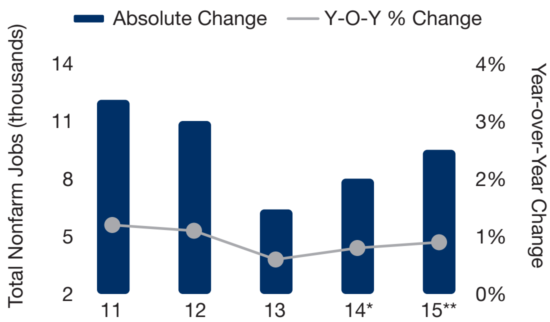
Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

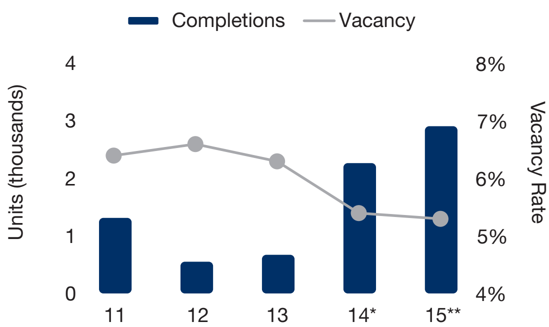
Employment: 3.2% ▲ Construction: 300 ▼ Vacancy: 40 bps ▼ Effective Rents: 4.3% ▲ Market Forecast

National Apartment Index | Up 2 Places | 2015 Rank: 35 | 2014 Rank: 37

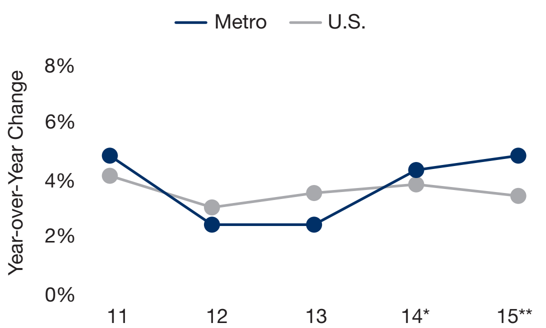
Employment Trends



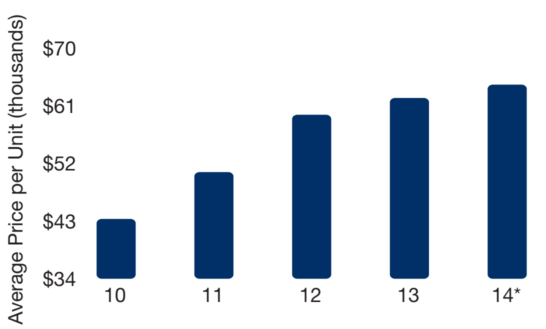
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Investors Eye Crown Center and Suburbs; Bidding War to Ensue for Kansas City Gems

The Kansas City metro has seen consistent annual employment growth for the past four years, driving up housing demand in the metro. This job upswing comes from expansions in technology and healthcare by small businesses and large employers such as Children's Mercy Hospital and University of Kansas Medical Center. After announcing layoffs last year, Sprint Corp. concurrently revealed plans to open a call center at its Overland Park headquarters. Despite downsizing by larger companies, overall hiring will improve. Cerner broke ground on a new $4.45 billion Trails Campus Project in south Kansas City, Missouri, in November and is expecting to hire 16,000 in the next decade. Logistics firms such as XPO also announced 125 job additions and a capital investment of $1.2 million in the 10-story office across from Union Station. The office complex has also received public financing to convert the top half of the building near the Crown Center downtown into market-rate apartments. As a greater number of residents collect paychecks from these job expansions, demand for apartments will also grow, pushing up construction to record levels along with lowest vacancy seen in the market since prior to the downturn.

Out-of-state investors are focused on this centrally located market, attracted to positive demographics and job expansions downtown. Apartments in the core near the Crown Center will draw high rents and tenants preferring the convenience of shops and restaurants close to home. Investors seeking stable returns will be prominent in this area. Buyers looking for newer assets can review listings just south of the core, in Overland Park and Leawood, where developers are focusing their construction of apartment complexes. Greater returns versus larger metros will continue to entice buyers from all over the country, creating a competitive environment with local investors and pushing down cap rates.

2015 Market Outlook

- **2015 NAI Rank:** 35, Up 2 Places. Tepid job growth and an affordable housing market kept Kansas City in the bottom half of the ranking, though a healthy rent forecast supported a two-spot improvement.
- **Employment Forecast:** Employment will tick up 0.9 percent in 2015, as 9,500 positions are generated. In 2014, companies added 8,000 jobs.
- **Construction Forecast:** Completions will reach 2,900 units, boosting rental stock by 2.1 percent. Last year supply rose 1.7 percent, with 2,260 units.
- **Vacancy Forecast:** The vacancy rate will edge down 10 basis points to 5.3 percent, after falling 90 basis points in 2014. Low metro area vacancies will be found in Leawood, Overland Park, Olathe and Gardner.
- **Rent Forecast:** Average effective rent will rise 4.8 percent to $844 per month. Monthly rents rose 4.3 percent in 2014.
- **Investment Forecast:** A competitive market will compress yields and motivate owners to divest during the current window to reposition equity into higher-yield assets or larger properties.

Market Forecast | Employment: 0.9% ▲ | Construction: 640 ▲ | Vacancy: 10 bps ▼ | Effective Rents: 4.8% ▲

Businesses Bet on Vegas; Apartments Reap Rewards

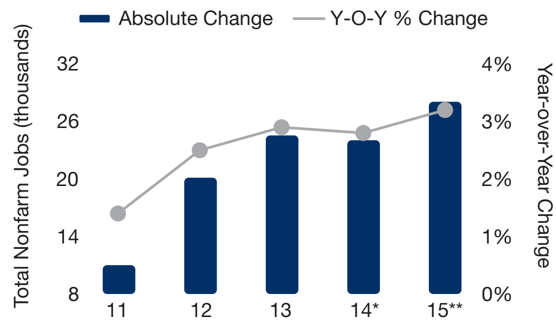
Las Vegas' steady job growth over the past four years will continue into 2015, resulting in increased demand for housing. Both corporations and developers are bullish on the future performance of this market and placing capital in local expansions. Zappos' investment in businesses and real estate to redevelop the Las Vegas city core through the Downtown Project has created new jobs. Near the strip, casino developers will expand the entertainment complex, called The Park, bringing new restaurants and bars to the area and creating service jobs and demand for nearby rentals. Farther west in the suburbs, luxury units are planned next to the Downtown Summerlin shopping center to provide residents quick access to high-end stores and restaurants, strengthening the area's desirability for rentals. This live-work-play environment is attracting many workers in the 20- to 34-year-old group, which already accounts for nearly 500,000 residents. The influx of young professionals will intensify the need for housing near the strip and office and retail employment hubs. Overall, elevated demand is pushing up existing single-family home prices, though many renters are restricted from purchasing because of downpayments and credit hurdles, keeping residents in the renter pool.

Institutional and high-net-worth investors will benefit from steady performance gains. Brightening prospects are supported by outsized employment growth led by the tech, construction and hospitality segments, drawing investor interest in rental properties. California investors represent 65 percent of new owners in this market, motivated by higher yields than are available in coastal areas. As transaction velocity intensifies, cap rates have been compressing near 20 basis points annually. This low rate of compression versus the coasts creates opportune pricing for all potential buyers. In fact, first-year yields in the metro can trend 200 basis points above coastal strongholds, providing ample opportunity for investors to reposition their portfolios.

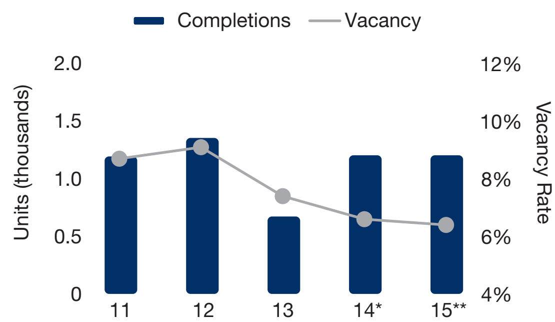
2015 Market Outlook

- **2015 NAI Rank:** 37, Up 4 Places. Elevated overall vacancy prevented a larger jump in the NAI for Las Vegas.
- **Employment Forecast:** Employment will lift by 28,000 workers in 2015, a gain of 3.2 percent. Last year, 24,000 jobs were created.
- **Construction Forecast:** Construction additions will number 1,200 units as they did last year, bumping up supply 0.7 percent throughout the metro.
- **Vacancy Forecast:** Vacancy will edge down 20 basis points to 6.4 percent on net absorption of nearly 1,500 units. Last year, vacancy dropped 80 basis points.
- **Rent Forecast:** The average effective rent will grow 3.4 percent year over year to $795 per month. Rents climbed 3.9 percent one year ago.
- **Investment Forecast:** Value-add plays can be obtained in Sunrise Manor and the city core. Institutional buyers seeking stable properties with low vacancy rates will target assets in Summerlin and Green Valley.

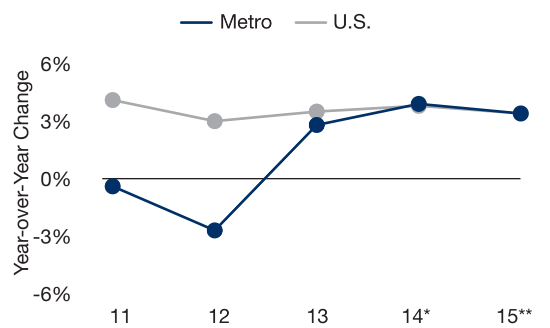
Employment Trends



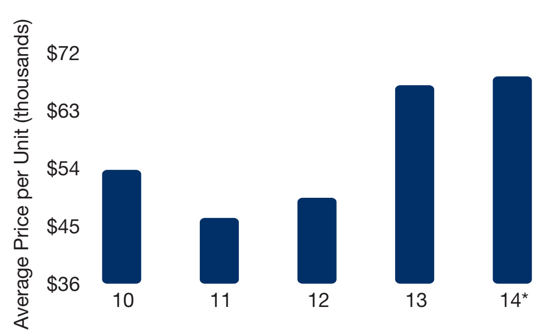
Supply and Demand



Effective Rent Trends



Sales Trends



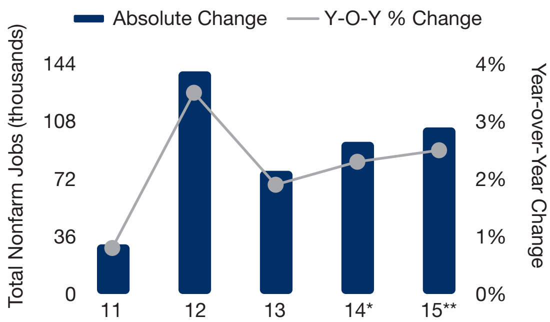
Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

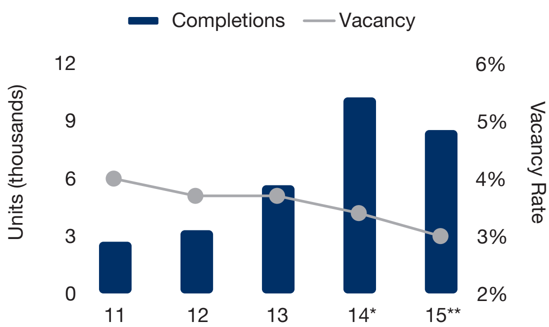
Marcus & Millichap

National Apartment Index | Up 7 Places | 2015 Rank: 8 | 2014 Rank: 15

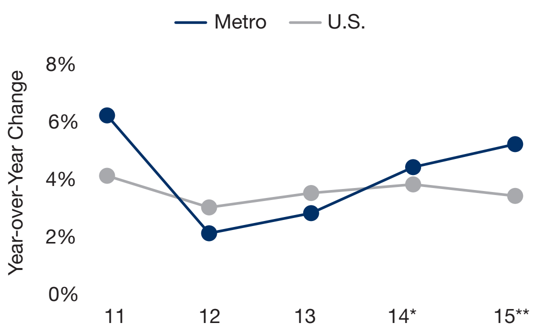
Employment Trends



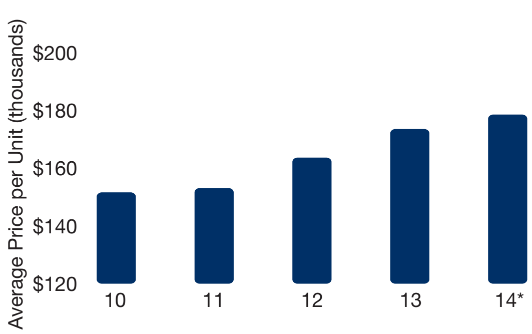
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Building Boom Continues in Los Angeles County; Sellers' Favorable Position to Ease in 2015

The Los Angeles apartment market is in the midst of the largest building boom in decades as developers rush to complete projects in the county. While a housing shortage is widespread across all income levels, builders are capitalizing on relaxed zoning to move ahead with high-end apartments in desirable areas. Downtown, in particular, has thousands of units underway and planned, which will test the size of the renter pool willing to adapt to an urban lifestyle. Although similar high-rise urban apartments have recorded varying degrees of success across the nation, recent weakness in absorption and rent growth in the Downtown submarket could temper developer enthusiasm for projects still on the drawing board. Nonetheless, the employment market is working in the builders' favor. Entering 2015, payrolls are at an all-time high, fueled by professional and business services employers. Outside of Downtown, the impact of construction is prevalent, but not as intense, which will support strong rent growth in most parts of the county.

This year could mark a significant transition for the local apartment investment market. In 2014, investors aggressively bid up assets as buyers outnumbered sellers by a considerable margin. Additionally, traditional underwriting metrics were largely set aside as comparisons to alternative investments, such as corporate and municipal bonds, took a front seat when acquisitions were considered. That environment should evolve this year as upward pressure on interest rates is anticipated and the buyer pool dissipates as alternative avenues for investing become more attractive. The changing landscape will materialize slowly, however, and Los Angeles will remain a sellers' market throughout 2015 and into 2016. Average cap rates, meanwhile, begin the year in the high-4 percent range. First-year returns for best-in-class assets near the coast regularly dip below 4 percent, while cap rates in the eastern stretches of the county can approach 6 percent.

2015 Market Outlook

- **2015 NAI Rank:** 8, Up 7 Places. Los Angeles surged into the eighth position in this year's Index on the back of one of the largest vacancy declines in the country and moderating supply growth.
- **Employment Forecast:** After 95,000 positions were created in 2014, employers will hire 105,000 workers this year, a 2.5 percent increase.
- **Construction Forecast:** Apartment development will remain robust in 2015 as 8,500 units come online, lifting stock 0.8 percent. Last year, builders added 10,200 rentals in the county.
- **Vacancy Forecast:** Vacancy will decline 40 basis points in 2015 to 3 percent, following a 30-basis point fall in 2014.
- **Rent Forecast:** Tightening conditions will yield a 5.2 percent gain in effective rents to $1,842 per month. Last year, rents rose 4.4 percent.
- **Investment Forecast:** Outside of high-construction submarkets, operators are threatened by renter pushback, particularly in low-income areas. Owners will lift rents, though occurrences of "doubling up" may rise.

Market Forecast | Employment: 2.5% ▲ | Construction: 1,700 ▼ | Vacancy: 40 bps ▼ | Effective Rents: 5.2% ▲

Marcus & Millichap

Louisville

Down 6 Places | 2015 Rank: 34 | 2014 Rank: 28 — National Apartment Index

Louisville Construction Ramping Up, But Job Gains Keeping Pace

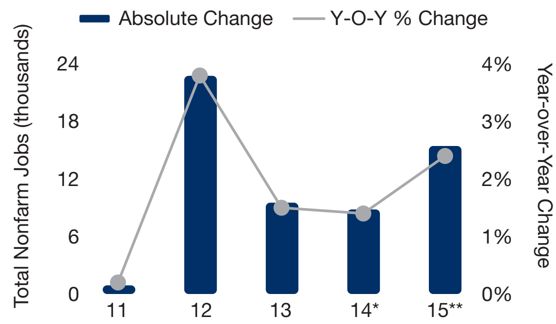
Expanding payrolls in 2015 and a growing population of working-age residents will support a relatively tight apartment market in Louisville and boost apartment values. Vacancy declined among all vintages of apartments last year while one-bedroom units were favored as new workers entered the workforce and formed new rental households. Concession use is infrequent and rents will rise as vacancy remains in the mid-5 percent range this year. Improving business conditions will accelerate the pace of growth in industries with sizable local presences, including manufacturing, finance and healthcare, during 2015. Some uncertainty over the local economy carries over into 2015, however. The purchase of GE Appliances by Electrolux is expected to close sometime this year. Electrolux has not made clear its intentions regarding the workforce at a manufacturing facility in Newburg where 6,000 workers are employed. Hiring by other plants and factories, and in other employment sectors, will be sufficient to offset possible layoffs.

Properties in Louisville offer investors stable, modest growth prospects and appreciation potential common among Midwest markets. Asset prices in the metro have climbed steadily over the past five years, and multiple bids are not uncommon for Class A and newer Class B properties. Louisville's East End, a sprawling section of the metro characterized by high single-family home values, extensive retail and an expanding population, remains a focal point for many investors. Some of the highest apartment prices are realized in this area. Apartment communities near the airport and UPS' extensive operations also spark consistent interest when listed for sale. Equity flows into Louisville will remain strong, especially from larger markets where intense bidding has pushed down cap rates below target levels. First-year returns on top-caliber assets in the metro compressed to the high-5 to the low-6 percent range during 2014.

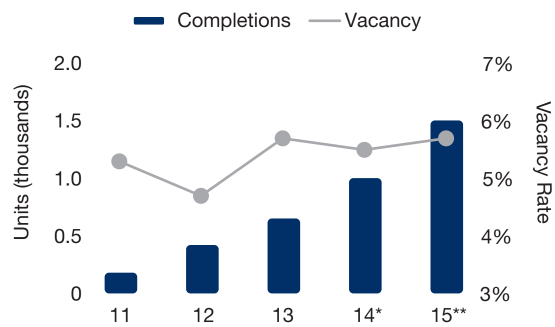
2015 Market Outlook

- **2015 NAI Rank:** 34, Down 6 Places. High vacancy pulled down Louisville six spots in the NAI this year.
- **Employment Forecast:** Healthcare and manufacturing expansions will drive the addition of 15,400 jobs in 2015, a 2.4 percent increase in staffing.
- **Construction Forecast:** Developers placed in service 1,000 rentals last year, and an additional 1,500 units will come online during 2015.
- **Vacancy Forecast:** Completions will slightly outpace tenant move-ins during 2015, producing a 20-basis point rise in vacancy to 5.7 percent. Last year, vacancy fell 20 basis points.
- **Rent Forecast:** The average rent in the metro will advance 4.2 percent this year to $800 per month, down from a 4.9 percent increase in 2014.
- **Investment Forecast:** With employment rising, downtown Louisville will remain a point of interest for groups seeking to convert moribund commercial buildings into residential units.

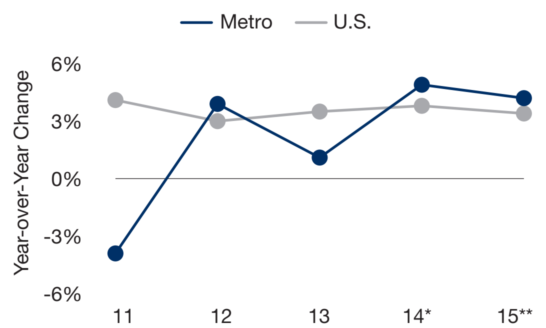
Employment Trends



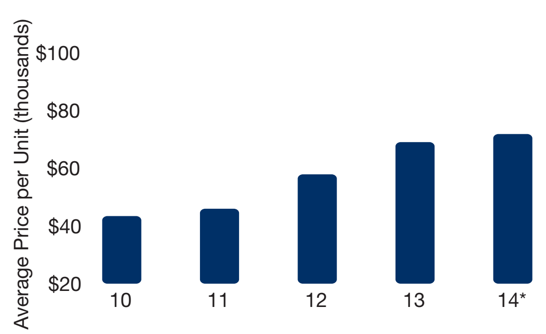
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Employment: 2.4% ▲ Construction: 500 ▲ Vacancy: 20 bps ▲ Effective Rents: 4.2% ▲ — Market Forecast

Marcus & Millichap

MSA Name	Employment Growth[2]				Completions (Units)[2]				Vacancy	
	12	13	14*	15**	12	13	14*	15**	12	13
Atlanta	2.0%	2.7%	2.5%	2.7%	2,100	7,100	6,000	7,300	7.6%	7.0%
Austin	4.7%	4.3%	3.7%	4.0%	3,900	5,600	14,500	8,500	4.7%	4.2%
Baltimore	1.5%	1.5%	1.3%	1.6%	2,400	3,500	3,300	2,200	4.5%	4.8%
Boston	1.5%	1.8%	1.6%	1.7%	3,600	4,600	7,700	7,300	3.4%	3.7%
Charlotte	3.0%	2.6%	1.7%	2.4%	1,200	4,700	7,800	4,600	5.1%	4.7%
Chicago	1.7%	1.5%	1.2%	1.3%	2,600	5,900	4,500	6,500	4.7%	5.0%
Cincinnati	1.5%	1.5%	1.4%	1.5%	800	500	1,700	1,600	5.1%	5.2%
Cleveland	1.8%	0.4%	1.2%	1.6%	400	600	1,100	900	4.7%	5.5%
Columbus	3.3%	1.5%	0.5%	1.9%	1,400	3,900	3,900	2,300	4.5%	4.6%
Dallas/Fort Worth	2.9%	2.4%	3.6%	3.5%	7,400	13,000	18,200	18,400	6.3%	5.6%
Denver	3.5%	3.0%	3.1%	3.2%	2,300	4,700	9,400	7,400	4.2%	4.0%
Detroit	2.2%	0.8%	0.5%	0.8%	700	500	500	1,000	4.7%	4.4%
Fort Lauderdale	2.0%	2.7%	2.7%	3.2%	1,200	2,200	3,000	4,000	5.1%	4.3%
Houston	4.3%	2.8%	3.9%	3.1%	5,200	9,600	13,100	15,000	7.5%	6.1%
Indianapolis	2.0%	2.2%	2.1%	2.4%	1,700	2,500	2,800	3,000	8.4%	8.7%
Jacksonville	1.9%	3.0%	3.1%	3.2%	300	1,300	2,500	2,200	8.6%	7.2%
Kansas City	1.1%	0.6%	0.8%	0.9%	500	700	2,300	2,900	6.6%	6.3%
Las Vegas	2.5%	2.9%	2.8%	3.2%	1,300	700	1,200	1,200	9.1%	7.4%
Los Angeles	3.5%	1.9%	2.3%	2.5%	3,300	5,600	10,200	8,500	3.7%	3.7%
Louisville	3.8%	1.5%	1.4%	2.4%	400	600	1,000	1,500	4.7%	5.7%
Miami	2.6%	3.3%	2.6%	3.2%	900	2,500	2,900	4,800	3.1%	3.3%
Milwaukee	1.5%	1.4%	2.2%	2.3%	1,600	900	1,300	2,000	3.1%	4.1%
Minneapolis-St. Paul	1.2%	2.3%	1.9%	1.6%	2,400	4,000	6,600	5,000	3.2%	3.2%
Nashville	3.2%	3.0%	3.4%	3.1%	1,900	2,600	4,500	4,400	4.9%	4.0%
New Haven	1.3%	1.3%	1.3%	1.5%	500	600	1,500	800	4.5%	5.1%
New York City	2.5%	2.0%	2.1%	2.3%	5,400	5,800	12,000	12,500	2.1%	2.1%
Northern New Jersey	0.6%	1.5%	0.7%	0.8%	1,500	2,200	6,600	5,700	3.0%	3.1%
Oakland	4.3%	2.4%	2.3%	2.8%	900	2,100	1,600	1,000	3.0%	2.9%
Orange County	3.7%	2.0%	1.5%	2.3%	2,800	1,700	5,800	3,900	4.5%	4.1%
Orlando	2.9%	3.4%	3.4%	3.1%	1,200	3,300	6,500	5,500	5.4%	5.0%
Philadelphia	1.1%	0.5%	0.8%	0.9%	1,400	3,600	2,900	3,200	5.2%	5.5%
Phoenix	3.0%	2.8%	2.1%	2.4%	1,100	3,500	5,000	8,000	7.6%	7.2%
Pittsburgh	0.4%	-0.1%	0.7%	0.8%	600	300	2,200	1,900	3.1%	4.1%
Portland	2.1%	2.5%	2.9%	3.2%	2,000	2,300	4,700	5,000	3.7%	3.3%
Riverside-San Bernardino	4.3%	3.7%	2.3%	2.7%	1,000	1,500	2,100	600	5.4%	4.8%
Sacramento	3.0%	2.7%	1.1%	2.3%	800	500	900	500	5.4%	4.1%
Salt Lake City	4.1%	2.1%	2.6%	2.7%	1,100	2,400	2,700	2,500	4.1%	4.7%
San Antonio	3.0%	2.2%	2.6%	2.2%	3,500	4,200	6,500	6,750	6.8%	7.2%
San Diego	3.8%	1.6%	2.7%	2.7%	2,700	1,400	4,900	2,700	3.5%	3.6%
San Francisco	5.6%	3.6%	3.1%	3.0%	800	2,200	3,200	4,000	4.1%	3.5%
San Jose	4.9%	4.5%	3.0%	2.8%	1,500	3,300	4,400	3,200	3.7%	3.4%
Seattle-Tacoma	2.8%	2.7%	2.8%	3.0%	4,700	8,000	10,000	12,000	4.2%	4.3%
St. Louis	0.4%	0.5%	1.7%	2.1%	1,200	200	1,500	1,100	7.1%	7.6%
Tampa-St. Petersburg	2.0%	2.6%	1.7%	2.5%	2,400	2,000	4,400	4,400	6.1%	5.8%
Washington, D.C.	1.5%	0.7%	1.0%	1.6%	6,400	10,000	19,000	10,900	4.6%	5.1%
West Palm Beach	2.2%	3.4%	2.6%	3.1%	600	2,200	2,300	2,500	6.0%	5.0%
U.S. Metro Total	**1.7%**	**1.7%**	**2.0%**	**2.1%**	**91,200**	**171,300**	**238,000**	**210,000**	**5.1%**	**5.0%**

* Estimate ** Forecast [2] See Statistical Summary Note on page 60

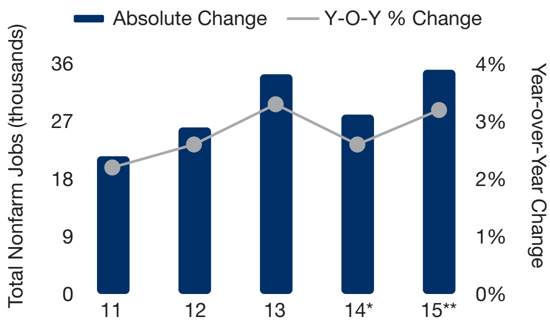
(Year-End)[2]		Effective Rent (Year-End)[2]				Average Sales Price per Unit[2]			MSA Name
14*	15**	12	13	14*	15**	12	13	14*	
6.2%	6.0%	$824	$864	$920	$1,142	$63,000	$68,000	$73,400	Atlanta
4.4%	4.3%	$963	$1,022	$1,093	$1,171	$75,700	$84,700	$89,300	Austin
4.5%	4.2%	$1,157	$1,181	$1,218	$1,258	$108,000	$109,000	$109,800	Baltimore
3.7%	4.0%	$1,642	$1,671	$1,747	$1,780	$215,800	$234,200	$248,900	Boston
5.0%	5.4%	$830	$866	$897	$925	$79,200	$73,400	$69,500	Charlotte
4.3%	4.2%	$1,165	$1,214	$1,256	$1,297	$140,100	$144,300	$147,600	Chicago
5.4%	5.0%	$762	$785	$820	$860	$44,500	$44,800	$45,100	Cincinnati
4.3%	3.8%	$775	$795	$812	$832	$38,000	$42,700	$46,800	Cleveland
4.5%	4.0%	$747	$763	$794	$812	$56,800	$49,600	$48,100	Columbus
5.2%	5.3%	$826	$862	$908	$954	$73,800	$77,700	$80,400	Dallas/Fort Worth
3.9%	4.3%	$1,027	$1,108	$1,210	$1,310	$91,000	$98,900	$105,500	Denver
3.7%	4.1%	$812	$812	$830	$839	$38,000	$41,000	$46,400	Detroit
4.7%	5.1%	$1,199	$1,248	$1,311	$1,372	$117,000	$126,500	$132,200	Fort Lauderdale
5.4%	5.5%	$868	$908	$955	$1,013	$65,900	$78,600	$83,000	Houston
7.2%	7.4%	$714	$732	$763	$786	$36,400	$42,000	$45,200	Indianapolis
6.5%	6.1%	$799	$804	$832	$868	$56,400	$58,900	$60,900	Jacksonville
5.4%	5.3%	$754	$772	$805	$844	$59,600	$62,200	$64,300	Kansas City
6.6%	6.4%	$720	$740	$769	$795	$49,400	$66,900	$68,300	Las Vegas
3.4%	3.0%	$1,632	$1,677	$1,751	$1,842	$163,700	$173,600	$178,600	Los Angeles
5.5%	5.7%	$724	$732	$768	$800	$57,900	$69,000	$71,800	Louisville
3.2%	3.5%	$1,135	$1,208	$1,244	$1,297	$104,500	$122,000	$133,000	Miami
4.2%	4.3%	$898	$915	$940	$962	$57,000	$62,100	$66,400	Milwaukee
2.7%	3.0%	$981	$1,018	$1,039	$1,068	$73,700	$82,900	$85,000	Minneapolis-St. Paul
4.5%	4.8%	$864	$901	$954	$998	$65,000	$70,400	$72,800	Nashville
4.0%	4.4%	$1,582	$1,665	$1,715	$1,740	$146,100	$165,500	$172,600	New Haven
2.3%	2.7%	$3,965	$3,961	$4,033	$4,090	$257,300	$263,500	$268,300	New York City
3.2%	3.4%	$1,752	$1,885	$1,960	$2,019	$110,800	$121,900	$131,300	Northern New Jersey
2.5%	2.3%	$1,524	$1,643	$1,794	$1,965	$143,100	$154,600	$166,600	Oakland
3.5%	3.3%	$1,593	$1,664	$1,728	$1,820	$173,000	$176,600	$179,400	Orange County
4.4%	4.1%	$893	$914	$955	$1,005	$64,400	$67,400	$69,800	Orlando
4.8%	5.0%	$1,099	$1,121	$1,159	$1,191	$110,800	$117,800	$120,400	Philadelphia
6.2%	6.7%	$753	$779	$811	$828	$56,700	$65,200	$71,900	Phoenix
4.3%	5.0%	$994	$993	$1,013	$1,050	$54,000	$60,000	$64,300	Pittsburgh
3.1%	3.6%	$926	$977	$1,044	$1,113	$95,300	$97,000	$102,100	Portland
4.2%	4.0%	$1,068	$1,104	$1,160	$1,225	$96,200	$102,900	$106,500	Riverside-San Bernardino
3.4%	3.2%	$964	$978	$1,020	$1,075	$87,600	$85,300	$84,600	Sacramento
4.0%	4.4%	$822	$843	$868	$892	$81,300	$87,800	$91,100	Salt Lake City
7.4%	7.3%	$797	$820	$848	$880	$54,000	$58,000	$61,300	San Antonio
3.2%	3.2%	$1,408	$1,461	$1,545	$1,627	$146,400	$160,400	$165,300	San Diego
2.8%	3.2%	$2,379	$2,484	$2,701	$2,877	$239,800	$259,100	$274,944	San Francisco
2.6%	2.8%	$1,917	$2,058	$2,281	$2,436	$176,000	$198,500	$217,500	San Jose
3.6%	4.0%	$1,101	$1,184	$1,279	$1,349	$184,100	$195,000	$200,100	Seattle-Tacoma
6.4%	6.0%	$769	$776	$805	$830	$69,000	$70,000	$70,800	St. Louis
5.6%	5.4%	$872	$893	$937	$978	$59,800	$65,900	$71,000	Tampa-St. Petersburg
5.0%	5.2%	$1,519	$1,532	$1,570	$1,595	$155,000	$173,200	$178,800	Washington, D.C.
4.7%	4.8%	$1,146	$1,221	$1,287	$1,338	$130,100	$143,300	$148,400	West Palm Beach
4.7%	**4.8%**	**$1,083**	**$1,121**	**$1,164**	**$1,204**	**$106,000**	**$113,400**	**$119,300**	U.S. Metro Total

* Estimate ** Forecast [2] See Statistical Summary Note on page 60

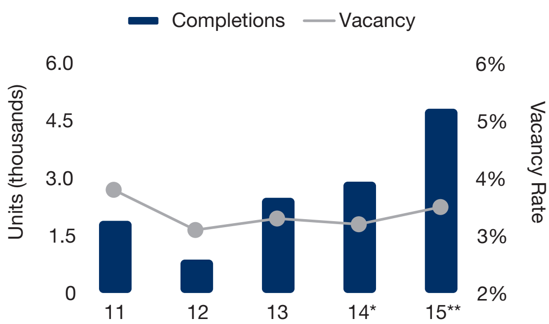
Miami

National Apartment Index | Up 4 Places | 2015 Rank: 9 | 2014 Rank: 13

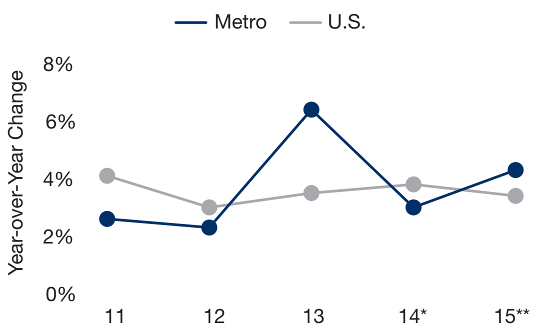
Employment Trends



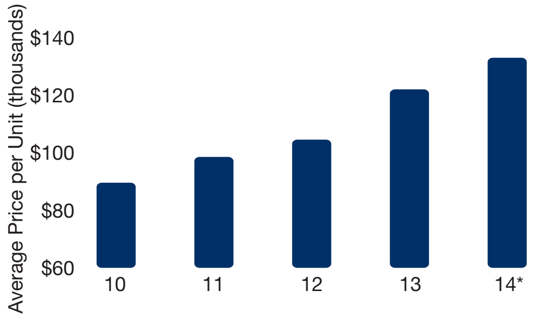
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Miami-Dade Momentum Strong Despite Rising Completions; Investor Demand Robust

Low vacancy and higher rents will yield another year of strong results for owners of Miami-Dade apartment complexes and continue to whet the appetites of investors seeking to establish or expand local portfolios. While seasonal demand variations and the lease-up of new rentals will create temporary variations in countywide vacancy and average rent this year, the intrinsic strengths of the Miami-Dade apartment market will sustain solid long-term performance. A sizable concentration of service-sector jobs at the middle and lower end of the range scale relegates thousands of households in Miami-Dade to extended stays in rentals. Tenant demand is strong and durable, as evidenced by tight vacancy rates across all vintages of properties. Complexes built in the 1970s and 1980s, for example, were virtually full at the end of 2014, posting vacancy in the mid-2 to low-3 percent range.

The average cap rate in Miami-Dade is in the mid- to high-5 percent range. Despite the migration of some equity out of the county in search of higher yields, a substantial pool of potential investors remains. This group includes small private capital, larger regional and national players, and, increasingly, foreign capital seeking the relative safety of U.S. commercial real estate in gateway markets such as Miami-Dade. Debt flows and operating conditions favor a wide range of investment strategies. Stable assets in working-class neighborhoods with supply constraints retain favor among more risk-averse investors, as do opportunities to add value through physical upgrades that will justify charging higher rents. In a market with low vacancy and steady rent growth, this type of objective is attainable, often within a year or 18 months of the purchase.

2015 Market Outlook

- **2015 NAI Rank:** 9, Up 4 Places. Miami-Dade County jumped four places to land in the ninth spot in this year's NAI and sits atop the metros in the strengthening state of Florida.
- **Employment Forecast:** Growth in trade and housing-related finance will support a gain of 35,000 jobs in Miami-Dade during 2015, marking a 3.2 percent increase in staffing. Last year 28,000 positions were created.
- **Construction Forecast:** Developers will ramp up production and bring online 4,800 rentals in the county this year, eclipsing the 2,900 units delivered in 2014. A large number of new units will be placed in service in the Coral Gables/South Miami and West Miami/Doral submarkets.
- **Vacancy Forecast:** Supply will grow faster than demand in 2015, yielding a 30-basis point rise in vacancy to a still-tight 3.5 percent. The vacancy rate receded 10 basis points last year.
- **Rent Forecast:** Apartment operators in Miami-Dade will raise the average rent 4.3 percent this year to $1,297 per month; a 3.0 percent countywide increase was posted in 2014.
- **Investment Forecast:** Additional transactions will occur as longtime owners of Class B and Class C assets sell to redeploy equity into lower maintenance, less management-intensive assets.

Market Forecast | Employment: 3.2% ▲ | Construction: 1,900 ▲ | Vacancy: 30 bps ▲ | Effective Rents: 4.3% ▲

Construction Activity Spreads Beyond Core, Nudging Vacancy Higher in the Milwaukee Metro

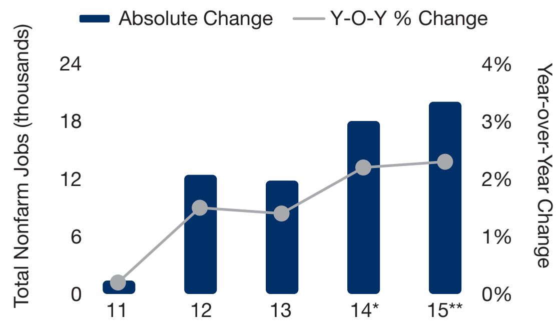
The brightening employment outlook will support increased demand for apartments in the Milwaukee metro this year, although a surge in inventory will inch vacancy up. Approximately 20,000 jobs are expected to be created throughout the region during 2015, the highest annual level in more than 15 years. The expansion in payrolls will attract new residents to the region and boost household incomes, allowing more young workers to move out on their own. With rental vacancy stuck below a normal turnover rate of 5 percent for the fifth consecutive year, there is a growing need for additional apartment stock. Developers have responded by ramping up apartment construction, and with financing readily available, more projects will begin in the coming quarters. Builders are not only active in the city, but production in the suburbs will double this year, with Menomonee Falls and Wauwatosa receiving the bulk of deliveries. New inventory and strong renter demand will support rent gains in 2015.

Investors will continue to gain confidence in the Milwaukee market as the local economy improves and apartment operations remain strong. The growing inventory of new properties with high-end amenities in the desirable East Side of Milwaukee and in Waukesha County will draw additional investors to the region. However, local buyers will still dominate transaction activity as they target well-located value-add positions. Class B assets near transit or employment hubs with finishes that can be quickly upgraded to boost rent growth will be especially sought after. Competition for these properties will remain intense as healthy operations provide little incentive for owners to divest, keeping inventory limited.

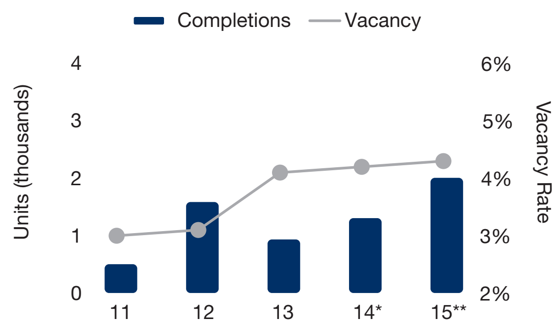
2015 Market Outlook

- **2015 NAI Rank:** 23, Up 2 Places. Milwaukee advanced two places to claim the final position in the top half of the 2015 NAI due to its vacancy rate and projected inventory growth.
- **Employment Forecast:** Following the generation of 18,000 jobs in 2014, local employers will increase payrolls 2.3 percent or by 20,000 positions, this year.
- **Construction Forecast:** Developers will complete 2,000 apartments in 2015, more than half of which are located in suburban submarkets. Last year, 1,300 units were delivered in the metro.
- **Vacancy Forecast:** The rise in deliveries will slightly outpace renter demand, pushing up vacancy 10 basis points this year to 4.3 percent. In 2014, vacancy also advanced 10 basis points.
- **Rent Forecast:** As properties lease up, owners marketwide will increase effective rents 2.3 percent to $962 per month in 2015. Last year, effective rents rose 2.7 percent.
- **Investment Forecast:** New development will attract the attention of regional investors, while local buyers continue to scout the metro for the hard-to-find value-add properties.

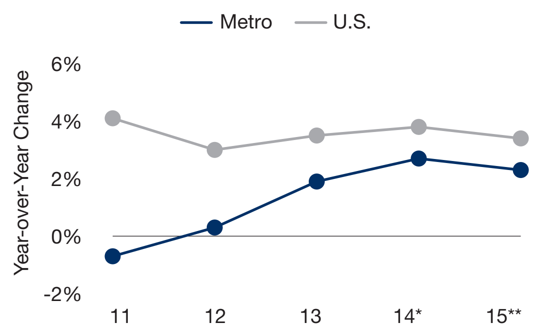
Employment Trends



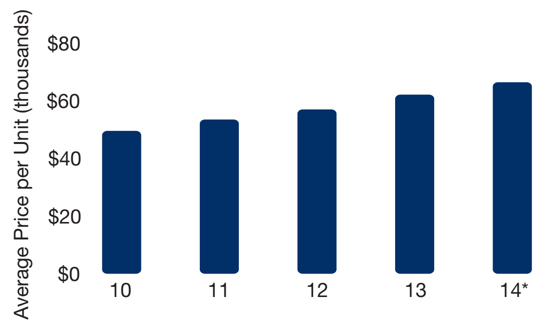
Supply and Demand



Effective Rent Trends



Sales Trends



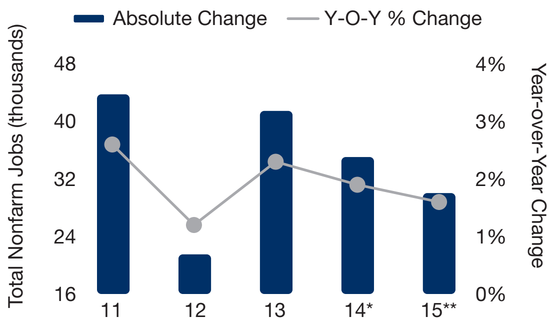
Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

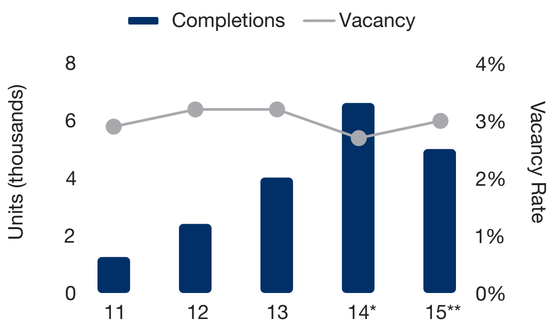
Employment: 2.3% ▲ Construction: 700 ▲ Vacancy: 10 bps ▲ Effective Rents: 2.3% ▲ Market Forecast

National Apartment Index | Down 3 Places | 2015 Rank: 7 | 2014 Rank: 4

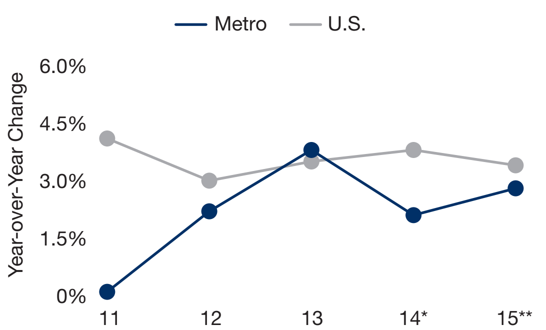
Employment Trends



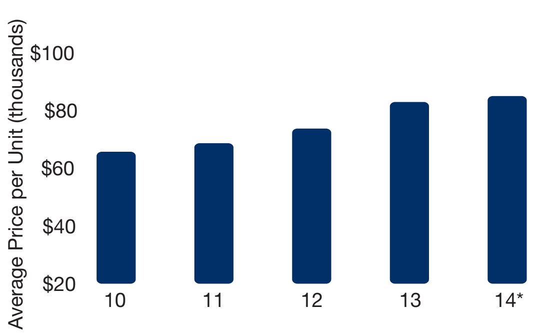
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Development Expands into Minneapolis-St. Paul Suburbs, Provides Added Investment Opportunities

Four years of healthy employment growth are resulting in robust demand for apartments and keeping developers active. Strong hiring throughout the region has dropped the unemployment rate below 4 percent, diminishing the pool of available workers. As a result, companies will have to increase recruiting efforts to attract new workers to the region. Many of the added positions will be filled by young professionals who typically seek rental housing in areas with urban attractions. Additional apartment demand will come from millennials establishing their own households and empty nesters looking to downsize to a more carefree lifestyle. By the end of 2015, nearly 15,600 apartments will have been added in the metro during the last three years, yet vacancy will remain near 3 percent. The vigorous demand for rentals will likely move more planned projects forward, including a growing number in the suburbs.

One of the strongest performing apartment markets in the nation is drawing significant investor attention to multifamily assets in the Minneapolis-St. Paul metro. Intense demand from buyers ready to deploy capital will require aggressive bids and a flexibility in portfolio parameters. Elevated construction levels over the past several years provide inventory for institutional investors, especially in the city of Minneapolis, where a number of high-rise apartments have been completed. As these luxury properties come online, there is substantial rent growth potential in older buildings nearby, particularly if the asset is located near a transit station and finishes can be upgraded. As construction activity spreads into the suburbs, local operators should keep an eye on new projects nearby and evaluate the effect on their operations. Legacy investors nearing retirement or owners without a long-term investment strategy may want to list ahead of an increase in competition and while buyers interested in this market are plentiful.

2015 Market Outlook

- **2015 NAI Rank:** 7, Down 3 Places. Minneapolis-St. Paul slipped but retained a position in the top 10 of the NAI due to a tight vacancy rate.
- **Employment Forecast:** Following a job gain of 1.9 percent in 2014, payrolls will expand 1.6 percent this year, or 30,000 workers.
- **Construction Forecast:** After the delivery of 6,600 apartments in 2014, construction will taper slightly. This year, developers will complete 5,000 units, a 1.9 percent increase in rental stock.
- **Vacancy Forecast:** Vacancy will end 2015 at 3 percent, up 30 basis points for the year. During 2014, vacancy contracted 50 basis points.
- **Rent Forecast:** Operators will increase effective rents 2.8 percent to an average of $1,068 per month in 2015. Last year, rents advanced slightly slower by 2.1 percent.
- **Investment Forecast:** Long-term investors will look for assets near proposed stations of the expanding light-rail system. Here, well-located Class B/C properties can provide significant upside potential.

Market Forecast Employment: 1.6% ▲ Construction: 1,600 ▼ Vacancy: 30 bps ▲ Effective Rents: 2.8% ▲

Construction Strums Alongside Millennial-Driven Demand; Vacancy Reaches A Slightly Higher Note

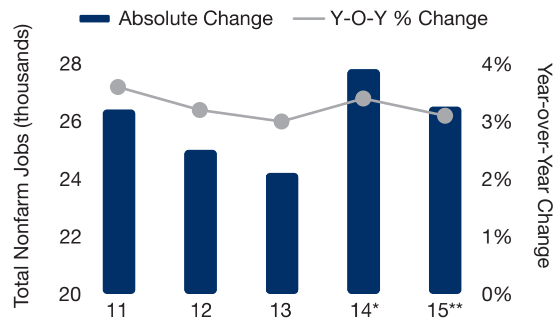
Steady employment gains and entertainment attractions will lure more millennials to Nashville this year, fueling housing demand. For the past five years, the metro has generated an average of 25,000 jobs annually, expanding employment more than 3 percent, far surpassing the national average. The creation of high-quality jobs will continue to draw top talent and young professionals to the metro. Residents between the ages of 20 and 34, generally considered a prime renter demographic, account for more than 20 percent of the population, supporting outsized apartment demand. Last year, developers capitalized on shrinking available inventory and delivered the largest addition to stock in more than a decade. Substantial supply additions will persist this year, which will put slight upward pressure on vacancy in the near term. Despite the uptick, the vacancy rate will remain below 5 percent as net absorption exceeds 3,000 units for a third consecutive year. While conditions remain tight, operators will achieve another year of respectable rent growth.

Nashville's strong demand drivers and healthy rent gains will sustain substantial buyer interest in local assets. Additional buyer competition and relatively limited inventory will drive property values, as investors put their best offers forward. More owners will consider testing the market throughout the year as bidding becomes increasingly aggressive and interest rates remain low. Properties priced below $15 million, measuring between 100 to 250 units, will garner strong interest from well-capitalized private buyers. REITs and institutional-grade investors will remain dominant players and will continue searching for best-in-class assets in the CBD and affluent southern suburbs.

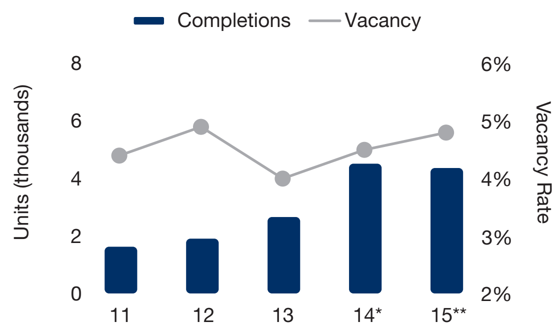
2015 Market Outlook

- **2015 NAI Rank:** 27, Up 7 Places. Nashville's booming economy propelled a large advance in the 2015 NAI.
- **Employment Forecast:** This year, employment will rise 3.1 percent with the addition of 26,500 workers. In 2014, employers created 27,800 jobs, a 3.4 percent gain.
- **Construction Forecast:** Builders will complete 4,350 apartments this year, raising inventory 3.7 percent. Approximately 4,500 units came online last year.
- **Vacancy Forecast:** New inventory will lift vacancy 30 basis points to 4.8 percent in 2015, building on the 50-basis point increase recorded one year earlier.
- **Rent Forecast:** Effective rents will reach $998 per month this year, a 4.6 percent jump. This is slightly down from the 5.9 percent growth achieved in 2014.
- **Investment Forecast:** While more owners consider divesting and new apartments are delivered, investors will be presented with more buying opportunities this year, supporting transaction velocity.

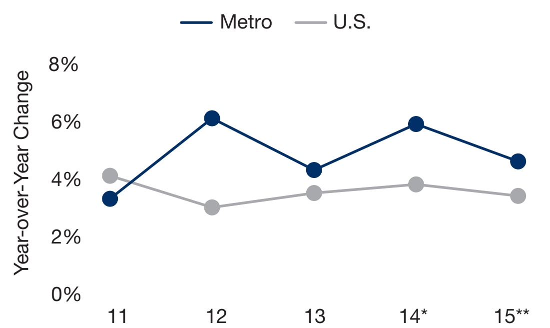
Employment Trends



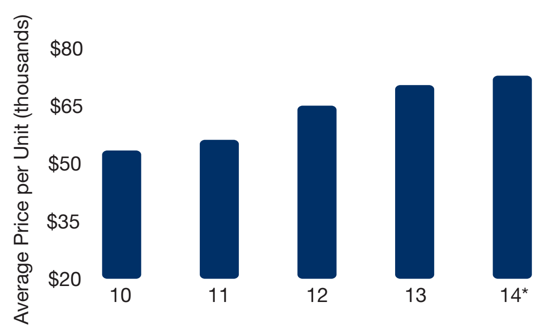
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

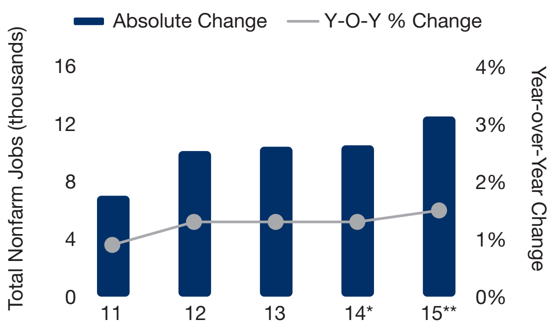
* Estimate ** Forecast

Employment: 3.1% ▲ Construction: 150 ▼ Vacancy: 30 bps ▲ Effective Rents: 4.6% ▲

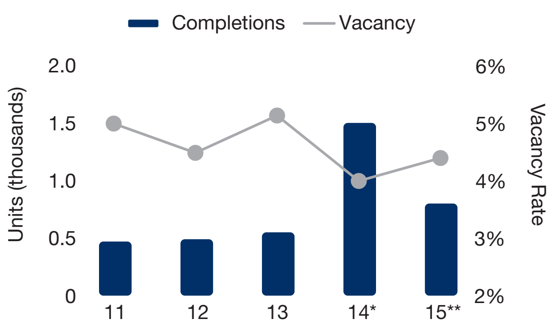
Market Forecast

National Apartment Index | Down 3 Places | 2015 Rank: 43 | 2014 Rank: 40

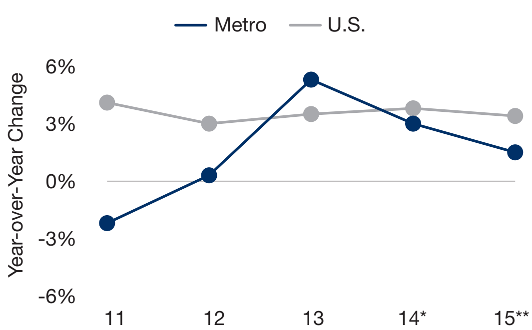
Employment Trends



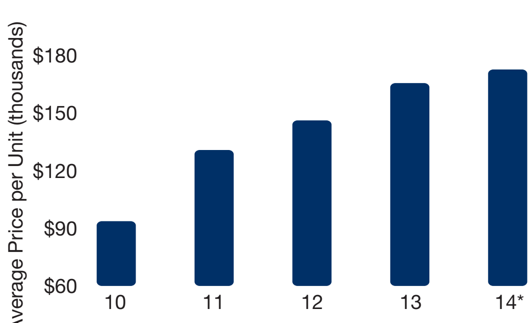
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Yield-Hungry Buyers Probe Southern Connecticut For Deals; Economic Recovery is in Reach

The economic recovery will continue in New Haven and Fairfield counties in 2015, elevating demand for apartments and benefiting property owners. Employment gains will be broad-based this year, led by the trade, transportation and utilities, and the professional and business services sectors. This growth will lift total employment to within 1 percent of the pre-recession peak. The improving job market and relative short commuting distance to New York City will expand household formation as new residents enter the market, while other households begin to unbundle. The prohibitive cost of single-family housing in the market, particularly in Fairfield County, will entice many to rent, which bodes particularly well for luxury property owners. The high cost of living in New York City is encouraging many residents to commute from New Haven and Fairfield counties, motivating developers to begin projects near Metro-North stations. Rising demand for urban amenities is also spurring construction in downtown areas. In downtown Stamford, roughly 1,500 units will be delivered within the next three years. Though inventory will move up at a slower pace this year, vacancy will push up slightly, slowing rent growth for the second year in a row. Yet, growing demand will keep vacancy under 5 percent.

Stable economic growth, strong operations and higher yields than are available in surrounding metros will attract heightened interest from a wide array of investors this year. The intense buyer demand and elevated prices will motivate sellers to bring properties to market, supporting increased transaction velocity. Private buyers will focus their attention on smaller properties in the $1 million to $10 million range near Metro-North stations. Though, lofty prices in Fairfield County will push local buyers into New Haven County where cap rates can range up to 100 basis points higher. Institutions will search for larger properties in the downtown areas of major cities in Fairfield County, where cap rates can dip into the low-5 percent bracket.

2015 Market Outlook

- **2015 NAI Rank:** 43, Down 3 Places. New Haven's lackluster job market and rent growth dragged down the metro three places in the NAI.
- **Employment Forecast:** Employment will increase 1.5 percent in 2015 with the creation of 12,500 jobs. Last year 10,500 staffers were added.
- **Construction Forecast:** The construction pipeline will slow, after rising sharply last year, as 800 units are completed. Approximately 1,500 rentals were placed into service last year.
- **Vacancy Forecast:** Elevated deliveries, particularly during last year, will push vacancy up 40 basis points to 4.4 percent as the new units are leased through the year. Last year, vacancy dropped 110 basis points.
- **Rent Forecast:** This year average effective rents will advance 1.5 percent to $1,740 per month after recording a 3.0 percent jump in 2014.
- **Investment Forecast:** Solid fundamentals will motivate lenders to add assets in Fairfield and New Haven counties to their portfolios, providing buyers sufficient leverage to make purchases.

Market Forecast — Employment: 1.5% ▲ Construction: 700 ▼ Vacancy: 40 bps ▲ Effective Rents: 1.5% ▲

Expansion of High-Tech Jobs Ignites Apartment Demand, Elevating Buyer and Developer Optimism

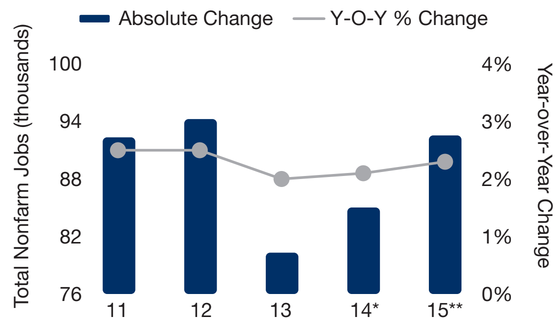
Strong employment gains will foster apartment demand as new residents are drawn to New York City, with builders rapidly expanding the development pipeline. Hiring is being triggered by the tech sector, as giants like Samsung and Google expand their presence in the city. The growth of this niche industry is motivating venture capital firms to support smaller tech companies, allowing them to expand their payrolls. Rising tourism will also generate employment opportunities as new hotel projects boost hiring in the leisure and hospitality, and the construction sectors. The advancing job market is attracting new people and unbundling households, particularly among young professionals, increasing household formation. The high price of owner-occupied housing is often cost prohibitive for many of the new residents, creating additional demand for rentals. Developers have responded optimistically, completing new projects at a swift pace. Though rising inventory will slightly push up vacancy, New York City will maintain one of the lowest vacancy rates in the nation, under 3 percent.

A thriving economy and tight operations will keep many investors active in the city and lure new buyers. Institutions, large syndicates and well-capitalized foreign investors will remain the dominant players in Manhattan, where cap rates can dip below 4 percent. Many high-net-worth individuals will focus their attention on areas in northern and downtown Brooklyn, looking for smaller Class B/C assets in transitioning areas. However, high prices in these locations will push many local investors into the boroughs' southern neighborhoods and into Queens, where cap rates can range 25 to 50 basis points higher.

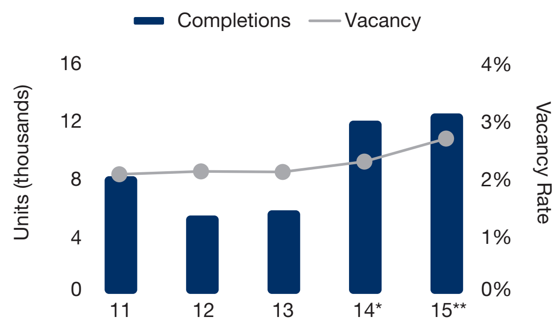
2015 Market Outlook

- **2015 NAI Rank:** 2, Down 1 Place. New York and San Francisco flipped places atop this year's NAI due to below-average rent growth.
- **Employment Forecast:** Employment will reach a new high this year as hiring ticks up 2.3 percent with the addition of 92,500 positions. In 2014, 85,000 jobs were created.
- **Construction Forecast:** Developers are scheduled to deliver 12,500 apartments in 2015. A combined 10,000 units will be built in Manhattan and Brooklyn. Last year, 12,000 units were completed.
- **Vacancy Forecast:** Delivery of new units will push vacancy up 40 basis points this year to a nearly full 2.7 percent. In 2014, average vacancy posted a 30-basis point rise.
- **Rent Forecast:** Rents will continue to move up in 2015 as operators increase market-rate effective rents 1.4 percent to $4,090 per month, by far the highest rental rate in the country. Last year, rents rose 1.8 percent.
- **Investment Forecast:** Instability in many international markets will continue to attract foreign buyers to New York City who are looking for safe places to deploy capital. Many of these investors are cash-heavy, providing greater flexibility to make acquisitions.

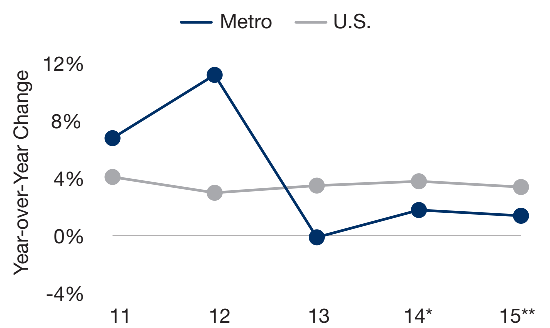
Employment Trends



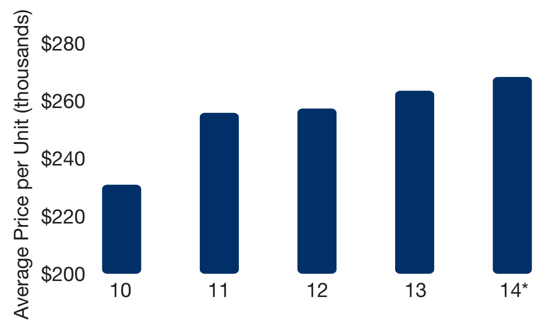
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

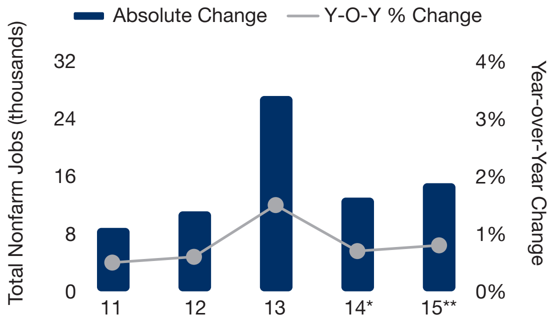
Employment: 2.3% ▲ Construction: 500 ▲ Vacancy: 40 bps ▲ Effective Rents: 1.4% ▲ Market Forecast

Northern New Jersey

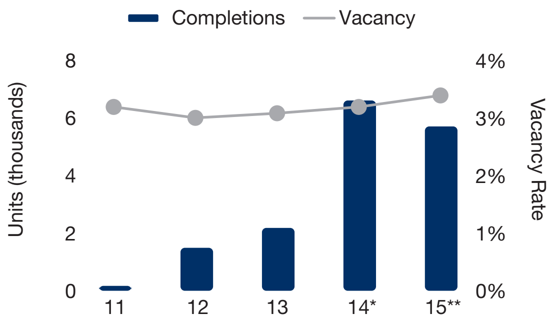
Marcus & Millichap

National Apartment Index | Down 4 Places | 2015 Rank: 10 | 2014 Rank: 6

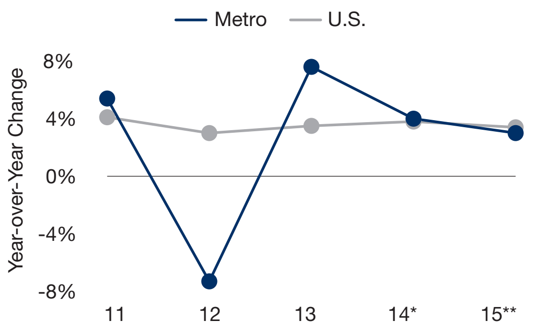
Employment Trends



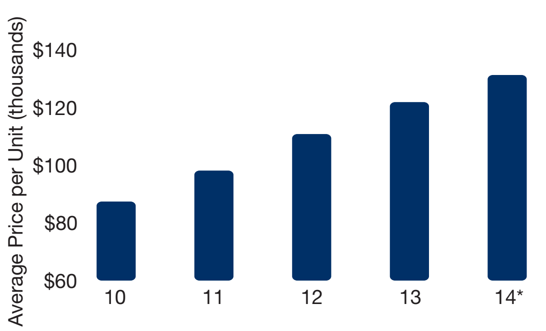
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Gold Coast Apartment Development Rises As Companies Cross the Hudson River

Employment in Northern New Jersey continues to rise as companies in New York City are drawn by the area's highly educated workforce and lower operating costs. Jersey City is landing many of these companies in part due to its direct access to Midtown Manhattan. JPMorgan will open a new office along the Hudson Waterfront in Jersey City this year, creating 1,000 jobs over the long term and consolidating 2,600 jobs from offices throughout New Jersey. Equally important to the new local jobs, proximity to Manhattan allows the region to benefit from hiring across the Hudson as many of the island's employees take advantage of lower rental rates in Northern New Jersey. On average, Hudson County can offer rents $1,000 less than across the river, often even lower for apartments farther away from direct commuter routes. With demand for housing especially high in Hudson County, developers are expanding the apartment construction pipeline while it is slowing in the rest of the region. There are eight projects with more than 300 units each underway in the county, five of which are scheduled for delivery this year. As inventory rises throughout Northern New Jersey, vacancy will nudge up yet remain well under 4 percent.

Strong fundamentals will support investor optimism in the market, creating competition for properties that come to market. Higher first-year returns will lure buyers from New York City; however, local investors will remain a dominant force in the region. Institutional investors are also becoming more active as yields compress in Manhattan, targeting newer properties along the Hudson Waterfront. Many of those deals can trade at cap rates in the low- to mid-4 percent range. Assets farther inland near transit routes, especially those that feed directly to Manhattan, will garner multiple bids. These properties can trade above 6 percent depending on the asset's location and strength of operations.

2015 Market Outlook

- **2015 NAI Rank:** 10, Down 4 Places. Below-average job growth lowered Northern New Jersey in the 2015 Index.
- **Employment Forecast:** This year, employment in Northern New Jersey will increase 0.8 percent or by 15,000 positions, up from the 13,000 jobs created last year.
- **Construction Forecast:** After 6,600 apartments were placed into service in 2014, construction will begin to slow with 5,700 units scheduled for completion in 2015.
- **Vacancy Forecast:** Construction will surpass absorption again this year, edging vacancy up 20 basis points to 3.4 percent.
- **Rent Forecast:** Tight vacancy will enable operators to increase average effective rents in the region 3 percent this year to $2,019 per month, down from the 4 percent gain recorded in 2014.
- **Investment Forecast:** Transaction velocity in the six-county region will be limited only by the number of listings as a competitive lending environment provides investors leverage to make acquisitions.

Market Forecast Employment: 0.8% ▲ Construction: 900 ▼ Vacancy: 20 bps ▲ Effective Rents: 3.0% ▲

Oakland and Walnut Creek Rise to the Top of Investors' Wish List As the East Bay Claims Nation's Lowest Vacancy

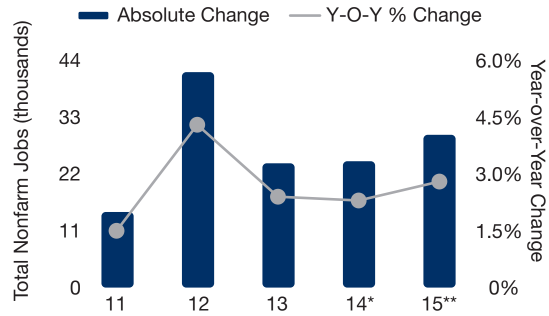
The East Bay will be the tightest apartment market in the nation by the end of this year as renters escape elevated rents in San Francisco and the South Bay. Oakland apartment rents are approximately $1,000 per month lower than the rates on the other side of the Bay Bridge, affording willing commuters a sizable annual savings. In addition, some renters are forced to find cheaper living accommodations as leasing managers adjust rents upon lease rollover. The result has been a boon for East Bay owners, who have seen apartment demand soar 8 percent since the recession and effective rents climb more than 40 percent. At the same time, new development has been slow to come to fruition as tight zoning standards have remained in place in the East Bay and builders maintained focus elsewhere.

Although arbitrage plays are no longer as lucrative as a few years ago, investors in the Bay Area have ample reasons to expand their portfolios into the East Bay. Average cap rates are still 100 basis points above San Francisco and drift higher in the outer stretches of Contra Costa County. In addition, operations in eastern Contra Costa have significant upside potential remaining, which could benefit buyers willing to assume the risk. Lower price points will also provide investors an avenue to acquire a greater number of units in Oakland. Investors with a penchant for rehabbing older properties will target assets near major thoroughfares and BART stations. Repositioning these properties will provide above-average returns in terms of rents.

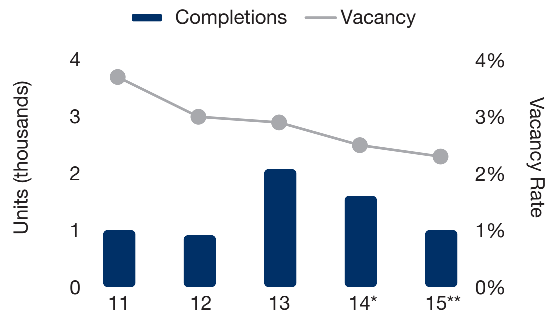
2015 Market Outlook

- **2015 NAI Rank:** 4, Up 5 Places. Oakland occupies the fourth spot in this year's Index due to light projected supply growth, tight vacancy and the nation's highest rent growth.
- **Employment Forecast:** Job growth will accelerate this year, bucking a Bay Area trend of flat gains. In 2015, employers will add 29,500 positions, a 2.8 percent increase, well above the 2.3 percent gain last year.
- **Construction Forecast:** Builders will wrap up construction on just 1,000 rentals this year, a paltry 0.5 percent increase in inventory. In 2014, developers completed 1,600 apartments.
- **Vacancy Forecast:** Vacancy will fall 20 basis points this year to 2.3 percent, the lowest rate in the country among major metros. Last year, apartment vacancy tightened 40 basis points.
- **Rent Forecast:** Operators will take advantage of low vacancy to lift effective rents 9.5 percent to $1,965 per month. In 2014, effective rents advanced a similar 9.2 percent.
- **Investment Forecast:** Investors can still capture significantly higher cap rates in eastern Contra Costa County, where operational improvement has lagged behind the metro.

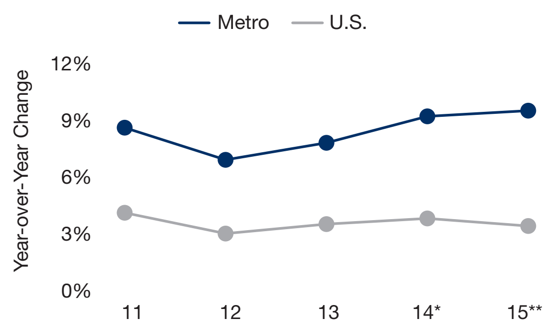
Employment Trends



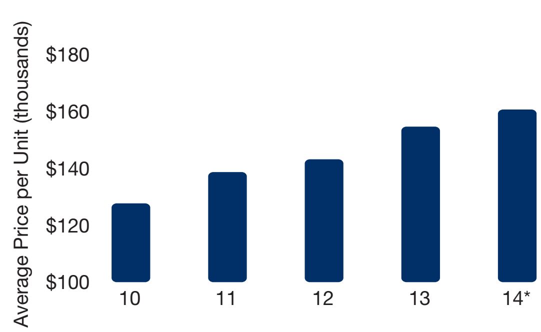
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Employment: 2.8% ▲ Construction: 600 ▼ Vacancy: 20 bps ▼ Effective Rents: 9.5% ▲

Market Forecast

Orange County

National Apartment Index | Down 3 Places | 2015 Rank: 14 | 2014 Rank: 11

New Development Will Handcuff Operators in the South, While Infill Demand Should Give Class C Rents a Lift

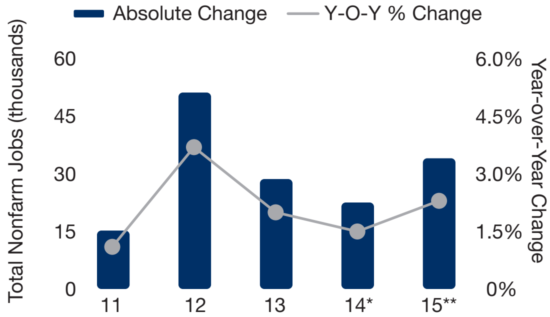
Apartment conditions will be bifurcated this year as deep-pocketed developers push large projects forward in southern Orange County while new apartment demand meets fewer inventory additions in northern Orange County. The Irvine Company and Equity Residential, among others, will wrap up construction on thousands of units in the southern submarkets, putting pressure on operators at existing properties to remain aggressive with rent adjustments to maintain occupancy rates. Nonetheless, overall tight conditions should provide some cushion for the market to absorb new inventory and maintain upward pressure on rents in most places. Leasing managers in less-expensive submarkets will have the strongest leverage to raise monthly rates due to the dearth of alternative housing options in the county. As a result, apartment rent growth will eclipse 5 percent for the first time in this recovery.

More investors will move into areas with friendlier price points this year as cap rates remain low across the county. Near the coast, strong buyer demand has pushed pricing well above previous highs and driven cap rates below 4 percent. Buyers seeking opportunities in the most desirable areas of Orange County are comparing returns with other investment vehicles rather than the risk associated with real estate. Should interest rates rise in the second half of 2015, additional opportunities may emerge that will return normalcy to coastal apartment underwriting. In the meantime, buyer demand for assets in Santa Ana and Anaheim will remain healthy due to above-average cap rates. First-year returns in these areas are in the low-5 percent range, significantly higher than the countywide average, which began 2015 in the mid-4 percent area.

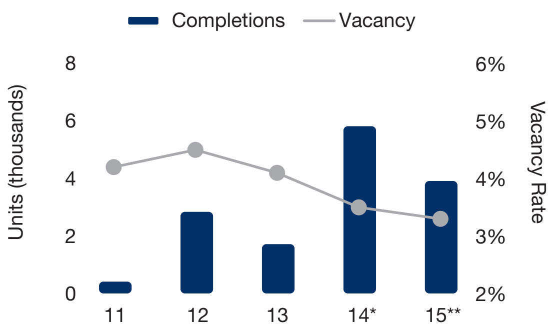
2015 Market Outlook

- **2015 NAI Rank:** 14, Down 3 Places. Employment growth below the national average triggered Orange County's decline in the 2015 NAI to the 14th-ranked market.
- **Employment Forecast:** Employment growth should get back on track this year as 34,000 jobs are created, a 2.3 percent increase. Last year, 22,500 positions were added in the county.
- **Construction Forecast:** Developers will complete 3,900 rentals in 2015, down from 5,800 units in 2014. A large share of the new units will come online in the southern submarkets.
- **Vacancy Forecast:** Stronger job growth will support a 20-basis point drop in vacancy to 3.3 percent, following a 60-basis point fall last year.
- **Rent Forecast:** Rents will gain traction in 2015 as effective rates rise 5.3 percent to $1,820 per month, building on a 3.8 percent climb in 2014.
- **Investment Forecast:** The investment climate will remain heated through the first six months of 2015 before evolving into a traditional market by year end. Buyers will target Class C units in low-income areas where rents have upside potential.

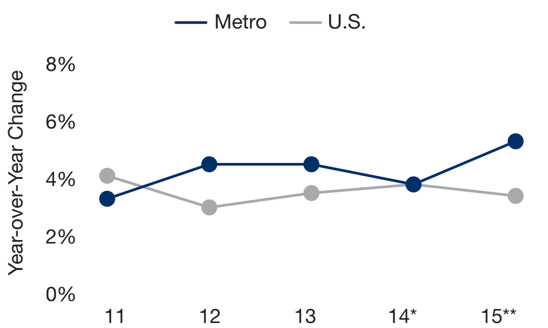
Employment Trends



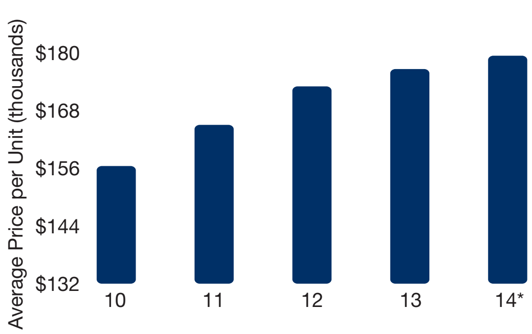
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast | Employment: 2.3% ▲ | Construction: 1,900 ▼ | Vacancy: 20 bps ▼ | Effective Rents: 5.3% ▲

Strengthened Job Growth Combines With Lingering Effects of Downturn to Suppress Vacancy in Orlando

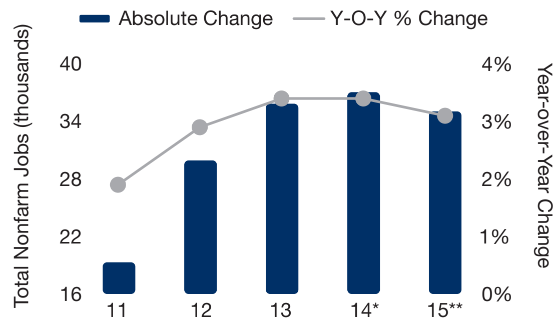
Vacancy hit a multi-year low in Orlando last year and solid job growth will fuel the market's momentum in 2015. In addition to the expansion of payrolls, more subtle underlying trends will contribute to tight vacancy and consistent rent growth this year. These trends include the compromised credit histories of many current renters, which will prevent a widespread migration to for-sale housing and, correspondingly, extend stays in apartments. Further, a sluggish pace of income growth also hinders the attempts of renters and potential first-time homebuyers to save for a downpayment. With the tailwind provided by these trends, tenant demand easily exceeded the delivery of hundreds of new units last year, and a similar trend will occur in 2015 as residents respond positively to new, amenity-laden rentals. The bulk of construction will shift slightly this year to south Orange County, where approximately 1,500 rentals will come online.

Property owners' ability to trim vacancy further may be limited due to development, meaning additional growth in NOIs will rely on raising rents and managing lease incentives. Overall, several quarters of steady improvement in cash flows have made additional assets in the metro more sellable, and investors are stepping up efforts to buy. With acquisition financing flowing more freely, investors in small, seasoned properties are increasingly seeking opportunities in the periphery of the metro that offer potentially higher first-year returns. Class B/C assets in secondary submarkets can trade at cap rates in the low- to mid-8 percent range; like properties closer to central Orlando can price up to 100 basis points lower, but inventory there is limited. Development and investment opportunities may also continue to emerge in Osceola County near the planned Florida Advanced Manufacturing Research Center.

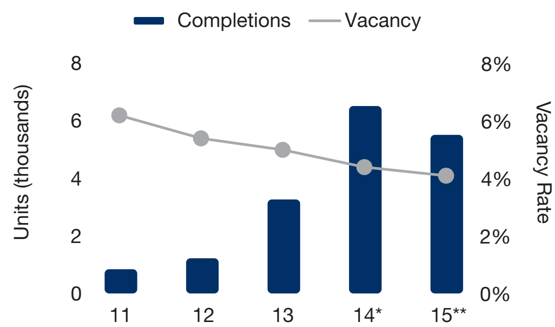
2015 Market Outlook

- **2015 NAI Rank:** 32, Up 4 Places. Strong growth in the renter population and rents supported a four-spot rise for Orlando in this year's Index.
- **Employment Forecast:** Local employers hired at a torrid pace last year, creating 37,000 jobs. Growth in construction, retail and hospitality positions will support a gain of 35,000 positions in 2015, a 3.1 percent increase in employment.
- **Construction Forecast:** Following the delivery of 6,500 rentals in 2014, developers will curtail production to 5,500 units in 2015.
- **Vacancy Forecast:** Net absorption of 5,700 units will trim vacancy 30 basis points in 2015, to 4.1 percent. The vacancy rate fell 60 basis points last year.
- **Rent Forecast:** This year, the average rent will increase 5.2 percent to $1,005 per month, surpassing last year's 4.5 percent gain.
- **Investment Forecast:** New Class A complexes will provide additional opportunities for large investors, who remain highly motivated. Properties near leisure attractions will garner interest.

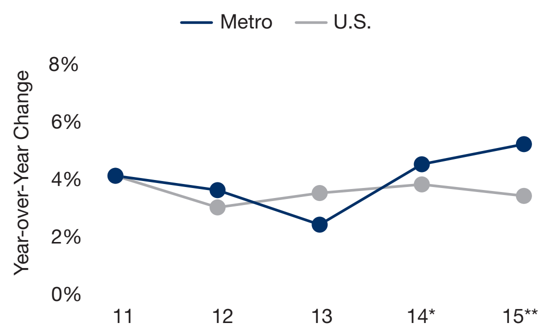
Employment Trends



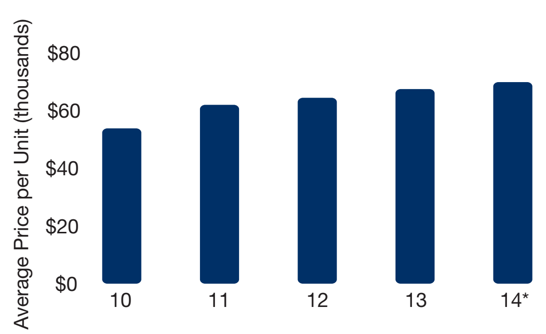
Supply and Demand



Effective Rent Trends



Sales Trends

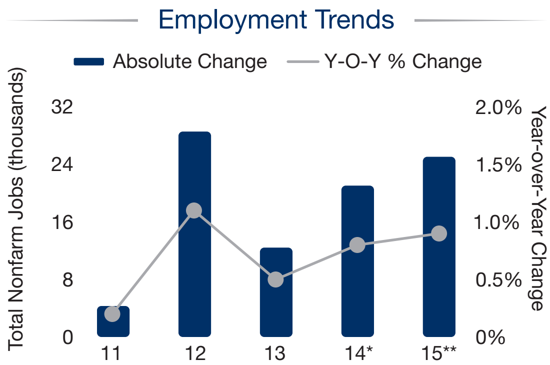


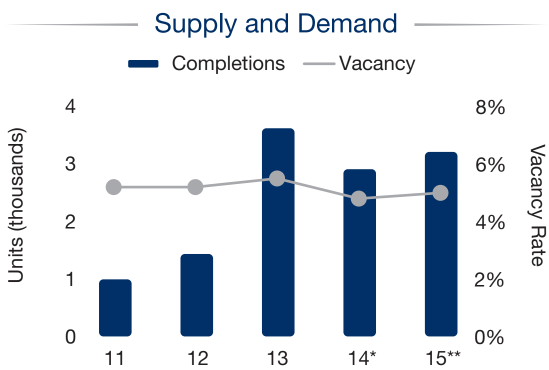
Sources: CoStar Group, Inc., Real Capital Analytics

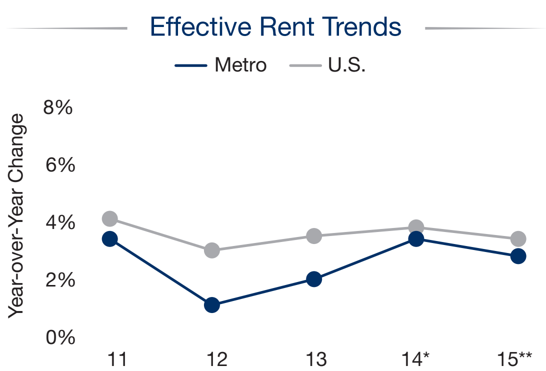
* Estimate ** Forecast

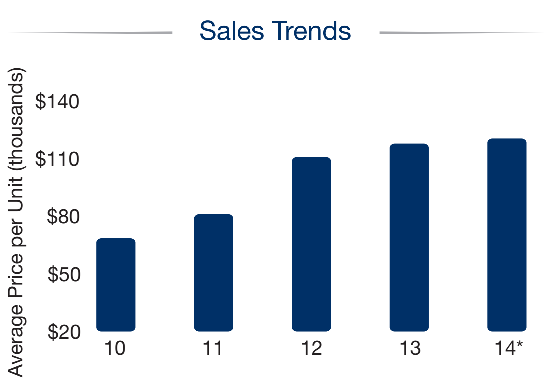
Employment: 3.1% ▲ Construction: 1,000 ▼ Vacancy: 30 bps ▼ Effective Rents: 5.2% ▲ Market Forecast

National Apartment Index | Down 4 Places | 2015 Rank: 24 | 2014 Rank: 20









Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

An Unwavering Local Economy Boosts Philadelphia Apartment Demand

Total employment in the metro will continue a steady growth pattern this year, coming within 1 percent of the pre-recession peak, creating new households and spurring an increase in apartment demand. Employment gains will be led by growth in the education and health services sector. The professional and business services sector will also post strong improvements as companies supporting the healthcare segment such as Syapse, a Silicon Valley-based healthcare software provider, expand in the metro. The market's growing economy and residential demand are encouraging builders to begin new projects. Apartment deliveries will be heavily concentrated in Center City and University City as developers target the metro's growing population of young professionals. The largest apartment project in the area, the 364-unit 3601 Market Street, will open in the third quarter this year in University City. Elevated deliveries will push up vacancy, slightly bouncing the rate off its lowest year-end point since 2007. Vacancy will remain tight, enabling operators to increase effective rents to an all-time high by year end.

Stable economic growth and strong operations in 2015 will increase NOIs, generating heightened buyer interest. Lower yields than many other major metros in the Northeast will draw additional attention from buyers throughout the region. The combination of elevated buyer demand and rising prices will entice many owners who are looking to retire or cash in on recent appreciation to move off the sidelines, underpinning transaction velocity. Well-capitalized buyers will target smaller Class C properties in the urban core, looking to take advantage of strong rent growth potential. Other private buyers will look in suburban areas where Class B/C properties can trade in the low-6 to mid-7 percent bracket, depending on occupancy and location.

2015 Market Outlook

- **2015 NAI Rank:** 24, Down 4 Places. A retreat in the NAI was precipitated by tepid job growth and a below-average increase in rents.
- **Employment Forecast:** In 2015, employment will increase 0.9 percent as 25,000 workers are added to payrolls.
- **Construction Forecast:** Developers will bring online 3,200 units this year, lifting apartment stock 0.9 percent. In 2014, 2,900 units were delivered.
- **Vacancy Forecast:** An expanding construction pipeline will push up vacancy 20 basis points in 2015 to 5.0 percent, following a 30-basis point decline last year.
- **Rent Forecast:** Operators will lift average effective rents 2.8 percent this year to $1,191 per month, down from the 3.4 percent jump recorded in 2014. Rents have risen 2.5 percent per year since 2010.
- **Investment Forecast:** Institutions searching for upper-tier assets with higher initial yields will focus on listings near employment centers in Montgomery County, where cap rates can be 50 to 75 basis points higher than Center City or University City.

Market Forecast | Employment: 0.9% ▲ | Construction: 300 ▲ | Vacancy: 20 bps ▲ | Effective Rents: 2.8% ▲

Single-Family Housing Creates Opportunities And Challenges for Phoenix Apartment Owners

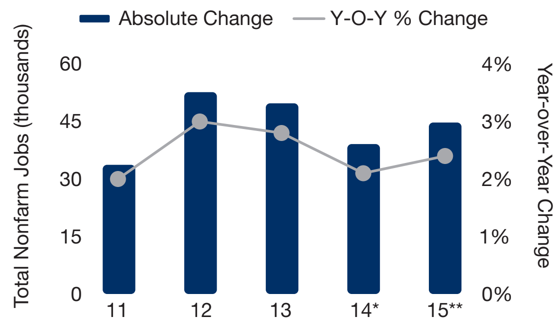
Steady job creation and a sputtering single-family housing market will support apartment operations, though a surge in apartment completions will lift metrowide vacancy this year. Subdued single-family construction has limited the attrition of renters into homes due to fewer opportunities to purchase. Additionally, the constrained supply is pushing up home prices in the most desirable neighborhoods, which is maintaining a healthy renter pool in these areas. However, a lack of housing-related job growth has deprived the market of an important source of apartment demand. Other sectors of the economy will pick up the slack as hiring accelerates in healthcare and professional and business services. Employment gains, along with pent-up tenant demand derived from restrained multifamily construction during the downturn, are encouraging builders to accelerate production. This year, developers will deliver the largest addition to inventory in more than a decade. South Scottsdale and North Tempe will receive a bulk of inventory, pushing up vacancy in the near term as complexes lease up. Rising competition from new supply will prompt operators to moderately slow the pace of rent growth this year.

More California investors will search for Phoenix apartment assets, lured by the improving economy, steady rent gains, and relatively higher returns than are available in coastal cities. Buyers will outnumber the supply of for-sale inventory, and competitively priced properties will receive multiple bids. Well-capitalized investors will look for quality assets in the Southeast Valley. Additionally, Class B assets with value-add potential through capital improvements will remain highly sought after, and buyers will have to put their best offer forward in order to close the deal. Increased buyer competition and low interest rates will motivate more owners who are on the fence to divest this year, relieving some pressure on the market.

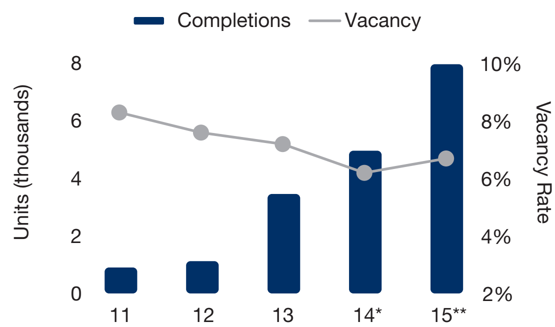
2015 Market Outlook

- **2015 NAI Rank:** 17, Up 5 Places. Phoenix cracks the top 20 due to positive demographic trends and expanding employment.
- **Employment Forecast:** Employers will create 44,600 jobs in 2015, expanding payrolls 2.4 percent, up from the 39,000 new positions last year.
- **Construction Forecast:** After delivering 4,950 units last year, developers are picking up the pace of construction. Approximately 7,950 units are slated for completion in 2015, increasing stock 2.4 percent.
- **Vacancy Forecast:** A significant addition to supply in some submarkets will push up vacancy 50 basis points to 6.7 percent in 2015. Last year, vacancy tumbled 100 basis points.
- **Rent Forecast:** Operators will lift rents 2.1 percent this year to $828 per month, following a 4.1 percent jump in 2014.
- **Investment Forecast:** More investors will look outside the desirable Southeast Valley to areas with favorable demographics and room for rent growth in north and northwest Phoenix.

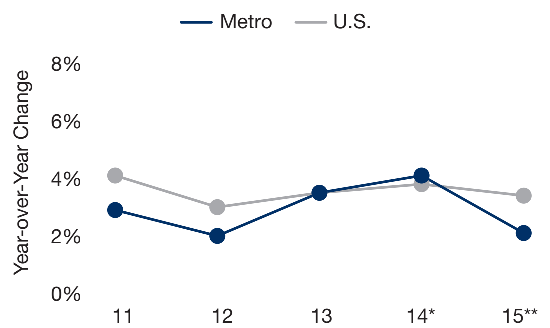
Employment Trends



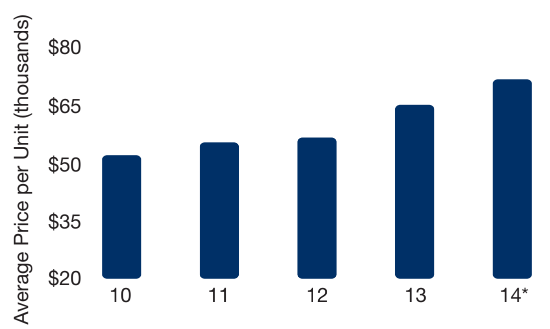
Supply and Demand



Effective Rent Trends



Sales Trends

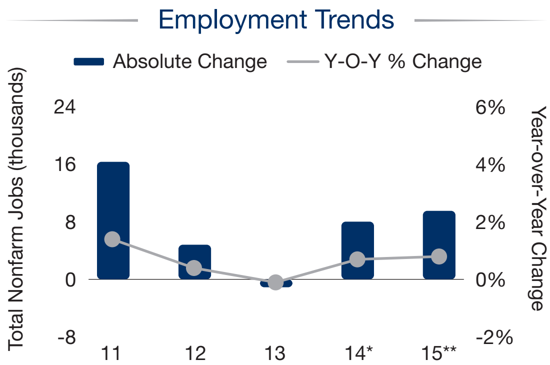


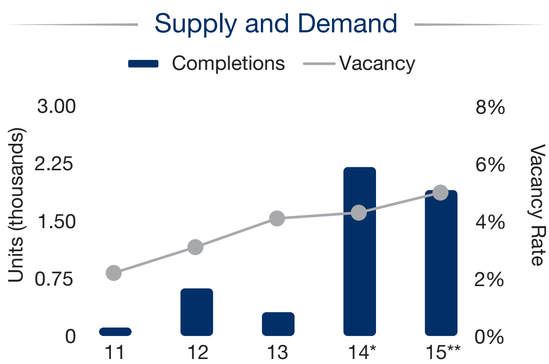
Sources: CoStar Group, Inc., Real Capital Analytics

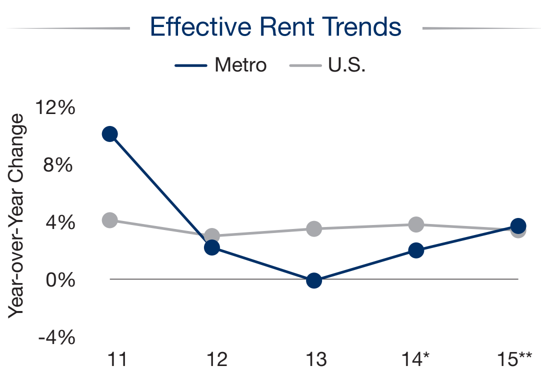
* Estimate ** Forecast

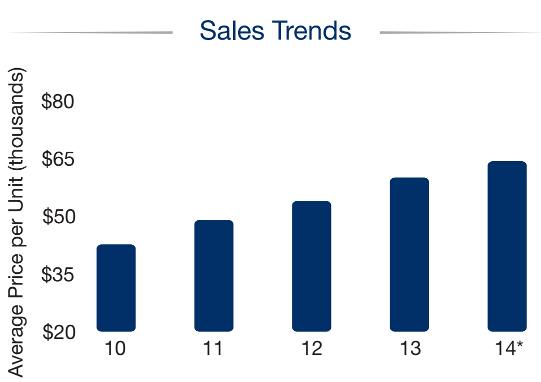
Employment: 2.4% ▲ Construction: 3,000 ▲ Vacancy: 50 bps ▲ Effective Rents: 2.1% ▲ Market Forecast

National Apartment Index | Down 7 Places | 2015 Rank: 39 | 2014 Rank: 32









Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Sluggish Employment Growth During Construction Surge Lifting Vacancy in Pittsburgh

The pace of apartment completions will surpass improving demand, pushing up vacancy in the tight Pittsburgh apartment market. The metro's diversifying employment roster is now supported by strong economic drivers — multiple universities and Marcellus shale — aiding education, medicine, technology and energy job creation. Still, job growth will lag the national average for a fifth consecutive year. Despite modest payroll gains, home prices have steadily increased and will be 20 percent above the trough in 2012 by year end. Nonetheless, the monthly mortgage payment on a median-priced home is more affordable than renting a recently constructed apartment. Young professionals and empty nesters have exhibited a preference for the flexibility and amenities provided by renting in desirable neighborhoods where housing prices exceed the median, driving demand for apartments and maintaining low vacancy. Capitalizing on limited available inventory in these areas, developers ramped up production and the apartment construction cycle hit a peak last year. Solid supply additions will persist this year as new rentals are concentrated outside the CBD, where construction costs are cheaper. Growing competition from new supply will lift vacancy, pushing the rate to the long-term average.

More investors will search in tertiary markets for potential rent growth and higher yields, supporting transaction velocity in the Pittsburgh apartment market. East Coast investors who are priced out of their local markets will stretch their search to Pittsburgh assets that offer comparably higher yields. High-net-worth individuals and local investors will compete for the same properties, boosting bidding activity. Increased demand and low for-sale inventory will encourage buyers to become more aggressive, motivating long-term owners with significant equity and owners who purchased value-add assets that are now stabilized to test the market. Properties located in the East End, South Side and North Hills will garner the strongest interest; however, investors will monitor the effects of heightened new supply.

2015 Market Outlook

- **2015 NAI Rank:** 39, Down 7 Places. Pittsburgh will post the largest vacancy increase in 2015, dragging down the market seven spots in the ranking.
- **Employment Forecast**: After adding 8,000 jobs in 2014, local employers will create 9,500 positions this year, a 0.8 percent increase.
- **Construction Forecast**: In 2015, developers will finish 1,900 apartments, lifting inventory 1.4 percent. Last year, 2,200 units were completed.
- **Vacancy Forecast:** Vacancy will rise 70 basis points to 5 percent in 2015. Last year vacancy rose 20 basis points.
- **Rent Forecast:** Effective rents will reach $1,050 per month in 2015, a 3.7 percent gain. Last year, rents advanced 2.0 percent.
- **Investment Forecast:** Rising interest from out-of-state buyers for well-located properties with at least 50 units will encourage owners to bring these assets to market.

Market Forecast | Employment: 0.8% ▲ | Construction: 300 ▼ | Vacancy: 70 bps ▲ | Effective Rents: 3.7% ▲

Portland

Down 2 Places | 2015 Rank: 12 | 2014 Rank: 10

National Apartment Index

After Four Years of Elevated Construction, Vacancy Will Finally Rise in Portland

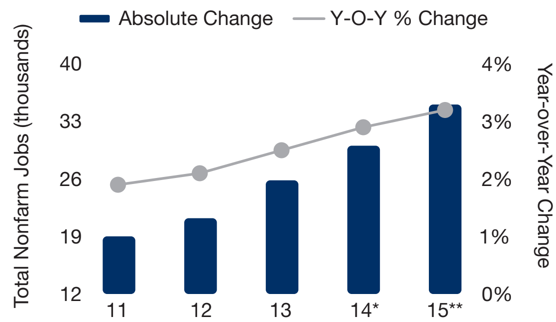
Strong job growth is sustaining considerable demand for apartments in the metro and pushing up rents. By the end of 2015, nearly 14,000 new units will have been added to rental stock over the past four years, yet marketwide vacancy will remain below 4 percent for the fourth consecutive year. A large portion of apartment demand is coming from young professionals desiring to live in an urban environment. The higher cost of city living, however, is generating the need for more affordable housing options, including micro apartments. Micro units, which are typically less than 400 square feet, will soon be available in Northwest Portland, downtown and in the Hollywood District. At the other end of the spectrum, condo construction has resumed in the Pearl District. The well-appointed units will increase competition for nearby luxury rentals. Apartment construction is also picking up in suburban areas, especially where employment, transit, restaurants and shopping are close by.

The surge in construction in Portland is providing buying opportunities for investors, including many from California who are drawn by lower entry costs and the potential for higher first-year returns. Interest in assets surrounding the downtown core will remain intense during 2015, as expanding tech companies attract employees seeking to live close to work. Older properties that have been upgraded can resell to investors interested in stabilized, repositioned assets. Keen investor interest will require buyers to make strong offers. Although a perceived lack of exchange opportunities may delay some owners from listing, with buyers plentiful, operators with full occupancy, market-rate rents and a short investment horizon may find this a good time to sell, especially if properties are in areas where rental inventory is increasing.

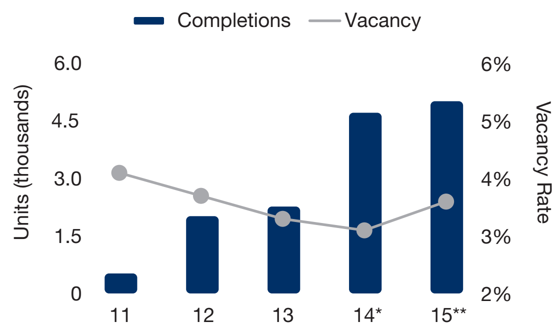
2015 Market Outlook

- **2015 NAI Rank:** 12, Down 2 Places. A two-spot decline for Portland occurred behind elevated completions and a projected rise in the vacancy rate during 2015.
- **Employment Forecast:** Building on a 2.9 percent rise in payrolls last year, employers will create 35,000 jobs in 2015, a 3.2 percent gain.
- **Construction Forecast:** Development is ramping up. Approximately 5,000 apartments will be completed in 2015, after the delivery of 4,700 units in the metro last year.
- **Vacancy Forecast:** A rise in construction and increased competition from the condo market will raise vacancy 50 basis points this year to a still tight 3.6 percent. In 2014, vacancy dipped 20 basis points.
- **Rent Forecast:** Operators will remain aggressive during 2015 as effective rents jump 6.6 percent to $1,113 per month. Last year, effective rents surged 6.9 percent.
- **Investment Forecast:** Intense bidding on properties near the urban core will motivate more investors to consider suburban assets.

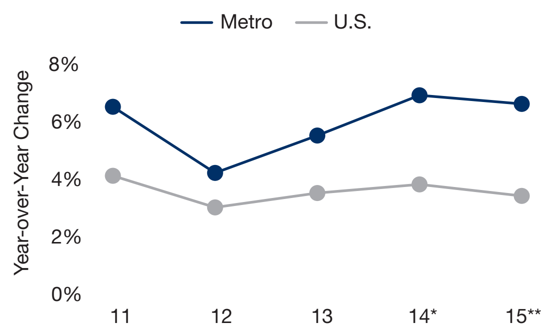
Employment Trends



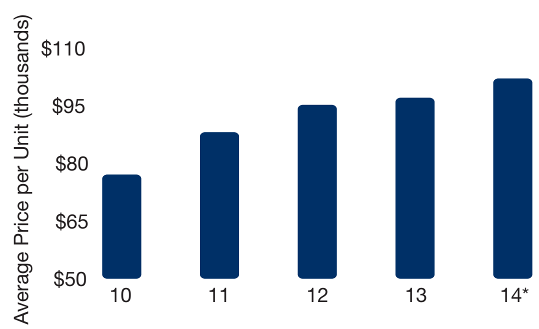
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Employment: 3.2% ▲ Construction: 300 ▲ Vacancy: 50 bps ▲ Effective Rents: 6.6% ▲

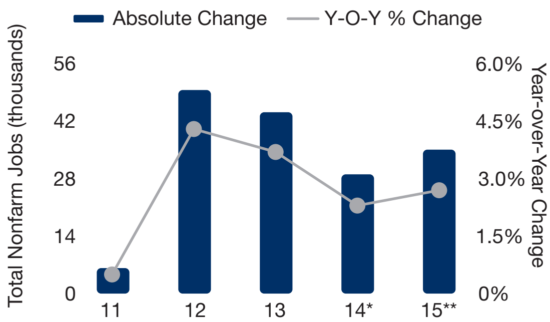
Market Forecast

Riverside-San Bernardino

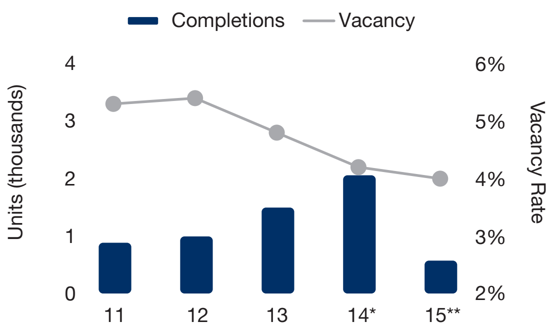
Marcus & Millichap

National Apartment Index | Down 1 Place | 2015 Rank: 20 | 2014 Rank: 19

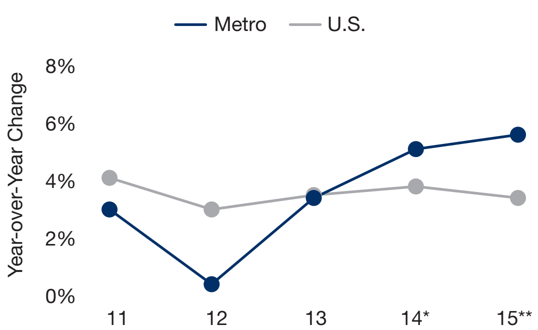
Employment Trends



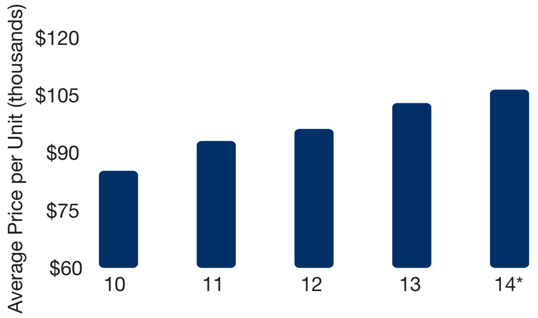
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Investors Follow Rising Apartment Tide to Riverside, Seeking to Catch Income Gains

Robust national retail sales gains are strengthening local job fundamentals, helping to buoy apartment demand in the Inland Empire. While every sector will contribute to employment growth this year, warehousing and wholesale trade positions within the industrial sector will be a significant factor in this distribution hub. New warehouse center staff will be cashing paychecks from employers such as Amazon, which has been adding new facilities over the past two years in San Bernardino, Moreno Valley and most recently a fulfillment center announced in the Redlands. Construction jobs will also thrive, as developers respond to rising consumer demand across all real estate property types, including multifamily housing. Upcoming apartment projects this year will be dominated by smaller complexes, many consisting of 50 to 100 units and a mix of market-rate and affordable housing. The majority of these projects will be constructed in the eastern part of the county. Yet, the largest complex to be completed this year, the 300-unit Vistara Apartments, will be located in Ontario.

Transaction velocity will be strong in 2015, as investors target apartment acquisitions in the Inland Empire, while others have expressed interest in land for sale in order to develop rental units. Sales will flourish on both sides of the yield spectrum. Those desiring assets with higher yields will target properties in San Bernardino, while buyers seeking more stable trades will scour Rancho Cucamonga, Fontana, Corona and Temecula communities. Buyers will outnumber available listings, driving up average price per unit.

2015 Market Outlook

- **2015 NAI Rank:** 20, Down 1 Place. The Inland Empire logged a slight drop in this year's NAI. A modest pace of job creation detracted from limited development and above-average rent growth.
- **Employment Forecast:** Employers will accelerate the pace of hiring in the Inland Empire, with net gains of 2.7 percent and 35,000 positions in 2015. Job gains rose 2.3 percent last year.
- **Construction Forecast:** Developers will deliver 570 units to the market in 2015, increasing supply by 0.3 percent, down from the 2,050 rentals constructed in the previous year. Builders will remain focused on areas near employment expansion.
- **Vacancy Forecast:** The vacancy rate will shrink to 4 percent, 20 basis points lower than last year's rate. In 2014, vacancy fell 60 basis points.
- **Rent Forecast:** In 2015, average effective rents will jump 5.6 percent to $1,225 per month, a 50-basis point surge from the prior year when monthly rents rose to 5.1 percent year over year to $1,160.
- **Investment Forecast:** Owners with maturing loans will sell with expectations to trade into an up-leg with interest rates remaining historically low. This will increase available listings. Buyers will flock to the area for both value-add deals and more stable product.

Market Forecast | Employment: 2.7% ▲ | Construction: 1,480 ▼ | Vacancy: 20 bps ▼ | Effective Rents: 5.6% ▲

Job Growth, Moderate Incomes and Basketball Arena Support Rental Demand Rebound

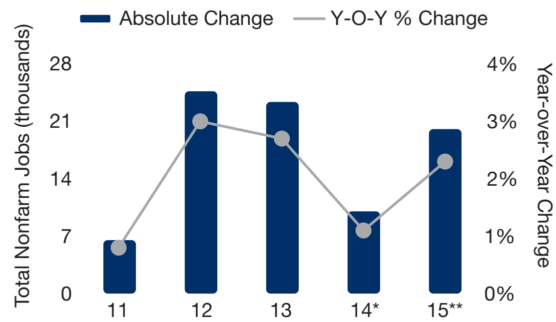
Hiring, particularly within the education and health services and the construction sectors, will draw young professionals to the Sacramento metro this year, lifting apartment demand. The state's healthcare insurance division will ramp up private-sector contracting to assist with administering growing health-coverage needs. More than 500 new employees will be hired to support this year's open enrollment season at Covered California call centers, filling temporary and permanent positions in the Sacramento metro. Additionally, 100 new healthcare professionals and staff will be appointed for the fall 2015 opening of a Dignity Health clinic in the Woodland Gateway development. Strong economic growth will support household formation, elevating residential demand. This has pushed up the median price for an existing single-family home and will continue to do so in the upcoming year. Many millennials searching for a residence will initially only be able to afford to rent, as required downpayments swell. Developers will respond with a boost to apartment construction. New inventory will be concentrated downtown and midtown, near employers and the anticipated Sacramento Kings basketball arena in the Downtown Plaza, which is scheduled to be completed in time for the 2016 NBA season. These units will lease up quickly, giving operators leverage to raise rents.

Investors can expect to see rising returns, as increased demand tightens the vacancy rate, pushing up monthly rents. Buyers seeking relatively stable assets with greater first-year returns than nearby San Francisco can often invest with less capital and generate significantly stronger yields. This real estate environment has appealed to out-of-state and overseas investors, who have been showing greater interest in available properties. In the near term, the properties coming to market may ease as owners enjoy steady increases in cash flow.

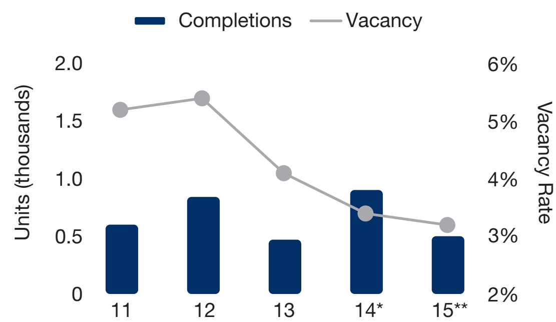
2015 Market Outlook

- **2015 NAI Rank:** 33, No Change. Sacramento failed to gain ground in the Index as other markets posted stronger forecasts.
- **Employment Forecast:** Hiring will double last year's number to 20,000 positions, an increase of 2.3 percent, after employment slowed last year.
- **Construction Forecast:** This year 500 units will be delivered, a rise of 0.3 percent in total supply in 2015. Developers completed 900 units last year.
- **Vacancy Forecast:** Slower growth in new supply will push vacancy down 20 basis points to 3.2 percent in 2015, moderated by leasing of a large portion of units delivered at the end of 2014.
- **Rent Forecast:** Tightening conditions will enable owners to raise rents 5.4 percent to $1,075 per month on average. In 2014, rent increased 4.3 percent.
- **Investment Forecast:** Investors seeking value-add properties will target the Rancho Cordova area, which has above-average yields. Meanwhile, REITs and institutions will search for properties in the Carmichael and Arden-Arcade suburbs with lower than average market cap rates.

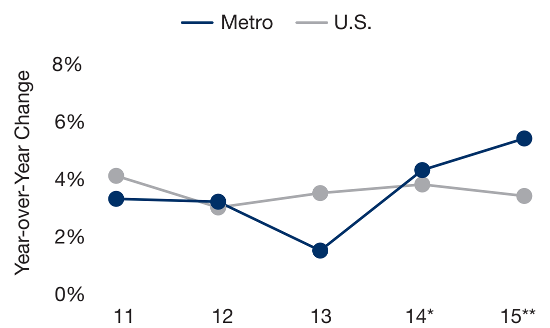
Employment Trends



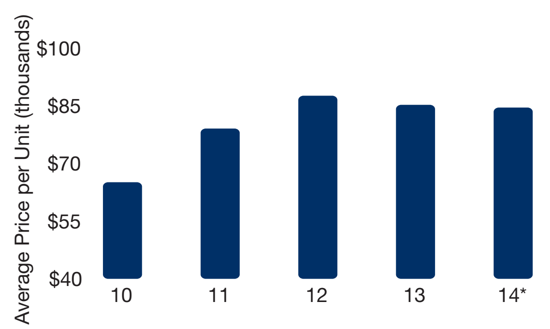
Supply and Demand



Effective Rent Trends



Sales Trends

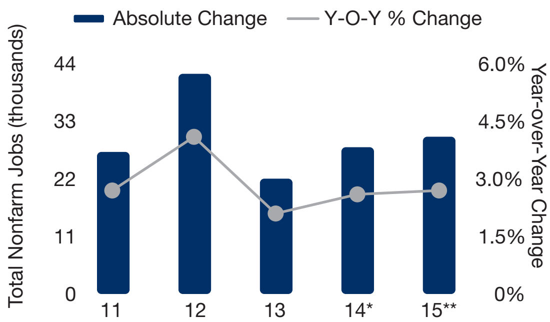


Sources: CoStar Group, Inc., Real Capital Analytics

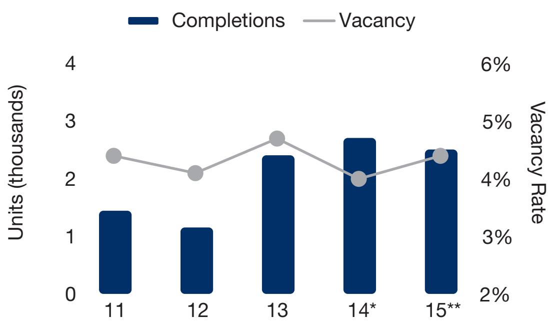
* Estimate ** Forecast

National Apartment Index | No Change | 2015 Rank: 21 | 2014 Rank: 21

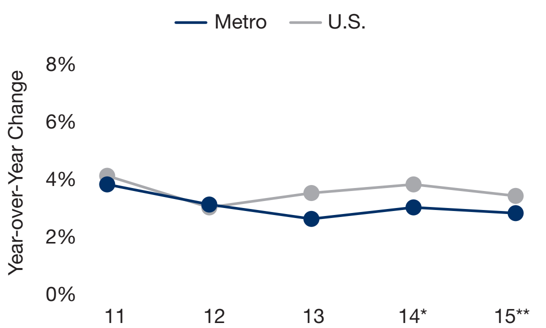
Employment Trends



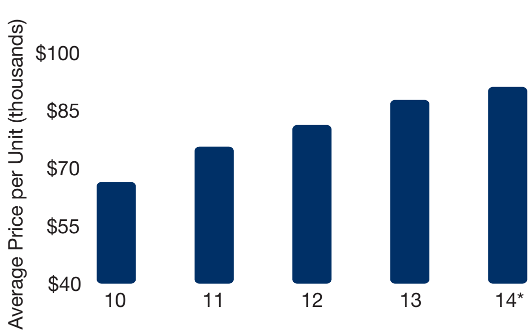
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Technology Sector Drives Employment And Investor Demand Along the Wasatch Front

A burgeoning tech sector will stimulate economic growth along the Wasatch Front, spurring household formation, rental demand and construction. Spending by venture capital firms will underpin further growth by technology companies in 2015, many of which will use the funding to increase hiring. After receiving venture capital investment, InsideSales.com announced plans to hire 400 new employees this year at its locations in Salt Lake City and Provo. Other companies, such as Oracle, are taking advantage of tax incentives and expanding along the Wasatch Front. The strong job market will attract many young professionals to the area. The population of 20- to 34-year-olds, the primary renting cohort, is anticipated to increase 1.6 percent by year end, four times the national average. Developers will respond optimistically to the rising demand, expanding apartment inventory by nearly 3 percent this year. The Cobblegate apartments, the largest project scheduled for delivery in 2015, will add 416 rentals to existing stock upon completion in the second half. Despite a slight slowdown in construction, accelerated apartment completions over the past three years will outpace absorption in 2015, pushing vacancy up into the mid-4 percent range. Yet, as vacancy remains under 5 percent, effective rents growth will remain stable.

Solid operations and higher yields than many other major metros in the western United States will lure additional investor attention this year. Furthermore, a low interest rate environment and available capital will enhance investor appetite. The combination of high prices, competitive bidding and a narrowing price gap between buyers and sellers will entice owners to bring properties to market, increasing transaction velocity. The thriving downtown will attract institutional investors who will primarily target upper-tier assets, which can trade at cap rates in the low- to mid-5 percent range. High-net-worth individuals will pay closer attention to listings in Utah, Davis and Weber counties where initial yields can be more than 100 basis points higher, depending on location and occupancy.

2015 Market Outlook

- **2015 NAI Rank:** 21, No Change. The Wasatch Front remains one spot outside of the top 20 in the 2015 Index due to a high number of new units coming online and a slack pace of rent growth.
- **Employment Forecast:** Payrolls will expand by 30,000 positions this year, a 2.7 percent increase. Last year, 28,000 jobs were created.
- **Construction Forecast:** A total of 2,500 rentals will come online in 2015, marking a slight decline from last year when 2,700 units were completed.
- **Vacancy Forecast:** Supply will edge out demand this year, pushing up vacancy 40 basis points to 4.4 percent. In 2014 vacancy fell 70 basis points.
- **Rent Forecast:** Following a 3.0 percent rise last year owners will lift rents an additional 2.8 percent in 2015 to $892 per month.
- **Investment Forecast:** Light-rail expansion will present developers with future transit-oriented location opportunities for new apartments.

Market Forecast | Employment: 2.7% ▲ | Construction: 200 ▼ | Vacancy: 40 bps ▲ | Effective Rents: 2.8% ▲

Job Creation Attracts New Residents; Greater Access to Financing Motivates Investors

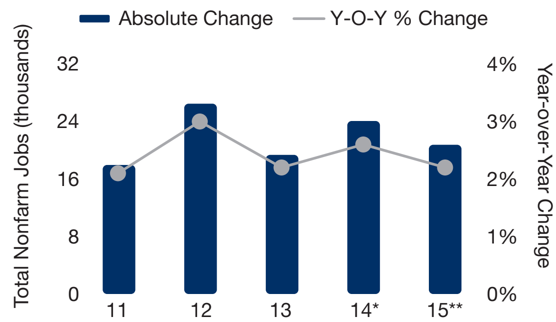
Demand for apartments should be on par with deliveries in San Antonio this year, as economic momentum in the metro remains positive despite lower oil prices. There are risks to the outlook, particularly if oil prices drop below $40 per barrel for an extended period, as breakeven prices for Eagle Ford production reportedly hover between $45 and $55 per barrel. Overall, though, job creation is expected to be driven by non-energy-related sectors, as USAA and IBEX Global create up to 1,000 positions each this year, and the National Security Agency expands its local cybersecurity operations. Many better-paying professional-level positions will be created in the north/northwest of the metro, which will also account for a sizable share of this year's new Class A supply. Support for Class B/C demand, on the hand, is expected to be derived from another year of elevated employment growth in the local leisure and hospitality sector, and expansion of various blue-collar sectors, such as construction and trade, transportation and utilities.

Investors will remain keen on the San Antonio this year, though some will approach with caution as completions remain elevated. The planning pipeline shows no signs of emptying soon; however, apartment operations will make improvements this year. Young professionals are moving into the metro as a growing number of degreed positions become available, and though for-sale housing remains affordable, the majority of these young adults are choosing to live in rental households. This preference for renting, and the metro's history of absorbing large influxes of supply, will help ease inventors' concerns. Purchase prices have risen slightly, though investors are remaining disciplined when bidding. Meanwhile, greater access to acquisition financing will keep investors motivated to purchase assets throughout the year.

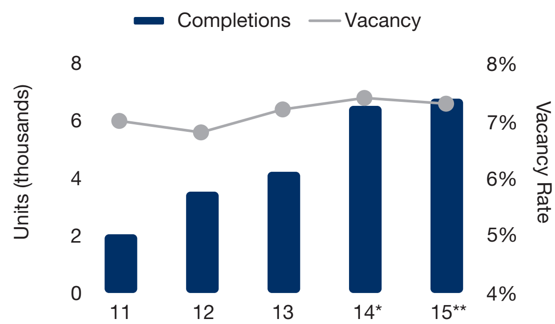
2015 Market Outlook

- **2015 NAI Rank:** 28, Down 2 Places. Supply growth and relatively high overall vacancy held down San Antonio in this year's rankings.
- **Employment Forecast:** Employment will rise 2.2 percent this year with the creation of 30,000 positions. In 2014, job growth reached 2.6 percent.
- **Construction Forecast:** Completions will reach 6,750 units in 2015, increasing inventory by 4 percent. Apartment inventory also expanded 4 percent last year when 6,500 apartments were delivered.
- **Vacancy Forecast:** Vacancy will reach 7.3 percent this year, dipping 10 basis points year over year on net absorption of 6,400 units. In 2014, vacancy ticked up 20 basis points.
- **Rent Forecast:** Rent growth will remain strong in 2015, building on last year's 3.4 percent gain. Average asking rents will rise 3.8 percent this year to $880 per month.
- **Investment Forecast:** Value plays remain, especially in the northeast portion of the metro, where opportunities to purchase underperforming assets, raise occupancy and rents, and exit one year later are attracting buyers.

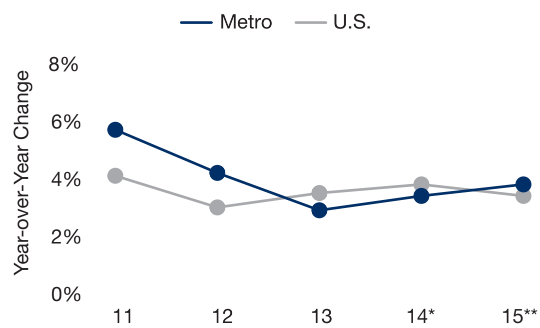
Employment Trends



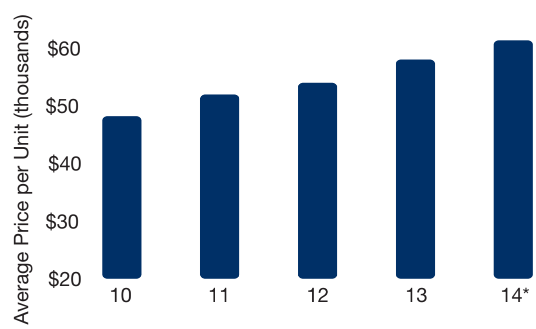
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

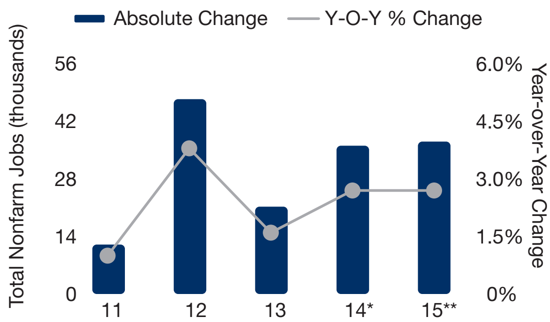
* Estimate ** Forecast

Employment: 2.2% ▲ Construction: 250 ▲ Vacancy: 10 bps ▼ Effective Rents: 3.8% ▲

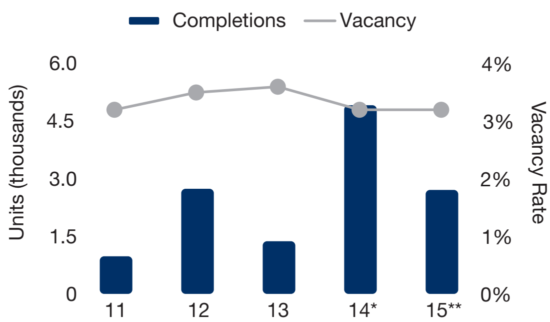
Market Forecast

National Apartment Index | Down 1 Place | 2015 Rank: 6 | 2014 Rank: 5

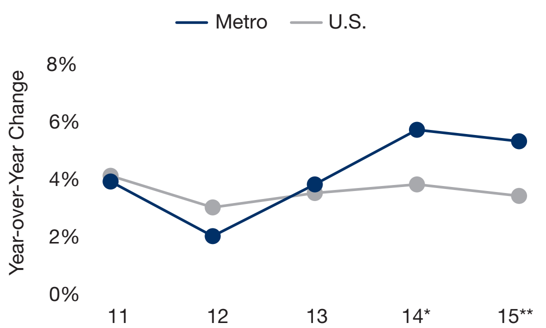
Employment Trends



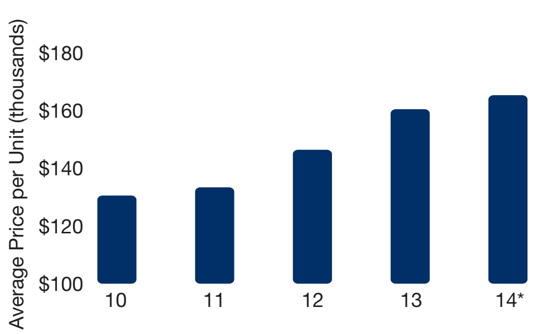
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Disciplined Development in Most of San Diego County Supporting Strong Apartment Rent Growth

Among Southern California metros, San Diego is in the strongest position regarding the supply/demand imbalance entering 2015. Employment growth and in-migration remain strong as bellwether industries add jobs. Tourism will rise for the sixth consecutive year, generating thousands of apartment-absorbing leisure and hospitality positions. Additionally, the ongoing expansion of the San Ysidro border crossing should support day trips from Mexico, creating jobs near the border. Biotech firms and the military should also remain contributors to payrolls this year. In terms of supply, the wave of apartments coming online across the country will bypass most of the county, limiting the threat of new inventory this year to a handful of submarkets in San Diego. Downtown, in particular, is facing an uphill battle over the next few years as thousands of units are underway and planned, keeping apartment operations unsteady. Overall, however, most areas in the county will maintain vacancy in the 3 percent range and record healthy rent gains.

Buyers will remain active in the metro this year, though due diligence and pricing will take on a greater role when properties are considered for acquisition. The strong run-up in rents over the past few quarters will encourage buyers to seek properties that have below-market rates. Nonetheless, sellers can capture higher prices by listing assets at pro forma cap rates due to the relative availability of financing. Investors targeting properties with market rents already in place will take a more conservative stance when analyzing five-year rent projections when considering a purchase. As a result, other forms of value-add opportunities, such as repositioning or adding units, will remain prevalent in the metro. Overall, average cap rates entering 2015 are slightly below 5 percent.

2015 Market Outlook

- **2015 NAI Rank:** 6, Down 1 Place. Several other markets will register higher job growth this year, pushing down San Diego in the rankings.
- **Employment Forecast:** For the second consecutive year, payrolls in San Diego will expand 2.7 percent as 37,000 jobs are created.
- **Construction Forecast:** Only 2,700 rentals are anticipated for completion this year, representing a 1 percent rise in stock. Last year, 4,900 units came online.
- **Vacancy Forecast:** Supply and demand will mirror each other in 2015, leaving vacancy at 3.2 percent for the year. In 2014, vacancy dipped 40 basis points.
- **Rent Forecast:** After a 5.7 percent increase last year, effective rents will rise 5.3 percent to $1,627 per month in 2014.
- **Investment Forecast:** Investors will remain focused on the neighborhoods surrounding downtown San Diego, including North Park, South Park, University Heights and Hillcrest. Upward pressure on cap rates will likely hit these areas last in the cycle.

Market Forecast Employment: 2.7% ▲ Construction: 2,200 ▼ Vacancy: 0 bps ■ Effective Rents: 5.3% ▲

San Francisco Claims the Top Spot in the Ranking as Workers in the City and Silicon Valley Gravitate to the Metro

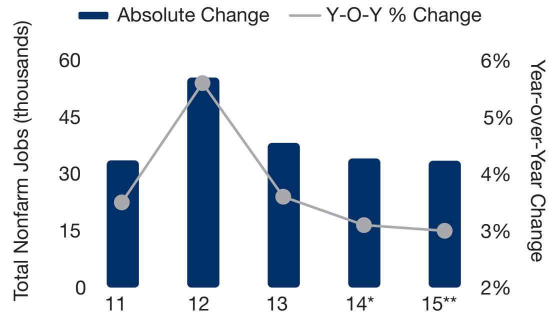
San Francisco is the top apartment market in the country as strong apartment demand is amplified by a housing shortage in the city and healthy hiring in the technology sector. Tech firms are expanding at a blistering pace within the city, which is attracting apartment renters to metro. Additional gains are on the horizon as tech companies ink deals for large blocks of office space. The 10 largest new office leases signed in 2014 were all by technology firms and amount to nearly 3 million square feet of space, which will be filled by new workers. Furthermore, the live-work-play environment many San Francisco neighborhoods offer is attracting renters who work in Silicon Valley, generating apartment demand from two of the nation's strongest job centers. Major employers are supporting these commuters by offering private bus service and high pay. Overall, conditions will remain tight, supporting strong rent growth in 2015.

The investment outlook in San Francisco will remain bright this year though tight spreads and intense bidding for available properties will limit the viability of acquisitions in the market to mostly seasoned local operators. Rent-control laws are difficult for buyers to navigate as value-add opportunities move to the forefront of investors' plans. Because of the low cap rates, which began the year below 4 percent, owners need to be patient to achieve justifiable returns. Turning over rent-controlled units is one of the most lucrative options for owners, though the legal process is complex and typically requires an experienced team of legal advisers and deep pockets to move through. Another potential avenue for value creation is improving the unit mix to include additional apartments, which can be achieved due to changes in the permitting practices to some of the most relaxed in the city in decades.

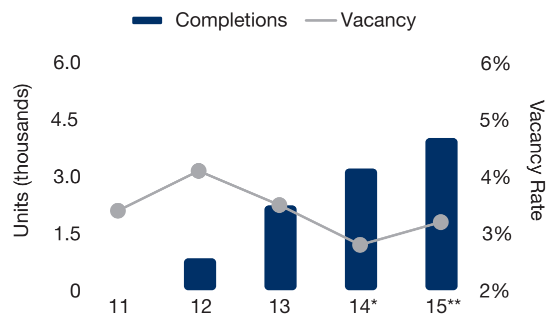
2015 Market Outlook

- **2015 NAI Rank:** 1, Up 1 Place. San Francisco is this year's top-ranked market in the NAI. Low vacancy, vigorous rent growth and the high propensity of residents to rent rank it above all other markets.
- **Employment Forecast:** After 34,000 jobs were created in 2014, employers will hire 33,400 workers this year, a 3 percent increase to payrolls.
- **Construction Forecast:** The pace of construction will accelerate from 3,200 rentals last year to 4,000 units in 2015.
- **Vacancy Forecast:** Vacancy will settle at 3.2 percent at the end of this year, up 40 basis points from year-end 2014. Last year, the rate fell 70 basis points.
- **Rent Forecast:** Effective rents will rise 6.5 percent in 2015 to $2,877 per month, more than 50 percent above the recessionary trough. Last year, rents climbed 8.7 percent.
- **Investment Forecast:** Apartment investors will continue to aggressively bid for local apartments this year, though an impending rise in the cost of debt could thin the buyer pool in the second half of 2015.

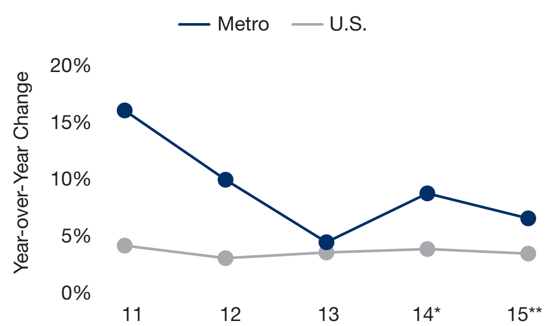
Employment Trends



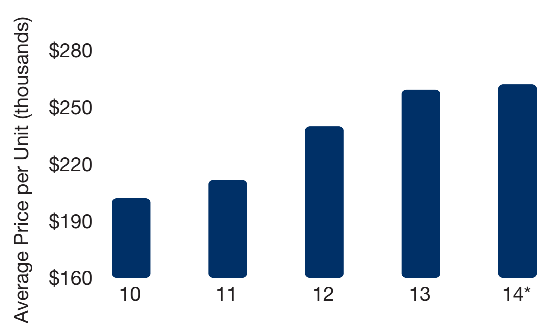
Supply and Demand



Effective Rent Trends



Sales Trends



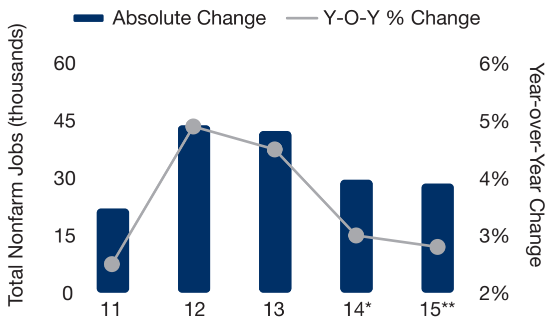
Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

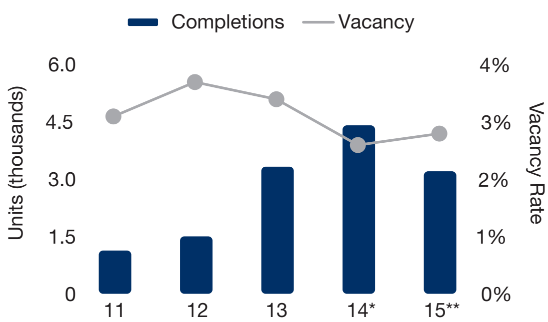
San Jose

National Apartment Index | Up 5 Places | 2015 Rank: 3 | 2014 Rank: 8

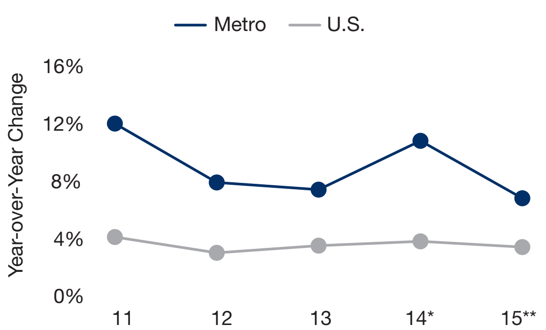
Employment Trends



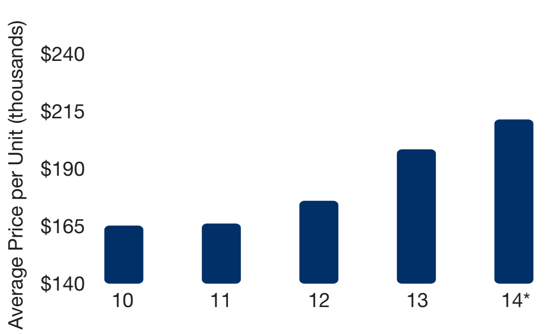
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Silicon Valley Rental Demand Escalates, Supports Rising Rents as Local Economy Maintains Momentum

The San Jose apartment market is well-positioned entering 2015 despite a surge in both rents and development over the past few years. Job growth is concentrated in the high-paying technology sector, which has attracted young workers to Silicon Valley. Unlike during the dot-com boom, most of the firms hiring workers and signing large leases for new space, including Google, Citrix Systems, Nest and Apple, have strong balance sheets. As these companies compete vigorously for available talent, salaries in the area have skyrocketed, pushing median household income above $100,000 per year. Although homeownership is within reach for many workers, particularly those willing to commute, many tech employees prefer apartment living for several reasons. Developers have included the latest technology in new units, such as Nest thermostats. Additionally, community amenities often associated with college campuses or Las Vegas resorts are prevalent, including fitness and business centers, resort-style pools and retailers on the grounds. The result has been well-aligned supply and demand growth, which will keep conditions tight and support higher rents this year.

Strong performance across the entire quality spectrum is keeping investors attracted to local apartments this year, though interested buyers will be met with a dearth of opportunities. Value-add plays will become increasingly expensive as updates become more costly and sellers command premiums for their listings, even outdated complexes. Nonetheless, owners willing to commit the resources to upgrading units can be rewarded handsomely for their efforts. Overall rents are more than 50 percent above the recessionary low, making repositioning plays near major employers lucrative. Buyers seeking higher going-in cap rates will target East San Jose, where first-year returns are 80 basis points above the metrowide average.

2015 Market Outlook

- **2015 NAI Rank:** 3, Up 5 Places. San Jose leaped five places in this year's Index behind the third-tightest vacancy rate in the country.
- **Employment Forecast:** Employers will expand payrolls 2.8 percent this year as 28,500 jobs are created, just shy of the 29,500 positions added in 2014.
- **Construction Forecast:** After 4,400 rentals were completed last year, builders will add 3,200 apartments in 2015.
- **Vacancy Forecast:** Vacancy will inch up 20 basis points to 2.8 percent this year, following an 80-basis point decline in 2014.
- **Rent Forecast:** Operators will lift average effective rents 6.8 percent to $2,436 per month, building on last year's 10.8 percent increase.
- **Investment Forecast:** Entering the year, average cap rates were in the high-4 percent range and regularly dip below 4 percent for prized assets.

Market Forecast | Employment: 2.8% ▲ | Construction: 1,200 ▼ | Vacancy: 20 bps ▲ | Effective Rents: 6.8% ▲

Apartment Market Shows No Signs of Slowing As Deliveries Reach Another High in Seattle-Tacoma

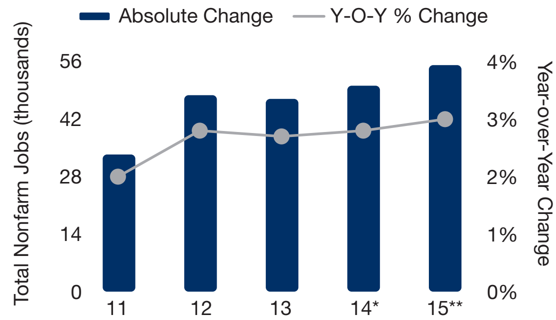
Job growth will remain robust in the Seattle-Tacoma metro, generating sizable demand for apartments. Local employers will add an estimated 50,000 workers to payrolls this year, and many of these positions are at numerous startups and tech companies. Amazon alone has more than 1.7 million square feet of office space scheduled for completion in the city this year. The employment openings are attracting new job seekers, driving up the need for rentals. Despite the addition of 22,000 new units during the last three years, vacancy will remain near 4 percent. By year end, construction will reach a new high as 12,000 apartments are brought into service. Surging demand has produced significant rent growth this past year, making affordability an increasing concern. Continued rent escalations will encourage some tenants to double up or move farther from the city core. At the other end of the spectrum, an expanding condo market in some of the most desirable neighborhoods will create competition for luxury rentals.

The vibrant Seattle-Tacoma apartment market is attracting investors to the metro, including foreign investors who are adding to the competition, pushing demand well above available listings. A surge in development will offer investors added buying opportunities, although as construction activity spreads throughout the metro, existing operators will need to be aware of redevelopment projects nearby and weigh the effect on their properties' future performance. New inventory with updated amenities, a growing condo market, or renters leaving for affordable housing options may reduce their ability to attract tenants in the upcoming year. Yet, these new buildings with higher rents may also raise the rent ceiling that nearby properties can charge, as well as increase the property values of surrounding assets.

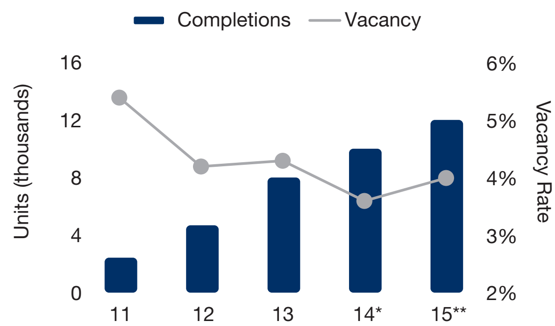
2015 Market Outlook

- **2015 NAI Rank:** 11, Down 4 Places. Seattle-Tacoma declined four positions in the NAI to place outside of the top 10. A second consecutive year of significant supply growth pushed down the market's ranking.
- **Employment Forecast:** Metro employers will increase hiring by 3.0 percent, or 55,000 jobs, in 2015. This is building on a 2.8 percent advance last year.
- **Construction Forecast:** Developers will complete 12,000 apartments metrowide this year, a 3.5 percent growth in rental stock. In 2014, 10,000 units were delivered.
- **Vacancy Forecast:** A significant surge in supply will overtake tenant demand, pushing up vacancy 40 basis points to 4 percent in 2015. Last year, vacancy dropped 70 basis points.
- **Rent Forecast:** This year, operators will lift rents 5.5 percent to $1,349 per month, following a 8.0 percent surge in 2014.
- **Investment Forecast:** Strong operations and a flood of new properties entering the market will attract investors from around the world.

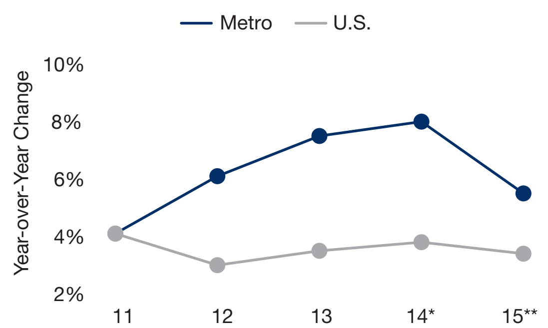
Employment Trends



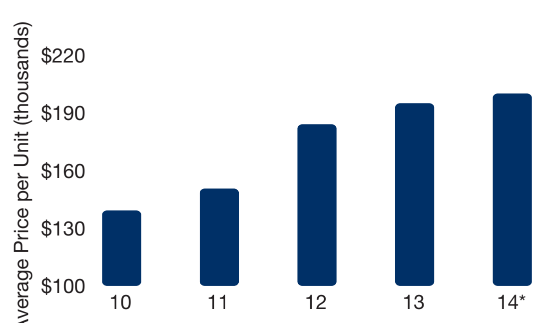
Supply and Demand



Effective Rent Trends



Sales Trends



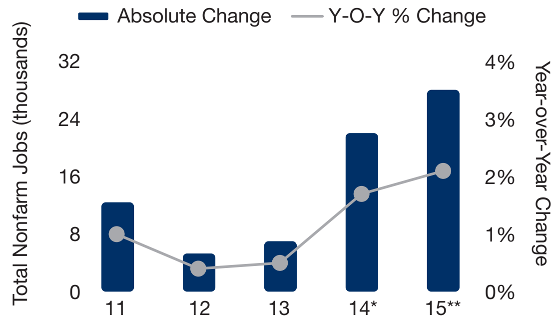
Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

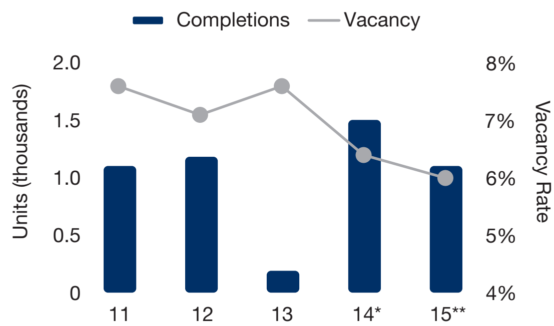
Employment: 3.0% ▲ Construction: 2,000 ▲ Vacancy: 40 bps ▲ Effective Rents: 5.5% ▲ Market Forecast

National Apartment Index | Up 1 Place | 2015 Rank: 45 | 2014 Rank: 46

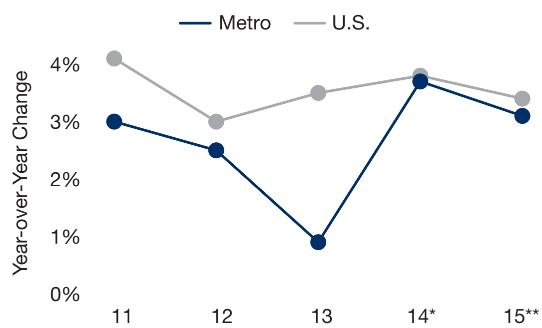
Employment Trends



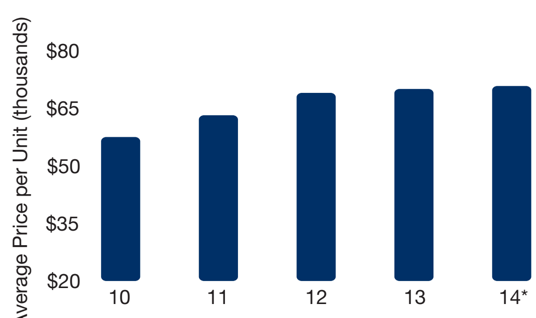
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Investors Meet in St. Louis Seeking Returns As Apartment Market Heats Up

The St. Louis economy will progress this year with strong employment gains, particularly in manufacturing jobs, spurring residential demand throughout the metro. The market's skilled workforce continues to support corporations' expansion plans and attract others to relocate into the Gateway Arch city. Last year, Boeing announced it will add 700 new positions for its 777X assembly plant and the industrial parts maker SKF revealed plans for a 300,000-square foot factory relocation to the area that will create approximately 500 paychecks. Over the next few years, up to 1,500 additional jobs will be generated as part of the redevelopment of the 294-acre former Chrysler assembly plant into a new industrial and manufacturing hub. As jobs grow, rental demand will increase in two ways: new employees migrating into St. Louis and by the unbundling of existing households. During and after the recession, many local residents moved in together to share expenses. These homes will now separate back into individual households as more accept new positions and can afford to live on their own. Developers are addressing this residential demand with new apartments throughout the metro, including neighborhoods near the Forest Park area and Washington and St. Louis universities. Demand will outpace supply in 2015 as net absorption pushes vacancy down to its lowest annual point in the past eight years as effective rents elevate 12 percent over the same time period.

Investors in this midsize market can expect bidding competition, as buyers who have exhausted their search in major metros look to St. Louis for Class A and B properties in high-demand locations. Above-average returns are a key motivating factor for investors searching for an up-leg trade. Cap rates are compressing, as competition is enticing owners who had otherwise been holding for price appreciation to sell. Favorable interest rates and availability of debt from commercial banks and Fannie Mae and Freddie Mac also will encourage more investors to enter the market. Transaction velocity will remain amplified this year as buyers are quick to respond to new listings.

2015 Market Outlook

- 2015 NAI Rank: 45, Up 1 Place. An improving job forecast pulled up St. Louis one spot, though the market remains near the bottom of the NAI.
- Employment Forecast: The addition of 28,000 new jobs will increase employment by 2.1 percent, a boost to last year's 22,000 hires and 1.7 percent gain.
- Construction Forecast: This year, 1,100 new units will be delivered, raising supply by 0.8 percent. In 2014, 1,500 rentals were constructed.
- Vacancy Forecast: Vacancy will slip 40 basis points in 2015 to 6 percent. Last year, the rate dropped 50 basis pointsz.
- Rent Forecast: In 2015, effective rent will rise 3.1 percent to $830 per month as demand heats up. Monthly rent edged up 3.7 percent in 2014.
- Investment Forecast: Significant bidding on new listings will incite cap rate compression, as buyers are motivated by the market's job growth.

Market Forecast | Employment: 2.1% ▲ | Construction: 400 ▼ | Vacancy: 40 bps ▼ | Effective Rents: 3.1% ▲

Tampa-St. Petersburg

Up 1 Place | 2015 Rank: 22 | 2014 Rank: 23

Investors Drawn to Downtown Tampa and St. Petersburg, Where New Rental Complexes Rise

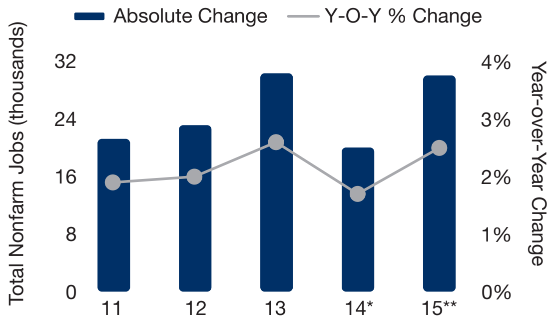
Units coming online this year will finally lift Tampa-St. Petersburg apartment inventory above the pre-recession peak, while renter demand will narrowly outpace supply growth to shave the vacancy rate for the sixth consecutive year. The metro's suburban communities have long boasted strong multifamily operations, though Tampa Bay is in the midst of a long-term urbanization transformation. Nearly half of the apartments slated for completion this year will come online in downtown Tampa and St. Petersburg as key economic-development initiatives unfold in those areas. Commercial developers will unveil components of a significant plan for downtown Tampa in 2015 that already features several hundred hotel rooms, additional convention space and a campus for the University of South Florida medical school. Across the bay, the growing daytime population in St. Petersburg could expand further with the potential lease-up of the empty 135,000-square foot former Universal Health Care building.

With vacancy falling, rents rising and the local economy on sound footing and growing, the Tampa Bay market presents a compelling investment option for potential buyers. The average cap rate ranging from the high-6 to mid-7 percent band remains an alluring draw for investors from many other markets where pitched competition has greatly compressed first-year returns. Value-add plays in infill areas of Hillsborough or Pinellas counties command considerable attention, and cap rates in this niche often dip below the low end of the marketwide range. Physical upgrades to properties and re-tenanting at higher, market-level rents, however, can lift yields significantly, typically within 18 months of the initial purchase. At the institutional end of the market, newly completed complexes will draw attention. Some investors are assuming lease-up risk and purchasing these assets prior to completion.

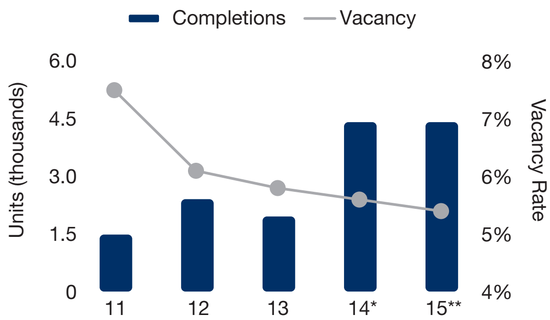
2015 Market Outlook

- 2015 NAI Rank: 22, Up 1 Place. Tampa Bay rose one position due to a decline in vacancy and a respectable increase in rents.
- Employment Forecast: Payrolls will expand 2.5 percent, or by 30,000 workers, this year; 20,000 positions were created in 2014.
- Construction Forecast: Projects containing 4,400 rentals are underway and slated for delivery in Tampa Bay, matching last year's production.
- Vacancy Forecast: Surging demand for rental housing will trim the vacancy rate 20 basis points in 2015 to 5.4 percent. Tenants occupied an additional 4,500 units to slice vacancy 20 basis points in 2014.
- Rent Forecast: Tight vacancy and the delivery of luxury rentals will support a gain in the average rent of 4.4 percent during 2015 to $978 per month, following a 4.9 percent rise in 2014.
- Investment Forecast: Development-oriented investors will seek sites in downtown Tampa and St. Petersburg for luxury rental construction.

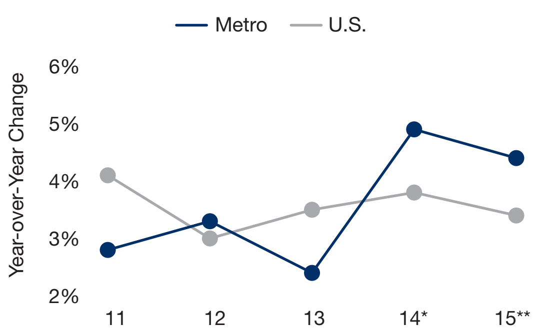
Employment Trends



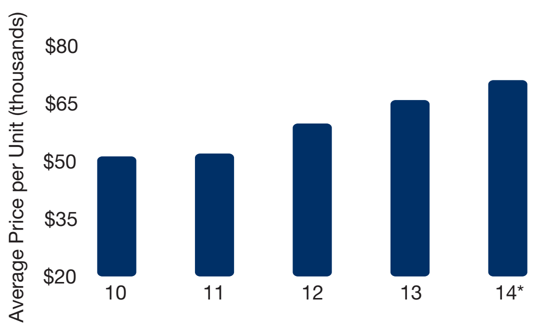
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

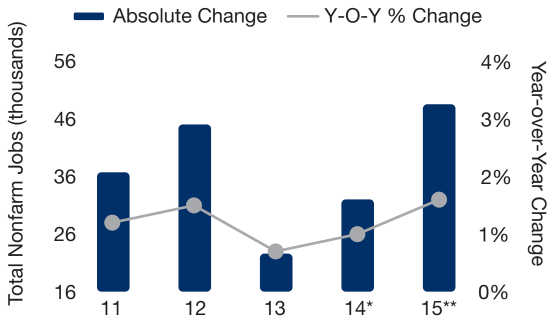
Employment: 2.5% ▲ Construction: 0 ■ Vacancy: 20 bps ▼ Effective Rents: 4.4% ▲

Market Forecast

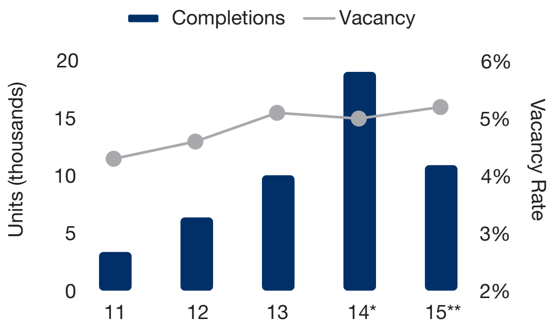
Washington, D.C.

National Apartment Index | Down 3 Places | 2015 Rank: 30 | 2014 Rank: 27

Employment Trends



Supply and Demand



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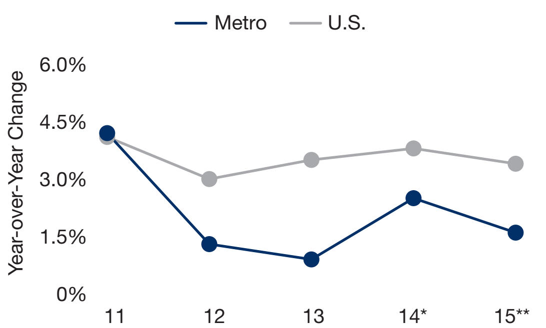
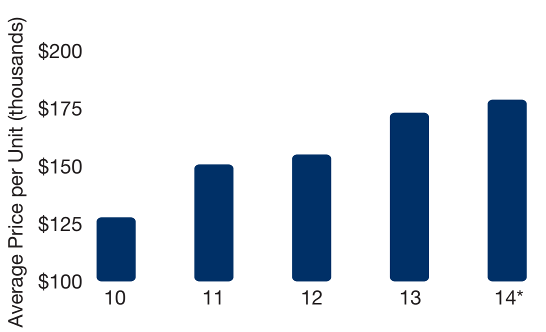


Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Misaligned Supply and Demand Pushes Vacancy Higher; Yet, Investors Remain Bullish in Washington, D.C.

Millennials are moving to Washington, D.C., seeking high-quality jobs and a live-work-play lifestyle; however, tenant demand will lag new supply this year, putting upward pressure on vacancy. Private-sector employment will strengthen in 2015, buoyed by growth in the higher-paying professional and business services segment as well as the education and health services sector. Employment growth will support the formation of 33,800 households, fueling demand for housing. However, the rising cost of homeownership in the most desirable areas of the metro and spillover demand from subdued condo construction are keeping more people in the renter pool. Multifamily developers have capitalized on tenant demand, ramping up construction over the past two years. In 2014, the construction cycle hit a peak as apartment stock expanded 3.4 percent. Supply additions will ease in 2015, though they will remain above the five-year average. New inventory is concentrated near employment centers in suburban Maryland and the District. A significant portion of development is focused toward luxury units, where rent is becoming increasingly less affordable. Elevated competition from new supply will lift vacancy, triggering a slowdown in rent growth.

Strong demand drivers and a brightening economic outlook will sustain buyer interest in the Washington, D.C., investment market. Though a wave of new supply this year will lift vacancy in the short term, buyers are optimistic. While bidding remains aggressive amid a slowdown in rent growth, more owners who planned to sell in the next five years will take advantage of current market demand and list. Private investors will seek stabilized properties outside the District and in Southeast D.C. Older assets located east of the river that can be repositioned through capital improvements will be highly sought after. On the other end of the quality spectrum, institutions and REITs will continue to search for trophy assets in the District.

2015 Market Outlook

- **2015 NAI Rank:** 30, Down 3 Places. The market's fall in the 2015 NAI stems from a sluggish pace of job creation and a below-average rate of rent growth.
- **Employment Forecast:** Employment will expand 1.6 percent this year, or by 48,500 jobs. In 2014, 32,000 positions were created.
- **Construction Forecast:** After completing 19,000 units last year, developers will deliver 10,900 apartments in 2015.
- **Vacancy Forecast:** New supply will surpass tenant demand in 2015, pushing up vacancy 20 basis points to 5.2 percent, erasing the 10-basis point reduction recorded one year ago.
- **Rent Forecast:** Average rents in the market will rise 1.6 percent this year to $1,595 per month. Last year, rents climbed 2.5 percent.
- **Investment Forecast:** Properties near retail and entertainment attractions, such as 14th and 18th streets, will garner strong interest from buyers.

Market Forecast | Employment: 1.6% ▲ | Construction: 8,100 ▼ | Vacancy: 20 bps ▲ | Effective Rents: 1.6% ▲

No Change | 2015 Rank: 38 | 2014 Rank: 38

National Apartment Index

West Palm Beach Apartment Performance Stable As Hiring Balances Development

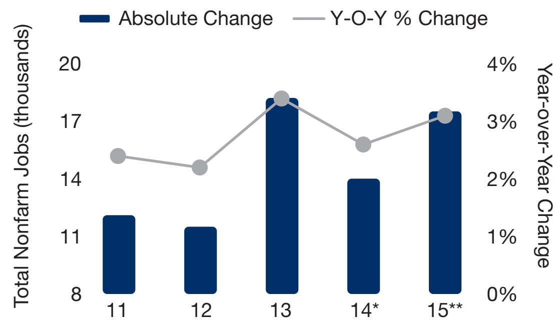
Despite the lack of a potent catalyst to jump-start economic growth, residents are swarming into apartments in Palm Beach County, holding vacancy in a tight range and enabling operators to lift rents. Completions made an impression last year and will remain a principal force in the county during 2015. New complexes have leased up well, including in Boynton Beach and Delray Beach, where more than 1,200 units came online last year. The vacancy rate in new units declined, though, demonstrating that residents with the financial capability will pay for amenity-laden rentals, a trend that will persist as long as home purchases remain challenging. Meanwhile, younger residents employed in low- to mid-tier service occupations will remain a reliable source of demand in older, Class B and C rental communities. Hiring will increase this year, particularly in healthcare and retail, where hundreds of non-degreed positions were open at the end of last year.

The improvements in vacancy and accompanying higher rents and paring of concessions have repaired NOIs in the county and lifted the average price past the prior peak. In 2015, additional owners will seek to monetize the rise in values and leverage investor interest by listing properties for sale before interest rates increase. Stable properties in sound physical condition are sought but, under current market conditions that allow a quick turnaround in operations, value-add plays are also gaining favor. Complexes in coveted neighborhoods of Boca Raton garner attention when brought to market, but assets near other employment hubs also merit consideration. Cap rates in all transactions completed over the past year averaged in the high-5 to low-6 percent range, marking a slight compression from the prior 12 months. Institutions will bid lower for new complexes that will be held in portfolios for an extended period.

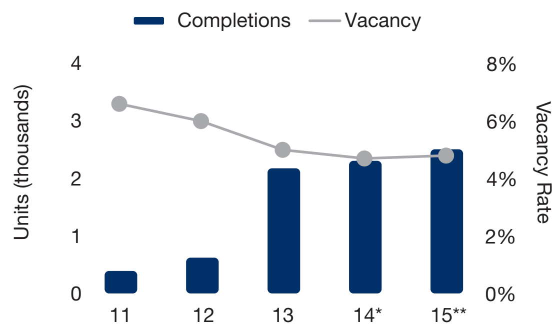
2015 Market Outlook

- **2015 NAI Rank:** 38, No Change. Another year of high completions offset a healthy employment growth forecast, leaving West Palm Beach in the same position as last year's Index.
- **Employment Forecast:** This year, 17,500 jobs will be created, a 3.1 percent increase that tops the 2.6 percent bump during 2014.
- **Construction Forecast:** Rental stock will expand 3 percent through the completion of 2,500 apartments. In 2014, 2,300 units were delivered.
- **Vacancy Forecast:** Demand will grow nearly as fast as supply, resulting in a 10-basis point uptick in the countywide vacancy rate to 4.8 percent this year. A decrease of 30 basis points was logged in 2014.
- **Rent Forecast:** Tight vacancy will enable owners to lift the average rent 4.0 percent this year to $1,338 per month. The delivery of hundreds of luxury units supported a 5.4 percent jump last year.
- **Investment Forecast:** An expected rise in property taxes will affect underwriting, though a lack of hurricanes will hold the line on property insurance.

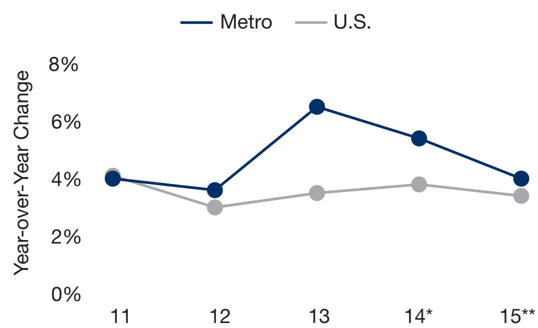
Employment Trends



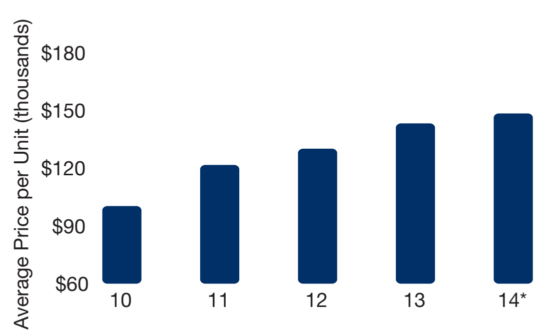
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Employment: 3.1% ▲ Construction: 200 ▲ Vacancy: 10 bps ▲ Effective Rents: 4.0% ▲

Market Forecast

National Multi Housing Group

John S. Sebree, Vice President, National Director
National Multi Housing Group
(312) 327-5417 | john.sebree@marcusmillichap.com

Developed by:

Hessam Nadji, Senior Vice President, Chief Strategy Officer
John Chang, First Vice President, Research Services

National Research Team

John Chang, First Vice President, Research Services
James Reeves, National Production Manager
Peter Tindall, Research Operations Manager
Tamarah Calderon, Research Administrator
Maria Erofeeva, Graphic Designer
Michael Farr, Research Associate
Art Gering, Senior Analyst
Jessica Glick, Research Associate
Steve Hovland, Senior Analyst
Rafael Hwang, Data Analyst
Peng Jia, Research Associate
Charles LeSueur, Research Associate
Erica Linn, Senior Analyst
Marette Mendoza, Copy Editor
Mridul Nanda, Research Associate
Kyle Newhall-Caballero, Research Coordinator
Nancy Olmsted, Market Research Analyst
Troy Roffi, Research Associate
Rudé Van Eck, Research Marketing Coordinator

Communications/Graphic Design

Michelle Cocagne, Senior Vice President,
Communications

Contact:

John Chang
First Vice President, Research Services
2398 E. Camelback Road, Suite 550
Phoenix, Arizona 85016
(602) 687-6700
john.chang@marcusmillichap.com

Media Contact:

Gina Relva
Public Relations Manager
2999 Oak Road, Suite 210
Walnut Creek, CA 94597
(925) 953-1716
gina.relva@marcusmillichap.com

Senior Management Team

John J. Kerin, President and Chief Executive Officer
(818) 212-2700 | john.kerin@marcusmillichap.com

Gene A. Berman, Executive Vice President
(954) 245-3400 | gene.berman@marcusmillichap.com

Hessam Nadji, Senior Vice President, Chief Strategy Officer
(925) 953-1700 | hessam.nadji@marcusmillichap.com

William E. Hughes, Senior Vice President
Marcus & Millichap Capital Corporation
(949) 419-3200 | william.hughes@marcusmillichap.com

Martin E. Louie, Senior Vice President, Chief Financial Officer
(818) 212-2250 | marty.louie@marcusmillichap.com

Gary R. Lucas, Senior Vice President
(415) 963-3000 | gary.lucas@marcusmillichap.com

Paul S. Mudrich, Senior Vice President, Chief Legal Officer
(650) 391-1700 | paul.mudrich@marcusmillichap.com

Steven R. Chaben, Senior Vice President
(248) 415-2600 | steven.chaben@marcusmillichap.com\

Kent R. Williams, Senior Vice President
(858) 373-3100 | kent.williams@marcusmillichap.com

National Apartment Index Note: Employment and apartment data forecasts for 2015 are based on the most up-to-date information available as of November 2014 and are subject to change.

Statistical Summary Note: Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of November 2014. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein.

Sources: Marcus & Millichap Research Services, American Council of Life Insurers, Apartment Insights, Blue Chip Economic Indicators, Bureau of Economic Analysis, California Association of Realtors, California Employment Development Department, Commercial Mortgage Alert, CoStar Group Inc., Deutsche Bank, Economy.com, Experian, Fannie Mae, Federal Reserve, Foresight Analytics, Freddie Mac, Morgan Stanley, Mortgage Bankers Association, MPF Research, National Association of Realtors, National Council of Real Estate Investment Fiduciaries, National Real Estate Index, Real Capital Analytics, Real Data, Real Estate Center at Texas A&M University, RealFacts, RealPoint, Standard & Poor’s, The Conference Board, Trepp, TWR/Dodge Pipeline, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Securities and Exchange Commission, U.S. Treasury Department.

Research Services

Marcus & Millichap's Research Services group utilizes a two-tiered approach of combining local market research with national economic and real estate analysis to develop premier research services for real estate investors. Marcus & Millichap's research capabilities are customized by property type to service the unique needs of owners and investors in various property sectors. Market reports are produced on a regular basis in addition to specific submarket and area analyses to support clients' investment decisions.

Fact-Based Investment Strategies

Multifamily Demand Analysis

- Extensive demographic analyses are performed, including studies of population, age, employment, education, income and traffic volume. Housing affordability, household formation and housing value trends are tracked and analyzed for their impact on renter demand. Customized maps and reports are produced for submarket and property comparisons.
- Comprehensive economic analysis and forecasts are produced based on data provided by respected private, academic and government sources. Indicators such as job formation, growth by industry, major employers and income trends are monitored constantly.

Multifamily Property Analysis

- Marcus & Millichap Research Services routinely updates and analyzes rents, vacancies, sales and construction activity locally and nationally.

Customized Research and Consulting Services

- In addition to multifamily publications and reports, we provide customized market studies, property and portfolio analysis, and development feasibility studies. These services are designed to help clients formulate strategies ranging from acquisitions and dispositions to maximizing returns during the hold period.

Office Locations - United States

Corporate Headquarters
Marcus & Millichap
23975 Park Sorrento
Suite 400
Calabasas, CA 91302
(818) 212-2250
www.MarcusMillichap.com

Atlanta
500 Northpark Town Center
1100 Abernathy Road, N.E.
Building 500, Suite 600
Atlanta, GA 30328
(678) 808-2700
Michael J. Fasano

Austin
8310-2 N. Capital of Texas Highway
Suite 110
Austin, TX 78731
(512) 338-7800
Craig R. Swanson

Bakersfield
4900 California Avenue
Tower B, 2nd Floor
Bakersfield, CA 93309
(661) 377-1878
Adam Christofferson

Birmingham
The Landmark Center
2100 First Avenue North
Suite 600
Birmingham, AL 35203
(205) 747-3722
Jody McKibben

Boise
950 W. Bannock Street
Suite 1100
Boise, ID 83702
(208) 319-3549
Tim Rios

Boston
100 High Street
Suite 1025
Boston, MA 02110
(617) 896-7200
Gary R. Lucas

Brooklyn
16 Court Street
Floor 2A
Brooklyn, NY 11241
(718) 475-4300
John Horowitz

Charleston
145 King Street
Suite 407
Charleston, SC 29401
(843) 952-2222
Raj Ravi

Charlotte
405 Eagle Bend Drive
Waxhaw, NC 28173
(704) 443-0600
Gary R. Lucas

Charlotte Uptown
525 N. Tryon Street
Suite 1600
Charlotte, NC 28202
(704) 831-4600
Raj Ravi

Chicago Downtown
333 W. Wacker Drive
Suite 200
Chicago, IL 60606
(312) 327-5400
John Przybyla

Chicago Oak Brook
One Mid America Plaza
Suite 200
Oakbrook Terrace, IL 60181
(630) 570-2200
Steven Weinstock

Chicago O'Hare
8750 W. Bryn Mawr Avenue
Suite 650
Chicago, IL 60631
(773) 867-1500
Steve Rachman

Cincinnati
600 Vine Street
10th Floor
Cincinnati, OH 45202
(513) 878-7700
Michael L. Glass

Cleveland
5005 Rockside Road
Suite 1100
Independence, OH 44131
(216) 264-2000
Michael L. Glass

Columbia
1320 Main Street
Suite 300
Columbia, SC 29201
(803) 678-4900
Raj Ravi

Columbus
230 West Street
Suite 100
Columbus, OH 43215
(614) 360-9800
Michael L. Glass

Corpus Christi
15217 S. Padre Island Drive
Suite 203
Corpus Christi, TX 78418
(361) 949-3300
J. Michael Watson

Dallas
5001 Spring Valley Road
Suite 100W
Dallas, TX 75244
(972) 755-5200
Tim Speck

Denver
1225 17th Street
Suite 1800
Denver, CO 80202
(303) 328-2000
Richard A. Bird

Detroit
Two Towne Square
Suite 450
Southfield, MI 48076
(248) 415-2600
Steven Chaben

Encino
First Financial Plaza
16830 Ventura Boulevard
Suite 100
Encino, CA 91436
(818) 212-2700
Adam Christofferson

Fort Lauderdale
5900 N. Andrews Avenue
Suite 100
Fort Lauderdale, FL 33309
(954) 245-3400
Ryan Nee

Fort Worth
300 Throckmorton Street
Suite 1500
Fort Worth, TX 76102
(817) 932-6100
Bill G. Jordan

Fresno
8050 N. Palm Avenue
Suite 300
Fresno, CA 93711
(559) 389-5891
Adam Christofferson

Houston
3 Riverway
Suite 800
Houston, TX 77056
(713) 452-4200
David H. Luther

Indianapolis
600 E. 96th Street
Suite 500
Indianapolis, IN 46240
(317) 218-5300
Josh Caruana

Iowa
425 Second Street S.E.
Suite 610
Cedar Rapids, IA 52401
(319) 333-7743
Tim Rios

Jacksonville
5220 Belfort Road
Suite 120
Jacksonville, FL 32256
(904) 672-1400
Kirk A. Felici

Kansas City
7400 College Boulevard
Suite 105
Overland Park, KS 66210
(816) 410-1010
Matthew Fitzgerald

Lafayette
1812 W. Pinhook Road
Suite 202
Lafayette, LA 70508
(337) 231-5174
David H. Luther

Las Vegas
3800 Howard Hughes Parkway
Suite 1550
Las Vegas, NV 89169
(702) 215-7100
Kent R. Williams

Little Rock
5507 Ranch Drive
Suite 201
Little Rock, AR 72223
(501) 228-9600
Matthew Fitzgerald

Long Beach
One World Trade Center
Suite 2100
Long Beach, CA 90831
(562) 257-1200
Matthew J. Kipp

Los Angeles
515 S. Flower Street
Suite 500
Los Angeles, CA 90071
(213) 943-1800
Enrique Wong

Louisville
9300 Shelbyville Road
Suite 1012
Louisville, KY 40222
(502) 329-5900
Matthew Fitzgerald

Manhattan
270 Madison Avenue
7th Floor
New York, NY 10016
(212) 430-5100
J.D. Parker

Memphis
5100 Poplar Avenue
Suite 2505
Memphis, TN 38137
(901) 620-3600
Jody McKibben

Miami
5201 Blue Lagoon Drive
Suite 100
Miami, FL 33126
(786) 522-7000
Kirk A. Felici

Milwaukee
13890 Bishops Drive
Suite 300
Brookfield, WI 53005
(262) 364-1900
Matthew Fitzgerald

Minneapolis
1350 Lagoon Avenue
Suite 840
Minneapolis, MN 55408
(952) 852-9700
Craig Patterson

Mobile
Pelican Square
101 Lottie Lane
Suit 3
Fairhope, AL 36532
(251) 929-7300
Jody McKibben

Nashville
6 Cadillac Drive
Suite 100
Brentwood, TN 37027
(615) 997-2900
Matthew Fitzgerald

New Haven
265 Church Street
Suite 210
New Haven, CT 06510
(203) 672-3300
J.D. Parker

New Jersey
River Drive Center 3
611 River Drive
4th Floor
Elmwood Park, NJ 07407
(201) 582-1000
Brian Hosey

New Mexico
6565 Americas Parkway NE
Suite 204
Albuquerque, NM 87110
(505) 563-5791
J. Michael Watson

Newport Beach
19800 MacArthur Boulevard
Suite 150
Irvine, CA 92612
(949) 419-3200
Robert Osbrink

Oakland
555 12th Street
Suite 1750
Oakland, CA 94607
(510) 379-1200
Jeffrey M. Mishkin

Oklahoma City
9120 N. Kelley Avenue
Suite 100
Oklahoma City, OK 73131
(405) 254-2200
J. Michael Watson

Ontario
One Lakeshore Center
3281 E. Guasti Road
Suite 800
Ontario, CA 91761
(909) 456-3400
Kevin Boeve

Orlando
300 South Orange Avenue
Suite 700
Orlando, FL 32801
(407) 557-3800
Justin West

Palo Alto
2626 Hanover Street
Palo Alto, CA 94304
(650) 391-1700
Steven J. Seligman

Philadelphia
101 W. Elm Street
Suite 600
Conshohocken, PA 19428
(215) 531-7000
Bryn Merrey

Phoenix
2398 E. Camelback Road
Suite 550
Phoenix, AZ 85016
(602) 687-6700
Don Morrow

Pittsburgh
204 Fifth Avenue
Suite 502
Pittsburgh, PA 15222
(412) 360-7777
Michael L.Glass

Portland
111 S.W. Fifth Avenue
Suite 1550
Portland, OR 97204
(503) 200-2000
Adam Lewis

Raleigh
101 J Morris Commons Lane
Suite 130
Morrisville, NC 27560
(919) 388-1278
Raj Ravi

Reno
241 Ridge Street
Suite 200
Reno, NV 89501
(775) 348-5200
Kent R. Williams

Sacramento
3741 Douglas Boulevard
Suite 200
Roseville, CA 95661
(916) 724-1400
Kent R. Williams

Salt Lake City
36 South State Street
Suite 2650
Salt Lake City, UT 84111
(801) 736-2600
Gary K. Mangum

San Antonio
8200 IH-10W
Suite 603
San Antonio, TX 78230
(210) 343-7800
J. Michael Watson

San Diego
9255 Towne Centre Drive
Suite 700
San Diego, CA 92121
(858) 373-3100
John Vorsheck

San Francisco
750 Battery Street
5th Floor
San Francisco, CA 94111
(415) 963-3000
Jeffrey M. Mishkin

Seattle
Two Union Square
601 Union Street
Suite 2710
Seattle, WA 98101
(206) 826-5700
Joel Deis

St. Louis
7800 Forsyth Boulevard
Suite 710
St. Louis, MO 63105
(314) 889-2500
Matthew Fitzgerald

Tampa
4030 W. Boy Scout Boulevard
Suite 850
Tampa, FL 33607
(813) 387-4700
Richard Matricaria

The Woodlands
2441 High Timbers
Suite 130
The Woodlands, TX 77380
(832) 442-2800
David H. Luther

Tucson
4031 E. Sunrise Drive
Suite 151
Tucson, AZ 85718
(520) 202-2900
Tim Rios

Tulsa
7633 East 63rd Place
Suite 300
Tulsa, OK 74133
(918) 294-6300
J. Michael Watson

Ventura
1000 Town Center Drive
Suite 300
Oxnard, CA 93036
(805) 351-8796
Adam Christofferson

Washington, D.C.
7200 Wisconsin Avenue
Suite 1101
Bethesda, MD 20814
(202) 536-3700
Bryn Merrey

West Los Angeles
12100 W. Olympic Boulevard
Suite 350
Los Angeles, CA 90064
(310) 909-5500
Tony Solomon

Westchester
50 Main Street
Suite 925
White Plains, NY 10606
(914) 220-9730
J.D. Parker

Office Locations - Canada

Calgary
5920 Macleod Trail SW
Suite 201
Calgary, AB T2H OK2
(587) 349-1302
Gary R. Lucas

Toronto
20 Queen Street W
Suite 2300
Toronto, ON M5H 3R3
(416) 585-4646
Daniel B. Holmes

Vancouver
400 Burrard Street
Suite 1020
Vancouver, BC V6C 3A6
(604) 675-5200
Chris Anderson

Marcus & Millichap

Research Services
2398 E. Camelback Road | Suite 550 | Phoenix, AZ 85016
(602) 687-6700

www.MarcusMillichap.com