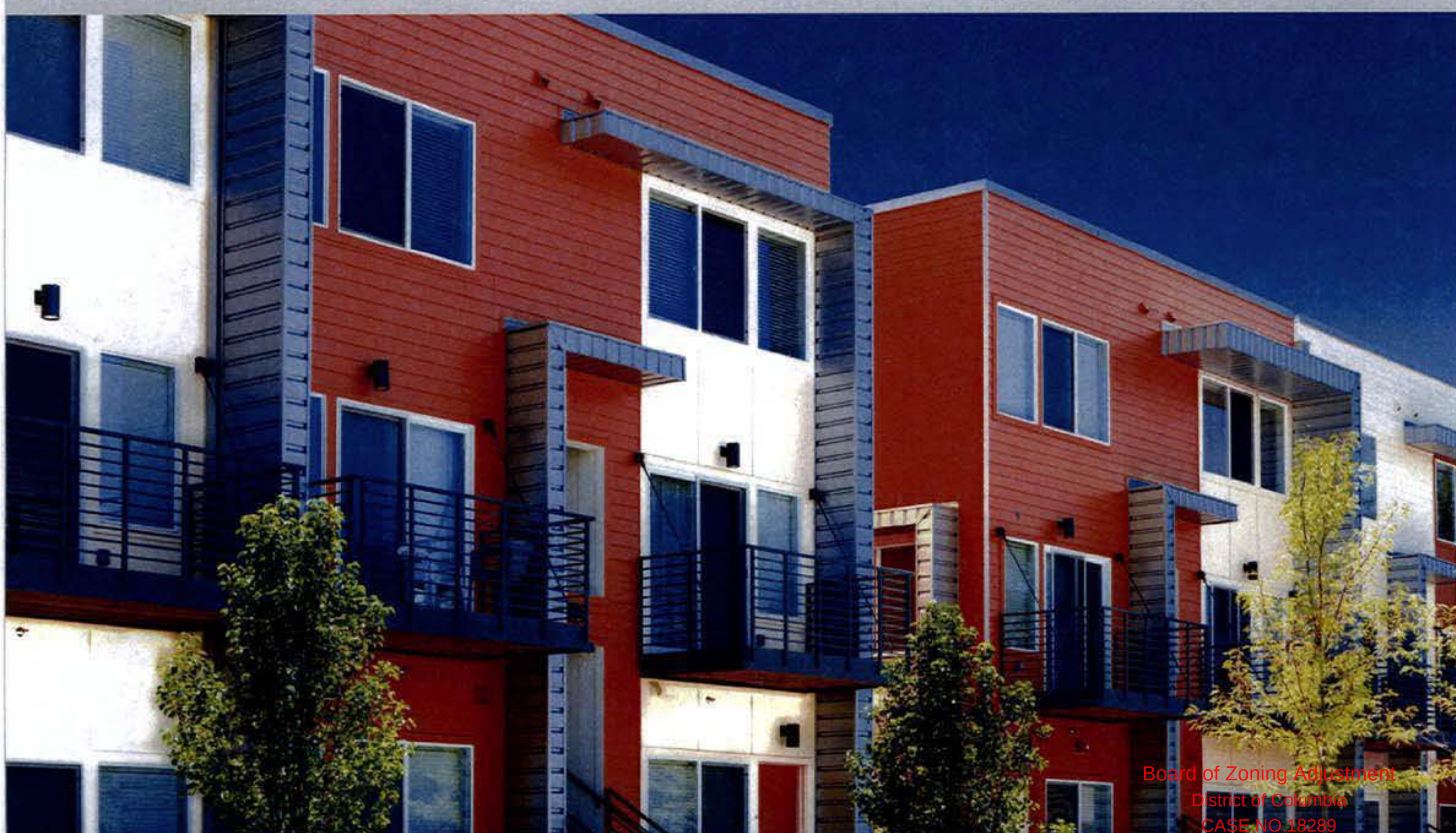
Marcus & Millichap
Real Estate Investment Services

2014 Real Estate Investment Research

NATIONAL APARTMENT REPORT



To Our Valued Clients:

The U.S. economy demonstrated exceptional perseverance in 2013, beating expectations and adding nearly 2.5 million new jobs. Numerous challenges restrained the economy last year, including austerity measures that resulted in sequestration, higher taxes and the relentless cloud of uncertainty that polarized fiscal negotiations. Political gridlock sparked a partial government shutdown and interest rates flared as the Fed considered tapering its quantitative easing.

Despite the hurdles, solid economic growth is now raising pressure on interest rates. Not only have broader economic conditions proven sustainably healthy, but a surge in equity prices and home prices has restored net household wealth to a new record high of $77 trillion. The coalescence of these positive factors suggests that a start date is imminent for tapering the Fed's purchase of long-term Treasurys and securities.

The return to a normal credit environment does suggest incremental increases in financing rates going forward, but the good news for investors is that NOI growth, real estate cap rate spreads and lender spreads provide a healthy buffer against future bond yield increases. More importantly, further increases in interest rates will likely reflect strengthened job creation and economic momentum rather than Fed policy speculation. In addition, a low-inflation environment with greater political certainty and less fiscal tightening will prevail in 2014. Domestic and cross-border investors will fuel capital allocations to U.S. real estate assets compelled by the need for safety, a strong income return, and yield compared with alternative investments, and this competition will exert downward pressure on cap rates.

The apartment sector matured and "leveled off" as the national vacancy rate approached equilibrium. However, the new construction cycle and nascent rise in renter household formations heralds a new phase of expansion for apartments. The big story in 2013 focused on the stellar performance of Class B/C product, and the threat of new supply and price fatigue in Class A assets, but the brisk lease-up of newly delivered Class A units has eased concerns. The conversation for 2014 may well focus on positive demographics, immigration, pent-up demand, and the role Echo Boomers will play in establishing new households. The single-family sector has staged a durable and beneficial recovery and will compete with apartments, but housing demand appears more than sufficient for both. We hope the following report offers useful insights on a variety of trends, markets and investment strategies.

On behalf of our team nationally, we look forward to being a part of your success in 2014 and beyond.

Sincerely,

John J. Kerin
President and
Chief Executive Officer

Hessam Nadji
Senior Vice President,
Chief Strategy Officer

2014 National Apartment Report

Written by John Chang, First Vice President, Research Services, and edited by Hessam Nadji, Senior Vice President, Chief Strategy Officer. 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)

- Ties to technology, energy and trade characterize the top ranked markets. Expensive housing and tight vacancy rank New York (#1), San Francisco (#2) and San Jose (#8) highly, despite price fatigue from residents. Tight vacancy in Oakland-East Bay (#9) and Miami (#13) and robust job growth in Denver (#3) created a strong run-up, displacing Orange County (#11) and Los Angeles (#15).
- Construction risk caused slides in Austin (#18), Phoenix (#22) and Washington, D.C. (#27), but Dallas/Fort Worth (#14) and Houston (#12) rankings held steady. Low supply, mid-ranked markets such as Philadelphia (#20), Pittsburgh (#32) and Baltimore (#24) offer stabile operational forecasts.
- Southeastern markets Atlanta (#31), Tampa-St. Petersburg (#23) and Palm Beach (#38) made advances and Jacksonville (#44) held steady, but Fort Lauderdale (#29) and Orlando (#36) declined. With the exception of Minneapolis (#4) and Chicago (#17), low momentum resulted in declines for most Midwestern markets.

National Economy

- GDP estimates reflected surprising strength as of third quarter 2013, posting 4.1 percent annualized growth. Additionally, U.S. employment recorded gains across all sectors, climbing 1.7 percent, and has now recovered 88 percent of the total jobs lost in the recession.
- International trade flows will expand as global austerity eases. Consumer spending and robust recovery in housing will reinvigorate business investment, fueling employment and wage growth. GDP is forecast at 3.0 percent in 2014 and the economy should generate an estimated 2.7 million new jobs.
- The timing and pace of the Federal Reserve's unwinding of its quantitative easing (QE) programs remains undetermined, but less Fed intervention will mark a return to a "normal" credit environment.

National Apartment Overview

- New supply thus far has been well-matched by rising renter demand, but does add risk to space fundamentals balanced at 4.9 percent vacant. Household formations surged to approximately one million in 2012, nearly double the annual average of the previous five years.
- The number of new units delivered in 2013 increased 84 percent over the prior year to 168,000. Another 215,000 units in 2014 will surpass demand for 176,000 units, increasing vacancy by 20 basis points to 5.1 percent.
- Late recovery secondary markets and mid- to lower-tier assets led revenue gains and effective rents grew 4.2 percent in 2013. Despite a rapid lease-up in new units, Class A assets will bear the brunt of competition from new supply, paring effective rent growth overall to 2.6 percent.

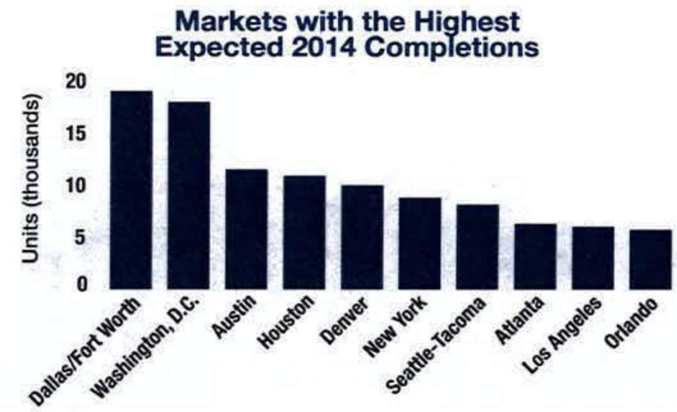
Capital Markets

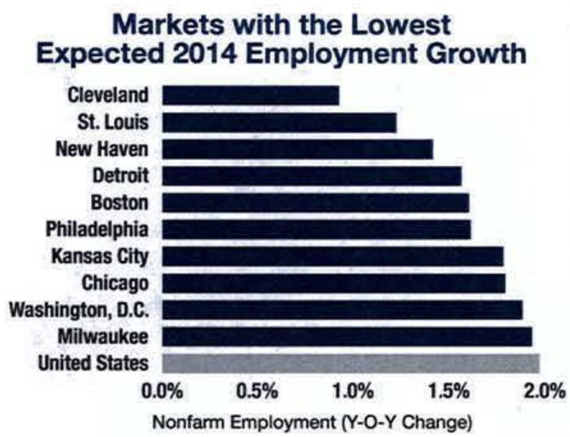
- The spread in yields can buffer incremental increases in interest rates. Additionally, investor demand, economic growth and performance gains will exert downward pressure on cap rates.
- Capital will flow to most market segments and product tiers. Equity funds and institutional and cross-border investors create steady demand for core product in primary markets, while CMBS conduits will support investors seeking yield in secondary markets or through value-add strategies.

Investment Outlook

- Spreads narrow between market tiers and asset classes. Investor risk profile will determine acquisition strategies. Abundant capital exists for construction as newly delivered units have leased quickly. Facing no new competition, stronger rent growth by Class B/C assets will catalyze the number of renovations.
- Value-add strategies offer stronger returns and the recent dip in the average cap rate signals a recovery in non-premium assets. Sellers have been slow to bring properties to market, however, thereby limiting the number of opportunities.

National Apartment Index





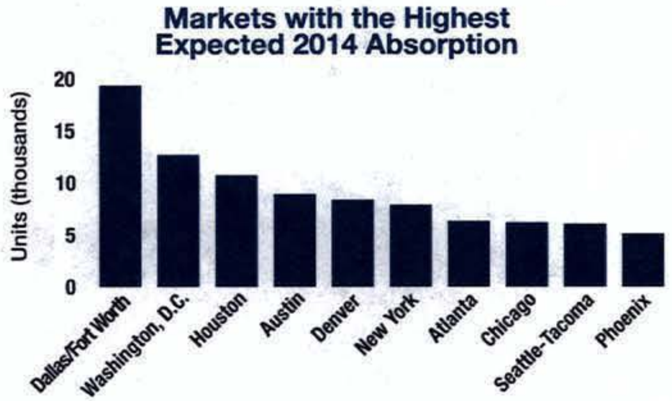
2014 National Apartment Index

Coastal and Low-Vacancy Markets Capture Top Positions

New York (#1) retains its pinnacle status, with strong employment and the lowest vacancy rate in the Index. Vacancy will hover at 4.0 percent or less in both San Francisco (#2), which edged ahead one place, and San Jose (#8), which slipped six, but new supply and rent fatigue will moderate effective rent growth. A high ratio of renter households and low vacancy lifted San Diego (#5) one space from last year, but despite similar characteristics, momentum markets displaced nearby Orange County (#11) and Los Angeles (#15) by seven and five spaces, respectively. Denver (#3) and Miami (#13) both soared eight positions, second only to the nine-rung surge by Oakland-East Bay (#9). Denver's forecast to capture the highest rent growth and third-highest proportional job growth moved it into the top tier along with Miami, lifted by strong global influences and the third-lowest vacancy rate. Supply constraints and expensive housing options relative to local incomes will shrink Oakland-East Bay's vacancy rate to the second-lowest in the Index. The only Midwest representative, Minneapolis (#4) edged up three spaces on low vacancy and solid job growth. Pronounced hiring gains and sub-4.0 percent vacancy lifted both Northern New Jersey (#6) and Portland (#10) two positions. Portland moved within three rungs of Seattle-Tacoma (#7), which slipped two spots on supply growth. The most dynamic markets in the Index, Houston (#12) gained one spot and Dallas/Fort Worth (#14) retained its ranking.

Construction Surge Poses Localized Risk in Several Markets

An outsized ramp up in supply caused Austin (#18) and San Antonio (#26) to slide in the ranking. Cooler employment and rising vacancy triggered two of the largest Index declines, with Washington, D.C., (#27) and Boston (#16) retracing 10 and seven positions, respectively. Below trend employment and new supply caused a six-rung decline for Phoenix (#22), while new peaks in employment advanced Salt Lake City (#21) by one. Stable space fundamentals characterized new entrant Baltimore (#24), and held Philadelphia (#20) steady in the ranking. Healthy job growth raised Chicago (#17) three rungs, while stabilizing fundamentals advanced Riverside-San Bernardino (#19) and Tampa-St. Petersburg (#23) four spots and Milwaukee (#25) one. Inventory growth together with vacancy that exceeds the U.S. average cost Fort Lauderdale (#29) and Charlotte (#30) each one position.



Late Recovery and Low Momentum Markets Offer Modest Performance Outlook

Atlanta (#31) and Sacramento (#33) accelerated four and five spots, respectively. The fourth-highest vacancy rate tempered the strength of Atlanta's recovering jobs and rent growth. Conversely, modest job gains and weak rent growth cloud Sacramento's more robust vacancy outlook. New entrants Pittsburgh (#32) and Nashville (#34) both offer a healthy economy and stable apartment fundamentals, although Pittsburgh's vacancy outlook is tighter. Further reduction in high vacancy rates held rankings steady for Las Vegas (#41) and Jacksonville (#44). Palm Beach (#38) advanced two places, but Orlando (#36) receded by five, as new supply will drive vacancy higher. Low levels of employment growth diminished the rankings of New Haven-Fairfield County (#40), Detroit (#39), Cincinnati (#42), Cleveland (#43), and St. Louis (#46) by magnitudes varying from 10 to four places. Indianapolis (#45) and Columbus (#35) fared better, both slipping two spots, while Kansas City (#37) edged down one.

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 2014	Rank 2013[1]	13-14 Change
New York City	1	1	■ 0
San Francisco	2	3	▲ 1
Denver	3	11	▲ 8
Minneapolis	4	7	▲ 3
San Diego	5	6	▲ 1
Northern New Jersey	6	8	▲ 2
Seattle-Tacoma	7	5	▼ 2
San Jose	8	2	▼ 6
Oakland-East Bay	9	18	▲ 9
Portland	10	12	▲ 2
Orange County	11	4	▼ 7
Houston	12	13	▲ 1
Miami	13	21	▲ 8
Dallas/Fort Worth	14	14	■ 0
Los Angeles	15	10	▼ 5
Boston	16	9	▼ 7
Chicago	17	20	▲ 3
Austin	18	15	▼ 3
Riverside-San Bernardino	19	23	▲ 4
Philadelphia	20	19	▼ 1
Salt Lake City	21	22	▲ 1
Phoenix	22	16	▼ 6
Tampa	23	27	▲ 4
Baltimore	24	New	■ NA
Milwaukee	25	26	▲ 1
San Antonio	26	24	▼ 2
Washington, D.C.	27	17	▼ 10
Louisville	28	25	▼ 3
Fort Lauderdale	29	28	▼ 1
Charlotte	30	29	▼ 1
Atlanta	31	35	▲ 4
Pittsburgh	32	New	■ NA
Sacramento	33	38	▲ 5
Nashville	34	New	■ NA
Columbus	35	33	▼ 2
Orlando	36	31	▼ 5
Kansas City	37	36	▼ 1
Palm Beach	38	40	▲ 2
Detroit	39	32	▼ 7
New Haven	40	30	▼ 10
Las Vegas	41	41	■ 0
Cincinnati	42	34	▼ 8
Cleveland	43	37	▼ 6
Jacksonville	44	44	■ 0
Indianapolis	45	43	▼ 2
St. Louis	46	42	▼ 4

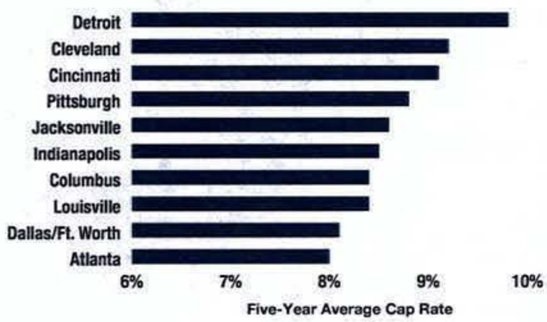
[1] See National Apartment Index Note on page 60.

Specialty Indexes

Yield Index

MSA	Rank
Detroit	1
Cleveland	2
Cincinnati	3
Pittsburgh	4
Jacksonville	5
Indianapolis	6
Columbus	7
Louisville	8
Dallas/Ft. Worth	9
Atlanta	10

High Yield Markets



Stability Index

MSA	Rank
Philadelphia	1
Louisville	2
Kansas City	3
Cincinnati	4
Cleveland	5
Pittsburgh	6
Milwaukee	7
Salt Lake City	8
Portland	9
Minneapolis	10

Five-Year Vacancy Range

Premium Yield Markets Bolster Returns

Investors have increasingly targeted secondary and tertiary markets in pursuit of higher yields. While these markets often carry additional risk, the superior yields 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 often 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 perform well, these markets align better with long-term hold strategies.

The top yield market is Detroit, where apartment performance has been notably robust even though the local economy has faced significant challenges in recent years. With the auto industry still building momentum, Detroit offers investors a unique operating environment at a modest entry point. Cleveland, a market also associated with the resurgent auto industry, also offers superior yields. In fact, both Cleveland and its neighboring Ohio market, Cincinnati, have both maintained relatively stable performance over the last 10 years despite market turbulence. To the east of Ohio, Pittsburgh has garnered significant attention on a national basis as operations and rental income generate strong returns for most asset classes across the metro. As the economy recovers, many long-held properties in this market will be listed, offering investors opportunities to pick up properties with steady occupancy and rental growth potential. The fifth top yield market is Jacksonville which has a modest inventory and could face development risks in coming years as it did in 2009, but it has diversified its economy since the recession and offers investors assets with consistent cash-flows.

Stalwart Performance Offers Balanced Perspective

Stability markets offer investors steadier cash flow and value retention even during down cycles, but they tend to give up some appreciation potential and rent gains during market upswings. Properties in markets ranking at the top of this Index generally retained a greater portion of their values during the Great Recession, but they also maintained long-term occupancy stability and their inventory growth risks have remained in check over the last 10 years. Though these markets tend not to capture headlines during boom cycles, investors often favor their stalwart performance when trends shift.

The Stability Index was led by Philadelphia, which has maintained steady pricing while managing to keep vacancy tight. Louisville also proved durable despite a moderate supply influx. Kansas City apartments maintained values better than most metros despite post-recession pricing volatility. The market has faced greater vacancy movement, however, placing this market third on the Stability Index. Rounding out the top five are Cincinnati and Cleveland. Vacancy challenges impacted their overall ranking, but strong pricing performance helped maintain their stature among markets that retain value during downturns. Following these Ohio metros, Pittsburgh's consistently high yields and durable vacancy through the recession will keep buyers scouring this region for value-add opportunities. Though Milwaukee maintained price stability, its fluctuation in vacancy keeps it from passing its higher-ranking neighboring Midwest markets.

Major Discounts From Past Peak Offer Compelling Options

The economic recovery and apartment performance gains have not favored all markets equally, and some have yet to fully recover value losses incurred during the recession. The highlighted opportunity markets offer the widest pricing discount from their pre-recession peak, yet have forecast employment gains that exceed the national average in 2014. These markets have the potential for appreciation as sales activity accelerates. Markets ranking high in the Opportunity Index blend Midwest metros and former housing boom markets that have yet to fully recover. Although risks can run high, particularly on the supply side, these metros could offer outsized returns if they follow the pricing trends that have already occurred in many markets across the country.

Indianapolis leads this Index with median price per unit standing 48 percent below their previous peak and job growth of 2.4 percent anticipated in 2014. Investors must be wary of supply-side risks that could manifest on short notice, but the current development pipeline of 3,900 units remains digestible. Las Vegas follows Indianapolis in this index as the current median price per unit is 47 percent below previous peak prices. Las Vegas, Sacramento and Fort Lauderdale face deficits in the 40 percent range. In Las Vegas and Sacramento, employment and household growth will generate strong rental demand, pushing down vacancy even as new supply comes online. However, in Fort Lauderdale, although job growth remains strong at 3.1 percent, the expansion of apartment units by 2.8 percent this year will likely push up vacancy. Other noteworthy markets include Kansas City and Pittsburgh. As the local economy improves, more out-of-market investors will boost buyer competition, pushing up values and providing greater opportunities for property owners to execute transactions.

Housing Imbalances Support Apartment Momentum

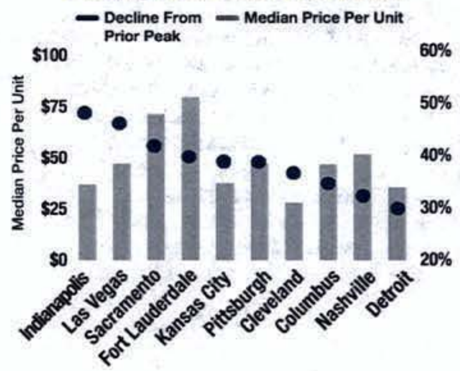
At the peak of the last real estate cycle, housing development outpaced household formation and a supply overhang resulted in many markets. Through the recession, housing development stalled in most cities, and markets have largely absorbed the excess units. Although multifamily development has accelerated dramatically, many markets still anticipate strong employment in the coming year and household growth that will outpace housing stock additions. In these markets, the potential for tighter vacancy remains favorable and housing values will likely continue to appreciate.

Atlanta was slow to emerge from the recession, but household formations will accelerate this year as employment expands by 3.1 percent. Housing construction, including both single- and multifamily, fell short of residential demand and will restrain vacancy to 7.1 percent. Fort Lauderdale likewise anticipates 3.1 percent employment growth this year, but vacancies will tick-up to 5.2 percent as housing development modestly outpaces demand. Both Austin and Dallas will face rapid household formations as exceptional job growth lifts their local economies. Still, housing construction in both markets will remain robust, with Dallas adding the most apartment units of any major metro and Austin facing the largest percentage increase in inventory. Louisville will move at a slower pace than the Texas markets, but it too offers strong household growth relative to development. With its growing biotechnology hub spurring household formation, Louisville's modest 1,000 apartment units scheduled for completion this year will fall short of demand. Los Angeles also offers strong prospects this year as its housing inventory remains stable relative to household additions, supporting a 4.3 percent vacancy rate.

Opportunity Index

MSA	Rank
Indianapolis	1
Las Vegas	2
Sacramento	3
Fort Lauderdale	4
Kansas City	5
Pittsburgh	6
Cleveland	7
Columbus	8
Nashville	9
Detroit	10

Pricing Discount From Peak

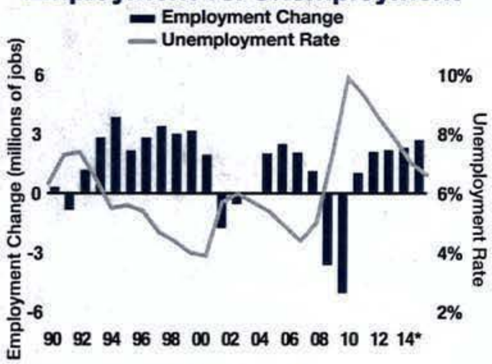


Housing Equilibrium Index

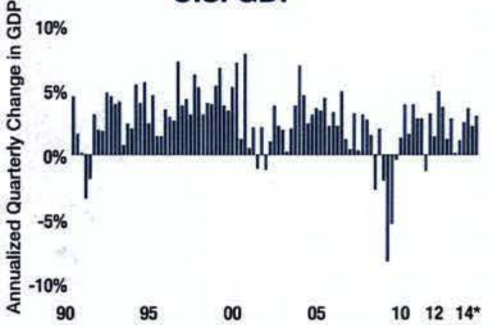
MSA	Rank
Atlanta	1
Fort Lauderdale	2
Austin	3
Louisville	4
Los Angeles	5
Dallas/Fort Worth	6
Denver	7
San Francisco	8
Portland	9
Houston	10

New Households Per Housing Unit Constructed

Employment vs. Unemployment

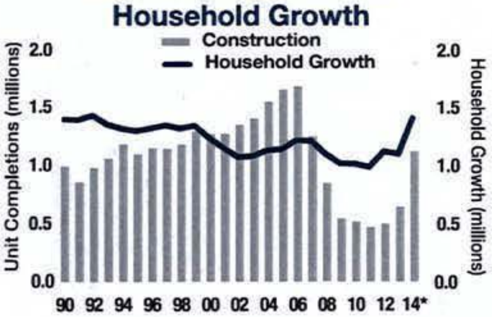


U.S. GDP



Single-Family Home Sales

Home Construction vs. Household Growth



* Forecast ** Through October

Economic Recovery Reaches Self-Sustaining Momentum Despite Numerous Setbacks

The U.S. economy absorbed the effects of sequestration, higher taxes, and a 16-day partial government shutdown but still recorded progress across most metrics. While the turmoil on Capitol Hill produced fiscal measures that clearly curbed growth, conditions have improved broadly. Federal spending remains a drag on expansion but broad-based productivity gains attest to the resiliency of the economy. The U.S. has reclaimed nearly 7.7 million jobs, or 88 percent, of the positions lost in the last recession. And, although inflation-adjusted GDP has grown at a subtrend average of 2.3 percent annually since the official end of the recession, excluding the government sector and measured by gains in the private sector alone, GDP averaged a healthier annualized 3.3 percent gain, much closer to longer run trends.

Uncertainty about U.S. fiscal and monetary policy will persist into 2014, likely producing sporadic volatility in the capital markets. Consensus on a long-term, comprehensive fiscal plan remains a low probability among such a deeply divided Congress, therefore, a series of short-term solutions and renegotiated deadlines will prevail. Also, the timing and pace of the Federal Reserve's unwinding of its quantitative easing (QE) programs remains a wildcard. Solid economic growth is pressuring interest rates, but the Fed has stated implicitly that tapering monthly purchases of long-term Treasurys and securities will begin only after the economic data justifies it and broader economic conditions prove sustainably healthy.

2014 National Economic Outlook

- **Consumer Spending, Housing and Trade Propel Growth.** Third quarter GDP posted 4.1 percent annualized growth, with a generous lift from inventory rebuilding, but also boosted by consumer spending and double-digit gains by the residential sector for the fifth consecutive quarter. Forward-looking manufacturing surveys suggest the trade sector will be more prominent this year, aided by easing global austerity and stronger demand. GDP is forecast for the 3.0 percent range growth and the U.S. should add an estimated 2.7 million jobs in 2014.
- **Rising Immigration, Employment and Income Growth Drive Household Formations and Apartment Demand.** Household growth accelerated sharply to over one million in 2012, still below long-run trends, but higher than the average created between 2007 and 2011. The releasing of pent-up demand and renewed upswing in immigration trends underlie estimates averaging between 1.2 to 1.4 million annually for the next several years, as U.S. prospects for employment and wage growth brighten.
- **Tapering the Fed's Quantitative Easing Policy Marks a Return to "Normal" Credit Environment.** Treasury rates remain very close to their 50-year low, and stand at less than half of the long-term average. Without Fed intervention, interest rates will fluctuate naturally in response to economic and capital market drivers and, though it will raise some headwinds for investors in the near term, the positive economic trends will boost commercial real estate performance.

Strong Demand Tempers Supply Surge as Construction Cycle Begins; Localized Imbalances a Risk

The apartment sector consistently exhibits the most stable space fundamentals of all commercial property types. Fiscal headwinds and higher taxes weighed on productivity and consumer confidence late in 2012, contributing to a slackening of apartment demand and rent growth that persisted through the following March. Since then, improved economic conditions have boosted job and income growth, injecting renewed vigor into rental demand and net absorption. Single-family home sales reflected similar volatility during the same time period, caused in part by an increase in mortgage rates, but higher sales volumes and price increases have proven durable and the sector's recovery remains intact. Household formations exceeded one million in 2012, surpassing the average of the preceding five years, and pent-up demand appears to be generating sufficient demand for both rental and for-sale housing for now.

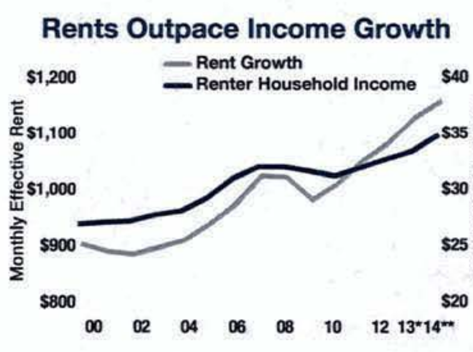
The estimated number of new apartment units delivered in the past 12 months rose over 80 percent to 168,000. Nonetheless, a second and third quarter surge in demand pushed net absorption to 188,000 units; consequently, the vacancy rate fell 20 basis points to 4.9 percent compared with one year ago. Nationally, effective rents increased 4.2 percent to an average monthly rent of $1,128, besting the prior year's performance of 3.0 percent. Late recovery secondary markets and mid- to lower-tier assets recorded the strongest gains, although new properties thus far report rapid lease-up as well. Looking forward, apartment space fundamentals appear balanced, but not without risk. The number of new developments breaking ground and coming to market will increase in the next year and likely surpass the rate at which units can be absorbed, particularly in metros with a high concentration of new expensive, infill product.

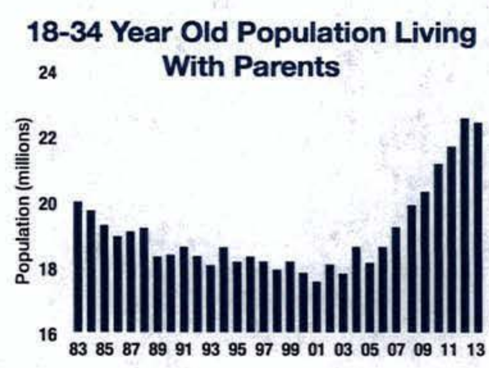
2014 National Apartment Outlook

- **New Supply Cycle and Rising Renter Households Signals New Growth.** Low immigration levels, and a sharp rise in the number of young adults aged 18-34 years old living with parents, contributed significantly to five years of suppressed household growth. This suggests a cumulative level of pent-up demand for 3.0 to 3.5 million new households. Stronger job and wage growth and confidence in the durability of the economy have begun to de-bundle these households and stimulate immigration, both of which will propel rental demand.

- **National Vacancy Rate to Edge Higher as Pockets of Supply Imbalance Emerge.** A forecast increase in the vacancy rate to 5.1 percent by year-end 2014 may also pare rent growth to approximately 2.6 percent. Completions are forecast to increase 28 percent to nearly 215,000 units, exceeding forecast demand of approximately 177,000 units. A brief supply imbalance will emerge as an abundance of Class A units open in urban infill markets.

- **Vacancy Tightens in Mid-Tier Properties, Pressures Rents.** Existing Class A assets will bear the brunt of competition from new supply. Vacancy in mid- to lower-tier apartments will tighten to 4.4 to 5.0 percent and generate stronger rents, catalyzing a greater number of renovations.

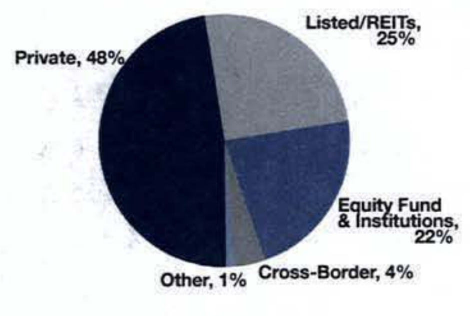




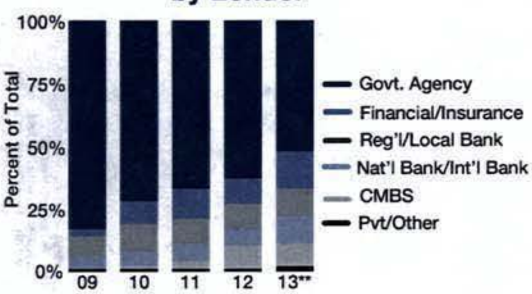
* Estimate **Forecast

Capital Markets

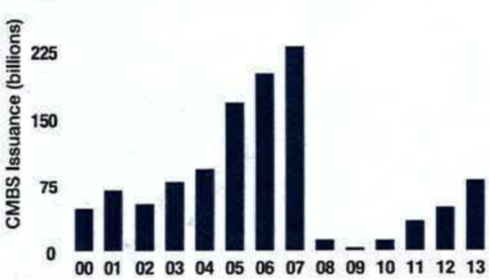
Apartment Acquisitions by Buyer Type*



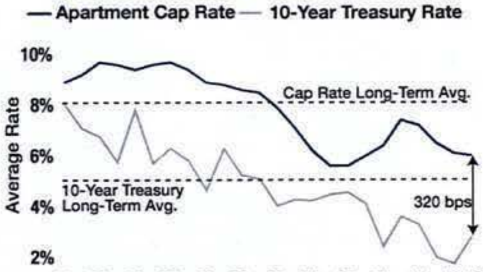
Apartment Mortgage Originations by Lender



CMBS Issuance



Apartment Cap Rate Trends



Sales $1M and above

* Through 3Q ** Estimate

Sources: CoStar Group, Inc., Real Capital Analytics

Capital Availability Remains Abundant Despite Tightening of GSE Lending

Strong global investor demand for U.S. real estate and improving property performance trends helped buffer the impact of rising mortgage rates and the fiscal and monetary policy challenges of last year. The apartment sector remains awash in capital as both domestic and cross-border investment moved toward record highs, compelled by needs for yield, safety and strong income returns relative to other asset classes. The universe of buyers expanded to 2007 levels, although the composition of buyers changed little over the past year. Institutional and equity fund investor activity peaked in 2012, but rising secondary and tertiary market activity attracted greater attention from local investors. International investment represents a small component of the investor universe, but nonetheless posted an historic high in 2013 led by Canada, Europe and the Middle East.

Multifamily mortgage originations grew 20 percent year-to-date through the third quarter 2013 with the GSEs originating 52 percent of the loans. Banks/financial companies provided 29 percent of the lending activity while CMBS supplied 9 percent of the loans. The mandate for a 10 percent reduction in new originations by the GSEs has altered the landscape of multifamily lending and private-sector lenders remain eager to fill the gap left by public agencies. Banks and life companies, which have eased their lending standards, remain constrained in the extent of leverage, acquisition strategies and markets they are willing to fund. As a result, GSEs account for more than half of originations in secondary and tertiary markets, but their reduced lending activity has opened up new opportunities for mezzanine lenders, CMBS conduits and banks.

2014 Capital Markets Outlook

- **Debt and Equity Markets Remain Active and Stable.** The environment is not without risk and near-term interest rate volatility should be expected, particularly as the Fed exits its quantitative easing program. The installation of a new Federal Reserve chief, debt ceiling discussions, another round of sequestration debates and further declines in federal spending could constrain the potential pace of economic growth.
- **Cap Rates Well Positioned to Absorb Interest Rate Increases.** Cap rate spreads have already absorbed increased interest rates, with investor demand, economic growth and performance gains continuing to hold cap rates down. Higher financing costs could erode at least some of the cap rate arbitrage of investing in secondary and tertiary markets or value-add assets, but lender competition will help contain financing costs while the pace of occupancy and rent growth will exceed that of primary markets and core assets for the medium-term outlook.
- **Capital Will Flow to Most Market Segments.** Investors seeking higher yields will favor secondary and tertiary markets and value-add strategies. Institutional and equity funds, and an influx of foreign capital, such as sovereign wealth funds, will maintain steady demand for core product in primary markets. Increased lending by national banks and CMBS conduits will support property values in secondary and tertiary markets.

Sales Activity Escalates as Investors Pursue Yields Beyond Top-Tier Markets

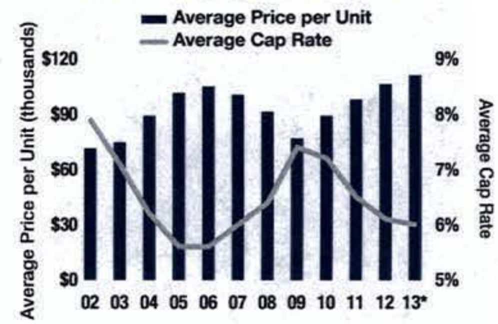
Following three years of robust revenue growth and occupancy gains, many investors have begun to adjust expectations to sustainable operating assumptions. Core properties in primary markets have maintained solid performance and perennially low cap rates as steady economic expansion and employment gains supported the apartment sector. And, while an abundance of equity capital remains available for leading markets, yields tend to be slim and returns do not always pencil favorably. Investors seeking higher yields have more aggressively targeted assets in secondary and tertiary markets where the recovery potential has not yet been fully priced into deals. Value-add strategies may offer stronger returns, but investors must work harder and smarter to realize the upside potential in a crowded and competitive marketplace. Sellers have been slow to bring properties to market, and pressured by a dearth of available opportunities, the average cap rate for value-add investments recently dipped significantly, signaling a recovery in non-premium assets.

Apartment transactions constituted about 30 percent of all commercial property sales, increasing 37 percent to nearly $73.8 billion through the third quarter, with portfolio transactions driving much of the increase. The average cap rate fell 10 basis points to 6.0 percent, while the average price per unit climbed 4.5 percent to just shy of $111,000. Investors made a notable surge into Class B and C assets, with sales volume for these properties rising 39 percent. Momentum for Class B/C product in primary metros lifted the median price per unit 5.4 percent to $96,000 and reduced the cap rate 10 basis points to 6.3 percent. Class A sales volume trended down across all market tiers except primary, where it climbed 15 percent. However, the median price per Class A unit increased 11.1 percent to $135,000 with the cap rate holding steady at 5.4 percent. Sales volume in secondary markets posted modest declines while tertiary market activity surged to 32 percent of total sales, up from 21 percent in 2010.

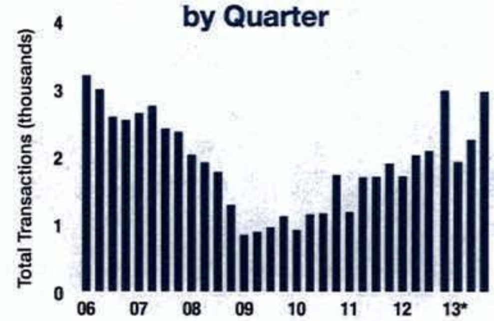
2014 Investment Outlook

- **Spreads Diminish between Market Tiers and Asset Classes.** Greater certainty in the economy will drive demand to more value add properties. Class B/C cap rates will contract as investors seek greater yield and price arbitrage relative to Class A properties. Transaction velocity by necessity will shift to secondary and tertiary markets and investors must weigh the incremental value of additional yield relative to higher risk.
- **Abundant Capital for New Construction.** Equity for new development waned briefly as rising construction costs and over-supply conditions mounted. However, equity and hedge funds returned as newly delivered units leased quickly. Supply and demand appears balanced through 2014, but whether demand supports the magnitude of the development pipeline that could potentially be funded warrants caution.
- **NOI Growth Mitigates Impact of Rising Interest Rates.** The Fed's tapering of asset purchases will raise financing costs in 2014, but real estate cap rate spreads provide a healthy cushion against future bond yield increases. Robust investor demand suggests no significant re-pricing to offset higher financing costs.

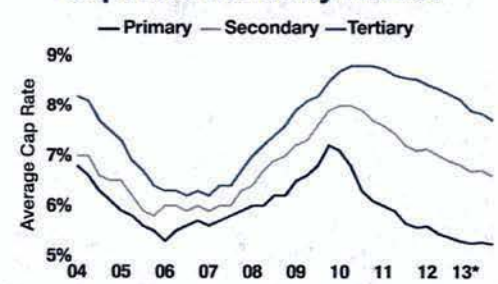
Price and Cap Rate Trends



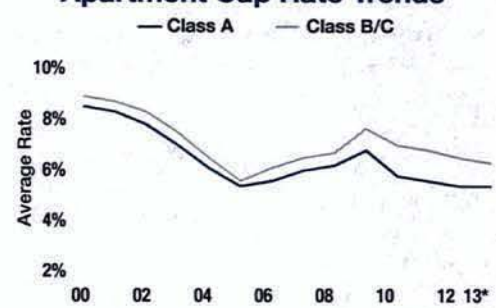
U.S. Apartment Transactions by Quarter



Cap Rate Trends by Market



Apartment Cap Rate Trends



* Through 3Q
Sources: CoStar Group, Inc., Real Capital Analytics

Atlanta Investors Broaden Search to Include Suburban Assets as Competition Rises in the Core

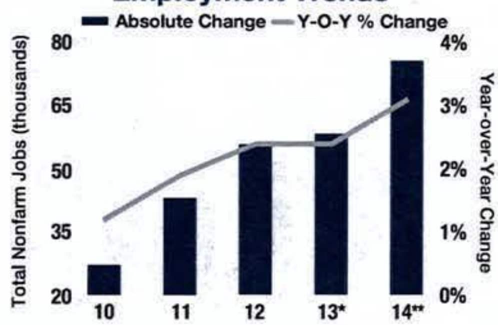
Atlanta is attracting a wide range of employers, fostering strong job growth across all sectors, which will increase demand for apartments throughout the market. State Farm, AirWatch and Cox Communications are expanding operations in the Central Perimeter and thousands of well-paying positions will be created as these companies grow. Stimulated by this growth, numerous apartment developments scheduled for delivery in 2014 will come online in the surrounding neighborhoods. In the southern and western portions of the metro, a resurgence in manufacturing and logistics employment is taking place as companies including McMaster-Carr Supply Co., Ken's Foods, and Kroger are eyeing this portion of the region for expanded facilities, generating jobs that will stir demand for Class B/C apartments nearby. In the northwest, a recent announcement by the Atlanta Braves to move to Cobb County in 2017 will be a catalyst for development in the area. Infrastructure and access improvements near the location of the new stadium will open development opportunities, bringing a new dimension of commercial real estate projects.

Improving property operations and a brightening economic outlook will encourage investment activity in the Atlanta metro this year. Competition for assets in core areas such as Buckhead, Midtown, and in the Central Perimeter has intensified and is encouraging investors to move into secondary, and sometimes tertiary, locations within the market. This trend will persist through 2014 as investors seek to capitalize on strengthening apartment fundamentals in suburban locations. Investors in search of upside potential may gravitate toward properties in high-demand areas and in need of repositioning in order to generate rent growth.

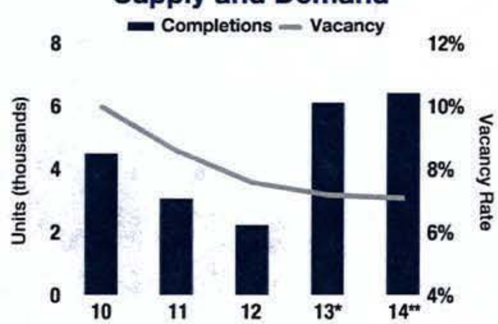
2014 Market Outlook

- **2014 NAI Rank: 31, Up 4 Places.** Above-average job growth supported Atlanta's four-spot rise in this year's index.
- **Employment Forecast:** In 2014, Atlanta employment will rise by 3.1 percent as 74,800 jobs are created. Payrolls grew 2.4 percent last year.
- **Construction Forecast:** Apartment construction will remain elevated this year as developers complete 6,300 units, up slightly from the 6,000 apartments completed in 2013.
- **Vacancy Forecast:** Vacancy will fall 10 basis points this year to 7.1 percent. In 2013, vacancy fell 40 basis points.
- **Rent Forecast:** Effective rents will reach $892 per unit by year end, a rise of 3.4 percent and slowing from the 4.7 percent growth in 2013.
- **Investment Forecast:** A growing buyer pool and improving operating conditions will encourage investors waiting on the sidelines to divest assets, capitalizing on historically low and strong buyer activity cap rates.

Employment Trends

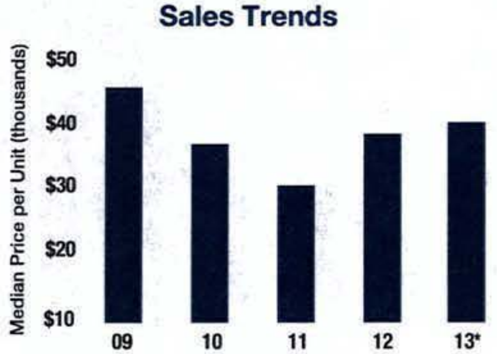


Supply and Demand



Effective Rent Trends

Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 3.1% ▲	Construction: 300 ▲	Vacancy: 10 bps ▼	Effective Rents: 3.4% ▲

Surge in Completions Lifting Austin Vacancy; White-Collar Job Growth Aiding Absorption

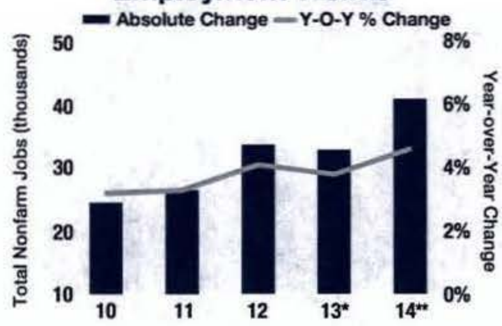
Austin's penchant for attracting technology firms will pay dividends for the apartment market this year despite a jump in supply. More than 11,000 apartments are scheduled for delivery, which will put upward pressure on marketwide vacancy during lease-up. In 2009, a similar number of units were delivered, which pushed up vacancy by nearly 100 basis points, though the rate plunged by more than 350 basis points the subsequent year. Heading into 2014, Austin is better positioned to absorb new units as payrolls grow at the fastest pace in the nation. Many of the jobs forming in the metro are high-paying technology positions, which will attract younger employees seeking a live-work environment. Oracle, for example, will hire 200 workers with the help of $1 million from the Texas Enterprise Fund. White-collar jobs will be more critical to absorbing the current wave of development as rents begin the year 23 percent above the year-end 2009 level.

The balance between buyers and sellers in the market will begin to align this year, though multiple bids per listing will remain commonplace in the early part of 2014. A number of factors will materialize that encourage apartment owners to divest in the coming months. Rising interest rates will place upward pressure on cap rates, signaling to some investors that the market has peaked. As the year commences, cap rates are generally in the low-5 percent area for core listings and move up to the low-6 percent range for 1980s-vintage assets. In addition, CMBS loans secured with 10-year originations in 2004 and seven-year originations in 2007 will both rollover this year, increasing the number of lower-tier deals available. These new listings will be met with out-of-state and local capital seeking to secure apartments in one of nation's most promising economies.

2014 Market Outlook

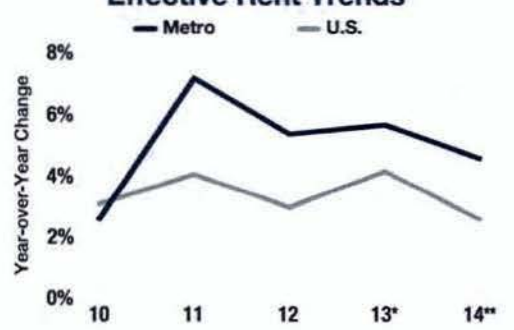
- **2014 NAI Rank: 18, Down 3 Places.** Austin slipped three places in the NAI due to the significant supply additions.
- **Employment Forecast:** After 32,200 positions were created in 2013, employers will add 40,200 jobs this year, a 4.6 percent increase.
- **Construction Forecast:** Inventory will expand by 6 percent in 2014 as 11,500 units come online, nearly double last year's additions.
- **Vacancy Forecast:** Heavy development will push up vacancy 100 basis points this year to 5.8 percent. In 2013, vacancy rose 10 basis points.
- **Rent Forecast:** Owners will remain aggressive with rent hikes in 2014 as effective rents rise 4.6 percent to $1,065 per month. Last year, operators lifted rents 5.7 percent.
- **Investment Forecast:** Investors attempting to purchase in the path of gentrification may find opportunities in North and Northeast Austin, where repositioning plays will become more prevalent.

Employment Trends

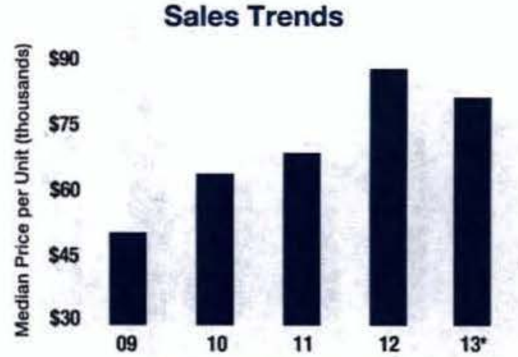


Supply and Demand

Effective Rent Trends



Sales Trends

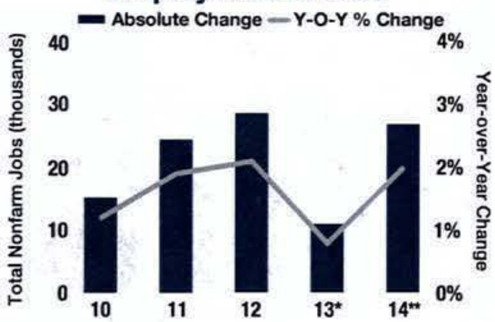


Sources: CoStar Group, Inc., Real Capital Analytics

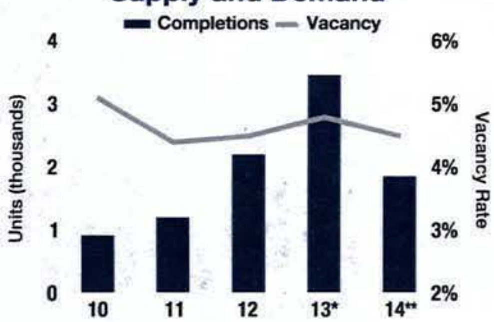
* Estimate ** Forecast

Market Forecast Employment: 4.6% ▲ Construction: 5,300 ▲ Vacancy: 100 bps ▲ Effective Rents: 4.6% ▲

Employment Trends

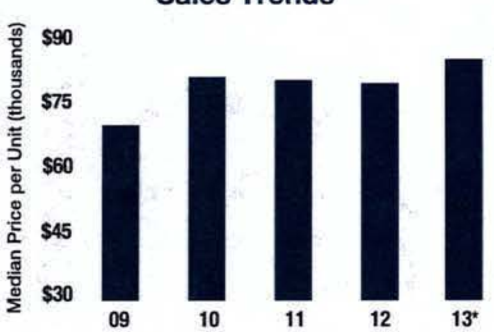


Supply and Demand



Effective Rent Trends

Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

Apartment Construction Eases Back Following 2013 Surge

Operations in the Baltimore apartment market will strengthen as the market absorbs last year's construction surge. Government budget cuts and furloughs, which caused broader payroll reductions, muted local job growth in 2013, and contributed to a modest inventory surplus. This year, however, accelerating job growth and the strongest household formation in years will boost net absorption of apartments across the metro. In addition, Baltimore's growing 20- to 34-year-old population, generally considered the prime renter demographic, will further support demand. The number of residents in this age range within the metro has risen over the past five years, growing at double the pace of the national average. Owners of apartments in downtown areas will benefit most from the improving demand outlook, as residents locate near Johns Hopkins, the University of Maryland Medical Center, and other healthcare employers. Anticipating this demand, developers have stepped up building in the area, as nearly 1,000 units, more than half of all completions slated for 2014, will be delivered in Downtown Baltimore.

Class B/C properties will continue to comprise the majority of the transactions this year due to a lack of available top-tier assets. While interest in assets in the CBD continues to drive metro investment activity, accounting for nearly 40 percent of all transactions last year, areas to the east, such as Harbor East, will draw new investors. Small investment syndicates targeting this part of the metro are searching for stabilized Class B assets commanding first-year returns in the 6 percent range. Metrowide listings, however, will remain tight as many owners anticipate slowly rising asset values through 2014.

2014 Market Outlook

- **2014 NAI Rank: 24, New to NAI.** Tight vacancy is offset by below-average job gains to put Baltimore near the middle of the index.
- **Employment Forecast:** After 10,400 positions were created in 2013, employers will add 26,200 jobs this year, a 2.0 percent increase.
- **Construction Forecast:** Inventory will grow 0.9 percent this year as 1,800 new units are delivered. Last year, 3,400 units were completed.
- **Vacancy Forecast:** Demand will outpace construction in 2014, pushing vacancy down 30 basis points to 4.5 percent by year end. Last year, vacancy moved up 30 basis points.
- **Rent Forecast:** Effective rents will advance 3.1 percent to $1,229 per month in 2014, exceeding last year's bump of 3.0 percent.
- **Investment Forecast:** Opportunistic investors from Washington, D.C., will search the improving Baltimore market for potential upsides, particularly for value-add assets with cap rates often peaking at 10 percent.

* Estimate ** Forecast

Market Forecast Employment: 2.0% ▲ Construction: 1,600 ▼ Vacancy: 30 bps ▼ Effective Rents: 3.1% ▲

Thriving Boston Waterfront Draws Apartment Development

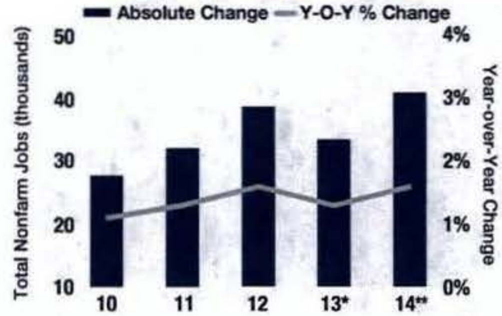
Boston's Seaport District is ripe with development, and as employers move into the growing neighborhood, demand for housing within the area is rising rapidly. Over the past couple of years, companies have relocated thousands of employees to the district, and six additional businesses have committed to bringing 6,300 more workers to the region during the next few years. The former industrial area is being transformed from vacant warehouse buildings and parking lots to a thriving urban hub for thousands of new households. Several apartment projects are under construction and scheduled for delivery this year, with more on the drawing board. To enhance the area, the State of Massachusetts announced plans to connect the district to the Back Bay by rejuvenating a vacant rail line and placing it back in service. The rail project will come online in two years, traveling from the Boston Convention Center to Back Bay Station, linking two vibrant areas of the city and attracting young professionals in search of a live-work-play lifestyle.

Investment activity will remain brisk this year as local syndicates, out-of-state buyers, and institutions target assets in the metro. Value-add listings will become more limited as owners choose to hold on to assets and capitalize on improved property operations, though opportunities will be more prevalent in the suburbs. Properties in all class types located inside Route 128 are in the highest demand. Moving outside of this boundary, property age and location also become factors and can greatly impact first-year returns. Those in search of long-term holds will seek properties located in communities with established residential amenities such as retail, restaurants and medical facilities.

2014 Market Outlook

- **2014 NAI Rank: 16, Down 7 Places.** Boston fell seven places in the ranking as job growth remains below the national average.
- **Employment Forecast:** Employers will add 40,200 workers to payrolls during 2014, an annual growth rate of 1.6 percent. Last year, approximately 32,800 jobs were created, an annual growth rate of 1.3 percent.
- **Construction Forecast:** Builders will complete 5,600 units this year, up from the 4,200 apartments delivered in 2013.
- **Vacancy Forecast:** Supply will outweigh demand this year ticking up vacancy 50 basis points to 4.2 percent.
- **Rent Forecast:** The near-term increase in supply in the Seaport District will slow overall rent growth to 2 percent this year, down from 3.4 percent during 2013. By year end, effective rents will be $1,732 per month.
- **Investment Forecast:** Owners with holding periods terminating within the next three years may choose to sell assets now while cap rates and borrowing costs remain historically low.

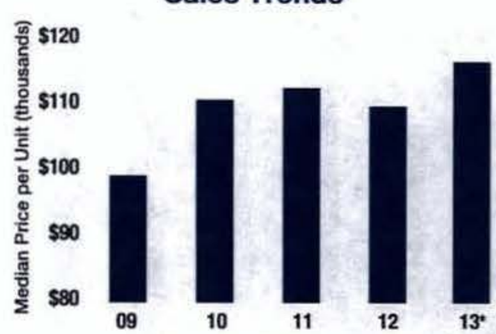
Employment Trends



Supply and Demand

Effective Rent Trends

Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast Employment: 1.6% ▲ Construction: 1,400 ▲ Vacancy: 50 bps ▲ Effective Rents: 2.0% ▲

Wave of New Units Will Reverse Charlotte Vacancy Trend

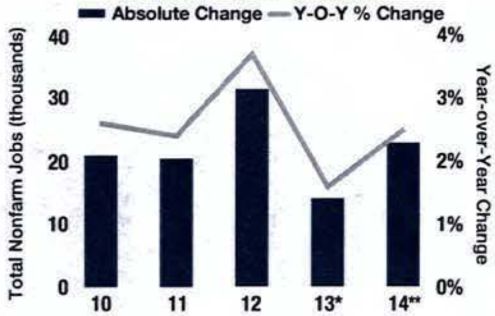
Net absorption has exceeded completions in Charlotte since the recession ended, but an elevated number of rentals will come online in 2014, raising vacancies for the first time in five years. Rent growth will also moderate this year as new complexes offer leasing incentives, despite strong demand. Employers continue to add workers, and the plentiful job opportunities are drawing households from other areas. The single-family home market, meanwhile, will not siphon off rental housing demand, as rising prices and interest rates will hinder a large-scale transition from rentals to owner-occupied homes. While growing employment, significant in-migration, and a pricey single-family home market will provide tailwinds for the apartment sector beyond 2014, they will be insufficient to absorb the completions this year. A majority of the new units slated for delivery are in the historic Uptown/South End submarket, and will lift vacancy here and draw residents from nearby submarkets.

Transaction activity will pick up this year as the price gap between buyers and sellers will narrows in 2014 as buyers remain motivated to make purchases while relatively low interest rates and competitive lending persists. Owners contemplating selling assets, meanwhile, will act more urgently to execute transactions while low interest rates support maximum valuations. Sales of Class B and Class C assets, specifically, will accelerate as yield-seeking investors capitalize on strong performance dynamics. Cap rates in this segment range from 7 percent to 8 percent.

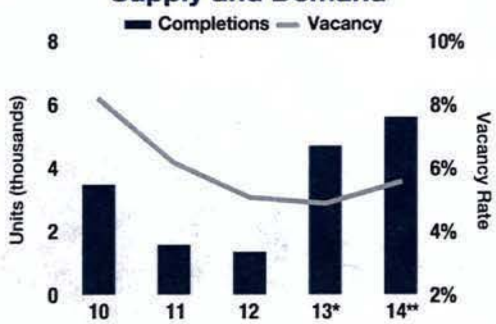
2014 Market Outlook

- **2014 NAI Rank: 30, Down 1 Place.** Concerns surrounding payroll cuts in the finance sector dragged down Charlotte one position in this year's ranking.
- **Employment Forecast:** Expansion of the retail, and professional services sectors will contribute significantly to the creation of 22,300 jobs this year, a 2.5 percent increase in employment.
- **Construction Forecast:** Developers will complete 5,500 units this year, rising from 4,600 units during 2013. An additional 5,500 units remain under construction.
- **Vacancy Forecast:** The metrowide vacancy rate will increase 70 basis points this year to 5.6 percent as supply outpaces the still healthy demand. Last year vacancy increased 40 basis points to 4.9 percent.
- **Rent Forecast:** Average rents will rise 3.5 percent to $911 per month in 2014 following a 6.0 percent increase last year.
- **Investment Forecast:** Investors seeking the highest yields will scour the western and northwest sides of Charlotte, though the greatest potential upsides will likely be found throughout Cabarrus and Gaston counties.

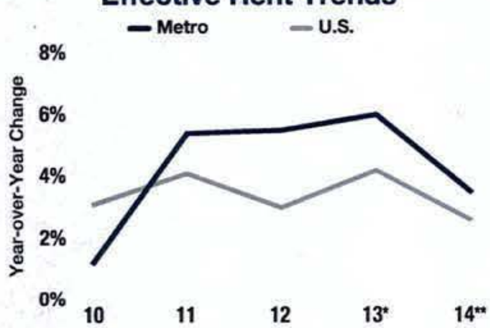
Employment Trends



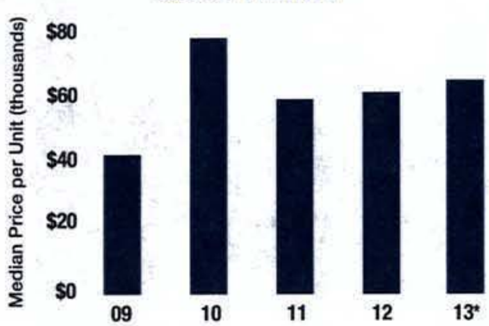
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 2.5% ▲	Construction: 900 ▲	Vacancy: 70 bps ▲	Effective Rents: 3.5% ▲

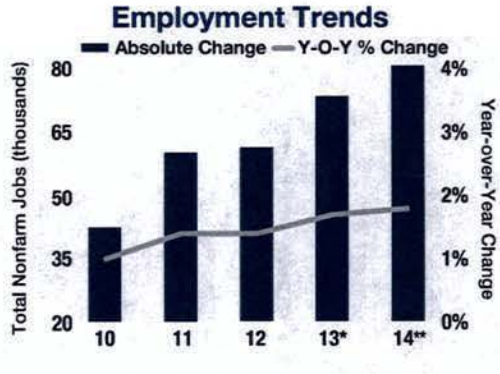
Big City Job Numbers Will Shoulder Apartment Demand in Chicago

Chicago's designation as one of Google's seven national tech hubs will attract new start-ups to the city, amplifying its already strong employment prospects. Google is also expanding its workforce in the River North area, and will open an office in the West Loop during 2016. This rising employment momentum, particularly with tech firms will boost Class A apartment occupancy. Still, with a wave of luxury units coming online downtown, where rents can top $3,000 per month, risks will remain. The high-salaried employees needed to fill these properties can also afford homes, which could restrain demand for luxury units. South and west of the metro, increased employment in the hospitality, retail and manufacturing sectors will generate demand for Class B/C rentals, improving occupancies in areas that have lagged the metro trend.

Investment activity in Chicago will escalate this year, but intense bidding at the top end of the market will price many buyers out of the best locations. As a result, institutional investors will move to the north and northwest from downtown, targeting stabilized properties, while private buyers move to B/C-plus locations searching for assets with rent growth potential. Many of these properties will receive multiple bids, requiring buyers to act quickly and make solid offers to compete. With investors eager to gain entry into the market, owners who do not have a long-term hold strategy may want to consider selling ahead of a further rise in the cost of borrowing.

2014 Market Outlook

- **2014 NAI Rank: 17, Up 3 Places.** The Windy City improved three spots in the index due to low and falling vacancy.
- **Employment Forecast:** Chicago employers will generate the largest job growth in 15 years as 79,900 jobs are created in 2014, a 1.8 percent gain. This will top last year's 1.7 percent expansion.
- **Construction Forecast:** The pace of apartment construction will ease in 2014 as 4,200 rentals are completed. This is down from more than 6,100 units last year, but well above the five-year annual average.
- **Vacancy Forecast:** Strong job growth will generate rental demand, pushing vacancy down 30 basis points this year to 3.8 percent. In 2013, the vacancy fell 60 basis points.
- **Rent Forecast:** A 2.6 percent increase in the average effective rent will place rents at $1,237 per month, a new metro high. Last year, rents jumped 3.5 percent.
- **Investment Forecast:** With rents at an all-time high, properties with rent growth potential will be highly sought-after by investors, and if priced attractively, will receive multiple offers.



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 1.8% ▲	Construction: 1,900 ▼	Vacancy: 30 bps ▼	Effective Rents: 2.6% ▲

Development Advances on City's Riverfront, Creating New Jobs and Potential Rental Demand

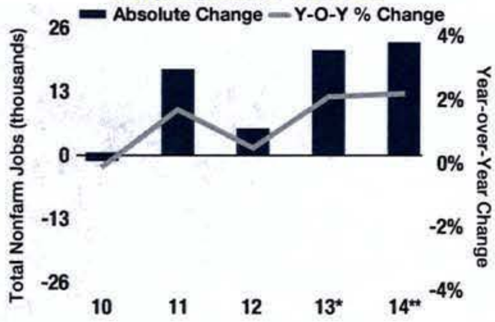
Urban development in Cincinnati is reviving the economy, boosting employment and creating new apartment demand. The Banks on the riverfront, which will be the largest mixed-use development in the city, continues to support economic growth, as the first phase created 3,600 permanent jobs. The second phase will progress this year, alongside another of the city's major projects under construction, the streetcar system, which begins at The Banks. The rail will cover nearly four miles around downtown and connect major employment centers. As part of a multi-faceted transportation system, the streetcar will provide transit to citizens throughout Cincinnati and potentially open development opportunities along its path. While apartment completions remain on par with demand this year, the new infrastructure could change the city's core, revitalizing the city by drawing new jobs and rental households to the heart of the city.

The pool of buyers targeting apartment assets in Cincinnati will expand in 2014 as capital remains plentiful. Local banks are once again beginning to finance out-of-state, small private investors, typically targeting mid- to lower-tier assets as re-positioning opportunities. As the year begins, cap rates for these assets start in the mid-8 percent range, moving up to 10 percent for properties on the low end of the quality scale. Meanwhile, investor demand for stabilized assets outweighs listings heading into 2014, placing upward pressure on pricing.

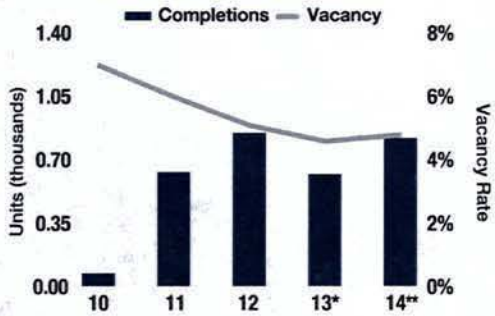
2014 Market Outlook

- **2014 NAI Rank: 42, Down 8 Places.** The introduction of new markets to the index and modest rent growth resulted in Cincinnati's eight-position decline in the ranking.
- **Employment Forecast:** Employers will create 22,300 jobs in 2014, expanding payrolls by 2.2 percent. Last year, 20,700 positions were added.
- **Construction Forecast:** Development will rise modestly to 800 units this year, following the delivery of 600 units in 2013.
- **Vacancy Forecast:** Vacancy will tick up 20 basis points to 4.8 percent this year, yet remains more than 400 basis points below the 2009 level. Last year, vacancy fell 50 basis points.
- **Rent Forecast:** Effective rents will advance 1.8 percent to $804 per month by year-end 2014. Last year, effective rents rose 3.7 percent.
- **Investment Forecast:** Larger properties of 150-plus units will remain most sought-after, generating multiple bids from well-capitalized buyers. Increased financing availability will drive investment activity in Cincinnati in 2014.

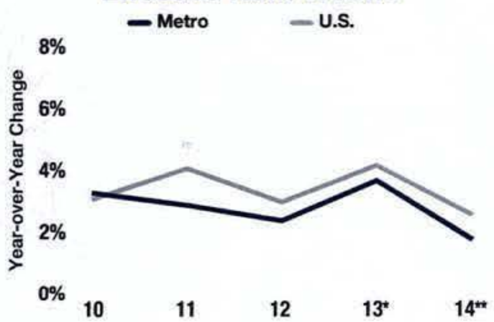
Employment Trends



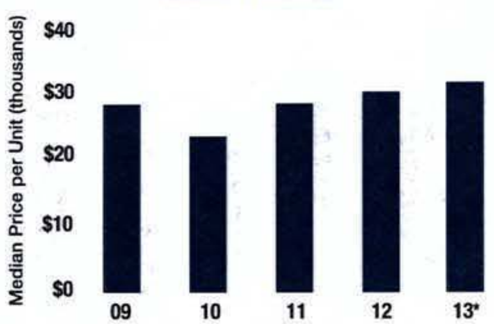
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 2.2% ▲	Construction: 200 ▲	Vacancy: 20 bps ▲	Effective Rents: 1.8% ▲

Construction Reaches Five-Year High Amid Wavering Economy

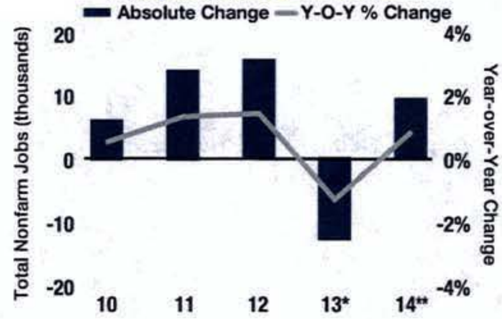
A soft job market and uncertainty about the local economy will keep many Cleveland households in rentals this year. Though payroll growth has flattened over the past few years, vacancy reached one of the lowest levels of the last decade during late 2012, setting developers in motion. This new wave of inventory entered the market during the second half of last year and completions will advance through the coming year. Although occupancies have slightly risen over the past year, many of the projects are near employment districts and should attract new tenants as companies fill positions at these hubs. Constant Aviation and Nestle, among others, have announced expansions and will add hundreds of jobs over the next several years, supporting demand for housing. While the local economy struggles to gain some traction, vacancy will rise this year; though it will remain moderate when compared with the five years prior to the recession.

Investors in search of long-term, safety plays will target properties in Cleveland this year, although they may face a limited number of for-sale assets. With many buyers in search of opportunities, investors with hold strategies expiring in the next three years may choose to divest now while buyer activity is exceptionally high. Well-located assets, especially in the areas of Downtown and University Circle, are in high demand and will be met with strong investor interest when available. In addition, private investors with a greater risk appetite will search for older properties in high growth or established submarkets in need of repositioning. By infusing capital into units, owners will be able to capitalize on increased rents.

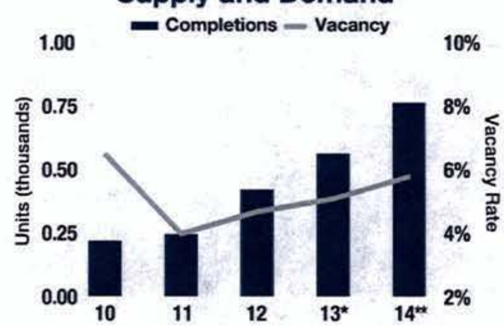
2014 Market Outlook

- **2014 NAI Rank: 43, Down 6 Places.** After losing jobs last year and weak job forecasts for 2014, Cleveland slipped six spots in the NAI.
- **Employment Forecast:** After shedding 12,700 positions during 2013, Cleveland employers will add 9,300 workers this year.
- **Construction Forecast:** Builders will complete 750 units this year, following the completions of 550 units late last year.
- **Vacancy Forecast:** Rising inventory, a weak job market, and housing affordability will contribute to vacancy rising 70 basis points this year to 5.8 percent. Vacancy ticked up 40 basis points in 2013.
- **Rent Forecast:** Rent growth will slow from 2013 as effective rents advance 1.3 percent to $808 per month in 2014. Average effective rents climbed 3.0 percent last year.
- **Investment Forecast:** Investors will be encouraged to re-evaluate portfolios this year while demand for assets in the metro is high and financing remains favorable.

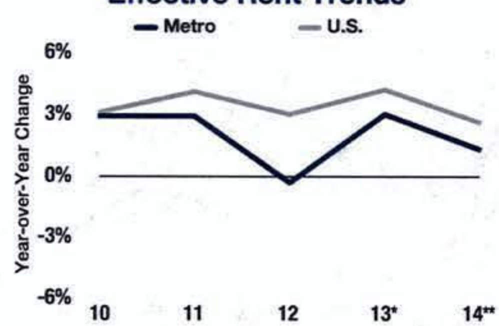
Employment Trends



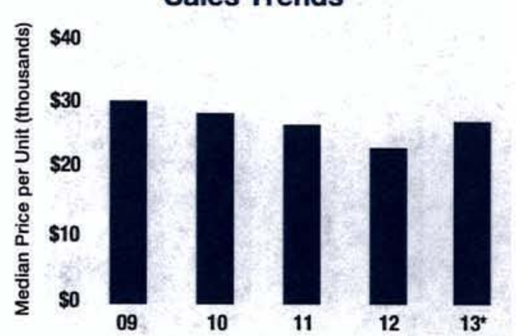
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

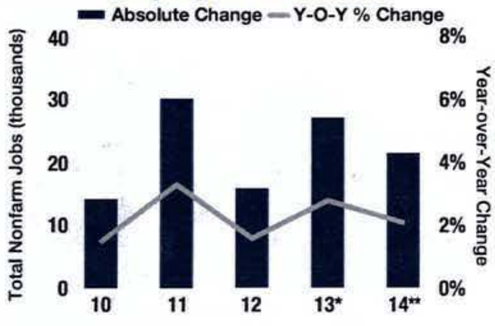
Market Forecast Employment: 0.9% ▲ Construction: 200 ▲ Vacancy: 70 bps ▲ Effective Rents: 1.3% ▲

Columbus on Edge of Overbuilding; Vacancies to Push Higher

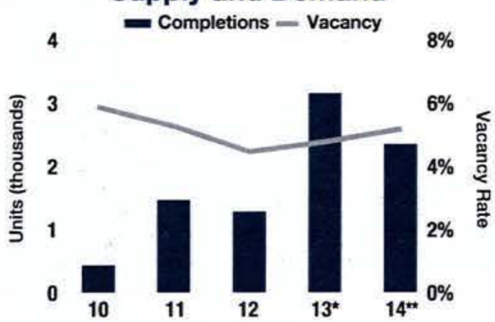
Ohio State University and the state capitol have provided Columbus with a stable and diverse renter pool, but substantial apartment deliveries will pressure vacancies while restraining rent growth in 2014. In recent quarters, builders have been motivated by an increase in households generated from a constant influx of fresh graduates and employment gains among all sectors, most notably, government and professional and business services. Significant demand for rentals encouraged a surge in construction last year, a trend that will slow this year. Downtown Columbus received a majority of last year's deliveries; however, developers are now focusing north of the core. To capitalize on the increase of new households, developers will build a mixed-use project in Dublin this fall that includes more than 1,000 apartments, condominiums, office space, retail, and a hotel. Although demand is strong for rentals, new inventory will nudge vacancy up, triggering operators to slow the pace of rent growth this year.

Steady high occupancies and performance will attract investors to the Columbus apartment market in 2014. A large pool of buyers is competing for a limited number of listings as owners hold on to assets. Buyers are most interested in affluent and suburban regions in the west, northwest, and northern sections of the metro. In these areas, investors will target the limited number of deals involving value-add opportunities, seeking to reposition the properties and raise rents. Metrowide, average cap rates compressed 20 basis points to the low-8 percent range. As property values rise, the intense competitive buyer environment will motivate owners to sell, increasing sales activity this year.

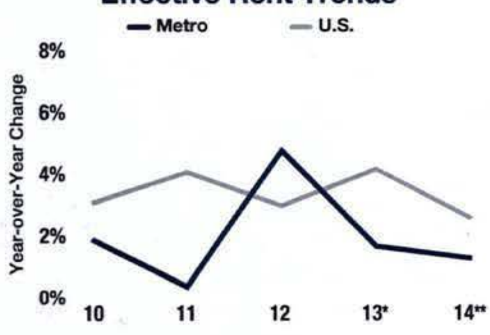
Employment Trends



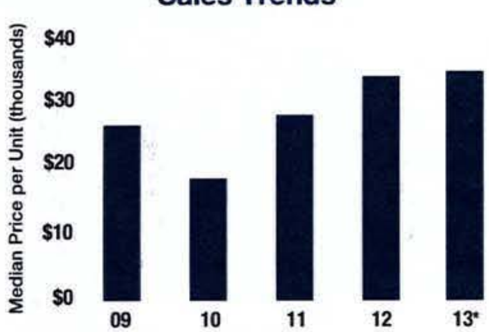
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

2014 Market Outlook

- **2014 NAI Rank: 35, Down 2 Places.** The inclusion of two stronger markets in the NAI resulted in a two-spot drop for Columbus.
- **Employment Forecast:** Columbus employers will expand payrolls by 20,900 jobs, raising employment by 2.1 percent. Last year, 26,500 positions were created.
- **Construction Forecast:** 2,300 units will come online this year, a 1.5 percent climb. In 2013, developers completed 4,270 units.
- **Vacancy Forecast:** As a result of inventory additions, vacancy will advance 40 basis points to 5.2 percent by year end. Vacancy ticked up 30 basis points in 2013.
- **Rent Forecast:** Average rents will rise to $770 per month, up 1.3 percent as new deliveries command higher rent. Owners lifted rents 1.7 percent last year.
- **Investment Forecast:** A large buyer pool and increasing interest rates will motivate owners to list assets. Value-add properties will receive multiple bids, putting upward pressure on prices.

Market Forecast Employment: 2.1% ▲ Construction: 1,970 ▼ Vacancy: 40 bps ▲ Effective Rents: 1.3% ▲

Metroplex Forecast to Add Most Jobs in the Country; Out-of-State and Local Buyers Attempt to Capitalize

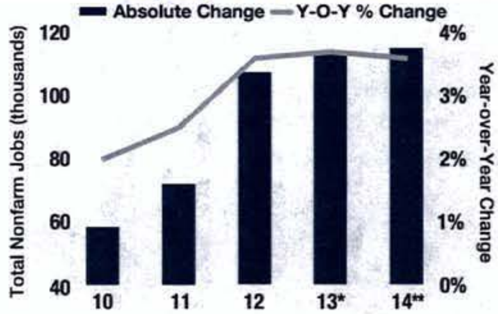
No other market will add as many jobs as the Metroplex this year, which will propel apartment operations despite heightened development activity. Companies adding service centers will be at the forefront of job creation in the coming years due to the area's business-friendly climate. Associa, for example, will add 700 jobs in a national consolidation move while Kohl's begins hiring the first of 1,400 workers this spring. State Farm and USAA have also announced plans to hire several thousand workers over the next few years. These low-paying positions, combined with rising interest rates and tight underwriting, will preclude workers from purchasing a home, a trend that will further support apartment operations this year. Although most submarkets will post gains in occupancy and rents during 2014, construction will reach the highest level since 2000, lifting competition and encouraging greater utilization of leasing incentives in some areas. Both the Intown Dallas and Oaklawn/Park Cities areas anticipate 2,000 new units by year end, which could soften conditions during the lease-up period.

A well-balanced apartment investment market will persist through the first several months of 2014 as out-of-state and local buyers remain active. Coastal capital is willing to pursue slightly lower cap rates for assets in the Metroplex in an arbitrage play. First-year returns for Class B properties have been in the 8 percent range, while Class C deals can be acquired at cap rates drifting into the 9 percent range. While out-of-state buyers typically hold larger cash stockpiles, local investors have an edge with financing. Many local banks favor apartment operators with experience owning and managing in the local market. Since property management is the largest area of value-add opportunity, Dallas/Fort Worth investors who can reposition and stabilize new acquisitions quickly should be able to divest to an out-of-state buyer relatively quickly.

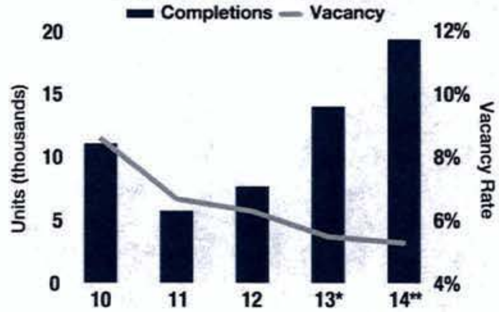
2014 Market Outlook

- **2014 NAI Rank: 14, No Change.** The Metroplex held steady in the ranking as supply additions offset impressive job growth.
- **Employment Forecast:** Employers will create 113,900 jobs in 2014, lifting payrolls 3.6 percent. Last year, 112,700 positions were added.
- **Construction Forecast:** Development activity will balloon to 19,000 rentals this year, expanding inventory 2.9 percent.
- **Vacancy Forecast:** After an 80-basis point decline in 2013, apartment vacancy will dip 20 basis points to 5.3 percent in 2014.
- **Rent Forecast:** The pace of rent gains will ease to 3.3 percent as new units are absorbed. By year end, effective rents will hit $895 per month.
- **Investment Forecast:** Developers are converting the top 16 floors of One Dallas Center into apartments. With low apartment vacancy and high office vacancy, this trend may emerge in other nearby towers.

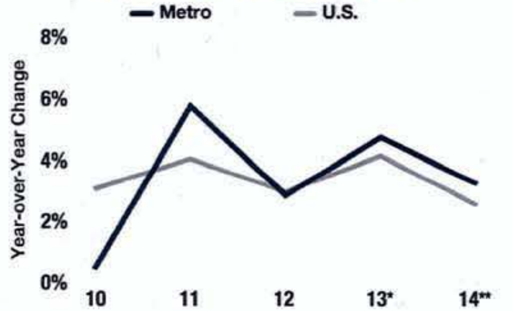
Employment Trends



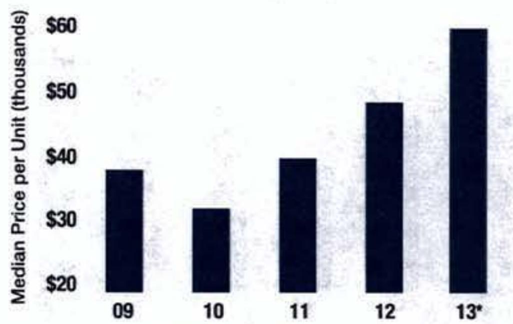
Supply and Demand



Effective Rent Trends



Sales Trends

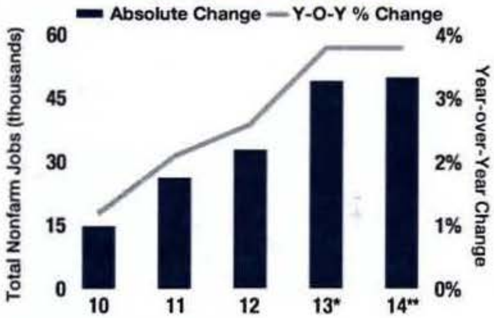


Sources: CoStar Group, Inc., Real Capital Analytics

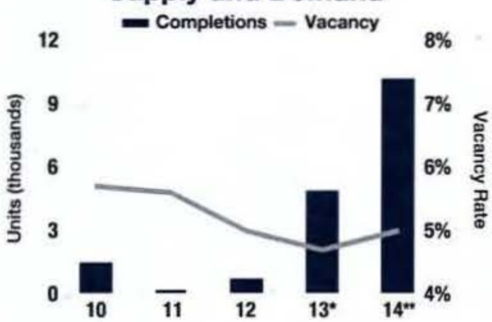
* Estimate ** Forecast

Market Forecast Employment: 3.6% ▲ Construction: 5,300 ▲ Vacancy: 20 bps ▼ Effective Rents: 3.3% ▲

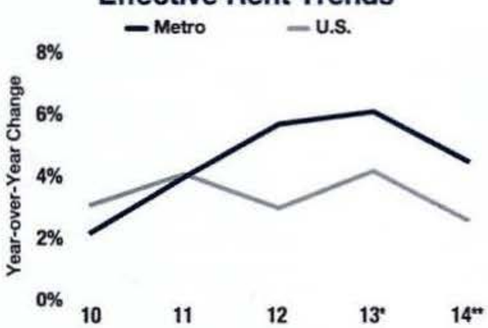
Employment Trends



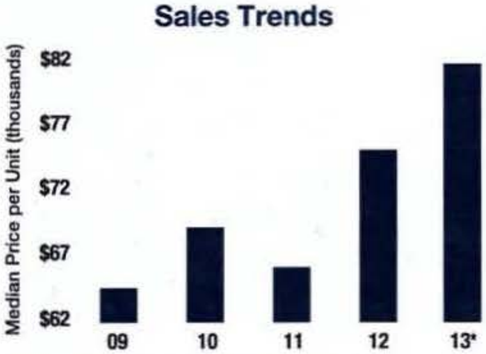
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Bustling Economy Eases Concerns, Light Rail Paves the Path for Investment Activity

Denver employment will rise at one of the fastest paces in the nation this year, supporting housing demand as a wave of new inventory comes online. A highly educated workforce is fostering expansion in several of the metro's high-tech industries, including energy, financial services, bioscience and healthcare. In addition, the highly anticipated redevelopment of Union Station in downtown Denver will be completed midyear, creating a multi-modal transportation hub that connects train, light rail, bus and other transportation options in one central location. This project has been a catalyst for development throughout the area as nearly 4,000 apartments are under construction in the CBD and several projects have been established in the path of rail lines. Though a surplus of inventory will threaten to soften select submarkets this year, strong job growth and household formation should mitigate upswings in vacancy.

Investment activity will remain brisk through 2014 as a bright economic outlook and an increase in household formation instill confidence in investors. However, a limited number of properties available for sale could hinder transaction velocity in the coming months. Light rail expansion is guiding many investors to purchase assets along the planned routes and the area along the I-225 rail line has also been especially popular. The anticipated opening of this rail line, as well as job cultivation and development near the Fitzsimons Life Science District are spurring interest in area properties. Pre-1980s assets in need of repositioning are garnering strong investor interest and range in quality, amenities and size. The recently opened West Rail Line will continue to draw significant attention as investors who have stabilized assets seek to cash out and search for additional opportunities.

2014 Market Outlook

- **2014 NAI Rank: 3, Up 8 Places.** The nation's strongest rent-growth forecast propelled Denver eight spots in this year's ranking to claim the third position.
- **Employment Forecast:** Denver employers will create 49,100 positions this year, expanding payrolls 3.8 percent. Employment growth was also 3.8 percent last year.
- **Construction Forecast:** Completions will double from last year as builders deliver 10,000 units in 2014, increasing stock 3.7 percent.
- **Vacancy Forecast:** Vacancy will tick up 30 basis points to 5 percent by year end, erasing the 30-basis point drop in 2013.
- **Rent Forecast:** Effective rents grew 6.1 percent last year and will advance 4.5 percent in 2014 to $987 per month.
- **Investment Forecast:** Buyers seeking assets in the path of growth will also look along the East and Gold lines, or planned routes to the north.

Market Forecast Employment: 3.8% ▲ Construction: 5,300 ▲ Vacancy: 30 bps ▲ Effective Rents: 4.5% ▲

Investors Rediscover Detroit As City Seeks Revitalization

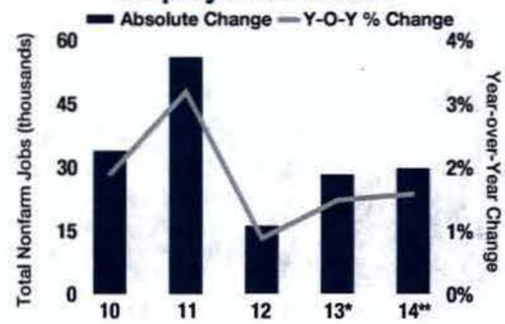
Stronger job growth will boost suburban household gains while redevelopment will draw residents back to the city. Job opportunities are attracting young professionals and stemming population loss as many unemployed residents land jobs. Since 2010, Oakland and Macomb counties have posted population increases and are projected to add more than 25,000 households over the next five years, a positive trend that will generate renter demand. Tightened vacancies and rising rents will likely renew market-rate apartment construction this year, particularly in the suburbs including Royal Oak and Farmington Hills. In the City of Detroit, inventory additions will be limited to building conversions. However, job growth downtown and the designation of the city as a Google tech hub will likely attract tech firms and boost employment, elevating apartment demand in re-emerging neighborhoods near the core.

Optimism that the Michigan economy will continue to build, together with the City of Detroit's new financial momentum, has renewed confidence in the metro and is garnering the attention of investors worldwide. Buyers are attracted by higher yields and lower entry costs relative to other markets of its size. This year, more owners will likely take advantage of a deep buyer pool to list assets ahead of a further rise in interest rates. Competition for properties in desirable suburbs such as Ann Arbor or Rochester Hills will boost prices and encourage investors to seek lesser quality assets in well-located areas. Value-add buyers will target properties in redeveloping neighborhoods such as Midtown or Corktown, which are favored by young professionals. In these trendy areas, some investors will venture into office or retail assets that can be converted into apartments.

2014 Market Outlook

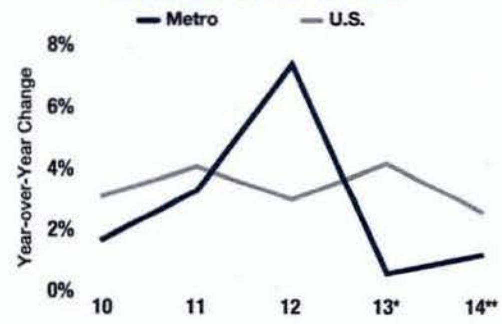
- **2014 NAI Rank: 39, Down 7 Places.** Despite across-the-board gains, Detroit slipped seven spots in the NAI due below-average rent growth.
- **Employment Forecast:** Approximately 29,000 jobs will be created in the metro this year, expanding total employment 1.6 percent. This is up slightly from 2013, when payrolls advanced 1.5 percent.
- **Construction Forecast:** Nearly 500 rentals are due for completion in 2014, trailing last year's pace of 600 units.
- **Vacancy Forecast:** Metrowide, vacancy will fall 30 basis points to 4.1 percent in 2014, the lowest year-end vacancy rate in 13 years.
- **Rent Forecast:** Effective rents will climb 1.2 percent to $827 per month this year, 13 percent above the five-year low. In 2013, rents improved 0.6 percent.
- **Investment Forecast:** The firming regional economy and higher cash flows will draw investors to the Detroit market. Available listings should increase as owners who held through the downturn redeploy capital.

Employment Trends

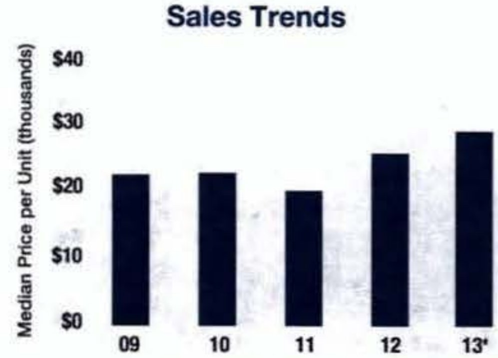


Supply and Demand

Effective Rent Trends



Sales Trends

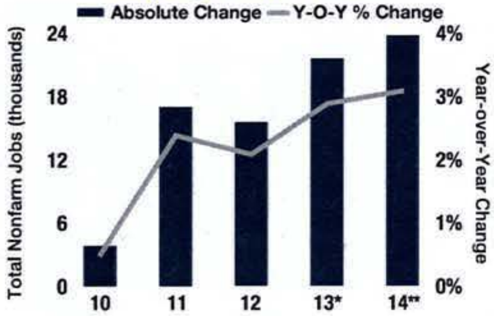


Sources: CoStar Group, Inc., Real Capital Analytics

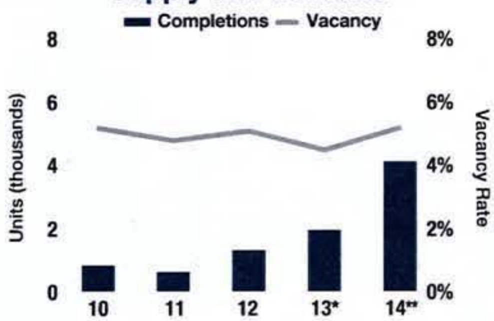
* Estimate ** Forecast

Market Forecast Employment: 1.6% ▲ Construction: 100 ▼ Vacancy: 30 bps ▼ Effective Rents: 1.2% ▲

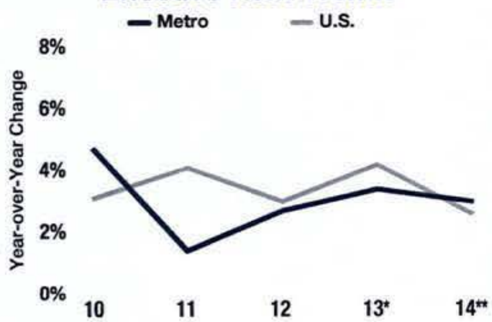
Employment Trends



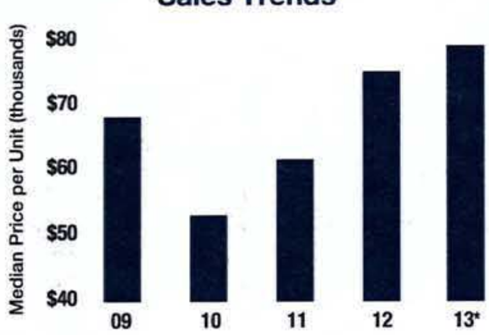
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Diversifying Local Economy Supports Broadening Apartment Demand; New Construction Picking Up

Healthcare, retail, and leisure and hospitality have supplanted residential sales and construction as the primary drivers of economic growth in Broward County and are supporting a robust apartment market. Hiring in fast-growing employment sectors are helping generate hundreds of new households annually in the county and drove down vacancy to the mid-4 percent range at the end of 2013. Property owners continue to report higher rent collections, underlining the greater economic stability created when tenants receive steady paychecks and enjoy expanded employment opportunities. Some of the recent declines in vacancy, however, will reverse in 2014, as a wave of new rentals will come online and offset a solid increase in tenant demand. Nearly all of the new units slated for delivery are market-rate, upper-tier properties.

Surging deal flow and an influx of debt into the South Florida region will create highly favorable conditions for property owners in Broward to sell assets in 2014, sustaining a liquid investment market. Many lenders are providing leverage of up to 80 percent. Additionally, Fannie Mae's mandated pre-review of loan applications in Florida was lifted last year, clearing the way for funding a wider range of assets in the year ahead. Cap rates on genuine Class A properties in Broward can start at less than 5 percent, while intense competition for higher yields has compressed first-year returns for lesser-quality assets. A Class B asset in a premier location, for example, currently trades in the low-6 percent range, and lower-tier properties in tertiary areas can change hands at around 8 percent.

2014 Market Outlook

- **2014 NAI Rank: 29, Down 1 Place.** Broward County essentially held its position in the ranking, falling one spot due to Baltimore's inclusion.
- **Employment Forecast:** Payrolls will expand 3.1 percent in 2014, or by 23,500 positions. More than 21,000 jobs were created last year.
- **Construction Forecast:** Apartment stock will expand 2.8 percent this year with the completion of 4,000 rentals, up from only 1,850 units produced in 2013.
- **Vacancy Forecast:** Net absorption of nearly 2,800 units will fall short of completions, pushing up vacancy 70 basis points to 5.2 percent; a 60-basis point drop was posted last year.
- **Rent Forecast:** The delivery of higher-priced new units will support a 3.0 percent increase in average rent to $1,277 per month. In 2013, rents grew 3.4 percent.
- **Investment Forecast:** The Broward apartment sector's low vacancy and prospects for strong performance will continue to attract first-time buyers, including many who are unable to get attractive returns in other asset classes.

Market Forecast Employment: 3.1% ▲ Construction: 2,150 ▲ Vacancy: 70 bps ▲ Effective Rents: 3.0% ▲

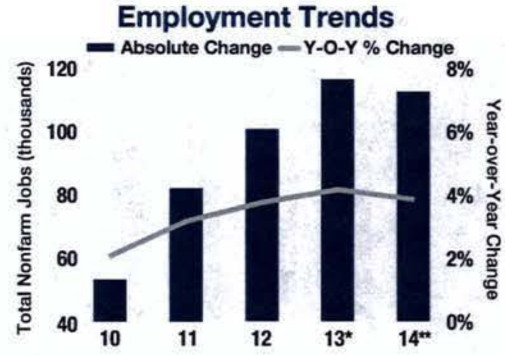
Soaring Payroll Growth Fuels Houston Apartment Investments

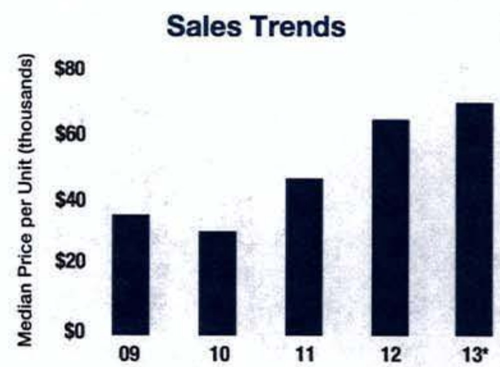
Corporate expansions will help generate more than 100,000 new jobs in 2014, drawing thousands of new residents seeking brighter prospects to the Houston metro. Despite an increase in multifamily completions this year, housing supply and demand will remain well aligned. Since hiring resumed four years ago, more than 12 jobs were created for every apartment brought online over the same period. The ratio of jobs to completions will decrease in 2014, but remains highly favorable, supporting an additional decline in vacancy. The local economy's history of boom-and-bust cycles is well established and grim predictions of an imminent end to the current cycle surface periodically and gain traction whenever the price of oil slumps for a sustained period. While a downturn likely remains on the horizon, the potent combination of reasonably restrained supply growth and expanding payrolls will support a strong apartment market in the coming year.

The vigorous local economy is supporting elevated transaction volume. Class A assets trade at cap rates of less than 6 percent, while Class B/C properties elicit bids at first-year returns starting near 7 percent. Investors seeking to maximize yields will look to properties in working-class neighborhoods near growing employment hubs such as East Houston. Rising deal volume in the metro's lower-tier properties will likely place additional pressure on cap rates in the year ahead, encouraging additional owners to place properties on the market. Owners contemplating whether to list assets must balance risks from new development and rising capital costs against aggressive buyer trends.

2014 Market Outlook

- **2014 NAI Rank: 12, Up 1 Place.** Ongoing strength in the energy sector facilitated Houston's one-position rise in this year's index.
- **Employment Forecast:** Robust hiring across a wide array of industries will yield 111,700 jobs in 2014, marking a 3.9 percent jump in payrolls. More than 290,000 positions were created over the past three years.
- **Construction Forecast:** Developers will bring online 10,900 apartments in 2014, outpacing last year's addition of more than 9,200 units. Nearly 1,300 rentals will be placed in service in Galleria/Uptown.
- **Vacancy Forecast:** Residents will occupy an additional 10,000 units in 2014 to trim vacancy 10 basis points to 7.0 percent. Despite last year's considerable completions, vacancy fell 40 basis points.
- **Rent Forecast:** This year, the average rent in the metro will rise 3.6 percent to $941 per month. Most submarkets posted higher rents last year en route to a 4.6 percent increase marketwide.
- **Investment Forecast:** Interest in value-add Class B and B-minus assets that can be repositioned into higher-quality complexes will intensify.





Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast Employment: 3.9% ▲ Construction: 1,700 ▲ Vacancy: 10 bps ▼ Effective Rents: 3.6% ▲

Revved-Up Developers Drive Indianapolis Apartment Construction to New Heights

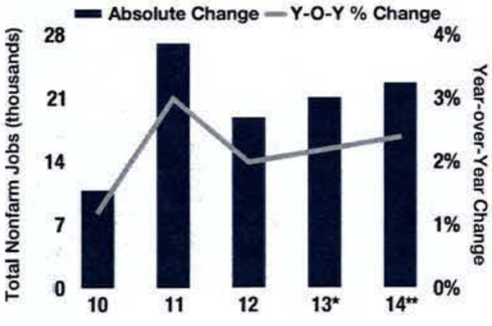
Competition for tenants will intensify in Indianapolis in 2014 as a jump in inventory overtakes renter demand generated by rising employment, and pushes vacancy higher. Apartment construction in Indianapolis is booming and deliveries this year will reach a 14-year high with the majority of units coming online downtown. Home builders are also very active, creating additional challenges for Class A operators, as more renters take advantage of the low interest rates and affordable home prices to become homeowners. Employment gains will generate sizable renter demand as local companies boost hiring, however, not enough to offset the deluge of new housing inventory. As new units come online, more apartment complexes will introduce concessions, restraining the pace of rent growth.

Demand for apartment assets in Indianapolis will far outpace available listings this year, forcing buyers to adjust their investment strategies. With top-tier assets well picked over, some investors will move farther from the core, venturing into Noblesville or Westfield for well-located assets with stable cash flows. Other buyers will take a step down the quality ladder, targeting Class B/C assets in redeveloping neighborhoods near downtown, which are favored by young professionals. Higher rents in the new properties coming online in these areas will support rent growth in many of the surrounding buildings. The shifting buyer dynamics and emerging construction will cause many owners to consider listing their properties this year while activity remains strong.

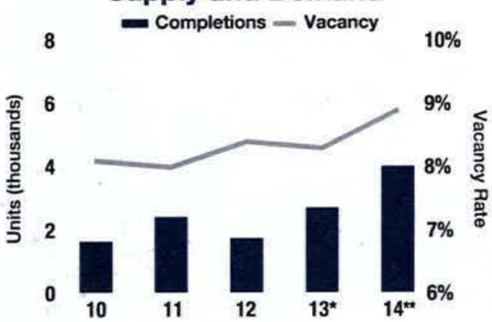
2014 Market Outlook

- **2014 NAI Rank: 45, Down 2 Places.** Vacancy in Indianapolis will finish 2014 as the highest in the nation by more than 100 basis points, which dragged the market down two positions in the index.
- **Employment Forecast:** Metrowide, employment will expand 2.4 percent with the addition of 22,300 workers in 2014, up from a 2.2 percent gain last year.
- **Construction Forecast:** Developers will complete 3,900 apartments this year with Downtown Indianapolis receiving more than half of the units. In 2013, 2,600 rentals were delivered.
- **Vacancy Forecast:** Rental demand will not be able to keep pace with inventory additions this year, driving vacancy up 60 basis points to 8.9 percent. In 2013, the vacancy dipped 10 basis points.
- **Rent Forecast:** After jumping 3.6 percent last year, rents will climb 2.8 percent to $761 per month this year, a new market high.
- **Investment Forecast:** Supply additions will attract institutional and REIT investors. Local buyers will search for a higher upside in areas with lower rental demand where more management skills are required.

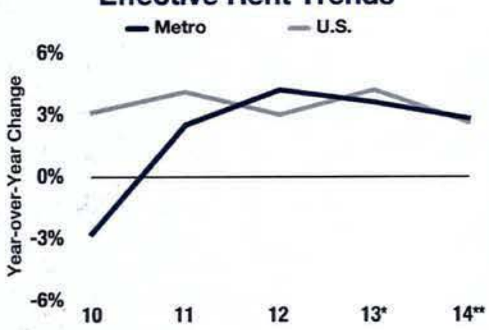
Employment Trends



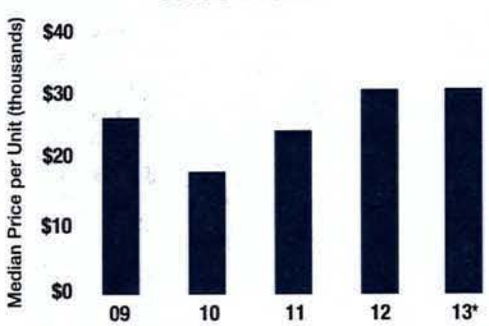
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast Employment: 2.4% ▲ Construction: 1,300 ▲ Vacancy: 60 bps ▲ Effective Rents: 2.8% ▲

Steady Hiring Supports Apartment Demand; Vacancy Tightens Despite Rising Construction

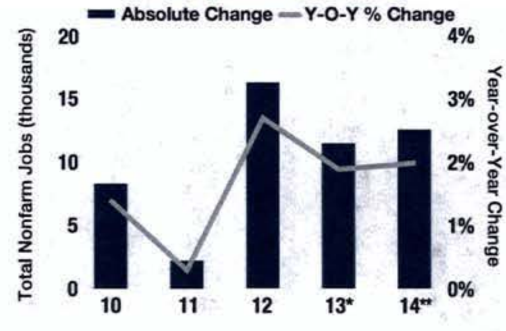
A solid pace of household formation and hiring in professional and business services will tighten vacancy and push up rents in Jacksonville during 2014. The local economy stands on relatively sound footing and is less dependent on the volatile construction industry. Trade payrolls as a percentage of all jobs have fallen to less than half the proportion prior to the recession, while higher growth sectors are expanding and comprising a larger portion of the job pool. Hiring has generated hundreds of new households, as evidenced by a pronounced drop in vacancy in efficiency and one-bedroom units since job growth resumed. The creation of positions in degreed professional and business services, and financial services fields has also helped to trim two-bedroom vacancy to less than 7 percent. Lower vacancy in this segment further illustrates the growing preferences for rentals over owner-occupied housing.

Following an increase in deals in 2013, Jacksonville will likely remain squarely in the sights of investors seeking higher returns on top-caliber assets. Average cap rates in the metro range from 50 to 70 basis points higher than the U.S. level. The metro's relatively small apartment stock and multiple employment centers enable large investors to build scale and diversify geographically within the metro. In the $1 million to $10 million price tranche, a consistent flow of equity and debt support a liquid market. Cap rates for lesser quality properties start in the high-8 to low-9 percent range. Opportunistic investors have made several purchases in this price tranche, typically buying distressed assets. With greater frequency, however, investors are purchasing stabilized, consistently cash-flowing assets for long-term holds.

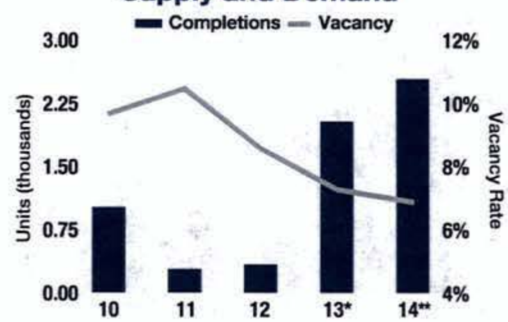
2014 Market Outlook

- **2014 NAI Rank: 44, No Change.** Jacksonville remained near the bottom of the NAI due to high vacancy.
- **Employment Forecast:** Growth in professional and business services employment will underpin a gain of 12,300 jobs this year. Payrolls grew 1.9 percent, or by 11,200 positions, in 2012.
- **Construction Forecast:** Developers will produce 2,500 rentals this year, primarily on the southside. An average 1,200 units were completed annually over the past five years, including 2,000 rentals in 2013.
- **Vacancy Forecast:** Demand for new rentals will underpin a 40-basis point drop in vacancy for all properties to 6.9 percent. Residents moved into more than 3,000 units last year to slash vacancy 130 basis points.
- **Rent Forecast:** In 2014, average rents in the metro will grow 2.9 percent to $839 per month, outpacing the 2.0 percent gain last year.
- **Investment Forecast:** All submarkets will receive attention. Relatively stable demand and rent-driven revenue growth will elevate interest in assets in communities along the West Beltway.

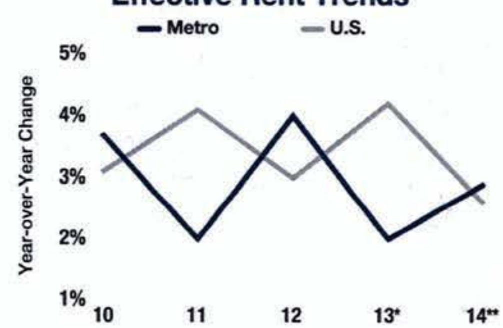
Employment Trends



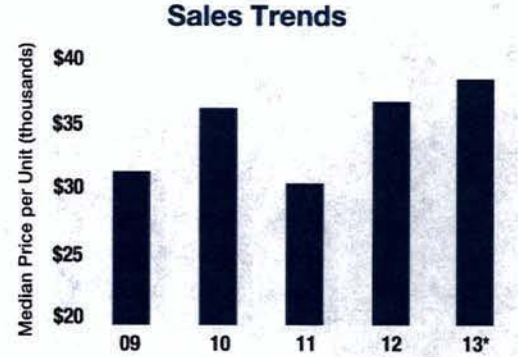
Supply and Demand



Effective Rent Trends



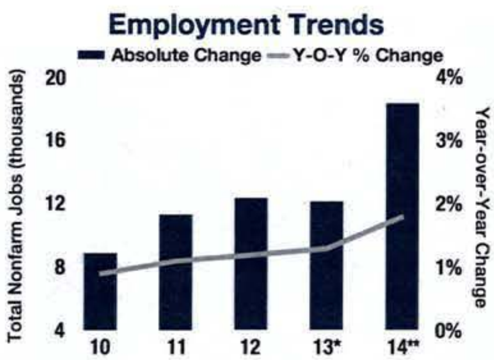
Sales Trends

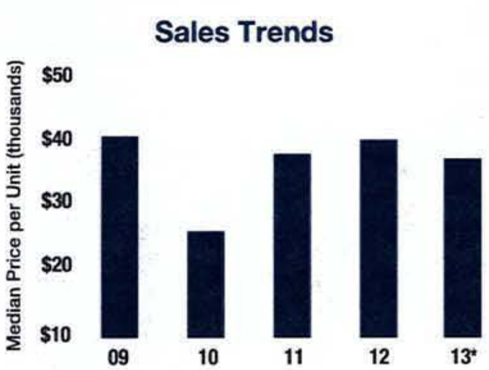


Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 2.0% ▲	Construction: 500 ▲	Vacancy: 40 bps ▼	Effective Rents: 2.9% ▲





Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Strong Employment Growth to Largely Offset Construction Surge; Vacancies to Tick Up

A sharp increase in hiring will boost apartment demand in Kansas City this year, mitigating the effects of soaring compleations. Deliveries will be greatest in the fast-growing Overland Park submarket, where, despite a supply-induced uptick this year, vacancy should remain below the metro average. Apartment construction will also pick up in South Kansas City/Grandview, which is home to an emerging biosciences cluster. Throughout Kansas City, Google Fiber will serve as a catalyst for innovation and high-tech job creation, strengthening growth in the prime renter-age population. The availability of ultra-high-speed broadband has already generated numerous start-ups, particularly in central Kansas City. Revitalization efforts downtown are appealing to young professionals, as evidenced by outsized demand for new high-end apartments in the area.

Buyer activity has intensified for local Class B/C apartment properties thanks to an influx of private capital and a shortage of Class A for-sale assets. Competition for local deals will remain elevated through 2014 as private investors target secondary markets such as Kansas City in search of higher yields. Even after recording cap rate compression in 2013, Kansas City apartments continue to offer investors attractive returns. Over the past year, cap rates in the metro averaged 8.3 percent, which is more than 200 basis points above the national average. Within the metro, cap rates vary dramatically by location and quality, with Class A deals trading between 6 and 7 percent, and Class B properties changing hands in the 7 to 8 percent range.

2014 Market Outlook

- **2014 NAI Rank: 37, Down 1 Place.** Although supply growth and vacancy will be elevated this year, Kansas City would have improved one position in the ranking if new markets were not included.
- **Employment Forecast:** Kansas City employment will rise 1.8 percent in 2014 with the addition of 18,250 new jobs. In 2013, metrowide employment grew 1.3 percent.
- **Construction Forecast:** Completions will rise to an estimated 3,400 units in 2014, the highest level on record since at least 2000. Last year, approximately 720 units came online.
- **Vacancy Forecast:** Elevated job creation will partially offset surging deliveries, giving way to a 30-basis point uptick in vacancy to 5.9 percent. In 2013, light deliveries supported a 100-basis point reduction.
- **Rent Forecast:** In 2014, effective rents will rise 3.2 percent to $800 per month. In 2013, effective rents rose 2.8 percent.
- **Investment Forecast:** Class A sales will remain limited, keeping the Class B/C sector in the forefront. Kansas City's bright outlook and above-average returns will draw more out-of-state investors, which should support property values as interest rates eventually tick up.

Market Forecast Employment: 1.8% ▲ Construction: 2,680 ▲ Vacancy: 30 bps ▲ Effective Rents: 3.2% ▲

Las Vegas Hiring Builds Momentum; Construction Remains Tame

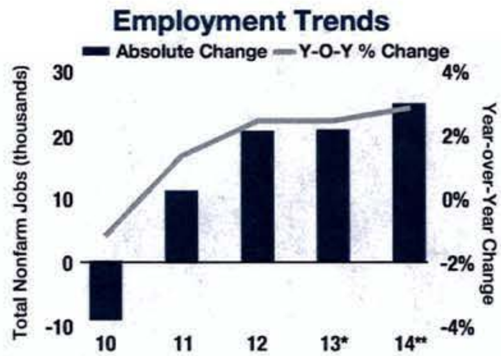
An improving local economy, supported by a strengthening job market and the re-emergence of Downtown, will contribute to lower apartment vacancy and higher rents in Las Vegas during 2014. Reinvigorated convention activity has boosted hotel occupancies, lifting employment in the leisure and hospitality sector, which will in turn generate more than one-third of the new jobs this year. In addition, businesses within vital industries such as retail are reacting to a stronger economy and expanding. Sprouts, a niche grocery chain, will bring three new stores to the market this year, hiring 330 workers, which will nominally lift demand for Class B/C apartments. Multifamily completions will remain muted for a second consecutive year, magnifying even small increases in demand. Following the first rent growth since 2007, operators will gain leverage to raise rents again in 2014.

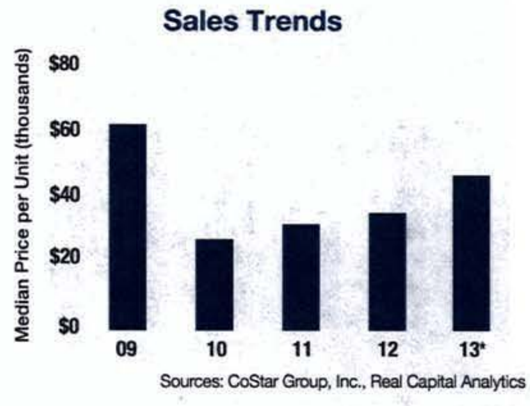
Las Vegas investors remain risk-averse, favoring Class A and B properties. Increasing buyer demand will support more aggressive pricing of these assets, with sellers capitalizing on improving property performance. Meanwhile, strengthening operations will encourage Class C owners to bring assets to market, pushing up deal flow for these properties. Asset location in this segment will be crucial to investors searching for higher returns, which can exceed 8 percent. Overall, higher-yielding assets available throughout Las Vegas will remain attractive to buyers from nearby states who are targeting lower-priced assets to add to their portfolios.

2014 Market Outlook

- **2014 NAI Rank: 41, No Change.** Las Vegas held its spot in the NAI as vacancy continues to retreat from elevated levels and owners push up rents faster than the inflationary rate.
- **Employment Forecast:** Las Vegas will gain 24,600 jobs in 2014, expanding payrolls by 2.9 percent, after 20,500 positions were created in the prior year.

  Construction Forecast: Developers will deliver 420 units in 2014, following the delivery of only 380 units last year.
- **Vacancy Forecast:** Demand will hold steady following a strong 2013. Vacancy will slide 80 basis points to 7.3 percent in 2014. Last year, the rate fell 100 basis points.
- **Rent Forecast:** Average effective rents will climb 2.1 percent to $742 per month in 2014 on tightening vacancy, exceeding last year's 1.0 percent bump.
- **Investment Forecast:** As higher-quality assets garner steady investor demand, sales of Class C assets will build momentum.





Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast Employment: 2.9% ▲ Construction: 40 ▲ Vacancy: 80 bps ▼ Effective Rents: 2.1% ▲

Private Investors Target Emerging Opportunities as Employment Stages Recovery

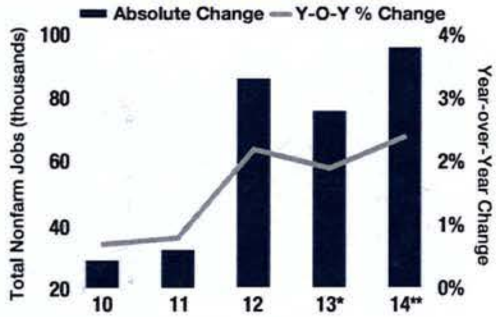
Los Angeles apartment owners will enjoy relatively tight vacancy in 2014, though new construction will begin applying pressure on operations in the western stretches of the county by year end. Job growth in the county will accelerate to the highest pace since the recession, bringing overall payrolls within reach of the pre-recession level for the first time in seven years. Although growth in every major employment sector is anticipated this year, a significant share of the new jobs will occur at both ends of the pay scale. The lucrative professional and business services sector and typically low-paying leisure and hospitality sector will generate demand for both top-tier apartments and Class B/C assets in secondary areas. Nonetheless, top-tier demand will be modestly lower than the pace of construction, which will lift the overall vacancy rate and push operators to leverage concessions to attract renters up the quality scale. As a result, the pace of rent growth will ease to the inflationary rate.

The low-interest-rate environment is reshaping the apartment investment community. Average cap rates are near historical lows, which often signals to owners that it is a good time to divest and limits returns for buyers. However, the current frenzy is more dependent upon alternative investment vehicles than property fundamentals. First-time buyers are willing to pay average first-year returns below 5 percent in long-term hold plays, including life-long retention plans. An abundance of cash, fear of a stock market correction, and low interest rates favor the acquisition of low-yielding apartments. When interest rates move higher, investors may rethink the current strategy and explore alternative options. Although that could remove some buyers, the number of investors interested in apartments vastly outnumbers listings, which should limit upward pressure on cap rates from slack demand.

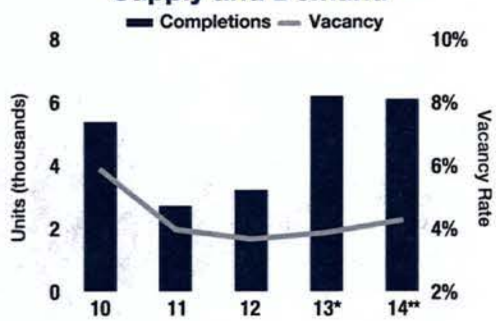
2014 Market Outlook

- **2014 NAI Rank: 15, Down 5 Places.** Heightened construction in west Los Angeles County resulted in a five-position decline in ranking.
- **Employment Forecast:** After 74,800 jobs were created in 2013, employers will generate 94,900 positions this year, a 2.4 percent increase.
- **Construction Forecast:** Development will nearly equal last year's deliveries as 6,000 rentals are completed, a 0.6 percent stock gain.
- **Vacancy Forecast:** New construction will lift up average vacancy 40 basis points to 4.3 percent this year, double the rise recorded in 2013.
- **Rent Forecast:** By year-end 2014, effective rents will reach $1,726 per month, an annual rise of 1.2 percent.
- **Investment Forecast:** The investment market is becoming more localized as apartment owners focus on expanding portfolios in select neighborhoods to achieve efficiencies.

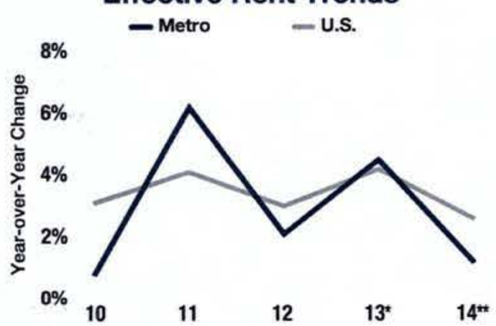
Employment Trends



Supply and Demand



Effective Rent Trends



Sales Trends

Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast Employment: 2.4% ▲ Construction: 100 ▼ Vacancy: 40 bps ▲ Effective Rents: 1.2% ▲

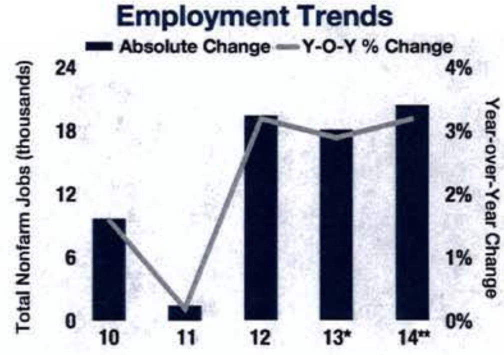
Louisville Employment Gains Bolster Absorption; Investor Activity Climbing

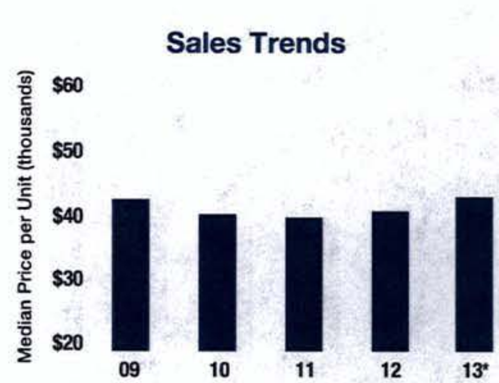
A third year of strong employment gains in Louisville will underpin apartment demand. Ford and Amazon will be among many of the region's employers hiring in 2014, driving job gains above 3 percent. Ford will boost staffing as its Louisville Assembly Plant as it adds production of the Lincoln MKC, and Amazon is set to open another facility in Shepherdsville. The metro is positioning to support increased economic opportunities with the completion of two new bridges spanning the Ohio River in 2016. Also, more than 1,000 additional acres will be available for development in the River Ridge Commerce Center where Amazon is located. Rising employment this year will deepen the renter pool and demand for apartments will elevate absorption, allowing operators to push rents aggressively. An inventory expansion of 1,000 apartments in 2014 will temper vacancy declines, which have fallen 240 basis points from the recessionary peak.

Low entry costs, high returns and improving apartment performance are attracting outside investors to Louisville. With buyer demand outpacing supply, especially at the top end of the market, investors must be willing to expand their investment parameters. Many institutional buyers will consider smaller assets or apartments farther from the metro core. Many private investors, meanwhile, will move down the quality scale or target properties for value-add plays. Buyers will need to move quickly and make a firm first offer to be competitive. With buyers plentiful, owners who have stabilized their asset and pushed rent growth may consider listing ahead of a further increase in the cost of borrowing.

2014 Market Outlook

- **2014 NAI Rank: 28, Down 3 Places.** A surge in construction in Louisville pulled down the market three spots in this year's ranking.
- **Employment Forecast:** Louisville employers will add 20,100 workers to payrolls this year, a 3.2 percent gain. This is up from a 2.9 percent increase in 2013.
- **Construction Forecast:** Developers will complete 1,000 apartments in 2014, a 1.4 percent expansion in rental stock. The City of Louisville will receive 40 percent of the units. Last year, 700 units were delivered.
- **Vacancy Forecast:** Stronger job growth will increase rental demand this year, contributing to a 10-basis point dip in vacancy to 5.3 percent. In 2013, vacancy rose 70 basis points.
- **Rent Forecast:** Effective rents will advance 3.2 percent to $765 per month in 2014, following a 2.3 percent climb last year.
- **Investment Forecast:** Strong renter demographics and a relatively low property tax rate in Kentucky will attract investors to apartment assets in Louisville's east end.





Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast Employment: 3.2% ▲ Construction: 300 ▲ Vacancy: 10 bps ▼ Effective Rents: 3.2% ▲