2014 National Apartment Report

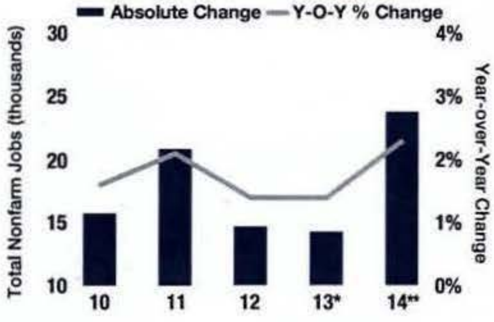
	Employment Growth[2]				Vacancy (Year-End)[2]				Effective Rent (Year-End)[2]			
MSA Name	**11**	**12**	**13***	**14****	**11**	**12**	**13***	**14****	**11**	**12**	**13***	**14****
Atlanta	1.9%	2.4%	2.4%	3.1%	8.6%	7.6%	7.2%	7.1%	$814	$824	$863	$892
Austin	3.3%	4.1%	3.8%	4.6%	4.8%	4.7%	4.8%	5.8%	$914	$963	$1,018	$1,065
Baltimore	1.9%	2.1%	0.8%	2.0%	4.4%	4.5%	4.8%	4.5%	$1,122	$1,157	$1,192	$1,229
Boston	1.3%	1.6%	1.3%	1.6%	3.3%	3.4%	3.7%	4.2%	$1,616	$1,642	$1,698	$1,732
Charlotte	2.4%	3.7%	1.6%	2.5%	6.2%	5.1%	4.9%	5.6%	$787	$830	$880	$911
Chicago	1.4%	1.4%	1.7%	1.8%	4.5%	4.7%	4.1%	3.8%	$1,131	$1,165	$1,206	$1,237
Cincinnati	1.7%	0.5%	2.1%	2.2%	6.0%	5.1%	4.6%	4.8%	$744	$762	$790	$804
Cleveland	1.4%	1.5%	-1.2%	0.9%	4.0%	4.7%	5.1%	5.8%	$777	$775	$798	$808
Columbus	3.3%	1.6%	2.8%	2.1%	5.3%	4.5%	4.8%	5.2%	$713	$747	$760	$770
Dallas/Fort Worth	2.5%	3.6%	3.7%	3.6%	6.7%	6.3%	5.5%	5.3%	$803	$826	$866	$895
Denver	2.1%	2.6%	3.8%	3.8%	4.5%	4.2%	3.9%	4.5%	$969	$1,027	$1,114	$1,167
Detroit	3.2%	0.9%	1.5%	1.6%	4.7%	4.7%	4.4%	4.1%	$756	$812	$817	$827
Fort Lauderdale	2.4%	2.1%	2.9%	3.1%	4.8%	5.1%	4.5%	5.2%	$1,168	$1,199	$1,240	$1,277
Houston	3.2%	3.8%	4.2%	3.9%	8.1%	7.5%	7.1%	7.0%	$826	$868	$908	$941
Indianapolis	3.0%	2.0%	2.2%	2.4%	8.0%	8.4%	8.3%	8.9%	$685	$714	$740	$761
Jacksonville	0.3%	2.7%	1.9%	2.0%	10.5%	8.6%	7.3%	6.9%	$768	$799	$815	$839
Kansas City	1.1%	1.2%	1.3%	1.8%	6.4%	6.6%	5.6%	5.9%	$736	$754	$775	$800
Las Vegas	1.4%	2.5%	2.5%	2.9%	8.7%	9.1%	8.1%	7.3%	$740	$720	$727	$742
Los Angeles	0.8%	2.2%	1.9%	2.4%	4.0%	3.7%	3.9%	4.3%	$1,599	$1,632	$1,705	$1,726
Louisville	0.2%	3.2%	2.9%	3.2%	5.3%	4.7%	5.4%	5.3%	$697	$724	$741	$765
Miami	2.1%	1.4%	1.4%	2.3%	3.8%	3.1%	3.0%	3.3%	$1,110	$1,135	$1,191	$1,233
Milwaukee	0.4%	1.3%	1.4%	1.9%	3.0%	3.1%	3.5%	4.0%	$895	$898	$938	$970
Minneapolis-St. Paul	2.5%	1.9%	2.9%	2.7%	2.9%	3.2%	2.9%	3.4%	$960	$981	$1,016	$1,043
Nashville	3.5%	4.1%	2.9%	2.4%	4.4%	4.9%	4.3%	4.7%	$814	$864	$910	$937
New Haven	0.9%	0.7%	1.7%	1.4%	5.0%	4.5%	4.4%	4.3%	$1,578	$1,582	$1,635	$1,669
New York City	2.4%	2.0%	2.1%	2.8%	2.1%	2.1%	2.2%	2.5%	$3,567	$3,965	$4,000	$4,104
Northern New Jersey	0.4%	1.6%	1.5%	2.0%	3.2%	3.0%	3.5%	3.8%	$1,696	$1,752	$1,855	$1,909
Oakland	1.6%	2.7%	1.9%	2.4%	3.7%	3.0%	2.9%	2.7%	$1,426	$1,524	$1,651	$1,704
Orange County	1.1%	2.7%	2.6%	2.7%	4.2%	4.5%	4.4%	4.9%	$1,524	$1,593	$1,672	$1,718
Orlando	2.0%	2.1%	2.4%	3.3%	6.2%	5.4%	5.1%	6.0%	$862	$893	$924	$955
Philadelphia	0.2%	1.1%	1.4%	1.6%	5.2%	5.2%	5.0%	4.7%	$1,087	$1,099	$1,128	$1,165
Phoenix	2.0%	2.8%	2.3%	3.0%	8.3%	7.6%	7.2%	6.9%	$738	$753	$775	$791
Pittsburgh	1.4%	0.9%	1.5%	2.1%	2.2%	3.1%	3.4%	3.8%	$973	$994	$1,020	$1,041
Portland	2.0%	0.9%	3.0%	3.1%	4.1%	3.7%	3.2%	3.5%	$889	$926	$988	$1,026
Riverside-San Bernardino	0.6%	3.0%	0.8%	2.6%	5.3%	5.4%	5.1%	5.5%	$1,064	$1,068	$1,102	$1,133
Sacramento	0.8%	1.3%	1.8%	2.5%	5.2%	5.4%	3.9%	4.2%	$934	$964	$978	$995
Salt Lake City	2.7%	3.6%	3.7%	3.7%	4.4%	4.1%	4.6%	5.1%	$797	$822	$845	$867
San Antonio	2.1%	2.7%	0.9%	2.9%	7.0%	6.8%	6.4%	6.3%	$765	$797	$818	$842
San Diego	1.1%	2.4%	2.4%	2.5%	3.2%	3.5%	3.2%	3.6%	$1,380	$1,408	$1,487	$1,534
San Francisco	3.5%	4.3%	2.4%	2.8%	3.4%	4.1%	3.7%	4.1%	$2,164	$2,379	$2,490	$2,540
San Jose	2.5%	3.9%	3.1%	2.7%	3.1%	3.7%	3.1%	3.6%	$1,777	$1,917	$2,082	$2,142
Seattle	2.0%	2.5%	2.6%	2.6%	5.4%	4.2%	4.4%	4.7%	$1,038	$1,101	$1,201	$1,250
St. Louis	0.9%	0.3%	0.5%	1.2%	7.6%	7.1%	7.2%	7.5%	$750	$769	$786	$801
Tampa	1.9%	2.2%	2.9%	2.6%	7.5%	6.1%	5.6%	6.2%	$844	$872	$901	$926
Washington, D.C.	1.2%	1.2%	1.1%	1.9%	4.3%	4.6%	5.1%	5.9%	$1,500	$1,519	$1,559	$1,590
West Palm Beach	2.8%	1.4%	2.9%	3.1%	6.6%	6.0%	6.2%	6.1%	$1,106	$1,146	$1,197	$1,239
U.S. Total	**1.6%**	**1.7%**	**1.7%**	**2.0%**	**5.3%**	**5.1%**	**4.9%**	**5.1%**	**$1,051**	**$1,083**	**$1,128**	**$1,157**

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

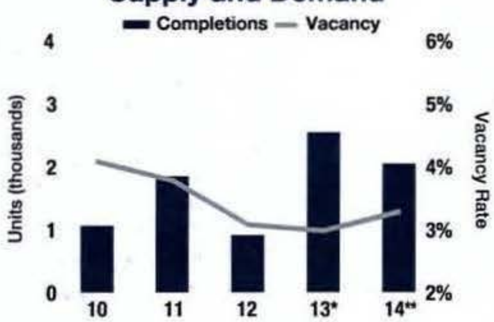
Median Sales Price per Unit[2]			Completions (Units)[2]				
11	12	13*	11	12	13*	14**	MSA Name
$30,500	$38,500	$40,300	2,946	2,110	6,000	6,300	Atlanta
$68,800	$88,000	$81,500	949	3,850	6,200	11,500	Austin
$80,200	$79,500	$85,065	1,145	2,145	3,400	1,800	Baltimore
$112,300	$109,500	$116,300	1,940	3,632	4,200	5,600	Boston
$59,000	$61,200	$65,000	1,461	1,242	4,600	5,500	Charlotte
$73,300	$74,700	$75,000	1,601	2,582	6,140	4,200	Chicago
$28,700	$30,500	$32,000	612	829	600	800	Cincinnati
$27,000	$23,500	$27,500	233	408	550	750	Cleveland
$28,100	$34,200	$35,000	1,422	1,236	4,270	2,300	Columbus
$40,000	$48,600	$59,800	5,461	7,399	13,700	19,000	Dallas/Fort Worth
$66,000	$75,000	$81,700	772	2,321	4,700	9,600	Denver
$20,200	$25,800	$29,200	0	742	600	500	Detroit
$61,300	$75,000	$79,000	534	1,226	1,850	4,000	Fort Lauderdale
$47,100	$65,000	$70,100	4,400	5,221	9,250	10,900	Houston
$24,700	$31,100	$31,200	2,304	1,636	2,600	3,900	Indianapolis
$30,600	$36,800	$38,500	251	304	2,000	2,500	Jacksonville
$37,766	$40,000	$37,000	1,253	545	720	3,400	Kansas City
$31,500	$35,000	$46,500	1,186	1,348	380	420	Las Vegas
$125,700	$130,000	$134,400	2,622	3,126	6,100	6,000	Los Angeles
$40,000	$42,000	$43,200	176	415	700	1,000	Louisville
$69,800	$86,700	$94,000	1,796	866	2,500	2,000	Miami
$46,100	$51,500	$52,000	496	1,575	1,530	1,400	Milwaukee
$54,600	$57,500	$61,800	1,251	2,368	4,000	5,000	Minneapolis-St. Paul
$39,400	$48,500	$51,200	1,621	1,435	2,400	4,100	Nashville
$52,300	$86,300	$84,700	470	493	1,000	850	New Haven
$141,500	$150,000	$152,000	3,361	6,500	7,000	8,800	New York City
$75,700	$78,100	$91,000	1,087	1,376	2,200	3,500	Northern New Jersey
$118,800	$115,800	$119,700	1,002	784	2,450	1,200	Oakland
$155,700	$154,500	$156,900	407	2,829	2,000	4,900	Orange County
$49,300	$47,500	$52,600	843	1,224	3,000	5,700	Orlando
$71,900	$76,000	$80,600	546	1,278	3,400	2,500	Philadelphia
$34,600	$40,600	$46,000	903	1,123	3,900	4,500	Phoenix
$38,900	$43,200	$46,200	109	619	950	1,650	Pittsburgh
$74,000	$72,200	$72,800	518	2,005	2,000	3,000	Portland
$79,600	$76,600	$92,500	882	711	1,800	1,200	Riverside-San Bernardino
$54,000	$69,500	$70,840	596	697	400	800	Sacramento
$64,700	$68,100	$73,600	1,340	1,145	2,300	2,500	Salt Lake City
$46,000	$54,200	$55,300	2,044	3,236	4,000	4,700	San Antonio
$116,500	$120,000	$122,700	977	2,738	1,800	3,500	San Diego
$208,300	$217,400	$260,000	0	735	3,400	2,800	San Francisco
$137,500	$152,300	$164,500	1,127	1,503	3,500	3,800	San Jose
$110,900	$123,600	$130,600	2,304	4,300	8,000	8,100	Seattle
$62,000	$65,000	$67,300	1,063	1,092	350	1,200	St. Louis
$43,700	$47,800	$54,100	1,481	2,096	2,000	4,200	Tampa
$107,700	$110,000	$118,000	3,350	6,357	10,000	18,000	Washington, D.C.
$63,400	$79,800	$80,200	392	592	1,800	1,700	West Palm Beach
$97,639	**$106,074**	**$110,894**	**69,950**	**91,249**	**168,000**	**215,000**	**U.S. Total**

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

Employment Trends

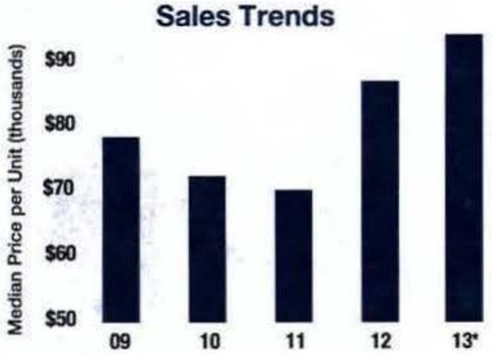


Supply and Demand



Effective Rent Trends

Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Investors Keen on Miami-Dade's Prospects, Tapping Low-cost Debt to Enlarge Portfolios

Expanding service-sector payrolls will support healthy absorption and higher rents in Miami-Dade County in 2014. Vacancy will rise, however, due to completions in the second half of 2014, although projected additions will leave rental stock well below the peak level prior to the condo conversion boom. In fact, this year's completions would have to be duplicated in each of the next 10 years in order to restore inventory to the pre-conversion peak. Household creation and net migration, meanwhile, remained strong during the recession and through the end of last year. Visitor spending is supporting new jobs at bars, restaurants, hotels and stores, attracting new residents to the metro and expanding the renter population. Absorption of apartments remains solid across the metro, with areas such as Coral Gables, Hialeah and West Miami maintaining very low vacancy.

Confidence in the county's long-term prospects will support a liquid investment market. Miami-Dade vacancy has ratcheted down considerably and periodic upticks will occur as new rentals come online and seasonal variations in demand arise. Wage and salary growth in Miami-Dade, meanwhile, have been too subdued to initiate a widespread flight from rentals to owner-occupied housing, but sufficient to enable owners to raise rents. Generally, cap rates for the market's best institutional-caliber assets start at approximately 5 percent and rise to the 7 percent range and higher for lower-tier properties. Some re-pricing of assets in lower-yield transactions will inevitably occur as interest rates rise, perhaps as soon as later this year. Investors seeking higher yields and willing to assume greater risk may increasingly turn to development.

2014 Market Outlook

- **2014 NAI Rank: 13, Up 8 Places.** Miami moved up eight places in the index supported by the country's third-lowest vacancy rate.
- **Employment Forecast:** After healthcare and government layoffs suppressed growth last year, employers will accelerate hiring in 2014, adding 23,500 workers to expand payrolls 2.3 percent.
- **Construction Forecast:** Developers will complete 2,000 apartments this year, down from roughly 2,500 units in 2013.
- **Vacancy Forecast:** The vacancy rate will rise 30 basis points to 3.3 percent. A 10 basis point downtick was posted last year.
- **Rent Forecast:** Average rents will finish 2014 at $1,233 per month, a 3.5 percent increase. In 2013, average rents advanced 4.9 percent.
- **Investment Forecast:** Among economic developments to track, the construction of a medical school on a 48-acre site in south Miami-Dade by Larkin Community Hospital could garner the attention of investors and developers.

Market Forecast	Employment: 2.3% ▲	Construction: 500 ▼	Vacancy: 30 bps ▲	Effective Rents: 3.5% ▲

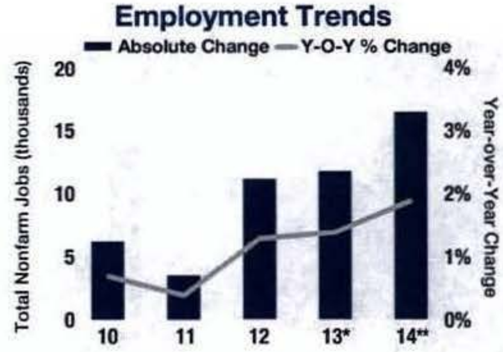
New Apartments Brewing in Milwaukee As Growing Demand Keeps Developers Active

Job growth will reach a 15-year high in Milwaukee this year, generating rental demand, however, a boost in apartment supply and rising home sales will nudge vacancy upward. Local employers will increase payrolls for the fifth consecutive year in 2014. Although the renter pool will expand, Class A rents sit above the monthly mortgage payment on a median-priced home, which will motivate some tenants to choose homeownership ahead of a further rise in interest rates. Class A operators will encounter additional competition from new inventory. With metrowide vacancy near 4 percent, developers are active. More than half of the new apartment units are in the City of Milwaukee and as larger projects come online, supply will overtake demand, pushing vacancy up in select areas and dampening rent growth. This will be most prevalent in downtown, where mixed-use projects including the Avenir and Standard at East Library will target young professionals and empty nesters for a quick lease up.

Buyer demand for assets in Milwaukee will remain well above supply this year as rising NOI provides owners with little incentive to sell. New inventory will offer some additional buying opportunities at the top end of the market, especially in the high-demand east side. Investors willing to assume greater risk will target Class C assets on the north or south sides of Milwaukee, where cap rates can rise above 9 percent. Owners who are not expecting to hold for a long term may find this a good time to sell, as buyers are plentiful, supply is low, and a rise in interest rates could wane investor interest as the year progresses. Also, many operators have already pushed rent growth and another year of heightened inventory expansion is expected to flatten rent gains.

2014 Market Outlook

- **2014 NAI Rank: 25, Up 1 Place.** Average operational improvement this year kept Milwaukee near the middle of the ranking.
- **Employment Forecast:** After posting a 1.4 percent addition during 2013, head counts will jump 1.9 percent this year with the creation of 16,200 positions.
- **Construction Forecast:** Approximately 1,400 apartments will come online in 2014, down slightly from last year's 1,530 units.
- **Vacancy Forecast:** Rental demand will struggle to keep pace with supply this year, moving vacancies 50 basis points higher to 4.0 percent. In 2013, vacancy rose 40 basis points.
- **Rent Forecast:** Average effective rents will advance 3.4 percent to $970 per month in 2014, following a 4.5 percent jump last year.
- **Investment Forecast:** A small rise in interest rates may motivate some owners with shorter investment horizons to consider divesting before further increases lead to re-pricing.



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 1.9% ▲	Construction: 130 ▼	Vacancy: 50 bps ▲	Effective Rents: 3.4% ▲

Transit Developments are Driving Minneapolis-St. Paul Apartment Performance

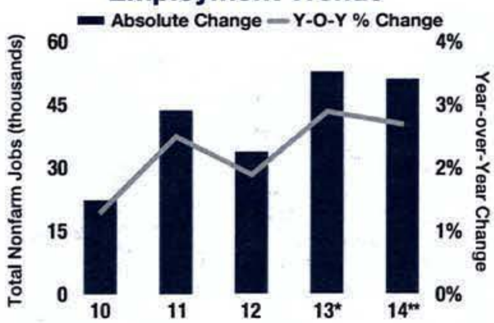
Job growth hovering near a 20-year high is generating intense household formation, spurring new demand for apartments. Despite the addition of 7,500 units in the past three years, vacancy will remain below 4 percent this year. The desire for an urban lifestyle is driving demand for units with access to transit and urban amenities. Almost 1,500 apartments will be completed near downtown. Along transportation routes, rentals are under construction adjacent to a Northstar rail stop in Ramsey, near a major bus transit station in Eagan, and along a light rail line scheduled to begin service in mid-year. The new Green Line will connect the downtown areas of Minneapolis and St. Paul while passing through the University of Minnesota. The rail service will boost occupancy along University Avenue where more than 700 units are planned.

Investors will remain very active in Minneapolis-St. Paul, one of the strongest rental markets in the nation. A plethora of high-rise properties coming online in the downtown, uptown and university neighborhoods will attract institutional attention and motivate operators to offer concessions for a quick lease up. Intense competition for top-tier assets will motivate buyers to expand their investment criteria and consider well-located Class B/C assets. Yield-driven investors will move into secondary and tertiary submarkets where cap rates are 50 to 100 basis points higher. Long-term holders may want to consider properties along the proposed routes of the future Southwest or Bottineau light-rail lines.

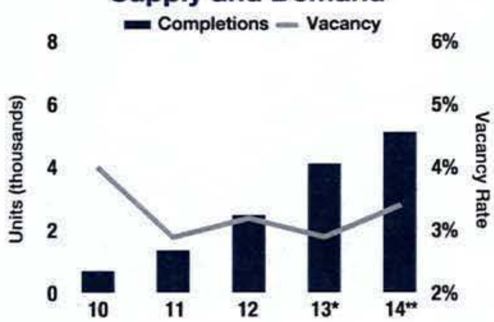
2014 Market Outlook

- **2014 NAI Rank: 4, Up 3 Places.** Vacancy is very tight in the Twin Cities, helping drive a three-spot rise in the NAI.
- **Employment Forecast:** Education and health services will lead job growth in 2014 as employers add 50,300 workers to payrolls, a 2.7 percent gain. This is a slight dip from the 52,000 jobs created last year.
- **Construction Forecast:** Construction will remain at a heightened pace with the completion of 5,000 units in 2014, up from 4,000 units last year. Although Minneapolis will receive the bulk of the apartments, more suburban projects will also be coming online.
- **Vacancy Forecast:** A wave of deliveries will overtake demand driving vacancy up 50 basis points in 2014 to 3.4 percent, reclaiming last year's 30-basis point drop in vacancy.
- **Rent Forecast:** Operators will lift effective rents 2.7 percent to $1,043 per month in 2014, following a 3.6 percent climb in rents last year. Concessions will return in some properties that are leasing up.
- **Investment Forecast:** Favorable demographics and one of the tightest occupancy rates in the nation will attract investors to the metro. Well-located Class C properties will be targeted for value-add plays.

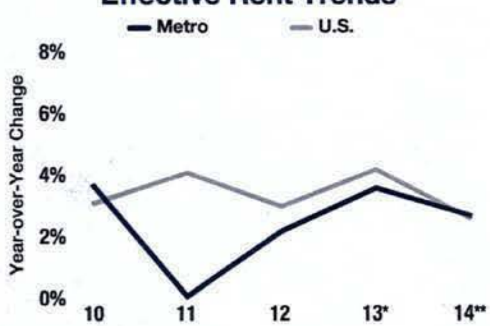
Employment Trends



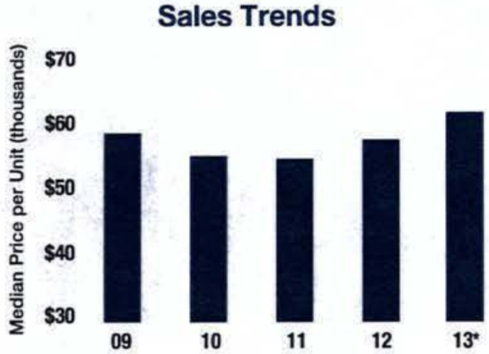
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 2.7% ▲	Construction: 1,000 ▲	Vacancy: 50 bps ▲	Effective Rents: 2.7% ▲

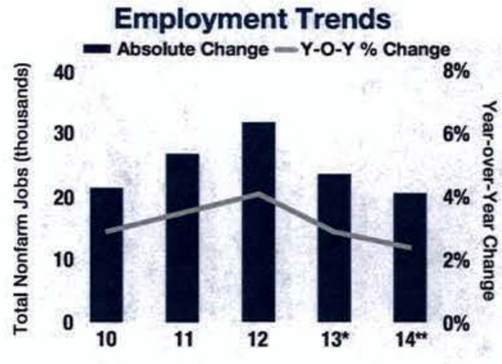
Nashville Strikes a Happy Tune for Apartment Investors

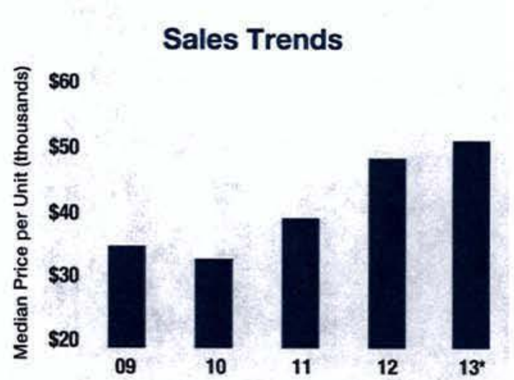
Job growth in Nashville will exceed the national average for the fifth year in a row, but renter demand will struggle to keep pace with a wave of new inventory coming online, inching vacancy upward and easing rent gains. By year end, employers will have added nearly 75,000 positions since the recession began, expanding the renter pool. This year, close to 7,300 positions in the education and health services and professional and business service sectors will provide increased demand for Class A apartments, while roughly 7,000 jobs in the leisure and hospitality and construction sectors will deepen the pool of Class B/C renters. However, more than 4,100 apartment units will come online in 2014, up 70 percent from last year, overwhelming demand and inching vacancy higher. Some operators, especially in Central Nashville and Williamson County, where more than half of the units will be delivered, will increase concessions to attract tenants.

Nashville's strong economy, lower entry costs, and higher first-year returns have sparked interest from out-of-state buyers. Many private investors are reallocating capital from gateway markets by targeting assets under $10 million containing between 80 and 100 units. Competition for these properties will require buyers to expand their typical investment parameters to include smaller properties or venture into outlying cities such as Franklin or Germantown. Many owners, meanwhile, are holding assets awaiting further price gains. A rise in new apartment inventory and higher home sales, however, will pose a challenge in attracting tenants in the coming year, especially for Class A assets. Still, buyer interest remains robust and owners with a stable property may find this a good time to sell.

2014 Market Outlook

- **2014 NAI Rank: 34, New to NAI.** Nashville debuts in the ranking in the thirty-fourth position.
- **Employment Forecast:** Employment will outpace the nation for the fifth consecutive year, as it posts a 2.4 percent increase, adding 20,000 jobs.
- **Construction Forecast:** An aggregate of 4,100 units will be delivered this year, representing a 3.7 percent expansion in inventory. Last year, 2,400 units came online.
- **Vacancy Forecast:** Inventory additions will outpace renter demand in 2014, producing a 40-basis point rise in vacancy to 4.7 percent. In 2013, vacancy fell 60 basis points.
- **Rent Forecast:** Rents in Nashville will climb 3.0 percent in 2014 to $937 per month, down from a 5.3 percent jump last year.
- **Investment Forecast:** Strong fundamentals and new inventory will keep institutional investors active in the market.



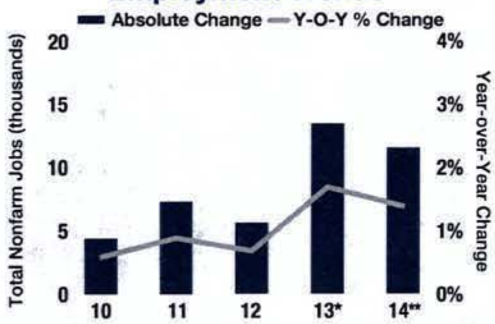


Sources: CoStar Group, Inc., Real Capital Analytics

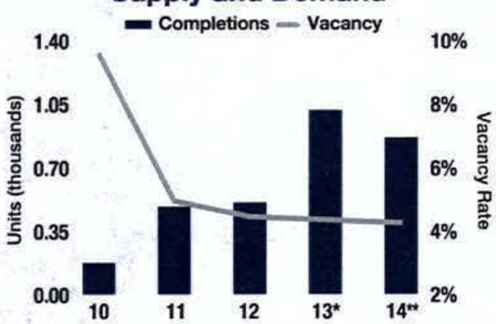
* Estimate ** Forecast

Market Forecast Employment: 2.4% ▲ Construction: 1,700 ▲ Vacancy: 40 bps ▲ Effective Rents: 3.0% ▲

Employment Trends

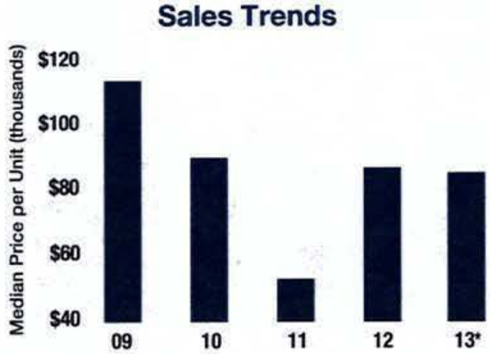


Supply and Demand



Effective Rent Trends

Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Vacancy in Fairfield-New Haven Remains Tight; Additional Owners to Test Market in 2014

Household formation and moderate job growth will sustain tight vacancies in Fairfield and New Haven counties this year. Job gains across all sectors in the two counties will be led by the typically high-paying professional and business services segment, which will drive the formation of households and absorption of rentals. Commuter residents and emerging young professionals will migrate to the area to take advantage of reasonable rents, particularly in luxury complexes. Additionally, demand for apartments will continue to build while homeownership becomes more costly. As single-family housing prices rise, multifamily developers are continuing to bring units to market, particularly in Fairfield County. Completions will edge lower this year, but the majority of new stock will be added in Fairfield County. Overall, apartment operations will advance in the two-county region and vacancy will fall to a four year low.

Intense buyer competition and strengthening operations will motivate owners to list properties in the two-county market, supporting increased transaction volume. Vacancy remains near a cyclical low despite additions to stock, but NOIs will grow through rent increases and restrained use of concessions. Large private investors and institutional buyers will scour the market for Class A assets over $10 million, while small investors will search for value-add opportunities. Areas of interest for private investors include properties in downtown New Haven and adjacent to Metro North commuter train stations. Debt financing for acquisitions is widely available as banks look to expand loan portfolios, although higher interest rates loom and could ultimately affect underwriting.

2014 Market Outlook

- **2014 NAI Rank: 40, Down 10 Places.** Weak employment and rent growth forecasts pushed down New Haven 10 spots in this year's ranking, tied for the largest fall among all metros.
- **Employment Forecast:** Professional and business services payrolls will contribute to the addition of 11,300 positions in 2014, a 1.4 percent gain. Roughly 13,200 jobs were added last year.
- **Construction Forecast:** Approximately 850 units will come online in 2014, a 0.8 percent expansion of inventory. Last year, developers completed 1,000 rentals.
- **Vacancy Forecast:** By year end, vacancy will contract 10 basis points to 4.3 percent, duplicating the decline recorded in 2013.
- **Rent Forecast:** Tightening vacancy will support a 2.1 percent rise in average rents to $1,669 per month. In 2013, rents climbed 3.4 percent.
- **Investment Forecast:** Improving apartment fundamentals will draw additional investor interest to the region. Owners not previously motivated to sell will test the market, increasing the number of listings.

Market Forecast Employment: 1.4% ▲ Construction: 150 ▼ Vacancy: 10 bps ▼ Effective Rents: 2.1% ▲

Despite Jump in Completions, Tight Vacancy to Persist in New York City

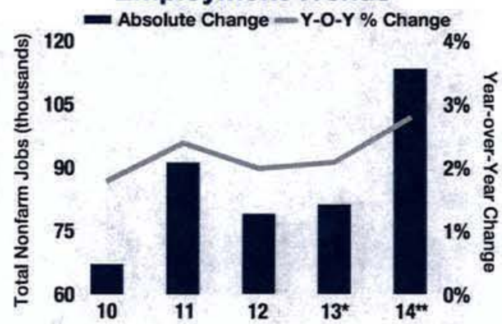
New York City will retain one of the lowest vacancy rates in the country this year despite an increase in completions, as net absorption is fueled by hiring by technology companies. Google and Apple are expanding their presence this year, creating a burgeoning high-tech industry in the city. In addition to the hundreds of high-salaried positions created by major tech companies, numerous support firms and vendors are also expanding payrolls. The growth of the city's technology industry will offset job losses in the finance sector and support absorption at the top end of the market. Lower-tier apartment demand, meanwhile, is supported by strengthening visitor volume, which is generating jobs in food services and at hotels. Employees in the tourism trade typically seek lower-tier apartments in outer boroughs or rent-controlled units in Manhattan.

Investor competition will support transaction activity and encourage owners to bring additional properties to market. Before a rise in interest rates thins the buyer pool, some investors will be inclined to list properties. Owners with debt due in the next two years, in particular, will be eager to list assets and re-deploy capital. Many of the sellers will place 1031-exchange proceeds into well-located, but underperforming properties proximate to subway stops to achieve higher returns. Cap rates vary widely across the market, reflecting differing appetites for risk. In Manhattan, cap rates average approximately 5 percent for performing market-rate assets and dip to the 3 percent range for rent-stabilized buildings. In established neighborhoods in Brooklyn, average first-year returns will be in the mid-6 percent range. Investors with higher risk tolerance will target properties in the borough's secondary and tertiary neighborhoods in all-cash plays. Many assets in these areas, however, are management intensive.

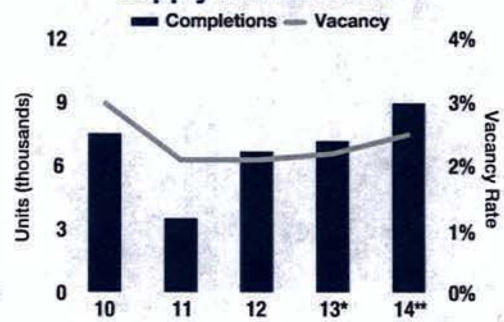
2014 Market Outlook

- **2014 NAI Rank: 1, No Change.** New York City retains the top spot in the NAI this year as tech-related job growth accelerates.
- **Employment Forecast:** Employment will grow 2.8 percent in 2014 with the addition of 112,600 jobs, up from a 2.1 percent gain in 2013.
- **Construction Forecast:** Completions will jump to 8,800 rentals in 2014; 7,000 units were delivered last year.
- **Vacancy Forecast:** Citywide vacancy at large, market-rate complexes will increase 30 basis points to a still-tight 2.5 percent.
- **Rent Forecast:** Effective rents will increase 2.6 percent to $4,104 per month this year, marking a 23 percent boost from the 2010 level.
- **Investment Forecast:** Owners dealing with management issues will bring assets to market to capitalize on heightened investor demand. Buyers will follow subway service to transitioning neighborhoods.

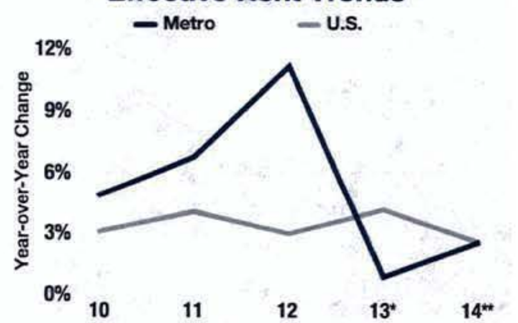
Employment Trends



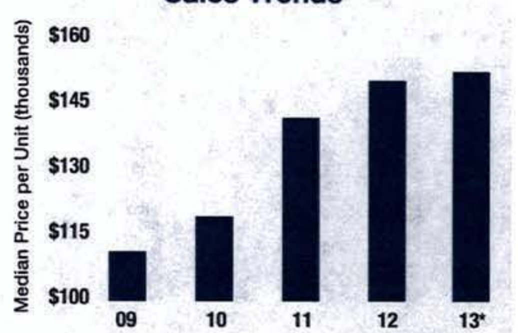
Supply and Demand



Effective Rent Trends



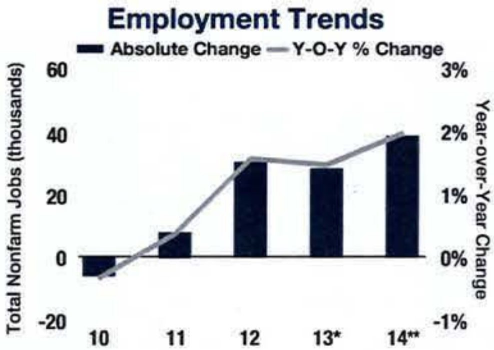
Sales Trends

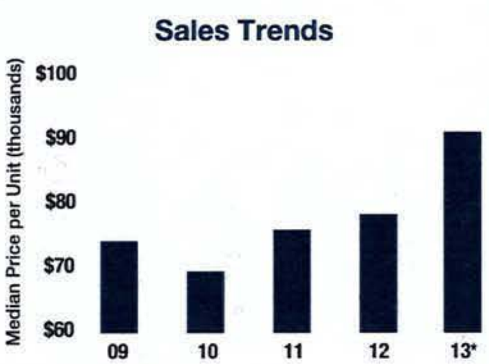


Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast Employment: 2.8% ▲ Construction: 1,800 ▲ Vacancy: 30 bps ▲ Effective Rents: 2.6% ▲





Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Migration From Across Hudson Spurs Rent Growth And Development in Northern New Jersey

Northern New Jersey's renter base will expand this year as high rents in Manhattan encourage people to seek rentals throughout the six-county region. Operators in Essex, Hudson and Bergen counties have already benefitted from this trend, with vacancies holding fast under 4 percent. As owners in these areas leverage high occupancies to raise rents, demand for apartment units will sweep further west and south into Morris, Passaic and Union counties. Developers will make headway in bringing new supply to market this year to capitalize on increasing demand, focusing on the Gold Coast communities, from Jersey City to Fort Lee and transit-oriented locations further west. An increase in deliveries this year will put slight upward pressure on vacancy, though new supply will not negatively impact operators' ability to raise rents as units turn over.

With strong property performance and accommodative capital markets, investors will aggressively pursue acquisitions throughout the region. The diverse composition of neighborhoods will offer investment options across the yield spectrum. Though the competitive buyer environment will put downward pressure on cap rates, encouraging some owners with shorter hold targets to bring their assets to market, the volume of new listings entering the market will be limited. The available apartments that do trade in these areas will satisfy the buyer searching for a secure return over five to seven years. Investors willing to assume greater risk will target value-add assets in communities that have begun to transition into stable residential neighborhoods over the past few years.

2014 Market Outlook

- **2014 NAI Rank: 6, Up 2 Places.** High rents in neighboring Manhattan is generating spillover demand for Northern New Jersey, which pulled up the region's ranking two places in the index.
- **Employment Forecast::** Employment growth will accelerate to 2 percent, or 38,000 jobs. Last year, 27,600 jobs were created.
- **Construction Forecast:** This year, completions will total 3,500 units, with the majority, 2,700 units, located in Hudson and Essex Counties. In 2013, 2,200 units were added in Northern New Jersey.
- **Vacancy Forecast:** New demand will offset most of the supply additions, though vacancy will tick up 30 basis points to 3.8 percent by year end. Last year, vacancy increased 50 basis points.
- **Rent Forecast:** Effective rents will reach $1,909 per month by year-end 2014, a 2.9 percent annual gain. Last year, rents increase 5.9 percent.

Investment Forecast: For upside, select investors will seek mixed-use assets as rental rate increases tend to lag behind the market, providing an opportunity for aggressive upside.

Market Forecast Employment: 2.0% ▲ Construction: 1,300 ▲ Vacancy: 30 bps ▲ Effective Rents: 2.9% ▲

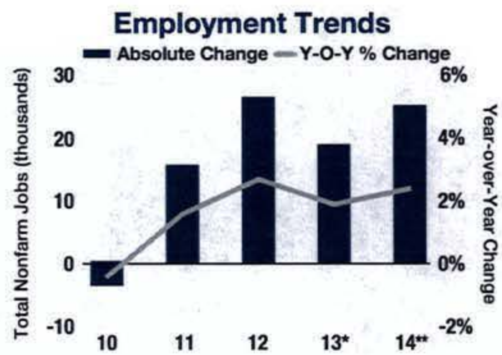
Investors and Renters Stretch Their Budgets in East Bay Apartment Market

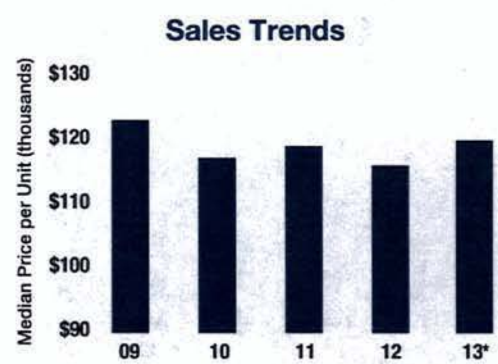
The East Bay apartment market heads into 2014 with a full head of steam. A combination of factors is supporting another year of above-average gains in area, including high rents in adjacent markets and a relatively light construction pipeline. San Francisco apartments are commanding rents 50 percent higher than properties in the East Bay, which is encouraging renters to seek housing options near transit stops across the bay. Upscale neighborhoods in Oakland, along with Walnut Creek, have been the primary landing spots for those seeking to stretch their housing budgets. Although fewer than 1,000 market-rate apartments will come online this year, two prominent developments at former U.S. Army land will move forward. In the Tri-Cities, the Dublin Crossing project will add 2,000 homes along with commercial space at Camp Parks. Oakland Army Base, meanwhile, is undergoing a transformation into a logistics and warehouse center, which will create thousands of jobs.

Like renters, investors from San Francisco and San Jose are maximizing their budgets by pursing options in the East Bay to balance their portfolios with apartments that produce higher returns. Most of these buyers will focus on stabilized properties near major demand generators such as transit stations or employment districts in Berkley, Walnut Creek and Oakland. Average cap rates for these properties begin in the mid-4 percent range for Class A deals and move close to 7 percent for performing properties in East Contra Costa. Local investors, meanwhile, will dominate the value-add sector. Rent-control properties that could have some units turn over could be attractive to local investors, though purchases based on that potential in a heated market is risky. Most local buyers will seek repositioning plays and upgrade units to take advantage of higher rents.

2014 Market Outlook

- **2014 NAI Rank: 9, Up 9 Places.** The East Bay posted a nine-spot jump in the NAI due to sub-3 percent vacancy and limited construction.
- **Employment Forecast:** Payrolls will expand 2.4 percent this year as 24,600 jobs are created. Last year, 18,400 positions were generated.
- **Construction Forecast:** Builders will expand rental inventory by just 1,200 units this year, approximately half of last year's deliveries.
- **Vacancy Forecast:** After a 10-basis point decline in 2013, vacancy will continue to tighten 20 basis points in 2014 to 2.7 percent.
- **Rent Forecast:** Effective rents will climb 3.2 percent to $1,704 per month, building on last year's gain of 8.3 percent.
- **Investment Forecast:** At 2000s-vintage properties, effective rents have climbed more than 25 percent since the recessionary low. As a result, rehabbing properties near transit stops is a more viable strategy.



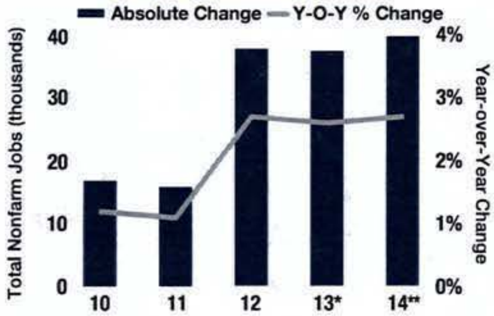


Sources: CoStar Group, Inc., Real Capital Analytics

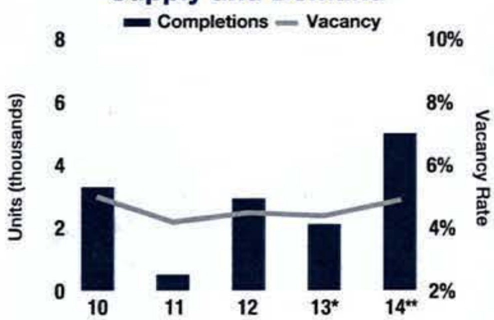
* Estimate ** Forecast

Market Forecast Employment: 2.4% ▲ Construction: 1,250 ▼ Vacancy: 20 bps ▼ Effective Rents: 3.2% ▲

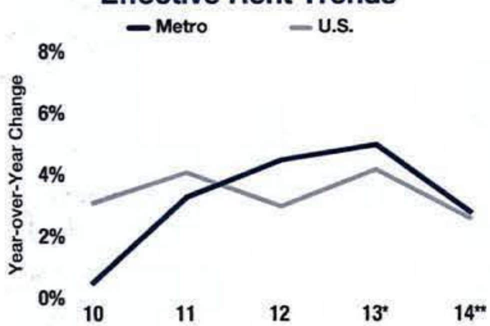
Employment Trends



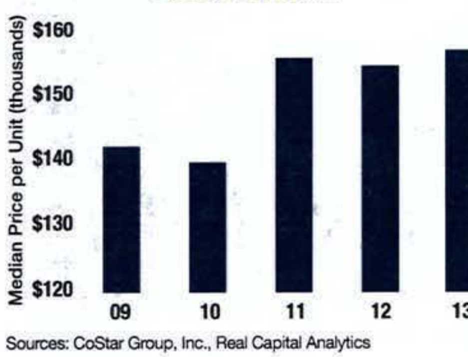
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Second Wave of Construction in South Orange County Putting Upward Pressure on Vacancy

Apartment supply is surging in Orange County again, which will lift vacancy in select submarkets and ease the pace of rent growth. Nonetheless, vacancy will finish the year beneath the 5 percent threshold, which is widely considered a benchmark for full occupancy. Southern Orange County will receive the bulk of the new units this year, including several phases of the 1,750-unit Los Olivos apartments, Orange County's largest complex. Employment gains in nearby Newport Beach should help alleviate some of the pressure from new construction late in the year. Irvine Company wrapped up construction on PIMCO's new headquarters at the end of last year and another tower is underway down the street. As PIMCO's old space is backfilled and tenants move into the other new buildings, renters should absorb the new apartments, helping stabilize operations by early 2015.

Orange County apartments will remain in strong demand this year, though some of the momentum in the investment market will dissipate. The number of buyers able to participate in the market is dwindling due to high prices and rising interest rates. Although the investor pool is contracting, listed inventory remains very low, which will keep the balance of the market in favor of sellers during the first part of the year. Since prices are rivaling the previous peak, interest rates will be paramount to pricing properties in the coming months. As the third round of quantitative easing is withdrawn, average cap rates could tick higher, impacting pricing on leveraged deals. The market is positioned to absorb a 25- to 50-basis point rise in interest rates due to pro-forma pricing in the current market. Currently, average cap rates are in the high-4 to low-5 percent range, depending on location and proximity to the coast.

2014 Market Outlook

- **2014 NAI Rank: 11, Down 7 Places.** A new wave of construction will pull vacancy higher and generate competition in Orange County, which knocked the metro outside of the top 10.
- **Employment Forecast:** Job growth will accelerate to 2.7 percent this year to 39,100 positions, eclipsing last year's gain of 2.6 percent.
- **Construction Forecast:** Development will hasten to 4,900 rentals in 2014, significantly above the 2,000 apartments delivered in 2013.
- **Vacancy Forecast:** Stock additions will contribute to a 50-basis point rise vacancy to 4.9 percent. Last year, the rate dipped 10 basis points.
- **Rent Forecast:** Declining occupancy will slow effective rent growth to 2.8 percent this year as rents reach $1,718 per month by year end.
- **Investment Forecast:** Investors seeking long-term plays will accept cap rates 50 to 75 lower to acquire assets closer to the coast, which are better insulated from demand swings and new construction.

Market Forecast	Employment: 2.7% ▲	Construction: 2,900 ▲	Vacancy: 50 bps ▲	Effective Rents: 2.8% ▲

Demand Lags Completions in Orlando, Though Investors Largely Undeterred

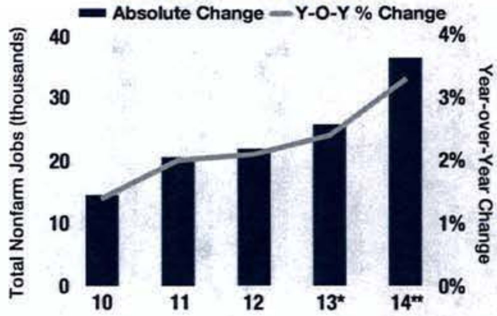
The most significant influx of new units in six years will outpace tenant move-ins in Orlando during 2014 and partly erase the recent decline in vacancy. New rentals will come online in eight different submarkets this year, generally in areas with established or emerging demand drivers. In the case of Downtown Orlando, however, development is also partly motivated by the growing preference nationwide for urbanized living. New rentals will arrive during a period of favorable demand trends. Payrolls are expanding and the prospect of Lockheed Martin relocating some workers to Orlando as part of the firm's reorganization may provide a nominal lift in absorption. Additionally, the metro posted an increase in the number of 20- to 24-year olds following the recession. Many of these individuals likely doubled up with relatives, but improving hiring prospects will relieve some pent-up demand for rental housing.

Recent improvements in property performance and healthy deal velocity are closely aligning buyers' and sellers' price expectations. The focus of transactions will continue to shift during 2014 from lower-yielding Class A complexes to the metro's Class B and Class C properties. First-year returns in the Class B and Class C segment range from 7 percent to 8 percent, but high leverage and low interest rates are increasingly elevating cash-on-cash returns as a primary valuation metric. Some migration of higher income tenants to new luxury Class A buildings will likely occur this year, although lower-quality properties occupied by predominately working-class households will emerge unaffected by new units. In addition to keen bidding for the metro's lower-tier properties, investors willing to assume greater risk will search smaller nearby markets, including Ocala, Titusville and Vero Beach.

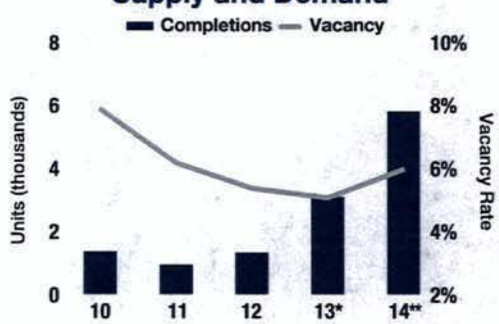
2014 Market Outlook

- **2014 NAI Rank: 36, Down 5 Places.** Healthy rent grow is offset by elevated completions, dragging down Orlando five places in the NAI.
- **Employment Forecast:** Payrolls continue to climb closer to former peaks. This year, 35,700 positions will be created, up from 25,100 hires last year.
- **Construction Forecast:** Completions will jump to 5,700 units this year from 3,000 rentals in 2013. The greatest impact will occur in Downtown Orlando, where stock will expand 18 percent, while a similar increase is in store for south Orange County.
- **Vacancy Forecast:** Despite net absorption of 3,900 units, vacancy will rise 90 basis points to 6 percent this year.
- **Rent Forecast:** The completion of high-end rentals will support a 3.4 percent increase in average rents to $955 per month.
- **Investment Forecast:** Increased construction will raise the importance of asset location this year as competition could rise dramatically.

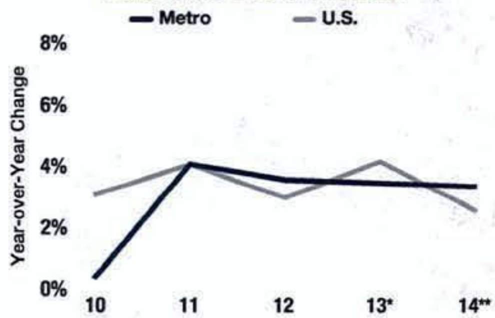
Employment Trends



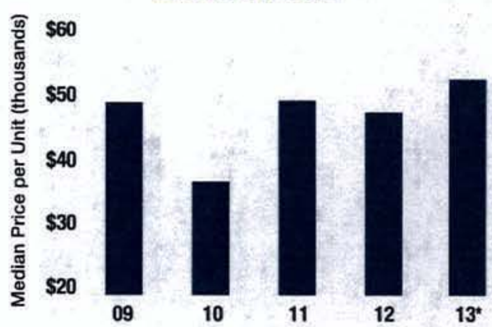
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast Employment: 3.3% ▲ Construction: 2,700 ▲ Vacancy: 90 bps ▲ Effective Rents: 3.4% ▲

Investors Targeting All Asset Classes in Philadelphia

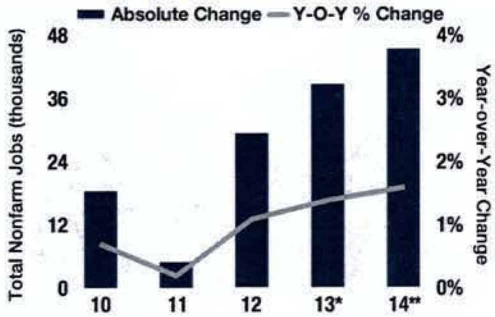
Accelerated hiring in degreed fields in 2014 will help to retain a larger share of graduates from local colleges and universities, creating new rental housing demand and exerting downward pressure on vacancy in the Philadelphia metro. The projected increase in rental housing demand comes amid a period of supply growth in Center City, where vacancy may rise in the near term as new buildings lease up. The initial stage of development, totaling about 1,400 units, occurred last year and several hundred more rentals are slated in 2014. Suburban construction will increase this year, but the effects on vacancy will be primarily local. With construction financing available for qualified sponsors, adaptive reuse projects in the core of the metro and ground-up construction will likely become more prevalent, raising the probability of a second construction wave.

Property owners nearing retirement or looking to monetize the recent appreciation in values will increasingly weigh whether to compress their timelines for disposition to take advantage of elevated investor demand. Buyers, meanwhile, maintain healthy appetites for all asset classes. Many investors are increasingly pursuing value-add opportunities and will bid aggressively for assets with potential upsides. Cap rates in the metro vary from the 5 percent range for Class A complexes to the mid-6 percent band for Class B properties, and higher still for Class C assets in working-class neighborhoods. Investors seeking greater first-year returns are also responding positively to assets in nearby Harrisburg, the Lehigh Valley and Reading. Despite a potential rise in interest rates, banks in the Mid Atlantic region will continue to compete keenly to finance deals.

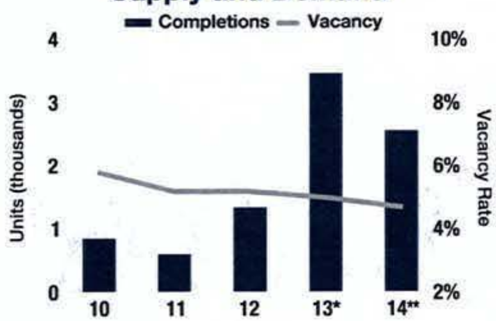
2014 Market Outlook

- **2014 NAI Rank: 20, Down 1 Place.** Although the market slipped 1 position in the ranking, Philadelphia continues to post steady improvement in both payrolls and apartment operations.
- **Employment Forecast:** One year after adding 38,000 jobs, employers in the metro will create 44,700 positions to expand payrolls 1.6 percent.
- **Construction Forecast:** In 2014, 2,500 units will come online, down from 3,400 apartments during 2013.
- **Vacancy Forecast:** Vacancy will decline 30 basis points in 2014 to 4.7 percent behind net absorption of more than 3,400 units. A decline of 20 basis points was recorded last year.
- **Rent Forecast:** Lower vacancy will support a 3.3 percent rise in average rents to $1,165 per month, outpacing growth of 2.6 percent last year.
- **Investment Forecast:** A growing number of owners with properties that require capital infusions will leverage the competitive bidding climate, expanded access to acquisition debt and higher risk appetites to list assets for sale.

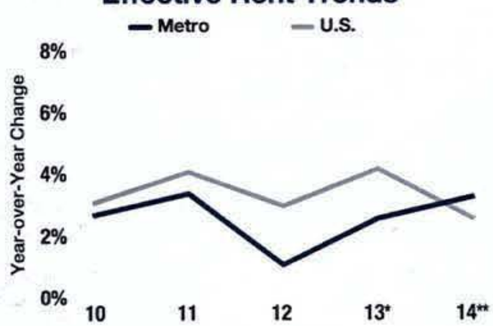
Employment Trends



Supply and Demand



Effective Rent Trends



Sales Trends

Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 1.6% ▲	Construction: 900 ▼	Vacancy: 30 bps ▼	Effective Rents: 3.3% ▲

Rental Demand Builds Momentum, Supporting Influx of Out-of-State Investors

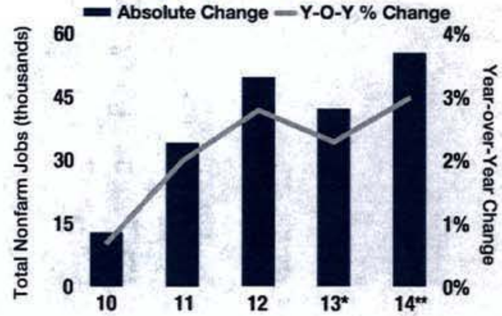
Phoenix's employment growth will outpace the national rate this year, supporting tighter apartment vacancies and a fifth consecutive year of rent growth. The stronger economy continues to generate a flow of residents from outside the metro, while greater employment opportunities will enable increased household formations as those that moved in with friends or family find employment and move out on their own. Apartments will absorb the majority of these formations as single-family home lending standards remain tight, making purchasing a new home difficult for many renters. In fact, home sales of existing single-family homes have declined in the past two years after peaking in 2011. While favorable rental demand persists, developers will step up production for the second consecutive year. The effects of 2013's elevated completions have registered in Scottsdale, where a recent wave of luxury rentals pushed up vacancy into the mid-6 percent range. However, demand growth in 2014 will reduce vacancy on a metrowide basis. Operations will tighten the greatest in the north Tempe/Arizona State University area, where renovating properties has become increasingly prevalent as vacancies are pushed down into the low-4 percent range.

The flow of capital from out of state and an accommodative lending environment will intensify bidding during 2014. Institutions and REITs will target the newer Class A properties, while local investors face intense competition. Top-tier assets will trade with first-year returns in the low- to high-5 percent range, and Class B assets will change hands nearly 100 basis points higher. Mid-century assets needing aesthetic updates will remain a target this year, but REO deals remain few and far between.

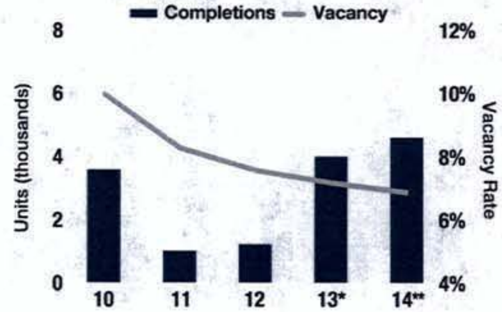
2014 Market Outlook

- **2014 NAI Rank: 22, Down 6 Places.** Phoenix fell six spots in the index due to the market's highly competitive single-family market and elevated vacancy rate.
- **Employment Forecast:** In 2014, metro employment will increase by 54,700 jobs, up significantly from the 41,400 jobs added last year.
- **Construction Forecast:** Projects totaling 4,500 units will come online this year, the largest volume since 2009. In 2013, 3,900 units were completed in the metro.
- **Vacancy Forecast:** Vacancy will fall 30 basis points to 6.9 percent. Last year, vacancy dropped 40 basis points.
- **Rent Forecast:** In 2014, effective rent growth will slow to 2.1 percent from 2.9 percent last year.
- **Investment Forecast:** Investors will bid aggressively on Class A assets in prime locations, where rental demand is steady. Class B and C assets with value-add components will also be heavily targeted.

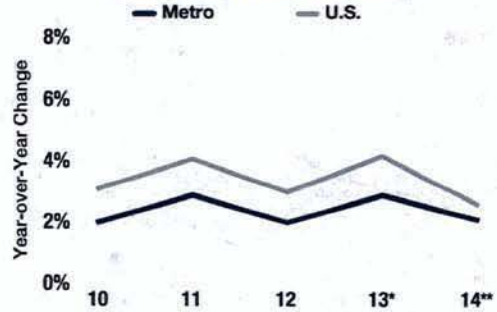
Employment Trends



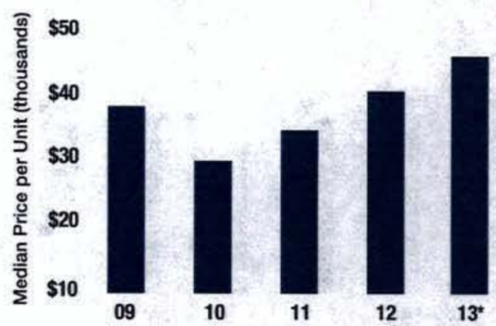
Supply and Demand



Effective Rent Trends



Sales Trends

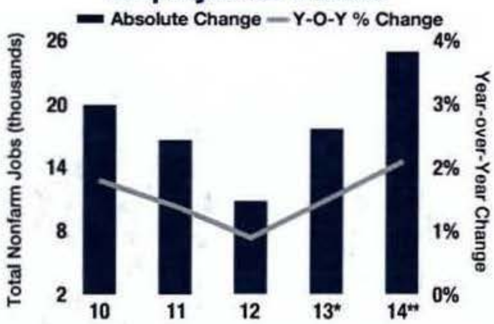


Sources: CoStar Group, Inc., Real Capital Analytics

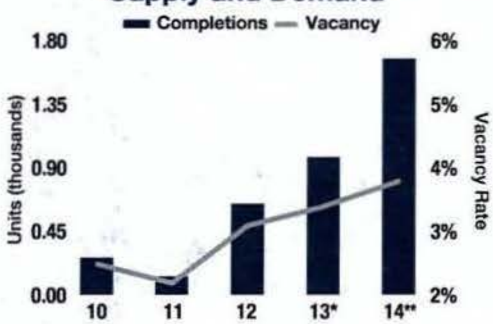
* Estimate ** Forecast

Market Forecast	Employment: 3.0% ▲	Construction: 600 ▲	Vacancy: 30 bps ▼	Effective Rents: 2.1% ▲

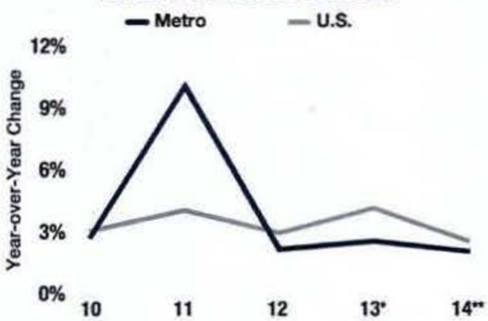
Employment Trends



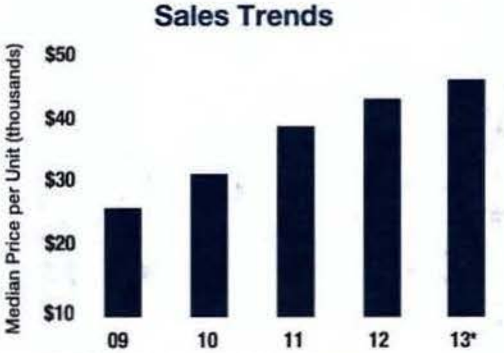
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Tight Pittsburgh Vacancies Support Rent Growth Despite Surging Construction

A surge in apartment completions will put upward pressure on vacancies, but expanding payrolls and new household formations will keep overall operations tight, supporting another year of rent growth. Developers are expected to complete over 1,600 units in 2014, the largest expansion of stock in more than a decade. A majority of the new projects are located north and south of the CBD where construction costs are cheaper. To the north, in Cranberry Township, many units are strategically located around the newly announced $72 million UPMC Lemieux Sports Complex. In southern Pittsburgh, increased drilling activity in the Marcellus Shale and energy-related company expansions have boosted demand for rentals, spurring construction of several multifamily and residential communities. A slight oversupply of new rentals and single-family homes will nudge up vacancy in select submarkets, slowing down the previous year's aggressive rent growth.

A strengthening local economy and continued rent gains will sustain strong buyer demand in Pittsburgh this year. Despite high interest, transaction velocity is sluggish due to a limited supply of for-sale properties. Owners who have held assets for generations remain resistent to sell when the market is performing well. In an effort to acquire properties, investors broaden their acquisition criteria, targeting Class B/C assets under $10 million. Properties listed in Oakland and Shady Side, near the University of Pittsburgh, are highly sought-after. Buyer competition and the risk of rising interest rates will encourage owners to sell as the year progresses.

2014 Market Outlook

- **2014 NAI Rank: 32, New to NAI.** Pittsburgh enters the National Apartment Index in the thirty-second position.
- **Employment Forecast:** Employers will create 24,600 jobs in 2014 to expand payrolls 2.1 percent. This is up from the addition of 17,300 positions last year.
- **Construction Forecast:** Builders are ramping up construction, delivering 1,650 units this year, a 1.2 percent expansion of inventory. During the previous year, 950 units came online.
- **Vacancy Forecast:** New inventory will raise vacancy 40 basis points to 3.8 percent by year end. Vacancy rose 30 basis points last year.
- **Rent Forecast:** Effective rents will advance 2.1 percent to $1,041 per month in 2014, following a 2.6 percent increase last year.
- **Investment Forecast:** Many investors who found bargains during the downturn will bring these assets to the market while buyer competition keeps cap rates compressed. Buyers are searching for assets with potential for steady rental growth over extended holding periods.

Market Forecast Employment: 2.1% ▲ Construction: 700 ▲ Vacancy: 40 bps ▲ Effective Rents: 2.1% ▲

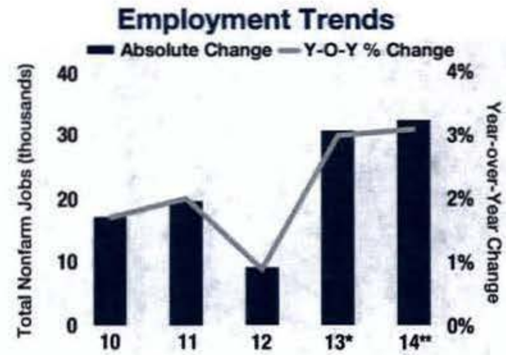
Portland Apartments Increasingly a Landing Spot for West Coast Exchange Capital

Payrolls in Portland will surpass the pre-recession peak this year as corporations expand in the area, including some headquarters operations. Growth at Portland-based companies is particularly encouraging after a handful of Fortune 500 firms relocated from the metro during the downturn to cut costs and consolidate elsewhere. Nike, one of the metro's most recognizable employers, recently idled expansion plans to pursue an even larger campus extension. The original plans would have created more than 1,000 new jobs in the market. Daimler Trucks North America, meanwhile, will consolidate operations on Swan Island, adding hundreds of temporary construction jobs when the project breaks ground this summer. An additional 400 permanent white-collar jobs will be created by the expansion, supporting apartment operations in the area. While job growth accelerates, apartment completions will also pick up to meet demand. This year's deliveries will be the highest in more than a decade as developers attempt to release pressure on the tight apartment market.

The infusion of out-of-state capital has compressed cap rates in the metro, while strong operating conditions have narrowed value-add opportunities to repositioning plays. To achieve outsized returns, patient local investors may find deals that require a significant capital infusion in addition to management improvement. Buyers willing to upgrade landscaping and units by making a moderate investment per door will target properties in Beaverton, Tigard or near downtown. Stabilized apartments will generate bids from out-of-state investors seeking arbitrage plays. Quality listings can be found for average cap rates near 5 percent, 50 to 75 basis points above similar properties in Northern California and 25 to 50 basis points above Seattle properties. Cooling rent growth in the primary West Coast markets will encourage additional investors to adopt this strategy.

2014 Market Outlook

- **2014 NAI Rank: 10, Up 2 Places.** Portland's low vacancy rate helped propel the market into a top-10 position.
- **Employment Forecast:** Job growth will accelerate to 3.1 percent this year as 31,800 positions are created, exceeding the 30,100 jobs added last year.
- **Construction Forecast:** Developers will ramp up construction to 3,000 rentals in 2014, an increase from 2,000 units last year.
- **Vacancy Forecast:** Vacancy will remain very tight in 2014, though construction will push up the rate 30 basis points to 3.5 percent.
- **Rent Forecast:** Rent growth will trend above the national rate as effective rents finish the year at $1,026 per month, a 3.8 percent annual rise.
- **Investment Forecast:** After much of the rent growth has been realized in primary markets and cap rates hover near all-time lows, some buyers will target Portland to allocate 1031-exchange capital for higher returns.

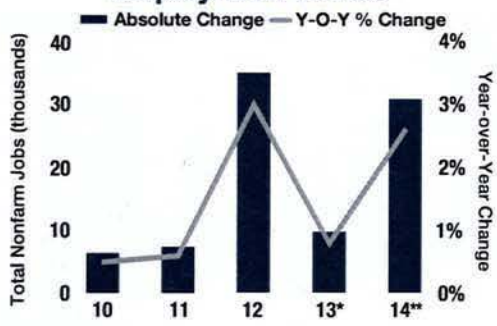


Sources: CoStar Group, Inc., Real Capital Analytics

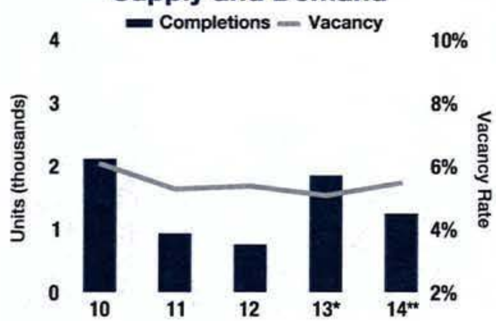
* Estimate ** Forecast

Market Forecast Employment: 3.1% ▲ Construction: 1,000 ▲ Vacancy: 30 bps ▲ Effective Rents: 3.8% ▲

Employment Trends

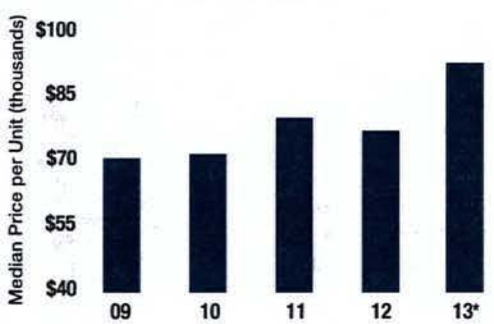


Supply and Demand



Effective Rent Trends

Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Investors Venturing Further East As Payrolls Grow Across the Inland Empire

Last year's lackluster job performance in the Inland Empire will give way to more rapid employment expansion this year, maintaining healthy apartment operations in 2014. Although payroll gains will generate new apartment demand, the increase in the number of employed workers will also siphon some demand away from rentals and into the relatively affordable single-family housing market. The result will be a balanced market, keeping vacancy in the mid-5 percent range and enabling operators to enjoy rent growth for the fifth consecutive year. In fact, rents will surpass the pre-recession high in the first half of 2014, nearly two years after national rents accomplished the same feat. Supply additions, meanwhile, will only amount to one-third of the average gains posted between 2003 and 2007 and lift inventory just 0.7 percent. A combination of strong employment and modest supply growth indicates another strong year in operations for Inland Empire apartment owners.

Capital will continue to migrate from Los Angeles County in the coming months, combining with an active contingent of local buyers and Asian funds. Listing activity improved prior to the beginning of the year as investors that purchased during the previous real estate boom can finally divest properties without bringing cash to the closing. However, interested buyers still outnumber sellers in the market, particularly west of Interstate 15. Cap rates in this active area of the market begin in the low-5 percent range and trend up to the low-6 percent range, depending on asset class. The gap between buyers and sellers dissipates as investors move inland into the high desert and Coachella Valley. Although first-year returns for assets can fall into the mid-7 percent area, the premium on Class A properties is only 25 basis points higher than in the western stretches of the metro.

2014 Market Outlook

- **2014 NAI Rank: 19, Up 4 Places.** The metro moved into the top-20 as job growth in core industries is forecast and construction remains light.
- **Employment Forecast:** After 9,200 positions were created in 2013, growth will accelerate to 30,200 jobs this year, a rise of 2.6 percent.
- **Construction Forecast:** Builders will finish work on 1,200 apartments in 2014, modestly lower than the 1,800 rentals completed last year.
- **Vacancy Forecast:** Despite the jump in employment, vacancy will inch up 40 basis points to 5.5 percent, erasing last year's 30-basis point fall.
- **Rent Forecast:** Rent growth will remain healthy at 2.8 percent in 2014, lifting year-end effective rents to $1,133 per month.
- **Investment Forecast:** Construction of the March LifeCare medical campus in Moreno Valley has stalled, which dragged on employment growth last year. If the project is restarted, or another nearby development is approved, apartment demand in the area should expand.

Market Forecast Employment: 2.6% ▲ Construction: 600 ▼ Vacancy: 40 bps ▲ Effective Rents: 2.8% ▲

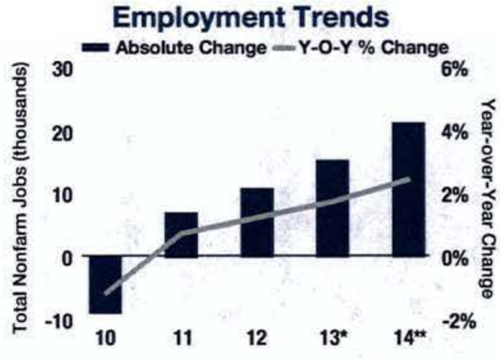
Apartment Operations at Healthiest Level in Years as Home Prices Surge

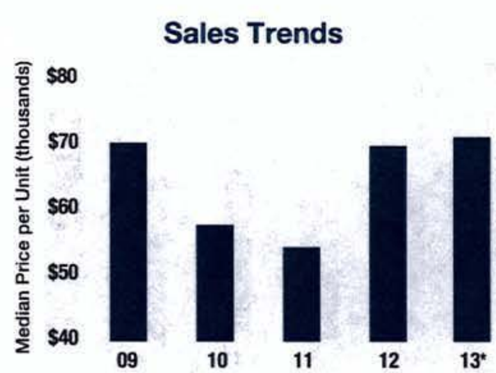
After a prolonged period of high unemployment, low housing prices, and a slow economic recovery, Sacramento appears to have turned a corner. The improving job market has bolstered apartment demand, supporting healthy rent growth. Home prices surged last year, rising at one of the fastest rates in the country, with prices nearly 50 percent above the most recent trough in 2011. Although the rate of appreciation is forecast to slow, the impact of higher home prices and rising interest rates will temper single-family housing demand, keeping many residents in rentals. The apartment market has made substantial recent progress already, as vacancy posted the largest annual decline since 2005 last year, bringing the rate 150 basis points below the pre-recession level. While tight vacancy contributes to owners' leverage to increase rents, the rising cost of homeownership will also support rent growth. However, operators in the Central and Northeast areas, which command the highest rents, will be more challenged when pushing up rents.

The Sacramento market offers opportunity for buyers seeking stabilized and upside deals, attracting investors from nearby coastal markets, including the Bay area and Southern California. Quality assets in the Roseville/Rocklin area continue to draw interest from risk-averse buyers, with cap rates among the lowest in the county, as assets trade in the high-5 to low-6 percent range. Investors targeting these areas are searching for properties with high occupancies to retain stable income streams over the next seven years. Buyers seeking value-add assets will scour the Downtown and Midtown areas ahead of the delivery of the new Sacramento Kings stadium, slated for 2016. Revitalization of Downtown will provide investors the opportunity to renew assets and lift rents in surrounding areas.

2014 Market Outlook

- **2014 NAI Rank: 33, Up 5 Places.** Stabilizing payrolls in the government sector helped Sacramento rise five positions in the ranking.
- **Employment Forecast:** Sacramento will gain 20,900 jobs this year, expanding payrolls 2.5 percent, with nearly all sectors contributing to gains. Last year, 15,000 positions were created.
- **Construction Forecast:** Construction will accelerate in 2014 as builders deliver 800 units, though completions remain below the 10-year annual average of 1,500 units. Last year, 400 units were completed.
- **Vacancy Forecast:** Following a 150-basis point drop last year, vacancy will tick up 30 basis points to 4.2 percent in 2014.
- **Rent Forecast:** Operators will lift effective rents 1.7 percent to $995 per month by year-end 2014. Last year, effective rents rose 1.5 percent.
- **Investment Forecast:** West Coast buyers will maintain a solid presence, with more out-of-state investors drawn to the metro's strong conditions.





Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 2.5% ▲	Construction: 400 ▲	Vacancy: 30 bps ▲	Effective Rents: 1.7% ▲

Rising Completions to Push Up Vacancy, But Wasatch Front Economy Remains Encouraging

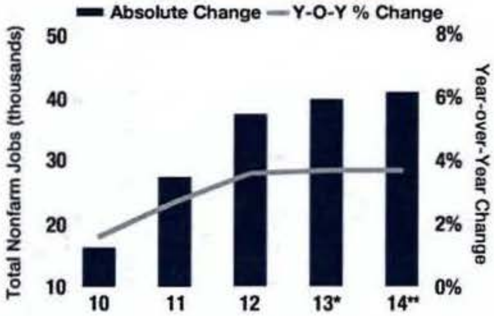
An increase in vacancy awaits in 2014 as the steady stream of new rentals across the Wasatch Front surpasses rental housing demand. However, the market's vigorous demand generators will render this year's increase in vacancy a temporary disruption and restore a more favorable trend beyond 2014. An elevated rate of job growth far in excess of the U.S. growth rate, in particular, is driving creation of new rental households. The Royal Bank of Scotland, eBay and technology firm Workday headline a list of companies that continue to take advantage of the region's skilled labor force to expand payrolls. In addition to job growth, household creation and total housing completions remain closely in synch, minimizing the prospects for potential overbuilding. The single-family home market looms as a potential draw for current renters, although tight mortgage underwriting will maintain a sizable renter population.

Investors will likely look past rising vacancy to seek attractive investment opportunities across the market. Transaction velocity jumped last year as out-of-state investors poured into the region, raising competition for the limited inventory available for purchase. The Wasatch Front is traditionally a market where owners hold assets for lengthy periods, but the considerable number of motivated and active investors will encourage greater deal activity. Cap rates in the region average in the mid-6 percent range, though they vary widely and will likely tick up as interest rates rise. The market's Class A assets typically trade at first-year returns below 6 percent, especially for assets in communities with easy access to Interstate 15. Cap rates for Class B properties rise closer to 7 percent, while investors requiring higher yields must venture into lower-quality assets.

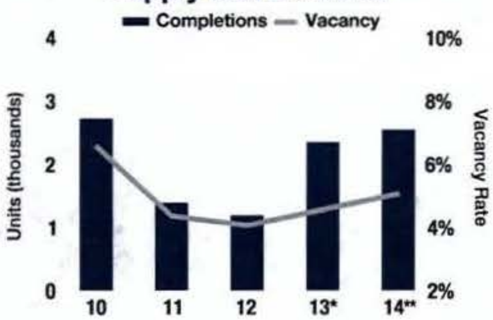
2014 Market Outlook

- **2014 NAI Rank: 21, Up 1 Place.** The pace of employment growth in Salt Lake City is among the nation's highest, which offset elevated completions and boosted up the market one spot in the NAI.
- **Employment Forecast:** Payrolls will expand 3.7 percent this year, or by 40,600 jobs. More than 39,000 positions were created in 2013.
- **Construction Forecast:** Approximately 2,500 rentals will come online, surpassing last year's total of 2,300 units. Six communities will add stock, led by the delivery of 1,100 units in Salt Lake City.
- **Vacancy Forecast:** Elevated completions will yield a 50-basis point rise in vacancy to 5.1 percent, slightly above the market's long-term average.
- **Rent Forecast:** Average rents will advance 2.6 percent in 2014 to $867 per month, roughly matching last year's increase.
- **Investment Forecast:** Many merchant builders completing apartments will find opportunities to realize return objectives in sales to large and institutional investors.

Employment Trends

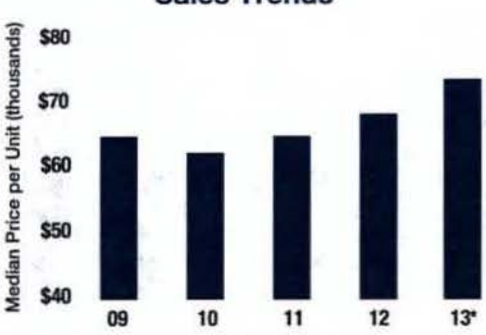


Supply and Demand



Effective Rent Trends

Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 3.7% ▲	Construction: 200 ▲	Vacancy: 50 bps ▲	Effective Rents: 2.6% ▲

Eagle Ford Shale Supports Household Formation; Developers Remain Active

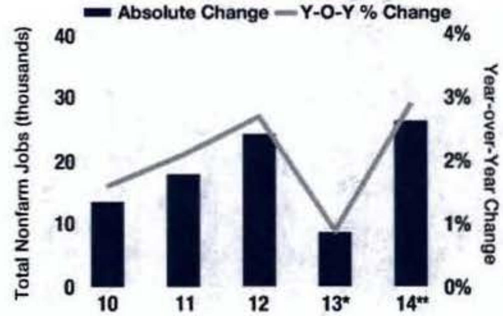
Renter-household formation will accelerate as broad-based employment growth boosts the San Antonio economy. The area is particularly benefiting from jobs generated by the nearby Eagle Ford Shale. Oil-field service companies have created thousands of jobs, bolstering hiring in a broad array of sectors including professional, health, education and government. These jobs will support the addition of a projected 65,000 new households between 2012 and 2017, boding well for apartment operators. To capitalize on surging demand, developers are bringing 4,700 units to the market this year, concentrating on the Broadway corridor, northwest and north central San Antonio. In addition to the boom of the oil industry, the northern region is home to major employers such as the University of Texas at San Antonio, USAA and the Medical Center District. Rental inventory near these major employers will expand by nearly 3,500 units, keeping up with household formation. Although construction marketwide is significant, strong demand will put downward pressure on vacancy, resulting in moderate rent growth.

Positive momentum will increase investor competition, placing upward pressure on prices and encouraging sellers to bring assets to market. Last year, listings were limited and almost exclusively Class B properties. Though available inventory is tight, it will expand as merchant builders and impending loan maturities boost listings of Class A and Class C assets. Generally, Class A units change hands at cap rates in the high-5 to 6 percent range, while Class C properties start trading in the high-7 percent range. Investors with a high risk tolerance will target outlier markets such as New Braunfels and Boerne where cap rates trend higher. Acquisition financing is more available as regional banks, flush with cash flow from Eagle Ford Shale, are playing a more active role in smaller unit lending.

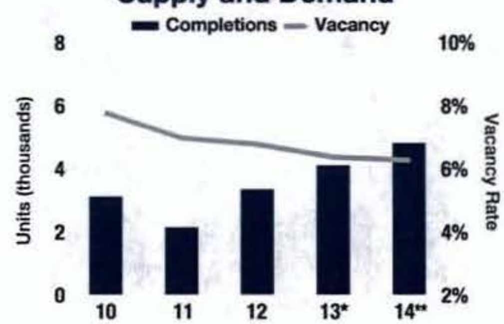
2014 Market Outlook

- **2014 NAI Rank: 26, Down 2 Places.** A potential drawdown of military personnel and above-average overall vacancy resulted in a two-spot decline for San Antonio in this year's ranking.
- **Employment Forecast:** Local employers will create 25,700 jobs this year, increasing payrolls 2.9 percent. In 2013, only 8,100 jobs were added.
- **Construction Forecast:** This year, developers will complete 4,700 units, a 2.9 percent expansion of stock. Last year, 4,000 units were delivered.
- **Vacancy Forecast:** Vacancy will contract 10 basis points to 6.3 percent, following a 40 basis-point decline one year ago.
- **Rent Forecast:** In 2014, owners will lift effective rents to $842 per month, up 2.9 percent. Rents advanced 2.6 percent last year.
- **Investment Forecast:** Investors with maturing loans purchased before the recession will sell with expectations to trade into an upleg while interest rates remain historically low, increasing available listings.

Employment Trends

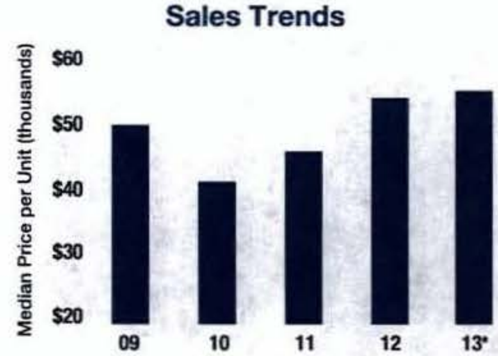


Supply and Demand



Effective Rent Trends

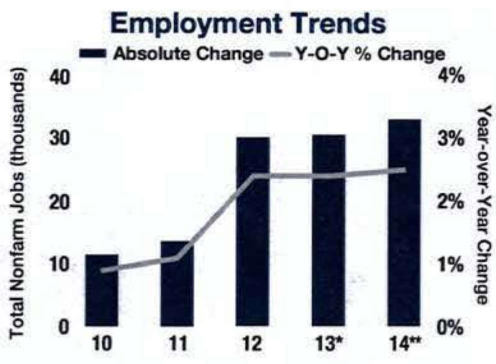
Sales Trends

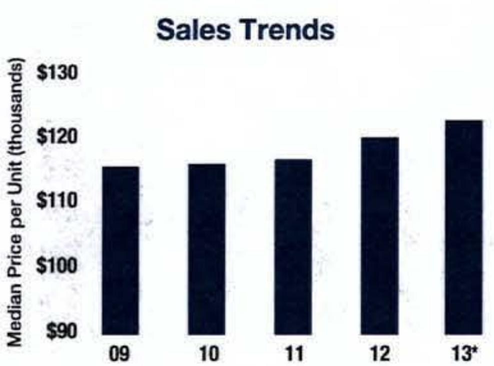


Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 2.9% ▲	Construction: 700 ▲	Vacancy: 10 bps ▼	Effective Rents: 2.9% ▲





Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

San Diego Buyers Seek Value-Add Plays in Trendy Areas Where Home Prices Far Exceed Rents

Low home affordability will support apartment operations near the coast in North County San Diego while an influx of construction puts upward pressure on vacancy in Downtown and the surrounding neighborhoods. Nearly half of the apartments underway at the beginning of the year are in Downtown and adjacent areas. While demand for these units has been strong in the past two years, the high-priced apartment towers in Downtown are more susceptible to swings in supply and demand fundamentals than most other areas. As a result, operators that directly compete with new units will lift leasing incentives to maintain occupancy levels as more high-priced units vie for the renter pool able to afford them. In North County, meanwhile, home prices have climbed beyond the reach of most residents, leaving rentals as the primary option for those seeking coastal living.

Listing activity should accelerate in the first half of the year prior to an anticipated increase in interest rates. Nonetheless, buyers will outnumber sellers unless a dramatic shift in the market transpires, such as if the city follows other California metros and orders a seismic retrofit. In the meantime, the combination of strong tourism statistics, the expansion of the convention center, and a wide gap between home price and rents will keep investors scouring the metro for the right deals. Value-add opportunities are highly sought-after in the communities of North Park, University Heights and South Park. Many apartments developed in the 1960s and 1970s can be repositioned with relatively modest demand and achieve much higher rents. Average cap rates for these assets begin in the low-4 percent area, though the pro-forma return is approximately 100-basis points higher. Investors seeking higher yields will move to secondary areas, where cap rates can be 150 basis points higher.

2014 Market Outlook

- **2014 NAI Rank: 5, Up 1 Place.** San Diego moved into the top-five of the index due to low vacancy and healthy rent growth.
- **Employment Forecast:** Employers will expand payrolls 2.5 percent this year as 32,400 jobs are created, bypassing the 2.4 percent gain in 2013.
- **Construction Forecast:** Development will accelerate to 3,500 units in 2014, nearly double the completions recorded last year.
- **Vacancy Forecast:** Pressure from new construction will elevate vacancy 40 basis points to 3.6 percent, erasing a 30-basis point decline in 2013.
- **Rent Forecast:** Apartment managers will lift effective rents 3.2 percent in 2014 to $1,534 per month.
- **Investment Forecast:** Master-planned communities could attract renters from nearby existing apartments in the coming year. Civita and Otay Ranch, in particular, both include multifamily phases.

Market Forecast Employment: 2.5% ▲ Construction: 1,700 ▲ Vacancy: 40 bps ▲ Effective Rents: 3.2% ▲

Job Growth Accelerates as High-Rise Apartments Come Online in San Francisco

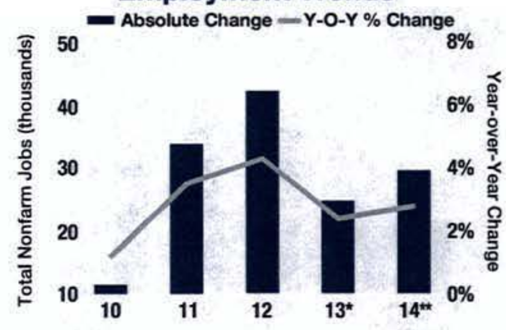
The effects of higher rents and new development will result in mixed apartment operations in San Francisco this year, though the market will remain among the healthiest in the country. Tech-fueled job growth has lifted payrolls nearly 9 percent above the pre-recession rate, and future gains are anticipated as major firms spend their war chests to ink large office leases in the city and on the peninsula. While apartment demand drivers remain strong, a confluence of pressure from high rents and new construction is rising. Currently, rents are more than 16 percent above the level in the dot-com boom in 2000, though payrolls remain 9 percent below that period. Fortunately for local apartment owners, many tech workers prefer to live in the city and take advantage of the private bus systems offered by major employers. Nonetheless, more renters will engage the help of roommates to make their housing income stretch further. In addition, completions in 2013 and 2014 add the largest stock increase in decades, creating more competition for renters.

Apartments in San Francisco will remain some of the most attractive real estate this year as a hedge against inflation and long-term investment. As the year begins, cap rates remain very low by historical standards. Average first-year returns are sub-4 percent for Class A properties and rise up to the mid-5 percent area for lesser apartments. Areas with a high concentration of tech workers will contain the most sought-after deals in the coming weeks. Improvement in the Mid-Market area, where Twitter's tax incentive was the first step in gentrification, is migrating to other San Francisco neighborhoods. Mission Bay, Third Street and Dogpatch are all poised to attract buyers in the coming months. However, the tapering of the third round of quantitative easing could put upward pressure on cap rates, making leveraged deals in those areas more challenging to close.

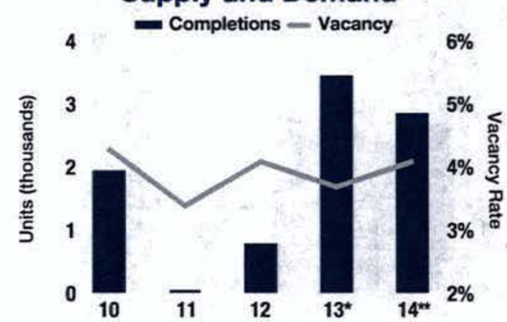
2014 Market Outlook

- **2014 NAI Rank: 2, Up 1 Place.** Strong job growth in the high-paying technology sector pulled up San Francisco one spot in the NAI.
- **Employment Forecast:** Hiring will accelerate to 29,000 jobs this year, a 2.8 percent increase. In 2013, employers added 24,200 workers.
- **Construction Forecast:** Developers will finish 2,800 rentals in 2014, building on the 3,400 units completed last year.
- **Vacancy Forecast:** Vacancy will inch up to 4.1 percent this year, a 40-basis point rise, erasing the 40-basis point decline in 2013.
- **Rent Forecast:** Rent growth will ease to 2 percent in 2014 as effective rents finish the year at $2,540 per month.
- **Investment Forecast:** San Francisco recently passed soft-story legislation that will require a seismic retrofit of some apartments developed before 1978. Buyers will likely split the cost of the upgrade with sellers.

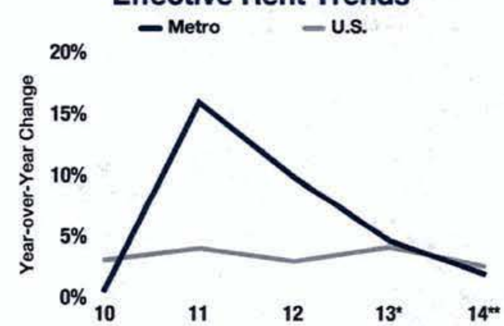
Employment Trends



Supply and Demand



Effective Rent Trends

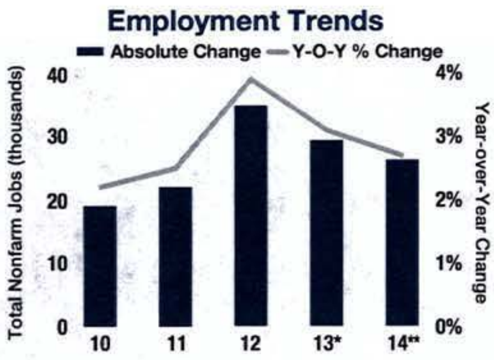


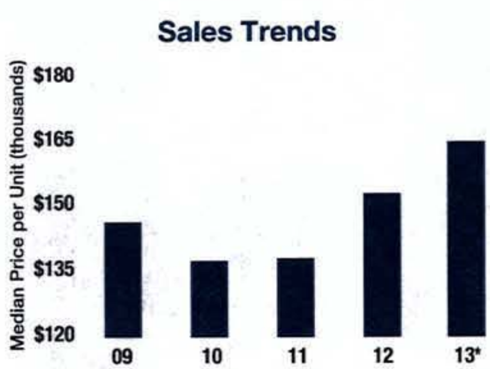
Sales Trends

Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Market Forecast	Employment: 2.8% ▲	Construction: 600 ▼	Vacancy: 40 bps ▲	Effective Rents: 2.0% ▲





Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

New Development Pressures Vacancies, Restrains Rent Growth in Silicon Valley

Employment growth by technology firms will begin to level off this year, paving the way for more notable additions in other sectors. As lower-paying jobs are added and new developments provide greater options for top-end renters, the pace of rent growth will decelerate closer to the inflation rate. Some of the new jobs will be derived from development of Levi's Stadium, which will host the San Francisco 49ers during the 2014 season. Several nearby developments, including the mixed-use Santa Clara Centennial Gateway, could break ground by this summer, generating construction and subsequently retail and leisure and hospitality positions. Although more than 2,000 units are under construction in the North San Jose/Milpitas submarket, many of these new employees will be priced out of the area's Class A rental market. The disparity between housing needs and the composition of new supply will lift the vacancy rate in the coming months, encouraging operators to rein in rent hikes.

Investors' outlook on the San Jose market will remain bright during the first half of the year until lifting rents becomes more challenging. In ultra-tight submarkets, including Mountain View/Palo Alto and Santa Clara, investors with long-term hold strategies will pay high prices to secure assets. Class B properties in these areas typically change hands at a 5 percent pro-forma cap rate. The potential for higher interest rates and low first-year returns will bring cash buyers to the forefront of deals. Other buyers seeking value-add plays may find opportunities in the cities between Mountain View/Palo Alto and downtown San Jose. Older assets that have not been renovated in recent years could provide new owners strong returns after an initial capital investment to upgrade the apartments. However, buyers attempting this strategy will need to be cognizant of new development.

2014 Market Outlook

- **2014 NAI Rank: 8, Down 6 Places.** A wave of construction will come online this year, dragging down San Jose eight positions in the ranking.
- **Employment Forecast:** Employment growth will ease to 2.7 percent in 2014 as 25,700 jobs are created. Last year, 28,800 positions were added.
- **Construction Forecast:** Developers will complete 3,800 units this year, expanding stock by 2.5 percent.
- **Vacancy Forecast:** After a 60-basis point decline in 2013, vacancy will inch up 50 basis points in 2014 to 3.6 percent.
- **Rent Forecast:** Effective rents will advance 2.9 percent to $2,142 per month by year-end 2014, building on last year's gain of 8.6 percent.
- **Investment Forecast:** Plans for Apple's Campus 2 headquarters were approved at the end of 2013. The sprawling facility in Cupertino will boost apartment demand in the area.

Market Forecast Employment: 2.7% ▲ Construction: 300 ▲ Vacancy: 50 bps ▲ Effective Rents: 2.9% ▲

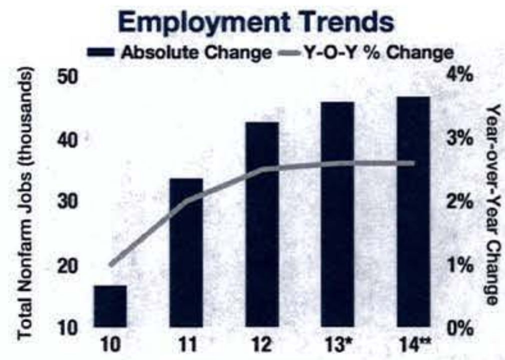
Building Boom in Puget Sound Met by Strong Apartment Demand as Payrolls Rapidly Escalate

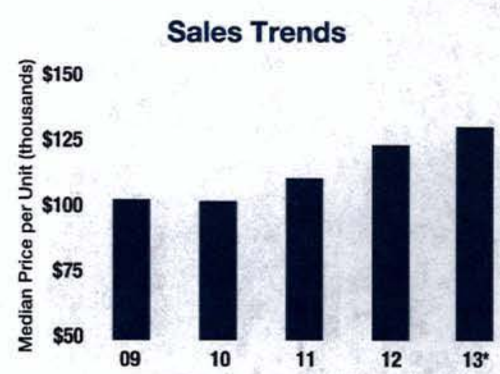
After a robust round of completions in 2013, the development boom will continue this year, though strong apartment demand will help the Puget Sound region remain a top-performing market. Building is concentrated in the Seattle urban core, as downtown and adjacent areas north of downtown account for nearly 60 percent of all deliveries this year. Although this part of the metro is vulnerable to oversupply, broad-based job growth will support demand for area rentals as the total metro jobs will rise nearly 4 percent above the pre-recession high by year end. Though in its early stages, the influx of supply will also be met by developers targeting units for condominium conversions amid low for-sale inventory and pent-up demand. Local banks are beginning to finance condo projects once again, and the first large downtown project in six years, comprising more than 700 units, will deliver in 2015. Stable employment growth will generate rental demand, while a potential resumption of condo conversions this year and heading into 2015 will pressure the vacancy rate back down.

Strong rent growth and a booming local economy is driving investment activity in Seattle. With first-year yields beginning in the low-4 percent range for top-quality assets in the core, investors will look to alternative areas for opportunities in 2014. Older B/C assets that allow for rent bumps will be targeted as renovation prospects around downtown locations. Secondary submarkets located north and south of the city's core, where yields start 200 basis points higher, will also attract risk-tolerant buyers seeking upside. The low cost of capital and investors' desire for properties outside the urban core will support transaction volume in the first part of 2014, though rising interest rates could restrain deal flow in the second half.

2014 Market Outlook

- **2014 NAI Rank: 7, Down 2 Places.** A second consecutive year of elevated completions pulled Seattle down two positions in the NAI.
- **Employment Forecast:** Employment growth will be broad-based as 45,800 positions are added, a 2.6 percent rise. Last year, 45,000 jobs were gained.
- **Construction Forecast:** Developers will maintain heightened construction this year and deliver 8,100 units, expanding stock 2.5 percent. This follows the addition of 8,000 units in 2013.
- **Vacancy Forecast:** Abundant new supply will push vacancy up 30 basis points to 4.7 percent. Last year, vacancy ticked up 20 basis points.
- **Rent Forecast:** Effective rents will rise 4.1 percent to $1,250 per month in 2014, placing rents 22 percent above the pre-recession level.
- **Investment Forecast:** Secondary markets such as Everett and Tacoma, where cap rates can average in the low-7 percent range, will be targeted by buyers with higher risk appetites.



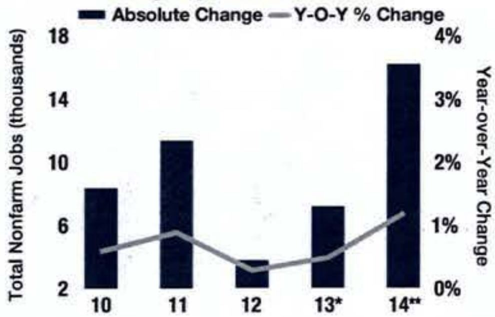


Sources: CoStar Group, Inc., Real Capital Analytics

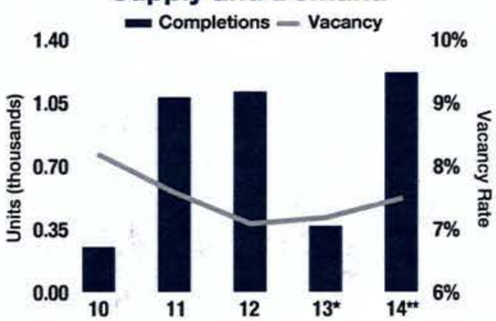
* Estimate ** Forecast

Market Forecast	Employment: 2.6% ▲	Construction: 100 ▲	Vacancy: 30 bps ▲	Effective Rents: 4.1% ▲

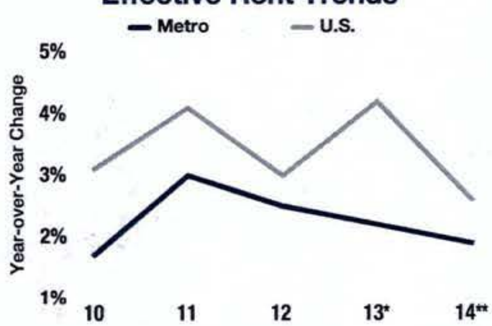
Employment Trends



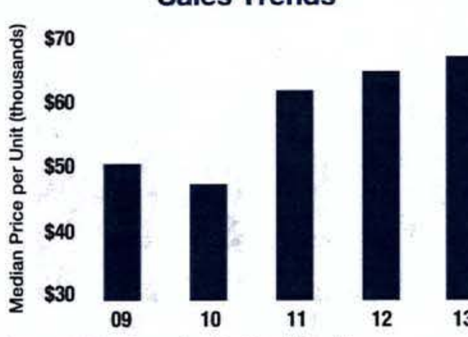
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Growth in Biotech Sector Will Boost Demand for Apartments in St. Louis

Biotechnology hiring will accelerate in the coming year, supporting apartment demand in St. Louis. The growing industry employs approximately 28,000 workers at local facilities and research locations, attracting a highly skilled workforce from around the globe. In the western part of the metro, for instance, Monsanto will add 675 employees when they complete the $400 million expansion of their Chesterfield research center in 2017. Further north, the Donald Danforth Plant Science Center is adding space to accommodate 100 new scientists in Creve Coeur. The vast pool of technical talent is also drawing venture capital and companies such as Pharma Medica Research to the area, which is adding 320 jobs this year in St. Charles. The strengthening employment outlook will support increased development. The largest project will be the 309-unit Residences at Streets of St. Charles scheduled for delivery in the second quarter.

Out-of-state investors seeking higher first-year returns are attempting to gain a foothold in the St. Louis market, while local buyers are expanding portfolios. Many private investors are repositioning capital from coastal markets and focusing on stabilized Class B/C properties close to the metro core, which trade at cap rates in the 7 percent range. In the central corridor and west end, strong renter demand and updated inventory will also attract these out-of-state buyers. The abundance of capital seeking local properties will favor sellers in the first several months of this year as well-priced apartment listings generate multiple bids.

2014 Market Outlook

- **2014 NAI Rank: 46, Down 4 Places.** A combination of high vacancy and a modest hiring forecast pushed down St. Louis to the last position in the National Apartment Index.
- **Employment Forecast:** Job growth will double in 2014 as 16,000 workers are added, a 1.2 percent gain. Hiring will be led by education and health services, and professional and business services sectors.
- **Construction Forecast:** Developers will bring online 1,200 units in 2014, nearly tripling the completions last year. The City of St. Louis will receive nearly half of this year's deliveries.
- **Vacancy Forecast:** The spike in inventory will push vacancy up 30 basis points to 7.5 percent in 2014. This follows a 10-basis point rise last year. Vacancy has fallen 180 basis points from the recessionary high.
- **Rent Forecast:** Owners will lift effective rents 1.9 percent to $801 per month this year, a new metro high and 12 percent above the recessionary low. In 2013, rents rose 2.2 percent.
- **Investment Forecast:** Local buyers seeking value-add plays will have to move farther from the metro core. Apartments with a history of management struggles will be the primary focus of these investors.

Market Forecast | Employment: 1.2% ▲ | Construction: 850 ▲ | Vacancy: 30 bps ▲ | Effective Rents: 1.9% ▲

Construction to Outpace Demand in 2014, But Investment in Tampa to Stay on Track

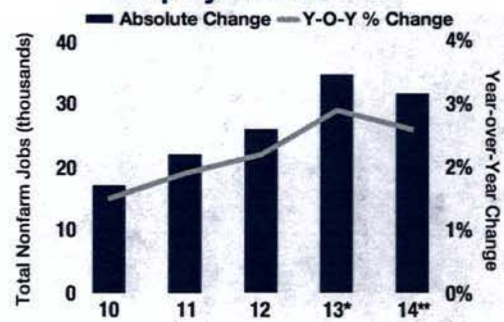
After four years of tenant demand outpacing completions, supply growth will prevail in Tampa Bay this year, pushing up the metro's vacancy rate. A significant wave of rentals will come online in 2014 in Downtown Tampa and St. Petersburg, Westshore and the Gateway section of Pinellas County, signaling a subtle shift from primarily suburban development in prior years. The relatively high-density, infill projects delivering this year are generally viewed as competition for Class A suburban properties and may place upward pressure on vacancy in first-ring areas such as New Tampa. New supply will arrive amid a period of sustained job growth and more frequent announcements of employer expansions. Bristol-Myers Squibb and Amazon unveiled plans for new facilities in the metro last year, while USAA also revealed intentions to locate a sizable operation in Tampa Bay.

Development will also affect investment this year. Infill sites will receive greater interest from development-oriented parties, while Amazon's decision to build a fulfillment center in Ruskin will sharpen the focus on parcels along Interstate 75. Investors will also continue to search for stabilized buildings in areas with solid demand drivers, such as business districts in Tampa, St. Petersburg and Clearwater. Cap rates for these properties have generally settled in the low- to mid-6 percent range. For owners contemplating a sale, timing could be opportune as buyers remain aggressive due to limited inventory on the market. The imbalance raises the probability of executing a transaction that fulfills price and cap rate expectations. In addition, the expansion of single-tenant retail formats may stimulate the 1031-exchange market and provide an outlet to redeploy sales proceeds.

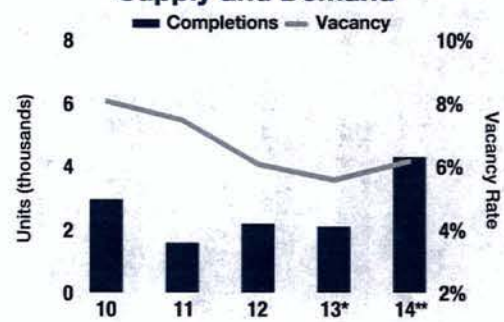
2014 Market Outlook

- **2014 NAI Rank: 23, Up 4 Places.** Tampa moved into the top half of the ranking as migration resumes and job growth remains healthy.
- **Employment Forecast:** Corporate expansions and start-ups will support a 2.6 percent increase in payrolls this year. Approximately 31,000 positions will be created, down slightly from 2013.
- **Construction Forecast:** Rental stock will grow by 4,200 units. Last year, developers brought 2,000 rentals online.
- **Vacancy Forecast:** Demand will trail supply, yielding a 60-basis point increase in vacancy to 6.2 percent. Net absorption of more than 2,800 units in 2013 shaved vacancy 60 basis points.
- **Rent Forecast:** Following a 3.3 percent rise last year, owners will lift rents an additional 2.8 percent to $926 per month.
- **Investment Forecast:** Tampa Bay is one of several Gulf Coast markets attractive to investors. Rapidly recovering local economies will also draw investors to Bradenton, Sarasota and southwest Florida.

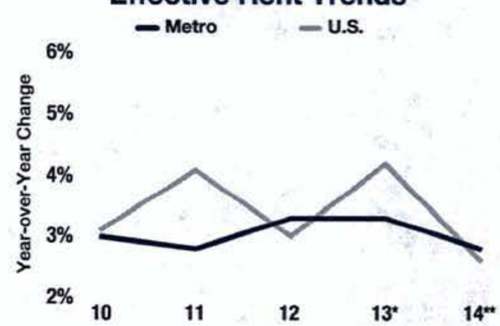
Employment Trends



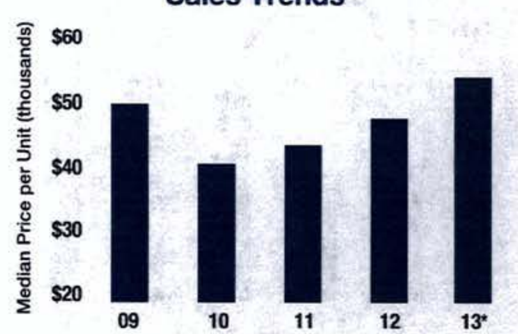
Supply and Demand



Effective Rent Trends



Sales Trends

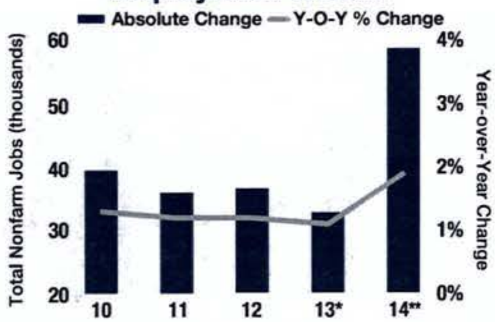


Sources: CoStar Group, Inc., Real Capital Analytics

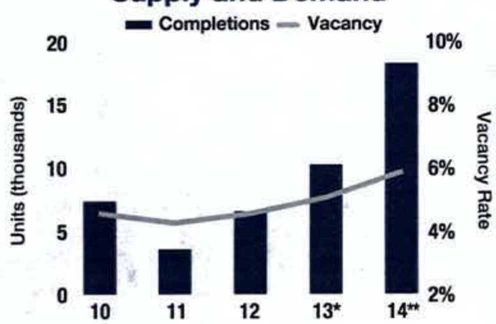
* Estimate ** Forecast

Market Forecast Employment: 2.6% ▲ Construction: 2,200 ▲ Vacancy: 60 bps ▲ Effective Rents: 2.8% ▲

Employment Trends

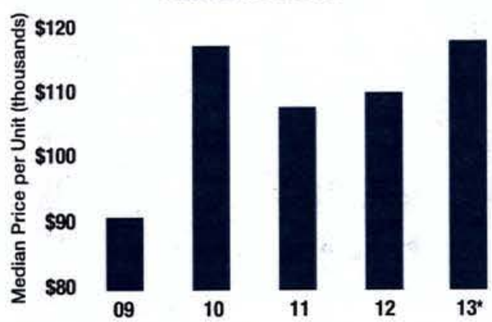


Supply and Demand



Effective Rent Trends

Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate ** Forecast

Tightened Federal Budgets Compound Construction-Induced Vacancy Rise

Although hiring is anticipated to accelerate dramatically in 2014, risks of additional federal budget cuts could derail Washington, D.C., apartment performance. Further reductions in government spending, if enacted, will take a toll on private-sector government contractors and vendors, in addition to government employees. Other segments of the economy, including retail and hotels, will also be adversely affected by the imposition of more severe austerity measures. With apartment stock anticipated to rise 3.4 percent this year, a potential misalignment of supply and demand will push vacancy higher. Currently, projected completions will exceed demand by nearly 6,000 units and push vacancy to a level not posted since 2009. Over the next couple of years, however, the apartment market could see some demand spill over from the tight condo market as new condo inventory contracts to a decade low. While would-be owners wait on the sidelines for condo projects to pencil, some larger, Class A complexes may be ripe for conversion, lessening the impact on metro apartment operations while also meeting the demand for new condos.

Investment activity will move forward in 2014 as REITs, institutions and local buyers scour the metro for assets. However, the anticipated supply/demand imbalance has many large investors holding back, especially in submarkets where vacancy is high. Local buyers, meanwhile, are shifting their attention from core areas as inventory becomes limited and competition intensifies. Assets in prime corridors such as 14th Street and H Street are in high demand, though interest in transitional areas east of the Anacostia River are gaining in popularity as investors seek to capitalize on repositioning opportunities. Those looking to sell in the next 18 to 24 months may choose to dispose this year while interest rates and cap rates remain near historic lows.

2014 Market Outlook

- **2014 NAI Rank: 27, Down 10 Places.** Elevated construction and federal spending cuts resulted in a 10-spot decline for the metro.
- **Employment Forecast:** Employers will add 58,100 jobs in 2014, an annual increase of 1.9 percent. Last year, payrolls rose 1.1 percent.
- **Construction Forecast:** After completing 10,000 units last year, builders will deliver 18,000 apartments in 2014.
- **Vacancy Forecast:** Vacancy will rise for the third year, reaching 5.9 percent by year end, an annual advance of 80 basis points.
- **Rent Forecast:** Effective rent growth will slow from 2.6 percent in 2013 to 2.0 percent this year, pushing average rents to $1,590 per month.
- **Investment Forecast:** Investors with a greater risk appetite will look at pockets east of the Anacostia River, including Fort Totten, Congress Heights and Petworth.

Market Forecast	Employment: 1.9% ▲	Construction: 8,000 ▲	Vacancy: 80 bps ▲	Effective Rents: 2.0% ▲

Favorable Demographic and Job Trends Shining Light on Palm Beach County

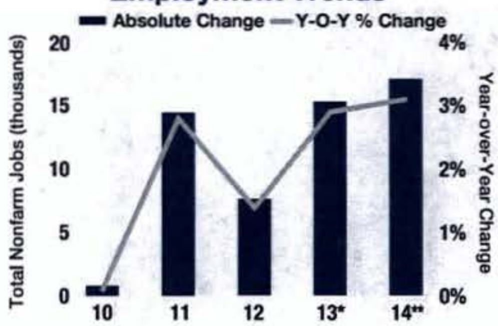
Completions will ease from last year's elevated level, enabling demand in Palm Beach County to catch up and nudge down countywide vacancy during 2014. Several positive trends are aligning for the rental housing market. The migration of out-of-state residents into the county is resuming as the single-family housing market recovers and household wealth improves. Boca Raton and Delray Beach, among other communities in the county, remain targeted destinations for the relocation of retirees from other states. Many new arrivals initially occupy rental housing, providing a source of demand for property owners. In the job market, payrolls will expand at a rate matched by only Broward County in South Florida and multiple industries are expanding again, including construction. However, the potential relocation of Office Depot's headquarters from Boca Raton to Illinois may place 1,700 local jobs at stake.

While some bumps may arise on the employment front, signs of economic progress are evident in other ways. Municipal budgets are in better shape, tourism is strong and other commercial property sectors are recovering. Single-family homebuilding has come back, but rising prices and limited listings will mitigate the potential flight of residents from multifamily rentals. Overall, multifamily buyers and sellers remain highly motivated to execute transactions while low interest rates persist. Higher risk tolerances have led some investors down the quality scale, leading to more intense bidding for Class C assets and pushing down cap rates to the mid-7 percent range. Equity capital continues to flow into the county's multifamily sector from investors priced out of neighboring counties and groups that were purchasing foreclosed single-family homes.

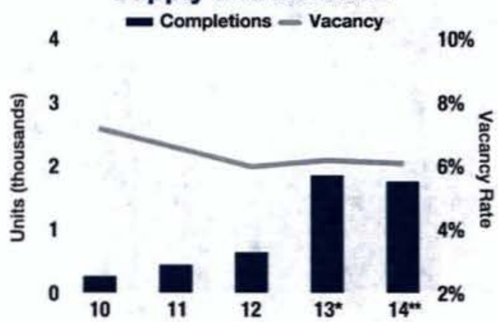
2014 Market Outlook

- **2014 NAI Rank: 38, Up 2 Places.** Strong revenue gains supported West Palm Beach's two-position rise in the index.
- **Employment Forecast:** Payrolls will expand 3.1 percent this year, or by 16,800 jobs, surpassing last year's total of 15,000 positions.
- **Construction Forecast:** Projects totaling 1,700 rentals will come online in 2014, marking a slight drop from last year's production. An additional 328 units will come online in Boynton Beach following the completion of nearly 1,000 rentals last year.
- **Vacancy Forecast:** Demand will exceed supply and trim vacancy 10 basis points to 6.1 percent.
- **Rent Forecast:** Rent growth will moderate from last year's 4.5 percent jump. This year, average rents will rise 3.5 percent to $1,239 per month.
- **Investment Forecast:** Access to debt capital continues to expand and lenders are competing for market share, but disciplined underwriting will minimize the likelihood of the market overheating.

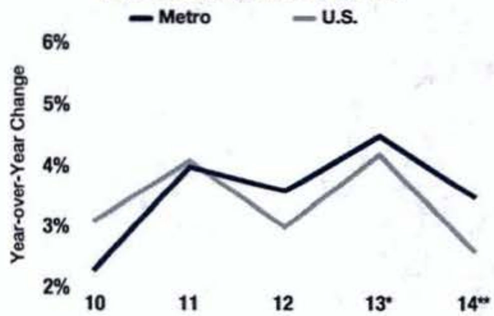
Employment Trends



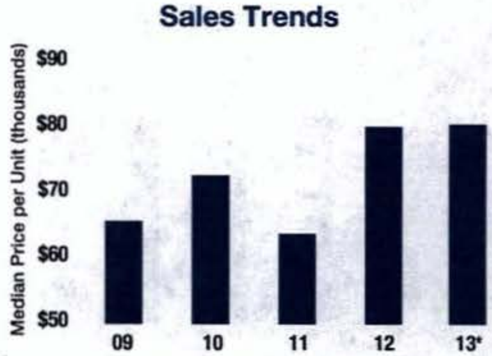
Supply and Demand



Effective Rent Trends



Sales Trends



Sources: CoStar Group, Inc., Real Capital Analytics

* Estimate **Forecast

Market Forecast	Employment: 3.1% ▲	Construction: 100 ▼	Vacancy: 10 bps ▼	Effective Rents: 3.5% ▲

2014 National Apartment Report

National Multi Housing Group

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National Apartment Index Note: Employment and apartment data forecasts for 2014 are based on the most up-to-date information available as of November 2013 and are subject to change.

Statistical Summary Note: Metro-level employment, vacancy, and annual asking and effective rents are year-end figures and are based on the most up-to-date information available as of November 2013. Effective rent is equal to asking rent less concessions. Median prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein.

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

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

Fact-Based Investment Strategies

Multifamily Demand Analysis

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

Multifamily Property Analysis

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

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- Our team works closely with clients to create financial analysis scenarios supporting acquisition, disposition, portfolio analysis, pricing strategies and market selection.

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

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