

50 *Years of Excellence*

Marcus & Millichap

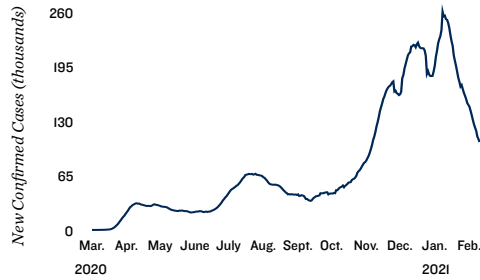


2021

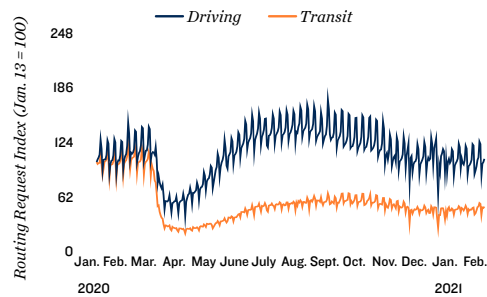
U.S. Commercial Real Estate
INVESTMENT OUTLOOK
MULTIFAMILY

Health Crisis Opens Commercial Real Estate; Uncertainty Will Carry Well Into 2021

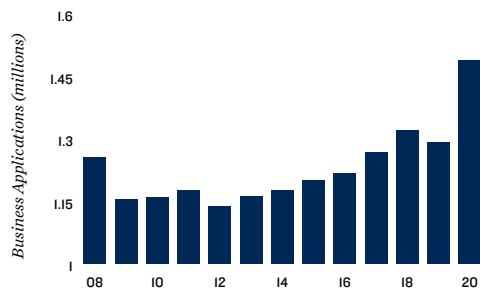
Daily U.S. COVID-19 Cases Ease From Spike



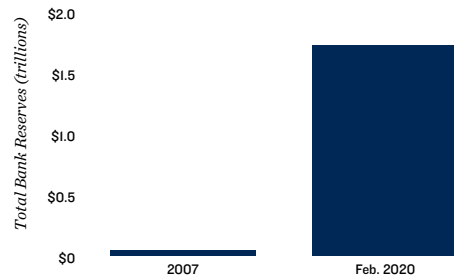
Aversion to Public Transit



New Business Applications Surge



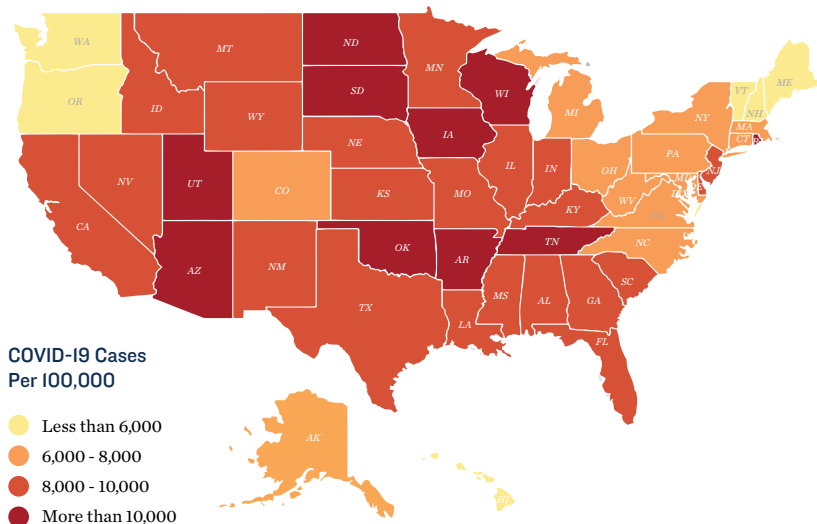
Banks in Stronger Position Than in 2007



Pandemic transforms commercial real estate. COVID-19 changed the world in early 2020 as efforts to curb the spread of the pandemic had a dramatic impact. Stay-at-home orders, the need to physically distance, and having to abide by health and safety protocols had harsh effects on many real estate sectors. Hospitality, seniors housing and brick-and-mortar retail were hit hard while others including necessity-based retailers, medical offices, e-commerce retailers, life science and pharmaceutical firms, and many industrial segments thrived. As of February 2021, more than 486,000 Americans have died from the coronavirus and after reaching a peak in mid-January that strained healthcare systems across a wide swath of the U.S., cases, hospitalizations and deaths have begun to taper.

Health crisis exacerbated demographic shifts. Employers laying off workers and sending staff home to work remotely contributed to an acceleration of demographic changes that were already underway. Economic uncertainty led many households to search for lower-cost housing, while the need to work from home and attend school online generated demand for larger spaces. Commute times became less of a factor in housing decisions, pushing residential and apartment demand away from dense urban cores that are more reliant on mass transit to the benefit of suburbs as well as secondary and tertiary markets. Although driving returned during the summer months, public transit usage remains well below the pre-coronavirus level as fewer people are commuting to offices and physical distancing protocols limit ridership. Higher unemployment is also leading to more people spending time at home, which consequently may have boosted new business applications to the highest rate since the Great Recession. This surge in entrepreneurship could have positive results in the years ahead.

Coronavirus Cases Continue to Spread*



* As of Feb. 11, 2021

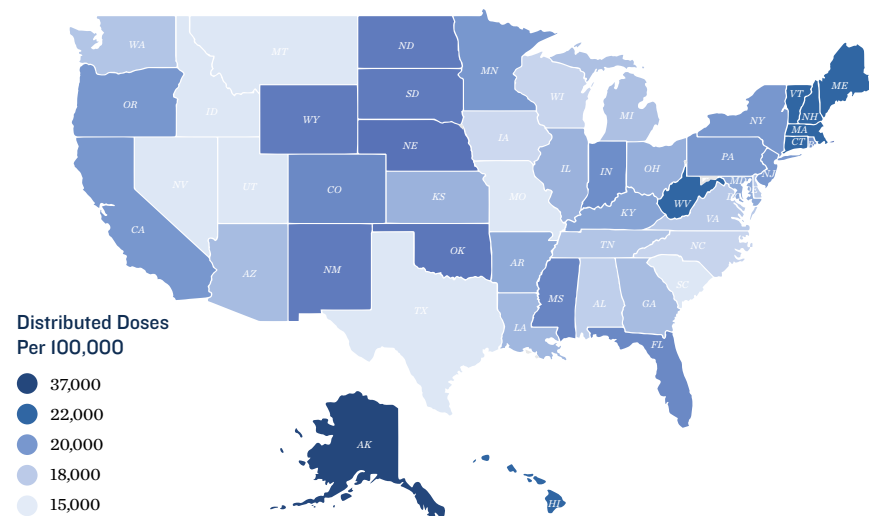
Sources: Apple; Federal Reserve; New York Times; U.S. Census Bureau

Government Response, Market Liquidity, Fast-Tracked Vaccine Development Provide Optimistic Outlook

Economy jolted as coronavirus spread. The economy was on relatively solid footing heading into the pandemic. Company profits were hovering near the 20-year peak and corporate cash on hand had set a new high, supplying many firms with cushions to weather a downturn. Bank reserves were also significantly above those registered in 2007, providing a much healthier comparison to the start of the Great Recession. Through the health crisis, the money supply has remained liquid as the federal government quickly infused cash into the market and funded stimulus measures via the CARES Act and other legislation. The Paycheck Protection Program (PPP) was one of several systems that assisted in keeping people employed and allowed businesses and households to make rent payments. Additional infusions in 2021 will provide further economic stimulus.

Immunizations provide a path forward. In response to the coronavirus, the government initiative Operation Warp Speed was established to fast track the development and approval of vaccines to combat COVID-19. By the end of 2020, two vaccines had been approved and others were in trial phases. Inoculations were underway by mid-December, providing some hope, especially to real estate segments hit hard by the pandemic. Immunization efforts, however, were slow to ramp up, extending the time needed before enough people are vaccinated to a level that would provide herd immunity and allow a freer movement of people. Although clarity is in sight, these delays will prolong uncertainty for investors well into 2021.

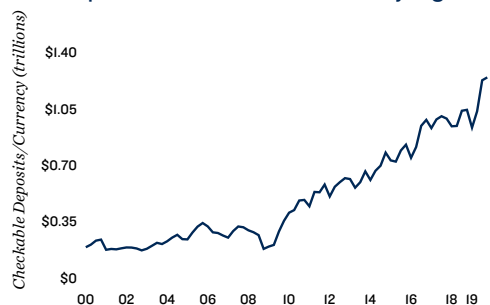
Immunizations Ramping Up Across the Nation*



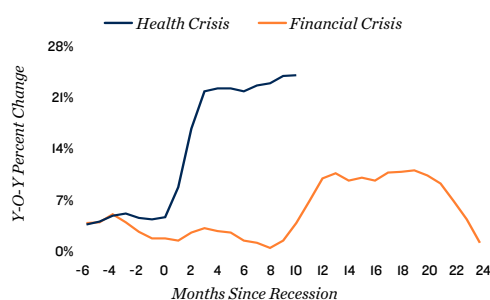
Pre-Crisis Profits Near Record



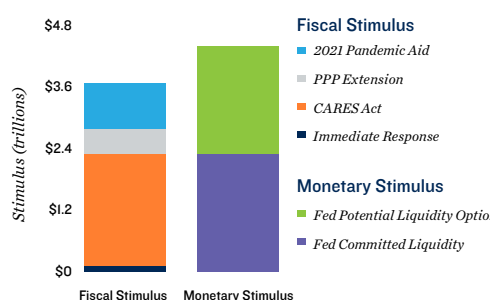
Corporate Cash on Hand Historically High



Money Supply Gets Big Boost



Government Stimulus Response

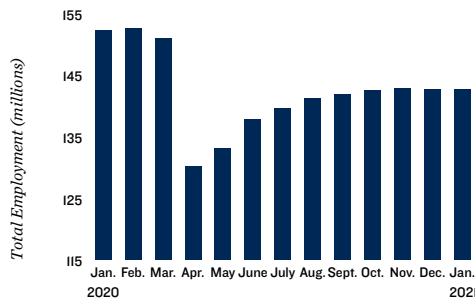


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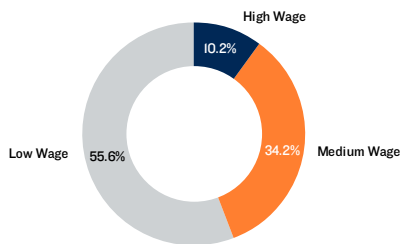
Sources: BEA; Federal Reserve; U.S. Census Bureau

Possibilities for Second Growth Surge or Double Dip in 2021 Hinge on Vaccine Rollout and Labor Recovery

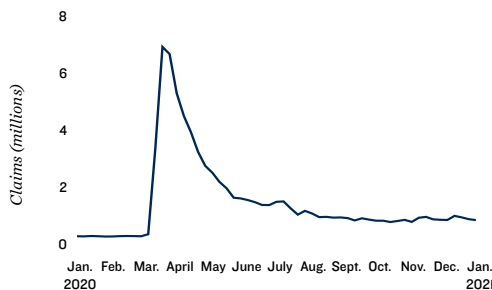
Employment Trends



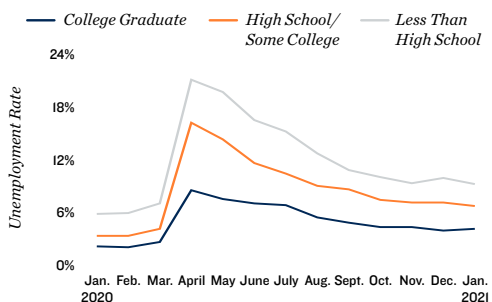
Share of Job Losses*



Unemployment Claims



Unemployment Rate by Education Level



Vaccine distribution to play a critical role in economic outlook. The nation’s economic situation has regained much of the momentum lost last spring as it continues along an upward path in 2021. Ongoing health challenges and other potential hurdles may suspend or abate that progress, however. If the current set of COVID-19 vaccines are distributed as efficiently as predicted, then enough people may be inoculated by midyear to safely allow most businesses to fully reopen. Employed consumers with idle cash on hand from months in sequestration will be able to more freely travel and patronize bars, restaurants, entertainment venues, and brick-and-mortar retailers, potentially boosting the economy. If, however, the pace of the vaccine rollout is slowed or the nature of the virus changes, these exogenous encumbrances to the economy will remain in place longer. Employers who are challenged by physical distancing requirements and areas of the country where infection risk is higher will fall further behind other segments of the economy. This disparity, if severe enough, could lead to another quarterly economic contraction. The fortitude displayed during the second half of 2020 makes this scenario improbable, however, especially with continued government support.

Economy has been resilient so far, aided by robust federal aid. The forced closure of many businesses last year led to the sharpest decline in Gross Domestic Product in the post-World War II era. After sliding 5 percent in the first quarter, U.S. GDP fell an annualized 31.4 percent in the April-to-June period as 22 million jobs were shed and the unemployment rate soared to 14.8 percent. This unprecedented shock was met with an equally unprecedented government response. Applying lessons learned during the last downturn, the Federal Reserve and Congress collectively delivered roughly \$5 trillion in aid within a matter of weeks, divided between direct fiscal stimulus and added financial market liquidity. These actions, followed by the implementation of other lending programs and federal legislation in subsequent months, helped GDP leap 33.4 percent in the third quarter and a more modest 4 percent in the fourth quarter. The strong gains made in the second half of the year mostly offset the earlier losses, translating to an overall economic contraction of 3.5 percent in 2020.

Labor market recovering but some sectors are falling behind. Over half of the jobs lost in March and April last year were restored or replaced by December, but as 2021 progresses certain industries face a longer road to total recovery than others. Physical distancing requirements and travel restrictions had a disproportionate impact on the leisure and hospitality sector, which encompasses hotels, bars, restaurants and other entertainment venues. While the overall employment base remained 6.5 percent below its pre-pandemic level at the start of 2021, the leisure and hospitality sector was still down 23.2 percent. Conversely, staff working in essential services or in positions more easily shifted to a remote setting were better protected. The number of jobs in financial activities, construction and in the trade, transportation and warehousing sector were all at or within 3 percent of their February 2020 mark by the start of the new year. How the labor market improves going forward will depend on how well vaccines are administered. If infection rates drop enough to permit widespread reopening and social patterns normalize, many of the jobs most impaired by the health crisis could quickly return, although not all roles are likely to be restored this year as some employers have permanently closed.

* February to December 2020

Sources: BLS; ETA

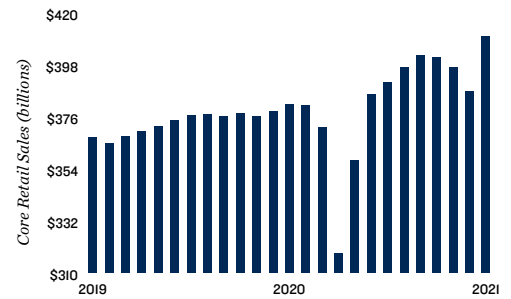
Administration Weighs Policy Goals Against Stimulus Needs While the Federal Reserve Guides Inflation

Biden administration must balance policy objectives and health crisis management. President Biden campaigned on a platform of widespread legislative reform, including taxation, healthcare and public spending on infrastructure. Achieving these goals must be managed in relation to the immediate needs of the health crisis. Some intended policy reforms, such as increasing taxes on businesses and investors, could weigh on economic growth in the short term. Even if political division in Congress does not preclude the passage of wide-sweeping changes, the focus of the legislative and executive branches will likely to be dominated by the health crisis through at least the middle of the year. Making more substantial alterations to laws and regulations could create uncertainty among consumers and investors, dampening the intended effects of stimulus measures that the Biden administration is currently pursuing.

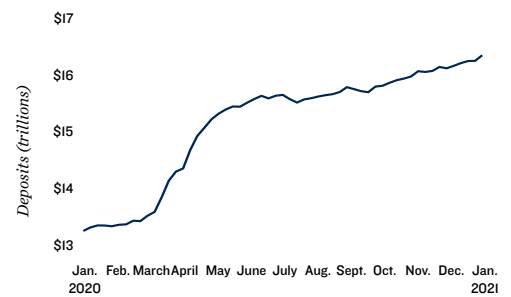
Additional federal aid likely incoming; holds significant implications on growth. The \$900 billion stimulus package passed at the end of last year is serving as a vital economic stopgap as the country deals with the difficult health challenges. Many of the legislation's key benefits, such as renewed federal unemployment insurance, will nevertheless fade by the spring. The Biden administration is therefore pursuing a \$1.9 trillion stimulus package to further buttress the economy. The legislation would include a third round of larger direct payments to taxpayers as well as expanded unemployment benefits, rental assistance, and funding for state and local governments. While the final stipulations of the bill are almost certain to change, the incoming aid will uplift the economy in the near term, but at the cost of introducing some potential longer-term risks. The extensive deficit spending necessitated by the health crisis will likely result in an overall higher tax burden down the line, whether at the local or federal level or both. The ample amount of liquidity injected into the market also raises inflation risk.

The Federal Reserve continues to carefully monitor inflation. As this year progresses, the Fed will have to walk a tightrope balancing economic growth and the potential for accelerated inflation. The Federal Open Market Committee has already signaled that it is willing to allow inflation to rise above a 2 percent annual growth rate following multiple years of below-target increases. To what extent above that threshold the FOMC will permit is as of yet unclear. Even so, the Fed may still be forced to raise interest rates and tighten monetary policy later this year if the risk of spiraling inflation becomes likely. This shift in policy could elicit an unintended reaction from the market, derailing economic growth in unexpected ways. If the central bank acts too early it could also prematurely temper economic growth. Even if the FOMC executes its strategy flawlessly, high inflation could still occur. Recent government actions have injected ample liquidity into the market. At the same time, many consumers have added to their savings while staying at home, expanding their potential spending power. The financial standings of many households have also improved via rising home equity values, a byproduct of a competitive single-family housing market fueled by low interest rates and recent lifestyle changes. All of these factors together create a scenario in which, once the health crisis is mitigated, consumer spending substantially jumps ahead of the available supply of goods and services, raising prices. Depending on the timing, however, this wave of spending could also act as its own form of stimulus.

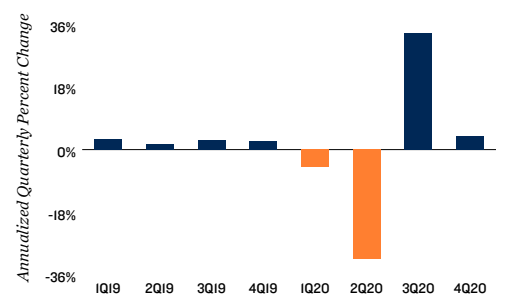
Core Retail Sales Bounce Back



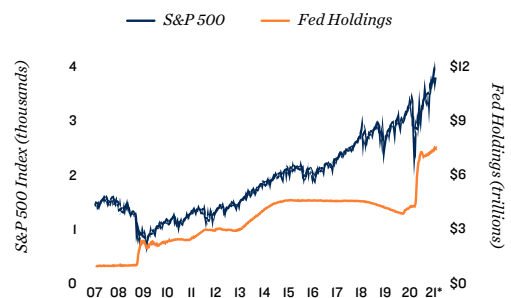
Savings Deposits Steadily Climbing



GDP Growth Trends



Fed-Injected Liquidity Lifting Equity Prices



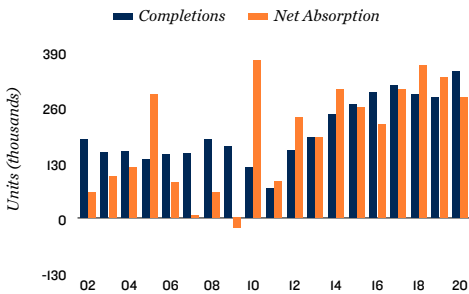
* Through January

Sources: BEA; Federal Reserve; Standard & Poor's; U.S. Census Bureau

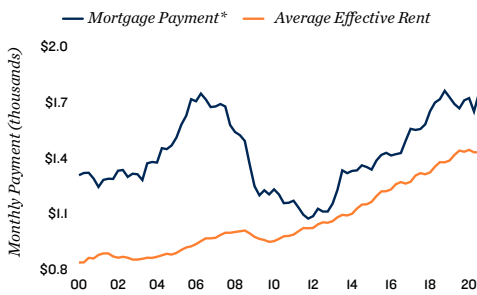
Apartment Vacancy Rate



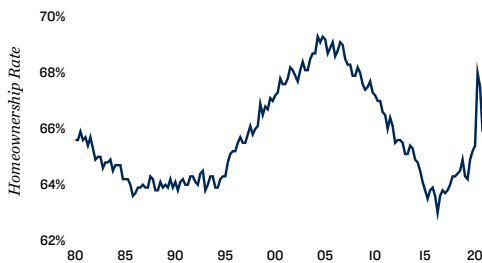
Completions vs. Absorption



Rent and Home Payment Trends



Homeownership Rate



* Mortgage payments based on quarterly median home price for a 30-year fixed rate mortgage, 90 percent LTV, taxes, insurance and PMI.
Sources: Freddie Mac; National Association of Realtors; RealPage, Inc.; U.S. Census Bureau

Trends Preceding the Health Crisis Accelerated by the Quarantine Experience and Adoption of Remote Work

Expedited homeownership transition not a major concern. Many people prioritized space and privacy after experiencing quarantine, leading to a wave of first-time homebuyers, assisted by low interest rates. The rapid increase in homebuying pushed prices up significantly, though, with new supply constrained by higher material costs and fewer existing homes available for purchase. Those with tighter budgets will be unable to meet the down-payment requirement, keeping them as renters. Economic distress could also play a factor, stalling career advancement and pressing on wage growth. Multiple-bedroom apartments may draw favor from families wanting to accommodate at-home work and schooling.

Renters' living preferences altered. Living and working at home have made many reevaluate their ideal conditions. Suburban apartments are garnering more attention for their larger floor plans, less population density and comparatively lower rental costs. In the short term, remote workers could take advantage of the flexibility and distance themselves from their office. Apartments in the suburbs will lure more of these tenants long term as well, with some firms likely to keep staff remote beyond the pandemic. Urban complexes are facing greater near-term headwinds, largely due to the closure of downtown offices and shops. The reopening of CBD workspaces, entertainment and services will catalyze downtown renter demand, however, as many prefer this immersive lifestyle.

Apartment tiers facing different sources of adversity. High unemployment among lower-wage earners is a burden on Class C demand, though the segment was resilient in 2020. Expanded unemployment benefits, rental assistance and eviction moratoriums are helping bolster rent collections and Class C fundamentals, but challenges remain evident amid historically high weekly initial jobless claims. At the same time, budget-friendly options could appeal to financially cautious tenants during economic turbulence. The Class A segment was less impacted by job losses, with more tenants able to work remote, but it had a greater adjustment to fundamentals when builds were completed amid limited move-ins. Supply overhang could prompt operators in overbuilt areas to use concessions, though demand for upper-tier rentals should ramp up alongside economic recovery momentum.

Solid performance, promising outlook sustain investment appeal. The key pillar supporting apartment demand is the interminable need for housing. While economic distress presses on many households' discretionary spending habits, having a place to live remains an indispensable priority and apartments reap a significant share of this demand. Alongside this, trends including the population's preference to wait longer to start families underpin extended tenant timelines. Uncertainty regarding near-term hurdles such as past-due rent and high unemployment will keep some buyers passive this year, though major asset discounts did not materialize. Capital has built up on the sidelines and is ready to be allocated as the nation makes headway on combating the virus.

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In-Migration Momentum

Atlanta
Austin
Charlotte
Dallas/Fort Worth
Denver
Nashville

Phoenix
Raleigh
Salt Lake City

- Sunbelt metros noting exceptional in-migration, household formation and employment growth prior to the health crisis have the strongest multifamily tailwinds. Fewer job losses in these markets should help expedite the economic recovery, aiding rental demand.
- Mountain region metros have significant demand momentum due to their fast-growing populations and underlying dynamics. Quality-of-life and cost-of-living considerations are luring new residents.

Demographic Tailwinds

Houston
Indianapolis
Riverside-San Bernardino
Sacramento
San Antonio
Seattle-Tacoma
Tampa-St. Petersburg

- Markets that fall in this category align closely with the strongest tailwind grouping in terms of demographic trends and location, though in-migration and household formation have been slightly less impressive, keeping them a notch lower in the outlook.
- The two main inland metros in California that are attracting residents away from the larger coastal markets hold a spot in this category. The adoption of remote working is bolstering tenant relocations.

Mild Pandemic Setback

Cincinnati
Columbus
Fort Lauderdale
Kansas City
Louisville

Miami-Dade
Minneapolis-St. Paul
Portland
Washington, D.C.
West Palm Beach

- A handful of markets throughout the Midwest and central U.S. comprise this grouping. Apartment conditions here have been comparatively calm during the pandemic with modest development helping abate demand-driven headwinds.
- Some metros in Florida belong to this category despite the state's overall positive migration trends. Growth momentum may be subdued by the beleaguered service sectors amid fewer visitations.

Protracted Recovery

Boston
Chicago
Las Vegas
Los Angeles
New York City
Northern New Jersey
Oakland

Orange County
Orlando
San Diego
San Francisco
San Jose

- Gateway metros that are typically premier apartment markets face significant near-term hurdles, though they should recover in the longer term as they remain some of the most attractive places to live in the country.
- Metros with a heavy reliance on tourism fall into the protracted recovery category this year. The recovery timeline for places like Las Vegas and Orlando is elongated by steep job losses within service fields.

Slow Growth

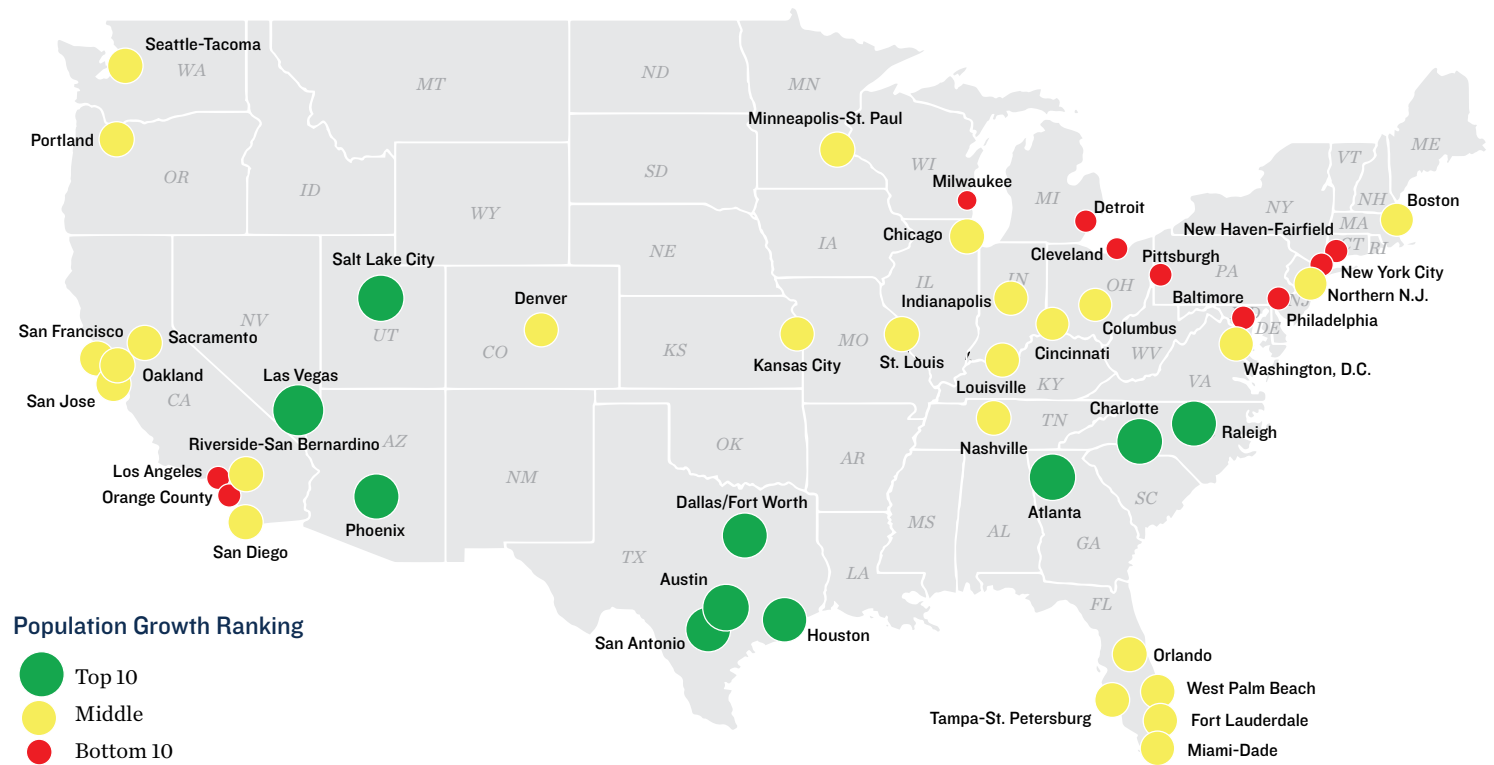
Baltimore
Cleveland
Detroit
Milwaukee
New Haven-Fairfield County

Philadelphia
Pittsburgh
St. Louis

- Several Midwest markets drop into this category due to slow economic growth and subpar demographic trends. A tailwind is that secondary and tertiary markets are increasingly luring residents, though these markets may not be the primary beneficiaries.
- Smaller metros along the East Coast hold a spot in the slow growth category. In-migration to these markets has been weak despite population movement out of larger cities nearby.

Young Adult Population Growth Influences Local Rental Demand

Five-Year Percent Change Forecast: 2020-2025



2016-2020 Household Growth

Highest Growth

Metro	Trailing-5-Year Total
Dallas/Fort Worth	271,500
Houston	212,000
Atlanta	162,600
Phoenix	149,300
Washington, D.C.	130,100
Austin	111,200
Orlando	98,100
Seattle-Tacoma	96,400
Charlotte	94,100
Tampa-St. Petersburg	91,900

2016-2020 Household Growth

Lowest Growth

Metro	Trailing-5-Year Total
Cleveland	500
Pittsburgh	2,500
San Jose	6,600
Milwaukee	7,400
New Haven-Fairfield County	11,100
New York City	13,300
San Francisco	13,800
Louisville	15,300
Orange County	15,300
St. Louis	25,500

2016-2020 Net Migration

Largest Gains

Metro	Trailing-5-Year Total
Dallas/Fort Worth	390,100
Phoenix	352,800
Atlanta	252,300
Tampa-St. Petersburg	239,400
Houston	219,100
Orlando	207,100
Austin	197,000
Seattle-Tacoma	189,500
Charlotte	172,000
Las Vegas	166,800

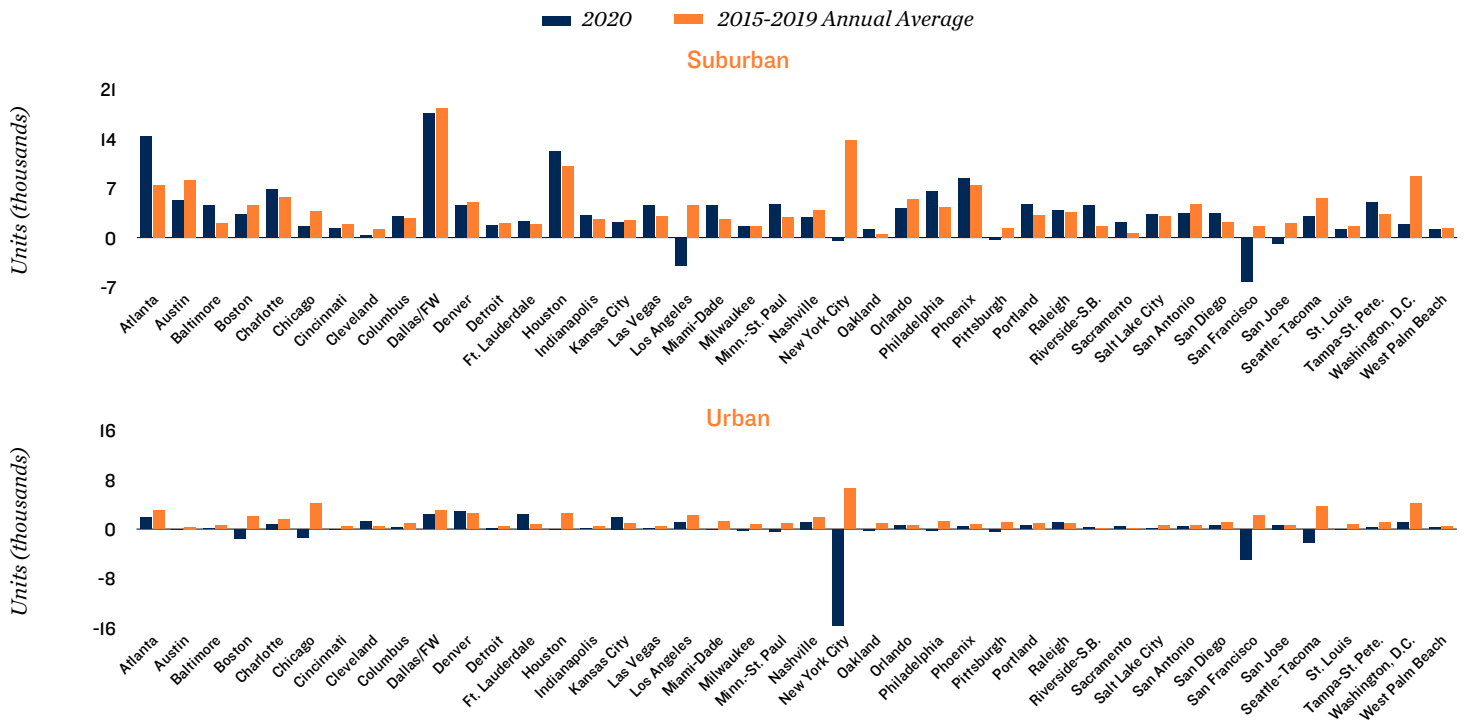
2016-2020 Net Migrations

Net Losers

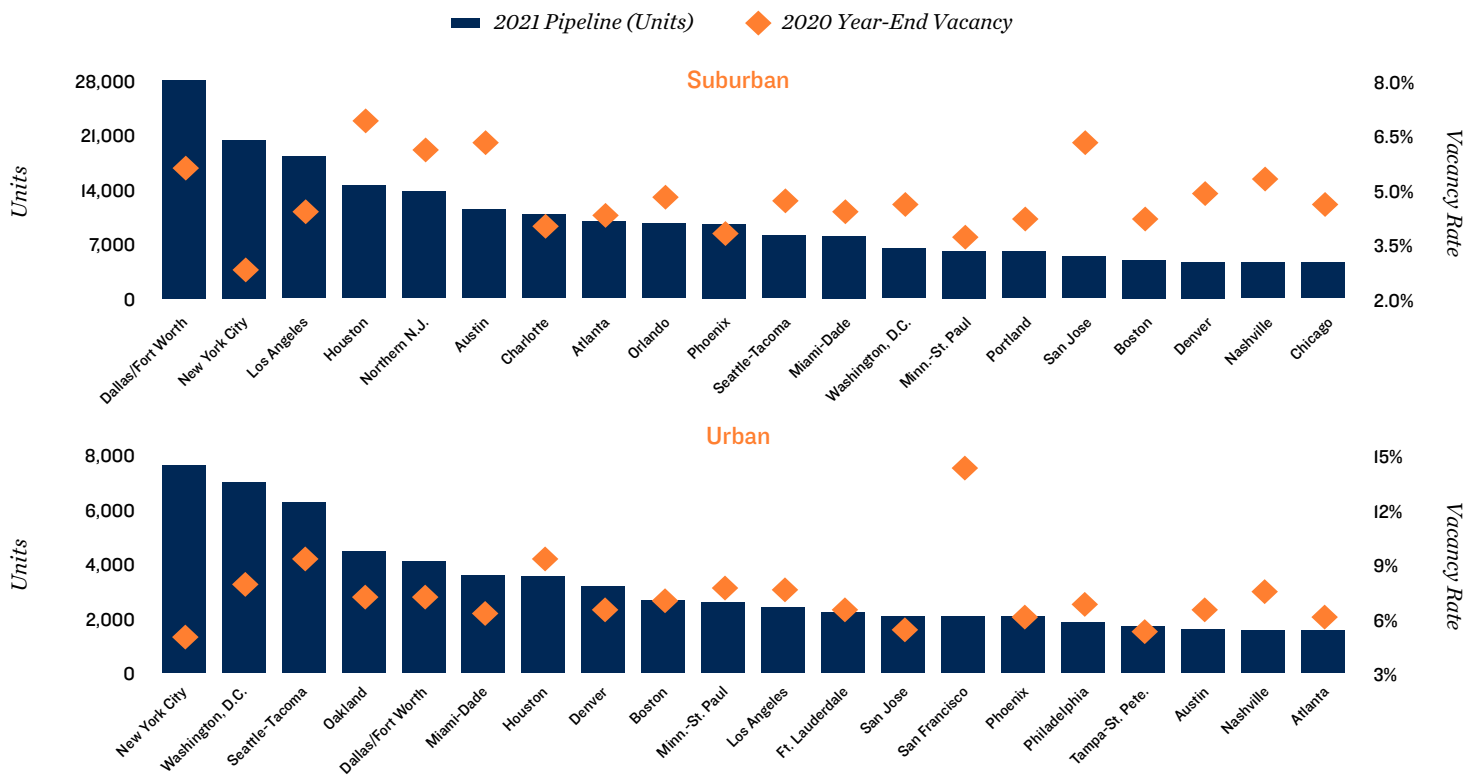
Metro	Trailing-5-Year Total
New York City	-379,900
Chicago	-313,900
Los Angeles	-296,400
Northern New Jersey	-66,900
Orange County	-57,900
San Jose	-34,400
Detroit	-33,000
San Diego	-28,000
St. Louis	-28,000
New Haven-Fairfield County	-27,800

Sources: Experian; Moody's Analytics

Net Absorption vs. Five-Year Trailing Average



2021 Pipeline - Top 20 Markets



Sources: CoStar Group, Inc.; RealPage, Inc.

Multifamily Data Summary

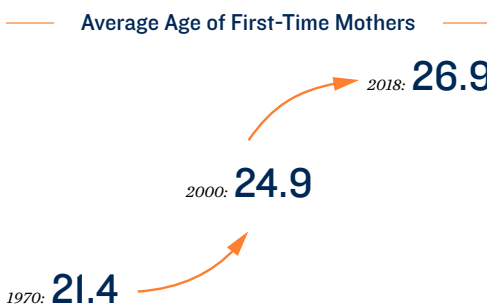
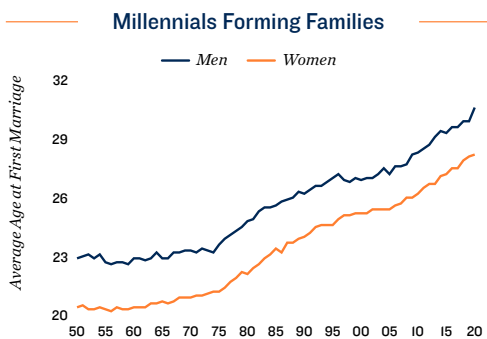
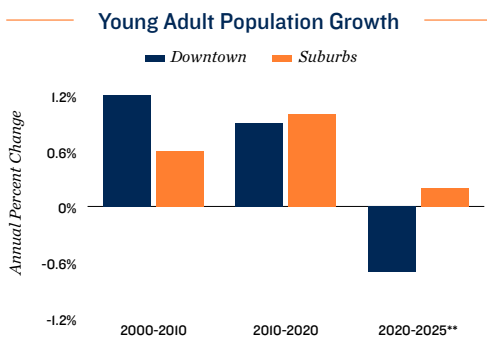
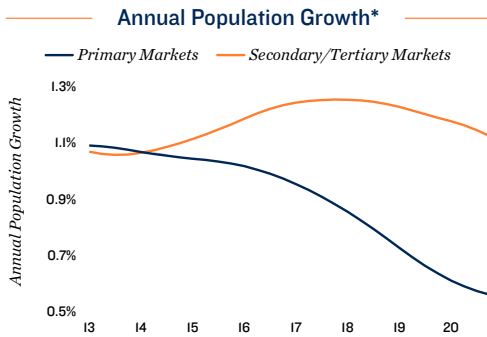
Market Name	Employment Growth				Completions (Units)				Vacancy	
	2017	2018	2019	2020	2017	2018	2019	2020	2017	2018
Atlanta	2.2%	1.9%	2.5%	-2.6%	12,700	8,800	9,500	13,800	6.1%	5.3%
Austin	3.3%	4.2%	3.6%	-1.0%	10,100	8,800	8,700	9,900	6.0%	5.3%
Baltimore	1.1%	0.8%	1.2%	-5.1%	4,100	3,500	1,700	3,400	5.8%	5.2%
Boston	1.3%	1.3%	0.9%	-9.2%	7,800	7,300	6,100	9,400	4.3%	3.7%
Charlotte	2.2%	2.5%	2.3%	-4.9%	7,800	7,800	8,200	7,400	5.5%	5.1%
Chicago	0.7%	0.7%	0.4%	-7.4%	9,500	9,200	10,400	8,400	6.0%	5.3%
Cincinnati	1.3%	1.1%	0.8%	-4.6%	1,500	1,600	800	2,200	5.1%	4.3%
Cleveland	0.4%	1.4%	0.5%	-8.6%	1,100	1,900	700	1,500	5.8%	4.7%
Columbus	1.3%	1.3%	1.2%	-6.2%	3,500	4,200	3,900	3,600	4.6%	4.1%
Dallas/Fort Worth	2.2%	2.5%	3.2%	-2.1%	24,700	24,500	25,300	25,800	5.6%	5.5%
Denver	2.6%	2.0%	2.8%	-4.4%	7,900	10,400	8,500	8,000	5.9%	5.2%
Detroit	1.2%	1.3%	0.5%	-11.0%	1,300	800	1,400	1,100	3.9%	3.4%
Fort Lauderdale	1.7%	1.8%	1.2%	-7.3%	3,600	2,900	2,300	4,900	5.3%	5.1%
Houston	1.6%	2.7%	2.0%	-4.3%	18,900	8,300	8,700	18,800	6.5%	7.2%
Indianapolis	1.8%	0.9%	0.9%	-0.8%	1,800	2,500	2,800	2,600	6.5%	5.7%
Kansas City	1.3%	0.4%	1.1%	-2.8%	4,200	3,200	2,300	5,100	5.4%	5.3%
Las Vegas	2.9%	3.1%	1.9%	-9.5%	3,100	3,400	2,400	2,900	5.5%	4.8%
Los Angeles	1.6%	1.4%	1.1%	-9.1%	5,900	8,200	7,600	10,600	3.9%	3.6%
Louisville	1.1%	0.7%	0.4%	-5.1%	1,700	1,600	1,500	2,500	5.7%	4.9%
Miami-Dade	1.5%	1.8%	1.1%	-5.5%	4,900	5,000	6,700	7,800	3.7%	4.1%
Milwaukee	0.9%	0.4%	0.2%	-7.4%	3,300	2,400	2,400	2,000	4.8%	3.5%
Minneapolis-St. Paul	1.5%	1.2%	0.3%	-8.0%	4,300	5,000	5,300	7,800	3.1%	3.0%
Nashville	3.1%	3.3%	3.0%	-4.2%	8,100	6,700	4,000	6,200	5.1%	5.3%
New Haven-Fairfield County	-0.1%	0.4%	0.0%	-8.0%	1,300	1,600	1,400	1,700	5.0%	4.4%
New York City	2.0%	2.1%	1.8%	-12.2%	25,400	21,900	21,200	17,900	2.3%	2.0%
Northern New Jersey	1.3%	0.5%	0.7%	-9.1%	9,900	7,700	9,200	10,200	4.5%	3.9%
Oakland	1.9%	1.2%	0.1%	-9.6%	2,200	900	4,200	4,300	4.0%	3.9%
Orange County	2.0%	1.2%	1.2%	-8.5%	5,000	3,800	2,800	2,700	4.0%	3.8%
Orlando	3.4%	2.7%	2.5%	-9.7%	7,000	6,800	6,800	7,600	3.8%	4.0%
Philadelphia	1.3%	1.0%	0.9%	-7.2%	5,200	4,500	5,300	6,800	4.9%	4.2%
Phoenix	3.4%	3.4%	3.6%	-2.3%	6,100	8,500	8,200	8,500	5.6%	4.6%
Pittsburgh	1.3%	0.8%	0.5%	-7.1%	1,900	1,600	600	900	5.9%	4.0%
Portland	2.5%	2.0%	1.4%	-8.5%	4,700	4,700	5,100	6,000	5.0%	4.5%
Raleigh	2.5%	2.1%	2.0%	-4.5%	5,400	5,000	5,500	5,900	5.8%	5.2%
Riverside-San Bernardino	4.0%	3.0%	1.5%	-7.2%	900	1,300	2,500	1,700	3.9%	3.6%
Sacramento	2.7%	2.6%	1.5%	-6.9%	700	800	1,300	1,800	3.5%	3.6%
Salt Lake City	3.2%	2.7%	3.3%	0.4%	4,700	4,300	3,400	3,800	4.4%	4.3%
San Antonio	1.6%	2.1%	2.3%	-3.4%	6,800	5,300	4,600	4,900	7.4%	6.6%
San Diego	2.1%	1.7%	1.5%	-6.9%	2,500	3,600	3,600	3,300	3.7%	3.5%
San Francisco	2.1%	3.6%	3.0%	-9.9%	5,200	4,200	2,700	4,100	4.8%	4.4%
San Jose	2.2%	2.0%	1.3%	-6.9%	2,800	2,400	2,000	4,300	4.7%	4.3%
Seattle-Tacoma	2.4%	2.1%	2.5%	-7.2%	9,700	9,700	11,600	6,800	5.1%	4.7%
St. Louis	1.0%	0.3%	0.5%	-4.6%	1,600	2,300	1,900	2,000	6.9%	5.8%
Tampa-St. Petersburg	1.9%	2.2%	2.7%	-3.6%	4,300	5,400	5,400	5,500	4.9%	4.6%
Washington, D.C.	1.0%	1.3%	1.7%	-5.2%	13,600	11,500	11,700	12,700	5.0%	4.5%
West Palm Beach	1.6%	1.8%	0.7%	-6.0%	3,300	2,200	1,100	1,800	6.1%	5.2%
United States	1.5%	1.6%	1.4%	-6.1%	312,800	291,100	284,200	344,400	5.1%	4.6%

Multifamily Data Summary

Rate		Effective Monthly Rate				Average Price/Unit				Market Name
2019	2020	2017	2018	2019	2020	2017	2018	2019	2020	
5.1%	4.5%	\$1,131	\$1,206	\$1,273	\$1,302	\$98,800	\$113,400	\$122,000	\$136,500	Atlanta
4.6%	6.2%	\$1,191	\$1,255	\$1,311	\$1,258	\$125,200	\$136,900	\$150,200	\$155,700	Austin
4.8%	4.1%	\$1,270	\$1,310	\$1,347	\$1,383	\$127,800	\$130,300	\$133,700	\$142,100	Baltimore
3.4%	4.9%	\$2,186	\$2,320	\$2,410	\$2,221	\$303,800	\$304,200	\$309,100	\$303,200	Boston
4.7%	4.4%	\$1,038	\$1,098	\$1,175	\$1,199	\$105,900	\$116,300	\$126,200	\$142,100	Charlotte
4.9%	5.9%	\$1,415	\$1,498	\$1,542	\$1,472	\$162,000	\$157,400	\$158,000	\$157,700	Chicago
3.3%	3.6%	\$900	\$939	\$994	\$1,022	\$52,600	\$54,000	\$56,000	\$56,200	Cincinnati
3.7%	3.5%	\$882	\$900	\$963	\$980	\$56,500	\$58,600	\$60,600	\$64,400	Cleveland
4.2%	4.1%	\$901	\$942	\$980	\$1,026	\$60,000	\$67,200	\$76,600	\$84,600	Columbus
5.1%	5.7%	\$1,081	\$1,124	\$1,174	\$1,182	\$97,100	\$103,700	\$114,900	\$122,500	Dallas/Fort Worth
5.1%	5.1%	\$1,407	\$1,471	\$1,516	\$1,509	\$174,800	\$185,400	\$198,100	\$205,500	Denver
3.3%	2.6%	\$935	\$968	\$998	\$1,056	\$61,900	\$67,900	\$75,500	\$77,500	Detroit
4.4%	4.2%	\$1,500	\$1,587	\$1,637	\$1,650	\$148,700	\$155,100	\$163,000	\$168,500	Fort Lauderdale
6.3%	7.0%	\$1,073	\$1,100	\$1,122	\$1,095	\$96,700	\$102,600	\$109,500	\$117,200	Houston
5.3%	4.7%	\$839	\$881	\$924	\$952	\$62,900	\$68,500	\$74,400	\$80,800	Indianapolis
4.6%	4.9%	\$917	\$941	\$980	\$1,002	\$78,300	\$85,600	\$92,900	\$99,000	Kansas City
4.7%	3.5%	\$952	\$1,039	\$1,113	\$1,153	\$91,500	\$104,800	\$124,900	\$135,200	Las Vegas
3.7%	4.5%	\$2,161	\$2,255	\$2,332	\$2,221	\$251,800	\$273,400	\$288,100	\$289,700	Los Angeles
4.8%	4.9%	\$829	\$865	\$901	\$917	\$85,000	\$89,000	\$95,100	\$96,400	Louisville
3.8%	4.8%	\$1,547	\$1,656	\$1,715	\$1,668	\$172,500	\$170,100	\$173,000	\$175,400	Miami-Dade
3.5%	3.7%	\$1,068	\$1,127	\$1,172	\$1,205	\$81,200	\$88,700	\$90,000	\$91,400	Milwaukee
3.3%	4.3%	\$1,236	\$1,294	\$1,358	\$1,346	\$123,100	\$127,600	\$136,800	\$147,300	Minneapolis-St. Paul
4.5%	5.6%	\$1,116	\$1,198	\$1,283	\$1,245	\$127,400	\$134,500	\$145,800	\$160,400	Nashville
4.4%	4.0%	\$1,800	\$1,866	\$1,889	\$1,888	\$177,200	\$178,900	\$181,100	\$185,600	New Haven-Fairfield County
2.0%	3.7%	\$2,652	\$2,709	\$2,760	\$2,668	\$324,100	\$324,900	\$329,400	\$328,500	New York City
4.4%	6.1%	\$1,868	\$1,922	\$1,967	\$1,923	\$159,000	\$164,800	\$176,100	\$178,000	Northern New Jersey
3.9%	4.5%	\$2,241	\$2,318	\$2,361	\$2,247	\$248,100	\$267,400	\$306,800	\$289,400	Oakland
3.6%	3.2%	\$2,012	\$2,080	\$2,147	\$2,139	\$265,700	\$304,100	\$304,200	\$307,100	Orange County
4.1%	5.0%	\$1,174	\$1,240	\$1,287	\$1,252	\$132,200	\$144,000	\$155,100	\$152,900	Orlando
3.5%	3.3%	\$1,257	\$1,320	\$1,382	\$1,417	\$151,600	\$163,800	\$172,800	\$164,500	Philadelphia
4.0%	3.8%	\$993	\$1,074	\$1,185	\$1,248	\$113,100	\$124,200	\$144,000	\$163,400	Phoenix
3.2%	4.5%	\$1,073	\$1,124	\$1,185	\$1,180	\$80,800	\$89,800	\$104,300	\$105,400	Pittsburgh
4.5%	4.4%	\$1,321	\$1,370	\$1,427	\$1,427	\$167,700	\$177,400	\$192,400	\$200,900	Portland
4.7%	4.9%	\$1,056	\$1,105	\$1,167	\$1,182	\$123,800	\$135,500	\$148,500	\$168,400	Raleigh
3.5%	1.8%	\$1,426	\$1,492	\$1,568	\$1,717	\$133,900	\$149,400	\$159,000	\$165,700	Riverside-San Bernardino
3.5%	2.6%	\$1,351	\$1,416	\$1,501	\$1,597	\$123,300	\$140,100	\$155,400	\$174,800	Sacramento
4.2%	4.2%	\$1,070	\$1,130	\$1,177	\$1,205	\$123,100	\$136,000	\$154,900	\$165,200	Salt Lake City
6.2%	6.3%	\$927	\$972	\$1,013	\$1,009	\$97,700	\$103,400	\$105,500	\$102,200	San Antonio
3.6%	3.3%	\$1,867	\$1,965	\$2,046	\$2,069	\$241,100	\$258,200	\$267,300	\$282,800	San Diego
5.1%	11.7%	\$2,742	\$2,854	\$2,898	\$2,568	\$427,400	\$460,400	\$470,600	\$452,700	San Francisco
3.9%	6.1%	\$2,689	\$2,826	\$2,890	\$2,480	\$361,000	\$398,000	\$412,100	\$397,300	San Jose
4.3%	5.3%	\$1,641	\$1,709	\$1,817	\$1,747	\$233,900	\$239,600	\$260,600	\$265,800	Seattle-Tacoma
4.4%	4.7%	\$869	\$900	\$963	\$989	\$84,000	\$87,400	\$92,500	\$100,800	St. Louis
4.6%	4.2%	\$1,114	\$1,195	\$1,242	\$1,286	\$106,300	\$116,400	\$125,800	\$130,900	Tampa-St. Petersburg
4.0%	5.1%	\$1,695	\$1,751	\$1,812	\$1,732	\$203,600	\$206,700	\$215,400	\$224,600	Washington, D.C.
4.7%	4.6%	\$1,503	\$1,593	\$1,683	\$1,707	\$168,000	\$171,000	\$175,900	\$182,100	West Palm Beach
4.2%	4.4%	\$1,300	\$1,364	\$1,421	\$1,410	\$148,100	\$151,800	\$161,200	\$164,600	United States

Sources: BLS; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

High Density in Large Cities Unfavorable During the Pandemic, Accelerating Population Outmigration



Population movement out of major markets hastened by the pandemic. Many of the largest cities along the coast, such as New York City, Los Angeles and San Francisco, have been noting outmigration over the past decade due to the high costs of living and overcrowding. This trend was accelerated by the health crisis when people desired lower population density and remote working provided the flexibility to move. Concerns over social distancing and the closure of downtown businesses are stunting the allure of primary markets, though these should be relatively short-term headwinds. Once the health crisis is under control, major metros along the coast should retain their position as some of the most attractive places to live in the United States, although the forces driving residents out of these places prior to the pandemic will continue to be at play. Smaller inland markets have significantly lower costs of living and doing business, drawing residents and firms that are looking to tighten up their budgets. Additionally, some companies will allow remote working beyond the end of the health crisis. Employees who are working virtually could explore living options in secondary and tertiary markets to save money, while firms could make the move out of primary markets if remote working diminishes the advantage of having an office space within the largest population hubs.

Migration trends favor the South, greater job availability a factor. Sunbelt markets such as Dallas/Fort Worth, Austin and Phoenix have been among the fastest growing in terms of employment and population growth over the past cycle. Labor market conditions in these metros have outperformed most coastal markets through the health crisis as well, signaling that the recovery in the Sunbelt could be comparatively smooth and swift. This region of the southern United States is luring firms and residents for a variety of factors including a lower cost of living, business-friendly conditions and a high quality of life. Corporations will continue to expand their employment bases in these cities and others will relocate from gateway markets as they look to tap into the local talent pool. Young adults in particular may be eager to move to the Sunbelt, where job availability is greater than in markets recovering at a slower pace. Apartment operators will benefit from these trends as robust household growth will dictate demand for rental housing.

Remote working a tailwind for cities proximate to larger gateways. Secondary and tertiary metros that neighbor larger primary markets are benefiting from population migration trends. Cities such as Sacramento and Riverside-San Bernardino have been luring residents from the Bay Area and Los Angeles with remote working allowing employees to distance themselves from their company office. Lower living costs paired with less traffic congestion are bolstering the appeal of these smaller markets, which are still within driving distance of the coastal markets in case the employee needs to make the trip to their workplace. The longevity of this tailwind is still uncertain, however, as many companies will bring workers back into the office once it is safe to do so. Metros neighboring larger gateway cities will need to maintain employment growth over the long term via business relocations. The ongoing household creation and population growth in these inland markets should provide a boost for the local economies and catalyze job creation, providing near-term momentum for apartment fundamentals.

* Trailing five-year average

** Forecast

Sources: Experian; Moody's Analytics; U.S. Census Bureau

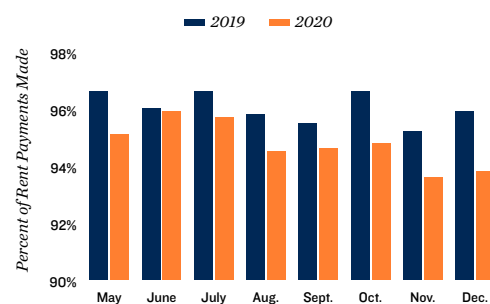
Stimulus Bill Helps Bridge the Gap; Political Transition May Lead to More Assistance This Year

December 2020 stimulus timely help for the multifamily industry. Unemployment benefits have been a crucial lifeline during the health crisis, helping many jobless tenants meet financial obligations, including rent. It was feared that collections would fall drastically both at the beginning of the pandemic when unemployment skyrocketed and after the expiration of the CARES Act, but this was not the case. Collections held relatively firm at down roughly 2 percent year over year during most of the summer and fall months, but they began to trend down in late 2020. The stimulus passed in December should help brace the industry in the early stages of this year, though. The COVID-19 relief package restarted the federal unemployment benefits at \$300 per week, lasting until March 14. First-quarter rent collections should also be boosted by the \$600 per person direct payment that was sent out to qualifying taxpayers. If another larger stimulus check emerges with the Biden administration collaborating with a more Democratic Party-aligned Congress, it will further reinforce rent collections and reduce financial shortfalls.

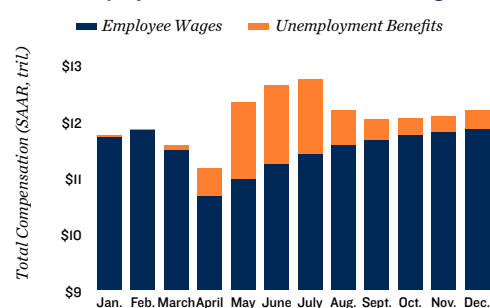
Protections for tenants and owners extended. The December 2020 stimulus bill included language to extend the nationwide eviction moratorium by one month through Jan. 31, 2021. The Biden administration further lengthened the moratorium on a national level until March 31. Another extension could follow, or the decision may be given to states and local governments. Freddie Mac also elongated its loan forbearance program by three months, accepting new applications until March 31. Borrowers of federally backed mortgages facing financial challenges may use this avenue, while being aware that it disallows evicting tenants for nonpayment. Additionally, the stimulus included \$25 billion in rent relief funds, which will be used to pay off overdue rent and utilities tracing back to the start of the pandemic. State and local governments will distribute relief funds directly to landlords and utility companies in most cases, hopefully streamlining the process. The Biden administration, now with a slim majority in the Senate, has also expressed interest in additional rent relief later this year, which could help resolve tenant shortcomings and reduce the number of evictions that will play out.

President Biden's infrastructure plan may present multifamily investment opportunities. One of the key components of President Biden's campaign efforts centered around improving infrastructure, with long-term sustainability in mind. The proposed plan is to invest \$2 trillion into a myriad of projects, some of which could benefit multifamily in certain metros and submarkets. Approximately \$46 billion would be allocated toward improving roads, bridges and public transportation. This would create construction jobs in metros undergoing major overhauls, generating demand for living options. Additionally, new transit lines may spur household formation in outlying neighborhoods that now have access to the urban core via light rail or bus. Biden's plan would also create jobs in the auto and clean energy industries, potentially benefiting markets in the Midwest and Texas. Other aspirations are to retrofit 4 million buildings and to build at least 1.5 million affordable housing units, which should bolster construction employment and underpin apartment demand in cities where the most upgrades are planned. Nevertheless, the details of the plan remain negotiable and some ambitions may not come to fruition.

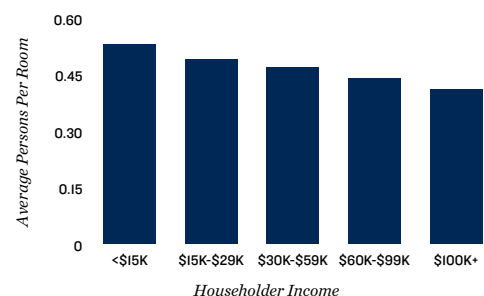
Share of Rent Payments Made



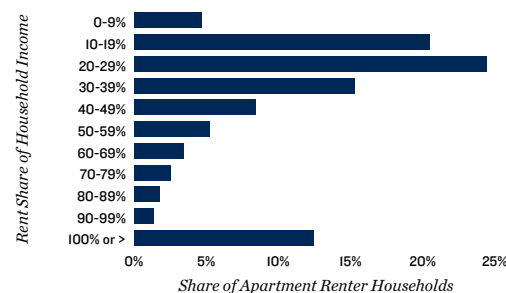
Unemployment Benefits Offset Lost Wages



How Income Affects Crowding*



Gross Rent as a Percent of Household Income**



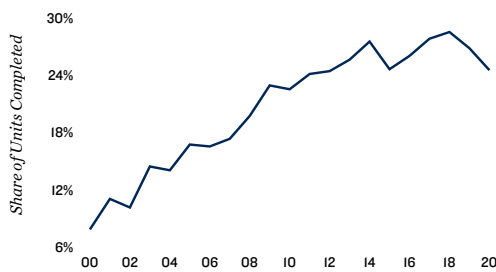
* As of 2018

** As of 2019

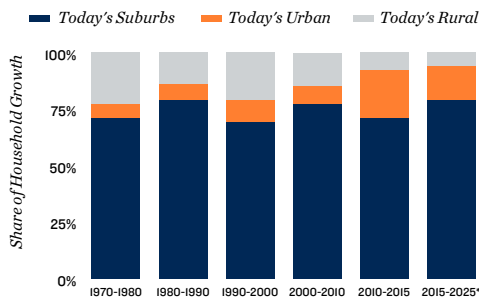
Sources: BEA; NMHC; U.S. Census Bureau

Flexibility of Remote Working, Space Needs and Budget Considerations Underpin Demand in Suburbs

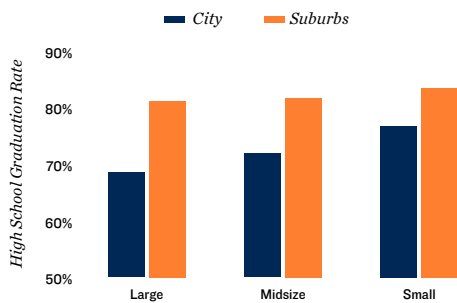
Share of Completions in Downtown



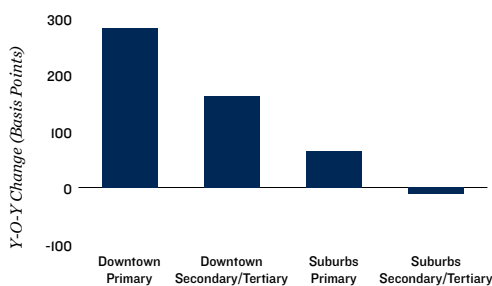
Suburbs to See More Growth



Grad Rates Higher in Suburbs



Y-O-Y Vacancy Change



* Forecast
Sources: CoStar Group, Inc.; Department of Education; John Burns Real Estate Consulting; RealPage, Inc.

More tenants prioritizing square footage, renting suburban units. Spending more time at home during quarantine and the shift to remote working have altered renters' attitudes regarding their ideal living situation. Space has taken priority over location for many when looking for an apartment, leading more tenants to the suburbs where unit sizes and communal areas can be larger. The trade-off between urban and suburban multifamily has been put in the spotlight by diverging performance metrics in 2020, though the shift was occurring prior to the onset of the pandemic. Household growth in the suburbs was notably increasing over the past five years, and it was anticipated that aging millennials moving out of urban cores to start families would reinforce this trend going forward. Nevertheless, suburban apartments face more direct competition from single-family houses than urban complexes as housing construction is impractical downtown. Apartments in markets with a larger percentage of later-stage millennials may lose out on potential tenants that are making the transition to homeownership; however, high mortgage down-payment requirements could bolster the renter pool in the suburbs even within this demographic.

Employment growth outside of urban cores supplement household formation. Suburban office demand is expected to be more stable coming out of the health crisis alongside household creation, further underpinning demand for apartments beyond the urban core. Difficulty accommodating social distancing in downtown high-rise buildings and plans for less in-office staff are driving firms to suburban floor plans. This could create new employment hubs in rings just outside of urban cores, where companies can attract personnel from both the suburbs and downtown. Employees that are working in the office will want to live close to their workplace, buoying demand for apartments in nearby neighborhoods. Additionally these suburban rings also appeal to tenants considering a move outside of the urban core, but not so far away that they cannot enjoy some of the dynamics of downtown. Multifamily complexes in corridors just beyond the core will benefit from underlying trends such as these over the coming years, potentially providing a tailwind for rent as robust demand presses down on vacancy.

Reopening of downtown shops and workplaces will revive demand for urban units. Downtown apartments have faced significantly greater headwinds during the health crisis and challenges will continue into 2021, though the long-term outlook remains promising. Many of the factors that are diminishing the appeal of urban living are relatively short term and should subside soon after the end of the pandemic. Urban amenities such as entertainment and nightlife that are typically decisive selling points to tenants when considering their living space have been closed or operating at limited capacity. This and the closure of central business district offices are pivotal components of the ongoing demand shift away from urban cores. Looking longer term, downtown businesses and workplaces will reopen once it is deemed safe to do so. Downtown apartments will once again be attractive options for young adults, as many prefer this type of lifestyle and proximity to services. Downtown fundamentals will take longer to recover in markets that have had greater restrictions in place, though, as businesses in usually high-foot-traffic areas have been especially hit hard. Job losses from downtown employers and shuttered shops will hinder demand for urban apartments in some of these places.

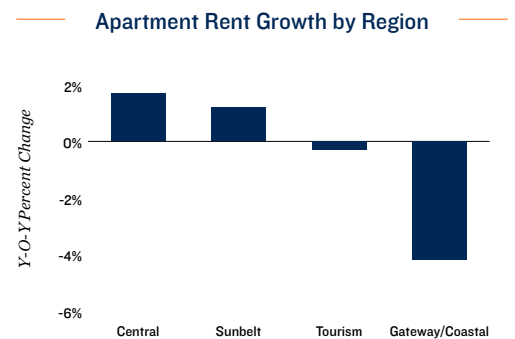
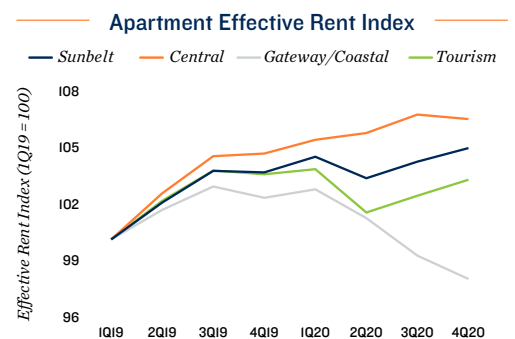
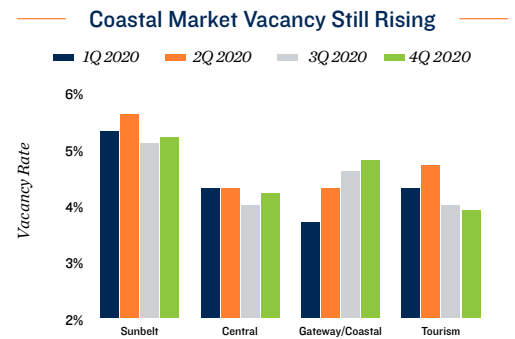
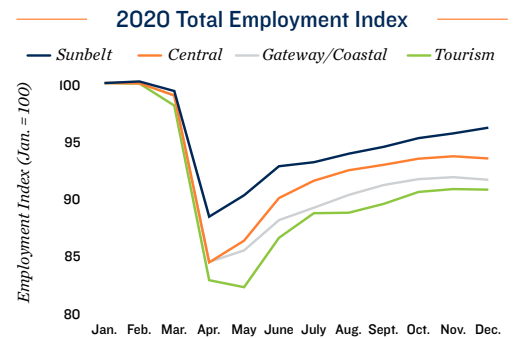
Multifamily Performance Differs Around the Country; Tourism and Coastal Markets the Most Challenged

Sunbelt employment on better footing, aiding multifamily. Metros in the Sunbelt sustained higher levels of employment than other areas of the country in 2020, largely due to economic diversity, less restrictions and migration trends. Comparatively low unemployment throughout the region and especially in Tampa-St. Petersburg and Atlanta have been favorable for multifamily fundamentals and rent collections. Sunbelt markets, in general, should also be some of the quickest to regain growth momentum coming out of the health crisis, further boosting apartment demand. However, a handful of markets here including Dallas/Fort Worth and Austin top the nation in construction activity, which could present near-term supply-side pressure. Nevertheless, any adjustment to fundamentals within the Class A tier competing with these new additions should be temporary, and the long-term demand outlook is underpinned by steady in-migration and business relocations.

Apartments in the Central U.S. face fewer obstacles. A handful of secondary and tertiary markets in mid-America have been resilient to the economic disruption, bracing multifamily fundamentals. Rent collections in many of these metros held higher than other areas of the country as well since the ratio of unemployment benefits to the cost of living was more suitable for jobless tenants to meet dues. Metros including Indianapolis, Kansas City and Columbus noted unemployment rates well below the national average ending 2020 after avoiding the most severe outbreaks and shutdowns, which kept more shops open and staff on payrolls. At the same time, vital transportation networks run through central U.S. markets and the growth of e-commerce could be a tailwind for logistics employment. The outlook for central region apartments is more modest than the Sunbelt, but owners will face less supply-side pressure, aiding fundamentals.

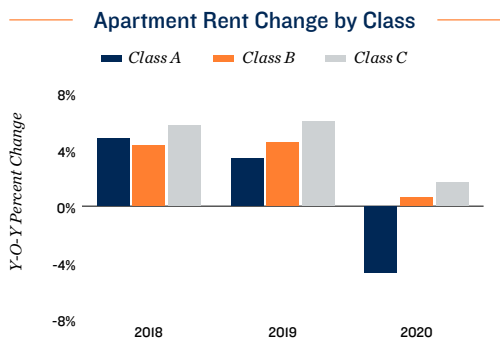
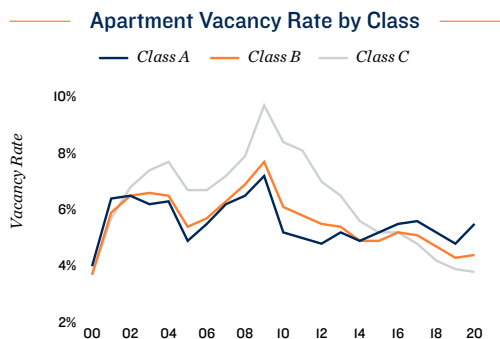
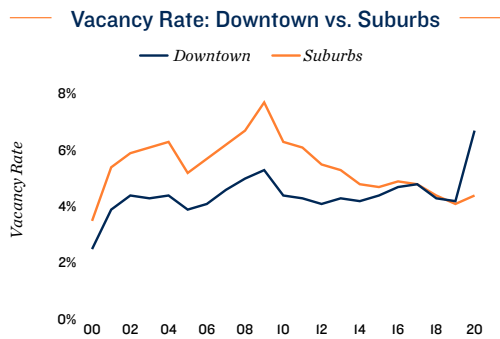
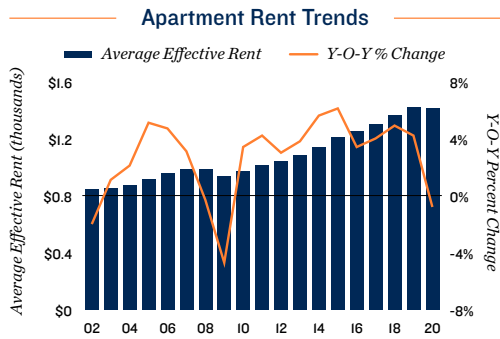
Vacation destinations reliant on combating the pandemic. Tourism markets including Las Vegas, Orlando and Orange County have been particularly beleaguered by the health crisis that brought an abrupt halt to travel. A large share of these metros' employment bases work within service and entertainment fields, which slashed headcounts significantly. These markets face some of the steepest and most challenging recoveries in the near term, and multifamily fundamentals will remain dampened by high joblessness. Positive news on the health front provides a sense of optimism for apartment owners here, however, and longer-term population migration trends favor the South where many of these metros are located. The local economies in tourism-reliant places could also use this disturbance to diversify, as seen in other fast-growing Sunbelt markets.

Major hubs retain positive long-term outlook, considerable challenges ahead. Multifamily in historically strong performing coastal cities has a comparatively difficult near-term outlook with many of these places facing a longer recovery timeline. Metros such as New York City and Los Angeles have recorded some of the largest job losses in the nation, and despite positive momentum in the summer and fall of 2020, recuperating the rest of the jobs lost will be difficult in the current environment. These metros have high population densities, which is unfavorable to containing the virus, prompting greater restrictions on businesses. This could result in more permanent job losses as store closures mount and firms relocate. Looking longer term, though, these economic engines along the coastline will still be among the most demanded places to live and work, supporting the need for multifamily housing.



Sources: BLS; CoStar Group; RealPage, Inc.

Suburban Apartments Benefit From Pandemic-Induced Trends; Urban Vacancy and Rent Burdened



Urban vacancy reached a more than two-decade high last year. Demand for urban units was diminished by the health crisis, leading to a nationwide vacancy increase of 250 basis points year over year in 2020 to 6.8 percent. This was the highest urban vacancy recording in at least the past 20 years, demonstrating the unprecedented challenges that downtown operators are facing in most markets. In comparison, U.S. suburban vacancy rose just 30 basis points over that stretch to 4.3 percent. The Bay Area noted the greatest adjustment to suburban vacancy during those 12 months with a 570-basis-point jump recorded in San Francisco and a 260-basis-point rise logged in San Jose. Conversely Sacramento, Riverside-San Bernardino and Las Vegas posted the most notable suburban vacancy drops during that span. Most markets throughout the country recorded higher urban vacancy in 2020 relative to the previous year. Cleveland, Las Vegas and Riverside-San Bernardino were the only metros to post urban vacancy declines in 2020.

Rent down most in urban corridors of primary gateway markets. The diverging demand preference between urban and suburban apartments was reflected in rent. During the four quarters of 2020 U.S. suburban average effect rent fell by 0.6 percent, while urban rates decreased by an average of 7.2 percent. Unsurprisingly the two Bay Area markets that had the largest suburban vacancy jumps also had the greatest rent reductions. Average rates shrunk by more than 9 percent last year in the suburbs of both San Francisco and San Jose. The most pronounced urban rent subtractions were also found in coastal markets with the city centers of Boston, Oakland, San Francisco and San Jose, each posting average effective rent drops of more than 14 percent. On the other hand, two markets – Riverside-San Bernardino and Detroit – ranked in the top five nationally for both urban and suburban rent growth. Additional markets with notable rate increases during that time frame include Sacramento, Columbus and suburban Phoenix, as well as West Palm Beach and the urban core of Las Vegas.

Sunbelt markets had impressive suburban lease-up. Net absorption counts last year varied dramatically throughout the U.S. and within individual metros. On a national level, a net of nearly 160,000 suburban units were absorbed during that 12-month time frame. Conversely, 2,800 urban units returned to the market, the majority of them during the second quarter at the onset of the pandemic when people fled dense locales. This transition out of downtown corridors to suburban neighborhoods was evident in the disparity between absorption recordings. Markets that have been attracting new residents and growing rapidly in recent years posted the greatest suburban lease-up. Dallas/Fort Worth, Atlanta, Houston and Phoenix all notched positive four-quarter absorption totals of more than 8,000 units in the suburbs. Alternatively Los Angeles, which had been losing residents prior to the health crisis, saw almost 4,000 suburban rentals return to the market last year. Urban net absorption was the greatest in Denver, Fort Lauderdale and Dallas/Fort Worth, with more than 2,000 additional units becoming occupied during that stretch. New York City, on the other hand, had negative absorption of nearly 15,600 urban rentals, which equated to 1.9 percent of local stock returning to the market.

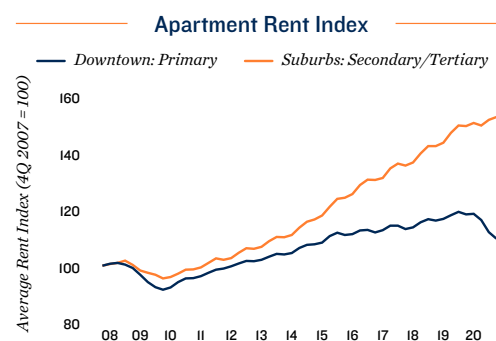
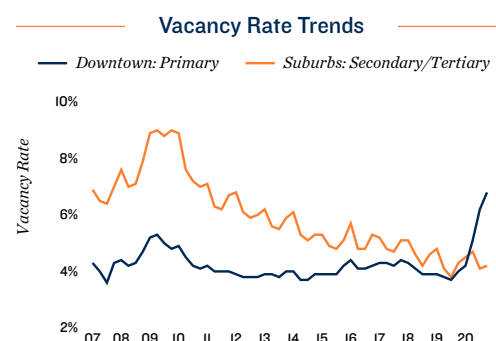
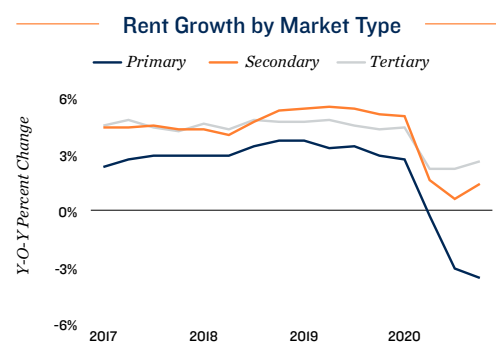
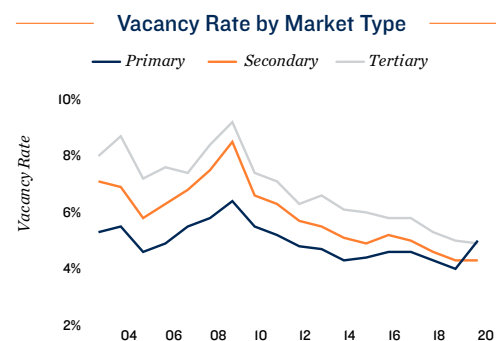
Sources: CoStar Group, Inc.; RealPage, Inc.

Class A Tier Recorded Higher Vacancy and Lower Rent; Elevated Construction a Factor in Some Metros

Lower-tier vacancy contracted despite record joblessness. Availability of Class C units dropped by 10 basis points over the course of 2020 to 3.7 percent, which was the only vacancy compression among the three tiers. The Class B vacancy rate moved up 10 basis points from the beginning of the year to 4.3 percent in December, while the Class A rate increased by 70 basis points over that time frame to 5.4 percent. This may reveal that supply-side pressure had more of a direct impact on vacancy than unemployment, as job losses were disproportionately in lower-wage fields that would typically dampen demand within the budget-friendly segment. The Class C rate, however, could be buttressed by eviction moratoriums that have been allowing non-paying tenants to occupy units. Conditions also differ throughout the country. Major markets on the coast that have had significant virus outbreaks and greater restrictions on businesses, including New York City, San Francisco and San Jose, all recorded Class C vacancy rises of at least 100 basis points during those 12 months. Over that same stretch, less populous inland markets such as Atlanta and Indianapolis logged Class C vacancy declines of 100 basis points or more.

Class C and A rent moved in opposite directions. Driven by contrasting vacancy trends within the different apartment tiers last year, the average rent for Class A units decreased while the other two segments logged gains. The average effective rent for Class C rentals increased by 1.7 percent year over year as the average Class B rent ticked up by 0.6 percent. Competition from new builds amid economic headwinds pressed on rates within the luxury segment as the average Class A rent fell by 4.7 percent over those 12 months. A handful of primary markets such as Boston and San Francisco noted significant Class A rate cuts, as did markets adding inventory quickly, including Austin, Nashville and Miami-Dade. Mid-tier apartment performance was the strongest in migration markets like Phoenix, Tampa-St. Petersburg and Riverside-San Bernardino, which each posted Class B rent growth of more than 6 percent last year. Those three metros also ranked near the top nationally for Class C rent gains during that stretch. Other markets with Class C rent increases exceeding 5 percent over those four quarters include Charlotte, Atlanta, Miami-Dade and Columbus.

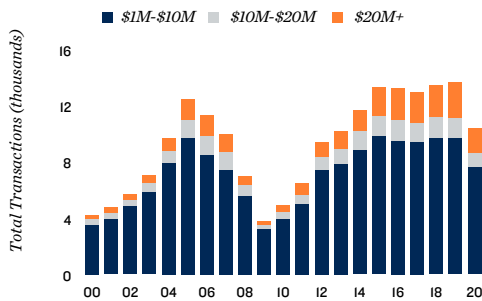
Pace of construction remains elevated nationwide and especially in Texas. Following a brief stoppage at build sites during the early stages of the lockdown, deliveries ramped up in the latter stages of last year. The completion total in the second half of 2020 was almost 194,000 units, which represented the largest six-month addition of the current millennium. The 2021 pipeline in both the suburbs and city centers are heavy as well, necessitated by an ongoing shortfall of supply versus demand. Dallas/Fort Worth will lead the country in suburban deliveries this year, with more than 28,000 units slated for completion. Two other Texas metros that will see inventory expand rapidly — Houston and Austin — will gain 14,600 and 11,400 suburban rentals, respectively, in 2021. Strong underlying migration and household creation trends in these markets, particularly in the suburbs, should help demand keep pace with supply. Nevertheless, some submarkets may experience near-term headwinds. The urban pipeline is the most loaded in primary coastal markets, with New York City leading the pack. Roughly 7,600 units are scheduled to finalize in the metro core this year, and lease-up timelines will correlate with the success of combating the health crisis and life returning to a sense of normalcy downtown.



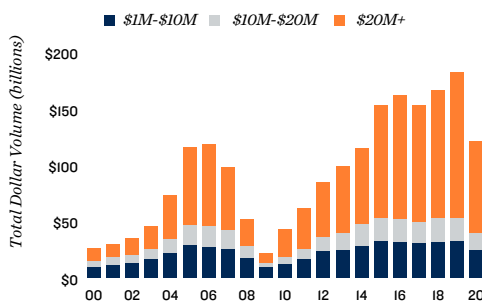
Sources: CoStar Group, Inc.; RealPage, Inc.

Assets in Sunbelt Markets Have Growth Potential; Investment Capital to Flow in From Gateway Metros

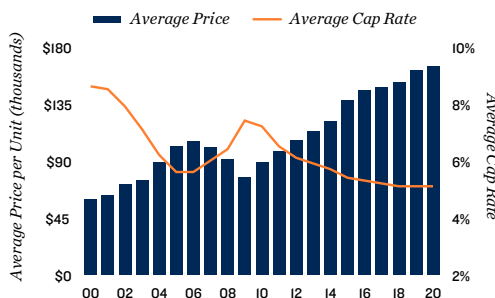
Apartment Transaction Activity



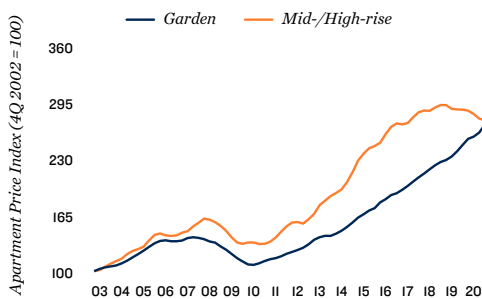
Apartment Dollar Volume



Apartment Price vs. Cap Rate



Apartment Price Index



Markets in the Southeast have favorable investment tailwinds. Most of the metros in the region sustained solid fundamentals last year and have intriguing in-migration trends that could underpin rent growth over the next decade. Apartments in Atlanta, Charlotte, Raleigh and Nashville may be top of mind for investors transferring capital from more challenged gateway markets, while being aware of potential near-term supply-side pressure. Of those four markets the average cap rate is the lowest in Raleigh at 4.9 percent. Multifamily properties in the other three metros trade with initial yields in the mid-5 percent range, a notch higher than primary markets along the East Coast. Appreciation has been exceptionally strong in these four Southeast markets, with each logging 25 percent-plus pricing increases over the past three years. Metros in Florida will lure more out-of-state investors as well, for similar reasons. Assets in the highest-entry-cost market in the state, West Palm Beach, change hands with average first-year returns in the high-5 percent tranche. Tampa-St. Petersburg apartments trade in that range as well, while Fort Lauderdale, Miami-Dade and Orlando have average cap rates roughly 50 basis points above the other metros, in the low-6 percent area.

Capital will flow into strong performing Mountain region metros. Impressive household formation, population migration and employment growth trends prior to the health crisis paired with resilience exhibited in 2020 have bolstered investor sentiment in the region. Phoenix, Salt Lake City and Denver will be top targets for many out-of-state buyers, particularly from major West Coast markets. Average multifamily cap rates range from a low of 5.2 percent in Denver to a high of 5.8 percent in Las Vegas. In Phoenix, the average price reached \$163,000 per unit last year after rising almost 75 percent since 2016. Similarly, in Salt Lake City appreciation during that four-year stretch totaled 47 percent to bring the average to \$165,000 per unit. Price growth was slightly less impressive in Denver, but the market still has the highest entry cost in the region at \$205,000 per unit. Las Vegas faces more significant hurdles than the other markets in the near-term, though suburban properties will garner buyer attention. The average multifamily property in the metro trades for \$135,000 per unit.

Texas multifamily in high demand as underlying trends strengthen. All four major markets in the Lone Star state are catching buyers' eyes as fundamentals held solid in 2020 and the economic recovery is advancing at a faster pace than in other areas of the country. Business relocations from coastal markets and in-migration highlight the demand catalysts in Texas that could boost investment returns, though elevated construction activity may limit momentum in the near term. Austin commands the highest pricing in the state at an average of \$156,000 per unit and the lowest initial returns at a mean of 5.0 percent. Dallas/Fort Worth and Houston have average first-year returns 50 basis points and 100 basis points higher than this, respectively. Properties in these two metros trade for close to \$120,000 per unit on average. The one major market in the state with a moderate pipeline, San Antonio, has the lowest entry cost. Properties here trade for just a tick above \$100,000 per unit with an average cap rate of 5.9 percent.

Sources: CoStar Group, Inc.; Real Capital Analytics

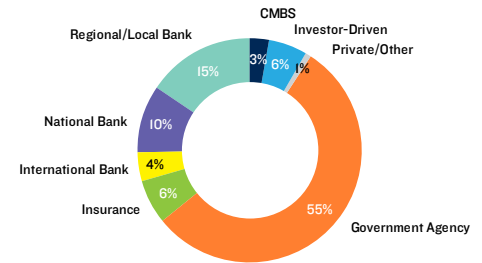
Apartments in Dense Primary Markets Less Appealing in Near Term; Operators May Diversify Holdings

Investment landscape bifurcated on the West Coast. Riverside-San Bernardino and Sacramento are two metros in California that will lure more buyers this year as they expand their search criteria. Migration from the state’s gateway markets underpins growth potential, while entry costs are significantly lower and initial yields higher than larger markets on the coast. Properties in Riverside-San Bernardino and Sacramento trade with price points under \$175,000 per unit on average with first-year returns in the mid-to low-5 percent area. The investment environment in Los Angeles and the Bay Area is much different. Owners here may be interested in diversifying their holdings and tapping into markets with greater near-term prospective. Long-sighted buyers will still be active in the primary markets, though expectations for significant pricing adjustments should be tempered. In 2020, values remained relatively unchanged on a year-over-year basis in Los Angeles, and they dropped roughly 4 percent in San Francisco and San Jose, although trading composition was influenced by a higher proportion of lower-tier properties changing hands while institutions were less active. The two major Northwest metros, Seattle-Tacoma and Portland, will attract buyers that have longer-term aspirations as well.

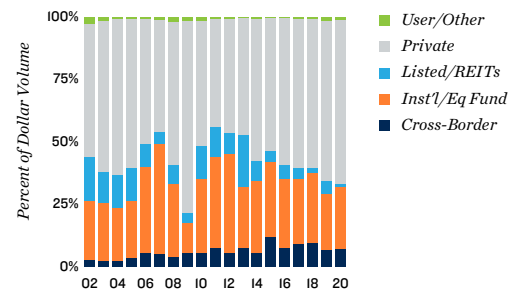
The Northeast is facing a longer recovery timeline. New York City is likely facing one of the most difficult roads to recovery in the nation, and pricing adjustments could emerge in some troubled urban corridors. The average cap rate here jumped by 30 basis points last year to 5.2 percent, though it should be taken into consideration that many institutions paused activity, which led to fewer high-value assets changing hands. Average first-year returns in the other two Northeast gateway markets, Boston and Washington, D.C., remained more stable during that stretch. Secondary and tertiary markets in the Northeast are facing fewer headwinds than the larger cities but also have limited renter demand momentum. Average initial returns in Baltimore, Northern New Jersey, Pittsburgh and Philadelphia are in the low-6 percent tranche. New Haven-Fairfield County first-year returns are a tick higher at 6.8 percent on average. Apartment owners may be inclined to sell and transfer returns into multifamily assets in the Sunbelt and other areas of the country that are on more solid footing, potentially providing local buyers opportunities.

Apartments in Midwest markets could be a hedge. Trading in the region has been dominated by local investors, but more out-of-state buyers could enter the arena in search of stability. Fundamentals and rent collections in most Midwest markets held solid during the health crisis and while the long-term growth prospects are less exciting than other areas of the country, competition for assets is more moderate. Two markets in the region that could be in higher demand after a strong 2020 performance are Indianapolis and Columbus. Asset values in these metros were increasing prior to the pandemic as well, with the average price per unit rising by more than 60 percent over the past five years. Markets in the Midwest with the highest entry costs include Chicago and Minneapolis-St. Paul, where diverging population trends are influencing price movements in the opposite direction. Since 2015, average pricing increased by 32 percent in Minneapolis-St. Paul to \$147,000 per unit. During that same time, apartment values in Chicago dropped by 3 percent to \$158,000 per unit.

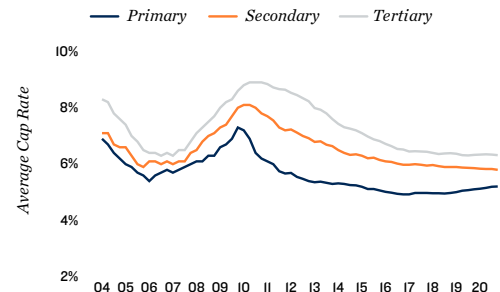
Lender Composition*



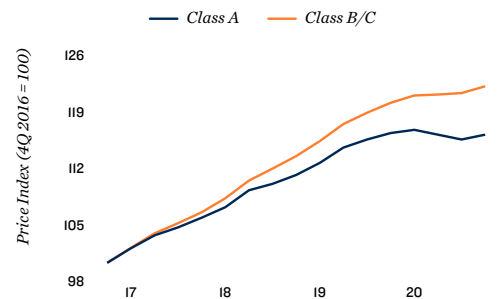
Buyer Composition



Cap Rate by Market Type



Apartment Price Index by Class



* Year to date through third quarter 2020

Sources: CoStar Group, Inc.; Real Capital Analytics

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