

U.S. Multifamily MarketView

Q2 2014

CBRE Global Research and Consulting

▼ VACANCY RATE
4.4%

▲ NET ABSORPTION †
276,200 Units

▲ RENTABLE COMPLETIONS †
248,545 Units

▼ Y-o-Y RENT CHANGE
2.6%

Arrows indicate change from previous year.

† Total last four quarters.

U.S. MULTIFAMILY FUNDAMENTALS EXPAND AT STRONG PACE

Executive Summary

- Steady expansion in multifamily rents is expected to continue over the next five years. While the vacancy rate is likely to rise slightly, it should remain near its historical norm. Rent growth will keep to its current pace and remain slightly above consumer price inflation.
- National multifamily demand keeps soaring, led by markets in the South and West.
- A combination of improving job growth and rising propensity to rent are boosting net absorption.
- California and Florida markets led in terms of strongest occupancy gains since last year. Houston, Dallas and Washington, D.C., had the strongest demand momentum among the large markets.
- Multifamily fundamentals are expanding at a strong pace, with the rent growth of higher-quality product continuing to beat the expectations of property owners and managers.
- A strengthening labor market and income growth increase the potential for pent-up household formation to be unleashed. This could hold demand and rent growth at the current pace in 2015.
- Rentable multifamily completions are estimated to peak in 2015 and to moderate slightly in the subsequent years.
- On a year-over-year basis, multifamily beat all other property types in sales volume gains in Q2 2014.
- Atlanta posted the quarter's highest unlevered annualized return among the nation's 10 largest markets.
- Exceptional population and employment growth are driving record rent inflation in Houston.



The U.S. multifamily expansion continued to pick up momentum in Q2 2014, as demand, measured by net absorption, grew by an annual rate of 276,200 units. With rentable stock adding only 248,545 units over the past four quarters, the average vacancy rate, at 4.4%, edged down year-over-year and remained 60 basis points (bps) below the historical norm. Meanwhile, the annualized pace of effective rent growth remained strong at 2.9%, with higher-quality product performing above expectations.

The strong pace of multifamily expansion in Q2 2014 was a result of improving job growth and households' rising propensity to rent. Household formation remains weak by historical standards, but as the improving economy and rising incomes begin to unleash pent-up housing demand, the multifamily

expansion could get renewed momentum from hundreds of thousands of new tenants—maintaining and potentially exceeding the recent gains over the next 12-18 months.

Our long-term outlook for multifamily remains positive, and we expect the national market to remain generally stable over the five-year forecast horizon, with vacancy near its historical norm and rent growth slightly ahead of its long-term average and consumer price inflation. Nationally, demand growth will be similar to the historical pace over the next five years, but it will be stronger in most of the nation's primary markets. We expect to see the strongest rent growth in areas that have lagged the national cycle until now and are benefiting from the combination of low levels of new supply and robust demographic trends.

ECONOMIC TRENDS

THE HOMEOWNERSHIP RATE CONTINUES TO FALL

Households' rising propensity to rent, along with steady improvement in job growth, supported the sector's strong Q2 2014 expansion. Total employment grew by 301,000 jobs, or 0.4%, across the 60 U.S. multifamily markets tracked by CBRE—compared to a 0.3% gain in the prior quarter. The largest contributors to national job growth in Q2 2014 included New York, Atlanta, Houston, Dallas, Minneapolis, Seattle, Denver, Fort Worth, Portland, Boston, Orlando and Phoenix—together they accounted for more than half of the 60 markets' total gain.

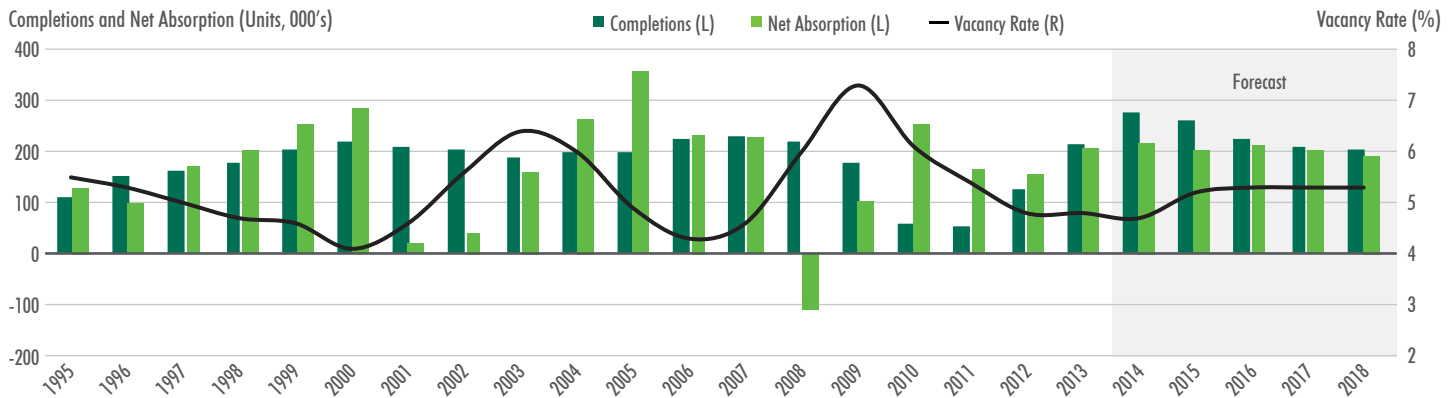
Markets that led in relative job growth in Q2 2014 (recording growth of 3% or more from Q2 2013) included San Jose, Dallas, Orlando, Austin, Las Vegas and Oklahoma City. Albuquerque, Hartford, Pittsburgh, Dayton, Norfolk, Greensboro, Detroit and Edison were among those recording negative to flat year-over-year job growth.

Nashville, Orlando, Austin, West Palm Beach, Tucson, Charlotte, Las Vegas, Fort Lauderdale, Phoenix and Fort Worth are among the markets expected to record the strongest job growth (averaging more than 3% per year) over the next

two years. Those anticipated to see the slowest job growth (averaging less than 1% per year) include Hartford, Cleveland, Albuquerque, Dayton, Newark, Detroit, San Jose and Philadelphia.

Broad rental demand continues to grow in the U.S. as more existing households shift from owning to renting, and as more newly formed households choose to rent—rather than buy—single-family homes and apartments (see Figure 3). According to the Housing Vacancy Survey conducted by the Bureau of the Census, U.S. housing demand grew by 458,000 households between Q2 2013 and Q2 2014, while the national homeownership rate declined by 30 bps—from 65% to 64.7%. Over this period, total household growth and the decline in the homeownership rate produced an increase of 534,000 renter households nationally. Over the next 12-18 months, elevated foreclosure rates are likely to remain a headwind to owner demand, and as the labor market and income growth strengthen, there is rising potential for pent-up household formation to be unleashed—which would boost rental demand and extend the multifamily sector's strong performance.

Figure 1: U.S. Multifamily Supply & Demand Outlook



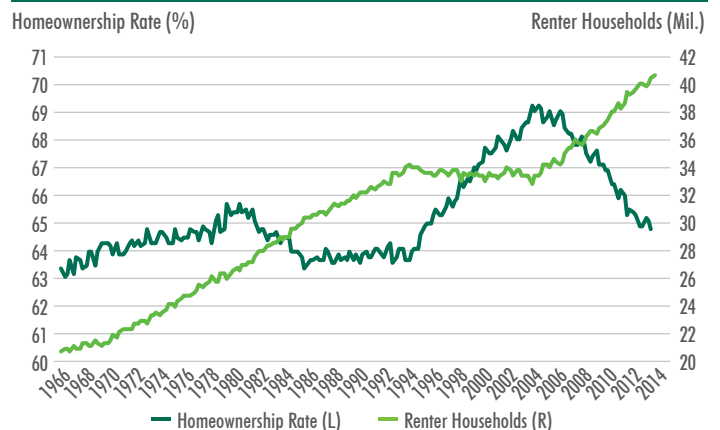
Source: CBRE Econometric Advisors, Q2 2014. Historical and current multifamily vacancy and rent data are provided by RealPage Inc.'s MPF Research division.

Figure 2: Markets in the South and West Lead Job Growth



Source: CBRE Econometric Advisors, Q2 2014.

Figure 3: U.S. Homeownership Rate and Renter Households



Sources: Bureau of the Census and CBRE Econometric Advisors, Q2 2014.

DEMAND TRENDS

NET ABSORPTION SOARS, LED BY SOUTH AND WEST REGIONS

In Q2 2014, multifamily demand expanded by 276,200 units, or 1.9%, on a year-over-year basis (see Figure 4). The national vacancy rate dropped by 20 bps from its year-earlier level (see Figure 5), to 4.4%, bringing the four-quarter trailing average rate to 4.7%—60 bps below the 1999-2013 average. The largest contributors to national demand growth over the past four quarters were Houston, Dallas, New York, Los Angeles, Austin, Atlanta, Washington, D.C., Seattle, Denver, Orlando, Raleigh, Tampa and Boston—together accounting for more than half of the period’s total net absorption. Markets with the strongest growth in demand (over 3.5% from a year earlier) were all in the South or West, and included Austin, Raleigh, Jacksonville, Orlando, El Paso, Houston, Charlotte, Nashville, San Jose, Portland and Denver. Markets expected to see the strongest demand growth over the next two years (averaging more than 2.5% per year) include Raleigh, Austin, Norfolk, Charlotte and Salt Lake City.

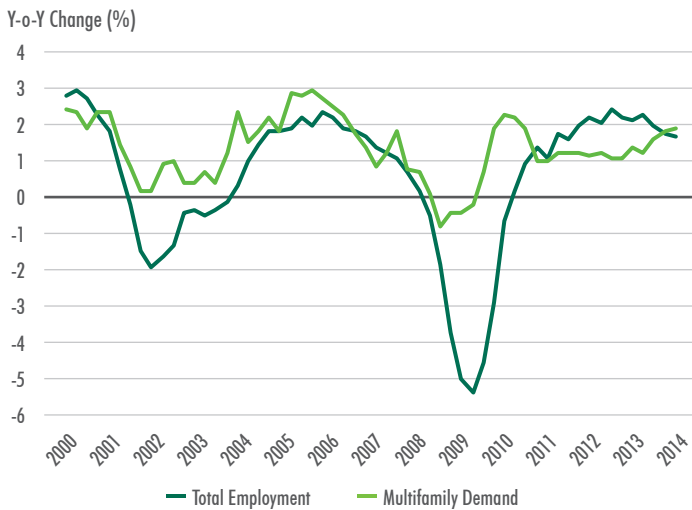
In 40 of the 60 markets, vacancy rates declined from Q2 2013, with the strongest improvement (declines of 100 bps or more from a year ago) reported in Albuquerque, Sacramento,

Jacksonville, St. Louis, Riverside, Fort Lauderdale, Atlanta and Cleveland. Over the same period, vacancy rates increased by 50 bps or more in Norfolk, Greensboro, Salt Lake City, San Antonio, Birmingham and Greenville.

Markets with the lowest vacancy rates (below 3.5%, averaged over the past four quarters) included Minneapolis, Oakland, Miami, Portland, San Jose, Newark, Ventura, Edison, Boston, Providence, Pittsburgh and San Diego. Those with the highest vacancy rates (averaging 7% or more over the past four quarters) included Greensboro, Las Vegas, Birmingham, El Paso, Indianapolis, Memphis and Tucson.

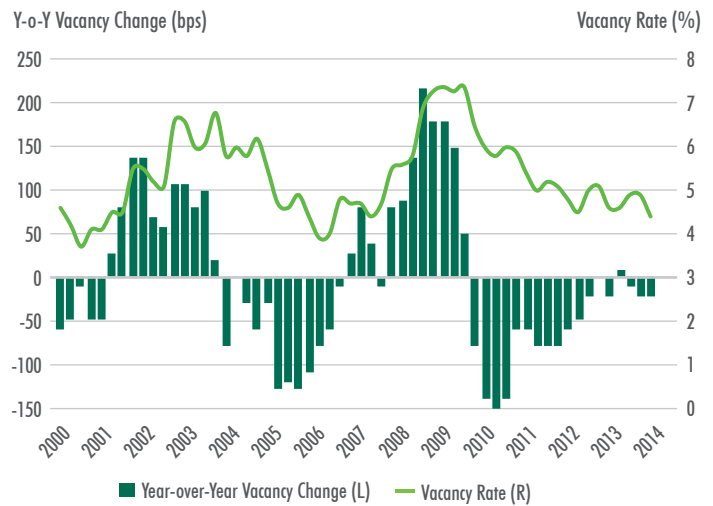
The markets that are tightest by historical standards—those whose vacancy rates are more than 150 bps below their respective 1999-2013 averages—include Houston, Portland, Detroit, Denver, Charlotte, Nashville, Columbus, Minneapolis, Cincinnati, Dallas, Cleveland, Dayton, Austin and Seattle. Those experiencing higher vacancy pressure that they have in the past (with current vacancy rates more than 50 bps above their 1999-2013 averages) include Richmond, Newark, Washington, D.C., Tucson, Las Vegas, Norfolk and El Paso.

Figure 4: Multifamily Demand Growth for 60 Major Markets



Source: CBRE Econometric Advisors, Q2 2014. Historical and current multifamily vacancy and rent data are provided by RealPage Inc.’s MPF Research division.

Figure 5: Multifamily Vacancy Rate for 60 Major Markets



Source: CBRE Econometric Advisors, Q2 2014. Historical and current multifamily vacancy and rent data are provided by RealPage Inc.’s MPF Research division.

SUPPLY TRENDS

PERMITS AND STARTS EDGE HIGHER

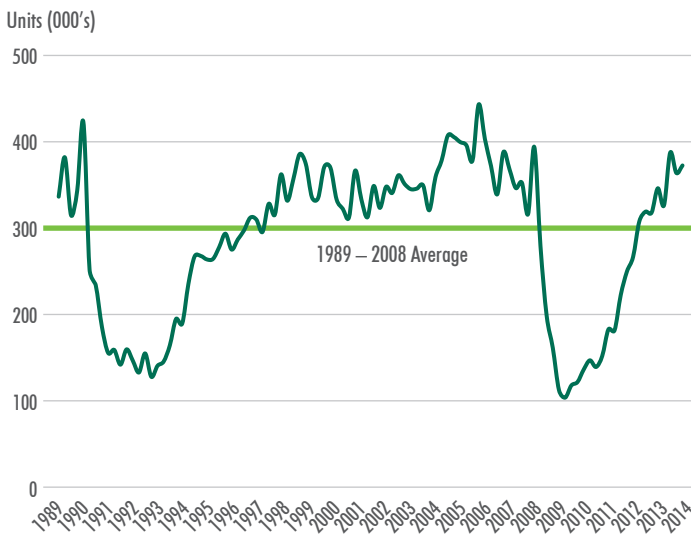
For the U.S., multifamily (5+ units) permits stood at an annualized pace of 369,300 units in Q2 2014, versus 360,700 units in Q1 2014, while starts increased to 351,300 units from 311,700 units. Both leading indicators of new construction activity were firmly above their respective 1989-2008 annual averages of 301,000 units for permits and 265,000 units for starts. Given the historical relationship between starts and completions, deliveries are on track to surpass 275,000 units in 2014—up from 2013’s annual pace of 214,000 units. We expect completions to peak and begin to level off in 2015, which will help maintain market stability and keep the national occupancy rate above 94%.

Across the 60 major markets, estimated rentable multifamily completions increased to 69,753 in Q2 2014, from 52,358 units a year earlier. More than half of these completions were concentrated in New York, Houston, Miami, Washington, D.C., Atlanta, Los Angeles, Austin, Dallas, Orlando, Boston

and Seattle. The highest completion rates (percentage growth in rentable multifamily inventory) were in Austin, Raleigh, Nashville, Miami, Orlando, Kansas City, San Jose, El Paso, Portland and Charlotte. The lowest completion rates were in Dayton, Sacramento, Detroit, Providence and Cleveland.

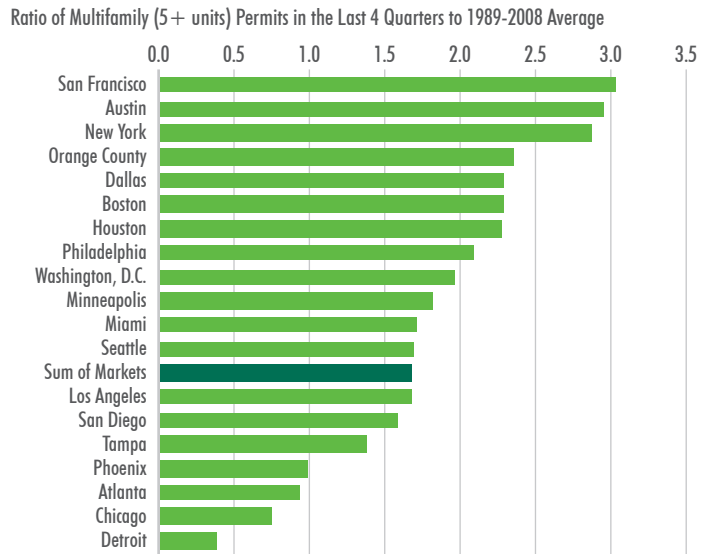
There remains wide variation in new construction activity across markets (see Figure 7). Estimated from permits over the past four quarters, rentable multifamily completions over the next four quarters will be more than 2.5 times their 1989-2008 averages in Newark, San Francisco, Austin, New York, Nashville, Tulsa, Richmond and Norfolk; and 2-2.5 times their 1989-2008 averages in Louisville, San Jose, El Paso, Orange County, Dallas, Boston, Houston, Salt Lake City, Raleigh, Philadelphia and Denver. By contrast, completions are estimated to come in well below their historical norms in Chicago, Cincinnati, Hartford, Sacramento, Detroit, Las Vegas and Dayton.

Figure 6: U.S. Multifamily Permits (5+ units) Increase Slightly in Q2 2014



Sources: Bureau of the Census and CBRE Econometric Advisors, Q2 2014.

Figure 7: Near-Term Supply Pressures Vary Across Markets



Sources: Bureau of the Census and CBRE Econometric Advisors, Q2 2014.

RENT/REVENUE TRENDS

RENT GROWTH STRENGTHENS IN MOST MARKETS

The national same-store effective rent index grew at an annualized rate of 2.9% in Q2 2014, down slightly from 3.2% in Q1 2014. On a year-over-year basis, the index grew 2.6% from a year earlier (see Figure 8). The New York market was largely responsible for the slightly slower annualized growth in the national rent index. Effective rent growth in New York slowed to an annualized rate of 1.4% in Q2 2014, from 3.6% in Q1 2014. Most markets, however, have reported stronger annualized rent growth compared to the previous quarter, with particularly notable improvements in Washington, D.C., Atlanta, Los Angeles, West Palm Beach, Greenville, Sacramento, Houston, Denver and Ventura, among others (see Figure 9).

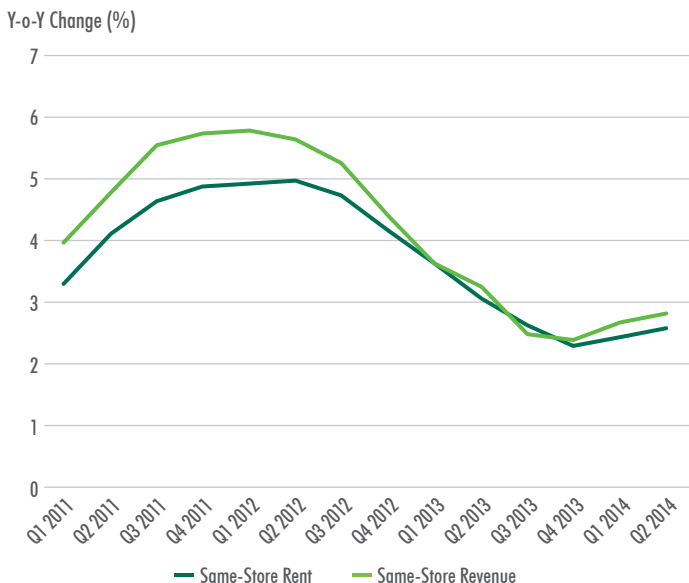
Compared to a year ago, the strongest growth (4% or more) in same-store effective rent was reported in Oakland, San Jose, Denver, Portland, San Francisco, Seattle, Miami, Houston, Austin, Atlanta and Nashville. Markets with the slowest year-over-year growth (less than 1%) included Pittsburgh, Las Vegas, Philadelphia, Norfolk, Albuquerque, Washington, D.C., Hartford and El Paso.

Most of the nation's major markets are firmly in the expansion phase of their cycles, with revenues well above their

pre-downturn (2007-2008) peak levels. San Francisco, San Jose, Oakland and Denver lead by a wide margin, followed by Boston, Houston and New York. Smaller markets in which revenues have fared particularly well in this cycle include Portland, Pittsburgh, Louisville, Oklahoma City and Columbus. Greensboro, Phoenix and Tucson are on the verge of transitioning from recovery into expansion, while Las Vegas remains the only market lagging significantly in its recovery.

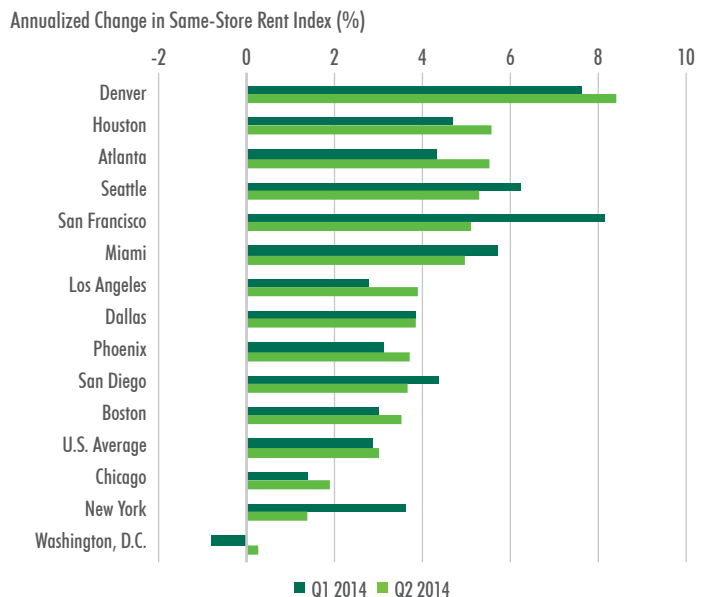
In 2014, most markets are expected to see rent growth that is similar or stronger than last year's—including Las Vegas, Sacramento, Atlanta, San Jose, Phoenix, Jacksonville, Orlando, New York, Dallas, Denver, Boston, Los Angeles, Houston, Austin and Washington, D.C., among others. Over the next five years, we expect rent and revenue growth to match or slightly exceed historical performance. Revenue growth will exceed historical averages by more than 100 bps per year in Las Vegas, Austin, Atlanta, San Antonio, Phoenix, Kansas City, Detroit, Dallas, Greensboro, Charlotte, Raleigh and Orlando. Markets where revenues are expected to grow notably slower than they have historically include Oakland, San Francisco and San Jose, as they are more likely to moderate after several years of record performance.

Figure 8: National Rent and Revenue Growth Continued to Strengthen in Q2 2014



Source: CBRE Econometric Advisors, Q2 2014. Historical and current multifamily vacancy and rent data are provided by RealPage Inc.'s MPF Research division.

Figure 9: Slightly Better Rent Growth on Average across Markets



Source: CBRE Econometric Advisors, Q2 2014. Historical and current multifamily vacancy and rent data are provided by RealPage Inc.'s MPF Research division.

CAPITAL MARKETS

BUYER VALUATION UNDERWRITING TRENDS

Buyer Valuation Underwriting Trends

Multifamily investment activity remained strong in Q2 2014, due to robust market fundamentals and capital availability. High-priced assets in major markets supported further expansion into secondary and tertiary markets, while value-add buyers struggled to acquire assets at the right prices. According to an underwriting criteria survey of CBRE professionals (see Figure 10), covering prime assets in 14 key submarkets, buyers valued prime asking rents well above \$4 per sq. ft. in Manhattan, San Francisco's South of Market district, Downtown Boston, West Los Angeles and Washington, D.C.'s West End. Quarter-over-quarter, rents increased in half of the markets tracked, and remained unchanged in five. Only Washington, D.C.'s West End district and Intown Dallas saw slight declines. Average annual rent growth is projected to be 3.6% over 2014-2016, according to buyers, and unlevered IRR targets range from 8% in West Los Angeles to 5.75% in San Francisco's South of Market district. Going-in cap rates ranged between 3.8% in San Francisco's South of Market district and 4.8% in Phoenix's Camelback district. Exit cap rates ranged from 4.25% in Intown Dallas to 5.5% in Chicago's River North, Houston's Montrose/Museum District and Phoenix's

Camelback district. The spread between the going-in cap rate and unlevered target IRR—which averaged 211 bps in Q2 2014—can indicate how aggressive underwriting may be in select markets relative to initial yield, as well as the strength of buyers' outlooks for a particular market.

Loan-to-Value Ratios

Multifamily and commercial loan-to-value (LTV) ratios for permanent, fixed-rate loans converged slightly in Q2 2014 (see Figure 11). The average LTV for commercial loans edged up to 64.2% from 62.8%, while the average multifamily LTV edged down slightly, to 67.7% from 68.3%. Average LTVs for agency and bank loans were 70.7% and 68.7%, respectively. Life company multifamily and commercial loans were underwritten more conservatively, with average LTVs registering 59.1%. Since the second half of 2012, commercial LTVs have averaged 64%. Despite a surge in debt availability over this period, average LTVs have remained fairly consistent. During Q2 2014, life company LTVs averaged 57.4%, while banks and conduits offered more-highly leveraged loans, at 69.6% and 71.1%, respectively.

Figure 10: Buyer Valuation Underwriting Survey: Prime/Class A Multifamily Assets

| Market | Submarket | Multifamily Subtype | Q2 2014 Prime Asking Rent (\$/SF/PM) | Q2 2014 Average Annual Rent Growth Underwriting, First 3 Years (%) | Average Annual Rent Growth, 2014-16 (EA Baseline) (%) | BPS Spread Between Rent Growth Underwriting & EA Baseline Forecast | Unlevered IRR Target (%) | Going-in Cap Rate (%) | Exit Cap Rate (%) | Holding Period (Years) | BPS Spread Between Going-in Cap Rate & IRR Target |
|------------------|-----------------------|---------------------|--------------------------------------|--|---|--|--------------------------|-----------------------|-------------------|------------------------|---|
| | | | | | | | | | | | |
| New York | Manhattan | High Rise | 5.8 | 3.7 | 2.8 | 93 | 6.5 | 4 | 4.5 | 10 | 250 |
| San Francisco | South of Market | Mid Rise | 5.5 | 5 | 2.8 | 223 | 5.75 | 3.75 | 4.75 | 10 | 200 |
| Boston | Downtown | High Rise | 4.56 | 3.4 | 3.4 | 3 | 6.5 | 4.25 | 4.75 | 7-10 | 225 |
| Los Angeles | West Los Angeles | Mid Rise | 4.5 | 5 | 3.9 | 107 | 7-8 | 4 | 5 | 5-7 | 350 |
| Washington, D.C. | West End | High Rise | 4.4 | 1.5 | 1.1 | 40 | 6.5 | 4.5 | 5 | 7 | 200 |
| Chicago | River North | High Rise | 3.4 | 3.5 | 0.8 | 270 | 6.5 | 4.75 | 5.5 | 7 | 175 |
| Seattle | Downtown | Mid Rise | 3.2 | 4 | 1.8 | 223 | 6 | 4 | 5 | 10 | 200 |
| Austin | Downtown | High Rise | 3.05 | 3.8 | 3.6 | 17 | 6 | 4.25 | 5 | 10 | 175 |
| Houston | Montrose/Museum Dist. | High Rise | 2.83 | 4 | 4.1 | (7) | 6-7 | 4.5-4.75 | 5.25-5.5 | 7-10 | ~188 |
| Denver | Downtown | High Rise | 2.65 | 3 | 3.3 | (27) | 6.75 | 4.7 | 5.3 | 7 | 205 |
| Dallas | Intown Dallas | High Rise | 2.6 | 3 | 2.2 | 80 | 6-6.25 | 4.25-4.5 | 4.25-5 | 5 | ~175 |
| Miami | Downtown/Brickell | High Rise | 2.5 | 3 | 3.1 | (7) | 6-6.5 | 4-4.5 | 5-5.25 | 5-7 | ~200 |
| Atlanta | Midtown | High Rise | 2.3 | 4 | 4.9 | (87) | 6.25 | 4.25-4.5 | 5.25 | 7 | ~188 |
| Phoenix | Camelback | Mid Rise | 2.05 | 3.7 | 5.3 | (160) | 6.75-7.25 | 4.75 | 5.35-5.5 | 10 | ~225 |

Note: The prime statistics displayed above are an estimate of current buyer underwriting assumptions for the highest quality assets in the best location of a particular market. The quoted prime rents reflect the level at which top-tier relevant transactions are being completed. Estimates are based on the expert opinion of CBRE brokers that handle deals in these particular markets. Source: CBRE Research, Q2 2014.

CAPITAL MARKETS

INVESTMENT ACTIVITY AND RETURNS

Sales Volume and Pricing

Multifamily sales volume exceeded \$26.0 billion in Q2 2014 for a 39.3% year-over-year gain, the strongest gain among all property types, according to Real Capital Analytics (see Figure 12). Mid/high-rise sales surpassed \$9.9 billion, for a 55.5% gain over Q2 2013, while garden property sales of \$16.1 billion were up 30.9%. Year-over-year, the average price per unit increased 3.3% to \$87,461 for garden properties, and 7.5% to \$215,254 for mid/high-rise properties. Over the same period, overall, the price per unit increased 5% to \$113,494. Sales activity of \$45.6 billion in the first half of 2014 was down 8.9% year-over-year, reflecting the significant Archstone portfolio sales that occurred in Q1 2013. Los Angeles, Manhattan, New York City Boroughs, Dallas and Houston were the five most active markets in terms of sales volume during the first half of 2014—although secondary and tertiary markets saw strong relative growth, partly due to high-priced assets in major markets, and to investors' search for yield.

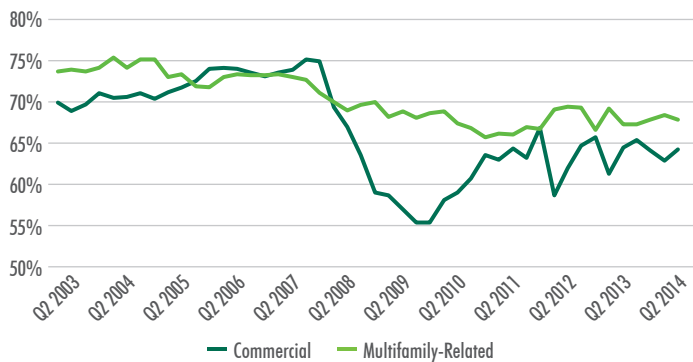
The average cap rate compressed further in Q2 2014—to 6.0%, having held at 6.2% for the previous five quarters. Average cap rates were 4.9% for mid/high-rise properties and 6.3% for garden properties; however, both segments saw compression from the prior quarter and from Q2 2013.

Alternatively, cap rates in the six primary markets dipped to 4.9% in Q2 2014, while cap rates in secondary and tertiary markets held steady at 6.6% and 7.2%, respectively.

Investor Returns

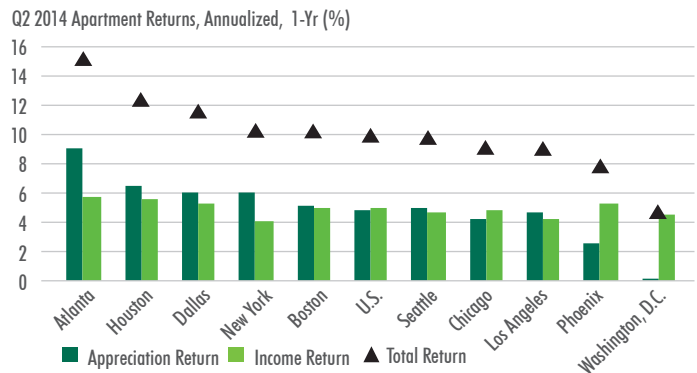
Strong investor demand for multifamily assets in primary markets continues to support overall returns (see Figure 13). Atlanta posted the quarter's highest unlevered annualized return among the nation's 10 largest apartment markets, while Washington, D.C., posted the lowest return. Income returns drove performance in Phoenix, Washington, D.C., and Chicago in Q2 2014, whereas appreciation gains led in Atlanta, New York, Houston, Dallas, Los Angeles and Seattle. Returns are more evenly attributable to income and appreciation in Boston—and at the national level, where private institutional investors saw a 9.9% annualized return in Q2 2014, down 78 bps from Q2 2013 but above the 25-year average of 9.2%. Returns due to appreciation were 4.8% (annualized) in Q2 2014, far exceeding the 25-year average of 2.1%, while income returns of 5% lagged the 7% historical norm. For the 12-month period ending June 30, the overall NCREIF property index posted an 11.2% total return on an annualized basis.

Figure 11: Average Loan-to-Value Ratio for Multifamily and Commercial



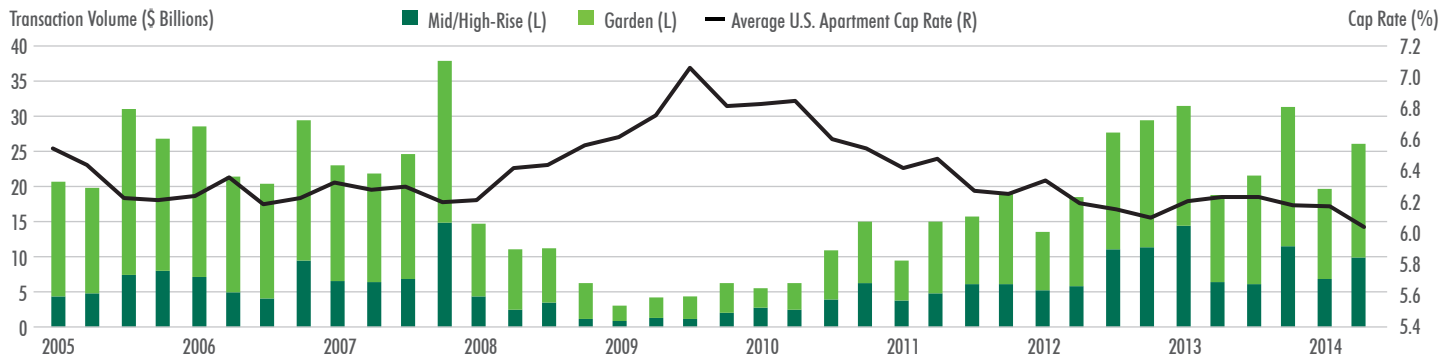
Source: CBRE Research, Q2 2014.
Note: Average LTV figures are generated by deals closed by CBRE Capital Markets with permanent, fixed-rate debt.

Figure 13: Benchmarking Institutional Apartment Returns Across 10 Largest MSAs



Source: NCREIF, Q2 2014.
Note: All returns are reported on an unlevered basis.

Figure 12: U.S. Apartment Investment Sales Volume and Cap Rate



Source: Real Capital Analytics, Q2 2014.

MARKET SPOTLIGHT: HOUSTON

STRONG POPULATION AND EMPLOYMENT GROWTH SUPPORT RECORD RENT INFLATION

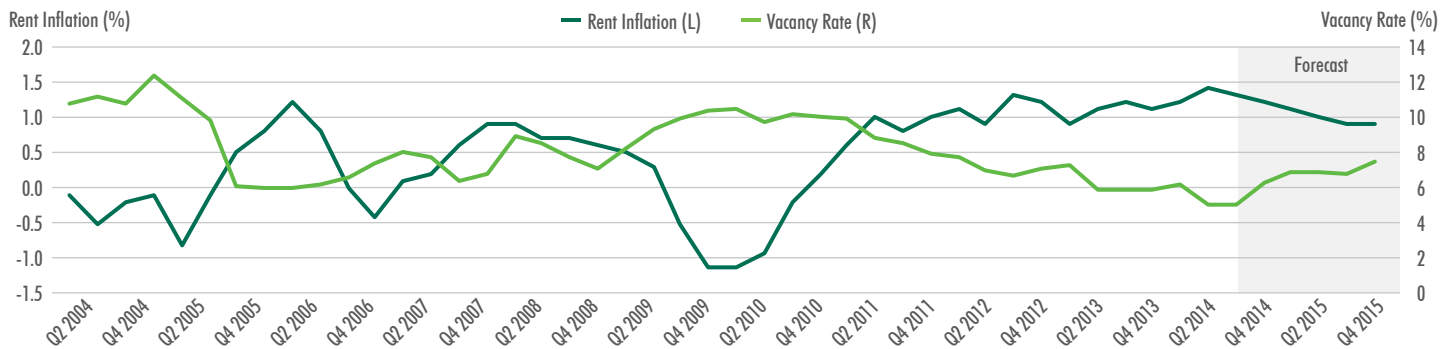


Exceptional employment and population growth have bolstered apartment demand in Houston through the first half of 2014. In 2013, Houston led the nation in population growth, adding nearly 140,000 residents. Over the past 10 years, the metro's population has increased by more than 100,000 people per year, with nearly half of the increase attributed to net migration. Houston has gained more than 370,000 jobs since its late-2009 recessionary low—more than double the number of jobs lost in the recession. This growth has driven apartment net absorption in excess of 10,000 units per year since 2011. Over the four quarters ending Q2 2014, Houston registered positive net absorption of 21,394 units—the highest figure for the period among the 50 largest U.S. markets, and the highest figure for Houston in nearly a decade.

The supply of apartments has not kept pace with the rapid growth of demand, resulting in diminished vacancy and record rent growth. Following the recent recession, construction activity was subdued for a number of years, with completions of rentable units dropping from more than 15,000 in 2009 to less than 5,000 in 2010 and 2011. With supply temporarily limited, gains in population and employment have lowered apartment vacancy in Houston to 5.1% as of Q2 2014, the market's lowest quarterly rate since Q4 2001. Vacancy declined 80 bps year-over-year and 110 bps quarter-over-quarter, after having increased slightly in Q1 2014.

Houston's apartment rents are currently growing at the fastest pace on record (see Figure 14). As of Q2 2014, the

Figure 14: Houston Rent Growth vs. Vacancy Rate



Source: CBRE Econometric Advisors, Q2 2014. Historical and current multifamily vacancy and rent data are provided by RealPage Inc.'s MPF Research division.

MARKET SPOTLIGHT: HOUSTON

STRONG POPULATION AND EMPLOYMENT GROWTH SUPPORT RECORD RENT INFLATION

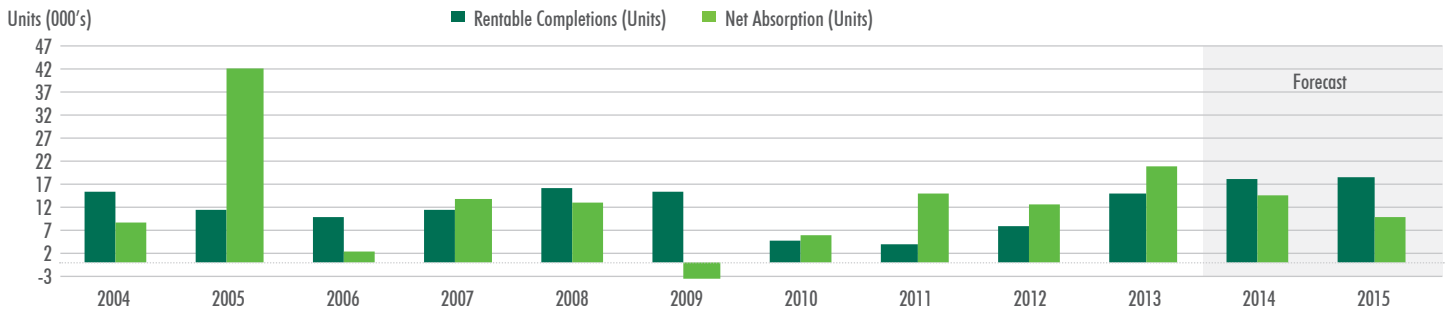
same-store rent index for Houston increased by 4.9% year-over-year and 1.4% quarter-over-quarter, the fastest annual and quarterly growth rates since the beginning of the historical data series in 1994.

Construction activity has increased since completions hit a post-recession low in 2011, with a little over 8,000 units completed in 2012, roughly 15,000 completed in 2013 and nearly 18,000 units expected in 2014. Strong demand and rent growth will continue to drive construction over the next several quarters, with rentable completions forecast to increase to more than 18,300 units in 2015 (see Figure 15). With the

additional supply, rent growth is expected to moderate slightly in the coming quarters.

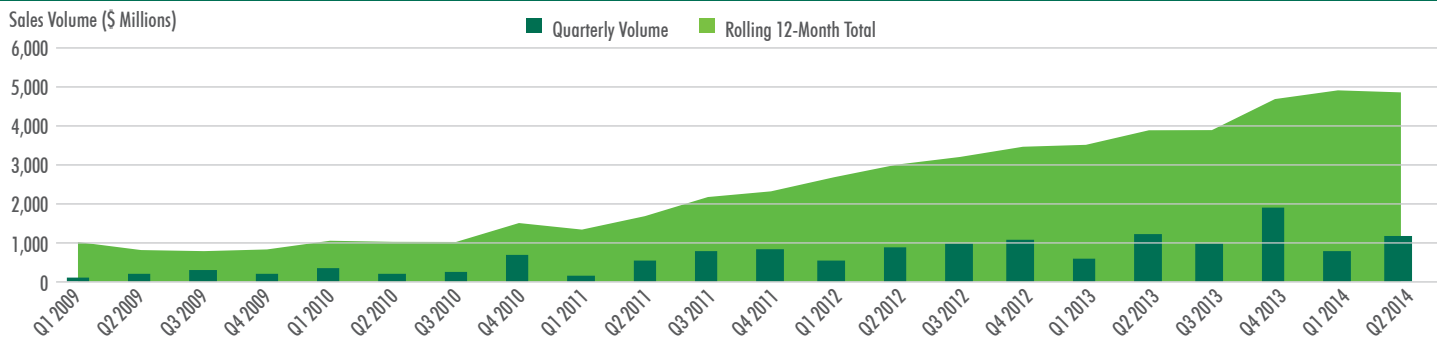
According to Real Capital Analytics, Houston posted \$1.2 billion in multifamily sales in Q2 2014—a gain of 48% from Q1 2014, but a year-over-year loss of 4% (see Figure 16). Due to an active fourth quarter in 2013, 12-month total sales activity increased by 25.1% year-over-year, to \$4.8 billion. The average price per unit in Q2 2014 stood at \$93,784, which was down 5.4% quarter-over-quarter, but up 1.6% year-over-year. The decline in the average price per unit is consistent with a recent increase in sales of older assets, and assets in suburban submarkets.

Figure 15: Houston Multifamily Completions vs. Net Absorption



Source: CBRE Econometric Advisors, Q2 2014. Historical and current multifamily vacancy and rent data are provided by RealPage Inc.'s MPF Research division.

Figure 16: Houston Multifamily Sales Volume



Source: Real Capital Analytics, Q2 2014.

MARKET OUTLOOK

STRONGER RENT GROWTH IN THE NEAR TERM

Across the 60 markets, total employment gained 1.5 million jobs, or 2%, in 2013; and the forecast calls for 1.4 million, or 1.8%, to be added in 2014. While job growth in 2014 will taper slightly compared to 2013, steady growth in broad rental demand will allow net absorption to improve from 208,902 units in 2013 to 217,884 units in 2014. As a result, the vacancy rate is expected to edge down from 4.8% in 2013 to 4.7% in 2014, with effective rent growth improving from 2.3% to 3.1% over the same period (see Figure 17).

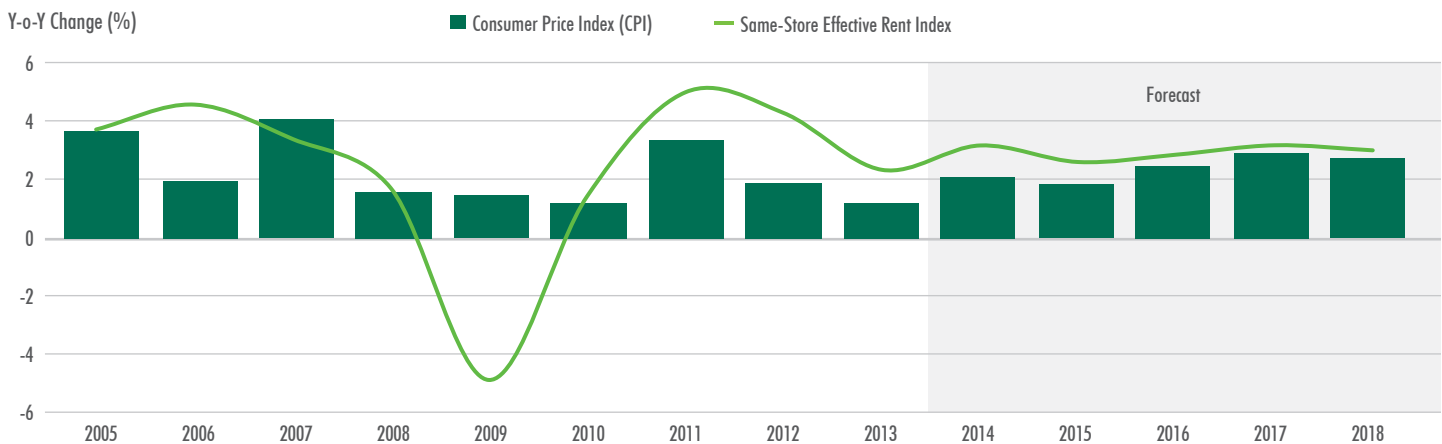
The longer-term outlook calls for robust growth in multifamily demand, averaging more than 200,000 units per year over the next five years, compared to 170,000 units per year historically. With new supply moderating after 2015, the national market should remain balanced, with the average vacancy rate staying near its historical norm of 5.3% over the forecast horizon.

Real (inflation-adjusted) revenue growth is projected to average 0.3% per year over 2015-2019—slower than 2014, but similar to its historical performance. While apartment rent and revenues are expected to grow slightly above consumer price inflation and above their historical rates over the next

five years, they still will only be returning to long-term norms in many markets, as measured in real (inflation-adjusted) rent and revenue levels. Our analysis suggests that markets in the South and West are positioned particularly well to achieve revenue growth that would be notably stronger than historic rates, particularly in areas with robust demographic and employment trends, such as Las Vegas, Austin, Atlanta, Tucson, San Antonio, Salt Lake City, Tulsa, Phoenix, Birmingham, Dallas, Greensboro, Charlotte, Raleigh, Orlando and Sacramento.

The demographics of rental demand—which includes rapid growth in single-person households and households under the age of 34 and over the age of 64—will keep multifamily fundamentals strong beyond the immediate horizon. Assuming steady recovery in employment and home prices, growth in multifamily demand should suffice to keep the vacancy rate stable—as long as new completions begin to moderate after 2015. At the same time, if lending for home purchases remains constrained, there is potential for stronger-than-expected growth in rental demand, occupancy and rent growth over the next 12-18 months.

Figure 17: National Rent Growth Strengthens in 2014



Source: CBRE Econometric Advisors, Q2 2014. Historical and current multifamily vacancy and rent data are provided by RealPage Inc.'s MPF Research division.

Figure 18: Multifamily Fundamentals for the 50 Largest U.S. Markets, Q2 2014

| Inventory Rank | Market | Vacancy Rate Q2 2014 (%) | Vacancy Rate Y-o-Y (bps) | Net Absorption Last 4 Quarters (Units) | Rent per Unit Q2 2014 (\$) | Y-o-Y Rent Change (%) |
|----------------|------------------|-----------------------------|-----------------------------|---|-------------------------------|-----------------------|
| 1 | New York | 5.3 | 20 | 12,942 | 2,534 | 1.4 |
| 2 | Los Angeles | 3.3 | -40 | 12,618 | 1,735 | 3.2 |
| 3 | Chicago | 4.1 | 40 | 797 | 1,293 | 2.1 |
| 4 | Houston | 5.1 | -80 | 21,394 | 939 | 4.9 |
| 5 | Washington, D.C. | 4.4 | 0 | 11,209 | 1,559 | 0.0 |
| 6 | Dallas | 4.9 | -40 | 14,076 | 910 | 3.6 |
| 7 | Boston | 2.7 | -30 | 7,038 | 1,732 | 2.8 |
| 8 | Atlanta | 6.3 | -100 | 11,386 | 891 | 4.3 |
| 9 | Phoenix | 6.1 | -70 | 6,938 | 795 | 3.0 |
| 10 | Seattle | 3.1 | -30 | 9,729 | 1,243 | 5.8 |
| 11 | San Diego | 3.2 | -20 | 4,345 | 1,514 | 3.8 |
| 12 | Philadelphia | 4.3 | -70 | 5,173 | 1,175 | 0.8 |
| 13 | Denver | 3.5 | -20 | 9,248 | 1,116 | 7.4 |
| 14 | Miami | 2.5 | 0 | 6,338 | 1,234 | 5.2 |
| 15 | Detroit | 3.7 | -10 | 696 | 822 | 2.4 |
| 16 | Minneapolis | 2.5 | 30 | 5,952 | 1,035 | 2.2 |
| 17 | Orange County | 3.5 | -80 | 5,589 | 1,662 | 3.6 |
| 18 | San Francisco | 3.2 | 10 | 5,028 | 2,639 | 6.5 |
| 19 | Tampa | 4.5 | -70 | 7,099 | 915 | 2.2 |
| 20 | Oakland | 2.2 | -60 | 4,164 | 1,726 | 8.3 |
| 21 | Austin | 4.1 | -30 | 12,274 | 1,040 | 4.4 |
| 22 | Baltimore | 4.3 | 10 | 2,013 | 1,209 | 1.6 |
| 23 | Orlando | 4.2 | -60 | 7,302 | 927 | 2.3 |
| 24 | Las Vegas | 6.5 | -90 | 3,085 | 750 | 0.9 |
| 25 | Riverside | 3.8 | -140 | 4,759 | 1,129 | 2.7 |
| 26 | Portland | 2.3 | -70 | 6,737 | 1,022 | 6.6 |
| 27 | Fort Lauderdale | 3.7 | -110 | 4,458 | 1,277 | 3.3 |
| 28 | Fort Worth | 5.4 | -50 | 3,964 | 798 | 3.8 |
| 29 | Cleveland | 3.2 | -100 | 2,014 | 799 | 2.1 |
| 30 | San Antonio | 6.4 | 60 | 2,091 | 833 | 1.8 |
| 31 | Newark | 2.6 | 0 | 2,179 | 1,381 | 2.6 |
| 32 | Cincinnati | 4.5 | 40 | 421 | 803 | 2.0 |
| 33 | San Jose | 2.4 | -50 | 5,535 | 2,191 | 7.6 |
| 34 | Sacramento | 3.3 | -150 | 2,786 | 1,026 | 3.4 |
| 35 | Columbus | 3.3 | -60 | 4,647 | 769 | 2.1 |
| 36 | Indianapolis | 6.7 | -30 | 1,623 | 758 | 2.1 |
| 37 | St. Louis | 5.5 | -140 | 3,582 | 797 | 2.4 |
| 38 | Pittsburgh | 3.0 | 0 | 608 | 1,027 | 0.9 |
| 39 | Kansas City | 5.2 | -20 | 3,003 | 798 | 2.2 |
| 40 | Charlotte | 4.5 | 10 | 4,841 | 882 | 2.5 |
| 41 | Nashville | 3.5 | -60 | 3,811 | 924 | 4.2 |
| 42 | Raleigh | 4.9 | 30 | 7,177 | 912 | 1.5 |
| 43 | Edison | 3.1 | 20 | 1,515 | 1,322 | 2.2 |
| 44 | Norfolk | 5.8 | 50 | 1,808 | 959 | 0.3 |
| 45 | Providence | 2.7 | -10 | 329 | 1,196 | 1.2 |
| 46 | West Palm Beach | 3.8 | -70 | 2,505 | 1,248 | 3.9 |
| 47 | Jacksonville | 5.7 | -150 | 5,083 | 822 | 1.4 |
| 48 | Memphis | 7.4 | 10 | 619 | 750 | 2.1 |
| 49 | Hartford | 3.8 | 30 | 174 | 1,148 | -0.1 |
| 50 | Salt Lake City | 4.6 | 50 | 1,586 | 842 | 2.4 |
| | National* | 4.4 | -20 | 276,200 | 1,380 | 2.6 |

* National figures include the sum of 60 markets.

Source: CBRE Econometric Advisors, Q2 2014.

Historical and current multifamily vacancy and rent data are provided by RealPage Inc.'s MPF Research division.

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