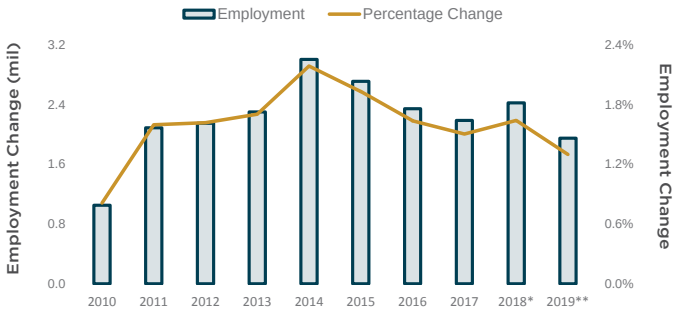
ECONOMY AND APARTMENT SUPPLY

The U.S. economy reached its second-longest expansion in the post-war era, as employment grew 1.6%, or by 2.4 million workers, in 2018. Job creation accelerated from 2017 as nearly every employment sector posted gains. White-collar industries continued to grow, with 517,600 workers added in the professional and business services sector to lead job creation over the last four quarters. These typically higher-paying positions contributed to national wages rising 3.6% annually through the third quarter of 2018, outpacing the preceding five-year average of 3.0%. The rise in payrolls and wages along with positive contributions from personal consumption expenditures and federal government spending contributed to a 2.8% increase in real gross domestic product annually through the fourth quarter of 2018. The expansion cycle is expected to continue through this year with nearly 2.0 million jobs added for 1.3% growth. At the same time, real GDP is forecast to expand between 2.4% and 2.7% this year.

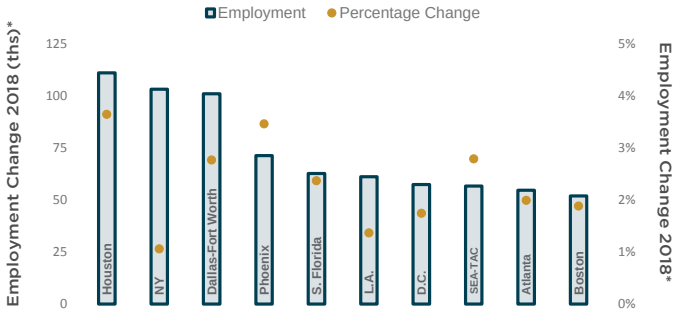
While national employment growth remained strong in 2018, several major markets significantly outperformed the national trend. Approximately half a dozen large markets' expansion more than doubled the national rate. The recovery from Hurricane Harvey as well as the rebounding energy industry led to Houston employers adding a national-leading 111,100 net jobs, expanding the work force 3.6%. The New York and the Dallas-Fort Worth markets also each gained more than 100,000 jobs last year, both of which were boosted by hiring in the professional and business services sector. While job creation is forecast to moderate in 2019, these markets are expected to lead hiring again this year.

U.S. EMPLOYMENT GROWTH



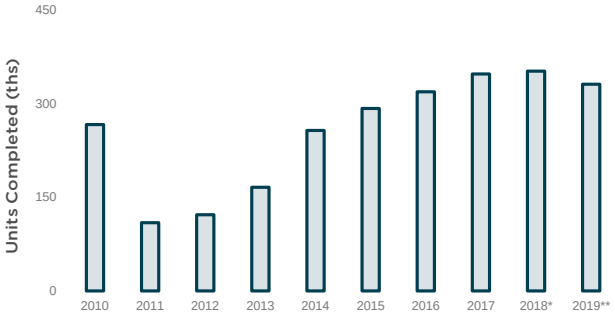
*Estimate; **Forecast | Source: Berkadia, BLS, Moody's Analytics

TOP METROS: EMPLOYMENT GROWTH



*Estimate | Source: Berkadia, BLS, Moody's Analytics

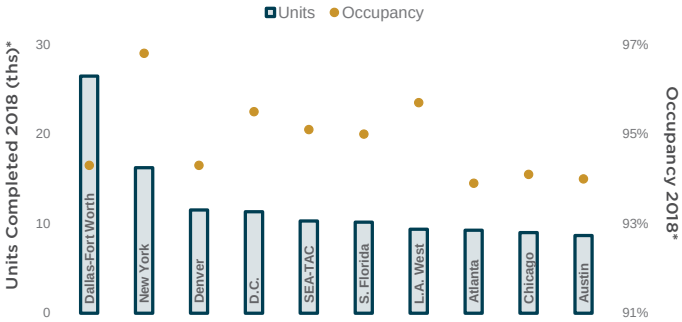
U.S. CONSTRUCTION PIPELINE



*Estimate; **Forecast | Source: Berkadia, Axiometrics

A rise in the labor force contributed a sharp increase in household formation in recent years. Apartment developers have worked to meet the housing demand. While additions last year moderated from the postrecession peak in 2017, nearly 301,400 market-rate units came online in 2018. Supply growth was concentrated in the core of most major metros, with more than half of units delivered in the top third of most-expensive markets to build. National inventory growth is expected to continue to taper as more than 284,600 units are scheduled to come online over the next four quarters. Part of the slowdown comes amid labor shortages, rising construction costs, and concerns of oversupply in some markets.

TOP METROS: SUPPLY GROWTH



*Estimate | Source: Berkadia, Axiometrics

2018 PERFORMANCE HIGHLIGHTS

EMPLOYMENT CHANGE
2,423,200
▲1.6% YOY

OCCUPANCY
95.4%
▲30 BPS YOY

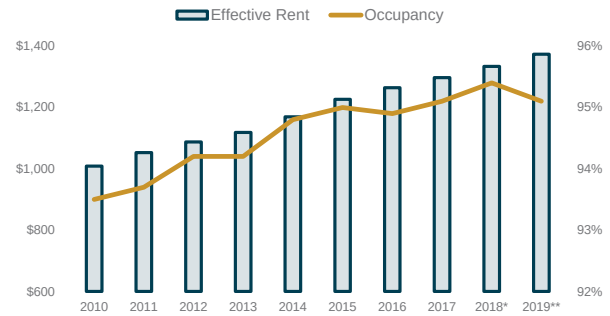
EFFECTIVE RENT
$1,333
▲2.8% YOY

CONSTRUCTION
301,397 UNITS
▼3.3% YOY

Data and images pertaining to employment, income, permits, population, rents, single-family housing, and occupancy are year-end figures. Absorption, construction, and apartment sales figures are full-year totals. Numbers for 2018 are estimated values, while 2019 figures are forecast projections. Apartment market data criteria and methodologies vary by market.

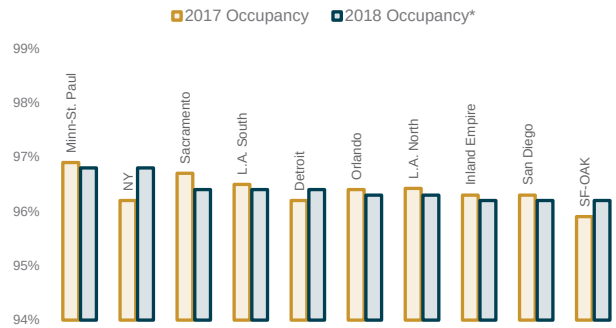
OCCUPANCY, RENT, AND INVESTMENT TRENDS

U.S. OCCUPANCY AND RENT



*Estimate; **Forecast | Source: Berkadia, Axiometrics

TOP METROS: HIGHEST OCCUPANCY



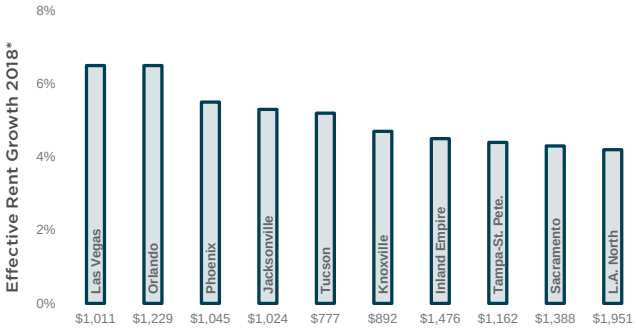
*Estimate | Source: Berkadia, Axiometrics

The rise of single-family home prices, the drop in existing home sales, and the increase in apartment leasing activity indicated renting remained an attractive option for many U.S. residents. Apartment occupancy elevated 30 basis points annually to an average of 95.4% in the fourth quarter of 2018. Driving this rise was affordability of housing, as occupancy was highest among Class C stock, running 50 basis points higher than the overall average. With the decline in affordability of homeownership, still-tight mortgage origination standards, and low inventories of homes, demand for apartments is expected to persist. Leasing activity is forecast to trail inventory growth to shift occupancy back to 95.1% by year-end.

In 2018, occupancy elevated as the annual effective rent growth accelerated. After rising 2.6% in 2017, effective rent advanced 2.8% last year to $1,333 per month by December. Effective rent growth among suburban product outpaced stock in the urban core, as operators faced increased competition that required them to offer concessions as incentives to potential renters. Operators in lower-rent markets in the Sun Belt region capitalized on vigorous growth in employment and population. All the top five markets with more than 5% average effective rent increase were within this region. Nationwide, operators are expected to keep upward pressure on rent as payrolls continue to rise. Effective rent is forecast to rise 3.0% over the next four quarters to finish the year at an average of $1,373 per month. While rent increases will remain strongest in the Sun Belt markets, Sacramento should return to one of the high-growth areas.

Multifamily remained an appealing investment in commercial real estate. Preliminary sales data for 2018 indicated a 4.6% increase in annual transactions from the year prior. With cap rates averaging an all-time low of 5.3% last year, investors searched for yield in secondary markets with stronger population and employment growth. While foreign buyers, especially from Asia and the Middle East, were less engaged in the U.S. apartment market, the rise in private investors made up the difference. Buyers were again most active in the New York City and the Los Angeles markets. The strength of the U.S. apartment market was further highlighted as the average price per unit purchased elevated 8.0% year over year to $156,612 in 2018.

TOP METROS: EFFECTIVE RENT GROWTH



*Estimate | Source: Berkadia, Axiometrics

2019 PERFORMANCE HIGHLIGHTS

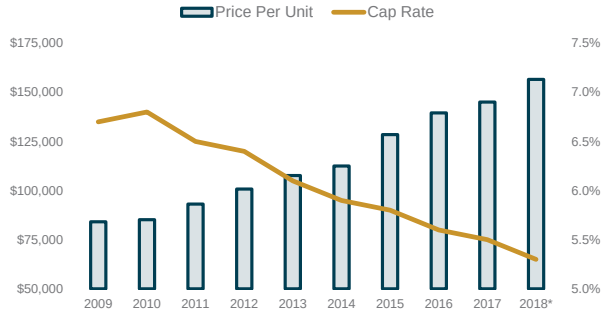
EMPLOYMENT CHANGE
1,950,600
▲1.3% YOY

OCCUPANCY
95.1%
▼30 BPS YOY

EFFECTIVE RENT
$1,373
▲3.0% YOY

CONSTRUCTION
284,623 UNITS
▼5.6% YOY

U.S. APARTMENT INVESTMENT



*Estimate; Property Sale $2.5 Million+ | Source: Berkadia, Real Capital Analytics

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