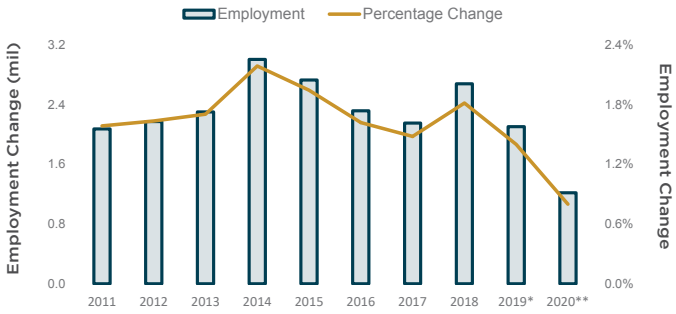
ECONOMY AND APARTMENT SUPPLY

The U.S. economy continued the longest expansion in the post-war era, albeit at a slower pace as the labor market tightened. Employment grew 1.4%, or by 2.1 million workers, in 2019. Annual job creation decelerated as unemployment lowered 30 basis points to 3.6% by year-end. Low unemployment also boosted wage growth as the annual rate was 3.7% in October 2019. A significant contributor to the growing employment was hiring in the education and health services sector. These jobs, especially in the health care and social assistance industry, were needed as the U.S. population continued to age. As the estimated median age rose to 38.7 years in 2019, the 55-plus age group shifted to 30% of the population from 21% during the 2010 Census. This demographic trend bodes well for the future of the industry. The U.S. economy is expected to continue to carry positive momentum in 2020 as the workforce is forecast to grow 0.8%, or by 1.2 million jobs over the next 12 months. At the same time, the U.S. Federal Reserve Board forecasts real GDP growth to shift down from a median of 2.2% in 2019 to 2.0% this year due in part to slower global growth. The moderation will move GDP nearly on par with the average during the past decade.

While hiring slowed nationally in 2019, several markets were able to grow employment at elevated levels due in part to strong in-migration. Attracting new residents were the caliber of jobs added, ranging from those in the high-tech industry in Austin and Seattle to financial services companies in Dallas-Fort Worth and Charlotte. These areas are expected to experience robust hiring again this year, outperforming the national average increase.

U.S. EMPLOYMENT GROWTH

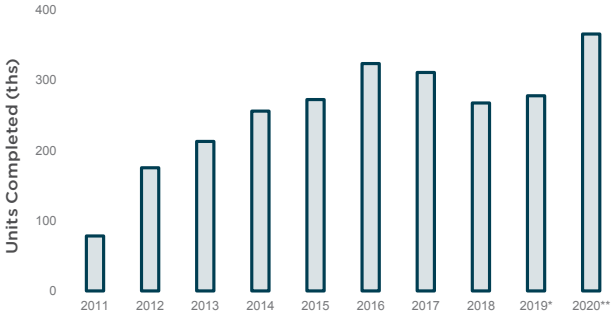


*Estimate; **Forecast | Source: Berkadia, BLS, Moody's Analytics

TOP METROS: EMPLOYMENT GROWTH

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

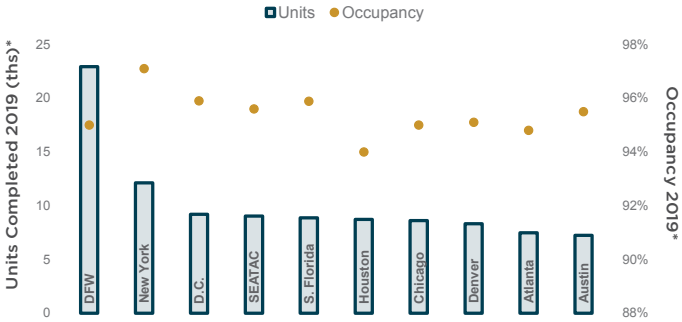
U.S. CONSTRUCTION PIPELINE



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

The growing population and workforce contributed to a sharp increase in household formation in recent years. While the cost of construction and shortage of available skilled builders has kept the pace of single-family development limited, apartment developers worked to fill the housing gap. The national apartment inventory grew 1.5%, or by 278,138 market-rate units, in 2019. The latest additions were part of nearly 2.3 million deliveries since 2010. Apartment development has been focused where the need for housing was greatest—near urban cores and periphery employment hubs. Annual apartment deliveries are scheduled to rise to 366,115 units over the next four quarters and represent a cycle high.

TOP METROS: SUPPLY GROWTH



*Estimate | Source: Berkadia, Axiometrics

2019 PERFORMANCE HIGHLIGHTS

EMPLOYMENT CHANGE
2,103,900
▲1.4% YOY

OCCUPANCY
95.8%
▲40 BPS YOY

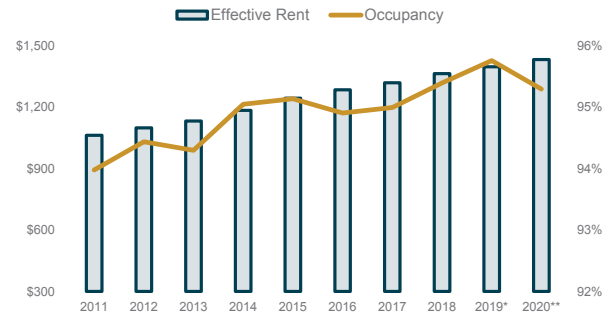
EFFECTIVE RENT
$1,399
▲2.5% YOY

CONSTRUCTION
278,138 UNITS
▲3.8% 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 2019 are estimated values, while 2020 figures are forecast projections. Apartment market data criteria and methodologies vary by market.

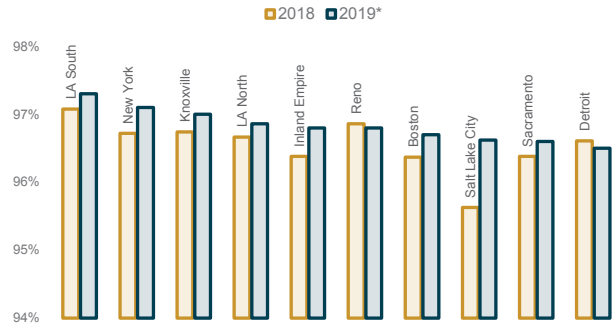
OCCUPANCY, RENT, AND INVESTMENT TRENDS

U.S. OCCUPANCY AND RENT



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

TOP METROS: HIGHEST OCCUPANCY



*Estimate | Source: Berkadia, Axiometrics

As the price of homeownership continued to climb while outpacing income growth in many markets, renting remained a popular option for many Americans. Even for those individuals who can own, renting an amenity-rich apartment near work and lifestyle centers presented a more favorable living arrangement as Class A occupancy had the highest annual gain in occupancy in 2019. Across all apartment stock, U.S. occupancy advanced 40 basis points to reach 95.8% by year-end 2019, a postrecession high. While healthy, leasing activity is expected to trail the influx of new inventory this year, leading to a 50-basis-point drop to 95.3%. Even with the decline, occupancy would be 50 basis points higher than the cycle average.

2020 PERFORMANCE HIGHLIGHTS

EMPLOYMENT CHANGE
1,219,000
▲ 0.8% YOY

OCCUPANCY
95.3%
▼ 50 BPS YOY

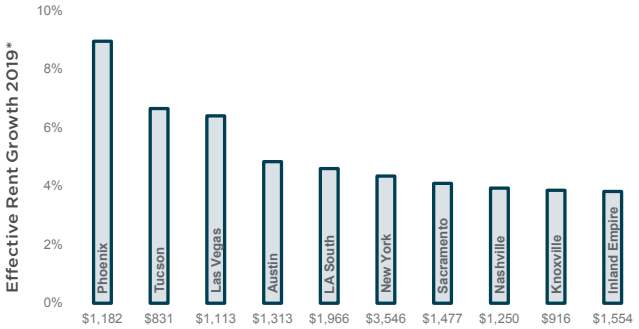
EFFECTIVE RENT
$1,434
▲ 2.5% YOY

CONSTRUCTION
366,115 UNITS
▲ 31.6% YOY

Sustained demand for rentals amid rising household income across the U.S. in 2019 provided apartment operators leeway to keep upward pressure on rent. Monthly effective rent advanced 2.5% to finish 2019 at $1,399. More-affordable markets in the Sun Belt region capitalized on vigorous expansion in employment and population as the top three major markets in the U.S. with more than a 6% annual rent growth were within this region. With the cost of renting outpacing income increases in many areas, local governments enacted or plan to enact rent growth measures. Oregon was the first state to do so, with New York City and California joining the movement in 2020. While these laws may limit increases for older product in these typical high-rent growth areas, national apartment operators are forecast to keep effective rent increases even with the 2019 growth. At $1,434 in December, monthly effective rent will advance 2.5% in 2020.

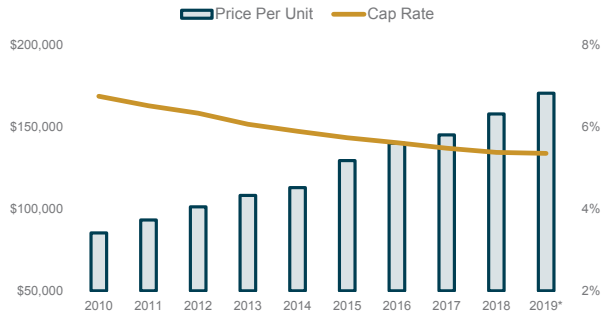
Multifamily remained an appealing investment in commercial real estate. Preliminary sales data indicated more than 6,500 transactions occurred in 2019. With cap rates averaging an all-time low of 5.4%, investors searched for yield in secondary markets with stronger population and employment growth that included Atlanta and Phoenix. While foreign buyers, especially from Asia and Europe, were less active in the U.S. apartment market, the rise in private investors made up the difference. Buyers were most active in the Los Angeles, Dallas, and Phoenix markets, as these areas led in dollar volume. The strength of the U.S. apartment market was further highlighted as the average price per unit elevated 8.0% year over year to $170,745 in 2019.

TOP METROS: EFFECTIVE RENT GROWTH



*Estimate | Source: Berkadia, Axiometrics

U.S. APARTMENT INVESTMENT



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

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