Los Angeles Apartment Advisors

Marcus & Millichap

Offering Memorandum

2040 S SHERBOURNE DR

Los Angeles, CA 90034

NON-ENDORSEMENT AND DISCLAIMER NOTICE

Confidentiality and Disclaimer

Non-Endorsement Notice

ALL PROPERTY SHOWINGS ARE BY APPOINTMENT ONLY.
PLEASE CONSULT YOUR MARCUS & MILLICHAP AGENT FOR MORE DETAILS.

2040 S SHERBOURNE DR
Los Angeles, CA
ACT ID ZAA0121093

Marcus & Millichap

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INVESTMENT
OVERVIEW

EXECUTIVE SUMMARY

VITAL DATA				
Price	$3,500,000		CURRENT	PRO FORMA
Down Payment	35% / $1,225,000	CAP Rate	4.54%	5.41%
Loan Amount	$2,275,000	GRM	14.96	13.14
Loan Type	Proposed New	Net Operating Income	$159,027	$189,198
Interest Rate / Amortization	3.6% / 30 Years	Net Cash Flow After Debt Service	2.85% / $34,909	5.31% / $65,079
Price/Unit	$583,333	Total Return	6.35% / $77,830	8.94% / $109,572
Price/SF	$501.36			
Number of Units	6			
Rentable Square Feet	6,981			
Year Built / Renovated	1956 / 2019			
Lot Size	0.16 acre(s)			

UNIT MIX		
NUMBER OF UNITS	UNIT TYPE	APPROX. SQUARE FEET
3	2 Bed / 2 Bath	
3	3 Bed / 2 Bath	
6	Total	6,981

PROPOSED FINANCING	
First Trust Deed	
Loan Amount	$2,275,000
Loan Type	Proposed New
Interest Rate	3.6%
Amortization	30 Years
Loan Term	5 Years
Loan to Value	65%
Debt Coverage Ratio	1.28

MAJOR EMPLOYERS

EMPLOYER	# OF EMPLOYEES
Green Equity Investors IV LP	15,000
Ucla Health System Auxiliary	11,154
Yf Art Holdings Gp LLC	10,600
Cedars-Sinai Medical Center	5,333
Earth Technology Corp USA	4,655
Magic Workforce Solutions LLC	4,539
Greater Los Angeles Health	4,500
Ticketmaster Entertainment LLC	4,390
West Los Angeles V A Med Ctr	4,374
Mercury Insurance Services LLC	4,000
University Cal Los Angeles	3,883
Gold Parent LP	3,400

DEMOGRAPHICS

	1-Miles	3-Miles	5-Miles
2018 Estimate Pop	35,919	339,912	945,776
2010 Census Pop	34,576	324,546	899,624
2018 Estimate HH	13,570	150,155	410,705
2010 Census HH	12,933	141,710	385,508
Median HH Income	$70,962	$69,357	$64,324
Per Capita Income	$43,035	$49,116	$45,840
Average HH Income	$113,311	$110,783	$104,649

INVESTMENT OVERVIEW

Marcus & Millichap is proud to present these 6-units located at 2040 South Sherbourne Drive in Los Angeles, California. The offering is situated on a 7,063 SF lot with a rentable area of 6,981 SF and consists of Three- 2 Bed/2 Bath and Three- 3 Bed/2 Bath units with 9 parking spots.

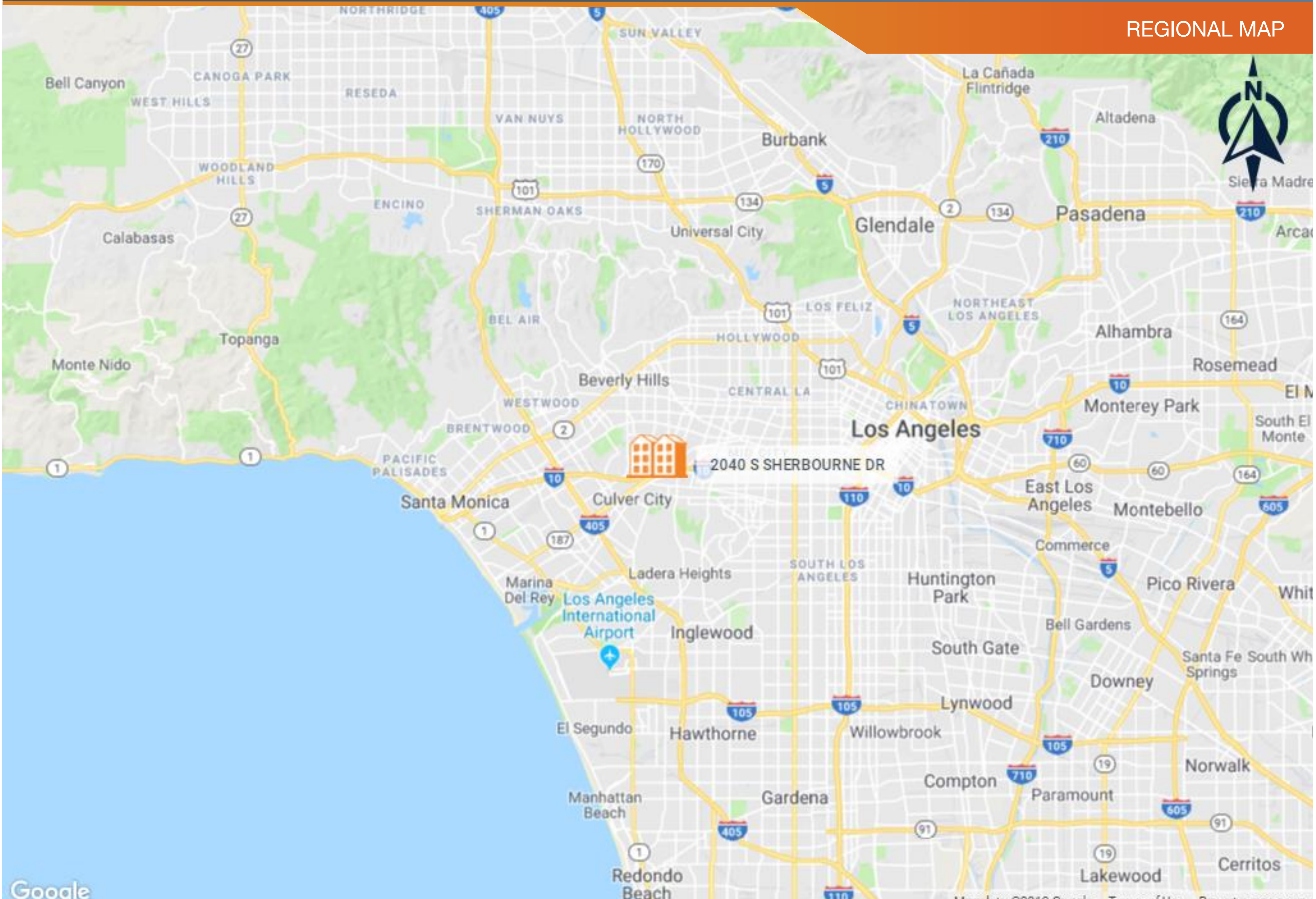
The Sherbourne Apartments have recently undergone extensive renovations to both the exterior as well as 5 of the 6 interiors. The interior of these units have been completely transformed into an open and modern style with new kitchen cabinets, quartz counter tops, full-size stainless-steel appliances, recessed lighting, new windows, synthetic wood floors, and new central heating & cooling systems in all units. While the 3-bedroom units come with their own brand-new washer and dryer, the on-site laundry room provides for added income coming from the remaining units.

The offering is well located in the Pico Robertson area proximate to Beverly Hills, Century City and Culver City. Low in expenses the asset completed its soft story retrofit requirement in 2018 and is separately metered for gas and electricity.

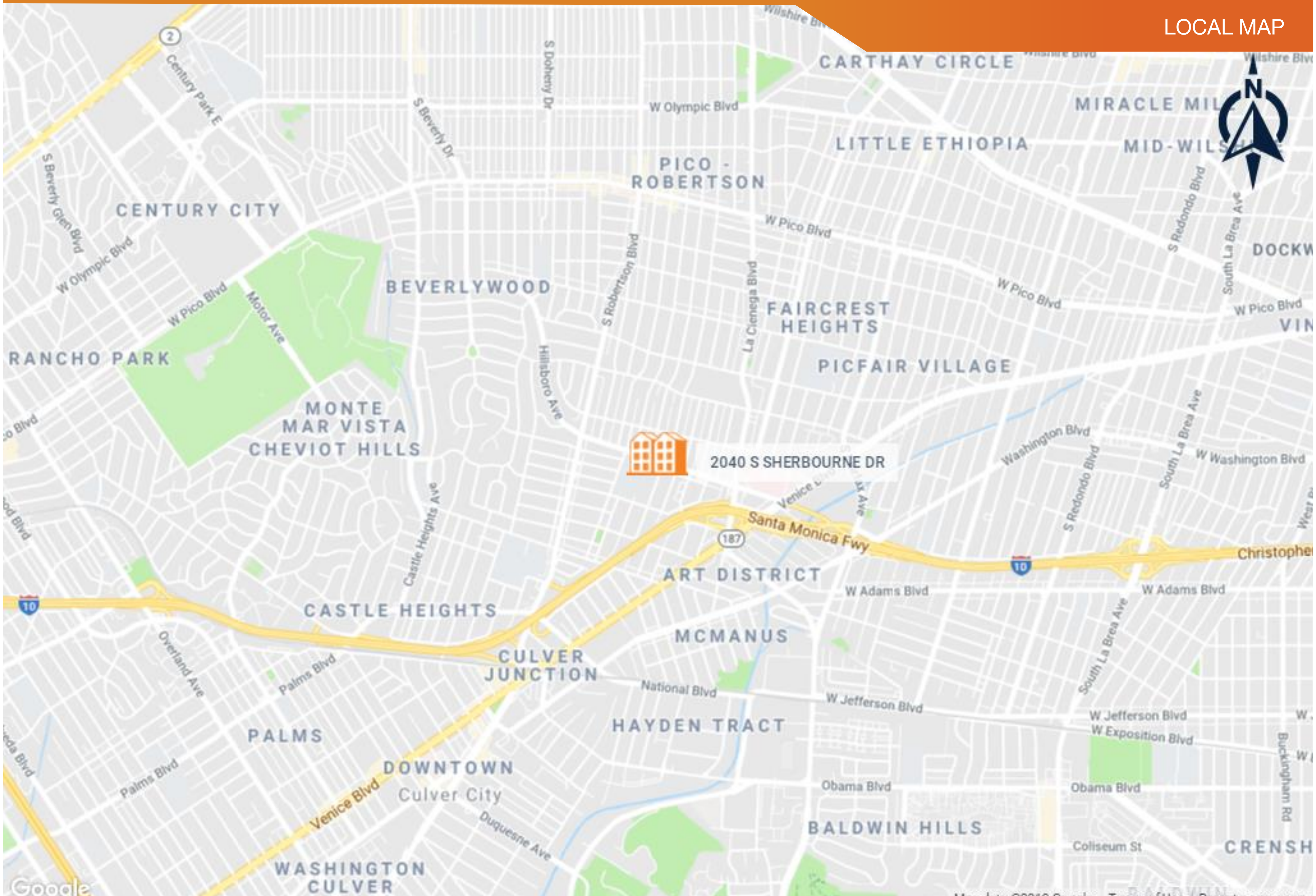
INVESTMENT HIGHLIGHTS

- Built in 1959
- Renovated in 2019
- Prime Pico Robertson Location
- Excellent Mix of 2's & 3's
- Proximate to Dining & Entertainment
- Walk Score of 71

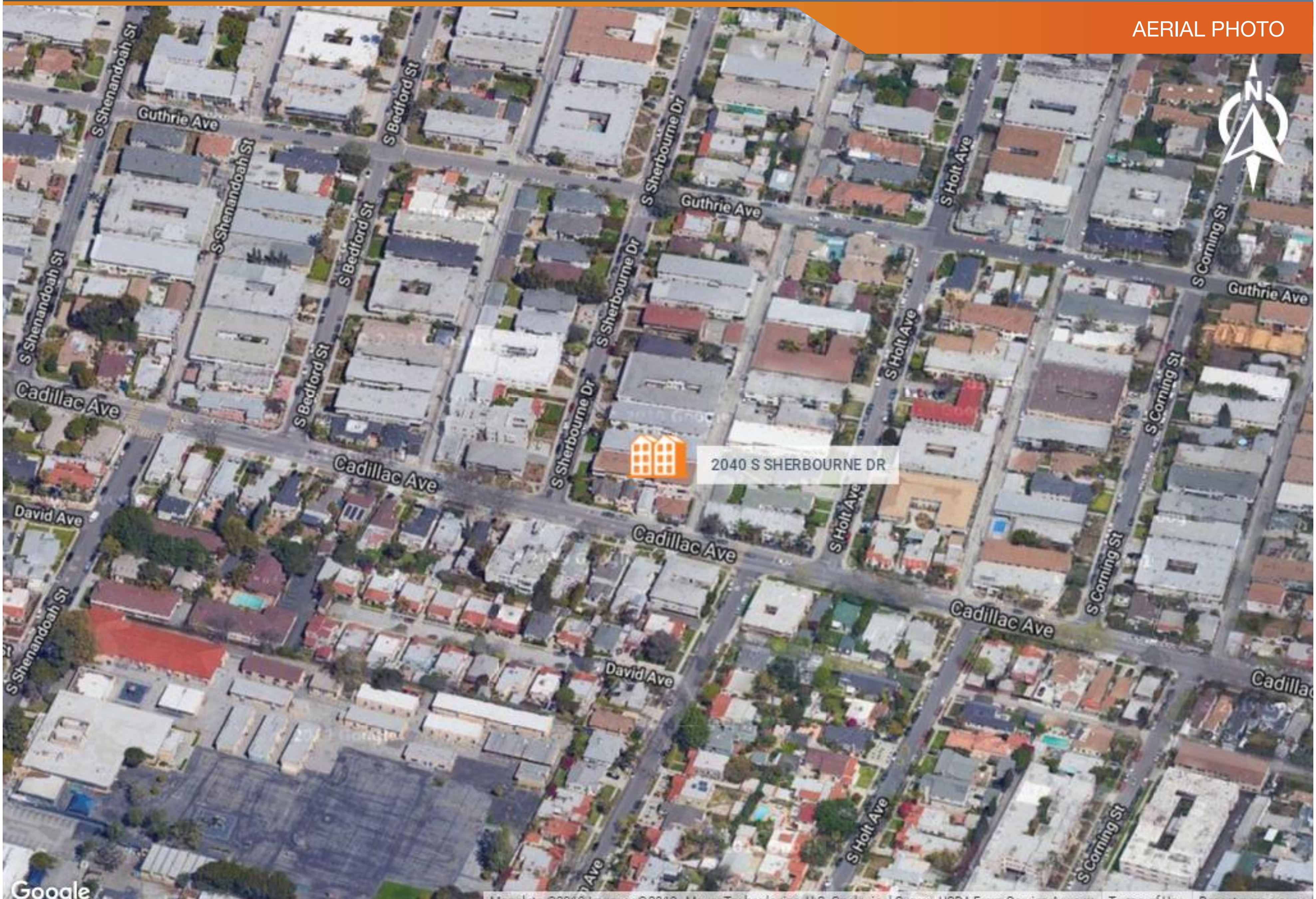
REGIONAL MAP



LOCAL MAP


2040 S SHERBOURNE DR
CENTURY CITY
RANCHO PARK
BEVERLYWOOD
PICO - ROBERTSON
CARTHAY CIRCLE
MIRACLE MILE
LITTLE ETHIOPIA
FAIRCREST HEIGHTS
PICFAIR VILLAGE
MONTE MAR VISTA
CHEVIOT HILLS
ART DISTRICT
CASTLE HEIGHTS
MCMANUS
CULVER JUNCTION
HAYDEN TRACT
PALMS
DOWNTOWN
Culver City
BALDWIN HILLS
WASHINGTON CULVER
Santa Monica Fwy
W Pico Blvd
W Olympic Blvd
Washington Blvd
W Adams Blvd
National Blvd
W Jefferson Blvd
Venice Blvd
Obama Blvd
Map data ©2019 Google

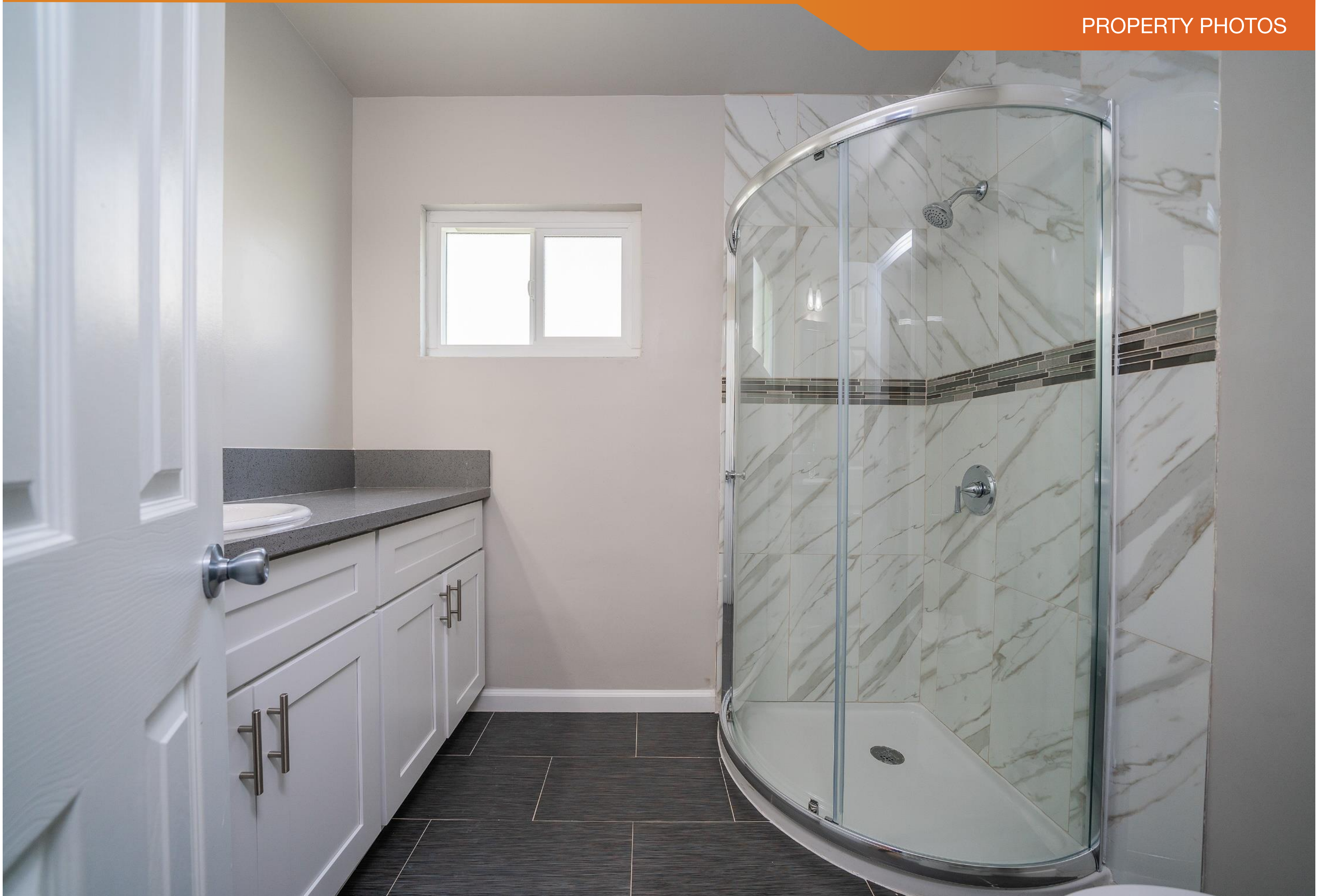
AERIAL PHOTO




2040
Sherbourne
TERRACE

PROPERTY PHOTOS


2040
Sherbourne
Sands



FINANCIAL ANALYSIS

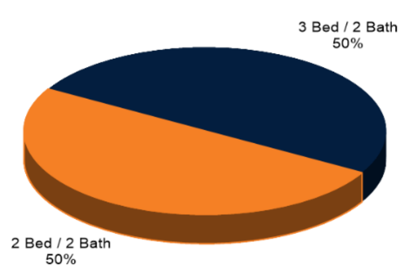
RENT ROLL SUMMARY

As of July,2019

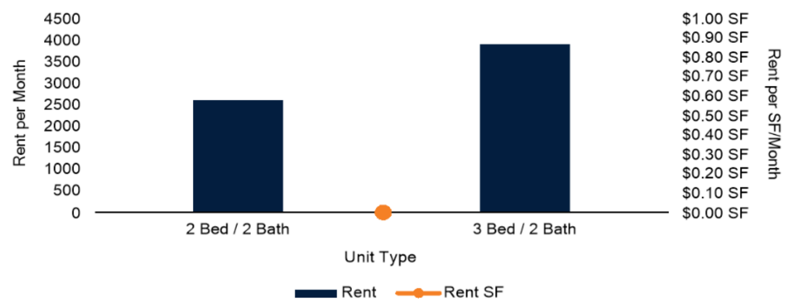
				Current			Potential		
Unit Type	# of Units	Avg Sq Feet	Rental Range	Average Rent	Average Rent / SF	Monthly Income	Average Rent	Average Rent / SF	Monthly Income
2 Bed / 2 Bath	3	N/A	$1,400 - $3,200	$2,600	N/A	$7,800	$3,300	N/A	$9,900
3 Bed / 2 Bath	3	N/A	$3,900 - $3,900	$3,900	N/A	$11,700	$4,100	N/A	$12,300
Totals/Weighted Averages	**6**	**1,164**		**$3,250**	**$2.79**	**$19,500**	**$3,700**	**$3.18**	**$22,200**
Gross Annualized Rents				**$234,000**			**$266,400**		

Notes:

Unit Distribution



Unit Rent



RENT ROLL DETAIL

As of July,2019

Unit	Unit Type		Current Rent / Month	Current Rent / SF/ Month	Potential Rent / Month	Potential Rent/ SF/ Month
1	3 Bed / 2 Bath		$3,900	$0.00	$4,100	$0.00
2	3 Bed / 2 Bath		$3,900	$0.00	$4,100	$0.00
3	2 Bed / 2 Bath		$1,400	$0.00	$3,300	$0.00
4	2 Bed / 2 Bath		$3,200	$0.00	$3,300	$0.00
5	2 Bed / 2 Bath		$3,200	$0.00	$3,300	$0.00
6	3 Bed / 2 Bath		$3,900	$0.00	$4,100	$0.00
Total		**Square Feet: 6,981**	**$19,500**	**$2.79**	**$22,200**	**$3.18**

OPERATING STATEMENT

Income	Current		Pro Forma		Notes	Per Unit	Per SF
Gross Current Rent	**234,000**		**266,400**			**44,400**	**38.16**
Physical Vacancy	(7,020)	3.0%	(7,992)	3.0%		(1,332)	(1.14)
Total Vacancy	**($7,020)**	**3.0%**	**($7,992)**	**3.0%**		**($1,332)**	**($1)**
Effective Gross Income	**$226,980**		**$258,408**			**$43,068**	**$37.02**

Expenses	Current		Pro Forma		Notes	Per Unit	Per SF
Real Estate Taxes	41,862		41,862		[1]	6,977	6.00
Insurance	2,792		2,792		[2]	465	0.40
Utilities - Gas & Electric	3,000		3,000		[3]	500	0.43
Utilities - Water & Sewer	5,040		5,040		[4]	840	0.72
Repairs & Maintenance	3,000		3,000		[5]	500	0.43
Landscaping	1,200		1,200		[6]	200	0.17
Pest Control	480		480		[7]	80	0.07
Operating Reserves	1,500		1,500		[8]	250	0.21
Management Fee	9,079	4.0%	10,336	4.0%		1,723	1.48
Total Expenses	**$67,953**		**$69,210**			**$11,535**	**$9.91**
Expenses as % of EGI	**29.9%**		**26.8%**				
Net Operating Income	**$159,027**		**$189,198**			**$31,533**	**$27.10**

Notes and assumptions to the above analysis are on the following page.

NOTES

Notes to Operating Statement	
[1]	1.196046% of the purchase price
[2]	$0.40 per rentable square feet
[3]	$250 per month
[4]	$840 per unit per year
[5]	$500 per unit per year
[6]	$100 per month
[7]	$40 per month
[8]	$250 per unit per year

PRICING DETAIL

Summary		
Price	**$3,500,000**	
Down Payment	$1,225,000	35%
Number of Units	6	
Price Per Unit	$583,333	
Price Per SqFt	$501.36	
Gross SqFt	6,981	
Lot Size	0.16 Acres	
Approx. Year Built	1956/2019	

Returns	Current	Pro Forma
CAP Rate	**4.54%**	**5.41%**
GRM	14.96	13.14
Cash-on-Cash	2.85%	5.31%
Debt Coverage Ratio	1.28	1.52

Financing	1st Loan
Loan Amount	$2,275,000
Loan Type	New
Interest Rate	3.60%
Amortization	30 Years
Year Due	2024

Loan information is subject to change. Contact your Marcus & Millichap Capital Corporation representative.

# Of Units	Unit Type	SqFt/Unit	Scheduled Rents	Market Rents
3	2 Bed / 2 Bath	0	$2,600	$3,300
3	3 Bed / 2 Bath	0	$3,900	$4,100

Operating Data

Income		Current		Pro Forma
Gross Scheduled Rent		**$234,000**		**$266,400**
Less: Vacancy/Deductions	3.0%	$7,020	3.0%	$7,992
Total Effective Rental Income		$226,980		$258,408
Other Income		$0		$0
Effective Gross Income		$226,980		$258,408
Less: Expenses	29.9%	$67,953	26.8%	$69,210
Net Operating Income		**$159,027**		**$189,198**
Cash Flow		$159,027		$189,198
Debt Service		$124,118		$124,118
Net Cash Flow After Debt Service	2.85%	$34,909	5.31%	$65,079
Principal Reduction		$42,922		$44,493
Total Return	**6.35%**	**$77,830**	**8.94%**	**$109,572**

Expenses	Current	Pro Forma
Real Estate Taxes	$41,862	$41,862
Insurance	$2,792	$2,792
Utilities - Gas & Electric	$3,000	$3,000
Utilities - Water & Sewer	$5,040	$5,040
Repairs & Maintenance	$3,000	$3,000
Landscaping	$1,200	$1,200
Pest Control	$480	$480
Operating Reserves	$1,500	$1,500
Management Fee	$9,079	$10,336
Total Expenses	**$67,953**	**$69,210**
Expenses/Unit	**$11,326**	**$11,535**
Expenses/SF	**$9.73**	**$9.91**

MARCUS & MILLICHAP CAPITAL CORPORATION CAPABILITIES

MMCC—our fully integrated, dedicated financing arm—is committed to providing superior capital market expertise, precisely managed execution, and unparalleled access to capital sources providing the most competitive rates and terms.

We leverage our prominent capital market relationships with commercial banks, life insurance companies, CMBS, private and public debt/equity funds, Fannie Mae, Freddie Mac and HUD to provide our clients with the greatest range of financing options.

Our dedicated, knowledgeable experts understand the challenges of financing and work tirelessly to resolve all potential issues to the benefit of our clients.

Closed 1,678 debt and equity financings in 2018

National platform operating within the firm's brokerage offices

6.24 billion billion total national volume in 2018

Access to more capital sources than any other firm in the industry

WHY MMCC?

Optimum financing solutions to enhance value

Our ability to enhance buyer pool by expanding finance options

Our ability to enhance seller control

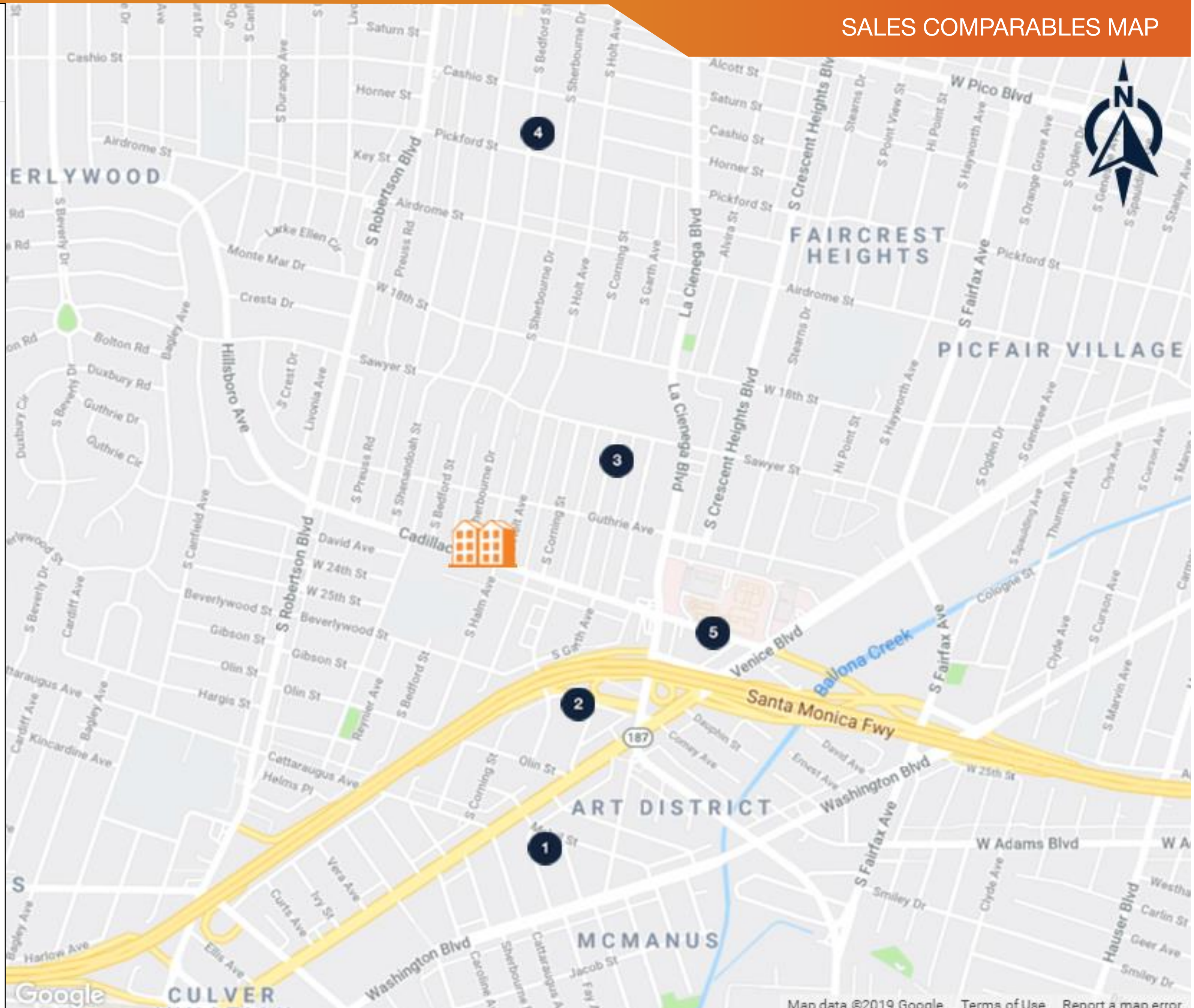
- **Through buyer qualification support**
- **Our ability to manage buyers finance expectations**
- **Ability to monitor and manage buyer/lender progress, insuring timely, predictable closings**
- **By relying on a world class set of debt/equity sources and presenting a tightly underwritten credit file**

MARKET
COMPARABLES

SALES COMPARABLES MAP

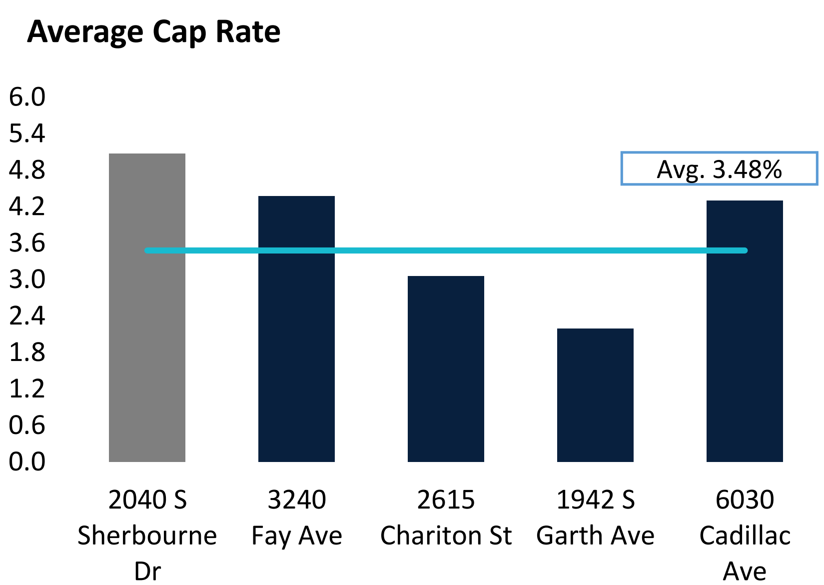
2040 S SHERBOURNE DR
Los Angeles, CA 90034

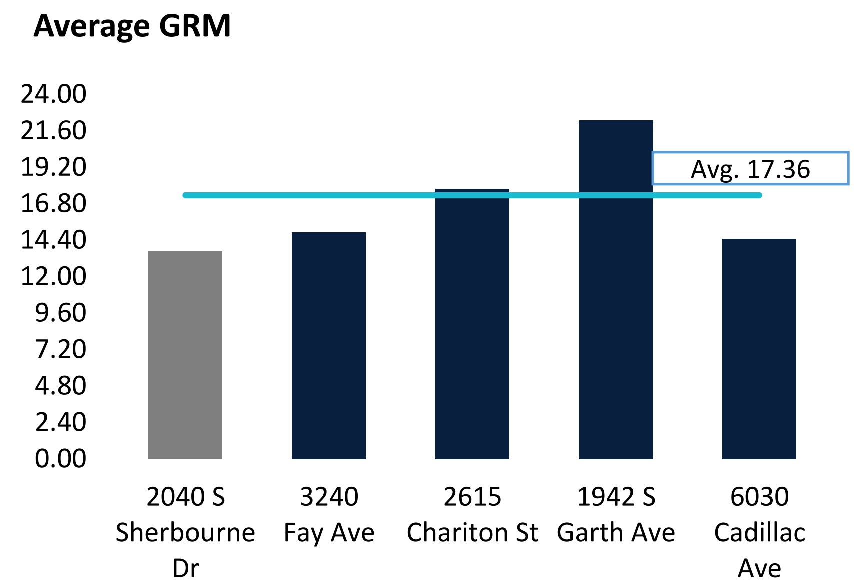
1. 3240 Fay Ave
2. 2615 Chariton St
3. 1942 S Garth Ave
4. 1546 S Bedford St
5. 6030 Cadillac Ave

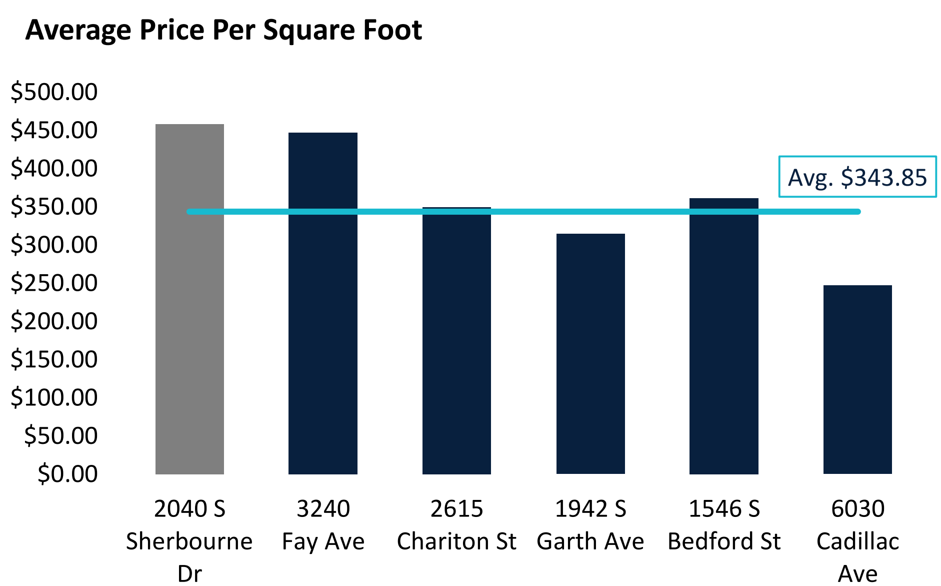


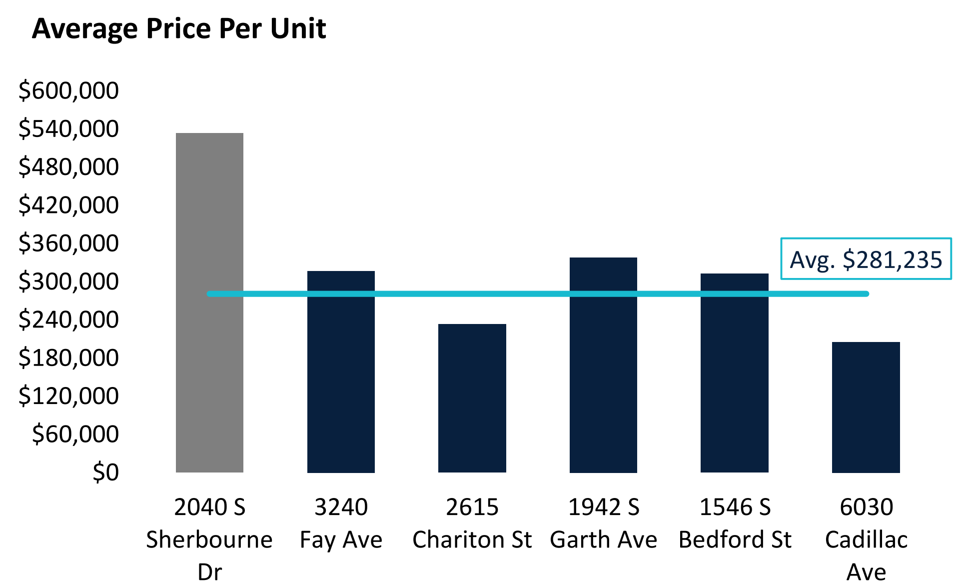
SALES COMPARABLES

■ SALES COMPARABLES — SALES COMPS AVG









SALES COMPARABLES

2040 S SHERBOURNE DR
2040 S Sherbourne Dr, Los Angeles, CA, 90034

		Units	Unit Type
Offering Price:	$3,200,000	3	2 Bed 2 Bath
Price/Unit:	$533,333	3	3 Bed 2 Bath
Price/SF:	$458.39		
CAP Rate:	5.08%		
GRM:	13.68		
Total No. of Units:	6		
Year Built:	1956		

Underwriting Criteria			
Income	$226,980	Expenses	$64,364
NOI	$162,616	Vacancy	($7,020)

3240 FAY AVE
3240 Fay Ave, Los Angeles, CA, 90034

1

		Units	Unit Type
Close Of Escrow:	7/9/2019	4	Studio 1 Bath
Sales Price:	$4,435,000	4	1 Bdr 1 Bath
Price/Unit:	$316,786	6	2 Bdr 1 Bath
Price/SF:	$446.99		
CAP Rate:	4.38%		
GRM:	14.90		
Total No. of Units:	14		
Year Built:	1963		

Underwriting Criteria			
Income	$297,651	Expenses	$103,398
NOI	$194,253		

2615 CHARITON ST
2615 Chariton St, Los Angeles, CA, 90034

2

		Units	Unit Type
Close Of Escrow:	3/20/2019	3	Studio 1 Bath
Sales Price:	$2,100,000	1	1 Bdr 1 Bath
Price/Unit:	$233,333	5	2 Bdr 2 Bath
Price/SF:	$349.53		
CAP Rate:	3.06%		
GRM:	17.78		
Total No. of Units:	9		
Year Built:	1962		

Underwriting Criteria			
Income	$118,116	Expenses	$51,405
NOI	$64,396		

SALES COMPARABLES

1942 S GARTH AVE
1942 S Garth Ave, Los Angeles, CA, 90034

3

		Units	Unit Type
Close Of Escrow:	12/31/2018	5	3 Bdr 2 Bath
Sales Price:	$2,030,000	1	Studio 1 Bath
Price/Unit:	$338,333		
Price/SF:	$314.44		
CAP Rate:	2.19%		
GRM:	22.27		
Total No. of Units:	6		
Year Built:	1962		

Underwriting Criteria			
Income	$91,152	Expenses	$44,927
NOI	$44,490		

1546 S BEDFORD ST
1546 S Bedford St, Los Angeles, CA, 90035

4

		Units	Unit Type
Close Of Escrow:	11/9/2018	8	Studio 1 Bath
Sales Price:	$2,500,000		
Price/Unit:	$312,500		
Price/SF:	$361.27		
Total No. of Units:	8		
Year Built:	1946		

6030 CADILLAC AVE
6030 Cadillac Ave, Los Angeles, CA, 90034

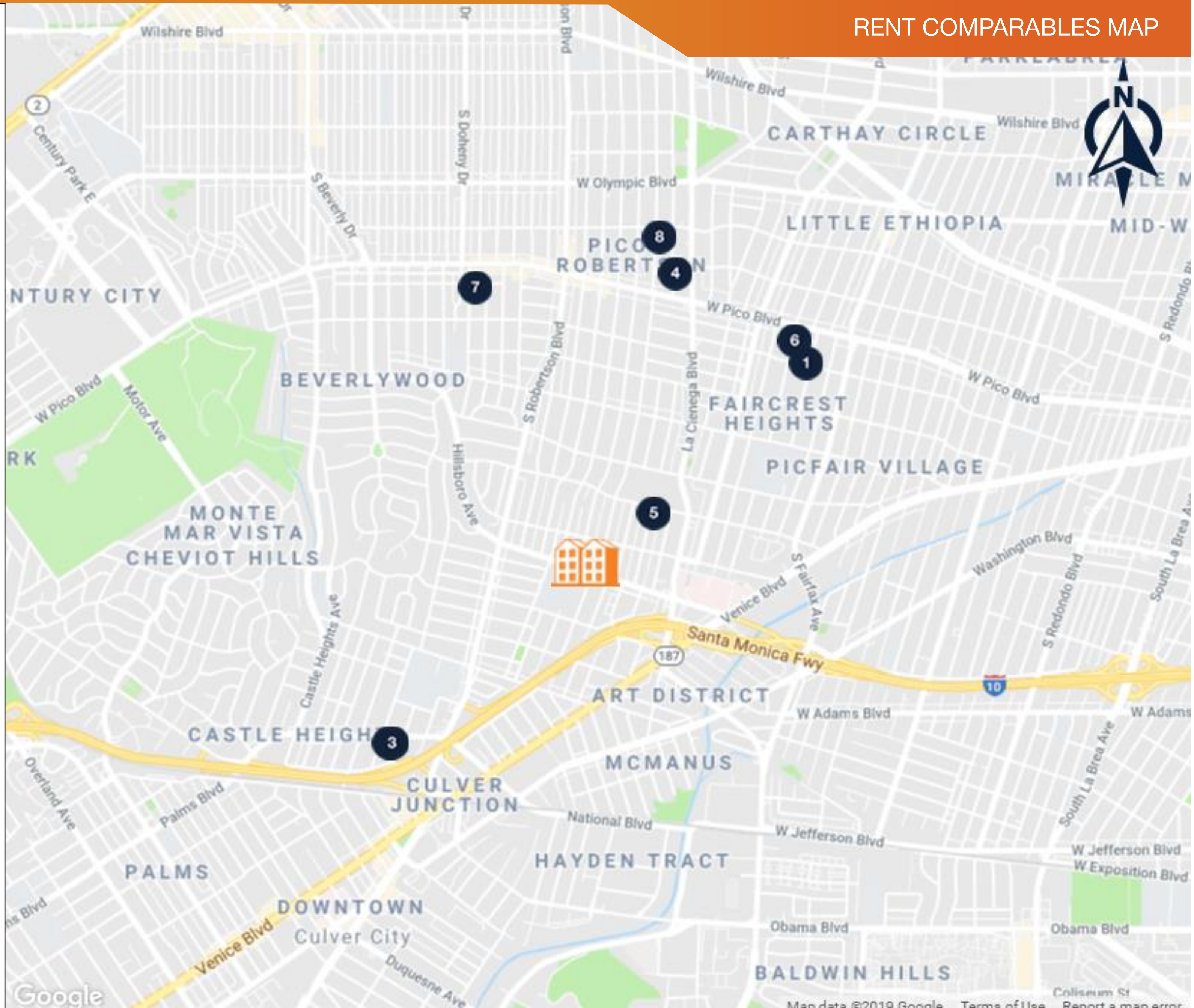
5

		Units	Unit Type
Close Of Escrow:	7/24/2018	4	1 Bdr 1 Bath
Sales Price:	$1,847,000	5	2 Bdr 1 Bath
Price/Unit:	$205,222		
Price/SF:	$247.02		
CAP Rate:	4.30%		
GRM:	14.50		
Total No. of Units:	9		
Year Built:	1961		

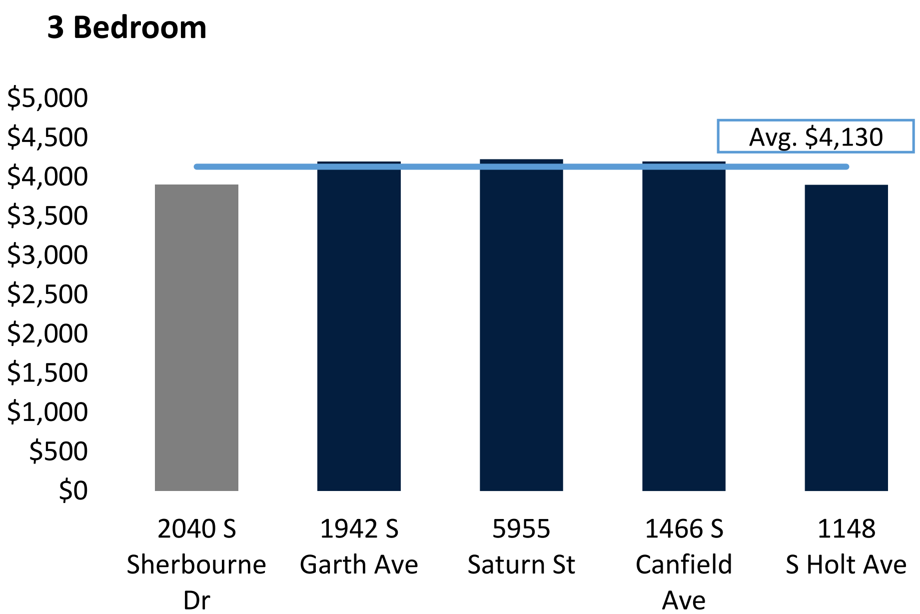
RENT COMPARABLES MAP

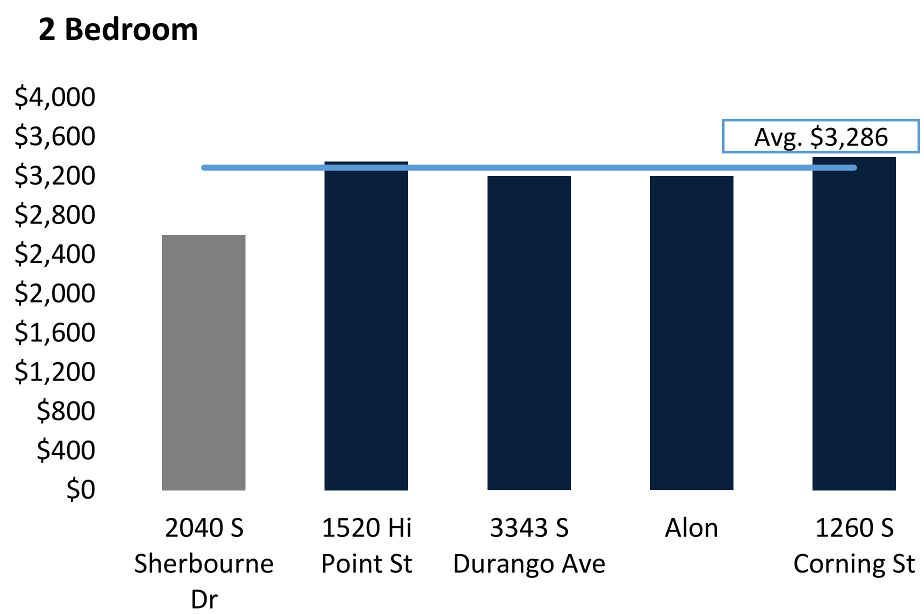
2040 S SHERBOURNE DR
Los Angeles, CA 90034

1. 1520 Hi Point St
2. 3343 S Durango Ave
3. Alon
4. 1260 S Corning St
5. 1942 S Garth Ave
6. 5955 Saturn St
7. 1466 S Canfield Ave
8. 1148 S Holt Ave



AVERAGE RENT - MULTIFAMILY





2040 S SHERBOURNE DR
2040 S Sherbourne Dr, Los Angeles, CA, 90034

Unit Type	Units	SF	Rent	Rent/SF
2 Bed 2 Bath	3		$2,600	$0.00
3 Bed 2 Bath	3		$3,900	$0.00
Total/Avg.	6		$3,250	

YEAR BUILT: 1956

1520 HI POINT ST
1520 Hi Point St, Los Angeles, CA, 90035

1

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2.5 Bath	1	1,200	$3,350	$2.79
Total/Avg.	1	1,200	$3,350	$2.79

YEAR BUILT: 1990

3343 S DURANGO AVE
3343 S Durango Ave, Los Angeles, CA, 90034

2

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath	1	930	$3,200	$3.44
Total/Avg.	1	930	$3,200	$3.44

YEAR BUILT: 1989

ALON
9211 Harlow Ave, Los Angeles, CA, 90034

3

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath	1	930	$3,200	$3.44
Total/Avg.	1	930	$3,200	$3.44

YEAR BUILT: 1973

1260 S CORNING ST
1260 S Corning St, Los Angeles, CA, 90035

4

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath	1	1,267	$3,395	$2.68
Total/Avg.	1	1,267	$3,395	$2.68

YEAR BUILT: 1980

1942 S GARTH AVE
1942 S Garth Ave, Los Angeles, CA, 90034

5

Unit Type	Units	SF	Rent	Rent/SF
3 Bdr 2 Bath	1	1,175	$4,195	$3.57
Total/Avg.	1	1,175	$4,195	$3.57

YEAR BUILT: 1962

5955 SATURN ST
5955 Saturn St, Los Angeles, CA, 90035

6

Unit Type	Units	SF	Rent	Rent/SF
3 Bdr 2 Bath	1	1,300	$4,225	$3.25
Total/Avg.	1	1,300	$4,225	$3.25

YEAR BUILT: 2019

1466 S CANFIELD AVE
1466 S Canfield Ave, Los Angeles, CA, 90035

7

Unit Type	Units	SF	Rent	Rent/SF
3 Bdr 2 Bath	1	1,300	$4,200	$3.23
Total/Avg.	1	1,300	$4,200	$3.23

YEAR BUILT: 1957

1148 S HOLT AVE
1148 S Holt Ave, Los Angeles, CA, 90035

8

Unit Type	Units	SF	Rent	Rent/SF
3 Bdr 2 Bath	1	1,500	$3,900	$2.60
Total/Avg.	1	1,500	$3,900	$2.60

YEAR BUILT: 1955

MARKET OVERVIEW

WESTSIDE CITIES, LOS ANGELES

OVERVIEW

The Westside Cities area is located west of downtown Los Angeles and north of Los Angeles International Airport. The market contains the following submarkets: Brentwood-Westwood-Beverly Hills; West Hollywood; Century City; Palms-Mar Vista; and Santa Monica-Marina del Rey. Cities from Venice to Playa Del Rey to Culver City are all located within these submarkets. The region is projected to add 12,000 residents through 2022, resulting in the formation of more than 7,600 households.

METRO HIGHLIGHTS

GROWING TECH SECTOR

The region's growing high-tech sector has awarded the Santa Monica/Venice area the nickname of "Silicon Beach," attracting companies such as Google.

WELL-EDUCATED WORKFORCE

Twice as many adults possess a bachelor's degree compared with the nation and 27 percent also hold a graduate or professional degree.

HIGH INCOMES

Educational attainment translates into a median household income that is well above the national average. High home prices, however, keep the homeownership level below 40 percent, providing a strong rental market.

ECONOMY

- Major employers in the region include entertainment giants 21st Century Fox and Sony Pictures. While roughly 20,000 jobs are in the motion-picture industry, ancillary businesses tied to entertainment are a major source of employment, as is marketing and advertising.
- The large healthcare industry is represented by UCLA Medical Group, Cedars-Sinai Medical Center, Providence Health and Services, and the local VA.
- Educational institutions throughout the market, including UCLA, Loyola Marymount and Pepperdine University, employ more than 42,000 workers.
- Tourism and retail shopping are also major drivers of the local economy.

DEMOGRAPHICS

2018 POPULATION:
648K
Growth 2018-2023*:
1.8%

2018 HOUSEHOLDS:
300K
Growth 2018-2023*:
2.4%

2018 MEDIAN AGE:
39.5
U.S. Median:
38.0

2018 MEDIAN HOUSEHOLD INCOME:
$88,400
U.S. Median:
$58,800

* Forecast

Sources: Marcus & Millichap Research Services; BLS; Bureau of Economic Analysis; Experian; Fortune; Moody's Analytics; U.S. Census Bureau

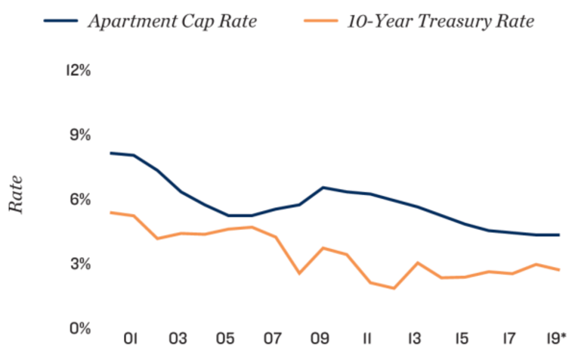
LOS ANGELES COUNTY

Tight Class A Vacancy Coincides With Record Delivery Volume; Suburban Investment Heightens

Trio of factors generate permanent source of demand. Home to one of the highest rates of renter households in the nation, Los Angeles County's apartment inventory swelled by 49,000 units over the past five years, yet vacancy remained in the mid-3 percent to 4 percent range throughout. Diverse economic expansion, a steady rate of household formation and out-of-reach home prices combined to support strong absorption of new and existing rentals during this span. Entering 2019, the gap between the average monthly rent and a mortgage payment sat at $1,300, limiting housing options for most residents even as the metro's median household income nears $70,000. The large number of higher-earning residents unable to purchase a home has elevated leasing activity at luxury complexes. Heightened demand for high-priced rentals has lowered Class A vacancy to the low-4 percent band prior to wave of project completions that have the potential to increase metro vacancy for the first time since 2016.

Widespread increase in supply further tests luxury unit demand. The first three months of this year represented one of the strongest quarters for deliveries since at least 2000, as 4,200 rentals were added to the metro's apartment stock. During the remainder of this year an additional 13,000 units will be finalized, driven by a surge of completions in each of the county's four primary regions. Greater Downtown Los Angeles' rental stock will swell by 9,000 doors in 2019, with nearly half of these units delivered in the downtown core and another 2,500 apartments coming online in Mid-Wilshire. Largely lacking new supply this cycle, the Westside Cities region will welcome more than 2,800 rentals this year.

Local Apartment Yield Trends



* Cap rate trailing 12-month average through 1Q; Treasury rate as of March 29
Sources: CoStar Group, Inc.; Real Capital Analytics

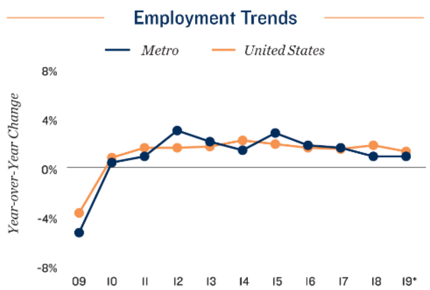
Multifamily 2019 Forecast

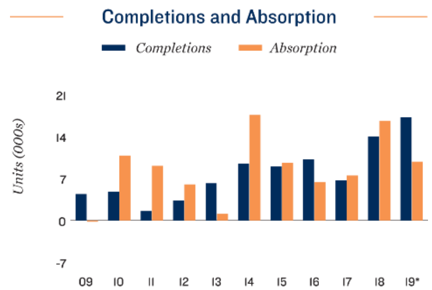
Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Greater Downtown Los Angeles	4.6%	80	$2,473	1.6%
Westside Cities	3.6%	70	$3,275	3.2%
San Fernando Valley/Tri-Cities	3.3%	20	$2,162	3.8%
South Bay/Long Beach	4.1%	50	$2,349	4.3%
Overall Metro	4.1%	60	$2,320	4.4%

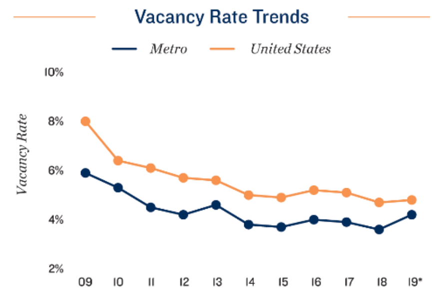
Investment Trends

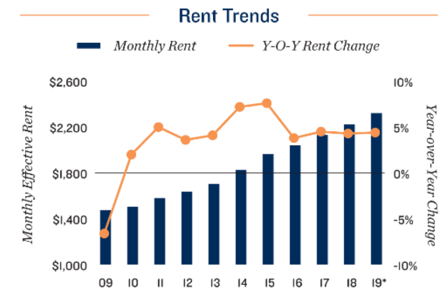
- Transaction volume increased by $600 million over the past year as $6.2 billion of apartment assets traded throughout Los Angeles County. A notable uptick in the price per unit coupled with a moderate surge in deal flow supported the rise in volume.
- Value-add opportunities in the San Fernando Valley are attracting a growing number of in-county investors as listings volume declines in nearby Pasadena and Burbank. Of the nearly 200 transactions that closed in the metro over the past year, more than 20 percent occurred in the Valley, where discounted pricing and first-year returns in low- to mid-4 percent band are available. Buyers active in the valley also target upside-producing properties off Interstates 10 and 210 in the San Gabriel Valley, where cap rates can reach 5 percent.
- Investors seeking core-located buildings and high-end coastal properties are competing for limited listings, driving pricing for these assets. Fewer opportunities in Downtown Los Angeles and Santa Monica are influencing buyers to target complexes in Hollywood, Koreatown and Culver City, where sub-$400,000 per unit pricing still exists.

LOS ANGELES COUNTY









1Q19 – 12-Month Period

* Forecast

EMPLOYMENT

0.7% increase in total employment Y-O-Y

- Employers added 30,200 positions over the past year ending in March, with historically low unemployment preventing a larger gain. During the prior 12-month period, 80,600 jobs were created.
- Education and health services-related positions accounted for more than half of recent job creation, as the sector expanded by 15,600 workers during the past four quarters. Business services hiring was also strong, with the industry growing by 13,700 professionals.

CONSTRUCTION

15,900 units completed Y-O-Y

- Delivery volume more than doubled over the last 12 months, notably eclipsing the 7,100 units finalized during the prior four quarters. Of the recently completed rentals, more than 9,800 were in Greater Downtown Los Angeles, with an additional 3,750 doors brought online in San Fernando Valley/Tri-Cities.
- Entering April, construction was underway on 27,600 units with completion dates extending into the fourth quarter of 2021.

VACANCY

10 basis point increase in vacancy Y-O-Y

- Robust demand for available units equated to the absorption of 16,150 units over the past 12 months, lowering the county's vacancy rate to 3.7 percent amid a surge of project deliveries.
- Strong leasing activity at luxury properties lowered Class A vacancy 50 basis points to 4.3 percent. Unit availability in the Class B and C sectors was unchanged over the past four quarters, holding at 3.8 percent and 2.6 percent, respectively.

RENTS

4.4% increase in effective rents Y-O-Y

- The average effective rent climbed to $2,239 per month in the first quarter after posting a 4.8 percent increase a year ago.
- Rent growth was most exaggerated in the Class C sector, where the average rate climbed 5.8 percent to $1,521 per month. Increased concessions usage halted rate gains in the Class A sector, as the average rent rose nominally on year-over-year basis to $2,929 per month.

LOS ANGELES COUNTY

Demographic Highlights

Five-Year Population Growth*
179,600

1Q19 Population Age 20-34 (Percent of total population)
Metro 23%
U.S. 21%

1Q19 Median Household Income
Metro $68,733
U.S. Median $64,259

Five-Year Household Growth*
163,800

Population of Age 25+ Percent with Bachelor's Degree+**
Metro 32%
U.S. Average 30%

1Q19 Total Households
Rent 50%
Own 50%

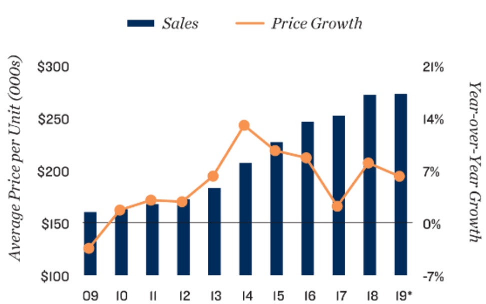
* Forecast ** 2018-2023 * Los Angeles-Long Beach-Anaheim, CA Metropolitan Statistical Area

Sales Trends

Elevated Pricing, Historically Low Cap Rates Favor Long-Term Holders

- Transaction velocity rose by 5 percent over the past 12 months as more capital flowed into the market, supporting a 6.2 percent increase to the average price to $273,000 per unit.
- The average cap rate dropped 10 basis points over the past year to 4.2 percent, comparable to neighboring Orange County.

Sales Trends



Outlook: Buyers seeking assets near mass transit eye listings near future light-rail extensions in San Fernando Valley, South Bay and the Westside. These expansions are part of the Measure M financing plan, which aims to complete a list of transportation jobs prior to the 2028 Summer Olympics.

* Trailing 12 months through 1Q19
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Submarket Trends

Lowest Vacancy Rates 1Q19

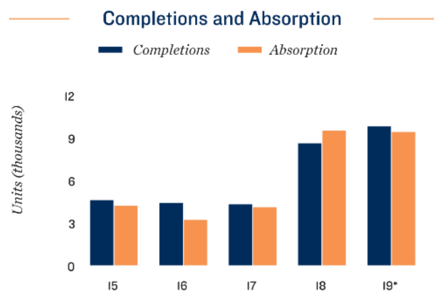
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y % Change
East Los Angeles	2.7%	-270	$1,590	5.2%
Van Nuys-Northeast San Fernando Valley	2.7%	10	$1,731	5.2%
South Los Angeles	3.0%	130	$1,576	-0.2%
Brentwood-Westwood-Beverly Hills	3.1%	-20	$3,398	5.3%
Northridge-Northwest San Fernando Valley	3.2%	-20	$1,937	5.7%
Palms-Mar Vista	3.2%	-40	$2,674	4.4%
Burbank-Glendale-Pasadena	3.3%	-50	$2,345	3.3%
Mid-Wilshire	3.3%	-20	$2,236	-0.7%
Southeast Los Angeles	3.5%	60	$1,765	4.9%
South Bay	3.6%	-80	$2,603	3.9%
Santa Monica-Marina del Rey	3.7%	-110	$3,515	3.2%
Overall Metro	3.7%	-10	$2,239	4.4%

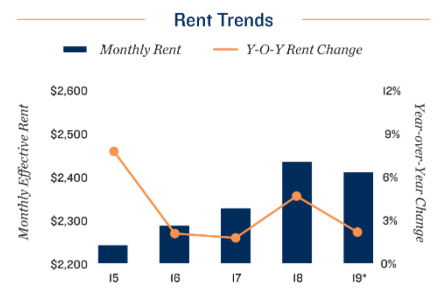
** Only submarkets with a rental stock of more than 20,000 units were included.

LOS ANGELES METRO AREA: GREATER DOWNTOWN LOS ANGELES

Investment Trends

- In the past three years, Greater Downtown's apartment stock climbed by 18,800 apartments, yet vacancy compressed by 70 basis points, signaling strong leasing activity at these new properties. Sizable demand for luxury units during this period encouraged an uptick in project starts, many of which will come to fruition this year as 9,000 rentals are slated for finalization. This historically high volume of completions includes 4,600 rentals in Downtown Los Angeles and nearly 2,500 units in Mid-Wilshire. While pent-up demand for these new apartments is sizable, the scale of this year's delivery activity pushes vacancy to the high-4 percent band and increases concessions usage.
- Transaction activity over the past 12 months translated to $2.1 billion in sales volume, highlighted by a grouping of newly built Class A properties purchased by institutional investors for more than $100 million each. While these acquisitions received the headlines, pre-1980s-built Class C properties drove overall deal flow, accounting for more than half of recent closings. These upgradeable assets routinely provide buyers with mid-3 to mid-4 percent first-year yields and notable upside potential. Slightly higher cap rates are occasionally obtainable in Koreatown and Hollywood, where the bulk of transactions fall in the $8 million to $15 million range.





1Q19 – 12-Month Period

CONSTRUCTION

9,800 units completed Y-O-Y

- Delivery volume more than doubled on a yearly basis spanning the past 12 months, aided by the completion of nearly 2,600 apartments during the first quarter. A trio of 500-unit-plus properties highlighted the collection of projects finalized during the first three months of this year.
- Of the 12,400 units underway, 5,400 are in Downtown Los Angeles, with another 4,300 rentals being built in Mid-Wilshire.

VACANCY

0 no change in vacancy Y-O-Y

- Cycle-strong absorption negated the impact of 9,800 new units, holding the region's vacancy rate at 4.0 percent.
- Within the core downtown area, sizable supply additions expanded the local vacant stock over the past year, as the Downtown Los Angeles submarket's availability rose 90 basis points to 5.0 percent. The Hollywood submarket recorded the most pronounced compression: 30 basis points.

RENTS

2.1% increase in effective rents Y-O-Y

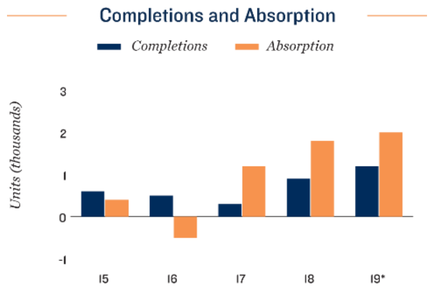
- The region's average effective rate reached $2,409 per month in March, after rising 5.0 percent during the previous 12-month span.
- The absorption of 5,000 units in Downtown Los Angeles over the past year benefited overall rate growth, with the average rent rising 4.1 percent to $2,540 per month. Hollywood witnessed a similar rate gain, lifting the average rent to $2,554 per month.

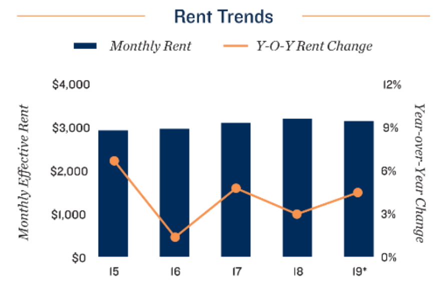
* Forecast

LOS ANGELES METRO AREA: WESTSIDE CITIES

Investment Trends

- Cyclically low Class A vacancy and out-of-reach home prices have bolstered the Westside's development pipeline as younger affluent renters seek luxury units near tech hubs. The recent influx of project starts will translate to the completion of more than 2,800 rentals this year, the largest annual total dating back to at least 2000. In the coming three quarters, at least 16 complexes are slated for delivery. More than half of these properties feature less than 100 units, with overall volume driven by the finalization of Neptune Marina, a 526-door project, and AMLI Marina del Rey, a 585-apartment complex. Pent-up demand for high-quality units should enable most of this new supply to be absorbed in a relatively short time frame; however, concessions usage should become more prominent limiting overall rent growth.
- Listings are sparse in the region, as roughly two dozen sales closed over the past year. Most deals occurred in Greater Culver City and West Hollywood, where sub-$400,000 per unit pricing remains available for Class C properties. Despite the regionally discounted price points, initial cap rates above the low-4 percent band are rare in both locales. Competition for these assets is primarily between local buyers, as the region's recent lack of $20 million-plus investment opportunities has limited activity on the part of out-of-state and foreign capital sources.





1Q19 – 12-Month Period

CONSTRUCTION

1,160 units completed Y-O-Y

- Supply additions rose notably over the past four quarters following a 12-month span where 300 units were finalized. The recent uptick in completions was supported by the delivery of more than 300 rentals during the first quarter of 2019.
- The region's development pipeline consists of 2,800 units currently under construction. Nearly all of these apartments are on pace for 2019 completion.

VACANCY

60 basis point decrease in vacancy Y-O-Y

- Net absorption neared 2,000 units over the past 12 months, reducing vacancy to 3.3 percent, the lowest availability among the county's four primary regions.
- Vacancy in Santa Monica-Marina del Rey sits at a near cycle-low rate of 3.7 percent entering the second quarter following a 110-basis point dip. Availability is minimal in Brentwood-Westwood-Beverly Hills, as a 20-basis-point reduction lowered vacancy to 3.1 percent.

RENTS

4.4% increase in effective rents Y-O-Y

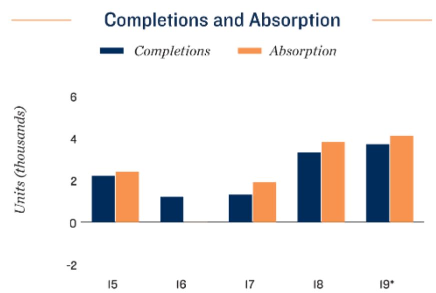
- Steady rate growth lifted the region's average effective rent to $3,225 per month, a figure that eclipses Greater Downtown Los Angeles' average by more than $800.
- Rent gains were most notable in Brentwood-Westwood-Beverly Hills, where the average monthly rate climbed 5.3 percent to $3,398 per month. Palms-Mar Vista recorded a 4.4 percent boost in rent to $2,674 per month.

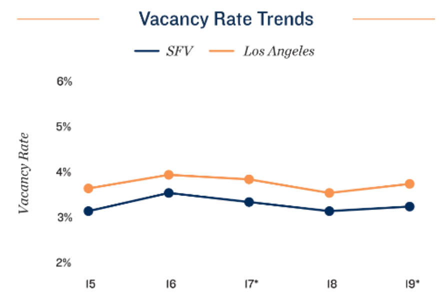
* Forecast

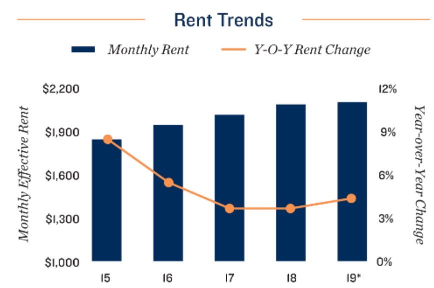
LOS ANGELES METRO AREA: SAN FERNANDO VALLEY/TRI-CITIES MARKET

Investment Trends

- Entering the second quarter, the region's two submarkets are headed in opposite directions as it pertains to development pipelines. While Tri-Cities is slated to welcome 700 new rentals over the next three quarters, the area lacks anticipated completions beyond this year. In contrast, 3,800 units are underway in San Fernando Valley, with one-third of these apartments slated for finalization during the remainder of 2019. Overall, the region's multifamily stock swells by more than 3,000 rentals for a second consecutive year. This continued influx of new supply is likely to generate increased concessions usage, namely in North Hollywood and Glendale, where collections of closely located properties are brought online. These completions will have an immediate impact on localized vacancy, yet overall availability in the region will remain in the low-3 percent range amid limited deliveries elsewhere.
- Investor activity has been centered in the San Fernando Valley, with sales velocity in the submarket accounting for 80 percent of the region's recent deal flow. Buyer interest continues to rise as the Valley represents a locale that is home to discounted pricing, tight vacancy and projected employment growth. Here, midsize Class C properties and larger Class B complexes provide investors with 3 percent to mid-4 percent initial returns, with the lowest pricing found in Van Nuys and Sherman Oaks.







1Q19 – 12-Month Period

CONSTRUCTION

3,750 units completed Y-O-Y

- Recent deliveries were concentrated in Glendale and Pasadena, where 1,160 rentals came online. During the previous period 1,130 apartments were completed.
- Developers are underway on more than 4,900 rentals with delivery dates extending into summer 2019. The 494-unit Next on Lex in Glendale and 24, a 660-unit complex in Chatsworth, represent the largest projects.

VACANCY

20 basis point increase in vacancy Y-O-Y

- On net absorption of 4,100 units, regional vacancy fell moderately, reaching 3.2 percent during the first quarter. Unit availability has now hovered in low-3 percent range for four years.
- Strong leasing in Tri-Cities equated to the absorption of 2,200 units, reducing availability to 3.3 percent. Here, Class C vacancy is nearly nonexistent at 0.9 percent. Van Nuys-Northeast San Fernando Valley represents the tightest submarket with a vacancy rate of 2.7 percent.

RENTS

4.3% increase in effective rents Y-O-Y

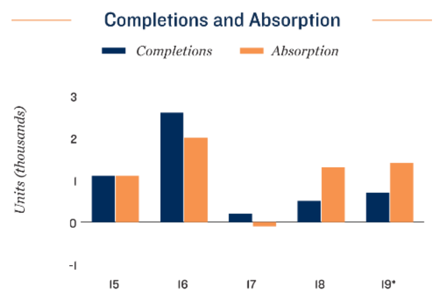
- Vacancy compression and growing incomes warranted a slight uptick in year-over-year rent growth, pushing the region's average effective rate to $2,098 per month during the first quarter.
- Van Nuys-Northeast San Fernando Valley recorded a 5.2 percent rent gain, yet at $1,731 per month the area remains notably more affordable than the region's other submarkets.

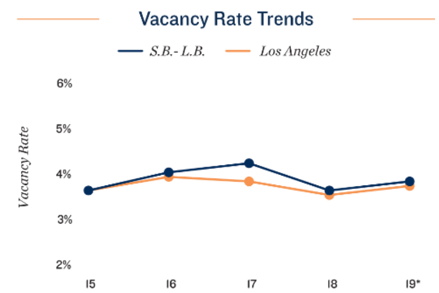
* Forecast

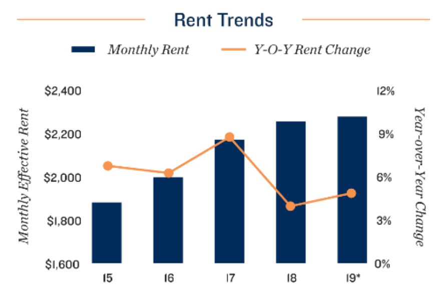
LOS ANGELES METRO AREA: SOUTH BAY/LONG BEACH

Investment Trends

- Following two straight years of subdued delivery volume, the region's development pipeline has beefed up. Downtown Long Beach represents an epicenter of construction activity as 830 units are underway that are slated for completion in the next two quarters. This collection of five- to ten-story properties will complement the city's new civic center and port headquarters, both of which will be completed this year. Overall, South Bay/Long Beach's apartment stock swells by 1,700 rentals in 2019, moderately pushing up vacancy. Still, availability hovers in the high-3 to low-4 percent range for an eighth consecutive year.
- The region witnessed consistent year-over-year transaction activity spanning the past 12 months with closings in Long Beach, Greater Inglewood and Torrance accounting for 70 percent of total deal flow. Midsize properties that comprise 20 units to 80 units traded most frequently, equating to a grouping of $10 million to $20 million sales.
- Class C properties with value-add potential remain coveted, providing investors with minimum first-year returns in the high-3 percent range. Steady buyer competition has pushed these assets' values beyond $300,000 per unit in most cases. Demand also exists for higher-quality rentals, yet limited listings are available.







1Q19 – 12-Month Period

CONSTRUCTION

720 units completed Y-O-Y

- Over the past six months, 455 units were finalized, eclipsing the previous seven-quarter delivery total. Recent completions were largely concentrated in South Bay.
- Construction is underway on 2,630 doors with completion dates extending into the first quarter of 2021. Lone projects in Torrance and San Pedro account for 730 of these units.

VACANCY

50 basis point increase in vacancy Y-O-Y

- Net absorption neared 1,400 units over the past year, compressing vacancy to 3.8 percent in the first quarter. During the previous 12-month span unit availability rose by 80 basis points.
- Vacancy in South Bay fell 80 basis points to 3.6 percent, aided by a 140-basis-point reduction in Class A availability. In Long Beach, Class A and C rates declined by 70 basis points and 80 basis points, respectively, lowering overall availability to 4.0 percent.

RENTS

4.8% increase in effective rents Y-O-Y

- The average effective rent reached $2,275 per month in the first quarter as rate growth trailed the previous four-year average gain of 5.7 percent.
- Rent increases were most pronounced in Long Beach, where a 5.7 percent rise lifted the average rate to $1,982 per month. The area remains among the county's lower cost rental markets.

* Forecast

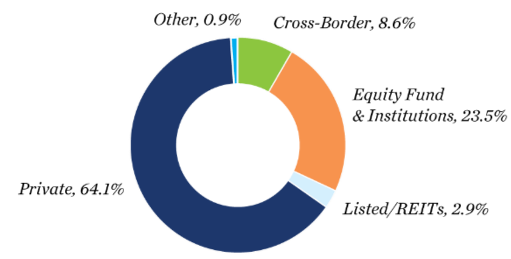
LOS ANGELES METRO AREA

Capital Markets

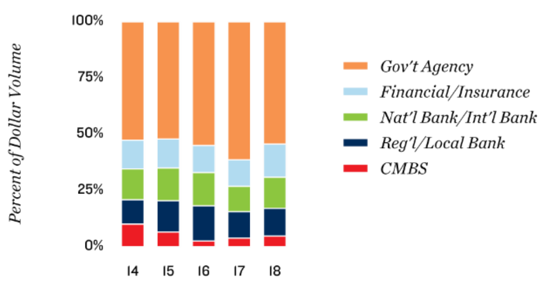
- **International pressures weigh on domestic outlook; Fed remains patient.** Amid ongoing trade disputes between the U.S. and China and slowing growth throughout the European economy, the global economic outlook has become more cautious. Market volatility, combined with muted sentiment, has sponsored a flight to the safety of Treasurys, pushing the 10-year yield below 2.6 percent. While domestic growth has moderated recently, the waning impact of the tax cut stimulus will likely trim forward estimates further. As a result, the Fed has decided to cease reducing its balance sheet reduction through quantitative tightening by September and removed the potential for rate increases through the remainder of the year. The bond market has begun to price in a much more dovish Fed, with flattening interest rates reflecting more caution. Fed officials will likely focus on the intersection of a global growth slowdown and continued labor market strength to refine their plans moving forward, keeping interest rates stable for the foreseeable future.

- **Abundant liquidity sources balance conservative approach to underwriting.** The availability of debt for apartment assets remains elevated, spurred by the recent pivot by the Federal Reserve. Sourcing will be led by Fannie Mae and Freddie Mac, in addition to a wide array of local, regional and national banks, and insurance companies. Loan-to-value (LTV) ratios are trending between 65 and 75 percent on stabilized properties. The decline in interest rates has rewidened the spread between cap rates and Treasurys, reducing lender concerns about the risks related to repayment and valuation at maturity. Development and value-add projects have seen more conservative lending due to concerns surrounding overdevelopment and the length of the business cycle, leading to a greater use of alternative financing structures such as mezzanine loans and preferred equity to cover the additional capital requirements.

1Q19* Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender

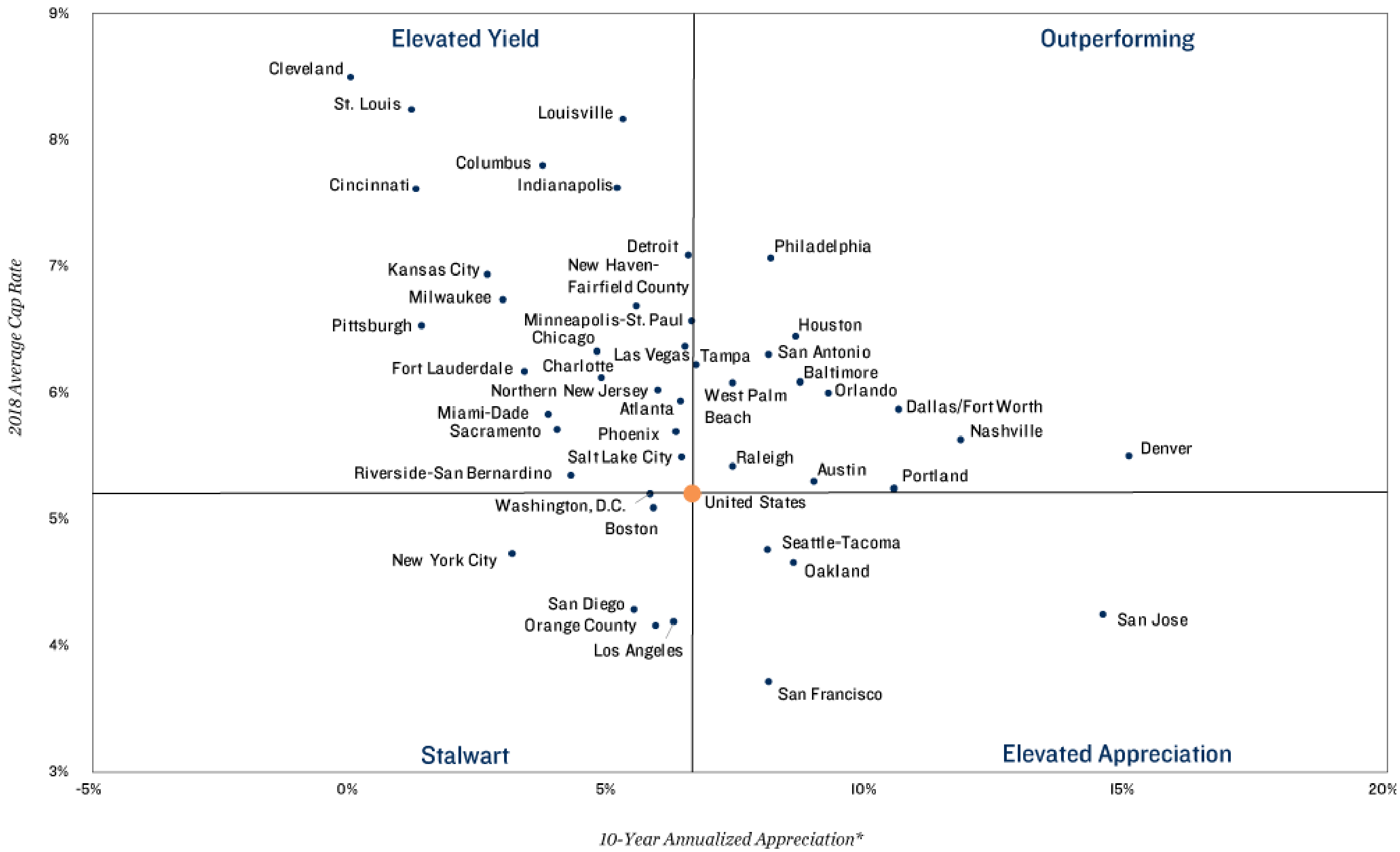


* Trailing 12 months through 1Q19
Includes sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

2019 PRICING QUADRANT

Yield Range Offers Compelling Options for Investors; Most Metros Demonstrate Strong Appreciation

2008-2018 Average Price per Unit Appreciation and Current Average Cap



* 2008-2018 Average annualized appreciations in price per unit

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

2019 PRICING QUADRANT

Pricing and Valuation Trends Summary

Ten-year appreciation favors high-growth markets. Benchmarked from the end of 2008 as the U.S. economy began its rapid tumble into recession, appreciation has generally been strongest in tech, growth and Texas markets. Because Texas experienced a much softer downturn, assets there had to recover less lost value during the growth cycle. Interestingly, markets like Denver, Nashville, Orlando and Baltimore generated stronger-than-average value gains that reflect substantive economic and employment growth. Several Midwestern markets, which were trading at cycle highs in late 2008, faced significant value loss during the recession and only recently surpassed their prices of 10 years ago.

Capital pursues yield to smaller metros. Although Midwestern markets have taken longer to generate appreciation relative to the near-peak pricing achieved in late 2008, they have offered investors particularly high yields. Comparatively, the Bay Area and Seattle provide low yields but have higher-than-average appreciation. The most favored primary markets, New York City, Southern California and Washington, D.C., have generated lower-than-average appreciation over the last 10 years. This reflects the flight to safety in late 2008 that kept pricing in these markets stronger than many others.

Average Price per Unit Range

(Alphabetical order within each segment)

$50,000 - $74,999	$75,000 - $99,999	$100,000 - $149,999	$150,000 - $199,999	$200,000 - $299,999	$300,000 - $450,000
Cincinnati	Kansas City	Atlanta	Chicago	Los Angeles	Boston
Cleveland	Las Vegas	Austin	Denver	New York City	Orange County
Columbus	Louisville	Baltimore	Fort Lauderdale	Oakland	San Francisco
Detroit	Milwaukee	Charlotte	Miami-Dade	San Diego	San Jose
Indianapolis	Pittsburgh	Dallas/ Fort Worth	N.H.-Fairfield County	Seattle-Tacoma	
St. Louis		Houston	Northern New Jersey		
		Minneapolis-St. Paul	Orlando		
		Nashville	Philadelphia		
		Phoenix	Portland		
		Raleigh	Washington, D.C.		
		Riverside-San Bernardino	West Palm Beach		
		Sacramento			
		Salt Lake City			
		San Antonio			
		Tampa-St. Petersburg			

2008-2018 Average annualized appreciations in price per unit Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

2019 NATIONAL MULTIFAMILY INDEX

Midwest Metro Rises to Claim First Place; Coastal Markets Fill Remainder of Top Rungs

Reshuffling changes leader. Minneapolis-St. Paul climbed two spots to head this year's Index as sustained apartment demand kept vacancy persistently tight, allowing steady rent growth. It is the only Midwest market to break into the top 20. San Diego also inched up two notches on solid rent growth to claim second place. High housing prices and the lowest vacancy rate among major U.S. markets advanced New York City (#3) four steps, while an escalation in the vacancy rate slid Los Angeles (#4) down two places. A surge in new inventory this year will increase vacancy in Seattle-Tacoma (#5), pushing last year's Index leader down four rungs to round out the first five markets. Orlando (#6) is the only new entrant into the top 10, with Riverside-San Bernardino (#7), Boston (#8), Oakland (#9), and Portland (#10) changing places to round out the rest of the spots.

Biggest movers shake up Index. Neighboring Florida metros Orlando (#6) and Tampa-St. Petersburg (#12) registered the largest advances in this year's NMI, leaping 11 and nine places, respectively. In both markets, robust job growth will expand the population base, generating strong demand for apartments, cutting vacancy and producing substantial rent gains. An escalation in employment and in-migration also propelled Las Vegas (#27) up six notches. The most significant declines in the Index were posted in Northern New Jersey, Denver, Cincinnati and St. Louis. Northern New Jersey (#24) stumbled eight notches as a slowdown in employment and a rise in deliveries widened the gap between supply and demand. Another year of elevated completions will push vacancy above the national average in Denver (#21) this year, lowering the metro seven steps. Cincinnati (#40) and St. Louis (#46) each moved down six rungs due to above-average vacancy and slower rent growth. Midwestern markets dominate the last five spots in the Index with St. Louis sliding into the bottom rung.

Index Methodology

The NMI ranks 46 major markets on a collection of 12-month, forward-looking economic indicators and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including projected job growth, vacancy, construction, housing affordability and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to show relative supply-and-demand conditions at the market level.

Users of the Index are cautioned to keep several important points in mind. First, the NMI is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a higher-ranked market. Second, the NMI is a snapshot of a one-year horizon. A market encountering difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NMI is an ordinal Index, and differences in rankings should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

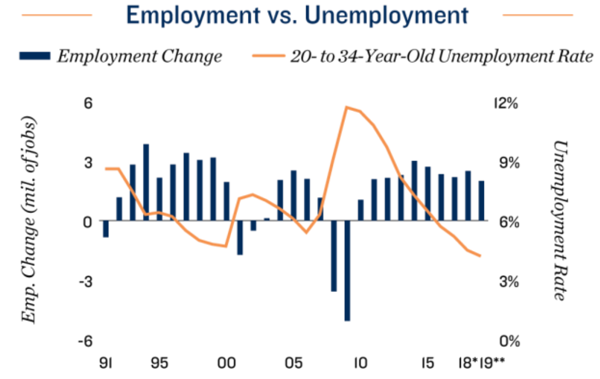
Market Name	Rank 2019	Rank 2018	'18-'19 Change
Minneapolis-St. Paul	1	3	2
San Diego	2	4	2
New York City	3	7	4
Los Angeles	4	2	-2
Seattle-Tacoma	5	1	-4
Orlando	6	17	11
Riverside-San Bernardino	7	9	2
Boston	8	6	-2
Oakland	9	10	1
Portland	10	5	-5
Sacramento	11	8	-3
Tampa-St. Petersburg	12	21	9
Phoenix	13	13	0
San Jose	14	12	-2
San Francisco	15	11	-4
Orange County	16	19	3
Fort Lauderdale	17	22	5
Atlanta	18	15	-3
Salt Lake City	19	24	5
Raleigh	20	18	-2
Denver	21	14	-7
Miami-Dade	22	20	-2
Columbus	23	26	3
Northern New Jersey	24	16	-8
Philadelphia	25	23	-2
Charlotte	26	27	1
Las Vegas	27	33	6
Chicago	28	25	-3
Washington, D.C.	29	32	3
Houston	30	29	-1
Dallas/Fort Worth	31	30	-1
Detroit	32	28	-4
Indianapolis	33	36	3
Austin	34	31	-3
Milwaukee	35	38	3
West Palm Beach	36	41	5
Nashville	37	35	-2
San Antonio	38	37	-1
New Haven-Fairfield	39	44	5
Cincinnati	40	34	-6
Pittsburgh	41	42	1
Kansas City	42	46	4
Cleveland	43	39	-4
Baltimore	44	45	1
Louisville	45	43	-2
St. Louis	46	40	-6

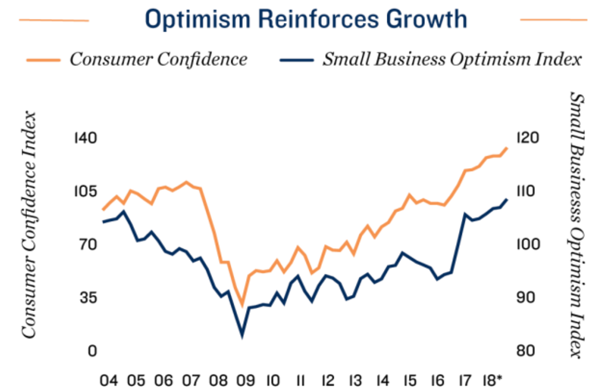
U.S. ECONOMY

Tight Labor Market, Waning Confidence Challenge Economic Momentum; Climate Remains Favorable

Exceptionally low unemployment levels invigorate household formation. Accelerated job creation in 2018 drove the unemployment rate of young adults between 20 to 34 years old to a 48-year low of 4.5 percent. With two-thirds of this age group living in rentals, they are a dominant force supporting apartment demand, and the strong job market has empowered more of them to move out on their own. Record-high consumer confidence in 2018 reinforced these positive dynamics, inspiring young adults to form new households. These trends should carry into 2019, though confidence has begun to ease back from peak levels and total job additions will likely taper. Labor force shortages will weigh on companies' ability to fill positions, creating an increasingly competitive hiring climate that pushes wage growth above 3 percent for the first time in more than 10 years. Increased compensation and rising disposable income will sustain rising retail sales and apartment tenants' ability to absorb escalating rents. However, wage gains will also place upward pressure on inflation, causing the Federal Reserve to tap the brakes on the economy by raising rates.

Rising interest rates weigh on home sales, favor rental demand. Inflation remained in the 2 to 3 percent range through much of last year, but increasing wage growth and the potential inflationary impact of tariffs have elevated caution at the Federal Reserve. The Fed exerted upward pressure on interest rates through quantitative tightening and by raising the overnight rate, resulting in a substantive 90-basis-point increase in mortgage rates in 2018. Higher loan rates converged with rising home prices, a shortage of entry-level homes for sale and changing lifestyle preferences to reduce home sales activity by 4 percent. The monthly payment on a median-priced home increased by $175 last year to nearly $1,700 per month, dramatically widening the disparity between a mortgage payment and the average monthly rent. This widening payment gap, together with tighter underwriting, has restrained young adults' migration into homeownership, reducing the under-35 homeownership rate to 37 percent, down from the peak of 43 percent in 2007. This confluence of factors will likely carry into 2019, sustaining young adults' preference for rental housing.





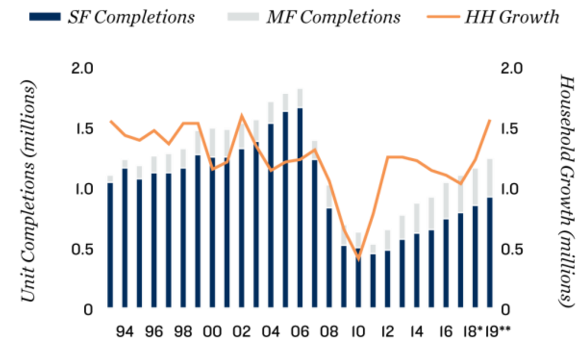
* Estimate
** Forecast

U.S. ECONOMY

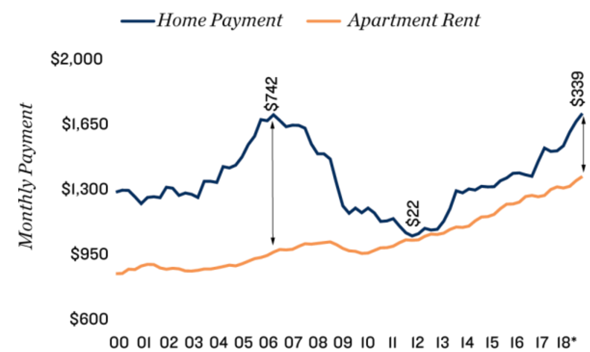
2019 National Economic Outlook

- **Economic growth to ease as benefits of tax stimulus fade. Though consumption and corporate investment will support economic growth in 2019, trade imbalances and a likely weaker housing market will weigh on momentum. Job creation, facing an ultra-tight labor market, will slacken to the 2 million range, but wage growth should push above 3 percent.**
- **International trade and capital flows complicate outlook. Trade tensions with China, the strengthening U.S. dollar and floundering European economies could pose economic risks in 2019. Raising tariffs could accelerate inflation and weigh on consumption, resulting in slower economic growth. More significantly, a strengthening U.S. dollar could hamper foreign investment in the U.S. and disrupt international debt markets, increasing financial market stress.**
- **Federal Reserve closely monitoring inflation. Rising wages and tariffs are leading the way toward higher inflation risk, but the Federal Reserve has maintained a cautious stance, increasing short-term interest rates to ward off the trend. Long-term interest rates, however, have remained range-bound near 3 percent as stock market volatility and low international interest rates restrain upward movement. A yield-curve inversion, when short-term rates rise above long-term rates, is a commonly perceived sign of an upcoming recession, and a potential inversion could weigh on confidence levels.**

Household Growth Outpaces Construction



Rent and Home Payment Gap Widening

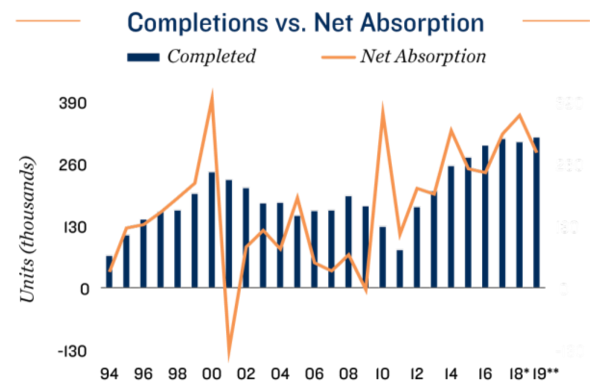


* Estimate
** Forecast

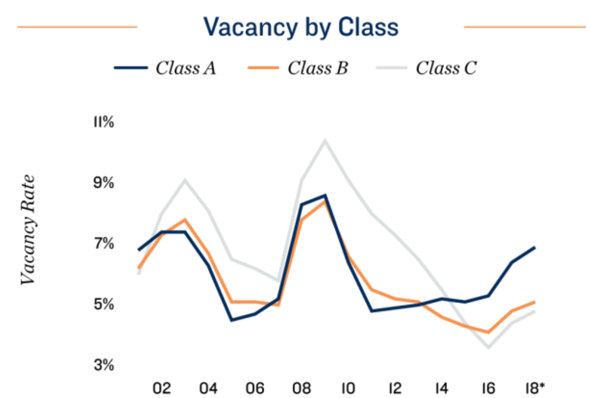
U.S. APARTMENT OVERVIEW

Economy Delivers Elevated Apartment Demand; Aggressive Building Nudges Top-Tier Vacancy Higher

Housing market remains tight as household formation accelerates. Steady job creation and exceptionally low unemployment will boost household formation in 2019, supporting a third consecutive year of national sub-5 percent vacancy levels. Much of the new demand will center on apartments that serve to the traditional workforce: Class B and C properties. Although new apartment completions will reach their highest level in more than 25 years with the delivery of more than 315,000 units, the new inventory largely caters to more affluent renters. As a result, Class A vacancy is expected to rise to 5.8 percent while Class B apartment vacancy remains relatively stable at 4.7 percent. The most affordable segment of the market, Class C apartments, faces strong demand and vacancy for this segment is expected to tighten to 3.9 percent, its lowest year-end level in 19 years. These trends will support consistent rent gains averaging 3.7 percent in 2019, led by momentum in secondary and tertiary markets.



Smaller metros step to forefront. While primary markets such as Boston, Los Angeles, the Bay Area and New York City are expected to see the largest dollar rent increases, smaller metros are generating faster increases on a percentage basis. Metros across the Southeast and Midwest in particular are generating outsize employment growth and housing demand. For the seventh consecutive year, secondary markets will lead in percentage rent growth, followed closely by tertiary markets. This reflects the concentration of new supply additions in primary markets, which is raising competition for renters and suppressing rent gains. Another important factor has been the migration of millennials to more affordable smaller cities. Many tech firms and other industries have pursued the millennial labor force to these smaller metros, boosting local job creation. In addition to having higher-than-average job growth, cities such as Orlando, Phoenix, Indianapolis and Salt Lake City are expected to generate outsize rent gains. Many investors, in pursuit of higher yields, have already expanded their search for assets in these metros, increasingly the market liquidity and boosting values.

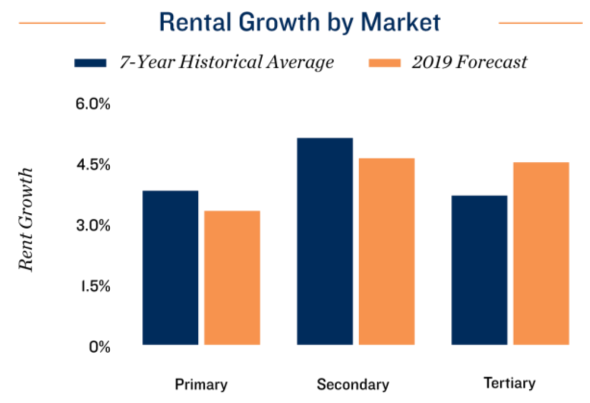


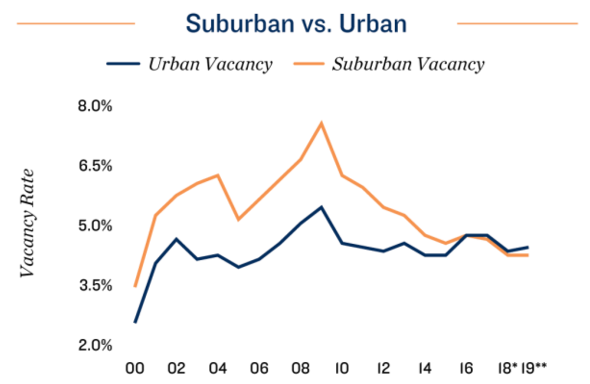
* Estimate
** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

U.S. APARTMENT OVERVIEW

2019 National Apartment Outlook

- **Tax reform boosts rental demand. The new tax law is having a substantive impact on rental demand as several tax benefits of homeownership have been altered. The doubling of the standard deduction to $12,000 for singles and $24,000 for couples means fewer homeowners will benefit from itemizing mortgage interest deductions. In addition, a $10,000 cap on state and local taxes will reduce homeowners' ability to deduct property taxes. These changes will weigh on first-time homebuyers in high-tax states the most, keeping young adults in the rental pool longer.**
- **Suburbs invigorated by changing lifestyles. A surge in new inventory and much higher rents in the urban core are diverting more renters to the suburbs. As a result, vacancy in suburban submarkets nationwide remain below the rate in downtown submarkets for the third consecutive year. Millennials, now entering their late 30s, are starting to form families. As this trend plays out, the lower rents of suburban areas and the generally higher-quality schools have begun to win out over the urban lifestyle.**
- **Potential housing shortage despite record development. Elevated completions in 2019 will bring the total apartment additions since 2012 above 2.1 million units, a net inventory gain of approximately 13 percent over eight years. Despite this cycle's delivery of the most apartments since the 1980s, vacancy is forecast to remain at just 4.6 percent in 2019. With rising labor and materials costs, tighter lending, and a shortage of skilled construction labor available, the pace of construction should begin to ebb in 2020.**





* Estimate
** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

U.S. CAPITAL MARKETS

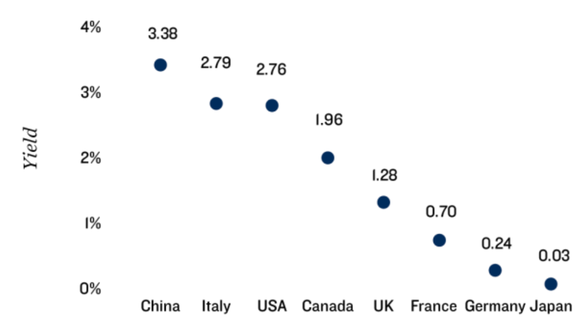
Fed Balances International Headwinds With Domestic Optimism; Elevated Liquidity Supports Active Market

Fed walking a tightrope. The Federal Reserve has been battling the inflationary pressure created by wage gains and increased trade protectionism with raises of short-term interest rates and quantitative tightening. The efforts, however, have run into the stubbornly low 10-year Treasury that has not responded to the Fed's prodding. Slowing international economic growth and the exceptionally low bond yields offered by most other high-credit countries have drawn international investors to the higher yields and safety of U.S. Treasurys. International buying activity together with other factors such as stock market volatility have held U.S. long-term rates down. This combination of events has placed the Fed in an awkward position and their decision to raise rates in December has placed additional upward pressure on short-term yields. Should short-term interest rates rise above long-term rates, a yield curve inversion forms, and this is a commonly known sign of an impending recession. The inverted yield curve will weigh on confidence levels and could potentially erode consumption and stall the growth cycle. The typical onset time of a recession following an inversion is about one year, but there have been two false positives in which a recession did not follow an inversion.

Conservative underwriting balances abundant capital. Debt financing for apartment assets remains widely available, with sourcing led by Fannie Mae and Freddie Mac in addition to a wide array of local, regional and national banks and insurance companies. Loan-to-value (LTV) ratios have tightened, with maximum leverage typically in the 55 to 75 percent range depending on the borrower, asset and location. Lenders have been reluctant to lend on future revenue growth through value-add efforts, resulting in increased use of short-term mezzanine debt and bridge loans to cover the span until improvements deliver the planned returns. Construction lending has also tightened as developers deliver record numbers of new units into the market. Higher borrowing costs and questions about the durability of the growth cycle have widened bid/ask spreads. Rising capital costs and increased downpayments are eroding buyer yields, while sellers continue to seek premium pricing based on ongoing robust property performance.

10-Year Treasury vs. 2-Year Treasury Yield Spread Tightens

Foreign 10-Year Treasury Rates❖



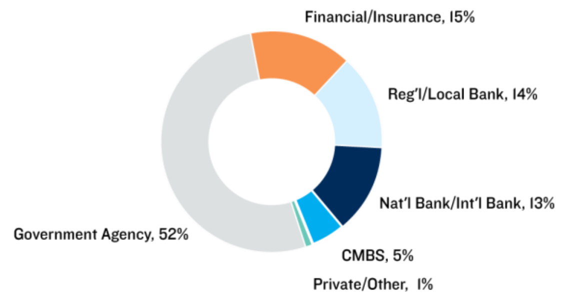
* Through Dec. 18
❖ Through Dec. 19

U.S. CAPITAL MARKETS

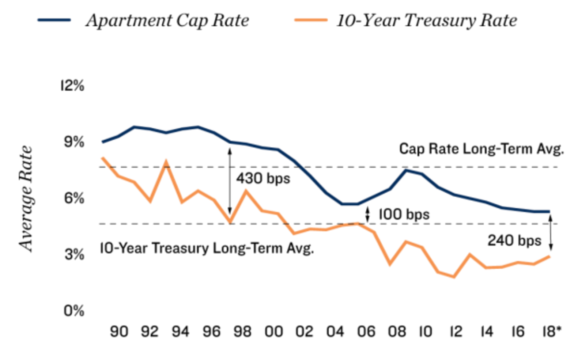
2019 Capital Markets Outlook

- **Investors wary of interest rate surge. While the 10-Year Treasury has traded in a relatively tight range near 3 percent recently, on two occasions it has rapidly surged and stalled investor activity. The 90-basis-point jump in late 2016 and the 80-basis-point surge in late 2017 both strained liquidity, widened bid/ask spreads and stalled transactions as investors recalibrated their underwriting. Given the volatility of financial markets, investors must remain prepared for a rapidly changing climate.**
- **Lenders remain nimble in dynamic climate. Most lenders, particularly Fannie Mae and Freddie Mac, have adapted to the more fluid financial climate. When Treasury rates increased in the third quarter, many lenders tightened their spreads to cushion volatility. Lenders remain cautious and they have adopted tighter underwriting standards, but they are also aggressively competing to place capital and apartment assets are a favored investment class.**
- **Tightened yield spreads erode positive leverage. Multifamily cap rates have remained relatively stable on a macro level, with yields in primary markets flattening while secondary and tertiary market cap rates have continued to trickle lower. Rising interest rates, however, have tightened the spread between cap rates and lending rates, reducing investors' ability to generate positive leverage. Though this trend could put some upward pressure on yields, elevated capital flows into apartments will likely mitigate the upward pressure.**

2018** Apartment Lender Composition
By Percent of Total Dollar Volume



U.S. Apartment Cap Rate Trends



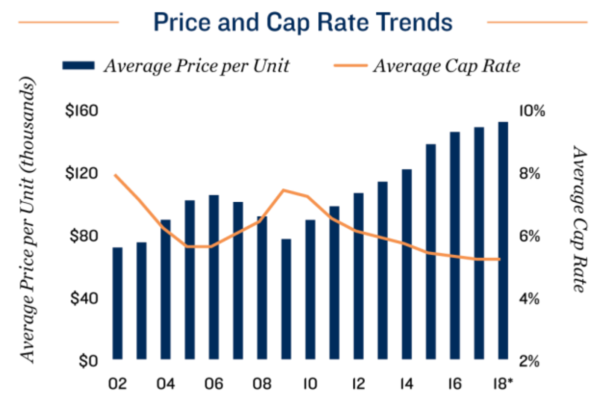
* Through Dec. 18
** Estimate
⌘ Year-end estimate for cap rate; 10-year Treasury rate through Dec. 18

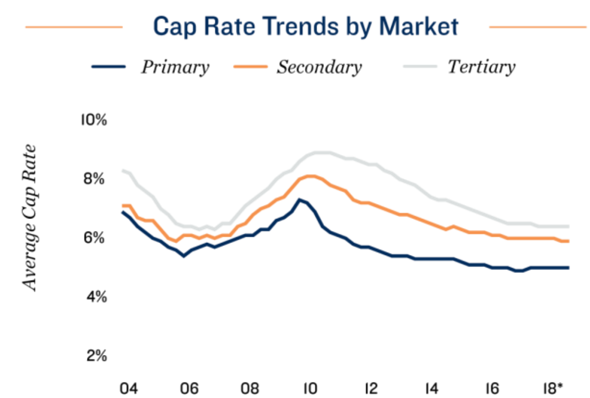
U.S. INVESTMENT OUTLOOK

Investors Consider Portfolio Strategies to Mitigate Risk, Boost Returns; Buyers Adapt to Tighter Yield Spreads

Market diversification a key portfolio strategy in maturing cycle. The economic expansion will remain supportive of the apartment investment market in 2019, though buyers' and sellers' expectations will likely need to adjust to a rising interest rate climate and the possibility of downside economic risk. Stock market volatility and prospects of a flattening yield curve will weigh on sentiment and induce elevated caution, but the underlying performance of apartments remain positive. Strong demand drivers supporting long-term yield models will counterbalance much of the market volatility, encouraging investors to look beyond any short-term turbulence. While the bid/ask gap could widen for transactions in primary locations where the spread between interest rates and cap rates is narrowest, capital could pursue yields to suburban locations as well as secondary and tertiary markets. The spread in average cap rates between primary to secondary markets has tightened to approximately 80 basis points, with an additional 80-bassis-point yield difference between secondary and tertiary markets. The yield premium offered by smaller metros, together with the market diversification it brings, should offer investors more durable yields on a portfolio basis.

Influx of non-traditional capital could invigorate transaction activity. Sales of apartment assets have remained relatively stable at elevated levels for four years, and the trend should carry into 2019 as new capital enters commercial real estate. Tax reform, particularly the ability to defer and reduce capital gains from other investment types by placing the gains into an opportunity fund, has the potential to draw new capital into real estate. In addition to the initial opportunity fund investments into properties located in opportunity zones, a domino effect could ensue as the sellers of that property seek to reinvest into other property types through 1031 exchanges. This influx of new capital could offset a natural slowing of sales generally experienced in a maturing growth cycle. Another tax rule change that could affect investor behavior is tied to the new depreciation rules. Investors may apply accelerated depreciation to the personal property of new acquisitions identified by using a cost-segregation study. In doing this, investors can fully expense property such as HVAC systems, furnishings and security systems in acquired properties, thereby boosting the cash flow in the early years of ownership.





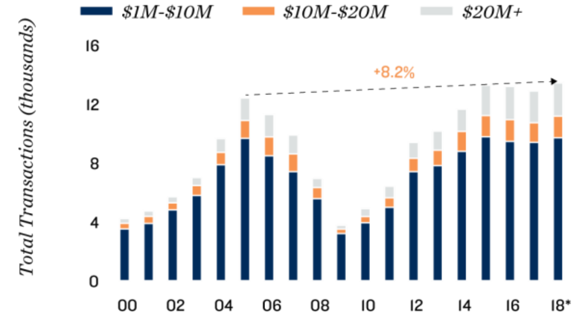
* Through 3Q

U.S. INVESTMENT OUTLOOK

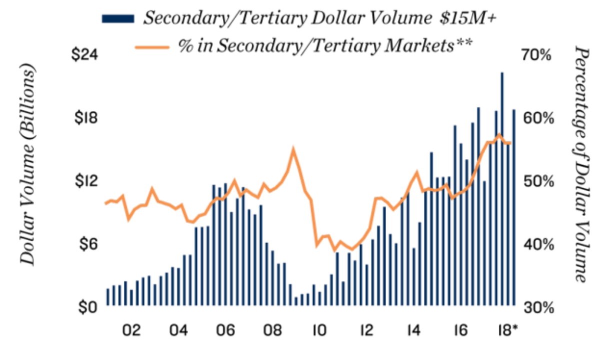
2019 Investment Outlook

- **Pursuit of yield drives capital beyond the core. As multifamily yields have compressed, an increasing portion of "mobile capital" acquiring assets priced over $15 million has migrated to secondary and tertiary markets. Whereas in 2010 nearly 60 percent of the dollar volume was focused in primary markets, in 2018 the share of capital inverted with 60 percent of the capital flowing to secondary and tertiary markets. This trend will likely be sustained in 2019.**
- **Portfolio diversity increasingly important to private investors. A range of localized risks such as natural disasters, metro-level economic downturns, and the rise of state or metro-level policy decisions such as rent control have inspired investors to more carefully consider geographic diversification. Following the spate of recent hurricanes across Texas and the Southeast as well as the recent Proposition 10 vote in California, interstate buyer activity has accelerated.**
- **Increased investor caution may elevate expectation gap. Stock market volatility, rising interest rates, trade tensions and the implications of a flattening yield curve will weigh on buyer sentiment and inspire increasingly cautious underwriting. Sellers, focusing on positive performance metrics, may price assets more aggressively and the resulting expectation gap could weigh on transaction timelines.**

U.S. Apartment Investment Transactions Moderating



Capital Allocations Beyond Core



* Through 3Q
** Trailing 12 months through 3Q

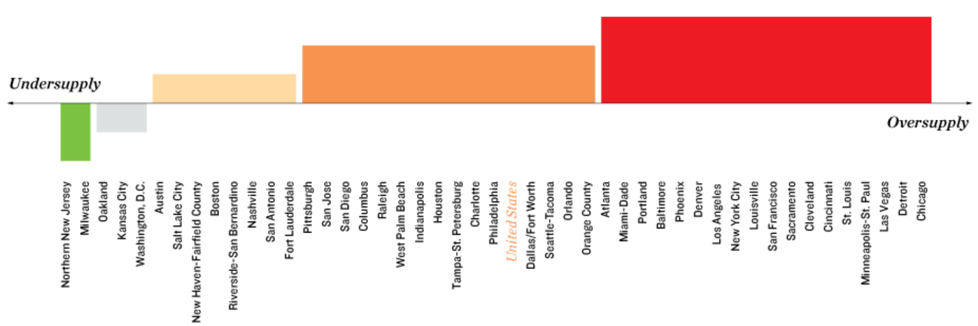
Supply/Demand Profile

Housing Demand Growth Outpacing New Supply

2010

U.S. Available Housing Units per Additional Household = ***6.5***

U.S. Housing Units Available = ***1.87*** *Million / U.S. Household Formation =* ***0.28*** *Million*



2019

U.S. Available Housing Units per Additional Household = ***1.2***

U.S. Housing Units Available = ***2.03*** *Million / U.S. Household Formation =* ***1.62*** *Million*

Number of Available Housing Units per New Household

(Single-Family Completion + MF Completion and Existing Available Units)/New Household Formation

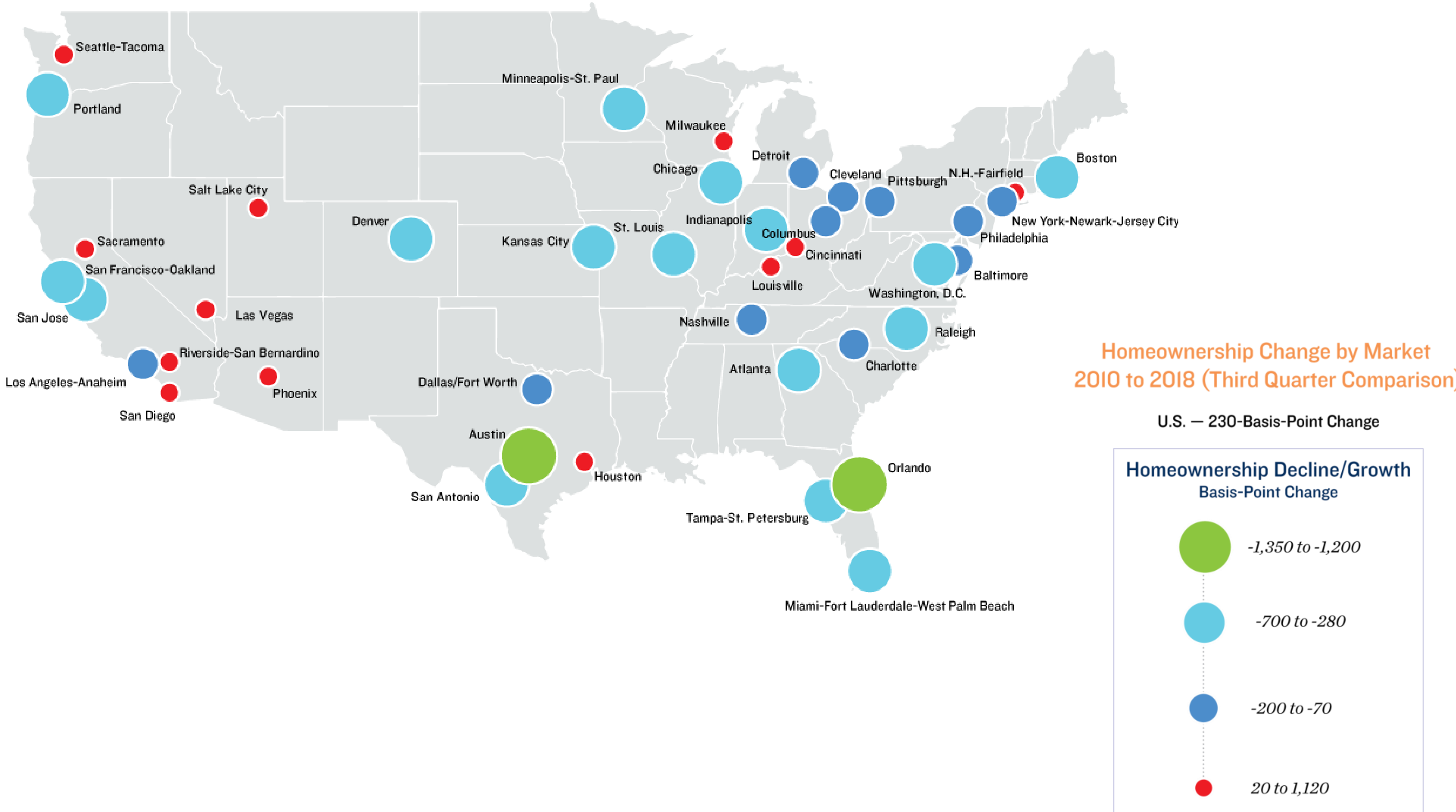
0 - 0.9	1.0 - 1.9	2.0 - 2.9	3.0 - 9.9	10.0+

Sources: Marcus & Millichap Research Services; Moody's Analytics; RealPage, Inc.; U.S. Census

HISTORICAL HOMEOWNERSHIP TREND

Decline in Homeownership Underpins Lowering Apartment Vacancy

Eight-Year Change 2010-2018



Sources: Marcus & Millichap Research Services; U.S. Census

HISTORICAL HOMEOWNERSHIP TREND

Top 10 Markets by Homeownership

Eight-Year Change 2010-2018

Lowest Homeownership	2018 3Q	2010 3Q-2018 3Q Apt. Vacancy Basis-Point Change
Los Angeles-Long Beach-Anaheim	47.3%	-180
New York-Newark-Jersey City	48.8%	-140
Austin	54.0%	-80
San Francisco-Oakland	54.1%	-40
San Jose	54.4%	-20
Orlando	55.4%	-430
Miami-Fort Lauderdale-West Palm Beach	57.0%	-100
Las Vegas	57.2%	-410
San Diego	59.3%	-200
Seattle-Tacoma	61.3%	-120
U.S.	64.4%	-220

Highest Homeownership	2018 3Q	2010 3Q-2018 3Q Apt. Vacancy Basis-Point Change
Detroit	74.2%	-430
New Haven-Milford	70.4%	0
Cleveland	69.5%	-130
Pittsburgh	69.5%	-150
Sacramento	69.5%	-230
Minneapolis-St. Paul	68.9%	-190
Philadelphia	68.5%	-140
St. Louis	68.3%	-120
Nashville	68.1%	-60
Phoenix	67.4%	-510

Sources: Marcus & Millichap Research Services; U.S. Census

Created on August 2019

POPULATION	1 Miles	3 Miles	5 Miles
▪ 2023 Projection			
Total Population	35,771	342,971	952,752
▪ 2018 Estimate			
Total Population	35,919	339,912	945,776
▪ 2010 Census			
Total Population	34,576	324,546	899,624
▪ 2000 Census			
Total Population	34,291	318,582	897,160
▪ Daytime Population			
2018 Estimate	31,479	397,169	1,027,722

HOUSEHOLDS	1 Miles	3 Miles	5 Miles
▪ 2023 Projection			
Total Households	13,759	152,859	418,388
▪ 2018 Estimate			
Total Households	13,570	150,155	410,705
Average (Mean) Household Size	2.60	2.24	2.25
▪ 2010 Census			
Total Households	12,933	141,710	385,508
▪ 2000 Census			
Total Households	12,737	140,843	381,977
Growth 2015-2020	1.39%	1.80%	1.87%

HOUSING UNITS	1 Miles	3 Miles	5 Miles
▪ Occupied Units			
2023 Projection	13,759	152,859	418,388
2018 Estimate	13,932	155,537	425,951
Owner Occupied	5,267	46,261	126,400
Renter Occupied	8,302	103,895	284,305
Vacant	363	5,382	15,246
▪ Persons In Units			
2018 Estimate Total Occupied Units	13,570	150,155	410,705
1 Person Units	28.80%	37.84%	38.35%
2 Person Units	30.49%	31.12%	30.76%
3 Person Units	15.91%	13.71%	13.40%
4 Person Units	12.63%	9.75%	9.52%
5 Person Units	6.60%	4.32%	4.31%
6+ Person Units	5.56%	3.26%	3.66%

HOUSEHOLDS BY INCOME	1 Miles	3 Miles	5 Miles
▪ 2018 Estimate			
$200,000 or More	11.86%	11.63%	10.70%
$150,000 - $199,000	9.10%	7.61%	6.62%
$100,000 - $149,000	14.84%	14.90%	14.15%
$75,000 - $99,999	11.54%	12.07%	11.61%
$50,000 - $74,999	16.52%	16.37%	15.94%
$35,000 - $49,999	10.96%	10.49%	10.90%
$25,000 - $34,999	7.17%	7.55%	8.19%
$15,000 - $24,999	8.47%	7.92%	9.12%
Under $15,000	9.53%	11.45%	12.75%
Average Household Income	$113,311	$110,783	$104,649
Median Household Income	$70,962	$69,357	$64,324
Per Capita Income	$43,035	$49,116	$45,840

POPULATION PROFILE	1 Miles	3 Miles	5 Miles
▪ Population By Age			
2018 Estimate Total Population	35,919	339,912	945,776
Under 20	23.58%	19.79%	19.19%
20 to 34 Years	24.99%	26.13%	27.15%
35 to 39 Years	8.06%	8.47%	8.19%
40 to 49 Years	14.36%	14.16%	14.06%
50 to 64 Years	17.47%	17.52%	17.65%
Age 65+	11.54%	13.93%	13.74%
Median Age	35.85	37.30	37.14
▪ Population 25+ by Education Level			
2018 Estimate Population Age 25+	25,204	252,570	693,239
Elementary (0-8)	7.04%	5.05%	6.20%
Some High School (9-11)	5.20%	5.15%	5.97%
High School Graduate (12)	14.28%	13.94%	14.98%
Some College (13-15)	19.28%	17.95%	18.21%
Associate Degree Only	6.41%	5.79%	5.91%
Bachelors Degree Only	25.76%	30.27%	29.28%
Graduate Degree	19.38%	20.10%	17.60%
▪ Population by Gender			
2018 Estimate Total Population	35,919	339,912	945,776
Male Population	48.66%	47.54%	48.58%
Female Population	51.34%	52.46%	51.42%

Source: © 2018 Experian

Population

In 2018, the population in your selected geography is 35,919. The population has changed by 4.75% since 2000. It is estimated that the population in your area will be 35,771.00 five years from now, which represents a change of -0.41% from the current year. The current population is 48.66% male and 51.34% female. The median age of the population in your area is 35.85, compare this to the US average which is 37.95. The population density in your area is 11,431.78 people per square mile.

Race and Ethnicity

The current year racial makeup of your selected area is as follows: 54.37% White, 14.24% Black, 0.28% Native American and 8.36% Asian/Pacific Islander. Compare these to US averages which are: 70.20% White, 12.89% Black, 0.19% Native American and 5.59% Asian/Pacific Islander. People of Hispanic origin are counted independently of race.

People of Hispanic origin make up 34.12% of the current year population in your selected area. Compare this to the US average of 18.01%.

Households

There are currently 13,570 households in your selected geography. The number of households has changed by 6.54% since 2000. It is estimated that the number of households in your area will be 13,759 five years from now, which represents a change of 1.39% from the current year. The average household size in your area is 2.60 persons.

Housing

The median housing value in your area was $804,675 in 2018, compare this to the US average of $201,842. In 2000, there were 5,109 owner occupied housing units in your area and there were 7,628 renter occupied housing units in your area. The median rent at the time was $699.

Income

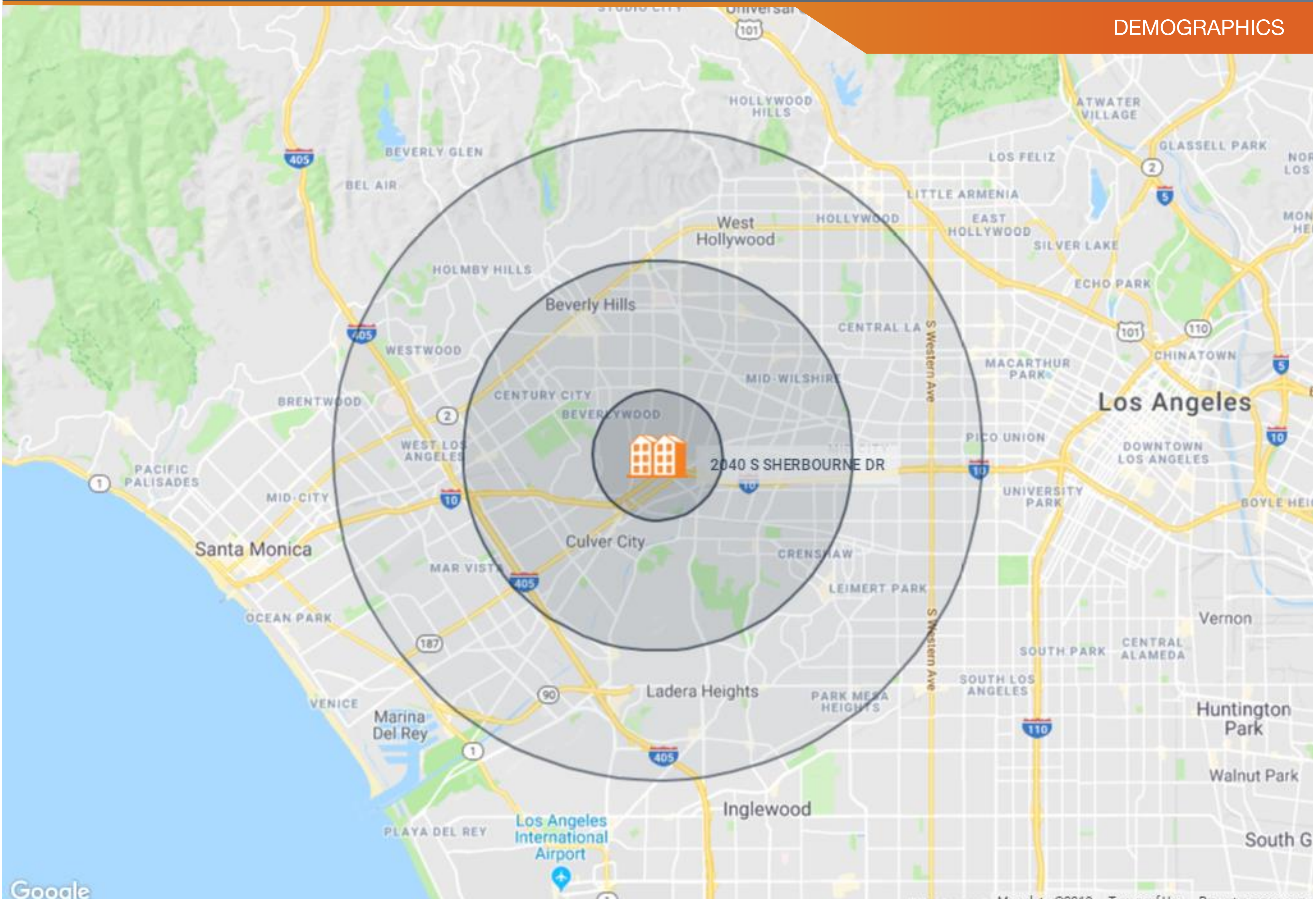
In 2018, the median household income for your selected geography is $70,962, compare this to the US average which is currently $58,754. The median household income for your area has changed by 78.16% since 2000. It is estimated that the median household income in your area will be $84,974 five years from now, which represents a change of 19.75% from the current year.

The current year per capita income in your area is $43,035, compare this to the US average, which is $32,356. The current year average household income in your area is $113,311, compare this to the US average which is $84,609.

Employment

In 2018, there are 14,008 employees in your selected area, this is also known as the daytime population. The 2000 Census revealed that 69.32% of employees are employed in white-collar occupations in this geography, and 30.01% are employed in blue-collar occupations. In 2018, unemployment in this area is 4.60%. In 2000, the average time traveled to work was 30.00 minutes.

Source: © 2018 Experian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