



435 S HUDSON AVE
Pasadena, CA 91101

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435 S HUDSON AVE
Pasadena, CA
ACT ID Z0121338

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INVESTMENT OVERVIEW



EXECUTIVE SUMMARY

VITAL DATA				
		CURRENT		PRO FORMA
Price	\$3,500,000			
Down Payment	50% / \$1,750,000	CAP Rate	4.10%	5.66%
Loan Amount	\$1,750,000	GRM	16.84	13.14
Loan Type	Proposed New	Net Operating Income	\$143,450	\$198,037
Interest Rate / Amortization	4.25% / 30 Years	Net Cash Flow After Debt Service	2.29% / \$40,142	5.41% / \$94,729
Price/Unit	\$388,889	Total Return	3.98% / \$69,645	7.17% / \$125,511
Price/SF	\$467.48			
Number of Units	9			
Rentable Square Feet	7,487			
Year Built	1964			
Lot Size	0.27 acre(s)			

UNIT MIX		
NUMBER OF UNITS	UNIT TYPE	APPROX. SQUARE FEET
5	1 Bed / 1 Bath	
4	2 Bed / 1 Bath	
9	Total	7,487



PROPOSED FINANCING

First Trust Deed	
Loan Amount	\$1,750,000
Loan Type	Proposed New
Interest Rate	4.25%
Amortization	30 Years
Loan Term	5 Years
Loan to Value	50%
Debt Coverage Ratio	1.39

MAJOR EMPLOYERS

EMPLOYER	# OF EMPLOYEES
Inter-Con Security Systems Inc	25,000
Operations/Risk Group	10,000
County of Los Angeles	5,703
NASA	5,027
Jacobs Engineering Company	4,000
Caltech	3,908
Huntington Hospital	3,501
Hudson Gardens	3,400
Saint Elizabeth Church	2,800
Huntington Memorial Hospital	2,100
Parsons	2,000
Pasadena City College	1,607

DEMOGRAPHICS

	1-Miles	3-Miles	5-Miles
2017 Estimate Pop	29,351	214,736	574,443
2010 Census Pop	27,464	205,098	550,751
2017 Estimate HH	15,868	85,695	206,181
2010 Census HH	14,710	80,909	196,125
Median HH Income	\$73,488	\$73,325	\$65,818
Per Capita Income	\$58,897	\$46,479	\$36,740
Average HH Income	\$107,473	\$115,590	\$101,593

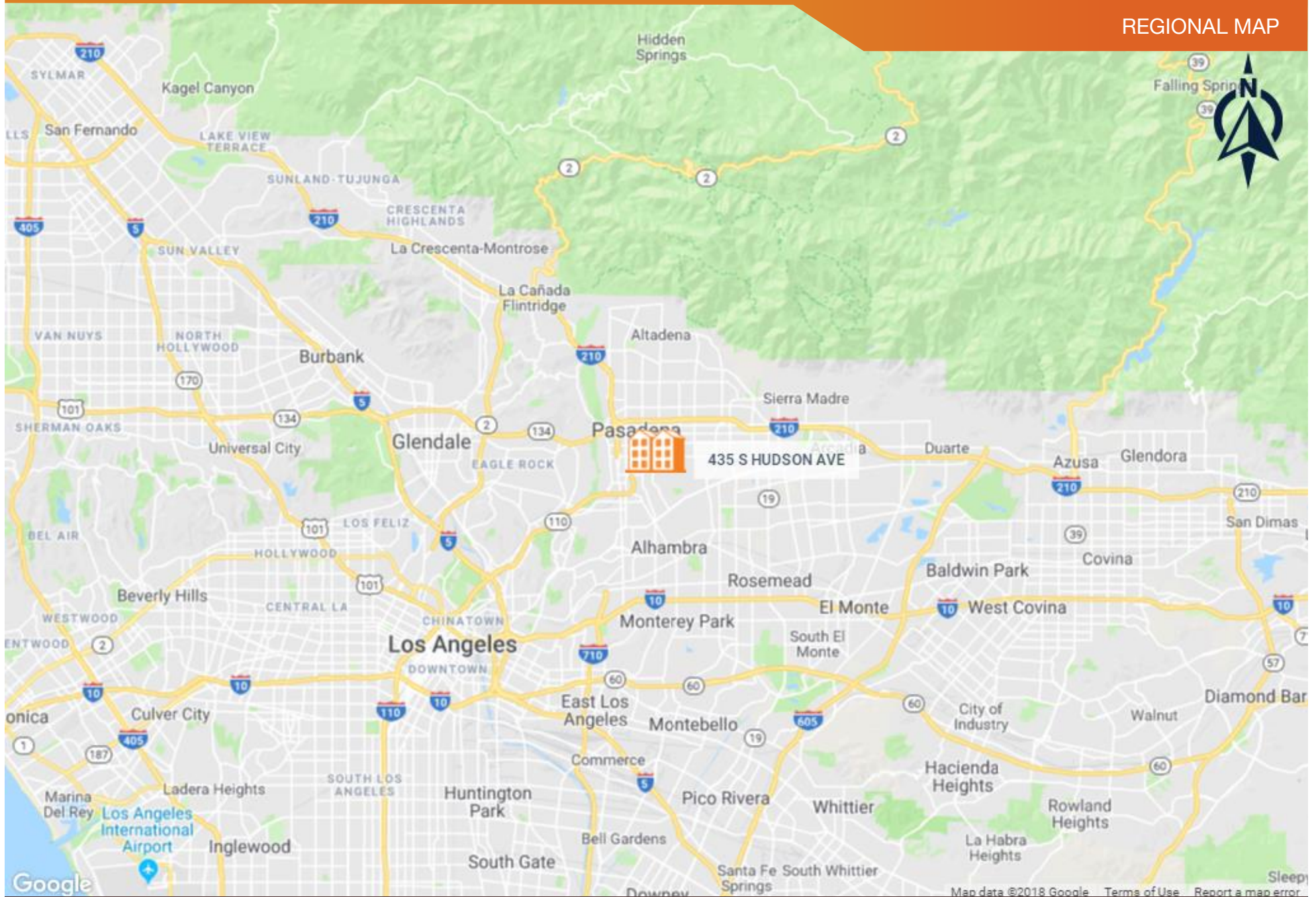
INVESTMENT OVERVIEW

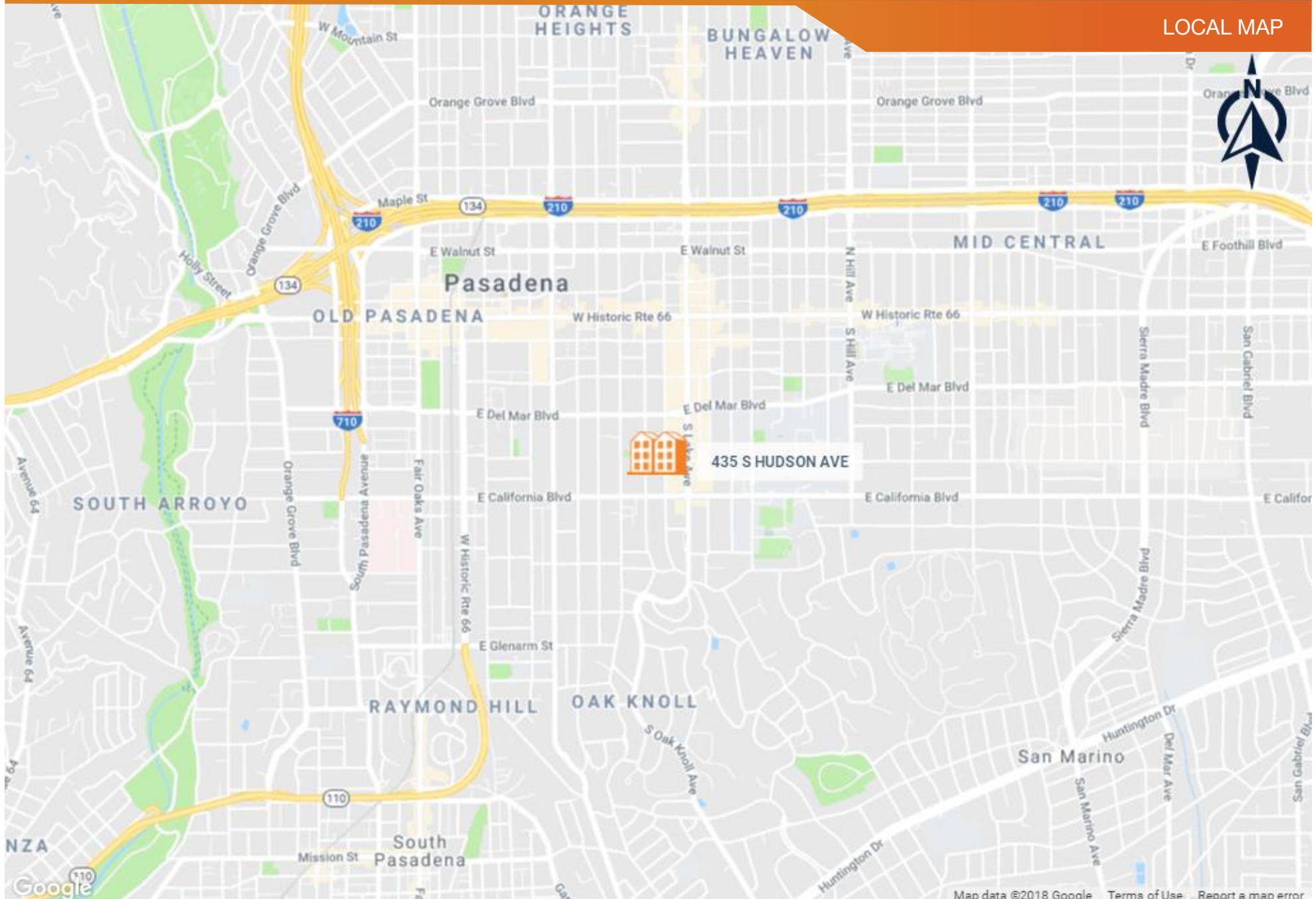
Marcus & Millichap is pleased to present this 9 unit apartment building located at 435 S Hudson Ave in Prime Pasadena, California. Built in 1964, the offering consists of 5 one-bedroom/one-bathroom and 4 two-bedroom/one bathroom units. The property is situated on a 11,707-square foot lot with 7,487-square feet of gross rentable area. Well situated in one of the most sought after pockets of Pasadena with a “Walkers Paradise” designation and a Walk Score of 91/100, “The Property” is walking distance to The Shops On Lake Avenue, all business corridors, CalTech and all dining & entertainment. This investment offering provides a savvy investor the opportunity to own a truly one of a kind property in a strong and centrally located rental pocket of Pasadena.

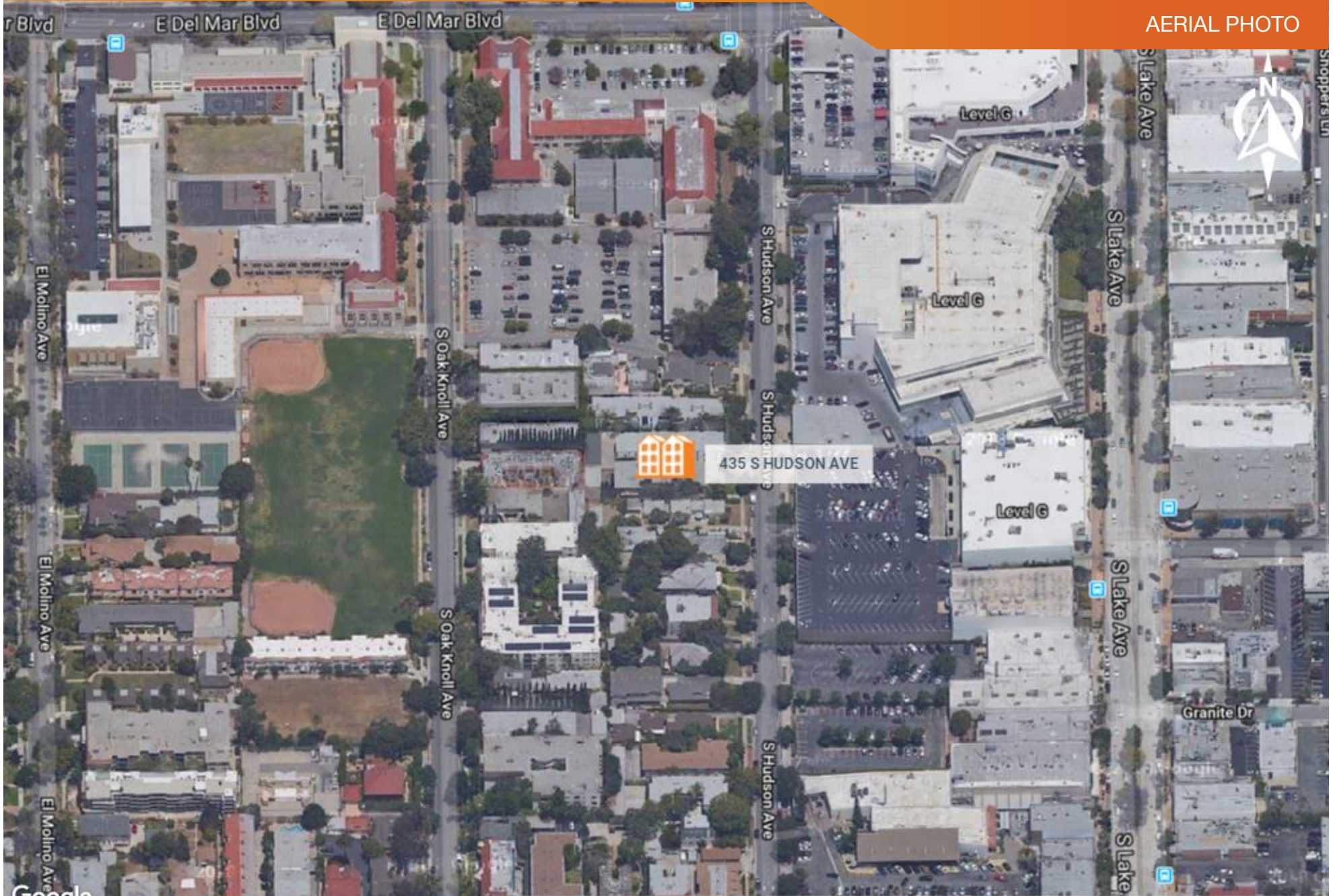
INVESTMENT HIGHLIGHTS

- Built in 1964
- Walk Score: 91/100 (Walkers Paradise)
- Excellent Unit Mix
- Prime Pasadena Location
- Proximate to Dining & Entertainment
- Well Maintained Property
- Non-Rent Control
- New Roof with 15 Year Warranty







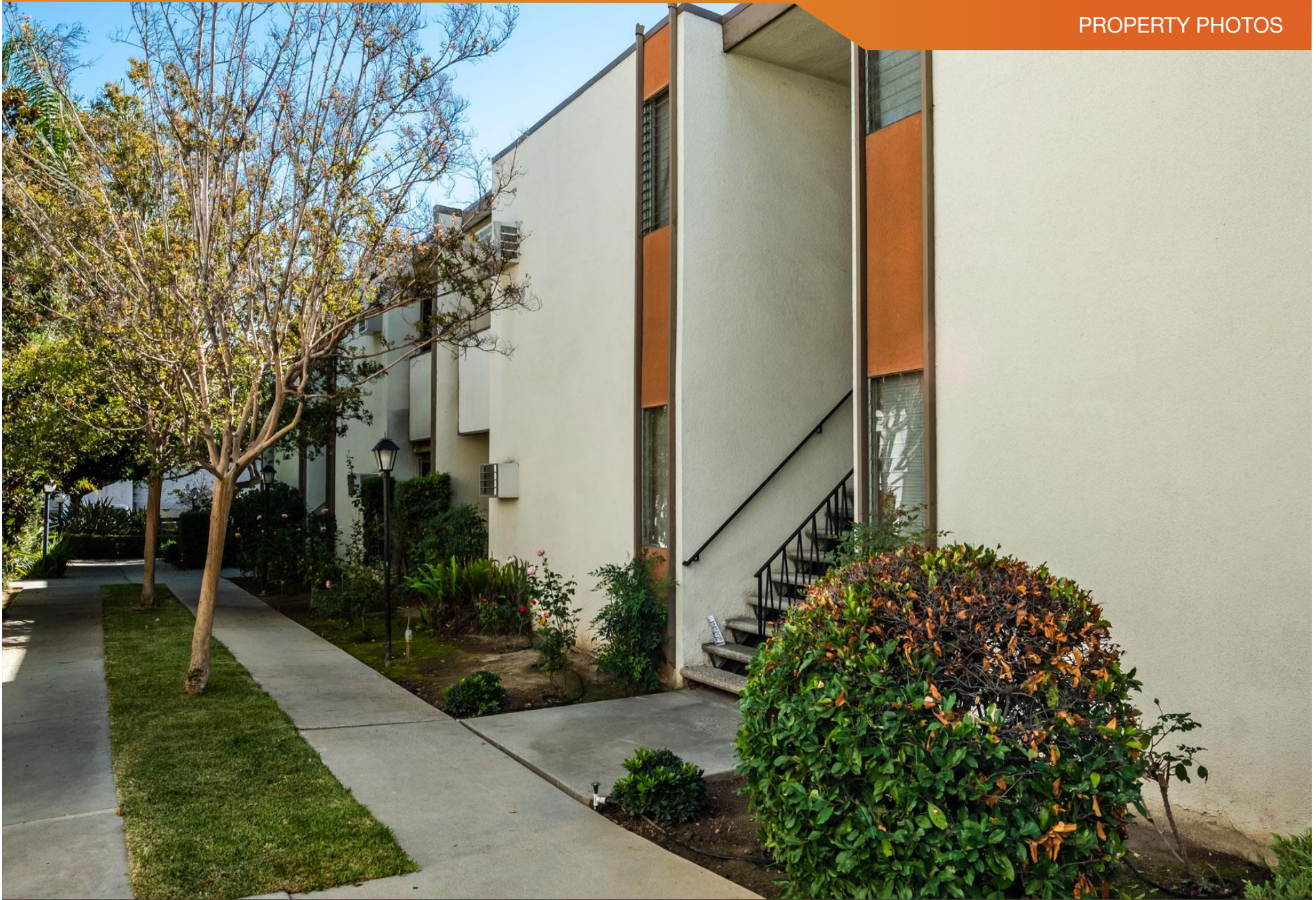










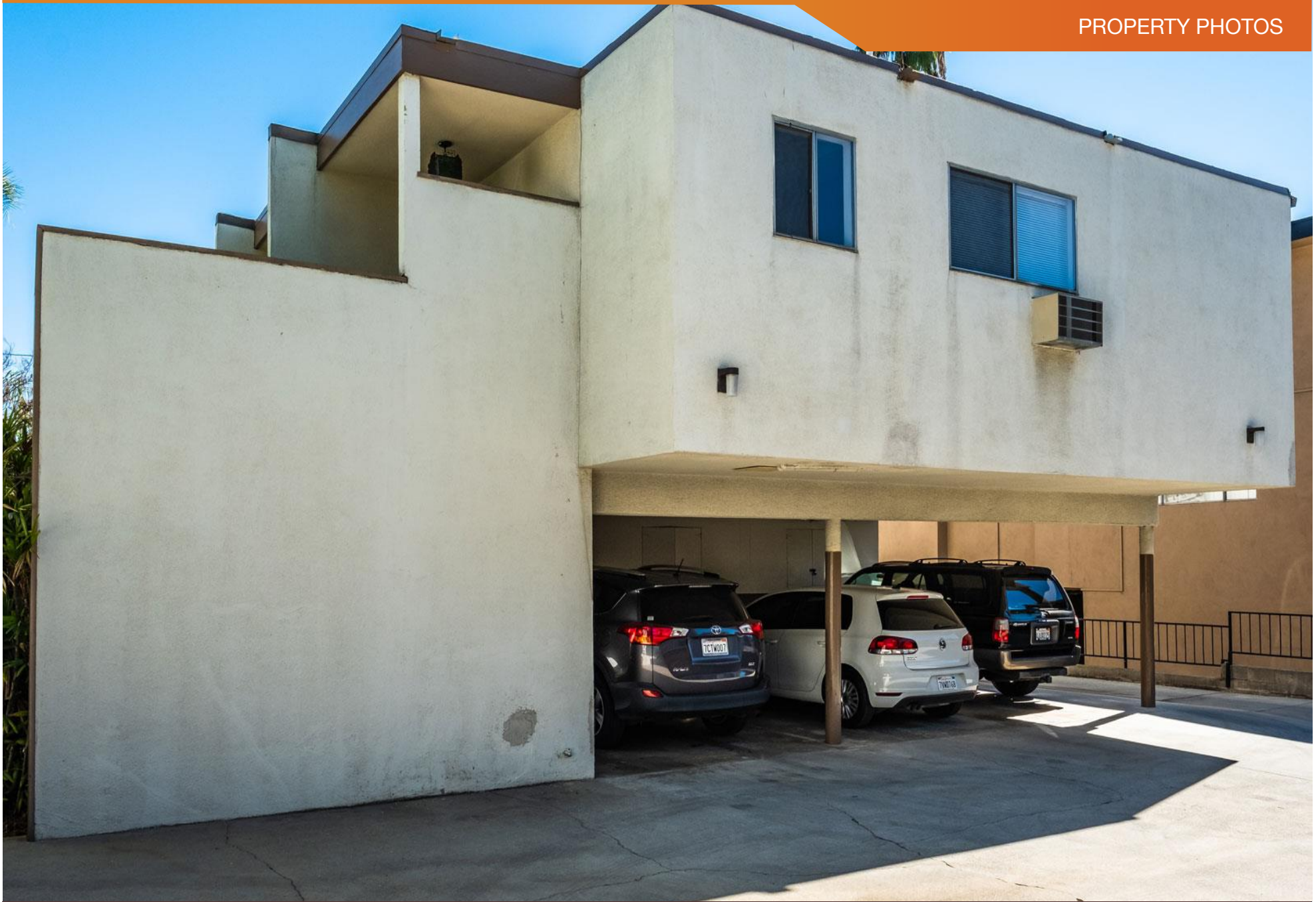


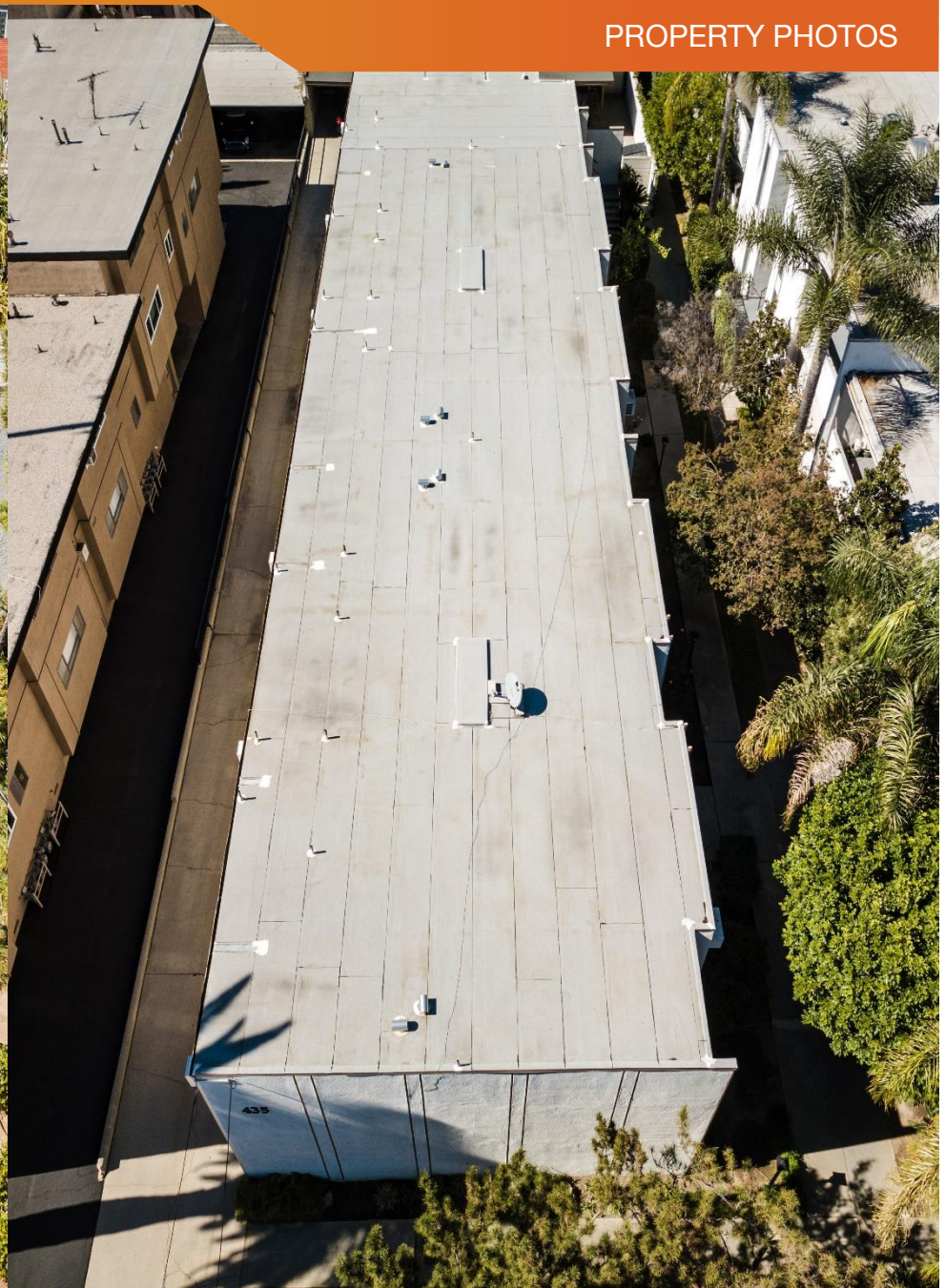












FINANCIAL ANALYSIS



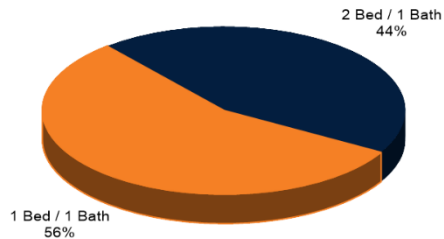
RENT ROLL SUMMARY

As of January, 2019

Unit Type	# of Units	Avg Sq Feet	Rental Range	Current			Potential		
				Average Rent	Average Rent / SF	Monthly Income	Average Rent	Average Rent / SF	Monthly Income
1 Bed / 1 Bath	5	N/A	\$1,670 - \$1,850	\$1,763	N/A	\$8,815	\$2,200	N/A	\$11,000
2 Bed / 1 Bath	4	N/A	\$1,950 - \$2,200	\$2,125	N/A	\$8,500	\$2,800	N/A	\$11,200
Totals/Weighted Averages	9	832		\$1,924	\$2.31	\$17,315	\$2,467	\$2.97	\$22,200
Gross Annualized Rents				\$207,780			\$266,400		

Notes:

Unit Distribution



Unit Rent



RENT ROLL DETAIL

As of January, 2019

Unit	Unit Type	Current Rent / Month	Current Rent / SF/ Month	Potential Rent / Month	Potential Rent/ SF/ Month
1/E	2 Bed / 1 Bath	\$1,950	\$0.00	\$2,800	\$0.00
2/D	1 Bed / 1 Bath	\$1,670	\$0.00	\$2,200	\$0.00
3/C	2 Bed / 1 Bath	\$2,200	\$0.00	\$2,800	\$0.00
4/A	1 Bed / 1 Bath	\$1,750	\$0.00	\$2,200	\$0.00
5/G	2 Bed / 1 Bath	\$2,150	\$0.00	\$2,800	\$0.00
6/B	1 Bed / 1 Bath	\$1,795	\$0.00	\$2,200	\$0.00
7/I	2 Bed / 1 Bath	\$2,200	\$0.00	\$2,800	\$0.00
8/H	1 Bed / 1 Bath	\$1,750	\$0.00	\$2,200	\$0.00
9/I	1 Bed / 1 Bath	\$1,850	\$0.00	\$2,200	\$0.00
Total	Square Feet: 7,487	\$17,315	\$2.31	\$22,200	\$2.97

OPERATING STATEMENT

Income	Current		Pro Forma		Notes	Per Unit	Per SF
Gross Current Rent	207,780		266,400			29,600	35.58
Physical Vacancy	(6,233)	3.0%	(7,992)	3.0%		(888)	(1.07)
Total Vacancy	(\$6,233)	3.0%	(\$7,992)	3.0%		(\$888)	(\$1)
Effective Rental Income	201,547		258,408			28,712	34.51
Other Income							
Laundry & Storage Income	2,600		2,600			289	0.35
Total Other Income	\$2,600		\$2,600			\$289	\$0.35
Effective Gross Income	\$204,147		\$261,008			\$29,001	\$34.86

Expenses	Current		Pro Forma		Notes	Per Unit	Per SF
Real Estate Taxes	38,713		38,713		[1]	4,301	5.17
Insurance	2,222		2,222		[2]	247	0.30
Utilities	2,121		2,121		[3]	236	0.28
Trash Removal	1,045		1,045		[4]	116	0.14
Repairs & Maintenance	4,500		4,500		[5]	500	0.60
Landscaping	1,200		1,200		[6]	133	0.16
Pest Control	480		480		[7]	53	0.06
Operating Reserves	2,250		2,250		[8]	250	0.30
Management Fee	8,166	4.0%	10,440	4.0%		1,160	1.39
Total Expenses	\$60,697		\$62,971			\$6,997	\$8.41
Expenses as % of EGI	29.7%		24.1%				
Net Operating Income	\$143,450		\$198,037			\$22,004	\$26.45

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

NOTES**Notes to Operating Statement**

- [1] 1.106083% of the purchase price
- [2] \$0.35 per rentable square feet
- [3] \$720 per unit per year
- [4] Average Trash Expense for the area
- [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	\$1,750,000	50%
Number of Units	9	
Price Per Unit	\$388,889	
Price Per SqFt	\$467.48	
Gross SqFt	7,487	
Lot Size	0.27 Acres	
Approx. Year Built	1964	

Returns	Current	Pro Forma
CAP Rate	4.10%	5.66%
GRM	16.84	13.14
Cash-on-Cash	2.29%	5.41%
Debt Coverage Ratio	1.39	1.92

Financing	1st Loan
Loan Amount	\$1,750,000
Loan Type	New
Interest Rate	4.25%
Amortization	30 Years
Year Due	2023

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

# Of Units	Unit Type	SqFt/Unit	Scheduled Rents	Market Rents
5	1 Bed / 1 Bath	0	\$1,763	\$2,200
4	2 Bed / 1 Bath	0	\$2,125	\$2,800

Operating Data

Income		Current		Pro Forma
Gross Scheduled Rent		\$207,780		\$266,400
Less: Vacancy/Deductions	3.0%	\$6,233	3.0%	\$7,992
Total Effective Rental Income		\$201,547		\$258,408
Other Income		\$2,600		\$2,600
Effective Gross Income		\$204,147		\$261,008
Less: Expenses	29.7%	\$60,697	24.1%	\$62,971
Net Operating Income		\$143,450		\$198,037
Cash Flow		\$143,450		\$198,037
Debt Service		\$103,307		\$103,307
Net Cash Flow After Debt Service	2.29%	\$40,142	5.41%	\$94,729
Principal Reduction		\$29,503		\$30,781
Total Return	3.98%	\$69,645	7.17%	\$125,511

Expenses	Current	Pro Forma
Real Estate Taxes	\$38,713	\$38,713
Insurance	\$2,222	\$2,222
Utilities	\$2,121	\$2,121
Trash Removal	\$1,045	\$1,045
Repairs & Maintenance	\$4,500	\$4,500
Landscaping	\$1,200	\$1,200
Pest Control	\$480	\$480
Operating Reserves	\$2,250	\$2,250
Management Fee	\$8,166	\$10,440
Total Expenses	\$60,697	\$62,971
Expenses/Unit	\$6,744	\$6,997
Expenses/SF	\$8.11	\$8.41

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 1,707
debt and equity
financings
in 2017**



**National platform
operating
within the firm's
brokerage
offices**



**\$5.63 billion
total national
volume in 2017**



**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**

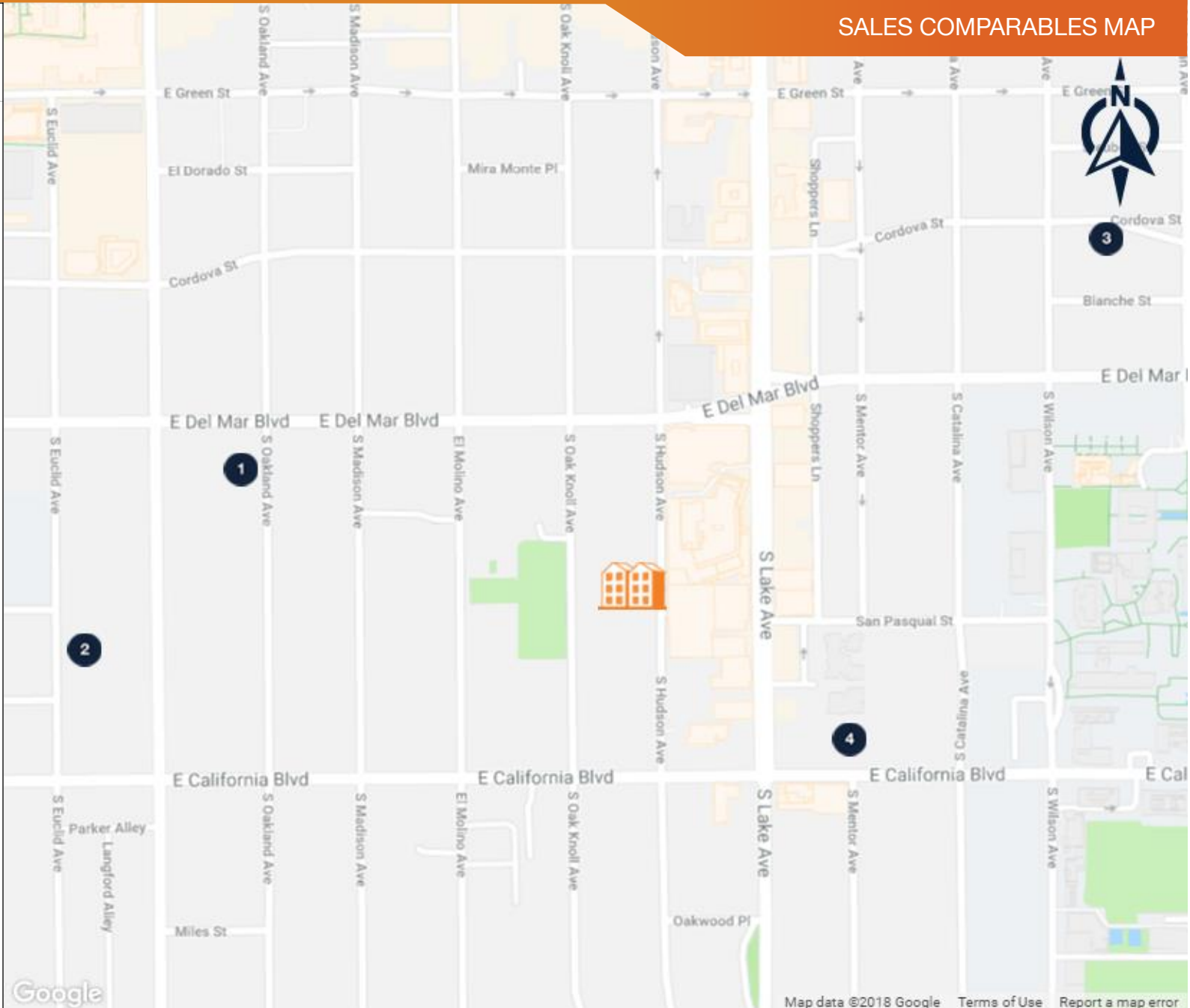
MARKET COMPARABLES





435 S HUDSON AVE
Pasadena, CA 91101

- 1 361 S Oakland Ave
- 2 496 Euclid Ave
- 3 1124 Cordova St
- 4 937 E California Blvd



● SALES COMPARABLES

Google

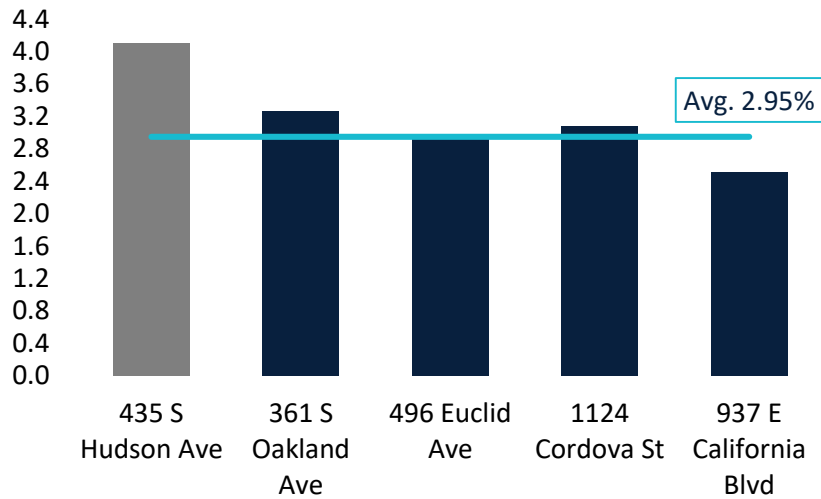
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SALES COMPARABLES

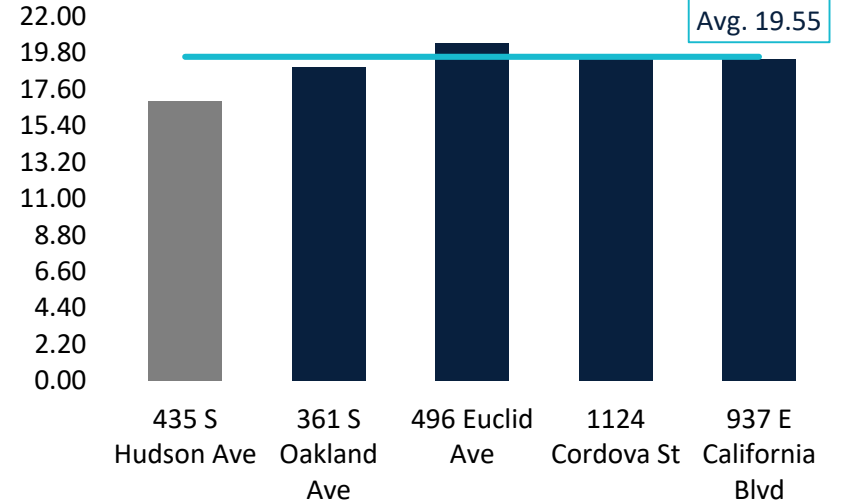
SALES COMPS AVG

SALES COMPARABLES

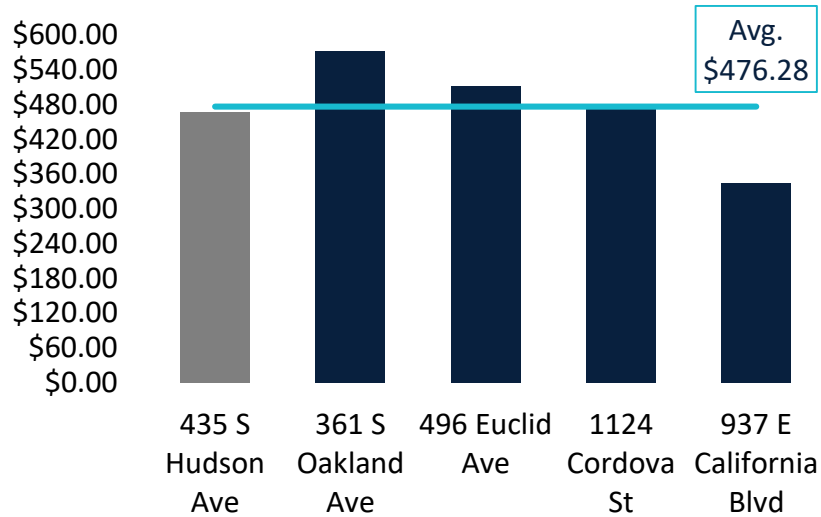
Average Cap Rate



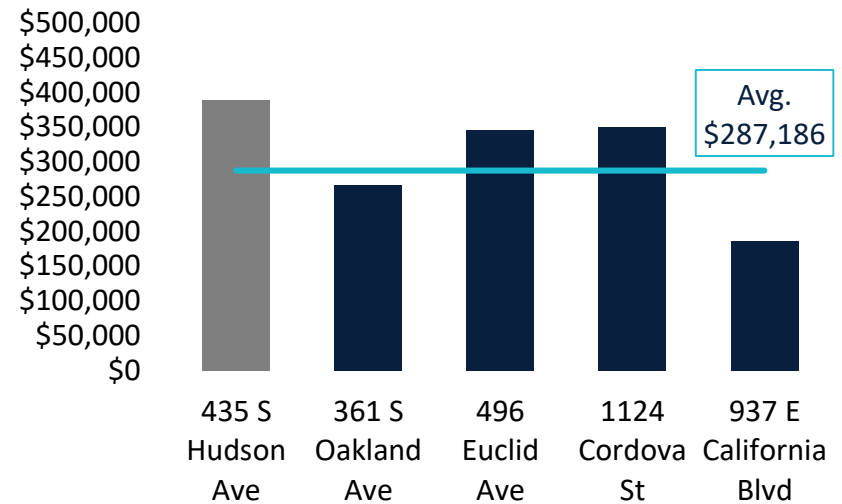
Average GRM



Average Price Per Square Foot



Average Price Per Unit



SALES COMPARABLES

435 S HUDSON AVE
435 S Hudson Ave, Pasadena, CA, 91101



		Units	Unit Type
Offering Price:	\$3,500,000	5	1 Bed 1 Bath
Price/Unit:	\$388,889	4	2 Bed 1 Bath
Price/SF:	\$467.48		
CAP Rate:	4.10%		
GRM:	16.84		
Total No. of Units:	9		
Year Built:	1964		

Underwriting Criteria			
Income	\$204,147	Expenses	\$60,697
NOI	\$143,450	Vacancy	(\$6,233)

361 S OAKLAND AVE
361 S Oakland Ave, Pasadena, CA, 91101



		Units	Unit Type
Close Of Escrow:	8/14/2018	12	Studio 1 Bath
Sales Price:	\$3,200,000		
Price/Unit:	\$266,667		
Price/SF:	\$571.43		
CAP Rate:	3.27%		
GRM:	18.91		
Total No. of Units:	12		
Year Built:	1955		

Underwriting Criteria			
Income	\$169,200	Expenses	\$59,327
NOI	\$104,797	Vacancy	\$5,076

496 EUCLID AVE
496 S Euclid Ave, Pasadena, CA, 91101



		Units	Unit Type
Close Of Escrow:	12/19/2017	6	1 Bdr 1 Bath
Sales Price:	\$2,420,000	1	2 Bdr 1 Bath
Price/Unit:	\$345,714		
Price/SF:	\$512.06		
CAP Rate:	2.95%		
GRM:	20.39		
Total No. of Units:	7		
Year Built:	1954		

Underwriting Criteria			
Income	\$118,656	Expenses	\$43,737
NOI	\$71,360	Vacancy	\$3,560

SALES COMPARABLES

1124 CORDOVA ST

1124 Cordova St, Pasadena, CA, 91106



		Units	Unit Type
Close Of Escrow:	2/6/2018	6	1 Bdr 1 Bath
Sales Price:	\$2,100,000		
Price/Unit:	\$350,000		
Price/SF:	\$476.51		
CAP Rate:	3.08%		
GRM:	19.50		
Total No. of Units:	6		
Year Built:	1898		

Underwriting Criteria			
Income	\$107,692	Expenses	\$39,781
NOI	\$64,680	Vacancy	\$3,231

937 E CALIFORNIA BLVD

937 E California Blvd, Pasadena, CA, 91106



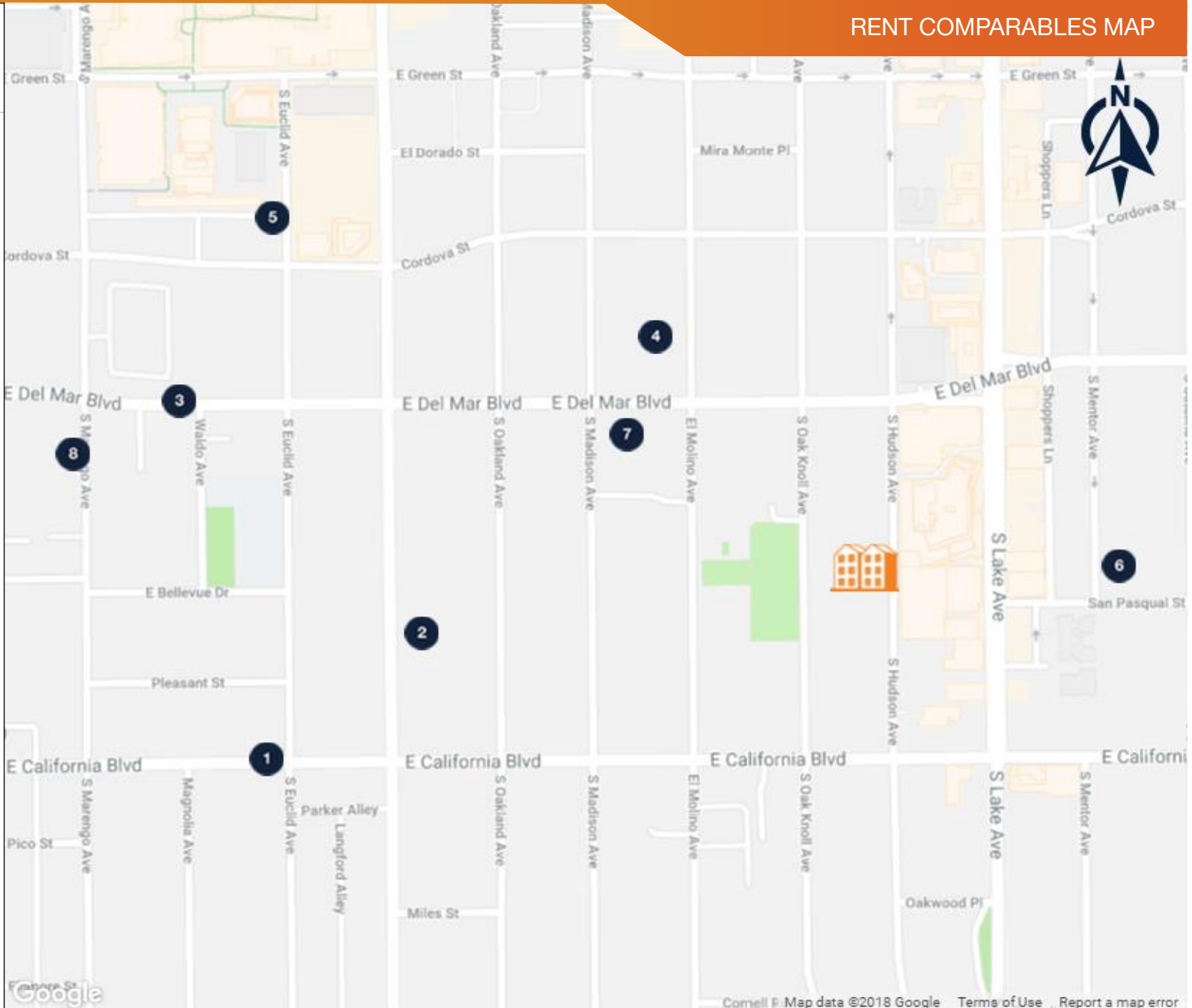
		Units	Unit Type
Close Of Escrow:	5/3/2018	11	1 Bdr 1 Bath
Sales Price:	\$2,050,000		
Price/Unit:	\$186,364		
Price/SF:	\$345.12		
CAP Rate:	2.51%		
GRM:	19.41		
Total No. of Units:	11		
Year Built:	1923		

Underwriting Criteria			
Income	\$105,600	Expenses	\$51,057
NOI	\$51,375	Vacancy	\$3,168



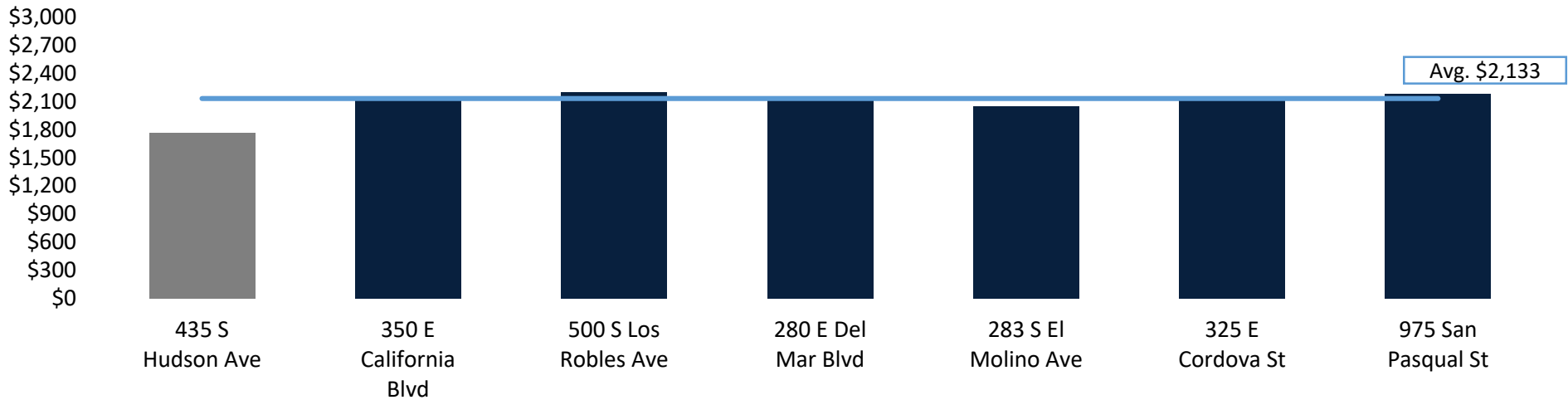
435 S HUDSON AVE
Pasadena, CA 91101

- 1 350 E California Blvd
- 2 500 S Los Robles Ave
- 3 280 E Del Mar Blvd
- 4 283 S El Molino Ave
- 5 325 E Cordova St
- 6 975 San Pasqual St
- 7 350 S Madison Ave
- 8 355 S Marengo Ave

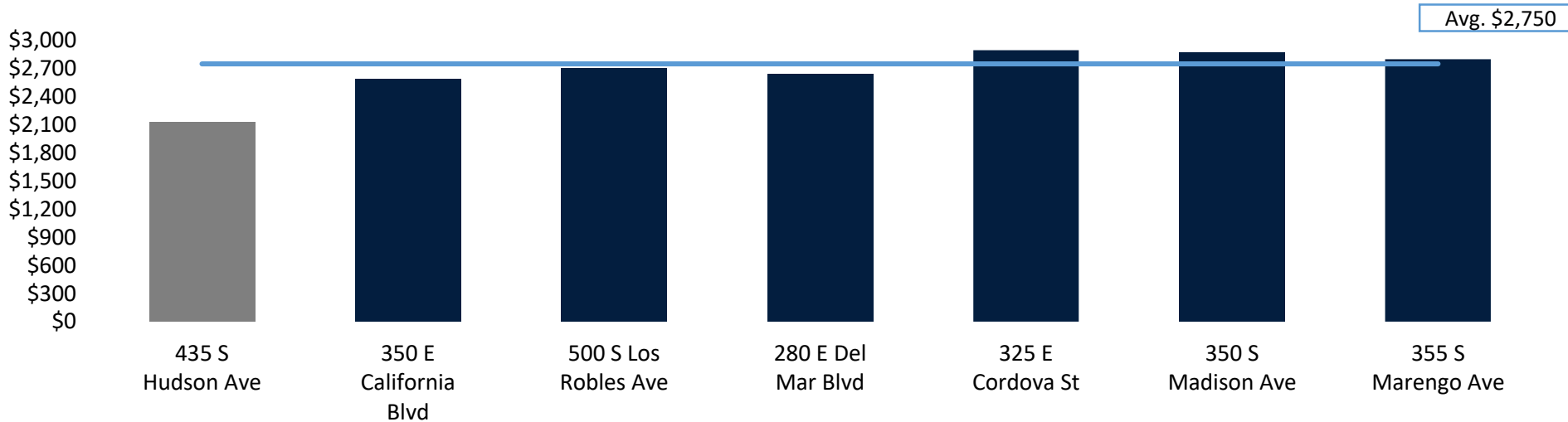


AVERAGE RENT - MULTIFAMILY

1 Bedroom



2 Bedroom



435 S HUDSON AVE
435 S Hudson Ave, Pasadena, CA, 91101



Unit Type	Units	SF	Rent	Rent/SF
1 Bed 1 Bath	5		\$1,763	\$0.00
2 Bed 1 Bath	4		\$2,125	\$0.00
Total/Avg.	9		\$1,924	

YEAR BUILT: 1964

350 E CALIFORNIA BLVD
350 E California Blvd, Pasadena, CA, 91106



Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	1,000	\$1,975- \$2,250	\$2.11
2 Bdr 2 Bath	1	1,600	\$2,475- \$2,700	\$1.62
Total/Avg.	2	1,300	\$2,350	\$1.81

YEAR BUILT: 1973

500 S LOS ROBLES AVE
500 S Los Robles Ave, Pasadena, CA, 91101



Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	773	\$2,200	\$2.85
2 Bdr 2 Bath	1	1,048	\$2,700	\$2.58
Total/Avg.	2	911	\$2,450	\$2.69

YEAR BUILT: 1971

280 E DEL MAR BLVD

280 E Del Mar Blvd, Pasadena, CA, 91101



Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	660-820	\$2,064-\$2,175	\$2.86
2 Bdr 2 Bath	1	990-1,050	\$2,594-\$2,694	\$2.59
Total/Avg.	2	880	\$2,382	\$2.71

YEAR BUILT: 1973

283 S EL MOLINO AVE

283 S El Molino Ave, Pasadena, CA, 91101



Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	800	\$2,045	\$2.56
Total/Avg.	1	800	\$2,045	\$2.56

YEAR BUILT: 1955

325 E CORDOVA ST

325 Cordova St, Pasadena, CA, 91101



Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	629-919	\$1,885-\$2,395	\$2.76
2 Bdr 2 Bath	1	1,036-1,095	\$2,895	\$2.72
Total/Avg.	2	920	\$2,518	\$2.74

YEAR BUILT: 2002

975 SAN PASQUAL ST
975 San Pasqual St, Pasadena, CA, 91106



Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	800-1,027	\$1,850- \$2,510	\$2.39
Total/Avg.	1	914	\$2,180	\$2.39

YEAR BUILT: 1972

350 S MADISON AVE
350 S Madison Ave, Pasadena, CA, 91101



Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath	1	1,050	\$2,871	\$2.73
Total/Avg.	1	1,050	\$2,871	\$2.73

YEAR BUILT: 1972

355 S MARENGO AVE
355 S Marengo Ave, Pasadena, CA, 91101



Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath	1		\$2,800	
Total/Avg.	1		\$2,800	

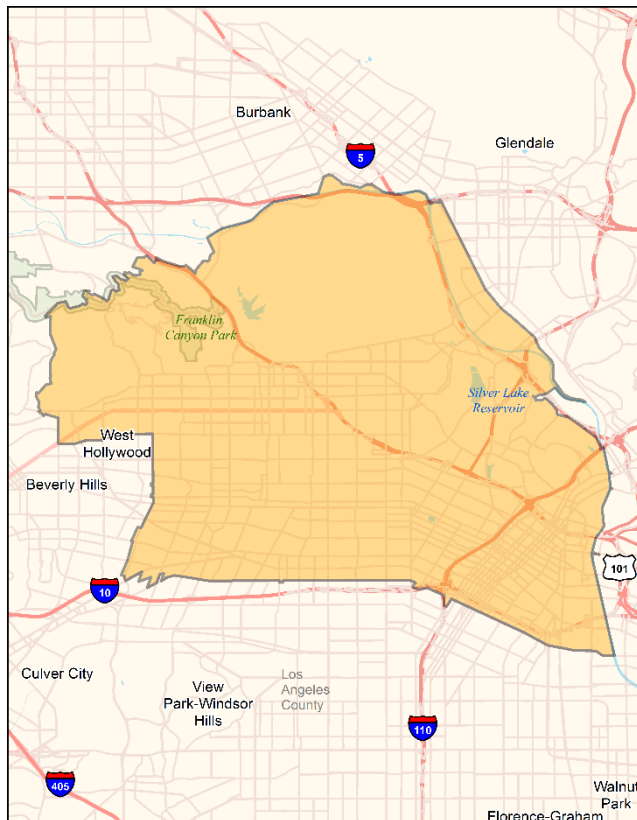
YEAR BUILT: 1981

MARKET OVERVIEW



GREATER DOWNTOWN LOS ANGELES OVERVIEW

Greater Downtown Los Angeles consists of the Downtown, Mid-Wilshire and Hollywood submarkets. The continued revitalization of the market will boost population gains. The population base of 820,000 people will expand as more than 10,600 citizens are added over the next five years, filling new residential projects. Downtown houses numerous corporations, retail and entertainment venues that draw commuters into the city daily.



METRO HIGHLIGHTS



DOWNTOWN RENAISSANCE

The downtown area is undergoing a major renaissance due to the light rail and mixed-use projects such as L.A. Live attracting businesses and residents.



RAPID HOUSEHOLD GROWTH

Household formation will increase briskly during the next five years at a level above the national rate.



ROBUST HEALTH SECTOR

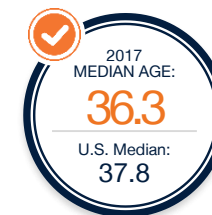
Healthcare provides a large number of jobs in the downtown area, employing thousands of workers and supported by public healthcare initiatives.



ECONOMY

- Major employers in the market include Farmers Insurance, Kaiser Permanente, Paramount Pictures, Deloitte, Ernst & Young, University of Southern California and Transamerica Insurance.
- Building conversions and mixed-use developments that include housing are bringing residents back into the area. Young, urban professionals desiring shorter commutes and downsizing households seeking to live near amenities are absorbing these units.
- A well-educated population provides companies with a skilled workforce. Roughly 38 percent of people age 25 and older hold a bachelor's degree; among those residents, 11 percent also have earned a graduate or professional degree.

DEMOGRAPHICS



* Forecast

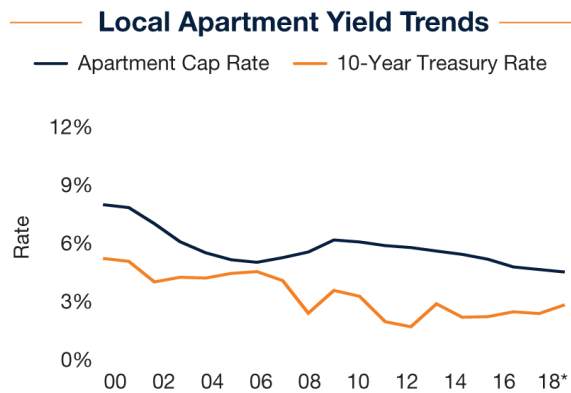
Sources: Marcus & Millichap Research Services; BLS; Bureau of Economic Analysis; Experian; Fortune; Moody's Analytics; U.S. Census Bureau

LOS ANGELES COUNTY

Renter Demand Eclipses Unwavering Construction, Bolstering Investor Confidence

Trio of employment sectors generate need for units of various quality. Over this past business cycle the number of apartments delivered is approximately three-fourths of the total number of units leased over the same time period, negating the impact of new supply. Strong renter demand existed across all property classes, supported by a diverse job market where the number of health, hospitality and professional service-related positions are rapidly rising. Entering the second half, employment growth is anticipated to further elevate while vacancy rests near 4 percent in each of the metro’s four primary regions. These factors should limit concessions usage in the near term and assist properties entering lease-up.

Second half completions further gauge pent-up demand for high-priced apartments. Developers are slated to bring 5,500 units online over the next six months, marking an uptick in deliveries when compared with the first half of this year. Unlike in previous periods, upcoming finalizations will be more spread out. Of the 2,600 apartments poised for completion in Greater Downtown Los Angeles, 60 percent are concentrated in Mid-Wilshire. The San Fernando Valley/Tri-Cities and Westside Cities regions are primed to welcome 1,300 and 1,200 apartments, respectively, with only the South Bay/Long Beach witnessing a dearth of new supply.



* Cap rate trailing 12-month average through 2Q; Treasury rate as of June 28.
Sources: CoStar Group, Inc.; Real Capital Analytics

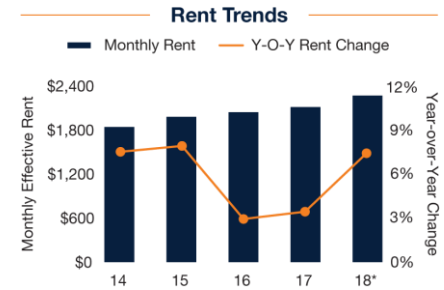
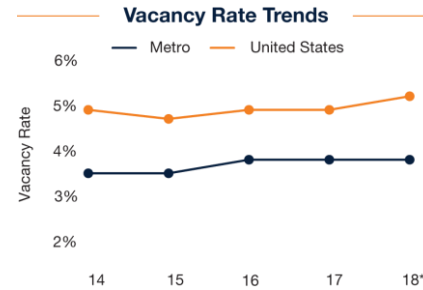
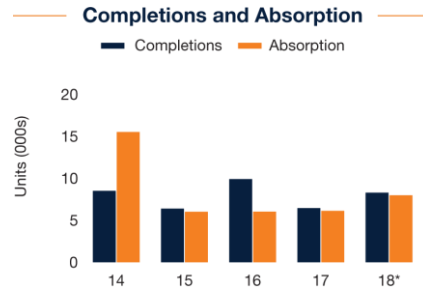
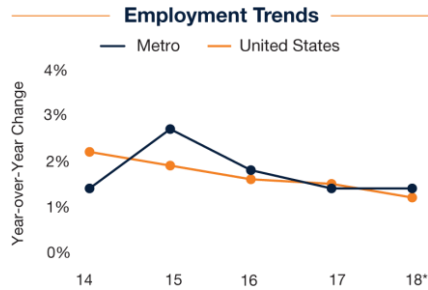
Multifamily 2018 Outlook

Metro	Vacancy	Y-O-Y BasisPoint Change	Effective Rent	Y-O-Y Change
Downtown Los Angeles	3.9%	10	\$2,565	8.5%
San Fernando Valley/Tri-Cities	3.5%	-10	\$2,047	3.7%
South Bay/Long Beach	3.4%	-50	\$2,217	3.9%
Westside Cities	4.1%	60	\$3,163	4.3%
Los Angeles	3.8%	0	\$2,268	7.4%

Investment Trends

- Potential regulatory changes surrounding the repeal of the Costa-Hawkins Act are weighing on investor sentiment and creating concerns about a possible shift in the legal framework surrounding rent control. While the potential changes would likely take years to fully implement, prospective buyers are considering the implications today. Additionally, the costs associated with retrofitting wood-frame soft-story and non-ductile concrete structures in the market is widening an expectations gap between buyers and sellers, potentially restraining activity.
- Entering the second half, Los Angeles County ranked as the nation’s sixth most expensive metro for multifamily investment. With an average cap rate nearing 4 percent, the market is also home to some of the lowest yields in the country, yet stout absorption, diverse job creation and improving rent growth maintain the interest of a diverse pool of buyers.
- Affordable submarkets including the San Fernando Valley, Koreatown and San Gabriel Valley represent focal points for buyers seeking sub-\$300,000 per unit pricing.
- Institutional buyers that deploy more than \$50 million for Class A assets pursue opportunities in Culver City and Long Beach, affordable locales near growing employment hubs.

LOS ANGELES COUNTY



2Q18 – 12-Month Period

* Forecast

EMPLOYMENT



1.1% increase in total employment Y-O-Y

- Organizations bolstered staffs by 50,600 jobs over the past 12 months after adding 59,600 positions during the previous period. Recent hiring reduced the metro's unemployment rate by 20 basis points to 4.5 percent.
- The professional and business services sector experienced a bounce-back period for hiring as 17,200 workers were added to payrolls.

CONSTRUCTION



6,000 units completed Y-O-Y

- Deliveries slowed by nearly 2,000 units on a year-over-year basis ending in June. During the past 12 months, completions were concentrated in Greater Downtown Los Angeles, where nearly 3,700 rentals were finalized.
- Countywide, developers are underway on 28,000 rentals. Half these units are in Greater Downtown Los Angeles, with 4,650 apartments in San Fernando Valley/Tri-Cities.

VACANCY



30 basis point decrease in vacancy Y-O-Y

- Vacancy tightened to 3.6 percent over the past year as absorption outpaced new supply by 3,000 units. A rise of 10 basis points was noted during the prior period.
- Renter demand for affordable units lowered Class C vacancy by 50 basis points to 2.8 percent. Amid the delivery of 6,000 units, Class A availability decreased by 20 basis points to 4.4 percent.

RENTS

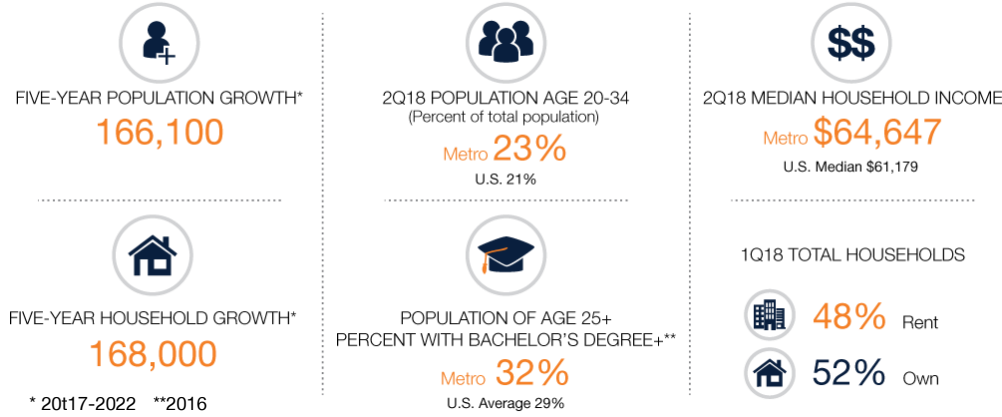


4.1% increase in effective rents Y-O-Y

- Robust absorption warranted an improvement in rent growth, with the metro's average rate reaching \$2,165 per month in June. The recent 4.1 percent gain outpaced the national rate of increase.
- Greater Downtown Los Angeles witnessed a 5.2 percent boost in average rent aided by strong Class A leasing, while Westside Cities recorded a 4 percent uptick.

LOS ANGELES COUNTY

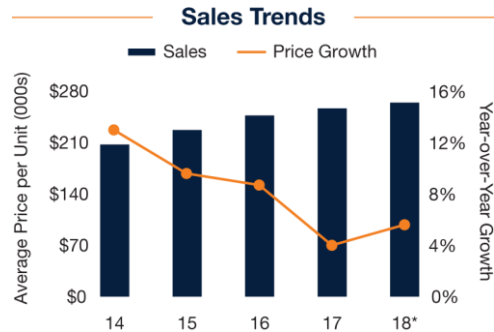
DEMOGRAPHIC HIGHLIGHTS



Sales Trends

Investors Comb Affordable Submarkets For Value-Add, Newly Built Apartments

- Sales activity rose by 7 percent over the past year. Trades in San Fernando Valley/Tri-Cities accounted for 30 percent of overall deal flow, with Greater Downtown Los Angeles recording nearly 50 transactions.
- Average pricing advanced 6.2 percent to \$264,500 per unit. Record pricing reduced the average cap rate by 30 basis points to 4.1 percent.



Outlook: As more recently delivered projects reach stabilization within a year of completion, the value of these properties elevates. Investors looking to avoid development risk remain accepting of pricing increases, as these assets provide buyers with steady NOI growth.

* Trailing 12 months through 2Q18
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Submarket Trends

Lowest Vacancy Rates 2Q18**

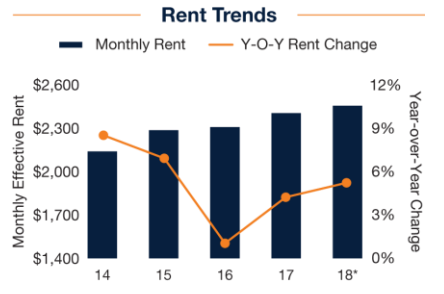
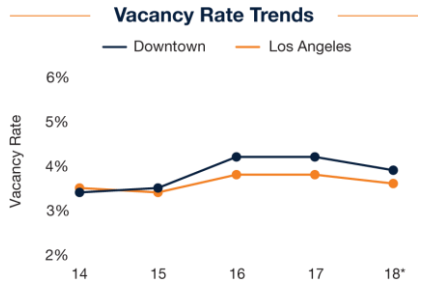
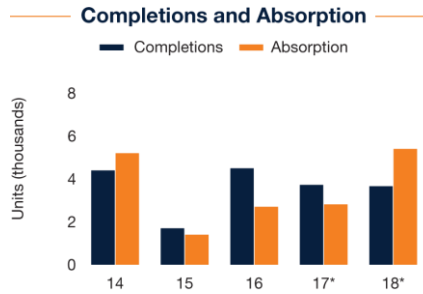
Submarket	Vacancy Rate	Y-O-Y BasisPoint Change	Effective Rent	Y-O-Y % Change
South Los Angeles	2.0%	0	\$1,705	7.9%
Van Nuys/Northeast San Fernando Valley	2.7%	-40	\$1,654	2.7%
Southeast Los Angeles	2.8%	-10	\$1,709	4.5%
Northridge/Northwest San Fernando Valley	3.1%	-20	\$1,845	4.5%
Mid-Wilshire	3.4%	-60	\$2,397	5.8%
North San Gabriel Valley	3.4%	-20	\$1,590	4.9%
South Bay	3.5%	-60	\$2,486	2.9%
Brentwood/Westwood/Beverly Hills	3.5%	0	\$3,254	5.1%
Palms/Mar Vista	3.8%	-40	\$2,585	5.8%
Burbank/Glendale/Pasadena	3.9%	-20	\$2,239	3.5%
Overall Metro	3.6%	-30	\$2,165	4.1%

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

LOS ANGELES METRO AREA: GREATER DOWNTOWN LOS ANGELES

Investment Trends

- Apartment demand is at a high level in Greater Downtown Los Angeles during a period of local job growth and neighborhood revitalizations. During the past 24 months, more than 7,000 rentals were completed, yet the region's vacancy rate dipped by 10 basis points on net absorption of 8,300 units, many of which were Class A apartments. During the second half, 2,600 rentals are slated for delivery, yet only one project comprises more than 300 units. This near-term lack of large-scale deliveries bodes well for properties in lease-up and the region's overall vacancy rate, which should adjust minimally during the next six months.
- Deal flow increased by more than 10 percent over the past year, supported by heightened sales activity in Koreatown and steady transaction velocity in Hollywood. In both locales, smaller Class C properties with a high concentration of studios and one-bedroom units are highly targeted. Minimum yields for well-located assets sit in the high-2 percent range, yet low-4 to low-5 percent returns are available for renovation-ready assets.
- Out-of-state institutional investors pursue iconic or newly built Class A properties in Downtown Los Angeles and Mid-Wilshire while renter demand for luxury units remains high and foreign buyers are absent from the market. Pricing for these buildings starts at \$400,000 per unit.



2Q18 – 12-Month Period

CONSTRUCTION

3,660 units completed Y-O-Y

- Delivery volume dipped by 60 units over the last four quarters as an influx of new apartments persisted. Downtown Los Angeles welcomed nearly 2,200 rentals, including the 606-unit Sofia Los Angeles.
- The region's ability to absorb new units has translated to a consortium of project starts, with developers underway on at least 14,000 units entering the second half.

VACANCY

80 basis point decrease in vacancy Y-O-Y

- Renters absorbed 5,500 apartments in the past 12 months, lowering vacancy to 3.9 percent.
- Hollywood witnessed the largest vacancy compression at 100 basis points, reducing local availability to 4.2 percent. Robust leasing velocity in Downtown Los Angeles translated to the absorption of 2,200 units, lowering vacancy by 80 basis points to 4.5 percent.

RENTS

5.2% increase in effective rents Y-O-Y

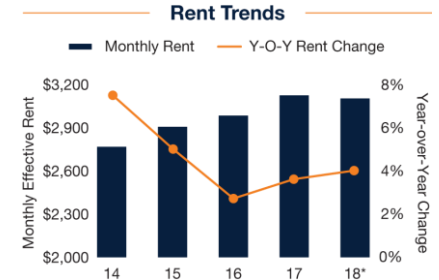
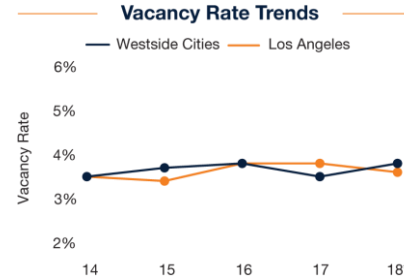
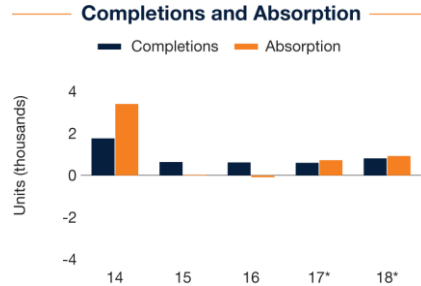
- Following a period of nominal rent growth, the region's average effective rate rose by more than 5 percent, reaching \$2,455 per month in June. The Class A sector is to credit for the recent boost in overall rents.
- Entering the second half, one quarter of vacant units in Downtown Los Angeles were offering concessions, yet average rent still elevated by 4 percent year over year.

* Completions and absorption trailing 12 months; vacancy and rent 2Q

LOS ANGELES METRO AREA: WESTSIDE CITIES

Investment Trends

- Local office construction reaches a 10-year high in 2018, suggesting a period of increased job growth is to follow. Apartment developers are betting that future payroll expansions by large media, tech and entertainment users boosts wages and maintains demand for luxury rentals near employment hubs. During the second half, nearly 1,200 units are slated for completion, including the 585-apartment AMLI Marina Del Rey. An additional 2,750 rentals are underway, including another two 500-unit-plus projects. Rents that routinely exceed \$3,400 per month coupled with an influx of new supply may translate to increased concessions usage.
- Investors browsed a limited supply of listings for a second consecutive 12-month period as less than 30 properties traded over the past year. In-county buyers dominated the sales landscape, deploying less than \$20 million per transaction. Half of recent deal flow involved smaller Class C properties, with investors accepting high-2 percent first-year yields in Santa Monica and low-3 percent cap rates elsewhere.
- Buyers targeting higher-quality properties have been most active in Culver City, the region's most affordable submarket. Here, Class A pricing starts at \$500,000 per unit, with mid-3 to low-4 percent yields obtainable.



2Q18 – 12-Month Period

CONSTRUCTION

810 units completed Y-O-Y

- During the second quarter, developers completed more than 600 units, the largest quarterly total in more than four years. Over the past 12 months, deliveries were concentrated in Brentwood/Westwood/Beverly Hills.
- Construction is underway on 3,950 rentals with completions extending into 2020. This pipeline includes 2,160 units in Santa Monica/Marina Del Rey.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- The region's vacancy rate dipped by 10 basis points for a second straight year, falling to 3.8 percent. The slight decline was driven by increased renter demand in Palms/Mar Vista, where unit availability dipped by 40 basis points to 3.8 percent.
- Brentwood/Westwood/Beverly Hills is home to the lowest supply of Class B units, at 1.2 percent.

RENTS

4.0% increase in effective rents Y-O-Y

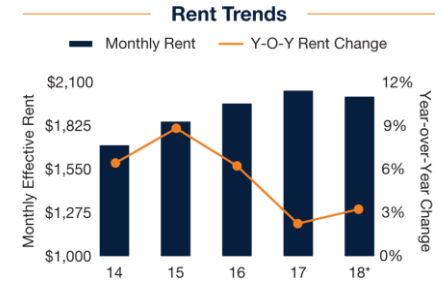
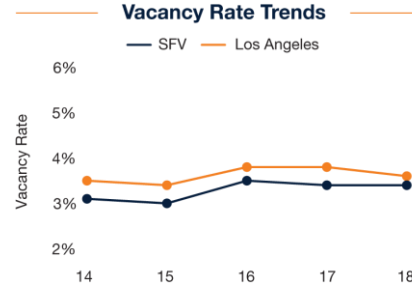
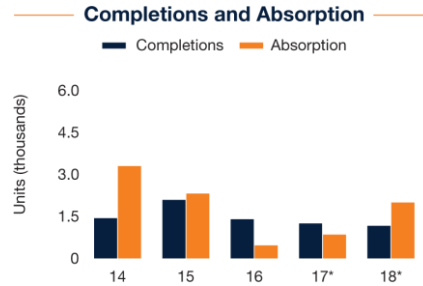
- Steady demand for apartments prompted a continuation of stable rent growth. Over the past year, the average effective rent rose 4 percent to \$3,103 per month following a 3.1 percent boost in the prior period.
- While rent growth in Santa Monica/Marina Del Rey recently slowed, the region's other two submarkets experienced 5 percent rate gains, led by Palms/Mar Vista.

* Completions and absorption trailing 12 months; vacancy and rent 2Q

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

Investment Trends

- Renter demand for new units in the Tri-Cities/San Fernando Valley region will be tested in the coming quarters, as the second half of 2018 marks the beginning of an apartment influx. Of the nearly 1,300 units slated for finalization in the next six months, most are in the Tri-Cities with a focus on Glendale and Pasadena. The San Fernando Valley lacks completions during the remainder of this year, yet 4,600 apartments are currently underway and slated for 2019 or 2020 completion. Minimal near-term deliveries allow vacancy in the Valley to remain in the low-3 percent range prior to this flood of rentals.
- Tight Class B and C vacancy throughout the region has local investors jockeying for 1960s- to 1980s-built complexes at sub-\$20 million price tags. Some buyers are accepting low-3 percent returns for properties in Studio City/North Hollywood, while others target mid-4 percent yields in Van Nuys, where below-average pricing for Class C assets is available.
- Institutional investors from out of state pursue chances to acquire Class A properties prior to a wave of new rentals. Those seeking newly built assets scan the Tri-Cities, where pricing exceeds \$400,000 per unit and returns bottom out at the mid-3 percent range. Buyers targeting lower price points and older properties are active in the San Fernando Valley.



2Q18 – 12-Month Period

CONSTRUCTION

1,160 units completed Y-O-Y

- Developers finalized more than 1,000 units for a second consecutive 12-month period, driven by the delivery of 960 apartments in Glendale.
- Entering the second half, construction is underway on 6,900 rentals with completion dates extending into late 2020. This pipeline includes nearly 1,600 units in Woodland Hills.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- The absorption of 2,000 units during the last 12 months reduced the region's vacancy rate to 3.4 percent in June.
- Renter demand was strongest in the area's two largest submarkets. Van Nuys/Northeast San Fernando Valley witnessed a 40-basis-point reduction that lowered vacancy to 2.7 percent. Availability in Burbank/Glendale/Pasadena tightened by 20 basis points to 3.9 percent.

RENTS

3.2% increase in effective rents Y-O-Y

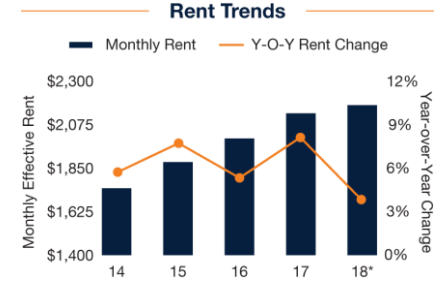
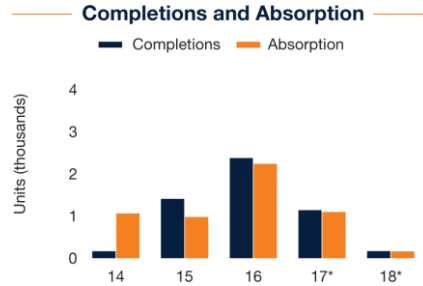
- Effective rent growth climbed at a steady pace, reaching an average of \$2,007 per month in June. Increases were most pronounced in Northridge/Northwest San Fernando Valley, supported by a 5.6 percent rise in Class B rents.
- Following a 3.9 percent increase, Woodland Hills ranks as the region's priciest rental market, entering the second half with an average effective rate of \$2,247 per month.

* Completions and absorption trailing 12 months; vacancy and rent 2Q

LOS ANGELES METRO AREA: SOUTH BAY/LONG BEACH

Investment Trends

- A span of sub-4 percent vacancy has recently increased the number of project starts, yet regional delivery volume totals less than 400 units this year. A larger influx of rentals awaits in 2019, as Long Beach and South Bay each welcome more than 700 new apartments that comprise six- and seven-story properties. Anticipated local expansions by SpaceX, Boeing, the Port of Long Beach and NFL Media indicate economic growth is on the horizon, underpinning demand for new units. In the near term, the dearth of new supply allows overall vacancy to return to the low-4 percent threshold, warranting a sustainable rate of rent growth this year.
- Regional deal flow increased by a third over the past year, supported by heightened sales activity in Long Beach, where well-located Class C assets can trade at sub-3 percent cap rates. Investor demand for the submarket's limited stock of larger luxury complexes has driven pricing for Class A properties beyond \$400,000 per unit.
- Local buyers with an eye for sub-\$200,000 per unit pricing and returns in the 4 percent range are attracted to Greater Inglewood, where opportunities to acquire 1950s to early 1970s garden-style apartments are on the rise.



2Q18 – 12-Month Period

CONSTRUCTION

170 units completed Y-O-Y

- Completions fell to a cycle-low level during the past four quarters following the finalization of 1,140 rentals over the prior 12-month period.
- Delivery volume rises in the coming quarters, with developers underway on 2,400 units as of midyear. Nearly 1,600 of these rentals are slated for 2019 completion including several 300-unit-plus projects in South Bay.

VACANCY

0 basis point change in vacancy Y-O-Y

- Amid limited supply additions the region's vacancy rate held at 3.7 percent. Renter demand was strongest in South Bay, where local unit availability dipped 60 basis points to 3.5 percent on absorption of 500 units.
- Class C vacancy is extremely limited throughout the region. Entering the second half, availability sat at 1.1 percent in South Bay and 1.9 percent in Long Beach.

RENTS

3.8% increase in effective rents Y-O-Y

- The average rent climbed to \$2,175 per month in June, supported by a 4.9 percent increase in Long Beach that elevated the effective rent to \$1,899 per month. During the previous year, a 10.4 percent boost was recorded.
- Class B rents rose by nearly 4 percent in both South Bay and Long Beach, aided by the notable gap in Class A and B rates.

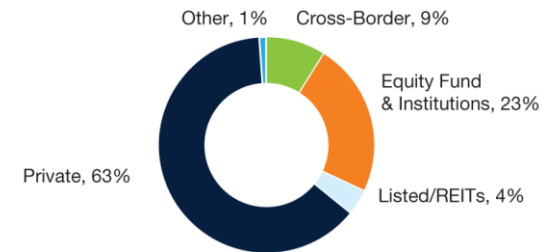
* Completions and absorption trailing 12 months; vacancy and rent 2Q

LOS ANGELES METRO AREA

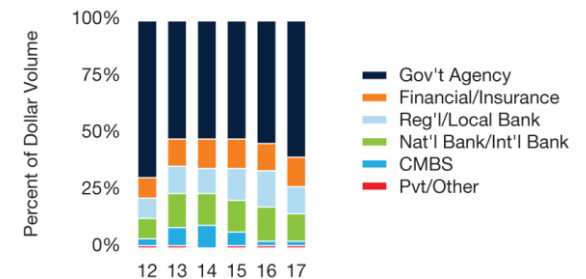
Capital Markets

- **Healthy economy and inflationary pressure drive rate increases.** The Federal Reserve appears committed to normalizing the fed funds rate, but further action could be restrained this year as headwinds could weigh on the economy. Economic growth and inflation have had a dramatic effect on the 10-year Treasury rate, which has more than doubled over the past two years to 2.85 percent. However, capital inflows as investors seek alternative investment options are holding the rate below 3 percent.
- **Borrowing costs rise, cap rates remain compressed.** Debt providers are facing a rising cost of capital, leading to higher lending rates for investors. To compete for loan demand, some lenders may choose to absorb a portion of the cost increases while others will require higher equity stakes up front. More complex and creative approaches to financing properties may begin to emerge as investors seek to reach return objectives.
- **Lending market remains competitive as interest rates rise.** Government agencies continue to consume the largest share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Multifamily interest rates currently reside in the mid-4 percent to mid-5 percent realm with maximum leverage of 75 percent. Portfolio lenders will typically require loan-to-value ratios closer to 70 percent with interest rates in the low-4 percent to low-5 percent span.

2Q18 Apartment Acquisitions By Buyer Type



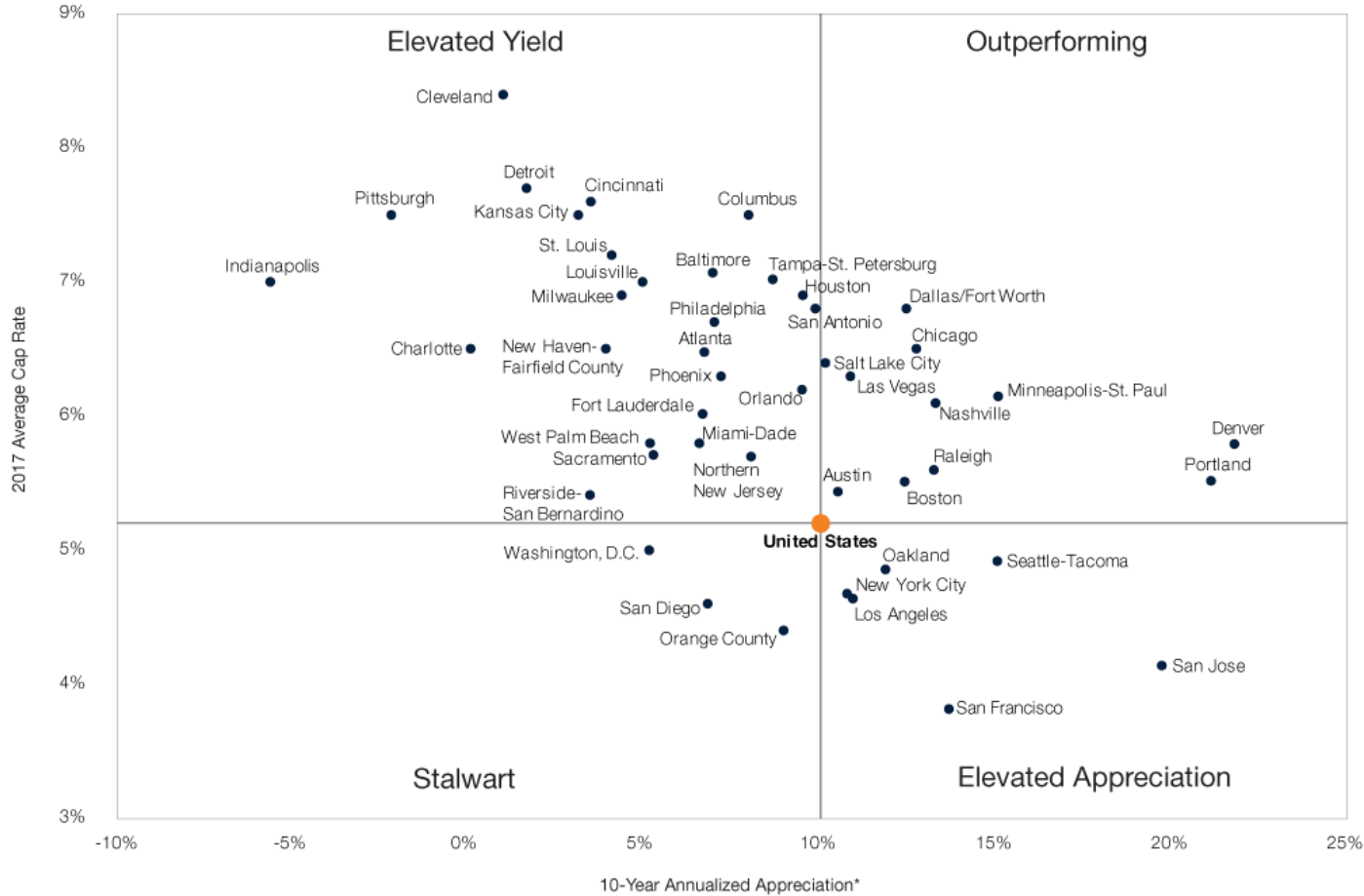
Apartment Mortgage Originations By Lender



Include sales \$2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

2018 PRICING & VALUATION TRENDS

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



* 2007-2017 Average annualized appreciations in price per unit
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics



AVERAGE PRICE PER UNIT RANGE**
 (Alphabetical order within each segment)

\$50,000 - \$75,999	\$76,000 - \$99,999	\$100,000 - \$149,999	\$150,000 - \$199,999	\$200,000 - \$299,999	\$300,000 - \$450,000
<ul style="list-style-type: none"> • Cincinnati • Cleveland • Columbus • Detroit • Indianapolis • Kansas City • Memphis • Pittsburgh 	<ul style="list-style-type: none"> • Atlanta • Charlotte • Dallas/Fort Worth • Milwaukee • Las Vegas • Louisville • San Antonio • St. Louis 	<ul style="list-style-type: none"> • Austin • Baltimore • Houston • Minneapolis-St. Paul • Nashville • Orlando • Philadelphia • Phoenix • Raleigh • Riverside-San Bernardino • Sacramento • Salt Lake City • Tampa-St. Petersburg 	<ul style="list-style-type: none"> • Chicago • Denver • Fort Lauderdale • Miami-Dade • New Haven-Fairfield County • Northern New Jersey • Portland • Washington, D.C. • West Palm Beach 	<ul style="list-style-type: none"> • Los Angeles • Oakland • Orange County • San Diego • Seattle-Tacoma 	<ul style="list-style-type: none"> • Boston • New York City • San Francisco • San Jose

** Price per unit for apartment properties \$1 million and greater
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

2018 NATIONAL MULTIFAMILY INDEX

U.S. Multifamily Index

Coastal Markets Top National Multifamily Index; Several Unique Markets Climb Ranks

Trading places. Seattle-Tacoma leads this year's Index after moving up one notch, driven by robust employment in the tech sector and soaring home prices that keep rental demand ahead of elevated deliveries. The metro outperforms last year's leader, Los Angeles (#2), which slid one spot. Midwest metro Minneapolis-St. Paul (#3) rose one notch as its diverse economy generates steady job growth and robust rental demand, maintaining one of the lowest vacancy rates among larger U.S. markets. San Diego (#4) jumped five spots as deliveries slump while household formation proliferates, resulting in sizable rent growth. Portland (#5) inches up a slot to round out the top five markets. East Coast markets fill the next two positions: Boston (#6) moves down three slots as rent growth slows while vacancy ticks up, and New York City (#7) rises three places as stout renter demand holds vacancy tight.

Index reshuffles with big moves. Sacramento (#8) posted the largest increase in the Index, vaulting 12 positions to lead a string of California markets that fill the next five slots. Robust rent growth and low vacancy pushed the market up in the ranking. Other double-digit movers were Orlando (#17) and Detroit (#28), which each leaped 10 places. Employment gains and in-migration are generating the need for apartments in Orlando, maintaining ample rent advancement. In Detroit, steady employment and a slow construction pipeline keep demand above supply, allowing rents to flourish. The most significant declines were registered in Austin, Nashville and Baltimore. Austin (#31) tumbled nine spaces as elevated deliveries overwhelm demand slowing rent growth. Nashville (#35) and Baltimore (#45) each moved down six steps as demand has yet to absorb multiple years of elevated inventory gains. Although Kansas City (#46) retains the bottom slot, there is greater change in the lower half of the NMI as more Midwest markets rise.

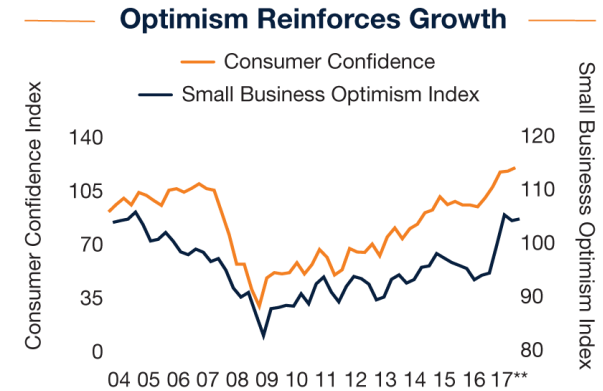
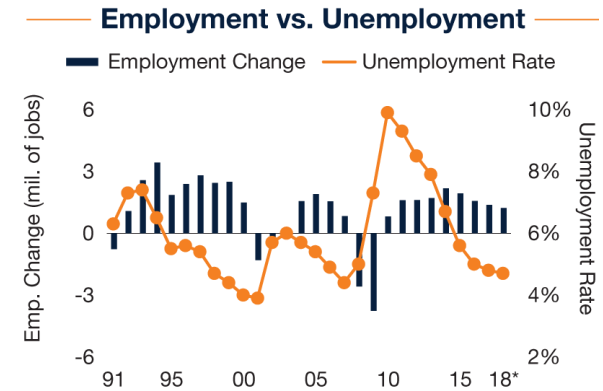
Market Name	Rank 2018	Rank 2017	17-18 Change
Seattle-Tacoma	1	2	↗ 1
Los Angeles	2	1	↘ -1
Minneapolis-St. Paul	3	4	↗ 1
San Diego	4	9	↗ 5
Portland	5	6	↗ 1
Boston	6	3	↘ -3
New York City	7	10	↗ 3
Sacramento	8	20	↗ 12
Riverside-San Bernardino	9	11	↗ 2
Oakland	10	5	↘ -5
San Francisco	11	7	↘ -4
San Jose	12	8	↘ -4
Phoenix	13	12	↘ -1
Denver	14	13	↘ -1
Atlanta	15	14	↘ -1
Northern New Jersey	16	18	↗ 2
Orlando	17	27	↗ 10
Raleigh	18	16	↘ -2
Orange County	19	17	↘ -2
Miami-Dade	20	15	↘ -5
Tampa-St. Petersburg	21	19	↘ -2
Fort Lauderdale	22	23	↗ 1
Philadelphia	23	30	↗ 7
Salt Lake City	24	25	↗ 1
Chicago	25	21	↘ -4
Columbus	26	35	↗ 9
Charlotte	27	24	↘ -3
Detroit	28	38	↗ 10
Houston	29	31	↗ 2
Dallas/Fort Worth	30	26	↘ -4
Austin	31	22	↘ -9
Washington, D.C.	32	32	■ 0
Las Vegas	33	28	↘ -5
Cincinnati	34	34	■ 0
Nashville	35	29	↘ -6
Indianapolis	36	42	↗ 6
San Antonio	37	36	↘ -1
Milwaukee	38	33	↘ -5
Cleveland	39	40	↗ 1
St. Louis	40	44	↗ 4
West Palm Beach	41	37	↘ -4
Pittsburgh	42	43	↗ 1
Louisville	43	45	↗ 2
New Haven-Fairfield County	44	41	↘ -3
Baltimore	45	39	↘ -6
Kansas City	46	46	■ 0

U.S. ECONOMY

**Growth Cycle Invigorated by Confidence;
Tax Laws Could Transform Housing**

Tight labor market restrains hiring as confidence surges. The steady economic tailwind benefiting apartment performance is poised to carry through 2018 as a range of positive factors align to support growth. Consumer confidence recently reached its highest point since 2000 while small-business sentiment attained a 31-year record level, both reinforcing indications that consumption and hiring will be strong. The total number of job openings has hovered in the low-6 million range through much of 2017, illustrating that companies have considerable staffing needs, but with unemployment entrenched near 4 percent, companies will continue to face challenges in filling available positions. These tight labor conditions should place additional upward pressure on wages, potentially boosting inflationary pressure in the coming year. The strong employment market, rising wages and elevated confidence levels could unlock accelerated household formation, particularly by young adults. Last year, the number of young adults living with their parents ticked lower for the first time since the recession, signaling that these late bloomers may finally be considering a more independent lifestyle.

Housing preferences may change under new tax laws. The new tax laws could play a significant role in shaping both the economy and housing demand in 2018. Reduced taxes will be a windfall for corporations, potentially sparking invigorated investment into infrastructure. The rise in CEO confidence over the last year already boosted companies' investment by more than 6 percent, accelerating economic growth. However, the tax incentive-based stimulus will likely offer only a modest bump to GDP in 2018 because corporate investment comprises just 12 percent of economic output. One factor that could weigh on economic expansion under the new tax laws is the housing sector, which added just 3 percent to the economy last year, about two-thirds of normal levels. The increased standard deduction and restrictions on housing-related deductions will reduce some of the economic incentive to purchase a home, further sapping the strength of the housing sector. Nonetheless, the increased standard deduction could benefit apartment investors, encouraging renters to stay in apartments longer and reducing the loss of tenants to homeownership.

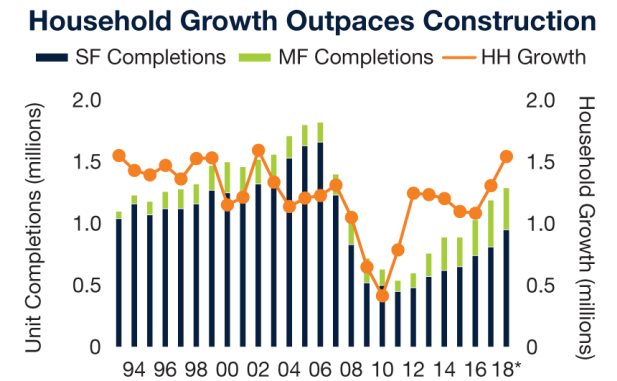
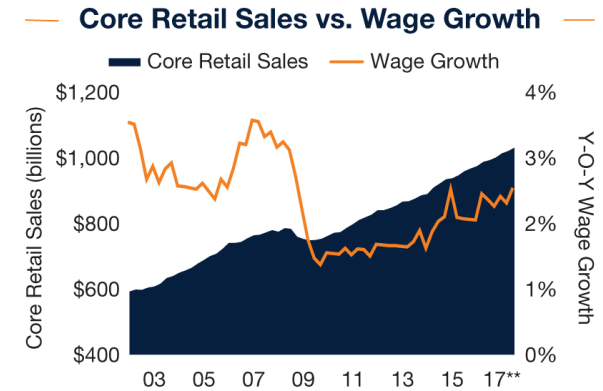


* Forecast
** Through 3Q

U.S. ECONOMY

2018 National Economic Outlook

- **Labor force shortage weighs on job creation.** The economy has added jobs every month for more than seven years, the longest continuous period of job creation on record. The trend will continue in 2018, but the pace of job additions will moderate, falling below 2 million for the year as the low unemployment rate restricts the pool of prospective employees.
- **Wage growth poised to accelerate.** Average wage growth has been creeping higher in the post-recession era, with compensation gains in construction, professional services and the hospitality sectors outpacing the broader trend. The tight labor market will continue to pressure wage growth, potentially sparking inflation in the process.
- **Tax laws could invigorate apartment demand.** Since 2011 household formations have outpaced total housing construction, a key ingredient in the tightening of apartment vacancies. The new tax laws could cause homebuilders to reduce construction while shifting a portion of the housing demand from homeownership to rentals, and a rental housing shortage could ensue. If this behavior change occurs in conjunction with additional young adults moving out of their own, apartment demand could dramatically outpace completions.



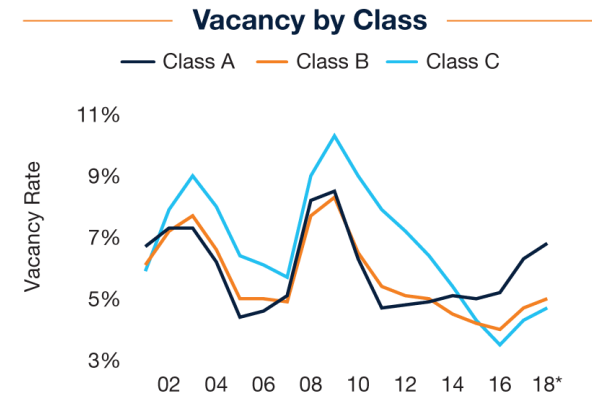
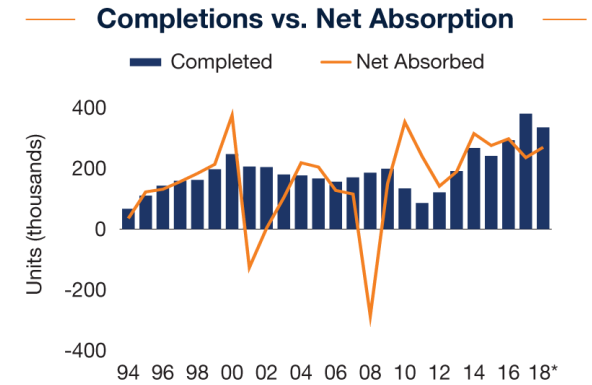
* Forecast
** Through 3Q

U.S. APARTMENT OVERVIEW

Demand Outlook Sturdy as Pace Of Construction Begins to Retreat

Investors wary of apartment construction. The wave of apartment completions entering the market in recent years has permeated the investor psyche, raising concerns of overdevelopment and escalating vacancy rates, but numerous demand drivers have held this risk in check. Steady job creation, positive demographics, above-trend household formation and elevated single-family home prices have converged to counterbalance the addition of 1.37 million apartments over the last five years, at least on a macro level. Though a small number of markets have faced oversupply risk, the affected areas tend to be concentrated pockets, with upper-echelon units facing the greatest competition. For traditional workforce housing, Class B and C apartments, the risks stemming from overdevelopment have been nominal, and in most metros, even the Class A tranche has demonstrated sturdy performance. In the coming year, rising development costs, tighter construction financing and mounting caution levels will curb the pace of additions from the 380,000 units delivered in 2017 to approximately 335,000 apartments. However, the list of markets facing risk from new completions will stretch beyond the dozen metros that builders have concentrated on thus far. This will heighten competition, requiring investors to maintain an increasingly tactical perspective integrating vigilant market scrutiny and strong property management.

Competitive nuances increasingly granular. Although the pace of apartment completions will moderate in 2018, additions will still likely outpace absorption. This imbalance will most substantively affect areas where development has been focused, such as the urban core where vacancy rates have risen above suburban rates for the first time on record. Nationally, Class A vacancy rates have advanced to 6.3 percent in 2017 and will continue their climb to the 6.8 percent range over the next year. Vacancy rates for Class B and C assets will rise less significantly in 2018, pushing to 5.0 percent and 4.7 percent, respectively. Although vacancy levels are rising, three-fourths of the major metros have rates below their 15-year average. Still, the magnitude of new completions coming to market and the high asking rents these new units command will spark increased competition for tenants, generating a more liberal use of concessions in 2018 as landlords attempt to entice move-up tenants.

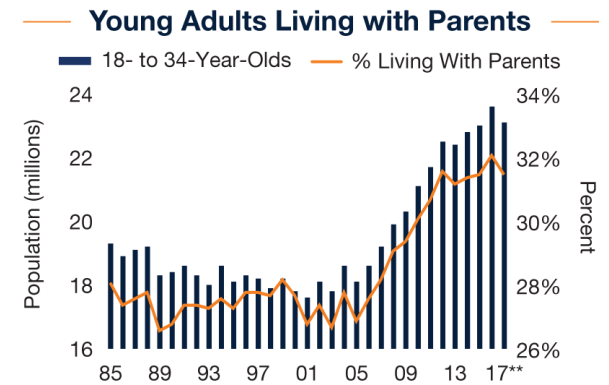
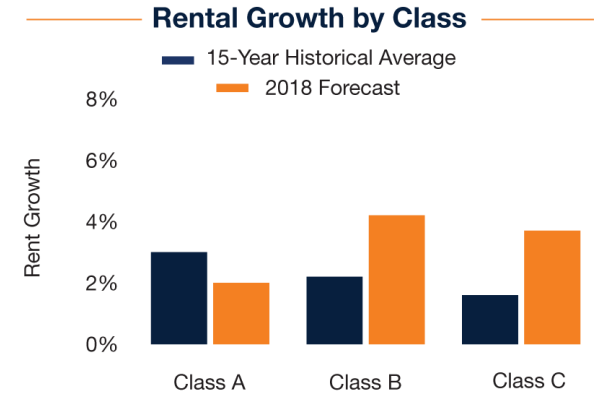


* Forecast

U.S. APARTMENT OVERVIEW

2018 National Apartment Outlook

- **Rent growth tapers as concession use edges higher.** Average rent growth will taper to 3.1 percent in 2018 as concessions become more prevalent, particularly in Class A properties. Rent gains in the Class C space, which were particularly strong last year, will face greater challenges as affordability restrains demand. Although job growth has been steady for seven years, wage growth has been relatively weak, particularly for low-skilled labor.
- **Congress may nudge apartment demand.** The new tax laws could reinforce apartment living as the larger standard deduction reduces the economic incentive of homeownership. Previous tax rules encouraged homeownership with itemized deductions for property taxes and mortgage interest that often surpassed the standard deduction. These advantages have largely been eliminated, particularly for first-time buyers.
- **Are millennials finally moving out on their own?** The 80 million-strong millennial age cohort, now pushing into their late 20s, may finally be showing independence. Since the recession, the percentage of young adults living with their parents increased dramatically, but last year that trend reversed. Should the share of young adults living with family recede toward the long-term average, an additional 3 million young adults would need housing.



** Estimate

U.S. CAPITAL MARKETS

Fed Normalization Portends Rising Interest Rates; Capital Availability for Apartments Elevated

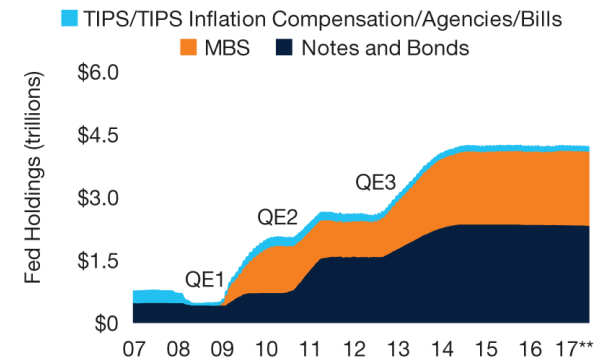
Fed cautiously pursues tighter policies. Investors have largely adapted to the modestly higher interest rate environment, and most anticipate additional increases in 2018 as the Federal Reserve normalizes both its policies and its balance sheet. The Fed is widely expected to continue raising its overnight rate through 2018 as it tries to restrain potential inflation risk and create some dry powder to combat future recessions. The Fed will, however, be cautious about pushing short-term rates into the long-term rates, which would create an inverted yield curve. The spread between the two-year Treasury rate and the 10-year Treasury rate has tightened significantly, and if the Fed is too aggressive in its policies, the short-term interest rates could climb above long-term rates. This inversion is a commonly watched leading indicator of an impending recession. The new chairman of the Fed, Jerome Powell, will likely make few changes to the trajectory of Fed policies, and he is widely expected to continue the reduction of the Fed balance sheet. Powell may consider accelerating the balance sheet reduction to ensure long-term rates move higher. That said, Powell is widely perceived to be a dovish leader who will advance rates cautiously.

Readily available debt backed by sound underwriting. Debt availability for apartment assets remains abundant, with a wide range of lenders catering to the sector. Apartment construction financing has experienced some tightening, a generally favorable trend for most investors. Fannie Mae and Freddie Mac will continue to serve a significant portion of the multifamily financing, with local and regional banks targeting smaller transactions and insurance companies handling larger deals with low-leverage needs. In general, lenders have been loosening credit standards on commercial real estate lending, but underwriting standards remain conservative with loan-to-value ratios for apartments in the relatively conservative 66 percent range. An important consideration going forward, however, will be investors' appetite for acquisitions as the yield spread between interest rates and cap rates tightens.

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



Fed to Begin Balance Sheet Normalization



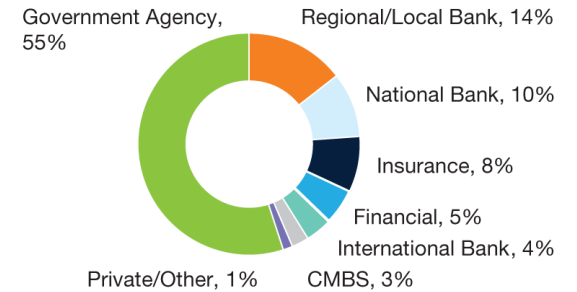
* Through December 12
 ** Through December 6

U.S. CAPITAL MARKETS

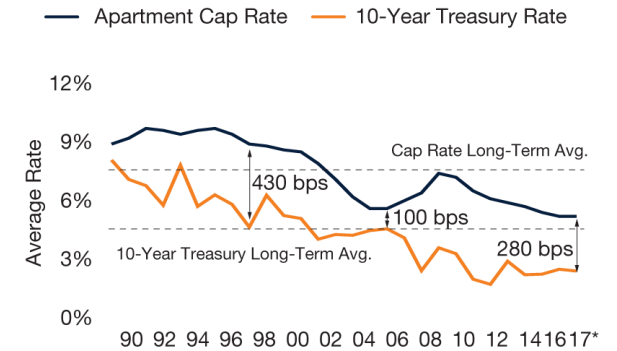
2018 Capital Markets Outlook

- **Yield spread tightens amid rising interest rates.** Average apartment cap rates have remained relatively stable in the low-5 percent range for the last 18 months, with a yield spread above the 10-year Treasury of about 280 basis points. Many investors believe cap rates will rise in tandem with interest rates, but this has not been the case historically. Given the strong performance of the apartment sector, it's more likely the yield spread will compress, reducing the positive leverage investors have enjoyed in the post-recession era.
- **Inflation restrained but could emerge.** Inflation has been nominal throughout the current growth cycle, but pressure could mount as the tight labor market spurs rising wages. Elevated wages and accelerating household wealth could boost consumption, creating additional economic growth and inflation. The Fed has become increasingly proactive in its efforts to head off inflationary pressure, but the stimulative effects of tax cuts could overpower the Fed's efforts.
- **Policies likely to strengthen dollar and could pose new risks.** One wild card that could create an economic disruption is the strengthening dollar. The economic stimulus created by tax cuts together with tightening Fed monetary policy place upward pressure on the value of the dollar relative to foreign currencies. This could restrain foreign investment in U.S. commercial real estate, but it could also weaken exports and make it more difficult for other countries to pay their dollar-denominated debt, which in turn weakens global economic growth.

2017 Apartment Lender Composition By Percent of Total Dollar Volume



U.S. Apartment Cap Rate Trends



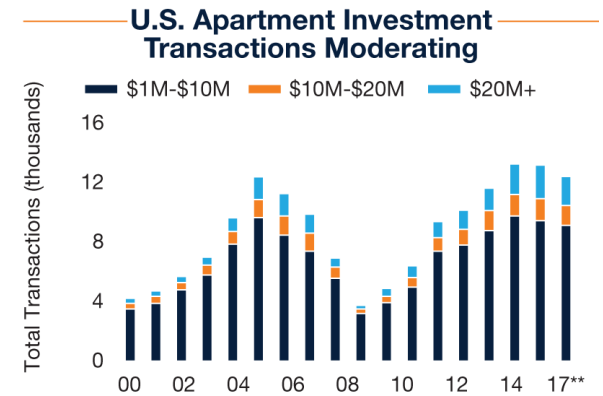
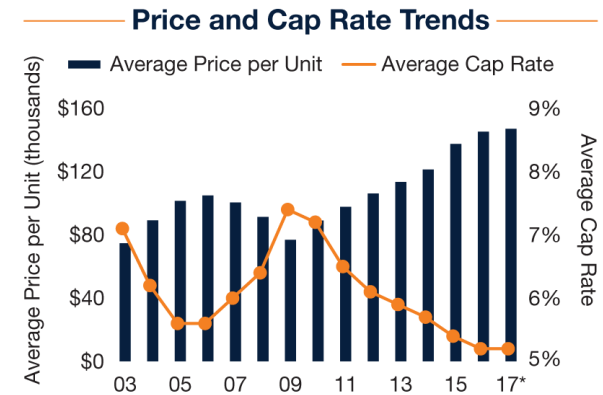
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U.S. INVESTMENT OUTLOOK

**Apartment Investors Recalibrate Strategies;
Broaden Criteria to Capture Upside Opportunities**

Appreciation flattens as buyers recalibrate expectations. The maturing apartment investment climate has continued its migration from aggressive growth to a more stable but still positive trend. Investors have reaped strong returns in the post-recession era through significant gains in fundamentals and pricing, but the growth trajectory has flattened as the market has normalized. The pace of apartment rental income growth has moved back toward its mid-3 percent long-term average and investor caution has flattened cap rates, moderating appreciation. With much of the gains created by the post-recession recovery absorbed and most of the value-add opportunity already extracted, it has been increasingly difficult for investors to find opportunities with substantive upside potential. At the same time, apartment construction has finally brought macro-level housing supply and demand back toward equilibrium, restraining upside potential in markets with sizable deliveries. These challenges have been compounded by a widened bid/ask gap, with many would-be apartment sellers retaining a highly optimistic perception of their asset’s value. It will take time for investor expectations to realign, but buyers and sellers are discovering a flattening appreciation trajectory. Still, a range of opportunities remain.

Investors broaden criteria as they search for yield upside. Investors are recalibrating strategies, broadening their search and sharpening their efforts to find investment options with upside potential. They have expanded criteria to include a variety of Class B and Class C assets, outer-ring suburban locations, and properties in secondary or tertiary markets. The yield premium offered by these types of assets has drawn an increasing amount of multifamily capital. In the last year, nearly half of the dollar volume invested in apartment properties over \$1 million went to secondary and tertiary markets, up from 42 percent of the capital in 2010. This influx of activity has caused cap rates in tertiary markets to fall from the high-8 percent range in 2010 to their current average near 6 percent. During the same period, national cap rates of Class B/C apartment properties have fallen by 200 basis points to the mid-5 percent range. Considering the low cost of capital, these yields have remained attractive to investors with longer-term hold plans.

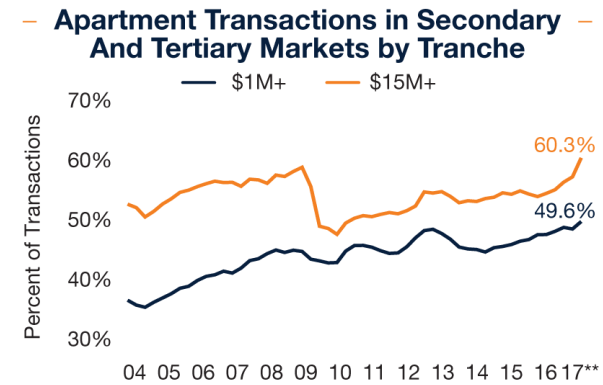
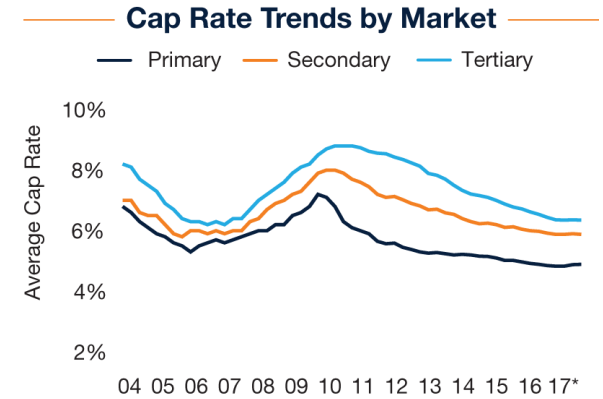


* Through 3Q
** Trailing 12 months through 3Q

U.S. INVESTMENT OUTLOOK

2018 Investment Outlook

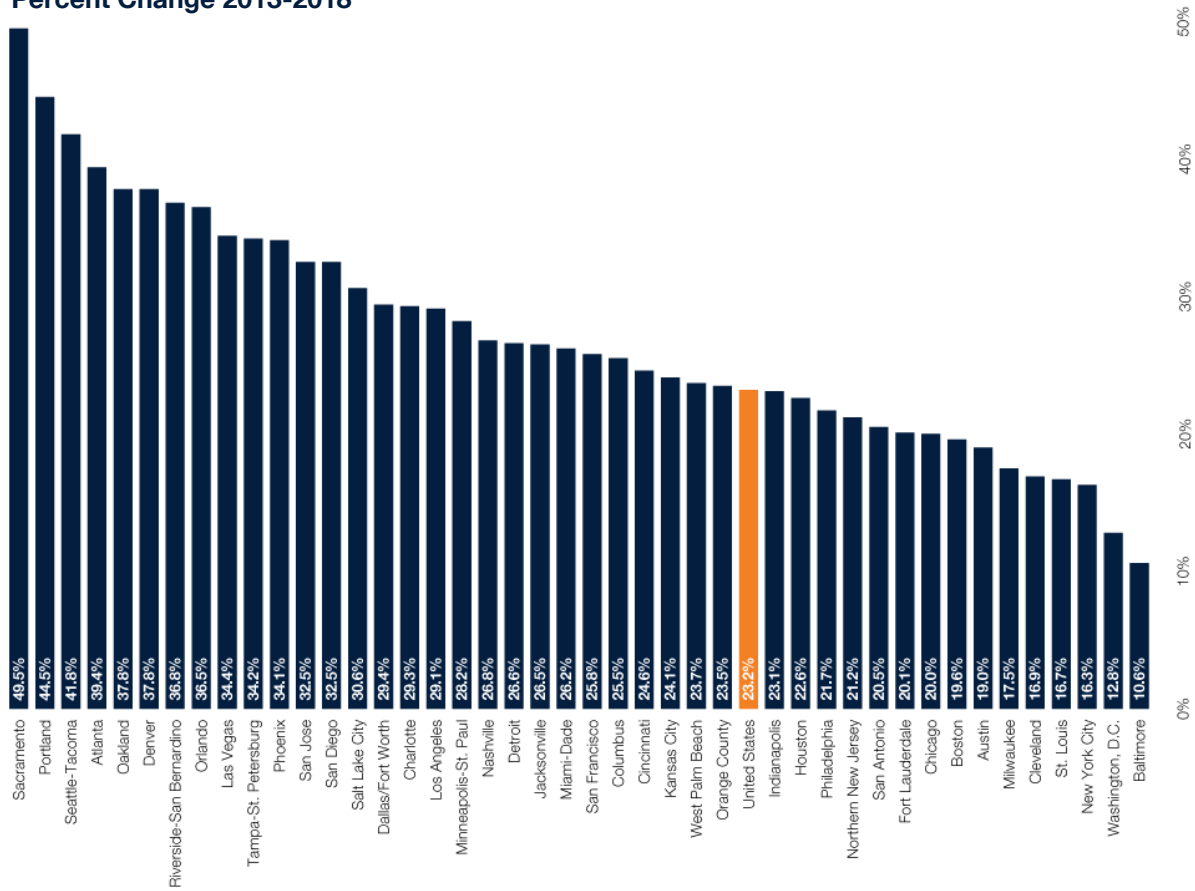
- **New tax laws could shift investor behavior.** Additional clarity on taxes should alleviate some of the uncertainty that held back investor activity over the last year while helping to mitigate the expectation gap between buyers and sellers. Reduced tax rates on pass-through entities could spark some repositioning efforts, bringing additional assets to market and supporting market liquidity.
- **Tighter monetary policy could narrow yield spreads.** Prospects of a rising interest rate environment could weigh on buyer activity as the yield spread tightens. Cap rates have held relatively stable over the last two years, and the sturdy outlook for apartment fundamentals is unlikely to change substantively in the coming year. As a result, investors' pursuit of yield will likely push activity toward assets and markets that have traditionally offered higher cap rates.
- **Transaction activity retreats from peak levels.** Apartment sales continued to migrate toward more normal levels last year as investors' search for upside and value-add opportunities delivered fewer candidates. Markets with a limited construction pipeline but with respectable employment and household formation growth will see accelerated activity, while markets facing an influx of development could see moderating investor interest.



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

REVENUE TRENDS

Five-Year Apartment Income Growth by Metro
Percent Change 2013-2018*



**FIVE-YEAR TREND:
Outperforming Through
Development Cycle
2013-2018***

- U.S. creates 11.8 million jobs over five years
- Developers add 1.5 million new apartments
- Absorption totals 1.4 million apartments
- U.S. vacancy rate to match 2013 at 5.0 percent
- U.S. average rent rises 23.2 percent

Five-Year NOI Growth % (Change in Occupancy x Rent Growth)

* Forecast



2018 NATIONAL INVENTORY TREND

Top 10 Markets by Inventory Change

Largest Growth	Five-Year Inventory Change	Five-Year Rent Growth
Austin	23.6%	22%
Charlotte	22.9%	30%
Nashville	21.7%	31%
Salt Lake City	20.9%	31%
Raleigh	19.5%	27%
San Antonio	18.7%	20%
Denver	17.9%	41%
Seattle-Tacoma	15.9%	41%
Orlando	15.3%	35%
Dallas/Fort Worth	15.3%	30%
U.S.	9.8%	23%

Smallest Growth	Five-Year Inventory Change	Five-Year Rent Growth
Cincinnati	6.6%	24%
Chicago	6.2%	21%
Oakland	5.8%	40%
Riverside-San Bernardino	5.6%	36%
St. Louis	5.5%	14%
Los Angeles	5.4%	31%
New York City	4.6%	15%
Cleveland	4.6%	15%
Sacramento	3.8%	48%
Detroit	2.9%	25%

Sources: Marcus & Millichap Research Services; MPF Research

Created on October 2018

POPULATION	1 Miles	3 Miles	5 Miles
■ 2022 Projection			
Total Population	31,621	218,437	579,026
■ 2017 Estimate			
Total Population	29,351	214,736	574,443
■ 2010 Census			
Total Population	27,464	205,098	550,751
■ 2000 Census			
Total Population	23,170	200,769	547,207
■ Daytime Population			
2017 Estimate	73,196	248,641	543,087
HOUSEHOLDS	1 Miles	3 Miles	5 Miles
■ 2022 Projection			
Total Households	17,195	88,386	211,056
■ 2017 Estimate			
Total Households	15,868	85,695	206,181
Average (Mean) Household Size	1.77	2.44	2.73
■ 2010 Census			
Total Households	14,710	80,909	196,125
■ 2000 Census			
Total Households	12,492	77,486	190,732
Growth 2015-2020	8.36%	3.14%	2.36%
HOUSING UNITS	1 Miles	3 Miles	5 Miles
■ Occupied Units			
2022 Projection	17,195	88,386	211,056
2017 Estimate	16,584	88,496	211,719
Owner Occupied	4,200	38,144	100,199
Renter Occupied	11,668	47,551	105,982
Vacant	716	2,801	5,537
■ Persons In Units			
2017 Estimate Total Occupied Units	15,868	85,695	206,181
1 Person Units	49.23%	32.24%	25.84%
2 Person Units	33.89%	30.95%	29.04%
3 Person Units	10.07%	15.05%	17.35%
4 Person Units	4.99%	12.12%	14.39%
5 Person Units	1.36%	5.35%	6.98%
6+ Person Units	0.47%	4.28%	6.41%

HOUSEHOLDS BY INCOME	1 Miles	3 Miles	5 Miles
■ 2017 Estimate			
\$200,000 or More	10.20%	12.58%	9.63%
\$150,000 - \$199,000	8.18%	8.28%	7.21%
\$100,000 - \$149,000	16.12%	16.12%	15.33%
\$75,000 - \$99,999	14.50%	12.07%	12.14%
\$50,000 - \$74,999	17.17%	15.47%	16.33%
\$35,000 - \$49,999	9.41%	9.71%	11.21%
\$25,000 - \$34,999	5.57%	6.79%	8.24%
\$15,000 - \$24,999	5.79%	7.68%	9.15%
Under \$15,000	13.06%	11.31%	10.75%
Average Household Income	\$107,473	\$115,590	\$101,593
Median Household Income	\$73,488	\$73,325	\$65,818
Per Capita Income	\$58,897	\$46,479	\$36,740
POPULATION PROFILE	1 Miles	3 Miles	5 Miles
■ Population By Age			
2017 Estimate Total Population	29,351	214,736	574,443
Under 20	13.15%	21.05%	21.82%
20 to 34 Years	35.58%	22.41%	21.04%
35 to 39 Years	10.71%	7.43%	6.98%
40 to 49 Years	13.30%	14.31%	14.34%
50 to 64 Years	14.95%	19.67%	20.47%
Age 65+	12.27%	15.11%	15.37%
Median Age	35.50	39.39	40.13
■ Population 25+ by Education Level			
2017 Estimate Population Age 25+	23,263	156,730	413,268
Elementary (0-8)	1.22%	5.51%	7.13%
Some High School (9-11)	2.27%	5.59%	7.31%
High School Graduate (12)	7.27%	13.99%	17.90%
Some College (13-15)	14.63%	15.82%	17.23%
Associate Degree Only	5.14%	6.65%	7.07%
Bachelors Degree Only	34.43%	28.13%	24.17%
Graduate Degree	34.46%	22.43%	16.19%
■ Population by Gender			
2017 Estimate Total Population	29,351	214,736	574,443
Male Population	48.99%	48.16%	48.14%
Female Population	51.01%	51.84%	51.86%

Source: © 2017 Experian



Population

In 2017, the population in your selected geography is 29,351. The population has changed by 26.68% since 2000. It is estimated that the population in your area will be 31,621.00 five years from now, which represents a change of 7.73% from the current year. The current population is 48.99% male and 51.01% female. The median age of the population in your area is 35.50, compare this to the US average which is 37.83. The population density in your area is 9,341.09 people per square mile.



Households

There are currently 15,868 households in your selected geography. The number of households has changed by 27.03% since 2000. It is estimated that the number of households in your area will be 17,195 five years from now, which represents a change of 8.36% from the current year. The average household size in your area is 1.77 persons.



Income

In 2017, the median household income for your selected geography is \$73,488, compare this to the US average which is currently \$56,286. The median household income for your area has changed by 59.47% since 2000. It is estimated that the median household income in your area will be \$84,366 five years from now, which represents a change of 14.80% from the current year.

The current year per capita income in your area is \$58,897, compare this to the US average, which is \$30,982. The current year average household income in your area is \$107,473, compare this to the US average which is \$81,217.



Race and Ethnicity

The current year racial makeup of your selected area is as follows: 54.67% White, 5.39% Black, 0.10% Native American and 29.61% Asian/Pacific Islander. Compare these to US averages which are: 70.42% White, 12.85% Black, 0.19% Native American and 5.53% Asian/Pacific Islander. People of Hispanic origin are counted independently of race.

People of Hispanic origin make up 15.97% of the current year population in your selected area. Compare this to the US average of 17.88%.



Housing

The median housing value in your area was \$510,210 in 2017, compare this to the US average of \$193,953. In 2000, there were 3,550 owner occupied housing units in your area and there were 8,941 renter occupied housing units in your area. The median rent at the time was \$758.



Employment

In 2017, there are 50,387 employees in your selected area, this is also known as the daytime population. The 2000 Census revealed that 87.73% of employees are employed in white-collar occupations in this geography, and 11.86% are employed in blue-collar occupations. In 2017, unemployment in this area is 5.41%. In 2000, the average time traveled to work was 26.00 minutes.

