4400 FARMDALE AVE

Studio City, CA 91602

NON-ENDORSEMENT AND DISCLAIMER NOTICE

Confidentiality and Disclaimer

The information contained in the following Marketing Brochure is proprietary and strictly confidential. It is intended to be reviewed only by the party receiving it from Marcus & Millichap and should not be made available to any other person or entity without the written consent of Marcus & Millichap. This Marketing Brochure has been prepared to provide summary, unverified information to prospective purchasers, and to establish only a preliminary level of interest in the subject property. The information contained herein is not a substitute for a thorough due diligence investigation. Marcus & Millichap has not made any investigation, and makes no warranty or representation, with respect to the income or expenses for the subject property, the future projected financial performance of the property, the size and square footage of the property and improvements, the presence or absence of contaminating substances, PCB's or asbestos, the compliance with State and Federal regulations, the physical condition of the improvements thereon, or the financial condition or business prospects of any tenant, or any tenant's plans or intentions to continue its occupancy of the subject property. The information contained in this Marketing Brochure has been obtained from sources we believe to be reliable; however, Marcus & Millichap has not verified, and will not verify, any of the information contained herein, nor has Marcus & Millichap conducted any investigation regarding these matters and makes no warranty or representation whatsoever regarding the accuracy or completeness of the information provided. All potential buyers must take appropriate measures to verify all of the information set forth herein. Marcus & Millichap is a service mark of Marcus & Millichap Real Estate Investment Services, Inc. © 2018 Marcus & Millichap. All rights reserved.

Non-Endorsement Notice

Marcus & Millichap is not affiliated with, sponsored by, or endorsed by any commercial tenant or lessee identified in this marketing package. The presence of any corporation's logo or name is not intended to indicate or imply affiliation with, or sponsorship or endorsement by, said corporation of Marcus & Millichap, its affiliates or subsidiaries, or any agent, product, service, or commercial listing of Marcus & Millichap, and is solely included for the purpose of providing tenant lessee information about this listing to prospective customers.

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

4400 FARMDALE AVE
North Hollywood, CA
ACT ID Z0120663

Marcus & Millichap

TABLE OF CONTENTS

SECTION

INVESTMENT OVERVIEW 01

Offering Summary
Regional Map
Local Map
Aerial Photo

FINANCIAL ANALYSIS 02

Rent Roll Summary
Rent Roll Detail
Operating Statement
Notes
Pricing Detail
Acquisition Financing

MARKET COMPARABLES 03

Sales Comparables
Rent Comparables

MARKET OVERVIEW 04

Market Analysis
Demographic Analysis

Marcus & Millichap

INVESTMENT
OVERVIEW

EXECUTIVE SUMMARY

VITAL DATA				
Price	$2,125,000		CURRENT	PRO FORMA
Down Payment	50.03% / $1,063,061	CAP Rate	3.88%	5.27%
Loan Amount	$1,061,939	GRM	16.45	13.21
Loan Type	Proposed New	Net Operating Income	$82,445	$112,001
Interest Rate / Amortization	3.58% / 30 Years	Net Cash Flow After Debt Service	2.32% / $24,651	5.10% / $54,207
Price/Unit	$354,167	Total Return	4.21% / $44,755	7.06% / $75,043
Price/SF	$407.95			
Number of Units	6			
Rentable Square Feet	5,209			
Year Built / Renovated	1957 / 1957			
Lot Size	0.19 acre(s)			

UNIT MIX		
NUMBER OF UNITS	UNIT TYPE	APPROX. SQUARE FEET
3	1 Bed / 1 Bath	713
2	2 Bed / 1 Bath	885
1	3 Bed / 3 Bath	1,300
6	Total	5,209

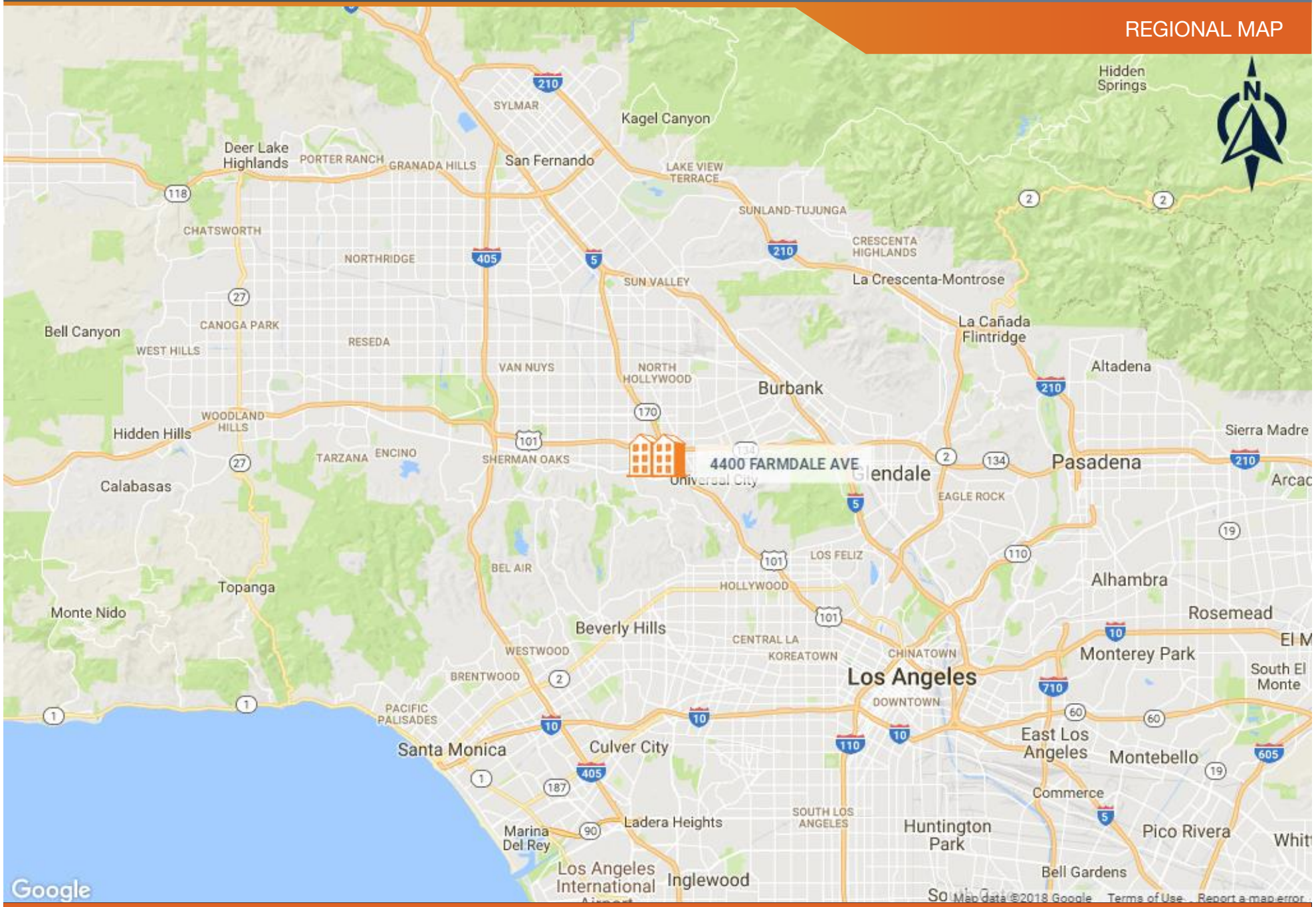
MAJOR EMPLOYERS

EMPLOYER	# OF EMPLOYEES
Disney	15,158
Walt Disney Company	9,434
Victory Studio	5,010
Mtv Networks	5,001
Warner Bros Television	5,000
Ticketmaster Entertainment LLC	4,390
Providence Holy Cross	2,930
Andrews International Inc	2,254
Providence St Joseph Med Ctr	2,099
Mann Theaters	2,000
PROVIDENCE HOLY CROSS FOUNDATI	2,000
Universal City Studios Prod	2,000

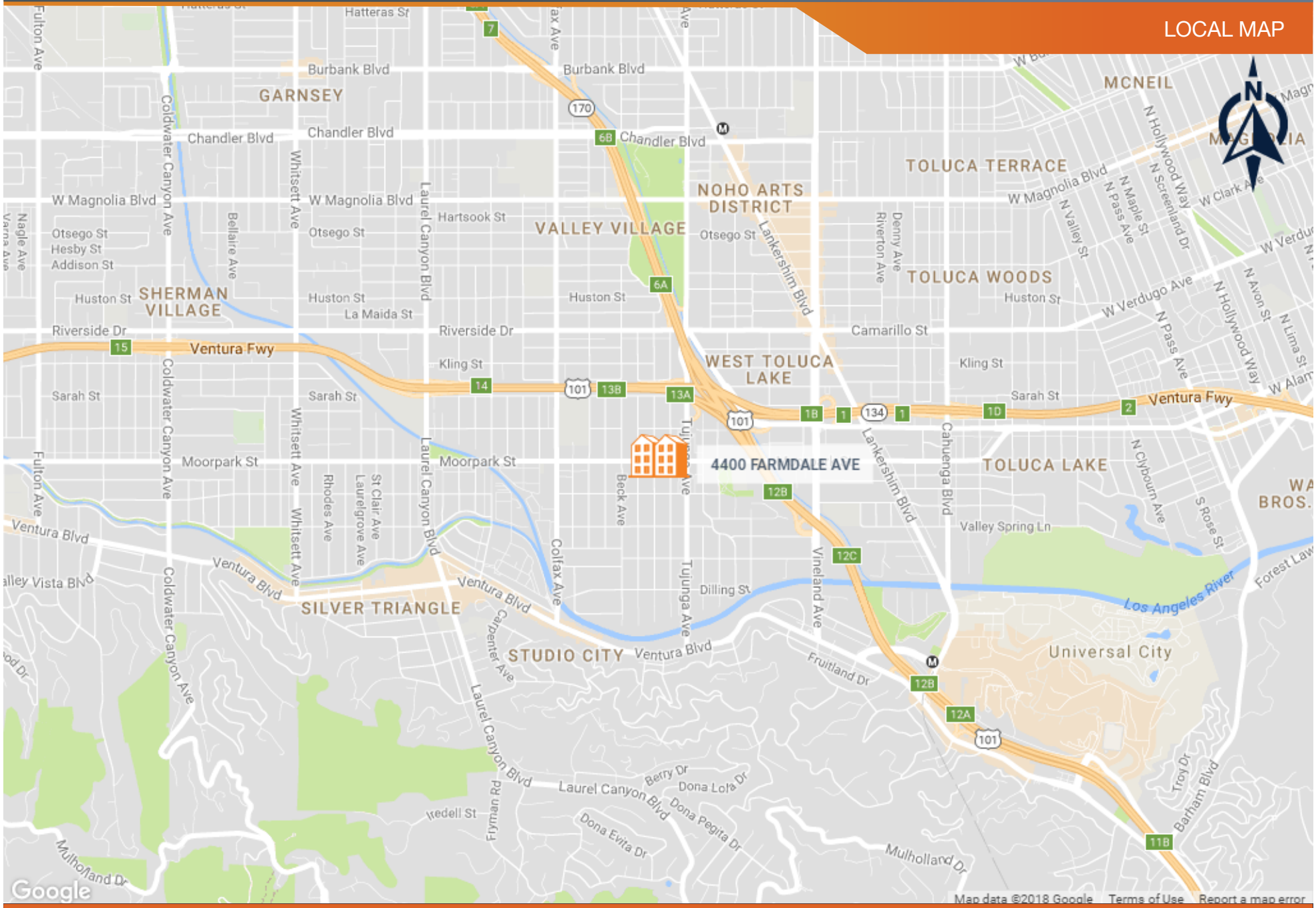
DEMOGRAPHICS

	1-Miles	3-Miles	5-Miles
2017 Estimate Pop	37,795	219,033	624,331
2017 Census Pop	34,373	206,864	588,436
2017 Estimate HH	20,131	97,916	271,570
2017 Census HH	18,118	91,320	252,798
Median HH Income	$69,901	$65,098	$60,557
Per Capita Income	$56,780	$47,501	$43,687
Average HH Income	$106,326	$106,049	$100,013

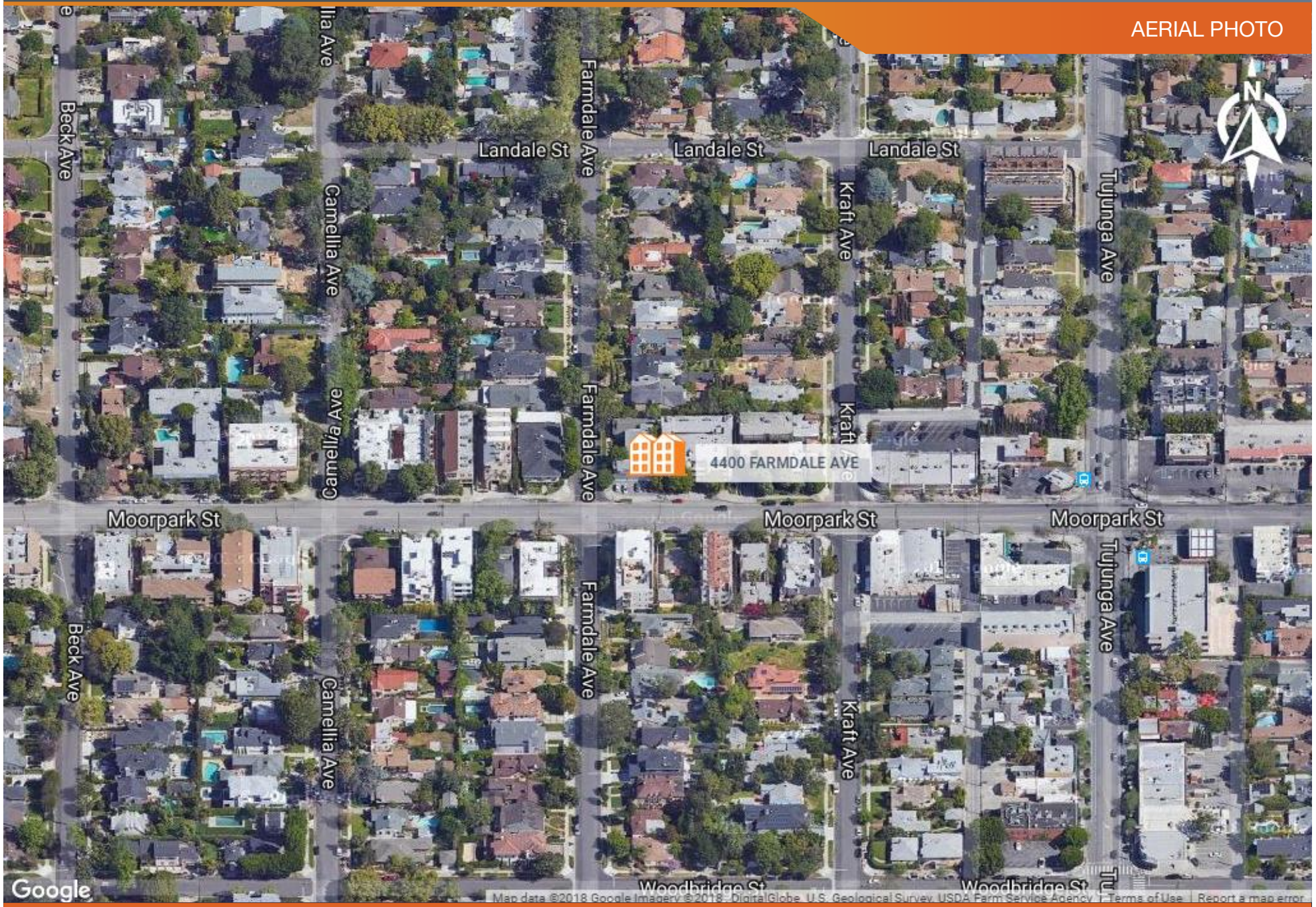
REGIONAL MAP



LOCAL MAP


4400 FARMDALE AVE
GARNSEY
SHERMAN VILLAGE
VALLEY VILLAGE
NOHO ARTS DISTRICT
WEST TOLUCA LAKE
TOLUCA TERRACE
TOLUCA WOODS
TOLUCA LAKE
MCNEIL
SILVER TRIANGLE
STUDIO CITY
Universal City
Burbank Blvd
Chandler Blvd
W Magnolia Blvd
Otsego St
Hesby St
Addison St
Huston St
La Maida St
Riverside Dr
Ventura Fwy
Kling St
Sarah St
Moorpark St
Hartsook St
Camarillo St
W Verdugo Ave
Valley Spring Ln
Dilling St
Fruitland Dr
Mulholland Dr
Laurel Canyon Blvd
Coldwater Canyon Ave
Whitsett Ave
Lankershim Blvd
Cahuenga Blvd
Vineland Ave
Tujunga Ave
Colfax Ave
Beck Ave
Rhodes Ave
St Clair Ave
Laurelgrove Ave
Bellaire Ave
Denny Ave
Riverton Ave
N Hollywood Way
N Pass Ave
N Maple St
N Screenland Dr
N Valley St
N Avon St
N Lima St
N Clybourn Ave
S Rose St
Barham Blvd
Troy Dr
Forest Lawn
Los Angeles River
Berry Dr
Dona Lola Dr
Dona Pegita Dr
Dona Evita Dr
Wedell St
Fryman Rd
Carpenter Ave
Google
Map data ©2018 Google
Terms of Use
Report a map error

AERIAL PHOTO



FINANCIAL
ANALYSIS

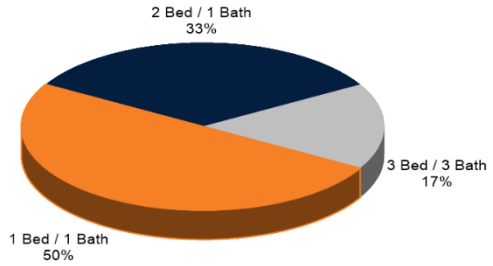
RENT ROLL SUMMARY

As of May,2018

Unit Type	# of Units	Avg Sq Feet	Rental Range	Current Average Rent	Current Average Rent / SF	Current Monthly Income	Potential Average Rent	Potential Average Rent / SF	Potential Monthly Income
1 Bed / 1 Bath	3	713	$1,430 - $1,625	$1,550	$2.17	$4,650	$1,770	$2.48	$5,310
2 Bed / 1 Bath	2	885	$1,845 - $1,850	$1,848	$2.09	$3,695	$2,550	$2.88	$5,100
3 Bed / 3 Bath	1	1,300	$2,420 - $2,420	$2,420	$1.86	$2,420	$3,000	$2.31	$3,000
Totals/Weighted Averages	**6**	**905**		**$1,794**	**$1.98**	**$10,765**	**$2,235**	**$2.47**	**$13,410**
Gross Annualized Rents				**$129,180**			**$160,920**		

Notes:

Unit Distribution



Unit Rent

RENT ROLL DETAIL

As of May,2018

Unit	Unit Type	Square Feet	Current Rent / Month	Current Rent / SF/ Month	Potential Rent / Month	Potential Rent/ SF/ Month
1	3 Bed / 3 Bath	1,300	$2,420	$1.86	$3,000	$2.31
2	1 Bed / 1 Bath	713	$1,430	$2.01	$1,770	$2.48
3	1 Bed / 1 Bath	713	$1,625	$2.28	$1,770	$2.48
4	2 Bed / 1 Bath	885	$1,850	$2.09	$2,550	$2.88
5	2 Bed / 1 Bath	885	$1,845	$2.08	$2,550	$2.88
6	1 Bed / 1 Bath	713	$1,595	$2.24	$1,770	$2.48
Total		**Square Feet: 5,428**	**$10,765**	**$1.98**	**$13,410**	**$2.47**

OPERATING STATEMENT

Income	Current		Pro Forma		Notes	Per Unit	Per SF
Gross Current Rent	**129,180**		**160,920**			**26,820**	**29.65**
Physical Vacancy	(3,875)	3.0%	(4,828)	3.0%		(805)	(0.89)
Total Vacancy	**($3,875)**	**3.0%**	**($4,828)**	**3.0%**		**($805)**	**($1)**
Effective Rental Income	**125,305**		**156,092**			**26,015**	**28.76**
Other Income							
Laundry Income	2,400		2,400			400	0.44
Total Other Income	**$2,400**		**$2,400**			**$400**	**$0.44**
Effective Gross Income	**$127,705**		**$158,492**			**$26,415**	**$29.20**

Expenses	Current		Pro Forma		Notes	Per Unit	Per SF
Real Estate Taxes	25,352		25,352		[1]	4,225	4.67
Insurance	1,900		1,900		[2]	317	0.35
Utilities	4,320		4,320		[3]	720	0.80
Trash Removal	2,400		2,400		[4]	400	0.44
Repairs & Maintenance	3,000		3,000		[5]	500	0.55
Landscaping	1,200		1,200		[6]	200	0.22
Pest Control	480		480		[7]	80	0.09
Operating Reserves	1,500		1,500		[8]	250	0.28
Management Fee	5,108	4.0%	6,340	4.0%		1,057	1.17
Total Expenses	**$45,260**		**$46,492**			**$7,749**	**$8.57**
Expenses as % of EGI	**35.4%**		**29.3%**				
Net Operating Income	**$82,445**		**$112,001**			**$18,667**	**$20.63**

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

NOTES

Notes to Operating Statement	
[1]	1.193027% of the purchase price
[2]	$0.35 per rentable square feet
[3]	$720 per unit per year
[4]	$200 per month
[5]	$500 per unit per year
[6]	$100 per month
[7]	$40 per month
[8]	$250 per unit per year

PRICING DETAIL

Summary		
Price	**$2,125,000**	
Down Payment	$1,063,061	50%
Number of Units	6	
Price Per Unit	$354,167	
Price Per SqFt	$391.49	
Gross SqFt	5,428	
Lot Size	0.19 Acres	
Approx. Year Built	1957	

Returns	Current	Pro Forma
CAP Rate	**3.88%**	**5.27%**
GRM	16.45	13.21
Cash-on-Cash	2.32%	5.10%
Debt Coverage Ratio	1.43	1.94

Financing	1st Loan
Loan Amount	$1,061,939
Loan Type	New
Interest Rate	3.58%
Amortization	30 Years
Year Due	2022

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

# Of Units	Unit Type	SqFt/Unit	Scheduled Rents	Market Rents
3	1 Bed / 1 Bath	713	$1,550	$1,770
2	2 Bed / 1 Bath	885	$1,848	$2,550
1	3 Bed / 3 Bath	1,300	$2,420	$3,000

Operating Data

Income		Current		Pro Forma
Gross Scheduled Rent		**$129,180**		**$160,920**
Less: Vacancy/Deductions	3.0%	$3,875	3.0%	$4,828
Total Effective Rental Income		$125,305		$156,092
Other Income		$2,400		$2,400
Effective Gross Income		$127,705		$158,492
Less: Expenses	35.4%	$45,260	29.3%	$46,492
Net Operating Income		**$82,445**		**$112,001**
Cash Flow		$82,445		$112,001
Debt Service		$57,794		$57,794
Net Cash Flow After Debt Service	2.32%	$24,651	5.10%	$54,207
Principal Reduction		$20,104		$20,836
Total Return	**4.21%**	**$44,755**	**7.06%**	**$75,043**

Expenses	Current	Pro Forma
Real Estate Taxes	$25,352	$25,352
Insurance	$1,900	$1,900
Utilities	$4,320	$4,320
Trash Removal	$2,400	$2,400
Repairs & Maintenance	$3,000	$3,000
Landscaping	$1,200	$1,200
Pest Control	$480	$480
Operating Reserves	$1,500	$1,500
Management Fee	$5,108	$6,340
Total Expenses	**$45,260**	**$46,492**
Expenses/Unit	**$7,543**	**$7,749**
Expenses/SF	**$8.34**	**$8.57**

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

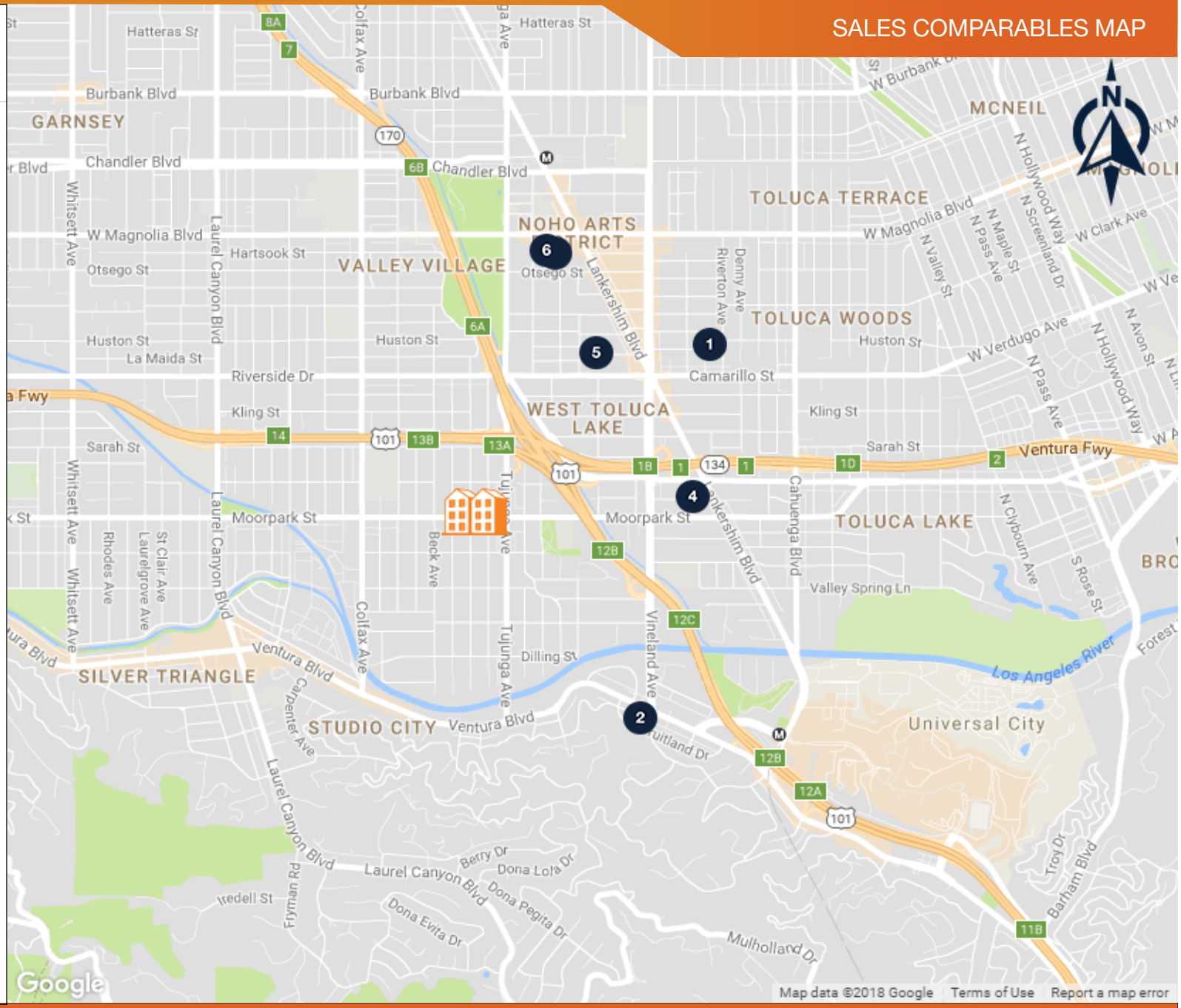
- **Through buyer qualification support**
- **Our ability to manage buyers finance expectations**
- **Ability to monitor and manage buyer/lender progress, insuring timely, predictable closings**
- **By relying on a world class set of debt/equity sources and presenting a tightly underwritten credit file**

MARKET
COMPARABLES

SALES COMPARABLES MAP

4400 FARMDALE AVE
Studio City, CA 91602

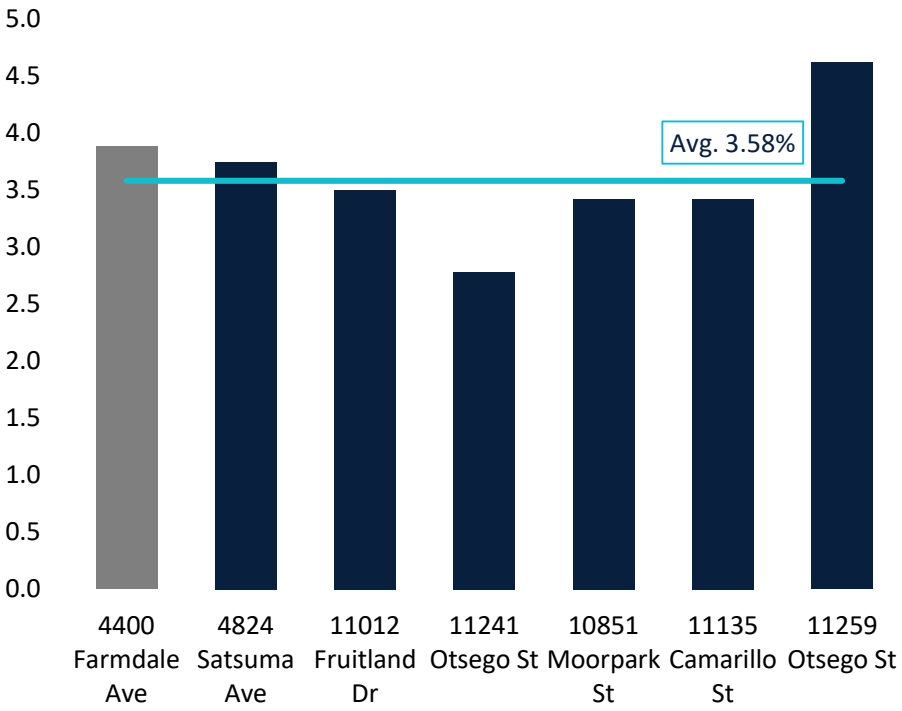
1. 4824 Satsuma Ave
2. 11012 Fruitland Dr
3. 11241 Otsego St
4. 10851 Moorpark St
5. 11135 Camarillo St
6. 11259 Otsego St



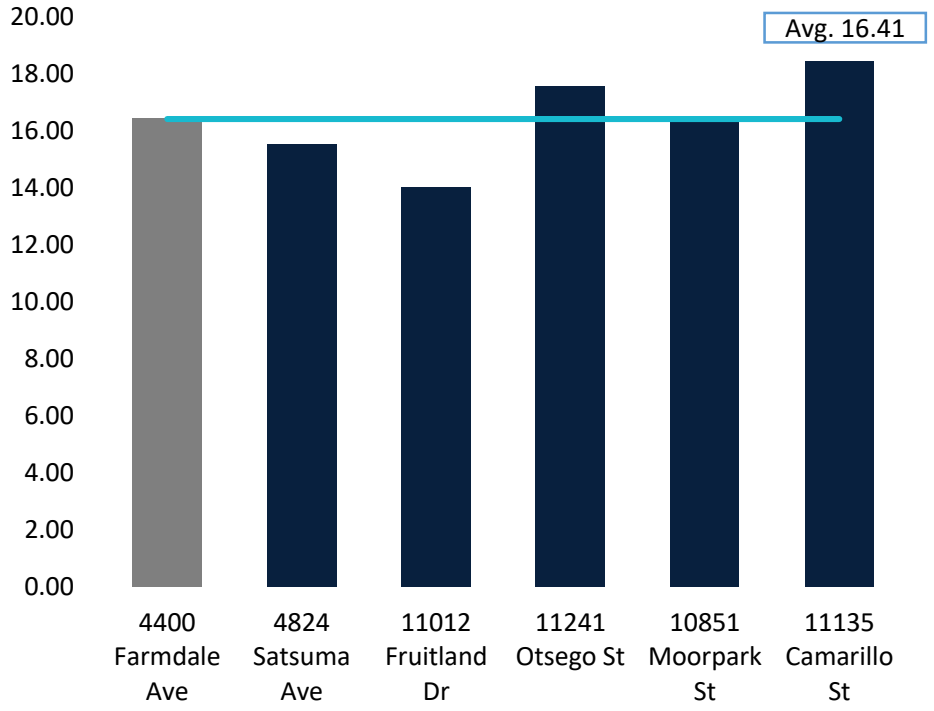
SALES COMPARABLES

SALES COMPARABLES SALES COMPS AVG

Average Cap Rate

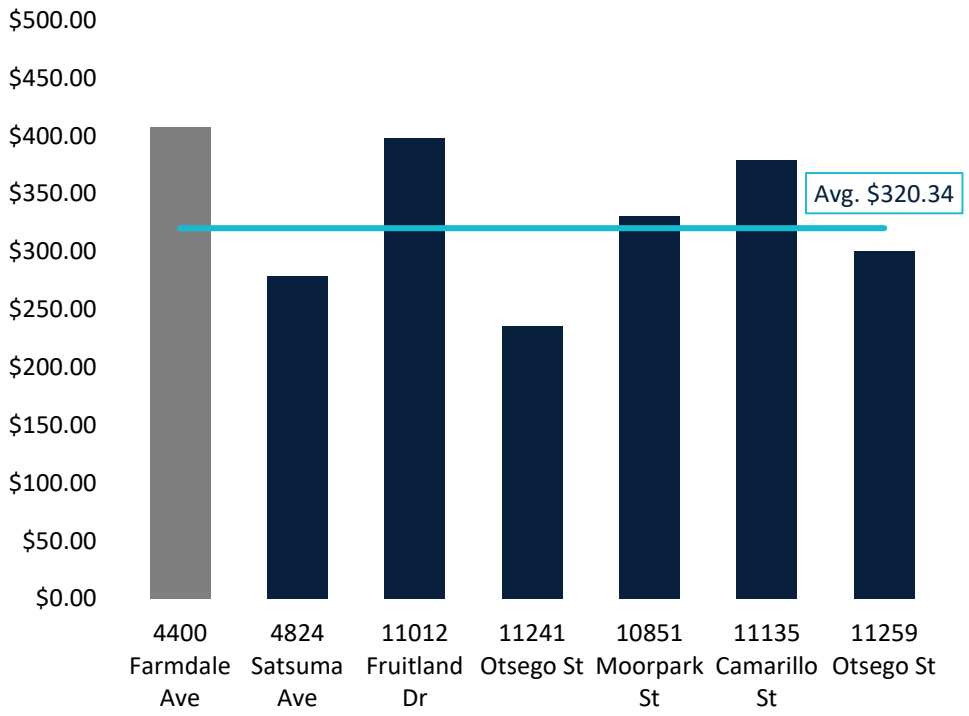


Average GRM

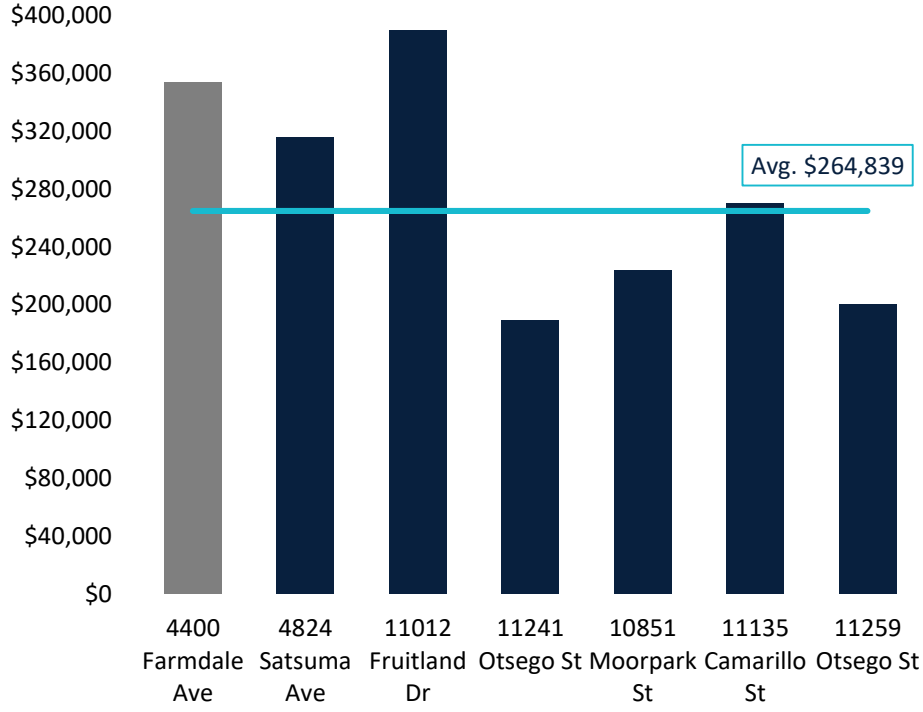


SALES COMPARABLES SALES COMPS AVG

Average Price Per Square Foot



Average Price Per Unit



SALES COMPARABLES

4400 FARMDALE AVE
4400 Farmdale Ave, Studio City, CA, 91602

		Units	Unit Type
Offering Price:	$2,125,000	3	1 Bed 1 Bath
Price/Unit:	$354,167	2	2 Bed 1 Bath
Price/SF:	$407.95	1	3 Bed 3 Bath
CAP Rate:	3.88%		
GRM:	16.45		
Total No. of Units:	6		
Year Built:	1957		

Underwriting Criteria			
Income	$127,705	Expenses	$45,260
NOI	$82,445	Vacancy	($3,875)

4824 SATSUMA AVE
4824 Satsuma Ave, North Hollywood, CA, 91601

1

		Units	Unit Type
Close Of Escrow:	9/28/2017	4	1 Bdr 1 Bath
Sales Price:	$3,160,000	6	2 Bdr 2 Bath
Price/Unit:	$316,000		
Price/SF:	$278.76		
CAP Rate:	3.75%		
GRM:	15.54		
Total No. of Units:	10		
Year Built:	1963		

Underwriting Criteria			
Income	$203,400	Expenses	$77,612
NOI	$123,628	Vacancy	$4,068

11012 FRUITLAND DR
11012 Fruitland Dr, Studio City, CA, 91604

2

		Units	Unit Type
Close Of Escrow:	9/19/2017	1	Studio 1 Bath
Sales Price:	$3,118,000	3	1 Bdr 1 Bath
Price/Unit:	$389,750	4	2 Bdr 1 Bath
Price/SF:	$398.01	1	3 Bdr 2 Bath
CAP Rate:	3.50%		
GRM:	14.00		
Total No. of Units:	8		
Year Built:	1964		

Underwriting Criteria	
NOI	$109,130

SALES COMPARABLES

11241 OTSEGO ST
11241 Otsego St, North Hollywood, CA, 91601

3

		Units	Unit Type
Close Of Escrow:	5/31/2017	14	1 Bdr 1 Bath
Sales Price:	$2,650,000		
Price/Unit:	$189,286		
Price/SF:	$235.53		
CAP Rate:	2.78%		
GRM:	17.56		
Total No. of Units:	14		
Year Built:	1948		

Underwriting Criteria			
Income	$150,932	Expenses	$77,362
NOI	$73,670		

10851 MOORPARK ST
10851 Moorpark St, North Hollywood, CA, 91602

4

		Units	Unit Type
Close Of Escrow:	1/19/2018	2	Studio 1 Bath
Sales Price:	$2,240,000	7	1 Bdr 1 Bath
Price/Unit:	$224,000	1	2 Bdr 1 Bath
Price/SF:	$330.43		
CAP Rate:	3.42%		
GRM:	16.51		
Total No. of Units:	10		
Year Built:	1964		

Underwriting Criteria			
Income	$135,675	Expenses	$47,486
NOI	$76,608		

11135 CAMARILLO ST
11135 Camarillo St, North Hollywood, CA, 91602

5

		Units	Unit Type
Close Of Escrow:	2/26/2018	2	2 Bdr 1 Bath
Sales Price:	$2,160,000	6	1 Bdr 1 Bath
Price/Unit:	$270,000		
Price/SF:	$378.95		
CAP Rate:	3.42%		
GRM:	18.44		
Total No. of Units:	8		
Year Built:	1950		

Underwriting Criteria			
Income	$117,108	Expenses	$41,505
NOI	$73,890		

SALES COMPARABLES

11259 OTSEGO ST

11259 Otsego St, North Hollywood, CA, 91601

6

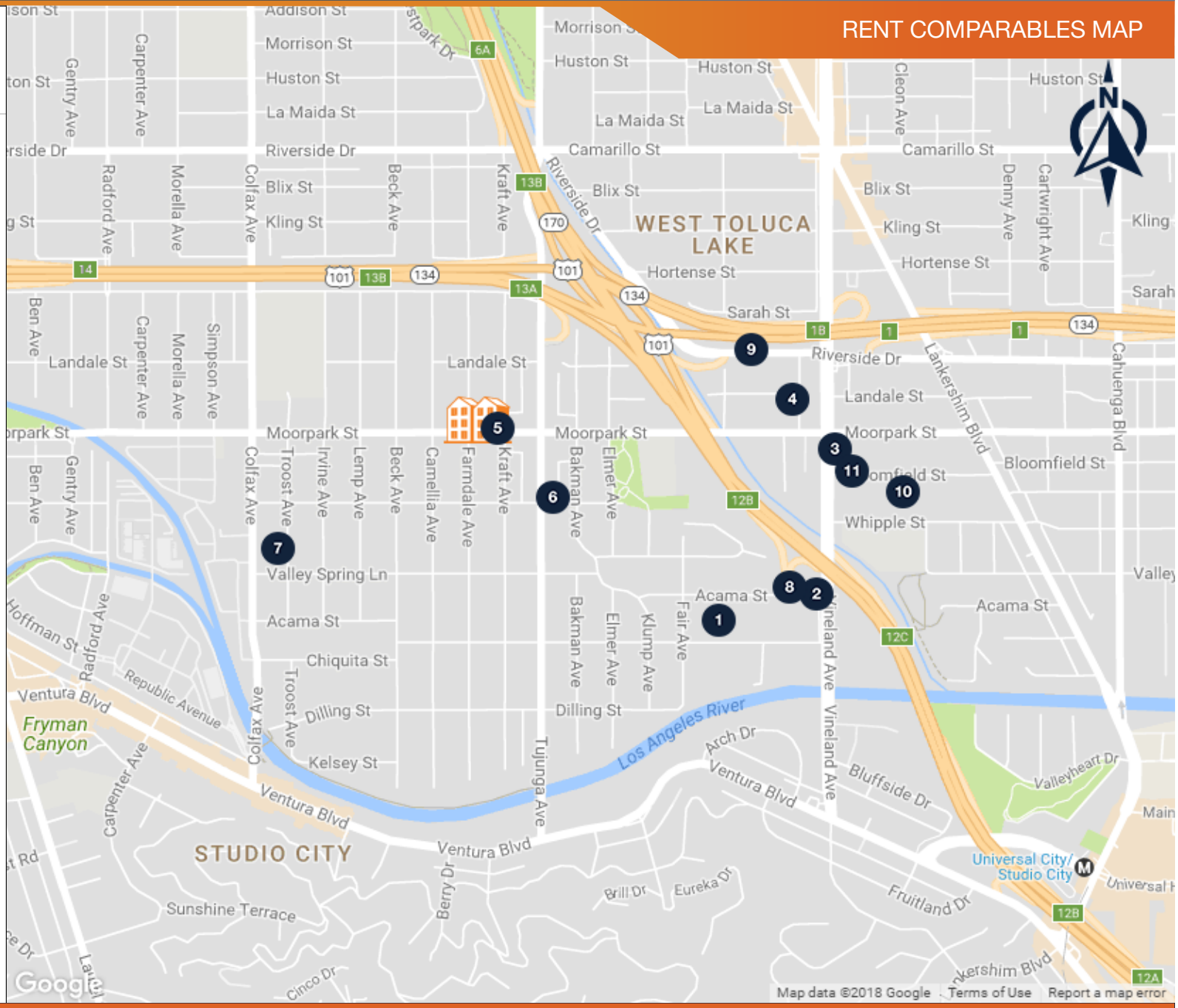
		Units	Unit Type
Close Of Escrow:	9/29/2017	8	1 Bdr 1 Bath
Sales Price:	$1,600,000		
Price/Unit:	$200,000		
Price/SF:	$300.36		
CAP Rate:	4.62%		
Total No. of Units:	8		
Year Built:	1950		

Underwriting Criteria	
NOI	$73,920

RENT COMPARABLES MAP

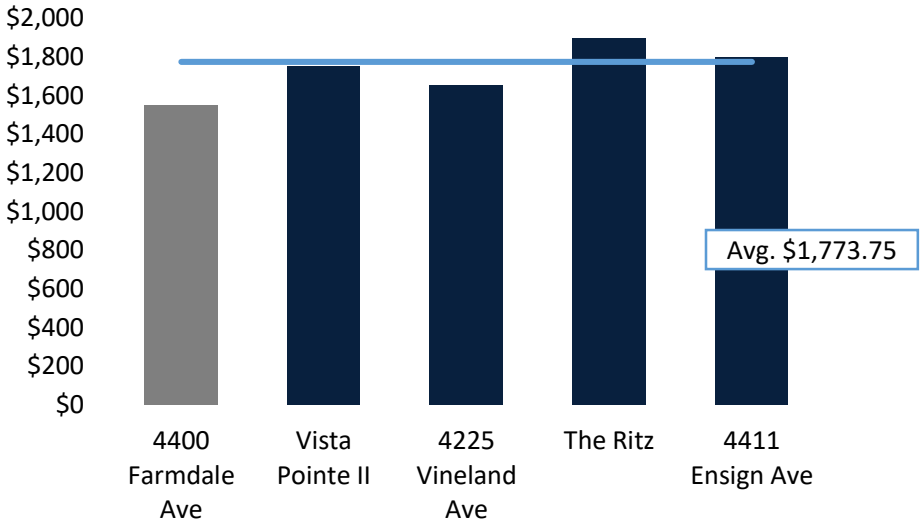
4400 FARMDALE AVE
Studio City, CA 91602

1. Vista Pointe II
2. 4225 Vineland Ave
3. The Ritz
4. 4411 Ensign Ave
5. 11434 Moorpark St
6. 4322 Tujunga Ave
7. 11641 Valley Spring Ln
8. 11044 Acama St
9. Palermo Villas
10. 10921 Whipple St
11. 10950 Bloomfield St

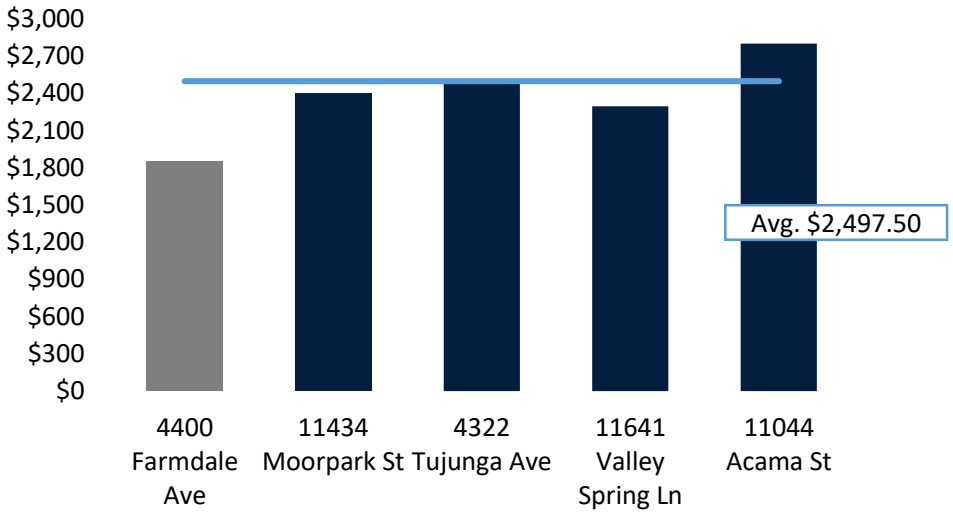


AVERAGE RENT - MULTIFAMILY

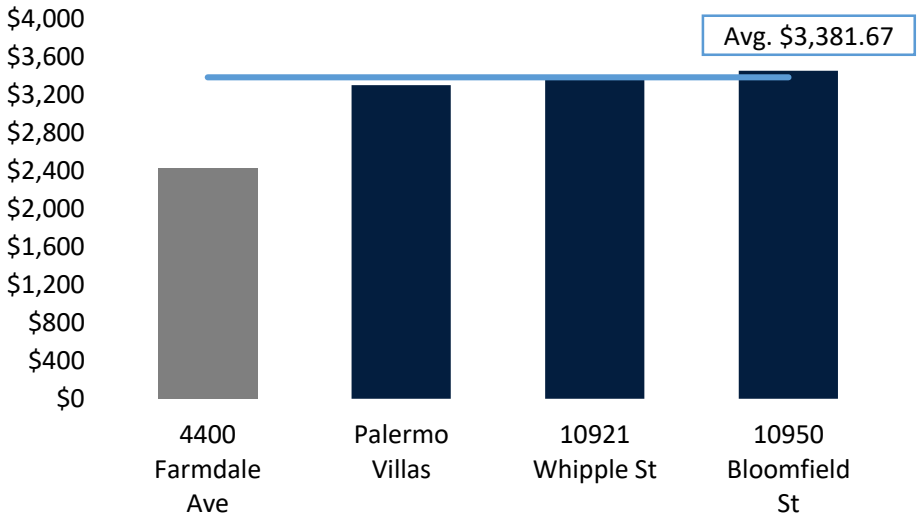
1 Bedroom



2 Bedroom



3 Bedroom



4400 FARMDALE AVE
4400 Farmdale Ave, Studio City, CA, 91602

Unit Type	Units	SF	Rent	Rent/SF
1 Bed 1 Bath	3	713	$1,550	$2.17
2 Bed 1 Bath	2	885	$1,848	$2.09
3 Bed 3 Bath	1	1,300	$2,420	$1.86
Total/Avg.	6	868	$1,794	$2.07

YEAR BUILT: 1957

VISTA POINTE II
11151 Aqua Vista St, North Hollywood, CA, 91602

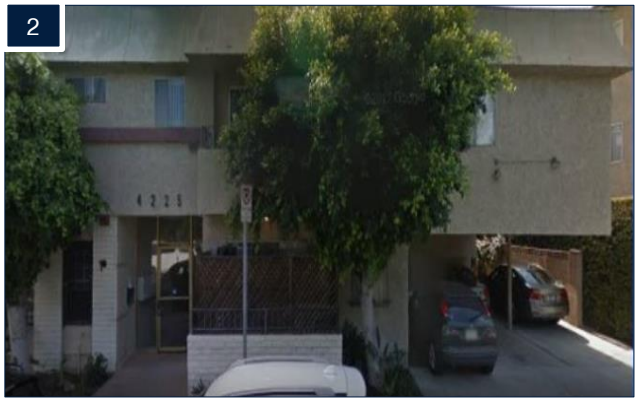
1

Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	540	$1,750	$3.24
Total/Avg.	1	540	$1,750	$3.24

YEAR BUILT: 1978

4225 VINELAND AVE
4225 Vineland Ave, North Hollywood, CA, 91602

2



Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	700	$1,650	$2.36
Total/Avg.	1	700	$1,650	$2.36

YEAR BUILT: 1970

THE RITZ
10953 Bloomfield St, North Hollywood, CA, 91602

3

Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	665	$1,895	$2.85
Total/Avg.	1	665	$1,895	$2.85

YEAR BUILT: 1989

4411 ENSIGN AVE
4411 Ensign Ave, North Hollywood, CA, 91602

4

Unit Type	Units	SF	Rent	Rent/SF
1 Bdr 1 Bath	1	941	$1,800	$1.91
Total/Avg.	1	941	$1,800	$1.91

YEAR BUILT: 1951

11434 MOORPARK ST
11434 Moorpark St, North Hollywood, CA, 91602

5

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath	1	958	$2,395	$2.50
Total/Avg.	1	958	$2,395	$2.50

YEAR BUILT: 1987

4322 TUJUNGA AVE

4322 Tujunga Ave, Studio City, CA, 91604

6

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

YEAR BUILT: 1967

11641 VALLEY SPRING LN

11641 Valley Spring Ln, Studio City, CA, 91604

7

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath	1	1,500	$2,295	$1.53
Total/Avg.	1	1,500	$2,295	$1.53

YEAR BUILT: 2001

11044 ACAMA ST

11044 Acama St, North Hollywood, CA, 91602

8

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath	1	1,300	$2,800	$2.15
Total/Avg.	1	1,300	$2,800	$2.15

YEAR BUILT: 1991

PALERMO VILLAS
11106 Riverside Dr, North Hollywood, CA, 91602

9

Unit Type	Units	SF	Rent	Rent/SF
3 Bdr 2 Bath	1	1,345	$3,300	$2.45
Total/Avg.	1	1,345	$3,300	$2.45

YEAR BUILT: 2016

10921 WHIPPLE ST
10921 Whipple St, North Hollywood, CA, 91602

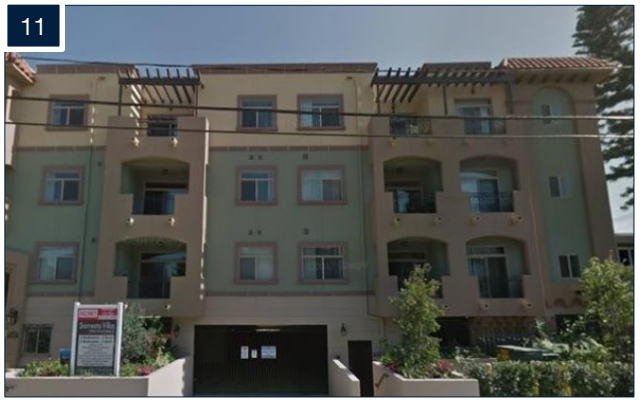
10

Unit Type	Units	SF	Rent	Rent/SF
3 Bdr 2 Bath	1	1,728	$3,395	$1.96
Total/Avg.	1	1,728	$3,395	$1.96

YEAR BUILT: 2008

10950 BLOOMFIELD ST
10950 Bloomfield St, North Hollywood, CA, 91602

11



Unit Type	Units	SF	Rent	Rent/SF
3 Bdr 2 Bath	1	1,365	$3,450	$2.53
Total/Avg.	1	1,365	$3,450	$2.53

YEAR BUILT: 2015

MARKET
OVERVIEW

SAN FERNANDO VALLEY
OVERVIEW

Approximately 2.5 million people reside in the San Fernando Valley, which includes the submarkets of Northridge-Northwest San Fernando Valley, Van Nuys-Northeast San Fernando Valley, Woodland Hills, Burbank-Glendale-Pasadena and Sherman Oaks-North Hollywood-Encino. The area's population is expected to increase by 33,000 residents through 2022. Many people are attracted by the region's more affordable home prices.

METRO HIGHLIGHTS

DIVERSE ECONOMY
While the entertainment industry underpins the economy, other economic drivers include aerospace, insurance and healthcare.

EDUCATED WORKFORCE
Roughly 23 percent of San Fernando Valley residents who are age 25 and older hold a bachelor's degree and 13 percent also obtained a graduate or professional degree.

GROWTH
Population and household growth will increase faster than other large metros in Southern California, generating a demand for housing, and goods and services.

ECONOMY

- Known for its entertainment industry, the Valley boasts more than 100 soundstages. Entertainment giants calling the Valley home include Walt Disney Co., Universal Studios, Warner Brothers, DreamWorks and Paramount Ranch.
- Aerospace giants Boeing and Northrop Grumman as well as 21st Century Insurance generate numerous well-paying jobs.
- Healthcare is also a major source of employment with providers that include Kaiser Permanente and Providence Health & Services. As a result of its large concentration of high salaries and successful companies, household incomes are above the national average.

DEMOGRAPHICS

2017 POPULATION:	2017 HOUSEHOLDS:	2017 MEDIAN AGE:	2017 MEDIAN HOUSEHOLD INCOME:
2.5M	875K	38.6	$65,200
Growth 2017-2022*: 1.3%	Growth 2017-2022*: 2.7%	U.S. Median: 37.8	U.S. Median: $56,300

* Forecast

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

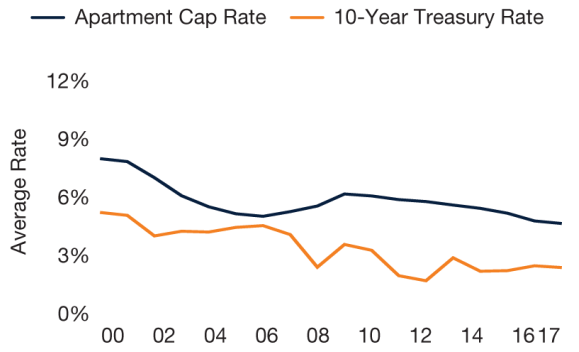
LOS ANGELES COUNTY

Historically High Delivery Volume
Minimally Adjusts Vacancy

Metro well-positioned to handle spike in new supply. Los Angeles County enters this year having recently absorbed 10,500 units, which has preserved tight vacancy and pent-up demand throughout most of the market. Recent leasing activity has spurred a rise in construction activity, with a cycle-high number of new rentals slated for finalization this year. While this influx of apartments could be cause for concern, rising single-family home values, a strong rate of household formations and diverse job growth suggest the county should experience a second consecutive year of robust absorption.

Demand for luxury rentals further tested. In 2018, more than 17,000 units will be completed in the county, a record level of multifamily development and the highest annual volume among West Coast metros. More than 40 percent of this year's new supply is in Greater Downtown Los Angeles, including nearly 4,000 rentals within the city's core. The county's three other primary regions are also slated to witness upticks in apartment deliveries, led by the Tri-Cities/San Fernando Valley and Westside Cities where finalizations total 1,900 and 1,700 units, respectively. Renter demand should match construction activity in most locales, with the exception of downtown Los Angeles, supporting a minimal rise in overall vacancy and a second consecutive year of above-average rent growth.

Local Apartment Yield Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

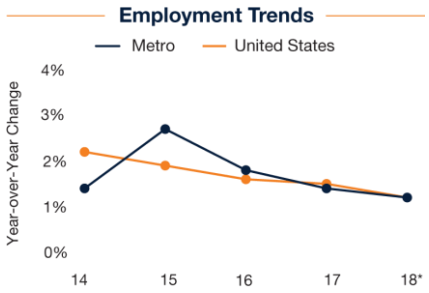
Multifamily 2018 Outlook

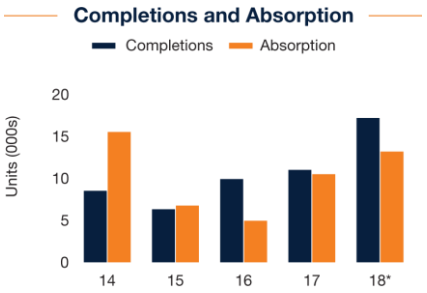
Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Downtown Los Angeles	5.5%	130	$2,529	5.2%
San Fernando Valley/Tri-Cities	3.4%	0	$2,168	6.0%
South Bay/Long Beach	4.5%	40	$2,328	5.4%
Westside Cities	3.6%	10	$3,252	4.1%
Los Angeles	4.1%	30	$2,309	6.3%

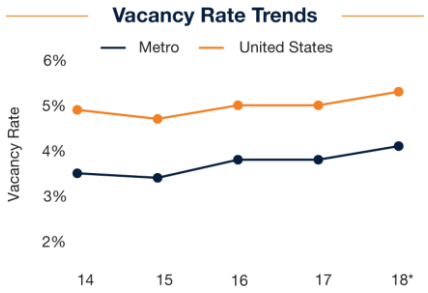
Investment Trends

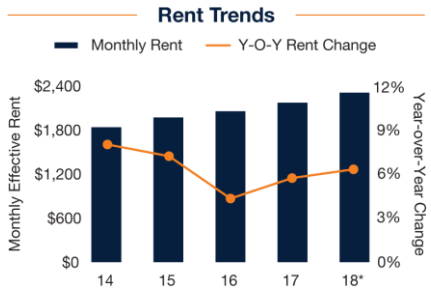
- Deal flow in Los Angeles County fell moderately over 2017, yet annual sales volume dropped by $600 million year over year. The billions of dollars closed in 2017 reflect an increased number of smaller Class C trades coupled with a reduction in Class A and larger-scale property deals.
- Sales activity within the city of Los Angeles accounted for roughly a third of recent deal flow. Hollywood represents the top locale for value-add Class C trades, with Mid-Wilshire home to a concentration of Class A and B opportunities that net low-3 percent returns. Investors with an eye for higher-quality assets just outside the city target the southern portion of the San Fernando Valley, home to low-4 percent maximum returns.
- Affordable submarkets adjacent to the core also represent hot spots for capital deployments. Value-add investors focused on sub-$20 million deals pursue listings in Long Beach, the South Bay and the San Gabriel Valley. Downtown Long Beach, Torrance and Inglewood all possess sizable inventories of Class C assets that net buyers mid-4 percent cap rates.
- The high-priced tech hub of Santa Monica remains a sought-after locale among institutional investors, yet a lack of listings hinders local deal flow and drives pricing for available properties.

LOS ANGELES COUNTY









4Q17 – 12-Month Period

* Forecast

EMPLOYMENT

1.4% increase in total employment Y-O-Y

- Metro employers created 62,300 jobs over the past year, reducing the unemployment rate by 70 basis points to a historically low 4.5 percent. During the previous 12-month period, organizations added 60,500 positions.
- Education and health services hiring drove overall job gains, yet the professional services, construction and financial sectors added a combined 27,600 positions.

CONSTRUCTION

11,000 units completed Y-O-Y

- Deliveries rose over the past 12 months after annual completions totaled 9,900 units in 2016. More than half of last year's new supply was located in the Downtown Los Angeles region, with 2,000 rentals finalized in the San Fernando Valley/Tri-Cities market.
- Metrowide, developers have at least 22,800 apartments underway with completions extending into 2020.

VACANCY

0 basis point change in vacancy Y-O-Y

- Net absorption of 10,500 units allowed vacancy to hold at 3.8 percent last year, following an increase of 40 basis points during the previous period.
- Renter demand slightly outpaced deliveries in the San Fernando Valley/Tri-Cities region, reducing vacancy to 3.4 percent. Net absorption was historically strong in Downtown Los Angeles as 5,800 units were leased.

RENTS

5.7% increase in effective rents Y-O-Y

- Unchanging vacancy and an influx of new rentals supported a 5.7 percent rise in rent growth, with the average effective rate advancing to $2,172 per month following a 4.3 percent boost last year.
- Rent growth was most pronounced in the South Bay/Long Beach region, where the average effective rate climbed by 10 percent to $2,203 per month.

LOS ANGELES COUNTY

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*
213,200

4Q17 POPULATION AGE 20-34
(Percent of total population)
Metro 23.4%
U.S. 21%

4Q17 MEDIAN HOUSEHOLD INCOME
Metro $62,722
U.S. Median $58,714

FIVE-YEAR HOUSEHOLD GROWTH*
188,000

POPULATION OF AGE 25+
PERCENT WITH BACHELOR'S DEGREE+**
Metro 31.7%
U.S. Average 29%

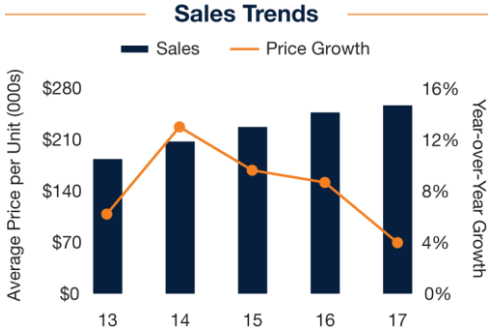
4Q17 TOTAL HOUSEHOLDS
49% Rent
51% Own

* 2017-2022 **2016 *Los Angeles-Long Beach-Anaheim, CA Metropolitan Statistical Area

Sales Trends

Buyers Targeting Below-Average Pricing Drive Deal Flow

- Sales velocity slowed by nearly 9 percent year over year as a sizable pool of Los Angeles County-based buyers pursued a smaller inventory of value-add complexes.
- The average price per unit advanced 4 percent to $256,200 per door, compressing the metro's average cap rate by 10 basis points to 4.7 percent.



Outlook: Investors seek rentals in transitioning submarkets and areas of minimal construction amid a peak in apartment development. An influx of new projects over a three-year span could equate to more Class A acquisition opportunities for institutional buyers.

Sources: CoStar Group, Inc.; Real Capital Analytics

Submarket Trends

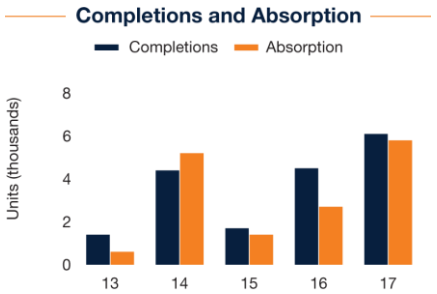
Lowest Vacancy Rates 4Q17

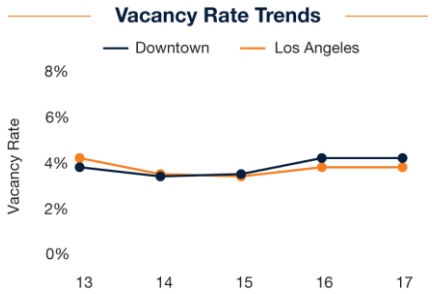
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y % Change
South Los Angeles	2.1%	0	$1,681	8.7%
Southeast Los Angeles	2.7%	-60	$1,664	7.0%
Van Nuys/Northeast San Fernando Valley	2.8%	20	$1,667	6.8%
Palms/Mar Vista	2.9%	-20	$2,527	3.3%
Mid-Wilshire	3.4%	-20	$2,319	3.4%
North San Gabriel Valley	3.5%	0	$1,638	6.2%
Northridge/Northwest San Fernando Valley	3.5%	30	$1,835	6.6%
Sherman Oaks/North Hollywood/Encino	3.5%	-30	$2,236	3.6%
Burbank/Glendale/ Pasadena	3.7%	-30	$2,335	2.4%
Santa Monica/ Marina del Rey	3.7%	0	$3,407	2.5%
Overall Metro	3.8%	0	$2,172	5.7%

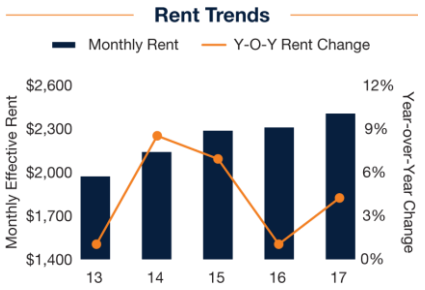
LOS ANGELES METRO AREA: GREATER DOWNTOWN LOS ANGELES

Investment Trends

- A historically high volume of units are completed in Downtown Los Angeles this year following an influx of new rentals in 2017. Upcoming deliveries include six downtown high-rises each comprising more than 500 apartments. While finalizations are largely concentrated in the core, both Mid-Wilshire and Hollywood welcome more than 1,000 units. Investors remained confident in the region prior to this upcoming wave of finalizations, as absorption kept pace with delivery volume over the past 12 months amid continued job growth. Moving forward, buyer demand for redevelopment and value-add opportunities adjacent to the core or near employment hubs should remain robust, subdued only by a spike in vacancy.
- Overall deal flow is driven by trades in Hollywood and Mid-Wilshire, while transaction activity downtown remains limited. Primarily a Class C market, Hollywood offers buyers a wealth of pre-1970-built assets at low-3 percent to 4 percent cap rates. Mid-Wilshire presents investors with similar returns along with opportunities to acquire Class A assets.
- Investors requiring higher yields for Class C properties place a focus on Westlake and Koreatown, where high-3 to high-4 percent cap rates are readily available.







4Q17 – 12-Month Period

CONSTRUCTION

6,100 units completed Y-O-Y

- Developers completed a cycle-high volume of new units over the past 12 months following the delivery of 4,500 rentals during the previous year. Downtown Los Angeles recently welcomed 3,800 apartments.
- Construction is underway on 11,300 units throughout the region including 5,900 rentals in downtown Los Angeles and 2,900 apartments in Hollywood.

VACANCY

0 basis point change in vacancy Y-O-Y

- Pent-up demand for core-located units translated to net absorption of 5,800 units, holding the region's vacancy rate at 4.2 percent.
- Availability in Mid-Wilshire dipped 20 basis points to 3.4 percent, representing an eighth straight year of sub-4 percent vacancy. Downtown Los Angeles absorbed 3,300 units, holding local vacancy below 5 percent.

RENTS

4.2% increase in effective rents Y-O-Y

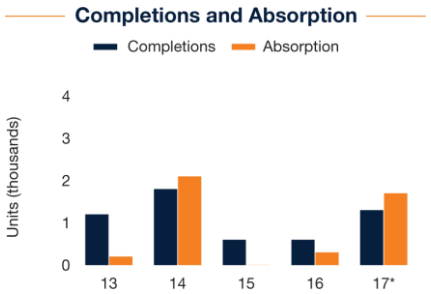
- An influx of luxury units pushed the region's average effective rent to $2,404 per month, an annual gain of 4.2 percent. A rise of 1 percent was registered last year.
- Average rent in Hollywood climbed 5.7 percent to $2,487 per month. Rent growth was more subdued in downtown Los Angeles, where an increase of 2.8 percent pushed the average rate to $2,455 per month.

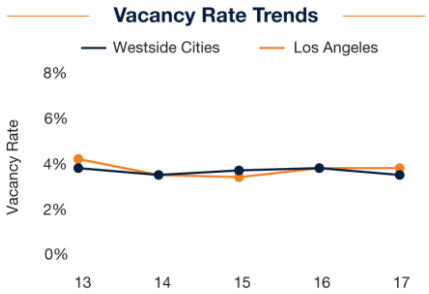
* Forecast

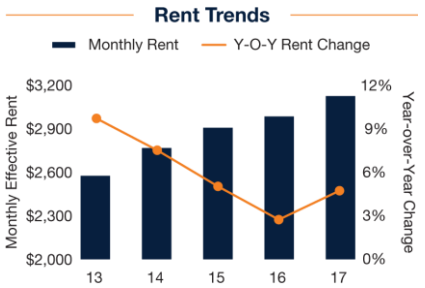
LOS ANGELES METRO AREA: WESTSIDE CITIES

Investment Trends

- Rising single-family home values in Silicon Beach and inland Westside Cities place homeownership out of reach for many mid- to high-earning residents, fueling demand for rentals at a time when some of the region's most notable employers are entering new headquarters. Snap recently moved to a 300,000-square-foot space in Santa Monica, while Amazon Studios inked a lease for the historic Culver Studios. In Playa Vista, Google will occupy the former Spruce Goose Hangar. These relocations point to future job growth and increased demand for rentals near employment hubs, heightening investor competition for available listings.
- Transaction activity was sparse over the past year, with an average of one deal closing per month, a sign most owners are holding in favor of steady NOI gains. The trades that did occur primarily involved sub 40-unit properties that closed at 2.7 percent to low-3 percent cap rates.
- Pricing that exceeds $500,000 per unit is commonplace for well-located properties of various vintages in Santa Monica and Beverly Hills, where a mix of local and out-of-state institutions battle for a limited pool of for-sale assets. Buyers seeking lower pricing for pre-1990-built rentals largely target Culver City.







4Q17 – 12-Month Period

CONSTRUCTION

1,300 units completed Y-O-Y

- Delivery volume over the past year surpassed the previous 24-month completion total, as developers finalized 1,300 units. At least half these new rentals are in Brentwood/Westwood/Beverly Hills.
- Developers are underway on 3,200 units with completion dates extending into 2019. Two sizable projects in Marina del Rey account for most of this year's new supply.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Renter demand outpaced deliveries last year, reducing the region's vacancy rate to 3.5 percent. An increase of 10 basis points was noted during the previous period.
- A decline of 50 basis points was registered in Brentwood/Westwood/Beverly Hills, compressing vacancy to 3.8 percent. In Palms/Mar Vista, a reduction of 20 basis points lowered unit availability to 2.9 percent.

RENTS

4.7% increase in effective rents Y-O-Y

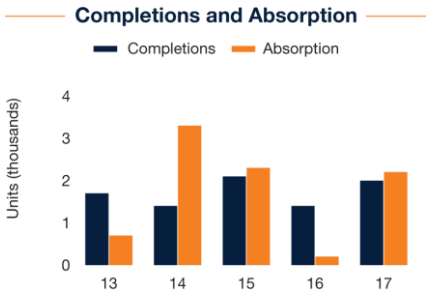
- The average effective rent climbed by 4.7 percent to $3,124 per month over the last year.
- Santa Monica/Marina del Rey remains the most expensive submarket in Los Angeles County with an average rent of $3,407 per month. Rate growth was most noticeable in Brentwood/Westwood/Beverly Hills, where an increase of 7.3 percent pushed the average rent to $3,342 per month.

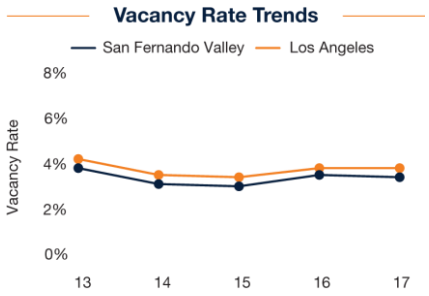
* Forecast

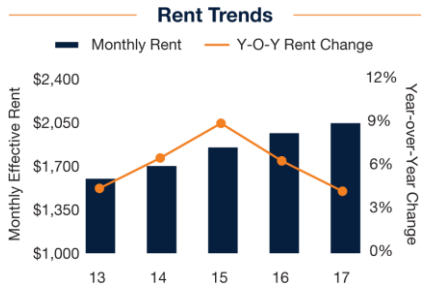
LOS ANGELES METRO AREA: SAN FERNANDO VALLEY/TRI-CITIES MARKET

Investment Trends

- The region's proximity to Downtown Los Angeles and Westside Cities coupled with its lower cost of living make it a desirable spot for families and millennials seeking moderate commute times and relatively affordable rents. Additionally, the market boasts a diverse economy led by the IT, construction and logistics sectors. These factors support renter demand and tight vacancy moving forward, influencing more investors to pursue listings in the Tri-Cities and near Highway 101.
- Assets of varying quality are readily available within the region, attracting a mix of buyers including some out-of-state capital. Investors focused on the Tri-Cities are most active in Pasadena and Glendale, where properties containing less than 50 units are acquired at low- to high-3 percent yields. Pricing for well-located apartments can often eclipse $500,000 per unit in these locales.
- The southern portion of the San Fernando Valley is a significant driver of regional deal flow, offering buyers higher yields and lower pricing than the Tri-Cities. Listings in North Hollywood, Van Nuys and Sherman Oaks routinely net investors mid-3 percent to low-4 percent returns, with Class A listings often trading for less than $400,000 per unit. Investor competition in the Valley is likely to rise this year prior to the influx of more than 2,000 apartments in 2019.







4Q17 – 12-Month Period

CONSTRUCTION

2,020 units completed Y-O-Y

- More than 2,000 rentals were completed over the past year, surpassing the 1,400 apartments finalized during the previous period. The 507-unit Altana in Glendale represented the largest recent delivery.
- Construction is underway on more than 5,300 units with completion dates extending into 2020. Roughly 70 percent of these rentals are in the San Fernando Valley.

VACANCY

10 basis point increase in vacancy Y-O-Y

- On net absorption of nearly 2,200 units, the region's vacancy rate held below 4 percent for a seventh straight year, dipping 10 basis points to 3.4 percent.
- In both Sherman Oaks/North Hollywood/Encino and Burbank/Glendale/Pasadena, the region's largest submarkets, availability declined by 30 basis points, dropping vacancy to 3.5 percent and 3.7 percent, respectively.

RENTS

4.1% increase in effective rents Y-O-Y

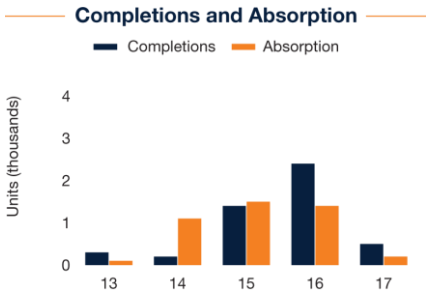
- Tight vacancy throughout the region warranted steady rent growth, with the average effective rent climbing 4.1 percent to $2,045 per month.
- Above-average rent growth occurred in the affordable submarkets of Van Nuys/Northeast San Fernando Valley and Northridge/Northwest San Fernando Valley, where gains of 6.8 percent and 6.6 percent were registered.

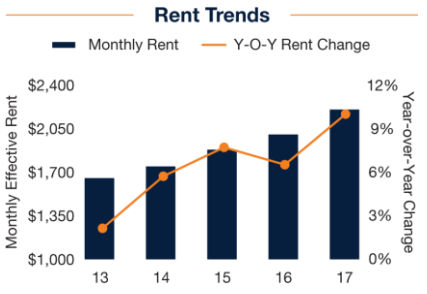
* Forecast

LOS ANGELES METRO AREA: SOUTH BAY/LONG BEACH

Investment Trends

- Regarded as Los Angeles County's aerospace hub, South Bay/Long Beach is home to many mid- to high-earning engineers, software professionals and machinists. Anticipated additions by Boeing Co., SpaceX and Northrop Grumman this year should bolster the region's stock of well-paid workers and preserve demand for rentals while home prices remain out of reach for most residents. Economic growth and a recent dearth of apartment deliveries have allowed vacancy to remain tight throughout the region, prolonging a span of strong rent growth. Owners' ability to notably boost rents, often following significant property renovations, heightens investor demand for value-add properties prior to the delivery of more than 2,000 units over the next two years.
- Transactions involving older Class C assets dominate deal flow. Local and Orange County-based investors primarily vie for these properties, many of which are priced slightly below $10 million. Downtown Long Beach represents a locale of interest for opportunistic buyers targeting low- to mid-4 percent returns.
- Buyers seeking value-add assets priced below $300,000 per unit focus on the South Bay cities of Torrance and Inglewood, where yields can reach the high-4 percent range.





4Q17 – 12-Month Period

CONSTRUCTION

480 units completed Y-O-Y

- After the completion of roughly 2,400 units in 2016, delivery volume slowed over the past year as less than 500 units were finalized.
- Developers are building more than 2,700 units. Roughly 40 percent of these apartments are slated for 2018 completion, including the 375-unit Modera West LA adjacent to the Promenade at Howard Hughes Center.

VACANCY

20 basis point increase in vacancy Y-O-Y

- After hovering below 4 percent for three straight years, the region's vacancy rate rose slightly to 4.1 percent over the last 12 months.
- Long Beach's vacancy rate sits just below 4 percent entering this year following a 20-basis-point uptick. South Bay witnessed the same bump in availability, pushing the submarket's vacancy rate to 4.3 percent.

RENTS

10.0% increase in effective rents Y-O-Y

- Limited new units heightened the value of existing apartments as the average effective rent rose by double digits to $2,203 per month.
- Rent is becoming less affordable in Long Beach at $1,932 per month following a recent 10 percent bump. The South Bay's average rent advanced by a comparable 9.9 percent to $2,509 per month.

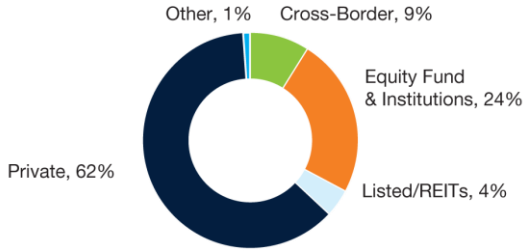
* Forecast

LOS ANGELES METRO AREA

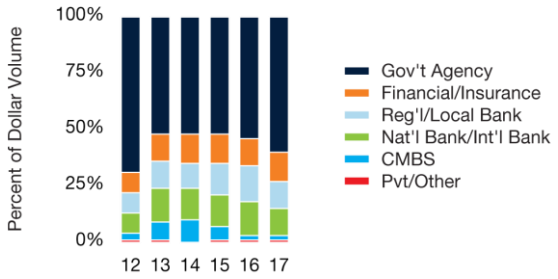
Capital Markets

- **Fed raises benchmark interest rate, plots path for additional increases.** The Federal Reserve increased the federal funds rate by 25 basis points, lifting the overnight lending rate to 1.5 percent. While the Fed noted that the inflation outlook had moderated in recent months, an upgraded economic forecast factoring in recent tax cuts and a rollback in regulation strengthened growth projections for the next two years. As a result, the Fed has guided toward two additional rate hikes this year, while setting the stage for as many as four increases in 2019.
- **Lending costs rise alongside Fed rate increase.** As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, in an effort to compete for loan demand, lenders may also choose to absorb a portion of the cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should provide rent growth that outpaces inflation over the coming year. As a result, sellers remain committed to higher asking prices, which has begun to widen an expectation gap as property performance and demand trends remain positive.
- **The capital markets environment continues to be highly competitive.** 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. Global markets and foreign central banks are keeping pressure down on long-term interest rates. Pricing resides in the 4 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 high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly and rental demand will remain high with the national apartment vacancy rate at 5 percent at the end of 2017.

2017 Apartment Acquisitions By Buyer Type



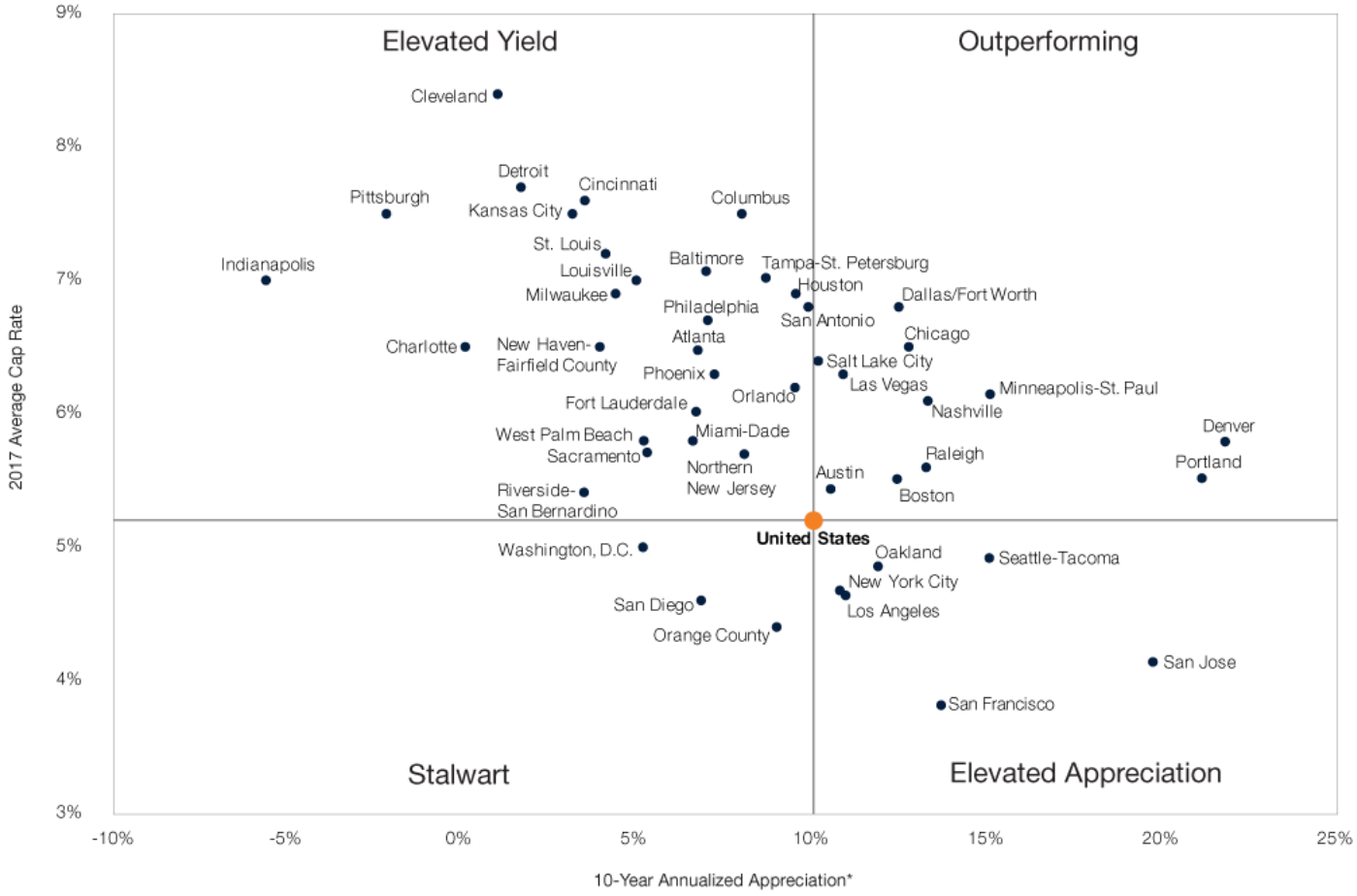
Apartment Mortgage Originations By Lender



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
• Cincinnati	• Atlanta	• Austin	• Chicago	• Los Angeles	• Boston
• Cleveland	• Charlotte	• Baltimore	• Denver	• Oakland	• New York City
• Columbus	• Dallas/Fort Worth	• Houston	• Fort Lauderdale	• Orange County	• San Francisco
• Detroit	• Milwaukee	• Minneapolis-St. Paul	• Miami-Dade	• San Diego	• San Jose
• Indianapolis	• Las Vegas	• Nashville	• New Haven-Fairfield County	• Seattle-Tacoma	
• Kansas City	• Louisville	• Orlando	• Northern New Jersey		
• Memphis	• San Antonio	• Philadelphia	• Portland		
• Pittsburgh	• St. Louis	• Phoenix	• Washington, D.C.		
		• Raleigh	• West Palm Beach		
		• Riverside-San Bernardino			
		• Sacramento			
		• Salt Lake City			
		• Tampa-St. Petersburg			

** 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

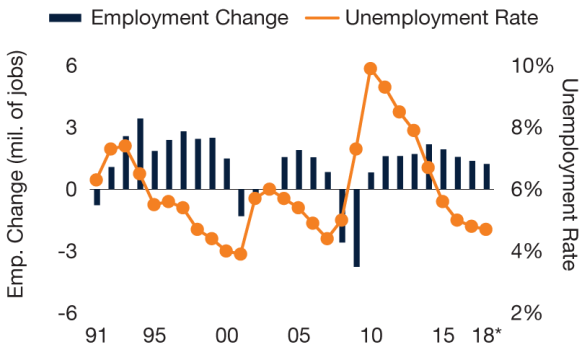
U.S. ECONOMY

Growth Cycle Invigorated by Confidence; Tax Laws Could Transform Housing

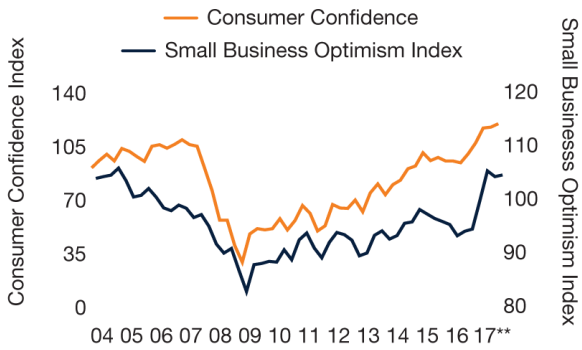
Tight labor market restrains hiring as confidence surges. The steady economic tailwind benefiting apartment performance is poised to carry through 2018 as a range of positive factors align to support growth. Consumer confidence recently reached its highest point since 2000 while small-business sentiment 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.

Employment vs. Unemployment



Optimism Reinforces Growth

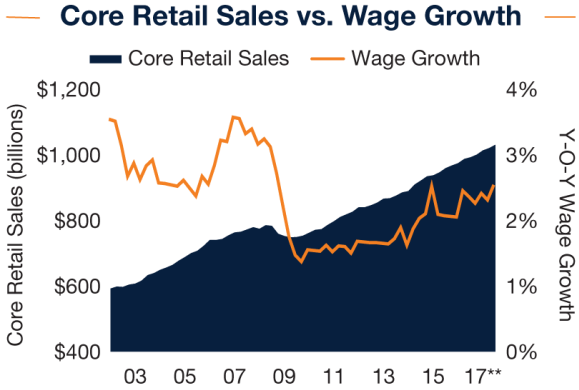


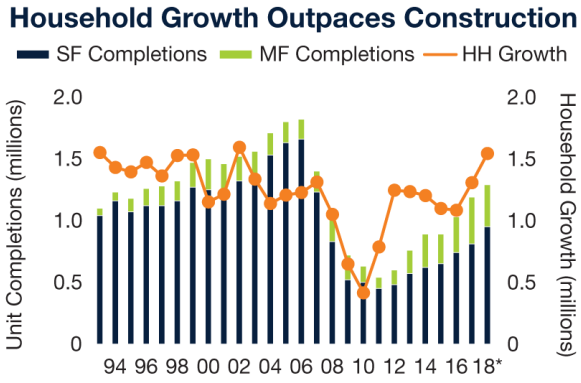
* Forecast
** Through 3Q

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

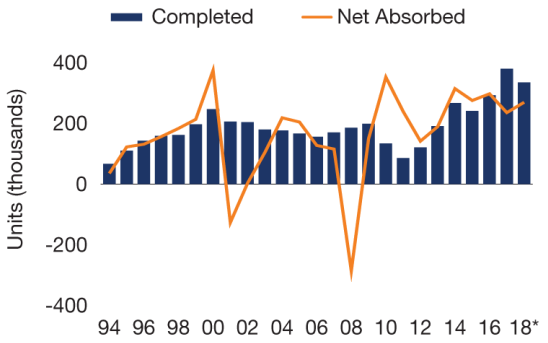
U.S. APARTMENT OVERVIEW

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.

Completions vs. Net Absorption



Vacancy by Class

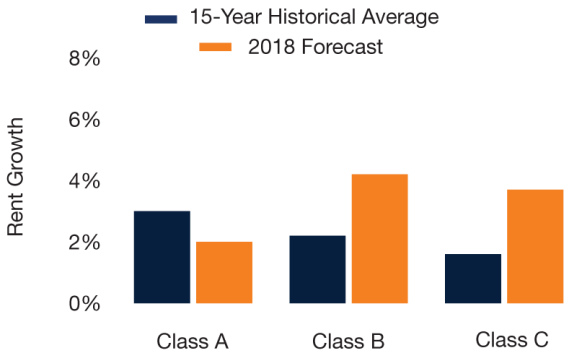
* Forecast

U.S. APARTMENT OVERVIEW

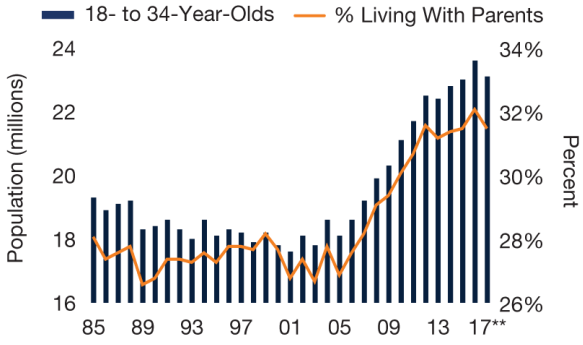
2018 National Apartment Outlook

- **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.

Rental Growth by Class



Young Adults Living with Parents



** Estimate

U.S. CAPITAL MARKETS

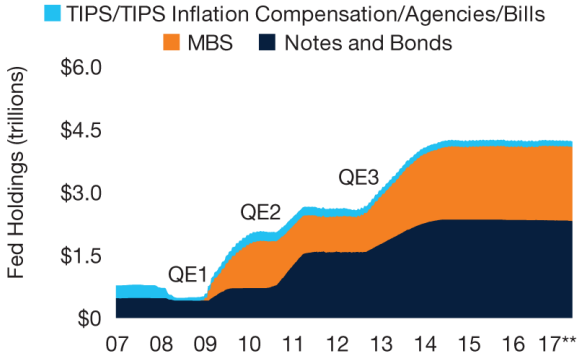
Fed Normalization Portends Rising Interest Rates; Capital Availability for Apartments Elevated

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



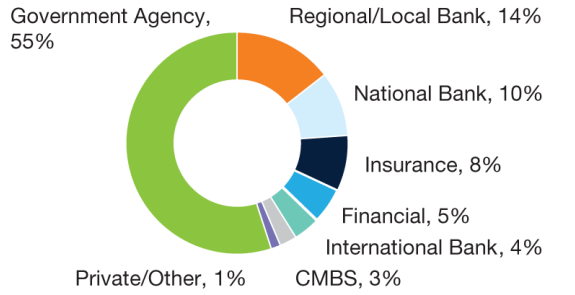
* Through December 12
** Through December 6

U.S. CAPITAL MARKETS

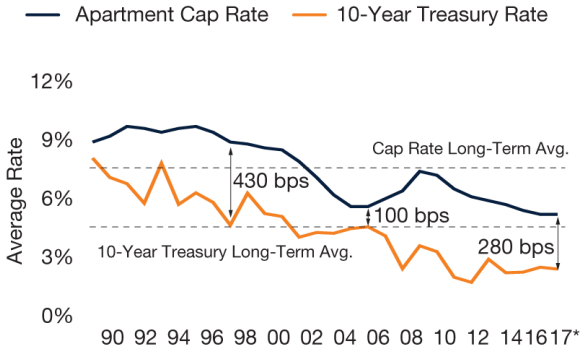
2018 Capital Markets Outlook

- **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



* Through December 12
❖ Estimate

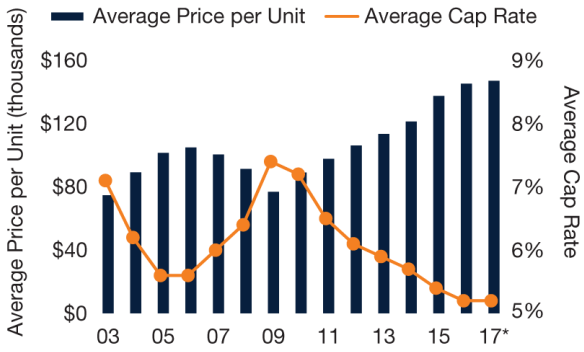
U.S. INVESTMENT OUTLOOK

Apartment Investors Recalibrate Strategies; Broaden Criteria to Capture Upside Opportunities

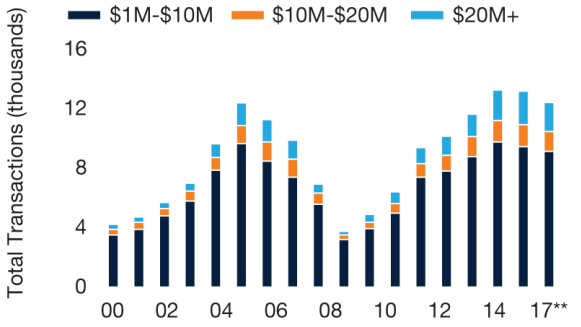
Appreciation flattens as buyers recalibrate expectations. The maturing apartment investment climate has continued its migration from aggressive growth to a more stable but still positive trend. Investors have reaped strong returns in the post-recession era through significant gains in fundamentals and 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.

Price and Cap Rate Trends



U.S. Apartment Investment Transactions Moderating



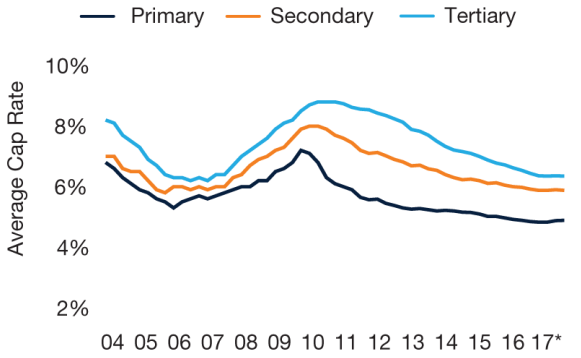
* Through 3Q
** Trailing 12 months through 3Q

U.S. INVESTMENT OUTLOOK

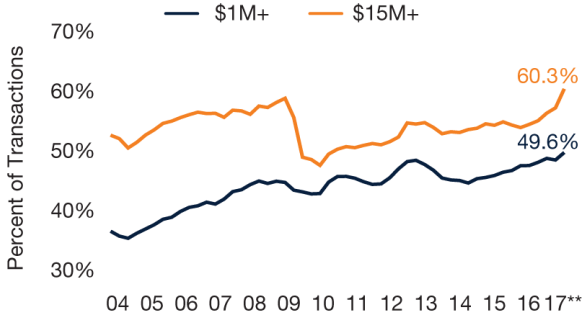
2018 Investment Outlook

- **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.

Cap Rate Trends by Market



Apartment Transactions in Secondary And Tertiary Markets by Tranche

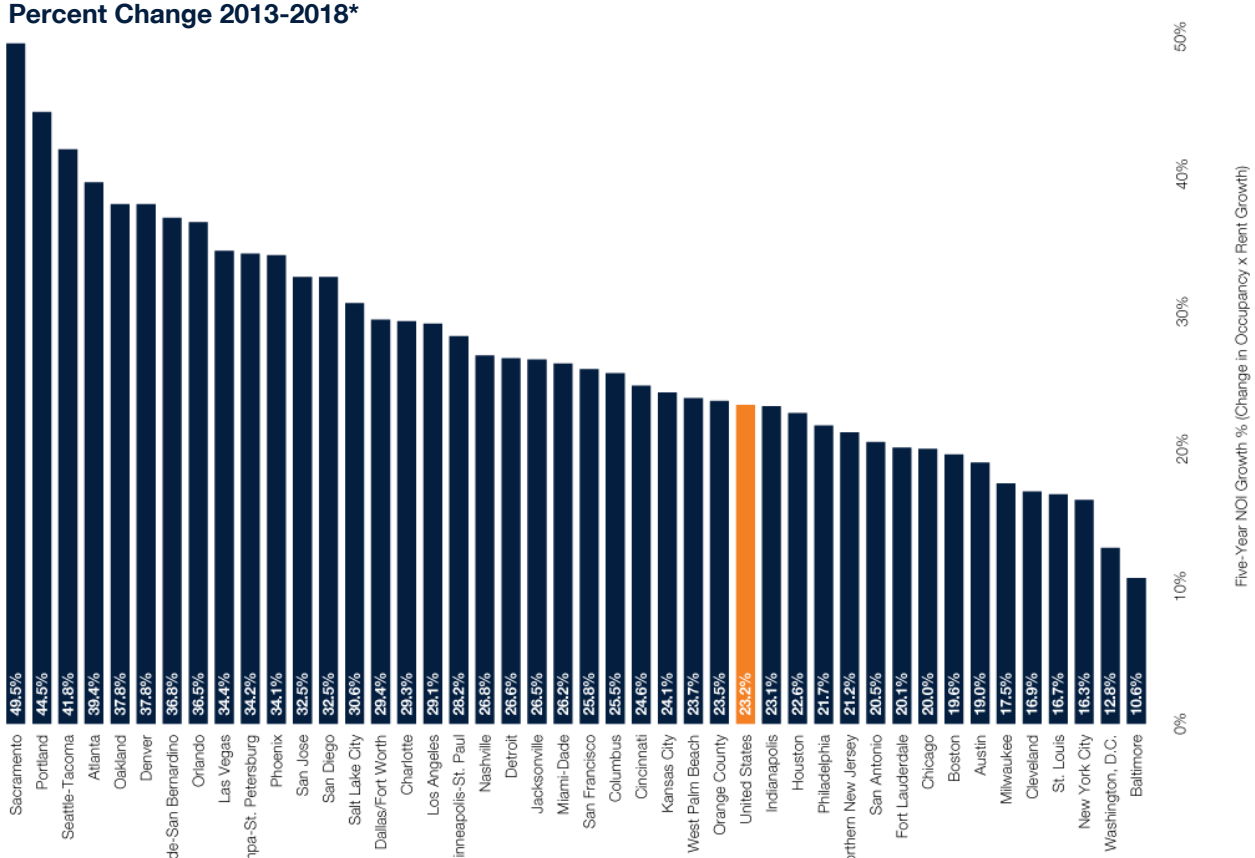


* Through 3Q
** Trailing 12 months through 3Q

REVENUE TRENDS

Five-Year Apartment Income Growth by Metro

Percent Change 2013-2018*



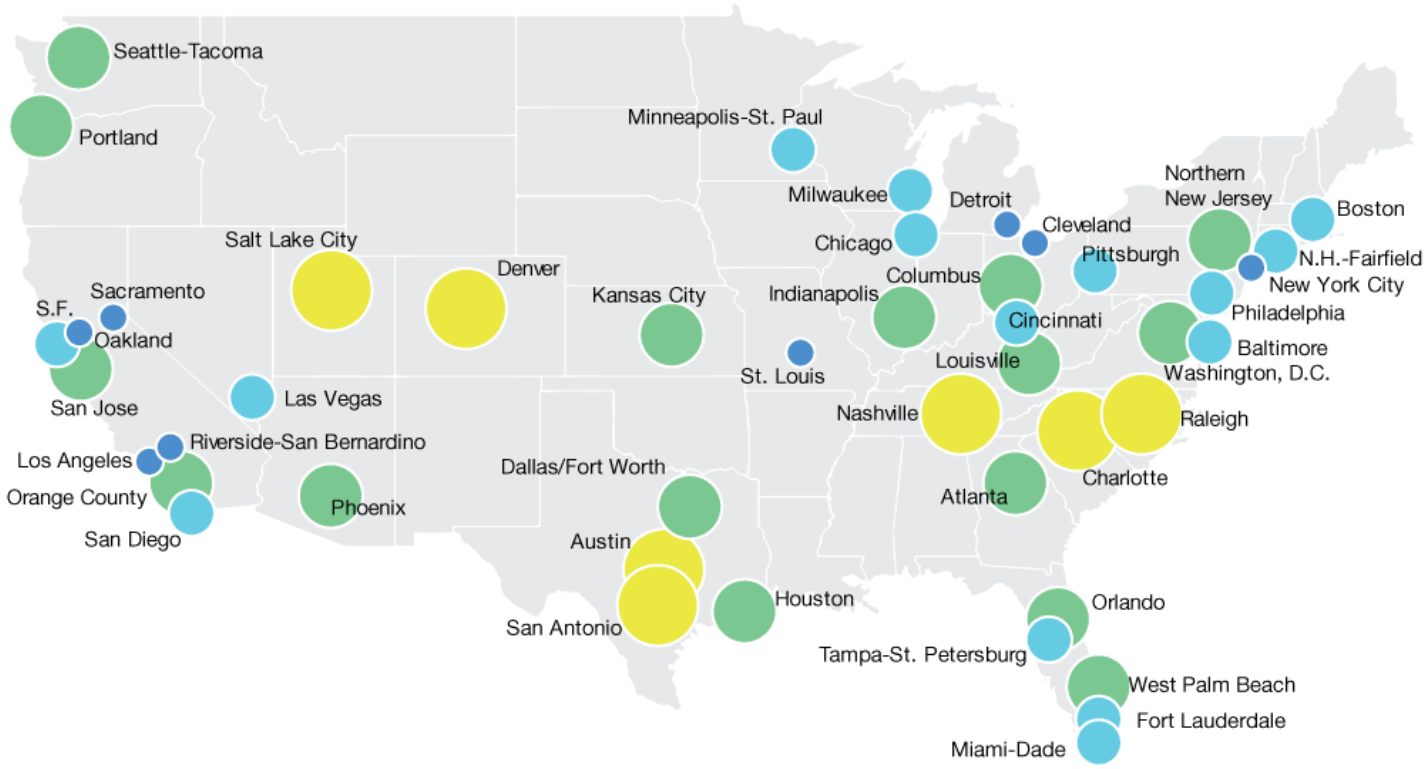
FIVE-YEAR TREND: Outperforming Through Development Cycle 2013-2018*

- 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

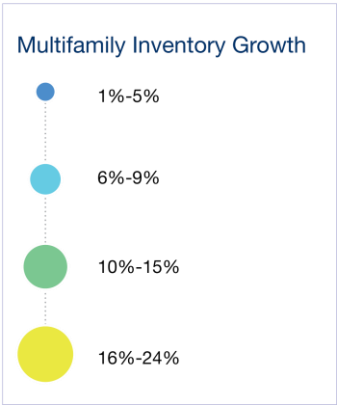
* Forecast

2018 NATIONAL INVENTORY TREND

Five-Year Development Wave Transforms Rental Landscape
Inventory Growth 2013-2018



Inventory Change by Market 2013 to 2018



Sources: Marcus & Millichap Research Services; MPF Research

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 May 2018

POPULATION	1 Miles	3 Miles	5 Miles
▪ 2022 Projection			
Total Population	38,652	221,888	628,945
▪ 2017 Estimate			
Total Population	37,795	219,033	624,331
▪ 2010 Census			
Total Population	34,373	206,864	588,436
▪ 2000 Census			
Total Population	32,264	200,368	585,883
▪ Daytime Population			
2017 Estimate	34,939	231,884	677,400

HOUSEHOLDS	1 Miles	3 Miles	5 Miles
▪ 2022 Projection			
Total Households	20,648	100,219	276,828
▪ 2017 Estimate			
Total Households	20,131	97,916	271,570
Average (Mean) Household Size	1.88	2.23	2.27
▪ 2010 Census			
Total Households	18,118	91,320	252,798
▪ 2000 Census			
Total Households	17,620	88,938	251,321
Growth 2015-2020	2.57%	2.35%	1.94%

HOUSING UNITS	1 Miles	3 Miles	5 Miles
▪ Occupied Units			
2022 Projection	20,648	100,219	276,828
2017 Estimate	20,643	100,841	280,034
Owner Occupied	5,278	35,209	90,409
Renter Occupied	14,853	62,707	181,161
Vacant	511	2,925	8,463
▪ Persons In Units			
2017 Estimate Total Occupied Units	20,131	97,916	271,570
1 Person Units	44.46%	36.80%	38.09%
2 Person Units	34.93%	32.46%	30.68%
3 Person Units	11.96%	13.95%	13.06%
4 Person Units	6.42%	10.08%	9.85%
5 Person Units	1.66%	3.97%	4.53%
6+ Person Units	0.57%	2.75%	3.80%

HOUSEHOLDS BY INCOME	1 Miles	3 Miles	5 Miles
▪ 2017 Estimate			
$200,000 or More	9.85%	10.75%	9.68%
$150,000 - $199,000	6.40%	6.27%	6.04%
$100,000 - $149,000	15.10%	14.24%	13.69%
$75,000 - $99,999	15.08%	12.40%	11.62%
$50,000 - $74,999	18.57%	17.58%	16.53%
$35,000 - $49,999	11.35%	11.74%	11.94%
$25,000 - $34,999	7.90%	8.07%	8.64%
$15,000 - $24,999	7.25%	8.63%	9.75%
Under $15,000	8.50%	10.32%	12.12%
Average Household Income	$106,326	$106,049	$100,013
Median Household Income	$69,901	$65,098	$60,557
Per Capita Income	$56,780	$47,501	$43,687

POPULATION PROFILE	1 Miles	3 Miles	5 Miles
▪ Population By Age			
2017 Estimate Total Population	37,795	219,033	624,331
Under 20	13.62%	18.64%	18.72%
20 to 34 Years	30.47%	25.35%	26.06%
35 to 39 Years	10.42%	8.58%	8.48%
40 to 49 Years	17.01%	15.91%	15.52%
50 to 64 Years	17.62%	19.06%	18.39%
Age 65+	10.86%	12.46%	12.84%
Median Age	37.73	38.46	38.02
▪ Population 25+ by Education Level			
2017 Estimate Population Age 25+	30,531	165,002	467,302
Elementary (0-8)	1.37%	4.47%	6.32%
Some High School (9-11)	2.69%	4.98%	5.88%
High School Graduate (12)	12.15%	15.53%	15.99%
Some College (13-15)	21.30%	21.76%	20.38%
Associate Degree Only	6.81%	6.85%	6.88%
Bachelors Degree Only	39.00%	31.29%	29.32%
Graduate Degree	16.33%	14.11%	13.38%
▪ Population by Gender			
2017 Estimate Total Population	37,795	219,033	624,331
Male Population	49.74%	49.91%	50.60%
Female Population	50.26%	50.09%	49.40%

Source: © 2017 Experian

Population

In 2017, the population in your selected geography is 37,795. The population has changed by 17.14% since 2000. It is estimated that the population in your area will be 38,652.00 five years from now, which represents a change of 2.27% from the current year. The current population is 49.74% male and 50.26% female. The median age of the population in your area is 37.73, compare this to the US average which is 37.83. The population density in your area is 12,028.53 people per square mile.

Race and Ethnicity

The current year racial makeup of your selected area is as follows: 72.91% White, 7.01% Black, 0.09% Native American and 8.28% 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 16.57% of the current year population in your selected area. Compare this to the US average of 17.88%.

Households

There are currently 20,131 households in your selected geography. The number of households has changed by 14.25% since 2000. It is estimated that the number of households in your area will be 20,648 five years from now, which represents a change of 2.57% from the current year. The average household size in your area is 1.88 persons.

Housing

The median housing value in your area was $660,346 in 2017, compare this to the US average of $193,953. In 2000, there were 4,979 owner occupied housing units in your area and there were 12,642 renter occupied housing units in your area. The median rent at the time was $747.

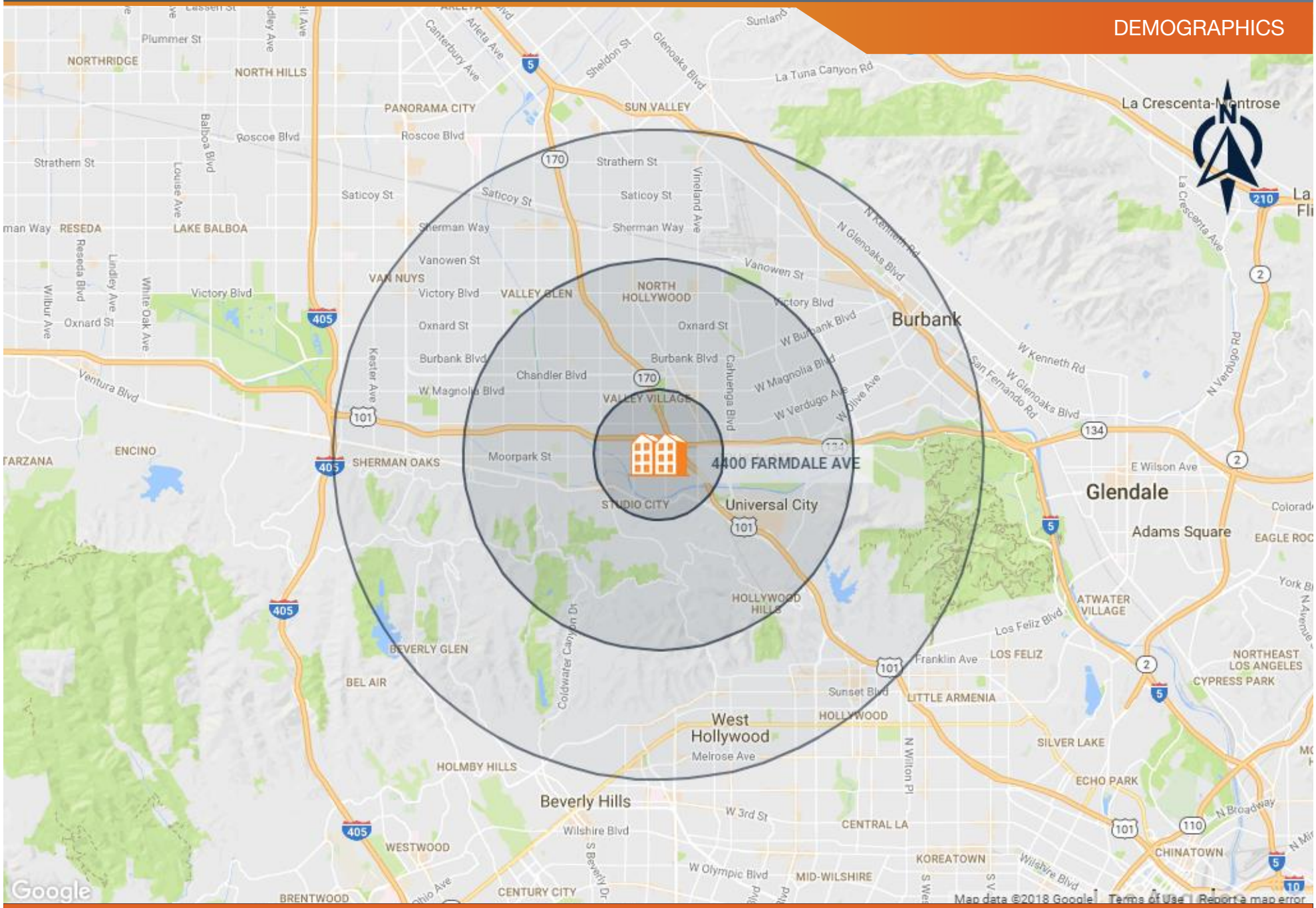
Income

In 2017, the median household income for your selected geography is $69,901, compare this to the US average which is currently $56,286. The median household income for your area has changed by 55.34% since 2000. It is estimated that the median household income in your area will be $80,607 five years from now, which represents a change of 15.32% from the current year.

The current year per capita income in your area is $56,780, compare this to the US average, which is $30,982. The current year average household income in your area is $106,326, compare this to the US average which is $81,217.

Employment

In 2017, there are 12,137 employees in your selected area, this is also known as the daytime population. The 2000 Census revealed that 80.77% of employees are employed in white-collar occupations in this geography, and 19.36% are employed in blue-collar occupations. In 2017, unemployment in this area is 7.43%. In 2000, the average time traveled to work was 31.00 minutes.

Source: © 2017 Experian

DEMOGRAPHICS