Apartment Markets II

OpTech Conference
Mark Obrinsky, November 19, 2014
GDP Growth Still Subpar

Source: Bureau of Economic Analysis; NMHC.
Nonfarm Payrolls Solid, Not Spectacular
(3-month MAVG)

Source: Bureau of Labor Statistics; NMHC.
Employment-Population Ratio Still Low

Source: Bureau of Labor Statistics; NMHC.
Inflation Remains Well-Contained
(year-over-year change in price indexes)

Source: BLS; NMHC.
Interest Rates Eased After “Tapering” Fear

Source: Federal Reserve Board; NMHC.
Total Household Net Worth Past Previous Peak

$ Trillions

Source: Federal Reserve Board; NMHC.
But Median Net Worth Is Still Down

Thousands of 2013 Dollars

Source: Federal Reserve Board; NMHC.
Median Income of Renters Going Nowhere

Source: Census Bureau; BLS; NMHC
Is Household Deleveraging Over?
(debt as share of disposable income)

Source: Federal Reserve Board; Census Bureau; NMHC.
Is Household Formation Slipping Again?

Source: Census Bureau; NMHC.
Many Young Adults Still Living at Home

Significant Pent-Up Demand?

Number (millions)

Source: Census Bureau; NMHC.
Homeownership Rate Continues to Edge Down

Source: Census Bureau; NMHC.
SF Home Sales On Divergent Paths (000s)

Source: Census Bureau; NAR; NMHC.
Existing Home Sales At Normal Level

Share of All Households

Source: Census Bureau; NAR; NMHC.
NMHC Market Tightness Index

Source: NMHC.
Multifamily Supply Has Rebounded
(6-month MAVG, 000s)

Source: Census Bureau; NMHC.
Net Absorptions Steady

Thousands

Source: MPF Research.
Rent Growth Remains Solid

Source: MPF Research.
NMHC Quarterly Survey: Sales Volume

Source: NMHC.
Apartment Transactions Still Strong

Source: Real Capital Analytics; NMHC.
Apartment Prices Now Above Previous Peak

Source: NCREIF; NMHC.
Cap Rates Edging Down Further?

Source: Real Capital Analytics.

- Garden
- Mid/High-rise
Banks Now Top MF Mortgage Provider

$ Billions (trailing four quarters)

Source: Federal Reserve Board; NMHC.
Presentation Outline

• Strong Rent Growth in 2014

• Market Performance

• Class A, B, and C

• Urban and Suburban Submarkets

• New Construction
National YTD Rent Growth

Source: Axiometrics Inc.
National YTD Rent Growth

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Year-to-Date Rent Growth

Source: Axiometrics Inc.
Annual Effective Rent Growth - 3Q14
Rent Growth and Job Growth

At a national level, the two data series are 86% correlated. It is not surprising that the markets with above average job growth also tend to have above average rent growth.
National Performance by Asset Class

Properties with rents priced in the middle of the market (class B) are outperforming right now, but all classes have improved this year.
Strongest and Weakest Rent Growth by Asset Class

Class A

Class B

Class C

Annual Rent Growth Legend
Larger/Darker = Greater 4%
Lighter/Smaller = Less Than 2%

Based on data as of September 2014 for top 90 markets
Source: Axiometrics Inc.
Annual Effective Rent Growth by Asset Class

Atlanta

Austin

Boston

Denver
Urban and Suburban Performance

Annual Effective Rent Growth

Occupancy Rate

Source: Axiometrics Inc.
New Apartment Units Started by Submarket Type
Trailing 12-month total

Urban Core

Suburbs

Source: Axiometrics Inc.
Rent Growth and New Deliveries - Austin

> 5% Rent Growth

Negative Rent Growth

Dots represent individual properties. New properties are defined as those that delivered units between January 2013 and June 2014. Annual effective rent growth rates based on the trailing 12 month average ending June 2014.

Source: Axiometrics Inc.
Rent Growth and New Deliveries – Wash DC

> 5% Rent Growth

Negative Rent Growth

Dots represent individual properties. New properties are defined as those that delivered units between January 2013 and June 2014. Annual effective rent growth rates based on the trailing 12 month average ending June 2014.

Source: Axiometrics Inc.
Properties are Experiencing > 5% Rent Growth

Atlanta

Southern California

Seattle

Phoenix

Houston

Denver

Source: Axiometrics Inc.
Properties Experiencing > 5% Rent Growth
Florida Markets

Tampa

Orlando

Southeast Florida

Jacksonville

Note: Green dots represent existing properties with trailing-12 annual rent growth greater than 5%. Yellow dots represent new properties that completed construction in 2013 or later. New properties only include those that started leasing by June 2014.

Source: Axiometrics Inc.
Where are rent levels the highest for new construction?

Based on properties delivered since 2013. Asking rents used for September 2014.

Source: Axiometrics Inc.
Where are rent levels the highest for new construction?

1. San Francisco  $3,876 ($4.61)

Based on properties delivered since 2013.
Asking rents used for September 2014.
Where are rent levels the highest for new construction?

1. San Francisco $3,876 ($4.61)
2. New York $3,523 ($4.27)

Based on properties delivered since 2013.
Asking rents used for September 2014.

Source: Axiometrics Inc.
Where are rent levels the highest for new construction?

1. San Francisco $3,876 ($4.61)
2. New York $3,523 ($4.27)
3. San Jose $2,951 ($3.08)

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Where are rent levels the highest for new construction?

1. San Francisco  $3,876 ($4.61)
2. New York       $3,523 ($4.27)
3. San Jose       $2,951 ($3.08)

5. Boston        $2,868 ($3.21)

Based on properties delivered since 2013.
Asking rents used for September 2014.

Source: Axiometrics Inc.
Where are rent levels the highest for new construction?

1. San Francisco $3,876 ($4.61)
2. New York $3,523 ($4.27)
3. San Jose $2,951 ($3.08)
4. Williston, ND $2,934 ($2.86)
5. Boston $2,868 ($3.21)

Based on properties delivered since 2013. Asking rents used for September 2014.
Performance of Lease Up Properties

Average Rent Levels

Average Rent for Properties Built Since 2013

Asking Rent Per Square Foot

Asking Rent Per Unit

Source: Axiometrics Inc.
Other Notes Regarding New Supply

- Delays in construction
- Absorption is strong, even in the markets and submarkets with weaker rent growth
- Construction costs
- Axio forecasts slowdown in new supply
New Supply by Market

Deliveries are projected to slow in the next couple years.
Rent Growth Forecast
Major markets will outperform their long-term average due to strong demand.

<table>
<thead>
<tr>
<th>Metro</th>
<th>Annual Rent Growth Forecast Average 2015-2020</th>
<th>Difference from Long-Term Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta-Sandy Springs-Marietta, GA</td>
<td>3.3%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Austin-Round Rock, TX</td>
<td>3.6%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Chicago-Naperville-Joliet, IL</td>
<td>3.6%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Dallas-Plano-Irving, TX</td>
<td>3.6%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Denver-Aurora, CO</td>
<td>3.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Houston-Baytown-Sugar Land, TX</td>
<td>3.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach-Glendale, CA</td>
<td>3.8%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Miami-Miami Beach-Kendall, FL</td>
<td>3.6%</td>
<td>0.3%</td>
</tr>
<tr>
<td>New York-Wayne-White Plains, NY-NJ</td>
<td>3.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Phoenix-Mesa-Scottsdale, AZ</td>
<td>3.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>San Francisco-San Mateo-Redwood City, CA</td>
<td>4.0%</td>
<td>0.2%</td>
</tr>
<tr>
<td>San Jose-Sunnyvale-Santa Clara, CA</td>
<td>4.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Seattle-Bellevue-Everett, WA</td>
<td>3.8%</td>
<td>0.9%</td>
</tr>
<tr>
<td><strong>National Average</strong></td>
<td><strong>3.3%</strong></td>
<td><strong>1.3%</strong></td>
</tr>
</tbody>
</table>

Source: Axiometrics Inc.
Summary

• Apartment performance in 2014 is exceeding expectations.

• Supply is not having a major impact at the macro level.

• Suburbs and properties with affordable price points are outperforming.

• Rent growth and occupancy will moderate in the short term, but the apartment market will remain strong due to limited availability, demographics, steady job growth, and total residential supply remaining in check.
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