2012

apartment

Real Estate Investment Research

National Apartment Report

Marcus & Millichap
Real Estate Investment Services

To our valued clients:

For apartment owners and investors, a strong recovery in the property sector overshadowed disappointing economic performance in 2011. The common perception that apartment renter demand is defying economic fundamentals is understandable but only partially true. Favorable demographics among prime renters, the release of pent-up demand as young adults debundle from family and roommates and increased renter demand due to falling homeownership certainly drove more renters to apartment communities last year. At the same time, young adults captured a majority of the 1.8 million private-sector jobs created over the past year, which emphasizes the importance of underlying economic performance as a major driver of rental demand. This becomes more important in 2012 and beyond as the white-hot levels of post-recession net absorption cools off to healthy but less-spectacular levels. Simply stated, we still need jobs to drive long-term demand. On that front, investors should take comfort in the better-than-expected economic readings that streamed in month after month following the U.S. debt downgrade in August of last year. Improvements in retail sales, private sector jobs and manufacturing point to a much stronger economic footing than expected by most economists despite heightened macro concerns—namely the European debt crisis and the U.S. political paralysis. It is unlikely that the macro clouds will measurably dissipate in 2012, but economic momentum points to moderately better performance this year, certainly enough to support the apartment expansion cycle now in full swing.

Developers are getting busy, as are lenders and equity investors, and after the brief pause in late 2011, we should see more projects started, steadily boosting additions to supply over the next three years. For the time being, demand will outstrip supply additions by a wide margin, leading to lower vacancy across virtually all markets and the first year of broadening rent growth. Beyond 2012, caution in metro and submarket selection will be much higher as new supply ramps up.

On the investment front, the institutional capital which led the recovery in sales and pricing since the second half of 2009 has ushered in dramatic pricing and cap rate strengthening. Trends are now reaching—and in many cases exceeding—pre-recession highs. This metro- and product-selective flight to safety defined a major dichotomy favoring the top-10, most-desired markets and top-tier assets. Even Class A properties in hard-hit markets have seen cap rates compress dramatically as investors move capital to eventually take advantage of a rent-growth cycle. The continuation of an extremely low interest rate environment that fostered this flight to safety in the last 24 months, combined with ultra-rich, top-tier pricing, will finally move capital down the quality chain in greater volumes, a pattern that emerged in late 2011. Class B assets, secondary markets, and minor value-add investment opportunities (taking a B- asset to a B+) will be the primary beneficiaries. Given the depth and breadth of capital demand, high-quality assets will remain popular, but their valuations are leveling off as the buyer pools search for higher yields. Investors should also carefully examine prospects for realistic rent growth, as income levels struggle to keep up and periods of increased home buying are likely to emerge over the next few years. Overall, all indicators point to a continuation a strong supply/demand cycle at the macro level over the next several years, but metro and submarket performance variance will once again rule.

To help you plan and execute your strategy, we are pleased to present our 2012 National Apartment Report. Included is our National Apartment Index (NAI), a forward-looking ranking of 44 markets based upon forecast economic, supply and demand conditions. We hope you will find this report helpful, and our investment professionals look forward to assisting you in meeting your goals.

Sincerely,

John J. Kerin
President and
Chief Executive Officer

Hessam Nadji
Managing Director
Research and Advisory Services

Marcus & Millichap

2012 National Apartment Report

Written by John Chang, Vice President, Research Services, and edited by Hessam Nadji, Managing Director. The Capital Markets section was co-authored by William E. Hughes, Managing Director, Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap market analysts and investment brokerage professionals nationwide.

National Apartment Index (NAI)

- Markets benefitting from strong ties to technology, financial services, and leisure and hospitality made the biggest moves in the index. Seattle's (#8) links to software publishing and Las Vegas' (#36) ties to tourism led momentum, each rising 7 positions. San Jose (#1) and San Francisco (#2) occupy the top positions this year, edging out New York (#3) and Washington, D.C. (#9).
- Sales of institutional-grade assets drove the market in 2011 with transactions exceeding $20 million constituting 60 percent of the total volume for the year. While top-tier assets in primary markets are still attractive to these investors, they have begun to seek Class B properties and other value-add options.
- Orange County (#5) and San Diego (#6), maintained their positions, but the risk of a slower pace in trade and export volumes weighs on Los Angeles (#13) and Riverside (#29). Most Florida markets climbed out of the bottom 10 ranking, except Jacksonville, which occupies the last position for the second consecutive year.
- Midwestern markets remain stable, but lag the recovery and job momentum in Sunbelt markets. Detroit (#38) advanced four places on balanced fundamentals. Indianapolis (#39), Kansas City (#33), Columbus (#41), and St. Louis (#34) all slipped at least four places based upon weaker job prospects and fundamentals.

National Economy

- Better-than-expected retail sales, robust business investment, and expansion in production and new orders support stronger GDP growth of 2.1 percent in 2012. Modestly sub-trend employment growth will prevail until GDP returns to its 3.2 historical average.
- The private sector has added 2.9 million jobs since the employment trough, recovering 33 percent of the jobs lost during the recession. The U.S. economy will add 1.8 million jobs in 2012 as improved business confidence transitions to temporary positions.
- A eurozone financial crisis could undermine the U.S. economic recovery. The biggest obstacle to growth remains the climate of uncertainty that attenuates consumer demand and impairs progress in job gains, leaving the economy vulnerable to downside risks.

National Apartment Overview

- All 44 markets tracked in the National Apartment Index are forecast to post continued employment growth and effective rent growth in 2012. Recovery has moved beyond the cyclical surge in demand to a more sustainable expansion, as remarkable shifts in demographic, economic and social patterns underpin demand for rental housing.
- U.S. vacancy should reach 5.0 percent by the end of 2012, a 40-basis-point decline since 2011, and resulting in 4.8 percent effective rent growth. Forecast completions will total nearly 85,000 units, still critically short of a conservative demand forecast for 120,000 units, initiating a new development cycle.
- Household formations are forecast to increase by 29 percent to an annual average of 1.4 million through 2015, aided by rising immigration and 2.1 million echo boomers entering the prime renter age cohort.

Capital Markets

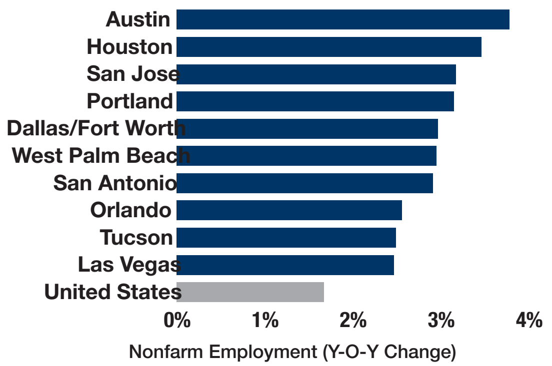
- Fundamentals and a favorable spread against Treasurys will promote multifamily development. Fannie and Freddie will remain the chief suppliers of apartment loans in an increasingly crowded field of providers.
- Accommodative monetary policy will keep interest rates low for several years. Expect life companies and commercial banks to grow market share by pursuing assets with good credit features and stabilized revenue.

Apartment Investment Outlook

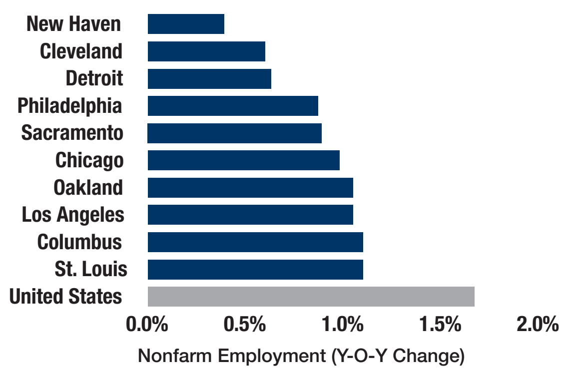
- The recent pause in sales activity will not last long into 2012, given the stronger economic data late in 2011. Sellers will bring more properties to market, capitalizing on strong investor demand, easing bidding wars.
- Capital will migrate to secondary markets and value added investments. Sales volume will rise as risk tolerance expands and capital becomes more fluid. Expect higher levels of workout activity from banks.

National Apartment Index

Markets with the Highest Expected 2012 Employment Growth



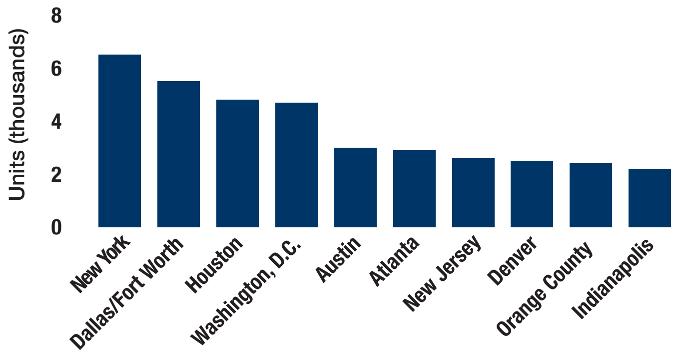
Markets with the Lowest Expected 2012 Employment Growth



Markets with the Lowest Expected 2012 Vacancy Rates

Markets with the Highest Expected 2012 Vacancy Rates

Markets with the Highest Expected 2012 Completions



2012 National Apartment Index

Technology, Financial, Leisure and Hospitality Sectors Boost Coastal Markets and Propel Recovery in Sunbelt

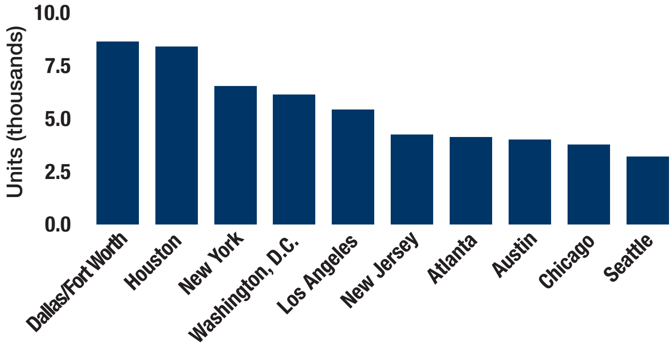
The recovery in technology and trade-centered metros expanded to a broader cross-section of industries and markets. The biggest movers include markets benefiting from ties to technology, financial services, and leisure and hospitality. Seattle's (#8) links to software publishing and Las Vegas' (#36) ties to tourism led momentum in the index, each climbing seven spots. Portland (#11) advanced six positions, fueled by high-tech manufacturing while recovering financial services facilitated a six-point gain for Chicago (#17) and a five-spot rise for San Francisco (#2). Ties to energy helped Houston (#18) move up six places in this year's NAI. Late-recovery Sunbelt markets began to emerge from the housing crisis with Phoenix (#22) rising five positions while Tampa (#30) and West Palm Beach (#32) each gained six spots.

San Francisco Bay Area Dislodges New York and Washington, D.C., from Top Spots in NAI

San Jose (#1) and San Francisco (#2) occupy the top of this year's index, edging out New York (#3) and Washington, D.C., (#9). The Silicon Valley benefited from robust technology employment and significant income gains, as well as 40 percent of all venture capital funding in 2011. Washington, D.C., slipped seven positions as its early recovery momentum slowed and construction jumped. Other markets, such as Austin (#7) and Seattle (#8), will expand with stronger jobs and revenue growth ahead. Dallas (#15) posts remarkable net absorption, gaining three spots, but San Antonio (#21) suffers from higher vacancy and significant construction, falling eight rungs from last year. Beyond 2012, supply will become a more serious concern for some of these markets.

Boston (#4) slipped one position, supplanted by the San Francisco Bay Area. However, Boston similarly benefits from strong job and income gains, venture capital flows, and the robust technology and healthcare sectors. The healthcare sector brought notable employment gains in Minneapolis (#10), slipping two places, and a still-healthy Philadelphia (#19) fell nine spots as other markets show more positive momentum. Two Southern California markets, Orange County (#5) and San Diego (#6), maintained their index positions, both supported by the professional

Markets with the Highest Expected 2012 Absorption



and business services sector and international tourism. Los Angeles (#13) slipped two places and Riverside (#29) improved by only three positions based on their employment outlooks. Both maintained low vacancy, but risks of slower port activity weigh on the region.

Most Midwestern Markets Remain Stable, but Lag Recovery Momentum in Sunbelt Markets

Three Sunbelt markets rank in the bottom 10: Las Vegas (#36), Atlanta (#37) and Jacksonville (#44). Las Vegas made big gains on an improving job-growth forecast and, while still high, a vacancy decline. Atlanta climbed three places, but operations will remain challenged. While most Florida markets emerged from the bottom 10, Jacksonville remains the exception, with a persistent supply-side imbalance. Fort Lauderdale (#31) and Orlando (#26) advanced three and four positions, respectively, aided by tourism and trade, setting the stage for a more dramatic rise in 2013. Detroit's (#38) balanced fundamentals advanced the metro four places, despite weak employment growth. Indianapolis (#39), Kansas City (#33), Columbus (#41), and St. Louis (#34) all slipped four or more places based upon weaker job prospects.

Index Methodology

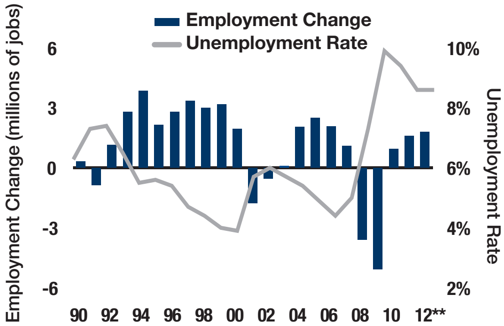
The NAI ranks 44 major apartment markets based upon a series of 12-month, forward-looking economic and supply and demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecast employment growth, vacancy, construction, housing affordability and rents. Weighing both the forecasts and incremental change over the next year, the index is designed to indicate relative supply and demand conditions at the market level.

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

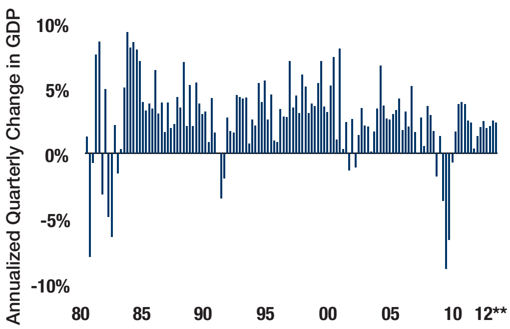
MSA	Rank 2012[1]	Rank 2011	11-12 Change
San Jose	1	4	▲ 3
San Francisco	2	7	▲ 5
New York	3	1	▼ 2
Boston	4	3	▼ 1
Orange County	5	5	■ 0
San Diego	6	6	■ 0
Austin	7	9	▲ 2
Seattle-Tacoma	8	15	▲ 7
Washington, D.C.	9	2	▼ 7
Minneapolis	10	8	▼ 2
Portland	11	17	▲ 6
New Jersey	12	12	■ 0
Los Angeles	13	11	▼ 2
Denver	14	14	■ 0
Dallas/Fort Worth	15	18	▲ 3
Oakland	16	16	■ 0
Chicago	17	23	▲ 6
Houston	18	24	▲ 6
Philadelphia	19	10	▼ 9
Miami	20	21	▲ 1
San Antonio	21	13	▼ 8
Phoenix	22	27	▲ 5
New Haven	23	20	▼ 3
Salt Lake City	24	19	▼ 5
Charlotte	25	28	▲ 3
Orlando	26	30	▲ 4
Milwaukee	27	25	▼ 2
Louisville	28	22	▼ 6
Riverside-San Bernardino	29	32	▲ 3
Tampa	30	36	▲ 6
Fort Lauderdale	31	34	▲ 3
West Palm Beach	32	38	▲ 6
Kansas City	33	26	▼ 7
St. Louis	34	29	▼ 5
Cincinnati	35	33	▼ 2
Las Vegas	36	43	▲ 7
Atlanta	37	40	▲ 3
Detroit	38	42	▲ 4
Indianapolis	39	31	▼ 8
Cleveland	40	39	▼ 1
Columbus	41	37	▼ 4
Sacramento	42	35	▼ 7
Tucson	43	41	▼ 2
Jacksonville	44	44	■ 0

[1] See National Apartment Index Note on page 57.

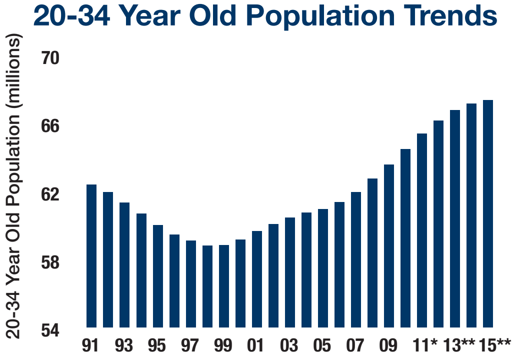
Employment Change vs. Unemployment



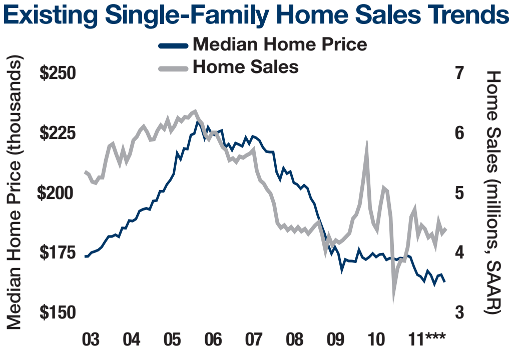
U.S. GDP



20-34 Year Old Population Trends



Existing Single-Family Home Sales Trends



* Estimate ** Forecast *** Through October

Economic Indicators Support Outlook for Moderate Growth, Marathon-Like Recovery

Steady incremental gains from a variety of sectors propelled U.S. economic growth throughout 2011, as opposed to any one segment. The absence of a major driver in GDP growth, together with severe cutbacks in the government sector and skittish consumer and business confidence, resulted in sub-trend employment improvement and comparatively low wage and income gains. However, most economic indicators support expectations for continued growth at a measured pace. The private sector has added 2.9 million jobs since the employment trough, representing a recovery of 33 percent of the jobs lost in the peak-to-trough period of January 2008 to February 2010. The unemployment rate fell 40 basis points to 8.6 percent in November, marking the first significant decline in seven months. In addition, retail sales moved above the pre-recession peak, corporate profits measured 19 percent higher than the peak in the third quarter of 2006, and exports contributed 13 percent of GDP. After rising 1.7 percent in 2011, GDP was well below the historical trend.However, better-than-expected holiday retail sales and expansion in production and new orders suggest stronger productivity in early 2012.

In addition to numerous domestic challenges persisting into the new year, risks of another eurozone financial crisis could undermine the U.S. economic recovery. The biggest obstacle to growth remains the climate of uncertainty that both attenuates consumer demand and impairs job gains, leaving the economy vulnerable to downside risks. Looking forward, employment is forecast to expand by an average of 150,000 jobs per month. Employment growth of 2.5 percent in the 20- to 34-year-old age cohort—which captured the majority of new jobs throughout 2011—suggests stronger hiring activity for this critical segment, and continued support for rental housing.

2012 National Economic Outlook

- **Improved GDP and Employment Growth.** GDP should strengthen perceptibly to 2.1 percent in 2012. Modestly sub-trend employment growth will prevail until GDP returns to its 3.2 percent historical average, but job additions should edge higher in 2012 to 1.8 million positions. Improved business confidence will transition a significant portion of temporary hiring to permanent jobs.

- **Potential Mild Eurozone Recession Risks Productivity.** The pace of export growth could contract if eurozone countries slip into recession, mildly depressing corporate profits. Business-fixed investment remains a pillar of growth, both in capital equipment and, increasingly, non-residential structures as commercial real estate fundamentals improve.

- **Weak Disposable Income Weighs on For-Sale Housing.** Diminished single-family construction will gradually subdue the excess supply of discounted homes and firm values. Apartments will outperform the for-sale market as households stay mobile to pursue job opportunities and potential homeowners remain unable to clear tougher credit hurdles.

- **Access to Credit for Small Firms Remains Problematic.** Commercial and Industrial loans trended down as lenders were less willing to lend in the current environment and borrower demand dropped sharply toward the end of 2011. Marginal access to adequate credit facilities remains a crucial impediment to business investment and, consequently, job growth.

Positive Momentum Tightens Vacancy, Moving Apartment Sector into Full Expansion

Apartment performance remained undeterred by slow economic growth in 2011, powering through the summer's economic doldrums, and recording strong gains in net absorption and lower vacancy rates. Tight supply conditions exist in most markets, with a unique, favorable bias driven by shifts in demographic, economic and social patterns that underpin demand for rental housing. Foreclosures, potential owners unable to meet financing requirements, and households choosing rental housing for lifestyle reasons or employment mobility all contributed to a net rise in rental households, totaling an annualized 900,000 in 2011. In addition, the 20-34-year-old age cohort captured approximately 70 percent of job gains recorded in 2011, stimulating new household creation.

Net absorption in 2011 totaled more than 153,000 units which, while still strong, marks a significant deceleration from 225,000 units recorded the prior year. However, only a modest 39,000 new units were delivered, the lowest number on record for at least 30 years. The national vacancy rate declined 120 basis points over the year to 5.4 percent. Asking and effective monthly rents of $1,061 and $995, posted annualized gains of 2.8 and 4.0 percent, respectively, with asking rents discounted by about 6.2 percent. All 44 markets tracked in the Marcus & Millichap National Apartment Index forecast continued employment and effective rent growth in 2012.

2012 National Apartment Outlook

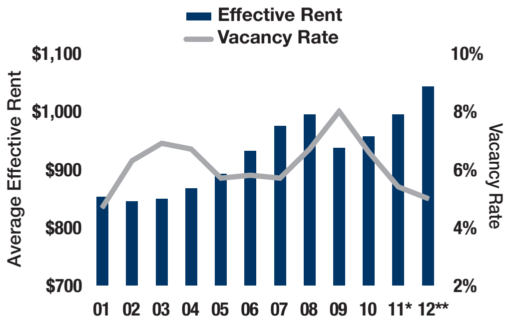
- **Rent Growth, Equilibrium Signals New Development Cycle.** U.S. vacancy should reach 5 percent by the end of 2012, a 40-basis-point decline from 2011, resulting in 4.8 percent effective rent growth. Completions will trend higher, forecast to total nearly 85,000 units in 2012, but still critically short of a conservative demand forecast for 120,000 units. Well-capitalized apartment REITS will lead the ramp up in construction.

- **Acceleration in Multifamily Permitting.** Permits for 5+ units posted a 45 percent year-over-year increase to 232,000 units as of October 2011. Starts will accelerate meaningfully by mid-2012 and require another 12-18 months to deliver, which suggests a two-to-three-year window before risk of a supply imbalance emerges in most metros.

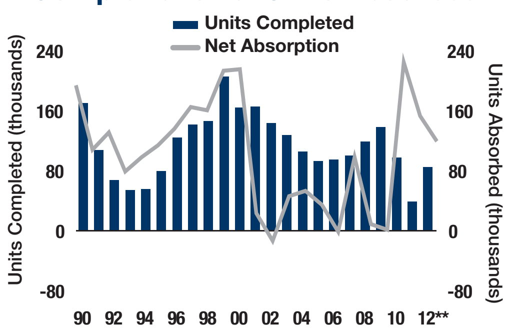
- **Employment and Demographic Trends Gain Traction.** Stronger GDP and rising employment will increase immigration, a critical component of rental demand, as well as de-bundle college graduates from their parents' homes. The progression of echo boomers reaching prime renter years will expand the 20-34-year-old age cohort by approximately 2.1 million over the next five years. Annual household formations declined by nearly 10 percent, to an average of 1.1 million from 2008 through 2011, likely suppressed by the recession and high unemployment. Household formations are forecast to increase by 29 percent to an annual average of 1.4 million between 2011 and 2015.

- **Long-Run Operations and Attractive Debt Broaden Investment Opportunities.** Improved operations extend to Class B/C properties in secondary and tertiary markets. Value-add properties in infill locations and core properties in secondary markets will exhibit solid operations, attract investor interest and spur greater sales velocity, lending support to values and market pricing.

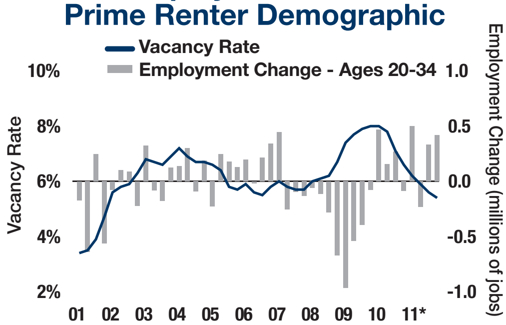
Apartment Rent and Vacancy Trends



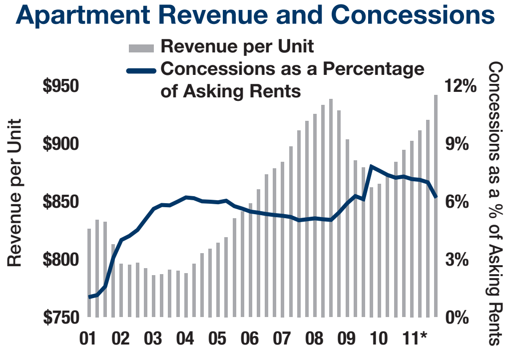
Completions vs. Units Absorbed



Employment in the Prime Renter Demographic



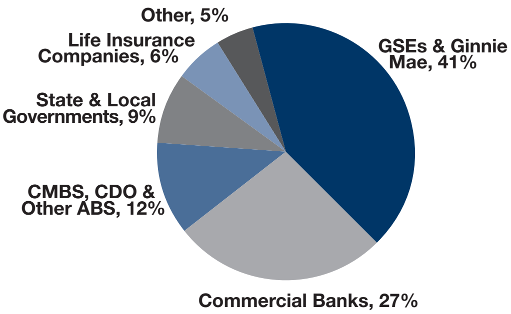
Apartment Revenue and Concessions



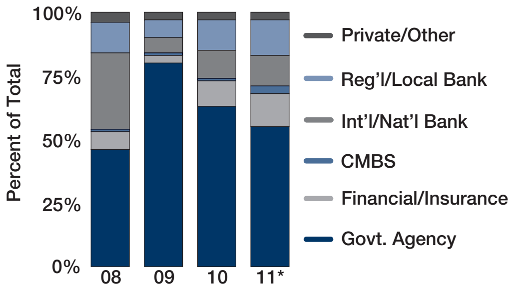
* Estimate ** Forecast

Improved Market Conditions Restore Confidence; Capital Flow Expands

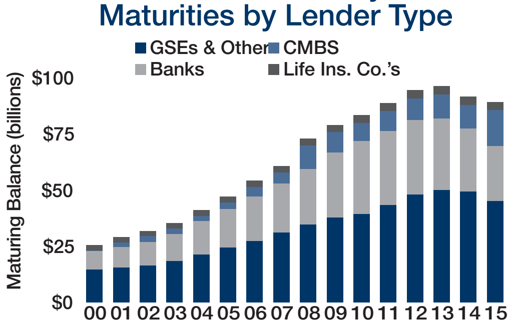
Multifamily Mortgage Debt Outstanding



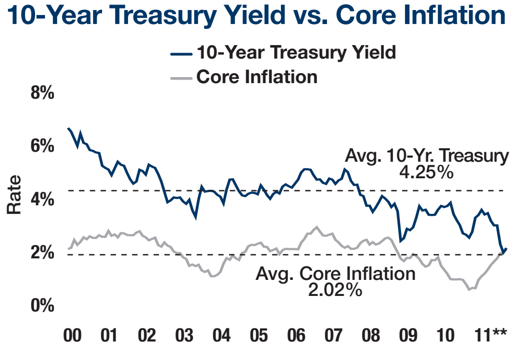
Apartment Mortgage Originations by Lender



Estimated Multifamily Debt Maturities by Lender Type



10-Year Treasury Yield vs. Core Inflation



* Through 3Q ** Through October

Financial conditions improved throughout 2011. GDP and employment growth rose, shoring up property performance and revenue streams. Loan delinquencies receded from their cyclical peaks and values firmed across most commercial property types, aided by the low cost of debt and positive spread between cap rates and interest rates. The multifamily sector was the only property type with strengthening loan performance on a national level. Restored lender confidence stimulated apartment debt issuance and equity investment into a broader range of strategies, particularly given the return to pre-recession pricing and compressed cap rates for top-tier properties in major metros. The shift toward more competitive lending manifested in higher slightly LTVs and lower spreads. The U.S. credit downgrade and emergence of the eurozone debt crisis last summer briefly, but severely, rocked the global equity markets, creating both a pause in the CMBS market and modest pull-back in underwriting.

The second quarter of 2011 marked the first time in 18 months that multifamily mortgage originations outpaced the net pay-off and pay-down of loans. Originations for the third quarter topped $140 billion, a 39 percent increase over one year earlier. GSE originations accounted for a 55 percent share, marking a decline from last year, as life companies, CMBS and banks each gained market share of 200-300 basis points. Total multifamily debt outstanding has reached $806 billion, of which GSEs hold approximately 41 percent, while banks and life companies hold 27 percent and 6 percent, respectively. Multifamily delinquencies vary widely by investor class. Loans held in the GSEs' portfolios remain at less than 1 percent, but elevated relative to trend. The delinquency rate for CMBS loans rose 40 basis points over the year to 8.9 percent.

2012 Capital Markets Outlook

- **Long-Term Rates, Fundamentals Support Multifamily Development.** Rich pricing of quality assets, strong apartment demand and a favorable spread against Treasuries will promote development. Fannie and Freddie will remain the chief suppliers of apartment loans, but life companies will offer highly competitive rates to select buyers and developers.
- **An estimated $363 billion of commercial and multifamily real estate loans will mature in 2012.** Nearly 63 percent of maturing loans are considered "underwater." Banks hold nearly 59 percent of maturing loans; another 15 percent are held in CMBS. Refinancing the riskier debt may open opportunities for increased mezzanine lending, loan extensions or recapitalization.
- **The GSEs.** The entities will have unlimited federal financial support through December 31, 2012, but Congress will debate a number of proposals to sunset Fannie Mae and Freddie Mac over the next decade and privatize the secondary mortgage market. The GSEs and FHA kept credit flowing to the multifamily market during the credit crisis, providing the only net additions to multifamily debt for both market rental and low-income housing needs.
- **Credit Available for Apartments Along the Capital Stack.** Accommodative monetary policy will keep interest rates low through 2012. Expect life companies to aggressively pursue top-tier assets and high-quality Class B assets with good credit features. Commercial banks will continue to grow market share in 2012 for apartment properties with stabilized revenue streams.

Risk Tolerance to Expand as Investors Pursue Higher Yields

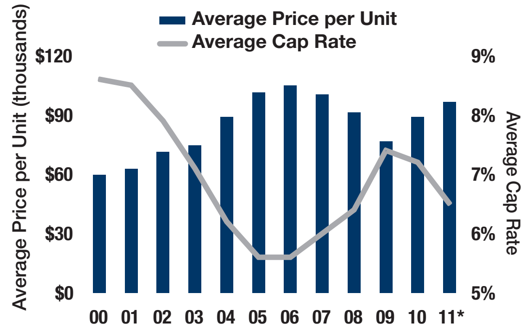
The confluence of several trends pushed investor demand further along the risk/reward spectrum in 2011. Proven sustainability in apartment performance, confidence in property values, and access to low cost debt spurred investors to seek arbitrage through value-add strategies. Sales activity surged through the first three quarters of 2011, characterized by portfolio sales, a return to pre-bubble sales volumes, and a narrowing differential between core and value-add yields. A significant shift in transactions to secondary and tertiary markets compressed cap rates for Class B and value-add properties to the 7.5 percent range, while core properties settled below six percent. The number of offerings in October spiked to the highest level since 2007, yet the fourth quarter marked a moderate slowdown in apartment property sales. Economic uncertainty played a role, but deal fatigue, rich pricing, and macro concerns caused investors in the top-tier segment to pull back in late 2011. However, many risk-tolerant investors view this as an opportunity, so it should not result in a major market slowdown.

Apartment sales approached $57 billion in 2011, reflecting a 27 percent increase over last year. The overall cap rate averaged 6.5 percent, down 70 basis points from one year earlier. The biggest year-over-year increases in sales volume occurred in the $20+ million and $10-20 million categories, up 78 and 63 percent, respectively. Larger deals in the $20+ million range accounted for 60 percent of total sales volume in 2011. Consequently, the median price per unit rose nearly 8 percent to $131,500 per unit and cap rates compressed 70 basis points to 5.5 percent in this price tier. In addition, the median sales price in the $1-10 million segment increased by 12 percent to $83,100, the first increase since 2005. Gateway markets, including New York, Washington, D.C., Los Angeles, San Francisco, Houston, Dallas and Chicago, dominated investments.

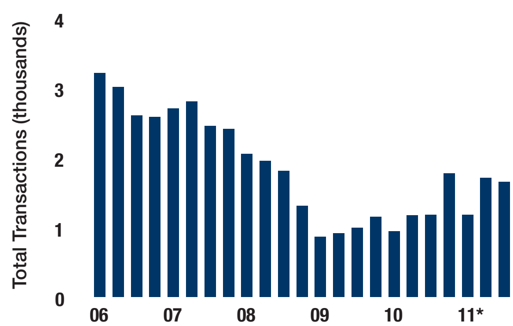
2012 Investment Outlook

- **Sales Volume Gains Momentum Midyear.** The lull in late-2011 sales suggests that economic uncertainty and pricing will cause investors to slow activity into the first quarter. The pause will not last long, given the better-than-expected economic data in late 2011. Sellers will bring more properties to market, capitalizing on strong investor demand, thereby easing bidding wars.
- **Momentum Grows for Infill, Value-Add Product.** Ultra-low cap rates in top-tier markets and assets will drive capital migration to Class B assets, secondary markets and value-added investments. Sales volume will rise as risk tolerance expands and capital conditions become more fluid.
- **Shifting Buyer Composition Continues.** Though private investors remain active, transactions involving equity funds, REITs and institutional investors have recently surged. Sales of properties valued in excess of $20 million represented 15 percent of the total transactions last year, a significant increase from the long-term average of 10 percent.
- **Higher Levels of Workout Activity.** Banks will continue to resolve troubled loans at a brisk pace, either liquidating at market price or granting loan extensions on troubled properties. Improved cash flows will provide owners more options for refinancing or recapitalization.

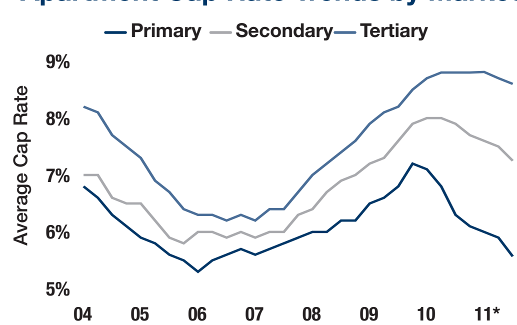
Apartment Price and Cap Rate Trends



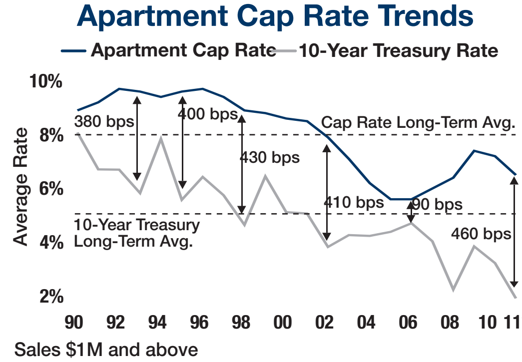
U.S. Apartment Transactions by Quarter



Apartment Cap Rate Trends by Market



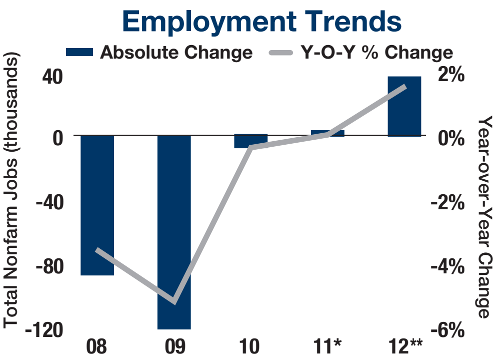
Apartment Cap Rate Trends

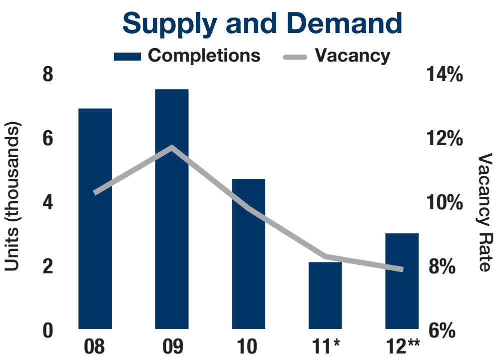


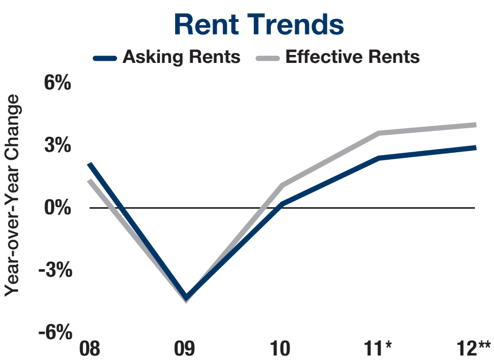
Sales $1M and above

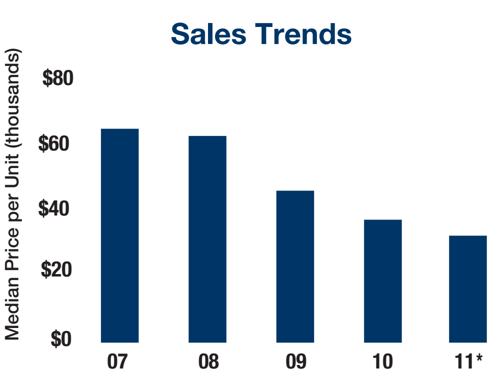
* Through 3Q

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA









* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Weakened Single-Family Market Keeps Atlanta's Recovery on Firm Footing

A rejuvenated job market will take over as the primary driver of vacancy declines in Atlanta during 2012, supplanting the release of pent-up demand and the de-bundling of combined households. In addition, the weak single-family housing market also continues to make contributions to rental housing demand. Single-family foreclosures in the metro remain high, albeit much lower than at the peak of the recession, and the migration of many homeowners to rentals continues to represent a source of demand for apartment operators. The effects of these trends are apparent in the local homeownership rate, which has fallen from 67 percent to 64 percent over the past four years. More stringent mortgage underwriting, high down payments and stagnant incomes are discouraging many prospective homeowners from purchasing and will extend their stay in rental housing. As a result, the Atlanta apartment market appears well positioned for additional declines in vacancy and steady rent growth over the next several quarters.

Sales of newer Class A complexes will continue in 2012 as large investors shuffle portfolios and deploy capital that was accumulated during the recession. Cap rates in the metro for this class of property generally start in the 5 percent range. Smaller investors and those seeking higher yields will turn to stabilized Class B assets, which were attracting greater attention in the final months of last year. Cap rates for well-operating Class B properties near major employment hubs and residential services compressed to the mid-7-percent range in 2011 and may decline further as investor demand intensifies. Areas of the market that promise to receive greater attention include northern Fulton County, Cobb County and Gwinnett County, which has many high-demand neighborhoods. In addition to stabilized properties, distress sales will remain prevalent in 2012, especially among apartment owners who face near-term debt maturities.

2012 Market Outlook

- **2012 NAI Rank: 37, Up 3 Places.** Atlanta improved three spots in the 2012 NAI, though a below-average outlook kept the market in the bottom 10.
- **Employment Forecast:** Employers will add 36,000 jobs in the metro this year, a 1.6 percent gain and improvement from the 2,400 spots filled in 2011.
- **Construction Forecast:** In 2012, builders will bring 2,900 units online. An average of 5,700 rentals were completed annually over the past 10 years.
- **Vacancy Forecast:** Minimal construction and absorption of more than 4,000 units will push down the vacancy rate 40 basis points in 2012 to 7.9 percent.
- **Rent Forecast:** Asking rents will climb 2.9 percent in 2012 to $871 per month while effective rents will increase 4.0 percent to $800 per month.
- **Investment Forecast:** Investors seeking large, new properties will increasingly turn their focus to Clayton County, located directly south of the urban core. More than 20 percent of the 31,000 rentals in the county were built in the past 10 years and many owners may take advantage of investor interest to sell.

Market Forecast Employment: 1.6% ▲ Construction: 900 ▲ Vacancy: 40 bps ▼ Effective Rents: 4.0% ▲

Vacancy Drop to 11-Year Low Sparks Significant Rent Increases

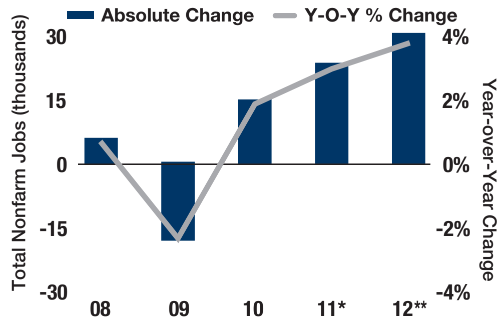
Widespread job growth in Austin will bring vacancy to the lowest level in more than a decade, allowing owners to push rents and withdraw concessions. The professional and business services sector will be the primary generator of top-tier apartment demand as relocating and growing firms add to payrolls. Several major tech companies have already announced expansion plans, offsetting losses in the public sector. For example, Rackspace plans to triple its Austin work force over the next few years, supporting Class A operations. Class B/C apartments will benefit from job growth in the typically lower-paying leisure and hospitality and trade, transportation and utilities sectors, which will add 6,000 jobs. As operations improve, developers will begin moving projects through the planning stages to capture elevated demand. Nonetheless, Austin's permitting process is stringent by Texas' standards, facilitating another year of strong revenue improvement before a wave of new supply in 2013 forces owners to consider raising concessions and cutting rents.

The combination of impressive operational improvements and a strong local economy will attract interest from a wide range of investors this year. REITs and institutions will target Class A properties where conditions will be reminiscent of the dot-com boom 13 years ago. However, despite healthy interest in these properties, cap rate compression will likely ease as the cost to build dips below per-unit prices. Consequently, investors looking for higher yields will shift down the quality scale toward Class B properties, lowering cap rates in the mid tier. Lending for these properties will include aggressive insurance companies and the agencies in the coming year. The combination of low interest rates, accessible financing and a motivated buyer pool will encourage sellers to divest, especially before the onset of new construction and maturing long-term debt.

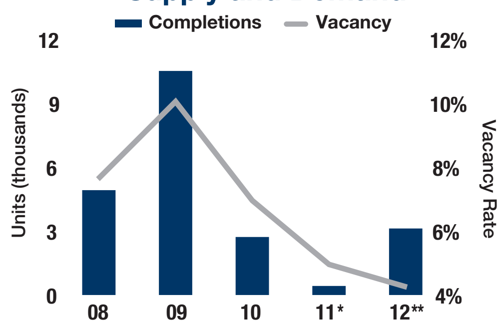
2012 Market Outlook

- **2012 NAI Rank: 7, Up 2 Places.** The nation's fastest growing employment market supported the metro's two-position rise in the ranking.
- **Employment Forecast:** In 2012, local employment will expand by 3.8 percent, an increase of 30,000 positions. Last year, job growth reached 3 percent, or 23,000 jobs.
- **Construction Forecast:** Construction will pick up this year, as 3,000 units are slated for delivery. In addition, approximately 21,000 units are in some stage of the planning pipeline.
- **Vacancy Forecast:** Vacancy will descend 70 basis points in 2012 to 4.3 percent, slowing down from the 200-basis-point plunge reported last year.
- **Rent Forecast:** Average asking rents will rise 4.1 percent to $927 per month while effective rents gain 6.2 percent to reach $868 per month this year.
- **Investment Forecast:** As operations strengthen, buyers will begin their search for Class B assets near the University of Texas and major employers in Northwest and Southwest Austin.

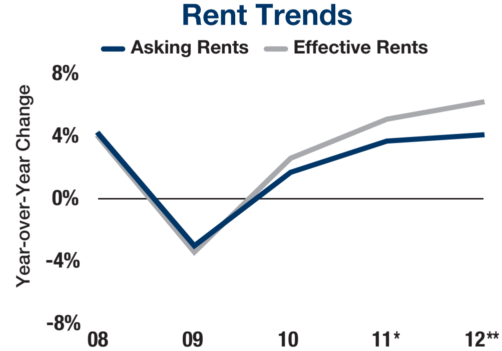
Employment Trends



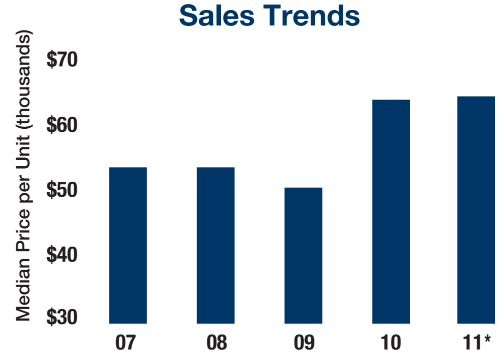
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

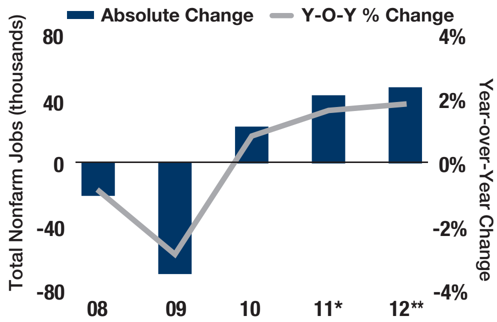
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast Employment: 3.8% ▲ Construction: 2,680 ▲ Vacancy: 70 bps ▼ Effective Rents: 6.2% ▲

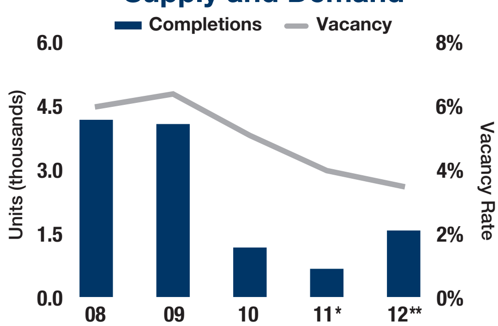
Boston

Down 1 Place | **2012 Rank: 4** | **2011 Rank: 3**

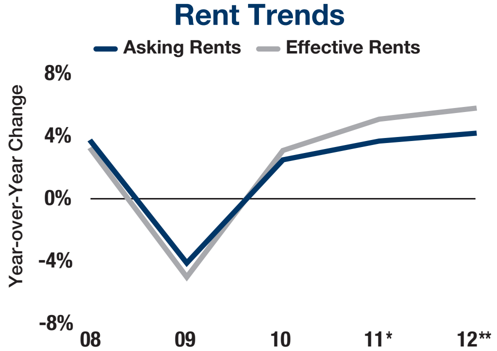
Employment Trends



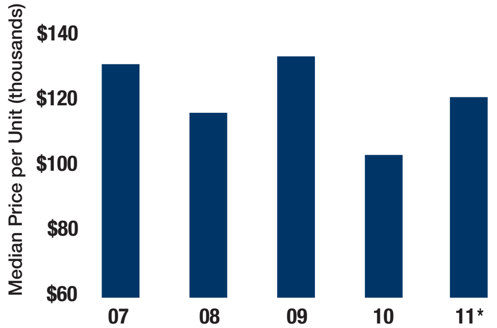
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Healthy Growth in the Biotech Industry Will Solidify Boston as a Top Rental Market

Fueled by growth in the biotechnology industry, Boston will be one of the top-performing apartment markets in the nation this year. Pharmaceutical companies are rapidly expanding in the area. The redevelopment of the South Boston Waterfront, for example, is attracting Vertex Pharmaceuticals. The company announced plans to relocate their world headquarters to Fan Pier by 2013, a move that will spur economic growth and support demand for Class A apartments in surrounding areas. Additionally, thousands of construction jobs will be created, sparking demand for Class B/C rentals. Elsewhere, in the Cambridge/Watertown/Waltham and Brookline/Brighton/Newton submarkets, expansions by several biotech companies, including Novartis, Merck and Amgen will expand the renter pool for high-end units. With home prices still out of reach for many residents, apartment vacancy in these areas will compress to the sub-2-percent range this year. Overall, vacancy will dip below 4 percent this year, facilitating healthy rent growth for apartment operators.

In an attempt to acquire best-in-class apartments, institutional investors will reposition their portfolios to core markets, including Boston, pushing smaller syndicates to suburban areas. REITs will dispose of assets in secondary markets to deploy capital in trophy assets located inside of state Route 128. As bidding activity remains elevated and interest rates hover near historic lows, cap rates for these properties will compress to the mid-4 percent range this year. In the suburbs, meanwhile, buyers looking for outsized returns and lower price points will target value-add properties near transportation corridors in Norfolk and Essex counties. Well-occupied assets below the $5 million threshold will trade at initial yields around 8 percent. Depending on location, owners may be able to reposition the property to attract more affluent renters and elevate rents.

2012 Market Outlook

- **2012 NAI Rank: 4, Down 1 Place.** Boston's surging pharmaceutical industry helped the metro retain a top-five position in this year's ranking.
- **Employment Forecast:** Boston employers will add 46,000 jobs to the metro this year, an increase of 1.9 percent. In 2011, 41,000 workers were hired.
- **Construction Forecast:** Construction activity will increase in 2012 as developers complete 1,500 market-rate units, expanding inventory by 0.8 percent.
- **Vacancy Forecast:** Vacancy will decrease 50 basis points in 2012 to a 10-year low of 3.5 percent, after improving 110 basis points last year.
- **Rent Forecast:** Owners will raise asking rents 4.2 percent to $1,849 per month, while effective rents will surge 5.8 percent to $1,802 per month.
- **Investment Forecast:** Investors looking for stability will target the Cambridge/Watertown/Waltham submarket. The area's low homeownership rate and steady renter pool of more than 80,000 students will continue to support long-term demand.

Market Forecast | Employment: 1.9% ▲ | Construction: 860 ▲ | Vacancy: 50 bps ▼ | Effective Rents: 5.8% ▲

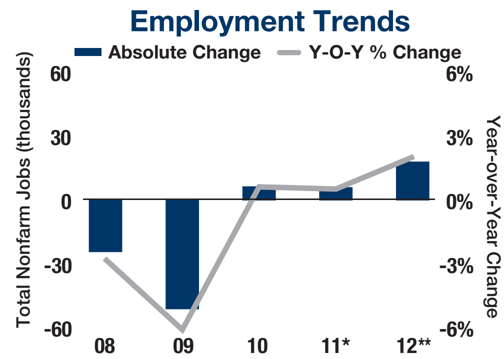
Vacancy to Reach Five-Year Low, Rents to Return to Pre-Recession Peak

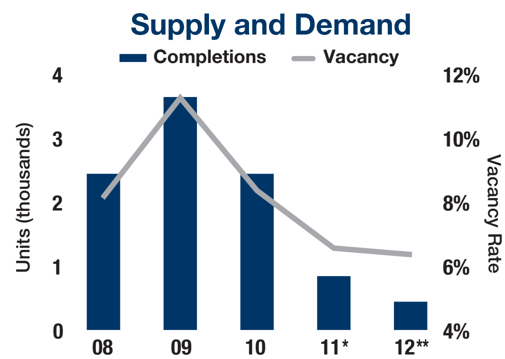
Strong blue-collar job gains will tighten operations in the suburbs, while demand for high-end units in the metro's core will ease as financial firms trim payrolls. Growth in the education and health services sector will accelerate household formation in outlying areas such as the Harris Boulevard/Mallard Creek Church Road and Concord/North Concord submarkets. Tight lending requirements for residential mortgages will also keep many residents in these areas in the renter pool over the next year. As a result, vacancy in these submarkets will fall to the mid-7-percent range by year end, allowing property owners to implement solid rent increases. Meanwhile, in an attempt to improve profitability and build its capital reserves, Bank of America will eliminate thousands of jobs through 2014. The move will generate uncertainty in Charlotte, where the bank employs roughly 15,000 workers at its corporate headquarters.

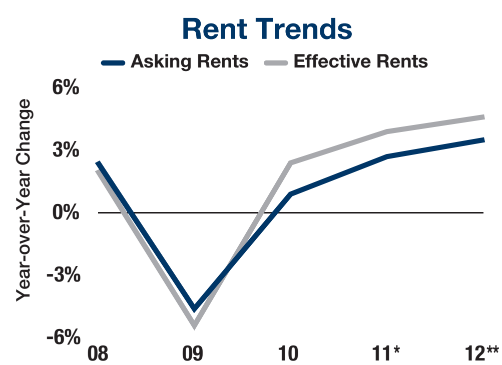
Investment activity will remain firm this year as institutional buyers expand their presence in the metro and target Class A buildings within the urban core and distressed properties trade more briskly. Improving operations will encourage banks to list some of the $350 million of distressed properties from receivership. Well-capitalized investors with established track records will take advantage of low interest rates to purchase assets with deferred maintenance. These local investors looking to achieve higher upside will venture to the suburbs and acquire value-add Class B/C properties trading at a discount. After performing renovations and repositioning the property, owners will lift rents for greater cash flow over the next few years. Leveraged buyers, meanwhile, will target densely populated areas with high barriers to entry within Interstate 485. Properties in Downtown, Fairview North and East Charlotte/Central Avenue, will trade at cap rates around 6 percent.

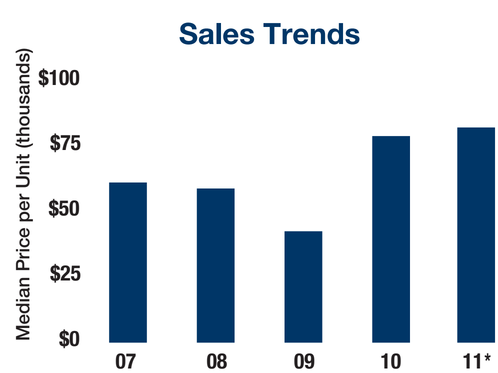
2012 Market Outlook

- **2012 NAI Rank: 25, Up 3 Places.** Average improvement in operating conditions and healthy job gains supported Charlotte's three-spot rise in the NAI.
- **Employment Forecast:** Employers will create 17,000 positions in 2012, an increase of 2.1 percent. Last year, 5,000 workers were added to payrolls.
- **Construction Forecast:** Developers will construct 390 apartments this year, expanding stock by 0.4 percent after completing 825 units last year.
- **Vacancy Forecast:** Vacancy will improve 20 basis points this year to 6.4 percent, a five-year low. In 2011, vacancy decreased 180 basis points.
- **Rent Forecast:** Asking rents will climb 3.5 percent to $816 per month, while effective rents will surge 4.6 percent to $753 per month. Last year, asking and effective rents increased 2.7 percent and 3.9 percent, respectively.
- **Investment Forecast:** Broader access to financing will support bids from out-of-state buyers searching for infill assets. These investors will focus on properties along Interstate 77 and Interstate 85 corridors for long-term cash flow.









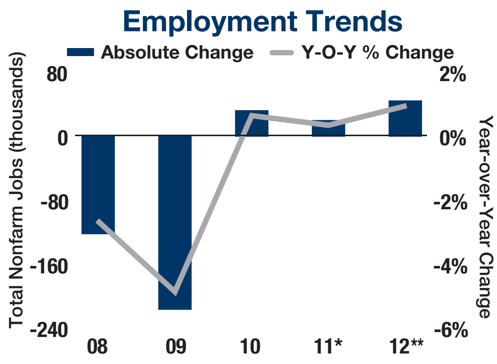
* Estimate ** Forecast

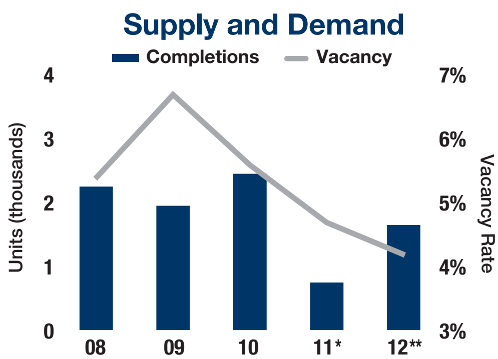
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

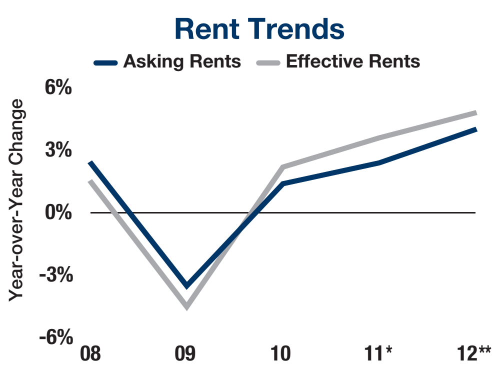
Market Forecast	Employment: 2.1% ▲	Construction: 440 ▼	Vacancy: 20 bps ▼	Effective Rents: 4.6% ▲

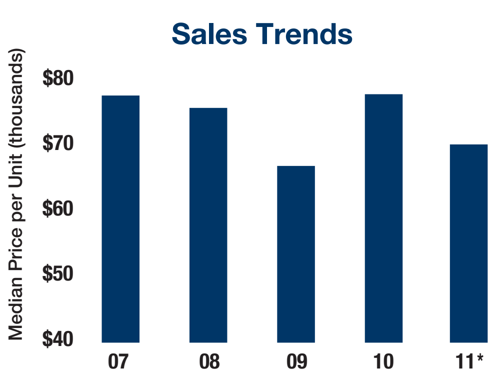
Chicago

Up 6 Places 2012 Rank: 17 2011 Rank: 23









* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Young-Renter Demand Slashes City Vacancy, but Developers Queue Projects

Completions will increase, but tenant demand will grow at a faster pace, reducing vacancy in Chicago for the third consecutive year in 2012. Occupancy and rents will strengthen throughout this year as newly employed residents move into rental housing, but the progress of developments through the supply pipeline will limit additional declines in vacancy beyond 2012. Approximately 15,000 rentals were planned in the metro at the end of last year, an amount that would expand rental stock 3.4 percent if all of the projects come online. Planned rentals in the Loop would expand stock by 15 percent, while the Gold Coast faces a potential 9 percent increase in rental stock. City locations will remain primary targets for developers, due to the expected migration to urban areas by young residents entering the work force.

Institutional appetites for prime, Class A product in the metro remain unfulfilled, while the market for Class B/C assets was gradually gaining momentum at the end of last year. Property owners with equity in stabilized Class B/C assets will increasingly take advantage of another year of low interest rates and strong demand to list assets. However, many other owners remain unable to monetize the equity in their properties and re-deploy it into other assets, thereby limiting transaction activity. In fact, demand for Class B/C product will continue to exceed the supply of for-sale product, and buyers that find suitable, well-priced investments should move quickly to execute deals. Investors seeking stable properties with rising rents will target listings on the north side of Chicago and in the suburbs, while value-add opportunities will emerge on the south and west sides of the city.

2012 Market Outlook

- **2012 NAI Rank: 17, Up 6 Places.** Chicago's below-average overall vacancy rate and above-average projected rent growth pushed up the Windy City six positions in this year's ranking.
- **Employment Forecast:** Total employment in the metro will increase 1 percent in 2012, or by 42,000 jobs. More vigorous job growth, however, will be required to stimulate significant rent growth in the Class B/C segment.
- **Construction Forecast:** In 2012, projects containing 1,600 units will come online in the metro, including 1,200 rentals in the city. During 2011, less than 700 units were delivered in the market.
- **Vacancy Forecast:** Vacancy will decline 50 basis points this year to 4.2 percent; a 90-basis-point drop was recorded last year.
- **Rent Forecast:** Asking rents will rise 4.0 percent to $1,115 per month in 2012. Effective rents will advance 4.8 percent to $1,055 per month.
- **Investment Forecast:** Stable Class B/C product in strong locations remain attractive, while access to financing widens. Generally, cap rates on Class B assets start in the high-6-percent range, while Class C product trades closer to 8 percent.

Market Forecast Employment: 1.0% ▲ Construction: 930 ▲ Vacancy: 50 bps ▼ Effective Rents: 4.8% ▲

Construction Ramp Up Outstrips Positive Demographic Trends; Vacancy to Rise

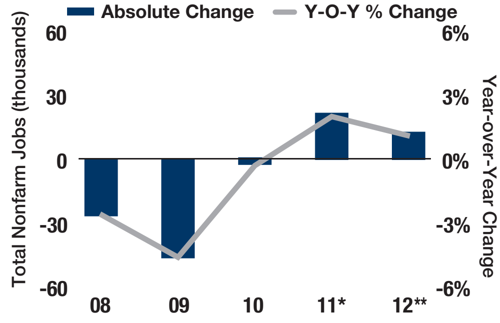
Despite modest employment gains in the coming year, vacancy will trend higher as construction ramps up. Nonetheless, positive demographic trends will continue to work in favor of apartment owners as growth in the prime renter cohort, or those aged 20 to 34 years, will spur demand in Butler/Warren Counties and Northern Kentucky. Many of these young professionals will be unable to purchase a home due to tight lending standards and will instead rent apartments. In addition, baby boomers are selling their homes and downsizing into rentals. With over 37,000 residents turning 55 and older during the next five years, this trend will provide apartment operators with a new long-term source of demand. This year, however, multifamily developers will complete 1,300 new units, most of which, are slated for the Downtown and Butler/Warren Counties submarkets, resulting in a uptick in vacancy.

Sales activity will remain steady this year as opportunistic buyers continue to purchase value-add properties located inside of Interstate 275. Local and regional investors remain bullish on highly vacant Class B/C properties trading well below replacement cost. These buyers will target neighborhoods in Hamilton County, including North College Hill, Colerain, Westwood, and Mount Airy, for repositioning plays. Out-of-state investors, meanwhile, will begin focusing on Cincinnati as an alternate to coastal markets where cap rate compression has significantly reduced yields. Investors will capitalize on the favorable interest rate spreads and use agency financing to purchase the few Class A or Class B assets that come to market. Properties in sought-after areas such as Loveland and Hyde Park will produce returns in the mid-7 to mid-8-percent range.

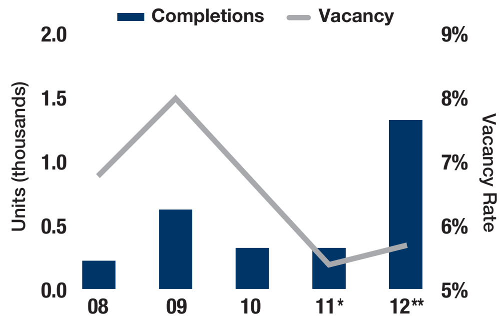
2012 Market Outlook

- **2012 NAI Rank: 35, Down 2 Places.** An uptick in vacancy and a significant decline in job growth pushed Cincinnati down two spots in the NAI.
- **Employment Forecast:** Employers will create jobs for the second consecutive year during 2012. This year, 12,000 positions will be added in the metro, representing an increase of 1.2 percent. In 2011, 20,900 employees were hired.
- **Construction Forecast:** Multifamily builders will construct 1,300 apartments during 2012, expanding inventory by 1.2 percent. Last year, a mere 300 units came online.
- **Vacancy Forecast:** The projected additions to supply will outweigh demand growth. As a result, vacancy will rise 30 basis points this year to 5.7 percent.
- **Rent Forecast:** In 2012, asking rents will accelerate 2.3 percent to $730 per month, while effective rents will increase 3.1 percent to $704 per month. Last year, asking rents rose 1.7 percent and effective rents increased 2.7 percent.
- **Investment Forecast:** High investor demand and greater transparency on prices will encourage lenders to liquidate distressed inventory. Hands-on investors searching for discounted assets will target these older, highly vacant properties with deferred maintenance trading below $10,000 per unit.

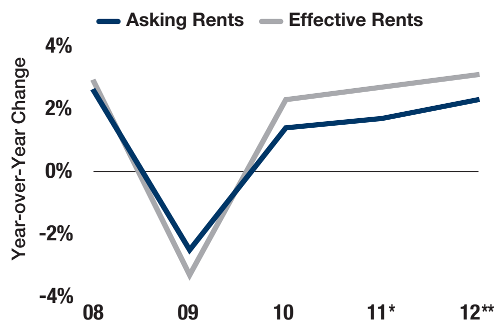
Employment Trends



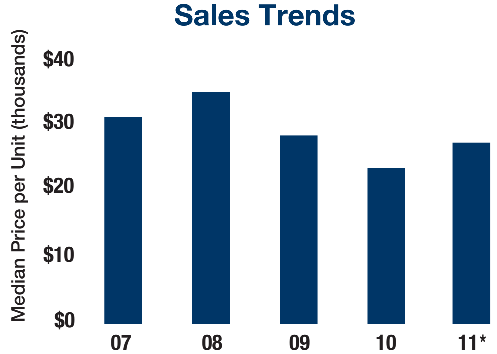
Supply and Demand



Rent Trends



Sales Trends

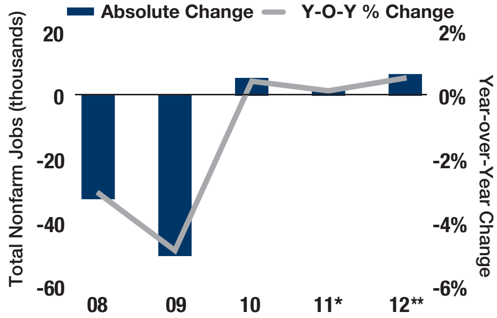


* Estimate ** Forecast

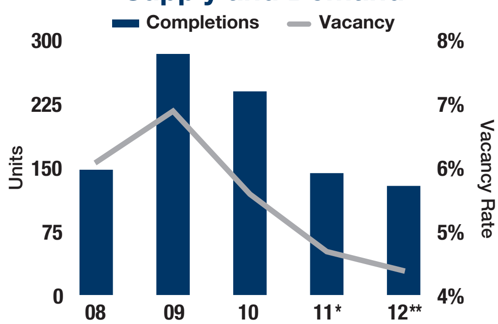
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast Employment: 1.2% ▲ Construction: 1,000 ▲ Vacancy: 30 bps ▲ Effective Rents: 3.1% ▲

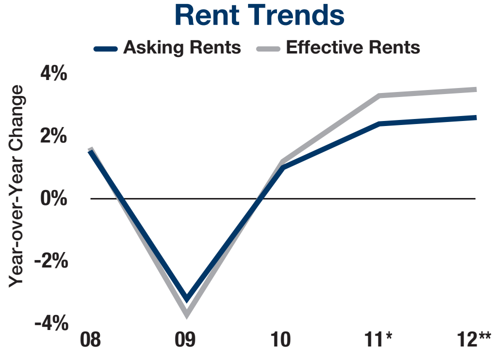
Employment Trends



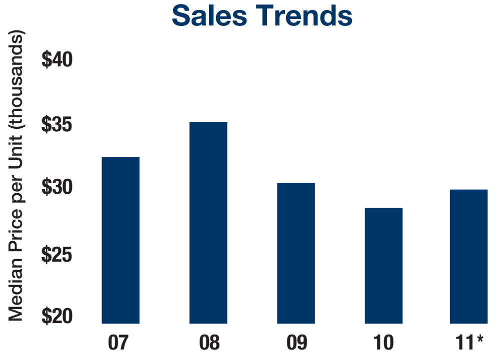
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Downtown Makeover Sparks Cleveland Apartment Revival

Economic development initiatives will stimulate job growth near the city core, while high barriers of entry will limit apartment completions this year, giving landlords leverage to raise rents. Downtown Cleveland is undergoing a $7 billion makeover, including the development of the Horseshoe Casino, Medical Mart and Convention Center, and the Flats East Bank project. The casino will open during the first quarter, bringing 1,600 jobs to the area. The development of the other two projects will employ more than 3,000 construction workers during 2012, pushing down Class B/C vacancy in the market to a 12-year low. Once the Medical Mart and Flats come online in 2013, business relocation to the Downtown/The Flats/Warehouse District submarket will attract professionals to surrounding areas. Many of these residents will lease Class A units in the inner-ring submarkets, enabling operators to scale back concessions and lift rents.

Higher yields will attract out-of-state investors to Cleveland this year, while local buyers will target value-add properties in the suburbs. Most buyers will rely on agency financing to acquire larger, performing Class B assets in affluent areas such as Beachwood and Mayfield Heights that come available. These investors will spend modestly to address deferred maintenance and reset rents to the market rate. Meanwhile, over-leveraged owners will dispose of Class C assets, providing opportunities for local operators with elevated risk tolerance. These well-capitalized buyers will acquire non-performing assets on a per-unit basis, then attempt to stabilize income streams over a short-term horizon. Once the asset is well occupied, owners may list the property at the market cap rate, which is currently 9 percent, or refinance the asset and redeploy the equity into another value-add property with upside potential.

2012 Market Outlook

- **2012 NAI Rank: 40, Down 1 Place.** The nation's second weakest employment market dragged down Cleveland one spot in this year's index.
- **Employment Forecast:** Employers will hire 6,000 workers this year, expanding payrolls by 0.6 percent. Last year, 1,500 jobs were created.
- **Construction Forecast:** Construction will drop to the lowest level in a decade this year as builders complete 125 units.
- **Vacancy Forecast:** Vacancy will contract 30 basis points this year to 4.4 percent after improving 90 basis points in 2011.
- **Rent Forecast:** In 2012, asking rents will jump 2.6 percent to a record high of $758 per month, while effective rents spike 3.5 percent to $735 per month.
- **Investment Forecast:** While interest rates remain near record lows, cap rates may modestly compress this year. As such, stabilized Class B assets in sought-after areas will command returns in the high-7 to low-9-percent range, while Class A product could fetch initial yields of around 7 percent. Troubled Class C buildings will trade between $10,000 per unit and $15,000 per unit.

Market Forecast	Employment: 0.6% ▲	Construction: 20▼	Vacancy: 30 bps ▼	Effective Rents: 3.5% ▲

Down 4 Places **2012 Rank: 41** **2011 Rank: 37**

Columbus

Rising Costs Push Students Off Campus; Core Vacancy Falls

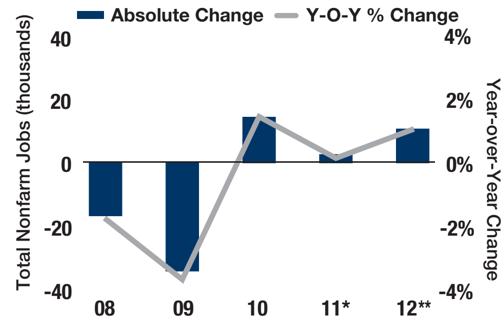
The Columbus apartment market will improve as some of the 100,000 students in the metro migrate to market-rate apartments to reduce expenses. Ohio State University will raise tuition by more than 3.5 percent this year, while on-campus room and board will climb 6 percent. Students looking to reduce living expenses will seek off-campus housing in surrounding neighborhoods such as University District, Clintonville and German Village. In addition, students seeking advanced degrees will no longer receive a subsidy that keeps interest from accruing while they are enrolled full time and rebates for on-time repayment will be eliminated for recent graduates. As a result, vacancy in the Upper Arlington/North Columbus and University/Downtown submarkets will tighten below 4 percent this year.

Local and regional investors will target Class B/C properties in some level of distress around the urban core for long-term holds, while out-of-state buyers will acquire the few Class A assets that come to market. A strengthening buyer pool will encourage lenders to release properties and financially distressed owners to consider short sales. Many investors who sat on the sidelines during the boom will re-enter the market and target value-add properties with fewer than 200 units. Opportunities for purchase will arise north of the Interstate 70 corridor, where healthy job growth will enable owners to improve operations and reach ROI goals. Institutional buyers attempting to balance their portfolios will also be active in Columbus, targeting Class A apartments near universities and employment centers. Stabilized top-tier properties will trade at cap rates in the high-6 to mid-7-percent range, 200 basis points higher than in some of the coastal markets.

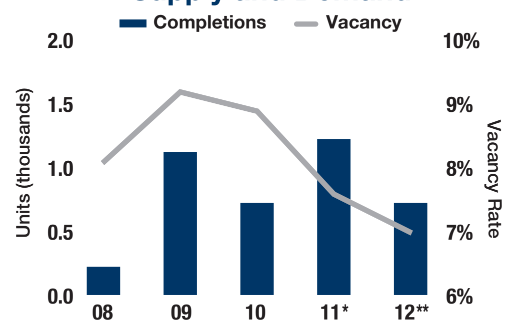
2012 Market Outlook

- **2012 NAI Rank: 41, Down 4 Places.** Columbus fell four positions in the 2012 NAI due to soft job growth and the nation's fifth highest vacancy rate.
- **Employment Forecast:** Employment will reach 97 percent of its pre-recession peak this year as 10,000 jobs are added, an increase of 1.1 percent.
- **Construction Forecast:** Multifamily developers will complete 650 apartments in 2012, expanding rental stock by 0.5 percent. Last year, 1,154 units came online.
- **Vacancy Forecast:** Solid student demand will support a 60 basis points fall in vacancy this year to 7 percent. In 2011, vacancy dropped 130 basis points.
- **Rent Forecast:** A surge in demand will allow operators to lift rents to peak levels in 2012, with asking rents to rise 3 percent to $702 per month, and effective rents to accelerate 3.9 percent to $670 per month.
- **Investment Forecast:** Cap rates will remain relatively low in 2012, prompting additional owners contemplating dispositions to list their properties. Opportunistic investors with strong equity positions may refinance and invest in troubled assets in an attempt to capture higher returns.

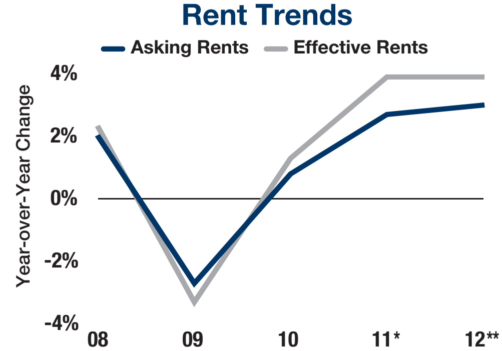
Employment Trends



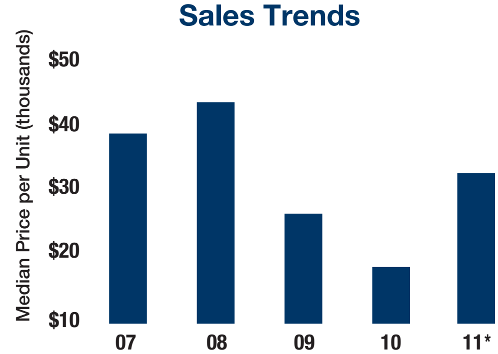
Supply and Demand



Rent Trends



Sales Trends

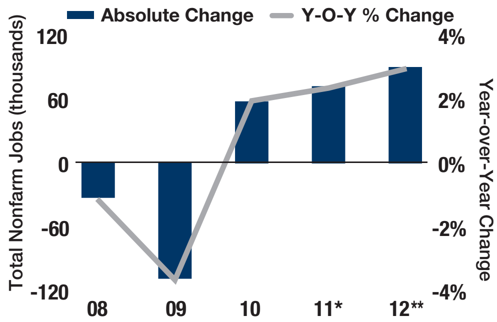


* Estimate ** Forecast

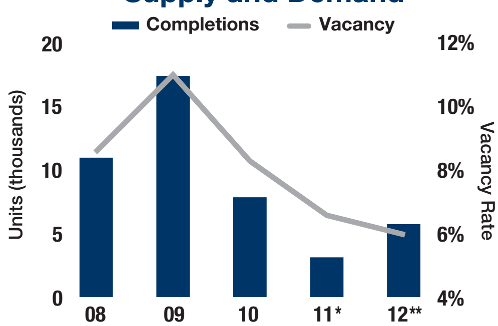
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 1.1% ▲	Construction: 500 ▼	Vacancy: 60 bps ▼	Effective Rents: 3.9% ▲

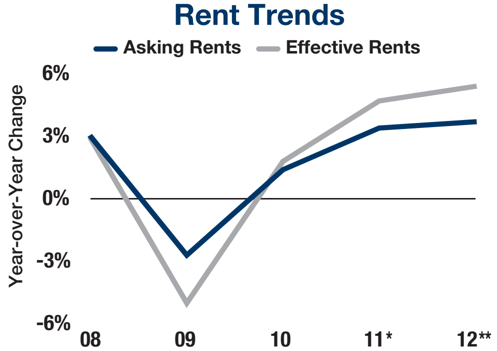
Employment Trends



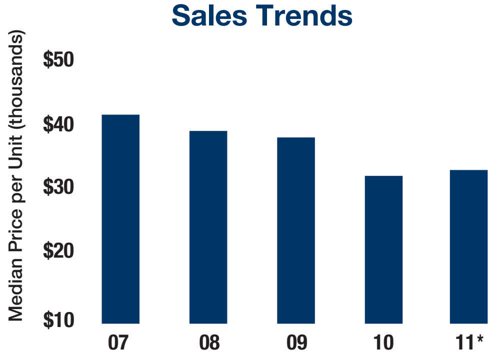
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Strong Demand Across All Tiers Reduces Vacancy in Metroplex

Broad-based job growth will result in the nation's highest net absorption in Dallas/Fort Worth this year, though vacancy improvements will be greater in Tarrant County as supply-side pressure ticks up in Dallas. Developers will ramp up deliveries near employment centers in the high-growth suburbs of Plano and Allen, reducing the impact of strong demand on vacancy in the eastern half of the Metroplex. Vacancy in Fort Worth, meanwhile, will fall further as employers continue to add workers and few development projects pencil out due to lower overall rents. Among the employers expanding in the market, AllianceTexas announced an upcoming addition of 2,400 positions. Also, J.P. Morgan Chase will create 700 positions in Lewisville, a Dallas suburb. As job growth expands across the Metroplex and development remains concentrated on the east side, vacancy in Fort Worth will finish the year in line with Dallas for the first time since 2003.

Strong local operations will bolster NOIs this year, prompting investors to vigorously pursue Dallas/Fort Worth listings. Despite the threat of new construction, Metroplex apartments will generate healthy returns over the long term, with a strong and diverse job market supporting favorable conditions. In-migration of job seekers will boost occupancy at Class B properties, encouraging investors seeking stable cash flow to deploy capital towards these assets. Class C apartments will also garner investor interest, although a lack of financing from the agencies will limit activity to cash-heavy buyers. These lower-tier assets can typically be acquired from $10,000 to $20,000 per door, and be re-listed after stabilization at cap rates in the 9 percent range. In the top-tier arena, institutions and REITs will remain active, although cap rates are unlikely to compress further, and instead remain in the low-6-percent range.

2012 Market Outlook

- **2012 NAI Rank: 15, Up 3 Places.** One of the strongest absolute job gains in the U.S. pushed up the Metroplex three positions in this year's ranking.
- **Employment Forecast:** Employers will add 88,000 positions in the Metroplex this year, expanding payrolls by 3 percent. Employers added 70,000 workers last year, a gain of 2.4 percent.
- **Construction Forecast:** Approximately 5,500 apartments will come online in 2012, expanding existing inventory by 1 percent.
- **Vacancy Forecast:** The average vacancy rate will fall 60 basis points to 6 percent by year end. In 2011, vacancy fell 170 basis points.
- **Rent Forecast:** Asking rents will climb 3.7 percent this year to $832 per month as effective rents jump 5.4 percent to $767 per month.
- **Investment Forecast:** The volume of distressed assets in the Metroplex was nearly $900 million at the end of 2011, prompting buyers to look for REO properties with upside potential. Investors will target lower-tier properties for reposition opportunities in order to capture rent growth.

Market Forecast Employment: 3.0% ▲ Construction: 2,600 ▲ Vacancy: 60 bps ▼ Effective Rents: 5.4% ▲

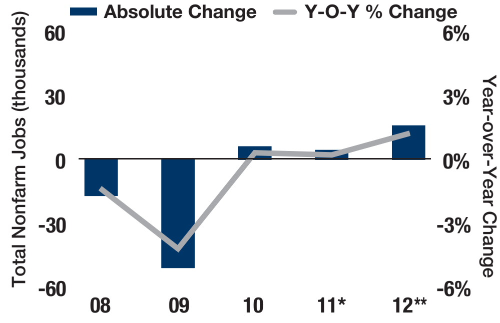
Construction Accelerates, but Demand Recovery Maintains Momentum

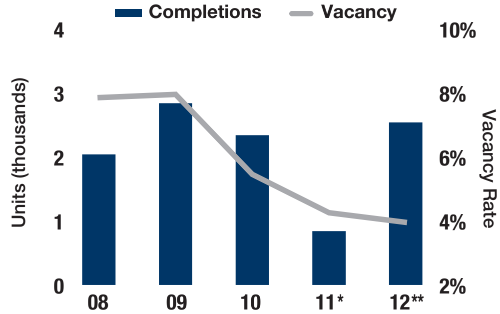
Expansion in Denver's high-tech and energy sectors, along with growth in professional and business services, will support job creation sufficient to offset a three-fold increase in completions. As a result, apartment vacancy will retreat to its lowest level since 2000. While shadow rental inventory may rise this year as residential investors target foreclosures, the competitive threat to apartments remains minimal, as vacancy among single-family and condo rentals in the metro has fallen below 2 percent. Over the past two years, renter demand in Denver increased dramatically despite limited job creation. This surge can be attributed to above-average household formation, a declining homeownership rate, and elevated foreclosures, which combined to support a 10 percent increase in the renter pool. Previously hard-hit submarkets, such as Denver-South/Glendale, Aurora-North and Aurora-Central-Southwest, are posting the strongest occupancy gains. Closer-in areas, such as Lakewood, Littleton and Englewood/Sheridan, along with central submarkets, outperformed through the downturn and, therefore, have less room for improvement in this recovery cycle.

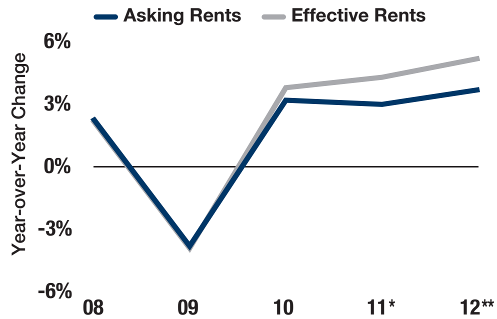
Transaction velocity will accelerate as elevated buyer demand and firming values encourage more apartment owners to list. Low interest rates will provide further motivation, particularly among Class B/C owners who have achieved their return objectives. These owners would prefer to focus on assets with higher yields in secondary markets, or turnaround opportunities locally. Class A sales will also increase as private, out-of-state buyers target high-quality assets in the metro for long-term investment. This trend began to gain traction last year, when velocity in the $20-million-plus segment rose nearly 60 percent, driven by activity in Littleton, Broomfield County, Lakewood and Denver proper.

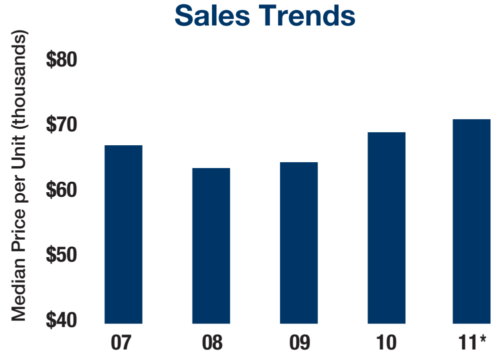
2012 Market Outlook

- **2012 NAI Rank: 14, No Change.** Denver holds the 14th place in the 2012 NAI as strong rent gains compensated for elevated supply growth.
- **Employment Forecast:** In 2012, employment will increase by 1.3 percent, or 15,000 positions. Growth will surpass job creation in the previous two years combined by nearly 40 percent.
- **Construction Forecast:** Approximately 2,500 units will come online in 2012, up from 838 units last year. Completions will be spread across several submarkets, but Denver-North accounts for the majority of planned units.
- **Vacancy Forecast:** During the year, vacancy in the metro will recede 30 basis points to 4 percent.
- **Rent Forecast:** Asking rents will rise 3.7 percent in 2012 to $940 per month. Effective rents will grow at a faster clip of 5.2 percent, to $866 per month.
- **Investment Forecast:** Properties with 100-plus units will command premium prices as demand exceeds for-sale inventory. Cap rates for larger, performing Class B assets have compressed to the high-6 to mid-7-percent range, but investors should achieve healthy returns as lenders compete aggressively.









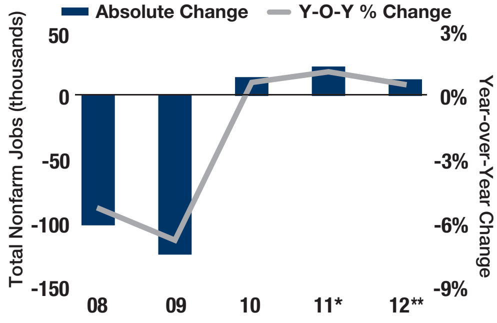
* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 1.3% ▲	Construction: 1,660 ▲	Vacancy: 30 bps ▼	Effective Rents: 5.2% ▲

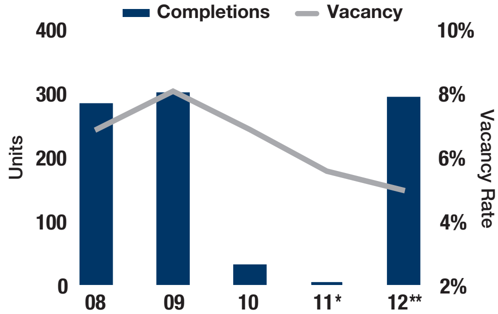
Detroit

Up 4 Places | **2012 Rank: 38** | **2011 Rank: 42**

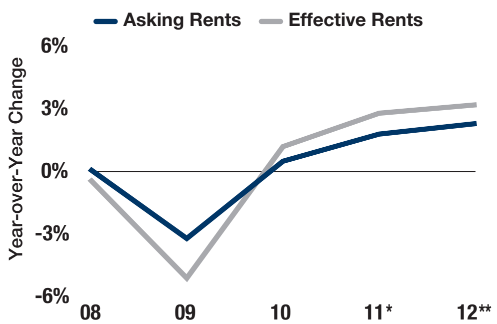
Employment Trends



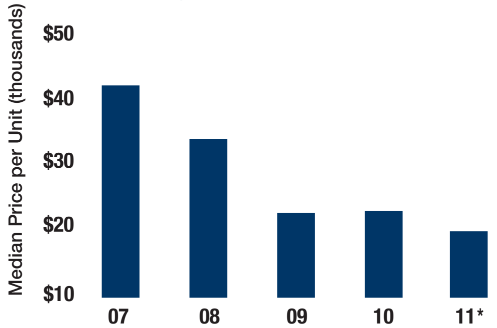
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Tax Reduction Entices Property Owners to Sell, Lures Yield-Seeking Buyers

Vacancy in Detroit will drop to the lowest level in 10 years as broad-based job growth, especially in the professional and business services and manufacturing sectors, supports positive net absorption. The United Auto Workers Union recently ratified a four-year deal with the Big Three, which includes $16 billion to invest in new products and infrastructure. The move will create over 12,000 manufacturing jobs through 2014, with a bulk of the positions slated for facilities in Midtown/West Detroit, Novi/Lavonia and Dearborn/Dearborn Heights submarkets. Household formation will accelerate in these areas over the next year, spurring demand for Class B/C units. As a result, vacancy in these submarkets will tighten to the mid-6-percent range by year end, allowing owners to lower concessions. Elsewhere, relocation incentives offered by large corporations will draw professionals to the Midtown/West Detroit and Downtown submarkets. Many of these renters will capitalize on the elevated concessions and lease Class A units, reducing vacancy in the area to 8 percent.

Aided by tax incentives, property operators in Detroit will list performing assets, attracting yield-seeking buyers looking for outsized returns. The recent elimination of the 6 percent Michigan Business Tax will entice some owners to list their assets. Investors from overseas with an appetite for risk will take advantage of the favorable exchange rates and pay cash for stabilized properties in sought-after areas such as Oakland County and Ann Arbor. In addition, out-of-state buyers will expand their portfolios in the metro and capitalize on the highest cap rates in the country. As competition heats up for Class A properties, first-year yields will compress below 8 percent this year. Local investors, meanwhile, will target redevelopment opportunities near Wayne State and the University of Michigan, where more than 70,000 students support the renter pool.

2012 Market Outlook

- **2012 NAI Rank: 38, Up 4 Places.** Detroit will add jobs for the third consecutive year, aiding in the market's four-position rise in this year's NAI.
- **Employment Forecast:** After adding 21,000 workers to payrolls last year, employers will create 11,000 jobs in 2012, expanding staffs by 0.6 percent.
- **Construction Forecast:** Construction will remain low this year as 290 apartment units come online. No market-rate units came online in 2011.
- **Vacancy Forecast:** Stagnant building activity and employment-generated demand will reduce vacancy 60 basis points in 2012 to 5 percent. Last year, vacancy contracted 130 basis points on net absorption of nearly 3,000 units.
- **Rent Forecast:** Asking rents will rise 2.3 percent this year to $846 per month, accompanied by a 3.2 percent increase in effective rents to $783 per month.
- **Investment Forecast:** As the local economy continues to gain momentum and operations improve, lenders will be enticed to work out deals with property owners who are underwater. As a result, the distressed pipeline will thin this year, though a few more REOs will trickle to the market.

Market Forecast	Employment: 0.6% ▲	Construction: 290 ▲	Vacancy: 60 bps ▼	Effective Rents: 3.2% ▲

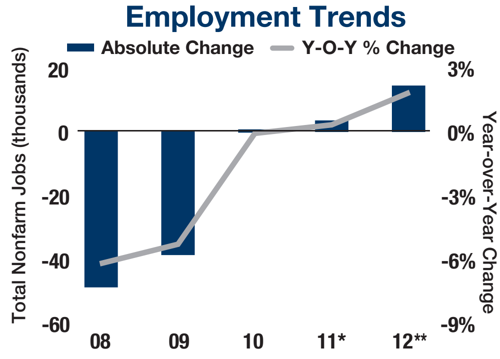
Local Buyers and Out-of-State Investors Continue to See Upside in Broward Assets

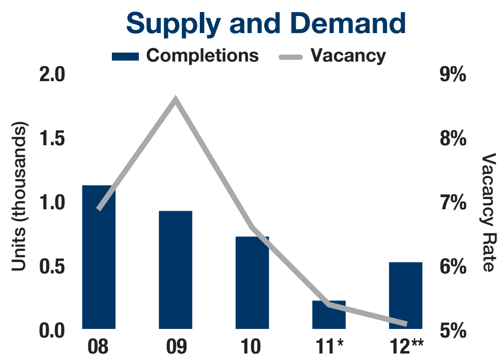
Minimal construction will support an additional decline in the vacancy rate and further rent growth in Broward County in 2012, extending the revival of the apartment sector that began in 2010. Tenant demand for Class A apartments will remain strong as employment expands and current residents forgo homeownership, but the Class B/C segment will also strengthen this year. With a vacancy rate of 6 percent at the end of 2011, slack remains in lower-tier rentals as a result of recessionary cuts in employment sectors such as construction, and trade, transportation and utilities. Payrolls in lower-paying fields will expand in 2012, most notably in port-related positions, as increasing cruise and cargo activity at Port Everglades continues to drive the local economic recovery. In addition, a potential increase in residential construction will virtually assure renewed hiring in the construction sector.

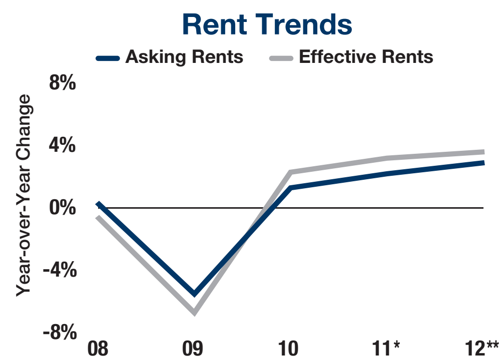
A very fluid investment market continues to evolve, with private local buyers, institutions and out-of-state capital searching the market. In addition, the emerging presence of Canadian investors and, to a lesser extent, Latin American buyers, continues to offer potential sellers a broad and deep pool of potential bidders. The investor pool is also notable for its diverse objectives. Many buyers, for example, continue to target distressed assets available at attractive prices to execute value-add strategies. In a market with improving occupancy, some investors will continue to have greater success re-tenanting and restoring rent rolls. Institutions are also actively pursuing newer Class A assets, which can trade at cap rates of 5 percent to 6 percent. An eventual emptying of the pipeline of distressed properties will help to stabilize values and enable many institutions to realize increases in asset value at the end of five- to 10-year holding periods.

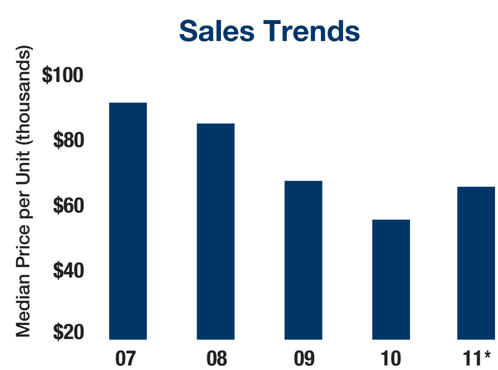
2012 Market Outlook

- **2012 NAI Rank: 31, Up 3 Places.** Limited development and solid operating measures resulted in Fort Lauderdale's three-spot improvement in the index.
- **Employment Forecast:** Employers will add 13,700 positions in the county this year, an amount that will expand total employment 1.9 percent. Only 2,800 jobs were created in 2011.
- **Construction Forecast:** A mere 500 new rentals will come online during 2012. Last year, only 150 units were delivered.
- **Vacancy Forecast:** Following a 120-basis-point plunge last year, the vacancy rate will decrease an additional 30 basis points in 2012 to 5.1 percent, the lowest year-end level in six years.
- **Rent Forecast:** Asking rents will climb 2.9 percent in 2012 to $1,123 per month, while effective rents will advance 3.6 percent to $1,072 per month.
- **Investment Forecast:** Investors seeking older properties in established locations with strong intrinsic demand drivers will continue to focus on assets in communities east of Interstate 95.









* Estimate ** Forecast

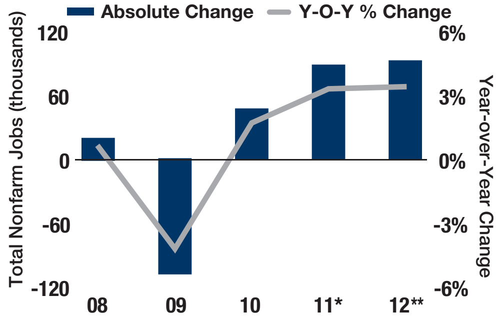
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 1.9% ▲	Construction: 350 ▲	Vacancy: 30 bps ▼	Effective Rents: 3.6% ▲

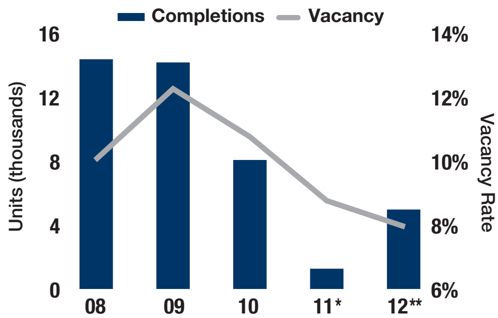
Houston

Up 6 Places **2012 Rank: 18** **2011 Rank: 24**

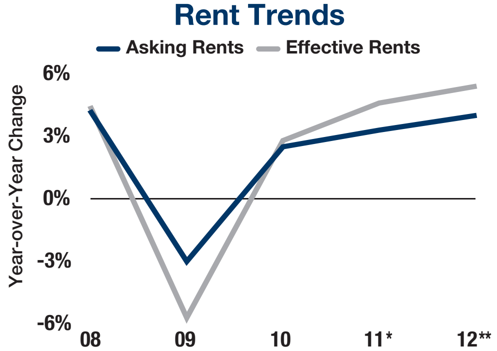
Employment Trends



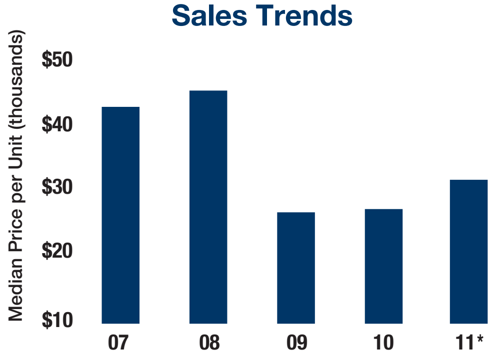
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Houston Leads Nation in Job Gains, Broad-Based Performance Improvements

Houston employers will add the most jobs in the country this year, escalating apartment demand and compressing vacancy. Energy-related payroll expansion will be a significant contributor to employment gains in 2012. Over the past year, the number of operating oil rigs has expanded by 15 percent, generating a wide range of new jobs and supporting all property tiers. The professional and business services sector will bolster demand for Class A units in the Inner Loop and near the Energy Corridor. Class B/C improvement, meanwhile, is centered near manufacturing and material companies that support energy firms. As more blue-collar positions are created, vacancy in Baytown, Clear Lake, and areas in North and Northeast Houston will tighten. Overall, household formation will outpace new supply until at least late 2012, when the first wave of approximately 15,000 planned units is scheduled to come online. Around the same time, homebuilders will create another competitive threat to apartments. With Class A rents exceeding the average monthly mortgage obligation, renters could be enticed into ownership as the recovery intensifies.

First-year returns for Class A properties in Houston will level off in 2012, a trend that will ripple through the rest of the property tiers. At the beginning of the year, investor preferences were focused on Class A assets or REO properties. As values outpace construction costs for top-tier assets, development of new projects will become more attractive to institutional operators. As a result, buyers will begin targeting Class B listings, putting downward pressure on first-year yields. At the other end of the spectrum, Class C properties will be acquired as value-add plays, though prices have climbed to between $18,000 and $24,000 per unit in the past two years. Investors using this strategy will target North and Northeast Houston, where exit cap rates after stabilization and 12 months of proven NOIs hover near 9 percent.

2012 Market Outlook

- **2012 NAI Rank: 18, Up 6 Places.** Houston will add the most jobs in the nation this year, supporting the market's six-position rise in the index.
- **Employment Forecast:** Employers in Houston will add 91,000 positions this year, a gain of 3.5 percent. Last year, 87,000 jobs were created.
- **Construction Forecast:** Developers will deliver 4,800 apartments this year, after just 1,100 units were completed in 2011.
- **Vacancy Forecast:** Vacancy will fall 80 basis points in 2012 to 8 percent, following a 200-basis-point dive last year.
- **Rent Forecast:** This year, asking rents will rise 4.0 percent to $822 per month and effective rents will gain 5.4 percent to $764 per month.
- **Investment Forecast:** Few sellers are willing to divest as 1031-exchange deals remain limited. Owners with maturing debt or plans to sell in the next few years may want to consider advancing their timelines to take advantage of the low-cap-rate window and flood of capital coming off the sidelines.

Market Forecast	Employment: 3.5% ▲	Construction: 3,700 ▲	Vacancy: 80 bps ▼	Effective Rents: 5.4% ▲

Out-of-State Buyers Target Indianapolis' Higher Yields, Drive Up Closings

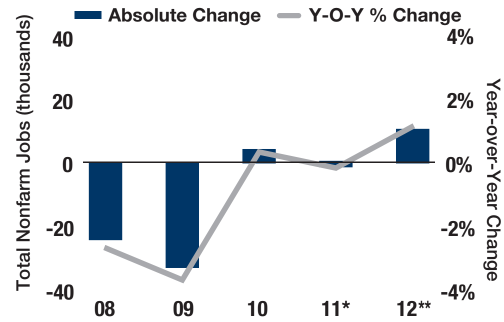
Job formation in Indianapolis' manufacturing and professional and business services sectors will strengthen renter demand, which will help counterbalance this year's increase in new supply. Absorption trends surged ahead of job growth in 2011, driven by a declining homeownership rate and ongoing renter household growth in affluent suburbs. This trend was accompanied by a modest slowing in completions, which resulted in one of the metro's sharpest vacancy declines on record. In 2012, Hamilton County's suburban communities will receive an influx of supply, but will continue to perform well due to above-average household formation. As Hamilton County's higher-income employment base expands and aids in the absorption of new units, vacancy in Carmel, Fishers and Noblesville will remain below historical averages for the second straight year. Owners of Class A properties near new developments, however, will forego strong rent hikes to retain residents. Meanwhile, the return of average-paying jobs, particularly in the manufacturing sector, will drive demand for Class B/C units, generating healthier occupancy and rent gains than the metro's top-tier counterpart.

Comparatively higher yields and stabilizing economic conditions will lure out-of-state buyers to Indianapolis in 2012. Buyers from Midwestern markets, such as Chicago, will enter the metro to trade up to larger assets or portfolios containing midsized buildings. Class A properties, in particular, will attract out-of-state buyers due to cap rates that average in the low- to mid-7-percent range. Cap rates for Class B assets will average as much as 100 basis points higher, and as high as 9 percent for Class C assets. Meanwhile, many owners have been unable to avoid financial distress, despite firming marketwide operations over the last two years. As such, opportunities to acquire distressed assets in outlying areas will persist, with properties trading as low as $10,000 per unit in some cases.

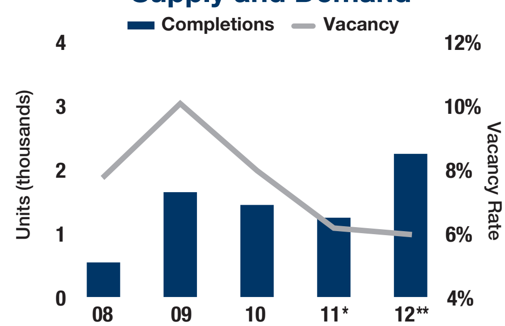
2012 Market Outlook

- **2012 NAI Rank: 39, Down 8 Places.** Indianapolis fell eight spots in the ranking due to below-average employment and rent growth.
- **Employment Forecast:** Metro employers will add 10,000 workers to payrolls in 2012, a 1.2 percent gain, overturning last year's loss of 1,200 jobs.
- **Construction Forecast:** The delivery of 2,200 units will expand metro inventory by 2 percent this year. In 2011, stock additions totaled 1,215 units.
- **Vacancy Forecast:** Increased renter demand in 2012 will push down vacancy 20 basis points to 6 percent. Last year, vacancy plummeted 180 basis points.
- **Rent Forecast:** Asking rents will advance 3.1 percent to $701 per month this year, and effective rents will increase 4.2 percent to $671 per month.
- **Investment Forecast:** Opportunities for value-add buyers to acquire distressed, lower-tier assets will remain prevalent to the west and southeast, locations which continued to post double-digit vacancy heading into 2012.

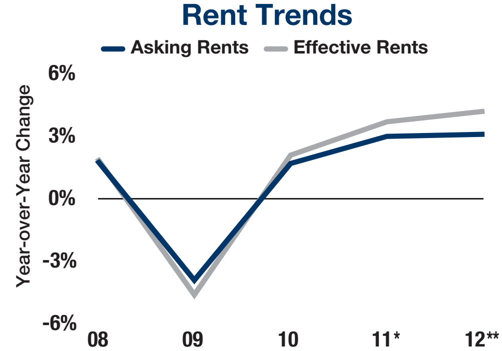
Employment Trends



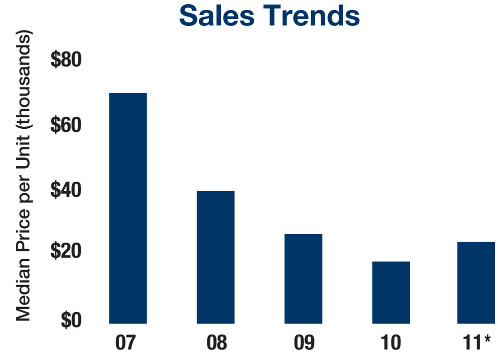
Supply and Demand



Rent Trends



Sales Trends

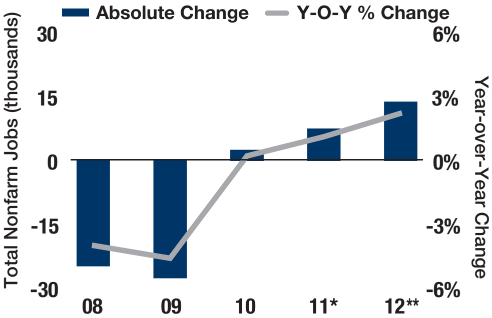


* Estimate ** Forecast

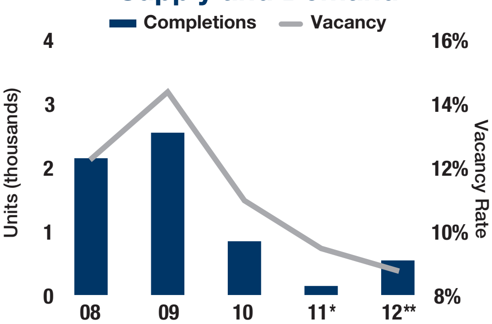
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast Employment: 1.2% ▲ Construction: 990 ▲ Vacancy: 20 bps ▼ Effective Rents: 4.2% ▲

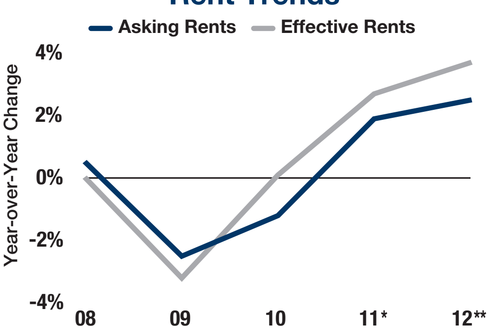
Employment Trends



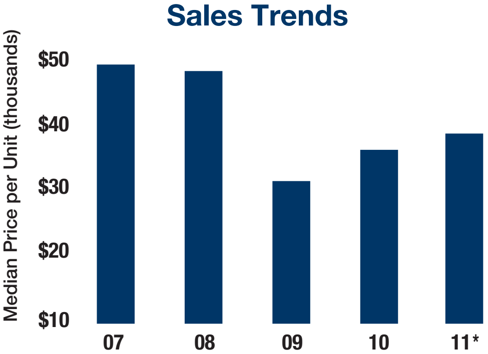
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Hesitant Developers Remain Spectators as Strong Demand Drives Recovery

Restrained construction will assure that modest increases in tenant demand will reduce the vacancy rate in Jacksonville during 2012. Projected completions will come in well below recent trends and limited development activity may persist beyond this year as only 700 units have been permitted since 2010. The decrease in vacancy, meanwhile, will rely less upon the release of pent-up demand, which has largely sustained the recovery thus far, and instead ensue primarily from a resumption of meaningful job growth. Additionally, the metro's economy will likely benefit from the return of military personnel from Iraq in 2012 and, over the long term, an increase in the local naval presence. The shift to more employment-driven demand growth in 2012 will accelerate rent growth, primarily in Class A complexes on the south side.

The slump in rental construction will enable owners and investors to realize near-term upside by raising occupancy and rents without concern that new units will divert tenant demand. In a market that has experienced periods of significant multifamily development, properties continue to sell at prices less than estimated replacement cost. In addition, a significant spread between cap rates and rates on acquisition financing persists. Those cap rates typically start at 6 percent for newer Class A product, and can range to the low double digits for smaller assets. REO sales have lowered price expectations for many investors, perhaps too significantly in a market where many owners can substantiate improvements in performance over the past year. As the recovery unfolds, buyers will increasingly raise price expectations in order to close deals. Several areas of the metro merit consideration, including the beaches, where there are constraints on adding supply. Properties on the north side of the metro, however, will not likely receive much attention due to high unemployment.

2012 Market Outlook

- **2012 NAI Rank: 44, No Change.** The nation's highest vacancy rate kept Jacksonville at the bottom of this year's NAI.
- **Employment Forecast:** Total employment this year will grow 2.3 percent, or by 13,300 jobs, the highest annual total in five years.
- **Construction Forecast:** Builders will deliver 500 units in 2012, an increase from 100 rentals last year, but substantially less than the average of 2,700 units produced annually from 2007 to 2009.
- **Vacancy Forecast:** The vacancy rate will decline 70 basis points this year to 8.8 percent. In 2011, vacancy plunged 150 basis points.
- **Rent Forecast:** Lower vacancy and limited competition from new construction will support a 2.5 percent increase in asking rents this year to $804 per month. Effective rents will jump 3.7 percent to end 2012 at $781 per month.
- **Investment Forecast:** Class A complexes on the south side will remain primary targets for large investors, while assets near downtown Jacksonville will also elicit strong bids.

Market Forecast | Employment: 2.3% ▲ | Construction: 400 ▲ | Vacancy: 70 bps ▼ | Effective Rents: 3.7% ▲

Automakers Support Demand For Lower Tiers, Tech Firms Bolster Class A Assets

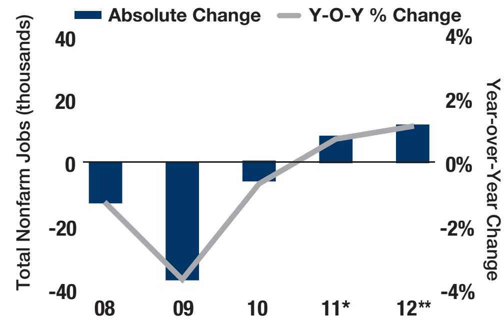
The economic recovery that began forming last year will gain momentum in 2012, bolstering apartment operations. Metrowide, payrolls will expand by 1.2 percent in 2012, and serve as the primary driver of new demand. Last year, the release of pent-up demand kick-started the turnaround in operations. This year, the metro's major employers, including Ford Motor Co., General Motors Co., and Hallmark, will play a significant role in generating demand for rental units. Specifically, lower-tier properties near the GM plant in Wyandotte, and the Ford plant in Liberty, which is expanding by 1,600 positions, will outperform. Class A properties, meanwhile, will also chart considerable occupancy gains as the professional and business services sector leads employment expansion. The Downtown/East and Overland Park South submarkets will reap the benefits of the resurgence of top-tier demand as Netsmart and DSI migrate to office space near the metro's core. The two submarkets recorded sizable improvements last year, and will register vacancy 100 basis points below the metrowide average in 2012.

Sales activity will increase in 2012, as more out-of-state investors capitalize on the high-yield potential of Kansas City. Buyers have already stepped up acquisitions and deal flow reached a five-year high in 2011. As a result, steady rent and occupancy gains have returned significant negotiating leverage to sellers, supporting a jump in per-unit prices since the onset of the recovery. The rise in valuations is unlikely to deter national investors, however, as overall prices are well below coastal regions. This provides investors with an opportunity to acquire newer, larger properties for similar capital commitments. In addition, improving operations and first-year returns in the low- to mid-8-percent range will intensify bidding.

2012 Market Outlook

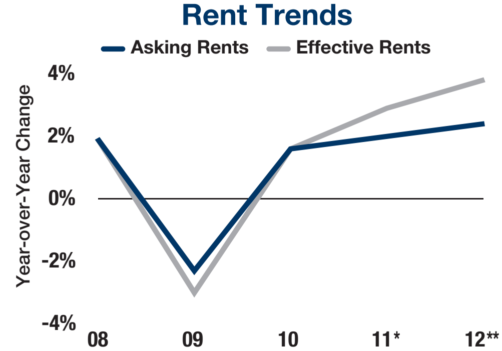
- **2012 NAI Rank: 33, Down 7 Places.** Kansas City dipped seven spots in the index due to below-average employment growth and soft rent gains relative to the national rate.
- **Employment Forecast:** After nearly 8,000 jobs were added last year, employers will add 11,300 positions in 2012, a 1.2 percent increase.
- **Construction Forecast:** Apartment inventory will expand 0.5 percent this year with the addition of 525 units. Over 1,000 units were added last year.
- **Vacancy Forecast:** Vacancy will fall 40 basis points to 5.8 percent by the end of 2012. Last year, vacancy dropped 180 basis points.
- **Rent Forecast:** By year end, asking rents will edge up 2.4 percent to $727 per month, while effective rents increase 3.8 percent to $690 per month.
- **Investment Forecast:** As the market shows signs of sustainable improvement in 2012, buyers will bid aggressively to secure performing assets in Olathe/Gardner and Overland Park South at low borrowing costs.

Employment Trends

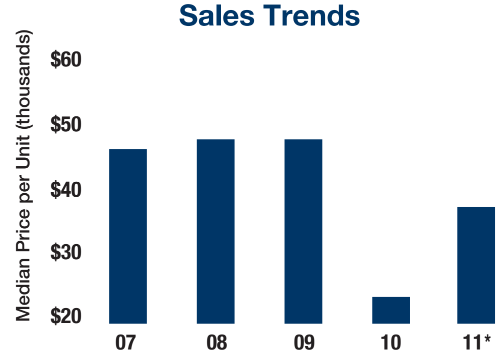


Supply and Demand

Rent Trends



Sales Trends



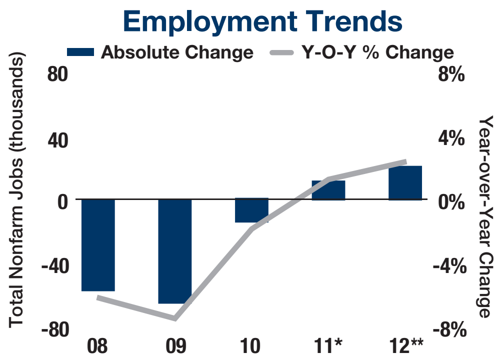
* Estimate ** Forecast

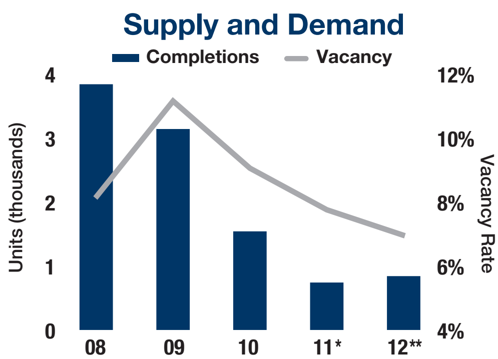
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

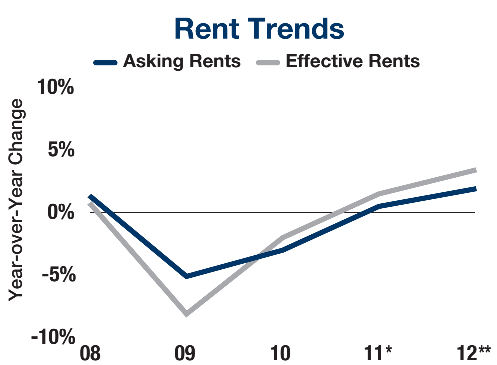
Market Forecast	Employment: 1.2% ▲	Construction: 500 ▼	Vacancy: 40 bps ▼	Effective Rents: 3.8% ▲

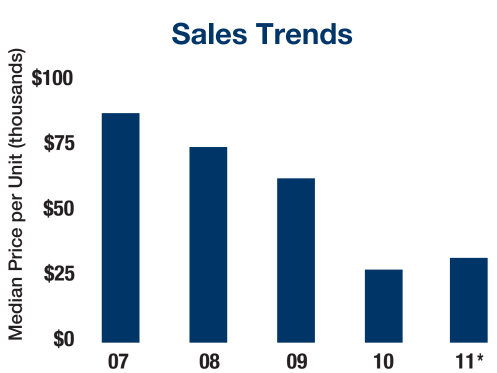
Las Vegas

Up 7 Places **2012 Rank: 36** **2011 Rank: 43**









* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Lower-Tier Distressed Sales Dominate Market as Class A Pricing Remains Cloudy

Strengthening visitor volume and convention business will contribute to Las Vegas job growth in 2012. The metro's hard-hit construction sector will also benefit, as a handful of projects near the Strip break ground. Fortunately, the apartment sector will be spared from renewed development activity. It will likely stay that way until Las Vegas registers sufficient rent growth to justify development, property prices firm and lenders gain enough confidence to originate construction loans. While the vacancy rate is unlikely to return to pre-recession levels until 2013, a handful of submarkets will outperform. In Spring Valley, for example, vacancy has already slipped below late-2007 levels, while apartments in the Henderson/Southeast and West submarkets also boast below-average vacancy. These submarkets are home to desirable schools, and will remain particularly attractive to families who lost their homes to foreclosure. However, owners in these areas will face competition from single-family rentals.

Opportunistic investors will converge on Las Vegas this year as vacancy recedes further and lenders continue to list reclaimed properties. The metro has already become a hotbed for bargain hunters, particularly out of California. With few exceptions, out-of-state investors have been focusing on discounted Class B assets in the suburbs, which can start as low as $15,000 per unit, and Class C properties with 50-plus units in Central Las Vegas. The latter should register occupancy gains this year amid growth in the leisure and hospitality sector. However, owners in the area will have to wait at least another year to realize rent growth. With distressed sales accounting for the majority of transactions, pricing remains difficult to establish for top-quality assets, restraining Class A listings among banks and owners who remain well positioned to hold.

2012 Market Outlook

- **2012 NAI Rank: 36, Up 7 Places.** The re-emergence of the hospitality industry supported a seven-position rise in the index.
- **Employment Forecast:** Job growth in Las Vegas will nearly double in 2012 as employers add 20,000 positions. Nonetheless, payrolls will end the year approximately 100,000 jobs shy of peak levels recorded in late 2007.
- **Construction Forecast:** Developers will complete 750 units during 2012, which is 72 percent below the annual average from 2000 to 2010.
- **Vacancy Forecast:** Following a 130-basis-point decline last year, Las Vegas apartment vacancy will slip 80 basis points in 2012 to 7 percent.
- **Rent Forecast:** In 2012, asking rents will rise 1.9 percent to $815 per month, while effective rents increase 3.4 percent to $780 per month. Last year, asking and effective rents increased 0.5 percent and 1.5 percent, respectively.
- **Investment Forecast:** As cap rates compress in markets along the coasts, out-of-state capital will flow into Las Vegas. Cap rates hover in the low- to mid-6-percent range for Class A assets, and between 7.5 and 9 percent for performing Class B/C properties, 100 basis points above the national average.

Market Forecast	Employment: 2.5% ▲	Construction: 70 ▲	Vacancy: 80 bps ▼	Effective Rents: 3.4% ▲

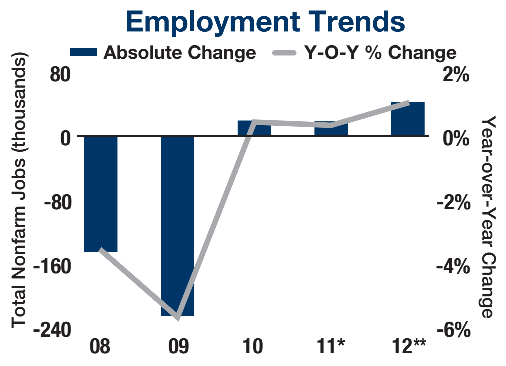
Hiring in Hard-Hit Sectors Sparks Demand; Local Investors Target Value-Add Plays

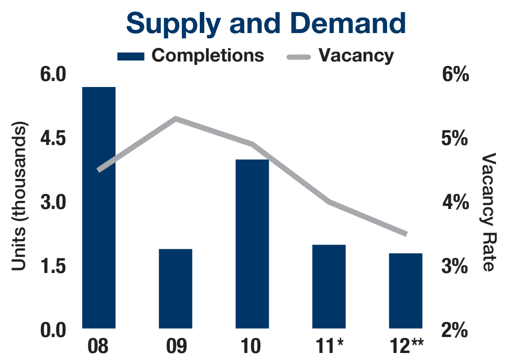
Los Angeles will shift into a more vigorous job-growth cycle in 2012, expanding the renter pool and enabling owners to continue pushing rents. Metrowide, vacancy fell rapidly in 2011 as absorption spiked to a 20-year high. This swell in occupied stock stemmed from housing market woes and slowing completions, setting a concession-reduction cycle in motion. As blue-collar sectors restaff and job gains become the primary driver of demand in 2012, rents at stabilized buildings will advance. Activity will also increase at the twin ports, where re-employed freight-related workers will support the absorption of Class B/C rentals in the South Bay. Owners of these properties will raise rents aggressively as the area's Class B/C vacancy falls to 3 percent. Elsewhere, stronger visitor volume will spur retail job growth and result in rent gains for market-rate buildings near coastal and downtown tourist destinations. In addition, professionals unaffected by the recession will increasingly lease high-end units near desirable lifestyle amenities in the Westside Cities, where Class A rent hikes will lead the county.

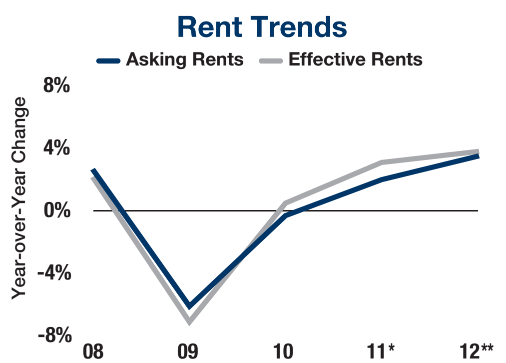
As buyers move to secure assets while interest rates remain low, sales velocity will broaden across the county and quality scale. Wealth-management plays will drive cash-rich investors to coastal communities, where scarcity premiums result in cap rates averaging in the mid-4-percent to low-5-percent range. However, much of this year's investment activity will center on older assets with fewer than 10 units, which generally involves private buyers supplementing their portfolios. Lower-tier deals primed for unit upgrades, in many instances, will include smaller, vintage assets in South Bay and downtown, where cap rates will average in the mid-6-percent to low-7-percent range. Seasoned investors looking to renovate and reposition properties into a higher quality and stronger renter mix will target Class B listings, which will sell at cap rates around 6 percent.

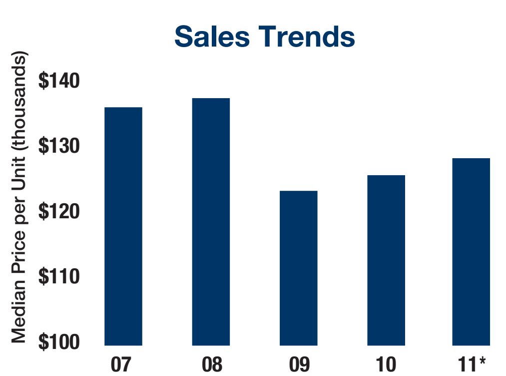
2012 Market Outlook

- **2012 NAI Rank: 13, Down 2 Places.** Slow payroll growth due to housing woes and government budget constraints pulled Los Angeles down two places in this year's ranking.
- **Employment Forecast:** Countywide employment will grow 1.1 percent in 2012, or by 40,000 jobs, up from the creation of 16,000 jobs in 2011.
- **Construction Forecast:** Completions will total approximately 1,680 units in 2012, down from 1,870 units in 2011.
- **Vacancy Forecast:** Vacancy will fall 50 basis points this year to 3.5 percent, the lowest level since mid-year 2007. Last year, vacancy fell 90 basis points.
- **Rent Forecast:** Asking rents will rise 3.5 percent in 2012 to $1,446 per month, while effective rents will advance 3.8 percent to $1,408 per month.
- **Investment Forecast:** With interest rates likely to remain low, some owners will increasingly consider repositioning their accumulated equity into larger or less-management-intensive properties.









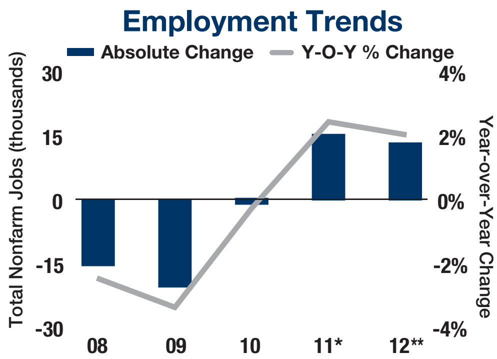
* Estimate ** Forecast

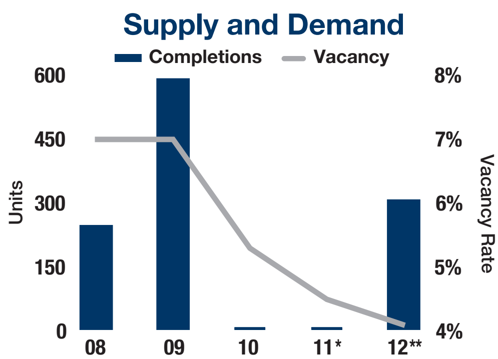
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

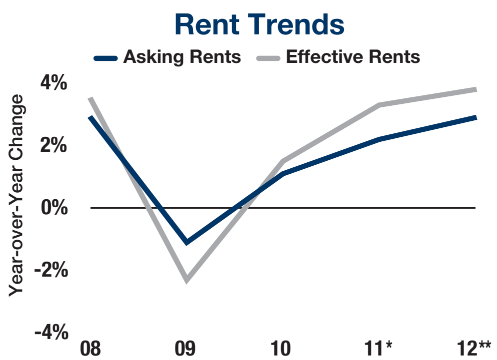
Market Forecast Employment: 1.1% ▲ Construction: 190 ▼ Vacancy: 50 bps ▼ Effective Rents: 3.8% ▲

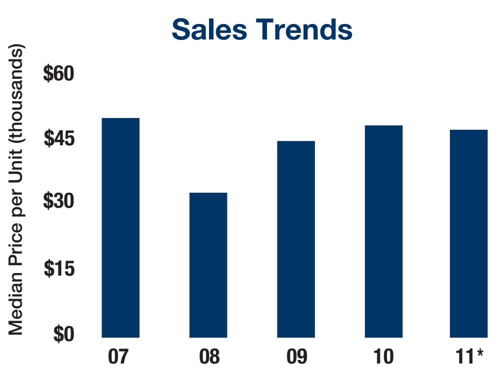
Louisville

Down 6 Places **2012 Rank: 28** **2011 Rank: 22**









* Estimate   ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Major Employer Growth Sparks Significant Performance Gains

Significant payroll growth will reinforce the stability of the Louisville apartment market this year. Major employers such as UPS and Yum! Brands have underpinned rental demand for several years, and General Electric and Ford will provide additional support in 2012. GE announced the addition of 500 jobs at the Appliance Park and will also establish a Center of Excellence for Design and Manufacturing to increase production. Ford, meanwhile, is creating 3,100 jobs at its Louisville plant after settling union disputes that will keep thousands of additional workers on the payroll. The increase in hiring will bolster demand for lower-tier properties in the South Central and Southwest Jefferson County submarkets, particularly in communities along Interstate 65. Vacancy in these areas will hover in the low-4 to low-5-percent range for stable Class B properties. Operations in the Class A arena, meanwhile, will also improve. With white-collar employment expected to expand 4.3 percent this year, top-tier assets will likely record vacancy in the mid-3-percent range.

Louisville remains a low-velocity market, as many owners adopt long-term hold strategies and are reluctant to sell when operations are strengthening. Redevelopment of the Whiskey Row district will spur Class A investment activity downtown, and institutions and out-of-state buyers will close most of the deals at cap rates in the low- to mid-6 percent range. Local private investors, meanwhile, are using value-add opportunities to slide up the quality scale as lenders gradually bring REO assets to market. High-vacancy Class B apartments are typically upgraded to achieve higher rents. Distressed properties are trading on a price-per-door basis and can resell at a 9.5 percent to 10 percent cap rate when deferred maintenance is addressed and the property is stabilized.

2012 Market Outlook

- **2012 NAI Rank: 28, Down 6 Places.** Rent growth in Louisville will fall short of the national pace, facilitating the market's six-spot fall in the NAI.
- **Employment Forecast:** Employment in Louisville will increase by 13,000 positions, or 2.1 percent, in 2012. Payrolls grew by 15,000 positions last year.
- **Construction Forecast:** This year, developers will deliver 300 apartment units, marking a 0.7 percent increase in rental inventory.
- **Vacancy Forecast:** Vacancy will decline 40 basis points in 2012 to 4.1 percent; an 80-basis-point drop was recorded last year.
- **Rent Forecast:** Asking rents will rise 2.9 percent this year to $679 per month as effective rents advance 3.8 percent to $658 per month.
- **Investment Forecast:** While large, private buyers wait for Class A assets to hit the market, many local buyers will attempt to capture higher rents through repositioning strategies. With a dearth of available Class A units, Class B properties can be upgraded to capture higher rents. Properties close to major employers in southern submarkets, as well as complexes near the University of Louisville, will be the primary focus of these buyers.

Market Forecast Employment: 2.1% ▲ Construction: 300 ▲ Vacancy: 40 bps ▼ Effective Rents: 3.8% ▲

Low Vacancy Supports Rising Rents, but Casino Gambling May Be a Game Changer

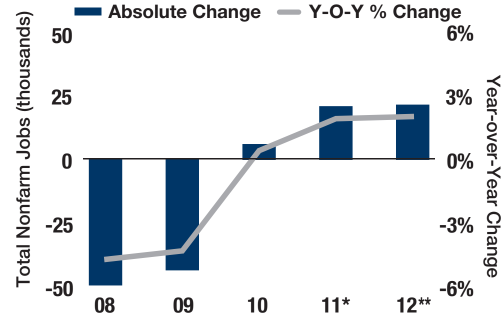
Strong tenant demand in Miami-Dade County in 2012 will push down the vacancy rate and create additional opportunities for property owners to raise rents and withdraw concessions. While the transition to greater rent-driven improvements in property operations and incomes unfolds during 2012, new economic development initiatives will also emerge that will affect the market in the coming years. A new source of long-term tenant demand may materialize as pending statewide legislation will permit the construction of two casinos in Miami-Dade. In addition to the construction jobs that will be created, permanent positions at the properties will significantly boost leisure and hospitality employment.

A resurgent local economy and wider availability of low-rate acquisition financing are generating considerable interest in Miami-Dade. The county also benefits from a sizable buyer pool, including European and Latin American investors that continue to exploit favorable currency valuations. Overall, investors will find that cap rates in the market generally start at approximately 6 percent for Class A investments and in the low-7-percent range for most Class B properties. Properties eligible for agency financing may trade at slightly lower first-year returns. Assets near the beaches, Coconut Grove, Coral Gables or Kendall remain primary investment targets and will attract multiple bids when listed for sale. Distressed properties present an opportunity for investors to purchase at low cost and execute turnaround strategies. Operations at these properties can be restored quickly due to healthy renter demand and the return of many former homeowners to apartments.

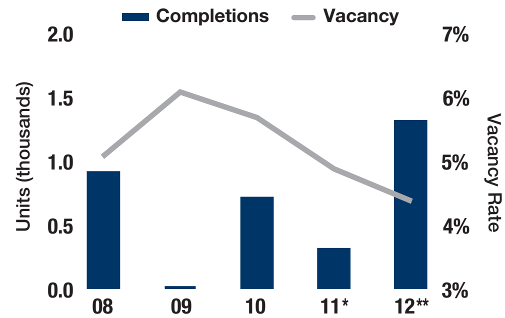
2012 Market Outlook

- **2012 NAI Rank: 20, Up 1 Place.** Miami ranked highest among Florida's metros in this year's index after improving one position due to healthy payroll growth and an above-average vacancy decline.
- **Employment Forecast:** Strong international trade will support a gain of 20,600 jobs in Miami-Dade this year. In 2011, 20,000 jobs were added.
- **Construction Forecast:** Nearly 1,300 rentals will be completed in 2012, up from about 300 units last year. Projects slated for completion in 2012 will restore rental stock to 83 percent of its peak level before conversions.
- **Vacancy Forecast:** Solid rental housing demand will reduce the vacancy rate 50 basis points to 4.4 percent. An 80-basis-point drop was recorded last year.
- **Rent Forecast:** Low vacancy will support a 3.6 percent jump in asking rents to $1,124 per month, while effective rents will advance 4.2 percent to $1,081 per month, the most significant rent growth in years.
- **Investment Forecast:** Conditions for improving property cash flows remain highly favorable and will encourage additional transactions. A second consecutive year of job growth will spur rental household formation, while tighter residential mortgage requirements will extend residents' stays in rentals.

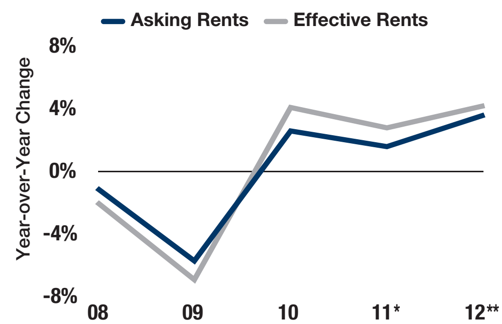
Employment Trends



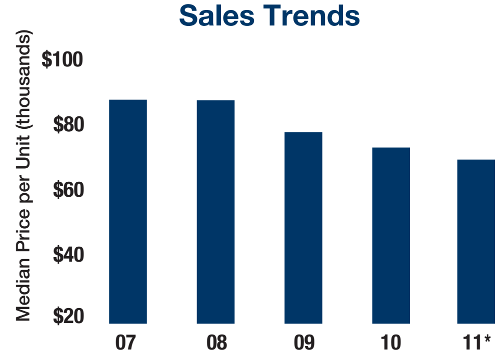
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast Employment: 2.1% ▲ Construction: 1,030 ▲ Vacancy: 50 bps ▼ Effective Rents: 4.2% ▲

Statistical

MSA Name	Employment Growth[2] 09	10	11*	12**	Vacancy (Year-End)[2] 09	10	11*	12**	Asking Rent (Year-End)[2] 09	10	11*	12**
Atlanta	-5.1%	-0.3%	0.1%	1.6%	11.7%	9.8%	8.3%	7.9%	$825	$827	$847	$871
Austin	-2.3%	1.9%	3.0%	3.8%	10.1%	7.0%	5.0%	4.3%	$844	$858	$890	$927
Boston	-2.8%	0.9%	1.7%	1.9%	6.4%	5.1%	4.0%	3.5%	$1,670	$1,712	$1,775	$1,849
Charlotte	-6.0%	0.7%	0.6%	2.1%	11.3%	8.4%	6.6%	6.4%	$761	$768	$789	$816
Chicago	-4.8%	0.7%	0.4%	1.0%	6.7%	5.6%	4.7%	4.2%	$1,033	$1,047	$1,072	$1,115
Cincinnati	-4.5%	-0.2%	2.1%	1.2%	8.0%	6.7%	5.4%	5.7%	$692	$702	$714	$730
Cleveland	-4.8%	0.5%	0.2%	0.6%	6.9%	5.6%	4.7%	4.4%	$715	$722	$739	$758
Columbus	-3.6%	1.5%	0.2%	1.1%	9.2%	8.9%	7.6%	7.0%	$659	$664	$682	$702
Dallas/Fort Worth	-3.6%	2.0%	2.4%	3.0%	11.0%	8.3%	6.6%	6.0%	$765	$776	$802	$832
Denver	-4.1%	0.4%	0.3%	1.3%	8.0%	5.5%	4.3%	4.0%	$853	$880	$906	$940
Detroit	-6.7%	0.7%	1.2%	0.6%	8.1%	6.9%	5.6%	5.0%	$808	$812	$827	$846
Fort Lauderdale	-5.2%	0.0%	0.4%	1.9%	8.6%	6.6%	5.4%	5.1%	$1,054	$1,068	$1,091	$1,123
Houston	-4.1%	1.8%	3.4%	3.5%	12.3%	10.8%	8.8%	8.0%	$746	$765	$790	$822
Indianapolis	-3.6%	0.4%	-0.1%	1.2%	10.1%	8.0%	6.2%	6.0%	$649	$660	$680	$701
Jacksonville	-4.5%	0.3%	1.2%	2.3%	14.4%	11.0%	9.5%	8.8%	$779	$770	$785	$804
Kansas City	-3.6%	-0.6%	0.8%	1.2%	9.1%	8.0%	6.2%	5.8%	$685	$696	$710	$727
Las Vegas	-7.3%	-1.7%	1.4%	2.5%	11.2%	9.1%	7.8%	7.0%	$821	$796	$800	$815
Los Angeles	-5.6%	0.5%	0.4%	1.1%	5.3%	4.9%	4.0%	3.5%	$1,374	$1,370	$1,397	$1,446
Louisville	-3.3%	-0.2%	2.5%	2.1%	7.0%	5.3%	4.5%	4.1%	$639	$646	$660	$679
Miami	-4.2%	0.5%	2.0%	2.1%	6.1%	5.7%	4.9%	4.4%	$1,041	$1,068	$1,085	$1,124
Milwaukee	-4.7%	1.2%	2.6%	1.7%	5.1%	4.5%	4.0%	3.8%	$803	$814	$827	$843
Minneapolis-St. Paul	-4.1%	0.2%	1.5%	2.1%	5.4%	3.8%	2.6%	2.8%	$929	$938	$959	$987
New Haven	-6.3%	0.7%	0.2%	0.4%	4.6%	5.0%	4.0%	3.7%	$1,521	$1,560	$1,612	$1,670
New Jersey	-2.9%	-0.4%	0.5%	1.2%	4.9%	4.7%	3.8%	3.4%	$1,268	$1,290	$1,323	$1,364
New York City	-2.5%	1.4%	0.7%	1.8%	2.9%	3.1%	2.4%	2.3%	$2,688	$2,820	$2,930	$3,107
Oakland	-5.5%	-0.8%	0.6%	1.1%	5.8%	4.5%	4.0%	3.4%	$1,265	$1,274	$1,311	$1,361
Orange County	-6.3%	0.9%	1.0%	1.8%	6.4%	5.4%	4.3%	3.9%	$1,463	$1,475	$1,515	$1,576
Orlando	-4.8%	1.6%	0.7%	2.6%	11.2%	8.6%	7.1%	6.8%	$842	$839	$857	$883
Philadelphia	-3.2%	0.4%	0.4%	0.9%	6.5%	5.5%	4.4%	4.1%	$1,002	$1,022	$1,048	$1,084
Phoenix	-6.7%	0.3%	2.0%	2.1%	12.3%	9.7%	7.6%	7.0%	$751	$750	$771	$793
Portland	-4.8%	0.5%	2.1%	3.1%	6.9%	4.5%	3.1%	2.7%	$803	$820	$843	$876
Riverside-San Bernardino	-6.1%	-0.5%	1.0%	1.6%	8.0%	6.5%	5.2%	4.6%	$1,006	$1,005	$1,030	$1,069
Sacramento	-5.4%	-2.0%	0.6%	0.9%	7.3%	6.2%	5.2%	5.0%	$893	$906	$921	$943
Salt Lake City	-4.2%	0.2%	2.3%	2.4%	7.2%	6.5%	5.1%	4.8%	$732	$730	$749	$775
San Antonio	-1.7%	0.9%	2.1%	2.9%	10.2%	8.4%	7.0%	6.4%	$685	$705	$724	$745
San Diego	-4.7%	0.8%	1.7%	1.9%	4.9%	4.3%	3.2%	3.4%	$1,306	$1,319	$1,350	$1,406
San Francisco	-5.5%	0.7%	1.7%	2.4%	4.8%	4.3%	3.4%	3.1%	$1,757	$1,801	$1,887	$1,998
San Jose	-5.8%	1.4%	3.0%	3.2%	5.1%	3.8%	3.0%	2.8%	$1,401	$1,447	$1,527	$1,620
Seattle	-5.5%	0.5%	1.5%	2.0%	7.5%	5.9%	4.6%	4.0%	$955	$985	$1,014	$1,057
St. Louis	-3.7%	0.4%	1.2%	1.1%	9.2%	7.6%	6.7%	6.3%	$708	$714	$728	$751
Tampa	-5.0%	0.1%	2.0%	2.1%	10.7%	7.9%	6.3%	5.8%	$797	$809	$827	$855
Tucson	-4.8%	-1.3%	2.9%	2.5%	12.2%	10.2%	8.2%	7.5%	$632	$642	$654	$672
Washington, D.C.	-1.2%	1.1%	0.6%	1.5%	6.3%	5.1%	4.4%	4.0%	$1,332	$1,378	$1,419	$1,478
West Palm Beach	-5.2%	0.2%	1.6%	3.0%	9.2%	7.5%	6.9%	6.4%	$1,061	$1,078	$1,101	$1,133
U.S. Metro Average	-3.8%	0.7%	1.2%	1.4%	8.0%	6.6%	5.4%	5.0%	$1,016	$1,032	$1,061	$1,101

* Estimate ** Forecast [2] See Statistical Summary Note on page 57.

Summary

Median Sales Price per Unit[2]			Completions (Units)[2]				
09	10	11*	09	10	11*	12**	MSA Name
$45,800	$36,900	$32,000	7,352	4,623	2,000	2,900	Atlanta
$50,500	$64,000	$64,500	10,377	2,598	320	3,000	Austin
$133,333	$103,047	$120,800	3,973	1,096	644	1,500	Boston
$41,667	$78,200	$81,500	3,623	2,440	825	390	Charlotte
$66,700	$77,700	$70,000	1,850	2,415	667	1,600	Chicago
$28,490	$23,502	$27,374	644	348	300	1,300	Cincinnati
$30,610	$28,700	$30,100	280	236	140	125	Cleveland
$26,500	$18,293	$32,672	1,143	654	1,154	650	Columbus
$38,227	$32,292	$33,182	17,050	7,624	2,900	5,500	Dallas/Fort Worth
$64,400	$69,000	$71,000	2,770	2,335	838	2,500	Denver
$22,600	$22,930	$19,800	297	28	0	290	Detroit
$67,900	$56,000	$66,100	862	741	150	500	Fort Lauderdale
$26,700	$27,200	$31,731	13,957	7,940	1,100	4,800	Houston
$26,742	$18,265	$24,306	1,639	1,424	1,215	2,200	Indianapolis
$31,500	$36,300	$38,800	2,489	792	100	500	Jacksonville
$47,900	$23,700	$37,500	866	1,189	1,027	525	Kansas City
$62,000	$27,000	$31,500	3,081	1,549	680	750	Las Vegas
$123,333	$125,727	$128,333	1,799	3,898	1,870	1,680	Los Angeles
$44,654	$48,333	$47,292	584	0	0	300	Louisville
$78,000	$73,300	$69,600	0	664	273	1,300	Miami
$50,250	$48,500	$50,300	460	582	239	850	Milwaukee
$58,600	$55,000	$57,300	724	437	477	1,865	Minneapolis-St. Paul
$60,000	$55,400	$56,500	363	1,648	522	518	New Haven
$73,925	$69,167	$80,354	2,177	2,503	1,527	2,600	New Jersey
$110,683	$118,750	$141,000	1,861	7,364	1,755	6,500	New York City
$122,900	$117,000	$119,000	1,210	277	816	500	Oakland
$141,875	$139,509	$147,083	3,643	2,300	93	2,400	Orange County
$49,000	$29,800	$44,100	2,176	1,331	514	1,000	Orlando
$81,100	$89,800	$76,100	442	731	100	1,100	Philadelphia
$38,186	$29,931	$34,554	6,181	2,675	375	1,000	Phoenix
$74,091	$67,168	$70,000	2,034	660	70	130	Portland
$70,222	$71,286	$73,214	1,499	1,275	220	600	Riverside-San Bernardino
$70,016	$57,418	$54,000	0	435	100	0	Sacramento
$64,600	$62,000	$70,000	1,960	2,126	992	1,900	Salt Lake City
$50,000	$41,400	$41,667	4,771	2,681	780	1,850	San Antonio
$115,385	$115,813	$122,500	1,597	637	450	1,480	San Diego
$202,581	$205,000	$227,500	452	867	76	480	San Francisco
$145,833	$136,900	$145,000	491	270	480	520	San Jose
$102,877	$102,174	$107,425	3,614	5,145	1,120	1,900	Seattle
$50,500	$47,429	$51,500	267	38	545	550	St. Louis
$50,000	$41,700	$40,100	1,814	2,246	100	1,300	Tampa
$40,661	$28,373	$28,125	288	96	0	208	Tucson
$90,800	$110,800	$92,600	5,440	5,396	2,430	4,700	Washington, D.C.
$65,300	$76,000	$62,300	494	217	318	200	West Palm Beach
$76,737	$88,896	$96,503	138,508	97,694	39,000	85,000	U.S. Metro Average

* Estimate ** Forecast [2] See Statistical Summary Note on page 57.

Strong Performance and Attractive Returns Draw Investors to Milwaukee Apartments

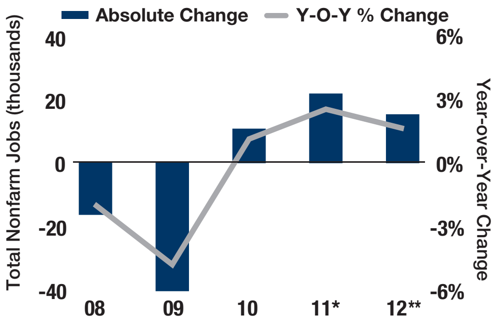
Milwaukee apartments will outperform this year as reduced homeownership and healthy household formation offset slower job creation. Performance will vary by location, however, with the strongest renter demand likely to persist in the Greenfield/Greendale/Franklin and Cudahy/South Milwaukee/Oak Creek areas. These submarkets are proximate to downtown and remain among the more affordable areas in the metro. Rents in the Brookfield/New Berlin submarket, on the other hand, push well above the metro average, as the area remains a draw for affluent renters who prefer living relatively close-in but favor schools outside of the city. Less-desirable parts of the metro, such as Northwest Milwaukee, will post elevated vacancy this year, as will properties in the city that face competition from for-rent condos. Vacancy in West Waukesha County will also remain above the metro average but should tighten in 2012. Owners in the area cut rents significantly during the downturn but have since held the line, hampering leasing in the near term but likely allowing for sharper NOI growth when the economy gains greater traction.

This year, local investors will look beyond dashed hopes of distress and discounts to take advantage of low interest rates and attractive acquisition opportunities. Within the metro, the most significant acceleration in activity will occur between $2 million and $10 million, as this segment generally attracts seasoned investors capable of obtaining financing through multiple lending sources. Deals below $2 million, however, account for a majority of activity in the local market, but can be more challenging. While well-priced, lower-tier properties often generate multiple bids, sellers are looking beyond price when accepting offers, as a potential buyer's track record and financial strength are key determinants to obtain bank debt.

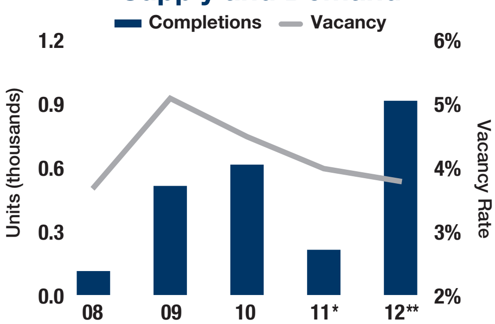
2012 Market Outlook

- **2012 NAI Rank: 27, Down 2 Places.** Milwaukee slipped two positions in the index due to below-average rent growth projections.
- **Employment Forecast:** Payrolls in the metro will rise 1.7 percent in 2012 as employers create 14,500 positions. This year's forecast represents a slowdown from 2011, when job growth reached 2.6 percent.
- **Construction Forecast:** Apartment completions will rise to 850 apartments in 2012, representing the most significant inventory growth since 2000. During 2011, developers completed 239 units.
- **Vacancy Forecast:** Vacancy will dip 20 basis points in 2012 to 3.8 percent.
- **Rent Forecast:** This year, asking rents will increase 2 percent to $843 per month, while effective rates pick up 3.9 percent to $833 per month.
- **Investment Forecast:** REITs and institutions often overlook Milwaukee despite its strong apartment operations and Class A cap rates in the low-7-percent range. As high-quality product is listed in 2012, more private investors will look to Milwaukee for a less competitive climate and higher returns.

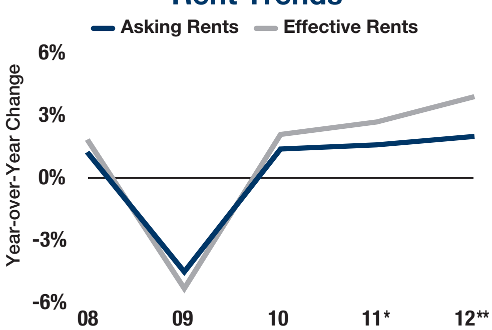
Employment Trends



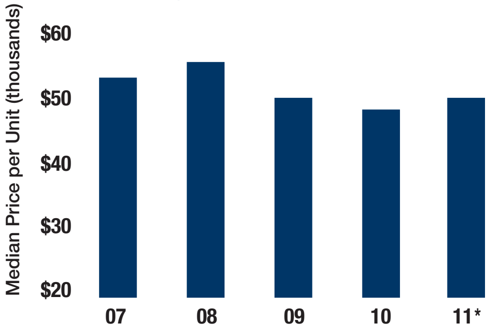
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 1.7% ▲	Construction: 610 ▲	Vacancy: 20 bps ▼	Effective Rents: 3.9% ▲

Minneapolis-St. Paul

Tight Vacancy Persists in the Twin Cities, But Builders Brace for Busy Year

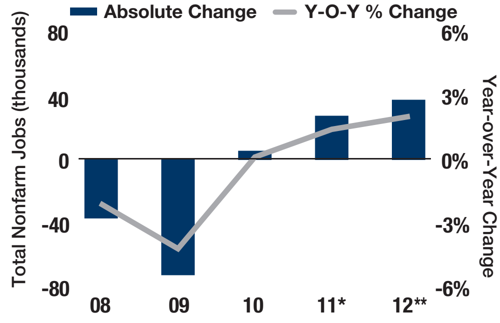
Solid employment gains among the prime renter demographic will buoy apartment demand, but developers will step up activity considerably this year, making Minneapolis-St. Paul one of the few markets in the country facing a rise in vacancy. While white-collar job growth will accelerate household formation in the urban core, many newly employed professionals will delay single-family home purchases indefinitely due to stringent mortgage underwriting. As a result, Class A apartments near employment centers and entertainment districts will outperform, enabling property owners to pare concessions significantly. Developers, meanwhile, will ramp up construction in the West, Southwest and Minneapolis submarkets. As completions increase from year-ago levels, metrowide vacancy will rise for the first time in two years, but remain at one of the tightest in the country this year.

Investment activity will remain steady this year as institutional investors expand in the metro, while increased bidding will push smaller, local buyers down the quality ladder. As cap rates compress in coastal markets, REITs will consider assets in the Twin Cities to expand their portfolios. Centrally located Class A properties in Uptown, St. Paul, and the city of Minneapolis will present opportunities for these buyers. Intense competition will put downward pressure on cap rates, prompting out-of-state owners to list high-end properties and redeploy sales proceeds in local properties with greater upside potential. Best-in-class assets will trade at initial yields in the mid-5 percent to low-6-percent range. Local buyers, meanwhile, will migrate to second-ring suburbs in Dakota and Anoka counties, targeting value-add, mid-tier properties with fewer than 100 units for repositioning opportunities.

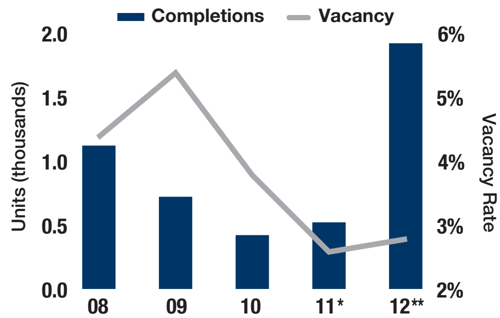
2012 Market Outlook

- **2012 NAI Rank: 10, Down 2 Places.** Boasting the nation's third lowest vacancy rate, Minneapolis-St. Paul remained in the top 10 of the 2012 NAI.
- **Employment Forecast:** Employers will create 36,000 jobs this year, expanding total employment 2.1 percent, the largest gain in six years. In 2011, 26,000 employees were added to payrolls.
- **Construction Forecast:** After completing 477 units last year, builders will deliver 1,865 rentals in 2012, the highest total in eight years.
- **Vacancy Forecast:** Vacancy will rise 20 basis points in 2012 to 2.8 percent as completions exceed an increase in demand.
- **Rent Forecast:** Despite an uptick in vacancy, conditions remain tight in the metro, enabling operators to raise asking rents 2.9 percent by year end to $987 per month. Effective rents will surge 4.5 percent to $956 per month.
- **Investment Forecast:** REO sales will continue to surface this year as improving operations encourage lenders to dispose of Class C properties. Many of these assets were stabilized in receivership over the past few years and will trade at first-year returns of around 8 percent.

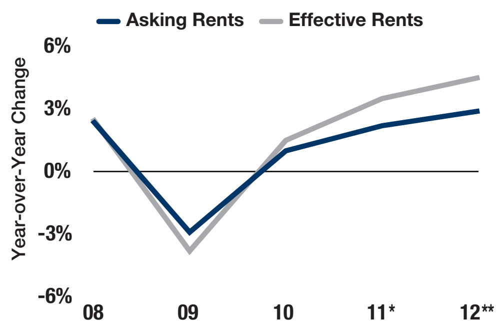
Employment Trends



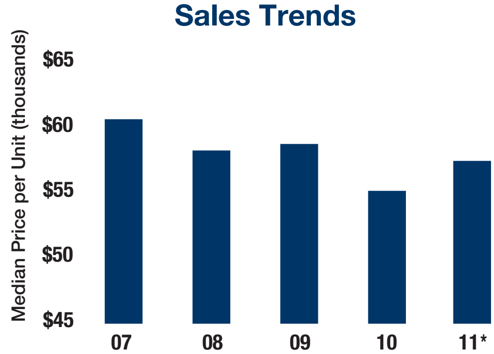
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

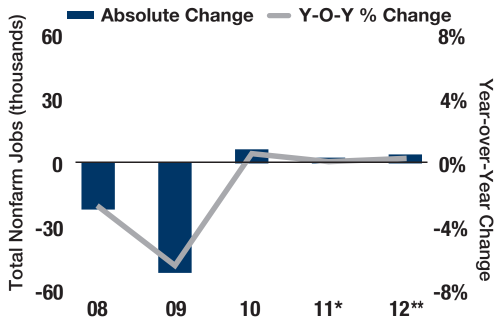
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 2.1% ▲	Construction: 1,390 ▲	Vacancy: 20 bps ▲	Effective Rents: 4.5% ▲

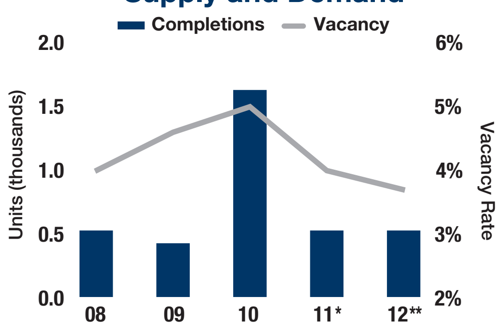
New Haven

Down 3 Places **2012 Rank: 23** **2011 Rank: 20**

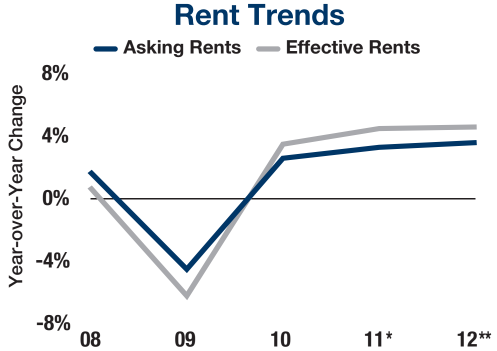
Employment Trends



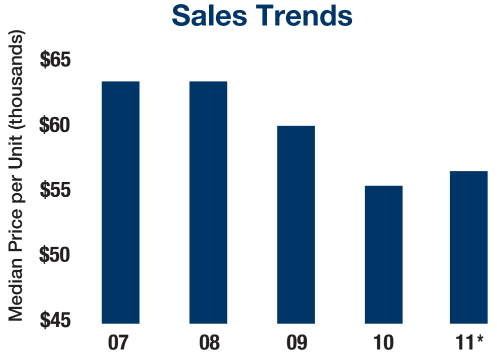
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Yield-Seeking Buyers from Nearby Major Metros Target Transit-Oriented Properties

New Haven and Fairfield counties' proximity to Boston and New York, along with its modestly expanding economy, will continue to make it a prime market for apartment owners in 2012. The notable growth of Yale University and its affiliated medical facilities has spurred a major redevelopment project linking the downtown core to the Medical District. The Downtown Crossing Project will transform Route 34 and generate transit-oriented development that includes retail, residential and medical space. In Fairfield County, meanwhile, high demand will persist for Class A units in areas such as Stamford and Greenwich. Stamford, in particular, is home to one of the busiest Amtrak stations in the country and its access to Interstate 95 enhances its appeal for commuters. The city also hosts many large-scale businesses that support white-collar jobs. In 2012, NBC Sports will join the area's collection of companies that already includes RBS Greenwich Capital and General RE, contributing to demand for top-tier apartments. Supply growth in the area is accelerating, however, and may place upward pressure on the vacancy rate.

Investment activity in the New Haven-Fairfield area will remain steady, as buyer demand will go unfilled in 2012. An aggressive buyer pool illustrates the desirability of assets in the area, while the low sales volume reflects long-term hold strategies favored by most owners. Property owners are hesitant to sell performing assets despite cap rates in the 6-percent range in downtown New Haven. Investors seeking higher yields, meanwhile, can consider smaller suburban communities, where cap rates are 50 basis points higher. In Fairfield County, listings typically offer first-year yields 50 to 100 basis points above first-year returns recorded in New York City, and will garner significant interest from regional buyers.

2012 Market Outlook

- **2012 NAI Rank: 23, Down 3 Places.** Only modest improvement in payrolls pushed down New Haven-Fairfield County three spots in the index.
- **Employment Forecast:** Total employment will expand 0.4 percent in 2012, with 3,000 new jobs. Last year, employment expanded 0.2 percent.
- **Construction Forecast:** After developers completed 522 units in 2011, new construction will remain stable as 518 apartments come online this year, a 1.1 percent rise in stock.
- **Vacancy Forecast:** During 2012, the marketwide vacancy rate will decrease 30 basis points to 3.7 percent. A 100 basis-points-drop was recorded last year.
- **Rent Forecast:** Asking rents will rise 3.6 percent to $1,670 per month by year-end 2012, while effective rents climb 4.6 percent to $1,629 per month.
- **Investment Forecast:** Local buyers will scour the market for performing assets in the core of New Haven, as well as Stamford and Bridgeport. Regional investors enticed by low-risk yields that are well above returns in New York will bid aggressively for assets that come to market in 2012.

Market Forecast	Employment: 0.4% ▲	Construction: 0 ■	Vacancy: 30 bps ▼	Effective Rents: 4.6% ▲

Solid Employment Gains Boost Performance; Enticing Out-of-State Buyers

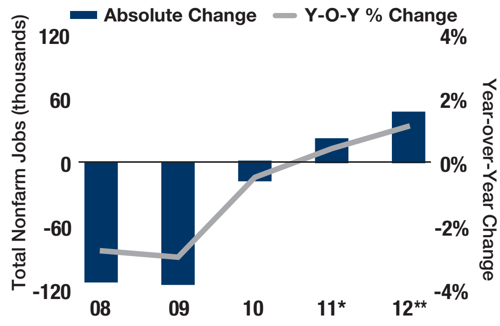
Rising blue-collar employment in Central Jersey, combined with relocations to Northern New Jersey by residents priced out of Manhattan will reduce vacancy to the lowest level in five years. Many renters will migrate to Hudson County, where rents are 30 percent below comparable units in New York City. As tenant demand intensifies, vacancy in the region will drop to its pre-recession level, supporting owners' efforts to advance rents to historical highs. In Central Jersey, the trade, transportation and utilities industry will generate over 2,000 jobs this year, helping support the creation of 4,000 new households. As a result, the Class B/C rental pool will expand, allowing the region to record the tightest vacancy rate in the state. However, developers will complete the most units since 2007, applying pressure to vacancy in the coming years.

Lower prices and increased upside have accelerated construction and will draw out-of-state, private investors to New Jersey, while owners will take advantage of the healthy bidding climate to list assets. Class A complexes will garner significant attention, pushing cap rates below 6 percent. Sought-after areas in Northern New Jersey with public transportation access to Manhattan will attract well-capitalized buyers from New York City searching for higher yields. Elsewhere, investors looking for steady income streams will acquire performing properties near major demand generators such as universities and employment centers in Central and Southern New Jersey. Opportunities will arise in Middlesex, Mercer and Camden counties, where a renter pool of more than 130,000 students will support long-term demand.

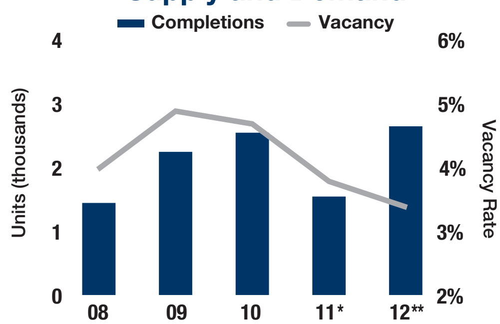
2012 Market Outlook

- **2012 NAI Rank: 12, No Change.** Low vacancy offsets below-average rent growth to keep New Jersey in 12th place in the 2012 NAI.
- **Employment Forecast:** New Jersey will gain 46,000 jobs this year as employers expand payrolls by 1.2 percent. Last year, 21,000 positions were created.
- **Construction Forecast:** Builders will deliver 2,600 units statewide in 2012, with 1,100 units slated for Northern New Jersey and 800 apartments expected to come online in Central Jersey.
- **Vacancy Forecast:** Solid employment growth and a stagnant housing market will drive demand for rental units. As a result, vacancy will fall 40 basis points this year to 3.4 percent, after plunging 90 basis points in 2011.
- **Rent Forecast:** Operators will raise asking rents 3.1 percent this year to a peak level of $1,364 per month, while effective rents will spike 4 percent to $1,322 per month.
- **Investment Forecast:** Local syndicates will pay cash for distressed lower-tier properties in Union and Essex counties with plans to reposition complex within 12 months. Once properties demonstrate positive performance, owners hope to refinance the asset with debt from community banks.

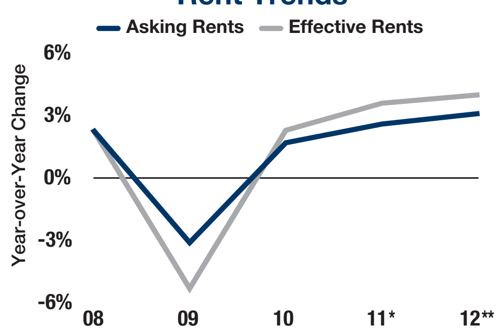
Employment Trends



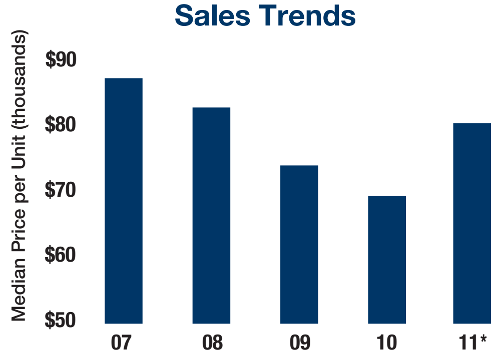
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

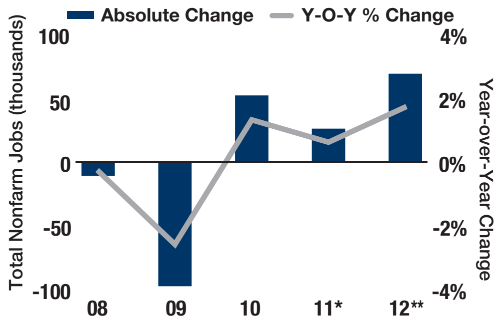
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 1.2% ▲	Construction: 1,070 ▲	Vacancy: 40 bps ▼	Effective Rents: 4.0% ▲

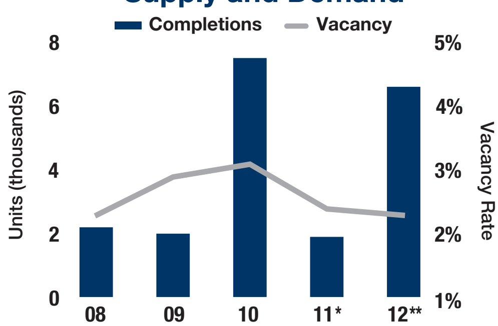
New York City

Down 2 Places | **2012 Rank: 3** | **2011 Rank: 1**

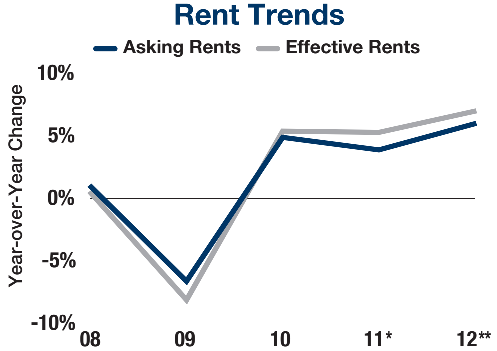
Employment Trends



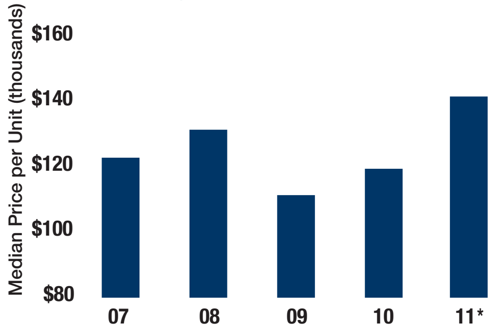
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Risks of Financial Job Losses Loom, but New York Remains a Top Investment Target

New York City will maintain one of the tightest vacancy rates in the country this year, though unresolved challenges in the global financial system will create unrest in the securities industry. As homeownership remains out of reach for nearly 80 percent of households in the city, demand for apartments will remain healthy. In sought-after neighborhoods of SoHo and Tribeca, landlords will increase rents to peak levels, while the redevelopment of Lower Manhattan will continue to attract new rental households from other areas. Nonetheless, the lingering European debt crisis and new regulations hitting Wall Street, could cause the financial industry to lose up to 10,000 employees this year. MF Global, for instance, eliminated 1,600 jobs late last year, while cuts at Barclays PLC, Citigroup, and Bank of America will persist in 2012. Residents who are newly unemployed or looking to reduce living expenses will venture to the outer boroughs for more affordable housing. As a result, vacancy in Brooklyn and Queens will compress to the lowest level in nearly a decade.

REITs and institutions will expand their portfolios of trophy assets in core neighborhoods, while opportunistic buyers target under-valued properties in the outer boroughs. Developers looking to raise capital will form joint ventures with private-equity funds and acquire redevelopment properties in Manhattan. Additionally, intense competition from REITs will keep cap rates for these assets near 5 percent. The borough's private investors will target older buildings and reposition properties to capture higher upside over the course of several years. A similar trend will take shape across the East River as investors form syndicates with local operators in Brooklyn. Buyers with a penchant for risk will pay cash for under-performing buildings in Bedford/Stuyvesant, Prospect Heights and Bushwick, while long-term hold buyers will target well-occupied properties in Greenpoint and Williamsburg.

2012 Market Outlook

- **2012 NAI Rank: 3, Down 2 Places.** New York City surrendered the top spot in the ranking due to uncertainty surrounding Wall Street employment.
- **Employment Forecast:** After generating 25,000 positions last year, employers will add 68,000 jobs in 2012, an increase of 1.8 percent.
- **Construction Forecast:** Robust demand and solid rent growth will prompt builders to move off the sidelines and deliver 6,500 units this year.
- **Vacancy Forecast:** Citywide, vacancy at large, market-rate complexes will tick down 10 basis points in 2012 to 2.3 percent.
- **Rent Forecast:** Asking rents will spike 6 percent this year to $3,107 per month, while effective rents will soar 7 percent to $3,052 per month.
- **Investment Forecast:** As currency exchange rates remain favorable, international investors will purchase institutional-grade assets throughout New York City. To mitigate risk, these buyers will target buildings with public transportation access in neighborhoods with solid rent growth.

Market Forecast Employment: 1.8% ▲ Construction: 4,750 ▲ Vacancy: 10 bps ▼ Effective Rents: 7.0% ▲

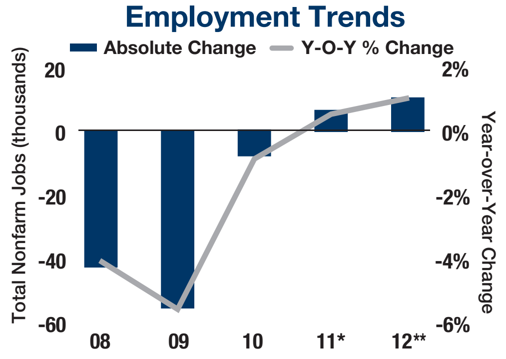
Renter Migration from Higher-Priced Bay Area Markets Bolsters Apartment Demand

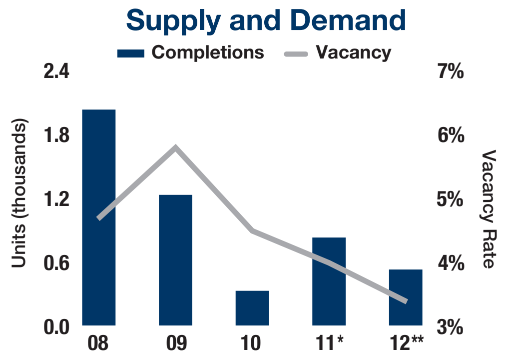
Strong apartment rent growth in San Francisco and parts of the South Bay will continue to support renter migration to the East Bay. As a result, local apartment vacancy will slip to its lowest level since 2001, even as employment remains 90,000 jobs short of pre-recession levels. Within the Class B/C sector, assets in desirable close-in areas, such as Adam's Point, Temescal, Rockridge, and around Piedmont Avenue or the emerging Uptown district, will benefit most from relocations. The renter shift from higher-priced markets will drive outsized rent growth in the near term. Class A properties will also benefit from renter migration, but stand to reap greater rewards from reduced attrition to homeownership. Developers have begun to take note of these trends, as evidenced by renewed interest in long-planned mixed-use projects and failed condos, which will continue to come online as rentals.

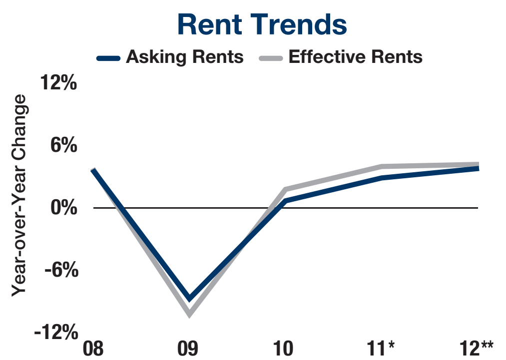
East Bay investment activity stands to improve further in 2012 as tight conditions and rising prices prompt more owners to sell. While the majority of sales fall below $2.5 million, the $20-million-plus segment has registered dramatic gains recently. In Alameda and Contra Costa counties, these properties often trade at cap rates in the mid-4-percent to high-5-percent range. Smaller deals generally take place in north and east Oakland, the Lake Merritt area or Berkeley. In north Oakland and near Lake Merritt, assets below $5 million generally trade at cap rates in the low- to mid-6-percent range, while several of the properties changing hands in west and east Oakland have fallen into distressed situations, driving cap rates to nearly 9 percent. Small assets in Berkeley tend to attract investors with long-term strategies, as 50- to 100-year-old apartments trade at premium prices, holding cap rates around 6.5 percent.

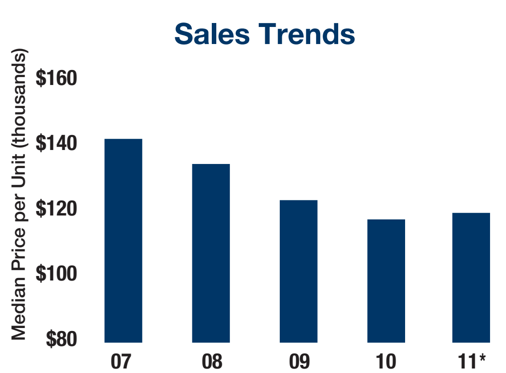
2012 Market Outlook

- **2012 NAI Rank: 16, No Change.** The East Bay holds the 16th position in the NAI due to high occupancy and healthy rent growth.
- **Employment Forecast:** East Bay employment will grow 1.1 percent in 2012 with the addition of 10,000 jobs, up from 0.6 percent in 2011.
- **Construction Forecast:** Completions will total approximately 500 units in 2012, down from 816 units in 2011. Most of this year's new supply is slated for East Contra Costa, where a nearly 300-unit complex will be delivered.
- **Vacancy Forecast:** Apartment vacancy will decline another 60 points in 2012 to 3.4 percent, the lowest level in more than 10 years.
- **Rent Forecast:** Asking rents will rise 3.8 percent this year to $1,361 per month, following a 2.9 percent increase in 2011. Effective rents will rise at a faster pace of 4.2 percent, to $1,303 per month.
- **Investment Forecast:** Union Pacific plans to sell 147 acres next to the Tesla plant, potentially giving way to a transit village and BART station, which would draw businesses and residents to the area. Development and job creation at the site would be a boon for Fremont apartment owners.







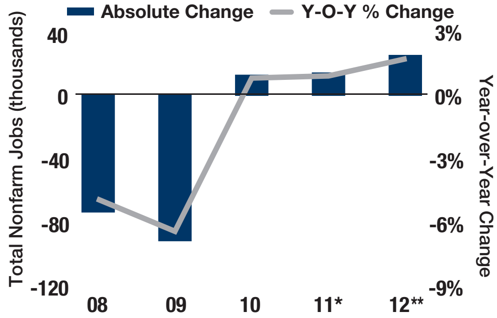


* Estimate ** Forecast

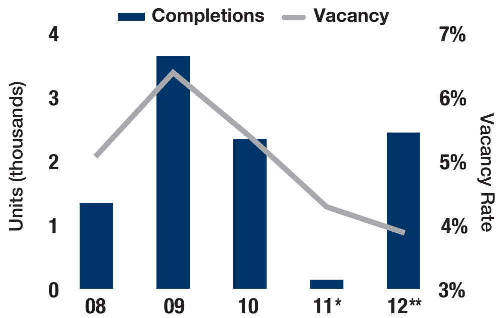
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast Employment: 1.1% ▲ Construction: 320 ▼ Vacancy: 60 bps ▼ Effective Rents: 4.2% ▲

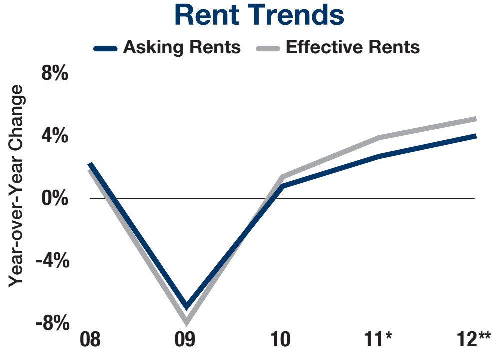
Employment Trends



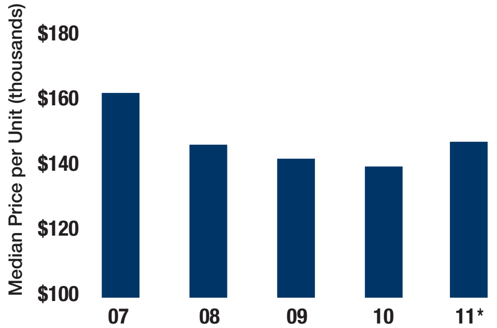
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Landlords to Push Rents as High Home Prices and Job Growth Preserve Demand

Orange County's healthy apartment sector will give owners the leverage to raise rents at a clip similar to levels achieved ahead of the recession. During the first two years of recovery, a swelling proportion of residents seeking rentals drove strong positive net absorption and realigned the metro's supply/demand balance. Much of this demand stemmed from out-of-reach home prices for blue-collar workers and many middle-class households — a trend that will preserve renter demand as job growth builds. This year, improved visitor volume will intensify tourism-related job gains, further releasing demand for rentals near Anaheim tourist destinations, which will compress the city's lower-tier vacancy rate below 5 percent. However, Fullerton, Brea and Buena Park will outperform, as lower-tier vacancy was below 3 percent in these areas heading into 2012, which has set the stage for strong rent hikes. Meanwhile, payroll growth tied to office-using sectors will build, generating sufficient demand to absorb this year's new stock. This trend, in addition to the relocation of several tech firms, will draw professionals to top-tier units near office hubs. With countywide operations set to improve, owners will raise rents sharply.

The likelihood of interest rates remaining low, coupled with the metro's deep renter pool, will foster strong bidding activity in 2012 and shorten marketing times for assets. Buyer demand for top-grade assets intensified in 2011, fueling cap rate compression and sales velocity for properties over $20 million. In 2012, top-tier beach community and business district assets will sell at cap rates around 5 percent, prompting cash-rich buyers to pursue higher-yielding assets outside of the Class A/B+ segment. Depending on the area, large Class C assets can list with cap rates as much as 100 basis points above top-tier deals, providing buyers with solid return spreads over lending rates. As such, lower-tier deals in strong northern pockets will garner interest from private-equity buyers.

2012 Market Outlook

- **2012 NAI Rank: 5, No Change.** Southern California's least-affordable housing market and strong rent-growth projections kept Orange County at the number five position in the ranking.
- **Employment Forecast:** County employment will expand 1.8 percent this year, or by 24,000 jobs, following the addition of 13,000 workers in 2011.
- **Construction Forecast:** Supply output will total 2,400 units in 2012, following the addition of fewer than 100 units in 2011.
- **Vacancy Forecast:** During 2012, Orange County's average vacancy rate will decrease 40 basis points to 3.9 percent. Vacancy fell 110 basis points last year.
- **Rent Forecast:** Asking rents will rise 4.0 percent in 2012 to $1,576 per month, while effective rents grow 5.1 percent to $1,545 per month.
- **Investment Forecast:** Owners looking to achieve greater scale may consider divesting during the current debt window to reposition built-up equity into larger assets or portfolios.

Market Forecast Employment: 1.8% ▲ Construction: 2,310 ▲ Vacancy: 40 bps ▼ Effective Rents: 5.1% ▲

Up 4 Places   2012 Rank: 26   2011 Rank: 30

Orlando

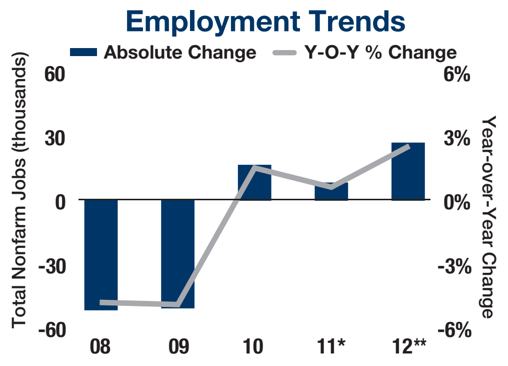
Revival of Relocations Would Quicken Pace of Orlando Recovery

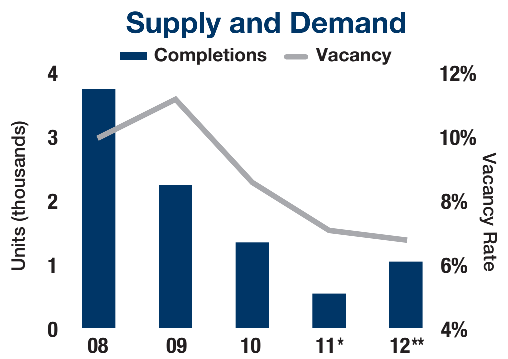
In Orlando, relatively strong tenant demand for rental housing will persist in 2012 as employers accelerate hiring. Projected increases in leisure and hospitality and trade employment, in particular, will hasten the flow of residents into affordable Class B/C rentals. Even as the recovery in property operations proceeds in the months ahead, an important demand generator continues to make only modest contributions, thus preventing the metro's apartment market from operating at full potential. Specifically, in-migration trends remain well below historical norms, reflecting the difficulties that continue to face residents of other areas attempting to sell homes and move to the area. Relocations, which occur primarily in the third quarter, have always been a reliable source of demand in Orlando for multifamily rentals, either as permanent or transitional housing for new arrivals. The protracted weakness in the national single-family housing market, and especially in the Midwest where many households relocate from, will affect demand metrics in the Orlando apartment market for a couple more years.

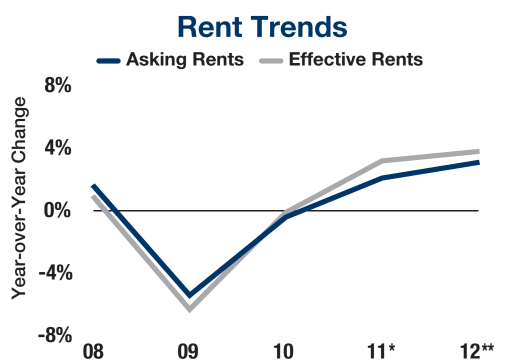
In the investment market, Class A properties command fierce attention when offered for sale, while the recovery in property operations continues to generate greater interest in Class B assets. Institutional-caliber complexes often trade at cap rates in the mid-5-percent range, indicating investors' confidence in their ability to raise rents. Quality Class B assets can trade as low as 7 percent, but older and smaller Class C product may require cap rates of 9 percent to initiate bidding. Several areas retain keen interest for investors due to their intrinsic drivers of rental demand. These include east Orlando near the University of Central Florida and the Lake Mary area in Seminole County, an established and desirable residential area. Assets in Seminole County do not come up for sale frequently, but will generate broad interest when made available for purchase.

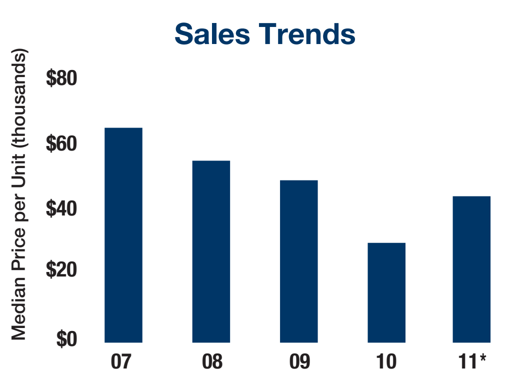
2012 Market Outlook

- **2012 NAI Rank: 26, Up 4 Places.** Tourism-related employment growth supported Orlando's four-place rise in the 2012 ranking.
- **Employment Forecast:** Job growth will accelerate in 2012 as local employers add 26,000 spots. Approximately 7,300 positions were created in 2011.
- **Construction Forecast:** Builders will deliver 1,000 rentals in 2012. Key completions include the 420-unit Camden Lavina in the Lake Nona area.
- **Vacancy Forecast:** Newly employed residents will spark a 30-basis-point drop in vacancy to 6.8 percent. In 2011, vacancy plunged 150 basis points.
- **Rent Forecast:** Asking rents will rise 3.1 percent to $883 per month and concessions will ease as effective rents gain 3.8 percent to $827 per month.
- **Investment Forecast:** Assets in Downtown Orlando will likely receive greater attention in 2012. In addition to the presence of major employers, the area has enjoyed a build up of residential services, restaurants and multiple entertainment venues.









* Estimate   ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 2.6% ▲	Construction: 490 ▲	Vacancy: 30 bps ▼	Effective Rents: 3.8% ▲

Philadelphia

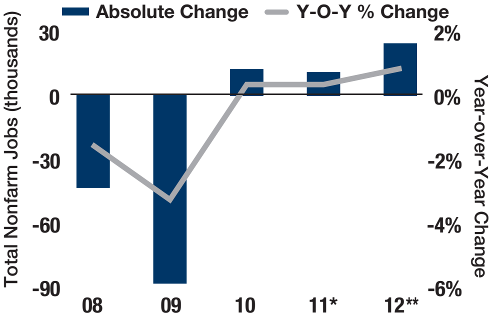
Down 9 Places **2012 Rank: 19** **2011 Rank: 10**

Limited Development, Multiple Demand Drivers Ignite Philadelphia Market

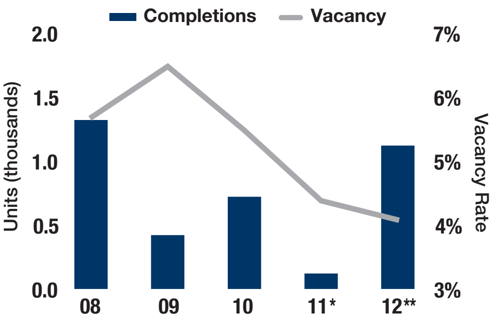
With a projected vacancy rate in the low-4-percent range, Philadelphia will claim a spot among the top 20 apartment markets during 2012. While other metros will post stronger job growth or display more dynamic economies this year, few can match the diversity of Philadelphia's drivers of rental housing demand. Streamlining government agencies will weigh on employment trends in 2012, but private-sector employers will create a sufficient number of jobs to stimulate household formation. Owners of apartment complexes also continue to benefit from a large population of college-age residents and recent college graduates. The metro's population of residents aged 20 years to 34 years is expected to increase substantially over the next three years, providing a new source of apartment demand. Development of new rental housing will likely increase in the next two years, however, as builders seek to capitalize on the expected surge in apartment demand in areas such as Center City.

The solid performance of apartment properties will provide steady returns and appreciation potential for investors in 2012. Properties in prime Class A locations seldom change hands but would command fierce interest if listed. Stabilized Class B/C product is also receiving greater attention, and buyers' and sellers' expectations are aligning more closely. Cap rates for Class B properties with stable operations generally fall in the mid-6 to mid-7-percent range, offering prospective investors wide spreads over financing rates. The strong likelihood that interest rates will remain low throughout 2012 will encourage owners of performing Class B complexes to consider selling during the year. Overall, investors remain attracted to the market's constraints on adding new supply, and will continue to pay top prices for Class A assets. Cap rates for this type of product were in the 5 percent range at the end of last year.

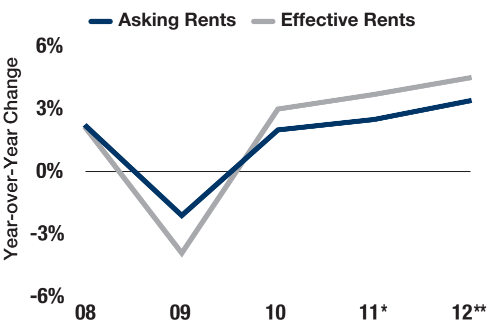
Employment Trends



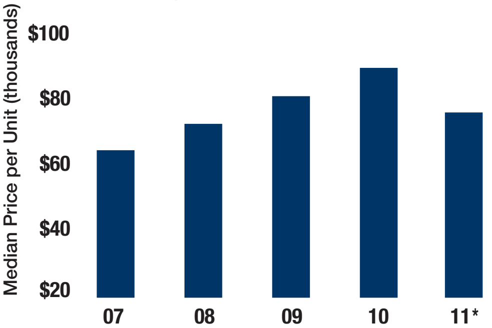
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

2012 Market Outlook

- **2012 NAI Rank: 19, Down 9 Places.** Philadelphia fell nine spots in this year's NAI due to below-average payroll expansion.
- **Employment Forecast:** Employers in the metro will add 23,500 workers in 2012, expanding total employment 0.9 percent and restoring payrolls to 97 percent of their pre-recession peak. Last year, 10,000 jobs were created.
- **Construction Forecast:** Builders will bring online 1,100 rentals in 2012, an increase from only 100 units last year. Only 4,100 units are planned.
- **Vacancy Forecast:** Vacancy will dip 30 basis points this year to 4.1 percent. The rate fell 110 basis points in 2011.
- **Rent Forecast:** This year, asking rents will rise 3.4 percent to $1,084 per month and effective rents will climb 4.5 percent to $1,055 per month.
- **Investment Forecast:** A limited number of properties for sale and intense investor demand will sustain an active investment market and exert downward pressure on cap rates. Investors will continue to take advantage of low interest rates and improving fundamentals.

Market Forecast	Employment: 0.9% ▲	Construction: 1,000 ▲	Vacancy: 30 bps ▼	Effective Rents: 4.5% ▲

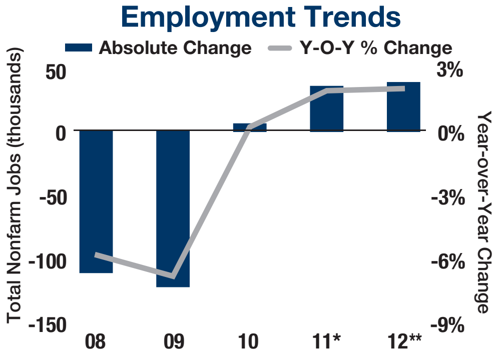
Out-of-State Investors Target Infill, Value-Add Properties for Potential Upside

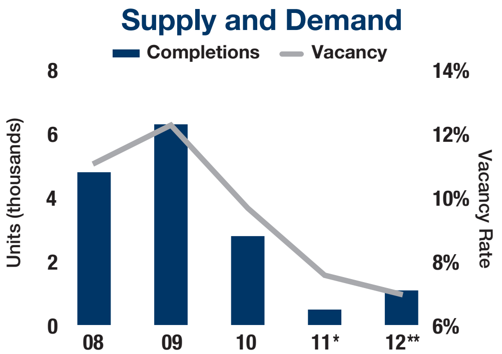
As home values bottom and lending options remain stringent, many residents will transition into apartments in the near term. Home values have plunged nearly 60 percent since their peak in 2005, including a 17 percent decrease last year. With more than 66 percent of mortgaged homes in Phoenix currently underwater, many owners will strategically default. A bulk of the foreclosures will take place in suburban areas such as Goodyear, North Scottsdale and Mesa, where one out of every four homes is already in notice of default. The convenience of close-in living will prompt some of these residents to migrate to infill properties near employment centers and transportation corridors within Loop 101. As a result, apartment operations will improve across the urban core this year, enabling landlords to reduce concessions and impose higher rents.

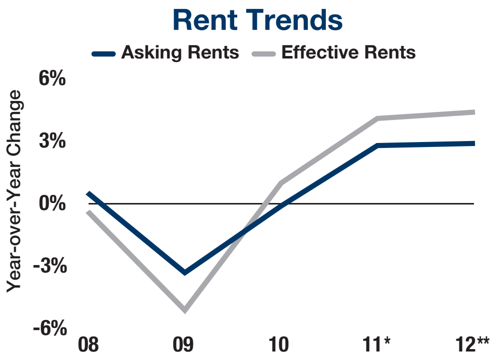
The opportunity to realize significant upsides will fuel investment activity in Phoenix during 2012 as private buyers remain bullish on value-add infill properties. Intense competition for Class A assets will maintain low yields, pushing out-of-state investors down the quality ladder to capture part of the $2.4 billion in distressed assets. Buyers from Canada will take advantage of the favorable exchange rate and pay cash for these properties, while investors from California may form syndicates to raise acquisition capital. Class B/C properties in sought-after areas such as Scottsdale, Tempe, and Central Phoenix locations will also garner intense interest. Investors with short-term horizons will target properties trading below $35,000 per unit for repositioning opportunities. After recording steady cash flow for a period of three to five years, many of these operators plan to sell and re-deploy the equity in another value-add project.

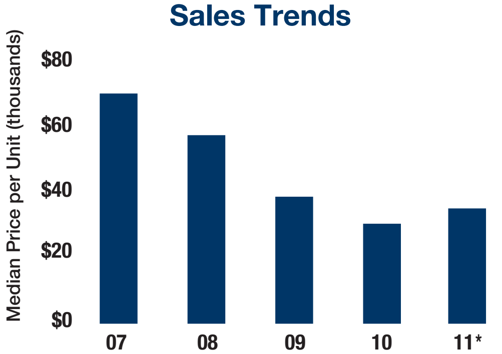
2012 Market Outlook

- **2012 NAI Rank: 22, Up 5 Places.** An above-average vacancy decline supported Phoenix's five-position improvement in this year's ranking.
- **Employment Forecast:** Employment will surge 2.1 percent in 2012 with the creation of 37,000 jobs, the largest gain in four years.
- **Construction Forecast:** Builders will expand rental stock 0.4 percent, or by 1,000 units, in 2012. Only 375 units came online in 2011, one of the lowest annual completion totals on record.
- **Vacancy Forecast:** Expanding payrolls will help reduce vacancy 60 basis points in 2012 to 7 percent, following a 210-basis-point drop last year.
- **Rent Forecast:** Solid leasing will enable operators to increase asking rents 2.9 percent this year to a record high of $793 per month, while effective rents will advance 4.4 percent to $740 per month.
- **Investment Forecast:** A lack of quality listings in the urban core will prompt some institutional investors to explore the suburbs for stabilized Class A assets. These buyers will target areas with solid demographic outlooks, including North Scottsdale, Ahwatukee, and Chandler/Gilbert.









* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 2.1% ▲	Construction: 630 ▲	Vacancy: 60 bps ▼	Effective Rents: 4.4% ▲

Portland's Apartment Vacancy to Reach Historic Low as Development Pipeline Lags

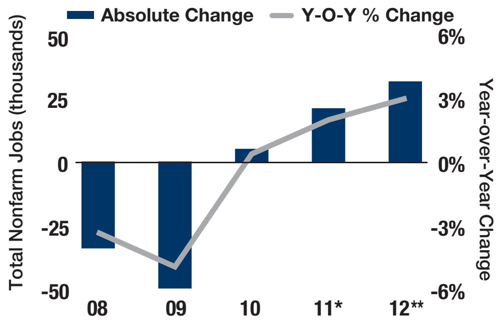
Portland employers will expand in 2012, fueling household growth. However, a building cycle is another year out, enabling rents to accelerate as vacancy falls to a historic low. Tech firms, in particular, will contribute to stronger job gains. The development of Intel's facility, for instance, is creating thousands of construction jobs and driving demand for Class B/C rentals from Hillsboro to Beaverton. Heading into 2012, the area's lower-tier vacancy was 2 percent, which has left little in the way of incentives and set the stage for strong rent gains. In 2013, Class A assets near the Intel site will benefit from the creation of hundreds of permanent jobs and thousands of ancillary positions. Elsewhere, Daimler Trucks North America will hire nearly 100 engineers and hundreds of manufacturing workers at the firm's Swan Island plant. This will build on already strong demand for rentals in downtown and to the northeast. Tight conditions will compel builders to pursue idled projects, but these deliveries will not materialize until after 2012. With the virtual absence of new supply and residents' shift away from homeownership compounding demand, vacancy in all submarkets will fall below 4 percent, resulting in widespread rent growth.

The metro is primed for another year of intense investment activity. Acquisition prospects will improve as owners with maturing debt sell while demand is high, but the availability of top-grade deals will not satisfy buyers' appetites. As such, institutions will search beyond Class A deals and pursue portfolios with well-located, mid-size assets. Cap rates for trophy buildings in Portland's core will average in the high-4-percent range and in the mid-5-percent to low-6-percent range for Class A/B assets in dense suburbs. California buyers, meanwhile, will drive deal flow below the $10 million mark due to opportunities to redeploy equity into larger assets at similar prices as their native markets. With low interest rates raising investors' risk tolerance and NOIs growing in fringe areas, lower-end assets will garner attention at cap rates in the low-7-percent range.

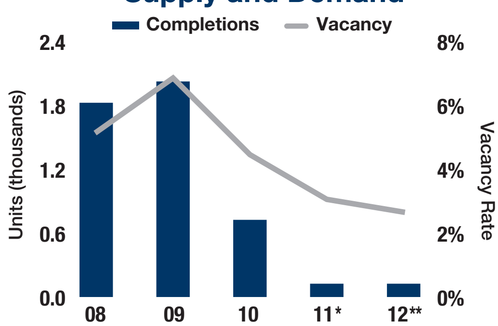
2012 Market Outlook

- **2012 NAI Rank: 11, Up 6 Places.** Portland's six-place jump was fueled by the nation's second lowest vacancy rate and limited supply growth.
- **Employment Forecast:** In 2012, metro employers will expand payrolls by 31,000 jobs for a 3.1 percent gain. In 2011, job growth totaled 20,500 spots.
- **Construction Forecast:** This year, construction will modestly increase to 130 units, but remain nearly 90 percent below the 10-year average.
- **Vacancy Forecast:** After falling 140 basis points in 2011, vacancy will fall 40 basis points in 2012 to 2.7 percent, matching the lowest rate on record.
- **Rent Forecast:** This year, asking rents will rise 4.0 percent to $876 per month, and effective rents will grow 5.7 percent to $820 per month.
- **Investment Forecast:** Given the lull in new supply, lower-end Class B and well-located Class C deals may offer solid revenue upside potential for buyers willing to perform light renovations to reposition the renter base.

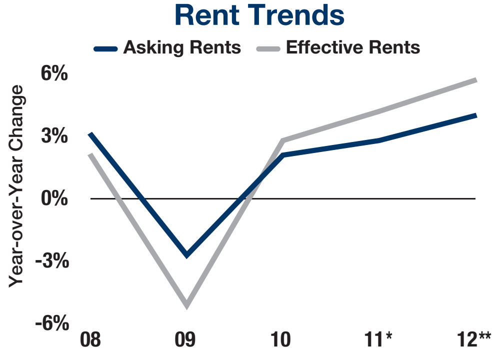
Employment Trends



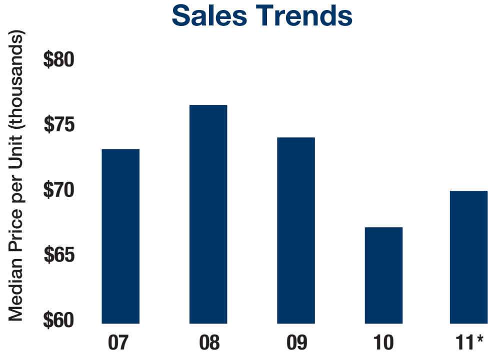
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 3.1% ▲	Construction: 60 ▲	Vacancy: 40 bps ▼	Effective Rents: 5.7% ▲

Western Cities at Forefront of Upswing; Housing Woes Lift Demand Elsewhere

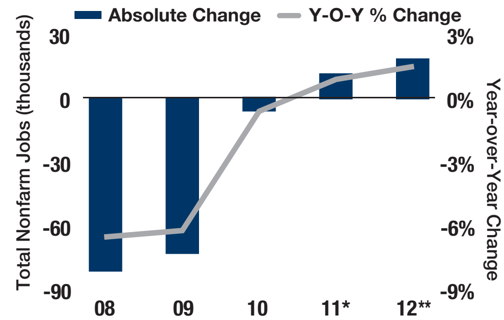
Improved job creation and a drawn-out housing slump will extend the renter base in 2012, firming the apartment supply/demand balance and fueling rent growth. Hiring efforts related to manufacturing and freight distribution gained steam last year. As commercial builders break ground on large-scale industrial projects, payrolls in the hard-hit construction trade will expand. The development of the March LifeCare medical campus in Moreno Valley, for instance, will generate 13,000 construction jobs through build out, and 7,000 permanent jobs upon completion. Rentals near major projects will outperform the metro as a whole. In addition, locations west of Interstate 15, such as Ontario, Chino, Rancho Cucamonga and Corona boast tight conditions, which will enable owners to raise rents aggressively. Although job creation will not reach its full potential in 2012, residents' inability to secure mortgage debt will compound renter demand in outlying cities. As supply additions remain below trend, owners will be well positioned to cut incentives and raise rents.

Firming operations are reinforcing buyers' confidence in the metro, and with low interest rates a strong motivator, the local investment market will remain active this year. Institutions and high-net-worth buyers will focus on large Class A/B assets in high-traffic corridors to the west, which will command cap rates starting in the mid-5 to low-6-percent range. With access to financing and occupancy improving, though, lower-end properties will sell with increased frequency. Some private buyers will still seek REO listings, but a thin pipeline of quality, bank-owned assets will strengthen demand for performing, principle-owned properties, particularly those with rising NOIs. In general, Class C assets will sell with cap rates in the low- to mid-7-percent range. Meanwhile, owners who foresee an exit plan in the next few years will capitalize on a realigned bid-ask gap, enabling them to redeploy equity toward higher-yielding properties.

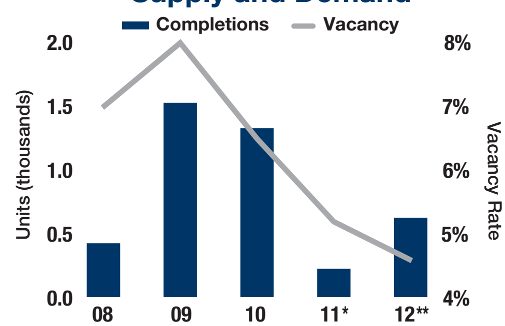
2012 Market Outlook

- **2012 NAI Rank: 29, Up 3 Places.** Below-average rent growth kept the Inland Empire in the bottom half of this year's index.
- **Employment Forecast:** Payroll growth will total 18,000 workers in 2012, a gain of 1.6 percent, outstripping the creation of 11,000 jobs in 2011.
- **Construction Forecast:** Builders will deliver 600 units in 2012, 50 percent below the five-year annual average but up from 220 units in 2011.
- **Vacancy Forecast:** Vacancy will decline 60 basis points this year to 4.6 percent, after falling 130 basis points last year.
- **Rent Forecast:** Asking rents will rise 3.8 percent to $1,069 per month in 2012, while effective rents will increase 4.2 percent to $1,024 per month.
- **Investment Forecast:** Assets in Moreno Valley will capture greater interest in 2012 due to large, job-producing operations, including the March LifeCare complex and Skechers' distribution center. Over the long term, these facilities will create thousands of jobs, propping up demand for nearby housing.

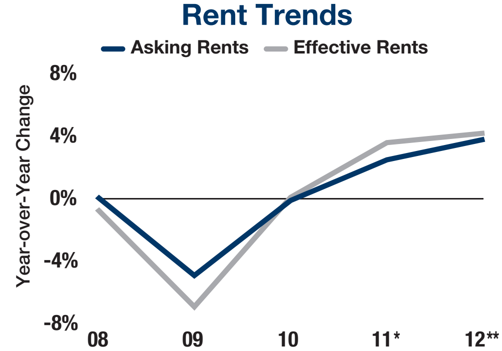
Employment Trends



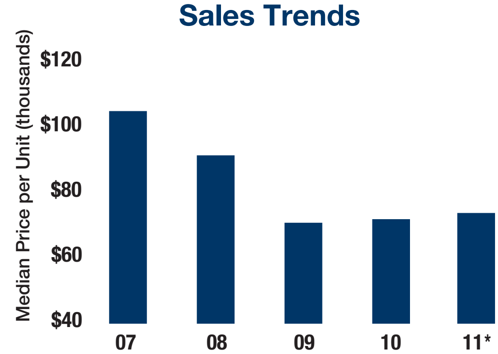
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 1.6% ▲	Construction: 380 ▲	Vacancy: 60 bps ▼	Effective Rents: 4.2% ▲

Buyers Target Centrally Located Assets Ahead of Downtown Redevelopment

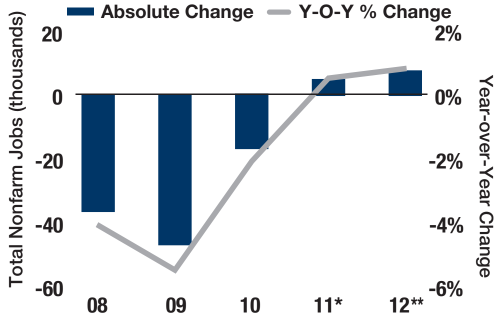
Private-sector employment gains will offset cuts by state and local governments, further supporting the apartment market recovery. The healthcare industry will be the primary catalyst for job growth, adding 2,300 jobs this year. The expansion of Sutter Roseville Medical Center will increase net absorption in Roseville's overbuilt rental market. Meanwhile, the UC Davis Medical Center's new pediatric intensive-care unit will generate tenant demand in the Davis submarket, and a new 200-employee facility will further supplement demand. Although no new units will come online in 2012, several redevelopment projects with multifamily components are under way. The Township 9 development, which accounts for a large portion of the River District, will eventually offer 900 apartment units. The Railyards project also includes over 240 acres of space and transit-oriented rental units. The revitalization of the Downtown Sacramento submarket will bolster operating conditions at existing properties as more professionals seek a live-work environment.

Private investors will maintain the increase in transaction activity that started in 2010, mainly due to the affordability of REO assets with potential upside. Local buyers have focused on higher-quality REO properties in Downtown Sacramento, and these assets will continue to trade as lenders release distressed properties. Meanwhile, Bay Area and Southern California investors will search for value-add opportunities in Sacramento, where lower-tier cap rates range from 7 to 8 percent. Buyers are willing to purchase distressed properties and perform significant maintenance work to increase occupancy and refinance with agency debt. The returns associated with these value-add strategies will entice new owners to hold on to properties for longer than in other markets, especially as apartment operations strengthen through 2012.

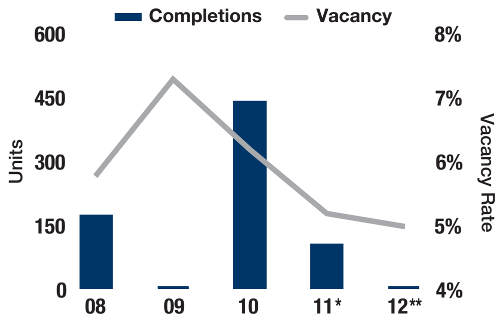
2012 Market Outlook

- **2012 NAI Rank: 42, Down 7 Places.** Another year of government cuts pulled Sacramento down seven places in the 2012 index.
- **Employment Forecast:** Employment will grow 0.9 percent in 2012, totaling 7,200 jobs. Last year, payrolls expanded 0.6 percent despite significant government cutbacks.
- **Construction Forecast:** No new supply will come online this year, although several major projects in Downtown have broken ground.
- **Vacancy Forecast:** Vacancy will decrease 20 basis points during 2012, reaching 5 percent. A 100-basis-point decline in vacancy was posted last year.
- **Rent Forecast:** In 2012, owners will lift asking rents 2.3 percent to $943 per month, while effective rents rise 3.1 percent to $894.
- **Investment Forecast:** Sales velocity will continue to accelerate as lenders release more REO assets. Discounted properties will attract more interest from buyers in nearby coastal markets, where cap rates have compressed considerably over the past 12 months.

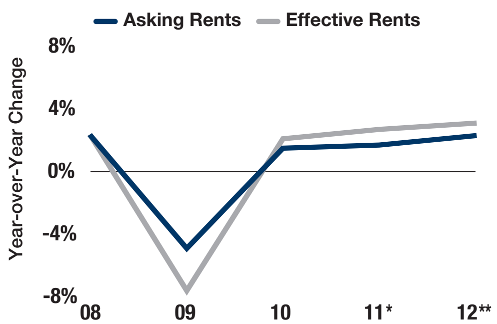
Employment Trends



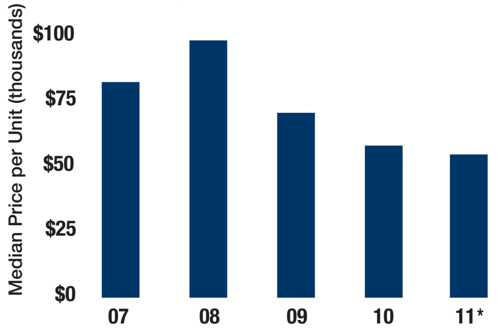
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast Employment: 0.9% ▲ Construction: 100 ▼ Vacancy: 20 bps ▼ Effective Rents: 3.1% ▲

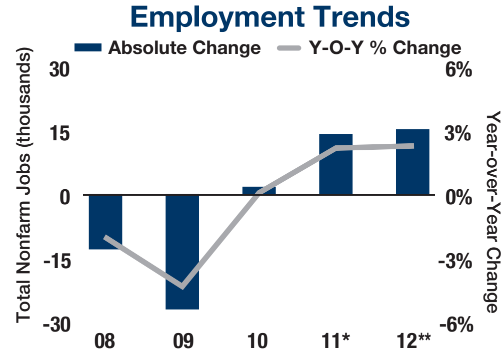
Weak Housing Market and Job Gains Attract Investors to Salt Lake City Apartments

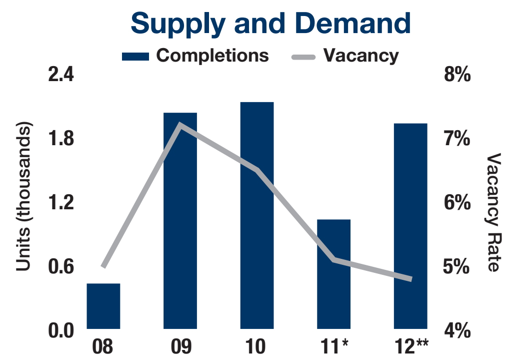
Salt Lake City employment will grow at an above-average pace through 2012, supporting improvement in apartment operations despite a nearly two-fold increase in completions. By the end of this year, payrolls will rise to within 1.5 percent of previous peak levels, compared with a 3 percent deficit nationwide, which, combined with a reduced homeownership rate, bodes well for local apartment owners. Until the single-family housing market stabilizes, renter demand will remain strong, though performance will vary by submarket as owners employ varying strategies. In Midvale/Sandy and West Jordan, for example, many owners will maintain relatively generous concessions as additional Class A supply comes online, creating competition for new Salt Lake City residents and recently displaced homeowners. On the other hand, operators on the East Bench of Salt Lake County, which tends to attract longer-term renters, will offer fewer incentives. This will likely result in only moderate occupancy growth, but should provide more stable returns in the quarters ahead.

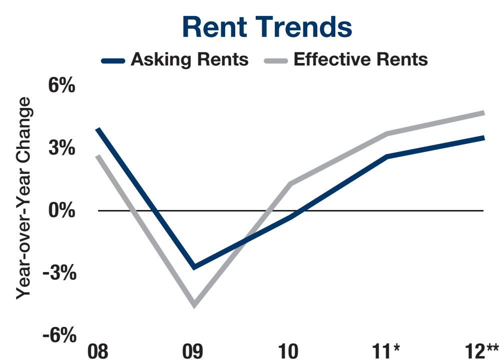
Local investors dominate the Salt Lake City market, but the flow of out-of-state capital has begun to increase. The combination of improving operations, firming values and low interest rates will support increased listing activity, encouraging long-time owners to sell and redeploy capital into stronger growth opportunities. Throughout the year, large, private investors will target better-quality properties that have underperformed in this recovery cycle but remain well positioned to record healthy NOI growth with better management. While investors scour all parts of the metro for such deals, smaller local buyers will concentrate on close-in areas near major employment hubs, such as the CBD/Periphery and Central Valley East, or in the upper counties, where per-unit prices remain affordable and job creation recently regained momentum.

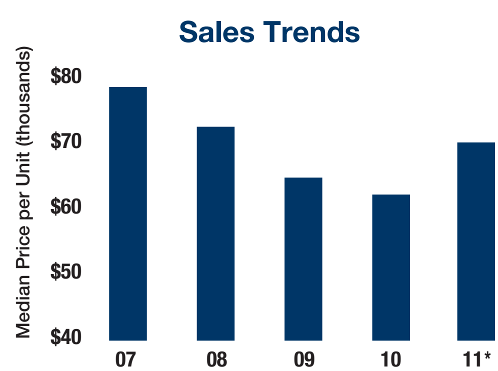
2012 Market Outlook

- **2012 NAI Rank: 24, Down 5 Places.** Salt Lake City retreated five positions in the ranking due to elevated construction.
- **Employment Forecast:** Local employment will grow 2.4 percent in 2012 with the addition of 15,000 jobs, up modestly from 2.3 percent in 2011.
- **Construction Forecast:** Developers will deliver 1,900 apartments to the metro in 2012, nearly two times the 2011 total.
- **Vacancy Forecast:** Despite the spike in construction, vacancy will slip 30 basis points in 2012 to 4.8 percent, after falling 140 basis points last year.
- **Rent Forecast:** Asking rents will increase 3.5 percent in 2012 to $775 per month, while effective rents will rise 4.7 percent to $742 per month.
- **Investment Forecast:** Strong interest in well-located Class B assets near major employers or retail hubs has pushed cap rates in this segment down to the mid- to high-6-percent range. As lenders compete for deals involving performing assets with solid long-term prospects, however, investors should continue to benefit from a healthy cap rate to interest rate spread.







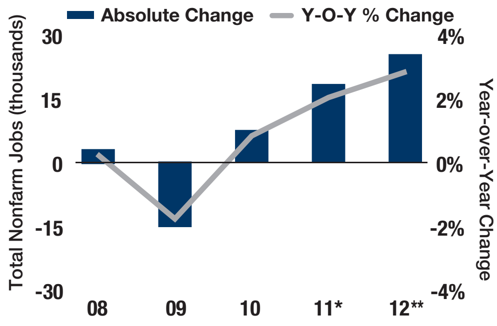


* Estimate ** Forecast

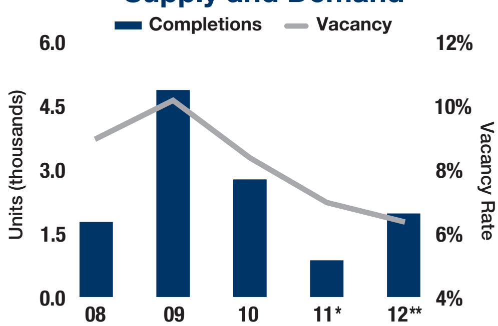
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 2.4% ▲	Construction: 910 ▲	Vacancy: 30 bps ▼	Effective Rents: 4.7% ▲

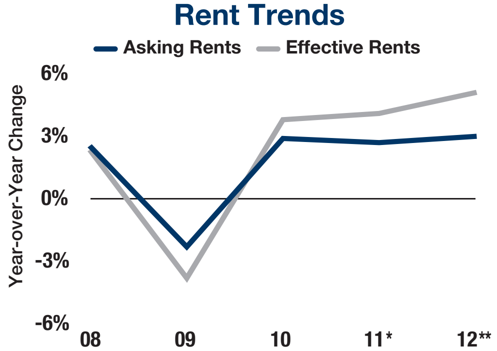
Employment Trends



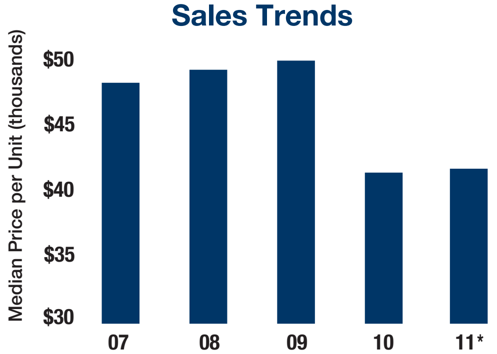
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Strong San Antonio Performance Draws Investors Priced Out of Major Texas Metros

Healthy job growth in San Antonio will boost occupancy in 2012, allowing operators to advance rents and cut concessions. Office-using payrolls, in particular, are recovering as companies hire call-center and back-office support staff. Office Ally, for example, will employ 250 service-related workers in the Far Northwest submarket. The energy industry will also bolster apartment demand in the South and Southwest submarkets as Halliburton and Baker Hughes add nearly 2,000 jobs at the Eagle Ford Shale formation. As job creation accelerates, construction activity will pick up around employment hubs, especially near the Interstate 35 corridor, Far West and Far Northwest areas. However, deliveries will lag demand, generating broad vacancy declines over the one-year horizon.

Investors attracted to the robust statewide economy but seeking higher yields than in other Lone Star metros will flock to San Antonio this year. Out-of-state buyers will target Class B assets for long-term holds. Agency financing for these stabilized properties is generally available, but obtaining debt for investors new to the market remains challenging and may limit distress deal flow. As a result, cash-heavy buyers will find operationally challenged assets priced from $19,000 to $24,000 per unit. Once these assets meet specific NOI thresholds, investors can refinance or re-list these deals at yields between 8.5 percent and 10 percent, depending on asset quality and location. Other opportunities to employ value-add, short-term hold strategies will materialize in the form of note sales. For the most part, however, stabilized properties will dominate sales activity. Top-tier yields will hover in the low- to mid-6-percent range, while Class B assets change hands approximately 100 basis points higher.

2012 Market Outlook

- **2012 NAI Rank: 21, Down 8 Places.** San Antonio fell eight positions in this year's ranking due to below-average asking rent growth.
- **Employment Forecast:** Payrolls will expand 2.9 percent this year as metro employers hire 25,000 workers. Last year, 18,000 jobs were created, a 2.1 percent gain.
- **Construction Forecast:** After just 780 units came online last year, builders will deliver 1,850 apartments by the end of this year.
- **Vacancy Forecast:** Marketwide vacancy will fall 60 basis points to 6.4 percent in 2012, following a 140-basis-point drop in 2011.
- **Rent Forecast:** Asking rents will reach $745 per month this year as effective rents climb to $722 per month, marking annual gains of 3.0 percent and 5.1 percent, respectively.
- **Investment Forecast:** Yield-seeking, out-of-state investors will enter the market to capture high cap rates, which are difficult to obtain in other robust-growth markets. The shortage of Class A assets for sale will direct buyers toward stabilized Class B assets with high rent growth potential.

Market Forecast	Employment: 2.9% ▲	Construction: 1,070 ▲	Vacancy: 60 bps ▼	Effective Rents: 5.1% ▲

Rising Construction Sparks Uptick in Vacancy Despite Strong Demand

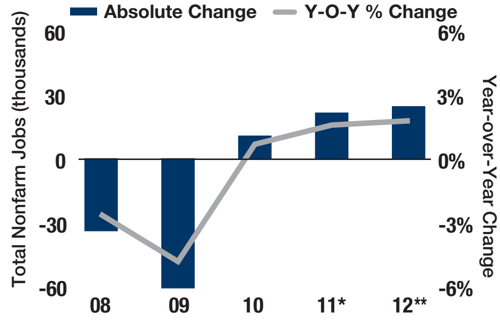
The San Diego apartment market will enter a stronger rent-growth cycle in 2012 as properties operate near full capacity. Vacancy in the Class B/C sector will remain in the low-2-percent range logged in 2011, as increased tourism supports employment gains. Housing demand tied to the leisure and hospitality sector will benefit lower-end complexes in Balboa Park and areas near downtown tourist destinations and trade areas. Meanwhile, military households preferring off-base quarters will boost demand for mid- and lower-tier rentals near installations in Oceanside, National City and Chula Vista. At the upper end of the spectrum, Class A absorption in downtown communities, as well as in La Jolla, Mission Valley and Balboa Park, will rise on the heels of professional and tech-related payroll gains. However, builders broke ground on several projects last year, many of which are slated for completion in 2012. Despite the rise in supply, job growth will sustain renter household formation and preserve the market's solid performance.

Due to a shortage of available supply, REITs and institutions will expand their acquisition targets beyond coastal assets and deploy capital at Class A/B complexes further inland, a trend that materialized in late 2011. Cap rates for genuine, best-in-class deals compressed to the mid-4-percent range last year, and are likely to trade at similar scarcity premiums throughout 2012. Meanwhile, private-capital buyers will take advantage of low interest rates and step up acquisitions below $10 million, intensifying trading across tiers. In close-in corridors, mid- and lower-tier deals demonstrating rent upside will generate offers at cap rates in the high-5-percent to low-6-percent range. Rent inflation is also expected to take place in tertiary locations. Investors considering these assets, however, will generally require cap rates 250 basis points to 300 basis points over the cost of capital.

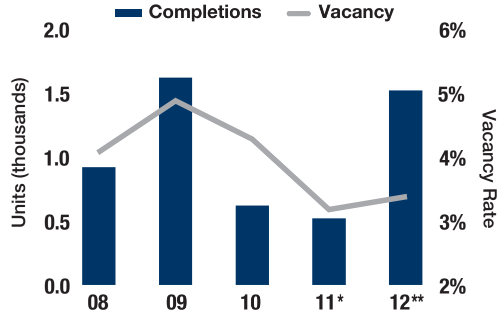
2012 Market Outlook

- **2012 NAI Rank: 6, No Change.** A surge in construction offset Southern California's lowest vacancy rate, leaving San Diego at number six in the NAI.
- **Employment Forecast:** Employers will hire 24,000 workers in 2012, a 1.9 percent increase. Last year, payrolls expanded by 21,000 positions.
- **Construction Forecast:** Projects totaling 1,480 units will be delivered this year, up from the addition of 450 units in 2011.
- **Vacancy Forecast:** After last year's 110-basis-point drop, vacancy will rise 20 basis points in 2012 to 3.4 percent, 50 basis points below the 10-year average.
- **Rent Forecast:** During 2012, asking rents will advance 4.2 percent to $1,406 per month, and effective rents will increase 5.2 percent to $1,383 per month.
- **Investment Forecast:** Improving operations and access to low-interest-rate loans will maintain strong interest for assets. With buyers looking to maximize leveraged returns, but faced with a shortage of supply, owners with nearing debt maturity will capture strong offers when bringing deals to market.

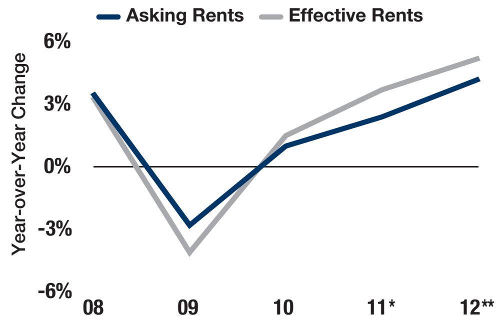
Employment Trends



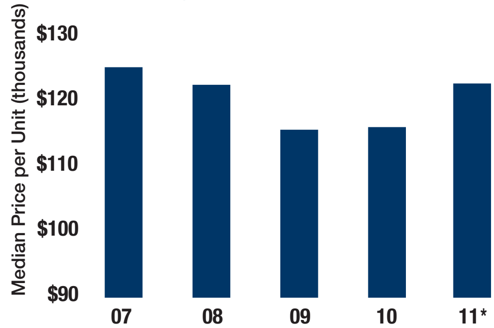
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 1.9% ▲	Construction: 1,030 ▲	Vacancy: 20 bps ▲	Effective Rents: 5.2% ▲

San Francisco

Up 5 Places | **2012 Rank: 2** | **2011 Rank: 7**

Tech Surge to Spur Robust Demand for Rentals Across San Francisco

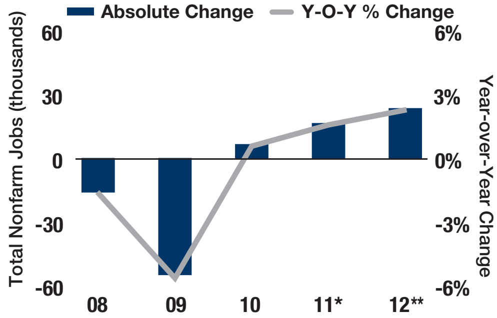
Payroll growth in the high-tech and professional and business services sectors will facilitate a marketwide rise in renter demand. Last year's surge in tech job creation fueled in-migration of professionals seeking in-city housing, a trend that ultimately spilled over to the peninsula. As such, the local apartment sector entered 2012 boasting a decade-low vacancy rate. This year, renter demand for preferred neighborhoods will strengthen and push operations to near full capacity as a new payroll tax exclusion draws additional firms to the Mid-Market area. Landlords in Noe Valley, Mission Dolores, Russian Hill and Marina/Pacific Heights will raise rents at a faster pace than the metro as a whole. Operations on the peninsula are also primed for improvements due to Facebook's move to Menlo Park and Sunedison's relocation to Belmont. With rent growth accelerating, developers are pushing stalled projects through the pipeline. Most notably, the builders of the 749-unit complex at 10th and Market streets resumed work on the $200 million development, which will provide some supply relief in the city when finished in the years ahead.

The San Francisco investment arena is staged for an active year as buyers look to leverage low interest rates to expand in the premier market. In the city, top-tier assets will attract both cash-rich foreign and domestic investors when brought to market, which will hold cap rates for core assets in the mid-4-percent range. However, with buyers anticipating strong rent growth across the region, more investors will identify opportunities along the peninsula. As a result, Class A properties in San Mateo County tech corridors will command similar going-in cap rates as those in the city. Heightened demand for best-in-class assets will also filter through to high-quality Class B buildings, which will clear the market at cap rates in the mid-5-percent range. Lower-tier properties poised for value-add plays through light renovations, meanwhile, will typically sell to private-capital buyers with initial yields in the low-6-percent range.

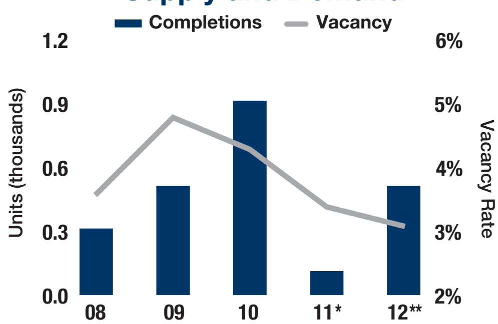
2012 Market Outlook

- **2012 NAI Rank: 2, Up 5 Places.** High-paying job growth and low housing affordability lifted San Francisco five spots in the index.
- **Employment Forecast:** In 2012, employers will add 23,000 jobs, a 2.4 percent increase, building on last year's gain of 16,000 positions.
- **Construction Forecast:** Builders will deliver approximately 480 apartment units this year, up from just 76 market-rate units in 2011.
- **Vacancy Forecast:** Following a 90-basis-point decline last year, apartment vacancy will retreat another 30 basis points in 2012 to 3.1 percent.
- **Rent Forecast:** Tight operations will drive up asking rents 5.9 percent to $1,998 per month and effective rents 7.2 percent to $1,947 per month.
- **Investment Forecast:** High barriers to entry, which restrict large surges in supply, combined with a lack of alternative investments, will sustain a fierce bidding climate while rates are low, requiring buyers to stretch for deals.

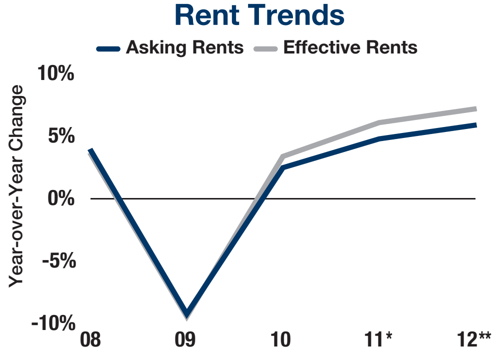
Employment Trends



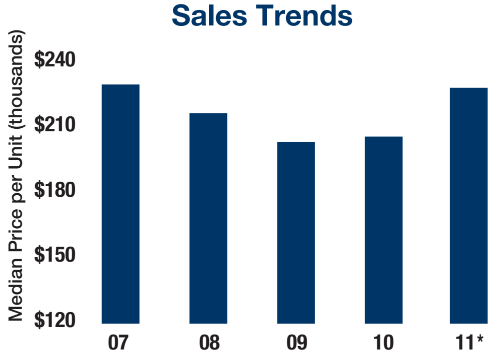
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast | Employment: 2.4% ▲ | Construction: 400 ▲ | Vacancy: 30 bps ▼ | Effective Rents: 7.2% ▲

Ongoing High-Tech Expansion Swells Demand for Rental Housing

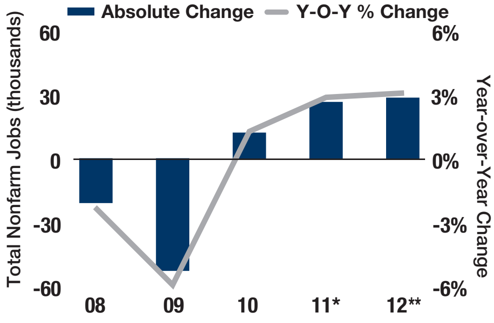
The tech industry's robust growth will result in Silicon Valley leading California in job creation in 2012, enabling landlords to raise rents at the nation's fastest rate. As tech-related staff counts increase and renter demand steadily builds near major employers, vacancy will fall below 3 percent for the first time since the dot-com boom. Operations in Sunnyvale, in particular, will outperform due to major tenants such as Microsoft, HP and Motorola Mobility leasing space at the Moffett Towers campus, which will intensify already strong Class A demand. As a result, Sunnyvale's apartment vacancy will settle below 2 percent, enabling landlords to impose aggressive lease renewals in excess of 7 percent. Moreover, Google's recent commitment to 700,000 square feet at the same office park will add to tech-related renter demand when the company's lease commences in 2013. Meanwhile, South Bay's elevated home prices will preclude many households from becoming homeowners, which will maintain solid absorption trends for Class B/C rental properties.

Large syndicates, private-capital buyers and REITs will look to acquire assets in one of the nation's strongest markets in 2012. Buyer demand turned bullish in 2011, a trend that will continue due to low lending rates and underdeveloped housing conditions. Meanwhile, owners contemplating securing low financing rates to leverage into larger assets may move to divest due to competitive bidding. As such, the local investment arena will record another year of strong trading, with closings to filter across the region. REITs and institutions will favor large, high-end properties, though more of these investors may descend the quality scale in pursuit of value-add plays. Transactions involving properties with fewer than 20 units, however, will still dominate closings as private buyers target cash-flow assets with more attainable price points.

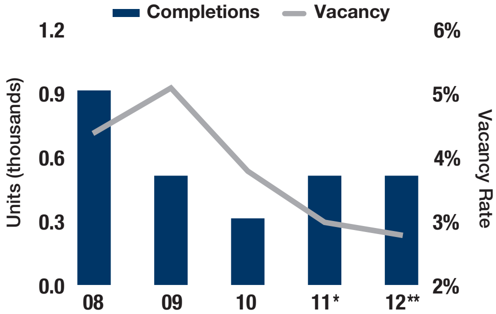
2012 Market Outlook

- **2012 NAI Rank: 1, Up 3 Places.** San Jose moved into the top place in this year's NAI due to a booming tech industry and strong rent growth.
- **Employment Forecast:** Employers will expand payrolls by 3.2 percent, or 28,000 jobs, this year, following the addition of 26,000 positions in 2011.
- **Construction Forecast:** During 2012, deliveries will total 520 units, a modest increase from the completion of 480 units last year.
- **Vacancy Forecast:** Continued job growth and a low supply of rental housing will drive down vacancy 20 basis points in 2012 to 2.8 percent. Last year, vacancy dropped 80 basis points.
- **Rent Forecast:** In 2012, asking rents will inflate 6.1 percent to $1,620 per month, and effective rents will climb 7.4 percent to $1,548 per month.
- **Investment Forecast:** Cap rates for Class A buildings will average in the mid-4-percent range, and approximately 75 basis points higher for mid-tier assets. Cap rates for performing Class C buildings will generally average in the high-5-percent to high-6-percent range, depending on location.

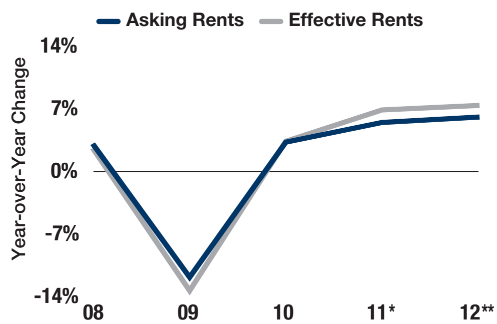
Employment Trends



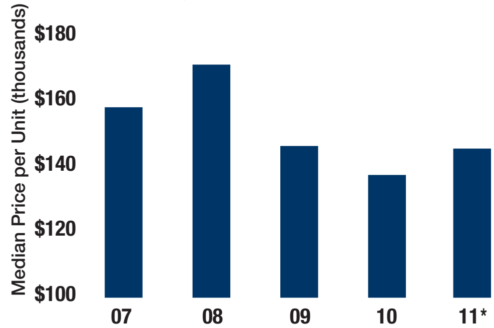
Supply and Demand



Rent Trends



Sales Trends

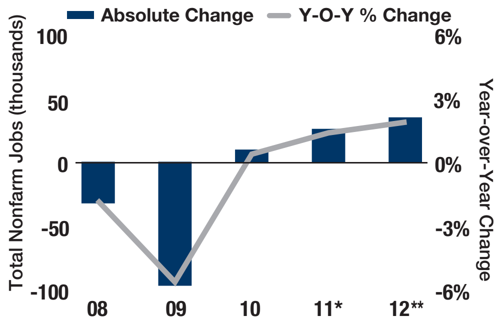


* Estimate ** Forecast

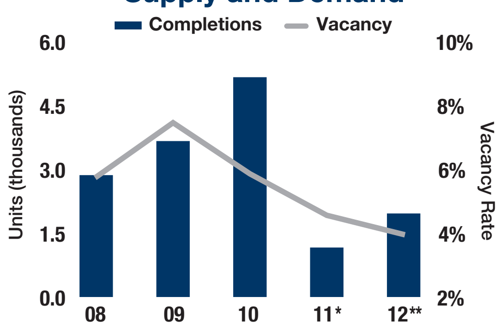
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 3.2% ▲	Construction: 40 ▲	Vacancy: 20 bps ▼	Effective Rents: 7.4% ▲

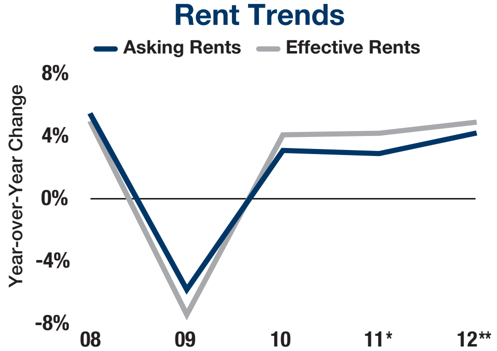
Employment Trends



Supply and Demand



Rent Trends



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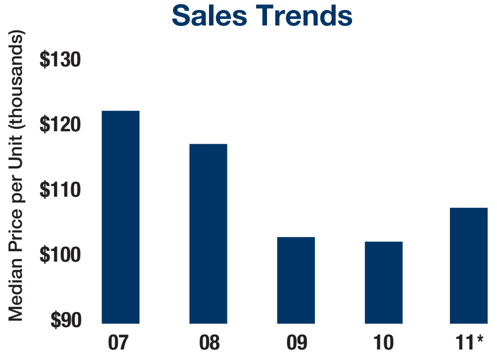


* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Development Gaining Momentum as Performance Improvements Spread

Payroll expansion among Puget Sound's tech heavyweights will fuel strong rent growth in urban neighborhoods. These gains will enable planned developments to pencil and cultivate a new construction cycle. Although developers will increasingly push idled projects through the pipeline, new units slated for delivery this year will come online in high-demand locations of King County, where tech-related employment is surging. Established and satellite tech start-ups will continue to expand and take root near related industry clusters in King County's central corridors, aiding in the absorption of new stock and enabling landlords to raise rents in step with household creation. The performance of properties outside of King County will also improve as employment builds. In downtown Tacoma and around Joint Base Lewis-McChord, for instance, vacancy will dip below 4 percent and 5 percent, respectively, giving owners the leverage to push rents more aggressively.

Improved access to loans, combined with a broad rental market upswing, will draw buyers to Puget Sound assets. Syndicates, in particular, will seek more deals, and owners nearing loan maturity may increasingly list assets, generating increased transaction velocity. In King County, properties with less than 30 units in desirable neighborhoods will command cap rates in the low- to mid-5-percent range, though large institutional-grade complexes will likely require lower first-year yields. Meanwhile, in suburban south King County and Pierce County, well-located properties will attract private capital from yield-driven buyers, supporting broader geographic sales this year. Cap rates for properties in these areas will average as much as 150 basis points above comparable King County assets.

2012 Market Outlook

- **2012 NAI Rank: 8, Up 7 Places.** Job creation by major tech companies and above-average effective rent growth helped boost the Puget Sound seven spots in this year's NAI.
- **Employment Forecast:** During 2012, employment will grow by 34,000 positions, a 2 percent increase, adding to last year's gain of 25,000 jobs.
- **Construction Forecast:** Approximately 1,900 apartment units will come online this year, which is up from 1,120 units in 2011.
- **Vacancy Forecast:** Improved job creation and continued housing market concerns will sustain a wide renter pool, driving down vacancy 60 basis points to 4 percent this year. In 2011, vacancy dropped 130 basis points.
- **Rent Forecast:** Asking rents will rise 4.2 percent to $1,057 per month in 2012, while effective rents will climb 4.9 percent to $1,010 per month.
- **Investment Forecast:** Deals bypassed in 2011 could garner new interest from eager buyers priced out of high-demand locations in 2012 due to wide equity return spreads over lending rates.

Market Forecast	Employment: 2.0% ▲	Construction: 780 ▲	Vacancy: 60 bps ▼	Effective Rents: 4.9% ▲

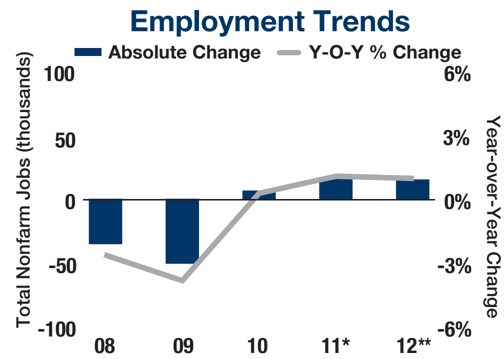
Apartment Vacancy Recedes as Housing-Market Woes Expand Renter Pool

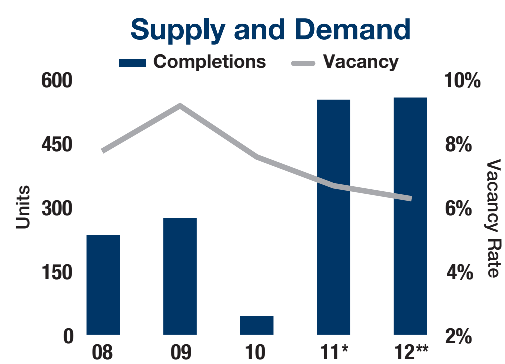
St. Louis' struggling housing market will remain a drag on economic growth in 2012 but will prove beneficial to apartment owners, as reduced homeownership supports occupancy. Overall employment remains well below pre-recession levels, which, combined with tighter residential lending standards, will hamper the flow of renters to homeownership. Top-tier apartment assets will outperform this year as a result. The strongest Class A vacancy improvements are anticipated in Clayton/Mid-County and Maryland Heights/Northwest County. Occupancy gains will also be strong near major employment hubs and highway corridors, such as the Airport/I-70 area. In St. Louis City, high-end redevelopment projects will be met with strong demand from young professionals working downtown, though their delivery may inflate apartment vacancy. Demand for Class B/C units, meanwhile, should intensify in the northern submarkets as General Motors adds a truck assembly line at its Wentzville plant and a hybrid-van manufacturer opens a factory in Hazelwood.

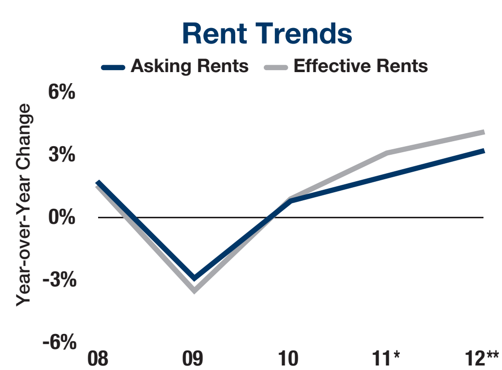
Transaction velocity in St. Louis will rise over the next year as local investors maintain their focus on older assets with 10 to 25 units, either in the city or within first-ring suburbs, such as Clayton and Richmond Heights. Smaller properties in these areas tend to sell at prices around $65,000 to $70,000 per unit, but can start closer to $50,000 per unit for assets with deferred maintenance. While investor demand for larger Class A and Class B apartments remains healthy, velocity has been minimal in recent years due to limited for-sale inventory. As vacancy retreats to a 10-year low and Class A rents surpass their pre-recession peak, however, still-low interest rates should entice more owners to list better-quality assets

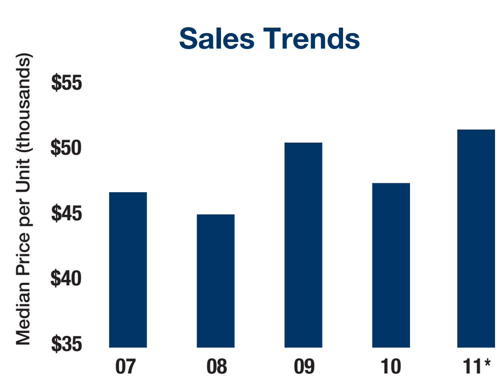
2012 Market Outlook

- **2012 NAI Rank: 34, Down 5 Places.** Slowing payroll growth enabled five markets to move ahead of St. Louis in this year's ranking.
- **Employment Forecast:** Employment will rise 1.1 percent in 2012 with 14,400 new jobs. During 2011, payrolls increased by 16,100 positions.
- **Construction Forecast:** Developers will deliver approximately 550 apartments during 2012, nearly equivalent to completions in 2011. Most of this year's new supply will come online in the St. Louis City North submarket.
- **Vacancy Forecast:** With apartment vacancy already hovering at comparatively low levels, the pace of recovery will slow. During 2012, vacancy will slip 40 basis points to 6.3 percent, following a 90-basis-point reduction last year.
- **Rent Forecast:** After recording a 2 percent uptick in 2011, asking rents will rise 3.2 percent this year to $751 per month. Effective rent will increase 4.1 percent in 2012 to $717 per month.
- **Investment Forecast:** On average, apartment cap rates in the metro average in the high-7 to low-8-percent range, offering a 100- to 175-basis-point premium over some of the larger Midwest markets.









* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 1.1% ▲	Construction: 10 ▲	Vacancy: 40 bps ▼	Effective Rents: 4.1% ▲

Shift in Demand to Lower-Tier Rentals Accelerates as Tampa Bay Adds Jobs

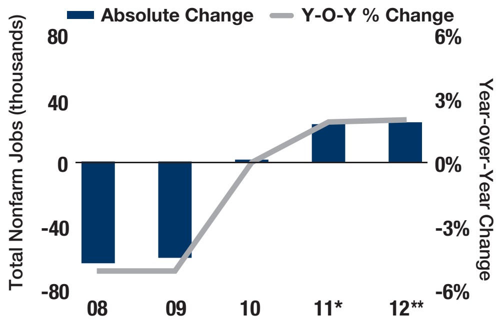
A second consecutive year of solid job growth will sustain rental housing demand in Tampa-St. Petersburg throughout 2012, providing operators with additional prospects to strengthen property performance. Those opportunities, however, will vary by property class. Class A vacancy in both Hillsborough and Pinellas counties dipped to the low-5-percent range last year, well below local historical norms. Additional declines in vacancy are difficult to achieve, but significant rent increases are clearly attainable for many operators. Meanwhile, the Class B/C sector rode considerable momentum heading into 2012, as more than two-thirds of rentals absorbed in Hillsborough and Pinellas in the second half of 2011 were in the market's lower-tier properties. Unlike the Class A segment, however, excess vacancy exists in most Class B/C submarkets, including those around the University of South Florida.

The market continues to benefit from positive economic and rental housing trends that will stoke investor interest throughout 2012. While sales of newer Class A assets will command headlines, the market for stabilized Class B properties was improving notably as 2012 began. Assets in locations with large daytime populations of potential renters, such as the University of South Florida, will receive keen attention from investors when listed for sale. Demand for stabilized Class C properties will accelerate through the first half of 2012 as opportunities to purchase distressed complexes dissipate. Cap rates for stabilized Class C assets typically start in the high-9-percent range. Investors in this class of product remain highly conservative, however, and accordingly will underwrite for only stable near-term occupancy and modest rent growth.

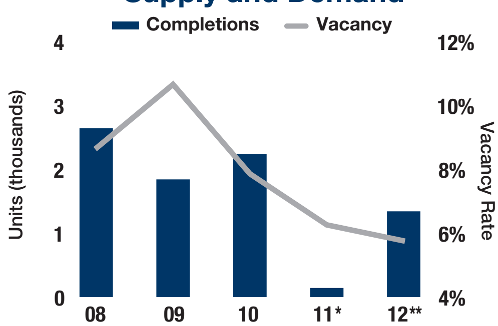
2012 Market Outlook

- **2012 NAI Rank: 30, Up 6 Places.** Tampa advanced six spots in the NAI due to healthy employment and occupancy gains.
- **Employment Forecast:** Employment will increase 2.1 percent, or by 24,000 jobs, in 2012. Leisure and hospitality employers will expand in the first half of 2012 in preparation for the Republican National Convention but add only a limited number of positions thereafter.
- **Construction Forecast:** This year, 1,300 units will come online, primarily in Hillsborough County. Only 100 units were delivered in 2011.
- **Vacancy Forecast:** Vacancy will decline 50 basis points to 5.8 percent in 2012 as an increase in occupied units offsets the projected rise in completions.
- **Rent Forecast:** Asking rents will rise 3.4 percent this year to $855 per month, surpassing the pre-recession high. Effective rents will gain 3.9 percent this year to reach $815 per month.
- **Investment Forecast:** Cap rates have likely settled in a range commensurate with the risks in an improving market and available financing rates. Class A product, for example, generally trades in the mid-5-percent range, while the strike point for stabilized Class B product is about 200 basis points higher.

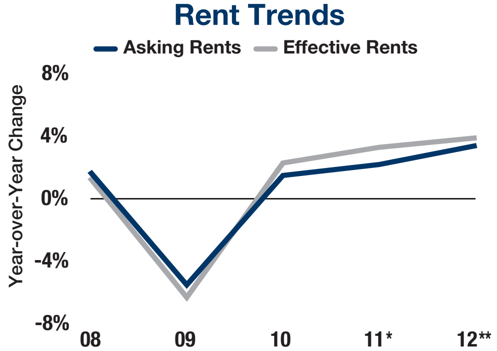
Employment Trends



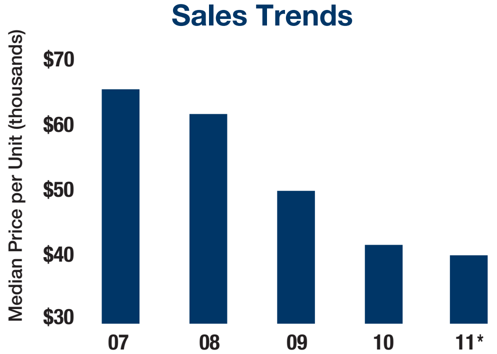
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast Employment: 2.1% ▲ Construction: 1,200 ▲ Vacancy: 50 bps ▼ Effective Rents: 3.9% ▲

Improving Conditions Entice Buyers to Target REO Assets in Tucson

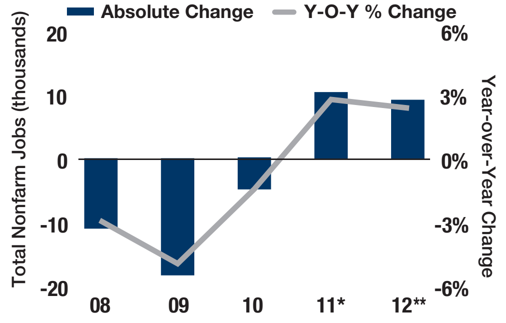
The recovery of Tucson's apartment market will gain momentum through 2012, spurred by potential expansion and job growth in several industries. In the manufacturing sector, defense contractor Raytheon recently won a $241 million contract for a U.S. Air Force project that will create a significant number of new jobs. Raytheon is a pivotal employer and hires a mix of white-collar and blue-collar workers that bolster demand for rental units throughout the quality scale. In addition to manufacturing growth, major distribution companies APL and Hanjin continue to consider relocating from the Long Beach terminal to Tucson, which would boost renter demand near I-10 and Kolb Road. Apartment properties near the University of Arizona, meanwhile, will benefit as additional students move from on-campus accommodations to market-rate rentals. The operational improvements will influence owners to lift asking rents and cut concessions to an average of 18 days of free rent, which is the lowest rate since prior to the recession.

Sales velocity will continue to accelerate as more REO assets are targeted by out-of-state investors. Many properties purchased during the boom years were bought at inflated prices and were highly leveraged, creating a large pool of owners who no longer have equity in their investments. Buyers will continue to target these distressed properties with price reductions, through a combination of REO and note sales. Discounting will not be drastic, however, as banks look to recoup some of their losses on reclaimed assets and private sellers ask for higher price points as apartment operations strengthen. The North/Northwest Tucson and East Tucson submarkets will continue to garner attention from yield-seeking buyers, with average returns here in the low- to mid-7-percent range. Marketwide, cap rates average in the high-6-percent range.

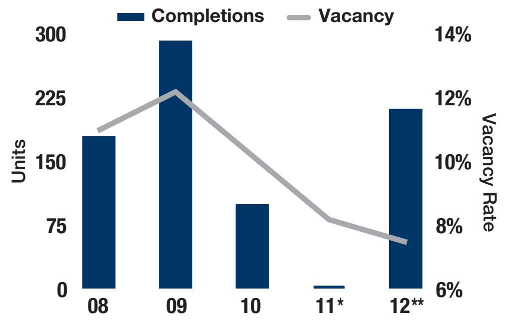
2012 Market Outlook

- **2012 NAI Rank: 43, Down 2 Places.** Elevated vacancy and below-average rent growth pushed Tucson down two places to near the bottom of the index.
- **Employment Forecast:** Payrolls will expand 2.5 percent this year, adding 9,000 positions. Last year, employers added 10,200 jobs.
- **Construction Forecast:** Developers are expected to bring more than 200 units online this year, expanding inventory 0.4 percent. Only 96 units were completed in the last two years.
- **Vacancy Forecast:** Vacancy will decline 70 basis points this year to 7.5 percent. The rate has not been below 8 percent since before the recession.
- **Rent Forecast:** In 2012, asking rents will rise 2.8 percent to $672 per month, while effective rents increase 3.4 percent to $642 per month.
- **Investment Forecast:** Buyers will bid aggressively for REO assets, with operations improving and a potential for significant returns on the horizon. Banks will have a strong position in negotiations, buoying the median sales price of distressed deals.

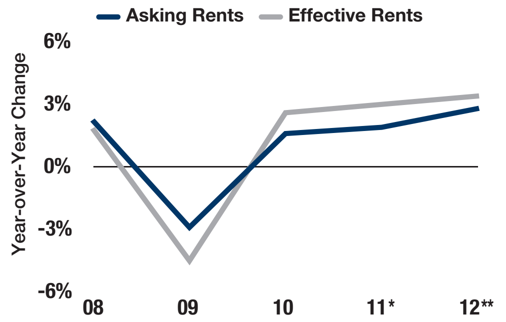
Employment Trends



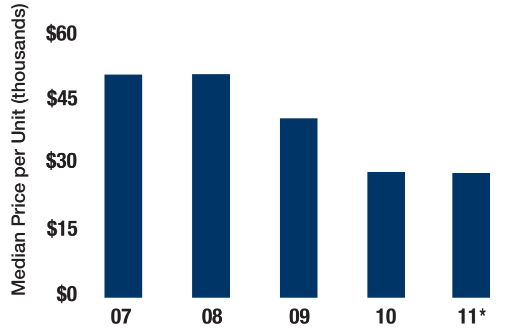
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

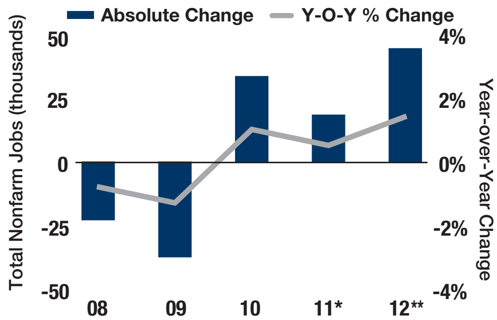
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast	Employment: 2.5% ▲	Construction: 210 ▲	Vacancy: 70 bps ▼	Effective Rents: 3.4% ▲

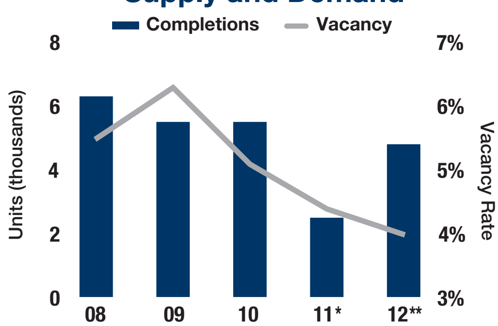
Washington, D.C.

Down 7 Places | **2012 Rank: 9** | **2011 Rank: 2**

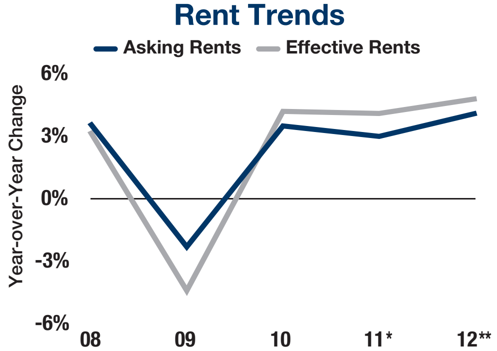
Employment Trends



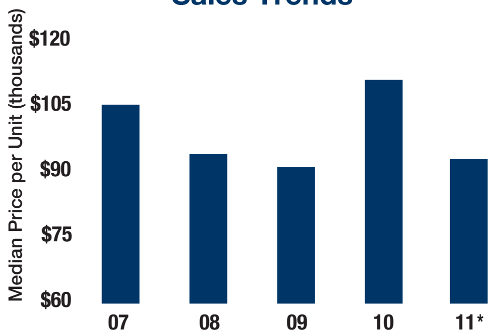
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Strong Interest in the District Persists While Institutions Comb Suburbs for Large Assets

Less construction and steeper declines in vacancy will rank other markets ahead of the Washington, D.C., metro this year, but strong tenant demand and rent growth will support another year of positive marketwide performance. Renter demand will grow faster than apartment stock in 2012, as job creation and a large population of recent college graduates form new households. In addition, tighter residential mortgage requirements will compel many residents to delay home purchases, leaving rentals as the only realistic housing option in desirable areas. Demand growth will be widespread, and vacancy will decline in each section of the market. Even in Virginia, where nearly 2,500 units will come online this year, vacancy will fall to the mid-3-percent range. Metrowide completions will rise in 2012, but the eventual unit count may be lower than anticipated as construction lenders become more selective.

While access to construction funding may prove problematic this year, attractive acquisition financing will sustain a liquid investment market. Activity is especially strong in the district, where resident demand for rental housing remains somewhat unfulfilled. Top Class A product here continues to command cap rates of around 5 percent, while performing Class B properties trade at approximately 6 percent. Complexes in the northwest district will be primary investment targets and sell at the lowest cap rates, while assets without close Metro access might require cap rates of approximately 8 percent. Properties in Maryland near public transportation command keen interest, but investors remain hesitant to consider assets in areas with high unemployment. Institutions remain active in Virginia, where operating conditions will benefit from BRAC-mandated workforce relocations.

2012 Market Outlook

- **2012 NAI Rank: 9, Down 7 Places.** A lackluster job market dragged Washington, D.C., seven spots lower in this year's ranking.
- **Employment Forecast:** In 2012, total employment in the metro will increase 1.5 percent, or by 44,000 jobs. About 18,000 positions were added last year.
- **Construction Forecast:** Developers will increase rental stock 1.2 percent this year, or by 4,700 units, including 1,400 rentals in the district.
- **Vacancy Forecast:** Robust job growth will spur tenant demand and drive down metrowide vacancy 40 basis points this year to 4 percent. A 70-basis-point drop was recorded last year.
- **Rent Forecast:** Average asking rents in the metro will advance 4.1 percent in 2012 to $1,478 per month. Concessions will wane as effective rents increase 4.8 percent this year to $1,422 per month.
- **Investment Forecast:** Most properties near public transportation will command attention. Emerging neighborhoods, however, in the southeast district near the new headquarters for the Department of Homeland Security will spark interest.

Market Forecast | Employment: 1.5% ▲ | Construction: 2,270 ▲ | Vacancy: 40 bps ▼ | Effective Rents: 4.8% ▲

Developers Remain Idle, While Investors Scour the County

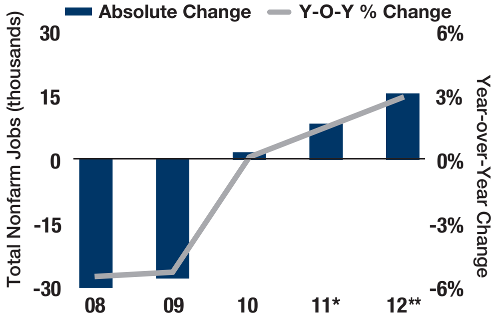
Palm Beach County will be one of the few markets in the country where completions will decline in 2012, and the minimal construction activity will enable property owners to further exploit improving tenant demand. Residents returning to work over the past two years have contributed to net absorption of nearly 1,800 rentals in that time, slashing the countywide vacancy rate and stabilizing rents as a result. However, many submarkets entered 2012 with average effective rents far less than recent peaks. Operators generally remain hesitant to make significant rent increases, and an unemployment rate of more than 10 percent indicates that affordability remains an issue for many tenants. As a result, only modest rent growth is expected in 2012.

Investors continue to show considerable confidence in the long-term prospects of Palm Beach County. Strengthening operations reflected in lower countywide vacancy, though, have not enabled many property owners to avert distress. Accordingly, opportunities to purchase troubled assets will persist in 2012. The ability to capture considerable upside exists in restoring operations of distressed Class B or Class C properties in prime locations with access to Interstate 95 or near the waterfront. Interest in stabilized Class B assets also remains intense, but risk appetites dictate that listings must be offered at cap rates starting at around 8 percent to initiate bidding. Investors who find attractive properties priced at that level will likely move quickly to execute deals in the months ahead. Similarly, owners of stabilized Class B properties contemplating a disposition in the next couple of years may accelerate their plans.

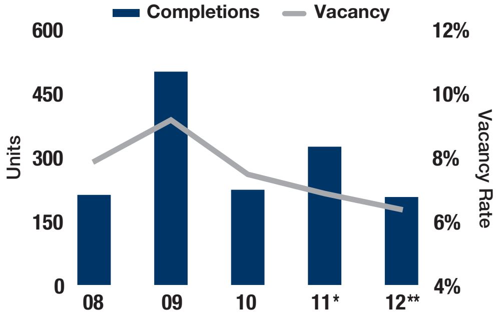
2012 Market Outlook

- **2012 NAI Rank: 32, Up 6 Places.** West Palm Beach's employment market will expand at the sixth highest rate in the nation, which helped propel the county six positions higher in the NAI despite below-average rent gains.
- **Employment Forecast:** Led by gains in education and health services, employers will add 15,000 jobs in 2012. Last year, 7,900 positions were created.
- **Construction Forecast:** Only 200 new rentals will come online in the county this year, a decline from a similarly scant 318 units in 2011. The 369-unit Alta Congress and Broadstone at North Boca Village, with 386 rentals, will break ground during 2012.
- **Vacancy Forecast:** Minimal supply additions will underpin a 50-basis-point decline in vacancy to 6.4 percent this year. In 2011, the vacancy rate decreased 60 basis points.
- **Rent Forecast:** This year, asking rents will rise 2.9 percent to $1,133 per month. Effective rents will gain 3.9 percent to $1,070 per month.
- **Investment Forecast:** Many owners should be able to bring properties to market with a record of strong performance and cash flows over the past year. Bidding will remain intense for assets in centralized locations such as Boca Raton, Delray Beach and Lake Worth.

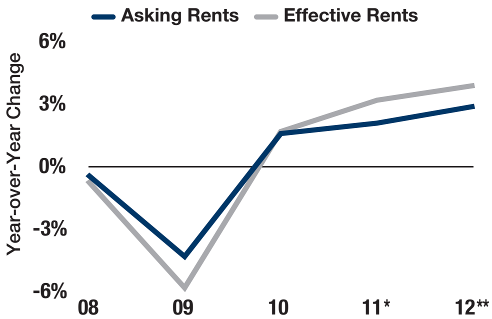
Employment Trends



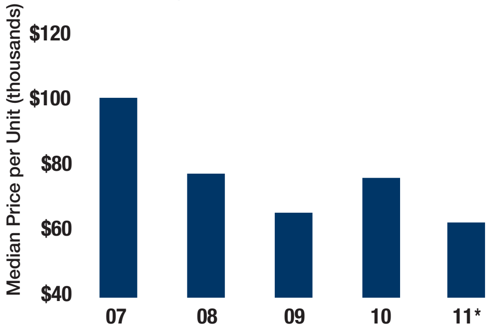
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

Market Forecast Employment: 3.0% ▲ Construction: 120 ▼ Vacancy: 50 bps ▼ Effective Rents: 3.9% ▲

Research Services

Marcus & Millichap's Research Services group utilizes a two-tiered approach of combining local market research with national economic and real estate analysis to develop premier research services for real estate investors. Marcus & Millichap's research capabilities are customized by property type to service the unique needs of owners and investors in various property sectors. Market reports are produced on a regular basis in addition to specific submarket and area analyses to support clients' investment decisions.

Fact-Based Investment Strategies

Multifamily Demand Analysis

- Extensive demographic analyses are performed, including studies of population, age, employment, education, income and traffic volume. Housing affordability, household formation and housing value trends are tracked and analyzed for their impact on renter demand. Customized maps and reports are produced for submarket and property comparisons.
- Comprehensive economic analysis and forecasts are produced based on data provided by respected private, academic and government sources. Indicators such as job formation, growth by industry, major employers and income trends are monitored constantly.

Multifamily Property Analysis

- Marcus & Millichap Research Services routinely updates and analyzes rents, vacancies, sales and construction activity locally and nationally.

Financial Analysis

- Our team works closely with clients to create financial analysis scenarios supporting acquisition, disposition, portfolio analysis, pricing strategies and market selection.

Customized Research and Consulting Services

- In addition to multifamily publications and reports, we provide customized market studies, property and portfolio analysis, and development feasibility studies. These services are designed to help clients formulate strategies ranging from acquisitions and dispositions to maximizing returns during the hold period.

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National Apartment Index Note: Employment and apartment data forecasts for 2012 are based on the most up-to-date information available as of November 2011 and are subject to change.

Statistical Summary Note: Metro-level employment, vacancy, and annual asking and effective rents are year-end figures and are based on the most up-to-date information available as of November 2011. Effective rent is equal to asking rent less concessions. Median prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express of implied may be made as to the accuracy or reliability of the information contained herein.

Sources: Marcus & Millichap Research Services, American Council of Life Insurers, Blue Chip Economic Indicators, Bureau of Economic Analysis, California Association of Realtors, California Employment Development Department, Commercial Mortgage Alert, CoStar Group Inc., Deutsche Bank, Dupre + Scott Apartment Advisors Inc., Economy.com, Fannie Mae, Federal Reserve, Foresight Analytics, Freddie Mac, Morgan Stanley, Mortgage Bankers Association, National Association of Realtors, National Council of Real Estate Investment Fiduciaries, National Real Estate Index, Real Capital Analytics, Real Data, Real Estate Center at Texas A&M University, RealFacts, RealPoint, Reis, Standard & Poor's, The Conference Board, Trepp, TWR/Dodge Pipeline, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Securities and Exchange Commission, U.S. Treasury Department.

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