APARTMENT ADVISORY

DECEMBER 2019

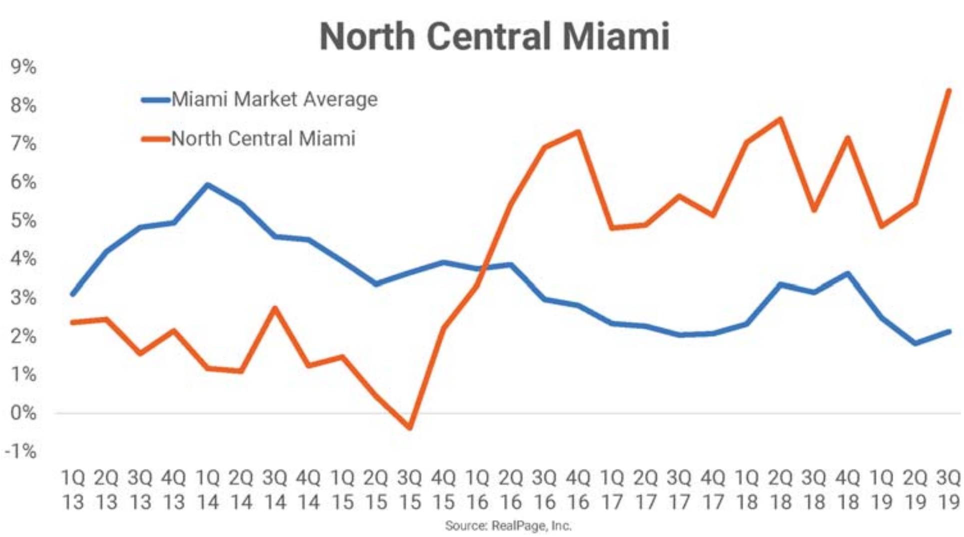
Market selection is an integral component of strategic investment and operations decisions. Equally as important, though, is selection within a chosen market. After all, performance at the neighborhood level can differ substantially from the larger market that the neighborhood is in. To illustrate this concept, RealPage identified a handful of submarkets that substantially outperformed their parent metros for annual rent growth in 3rd quarter 2019.

North Central Miami in Miami

Situated just east of the Miami International Airport and effectively bound on its eastern side by I-95, North Central Miami is seeing booming rent growth as the greater Miami market softens. In fact, the downtown-adjacent submarket has been outperforming Miami for some time.

As of 3rd quarter, North Central Miami's annual rent change hit 8.4%, up from an already-strong 5.4% a year earlier. For comparison, the Miami market averaged just 2.1% in 2019's 3rd quarter, down from 3.2% the prior year. In fact, North Central Miami's rent growth premium of 630 basis points (bps) was the largest for any one submarket in the nation.

North Central Miami operators have managed to hold onto remarkable pricing power in recent years in part due to few vacancies in the area. The submarket has been above 98% occupancy in each of the past 11 quarters and has averaged an exceptional 98.9% occupancy during that period. Additionally, there has been limited new construction in the neighborhood. Until this year, just two properties have been built in the submarket since 2010, one of which is currently in lease-up.

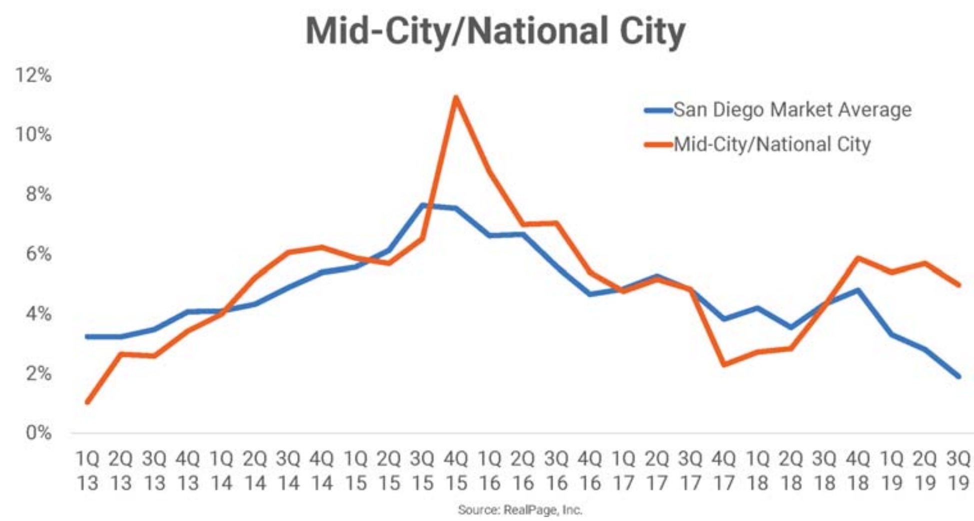


Mid-City/National City in San Diego

A geographically expansive submarket, Mid-City/National City forms the eastern border of downtown San Diego. The submarket's northern border follows the I-8 corridor, bound by Chula Vista to the south and La Mesa to the east.

Like many West Coast markets, San Diego has seen momentum slow through 2019. As of 3rd quarter, annual rent change (1.9%) was at its lowest point since 2012. Compare that to Mid-City/National City, where annual rent change has run at or above 5% for four straight quarters. The 310-bps gap in rent performance between the submarket and the market is one of the nation's largest.

While Mid-City/National City performance has typically mirrored the broader market in recent history, 2019's divergence is partly explained by a lack of new construction in the submarket. There are about 48,000 existing apartment units in Mid-City/National City, but only 1,100 or so have been built this decade. Additionally, Mid-City/Na-



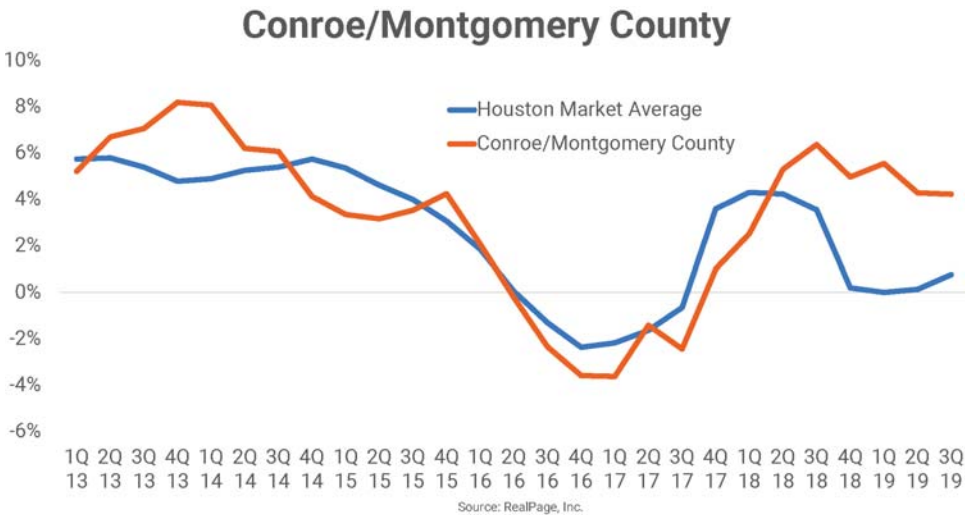
tional City, where rents average $1,693, is among the most affordable areas in San Diego, where average rents run $1,990. While Class A product is relatively thin in Mid-City/National City, that upper-tier product has generally seen better performance than nearby Class B and C product.

Conroe/Montgomery County in Houston

The woes of Houston's apartment market have been well-chronicled lately. Through 2019, the market has been one of the nation's weakest performers, barely keeping positive rent growth while occupancy struggles to hold above 94%. Not every submarket in Houston is feeling that pinch, though. While the urban core and some of the market's fast-growing western suburbs are working through temporary supply burdens, there are submarkets such as Conroe/Montgomery County that are not only seeing solid performance but are actually beating the U.S. norm.

Conroe/Montgomery County has been an outperforming submarket since early 2018. While the Houston market performance cooled considerably through the back half of 2018, that erosion in rent growth in Conroe/Montgomery County never materialized. Annual rent change in Conroe/Montgomery County (4.2% in 3rd quarter 2019) was well above the Houston average (0.8%) and the U.S. norm (3%).

The submarket sits at the far northern end of the sprawling Houston metro and although the area has seen its share of building in recent history, its isolation from the cluster of downtown and western suburban construction has afforded operators the ability to maintain pricing power. Despite some construction waves, demand has been strong. Only two Houston submarkets have a higher occupancy rate than the 95.6% seen in Conroe/Montgomery County.



Other Noteable Areas

A handful of additional submarkets caught our attention for outperformance.

A few areas of Atlanta are significantly outperforming the market. In particular, the outlying suburbs of Atlanta are seeing great performance in an already-strong Atlanta market. The Far West Atlanta Suburbs and the Far South Atlanta Suburbs contain Paulding and Coweta counties, respectively. Both counties are fast-growing population centers within the Atlanta metro, boosted by strong economic growth.

Phoenix may be the nation's rent growth leader at 8%-plus growth in 3rd quarter, but Far West Phoenix is currently achieving double-digit annual rent growth. The submarket is yet another example of a well-positioned, inner-ring suburb with limited new development. With a strong Phoenix economy, the affordable Far West Phoenix submarket has enjoyed exceptional growth and will likely outperform the market in the near-to-mid-term.

Meanwhile, East Los Angeles is located directly east of downtown LA, and is almost exclusively comprised of workforce housing built in the 1970s and 1980s. While lots of ongoing development in downtown Los Angeles is pulling down the overall performance of the broader market, the East Los Angeles submarket is one of the region's few star performers. As a result of strong demand, relative affordability and limited competition, rent growth and occupancy remain lofty in East Los Angeles.

Other Noteable Outperforming Submarkets

Submarket	Market	Submarket Rent Growth	Market Rent Growth	Submarket Premium
Far West Atlanta Suburbs	Atlanta-Sandy Springs-Roswell, GA	10.4%	4.1%	630 bps
North Central Miami	Miami-Miami Beach-Kendall, FL	8.4%	2.1%	630 bps
Far South Atlanta Suburbs	Atlanta-Sandy Springs-Roswell, GA	9.8%	4.1%	570 bps
Conroe/Montgomery County	Houston-The Woodlands-Sugar Land, TX	4.2%	0.8%	350 bps
Mid-City/National City	San Diego-Carlsbad, CA	5.0%	1.9%	310 bps
Far West Phoenix	Phoenix-Mesa-Scottsdale, AZ	11.3%	8.2%	310 bps
East Los Angeles	Los Angeles-Long Beach-Glendale, CA	5.2%	2.1%	300 bps

Source: RealPage, Inc.