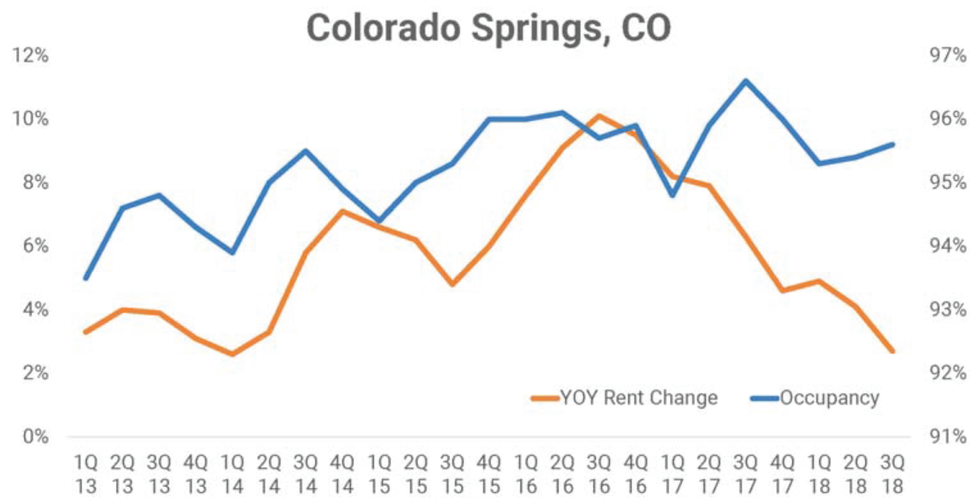
APARTMENT ADVISORY

NOVEMBER 2018

While the national apartment market has enjoyed notable rent growth during the current economic cycle, price increases have slowed in recent years. Most of the large U.S. markets have followed this pattern, as several years of elevated supply volumes are weighing on some operators' ability to push rents in an increasingly competitive marketplace. However, some of the nation's smaller markets – where deliveries, for the most part, have remained comparatively small – have recently emerged as strong breakout performers.



Source: RealPage, Inc.

Colorado Springs, CO

Rent growth in Colorado Springs has been solid at 43.9% during the current cycle, well ahead of the national norm of 32.6%. Annual rent growth in Colorado Springs reached a record high of 10.1% just recently in 3rd quarter 2016. Though growth has eased from that peak in recent quarters, prices are still increasing about in line with the national norm at 2.7%.

Fall 2018 occupancy in Colorado Springs was in line with the national norm at 95.6%. While this metro didn't log as much occupancy progress as some of the other secondary markets during the current cycle, Colorado Springs has proven to be more stable than others. The current occupancy rate is a bit ahead of the cycle average of 95%, and not far below the 17-year high of 96.6% from just a year ago in 3rd quarter 2017.

This market has benefitted from limited multifamily development activity during the current cycle, with the inventory base expanding just 9.5% in the past eight years. In comparison, nearby Denver has seen its apartment base grow 20.9% in the same time frame. At the same time, employment and population growth has been solid. In the year-ending 3rd quarter 2018, Colorado Springs added 11,800 jobs, the metro's strongest employment increase in nearly 20 years. Additionally, the market has seen its population grow by about 70,000 people over the past decade.

North Port-Sarasota-Bradenton, FL

Rents in North Port-Sarasota-Bradenton are up 43.5% – well ahead of national norms – since the beginning of the cycle. As of 3rd quarter, rent growth is still running beyond the U.S. average at 4.9%. In fact, price increases in this market have averaged at a sizable 5.5% throughout most of the current cycle.

Occupancy in North Port-Sarasota-Bradenton has been stable, registering between roughly 95% and 97% every quarter since early 2011.

Some Smaller Markets Are Showing Potential During the Current Cycle

Market	Cycle Rent Growth	Current Rent Growth	Current Occupancy	Cycle Occupancy Change	Cycle Inventory Change	Cycle Employment Change
Colorado Springs, CO	43.9%	2.7%	95.6%	150 bps	9.5%	21.5%
North Port-Sarasota-Bradenton, FL	43.5%	4.9%	95.8%	530 bps	9.0%	26.0%
Tacoma-Lakewood, WA	41.6%	5.5%	96.9%	590 bps	9.6%	18.7%
US	**32.6%**	**3.0%**	**95.8%**	**370 bps**	**11.5%**	**16.1%**

Source: RealPage, Inc.

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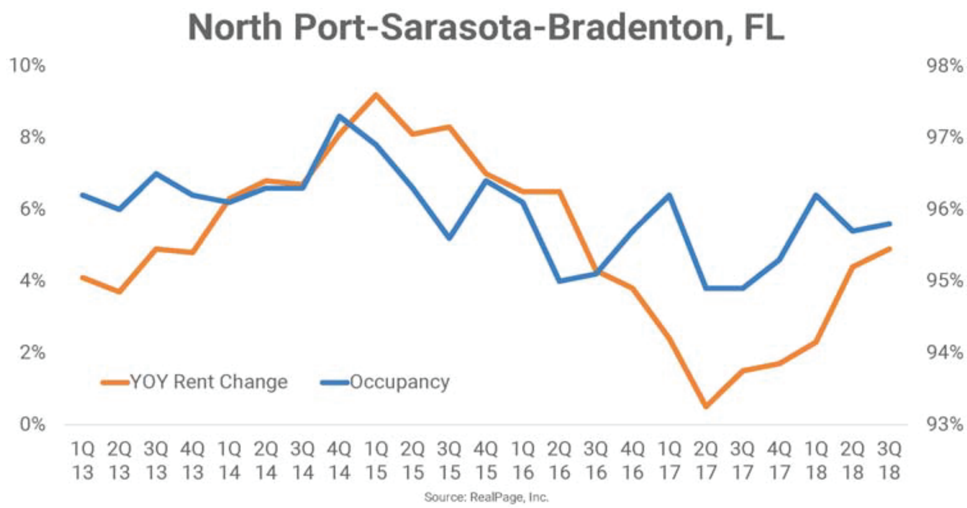


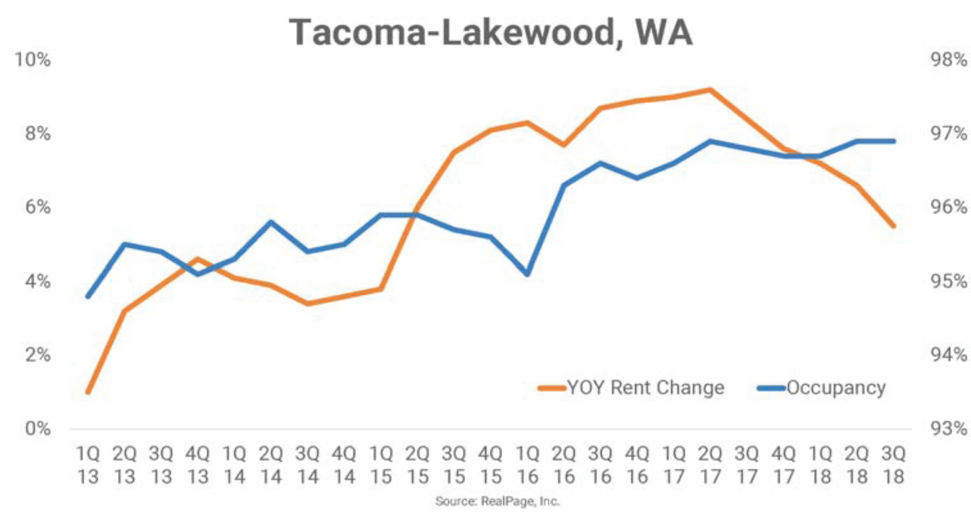
As of 3rd quarter 2018, occupancy was at 95.8%, up an impressive 530 bps during the past eight years.

Apartment deliveries in North Port-Sarasota-Bradenton started picking up a bit later than the rest of the country. Annual deliveries averaged at just 88 units between 2010 and 2014. Completion volumes picked up to 1,000 units by the beginning of 2015 and have remained in that ballpark since. While demand had trouble keeping up with new supply at first, absorption volumes quickly caught up and have essentially matched new supply since the beginning of 2017.

Located along Florida's Gulf Coast, North Port-Sarasota-Bradenton has an appetite for new supply. With a thriving economy and population growth driven by the market's popularity as a retirement destination, the job base here has grown a total of 26% over the course of the current economic cycle. In comparison, nearby Tampa saw its employment base increase 23% in the past eight years.

Tacoma-Lakewood, WA

Tacoma also logged rent increases ahead of national norms in the current cycle, with total growth of 41.6%. This West Coast metro also ranked as one of the nation's strongest rent growth performers in the year-ending 3rd quarter, with an increase of 5.5%. Price increases in Tacoma have been consistently strong in recently years, with annual price hikes registering at an average of 7.5% since the beginning of 2015. Average effective prices are now higher than they have ever been at $1,246.



Occupancy in Tacoma has been strong, between 95% and 97% in the past five years. At 96.9%, September 2018 occupancy is one of the strongest readings this metro has realized historically and is well above the U.S. average. The Class C stock in Tacoma is especially tight, with occupancy reaching 98.4% in 3rd quarter. This rate is a steep 590 bps above the reading from eight years ago, before the cycle started.

Supply has been limited in Tacoma. Annual deliveries have averaged just shy of 600 units during the current cycle, increasing the existing base by just 9.6% over the past eight years. In comparison, neighboring Seattle's much larger inventory swelled by 21.1% in that same time frame. And while Tacoma benefits from Seattle's economic progress, it hasn't seen a spillover of Seattle's supply-induced performance slowdown. That's largely due to completions being so concentrated in Seattle's urban core, with a relative lack of deliveries in southern submarkets that border Tacoma.

Helping bolster Tacoma's performance right now has been solid employment growth as well as spillover benefit from Seattle's wider economic reach. Over the course of the current economic cycle, the job base in Tacoma has increased by a sizable 18.7%.