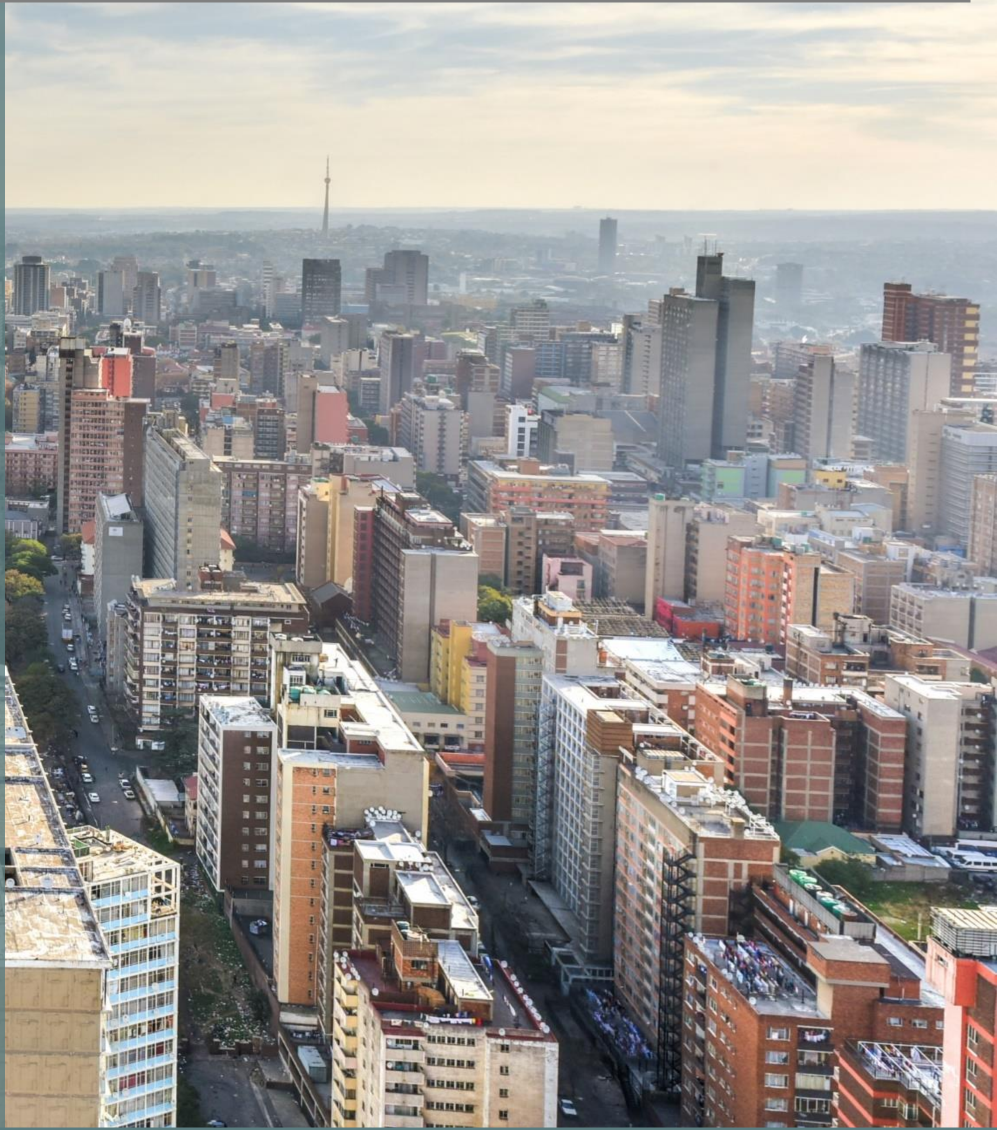
2018 Economic Outlook and Market Implications



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2018 NMHC APARTMENT STRATEGIES OUTLOOK CONFERENCE

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Late in the Cycle Investment Themes: 2018-2020

- While "late in the cycle," we still have several more up years to run
  - Demand fundamentals are solid, GDP growth is accelerating, Alternative Investment returns/yields globally are low
  - High, but slowly deteriorating, occupancy on stabilized properties; Sub-mkts with new supply impacted the most
  - Top Core Markets and CBDs are the areas showing near –term weakness
  - Decelerating rent growth- ~2-3% overall nationally; but divergence among previously "overlooked" segments

- Investment Capital is Searching Further Afield for Rent Growth and Investment Yield; A Much Tougher Grind
  - "Non-Top 40" Cities- smaller markets with lower cost of living that can still attract knowledge industries
  - "Non-CBD" Neighborhoods- tilted more towards workforce/rent by necessity areas and Class B/C assets outside CBDs
  - "Non-Traditional" Sub-Types- <50 units, older properties

- Dislocation in Commercial Real Estate Debt Markets, driven by regulatory influences, has restrained growth in new construction financing
  - Dislocations in Bank and CMBS debt markets have extended the apartment rental growth up-cycle
  - The new supply pipeline of Class A assets is cresting; the need at Class B is acute; but values have gotten ahead of fundamentals