



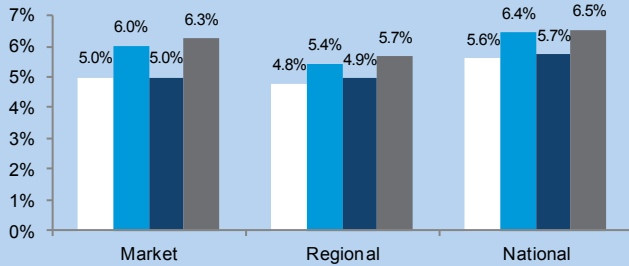
2014 MID-YEAR VIEWPOINT

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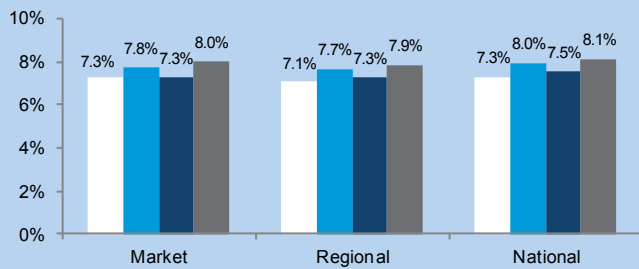
Phoenix, AZ | Multifamily

Multifamily Snapshot

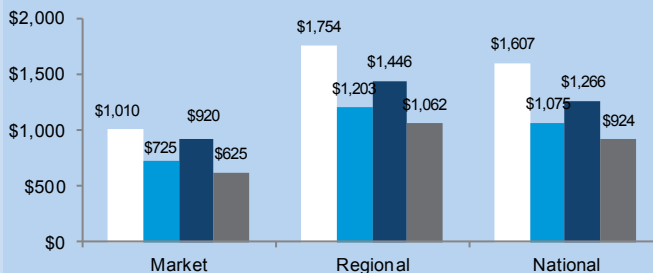
GOING IN CAP RATES (%)



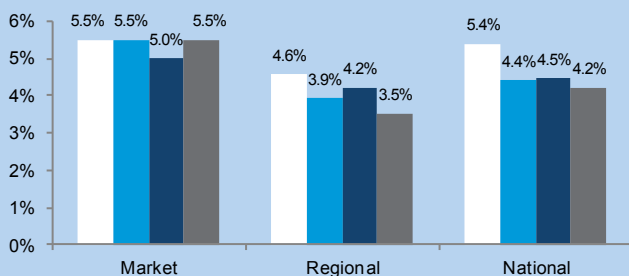
DISCOUNT RATES (%)



MARKET RENT (\$/UNIT)



VACANCY RATE (%)



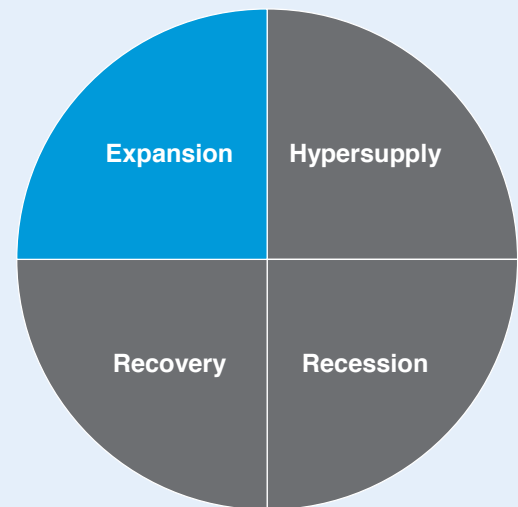
Legend

- Urban Multifamily Class A
- Suburban Multifamily Class A
- Urban Multifamily Class B
- Suburban Multifamily Class B

Market Commentary

The multifamily market continues to be the most active and best performing sector of the overall Phoenix market through the first half of 2014. The institutional money chasing apartment deals in the market continues to be strong, though brokers are beginning to see interest wane slightly.

MARKET CYCLE



Market Cycle: Expansion Stage 3

- Decreasing vacancy rates
- Moderate/high new construction
- High absorption
- Moderate/high employment growth
- Med/high rental rate growth

A significant amount of new construction is finally nearing the market with 5,422 units expected to come online within the next eighteen months. The vast majority of this new product is focused in cities experiencing strong economic growth including Scottsdale, Tempe, Phoenix, Chandler and Gilbert.

While the strengthening in housing statistics threatened the multifamily market towards the end of 2013, the residential market has settled back down to levels that experts agree are near normal. The Phoenix area homeownership rate went from a peak of 72.4% in 2006 to about 62% in 2013.



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PHOENIX FORECASTS

Categories	Urban Multifamily Class A	Urban Multifamily Class B	Suburban Multifamily Class A	Suburban Multifamily Class
Going In Cap Rate	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps
Discount Rate	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps	Increase 25-49 bps
Market Rent Change (%)	5.00%	5.00%	3.00%	3.00%
Expense Change (%)	3.00%	3.00%	3.00%	3.00%
Absorption (Units)	600	950	1,600	3,800
Construction (Units)	22,274			
Years to Balance	In Balance	In Balance	In Balance	In Balance

CHANGE IN VALUE

Time	Urban Multifamily Class A	Urban Multifamily Class B	Suburban Multifamily Class A	Suburban Multifamily Class
Previous 36 Months	Increase 4%+	Increase 4%+	Increase 4%+	Increase 4%+
Previous 12 Months	Increase 4%+	Increase 4%+	Increase 4%+	Increase 4%+
Future 12 Months	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%
Future 36 Months	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%

Market Commentary (continued)

With the rising prices, the unstable job market and economic uncertainty, more people are putting off home ownership, which is translating into high demand for multifamily properties. In addition, it was estimated that only a 28-day supply of single family residences were available for lease. As Class A's apartments operate at occupancy rates in the mid-90th percentile, Class B apartments are benefiting from the trickle down of tenants. Class C communities are holding their own, though age, condition, location and proximity to public transportation appear to be more important to the C-tenant than in the past.

TOP SEVEN CAP RATE FACTORS

- 1 Local economy, job growth, unemployment
- 2 Property income growth
- 3 Supply/demand
- 4 Interest rates
- 5 Availability of financing
- 6 National economic conditions/GDP growth
- 7 Risk premium of private real estate

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