MULTIFAMILY SUSTAINS ITS STRENGTH DESPITE SLOWING RENT GROWTH

- **EMPLOYMENT:** Despite higher taxes and federal spending cuts, the U.S. labor markets continue adding jobs along a path of a slow recovery. Payrolls grew by a better-than-expected 175,000 jobs in May (1.6 percent higher than one year ago).
- **OCCUPANCY:** Occupancy was mostly flat in 1Q2013, with the average rate remaining at 94.9 percent. Because completions are expected to rise in the second half of 2013, we project apartment occupancy to slip 20 bps to 94.7 percent by the end of 2013.
- **SUPPLY:** Existing apartment supply remains constrained, with monthly deliveries below the 20-year average. Recent increases in permits and starts indicate greater potential for increased completions beginning in late 2013; however, this will be a return to normal levels, as we see overbuilding limited to specific submarkets within a handful of markets.
- **DEMAND:** Market rate apartment absorption in 1Q2013 was again healthy, but depending on the data source, was either double or half the level of new supply. We expect that demand will remain positive through 2014, but having moderated in 2012, will likely fall short of completions in 2013. This positive but lower expectation is driven by healthy renter formation levels, but tempered by growing competition with the for-sale housing market, price sensitivity of renters in Class A properties, and possible subsequent churn of renters trading down to more affordable lower quality product.
- **RENT GROWTH:** While rents have exceeded prerecession levels for about a year, there are signs that growth is slowing. On an annual basis, effective rent growth for market rate apartments ranged from 3.4 to 3.7 percent. On a quarterly basis, rent growth is easing, ranging from 0.4 to 0.7 percent in the first quarter, about half the pace recorded last year. We expect effective rents to grow at a more moderate annual pace of 2.0 to 3.0 percent in 2013, moving to a more modest level in 2014.

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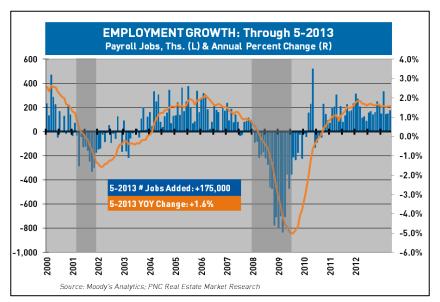
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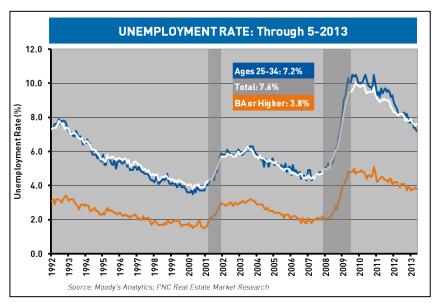


ECONOMY

The May employment report was solid, with 175,000 net jobs added, led by professional and business services, food services/drinking places, and retail trade. The unemployment rate was essentially flat in May, moving up slightly to 7.6 percent, this time not a result of discouraged unemployed persons giving up, but rather a result of the labor force rising by 420,000 participants. This is a sign of optimism, as previously discouraged workers began searching for jobs once again.

PNC's economists believe that growth will be soft in the middle of this year as households slow their spending to adjust for higher taxes and Federal spending cuts from the sequester take place. Further, trade will be a drag on the economy given the recession in Europe and slower growth in Asia. However, continued business investment and recovering housing market will boost the economy, especially toward the end of the year as the drags from tax increases and spending cuts diminish. By the end of 2013, PNC's economists employment expect growth continue at a modest annual rate of percent, bringing unemployment rate down to percent.





The healthy apartment market as well as a rapidly recovering single family housing market should contribute construction jobs to the economy as projects break ground. In turn, job growth, as well as organic household growth, will contribute to increased rental and for-sale demand. As shown in the chart above, the overall unemployment rate is compared to groups that tend to lease investment grade apartments the most: households aged 25 to 34 (more transient) and those with a Bachelor's degree (more able to afford the higher market rate rents). While the younger group's unemployment rate closely tracks the national average, this prime renter cohort accounted for the majority of new positions over 2010-2011. Additionally, the May 2013 rate (7.2 percent) is well below unemployment rates of 10 percent and higher seen in much of 2009 and the first half of 2010. Households with Bachelor's degrees or higher tend to have unemployment rates about half the overall rate (3.8 percent compared to 7.6 percent). Unemployment rates are still well above what they were before the recession, but appear to be falling slowly, supporting continued renter household formation.

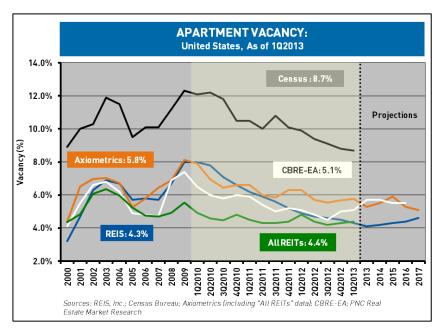
APARTMENT MARKET TRENDS

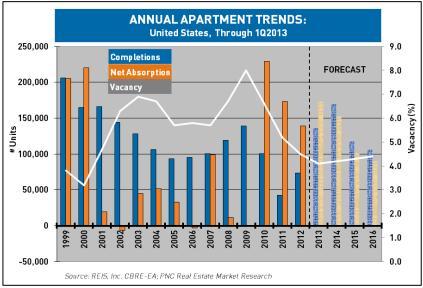
Occupancy

Multifamily occupancy rates were guarter. mostly flat this apartments remaining essentially full across the country for the last two Occupancy rates in 1Q2013 remain the highest in over a decade. The subset of market rate apartment properties with 40 or more units (as reported by Reis) has an average vacancy of 4.3 percent, well below the ten-year national average percent).

The Census' occupancy rate for all rental apartments with five or more units firmed by 10 basis points, to 91.3 percent for 1Q2013. Market rate apartments' occupancy averaged 94.9 percent, essentially unchanged from last quarter.

Over the last few years, constrained and а declining homeownership rate have continued help tighten vacancy However, both of these conditions could reverse to some extent over the next few years, as construction completions ramp up and the for-sale market strengthens, attracting some buyers from the renter pool. However, the impact of these two trends could be softened by increasing condo conversions (which remove units from the rental apartment inventory) as well





as rising interest rates (which could deter renters from buying homes). Additionally, the apartment market will continue to benefit from demographic trends that will help keep vacancy close to 5.0 percent. Third party analysts project continued strength through 2014, with vacancy in the 4.2 to 5.7 percent range.

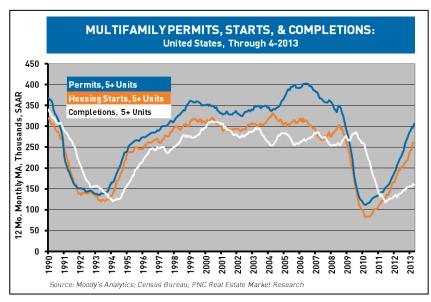
As summarized in our vacancy/absorption analysis on page 6, we expect vacancy on a national basis to rise slightly to approximately 5.3 percent by the end of 2013, then rise further in 2014 to 5.7 percent as completions of new supply enter the market and pent-up demand for homeownership presents itself among the renter pool.



Supply

While concerns about overbuilding are currently at the forefront of the multifamily discussion, existing inventory is still very constrained, with multifamily completions remaining close to their July 2010 bottom. Completions in April 2013 (149,000 units) were 14.9 percent lower than they were one year ago, and remain below the 20-year average of 237,000 units.

During the same period of low construction levels, permits and starts have been on the rise. The adjacent chart shows that permits and starts have been growing for over three



years. In April 2013, permits and starts were up by 172.1 percent and 185.9 percent from their March 2010 troughs. An increase to construction permits and starts brings the potential for increased construction beginning in late 2013. Make note that while the majority of multifamily completions currently are rental, that has not always been the case. During the housing boom, rental apartments' share of multifamily starts was less than half of all new projects. As the housing market recovers currently, we expect the share of rental apartments to decline and condo share to increase, softening the impact of overbuilding concerns.

The adjacent chart lists vacancy by class for the top and bottom 25 markets in an effort to determine how each market's apartment supply is being accepted by renters. While a market may have a high or low vacancy, it is important to note the Class A vacancy, which generally encompasses recent construction that has not yet been absorbed. Markets with potential overbuilding concerns are those markets that

elevated Class A vacancy rates compared to the overall average vacancy. This table demonstrates where leasing activity is taking place across markets. In markets with high levels of rent growth or a high cost of living, we expect to see very strong rental demand in the Class B and C subsets. markets with large amounts of new supply, most of the demand will be in the Class A subset where they are offered attractive leasing discounts.

Top 25	Cl. A	Cl. B	Cl. C	AVG	Bottom 25	Cl. A	Cl. B	Cl. C	AVG
Naples	6.1%	1.5%	2.2%	2.1%	Saint Louis	6.7%	6.4%	9.5%	6.6%
Nassau-Suffolk	au-Suffolk 4.3% 2.3% 2.4% 2.9% Chattanooga		6.6%	5.7%	5.2%	6.7%			
Santa Rosa-Petaluma	_	_	_	3.2%	Phoenix	5.8%	6.0%	7.8%	6.7%
New York	4.8%	4.4%	2.3%	3.3%	Spartanburg	4.5%	8.8%	3.7%	6.7%
Edison	3.8%	2.5%	5.4%	3.4%	Indianapolis	5.1%	7.2%	6.7%	7.0%
Sarasota	2.4%	3.4%	3.7%	3.6%	Albuquerque	10.7%	7.1%	5.9%	7.0%
Minneapolis	4.0%	3.4%	3.6%	3.8%	Lexington	6.7%	5.9%	9.3%	7.2%
Oakland Oakland	3.8%	3.7%	4.0%	3.8%	Richmond	7.0%	5.2%	6.7%	7.2%
San Jose	4.2%	3.9%	2.8%	3.9%	Augusta, GA	7.0%	7.0%	4.7%	7.2%
Boulder	4.0%	6.2%	0.7%	4.0%	Jacksonville	5.8%	5.6%	7.5%	7.2%
Miami	5.5%	3.0%	5.0%	4.1%	Savannah	4.2%	5.4%	7.3%	7.2%
Lansing	1.5%	4.9%	4.8%	4.2%	Salinas	5.2%	7.1%	13.8%	7.4%
Lake/Kenosha, IL-WI	2.4%	4.1%	4.0%	4.3%	Detroit	4.9%	7.9%	7.8%	7.5%
Salt Lake City	5.0%	4.5%	4.0%	4.4%	Memphis	7.0%	6.0%	15.5%	7.5%
Corpus Christi	5.7%	3.4%	3.5%	4.5%	Greensboro-High Point	6.3%	7.3%	9.5%	7.7%
Boston	4.6%	4.0%	4.1%	4.5%	Atlanta	5.1%	6.1%	9.9%	7.7%
Hartford	3.7%	4.3%	6.3%	4.5%	Charleston	2.5%	4.7%	5.6%	7.8%
Seattle	4.3%	4.8%	3.9%	4.5%	Tulsa	7.1%	6.7%	8.7%	8.0%
San Diego	5.3%	4.3%	3.5%	4.6%	Winston-Salem	9.9%	6.4%	8.4%	8.3%
Oxnard	4.7%	4.5%	3.0%	4.6%	Tucson	6.2%	7.3%	12.7%	8.4%
Nashville	5.2%	4.9%	5.1%	4.6%	Columbia, SC	4.8%	10.1%	12.1%	8.4%
Los Angeles	3.8%	4.5%	6.9%	4.7%	Las Vegas	6.7%	9.2%	12.9%	8.7%
Portland, WA	5.5%	5.2%	2.7%	4.7%	Little Rock	5.6%	6.3%	8.5%	8.9%
Warren-Troy, MI	4.1%	4.6%	6.5%	4.7%	Montgomery	5.7%	9.2%	8.8%	9.5%
Columbus, ÓH	3.5%	4.8%	6.2%	4.8%	Mobile	9.9%	8.9%	11.5%	9.6%

New construction is picking up to more normal levels, reaching high levels in some submarkets, particularly those that were the first to recover and/or have low barriers to entry. While we do not expect to see overbuilding on a national basis, new apartment supply concentrated in a few submarkets could warrant concern over the next few years. The following tables list the top 25 construction markets and

submarkets by degree of supply expansion. To put the construction debate into perspective, we included the demand side of the picture, as shown by vacancy changes and job growth rates, both of which to meet demand could justify increased construction levels. Among the top 25 submarkets, five are located in Washington, DC, a concern when job growth is slowing. Other markets such as Austin and Salt Lake City may be experiencing large amounts construction activity, but the metros' strong household and job growth accounts for stronger net absorption and demand for housing.

Markets with the Largest Expansion of Existing Supply, as of 1Q2013										
				Vac. BP		Expansion		Job Growth Y/Y		
		Existing	Vacancy	Change,	Units Under	to Existing	Units			
	Market	Inventory	Rate	Last 12 Mo.	Construction	Supply	Planned	1Q12a	1Q13a	1Q14f
1	Austin	178,716	5.1%	-30	13,371	7.5%	8,197	3.4%	3.6%	3.9%
2	Raleigh	126,577	5.0%	0	8,819	7.0%	9,862	2.5%	1.3%	2.6%
3	Washington, DC	539,958	4.5%	20	31,728	5.9%	56,580	1.3%	1.1%	1.1%
4	Charlotte	128,957	5.2%	-60	6,670	5.2%	8,125	2.8%	2.4%	2.1%
5	Salt Lake City	86,230	2.9%	-50	4,371	5.1%	4,983	2.9%	4.2%	2.9%
6	San Antonio	146,475	6.3%	-20	6,653	4.5%	2,568	2.0%	1.7%	3.2%
7	Nashville	108,535	5.0%	10	4,910	4.5%	5,008	4.5%	2.7%	1.9%
8	Denver	268,904	4.8%	-10	12,112	4.5%	10,351	2.7%	2.3%	2.5%
9	El Paso	45,998	8.6%	390	1,627	3.5%	141	1.0%	1.8%	2.5%
10	Fort Lauderdale	168,795	4.9%	-60	5,877	3.5%	9,591	2.7%	1.5%	1.6%
11	Baltimore	193,837	4.7%	20	6,440	3.3%	14,706	2.0%	2.4%	2.0%
12	Dallas	468,411	5.9%	-60	15,018	3.2%	12,683	2.7%	3.2%	3.0%
13	Boston	444,649	3.5%	30	14,125	3.2%	24,427	1.8%	1.3%	1.6%
14	West Palm Beach	97,308	4.7%	-110	3,057	3.1%	8,762	2.7%	1.5%	1.6%
15	Tulsa	58,861	7.4%	90	1,752	3.0%	2,160	2.2%	1.8%	1.4%
16	Minneapolis	262,379	2.5%	-30	7,685	2.9%	9,925	2.2%	1.8%	2.0%
17	Jacksonville	107,471	8.6%	-60	3,107	2.9%	1,079	0.7%	3.1%	1.4%
18	San Francisco	239,543	4.3%	50	6,908	2.9%	12,945	3.0%	2.3%	1.8%
19	Louisville	74,578	5.2%	20	2,009	2.7%	1,795	1.6%	2.6%	0.8%
20	Kansas City	136,286	5.8%	-40	3,618	2.7%	4,417	1.8%	0.3%	0.9%
21	Orlando	189,389	5.0%	-110	4,942	2.6%	4,636	2.8%	1.3%	1.9%
22	Phoenix	326,999	6.7%	-50	8,215	2.5%	17,040	2.4%	2.6%	1.7%
23	San Jose	156,811	3.6%	80	3,622	2.3%	5,482	3.0%	3.2%	1.8%
24	Oklahoma City	76,350	5.8%	30	1,757	2.3%	1,183	2.8%	2.1%	1.2%
25	Miami	292,630	3.1%	0	6,686	2.3%	21,252	2.7%	1.5%	1.6%

		Submarkets with the	Largest	Expans	sion of Ex	isting Sup	ply, as of	1Q2013			
	Market Submarket				Vac. BP	Units Under	Expansion to Existing		Job Growth Y		Y/Y
			Existing	Vacancy	Change,			Units			
			Inventory	Rate	Last 12 Mo.	Construction	Supply	Planned	1Q12a	1Q13a	1Q14f
1	Austin	Cedar Park	4,687	4.5%	-70	1,610	34.4%	484	3.4%	3.6%	3.9%
2	San Antonio	Far N. Central San Antonio	4,014	5.6%	60	1,236			2.0%	1.7%	3.2%
3	Denver	Broomfield	6,714	6.0%	90	2,026	30.2%	1,318	2.7%	2.3%	2.5%
4	Dallas	Frisco / Prosper	5,567	4.4%	-100	1,560	28.0%	2,298	2.7%	3.2%	3.0%
5	Washington, DC	Loudoun County	12,416	5.0%	10	3,254	26.2%	539	1.3%	1.1%	1.1%
6	San Jose	North San Jose/Milpitas	8,735	4.3%	120	2,221	25.4%	2,395	3.0%	3.2%	1.8%
7	Charlotte	Uptown/South End	9,470	5.1%	-210	2,278	24.1%	891	2.8%	2.4%	2.1%
8	Austin	South Austin	10,889	3.3%	-50	2,463	22.6%	672	3.4%	3.6%	3.9%
9	Raleigh/Durham	East Durham	5,223	3.5%	-110	1,069	20.5%		2.5%	1.3%	2.6%
10	San Antonio	Alamo Heights	7,099	4.1%	-10	1,348	19.0%	267	2.0%	1.7%	3.2%
11	Washington, DC	Navy Yard/Capitol South	8,832	2.0%	-390	1,656	18.8%	3,711	1.3%	1.1%	1.1%
12	Raleigh/Durham	North Cary/Morrisville	10,179	4.4%	20	1,730	17.0%	947	2.5%	1.3%	2.6%
13	Nashville	Central Nashville	11,872	3.2%	120	1,953	16.5%	478	4.5%	2.7%	1.9%
14	San Antonio	Far Northwest San Antonio	8,033	4.7%	-150	1,306	16.3%	116	2.0%	1.7%	3.2%
15	Washington, DC	Woodbridge/Dale City	11,662	2.9%	-40	1,884	16.2%	48	1.3%	1.1%	1.1%
16	Austin	Downtown/University	17,009	2.3%	-110	2,611	15.4%	3,770	3.4%	3.6%	3.9%
17	Indianapolis	Downtown	8,779	1.4%	30	1,343	15.3%	926	3.3%	1.4%	1.3%
18	Orlando	Downtown/N.Central Orlando	7,564	3.8%	-10	1,154	15.3%	1,021	2.8%	1.3%	1.9%
19	Denver	Highlands Ranch	5,034	5.2%	120	713	14.2%	101	2.7%	2.3%	2.5%
20	Salt Lake City	Layton/Davis County	8,206	4.4%	130	1,134	13.8%	421	2.9%	4.2%	2.9%
21	Houston	Greenway Plaza/Upper Kirby	15,544	5.2%	60	2,096	13.5%	310	3.7%	4.0%	3.1%
	Denver	Tech Center	9,317	4.7%	-60	1,256	13.5%	300	2.7%	2.3%	2.5%
23	Dallas	Intown Dallas	23,159	3.8%	-40	3,037	13.1%	1,389	2.7%	3.2%	3.0%
24	Washington, DC	Northeast D.C.	26,338	4.6%	-150	3,452	13.1%	2,146	1.3%	1.1%	1.1%
25	Washington, DC	North Arlington	25,754	4.8%	130	3,240	12.6%	1,268	1.3%	1.1%	1.1%
*Job	Growth reported is a	the metro level. Source: CBRE-EA	(as of 3/2013),	; Moody's Ar	alytics; PNC Re	al Estate Market	Research				

While this construction will likely bring rent growth into a more modest range, many markets still have a shortage of inventory, leaving plenty of opportunities for apartment development in areas with strong population and job growth. The overall multifamily market (5+ units) experienced a completion level of about 59,300 units in 2010, 53,100 units in 2011, and 125,200 units in 2012, which the market was able to absorb without an issue. In 2013, we expect completions to pick up in the second half of the year. As discussed above, rising levels of permits and starts are evident of upcoming completions in the overall multifamily market. Following these overall trends, we expect completions to rise to 200,000 units in 2013 and 260,000 in 2014.

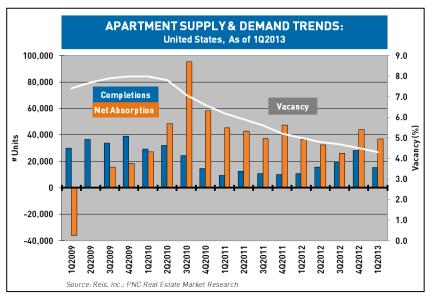


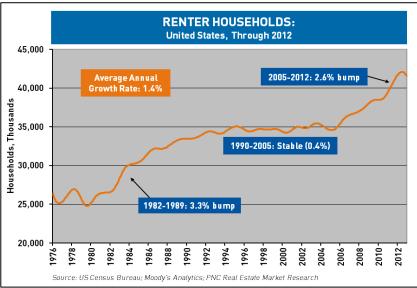
Demand

Net absorption in 1Q2013 was very healthy, at approximately 36,847 (Reis) or 18,396 units (CBRE-EA). Reis' absorption number (investment grade complexes with 40+ units), is still about double the level of completions. However, CBRE-EA's absorption number (all multifamily, 5+ units), fell short of new supply (41,264 units). We attribute recent demand to organic household growth, especially among single person households, as well as the declining homeownership rate.

The adjacent chart was introduced with year-end 2012 numbers in last quarter's report. In addition to illustrating the consistent growth of renter households both in number and proportion of total U.S. as households, the chart shows a slight decline in the second half of 2012, with renter households falling to 36.1 percent of total households by While this could December 2012. indicate a pause in the growth of renter households, as the for-sale housing market potentially lures renters away to purchase homes, the larger eight-year trend is more noticeable as a potential shift in consumer preference in favor of renting.

Our absorption and vacancy projections are detailed in the adjacent table. Based on our expectations for employment growth, demand, and new supply, as well as continued improving market fundamentals, we expect 140,000 units of total net absorption for 2013, falling short of new supply (200,000 units). For 2014, we estimate demand will be slightly higher, at 180,000 units, still not quite reaching new supply (260,000 units). result, vacancy will rise to 5.3 percent in 2013 and 5.7 percent in 2014.





	VACANCY/ABSORPTION PROJECTIONS									
	All		ed States	Unite						
	New Supply	Inventory	vartments, 5+ Vacant Units	Vacancy	Net Absorption					
YE 2009a	177,102	14,336,019		7.3%	102,189					
YE 2010a	59,341	14,395,360		6.0%	253,070					
YE 2011a	53,086	14,448,446		5.2%	163,870					
YE 2012a	125,189	14,573,635		4.9%	153,496					
YE 2013f	200,000	14,773,635	779,058	5.3%	140,000					
YE 2014f	260,000	15,033,635	859,058	5.7%	180,000					
1Q2012a	14,776	14,463,222	727,179	5.0%	34,962					
2Q2012a	34,784	14,498,006	691,717	4.8%	70,246					
3Q2012a	35,095	14,533,101	654,960	4.5%	71,852					
4Q2012a	40,534	14,573,635	719,058	4.9%	-23,564					
1Q2013a	41,264	14,614,899	741,926	5.1%	18,396					
2Q2013f	45,000	14,659,899	735,322	5.0%	51,604					
3Q2013f	53,236	14,713,135	708,558	4.8%	80,000					
4Q2013f	60,500	14,773,635	779,058	5.3%	-10,000					
Note: Our proje	ctions for absorp	ntion and vacan	cy use CBRE-EA's	actual numbe	rs as a baseline.					

Note: Uur projections for absorption and vacancy use CBRE-EA's actual numbers as a baseline.
Source: CBRE-EA; PNC Real Estate Market Research

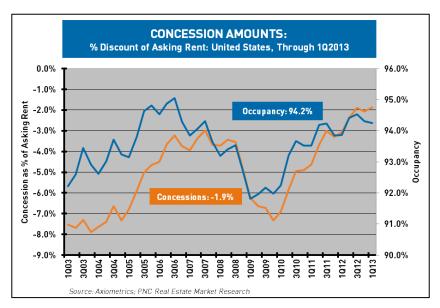


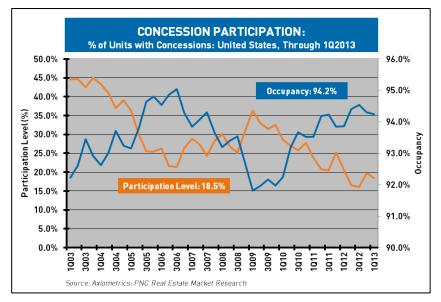
Concessions

The multifamily segment's firm recovery is evident in concession data. As shown in the accompanying graph, concession levels have been on the decline since peaking at 7.3 percent in 4Q2009. Already at decade low levels, concessions remained mostly flat over the last few quarters, hovering around 2.0 percent (1.9 percent in 1Q2013).

Another metric interest of concession participation, represented by the percentage of apartment owners offering concessions (second graph, adjacent). Despite a slight 4Q2012. in concession participation declined to 18.5 percent in 1Q2013. This compares to the 20.6 percent of landlords that were offering concessions one year ago and is well below the 36.4 percent that were offering them four years ago.

Based on our projections of supply growth and positive demand trends in the market, we expect concessions to remain steady or rise slightly in 2013 and increase more substantially in 2014 as new product is delivered to the market.





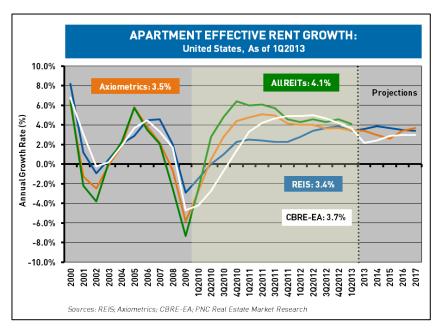


Rent Growth

Now that multifamily rents have dug themselves out of the hole created during the recession, as well as made some further advances, rent growth is slowing, showing signs of easing. Annual effective rent growth is still strong, ranging from 3.4 to 3.7 percent, but the quarterly changes are minimal, as shown in the adjacent table.

True to our prediction from prior quarters, price sensitivity among renters, among other factors, began to temper rent growth in 2012. Up to the fall of 2011, apartment operators were successful in pushing rents, while maintaining resident retention rates. The easing quarterly rent increases over the last year may suggest that operators and landlords are beginning to encounter resistance from renters. The subsequent churn in some properties is likely to consist of households either exiting the rental

APARTMENT RENT GROWTH: 1Q2013											
	Annual Percent Change Quarterly Percent Change										
Source	Asking Rent	Effective Rent	Asking Rent	Effective Rent							
Reis	3.0%	3.4%	0.5%	0.5%							
CBRE-EA	n/a	3.7%	n/a	0.7%							
Axiometrics	2.3%	3.5%	0.3%	0.4%							
Average:	2.7%	3.5%	0.4%	0.5%							



market, opting to buy homes before interest rates rise too much, or trading down to less desirable properties, opting for smaller units, or combining households. However, Reis, CBRE-EA and Axiometrics expect annual rent growth to range from 2.2 percent to 3.9 percent through 2015.

Another factor pressuring rents is new construction. New supply being delivered could prompt landlords to offer concessions in an attempt to compete with the new apartment supply. effectively lowering rents. outlook includes completions rising in the second half of 2013 and into 2014. With expected stronger job growth balancing our concerns about new supply and price sensitivity, we see rent growth easing slightly

ı	AUNUA	ANNUAL EFFECTIVE RENT GROWTH BY CLASS, AS OF 1Q2013										
Top 25	Cl. A	Cl. B	Cl. C	AVG	Bottom 25	Cl. A	Cl. B	Cl. C	AVG			
Naples	-0.1%	4.9%	2.2%	3.2%	Columbia,SC	0.6%	-0.4%	0.9%	0.0%			
Cape Coral	14.0%	4.5%	2.0%	3.0%	Tulsa	-0.1%	-0.2%	-0.4%	0.0%			
Boulder	2.1%	2.4%	1.7%	2.9%	Colorado Springs	1.3%	-0.1%	0.1%	0.0%			
Sarasota	1.2%	4.5%	0.8%	2.3%	Lexington	0.9%	-0.7%	1.0%	0.0%			
Nassau-Suffolk	0.2%	0.2%	-0.4%	2.2%	Anaheim-Irvine	0.6%	0.3%	0.7%	0.0%			
Tacoma	4.8%	1.6%	1.2%	1.9%	Wilmington	-0.4%	-0.8%	0.8%	0.0%			
Saint Louis	1.9%	1.9%	0.8%	1.7%	Charleston	3.5%	0.8%	-2.3%	-0.1%			
San Jose	0.4%	2.2%	2.6%	1.6%	Bethesda	0.8%	-1.5%	0.0%	-0.1%			
Seattle	1.4%	1.3%	3.7%	1.5%	San Antonio	-0.5%	0.1%	1.2%	-0.1%			
Edison	-0.5%	3.0%	-0.2%	1.4%	Greensboro-High Point	0.6%	1.2%	-1.5%	-0.1%			
Spartanburg	5.2%	2.2%	0.7%	1.4%	Riverside-San Bernadino	0.6%	-0.6%	1.5%	-0.1%			
Miami	-0.6%	1.1%	1.3%	1.2%	Detroit	0.1%	-1.0%	1.1%	-0.2%			
Houston	1.8%	1.1%	0.9%	1.2%	Memphis	-0.4%	0.2%	-2.7%	-0.2%			
Jacksonville	0.4%	1.2%	2.4%	1.1%	Washington, DC	-1.4%	0.5%	0.2%	-0.2%			
Corpus Christi	3.2%	1.8%	2.6%	1.1%	Winston-Salem	-1.5%	1.0%	-3.1%	-0.2%			
Portland, OR	3.2%	1.2%	0.9%	1.0%	Camden	-0.7%	-1.6%	0.9%	-0.2%			
West Palm Beach	-0.1%	0.3%	1.8%	1.0%	Warren-Troy, MI	-0.7%	-0.1%	-0.8%	-0.2%			
Phoenix	1.0%	1.2%	0.9%	1.0%	Montgomery	-1.3%	0.2%	-0.2%	-0.5%			
Lake/Kenosha, IL-WI	3.2%	0.6%	-1.5%	0.9%	Little Rock	-4.6%	1.6%	-0.7%	-0.5%			
Hartford	2.4%	0.0%	1.1%	0.9%	New York	-0.8%	-0.6%	1.1%	-0.5%			
Kansas City	1.7%	1.0%	1.0%	0.9%	Reno-Sparks	-1.3%	-0.9%	-2.3%	-0.6%			
Vallejo	_	_	_	0.9%	Mobile	-1.0%	-1.9%	1.5%	-0.6%			
Sacramento	2.6%	-0.4%	4.2%	0.9%	Oxnard	-3.5%	-1.4%	-2.0%	-1.1%			
Jackson	3.3%	1.0%	-0.1%	0.9%	Albuquerque	-3.6%	-1.8%	0.5%	-1.3%			
Lansing	-0.5%	1.6%	-2.6%	0.9%	Chattanooga	-1.9%	-1.3%	-5.8%	-2.0%			

in 2013, with annual rates between 2.0 and 3.0 percent, moving to lower levels in 2014 as more supply is delivered to the market.



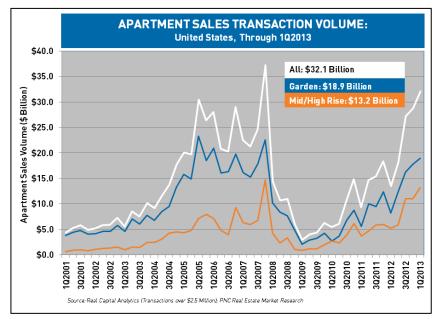
APARTMENT SALES TRENDS

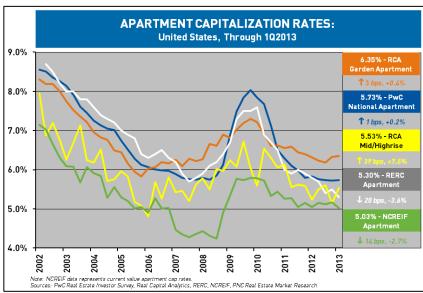
Apartment investor activity totaled \$32.1 billion in the first quarter, the highest quarterly total since 4Q2007. Transaction volume rose by 11.7 percent from the prior quarter, and was more than double the volume from 1Q2012. While the sale of Archstone properties in two portfolios to Equity Residential and Avalon Bay accounted for roughly half of the sales volume, without them apartment sales still would have posted a robust increase in volume compared to a year ago.

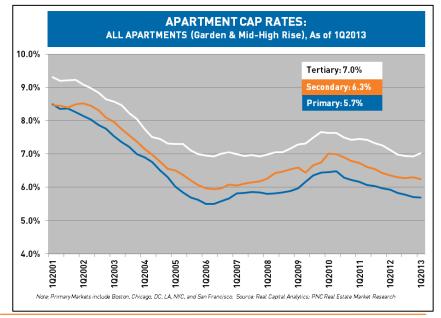
Apartment prices per unit dropped by 7.3 percent from last quarter, to \$113,247, but remained 6.5 percent above the price from one year ago (\$106,300).

Apartment cap rates were mainly flat in the first quarter, down by just 5 bps to an average of 5.56 percent across all data sources. According to RCA, investors continue to focus on secondary and tertiary markets as well as smaller properties, in pursuit of greater yields. Non-Major Metros have outperformed Major Metros in terms of returns due to perception of overpricing in the primary markets.

Looking at average price per unit this quarter compared to 1Q2012, prices of apartments sold in the primary markets dropped by 5.0 percent, while in secondary and tertiary markets, prices rose by 21.0 and 3.0 percent, respectively. This trend of movement toward secondary and tertiary markets is apparent across both the garden and mid/high-rise segments.





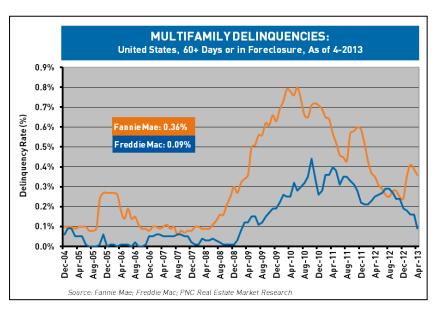


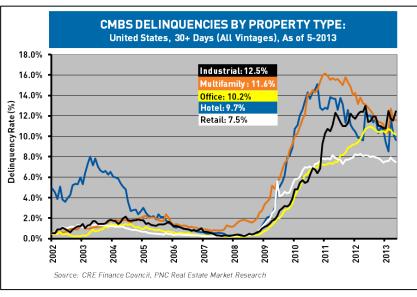


MULTIFAMILY DELINQUENCIES

After seeing an uptick at the beginning of the year, Fannie Mae's Multifamily Serious Delinquency Rate (60+ days) resumed its descent, moving down to 0.36 percent in April 2013 from its high of 0.80 percent in June 2010. Freddie Delinquency Rate Serious Mac's continued to fall, moving to its lowest rate since early 2009, to 0.09 percent. While both Fannie's and Freddie's rates are declining, they are still elevated relative to agency history. Again, we emphasize that comparison to CMBS delinquency rates, the agency rates are a small fraction.

In 1Q2013, the multifamily delinquency rate backslid to 12.73 percent after having improved for nearly a year. During April and May, however, the rate resumed falling, to 11.67 percent in April and 11.61 percent in May. While the overall CMBS delinquency rate ticked higher by four bps in May. the larger trend is downward, moving from an all-time high of 10.34 percent in July 2012 to 9.07 percent in May 2013. The main factor continuing to drive the improvement in delinguency rate is the resolution of distressed **CMBS** loans. which removed over \$850 million in loans from the delinquent loan category.





While multifamily CMBS delinquencies have declined over the last few years, they remain elevated compared to prerecession rates and are the second highest of the commercial real estate sectors at 11.61 percent. Nevertheless, while recent data suggest stabilization in CMBS delinquencies, they still have a long way to go before improving significantly.

