Multifamily Research
Market Report

Second Quarter 2018

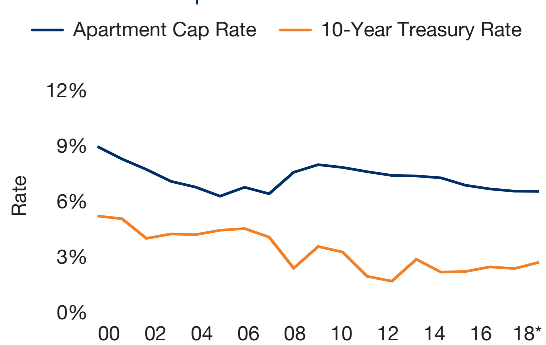
San Antonio Metro Area

Downtown Employment Growth Encourages Apartment Development

Shift in new supply on the horizon. Downtown San Antonio is ripe with new development as city leaders focus on bringing jobs back to the area. Several companies have announced expansion plans in the core, and a number of mixed-use projects are planned or underway to revitalize the nearby area. Apartment developers have focused on northern submarkets for the past few years, adding nearly 17,000 units to stock in the outer northern and western submarkets since 2012, compared with approximately 4,300 in downtown and the area just north of downtown during the span. Limited new supply and healthy demand for housing have resulted in these submarkets recording the lowest vacancy rates in the metro at close to 6 percent. While new units coming online this year remain heavily concentrated in the far northwest and far west submarkets, deliveries are shifting as Central San Antonio is slated to receive an additional 2,400 units over the next two years. Demand for these units will remain strong as employers continue to create jobs downtown.

Apartment rents keep rising at a steady pace. San Antonio boasts the most affordable rents of Texas' four largest metros, despite the average rising at an average pace of 3.6 percent over the past five years. While other markets have averaged stronger gains, a dramatic slowdown is occurring in some metros. As rents continue to rise at a healthy clip in San Antonio, investors are provided with a stable stream of cash flow.

Local Apartment Yield Trends



* Cap rate trailing 12-month average through 1Q; Treasury rate as of March 29th
Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2018 Outlook

6,200 units will be completed

Construction: Deliveries fall to a four-year low during 2018, following the delivery of more than 7,300 units last year, a 15-year high.

40 basis point decrease in vacancy

Vacancy: The absorption of more than 6,500 apartments this year outweighs deliveries during the span, pushing down vacancy to 7.0 percent.

3.4% increase in effective rents

Rents: Rent growth strengthens from last year's 2.4 percent rise, with the average reaching $965 per month during 2018.

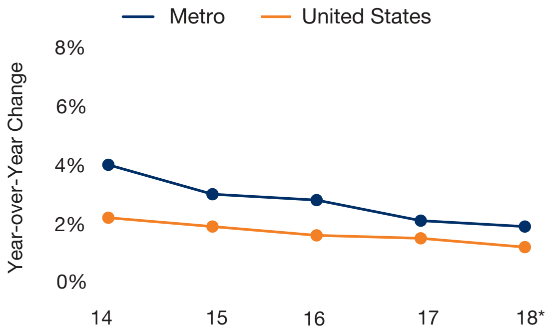
Investment Trends

- Employers are moving back downtown and several mixed-use projects are breaking ground or underway, reviving the area. Apartments nearby will be in high demand, and those with upside potential will be highly sought after.
- A highly competitive bidding environment in other major Texas markets could prompt additional buyers to seek assets in San Antonio, where cap rates are typically higher and average in the high-6 percent area.
- Sales were bifurcated over the past 12 months, with transactions rising sharply for properties priced between $1 million and $10 million, or over $20 million. While the largest share of trades occurred in Northwest San Antonio during the period, several submarkets garnered stronger interest than the previous annual period, such as West, North Central and Southwest San Antonio.

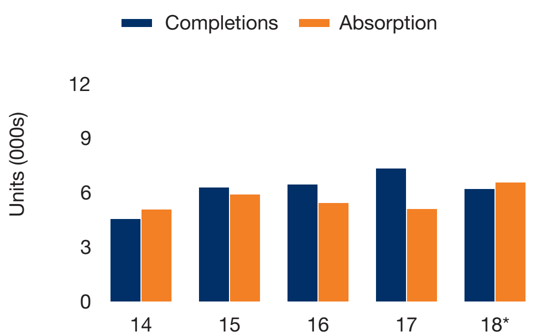
San Antonio

Marcus & Millichap

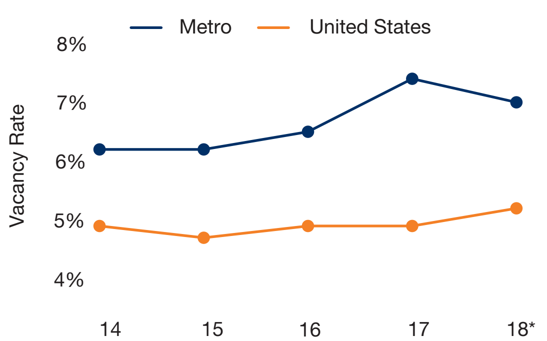
Employment Trends



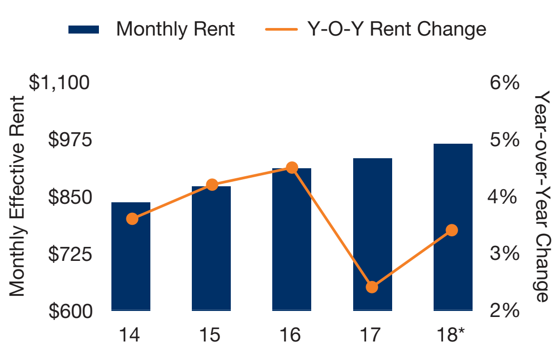
Completions and Absorption



Vacancy Rate Trends



Rent Trends



* Forecast

1Q18 – 12-MONTH PERIOD

EMPLOYMENT:

1.9% increase in total employment Y-O-Y

- Approximately 19,700 positions were created over the past 12 months, led by 4,300 jobs generated in the construction sector and an additional 3,700 workers in trade, transportation and utilities.
- Unemployment in the metro declined 50 basis points to 3.4 percent during the first quarter of 2018, remaining below the national rate by 70 basis points.

CONSTRUCTION:

7,400 units completed Y-O-Y

- Of the 1,600 apartments completed during the first quarter of 2018, approximately 770 were brought online in the area near Interstate 10 and Loop 1604.
- Nearly 8,300 units were underway at the end of March, and though deliveries will remain concentrated in Far Northwest and West San Antonio this year, construction is rising in Southwest and Central San Antonio.

VACANCY:

70 basis point increase in vacancy Y-O-Y

- Apartment vacancy has been on the rise for the past two years, reaching 7.6 percent in the first quarter of 2018. One year ago, the rate increased 50 basis points.
- Vacancy is highest in Class C properties, resting at 7.7 percent in March. The rate rose nearly 200 basis points over the past two years, for the largest advance among property classes.

RENTS:

2.9% increase in effective rents Y-O-Y

- Rent growth remained steady over the past year, with the average effective rent rising to $936 per month in the first quarter of 2018.
- Class C rent growth during the past 12 months was the strongest among property classes, with the average rate rising 8.1 percent year over year to $789 per month.

DEMOGRAPHIC HIGHLIGHTS

1Q18 MEDIAN HOUSEHOLD INCOME
Metro $58,563
U.S. Median $60,686

1Q18 AFFORDABILITY GAP
Renting is $661 Per Month Lower
Average Effective Rent vs. Mortgage Payment*

MULTIFAMILY (5+ Units) PERMITS❖
5,333 2H 2017
36% Compared with 2H 2014-2016

1Q18 MEDIAN HOME PRICE
Metro $225,207
U.S. Median $257,628

FIVE-YEAR HOUSEHOLD GROWTH**
80,000 or 1.7% Annual Growth
U.S. 1.1% Annual Growth

SINGLE-FAMILY PERMITS❖
7,669 2H 2017
23% Compared with 2H 2014-2016

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2017-2022 ❖ Annualized Rate

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q18

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
North Central San Antonio	6.1%	100	$961	0.3%
Central San Antonio	6.3%	70	$1,131	0.0%
Airport Area	6.5%	-40	$864	0.2%
Far West San Antonio	6.8%	40	$971	3.5%
Far Northwest San Antonio	7.0%	40	$1,105	4.0%
Southwest San Antonio	7.1%	90	$812	6.0%
Northwest San Antonio	7.4%	80	$903	2.1%
Far N Central San Antonio	7.6%	-40	$1,176	2.3%
New Braunfels/Schertz/ Universal City	7.6%	180	$1,010	4.9%
South San Antonio	7.7%	-20	$814	4.8%
Overall Metro	**7.6%**	**70**	**$936**	**2.9%**

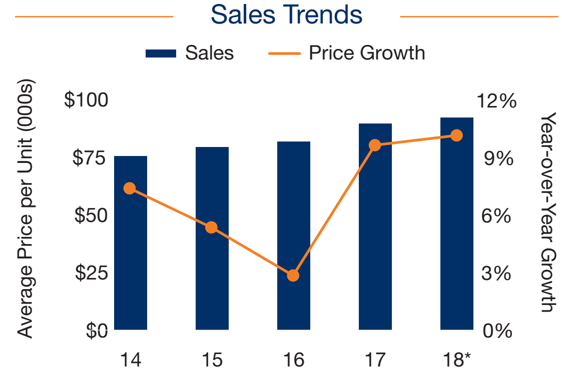
SALES TRENDS

Sales Surge As Class A Properties Attract Buyers

- Transaction velocity grew 18 percent over the past four quarters, boosted by sales of Class A assets priced over $20 million. These properties traded at an average cap rate in the high-5 percent area during the year.
- The average price per unit advanced at the strongest pace this decade over the past year, rising 10 percent to approximately $92,100 per door.

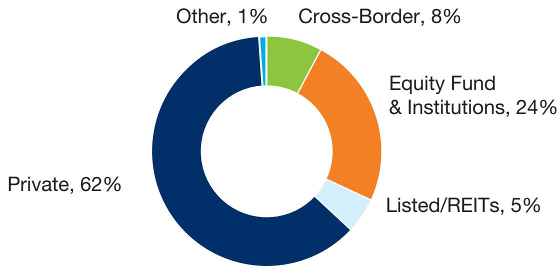
Outlook: Several mixed-used developments in East San Antonio are helping transform the area. Investors will seek apartment properties nearby.

Sales Trends

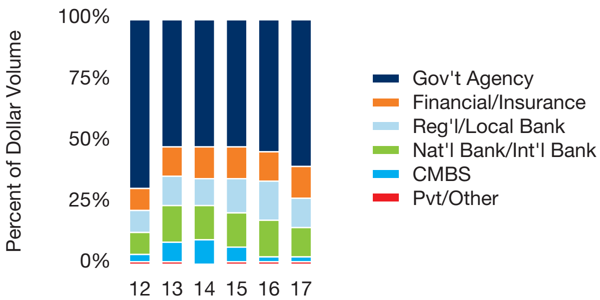


* Trailing 12 months through 1Q18
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

1Q18 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Include sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President,
Marcus & Millichap Capital Corporation

- **Fed raises benchmark interest rate, plots path for additional increases.** The Federal Reserve increased the federal funds rate by 25 basis points, lifting the overnight lending rate to 1.5 percent. While the Fed noted that the inflation outlook had moderated in recent months, an upgraded economic forecast factoring in recent tax cuts and a rollback in regulation strengthened growth projections for the next two years. As a result, the Fed has guided toward two additional rate hikes this year, while setting the stage for as many as four increases in 2019.
- **Lending costs rise alongside Fed rate increase.** As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, in an effort to compete for loan demand, lenders may also choose to absorb a portion of the cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should provide rent growth that outpaces inflation over the coming year. As a result, sellers remain committed to higher asking prices, which has begun to widen an expectation gap as property performance and demand trends remain positive.
- **The capital markets environment continues to be highly competitive.** Government agencies continue to consume the largest share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Global markets and foreign central banks are keeping pressure down on long-term interest rates. Pricing resides in the 4 percent realm with maximum leverage of 75 percent. Portfolio lenders will typically require loan-to-value ratios closer to 70 percent with interest rates in the high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly and rental demand will remain high with the national apartment vacancy rate at 5 percent at the end of 2017.

National Multi Housing Group

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau

Marcus & Millichap

Multifamily Research
Market Report

First Quarter 2018

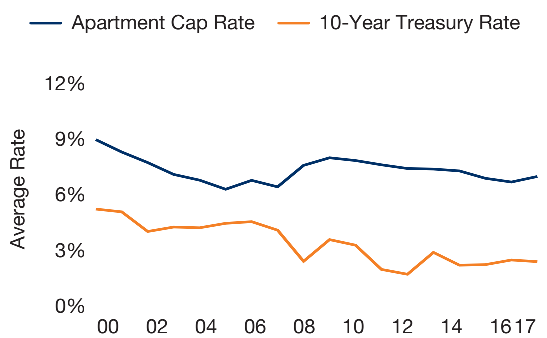
San Antonio Metro Area

Redevelopment in Core Brings Slight Shift in Development, Investment

Job growth and redevelopment returns to San Antonio's core. A shift back to the downtown area is occurring much later in the growth cycle than many other major markets across the country. Just east of downtown, Essex Modern City, an urban infill mixed-use project, is slated to begin construction this year. The 8-acre development will include a mix of housing options, retail and office space, transforming the Denver Heights neighborhood. Frost Tower, the first new office building in downtown San Antonio since 1989, broke ground last year and is expected to attract more development nearby. USAA is also moving employees downtown, and 400 IT workers will relocate from its suburban headquarters campus to an office building it is renovating in the core. The company will have 1,000 employees in the downtown area by early 2019, with plans to move an additional 1,000 jobs downtown. As employers commit to expansion and growth in the area, residents will follow, increasing demand for housing nearby.

Apartment development activity rising in the core, south. Much of the new development has occurred in the northern half of the metro over the past few years, with limited new apartment supply coming online downtown or south of downtown. The announcement of major projects in the core has prompted a slight shift in activity, with more than 2,600 units underway in areas that have realized limited additions to inventory compared with northern submarkets in recent years.

Local Apartment Yield Trends



Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2018 Outlook

6,900 units will be completed

Construction: Overall deliveries decline this year, but areas such as near the Medical Center and Lackland Airforce Base are set to receive an uptick in new supply.

30 basis point decrease in vacancy

Vacancy: A slower pace of additions contributes to vacancy declining for the first time in two years, reaching 7.1 percent. Last year, the rate increased 90 basis points.

3.4% increase in effective rents

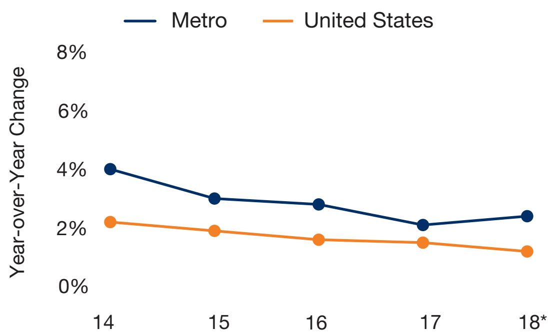
Rents: The average effective rent advances to $966 per month this year. San Antonio continues to boast the most affordable rents of the state's major markets.

Investment Trends

- Value-add listings have become limited, especially in the northern half of the market. However, as major mixed-use projects break ground and begin to breathe life into blighted areas, new opportunities with upside potential may be found.
- Elevated deliveries have kept sales of new assets largely concentrated in the northern suburbs, where first-year yields average in the mid-5 percent area. Strong competition for these assets could prompt some investors to shift attention southwest as deliveries in this area increase. Initial returns in this portion of the market are approximately 25 to 50 basis points higher.
- Some buyers are targeting previously renovated assets in the market with the intent to reposition these properties by making additional upgrades or implementing significant management changes. These investors anticipate future returns in the low-6 percent area.

4Q17 – 12-MONTH PERIOD

Employment Trends

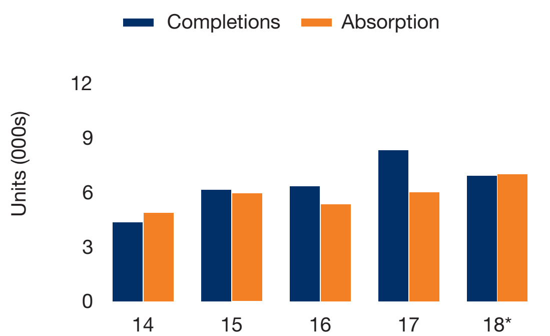


EMPLOYMENT:

2.1% increase in total employment Y-O-Y

- Nearly 21,600 positions were added in San Antonio during 2017. The leisure and hospitality segment gained the largest number of new employees as 6,300 positions were created over the last 12 months.
- An 80-basis-point reduction pushed the metro's unemployment rate to 3.1 percent in 2017.

Completions and Absorption

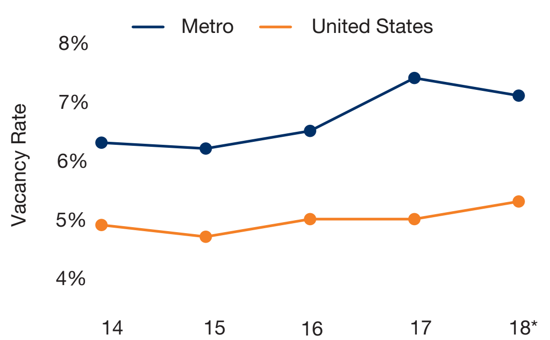


CONSTRUCTION:

8,300 units completed Y-O-Y

- More than 8,300 apartments were delivered during 2017, reaching the highest level in more than 15 years.
- Deliveries will remain elevated in the Far Northwest submarket this year as an additional 2,500 units come online. Development begins to pick up on the south side, however, and more than 1,000 units will come online in Southwest and West San Antonio this year.

Vacancy Rate Trends

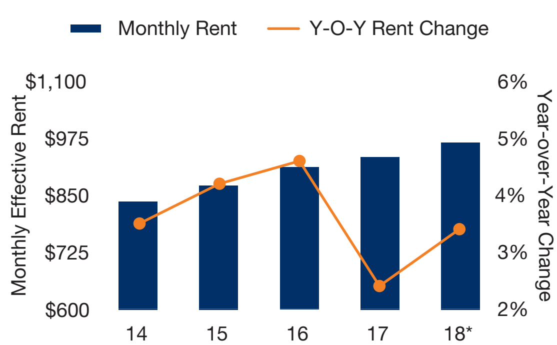


VACANCY:

90 basis point increase in vacancy Y-O-Y

- A glut of new supply coming online during 2017 placed upward pressure on the vacancy rate, which reached 7.4 percent in the fourth quarter.
- Demand for units in the Far Northwest remains strong, with absorption topping 3,000 units last year. As a result, vacancy in the submarket ticked up just 20 basis points to 6.9 percent.

Rent Trends



RENTS:

2.4% increase in effective rents Y-O-Y

- Rising vacancy over the last two years contributed to a slower pace of rent growth during 2017 to an average of $934 per month.
- The Airport Area, Alamo Heights, and the space from north of Wurzbach Parkway along Highway 281 through Spring Branch recorded dips in rent last year. Declines ranged from 0.1 percent to 1.5 percent.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

201,900

4Q17 POPULATION AGE 20-34
(Percent of total population)

Metro 22%

U.S. 21%

4Q17 MEDIAN HOUSEHOLD INCOME

Metro $57,255

U.S. Median $58,714

FIVE-YEAR HOUSEHOLD GROWTH*

82,000

POPULATION OF AGE 25+
PERCENT WITH BACHELOR'S DEGREE+**

Metro 26%

U.S. Average 29%

4Q17 TOTAL HOUSEHOLDS

33% Rent

67% Own

* 2017-2022

**2016

SUBMARKET TRENDS

Lowest Vacancy Rates 4Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Far West San Antonio	5.7%	-70	$963	2.2%
North Central San Antonio	6.1%	80	$961	-0.7%
Central San Antonio	6.2%	150	$1,143	4.2%
Airport Area	6.4%	30	$862	-0.2%
West San Antonio	6.6%	110	$730	0.0%
New Braunfels/Schertz	6.6%	130	$998	3.6%
Far Northwest San Antonio	6.9%	20	$1,095	2.1%
Northwest San Antonio	7.2%	130	$895	2.6%
Far N Central San Antonio	7.5%	20	$1,169	-0.1%
Northeast San Antonio	7.9%	170	$826	0.1%
South San Antonio	8.1%	50	$814	4.1%
Overall Metro	**7.4%**	**90**	**$934**	**2.4%**

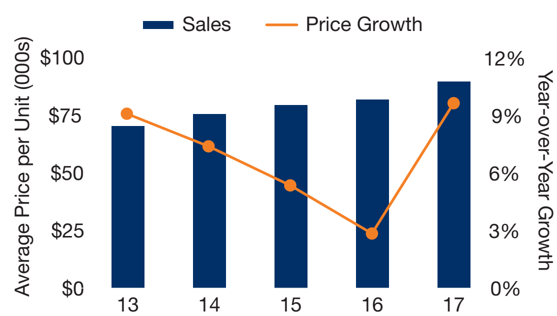
SALES TRENDS

Investors Target San Antonio for Higher Initial Returns

- Sales activity increased 18 percent during 2017, with activity concentrated in the northern portion of the market again last year.
- Strong buyer demand pushed prices up nearly 10 percent during 2017 to approximately $89,500 per unit. Initial returns ranged from the low-5 percent to high-7 percent span depending on property age, location and quality.

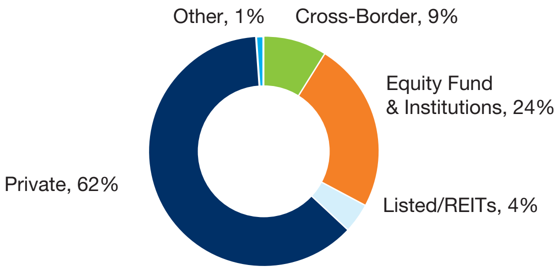
Outlook: Rising interest rates will squeeze yield spreads and could prompt additional investment in the market as returns are typically higher than other Texas metros.

Sales Trends



Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

2017 Apartment Acquisitions By Buyer Type



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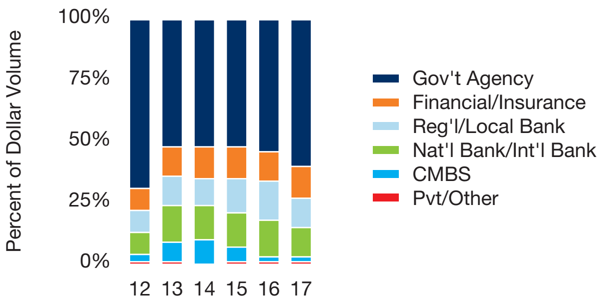

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CAPITAL MARKETS

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National Multi Housing Group

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; Real Page, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau

Marcus & Millichap

Multifamily Research
Market Report

Third Quarter 2017

San Antonio Metro Area

Apartment Demand Rises Amid Steady Employment Growth in Alamo City

Stable and broad-based employment growth attracts new residents, releases pent-up housing demand. Steady job gains over the past five years have resulted in several segments of San Antonio's employment base growing by more than 20 percent. Construction, professional and business services, and education and health services headcounts have risen at the strongest pace since 2011, and thousands of positions have been created. These additions have supported a healthy pace of new residents moving to the metro and released pent-up demand, boosting housing requirements in the metro. Much of this demand has filtered into apartments, and over the last 12 months, newly constructed units have recorded strong absorption trends.

Low vacancy in Class B/C complexes encourages rent gains. Vacancy in the metro has sunk 160 basis points below the 10-year average, and tight conditions throughout many submarkets are encouraging development. Recently completed complexes have been met with vigorous demand, but the tightest vacancy remains in Class B/C housing. As a result, rent gains have been strongest for these units, providing investors stable NOI growth.

Multifamily 2017 Outlook

8,200 units will be completed

Construction: Completions will reach the highest level on record in 2017. Last year, builders brought 7,420 apartments online.

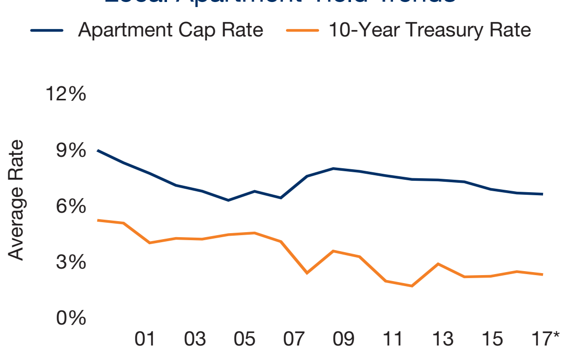
0 basis point change in vacancy

Vacancy: The vacancy rate remains flat this year at 5.7 percent as demand matches supply additions. The rate declined 40 basis points in 2016.

4.5% increase in effective rents

Rents: The pace of rent growth strengthens as the average effective rent rises to $951 per month in 2017. Last year, the average gained 1.7 percent.

Local Apartment Yield Trends



* Trailing 12 months through 2Q17

Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Trends

- More than half of all apartment sales during the last year occurred in the northern portion of the metro, where a number of companies are expanding and adding jobs. Assets in this area of the market sell for a premium, commanding first-year returns in the mid- to high-5 percent area.
- Local investors account for the largest share of activity, targeting the metro for value-add deals. Higher yields than can be achieved in other larger metros are drawing out-of-state interest. West Coast buyer interest is rising; these investors sometimes fetch initial returns 100 to 200 basis points higher than home markets.
- The addition of thousands of luxury units to inventory over the past several years is attracting a number of institutions and large funds to invest capital in the metro. Apartment deliveries are set to peak this year and activity in this segment will rise as these complexes are stabilized.

San Antonio

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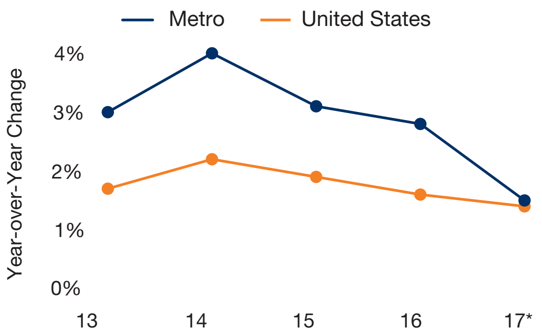
2Q17 – 12-Month Period

Employment Trends

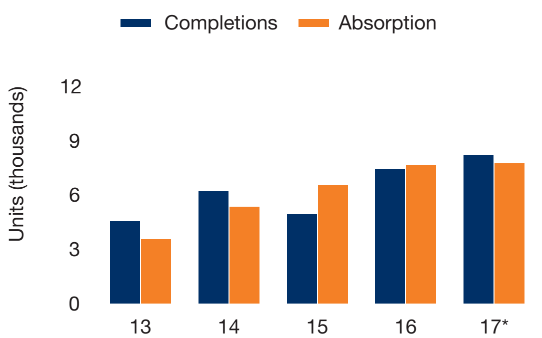


EMPLOYMENT:

2.3% increase in total employment Y-O-Y

- San Antonio employers added 5,100 workers year to date for an annual expansion of 23,100 positions. The education and health services sector led gains during the last year, generating 10,400 jobs.
- The metro's unemployment rate remained flat over the last year at 3.8 percent, well below the national rate of 4.4 percent.

Completions and Absorption

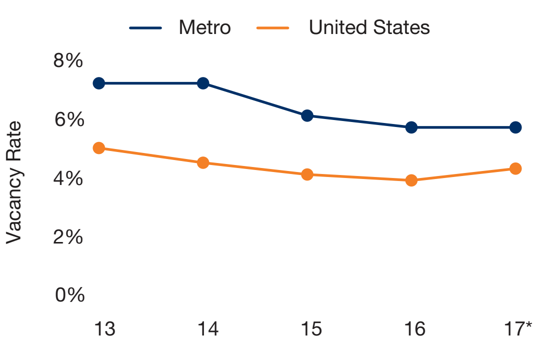


CONSTRUCTION:

5,480 units completed Y-O-Y

- Nearly 2,000 units were added to inventory during the April to June period, the largest quarter for deliveries in the last 12 months.
- Deliveries through the remainder of 2017 will be concentrated in Far Northwest San Antonio, where 2,900 units are slated for completion over the next two quarters.

Vacancy Rate Trends

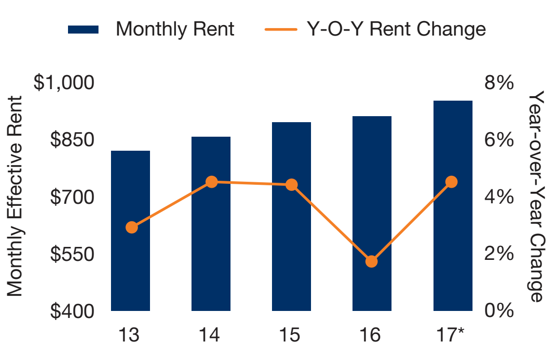


VACANCY:

50 basis point decrease in vacancy Y-O-Y

- The absorption of 6,000 apartments over the last year pushed down vacancy to 5.8 percent in June.
- Complexes built since 2010 recorded the strongest decline in vacancy during the last year, plummeting 300 basis points to 7.2 percent in the second quarter.

Rent Trends



RENTS:

2.1% increase in effective rents Y-O-Y

- The average effective rent advanced to $941 per month in June. The pace of rent growth slowed, however, from 4.9 percent last year.
- Class B and C properties recorded the strongest rent gains over the last year, rising 5.1 percent and 6.2 percent, respectively.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

2Q17 MEDIAN HOUSEHOLD INCOME
Metro $56,730
U.S. Median $58,672

2Q17 AFFORDABILITY GAP
Renting is $534 Per Month Lower
Average Effective Rent vs. Mortgage Payment*

MULTIFAMILY (5+ Units) PERMITS❖
3,244 1H 2017
6% Compared with 1H 2014-2016

2Q17 MEDIAN HOME PRICE
Metro $211,000
U.S. Median $246,000

FIVE-YEAR HOUSEHOLD GROWTH**
90,000 or 2.0% Annual Growth
U.S. 1.1% Annual Growth

SINGLE-FAMILY PERMITS❖
7,907 1H 2017
12% Compared with 1H 2014-2016

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2017-2022 ❖ Annualized Rate

SUBMARKET TRENDS

Lowest Vacancy Rates 2Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
West San Antonio	3.8%	-240	$728	3.3%
North Central San Antonio	3.8%	30	$960	3.6%
New Braunfels/Schertz/ Universal City	4.4%	-100	$956	1.9%
Northwest San Antonio	5.2%	-140	$896	2.3%
Far West San Antonio	5.3%	50	$931	1.3%
Southwest San Antonio	5.6%	-90	$784	2.0%
Northeast San Antonio	6.1%	70	$828	2.9%
South San Antonio	6.2%	20	$790	4.8%
Far Northwest San Antonio	6.2%	-150	$1,176	-5.2%
Medical Center	6.4%	10	$881	1.8%
Overall Metro	**5.8%**	**-50**	**$941**	**2.1%**

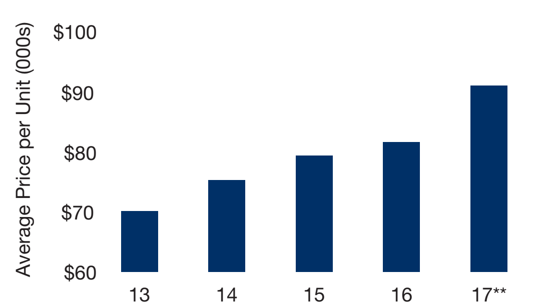
SALES TRENDS

Sales Activity on the Rise; Investors Target Wide Range of Options

- Sales increased 25 percent over the last 12 months. Out-of-state capital continues to rise, with investors from the West Coast targeting properties for higher returns than those found in home markets.
- The average price rose 13 percent year over year to $91,100 per door, while first-year returns compressed 50 basis points to the 6 percent area.

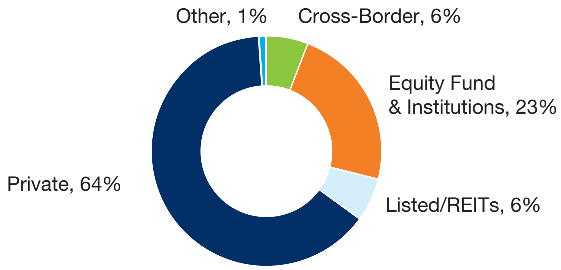
Outlook: Transaction activity will remain strong through the remainder of the year as owners take advantage of current market conditions and list properties. Assets coming to market will be met with a high degree of investor interest.

Pricing Trends



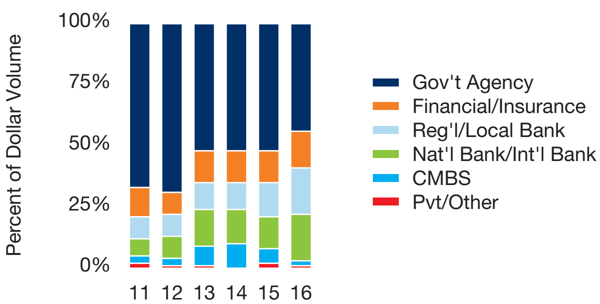
** Trailing 12 months through 2Q17
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Apartment Acquisitions By Buyer Type*



* Trailing 12 months through 2Q17

Apartment Mortgage Originations By Lender



Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy in transition.** Despite the Fed raising its benchmark short-term rate three times in seven months and signaling another rise before the end of the year, long-term rates have remained stable. The yield on the 10-year U.S. Treasury bond remained in the low- to mid-2 percent range throughout the second quarter of 2017. The Federal Reserve wants to normalize monetary policy and, in addition to rate hikes, will likely start paring its balance sheet.

- **Sound economy a balancing act for Fed.** With unemployment hovering in the low-4 percent range, the lowest level since 2007, the Federal Reserve will remain vigilant regarding the possible rapid increase in inflation if wage growth takes off. Additionally, business confidence and job openings are near all-time highs. Businesses finally have the assurance to expand their footprints after years of tepid growth following the Great Recession. These conditions are allowing pent-up households to form, creating new apartment demand. The Fed, however, must now balance economic growth and job creation against wage growth and inflationary pressures.

- **Underwriting discipline persists; ample debt capital remains.** Overall, leverage on acquisition loans has continued to reflect disciplined underwriting, with LTVs typically ranging from 65 percent to 75 percent for most apartment properties. At the end of 2016, the combination of higher rates, conservative lender underwriting and fiscal policy uncertainty encouraged some investor caution that slowed deal flow, a trend that has extended into 2017. A potential easing of regulations on financial institutions, though, could liberate additional lending capacity and higher interest rates may also encourage additional lenders to participate.

National Multi Housing Group

Visit www.NationalMultiHousingGroup.com

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau.

Multifamily Research
Market Report

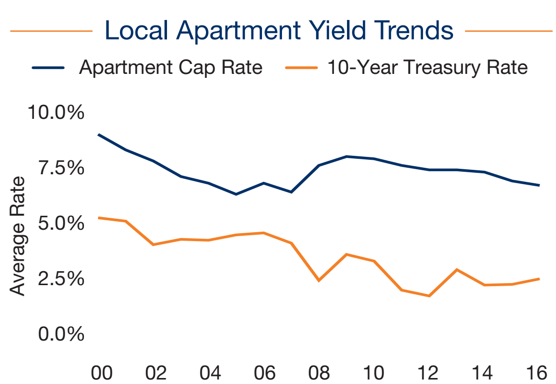
Second Quarter 2017

San Antonio Metro Area

Favorable Demographic Trends Driving Demand, Trimming Vacancy

Vacancy continues to fall as construction pipeline thins. As supply additions begin 2017 at a slower pace than one year ago, rental housing demand remains strong, placing downward pressure on the vacancy rate. Much of the demand is occurring in the Class C segment, and vacancy here has compressed to 5.5 percent over the last year. Surging Class A completions, meanwhile, have softened vacancy among these assets, pushing up the rate to 9.0 percent in the first quarter. The use of concessions to lure tenants to these buildings has increased dramatically in the last four quarters as owners seek to stabilize new properties. Declining deliveries will bode well for these assets this year, allowing demand to catch up with supply. As a result, the metro will experience further tightening in the overall vacancy rate for a third consecutive year.

Favorable demographic trends, healthy job creation benefit apartment operators. San Antonio's population continues to rise at a pace faster than the national rate of growth, especially among individuals between 20 and 34 years old, the prime renter cohort. Some of these individuals are moving to the market in search of jobs, and gains in service-related industries are boosting demand for apartments. As home prices continue to rise faster than incomes, these individuals will continue to favor apartments over homeownership, placing additional downward pressure on vacancy and encouraging rent gains.



Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2017 Outlook

5,400 units will be completed

Construction: Deliveries will fall from 2016, when nearly 6,800 units were brought online. Central San Antonio will receive 1,800 rentals during 2017.

10 basis point change in vacancy

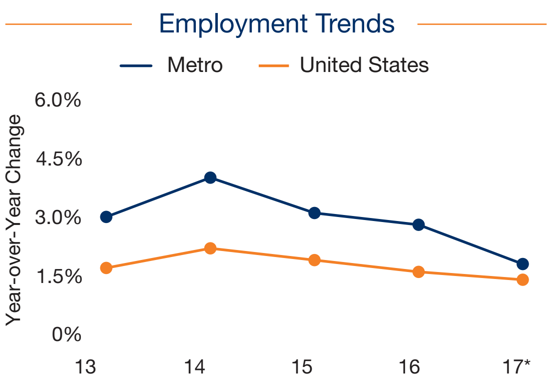
Vacancy: Healthy demand will push down the overall vacancy rate to 5.6 percent. Last year, vacancy declined 40 basis points.

4.5% increase in effective rents

Rents: Effective rent growth strengthens this year, pushing up the average to $951 per month. The average rent advanced 1.7 percent during 2016.

Investment Trends

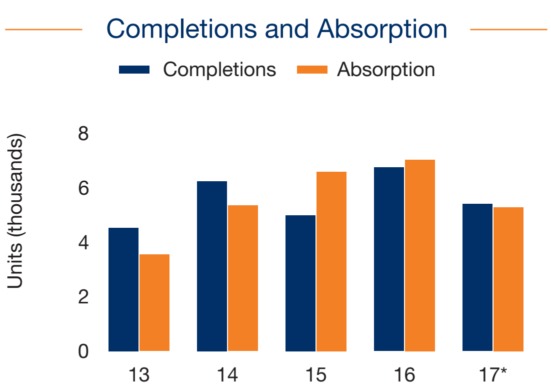
- Investors are targeting San Antonio apartment assets for higher yields as vacancy tightens and rents rise. Value-add options are highly sought after and draw strong buyer interest among local and out-of-state investors, while stabilized deals are also attractive and continue to entice interest. Overall, cap rates are in the high-6 to low-7 percent range.
- Owners who purchased assets seven to 10 years ago may choose to bring properties to market as values have increased more than 20 percent above the previous peak. Upon sale, these investors will use the opportunity to redeploy capital and rebalance portfolios. Other owners may choose to place additional capital into properties to raise rents and boost NOIs.
- Central San Antonio and suburban locations including New Braunfels and Boerne are receiving strong buyer interest. Assets in these locations typically trade at first-year returns 100 basis points below the metrowide average.



EMPLOYMENT:

2.3% increase in total employment Y-O-Y

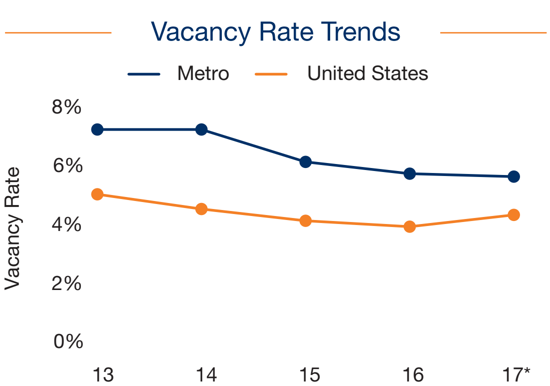
- San Antonio employers created 3,200 positions during the first three months of the year for an annual headcount expansion of 23,000 positions.
- San Antonio's unemployment rate ticked up 30 basis points over the last 12 months to 4.0 percent in the first quarter, yet it remains well below the national rate of 4.5 percent.



CONSTRUCTION:

6,000 units completed Y-O-Y

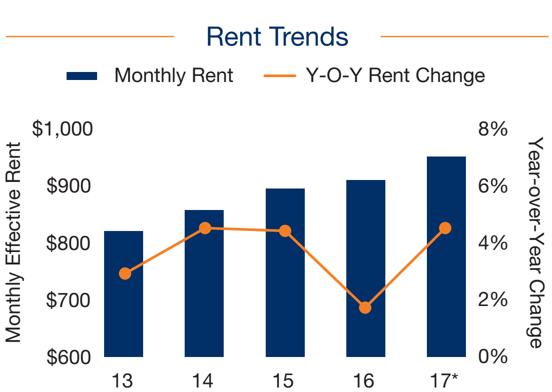
- Builders completed 6,000 apartments during the last four quarters. Deliveries were concentrated in the Far Northwest and Far West submarkets, where nearly 2,500 rentals were added to inventory.
- Far Northwest San Antonio remains attractive to developers, but building in Central San Antonio is rising with more than 1,800 units underway.



VACANCY:

30 basis point decrease in vacancy Y-O-Y

- Vacancy fell 30 basis points over the 12 months ending in the first quarter as nearly 6,100 units were absorbed, reaching 6.8 percent.
- More than 500 units came online in Central San Antonio during the first quarter. Vacancy increased 550 basis points to 9.6 percent in the submarket as a result. Additional units are slated for completion this year.



RENTS:

2.4% increase in effective rents Y-O-Y

- The increased use of concessions slowed effective rent growth during the last 12 months, with the average climbing to $935 per month in the first quarter.
- Despite 25 percent of Class A apartments in the Alamo Heights submarket offering leasing incentives, the average rent for the area remains the highest in the metro at $1,238 per month.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

204,900

FIVE-YEAR HOUSEHOLD GROWTH*

90,000

*2017-2022

1Q17 POPULATION AGE 20-34
(Percent of total popluation)

Metro **22%**

U.S. 21%

POPULATION OF AGE 25+
PERCENT WITH BACHELOR DEGREE+**

Metro **26%**

U.S. Average 29%

**2Q16

1Q17 MEDIAN HOUSEHOLD INCOME

Metro **$55,545**

U.S. Median $58,218

TOTAL HOUSEHOLDS*

42% Rent

58% Own

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
North Central San Antonio	4.1%	-60	$933	0.9%
New Braunfels/Schertz/Universal City	4.7%	-150	$942	0.6%
Southwest San Antonio	5.4%	-360	$785	2.5%
West San Antonio	5.4%	-220	$708	0.3%
Northwest San Antonio	6.3%	10	$897	5.9%
Far Northwest San Antonio	6.5%	-150	$1,171	-5.4%
Airport Area	6.8%	60	$882	3.4%
Northeast San Antonio	6.8%	0	$823	3.9%
Medical Center	7.2%	50	$878	2.8%
South San Antonio	7.5%	-110	$778	2.5%
Overall Metro	**6.8%**	**-30**	**$935**	**2.4%**

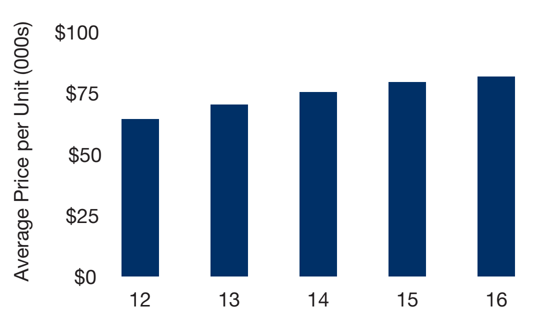
SALES TRENDS

Sales Surge as Opportunities Become More Limited in Other Texas Markets

- Sales activity surged 27 percent in San Antonio during the last year. The northern portion of the metro remains a popular target, and nearly 65 percent of all sales during 2016 occurred here.
- The average price ticked up in the last year, reaching $81,600 per unit in the fourth quarter.

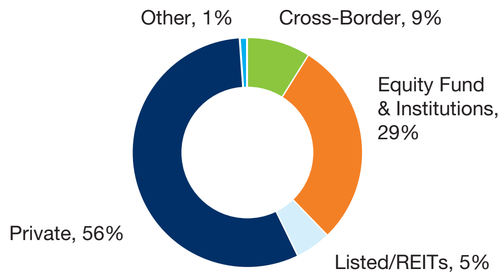
Outlook: The addition of thousands of Class A units over the past few years will attract institutional buyers to the market as these properties come online and are stabilized. These assets typically change hands at first-year returns in the mid- to high-5 percent area.

Pricing Trends

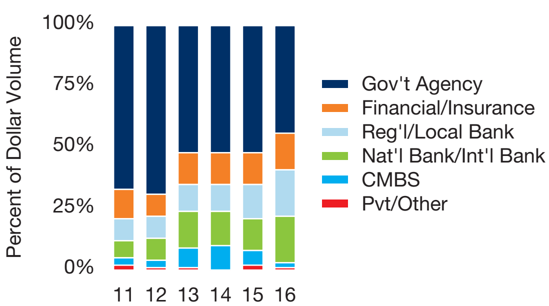


Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy actions set to accelerate.** The 10-year U.S. Treasury rate held below 2 percent until a surge following the election raised the rate above that threshold and potentially established a new and higher range for the benchmark. Moderate economic growth and muted inflation throughout the growth cycle allowed the Federal Reserve to hold off on rate hikes, which has supported additional cap rate compression. However, the Trump administration's fiscal plans built on higher spending and reduced taxes could accelerate economic growth. Intensifying inflationary pressure under that scenario could encourage the Federal Reserve to quicken the pace of its efforts to raise its short-term benchmark.
- **Inflation on the upswing, but for the right reasons.** Though inflationary pressures are beginning to grow, increases are occurring from a historically low base. Further, inflationary pressure has arisen from wage growth and stabilization of oil prices, both positives for the overall economy. Higher wages will encourage spending while inflationary pressure on prices will raise overall consumption, the primary driver of economic growth.
- **Underwriting discipline persists; ample debt capital remains.** Multifamily originations increased in 2016, with agency lending dominating the overall marketplace. The government agencies underwrote about $105 billion in loans last year and remain a primary source of multifamily originations in 2017 due to their efficient execution. Acquisition debt remained plentiful throughout 2016, but borrowers' rates rose late in the year in conjunction with higher Treasury yields and loan-to-value ratios compressed. The combination of higher rates and tighter lender underwriting created some investor caution that could carry over into 2017. A potential easing of Dodd-Frank regulations on financial institutions could create additional lending capacity for other capital sources.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau.

Marcus & Millichap

Multifamily Research Market Report

Fourth Quarter 2016

San Antonio Metro Area

Steady Job Growth Keeps Demand Strong for San Antonio Apartments

Job creation stirs healthy absorption trends for Alamo City apartments, pushes vacancy near cyclical low. Strengthening demand for area apartments dropped vacancy near historical lows during the third quarter, and robust absorption trends through the remainder of the year will keep vacancy below 6 percent. Broad-based hiring is encouraging a healthy pace of household formation and stirring demand for apartments across all asset classes. An influx of luxury, Class A apartments softened conditions in the northern portion of the metro this year, but the construction pipeline is beginning to thin and shift to other areas of the market. As a result, the increase in vacancy in these units will be short term as assets stabilize amid healthy job creation in higher-wage industries nearby. Hiring in service-oriented and consumer-driven sectors is supporting vigorous demand for Class B and C units in the metro, with vacancy falling below 5 percent for these complexes. Housing affordability is also shifting some demand back into apartments, as home prices rise and monthly mortgage payments surpass rent on even the newest units in the metro, keeping a steady stream of renters in the market.

Yield-driven buyers target metro for opportunities; low interest rates give owners options. Healthy property operations are reassuring investors in the San Antonio metro, with many buyers considering a range of opportunities to diversify portfolios. Historically low interest rates and prices that have appreciated nearly 20 percent above the previous peak are encouraging some investors who purchased seven to 10 years ago to sell, capitalizing on favorable market conditions and increased buyer interest. Other owners are taking advantage of inexpensive liquidity to rehabilitate properties and exploit value-add opportunities. Rising rents are leading to increased NOIs and property values, allowing owners to cash in on additional upside once sold. Overall, cap rates are holding firm in the high-6 percent to low-7 percent area, higher than most other major metros in the state, bringing yield-driven buyers to the market. Central San Antonio assets, as well as properties in suburban locations such as New Braunfels and Boerne, draw significant interest and command initial yields 100 basis points lower than the market average.

2016 Multifamily Forecast

2.2% increase in total employment

Employment:

Employers are on track to create 21,500 positions this year, expanding headcounts 2.2 percent from the end of 2015. Last year, staffs grew 2.7 percent with the addition of 25,900 jobs.

7,300 units will be completed

Construction:

Builders will complete nearly 7,300 apartments in San Antonio this year, the highest pace of deliveries since 2009. Last year, builders added 4,400 units to stock.

20 basis point decrease in vacancy

Vacancy:

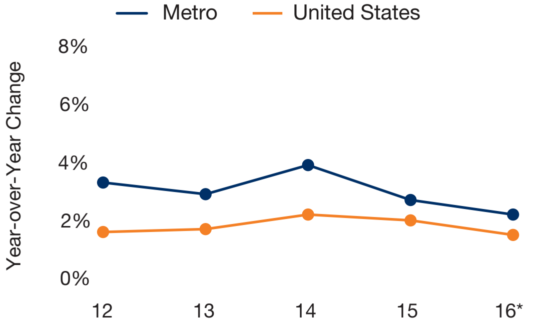
Healthy demand will keep vacancy on a downward trajectory this year, and the rate will reach 5.9 percent in December. The absorption of 7,200 units will push the rate down 20 basis points from the end of last year. During 2015, vacancy plummeted 110 basis points.

4.2% increase in effective rents

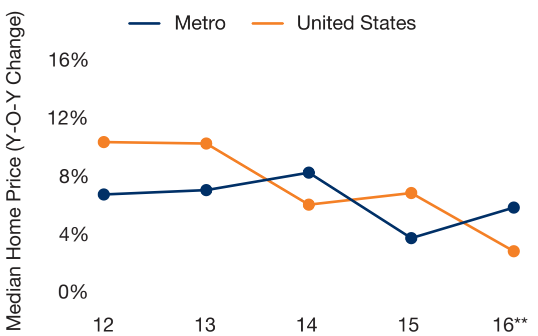
Rents:

Rent growth will ease in the fourth quarter, resulting in the average effective rent reaching $933 per month, up 4.2 percent annually. The average increased 4.4 percent last year.

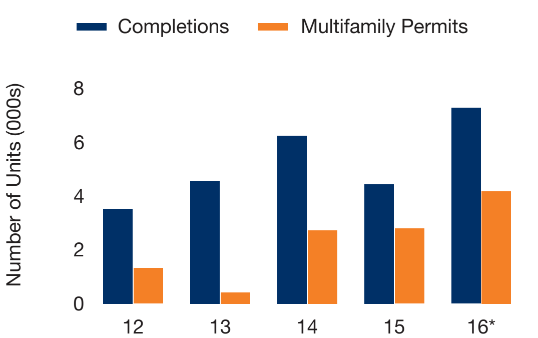
Employment Trends



Home Price Trends



Construction Trends



* Forecast
** Trailing 12 months through 2Q

Economy

- Employers created 15,800 positions year to date for an increase of 22,000 since the third quarter of last year. These additions boosted headcounts 2.2 percent during the yearlong span.
- Job gains have been broad-based with the leisure and hospitality segment leading growth as more than 4,300 workers were added year over year. The manufacturing sector shed the most positions during the period, cutting nearly 1,300 jobs.
- The unemployment rate dropped 10 basis points from the end of last year, resting at 3.8 percent in September. Strong hiring in the previous yearlong period helped drive a 50-basis-point annual decline in the rate.

Outlook: During 2016, employers will add 21,500 workers to payrolls for an annual expansion of 2.2 percent from the end of last year.

Housing and Demographics

- Population growth is slowing, though it remains well above the national pace. In the last 12 months, the population rose 1.7 percent as nearly 41,500 individuals were added to the population base. This supported the creation of approximately 15,300 households, up 1.8 percent from one year ago.
- The median household income advanced 1.2 percent over the last year, reaching nearly $54,000 annually. Income continues to advance at a slower pace than home prices, with the median single-family home price surpassing $204,500 in September, increasing 4.7 percent year over year.
- Assuming 10 percent down and payments for taxes, insurance and PMI, the monthly payment for a median-priced home in the metro reached nearly $1,390 in the third quarter. The gap between the monthly mortgage payment and average rent for an apartment in the market spread to approximately $450 per month, with renting being the more affordable option.

Outlook: The average rent for a Class A apartment in the metro increased to $1,322 per month in September, also below the monthly payment for a median-priced residence. As a result, demand for apartments will remain strong in the coming months, keeping vacancy near historical lows.

Construction

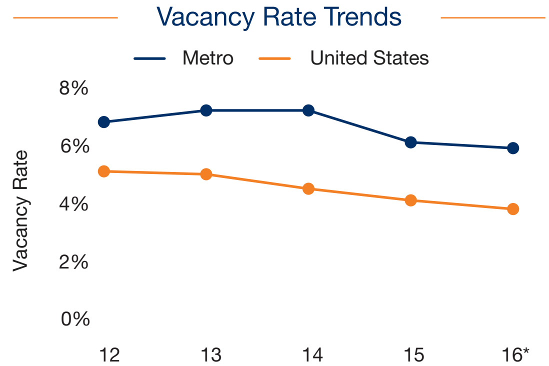
- Builders completed 6,740 apartments in the first nine months of the year, bringing the total to 7,030 units since last September. Completions in the prior yearlong time frame totaled more than 4,900 rentals.
- Apartment development has been concentrated in the far northwestern portion of the metro, just outside Loop 1604 and along Interstate 10 near the University of Texas at San Antonio. In addition to the presence of a major university, several large employers have operations nearby.
- Builders will remain focused on this portion of the metro through 2017, but completions will rise in the core, where nearly 1,800 units are underway and scheduled for delivery. Southern submarkets are also posting increased apartment development, particularly inside Loop 410.

Outlook: Developers are on track to bring 7,300 apartments online during 2016, up from the 4,400 delivered last year.

Vacancy

- Vacancy was flat year over year in the third quarter, resting at 5.5 percent in September. The rate is down 160 basis points from March of this year, as net absorption totaled 6,750 units during the last six months.
- The core and submarkets to the west and northwest of Loop 1604 boast some of the highest vacancy rates in the metro. These areas have been ripe with development activity over the past several months, softening operations considerably during the last year. The rate rose 220 basis points year over year in the core to 5.8 percent, while a 230-basis-point increase pushed the rate up to 6.8 percent in the far northwestern portion of the market.
- Areas just outside the core, to the west and north in particular, recorded some of the lowest vacancy rates in the third quarter, at 4.8 percent and 3.6 percent, respectively. Completions have been limited in these areas, pushing demand into existing complexes and encouraging healthy absorption trends.

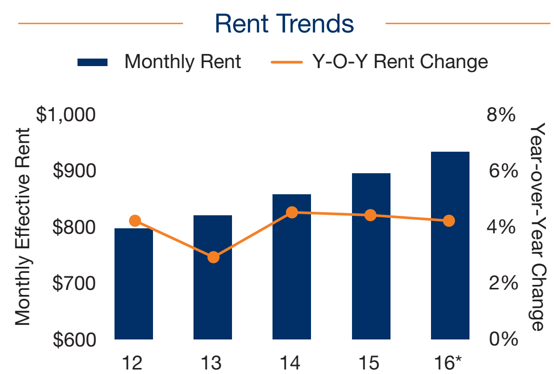
Outlook: Vacancy will reach 5.9 percent by year-end, dipping 20 basis points from 2015. Last year, the rate tumbled 110 basis points.



Rents

- Rent growth has slowed during the last 12 months after peaking in the prior yearlong span. In the third quarter, the average effective rent reached $937 per month on a 4.9 percent annual increase. This followed a 6.4 percent hike in the previous year.
- All but two submarkets in the San Antonio metro posted rent gains during the last year. The airport area and just north of the core realized slight dips in the average rent, driven by declines in units built during the 2000s.
- Effective rent is highest in the core and just north of the core, rising above $1,100 per month. Alamo Heights registered the strongest pace of rent growth during the last four quarters, advancing 9.0 percent to $1,286 per month.

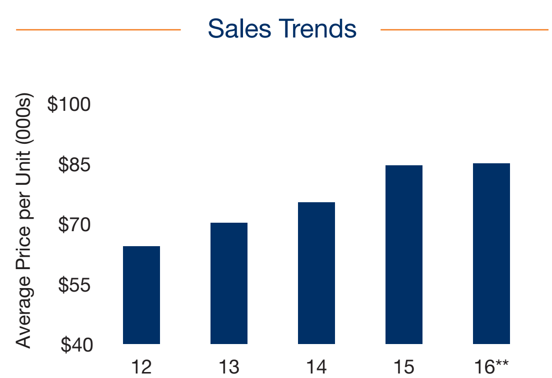
Outlook: Average effective rent will increase 4.2 percent from the end of last year, reaching $933 per month in December. In 2015, the average climbed 4.4 percent annually.



Sales Trends

- Increased investor interest supported a 9 percent advance in sales activity during the last 12 months. Buyers remained focused on assets located in the northern portion of the market, particularly in pockets to the northwest.
- In the year ending in the third quarter, the average price per unit reached $84,950, up a scant 0.3 percent year over year. Properties in high-demand areas to the north of the core commanded premium prices, often selling for more than $100,000 per door.
- The average cap rate held firm in the high-6 percent to low-7 percent area during the last four quarters. Initial yields compressed below 6 percent for well-located Class A properties.

Outlook: Class B and C assets will remain in high demand, though rising completions of Class A luxury units will attract a number of institutional buyers and REITs to the market. As these properties are brought online and stabilized, investment activity in this segment will rise.



* Forecast
** Trailing 12 months through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

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Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- The initial reading of third quarter GDP of 2.9 percent and consistent growth in employment are fanning expectations that the Federal Reserve will raise its benchmark short-term lending rate at its December meeting. Other economic data showing steady improvement in the housing market and the stabilization of oil prices around $50 per barrel offer signals that the U.S. economy is growing at a sustainable pace.
- Increasing rental housing demand underpinned a decline in the U.S. apartment vacancy rate of 60 basis points to 3.5 percent year to date through the third quarter, the lowest level this cycle. Apartment builders have responded to growing demand and favorable demographic trends by ramping up construction. Completions will rise to 320,000 units this year and peak in 2017.
- Capital markets remain highly competitive, offering an assortment of fixed-rate products available through commercial banks, life-insurance companies, CMBS and agency lenders. Fannie Mae and Freddie Mac are underwriting loans of 10 years at maximum leverage of 80 percent. Rates will typically reside in the high-3 to low-4 percent range, depending on underwriting criteria. Portfolio lenders will also price in this vicinity but will typically require loan-to-value ratios in the 65 to 75 percent band. Floating-rate bridge loans and financing for asset repositioning are typically underwritten with LTVs 70 to 75 percent of stabilized value (80 to 85 percent of cost) and price 300 basis points above Libor for recourse deals and extending to 450 basis points above Libor for non-recourse transactions.

Local Highlights

- The expansion of Loop 1604 in San Antonio's growing Northwest side is providing some relief to traffic congestion in the area. A large share of new apartment projects has been delivered here during the last year, with more units scheduled for delivery through 2017. Other commercial real estate projects, including medical office and retail space, are underway to serve the rising population base in the submarket.
- While the bulk of apartment construction is targeted toward market-rate rentals, affordable housing projects are gaining steam. Approximately 1,260 units are underway that will offer affordable living arrangements for metro residents, with more than half of these units slated for delivery in the core. Also under construction are nearly 350 seniors housing rentals.
- H-E-B Grocery plans to open two locations in the metro next year. The first location is in the growing western portion of the market, at the intersection of Alamo Ranch Parkway and Alamo Parkway. A second store will be near Loop 1604 and Bulverde Road on the northeast side.

Multifamily Research
Market Report

San Antonio Metro Area

Third Quarter 2016

Marcus & Millichap

Demand for Apartments Strengthens Amid Steady Job Growth

Job creation releasing pent-up demand as new households target apartments in the Alamo City. Employment gains are encouraging a healthy pace of household formation, boding well for the San Antonio apartment market and keeping vacancy historically low despite an influx of deliveries this year. Though job growth will slow in comparison with the previous two years, the most active job-creating industries will be sectors whose workforce consists primarily of renters, fueling apartment demand at a time when construction is at a peak. Absorption will reach a level not achieved since 2010 and almost match completion volume, equating to nearly unchanged metro vacancy when compared with last year. Significant apartment demand will help facilitate a steady pace of rent growth in the months to come, and a number of luxury units coming online in Alamo Heights and Central and Northern submarkets will boost the average in these areas.

Favorable apartment operations wrangle in buyers. Improving conditions have investors enthusiastic about the local market, with many considering a wide range of opportunities to diversify portfolios. A limited number of listings are leading to aggressive bidding for available assets and facilitating a rise in prices. This, combined with interest rates remaining historically low, is encouraging some owners who purchased seven to 10 years ago to list properties, capitalizing on favorable market conditions. Other owners are taking advantage of relatively inexpensive liquidity to rehabilitate properties to market at higher rents, raising NOIs and property values. Though cap rates are holding firm in the high-6 percent to low-7 percent area, they are higher than most other major metros in the state, attracting yield-driven buyers to the market. Properties in Central San Antonio and high-end suburban areas such as New Braunfels and San Marcus draw significant buyer attention and can command cap rates 100 basis points lower than the metro average. While value-add listings are becoming more limited as overall conditions improve, the recent expansion of the loop in the western portion of San Antonio could bring new opportunities forward.

2016 Multifamily Forecast

2.2% increase in total employment

Employment:

San Antonio employers will add 21,500 jobs this year, expanding headcounts 2.2 percent. Hiring in government, education and health services, and trade positions will lead job creation this year. During 2015, the employment base grew by 25,900 positions.

7,100 units will be completed

Construction:

Rental completions will reach a historic high this year, as developers add 7,100 units to stock. Last year, builders brought 4,425 apartments online. Additions to supply have been concentrated in the northern portion of the metro, though deliveries will pick up in the southern and western areas this year.

10 basis point increase in vacancy

Vacancy:

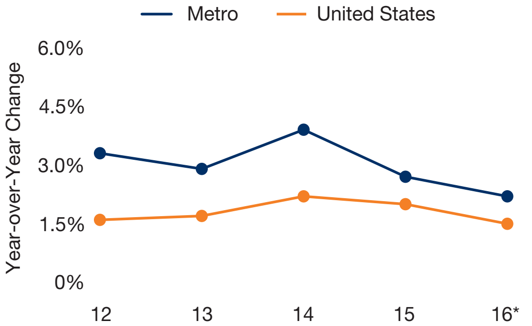
Record-setting deliveries will minimally impact metro vacancy this year, a testament to strong rental demand. Vacancy will sit at 6.2 percent by year end, up 10 basis points from last year. In 2015, vacancy tightened 110 basis points.

4.2% increase in effective rents

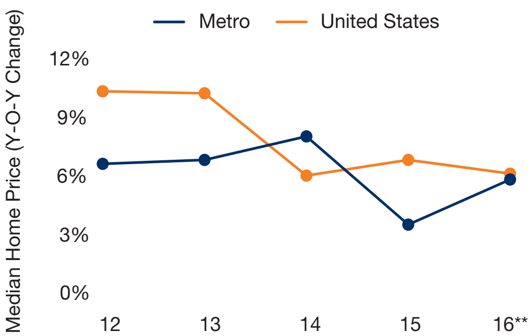
Rents:

Strong renter demand will facilitate rent growth this year. The average effective rent will increase 4.2 percent in 2016, ending the year at $933 per month. This growth is consistent with 2015 when the average rose 4.4 percent.

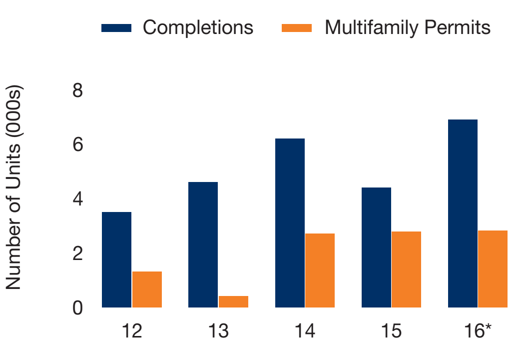
Employment Trends



Home Price Trends



Construction Trends



* Forecast
** Trailing 12 months through 2Q

Economy

- San Antonio employers added 23,100 positions in the last 12 months ending in the second quarter, growing the employment base 2.4 percent. This is down from the 3.1 percent headcount expansion in the prior period when job creation reached 29,400 jobs.
- The leisure and hospitality industry and the education and health services sector combined for more than 10,300 positions in the last four quarters. Hiring activity at doctor offices, medical testing facilities and outpatient centers was up 4.4 percent year over year.
- Unemployment in the metro tightened 20 basis points over the last 12 months to 3.6 percent in June, falling behind Austin for one of the lowest rates in the state.

Outlook: The metro will add 21,500 jobs in 2016, down from the 25,900 jobs created last year.

Housing and Demographics

- Household formation advanced 2.1 percent from one year ago as more than 17,600 households were added during the four quarters ending in June, outpacing last year's addition of nearly 16,000 households. Meanwhile, population in the metro grew by nearly 41,100 residents, including approximately 7,400 in the prime renter cohort of 20- to 34-year-olds.
- Steady employment growth encouraged a slight rise in the median household income, which ticked up 0.5 percent annually in June to nearly $53,800. This falls short of the qualifying income for a median-priced home by more than $7,000.
- The median home price in the metro reached $204,200 in the second quarter, rising 5.4 percent from last June. Assuming traditional financing with a 10 percent downpayment and including taxes and insurance, the monthly mortgage payment on such a home would be $1,090 per month, or $168 higher than average rent.

Outlook: Steady job creation and healthy household formation will stir housing demand in the metro, though a minimal increase in single-family homes sales and reduced housing starts indicate demand for apartments will persist.

Construction

- Developers delivered a historically high 7,100 units in the last four quarters, including a record 3,100 rentals during the second quarter. Completions during the previous 12-month span totaled more than 5,100 apartments.
- Far Northwest San Antonio realized the largest influx of conventional product, with 1,650 apartments. Central and South San Antonio gained 1,140 and 900 units, respectively, over the span. These three submarkets accounted for 55 percent of metro completions.
- Entering the third quarter, more than 5,750 apartments are underway, with approximately 2,100 scheduled for delivery in the next two quarters. The majority of these projects are between three and four stories, with two high-rise buildings in Central San Antonio.

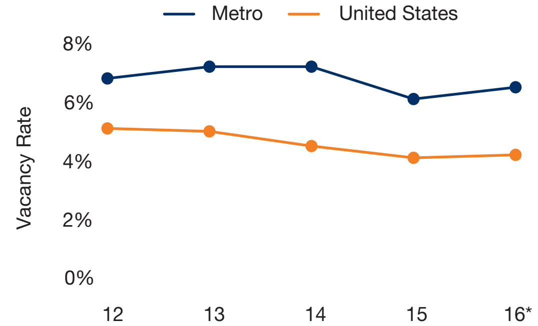
Outlook: Deliveries will peak in 2016, increasing by 40 percent from last year as 7,100 apartments are completed. Roughly 4,700 of these rentals will be located in Central, Far Northwest or Far West San Antonio.

Vacancy

- Record completions in the second quarter were met with strong renter demand, and the vacancy rate tumbled 80 basis points over the three-month span to 6.3 percent. However, the rate remains up 30 basis points from one year ago.
- At 3.5 percent, North Central San Antonio boasts the lowest vacancy in the metro falling 120 basis points from last June. Minimal deliveries will keep conditions tight in this submarket in the months to come. Vacancy in Far West San Antonio entered the third quarter at 4.8 percent, down 100 basis points year over year. More than 1,000 units are scheduled for completion in this submarket over the next six months, which could temporarily soften operations.
- During the last 12 months, robust deliveries in Central San Antonio facilitated a 320-basis-point rise in the vacancy rate to 7.2 percent in June, one of the highest rates in the metro. With rates of 8.5 percent and 7.7 percent, Far North Central and Far Northwest San Antonio sport the highest vacancy in the market.

Outlook: Vacancy will end the year at 6.2 percent, up 10 basis points from the end of 2015.

Vacancy Rate Trends

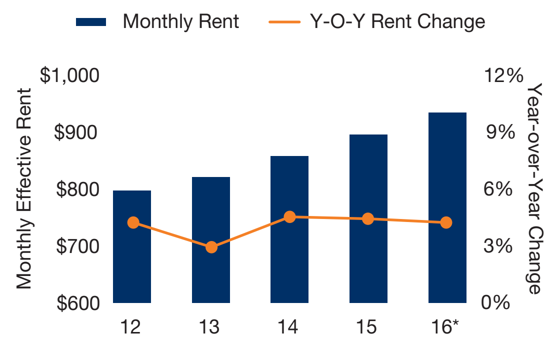


Rents

- Average effective rent climbed 4.9 percent year over year to $922 per month in the second quarter. This followed a 5.3 percent rise in the previous 12-month period.
- Rent growth was strongest in Alamo Heights, advancing 11.5 percent year over year to $1,264 per month in June, the metro's most expensive locale. In Central San Antonio, the average increased 8.9 percent to $1,133 per month.
- Rents also rose in the metro's more affordable submarkets. In Southwest San Antonio asking rent grew 6.8 percent annually to $769 per month. Following a 6.7 percent spike, Northwest San Antonio rent sits at $876 per month.

Outlook: Average effective rent will push up 4.2 percent from last year to $933 per month by year-end 2016.

Rent Trends

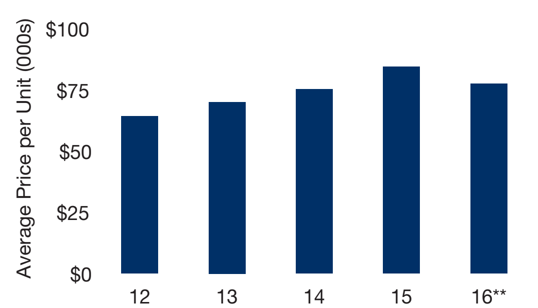


Sales Trends

- Limited inventory kept conditions favorable for sellers during the last 12 months, though the overall average price fell 8 percent to approximately $77,600 per unit. This decline was largely attributed to fewer sales of institutional-grade assets and a rise in the number of $1 million to $5 million trades.
- Sales of Class B and C assets dominated the metro's investment landscape, with Northeast San Antonio and Far North Central San Antonio receiving a large share of trades. Initial yields for pre-1985 built, Class C properties typically ranged from mid-5 percent to 7 percent. A number of Class B assets built in the 1980s traded in the low- to high-6 percent area.
- Roughly one-fourth of all transactions over the last year involved complexes with fewer than 100 units priced below $5 million. Buyer competition for these properties is intense as many feature sub-5 percent vacancy and steadily rising rents.

Outlook: Class B and C assets will remain in high demand, but the completion and lease-up of a number of Class A properties will attract institutional buyer attention, increasing the pool of active investors in the market.

Sales Trends



* Forecast
** Trailing 12 months through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

Marcus & Millichap

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Price: $250

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Global capital markets have remained stable over the past few weeks, even as Brexit and the continued devaluation of the Chinese yuan have induced bouts of volatility into stock and bond markets. Meanwhile, U.S. economic data has proved resilient, with increases in retail sales and steady hiring supporting a measured pace of growth. Additionally, higher bond prices have lowered prospective yields, boosting the appeal of commercial real estate.
- As the homeownership rate continues to plumb new lows, investor interest in the multifamily sector remains upbeat. The U.S. vacancy rate reached 4.2 percent by the end of the first quarter, the lowest rate of the current cycle. As a result, builders have ramped up the planning pipeline, with completions forecast to rise to 285,000 units, the highest level in more than 20 years. However, new supply is heavily concentrated in a few large metros, reducing the national impact.
- Capital markets remain highly competitive, with a broad assortment of fixed-rate products available through commercial banks, life-insurance companies, CMBS and agency lenders. Fannie Mae and Freddie Mac are underwriting loans of 10 years at maximum leverage of 80 percent. Rates will typically reside in the high-3 to low-4 percent range, depending on underwriting criteria. Portfolio lenders will also price in this vicinity but will typically require loan-to-value ratios closer to 65 to 75 percent. Floating bridge loans and financing for repositionings are typically underwritten with LTVs above 80 percent, while pricing at 300 basis points above Libor for recourse deals and extending to 450 basis points above Libor for non-recourse transactions.

Local Highlights

- Developers are planning a 114-acre, $320 million master-planned community in the Northwest portion of the metro near the University of Texas San Antonio. The project will include nearly 1,000 rentals, more than 100 townhomes, 320,000 square feet of office space and 120,000 square feet of retail when fully built.
- The development of affordable apartments is at a high, with five complexes totaling approximately 1,260 units underway. Four of these communities will be completed in 2017, with one project scheduled for delivery later this year. The projects are scattered throughout the market, in the Central, South and Far West San Antonio submarkets, and the largest will add 412 units to stock in Central San Antonio.
- A $300 million project that would redevelop the former Lone Star Brewery site is tentatively scheduled to break ground in the summer of 2017. The 32-acre mixed-use development would feature residential, office and restaurant space, along with a planned hotel, movie theater or live music venue.

Marcus & Millichap

Multifamily Research
Market Report

Second Quarter 2016

San Antonio Metro Area

Tenant, Investor Demand Rises for Class B/C Rentals in San Antonio

Household growth remains vibrant in San Antonio, spurring the construction of luxury apartments, which is temporarily tilting supply over demand as new units lease up. Builders are targeting empty nesters who are choosing to live in areas close to downtown entertainment venues and other recreational options. Young professionals drawn to the market's growing industries such as cybersecurity are also choosing to live near these energetic neighborhoods. As consumer demand for these leisure spots increases, job growth within retail stores and restaurants as well as healthcare facilities is also lifting, employing more workers who typically reside in Class B/C properties. As a result, the impact of the new luxury rentals added to inventory over the past few quarters has had no negative effect on the occupancy of apartments built before 1990. The units tend to attract and retain tenants hired in these sectors, as well as San Antonio's large manual labor class and government employers. Though overall market vacancy will adjust upward this year, tenant demand for apartments will allow rental rates to rise, albeit at a slower pace than the previous year.

Investors are enthusiastic about the local multifamily market and are considering various options to reposition their portfolios. Apartment values continue to rise as buyers aggressively bid for a limited number of available listings. As prices appreciate and interest rates remain historically low, several owners who purchased seven to 10 years ago have built up their equity and are now bringing their property to market with the intent to exchange into larger assets for higher yields. Relatively inexpensive liquidity has prompted investors to rehabilitate their properties to market at higher rents, raising NOIs and property values. This is encouraging some owners to list assets to benefit from the added value and free up capital for other opportunities. Amid buyer confidence, cap rates continue to compress overall to the 6 percent range. Assets within Central San Antonio and high-end suburban areas such as New Braunfels can command cap rates 100 basis points lower.

2016 Multifamily Forecast

2.5% increase in total employment

Employment:

The pace of job growth will remain strong this year with metro employment expected to increase 2.5 percent, or by 25,000 workers, annually. Employment gains will be led by the healthcare, trade and hospitality industries. In 2015, jobs grew by 2.7 percent.

6,900 units will be completed

Construction:

After 4,425 units were completed last year, developers will bring 6,900 rentals online in the metro this year. Since the latest national recession that started in 2008, apartment inventory has grown by 24 percent, compared with a 15 percent expansion between 2002 and 2007.

40 basis point increase in vacancy

Vacancy:

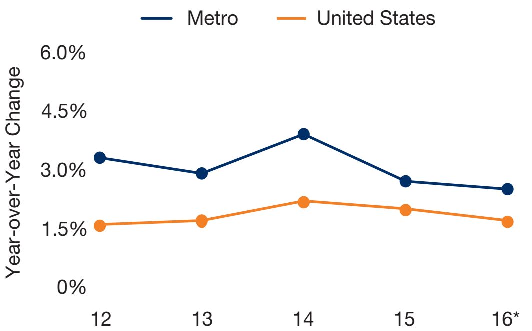
In 2016, vacancy will lift 40 basis points annually to 6.5 percent amid net absorption of 5,100 units. Despite the increase, apartment demand will climb 3.1 percent. Last year, vacancy dropped 110 basis points year over year.

4.2% increase in effective rents

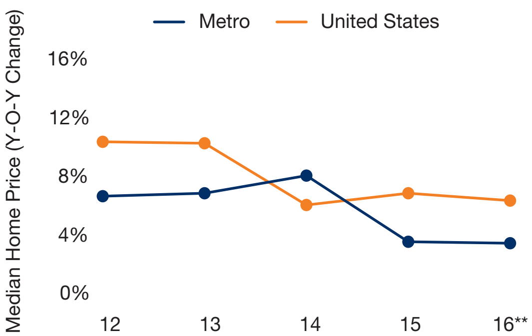
Rents:

Strong apartment demand will keep vacancy below the previous five-year average, encouraging rent gains this year. The average rent will rise 4.2 percent in 2016 to $933 per month. Last year, the average grew 4.4 percent over the 12-month period.

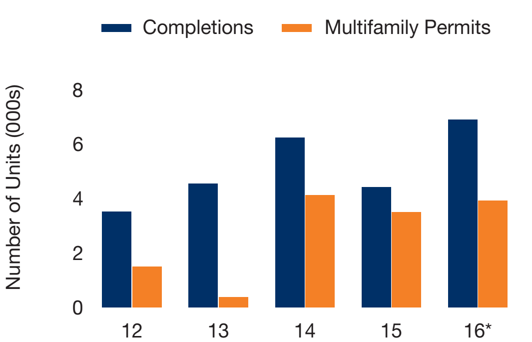
Employment Trends



Home Price Trends



Construction Trends



* Forecast
** Trailing 12 months through 1Q

Economy

- Hiring activity has been robust over the past 12 months ending in March as employers added 27,000 workers to payrolls, a 2.8 percent annual increase. In the first quarter of this year, 8,300 jobs were generated.
- The concentration of new jobs has been primarily among healthcare and social assistance employers and service positions supporting the market's vibrant shopping and recreational industry. Over the past four quarters, almost 9,000 slots were created in retail trade or accommodations and food-services employers.
- At the end of the first quarter, the unemployment rate rested at 3.6 percent, down 20 basis points year over year and a 360-basis-point improvement from the peak reached in the final quarter of 2010.

Outlook: The pace of job growth will remain strong this year with metro employment expected to increase 2.5 percent, or by 25,000 workers, annually.

Housing and Demographics

- Homebuilders are ramping up activity across the metro, pulling an annualized 6,300 single-family permits in the first quarter, similar to the past two first quarters. Conversely, multifamily permitting activity has fluctuated the past two years, with up to 3,000 annualized unit permits pulled this past quarter.
- At the end of March, San Antonio's median household income is approximately 5 percent lower than the national rate, at $53,900, holding relatively steady from last year. Over the past 12 months, the median home price rose 3.4 percent to $198,700 and remains well below the national median by 17 percent.
- Using traditional financing, the gap between average rents at 2000s-vintage apartments and the monthly mortgage obligation on a median-priced home has closed to within $20 of each other as rental rate growth has outpaced home-price appreciation. Yet, residents living in units built before 1990 save over $350 a month as many of these tenants are not able to establish strong credit or an acceptable downpayment.

Outlook: Home-value appreciation has priced most renters out of the housing market in their desired neighborhoods. Additionally, underwriting standards remain a hurdle for potential homebuyers, keeping the rental pool population stable.

Construction

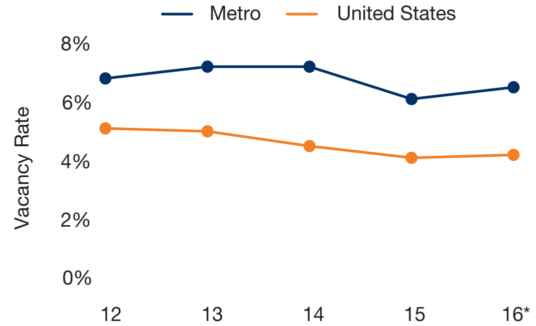
- Builders completed 4,600 rentals during the past year, including more than 1,900 units during the first three months of the year. The largest project completed in this past quarter was Pecos Flats, which contains 384 apartments off the Raymond E. Stolzer Jr. Freeway, west of U.S. 410.
- Approximately 8,200 units are underway in the metro, of which 5,000 rentals are scheduled for completion this year. Several large projects have broken ground, including Triomphe, Wheatly Courts and Luxe Villas at The Rim.
- For apartments opening in 2016, slightly over half are being built between the central areas near downtown and up to the northwest section of San Antonio. Next year, an additional 2,500 units will be completed in the Central San Antonio and the South San Antonio submarkets.

Outlook: After 4,400 units were completed last year, developers will bring 6,900 rentals online in the metro in 2016. Since the latest national recession that started in 2008, apartment inventory has grown by 24 percent. Between the periods of the previous recession, or 2002 to 2007, inventory grew by 15 percent.

Vacancy

- In the first quarter, vacancy increased 100 basis points to 7.1 percent. Over the past 12 months, however, apartment demand increased 2.4 percent. Despite this increase in demand, supply additions outpaced absorption, lifting vacancy 20 basis points annually.
- Over the 12-month period ending in March, vacancy at 1990s- and 2000s-vintage apartments has risen 120 basis points, to 7.2 percent and 7.5 percent, respectively. Meanwhile, vacancy at apartments built before 1990 has tightened, with each vintage recording a decline ranging from 20 basis points to 110 basis points in the last year.
- The market vacancy rate has fluctuated between the high-7 percent area and low-6 percent range since 2010 with an annual average of 4,000 new apartments marketed each year. As demand remains steady, the market's vacancy trend could be largely impacted by lease-up periods as opposed to oversupply.

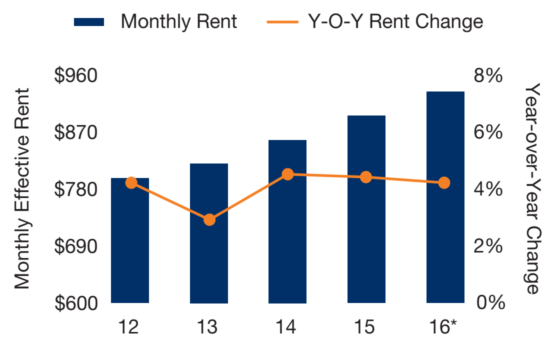
Outlook: In 2016, vacancy will lift 40 basis points to 6.5 percent amid net absorption of 5,100 units. Last year, vacancy dropped 110 basis points.



Rents

- Though operations softened in the metro during the first three months of the year, rents grew at one of the strongest paces since 2008. On a year-over-year basis, the average rent advanced 6.0 percent to $913 per month, following a 5.1 percent rise in the previous annual period.
- Rents topped $1,100 per month in four submarkets during the last year, including Alamo Heights, Central San Antonio, Far North San Antonio and Far Northwest San Antonio. The average ranged from $1,108 per month to $1,238 per month in these submarkets during the first quarter.
- Rent growth was strongest among properties built in the 1970s and 1980s, rising 6.1 percent to $729 per month and $761 per month, respectively. Strong employment gains in the area's blue-collar workforce will continue to support advancing operations in older-vintage assets.

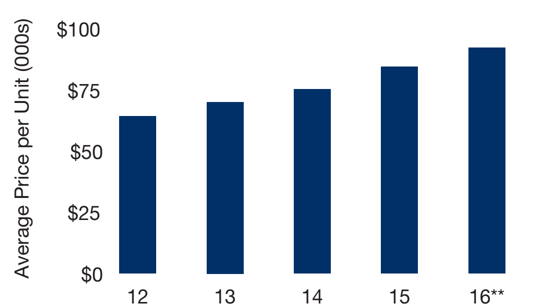
Outlook: The average rent will rise 4.2 percent in 2016 to $933 per month. Last year, the average grew 4.4 percent.



Sales Trends

- Transaction velocity fell 15 percent during the last 12 months, though not due to a lack of interested buyers. A limited number of assets are available for sale, and buyers will continue to compete aggressively for area apartment properties. Complexes in northern submarkets remain popular among buyers, with over 60 percent of deals in the last year occurring in this portion of the metro.
- Aggressive bidding resulted in strong price appreciation in the last four quarters, with the average surging 16 percent year over year to $92,300 per unit. Northern assets typically traded at an average price closer to $100,000 per door.
- A growing pool of buyers and increased competition continues to compress cap rates, with the average falling 30 basis points in the last year to the mid- to high-6 percent area. Initial yields for Class A properties can start as low as 5 percent.

Outlook: Healthy apartment operations and rising property values will continue to draw buyers to the San Antonio apartment market this year, increasing competition for area assets. Growth in southern submarkets will attract buyers to this area of the metro and sales will rise here.



* Forecast
** Trailing 12 months through 1Q
Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- The U.S. economy is resuming its steady pace of growth following an extended period of financial market volatility to start the year. Recent reports have highlighted a stable consumer environment, particularly as the labor market continues to improve. Advancement in commodity prices has reduced strain in the sector, helping oil-related economies bounce back. Meanwhile, commercial credit availability remains robust, prompting a positive outlook over the coming months.
- Interest in the multifamily sector among the lending community is upbeat, particularly as the national vacancy rate slipped to 4.2 percent over the past year. Developer interest is also picking up, with deliveries for 2016 expected to top 285,000 units, nearly 70,000 rentals above the prior calendar year. However, deliveries remain highly concentrated in primary markets, limiting the impact on the national scale. Holistically, broad-based improvement will lead to a mid-single-digit rise in the average effective rent.
- The capital markets environment continues to be highly competitive, with Fannie Mae and Freddie Mac leading the pack, offering fixed-rate 10-year loans with leverage up to 80 percent. Pricing for these two agency lenders currently resides between the high-3 percent range and the low-4 percent range, depending on deal size, market and asset quality. Portfolio lenders will generally offer competitively priced products but will typically require loan-to-value ratios closer to 65 percent. Floating bridge products used for value-add transactions are typically underwritten with loan-to-cost ratios approximating 80 percent, with pricing generally starting at 250 basis points over Libor for recourse and 450 basis points over Libor for non-recourse transactions.

Local Highlights

- Apartment construction has been concentrated in the northern portion of the metro over the past few years; however, developers are also ramping up projects in Central San Antonio and South San Antonio. Builders have more than 2,800 units underway in Central San Antonio, with an additional 1,500 in the southern portion of the metro.
- KB Home recently purchased 75 acres along Highway 211 in the far Northwest portion of Bexar County. The company will use the land to build 234 homes at Texas Research Park, the first residential community within the development. The community's grand opening is scheduled for early 2017.
- The Floodgate, a 55-unit luxury apartment building proposed along the San Antonio Riverwalk, passed another hurdle. Developers are still in the early design phases, but the project will contain three floors of retail space and seven floors for residential tenants. In addition, onsite parking and an automated parking garage have been included in the design to address parking concerns.
- GM's Financial Services Division is expanding in San Antonio's west side, with plans to provide 500 new jobs in the metro. San Antonio's central location within the United States, as well as the skillset of the local workforce, attracted the company to grow here. The new facility will open in the spring of 2017.

Marcus & Millichap

Multifamily Research
Market Report

San Antonio Metro Area

First Quarter 2016

Broad-Based Hiring in San Antonio Fuels Apartment Demand

Job growth facilitating strong tenant demand, driving down vacancy. A diversifying economy is drawing young professionals to San Antonio, stirring the need for area apartments and pushing vacancy to historically low levels. Vigorous advancement in many of the area's job sectors has expanded the employment base over the past few years. In the 12 last months, a boost in hiring in the market's local education and medical communities, as well as the government sector, facilitated 40 percent of job additions. Meanwhile, growth in the area's hospitality industry and trade sectors also signified a large share of employment additions. This widespread growth fueled demand for apartments of all classes as young professionals sought space in new, luxury communities and blue-collar workers penned leases at older assets, pushing down vacancy 110 basis points over the year to its lowest point this business cycle. As job growth remains consistent through the year, tenant demand will stay elevated and operations will tighten further.

Developers, investors begin shifting focus to southern submarkets. A bright economic outlook and strong demographic trends are attracting investors to San Antonio apartment assets, increasing competition for available properties. Improving operations have encouraged many investors to hold on to assets purchased in recent years, riding the strengthening market. As a result, inventory has become limited, fostering a competitive bidding environment. Private, local buyers dominate sales activity, and many are seeking upside potential. Growth in the southern portion of the metro is drawing buyers to these submarkets, and opportunities to create value can be found near areas of redevelopment. As little new inventory has come online in this portion of the metro over the past few years, owners have room to realize significant growth potential. Institutions and REITs, meanwhile, are also becoming more active in the market. These buyers are targeting newly developed, stabilized properties, which trade at cap rates in the low- to high-5 percent area. The completion of thousands of units in the metro over the last several years should satiate these investors' appetites.

2016 Multifamily Forecast

2.5% increase
in total employment

Employment:

Payrolls will rise 2.5 percent this year with the addition of 25,000 workers, pushing the metro's employment base above 1 million workers for the first time. Last year, staffs increased 2.7 percent as the private and public sector created 25,900 jobs.

5,700 units
will be completed

Construction:

Completions will remain elevated in 2016 and builders will complete construction on 5,700 rental units. Apartment stock has risen 15 percent over the past five years.

30 basis point
decrease in vacancy

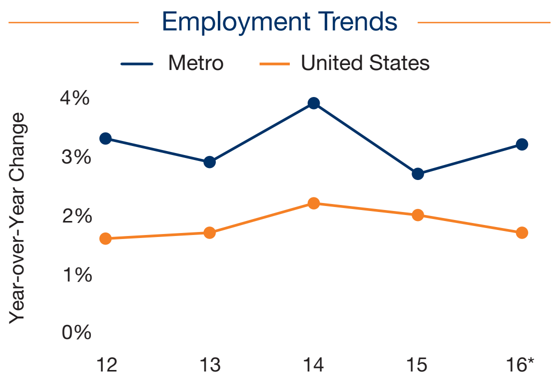
Vacancy:

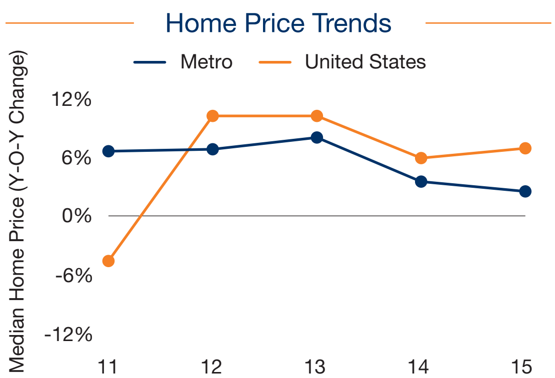
Heightened demand will persist in 2016 and the vacancy rate will tumble 30 basis points year over year to 5.8 percent. Last year, the rate plunged 110 basis points annually.

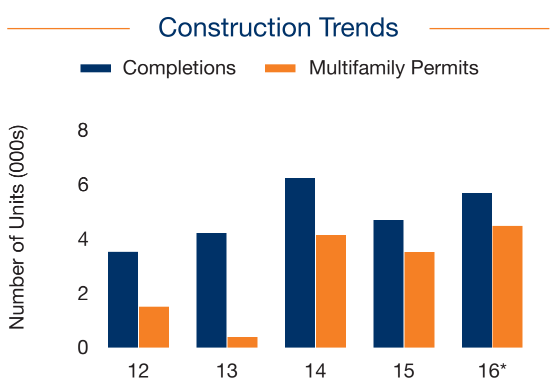
4.2% increase
in effective rents

Rents:

The average effective rent will rise 4.2 percent in 2016, reaching $933 per month. The average advanced 4.4 percent last year.







* Forecast

Economy

- San Antonio employers created 25,900 jobs during the last year, for an annual payroll expansion of 2.7 percent.
- The education and health services industry led employment gains during the last 12 months, generating nearly 5,900 jobs year over year. Government hiring followed as approximately 4,500 workers were added during the same time frame. Natural resources and mining and information employers shed positions during the year, combining for a loss of 2,600 jobs.
- The metro's unemployment rate dipped 10 basis points annually, resting at 3.9 percent in recent quarters. Steady job growth will keep the rate in the high-3 to low-4 percent area this year.

Outlook: Payrolls will rise 2.5 percent this year with the addition of 25,000 workers pushing the metro's employment base above 1 million jobs for the first time.

Housing and Demographics

- Single-family permitting issuance ticked up slightly during the last year as builders were granted 6,300 permits. Meanwhile, multifamily developers pulled 3,500 permits, a decline of 15 percent from one year ago. Construction starts mimicked the same pattern as single-family contractors poured slabs on 3 percent more homes and multifamily builders broke ground on nearly 40 percent fewer units.
- San Antonio home prices are some of the more affordable in the state and the median single-family home price rose just 3.5 percent in the last 12 months to $194,400. The median household income also ticked up during the year, reaching $53,900 annually, approximately $5,000 more than the amount needed to qualify on a median-priced home.
- The monthly mortgage payment for a median-priced residence in the metro, assuming 20 percent down and payments for taxes and insurance, tipped over $1,100 per month, just $15 more than the average rent for an apartment built since 2000.

Outlook: While monthly mortgage payments and rents are the same, the cost of homeownership will keep many young professionals in rental housing. These residents will choose the amenities and convenience that renting provides.

Construction

- Developers completed construction on nearly 4,700 apartments during the last four quarters, expanding stock 2.7 percent during the period. In the prior annual time frame, builders brought more than 6,200 units online.
- There are nearly 7,300 rentals underway in the metro with completion dates scheduled through 2017. The largest project under construction is Triomphe in the Northwest San Antonio submarket. The 396-unit complex was scheduled for delivery in the first quarter.
- Building was concentrated in the Far North Central, Far Northwest and Far West submarkets during the year, where a combined 2,000 apartments came online in the last 12 months. Another 3,000 units are underway in these areas, with all scheduled for delivery by the end of this year.

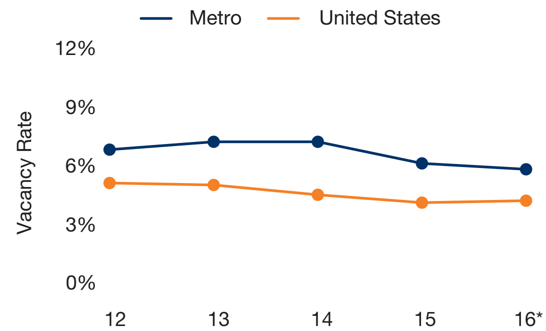
Outlook: Completions will remain elevated in 2016 and builders will complete construction on 5,700 rental units. Apartment stock has risen 15 percent over the past five years.

Vacancy

- After remaining flat in 2014, demand for apartments in the metro strengthened and vacancy tumbled 110 basis points year over year to 6.1 percent. Net absorption for the year totaled nearly 6,300 units.
- Nearly every submarket in the metro realized declines in vacancy over the last year, with the exception of Far North Central San Antonio, New Braunfels/Schertz/Universal City and Southwest San Antonio. Vacancy increases of 90 basis points to 140 basis points were achieved in these areas.
- The vacancy rate ranges from a low of 3.8 percent in Central San Antonio to a high of 9.1 percent in Southwest San Antonio. Far Northwest San Antonio realized the strong decline in the rate during the last year, dropping 300 basis points to 5.8 percent. South San Antonio followed, with a 280-basis-point fall in the rate to 5.5 percent.

Outlook: Heightened demand will persist in 2016 and the vacancy rate will tumble 30 basis points year over year to 5.8 percent.

Vacancy Rate Trends

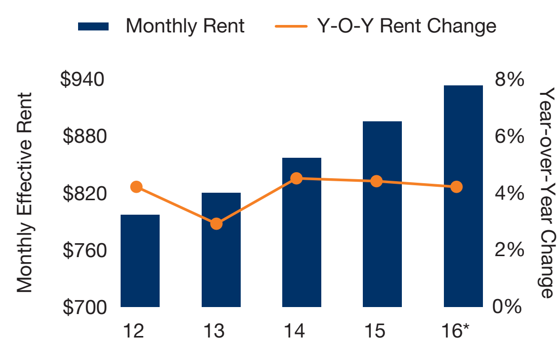


Rents

- Intense apartment demand kept rent growth at an elevated pace as the average effective rent grew 4.4 percent annually to $895 per month. In the prior 12-month period, the average rent advanced 4.5 percent year over year.
- The Alamo Heights submarket was the only area to realize a decline in rent growth over the last year. The average fell 2.6 percent during the last four quarters to $1,161 per month. Throughout the rest of the metro, rents advanced from a low of 0.9 percent in Far North Central San Antonio to a high of 7.8 percent in the Medical Center submarket.
- Approximately 10 percent of units in the metro qualify for concessions. At properties offering leasing incentives, the average for the metro is 6.0 percent of annual rent, or 22 days of free rent.

Outlook: The average effective rent will rise 4.2 percent in 2016, reaching $933 per month.

Rent Trends

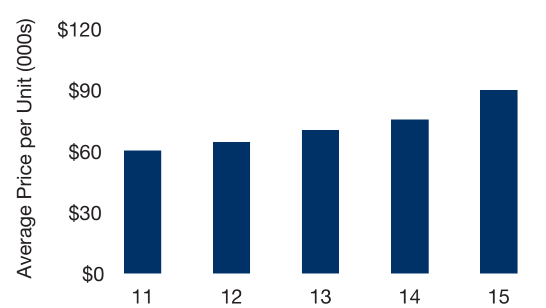


Sales Trends

- Transaction velocity held relatively steady during the last 12 months when compared with the previous year, though not due to a lack of interested buyers. Sales activity was widespread over the year, though 13 percent of deals occurred in the Outer Northwest area.
- Intense bidding for the limited number of available listings resulted in a 19 percent increase in the average price, reaching nearly $90,000 per unit. This was the largest jump this business cycle, pushing the average to nearly double the cyclical low. Prices ranged from $35,000 per unit to more than $200,000 per door, depending on asset location and class.
- After holding steady in the low- to mid-7 percent range for the past four years, the average cap rate slipped 40 basis points year over year to 6.9 percent. Newer, Class A assets traded at initial yields in the low- to high-5 percent area during the period.

Outlook: Out-of-state buyers, primarily from parts of California, are chasing yield in the metro as cap rates in markets closer to home have compressed significantly, further increasing the buyer pool and stiffening competition for the limited number of properties available for sale.

Sales Trends



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Following the first interest rate increase since 2008, the Federal Reserve has promised a measured, patient approach to future rate hikes. Recently, the mixed picture of U.S. economic data has given several members of the bank's monetary policy committee reason to pause. Robust labor market indicators present positive evidence of continued expansion, while manufacturing and inflation expectations have weakened due to the stronger dollar. As a result, the central bank will likely weigh the balance of data over the coming months before enacting additional rate hikes.
- Multifamily housing trends have continued to accelerate over the past year, with the national vacancy rate falling 40 basis points to 4.1 percent. Meanwhile, development remains considerable, although generally limited to primary markets; deliveries in 2015 exceeded 230,000 units for the second straight year, the highest annual total since 2000. However, despite the incredible pace of construction, net absorption surpassed supply growth, supporting a 5.6 percent climb in average effective rental rates.
- Fannie Mae and Freddie Mac are underwriting five-, seven- and 10-year commercial property loans with maximum leverage of 80 percent. Interest rates for these loans will range from 3.7 percent to 4.2 percent, depending on loan structure and maturity, for loans above $3 million. Portfolio lenders, including commercial banks and life insurance companies, offer debt at 65 to 75 percent loan to value on 10-year terms at 3.60 to 4.25 percent. Floating-rate terms typically carry a maximum LTV of 65 percent for stabilized properties, while pricing at a 250- to 425-basis-point spread above Libor. CMBS issuance topped $100 billion last year, but wider spreads have curtailed activity thus far in 2016.

Local Highlights

- Natural resources and mining employment reached its cyclical peak during the fourth quarter of 2014. Turmoil in the energy industry has contributed to a decline of nearly 2,200 jobs in this sector during the last year. While concerns remain, this sector accounts for less than 1 percent of the metro's employment base, keeping its impact minimal.
- Net migration rose 8.4 percent last year, and the population of those ages 20 to 34, our prime renter cohort, also increased. This age tranche grew 1.3 percent, or by 7,000 individuals, and now accounts for 22 percent of the metro's population base. The number of households in the metro also grew 2.4 percent, following a 1.4 percent rise the previous year.
- H-E-B Grocery opened the first grocery store in downtown San Antonio late last year. The store is smaller than its superstore layout at just 12,000 square feet and has much more of a small-market feel. The store does include a parking lot and a gas station and is aiming to target the residents moving and living in the downtown area.
- A local developers is planning to build a 10-story upscale apartment building along the River Walk. The project, dubbed The Floodgate, would have seven floors of residential living and three floors of retail space, including restaurant storefronts along the River Walk.

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Vigorous Hiring Buoys San Antonio Apartment Demand

Job growth will remain robust through the remainder of the year, supporting household formation for all property classes. Several sectors of the metro's employment base added a sizable number of jobs during the last 12 months, further diversifying the economy. The trade, transportation and utilities industry makes up the largest share of metrowide employment, driving demand for older assets throughout the area. A healthy pace of hiring in the leisure and hospitality and construction sectors is also strengthening demand for these units. Average effective rents are advancing at these properties; however, the number of assets built in the 1970s and 1980s offering concessions remains well above the metro average despite making large strides in the last 12 months. Growth in the metro's blue-collar workforce will bode well for operators of these properties and will contribute to strengthening fundamentals in the coming months. In addition, a push in the local medical community and technology industry is creating thousands of well-paying jobs. Young professionals moving into the market underpin the strong performance of recently built properties. Vacancy at apartments built since 2000 has tightened below 5 percent, and the number of these properties offering concessions has dwindled to 3 percent from 14 percent one year ago.

Demand for assets in the metro will remain strong through the remainder of the year as favorable demographics and a bright economic outlook attract investors to the market. New development in the metro is slowing and shifting throughout the area, making way for investors to take advantage of upside potential in new areas. The southern portion of the metro has received little new inventory in the past few years; however, building in this area of the metro is resuming. Buyers in search of creating value will find new opportunities here. Older units near new properties are ripe for repositioning. Capital injections to upgrade units will allow owners to push rents, while management improvements will be enough to bring upside at other assets. Institutions and REITs will remain active in the market, targeting newly constructed Class A deals.

2015 Annual Apartment Forecast

3.2% increase in total employment

Employment: Companies in the metro will add 30,500 jobs this year, expanding payrolls 3.2 percent since the end of 2014, when 31,100 positions were created. Professional and business services firms will continue to lead employment growth in the coming months.

5,500 units will be completed

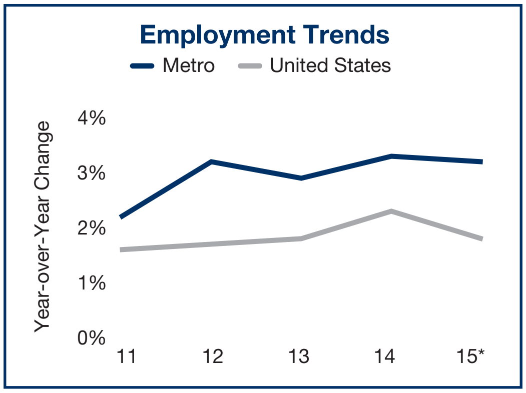
Construction: Approximately 5,500 units will be added to apartment inventory this year, an expansion of 3.2 percent from last year. In 2014, deliveries peaked as builders completed 6,200 apartments in the metro.

200 basis point decrease in vacancy

Vacancy: Heightened demand for housing in San Antonio will result in the absorption of nearly 8,700 units, pushing down vacancy 200 basis points since the end of last year to 5.2 percent. Vacancy remained flat year over year in 2014.

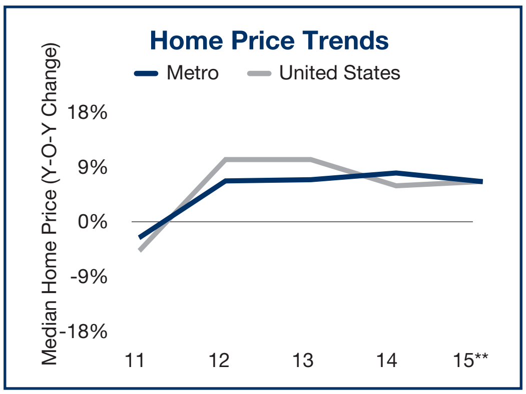
5.8% increase in effective rents

Rents: Tightening conditions will prompt strong rent growth in the metro and by year end, the average effective rent will top $900, rising 5.8 percent year over year. In 2014, the effective rent grew 4.5 percent.



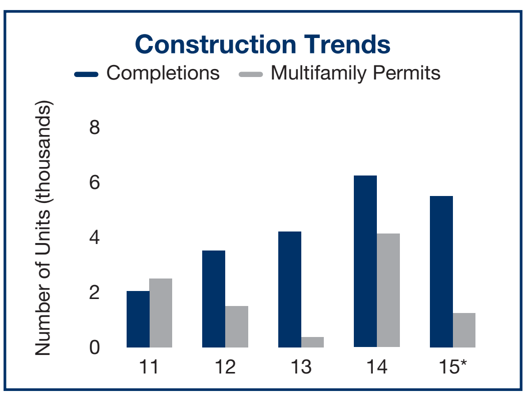
Economy

- San Antonio employers added 13,500 workers to payrolls during the third quarter, bringing the annual total to 35,100 positions, year-over-year growth of 3.7 percent.
- The professional and business services led gains during the last 12 months, adding 8,100 positions. In addition, the leisure and hospitality, financial activities and construction sectors created more than 5,000 jobs each during the period.
- The unemployment rate for the metro compressed to 3.5 percent in the third quarter, down 90 basis points from one year ago.
- **Outlook:** Companies will add 30,500 jobs this year, expanding payrolls 3.2 percent since the end of 2014, when 31,100 positions were created.



Housing and Demographics

- Multifamily permitting activity is down 76 percent from one year ago as builders begin to scale back new developments; in addition, construction starts on new multifamily properties fell 70 percent in the last year. Single-family construction starts ticked up 3 percent during the same time frame, while permitting activity advanced 8 percent.
- Single-family home prices continue to rise in the metro and reached $173,600 in the third quarter, increasing 9.4 percent from one year ago. Meanwhile, the median household income rose 2.7 percent to $59,000 annually, approximately $17,000 more than the amount needed to qualify for a mortgage on a median-priced residence.
- Assuming 20 percent down and payments for taxes and insurance, the monthly payment for a median-priced home is nearly $950. Meanwhile, the average effective rent for an apartment built since 2000 reached $1,093 per month, further widening the spread between owning and renting, with homeownership being more affordable on a month-to-month basis.
- **Outlook:** Job growth is diversifying the metro's employment base and attracting young professionals to the area. Many of these new households will choose renting over buying, seeking the amenities, locations and low-maintenance lifestyle apartments provide.



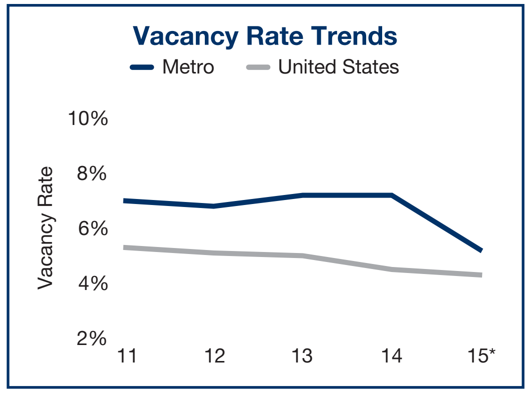
* Forecast
** Trailing 12-month period through 3Q

Construction

- Builders completed 4,900 units in the metro during the last 12 months, increasing apartment stock 2.9 percent.
- Developers remained focused on the northern portion of the metro as 1,100 apartments came online in the Far North Central submarket during the last year. However, no units were delivered in the submarket in the last quarter, and just 300 units are under construction and scheduled to come online in the next 12 months.
- Apartment contractors have shifted their focus to the Far Northwest San Antonio area and nearly 2,300 of the 7,800 apartments underway across the metro are in this submarket. Completion dates for these projects run through the end of next year and all but two projects will add 300 units or more to inventory as they are completed.
- **Outlook:** Approximately 5,500 units will be added to apartment inventory this year, an expansion of 3.2 percent from last year.

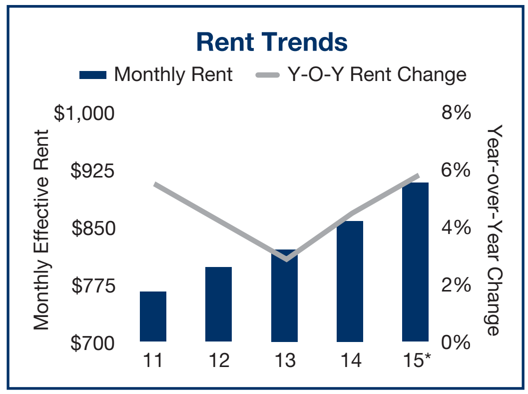
Vacancy

- Strengthened demand for housing in the metro supported a 50-basis-point drop in vacancy to 5.5 percent, an improvement of 90 basis points year over year. In the prior annual time frame, vacancy inched up 30 basis points.
- Vacancy in Central San Antonio tightened 130 basis points in the last year to 3.6 percent, the lowest rate in the metro. Meanwhile, vacancy in Far West San Antonio compressed at the fastest rate, falling 210 basis points to 4.9 percent in the third quarter.
- All but three San Antonio submarket realized declines in vacancy during the last 12 months. Alamo Heights, Far North Central San Antonio and New Braunfels/Schertz/Universal City experienced a rise in the vacancy rate, ranging from 30 basis points to 150 basis points, annually.
- **Outlook:** Heightened demand for housing in San Antonio will result in the absorption of nearly 8,700 units, pushing down vacancy 200 basis points since the end of last year to 5.2 percent. Vacancy remained flat year over year in 2014.



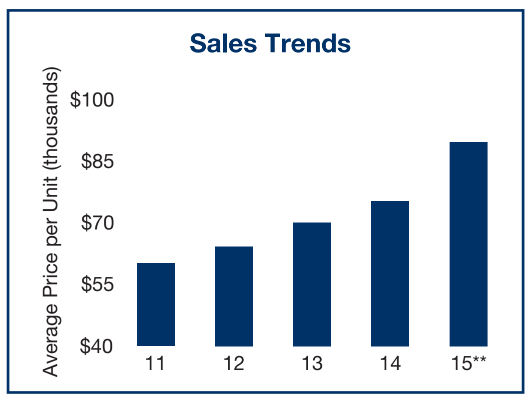
Rents

- Tightening conditions are encouraging strong rent growth and the average effective rent advanced 6.4 percent in the last year, ending the third quarter at $893 per month. One year ago, the average rent for the metro ticked up 2.7 percent annually.
- Outsized effective rent growth was realized in the Southwest San Antonio submarket, as effective rents reached $723 per month on a rent advance of 12.3 percent. An 11.5 percent rise in effective rent in the Airport area pushed up the average effective rent to $854 per month.
- Rent growth was above 5 percent in nearly every submarket, with the exception of Far North Central San Antonio, where rents ticked up 1.8 percent, and Northeast San Antonio, where rent growth was just shy of this threshold at 4.9 percent.
- **Outlook:** Rent growth will remain robust and by year end, the average effective rent will top $900, rising 5.8 percent year over year. In 2014, the effective rent grew 4.5 percent.



Sales Trends

- Transaction velocity dipped slightly in the last 12 months, though not due to a lack of interested buyers. The number of assets available for sale in San Antonio is waning as investors choose to hold on to assets while reinvestment opportunities in the market are limited.
- The average price per unit grew to approximately $89,700 per unit, increasing 20 percent from one year ago. Prices ranged dramatically throughout the metro, stretching from $25,000 per door to just above $200,000 per unit depending on asset location and class.
- Apartment cap rates for the metro average in the low-7 percent range, down 30 basis points from last year.
- **Outlook:** Demand for housing is rising in the southern portion of the metro, and building is resuming in this area. Investors in search of upside will seek assets here where additional capital may be needed in order to upgrade units and push rents.



* Forecast
** Trailing 12 months through 3Q
Sources: CoStar Group, Inc.; Real Capital Analytics

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Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- The Federal Reserve continues to weigh domestic economic trends against greater volatility and softer growth overseas to guide its course on interest rates. The central bank will deliberate again on the Fed Funds rate at two additional meetings this year but may withhold its first rate hike until 2016. Initial movements by the Fed on its overnight lending rate will likely be gradual and measured in order to minimize a potential disruption in U.S. economic growth.
- The yield on the 10-year U.S. Treasury, an important benchmark in real estate lending, has hovered in the low-2 percent range throughout 2015 in response to rising demand for low-risk, fixed-income assets. Long-term rates such as the 10-year U.S. Treasury are not directly tied to short-term rates, or the short end of the yield curve, and thus will be largely insulated from the Fed's actions.
- Agency lenders are underwriting 10-year apartment loans with LTVs at up to 80 percent in select markets and rates ranging from 4.3 percent to 4.7 percent. Portfolio lenders offer similar LTVs at rates from 3.85 to 4.5 percent. Floating bridge loans are issued at LTVs of 70 percent for stabilized assets, with a spread of 250 to 400 basis points above Libor. Value-add deals, meanwhile, attract a spread of 350 to 500 basis points with dollars capped at 60 to 65 percent of cost.
- Total CMBS issuance reached $77.6 billion for all commercial properties year to date through the third quarter and lenders remain on track to issue $100 billion to $125 billion in 2015, a sizable gain from last year. In the apartment sector, CMBS lenders will issue loans at terms of up to 10 years and as much as 80 percent leverage in specific circumstances. Interest rates for good-quality multifamily product start at 240 basis points over the 10-year U.S. Treasury, and have widened slightly recently.

Local Highlights

- Natural resources and mining was the only employment sector to realize losses during the last 12 months. Employers in this industry shed nearly 600 positions year over year as oil and gas prices continued to dip. However, this industry accounts for less than 1 percent of total employment for the metro, minimizing its impact on the local economy.
- The Medical Center area of San Antonio also realized sizable inventory additions in the last year as builders added 1,050 units to stock, including nearly 300 in the third quarter. New deliveries will be slim in the coming months as developers currently have no projects underway in the area.
- The addition of approximately 2,000 units to apartment stock in the Far North Central submarket has softened property operations slightly. Vacancy is the submarket increased 150 basis points year over year, reaching 6 percent in the third quarter. However, building in the submarket is slowing and rising demand for housing in the area will help stabilize newly constructed properties.
- Average effective rents topped $1,000 per month in four San Antonio submarkets. Rents in Central San Antonio, Alamo Heights, Far North Central and Far Northwest San Antonio charge at least $90 more than any other submarket in the area.

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San Antonio Metro Area *Third Quarter 2015*

Diverse Economy Stimulates San Antonio Apartment Market

The San Antonio economy will continue to make strides this year as employment expansion across several sectors diversifies the economy. Leisure and hospitality employers added nearly 3,000 positions in the second quarter, gearing up for several festivals and conventions this fall, including the Alamo City Comic Con and the American Society for Radiation Oncology. In addition, construction payrolls have increased by more than 5,000 workers in the last year, and further growth in these two industries through the remainder of 2015 will stir demand for Class B/C apartments in the metro. Demand for Class A apartments will be driven by job creation in the primary office-using sectors, including the growing technology presence in the metro, as well as the education and health services industry. Several companies are expanding in the Far North Central and North West submarkets, where hundreds of apartments have recently come online. This diversifying economy is becoming more attractive to companies, and as positions are filled and additional businesses target the area for growth, demand for units nearby will rise and further improve the metro's apartment market.

Investors are scouring the San Antonio metro for apartment assets and transaction velocity will be limited only by the number of available properties for sale this year. Institutional buyers and REITs have heightened interested in the San Antonio market, targeting newly constructed Class A deals. Development has been concentrated in the northern portion of the metro, where the majority of these sales have occurred in the last 12 months. More construction projects are beginning in the southern submarkets, however, which could shift some investor attention this direction. Local buyers may also begin seeking additional opportunities in this area, as capital improvements at older complexes will encourage rent advances.

2015 Annual Apartment Forecast

2.2% increase in total employment

Employment: Employment will grow 2.2 percent in the metro with the creation of 20,700 positions. Last year, the addition of 31,100 jobs fostered a 3.3 percent advance.

6,500 units will be completed

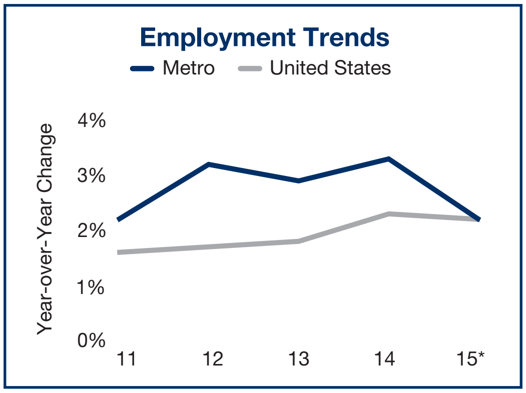
Construction: In 2015, builders will add 6,500 units to the metro, expanding inventory 3.8 percent. Last year, nearly 6,300 apartments were delivered, continuing a pace of strong deliveries.

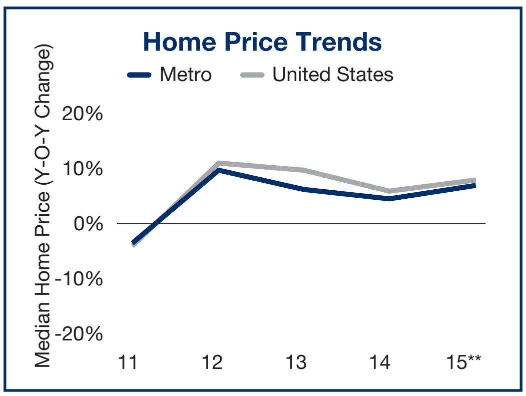
80 basis point decrease in vacancy

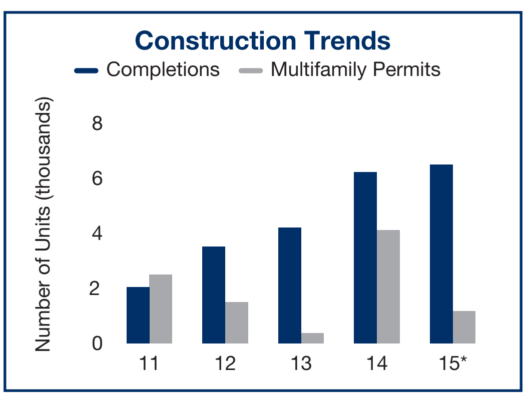
Vacancy: In 2015, vacancy will fall to 6.5 percent, an 80-basis-point drop on net absorption of nearly 5,000 units. Last year, vacancy nudged up 10 basis points as 6,300 rentals were absorbed.

3.0% increase in effective rents

Rents: Average effective rent is expected to grow 3.0 percent this year to $884 per month. In 2014, rents jumped 4.6 percent year over year.







** Forecast*
*** Trailing 12-month period through 1Q*

Economy

- San Antonio employers expanded payrolls 2.8 percent with the addition of 26,500 positions in the 12-month period ending in June. During the same time frame last year, 30,200 jobs were generated, a growth rate of 3.3 percent.
- Nearly every industry realized gains in the last year, diversifying the economy further. Construction payrolls grew at the fastest clip, adding 5,000 laborers, a growth of 11.1 percent from one year ago. The oil and gas industry, however, continues to lag, and 500 jobs were slashed in the natural resources and mining sector during the second quarter.
- Job gains across nearly all employment sectors in the last four quarters helped push down the unemployment rate 90 basis points to 3.7 percent, one of the lowest rates for the metro in more than 15 years.
- **Outlook:** Employment will grow 2.2 percent in the metro with the creation of 20,700 positions. Last year, the addition of 31,100 jobs fostered a 3.3 percent advance.

Housing and Demographics

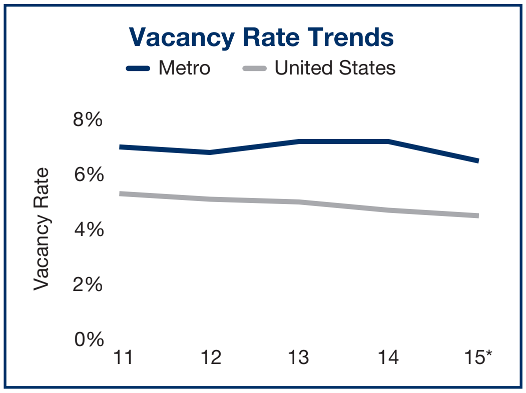
- The San Antonio population is growing at a healthy clip, adding approximately 46,000 residents in the last 12 months. The metro's annual population growth rate of 1.7 percent is 90 basis points above the U.S. national rate, making San Antonio one of the 20 fastest-growing cities among metros observed.
- Population growth is putting upward pressure on household formation with 15,000 households created in the last year, a 1.8 percent annual gain. Median household income grew 4.5 percent over the last 12 months, reaching $55,200 per year, on par with the national average.
- The median price of a single-family home jumped 6.9 percent year over year to $176,000. The monthly mortgage payment for a median-priced home, including taxes, insurance and a 20 percent down payment, is $960 per month, or $100 higher than the average monthly rent for an apartment in the metro.
- **Outlook:** Renting will remain the primary choice for many young professionals moving into the metro due to the relative affordability when compared with homeownership in San Antonio.

Construction

- Developers ramped up construction, delivering 4,800 units the past four quarters, more than double the number of units added to inventory in the same period a year earlier.
- The Tower at TPC was the largest project to come online this year. Completed in the first quarter of 2015, the complex adds 416 units of luxury apartment space to the Far North Central San Antonio submarket.
- More than 8,500 apartment units are currently underway, with approximately half scheduled for completion by year end. Developers are focusing on the Far Northwest and Far North Central San Antonio submarkets; nearly 45 percent of projects are located in these areas.
- **Outlook:** In 2015, builders will add 6,500 units to the metro, expanding apartment inventory 3.8 percent. Last year, nearly 6,300 units were delivered, continuing a pace of strong deliveries.

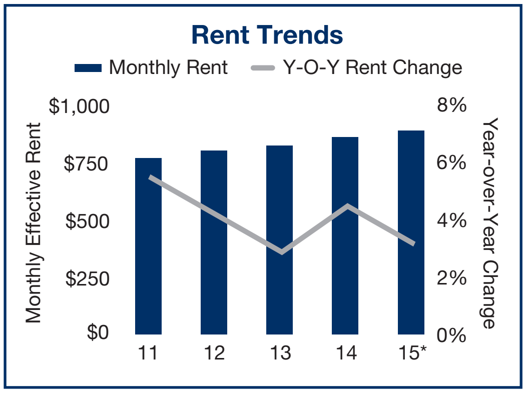
Vacancy

- The combination of completions coming to a near halt in the second quarter and the absorption of 5,800 apartments during the time frame contributed to a 90-basis-point drop in vacancy during the April-to-June period. Year over year, vacancy is down 80 basis points to 6 percent, one of the lowest rates since before the recession.
- Although vacancy is tightest in newer complexes, apartments built in the 1970s and 1980s saw the biggest vacancy change, dropping 120 and 130 basis points, respectively, year over year.
- Renters are most active in submarkets near employment hubs, and strong demand for housing in these areas has pushed up home prices. The Central and North Central submarkets boast the lowest vacancy rates in the metro, reaching 4.0 percent and 4.7 percent, respectively.
- **Outlook:** In 2015, vacancy will fall to 6.5 percent, an 80-basis-point drop on net absorption of nearly 5,000 apartments. Last year, vacancy nudged up 10 basis points as 6,300 units were absorbed.



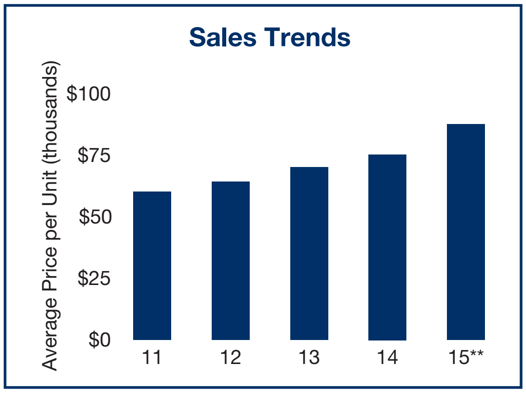
Rents

- Average effective rent increased 2.1 percent in the last quarter to $879 per month. In the last 12 months, rents advanced 5.3 percent as tightening market conditions drove up rates. In the previous year, average rents rose 3.0 percent.
- Apartment buildings constructed in the 1980s realized strong rent growth in response to big drops in vacancy over the past few quarters. On average, residents in these units pay $735 per month, a 5.5 percent swell in the last 12 months.
- The Far Northwest San Antonio submarket is the most expensive in the metro. Units average $1,190 per month, a climb of 6.1 percent from one year earlier. The most affordable apartments are located in the West San Antonio submarket where rents remained flat over the last four quarters at $680 per month.
- **Outlook:** Average effective rent is expected to grow 3.0 percent this year to $884 per month. In 2014, rents jumped 4.6 percent year over year.



Sales Trends

- Transaction velocity slowed in the last four quarters, down 13 percent from the second quarter of last year after remaining flat one year prior. Over one-third of all transactions occurred in the Far North Central and Northwest submarkets where hundreds of new units have come online in recent quarters.
- A rise in sales of Class A apartments contributed to a strong jump in the average price per unit in the metro this year. Properties trading above $20 million had an average price per unit of $120,000. Meanwhile, assets changing hands below $10 million ranged between $30,000 and $50,000 per unit.
- The average cap rate dipped as sales of newer units dominated deal flow. Cap rates for these assets ranged from the low to mid-5 percent range to the low-6 percent range.
- **Outlook:** Cap rates will remain tight as low interest rates allow investors to accept smaller initial yields. Indications from the Fed that rates will rise could spur investment activity as investors considering divesting choose to list and capitalize on low cap rates and interest rates.



** Forecast*
*** Trailing 12 months through 2Q*
Sources: CoStar Group, Inc.; Real Capital Analytics

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Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Despite volatility surrounding economic growth in China and Greece's status in the eurozone, the yield on the 10-year U.S. Treasury is trading near 2.25 percent. Economic data is showing improvement following weak first quarter GDP, with market participants now positioning for the December meeting as the most likely starting point for an interest rate hike. The latest comments from Federal Reserve Chairwoman Janet Yellen, however, indicate that the exact moment is still data-dependent.
- The Federal Open Market Committee has committed to a policy of "lower for longer" as it assuages fears that the first interest rate increase will disrupt the recovery. The first policy rate change is expected to be just 25 basis points, and measures will remain accommodative for some time.
- Agency lenders are underwriting 10-year multifamily loans ranging between 4.3 and 4.7 percent with average LTVs from 55 to 75 percent. Portfolio lenders are offering similar loan-to-value ratios with interest rates between 3.85 and 4.50 percent as underwriters have become more competitive in an effort to do business. Floating bridge loans for stabilized assets will require LTVs of 70 percent and price with a spread between 250 and 425 basis points over LIBOR, while value-add transactions will be underwritten at 80 percent LTV (60 to 65 percent of cost) with a 300- to 475-basis-point spread.
- Total CMBS issuance is expected to top 2014 levels this year as $100 billion to $125 billion is underwritten. A wave of pre-crisis loans will start to come due over the next few years, prompting refinancing as current owners renegotiate the capital structure of their assets. Through April, $35.8 billion in CMBS had been originated, underscoring the availability of credit as credit unions, insurance companies and alternative asset managers expanded their offerings.

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Local Highlights

- The biggest multifamily project currently under construction is Legacy Brooks. The 412-unit apartment complex is located in the South San Antonio submarket and is slated for delivery in early 2016.
- Amazon is looking to hire an additional 300 full-time positions at its fulfillment center in the Northeast submarket. The influx of jobs should help the surrounding apartment market.
- Dalian at Monterrey Village is a 360-unit apartment complex currently underway. Located in the Southwest San Antonio submarket, the development is scheduled for completion later this year.
- While development has been largely concentrated in the Far Northwest and Far North Central submarkets, South San Antonio is beginning to receive more interest. Builders have more than 900 units under construction in the growing submarket.