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SAN DIEGO MSA | MULTIFAMILY | 3Q 2018 REPORT

5+ UNIT PROPERTIES

5+ UNIT PROPERTIES	3Q 2018	INCREASE/DECREASE	3Q 2017
Total Sales Volume	$459M	-33%	$681M
AVERAGE Price/Unit	$192,147	-24%	$251,662
AVERAGE Price/SF	$225.75	-26%	$303.88
AVERAGE Year Built	1967	-3 YRS	1970
5+ Average Rent	$1,958	+6.5%	$1,839
5+ Occupancy Rate	96.7%	NO CHANGE	96.7%
Units Delivered	975	-1%	983

3,337,685 +0.6%
POPULATION
CENSUS 2017 ESTIMATE

3.2% -0.5%
UNEMPLOYMENT
AS OF SEPTEMBER 2018

+1.9%
EMPLOYMENT GROWTH
Y-O-Y AS OF SEPTEMBER 2018

$66,529 +3.5%
MEDIAN HH INCOME
2016 ACS 5-YR EST

$32,482 +3.9%
PER CAPITA INCOME
2016 ACS 5-YR EST

8,591 Units (50+)
UNDER CONSTRUCTION
YARDI

361,003 Units (5+)
TOTAL INVENTORY
AS OF 3Q 2018

ABI GEONEWS - SAN DIEGO MSA 3Q 2018 SELECT NEWS

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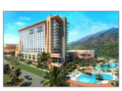
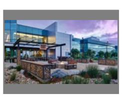
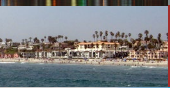
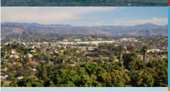
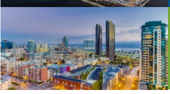

Sycuan to Hire More Than 700 Workers


Amazon to Expand San Diego Tech Hub, Create 300 More Jobs


Stockdale Capital Partners, Buys Moribund Horton Plaza, Plans 'Creative Office' Campus

SAN DIEGO MSA - PER SUBMARKET ANALYSIS

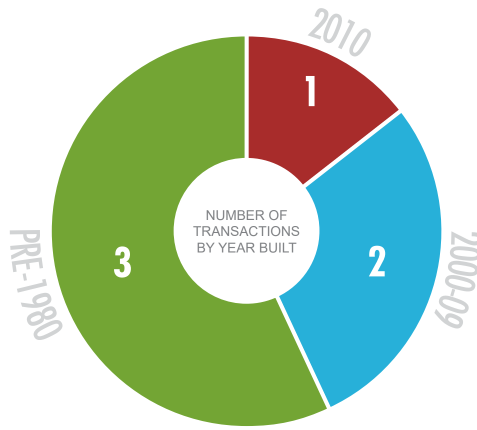
	SAN DIEGO MSA QUICK STATS	UNEMPLOYMENT RATE	MEDIAN HH INCOME	PER CAPITA INCOME	50+	
					TOTAL INVENTORY *	UNDER CONSTRUCTION
	San Diego MSA	3.2%	$66,529	$32,482	183,869	8,591
	North County Coastal	2.7%	$93,140	$59,038	17,519	812
	North County Inland	3.9%	$65,153	$27,923	29,922	157
	East County	4.1%	$63,503	$28,039	25,030	132
	South Bay	4.1%	$52,381	$21,622	24,193	908
	Metro San Diego	3.7%	$68,117	$35,199	94,422	6,582

** Total inventory numbers may vary due to zip/city overlap*

	SAN DIEGO MSA - PER SUBMARKET ANALYSIS	N County Coastal	N County Inland	East County	South Bay	Metro San Diego
RENT & OCCUPANCY STATS	Average Rent (3Q 2018)	$1,972	$1,741	$1,593	$1,678	$2,191
	% Change (y-o-y)	+5.7%	+5.7%	+4.7%	+6.1%	+6.2%
	Occupancy Rate (3Q 2018)	96.9%	96.3%	97.4%	97.4%	96.5%
	% Change from 2017	+0.3%	-0.5%	+0.3%	N/A	+0.1%
	Units Delivered (50+)	138	N/A	88	N/A	749
SALES DATA (50+)	Total Sales Volume (3Q 2018, 50+)	N/A	$30,200,000	$101,287,974	$101,187,500	N/A
	Total Sales Volume (3Q 2017, 50+)	$53,000,000	$140,438,000	$75,232,500	N/A	$230,850,000
	% Change (y-o-y)	N/A	-78%	+35%	N/A	N/A
	Avg P/U (3Q 2018, 50+)	N/A	$187,578	$168,252	$160,107	N/A
	Avg P/U (3Q 2017, 50+)	$441,667	$192,381	$219,732	N/A	$349,773
	% Change (y-o-y)	N/A	-2%	-23%	N/A	N/A
SALES DATA (5-49)	Total Sales Volume (3Q 2018, 5-49)	$30,225,000	$24,252,600	$34,504,009	$15,791,000	$121,057,500
	Total Sales Volume (3Q 2017, 5-49)	$13,344,000	$8,907,500	$17,882,500	$58,183,500	$101,042,909
	% Change (y-o-y)	+127%	+172%	+93%	-73%	+20%
	Avg P/U (3Q 2018, 5-49)	$267,478	$172,004	$212,988	$210,547	$248,069
	Avg P/U (3Q 2017, 5-49)	$256,615	$150,975	$226,361	$191,393	$229,122
	% Change (y-o-y)	+4%	+14%	-6%	+10%	+8%

50+ UNIT PROPERTIES

	3Q 2018	INCREASE/DECREASE	3Q 2017
Total Sales Volume	$233M	-52%	$482M
AVERAGE Price/Unit	$166,792	-39%	$271,958
AVERAGE Price/SF	$187.01	-40%	$309.72
AVERAGE Year Built	1987	-1 yr	1988



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)

Summercrest
National City, 372 Units | $76,000,000
$204,301/Unit | $277.34/SF | Built 1969

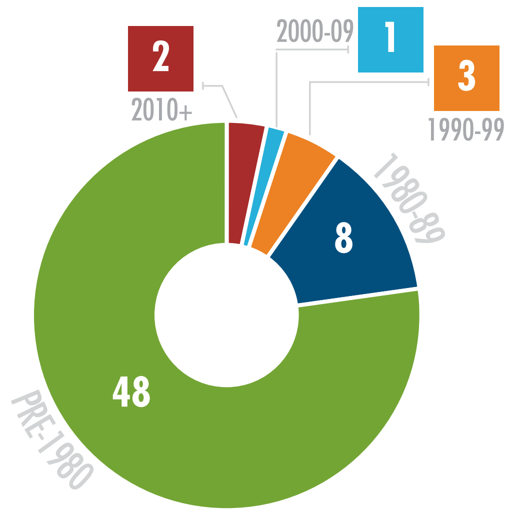
Palm Spring Apartments
La Mesa, 75 Units | $14,500,000
$193,333/Unit | $218.85/SF | Built 1972/81

Grandon Village (Senior/Affordable)
San Marcos, 161 Units | $30,200,000
$187,578/Unit | $267.37/SF | Built 2004

3Q 2018 Transactions by Year Built

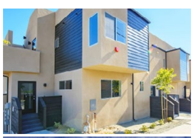
	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	$165K	$121
2000-09	2	$174K	$211
1990-99	0	N/A	N/A
1980-89	0	N/A	N/A
Pre-1980	4	$164K	$223

5 - 49 UNIT PROPERTIES



	3Q 2018	INCREASE/DECREASE	3Q 2017
Total Sales Volume	$226M	+13%	$199M
AVERAGE Price/Unit	$227,803	+7%	$213,220
AVERAGE Price/SF	$286.97	-1%	$290.56
AVERAGE Year Built	1965	-2 yrs	1967

TOP 3 TRANSACTIONS BY PRICE/UNIT (5-49)



1144 Fresno Street
San Diego, 6 Units | $4,350,000
$725,000/Unit | $375.10/SF | Built 2017

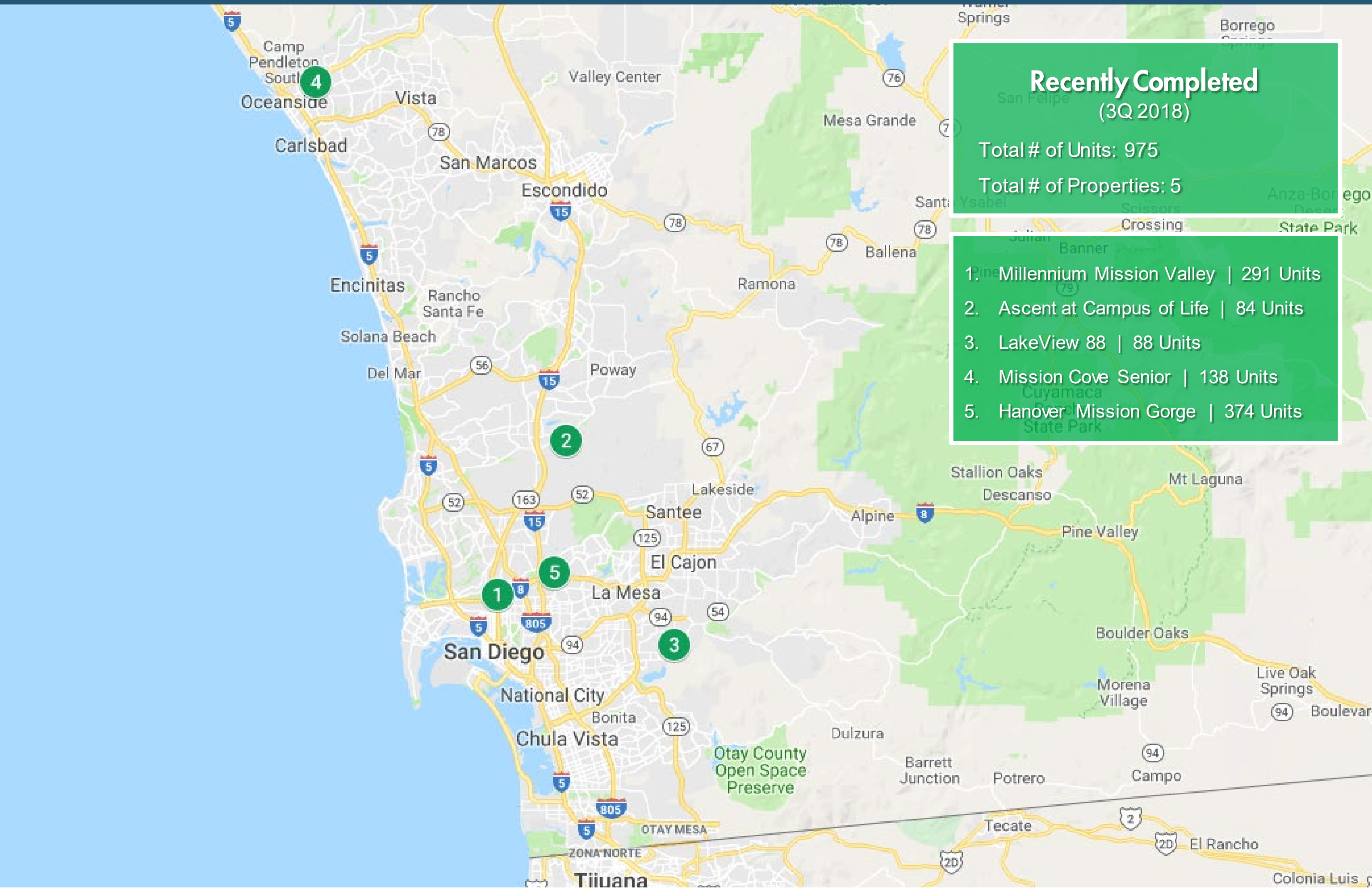
Villa Cusma
San Diego, 40 Units | $21,276,000
$531,900/Unit | $519.26/SF | Built 2012

540 G Avenue
Coronado, 6 Units | $2,490,000
$490,000/Unit | $427.82/SF | Built 1963

3Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	2	$557K	$487
2000-09	1	$131K	$162
1990-99	3	$187	$162
1980-89	8	$245	$355
Pre-1980	48	$216K	$282

COMPLETED CONSTRUCTION



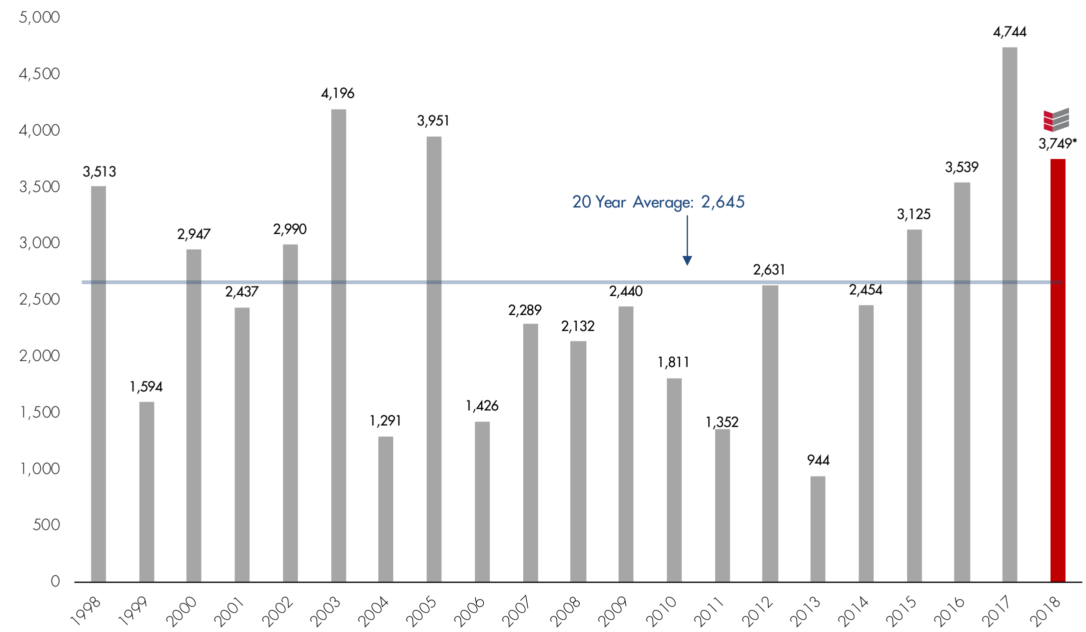
Recently Completed
(3Q 2018)

Total # of Units: 975

Total # of Properties: 5

1. Millennium Mission Valley | 291 Units
2. Ascent at Campus of Life | 84 Units
3. LakeView 88 | 88 Units
4. Mission Cove Senior | 138 Units
5. Hanover Mission Gorge | 374 Units

SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | 3Q 2018



TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: 361,003

50+ UNIT PROPERTIES: 183,869

PRE-LEASE ABSORPTION RATE

17

Units/Property/Month (3Q Avg)

Under Construction

Total # of Units: 8,591

Total # of Properties: 47

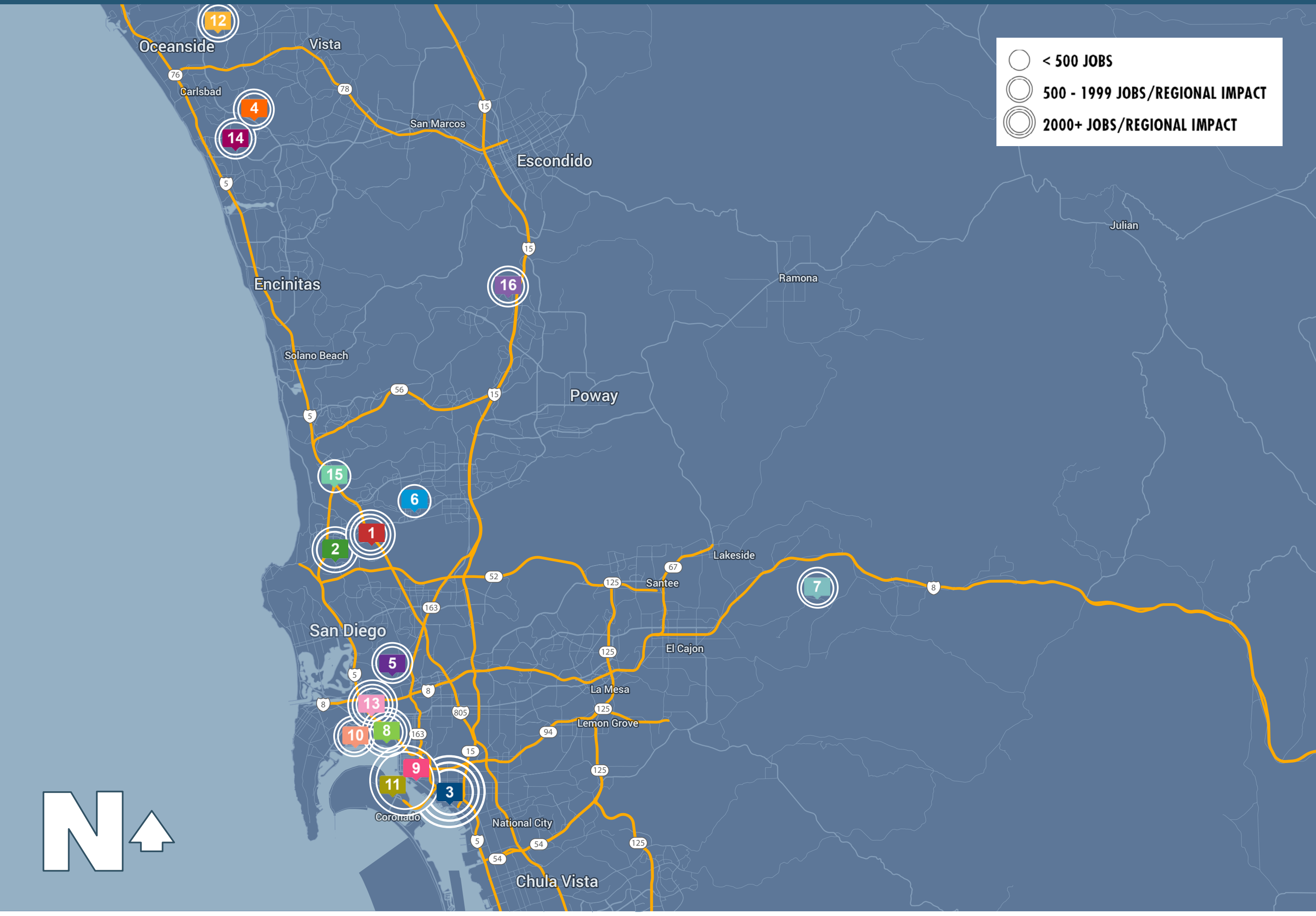
Planned

Total # of Units: 3,163

Total # of Properties: 18

* **Project Units Delivered.** Project units delivered is based on when the total project is completed, not as individual buildings/units are delivered

3Q 2018 SELECT NEWS

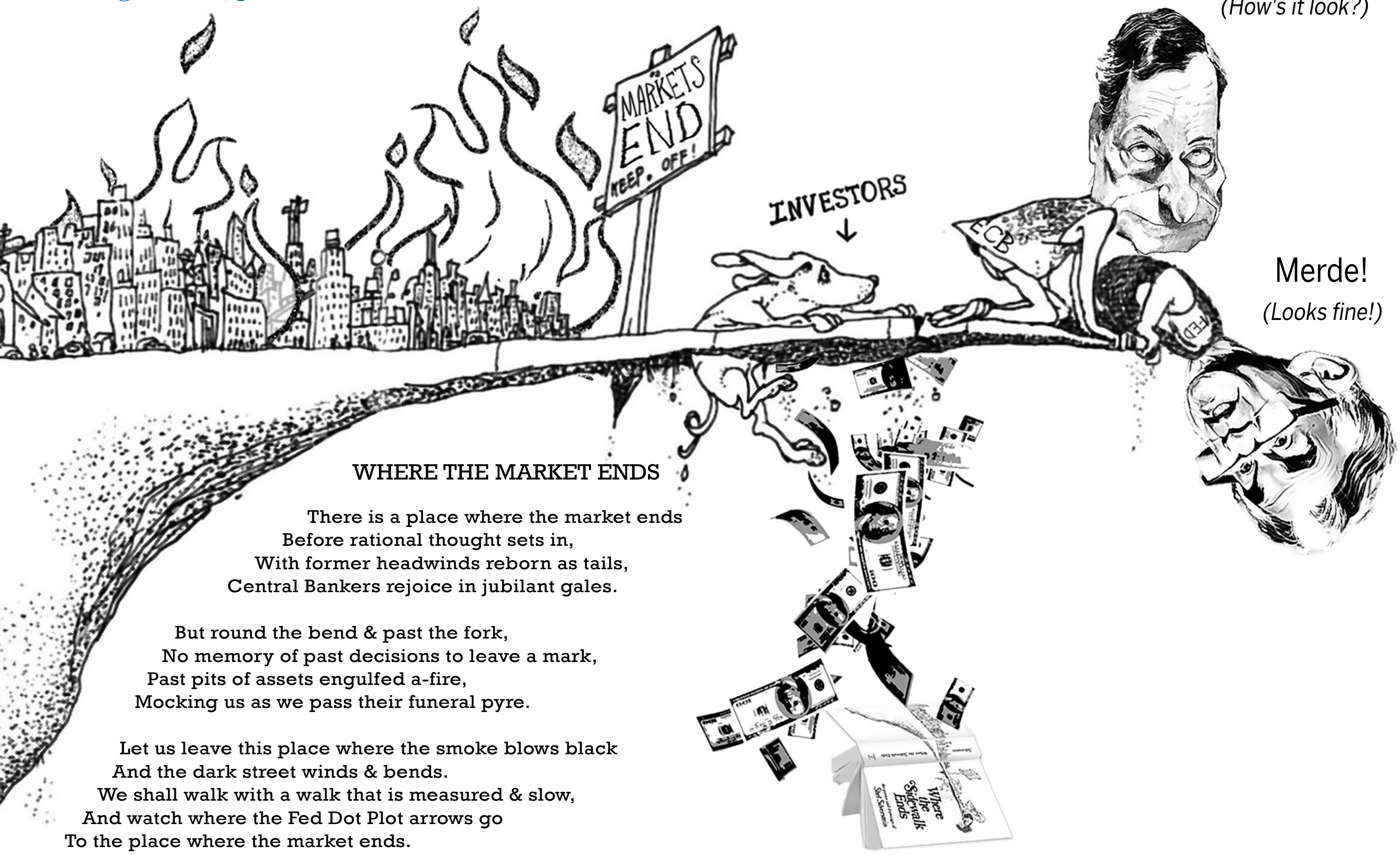


1. Illumina Grows SD Footprint with Manufacturing Facility
2. Eli Lilly's $90M Expansion Doubles Co.'s Local Footprint
3. General Dynamics NASSCO Hiring Up to 1000 Jobs
4. London-based DNA Electronics Chooses Carlsbad for Expansion
5. Mission Valley's Riverwalk: Golf out, 80-acre Park in Plus 4,000 Homes, Offices, Shops
6. Biotech Firm BioLegend Starts Construction on New $100M Campus
7. Sycuan to Hire More Than 700 Workers
8. Stockdale Capital Partners, Buys Moribund Horton Plaza, Plans 'Creative Office' Campus
9. Ritz Carlton, Whole Foods OK'd for East Village, $400M Highrise to Include Apartments, Condos, Offices
10. Airport Board Approves Construction of $229M Inspection Facility to Serve International Arrivals
11. Protea Waterfront Development Selected to Redevelop Seaport Village
12. New Pro Soccer Team to Build Stadium in Oceanside at SoCal Sports Complex
13. $1 Billion Federal Grant to Fund Mid-Coast Trolley Extension New Stations in Mission-Pacific Beaches, VA Medical Center, UCSD and Genesee Ave
14. Hospital Deal to Fuel Downtown Escondido Construction Boom
15. Amazon to Expand San Diego Tech Hub, Create 300 More Jobs
16. Teradata to Relocate HQ to San Diego from Ohio By Year's End, Brings 300 Jobs

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

WHERE THE MARKET ENDS

San Diego MSA 3Q 2018



WHERE THE MARKET ENDS

There is a place where the market ends
Before rational thought sets in,
With former headwinds reborn as tails,
Central Bankers rejoice in jubilant gales.

But round the bend & past the fork,
No memory of past decisions to leave a mark,
Past pits of assets engulfed a-fire,
Mocking us as we pass their funeral pyre.

Let us leave this place where the smoke blows black
And the dark street winds & bends.
We shall walk with a walk that is measured & slow,
And watch where the Fed Dot Plot arrows go
To the place where the market ends.

I'd like to begin with a few sage words from economist, Elliott D. Pollack, whose commentary I find timely and his depth of experience in economic reporting vastly exceeds mine. In his October 29th *Monday Morning Quarterback* newsletter Pollack states, "On the surface, it was a best of times, worst of times type week. Stock market volatility dominated many economic headlines. But, that's unfortunate since most of the economic news was quite good."

Pollack continues, "Take it from someone who has been trying to predict the economy for nearly a half century, projecting the exact timing and depth of a cycle well in advance is tough to do. Yet, we do know this. The economy is likely to continue to do well at least through 2019. There is a great deal of stimulus right now between tax cuts, government spending and consumer spending. It is late in the cycle but there are no signs of it ending at the moment even given the 50-year low in the unemployment rate and the age of this expansion."

San Diego Market Metrics:

By the Numbers

The MSA's total sales volume (5+ unit properties) decreased (33%), year-over-year, to $459M across 71 transactions representing 2,374 total units sold. Sales of 50+ unit properties witnessed an even larger volume contraction, decreasing (51%) y-o-y to $233M. Average price-per-unit (PPU) amount decreased to $166,792 or (39%). 5 to 49 unit properties saw its volume increase 13% to $226M with a 7% increase in average PPU amounts to $227,803.

The San Diego MSA experienced a mild contraction of (1%) y-o-y in 3Q unit deliveries with 975 new units delivered to the market. For 2018, San Diego area developers are on track to deliver 7,200+ new units, the most since the mid-1980s. Despite elevated unit deliveries, Occupancy rates for the MSA remained the same at 96.7% while average rent increased 6.5% to $1,958.

Metro San Diego Submarket claimed the top spot in the MSA for rent growth at 6.2%, followed by South Bay at 6.1%, North County Coastal/Inland tied at 5.7% and East County at 4.7%. The Metro San Diego Submarket continues to claim the top spot in actual average rent which at $2,191 is the highest in the region. In regards to occupancy, East County/South Bay Submarkets tied for #1 at 97.4%, North County Coastal #2 at 96.9%, Metro San Diego #3 at 96.5% and North County Inland #4 at 96.3%.

Where's the Bogeyman?

October's stock market has been on the Disney-equivalent of Mr. Toad's Wild Ride. As of October 29th, the Dow, S&P 500 and Nasdaq were all down 7.7%, 9.4% and 12% respectively. Whether or not this becomes the long awaited market correction is anybody's guess and could certainly be explained by general anxiousness regarding the outcome of the November 6th election. The main result of the stock market's turbulence, as far as I can tell, has been to dint analyst expectations thereby changing, in varying degrees, the economic recovery/ expansion narrative. The essence of narrative, according to famed director Guy Ritchie, is only about the dynamic of the struggle between internal vs external perceptions/realities.

As this is neither the time, nor place, to begin to discuss the infinitude of potential internal perceptions, we are left to discuss possible external probabilities. For that, I turn to John Mauldin (Mauldin Economics) in his Debt Alarm Ringing article where he lays out three 'trigger points' which he believes have the potential to start an economic crisis, or in the least, sufficiently disrupt national/ global growth, namely Corporate Credit Crisis, expansion of a Trade War and slowdown in European growth. Mauldin's main arguments, which I've condensed, are as follows:

Corporate Credit Crisis: As a whole, US companies are significantly more leveraged [due to share buybacks via debt issuance] now than they were ahead of the 2008 crisis. This dynamic has fundamentally changed now that we have a central bank in full Quantitative Tightening (QT) mode.

Trade War: One reason the US economy seems to be booming right now is a surge in imports. Companies are rushing to build inventory ahead of the 25% tariff on Chinese goods that takes effect January 1. Coming on top of usual holiday season stockpiling, it is jamming ports, highways, and warehouses—generating many jobs in the process. [What happens when this 'stockpiling' ends and, more importantly, if the trade war expands?]

European Slowdown: October PMI reports dropped to the lowest point since September 2016, with export-dependent Germany particularly weak. Meanwhile, Italy's new budget is wildly out of line with its revenue and growth prospects. This threatens to set off another euro crisis. And then there's the serious possibility of a hard Brexit in early 2019.

The Central Bank's Market

Make no mistake, after 10 years of near constant interventions (from low rates to Quantitative Easing), it's the Federal Reserve's (and, for that matter, Central Banks writ large) market now. I still believe we are closer to negative rates than we are to 4%+ Fed rates. Why do I think this? Given the length of our current recovery, second longest on record, we are probably closer to a correction than continued expansion. The *caveat emptor*, current growth has been spurred by tax cuts and deregulation which could certainly extend the bull market's rally longer than what many are predicting and beyond current market jitters. When a correction occurs, on average, the Federal Reserve has historically had to reduce rates by 5% before normalizing policy. Given the Fed's current 2.0 to 2.5% target, with more rate hikes expected this year and into next moves the target to 2.5 to 3.0% rather quickly thereby increasing the chances of a market correction, as such negative rates could certainly be on the horizon.

We're now 10 years post-GFC (Great Financial Crisis), and in the middle of what has been dubbed the 'silver tsunami' with many Boomers at or near peak retirement age. As most financial planners espouse, the closer one gets to retirement the need to diversify into safer, less volatile investments becomes more imperative. Said differently, stable, cash flowing assets are the boat to ride the tsunami. As we settle into this new investment demographic normal, and my final question/thought, suppose real estate return rates mean revert to average historical levels of 3.8%, across the board, and average rental rates soften to 2%+, contingent upon market, where else are you going to find a better return? Investors are slowly beginning to wake up to this new market reality and, my best guess without the benefit of a future indicating magical crystal ball, is that multifamily is where they will want to be.

ABI COMPARATIVE MARKET REVIEW: 3Q 2018

		SAN DIEGO	PHOENIX	TUCSON	SACRAMENTO
DEMOGRAPHICS	Total Population	3,317,749	4,737,270	1,026,099	2,296,418
	Unemployment Rate (as of Sept '18)	3.2%	4.2%	4.5%	3.4%
	Employment Growth (y-o-y)	1.9%	3.8%	2.4%	1.1%
	Median HH Income	$66,529	$55,547	$46,764	$62,813
	Per Capita Income	$55,168	$43,249	$39,541	$51,370
RENT/OCC/CONST (50+)	Rent (3Q 2018)	$1,958	$1,067	$859	$1,480
	% Increase / Decrease	+6.5%	+6.4%	+6.2%	+6.9%
	Occupancy (3Q 2018)	96.7%	95.2%	94.7%	96.3%
	% Increase / Decrease	NO CHANGE	+0.4%	+0.3%	-0.6%
	Total Inventory (50+)	183,869	306,162	67,143	127,430
	Total Under Construction (50+)	8,591	15,737	803	3,455
	Units Delivered (50+, 3Q 2018)	975	2,758	50	142
SALES (50+)	Total Sales Volume (3Q 2018)	$233M	$1.82B	$279M	$407M
	y-o-y % Increase / Decrease	-52%	+32%	+22%	+130%
	Average P/U (3Q 2018)	$166,792	$141,319	$109,745	$163,913
	y-o-y % Increase / Decrease	-39%	+15%	+62%	-8%

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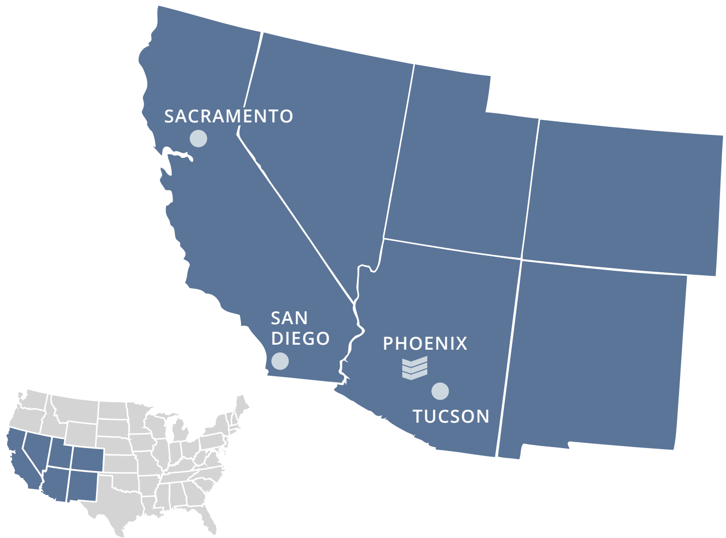

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