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SALES VOLUME
Sales volume in the third quarter totaled $46.0 billion, down 7.3% year over year, while 12-month sales volume increased 8.8% to $183.7 billion nationally. Non-major markets have been the recipient of 70.0% of total investment sales volume over the past year, with Sunbelt markets such as Charlotte, Tampa and Raleigh-Durham all exceeding 30.0% annual volume growth.

CAP RATES
Yields compressed 9 basis points year over year to 5.34% nationally, while cap rates expanded 5 basis points in major markets and compressed 12 basis points in non-major markets. Cap rates have remained steady despite a 32-basis-point quarter-over-quarter decline in the 10-year treasury market to 1.68%, the lowest level since the third quarter of 2016.

RENT GROWTH
Annual effective rental growth increased to 3.2% nationally, up 60 basis points year over year. Las Vegas and Phoenix remain the top markets for effective rental growth year over year at 8.0%. This marks the third consecutive quarter in which these two Southwest markets have led the nation. Strong property level rental growth has also contributed to net operating income accelerating to 6.83%, up 255 basis points year over year.

SUPPLY AND DEMAND
Year to date, new supply has totaled 189,753 units, while demand has reached 295,738 units, outpacing new supply by 105,985 units. Despite high levels of new supply nationally, 61.1% of new deliveries over the past 12 months have been delivered in the top 20 markets. Charlotte and Dallas have experienced the strongest inventory growth on a percentage basis, whereas demand has been especially strong in New York, with demand outpacing new supply by 10,329 units.

INTERNATIONAL CAPITAL
Direct acquisitions by international capital sources totaled $17.1 billion over the past 12 months, representing a 44.1% increase year over year. Canada remains the top buyer of U.S. multifamily, accounting for 65.1% of acquisitions by international capital sources, led by Brookfield Asset Management. Additionally, international investors have continued to shift money out of major markets and into non-major markets with higher growth potential.

DEBT MARKETS
Mortgage debt outstanding for multifamily grew $24.4 billion to $1.5 trillion, a 1.7% quarter-over-quarter increase. The four major lenders (GSEs, banks and thrifts, life insurance companies and CMBS) all increased their holdings quarter over quarter, as debt capital remains resilient. FHFA’s recent announcement allowing Fannie Mae and Freddie Mac to produce $200 billion over the next five quarters is expected to sustain the debt market for the foreseeable future.
Quarterly sales volume totaled $46.0 billion, representing a 7.3% year-over-year decrease compared with third-quarter 2018. Over the trailing 12 months, sales volume rose to $183.7 billion, 8.8% higher than the previous 12-month totals, while portfolio and entity-level transactions have accounted for 23.4% of the overall market.
Capital continues to gravitate toward non-major markets, as 70.0% of acquisition volume over the past 12 months occurred outside of the six major markets. Key Sunbelt markets have experienced a surge in 12-month volume, led by Charlotte with a 47.6% increase—in addition to Tampa (40.8%) and Raleigh-Durham (39.8%).


Source: NKF Research, Real Capital Analytics
The 10-year treasury rate declined 32 basis points quarter over quarter to 1.68%, the lowest level since the third quarter of 2016. The yield spread between cap rates and the 10-year treasury rate increased to 366 basis points, up from 238 basis points in the third quarter of 2018.
Over the past 12 months, total returns nationally have averaged 5.4%. Strong fundamentals and above-average effective rental growth have propelled several Sunbelt markets such as Phoenix, Tampa, Orlando and Austin to outperform the national average.
Cap rates compressed marginally, falling 9 basis points year over year to 5.34% nationally. Over the past 12 months, cap rates in major markets expanded 5 basis points, while yields in non-major markets have compressed 12 basis points, as investors continue to seek out suburban garden deals in non-major markets.
The average price per unit increased nationally 8.1% year over year to $181,762 in third-quarter 2019. Average price per unit increased 13.8% in major markets and 6.2% in non-major markets. Although major markets have outperformed non-major markets recently, over the past five years, non-major market pricing has increased 48.5% compared with 27.3% in major markets.


Source: NKF Research, Real Capital Analytics (Transactions $10 million and greater)
Portfolio and entity-level transactions continue to be substantial drivers of the market, including the top buyers and sellers over the past 12 months. Year to date, there have been four portfolio trades in excess of $1.0 billion. The largest trade in the third quarter was Cortland’s entity-level acquisition of a 7,085-unit core-plus portfolio with assets in the major Texas markets and Phoenix for $1.2 billion from Pure-Multifamily REIT.
61.2% of all U.S. multifamily capital flows have in the past year have come from private companies, inclusive of developers-owners-operators. Institutional/equity funds and Listed/REITs have been net sellers over the last 12 months, whereas all other investor types have been net buyers.
Based on trades over the past 12 months, Atlanta, Charlotte and Raleigh-Durham have seen the highest turnover, as investors cycle out of value-add properties. Conversely, multifamily assets in safe haven markets such as New York, Seattle and Washington, DC, have lower cap rates and therefore tend to require longer hold times to achieve returns.
Robust demand and rental growth have contributed to net operating income accelerating to 6.83% in third-quarter 2019, up 255 basis points versus the previous year. In addition to recent outperformance, multifamily net operating income growth since 2000 has averaged 4.97%, while all property types have lagged at 3.05%.
Direct acquisitions by international capital sources totaled $17.1 billion over the past 12 months, representing a 44.1% increase year over year. Canada remains the top buyer of U.S. multifamily, accounting for 65.1% of acquisitions by international capital sources, led by Brookfield ($5.7 billion) and Tricon ($1.4 billion).

**BY COUNTRY**

- **Canada**: 65.1%
- **Bahrain**: 8.5%
- **Israel**: 5.8%
- **Netherlands**: 3.1%
- **Switzerland**: 2.2%
- **UK**: 2.0%
- **Qatar**: 2.1%
- **Japan**: 2.1%
- **China**: 1.4%
- **Other**: 7.5%

**TOP BUYERS (DOLLARS IN MILLIONS)**

- **Brookfield (Canada)**: $5,650
- **Tricon (Canada)**: $1,400
- **Investcorp (Bahrain)**: $1,447
- **PSP Investments (Canada)**: $915
- **Starlight Investments (Canada)**: $555
- **Delek Group (Israel)**: $479
- **Global Holdings (Israel)**: $441
- **Western Wealth Capital (Canada)**: $428
- **QIA (Qatar)**: $365
- **Low Tide Properties (Canada)**: $311
- **OMERS (Canada)**: $305
- **Aegon (Netherlands)**: $282
- **BentallGreenOak (Canada)**: $254
- **KIH (South Korea)**: $238
- **H&R REIT (Canada)**: $222

*Source: NKF Research, Real Capital Analytics*
Over the past 12 months, international investors have continued to shift money out of major markets and into non-major markets with higher growth potential. Markets in the Southeast have continued to attract multifamily investment because of their growing numbers of workers and lower costs of living.


By market tier:
- Major Markets 39.3%
- Non-Major Markets 60.7%

By region:
- Mid-Atlantic 13.5%
- Midwest 8.0%
- Northeast 19.7%
- Southeast 23.3%
- Southwest 18.2%
- West 17.3%

Source: NKF Research, Real Capital Analytics
Annual effective rental growth increased to 3.2% nationally, for an increase of 60 basis points year over year. Furthermore, annual effective rental growth is 70 basis points higher than the long-term average of 2.5%.
Las Vegas and Phoenix remain the top markets for effective rental growth year over year at 8.0%. This marks the third consecutive quarter in which these two Southwest markets have led the nation.

Effective rental growth is expected to rise 100 basis points over the next 12 months.

US Annual Average Effective Rent Growth = 3.2%
With 117,300 non-farm jobs added over the past 12 months, Dallas has added more new jobs than any other market in the country in nominal terms. In addition to Dallas, Raleigh-Durham (3.2%), Seattle (3.3%) and Orlando (3.7%) were the fastest-growing employment markets over the past 12 months.
Year to date, new supply has totaled 189,753 units, while demand has reached 295,738 units, outpacing new supply by 105,985 units. A strong economy and positive demographic trends have pushed annual occupancy to 95.7%, the highest level this cycle.
Despite high levels of new supply nationally, 61.1% of new deliveries over the past 12 months have been delivered in the top 20 markets. Charlotte (3.7%) and Dallas (2.8%) have experienced the strongest inventory growth on a percentage basis, whereas demand has been especially strong in New York, with 23,415 units absorbed in the past 12 months, outpacing supply by 10,329 units.

[Diagram showing new supply, demand, and inventory growth for select markets, with data points for each city.]
Mortgage debt outstanding for multifamily grew $24.4 billion to $1.5 trillion, a 1.7% quarter-over-quarter increase. GSEs, banks and thrifts, life insurance companies and CMBS lenders all increased their holdings quarter-over-quarter, as debt capital remains plentiful for well-positioned multifamily assets.
Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.

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