



2009

APARTMENT TRENDS

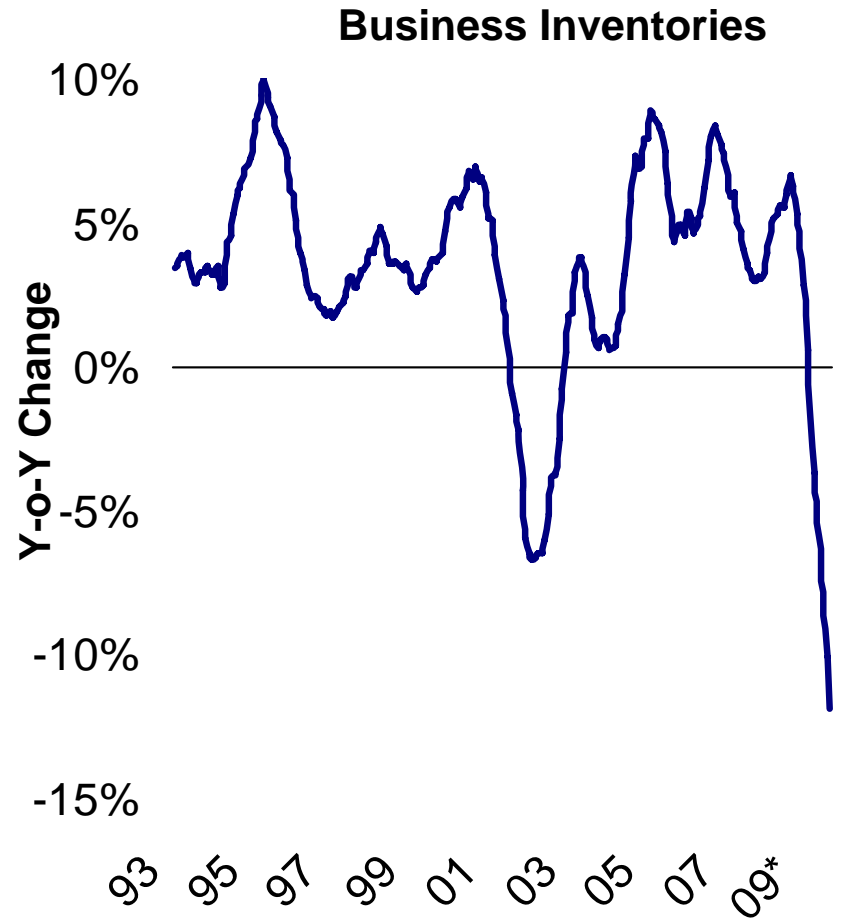
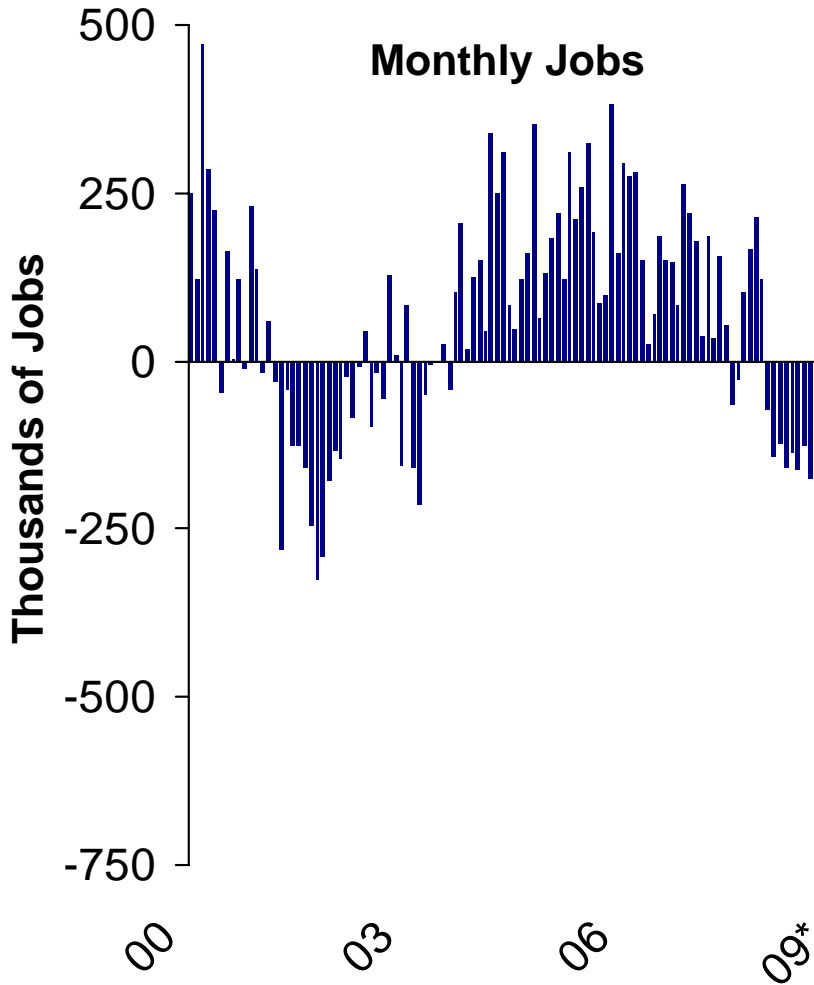
A National Multifamily Market Overview

Linwood C. Thompson
Managing Director
NMHG

Hessam Nadji
Managing Director
Research Services

Marcus & Millichap
NATIONAL MULTI HOUSING GROUP

Moderation in Job Losses Signals End of Recession Approaching



* Employment Through September, Inventories Through July

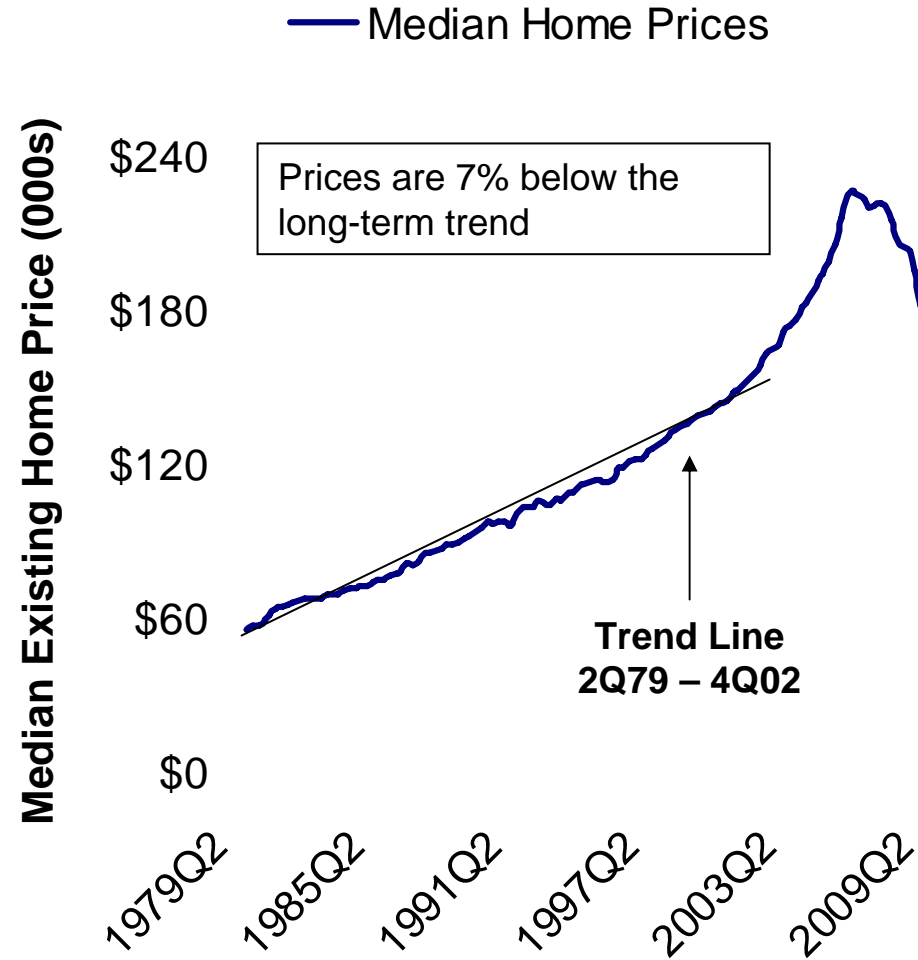
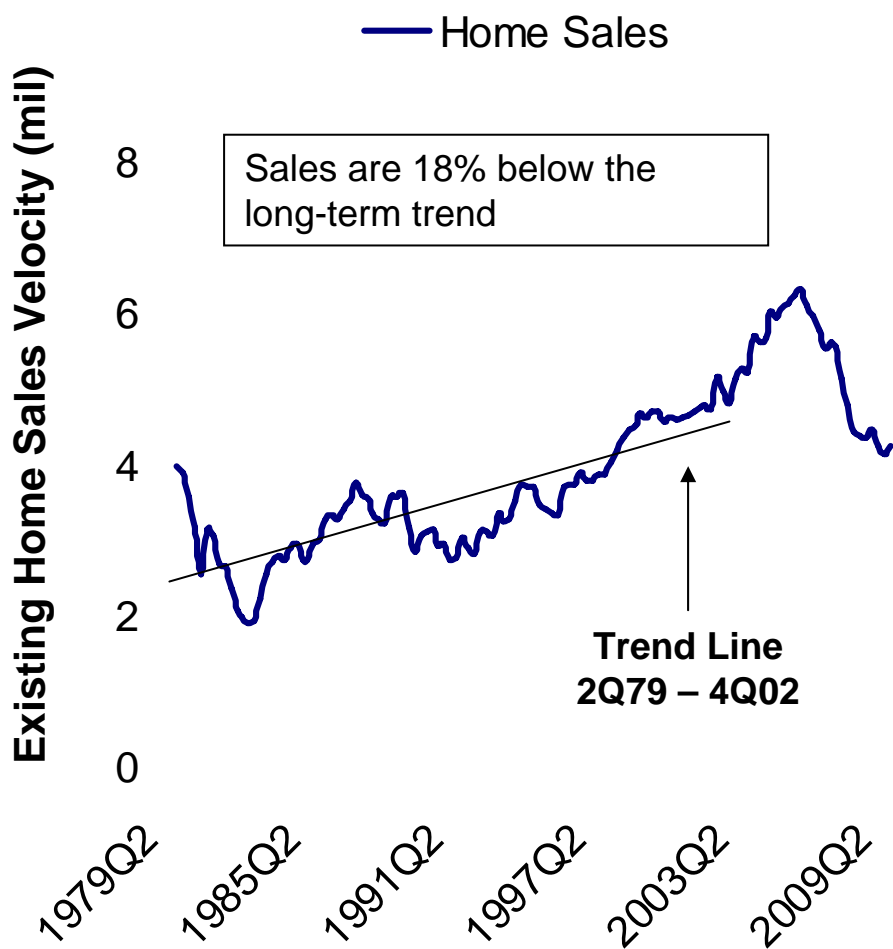
Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics

Employment Ranking by Metro Y-O-Y Change – August 2009

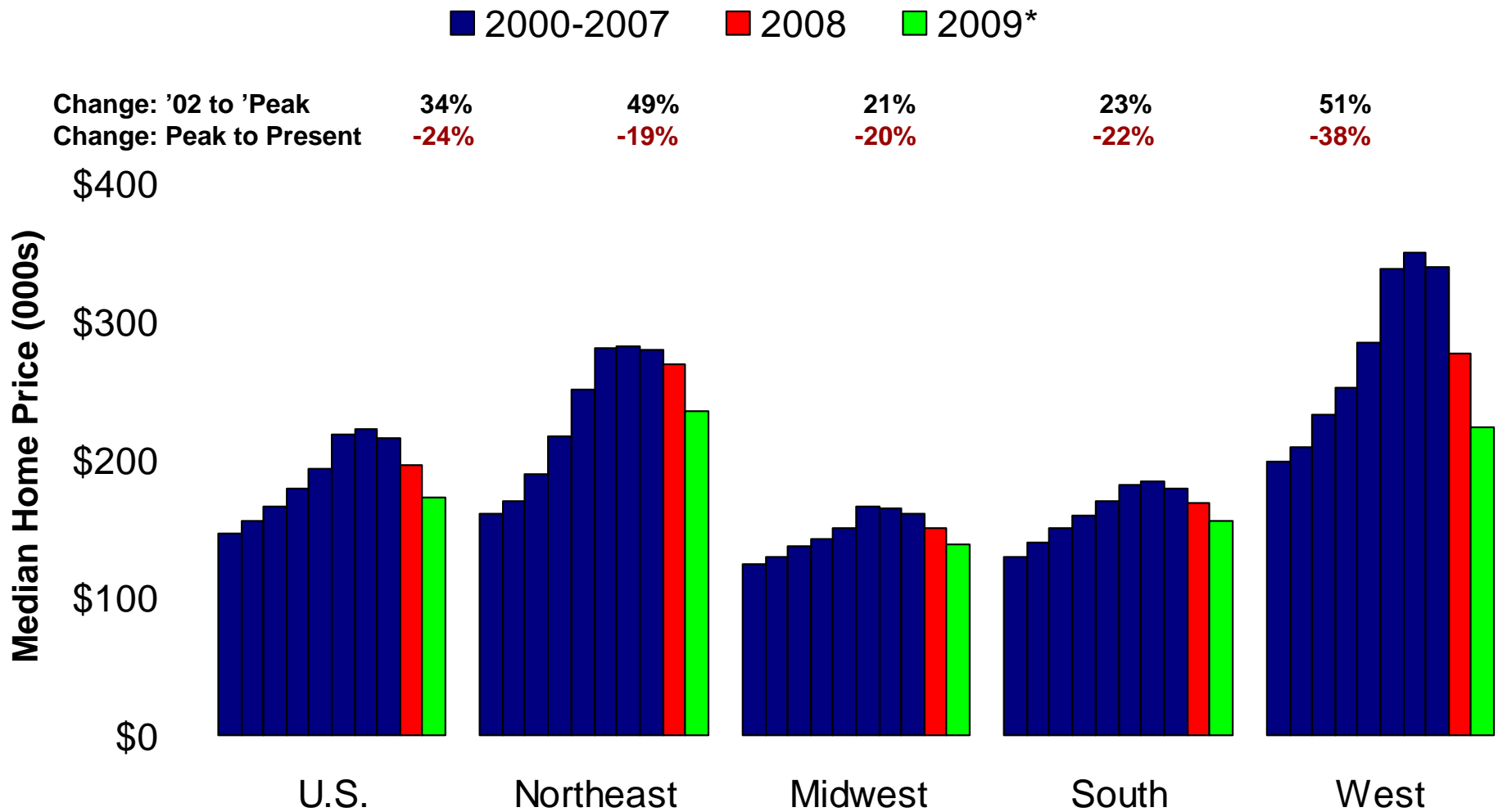
Top 15 Markets	Abs Change	% Change
San Antonio	(6,925)	-0.8%
Austin	(6,908)	-0.9%
Northern New Jersey	(14,108)	-1.4%
Washington, D.C.	(41,590)	-1.4%
New York	(100,800)	-1.9%
Oklahoma City	(11,000)	-1.9%
Dallas-Fort Worth	(63,602)	-2.1%
Columbus	(20,800)	-2.2%
Kansas City	(24,000)	-2.3%
Baltimore	(37,600)	-2.9%
Miami	(31,300)	-3.0%
Boston	(84,204)	-3.4%
Philadelphia	(97,500)	-3.5%
West Palm Beach	(19,500)	-3.6%
Houston	(95,239)	-3.6%
U.S.	(5,843,000)	-4.3%

Bottom 15 Markets	Abs Change	% Change
Salt Lake City	(29,600)	-4.6%
Chicago	(210,700)	-4.6%
Orlando	(51,900)	-4.8%
San Jose	(45,000)	-4.9%
San Francisco	(50,500)	-5.1%
Portland	(61,400)	-5.9%
Tucson	(23,200)	-6.0%
Cleveland	(63,800)	-6.0%
Milwaukee	(51,700)	-6.1%
Charlotte	(53,500)	-6.2%
Atlanta	(151,800)	-6.3%
Inland Empire	(78,700)	-6.5%
Las Vegas	(60,141)	-6.6%
Phoenix	(148,300)	-8.0%
Detroit	(157,900)	-8.3%
U.S.	(5,843,000)	-4.3%

U.S. Existing Single-Family Home Price and Sales Trends

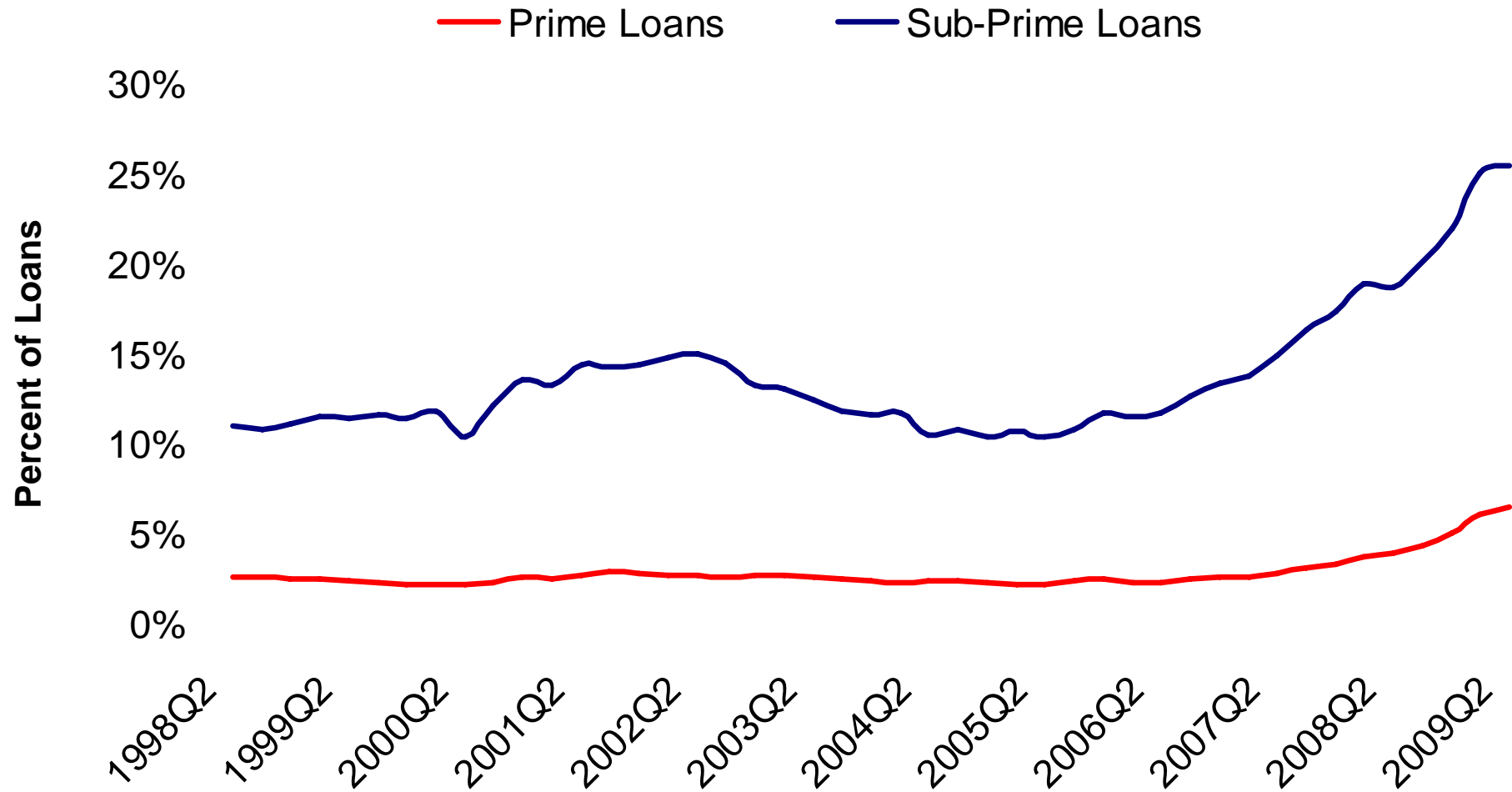


U.S. Existing Single-Family Home Price Trends

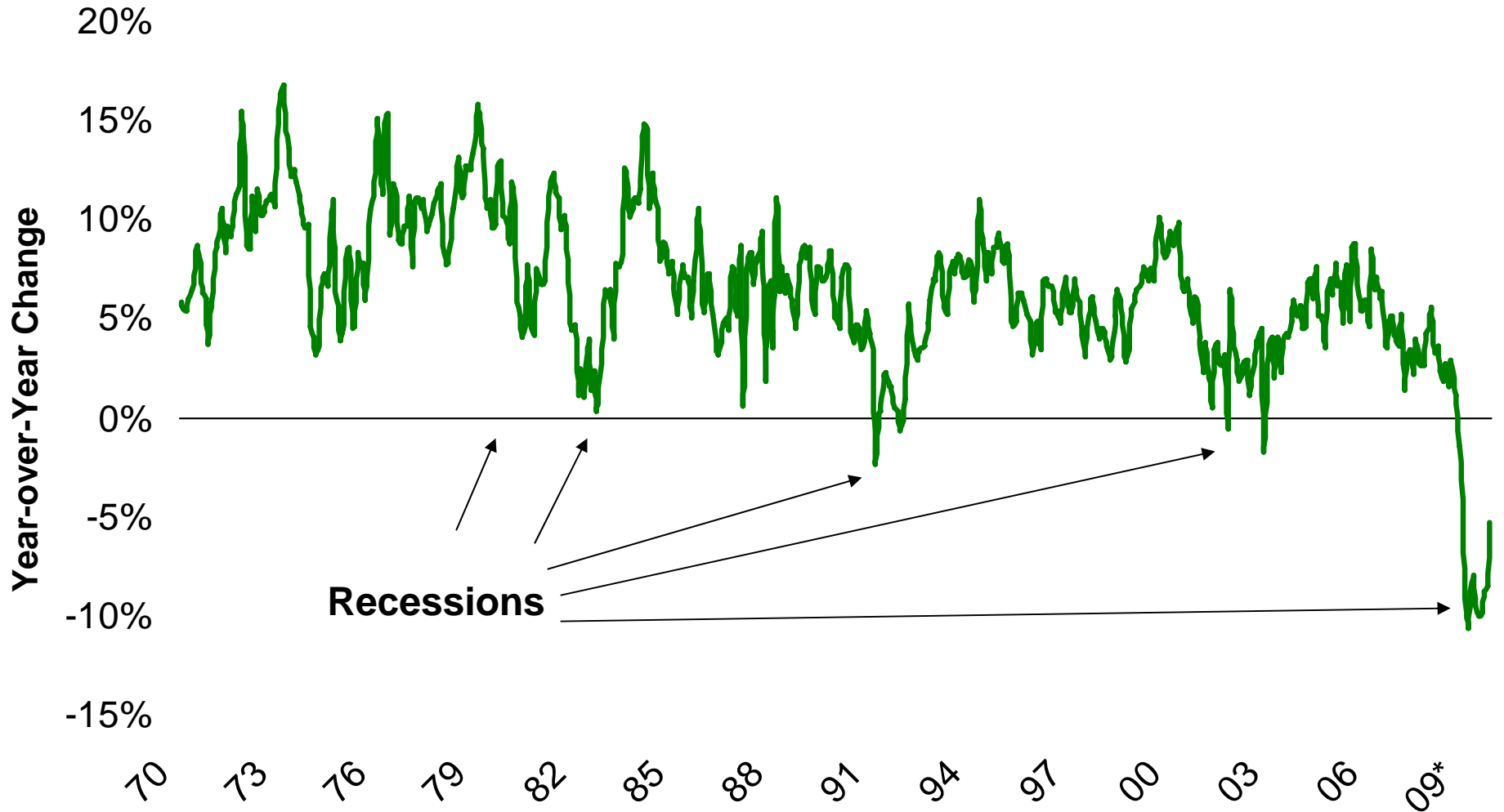


* Through August

Percent of Residential Loans Past-Due 90 Days or More



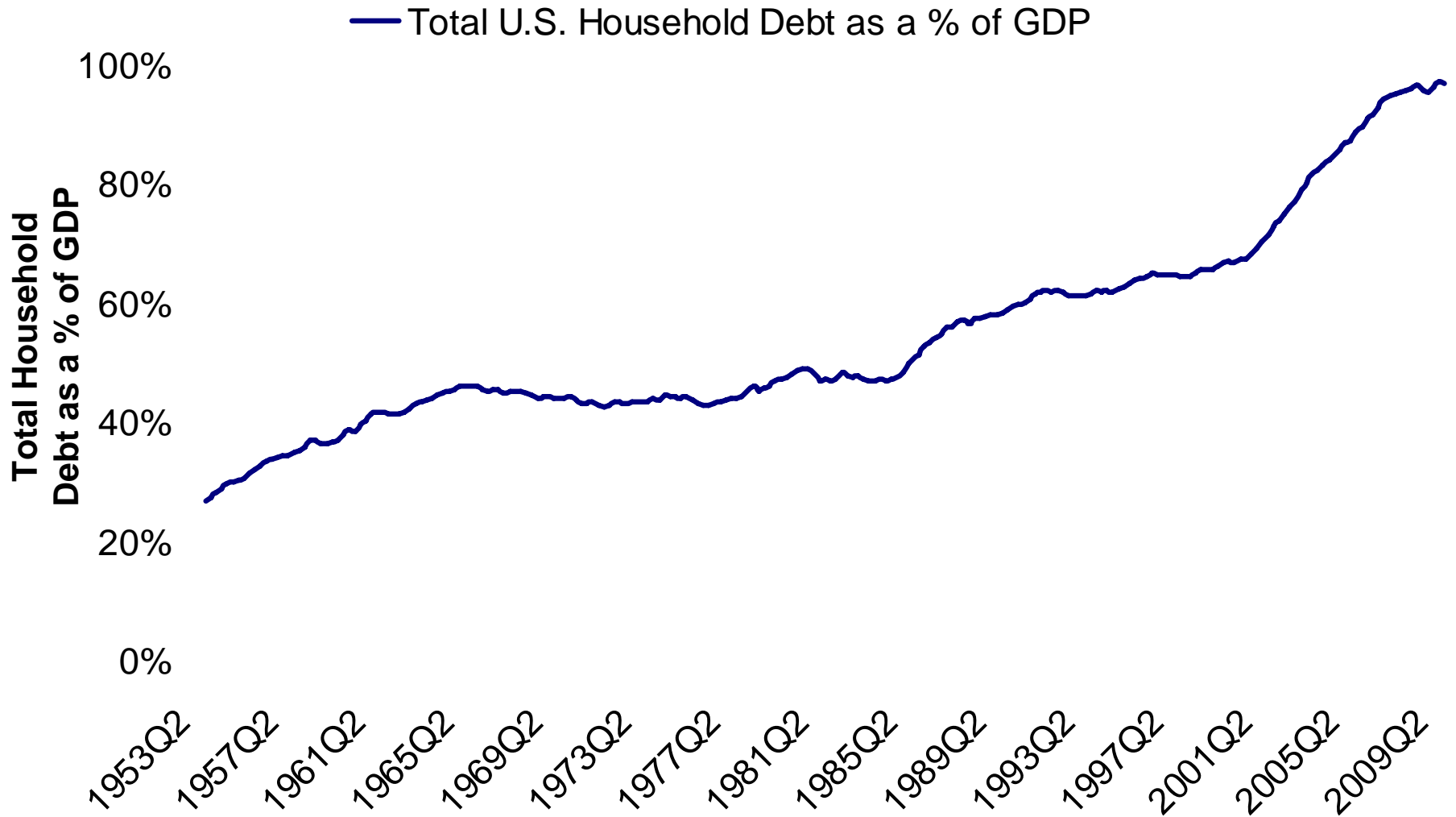
Long-Term U.S. Retail Sales



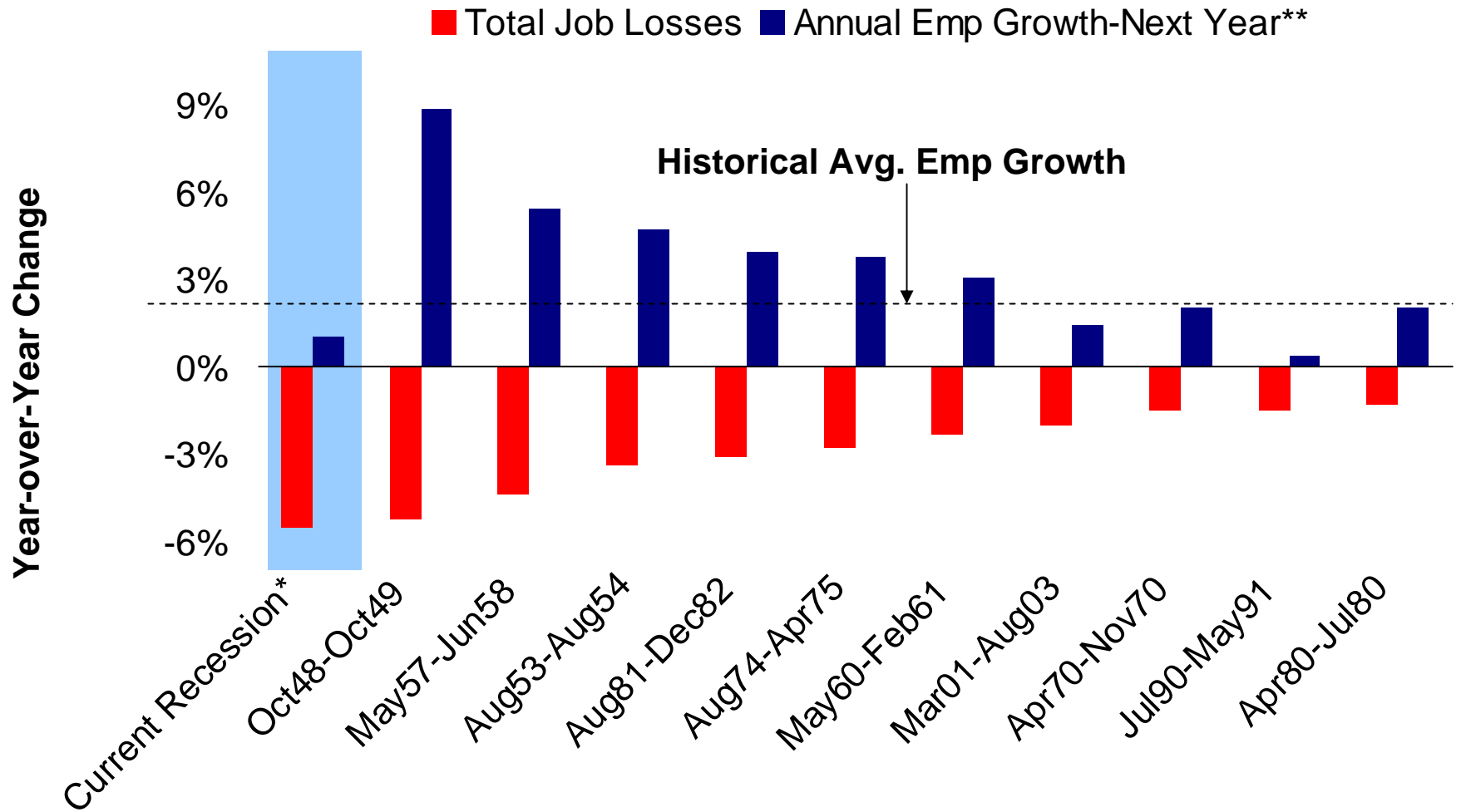
* As of August 2009

Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics

U.S. Household Debt as a Percent of GDP



Employment Growth Expected to Fall Short of Most Prior Recovery Periods

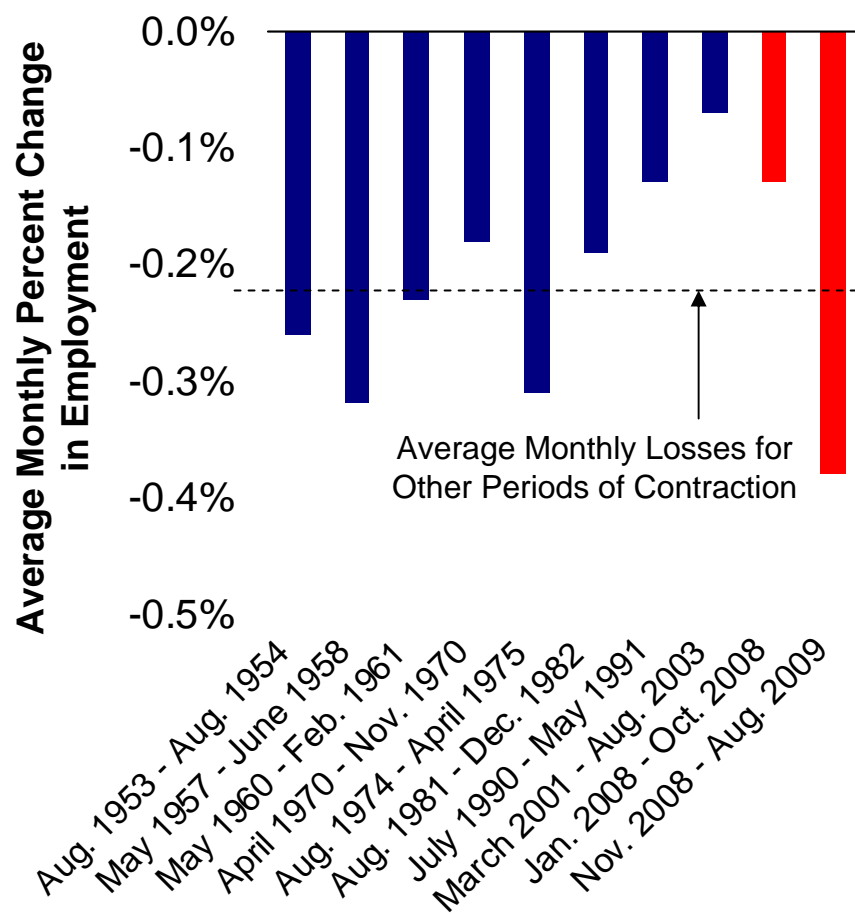
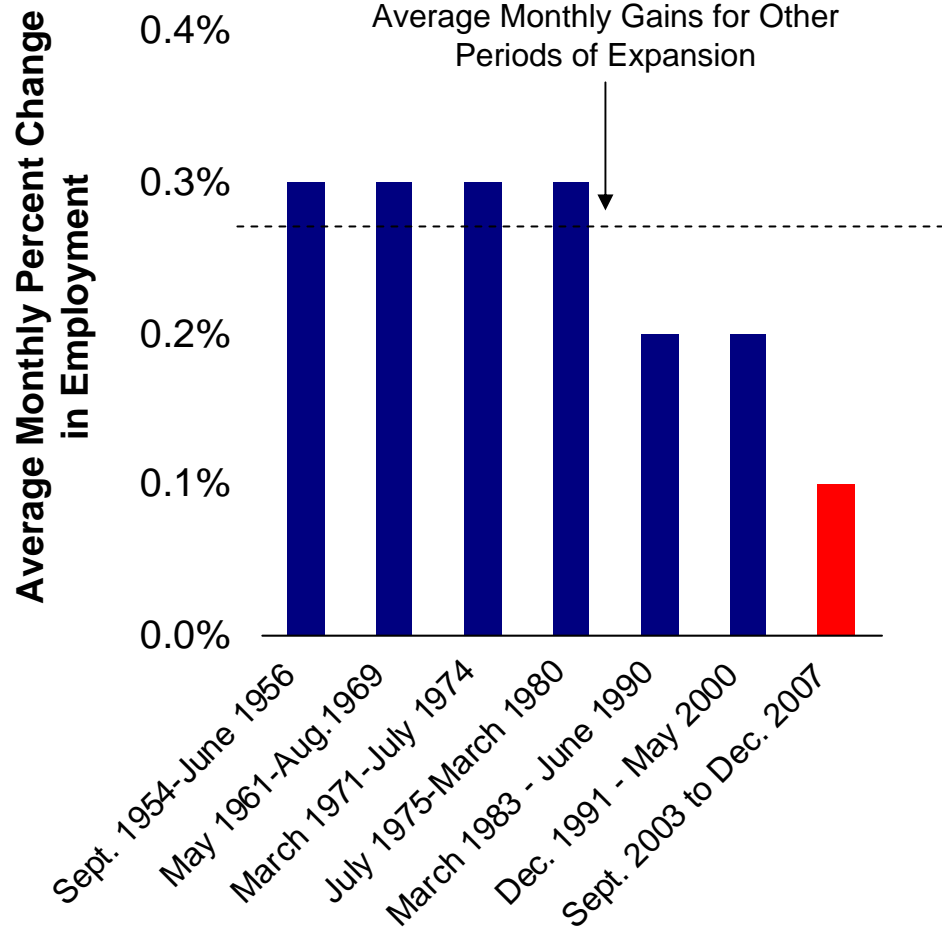


* Forecast

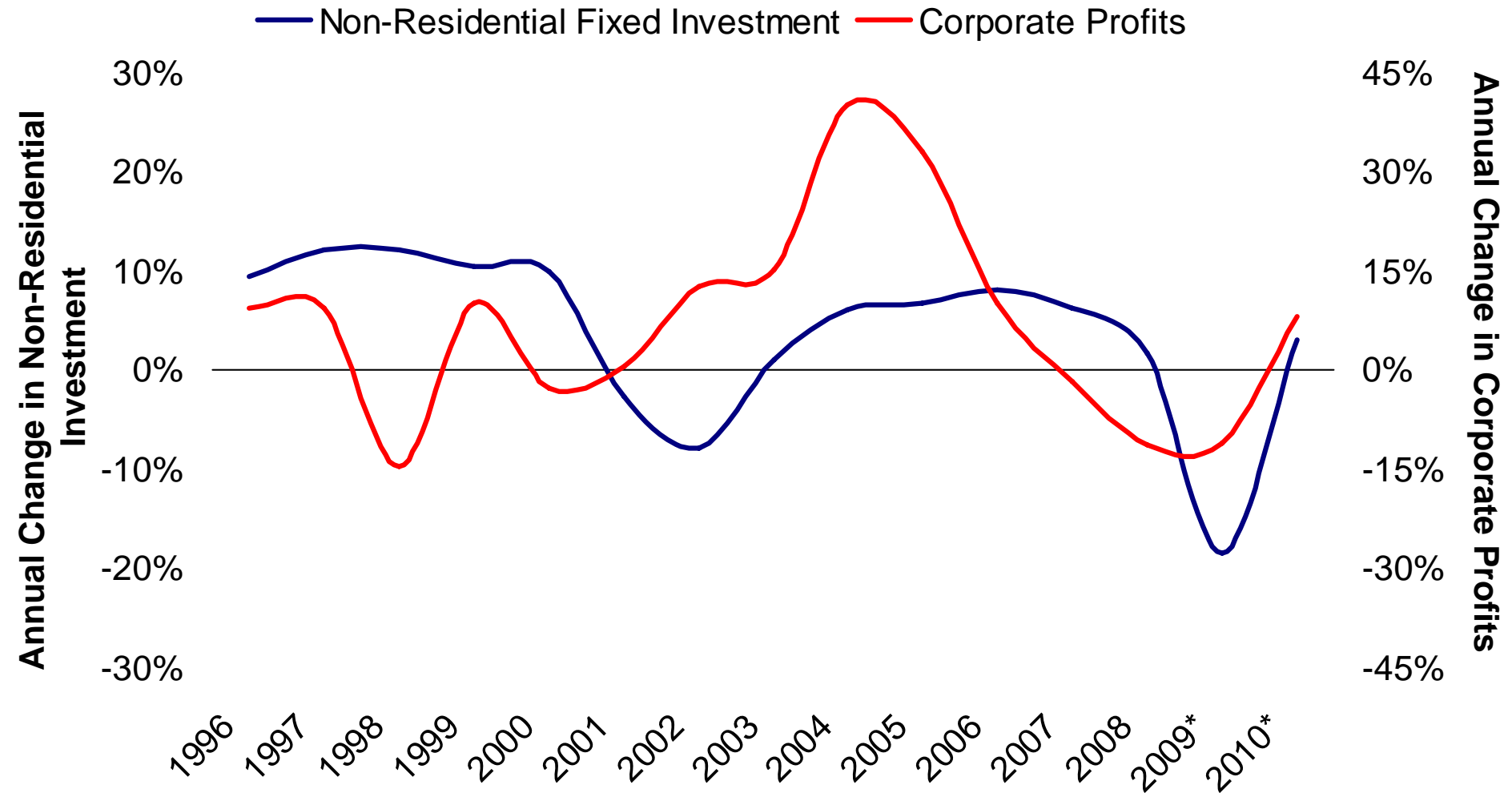
** Based on employment for the 12 months after the contraction period

Sources: Marcus & Millichap Research Services, BLS

Job Losses Had Been Below Trend Through August 2008 - Are Extreme Losses Since An Over-Reaction?



Corporate Profits and Investment Expected to Improve in 2010

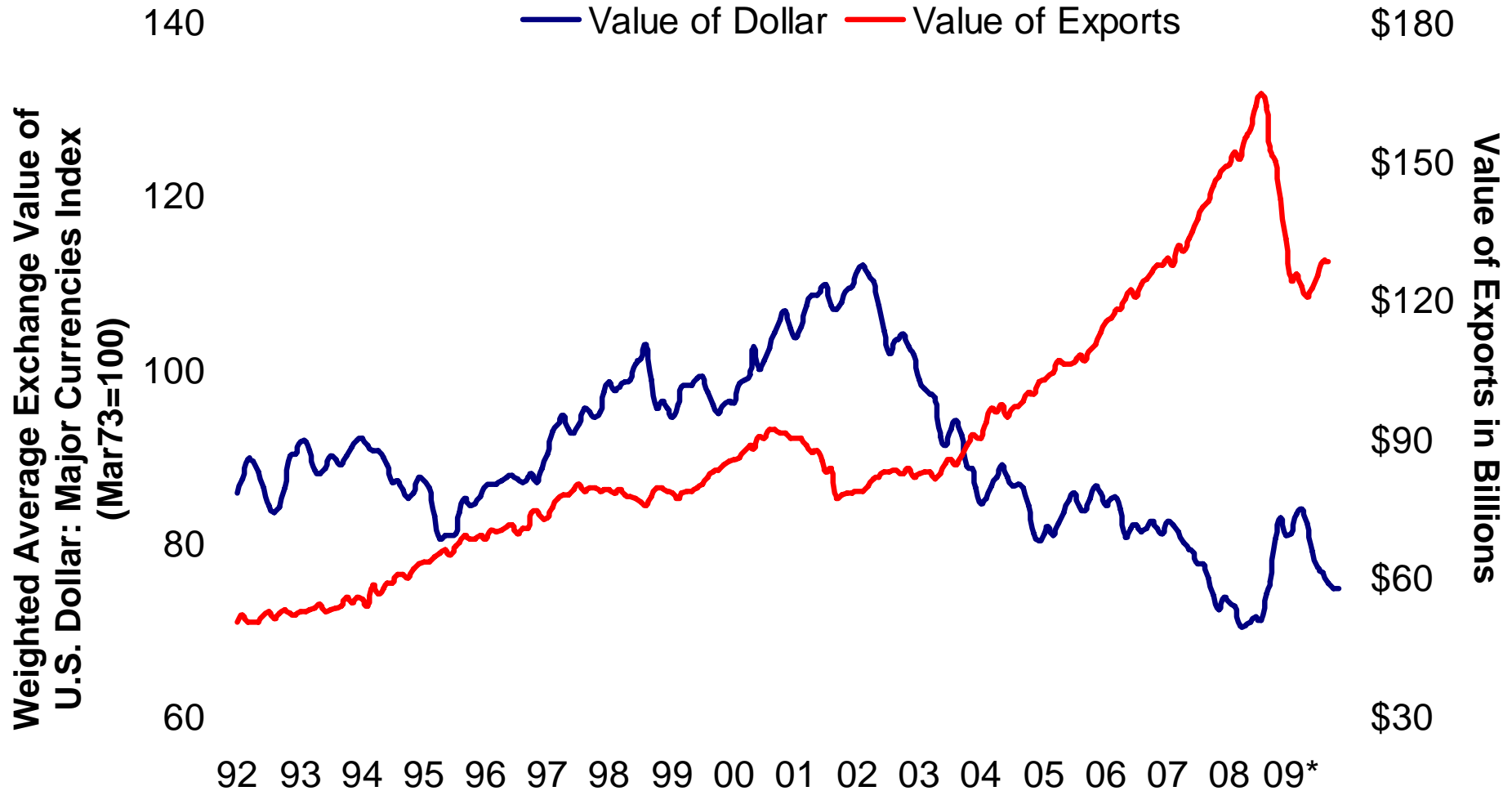


* Forecast

Corporate profits are after tax

Sources: Marcus & Millichap Research Services, NAR, U.S. Census Bureau

Value of U.S. Dollar vs. Value of Exports



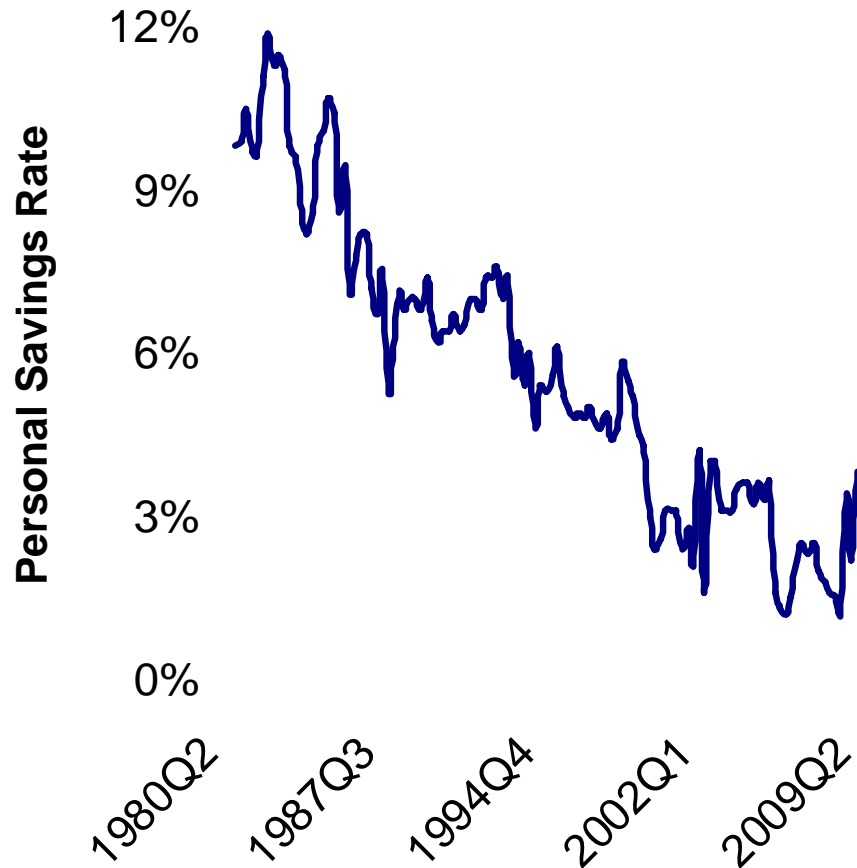
* Through August

Sources: Marcus & Millichap Research Services, BOC, Federal Reserve

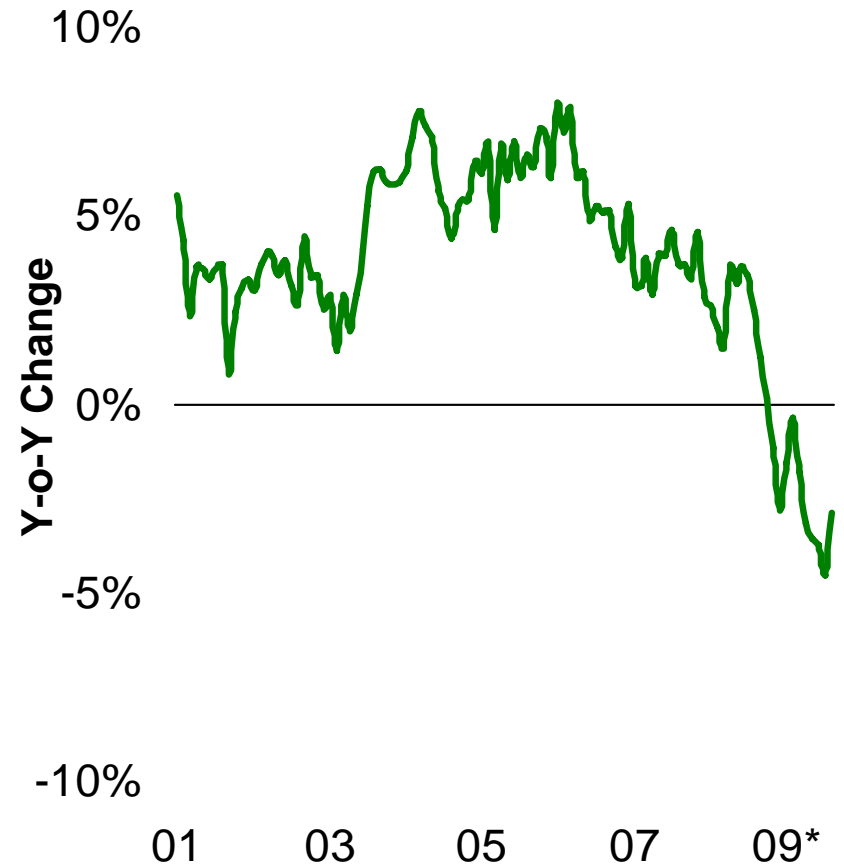
Marcus & Millichap
Real Estate Investment Services

Cash Preservation Effect Reflected In Personal Savings Rate Trend

Personal Savings Rate



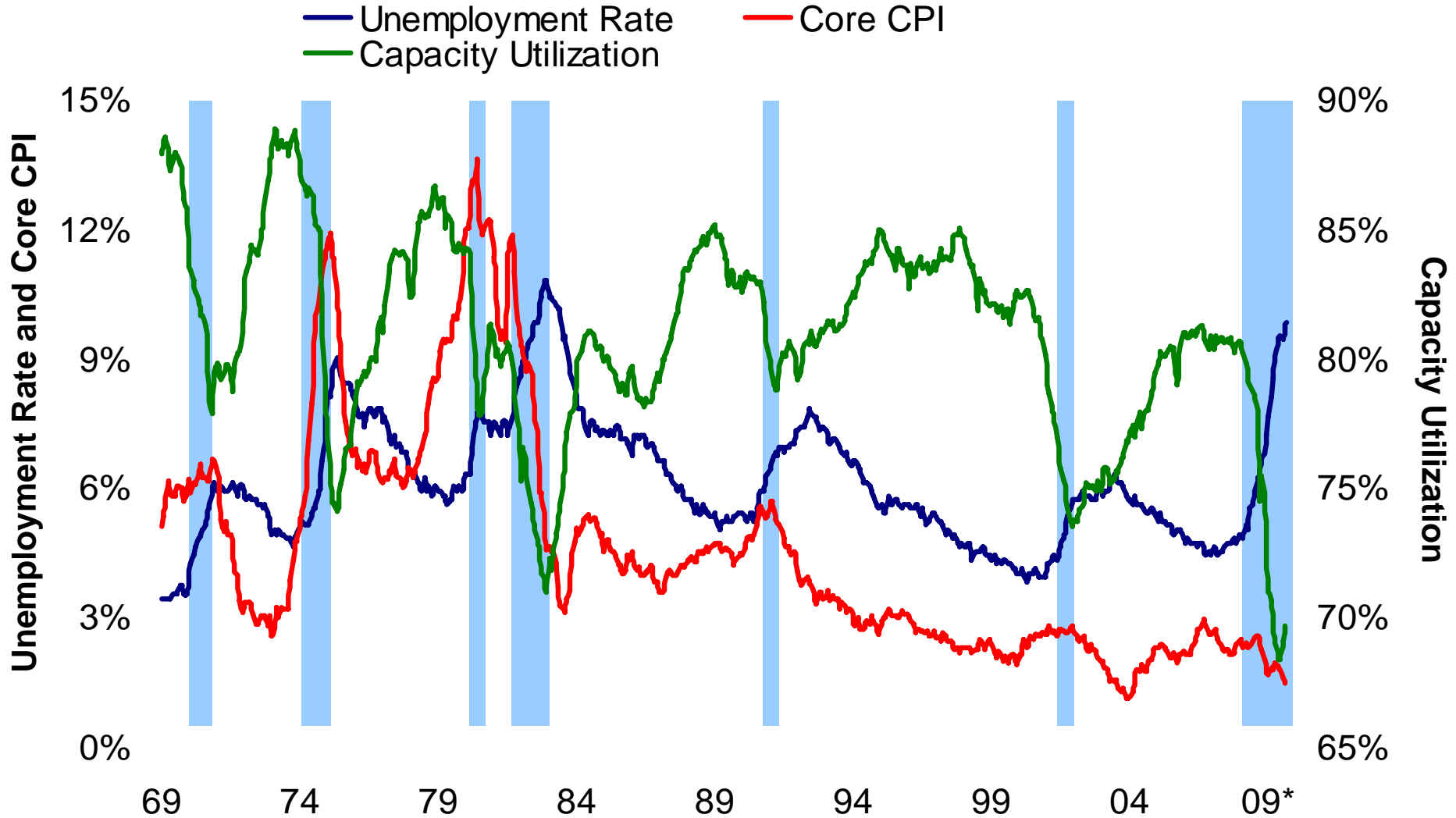
Retail Sales Excl. Auto and Gas



*Through August 2009

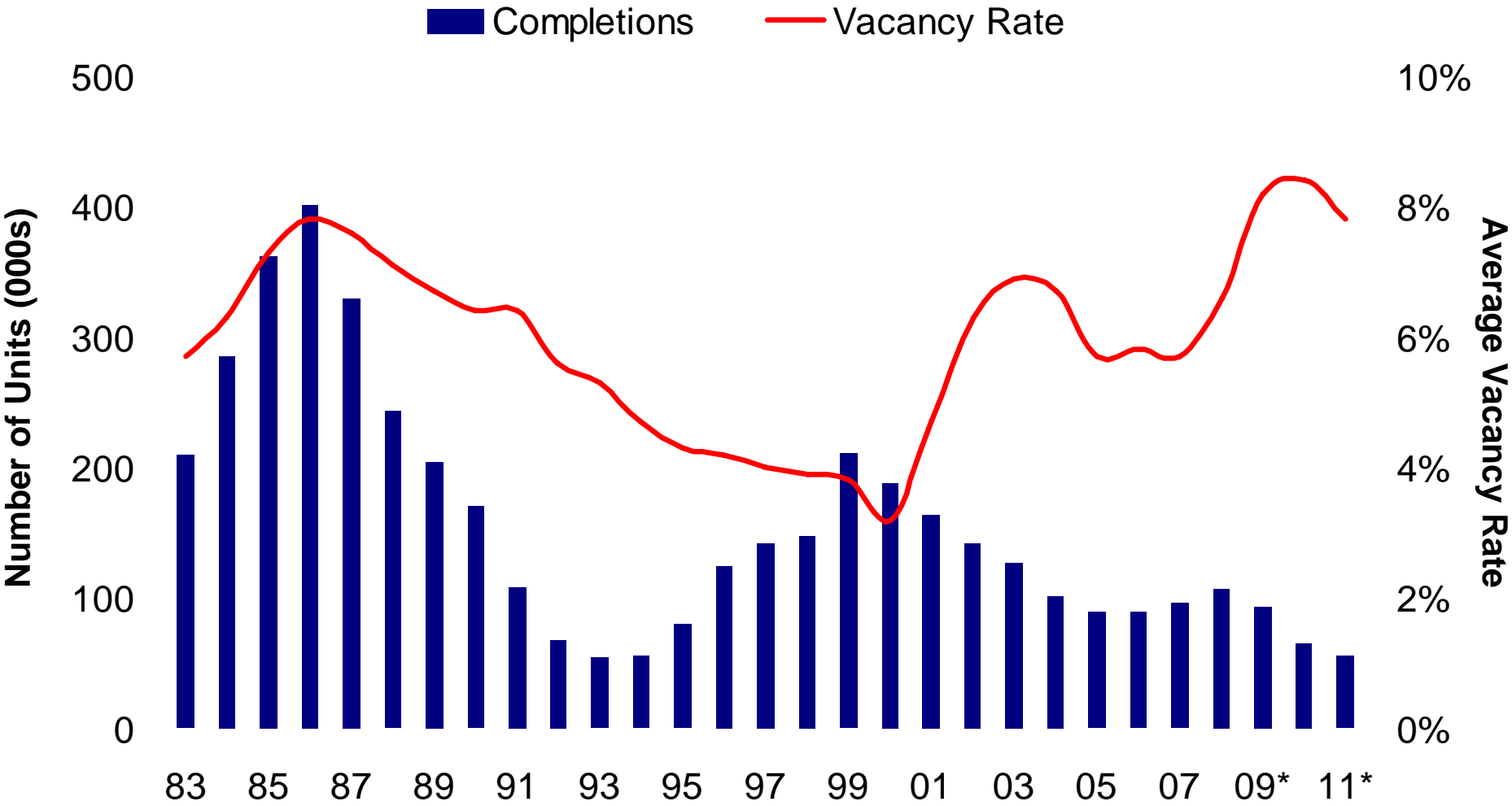
Sources: Marcus & Millichap Research Services, BEA, U.S. Census Bureau

Inflation Not a Threat...Yet



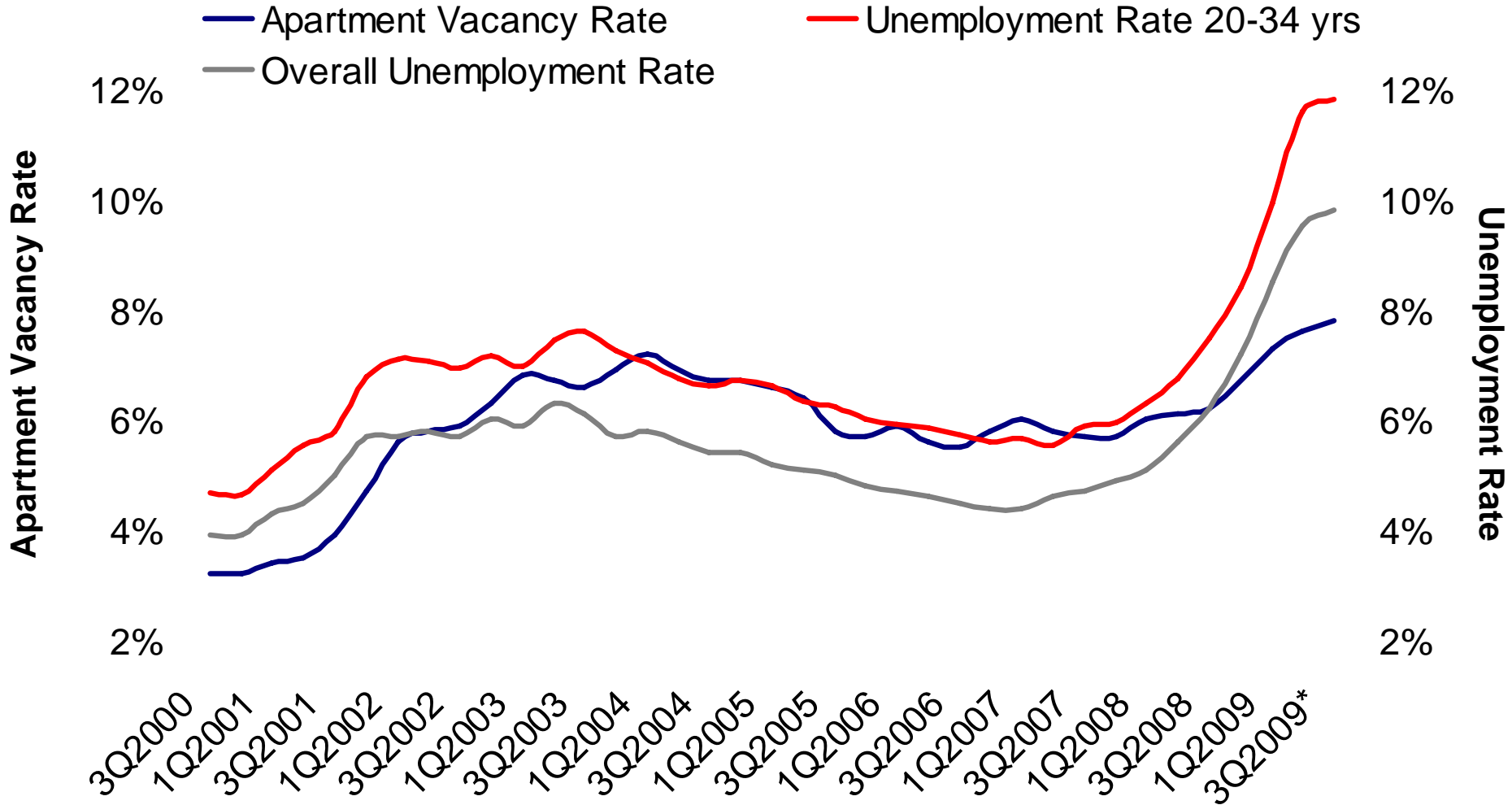
* Unemployment rate through September, Core CPI and Capacity Utilization through August
Sources: Marcus & Millichap Research Services, U.S. Census Bureau

Falling Construction, Economic Growth to Stabilize Apartment Vacancy in 2010, Begin Recovery in 2011



* Forecast
 Sources: Marcus & Millichap Research Services, Reis

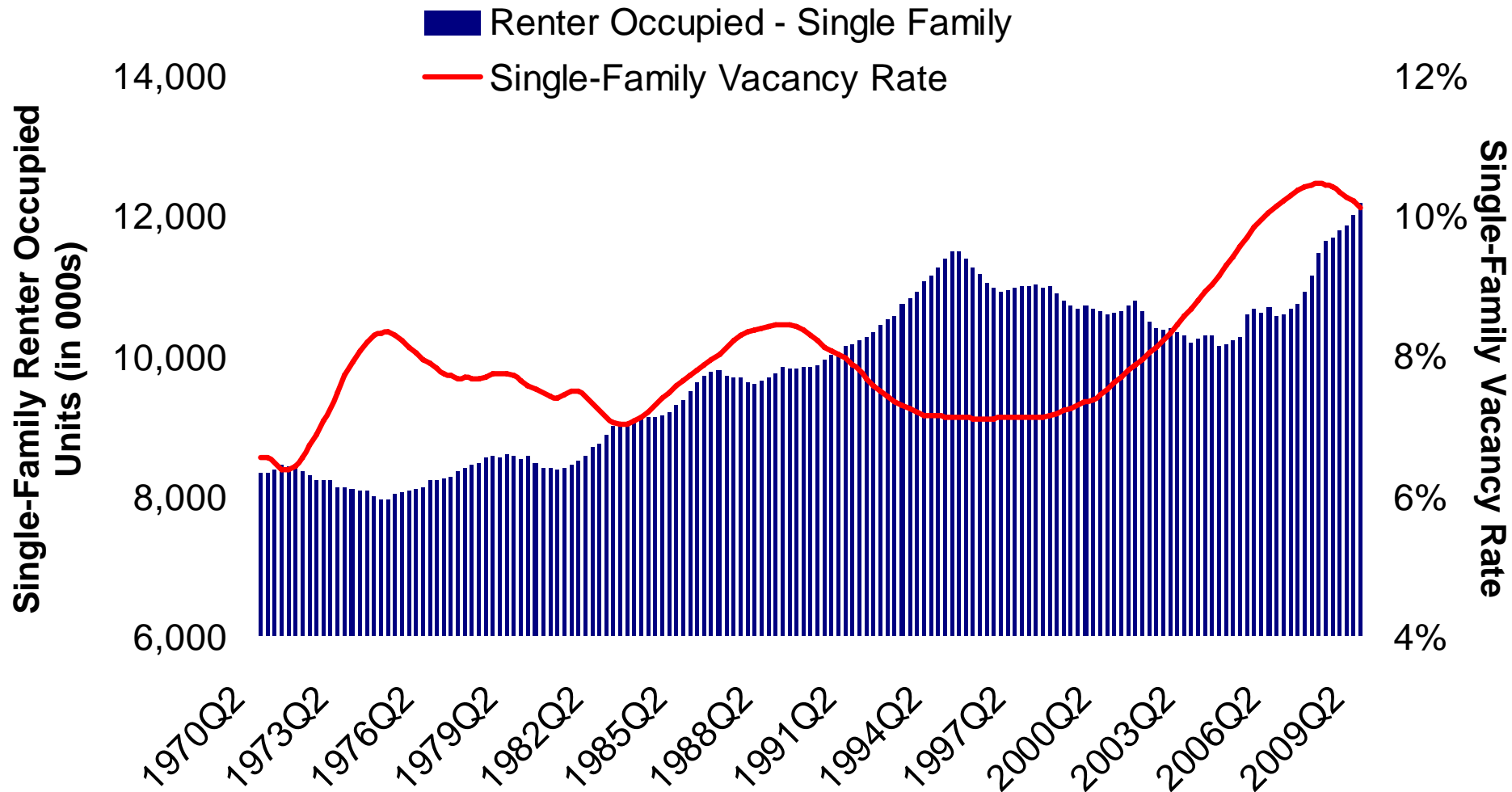
Job Growth is Critical to Renter Household Formation and Apartment Occupancies



* Vacancy rate is a preliminary estimate

Sources: Marcus & Millichap Research Services, BLS, Reis

“Shadow” Rentals a Significant Factor in Rising Apartment Vacancies – More in Select Metros



Apartment Vacancy Ranking

Top 15 Markets	3Q2009* Vacancy
New York	3.7%
New Jersey	4.8%
Minneapolis	4.9%
San Diego	5.1%
Milwaukee	5.1%
San Francisco	5.3%
San Jose	5.4%
Los Angeles	5.7%
Salt Lake City	6.1%
Philadelphia	6.2%
Miami	6.2%
Portland	6.3%
Orange County	6.5%
Washington, D.C.	6.6%
Oakland	6.9%
United States	7.8%

Bottom 15 Markets	3Q2009* Vacancy
Columbus	8.6%
Sacramento	8.7%
Denver	9.1%
St. Louis	9.1%
Oklahoma City	9.5%
Dallas-Fort Worth	9.5%
Tampa	9.7%
Orlando	10.3%
Las Vegas	10.7%
Austin	10.7%
San Antonio	10.7%
Atlanta	11.7%
Phoenix	11.7%
Houston	11.9%
Tucson	12.9%
United States	7.8%

* Estimate

***APARTMENT INVESTMENT
TRENDS and STRATEGIES***

Market Divergence

➤ Inherent investment value

- Fundamentals are relatively solid
- Future supply / demand favors appreciation
- Apartments remain a preferred investment vehicle

➤ Short-term transactional value

- Capital markets in upheaval
- Debt and equity more expensive
- Investors are fearful and conservative
- Expectation of “discounted” to distressed pricing

State of the Apartment Industry

- **Debt & equity markets are in transition**
 - Spreads have increased
 - Underwriting has tightened
 - Markets attempting to balance risk and reward
 - Yield requirements have increased
- **Apartment fundamentals are solid:**
 - The national occupancy rate is 94%
 - Supply: 100,000 market-rate units (1% stock)
 - Effective rent growth in 2008 = 3%
 - Homeownership rate reversing
 - **Concern: Rising unemployment affects demand**

Key Observations for 2009

- **Multi-family capital markets remain fractured and expensive**
- **Investor demand tempered, motivated by anticipated discounts**
- **Revenue growth moderates but avoids historic cyclical decline magnitude in most markets**
- **Sales velocity remains low through at least the first half of 2009**
- **Transactional cap rates continue to differentiate for quality and trend up 50 – 100 bps**

Market Divergence

The apartment market has diverged into two distinct camps...

- **Inherent long term investment value**
- **Short term transactional value**

Market Divergence

Inherent long term investment value

- **Construction starts are decreasing**
- **Future supply / demand favors appreciation**
- **Apartments remain a preferred investment**
- **Lack of suitable investment alternatives**

Market Divergence

Short-term transactional value

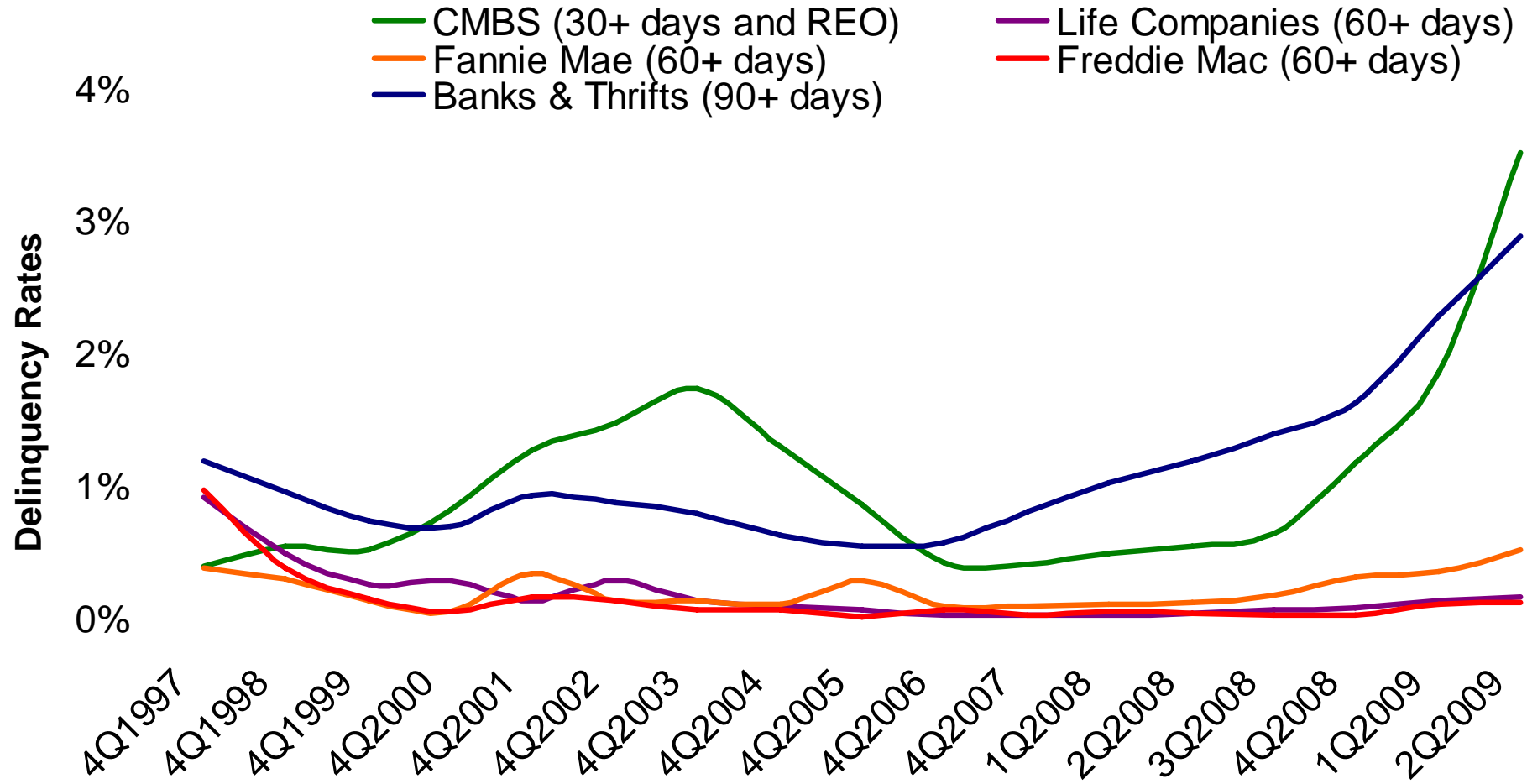
- **Debt and equity more expensive**
- **Investors fearful and conservative**
- **Unemployment is damaging fundamentals**
- **Expectation of discounted / distressed pricing**

Market Divergence

Two distinct investment camps...

- **Inherent long term investment value**
- **Short term transactional value**
- **Growing Amount of Distressed Loans / Assets**

Commercial Mortgage Delinquency Rates by Group



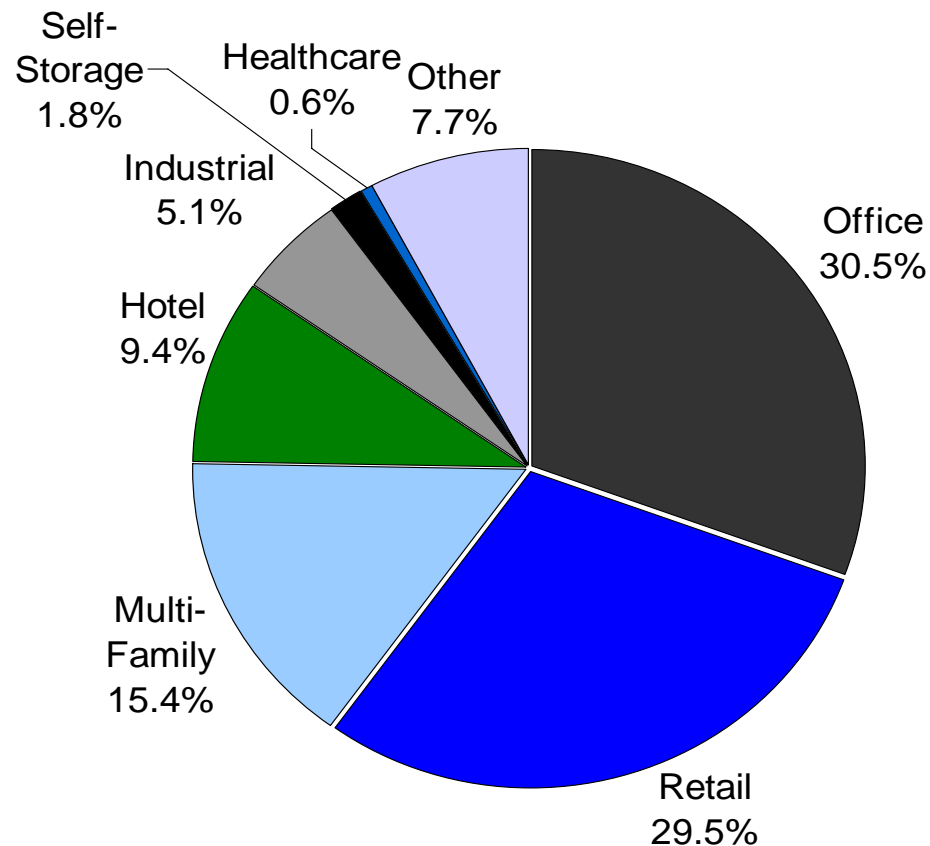
Delinquency rates at the end of each period

Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

Total CMBS Outstanding: \$779.6 billion

By Property Types (\$Bil.):

Office	\$237.8
Retail	\$230.0
Multi-Family	\$120.1
Hotel	\$73.3
Industrial	\$39.8
Self-Storage	\$14.0
Healthcare	\$4.7
Other	\$60.0



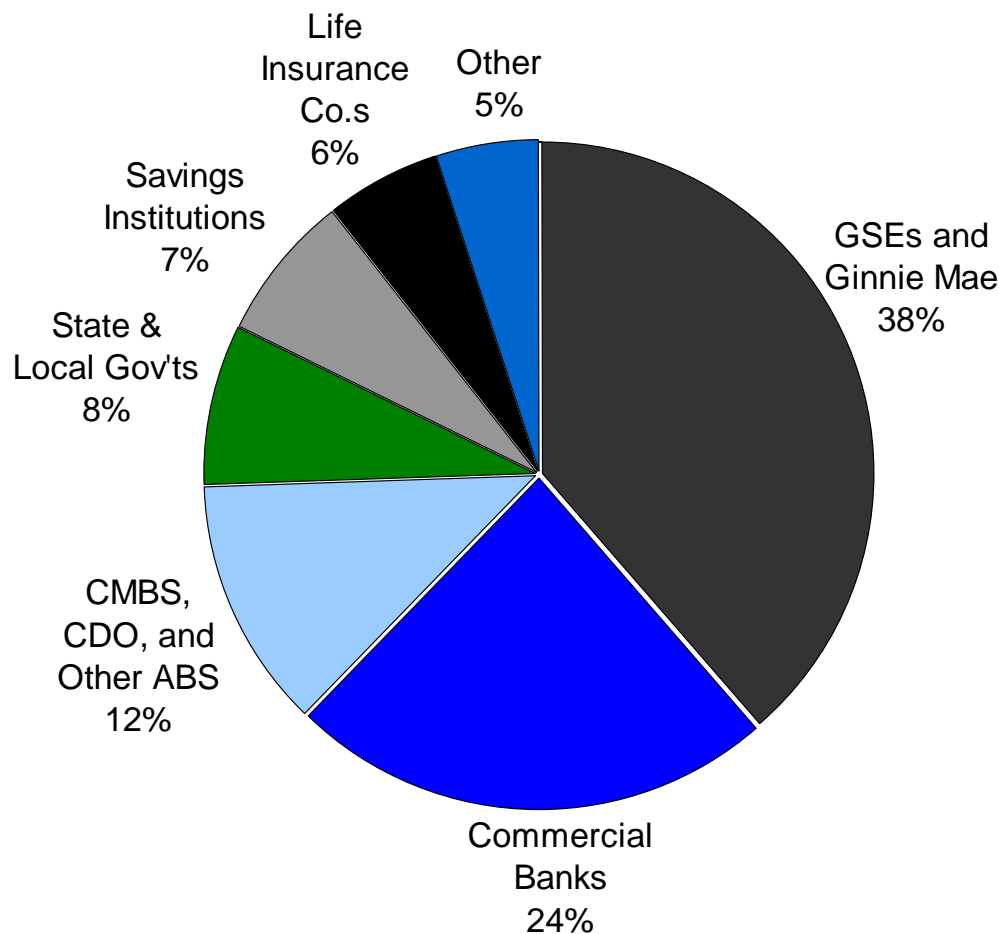
* As of 1Q09

Sources: Marcus & Millichap Research Services, MBA

Total Multi-Family Mortgage Debt Outstanding: \$914.3 billion

By Lender Types (\$Bil):

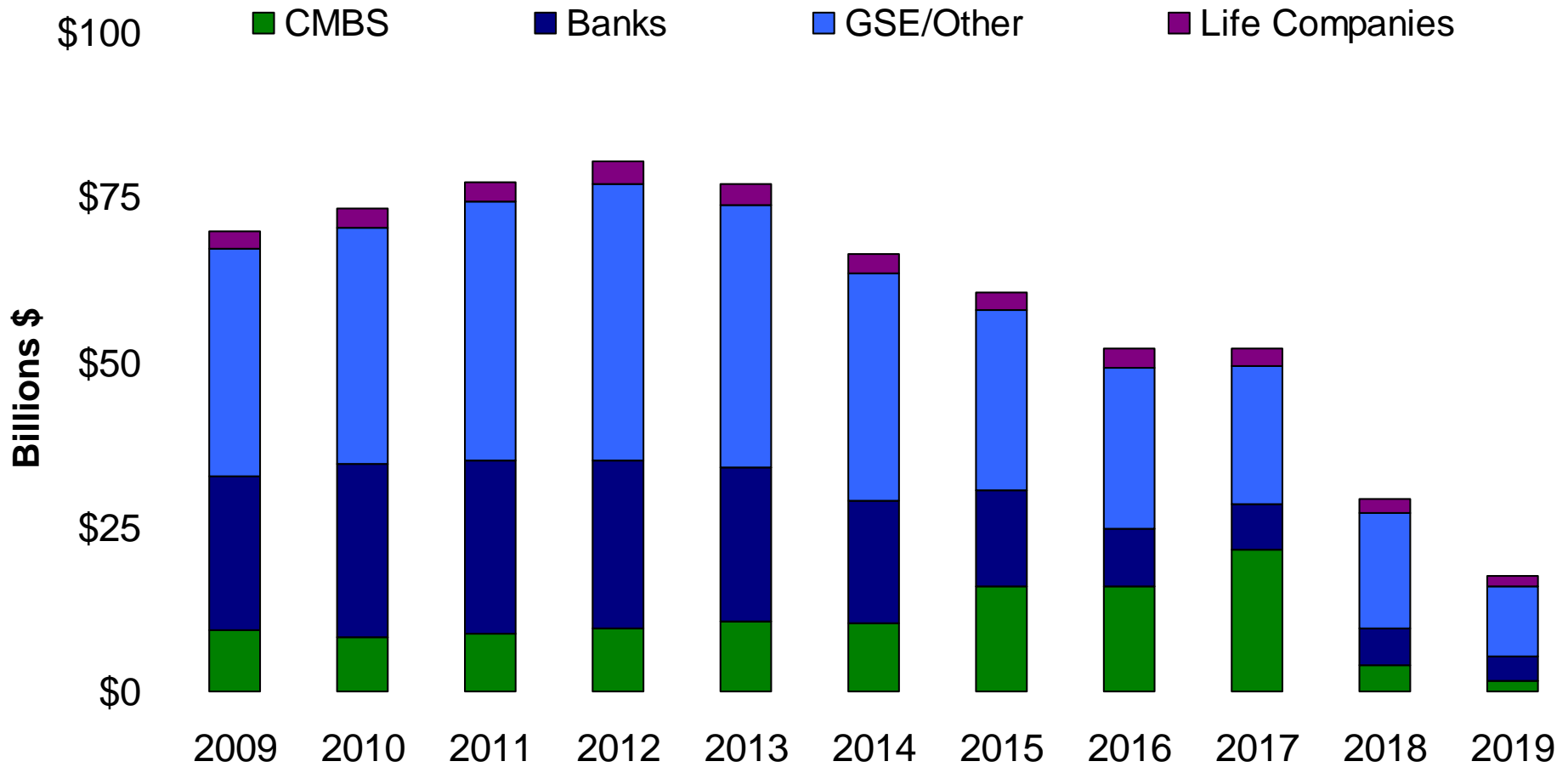
GSEs and Ginnie Mae	\$351.9
Commercial Banks	\$216.8
CMBS, CDO, and Other ABS	\$111.7
State & Local Governments	\$71.4
Savings Institutions	\$66.3
Life Insurance Companies	\$50.8
Other	\$45.5



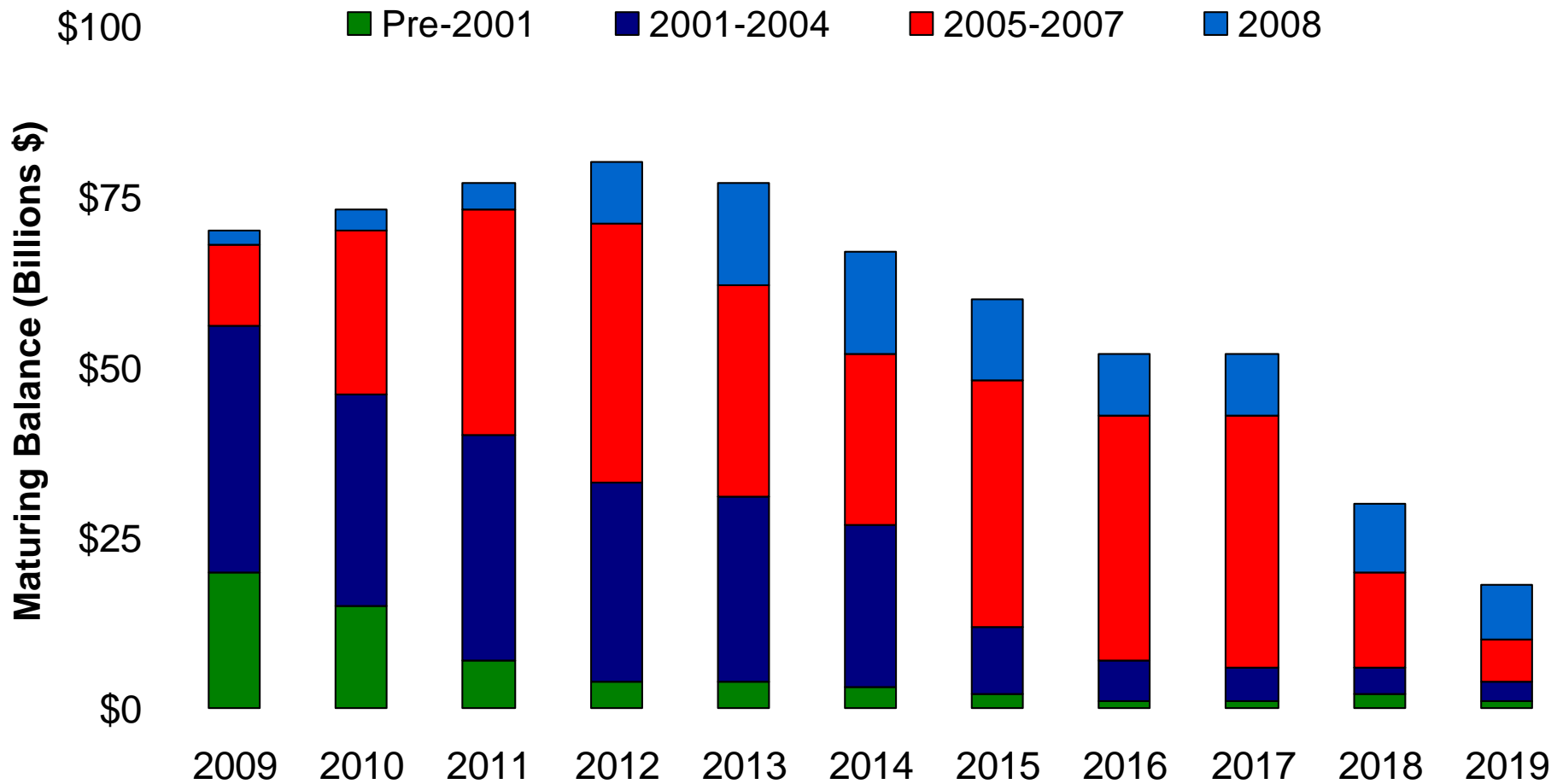
* As of 2Q09

Sources: Marcus & Millichap Research Services, MBA

Estimated Multi-Family Debt Maturities by Lender Type



Estimated Multi-Family Debt Maturities by Vintage



Distressed Loan / Asset Issues

- **Loan sales vs. REO Asset Sales**
- **Portfolio vs. Individual Asset Sales**
- **Timing**
 - **Complicated equity / debt “stacks”**
 - **Liability issues**
 - **Preservation of equity**
 - **NPV vs. liquidity analysis**

Distressed Loan / Asset Issues

- **Regulation / Documentation Issues**
- **Strategic differentiation for quality**
 - **Improve management of asset**
 - **Physically rehab the asset**
- **Could Special Asset Services provide seller-carried financing?**
- **Distressed assets controlled by private enterprises**

Anatomy of Current Market Divergence

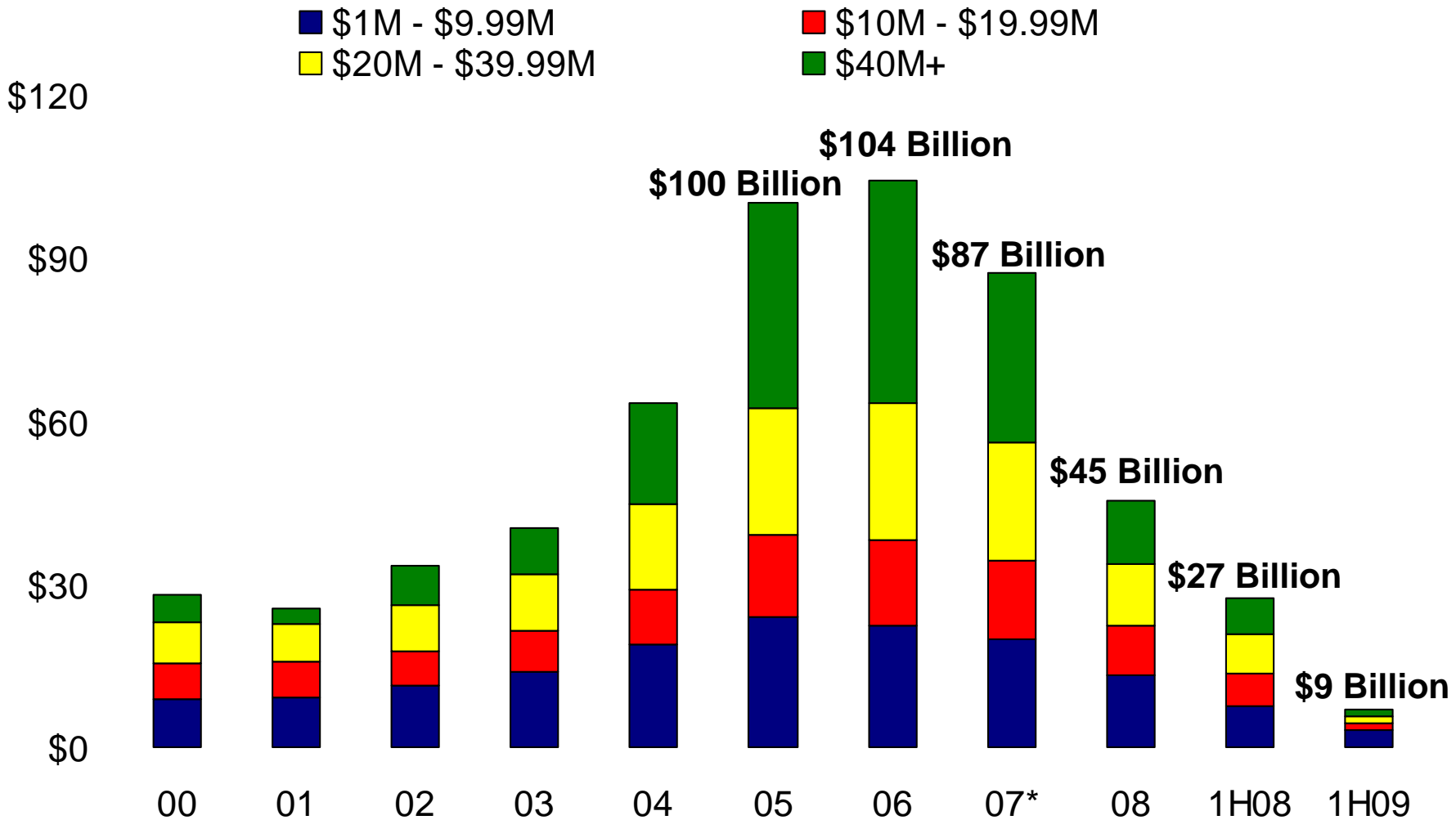
Inherent vs. Short term value?

Three issues...

- **In what time frame do you have to act?**
- **What is your opinion of long term apartment investment fundamentals?**
- **Pricing / timing of distressed assets?**

Apartment Investment Trends

Dollar Volume by Price Category

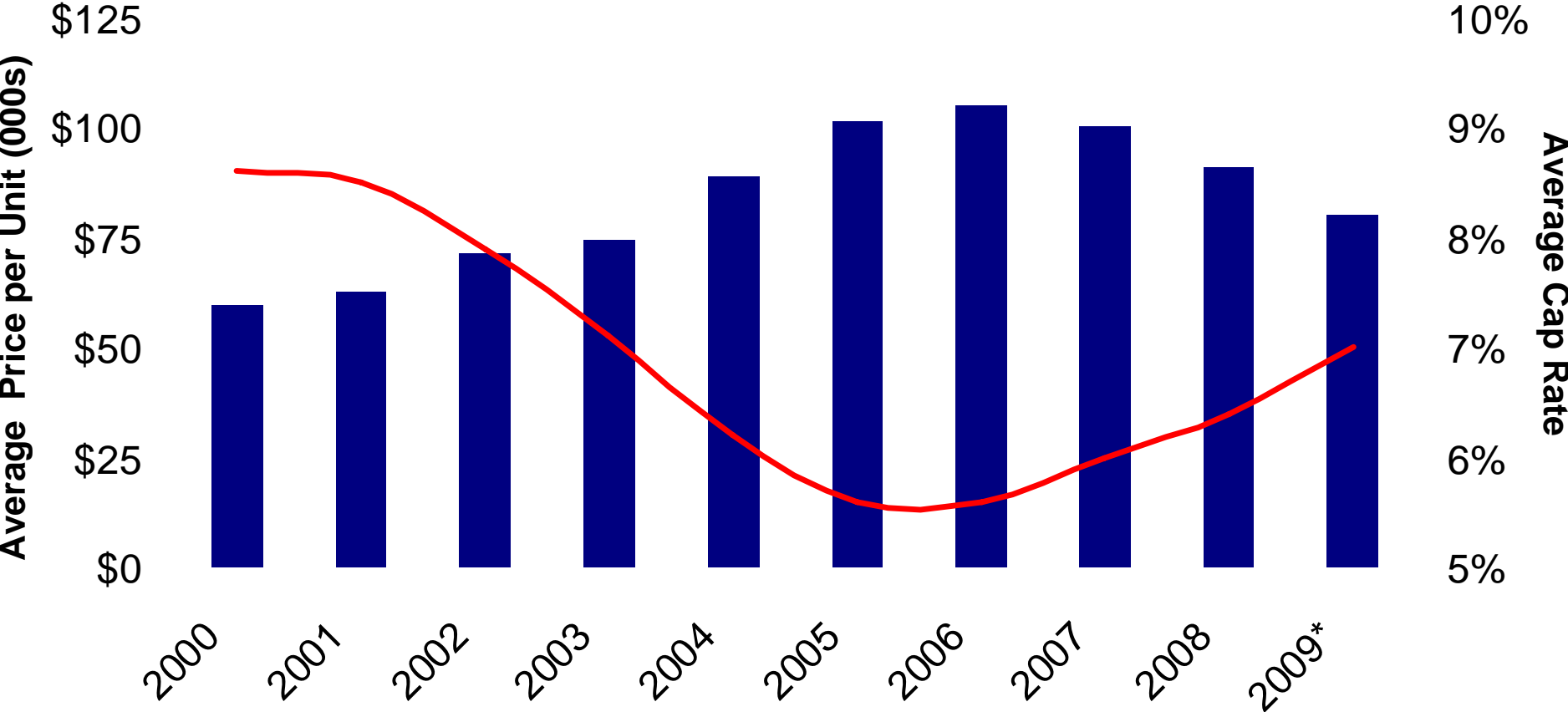


* Excludes Archstone Privatization

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

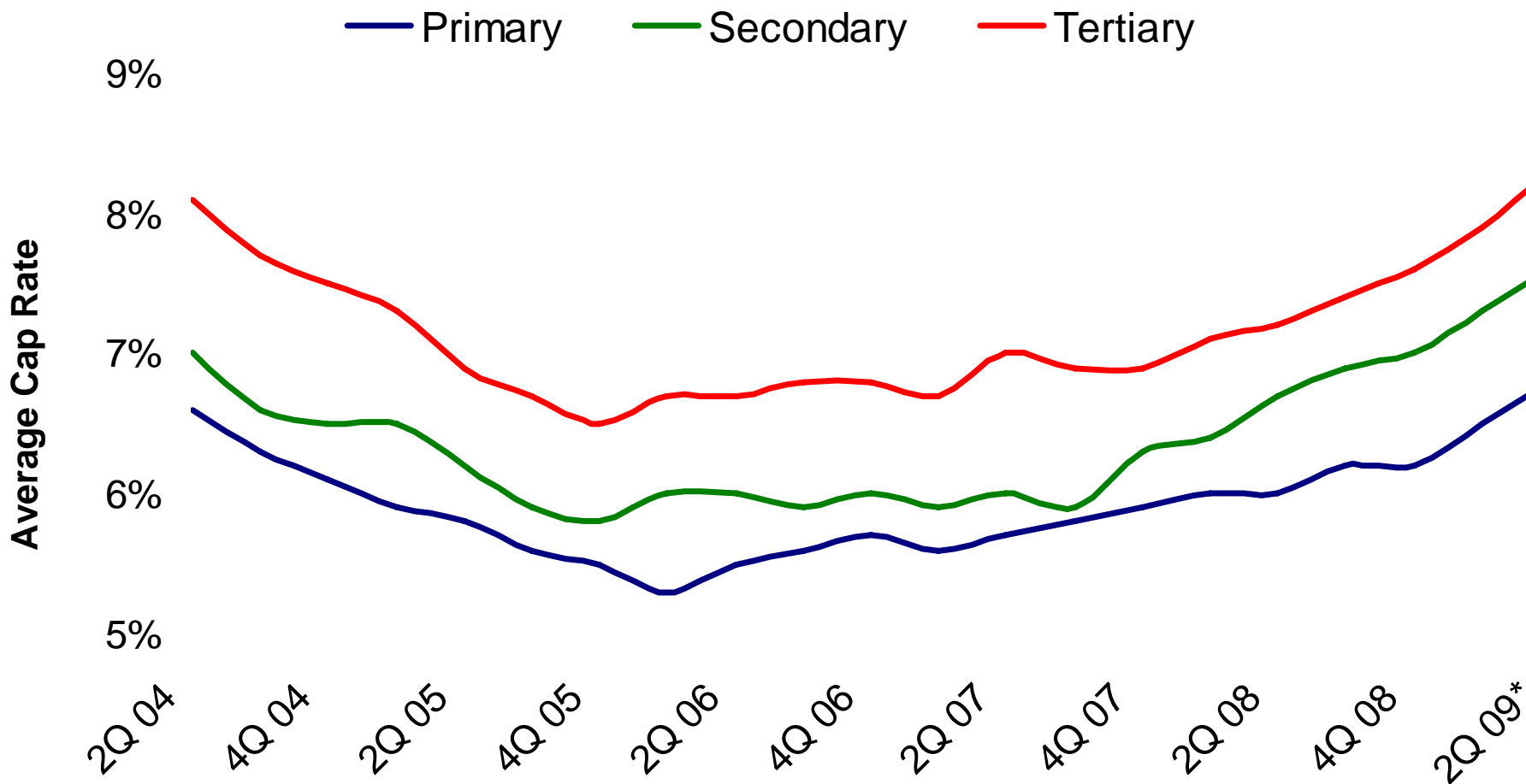
National Apartment Price and Cap Rates

Average Price Cap Rates



* Through 2Q
Includes sales \$1Million and Greater
Sources: Marcus & Millichap Research Services, Costar Group, Inc.

Re-Pricing of Risk by Quality Reflected in Apartment Cap Rate Trends by Market



* Preliminary Estimate

Sales \$5 million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

18 – Month Cap Rate Adjustment Matrix *

	Class “A”	Class “B”	Class “C”
Primary	1.25	1.50	1.75
Secondary	1.50	1.75	2.25
Tertiary	2.00	2.25	2.75

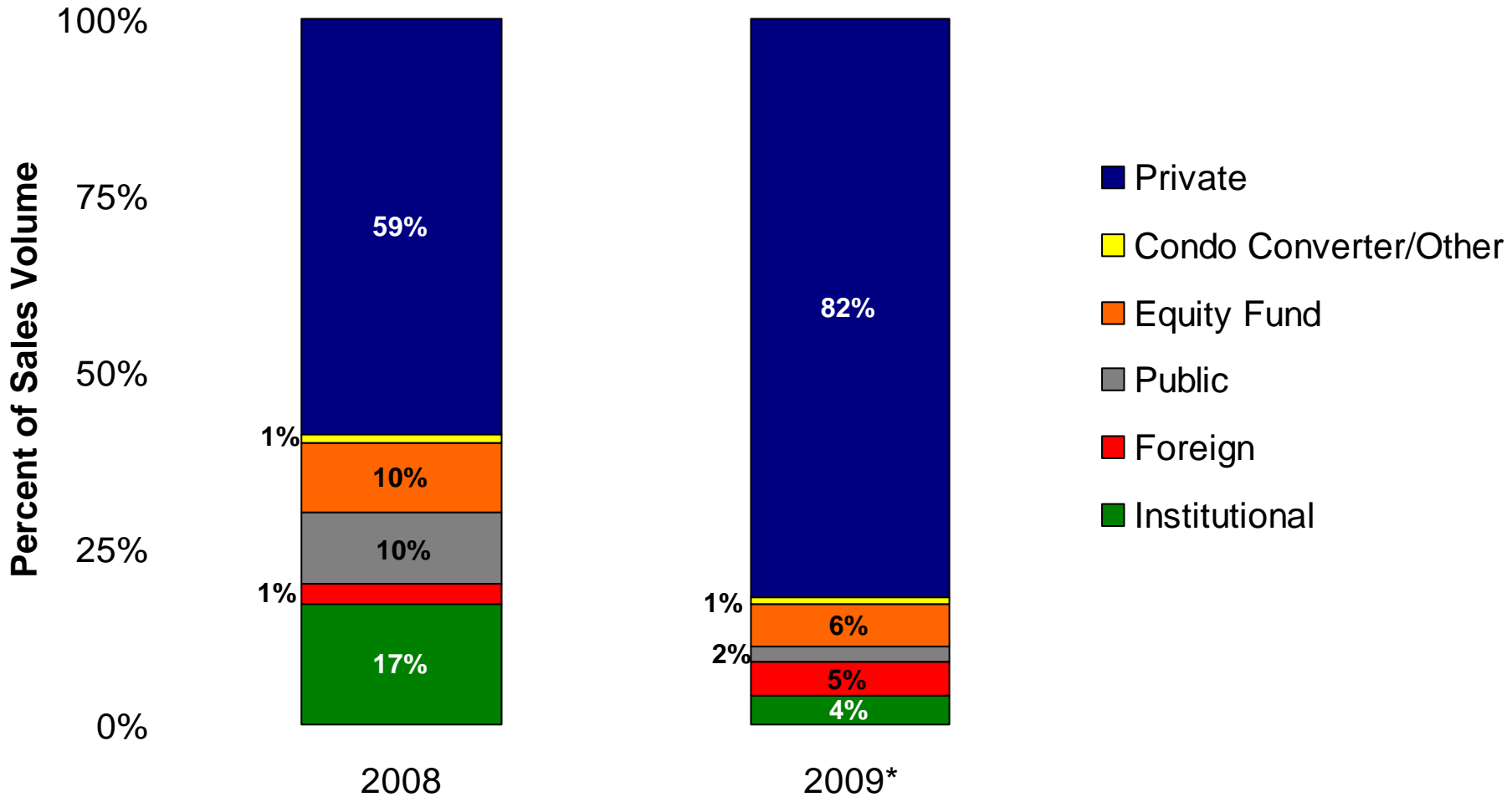
* Change in cap rates last 18 months

18 – Month Pricing Adjustment Matrix

	Class "A"	Class "B"	Class "C"
Primary	-25%	-29%	-32%
Secondary	-27%	-30%	-36%
Tertiary	-33%	-35%	-41%

Base = 5.00 / 5.50 5.50 / 6.25 6.00 / 6.75

U.S. Apartment Buyer Composition

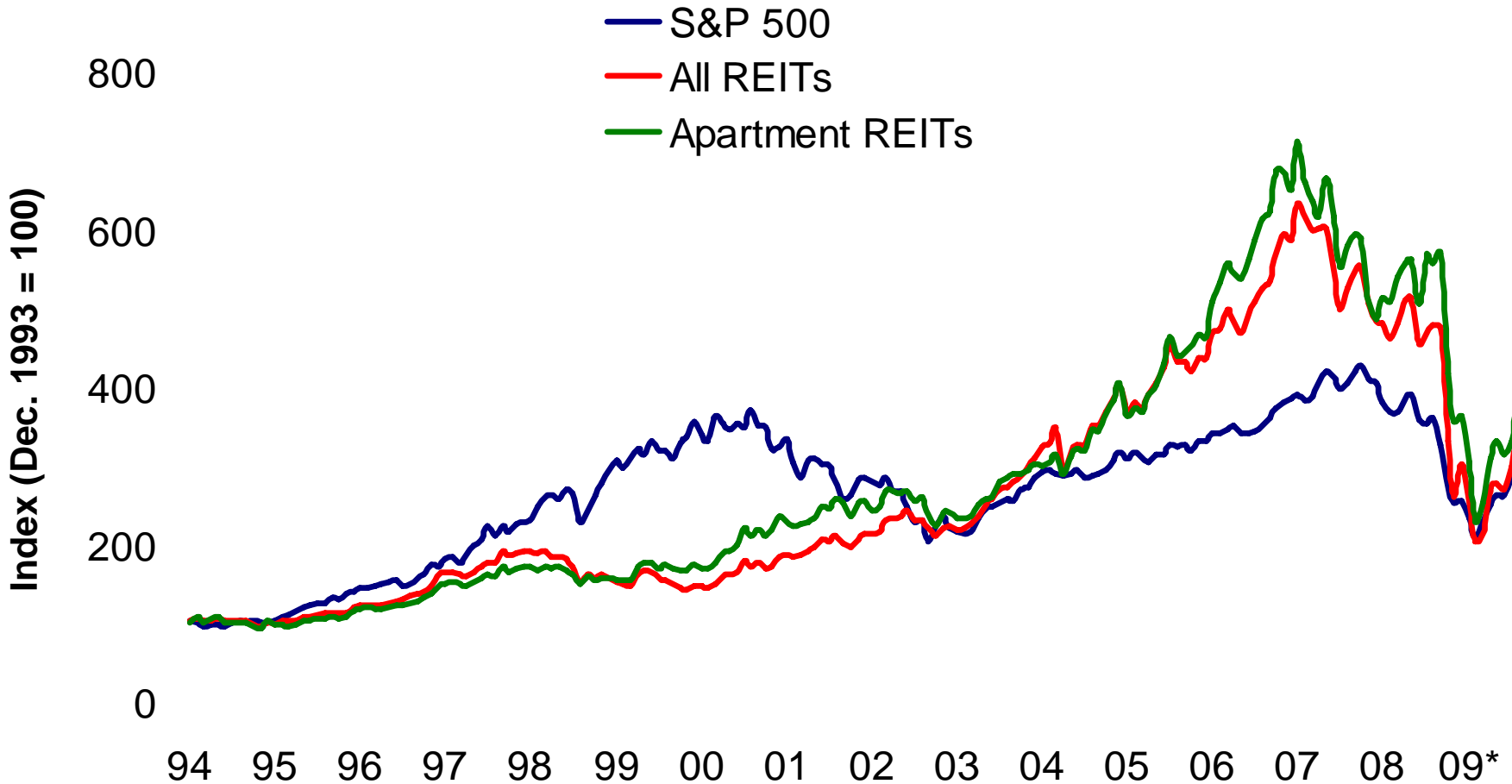


* YTD through July

Sales \$5 Million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

U.S. Public REIT Valuation Indices vs. S&P 500



* Through September

Index: December 1993 = 100

Sources: Marcus & Millichap Research Services, NAREIT, Standard and Poor's

Key Observations for 2010

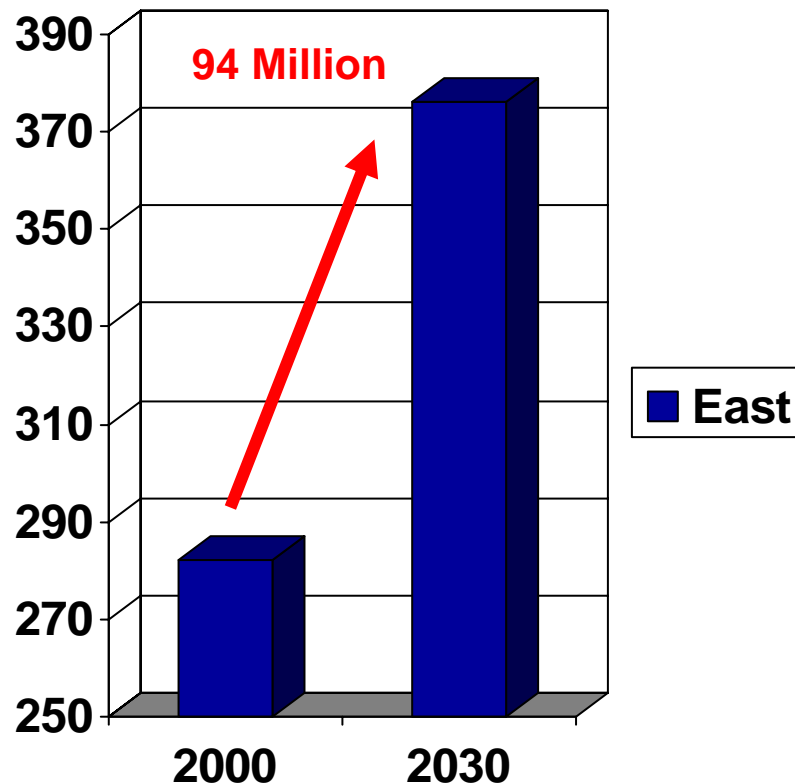
- **Multi-family capital markets remain fractured and expensive**
- **Investor demand increases as economy begins recovery**
- **Revenue stabilizes**
- **Sales velocity increases 20% to 30%**
- **Transactional cap rates stabilize in core markets and trend up 50 bps elsewhere**

Marcus & Millichap's NMHG Remains Bullish on U.S. Apartments Long-Term

U.S. will experience a fundamental change in housing dynamics favoring the density, efficiency, flexibility and affordability of apartment living

- Population growth**
- Changing demographics**
- Environmental concerns**
- Budget / expense factors**
- Affordability**
- Rent vs. own**

Population Dynamics



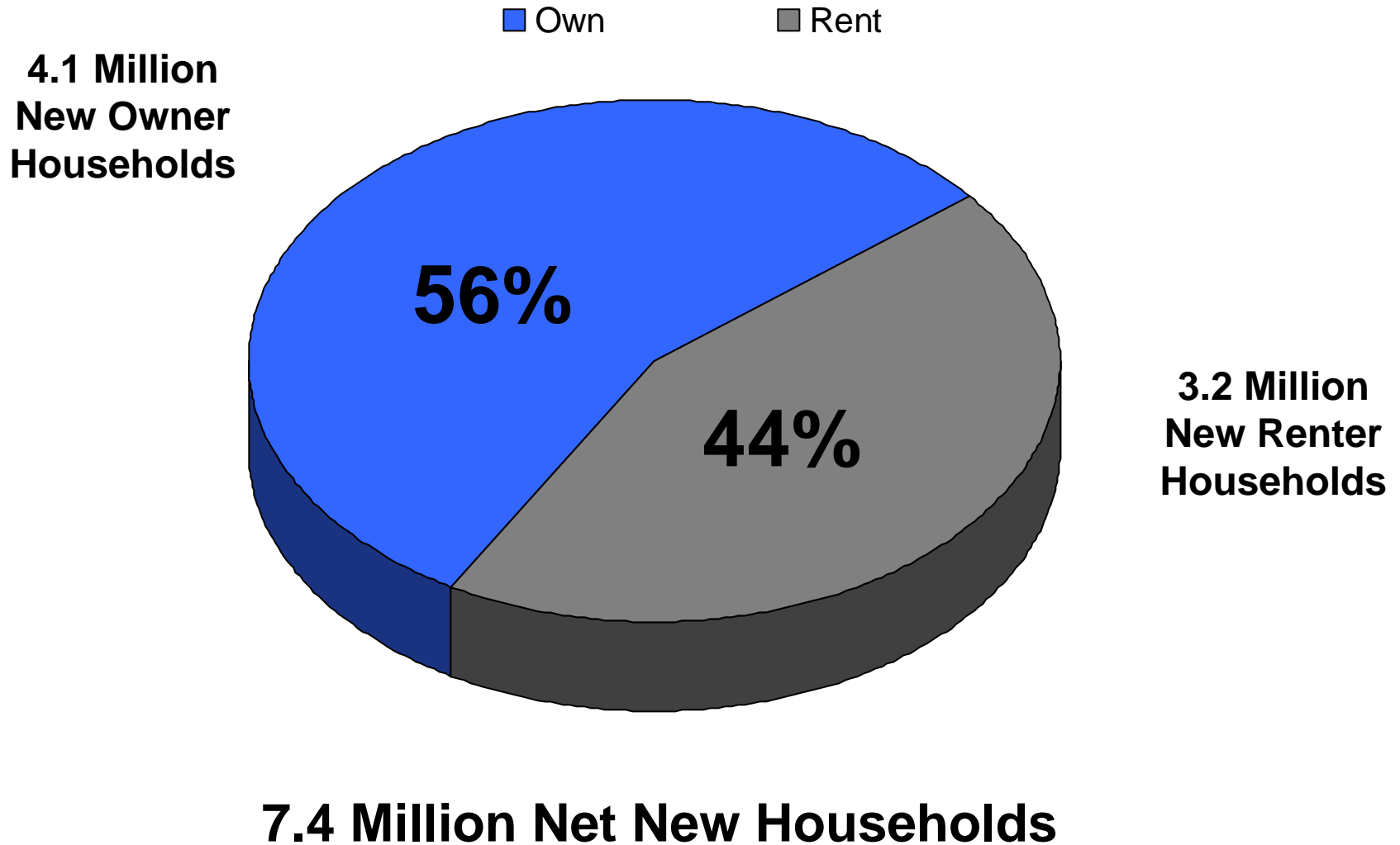
Millions

- U.S. population is expected to increase 33% by 2030 to 376 million.
- To accommodate this growth, the nation needs 60 million new housing units.

Demographic Dynamics

- **Married couples with children are projected to decline to under 1 in 5 households by 2025**
- **Singles and un-related individuals living together will comprise 1 in 3 households by 2020**
- **78 million echo boomers are getting ready to enter their prime renting years**
- **10 million legal immigrants will enter the country in next ten years**

U.S. Household Growth Projection 2010 - 2015*



* Forecast

Sources: Marcus & Millichap Research Services, Economy.com, Harvard University

Environmental Dynamics

- **Growing environmental awareness / concern favors compact development such as apartments**
 - Preserves green space
 - Reduces amount of paved surfaces
 - Reduces air pollution / need to drive
- **ULI estimates we would save 85 million metric tons of carbon dioxide annually by 2030 if 60% of future growth is diverted to compact, walkable neighborhoods (apartments)**

Budget / Fiscal Dynamics

- **Urban / suburban sprawl is expensive**
- **Compact development reduces infrastructure costs and saves money**
- **The U.S. can save over \$100 billion in infrastructure costs over 25 years by growing compactly**

Affordability Dynamics

- **35 million households spend 30 percent or more of their annual income on housing**
- **114 million people live in households that did not earn enough to reasonably afford a two-bedroom apartment (\$37,105 / \$925)**
- **Fastest growing industries are those with lower-paying jobs**

Rent vs. Own Dynamics

- **It costs \$311 less a month on average to rent vs. own**
- **A \$100 investment in housing in 1985 would be worth \$270 today**
- **A \$100 investment in stocks would be worth \$722 today (+267%)**
- **Housing is shelter... not an investment**

Marcus & Millichap's NMHG

Remains Bullish on U.S. Apartments Long-Term

- **Starts down**
- **Demand increasing**
- **Supply difficult and expensive to deliver**
- **Current rents do not justify development**
- **Housing “preference” beginning to shift**
- **Unlikely the industry will meet demand**
- **Significant future pressure on rents**
- **U.S. apartments will be dramatically more valuable in 2020 than 2010**



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