



U.S Economic, Capital Markets and Apartment Market

*Overview and Outlook – Special Client Webcast
February 24, 2009*

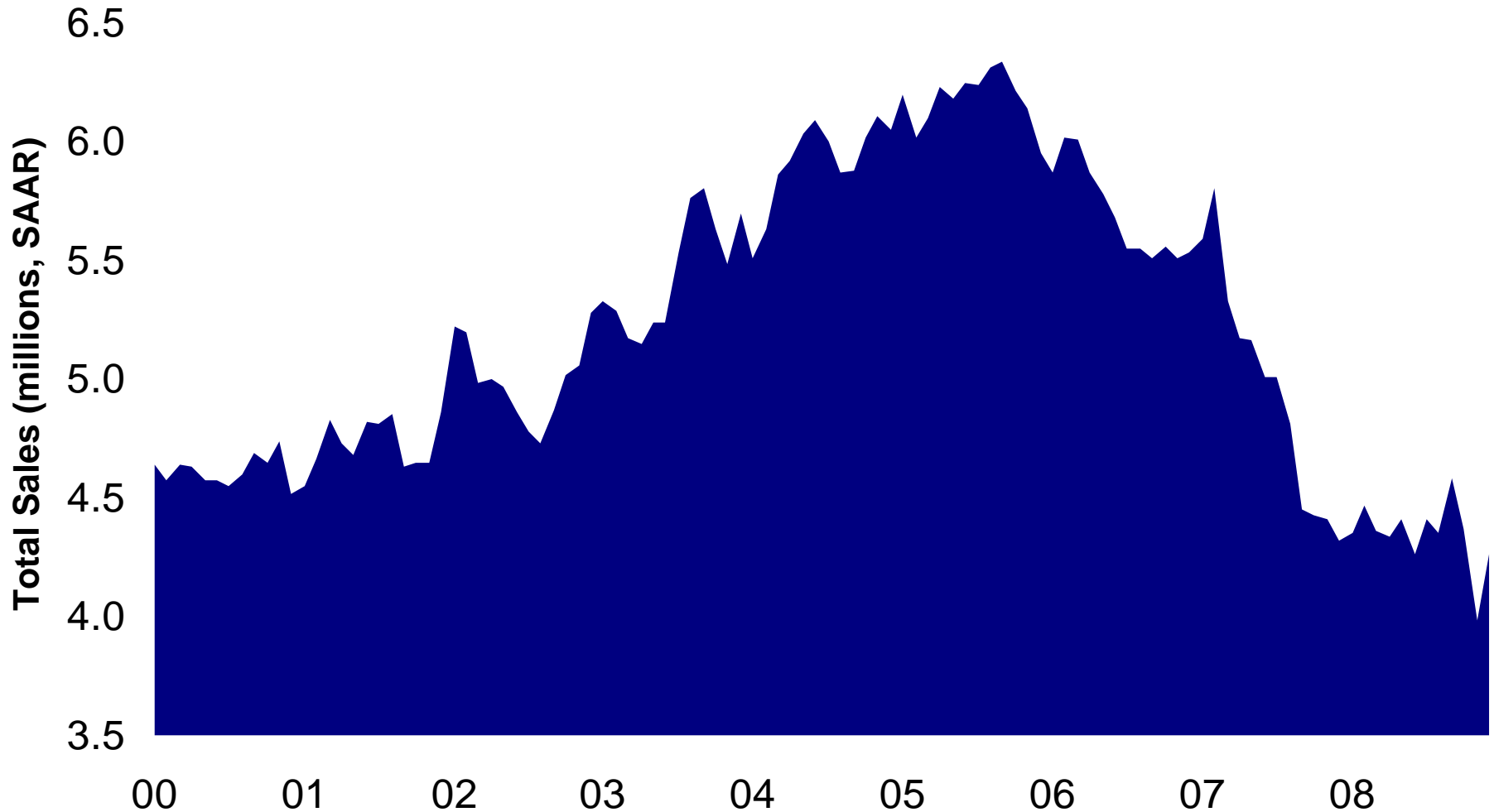
Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

***ECONOMIC and APARTMENT MARKET
FUNDAMENTALS***

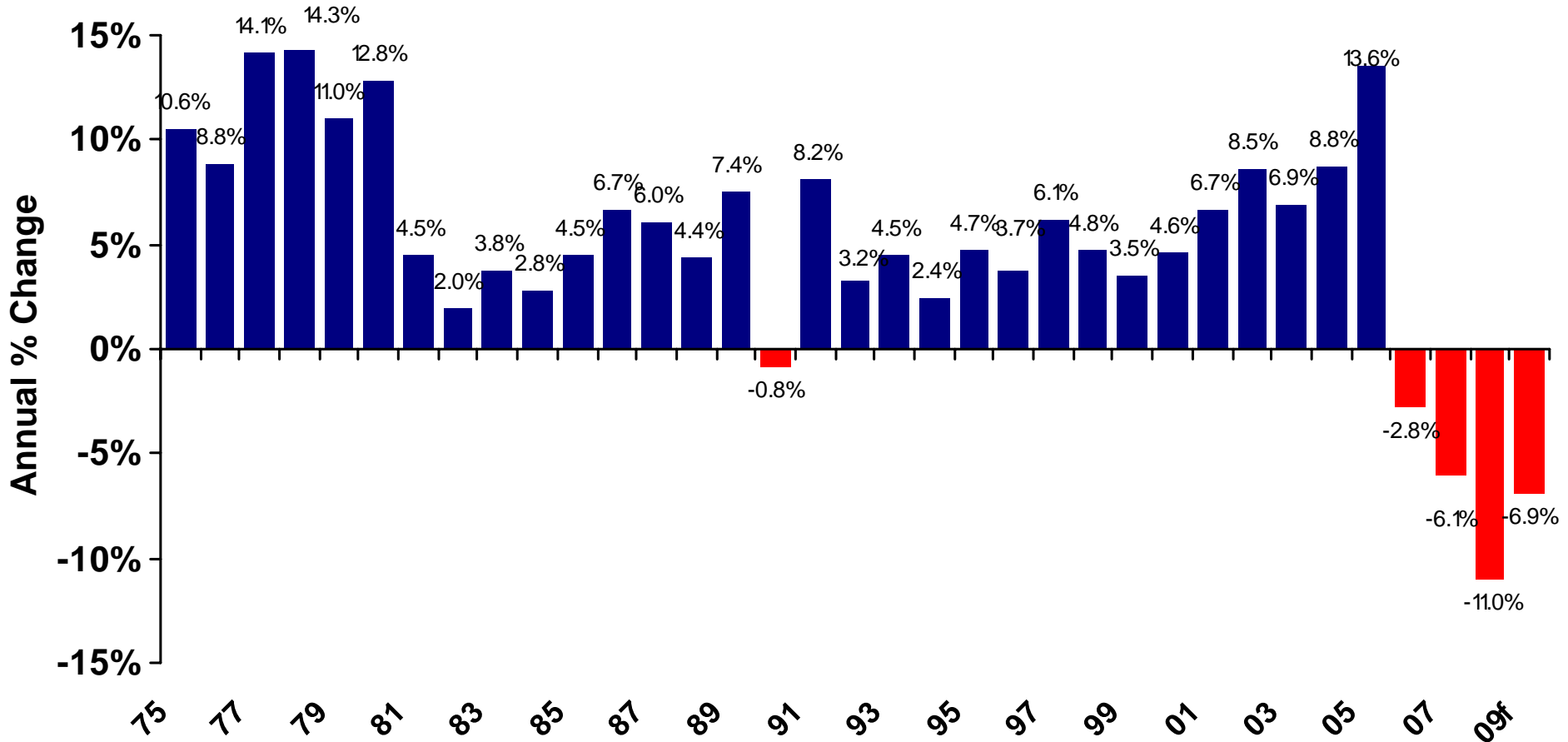
OVERVIEW and OUTLOOK

Home Sales Near Bottom – Foreclosures, Financing Still Major Headwinds



Home Prices Yet to Reach Bottom

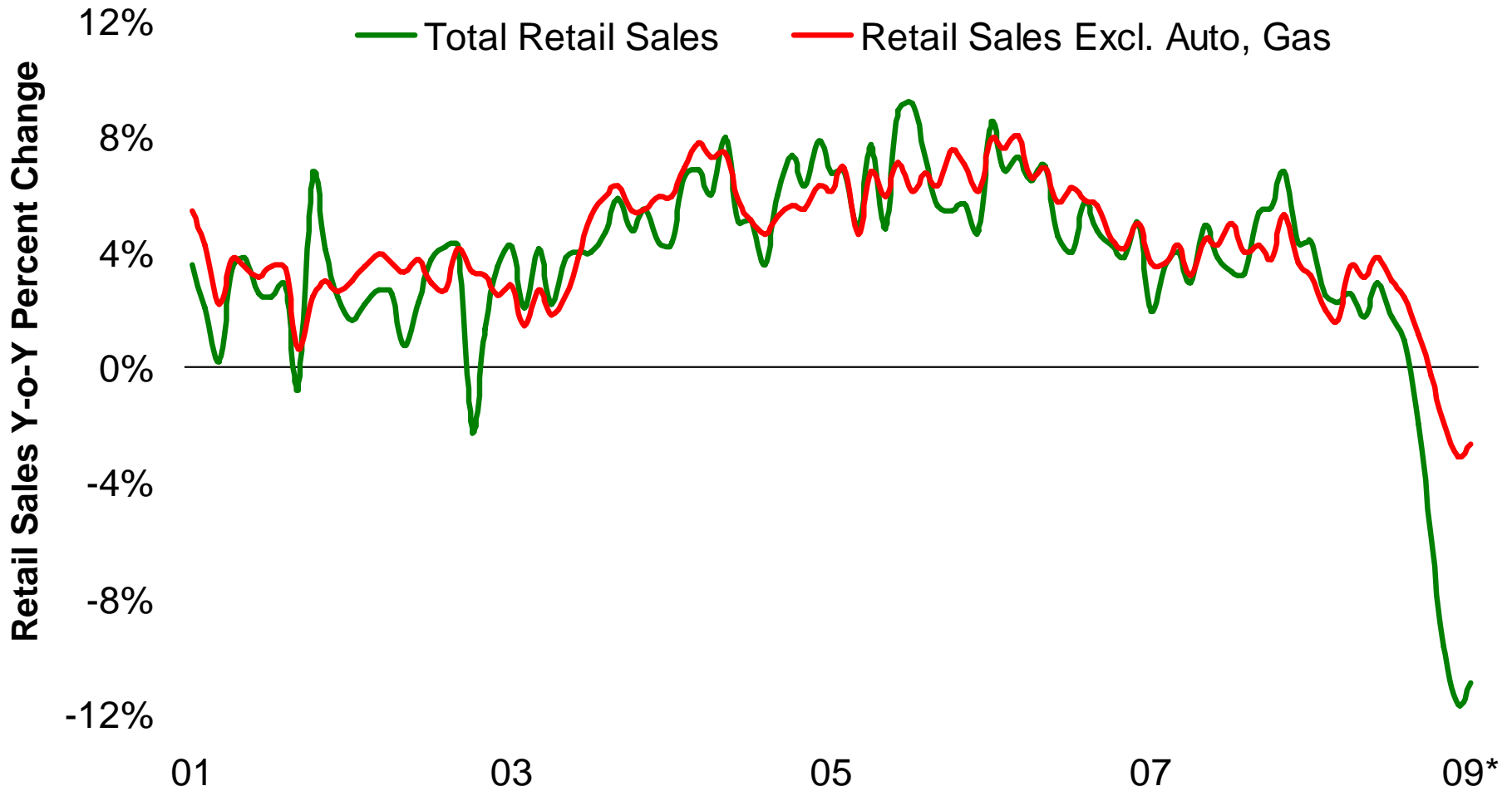
U.S. Existing Median Home Price Trends



Note: 4Q vs. 4Q

Sources: National Association of Realtors, RCG

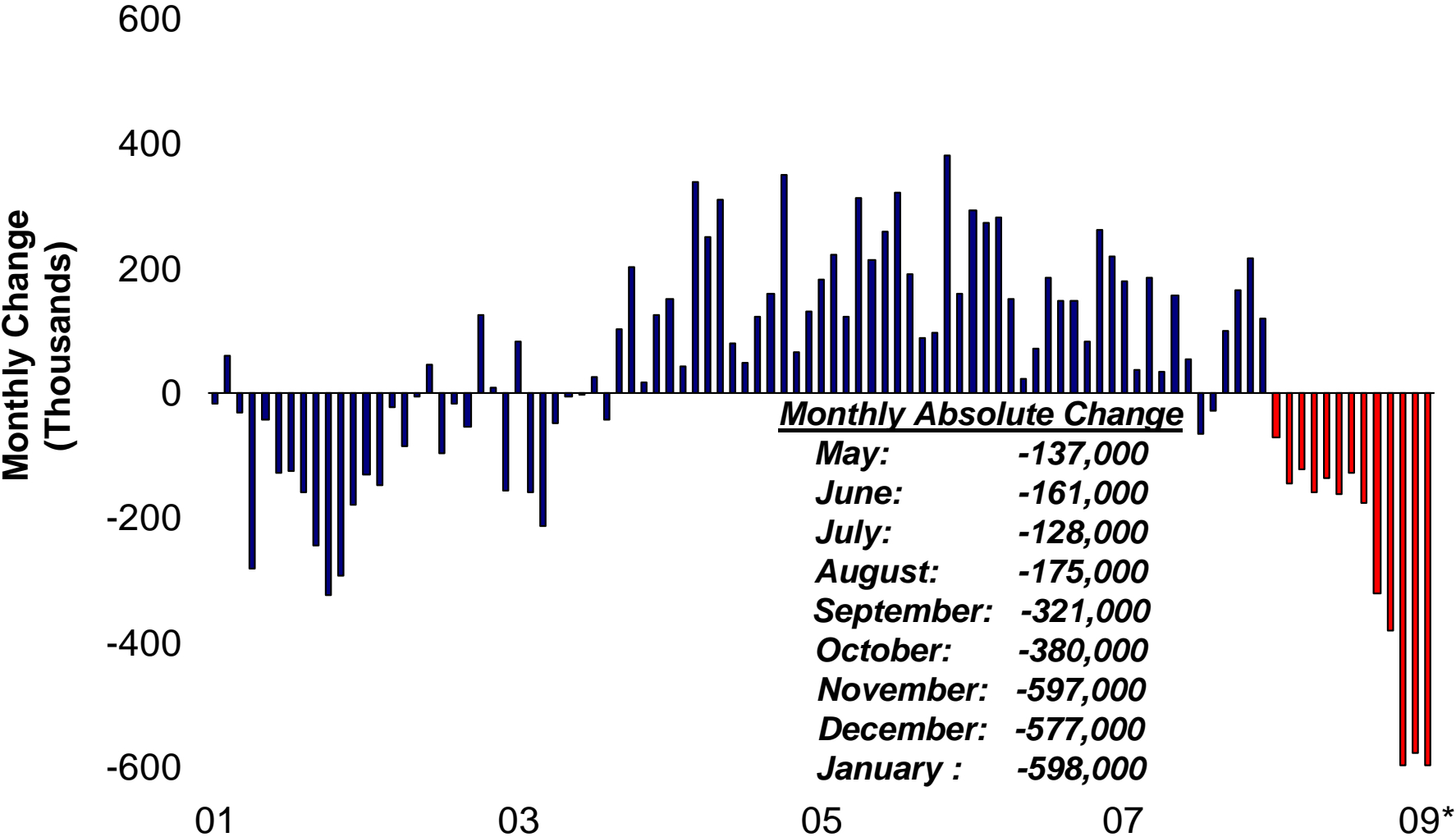
U.S. Consumption Remains Weak



* Through January

Sources: Marcus & Millichap Research Services, Bureau of the Census

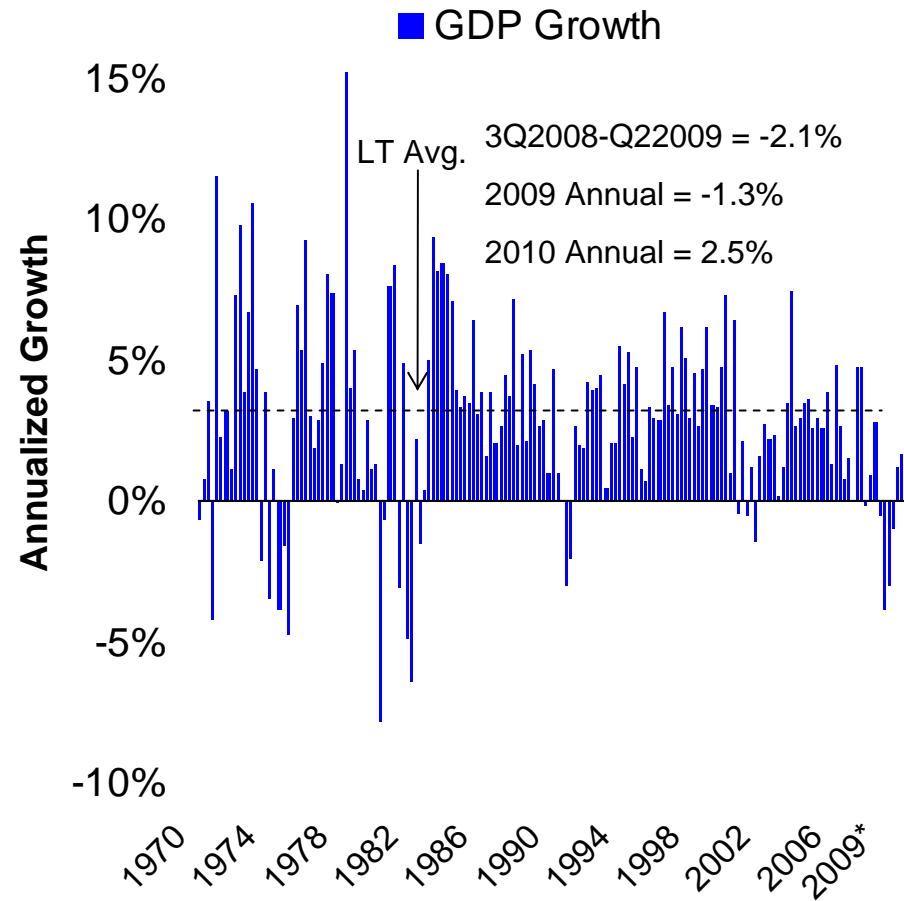
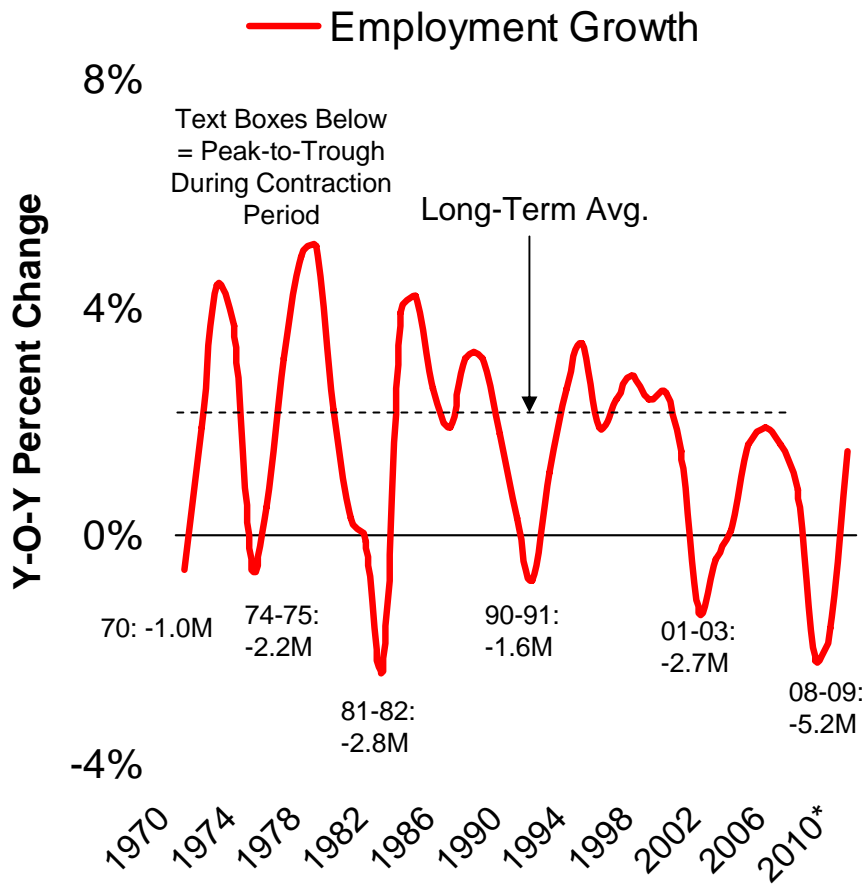
Job Losses Have Reached “Extreme” Levels In Response to Financial Crisis



* Through January
Sources: Marcus & Millichap Research Services, BLS, Economy.com

Economic Weakness Expected Through Q3-2009

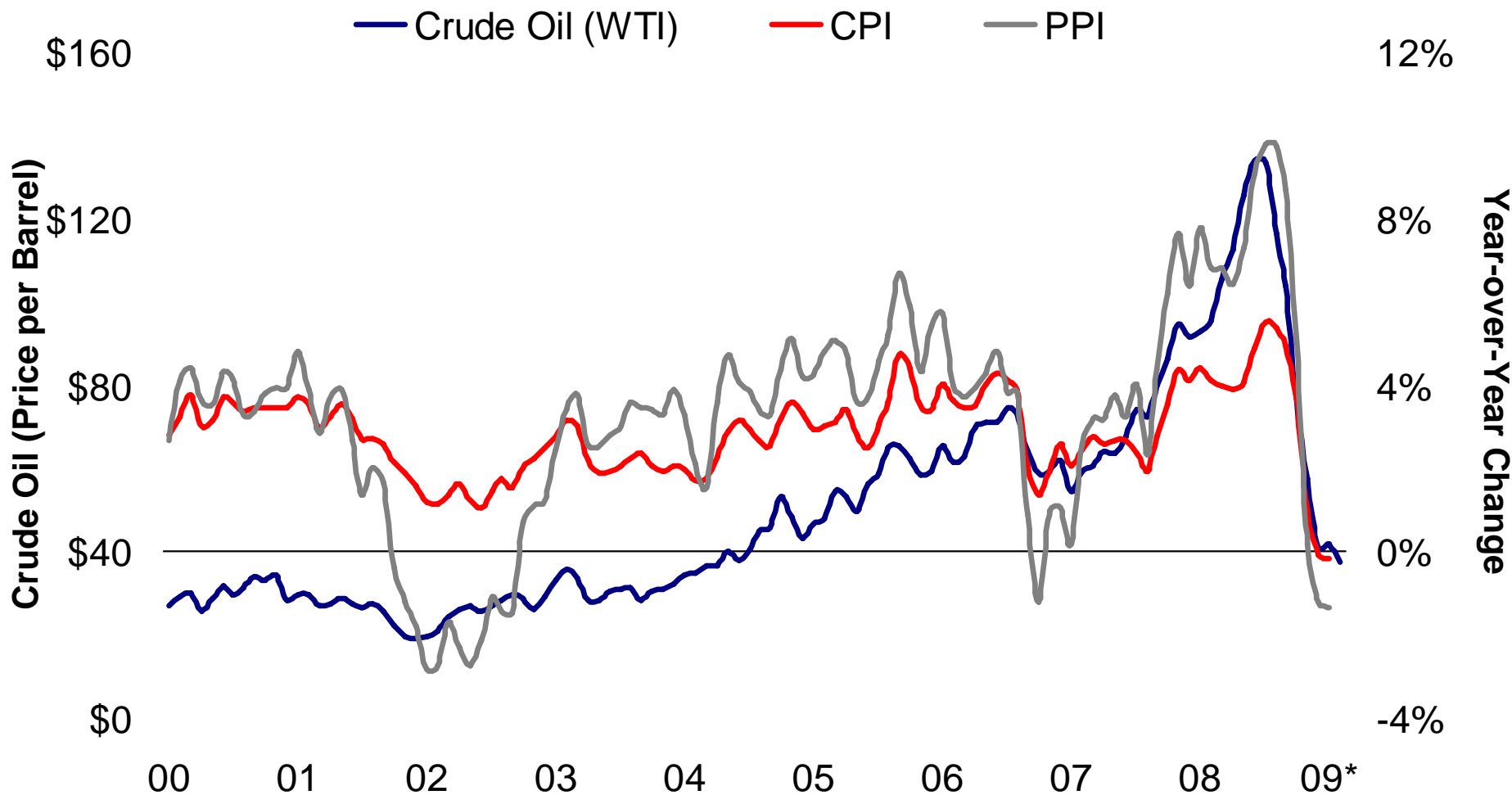
Risk Levels Remain Elevated



*Forecast Assumes No Additional Major Shocks

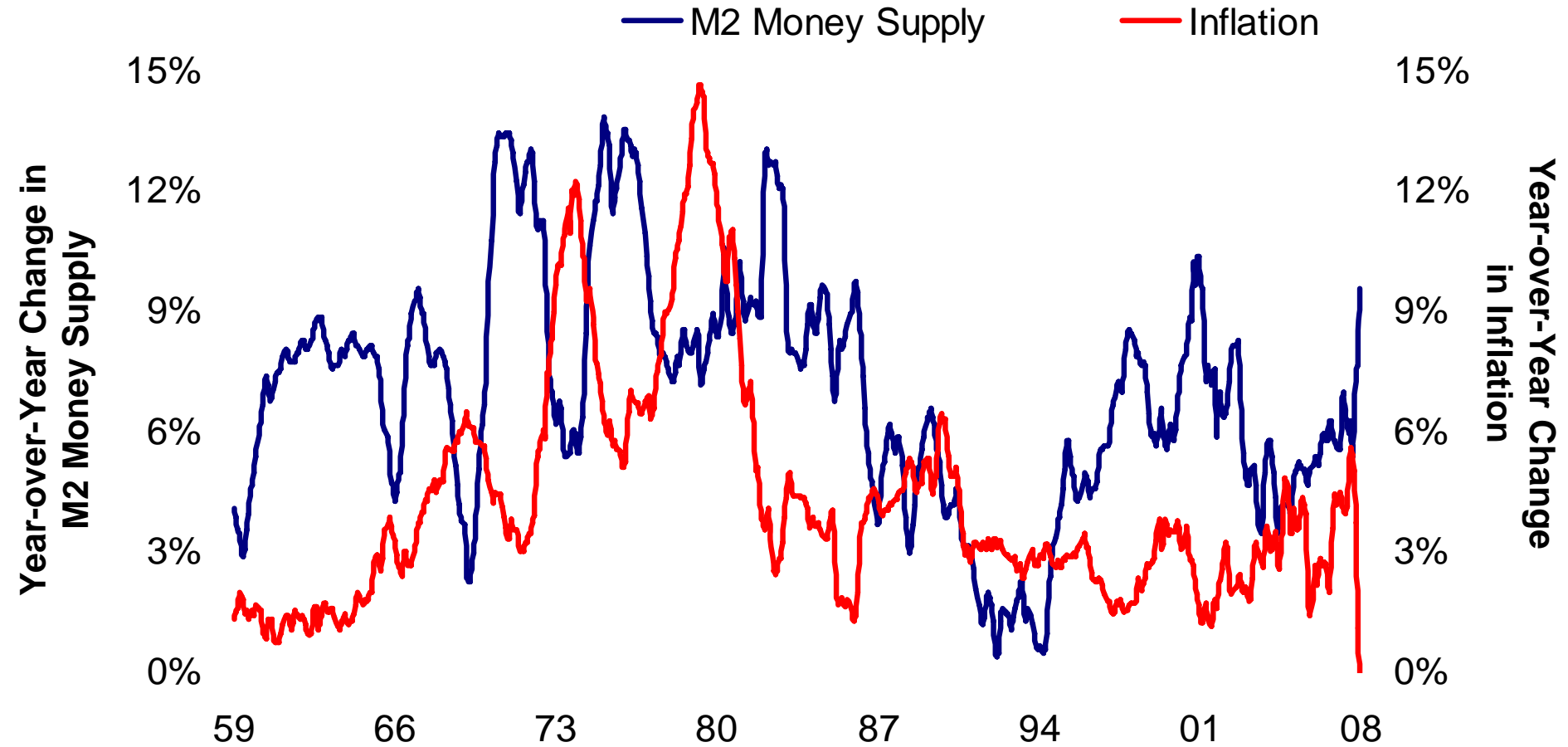
Sources: Marcus & Millichap Research Services, Blue Chip, Economy.com, Global Insight

Lower Energy Prices a Major Positive Factor – Fed on Deflation Watch (For Now)



* Crude Oil as of Feb 10th, PPI and CPI through Jan
Sources: Marcus & Millichap Research Services, BLS, FRED

M2 Money Supply vs. Inflation

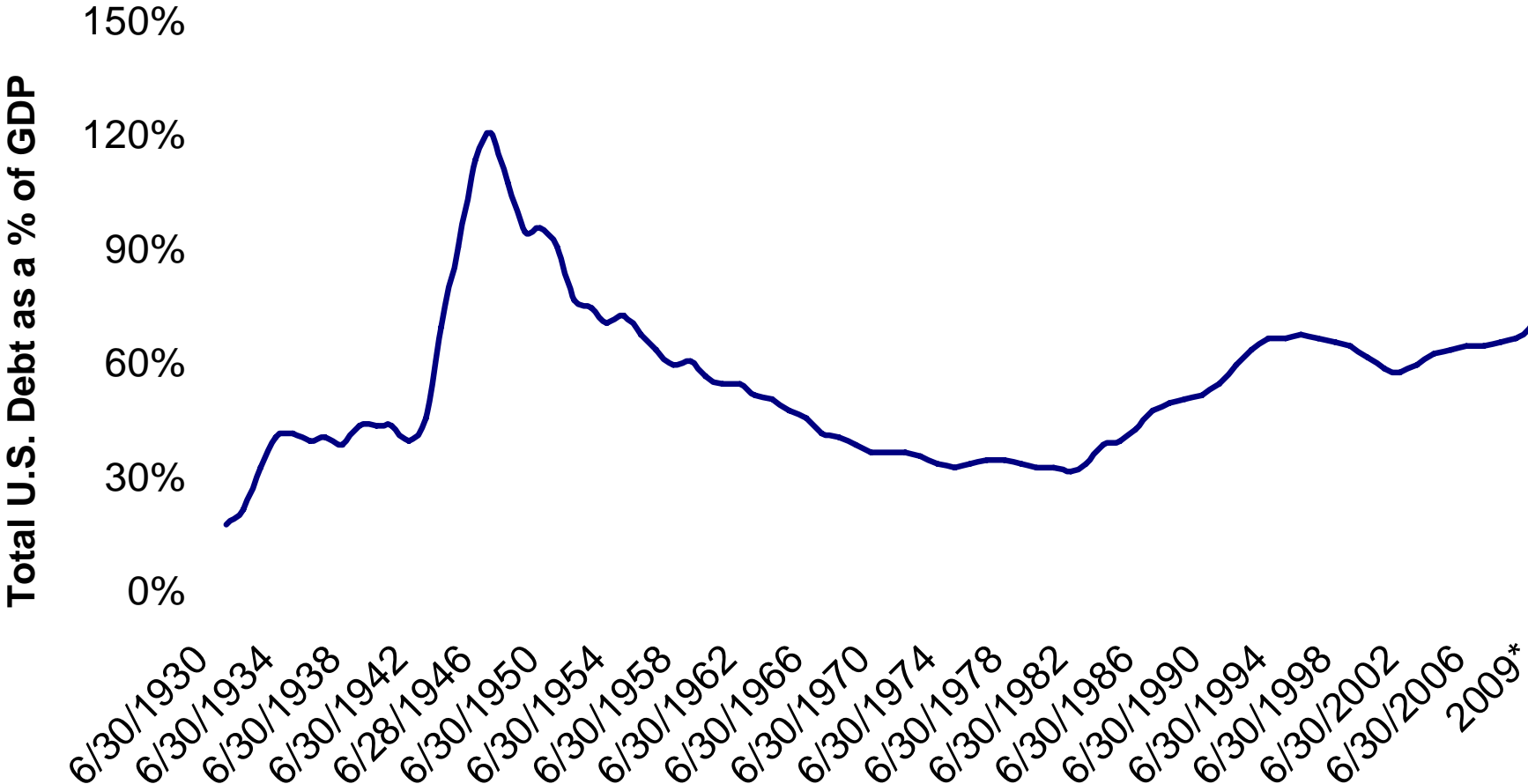


Adjusts for changes in reserve requirements

Sources: Marcus & Millichap Research Services, FRB

U.S. Public Debt as a Percent of GDP

— Total U.S. Debt as a % of GDP

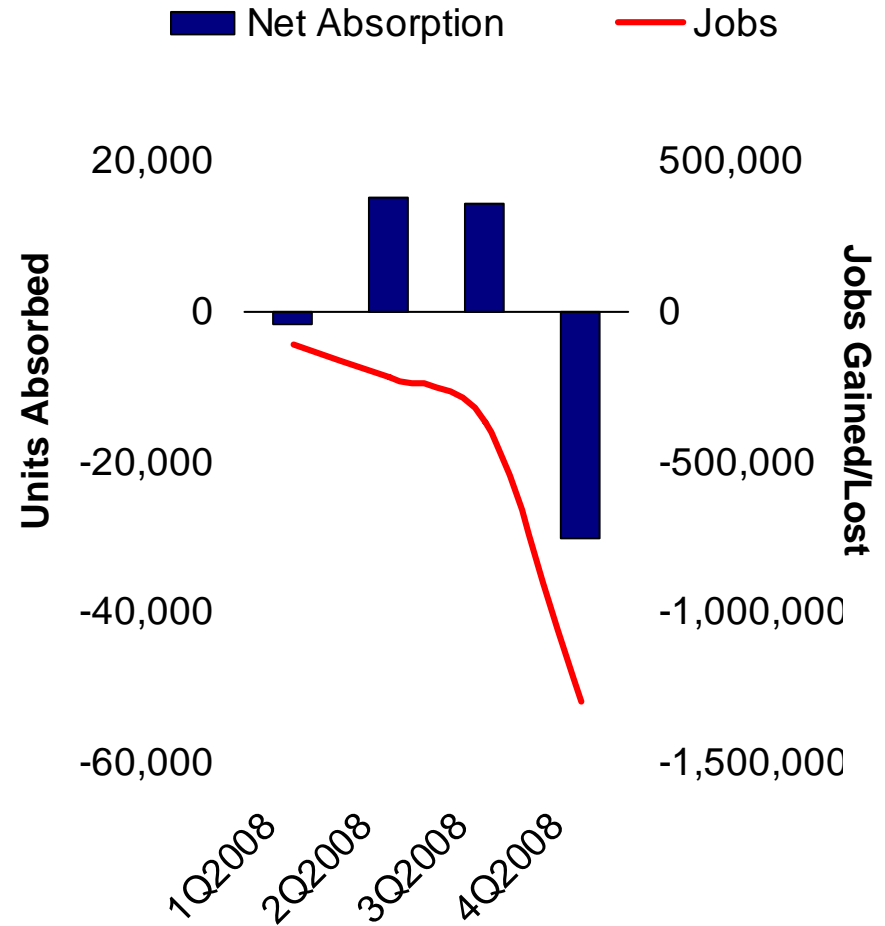
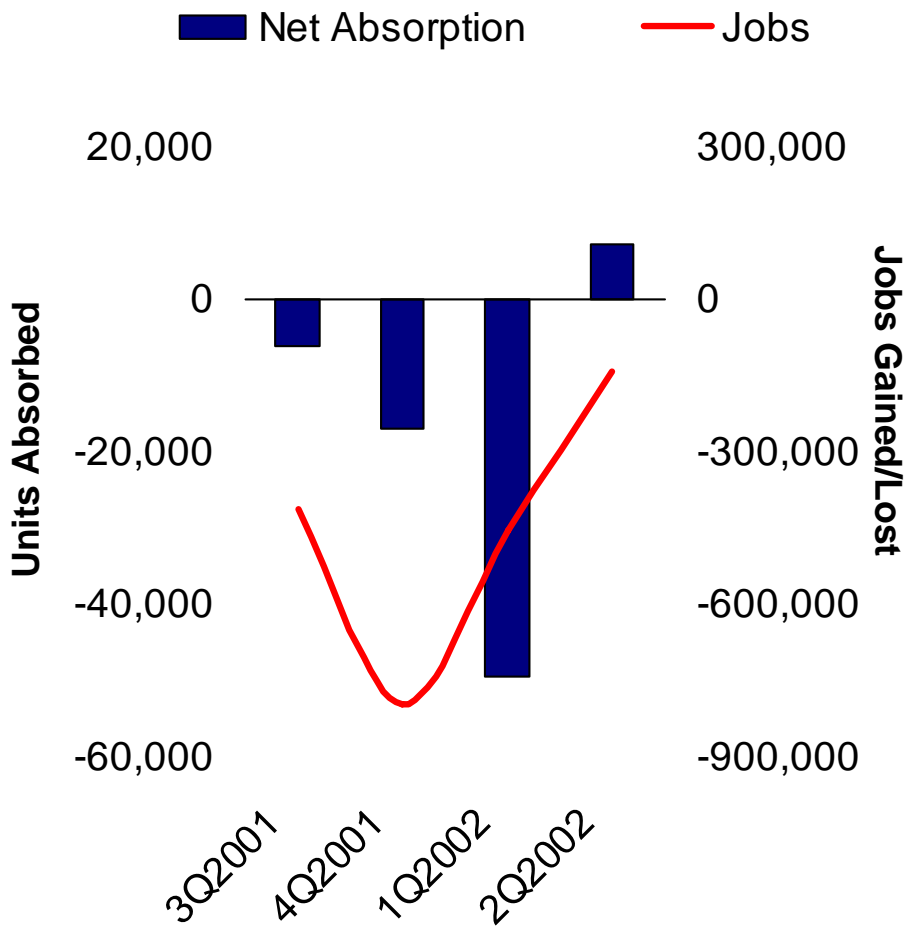


* Forecast

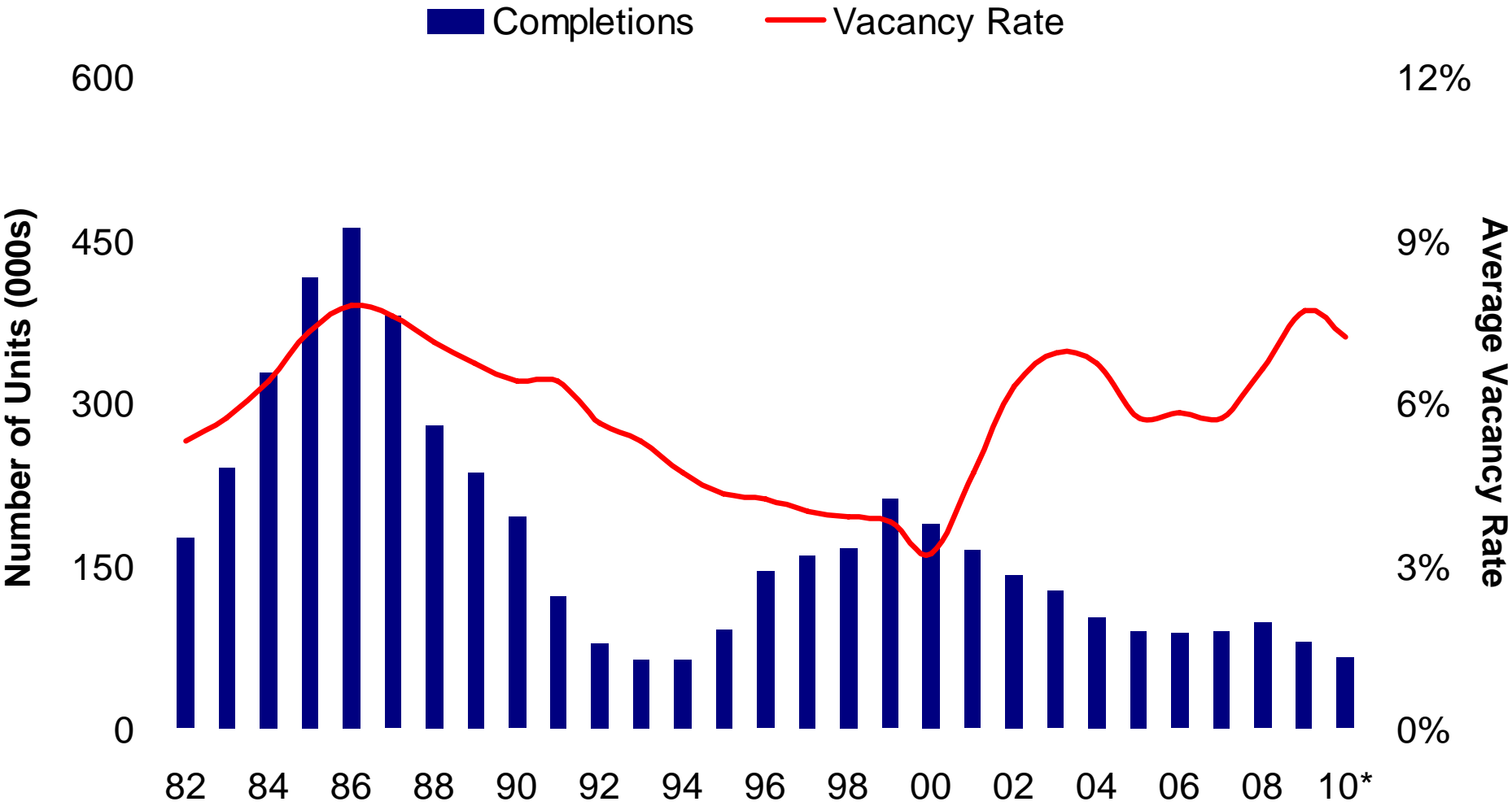
Data Represents 2Q for each time period

Sources: Marcus & Millichap Research Services, Federal Reserve

Apartment Absorption and Employment Growth – Previous Downturn vs. Current



Falling Construction, Modest Employment Recovery Should Begin to Reverse Vacancy Trend in 2010



* Forecast
Sources: Marcus & Millichap Research Services, Reis

***CAPITAL MARKETS
OVERVIEW and OUTLOOK***

Capital Markets Developments Since December 2008

The Good News:

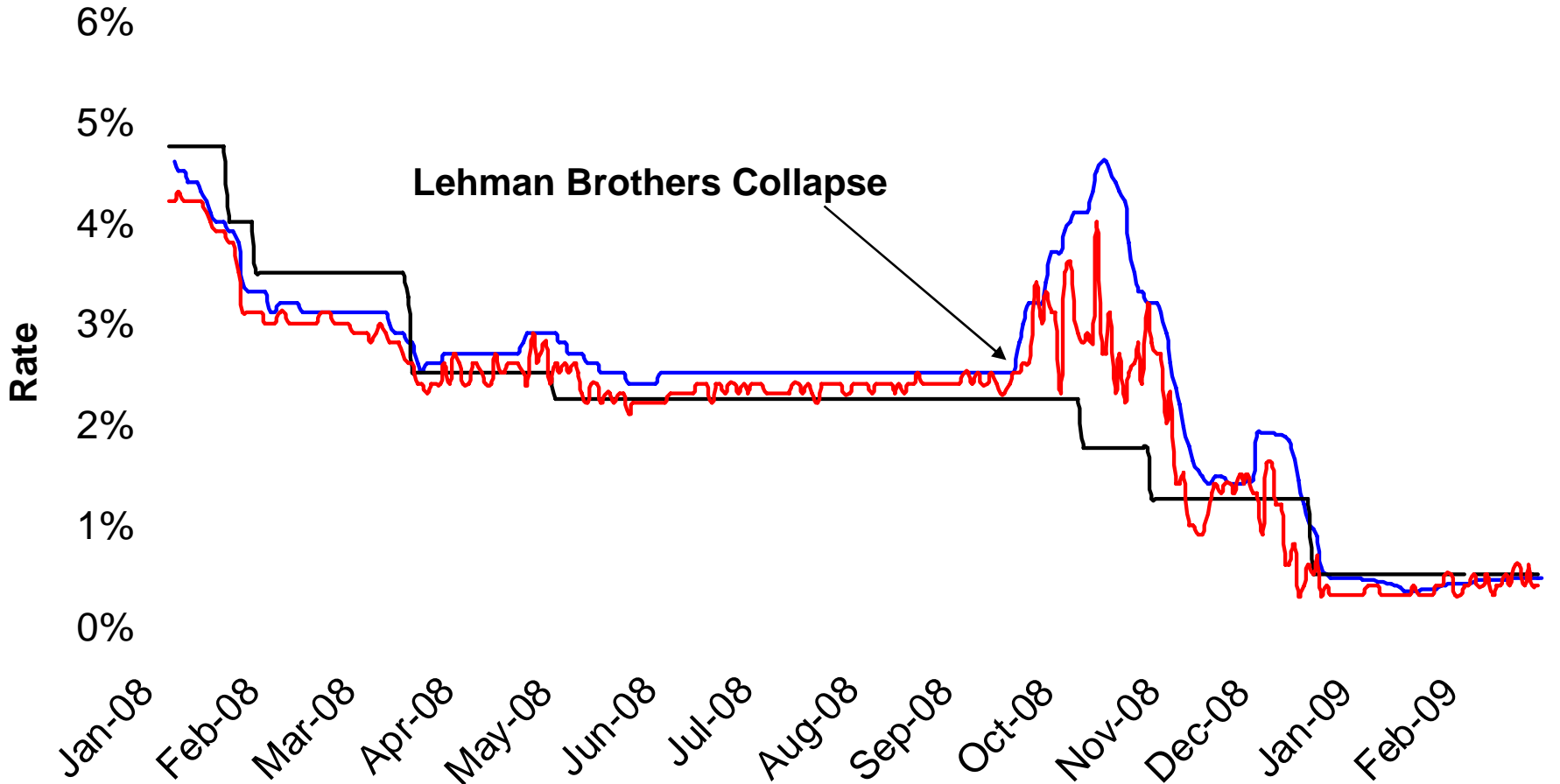
- 1. Inter-bank lending continues to improve**
- 2. LIBOR and TED spreads have stabilized**
- 3. 10-Year Treasury Yield at 2.76% remains at a very low level**
- 4. Delinquencies continue to be near historic lows but are rising**
- 5. Deals are getting done – local and regional banks, life insurance companies, Fannie and Freddie**

The Bad News:

- 1. Lending standards tight with global focus on sponsorship**
- 2. Life insurance allocations have been reduced for 2009**
- 3. Mortgage spreads remain elevated**
- 4. Fundamentals continue to weaken**
- 5. Heightened concern over values**

Key Market Rates

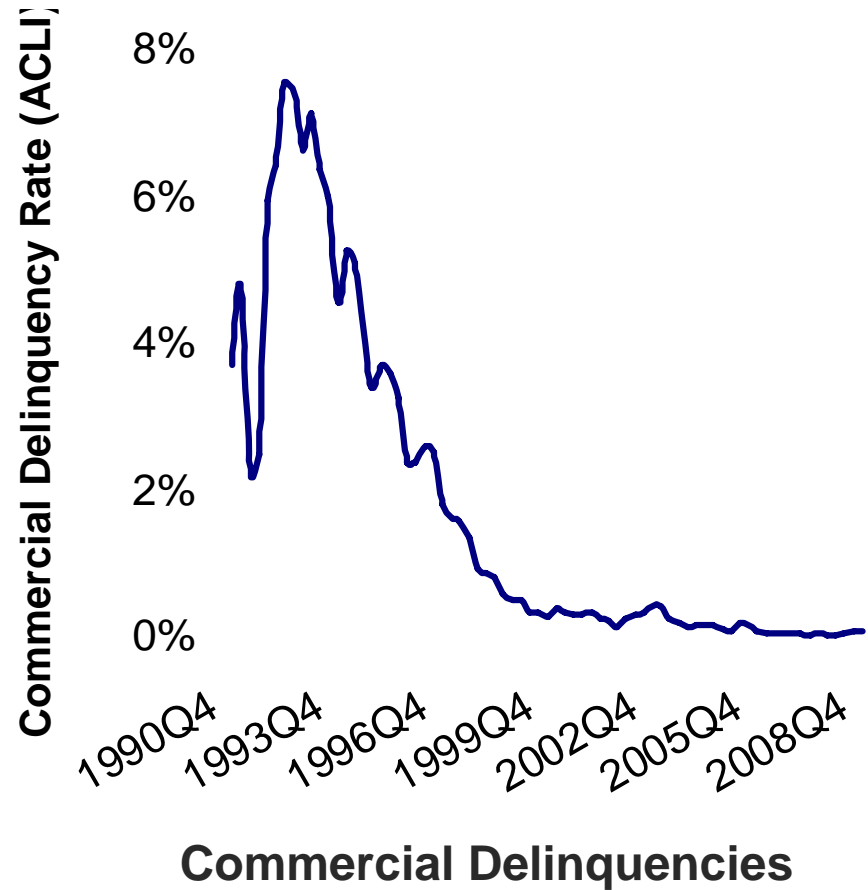
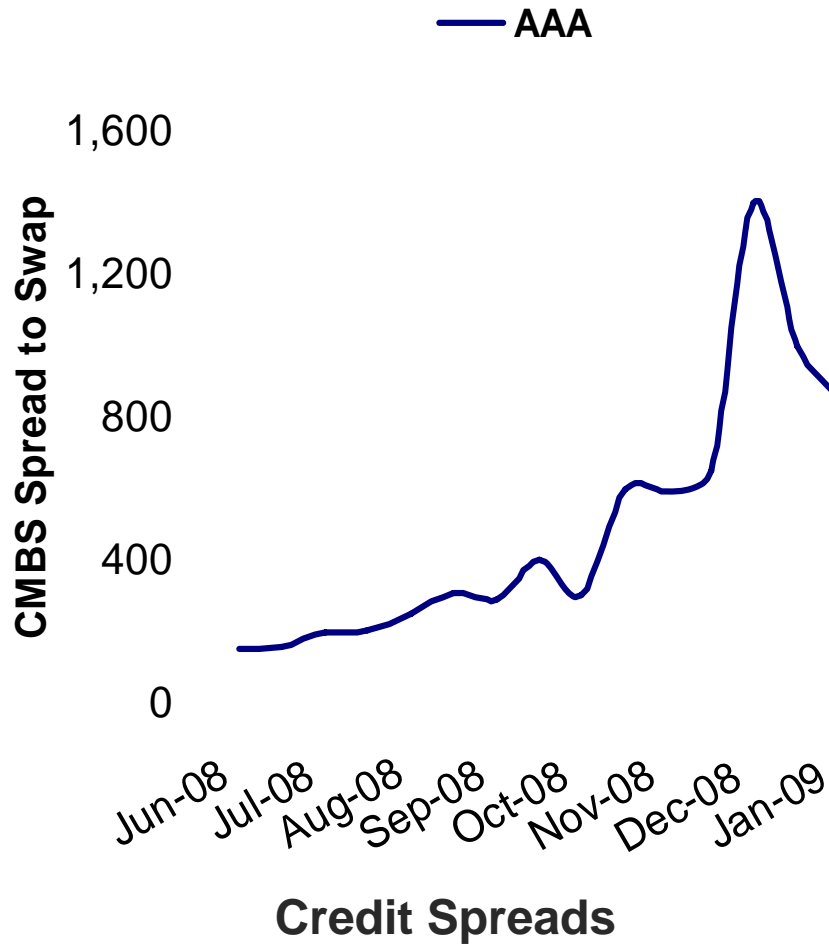
— 30 Day LIBOR — Federal Discount Rate — 30 Day Commercial Paper



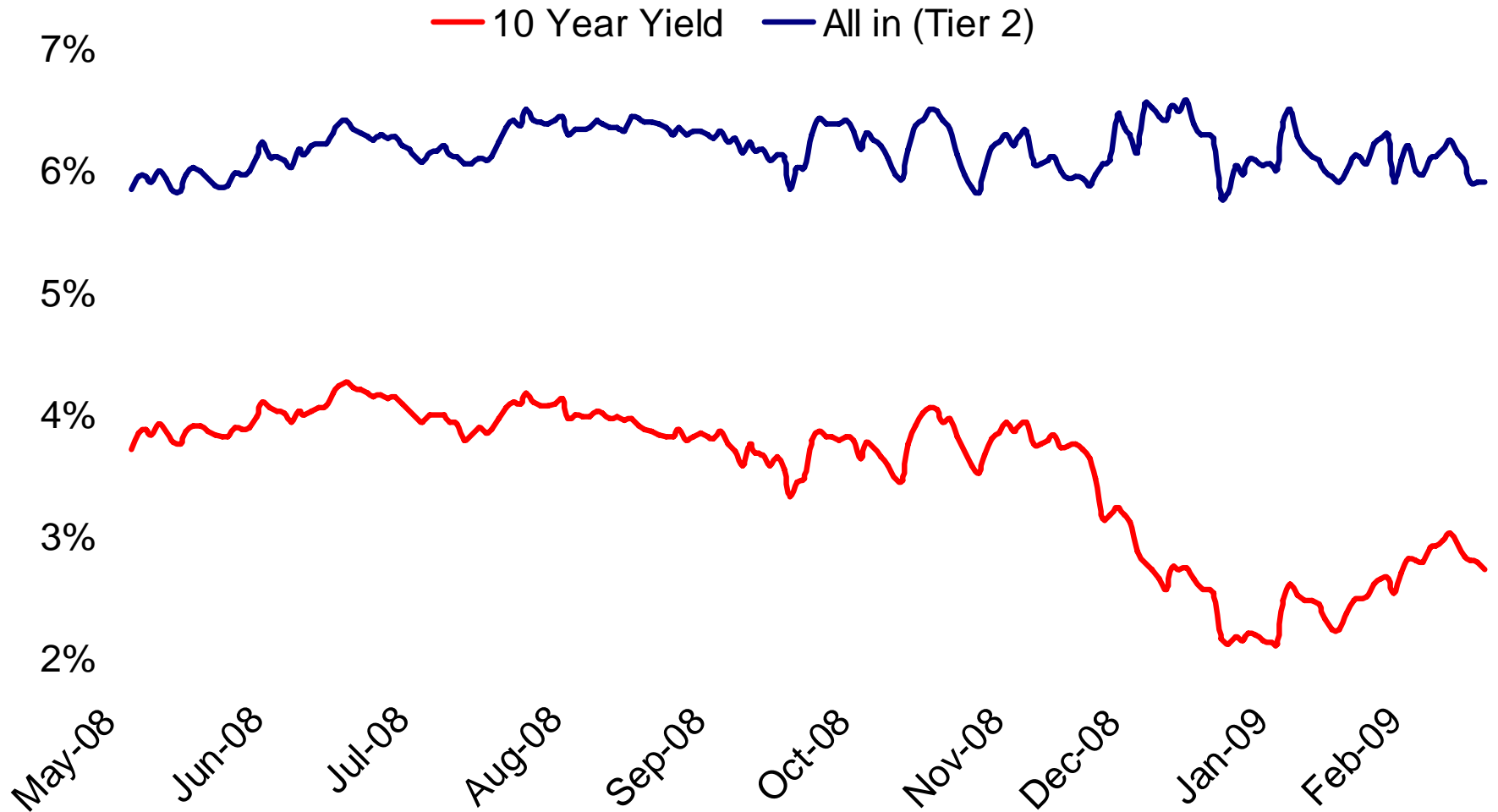
Through Feb 23, 2009

Sources: Economy.com, Federal Reserve Board

Spreads Remain Volatile – Delinquencies Near Historic Low; Expected to Rise



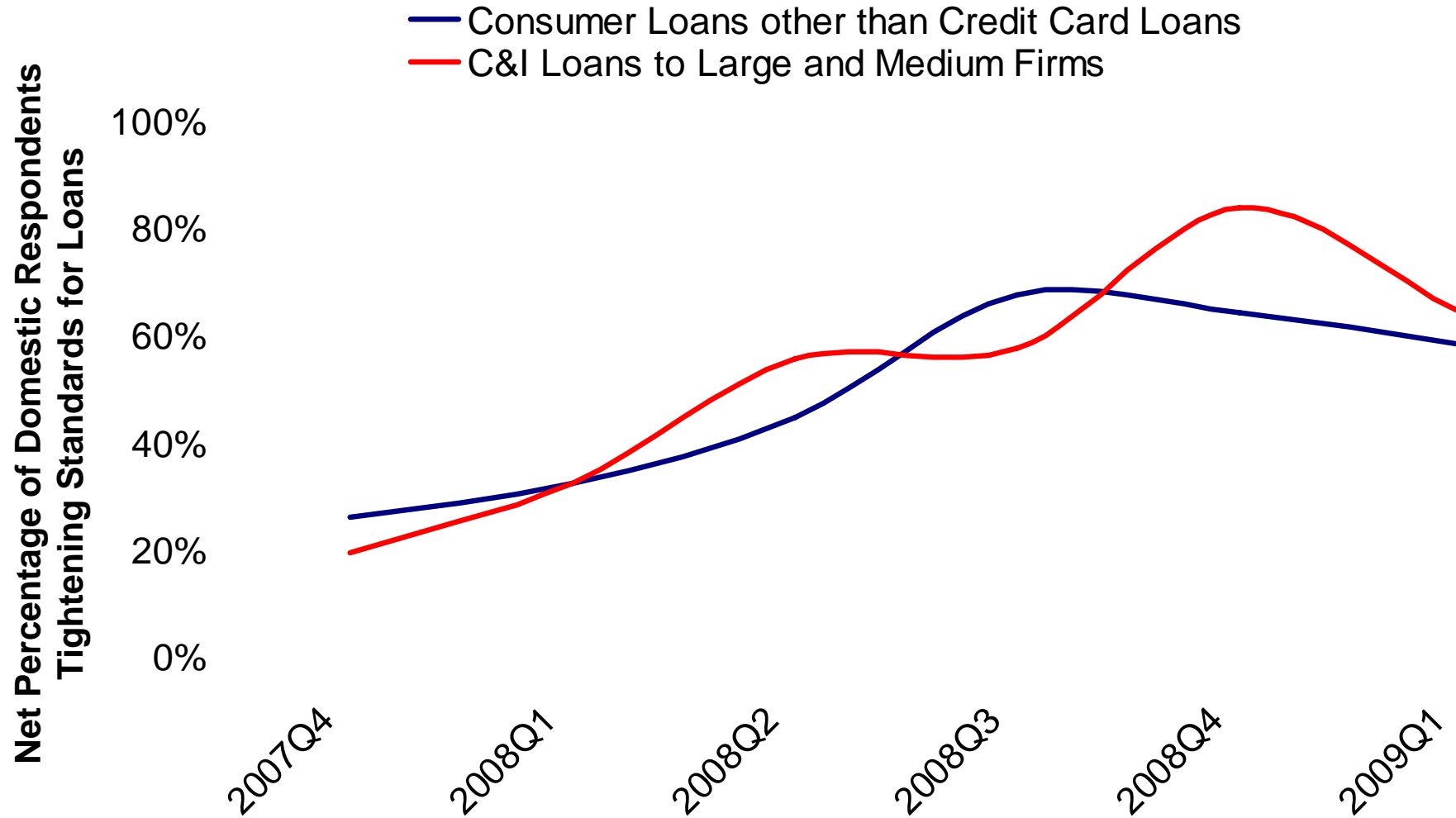
Indicative Fannie Mae Rates



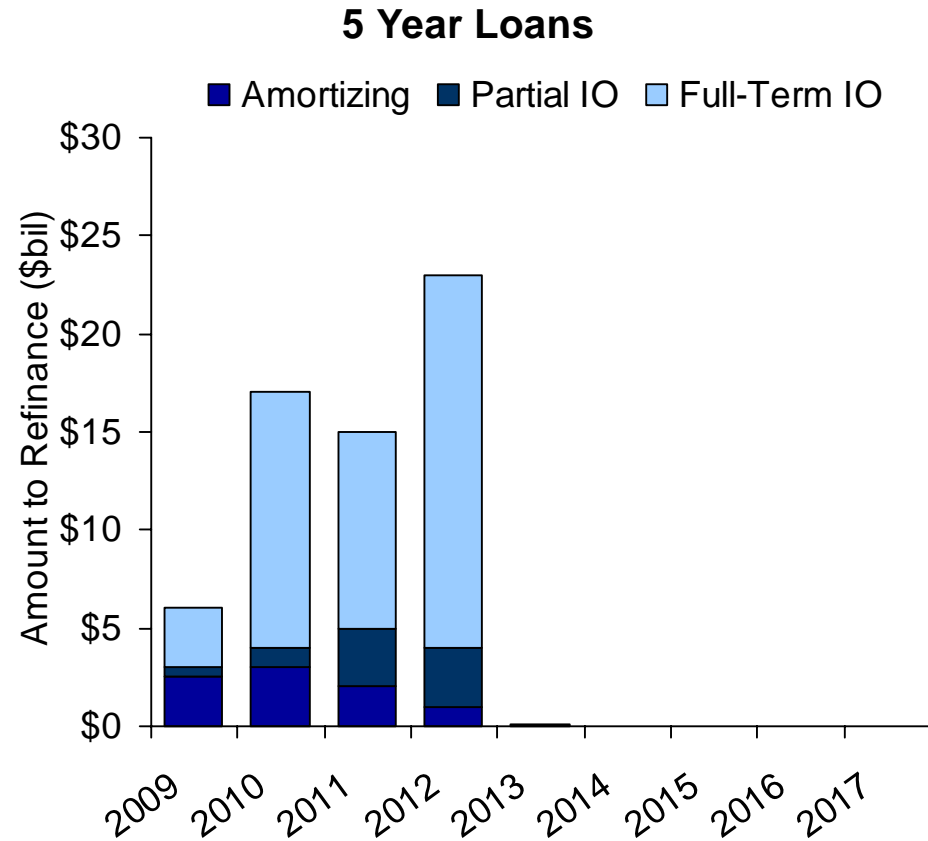
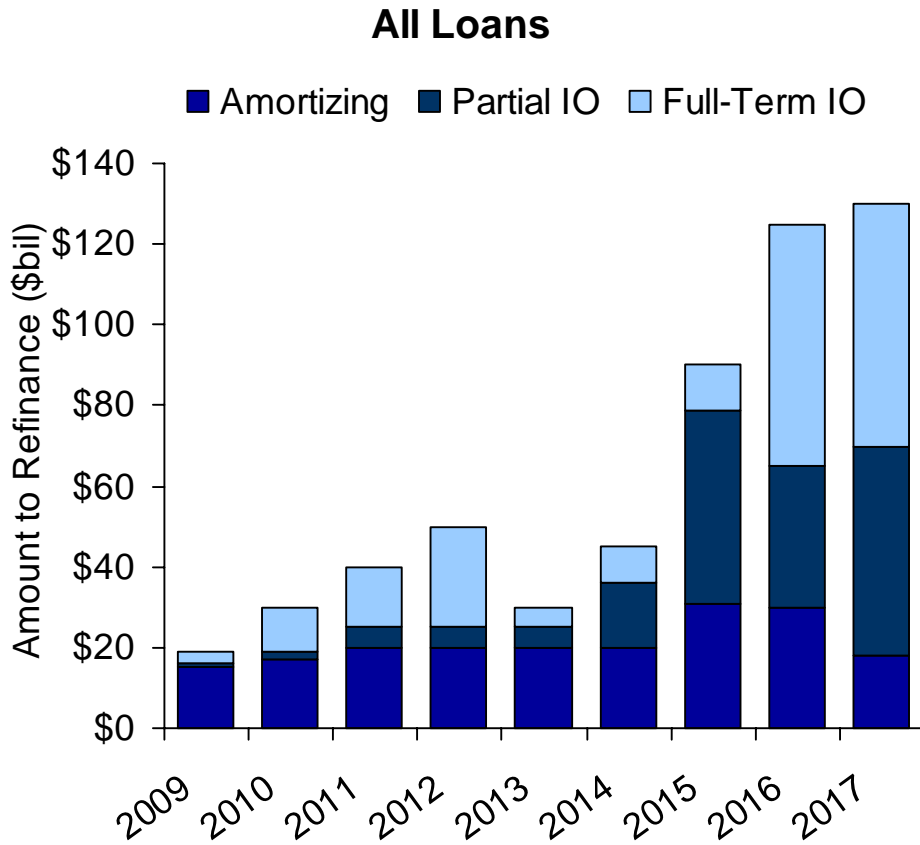
Through Feb 17, 2009

Sources: Marcus & Millichap Research Services, Federal Reserve Board

Credit Standards Have Tightened Across the Board



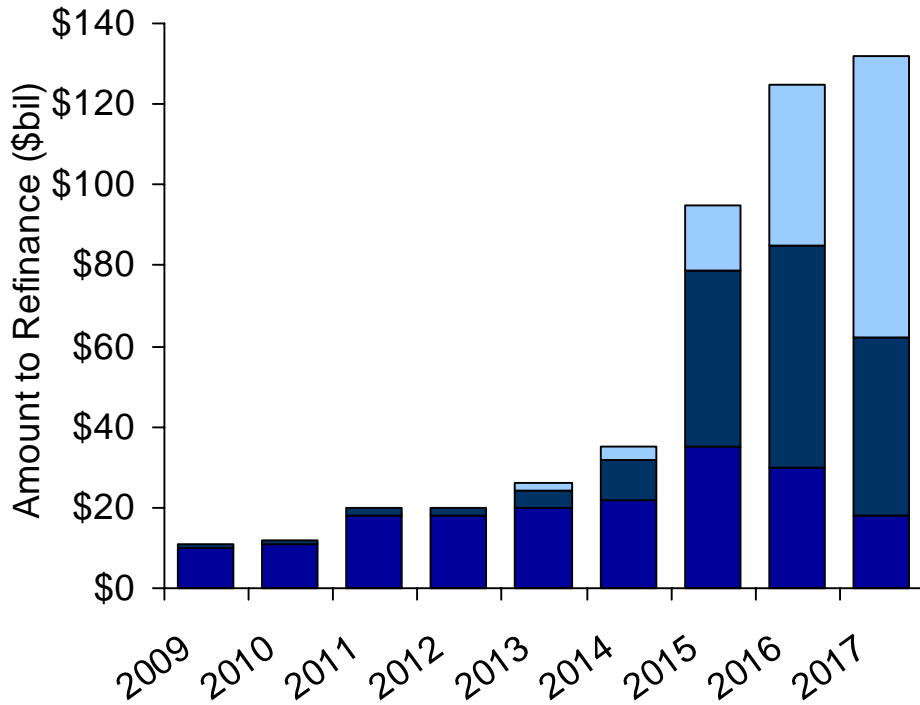
CMBS Maturing Loan Projections



CMBS Maturing Loan Projections

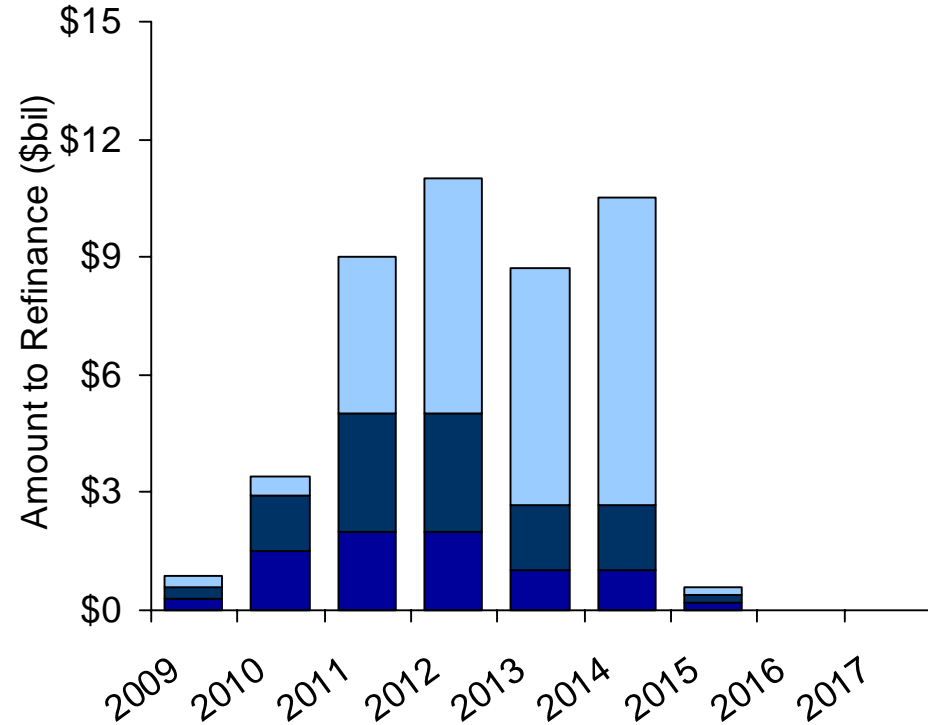
10 Year Loans

Amortizing Partial IO Full-Term IO

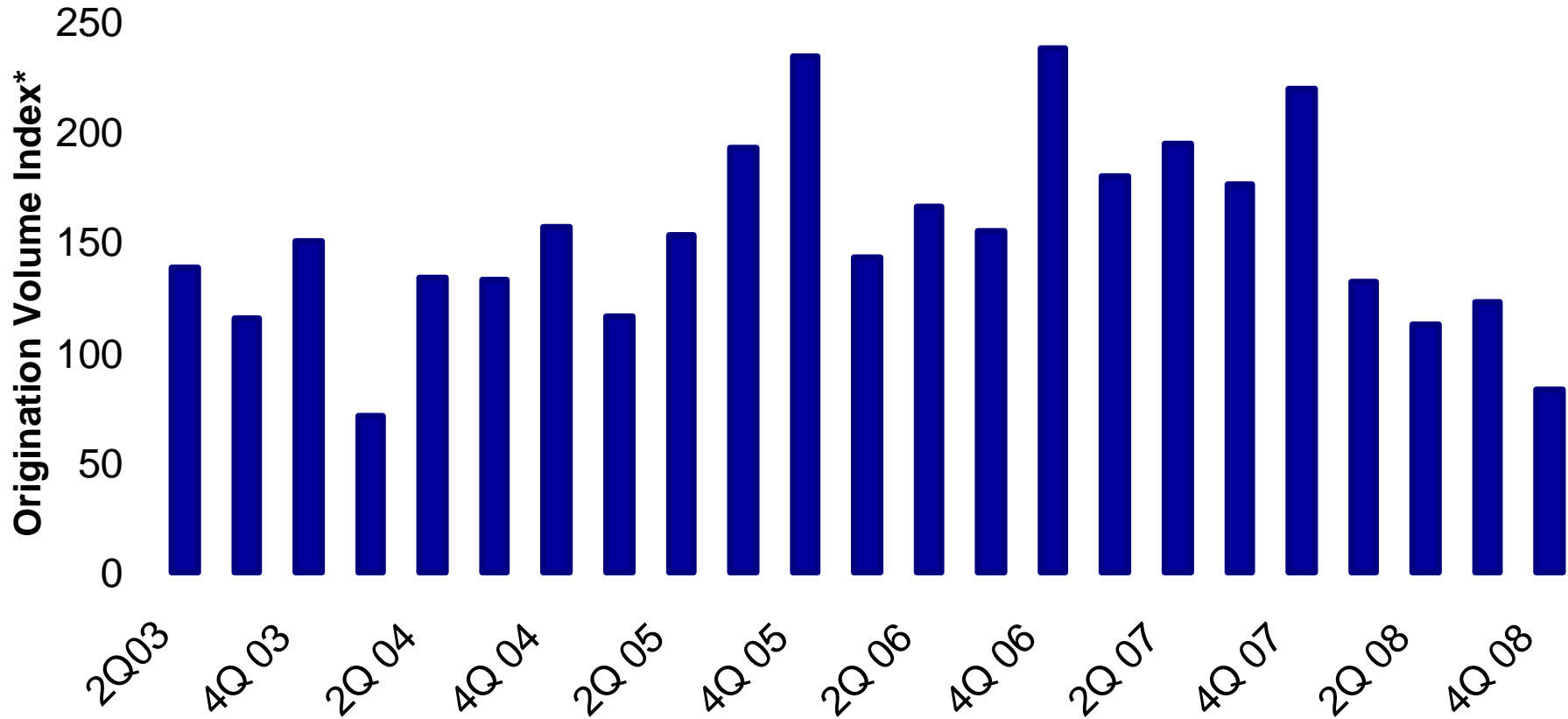


7 Year Loans

Amortizing Partial IO Full-Term IO



Mortgage Bankers Originations Index Multi-Family



* 2001 Avg. Qtr = 100

Sources: Marcus & Millichap Research Services, MBA

***APARTMENT INVESTMENT
TRENDS and STRATEGIES***

Market Divergence Continues

➤ Inherent investment value

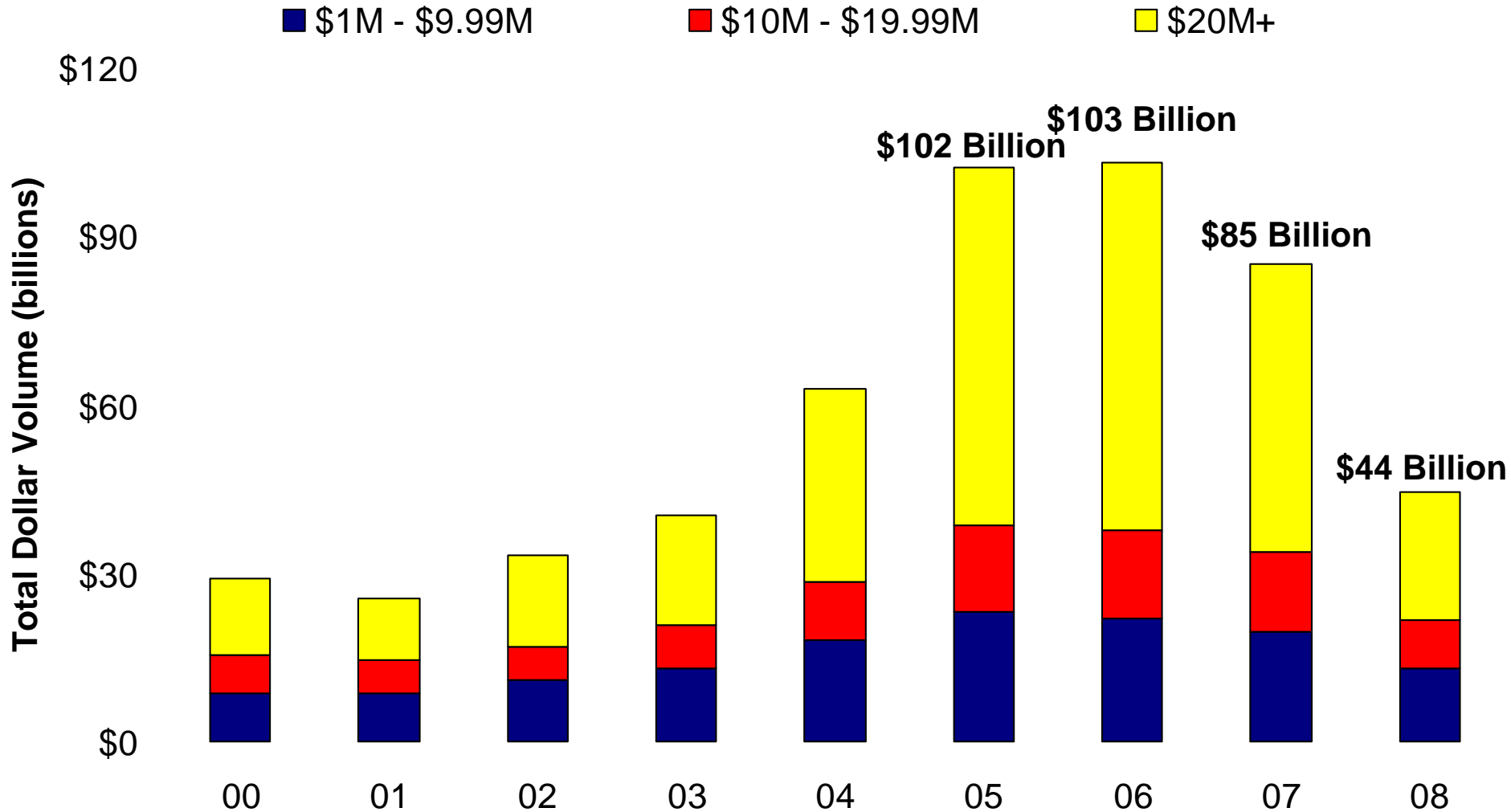
- Fundamentals softening short-term (2009-10)
- Construction starts are decreasing
- Future supply / demand favors appreciation
- Apartments remain a preferred investment
- Lack of suitable investment alternatives

➤ Short-term transactional value

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

U.S. Investment Trends

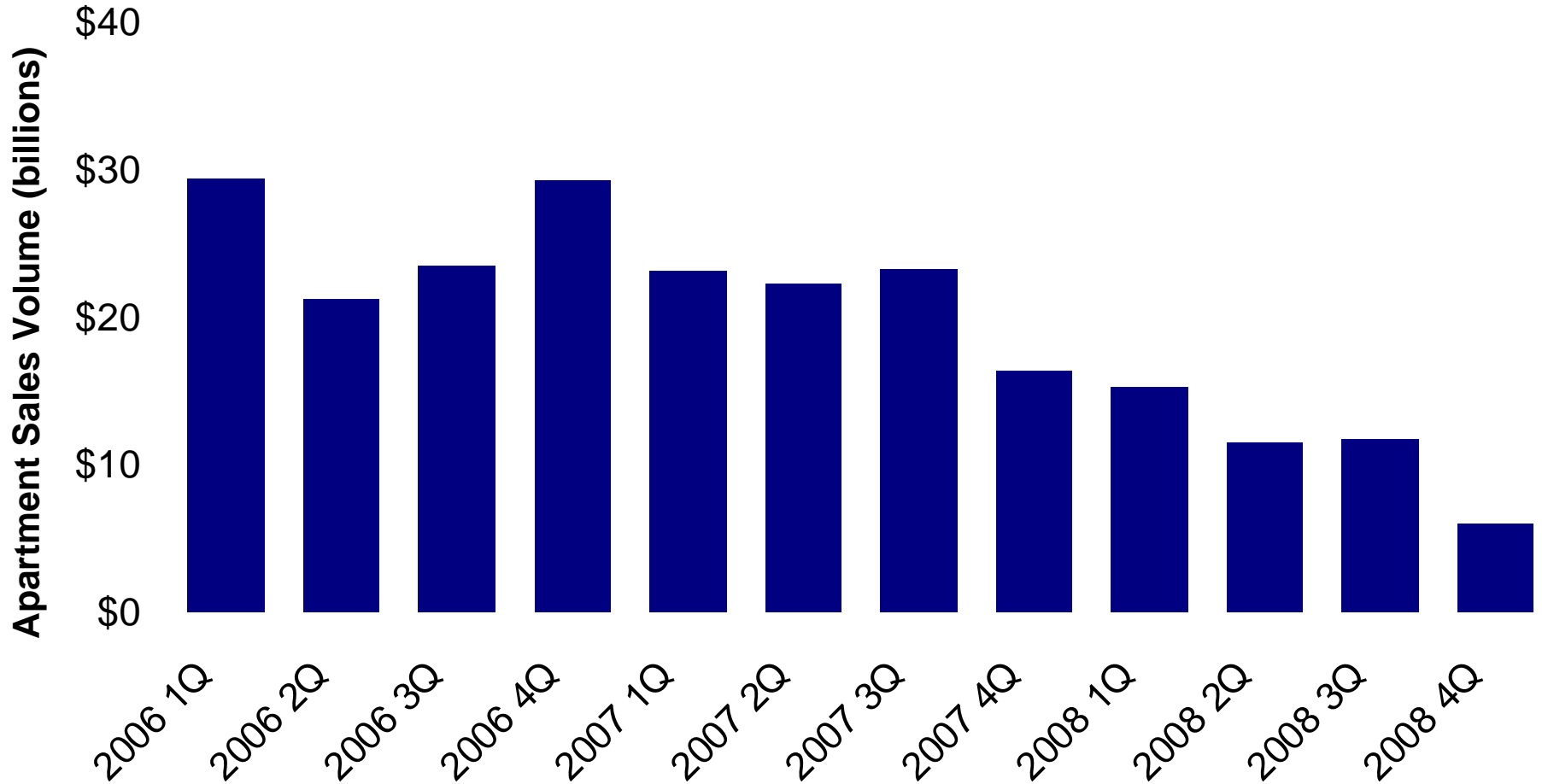
Apartment Dollar Volume by Price Category



Excludes Archstone Privatization

Sources: Marcus & Millichap Research Services, Real Capital Analytics

U.S. Apartment Sales Volume by Quarter



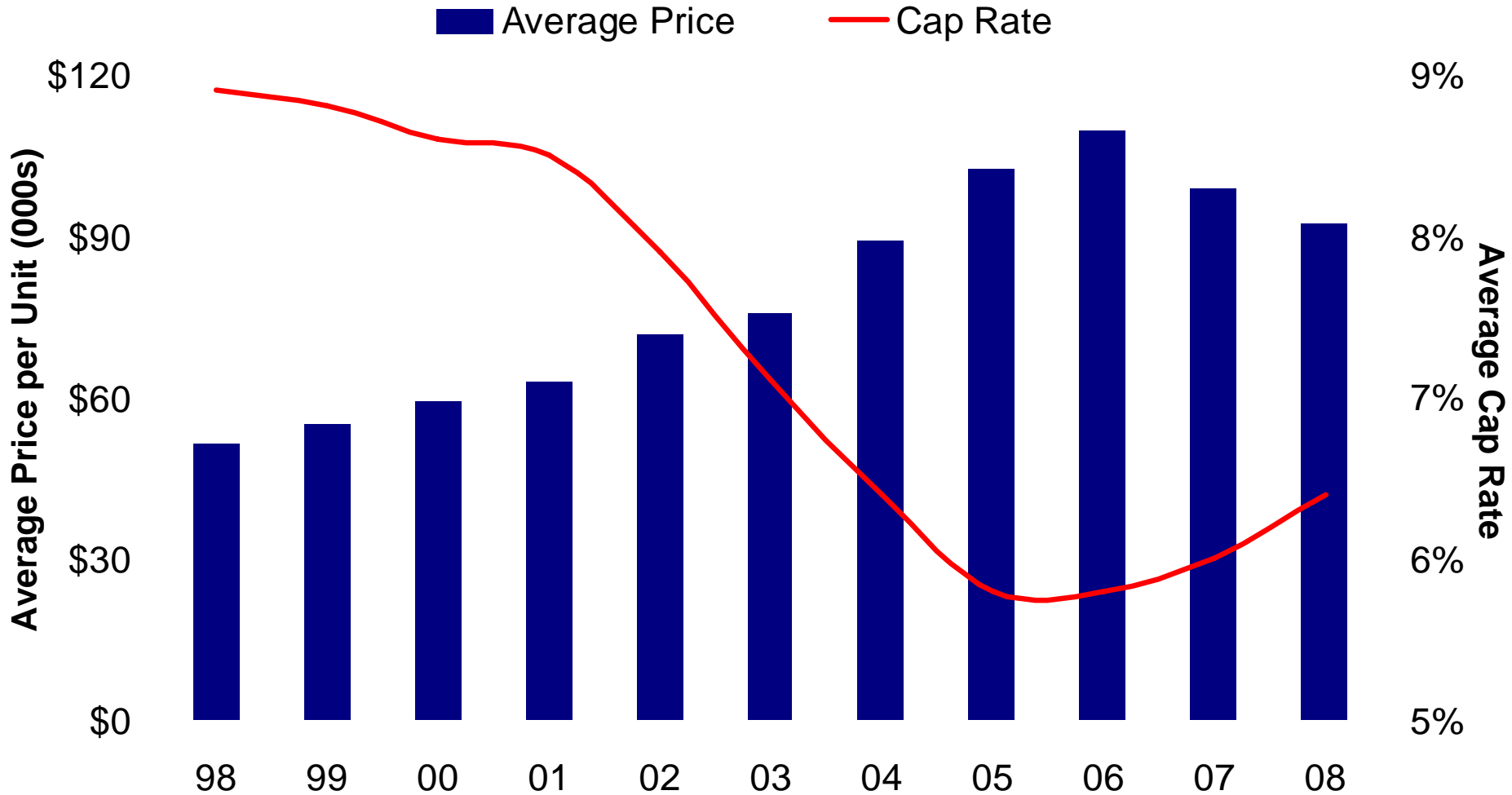
Excludes Archstone Privatization

Includes Sales of \$1 Million and Greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

Apartment Investment Trends

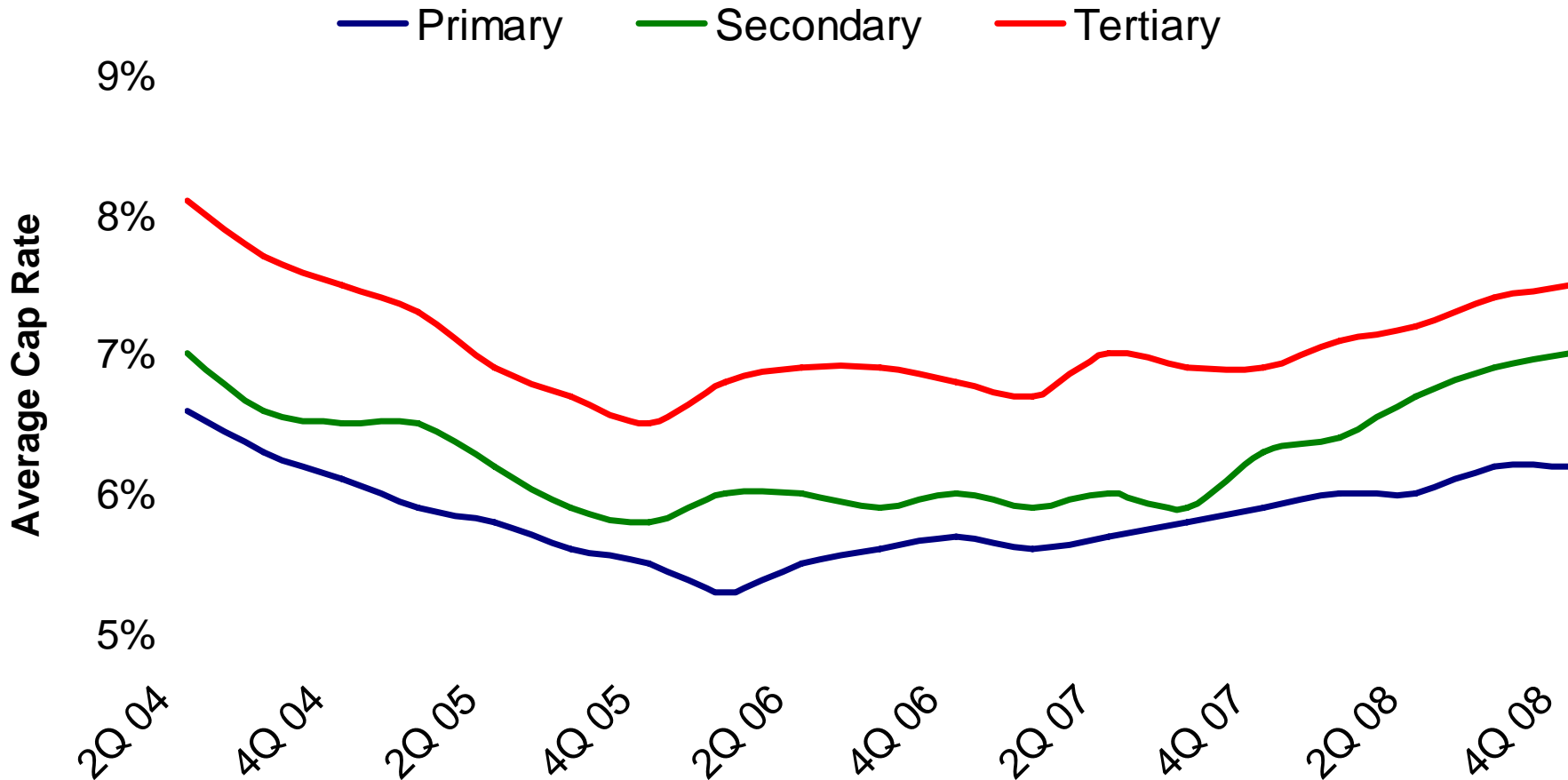
Pricing and Cap Rates



Sales \$1 million and greater

Sources: Marcus & Millichap Research Services, CoStar, RCA

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



Sales \$5 million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

12 – Month Cap Rate Adjustment Matrix *

	Class “A”	Class “B”	Class “C”
Primary	.65	1.00	1.25
Secondary	1.00	1.25	1.50
Tertiary	1.25	1.50	2.00

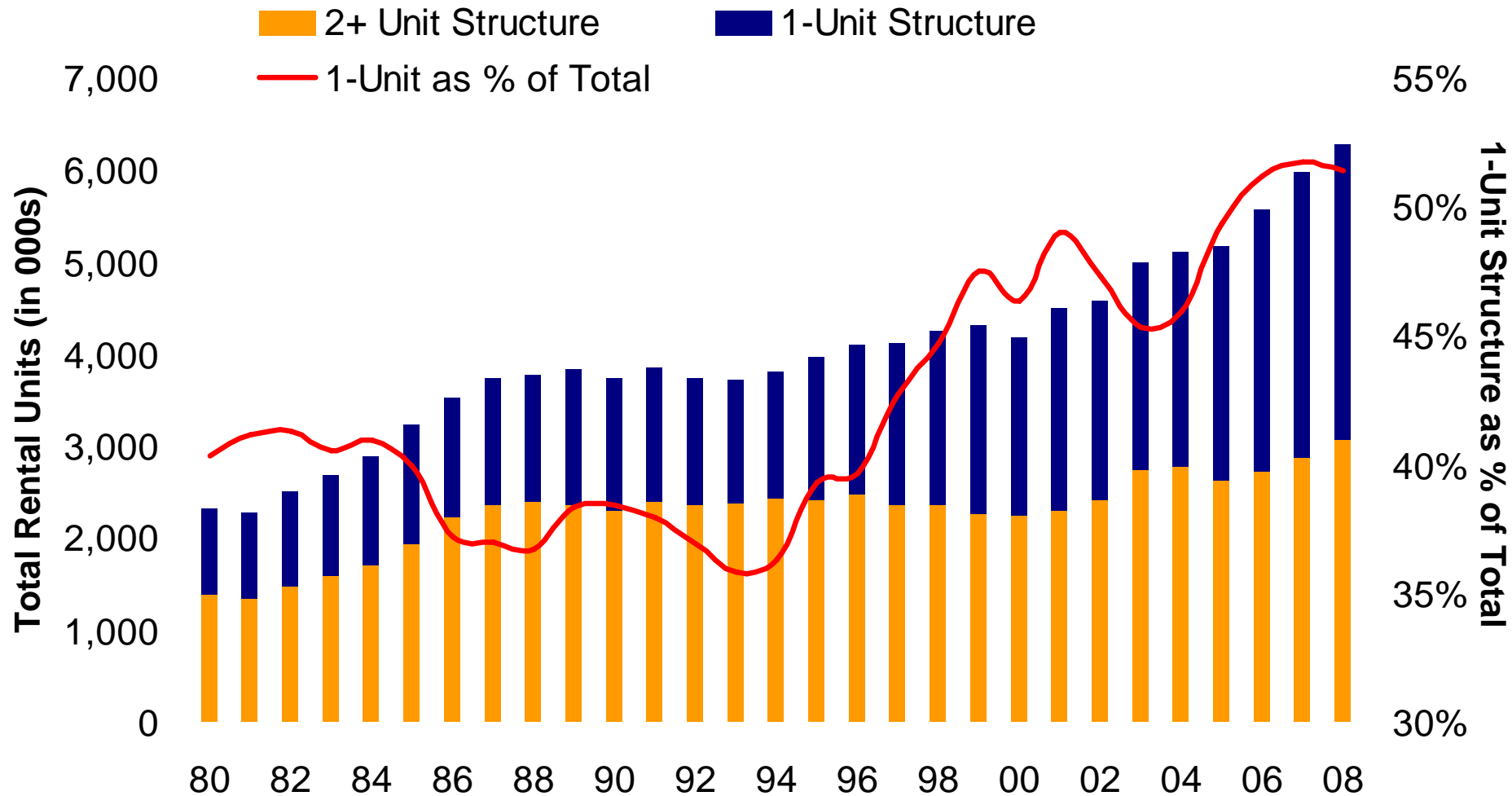
* Change in cap rates last 15 months

12 – Month Pricing Adjustment Matrix

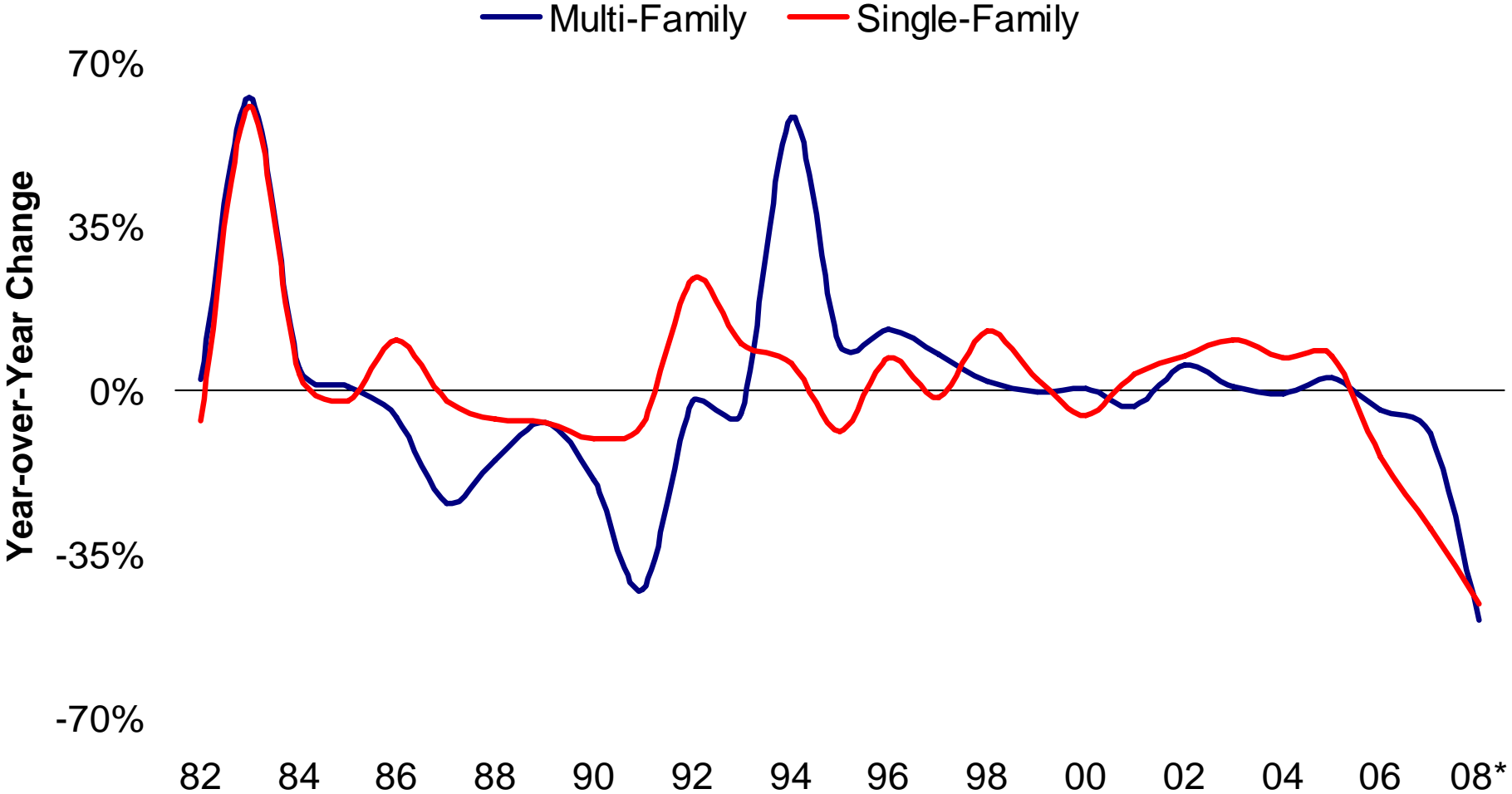
	Class "A"	Class "B"	Class "C"
Primary	-12%	-17%	-20%
Secondary	-16%	-21%	-24%
Tertiary	-22%	-26%	-30%

Base = 5.00 / 5.50 5.50 / 6.25 6.00 / 6.75

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

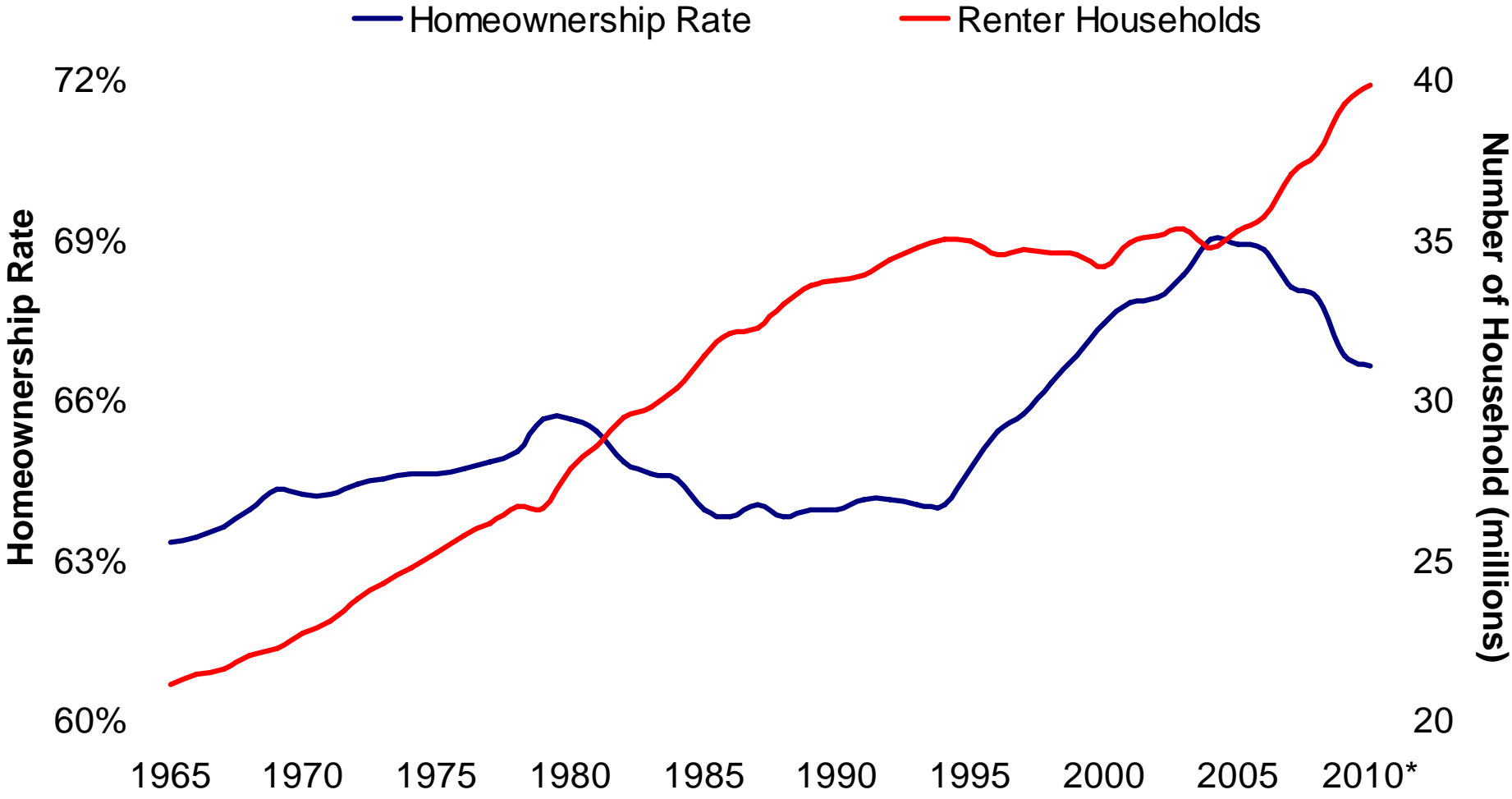


Construction Starts Declining



* Year-over-Year as of November
Sources: Marcus & Millichap Research Services, Economy.com

Reversal in Home Ownership Rate Points to Increase in Renter Households



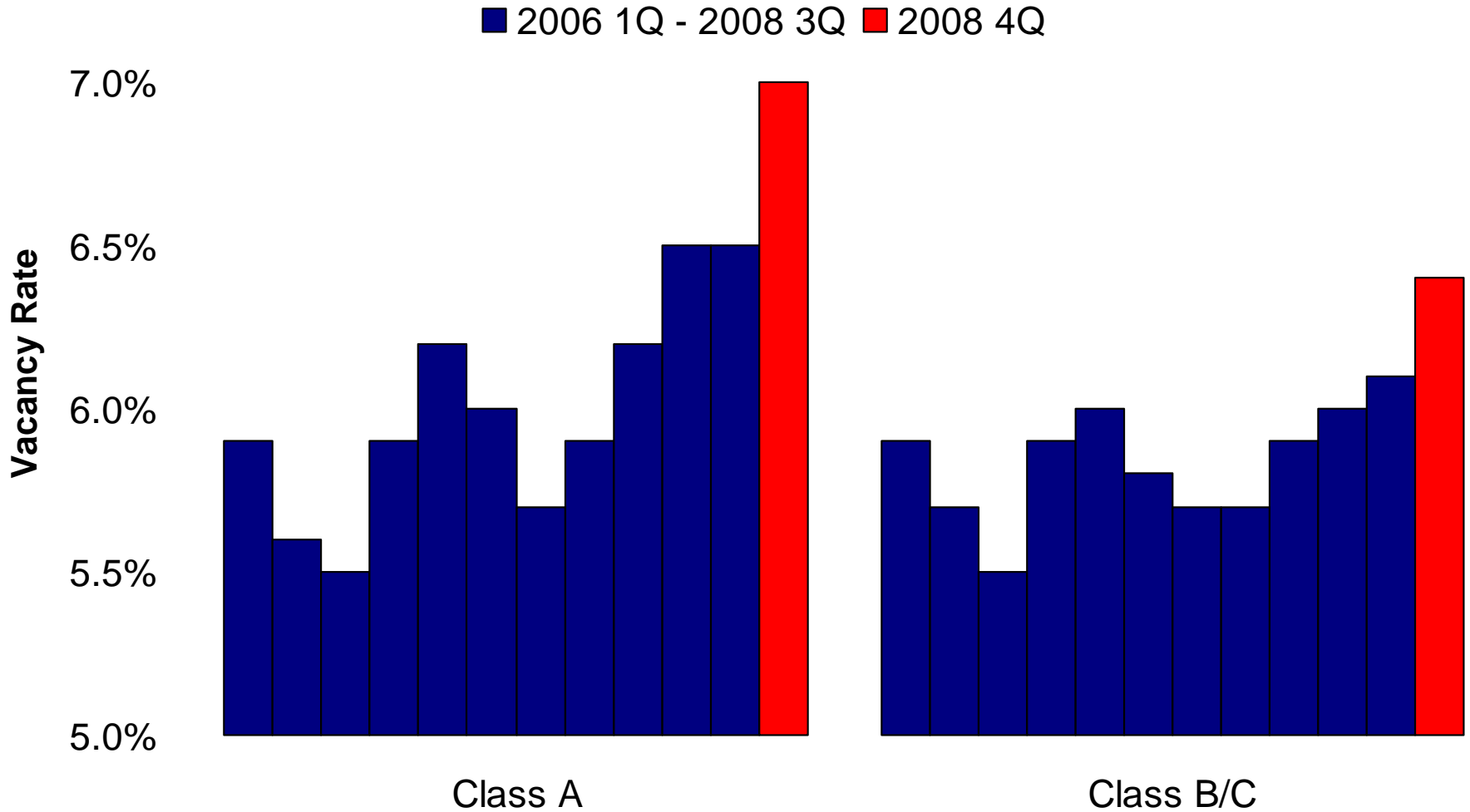
* Forecast
Sources: Marcus & Millichap Research Services, U.S. Census Bureau

2008 Apartment Vacancy Ranking

Top 15 Markets	2008 Vacancy
New York	2.3%
San Francisco	3.6%
Milwaukee	3.7%
San Diego	3.9%
New Jersey	4.0%
New Haven-Fairfield County	4.0%
Minneapolis	4.3%
Los Angeles	4.5%
Salt Lake City	4.9%
Miami	5.0%
Orange County	5.0%
Portland	5.0%
San Jose	5.2%
Oakland	5.3%
Washington, D.C.	5.4%
United States	6.6%

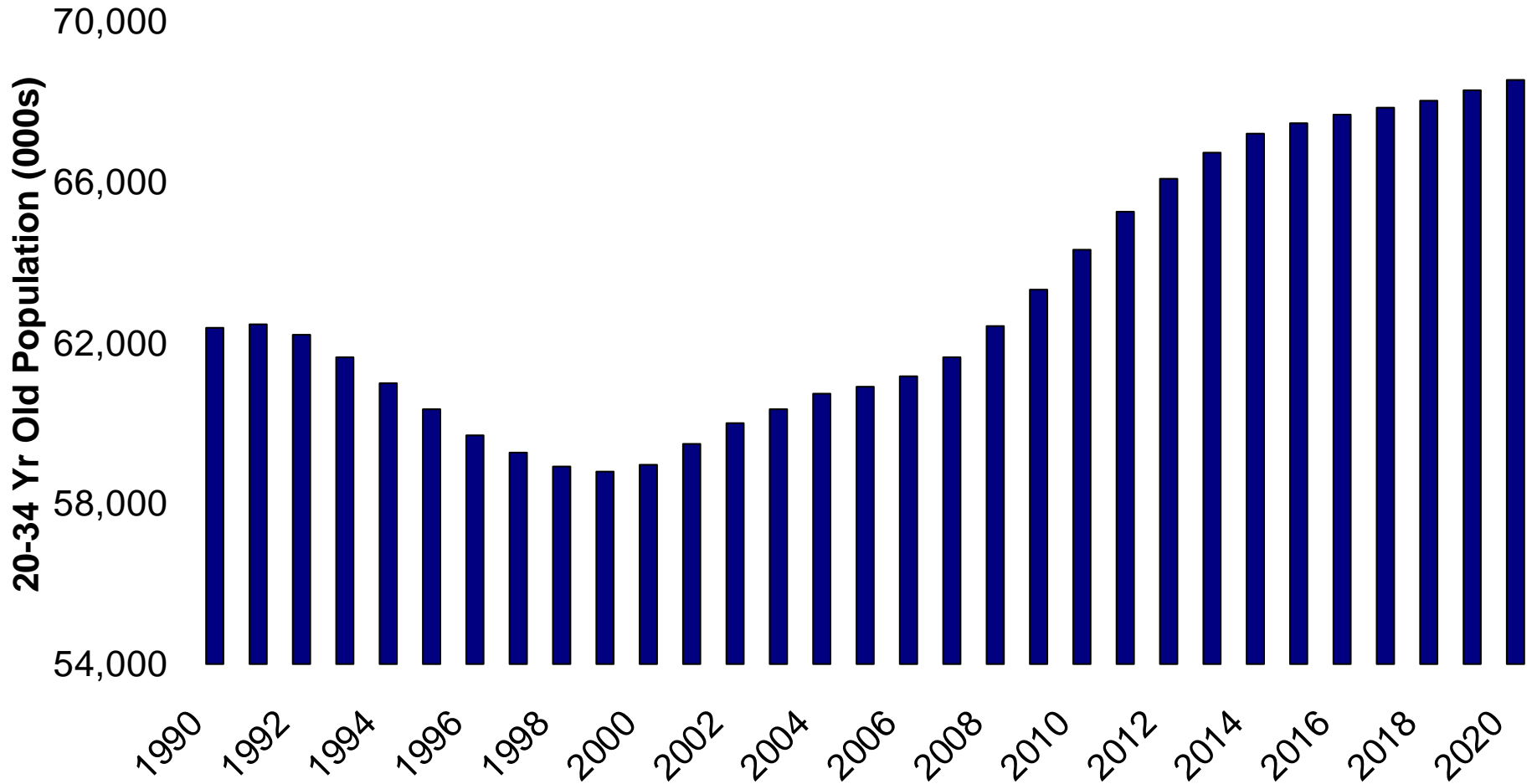
Bottom 15 Markets	2008 Vacancy
Kansas City	7.5%
Indianapolis	7.6%
Palm Beach	7.6%
St. Louis	7.6%
Las Vegas	7.7%
Charlotte	8.0%
Columbus	8.1%
Tampa	8.6%
San Antonio	8.7%
Orlando	9.7%
Houston	10.0%
Atlanta	10.2%
Phoenix	10.9%
Tucson	11.2%
Jacksonville	11.6%
United States	6.6%

Apartment Vacancy by Class



U.S. Population Trends Favorable For Rental Market

Projected 20-34 Year Old Population



Anatomy of Current Market Divergence

Two issues...

- **In what time frame do you have to act?**
- **What is your opinion of the long term value of apartment investing?**

Key Observations for 2009

- **Multi-family capital markets remain fractured and expensive**
- **Investor demand tempered, motivated by anticipated discounts, data supports position, increased pressure to raise cap rates**
- **Revenue growth declines moderately nationally – market divergence significant**
- **Sales velocity remains low throughout 2009**
- **# of distressed sales increases**
- **Transactional cap rates continue to differentiate for quality and trend up 50 – 100 bps**

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

- Starts down 50% in 2008... down 30% in 2009**
- High levels of future demand**
- Supply more difficult and expensive to deliver**
- Unlikely the industry will meet demand**
- Current rents in most markets do not justify development**
- Significant future pressure on rents**
- U.S. apartments will be dramatically more valuable in 2014 than 2009**



U.S Economic, Capital Markets and Apartment Market

*Overview and Outlook – Special Client Webcast
February 24, 2009*

Marcus & Millichap

NATIONAL MULTI HOUSING GROUP