



U.S Economic, Capital Markets and Apartment Market

*Overview and Outlook – Special Client Webcast
April 21, 2009*

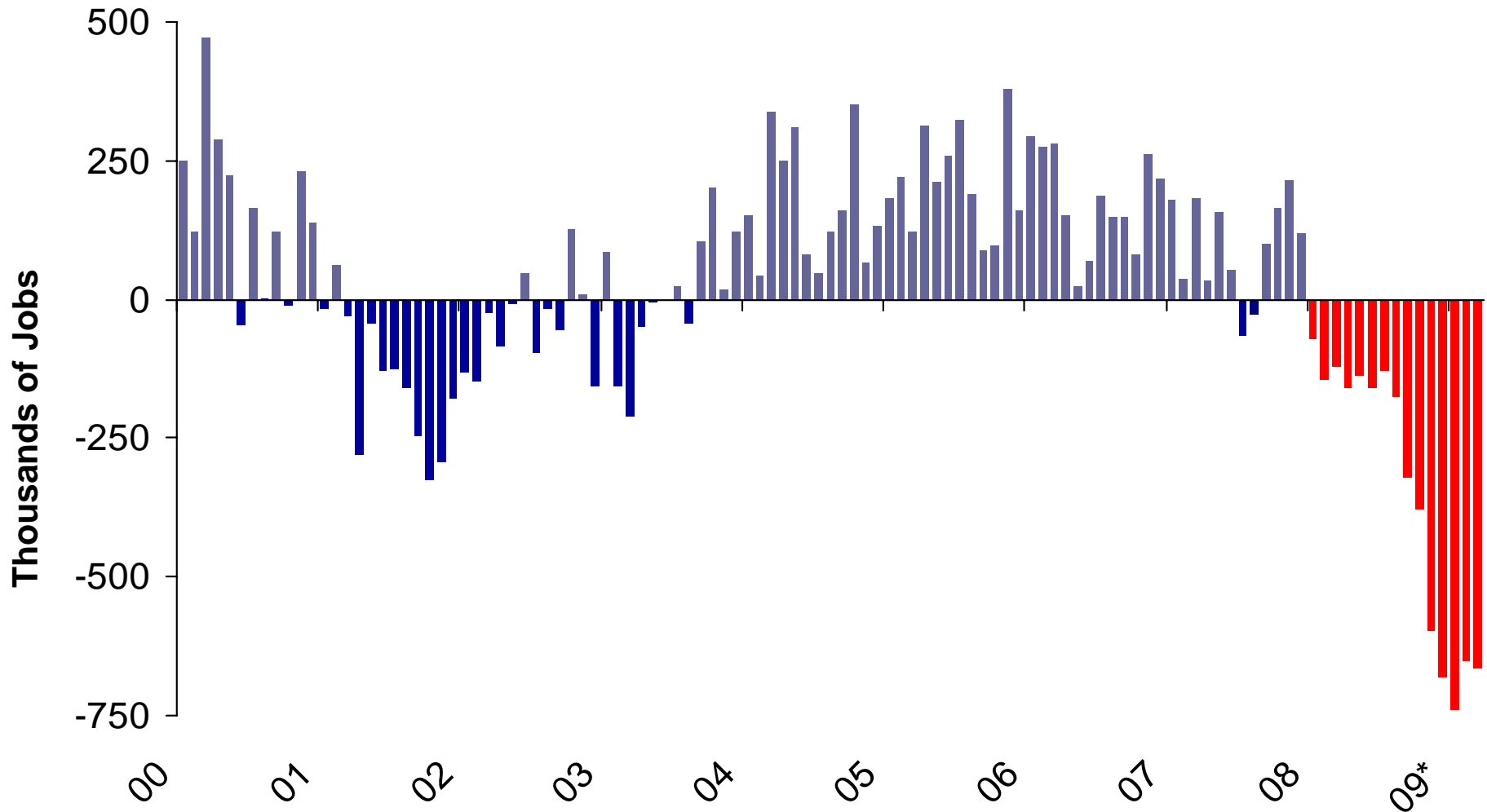
Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

***ECONOMIC and APARTMENT MARKET
FUNDAMENTALS***

OVERVIEW and OUTLOOK

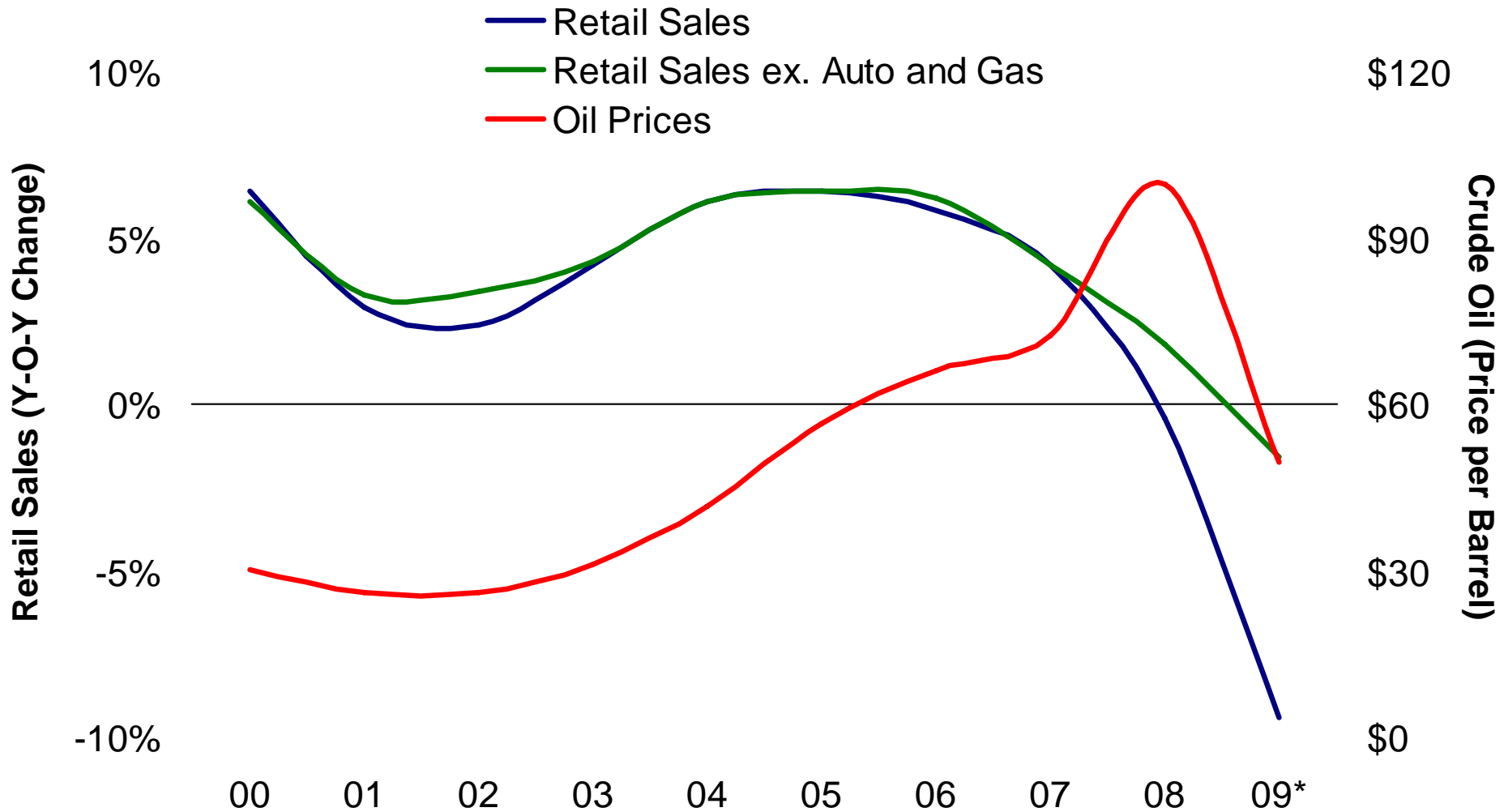
U.S. Employment Losses Have Reached Extreme Levels in Recent Months



*Through March 2009

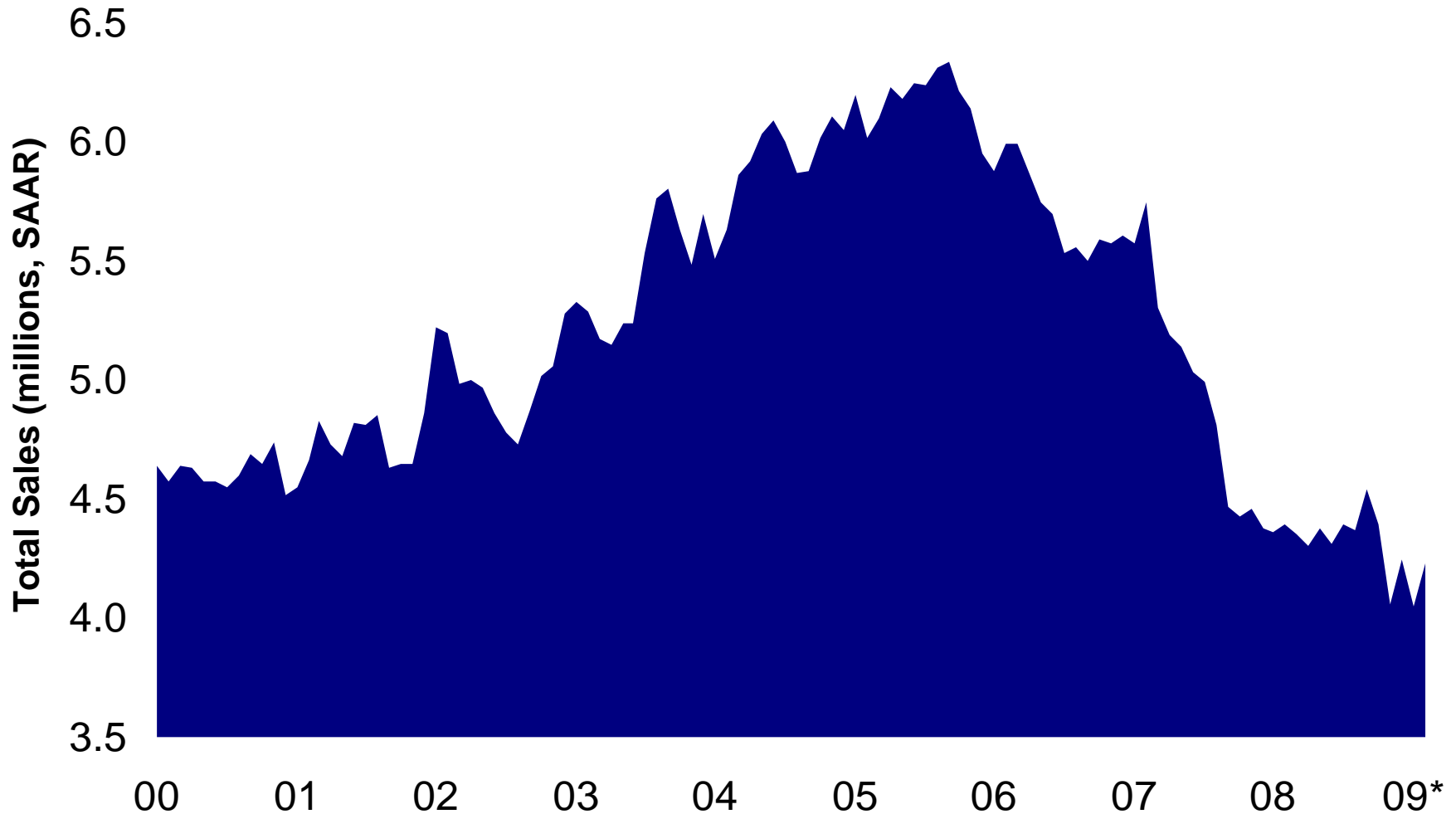
Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics

Retail Sales Have Declined Sharply Despite Relief From High Energy Prices



* Retail Sales YOY as of March, Oil as of April 14th
Sources: Marcus & Millichap Research Services, Economy.com

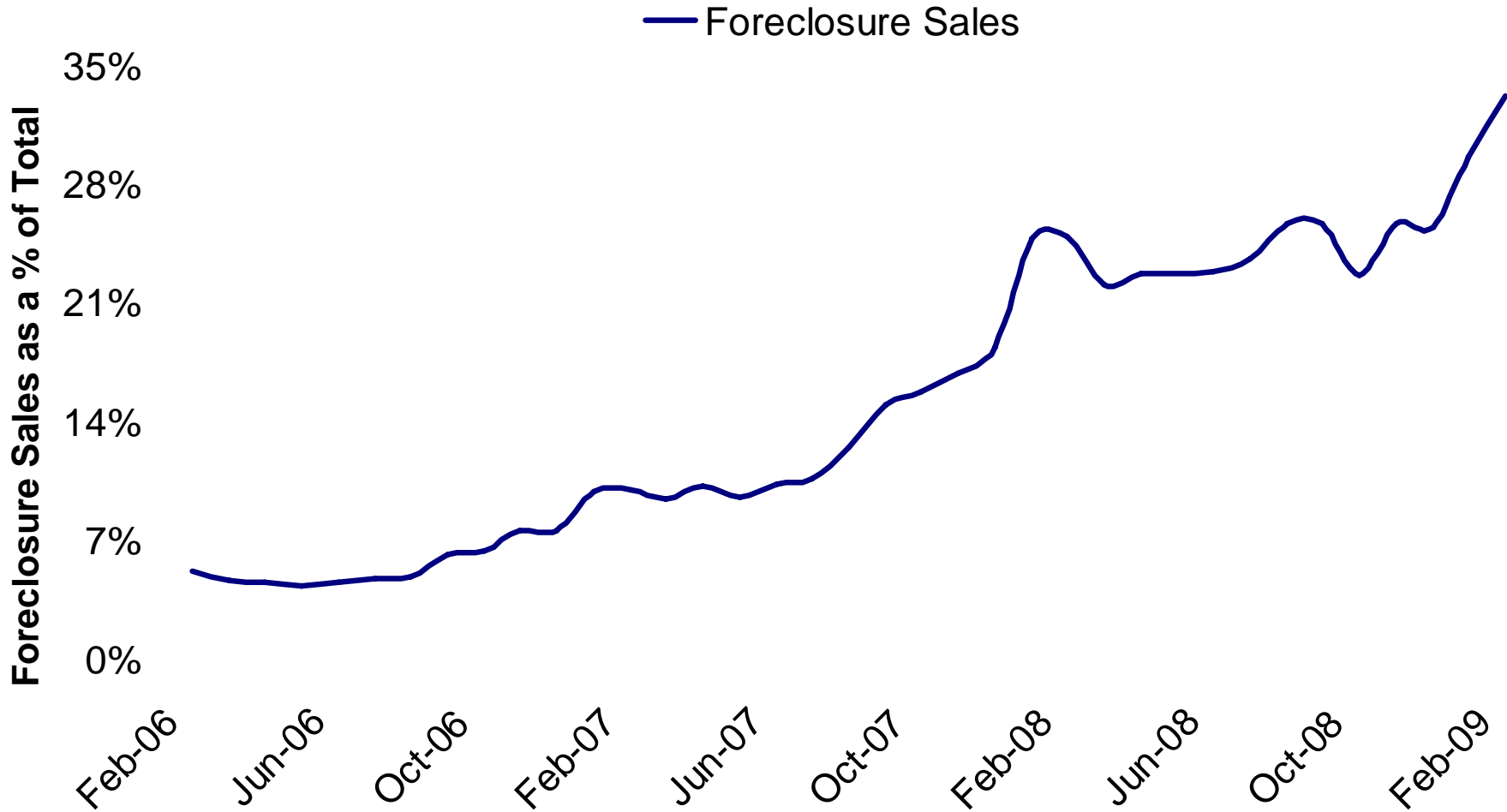
Home Sales Near Bottom – Price Corrections Still a Major Issue



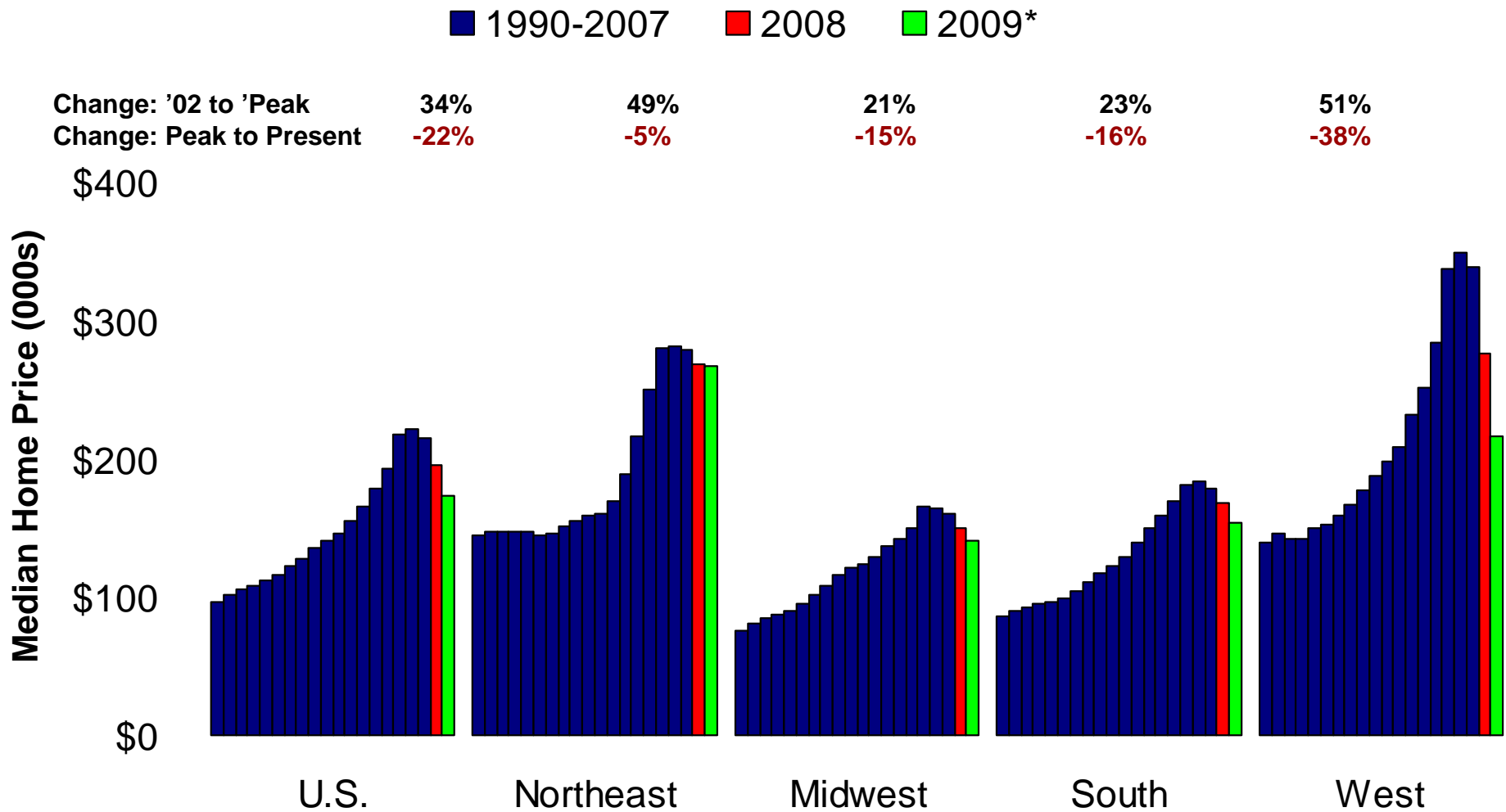
* Through February

Sources: Marcus & Millichap Research Services, National Association of REALTORS®

Foreclosures as a Share of Total U.S. Home Sales



U.S. Existing Single-Family Home Price Trends



* Through February

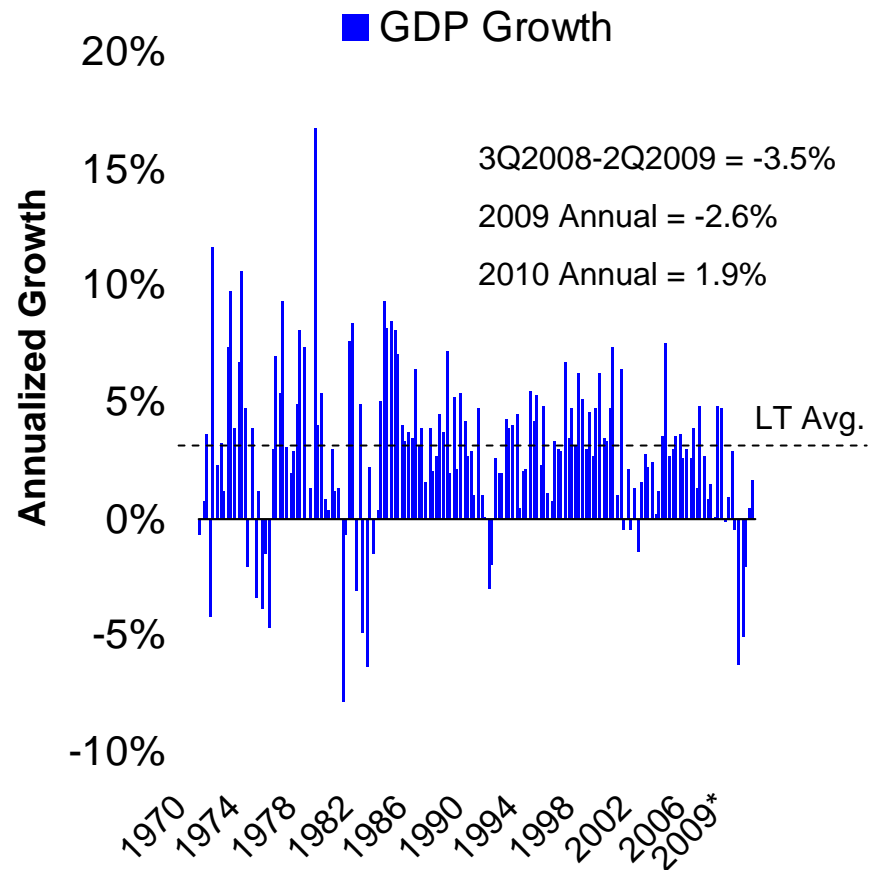
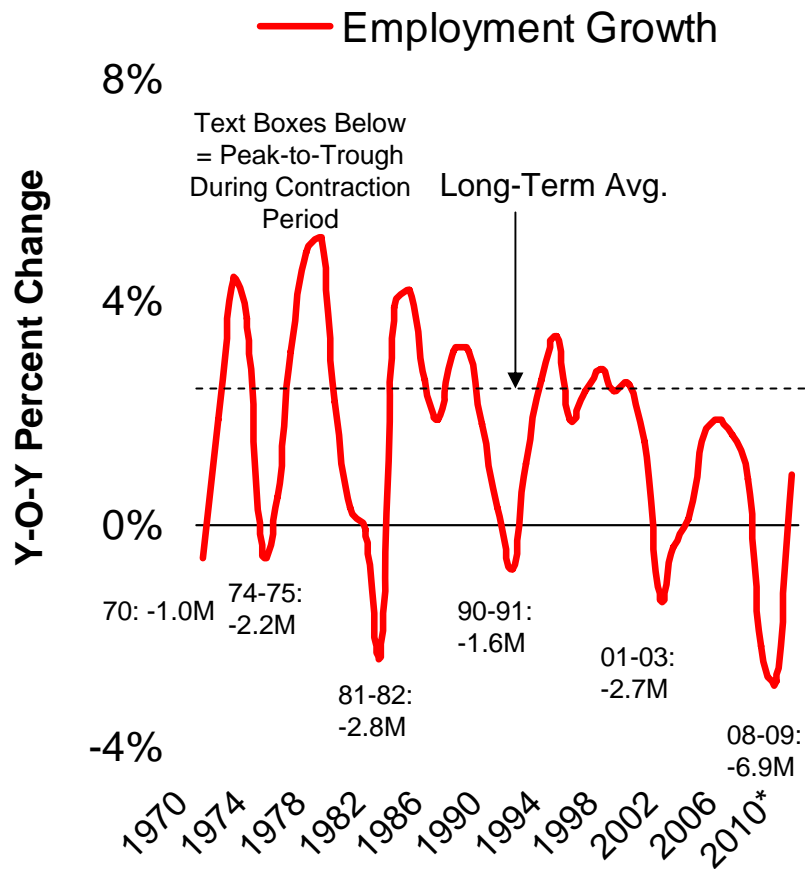
Y-O-Y March 2009 Employment Ranking

Top 15 & Bottom 15 Markets

Top 15 Markets	Abs Change	% Change
Austin	3,148	0.4%
San Antonio	(1,488)	-0.2%
Oklahoma City	(1,900)	-0.3%
Houston	(14,309)	-0.6%
Washington D.C.	(19,153)	-0.6%
Kansas City	(13,100)	-1.3%
Dallas-Fort Worth	(39,562)	-1.3%
Columbus	(15,500)	-1.6%
Boston	(42,793)	-1.7%
New Haven-Fairfield Co.	(15,486)	-1.9%
New York	(115,400)	-2.2%
Baltimore	(31,100)	-2.4%
St. Louis	(32,900)	-2.4%
Salt Lake City	(16,100)	-2.5%
Cincinnati	(27,800)	-2.7%
U.S.	(4,795,000)	-3.5%

Bottom 15 Markets	Abs Change	% Change
Portland	(43,700)	-4.2%
Oakland	(44,000)	-4.2%
Fort Lauderdale	(33,200)	-4.2%
Miami	(46,400)	-4.4%
Tampa	(57,000)	-4.6%
Atlanta	(115,800)	-4.7%
Orange County	(72,000)	-4.8%
Tucson	(18,900)	-4.9%
Las Vegas	(48,102)	-5.2%
Sacramento	(48,500)	-5.4%
Orlando	(60,700)	-5.5%
Charlotte	(50,600)	-5.8%
Inland Empire	(79,600)	-6.4%
Detroit	(134,600)	-7.0%
Phoenix	(137,300)	-7.2%
U.S.	(4,795,000)	-3.5%

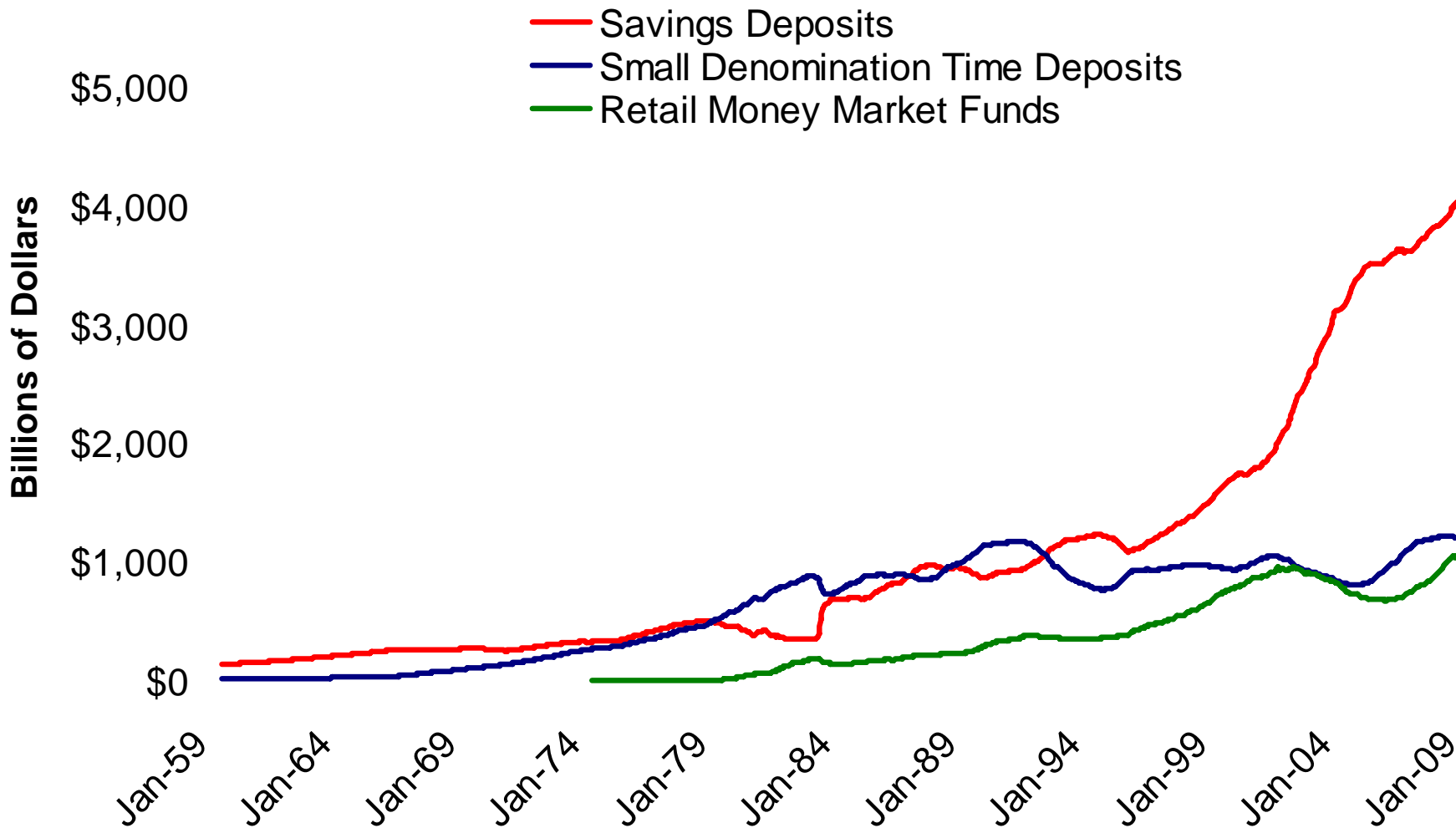
Economic Weakness Expected Through Q3-2009 Risk Levels Remain Elevated



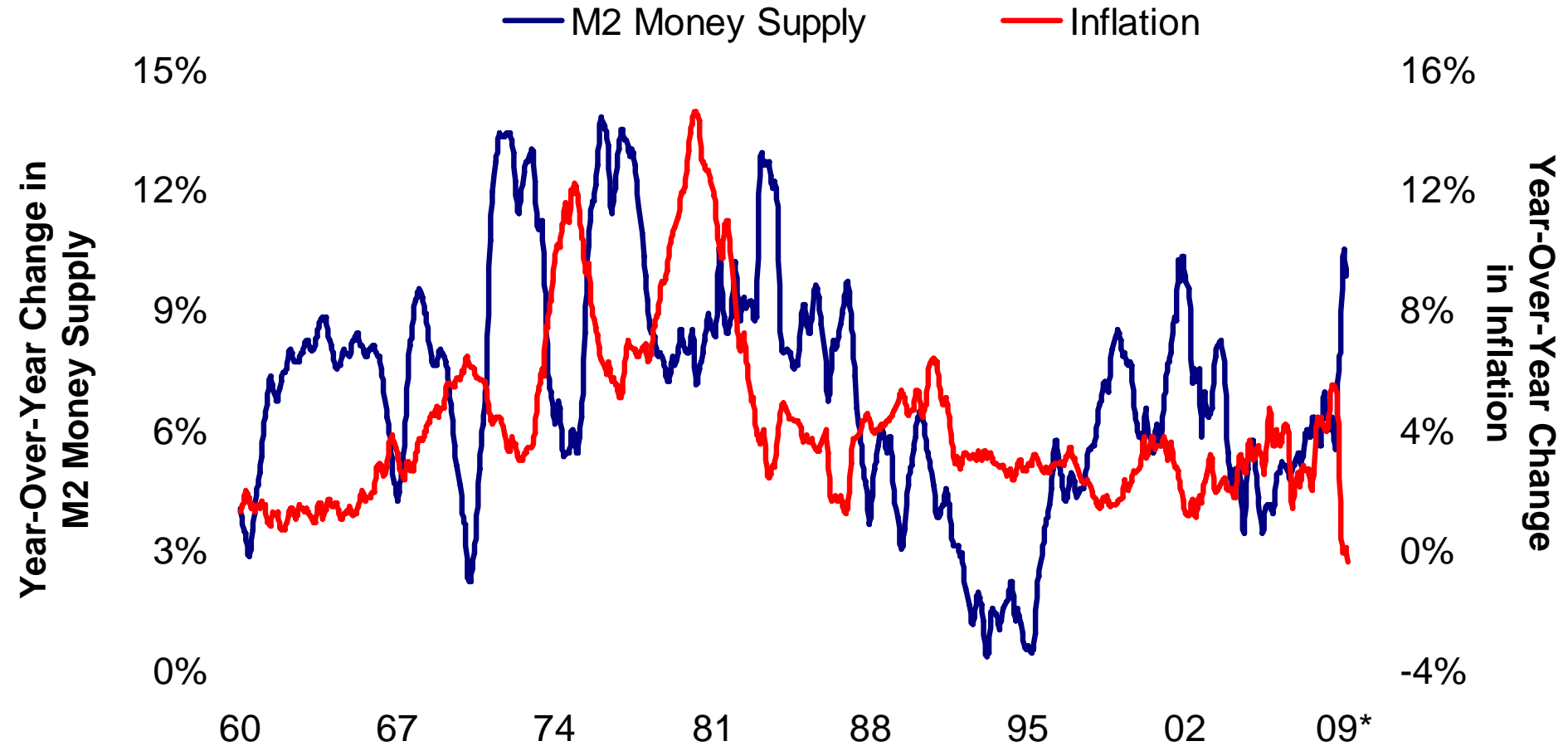
*Forecast Assumes No Additional Major Shocks

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

Total Saving Deposits Have Grown Significantly



M2 Money Supply vs. Inflation

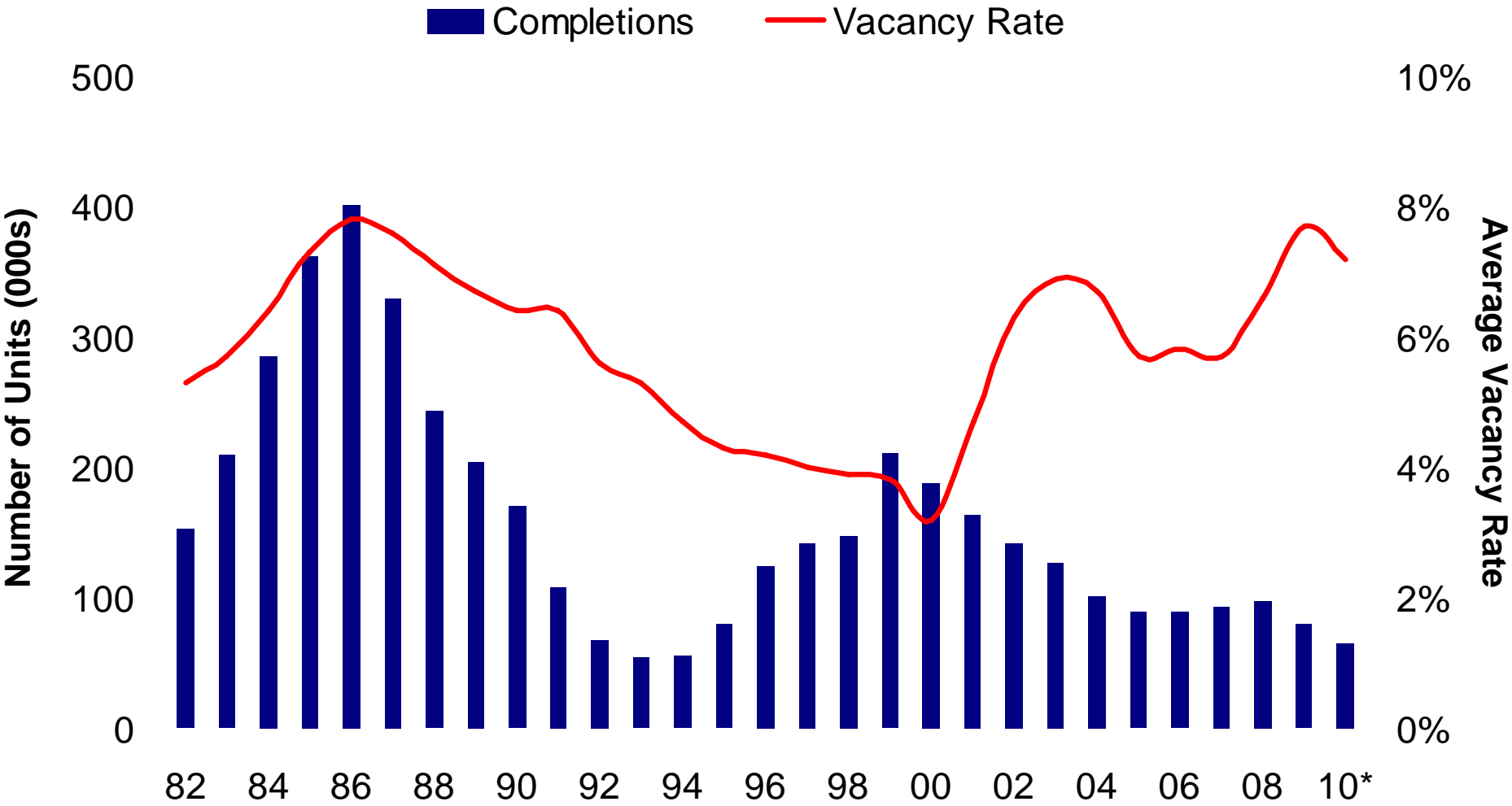


* Inflation through March, Money Supply through February

Adjusts for changes in reserve requirements

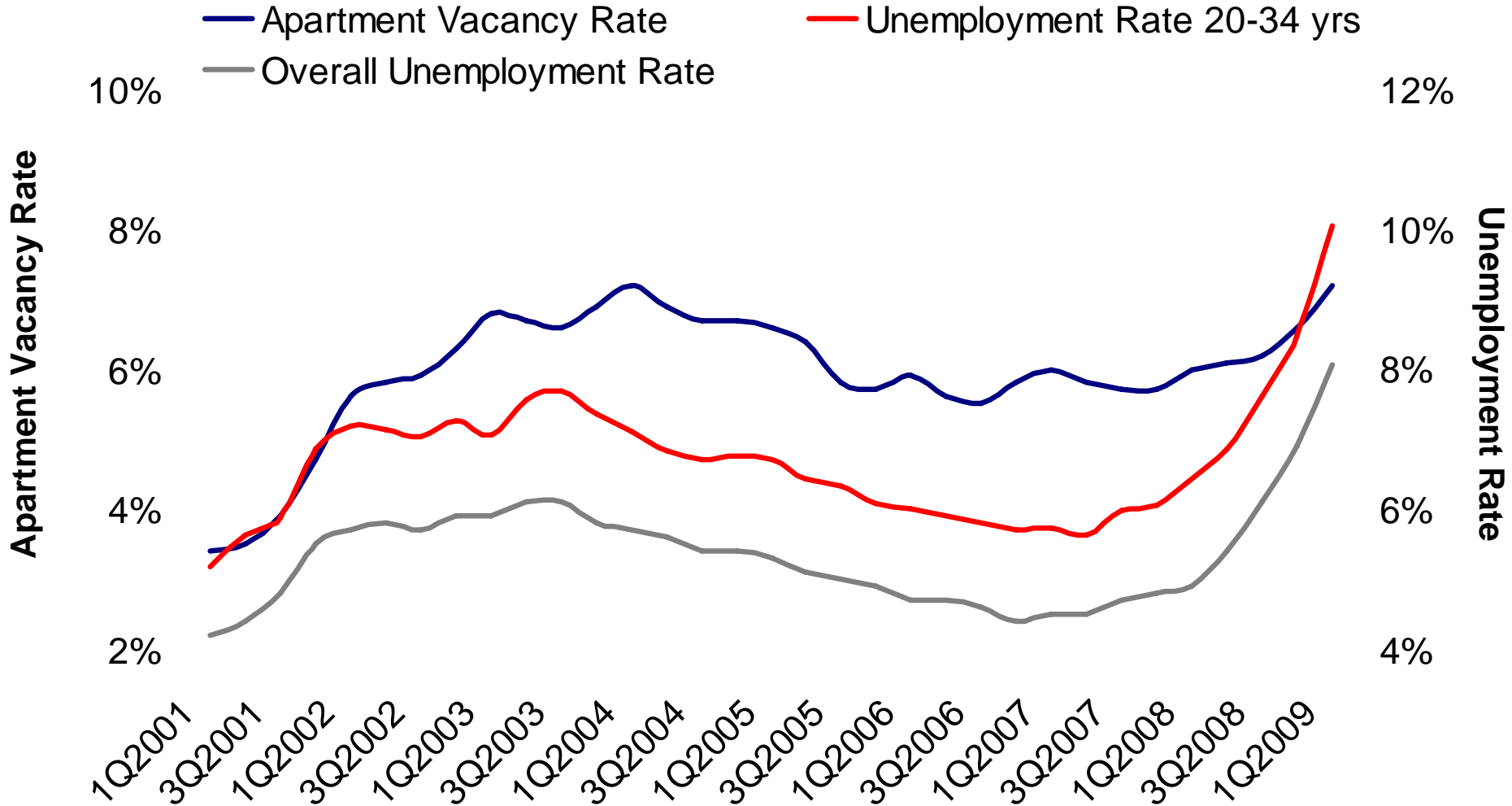
Sources: Marcus & Millichap Research Services, FRB

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



* Forecast
 Sources: Marcus & Millichap Research Services, Reis

Job Growth is Critical to Renter Household Formation and Apartment Occupancies



Sources: Marcus & Millichap Research Services, BLS, Reis

***CAPITAL MARKETS
OVERVIEW and OUTLOOK***

Capital Markets Developments Since February 2009

Positive Factors:

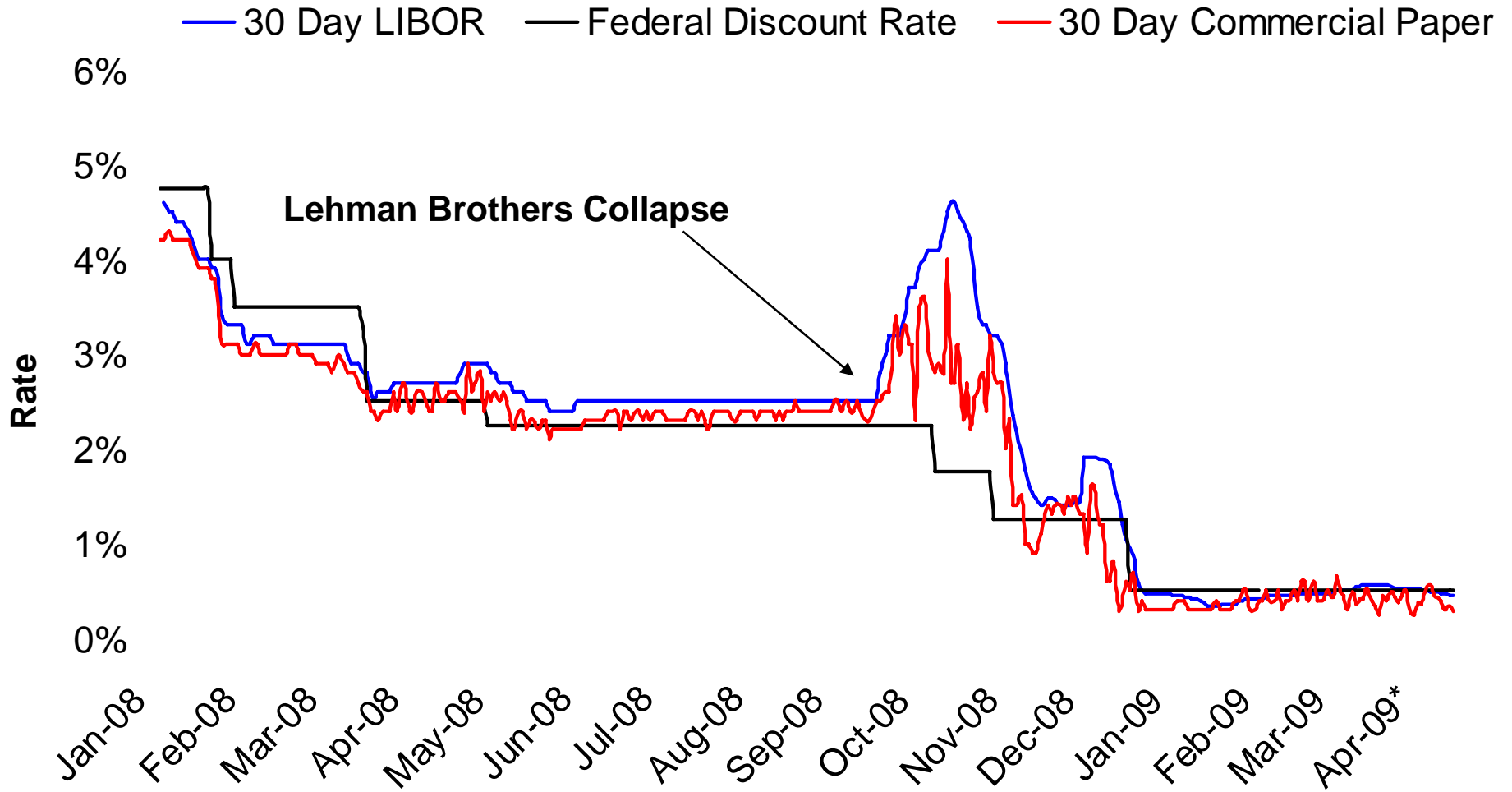
- 1. Interbank lending continues to improve**
- 2. Commercial paper rates, LIBOR rates and TED spreads have stabilized**
- 3. The Central Bank purchase of Treasuries and agreement to increase purchases of agency mortgage backed securities**
- 4. Government initiatives to increase liquidity – TARP, PPIP, TALF**
- 5. While rising, delinquencies continue to be near historic lows**
- 6. Mark-to-market accounting rules have eased, giving banks greater flexibility in valuing their distressed assets**
- 7. Lenders are utilizing forbearance and loan extension**
- 8. Deals are getting done - Fannie, Freddie, HUD, local and regional banks**

Capital Markets Developments Since February 2009

Negative Factors:

- 1. While delinquencies remain low by historical measures, assets moved to special servicing have been doubling every six months over the past year and a half**
- 2. CMBS special servicing now totals 2.3 percent of total outstanding**
- 3. CMBS loan forbearance and extensions are at risk due to bond holder classification – A vs. B**
- 4. Large life insurance companies generally remain on the sidelines**
- 5. Fundamentals continue to weaken**
- 6. Concern over values**

Key Market Rates

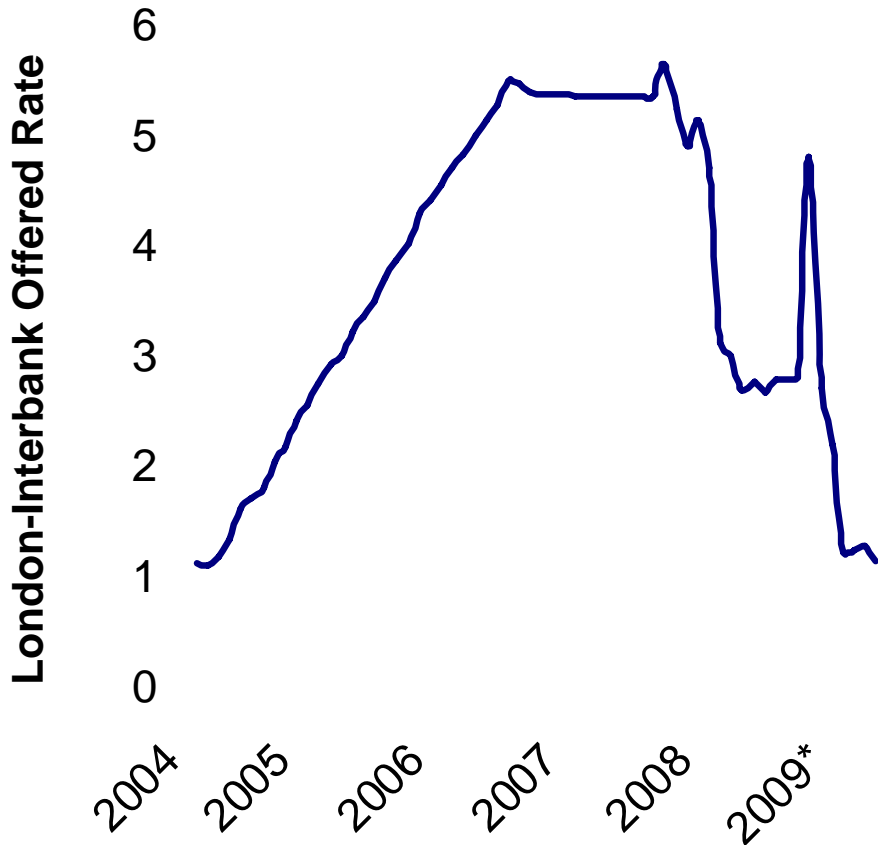


*Through April 13, 2009

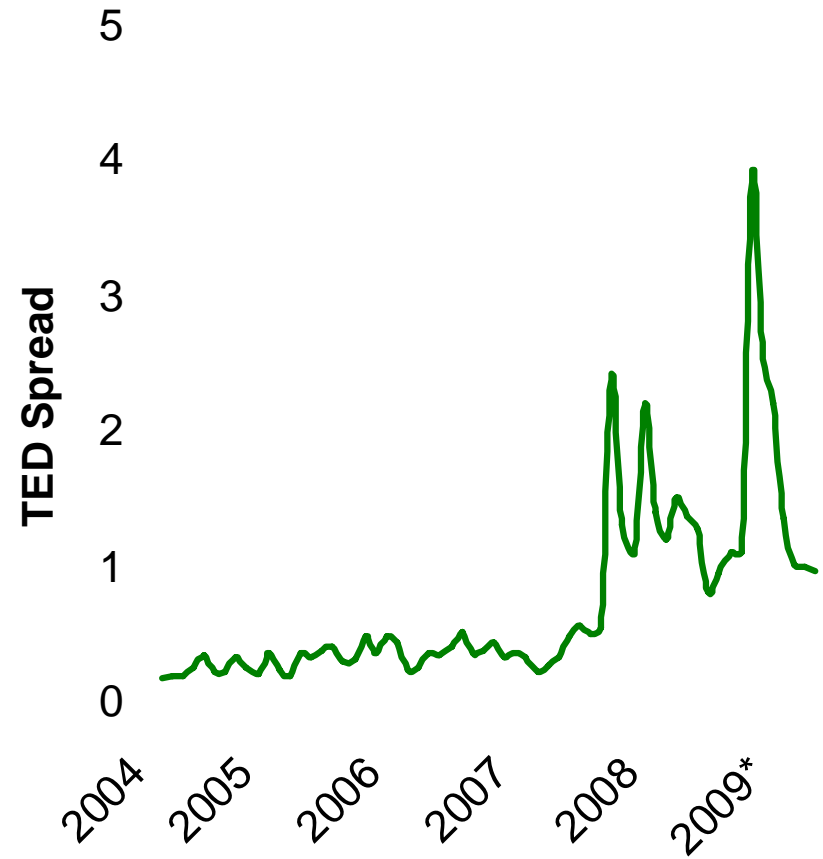
Sources: Economy.com, Federal Reserve Board

Banking System Liquidity Indicators

90-Day LIBOR



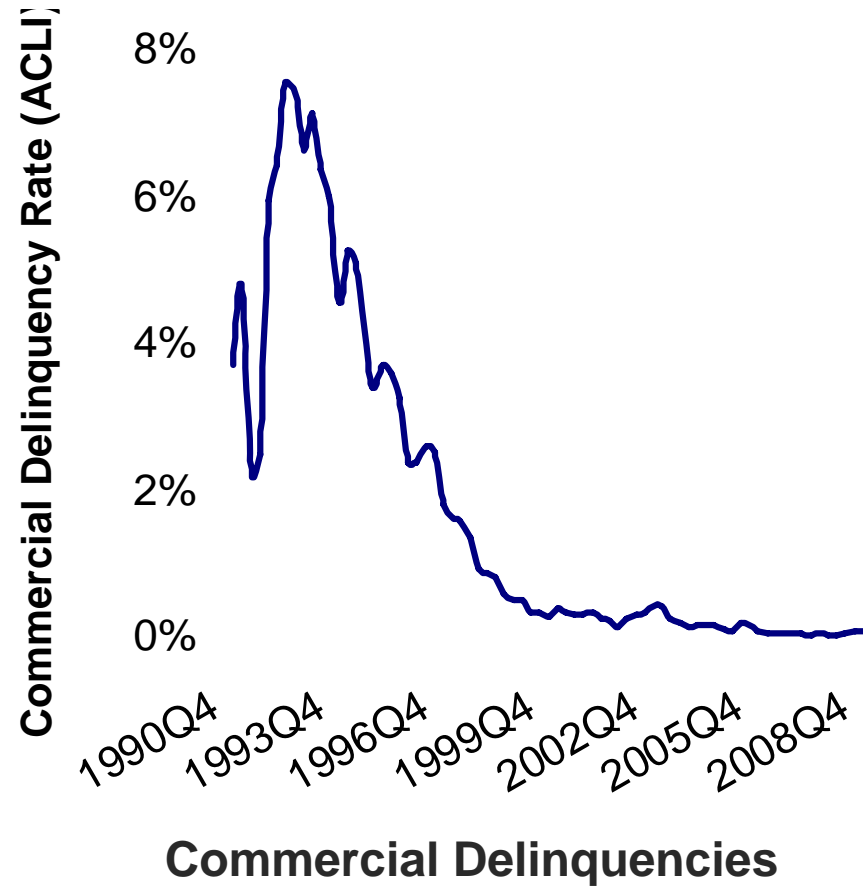
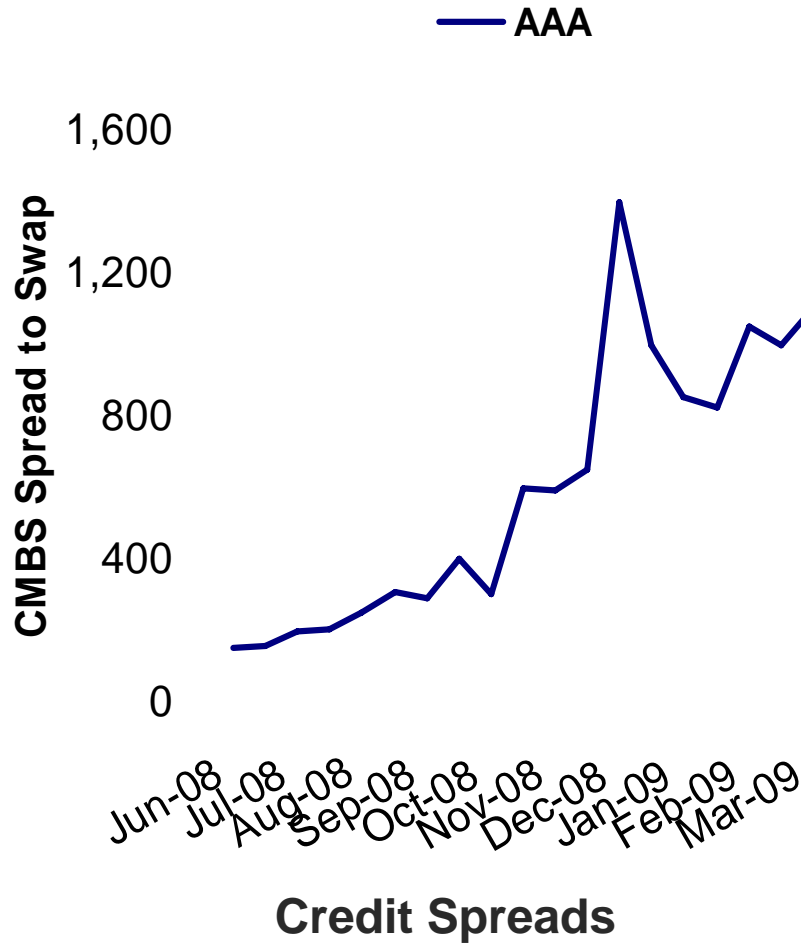
TED Spread



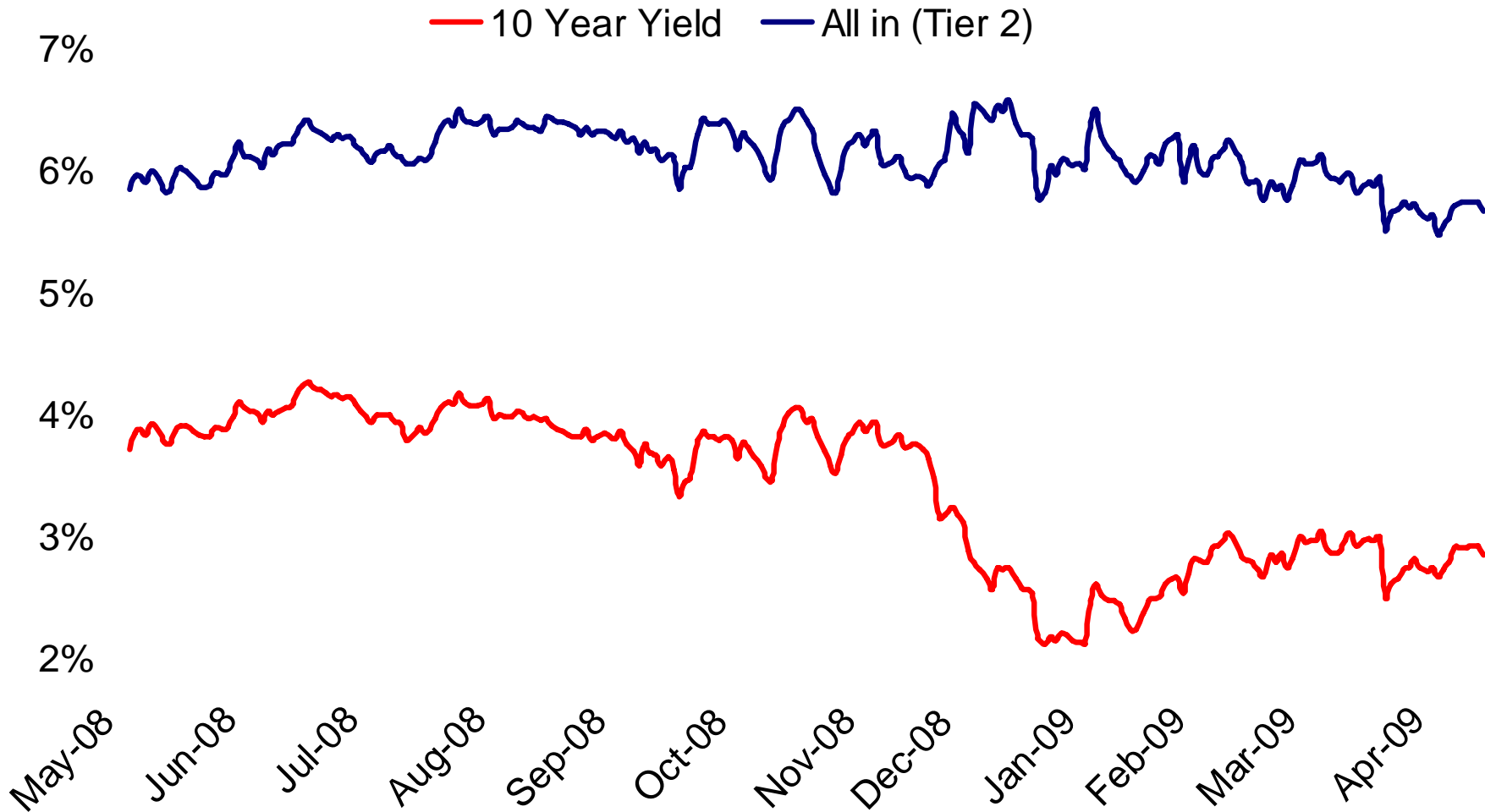
* Through April 10th

Sources: Marcus & Millichap Research Services, Bloomberg, WSJ

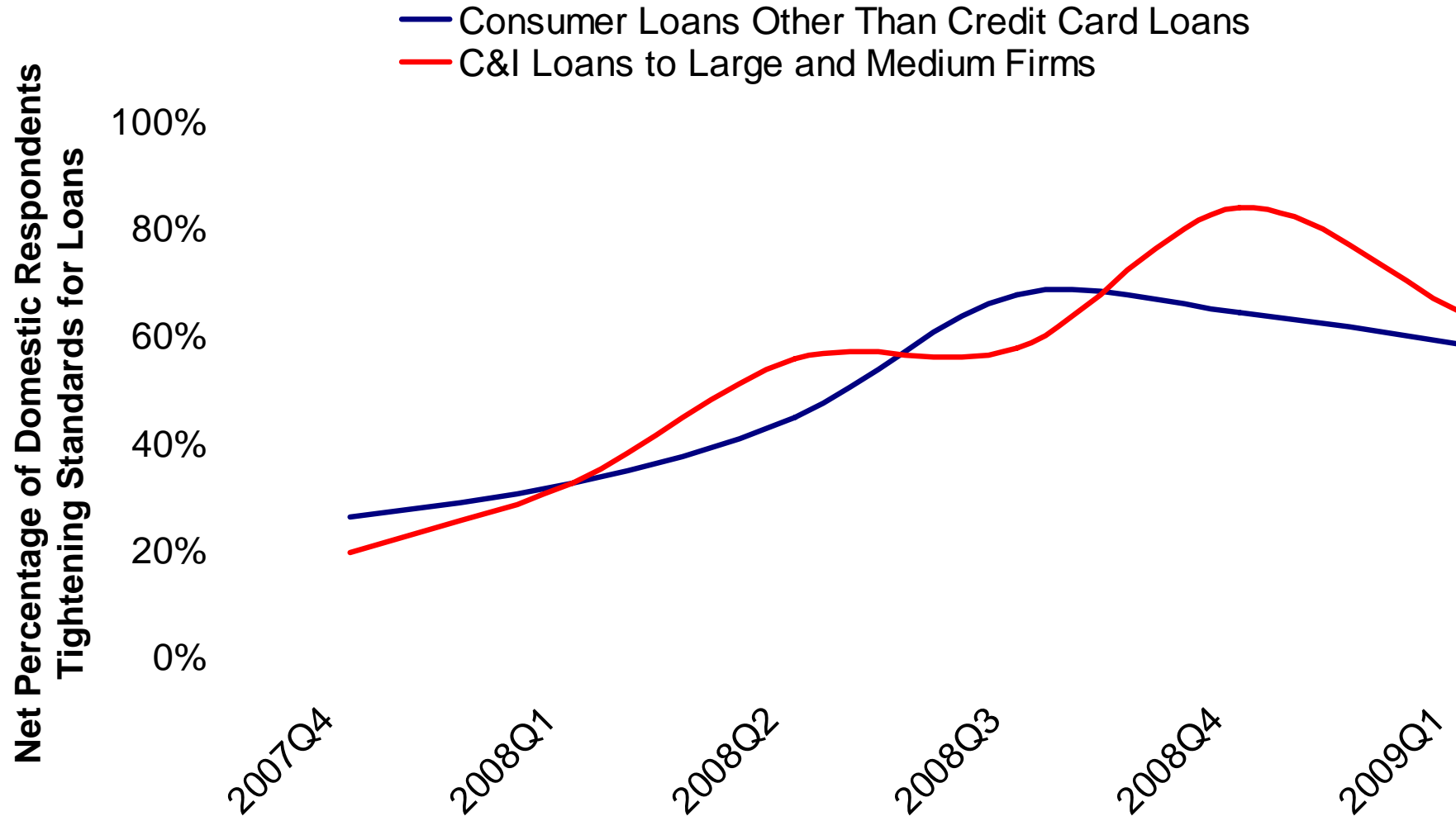
Spreads Remain Volatile – Delinquencies Near Historic Low; Expected to Rise



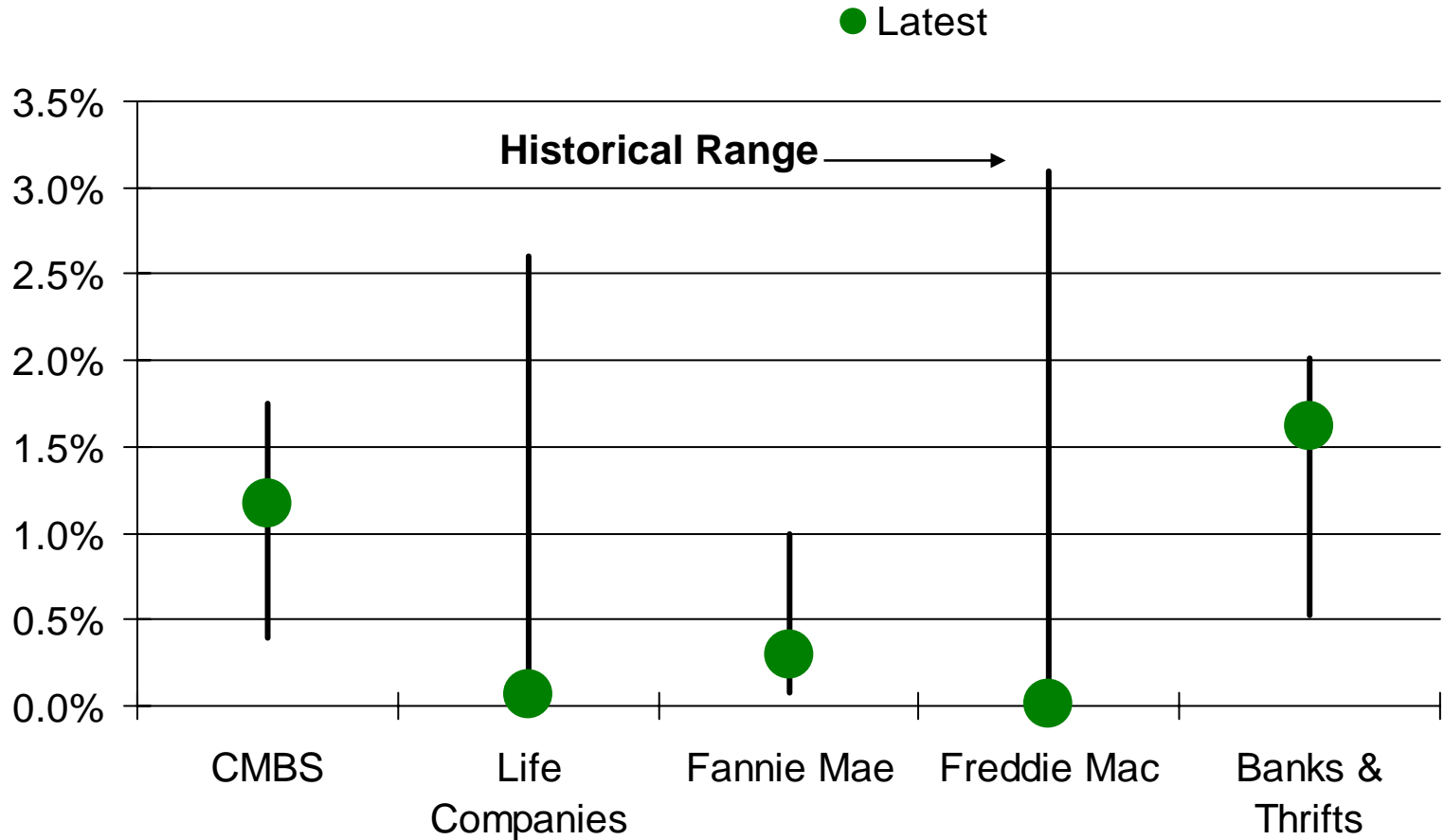
Indicative Fannie Mae Rates



Credit Standards Remain Elevated



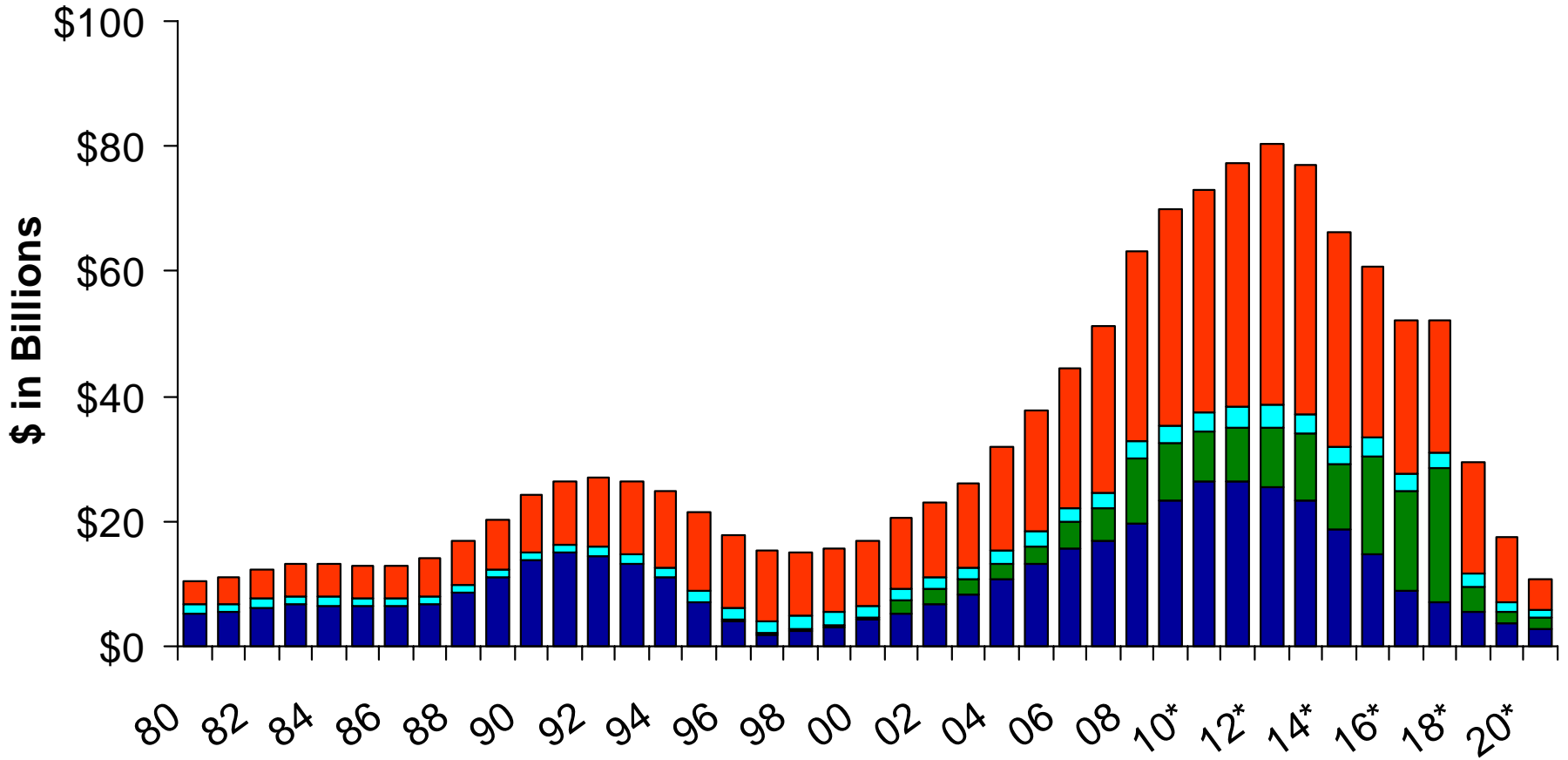
Delinquency Rates



Sources: Marcus & Millichap Research Services, Wachovia Capital Markets, LLC and Intex Solutions, Inc., ACLI, Fannie Mae, Freddie Mac, OFHEO, and FDIC

Multi-Family Mortgage Maturities by Lender Type

■ Banks ■ CMBS ■ Life Cos. ■ Other



***APARTMENT INVESTMENT
TRENDS and STRATEGIES***

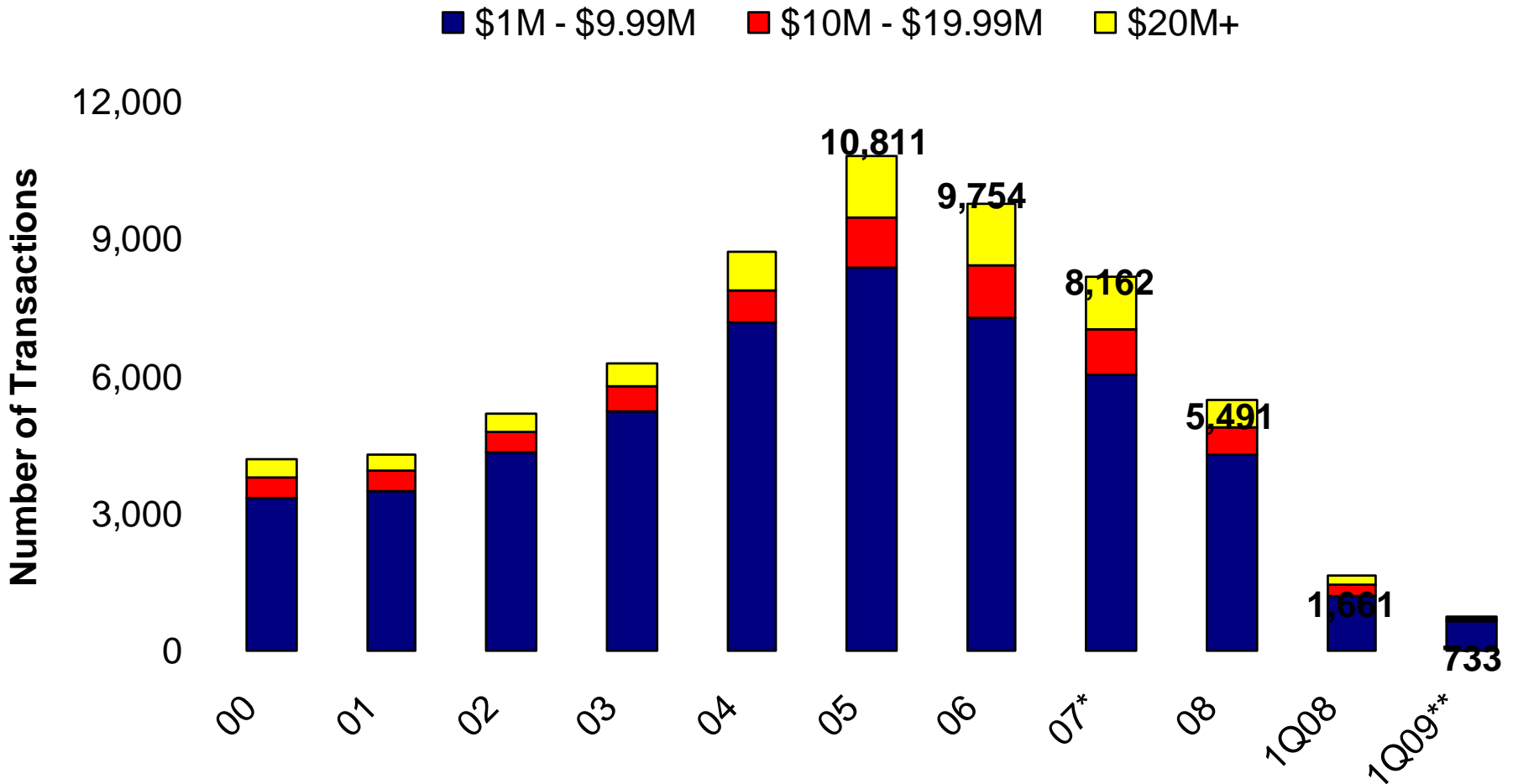
Market Divergence Continues

- **Long-term view: 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 view: Transactional value**
 - **Debt and equity more expensive**
 - **Investors are fearful and conservative**
 - **Unemployment is damaging fundamentals**
 - **Expectation of “discounted / distressed pricing”**

Market Divergence Realities

- **Seller / buyer expectation gap has widened in past 60 days**
 - **Buyers willing to pay less**
 - **All but the most motivated of sellers are not interested in selling**
- **The number of “motivated” sellers is increasing as fundamentals erode**
- **Market velocity of apartment trades has significantly decreased**

Apartment Investments Trends Transactions by Price Category



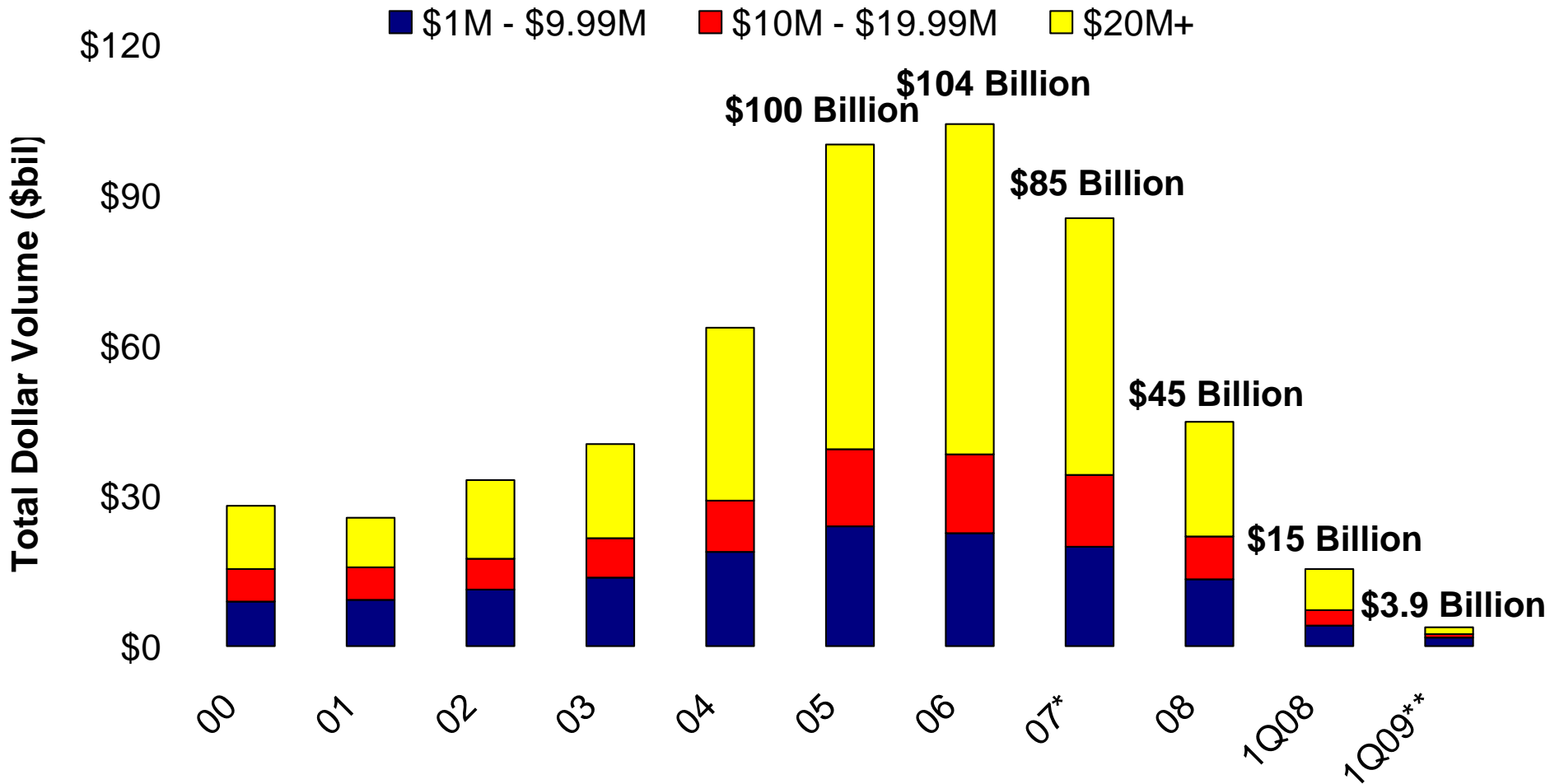
* Excludes Archstone Privatization

** Estimate

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

Apartment Investment Trends

Dollar Volume by Price Category



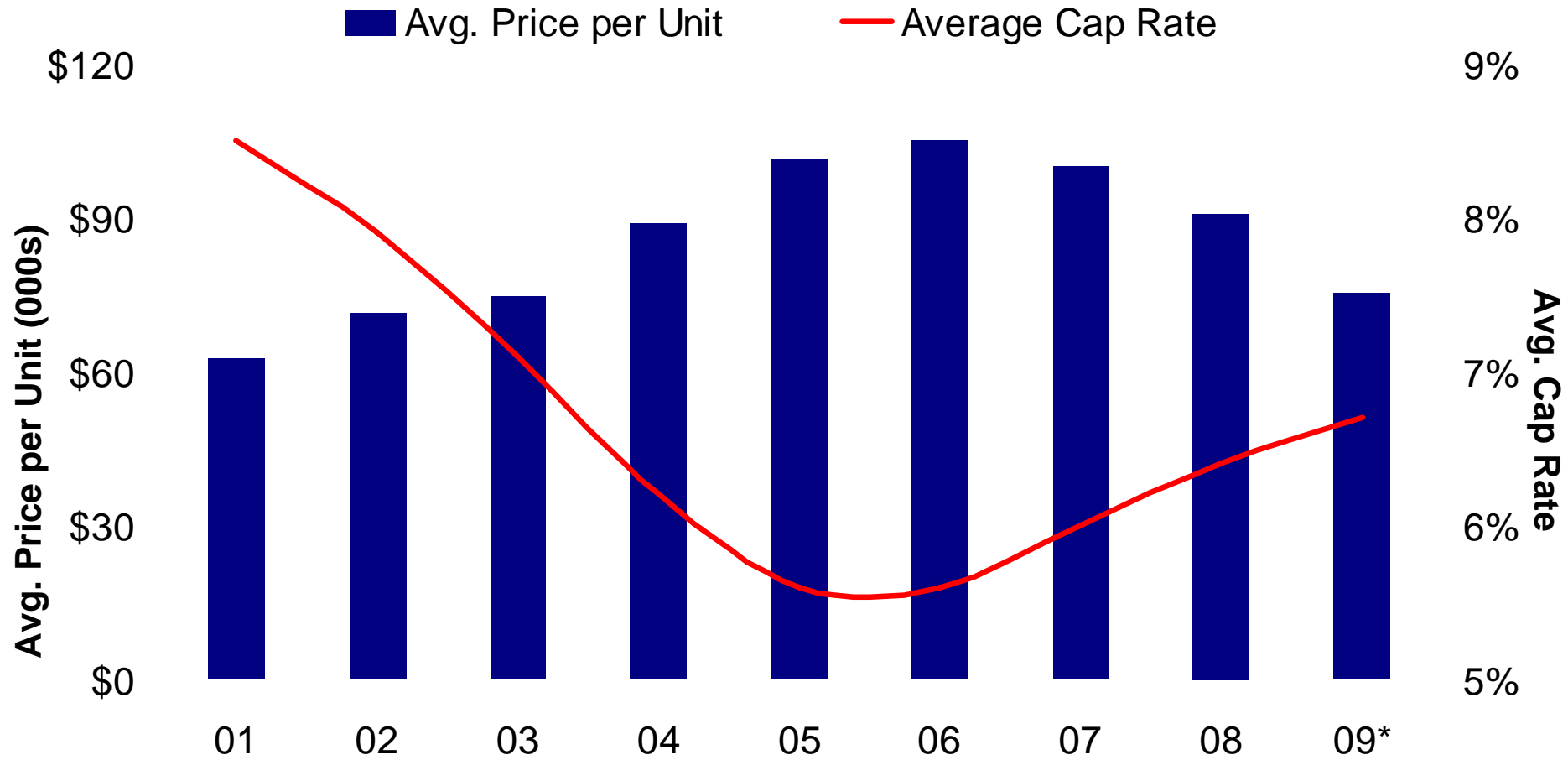
* Excludes Archstone Privatization

** Estimate

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

Apartment Sales Trends

Average Price per Unit vs. Average Cap Rate

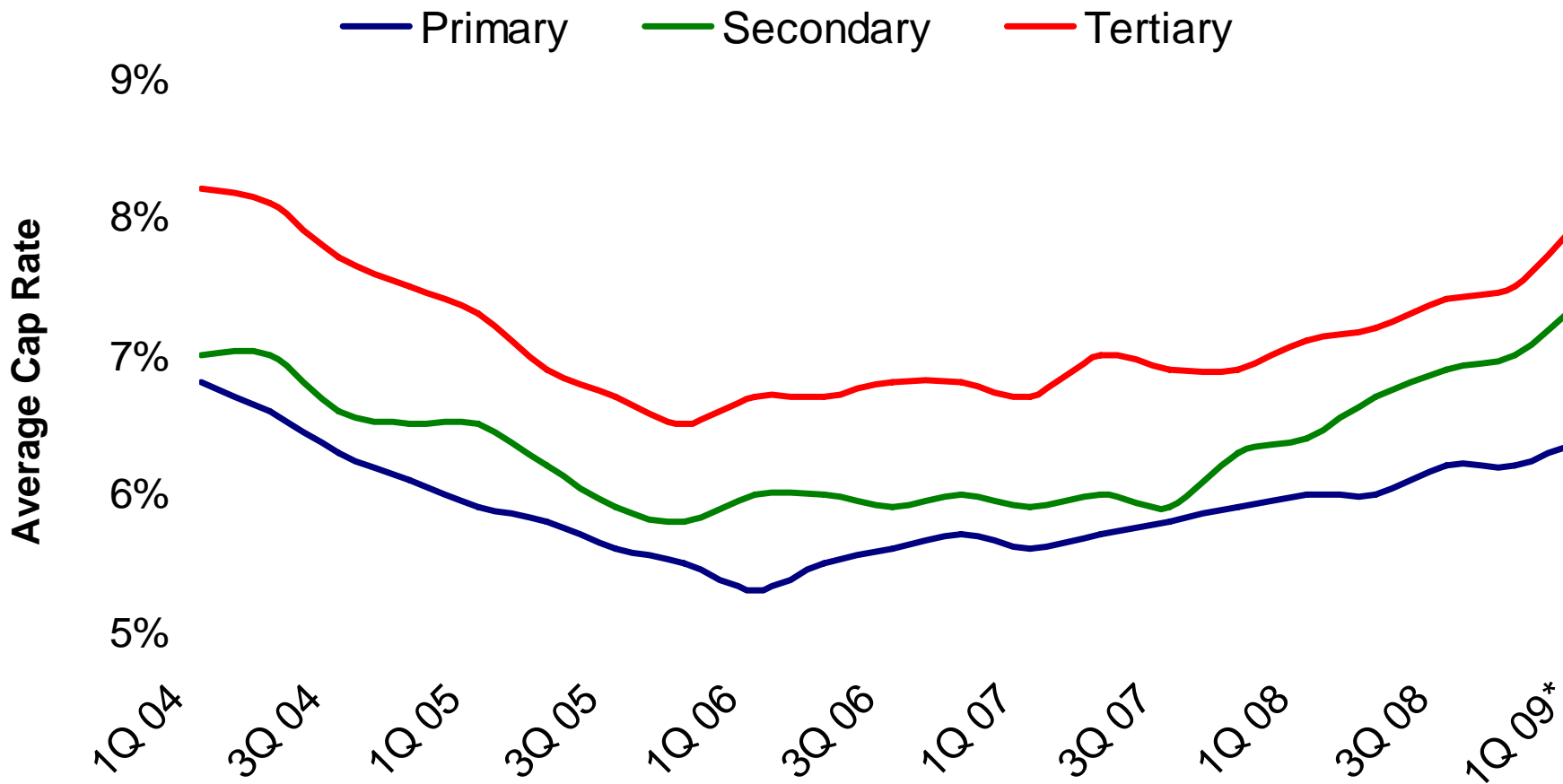


* Estimate

Sales \$1 million and greater

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

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



* Estimate

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	.85	1.25	1.75
Secondary	1.25	1.75	2.25
Tertiary	1.50	2.00	2.50

Base = 5.00 / 5.50 5.50 / 6.25 6.00 / 6.75

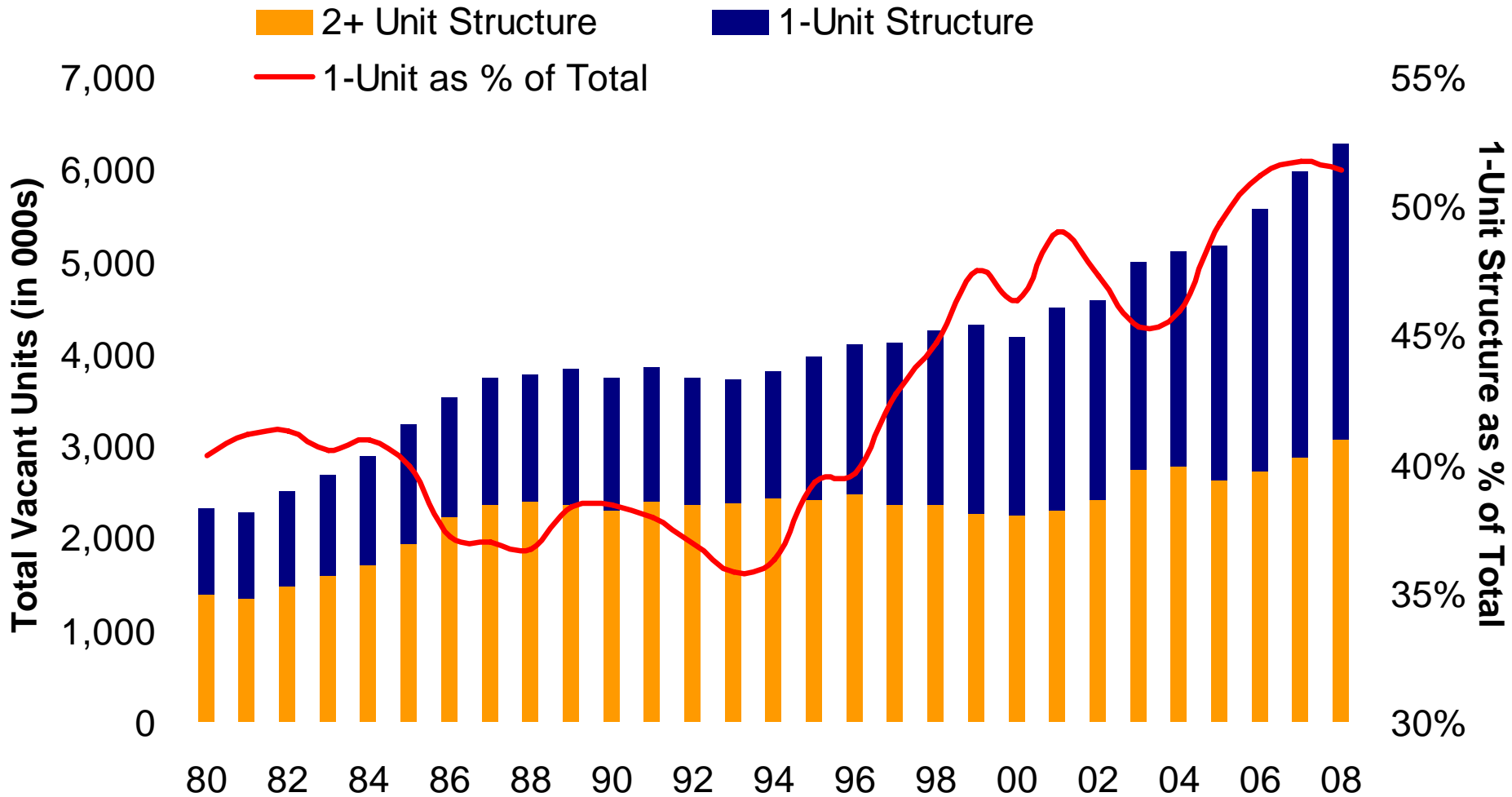
* Change in cap rates last 15 months

12 – Month Pricing Adjustment Matrix

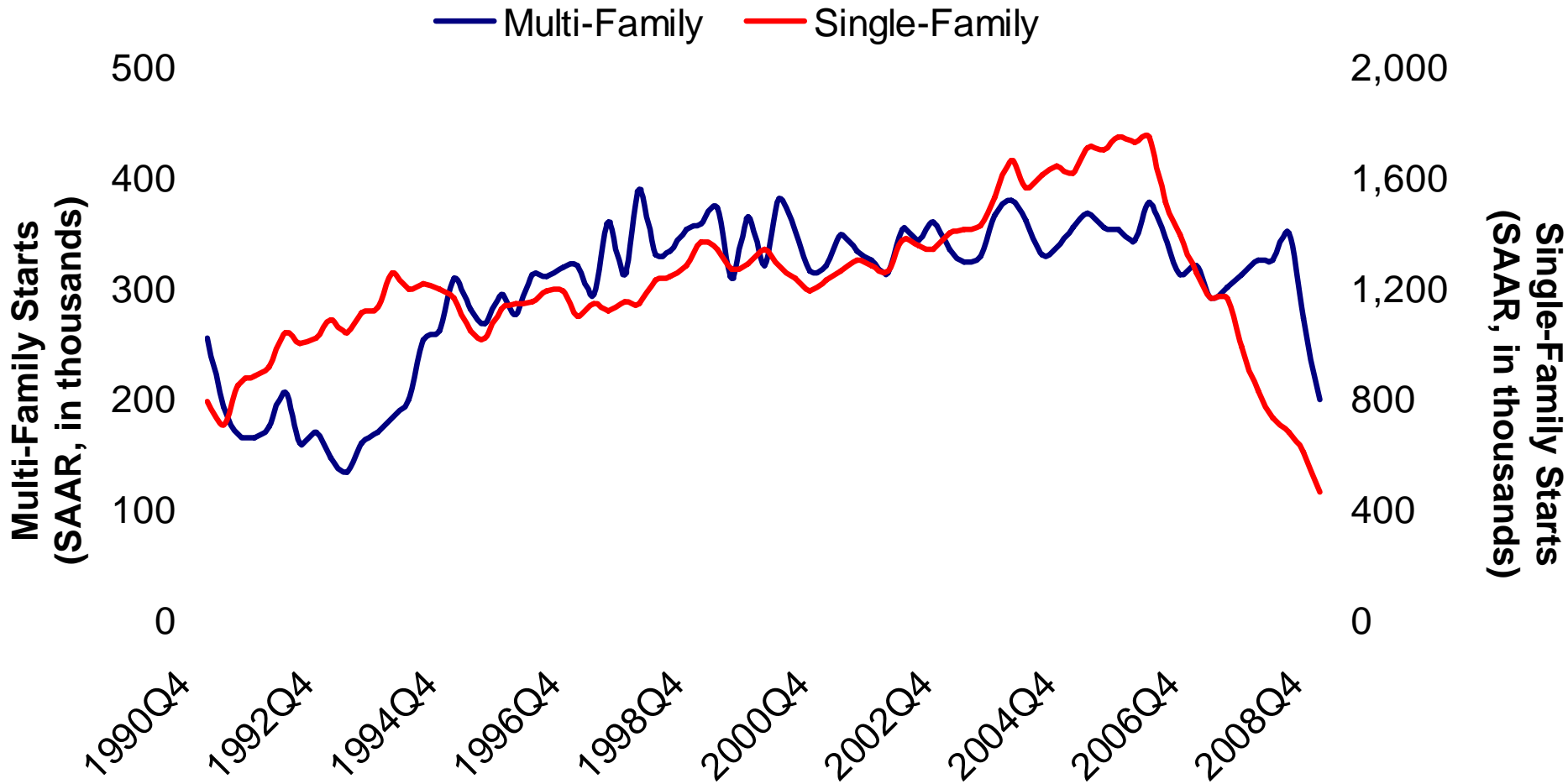
	Class "A"	Class "B"	Class "C"
Primary	-17%	-23%	-29%
Secondary	-24%	-29%	-35%
Tertiary	-27%	-32%	-37%

Base = 5.00 / 5.50 5.50 / 6.25 6.00 / 6.75

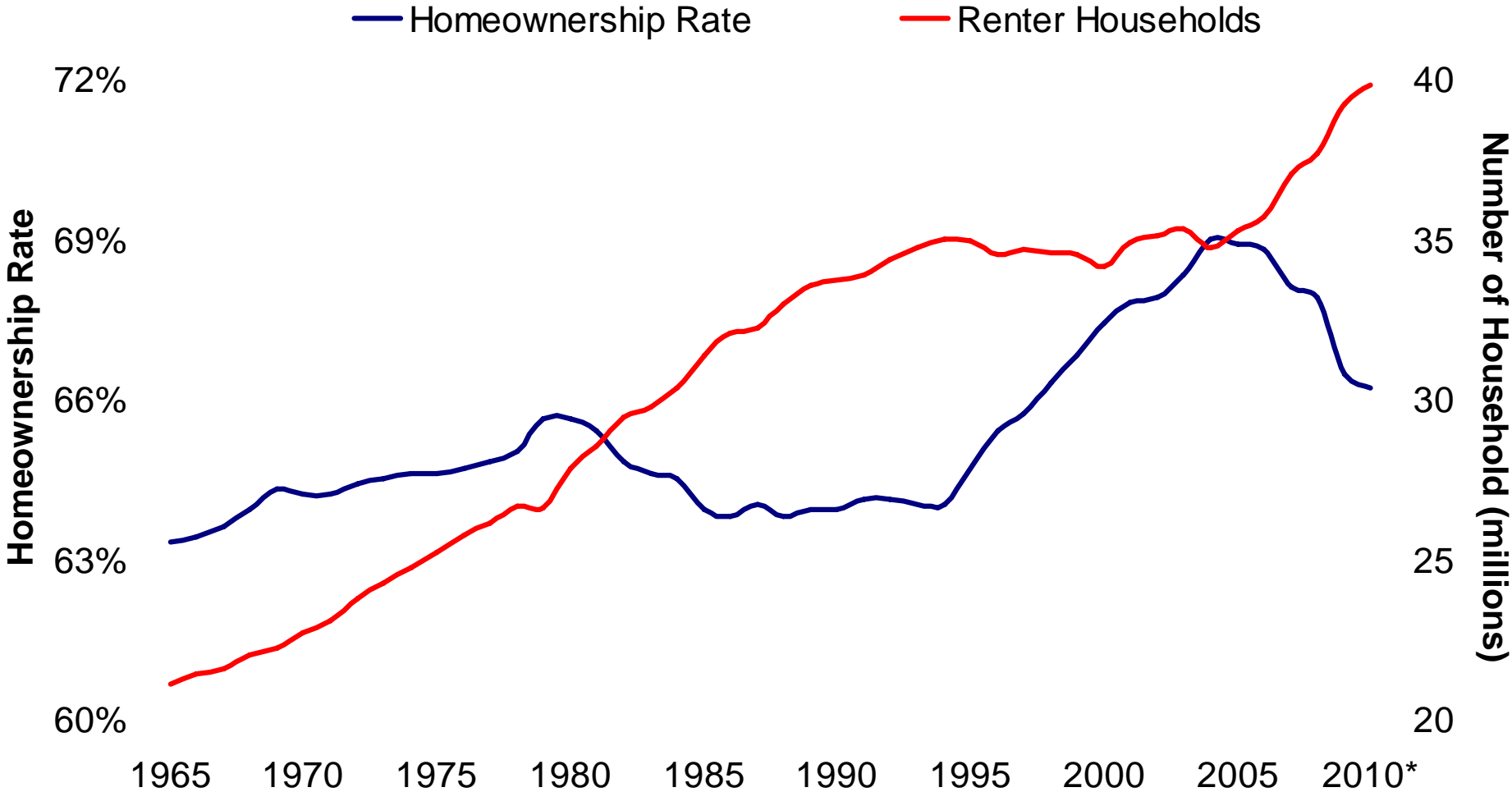
“Shadow” Rentals a Significant Factor in Rising Vacancies – More in Select Metros



Construction Starts Declining



Reversal in Home Ownership Rate Points to Increase in Renter Households



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

Apartment Vacancy Ranking

1Q 2009

Top 15 Markets	1Q 09 Vacancy
New York	3.4%
San Francisco	4.2%
Milwaukee	4.3%
Northern New Jersey	4.5%
San Diego	4.6%
Minneapolis	4.7%
Los Angeles	5.3%
Salt Lake City	5.4%
New Haven-Fairfield County	5.4%
San Jose	5.6%
Miami	5.7%
Portland	5.7%
Washington D.C.	5.9%
Orange County	5.9%
Chicago	6.0%
United States	7.2%

Bottom 15 Markets	1Q 09 Vacancy
St. Louis	8.2%
Columbus	8.3%
Denver	8.3%
Las Vegas	8.4%
Charlotte	8.5%
Oklahoma City	8.9%
Austin	9.2%
Tampa-St. Petersburg	9.3%
San Antonio	9.8%
Orlando	9.9%
Houston	10.1%
Atlanta	10.3%
Phoenix	11.3%
Tucson	11.7%
Jacksonville	12.7%
United States	7.2%

Apartment Vacancy Change Y-O-Y

1Q 2009

Top 15 Markets	1Q 09 Vacancy	Y-O-Y BPS Change
Palm Beach	7.7%	-30
Indianapolis	8.2%	10
Louisville	7.1%	10
San Francisco	4.2%	10
Cincinnati	7.3%	20
Washington D.C.	5.9%	50
Boston	6.4%	50
Milwaukee	4.3%	50
Minneapolis	4.7%	50
San Diego	4.6%	70
Salt Lake City	5.4%	70
Oklahoma City	8.9%	70
New Haven-F.C.	5.4%	70
Houston	10.1%	80
Detroit	7.4%	80
U.S. Average	7.2%	120

Bottom 15 Markets	1Q 09 Vacancy	Y-O-Y BPS Change
Atlanta	10.3%	160
Philadelphia	6.1%	170
Las Vegas	8.4%	180
Orange County	5.9%	180
Denver	8.3%	190
Orlando	9.9%	190
Tampa-St. Petersburg	9.3%	190
Charlotte	8.5%	200
San Jose	5.6%	210
Austin	9.2%	230
Phoenix	11.3%	230
Jacksonville	12.7%	240
Oakland-East Bay	6.9%	250
San Antonio	9.8%	250
Tucson	11.7%	350
U.S. Average	7.2%	120

Key Observations for 2009

- **Apartment capital markets remain fractured**
- **Investor demand tempered, motivated by anticipated discounts, timing the bottom**
- **Revenue declines moderately nationally – market divergence significant**
- **Pricing expectation gap wide**
- **Sales velocity low throughout 2009**
- **Continued upward pressure on cap rates**
- **Attractive investment opportunities emerging**

CMBS Loan Servicers

- **Volume of assets in hands of special servicers is increasing**
- **Servicers are considering a wide range of options:**
 - **Manage asset to correct management / physical deficiencies**
 - **Manage asset and wait for market to improve**
 - **Test the market**
 - **Accept and meet the market**

CMBS Loan Servicers

- **Unwinding the loan “stacks” is far more complicated and time consuming than the last cycle**
- **Time frame for CMBS distressed assets to be marketed could be 9 to 18 months**
- **Servicers are attempting to gain approval to offer seller-carried financing**
- **Too many moving parts to accurately predict how this market will operate**

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

- **Starts down in 2008, 2009, 2010**
- **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**



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