National Economic and Apartment Market

Overview and Outlook – Special Client Webcast

October 22, 2008

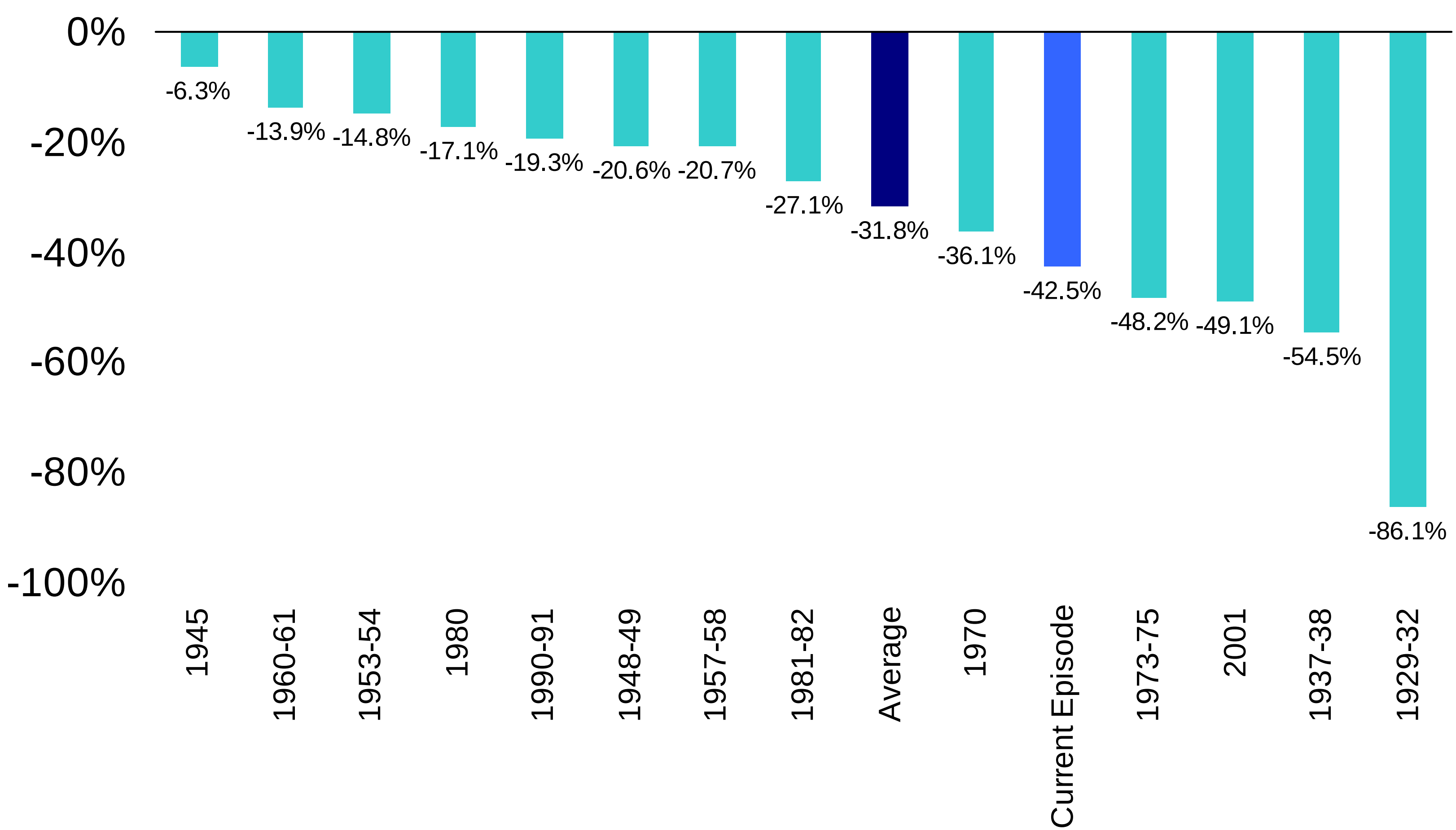
Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

ECONOMIC and APARTMENT MARKET FUNDAMENTALS

OVERVIEW and OUTLOOK

S&P 500 Peak to Trough Impact During U.S. Recessions



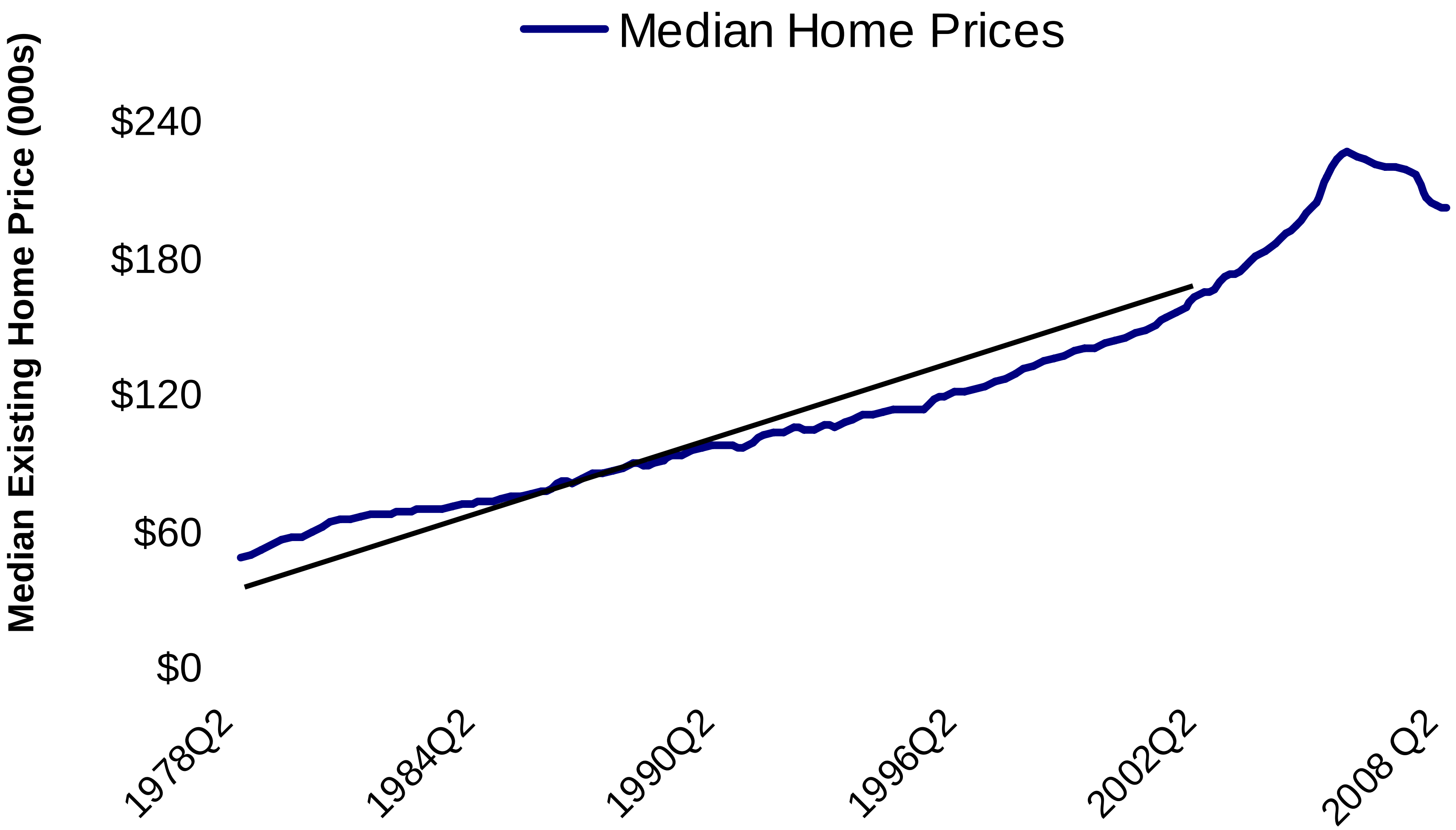
Sources: Marcus & Millichap Research Services, Standard and Poors

Peak to Trough Real GDP Declines

Post-War U.S. Recessions

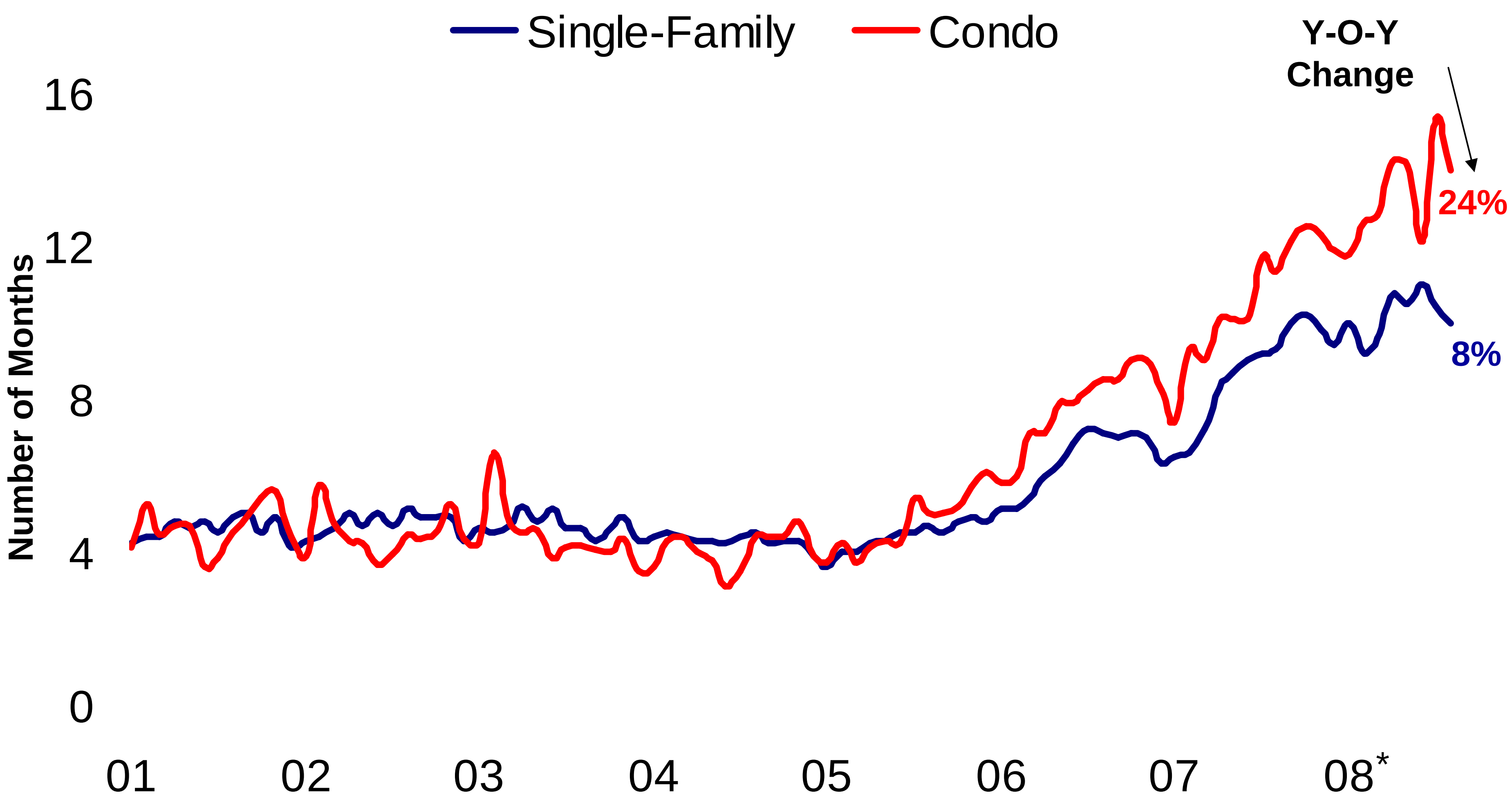
	# of Quarters	Real GDP Decline %	Annualized %
Q3:57-Q1:58	2	-3.70%	-7.40%
Q3:81-Q1:82	2	-2.90%	-5.60%
Q1:80-Q3:80	2	-2.20%	-4.30%
Q3:70-Q4:70	1	-1.10%	-4.20%
Q4:48-Q2:49	2	-1.80%	-3.50%
Q2:53-Q1:54	3	-2.70%	-3.50%
Q4:73-Q1:75	5	-3.10%	-2.50%
Q3:90-Q1:91	2	-1.30%	-2.50%
Q1:60-Q4:60	3	-1.60%	-2.20%
Q2:01-Q3:01	1	-0.40%	-1.40%
Average	2.3	-2.10%	-3.70%

U.S. Existing Single-Family Home Price Trends



Sources: Marcus & Millichap Research Services, NAR

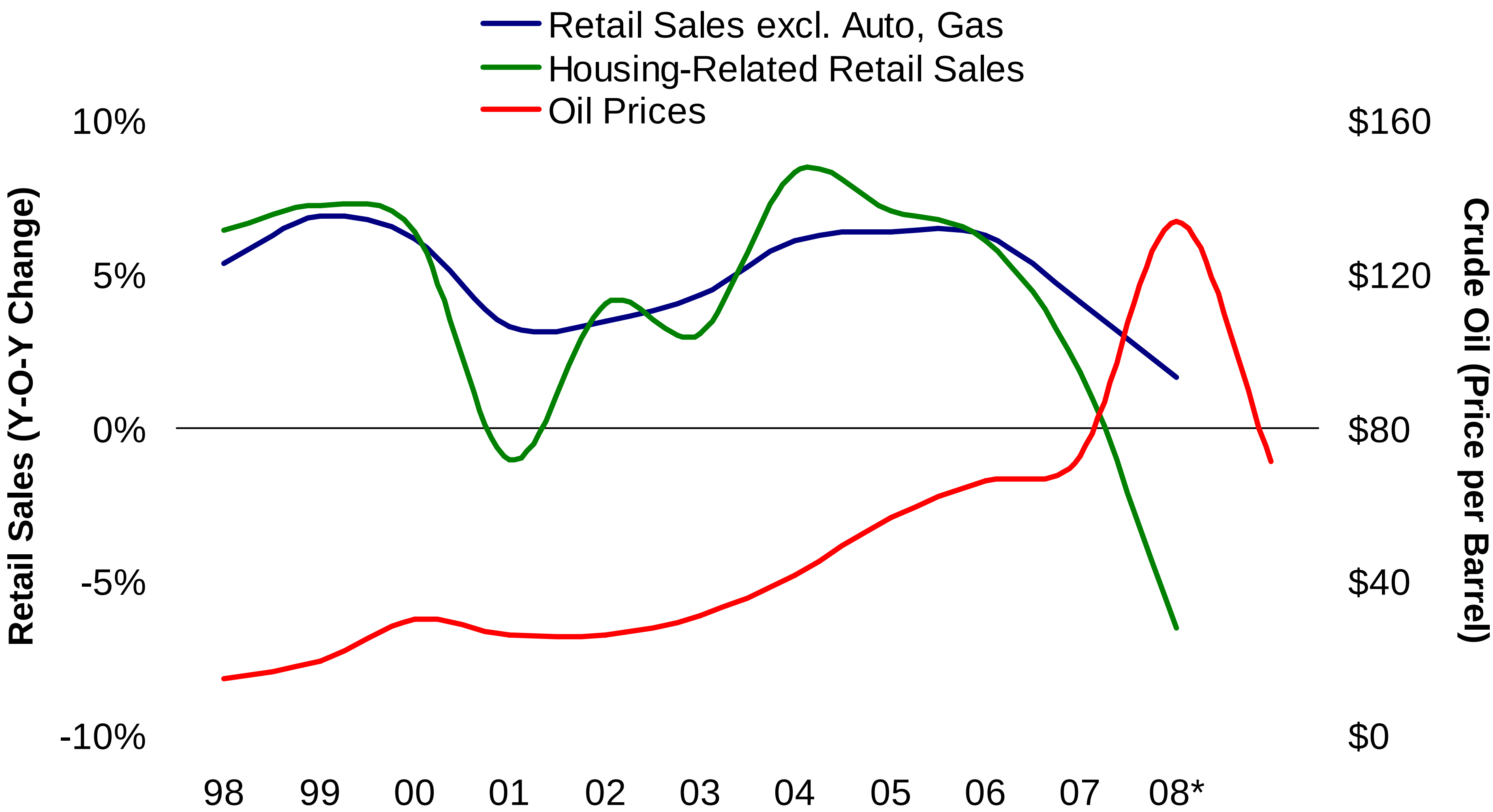
Housing Inventory Overhang Indicates Further Weakness (months of supply)



* Through August

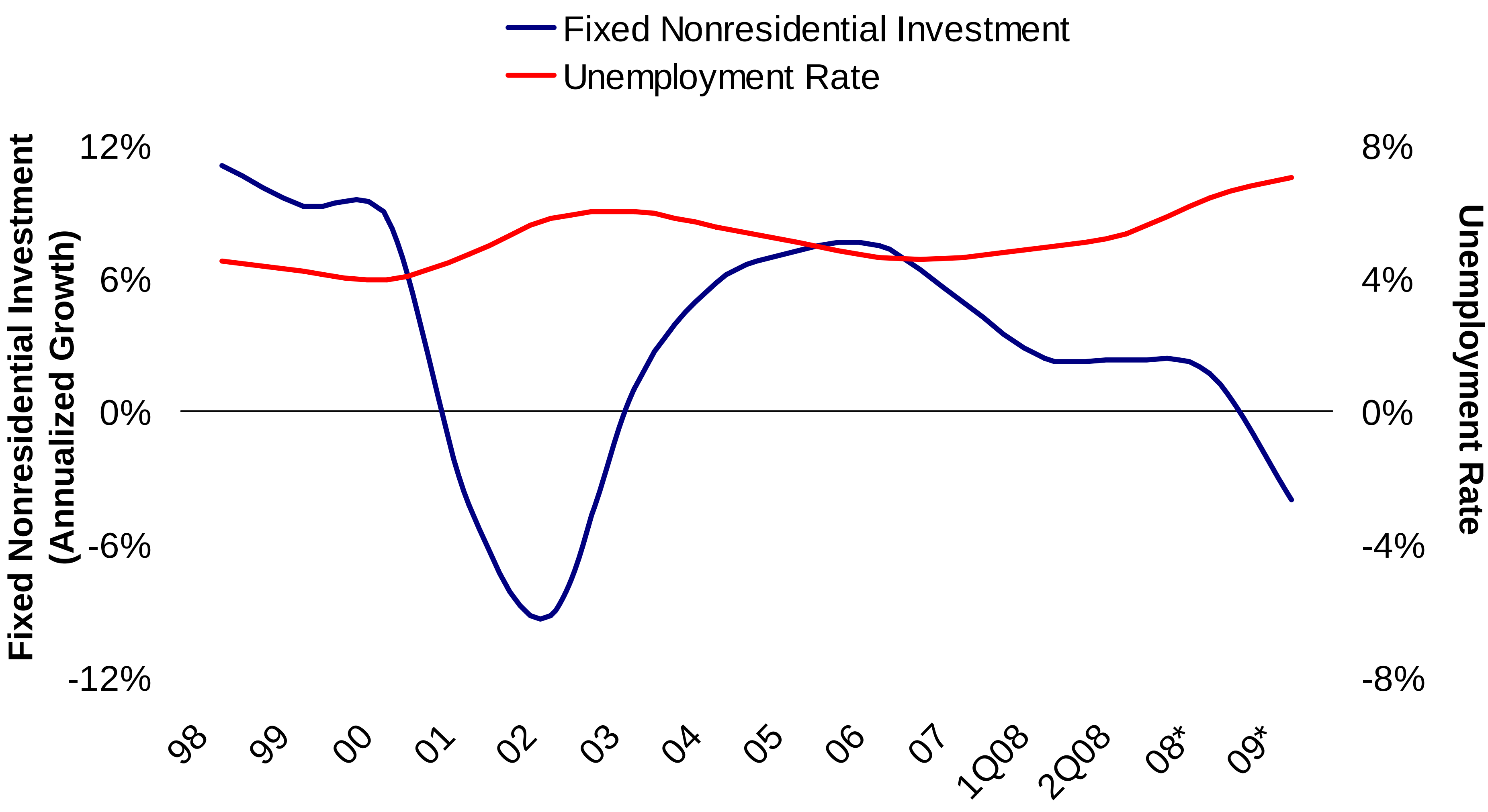
Sources: Marcus & Millichap Research Services, National Association of REALTORS®

Housing Downturn, Wealth Effect Reversal Hampering Consumers – Easing Energy Prices a Positive



* Retail Sales (Y-O-Y as of September), Oil Prices as of October 21st
Sources: Marcus & Millichap Research Services, Economy.com

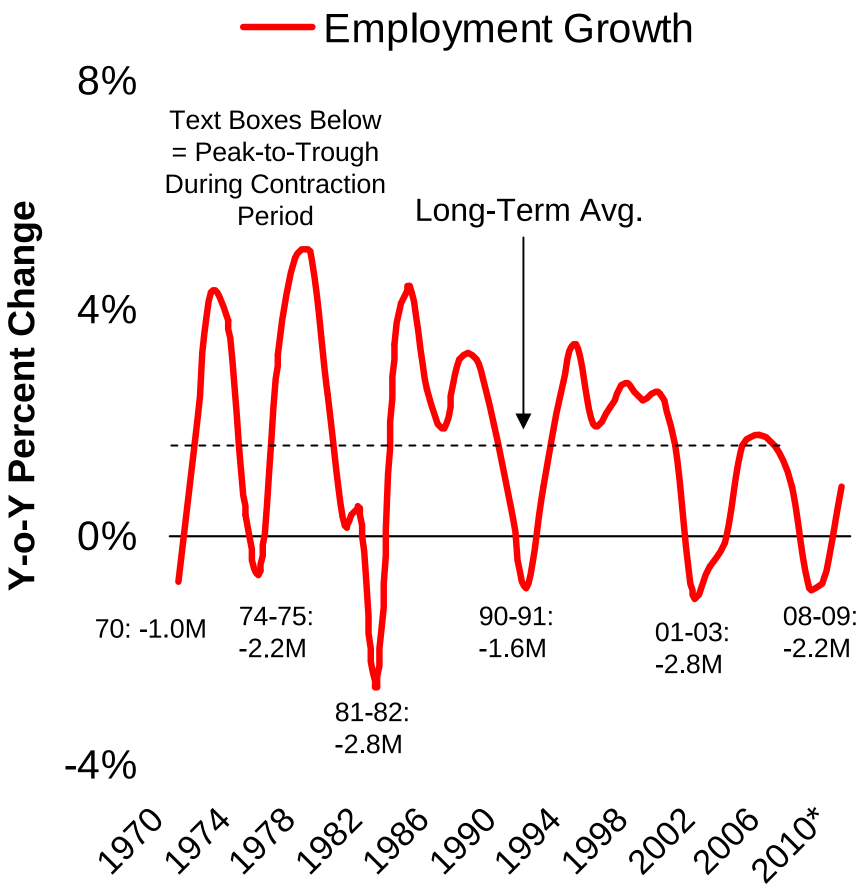
Corporate Investment Stalled Despite Healthy Balance Sheets, Unemployment Rising

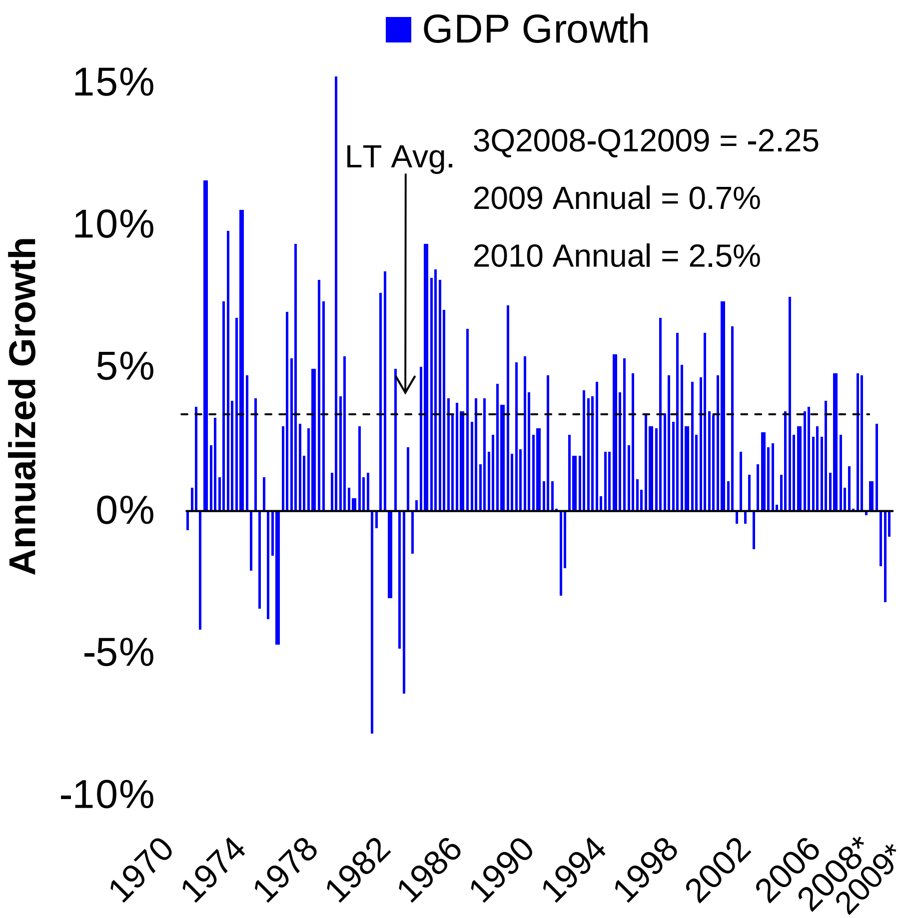


* Forecast

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

Economic Weakness Expected Through Mid-2009
Risk Levels Remain Elevated

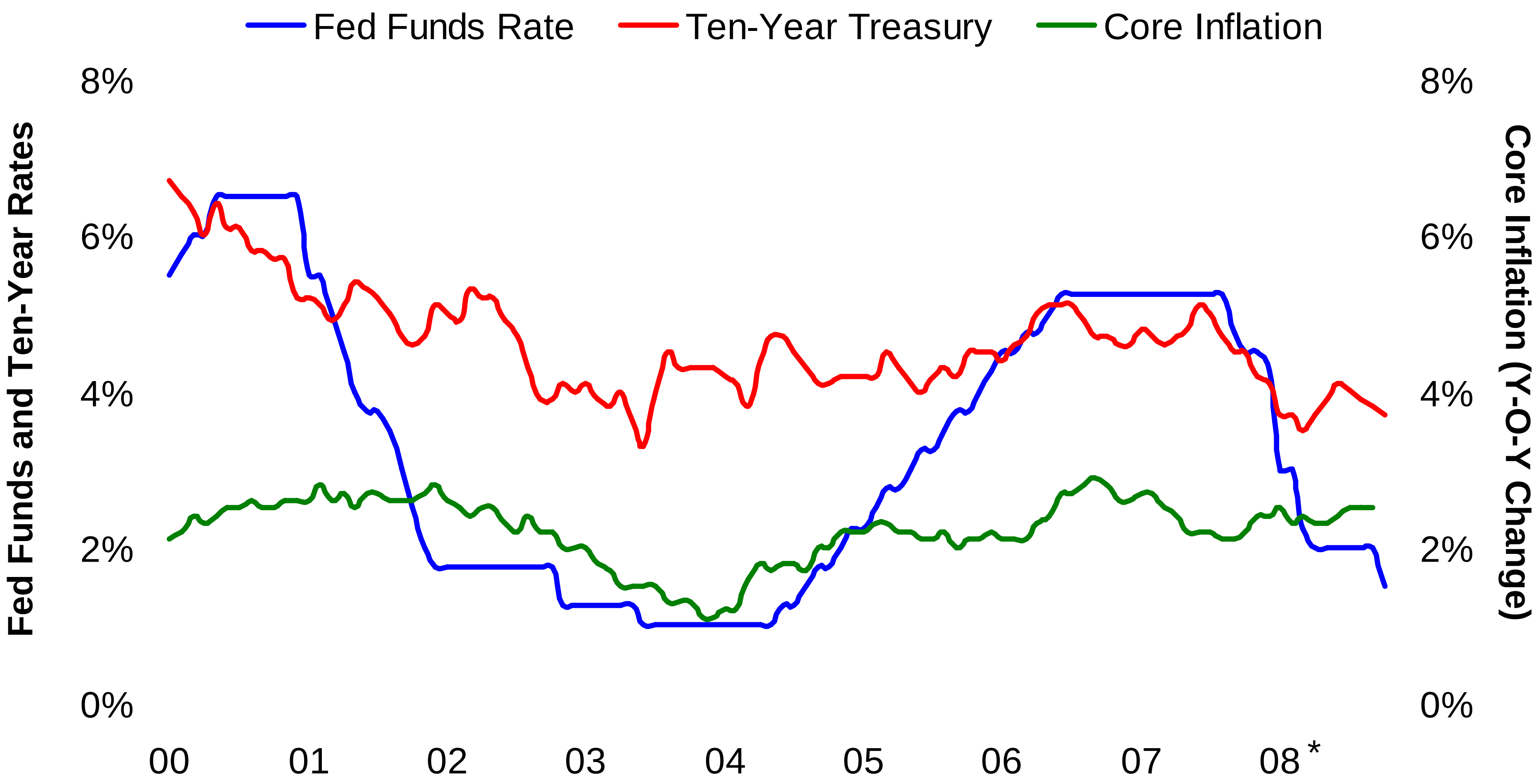




*Forecast Assumes "Thawing" of Credit Markets by Late 2008, Sustained Easing of Energy Prices, No Additional Major Shocks

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

Economic Risks to Dominate Fed Agenda for Some Time – Long-Term Inflation Still an Issue



* Fed Funds and Ten-Year Through October 21st, Core Inflation Through September

Sources: Marcus & Millichap Research Services, Federal Reserve

Fed/Treasury Engaging Multiple Credit Facilities, Unprecedented Levels of Liquidity into Economy

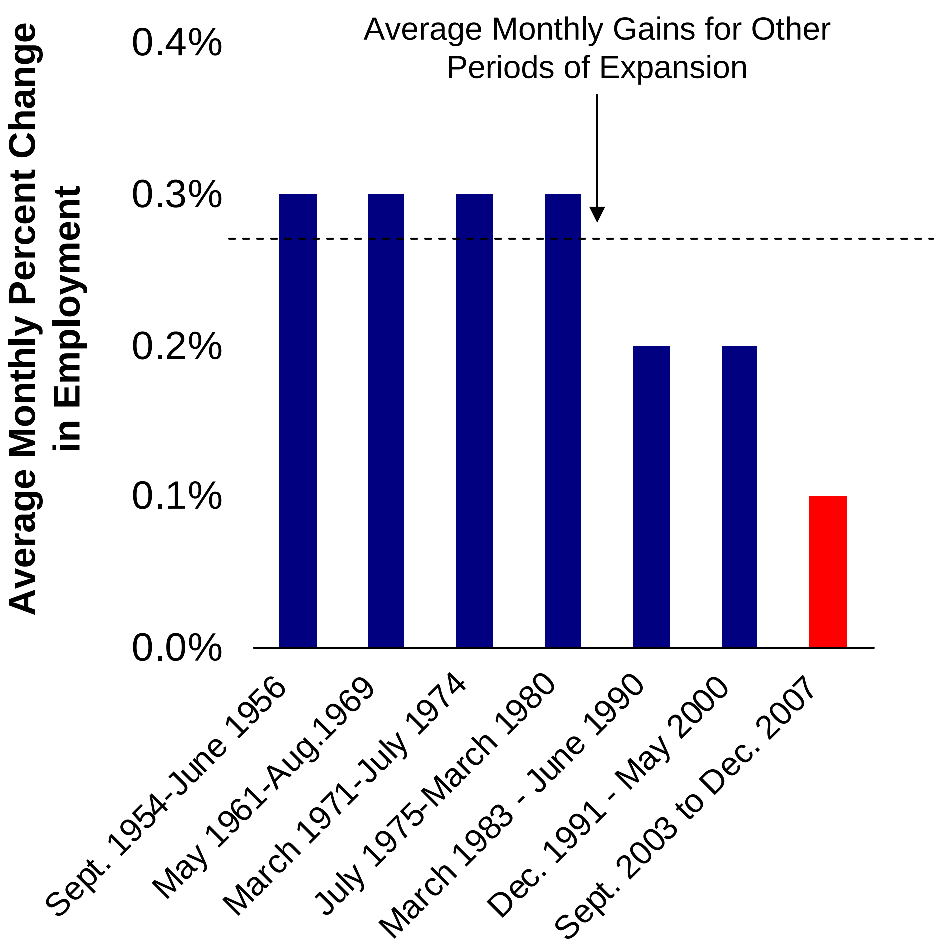
	Jan 00 - Dec 02	Jul 07 - Sept 08
Discount Window Credit of Depository Institutions	$10.9 Billion	$286.7 Billion
Asset-Backed Comm. Paper/Money Market Fund Facility	-	$40.8 Billion
Special Liquidity Facility	$72 Million	-
Other Credit Extensions	-	$23.4 Billion
Primary Borrowings of Depository Institutions	-	$113 Billion
Secondary Borrowings of Depository Institutions	-	$246 Million
Primary Dealer and Other Broker-Dealer Credit	-	$116.8 Billion
Seasonal Borrowings of Depository Institutions	$5.0 Billion	$1.3 Billion
Term Auction Credit of Depository Institutions	-	$1.0 Trillion

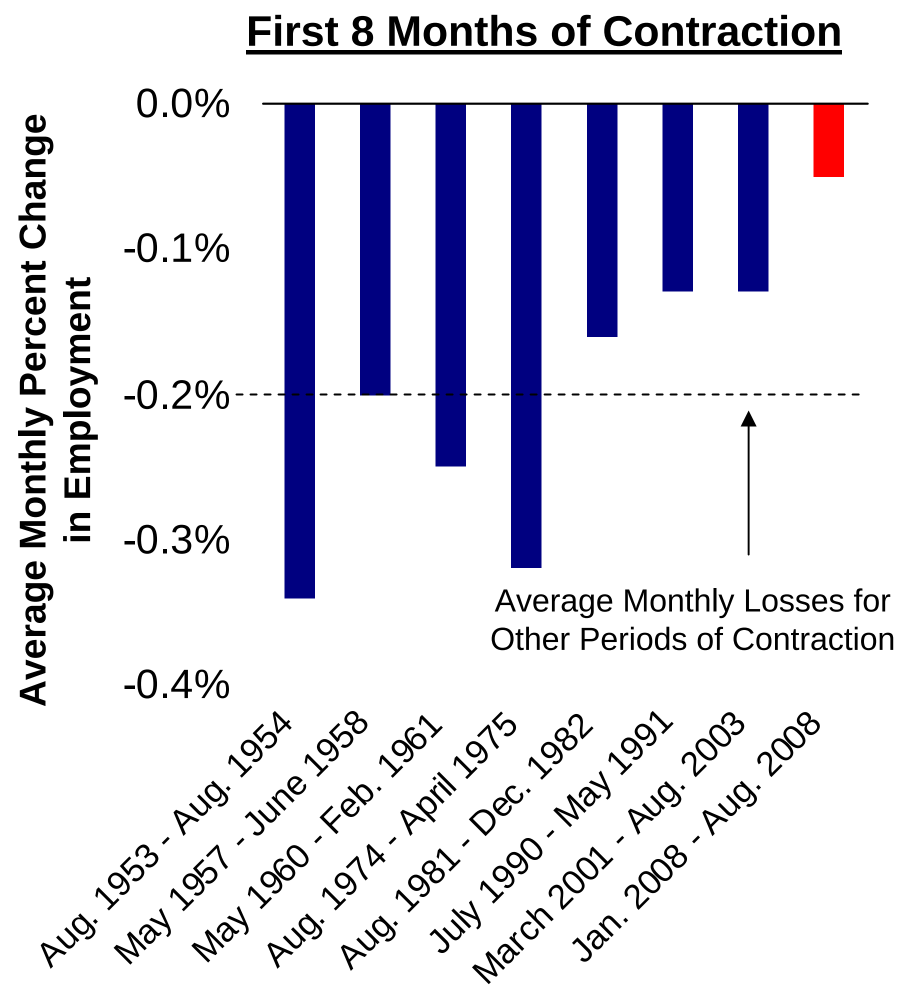
**All figures above represent cumulative monthly totals over time period (Federal Reserve Statistics – H3 Tables)*

Emergency Economic Stabilization Act (includes TARP)	-	$700 Billion
Capital Purchase Plan (Purchasing Stock in Banks)	-	*$250 Billion*
FDIC Increased Guarantee of Deposits to $250,000	-	Unknown
Fed Provides Unlimited Currency Swap Lines for European Central Banks	-	Unknown

Sources: Marcus & Millichap Research Services, FDIC, Federal Reserve, U.S. Treasury

Lean Payrolls During the Expansion Were Limiting Job Losses During the Downturn





Sources: Marcus & Millichap Research Services, BLS

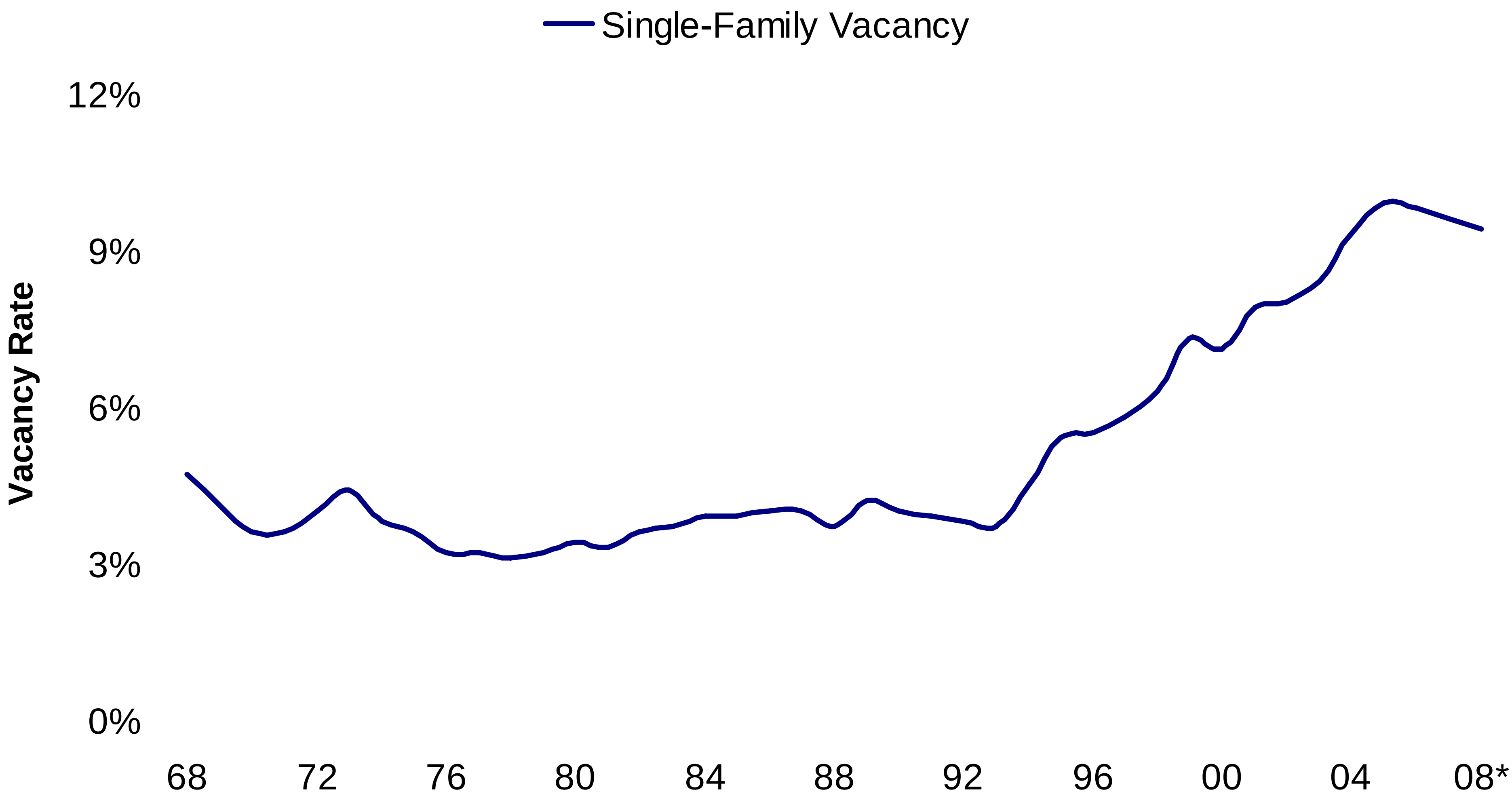
Most and Least Improved Employment Markets YTD September 2008

Top 15 Markets	YTD Abs. Change	YTD % Change
Houston	37,411	1.4%
San Antonio	11,835	1.4%
Seattle-Tacoma	24,606	1.4%
Dallas-Fort Worth	40,607	1.4%
Austin	9,799	1.3%
Oklahoma City	6,215	1.1%
Charlotte	8,485	1.0%
Washington, D.C.	29,070	1.0%
Denver	8,857	0.7%
Boston	13,612	0.6%
Columbus	5,256	0.6%
Baltimore	3,900	0.3%
New York	13,607	0.3%
San Francisco	1,500	0.2%
San Jose	1,101	0.1%
United States	-760,000	-0.6%

Bottom 15 Markets	YTD Abs. Change	YTD % Change
St. Louis	-12,816	-0.9%
Milwaukee	-10,100	-1.2%
West Palm Beach	-7,100	-1.2%
Orange County	-22,500	-1.5%
Sacramento	-13,590	-1.5%
Atlanta	-37,351	-1.5%
Miami	-16,400	-1.5%
Tampa	-20,800	-1.6%
Inland Empire	-21,300	-1.7%
Phoenix	-33,600	-1.8%
Fort Lauderdale	-14,200	-1.8%
Memphis	-12,045	-1.9%
Oakland	-19,800	-1.9%
Tucson	-7,200	-1.9%
Detroit	-42,746	-2.2%
United States	-760,000	-0.6%

Sources: Marcus & Millichap Research Services, BLS

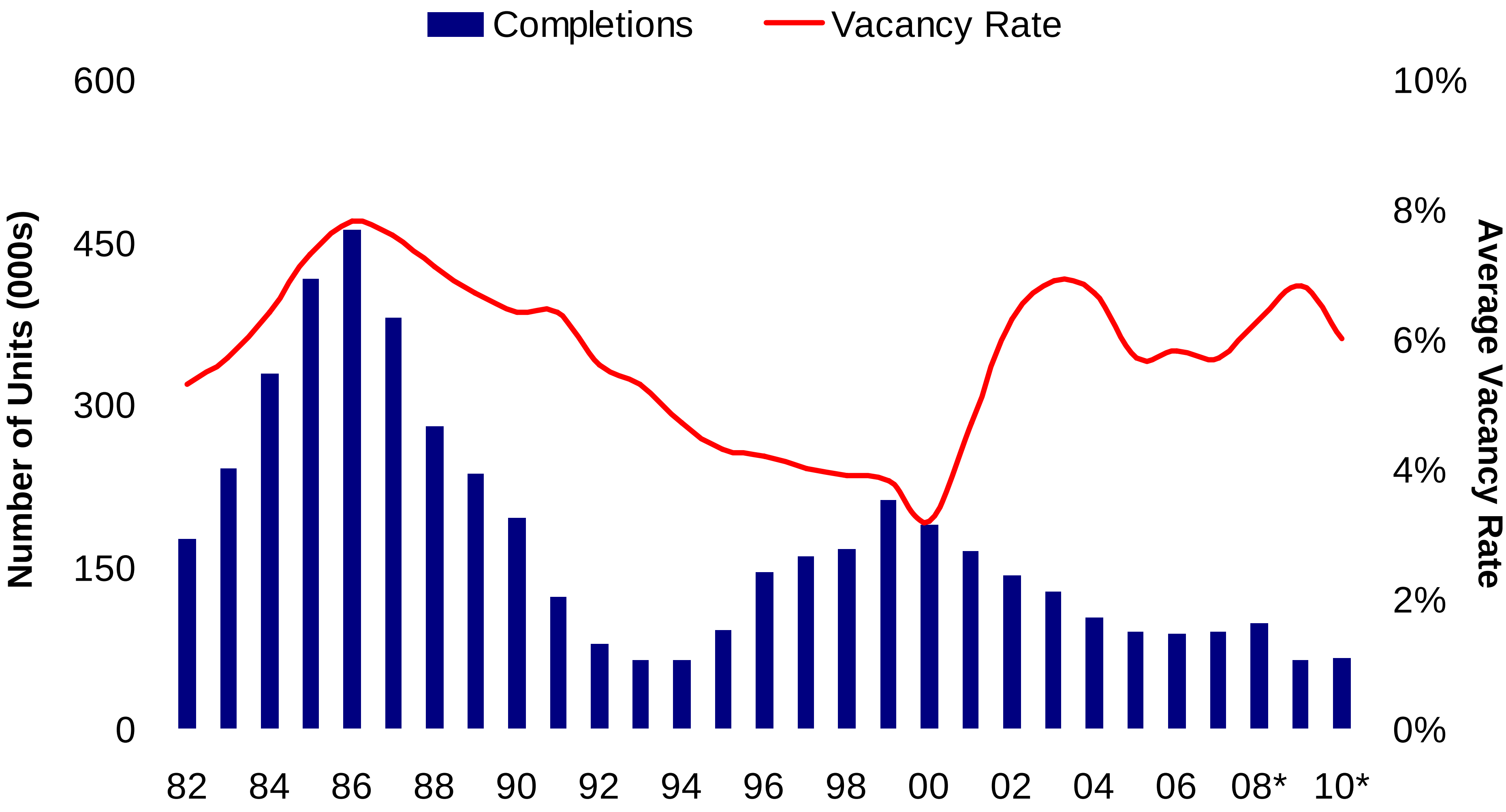
Single-Family and Condo Rentals Competing with Apartments



* As of 2Q

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

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



* Forecast

Sources: Marcus & Millichap Research Services, Reis

Top and Bottom Apartment Markets
YOY Change in Vacancy – 3Q 2008

Top 15 Markets	3Q 2008 Vacancy	YOY Bps Chg
Indianapolis	7.4%	(130)
Cincinnati	6.4%	(110)
Oklahoma City	7.9%	(60)
San Diego	3.5%	(50)
Denver	6.7%	(40)
Raleigh-Durham	7.0%	(40)
San Francisco	3.7%	(40)
Cleveland	5.2%	(30)
Detroit	6.3%	(30)
Milwaukee	3.7%	(30)
Minneapolis	3.9%	(30)
New York	2.0%	(20)
St. Louis	6.7%	(10)
Austin	7.0%	-
Northern New Jersey	3.5%	10
United States	6.1%	50

Bottom 15 Markets	3Q 2008 Vacancy	YOY Bps Chg
Philadelphia	4.9%	90
Columbus	7.6%	100
Fort Lauderdale	5.7%	110
Inland Empire	6.4%	110
San Jose	4.4%	110
Tampa	7.6%	110
Houston	9.5%	120
Miami	4.9%	120
San Antonio	7.7%	120
Orange County	4.6%	140
Orlando	8.4%	160
Phoenix	9.8%	200
Las Vegas	7.5%	220
Jacksonville	11.0%	240
Tucson	10.1%	250
United States	6.1%	50

Sources: Marcus & Millichap Research Services, Reis

CAPITAL MARKETS
OVERVIEW and OUTLOOK

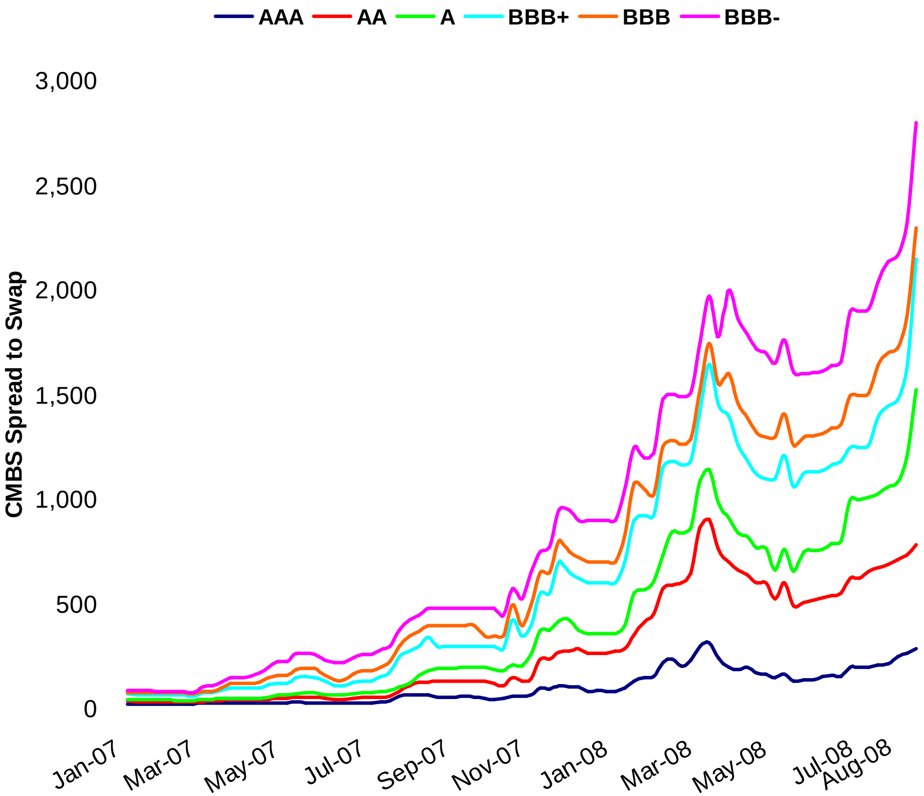
Recent Financial Market Events - Extraordinary

1. Financial support and structuring of Bear Stearns and JP Morgan – facilitated by the Fed, Treasury.
2. Government take over of Fannie and Freddie and the creation of a conservatorship.
3. Financial support - $85 billion lifeline to AIG.
4. Orchestrated acquisition of Merrill Lynch by BoA.
5. Lehman’s bankruptcy and acquisition by Barclays.
6. WAMU’s collapse and acquisition JP Morgan/Chase.
7. Creation of the *Emergency Economic Stabilization Credit Act*.
8. Commercial Paper Funding Vehicle.
9. Equity Investment by Government in Banks.

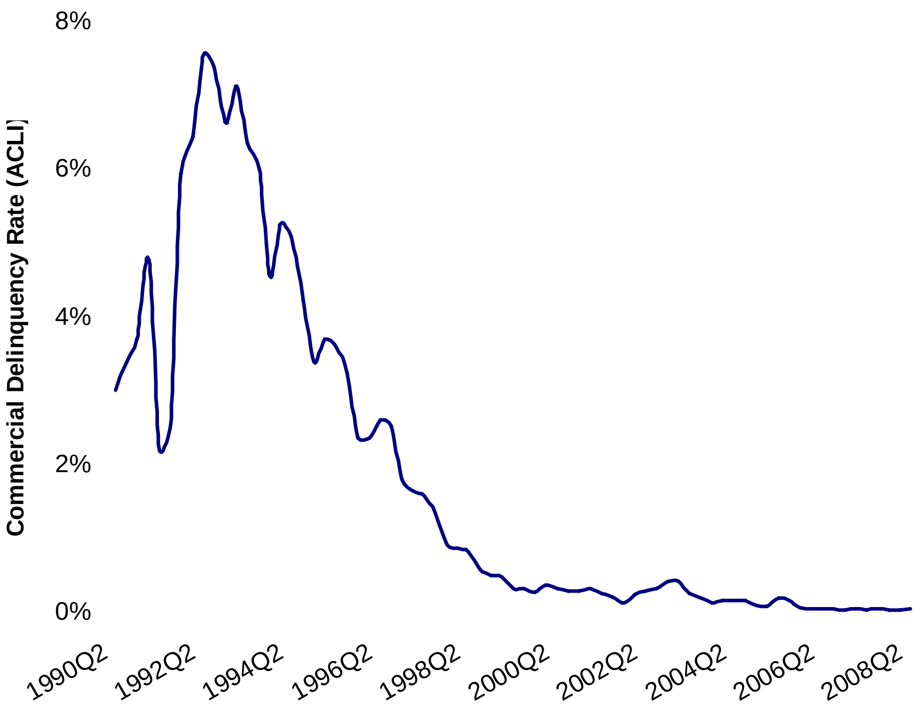
Impact on Commercial Real Estate Sector

1. **Additional Pressure on Distressed Real Estate:**
   - **Transactions at the End of Construction Cycle**
   - **Transactions with Libor Based Financing are Under More stress**
2. **Further tightening of credit in the short term.**
3. **Financing for apartments still available – Fannie/Freddie still active - larger deals most impacted.**
4. **Increasing pressure on values as real estate holdings are disposed of by financial institutions.**
   - **Most trouble still concentrated in residential**
   - **All commercial holdings are not the same**
5. **Spreads volatile – long term rates still relatively low.**
6. **More issues related to financial institutions likely.**

Commercial Real Estate Financing Remains Tight Despite Low Delinquency Rates



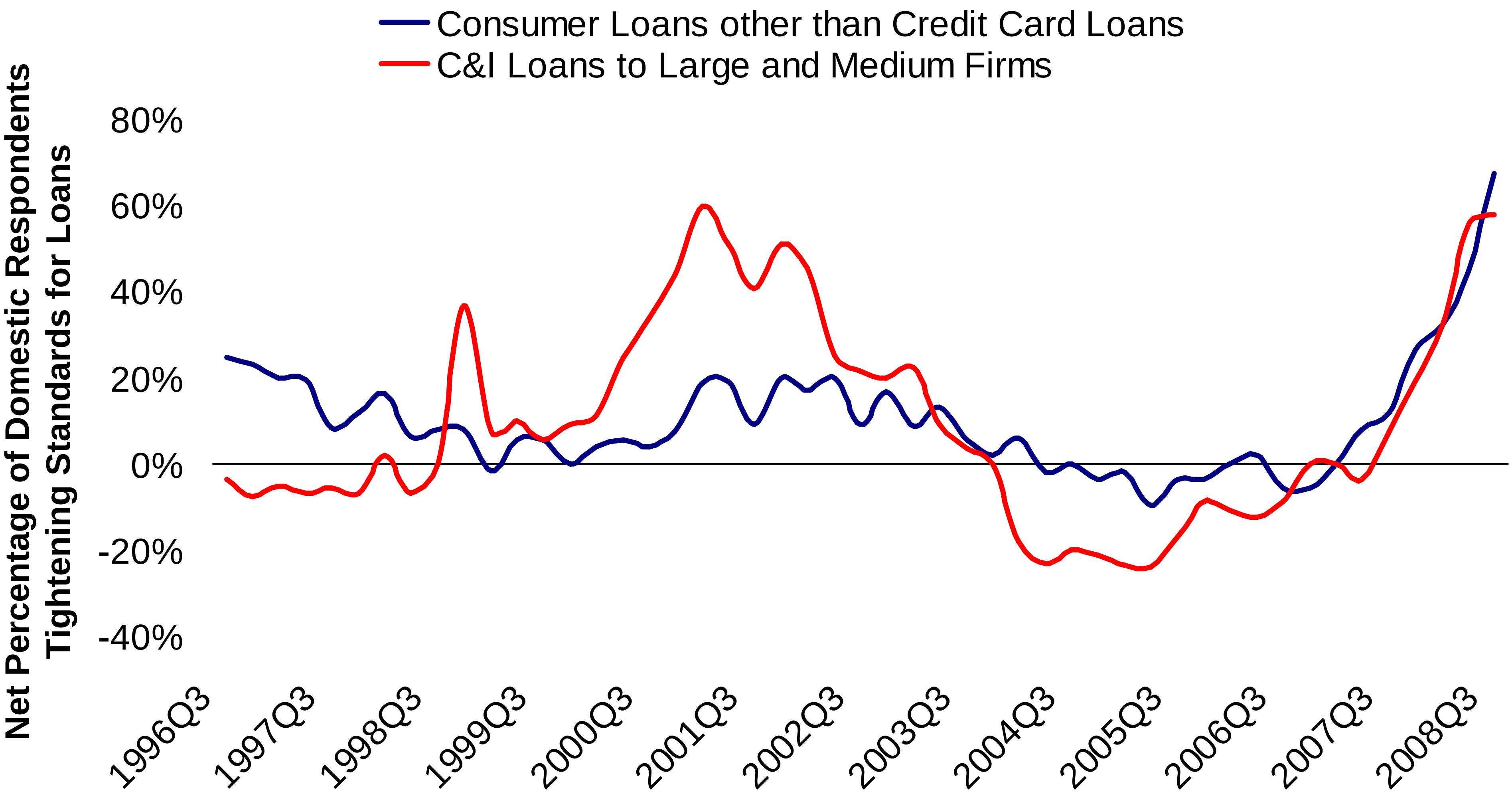
Credit Spreads



Commercial Delinquencies

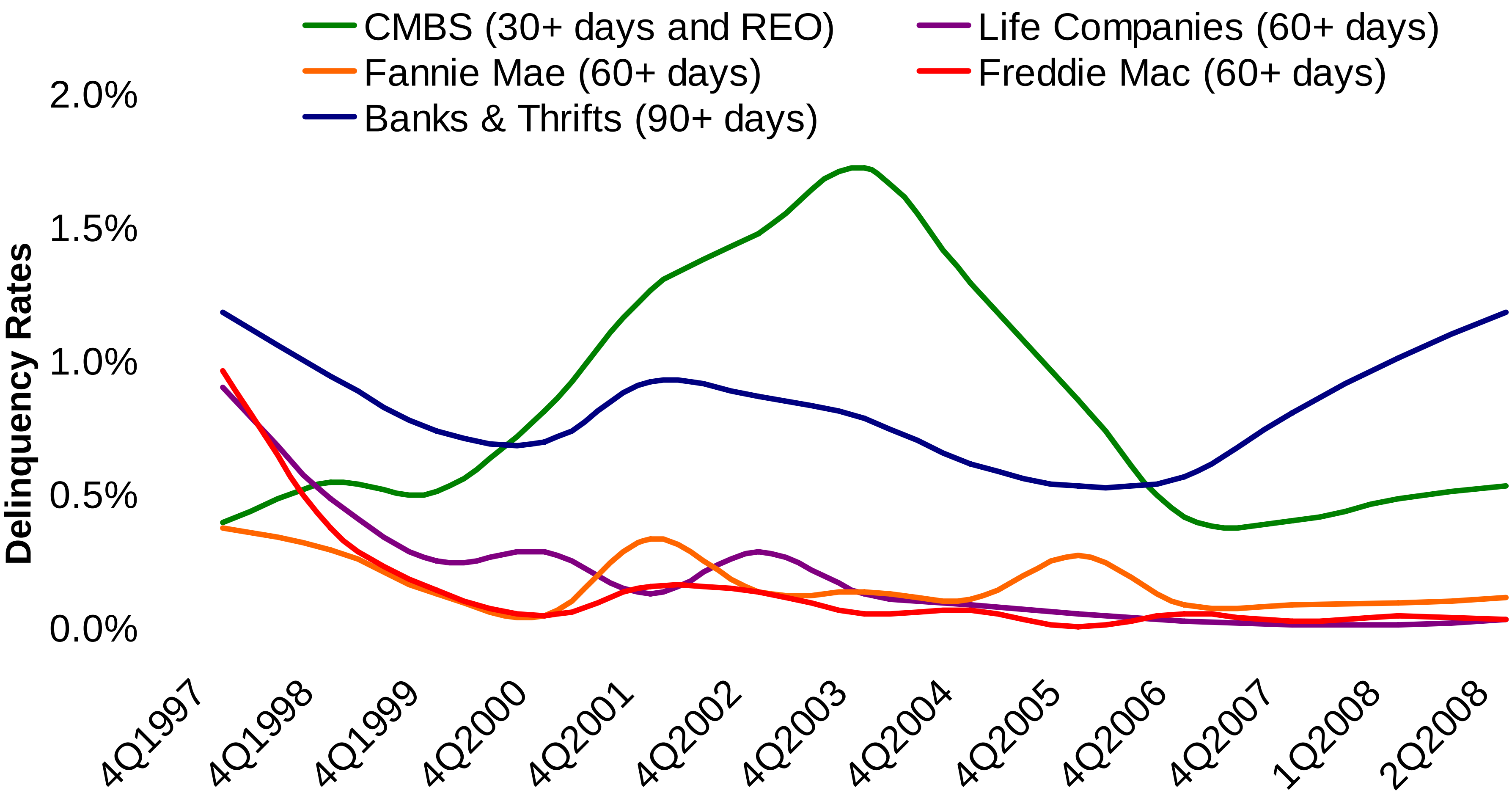
Sources: Marcus & Millichap Research Services, ACLI, Wachovia

Credit Standards Have Tightened Across the Board



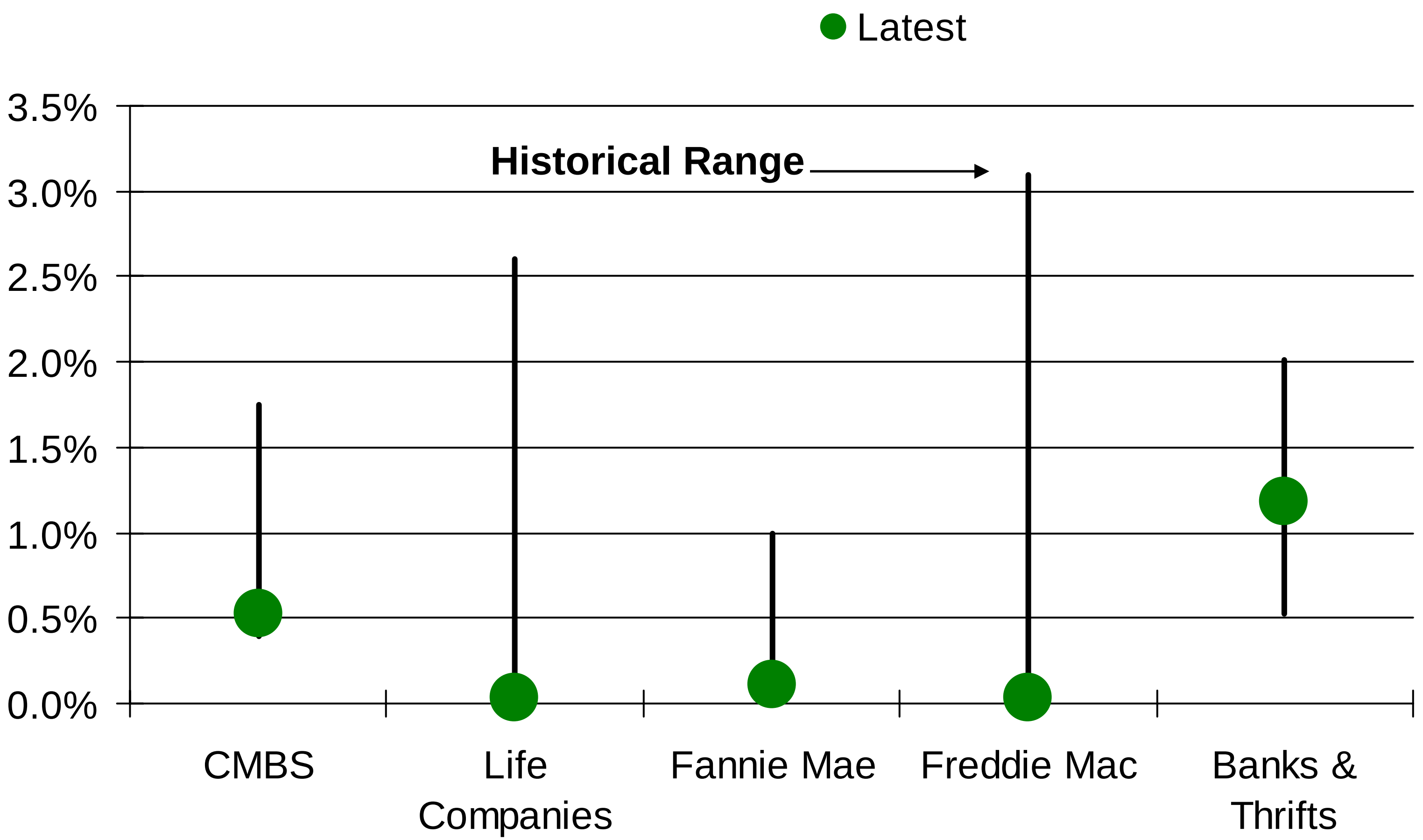
Sources: Marcus & Millichap Research Services, Federal Reserve Board

Commercial/Multi-Family Mortgage Delinquency Rates by Group



Delinquency rates at the end of each period
Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

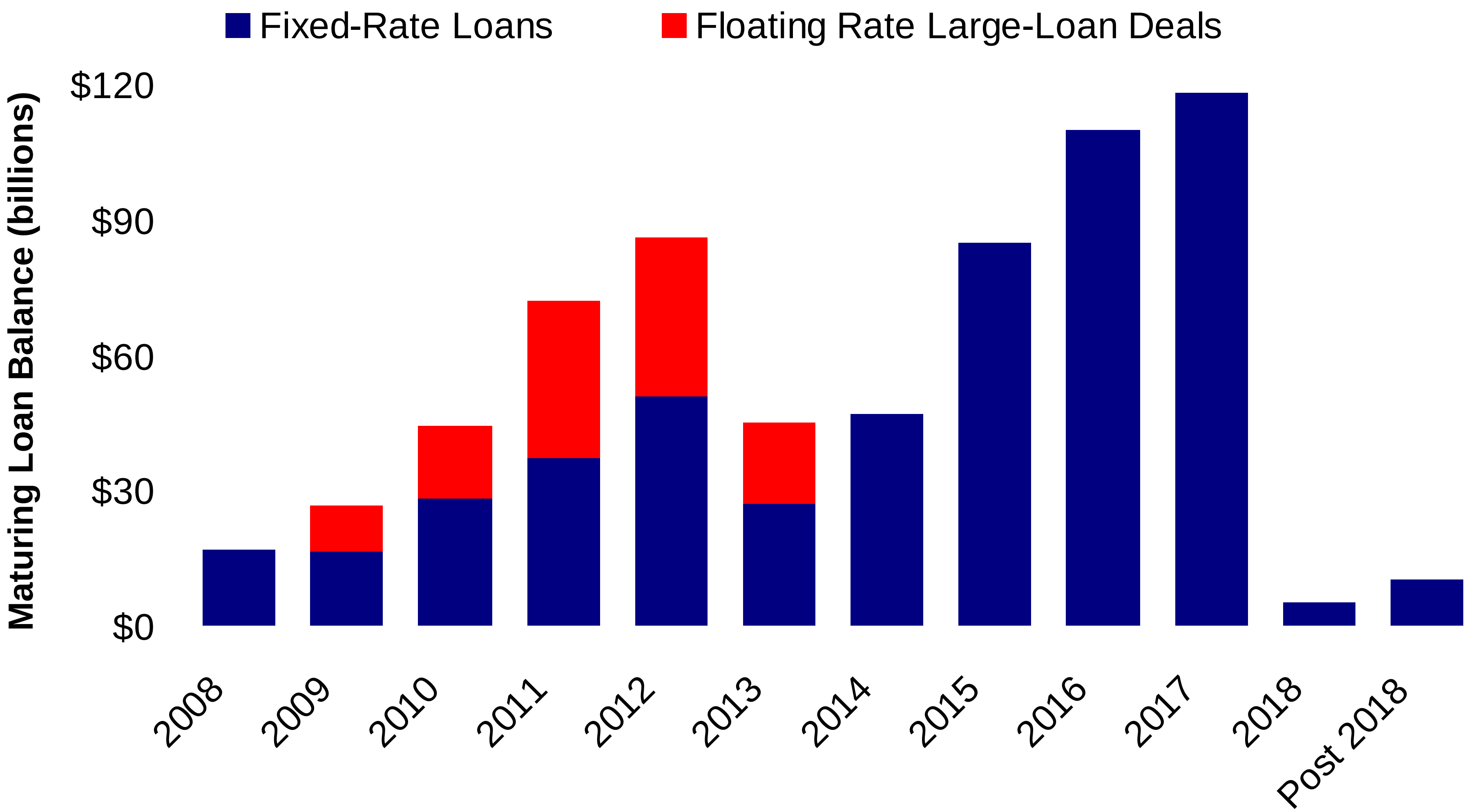
2Q 2008 Delinquency Rates Near Historical Lows



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

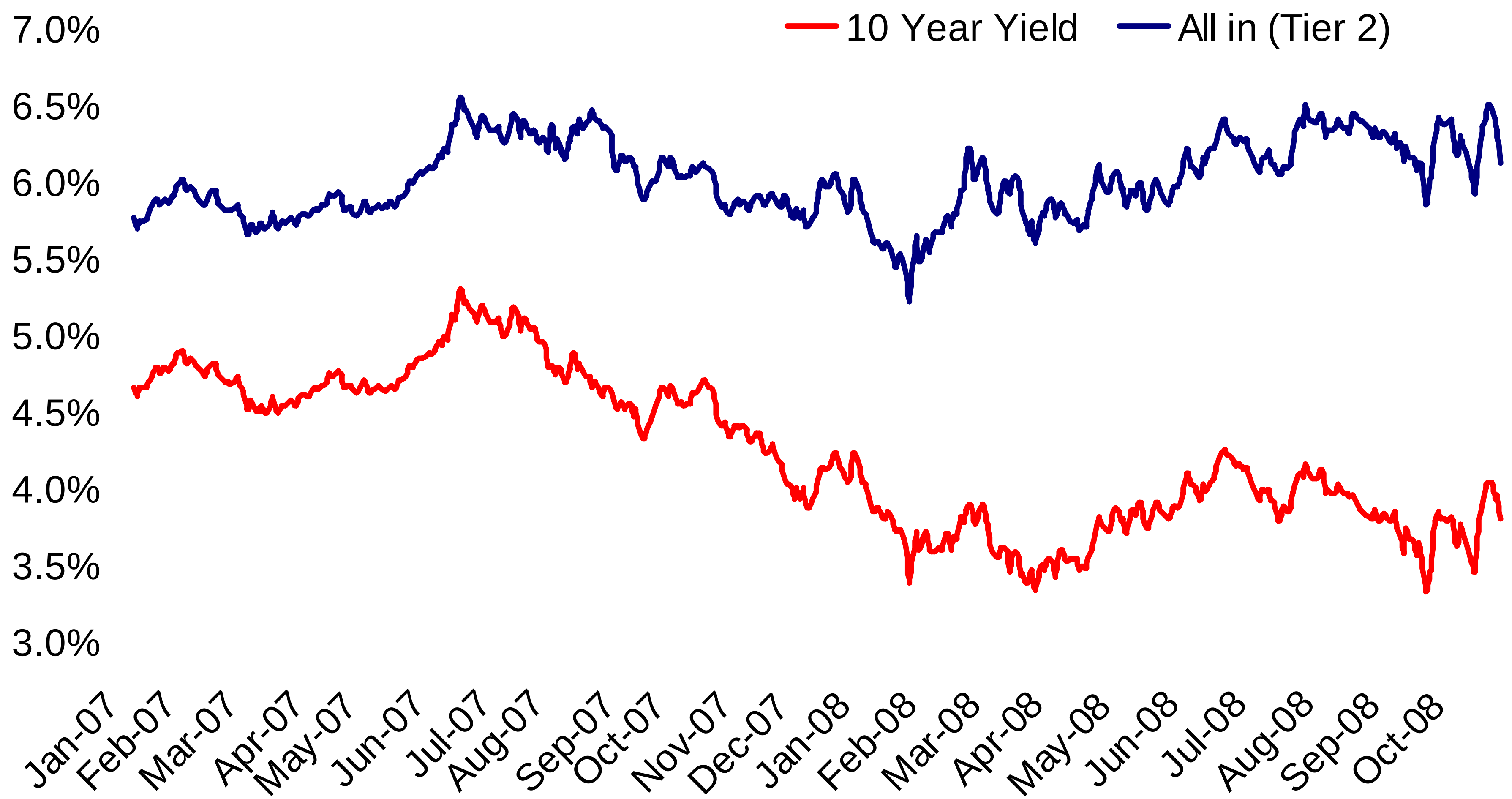
Maturing Commercial Loan Volume Likely to Cause Some Distress Starting in 2010

S&P CMBS Maturities



Sources: Marcus & Millichap Research Services, Standard & Poors

10-Year Treasury Yield and All-In Apartment Mortgage Rates



As of October 21, 2008

Sources: Marcus & Millichap Research Services, Federal Reserve Board

What Does the Future Hold?

1. Commercial delinquencies likely to rise to 3-5% - still below prior peaks, particularly in the apartment sector.
2. Fannie/Freddie expected to remain active apartment lenders in the foreseeable future.
3. Treasuries in the short term will remain range bound in the high 3% to low 4% range.
4. Treasuries will rise as the government finances Emergency Economic Stabilization Credit Act and other support systems over next 12-18 months.
5. Spreads will eventually come in as markets stabilize but will remain vulnerable to wide swings.
6. Distressed sales will increase but should be distinguished from the state of the overall market place.

What Does the Future Hold?

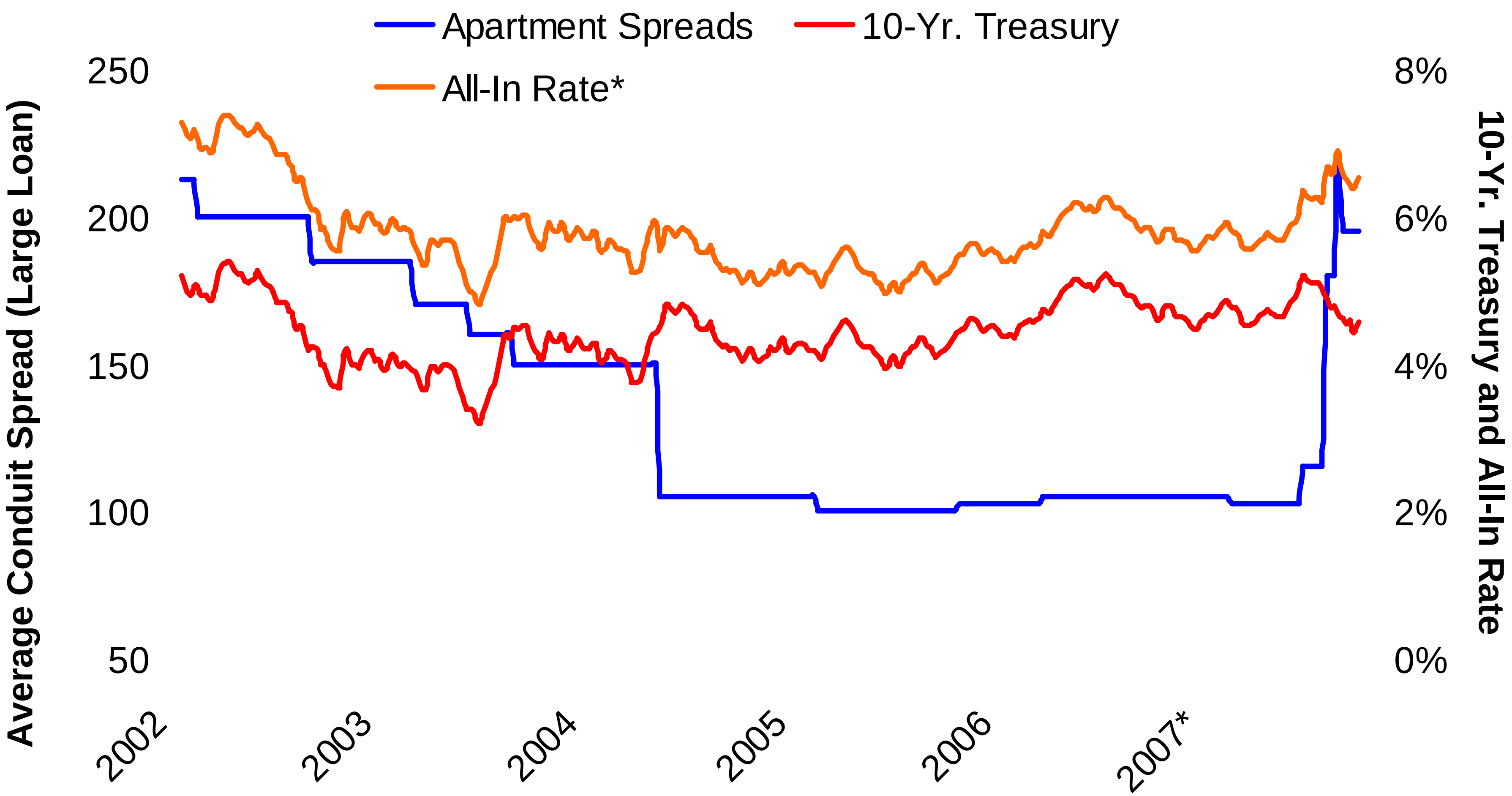
6. Long-Term (10-Yr) Fixed Rates will be in the 6.35% to 7.35% range
7. Underwriting will continue to be conservative:
   - I/O available for short periods
   - Use of shorter terms and bridge financing for stabilized projects
   - Well-grounded revenue, realistic uncollectible allowances
   - Use of trailing 12-month operating expenses updated to market
   - Funded reserves
   - Debt service coverage ratios 1.25 to 1.30
   - Much more focused on sponsorship
8. Market normalizing with LTV of 60% to 70%:
   - Commercial Banks – 65% to 70%
   - Life Companies – 55% to 65%
   - Government Sponsored Enterprises – 65% to 75%

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**

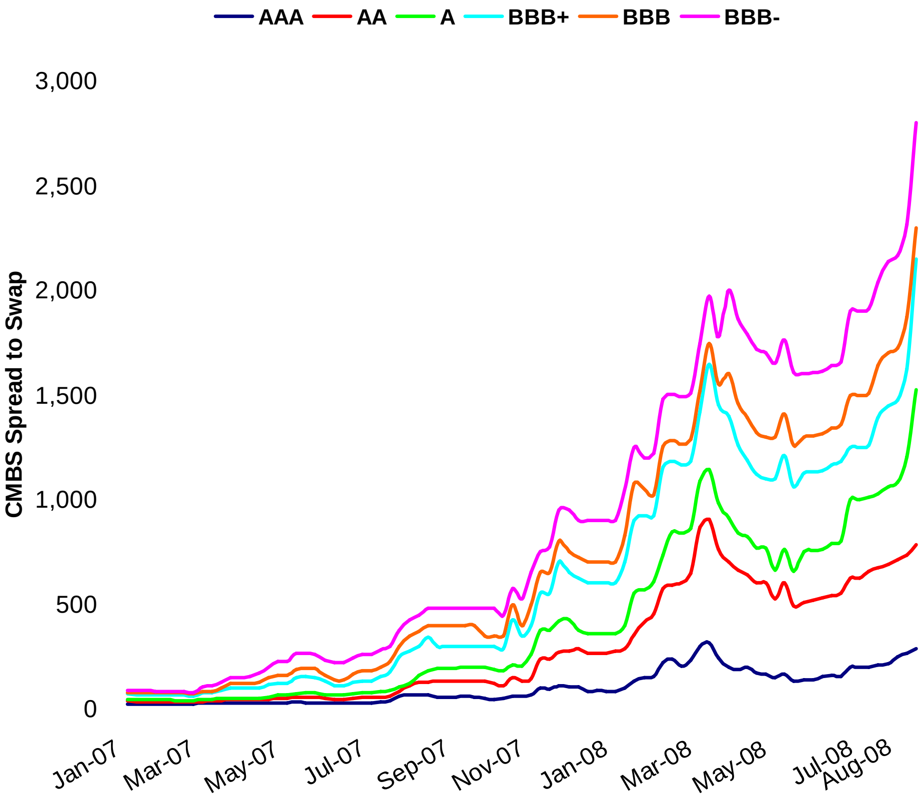
Apartment Lending Spreads Have Spiked



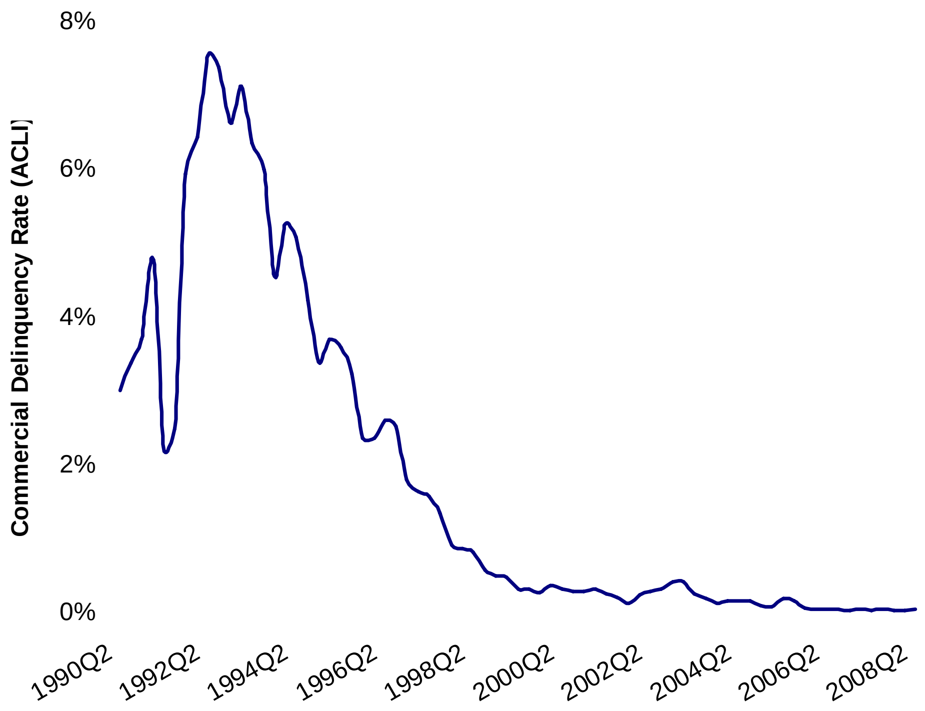
*10-Year Treasury Yield Plus Average Conduit Spread

Sources: Marcus & Millichap Research Services, Marcus & Millichap Capital Corp.

Commercial Real Estate Financing Remains Tight Despite Low Delinquency Rates



Credit Spreads



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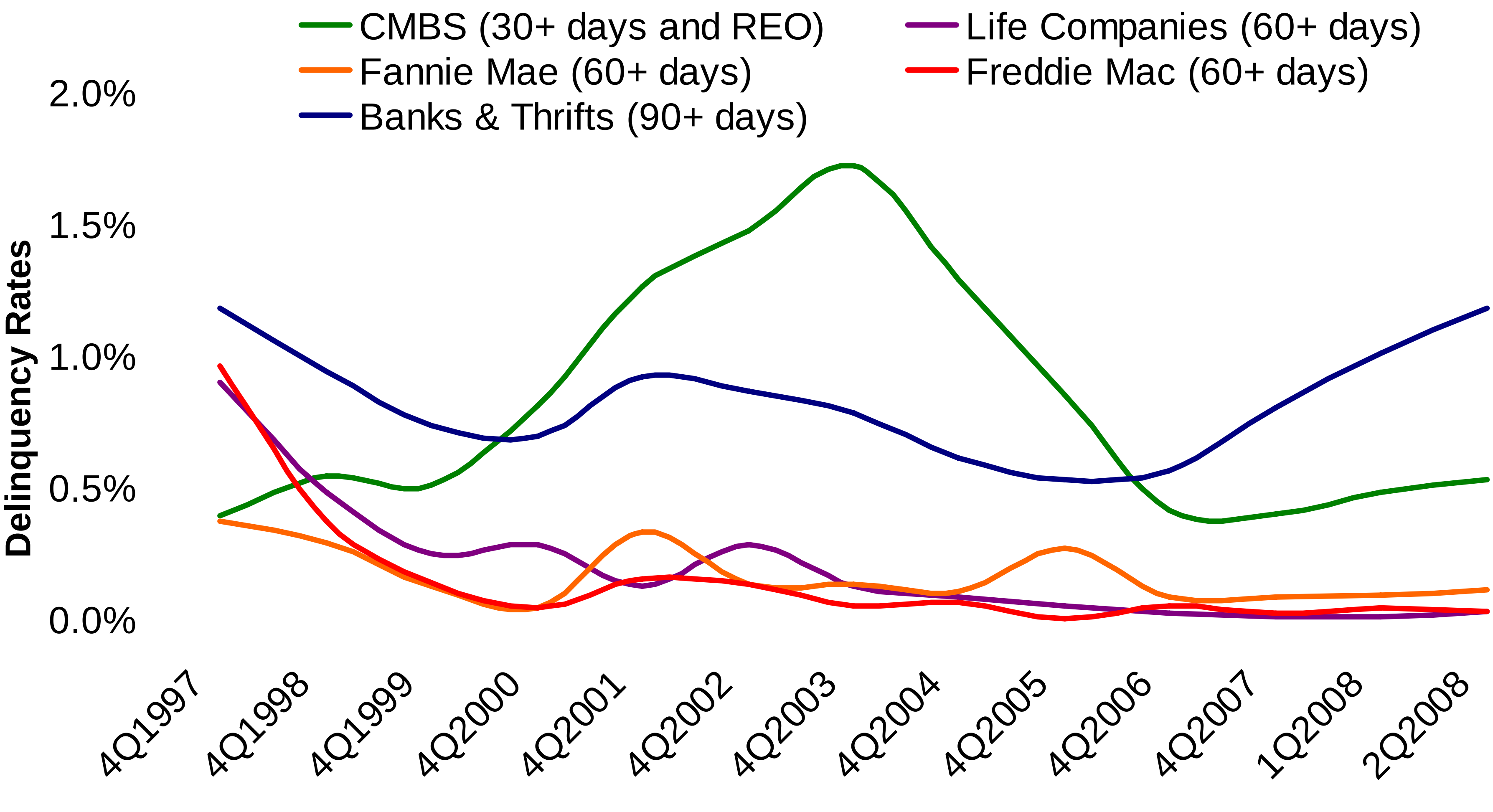
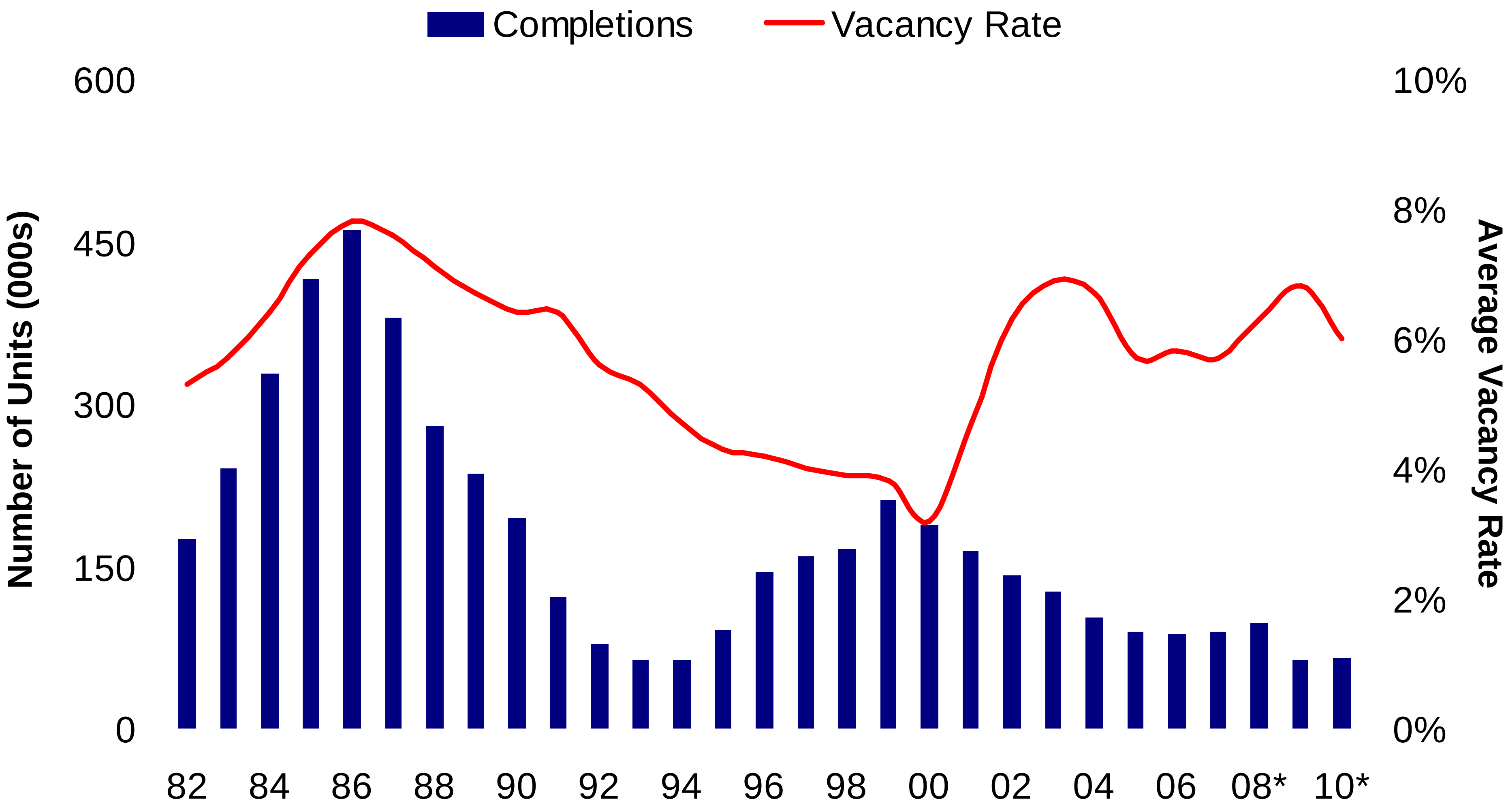


Delinquency rates at the end of each period

Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

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



* Forecast

Sources: Marcus & Millichap Research Services, Reis

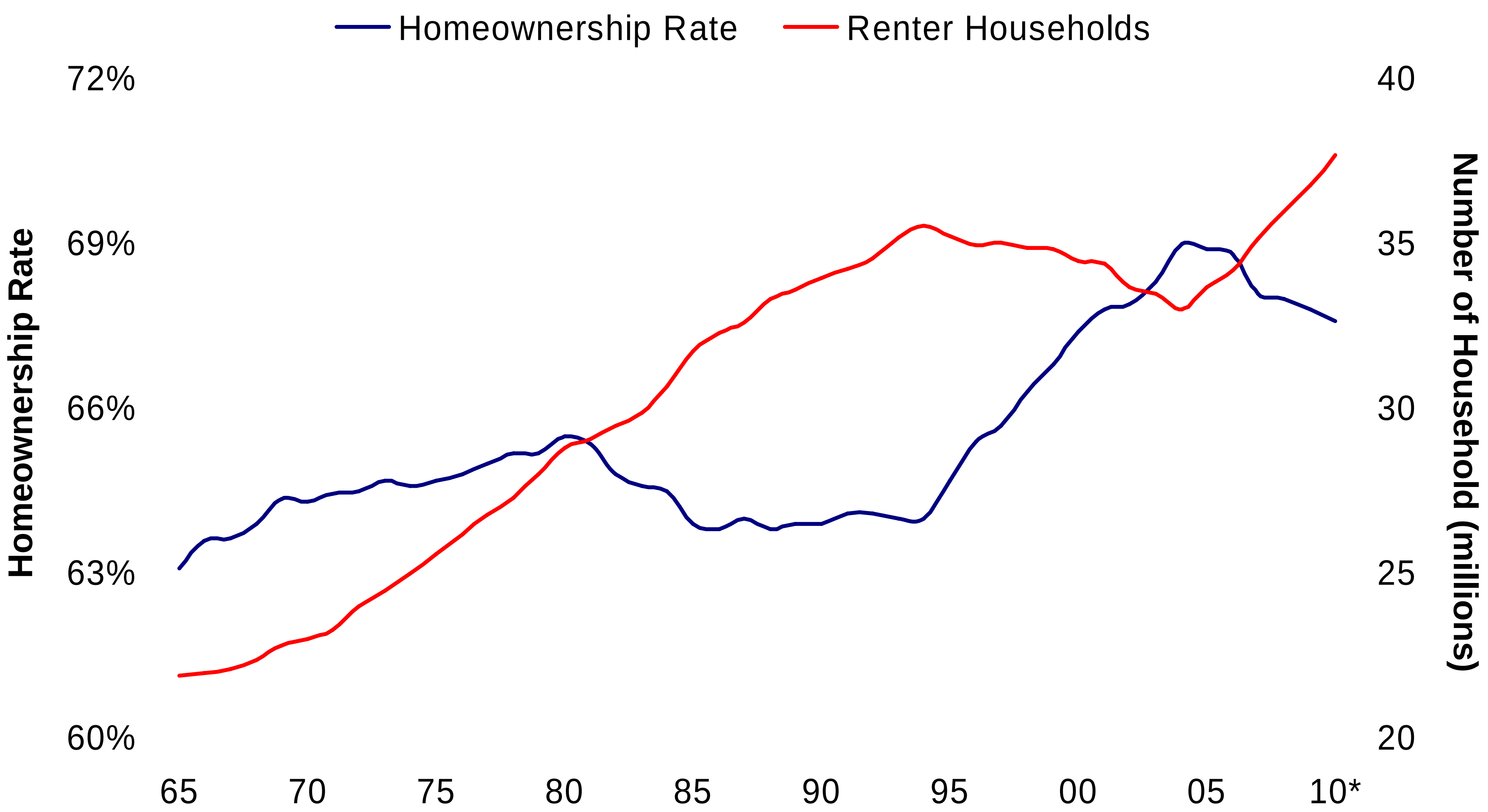
Top and Bottom 15 Apartment Markets 3Q 2008 Vacancy

Top 15 Markets	3Q 2008 Vacancy
New York	2.0%
Northern New Jersey	3.5%
San Diego	3.5%
Milwaukee	3.7%
San Francisco	3.7%
Minneapolis	3.9%
Los Angeles	4.3%
Oakland-East Bay	4.3%
New Haven-Fairfield County	4.4%
San Jose	4.4%
Orange County	4.6%
Portland	4.8%
Miami	4.9%
Philadelphia	4.9%
Salt Lake City	5.0%
United States	6.1%

Bottom 15 Markets	3Q 2008 Vacancy
Austin	7.0%
Raleigh-Durham	7.0%
Indianapolis	7.4%
Las Vegas	7.5%
Columbus	7.6%
Tampa-St. Petersburg	7.6%
San Antonio	7.7%
Oklahoma City	7.9%
Palm Beach	8.0%
Orlando	8.4%
Atlanta	8.9%
Houston	9.5%
Phoenix	9.8%
Tucson	10.1%
Jacksonville	11.0%
United States	6.1%

Sources: Marcus & Millichap Research Services, Reis

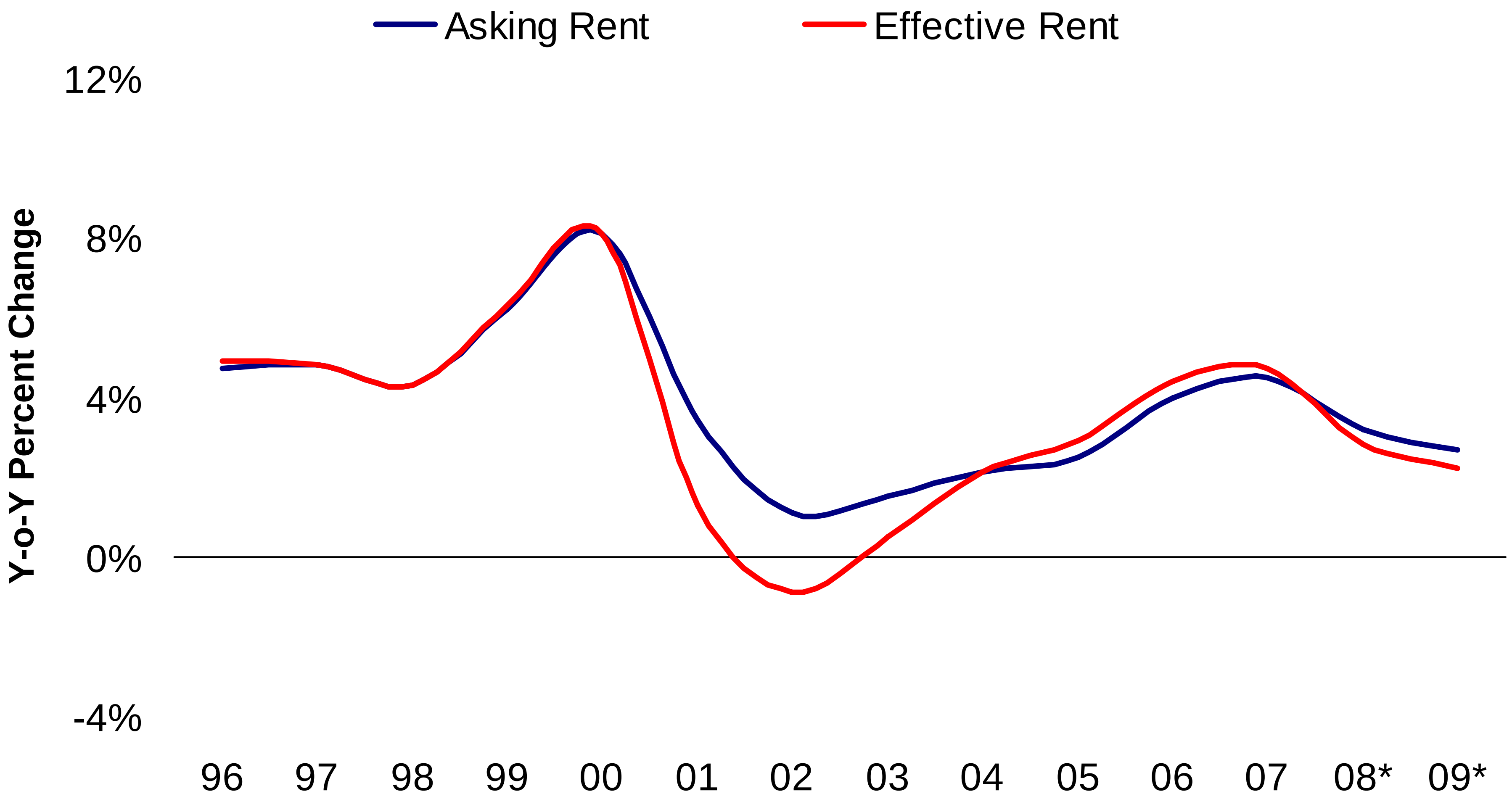
Reversal in Home Ownership Rate Points to Increase in Renter Households



* Forecast

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

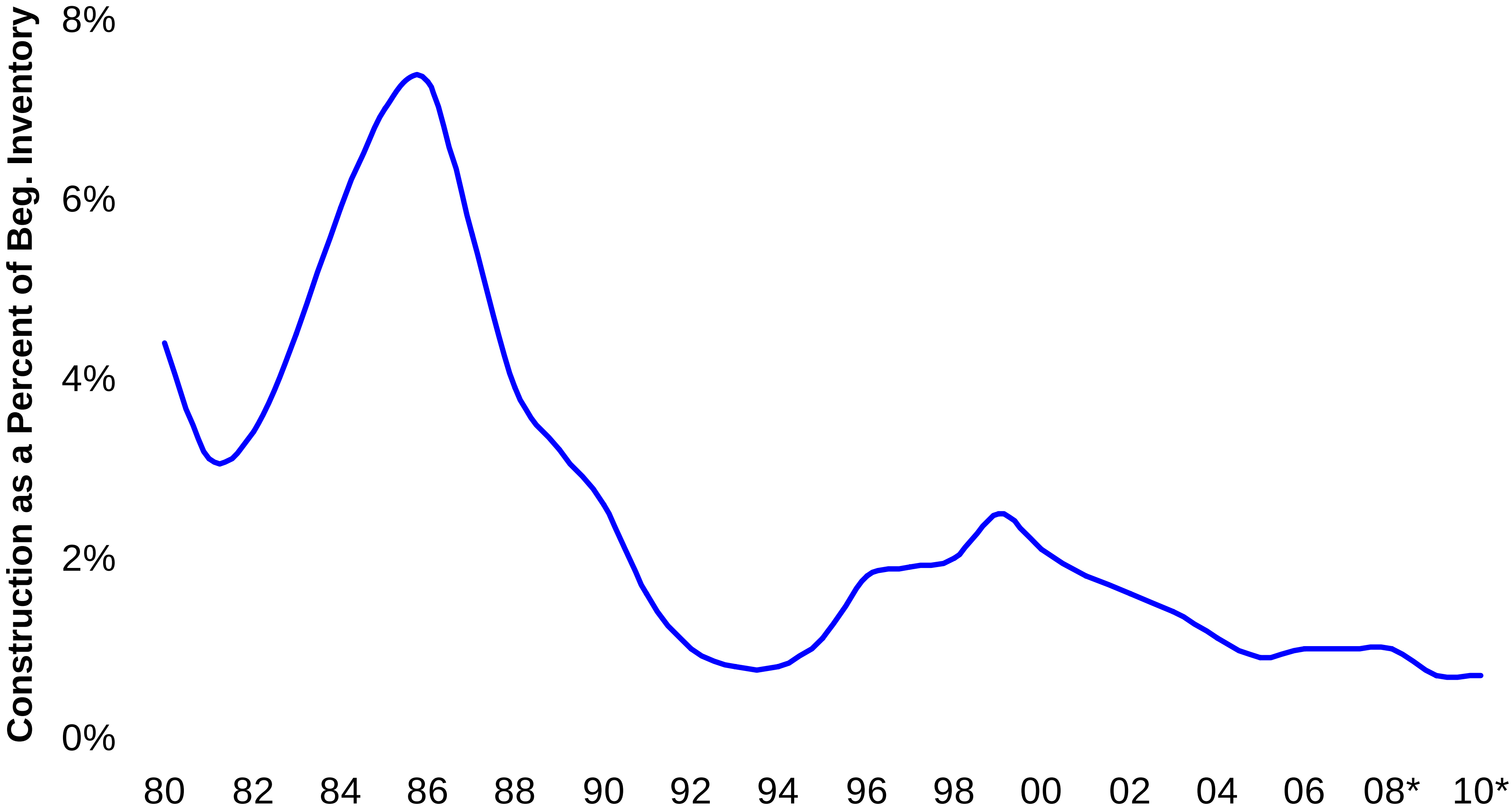
Apartment Rent Growth Slowing After a Strong Recovery Period



* Forecast

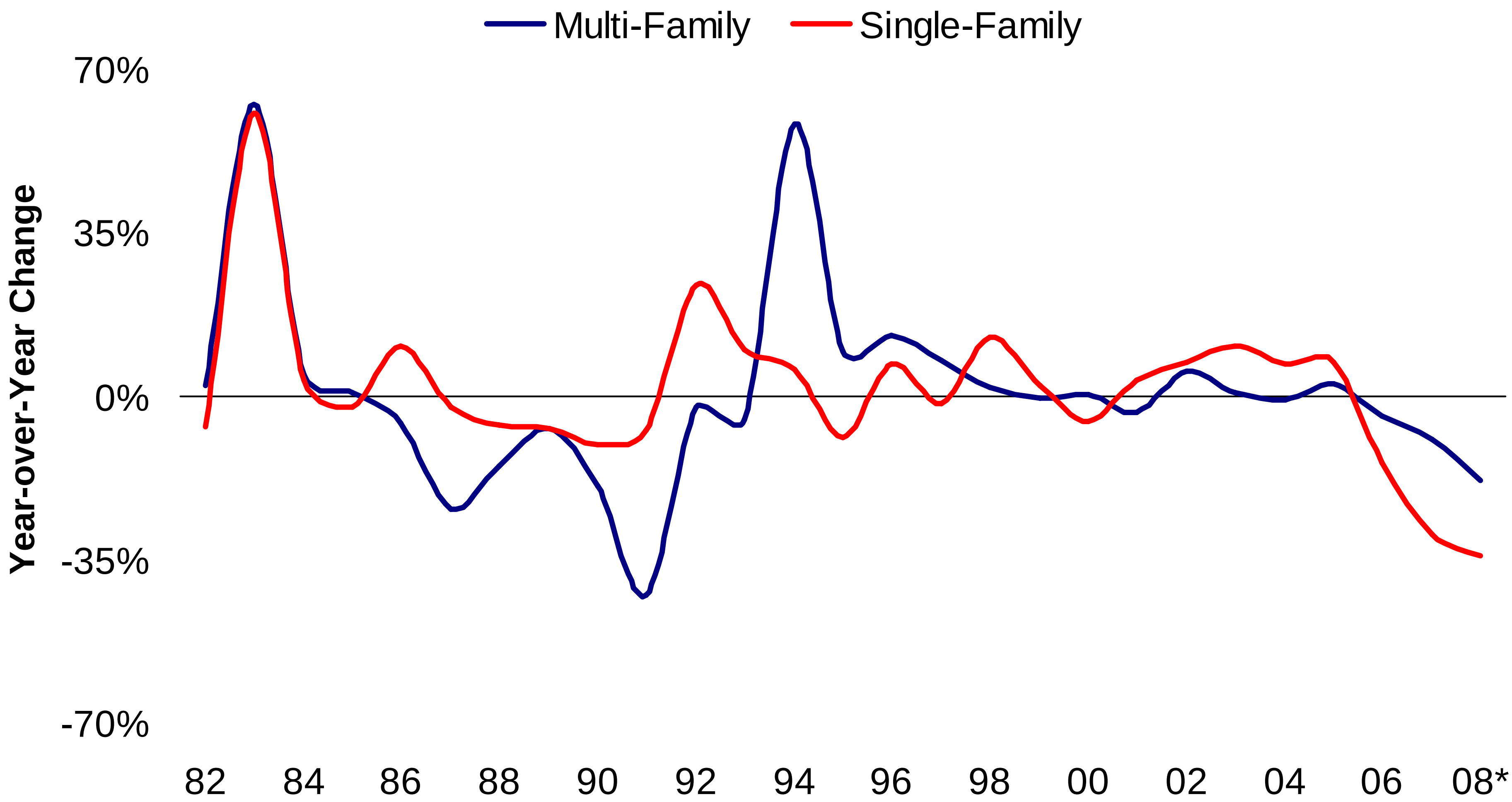
Sources: Marcus & Millichap Research Services, Reis

U.S. Apartment Construction as a Percent of Beginning Inventory



* Forecast
Sources: Marcus & Millichap Research Services, Reis

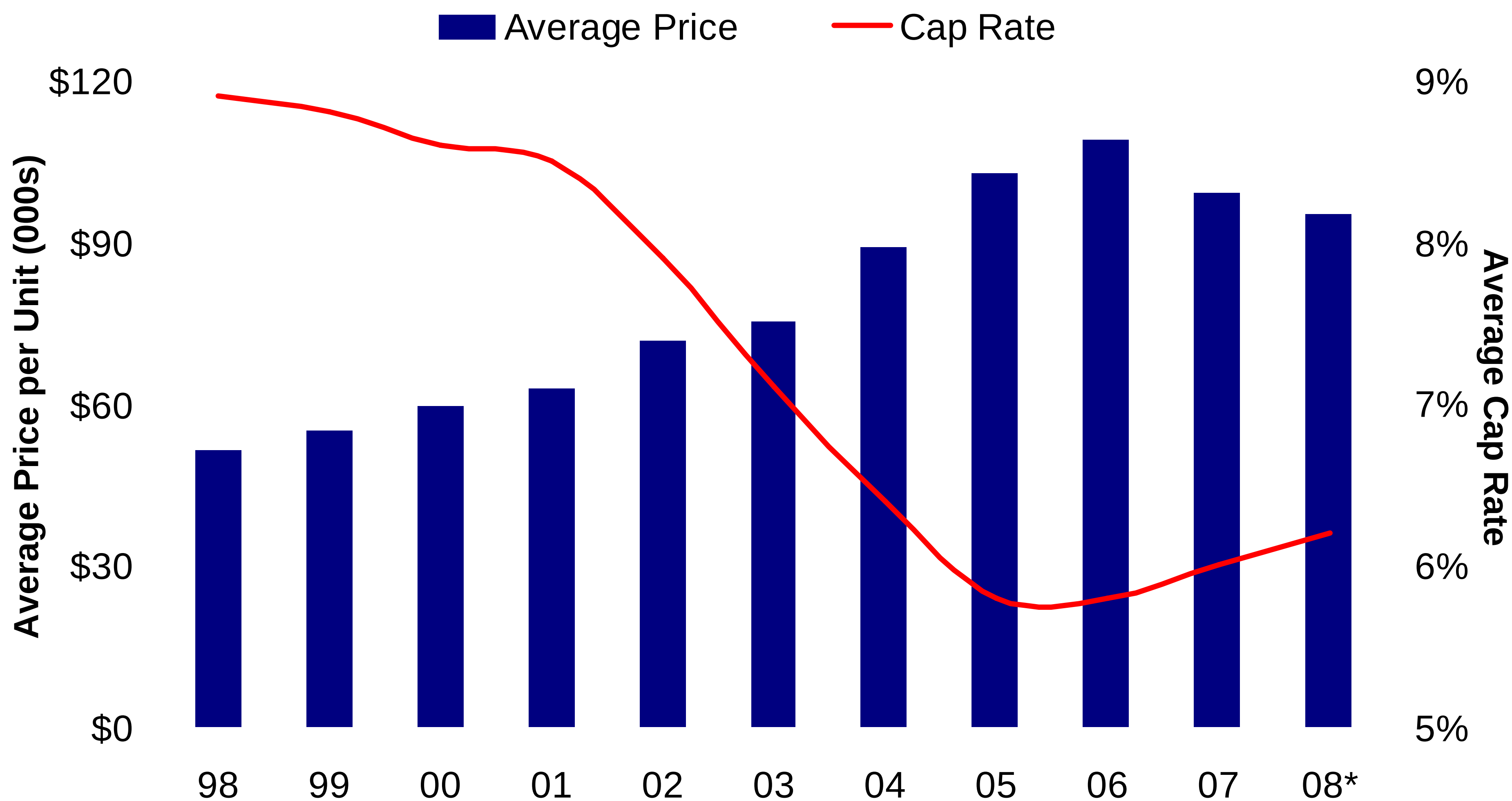
Construction Starts Declining



* Forecast

Sources: Marcus & Millichap Research Services, Economy.com

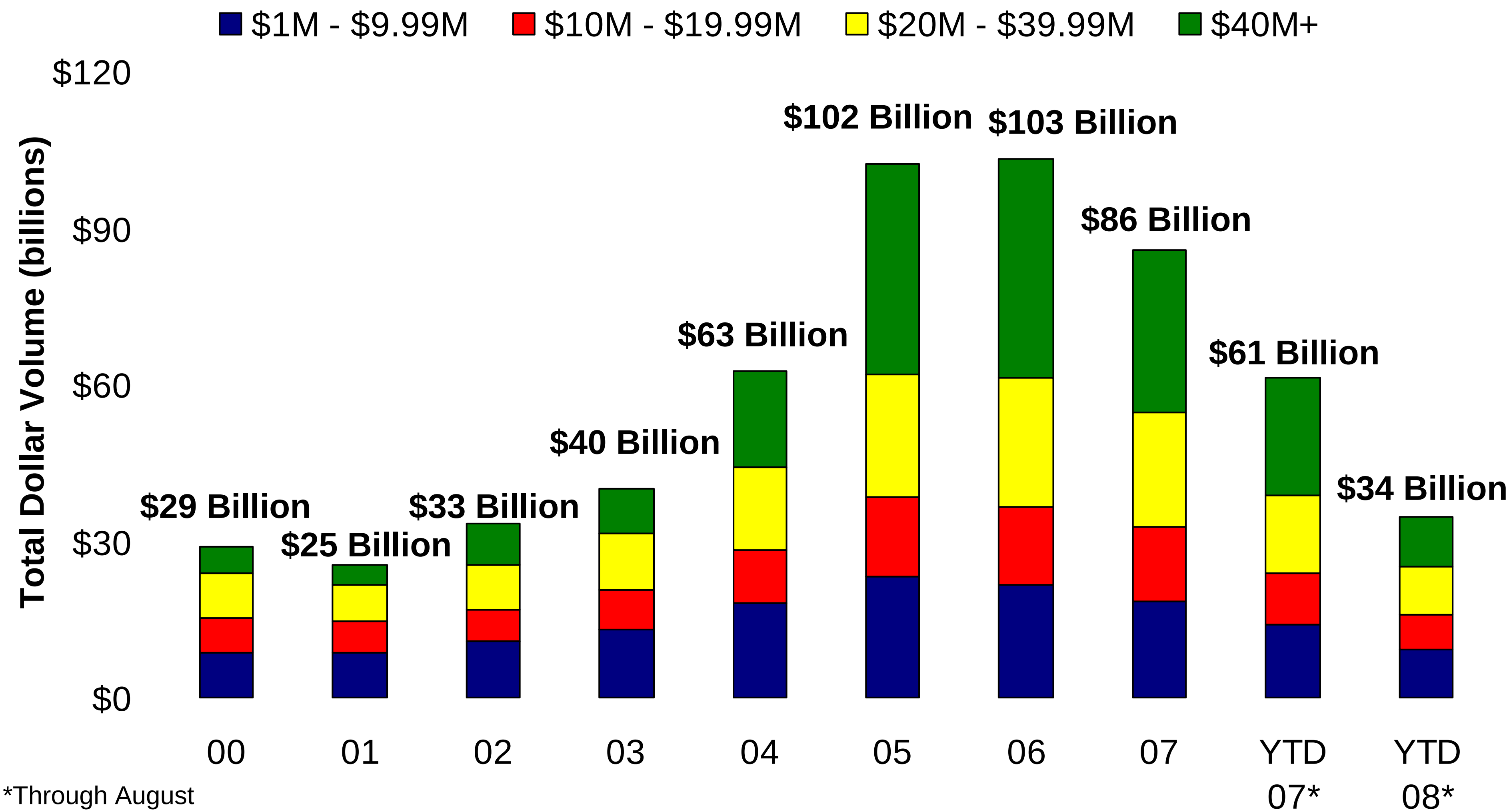
Apartment Investment Trends
Pricing and Cap Rates



* Year to Date
Sales $1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

U.S. Investment Trends

Apartment Dollar Volume by Price Category



*Through August

Excludes Archstone Privatization

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

Anatomy of Current Market Divergence

Lenders see…

- **Pervasive risk and uncertainty**
- **Dramatically less competition**
- **A sea of single-family and condo red ink**

Lenders, as a result…

- **Increased spreads**
- **Tightened income / expense underwriting**
- **Increased DCRs**
- **I/O available, but not used to calculate DCR**

Anatomy of Current Market Divergence

Equity providers see…

- **Pervasive risk and uncertainty**
- **Higher returns in other opportunities**
- **Ability of market to decline further**
- **Fiduciary obligation to protect clients**

Equity, as a result…

- **Increased "hurdle rates"**
- **Wants market "bottom" to be confirmed**

Anatomy of Current Market Divergence

Developers / Merchant Builders see…

- Moderating costs
- Deals require substantial equity
- Development not justified in 80% of markets
- LIBOR index has increased
- Low confidence in obtaining financing
- Difficult to spec upfront costs

Developers / Merchant Builders, as a result…

- Canceling projects / reducing staffs
- More difficult to carry non-stabilized assets

Anatomy of Current Market Divergence

Buyers see…

- Debt more expensive / less efficient
- Equity more expensive / cautious
- Pressure on fees and promotes
- Potential for value dilution in short run
- Less optimistic about future rent growth
- RTC in their rear view mirror

Buyers, as a result…

- Expect higher returns
- Expect discounted to distressed pricing

Anatomy of Current Market Divergence

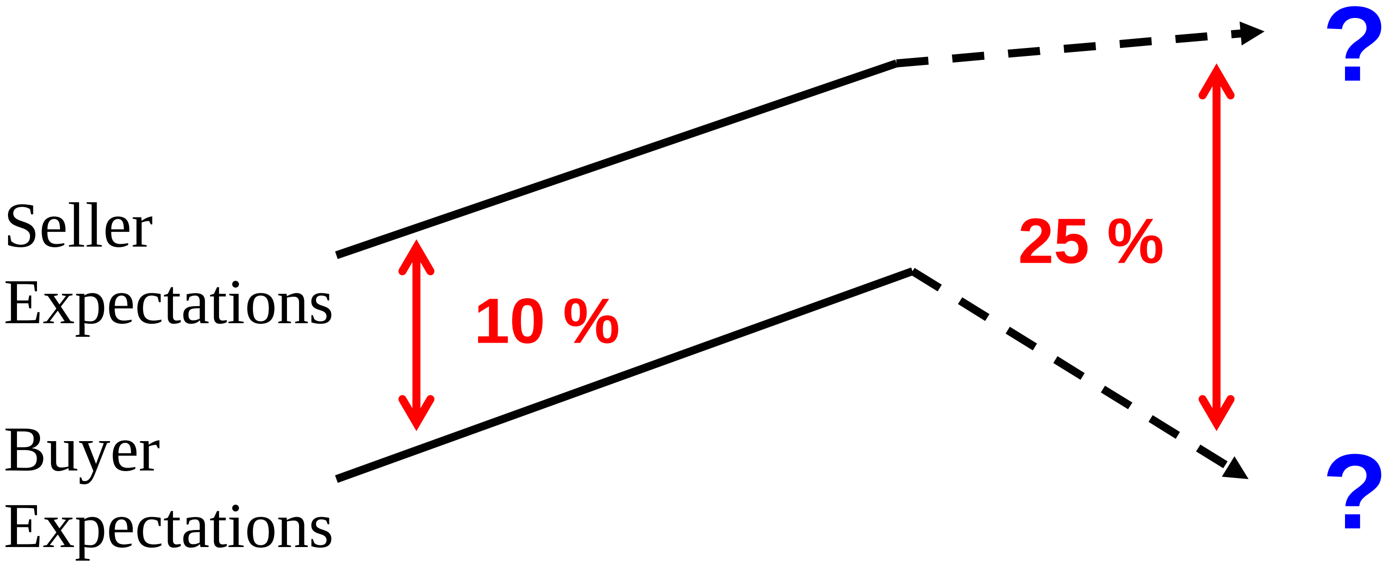
Sellers see…

- **Occupancies at 94%**
- **Rent increases in 2008 of 3%**
- **Homeownership rates declining**
- **Less supply in the pipeline**
- **20% discount required to clear the market**

Sellers, as a result…

- **Not accepting new pricing paradigm**

Seller / Buyer Expectations



Which side will blink first?

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?

12 – Month Cap Rate Adjustment Matrix *

	Class “A”	Class “B”	Class “C”
Primary	.35 (25 to 50 bps)	.50 (25 to 75 bps)	.75 (50 to 100 bps)
Secondary	.50 (25 to 75 bps)	.75 (50 to 100 bps)	1.00 (75 to 125 bps)
Tertiary	.75 (50 to 100 bps)	1.00 (75 to 125 bps)	1.50 (125 to 175 bps)

*** Change in cap rates last 12 months**

12 – Month Pricing Adjustment Matrix

	Class "A"	Class "B"	Class "C"
Primary	-7%	-9%	-13%
Secondary	-10%	-13%	-16%
Tertiary	-14%	-16%	-22%
Base =	**5.00 / 5.50**	**5.50 / 6.25**	**6.00 / 6.75**

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 throughout at least the first half of 2009**
- **Transactional cap rates continue to differentiate for quality and trend up 50 – 100 bps**

Beyond the Current Valuation Divergence… Future Supply / Demand Balance

- **Land is more scarce and more expensive**
- **Construction costs more expensive**
- **Development "nimby-ism" more common**
- **Impact fees more expensive**
- **Urban development (where demand is more reliable) is inherently more expensive**
  - **Mid-rise or high-rise vs. traditional garden**
  - **Cost of land preparation (scraping)**
  - **Parking (subterranean or decks)**

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

- 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 2013 than 2008

National Economic and Apartment Market

Overview and Outlook – Special Client Webcast

October 22, 2008

Marcus & Millichap

NATIONAL MULTI HOUSING GROUP