



National Economic and Apartment Market

Overview and Outlook – Special Client Webcast

November 18, 2008

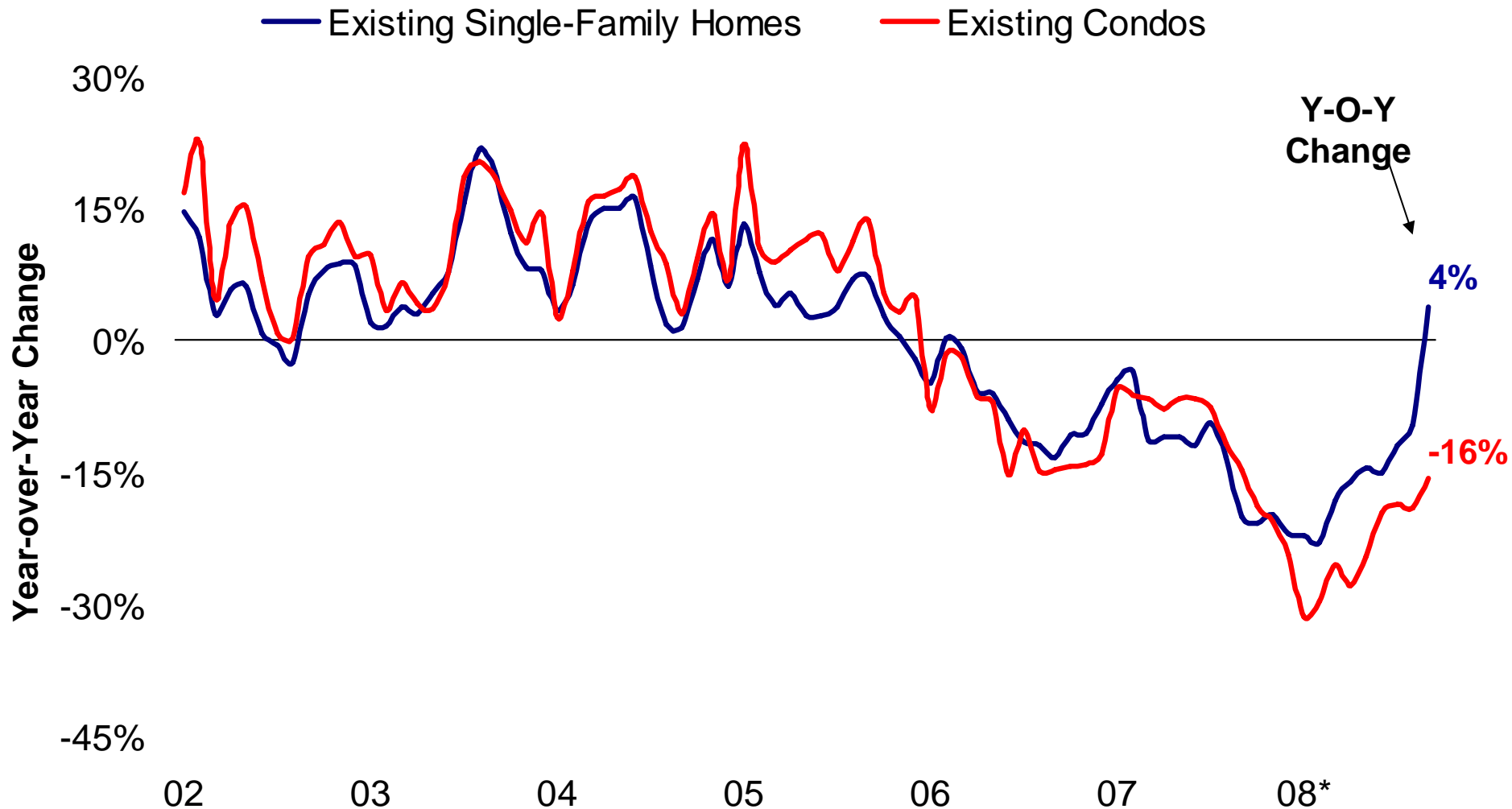
Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

***ECONOMIC and APARTMENT MARKET
FUNDAMENTALS***

OVERVIEW and OUTLOOK

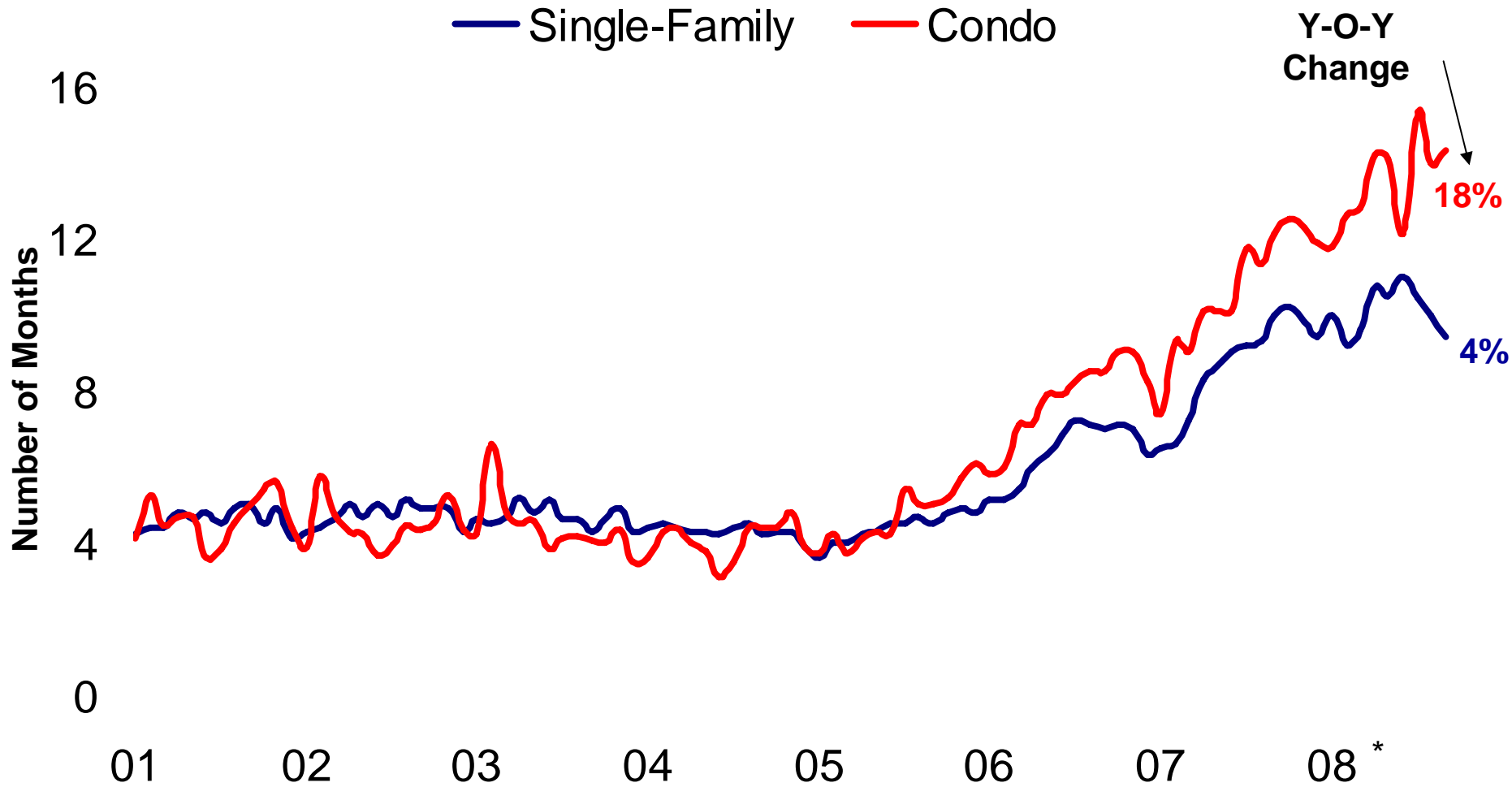
Single-Family Home Sales Increase Influenced by Foreclosure and Distressed Sales, Condos Still Lagging



* Through September

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

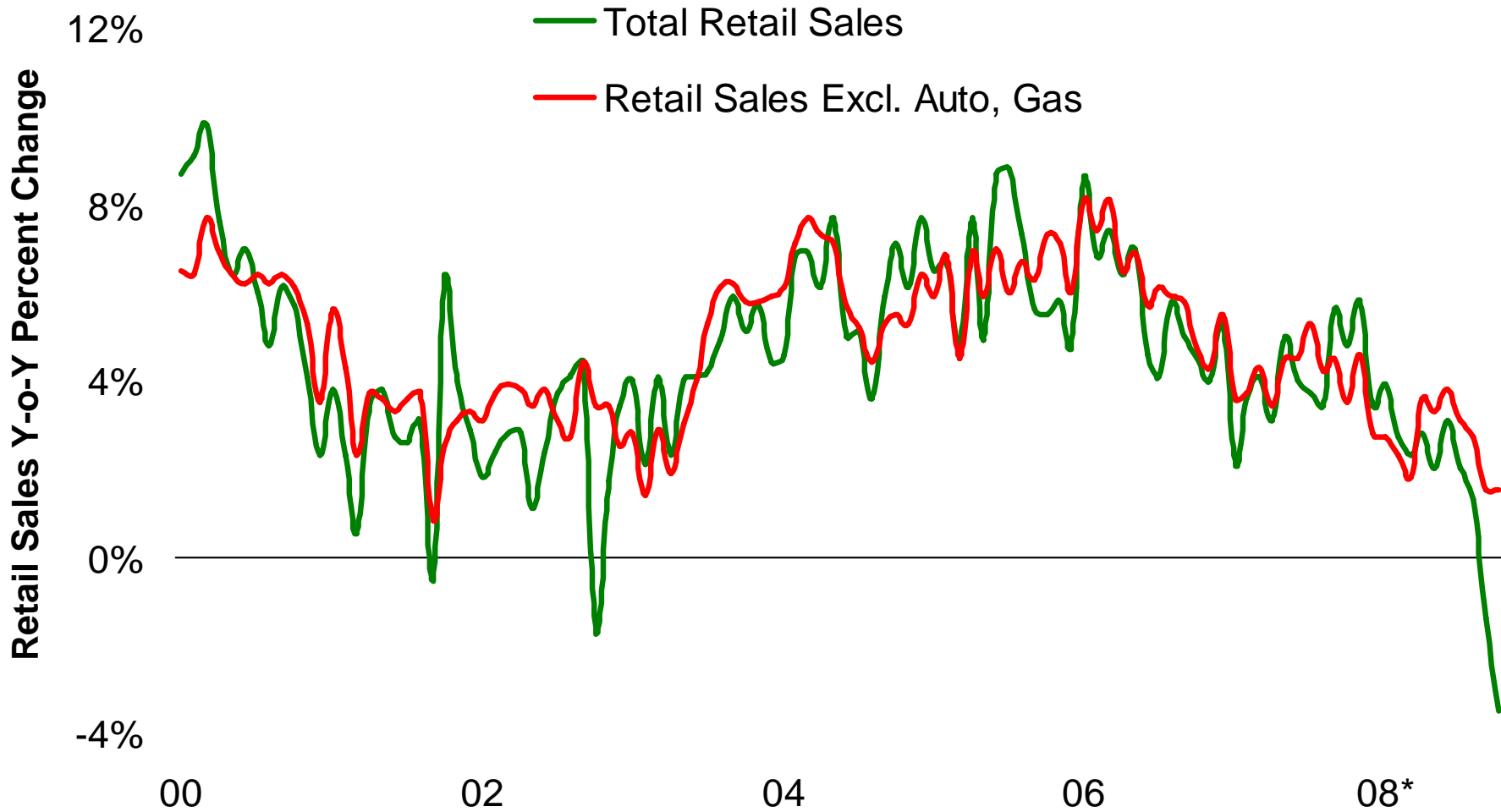
Housing Inventory Overhang Indicates Further Weakness (Months of Supply)



* Through September

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

Housing, Employment Conditions Causing Consumer Pull-Back – Headline Retail Sales Skewed by Auto, Gasoline



* Through October

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

Employment Trends by Market

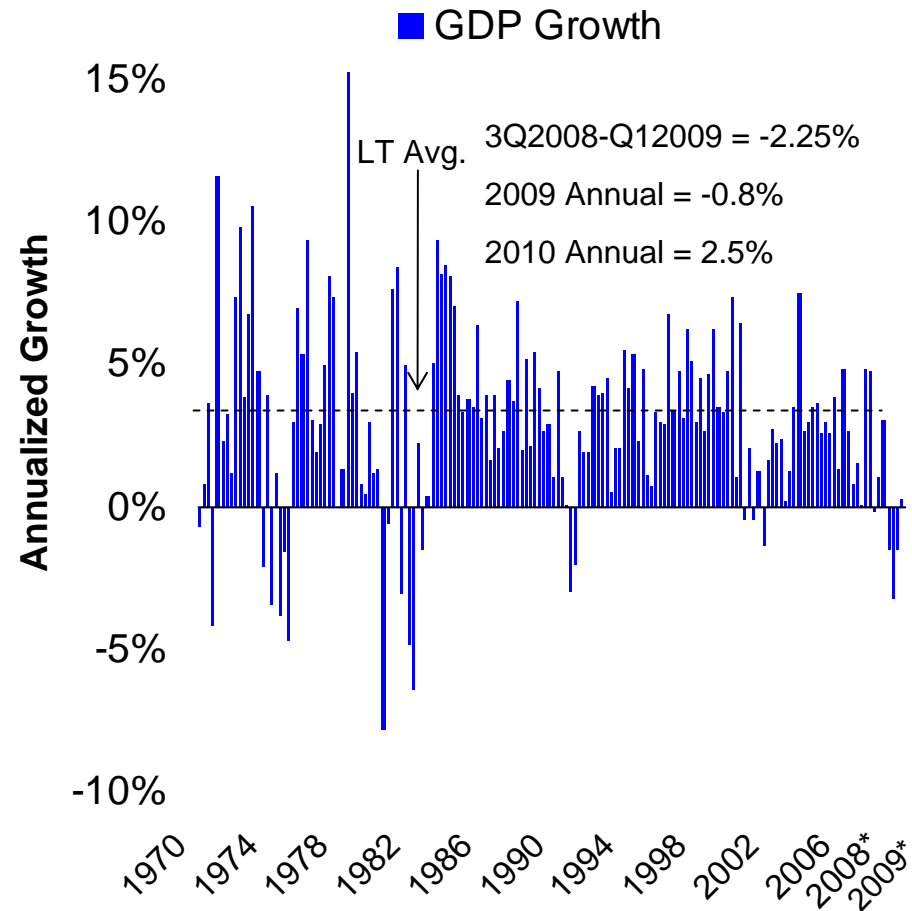
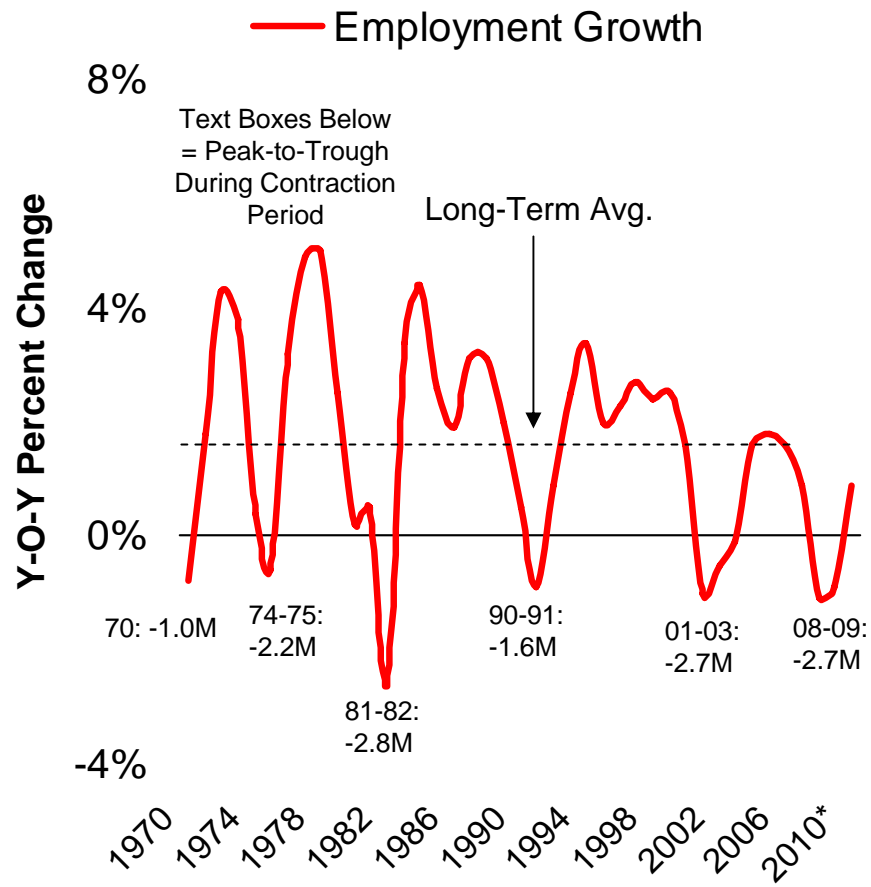
YTD September 2008

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	-939,000	-0.7%

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	-939,000	-0.7%

Economic Weakness Expected Through Mid-2009

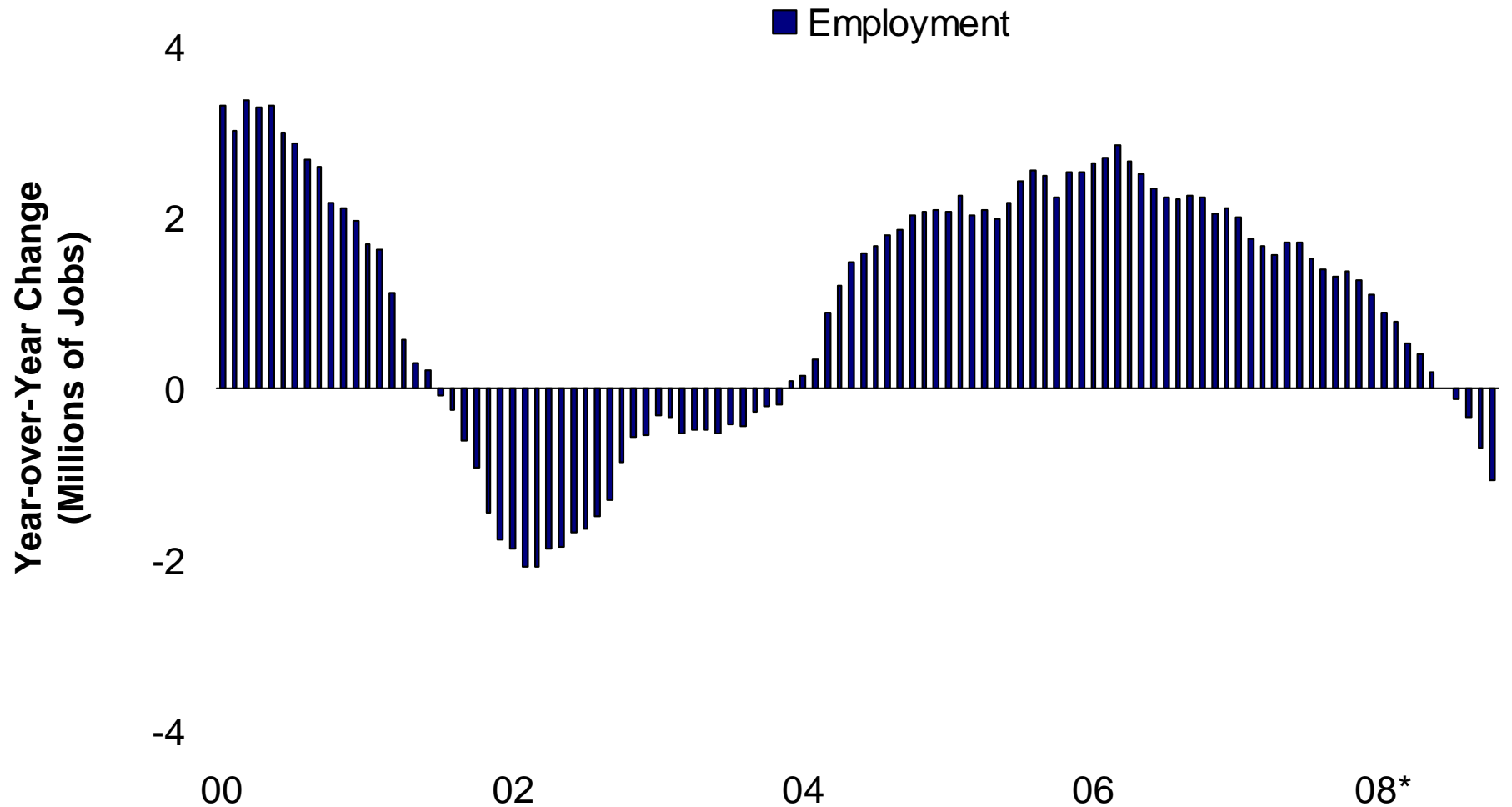
Risk Levels Remain Elevated



*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

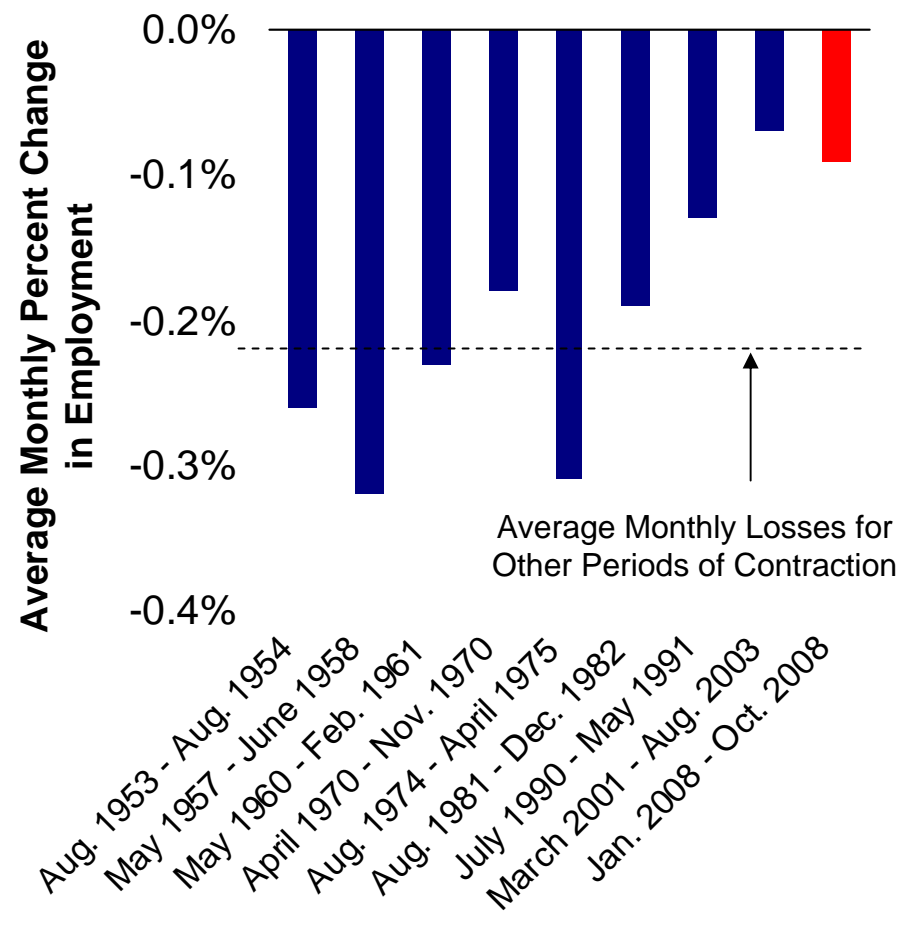
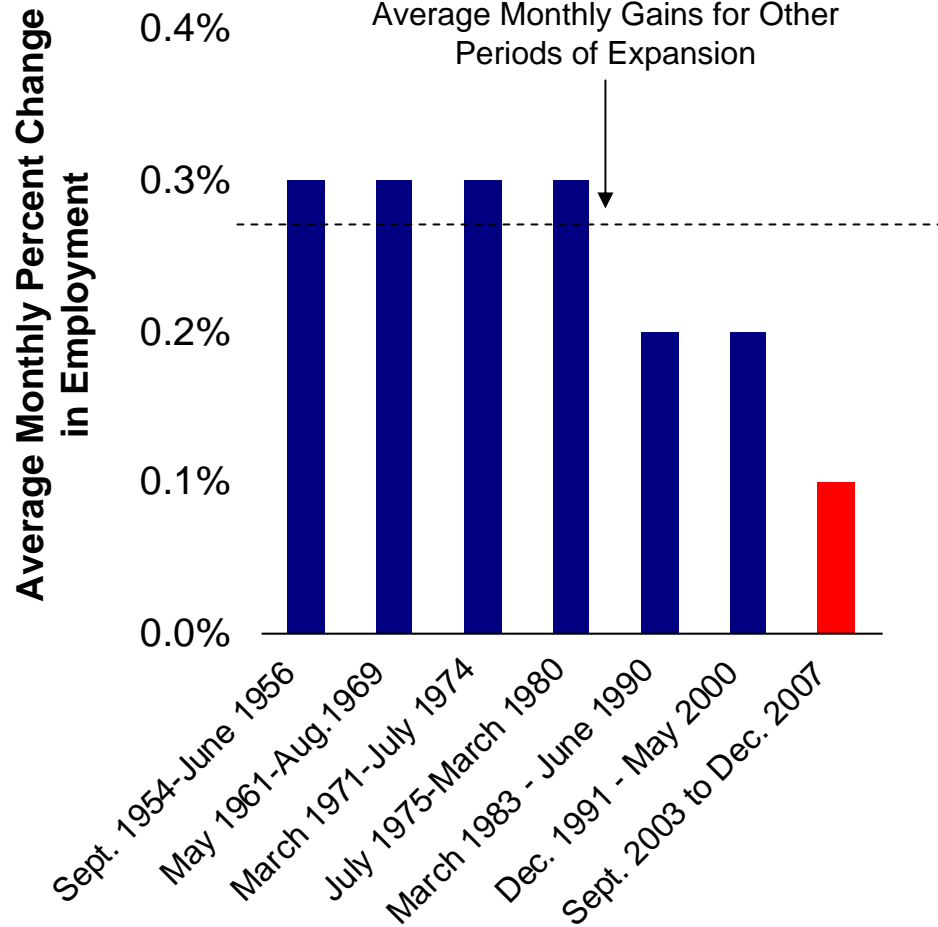
Job Losses Have Accelerated in the Last Two Months; Likely to Remain High Through Q1-2009



* Through October

Sources: Marcus & Millichap Research Services, Economy.com

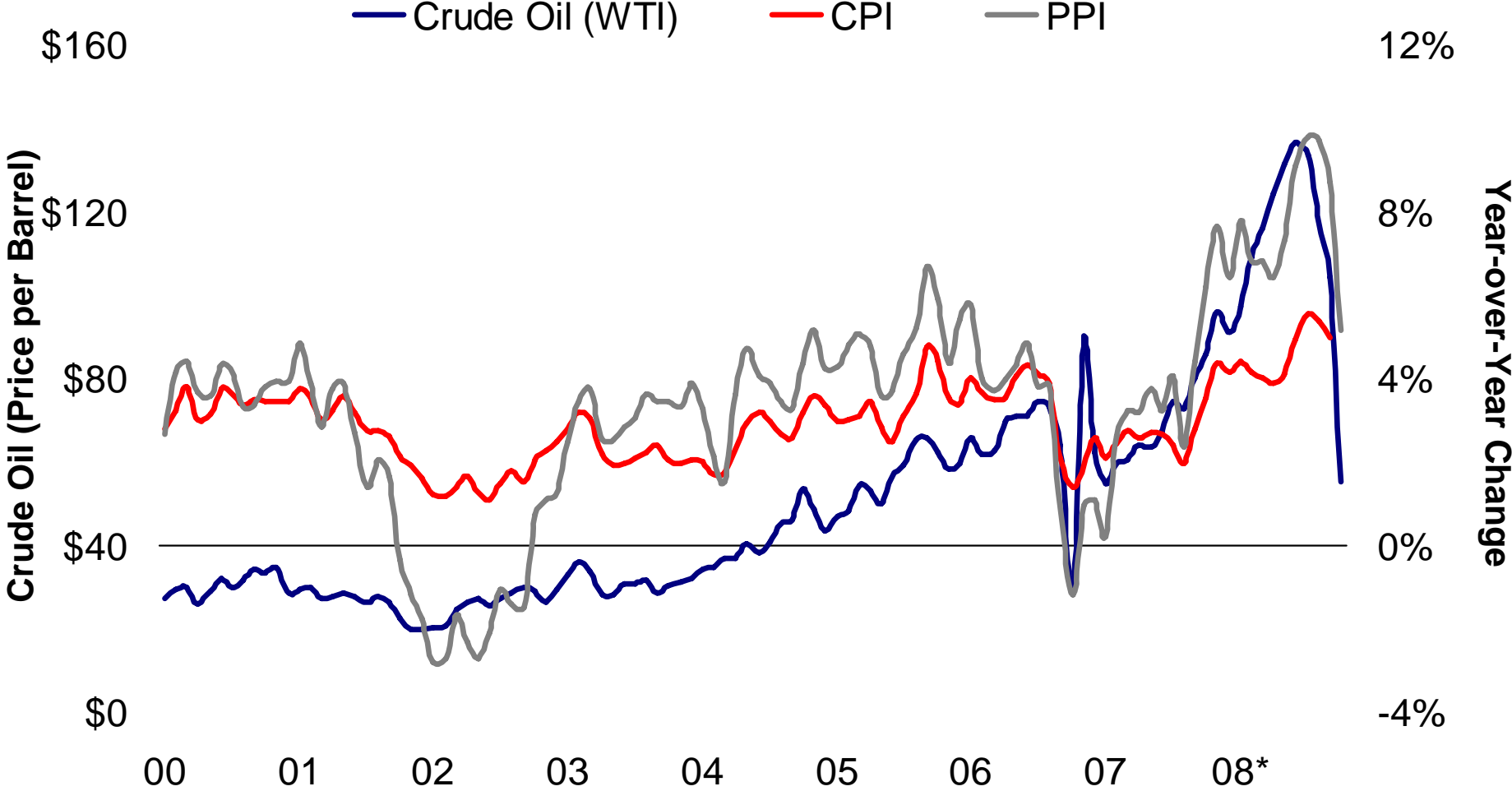
Lean Payrolls During the Expansion Were Limiting Job Losses During the Downturn



Fed/Treasury Multiple Credit Facilities, Injecting Unprecedented Levels of Liquidity Into Economy

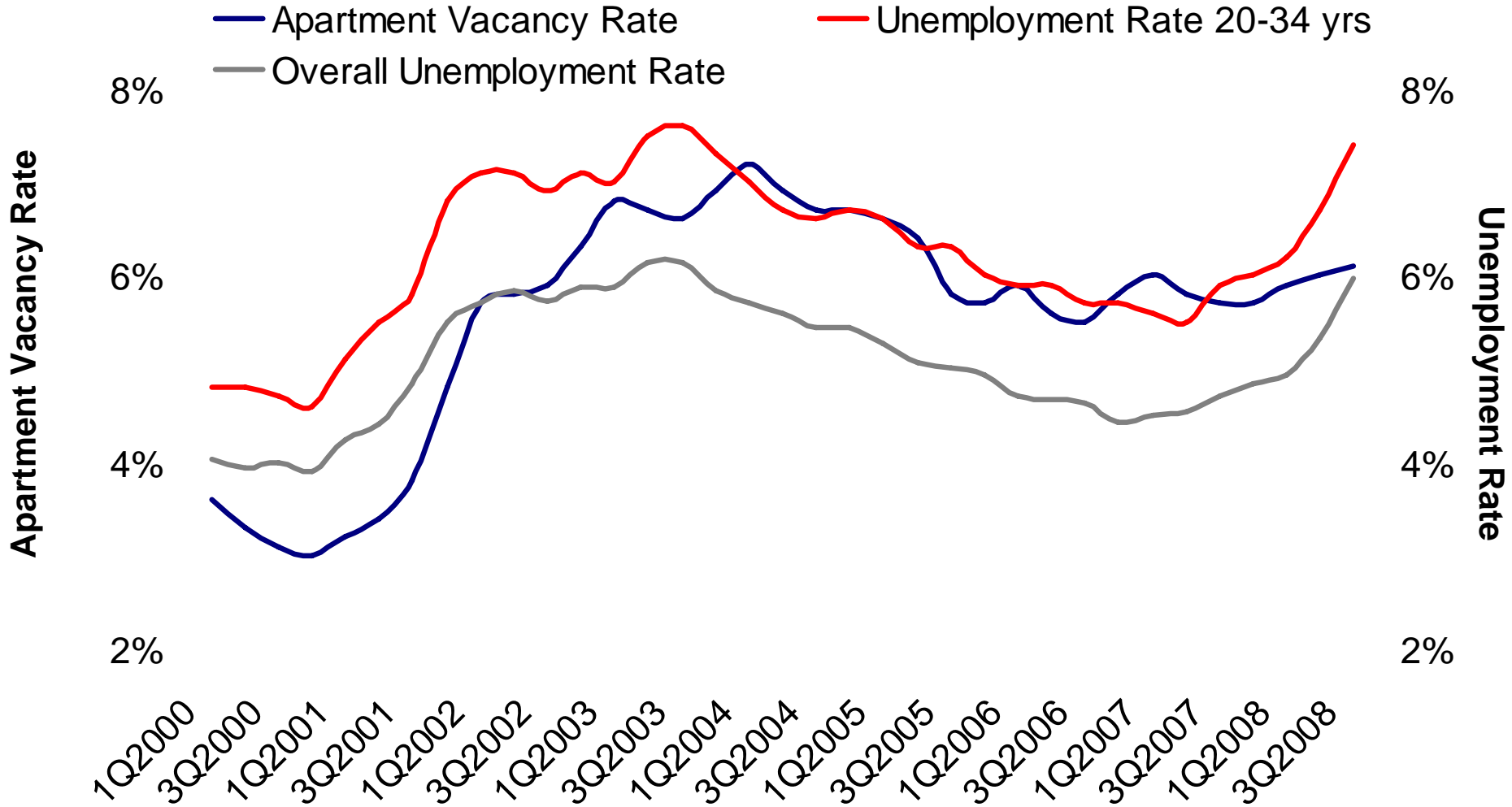
	<u>Jan 00 - Dec 02</u>	<u>Jul 07 - Sept 08</u>	<u>Oct. 2008</u>
Discount Window Credit of Depository Institutions	\$10.9 Billion	\$286.7 Billion	\$403.5 Billion
Asset-Backed Comm. Paper/Money Market Fund Facility	-	\$31.9 Billion	\$117.5 Billion
Special Liquidity Facility	\$72 Million	-	
Other Credit Extensions	-	\$23.4 Billion	\$77.1 Billion
Primary Borrowings of Depository Institutions	-	\$113 Billion	\$94 Billion
Secondary Borrowings of Depository Institutions	-	\$246 Million	\$38 Million
Primary Dealer and Other Broker-Dealer Credit	-	\$116.8 Billion	\$115 Billion
Seasonal Borrowings of Depository Institutions	\$5.0 Billion	\$1.3 Billion	\$28 Million
Term Auction Credit of Depository Institutions	-	\$1.0 Trillion	\$244.8 Billion
<i>*All figures above represent cumulative monthly totals over time period (Federal Reserve Statistics – H3 Tables)</i>			
Emergency Economic Stabilization Act (includes TARP)	-	\$700 Billion	
<i>Capital Purchase Plan (Purchasing Stock in Banks)</i>	-	\$250 Billion	
<i>Additional AIG Funding (Purchase of AIG shares)</i>			\$40 Billion
FDIC Increased Guarantee of Deposits to \$250,000	-	Unknown	
Fed Provides Unlimited Currency Swap Lines for European Central Banks	-	Unknown	

Drop in Energy Prices a Positive Factor for the Consumer – Fed on Deflation Watch (For Now)

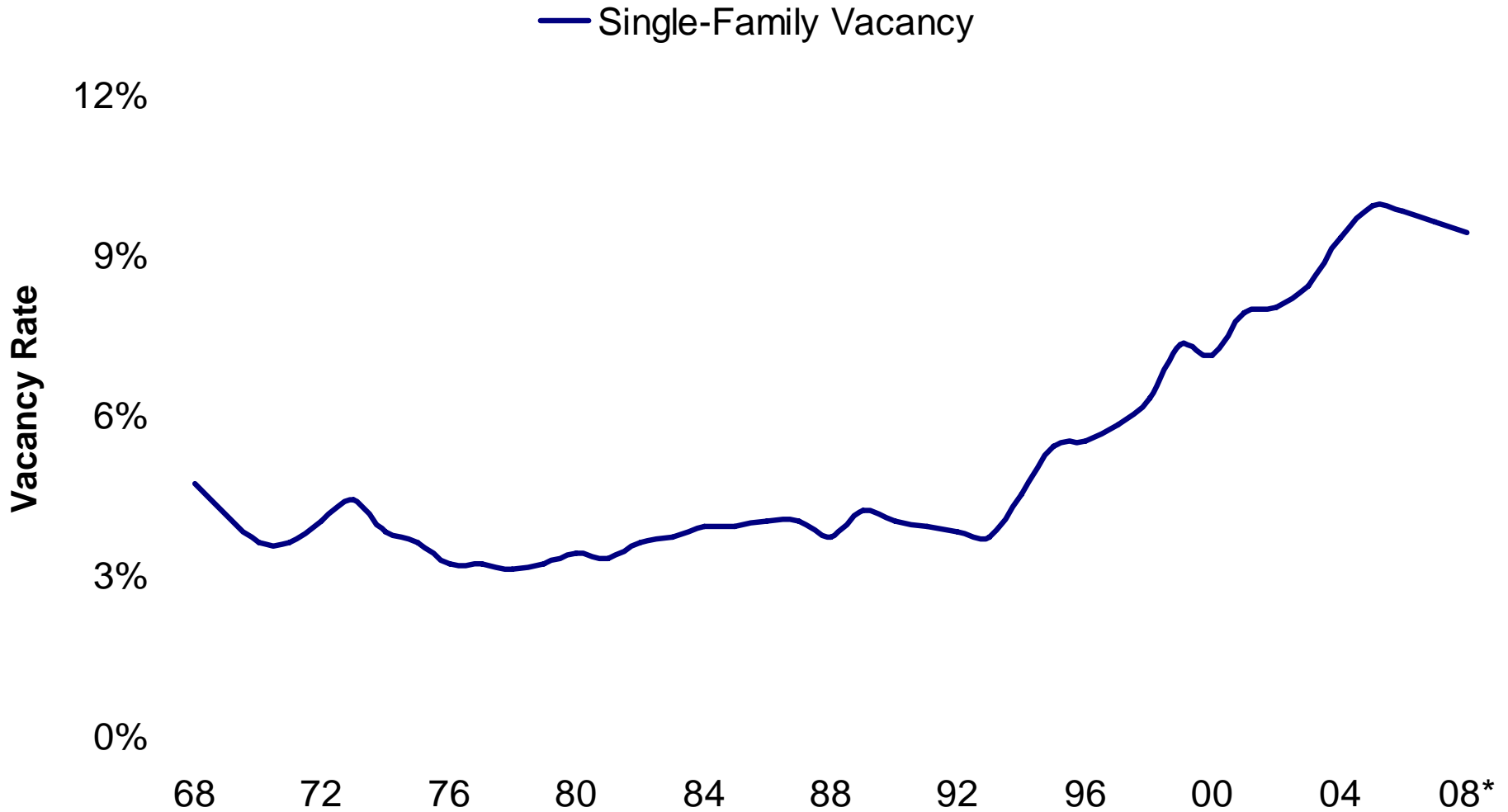


* Crude Oil through November 17th, PPI through October, CPI through September
Sources: Marcus & Millichap Research Services, Economy.com

Job Growth is Critical to Renter Household Formation and Apartment Occupancies



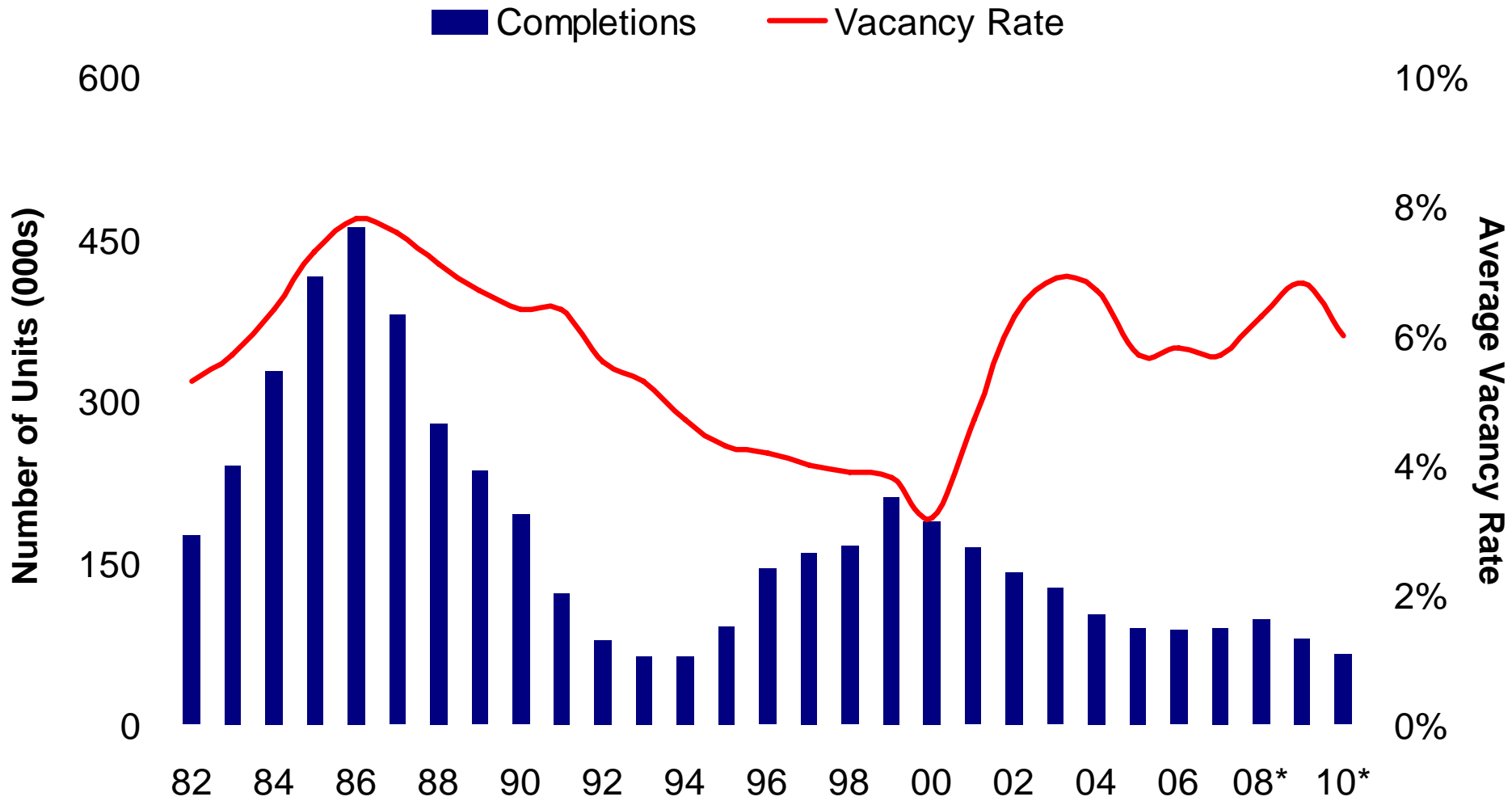
Single-Family and Condo Rentals Competing With Apartments, Particularly in Over-Built Housing Markets



* As of 3Q

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

Apartment Market Ranking

YOY Change in Vacancy – 3Q 2008

Top 15 Markets	3Q 2008 Vacancy	YOY Bps Chg
Indianapolis	7.4%	(130)
Cincinnati	6.4%	(110)
Denver	6.1%	(100)
Oklahoma City	7.9%	(60)
San Diego	3.5%	(50)
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	2.1%	(10)
St. Louis	6.7%	(10)
Austin	7.0%	-
Northern New Jersey	3.5%	10
United States	6.1%	40

Bottom 15 Markets	3Q 2008 Vacancy	YOY Bps Chg
Atlanta	8.9%	80
Philadelphia	4.9%	90
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%	40

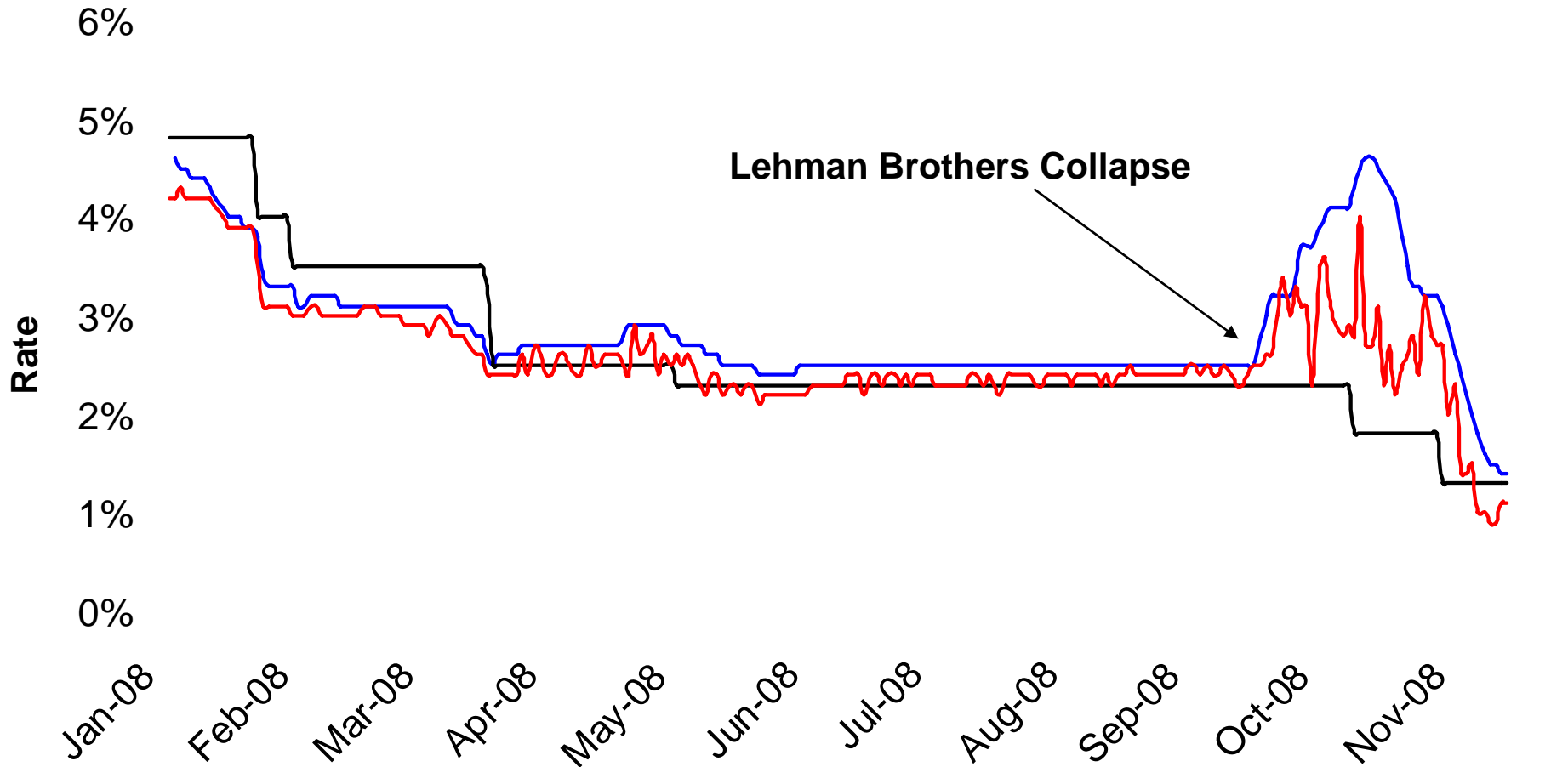
***CAPITAL MARKETS
OVERVIEW and OUTLOOK***

Financial Development Since October 2008

- 1. Inter-bank lending has improved**
- 2. LIBOR and TED spreads have come in**
- 3. Fed/Treasury injecting cash directly into financial institutions**
- 4. Treasury has changed direction on TARP – will not acquire troubled assets directly**
- 5. Fannie/Freddie still lending**
- 6. Some local/regional banks still lending**
 - The number of failed banks is up to 19 and rising
- 7. Fannie/Freddie spreads have come in**
- 8. Delinquencies still near historical lows**
 - The rise will be most modest for apartments

Key Market Rates

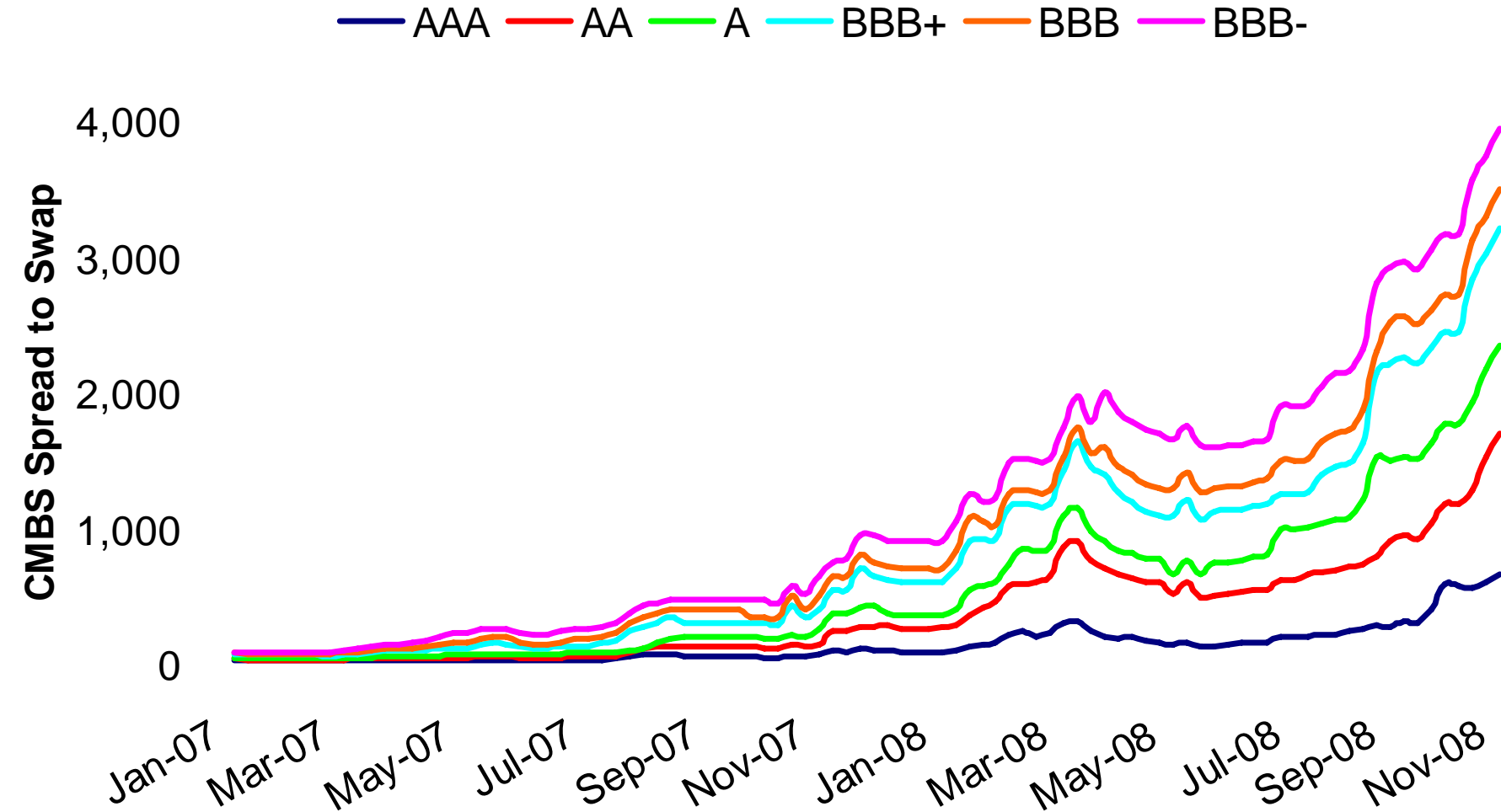
— 30 Day LIBOR — Federal Discount Rate — 30 Day Commercial Paper



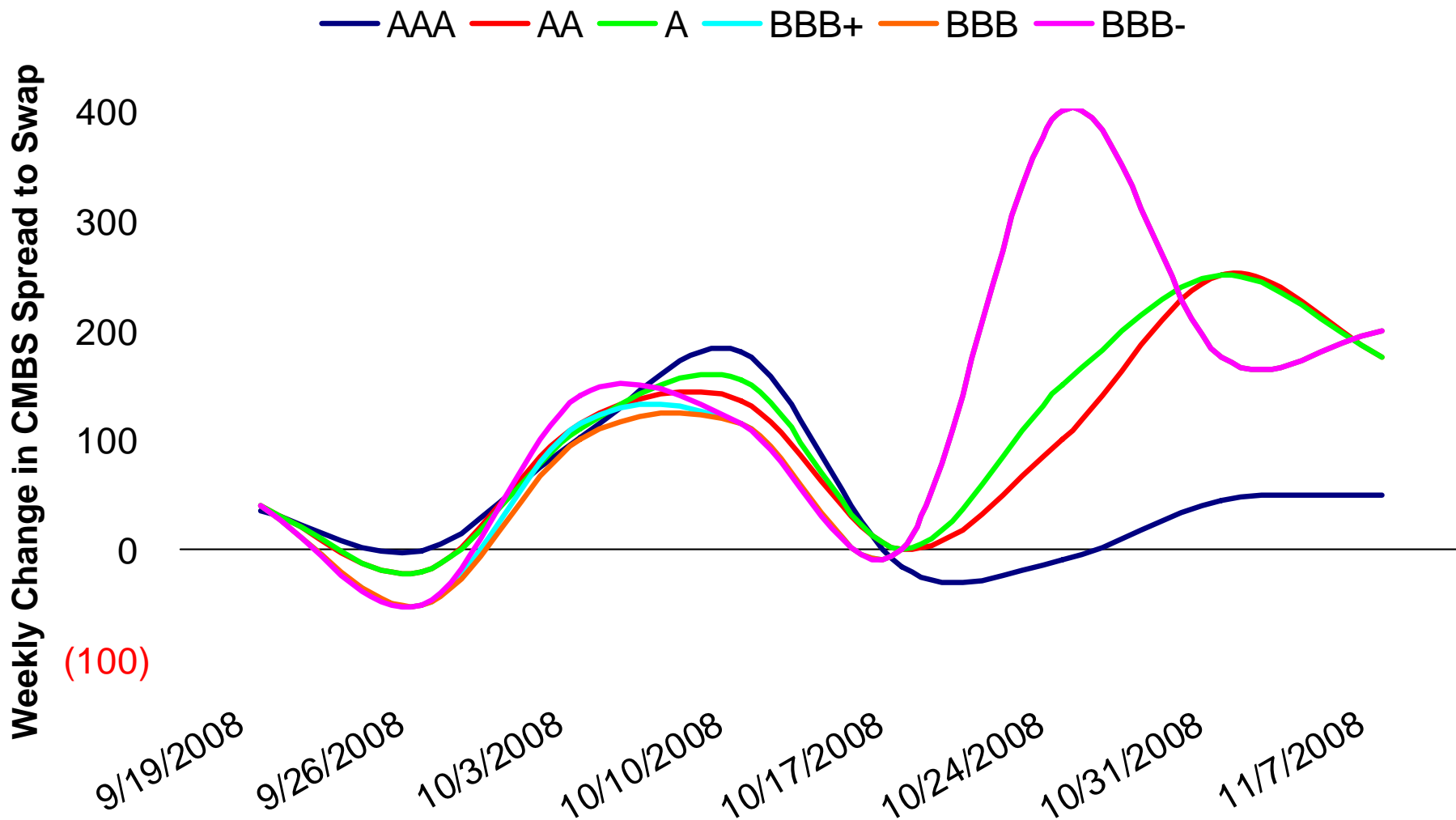
Through November 13, 2008

Sources: Marcus & Millichap Research Services, Economy.com, Federal Reserve

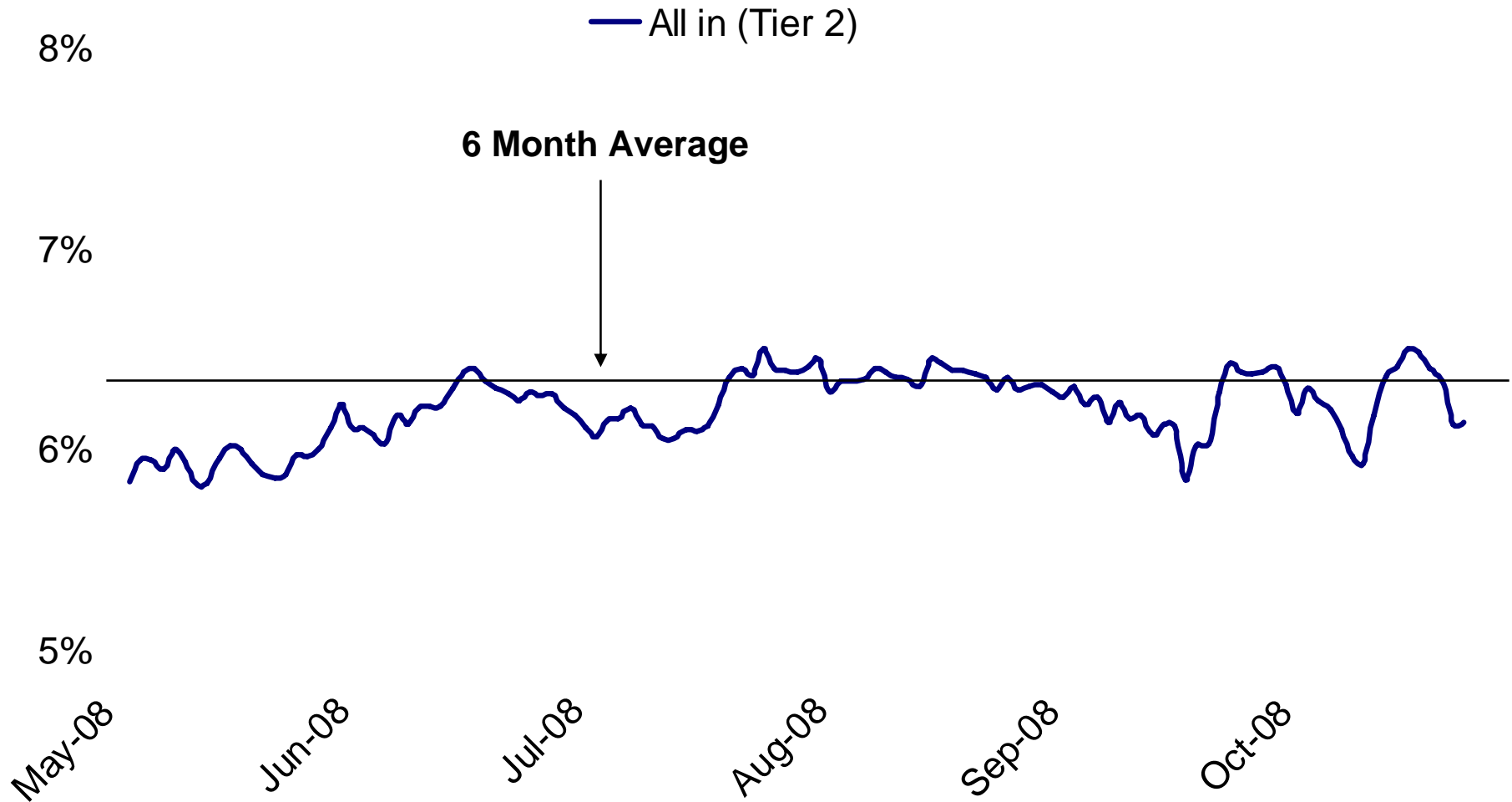
CMBS Credit Spreads Remain at Elevated Levels



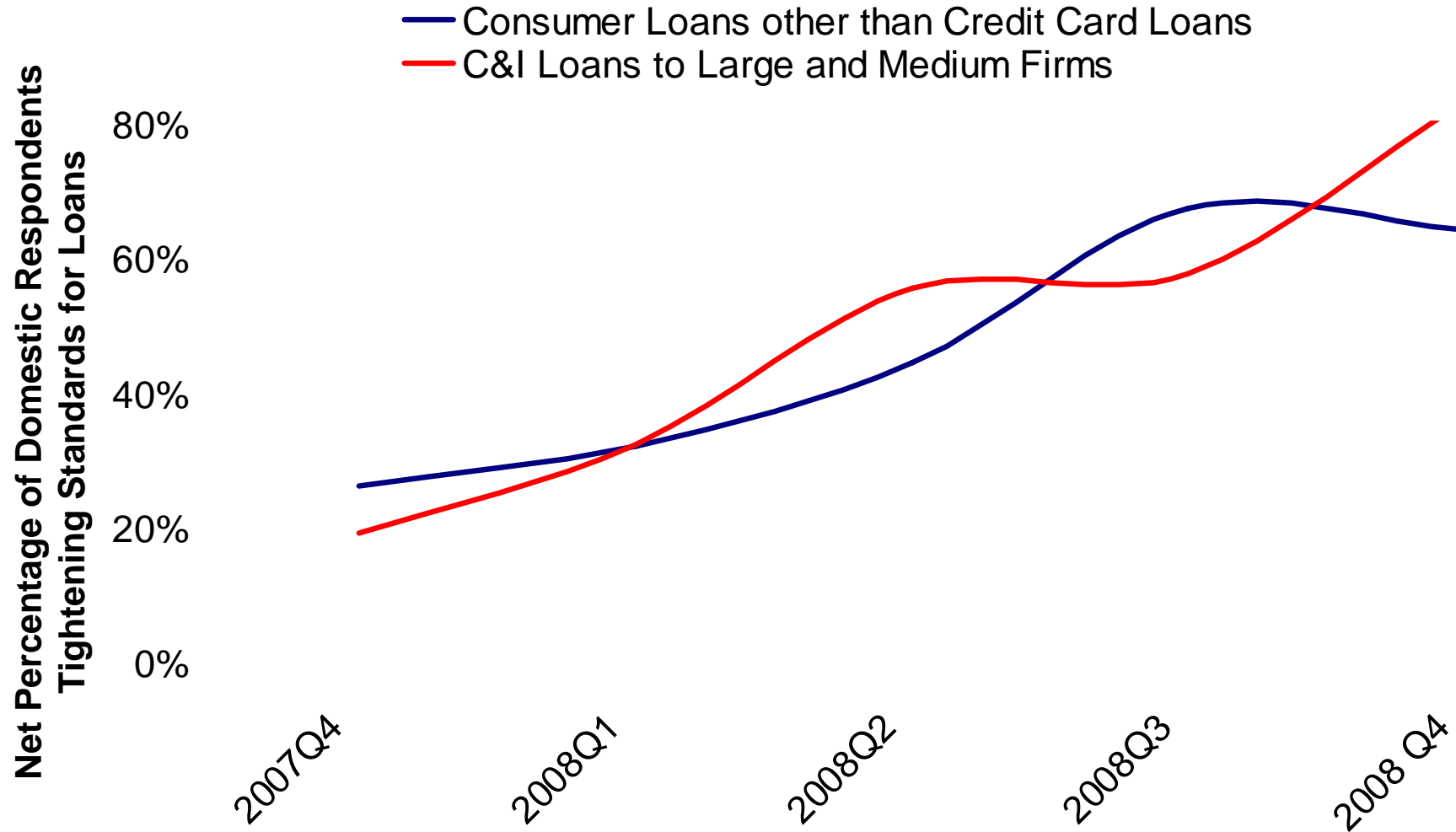
Credit Spreads Remain Volatile on a Week-to-Week Basis



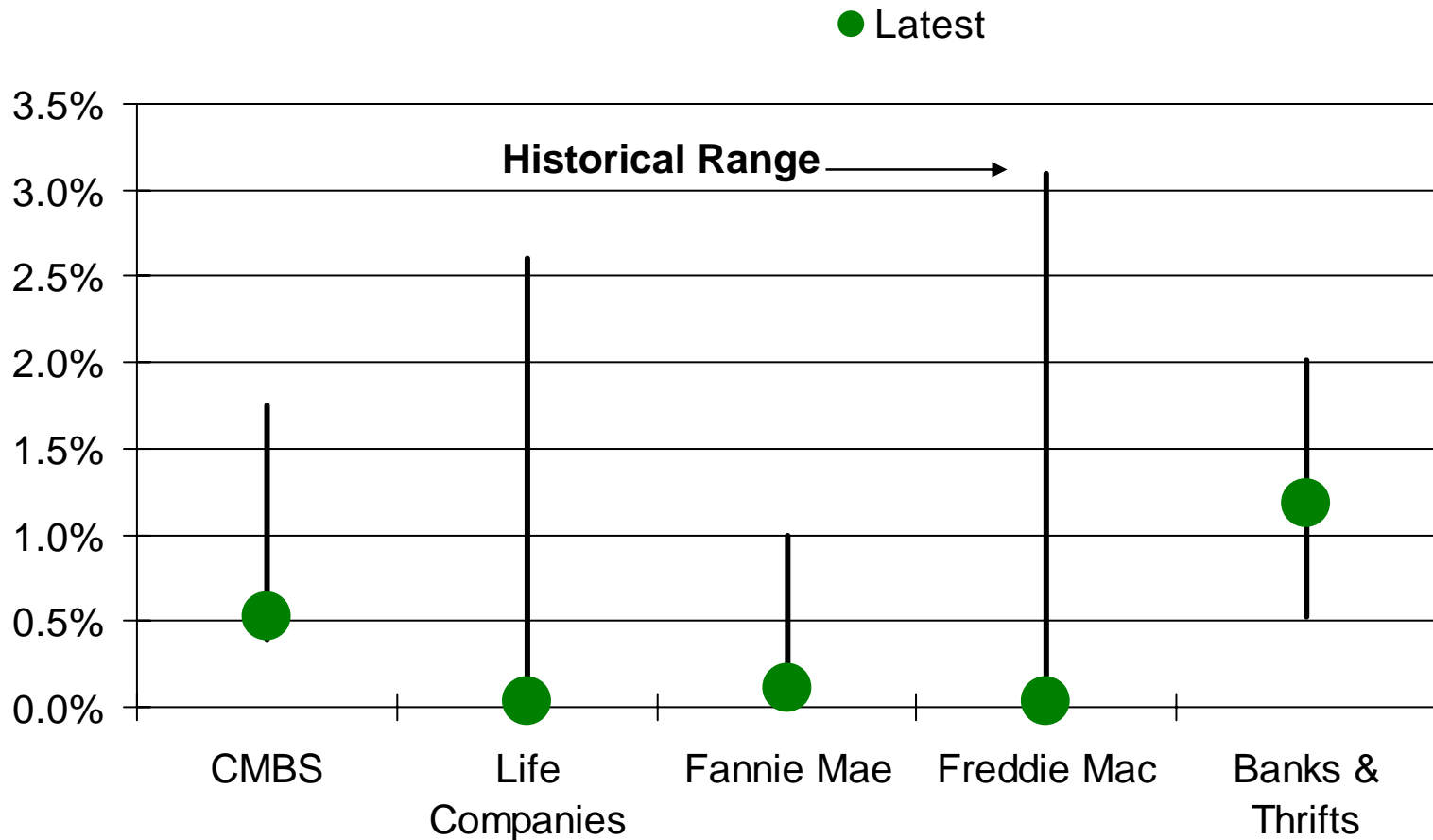
All-In Apartment Mortgage Rates



Credit Standards Have Tightened Across the Board



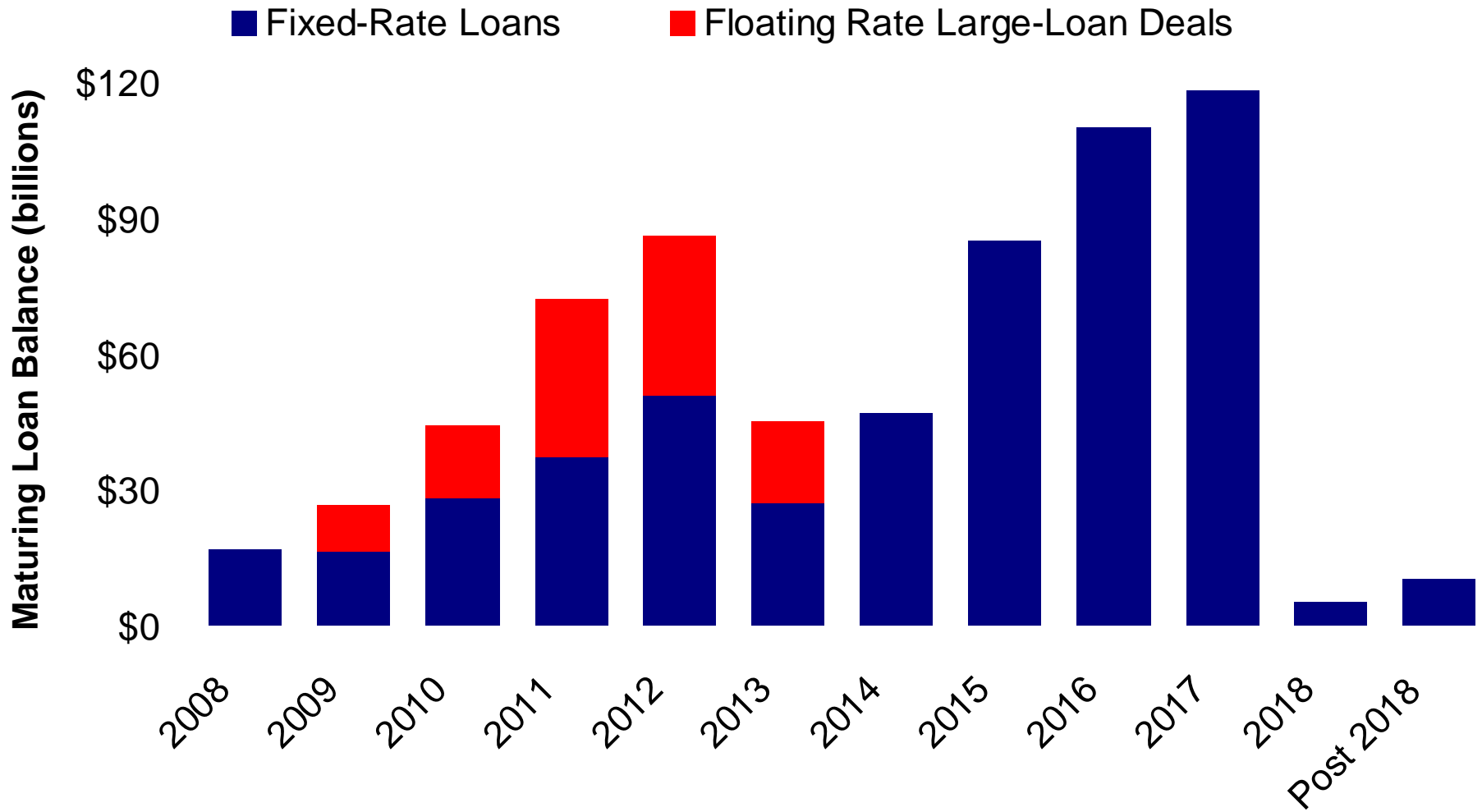
Delinquency Rates Near Historical Lows



Sources: Marcus & Millichap Research Services, Wachovia Capital Markets, LLC and Intex Solutions, Inc., ACLI, Fannie Mae, Freddie Mac, OFHEO, and FDIC – As of Q2-2008

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

S&P CMBS Maturities



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 TARP 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 6.0% to 6.5% 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 65% to 75%:**
 - Commercial Banks – 65% to 70%
 - Life Companies – 50% to 60%
 - Government Sponsored Enterprises – 65% to 75%

***APARTMENT INVESTMENT
TRENDS and STRATEGIES***

Market Divergence

➤ Inherent investment value

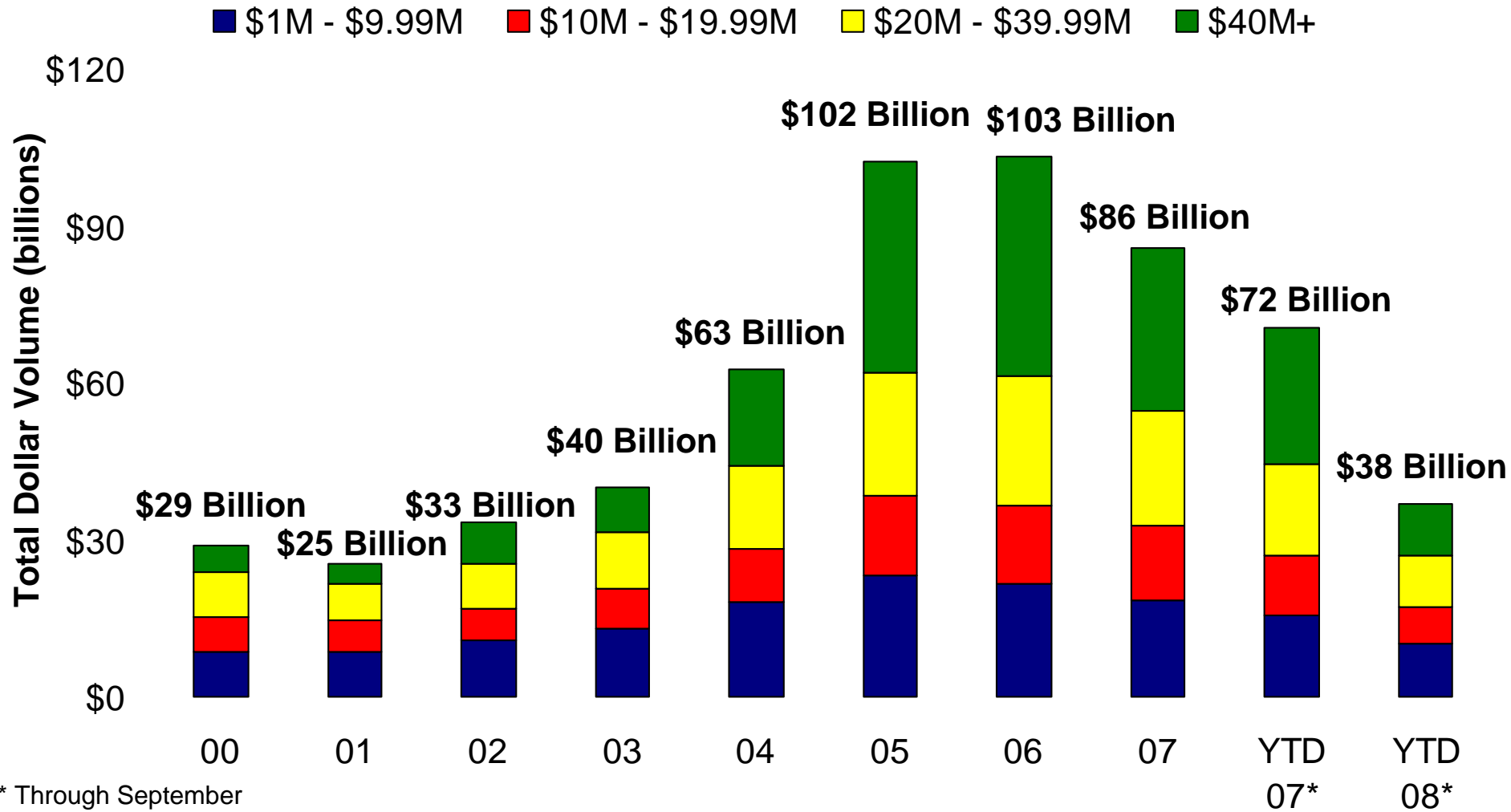
- Fundamentals are relatively solid
- Construction starts are decreasing
- Future supply / demand favors appreciation
- Apartments remain a preferred investment

➤ Short-term transactional value

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

U.S. Investment Trends

Apartment Dollar Volume by Price Category



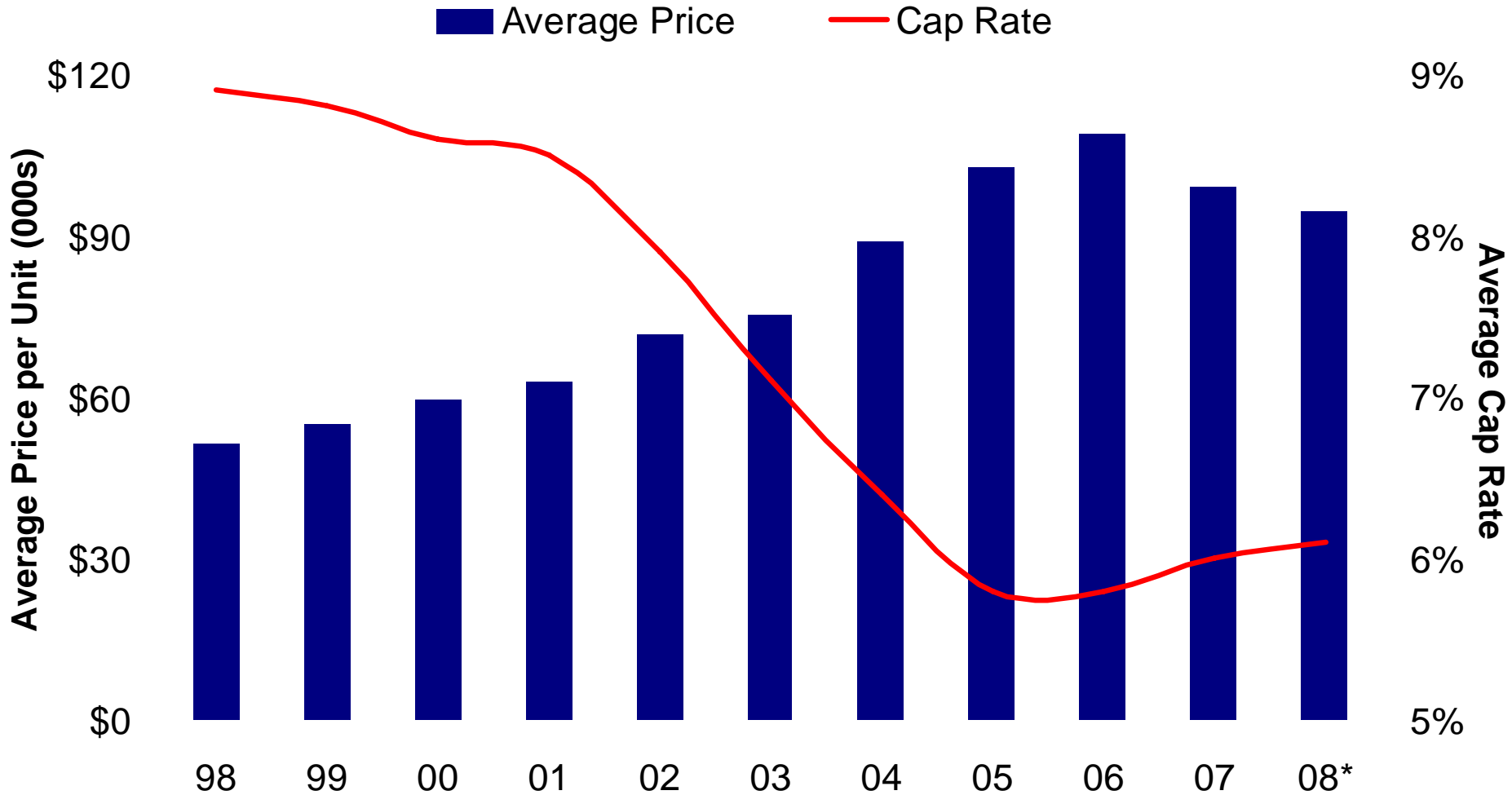
* Through September

Excludes Archstone Privatization

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

Apartment Investment Trends

Pricing and Cap Rates



* Year to Date Through September

Sales \$1 million and greater

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

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

Transactional Cap Rate Adjustment Matrix *

	Class "A"	Class "B"	Class "C"
Primary	.75	1.00	1.25
Secondary	1.00	1.25	1.50
Tertiary	1.50	1.75	2.00

* Current buyer expectation of cap rate delta from 12 months ago required to clear the market

Transactional 12 – Month Pricing Adjustment Matrix*

	Class "A"	Class "B"	Class "C"
Primary	-15%	-18%	-21%
Secondary	-19%	-21%	-24%
Tertiary	-26%	-28%	-30%

* Current buyer expectation of price delta from 12 months ago required to clear the market

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
- Lower loan-to-value ratios

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**
- **Low confidence in obtaining financing**
- **Difficult to spec upfront costs**

Developers / Merchant Builders, as a result...

- **Canceling projects**
- **Reducing staffs**

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

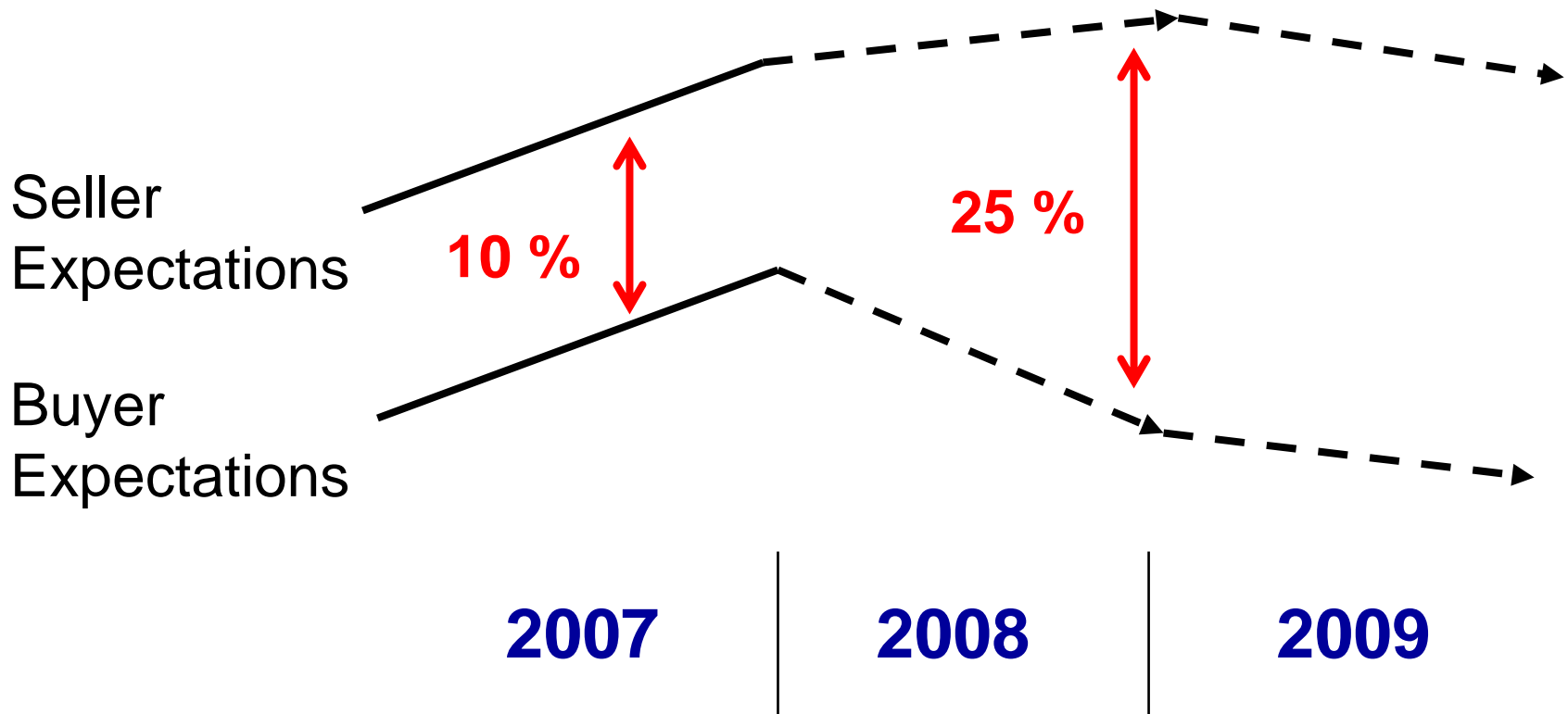
Sellers see...

- **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



Anatomy of Current Market Divergence

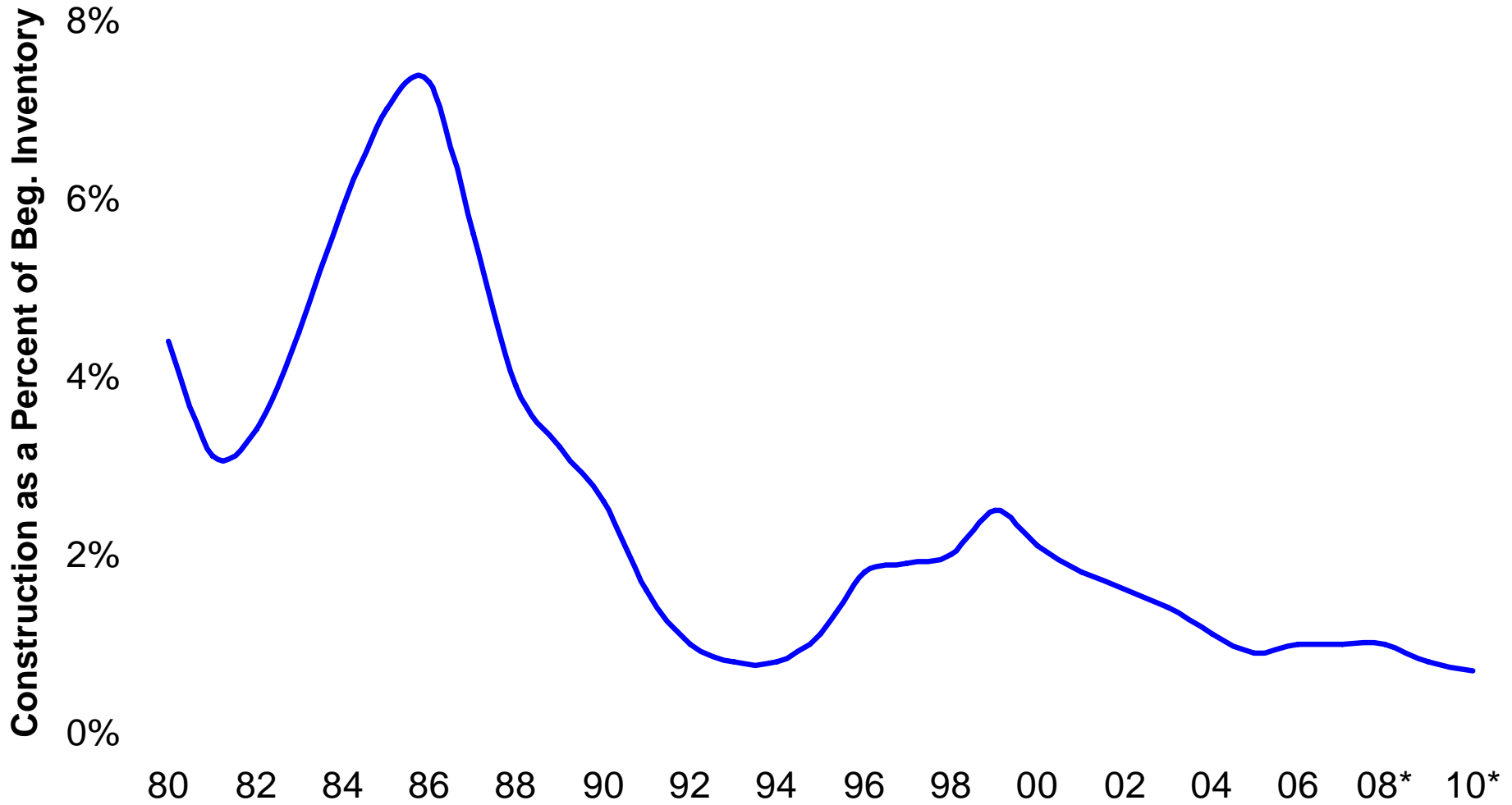
Two issues...

- **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**
- **Revenue growth moderates but avoids historic cyclical decline magnitude in most markets**
- **Sales velocity remains low throughout 2009**
- **Transactional cap rates continue to differentiate for quality and trend up 50 – 100 bps**

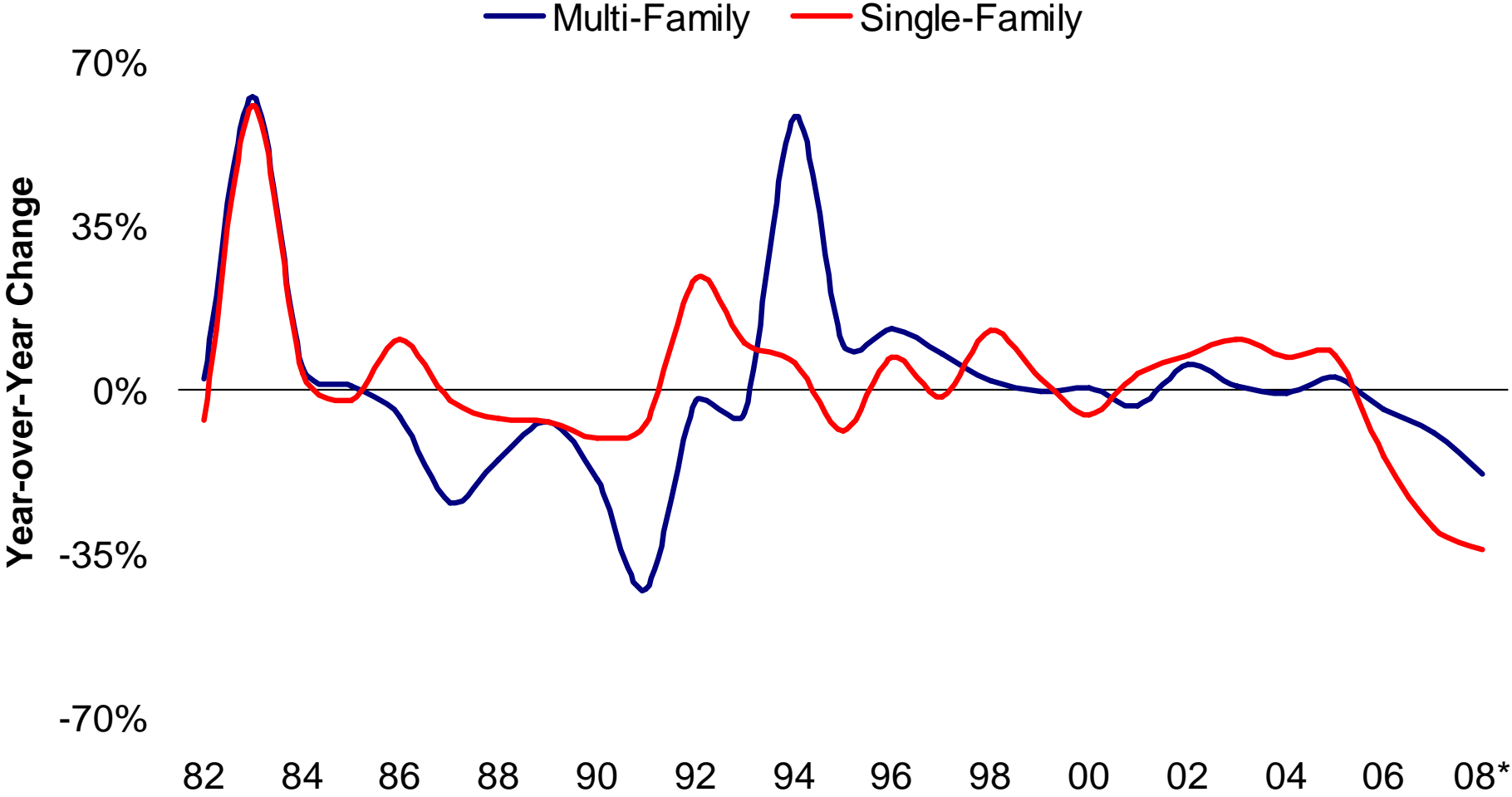
U.S. Apartment Construction as a Percent of Beginning Inventory



* Forecast

Sources: Marcus & Millichap Research Services, Reis

Construction Starts Declining



* Forecast
Sources: Marcus & Millichap Research Services, Economy.com

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

- **Starts down 30% in 2008... down 50% + 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**



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