



National Economic and Apartment Market

Overview and Outlook – Special Client Webcast

December 18, 2008

Marcus & Millichap

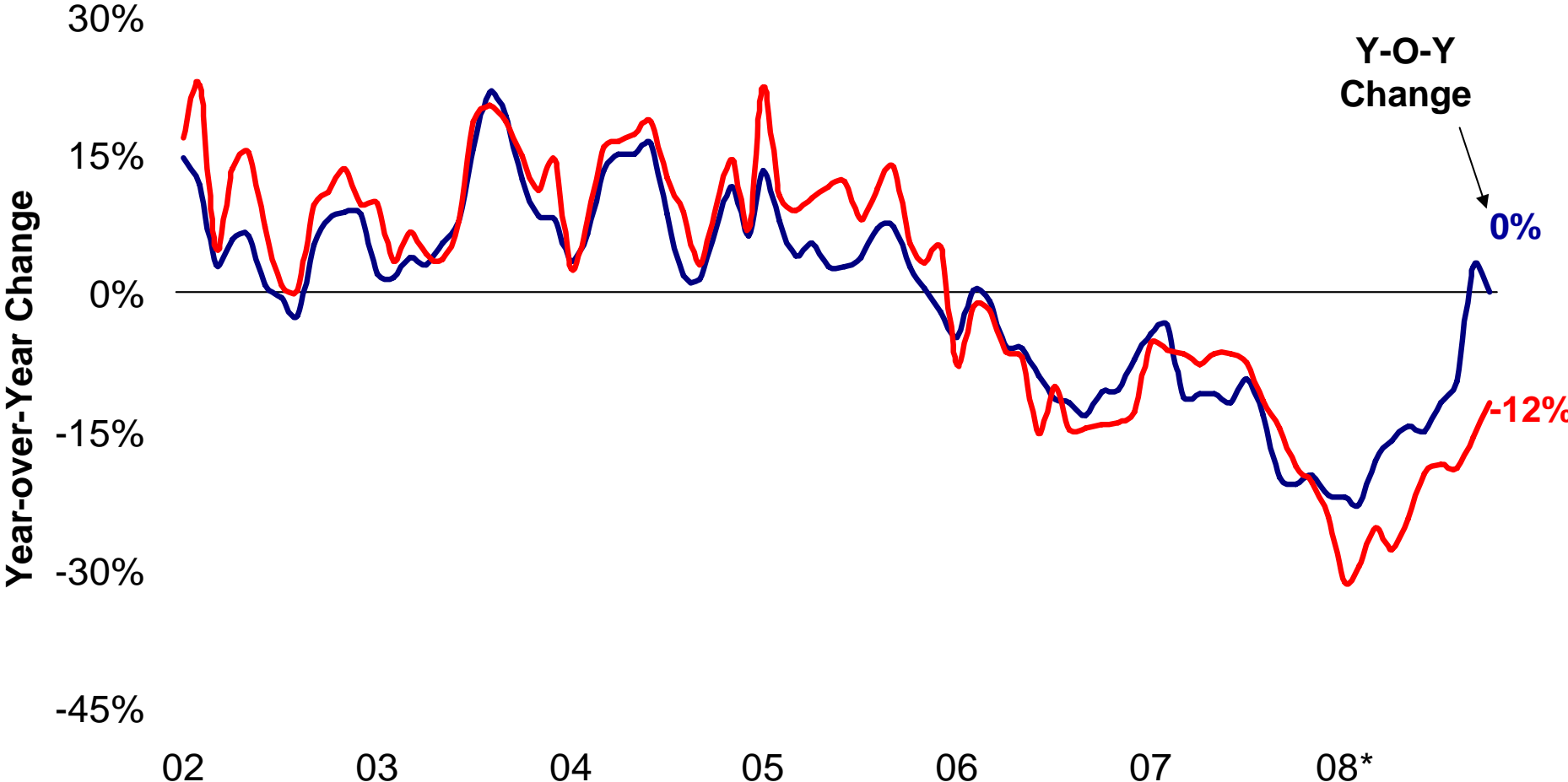
NATIONAL MULTI HOUSING GROUP

***ECONOMIC and APARTMENT MARKET
FUNDAMENTALS***

OVERVIEW and OUTLOOK

Home and Condo Sales Trends Reflect Increase in Foreclosure Sales In Many Markets

Existing Single-Family Homes Existing Condos



Y-O-Y Change
0%

-12%

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

Consumption Continues to Deteriorate – Significant Variation Excluding Auto, Gasoline Sales



* Through November

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

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

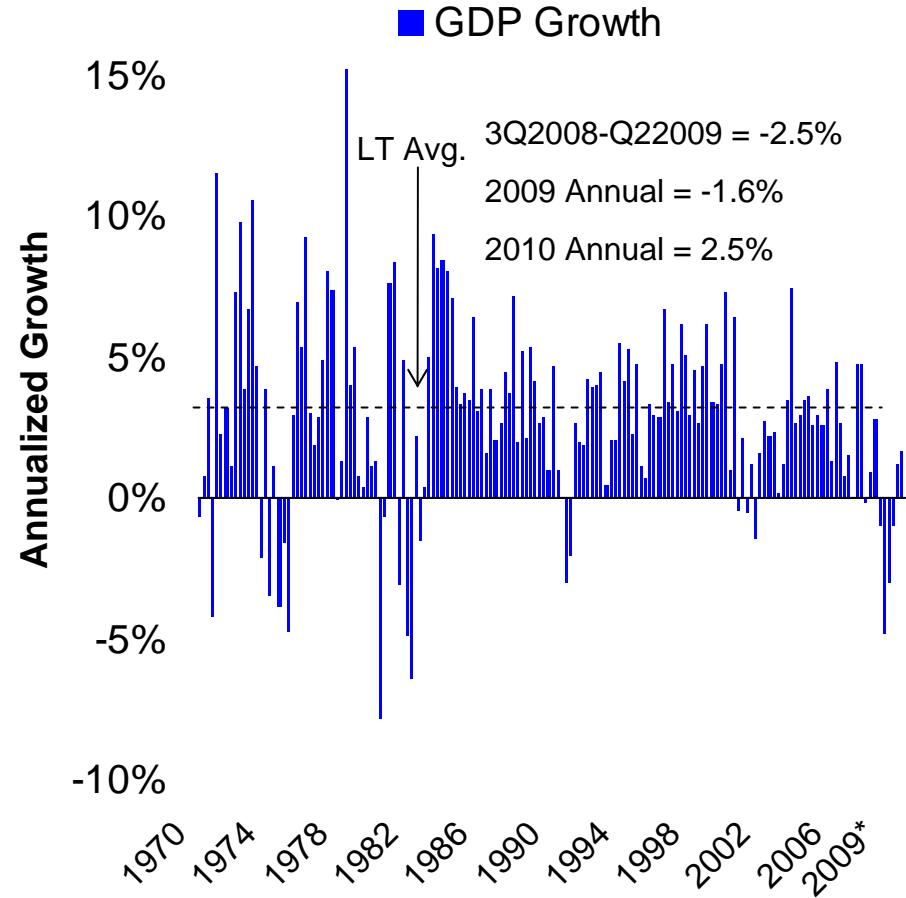
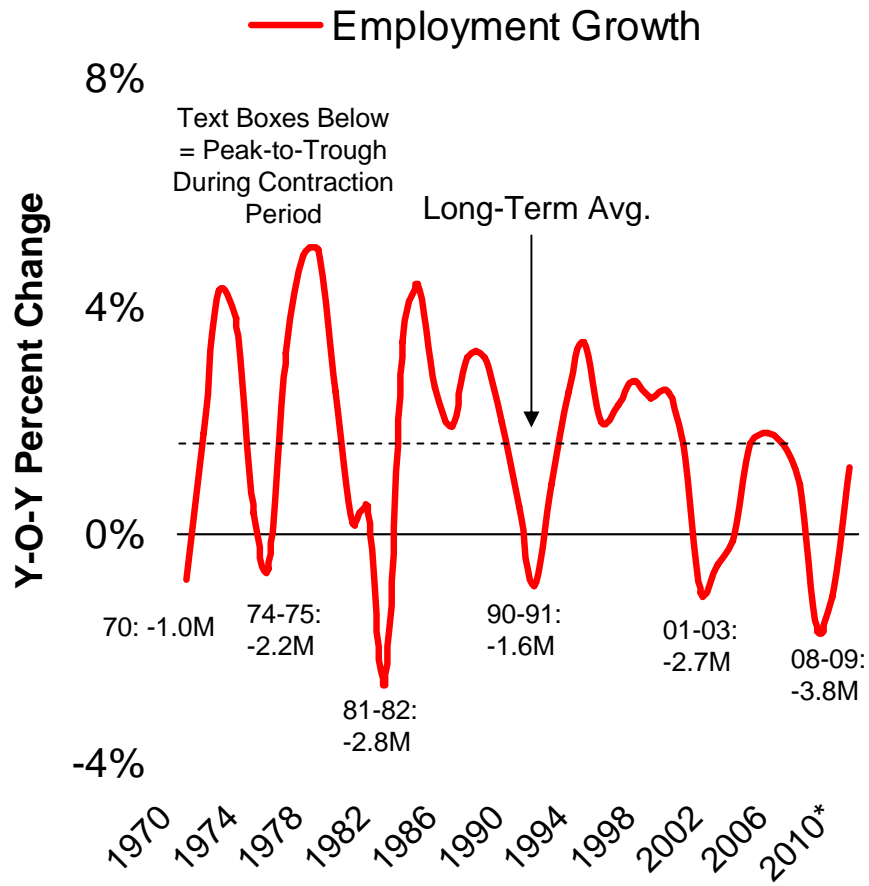


* Through November

Sources: Marcus & Millichap Research Services, BLS

Economic Weakness Expected Through Mid-2009

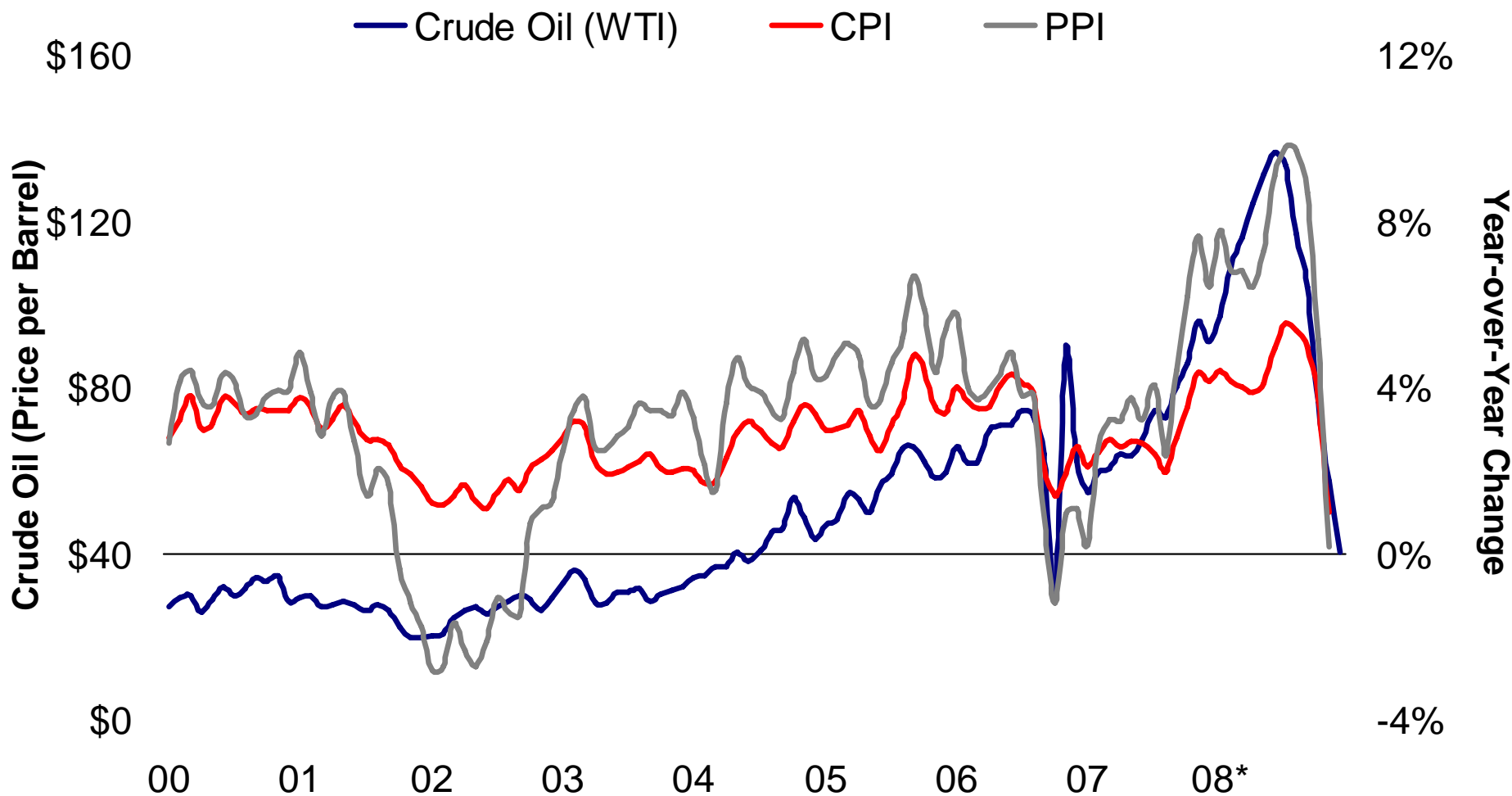
Risk Levels Remain Elevated



*Forecast Assumes No Additional Major Shocks

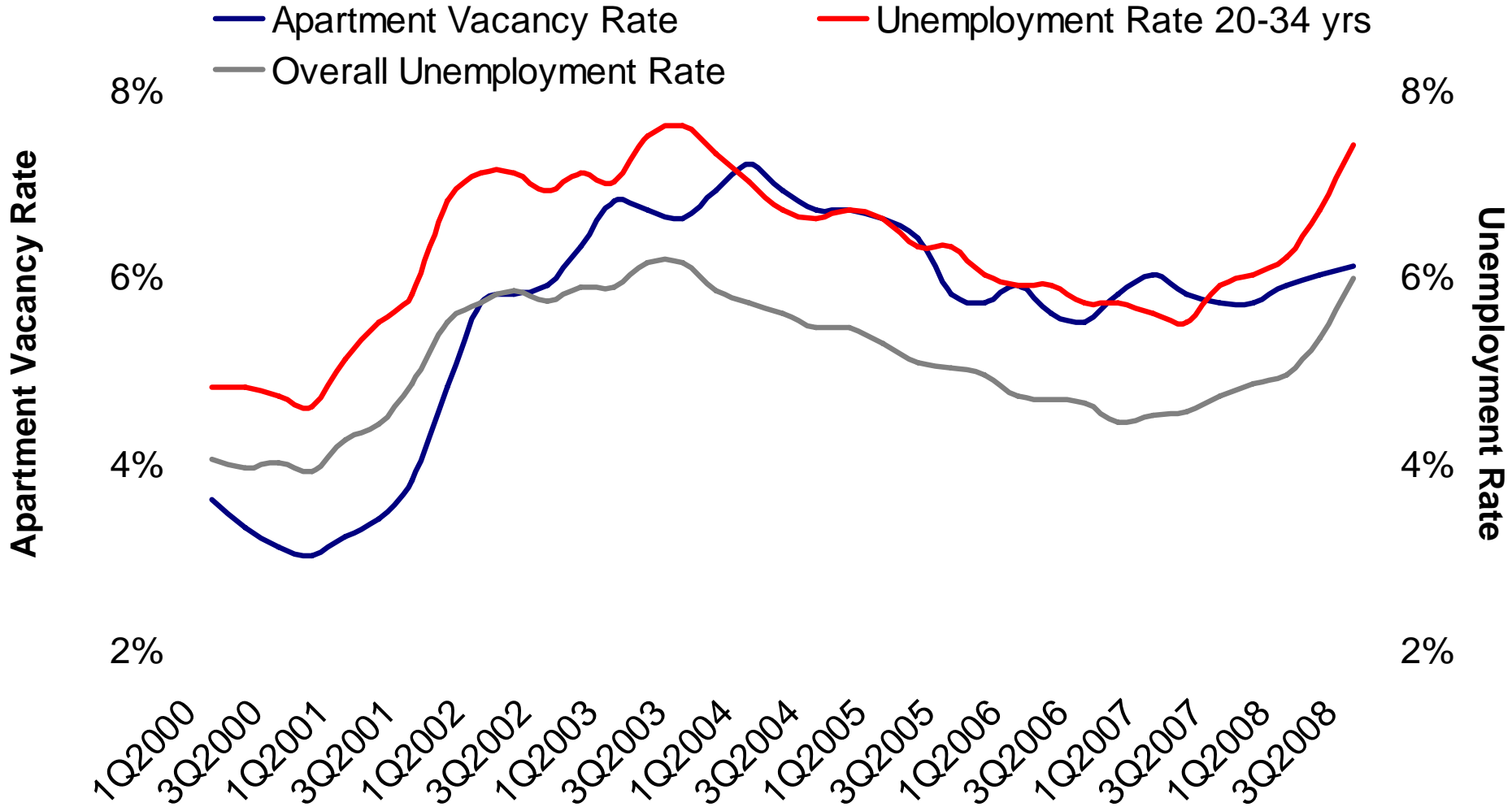
Sources: Marcus & Millichap Research Services, Blue Chip, Economy.com, Global Insight

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

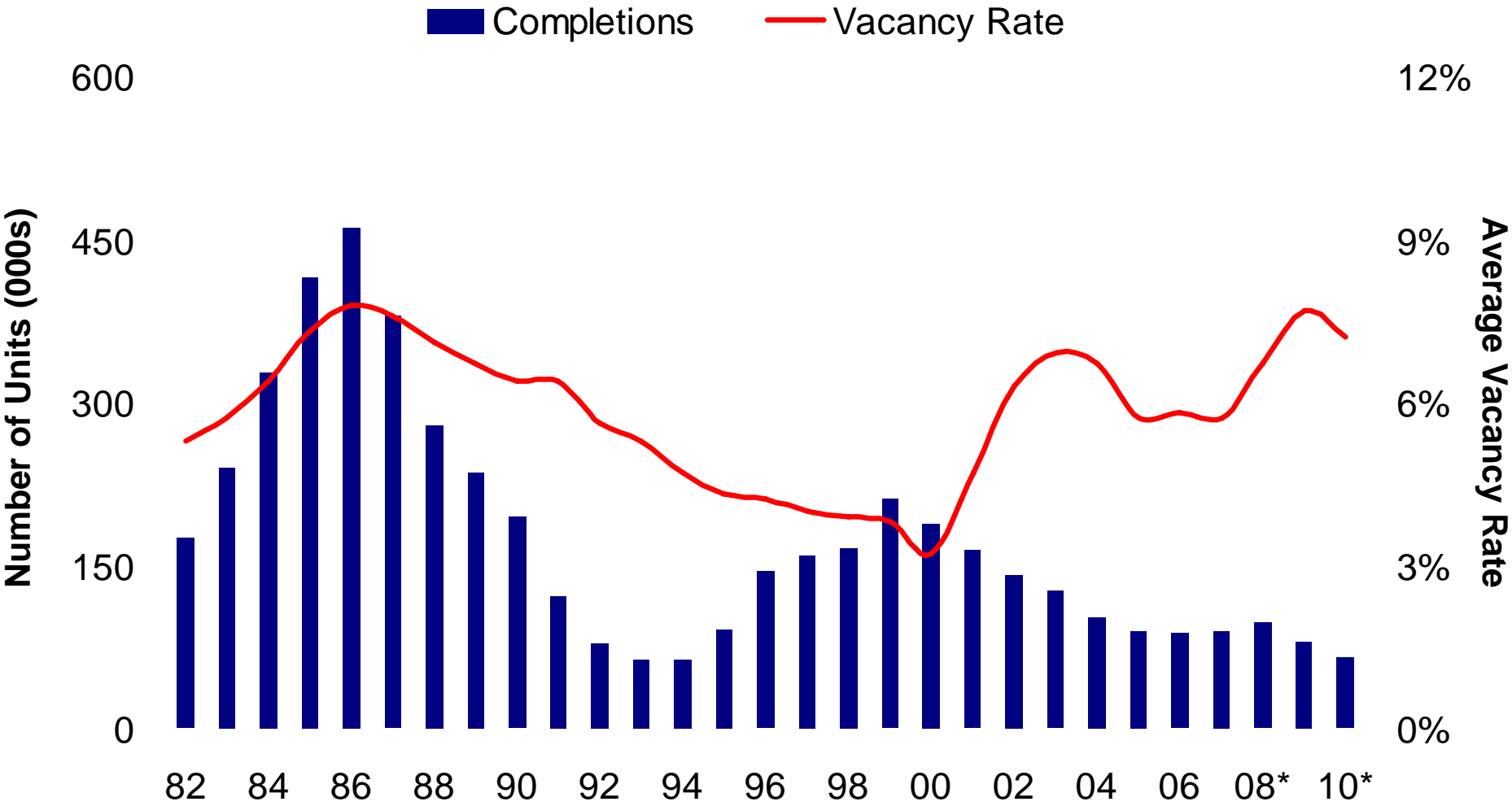


* Crude Oil as of December 17, PPI and CPI through November
Sources: Marcus & Millichap Research Services, BLS, FRED

Job Growth is Critical to Renter Household Formation and Apartment Occupancies



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



* Forecast
 Sources: Marcus & Millichap Research Services, Reis

Apartment Market Ranking Vacancy Rate - 3Q 2008

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%
Seattle-Tacoma	4.9%
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%

***CAPITAL MARKETS
OVERVIEW and OUTLOOK***

Capital Markets Developments Since November 2008

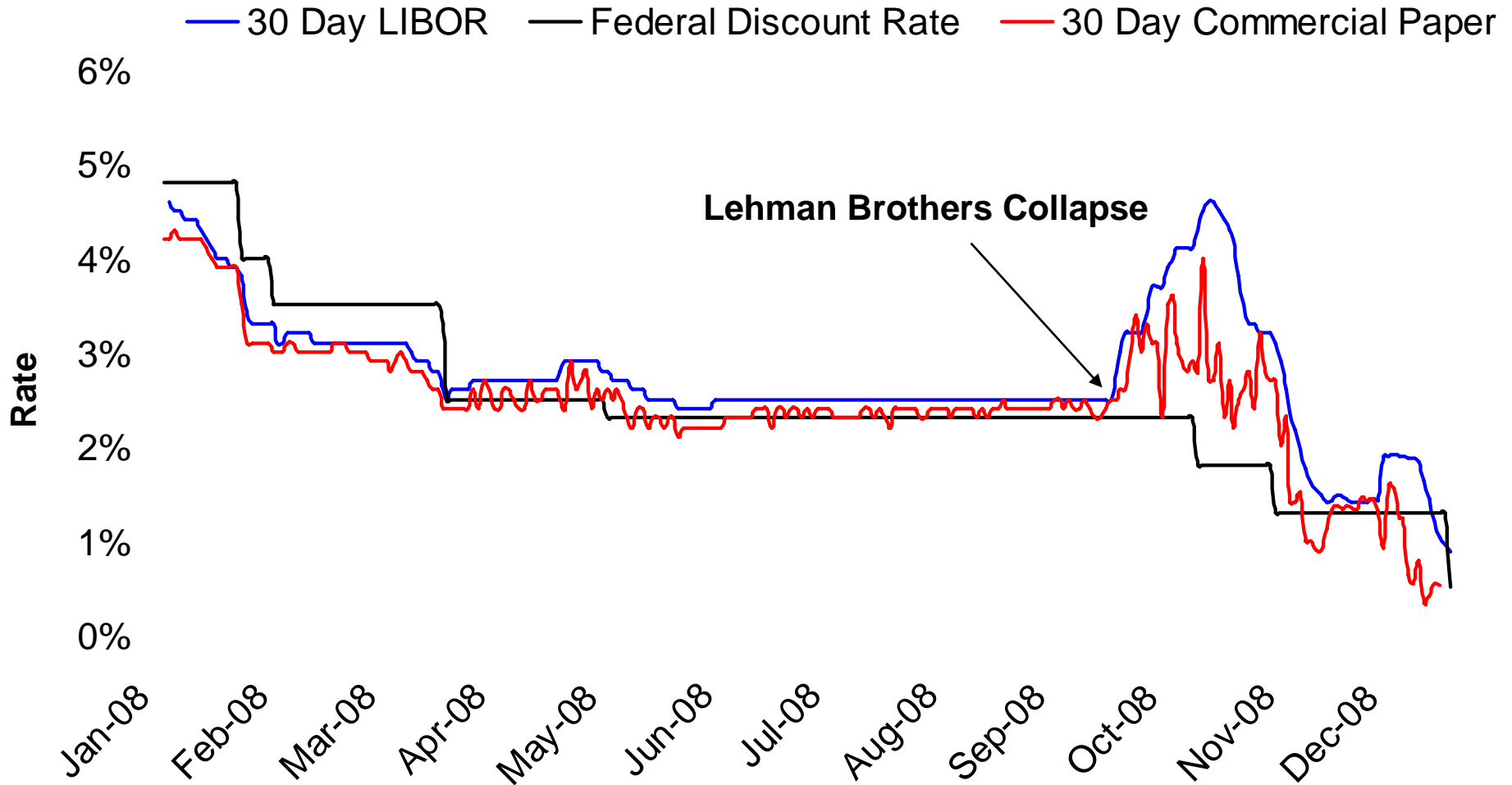
The Good News:

- 1. Inter-bank lending has improved**
- 2. LIBOR and TED credit spreads have come in**
- 3. 10-Year Treasury Yield at 2.2%**
- 4. Delinquencies still near historical lows but rising**
- 5. Deals are getting done – local and regional banks, life insurance companies, Fannie and Freddie**

The Bad News:

- 1. Lending standards continue to tighten**
- 2. Fewer lenders in the market currently**
- 3. Mortgage spreads adjusting upward**
- 4. Fundamentals eroding faster – recession more severe**

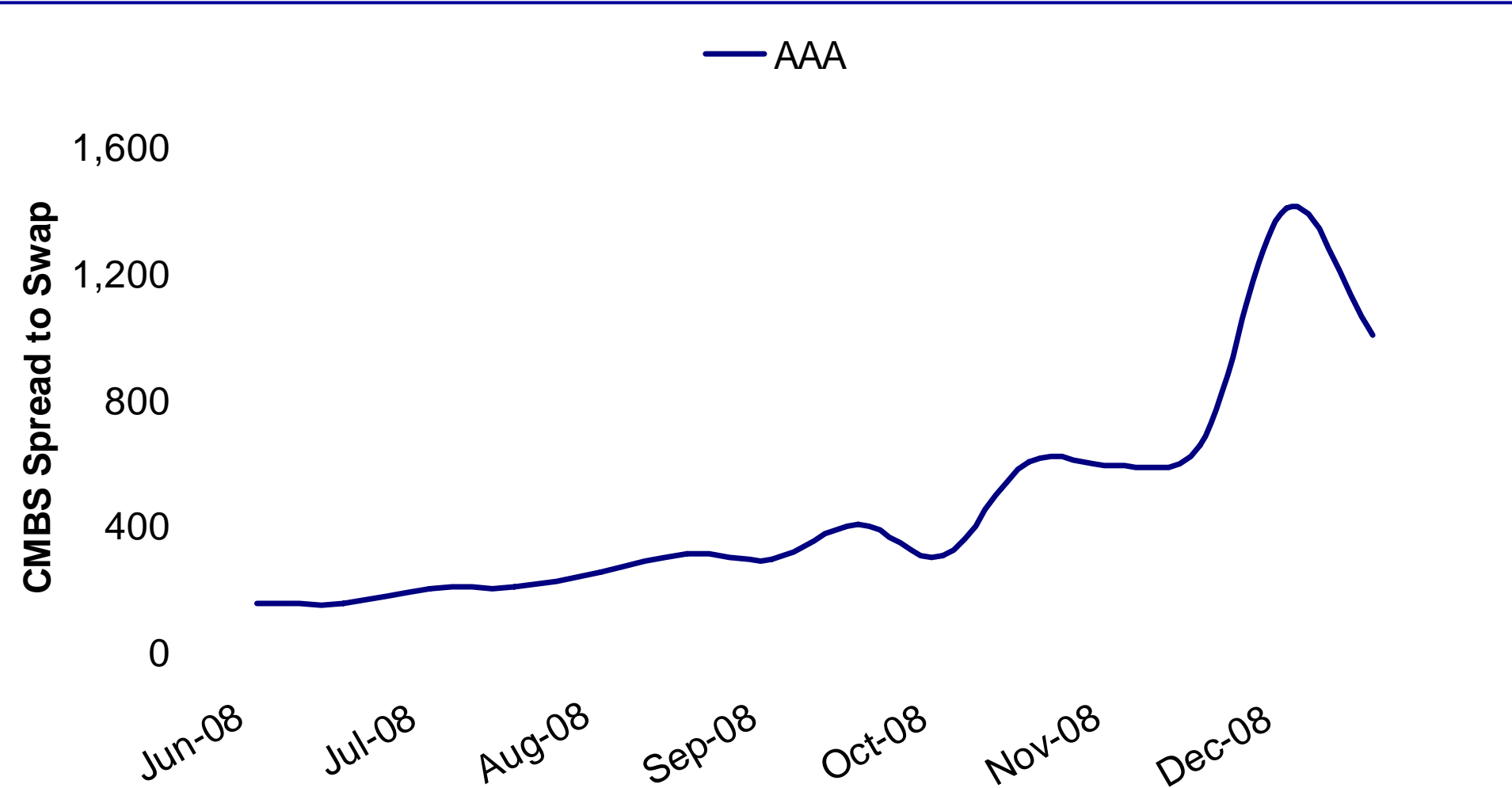
Key Market Rates



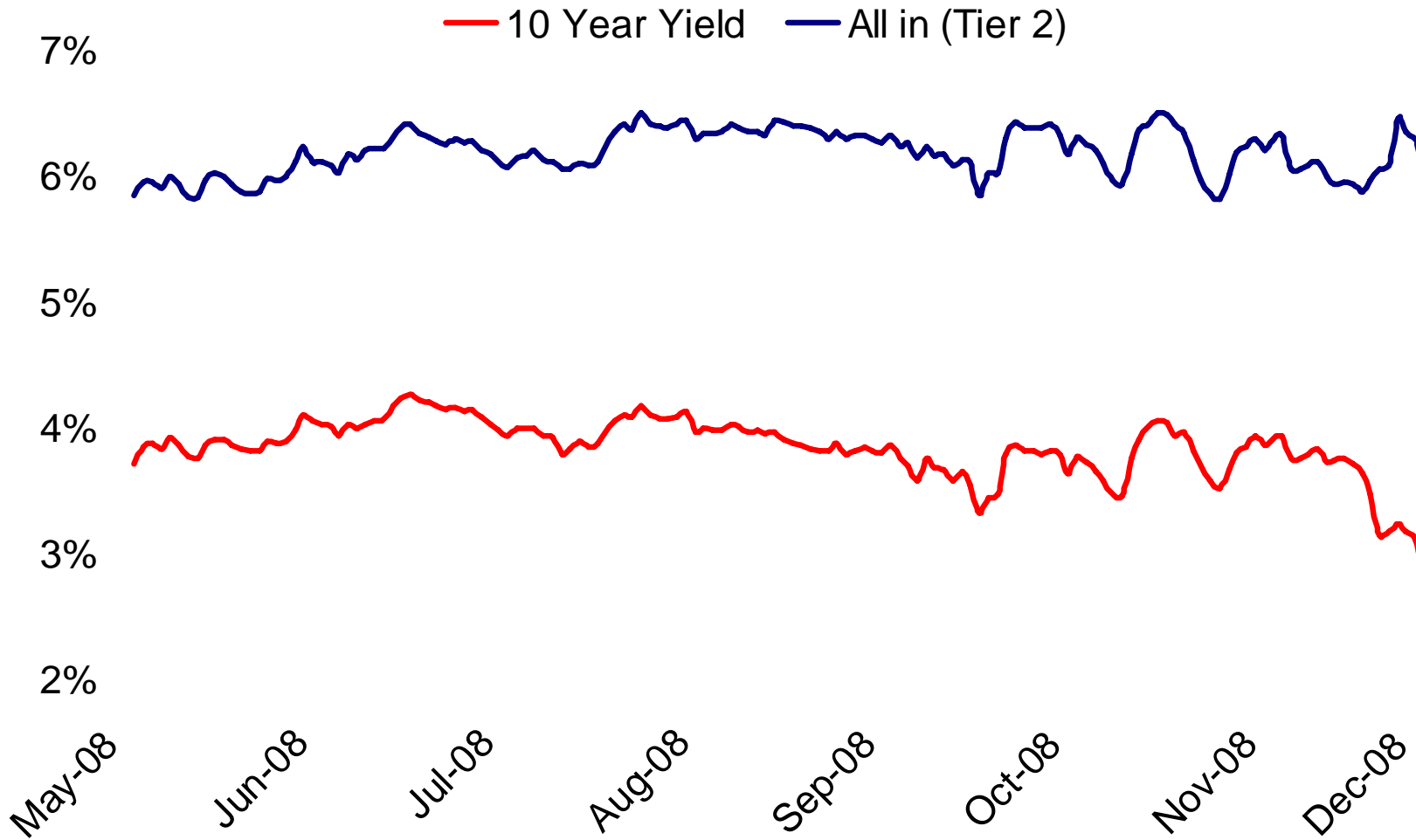
Through Dec 16, 2008

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

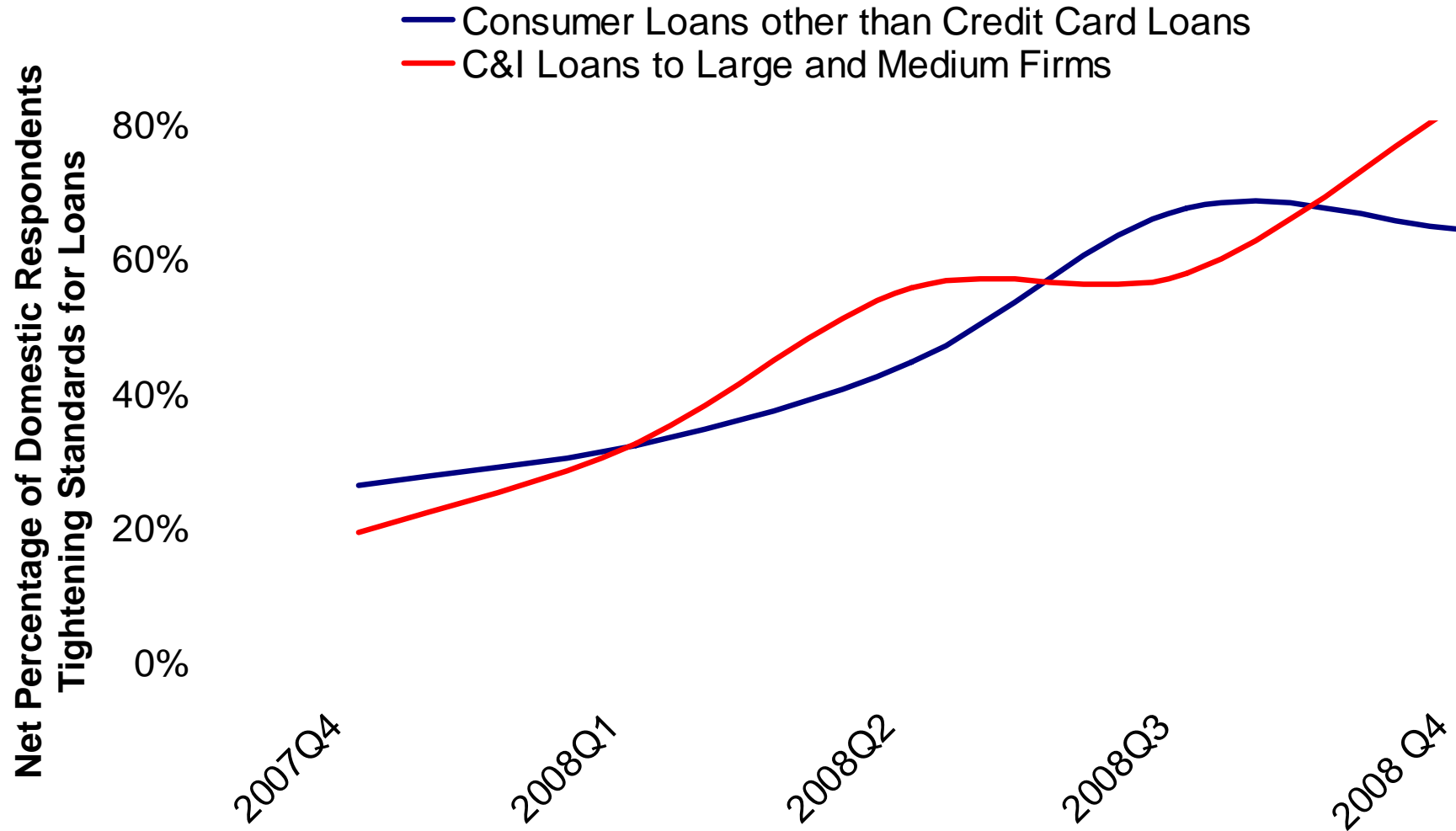
CMBS Credit Spreads Remain at Elevated Levels



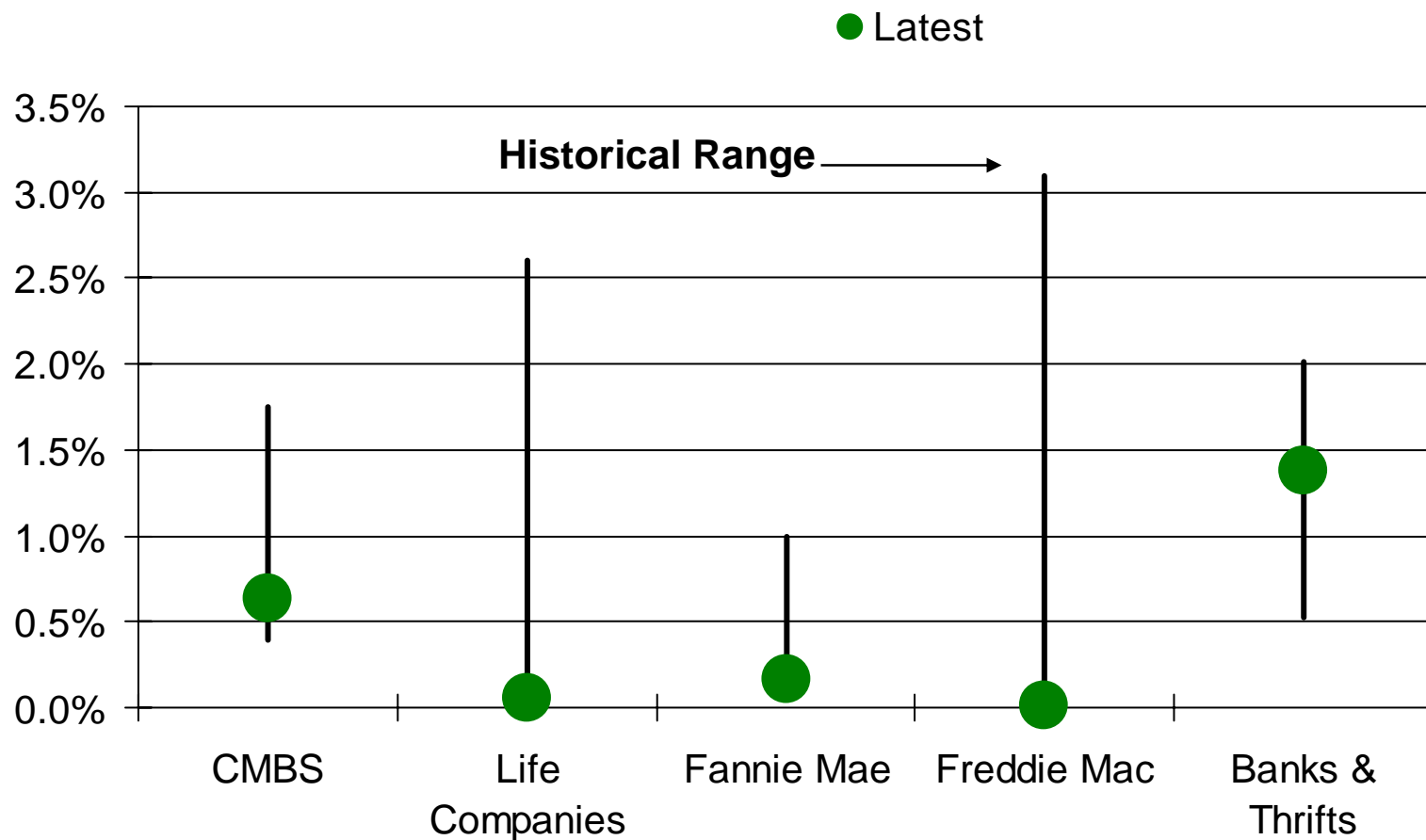
Indicative Fannie Rates



Credit Standards Have Tightened Across the Board



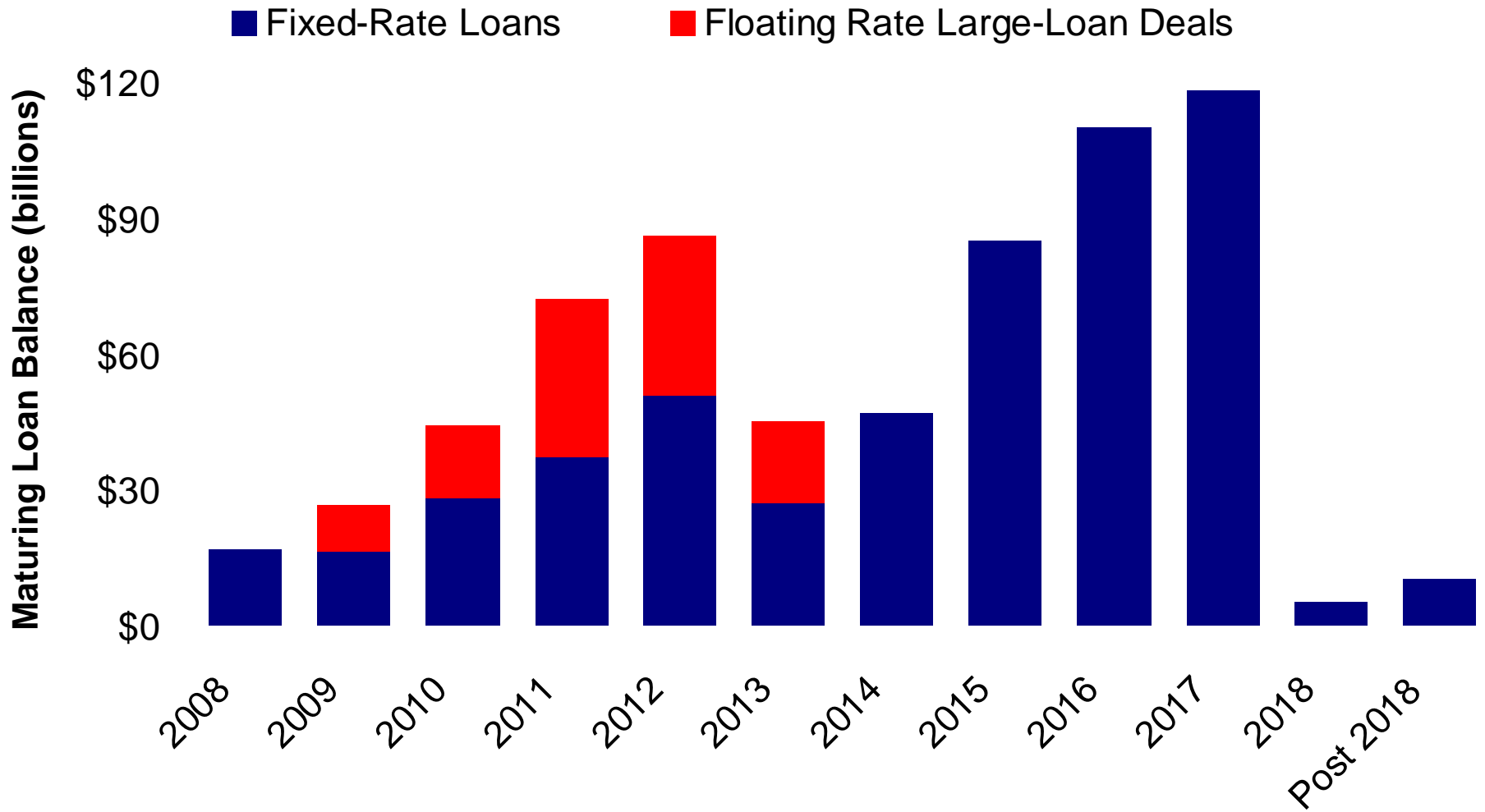
Delinquency Rates Near Historical Lows (For Now)



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



164 Ludlow Street New York, NY



Price: \$4,707,692

Loan Amount: \$3,060,000

Interest Rate: 6.6% Fixed

Term/Amort.: 12 Years/ 30 Years

Recourse

Lender Type: Bank

The Landmark Apartments Seattle, WA



Value: \$19,297,500

Loan Amount: \$15,438,000

Interest Rate: 5.92% Fixed

Term/Amort.: 7 Years/30 Years

Non-Recourse

Lender Type: Fannie Mae

Chinquapin Apartments Carlsbad, CA



Value: \$5,636,000

Loan Amount: \$4,227,000

**Interest Rate: 3.23% Adjustable
60-month Libor/250 bps
120 dscr**

Term/Amort.: 30 Years/30 Years

Recourse

Lender Type: Bank

***APARTMENT INVESTMENT
TRENDS and STRATEGIES***

Market Divergence

➤ Inherent investment value

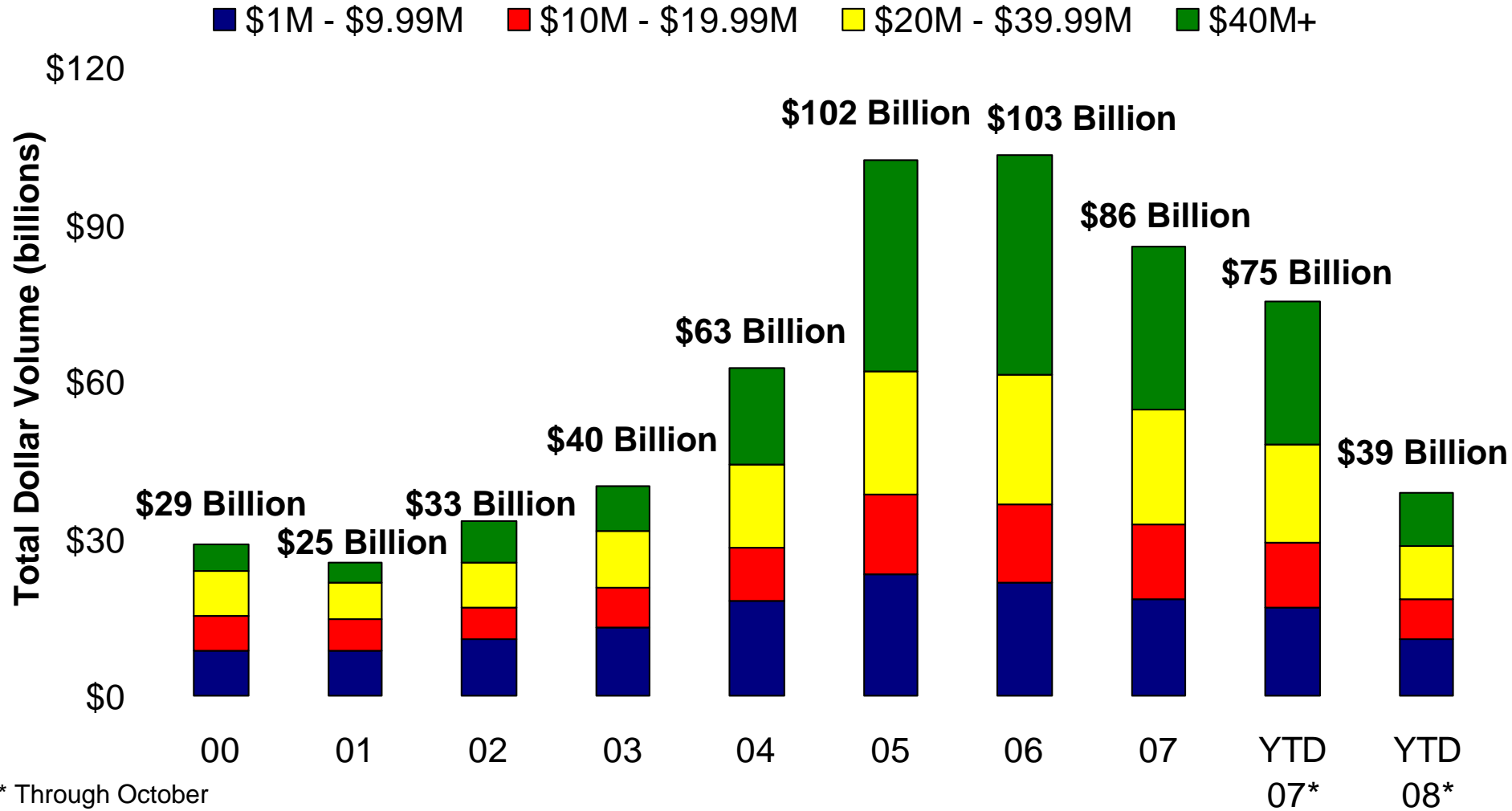
- Fundamentals are relatively solid
- Construction starts are decreasing
- Future supply / demand favors appreciation
- Apartments remain a preferred investment
- Lack of suitable investment alternatives

➤ 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



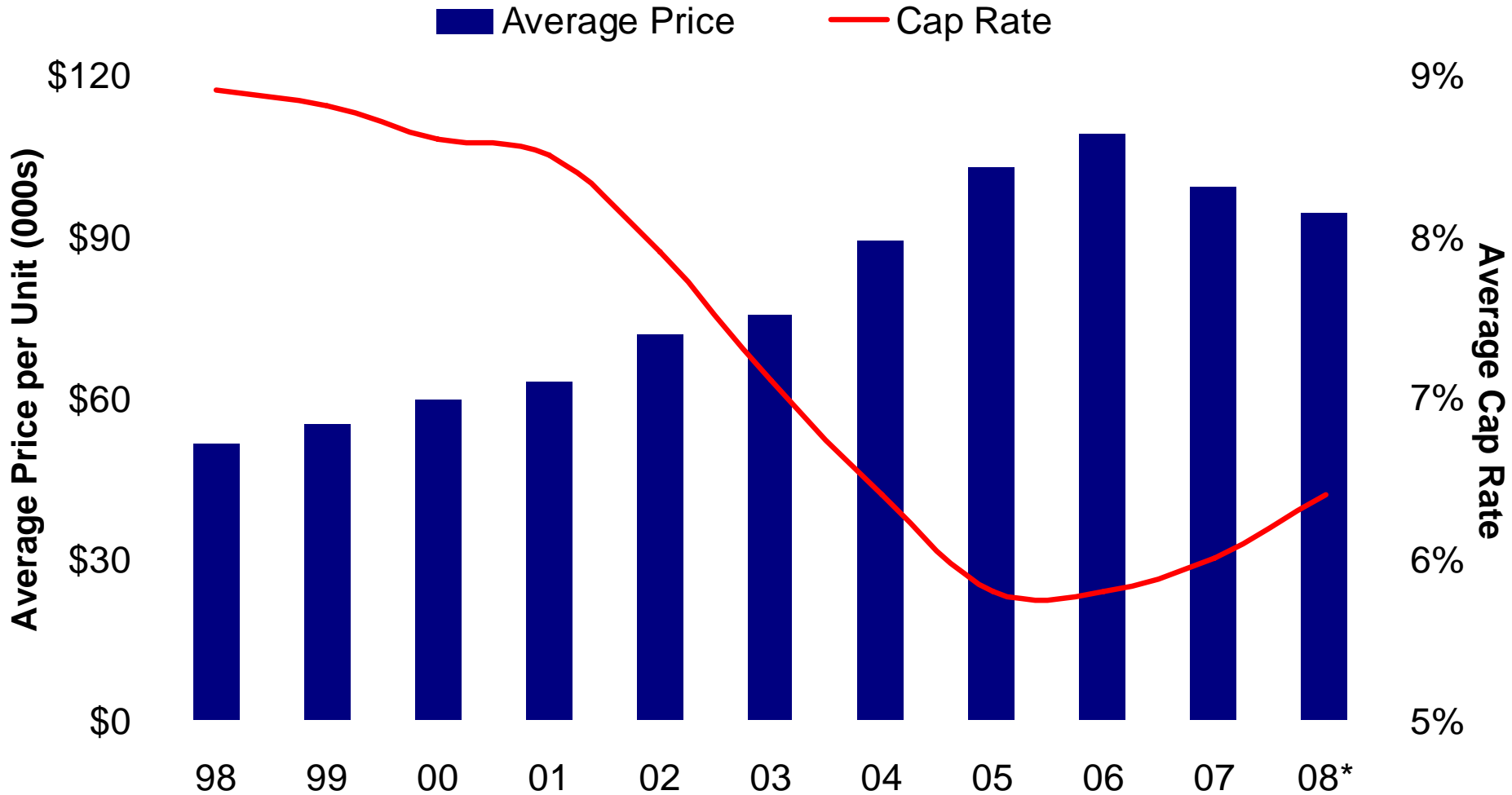
* Through October

Excludes Archstone Privatization

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

Apartment Investment Trends

Pricing and Cap Rates

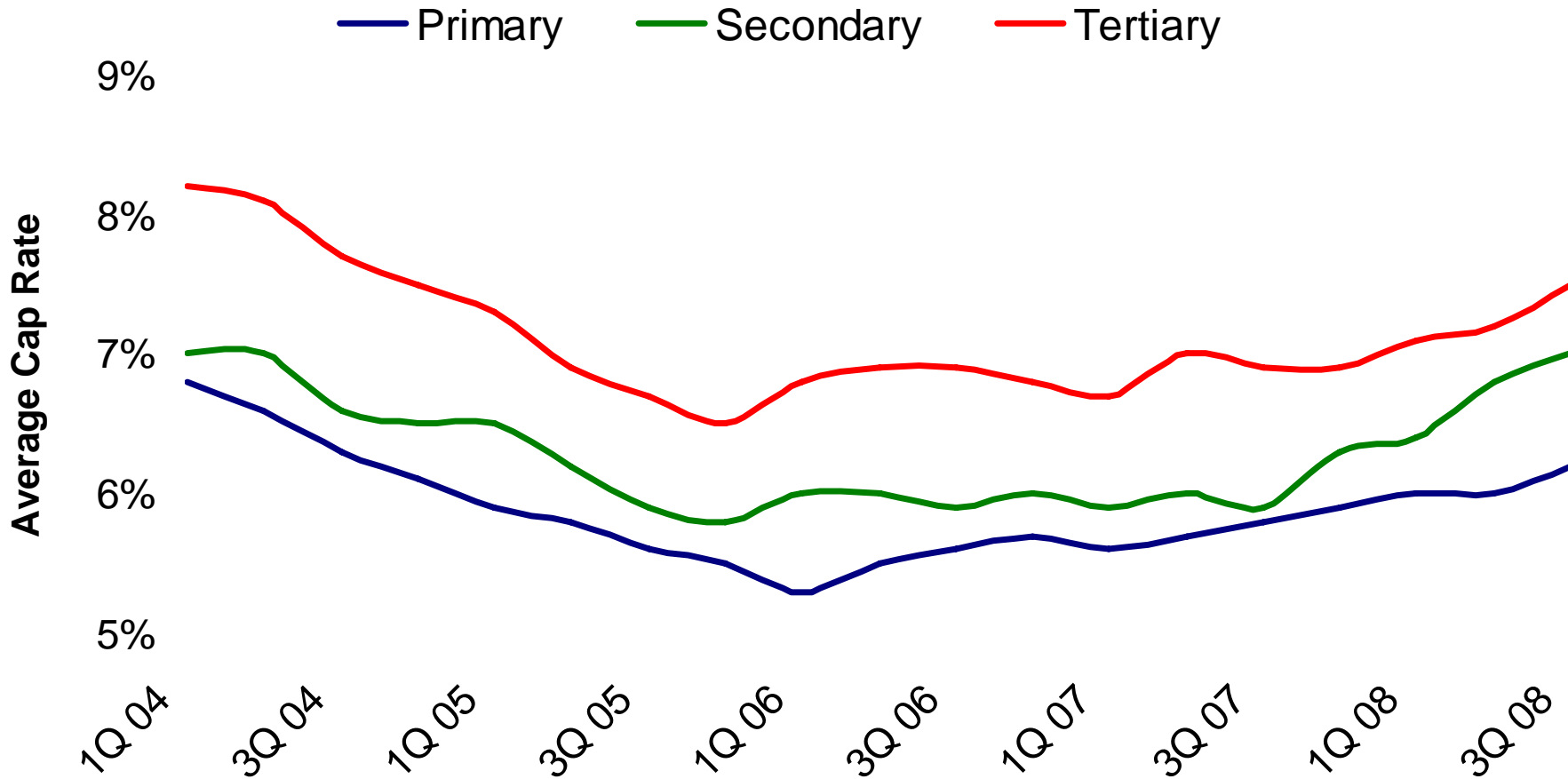


* Year to Date Through October

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



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	.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

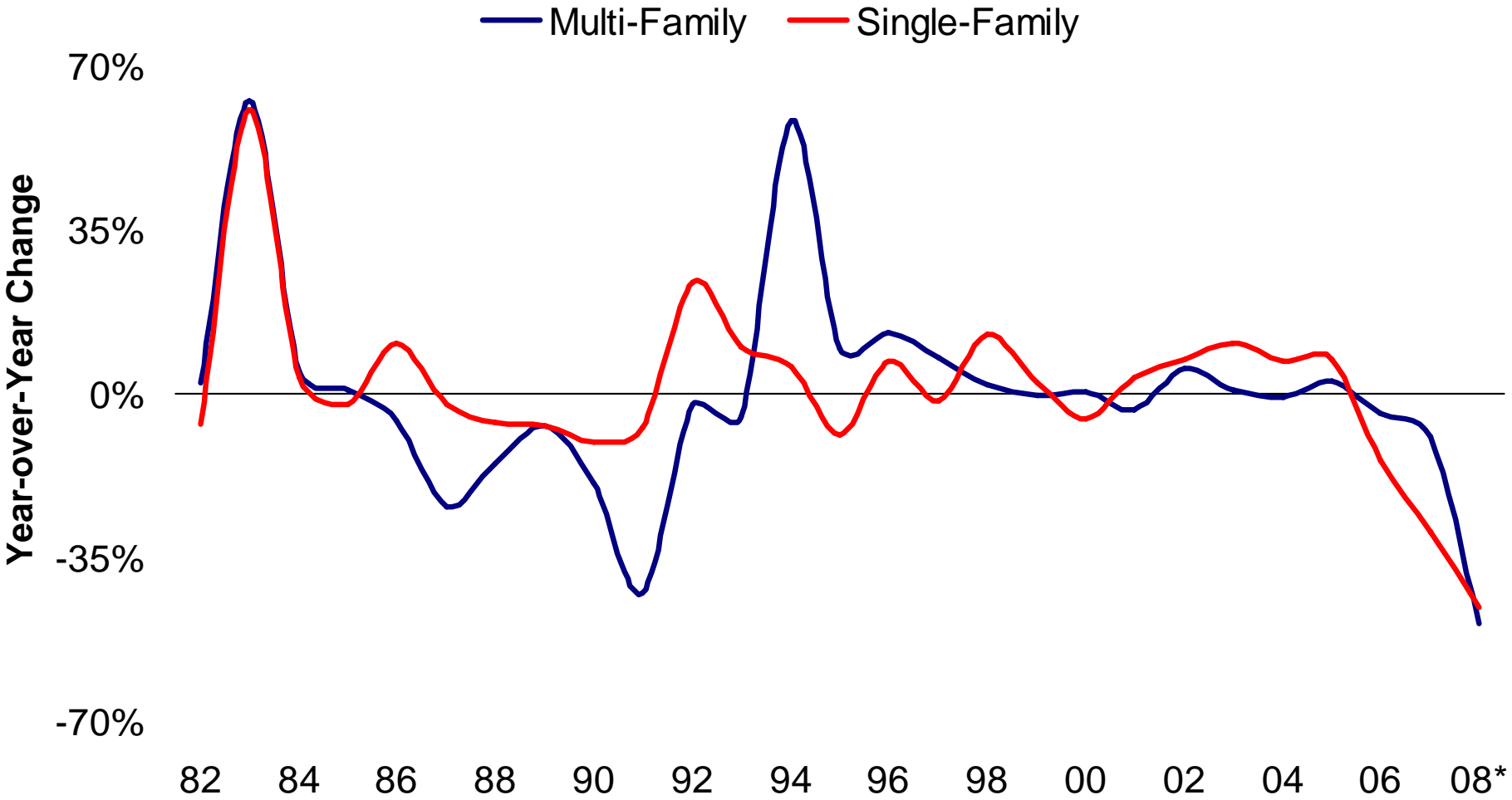
* Current buyer expectation of cap rate delta from 12 months ago required to clear the market

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

Construction Starts Declining



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

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 flattens 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**



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