



U.S Economic, Capital Markets and Apartment Market

Overview and Outlook – *Special Client Web Cast*
April 21, 2009

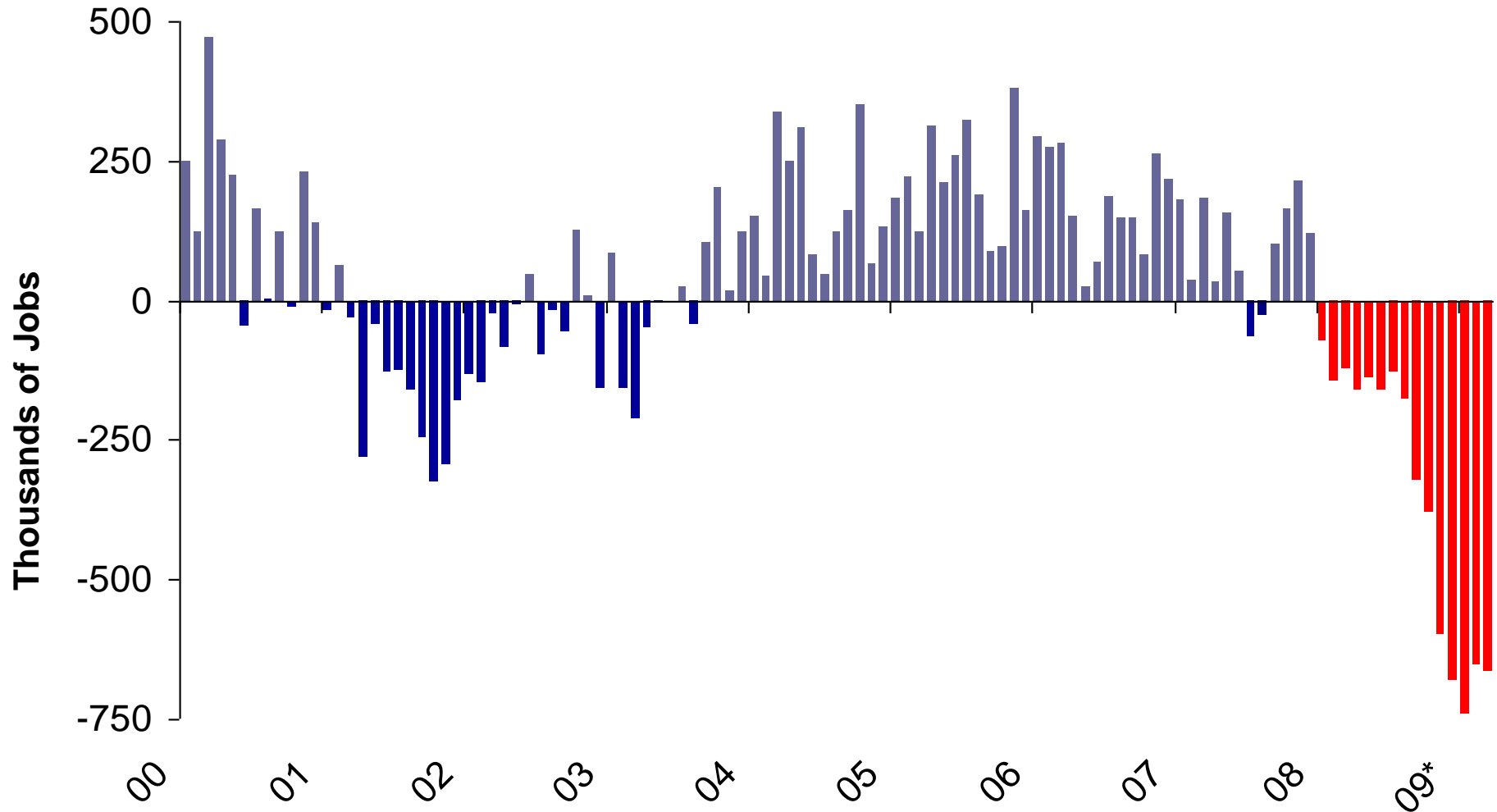
Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

***ECONOMIC and APARTMENT MARKET
FUNDAMENTALS***

OVERVIEW and OUTLOOK

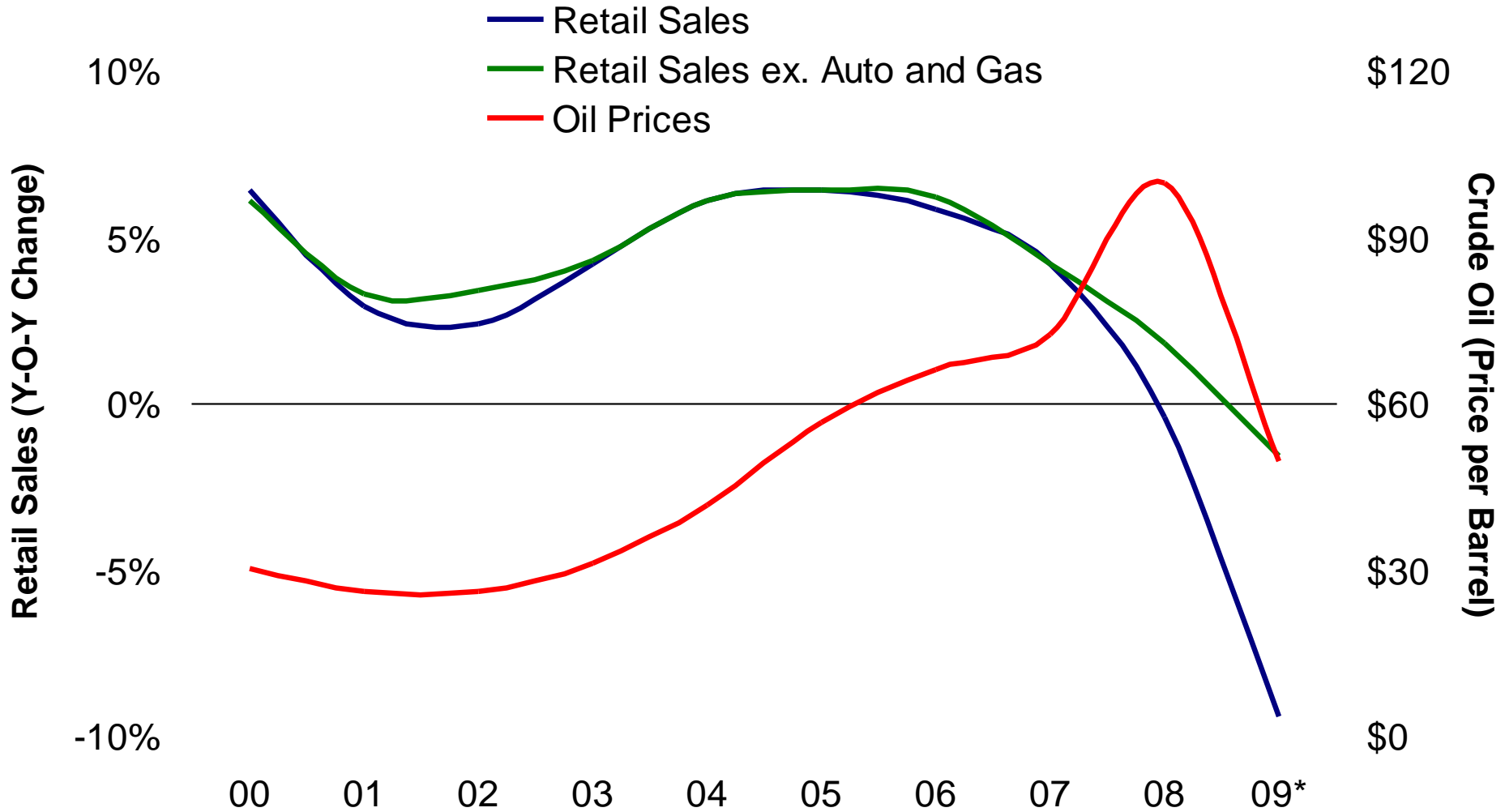
U.S. Employment Losses Have Reached Extreme Levels in Recent Months



*Through March 2009

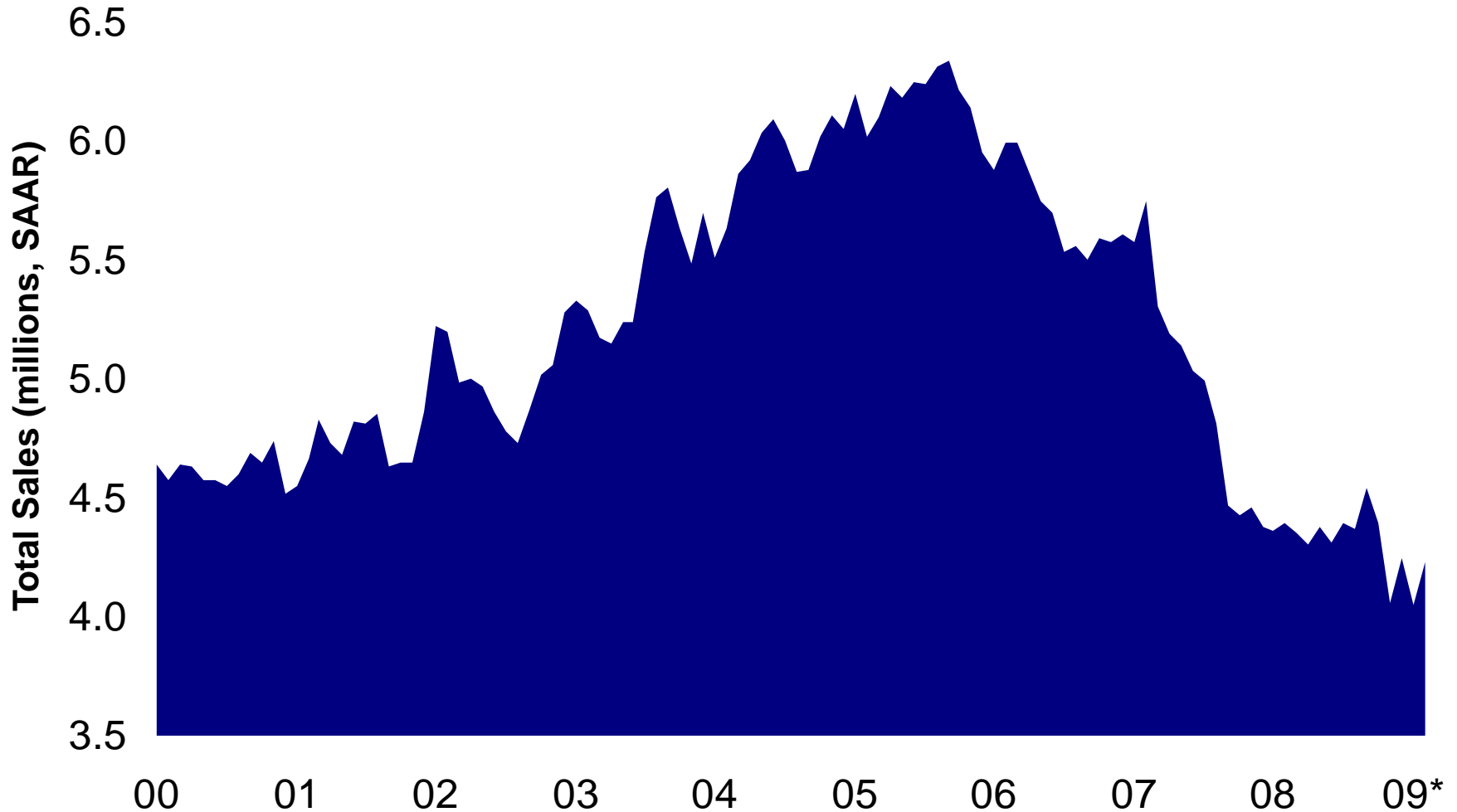
Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics

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

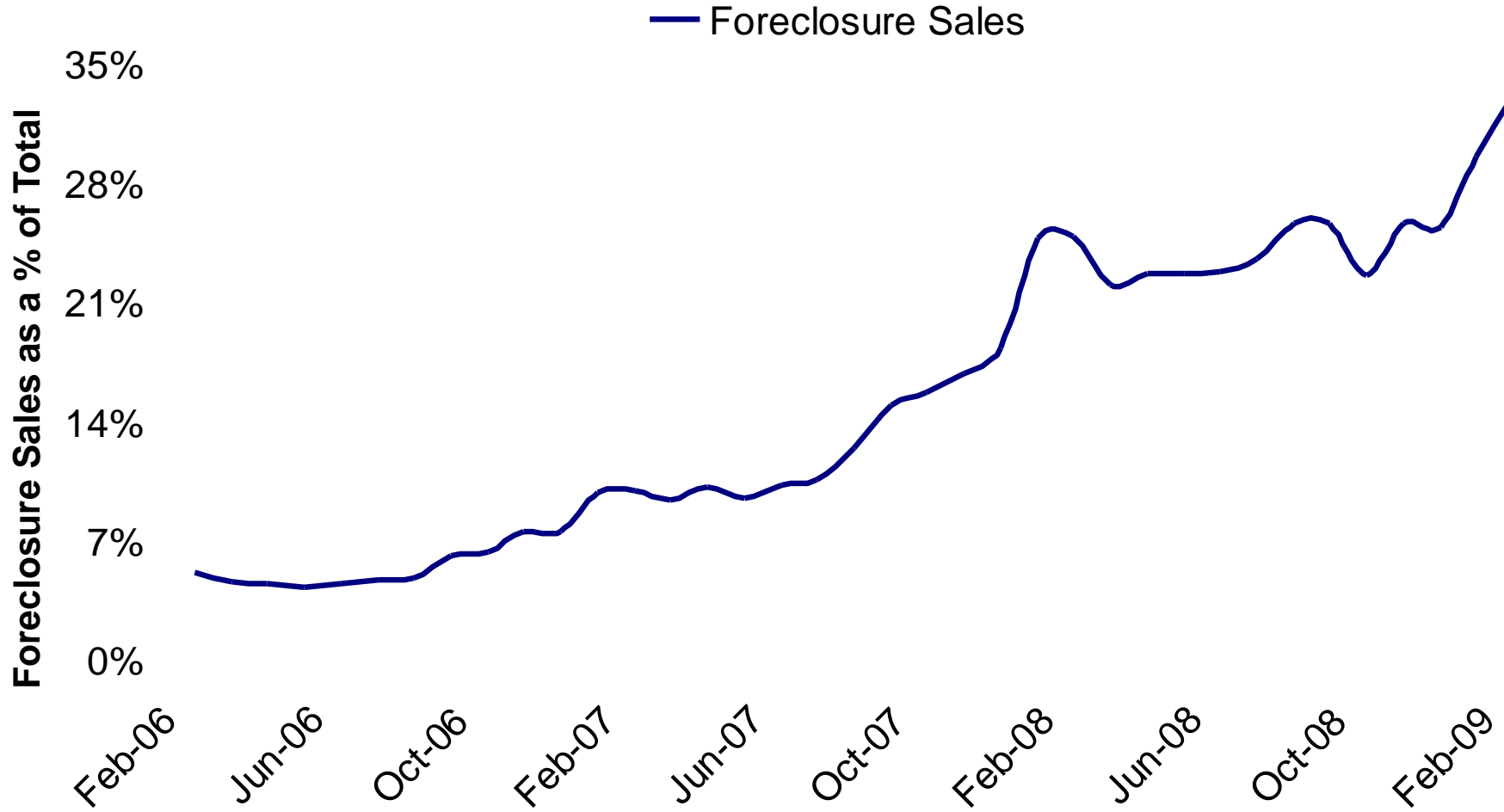
Home Sales Near Bottom – Price Corrections Still a Major Issue



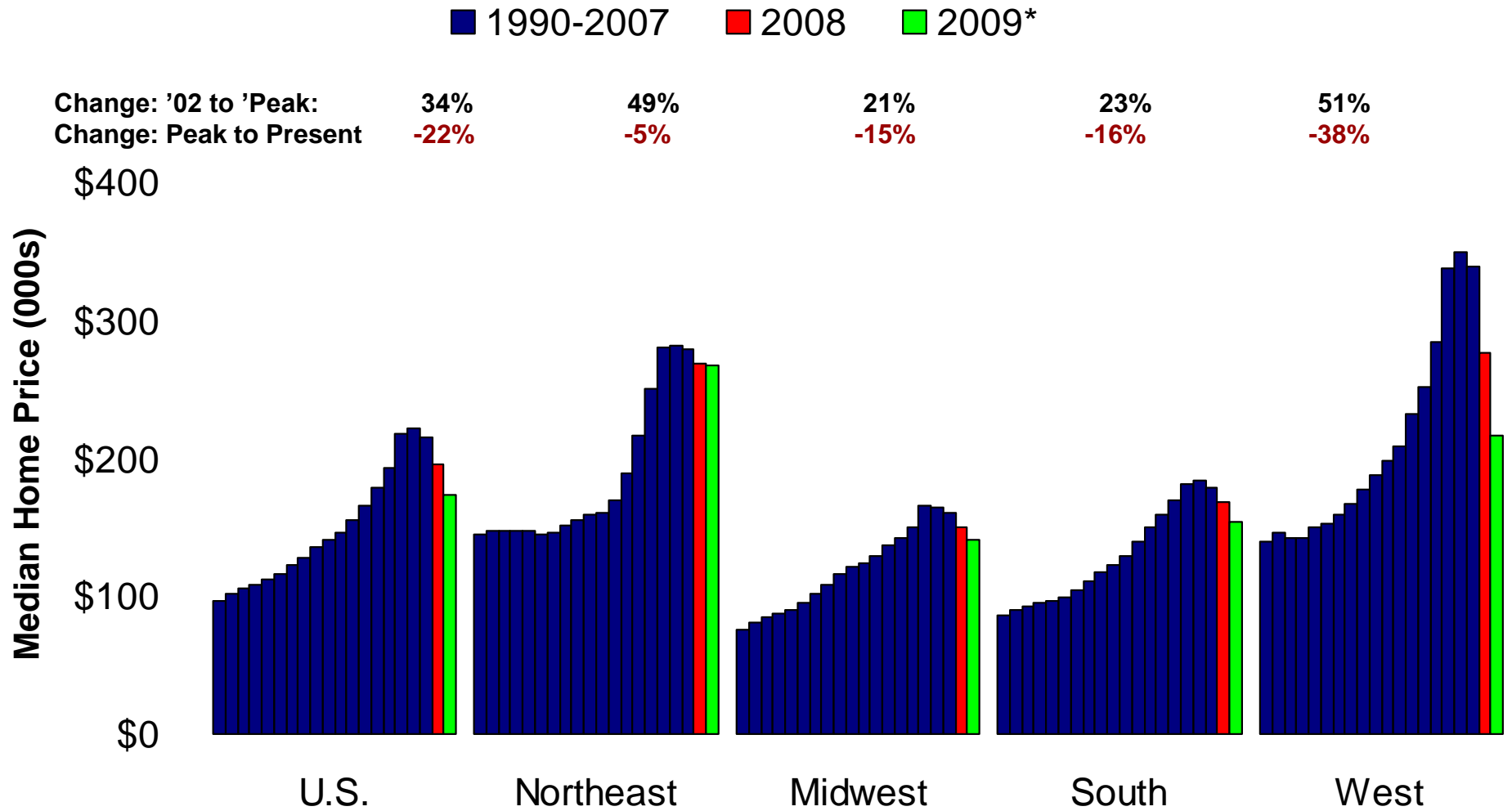
* Through February

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

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

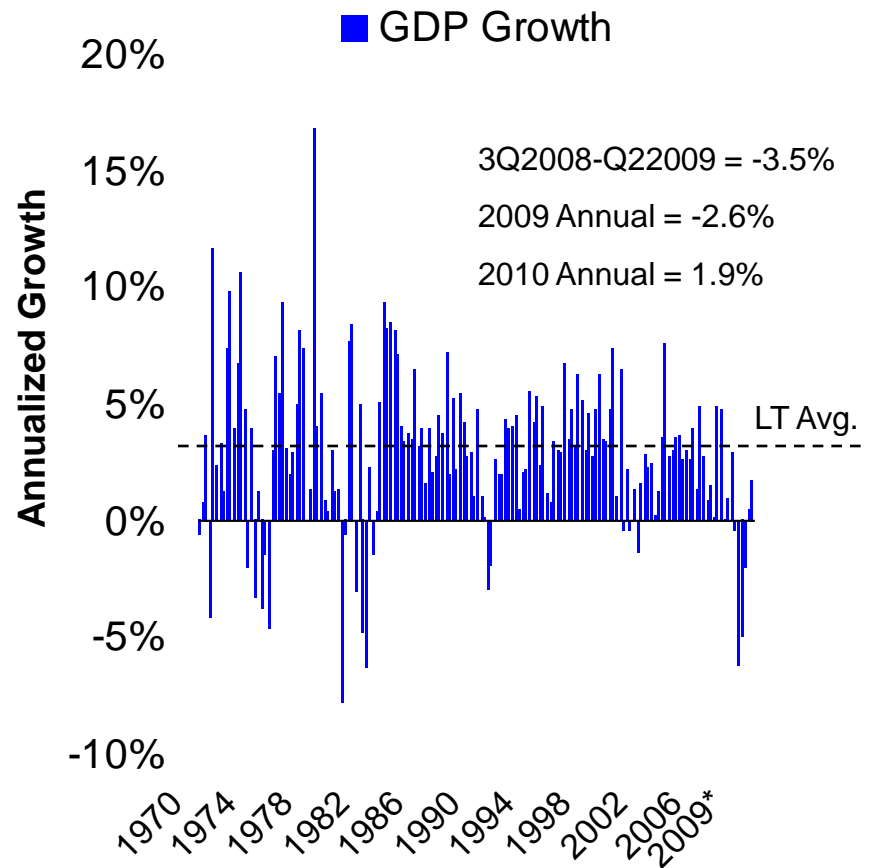
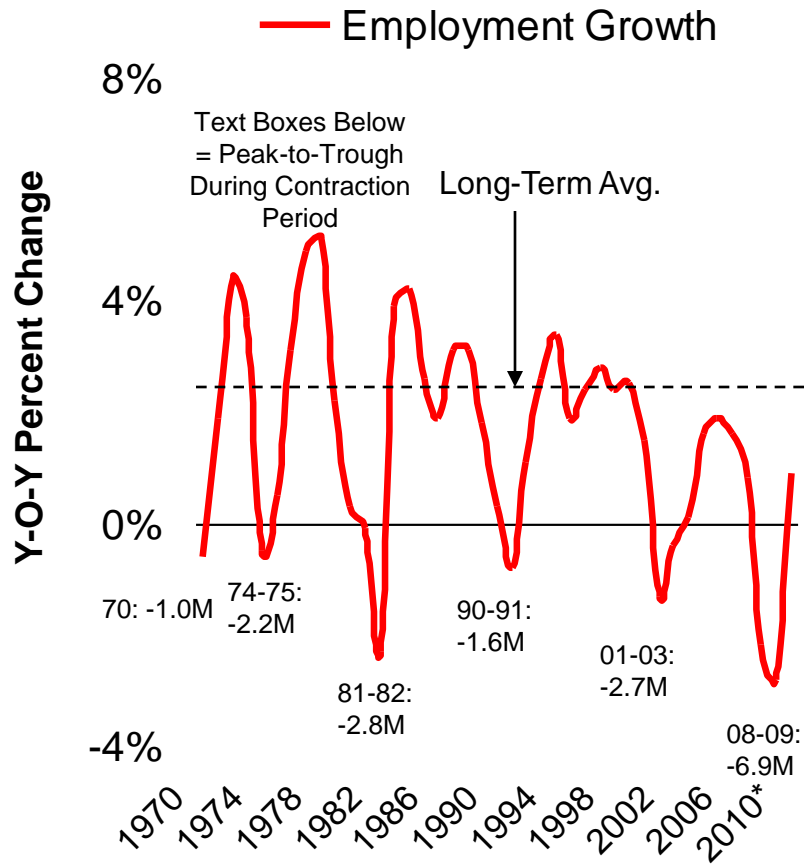
Y-O-Y March 2009 Employment Ranking

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%

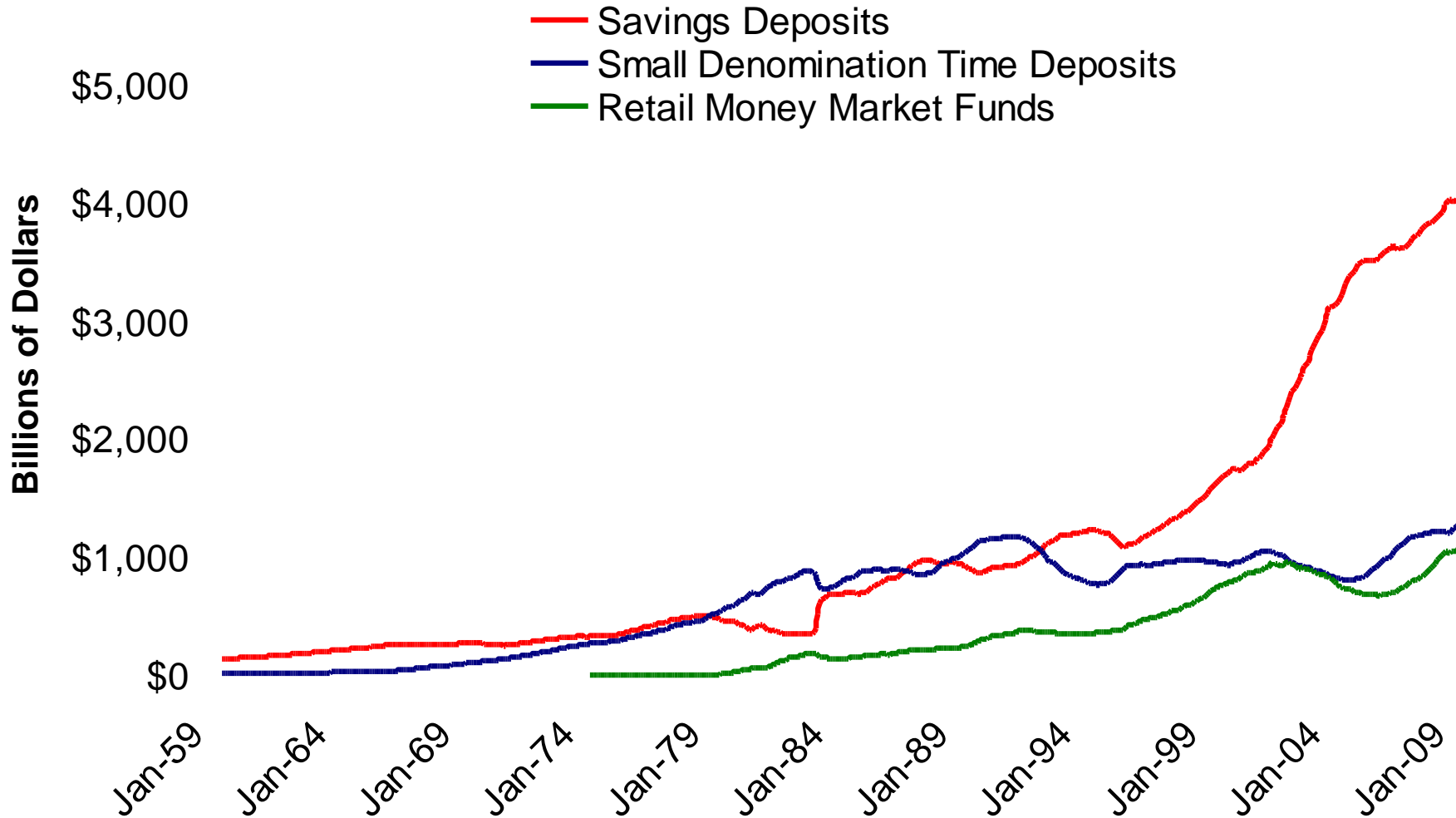
Economic Weakness Expected Through Q3-2009 Risk Levels Remain Elevated



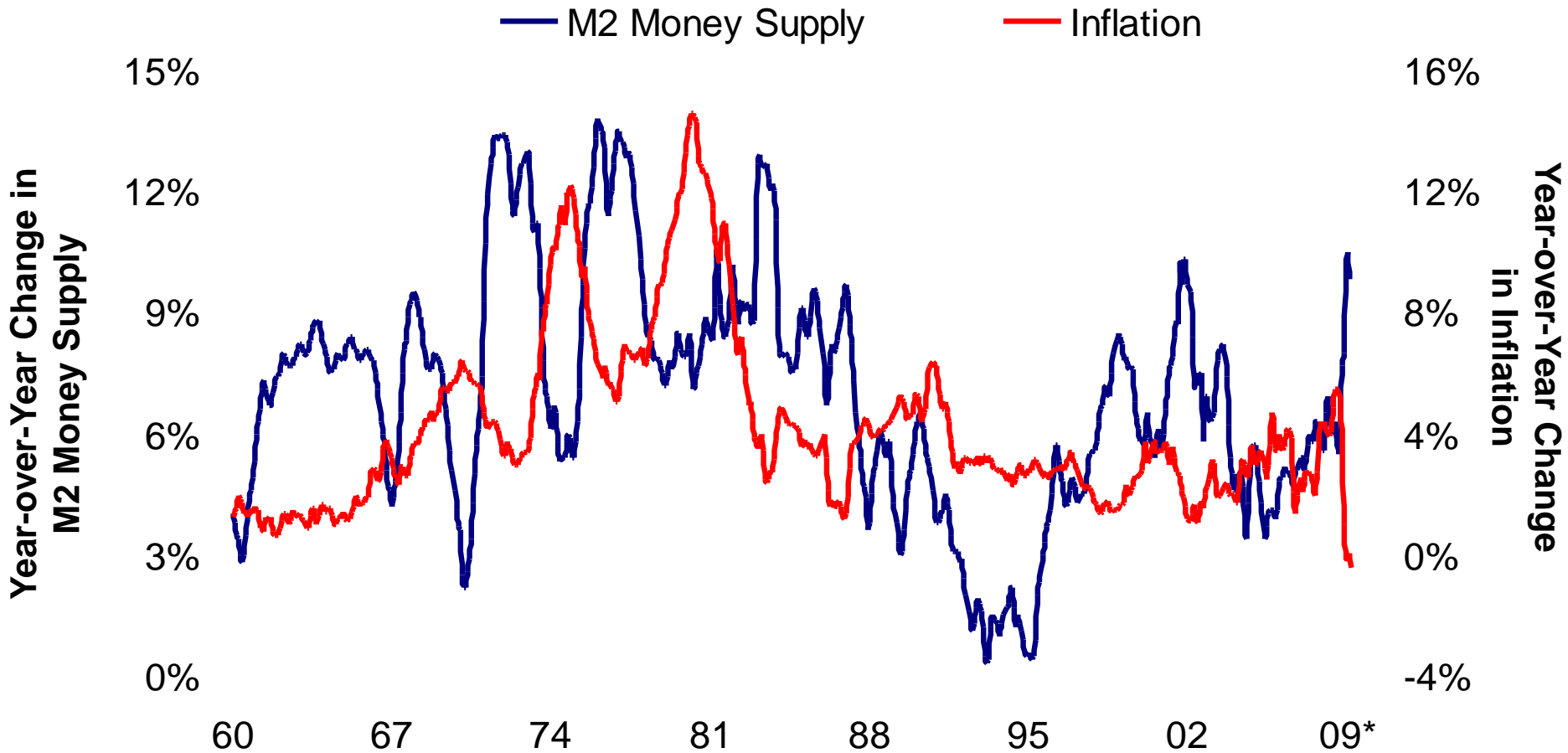
*Forecast Assumes No Additional Major Shocks

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

Total Saving Deposits Have Grown Significantly



M2 Money Supply vs. Inflation

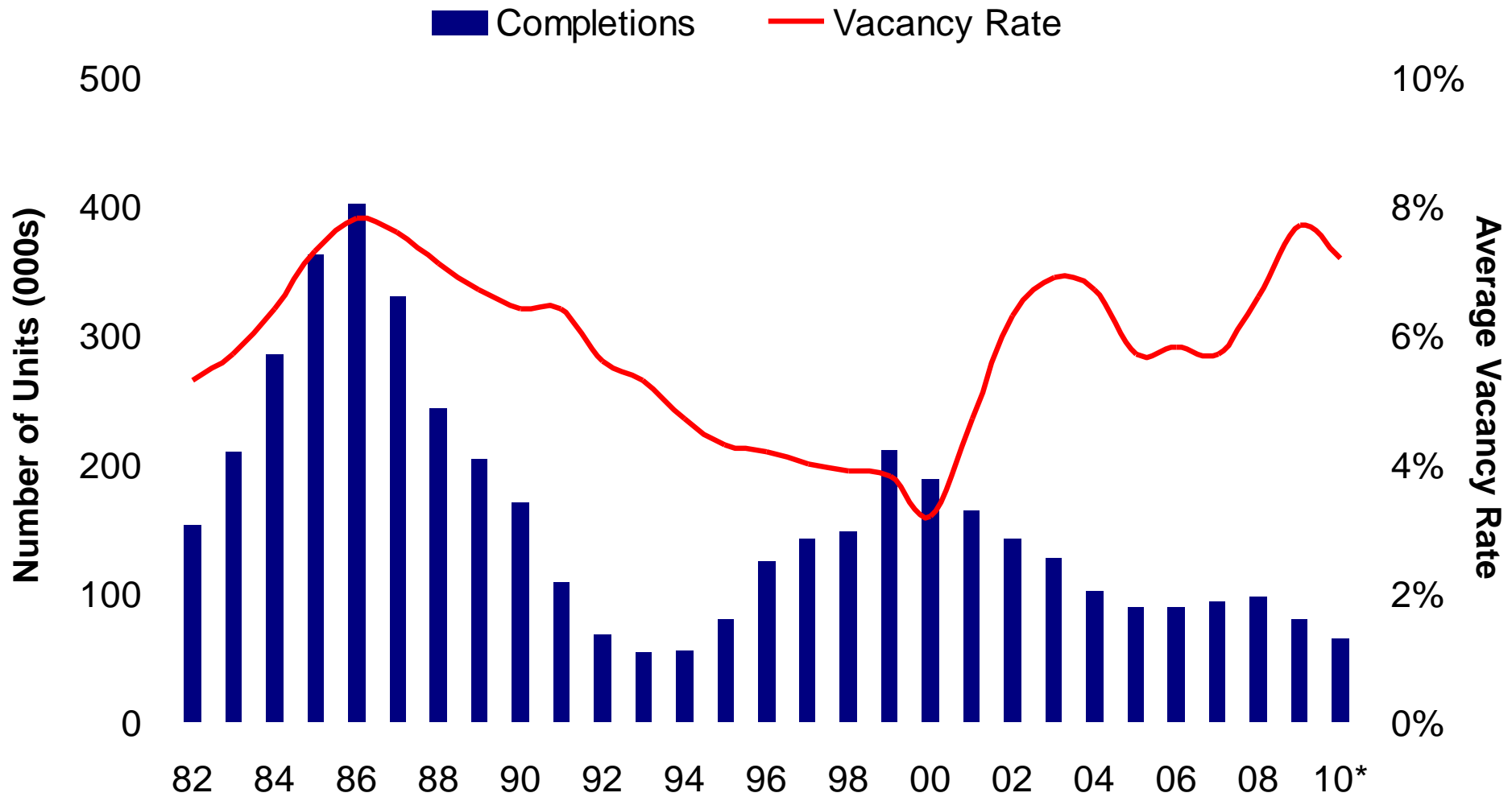


* Inflation through March, Money Supply through February

Adjusts for changes in reserve requirements

Sources: Marcus & Millichap Research Services, FRB

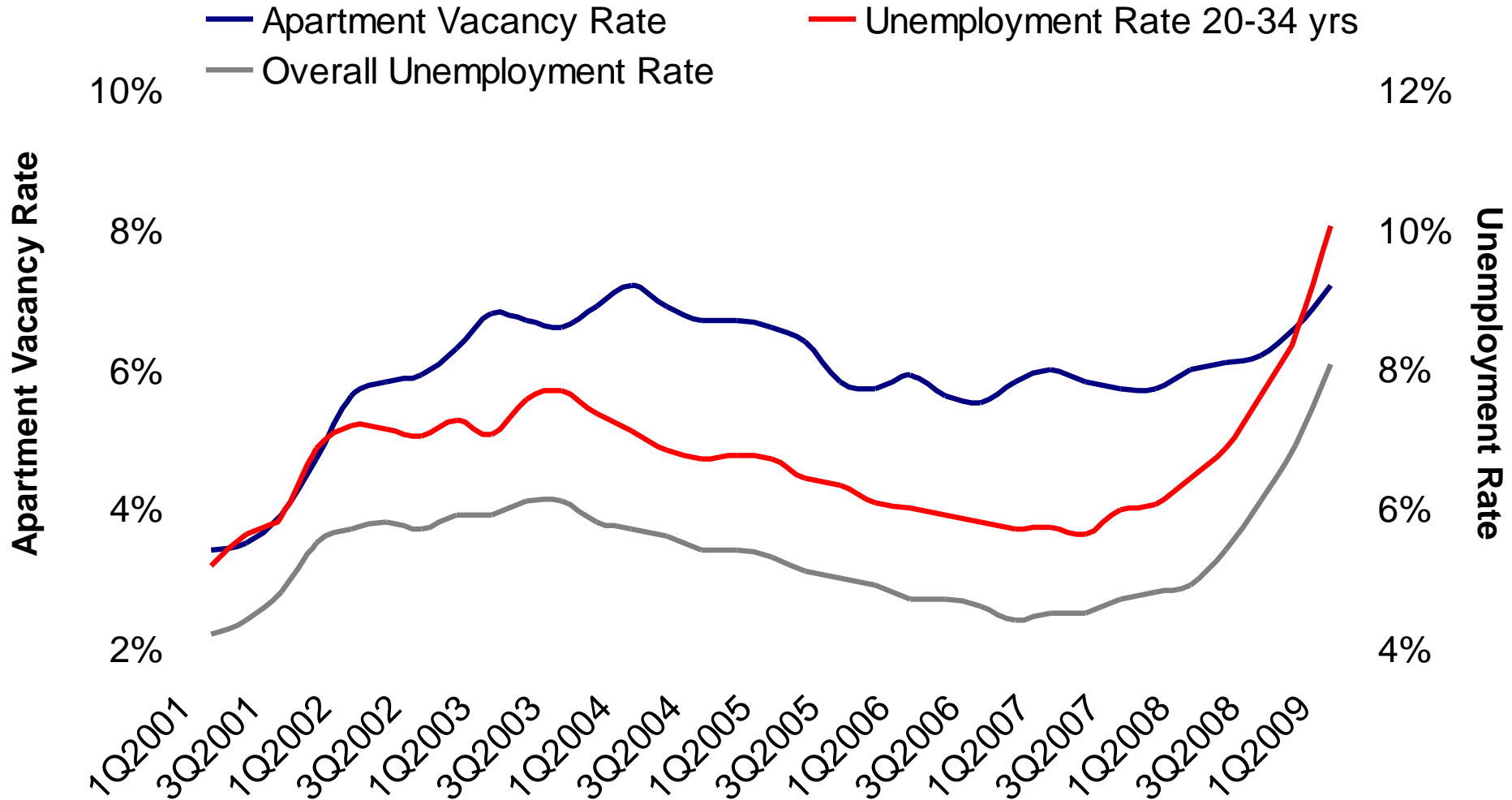
Falling Construction, Modest Employment Recovery Should Begin to Reverse Vacancy Trend in 2010



* Forecast

Sources: Marcus & Millichap Research Services, Reis

Job Growth is Critical to Renter Household Formation and Apartment Occupancies



***CAPITAL MARKETS
OVERVIEW and OUTLOOK***

Capital Markets Developments Since February 2009

Positive Factors:

1. Inter-bank 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. Market-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

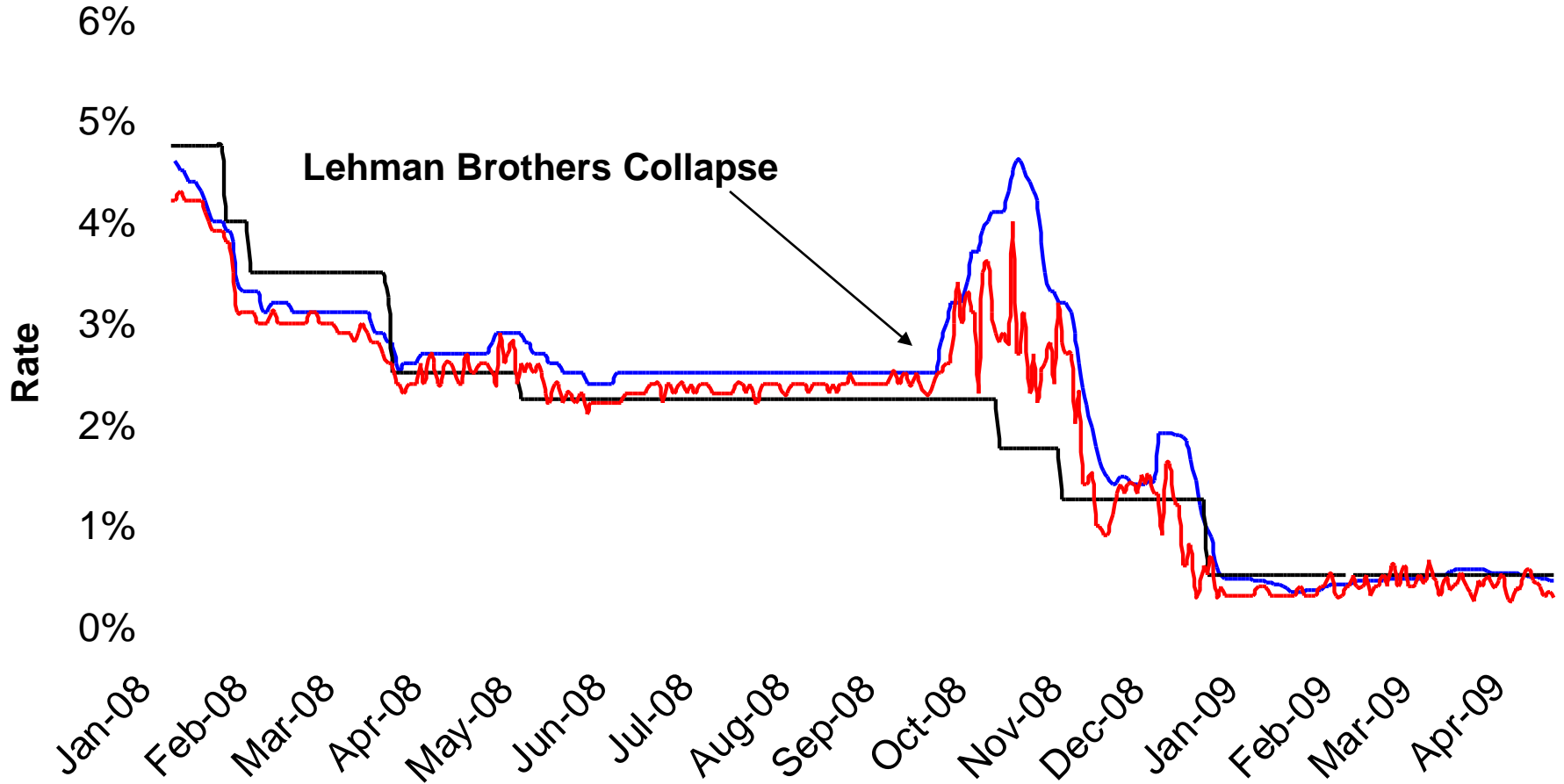
Capital Markets Developments Since February 2009

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

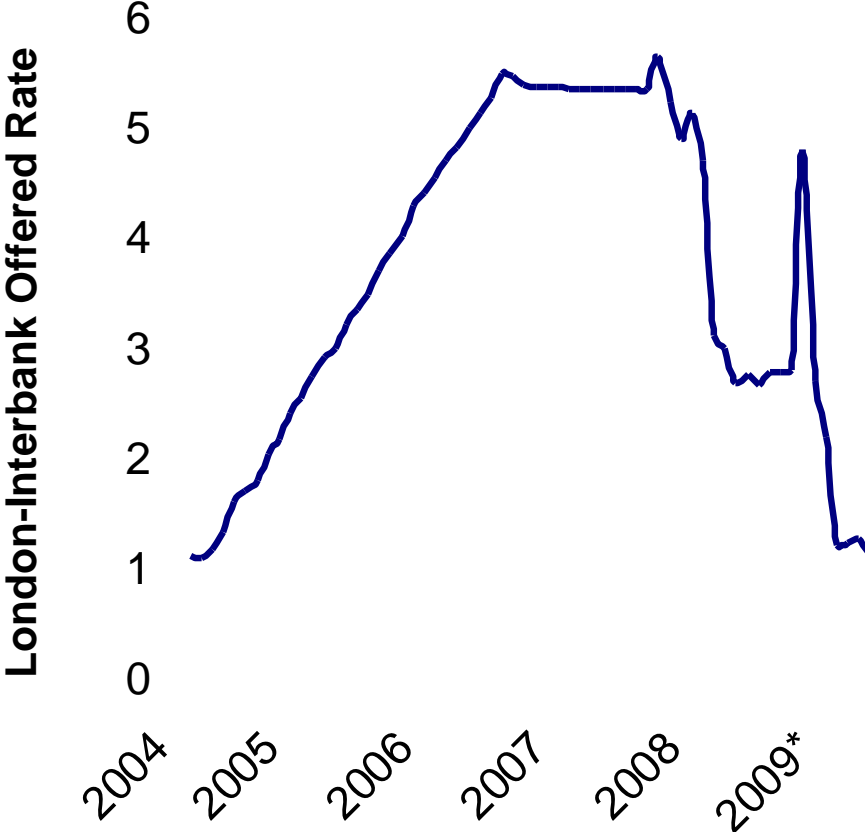
— 30 Day LIBOR — Federal Discount Rate — 30 Day Commercial Paper



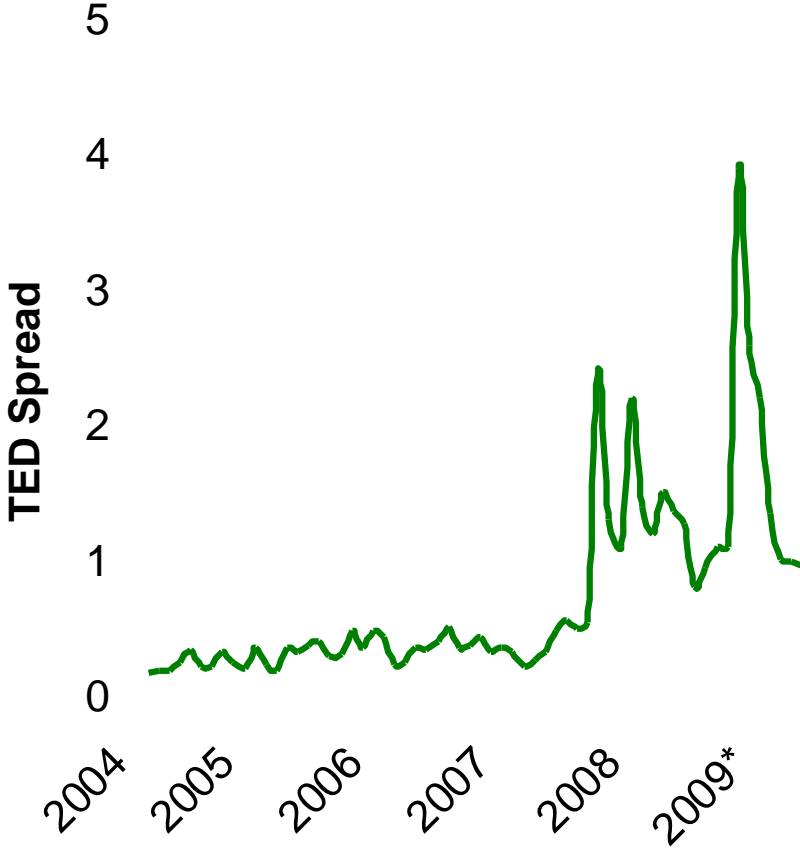
Through April 13, 2009
Sources: Economy.com, Federal Reserve Board

Banking System Liquidity Indicators

90-Day LIBOR



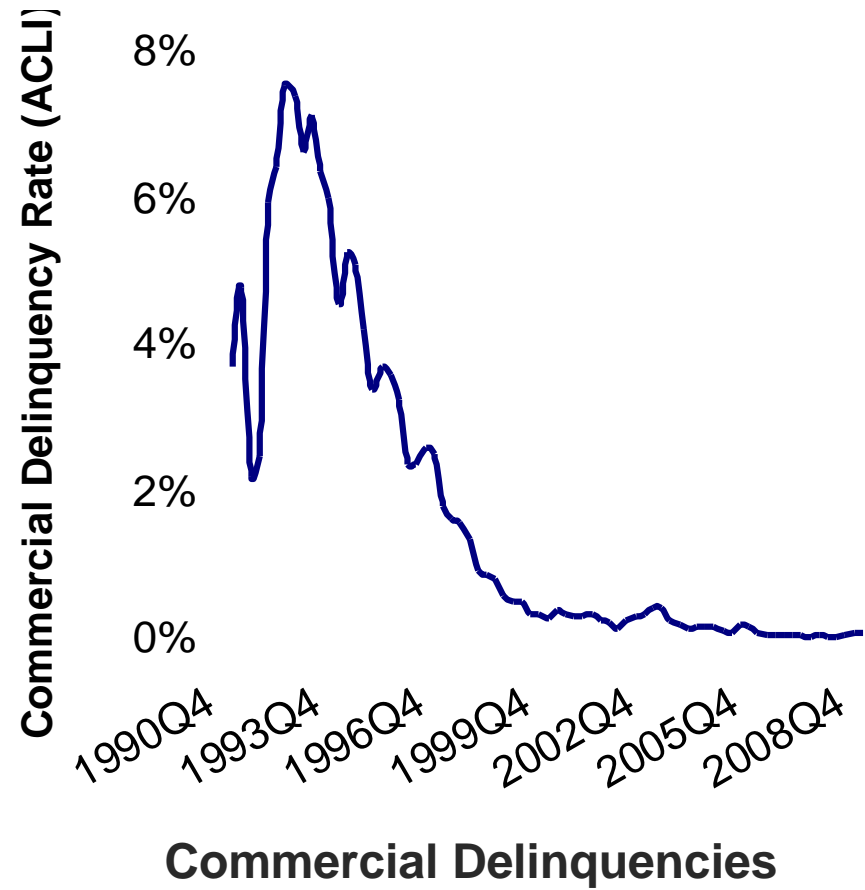
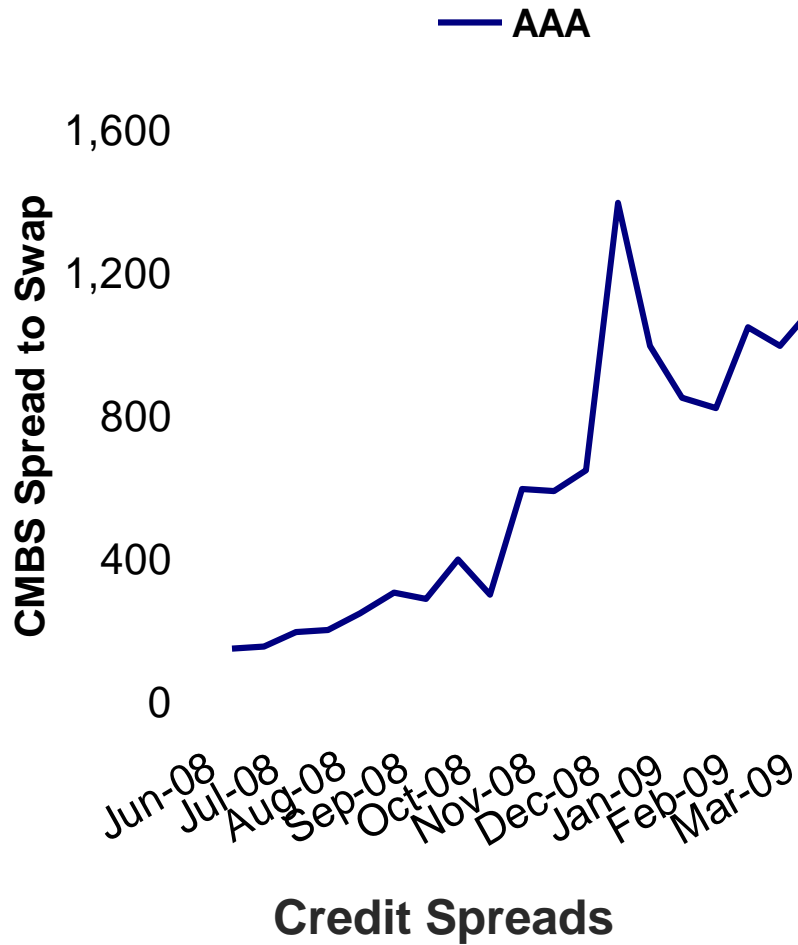
TED Spread



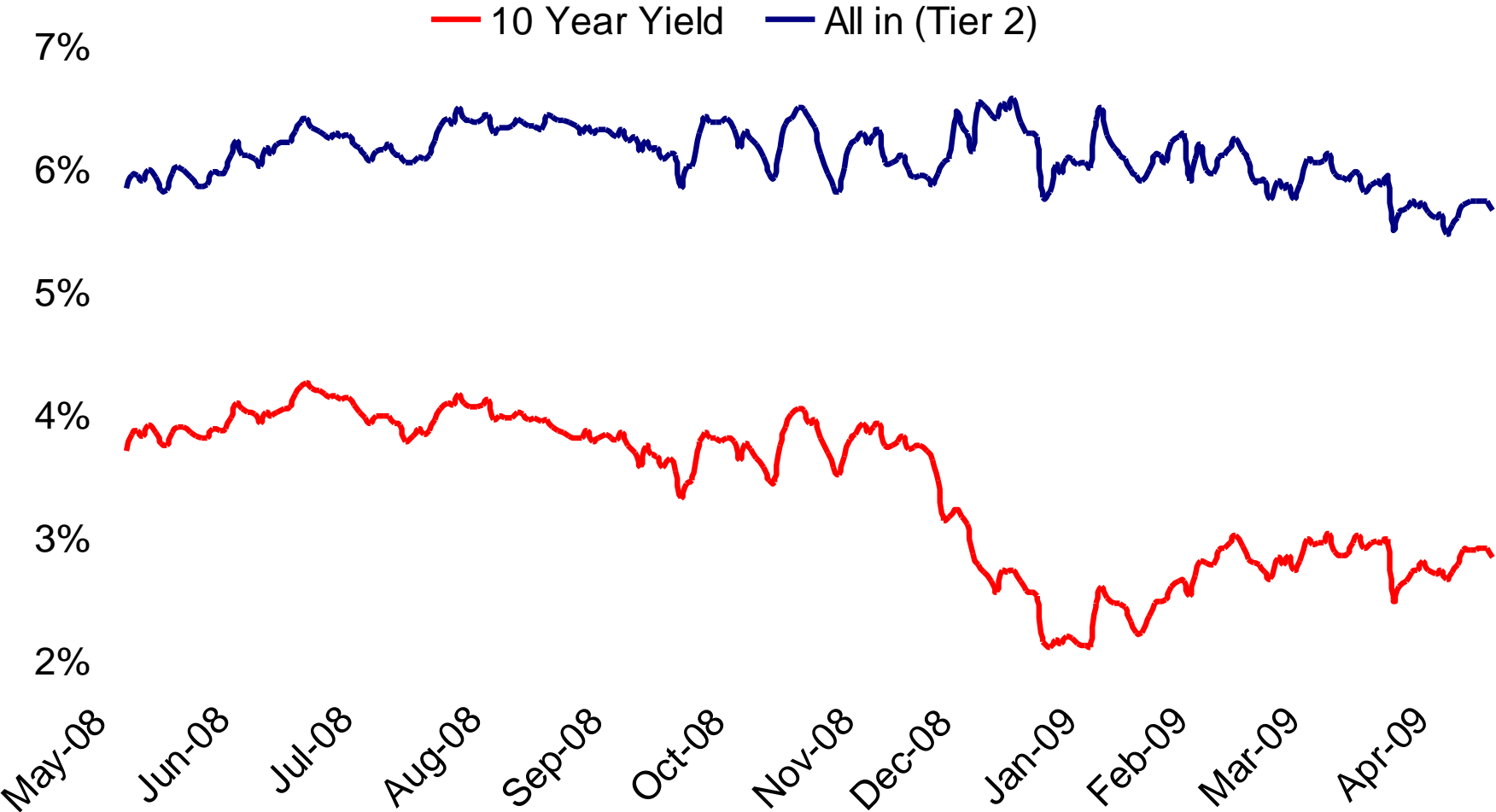
* Through April 10th

Sources: Marcus & Millichap Research Services, Bloomberg, WSJ

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

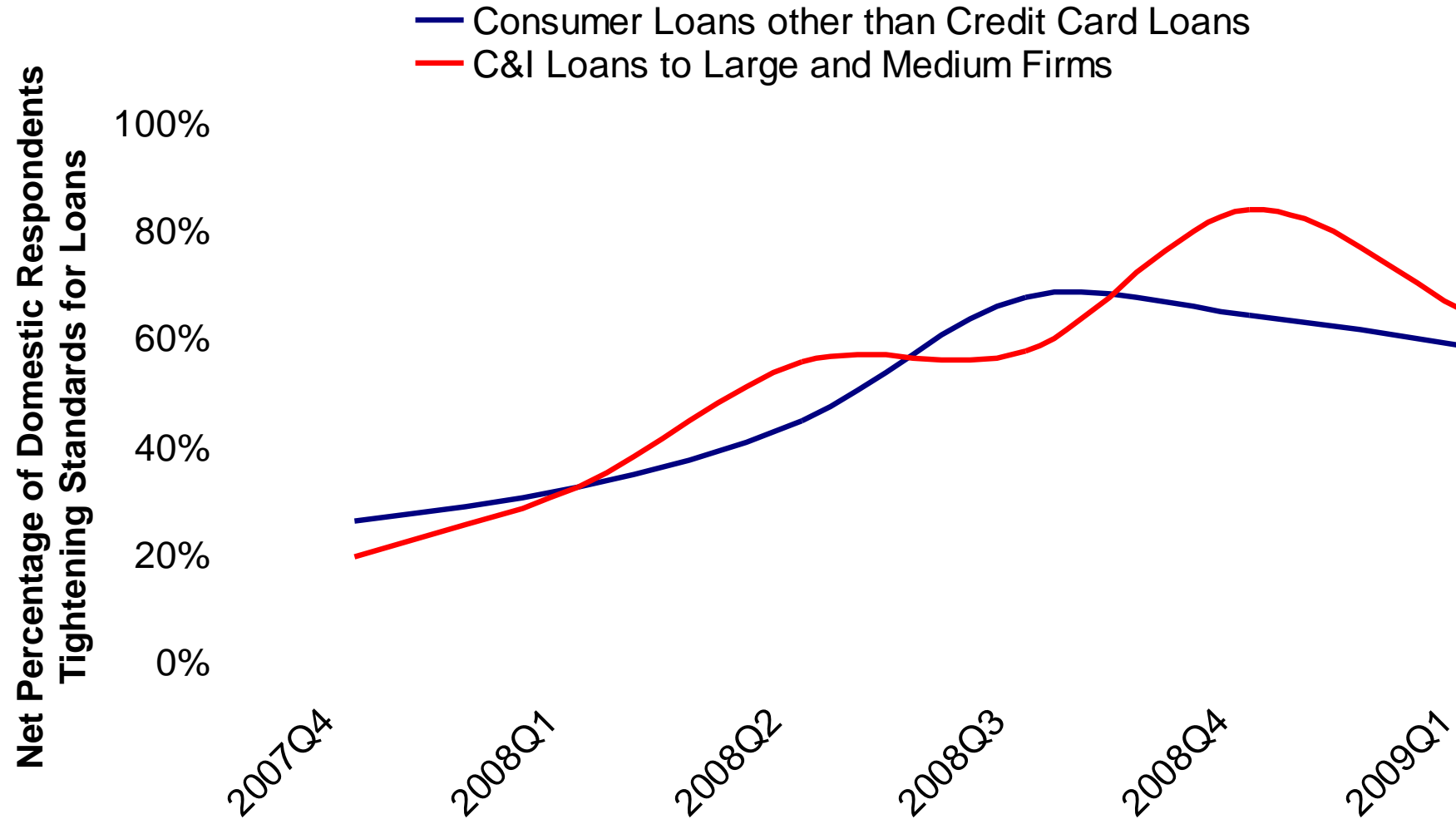


Indicative Fannie Mae Rates

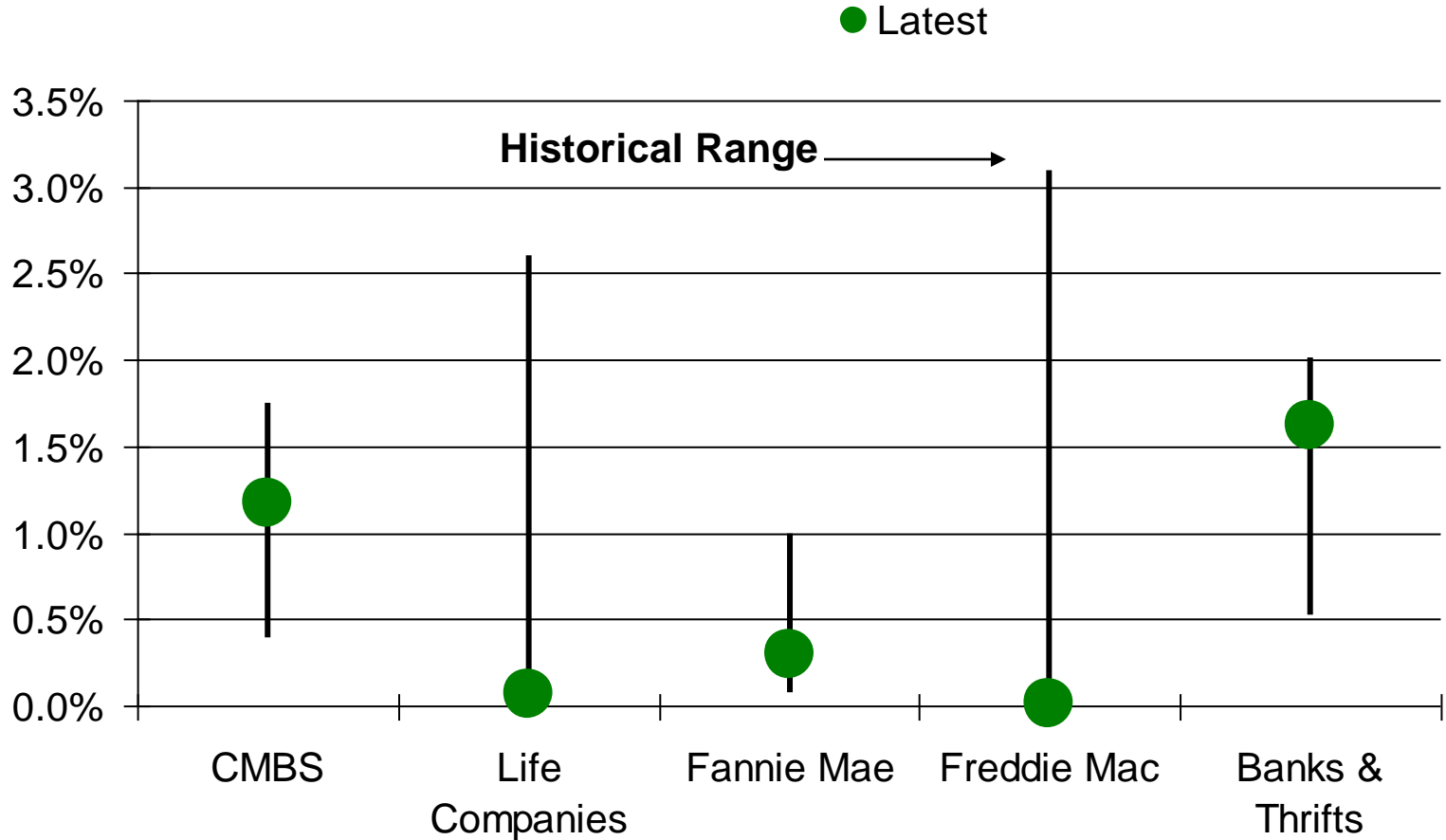


Sources: Marcus & Millichap Research Services, Federal Reserve Board

Credit Standards Remain Elevated



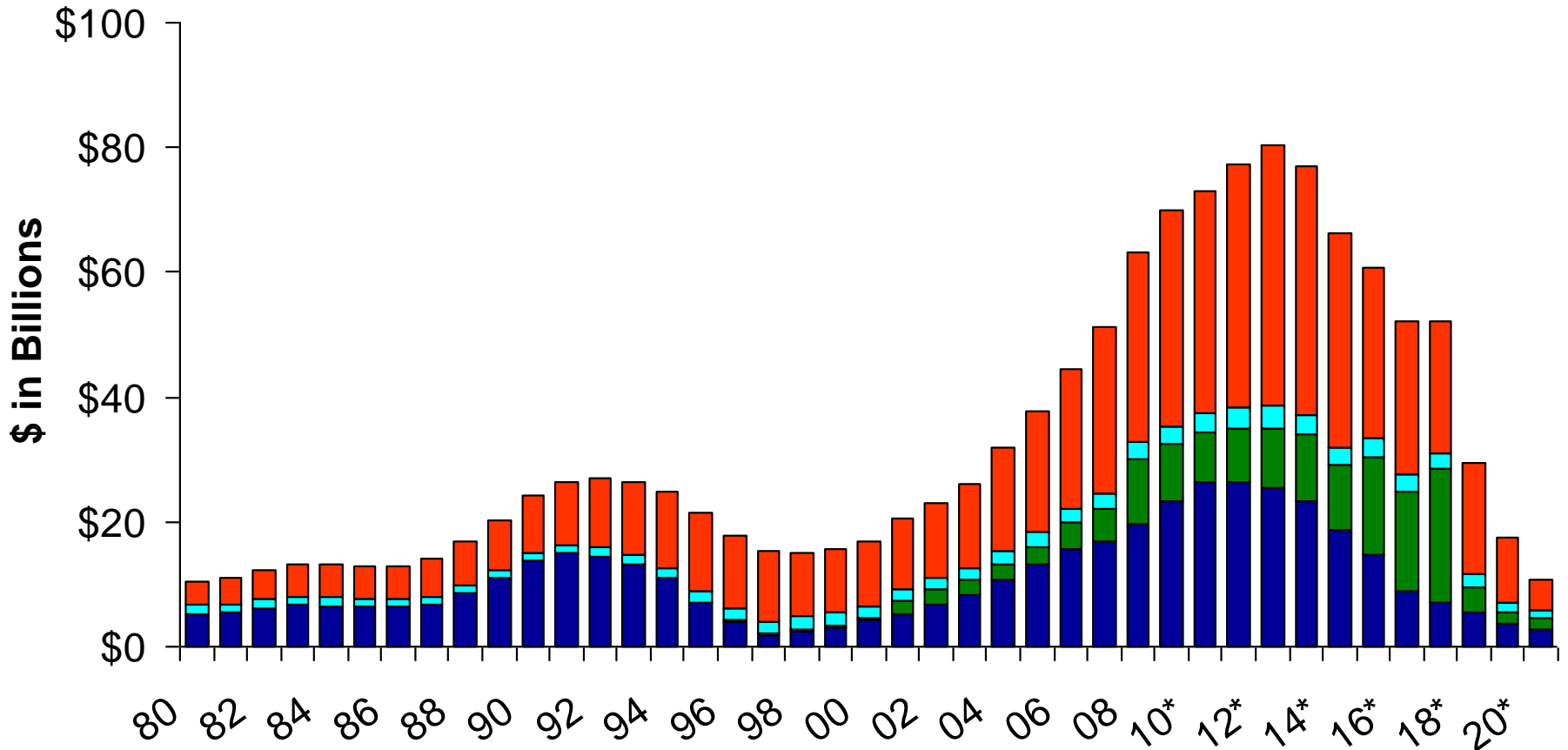
Delinquency Rates



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

Multifamily 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”**

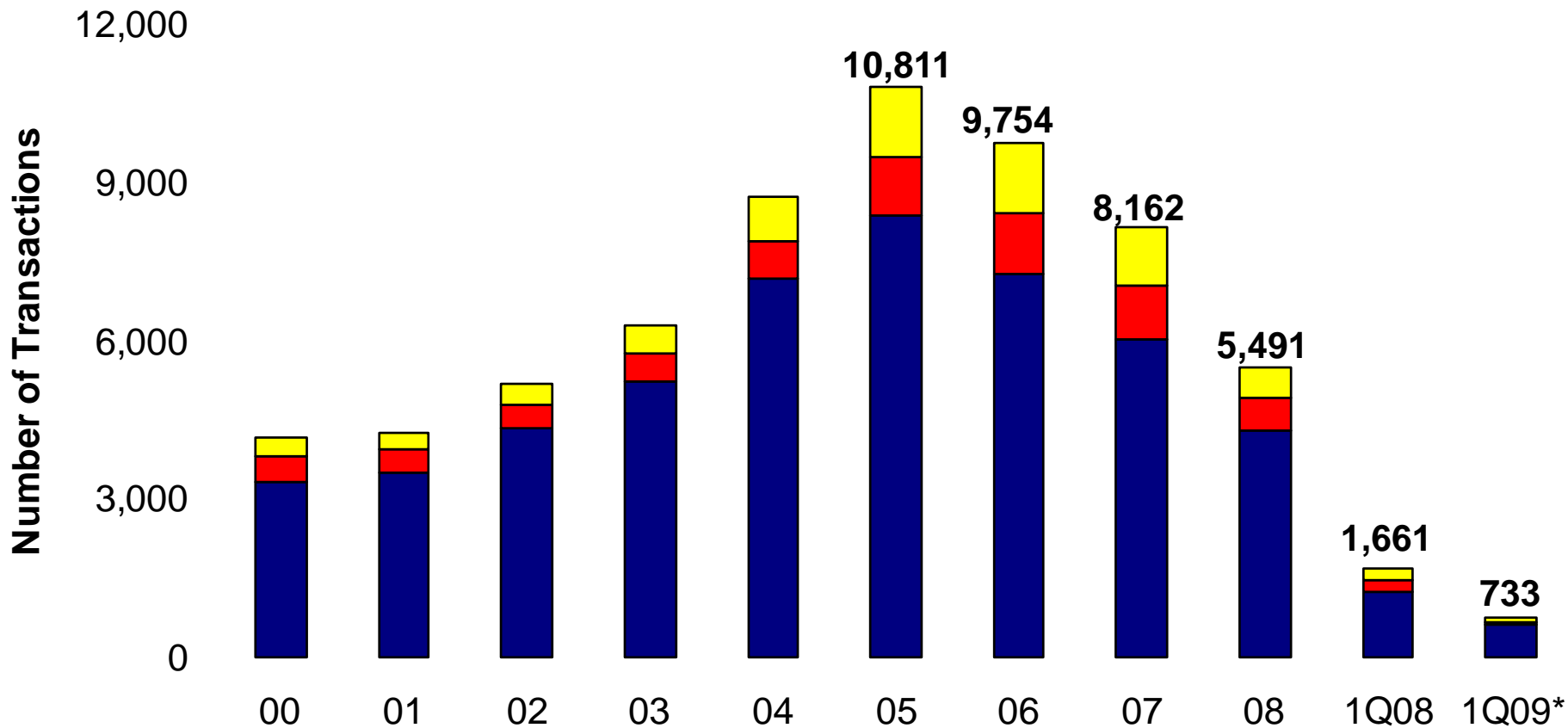
Market Divergence Realities

- **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

■ \$1M - \$9.99M ■ \$10M - \$19.99M ■ \$20M+



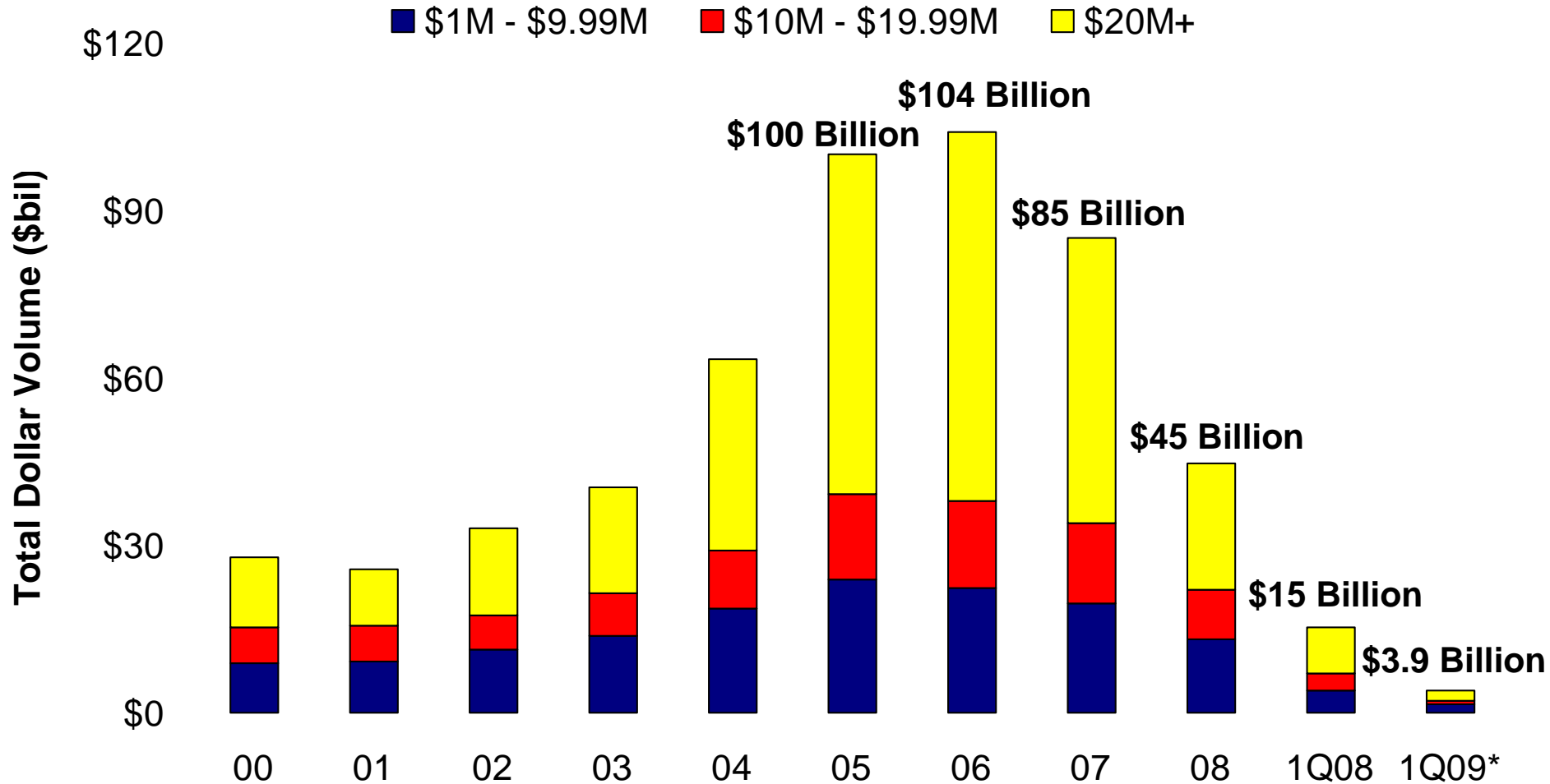
* Estimate

Excludes Archstone Privatization

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

Apartment Investment Trends

Dollar Volume by Price Category



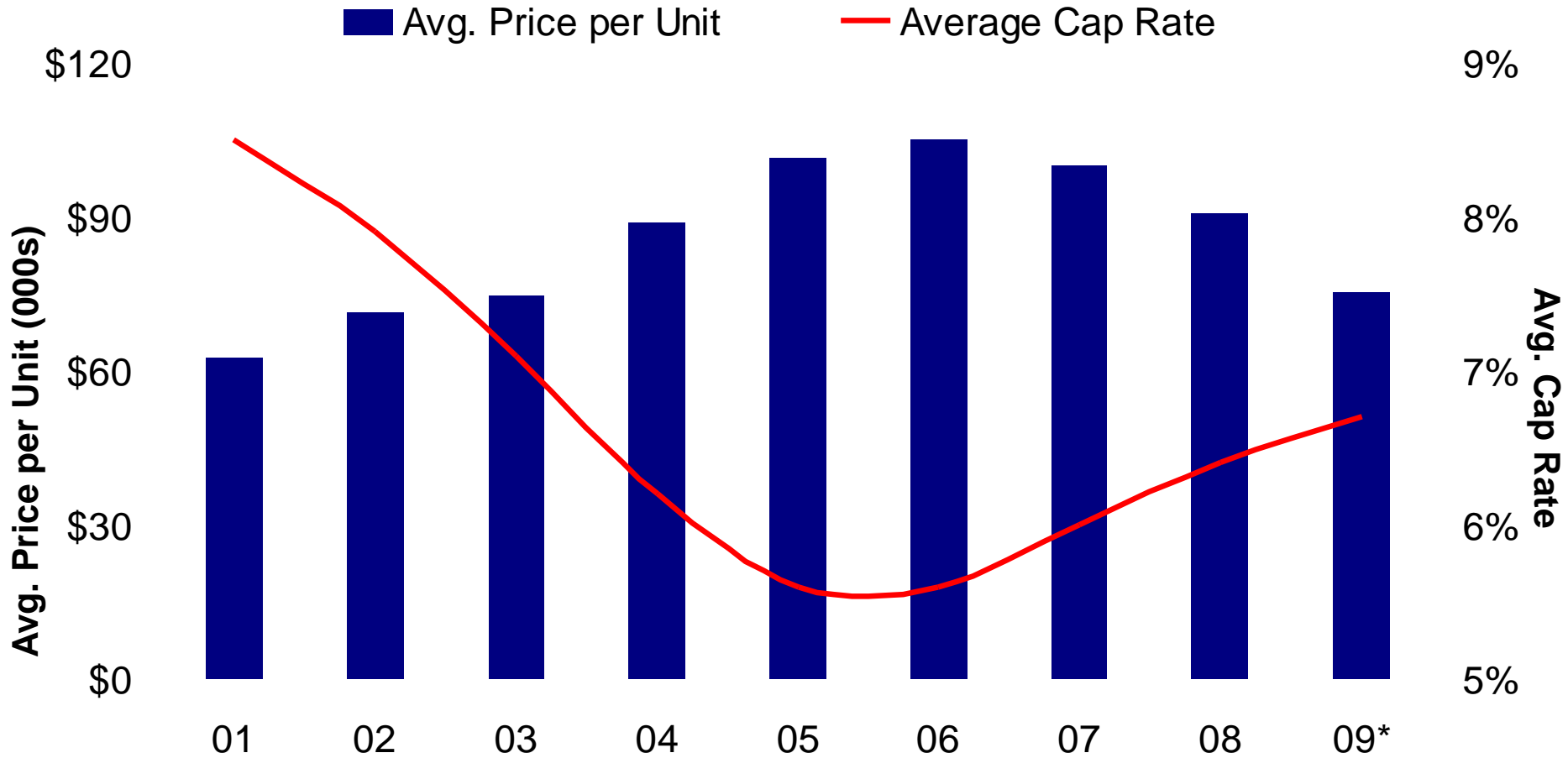
* Estimate

Excludes Archstone Privatization

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

Apartment Sales Trends

Average Price per Unit vs. Average Cap Rate

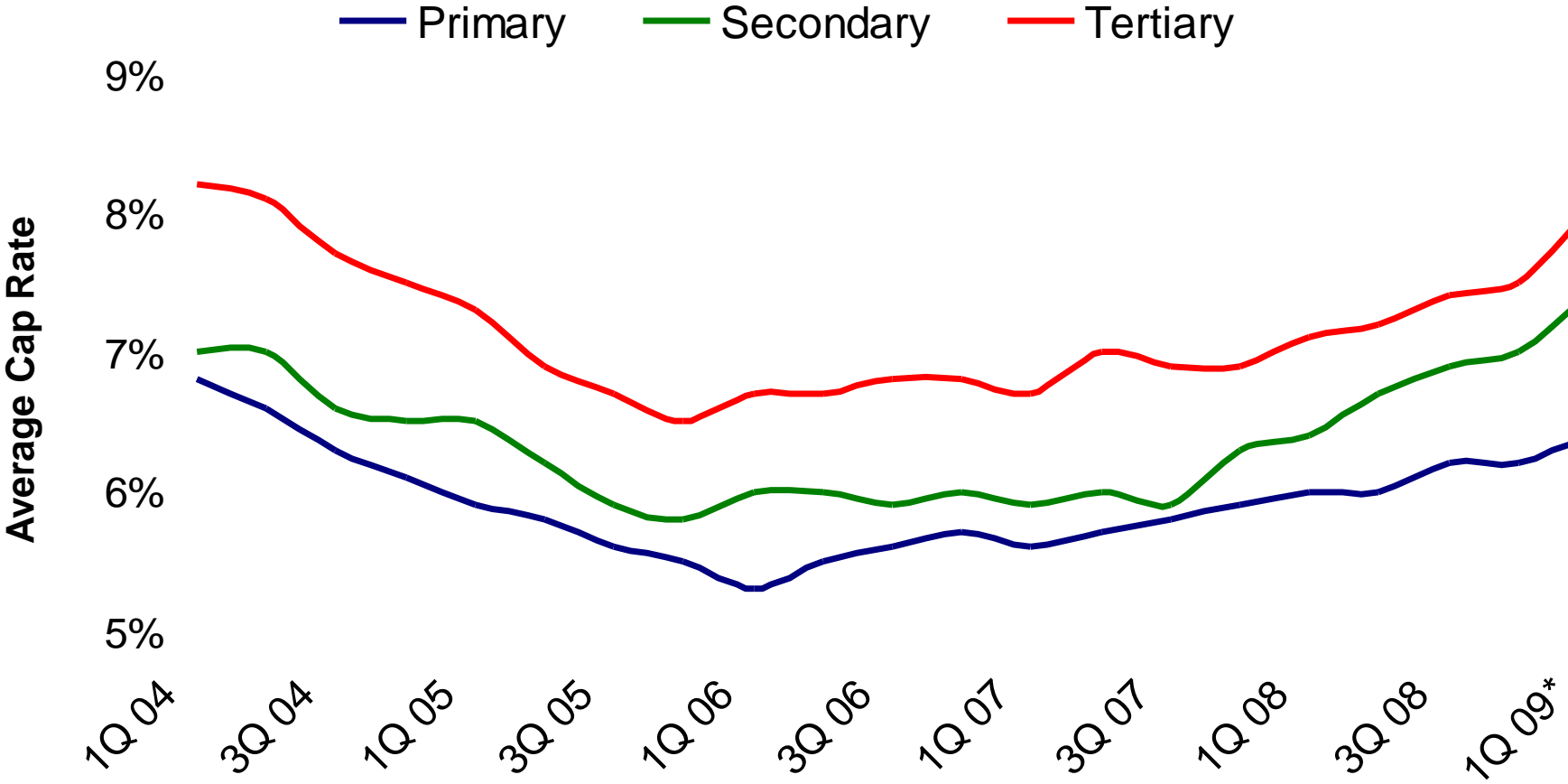


* 1Q Estimate

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



* 1Q 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

* 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%

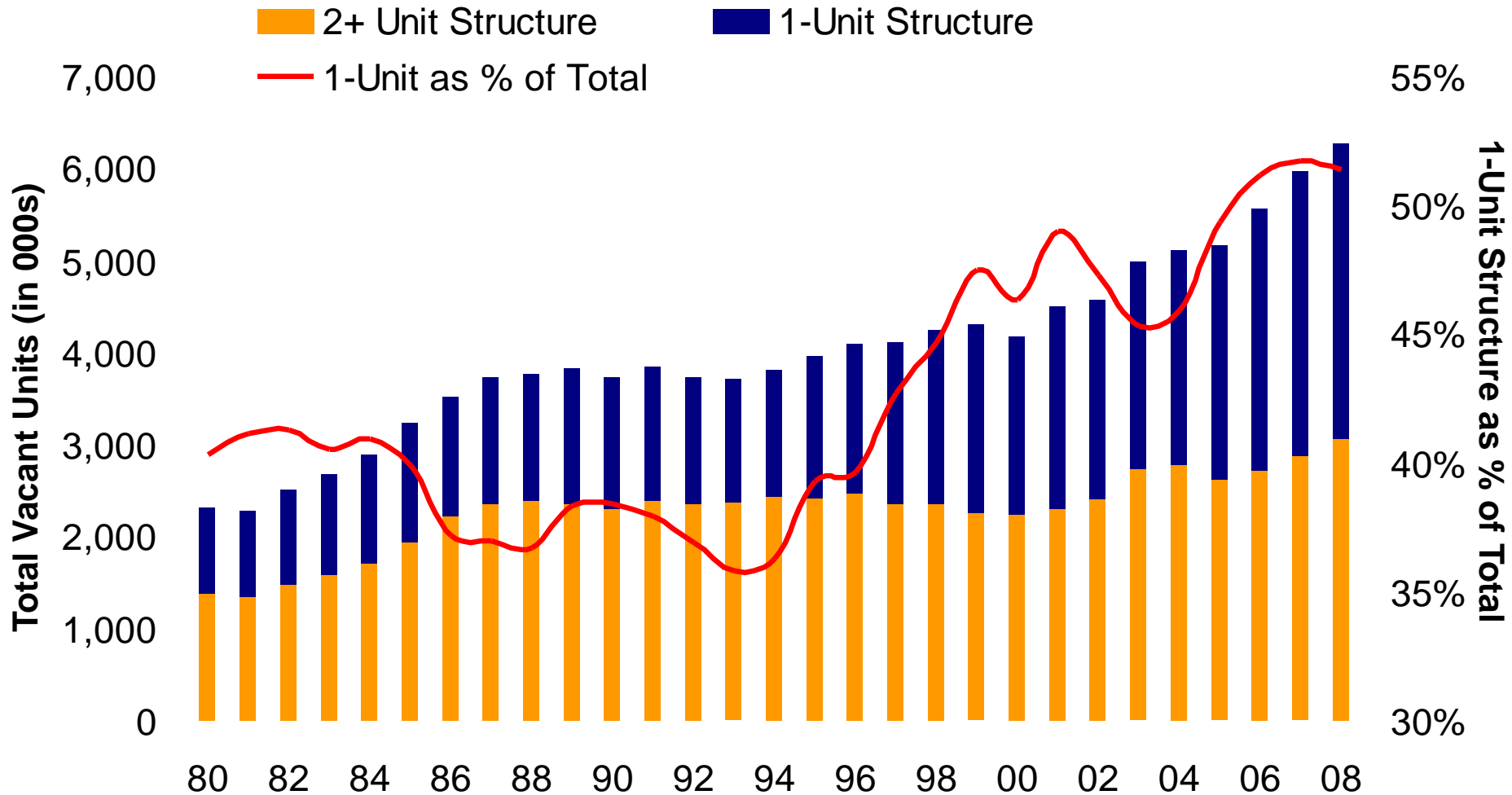
Base = 5.00 / 5.50 5.50 / 6.25 6.00 / 6.75

12 – Month Pricing Adjustment Matrix

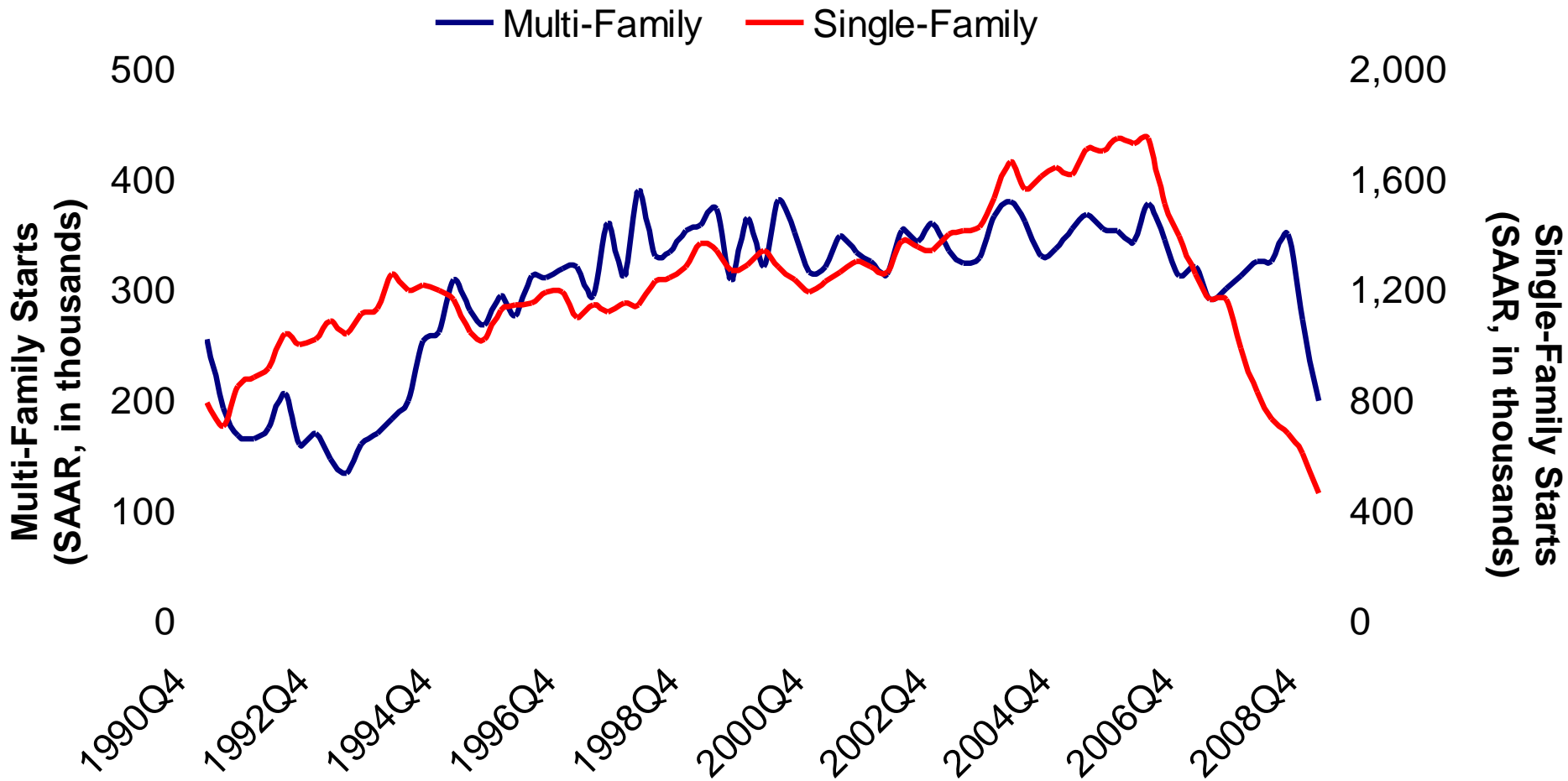
	Class "A"	Class "B"	Class "C"
Primary	-17%	-23%	-29%
Secondary	-24%	-29%	-35%
Tertiary	-27%	-32%	-37%

Base = 5.00 / 5.50 5.50 / 6.25 6.00 / 6.75

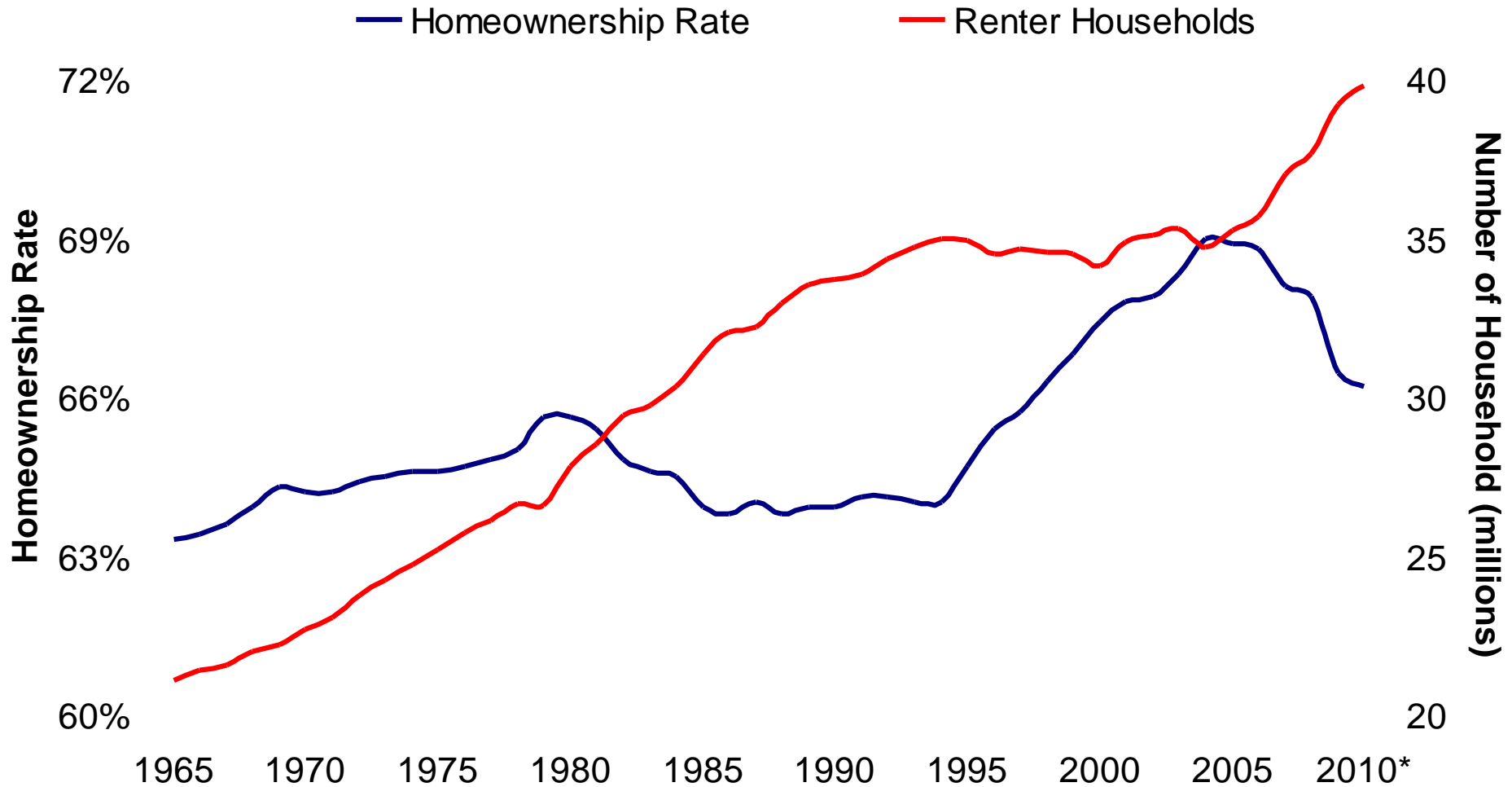
“Shadow” Rentals a Significant Factor in Rising Vacancies – More So in Select Metros



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%
San Jose	5.2%
Los Angeles	5.3%
Salt Lake City	5.4%
New Haven-Fairfield County	5.4%
Miami	5.7%
Oakland-East Bay	5.7%
Portland	5.7%
Washington D.C.	5.9%
Orange County	5.9%
United States	7.2%

Bottom 15 Markets	1Q 09 Vacancy
Kansas City	8.2%
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%
Jacksonville	12.7%
United States	7.2%

Apartment Vacancy Ranking

1Q 2009

Top 15 Markets	1Q 09 Vacancy	YOY 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
Sacramento	7.7%	80
U.S. Average	7.2%	120

Bottom 15 Markets	1Q 09 Vacancy	YOY BPS Change
Oakland-East Bay	5.9%	150
Seattle-Tacoma	6.3%	160
San Jose	5.1%	160
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
Austin	9.2%	230
Phoenix	11.3%	230
Jacksonville	12.7%	240
San Antonio	9.8%	250
U.S. Average	7.2%	120

Key Observations for 2009

- **Apt 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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