



2012

U.S. Economic and Apartment Market Outlook

November 9, 2011

Marcus & Millichap
NATIONAL MULTI HOUSING GROUP

***ECONOMIC and APARTMENT MARKET
FUNDAMENTALS***

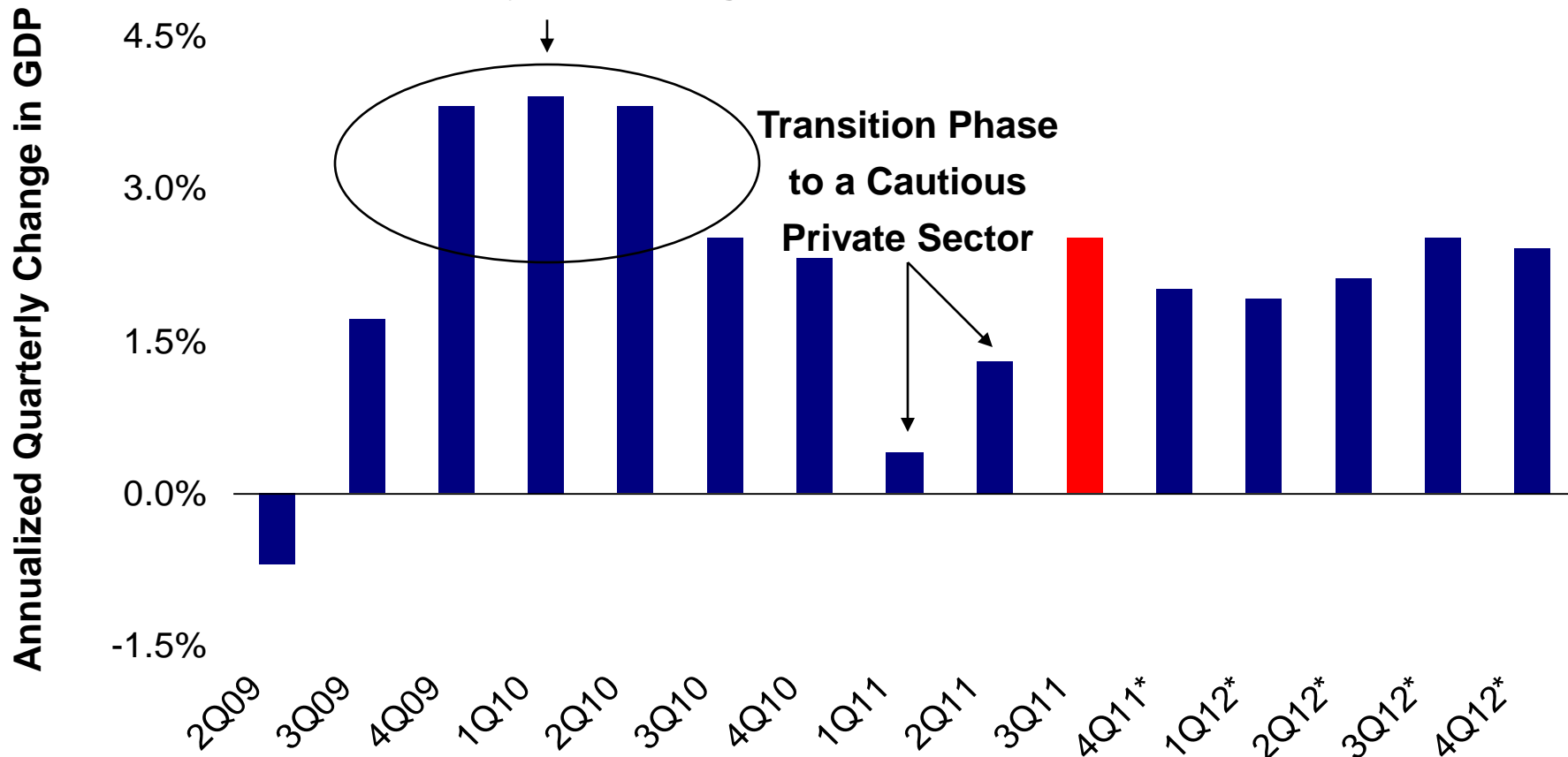
OVERVIEW and OUTLOOK

An Economy in Transition

U.S. GDP Growth Past, Present and Future

Heavy Reliance on Gov't. Initiatives,
Inventory Restocking

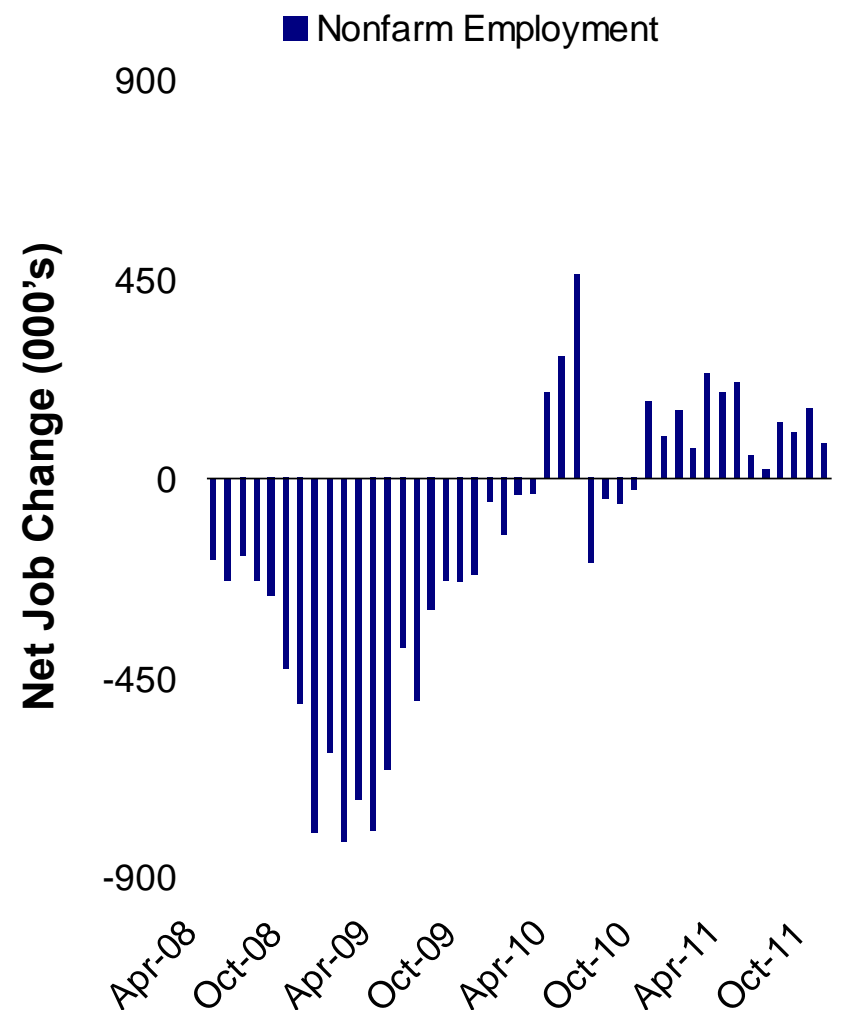
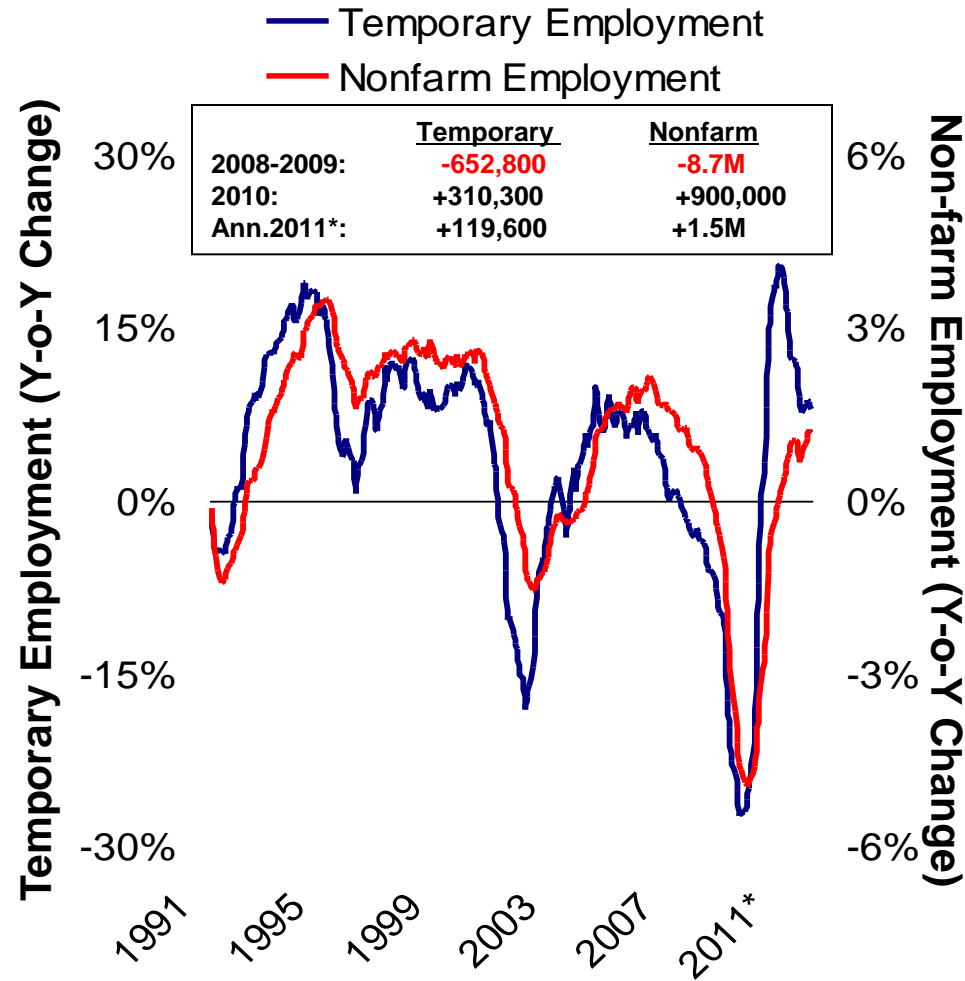
Release of Pent-up Demand by
Second Half 2012-2013?



* Forecast

Sources: Marcus & Millichap Research Services, BEA

Reduced Reliance on Temporary Staff Positive Trend, but Weak Hiring Momentum a Major Concern



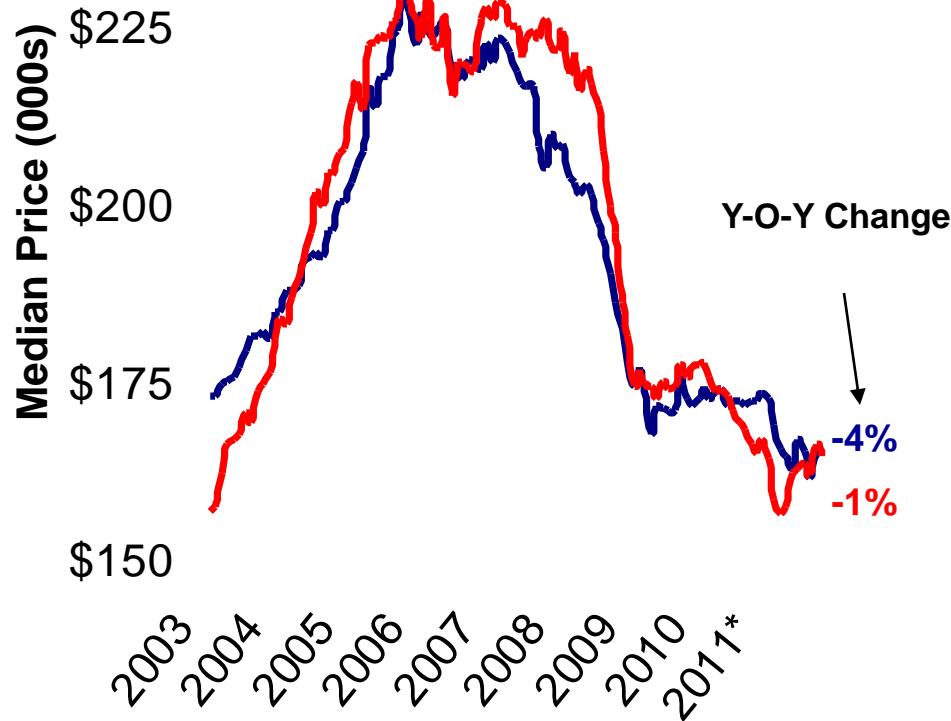
* Through October

Sources: Marcus & Millichap Research Services, BLS

Single-Family Housing and Condo Market Yet to Enter Sustainable Recovery

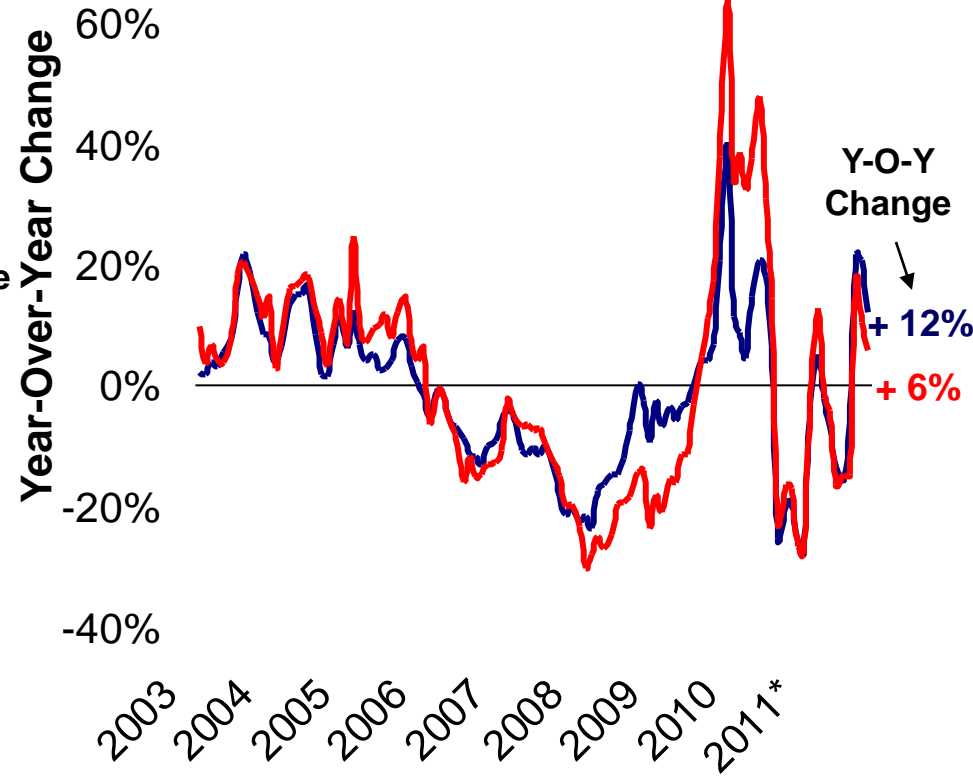
Median Home Prices

\$250 — Single-Family — Condo



Existing Home Sales

80% — Single-Family — Condo

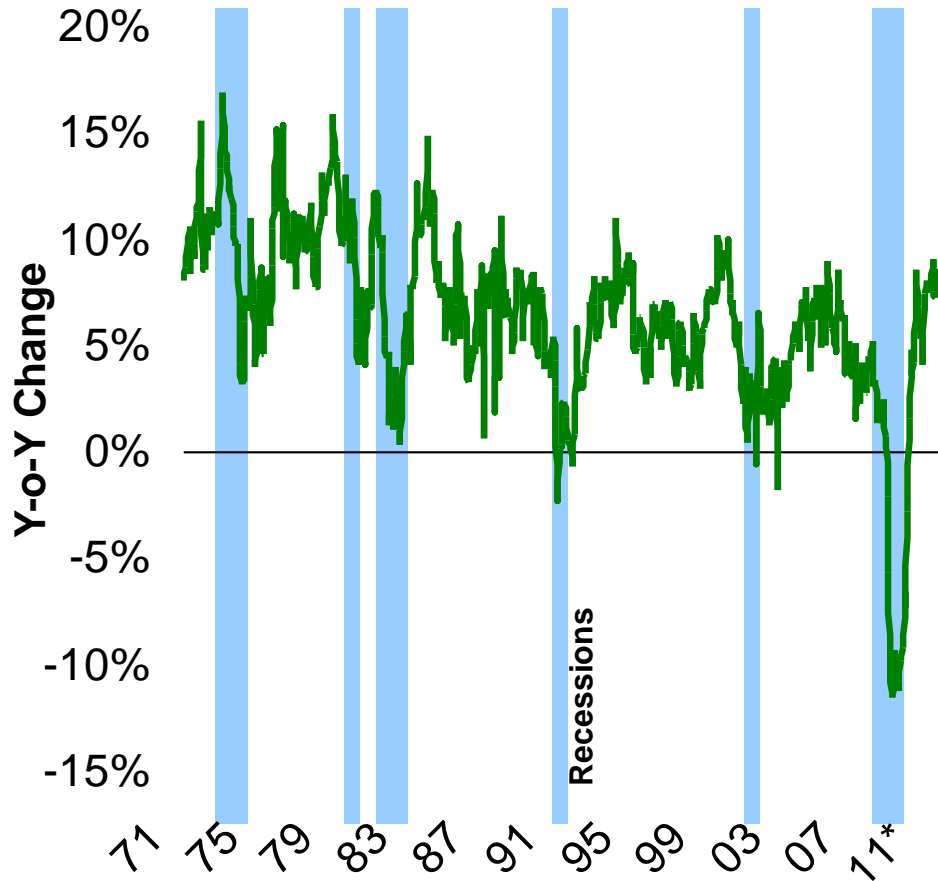


* Through September

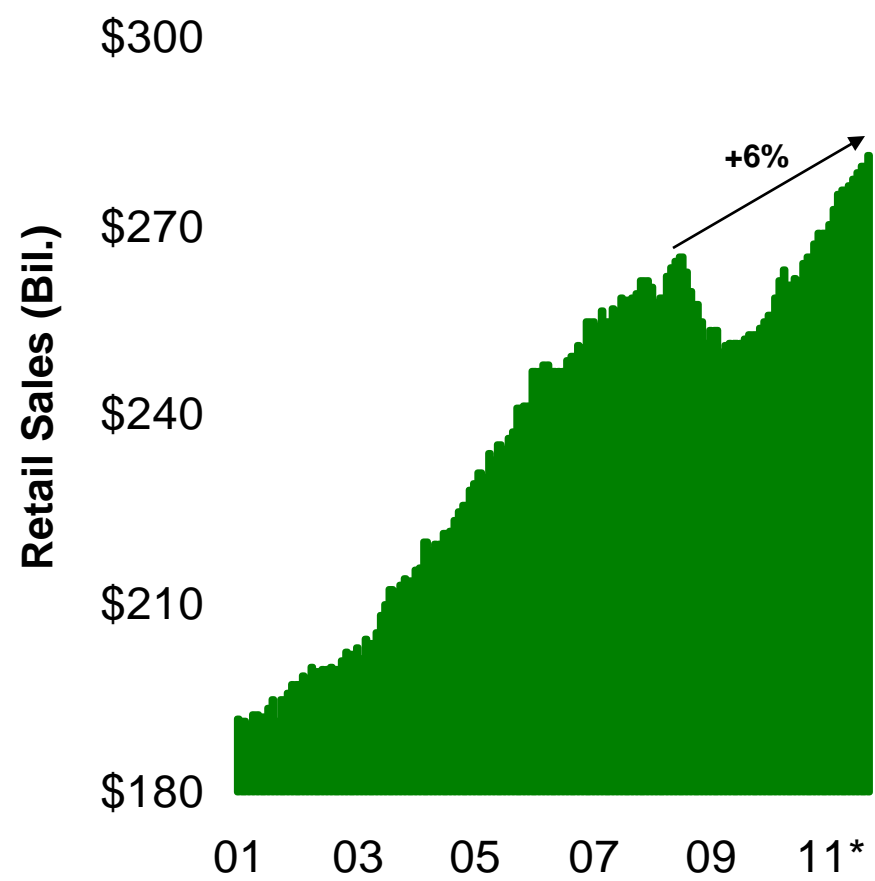
Sources: Marcus & Millichap Research Services, National Association of REALTORS®

U.S. Retail Sales Have Recovered From Dramatic Drop – Further Growth Hindered

Long-Term Total Retail Sales



Monthly Retail Sales Excl. Auto and Gas



* Through September

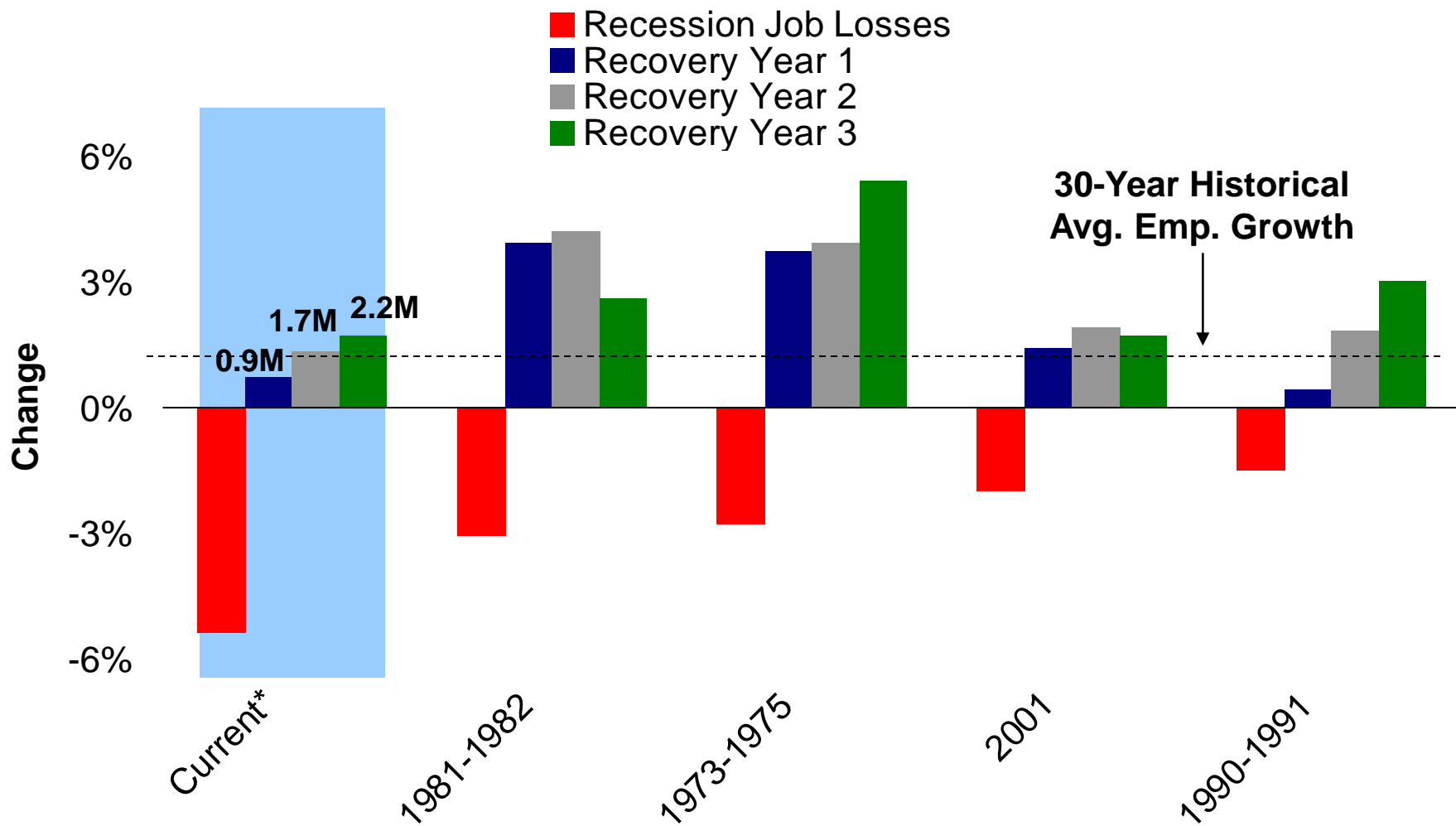
Sources: Marcus & Millichap Research Services, U.S. Census Bureau

U.S. Employment Gains Have Been Broad

YOY Sector Change Through October 2011

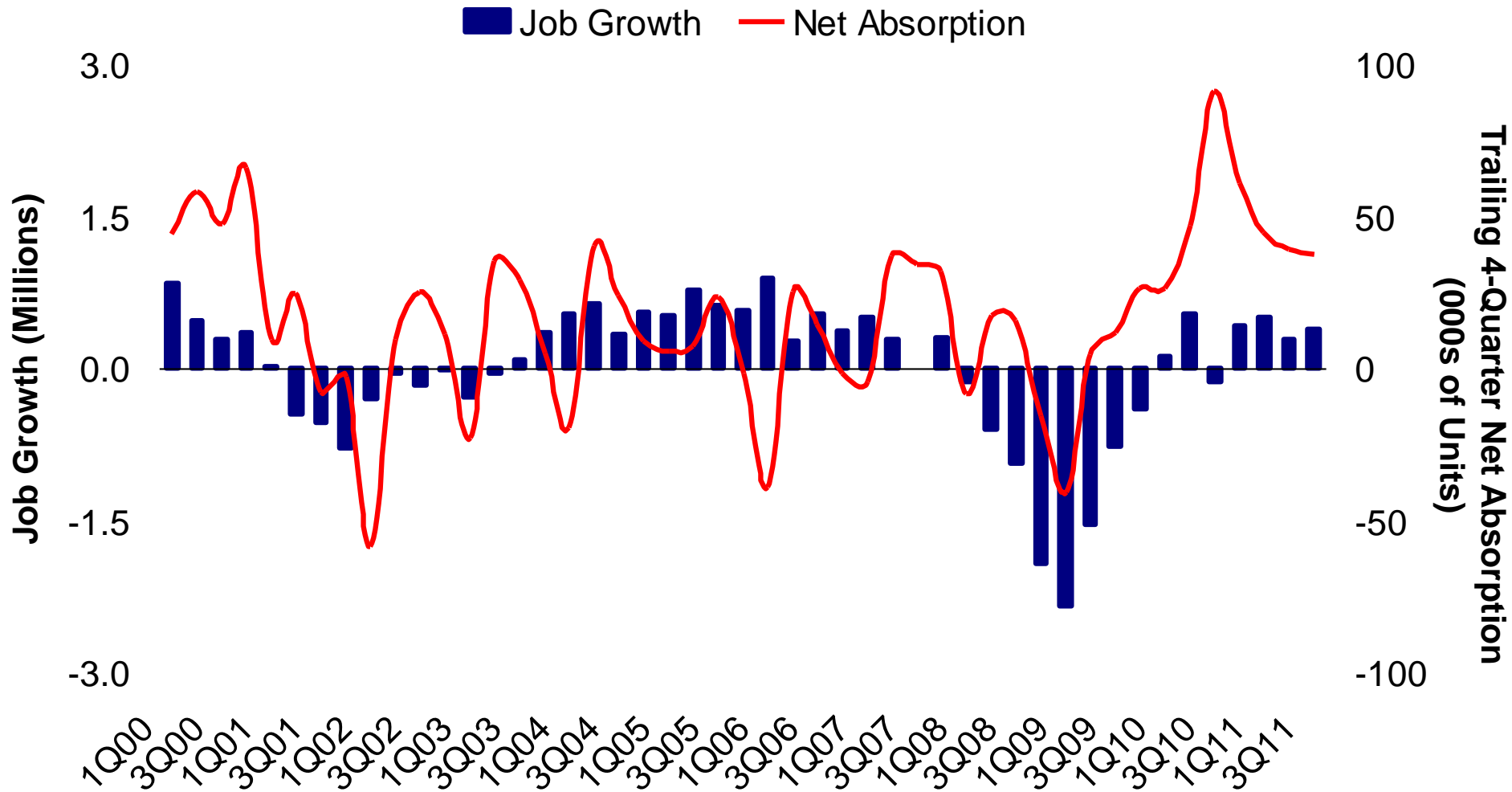
U.S. Employment Sectors	Absolute Change	% Change
Prof. & Business Services	562,000	3.4%
Education & Health Services	427,000	2.2%
Trade, Transport & Utilities	333,000	1.3%
Manufacturing	220,000	1.9%
Leisure & Hospitality	203,000	1.6%
Natural Resources & Mining	76,000	10.4%
Other Services	37,000	0.7%
Construction	13,000	0.2%
Total Gain	1,871,000	
Financial Activities	(6,000)	-0.1%
Information	(41,000)	-1.5%
Government	(323,000)	-1.4%
Total Loss	(370,000)	

Employment to Post Modest Growth in 2012– Growth Rate In Range of 30-Year Historical Average



* Next year = 2010 job growth, Following 2 years = 2011-2012 job growth
 Employment growth based on employment for the 12 months after the contraction period
 Sources: Marcus & Millichap Research Services, BLS

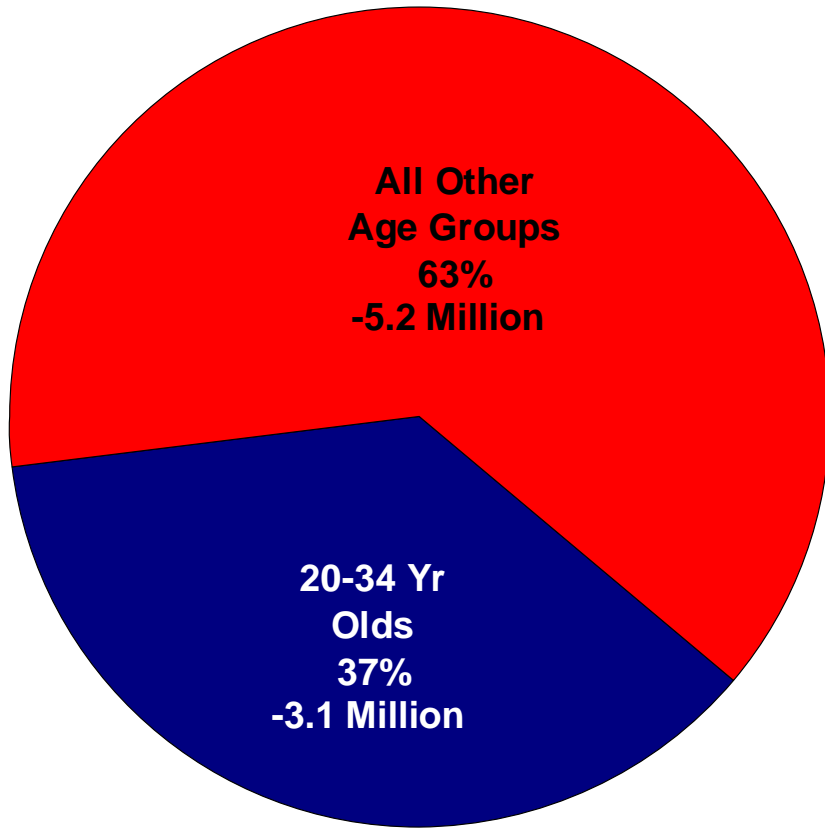
Quarterly Job Growth vs. Apartment Units Absorbed



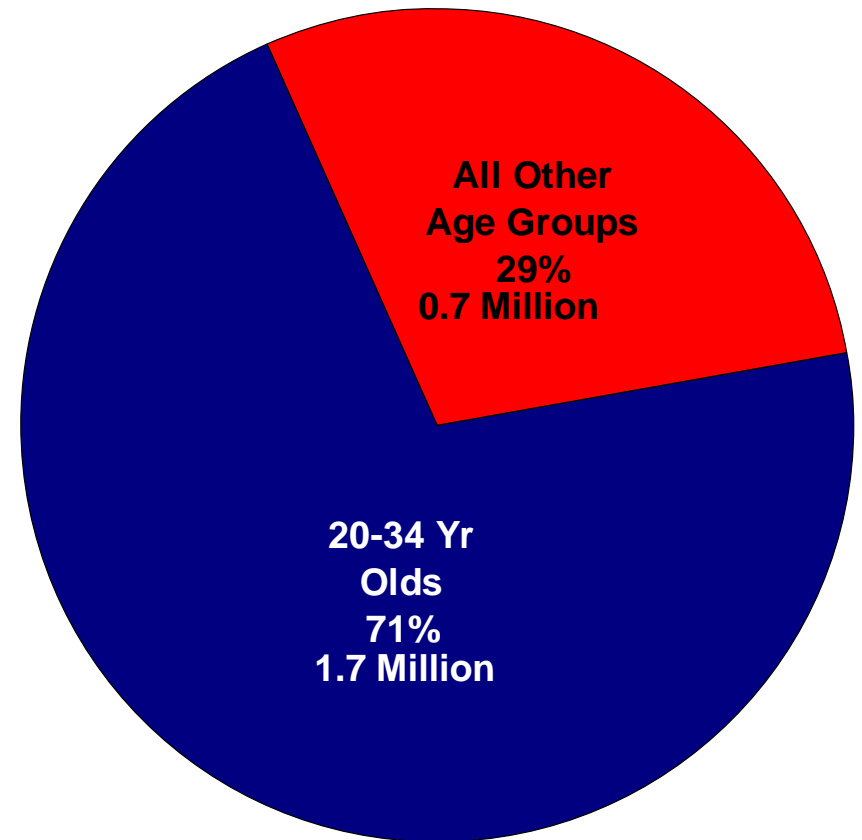
Sources: Marcus & Millichap Research Services, Reis, BLS

20-34 Year-Olds Share of Job Losses/Gains

2008-2009 Share of Job Losses



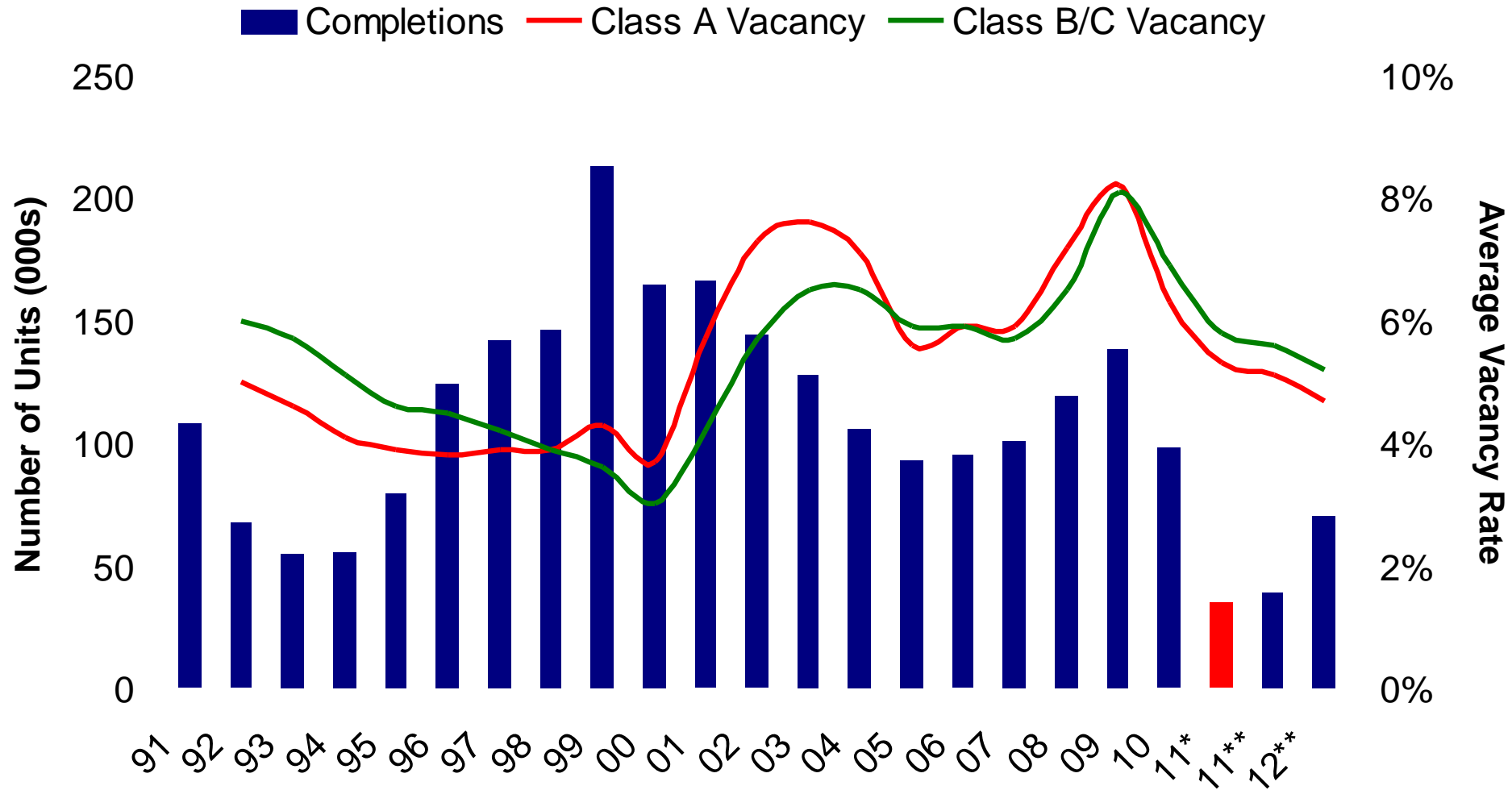
2010-2011* Share of Job Gains



* Through October

Sources: Marcus & Millichap Research Services, BLS

Apartment Market Improvement Expected to Continue; Recovery Pace Moderating



* Vacancy as of 3Q11, Completions 3Q YTD annualized;

** Forecast

Sources: Marcus & Millichap Research Services, Reis

National Apartment Rank by Metro Vacancy Rate

Top 15 Markets	Vacancy	Y-O-Y Bps Chg
Minneapolis	2.6%	-170
New York	2.6%	-100
San Jose	3.1%	-80
Portland	3.2%	-170
San Diego	3.4%	-110
San Francisco	3.6%	-120
Milwaukee	4.0%	-80
Oakland-East Bay	4.0%	-90
New Jersey	4.1%	-70
Boston	4.2%	-120
Los Angeles	4.2%	-70
Denver	4.5%	-80
Orange County	4.5%	-140
Philadelphia	4.6%	-110
Washington, D.C.	4.6%	-80
U.S. Average	5.6%	-150

Bottom 15 Markets	Vacancy	Y-O-Y Bps Chg
Detroit	5.7%	-140
Indianapolis	6.4%	-190
Kansas City	6.5%	-210
Tampa	6.7%	-190
Charlotte	6.8%	-200
St. Louis	6.8%	-120
Palm Beach	7.1%	-100
San Antonio	7.2%	-200
Orlando	7.4%	-240
Columbus	7.7%	-130
Las Vegas	7.9%	-200
Phoenix	7.9%	-240
Atlanta	8.4%	-220
Houston	9.2%	-230
Jacksonville	9.6%	-250
U.S. Average	5.6%	-150

Vacancy as of 3Q 2011

Sources: Marcus & Millichap Research Services, Reis

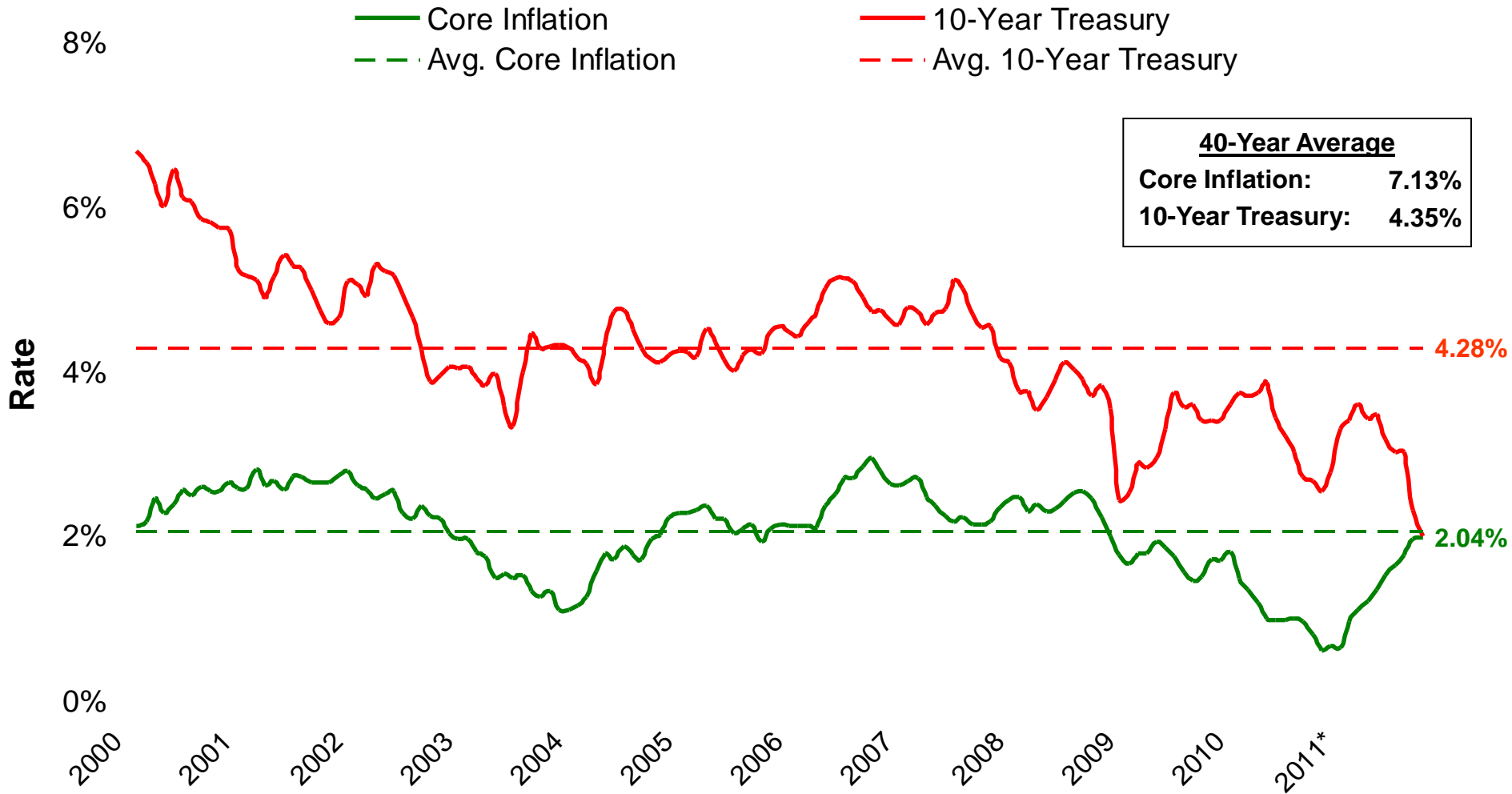
***CAPITAL MARKETS
OVERVIEW and OUTLOOK***

Capital Markets Review

Second Half 2011

- **Historically low cost of debt and equity have been the real “drivers”**
 - **Cash Flow**
 - **Value**
- **Lender’s attitude towards multifamily has been consistently improving over the last six months as fundamentals improve**
 - **Wide variety of capital providers serving “best of class,” core assets through C+ properties**
 - **Capital sources have moved from primary markets to smaller and even tertiary markets**
 - **Spotty capital for less quality assets in smaller, tertiary markets**
- **Underwriting**
 - **Continue looking for quality and consistency of income stream**
 - **Strong occupancy and rental growth**
 - **New building permit issuance becoming a point of conversation**
 - **Debt service coverage of 1.25 to as low as 1.15; LTV of 60 to 75%**
- **Capital stack is served by**
 - **Agencies, Life Companies, Local and Regional Banks, CMBS and Debt Funds**

Core Inflation vs. 10-Year Treasury

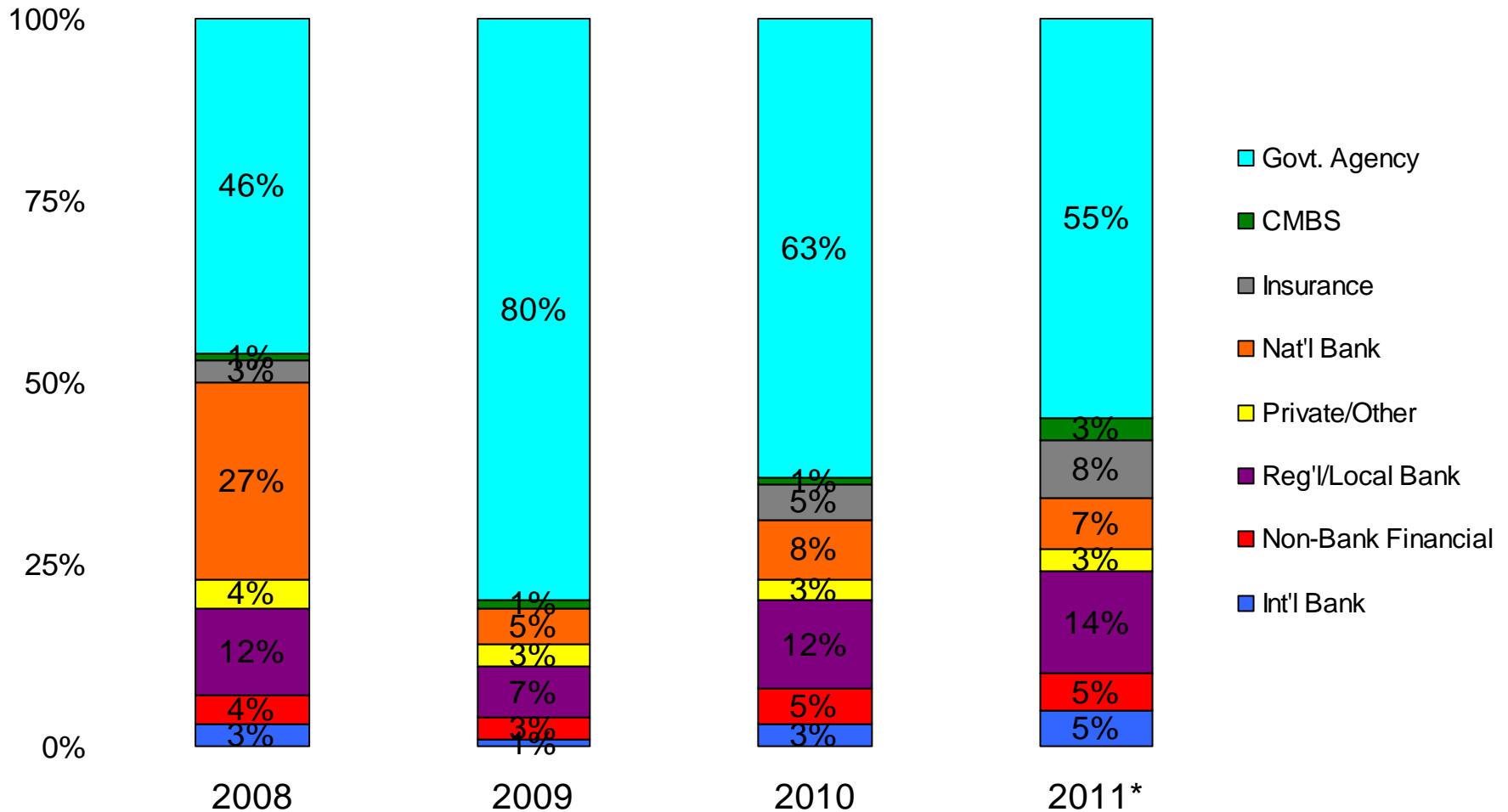


40-Year Average
Core Inflation: 7.13%
10-Year Treasury: 4.35%

* Through September

Sources: Marcus & Millichap Research Services, Federal Reserve, BLS

Apartment Mortgage Originations by Percent of Total Dollar Volume

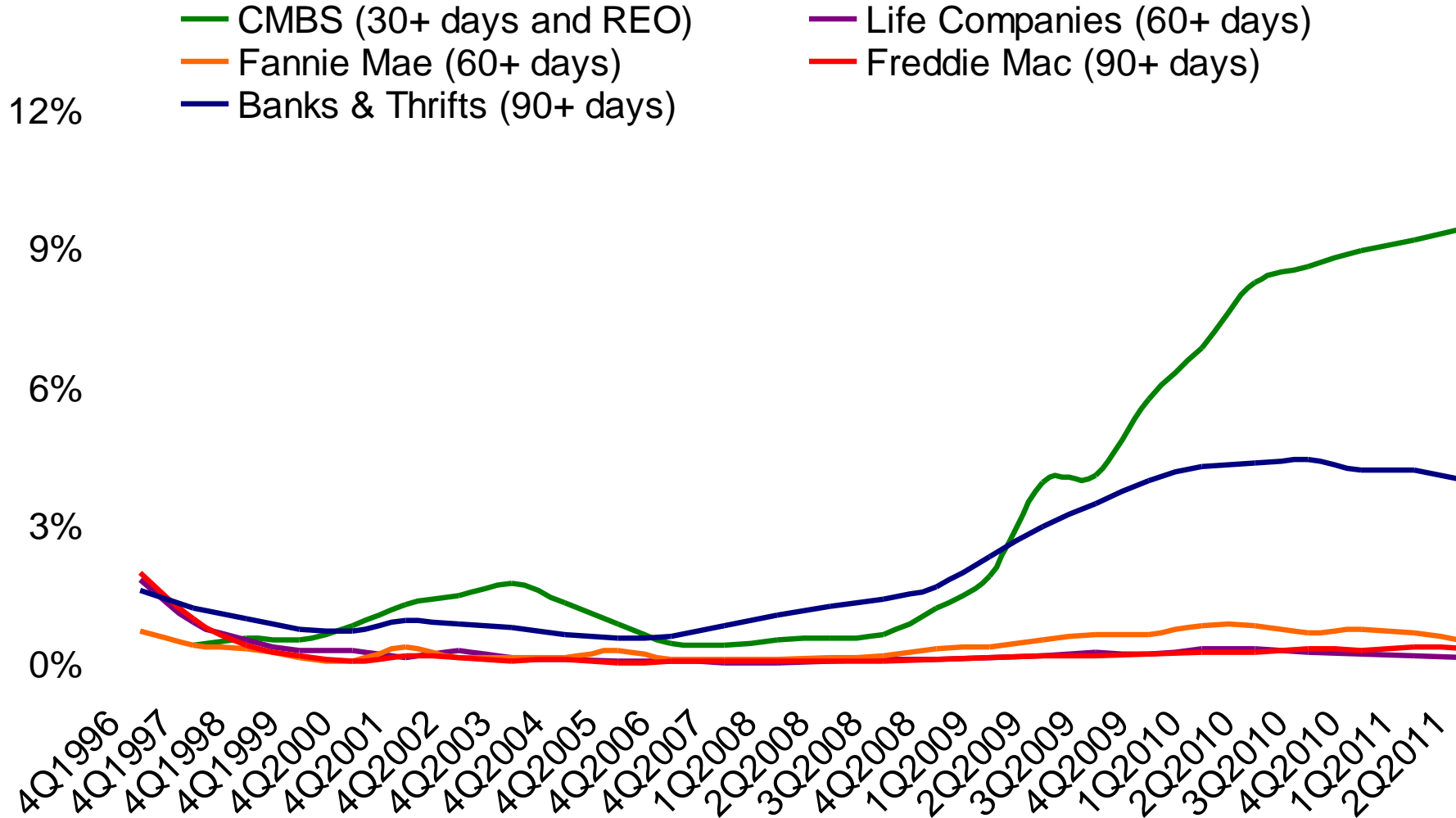


* Through 3Q

Includes sales of properties \$2.5 million dollars and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

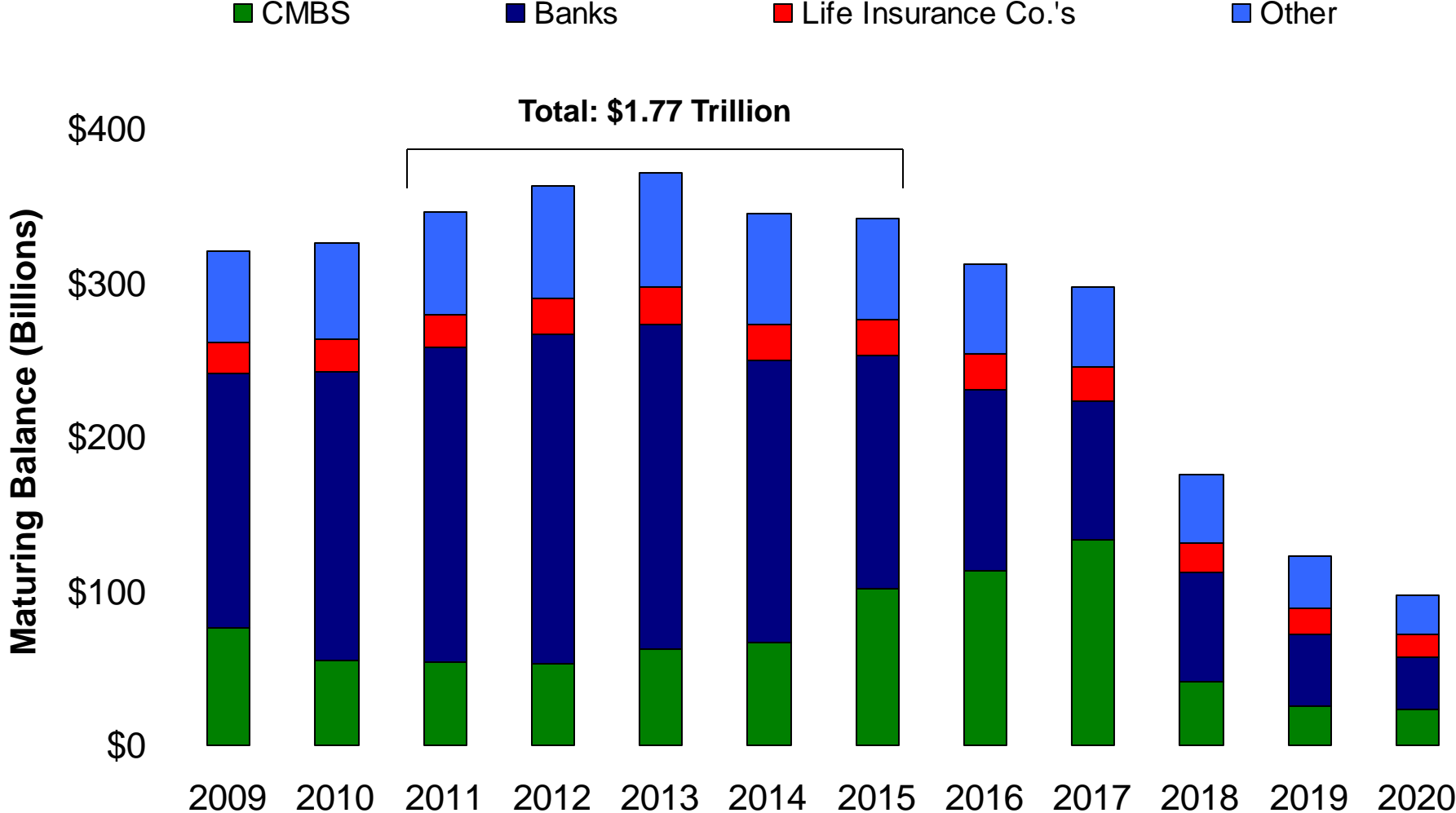
Commercial/Multifamily Delinquency Rates by Lender Type



Delinquency rates at the end of each period

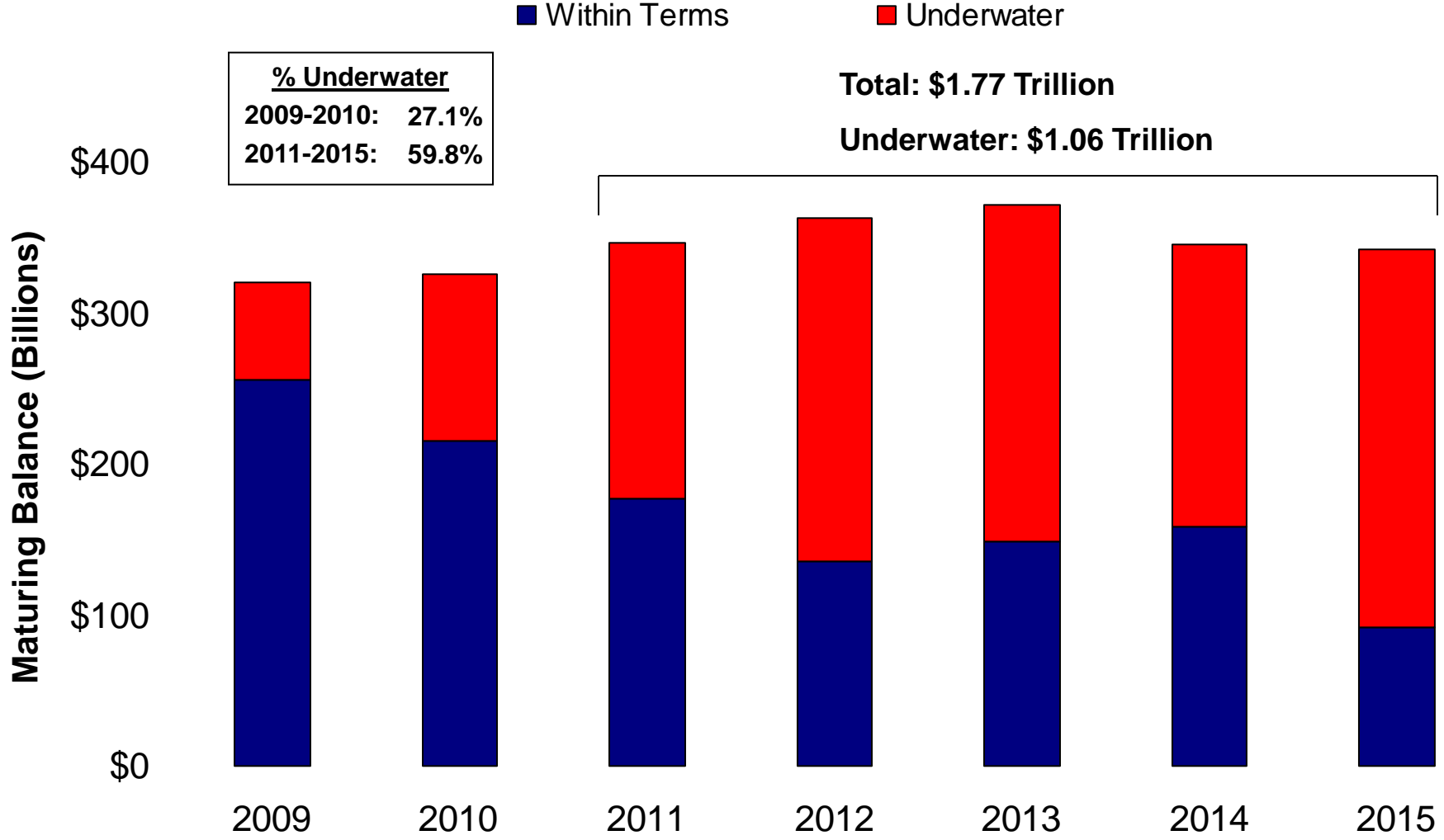
Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

Estimated Commercial/Multifamily Debt Maturities by Lender Type



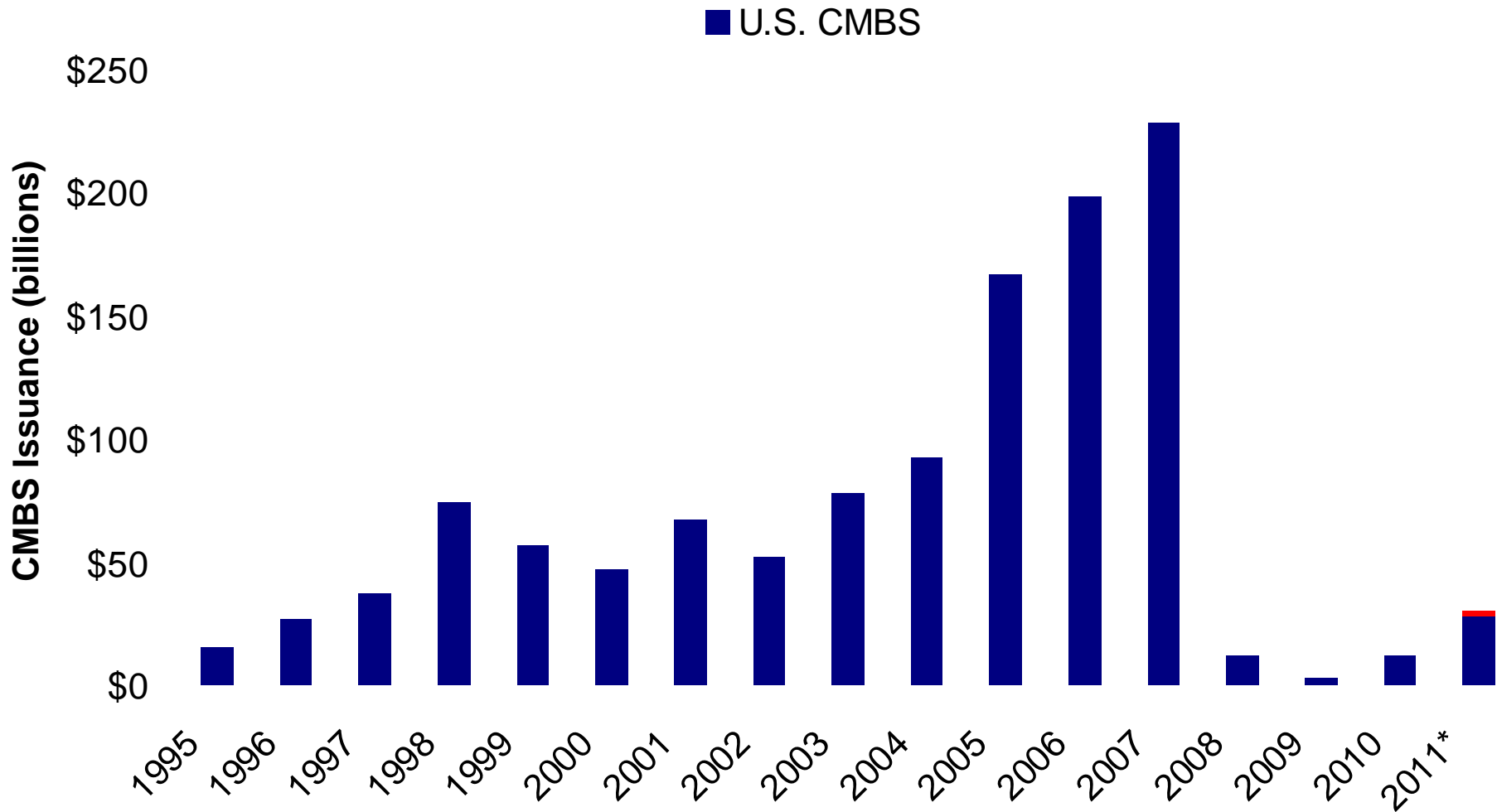
Sources: Marcus & Millichap Research Services, Foresight Analytics

Estimated Underwater Commercial/Multifamily Debt Maturities



Underwater defined as greater than 100% LTV
Sources: Marcus & Millichap Research Services, Foresight Analytics

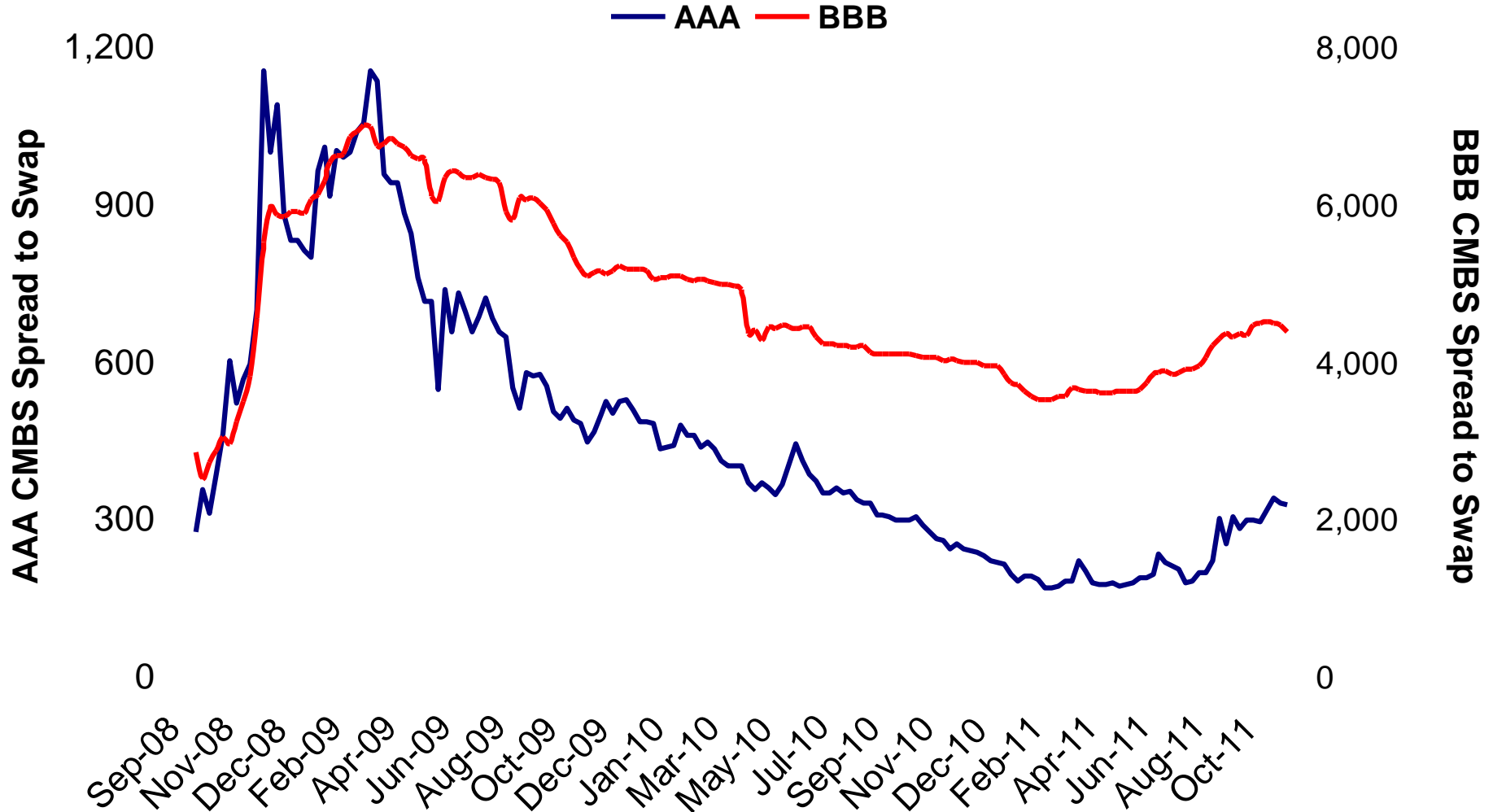
U.S. Commercial Mortgage Backed Securities (CMBS) Issuance



* Through October 26 and forecast

Sources: Marcus & Millichap Research Services, Trepp

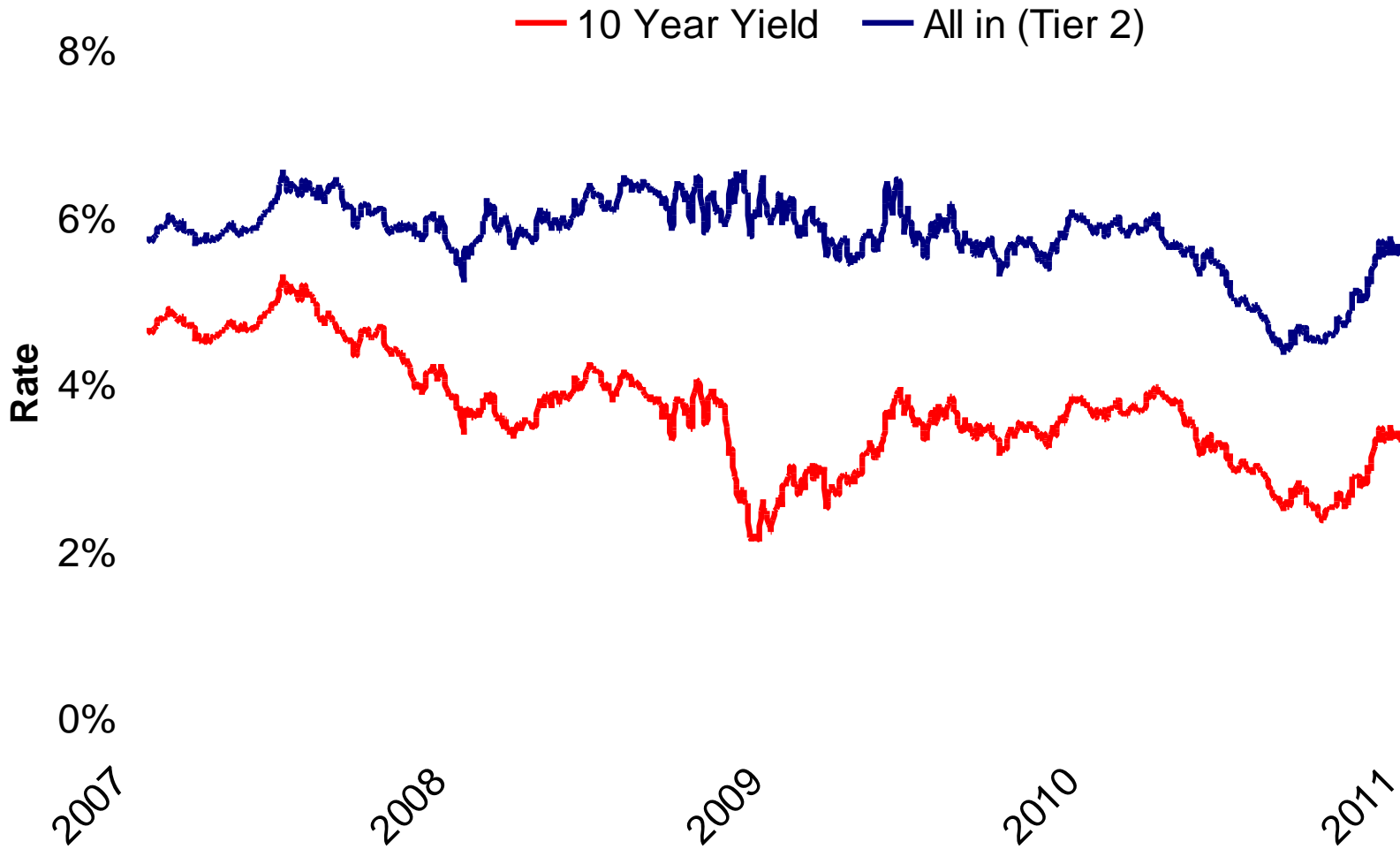
CMBS Spreads



Through October 26

Sources: Marcus & Millichap Research Services, Trepp

Indicative Fannie Mae Rates



Through October 24, 2011
Sources: Marcus & Millichap Research Services, Federal Reserve Board

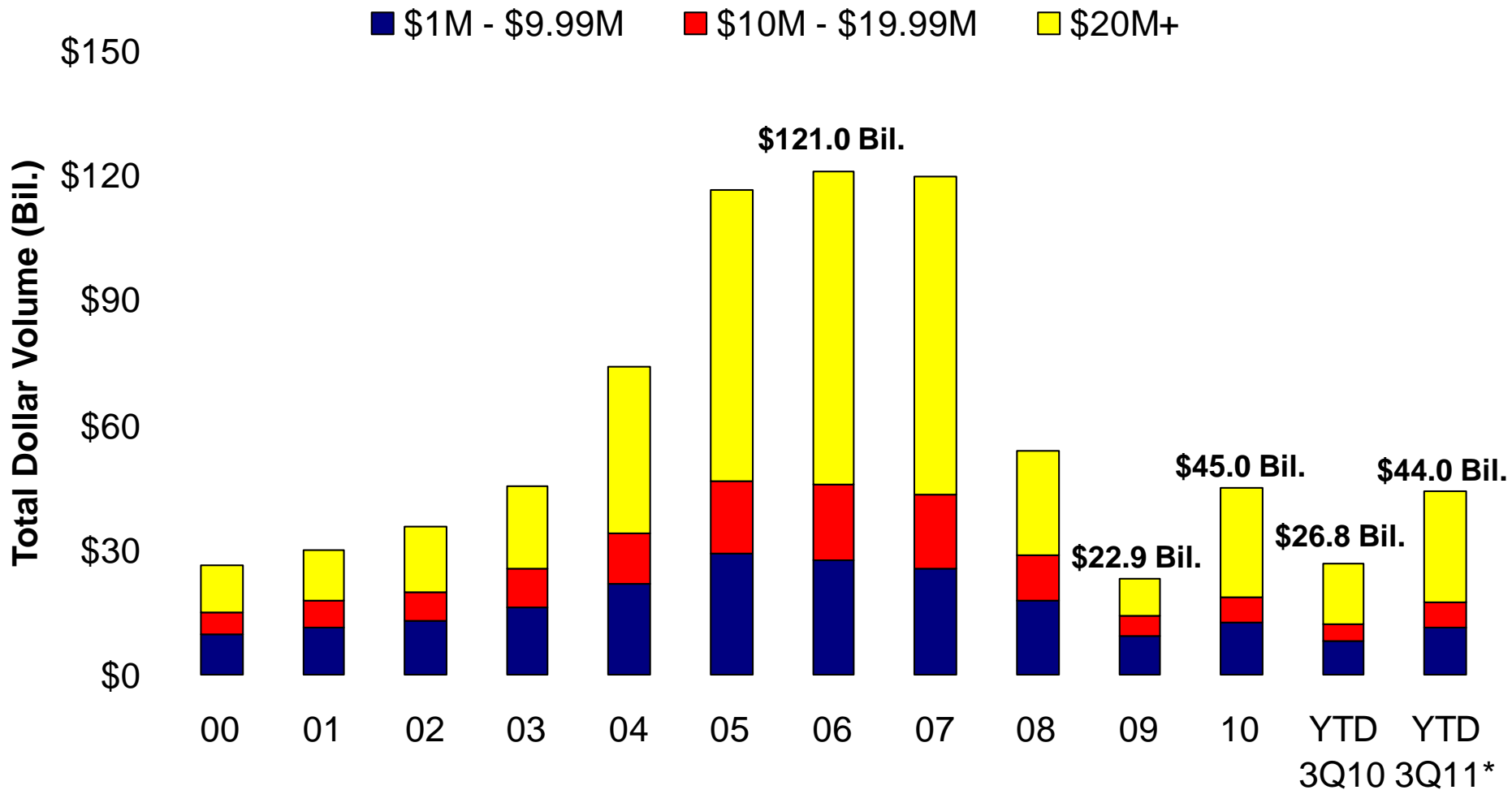
Investor Considerations and Outlook for 2012

- **Debt and equity markets for first half of year to resemble last half of 2011**
 - **Choppy domestic economy**
 - Employment numbers slowly improving
 - Inconsistent economic indices
 - Election
 - **Global influences**
 - Foreign sovereign debt
 - Economic geopolitical uncertainty
- **Capital supply to remain healthy but not for every asset**
 - Agency lenders – Fannie Mae and Freddie Mac
 - Life companies
 - Regional and local banks
 - Debt funds
 - CMBS
- **Investor Strategies**
 - **Maturing overleveraged properties**
 - Extensions
 - Recapitalization
 - **Refinance**
 - \$1 million to \$10 million
 - \$10 million to \$20 million
 - Above \$20 million

***APARTMENT INVESTMENT
TRENDS and STRATEGIES***

Apartment Investment Trends

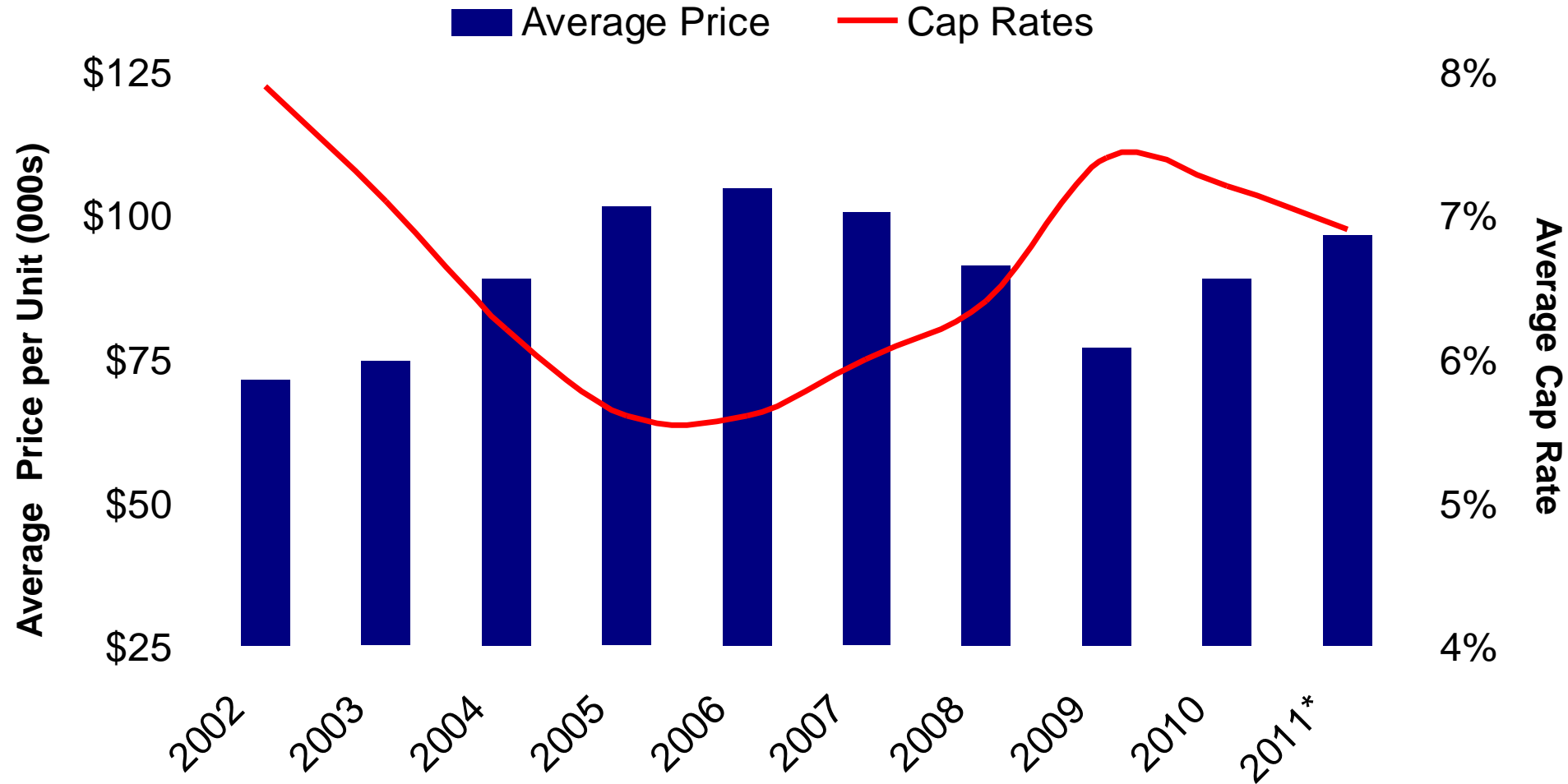
Dollar Volume



* Preliminary estimate

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

U.S. Apartment Price / Cap Rate Trends



* Preliminary estimate through 3Q

Includes sales \$1 million and greater

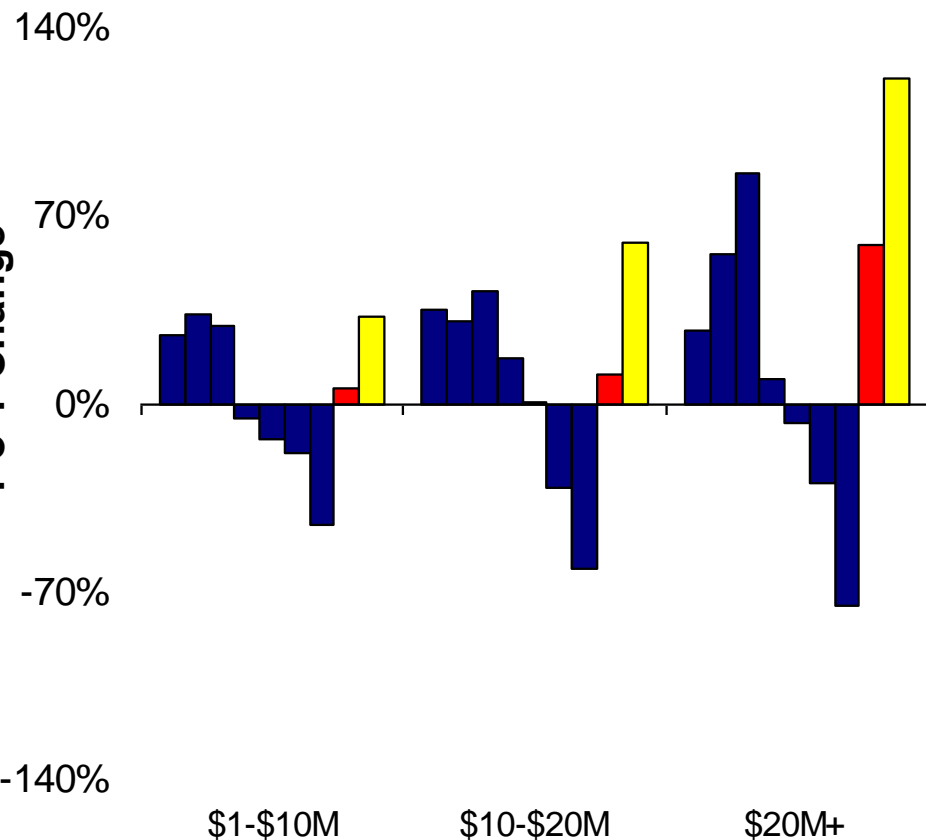
Sources: Marcus & Millichap Research Services, Real Capital Analytics, Costar Group, Inc.

U.S. Apartment Sales Activity

Trailing 12 Months as of Q3

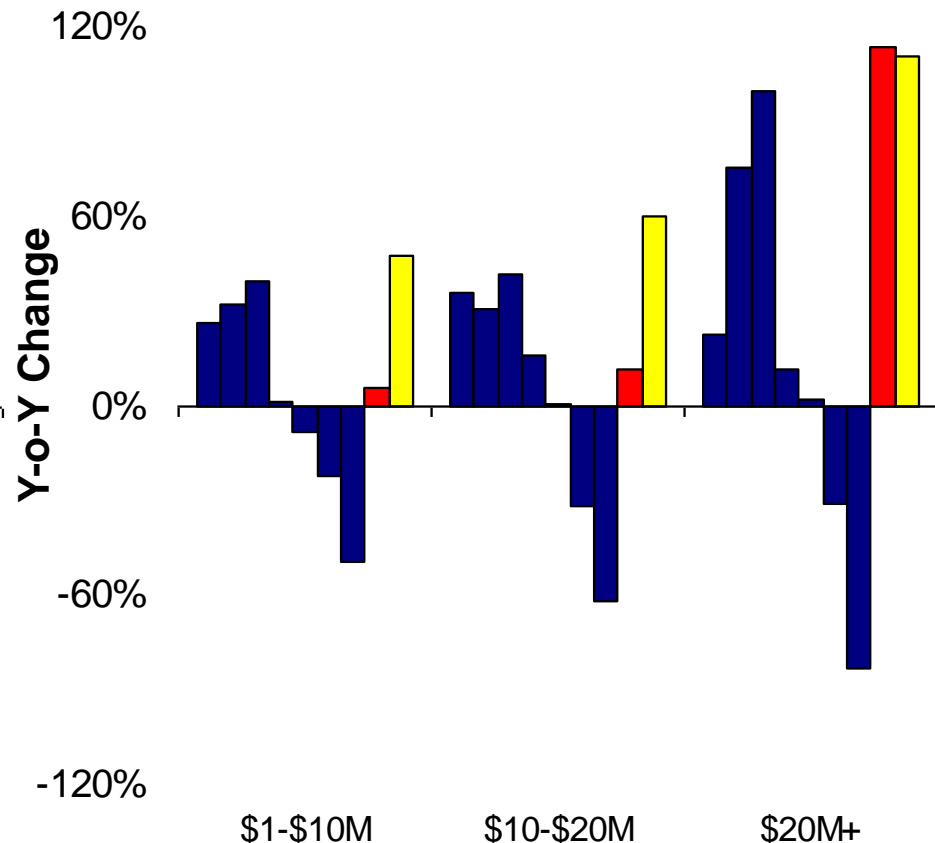
Change in Number of Transactions

■ 2003-2009 ■ 2010 ■ 2011

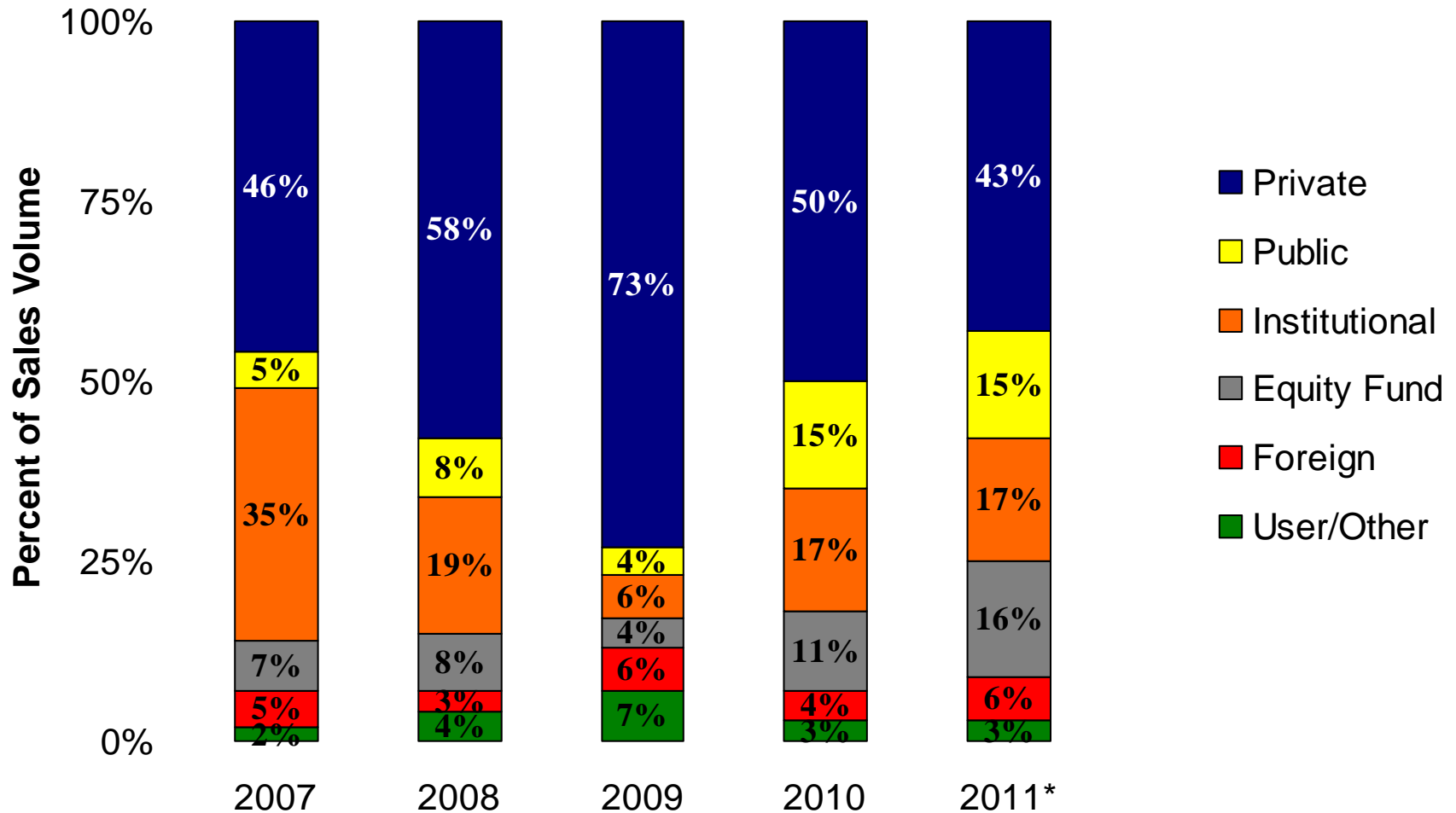


Change in Dollar Volume

■ 2003-2009 ■ 2010 ■ 2011



U.S. Apartment Buyer Composition

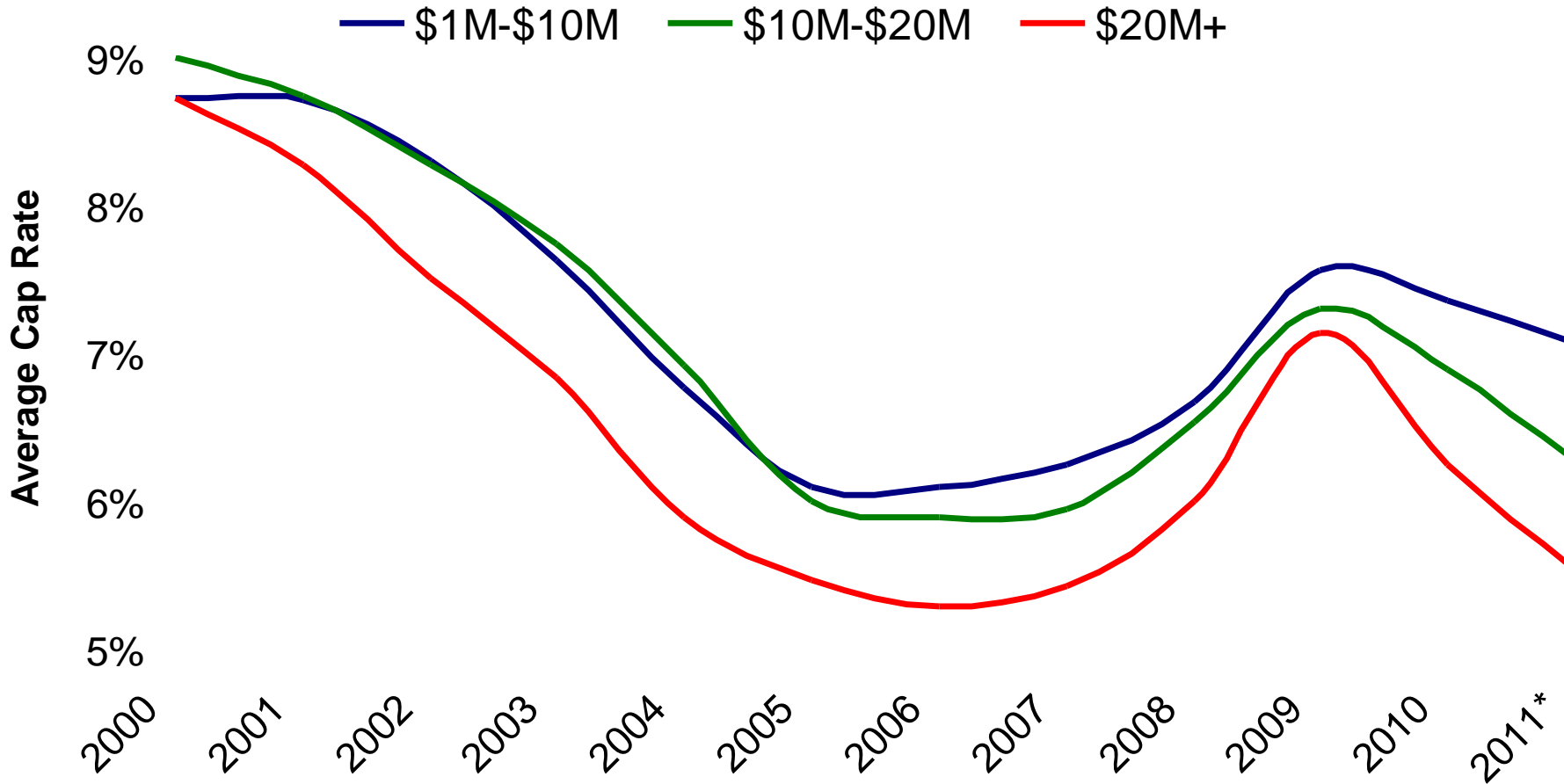


* Through 3Q

Includes sales \$5 Million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

Apartment Cap Rate Trends by Tranche

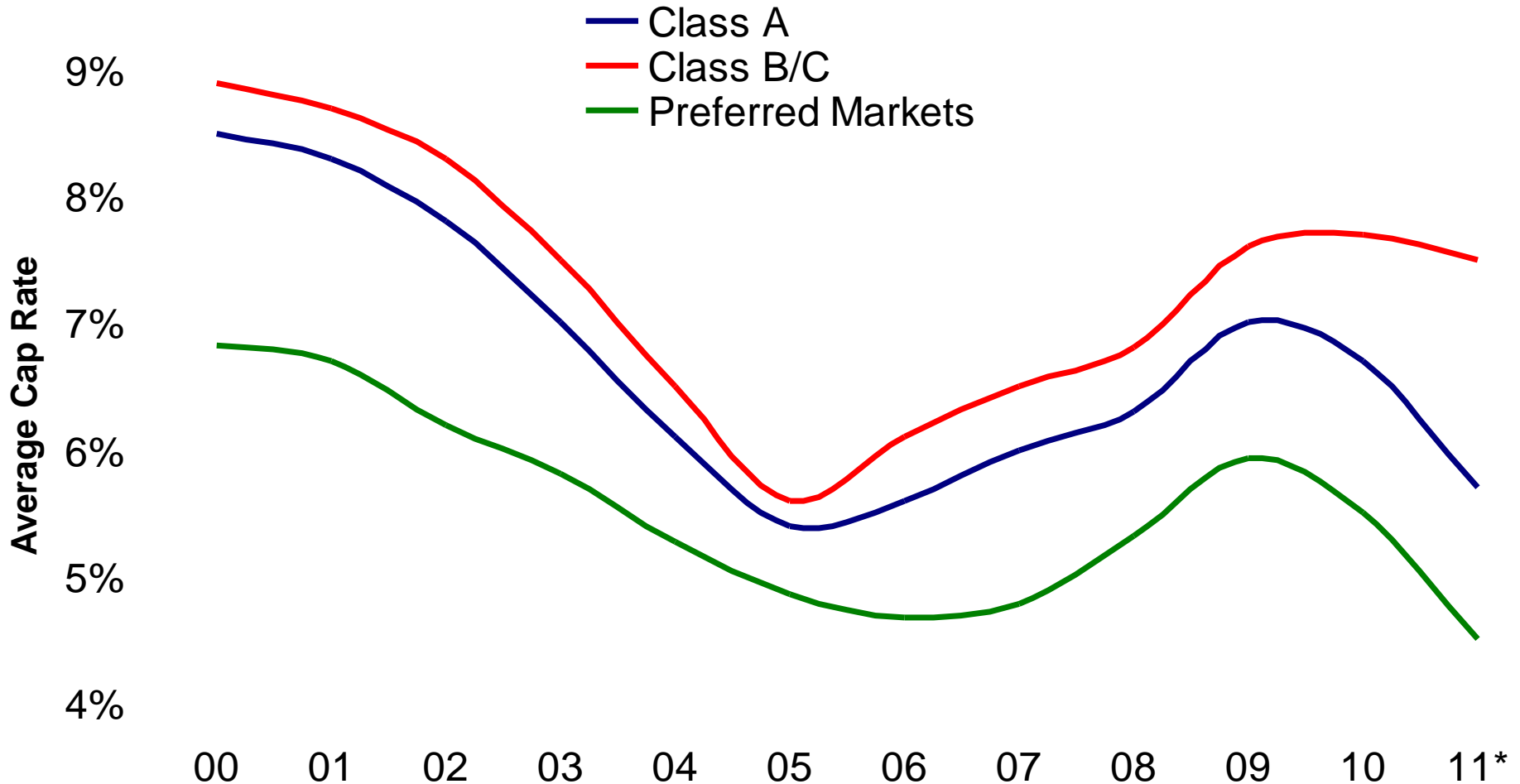


* Through 3Q 2011 estimate

Includes sales \$1 million and greater

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

U.S. Apartment Cap Rates by Class



* Through 3Q 2011 estimate

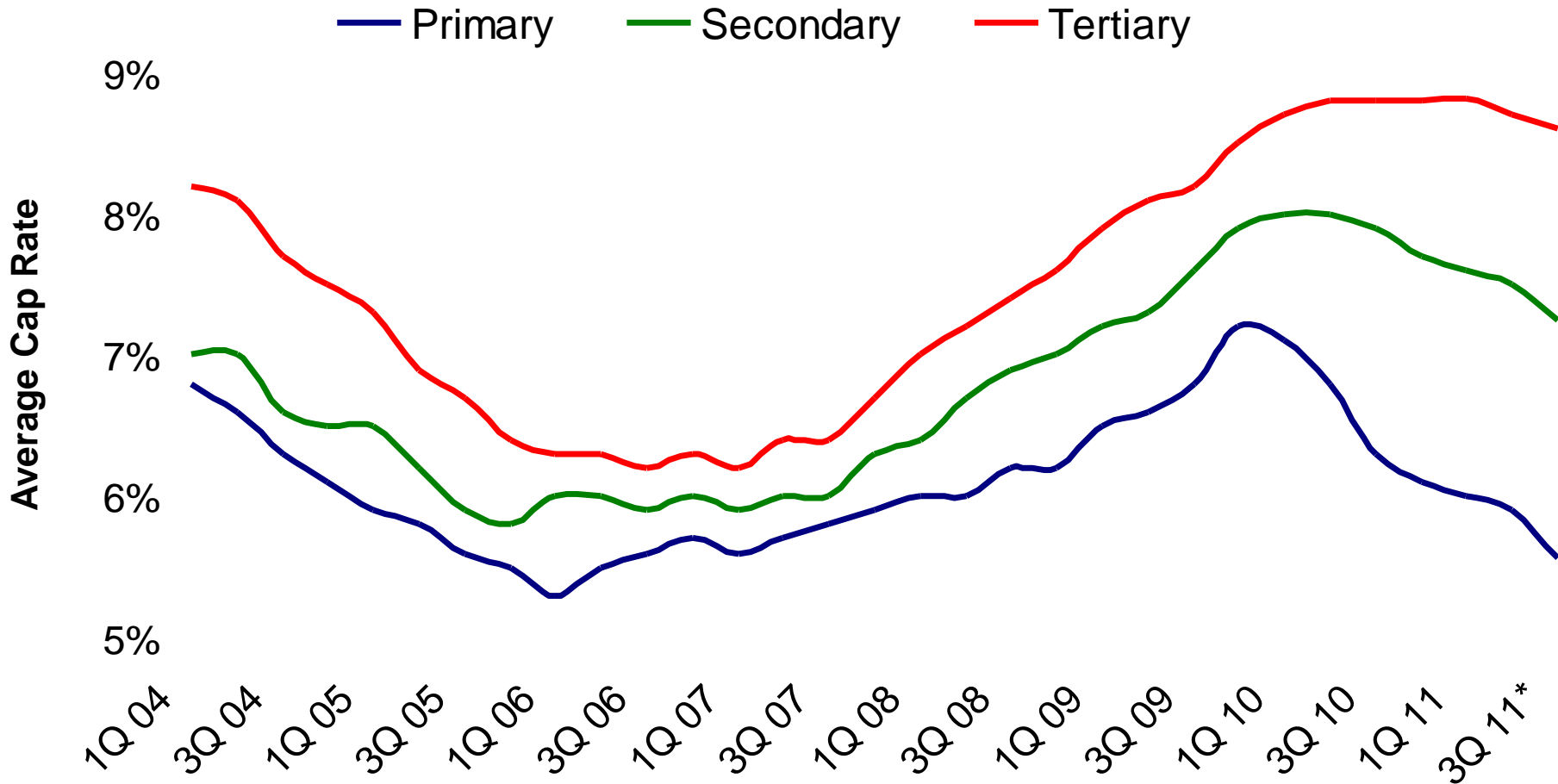
Includes sales \$1 million and greater

Assumes properties less than 10 years old at time of sales to be Class A,
properties older than 10 years assumed to be Class B/C

Preferred Markets Include: NY, DC, BOS, SD, LA, OC, SJ, SF, SEA

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

Repricing of Risk by Quality Reflected in Apartment Cap Rate Trends by Market



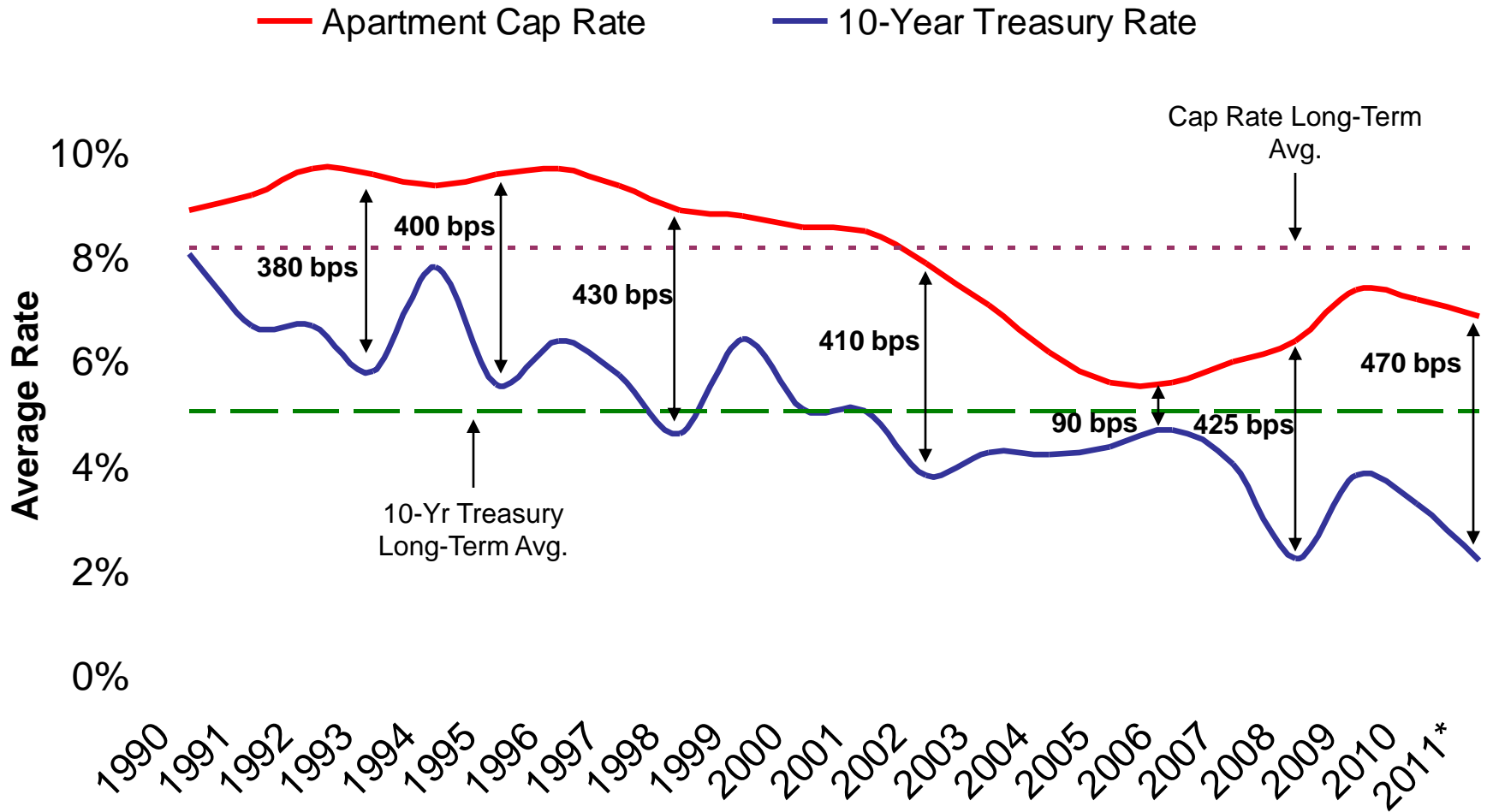
* Preliminary Estimate

Includes sales \$5 million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

Apartment Cap Rate Trends

Average Cap Rates vs. 10-Year Treasury



* Through October 26

Sales \$1 million and greater

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



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