



# **U.S. Economic, Capital Markets and Apartment Market Overview and Outlook**

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***Special Client Webcast***

**January 26, 2010**

**Marcus & Millichap**

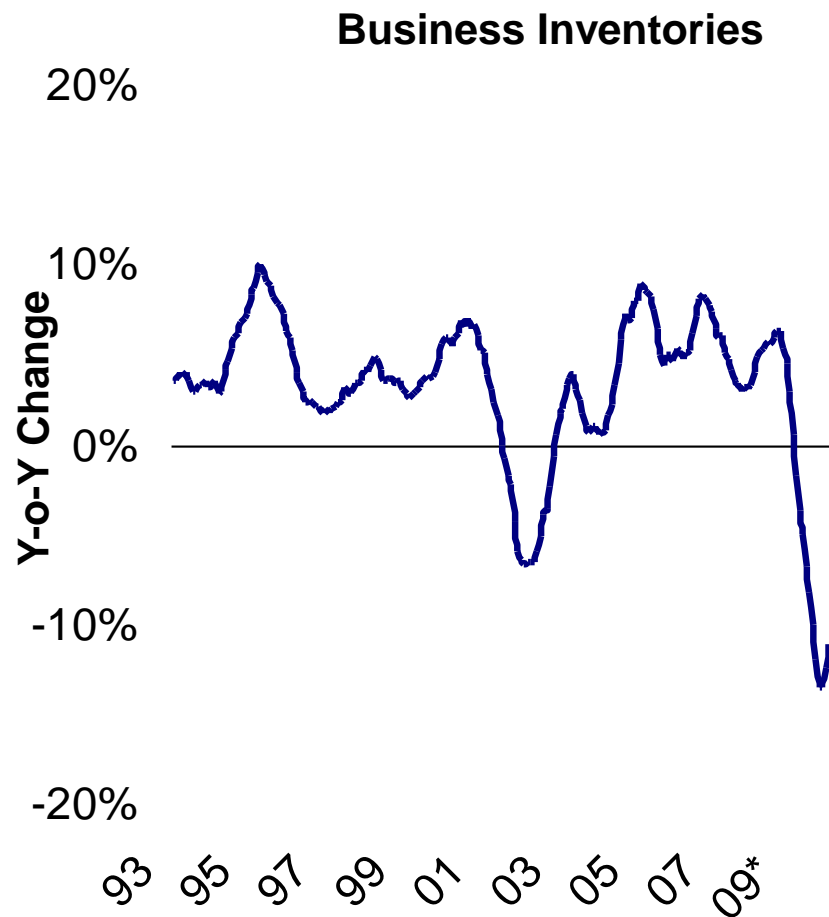
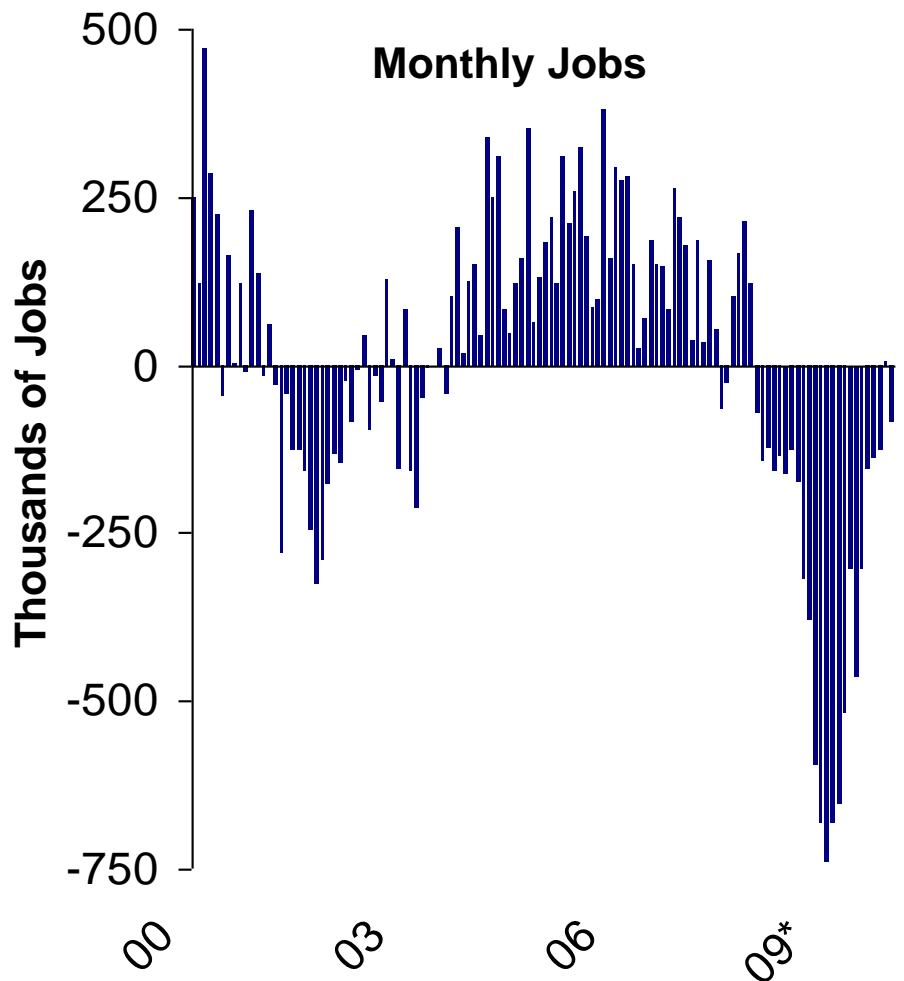
**NATIONAL MULTI HOUSING GROUP**

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***ECONOMIC and APARTMENT MARKET  
FUNDAMENTALS***

***OVERVIEW and OUTLOOK***

# Moderation in Job Losses Reinforces End of “Great Recession”

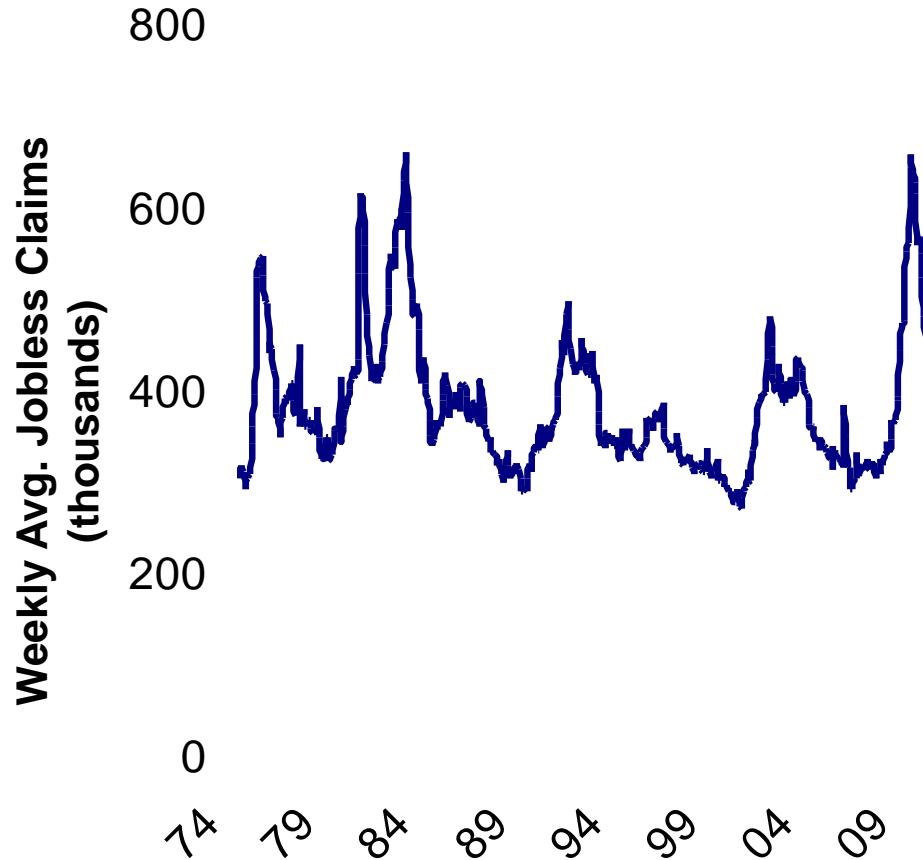


\* Employment estimate through December, Inventories through November

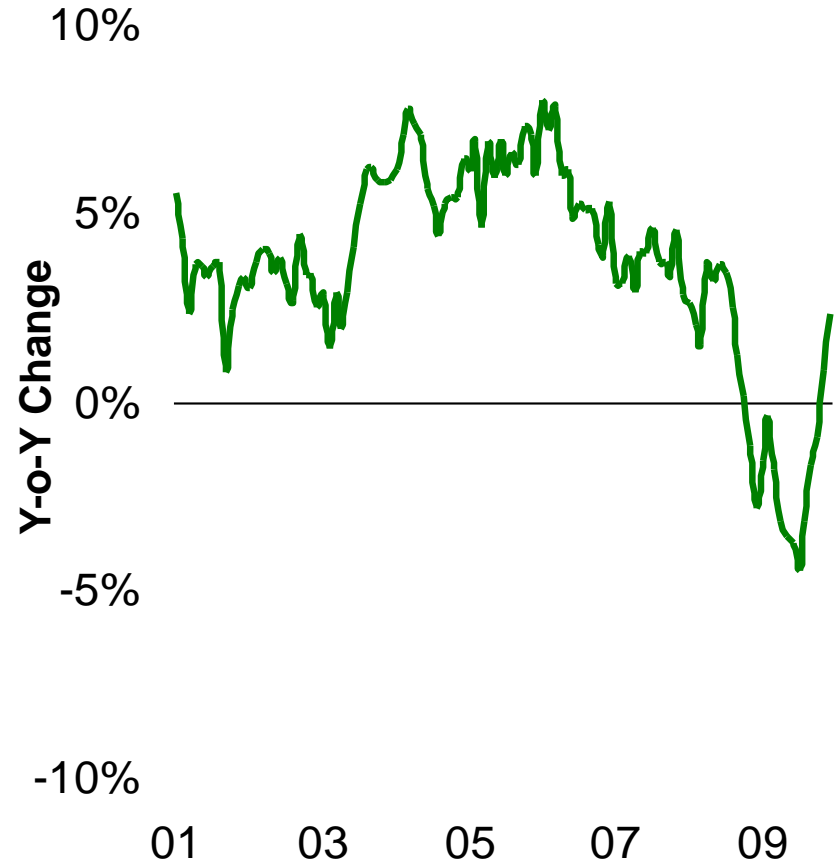
Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics

# Jobless Claims Falling Close to “Neutral” Level and Retail Sales Have Stabilized

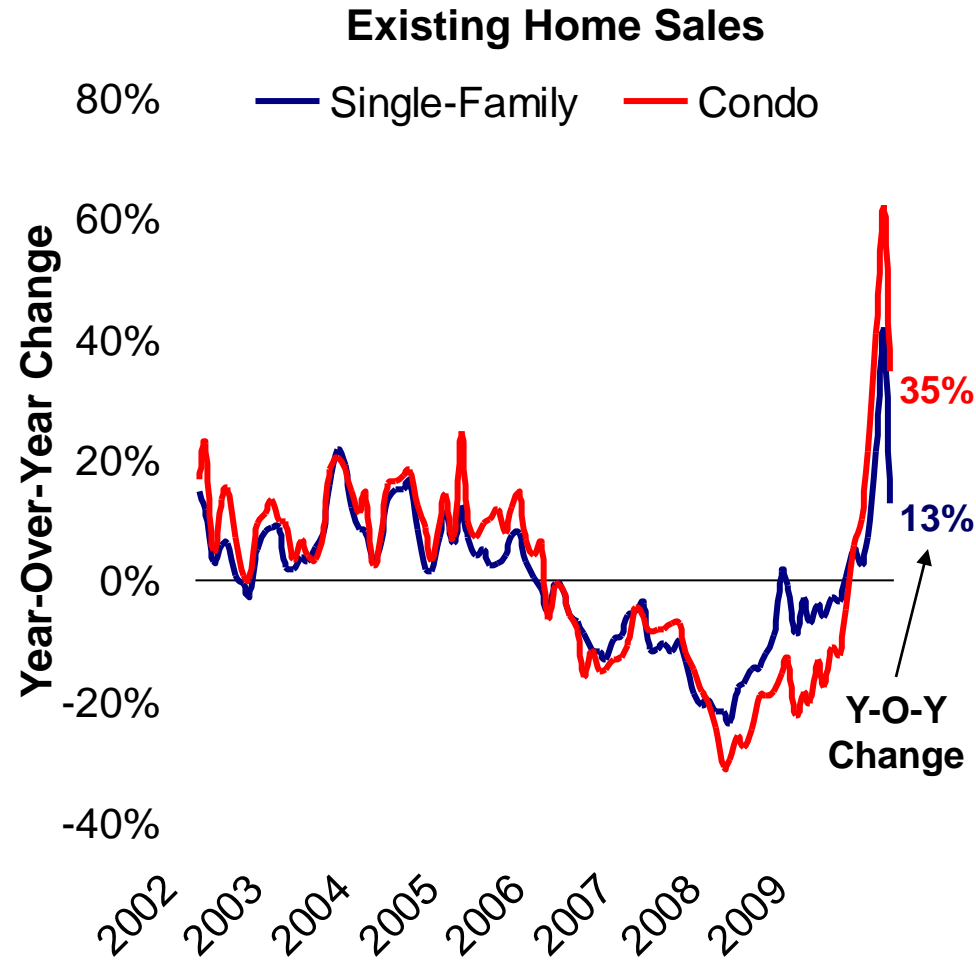
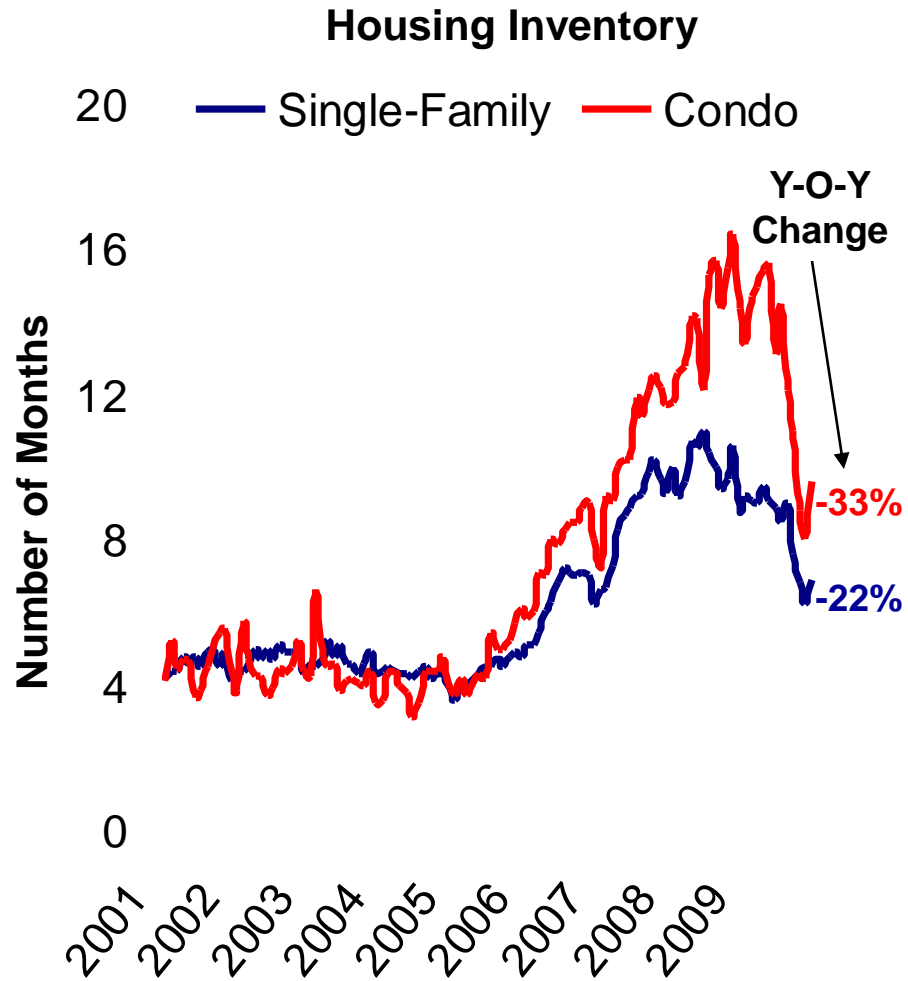
### Initial Jobless Claims – Weekly Avg.



### Retail Sales Excl. Auto and Gas



# Single-Family Housing and Condo Inventory; Home Sales Signal Beginning of Rocky Recovery Cycle

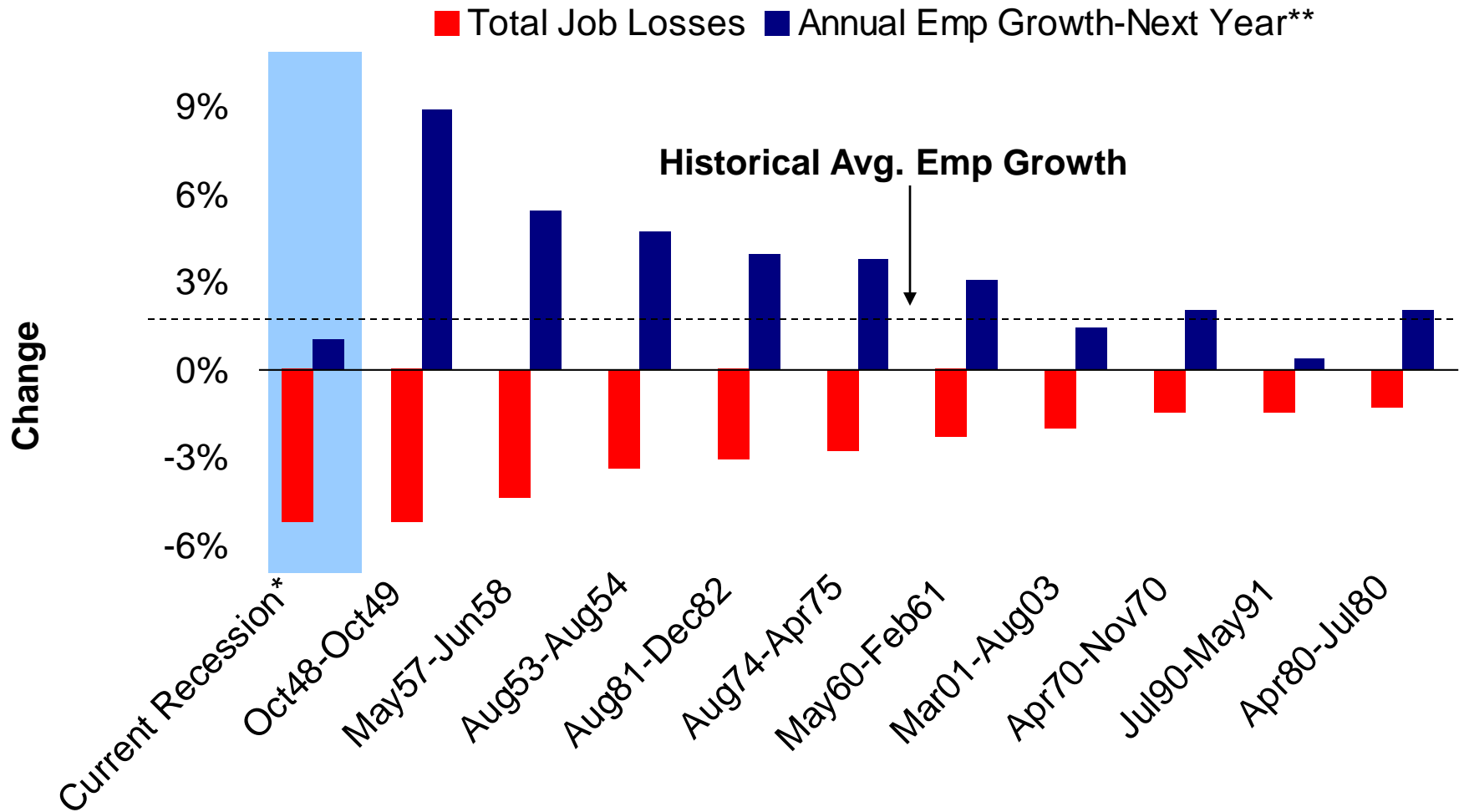


# 2009 Employment Ranking by Metro

Top 15 Markets	Abs Change	% Change
Austin	(2,159)	-0.3%
Washington D.C.	(15,259)	-0.5%
Northern New Jersey	(9,077)	-0.9%
San Antonio	(8,913)	-1.0%
Dallas-Fort Worth	(49,569)	-1.7%
Columbus	(16,200)	-1.7%
Baltimore	(23,900)	-1.8%
New York	(102,100)	-2.0%
Miami	(20,200)	-2.0%
Louisville	(12,600)	-2.1%
Oklahoma City	(12,300)	-2.1%
Boston	(54,733)	-2.3%
Kansas City	(24,800)	-2.4%
Palm Beach	(13,100)	-2.5%
Philadelphia	(68,900)	-2.5%
<b>U.S.</b>	<b>(4,164,000)</b>	<b>-3.1%</b>

Bottom 15 Markets	Abs Change	% Change
San Jose	(35,800)	-4.0%
Chicago	(181,000)	-4.1%
Cleveland	(42,100)	-4.1%
Salt Lake City	(26,600)	-4.2%
Tampa	(50,700)	-4.2%
Charlotte	(35,600)	-4.2%
Inland Empire	(50,600)	-4.3%
Atlanta	(104,500)	-4.4%
San Francisco	(45,500)	-4.6%
Sacramento	(40,800)	-4.7%
Portland	(48,300)	-4.8%
Phoenix	(90,700)	-5.0%
Milwaukee	(47,900)	-5.7%
Detroit	(113,300)	-6.2%
Las Vegas	(66,641)	-7.4%
<b>U.S.</b>	<b>(4,164,000)</b>	<b>-3.1%</b>

# Employment Growth Expected to Fall Short of Most Recoveries – Could It Surprise to the Upside?

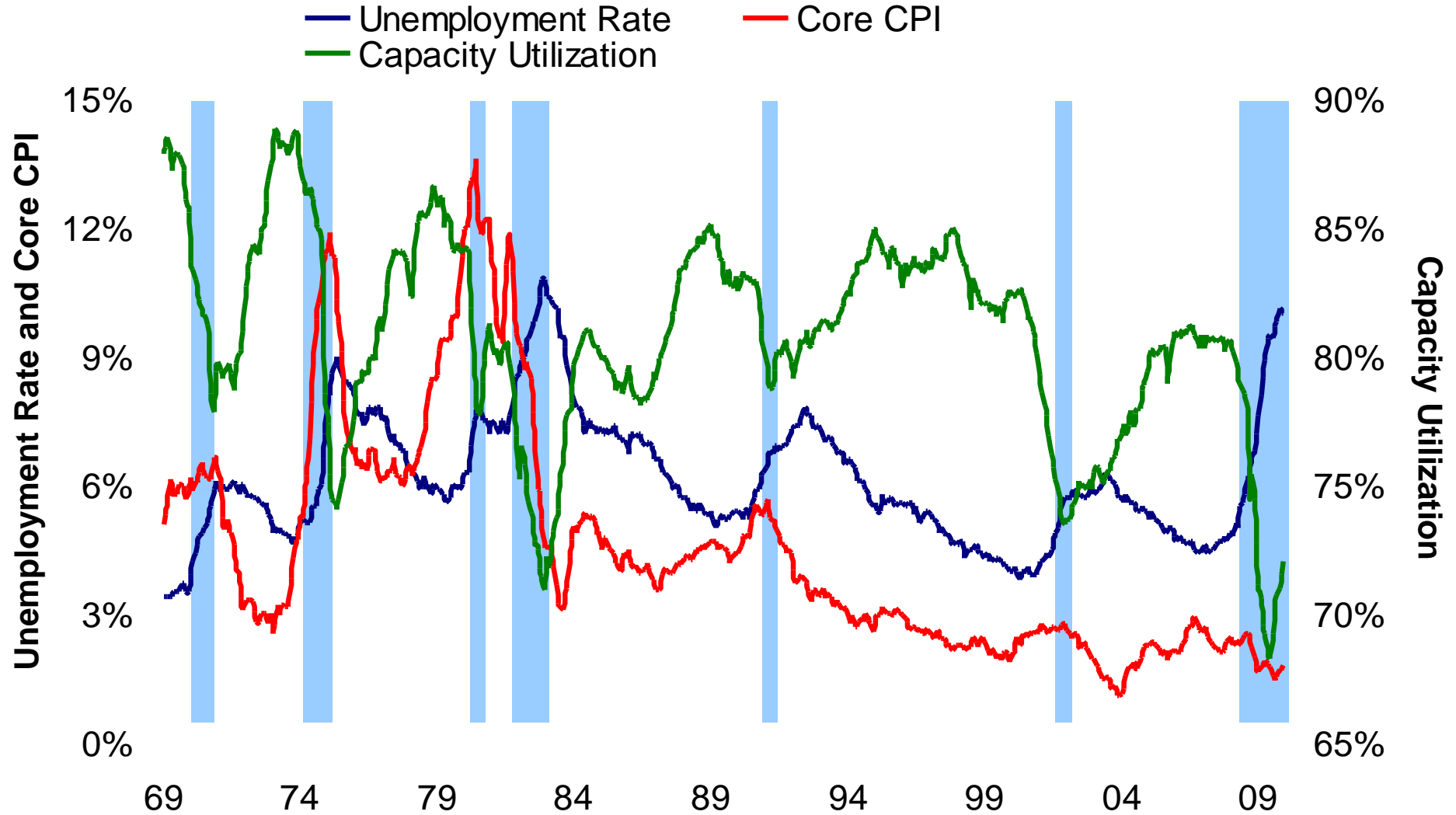


\* Forecast

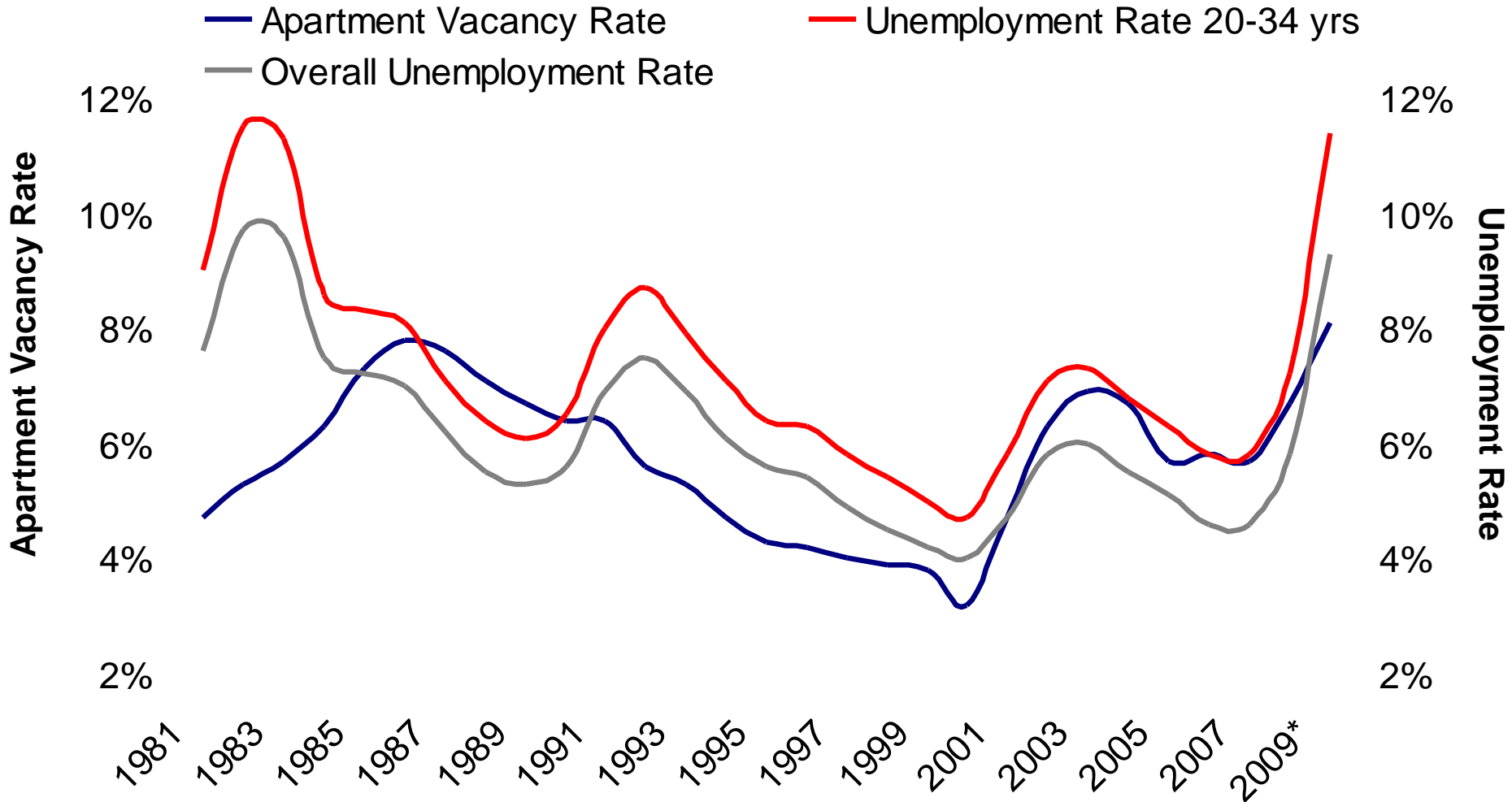
\*\* Based on employment for the 12 months after the contraction period

Sources: Marcus & Millichap Research Services, BLS

# Inflation Not a Threat...Yet



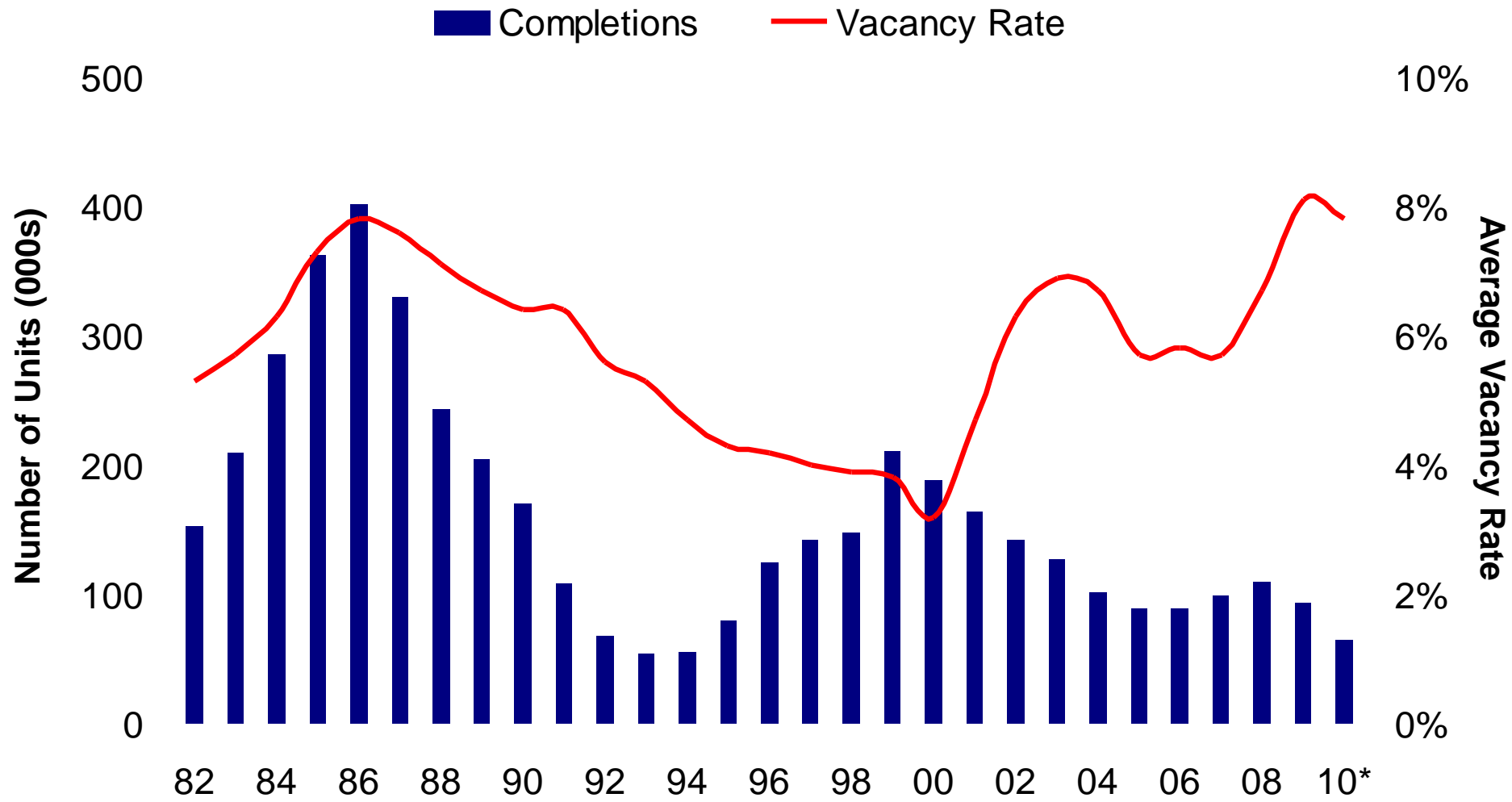
# Job Growth is Critical to Renter Household Formation and Apartment Occupancies



\* Preliminary Estimate

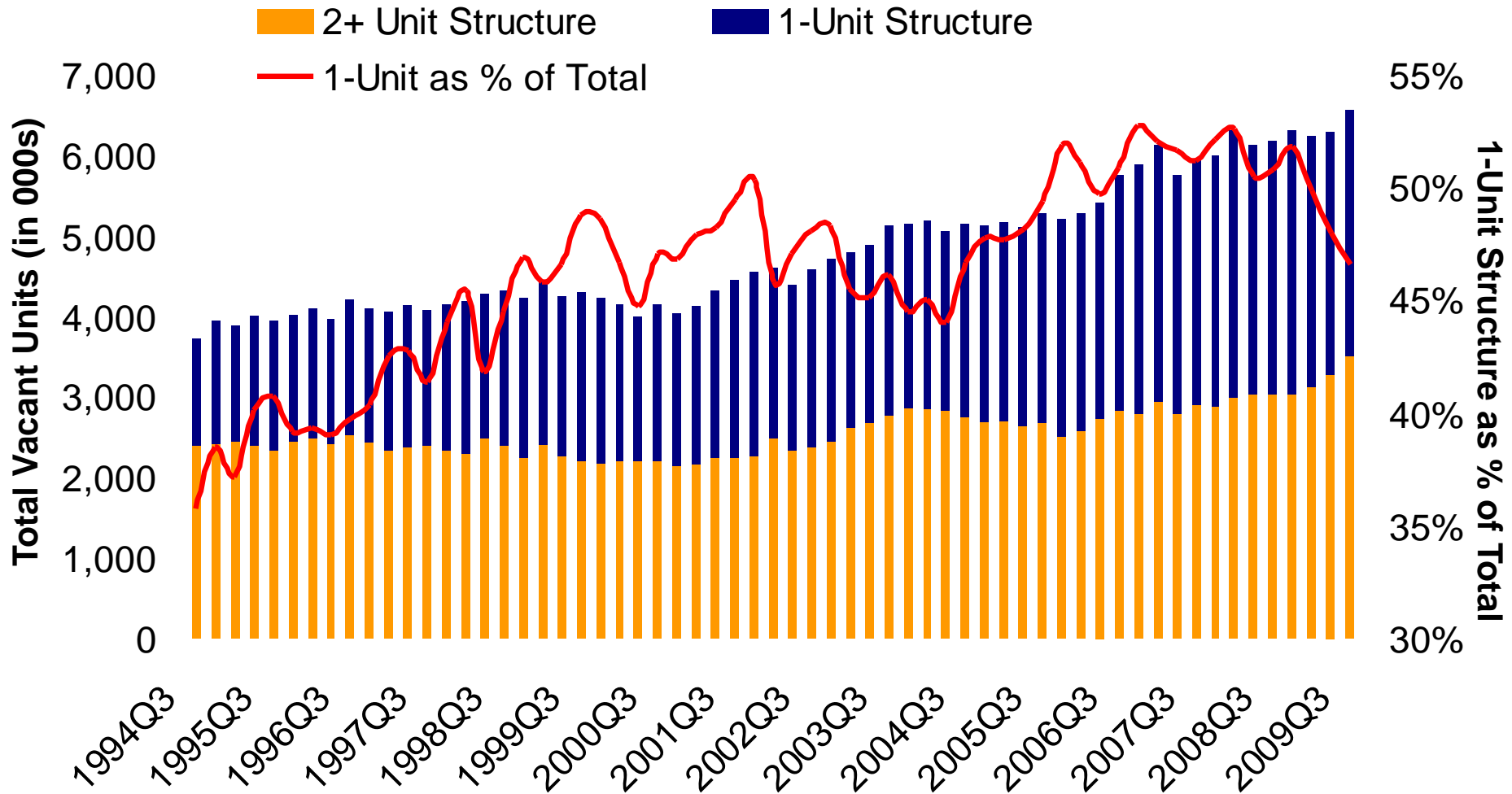
Sources: Marcus & Millichap Research Services, BLS, Reis

# Falling Construction, Modest Employment Recovery Will Stabilize Vacancy in 2010

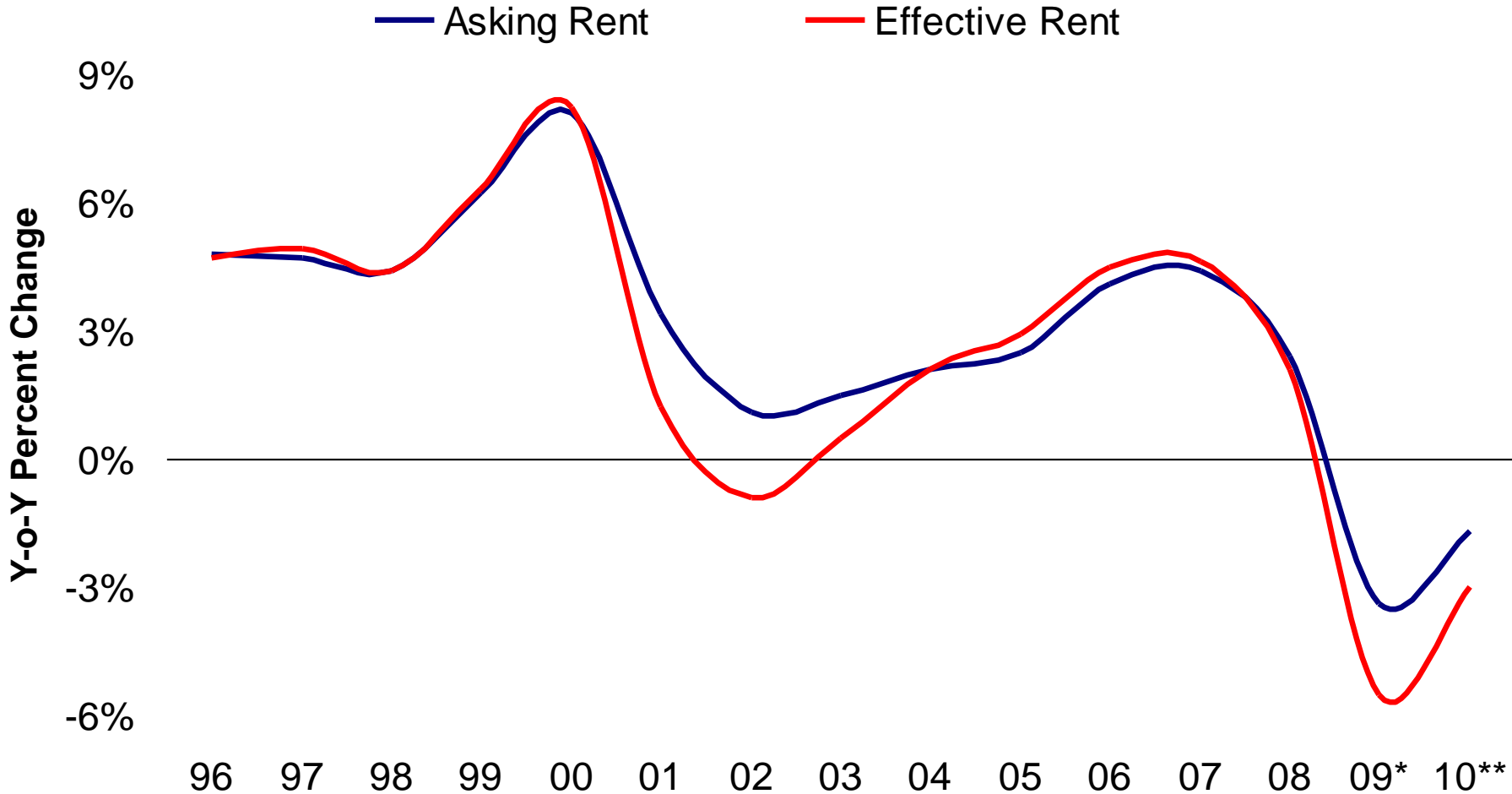


\* Forecast  
Sources: Marcus & Millichap Research Services, Reis

# “Shadow” Market a Significant Factor in Rising Vacancies – More in Select Metros



# U.S. Apartment Rent Trends



\* Estimate

\*\* Forecast

Sources: Marcus & Millichap Research Services, Reis

# Apartment Metro Vacancy Ranking 2010\*

Top 15 Markets	2010* Vacancy
New York	3.4%
Minneapolis	5.0%
New Jersey	5.4%
San Diego	5.4%
San Francisco	5.4%
Milwaukee	5.5%
San Jose	5.5%
Los Angeles	6.0%
Washington, D.C.	6.5%
Philadelphia	6.6%
Orange County	6.7%
Boston	6.8%
Miami	6.8%
Salt Lake City	6.9%
Portland	7.0%

Bottom 15 Markets	2010* Vacancy
Dallas-Ft. Worth	9.5%
Denver	9.6%
Palm Beach	9.6%
Inland Empire	9.8%
San Antonio	10.4%
Austin	10.6%
Tampa	10.8%
Orlando	11.2%
Charlotte	11.5%
Atlanta	11.6%
Las Vegas	12.0%
Houston	12.6%
Phoenix	12.6%
Tucson	12.7%
Jacksonville	14.5%

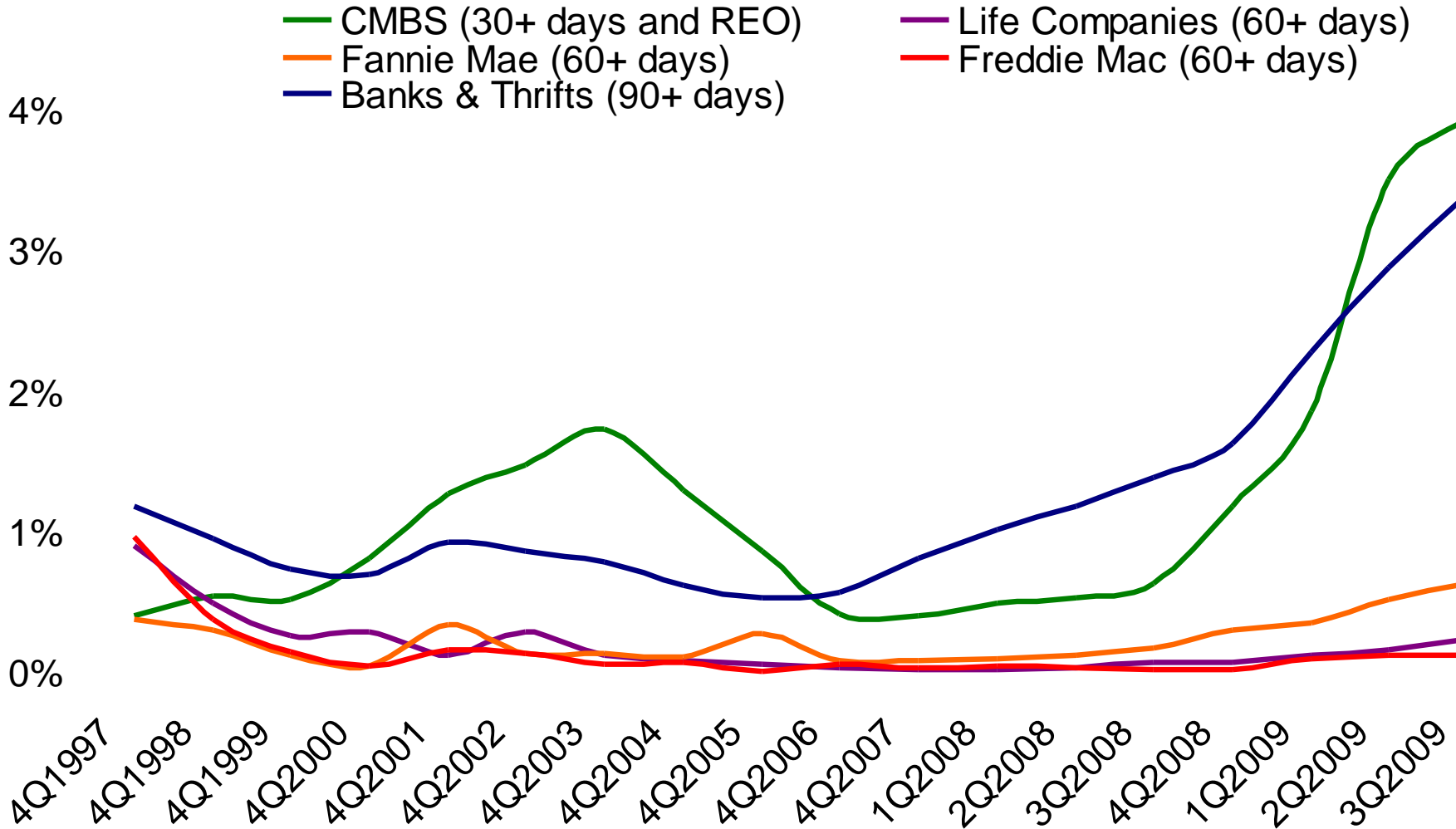
\* Forecast

Sources: Marcus & Millichap Research Services, Reis

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***CAPITAL MARKETS  
OVERVIEW and OUTLOOK***

# Commercial Mortgage Delinquency Rates by Lender Type



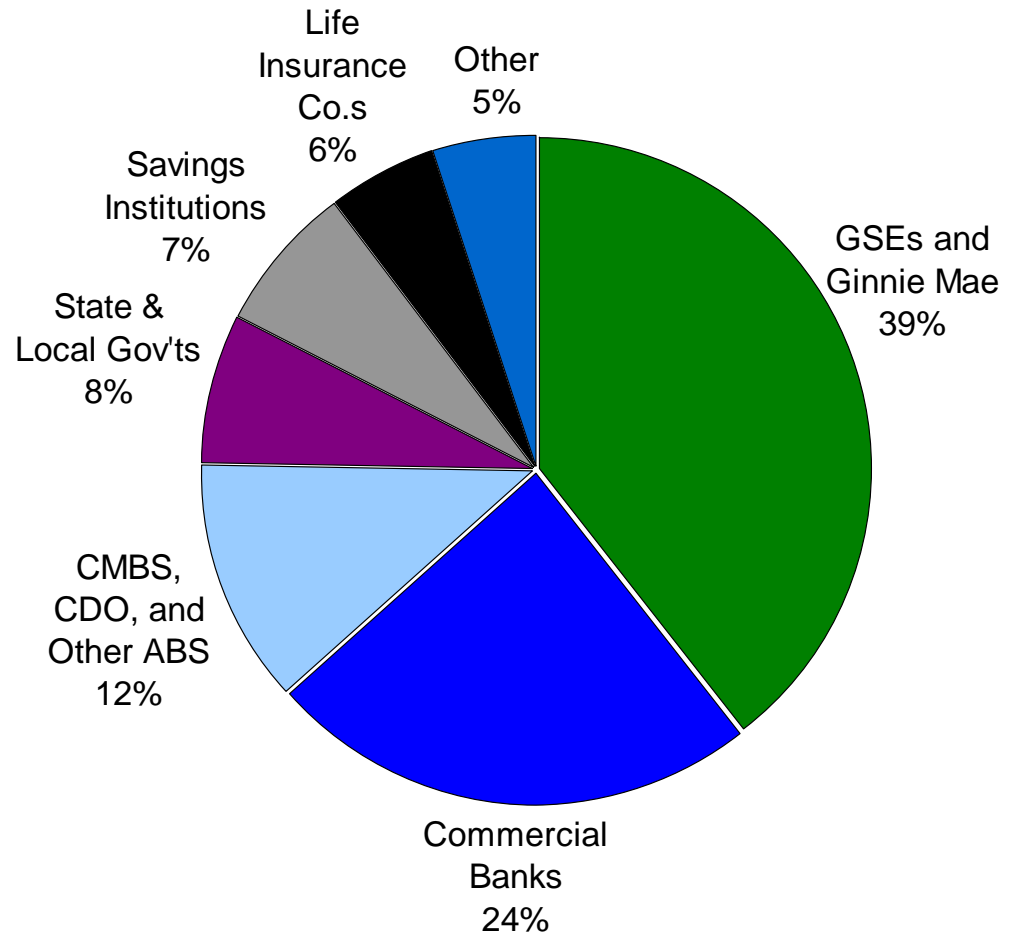
Delinquency rates at the end of each period

Sources: Marcus & Millichap Research Services, Mortgage Bankers Association

# Total Multifamily Mortgage Debt Outstanding: \$911.7 billion

## By Lender Types (\$Bil):

<b>GSEs and Ginnie Mae</b>	<b>\$359.6</b>
<b>Commercial Banks</b>	<b>\$216.8</b>
<b>CMBS, CDO, and Other ABS</b>	<b>\$110.3</b>
<b>State &amp; Local Governments</b>	<b>\$66.1</b>
<b>Savings Institutions</b>	<b>\$64.0</b>
<b>Life Insurance Companies</b>	<b>\$50.4</b>
<b>Other</b>	<b>\$44.4</b>



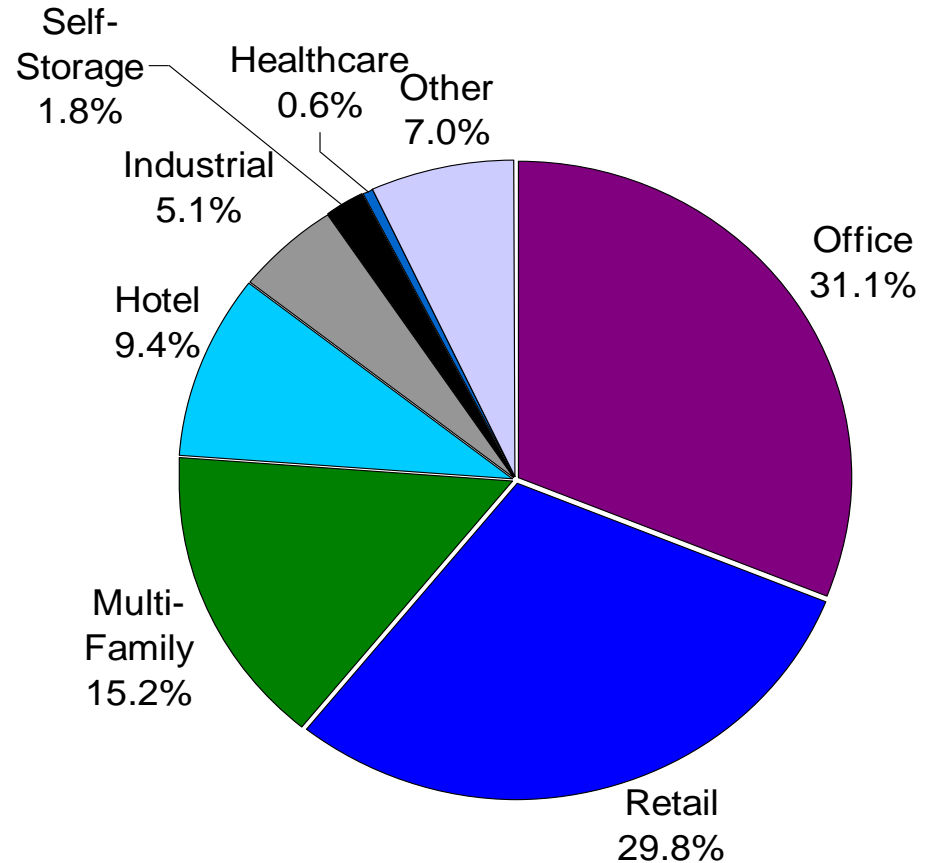
\* As of 3Q09

Sources: Marcus & Millichap Research Services, MBA

# Total CMBS Outstanding: \$751.7 billion

## By Property Types (\$Bil.):

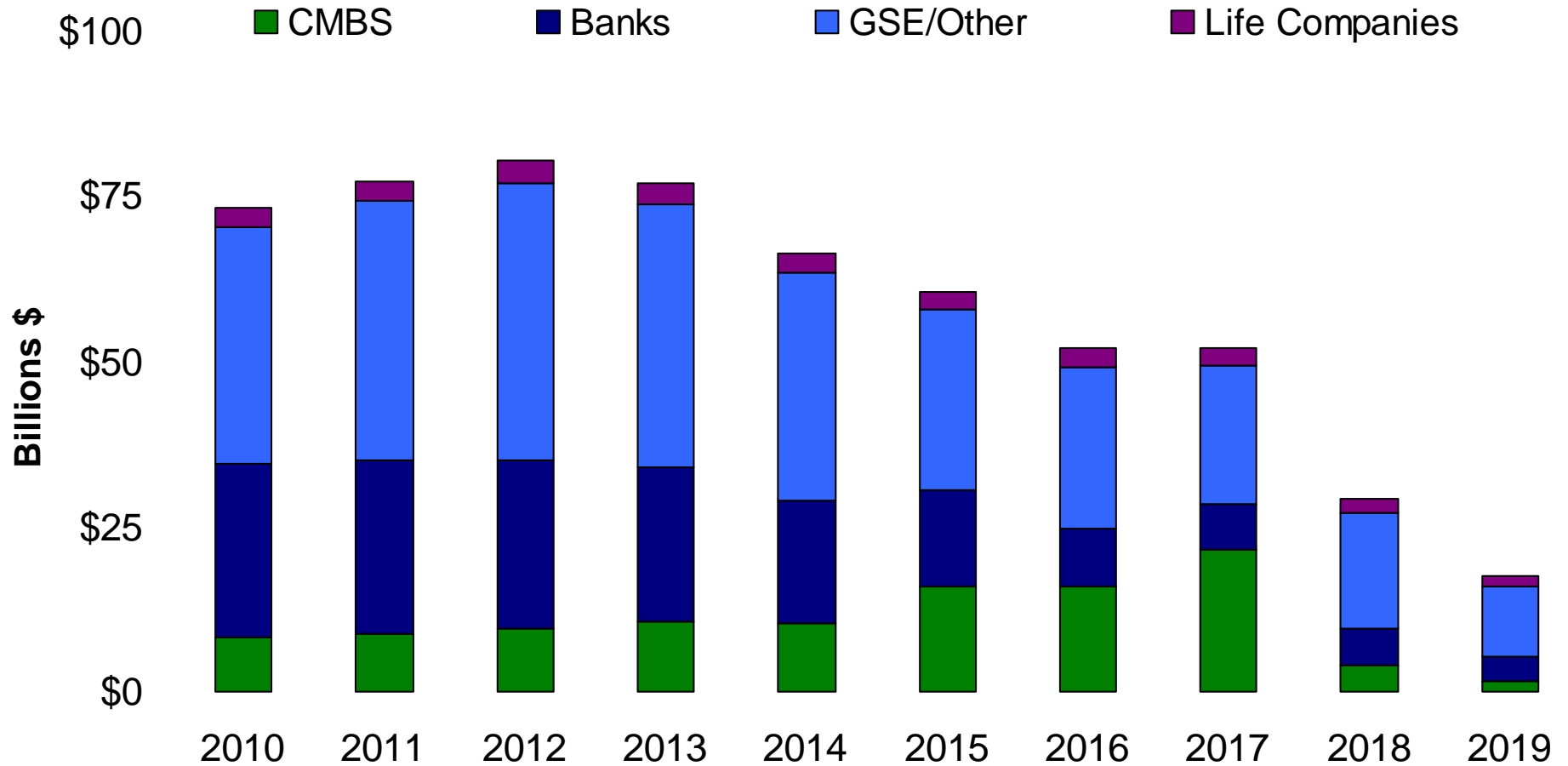
Office	\$233.8
Retail	\$224.0
<b>Multifamily</b>	<b>\$114.3</b>
Hotel	\$70.7
Industrial	\$38.3
Self-Storage	\$13.5
Healthcare	\$4.5
Other	\$52.6



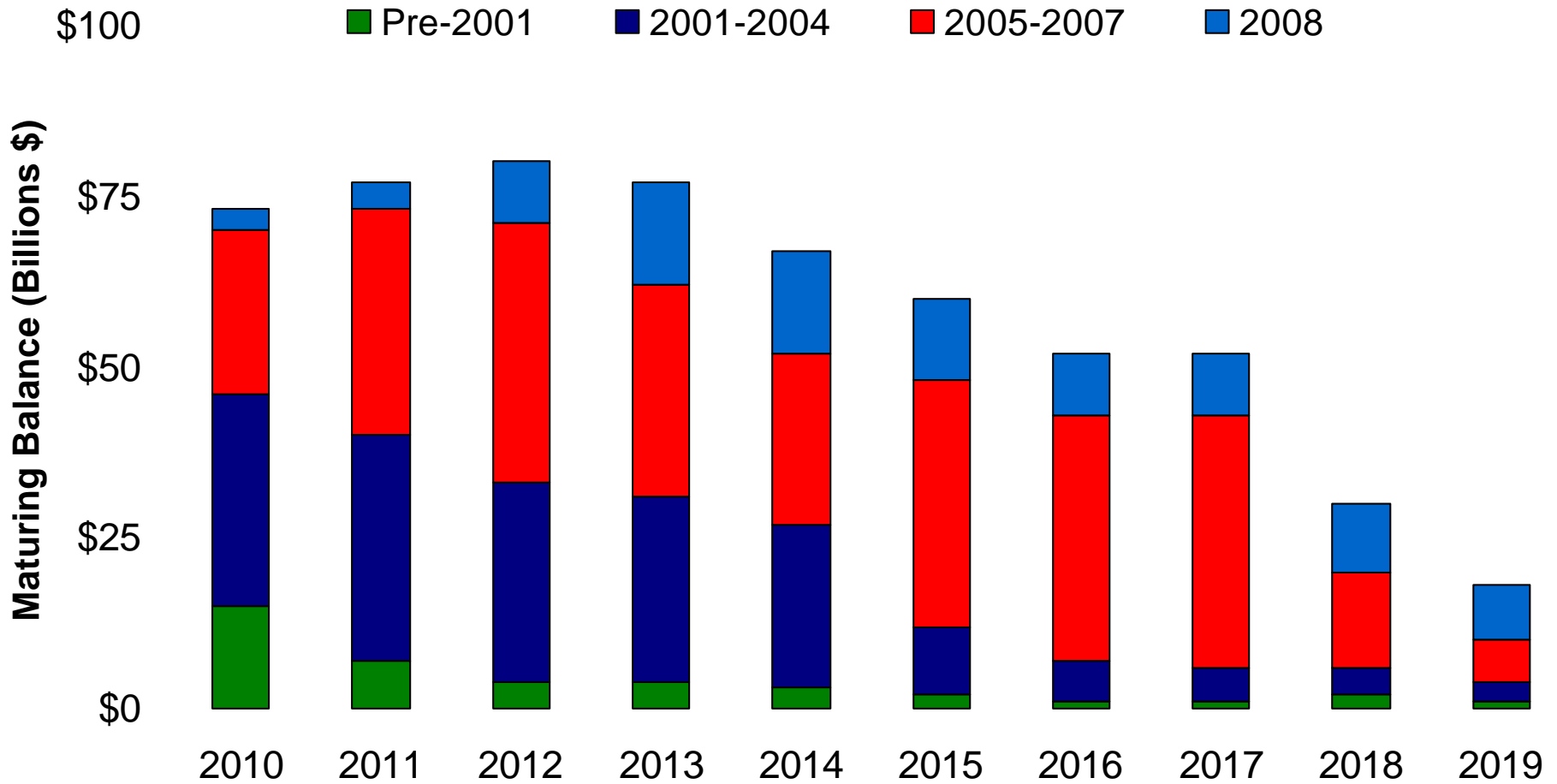
\* As of 3Q09

Sources: Marcus & Millichap Research Services, MBA

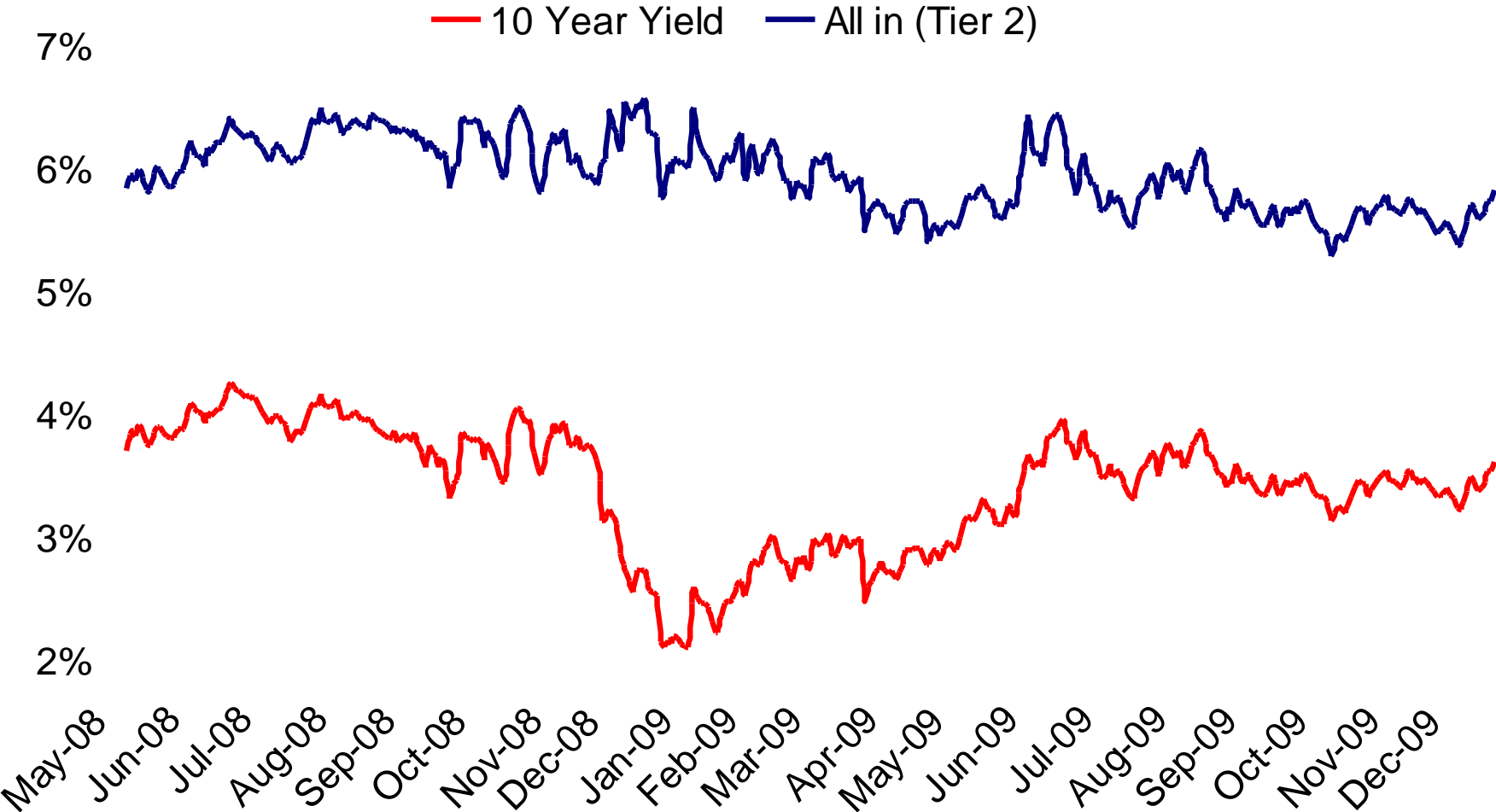
# Estimated Multifamily Debt Maturities by Lender Type



# Total Multifamily Debt Maturities by Vintage



# Indicative Fannie Mae Rates



Sources: Marcus & Millichap Research Services, Federal Reserve Board

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***APARTMENT INVESTMENT  
TRENDS and STRATEGIES***

# Market Divergence Between Sellers and Buyers

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**The apartment market remains divided into two distinct camps...**

➤ **Inherent long term investment value**

- **Future demand / supply drivers favor appreciation**
- **Apartments remain a preferred investment vehicle**
- **Lack of appealing investment alternatives**

➤ **Short term transactional value**

- **Debt and equity more conservative & expensive**
- **Operating fundamentals remain challenged**
- **Expectation of distressed pricing**

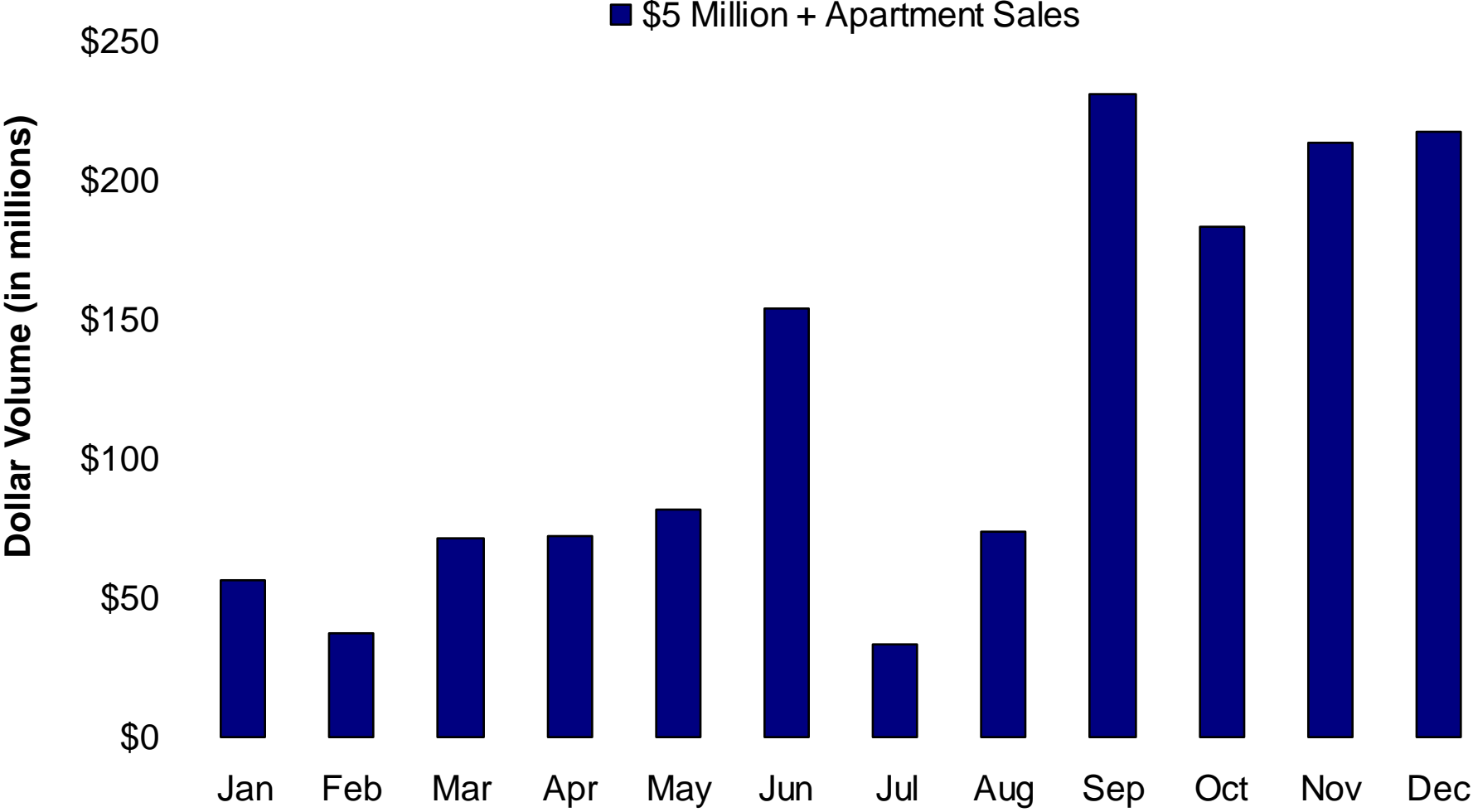
# Market Divergence Between Buyers

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**Buyers have diverged into two distinct camps...**

- **Buyers who still believe deep discounts are “around the corner”**
  - **Belief / hope history will repeat itself**
  - **Challenged operating fundamentals**
  - **Backlog of challenged assets in banks and servicers**
- **Buyers who believe the market is “near or at the bottom” in certain markets**
  - **Ability to purchase with high leverage or cash flow**
  - **Anticipating a strong recovery beginning in 2011**

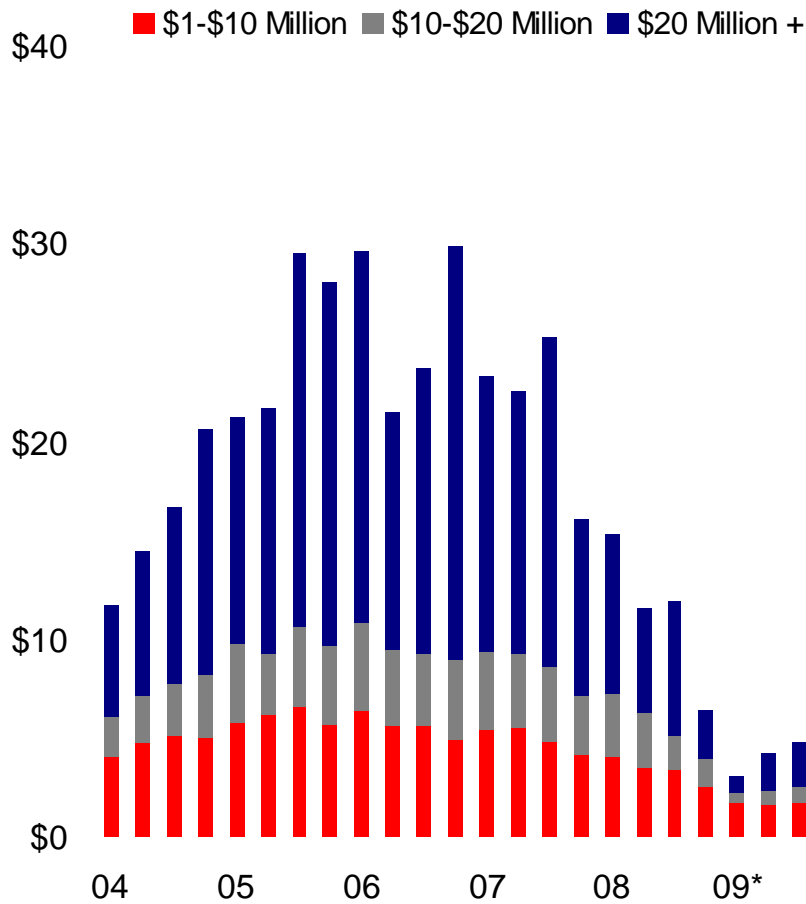
# Marcus & Millichap Apartment Sales Trends



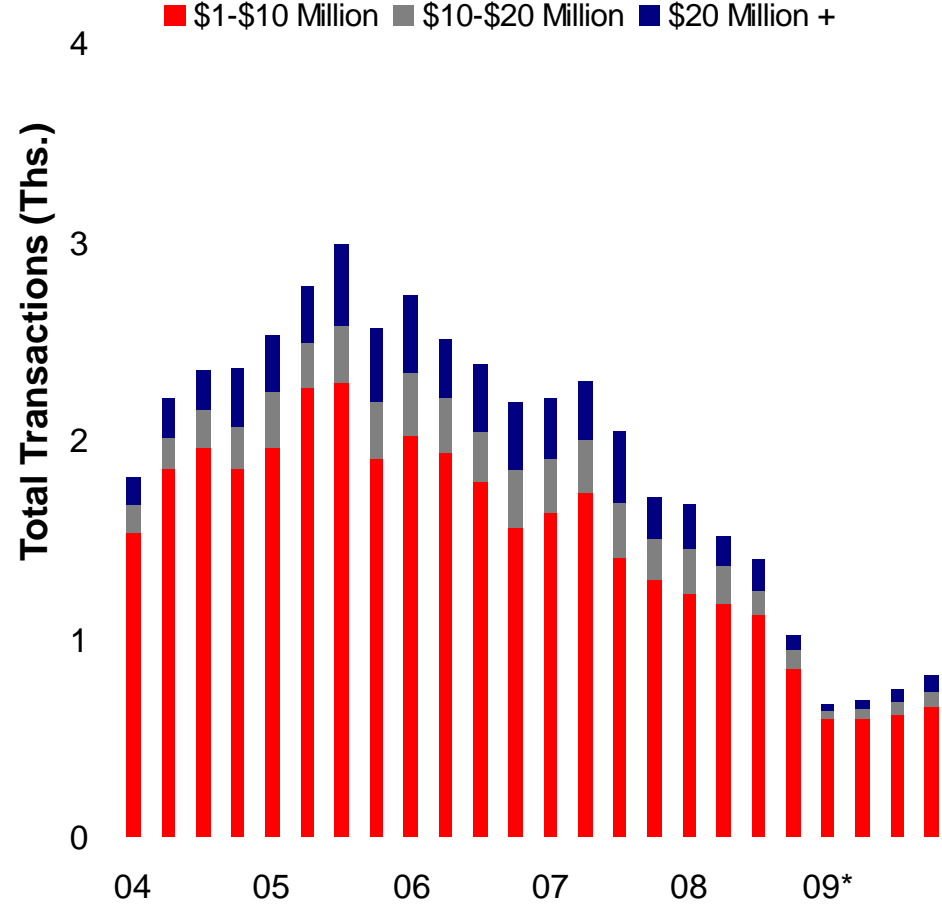
Source: Marcus & Millichap National Multi-Housing Group

# U.S. Quarterly Apartment Sales Trends

## Total Dollar Volume



## Total Transactions



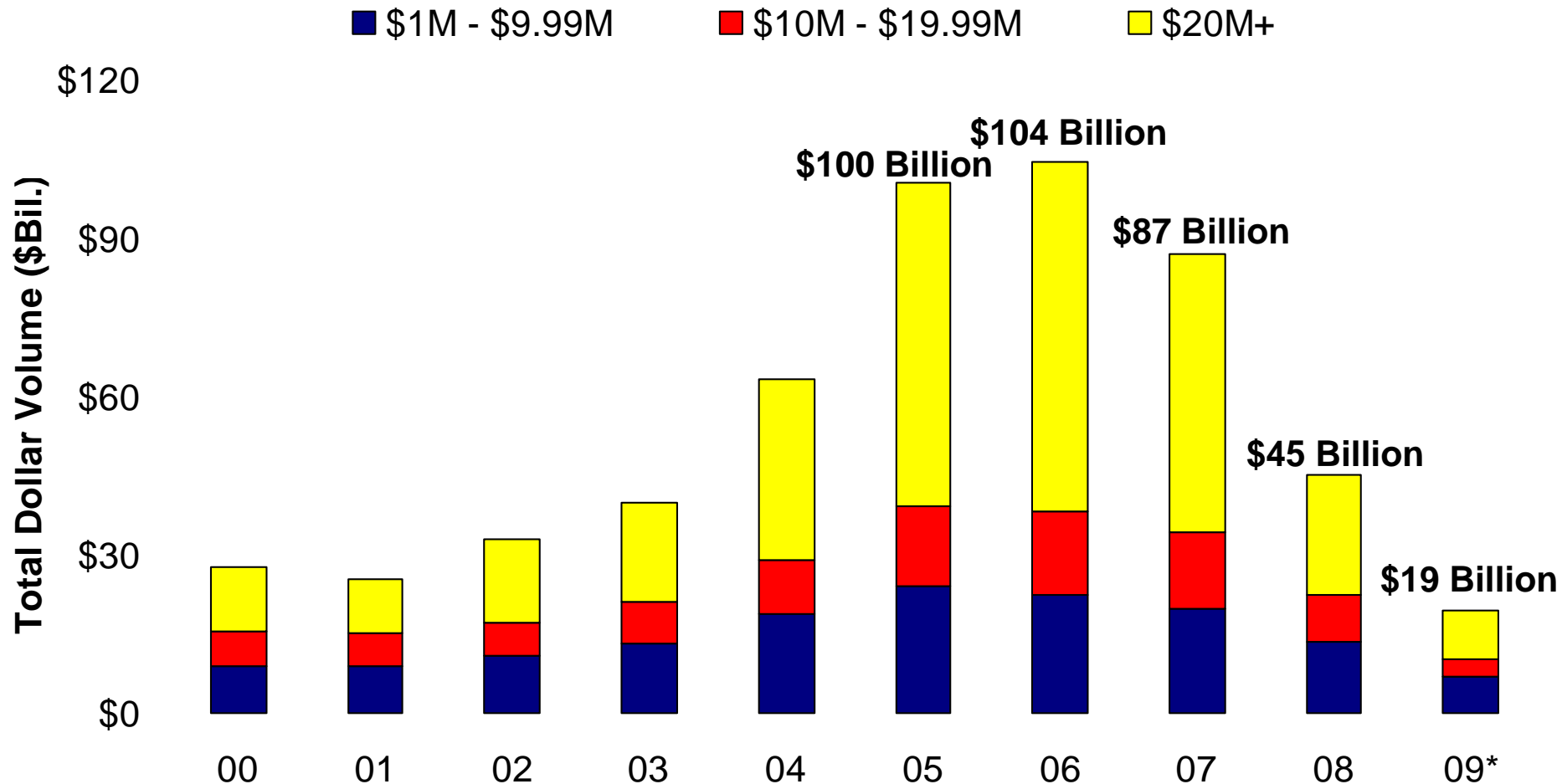
\* 4Q 2009 is an Estimated Figure

Includes transactions sold for \$1,000,000 and greater

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

# Apartment Investment Trends

## Dollar Volume by Price Category

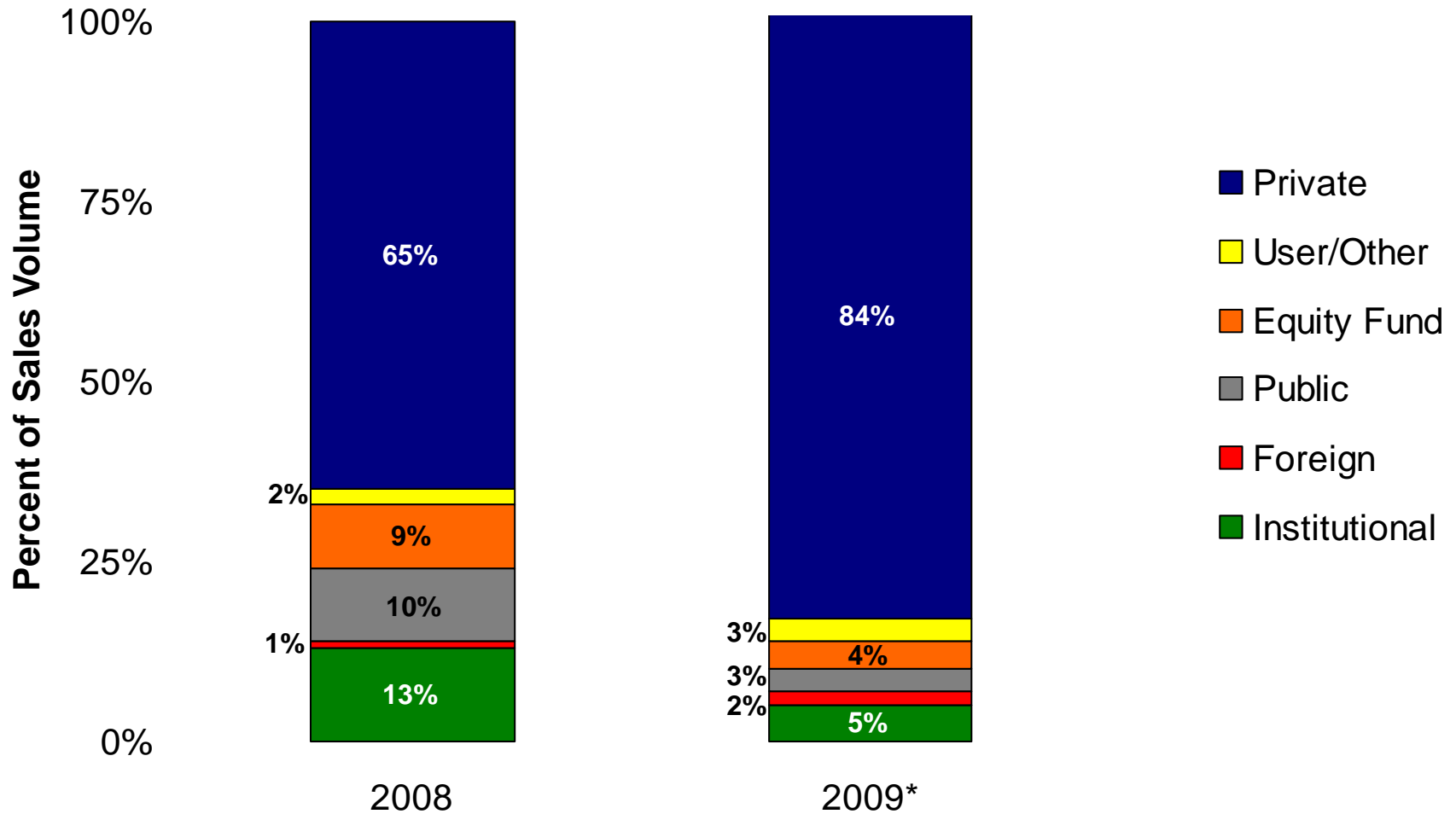


\* Estimate

Excludes Archstone Privatization

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

# U.S. Apartment Buyer Composition



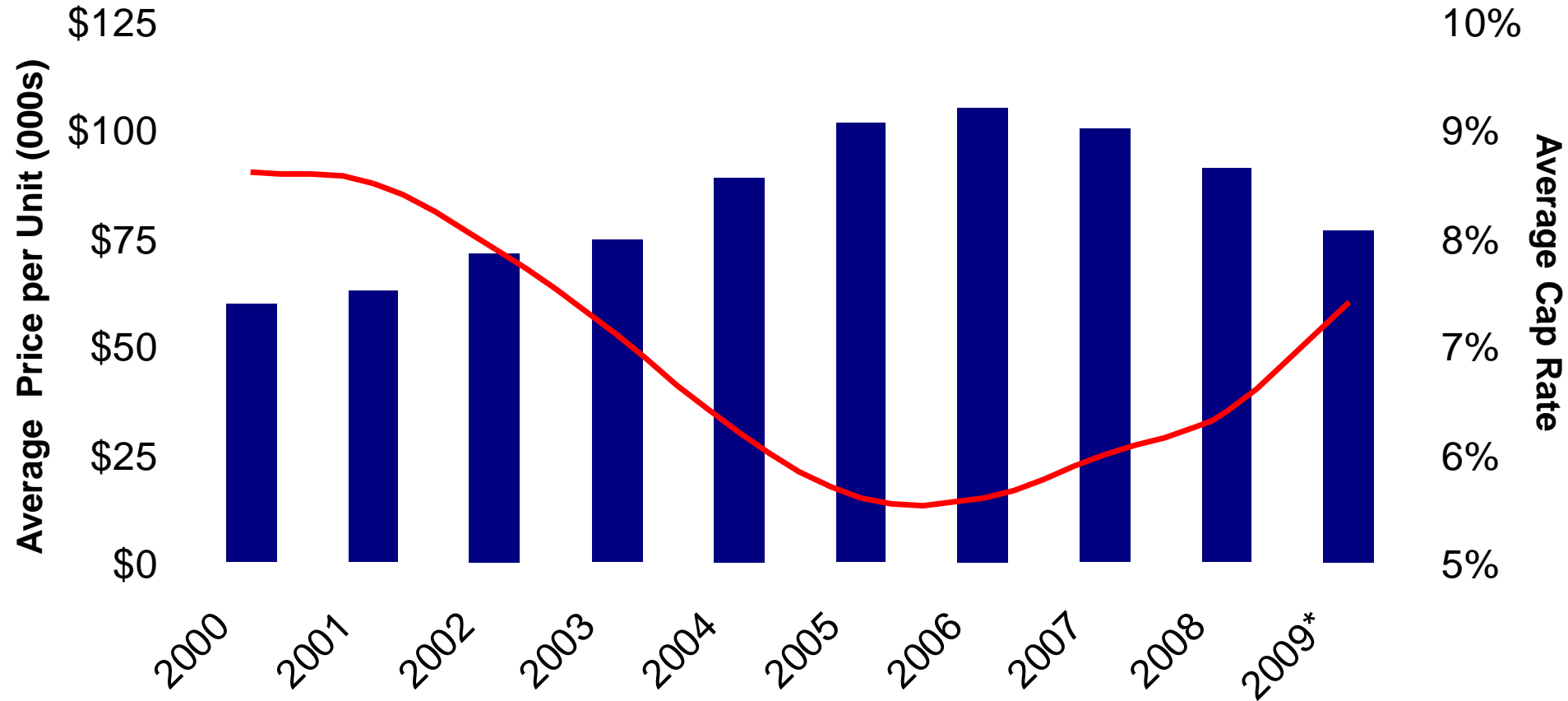
\* YTD through September

Sales \$5 Million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

# National Apartment Price and Cap Rates

■ Average Price    — Cap Rates



\* Estimate

Includes sales \$1 Million and Greater

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

# 24 – Month Cap Rate Adjustment Matrix \*

	Class “A”	Class “B”	Class “C”
Primary	1.00	1.25	1.75
Secondary	1.25	1.75	2.25
Tertiary	2.00	2.25	2.75

\* Change in cap rates last 24 months

# 24 – Month Pricing Adjustment Matrix

	Class "A"	Class "B"	Class "C"
Primary	-20%	-23%	-32%
Secondary	-24%	-30%	-36%
Tertiary	-33%	-35%	-41%

Base =            5.00 / 5.50            5.50 / 6.25            6.00 / 6.75

# Distressed Loan / Asset Issues

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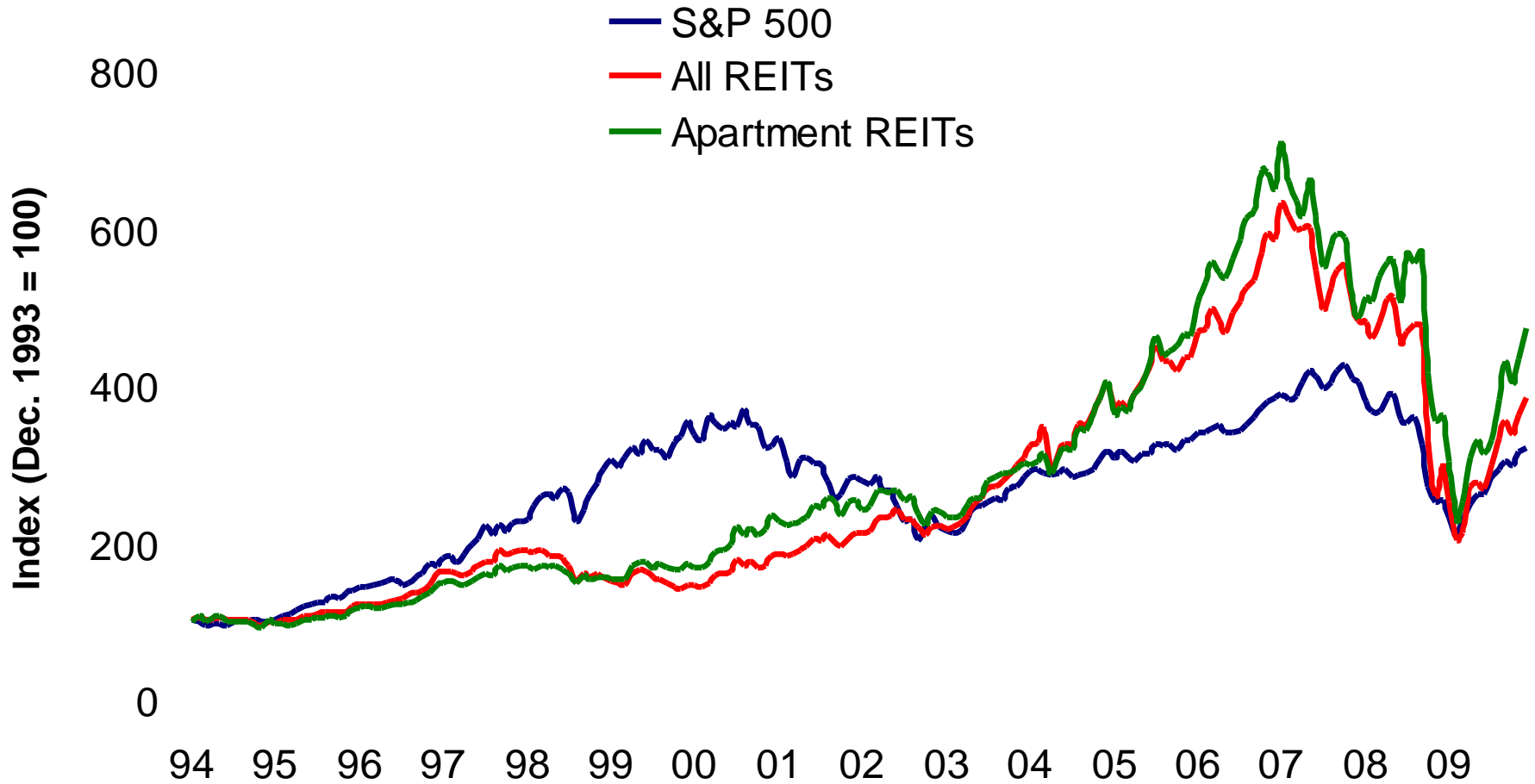
- **Loan Sales vs. REO Asset Sales**
- **Portfolio vs. Individual Asset Sales**
- **Timing:**
  - **Complicated equity / debt “stacks”**
  - **Liability issues**
  - **Preservation of equity**
  - **NPV vs. liquidity analysis**

# Distressed Loan / Asset Issues

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- **Regulation / Documentation Issues**
- **Strategic Differentiation for Quality**
  - **Improve management of asset**
  - **Physically rehab the asset**
- **Could Special Asset Services Provide Seller-Carried Financing?**
- **Distressed Assets Controlled by Private Enterprises**

# U.S. Public REIT Valuation Indices vs. S&P 500



Index: December 1993 = 100

Sources: Marcus & Millichap Research Services, NAREIT, Standard and Poor's

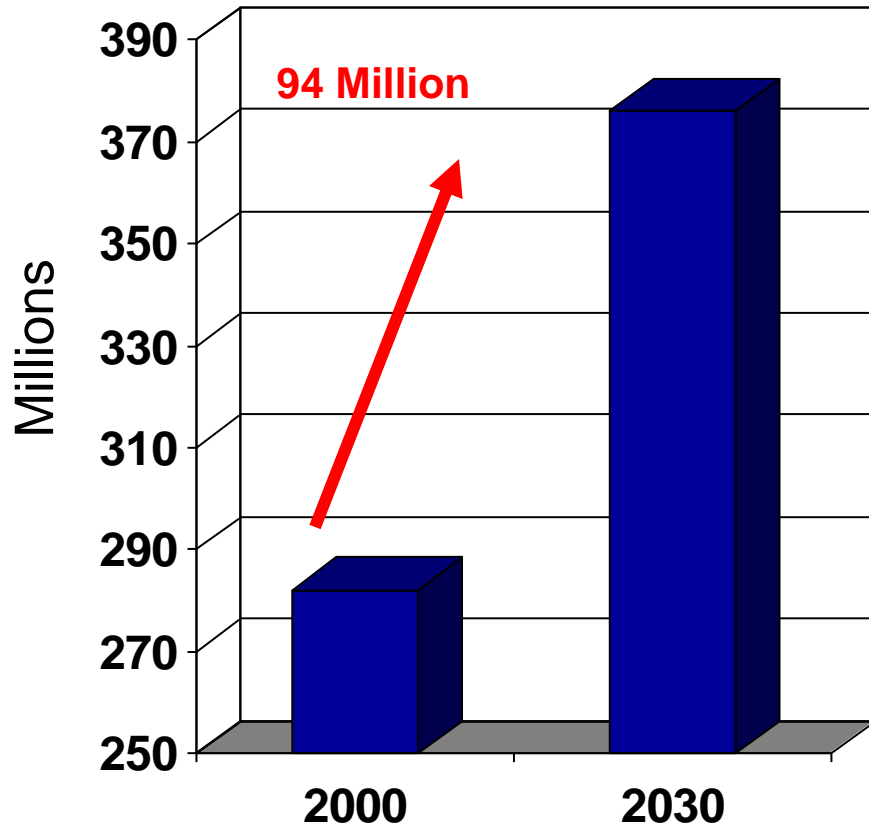
# **Why the Long-Term Outlook for U.S. Apartments is Extremely Favorable**

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**U.S. will experience a fundamental change in housing dynamics favoring the density, efficiency, flexibility and affordability of apartment living:**

- 1. Population growth**
- 2. Changing demographics**
- 3. Environmental concerns**
- 4. Budget / expense factors**
- 5. Sharp decrease in new supply**
- 6. Affordability**
- 7. Rent vs. own**

# Population Dynamics



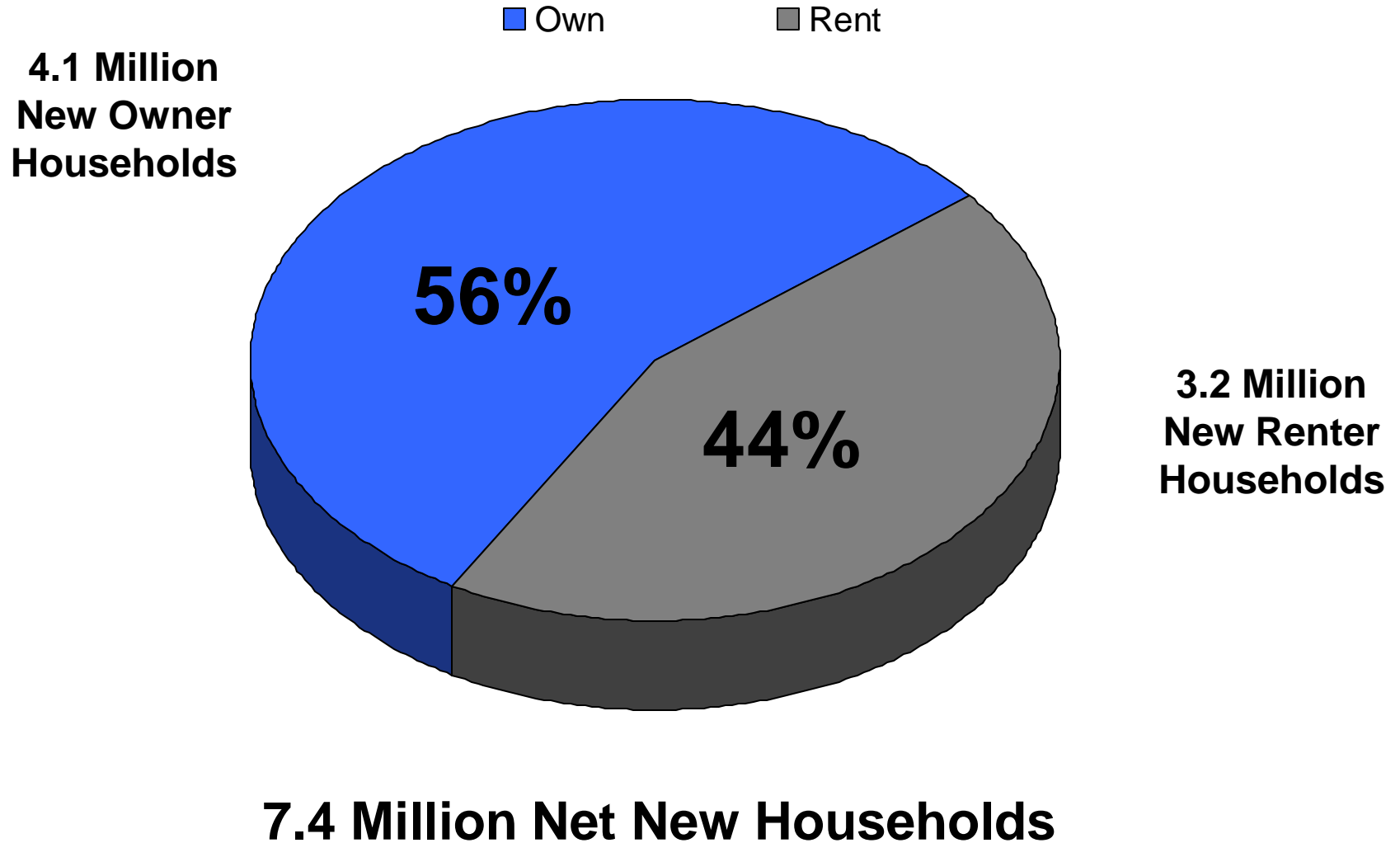
- U.S. population is expected to increase 33% by 2030 to 376 million.
- To accommodate this growth, the nation needs 60 million new housing units.

# Demographic Dynamics

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- **Married couples with children are projected to decline to under 1 in 5 households by 2025**
- **Singles and un-related individuals living together will comprise 1 in 3 households by 2020**
- **78 million echo boomers are getting ready to enter their prime renting years**
- **10 million legal immigrants will enter the country in next ten years**

# U.S. Household Growth Projection 2010 - 2015\*



\* Forecast

Sources: Marcus & Millichap Research Services, Economy.com, Harvard University

# Environmental Dynamics

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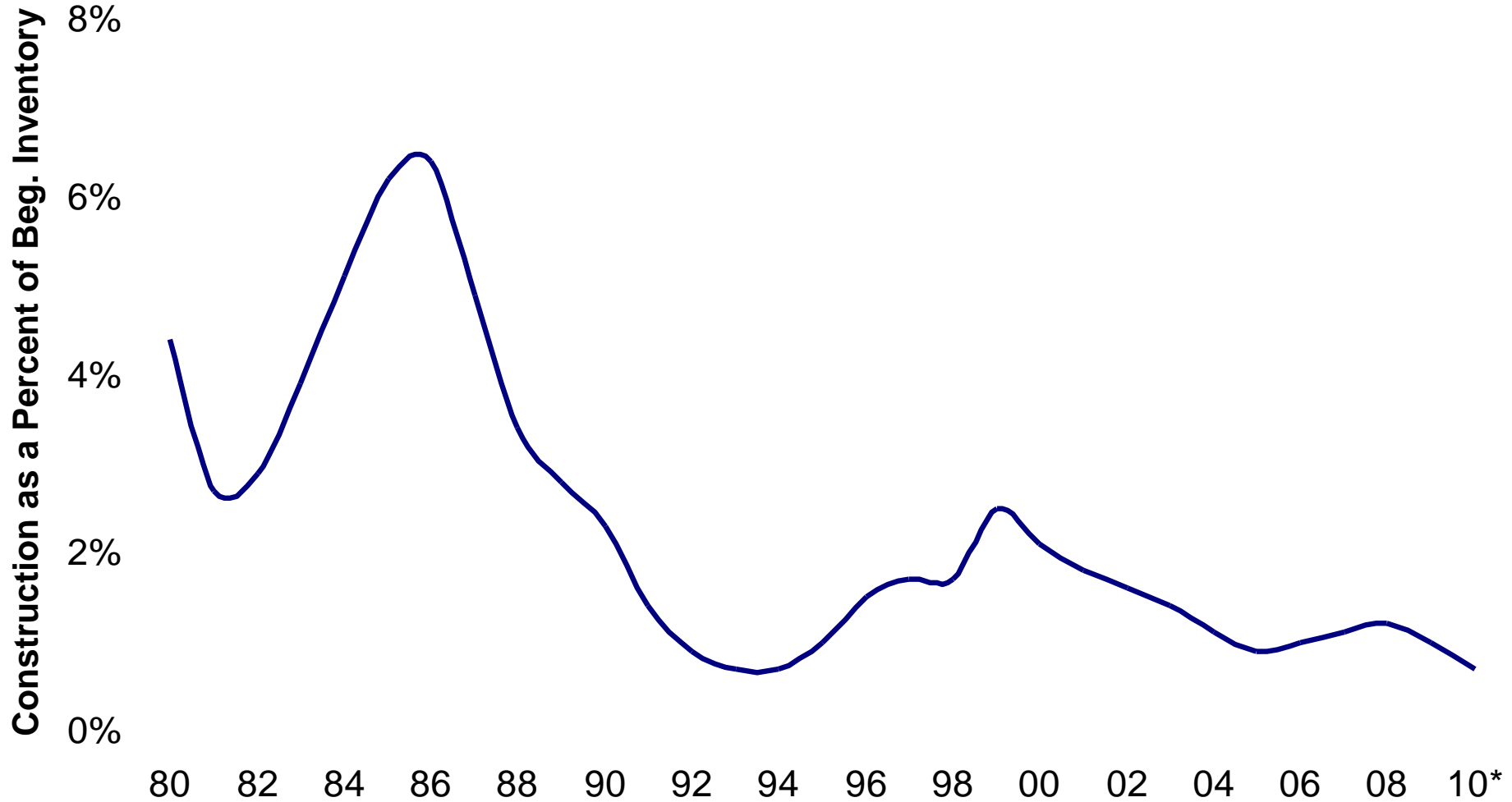
- **Growing environmental awareness / concern favors compact development such as apartments**
  - Preserves green space
  - Reduces amount of paved surfaces
  - Reduces air pollution / need to drive
- **ULI estimates we would save 85 million metric tons of carbon dioxide annually by 2030 if 60% of future growth is diverted to compact, walkable neighborhoods (apartments)**

# Budget / Fiscal Dynamics

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- **Urban / suburban sprawl is expensive**
- **Compact development reduces infrastructure costs and saves money**
- **The U.S. can save over \$100 billion in infrastructure costs over 25 years by growing compactly**

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



\* Forecast

Sources: Marcus & Millichap Research Services, Reis

# Affordability Dynamics

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- **35 million households spend 30 percent or more of their annual income on housing**
- **114 million people live in households that did not earn enough to reasonably afford a two-bedroom apartment (\$37,105 / \$925)**
- **Fastest growing industries are those with lower-paying jobs**

# Rent vs. Own Dynamics

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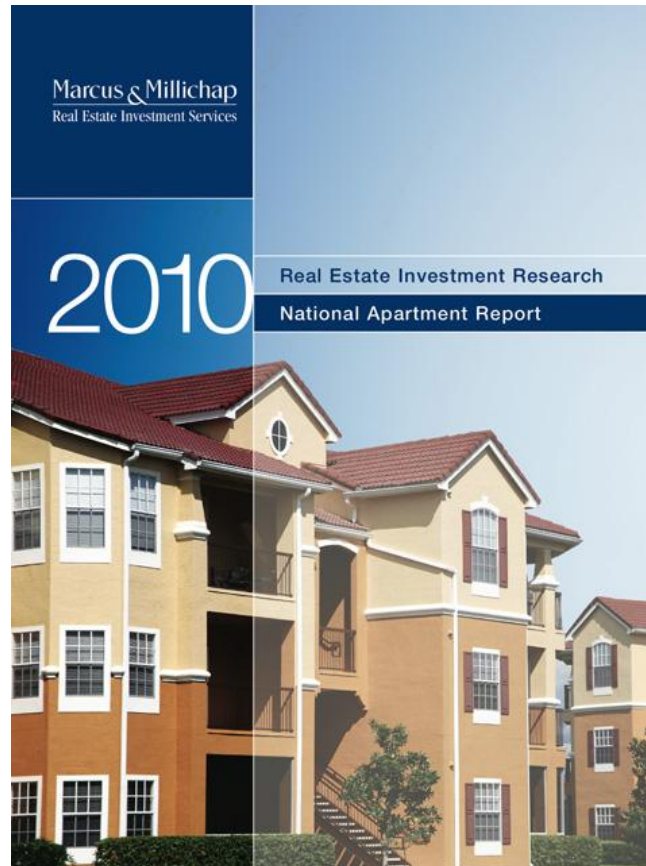
- **Consumer psychology toward renting vs. owning is shifting in post-bubble era**
- **A \$100 investment in housing in 1985 would be worth \$270 today**
- **A \$100 investment in stocks would be worth \$722 today (+267%)**
- **Housing is shelter... not an investment**

# Marcus & Millichap's NMHG Remains Bullish on U.S. Apartments Long-Term

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*U.S. apartments will be dramatically more  
valuable in 2020 than 2010*

# 2010 National Apartment Report



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