

Economic Distress and Affordable Housing: Challenges and Opportunities

NH&RA

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Headlines

- Catastrophic housing market conditions
 - Affordable housing is not immune
 - Markets vary tremendously
 - Markets matter more than ever
- Passive management no longer sufficient
- Opportunities for those with expertise, money and patience

So What?

- Not just your next deal that's a problem
- Some significant portion of the 20,000 deals done over the past 20 years could be in trouble
- Why do you care?
 - ❖ Harder to underwrite new deals
 - ❖ Higher perceived risk → higher cost of capital
 - ❖ Program could be tarnished
 - ❖ Distress creates opportunity

Agenda

- The Economy
- What We're Seeing
- What is to be Done?
- Affordable Housing Markets
- Opportunities

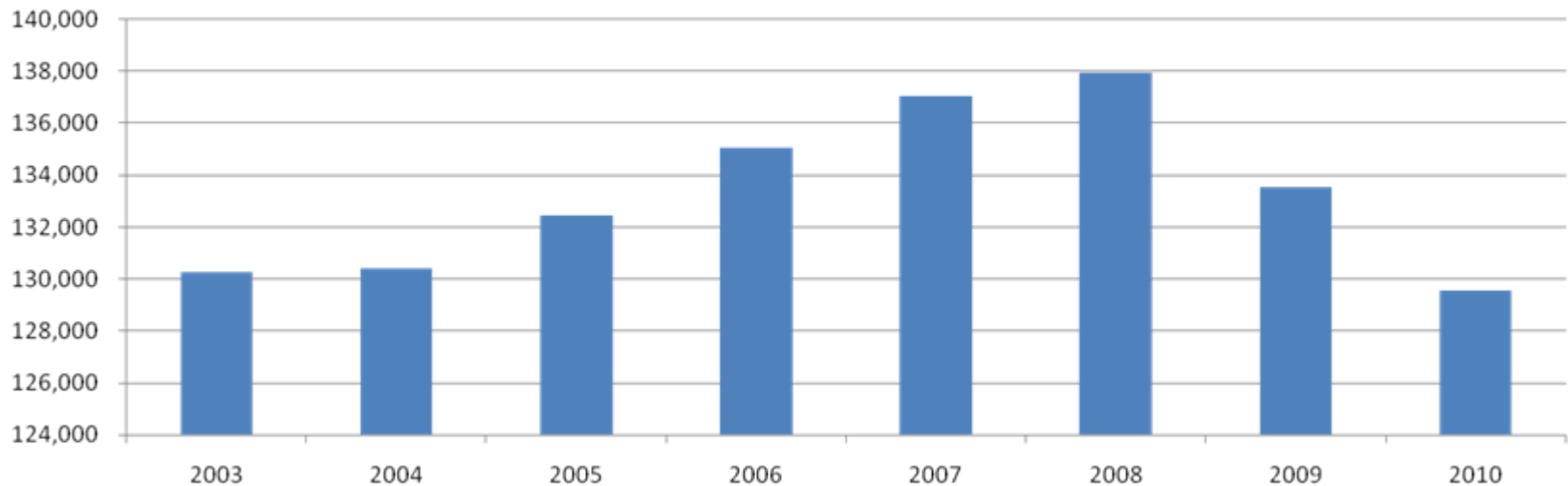
The Economy

- Recession is over
- The damage has been considerable
- Recovery will be rocky and uneven

The Damage

- The worst recession since World War II
- Industrial production down 16%
- 8.4M jobs lost

National Total Non-Farm Employment
(in thousands)



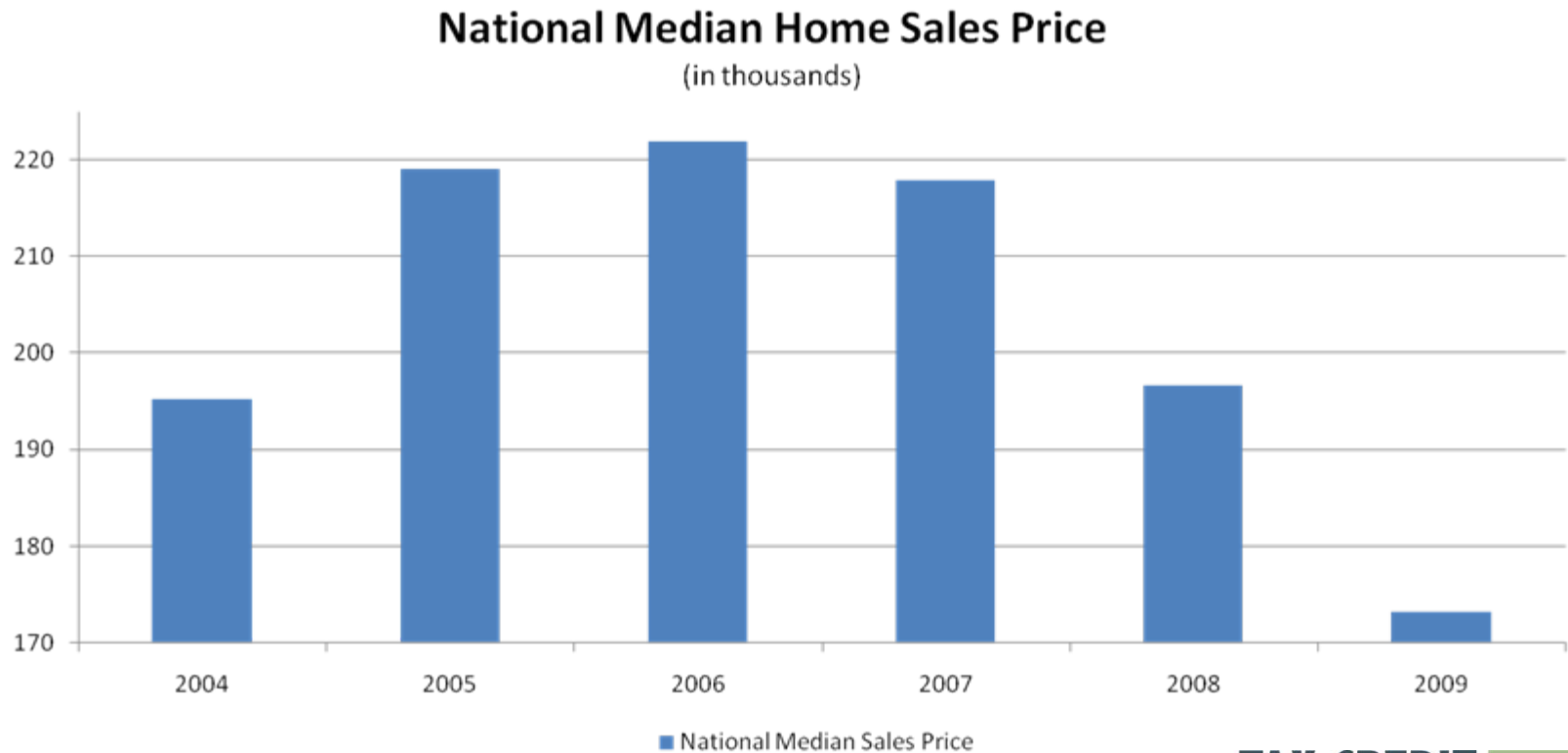
Source: Bureau of Labor Statistics.

■ National Total Non-Farm Employment

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The Housing Market Damage

- Housing prices down 34%



Source: National Association of REALTORS.

The Recovery

- What does the recovery look like?
 - ❖ Steady?
 - ❖ Stagnation or worse?
- Interest rates edge up but stay relatively low
- Job growth the soft spot
 - ❖ 1 million jobs gained in 2010, maybe
 - ❖ 5-6 years until we're back to 2007 employment levels

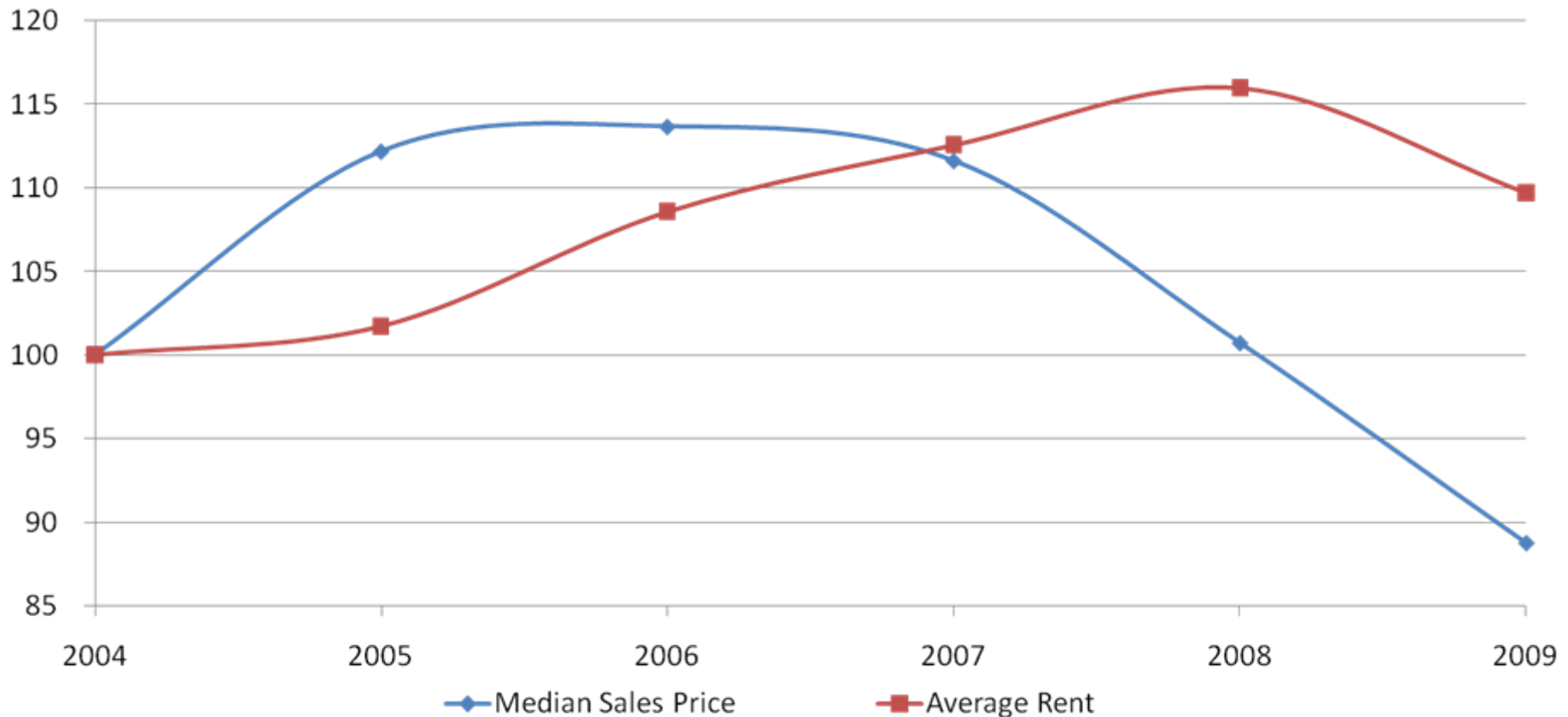
When Do Housing Markets Recover?



Notes: (1) Median Sales Price in thousands. (2) 2004 actual median sales price = \$195,000; 2004 actual asking rent = ~ \$875 ; 2005-2009 y- values based on actual % changes.

Sources: National Association of Realtors & Marcus & Millichap, 2010 National Apartment Report.

When Do Housing Markets Recover?

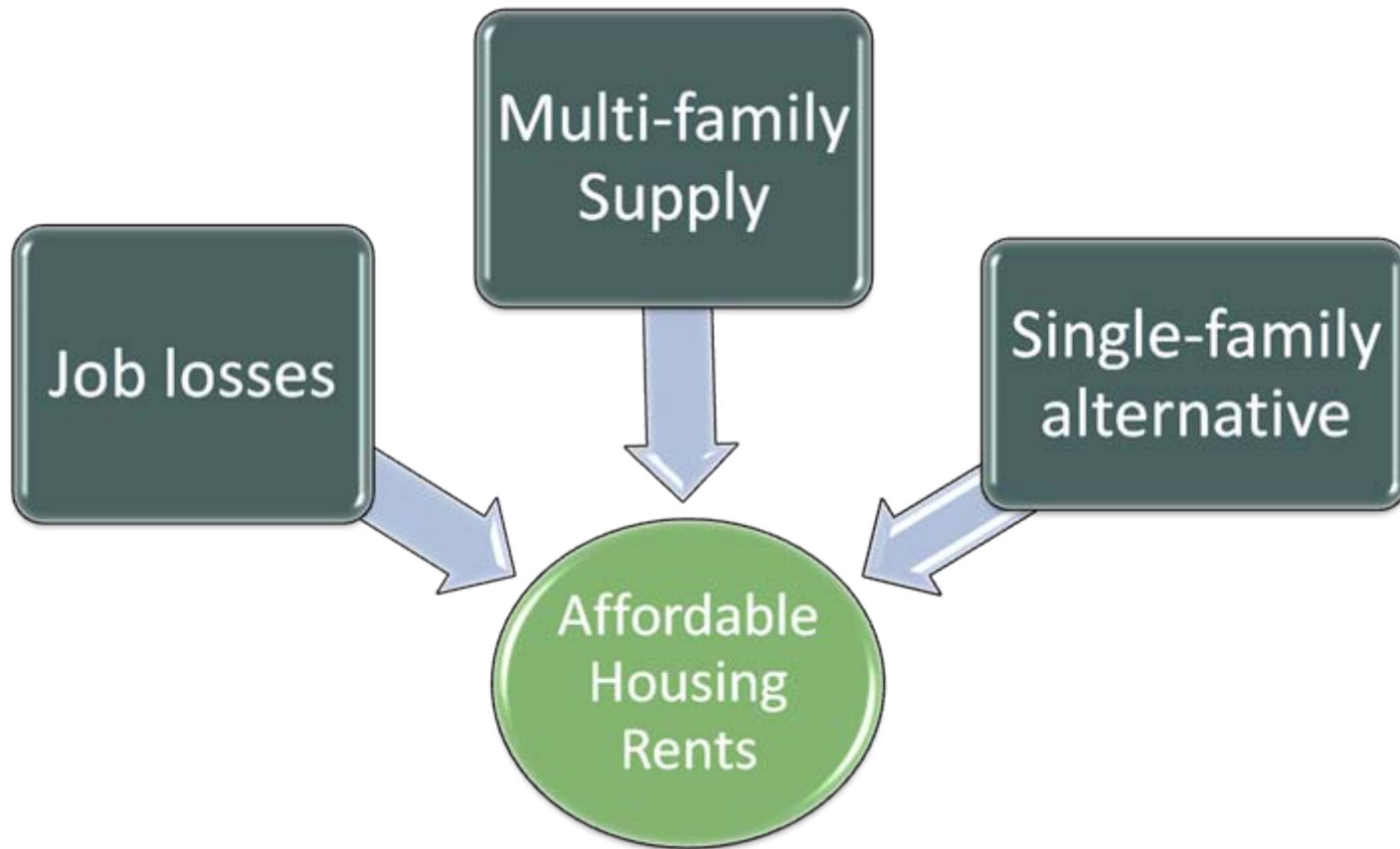


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Affordable Housing is Not Immune

Downward Pressure on Property Revenue



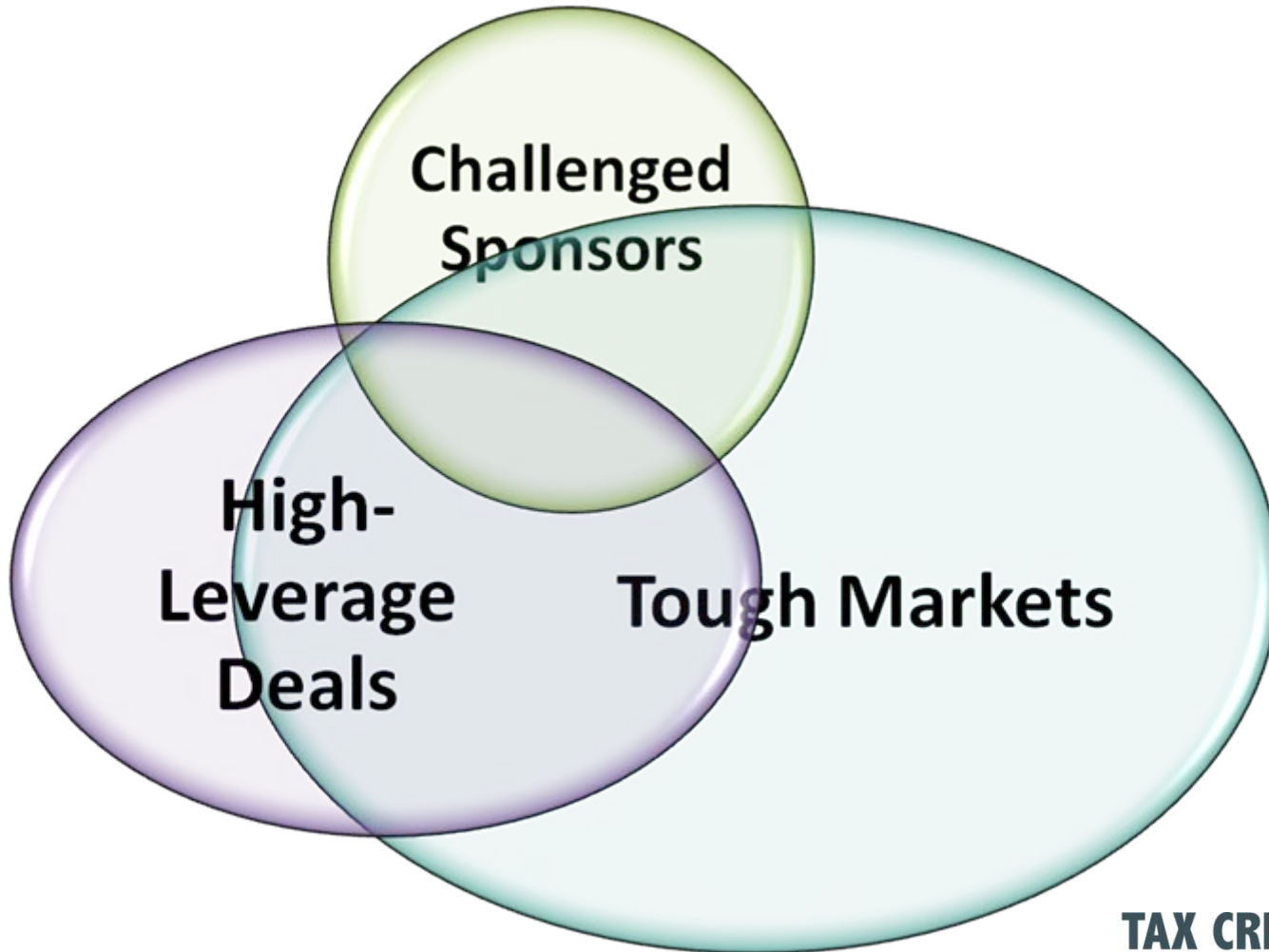
What We're Seeing



More Distress on the Way

- Slow job growth + supply pressures → stagnant or falling rents
- In the meantime, those propping up the deals will run out of steam
 - ❖ Developers/GPs
 - ❖ Syndicators/Investors
 - ❖ Lenders

What We Expect to See



Markets are Now the Key

- This was not always true
- In many markets, rent advantage is gone
- Management – and leasing – becomes critical



Marketing is Now the Key

- Know your market
- Be smart about your positioning
- Constant and close communication with residents
- Managing lease renewals and move-outs well ahead of time
- Flexibility with rents and collection policies
- Maintain curb appeal
- Be creative

But There are Limits

- A great property cannot maintain revenue long in face of a weak market
 - A strong submarket cannot remain strong if broader market is weak
- Look ahead before you pour resources into a property
- Pace of market recovery becomes critical to action plan

Affordable Housing Market Triage

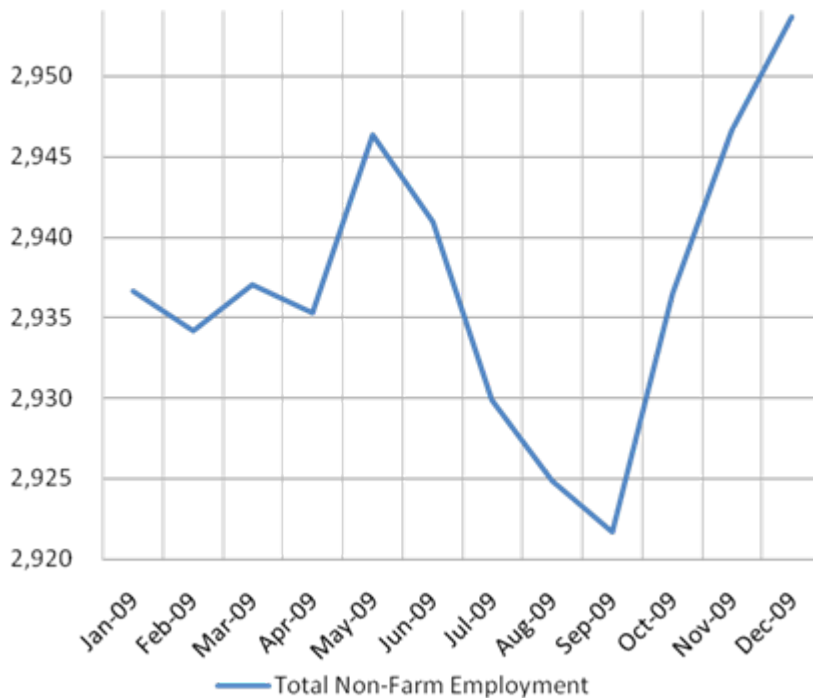
- Unaffordable markets → fewer worries
 - ❖ Rent advantage still a reality
- Recovering markets → manage aggressively
- Long haul markets → cut your losses

Recovering Markets

- Downturn not too severe
- Economic recovery underway
- General agreement:
 - ❖ Texas markets
 - ❖ Washington DC
- Warning: even here, recovery could easily be derailed

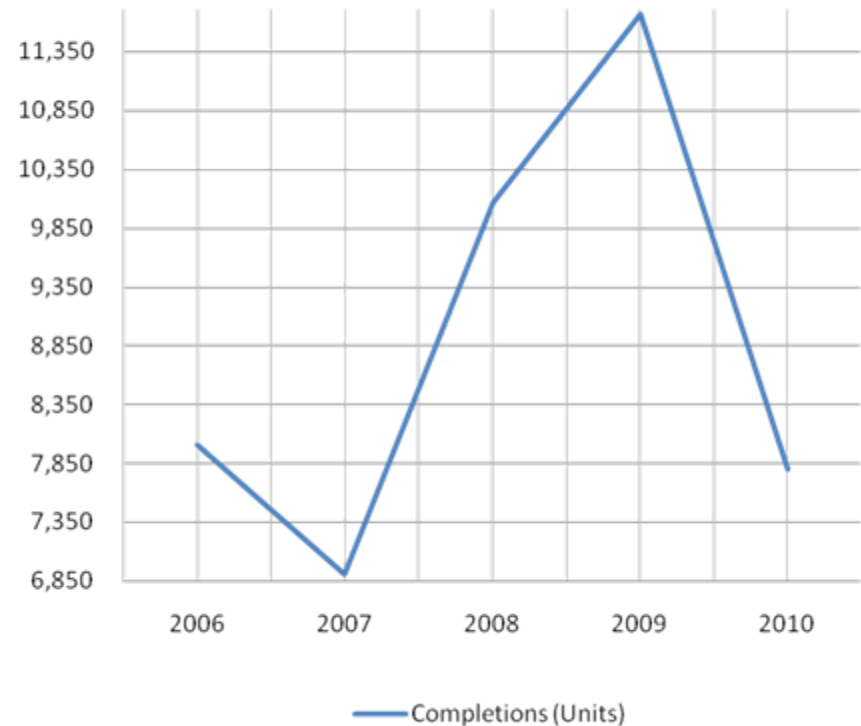
Recovering Markets Example: Dallas

Total Non-Farm Employment
(In Thousands)



Source: Bureau of Labor Statistics. Databases.

Annual Completions (Units)



Source: Marcus & Millichap, National Apartment Report 2009 & 2010.

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Recovering Markets Example: Dallas

Median Sales Price

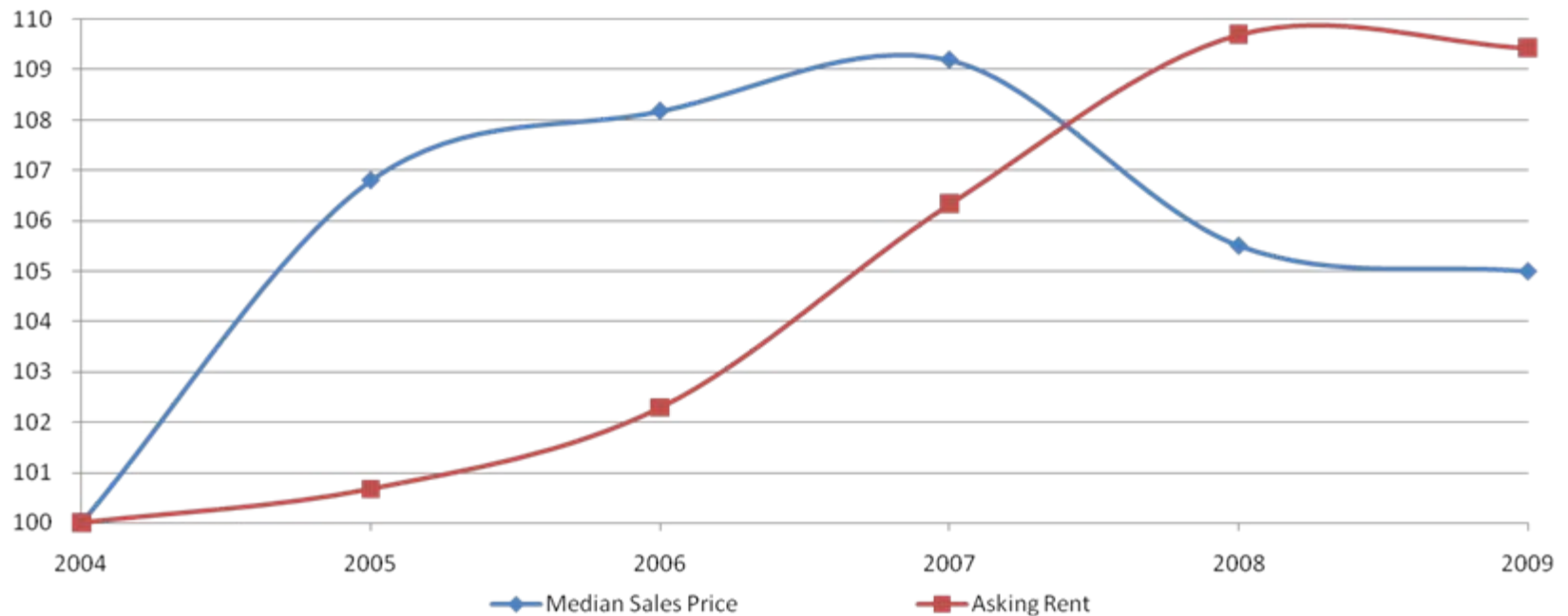


Notes: (1) Median Sales Price in thousands. (2) 2004 actual median sales price = \$148,000; 2004 actual asking rent = \$742. 2005-2009 y-values based on actual % changes.

Sources: National Association of Realtors & REIS.

Recovering Markets Example: Dallas

Median Sales Price vs. Asking Rent



Notes: (1) Median Sales Price in thousands. (2) 2004 actual median sales price = \$148,000; 2004 actual asking rent = \$742. 2005-2009 y-values based on actual % changes.

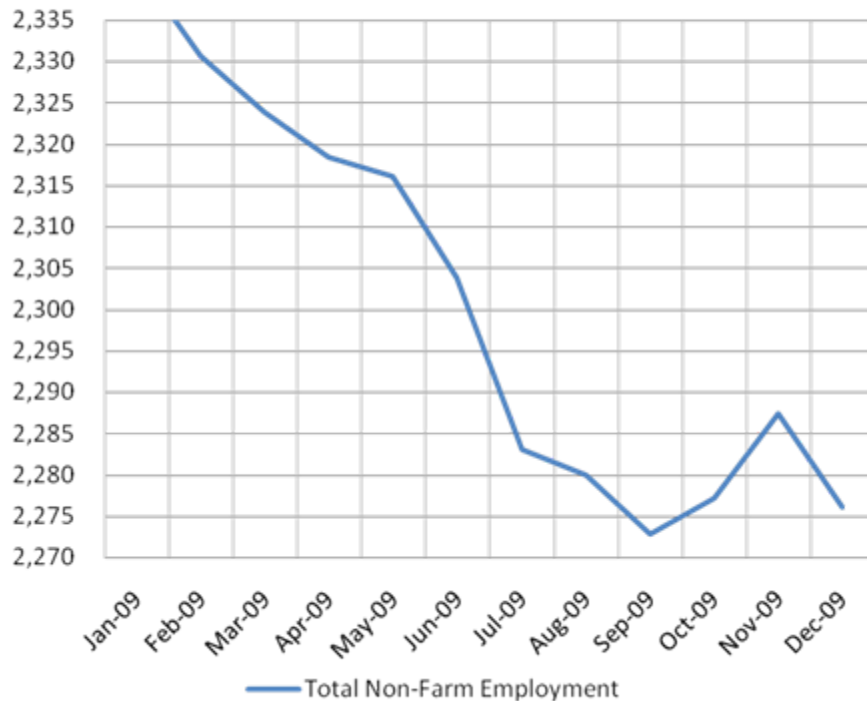
Sources: National Association of Realtors & REIS.

Long-Haul Markets

- Suffered more from the downturn
- Recovery still a ways off
- General agreement:
 - ❖ Florida markets
 - ❖ Phoenix
 - ❖ Atlanta
 - ❖ Las Vegas

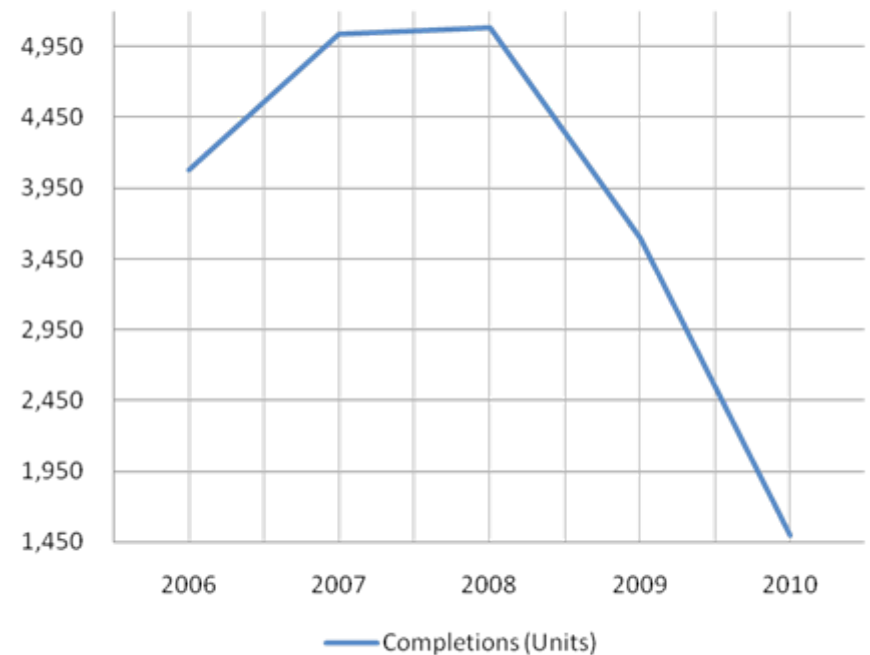
Long-Haul Market Example: Atlanta

Total Non-Farm Employment
(In Thousands)



Source: Bureau of Labor Statistics. Databases.

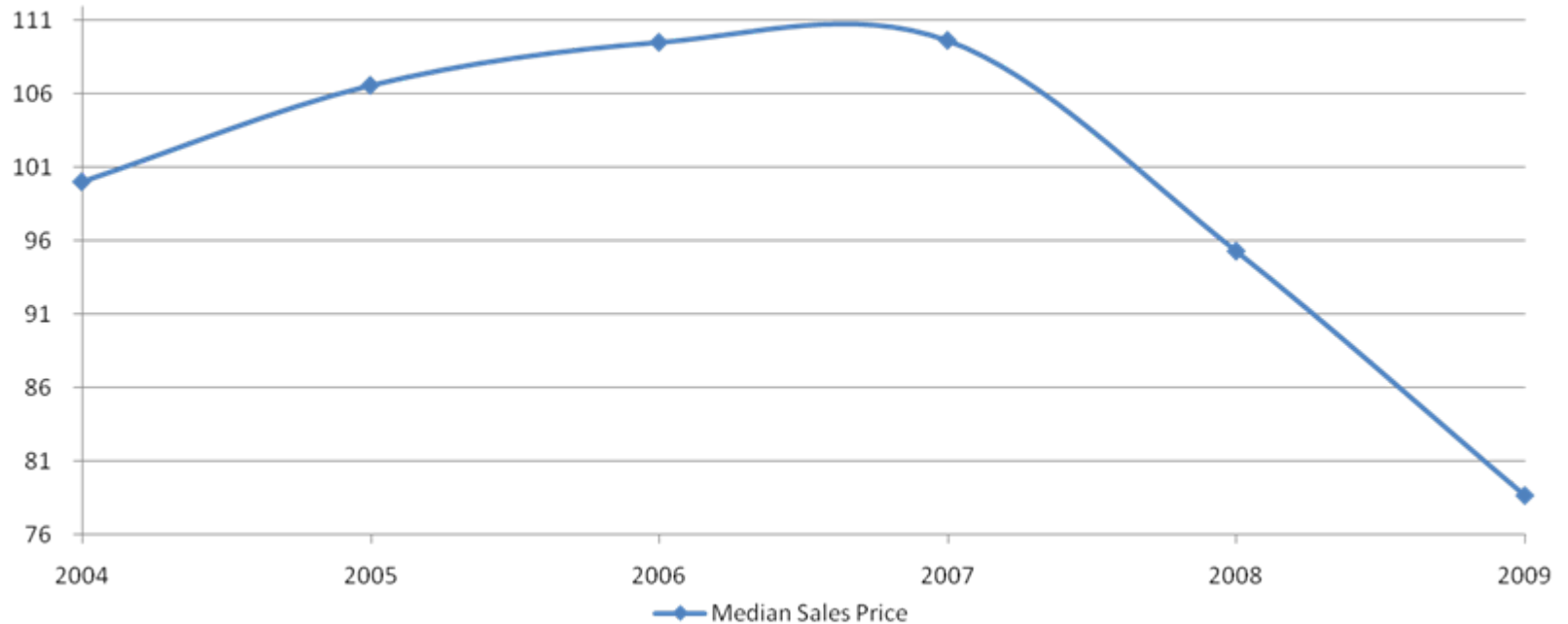
Annual Completions (Units)



Source: Marcus & Millichap, National Apartment Report 2009 & 2010.

Long-Haul Market Example: Atlanta

Median Sales Price

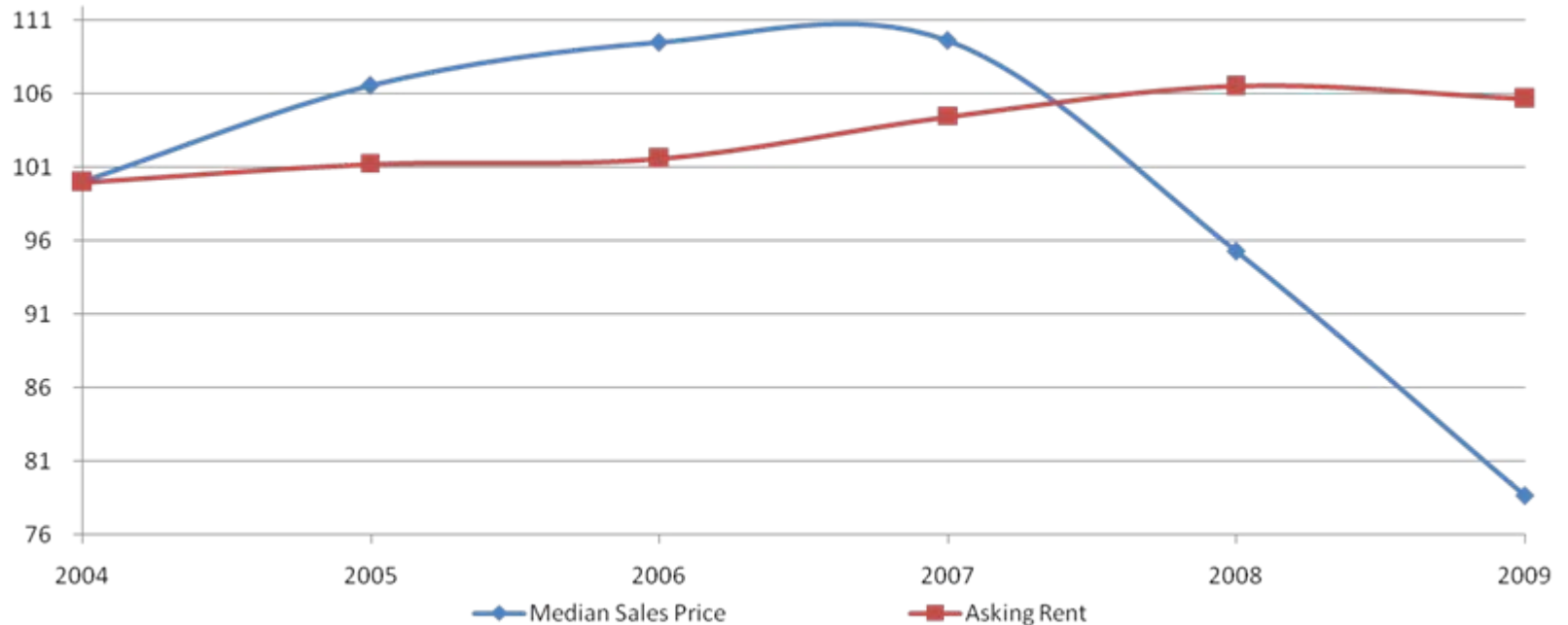


Notes: (1) Median Sales Price in thousands. (2) 2004 actual median sales price = \$157,000; 2004 actual asking rent = \$808. 2005-2009 y-values based on actual % changes.

Sources: National Association of Realtors & REIS.

Long-Haul Market Example: Atlanta

Median Sales Price vs. Asking Rent



Notes: (1) Median Sales Price in thousands. (2) 2004 actual median sales price = \$157,000; 2004 actual asking rent = \$808. 2005-2009 y-values based on actual % changes.

Sources: National Association of Realtors & REIS.

The Challenge

- Ignore the market at your peril – your property is not immune
- Make sure you have the right management in recovering markets
 - ❖ Focus your best resources there
- Deleverage or divest in the long-haul markets
 - ❖ Much worse yet to come
- Watch pace of recovery carefully

Opportunities

- Repositioning portfolios
- Recapitalize properties at a more sustainable level
- Position your property to benefit from recovery
- Buy into markets and properties at a low cost

Closing Thoughts

- It's not all bleak out there
 - ❖ Interest rates remain low
 - ❖ Capital is starting to flow
 - ❖ Tax credit performance still strong
- We're getting smarter
- There is opportunity in dislocation

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