



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

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*National Housing & Rehabilitation Association*

*July 30, 2009*

**Linwood Thompson, Managing Director**  
**National Multi Housing Group**  
**Marcus & Millichap**

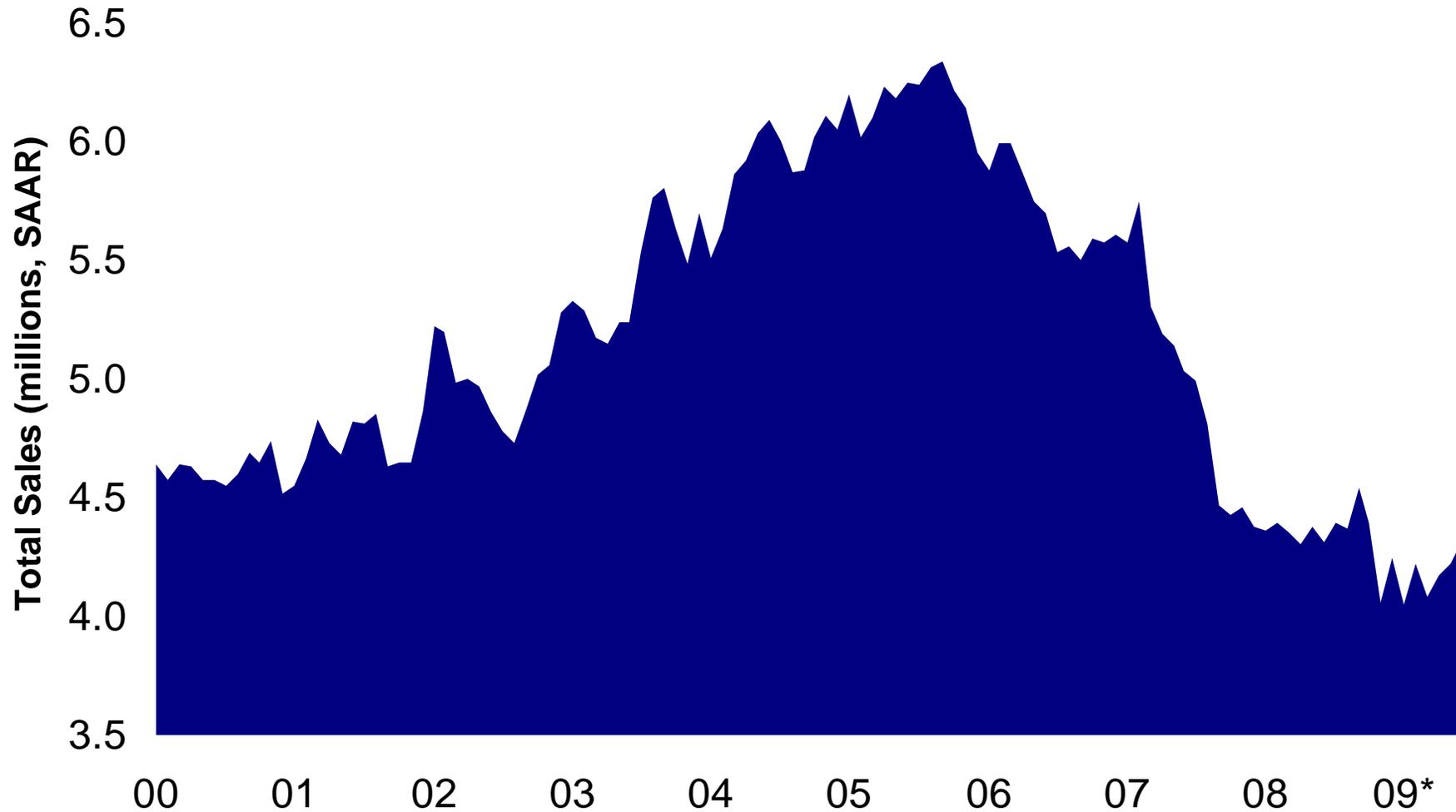
**Marcus & Millichap**  
**NATIONAL MULTI HOUSING GROUP**

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# ***GENERAL HOUSING OVERVIEW***

# Home Sales Near Bottom – Foreclosures, Financing Still Major Headwinds

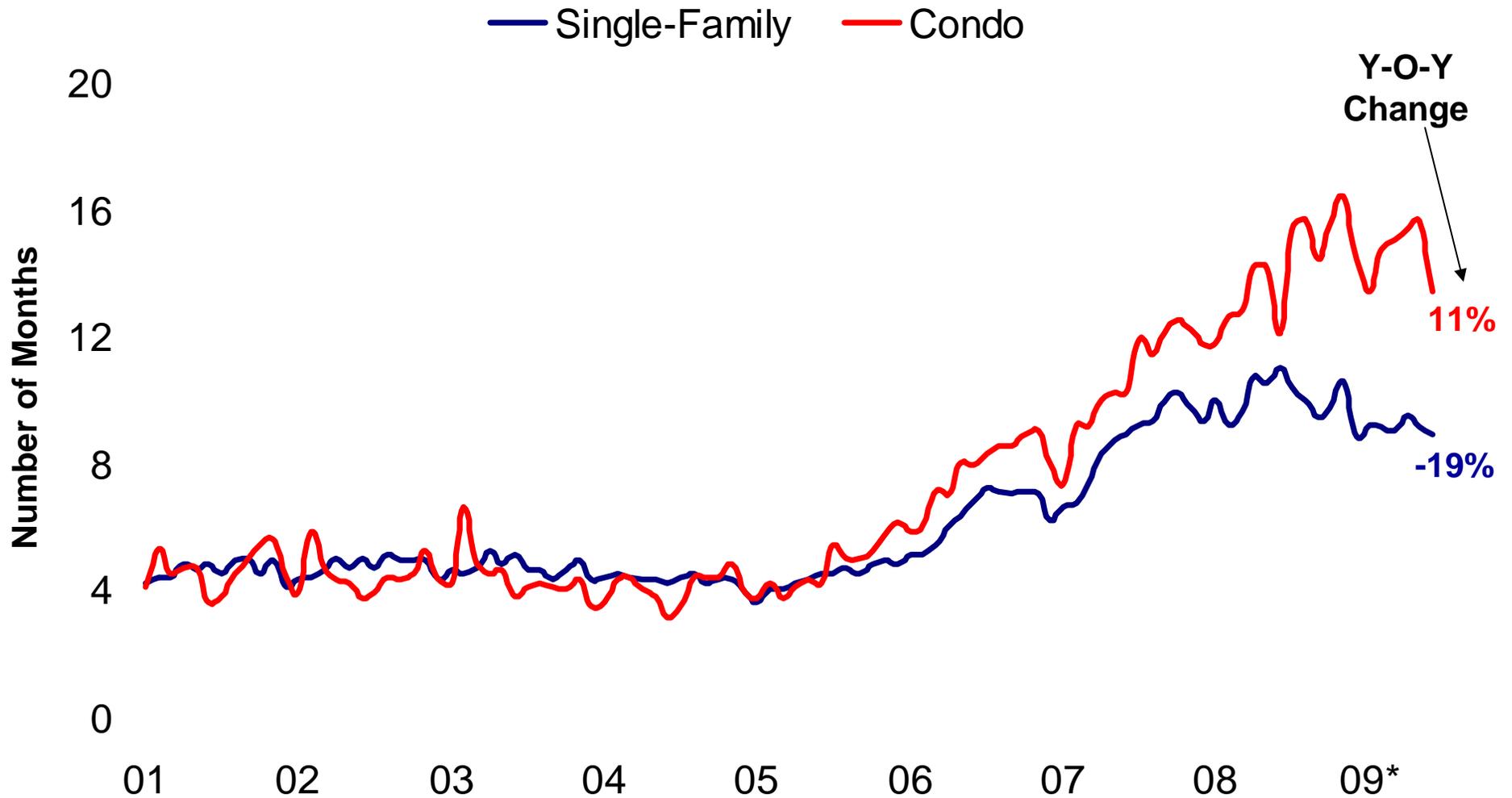
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\* Through June

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

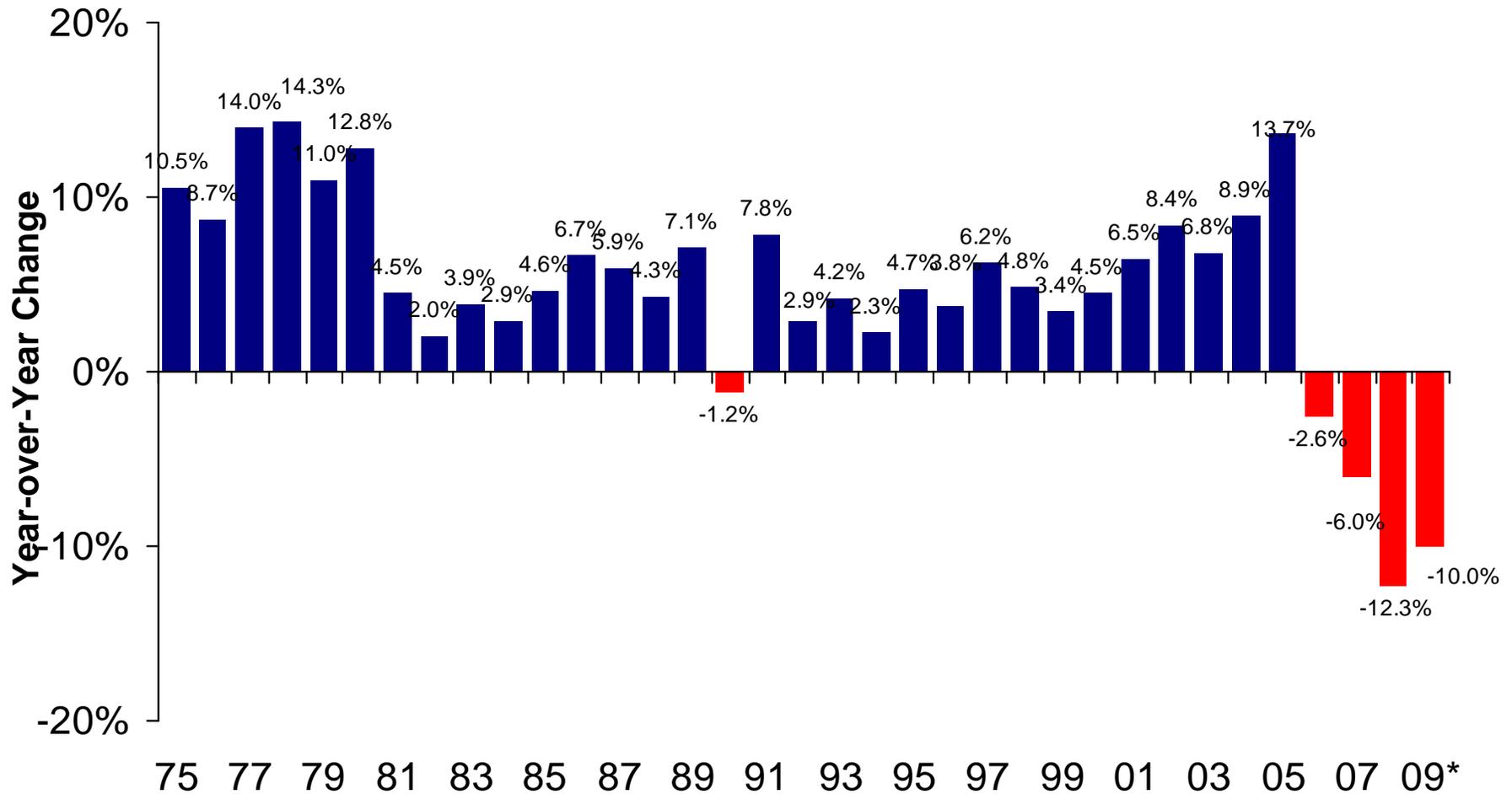
# Months Supply of Housing Inventory



\* Through June

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

# Existing Median Home Price Appreciation

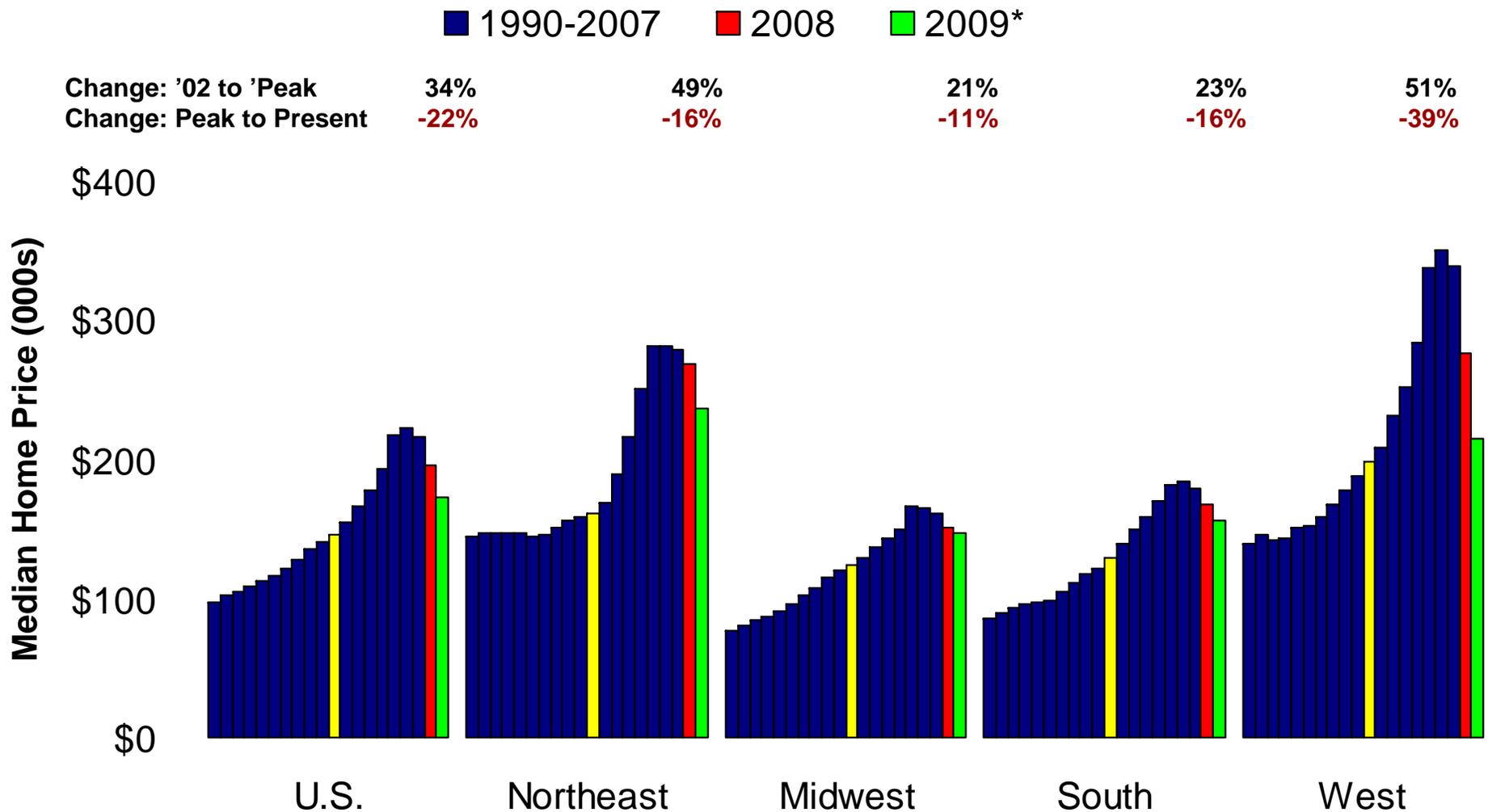


\* Forecast

Note: 4Q vs. 4Q

Sources: National Association of Realtors, RCG

# U.S. Existing Single-Family Home Price Trends



\* Through June

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

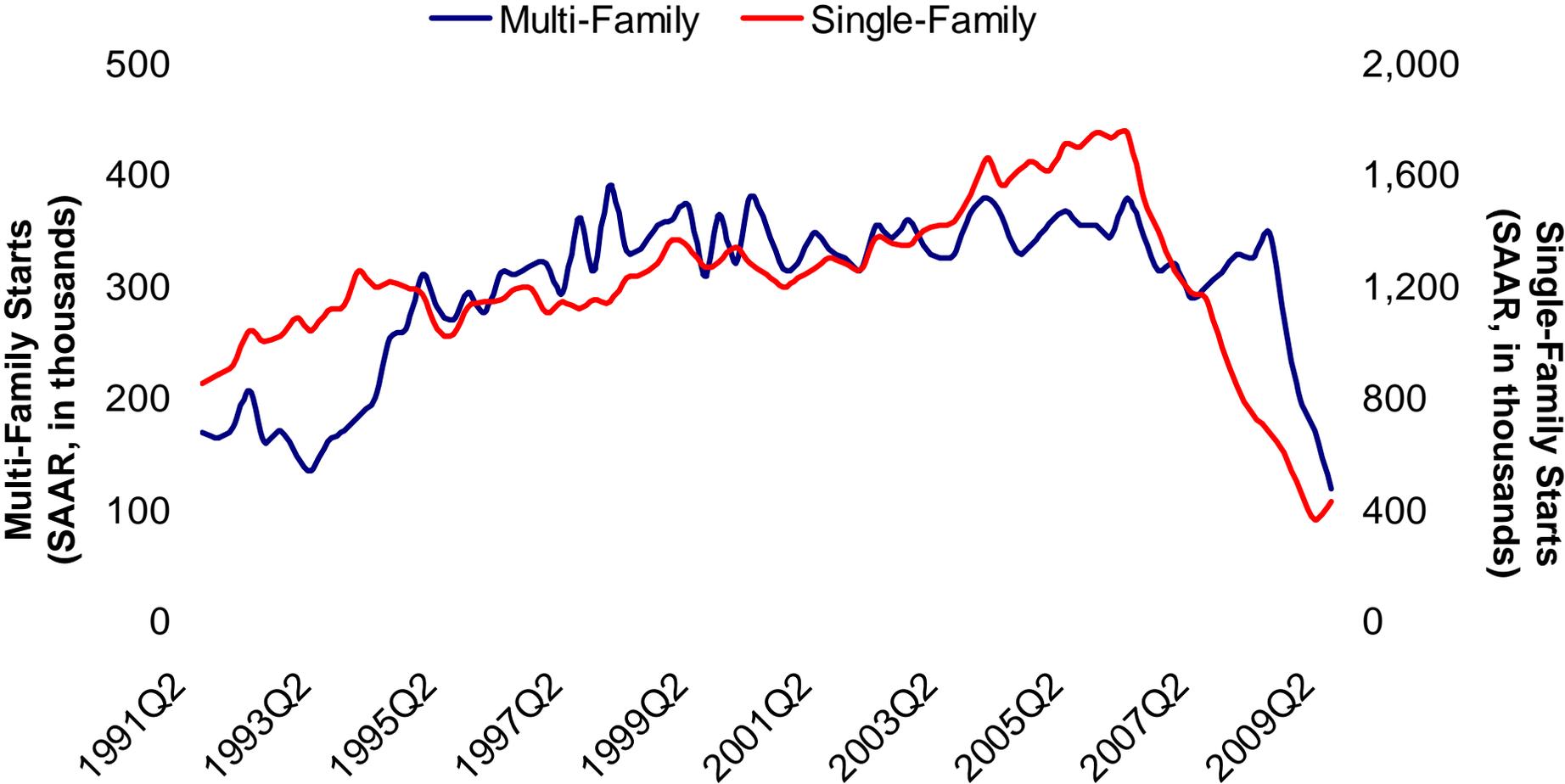
# Change in Median Home Price from Peak

## Top and Bottom 15 Major Metros

Top 15 Markets	1Q 09 Price	% From Peak
San Antonio	\$153,100	-1.1%
Salt Lake City	\$230,100	-3.8%
Austin	\$182,300	-3.8%
Oklahoma City	\$130,200	-5.0%
Milwaukee	\$211,700	-5.6%
Pittsburgh	\$111,000	-8.6%
Houston	\$142,500	-8.8%
Dallas-Ft. Worth	\$139,700	-8.9%
Baltimore	\$253,800	-12.3%
Philadelphia	\$206,000	-12.9%
Portland	\$251,600	-15.0%
Indianapolis	\$100,900	-18.6%
Charlotte	\$171,500	-18.7%
Kansas City	\$126,600	-19.6%
Seattle-Tacoma	\$315,200	-19.7%
<b>United States</b>	<b>\$175,830</b>	<b>-22.3%</b>

Bottom 15 Markets	1Q 09 Price	% From Peak
Tampa-St. Petersburg	\$133,600	-41.2%
Orlando	\$153,900	-42.1%
Fort Lauderdale	\$211,900	-44.6%
West Palm Beach	\$230,900	-44.9%
San Jose	\$456,200	-46.3%
San Diego	\$327,500	-47.1%
Oakland-East Bay	\$402,000	-47.3%
Miami	\$205,500	-47.6%
Los Angeles	\$311,200	-47.8%
San Francisco	\$415,100	-49.3%
Las Vegas	\$156,700	-50.5%
Cleveland	\$69,900	-50.7%
Phoenix	\$130,400	-52.1%
Sacramento	\$171,800	-55.2%
Inland Empire	\$176,100	-56.8%
<b>United States</b>	<b>\$175,830</b>	<b>-22.3%</b>

# Multi-Family Construction Starts Declining, Single-Family Still Low

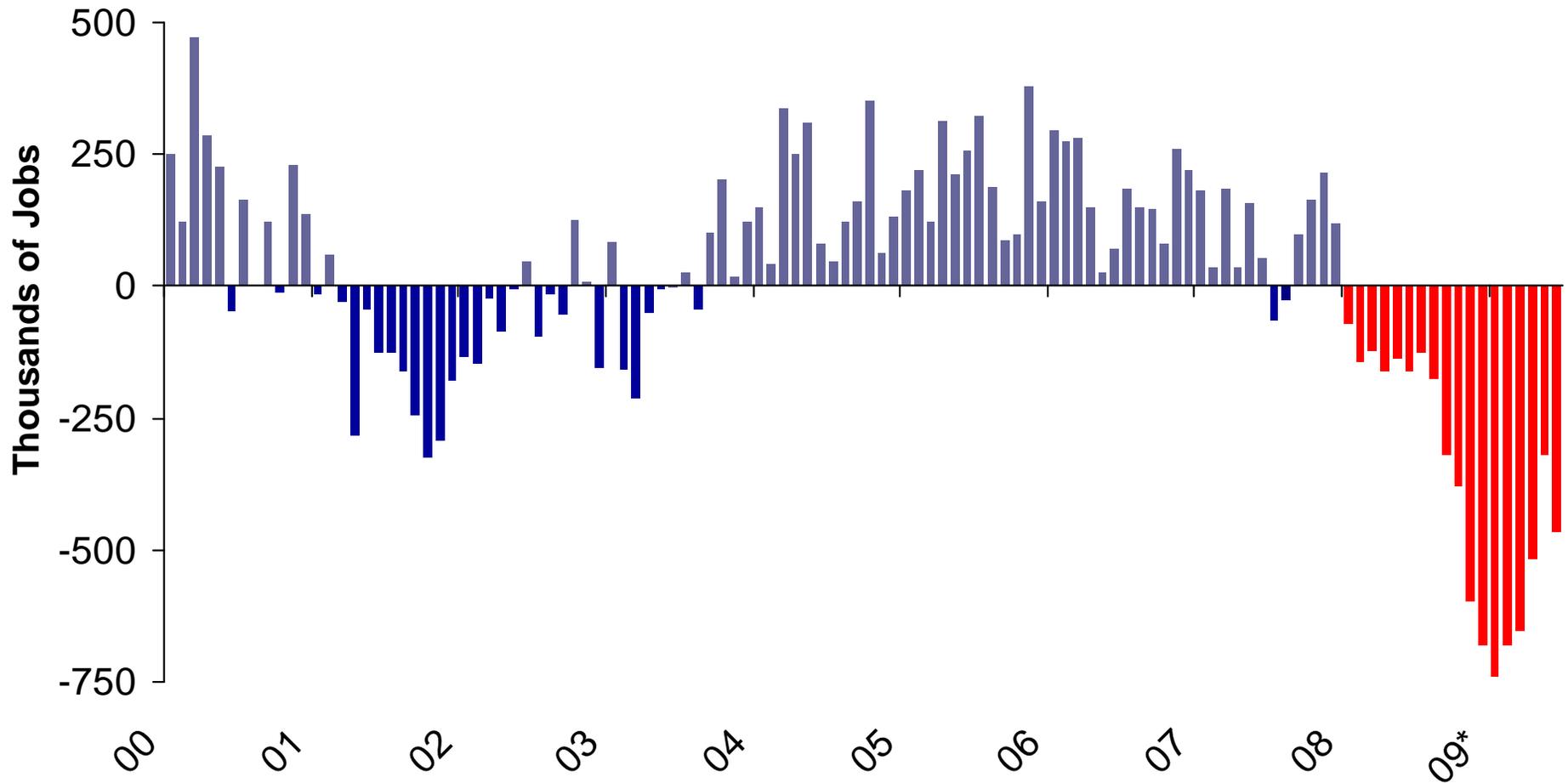


Sources: Marcus & Millichap Research Services, U.S. Census Bureau

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# ***ECONOMIC OVERVIEW***

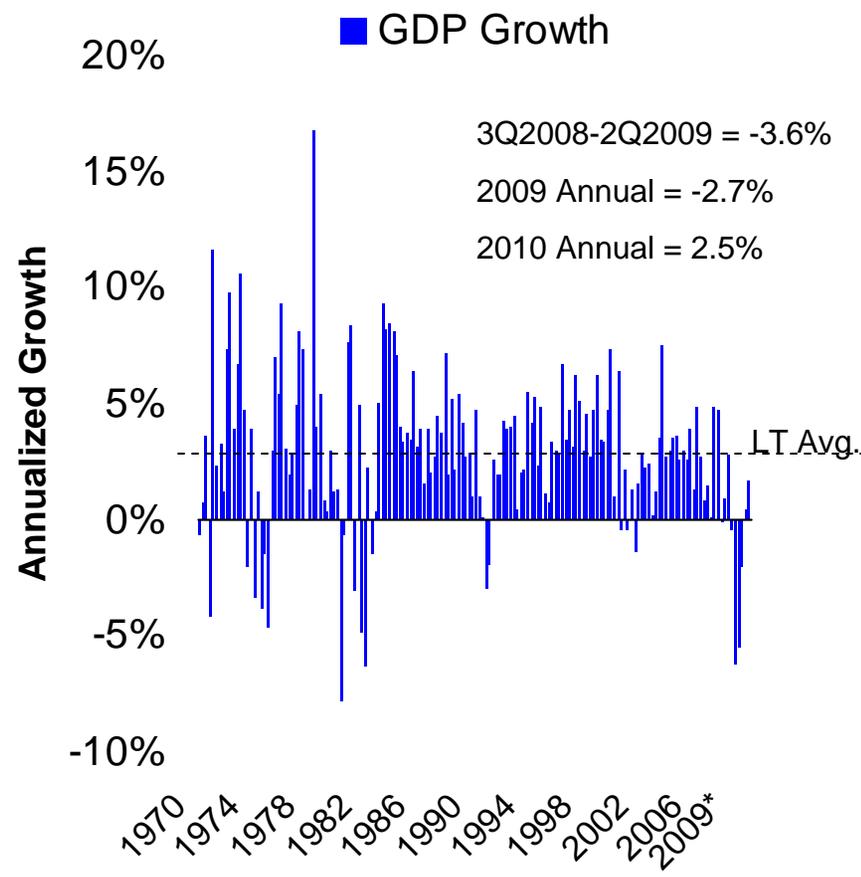
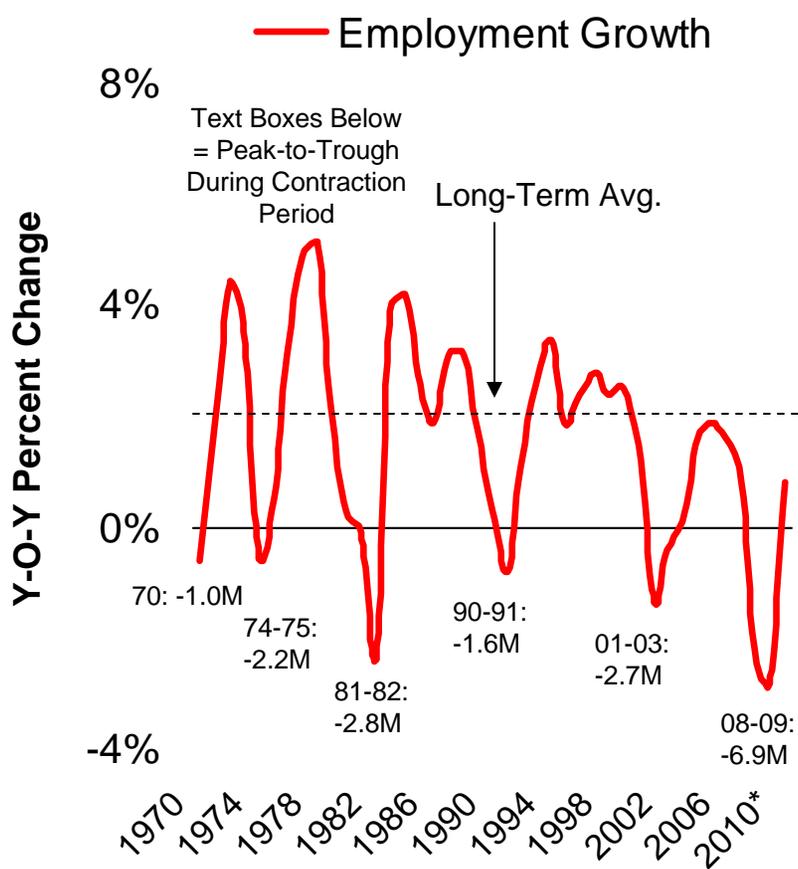
# U.S. Employment Losses Have Fallen Back Toward Extreme Levels



\*Through June 2009

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

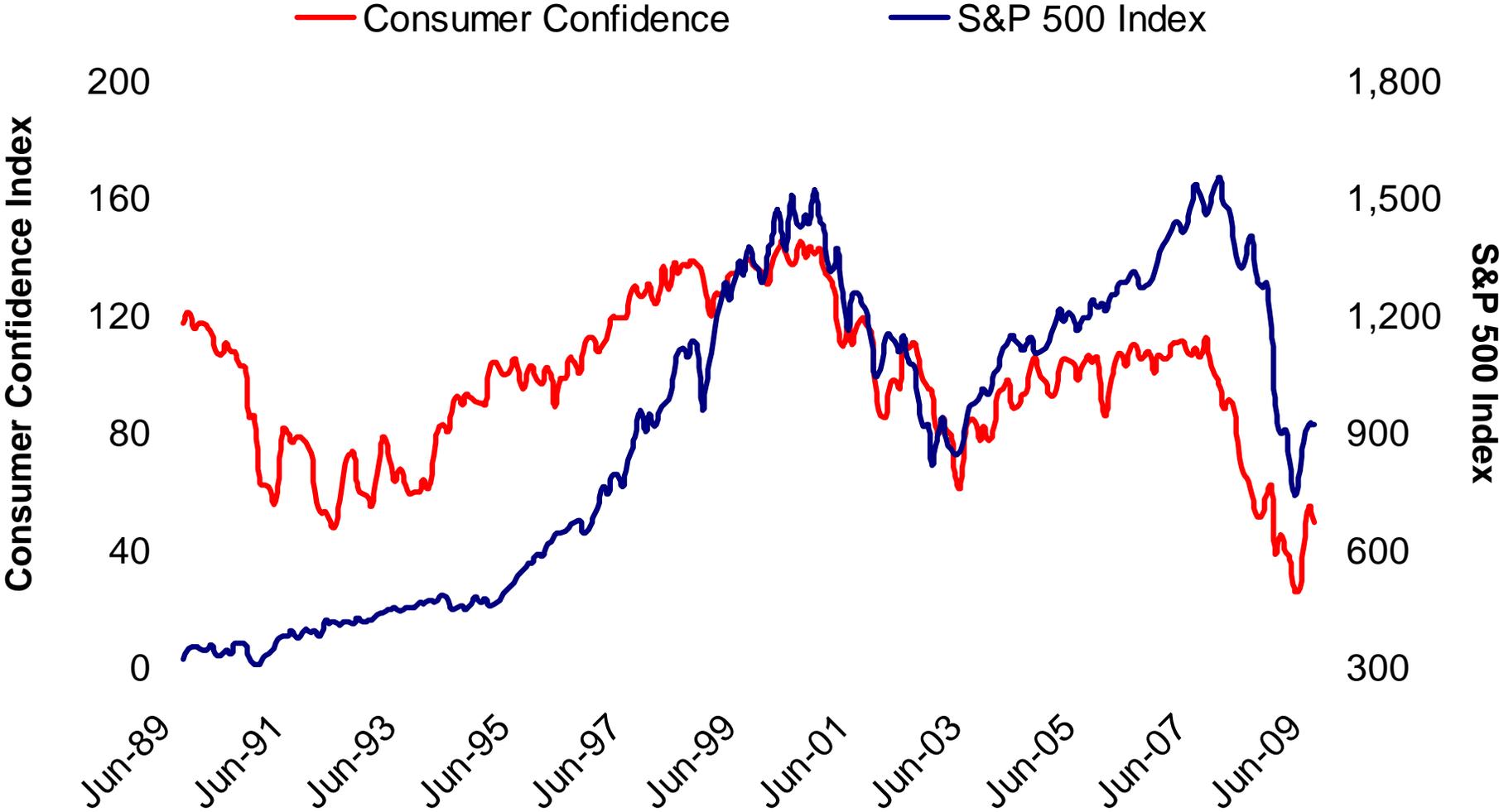
# Economic Weakness Expected Through Q3-2009 – Moderate Recovery in 2010



\*Forecast Assumes No Additional Major Shocks

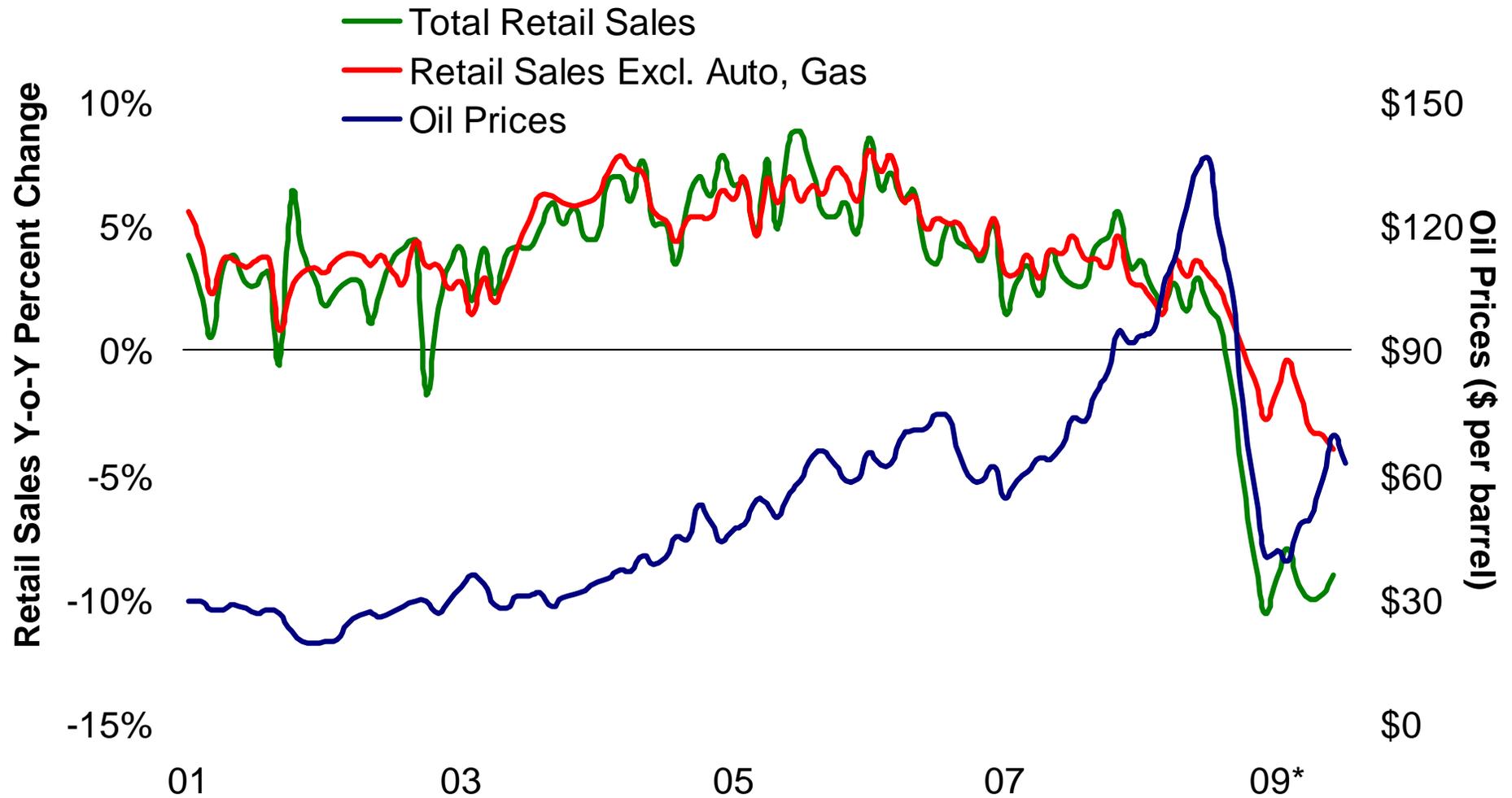
Sources: Marcus & Millichap Research Services, Blue Chip, Economy.com

# Consumer Confidence and S&P 500



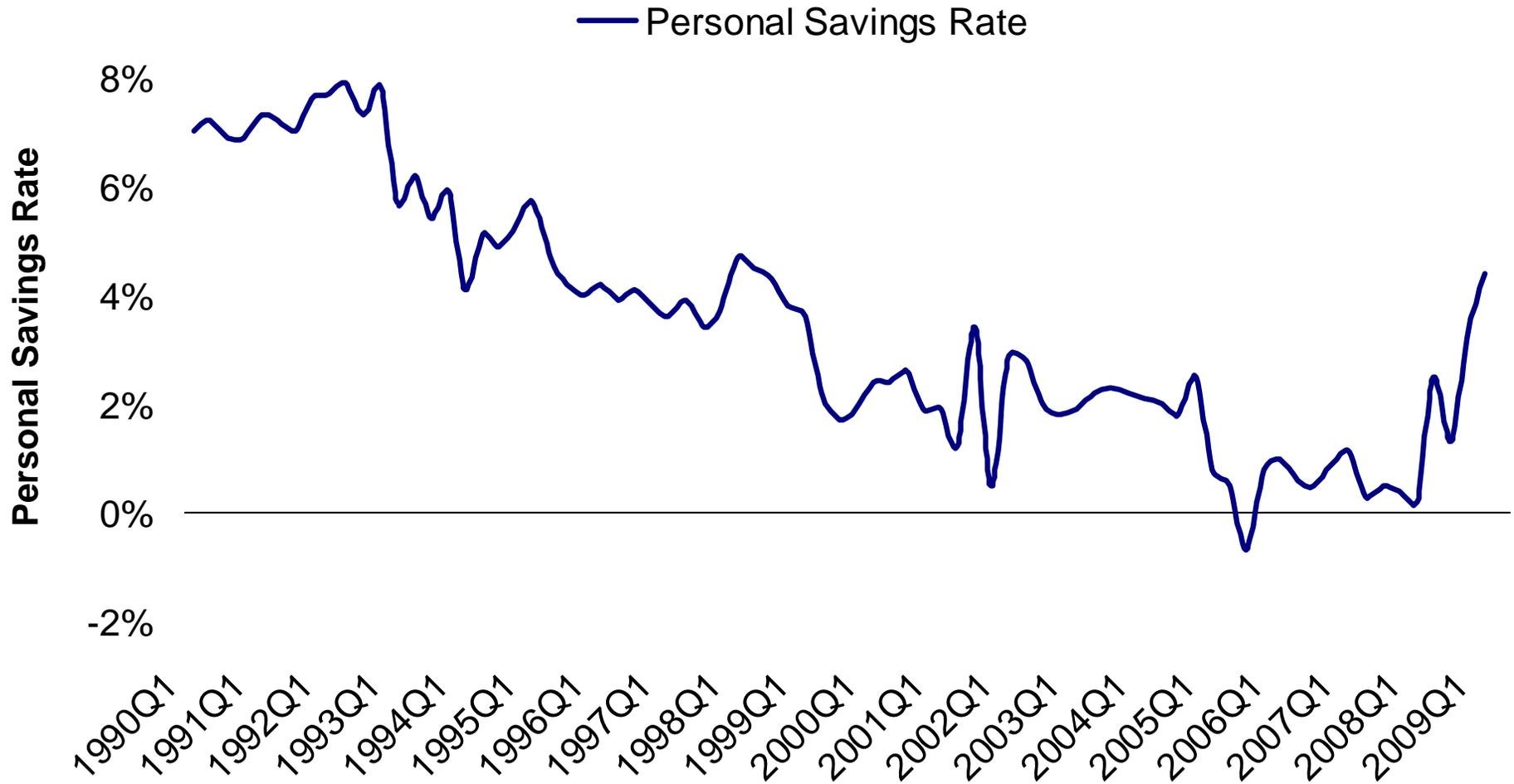
Sources: Marcus & Millichap Research Services, Standard and Poors, The Conference Board

# U.S. Consumption In Major Contraction



\* Retail Sales Through June, Oil Prices Through July 7th  
Sources: Marcus & Millichap Research Services, Bureau of the Census

# Personal Savings Rate Rising



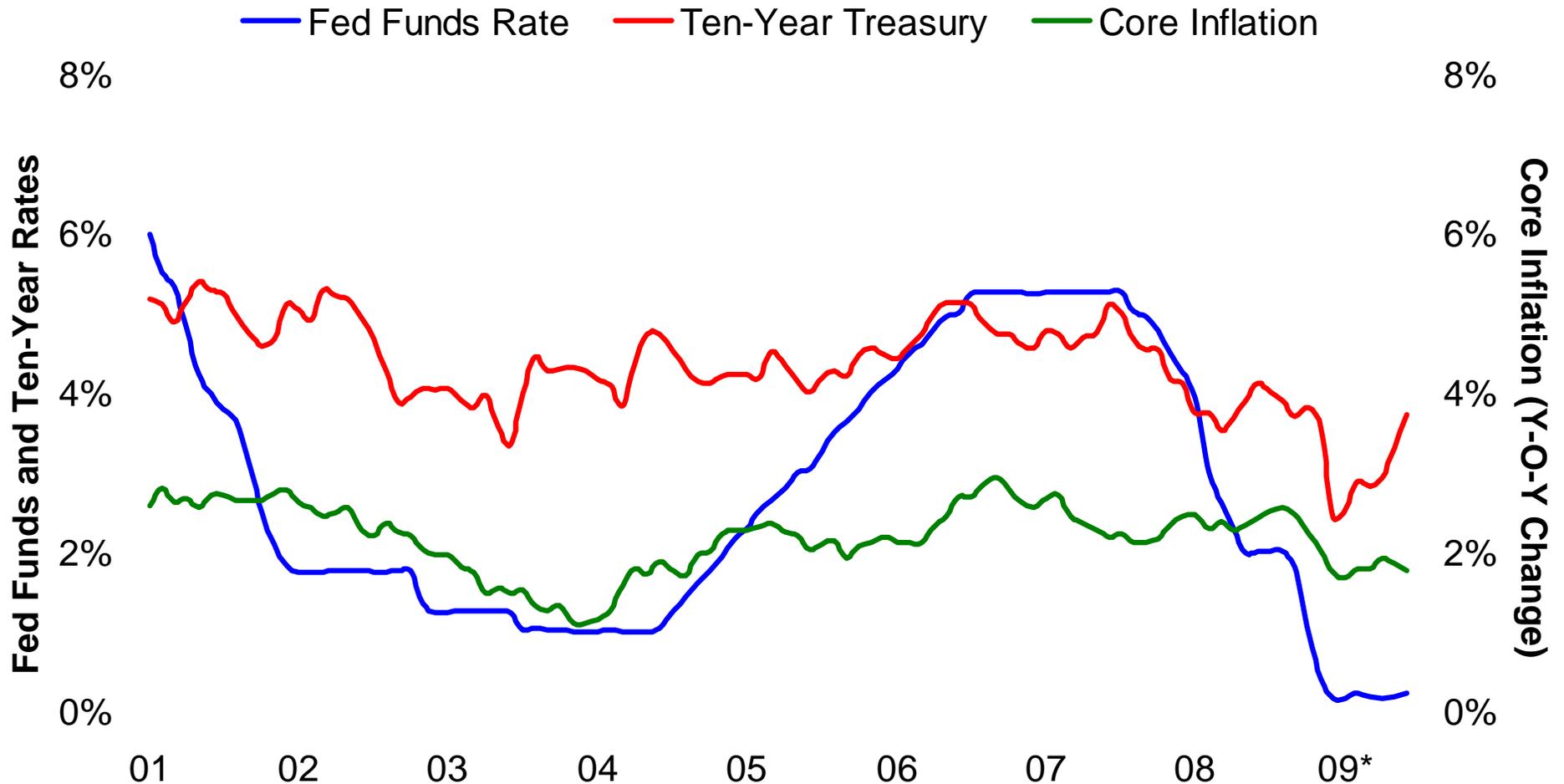
Sources: Marcus & Millichap Research Services, BEA, BLS, FRB

# Employment Ranking by Metro Y-O-Y Change – June 2009

Top 15 Markets	Abs Change	% Change
Austin	(900)	-0.1%
San Antonio	(6,300)	-0.7%
Oklahoma City	(5,100)	-0.9%
Washington D.C.	(41,800)	-1.4%
Northern New Jersey	(16,900)	-1.6%
Columbus	(16,100)	-1.7%
Dallas-Fort Worth	(58,100)	-1.9%
Kansas City	(23,100)	-2.3%
Baltimore	(30,500)	-2.3%
New York	(129,500)	-2.5%
Boston	(64,200)	-2.6%
Houston	(69,200)	-2.7%
Philadelphia	(95,000)	-3.4%
New Haven-Fairfield Co.	(28,200)	-3.5%
Miami	(37,100)	-3.5%
<b>U.S.</b>	<b>(5,664,000)</b>	<b>-4.1%</b>

Bottom 15 Markets	Abs Change	% Change
San Jose	(41,700)	-4.6%
Orange County	(71,700)	-4.8%
San Francisco	(49,700)	-5.0%
Sacramento	(44,200)	-5.0%
Orlando	(56,900)	-5.3%
Portland	(54,600)	-5.3%
Milwaukee	(47,000)	-5.5%
Atlanta	(136,900)	-5.6%
Cleveland	(61,000)	-5.7%
Tucson	(22,600)	-5.9%
Inland Empire	(75,100)	-6.1%
Charlotte	(55,800)	-6.5%
Las Vegas	(59,600)	-6.5%
Phoenix	(139,100)	-7.4%
Detroit	(176,600)	-9.2%
<b>U.S.</b>	<b>(5,664,000)</b>	<b>-4.1%</b>

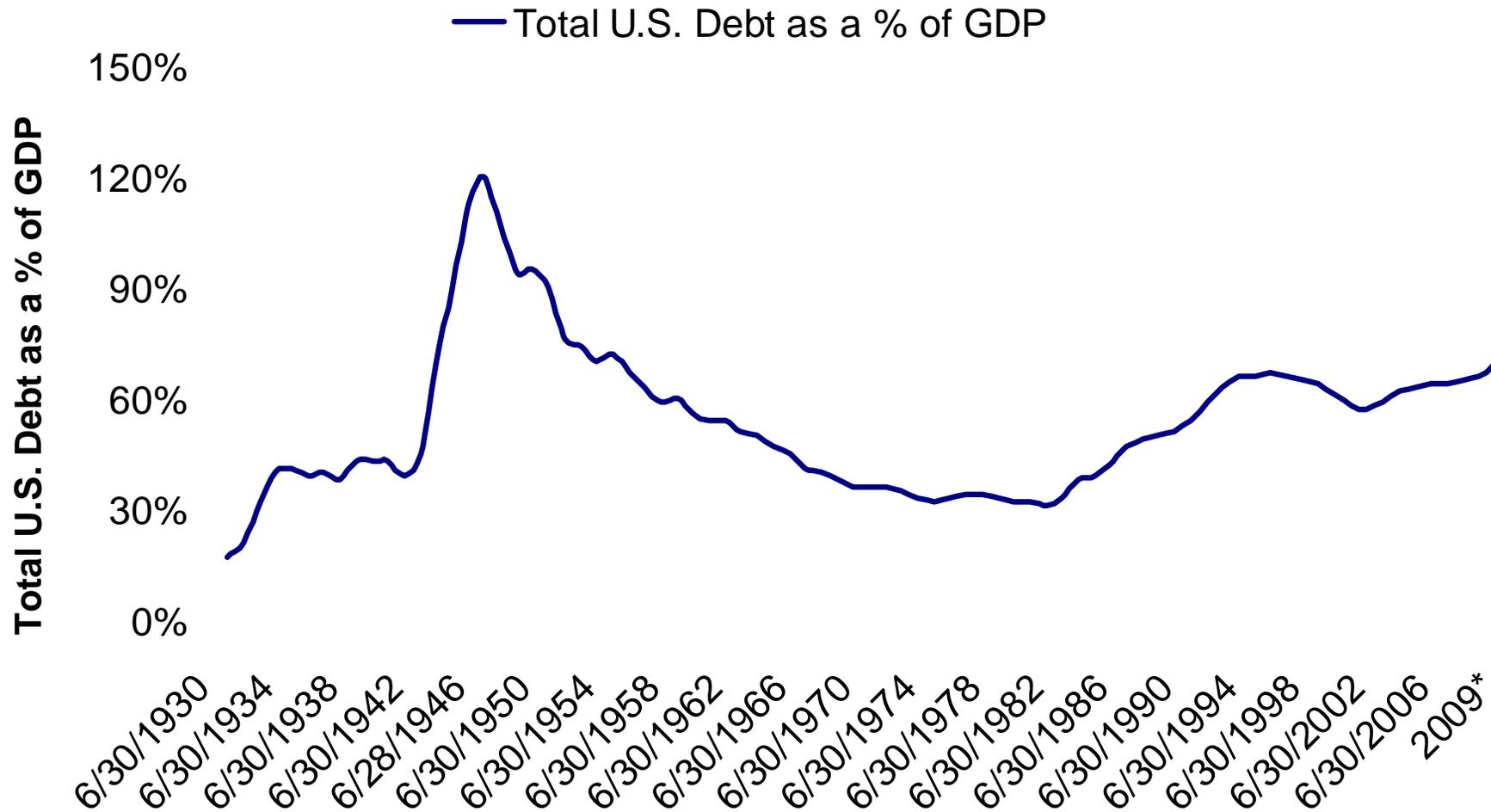
# The Fed Has Pulled All Stops – Inflation Focus Unlikely to Emerge Until Sustainable Growth is Achieved



\* Through June

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

# U.S. Debt as a Percent of GDP



\* Forecast

Data Represents 2Q for each time period  
Sources: Marcus & Millichap Research Services, Federal Reserve

# U.S. Economy

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## Reasons for Optimism:

- 1. Large, diversified economy**
- 2. Safe haven for capital and investment**
- 3. Leading environment for innovation**
- 4. Historically productive balance between capitalism and regulation**

# U.S. Economy

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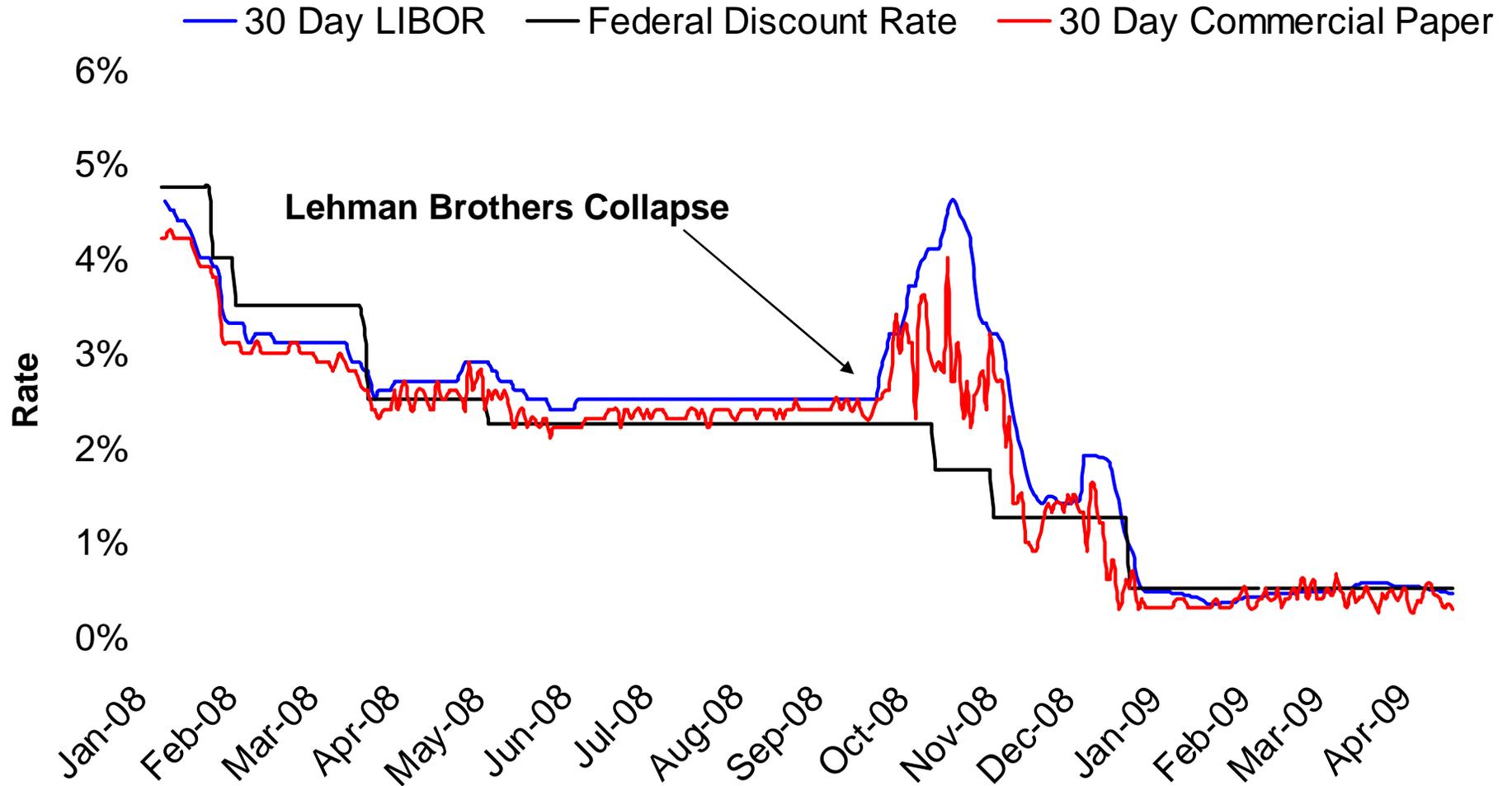
## Reasons for Concern:

- 1. Depth and length of current recession**
- 2. 4 Million lost jobs categorized as “permanent”**
- 3. Spending / taxation / inflation conundrum**
- 4. Striking a new balance between capitalism and regulation**
- 5. Congress and Administration redefining major economic institutions and relationships**
- 6. Too many variables to make rational forecasts**

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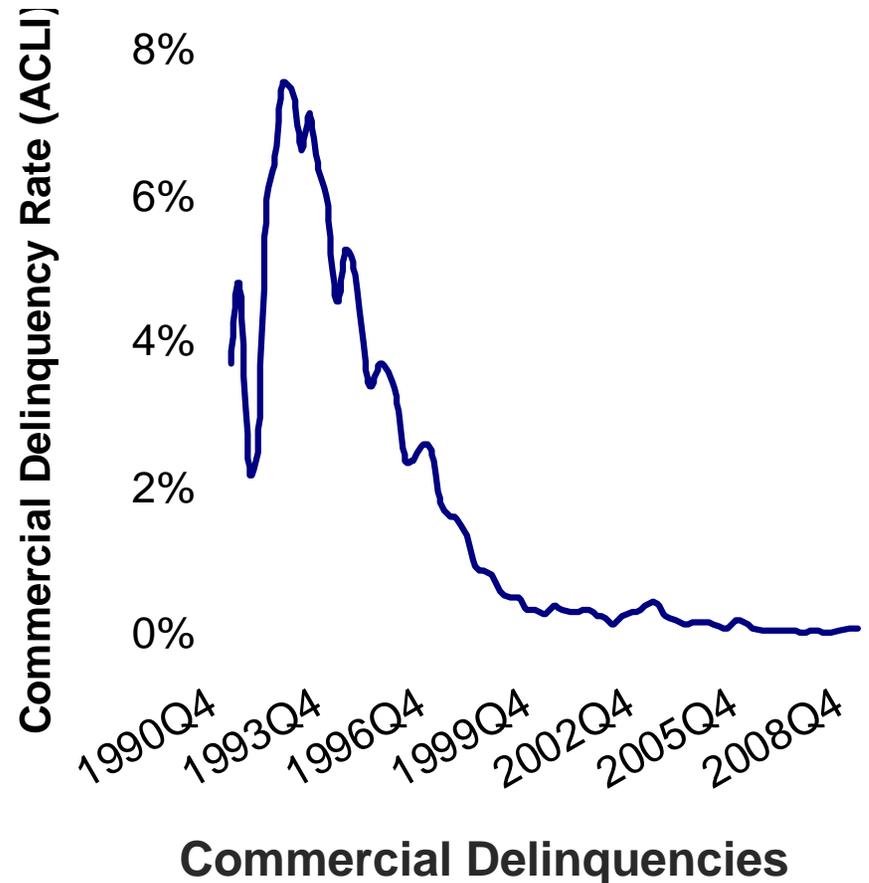
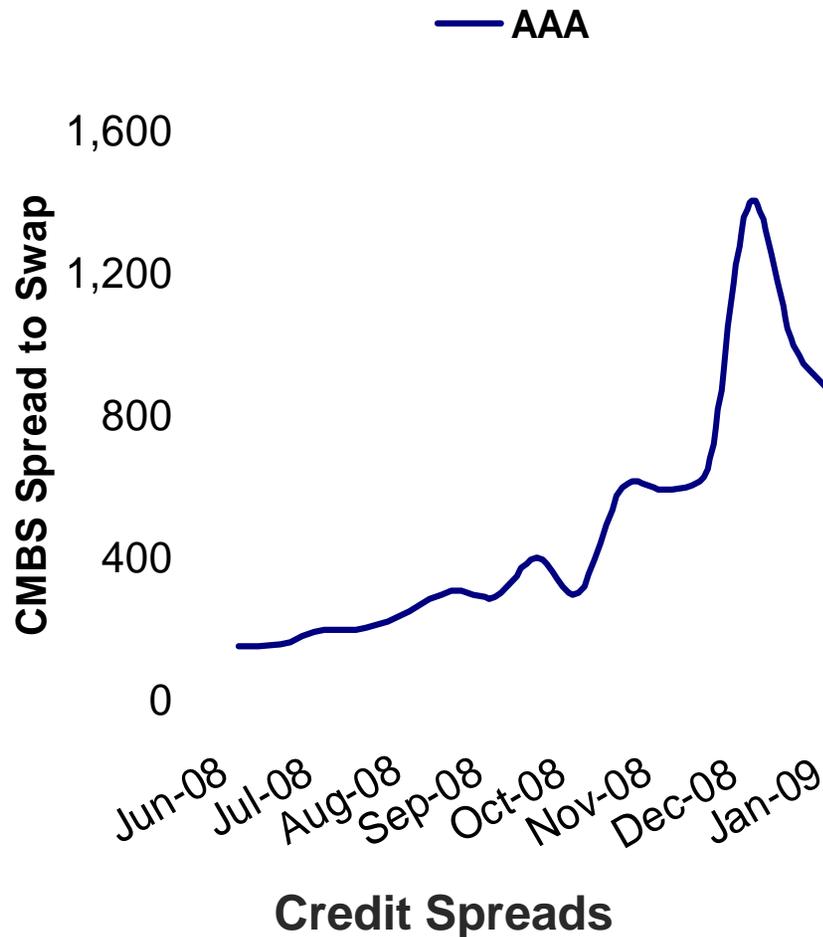
***CAPITAL MARKETS  
OVERVIEW***

# Key Market Rates

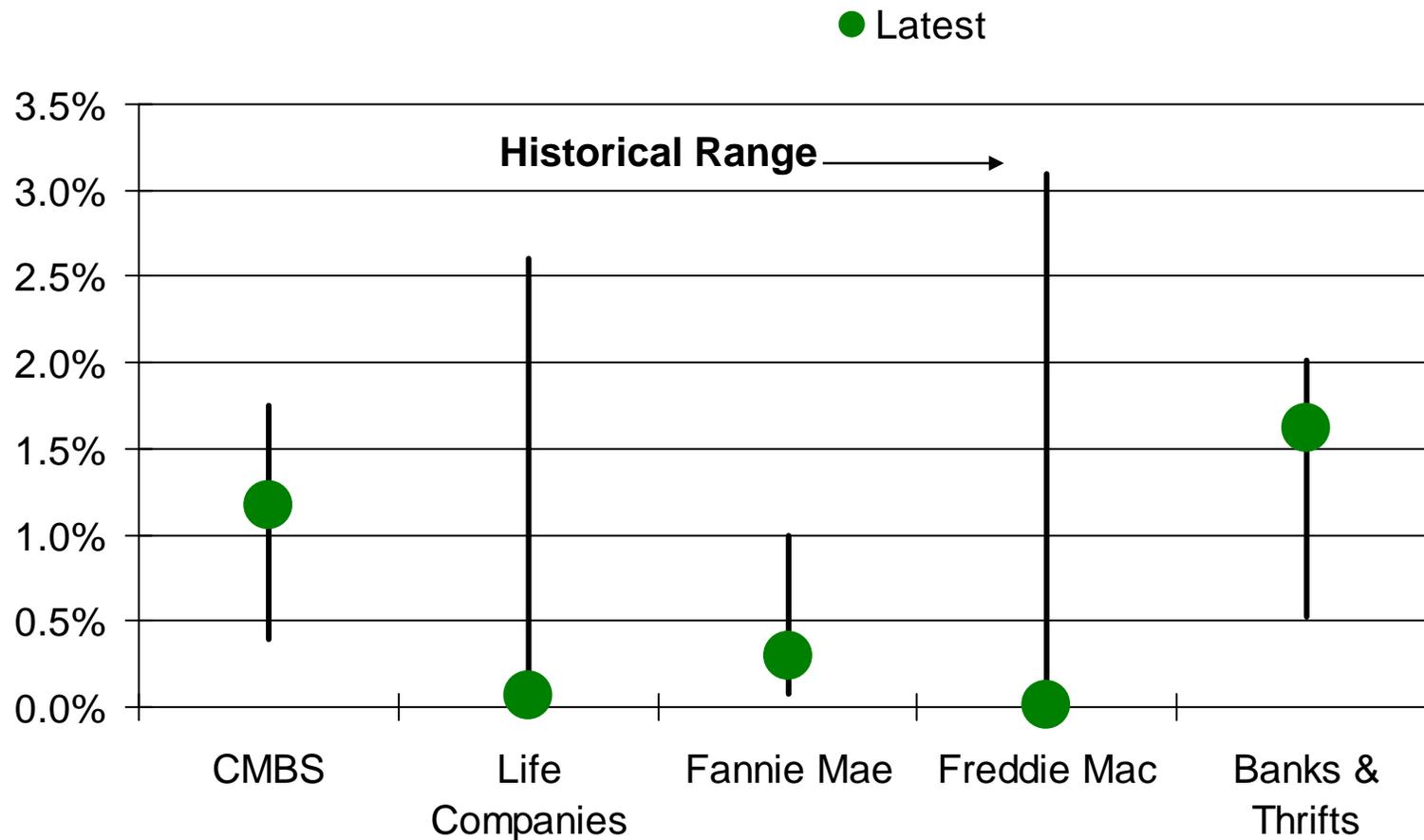


Through April 13, 2009  
Sources: Economy.com, Federal Reserve Board

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



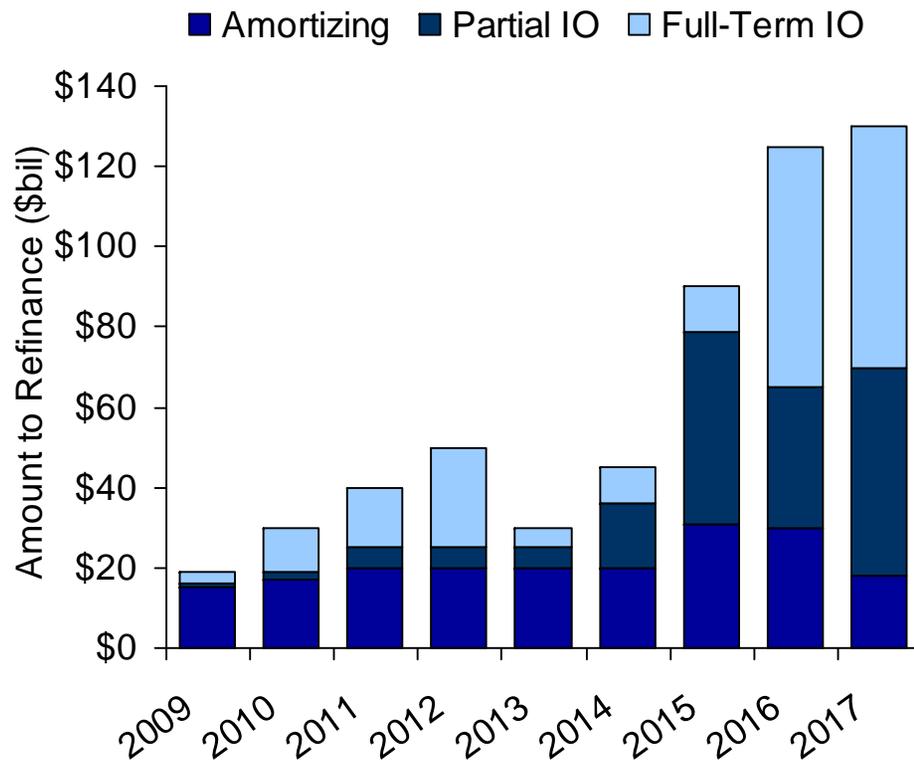
# Delinquency Rates



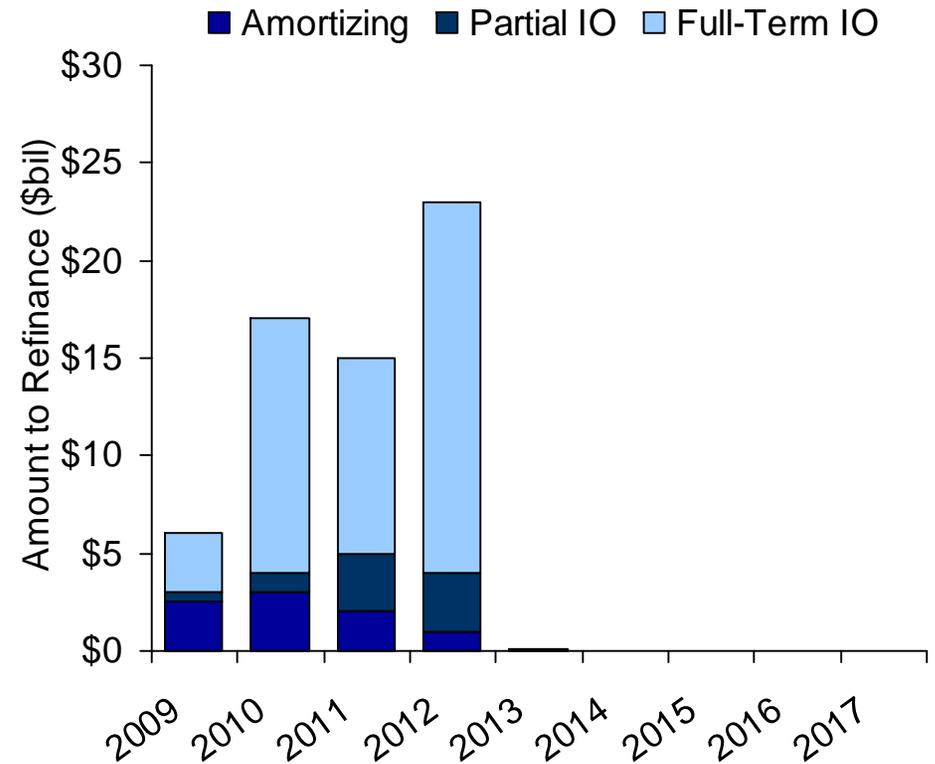
Sources: Marcus & Millichap Research Services, Wachovia Capital Markets, LLC and Intex Solutions, Inc., ACLI, Fannie Mae, Freddie Mac, OFHEO, and FDIC

# CMBS Maturing Loan Projections

## All Loans

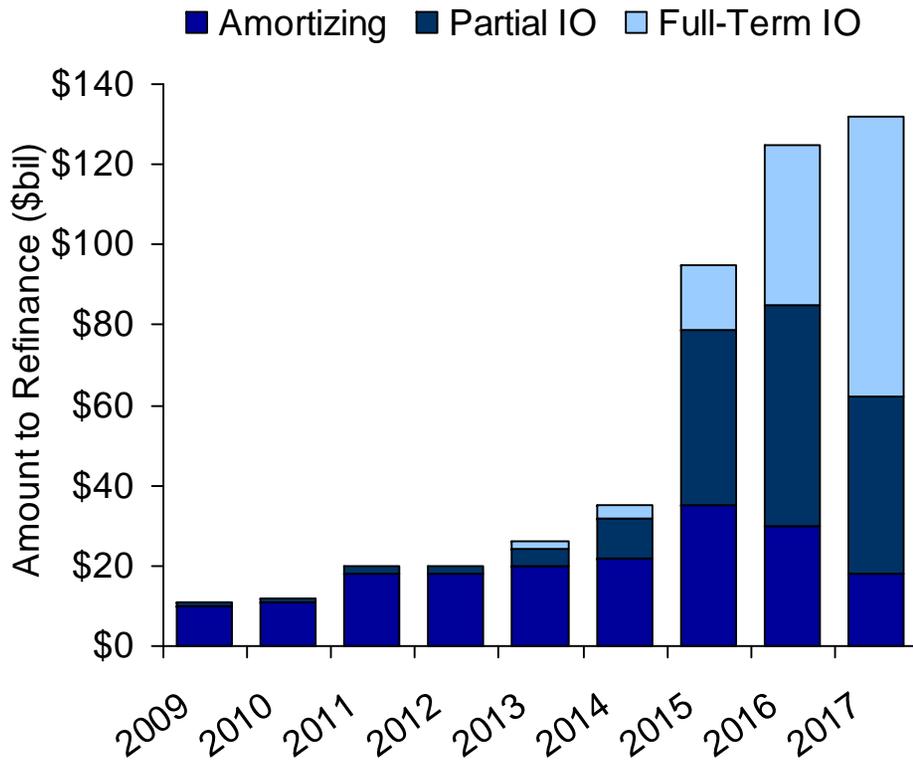


## 5 Year Loans

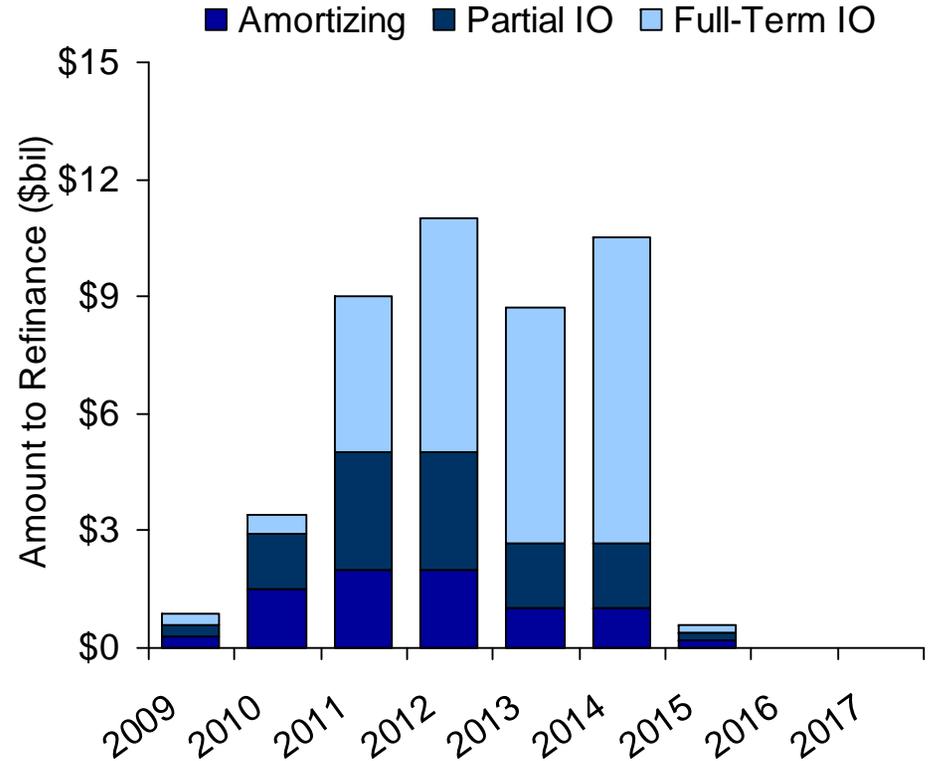


# CMBS Maturing Loan Projections

## 10 Year Loans



## 7 Year Loans



# Capital Markets Developments Since December 2008

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## Reasons for Optimism:

1. Inter-bank lending continues to improve
2. LIBOR and TED spreads have stabilized
3. 10-Year Treasury Yield at 3.7% remains at historically low level
4. Delinquencies continue to be near historic lows but are rising
5. Deals are getting done – local / regional banks, Fannie and Freddie

## Reasons for Concern:

1. Lending standards tight with global focus on sponsorship
2. Life insurance allocations have been reduced for 2009
3. Mortgage spreads remain elevated
4. Fundamentals continue to weaken
5. Heightened concern over values

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# ***MULTI-FAMILY OVERVIEW***

# Market Divergence

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**The apartment market has diverged into two distinct camps...**

- **Inherent long term investment value**
- **Short term transactional value**

# Market Divergence

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## **Inherent long term investment value**

- **Fundamentals softening (short-term)**
- **Construction starts are decreasing**
- **Future supply / demand favors appreciation**
- **Apartments remain a preferred investment**
- **Lack of suitable investment alternatives**

# Market Divergence

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## Short-term transactional value

- Debt and equity more expensive
- Investors are fearful and conservative
- Unemployment is damaging fundamentals
- Expectation of “discounted / distressed pricing”

# **Anatomy of Current Market Divergence**

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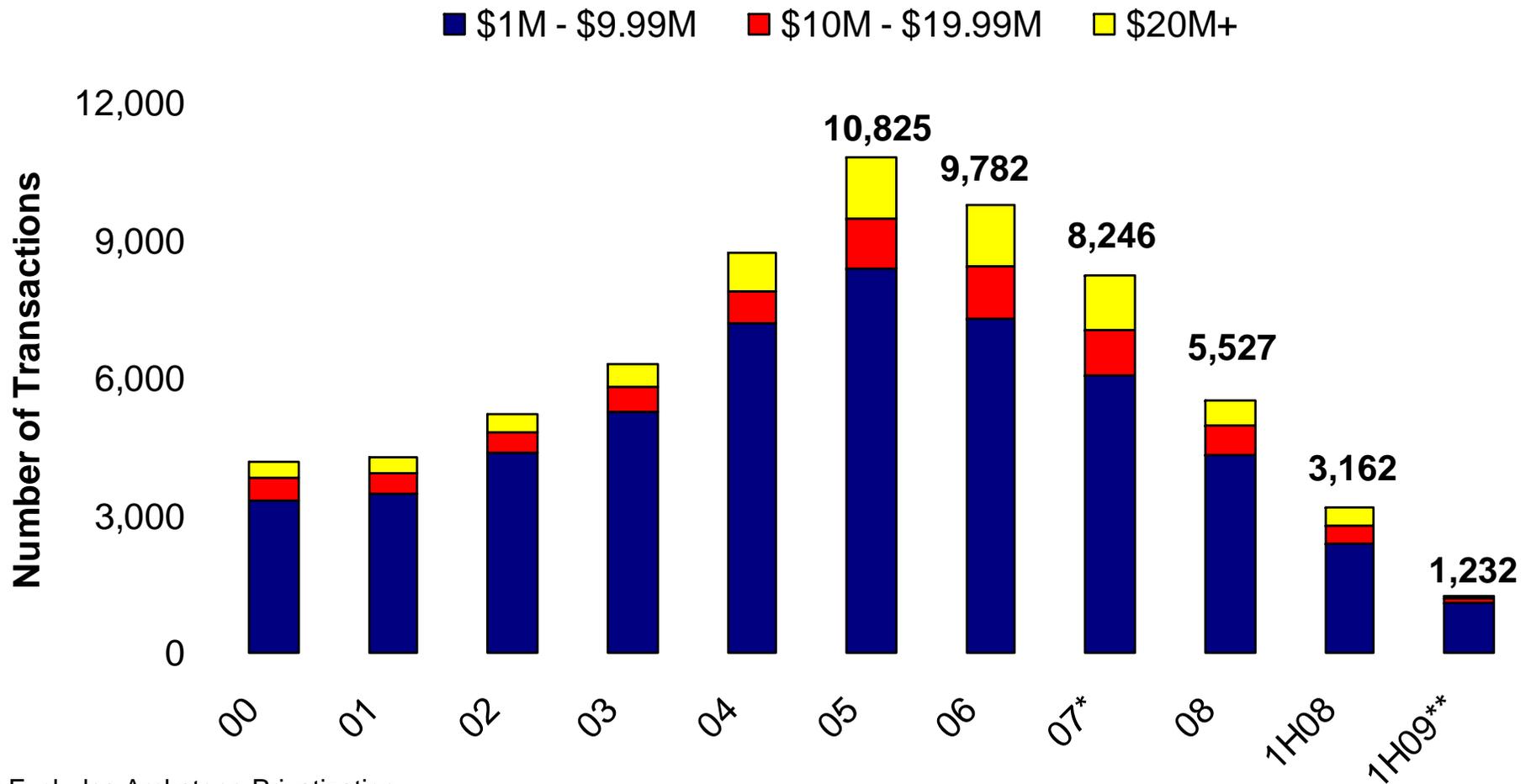
## **Inherent Vs. Short term value?**

### **Two issues...**

- **In what time frame do you have to act?**
- **What is your opinion of long term apartment investment fundamentals?**

# Apartment Investments Trends

## Transactions by Price Category



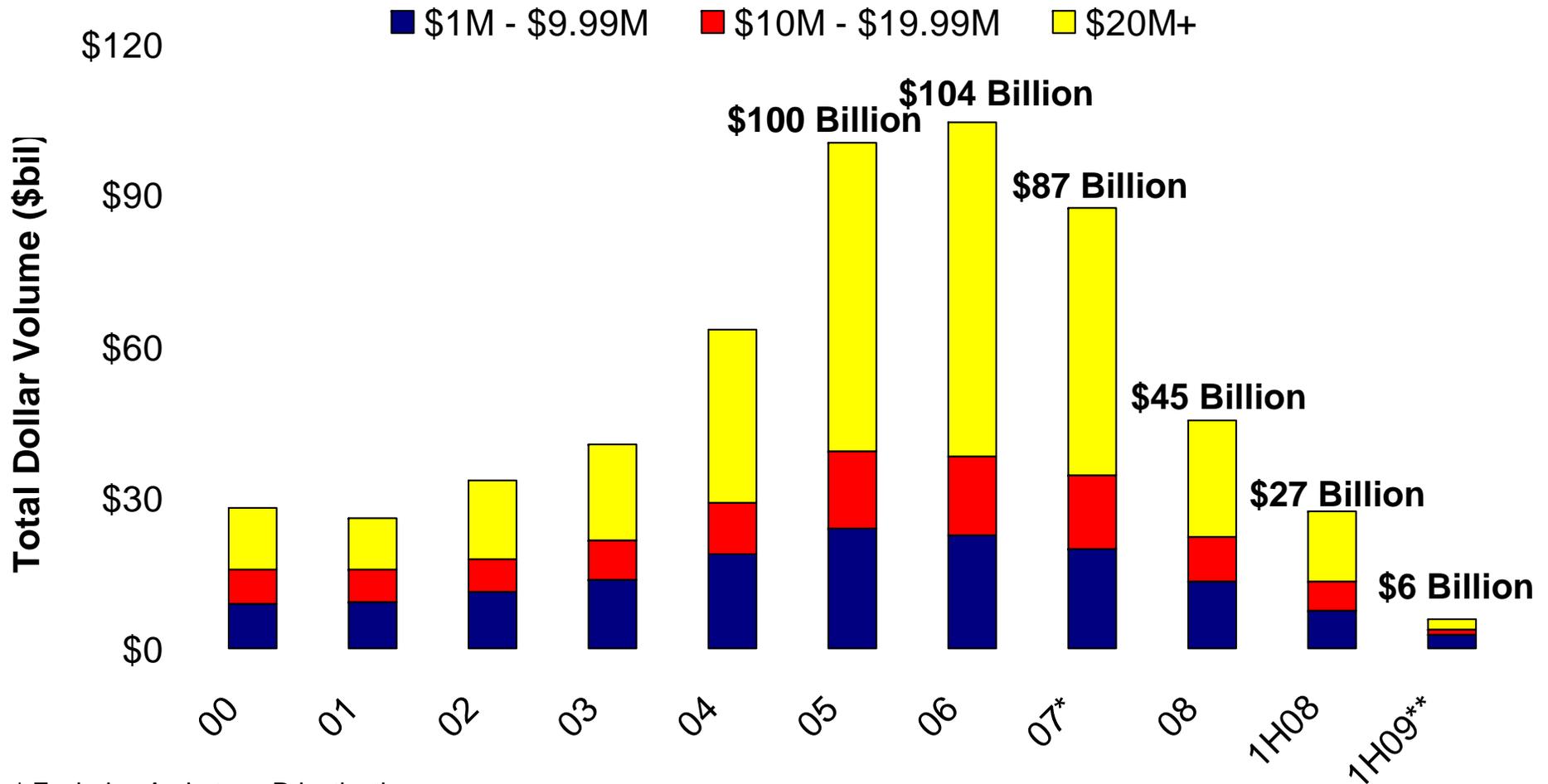
\* Excludes Archstone Privatization

\*\* Preliminary Estimate

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

# Apartment Investment Trends

## Dollar Volume by Price Category



\* Excludes Archstone Privatization

\*\* Preliminary Estimate

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

# Multi-family Capital Markets Concerns

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- 1. Liquidity: Better than other product types, but limited and expensive**
  - **Fannie and Freddie are 90% of the market**
  - **Local / regional banks and FHA are 10% of the market**
- 2. Spreads remain elevated**
- 3. Fundamentals continue to weaken**
- 4. Heightened concern over values**
- 5. Historic leverage difficult to obtain**
- 6. Maturity Risk: \$60 Billion in loans will mature in 2009-2010**
- 7. Multi-family delinquencies are rising**
  - **2.8% of multi-family loans are non-current (Q1 2009)**
  - **Compared to low of .32% (Q3 2004)**

# **Multi-family: Reasons for Optimism \***

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- 1. Opportunistic (new and old) buyers starting to emerge**
- 2. Low transaction velocity has stabilized (improved?)**
- 3. REITs have strengthened balance sheets**
- 4. GSE conservatorships likely to be extended for up to two years**
- 5. Shadow market no longer growing**
- 6. Multi-family delinquencies remain significantly lower than single-family**
- 7. Renter households are increasing**
- 8. Homeownership rates are decreasing**

**\* Source: Doug Bibby, President, National Multi Housing Council**

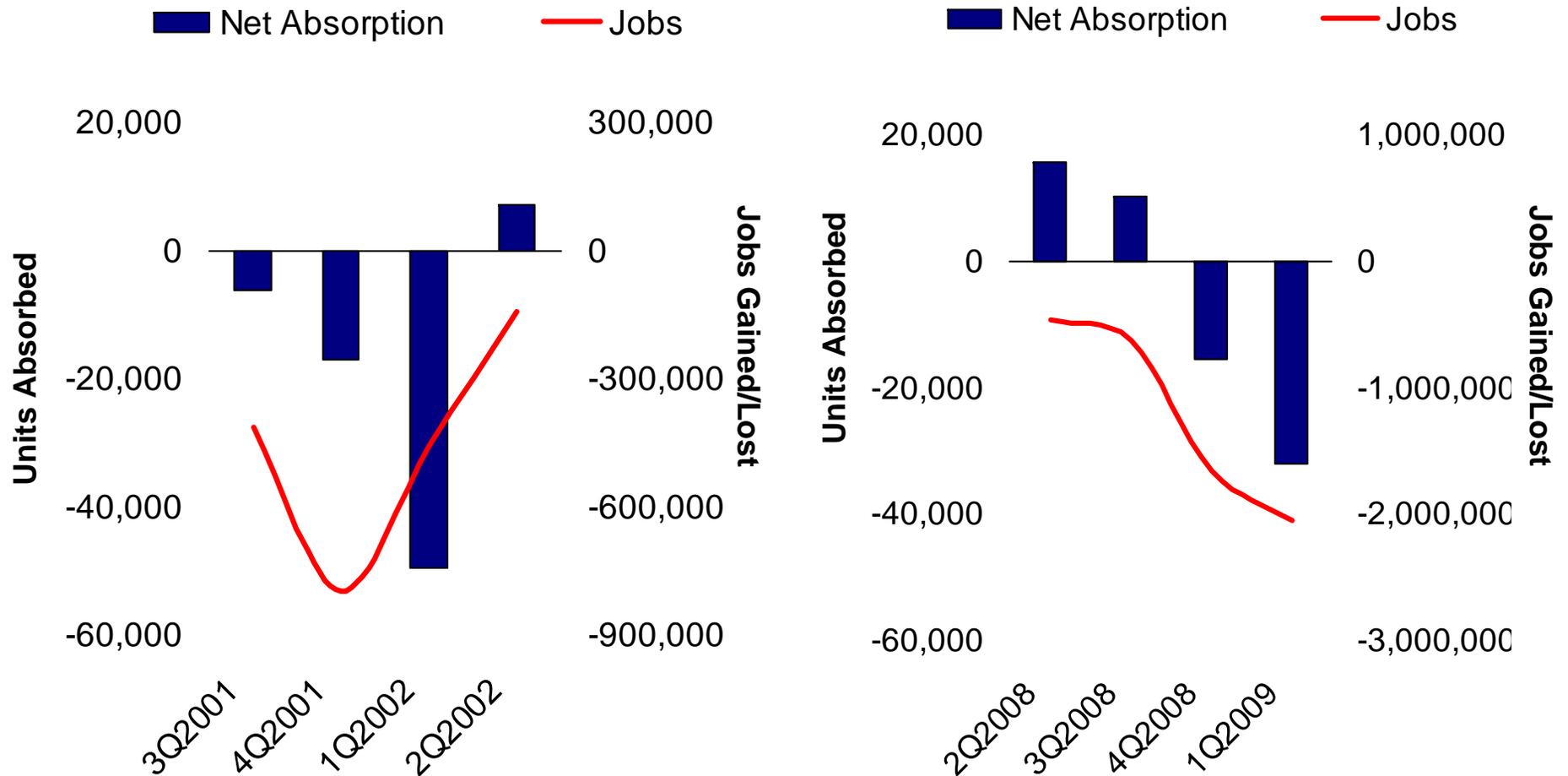
# Multi-family: Reasons for Concern \*

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1. **Slow job recovery**
2. **Collateral damage from CMBS failures**
3. **Unrealistic equity investor return requirements**
4. **Low transaction volume from wide bid / ask spread**
5. **Activist Congress and Administration**
6. **New regulatory framework for Fannie Mae and Freddie Mac that disrupts multifamily programs**

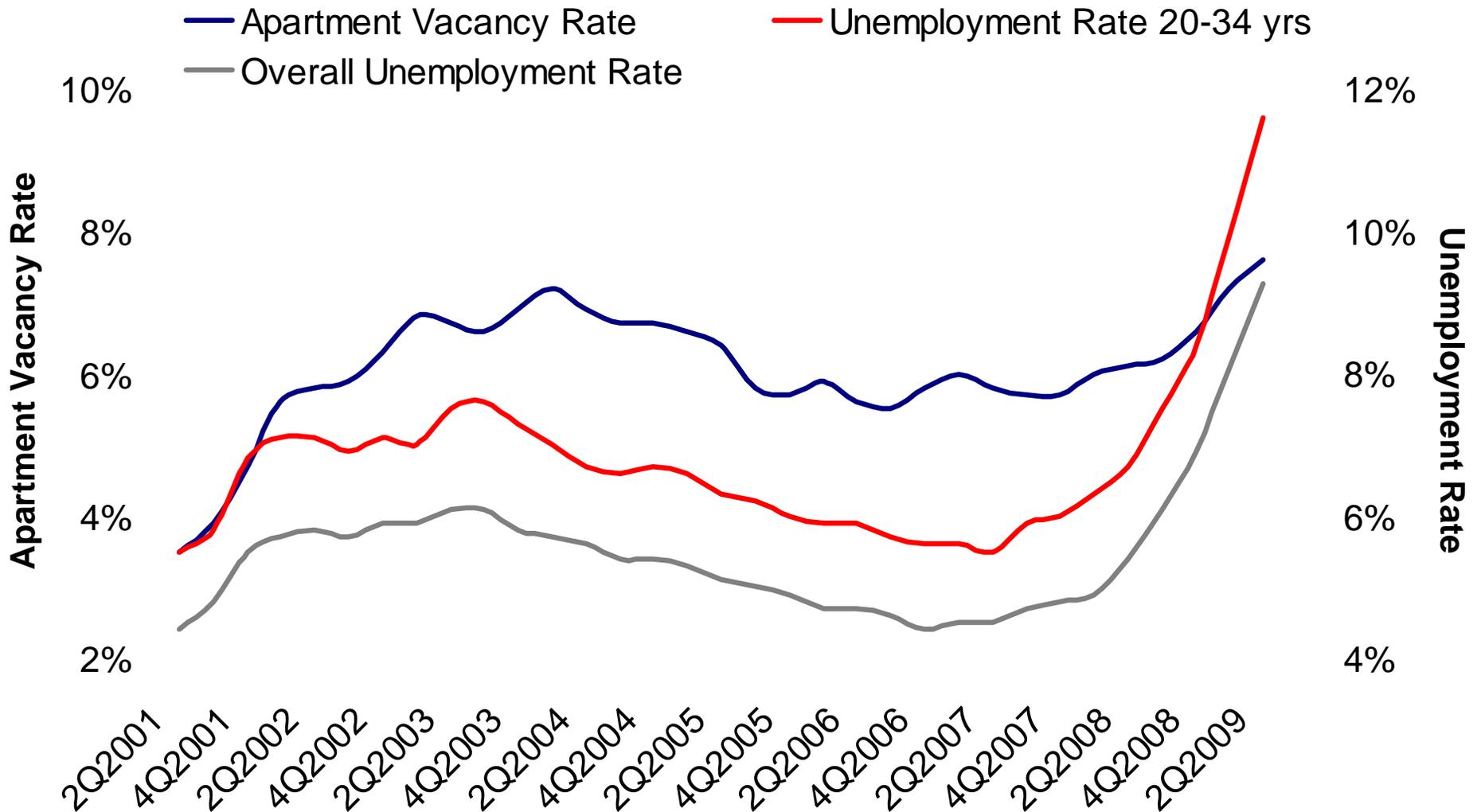
\* **Source: Doug Bibby, President, National Multi Housing Council**

# Apartment Absorption and Employment Growth – Previous Downturn vs. Current



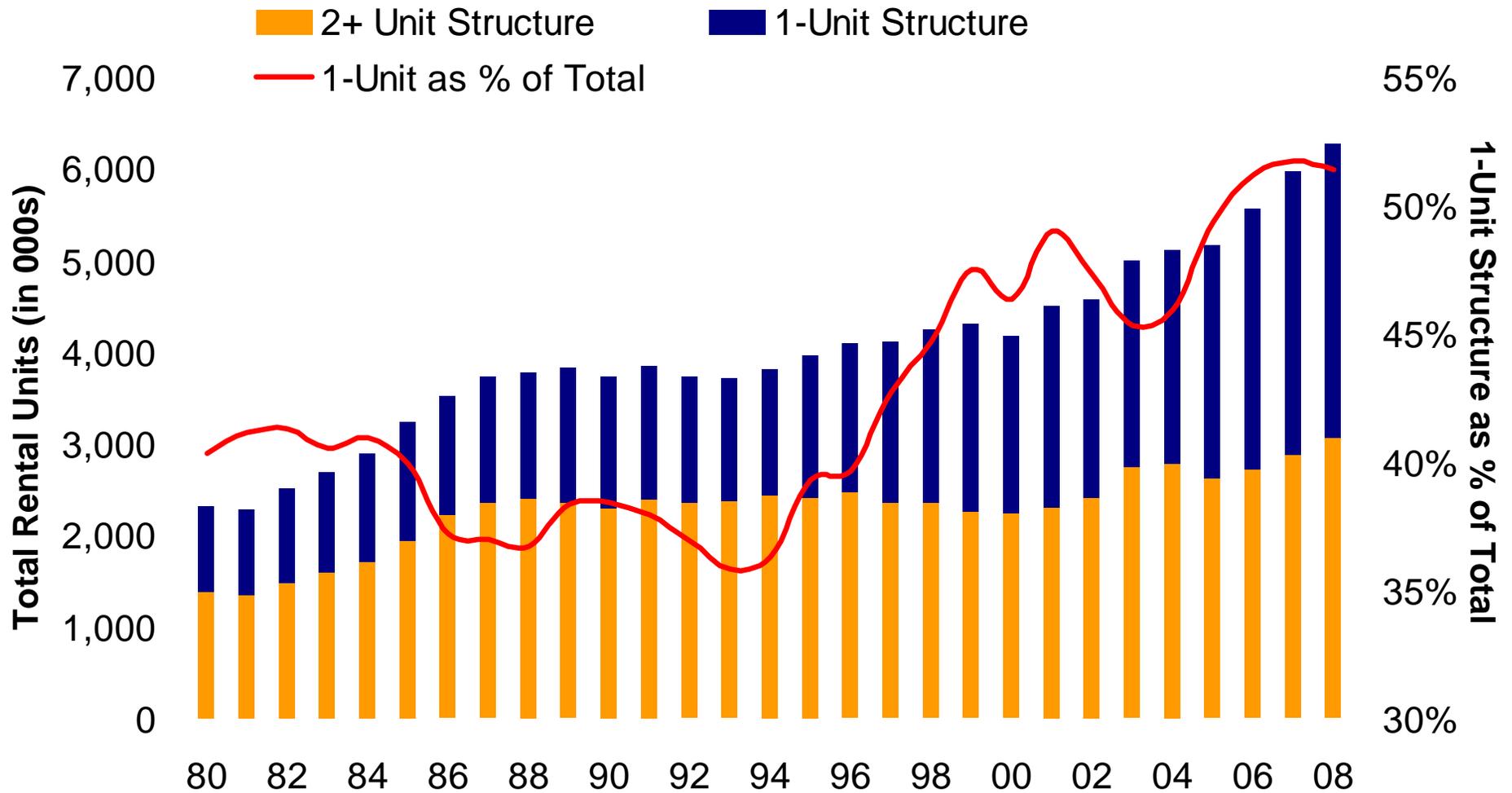
Sources: Marcus & Millichap Research Services, BLS, Reis

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



Sources: Marcus & Millichap Research Services, BLS, Reis

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

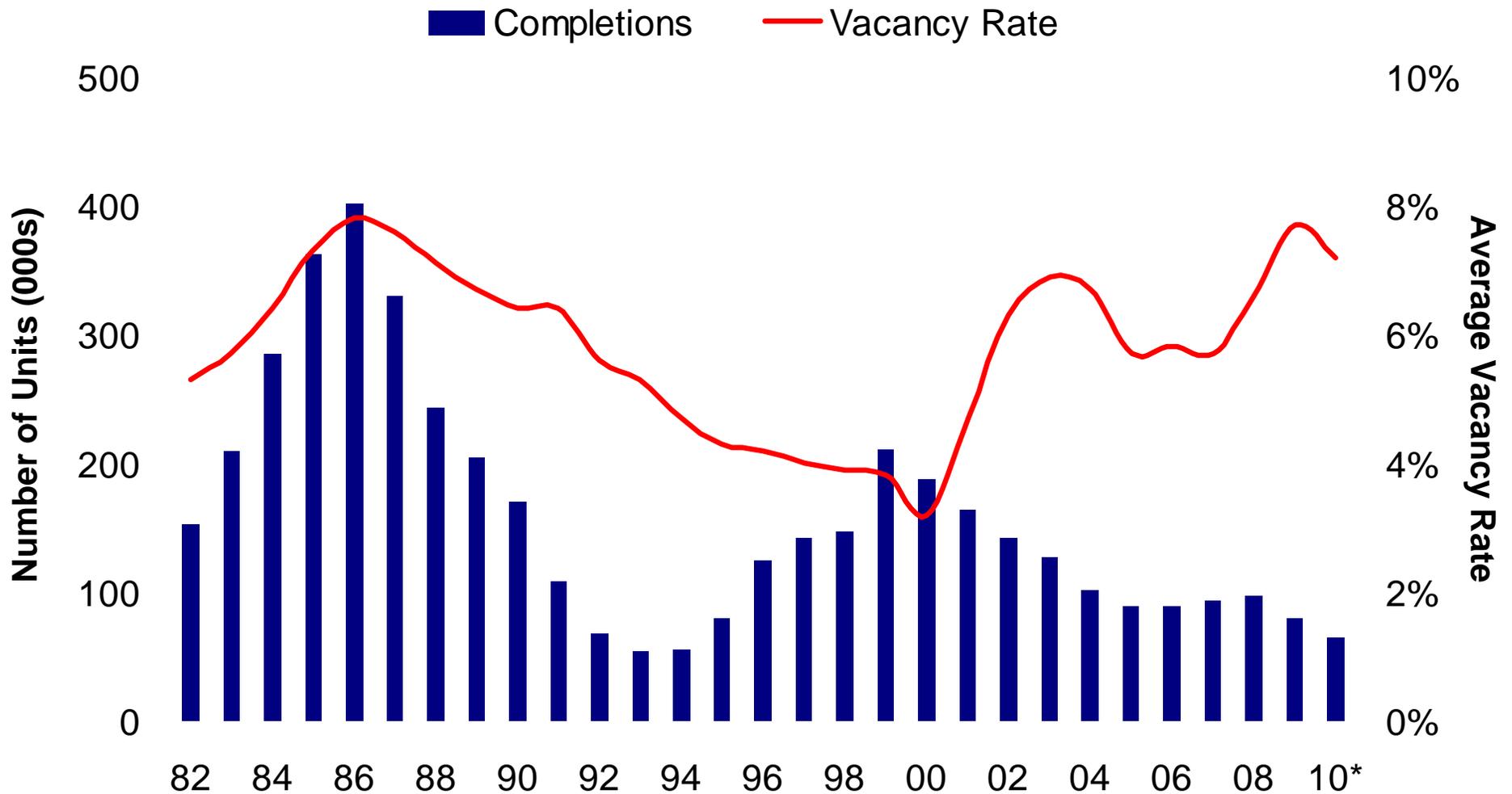


Sources: Marcus & Millichap Research Services, U.S. Census Bureau

# Apartment Vacancy Change Y-O-Y 2Q 2009

Top 15 Markets	2Q 09 Vacancy	Y-O-Y BPS Change	Bottom 15 Markets	2Q 09 Vacancy	Y-O-Y BPS Change
New Haven-Fairfield Co.	4.8%	0	Fort Lauderdale	7.7%	180
Palm Beach	8.2%	0	Houston	11.3%	180
Louisville	6.6%	30	Phoenix	11.3%	180
Minneapolis	4.4%	30	Sacramento	8.4%	200
Boston	6.5%	40	Seattle-Tacoma	6.9%	200
Salt Lake City	5.7%	40	St. Louis	8.8%	200
Columbus	8.0%	60	Oakland-East Bay	6.4%	210
New York	2.9%	60	San Antonio	9.8%	210
Cincinnati	7.2%	60	Denver	9.1%	220
Indianapolis	8.2%	70	Atlanta	11.2%	240
San Diego	4.7%	70	Jacksonville	13.1%	240
Portland	5.8%	80	Las Vegas	9.7%	260
Washington D.C.	6.3%	80	Austin	10.1%	300
Milwaukee	4.9%	80	Tucson	9.9%	330
Miami	5.8%	100	Charlotte	10.1%	350
<b>U.S. Average</b>	<b>7.6%</b>	<b>150</b>	<b>U.S. Average</b>	<b>7.6%</b>	<b>150</b>

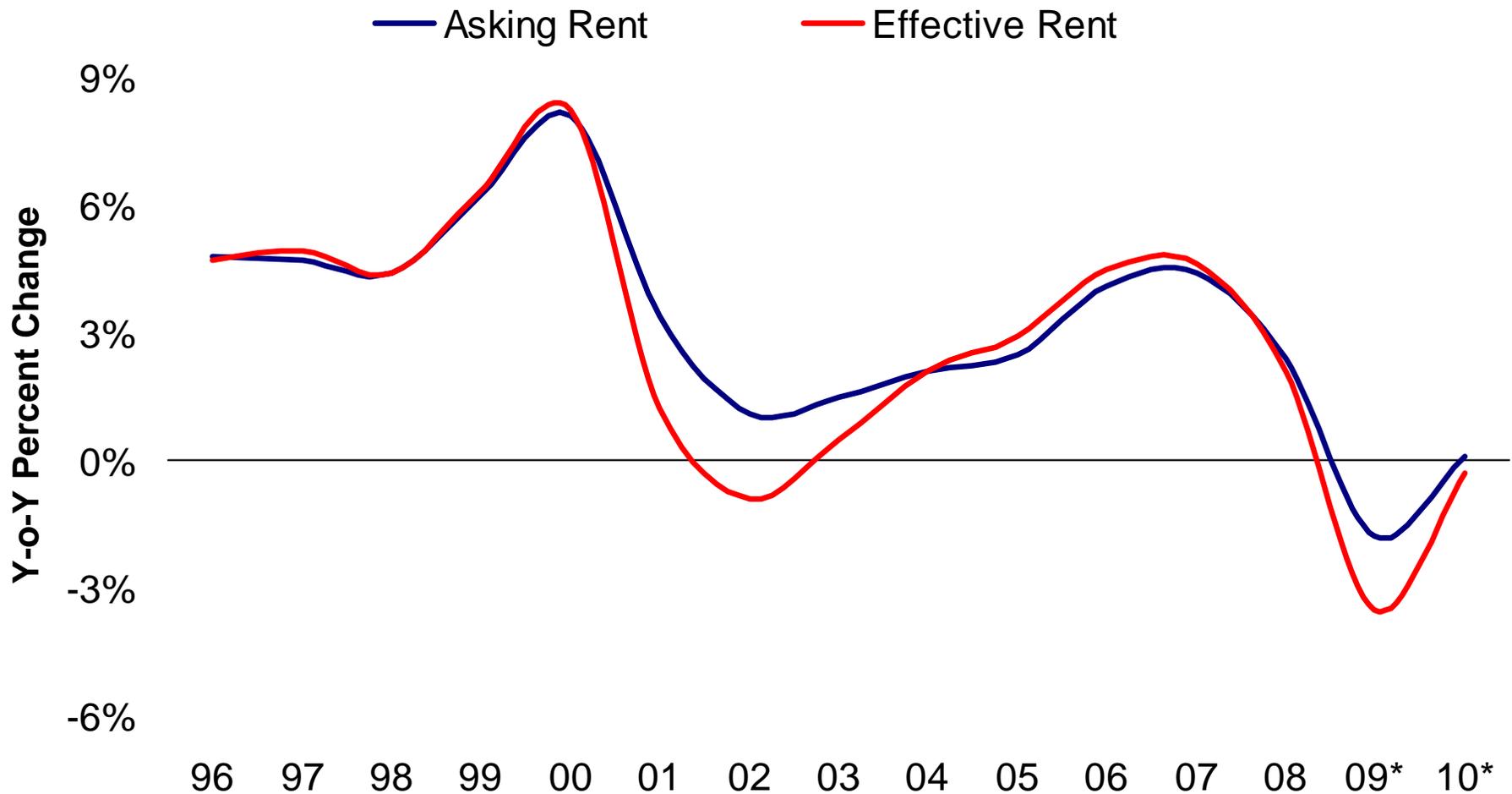
# Falling Construction, Modest Employment Recovery Should Begin to Reverse Vacancy Trend in 2010



\* Forecast

Sources: Marcus & Millichap Research Services, Reis

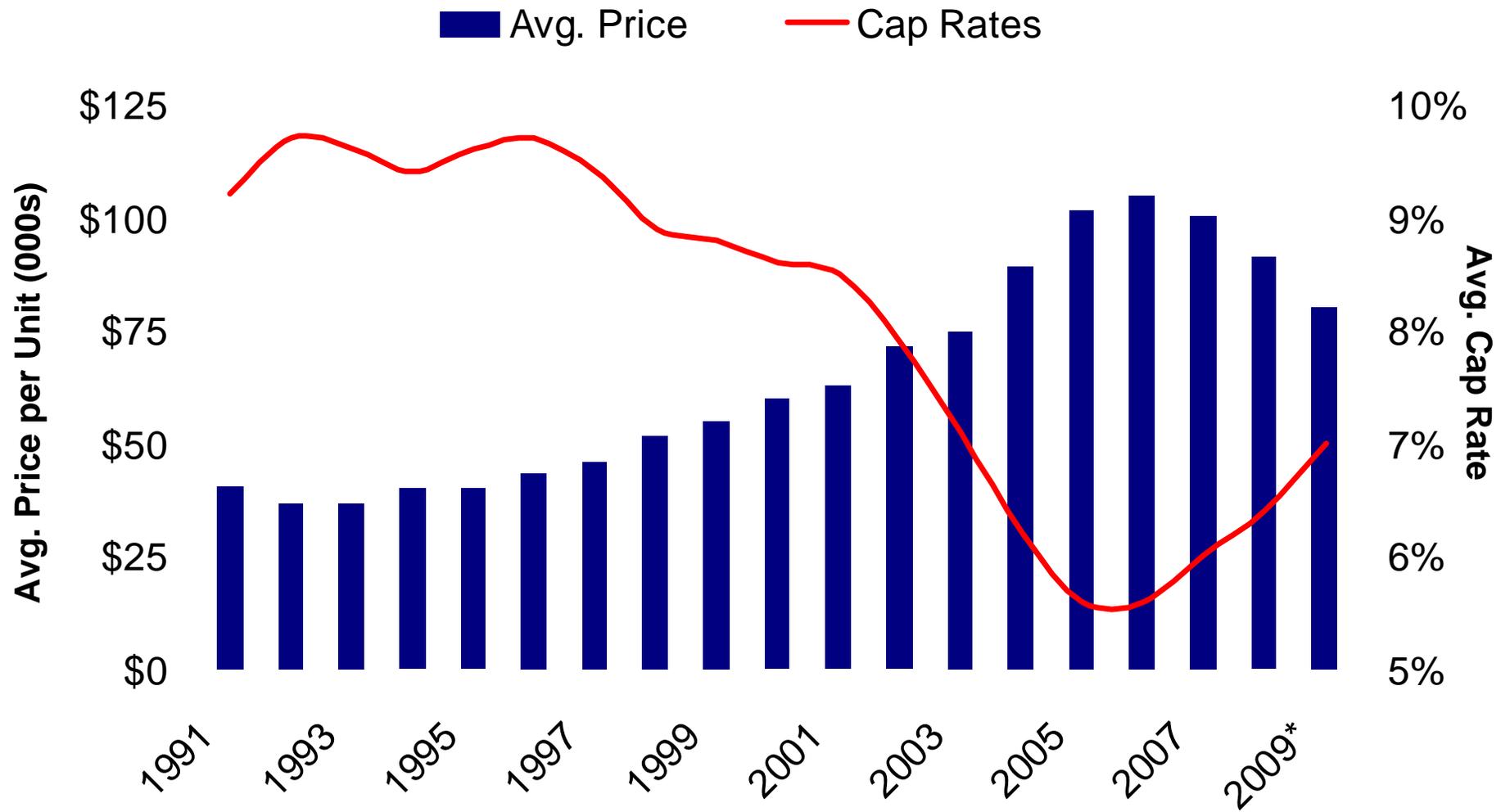
# U.S. Apartment Rent Trends



\* Forecast

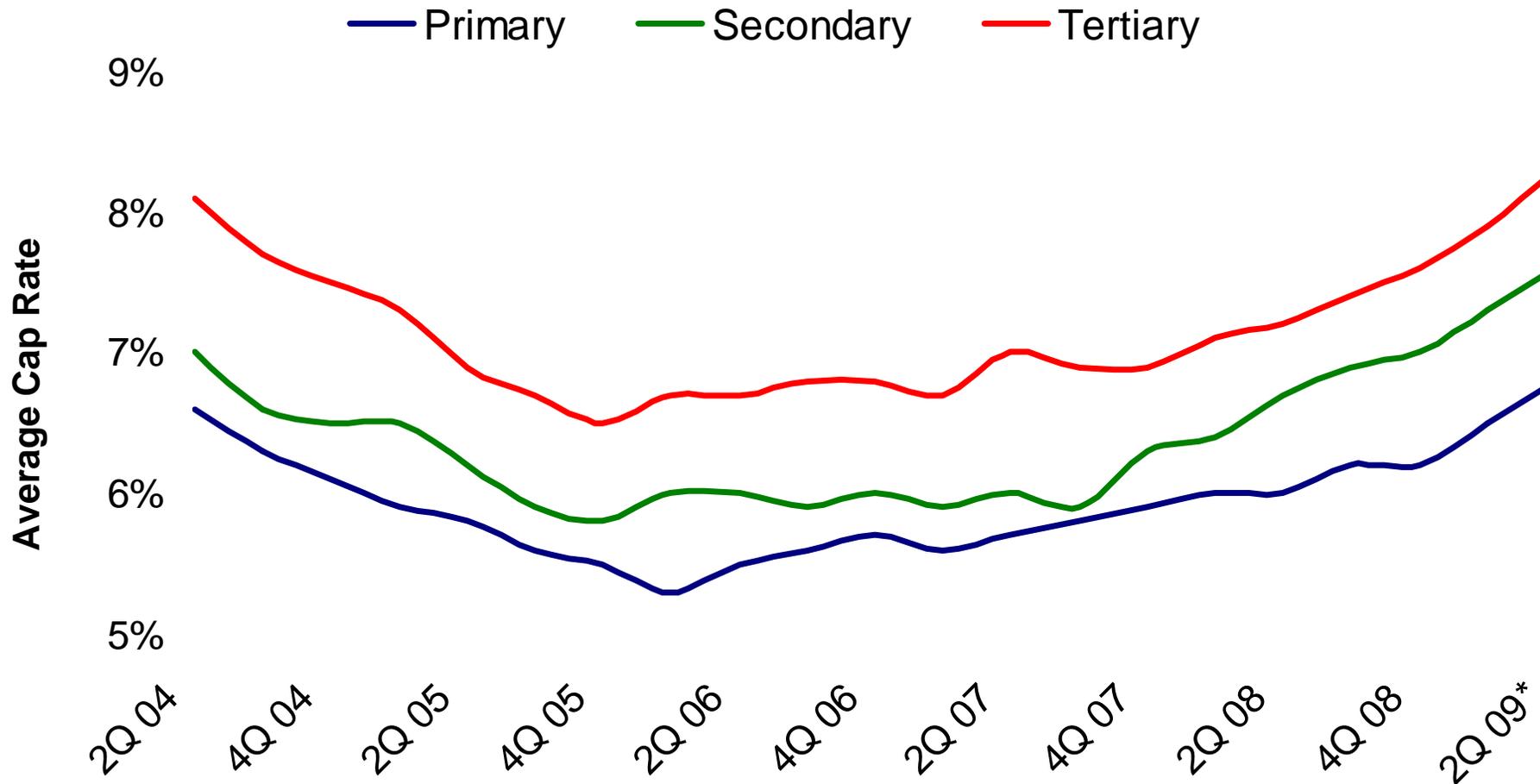
Sources: Marcus & Millichap Research Services, Reis

# National Apartment Price and Cap Rates



\* Through 2Q  
 Includes sales \$1Million and Greater  
 Sources: Marcus & Millichap Research Services, Costar Group, Inc.

# Re-Pricing of Risk by Quality Reflected in Apartment Cap Rate Trends by Market



\* Preliminary Estimate

Sales \$5 million and greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

# 18 – Month Cap Rate Adjustment Matrix \*

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	Class "A"	Class "B"	Class "C"
Primary	.65	1.00	1.25
Secondary	1.00	1.25	1.50
Tertiary	1.25	1.50	2.00

\* Change in cap rates last 15 months

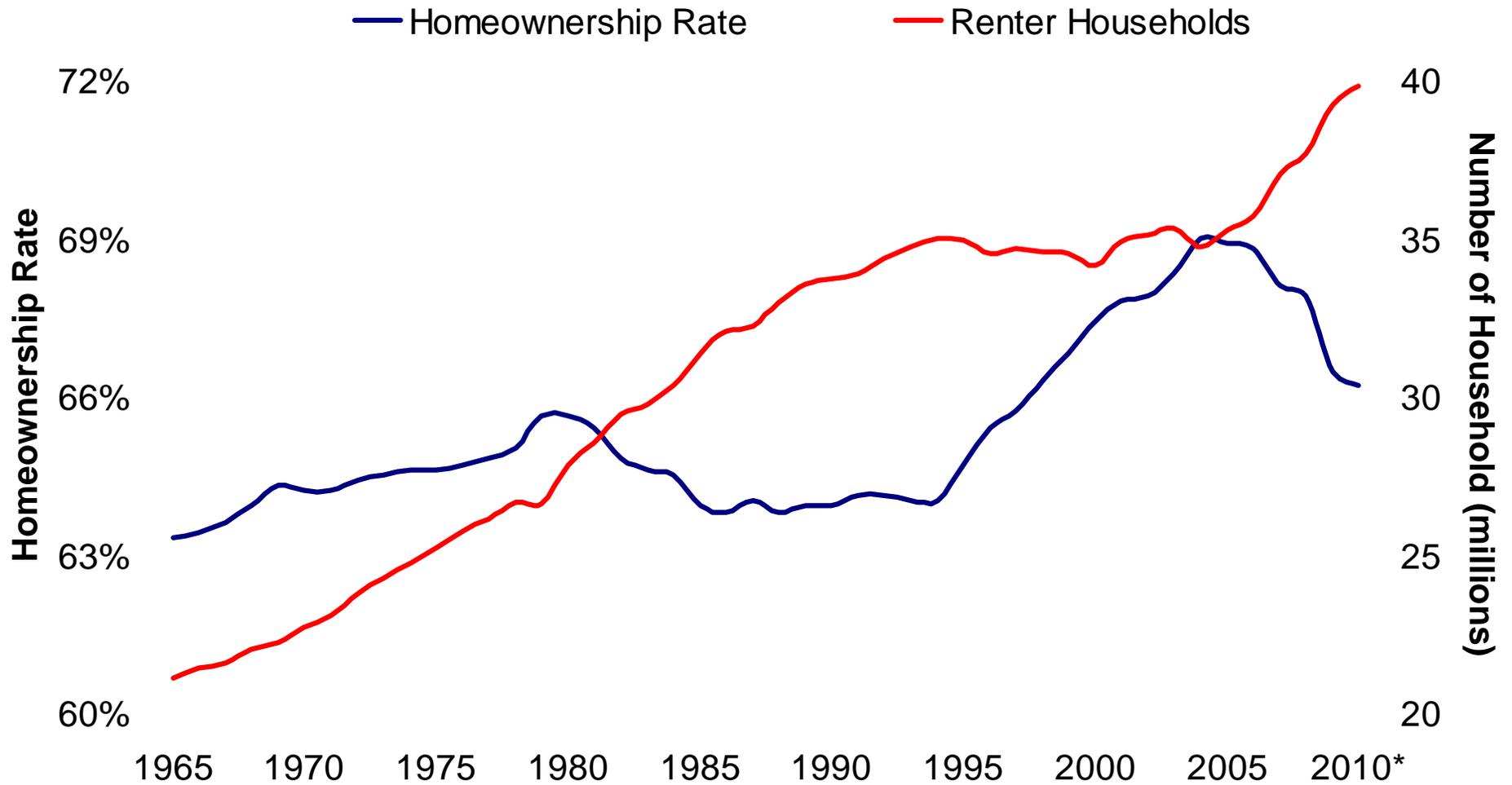
# 18 – Month Pricing Adjustment Matrix

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	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

# Reversal in Home Ownership Rate Points to Increase in Renter Households

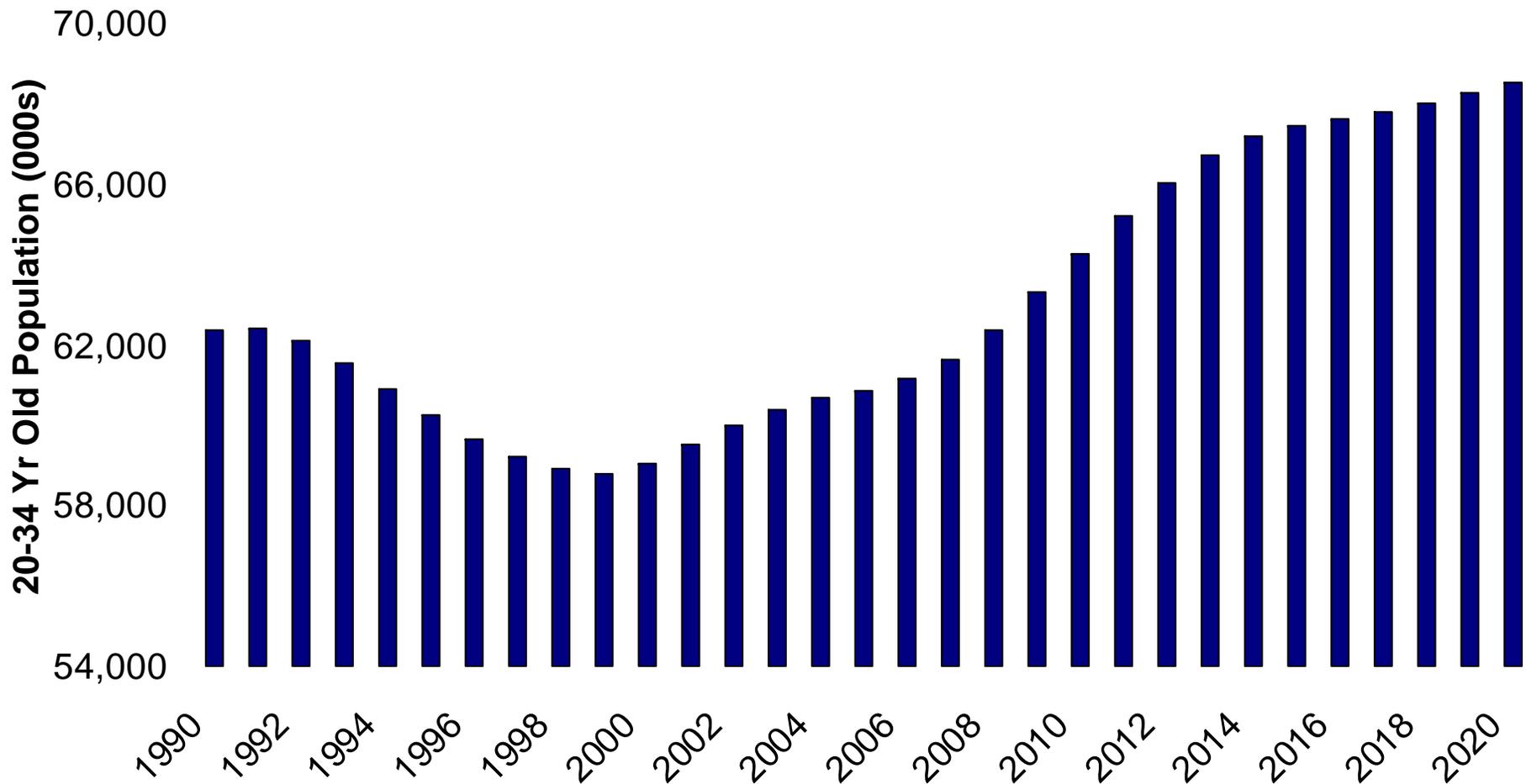


\* Forecast

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

# U.S. Population Trends Favorable For Rental Market Projected 20-34 Year Old Population

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

## Key Observations for 2009

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- **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 declines moderately 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**

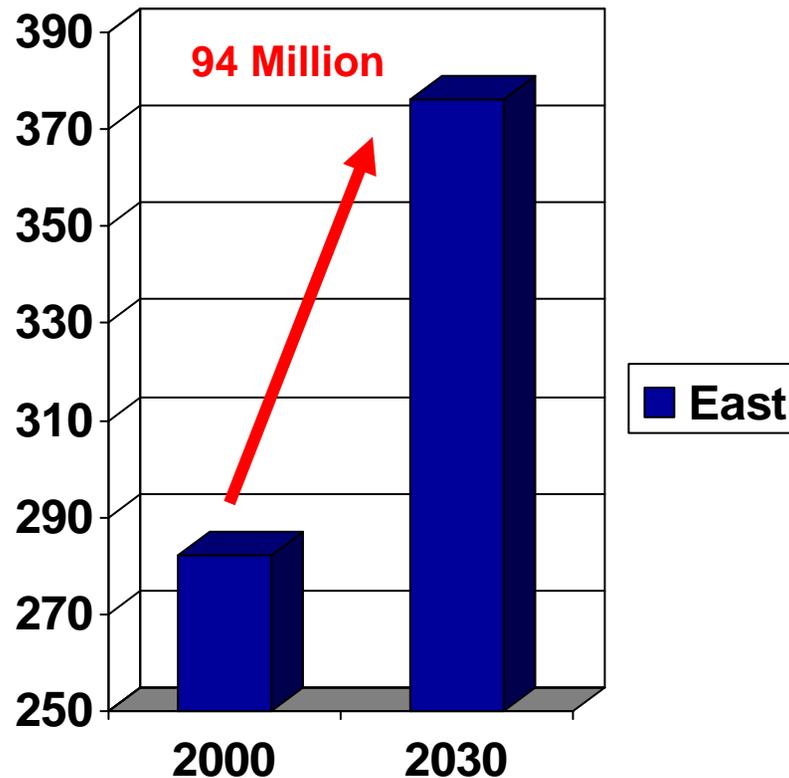
# **Marcus & Millichap's NMHG Remains Bullish on U.S. Apartments Long-Term**

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- **U.S. will experience a fundamental change in housing dynamics that will favor the density, efficiency, flexibility and affordability of apartment living**
  - **Population growth**
  - **Changing demographics**
  - **Environmental concerns**
  - **Budget / expense factors**
  - **Affordability**
  - **Rent vs. own**

# Population Dynamics

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Millions

- 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**

# 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**

# 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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- **Its costs \$311 less a month, on average to rent vs. own**
- **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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- **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 do not justify development**
- **Significant future pressure on rents**
- **National “preference” for single-family housing is beginning to shift**
- **U.S. apartments will be dramatically more valuable in 2015 than 2010**



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