



U.S Economic, Capital Markets and Apartment Market

Overview and Outlook – *Special Client Webcast*
February 24, 2009

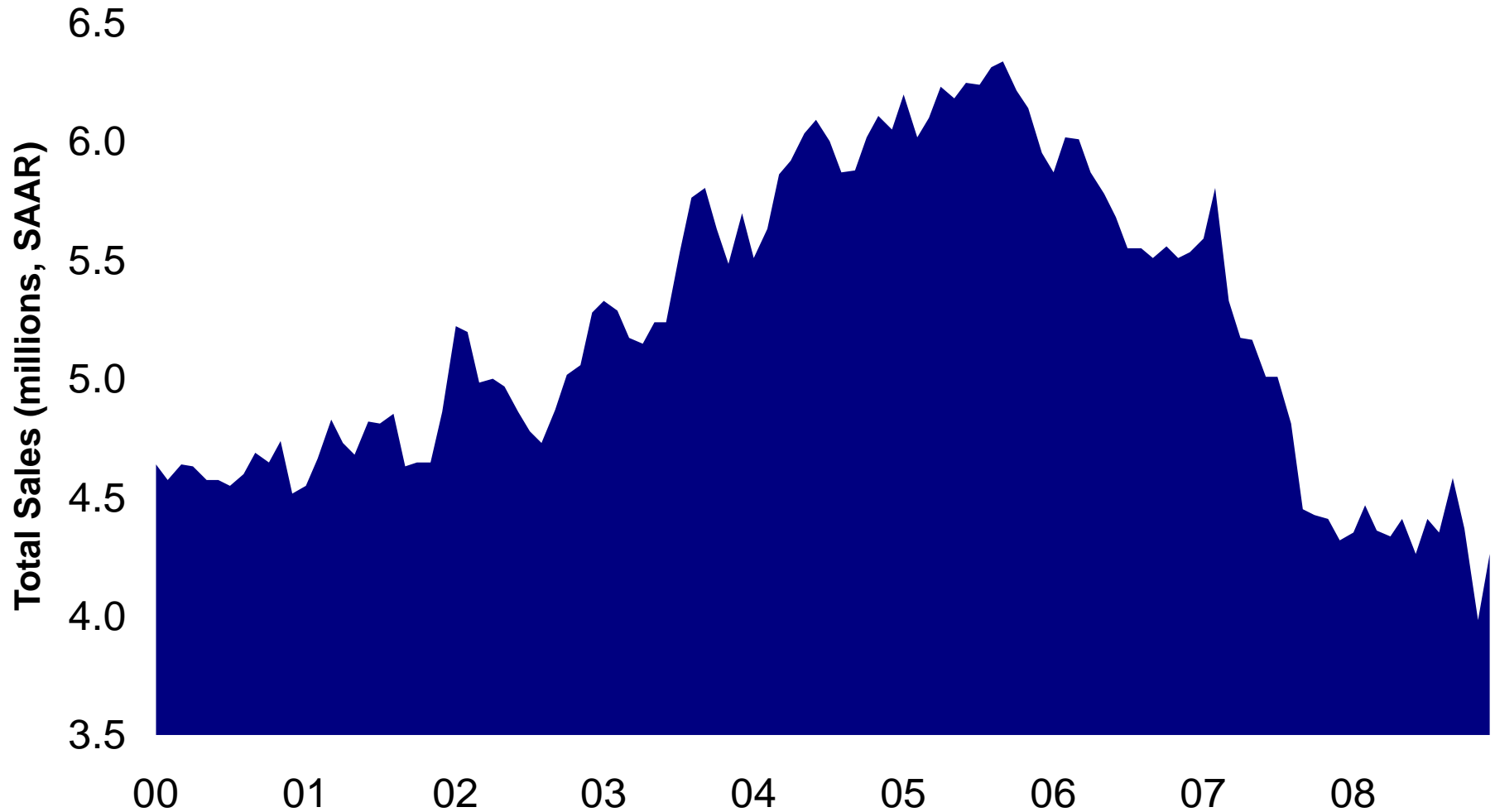
Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

***ECONOMIC and APARTMENT MARKET
FUNDAMENTALS***

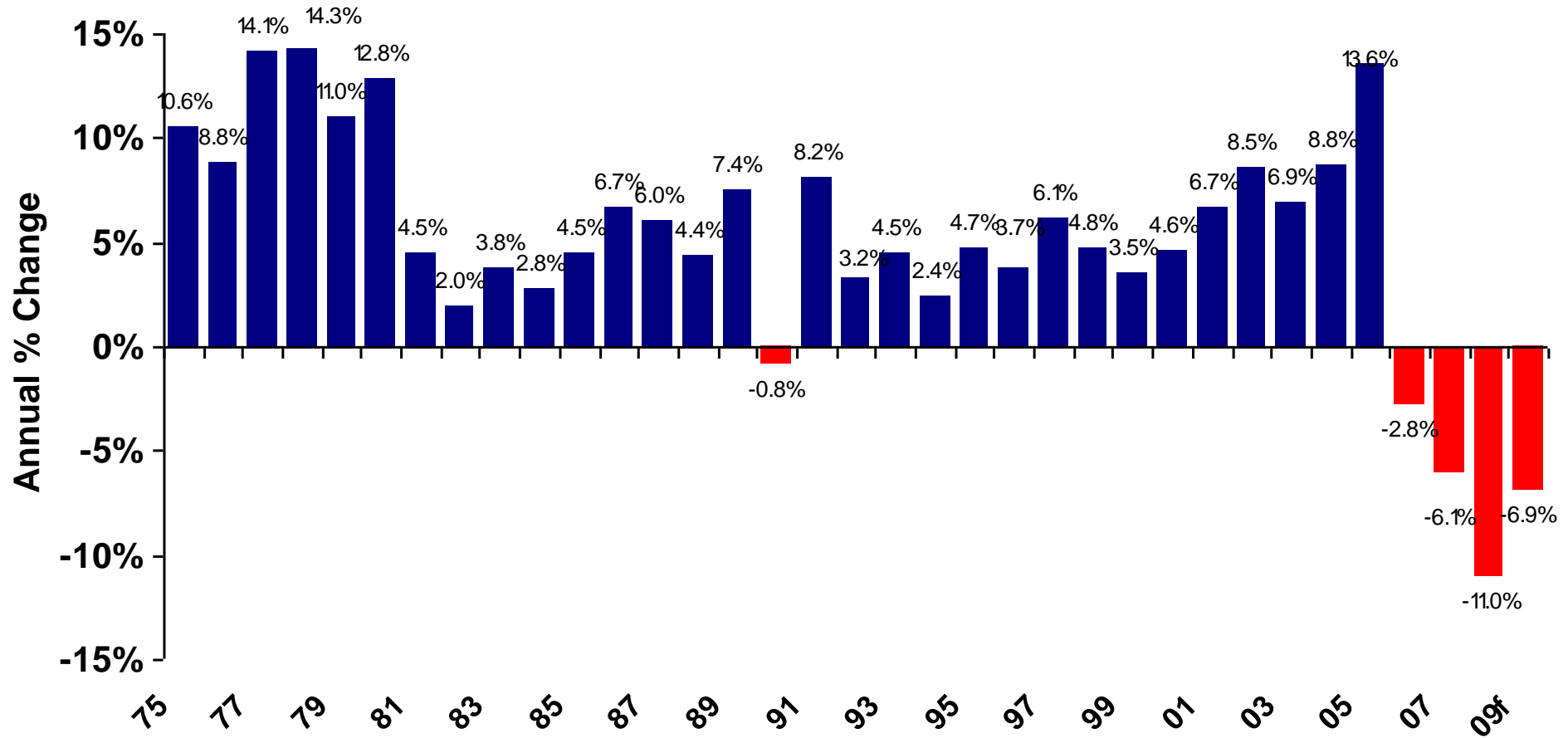
OVERVIEW and OUTLOOK

Home Sales Near Bottom – Foreclosures, Financing Still Major Headwinds



Home Prices Yet to Reach Bottom

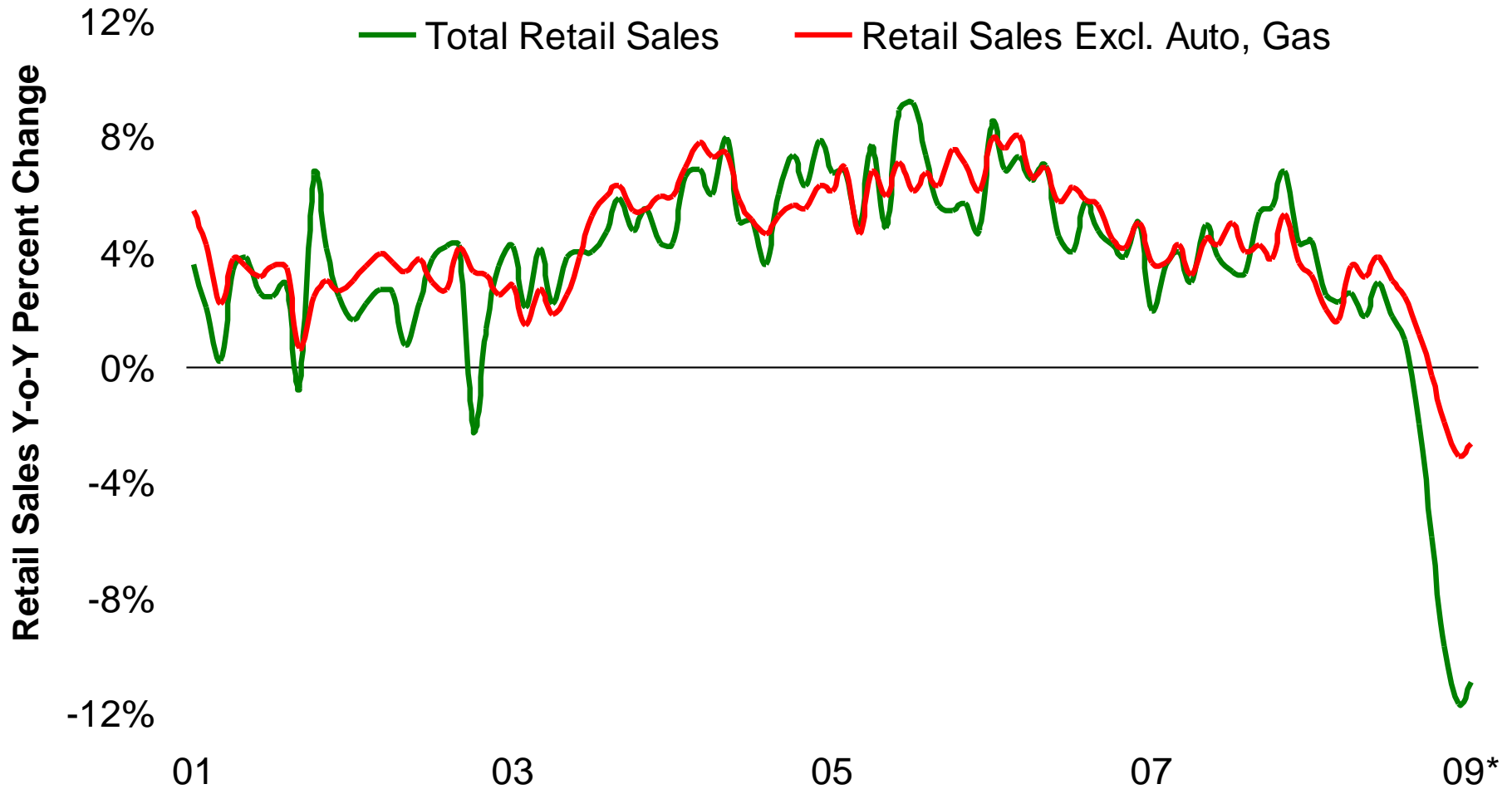
U.S. Existing Median Home Price Trends



Note: 4Q vs. 4Q

Sources: National Association of Realtors, RCG

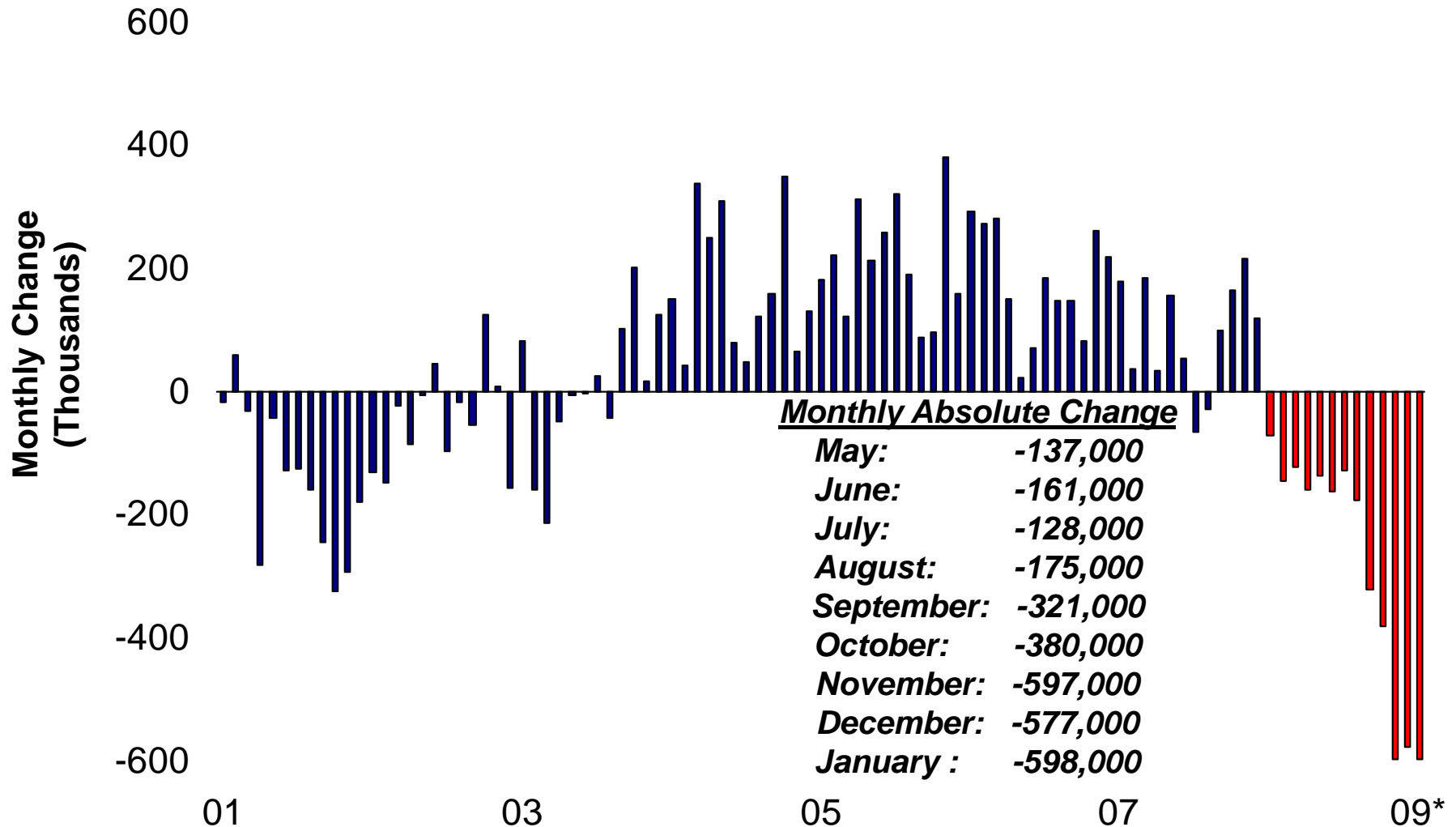
U.S. Consumption Remains Weak



* Through January

Sources: Marcus & Millichap Research Services, Bureau of the Census

Job Losses Have Reached “Extreme” Levels In Response to Financial Crisis

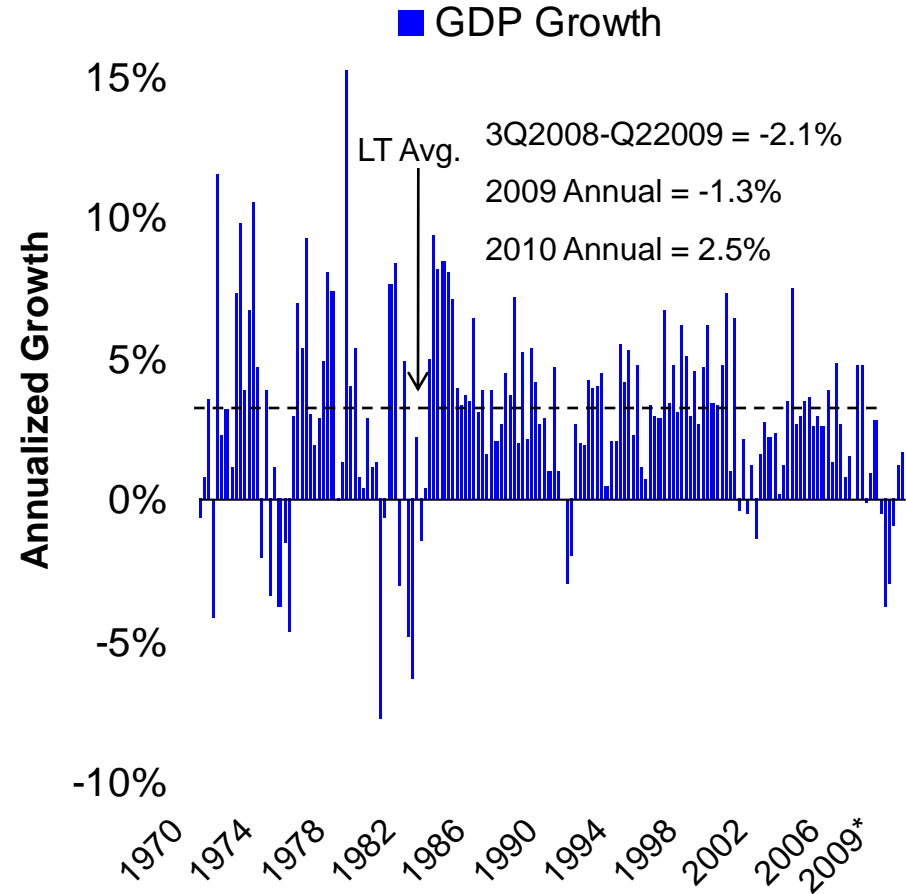
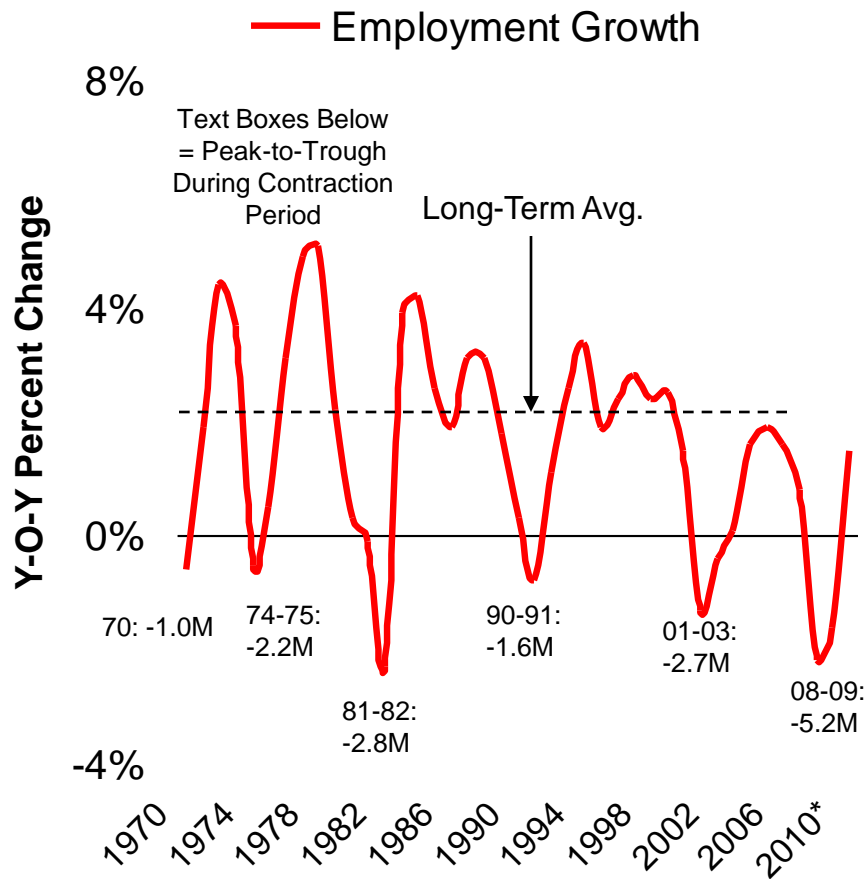


* Through January

Sources: Marcus & Millichap Research Services, BLS, Economy.com

Economic Weakness Expected Through Q3-2009

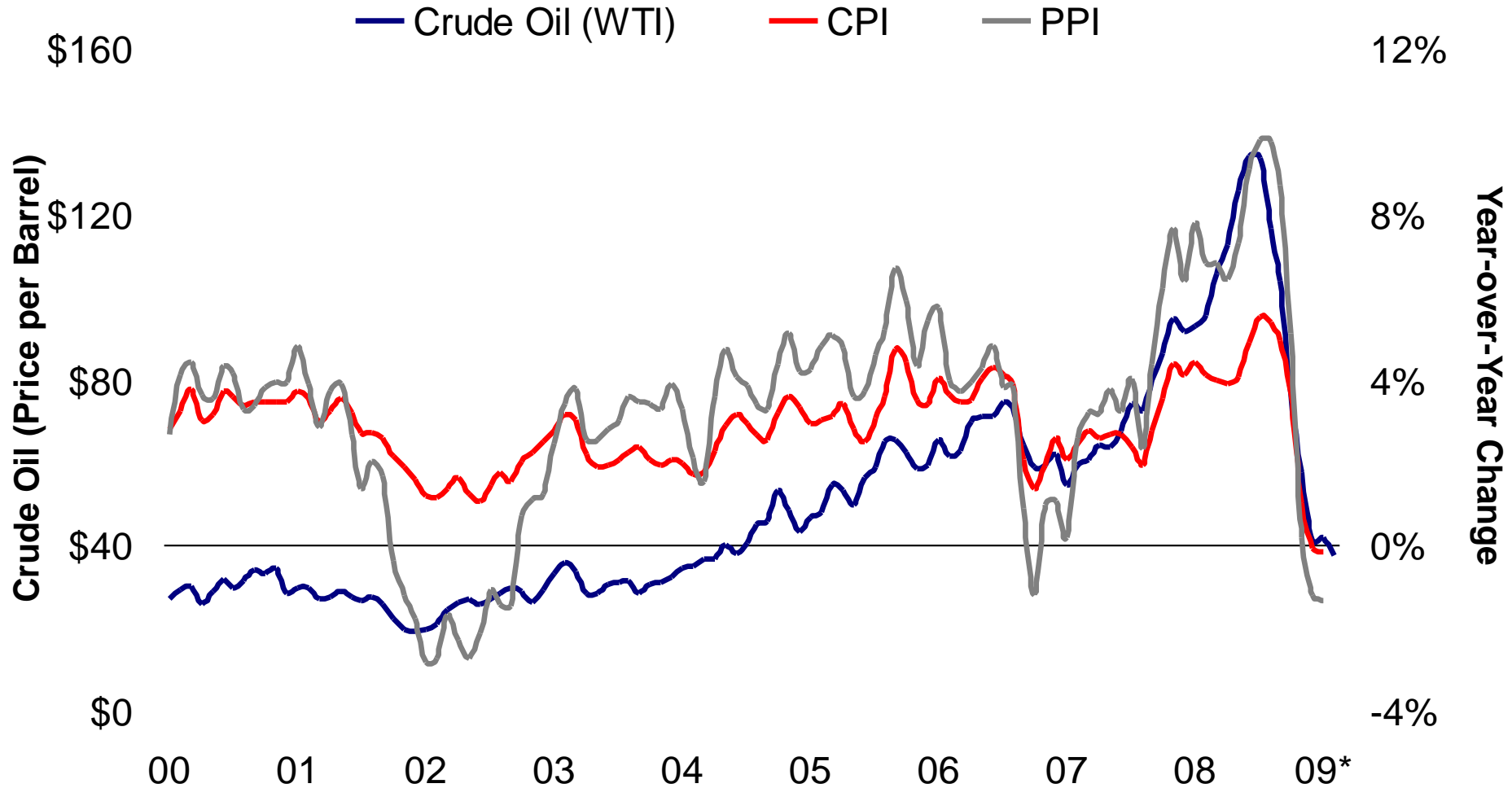
Risk Levels Remain Elevated



*Forecast Assumes No Additional Major Shocks

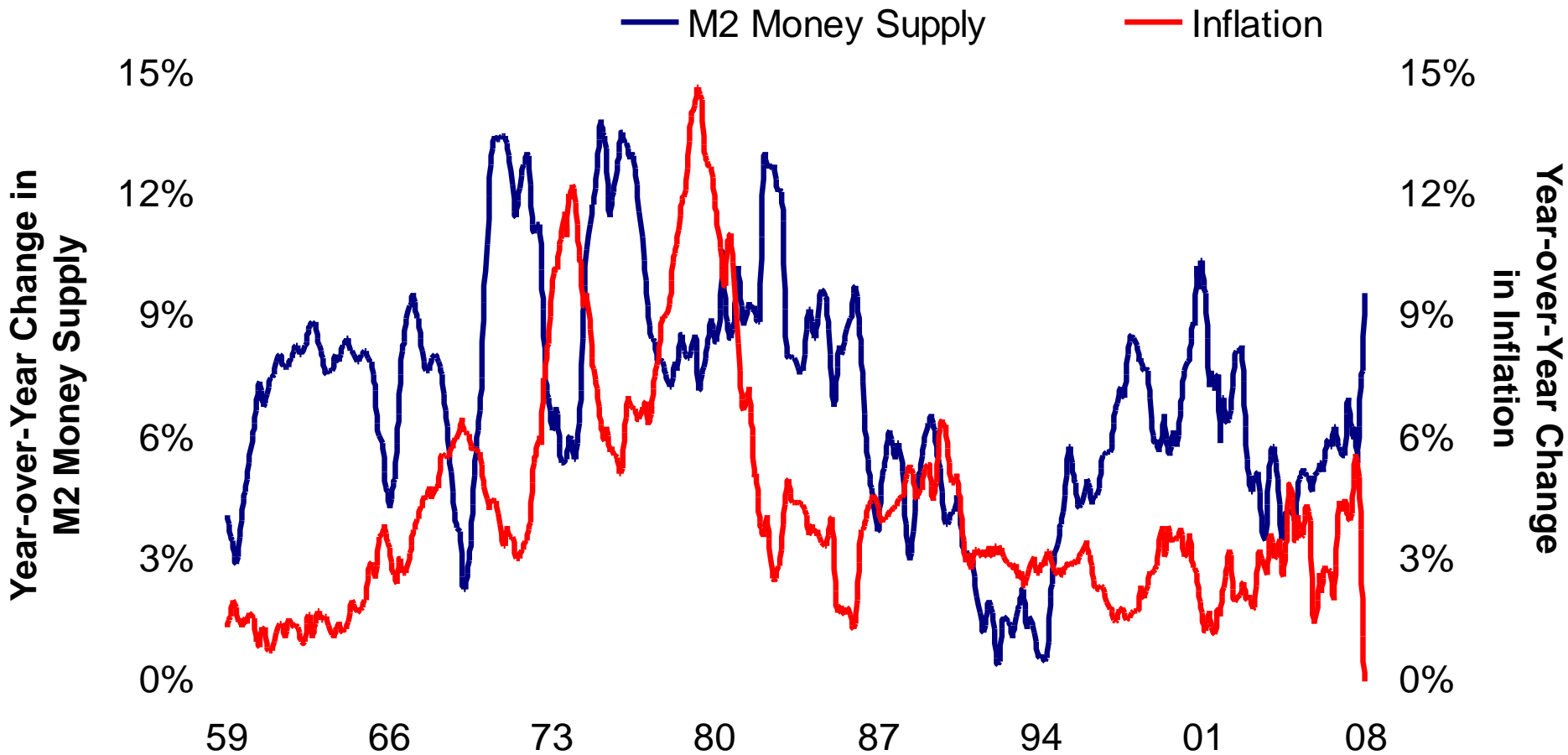
Sources: Marcus & Millichap Research Services, Blue Chip, Economy.com, Global Insight

Lower Energy Prices a Major Positive Factor – Fed on Deflation Watch (For Now)



* Crude Oil as of Feb 10th, PPI and CPI through Jan
Sources: Marcus & Millichap Research Services, BLS, FRED

M2 Money Supply vs. Inflation

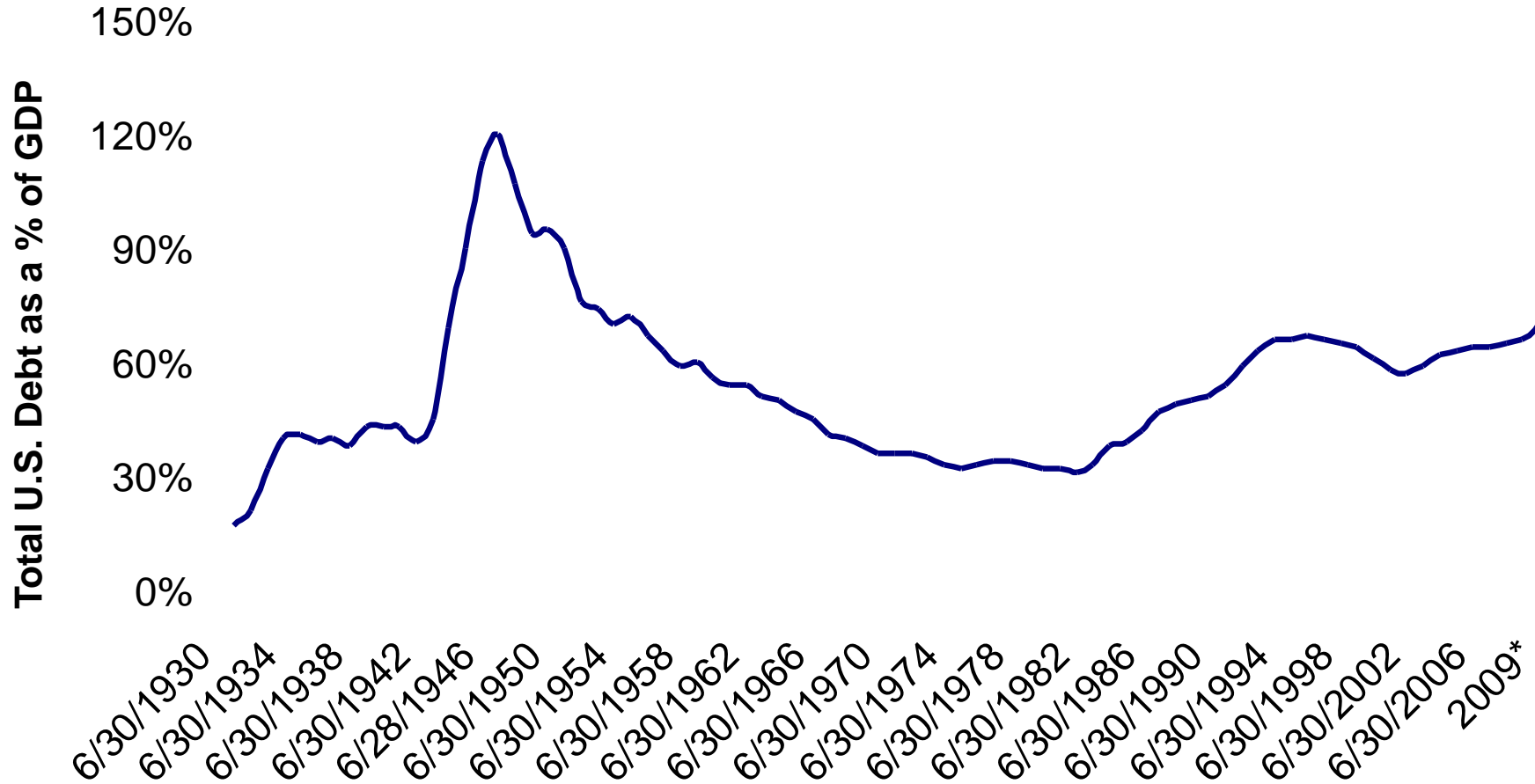


Adjusts for changes in reserve requirements

Sources: Marcus & Millichap Research Services, FRB

U.S. Public Debt as a Percent of GDP

— Total U.S. Debt as a % of GDP

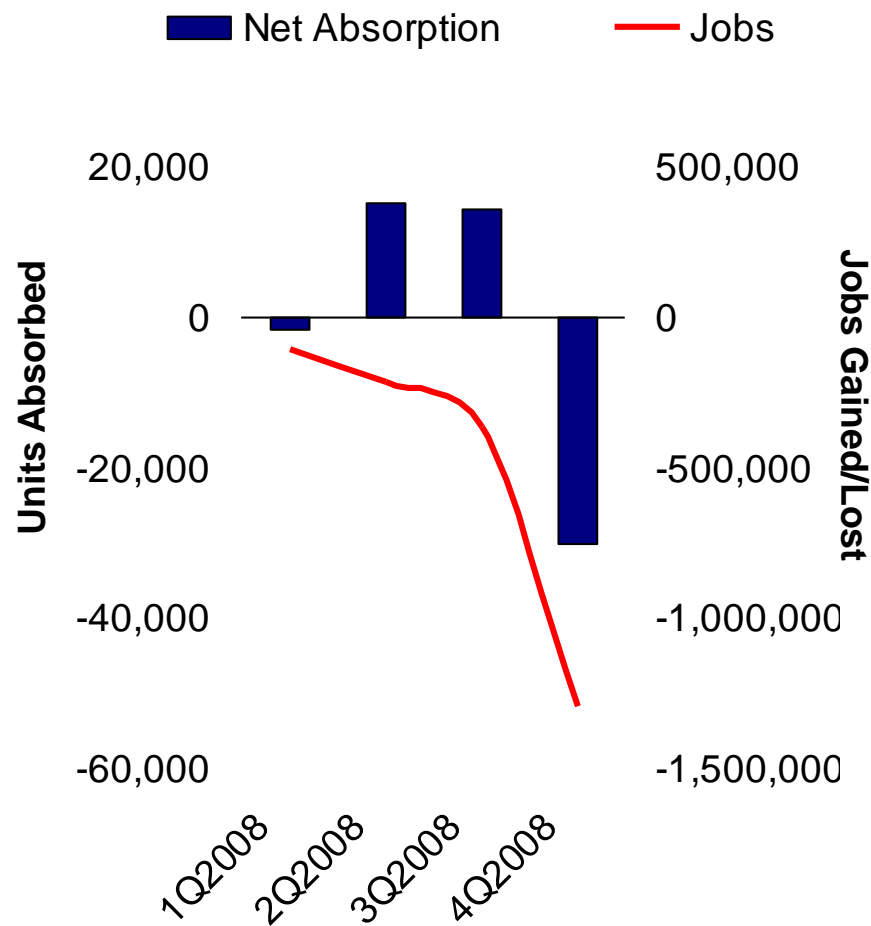
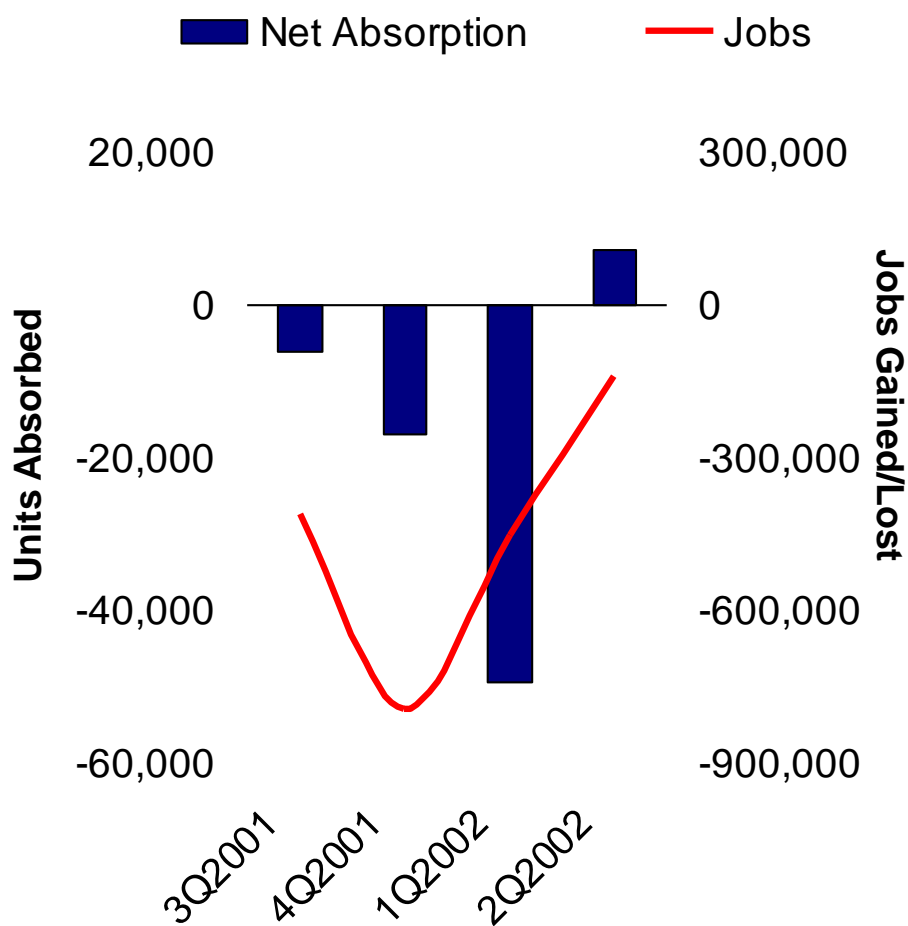


* Forecast

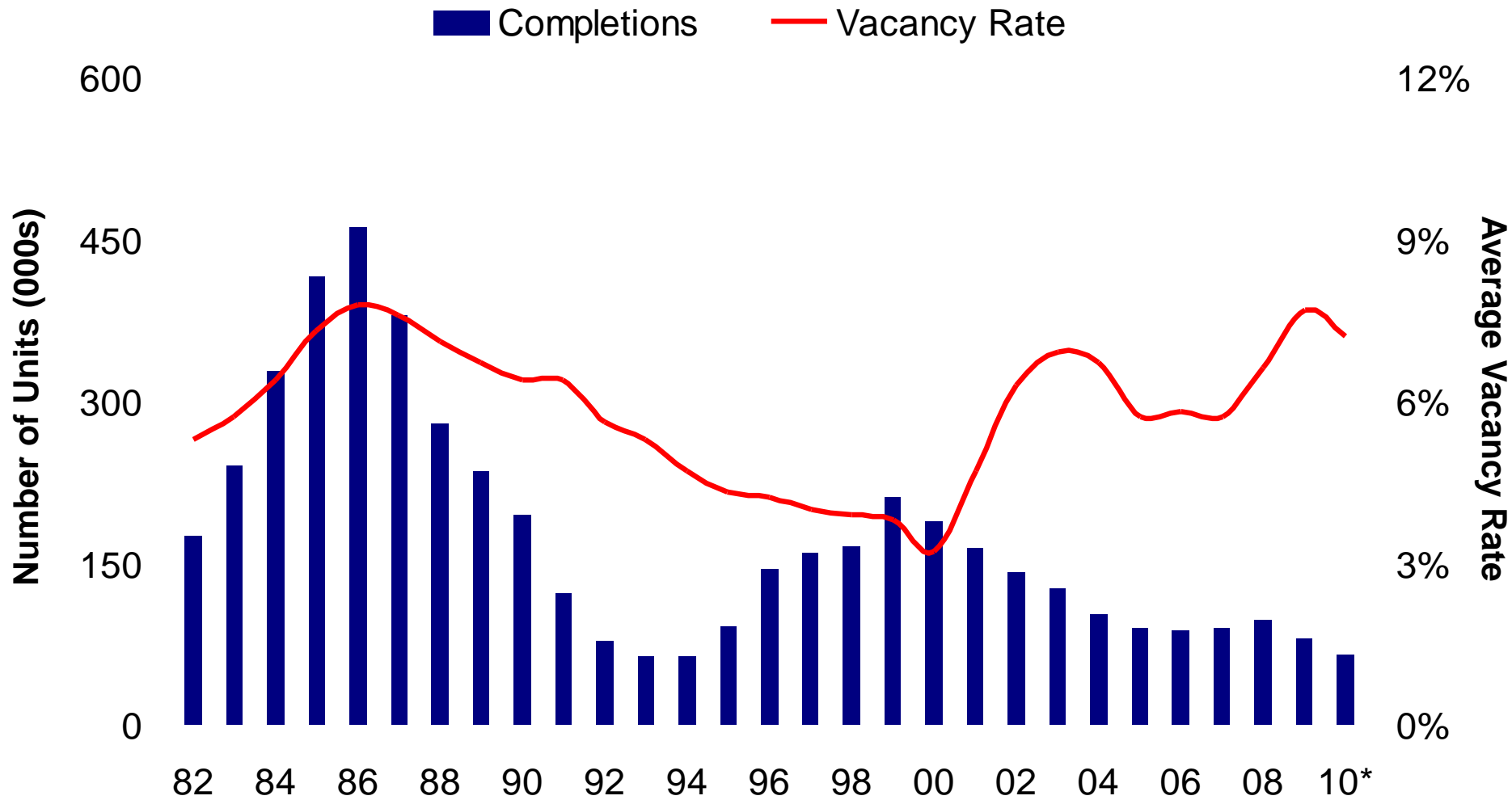
Data Represents 2Q for each time period

Sources: Marcus & Millichap Research Services, Federal Reserve

Apartment Absorption and Employment Growth – Previous Downturn vs. Current



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



* Forecast

Sources: Marcus & Millichap Research Services, Reis

***CAPITAL MARKETS
OVERVIEW and OUTLOOK***

Capital Markets Developments Since December 2008

The Good News:

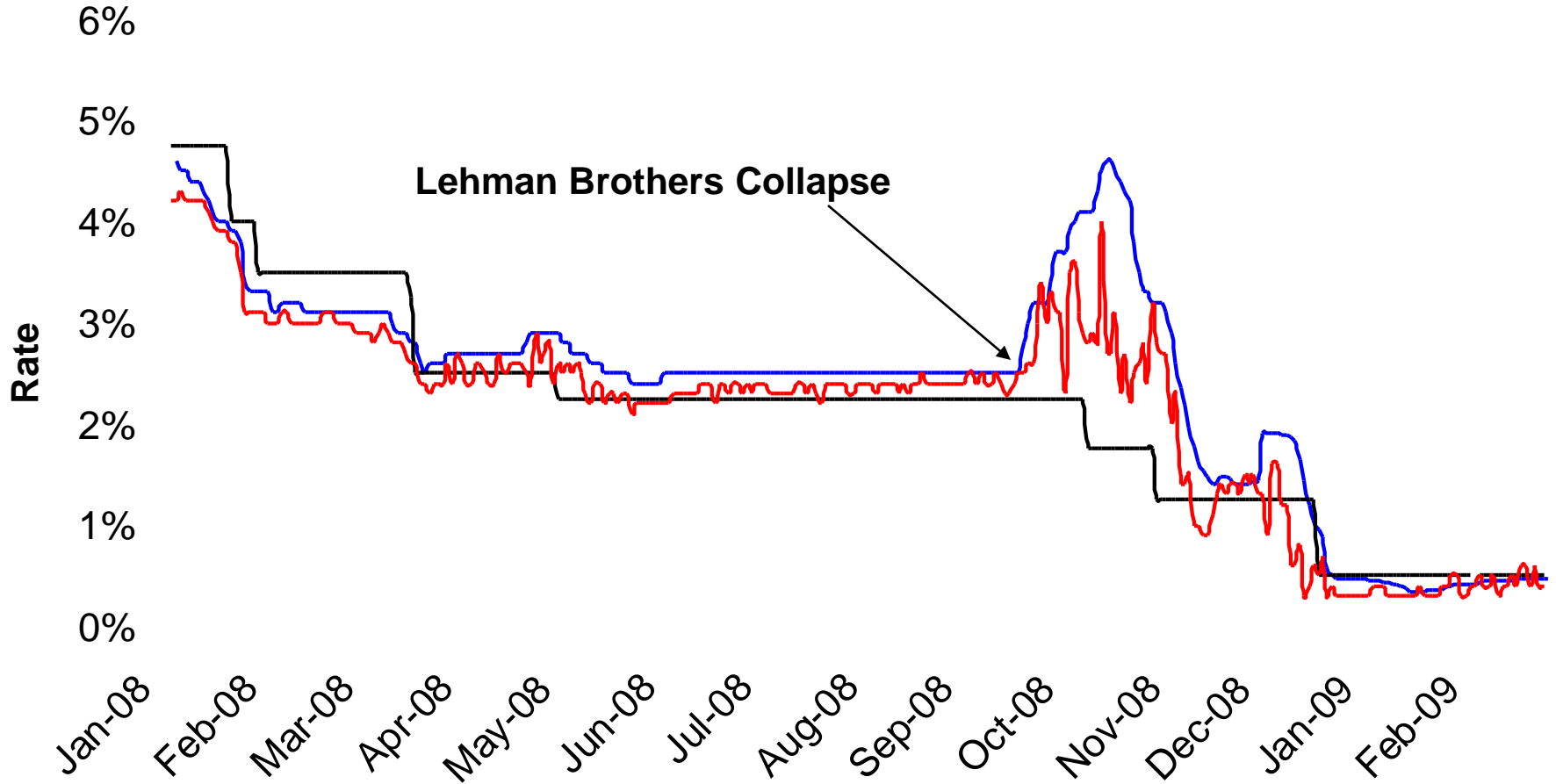
- 1. Inter-bank lending continues to improve**
- 2. LIBOR and TED spreads have stabilized**
- 3. 10-Year Treasury Yield at 2.76% remains at a very low level**
- 4. Delinquencies continue to be near historic lows but are rising**
- 5. Deals are getting done – local and regional banks, life insurance companies, Fannie and Freddie**

The Bad News:

- 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**

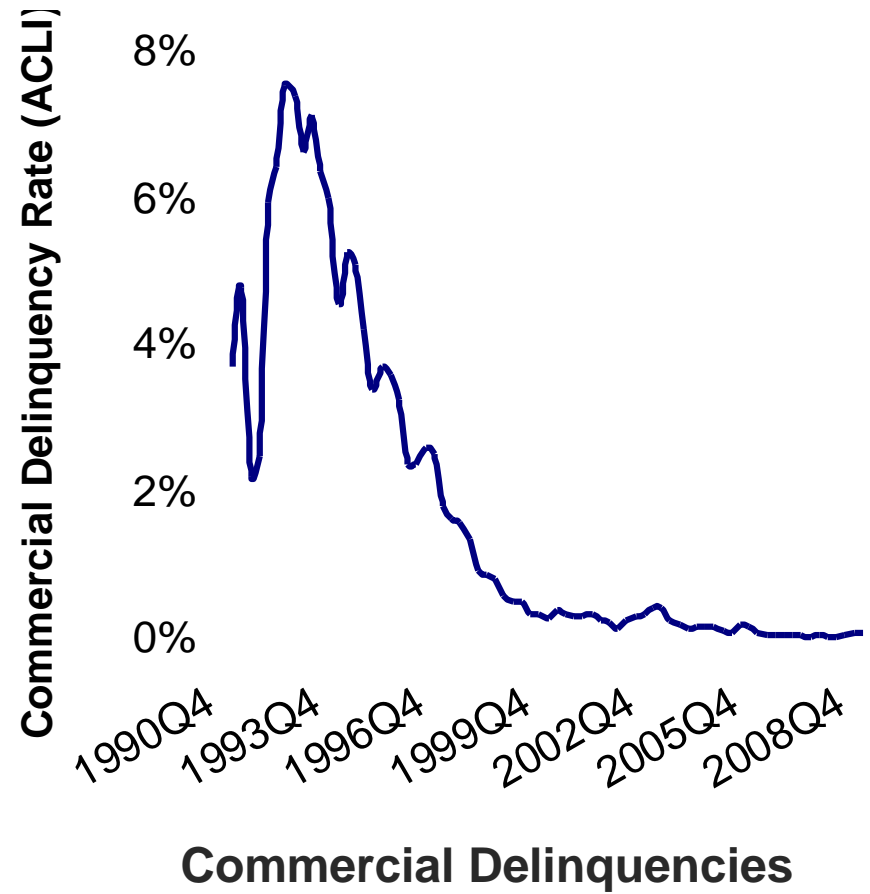
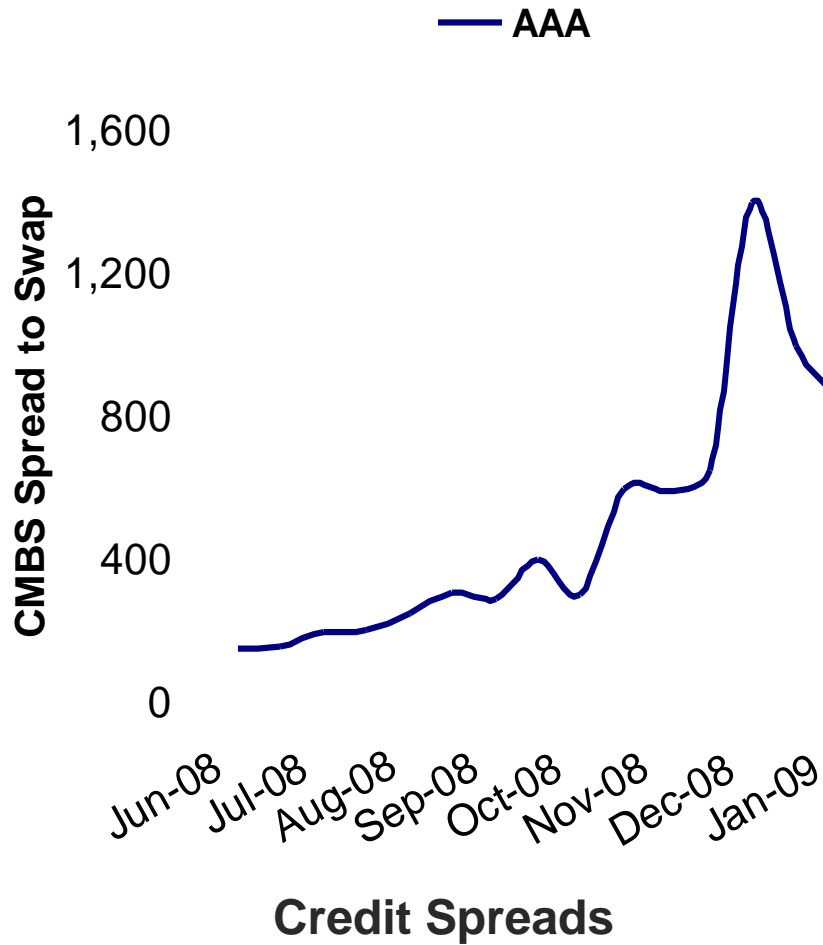
Key Market Rates

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

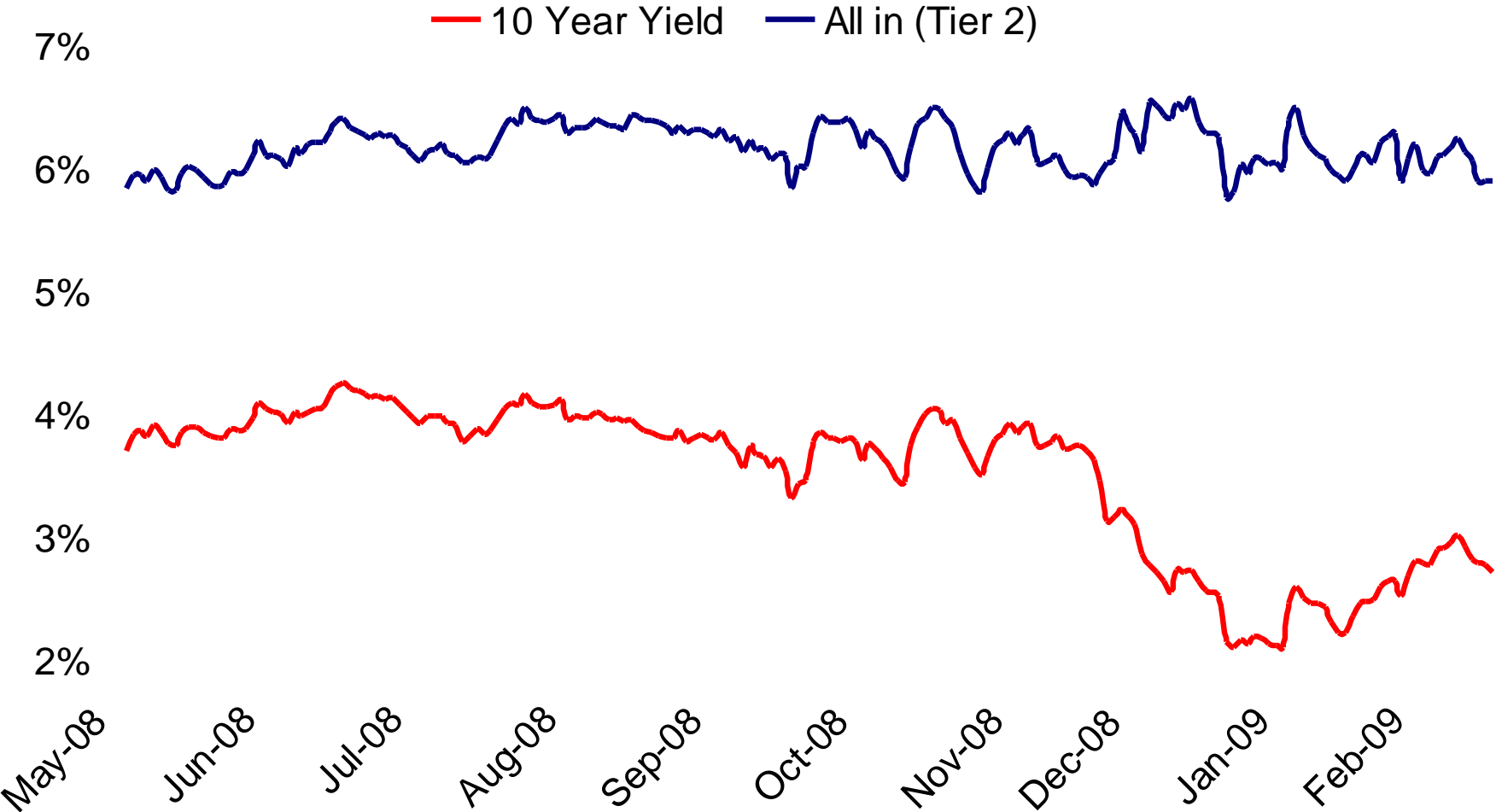


Through Feb 23, 2009
Sources: Economy.com, Federal Reserve Board

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



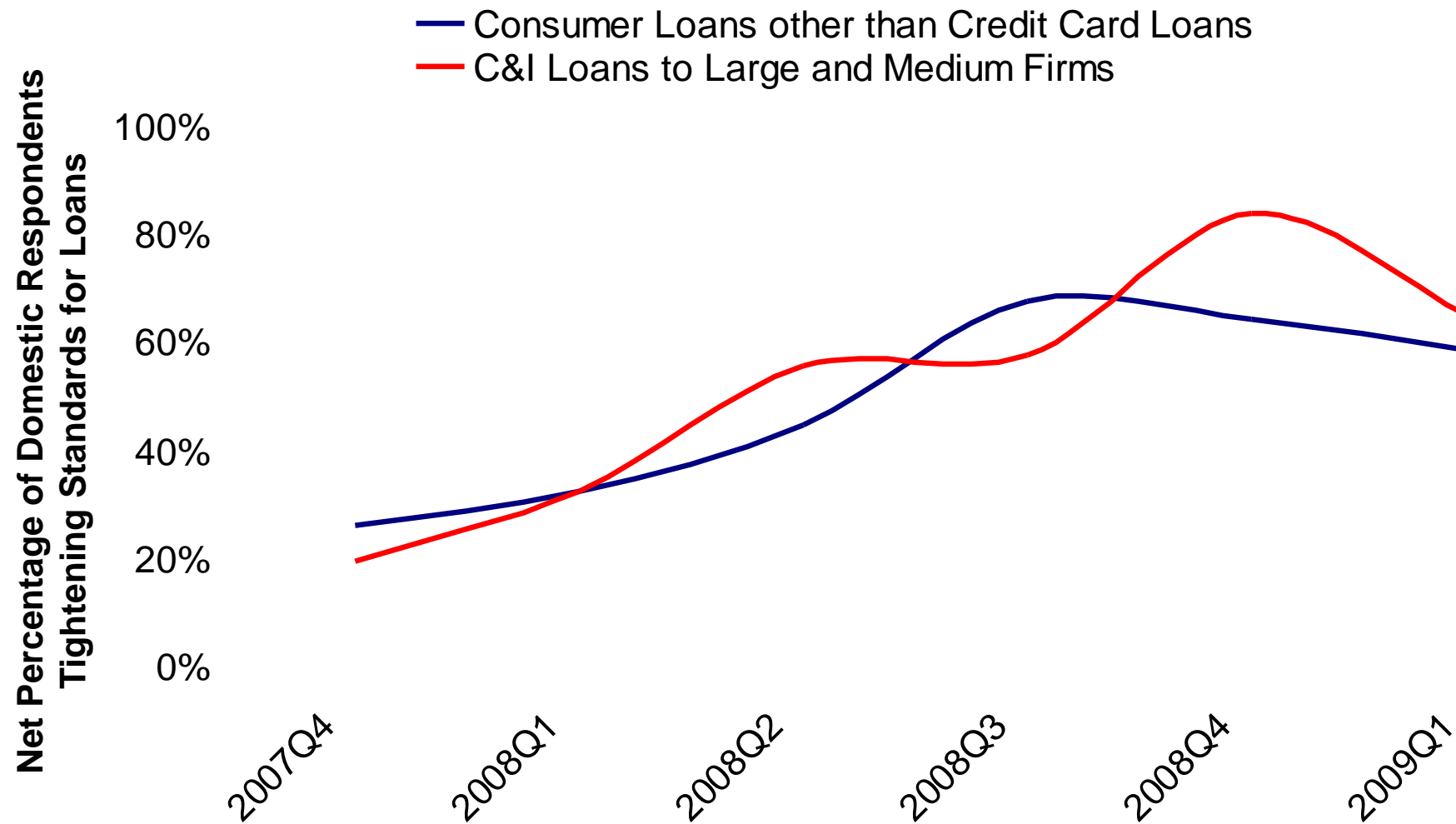
Indicative Fannie Mae Rates



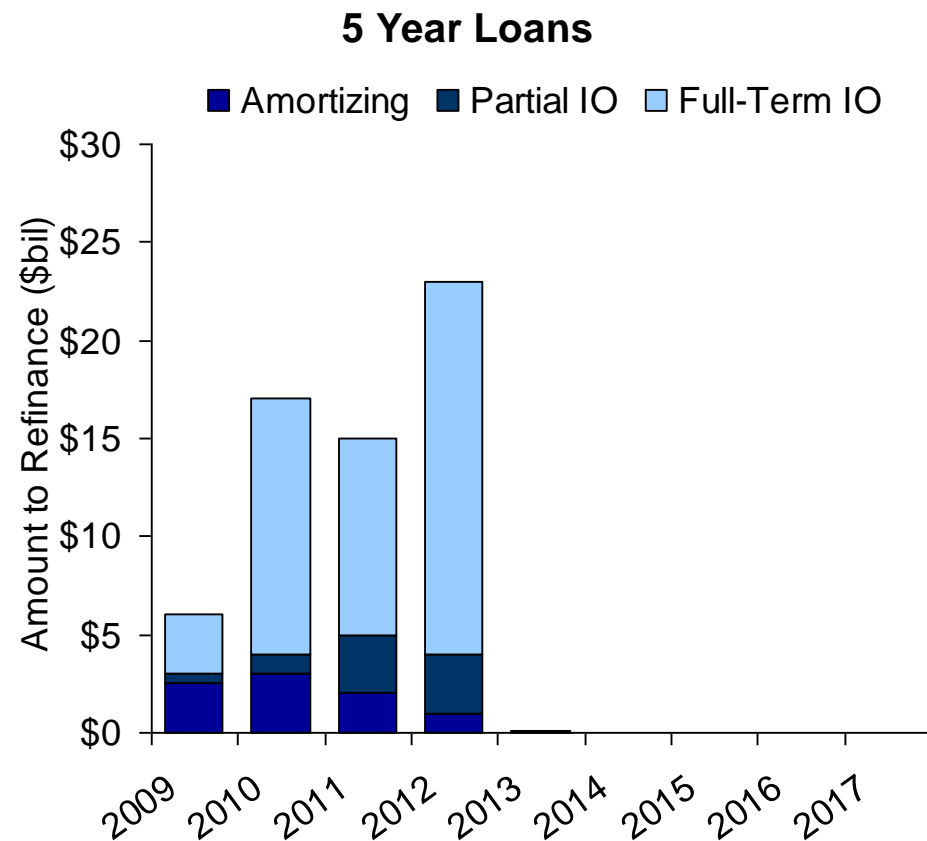
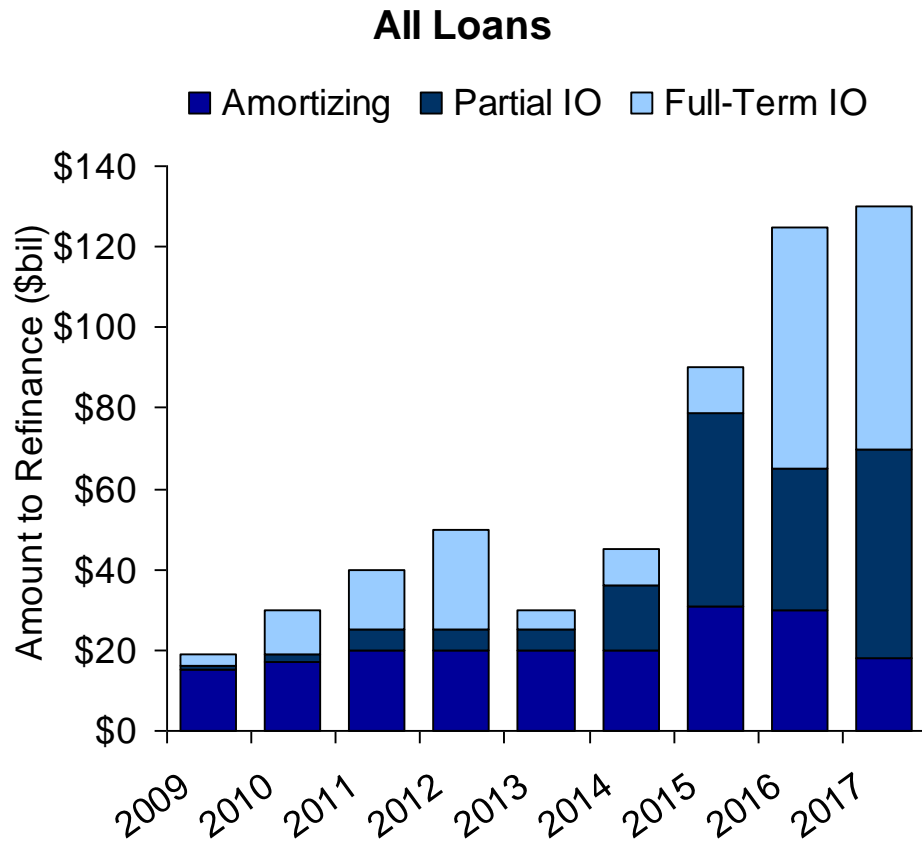
Through Feb 17, 2009

Sources: Marcus & Millichap Research Services, Federal Reserve Board

Credit Standards Have Tightened Across the Board



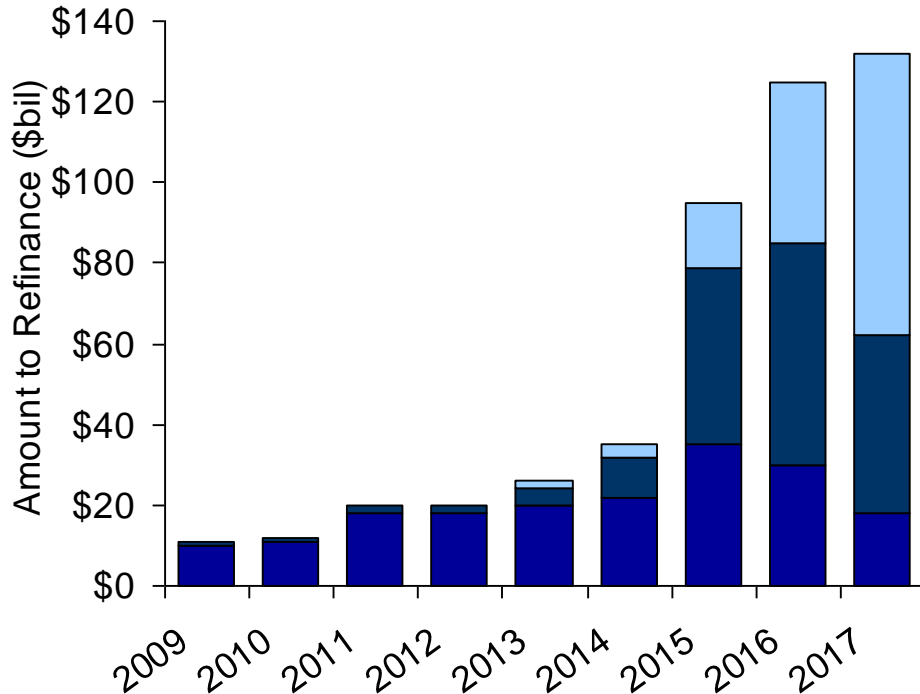
CMBS Maturing Loan Projections



CMBS Maturing Loan Projections

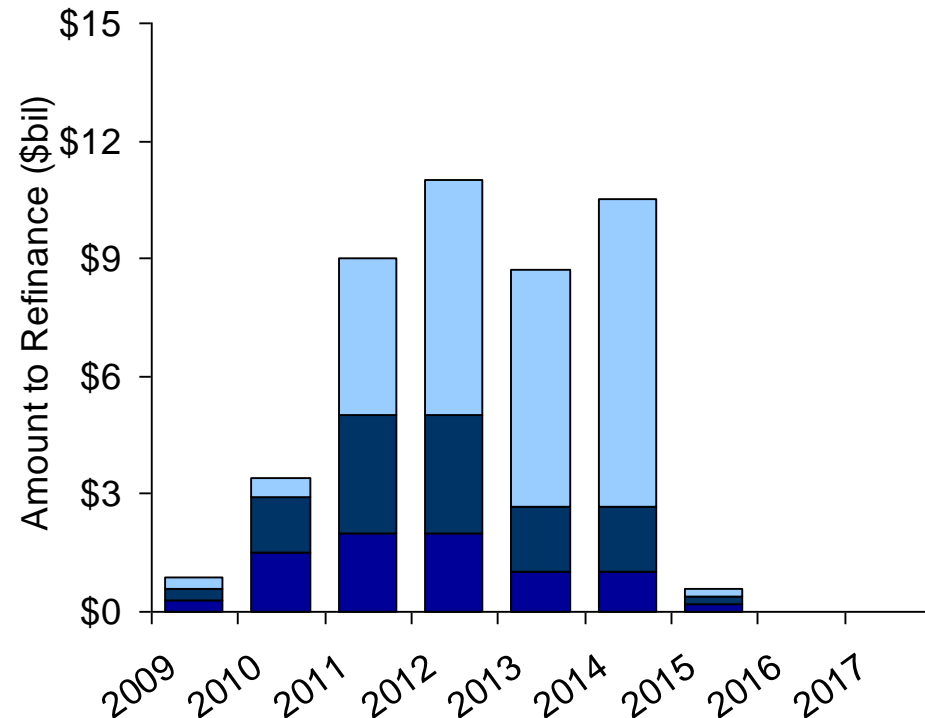
10 Year Loans

Amortizing Partial IO Full-Term IO

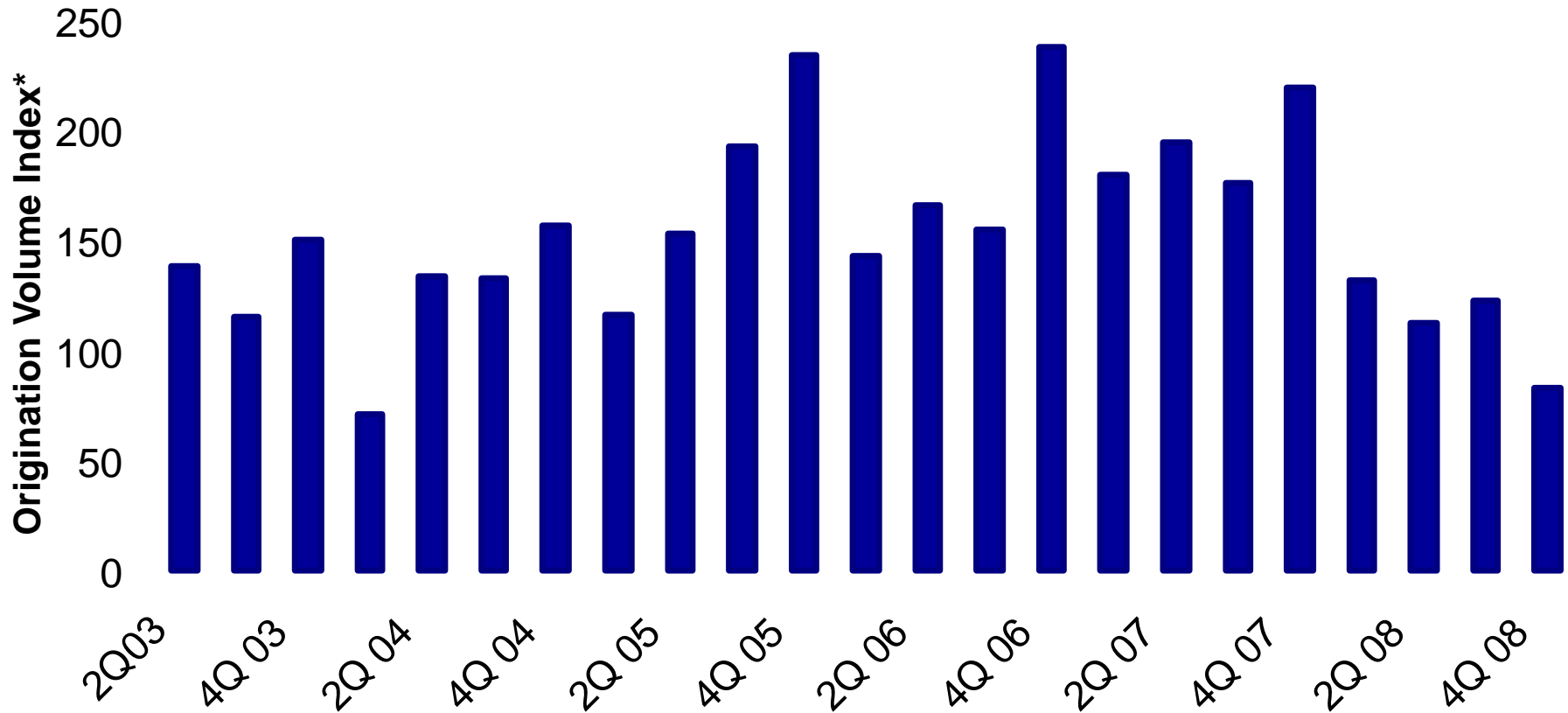


7 Year Loans

Amortizing Partial IO Full-Term IO



Mortgage Bankers Originations Index Multi-Family



* 2001 Avg. Qtr = 100

Sources: Marcus & Millichap Research Services, MBA

***APARTMENT INVESTMENT
TRENDS and STRATEGIES***

Market Divergence Continues

➤ 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

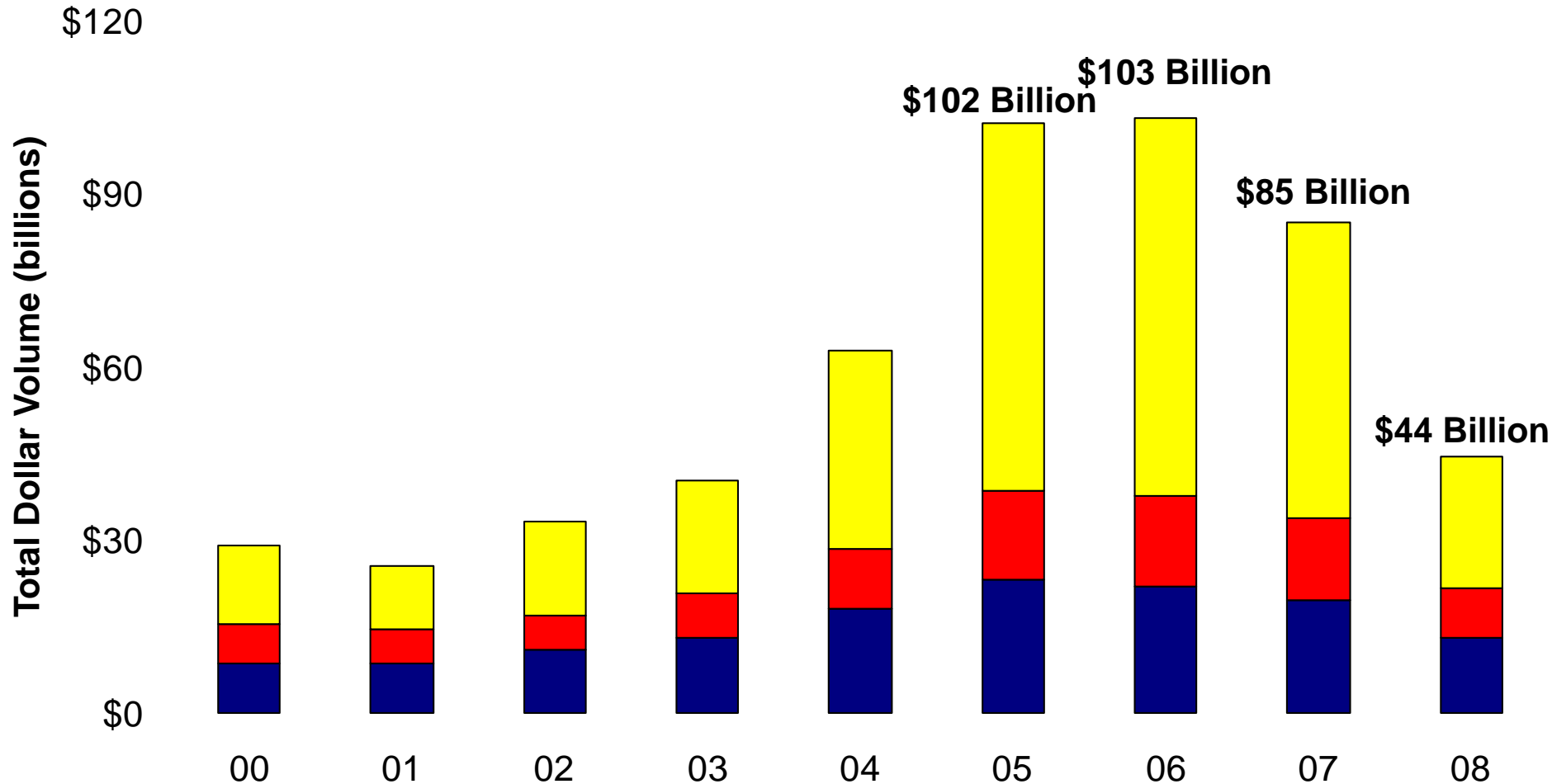
➤ Short-term transactional value

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

U.S. Investment Trends

Apartment Dollar Volume by Price Category

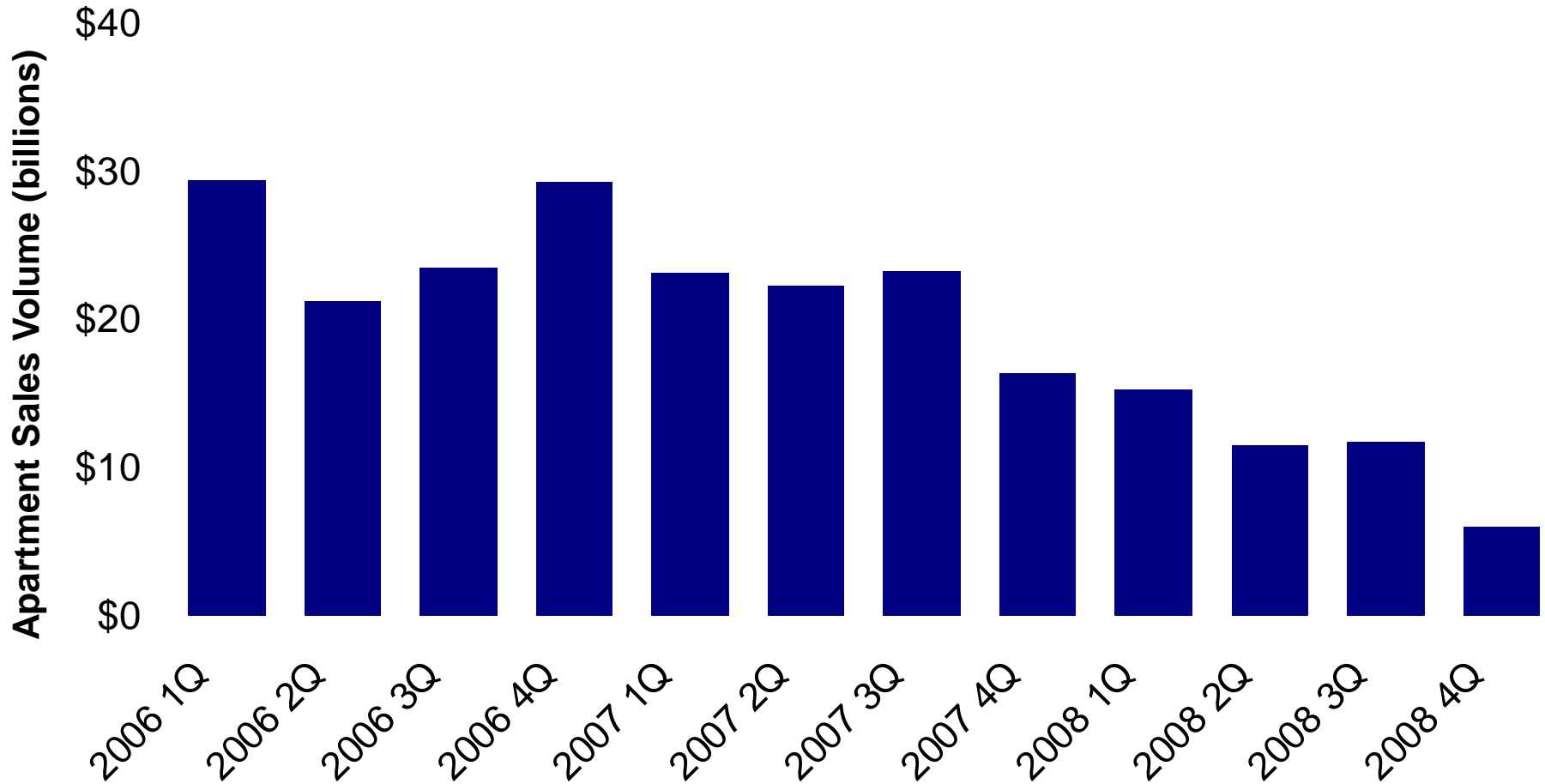
■ \$1M - \$9.99M ■ \$10M - \$19.99M ■ \$20M+



Excludes Archstone Privatization

Sources: Marcus & Millichap Research Services, Real Capital Analytics

U.S. Apartment Sales Volume by Quarter



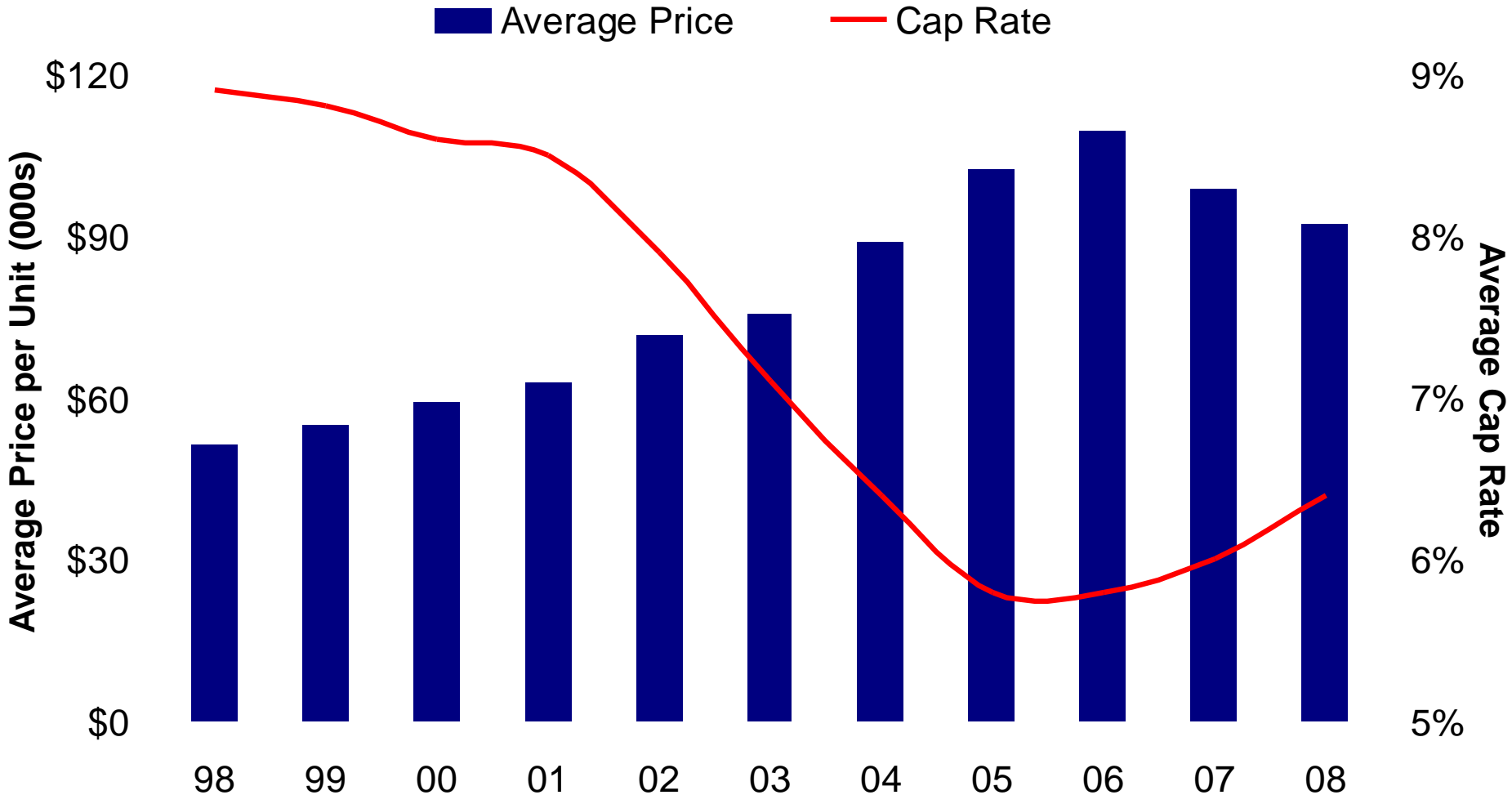
Excludes Archstone Privatization

Includes Sales of \$1 Million and Greater

Sources: Marcus & Millichap Research Services, Real Capital Analytics

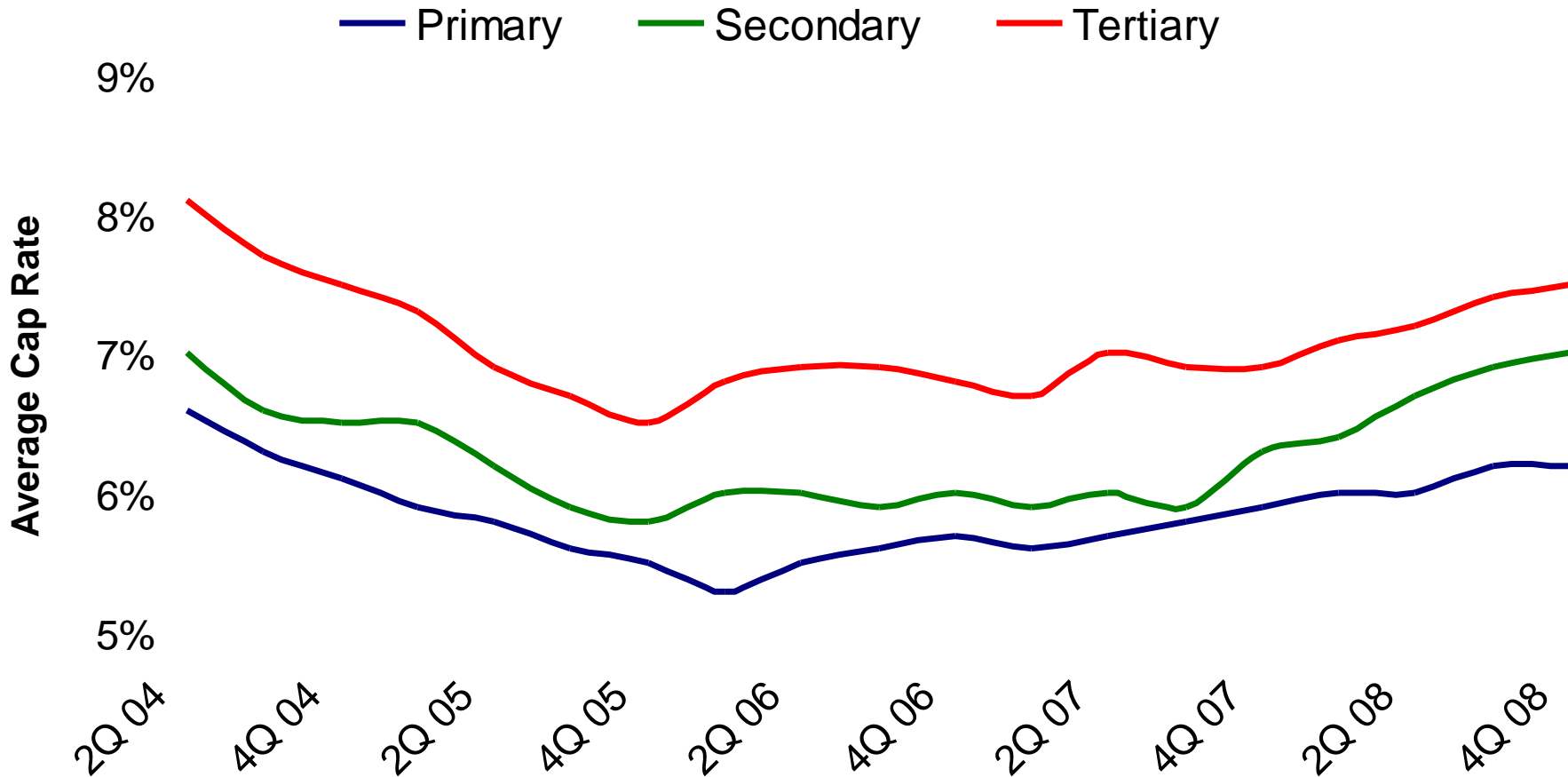
Apartment Investment Trends

Pricing and Cap Rates



Sales \$1 million and greater
Sources: Marcus & Millichap Research Services, CoStar, RCA

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



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 | .65 | 1.00 | 1.25 |
| Secondary | 1.00 | 1.25 | 1.50 |
| Tertiary | 1.25 | 1.50 | 2.00 |

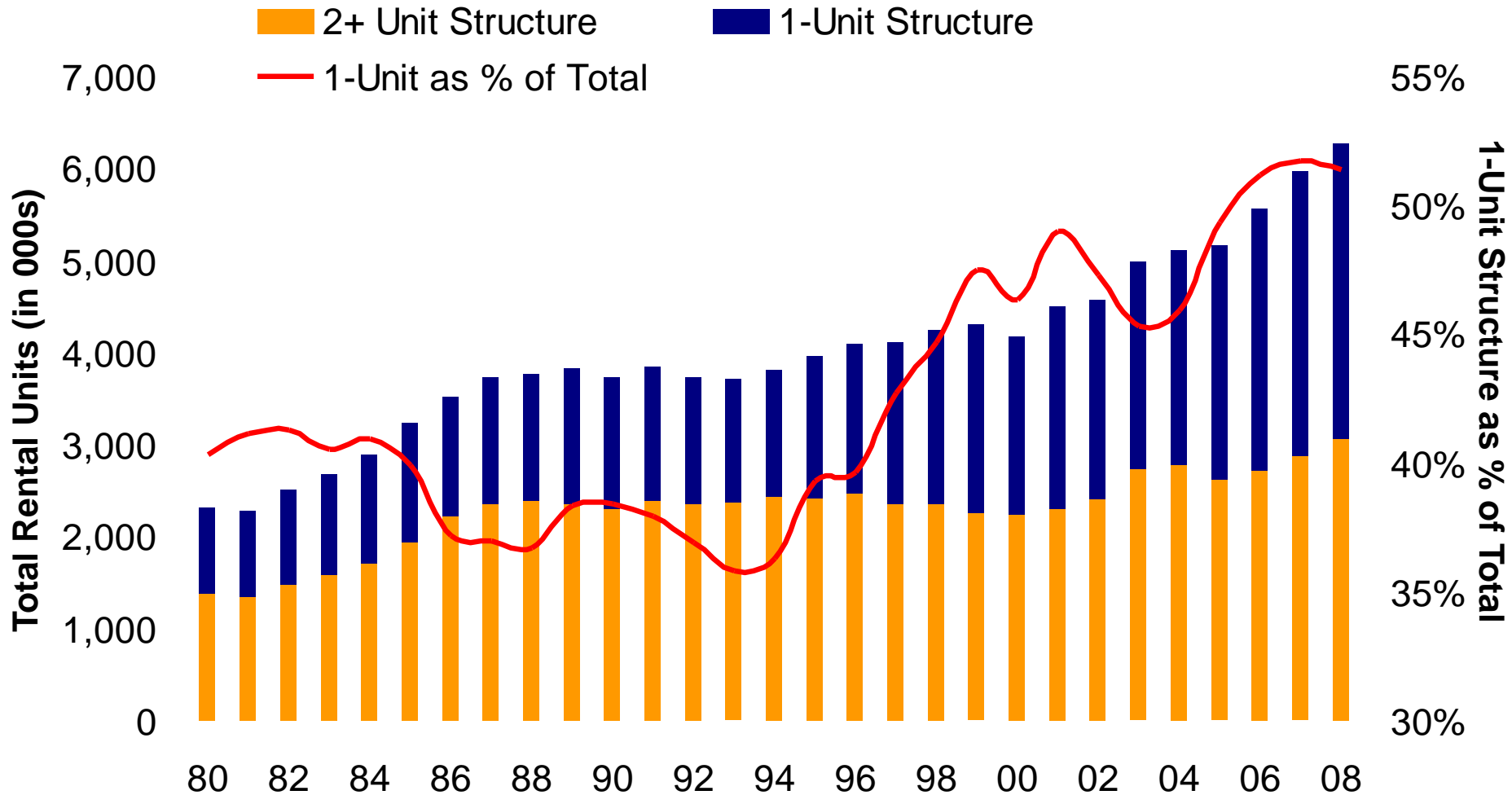
* Change in cap rates last 15 months

12 – Month Pricing Adjustment Matrix

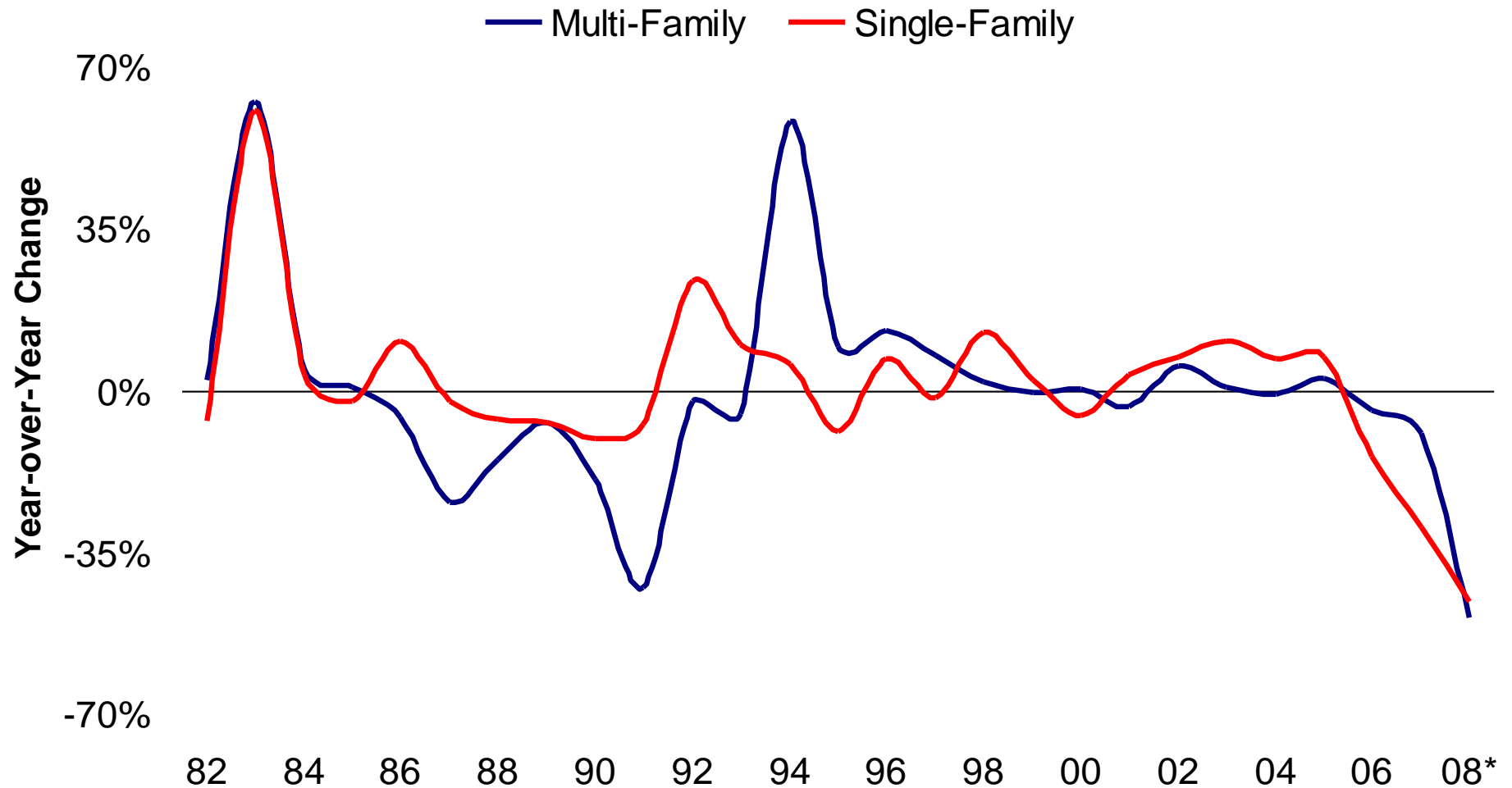
| | Class "A" | Class "B" | Class "C" |
|-----------|-----------|-----------|-----------|
| Primary | -12% | -17% | -20% |
| Secondary | -16% | -21% | -24% |
| Tertiary | -22% | -26% | -30% |

Base = 5.00 / 5.50 5.50 / 6.25 6.00 / 6.75

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



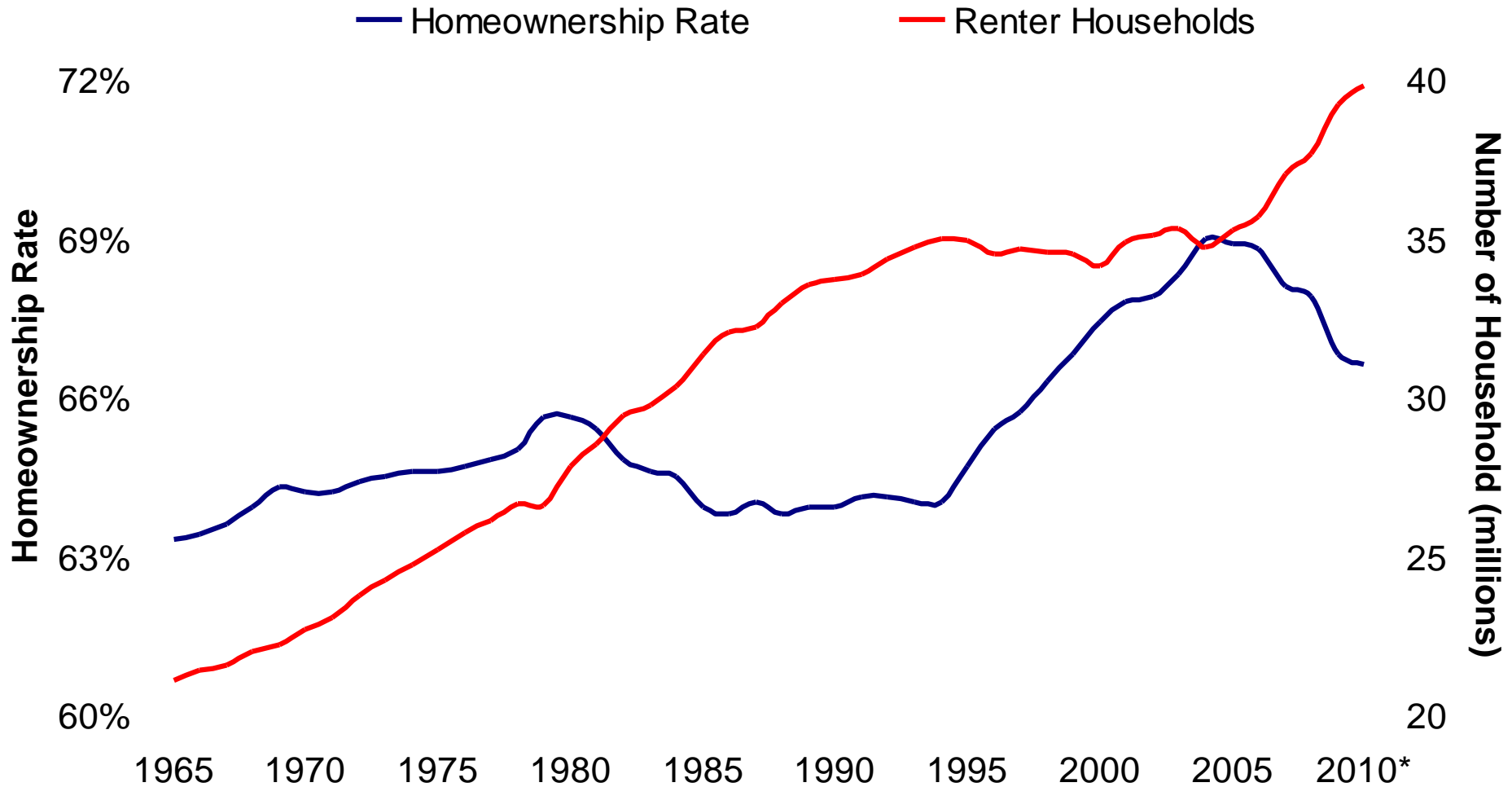
Construction Starts Declining



* Year-over-Year as of November

Sources: Marcus & Millichap Research Services, Economy.com

Reversal in Home Ownership Rate Points to Increase in Renter Households



* Forecast

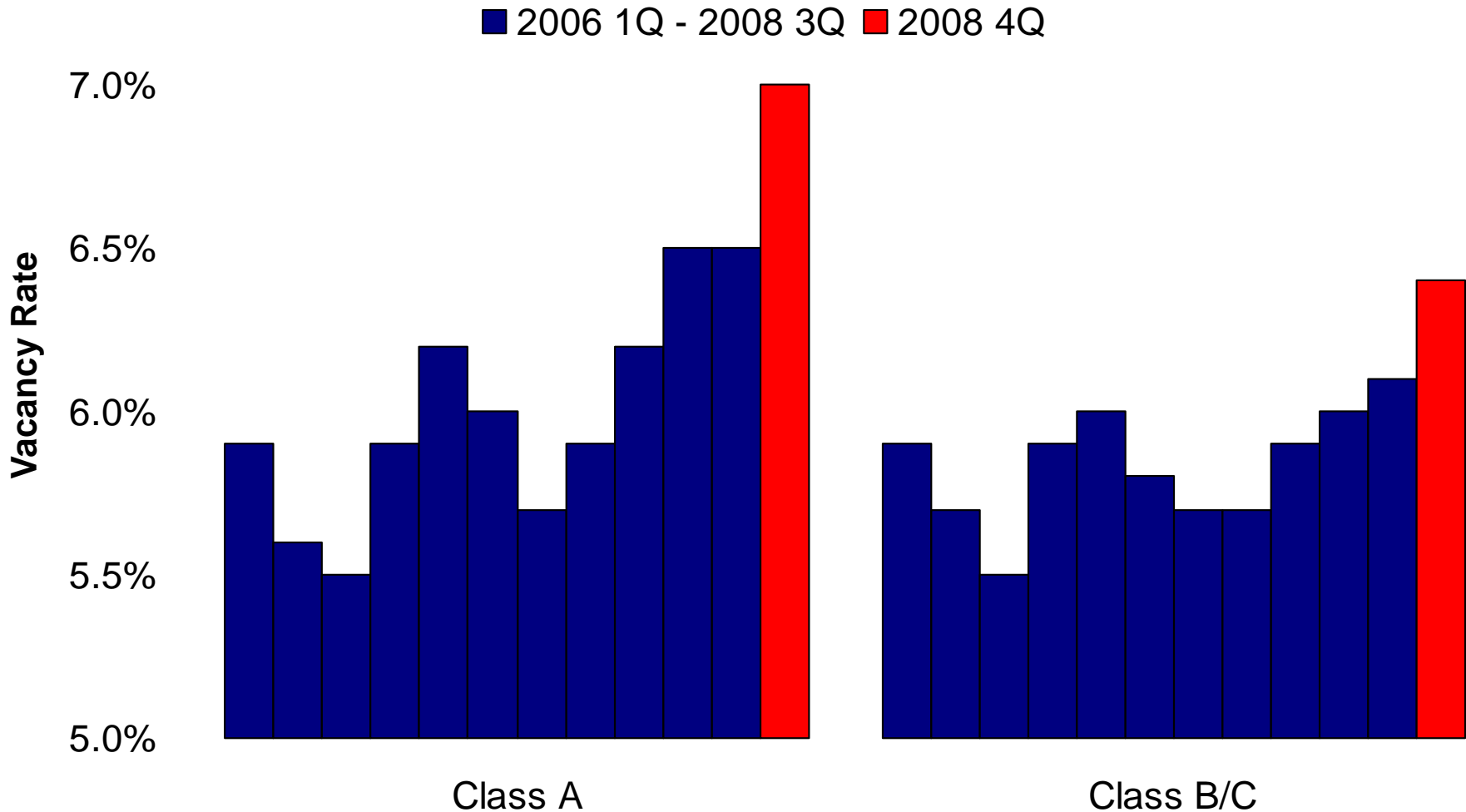
Sources: Marcus & Millichap Research Services, U.S. Census Bureau

2008 Apartment Vacancy Ranking

| Top 15 Markets | 2008 Vacancy |
|----------------------------|--------------|
| New York | 2.3% |
| San Francisco | 3.6% |
| Milwaukee | 3.7% |
| San Diego | 3.9% |
| New Jersey | 4.0% |
| New Haven-Fairfield County | 4.0% |
| Minneapolis | 4.3% |
| Los Angeles | 4.5% |
| Salt Lake City | 4.9% |
| Miami | 5.0% |
| Orange County | 5.0% |
| Portland | 5.0% |
| San Jose | 5.2% |
| Oakland | 5.3% |
| Washington, D.C. | 5.4% |
| United States | 6.6% |

| Bottom 15 Markets | 2008 Vacancy |
|----------------------|--------------|
| Kansas City | 7.5% |
| Indianapolis | 7.6% |
| Palm Beach | 7.6% |
| St. Louis | 7.6% |
| Las Vegas | 7.7% |
| Charlotte | 8.0% |
| Columbus | 8.1% |
| Tampa | 8.6% |
| San Antonio | 8.7% |
| Orlando | 9.7% |
| Houston | 10.0% |
| Atlanta | 10.2% |
| Phoenix | 10.9% |
| Tucson | 11.2% |
| Jacksonville | 11.6% |
| United States | 6.6% |

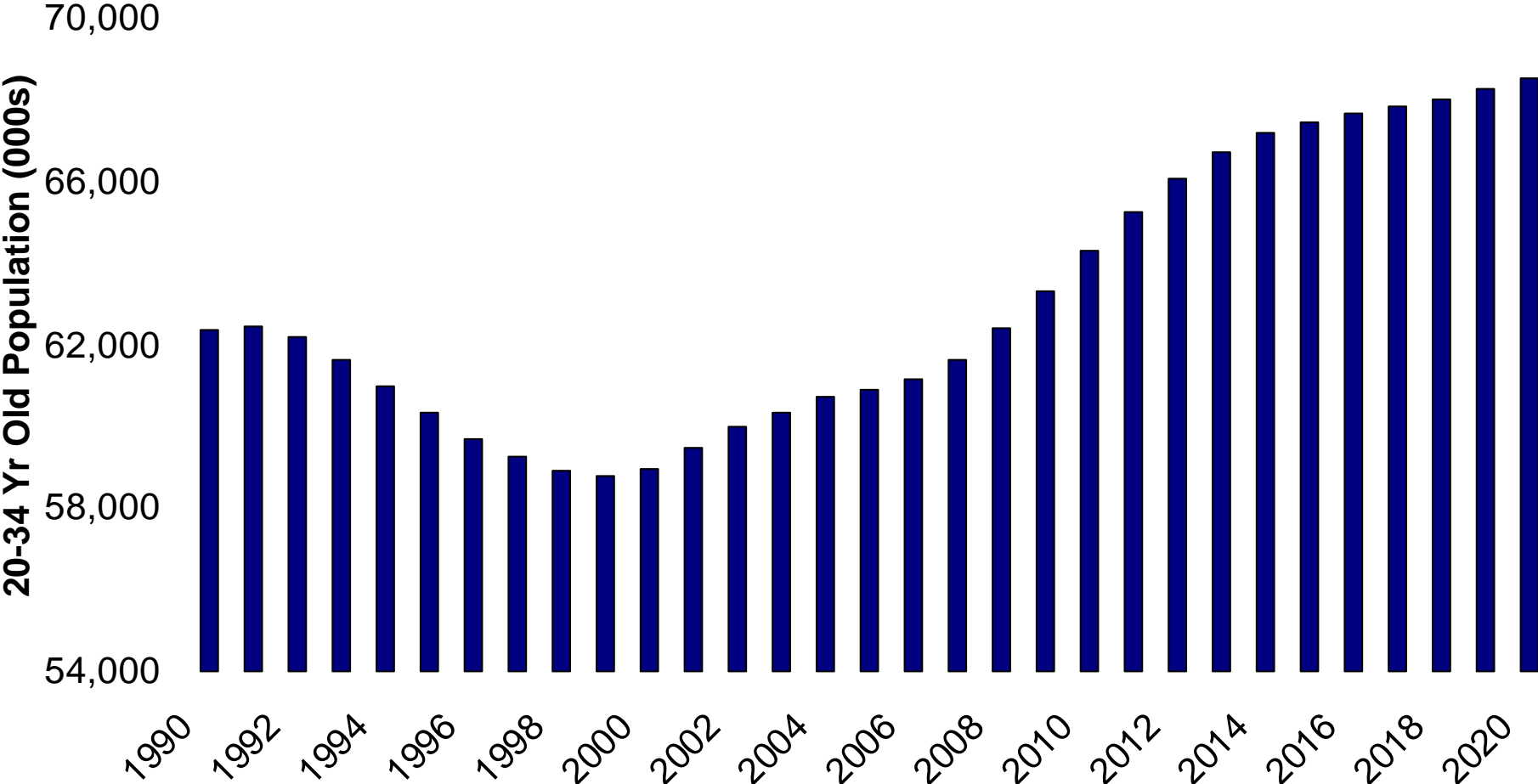
Apartment Vacancy by Class



Sources: Marcus & Millichap Research Services, Reis

U.S. Population Trends Favorable For Rental Market

Projected 20-34 Year Old Population



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

Anatomy of Current Market Divergence

Two issues...

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

Key Observations for 2009

- **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

- 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 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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