



2006

APARTMENT TRENDS

A National Multifamily Market Overview

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Historic Perspective – MFEEC 2002

Panelist's / Speaker's Consensus:

- **Pricing bubble in the market**
- **Cap rates would increase**

Marcus & Millichap Consensus

- **Investor demand would overshadow operational weakness**
- **Pricing would remain strong**
- **Cap rates would continue to decrease**

Historic Perspective – MFEEC 2003

Panelist's / Speaker's Consensus:

- Pricing bubble in the market
- Cap rates could not decrease and would, in fact, increase

Marcus & Millichap Consensus

- Pricing support still strong
- New cycle emerging
- Yields would continue to decrease

Historic Perspective – MFEEC 2004

Panelist's / Speaker's Consensus:

- Pricing bubble in the market
- Condo market definitely causing a bubble
- Cap rates could not decrease and would, in fact, increase

Marcus & Millichap Consensus

- No systemic bubble
- Investor demand to increase
- Yields will continue to decrease

Historic Perspective – MFEEC

For three years most panelists have stated the industry was on the cusp of a pricing “bubble”

Marcus & Millichap Consensus

- **No systemic bubble**
- **Investor demand to increase**
- **Yields continue to decrease**
- **Cap rates continue to decrease**

Marcus & Millichap Reasoning

Real estate “recession” was very different

- **Fundamentals were more transparent and stronger than previous cycles**
- **Stocks, not real estate, triggered the recession**
- **Buyer demand for product exceeded supply (counter-cyclical)**
- **Financing readily available (counter-cyclical)**
- **We saw no economic or political reason for interest rates to increase**

U.S. Apartment Property Sales Velocity YOY Comparison

	1H 2004	1H 2005	YOY % Change
\$5 - \$10 Million			
# of Transactions	415	605	45.8%
Dollar Volume*	\$ 2.9	\$ 4.2	42.9%
\$10 - \$20 Million			
# of Transactions	304	432	42.1%
Dollar Volume*	\$ 4.3	\$ 6.0	39.4%
\$20 Million +			
# of Transactions	326	543	66.6%
Dollar Volume*	\$ 12.9	\$ 24.6	90.1%
Total			
# of deals	1,045	1,580	51.2%
Dollar Volume*	\$ 20.2	\$ 34.8	72.3%
*Dollar volume in billions			

All apartment transactions greater than \$5 million

Sources: Marcus & Millichap Research Services, Real Capital Analytics

What Goes Up...

Must Come Down

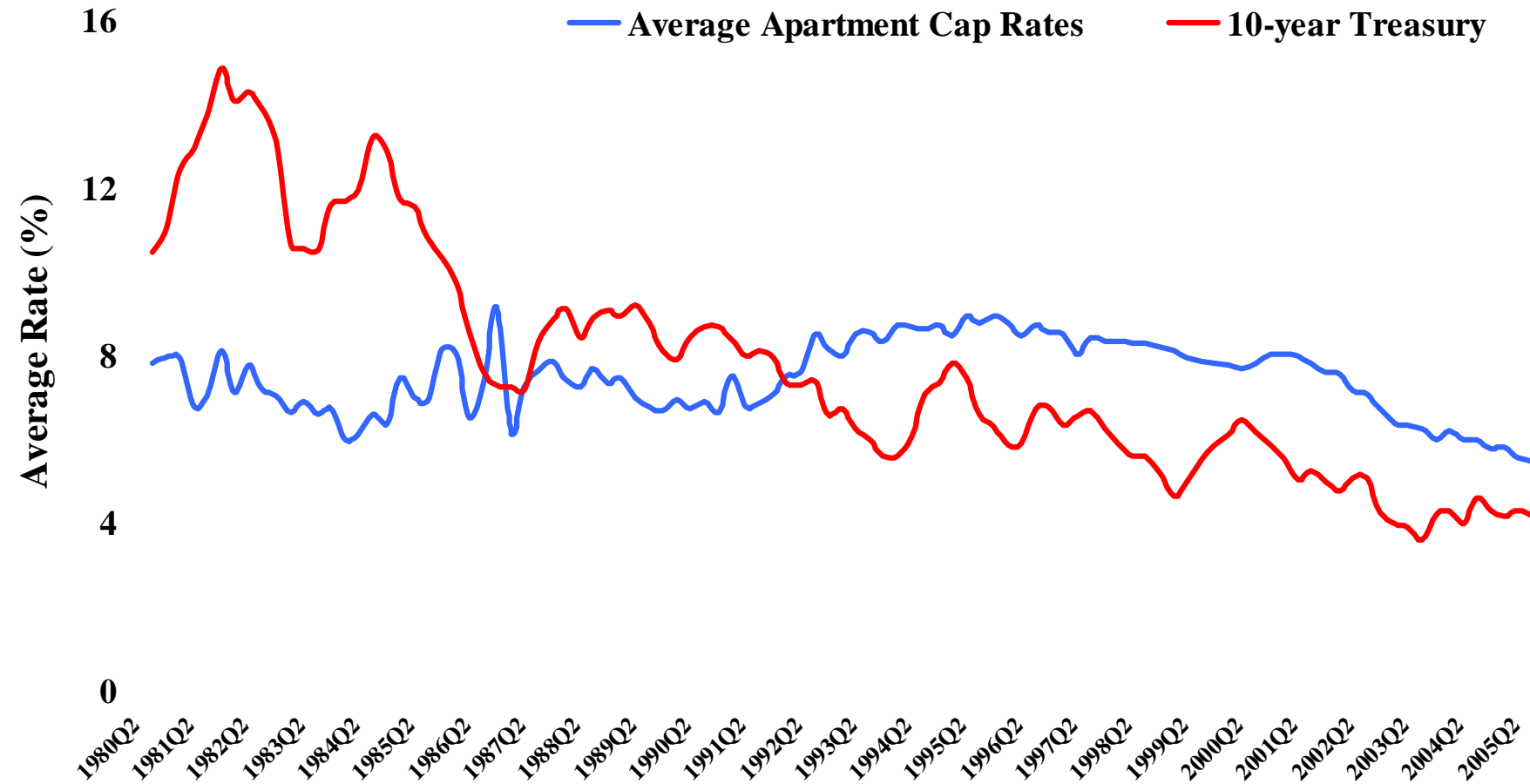
- **But not yet...**
- **And, not too much**
- **Gradual easing of “pressure” not a “burst”**

Why Are Cap Rates So Low?

➤ **Interest rates**

Capital Flows

Apartment Cap Rates and 10-year Treasury



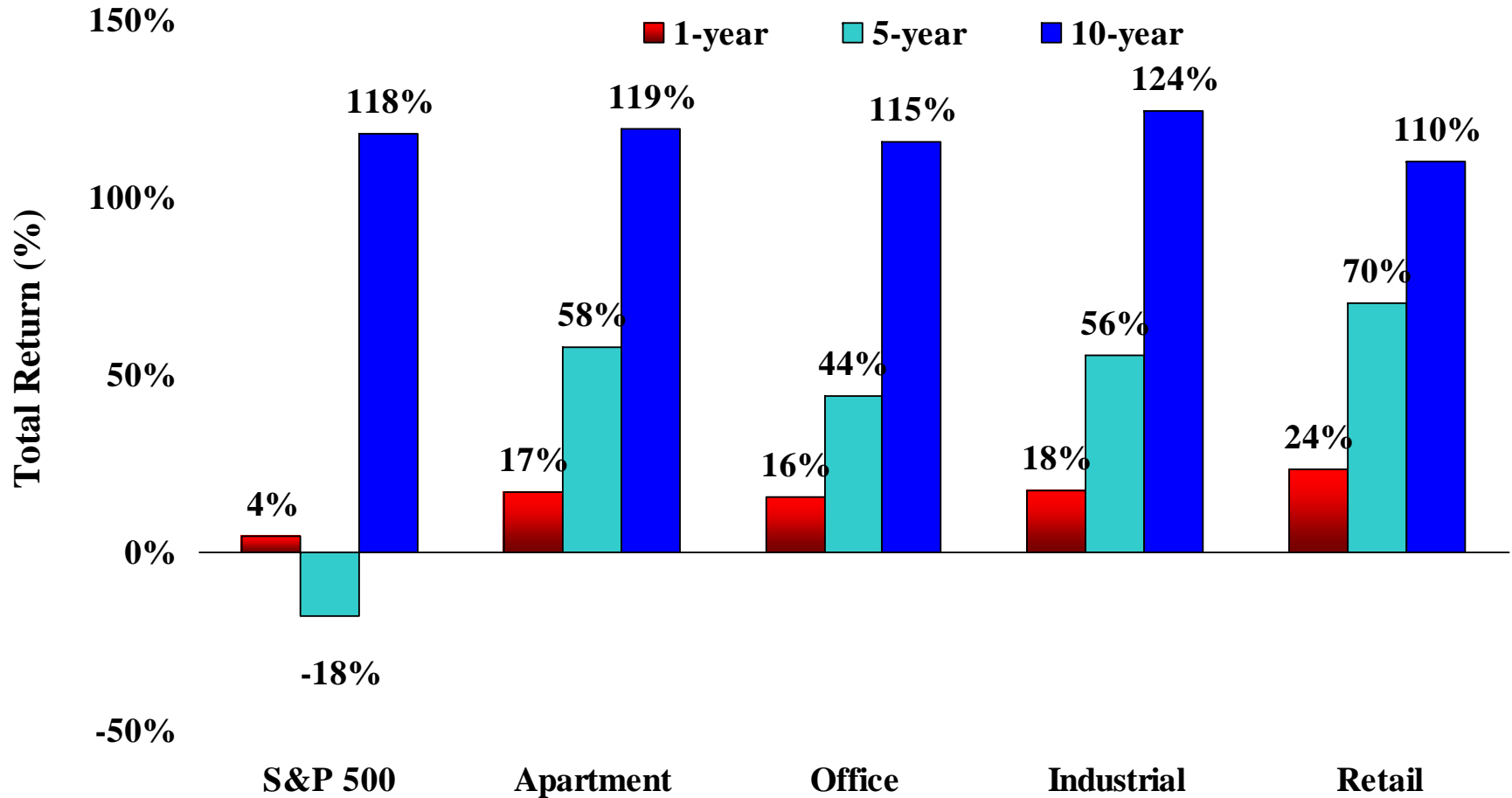
NCREI Cap Rates through Q1

Sources: Marcus & Millichap Research Services; NCREIF, Federal Reserve

Why Are Cap Rates So Low?

Investor demand (poor alternatives)

Real Estate Returns Outperforming Stocks In Recent Years



As of Q2 2005

Sources: Marcus & Millichap Research Services, NCREIF, Standard & Poors

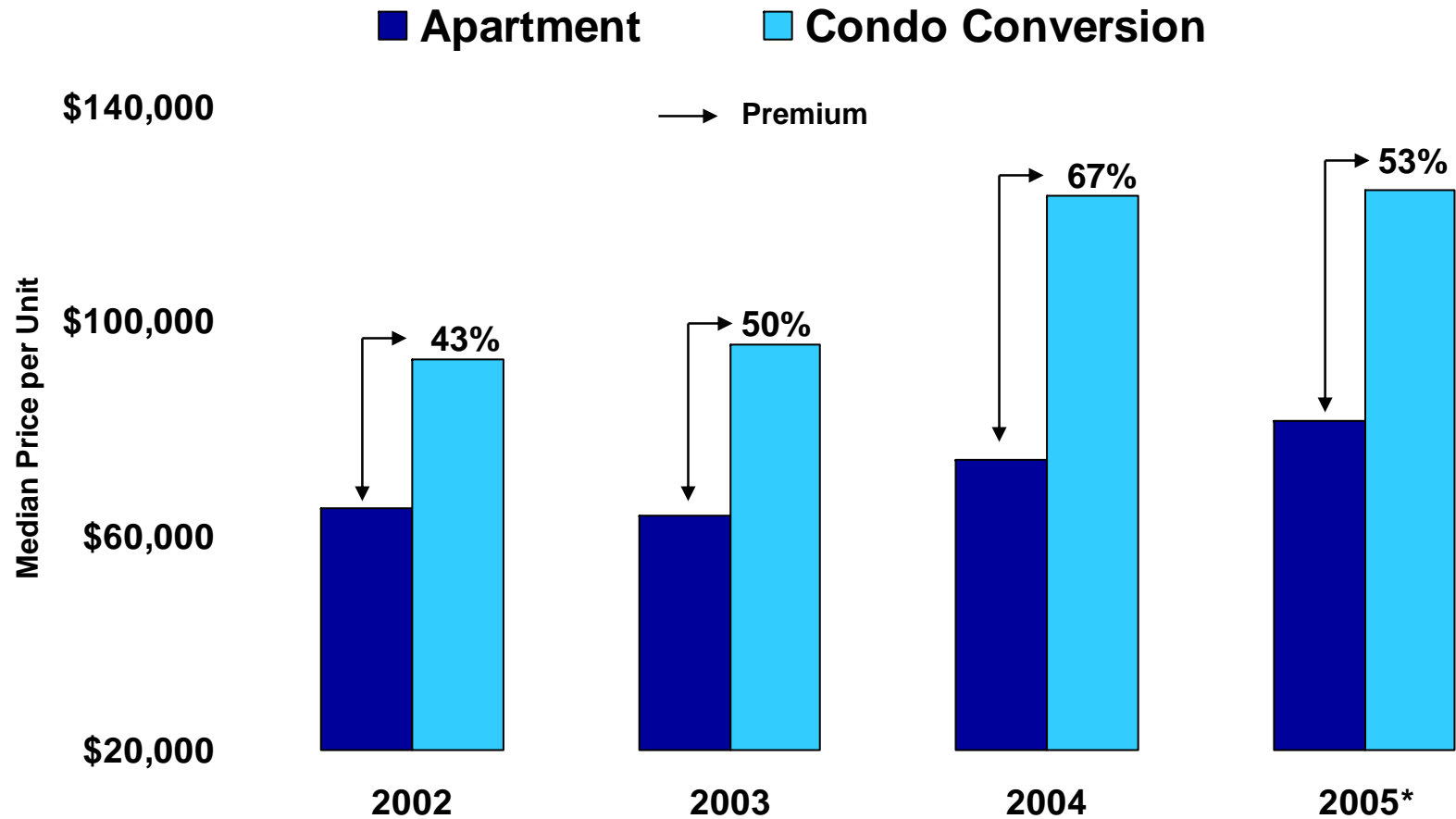
Marcus & Millichap

Why Are Cap Rates So Low?

Condo conversions

U.S. Median Apartment Sales Price Trends

Apartment vs. Conversion Sales



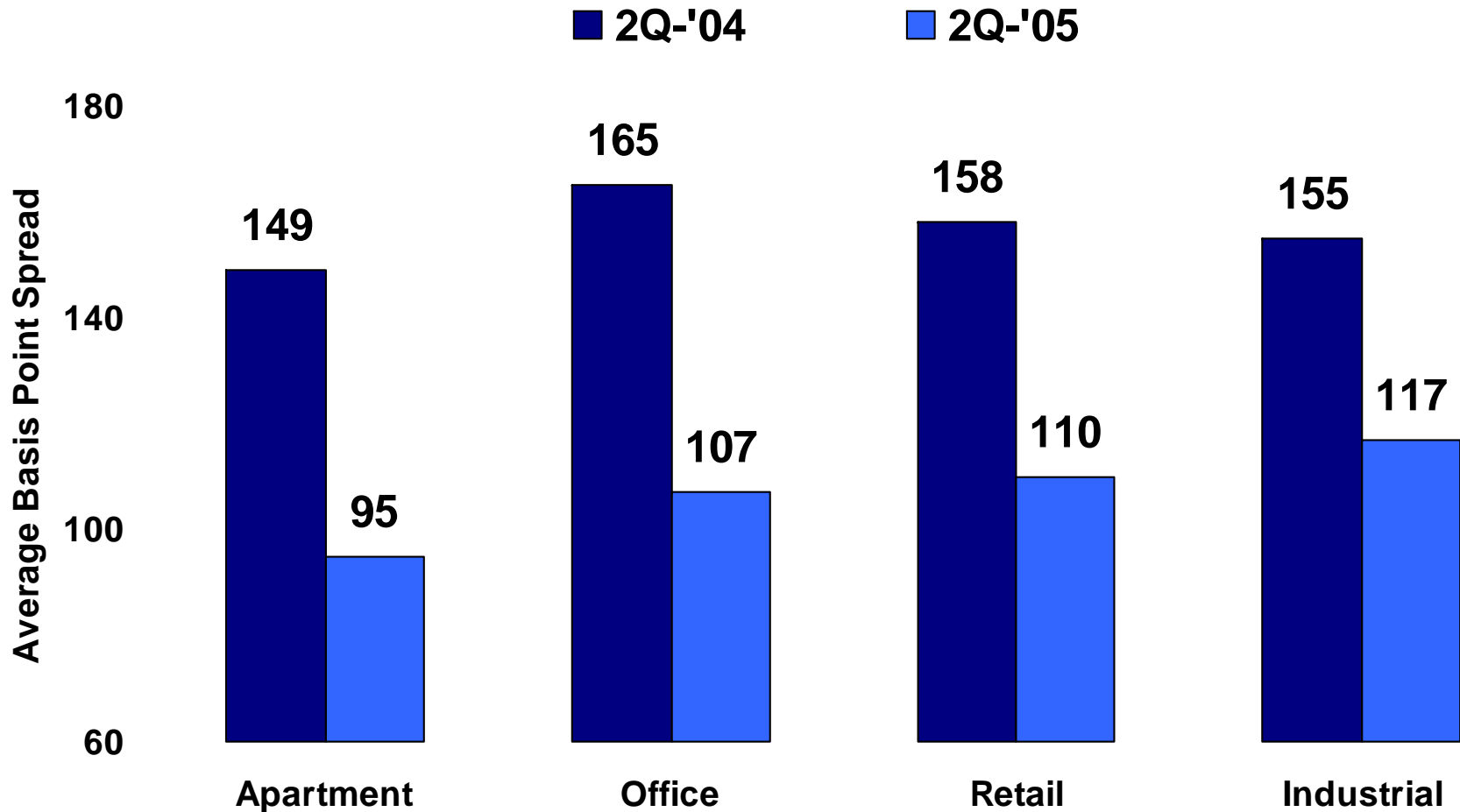
All apartment transactions greater than \$5 million

Sources: Marcus & Millichap Research Services, Real Capital Analytics

Why Are Cap Rates So Low?

Mortgage spreads

Fixed Rate Mortgage Spreads



Data as of 1Q 05

Sources: Marcus & Millichap Research Services, American Council of Life Insurance

Marcus & Millichap

Why Are Cap Rates So Low?

- **Investors have uncoupled from cap rates and are underwriting IRRs**

Why Are Cap Rates So Low?

- **Interest rates**
- **Investor demand (poor alternatives)**
- **Condo conversions**
- **Mortgage spreads**
- **Investors have uncoupled from cap rates and are underwriting IRRs**

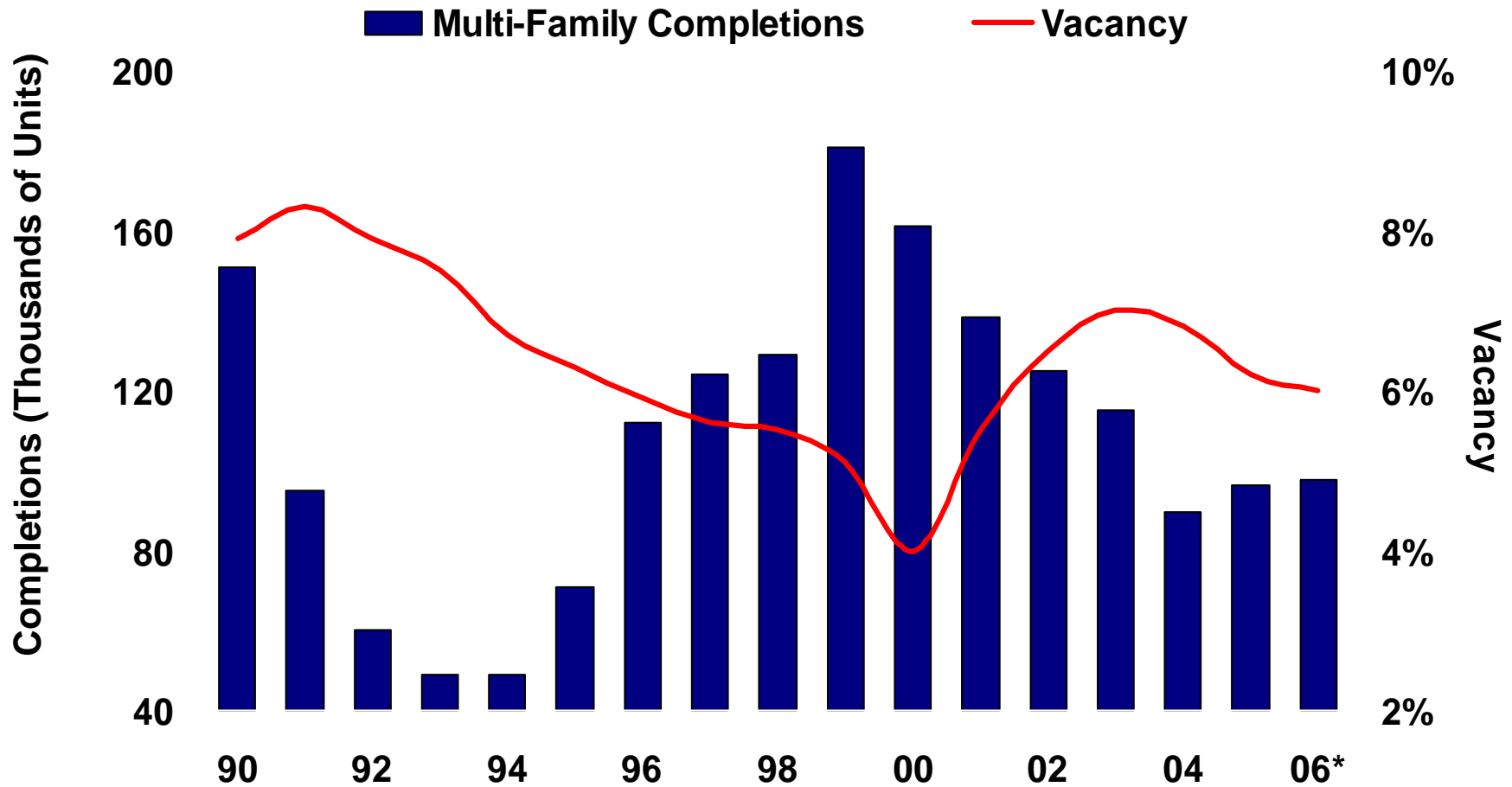
Key Observations 2006

- **Operation recovery strengthens and offsets minimal interest rate increase**
- **No systemic “pricing bubble”**
- **Investor demand for apartments will remain strong (no erosion)**
- **Velocity increases during 1st half of '06**
- **Cap rates will be relatively “flat”**

Why Do We Remain Optimistic?

- **Supply / demand balance is improving**

U.S. Vacancy Cycle Recovery Well Entrenched



*Forecast

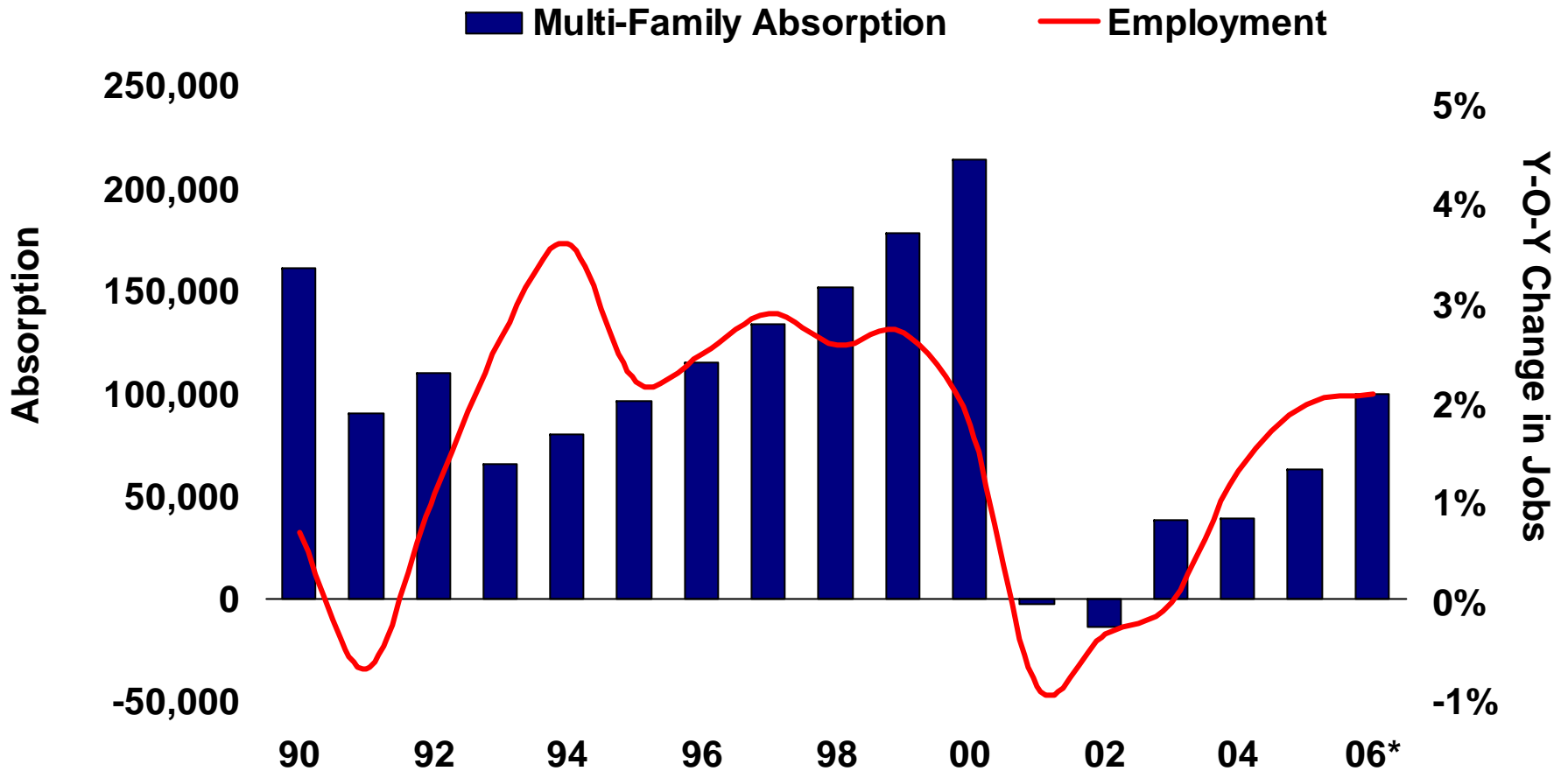
Sources: Marcus & Millichap Research Services, Reis, U.S. Census Bureau

Marcus & Millichap

Why Do We Remain Optimistic?

Positive Absorption 2003-2006

U.S. Job Growth Will Generate Renter Demand



*Forecast

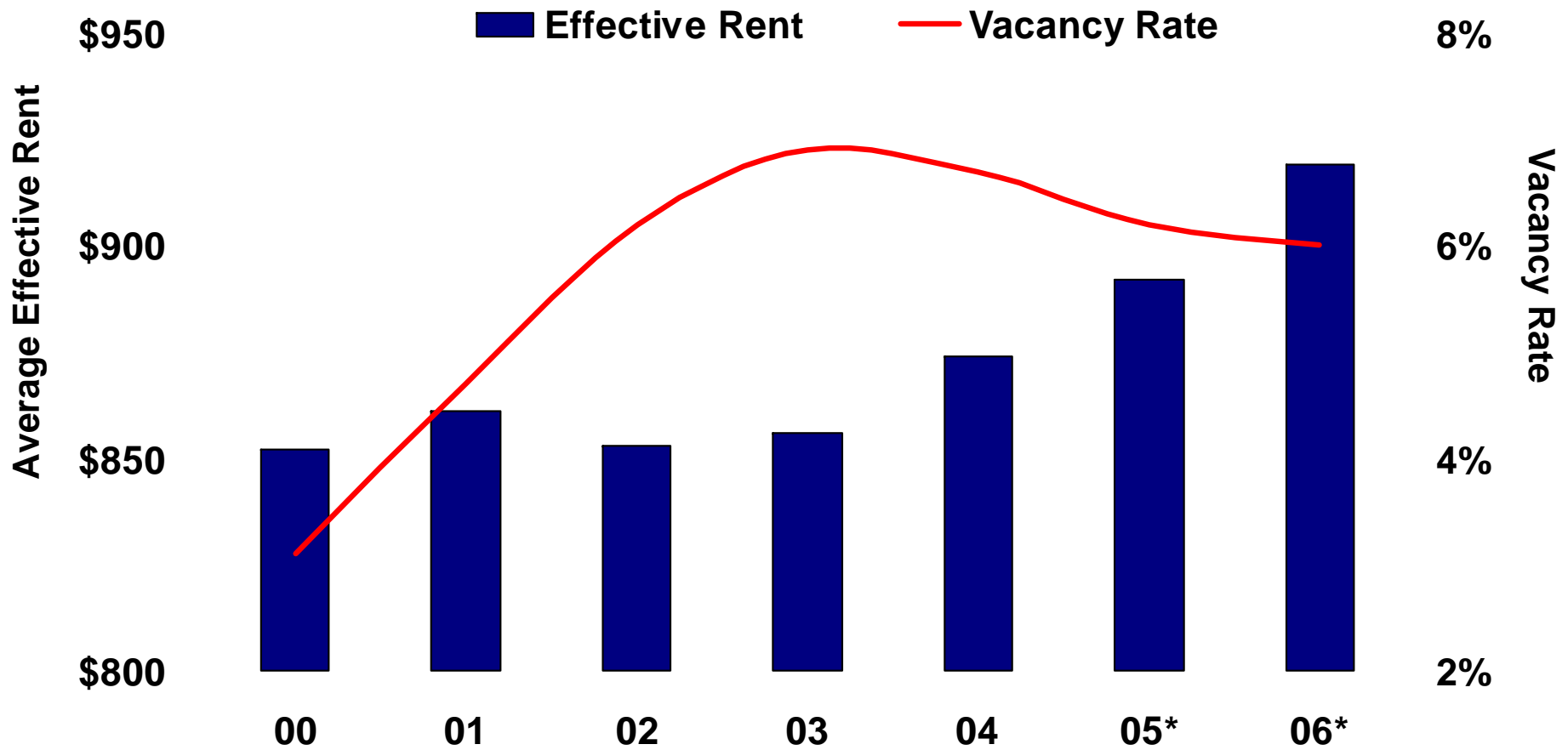
Sources: Marcus & Millichap Research Services, Economy.com, Reis

Why Do We Remain Optimistic?

Fundamentals improving

- Asking rents
- Economic rents
- Occupancies

U.S. Apartment Vacancy and Rent Trends



*Forecast

Sources: Marcus & Millichap Research Services, Reis

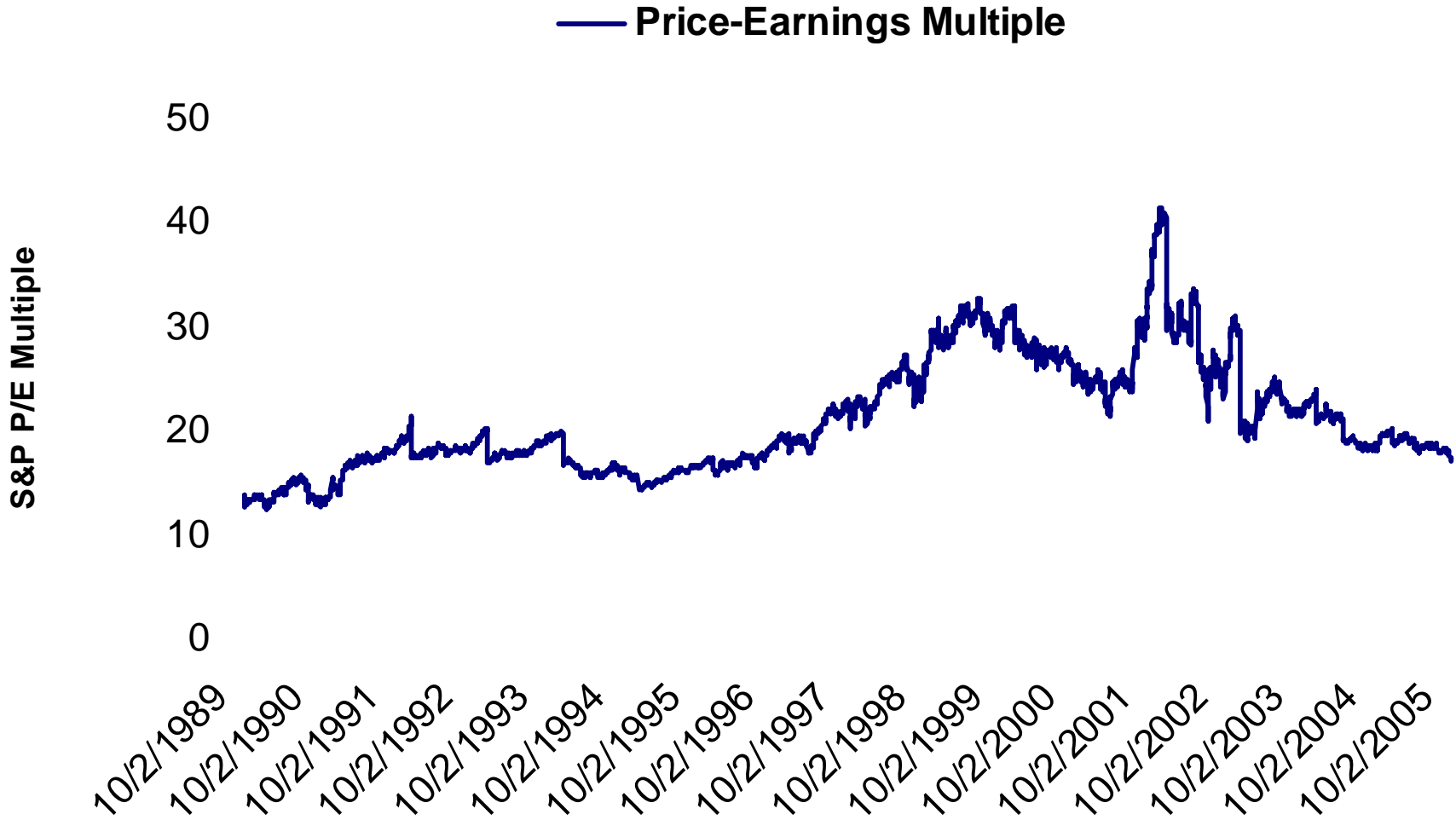
Marcus & Millichap

Why Do We Remain Optimistic?

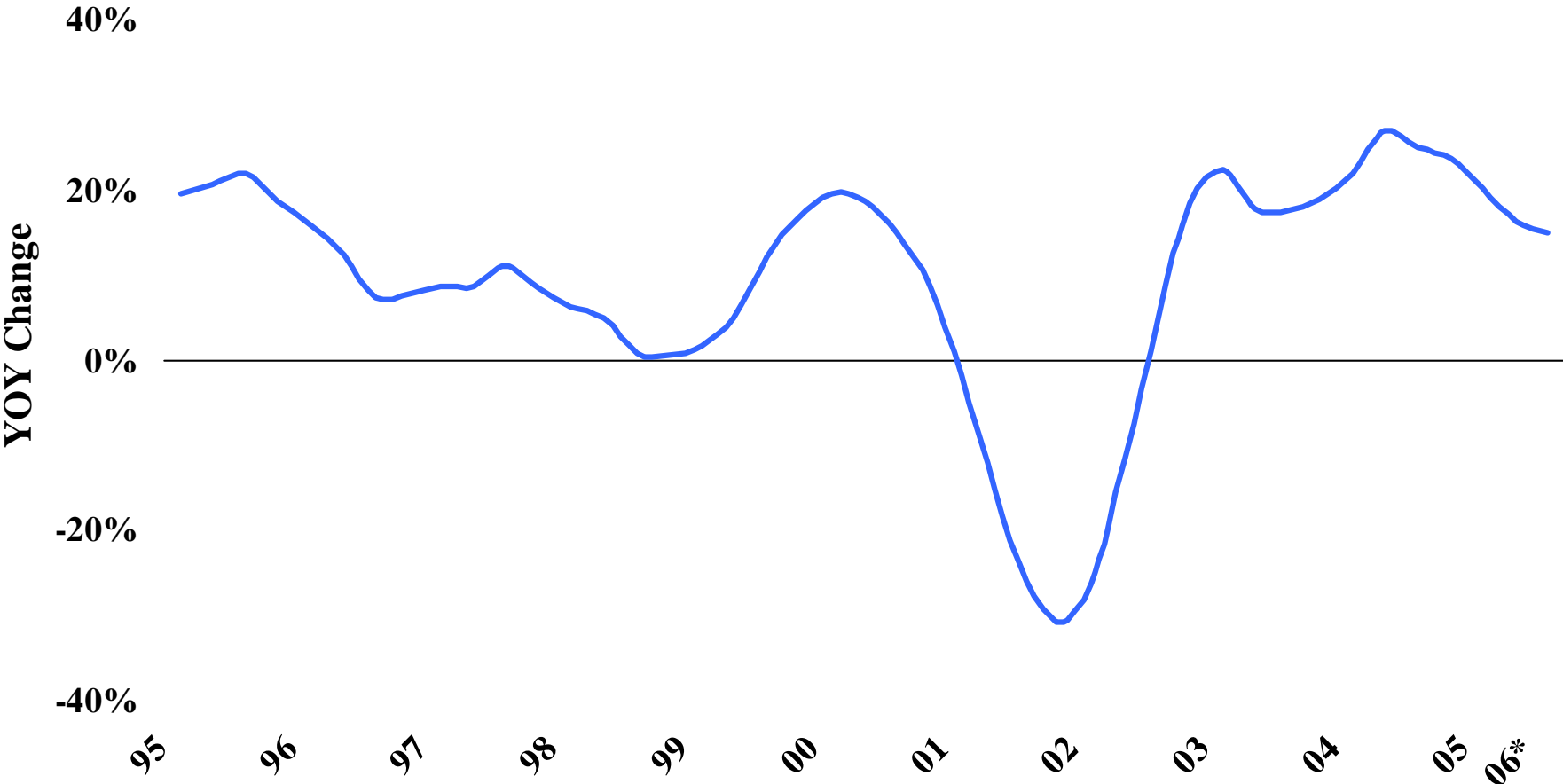
- **Investor demand remains strong (still edgy)**

S&P 500 Valuation Close to Long-Term Trend

Stock Market Did Not Over-Correct



S&P 500 Earnings Growth Slowing

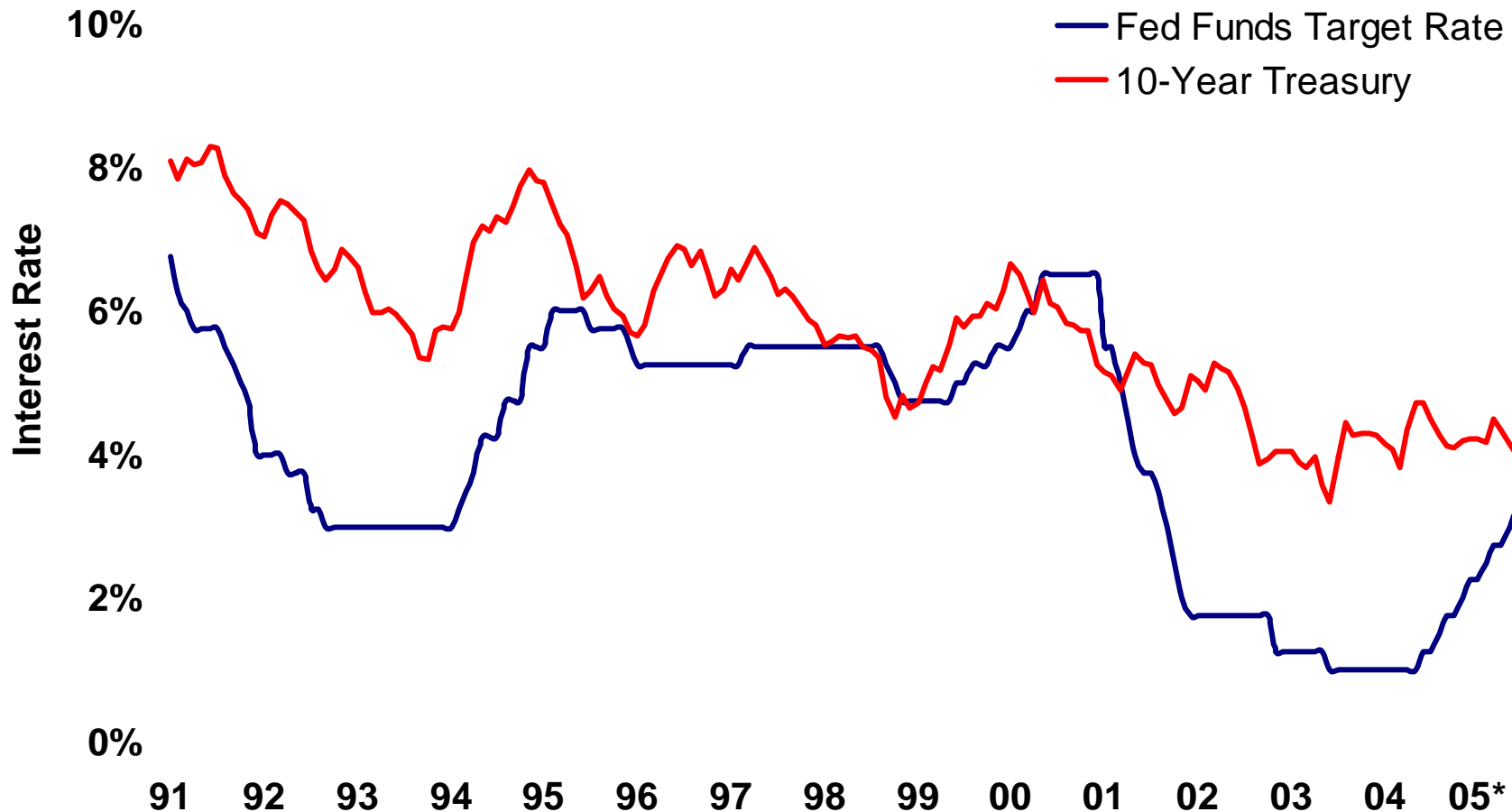


Sources: Marcus & Millichap Research Services, Standard & Poor's Investment Services

Why Do We Remain Optimistic?

- **Minimal pressure on interest rates for most of 2006**

Short-Term Rate Increases to Continue, Long-Term Rates On Gradual Upswing



*As of 10/7/05

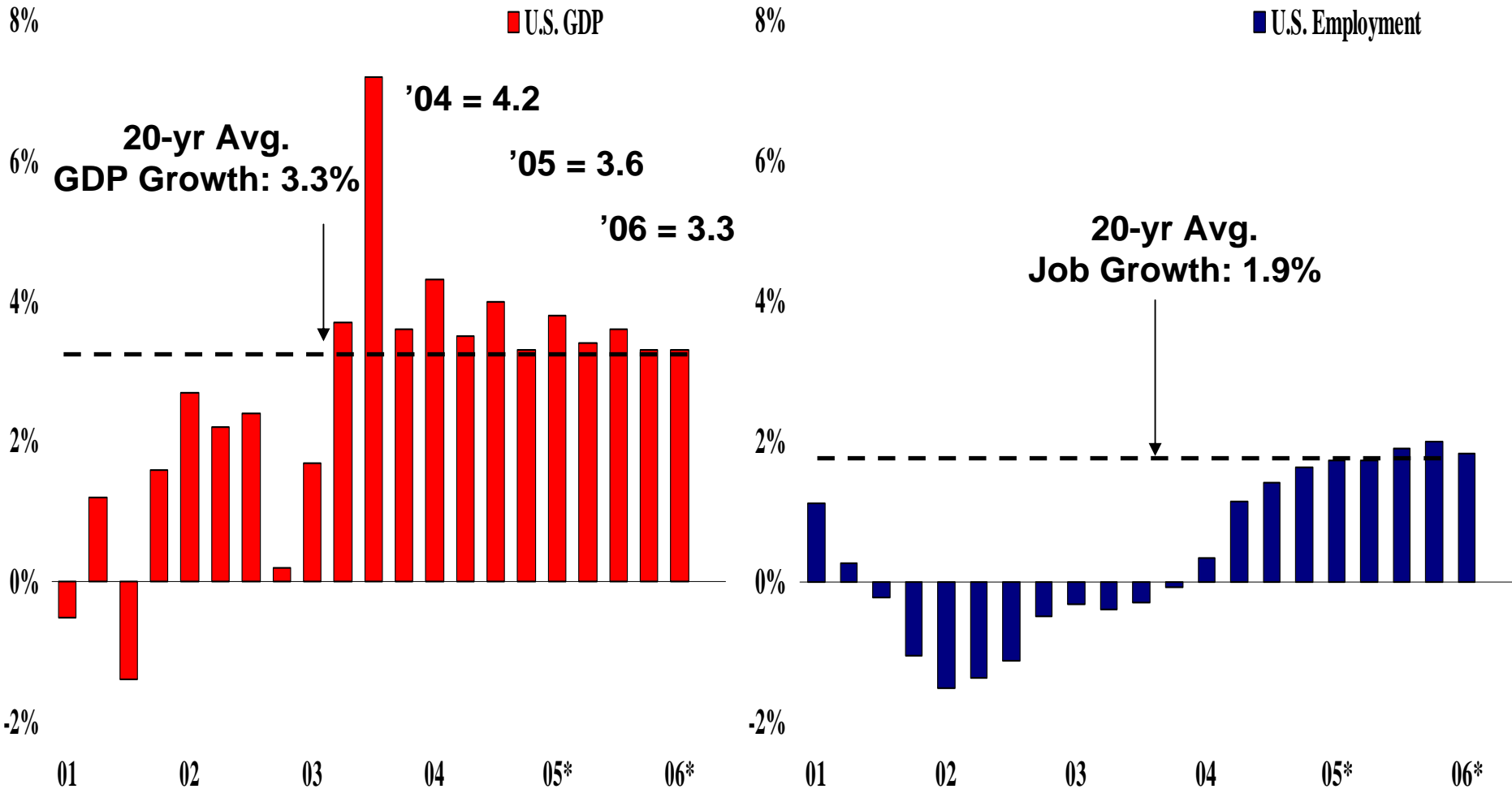
Sources: Marcus & Millichap Research Services, BLS, Economy.com, Federal Reserve

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Why Do We Remain Optimistic?

No post-recession GDP or employment growth spikes

Economic Conditions Still Favorable: GDP & Job Growth In-Line with Long-Term Trend



*Forecast

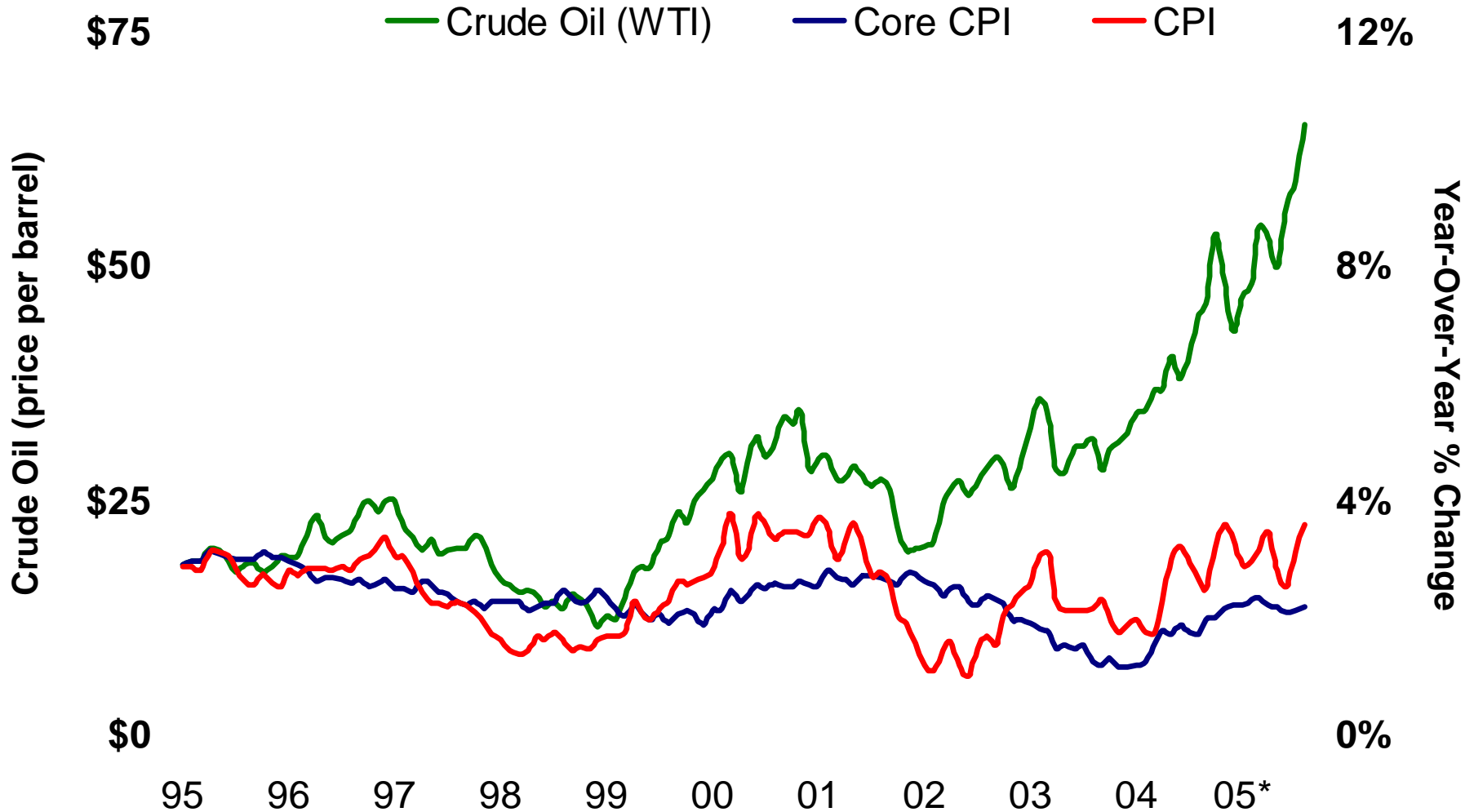
Sources: Marcus & Millichap Research Services, BLS, Commerce Dept., Economy.com

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Why Do We Remain Optimistic?

Oil prices are providing a “brake” to GDP growth

Record Oil Prices a Natural Break (For Now) Inflation Pressures Building Gradually



*Forecast

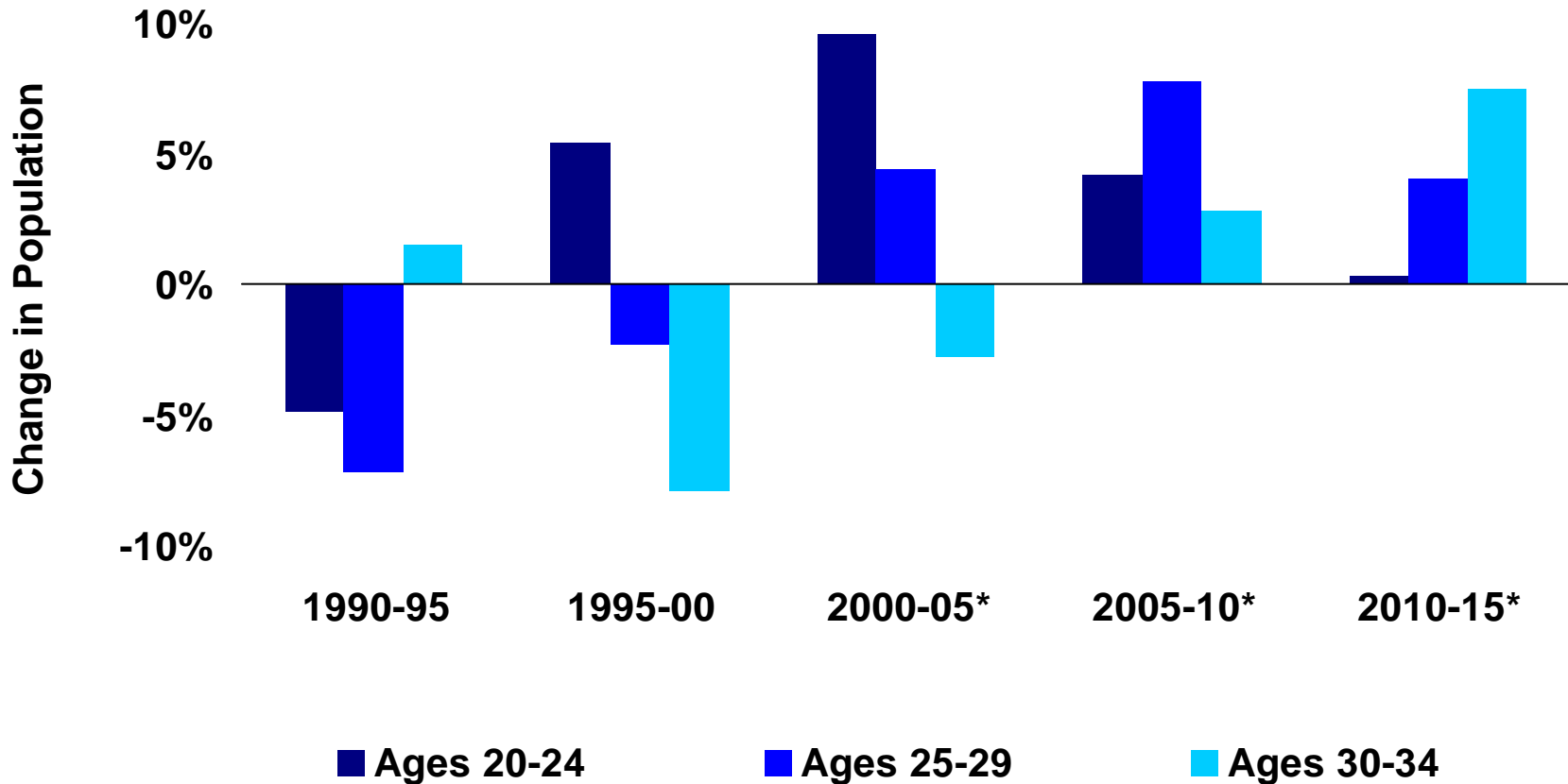
Sources: Marcus & Millichap Research Services, BLS, Economy.com

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Why Do We Remain Optimistic?

Demographics / immigration are in the industry's favor for 10 to 15 years

U.S. Renter Demographics

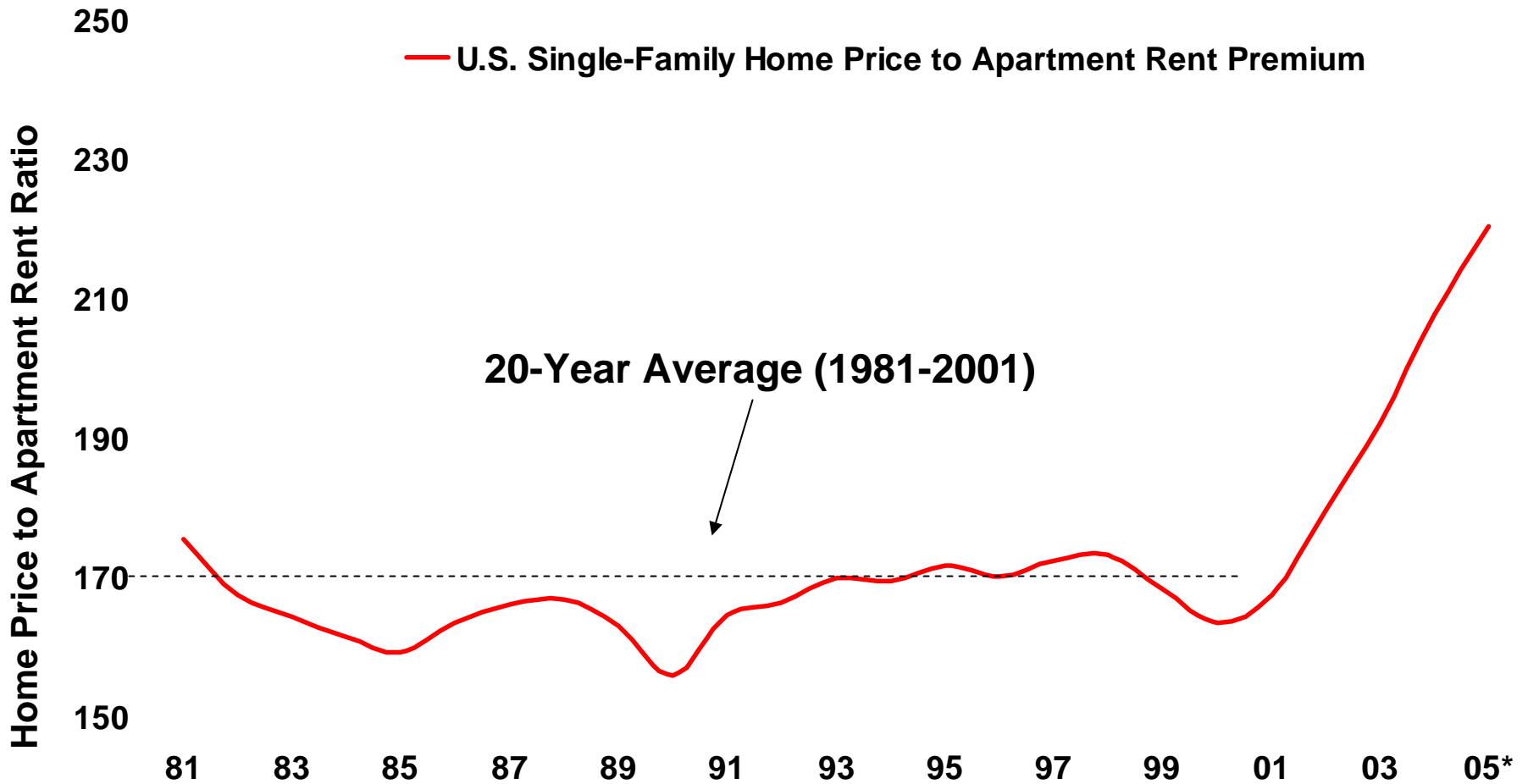


* Forecast

Why Do We Remain Optimistic?

- **Households have money for rent**
- **Households have money for ancillary services (and will pay for them)**
- **Significant house payment premium compared to rent**

U.S. Single-Family Home Price to Apartment Rent Premium



*Forecast

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

Why Do We Remain Optimistic?

There is still significant “inefficiency” in the multi-family marketplace

- **Out-dated units / complexes**
- **Inefficient property / asset management**
- **Disorganization from consolidation**
- **Inflexible debt (locked-in conduit loans)**
- **Maturing investor base**
 - **Retirement**
 - **Shift to less management intensive assets**
- **Ancillary income not a recent priority**

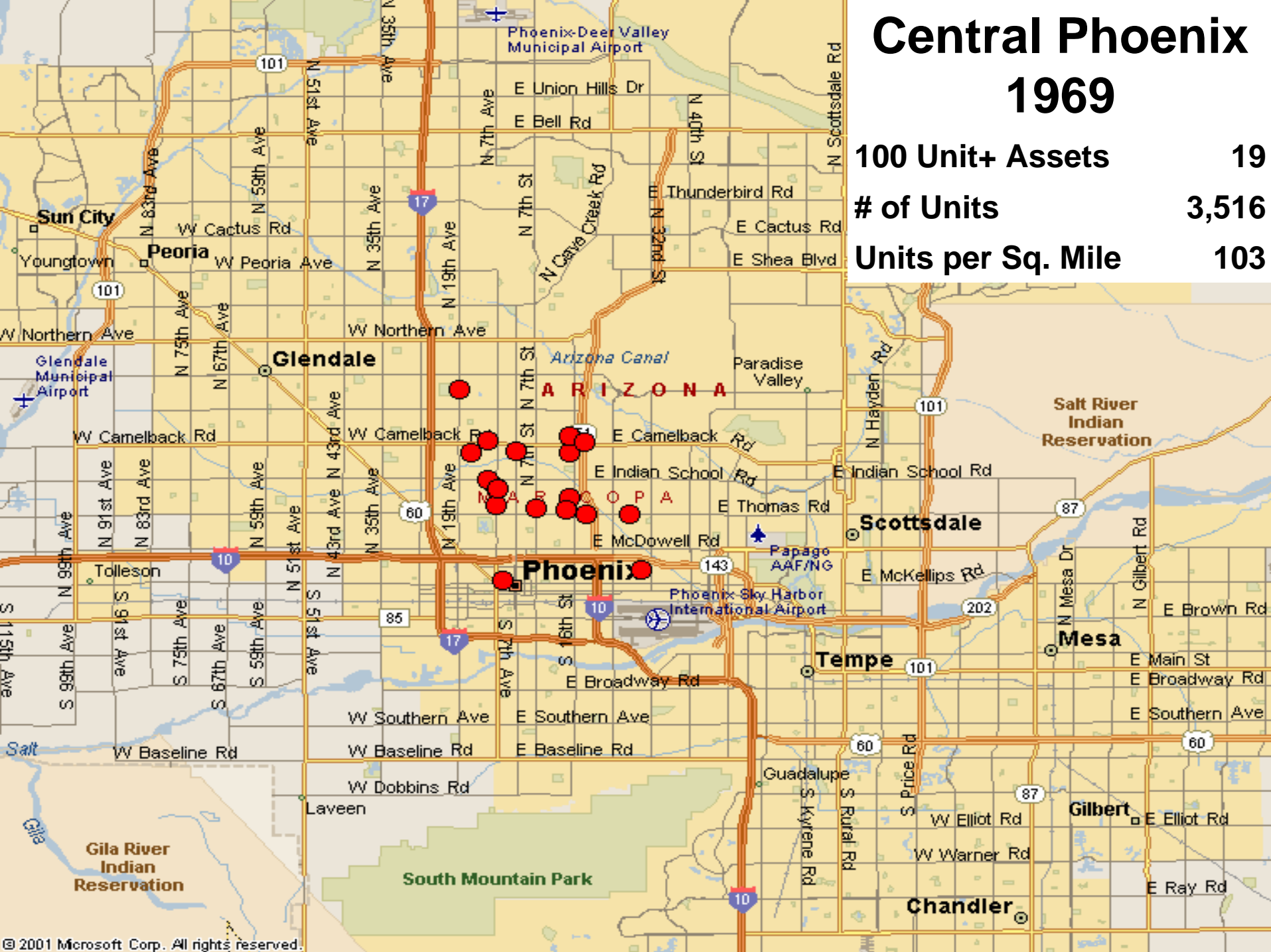
Why Do We Remain Optimistic?

Emerging / expanding trends

- **Urbanization**
- **Traffic congestion**
- **Demographics (echo boomers)**
- **Immigration**
- **Conversions have reduced “supply” more than “demand”**
- **Renter by “economic choice”**
- **Lack of “in-fill” development sites**

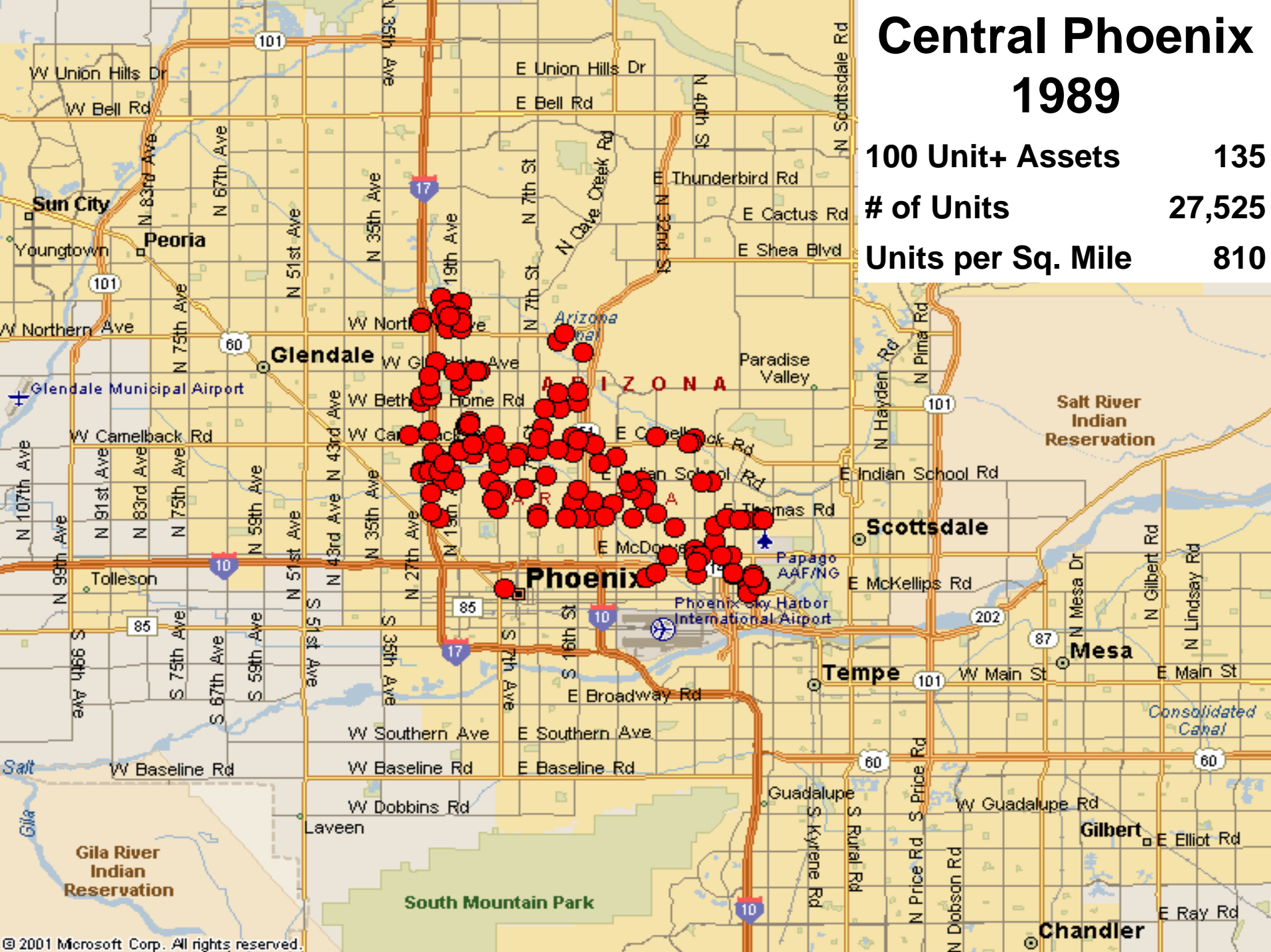
Central Phoenix 1969

100 Unit+ Assets	19
# of Units	3,516
Units per Sq. Mile	103



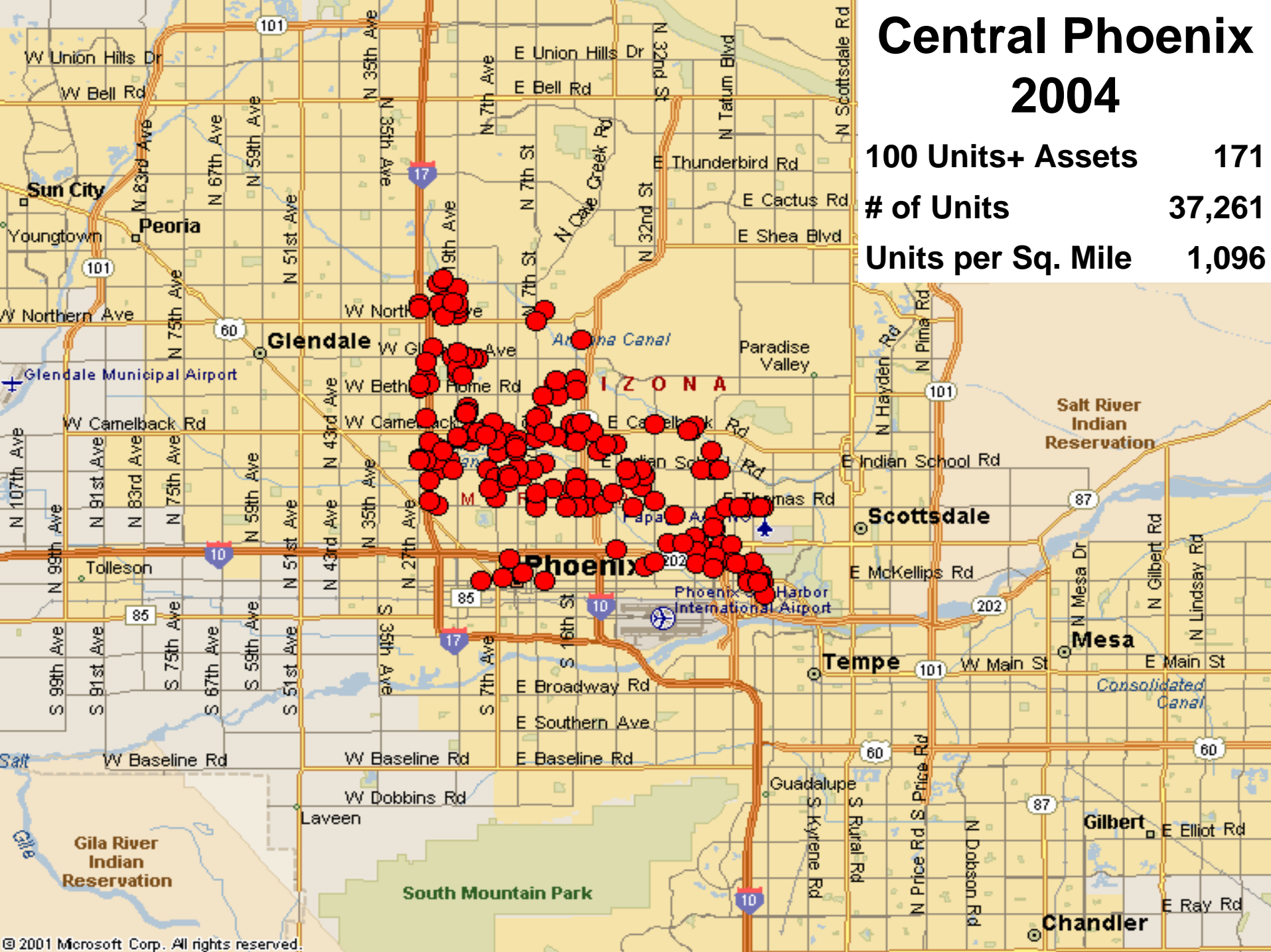
Central Phoenix 1989

100 Unit+ Assets	135
# of Units	27,525
Units per Sq. Mile	810



Central Phoenix 2004

100 Units+ Assets	171
# of Units	37,261
Units per Sq. Mile	1,096

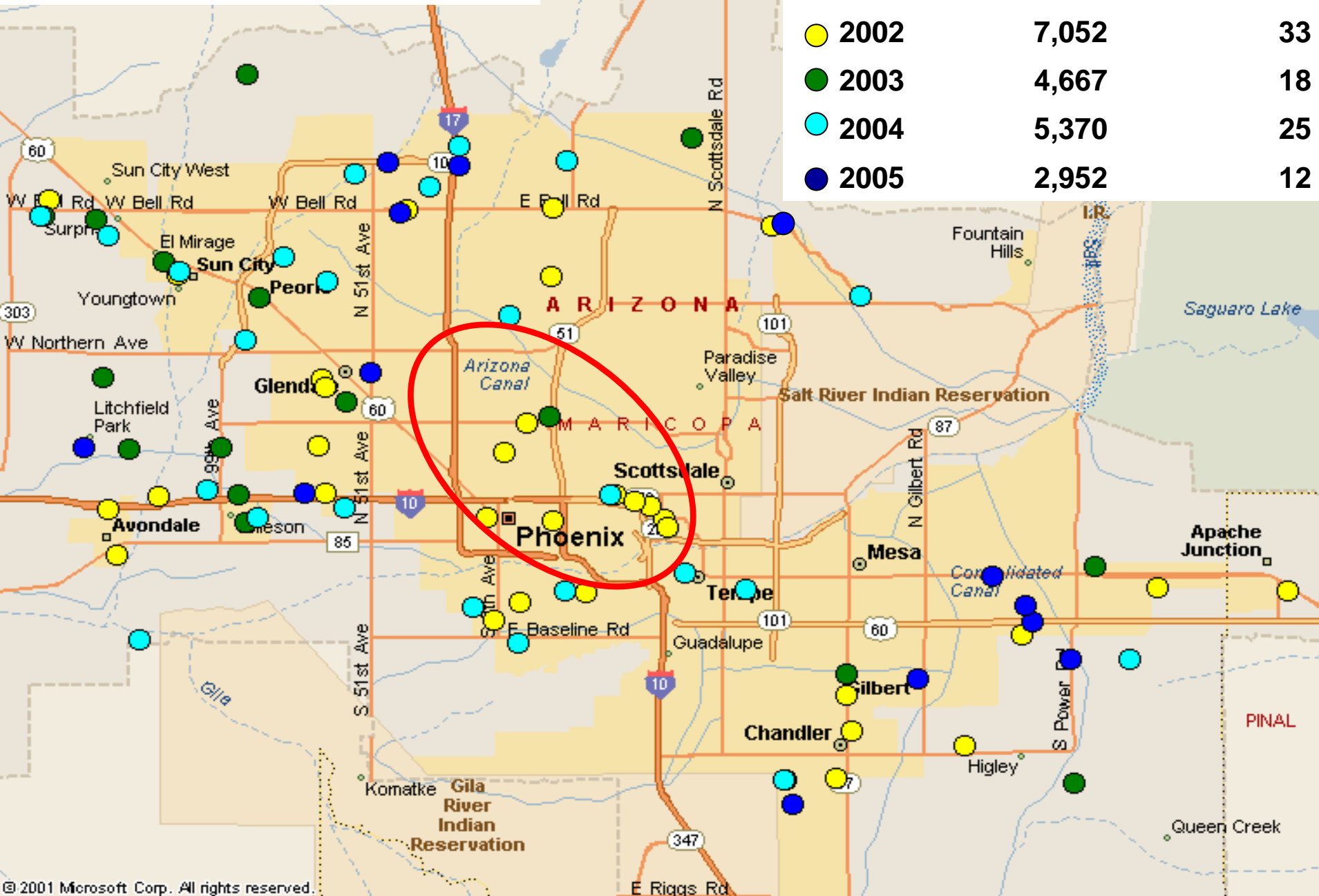


Phoenix MSA 100+ Units Apartment Construction

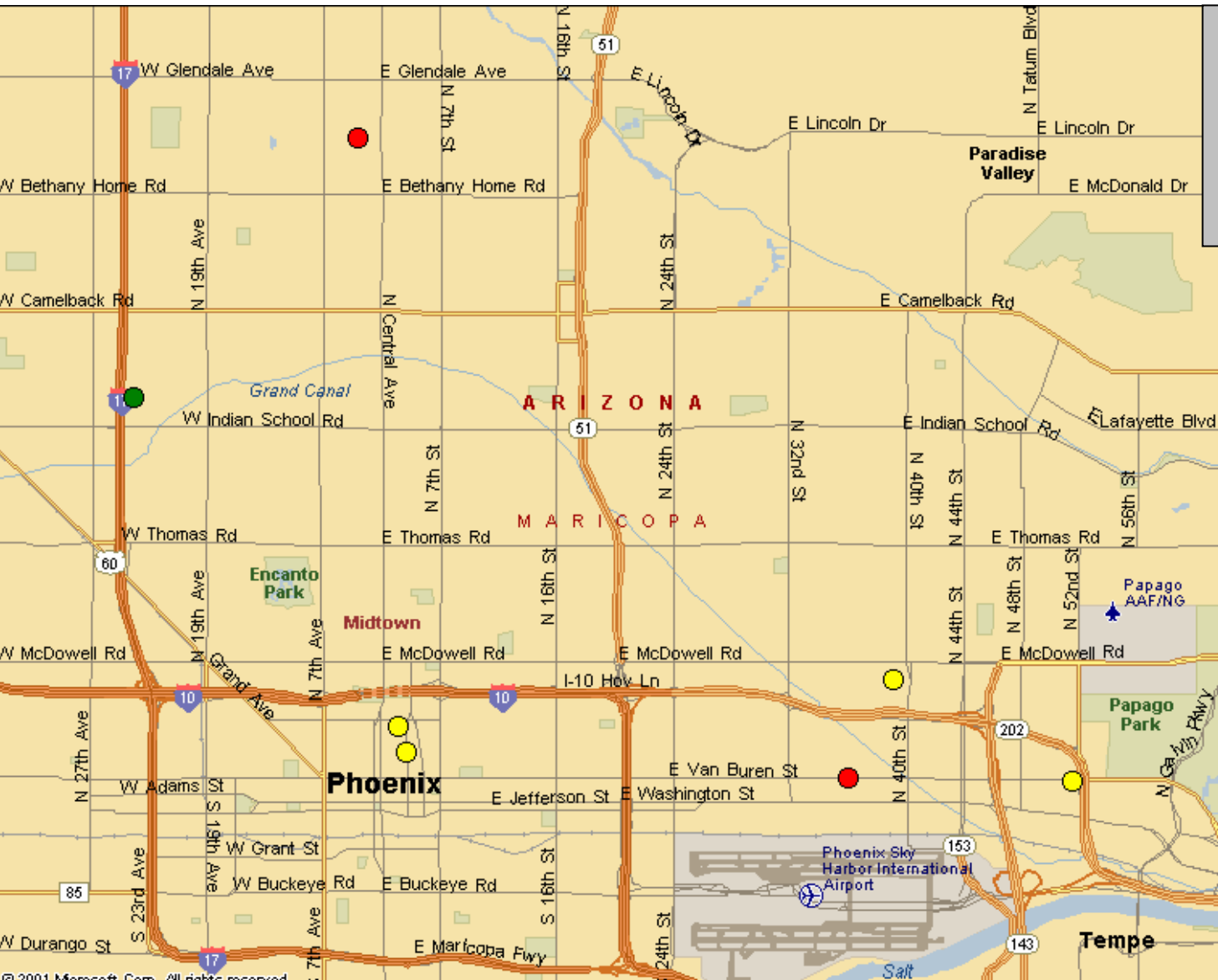
Development 2002- 2005 YTD




of Units # of Projects

● 2002	7,052	33
● 2003	4,667	18
● 2004	5,370	25
● 2005	2,952	12



6 Projects in Pipeline, Only 2 Are 100 Units+ Central Phoenix Land DEPLETED !



-  **UNDERWAY (2)**
-  **PLANNED (4)**
-  **VACANT (1)**

Apartments Have Been Fundamentally Re-priced

- **Long-term cap rate trend line was 8.13**
- **Apartments now viewed differently**
- **Transparency**
- **Resiliency**
- **Flexibility**
- **Liquidity**
- **Stability**

Apartments Have Been Fundamentally Re-priced

- **2 years ago.... 25 to 50 basis points**
- **1 year ago..... 50 to 100 basis points**
- **Today..... 75 to 125 basis points**
 - **75 bps = new long term trend of 7.38**
 - **100 bps = new long term trend of 7.13**
 - **125 bps = new long term trend of 6.88**



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