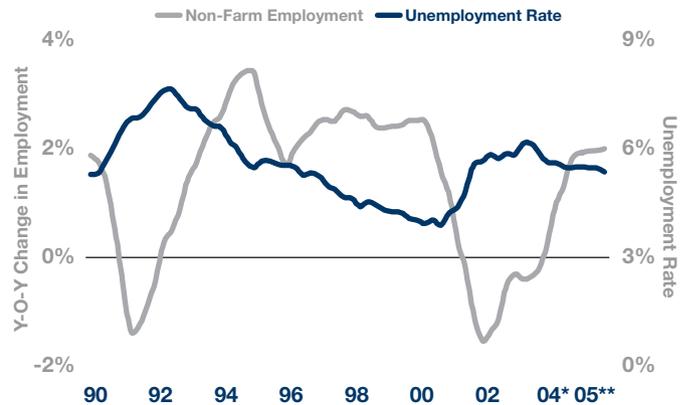
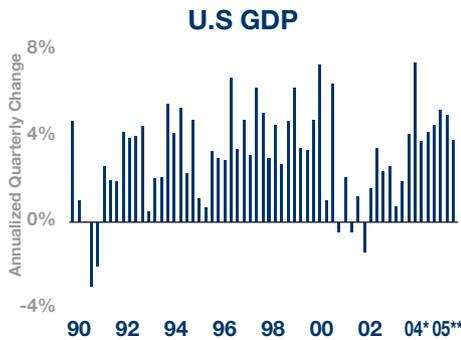


## Employment Trends



- ▲ **Businesses Driving Growth.** Consumers are likely to become more conservative as the impact of cashed-out equity runs its course. Businesses, however, have stepped up to the plate, with investment in equipment and software posting double-digit gains, and inventories are on the rise. GDP growth is estimated at 4.2 percent for 2004.
- ▲ **Employment Growth Accelerating.** Job creation picked up steam through the latter half of 2004 and is estimated at 1.8 percent for the year.
- ▲ **Consumer Confidence on Rollercoaster Ride.** After rising through midyear, the lead up to the presidential election brought attention to the problematic areas of the economy, causing a temporary dip in confidence, which was followed by a post-election bump.
- ▲ **Energy Prices Trending Down.** Oil prices skyrocketed in 2004, and high gas prices cut into disposable incomes. Prices are headed down, although “normalized” prices are not likely to re-emerge for some time.

## National Economy: Here Come the Jobs

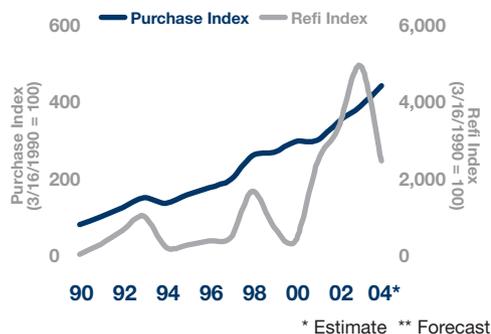


**T**he employment recovery was slow to materialize and now that we are heading in the right direction, it appears to be a somewhat long road ahead. On the positive side, businesses have begun to shore up inventories, the housing market remains strong, and oil prices are declining and are expected to end 2005 at approximately \$40 per barrel. Consumers, however, who supported the economy during the most recent economic downturn, are likely to become more conservative over the next 12 months. As interest rates creep upward and the impact of cash-out refis and tax cuts run their course, consumers will have to rely on actual incomes. Fortunately, inflation has remained mild, with final 2004 figures estimated at slightly more than 2.5 percent. Inflation is forecast to remain in the 2 percent to 3 percent range over the next year, which bodes well for the consumer.



The most significant gains in employment in 2005 are forecast in the business and professional, and education and health care services sectors. We expect mortgage rates to remain low by historical standards, but they will slowly climb over the next 12 months, and home prices are also expected to rise at a moderate rate. As white-collar jobs are created at least at a moderate rate and housing becomes less affordable, apartment owners will reap the rewards, particularly in the Class A sector. The Class B/C sector will benefit from stabilization in manufacturing, immigration and growth in the leisure and hospitality industry.

## MBA Mortgage Application Survey



### Forecast

- ▲ **Stable Gains.** GDP is expected to cool off somewhat but post a healthy gain of 3.7 percent in 2005. Going forward, however, high health care costs and the budget deficit remain concerns.
- ▲ **Hiring to Pick Up.** A rise in temporary jobs was reported in late 2004, which suggests businesses were in need of more workers but not ready to commit to full-time employees. In addition, above-average productivity leaves little room for expansion without hiring. Our forecast calls for employment to rise 2 percent in 2005.
- ▲ **Residential Mortgage Delinquencies to Rise.** While this is bad news for homeowners, it will have positive implications for the apartment market. Approximately two-thirds of subprime mortgage debt is adjustable, and as interest rates rise, we expect delinquencies to follow.