

National Apartment Overview

Apartment Fundamentals Showing Cracks; Markets Diverging

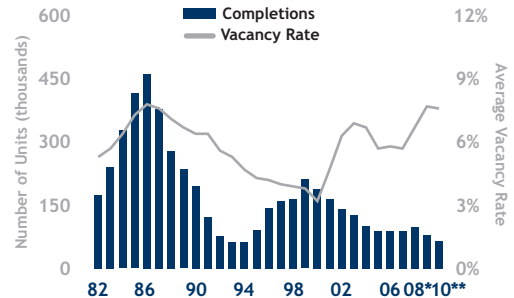
The national apartment market fared well throughout the downturn in 2008; however, accelerating job losses will translate into higher vacancies. The return of failed conversion projects to rental inventory and ground-up condo development, along with for-rent homes, will remain a source of competition for multi-family owners, particularly in the Class A segment. The performance gap among metros is widening rapidly. The recession in overbuilt markets such as Las Vegas, Phoenix, Riverside-San Bernardino and most of Florida will make 2009 a tough year. Healthier markets, such as San Francisco, Los Angeles and New York City will also see rising vacancies due to job losses, but are better positioned to get through the downturn. In most metros, Class B/C properties will be the least affected by the economic downturn, as many households will continue to be forced to seek more affordable housing options. Fundamentals in the pricier Class A segment have been disproportionately impacted by eroding household credit quality, which has made it difficult for many renters to qualify for high-end units.

Economic and demographic trends support a positive long-term outlook for apartments beyond 2009. In stark contrast to just a few years ago, mortgage underwriting standards are tight and first-time homebuyer programs are scarce, reducing attrition from the renter pool. Even higher-quality borrowers are facing tougher mortgage standards, with approximately 70 percent of banks tightening requirements for prime mortgages in recent quarters. At the same time, echo boomers – totaling roughly 70 million U.S. residents – are entering their prime renting years, a trend that will continue over the next five to 10 years. On the supply side, construction starts are declining rapidly for all types of residential units, which should translate into a quick recovery for apartment vacancy and rents once economic expansion and job growth return. On average, new supply as a percentage of existing apartment inventory is forecast to reach just 0.7 percent annually through 2010, down considerably from the late 1990s and early 2000s.

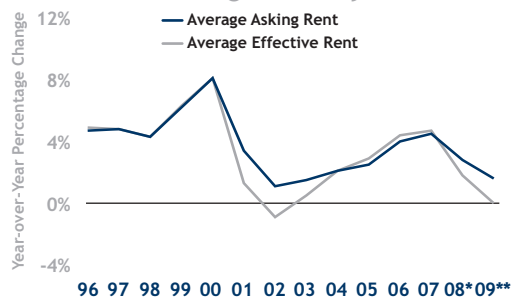
2009 National Apartment Market Outlook

- ◆ **Homeownership Rates Declining.** The U.S. homeownership rate soared from around 66 percent in the late 1990s to more than 69 percent in late 2004. Since 2005, however, the rate has declined to less than 68 percent, resulting in an additional 2.6 million renter households.
- ◆ **Developers React to Slower Conditions.** Only 80,000 apartments are slated for completion in 2009, down from 98,000 units in 2008. New supply will fall to its lowest level since the mid-1990s, as construction financing remains relatively expensive and difficult to obtain. Deliveries will include some projects that were originally planned as condos that will come online as rentals.
- ◆ **Rise in Vacancy Expected.** The national apartment vacancy rate is expected to rise 100 basis points this year to 7.7 percent.
- ◆ **Rent Growth Stalling.** Effective rents, on a national basis, will be flat in 2009, falling short of asking rent growth, which is expected to reach 1.7 percent. Rent trends will vary greatly at the metro level, however, with owners in the hardest-hit housing markets using significant concessions to attract and retain renters. In 2008, asking and effective rents rose 2.8 percent and 1.8 percent, respectively.

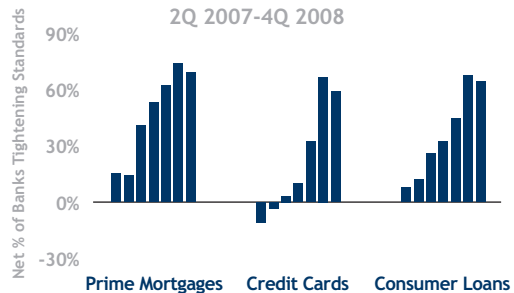
Falling Construction, Modest Employment Recovery Should Stabilize Vacancy in 2010



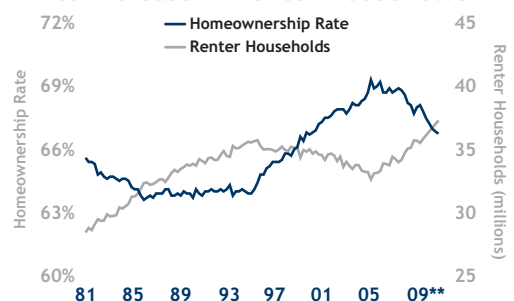
Apartment Rent Growth Stalling After a Strong Recovery Period



Potential Homebuyers and Consumers Facing Tougher Lending Standards
2Q 2007-4Q 2008



Reversal in Homeownership Rate Points to Increase in Renter Households



* Estimate ** Forecast