



L&B Realty Advisors, LLP

State of the Multifamily Market

Counselors of Real Estate
Annual Conference
New Orleans
October 13, 2009

Presented by:
David W. Gleeson, CRE

Client Focused. Performance Driven.

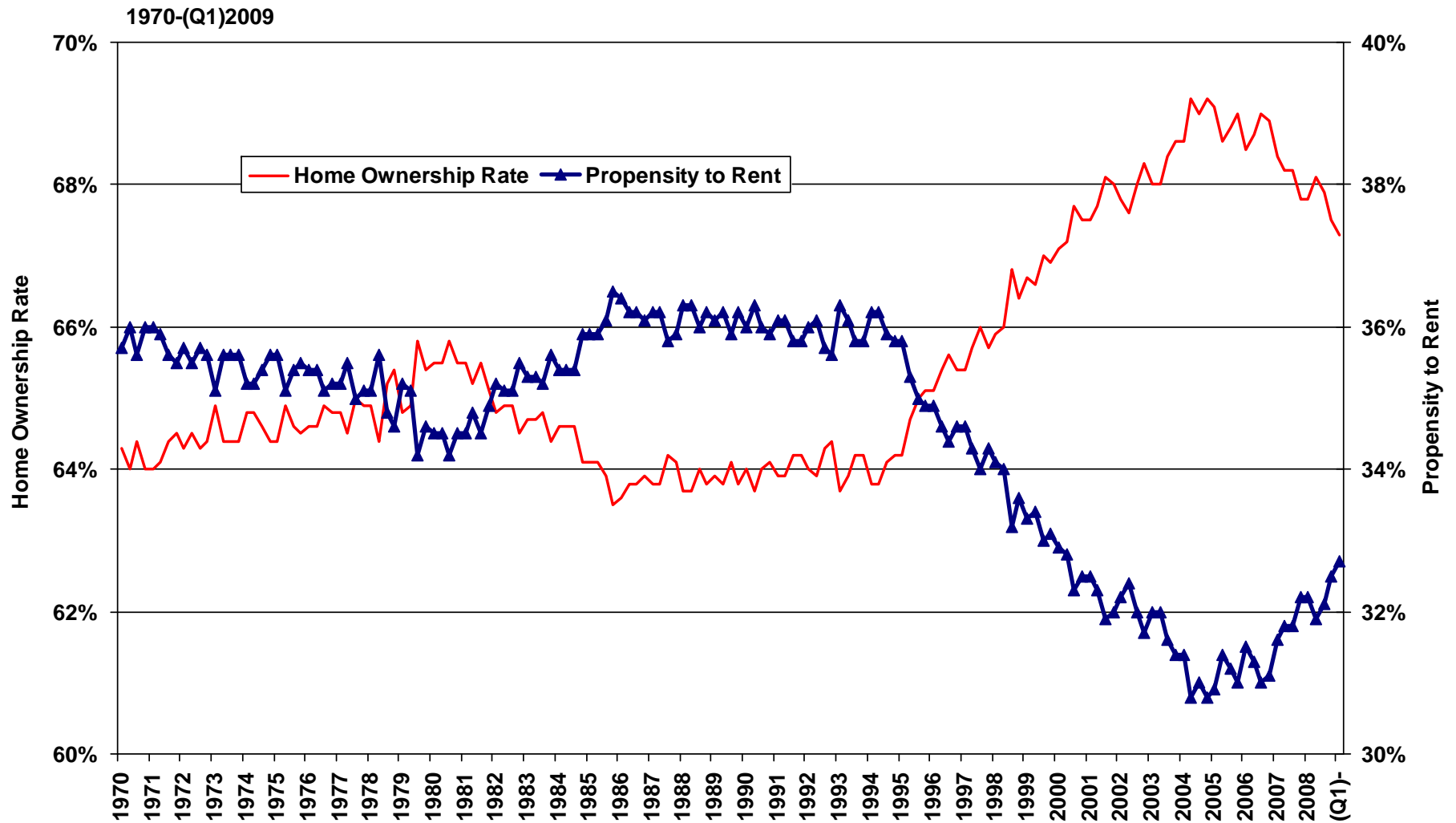


Be careful what you wish!!

Unintended consequences of
political push for **expanded home ownership**.



Single-Family Home Ownership



Source: Witten Advisors



Dramatically Lower **House Prices**...

- combined with still extremely low **mortgage rates** are making homeownership much more affordable - and **competition for apartments** – a real conundrum.



Median SF Mortgage Payment vs. Median Rental Rate

	(2Q)2008	(2Q)2009	Annual \$ Change	Annual % Change
Monthly Mortgage Payment	\$990	\$732	-\$258	-26%
Average Effective Rental Rate	\$966	\$914	-\$52	-5.4%
Gap	+2.5%	-19.9%		

Assumptions	(2Q)2008	(2Q)2009	Change
Median Home Price (000)	\$206.4	\$174.4	-15.5%
Mortgage Rate	6.1%	5.2%	-90 bps
LTV	77.6	74.7	

Source: Axiometrics

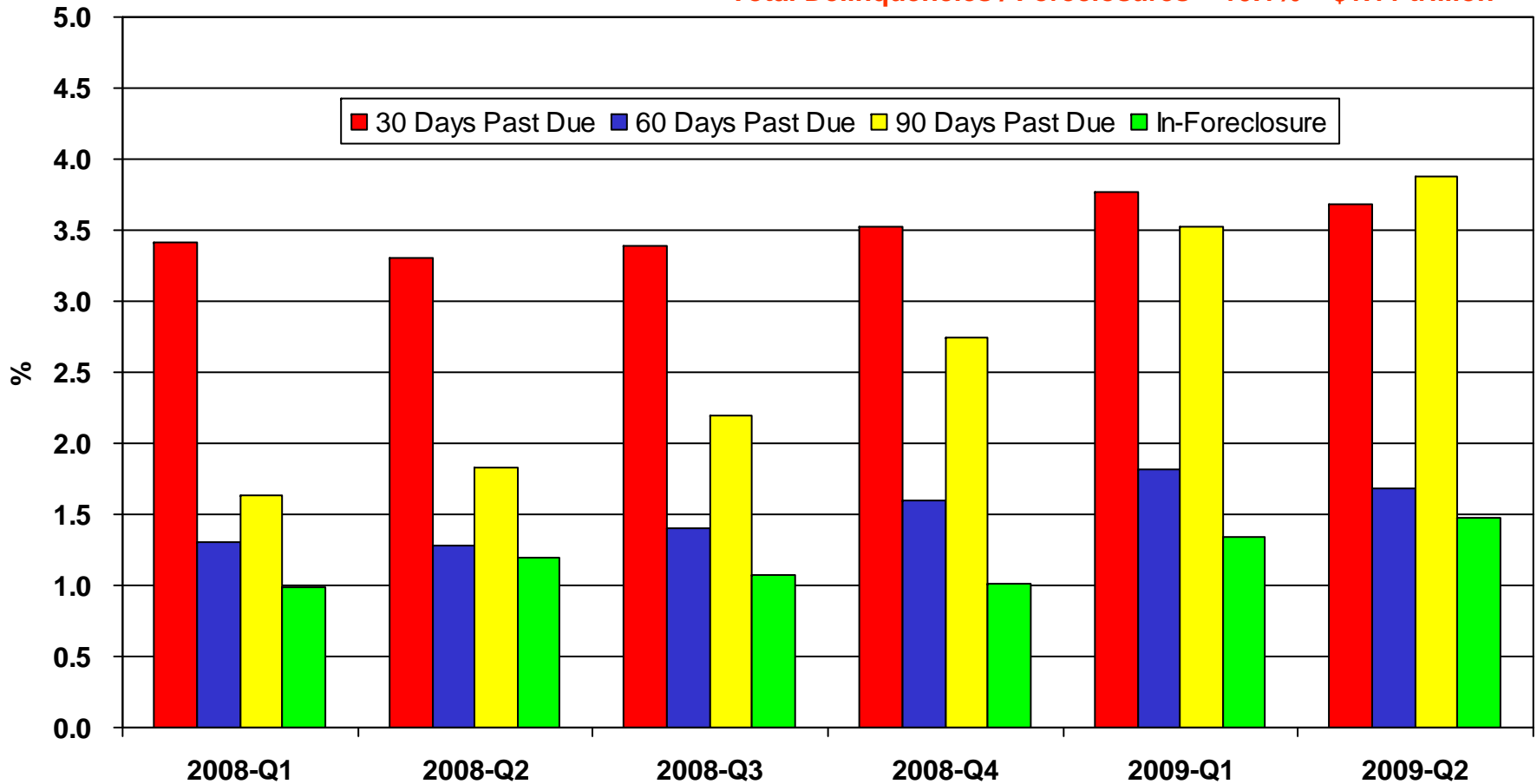


SF Mortgage Delinquencies & Foreclosures

% of Single-Family Mortgage Loans that are Past Due and In-Foreclosure
(Q1)2007-(Q2)2009
Data is Seasonally Adjusted

Total SF Mortgages Outstanding = \$11.024 trillion

Total Delinquencies / Foreclosures = 10.1% = \$1.11 trillion

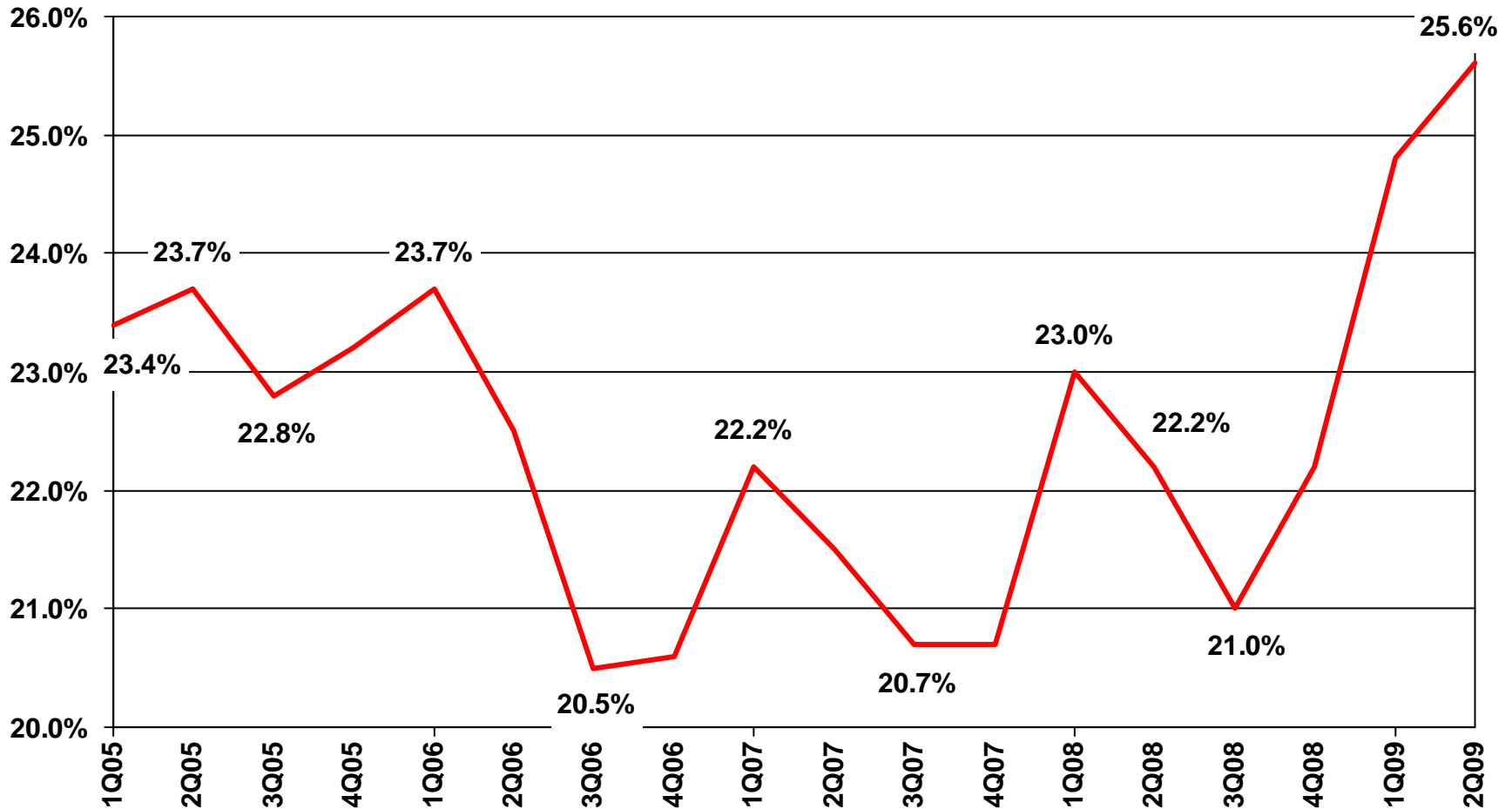


Sources: L&B Research, Moody's Economy.com, MBA and FRB Flow of Funds L-217



Home Buyer **Investors** are Back in Full Force

Quarterly % of Pre-Owned Home Sales to Investors



Source: John Burns Real Estate Consulting. Data is an average of 53 metros in the U.S., predominantly the coastal markets

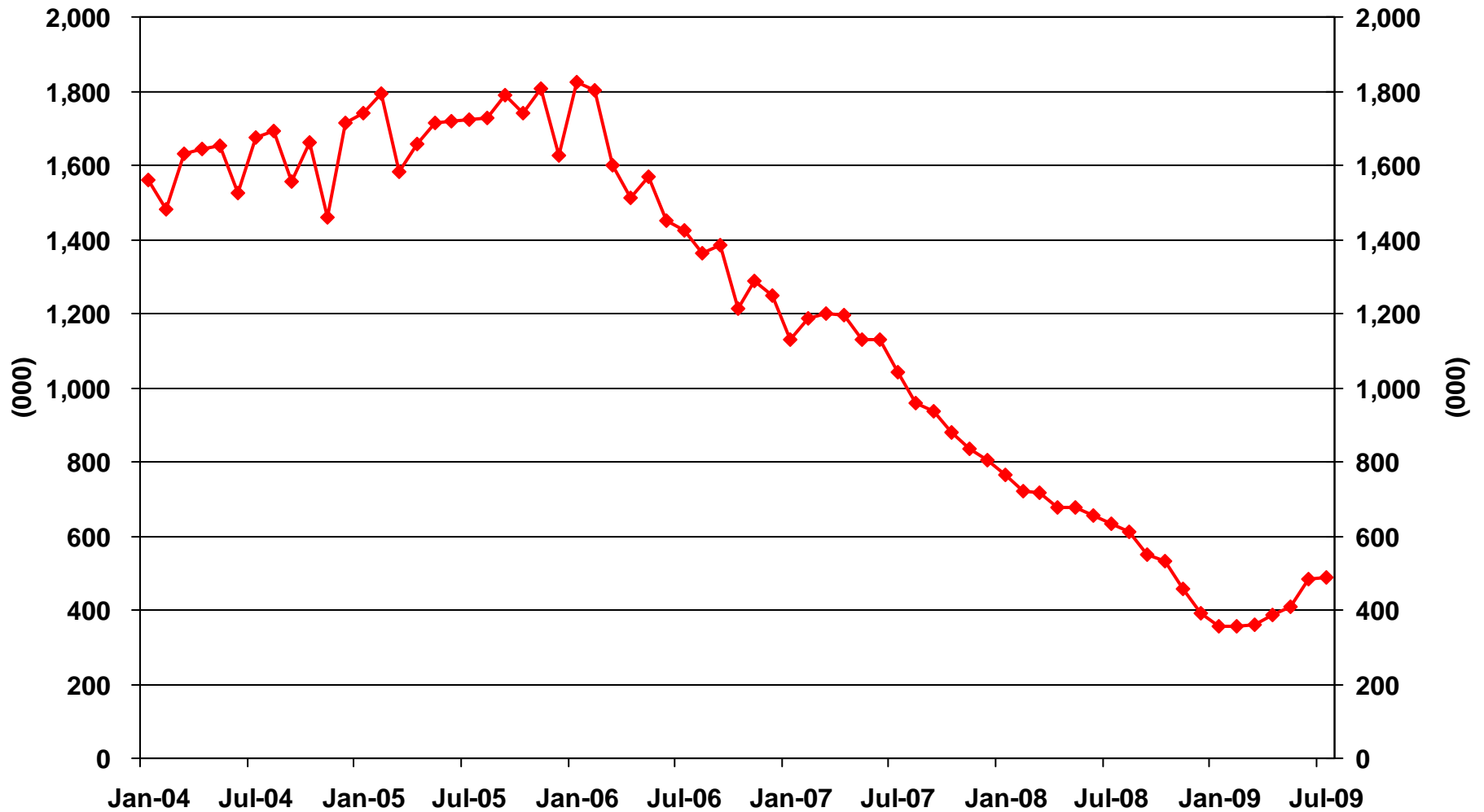


Single-Family Housing Starts

Jan. 2004 - Jul. 2009

Data is Seasonally Adjusted Annual Rate

Peak to Trough = -77.8%



Sources: L&B Research, Moody's Economy.com and U.S. Census Bureau



- If there is any RECOVERY in the single-family housing market, how sustainable is it?
 - **26%** of buyers of pre-owned homes are **investors**.
 - **40%** of buyers of new houses are using the \$8,000 **tax credit**.
 - **FED** has purchased **\$1.25 trillion** of mortgage backed securities plus \$200 billion of Fannie/Freddie debt (so they can buy new loans).



THE NEW AMERICAN DREAM: RENTING

Wall Street Journal – 8/15/2009

"It's time to accept that home ownership is not a realistic goal for many people and to curtail the enormous government programs fueling this ambition."



MF CONSTRUCTION PERMITS...

- MF construction **permits** will most likely end 2009 at the **lowest level in 40 years** – and even lower in 2010 (below 100,000 units – including “affordables”).

Annual Rates	YE-2007	YE-2008	July-2009	YE-2009	% Change 2007-2009
MF Permits (000)	377.69	206.63	117.24	100.00	-73.0%

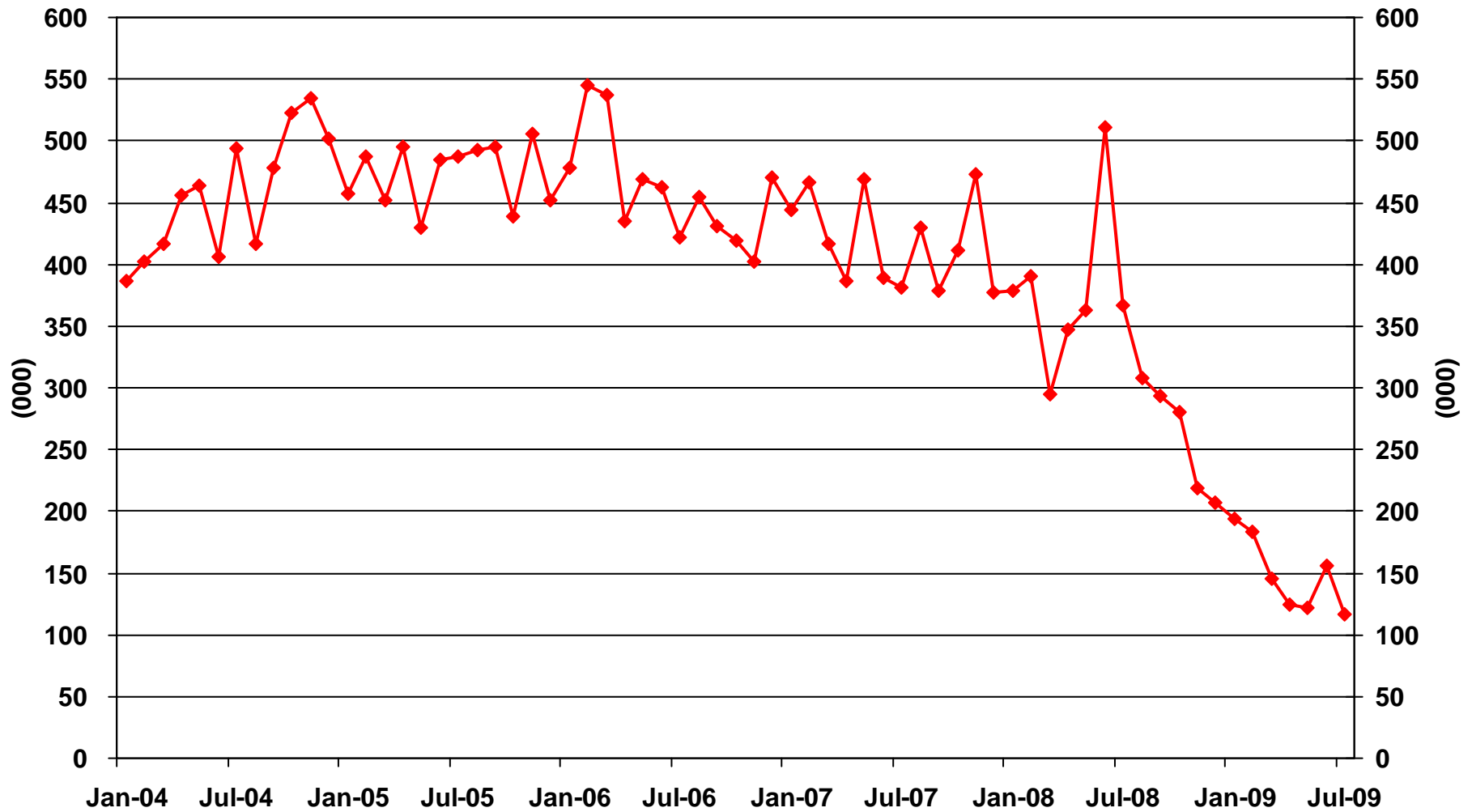
Source: L&B Research and U.S. Census Bureau



Multi-Family Permits

Jan. 2004 - Jul. 2009

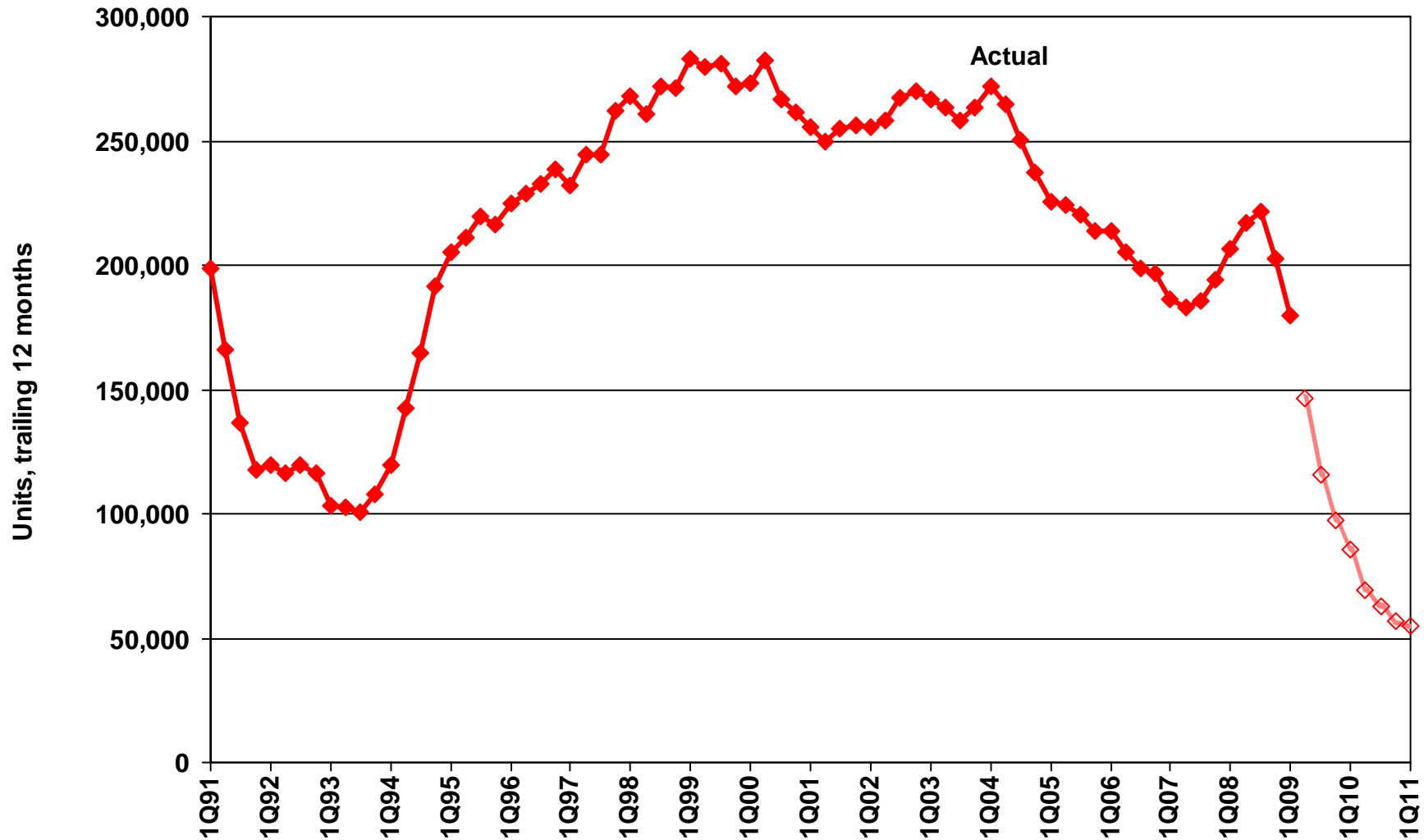
Data is Seasonally Adjusted Annual Rate



Sources: L&B Research, Moody's Economy.com and U.S. Census Bureau



MF Rental **Starts** will Set a Post-WWII Low in 2010



Source: Witten Advisors



Major Apartment Builder Development Activity

Developer	2007	2008	2009	2010
A	+10,000	+8,000	0	0
B	2,277	1,035	0	449??
C	1,136	1,251	0	0
D	1,653	0	0	0
E	-----	----	----	352/255??



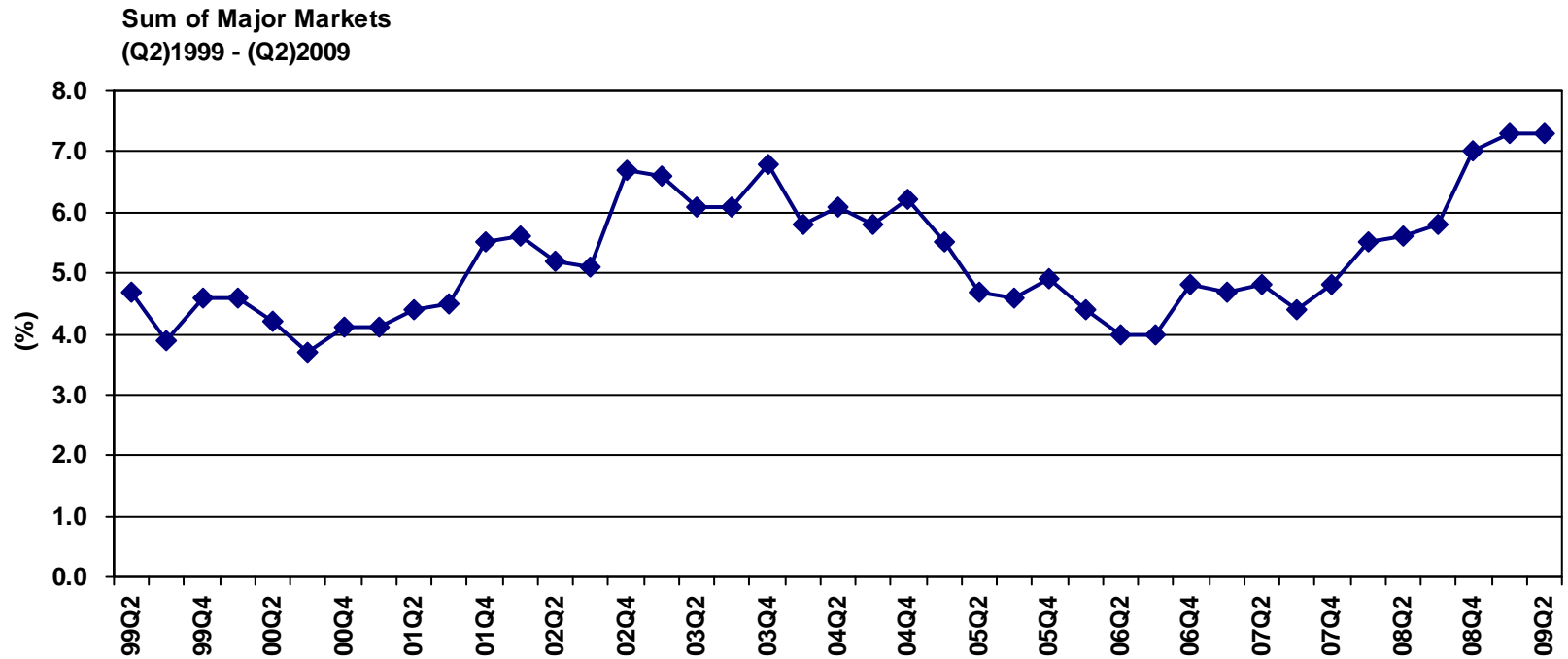
Better Fundamentals...

- Many markets are not so much overbuilt as they are **under employed** — although some markets are definitely overbuilt — and still building.



Multifamily Vacancy Rates

- Vacancy rates are now at a 22 year high of 7.3%.
 - Although showing some signs of stability, the trend is likely to rise.
 - Pushing effective rents lower (actual vacancy & concessions)



	Incep. Avg.	2Q-00	2Q-01	2Q-02	2Q-03	2Q-04	2Q-05	2Q-06	2Q-07	2Q-08	2Q-09
Vacancy Rate	5.2%	4.2%	4.4%	5.2%	6.1%	6.1%	4.7%	4.0%	4.8%	5.6%	7.3%

Data as of (2Q)09

Data Sources: TWR and L&B Research



Annual Effective Rental Rate Changes

	Annual Effective Rental Rate Changes			Vacancy Rates			Concession Impact
	2007	2008	(2Q)2009	2007	2008	(2Q)2009	(2Q)2009
US	2.2%	-0.7%	-2.5%*	6.2%	6.9%	8.0%	-7.0%
Phoenix	-2.6	-6.0	-10.5	7.6	9.4	10.8	-12.0
Los Angeles	3.0	-2.5	-8.6	4.5	5.5	6.9	-5.0
Orange County	2.6	-2.7	-7.6	4.4	5.5	7.2	-5.0
Denver	5.9	1.4	-6.4	6.0	6.2	8.0	-8.0
Metro DC	0.8	1.1	-1.9	0.2	5.2	5.4	-5.0
Orlando	-4.0	-3.5	-6.4	7.9	9.0	10.3	-10.0
Atlanta	1.6	-3.4	-9.8	7.3	8.9	10.6	-12.0
Chicago	4.4	-1.0	-5.0	5.2	6.3	7.0	-6.0
Boston	3.2	-0.6	-5.5	4.9	4.8	N/A	-3.0
Dallas	2.9	0.1	-4.4	7.2	7.1	8.4	-8.0
Houston	3.4	3.1	-2.2	7.9	8.2	8.6	-7.0
Seattle	7.3	1.0	-10.8	4.2	5.0	6.1	-5.0

*Largest quarterly decline on record.

Source: Witten Advisors



Multifamily Valuations Declining....

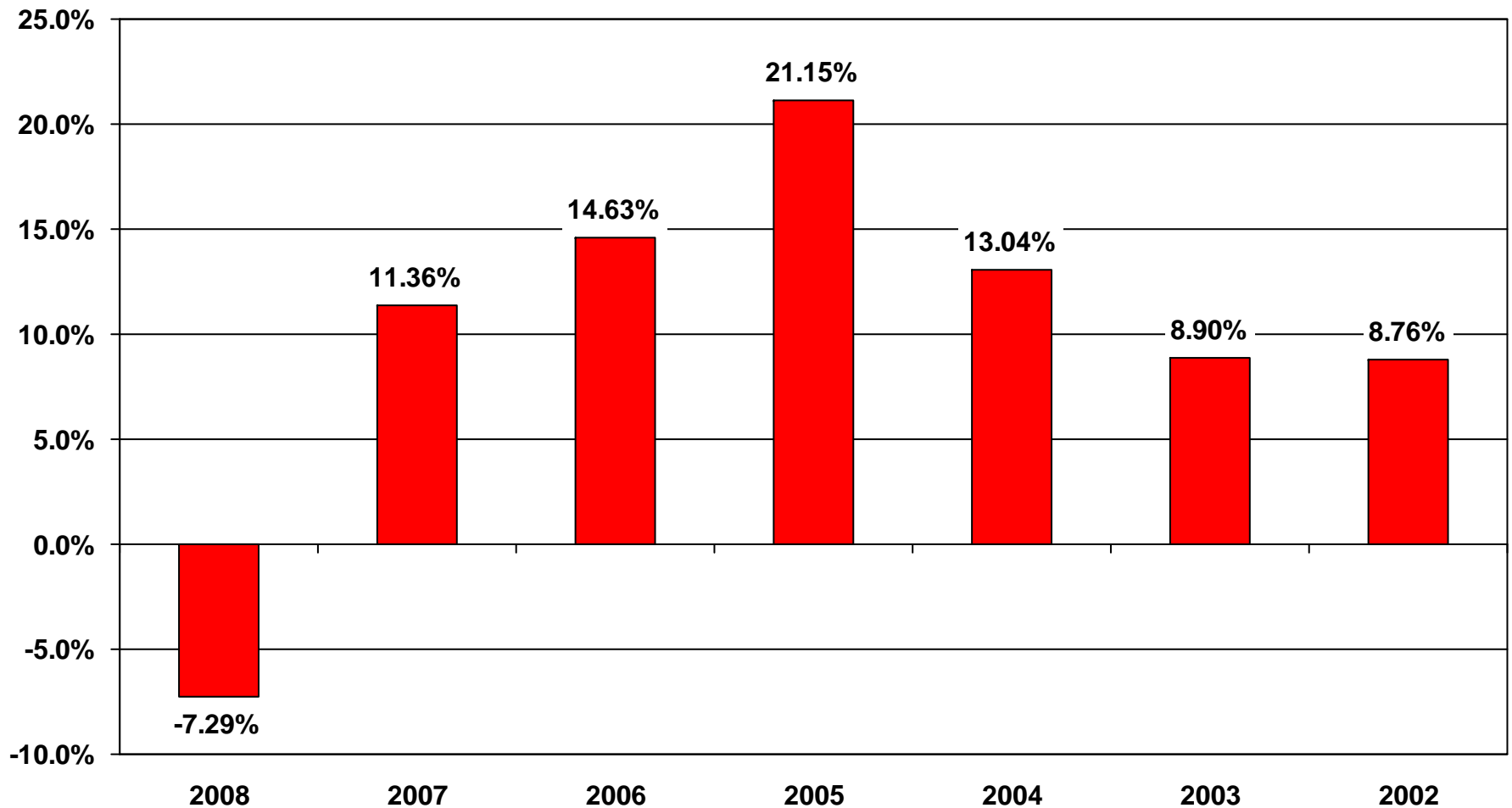
- The combination of **lower revenues** and **higher cap rates** have pushed MF values down 15 to 25% for Tier-One apartments and 20 to 35% for Tier-Two and Three properties.



NCREIF Apartment Sub-Index

Total Returns through 6/30/09

Annual Returns - Calendar Year (12/31/08)

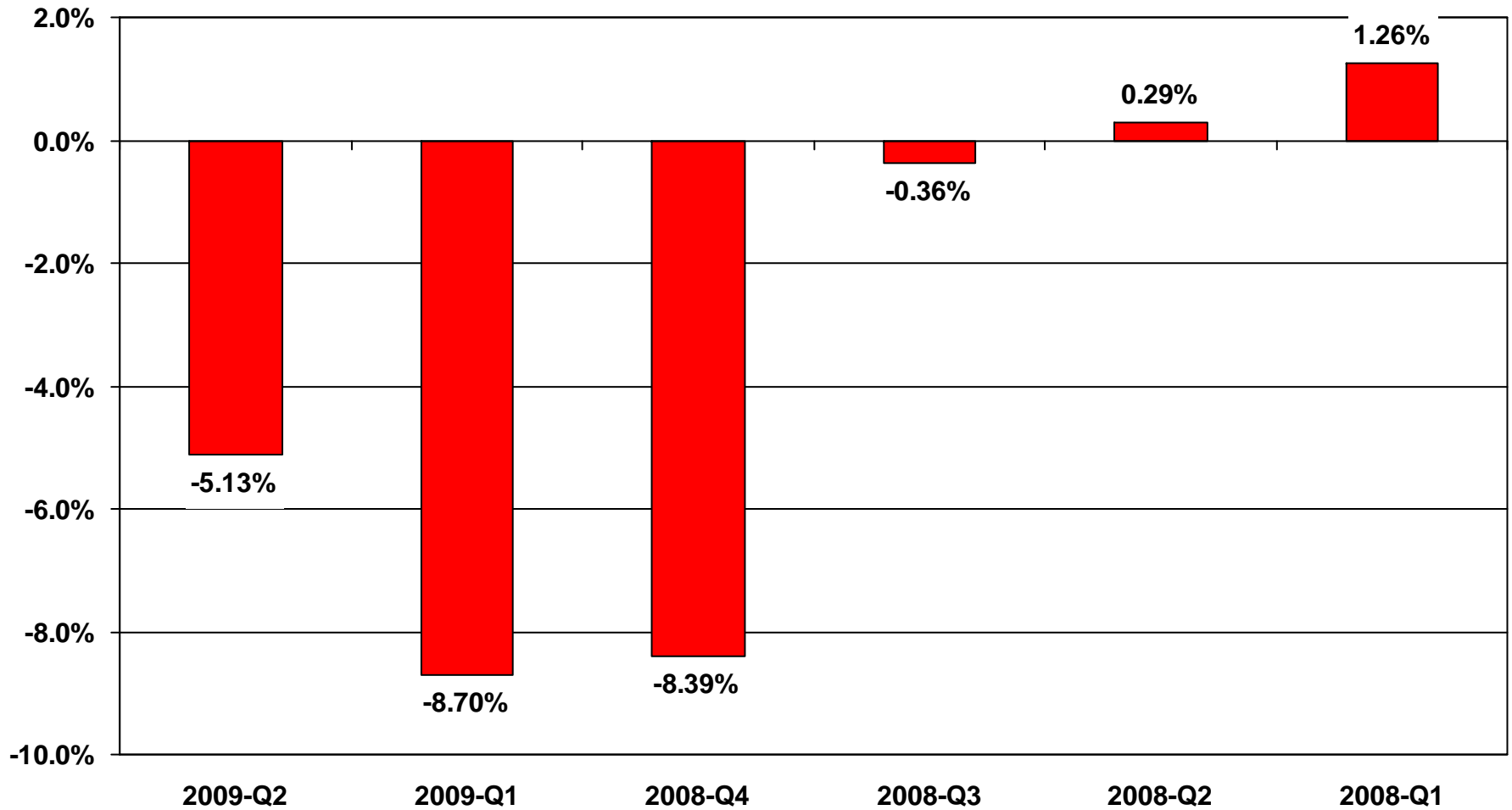


Sources: L&B Research and NCREIF



NCREIF Apartment Sub-Index

Quarterly Returns as of 6/30/09 (not annualized)

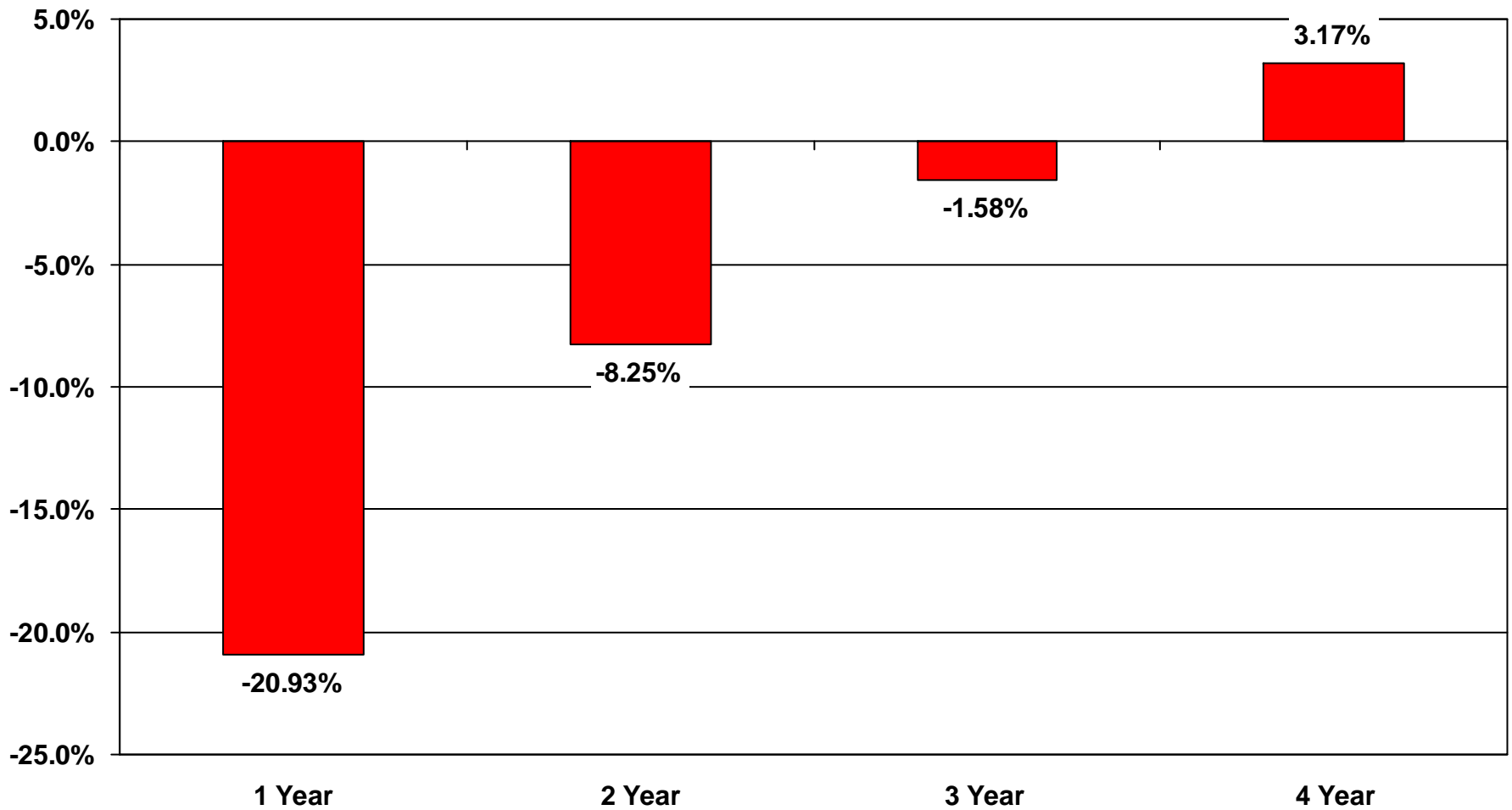


Sources: L&B Research and NCREIF



NCREIF Apartment Sub-Index

Trailing 12 months (as of 6/30/09)



Sources: L&B Research and NCREIF



Capital Call Fatigue...

- “Capital Call Fatigue” (from CALPERS/STERS down to the doctor and lawyer private investor) is causing considerable consternation in partnerships and joint ventures for projects started in the last three years.



As Construction Loans Come Due...

- LPs are reminding the **GPs** why they got a 40-50% back-end profit participation – you arrange for and deal with all aspects of the debt component – including **guarantees, extensions and refis...**



The Developer Has....

- **no back-end residual**, as equity has vaporized, yet has to deal with the guarantees—where LTVs are now out of compliance. What was a 70% **LTV is now 90-110%**.



Preservation Hall Apartments

Original Cost (budget 3/07):	\$60,122,000
Original ROC:	7.80%
Assumed Exit Cap Rate:	6.00%
Leveraged (70%) IRR (3 Yr Hold):	14.06%

Revised Cost/Budget (9/08):	\$68,925,000
Construction Loan Amount:	\$47,427,293
Equity:	\$21,497,708
Revised ROC:	6.31%
Possible Exit Cap Rate (7 Yr Hold):	7.25%
Leveraged (70%) IRR:	3.76%*

*Assumes proceeds from Permanent Debt equal Construction Debt



Preservation Hall Apartments

Loan Refinance (pay off construction and roll into permanent)

Construction Loan Balance:	\$47,427,293
Original Invested Equity:	\$21,497,708

Current Underwriting Valuation (7.5% Cap Rate):	\$59,101,899*
New Loan Allowed (65% LTV):	\$38,416,234
Less Construction Loan Balance:	<u>\$47,427,293</u>
Additional Equity Required:	\$9,011,058
Loss of Original Equity (45.7%):	<u>\$9,823,101</u>

* EXCLUDES TIF REIMBURSEMENTS



Replacement Cost Rents

Rents Required to **Generate 9.0% Return on Cost**

	Current Rents	Replacement Rents
Project Cost: \$68,925,000		
Gross Potential Rents/SF:	\$1.30	\$1.71 (+31.5%)
Concessions:	1 Month	1 Month
Vacancy Allowance:	6.0%	6.0%
Effective Rental Income (Excludes Other Income):	\$1.17	\$1.64 (+40.1%)

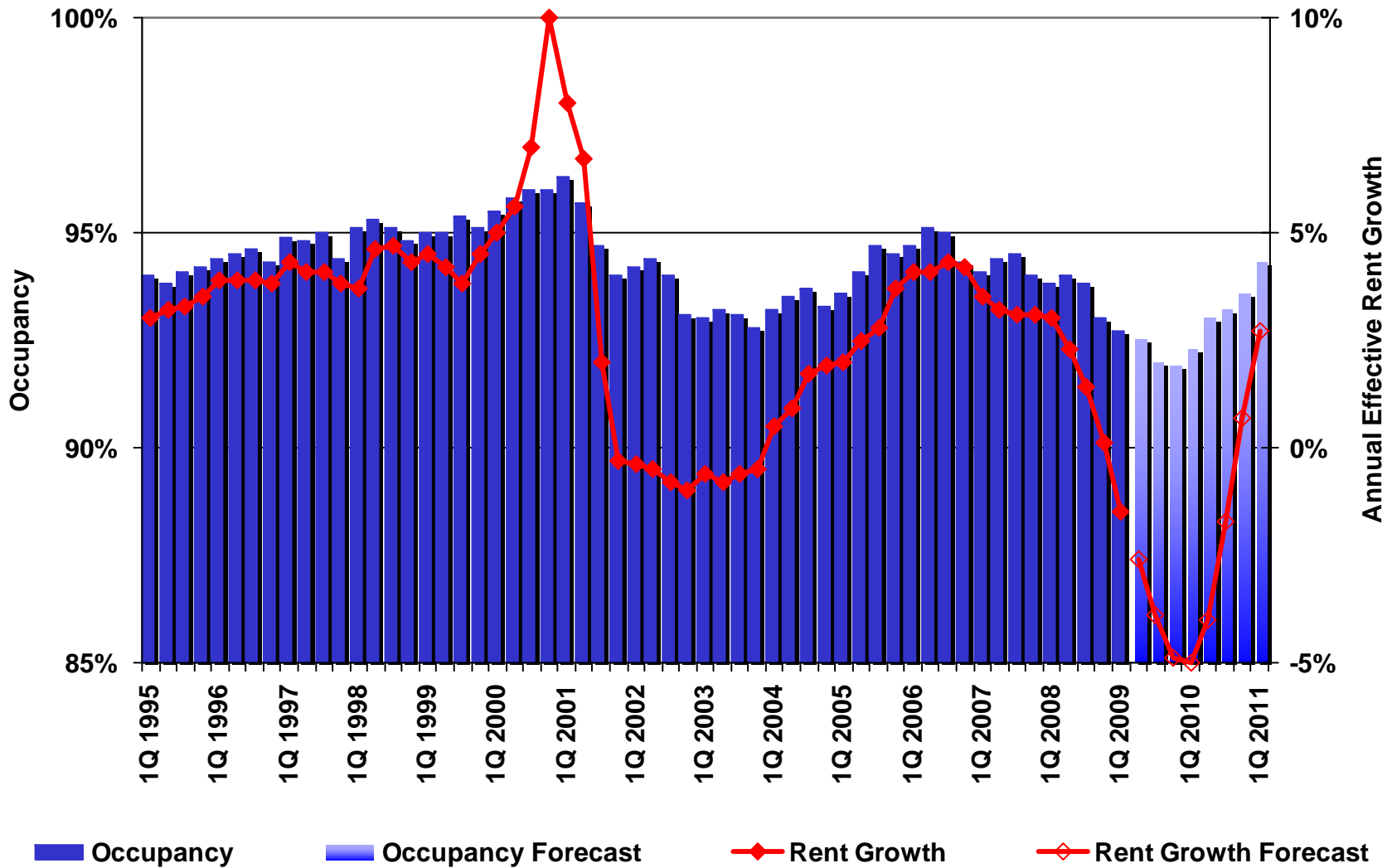


Construction Loans

- It is pretty much impossible to get a conventional apartment construction loan over \$10,000,000, even with 40-50% equity.



Markets Will Continue to be Challenged Near-Term

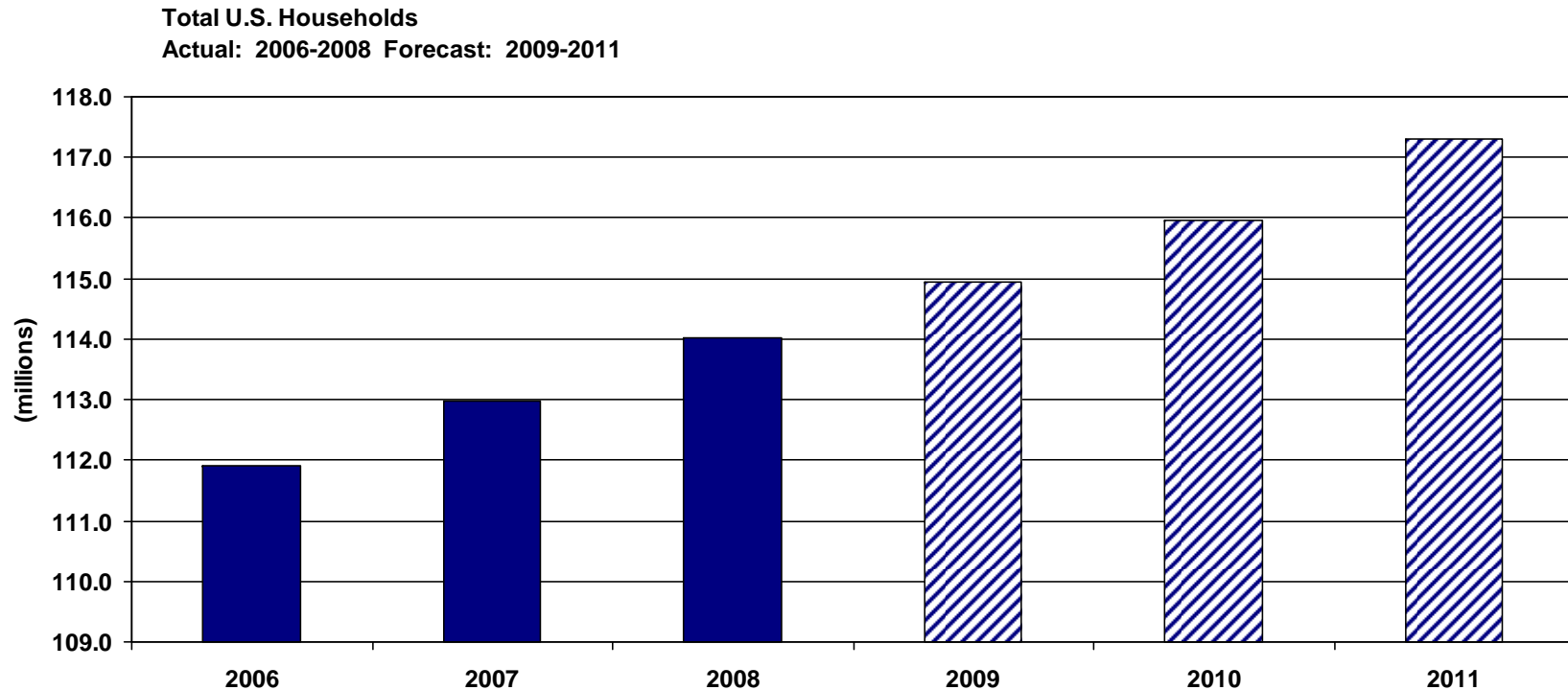


Source: Witten Advisors



U.S. Household Formations

Data in millions	2006	2007	2008	2009	2010	2011
Total U.S. Households	111.91	112.99	114.01	114.95	115.97	117.31
YoY % Growth	0.95%	0.92%	0.90%	0.82%	0.89%	1.15%



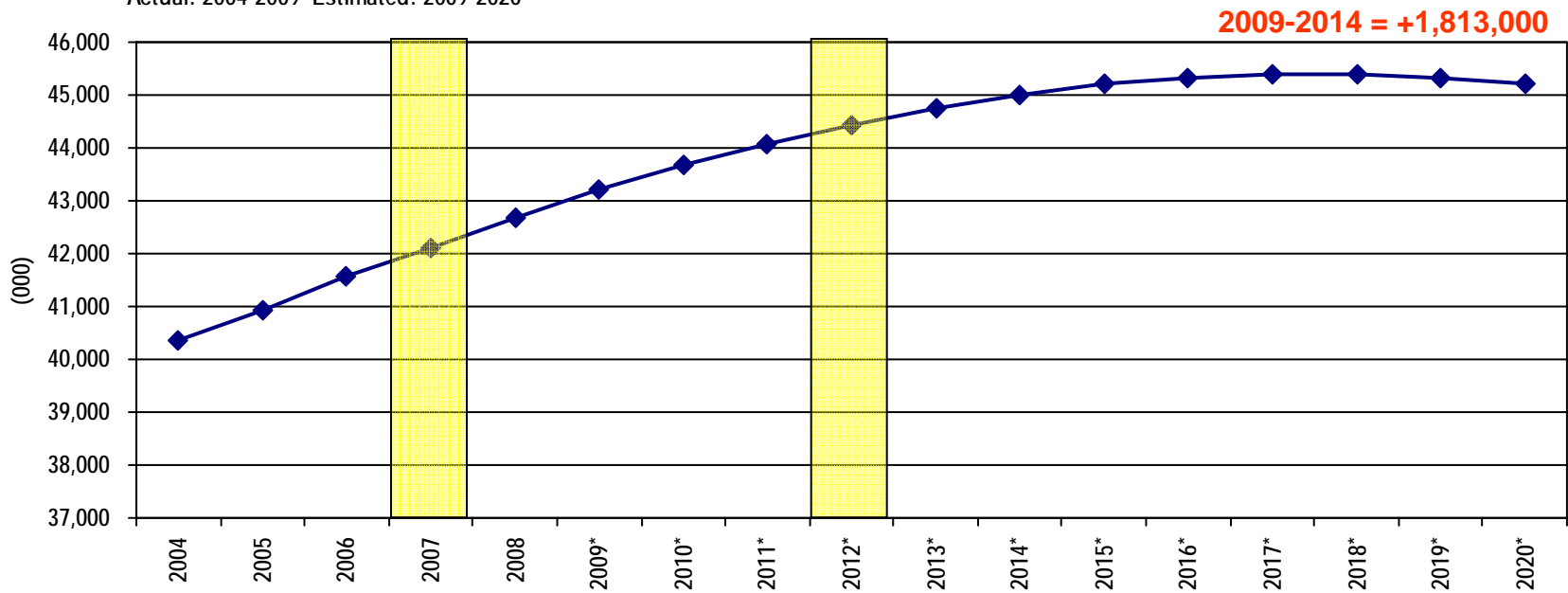
Source: L&B Research, Moody's Economy.com and Bureau of Census



Demographics: Population 20-29 Age Cohort

- Demographics: Population 20-29 years of age – a solid foundation and positive through 2017.
- Other factors favorably affecting multifamily demand:
 - Delayed marriages
 - Fewer marriages
 - Divorce rates
 - Delayed homeownership (credit conditions) – Renters “by necessity”
 - Rural to urban shifts

20-29 Population Age Cohort
Actual: 2004-2009 Estimated: 2009-2020



(000)	2009*	2010*	2011*	2012*	2013*	2014*	2015*	2016*	2017*	2018*	2019*	2020*
20-29 Population	43,201.8	43,669.2	44,053.9	44,418.5	44,741.6	45,014.7	45,205.0	45,335.7	45,401.4	45,398.1	45,333.6	45,217.9

*forecast

Data Sources: Moody's Economy.com and L&B Research



Capital Markets

Total Commercial and Multifamily Loans Outstanding **\$3.5 trn**

Commercial Loans **\$2.6 trn**

- Banks (52%) \$1.35 trn

- CMBS (24%) \$624 bil

Multifamily

- GSEs (38%) \$345 bil

- CMBS (12%) \$109 bil

Multifamily CMBS Originations

2006 \$25.54 bil

2009 000

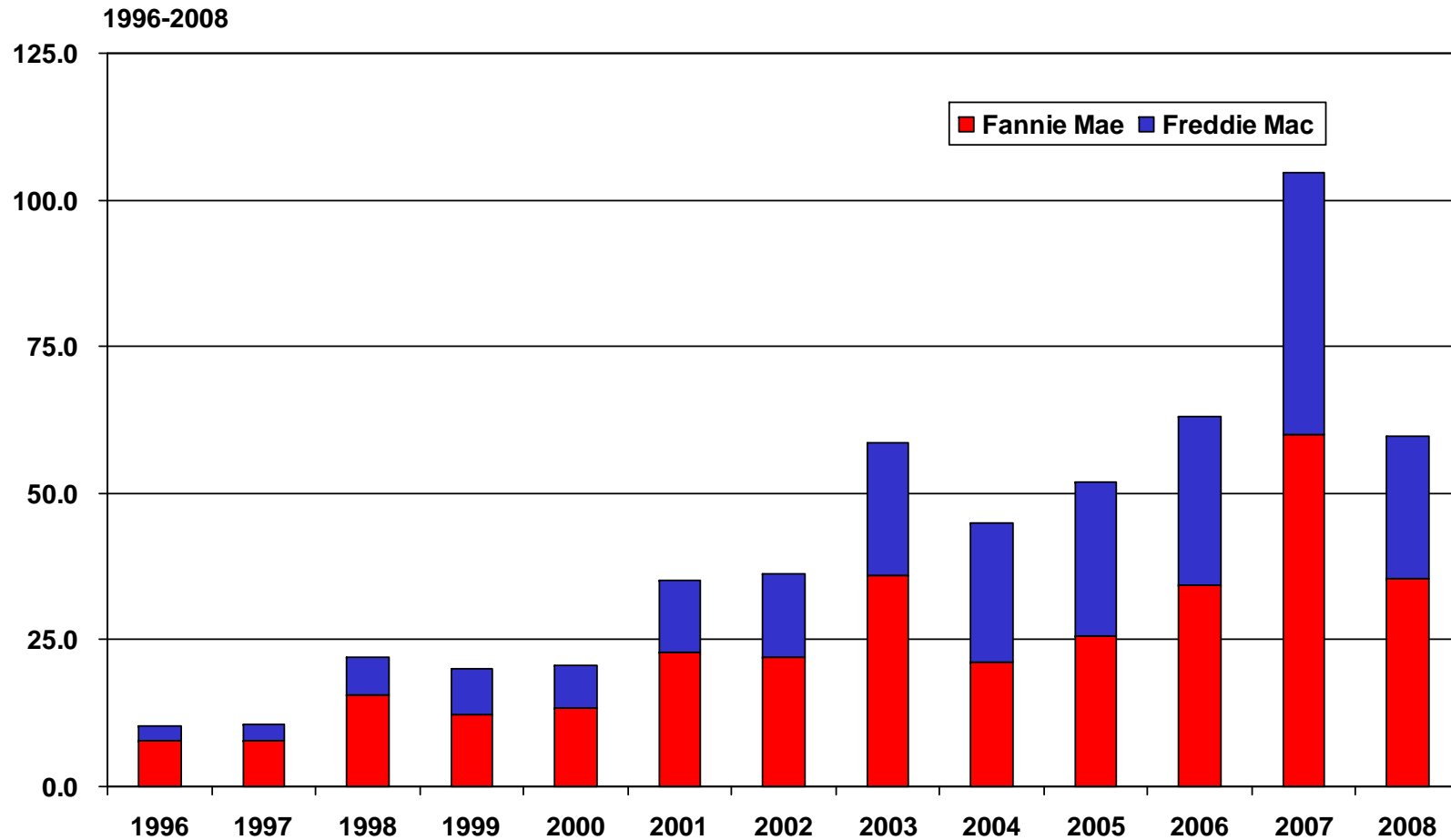


Ok, Thank Heaven!!!!





Fannie Mae & Freddie Mac Originations



Sources: Fannie Mae and Freddie Mac