



Recession Deepens; Broad-Based Economic Stimulus to Support Stabilization by Late 2009

The U.S. economy remained relatively resilient through the first part of 2008, posting moderate growth, below-trend job losses and a rise in consumer spending, due in part to a temporary boost from economic stimulus checks. A crisis of confidence, however, spurred by record financial sector losses, corporate bankruptcies and government takeovers, led to an interbank lending freeze and near-standstill in the commercial paper market. The escalation of the credit crunch to a full-blown crisis has contributed to the broadening of the recession.

Governments around the world have joined forces, injecting an unprecedented amount of liquidity into the global economy in attempts to prop up confidence and limit the depth of the downturn.

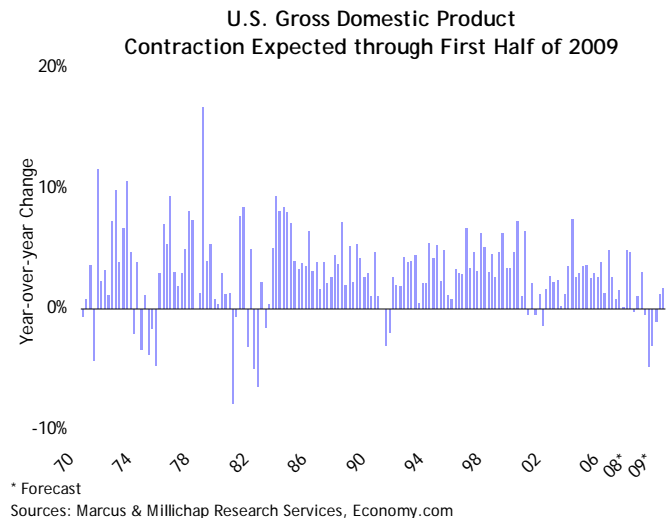
Overall, the effects of most U.S. government measures have yet to take hold. As banks begin lending again and additional initiatives are implemented, they will ultimately work their way through the economy. The process, however, will take time. Also, the new administration is planning a large-scale stimulus package intended to create millions of jobs over the next few years. Discussions have centered on tax cuts for U.S. households, tax incentives for businesses, and major infrastructure improvements to the nation's aging roads and bridges, as well as high-tech communications networks.

The economic downturn has led to a dramatic reduction in oil prices. Lower energy costs have taken some pressure off of household budgets and diminished inflationary concerns, providing the Fed with greater flexibility to cut rates. At its last meeting, the Federal Open Markets Committee cut the Fed funds rate by 75 basis points to 0.25 percent, the lowest rate on record. It must be noted, however, that the potential for deflation is present and poses a new set of risks. During October and November, the headline rates of inflation declined by 1.0 percent and 1.8 percent, respectively.

Forecast:

Job losses are forecast to continue at an accelerated pace in the near term. Employment has declined since January 2008, with a total of 2.6 million jobs cut through December. From peak to trough, we expect losses to surpass 4 million – the most significant decline in more than two decades. One considerable downside risks to the employment outlook is the potential failure of one or more U.S. automakers.

The economic situation is likely to worsen before showing signs of stabilization in late 2009. U.S. GDP figures for the fourth quarter of 2008 are projected to reflect the greatest contraction since the early 1980s, following a decrease of 0.5 percent in the third quarter. The current downturn is expected to be similar in magnitude to the 1974/75 recession, which was also global in nature and among the worst since World War II. GDP contraction is forecast to reach 2.5 percent to 3.0 percent from peak to trough.

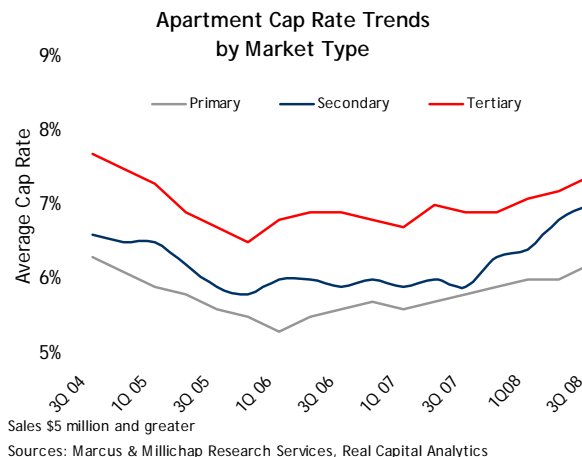




Apartment Performance Tops All Commercial Sectors in 2008, but Job Losses Dim 2009 Prospects; Declining Construction a Positive

Apartments weathered the increase in competition from for-rent houses and condos relatively well through most of 2008; however, rising jobs losses will push vacancy up dramatically in 2009. During the fourth quarter, apartment vacancy rose 40 basis points to 6.6 percent, bringing the year-over-year increase to 90 basis points.

Markets hit hardest by housing, including Phoenix, Tucson, Las Vegas and most Florida markets, have registered the most considerable increases in vacancy over the past year. Markets that held up best were those where construction was minimal due to land constraints or generally weaker economic conditions. San Francisco and New York fall into the former category, while those in the latter are generally in the Midwest, such as Detroit, Indianapolis, Cleveland and Cincinnati. As 2008 came to a close, however, even the more stable apartment markets were softening, a trend that will continue as job cuts reduce demand nationwide.



To clear the market, sellers need to adjust price expectations. During the past 12 months, Class A assets in primary markets have traded with average cap rate increases of 25 basis points to 50 basis points and 75 basis points in secondary markets. Class B/C assets have sold with average cap rate increases of 100 to 150 basis points. Most distress sales have been limited to failed conversions, highly leveraged new developments and acquisitions made at the height of the market. Additional distress will emerge, particularly among high-leverage deals, properties recording operational challenges and those with maturing debt that may be difficult to refinance due to the constrained capital environment. While Fannie Mae and Freddie Mac remain active in the apartment lending arena, softer fundamentals will make it difficult for many owners to meet underwriting and LTV requirements established by the GSEs.

Forecast:

Approximately 80,000 apartments are slated for completion in 2009, down from 93,000 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. Some projects that were originally planned as condos, however, will come online as apartments due to still-soft for-sale housing market conditions. Construction starts are declining 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.

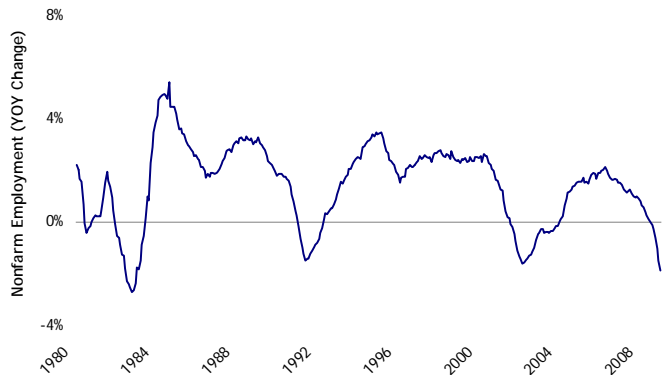
The national apartment vacancy rate is expected to rise 110 basis points in 2009 to 7.7 percent as job losses hamper new household formation and lead more renters to double up. In most metro areas, Class B/C properties will be the least affected by the economic downturn, as many households will continue to be forced to seek more affordable housing options. Fundamentals in the 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.

On a national basis, effective rents will be flat in 2009, while asking rents are forecast to rise 1.7 percent. Rent trends will vary greatly at the metro level, however, with owners in the hardest-hit housing markets using significant concessions and cutting rents to attract and retain renters.



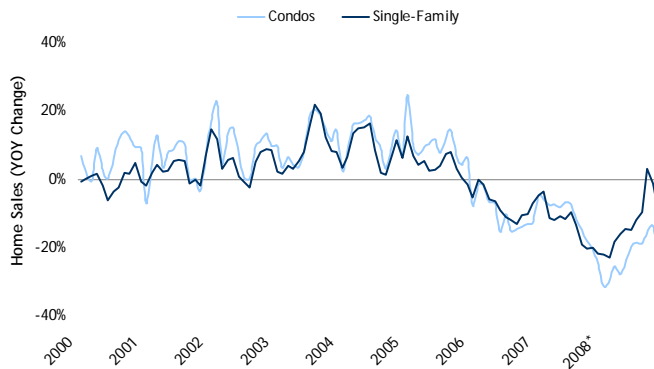
Apartment Market Vital Signs

Non-Farm Employment Growth



Sources: Marcus & Millichap Research Services, Economy.com

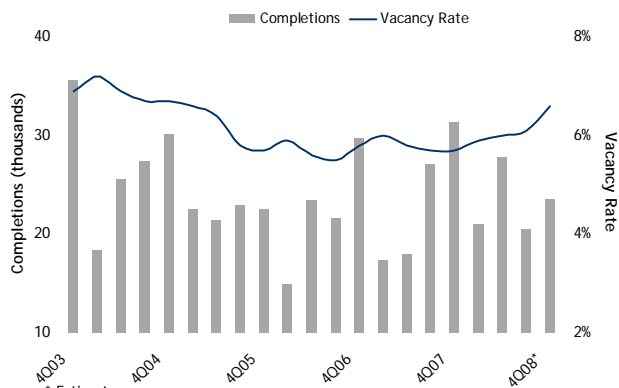
Single-Family and Condo Sales



*Through November

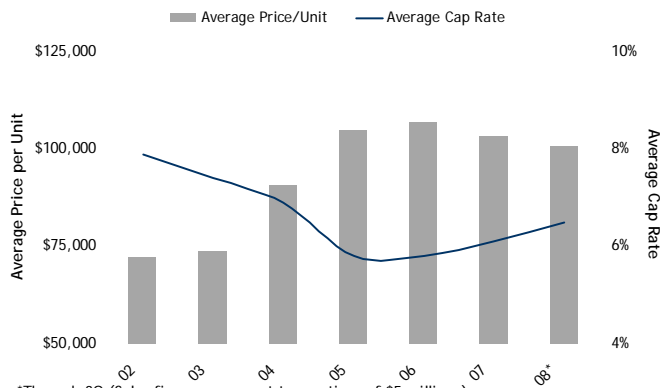
Sources: Marcus & Millichap Research Services, Economy.com

Apartment Supply and Demand Trends



* Estimate
Sources: Marcus & Millichap Research Services, Reis

Apartment Price and Cap Rate Trends



*Through 3Q (Sales figures represent transactions of \$5 million+)

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

3Q 2007 to 3Q 2008 Change in Apartment Vacancy

Top 10 Decrease in Vacancy

Metro	3Q 2008	YOY Chg (bps)
Indianapolis	7.4%	-130
Cincinnati	6.4%	-110
Denver	6.1%	-100
San Diego	3.5%	-50
San Francisco	3.7%	-40
Cleveland	5.2%	-30
Detroit	6.3%	-30
Milwaukee	3.7%	-30
Minneapolis	3.9%	-30
New York	2.1%	-10
US Metro Average	6.1%	40

Top 10 Increase in Vacancy

Metro	3Q 2008	YOY Chg (bps)
Tampa	7.6%	110
Houston	9.5%	120
Miami	4.9%	120
San Antonio	7.7%	120
Orange County	4.6%	140
Orlando	8.4%	160
Phoenix	9.8%	200
Las Vegas	7.5%	220
Jacksonville	11.0%	240
Tucson	10.1%	250
US Metro Average	6.1%	40

Sources: Marcus & Millichap Research Services, Reis

The information in this report is deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, expressed or implied, may be made as to the accuracy or reliability of the information contained herein. Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Economy.com, MBAA, NAR, RCA, Reis, Standard & Poor's.

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