

AUSTIN CLASS B ASSETS ATTRACTING RENTERS, BUYERS

The addition of new supply will weigh on apartment fundamentals in Austin through the remainder of 2009, despite a modest increase in demand. As developers expand metrowide inventory by nearly 7 percent this year, owners are expected to significantly widen concessions to fill new projects. This trend will be most prevalent in the Class A segment, where new complexes will drive a 13 percent increase to stock and competition from alternative housing options is elevated. In the suburbs, relatively affordable homes and government incentives will likely lure some top-tier renters into ownership. The city's core, meanwhile, has received thousands of new condos in the past two years, some of which are being employed as rentals. Elsewhere, the effects of the economic downturn are beginning to materialize in the Class C sector, where some residents are consolidating households, putting pressure on overall occupancy. Nonetheless, the metro remains one of the fastest growing in the nation, and an abbreviated downturn should give way to healthy absorption in 2010.

Investor interest in Austin is anticipated to follow tenant demand in the coming months. In the Class A segment, sellers have been reluctant to list properties below construction costs, while potential buyers are wary about short-term returns. Activity in the sector should return when lease-up of new complexes nears completion, which is projected to occur during the first half of 2010. With deal flow in the lowest tier also stalled, investors are gravitating toward the metro's Class B listings, especially in close-in submarkets. Renter demand for affordable units has been healthy, driven by cost-conscious residents and college students who have been forced out of the Central submarket due to high rents. With the buyer pool limited, however, average cap rates continue to climb and could breach 8 percent for most deals by year end.

2009 ANNUAL APARTMENT FORECAST



Employment: During 2009, employers are projected to cut payrolls by 0.6 percent, or 5,000 positions. Job growth is anticipated to resume in 2010 as the local economy gains traction.



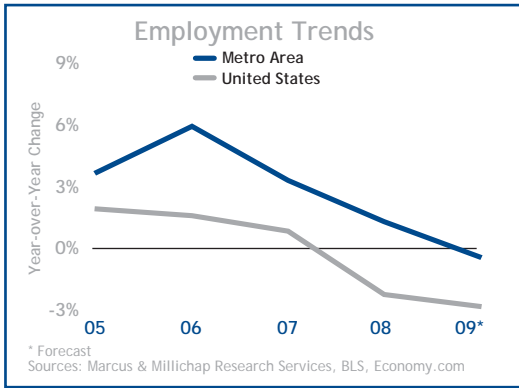
Construction: Builders are on pace to deliver 10,200 units in Austin this year, expanding stock by 6.9 percent.



Vacancy: New construction will continue to put significant pressure on occupancy levels in 2009. By year end, vacancy is forecast to settle at 11.3 percent, a 380 basis point climb from 2008.

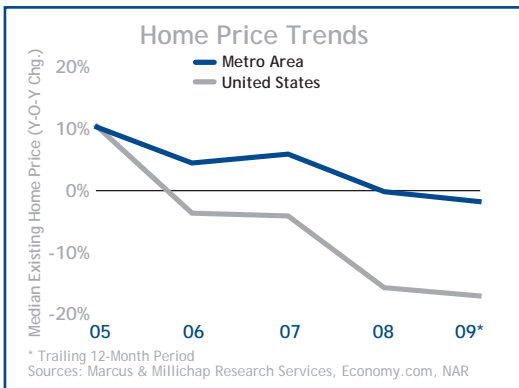


Rents: Asking rents are projected to finish 2009 at \$854 per month while effective rents slip to \$747 per month, losses of 2.1 percent and 4.1 percent, respectively. Concessions are expected to surpass 45 days of free rent, higher than during the tech recession earlier in this decade.



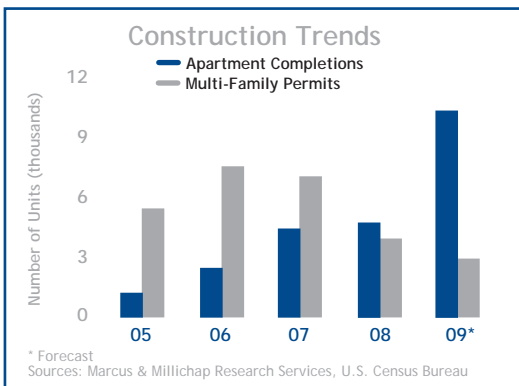
ECONOMY

- ◆ Austin boasts the nation's strongest job market among major metropolitan areas. During the first half of 2009, employers expanded payrolls by 500 positions, a 0.3 percent gain. Year over year, 5,900 jobs have been created in the market.
- ◆ The government sector has buoyed overall employment over the last 12 months, adding 3,000 positions, or gaining 2.7 percent. The education and health services segment has expanded by 3.6 percent since the second quarter of 2008.
- ◆ In April, sales tax revenue, an indicator of local economic strength, was higher than one year earlier in nine of the 11 central Texas communities; however, the region's two largest cities, Austin and Round Rock, recorded declines of 8.4 percent and 13.2 percent, respectively.
- ◆ **Outlook:** During 2009, employers are projected to cut payrolls by 0.6 percent, or 5,000 positions. Job growth is anticipated to resume in 2010 as the local economy gains traction.



HOUSING AND DEMOGRAPHICS

- ◆ Builders have pulled 6,100 single-family permits in the past 12 months, approximately 40 percent lower than in the previous period. In the multi-family sector, permitting activity has dropped 62 percent in the last year to 2,800 units, as oversupply concerns have surfaced.
- ◆ The median price for a single-family home in Austin was \$186,200 in the second quarter, down just 1.8 percent from the same period in 2008. Despite declining 1.7 percent over the last 12 months, the median household income is 12 percent higher than the minimum amount needed to qualify for a median-priced home in the metro.
- ◆ Class A asking rents are \$127 per month lower than the typical mortgage payment for a median-priced home, using traditional financing.
- ◆ **Outlook:** Homeownership will remain out of reach for many residents in the city's core due to higher prices. Suburban apartment properties, meanwhile, will face aggressive competition from the single-family housing market in the coming months as home prices retreat from peak levels.

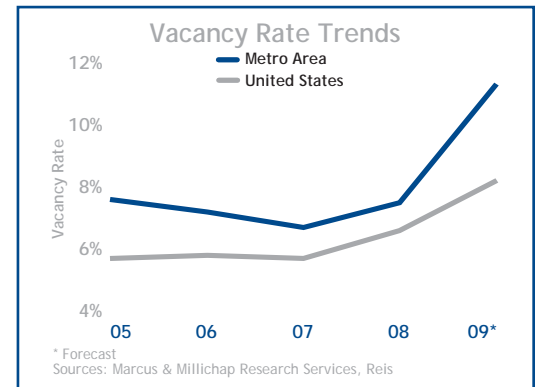


CONSTRUCTION

- ◆ Development activity continued at a vigorous pace in the first half of the year, as 5,300 units came online, a 3.6 percent expansion of stock.
- ◆ The building boom will persist into 2010, with 6,900 units currently under construction in the metro. Supply-side pressure may abate during the second half of next year, as the planning pipeline has decreased to 7,000 units. An additional 5,600 units are planned in areas adjacent to the metro boundaries, including Hutto and Leander.
- ◆ The largest project completed in 2009 was the 426-unit Estates at Southpark Meadows in the Far South submarket. By year end, inventory in the area is projected to expand 9 percent.
- ◆ **Outlook:** Builders are on pace to deliver 10,200 units in Austin this year, adding 6.9 percent to stock.

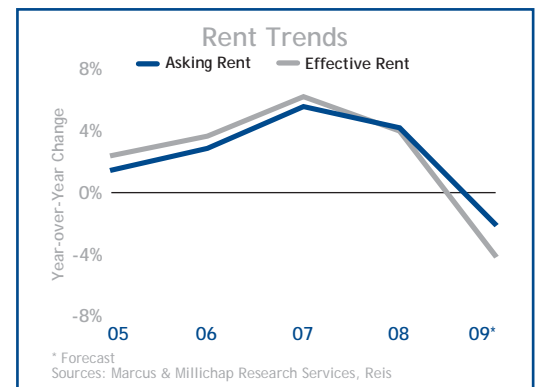
VACANCY

- ◆ Vacancy has jumped 300 basis points over the past 12 months to 10.1 percent due to an influx in new supply. Despite a 260 basis point rise in the first half of the year, apartment demand has ticked up 0.6 percent.
- ◆ In the metro's Class A units, vacancy was 11.9 percent in the second quarter, 350 basis points higher than at the end of 2008. Class B/C vacancy is up a more modest 120 basis points year to date at 8.1 percent, buoyed by the large student population at the University of Texas.
- ◆ In San Marcos, student-driven demand at Texas State University and limited construction have contributed to a relatively steady vacancy rate. Year over year, vacancy has ticked up 10 basis points to 5.6 percent.
- ◆ **Outlook:** By year end, vacancy is forecast to settle at 11.3 percent, a 380 basis point climb from 2008.



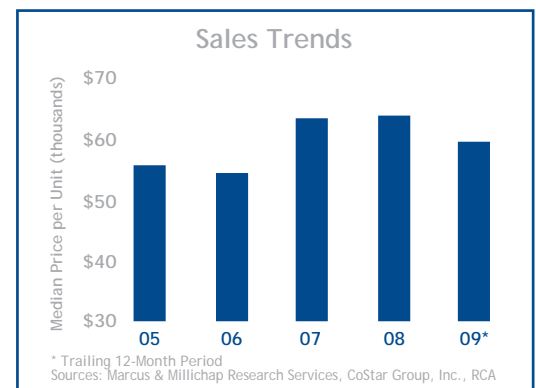
RENTS

- ◆ Asking rents were \$870 per month in the second quarter, unchanged over the past six months. Owners have been more aggressive with concessions in the wake of rising vacancy, trimming effective rents by 1 percent in the first half of the year to \$776 per month.
- ◆ Class A asking rents are down 0.6 percent year to date at \$1,012 per month. In the Class B/C segment, asking rents have retreated 0.3 percent thus far in 2009 to \$712 per month.
- ◆ The effects of the recession have residents searching for low-cost housing options. Over the past year, submarkets with effective rents above the metro average have recorded a 410 basis point climb in vacancy, while vacancy in areas where rents are below-average has risen just 140 basis points.
- ◆ **Outlook:** Asking rents are projected to finish 2009 at \$854 per month while effective rents slip to \$747 per month, losses of 2.1 percent and 4.1 percent, respectively. Concessions are expected to surpass 45 days of free rent, higher than during the tech recession earlier in this decade.



SALES TRENDS**

- ◆ During the most recent 12-month period, sales velocity dropped 50 percent, as buyer caution emerged in the market. Only 20 percent of the assets that changed hands have closed during the last six months, though deal flow is unlikely to retreat further.
- ◆ The median price in deals that occurred in the last year was \$60,000 per unit, a 14 percent decrease from the previous 12-month period. Buyers have shied away from new construction recently in an effort to avoid the extremely competitive Class A market.
- ◆ Average cap rates have climbed 100 basis points year over year to the low-7 percent range. Few deals have traded thus far in 2009, however, keeping price discovery and first-year yields ambiguous.
- ◆ **Outlook:** Investors will target middle-of-the-road assets in the coming months to implement long-term hold strategies while avoiding the oversupply of top-tier units. Assets built between 1970 and 1990, which are trading at cap rates 100 basis points above the metro average, will garner the most interest from potential buyers.



** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

Visit www.NationalMultiHousingGroup.com or call:

Linwood C. Thompson

Senior Vice President, Managing Director

National Multi Housing Group

Tel: (678) 808-2700

lthompson@marcusmillichap.com

Marcus & Millichap

Real Estate Investment Services

Prepared and edited by

Stephen Hovland

Market Analyst

Research Services

For information on national
apartment trends, contact

John Chang

National Research Manager

Tel: (602) 687-6700 ext. 6803

john.chang@marcusmillichap.com

Austin Office:

J. Michael Watson

Regional Manager

michael.watson@marcusmillichap.com

8310 N. Capital of Texas Highway

Suite 150

Austin, Texas 78731

Tel: (512) 338-7800

Fax: (512) 338-7810

Price: \$150

© Marcus & Millichap 2009

www.MarcusMillichap.com

CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ During the first quarter, multi-family mortgage originations were 61 percent below year-earlier levels and 79 percent lower than the late-2006 peak. Though considerable, the reduction in apartment originations remains less significant than declines among other core commercial property types, due largely to the availability of financing through Fannie Mae and Freddie Mac.
- ◆ Portfolio lenders are issuing apartment financing at all-in rates of 6.0 percent to 6.3 percent for three-year loans and up to 6.8 percent to 7.5 percent for a 10-year term. Loan-to-value requirements range from 55 percent to 75 percent.
- ◆ Agency lenders are offering five-year loans at all-in rates of 4.8 percent to 5.0 percent with 10-year mortgages available at rates averaging 5.35 percent and 5.7 percent, respectively. Maximum leverage among agency lenders ranges from 55 percent to 75 percent.
- ◆ Freddie Mac recently completed a \$1 billion securitization of multi-family debt, the first issuance to hit the market since last June. The securities, dubbed "K Certificates," vary from traditional CMBS in that buyers are provided a guarantee by Freddie Mac. In addition to the potential for another similar offering, government programs designed to increase credit flows into commercial real estate could be operational by late summer/early fall.

SUBMARKET OVERVIEW

- ◆ Owners in the Central submarket have realized an 9.8 percent increase in the average asking rent over the last 12 months, the largest gain in the metro. Much of the improvement is from the addition of new, expensive units to local inventory, however, which expanded 13 percent in that time.
- ◆ In the Highway 183/Cedar Park/Leander submarket, owners have added nearly than one week of free rent to concessions in the past year, helping to stabilize occupancy rates. During the second quarter, average concessions in the area approached 50 days.
- ◆ The Near North Central submarket boasts the tightest conditions in the metro, with a 5.8 percent vacancy rate. Conditions in the area have been boosted by cost-conscious renters who have been priced out of the adjacent Central submarket.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Near North Central	5.8%	70	\$666	-0.7%
2	Far Northwest	6.2%	10	\$855	0.4%
3	Near Northwest	7.5%	110	\$758	-6.3%
4	Far North Central	8.4%	60	\$567	-0.9%
5	Highway 183/Cedar Park/Leander	9.7%	-50	\$722	-1.5%
6	Near South Central	10.4%	250	\$946	2.2%
7	North Travis	11.6%	400	\$725	-1.9%
8	Far South	11.7%	590	\$838	0.0%
9	Central	12.0%	500	\$987	8.6%
10	Round Rock/Georgetown	16.5%	800	\$780	0.9%