

DESPITE CURRENT WEAKNESS, POSITIVE TRENDS EMERGING

Atlanta apartment operations are expected to soften further through year end as a result of weaker employment-generated demand. Approximately 55,400 positions have been trimmed from local payrolls year to date, driving up the unemployment rate almost 250 basis points to 10.3 percent. While job losses are contributing to softer renter demand throughout the metro, the pace of reductions is slowing, as just 5,100 positions were eliminated in June, significantly less than the 21,000 positions cut in December. Another emerging trend that should support long-term tenant demand is an increase in company expansion and relocation announcements. Ohio-based ATM manufacturer NCR, for instance, plans to relocate about 1,200 jobs to Duluth by year end, and General Mills will construct a new distribution center in Walton County, adding 110 positions over the next few years. On the supply side, completions in 2009 will drop to the lowest level since 2004, and the construction pipeline is expected to thin by mid-summer 2010. As a result, vacancy will likely stabilize toward year-end 2010, with effective rents potentially increasing by 2011.

In the investment market, transaction velocity is expected to remain constrained through the remainder of the year, given investors' caution over the short-term direction of the market. Deal flow has declined by more than 60 percent over the past two quarters, and prices will likely moderate further into 2010 due to waning demand. Cap rates are currently averaging in the mid-7 percent to low-8 percent range for Class A properties, and Class B/C assets are trading at initial yields about 100 basis points higher. Tepid investor demand and more conservative financing expectations are projected to drive cap rates higher through year end. Investors will continue to focus on more stable, affluent residential pockets in the northern portion of the metro, such as North Atlanta, Sandy Springs, Roswell and Alpharetta.

2009 ANNUAL APARTMENT FORECAST



Employment: Total employment in the metro area will contract by 2.9 percent, or 71,000 workers, this year. In 2008, employers cut 92,500 positions from local payrolls. The slow rate of job recovery will decelerate household formation into 2010, moderating renter demand.



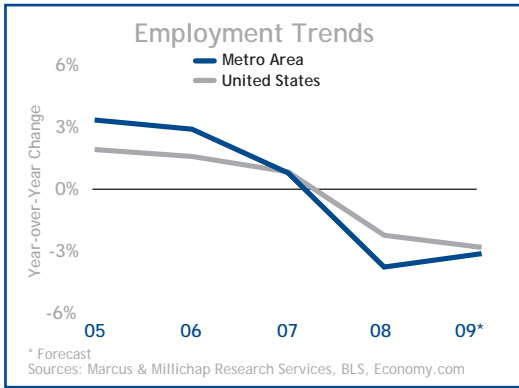
Construction: Roughly 5,000 units are scheduled to come online in 2009, expanding rental stock by 1.2 percent. Last year, 5,100 units were delivered. Over the past five years, completions have averaged 4,500 units annually.



Vacancy: A weak job market will limit housing demand, while rental stock will continue to expand. As a result, vacancy is forecast to rise 200 basis points this year to 12.3 percent, following a 210 basis point increase in 2008.

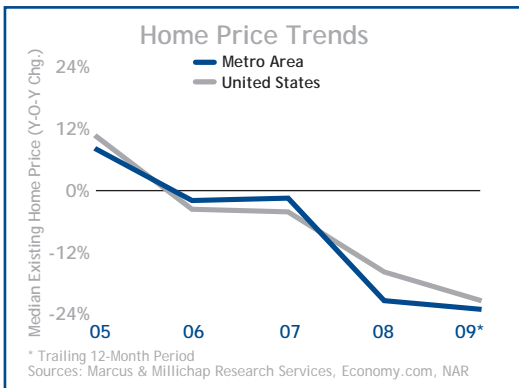


Rents: In 2009, asking rents are expected to drop 2.3 percent to \$842 per month, while effective rents will decline 4.3 percent to \$735 per month, pushing up concessions. Asking rents rose 2.1 percent last year, and effective rents gained 1.3 percent.



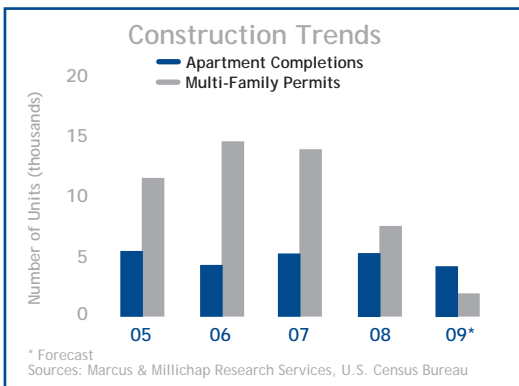
ECONOMY

- ◆ The pace of job cuts in the Atlanta metro is slowing. In the second quarter, approximately 26,000 jobs were lost, compared with 34,000 positions eliminated in the first quarter. Approximately 10,000 workers were projected to be let go during the third quarter. Year over year, about 113,000 employees have been laid off, a 3.8 percent contraction.
- ◆ The professional and business services sector accounts for most of the job losses recorded in the metro area so far this year. Approximately 20,100 positions were removed in the segment during the first three months of 2009, as businesses have trimmed staffing levels due to recessionary pressures.
- ◆ Employment in the education and health services sector increased by 5,300 workers in the first nine months of this year, making this the only employment segment in the metro to post gains during that time.
- ◆ **Outlook:** Total employment will contract by 2.9 percent, or 71,000 workers, this year. In 2008, employers cut 92,500 positions from local payrolls. The slow rate of job recovery will decelerate household formation into 2010, moderating renter demand.



HOUSING AND DEMOGRAPHICS

- ◆ In the 12 months ending in the third quarter, permits for 10,800 single-family units were issued, down 6.2 percent from the preceding year. Multi-family permit issuance totaled about 2,300 units annually, a drop of 77 percent from the previous 12-month period.
- ◆ The median price of an existing single-family residence in the metro area was estimated at \$110,000 in the third quarter, 23 percent less than one year earlier. Transaction velocity ticked up slightly in the quarter, as buyers have re-entered the market to purchase distressed properties, helping to lower the median price.
- ◆ The qualifying income for a median-priced residence in Atlanta is approximately \$29,100 per year, well below the median household income of \$57,200 annually.
- ◆ **Outlook:** Ongoing reductions in permit issuance will help to realign supply and demand fundamentals in the metro. Despite the decrease in the median home price, job market instability will keep more people in the renter pool.

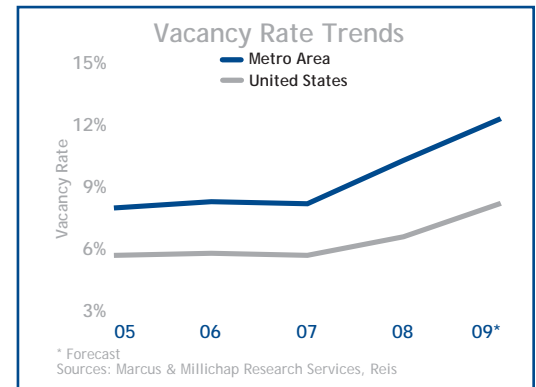


CONSTRUCTION

- ◆ Construction activity has remained somewhat steady as builders completed 5,000 rental units during the 12-month period ending in the third quarter, representing a 1.5 percent increase in stock. In the preceding year, rental inventory expanded by 4,500 units.
- ◆ More than 3,400 units were delivered in the first three quarters of this year. In addition, approximately 3,600 units are under construction in the market, with over 2,000 units slated for completion in 2010.
- ◆ The planning pipeline contains nearly 14,700 units. Nearly 6,000 of those units are planned in Midtown submarket, an area also experiencing substantial office development.
- ◆ **Outlook:** Roughly 5,000 units are scheduled to come online in 2009, expanding rental stock by 1.2 percent. Last year, 5,100 units were delivered.

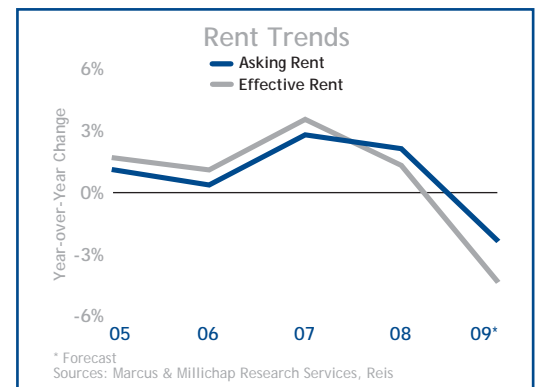
VACANCY

- ◆ Supply growth and weaker employment-generated demand contributed to an estimated 50 basis point increase in the vacancy rate this year to 11.7 percent in the third quarter. On a year-over-year basis, vacancy has risen 290 basis points.
- ◆ Third quarter vacancy of 10.2 percent at Class A properties was 30 basis points more than in the second quarter and a 70 basis point jump from year-end 2008. The increase is attributable to an increase in stock and weaker demand due to losses in the professional and business services industry.
- ◆ Since the third quarter of last year, the loss of 25,000 construction jobs has helped to escalate vacancy in the metro's Class B/C units by 310 basis points to 13.2 percent. The current rate is also up 210 basis points from year end and 60 basis points since the second quarter.
- ◆ **Outlook:** A weak job market will limit housing demand, while rental stock will continue to expand. As a result, vacancy is forecast to rise 200 basis points this year to 12.3 percent, following a 210 basis point increase in 2008.



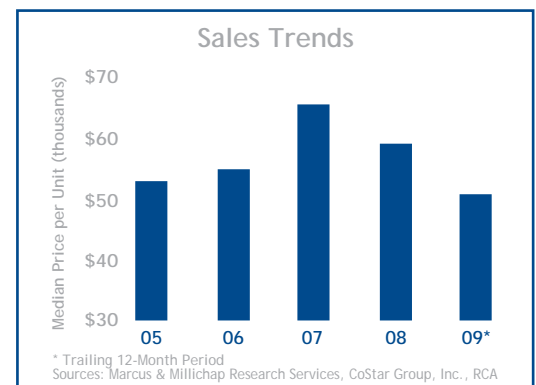
RENTS

- ◆ As of the third quarter, asking rents were \$848 per month, a decline of 1.6 percent from year-end 2008 and 1.9 percent from one year earlier. Effective rents of \$742 per month, however, were down 3.4 percent year to date and 4 percent from the third quarter of last year.
- ◆ Class B/C asking rents fell 1.7 percent year over year to \$718 per month in the third quarter, while a 2.3 percent loss to \$972 per month was posted in the Class A sector.
- ◆ Rising vacancy has caused owners to further increase concessions. As of the third quarter, concessions were 12.5 percent of asking rents, up from 10.5 percent of asking rents just one year earlier.
- ◆ **Outlook:** In 2009, asking rents are expected to drop 2.3 percent to \$842 per month, while effective rents will decline 4.3 percent to \$735 per month. Asking rents rose 2.1 percent last year, and effective rents gained 1.3 percent.



SALES TRENDS**

- ◆ More conservative underwriting and tight capital markets are weighing on transaction velocity, which has dropped 63 percent over the past 12 months. Most of the sales occurred in the first half of that period.
- ◆ The median price in deals recorded during the last year was \$51,000 per unit, approximately 22 percent less than in the preceding 12 months.
- ◆ In the past 12 months, cap rates have averaged from mid-7 percent to low-8 percent for Class A assets, and Class B properties have been trading in the mid- to high-8 percent range and above. Cap rates have risen about 100 basis points year over year.
- ◆ **Outlook:** Deal flow will remain limited in the near term due to weakened fundamentals and the persistent expectations gap, though stabilized properties continue to garner interest, especially in higher-demand residential pockets north of downtown. Owners looking to exit the market should consider selling, as prices are likely to moderate further, given projections for increasing concessions and rising vacancy rates.



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

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CAPITAL MARKETS

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

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 150 basis points to 175 basis points lower. The government recently assumed full control of Fannie Mae and Freddie Mac, which may boost confidence in the GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

SUBMARKET OVERVIEW

- ◆ NCR announced in early September plans to relocate its manufacturing operations to Duluth from Dayton, Ohio. The company will move to Satellite Place 700, bringing 1,250 employees to the North Gwinnett submarket by the end of this year.
- ◆ Nearly 2,000 units are expected to come online in the Midtown submarket over the next three years, representing a potential increase to stock of 16 percent. Area vacancy is forecast to push up to low-12 percent range within the next 24 months, when most of the units should begin to lease up.
- ◆ Education and career services company Kaplan Inc. will move its operations to Alpharetta. The relocation will bring about 425 employees to the Roswell/Alpharetta submarket early this fall.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Roswell/Alpharetta	8.9%	170	\$810	-5.8%
2	Smyrna	9.8%	290	\$707	-4.7%
3	South Gwinnett	10.3%	290	\$690	-4.2%
4	Midtown	10.8%	100	\$916	-7.2%
5	North DeKalb	10.9%	240	\$807	-3.5%
6	North Gwinnett	11.0%	230	\$730	-4.5%
8	I-20 West	11.0%	200	\$661	1.3%
9	Clayton/Henry	11.2%	240	\$666	-2.9%
10	Decatur/Avondale	11.3%	240	\$709	-5.0%