ApartmentResearch
MARKET UPDATE

Marcus & Millichap

Milwaukee Metro Area *Fourth Quarter 2009*

Supply-Side Pressure Expected to Soften Fundamentals

Conditions in the Milwaukee apartment market are forecast to weaken into 2010 due to job losses, relatively affordable housing and ramped-up rental construction activity. While vacancy will remain among the tightest in the Midwest, the average rate is projected to rise above 5 percent for the first time in more than three years. Much of the increase will be the result of a spike in completions; this year's deliveries are expected to be nearly three times greater than the five-year annual average. As such, competition for renters will intensify in the next few quarters, particularly in the City East submarket, where almost 40 percent of the metro's new units are slated to come online. Fundamentals in the area already have been weakened by deliveries this year, and the rise in stock over the next six months will further batter conditions. Elsewhere, vacancy is expected to continue climbing in the City West and Wauwatosa/West Allis submarkets, as some renters in these areas are expected to transition into homeownership.

Many investors are approaching the Milwaukee apartment market cautiously due to the struggling local economy, heightened equity requirements and softer property fundamentals. As a result, transaction velocity has slowed and will remain measured through the remainder of the year. Buyers are expected to target well-performing Class B properties in the coming quarters, as these assets have benefited from renters downgrading into more affordable units. Areas with strong middle-tier metrics, such as the Northshore/Northwest Milwaukee and Cudahy/South Milwaukee/Oak Creek submarkets, are forecast to garner elevated investor interest in the near term. Conversely, upper-tier properties may register prolonged marketing times, especially in the Wauwatosa/West Allis submarket, where Class A conditions have deteriorated recently, making obtaining financing increasingly difficult.

2009 Annual Apartment Forecast

6.0% decrease in total employment

Employment: In 2009, employers are expected to trim metro payrolls by 6 percent, or 51,000 jobs, following the loss of 19,200 positions last year.

485 units will be completed

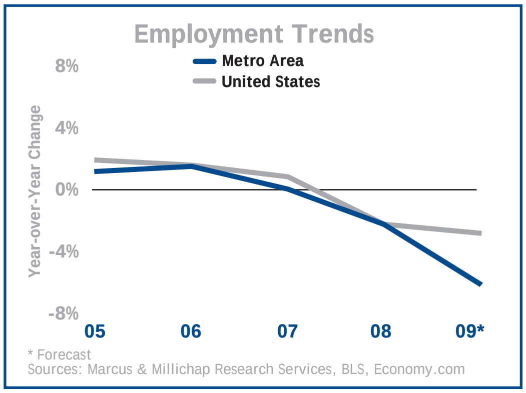
Construction: Developers are projected to complete 485 units this year, the largest annual increase to inventory in nine years. In 2008, just 90 units were delivered.

170 basis point increase in vacancy

Vacancy: An uptick in supply-side pressure and ongoing weakness in the labor market are forecast to drive metrowide vacancy to 5.4 percent in 2009, 170 basis points higher than last year, when vacancy improved 40 basis points.

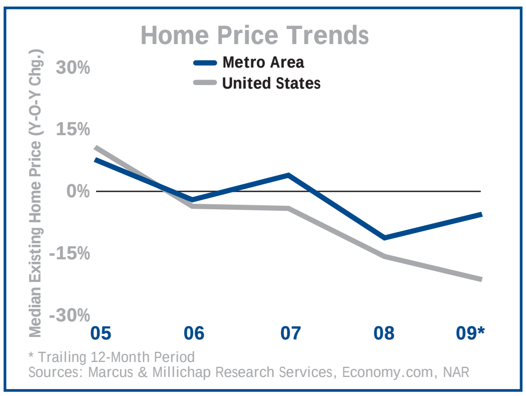
1.8% decrease in asking rents

Rents: The rate of rent reductions is anticipated to ease in the coming quarters. Asking rents are expected to slip to $826 per month by year-end 2009, while effective rents will retreat to $784 per month, annual declines of 1.8 percent and 3.0 percent, respectively.



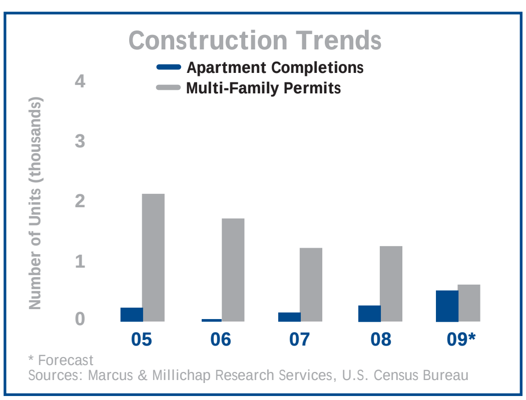
Economy

- Employers thinned Milwaukee payrolls by 6.3 percent over the 12 months ending in the third quarter, as 53,500 positions were eliminated. Although job cuts are at a 30-year high, the pace is easing. In the last six months, 23,000 spots have been trimmed.
- Heavy losses in the traditionally lower-paying manufacturing and trade, transportation and utilities industries will continue to erode renter demand. These sectors have shed a total of nearly 30,000 jobs during the past year, declining by 14.7 percent and 6.9 percent, respectively.
- The metro's unemployment rate reached an estimated 9.6 percent in the third quarter, 460 basis points higher than one year earlier and up 120 basis points from the first quarter of 2009.
- **Outlook:** This year, employers are expected to trim metro payrolls by 6 percent, or 51,000 jobs, following the loss of 19,200 positions in 2008.



Housing and Demographics

- Since demand for new single-family housing remains weak, builders have slashed the number of permit applications by 51 percent during the last 12 months to just 730 units. Multi-family permit issuance has slowed by 65 percent to 540 units, the lowest total in five years.
- Ongoing foreclosure sales are weighing on home prices. The median home price in the Milwaukee metro area dipped 5.6 percent year over year to $198,500 in the third quarter.
- The weak labor market has caused the median household income to fall nearly 10 percent in the past 12 months to $46,900 per year. Despite slumping home prices, current income levels are $2,000 below the amount needed to finance a median-priced home, using traditional financing.
- **Outlook:** Falling income levels and aversion to taking on debt amid a weak employment market will prop up near-term demand for area apartments.



Construction

- During the last 12 months, developers have added nearly 280 units to property stock, the largest annual boost in five years, due in large part to a spike in completions during the second quarter of this year.
- The pace of building is expected to remain elevated in the near term, as there are 840 units under way across the metro, and the planning pipeline has swelled by 20 percent in the past year to nearly 2,600 units.
- Despite the troubled housing market, construction of for-sale projects is continuing at a brisk rate. Approximately 640 condos are slated to come online this year, most of which are located in the City East submarket.
- **Outlook:** Developers are projected to complete 485 apartment units this year, the largest annual increase to inventory in nine years. In 2008, just 90 units were delivered.

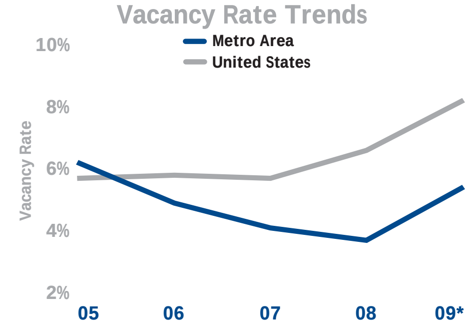
Vacancy

- The metro's vacancy rate has climbed steadily during the last year, as new supply has been met with weak demand. Early estimates indicate that vacancy ended the third quarter at 5.1 percent, 140 basis points higher than one year earlier.

- Increasingly affordable home prices and first-time homebuyer tax credits have contributed to thinning the Class A renter pool. As a result, vacancy in the metro's upper tier jumped 220 basis points in the past 12 months to 5.4 percent in the third quarter.

- Demand for lower-tier properties has been bolstered by elevated cost-consciousness, limiting the rise in vacancy. Over the past year, Class B/C vacancy has climbed 100 basis points to 5 percent.

- **Outlook:** An uptick in supply-side pressure and ongoing weakness in the labor market are forecast to drive metrowide vacancy to 5.4 percent in 2009, 170 basis points higher than last year, when vacancy improved 40 basis points.



* Forecast
Sources: Marcus & Millichap Research Services, Reis

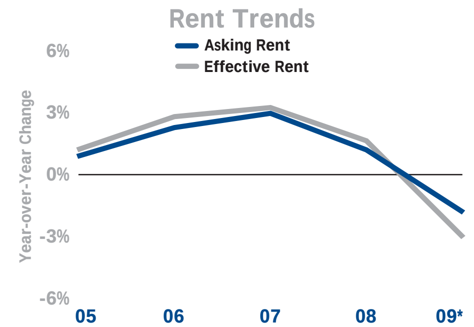
Rents

- Preliminary figures indicate that asking rents fell 2 percent in the past 12 months to $830 per month in the third quarter, while effective rents slipped 3.2 percent to $789 per month. The pace of rent declines is abating; during the last six months, asking rents have dropped 0.1 percent, and effective rents have slipped 0.9 percent.

- Class A asking rents dropped to $1,049 per month in the third quarter, a 2.2 percent year-over-year decrease, while Class B/C asking rents retreated 2 percent to $748 per month.

- Owners are raising incentives to counteract climbing vacancy. Concessions reached 5 percent of asking rents in the third quarter, up from 3.8 percent of asking rents one year earlier.

- **Outlook:** Asking rents are expected to slip to $826 per month by year-end 2009, while effective rents will be $784 per month, annual declines of 1.8 percent and 3.0 percent, respectively.



* Forecast
Sources: Marcus & Millichap Research Services, Reis

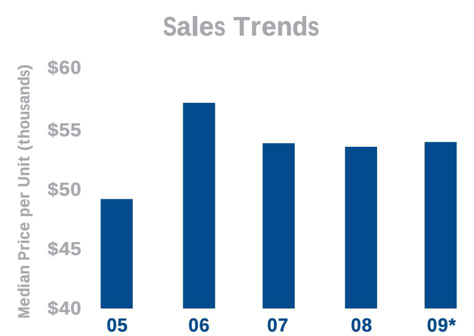
Sales Trends**

- Transaction velocity has slowed since late 2008 due to financing hurdles. In the last six months, sales activity has eased 28 percent.

- The median sales price has climbed 5 percent over the past year to $53,900 per unit; however, prices have stabilized recently, as an uptick in distressed listings has offset investors' flight-to-safety trends.

- Cap rates for high-quality properties average in the high-7 percent range. Underperforming assets are closing at yields above 10 percent, while owners facing refinancing challenges are offering properties in the mid-12 percent range to avoid prolonged marketing times.

- **Outlook:** The number of distressed and REO listings is expected to rise in the coming months, which will place downward pressure on prices and push up initial yields. As a result, sidelined local buyers will likely become active again and target assets that show the potential for future rent growth, particularly those near arterial routes like interstates 94 and 43.



* Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

*** 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

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 100 basis points to 150 basis points lower. The government's creation of a conservatorship for Fannie Mae and Freddie Mac has most likely boosted confidence in the two GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties, as the conservatorship is due to expire at the end of the year.

- 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

- Despite a rise in vacancy, revenues in the Brookfield/New Berlin submarket have advanced 0.2 percent year over year. While this was the only area to post a revenue increase in that time, a recent weakening in demand will likely lead to revenue contraction in the coming quarters.

- Competition from single-family housing and affordable condo units, as well as reversions, has affected upper-tier conditions in the City East submarket. Over the past year, Class A occupancy levels have fallen 170 basis points, and asking rents have retreated 4 percent, some of the largest decreases in the metro.

- The state recently awarded developers a $100,000 brownfield grant for a mixed-use project on Oakland Avenue in the Northshore/Northwest Milwaukee submarket. Plans call for the addition of up to 50 apartments and roughly 11,000 square feet of ground-floor retail space.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	West Waukesha County	3.0%	120	$785	-5.1%
2	Brookfield/New Berlin	3.2%	80	$944	1.0%
3	Cudahy/South Milwaukee/Oak Creek	3.7%	70	$742	-0.1%
4	Greenfield/Greendale/Franklin	4.0%	80	$686	-7.6%
5	City East	5.9%	70	$1,045	-5.0%
6	Northshore/Northwest Milwaukee	6.4%	80	$786	-4.3%
7	Wauwatosa/West Allis	6.6%	410	$745	2.5%
8	City West	8.1%	270	$677	-1.5%

Marcus & Millichap
Real Estate Investment Services

Prepared and edited by
Josh Gisselquist
Research 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

Milwaukee Office:
Matthew Fitzgerald
Regional Manager
mfitzgerald@marcusmillichap.com
13845 Bishop's Drive
Suite 150
Brookfield, Wisconsin 83005

Tel: (262) 364-1900
Fax: (262) 364-1910

Price: $150