

MHA Perspective 2009

Twin Cities Apartment Market Update 2009 1st Qtr.

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Agenda

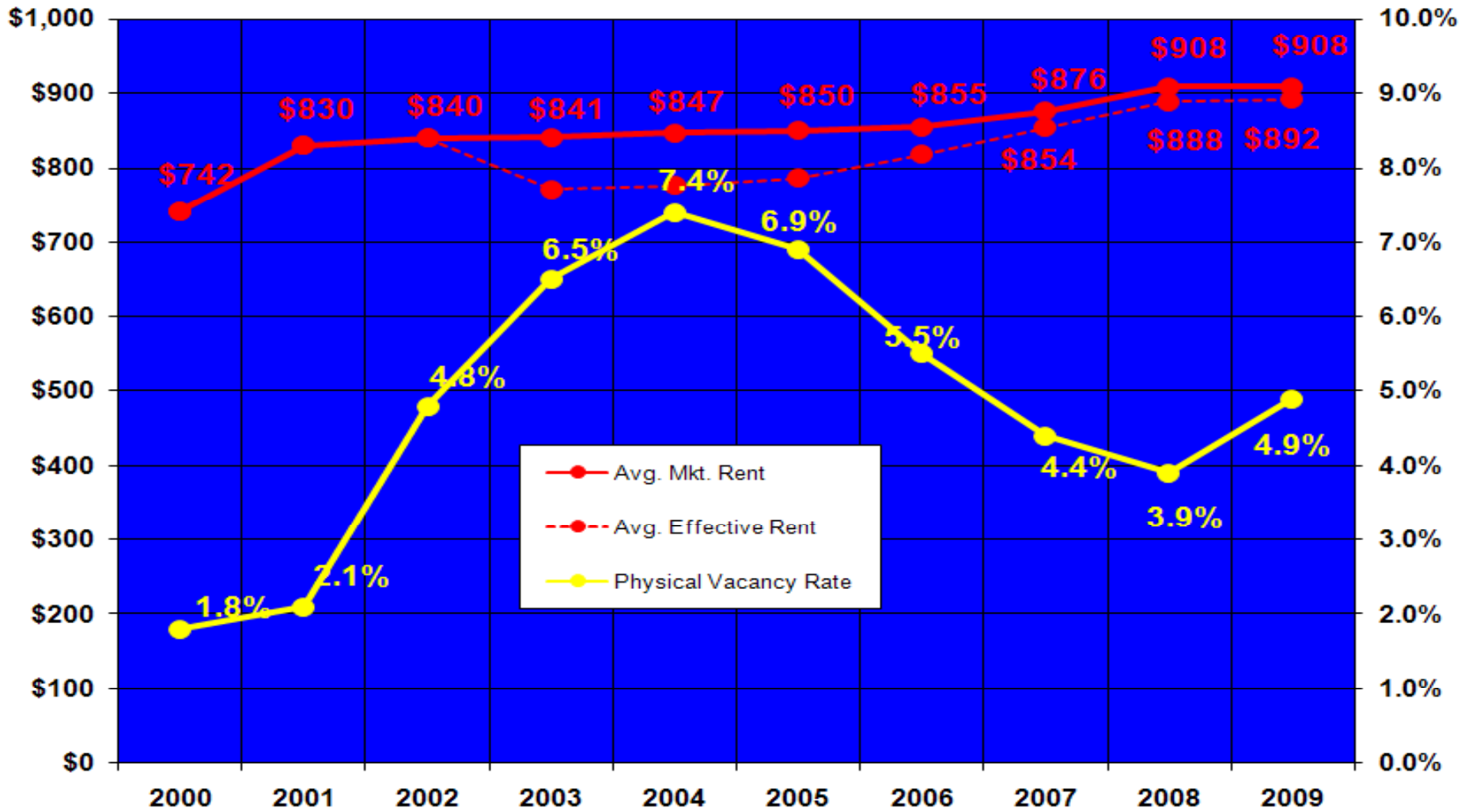
- **Where we've been and how we got here**
- **What's happening right now (2009 1st half)**
- **Short and long-term market outlook**
- **Top 10 List! – Why its good to be in real estate.**

2008 Performance Summary
Selected U.S. Apartment Markets

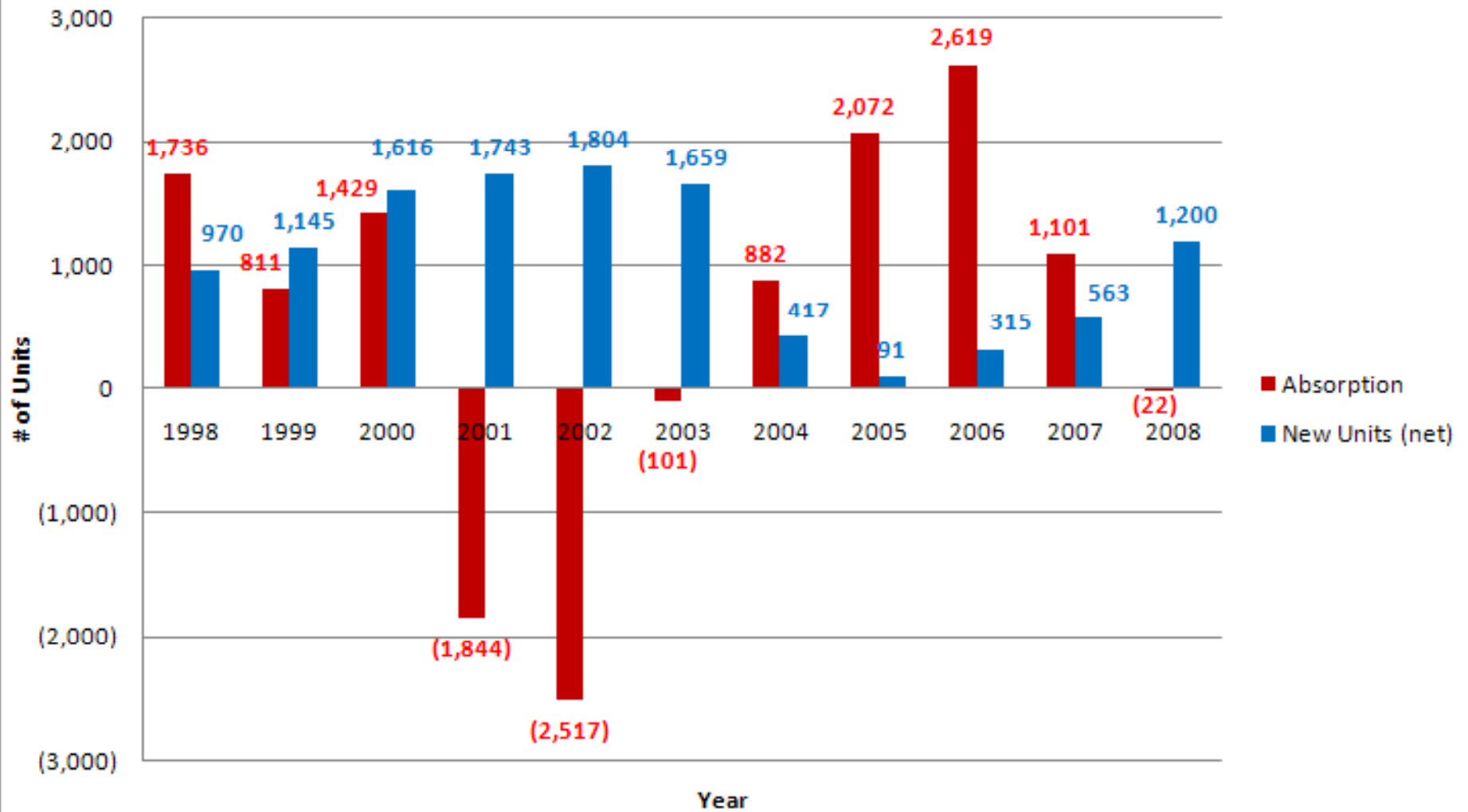
	Year-End Vacancy	Annual Rent Growth	2008 Employment Growth (declines)	Unemployment Rates	
				Dec-08	Apr-09
Twin Cities	3.9%	0.8%	-2.2%	6.4%	7.8%
Other Midwest					
Chicago	5.8%	2.9%	-1.5%	7.1%	9.8%
Milwaukee	4.6%	2.2%	-2.7%	5.8%	8.9%
Kansas City	7.4%	1.6%	-1.7%	6.5%	7.8%
St. Louis	7.5%	2.0%	-1.9%	7.6%	8.0%
Indianapolis	8.1%	1.8%	-1.2%	6.7%	8.2%
Detroit	6.6%	0.5%	-4.5%	10.6%	13.6%
Other U.S.					
Dallas	7.4%	3.3%	0.8%	5.8%	6.6%
Cincinnati	7.3%	2.7%	-1.4%	8.2%	9.1%
Denver	7.0%	2.9%	-0.8%	6.3%	7.5%
Phoenix	11.1%	0.8%	-4.6%	6.1%	6.8%
Las Vegas	8.3%	2.5%	-1.8%	9.1%	10.4%
Los Angeles	4.7%	3.7%	-1.8%	8.8%	10.1%
Orlando	9.5%	0.5%	-1.5%	7.7%	9.7%
Tampa	8.4%	1.6%	-2.9%	8.3%	10.1%
Miami	5.4%	0.0%	-3.3%	7.1%	8.5%
U.S.	6.7%	2.8%	-2.1%	7.2%	8.9%

Sources: GVA Marquette Advisors; Marcus & Millichap; MN-DEED; U.S. Bureau of Labor Statistics

Twin Cities Apartment Market Conditions 2000-2009 (1st qtr)



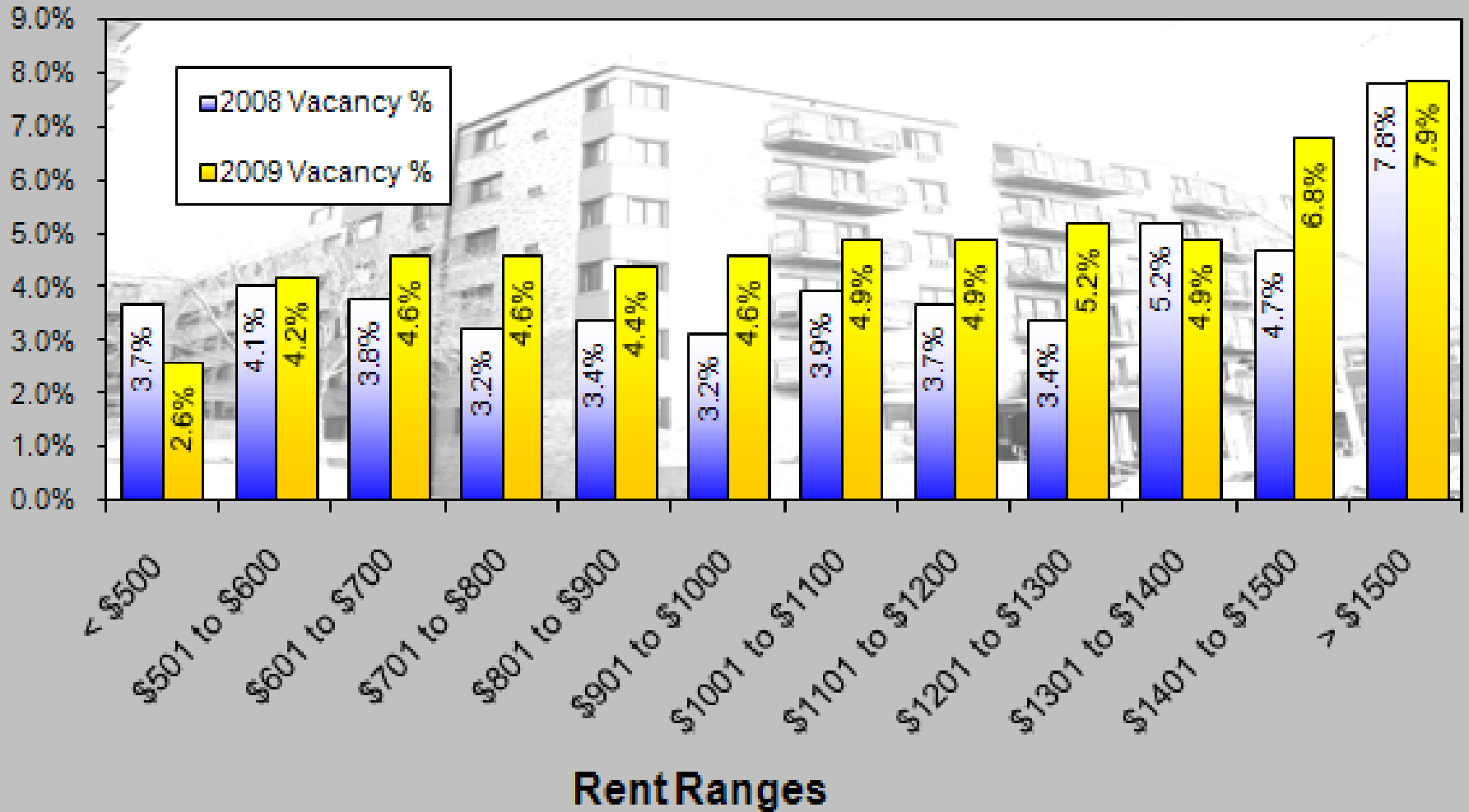
Twin Cities Apartment Construction & Absorption 1998-2008



Vacancy by Unit Type

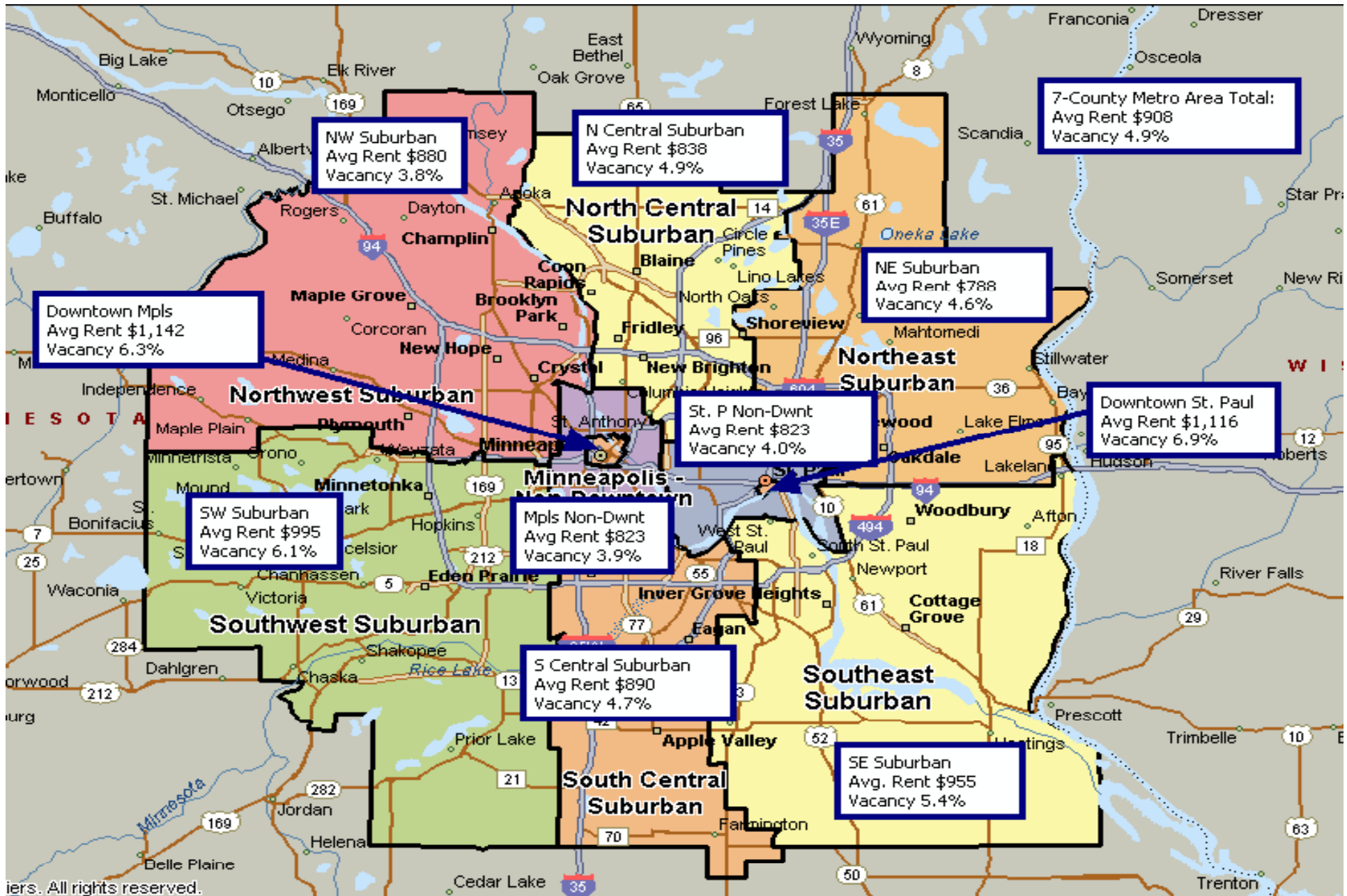
Unit Type	Vacancy 3/2009	Vacancy 3/2008	Change
Studio	4.5%	3.8%	0.6%
One Bedroom	4.6%	3.4%	1.1%
One + Den	7.8%	4.2%	3.7%
Two Bedroom	5.0%	4.0%	1.0%
Two + Den	7.1%	7.3%	-0.3%
Three Bedroom	5.0%	5.1%	0.0%
Total	4.9%	3.9%	1.0%

2008 & 2009 1st Qtr Physical Vacancy Rate By Rent Range



Avg. Rent by Unit Type

Unit Type	Avg Rent 3/2009	Avg Rent 3/2008	% Change
Studio	\$656	\$635	3.3%
One Bedroom	\$791	\$786	0.6%
One + Den	\$1,064	\$1,055	0.9%
Two Bedroom	\$985	\$984	0.1%
Two + Den	\$1,334	\$1,352	-1.3%
Three Bedroom	\$1,266	\$1,279	-1.1%
Total	\$908	\$908	0.0%



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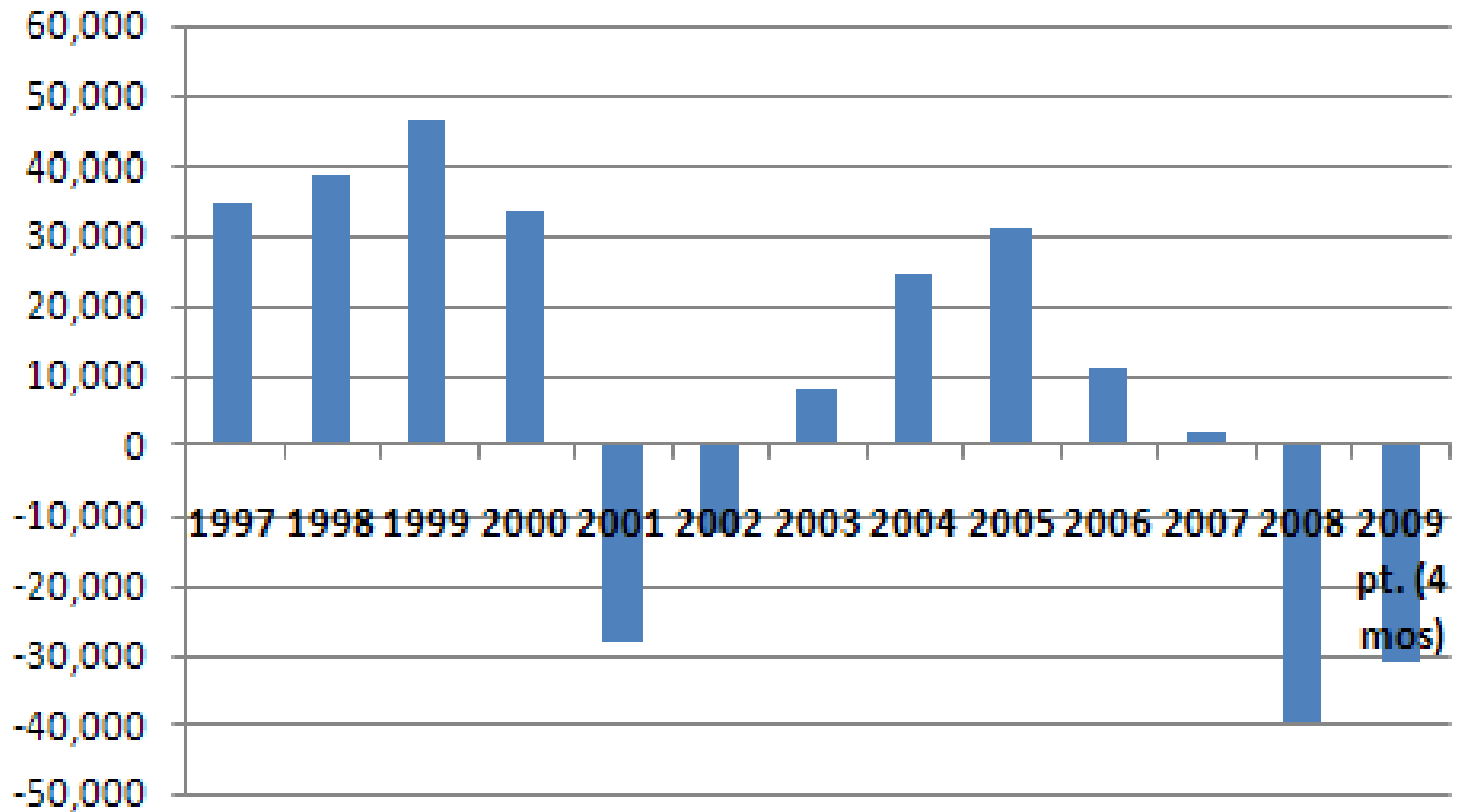
Performance by Submarket

Market Rents and Vacancy by Sub-Market

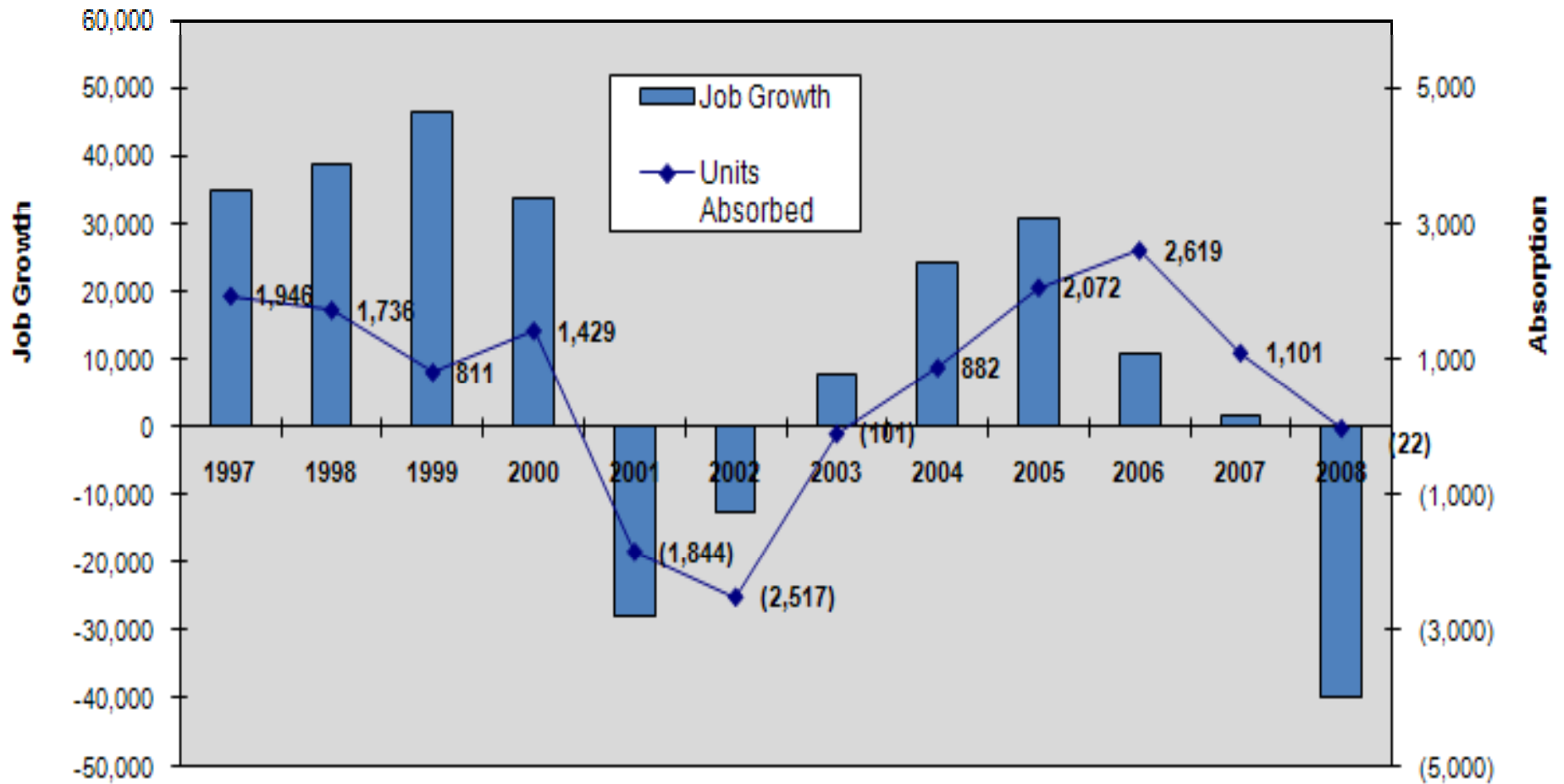
Twin Cities Metro Area, 2009 1st Qtr.

Area	Average Mkt. Rent ¹	Rank	12-months Rent Growth	Rank	Vacancy Rate ²	Rank	12-months Vacancy Change	Rank
Mpls. Out-of-Downtown	\$823	8	4.4%	1	3.9%	2	0.9%	5
Downtown St. Paul	\$1,116	2	3.3%	2	6.9%	10	1.3%	7
Southeast Suburbs	\$955	4	1.4%	3	5.4%	7	0.9%	6
North Central Suburbs	\$838	7	0.7%	4	4.9%	6	1.9%	10
Downtown Minneapolis	\$1,147	1	0.3%	5	6.3%	9	1.8%	9
Southwest Suburbs	\$995	3	0.1%	6	6.1%	8	1.8%	8
St. Paul Out-of-Downtown	\$823	9	-1.2%	7	4.0%	3	0.2%	2
South Central Suburbs	\$890	5	-1.9%	8	4.7%	5	0.8%	4
Northeast Suburbs	\$788	10	-2.0%	9	4.6%	4	-0.6%	1
Northwest Suburbs	\$880	6	-2.1%	10	3.8%	1	0.7%	3
<i>Twin Cities Total</i>	<i>\$908</i>		<i>0.0%</i>		<i>4.9%</i>		<i>-1.0%</i>	
¹ Average market rent before concessions. ² Physical vacancy rate at time of survey.								

Twin Cities Job Growth



Twin Cities Apartment Unit Absorption & Job Growth Trends, 1997-2008



Right Now

- Typically our peak leasing season, but low traffic
- Major downturn in demand in recent months
 - 60,000 jobs lost last 7 months
 - Foreclosures creating some rental demand, but not enough
 - Supply increases impacting some submarkets too
 - New projects attracting high-end renters, older dated “A” product can only compete on price
- Uncertainty and, in some cases panic
 - Both Renters and Apartment Owners/Managers
 - Household formation impacted by economic conditions
 - Owners competing for smaller pool of renters becoming more aggressive with concessions
- Rising vacancy & downward pressure on rents likely until economic “normalcy” returns – whatever that means.

Outlook (2009/2010)

- Long-term: Chris Lee is right, long-term demand tied to modest pop/hh growth & shift away from homeownership
- But, short-term health of our market is tied to the economy
- Look for stabilization in economy/jobs situation (2009), but likely not much job *growth* before 2010/2011.

Outlook (2009/2010)

- Economists predicting -2.3% to -2.7% decline in Twin Cities employment for 2009 (40,000 to 47,000 jobs lost)
 - Already down 31,000 jobs through April (are we nearing the bottom?)
- Jobs stabilization late 2009 per Mpls Fed and Wells Fargo Economists
- No rapid recovery, but 2010 should be better (+5000 to 10,000 jobs)
- **Good News: Apartment construction slowed:** only 600 units in 2009, compared to 1,200 in 2008.
- Another 2,500 + being considered, but most on hold due to market and financing issues.

Outlook (2009/2010)

- **Physical Vacancy Rate:** Likely peak around 5.7% to 6.0% in late 2009 to early 2010. Hinges on economy, will go higher if job losses persist.
- Job growth of 10,000 to 15,000 jobs would cause immediate and significant tightening in our apartment market --- but don't expect this.
- Central cities and inner-suburbs will outperform
- Older Class "A" will continue to struggle due to 2008 supply increases (especially downtown Mpls)
- **Effective Rental Rates:** Flat in core, slight declines in outer suburbs

Outlook (Long-Term)

- Expect more modest employment growth in TCs going forward
- Modest 1.0% household growth 2010 to 2020 (13,000 HH/year)
- However, shift toward rental rental. Why?
 - Age 20 to 34 population growth 40% next 5 years
 - Age 55+ population growth 16% growth next 5 years
 - Preference for multifamily lifestyle (convenience, location, affordability)
- Market can absolutely support 1,500+ units per year, long-term
 - (this includes non-senior, market rate bldgs. 5+ units)
 - Also replacement housing needs (aging stock)
 - Upgrade of existing, well-located assets

Summary

- Economy/job losses driving down demand
- Worst is almost over --- if you believe economists
- Expect uptick in vacancy 2009 (high 5% to low 6% range) and downward pressure on rents next 6+ months
- Stabilization late 2009, followed by modest recovery 2010
- Twin Cities multifamily well positioned for recovery
 - Still healthy compared to other asset classes
 - Compared to other U.S. markets
 - Not overbuilding as in prior recession