ApartmentResearch
MARKET UPDATE

Marcus & Millichap

Atlanta Metro Area — *Third Quarter 2010*

Institutional Properties Lead Sales as Recovery Gains Traction

Renewed job creation and the formation of new households will continue to stabilize the Atlanta apartment market and set the stage for steady improvement in fundamentals in 2011. Over the remainder of this year, renter demand will fluctuate as the private sector slowly begins to hire workers and temporary government positions are eliminated. With job growth remaining below pre-recession levels, rents will continue to fall, albeit at a reduced pace from a year ago. Concessions will remain necessary to attract price-sensitive renters and will not burn off significantly this year for most properties. Additionally, the completion of new units will decrease from a year ago, but lease-ups will be somewhat slow amid recovering, but subdued, renter demand. Absorption of recent additions to supply will pick up next year, though, as demand strengthens and construction slows.

Large, institutional-grade properties will continue to account for much of the activity in the near term, while the market for performing, stabilized assets will gain momentum gradually as additional sales confirm price benchmarks. Stabilized REO properties, defined as cash-flowing assets with high occupancy, have started to trade with greater frequency as lenders step up efforts to resolve troubled loans. Offering cap rates range from 8.5 percent to 9.5 percent and mark a reversion to pricing norms that existed before the run-up in values in 2005 and 2006. In addition to these properties, investors remain highly interested in distressed, high-vacancy assets that can now be purchased at prices often much lower than the prevailing marketwide median. Overall, investment activity will become more normal and sustainable as an economic recovery picks up steam and bolsters the metro area's stature as a diverse job-creation engine capable of significant growth for extended periods. Numerous investors purchasing assets at their current low prices anticipate steady returns over the five-year horizon.

2010 Annual Apartment Forecast

1.1% increase in total employment

Employment: Employers will continue to gradually rebuild staffing levels decimated by the recession. This year, 24,000 jobs will be added in the metro area, a 1.1 percent increase. In 2009, roughly 119,500 jobs were lost.

4,900 units will be completed

Construction: Projects with an aggregate 4,900 units will come online in 2010, a decrease from last year, when 6,800 apartments were completed. Construction will slow further in 2011, as only 1,400 units are currently slated for delivery.

20 basis point decrease in vacancy

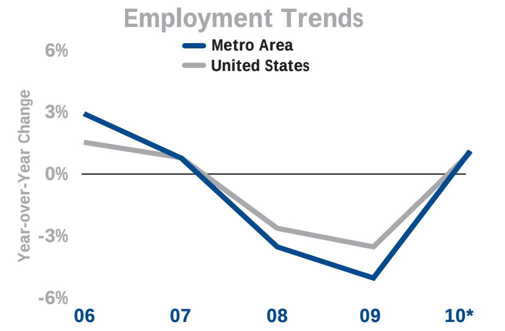
Vacancy: In 2010, vacancy will decline 20 basis points to 11.5 percent as easing job growth in the second half slows the momentum set in the first part of the year. In 2009, vacancy rose 140 basis points.

1.2% decrease in asking rents

Rents: Asking rents will decrease 1.2 percent this year to $815 per month, following a drop of 4.3 percent in 2009. The rate of decline in effective rents also will wane, with a 0.5 percent dip to $730 per month expected; effective rents fell 4.4 percent last year.

ECONOMY

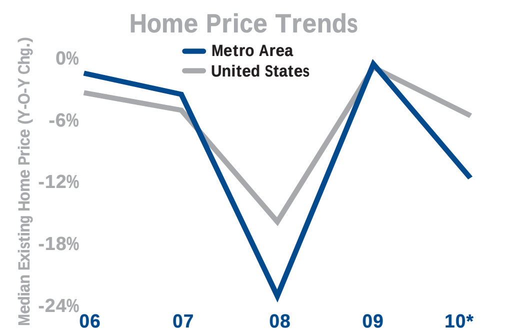
- Employers in the Atlanta metro area created 15,500 jobs in the first half of 2010, a 1.4 percent annual rate of growth and an improvement from the preceding six months, when 42,300 jobs were lost.
- The government sector added 7,100 jobs in the first half; some of the positions are related to the census and will be eliminated in the second half. Other sectors hiring in the first half include education and health services, where 6,500 jobs were created, and leisure and hospitality, with 5,800 new positions.
- Some employment sectors continue to pare payrolls. So far this year, 6,000 financial services positions have been eliminated in the metro area, along with 2,200 construction jobs. Additional cuts in construction payrolls will occur during the second half as home building eases from the level of activity in the first quarter.
- **Outlook:** Employers will continue to gradually rebuild staffing levels decimated by the recession. This year, 24,000 jobs will be added in the metro area, a 1.1 percent increase.



* Forecast
Sources: Marcus & Millichap Research Services, BLS, Economy.com

HOUSING AND DEMOGRAPHICS

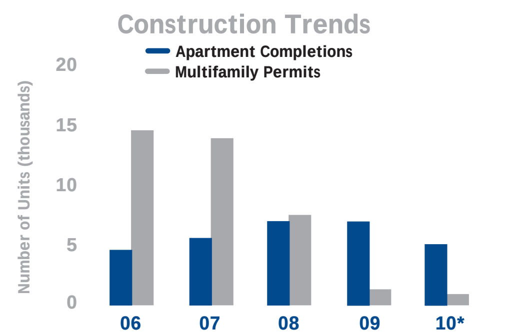
- Spurred by the first-time homebuyer tax credit, 7,000 single-family permits were issued in the past 12 months, an 8.5 percent gain from the prior year. Nearly 60 percent of the permits were pulled in the first half of 2010. Permitting will moderate over the rest of the year as builders gauge demand.
- Without the benefit of a government subsidy, multifamily permit issuance has been far more subdued. In the past 12 months, 1,000 units of multifamily housing were permitted, a decrease of 78 percent from the previous year. On average, 12,700 units were permitted annually during the last decade.
- The resumption of job growth has helped stimulate a faster pace of household creation. In the first half of this year, an estimated 15,600 new households were formed, up about 7 percent from the corresponding period in 2009.
- **Outlook:** Multifamily permit issuance will remain muted as tenant demand recovers slowly, limiting construction in the coming quarters while supporting a reduction in vacancy and greater burn-off of concessions in 2011.



* Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, Economy.com, NAR

CONSTRUCTION

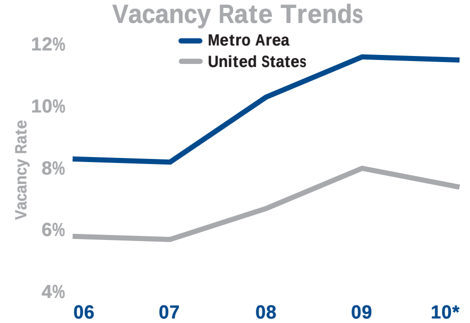
- More than 6,900 units were delivered in the 12 months ending in the second quarter, a 1.9 percent increase to inventory. In the prior year, 7,200 apartments were put into service.
- So far this year, 2,727 units have been completed, representing more than half of the production slated for delivery in 2010. Recent additions to stock include the 399-unit Village at Northlake in the North DeKalb submarket. Year to date, 1,058 apartments were delivered in the area, a 3.2 percent expansion of rental inventory.
- Projects totaling 13,500 units are planned, representing a modest 3.8 percent of existing stock. None of the projects is slated to start construction.
- **Outlook:** Approximately 4,900 units will be delivered this year, a decrease from 2009, when 6,800 apartments were completed.



* Forecast
Sources: Marcus & Millichap Research Services, U.S. Census Bureau

Vacancy

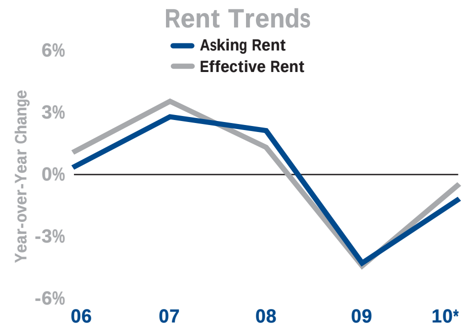
- Marketwide vacancy declined for the second straight quarter on continuing strong demand for Class A units. During the most recent quarter, marketwide vacancy inched down 10 basis points to 11.4 percent; the rate is also 30 basis points lower year to date.
- In the Class A segment, a resumption of job growth supported strong absorption of units, as vacancy declined 10 basis points in the second quarter to 9.5 percent. Year to date, the Class A vacancy rate decreased 50 basis points on positive net absorption of more than 3,100 apartments.
- The Class B/C segment remained relatively weak in the second quarter, as only four of 17 submarkets registered vacancy rates of less than 10 percent at lower-tier complexes. In the quarter, marketwide vacancy dipped 20 basis points to 13.4 percent. Year to date, lower-tier vacancy also fell 10 basis points.
- **Outlook:** In 2010, vacancy will decline 20 basis points to 11.5 percent as easing job growth in the second half slows the momentum set in the first part of the year.



* Forecast
Sources: Marcus & Millichap Research Services, Reis

Rents

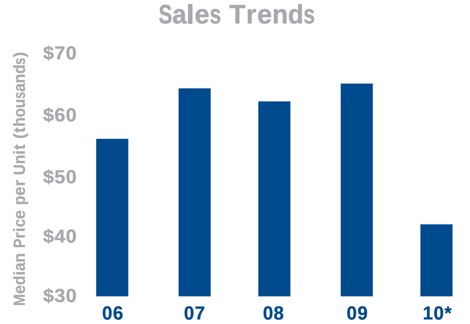
- Despite an improving economy, property owners still lack pricing power. In the second quarter, asking rents fell 0.5 percent to $822 per month, erasing the modest 0.1 percent increase logged in the preceding period. Also in the second quarter, effective rents slid 0.1 percent to $736 per month, after ticking up 0.4 percent in the first quarter.
- Class A asking rents decreased 0.4 percent in the second quarter to $938 per month, as property owners continued to entice price-conscious renters. Top-tier asking rents also are down 0.4 percent so far this year.
- In the Class B/C segment, asking rents fell 0.6 percent in the second quarter and 0.3 percent year to date to $697 per month.
- **Outlook:** Asking rents will decrease 1.2 percent this year to $815 per month, following a drop of 4.3 percent in 2009. The rate of decline in effective rents also will wane, with a 0.5 percent dip to $730 per month expected; effective rents receded 4.4 percent last year.



* Forecast
Sources: Marcus & Millichap Research Services, Reis

Sales Trends**

- Despite signs of an economic recovery gradually taking hold, transaction velocity declined 24 percent in the past 12 months. Sales of large, institutional-grade properties of 200 or more units accounted for about 40 percent of all deals during the period, in line with historical trends.
- Reflecting sales of distressed assets and declines in value related to softer property performance, the median price of complexes sold in the last 12 months decreased 36 percent to $41,900 per unit.
- Class A properties can price with cap rates in the low-6 percent range, while stabilized assets taken over by lenders can price from 8.5 percent to 9.5 percent.
- **Outlook:** Institutions eager to place money will continue to look to Atlanta, where a large stock of top-quality assets provides an outlet for capital. Properties located in the core of the metro will garner the greatest investor attention due to relatively consistent renter demand.



* 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.*

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Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Mixed economic indicators, stock market volatility and concerns surrounding the European debt crisis continue to drive investors to safety. As a result, the yield on the 10-year U.S. Treasury has declined since peaking at 4 percent in April; as of late July, the yield had fallen to 3 percent.

- Capital markets loosened over the past year, with life insurance companies ramping up lending and CMBS showing renewed signs of life. Nonetheless, the agencies remain the dominant sources of multifamily lending. This trend will continue through 2010 as the GSEs' multifamily portfolios outperform their residential mortgage operations, reducing the likelihood of drastic government-mandated changes to their apartment lending arms.

- Multifamily loan originations increased 37 percent in the second quarter but remained below levels reported during the same period last year. Fannie Mae and Freddie Mac's origination volume followed a similar pattern, rising in the second quarter but falling short of year-earlier levels.

- Loan-to-values range from 60 percent to 75 percent for portfolio lenders and push up to around 80 percent for best-of-class, agency-financed deals. All-in rates for five-year agency loans fall into the low-4 percent range, while 10-year loans price between 4.75 percent and 5.15 percent. While life companies will compete at these levels for best-of-class deals, most portfolio lenders are 100 basis points to 225 basis points higher.

Submarket Overview

- New construction is planned in most submarkets in the metro. Additions to apartment stock may most significantly affect operations in the Midtown submarket, where 3,026 planned units represent more than 22 percent of existing supply.

- Demand for Class B/C units in the Central/I-75 West submarket improved during the first six months of 2010. A 2 percent increase in occupied units reduced lower-tier vacancy 200 basis points to 12.8 percent in that time, one of the lowest Class B/C rates in the entire market.

- Henry County officials have advanced a developer's proposal to convert hangars at Tara Field near Hampton into a movie studio that could create 300 direct jobs and 2,000 support positions. Additional details of the plan will emerge late in the third quarter.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Roswell/Alpharetta	6.8%	-180	$778	-3.6%
2	Smyrna	8.3%	-70	$689	-2.1%
3	Sandy Springs/Dunwoody	8.4%	-300	$815	0.2%
4	Cherokee County	9.2%	110	$734	0.3%
5	Buckhead	9.3%	-320	$1,011	-1.5%
6	South Gwinnett	9.5%	-120	$680	-1.2%
7	North Gwinnett	10.6%	50	$707	-2.8%
8	Marietta	10.9%	-40	$713	-1.0%
9	North DeKalb	11.8%	60	$789	-1.9%
10	Clayton/Henry	12.7%	210	$657	-1.1%

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