

Multi-Family

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2011 IN REVIEW

Apartments are the hottest CRE sector today

- Low % rates, poor housing mkt, good demographics and no new construction make for a “Perfect storm”

Fresno Apt Sales – up more than 50% yr/yr

- Conventional Sales up 300% yr/yr, REO same level
- REO/Value Add- Prices back to 90’s level
 - At half the cost of debt to acquire, renovate and hold!
 - At almost double the rents!

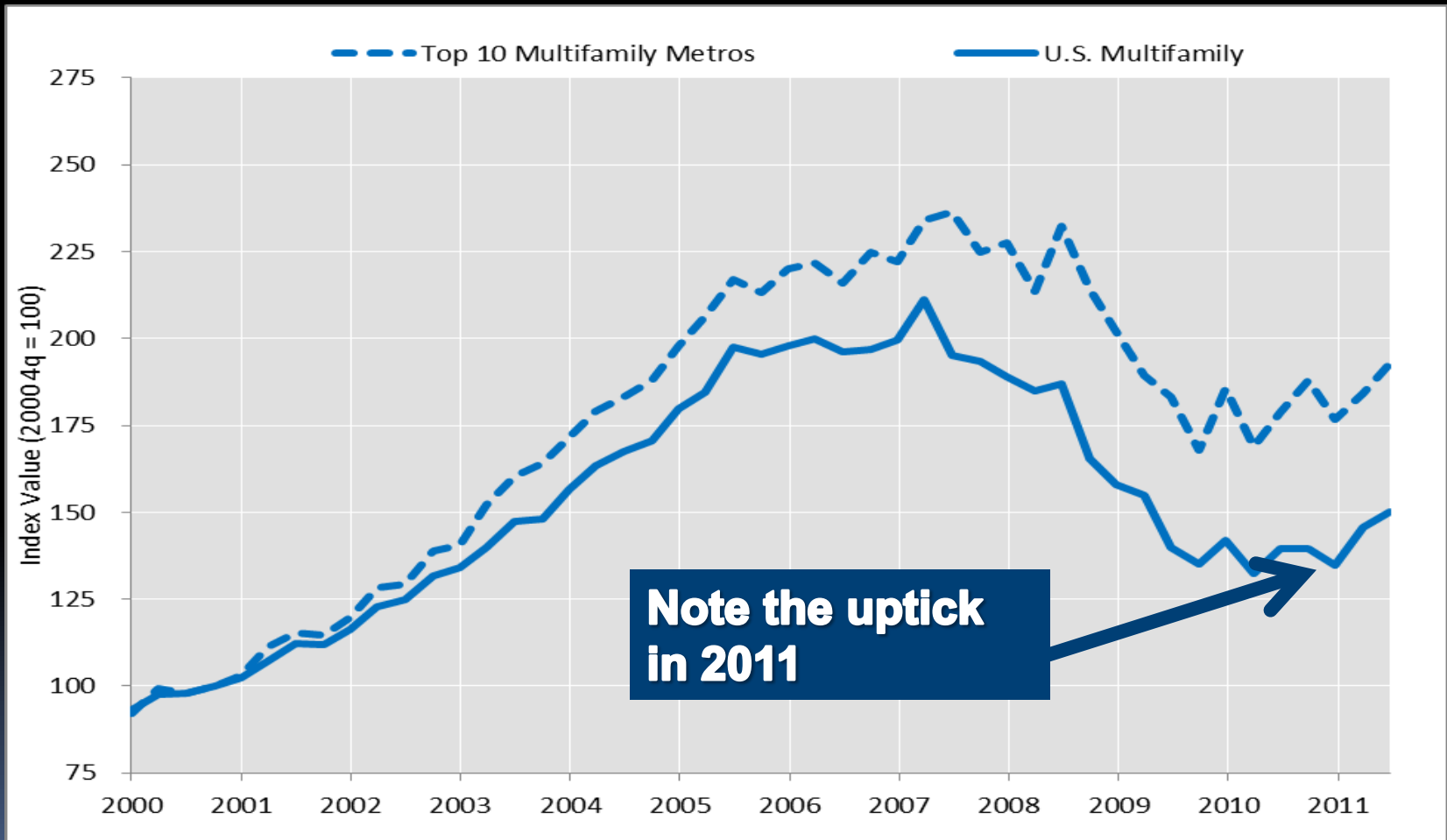
Prices in core markets back to 2006 levels

- Capital flows to secondary markets has begun
- Don’t be surprised if you are outbid!

Feds forcing investors out of cash and into equities, commodities and hard assets (RE)

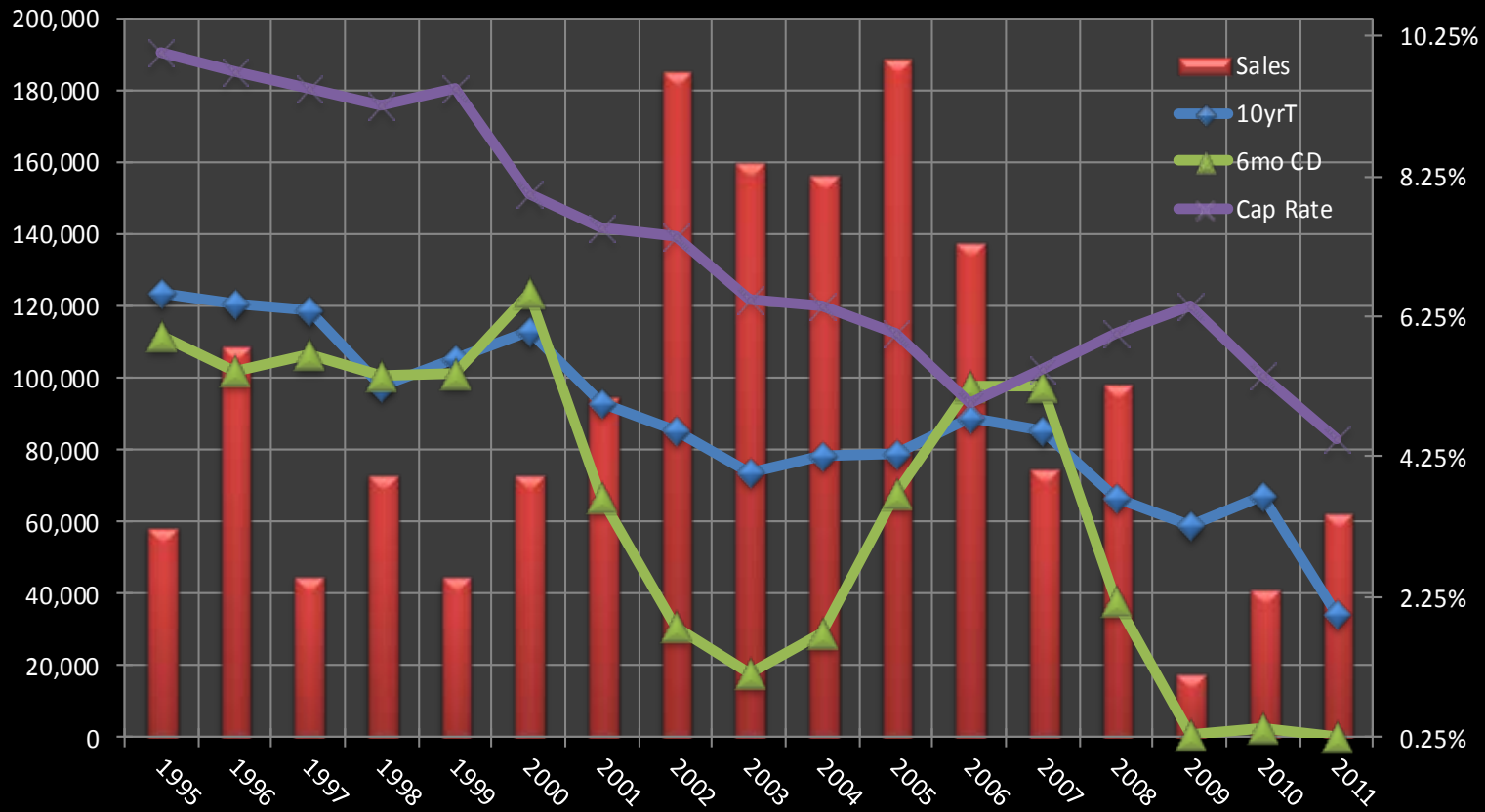
- Being pushed out onto the Risk “Gang Plank” Spectrum

Apt Prop Index- Top 10 Mkts vs. National Index (2001 - 2011)



Source: CoStar Commercial Repeat-Sale Indices

Cent Cal Apt Sales 1995-2011 (w/ 10yrT, 6mCD & cap rates*)

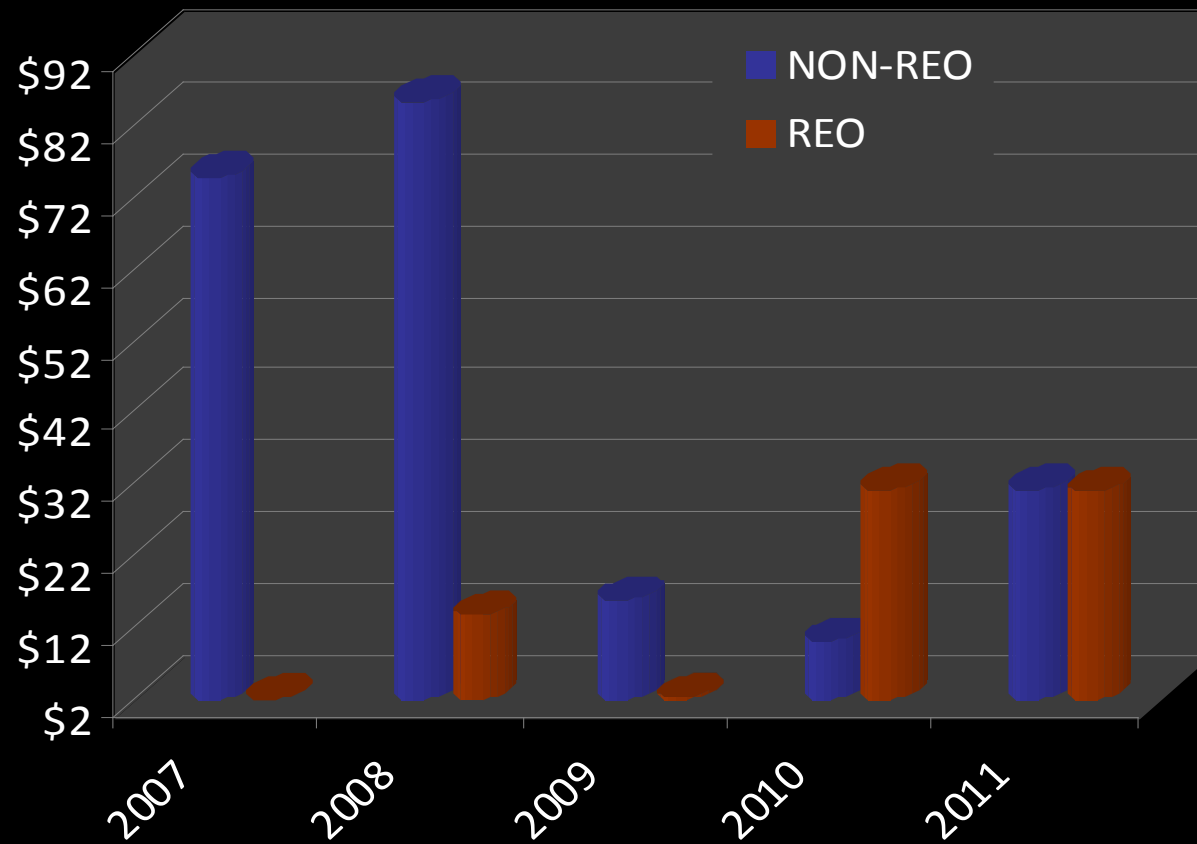


* Cap rates: "A" Class assets in Core Mkts

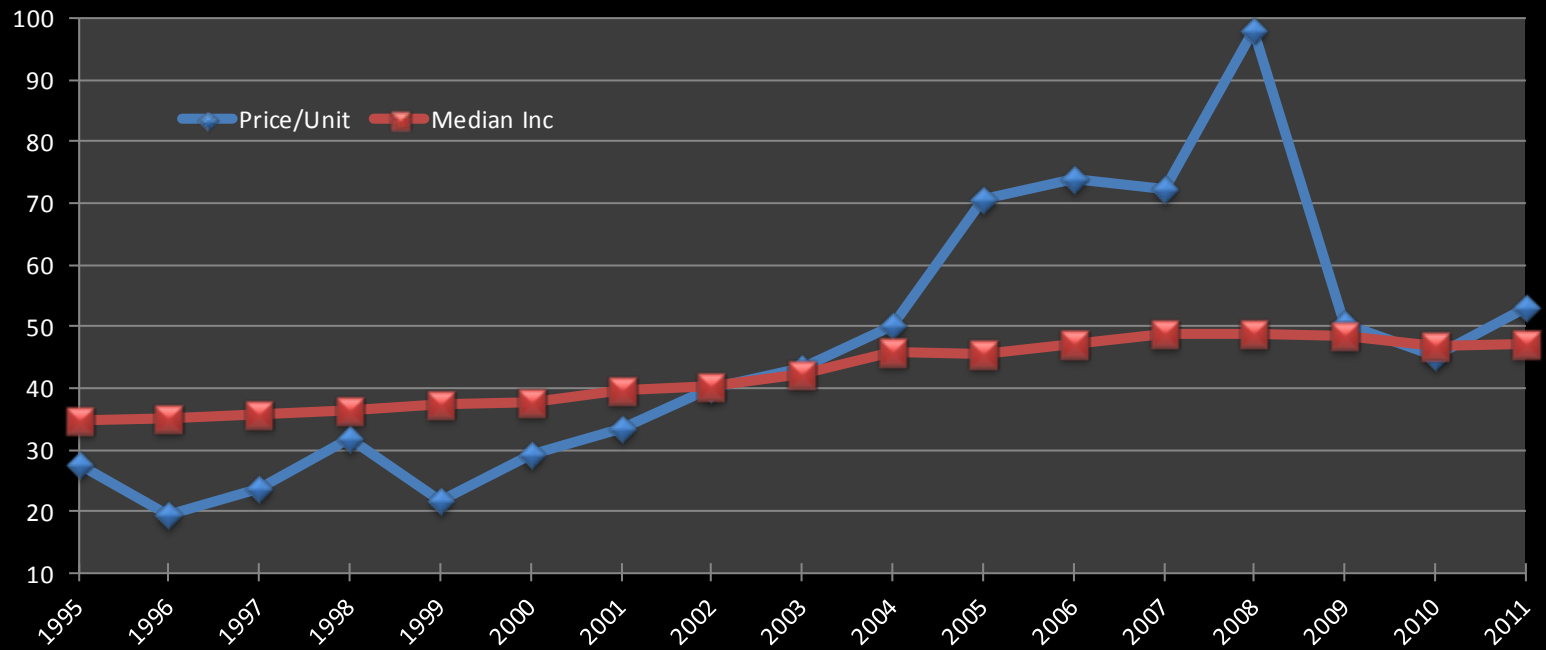
Source: RCK ORGANIZATION, Federal Reserve, Moody's/Real Capital Mkts

CentCal Apt Sales 2007-2011

Non-REO vs. REO (MM)



Cent Cal Apt. Price/Unit & FC HH Median Income -1995-2011



Source: RCK ORGANIZATION, California DOF

Anatomy of two transactions

- \$22,916 \$/Unit
- \$341.25 Average Rent
- 7.5% Bridge Loan Rate
- 9.75% Permanent Rate
- \$27,604 \$/Unit
- \$672.00 Average Rent
- 3.5% Bridge Loan Rate
- 5.50% Permanent Rate

Same Building !!

Date of Sale: 1Q/1992

Date of Sale: 1Q/2012

TOP TEN TRENDS

- 1. Public looking to upgrade, not seeking a cheaper price (Frugality Fatigue)**
- 2. Throw out the playbook! This recovery is quite different!**
 - No room in % rates, housing crisis, Job mismatch, 2012 Election...all lead to a future with both opportunity and challenges
- 3. NEW Asset Class- SFD/Condo Rental Portfolios**
 - This month- FNMA - 8 portfolios/ 2,490 assets/ \$ 321MM
 - LA/ Riverside - 484 props/ \$96.4MM
 - Fantastic opportunities for management, services, brokerage
- 4. California is no longer losing population**
 - More people moving into State than moving out, first since 2000
- 5. Lenders will no longer extend loans that have reached maturity date**
 - RCM says: \$95B CMBS maturing in 2012, 40% will be able to re-fi, those loans that cannot will experience a 40% loss of principal.
 - 3 out of 5 CRE loan servicers bought by hedge funds (volatile mix)
 - Lenders now selling PERFORMING loans to large hedge funds

TOP TEN TRENDS

6. Apartment Inventory at all-time low!

7. Look for the Merchant Builder to return

- Rents don't justify building BUT what Investors will pay WILL!
- Look for opportunities in smart, wireless smoke-free housing
- Given long lead time, you need to start now to be ahead of crowd

8. There are other challenges ahead

- Inflation has arrived! It is high energy & gas costs!
- News headline risk cannot be over-stated (Iran, Europe, ???)
- Job picture must improve (otherwise shortlived / boom-bust)

9. Connectivity is changing the way we live, work and play... And it is dramatically effecting CRE

- Office: Workers not chained to their desks >> Mobility, Cloud
- Retail: Customers buying online >> Amazon, Itunes, Pandora
- Apts: Obsolete, energy hogs, not wired nor are we user friendly
- Auction.com= Ebay for Real Estate (This month \$100MM in CRE)
- Adapt or die: Apple crushed record, video, books, computers

10. DON'T BE OBLIVIOUS TO WHAT IS SO OBVIOUS!

- The News of the Recovery is so 17 seconds (2 years) ago!
- Seriously, what are you waiting for?