

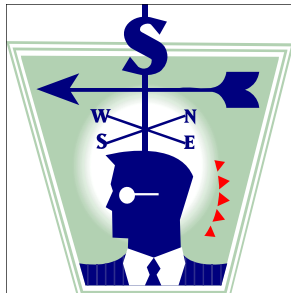


## TOP TEN TRENDS FOR 2012

**#10– MULTIFAMILY IS HOT:** We believe there is a convergence of favorable conditions right now that will be hard to sustain. Low interest rates, poor return on investment for other CRE types and investments generally, plenty of renters, great demographics, little or no new construction and stringent underwriting for single family housing, all make for a great time to own and/or acquire apartments. In our 30 years, we cannot think of another time when all these factors existed at the same time. We are left wondering, “How long will these good times last...” making it an optimal time to consider SELLING!

**#9– MORTGAGE RATES WILL STAY LOW FOR 2012:** It’s election time again...and the Fed will be more than willing to ‘cooperate’ by keeping rates stable through the end of the year. In 2013, WATCH OUT!

**#8– GREATER MARKET DISCREPANCIES:** In 2012, we will see the better markets (those with job growth—actual or potential), nicer properties (“A” & “B”) and desirable locations pull away from the “C” class (and lower) properties. While the news is positive for A&B class properties in primary markets, there is little hope for great news on the lower end of the spectrum in 2012. So what does this mean? We recommend re-allocating capital to better properties, markets



and locations. The cost associated with discounting to unload will be more than offset by better rates of growth.

**#7– INCREASED PRESSURE ON BANKS...ONLY HOTTER IN AN ELECTION YEAR:** Remember what happened to Big Tobacco once there was a clear connection between tobacco & health risks? Similarly, it is open season on mortgage lending with the States and Washington looking to blame them for the housing collapse. It started with the Robo-signing debacle and now State AGs are suing Banks and GSEs (Fannie Mae and Freddie Mac). Recently, cash strapped municipalities are stepping up their efforts to hold lenders responsible for the upkeep and maintenance of repossessed and/or abandoned homes. What is unusual in many cases is that title still resides with the defaulted borrower. Therefore, the burden of ownership has been de-coupled from

the benefits. Pushing back on this trend, FNMA and FHLMC have filed lawsuits in several states. With this being an election year, we see no relief in sight. As we get closer to the election, the Banking Industry will likely hibernate, waiting to see who wins.

**#6– FIVE-YEAR CONDUIT LOANS COMING DUE:** Brace yourself! At the height of the RE Bubble, many 5-year loans were originated. These were high leverage loans made at lofty valuations. Although lenders were reticent,

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We have a number of links to fantastic websites which will helpkeep you on top of the latest developments in Real Estate, Finance, Politics and trends that have an impact on our industry. When you visit, we hope you will register your email address and we will see you online!

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## SO...WHAT DO RENTERS REALLY WANT THESE DAYS?

Throughout this issue, we refer to the new renter mentality. They are looking to upgrade their shelter. They have stopped looking for a cheaper apartment. The smart owners recognize this and are now

implementing significant upgrades to compete more aggressively in 2012 and beyond.

Here are some facts about renters: They are moving out of their parents’ homes, no longer doubling up and are much more bullish about the future. With home buying off the table, they are looking to stay longer. They know what they want.

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## TOP TEN TRENDS FOR 2012

(Cont'd from page 1) In the past few years, to foreclose, today they are much less inclined to extend and/or modify the debt. With the better economy, they will be swift to begin foreclosure on defaulted obligations. We anticipate many such assets will be sold off market via Receivership Sales or Note Auctions.

### #5- LOAN SERVICERS ACQUIRED BY LARGE HEDGE FUNDS:

With the large pools of over leveraged conduit loans, the need for additional capital is HUGE. The smart money sees this as a fantastic opportunity to either acquire REO Assets or generate large returns. Hmm... conflict of interest? Maybe. Nevertheless, give them credit for a great idea! So do not be surprised when you call your Lender and find out his other hand is in your back pocket!

### #4- SINGLE FAMILY HOME REOS PACKAGED, SOLD TO

**INVESTORS:** This will be the year where large pools of foreclosed homes and/or non-performing mortgages will be sold off in masse to large hedge funds and wealthy private clients. From the President and the Federal Reserve to FNMA/FHLMC, everyone now realizes that the ONLY way to put the housing industry back onto solid footing is to put the inventory into the hands of investors, who will convert them to rentals.

### #3- LENDERS DUMPING PERFORMING "UNDER-WATER"

**LOANS:** Lenders are now so enamored with the cash they can realize via note auctions, they have begun selling PERFORMING loans. The reason is simple: Federal Regulators require banks to either mark their loans to market or inject additional capital to account for lost value of the security (property). **IT MAKES NO DIFFERENCE WHETHER THE LOAN IS CURRENT.** The Feds, and therefore the banks, are worried that property values at loan maturity will not be sufficient to refinance the debt. They hold little hope that the borrower will fund the shortfall. We believe this creates a FANTASTIC opportunity.

### #2- HIGHER RENTS, LOWER VACANCIES, BETTER TENANTS-

Count on it for 2012. However, it will be the properties that provide a better value and **NOT A CHEAPER PRICE** that will ride the upswing. Call it Frugality Fatigue but rental prospects today will be looking to **UPGRADE** their living standards for the least additional cost. The days are past where they are moving to a cheaper apartment.

And the #1 trend for 2012— **APARTMENT CAP RATES IN CORE MARKETS BACK TO PRE-RECESSION LEVELS:** WOW!! We did not see this rebound coming—certainly not this quickly. There are sales in Southern California, the Bay Area and other major markets on institutional grade assets with cap rates in the SUB-FIVE RANGE! Why? Alternative investments are yielding such low returns and higher risks, the answer is actually a question: Why not? For 2012, we cannot foresee any reason for this trend to reverse itself. It will be interesting to see what impact this will have in the tertiary markets and lower grade assets. (Please see adjacent story)

All signs are pointing up! While we may or may not be disappointed at the rate of growth, we will still be moving in the right direction. So it's time to get out of the foxhole. Take off the flak jacket and helmet. Start thinking about how to grow your wealth and stop worrying about protecting what you have. For the first time in many years, we are hard pressed to think of a reason not to move aggressively ahead! In other words: Enjoy 2012!

## CAPITAL BEGINS TO MOVE TO SECONDARY MARKETS

We are beginning to see a number of news stories in which "B" Class assets in secondary markets as described as areas of opportunities. This is somewhat predictable part of a recession-recovery cycle where available capital fails to find a desirable investment home in core markets and/or trophy assets or is unwilling to pay the premium demanded. These articles talk about secondary markets/assets being a "...major payoff for well positioned investors".



As the cycle begins to expand, investors understand they can go further out on the Risk Spectrum. It is the classic case where the "rising tide will begin to raise all ships".

This is a precursor to growing investor interest in our Central Valley. The "takeaway" is the Central Valley has very predictable windows of time—to buy or sell.

If you are a Buyer, NOW is the time to act before increased competition bids up prices. If you are a seller, you want to be able to sell into the increased demand for product.

### REO LENDERS IN VEGAS ROLL CRAPS

In the City of Las Vegas, there is a new ordinance that holds lenders liable, and financially responsible, for the condition of a home **even if the title still resides with the defaulted borrower.**

The law requires lenders to inspect all properties that are in default or which a default is pending. If the inspection shows the property is vacant, they must register the property with the Building and Inspection Department within 15 days of the inspection (at a cost of \$200/property). Additionally, lenders are required to insure that the property is inspected once a month, as well as maintain and secure the property until it is no longer vacant.

The penalty for noncompliance could include misdemeanor criminal charges, as well as fines. The GSE's are so alarmed by this nationally growing that they have filed a lawsuit against the City of Chicago for a similar law.

Stay tuned...

## 2011 SALES: FAST START, SLOW MID, FAVORABLE END COMPARED TO 2010

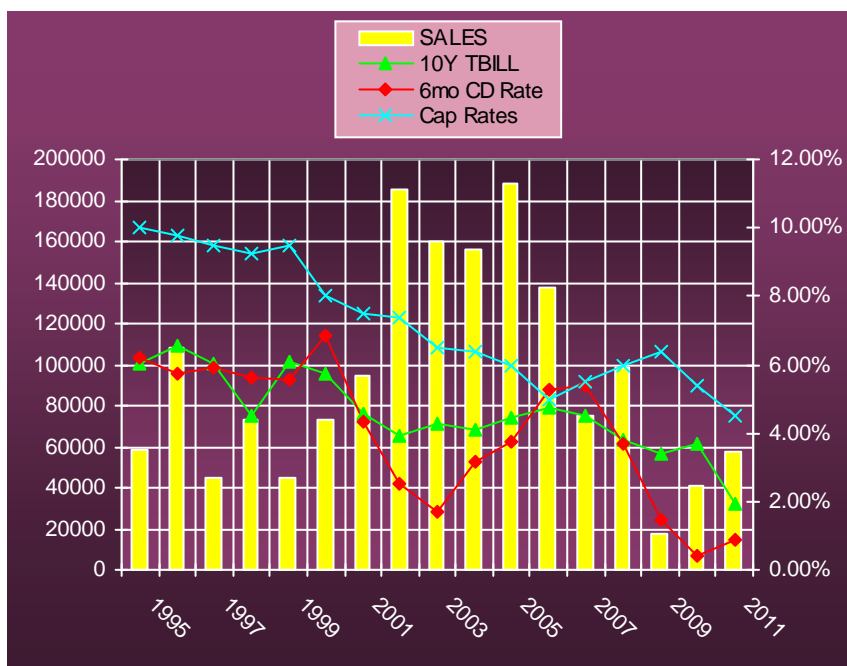
2011 got off to a fantastic start with over \$30,000,000 closed or in contract by the end of the first quarter. By mid-year, only an additional \$13,000,000 was rung up. But by the end of the year, total sales volume reached \$62,174,500 (sales over \$500,000). Total sales volume for 2010 was \$41,179,500. **This is a 50% INCREASE year over year!**

2011 saw 20 sale transactions while 2010 had 15. Total number of units sold in 2011 was 1,704, versus 907 for 2010. For comparison, 2009 saw 384 units sold in 9 transactions. One large sale in 2011—Key Bank's REO Portfolio Sale of 800 units—caused the price/unit to drop: \$36,487/door in 2011 as compared to \$45,402/unit in 2010. If this sale is removed, then the price/unit is \$50,218/unit. For perspective, the price per unit peaked in 2006 at \$72,874 per unit. From peak to trough, the decline was in excess of 38%.

In our last issue, we believed sales were reverting to the historical norms (\$55-65MM). We were right on target. The trend has been an uptick for two straight years. The last time this was repeated was in 1999-2001.

We have added a NEW FEATURE to our usual graph: Cap Rates. The figures shown represent a NATIONAL INDEX of "A" CLASS PROPERTY SALES in CORE MARKETS. The takeaway value for our market is in the trend-line and not the actual figure.

For 2012, our hopes of sales continuing the upward trend grows more confident each day and attribute this confidence to low interest rates, a lack of new construction and a strong attraction to multi-family assets by the investor community.

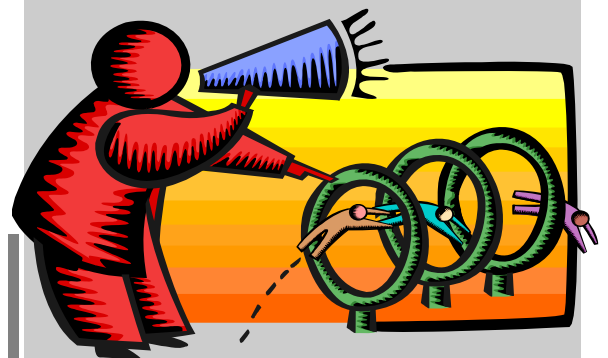


## WHAT RENTERS WANT

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They do NOT want old appliances, fixtures or a tired community. They want NEW and if they cannot get new, they want as nearly new as can get. They want to have a choice in colors and are willing to pay a premium to have a choice.

They want wireless internet in the common areas, the ability to interact with management online (pay rent, make maintenance requests, receive information about their community) all the while knowing that human interaction is but a call or a step away. They want you to know that poor customer service will not go unpunished—they will rant on the various ratings sites and if you are unlucky, their rantings may go VIRAL. If they like what they are getting and how they are being



treated, they will tell all their Facebook friends and Tweet all about it. You cannot BUY better marketing.

They want a place that will understand their pets are like children. They want to feel safe (from video cameras to watchful staff). They want to know their cars just as safe and to trust that you will care about and make good decisions regarding who their neighbors will be.

Here's the best part: pay attention to these things and they will **PAY MORE!**



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### WHY CONSIDER RCK ORGANIZATION?

- ◆ SOLD OVER 6,000 UNITS IN CENTRAL VALLEY SINCE 2001
- ◆ HANDLED THE LARGEST MULTI-FAMILY TRANSACTION IN FRESNO COUNTY
- ◆ ACHIEVED THE HIGHEST SALES PRICE PER UNIT SALE
- ◆ 30 YEARS OF MULTI-FAMILY EXPERIENCE IN THE CENTRAL SAN JOAQUIN VALLEY

## WINDS OF CHANGE SOW SEEDS OF OPPORTUNITY

There are so many things happening all at once. Here are just a few stories, events and transformational changes that are going on:

- ◆ **ELECTION YEAR:** Regardless of your politics, the stakes are so high that whoever wins, the country's direction will be radically different.
- ◆ **NET ENERGY EXPORTER:** For the 1st time in over a half century, the US is exporting more energy than it imports. This has HUGE implications for jobs with respect to their types and locations.
- ◆ **HOMEBUYING NOT A PRIORITY:** The percentage of homeowners is dropping like a rock. They will be renters for a long time to come.
- ◆ **CA COURTS APPROVE SMOKING BAN IN APARTMENTS:** This is a fantastic opportunity to attract a very large segment of the population.
- ◆ **LOW RATES FOR LONG TIME:** Look for massive shifts of capital locked into MMC and CD searching for higher rates of return. From people buying the foreclosure next door to investment pooling, **Savings is for Suckers.**
- ◆ **DECLINE IN PUBLIC SECTOR, GROWTH IN PRIVATE SECTOR:** Between massive downsizing of governments worldwide and elimination of



Redevelopment Agencies, there is a seismic shift due the recognition there are limits.

- ◆ **U.S. IS THE SAFEST PLACE FOR INVESTORS AND INVESTING:** From Europe to the emerging markets, there is a growing realization that the place to be investing is now the U.S.
- ◆ **CALIFORNIA NO LONGER LOSING CITIZENS:** For the first time in more than 10 years, more people are moving back to CA than leaving. One thought is the cost of living has dropped so much.
- ◆ **PEOPLE ARE LOOKING TO UPGRADE, NO LONGER SEEKING A CHEAPER PRICE:** Called Frugality Fatigue, people are spending again. Car sales are way up.
- ◆ **LENDERS LOVE MULTIFAMILY:** From Life Co's to Community Banks, all want to get in. Look for Construction, Rehab, Mezzanine and other capital to come forward.
- ◆ **MASSIVE TAX LAW CHANGES LOOMING:** From Capital Gains to Obama care, look for Capital Shifts prior to the end of 2012.

It is our belief that the next 12 months will provide a lot of drama, change and most importantly, opportunity. We are excited... how about you?