

TEXPERS MULTI-FAMILY MARKET ENVIRONMENT

April 2010



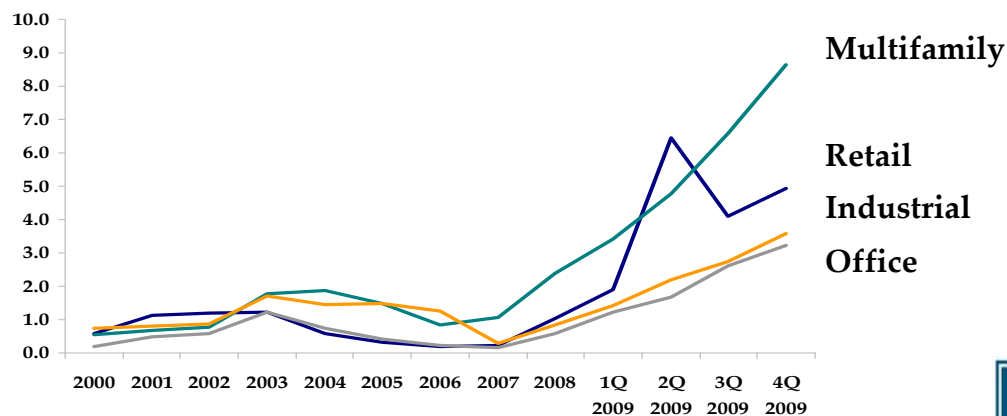
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Significant Temporary Distress

- Multifamily suffering higher delinquencies than other property types
- Lenders have troubled loan portfolios they have been unable or unwilling to securitize or sell
- Failed condo projects remain in commercial bank troubled loan or REO portfolios
- Owners have lost equity stakes due to excessive leverage
- CMBS loan maturities is expected to double over the next four years

Delinquency Rates by Property Type - CMBS



Vacancy Rate at 30-Year High

- U.S. vacancy rate for apartments as of YE 2009 was 8.0%, the highest since 1986. This compares to a vacancy rate of 5.7% as of Q3, 2007, which is considered to be the peak of the cycle
- Vacancy driven by job loss and resulting reduction in number of households
- Result is decline in Net Operating Income of 30% to 40% from peak levels in 2005-7 in certain markets, especially those hit hardest by job loss and for-sale housing bust



Agencies Are Financing Stable Properties

- Fannie Mae and Freddie Mac provide reasonably priced debt capital; not available to other property sectors; will likely remain the primary liquidity option for multi-family for the foreseeable future

Dearth of Properties for Sale

- Sellers that are not forced by investors or lenders to sell are instead holding onto assets and extending debt terms
- Few REO properties as lenders are reluctant to foreclose and recognize losses
- However, lenders may be emboldened by recent cap rate compression to foreclose on or otherwise force sales of properties, rather than simply continue to “pretend and extend”



Cap Rates Compressed for Quality Properties

- Cap rates for high-quality assets have compressed by 75 to 100 bps since highly uncertain environment prevalent in early 2009
- Strong interest in a limited number of widely marketed transactions, primarily REO or driven by lender:
 - Class A REO in Arlington, VA acquired at foreclosure auction for \$117.9 million. Price paid was well in excess of the mortgage (formerly a failed condominium); equaled 4.5% cap, or \$450,000 per unit. Winning bidder was a private buyer
 - Class A REO near Dallas Galleria had more than 40 bidders, traded at a 5.7% cap or \$100,000 per unit (included 40,000sf of mostly vacant retail). Buyer was an insurance company.



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Deal Volume Picking Up

- In 2009, institutional multifamily transaction volume was \$14.1 billion, which was a dramatic decline from 2008 level of \$38.4 billion and an even more precipitous decline from the 2007 level of \$101.3 billion
- Volume may be picking up steam, as institutional multifamily transaction volume in January 2010 was 183% higher than in January 2009

Investor Rationale for Lower Cap Rates

- Investors rationalize lower cap rates by focusing on perceived attractive discount to replacement costs
- In-place operating income perceived to be near bottom
- Recognition that apartments will likely recover before other property types as job growth and household formation returns
- No alternatives in other property types due to lack of debt financing



Investment Opportunity Set

- **Core:**
 - Class A / A- assets in core markets with going-in cap rates of 5.75% - 6.5%
- **Non-Core:**
 - Purchases of notes encumbering high-quality assets
 - Unfinished, abandoned condo and apartment projects
 - Recapitalizations
- **Other:**
 - Fractured (i.e., partially sold) condo projects
 - Class C apartments or notes encumbering these assets
 - Development Sites



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