



## **Location, Location, Location: The State of US Property Markets**

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# Cross-Sector Market Outlook



- While 2005 saw a drop in apartment vacancy rates, gross revenue growth will rely on effective rent increases in 2006. Construction and change of use will track demand with the result that vacancy will level off in the coming year
- Favorable demographics will continue to support multifamily demand in most major markets, as will rising mortgage rates and diminished property price appreciation expectations
- Restraint in office and industrial development will foster conditions for drops in vacancy rates and a recovery in effective rents
- The attractiveness of the retail sector for developers will exert upward pressure on vacancies and limit gross revenue growth. Questions surrounding the sustainability of consumer spending translate into downside risk for this sector

# Quarterly Market Conditions

## U.S. Apartment Market

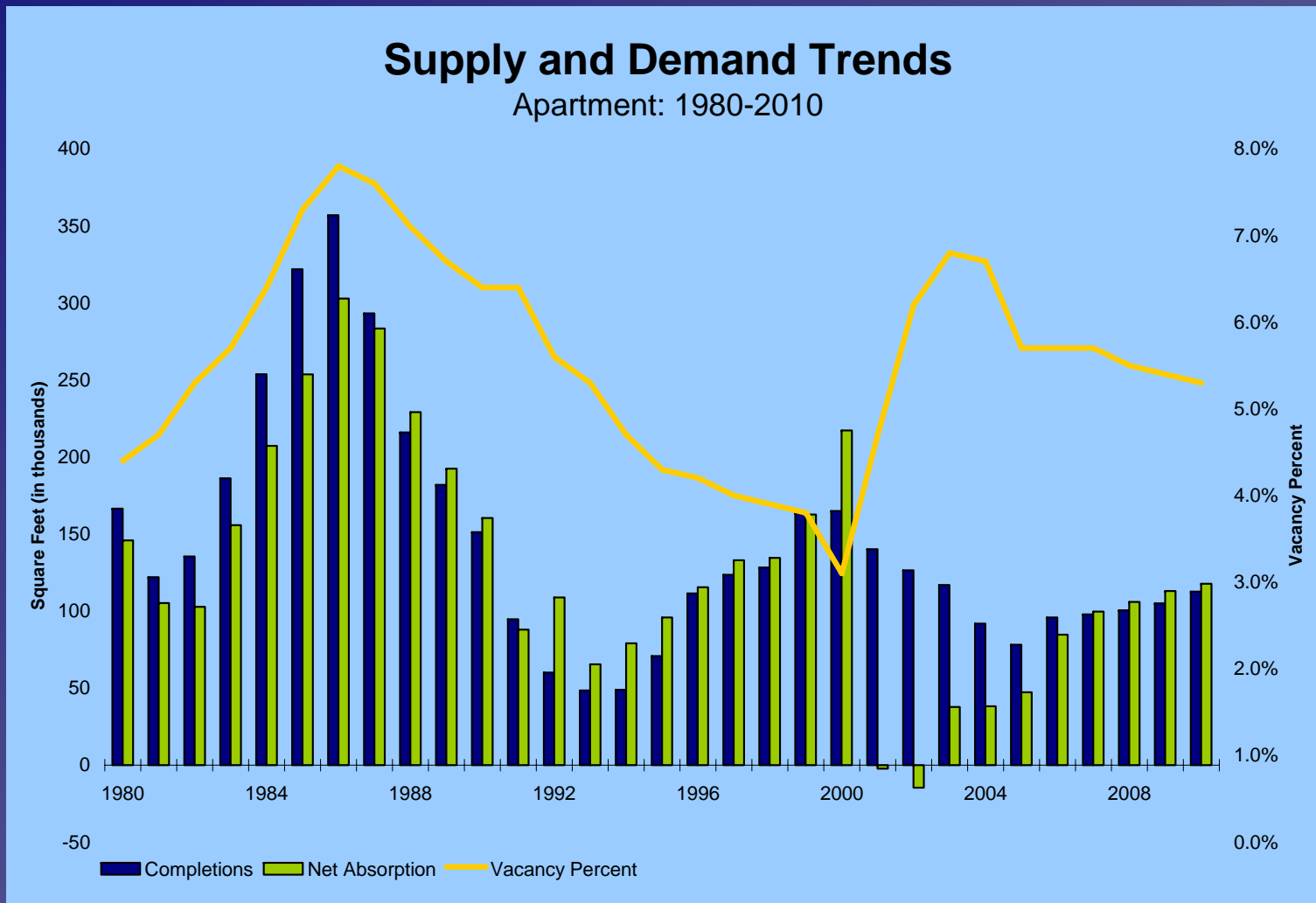


Year	Quarter	Net Absorption	Effective Rent	Percent Change
2002	1	-48.1	\$851	-1.3%
2002	2	8.8	\$852	0.1%
2002	3	26.2	\$855	0.4%
2002	4	-1.9	\$853	-0.2%
2003	1	-25.6	\$851	-0.2%
2003	2	34.8	\$851	0.0%
2003	3	29.2	\$854	0.4%
2003	4	0.4	\$856	0.2%
2004	1	-17.8	\$856	0.0%
2004	2	36.0	\$862	0.7%
2004	3	23.3	\$871	1.0%
2004	4	-4.0	\$875	0.5%
2005	1	1.4	\$879	0.5%
2005	2	7.0	\$884	0.6%
2005	3	30.2	\$895	1.2%
2005	4	8.6	\$901	0.7%

- Average effective rent grew 1.2% in the third quarter, the largest rent gain in more than four years and double the increase of the second quarter.
- While the U.S. market slowed slightly in the 4<sup>th</sup> quarter, the effective rent gain conceals a more mixed picture:
  - Only 36 market recorded positive net absorption, versus 55 markets in the previous quarter
  - 34 markets recorded falling vacancy, versus 63 in the previous quarter
  - 58 markets recorded rising effective rent, versus 67 in the previous quarter
- Retaining its status as a destination of necessity for many households displaced by Katrina, Houston lead the way with an atypical 6,300 units absorbed following an astonishing 15,200 in the previous quarter.

# Supply and Demand Trends

## U.S. Apartment Markets



Source: Reis, Inc.

# Vacancy & Rent Trends

## U.S. Apartment Market



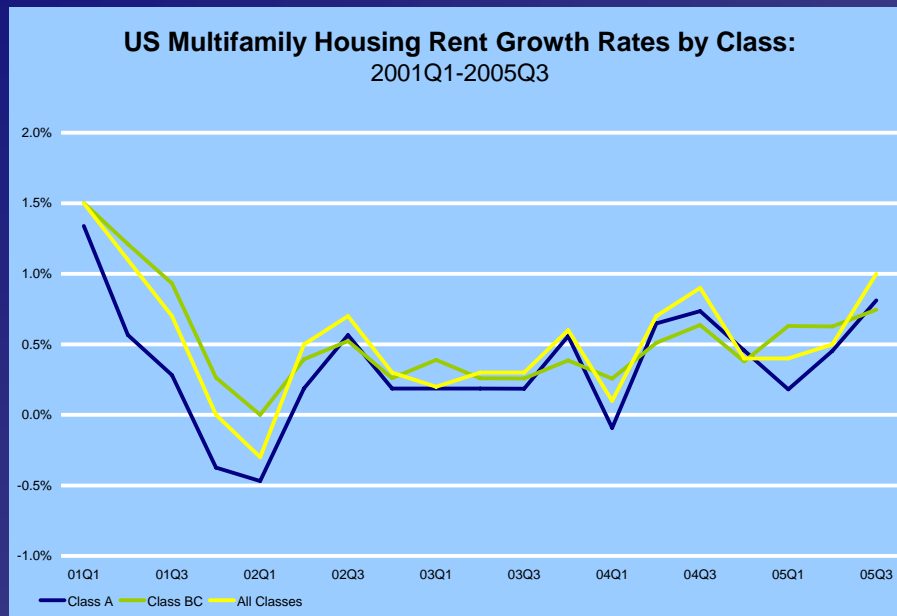
Year	Completions	Vacancy Percent	Effective Rent	Percent Change
2000	164.9	3.1%	\$852	8.3%
2001	140.6	4.7%	\$862	1.2%
2002	126.6	6.2%	\$853	-1.0%
2003	118.4	6.8%	\$856	0.4%
2004	92.3	6.7%	\$875	2.2%
2005	78.0	5.7%	\$901	3.0%
2006	95.8	5.7%	\$929	3.1%
2007	97.8	5.7%	\$960	3.3%
2008	100.4	5.5%	\$993	3.4%
2009	105.0	5.4%	\$1,028	3.5%
2010	112.6	5.3%	\$1,064	3.5%

Source: Reis, Inc.

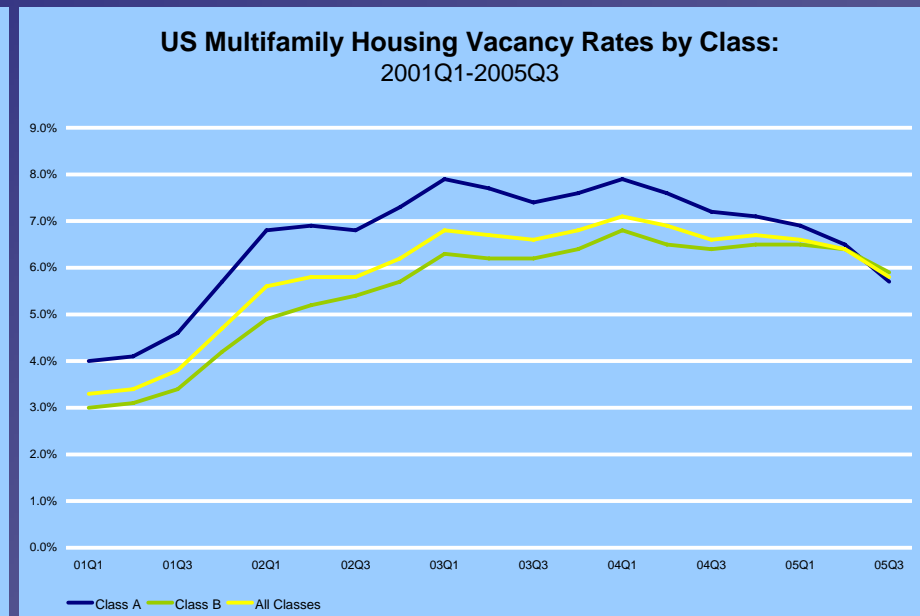
- Nationally the sector finished 2005 having absorbed 47,200 units. The vacancy rate will remain stable as construction being tracked by Reis, coupled with reversion of converted space, matches demand in 2006 and 2007
- Accelerating absorption, finally surpassing 100,000 units in 2008, will be sufficient to support continued reduction of concessions packages and translate into effective rent increases of 3.1%, 3.3%, and 3.4% in 2006, 2007, and 2008, respectively
- Waning of the condominium conversion craze—either due to rising mortgage rates or the depletion in some markets of existing properties suitable for successful conversion—will likely result in more favorable conditions for renters and a dilution of pricing power for owners

# Class Trends

## U.S. Apartment Market



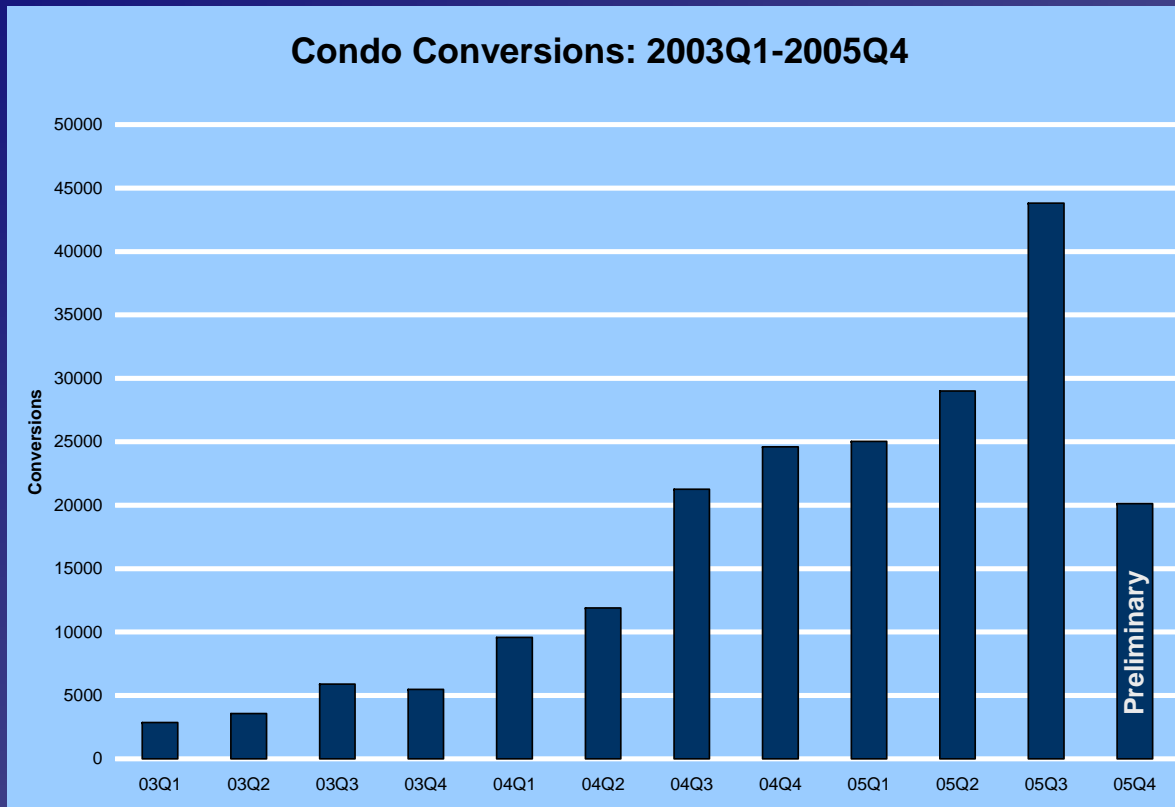
Source: Reis, Inc.



Source: Reis, Inc.

- B/C Class properties have generally outperformed Class A as homeownership bias has acted as a leech on Class A demand
- Supporting Class A fundamentals, conversions have siphoned supply and allowed Class A vacancy to converge on the overall rate

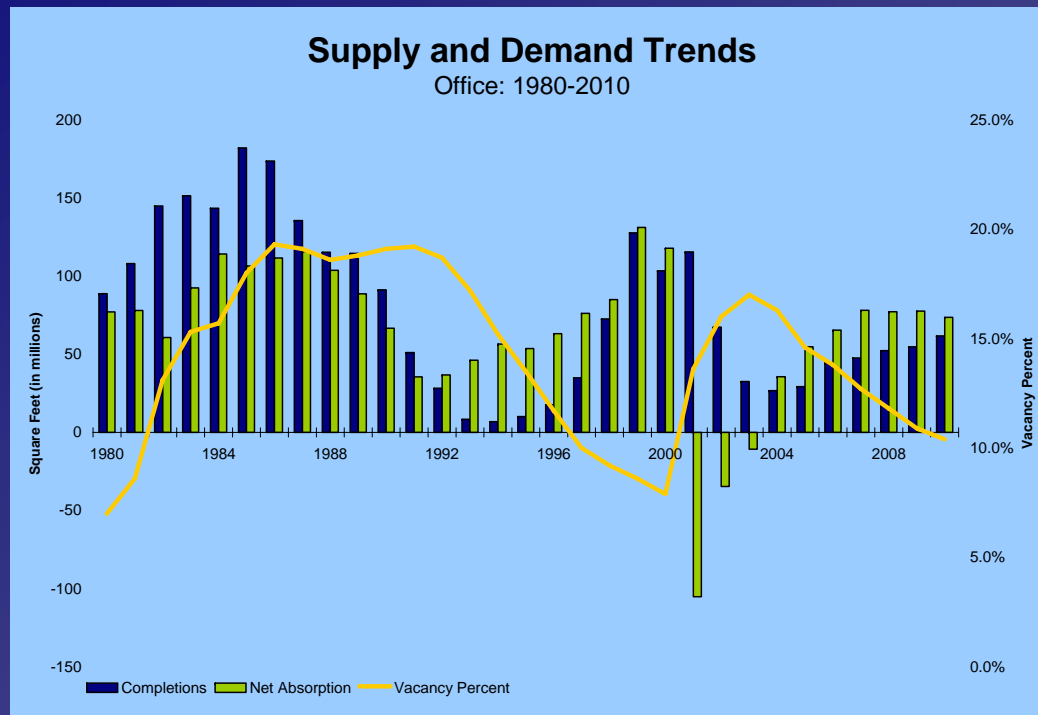
# Conversion Activity U.S. Apartment Market



Source: Reis, Inc.

- Condo conversions numbered 118,000 (preliminary total) in 2005, exceeding additions to the competitive stock in for the year
- Phoenix, Orlando, Palm Beach, Tampa, Fort Lauderdale, and San Diego were market leaders in conversion activity
- Conversions' prop of tightening supply will weaken significantly in the coming year as appreciation in the condo market slows

# Supply and Demand Trends U.S. Office Market



Year	Completions	Vacancy Percent	Effective Rent	Percent Change
2000	110.2	8.2%	\$24.84	12.4%
2001	126.2	13.6%	\$22.99	-7.4%
2002	78.7	16.0%	\$21.32	-7.3%
2003	37.7	16.9%	\$20.23	-5.1%
2004	30.8	16.3%	\$20.00	-1.1%
2005	35.5	14.7%	\$20.65	3.3%
2006	51.0	13.8%	\$21.38	3.5%
2007	53.8	12.7%	\$22.20	3.8%
2008	59.4	11.8%	\$23.09	4.0%
2009	62.6	11.0%	\$24.10	4.4%
2010	71.7	10.4%	\$25.15	4.4%

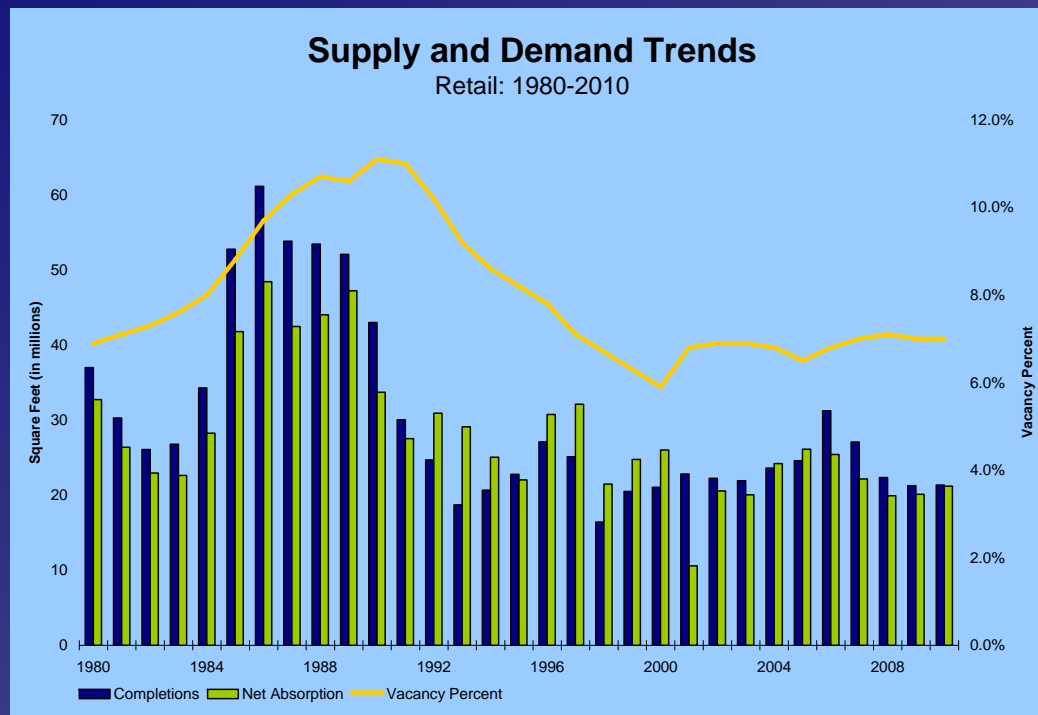
Year	Quarter	Net Absorption	Effective Rent	Percent Change
2002	1	-23.5	\$22.23	-3.3%
2002	2	-9.3	\$21.89	-1.5%
2002	3	-4.2	\$21.58	-1.4%
2002	4	-0.2	\$21.32	-1.2%
2003	1	-7.0	\$20.97	-1.6%
2003	2	-4.7	\$20.58	-1.9%
2003	3	-4.4	\$20.37	-1.0%
2003	4	3.4	\$20.23	-0.7%
2004	1	1.1	\$20.09	-0.7%
2004	2	6.5	\$20.01	-0.4%
2004	3	10.5	\$20.00	0.0%
2004	4	19.9	\$20.00	0.0%
2005	1	11.4	\$20.12	0.6%
2005	2	20.4	\$20.26	0.7%
2005	3	13.6	\$20.44	0.9%
2005	4	16.4	\$20.65	1.0%

Source: Reis, Inc.

- The close of the year revealed strong performance from the sector, with increasing absorption and effective rents and the lowest vacancy level recorded since 2001

# Supply and Demand Trends

## U.S. Retail Markets



Source: Reis, Inc.

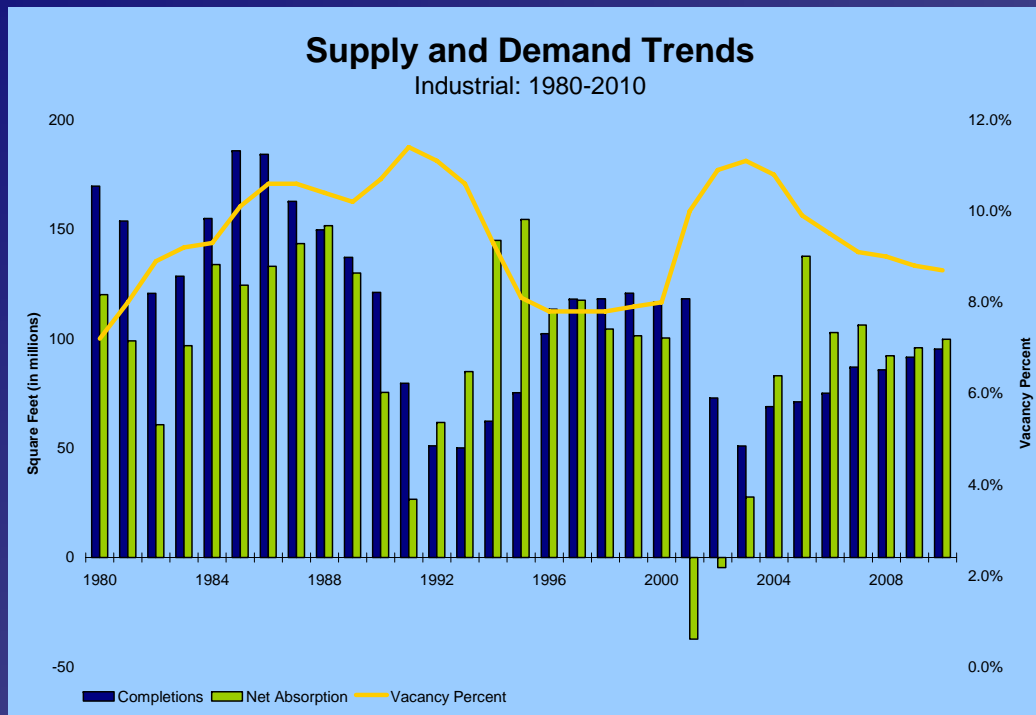
- A continuing decline in vacancy characterized a favorable end to 2005 for the sector, with over half of Reis's retail markets experiencing positive absorption and rising effective rent
- Rising completions in 2006 and 2007 will push vacancy back up to 7.2%

Year	Completions	Vacancy Percent	Effective Rent	Percent Change
2000	23.6	6.3%	\$15.05	4.7%
2001	26.2	7.0%	\$15.27	1.5%
2002	26.3	7.2%	\$15.44	1.1%
2003	25.0	7.2%	\$15.80	2.3%
2004	28.5	7.0%	\$16.25	2.8%
2005	29.1	6.8%	\$16.77	3.2%
2006	37.7	7.0%	\$17.30	3.2%
2007	31.9	7.2%	\$17.82	3.0%
2008	26.1	7.2%	\$18.38	3.1%
2009	24.8	7.1%	\$18.98	3.3%
2010	25.1	7.0%	\$19.64	3.5%

Year	Quarter	Net Absorption	Effective Rent	Percent Change
2002	1	1.1	\$15.30	0.2%
2002	2	7.2	\$15.34	0.3%
2002	3	5.7	\$15.37	0.2%
2002	4	9.5	\$15.44	0.5%
2003	1	5.9	\$15.49	0.3%
2003	2	5.1	\$15.54	0.3%
2003	3	3.8	\$15.65	0.7%
2003	4	8.3	\$15.80	1.0%
2004	1	3.2	\$15.88	0.5%
2004	2	8.5	\$15.99	0.7%
2004	3	7.8	\$16.14	0.9%
2004	4	10.4	\$16.25	0.7%
2005	1	4.9	\$16.35	0.6%
2005	2	9.5	\$16.47	0.7%
2005	3	7.5	\$16.62	0.9%
2005	4	8.6	\$16.77	0.9%

# Supply and Demand Trends

## U.S. Industrial Markets



Year	Completions	Vacancy Percent	Effective Rent	Percent Change
2000	116.7	8.0%	\$4.50	4.2%
2001	118.3	10.0%	\$4.38	-2.7%
2002	72.9	10.9%	\$4.32	-1.4%
2003	51.0	11.1%	\$4.26	-1.4%
2004	68.9	10.8%	\$4.28	0.5%
2005	71.1	9.9%	\$4.41	3.0%
2006	75.1	9.5%	\$4.54	2.9%
2007	87.0	9.1%	\$4.71	3.7%
2008	85.8	9.0%	\$4.87	3.4%
2009	91.5	8.8%	\$5.03	3.3%
2010	95.2	8.7%	\$5.21	3.6%

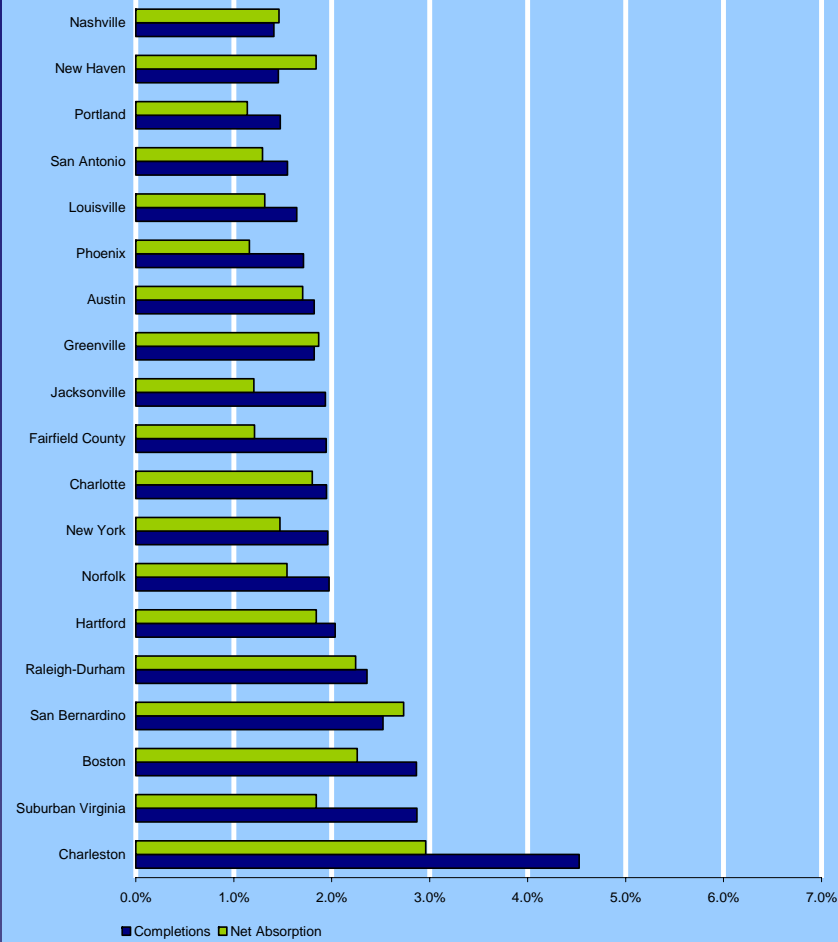
- The sector showed signs of continued recovery in 2005 with an estimated 138 million square feet of absorption, pushing down the national vacancy to 9.9%
- Effective rents, increasing 3.0% in 2005 are expected to continue rising in the coming years

Source: Reis, Inc.

# Supply and Absorption Forecast U.S. Apartment and Retail Markets

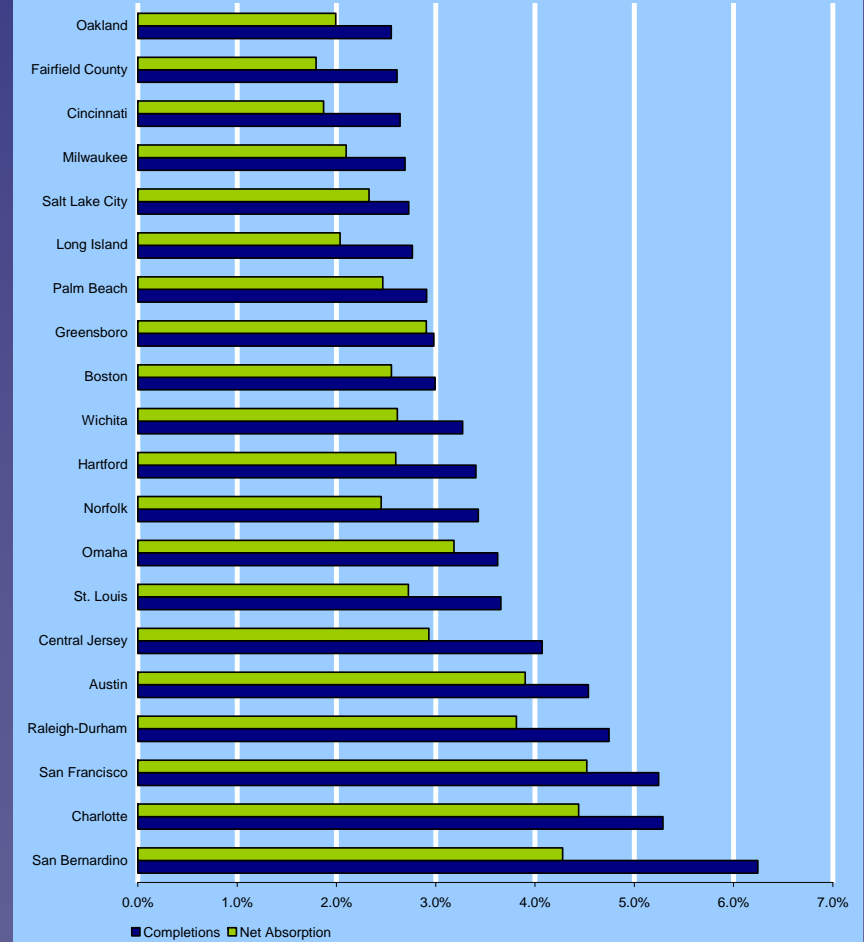


**Apartment Completions and Net Absorption, Percent of Total Stock: 2006 Forecast**



Source: Reis, Inc.

**Retail Completions and Net Absorption, Percent of Total Stock: 2006 Forecast**



Source: Reis, Inc.