

USC LUSK CENTER
CASDEN REAL ESTATE
ECONOMICS FORECAST

9th Annual
Multifamily Forecast
April 6, 2011



University of Southern California
Marshall School of Business
School of Policy, Planning, and Development



THE 9TH ANNUAL CASDEN MULTIFAMILY FORECAST PROGRAM

WELCOME

Richard K. Green | Director
USC Lusk Center for Real Estate

Alan Casden | Chairman and Chief Executive Officer
Casden Properties, LLC

CASDEN REAL ESTATE ECONOMICS MULTIFAMILY MARKET FORECAST

Tracey Seslen | Senior Research Associate
USC Casden Real Estate Economics Forecast

MULTIFAMILY OUTLOOK

MODERATOR

Richard K. Green | Director
USC Lusk Center for Real Estate

PANEL

Gregory T. Mutz | Chairman & Chief Executive Officer
AMLI Residential Partners, LLC

Lori A. Torres | Senior Vice President
The Irvine Company Apartment Communities

Greg Willett | Vice President, Research & Analysis
MPF Research

BREAK

KEYNOTE

Scott W. Simon | Managing Director
PIMCO

CONDUIT LENDING

MODERATOR

Jerome A. Fink | Co- Founder and Managing Partner
The Bascom Group, LLC

PANEL

Wayne M. Brandt | Managing Director – Real Estate Capital Markets
Wells Fargo Bank

Alan Flatt | Director
Bank of America Merrill Lynch

Gary E. Mozer | Chief Executive Officer
George Smith Partners, Inc.

Timothy L. White | Executive Vice President & Chief Operating Officer
PNC Real Estate - Multifamily

Mark A. Willis | Resident Research Fellow
Furman Center, New York University

MULTIFAMILY DEVELOPMENT

MODERATOR

Steven K. Fowlkes | President
R.W. Selby & Company, Inc.

PANEL

Dan Chandler | President
Chandler Partners

Daniel J. Epstein | Founder and Chairman of the Board
The ConAm Group of Companies

Timothy O'Brien | Senior Managing Director/Partner
Legacy Partners Residential

CLOSING REMARKS

Richard K. Green | Director
USC Lusk Center for Real Estate

NETWORKING LUNCH • GRAND BALLROOM 3 & 4

Report Authors

TRACEY SESLEN | Senior Research Associate

USC Casden Real Estate Economics Forecast

Tracey Seslen received her Ph.D. in Economics from the Massachusetts Institute of Technology in 2003 and has been an Assistant Professor of Clinical Finance and Business Economics since 2006. She currently teaches Real Estate Finance in the Marshall School of Business and the School of Policy, Planning, and Development at USC. She is also one of the core finance instructors for the Ross Minority Program in Real Estate. Her past research has focused on housing cycles, the capitalization of risk and return into housing prices, household mobility behavior, and termination risk in commercial mortgages.



For the past year, she has been the co-author of the Casden Real Estate Report and in that role has developed new models for predicting price and vacancy movements for office, industrial and multi-family markets in Southern California. Her expertise in real estate finance has led to quotes in the LA Times, Wall Street Journal, OC Register, LA Business Journal, Long Beach Business Journal, California Real Estate Journal, SmartMoney.com, Downtown News, and other local and national publications. In addition, she has appeared on the Today Show, Marketplace Radio, and various local network news broadcasts. Recently, she has worked as an expert witness on real estate valuation issues.

When not working in the field of real estate, she is an avid international traveler, photographer, and skier. She lives in Marina del Rey with her husband and 2-year-old daughter.

SKYE TIRSBIER | MBA/MPL Dual Degree Candidate | University of Southern California



Skye Tirsbie is a Master of Business Administration/Master of Planning dual degree candidate at USC. Before attending USC, she worked for real estate developer New Urban West in Santa Monica for several years as the Entitlements Project Manager. Skye managed the entitlement process and secured approvals for a large mixed-use community in Southern California. Her academic honors include selection as a Marshall MBA Fellow and placement on the graduate Dean's List of the Marshall School of Business. After graduation, Skye is interested in applying her business knowledge and real estate experience in the education sector or working for a real estate development firm in Southern California.

Keynote Speaker

SCOTT W. SIMON | Managing Director | PIMCO

Mr. Simon is a managing director in the Newport Beach office, a senior member of PIMCO's portfolio management and strategy groups and head of the mortgage- and asset-backed securities teams. Prior to joining PIMCO in 2000, he was a senior managing director and co-head of MBS pass-through trading at Bear Stearns. He also authored The Daily MBS Commentary there. Mr. Simon has seven times been named to positions on the Institutional Investor All-America Fixed-Income Research Team, including first place in MBS pass-throughs and overall MBS strategies. He has 27 years of investment experience and holds both master's and undergraduate degrees in industrial engineering from Stanford University.



Multifamily Outlook

RICHARD K. GREEN | Director | USC Lusk Center for Real Estate

Richard K. Green, Ph.D., holds the Lusk Chair in Real Estate and is Professor in the School of Policy, Planning, and Development and the Marshall School of Business.

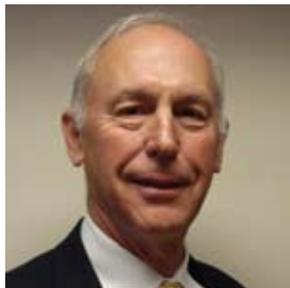
Prior to joining the USC faculty, Dr. Green spent four years as the Oliver T. Carr, Jr., Chair of Real Estate Finance at The George Washington University School of Business. He was Director of the Center for Washington Area Studies and the Center for Real Estate and Urban Studies at that institution. Dr. Green also taught real estate finance and economics courses for 12 years at the University of Wisconsin-Madison, where he was Wangard Faculty Scholar and Chair of Real Estate and Urban Land Economics. He also has been principal economist and director of financial strategy and policy analysis at Freddie Mac. More recently, he was a visiting professor of real estate at the University of Pennsylvania's Wharton School, and he continues to retain an affiliation with Wharton. He is or has been involved with the Lincoln Institute of Land Policy, the Conference of Business Economists, the Center for Urban Land Economics Research, and the National Association of Industrial and Office Properties. Dr. Green also is a Weimer Fellow at the Homer Hoyt Institute, and a member of the faculty of the Selden Institute for Advanced Studies in Real Estate. He was recently President of the American Real Estate and Urban Economics Association.



His research addresses housing markets, housing policy, tax policy, transportation, mortgage finance and urban growth. He is a member of two academic journal editorial boards, and a reviewer for several others. His work is published in a number of journals including the American Economic Review, Journal of Economic Perspectives, Journal of Real Estate Finance and Economics, Journal of Urban Economics, Land Economics, Regional Science and Urban Economics, Real Estate Economics, Housing Policy Debate, Journal of Housing Economics, and Urban Studies. His book with Stephen Malpezzi, *A Primer on U.S. Housing Markets and Housing Policy*, is used at universities throughout the country. His work has been cited or he has been quoted in the New York Times, The Wall Street Journal, The Washington Post, the Christian Science Monitor, the Los Angeles Times, Newsweek and the Economist, as well as other outlets. He recently gave a presentation at the 31st annual Federal Reserve Bank of Kansas City Economic Symposium, where his work was cited by Federal Reserve Chairman Ben Bernanke. The National Association of REALTORS, the Ford Foundation, and the Lincoln Institute for Land Policy have funded grants to support some of Dr. Green's research. He consults for the World Bank.

Dr. Green earned his Ph.D. and M.S. in economics from the University of Wisconsin-Madison. He earned his A.B. in economics from Harvard University.

GREGORY T. MUTZ | Chairman & Chief Executive Officer | AMLI Residential Partners, LLC



AMLI Residential Partners, LLC, is a successor company to AMLI Realty Co., a Chicago based real estate company he founded in 1980. In 1994 AMLI Realty Co. split into 2 companies, AMLI Residential Properties Trust and AMLI Commercial Properties Trust. AMLI Residential Properties Trust became a public company (NYSE:AML) from 1994-2006, at which time AMLI was acquired by PRIME Property Fund, an institutional core real estate fund managed by Morgan Stanley Real Estate, Inc. Mr. Mutz was Chairman of the Board of AMLI Commercial Properties Trust, a Chicago-based private office and industrial REIT, from 1994 through 2001 at which time the company was sold. Mr. Mutz serves on the Board of RBI Holdings, a St. Petersburg, Russia based real estate company ('07 through the present) and serves on the

Board of WAN, S.A., a Warsaw, Poland based real estate company (from '07 through the present). Mr. Mutz has been a Trustee of the Aston family of Mutual Funds, from '93 through the present. Mr. Mutz was an officer with White, Weld & Co., Inc, a New York-based investment banking firm (1976-'78), and associated with Mayer Brown (1973-'76), a Chicago-based international law firm. Mr. Mutz received a B.A. from DePauw University in '67 and a J.D. from the University of Michigan Law School in '73. Mr. Mutz served in Vietnam as an Infantry Lieutenant (1968-'69).

LORI A. TORRES, CPM® | Senior Vice President | The Irvine Company Apartment Communities

Lori joined The Irvine Company Apartment Communities in January 2000 as Vice President of Property Management and now holds the title of Portfolio Vice President overseeing over 13,000 units in Orange County, Northern California and Santa Monica. Lori oversees five Regional Managers with a portfolio of 34 assets and 350 associates.

Prior to joining Irvine Apartment Communities, Lori worked for BRE Properties, Inc., for four years as Senior Regional Property Manager and Vice President Ancillary Income. Prior to that, she was Assistant Vice President for McNeil Real Estate Management, Inc.

Lori has earned the esteemed Certified Property Manager designation from the Institute of Real Estate Management. She is the immediate past President of the Board for South Coast Apartment Association. Lori resides in Orange County with her husband and two children. In her spare time she enjoys spending time with her family, friends and golfing.



GREG WILLETT | Vice President, Research & Analysis | MPF Research



Greg Willett heads the research and analysis team at MPF Research, tracking and evaluating trends in multifamily market fundamentals. He thus is well versed on multifamily market conditions and activity nationally, by metro, and in many individual neighborhoods. Greg has written articles for periodicals such as Multifamily Executive, Urban Land, and Multifamily Trends, and is a regular contributor to numerous other publications serving the multifamily housing market. He also serves as the primary author of MPF's Market Dynamics newsletter that highlights apartment sector news and insights from the MPF Research team of analysts. Greg began his tenure in the multifamily industry as a data analyst and later served as a research consultant specializing in feasibility evaluations of new apartment community

development and existing property acquisition. He holds a Bachelor's degree from Western Kentucky University and a Master of Liberal Arts degree from Southern Methodist University.

Conduit Lending

JEROME A FINK | Managing Partner | The Bascom Group, LLC

Jerome A. Fink, co-founder and Managing Partner of The Bascom Group, LLC, oversees property acquisition, financing, and disposition. Bascom has completed over \$6.0 billion in multi-family and commercial value-added transactions since 1996. Bascom's subsidiaries and joint ventures include the Southern California Industrial Fund, Rushmore Properties, Bascom Portfolio Advisors, and the Realm Group. Bascom's subsidiaries also include Premier Business Centers, the largest privately held executive suite company in the US. Prior to founding Bascom, Mr. Fink was Senior Acquisitions and Sales Manager from 1991 to 1995 for Pacific Mutual Life Insurance Company. His responsibilities included market assessment, property identification and negotiation, and the acquisition and disposition of real estate investments. Mr. Fink has a Bachelor of Science in Electrical and Computer Engineering and a Master of Business Administration in Real Estate and Finance from the University of Wisconsin-Madison. He is a member of the CCIM Institute, the Institute of Real Estate Managements (IREM), and Turnaround Management Association (TMA). Mr. Fink is a licensed real estate broker in the state of California, a Certified Commercial Investment Member (CCIM), and a Certified Turnaround Professional (CTP). He has appeared as a guest speaker at various ULI, UCI, USC, UCLA, and Real Estate Conference Group functions and was previously on the Board of Directors for the Wisconsin Real Estate Alumni Association. Mr. Fink was awarded the "Apartment Executive of the Year" by the Real Estate Conference Group's Apartments 2004, the industry's largest and most prestigious multifamily conference on the West Coast and the "Rising Star Award" by the UCI Center for Real Estate in 2008.



Conduit Lending Continued

WAYNE M. BRANDT | Managing Director - Real Estate Capital Markets | Wells Fargo Bank

Mr. Brandt is a Managing Director and the Western Regional Head of the Real Estate Capital Markets Group at Wells Fargo Bank. Based in Los Angeles, CA, Mr. Brandt directs the origination of fixed and floating rate, non-recourse balance sheet, CMBS and mezzanine loans throughout the Western United States. Wells Fargo is the largest commercial real estate lender in the country with \$130 billion in outstanding loans, a \$400 billion servicing portfolio, and a leading position as a CMBS issuer. Previously, Mr. Brandt was head of real estate lending and debt investments for the Buchanan/TCW Funds, a \$1.2 billion private equity firm that invests in JV equity, first mortgages and mezzanine loans in all major U.S. markets. Over his career, Mr. Brandt has helped build several lending and investment management businesses in both New York and Los Angeles. Mr. Brandt was previously a Managing Director of RBS Greenwich Capital where he directed all real estate investments in the western U.S. and financed over \$11 billion in real estate transactions. He has held previous positions as a Managing Partner at Menlo Equities, a \$500 million private equity real estate fund, and as a Managing Director at Nomura Securities, heading its west coast real estate finance operations. He has served as a guest lecturer at the USC Lusk Center, UCLA Anderson School of Business, and the MIT Center for Real Estate and has authored several industry articles. He is a member of the Mortgage Bankers Association, Ziman Center for Real Estate at UCLA, and the Fischer Center for Real Estate. Mr. Brandt is an investment committee member of the Huntington Hospital in Pasadena, CA, a board member for Junior Achievement, and a committee member for the Champions of Scouting. Mr. Brandt holds a M.S. in Real Estate from the Massachusetts Institute of Technology (MIT) and completed his undergraduate degree at Stanford University.



ALAN FLATT | Director | Bank of America Merrill Lynch



Alan has worked at Bank of America Merrill Lynch since 2002. Currently, Alan is the west coast regional manager responsible for fixed rate, non-recourse commercial real estate loans originated for CMBS. He is located in the Irvine, California office and has also worked in the San Francisco, California office. During his time at Bank of America, Alan has originated over \$2 billion of loans in every major west coast market. Prior to Bank of America Merrill Lynch, Alan worked at Acacia Bank, Nomura Securities and GE Capital, all in lending positions. Prior to working for lending institutions, he started his career as a mortgage banker in Chicago with Baird and Warner (now Northmarq). He received his MBA in finance and real estate

from University of Michigan and also received his undergraduate degree from University of Michigan.

GARY E. MOZER | Chief Executive Officer | George Smith Partners, Inc.

As the Chief Executive Officer of George Smith Partners, Mr. Mozer has arranged in excess of \$21 billion of debt and equity financing for a broad array of real estate transactions. Appointed CEO in 1999, he has consistently ranked as GSP's largest individual producer, placing approximately \$2 billion annually.

With two decades of commercial mortgage brokerage experience, Mr. Mozer has developed an in-depth knowledge of virtually all property types. He most frequently works in retail, residential, office, and industrial products. However, he is also an accomplished financier of hotels, assisted living and skilled nursing facilities, marinas, RV parks, and self-storage sites.



Within GSP, Mr. Mozer leads a corps of accomplished real estate professionals. This team, known as "The Mozer Group", includes brokers with MBA degrees from the nation's preeminent educational institutions. Mr. Mozer is a player/coach who is actively involved in the day to day deal transactions. The Mozer Group has close working relationships with a variety of capital sources and is recognized for expertise in structuring complex transactions, mezzanine and equity.

Mr. Mozer is a member of the Urban Land Institute (ULI) and the International Council of Shopping Centers (ICSC), where he participates as a faculty member of ICSC's University of Shopping Centers. Mr. Mozer is a former President of the Association of Corporate Real Estate Executives (ACRE) and is a member of the Society of Industrial and Office Realtors

(SIOR). He participates in the Young Presidents Organization (YPO), sits on the Board of Governors at Cedars-Sinai Medical Center, and is involved in the Defense Orientation Conference Association, the Navy League and is active in a number of other charitable organizations.

Mr. Mozer holds two graduate degrees from the University of Wisconsin; a Masters of Real Estate and a Masters of Finance. His undergraduate education took place at the University of Michigan, where he earned a Bachelors of Science in Computer Science and Mathematics. He is involved with both Alumni associations.

TIMOTHY L. WHITE | Executive Vice President & Chief Operating Officer | PNC Real Estate - Multifamily

PNC Real Estate – Multifamily is a leading supplier of multifamily financing, providing mortgage financing through Fannie Mae, Freddie Mac, FHA, and PNC. The company has consistently been one of the leading financiers of apartment projects in the United States. Mr. White joined ARCS Mortgage, Inc. in June 1993, and was initially responsible for the firm’s legal, insurance and human resource functions. He subsequently served as Chief Operating Officer and General Counsel of ARCS Commercial Mortgage Co. from its inception in August, 1995, until its acquisition by PNC Bank in July, 2007, when he became President of PNC ARCS, a position he served until November 2009 when PNC ARCS and PNC’s affordable housing finance business were reorganized as PNC Real Estate – Multifamily.



Mr. White has served for several years on the Fannie Mae DUS Advisory Council and currently serves as its Vice-Chairman. He also serves on the advisory boards of the National Association of Homebuilders, the Lusk Real Estate Center at USC, and Real Estate Forum Magazine. He has previously served as a member on the Freddie Mac Multifamily Servicing Advisory Board, editorial advisor to the California Real Estate Journal, and as a member of various committees of the California and Los Angeles County Bar Associations. Prior to joining ARCS, he served as a real estate attorney with Pillsbury Madison & Sutro and as Senior Vice President and General Counsel for Weyerhaeuser Mortgage Company. He received a Juris Doctorate from the University of Santa Clara in 1977 and was admitted to the California Bar in December 1977. He holds a Bachelor of Arts degree from California State University, San Jose.

MARK A. WILLIS | Resident Research Fellow | New York University



Mr. Willis serves as a Resident Research Fellow at New York University’s Furman Center for Real Estate and Urban Policy. Prior to joining Furman, he enjoyed a year as a Visiting Scholar at the Ford Foundation, working on issues of community development and financial service reform. Previously, Mr. Willis spent 19 years in community-development banking at JPMorgan Chase overseeing its community development programs and products to help strengthen low- and moderate-income communities. He founded the Chase Community Development Corporation and became executive vice president and head of the Community Development Group with a staff of 250, outstandings in excess of \$3 billion, and revenues of \$30 million. Over those years, he had responsibility for the development

and implementation of innovative lending and investment programs for affordable housing, community economic development, small businesses, and affordable home mortgages; community relations; and corporate oversight of Fair Lending and Community Reinvestment Act compliance. Mr. Willis also served as the President of the Chase Manhattan Foundation from 1998 to 1999.

Before joining Chase, Mr. Willis held various positions in economic development and tax policy with the City of New York, and from 1986 to 1989, he was Deputy Commissioner for Development of the Department of Housing Preservation and Development. Before joining the City, he was an urban economist at the Federal Reserve Bank of New York.

Mr. Willis co-chairs Housing First! in New York City and has previously chaired the New York Community Investment Company and the Consumer Bankers Association’s Community Reinvestment Committee, and co-chaired Living Cities: The National Community Development Initiative. Mr. Willis has also served as a member of the Bankers/Community Collaborative Council of the National Community Reinvestment Coalition. He currently serves on a number of boards including the executive committees of the Center for Housing Policy and the Greater Harlem Chamber of Commerce as well as the advisory board of the Office of Financial Empowerment of the NYC Department of Consumer Affairs. Mr. Willis teaches Housing and Community Development Policy New York University’s Wagner School. Mr. Willis has a B.A. degree in economics from Yale University, a J.D. degree from Harvard Law School, and a Ph.D. degree in urban economics and industrial organization from Yale University.

Multifamily Development

STEVEN K. FOWLKES | President | R.W. Selby & Company, Inc.

Steven Fowlkes, joined R.W. Selby & Company, Inc. in 1977. Prior to his association with Selby, Mr. Fowlkes was active in residential development in both Southern California and Texas. As Chief Operating Officer and a Principal in the firm, Mr. Fowlkes is responsible for strategic direction, timing, equity relationships, structured financial activities and the firm's acquisitions.

The Firm's Equity Partners include BayNorth Capital, LLC, an investor for the Harvard Endowment, based in Cambridge, Massachusetts, with whom R. W. Selby & Co. has had a Venture since 1997, and various family offices.

Mr. Fowlkes is a Director of The Empire Companies, a private land developer and homebuilder, the Successor in Interest to Forecast Homes, Inc., Southern California's largest privately owned homebuilder, which was sold to K. Hovnanian (NYSE: HOV) in January 2002. Mr. Fowlkes also serves on the Board of Directors of the USC Marshall Partners, the support group for the USC Marshall School of Business, is a former Special Presidential Appointee to the Board of Governors of the USC Alumni Association, a Presidential Level Supporter of USC Associates, a Member of Cardinal and Gold, a continuing Supporter of the Lusk Center for Real Estate, a Guest Lecturer, and a member of the Lusk Executive mentor Program. He is a Member of the California Housing Council, the Urban Land Institute, The Real Estate Investment Advisory Council, and is licensed Real Estate Broker in both California and Texas.

Mr. Fowlkes holds a Bachelor of Science Degree in Accounting and Finance from the University of Southern California Marshall School of Business.



DAN CHANDLER | President | Chandler Partners



Chandler Partners is a local development firm with a 35 year track record developing commercial and residential real estate in Southern California. The firm is in the business of creating added value to real estate assets. Our mission is to create the maximum value in each real estate asset transaction and/or development. Our successful track record is due to four factors that we rigorously adhere to: financial discipline, local development expertise, superior market knowledge, and quick, knowledgeable decisions..

Mr. Chandler is a member of the executive committee of the USC Lusk Center for Real Estate Development.

DANIEL J. EPSTEIN | Founder and Chairman of the Board | The ConAm Group of Companies

ConAm Management Corporation, headquartered in San Diego, is among the top privately owned apartment management/ownership firms in the country and presently operates a total of approximately 50,000 apartments throughout the United States. In addition to its management activities, ConAm is developing apartments and mixed-use projects in Seattle and San Diego.

Mr. Epstein serves on the USC Board of Trustees, the executive committee of the USC Lusk Center for Real Estate Development and the Board of Councilors of the USC School of Engineering. He also serves as chairman of the advisory committee of the USC Daniel J. Epstein Department of Industrial and Systems Engineering. In 1994, he was honored with the USC School of Engineering Alumnus Award. In 1999, Ernst & Young named him San Diego's Entrepreneur of the Year for the Real Estate Industry. He is a member of the Chief Executives Organization and the World Presidents Organization.

Mr. Epstein graduated from USC in 1962 with a bachelor's degree in Engineering.



TIMOTHY O'BRIEN | Senior Managing Director/Partner | Legacy Partners Residential

Mr. O'Brien is a twenty-five year real estate development and investment veteran and is responsible for apartment operations, acquisitions, and development in its Southwest region. Mr. O'Brien recently developed over \$500 Million worth of mixed use transit oriented developments throughout Los Angeles, including the 1600 Vine project in Hollywood, 7950 West Sunset in West Hollywood, and 5550 Wilshire in the Miracle Mile district. Mr. O'Brien also oversees the owned and fee management of 7,500 units in Southern California and Phoenix.



Prior to joining Legacy Partners, Mr. O'Brien was the West Coast Operating Partner for Fifield Companies where he led the acquisition and development of over a \$1 Billion dollars in high rise residential development in Los Angeles, San Francisco and Hawaii. Before his tenure at Fifield Companies, Mr. O'Brien was the Vice President of Acquisition and Development for Lincoln Property Company in Southern California developing high density apartment projects.

He is a member of the National Multi-Housing Council and the Urban Land Institute. He is also a member of the California Board of Directors for Mercy Housing, a not-for-profit affordable housing organization which has participated in the development, preservation and/or financing of more than 36,900 affordable homes in the United States.

Mr. O'Brien earned a B.S. in Business Administration from the University of Southern California and is a licensed California Real Estate Broker.

EXECUTIVE SUMMARY

Although the economy still has a long way to go to fully recover from the financial crisis and crushing economic slowdown of 2008-2009, the US has experienced six straight quarters of positive GDP growth and the employment picture has shown small signs of improvement. The Southern California apartment market, similarly, has shown widespread improvements in rents and vacancy rates since December of 2009.

Apartment demand has improved during 2010, with positive net absorption and increased occupancy rates for all four metro areas. Orange County, San Diego County, and the Inland Empire, furthermore, experienced higher levels of positive net absorption than in 2009. Positive net absorption in Los Angeles County was just over one-quarter the level observed in 2009. Despite the improvement in apartment demand, vacancy rates are still 1 to 3 percentage points above their “natural” level—the level at which inflation-adjusted rents remain constant.

Southern California rents remained largely flat over the last year at the metro level, both on average for all properties and on a same-store basis. The Inland Empire performed the strongest, with an average rent increase of 1 percent and a same-store rent increase of 1.2 percent. San Diego was the only metro area to experience a decline in rents (either average or same-store), with a decline in average rents of 0.2 percent. Overall, Southern California fell short of both the national average in rent growth (2.3 percent) and the West region (1.7 percent).

Twenty-six out of 40 Southern California submarkets experienced flat or increasing average rents in 2010, compared with only three out of 40 in 2009. Between a reduction in multifamily conversions of for-sale product, a dwindling supply of single-family homes and condominiums for lease, and improvements in the macroeconomy, we are observing a strengthening in fundamentals on both the supply and demand side, which is serving to boost rents and fill units.

We forecast virtually flat average rents and vacancy rates for Orange County, San Diego County, and the Inland Empire over the next eight quarters. We expect Los Angeles County to experience a modest decline in average rents and vacancy. For the second year in a row, we expect Los Angeles County to be the weakest performer in terms of average rent changes.

LOS ANGELES COUNTY

The Los Angeles apartment market had a mixed performance in rents across its 11 submarkets, to go along with the mixed performance in the broader regional economy. The county gained 2,500 jobs in 2010 – not great by most standards, but a significant improvement over the 225,000 jobs lost in 2009. The greatest gains came in the sectors of Information (which includes the television and film industry), Education/Health Services, and Leisure/Hospitality. The biggest losses came in Local Government, Manufacturing, Construction, and Trade.

Intown Los Angeles showed the largest increase in average rents (6.8 percent), followed by the South Bay submarket (5.9 percent). Tri Cities showed the largest decline (9.2 percent), and was one of only two submarkets with larger declines in average rents for 2010 relative to 2009. Seven of the 11 submarkets showed increases in average rents and six showed increases in same-store rents. As of Q4 2010, average rents for the county are off 6.8 percent from the peak in Q2 of 2008.

The demand for apartments in 2010 continued to improve, although positive net absorption was only 28 percent of the 2009 total: 6,290 vs. 22,690 units. The overall occupancy rate increased 0.2 percentage points to 94.1 percent. The average monthly effective rent rose 0.9 percent to \$1,501.

New units were delivered in all submarkets except the San Gabriel and Santa Clarita Valleys. Completions for 2011 are expected to decline by about 60 percent from 2010 levels. Intown LA, Hollywood, and the San Fernando Valley submarkets, which account for 37 percent of the Los Angeles apartment market, are expected to supply just over 60 percent of the new supply.

ORANGE COUNTY

Following a loss of 75,000 jobs in 2009, the employment picture stabilized somewhat in 2010. Orange County saw a gain of 6,500 jobs, with the largest gains occurring in the Professional/Business Services and Leisure/Hospitality sectors. The largest declines in employment were posted in the Trade and Transportation/Utilities sectors. The unemployment rate in December 2010 was 8.9 percent, down from 9.5 percent in December 2009.

Demand for apartments increased from Q4 2009 to Q4 2010 with positive net absorption of 5,830 units, an increase of 39 percent over the prior four quarters. Occupancy increased another 1.2 percentage points during 2010, bringing the overall rate to 94.9 percent.

Average rents increased by 0.8 percent in 2010, while same-store rents remained unchanged. The average monthly rent for the county at the end of 2010 was \$1,475.

The Irvine submarket, which accounts for 17 percent of the total apartment supply, added 1,909 of the 3,187 new units completed in 2010, or 60 percent. Anaheim, North County, Santa Ana, and Central County submarkets accounted for the remainder of the new units added. Completions for 2011 are expected to drop precipitously, with North Orange County, Anaheim, and Huntington Beach scheduled to add only 176 new units.

INLAND EMPIRE

The multifamily housing markets in the Inland Empire have been severely affected by the economic recession. Riverside and San Bernardino County's unemployment rates hit 14.9 and 13.8 percent, respectively, in Q3 2009 – the highest in decades -- and have improved little since. As of December 2010, combined unemployment for the two counties still stood at 14 percent. Although the employment picture has improved, the region still reported a loss of 7,600 jobs in 2010. The largest losses occurred in the sectors of Construction, Government, and Manufacturing. The strongest growth occurred in the Professional/Business Services, Leisure/Hospitality Services, and Transportation/Utilities sectors.

Like Orange County, demand for apartments in the Inland Empire increased during 2010. The region ended the year with positive net absorption of 4,280 units, an increase of 15 percent over the 2009 tally.

East San Bernardino logged the largest improvement over 2009, more than tripling the number of net move-ins for 2009. East San Bernardino, which accounts for 24 percent of the total apartment stock, accounted for over 30 percent of the net move-ins for the metro area, or 1,320 units. Outer Riverside/San Bernardino experienced the biggest slow-down relative to 2009, with only 290 net move-ins, or 35 percent of its 2009 total. Occupancy increased in all submarkets, with East San Bernardino posting the largest gain.

Effective rents increased by 1.0 percent, while same-store rents increased by 1.2 percent. At the end of 2010, the average effective monthly rent was \$1,034.

Southwest Riverside, which contains 17 percent of the total apartment stock, added 45 percent of the 2,068 new units completed in 2010. Again, like Orange County, completions are expected to drop off sharply in 2011. Just over 200 new units are scheduled for delivery between East San Bernardino, Southwest Riverside, and Coachella Valley submarkets.

SAN DIEGO COUNTY

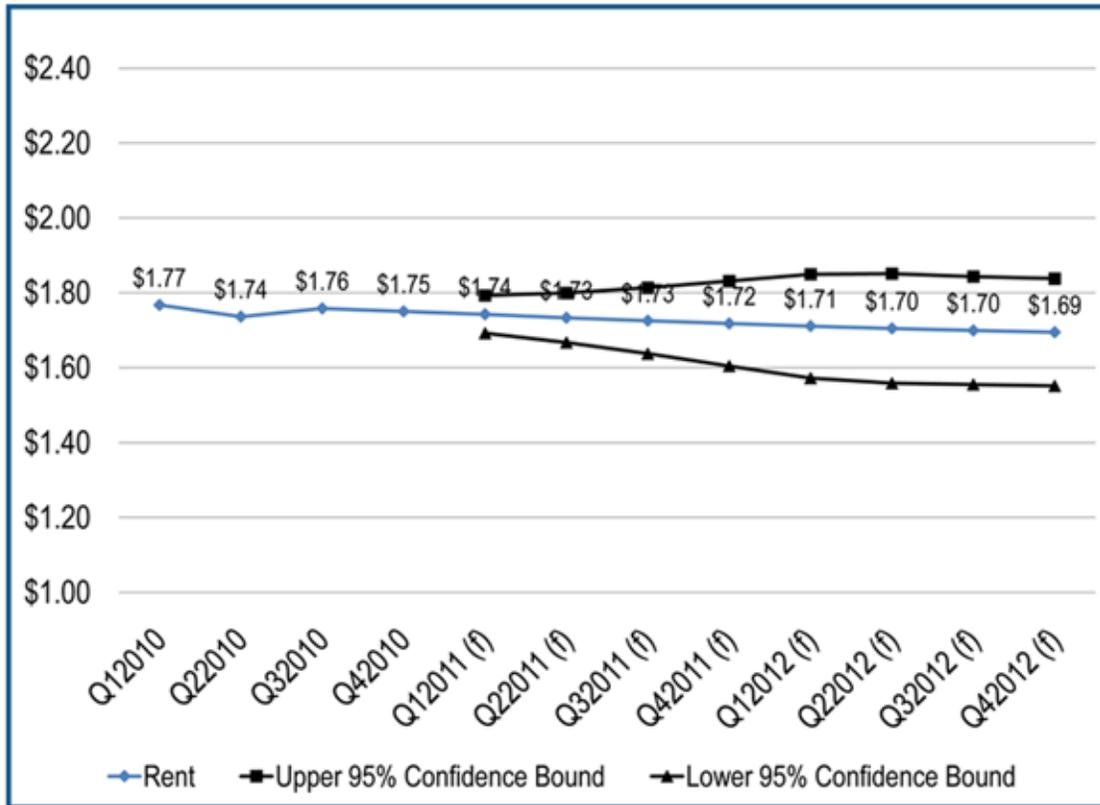
The unemployment rate fell to 10.1 percent in December of 2010, second lowest among the four metro areas covered in the report. After reporting 43,000 job losses in 2009, San Diego County ended 2010 with 5,200 jobs gained. The broad services sector posted the majority of the gains. The largest losses occurred in the Construction sector.

The demand for apartments continued its upward trend from 2009, with 3,420 units of positive net absorption. Although the number of net move-ins was 82 percent higher than in the prior year, this was the lowest absolute level of net absorption among the four metro areas in the study and the second worst relative change in demand for 2010. Occupancy increased 0.3 percent to 95.4 percent, which is the highest level among the four metro areas.

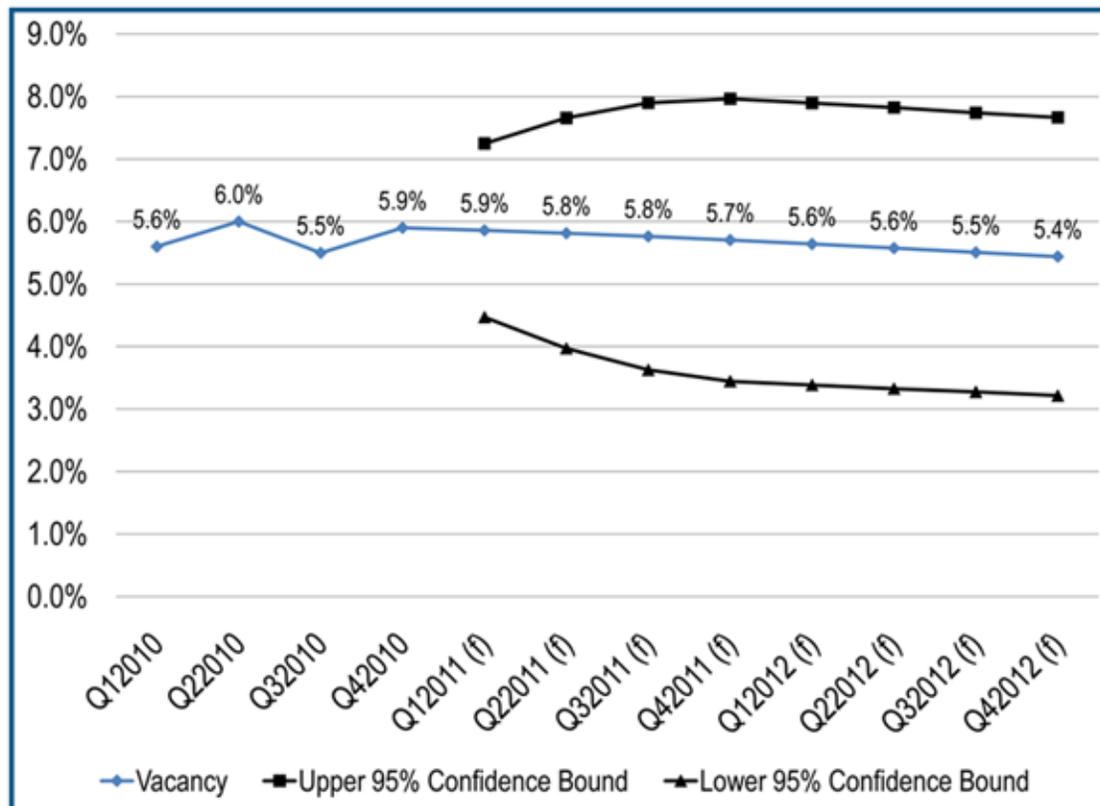
Average monthly rents fell by 0.2 percent to \$1,320, while same-store rents rose by 0.9 percent. Despite experiencing average rent declines in 2010, the most expensive regions remain the coastal communities of Northwest San Diego and La Jolla/University City with average monthly rents of \$1,696 and \$1,650, respectively.

Completions logged in at 2,616 for 2010, an increase of nearly 1,000 units over the 2009 total. Intown/Coronado, Chula Vista/Imperial Beach, and Escondido are scheduled to add 1,051 new units in 2011.

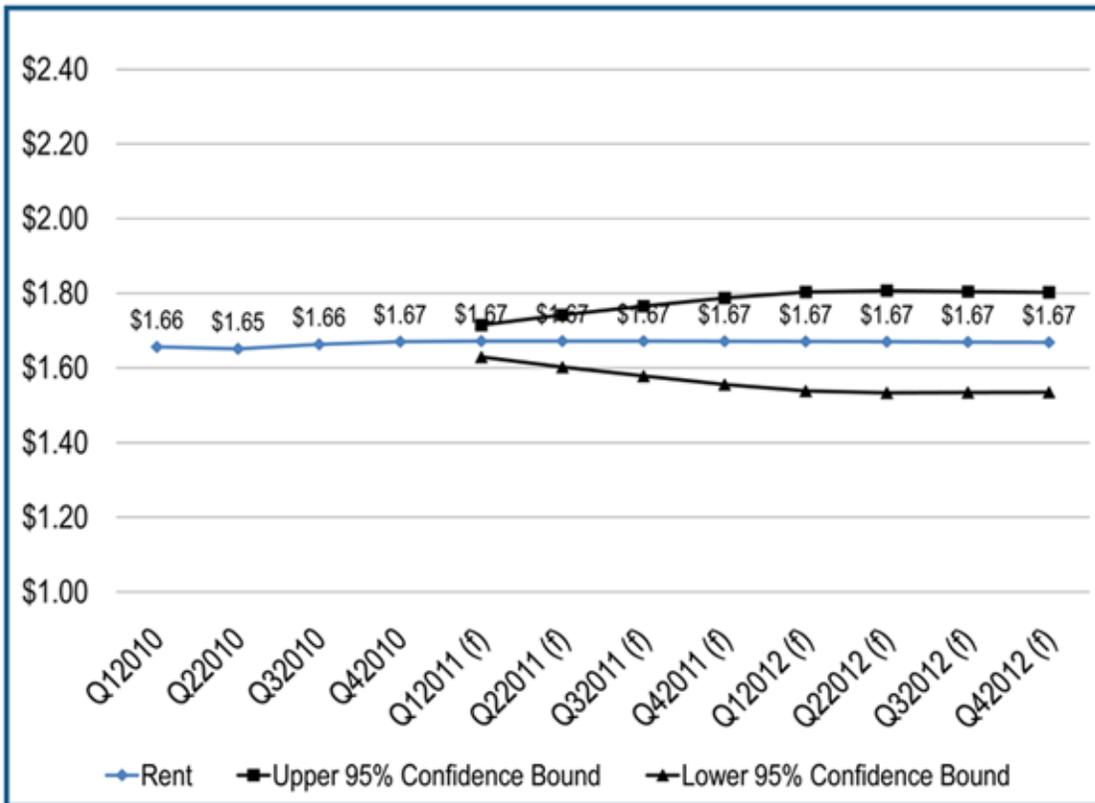
FORECAST AVERAGE RENTS FOR LOS ANGELES



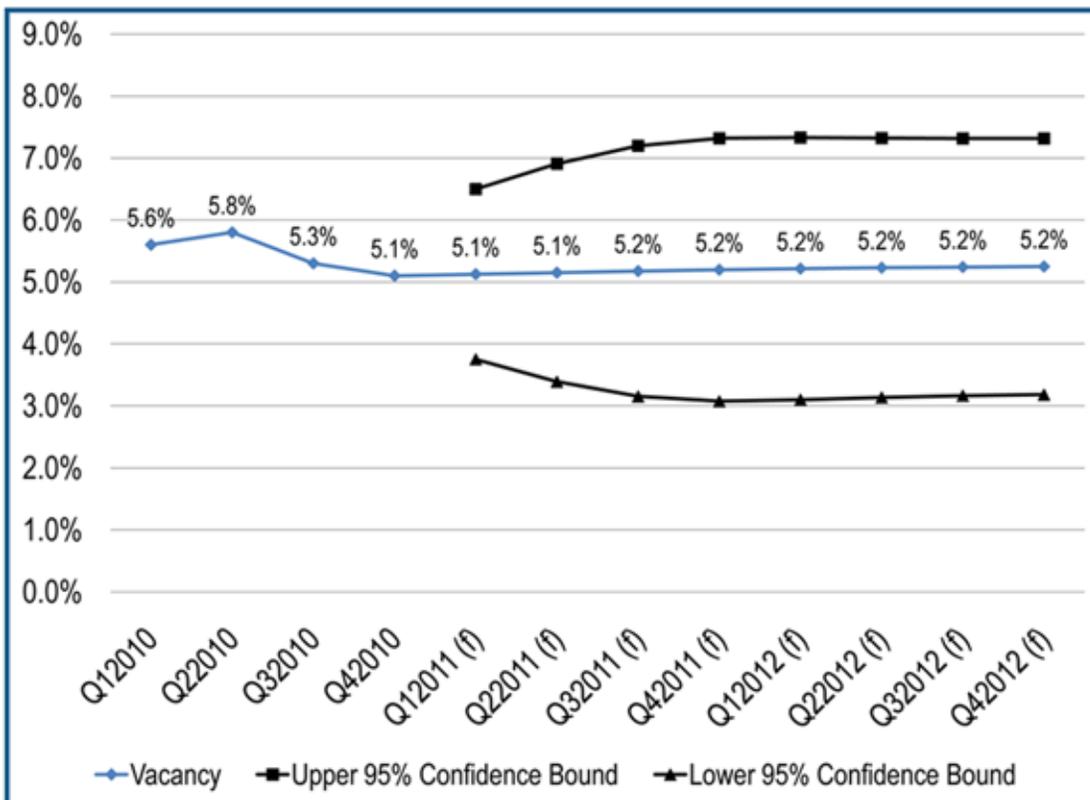
FORECAST VACANCY RATES FOR LOS ANGELES



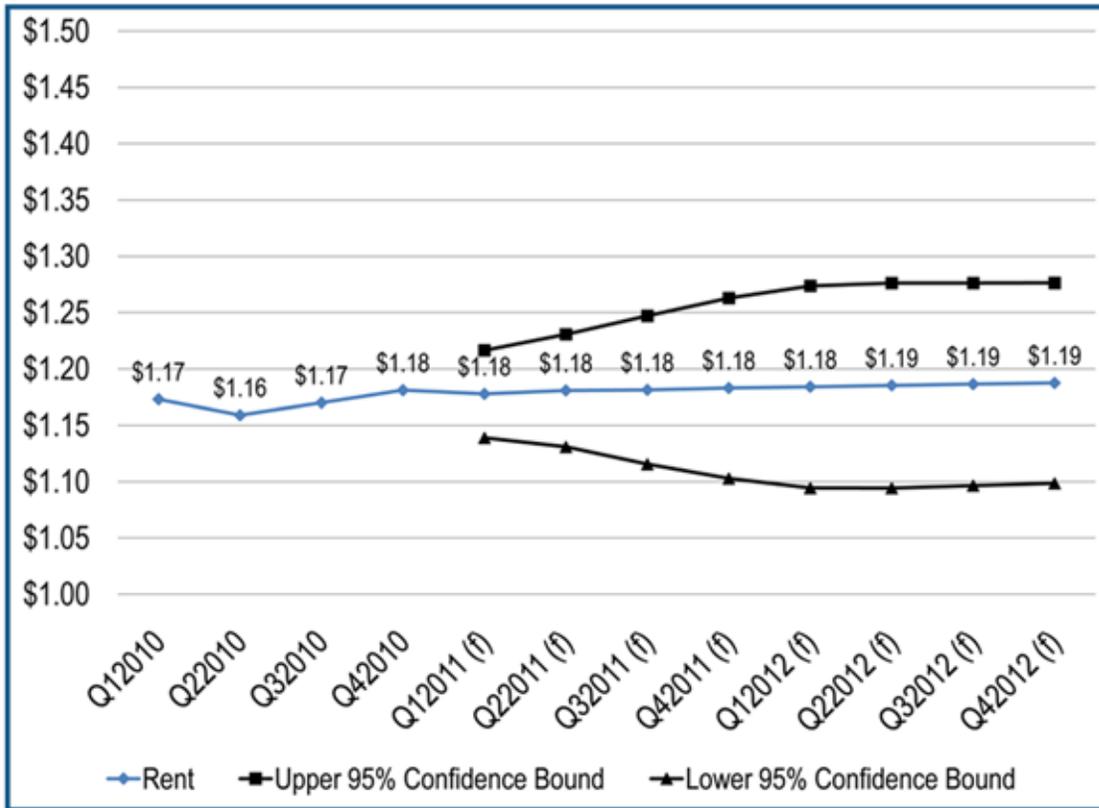
FORECAST AVERAGE RENTS FOR ORANGE COUNTY



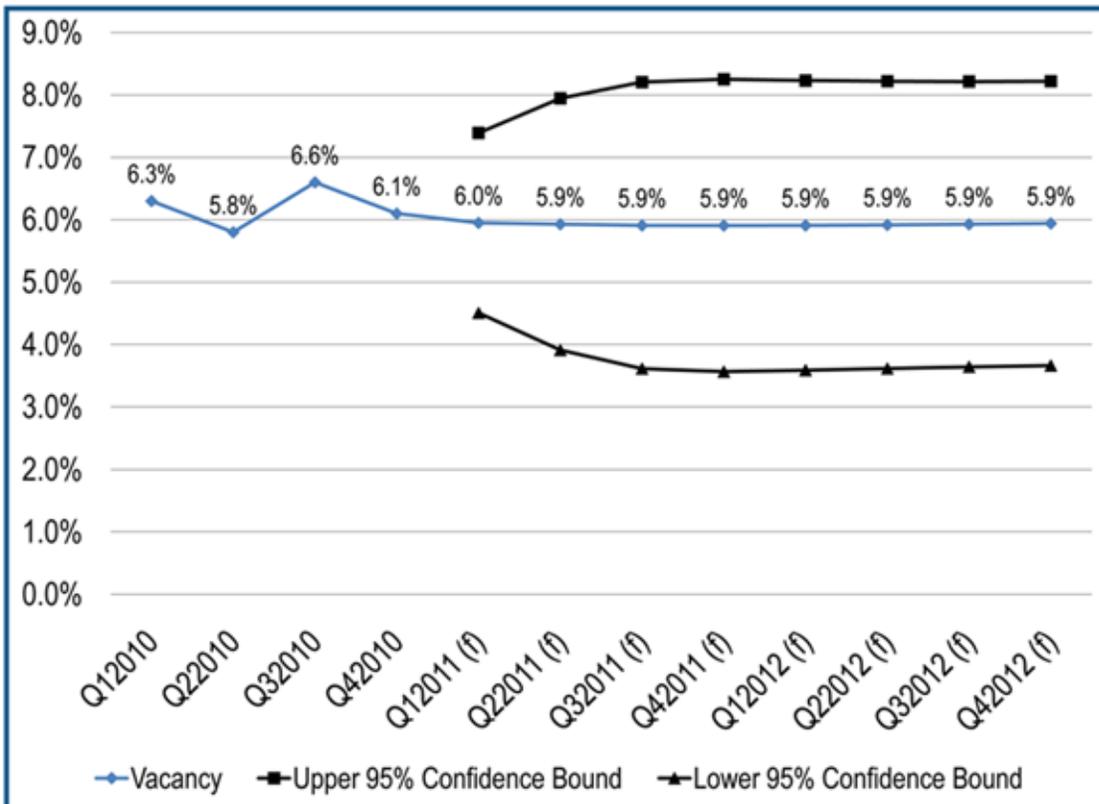
FORECAST VACANCY RATES FOR ORANGE COUNTY



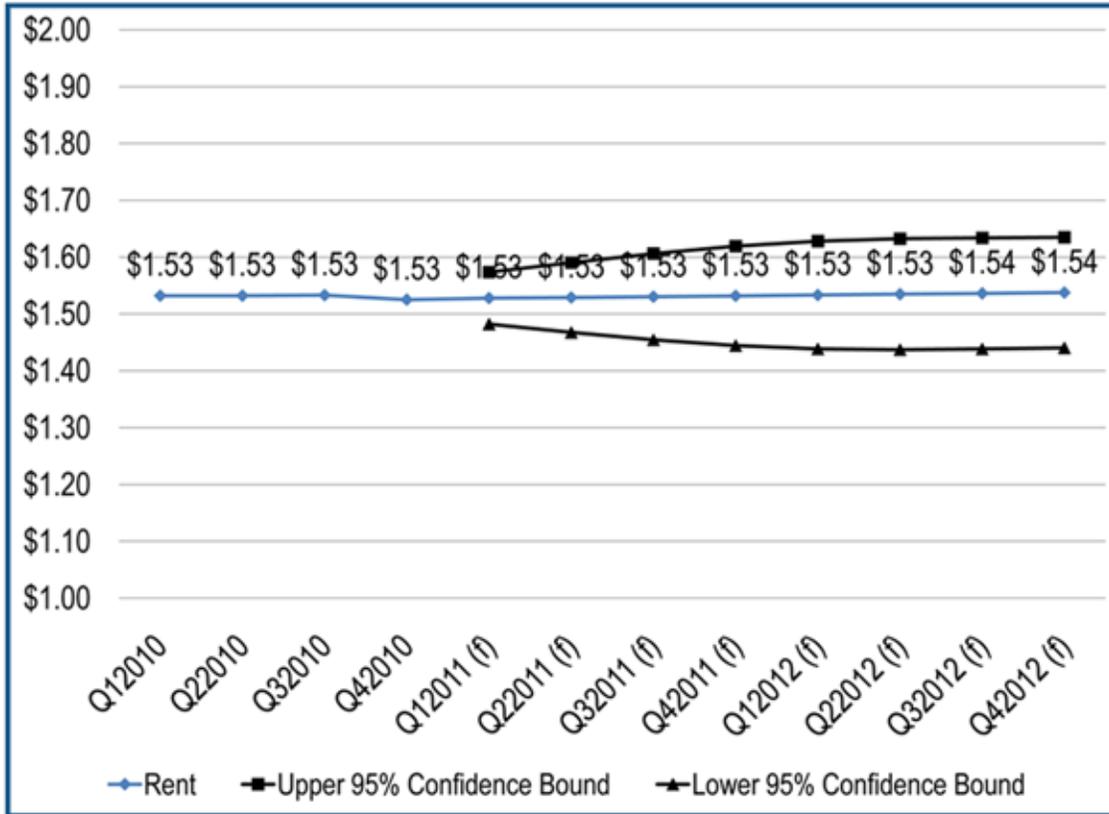
FORECAST AVERAGE RENTS FOR INLAND EMPIRE



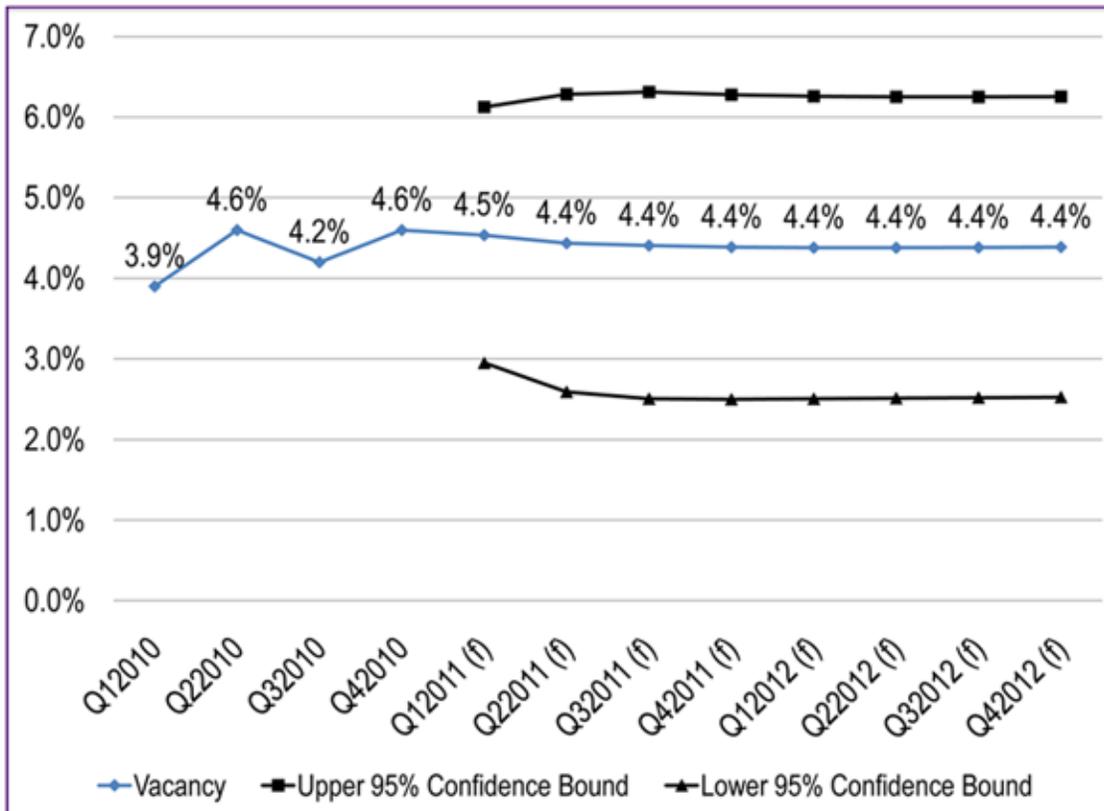
FORECAST VACANCY RATES FOR INLAND EMPIRE



FORECAST AVERAGE RENTS FOR SAN DIEGO



FORECAST VACANCY RATES FOR SAN DIEGO



Basic Trends in Multifamily

	Net Absorption	Vacancy	YoY Δ Avg Rents	Completions 2010 (% Δ Inventory)	Expected Completions 2011
Los Angeles	6,290 units	5.9% (+0.2%)	+0.9% (\$1.75/sf)	5,233 (0.5%)	2,175 (0.2%)
Orange County	5,830 units	5.1% (+1.2%)	+0.8% (\$1.67/sf)	3,187 (1.4%)	176 (0.1%)
Inland Empire	4,280 units	6.1% (+1.5%)	+1.0% (\$1.18/sf)	2,068 (1.3%)	201 (0.1%)
San Diego	3,420 units	4.6% (+0.3%)	-0.2% (\$1.53/sf)	2,616 (1.0%)	1,051 (0.4%)

