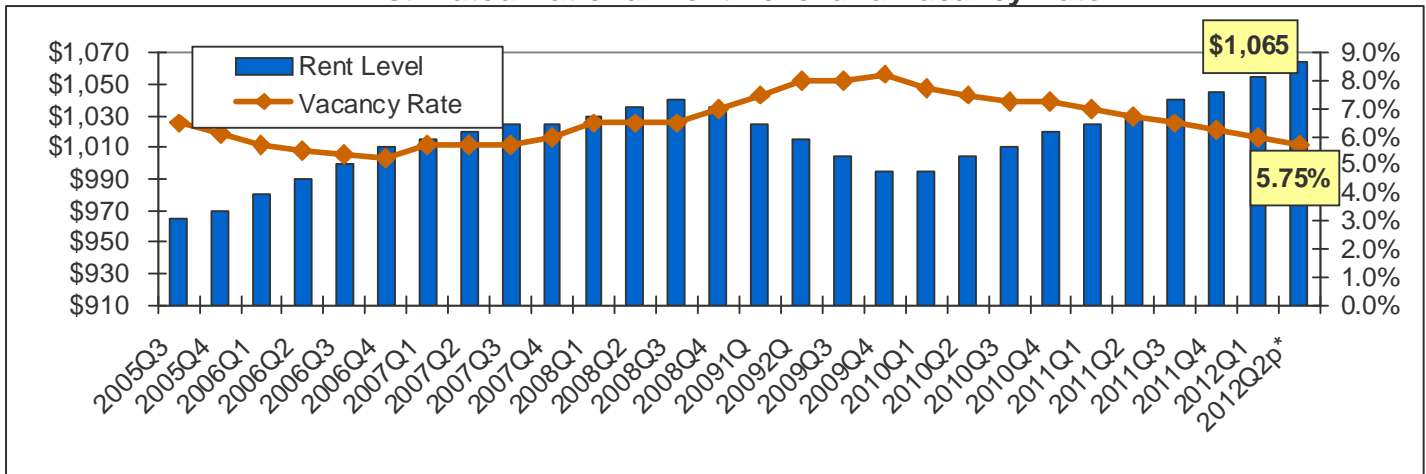


Multifamily Market Commentary – August 2012

Second Quarter 2012 Multifamily Preliminary Trends Show Continued Expansion

During the second quarter of 2012, the multifamily sector continued expanding due to ongoing rental demand and limited new apartment supply. Preliminary third-party data suggest that the national vacancy rate for professionally managed, institutional investment-type apartment properties likely decreased to an estimated 5.75 percent as of June 30, 2012, compared with an estimated 6.0 percent as of March 31, 2012. In addition, national asking rents increased by an estimated 1.0 percent during the second quarter of 2012, as seen in the chart below.

Estimated National Rent Level and Vacancy Rate

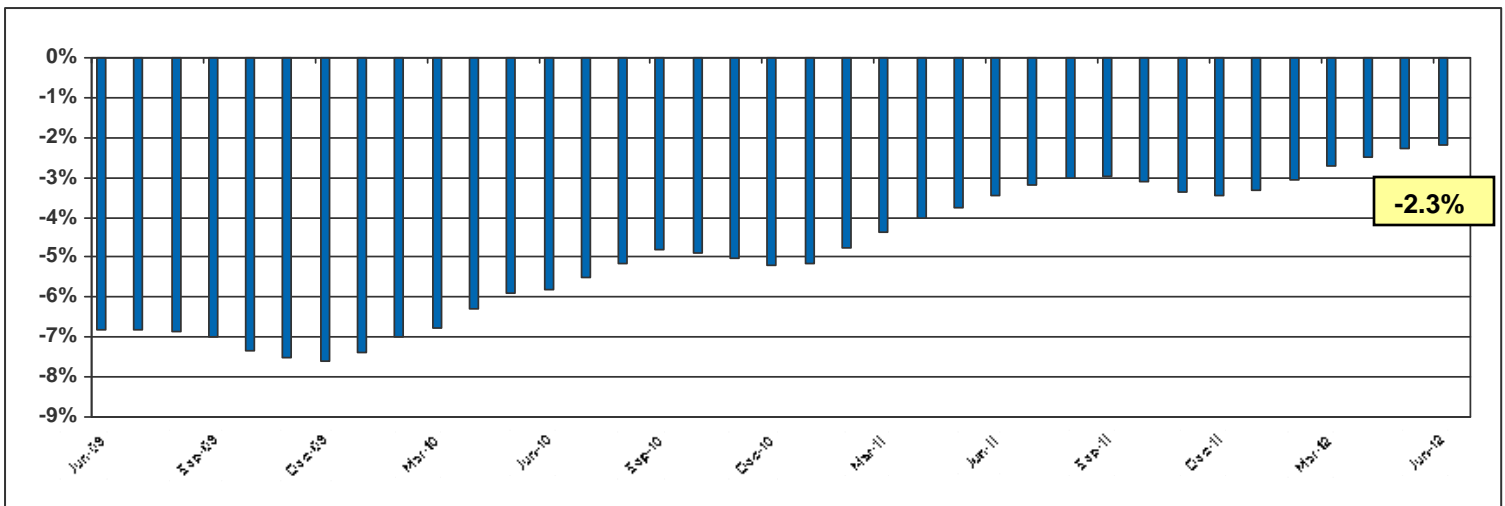



Source: Fannie Mae Multifamily Economics and Market Research

*Preliminary

As indicated by data from Axiometrics, multifamily concession rates – the rental discount rate as a percentage of asking rents – declined during the second quarter of 2012 to -2.3 percent as of June 30, 2012, compared with -3.0 percent as of March 31, 2012 and -3.3 percent as of December 31, 2011, as seen in the chart below.

National Concession Rate





The increase in rental demand also is reflected in an estimated positive net absorption, or net change in the number of occupied rental units after deducting new supply added, during the second quarter of 2012, of more than 25,000 units, according to preliminary data from Reis, Inc.

Net absorption during the second quarter of 2012 declined from more than 36,000 units during the first quarter, even though the spring and summer months typically experience more net absorption than other times of the year. We believe the slowing in net absorption during the second quarter of 2012 is likely due to property owners pursuing rent increases due to increased demand rather than aggressively tightening vacancy levels further.

Multifamily construction starts increased during the first six months of 2012 to an annualized rate of over 220,000 units on average, based on data from the Census Bureau. Currently, the number of completions expected to occur in 2012 and early 2013 remains below historical norms. However, based on the recent trend of increasing multifamily starts, the sector could return to its historical norm of an annualized rate of approximately 245,000 units started by as early as the end of this year.

There is potential for over-supply occurring over the next 24 months in a limited number of submarkets, which the industry continues to monitor. Nevertheless, the overall national rental market's pace of supply may not meet future demand based on expected annualized obsolescence, as well as anticipated household formation trends.

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