

# NCTR 90<sup>th</sup> Annual Convention US apartment market

*Presented by:*

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# Commercial real estate investable universe

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## Apartments are a major component of the market

- The market portfolio is composed of 65 of the largest metropolitan areas in the US, which combine for 34.0 billion square feet of space and a total value of USD 3.7 trillion
- Hotels are not included in this capitalization

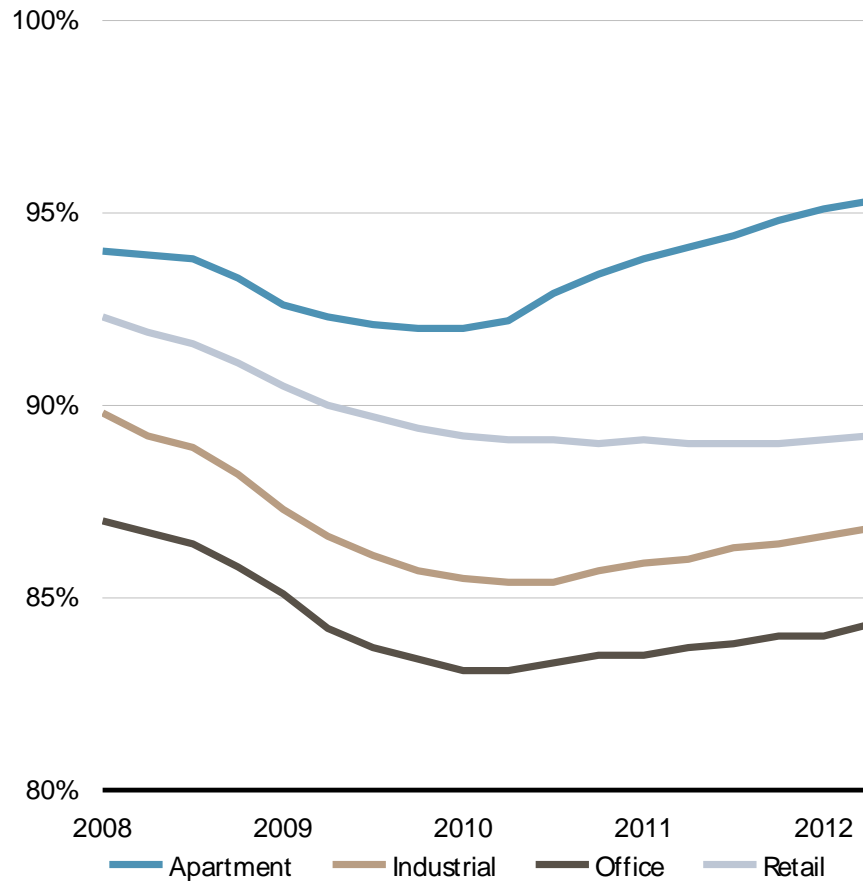
Property type	Value (USD bn)	Value (%)	10-year returns (%)
	as of 12/31/2011		as of 6/30/2012
Apartment	1,216	33	8.2
Industrial	459	12	7.6
Office	918	25	7.4
Retail	1,114	30	10.8
<b>Total</b>	<b>3,707</b>	<b>100</b>	<b>8.3</b>

Source: Market Portfolio is based on data obtained from Harvard University, Moody's Analytics, Reis, CoStar Group, Inc., CBRE Econometric Advisors and NCREIF as of December 2011. NCREIF Property Index as of June 2012.

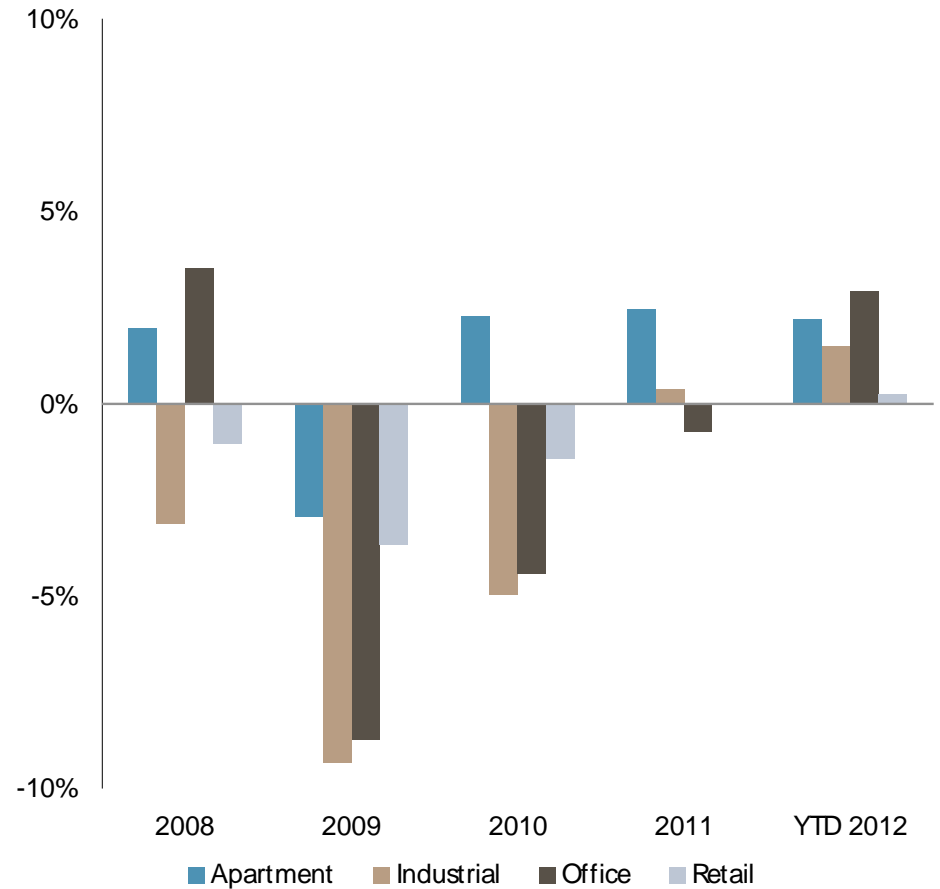
# Real estate fundamentals

## Apartment sector performance stands out

Occupancy by sector



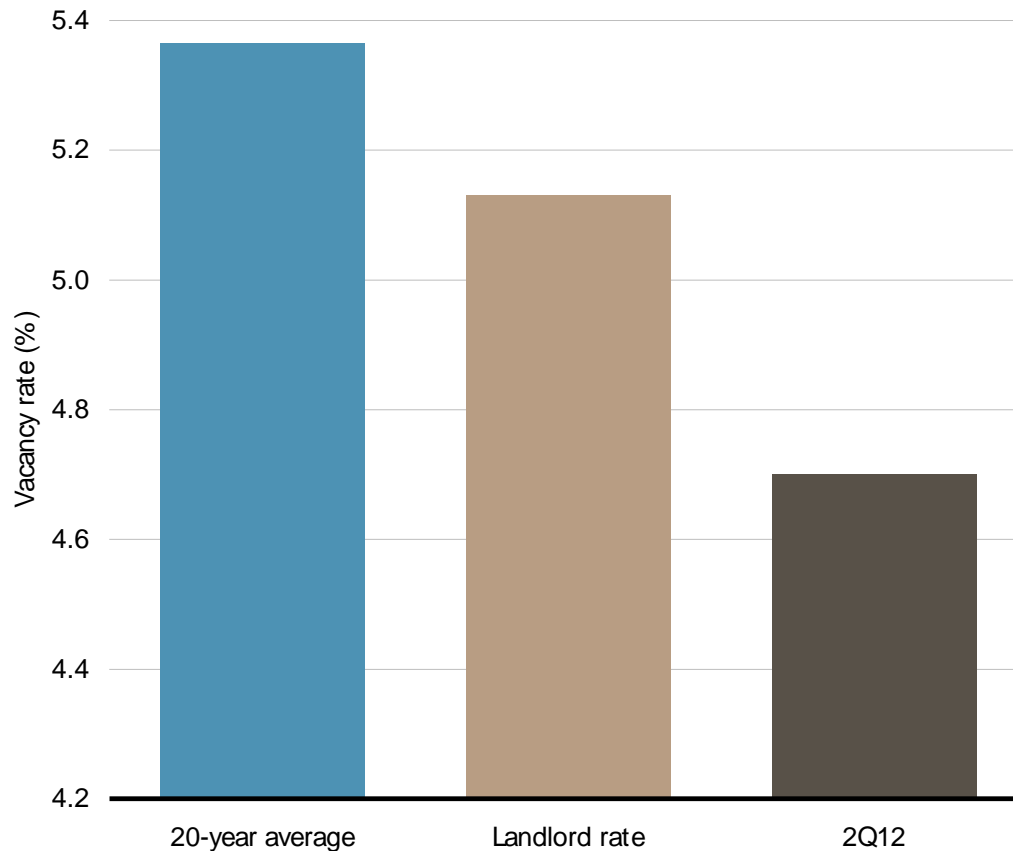
Rent growth by sector



Source: CBRE Econometric Advisors and REIS as of June 2012

# Apartment vacancy as of June 30, 2012

## Current US vacancy rate favors landlords



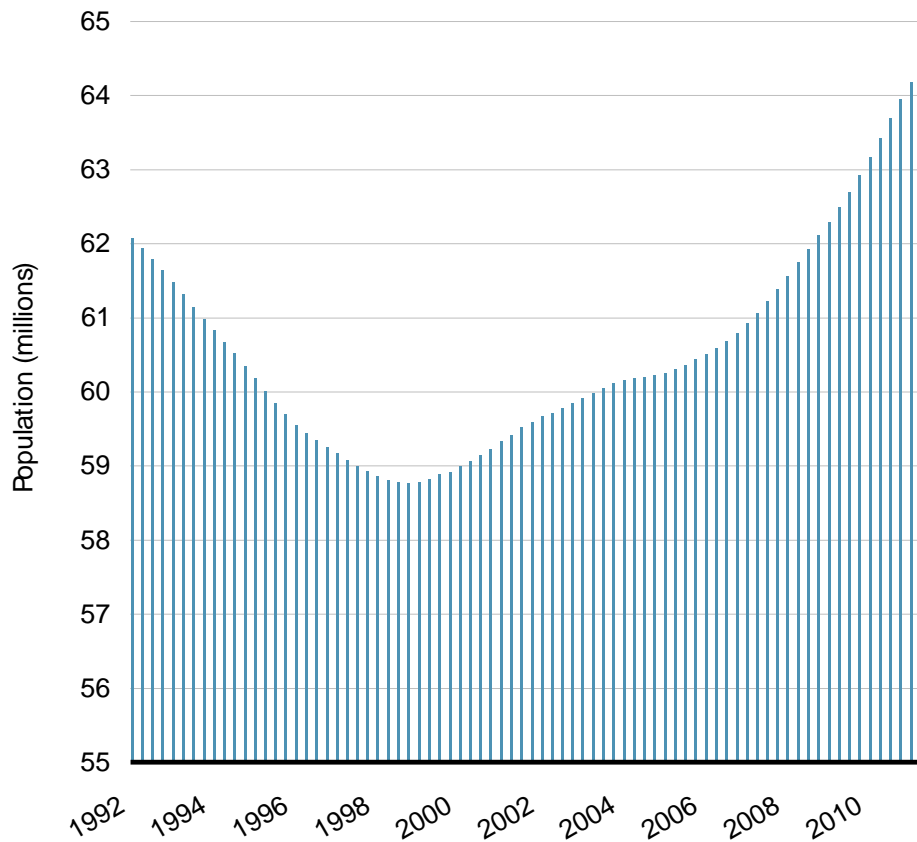
- Current vacancy rate below long-term average
- Current vacancy rate also below the “Landlord rate”, (i.e., the vacancy rate at which landlords have historically been able to raise rents by 3% or more).

Source: Reis as of June 2012

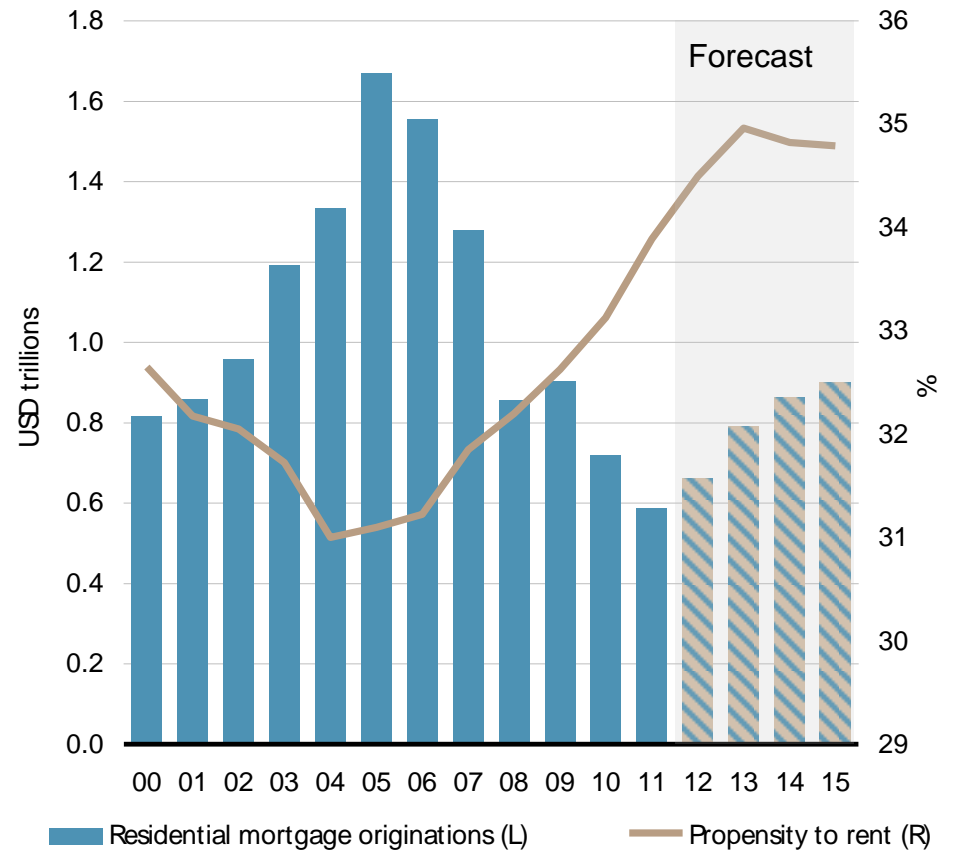
# Apartment demand

Increasing demand driven by echo boomers and changes in homeownership

Primary renter population (ages 20-34)



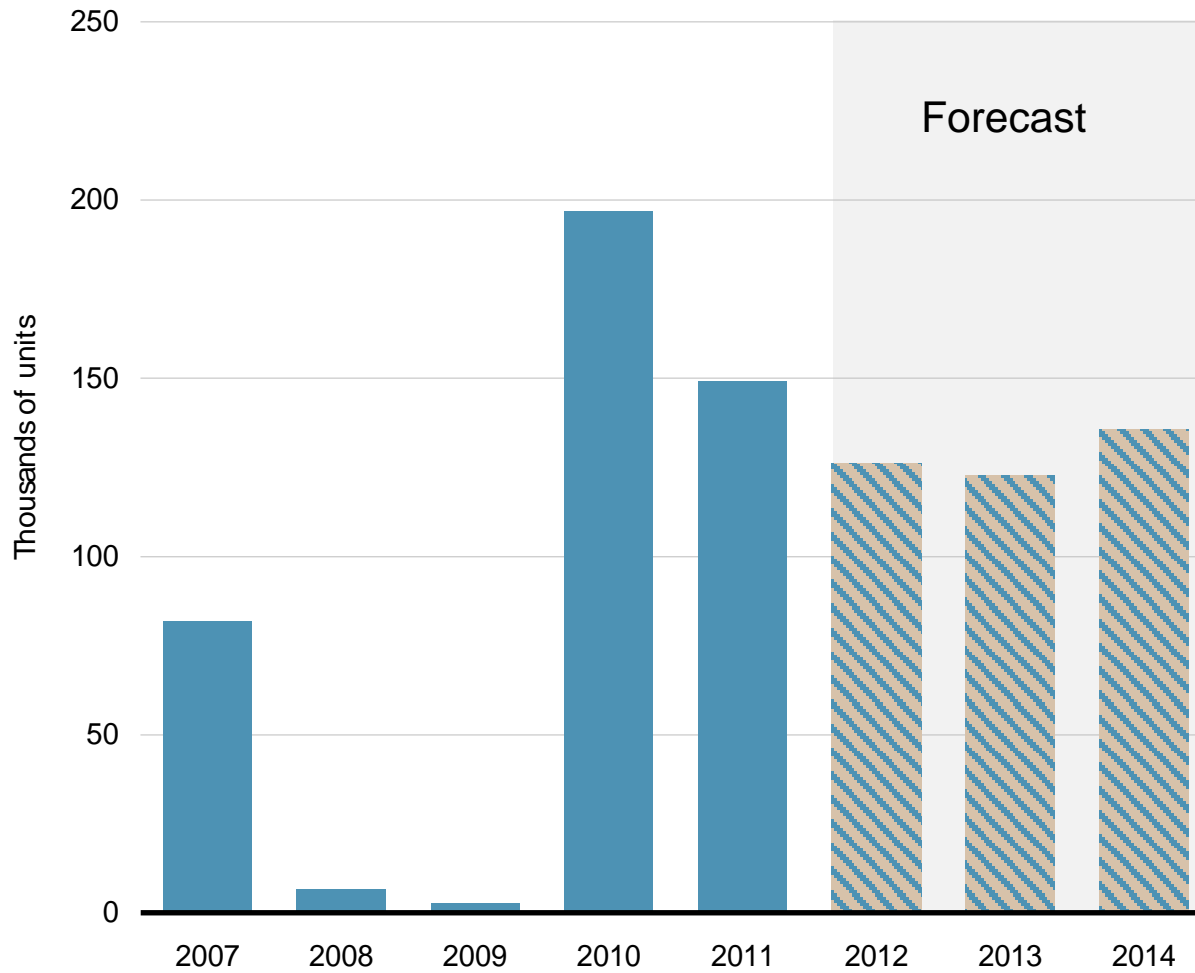
Homeownership rate and propensity to rent



Source: Moody's Analytics as of June 2012

# Apartment demand

## Change in occupied units shows strong growth

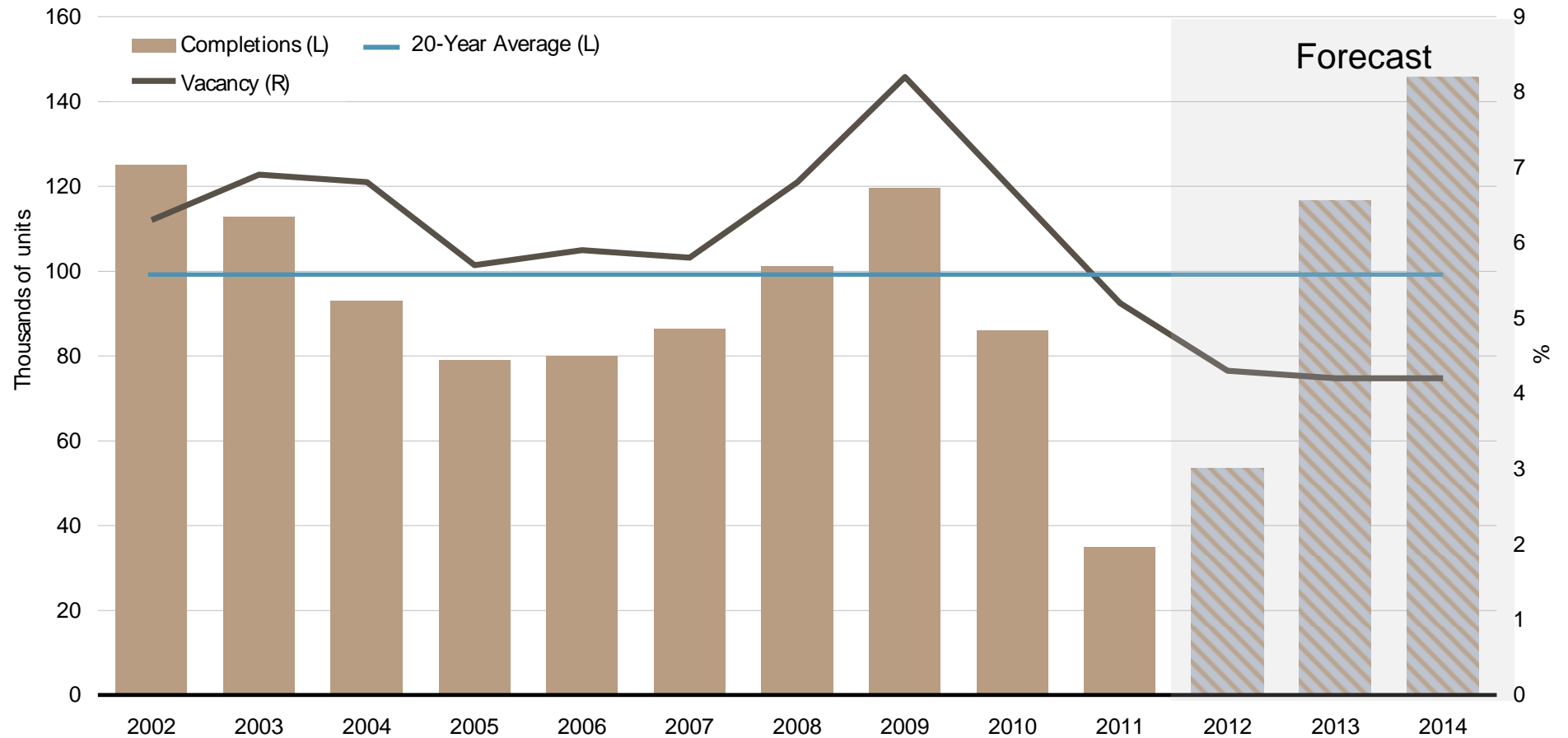


Source: Reis as of June 2012. Shaded area indicates forecast data.



# Apartment completions

Vacancy declines and rent growth prompt a supply response



Source: Reis as of June 2012. Shaded area indicates forecast data.

# Evolution of renter preferences

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## Apartment designs are changing

- Rising trend toward urban focus
  - Work/play lifestyle
  - Mass transit preference
  - Restaurants / entertainment / fitness facilities
- Common areas for casual interaction
- Smaller units but higher levels of finish
- Denser unit count per acre often dictates mid-rise and high-rise construction
- Structured parking
- Higher quality of construction: steel and concrete





# Apartment development for institutional investors

## Opportunity set for institutional investors

- Structures
  - Equity joint venture or participating mortgage with regional developers
- Strategies
  - Build to core
  - Merchant build
- Investment goals
  - Realize spread between cost and stabilized value
  - Best in class product
  - Emerging locations
  - Quality control
- Entry point
  - Pursuit capital (opportunistic)
  - Late stage equity (value-add)

