

From Apartment REITs Point of View...

"Citigroup research analyst Michael Bilerman conjectured that the industry may have entered the last of the "five stages of grief" -- acceptance -- after the REIT sector's initial reactions of denial, anger, bargaining and then depression following the financial crisis that first gripped the industry last fall. "I think we've now gotten to the acceptance phase," he said. "There are more people who accept where things are now. Companies are focusing on what needs to get done, on their core business and balance sheet ... there's a little more hope than utter and complete chaos."

In the first two months of 2009, AvalonBay has recorded positive revenue growth in its Seattle, Northern California and Washington, DC apartment portfolios, while revenue has declined in its Southern California, New York and New England markets.

The company cut development starts by 50% last year and will start no new projects through at least mid-year of 2009. However, as it did during the downturn earlier in the decade, the development-minded REIT resisted pressure from Wall Street during the current cycle to prematurely shut down its development pipeline, he said.

"Those companies that try to turn [development] on and off are going to be constantly missing the timing and the cycle within development," Blair said. "While the capital markets are certainly different this time around from 2001-'03, there are many parallels. We were one of the few companies

The Paradox of a Buyers Market

"A buyers' market should be just that—a buyers' market. It's not a fence-sitting, waiting, loitering, delaying, dawdling, postponing, vacillating, hesitating, wavering, faltering, pausing, foot-shuffling market. It's a buyers' market. By its very name it means buyers should be doing one thing and one thing only—buying. So where are the buyers, and why aren't they buying?"

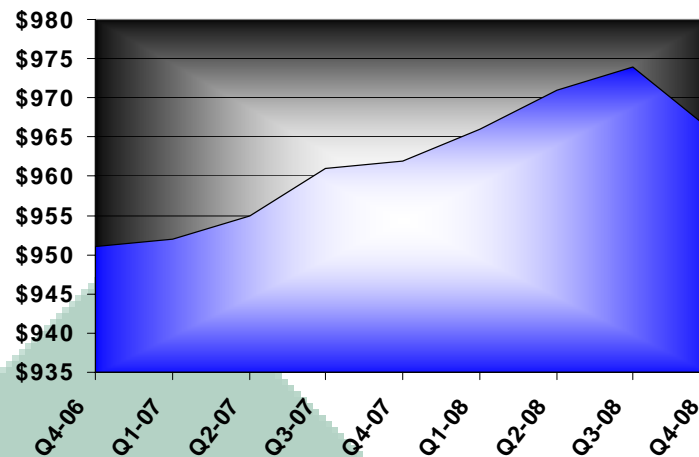
The great irony of a buyers' market is that even though the opportunity to buy is high, buyer urgency tends to hit an all-time low. The media becomes the excited purveyor of negative news and uninformed advice, and buyers buy it all. Actually, it feels like the only thing they're buying. Their reluctance is ironic since not so long ago buyers were incredibly excited about buying—and it was a sellers' market. Prices were escalating and it was perhaps one of the most difficult times to buy value and yet people were buying like there was no tomorrow. Buyers were afraid of losing out by not buying, even though the advantage was all to the seller.

[during the previous cycle] who were able to start construction in the 2003-'04 time period, delivering very robust volume." Blair and other apartment REIT execs believe 2009-'10 will be very weak times for the economy and for apartment fundamentals.

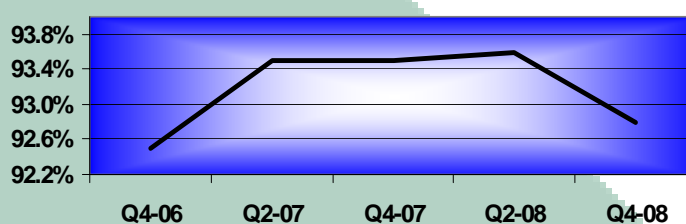
"But as you look forward to 2011 or 2012, one thing is certain: there will be a shortage of new product in this country," Blair said. "There is virtually nothing being permitted or financed today, and little that will be started in '09 or '10. For those companies with a capacity from a balance sheet point of view to keep their organization and development in place, I have no doubt there will be rewards for those who can deliver into that time period." "

Excerpted and abridged from:
Accepting Fate: REIT Execs Look Ahead to Market Rebirth
 By: Co-Star's Randyl Drummer, March 4, 2009

Sacramento MSA Rental Trend (All Classes & Unit Types)



Sacramento MSA Occupancy



People who buy in a buyers' market are the smart ones. They aren't looking for a killing because they know that's a matter of luck, not planning. They're looking for a sound decision with a predictable result and, therefore, ask the question: "Has the market dropped enough now to make a sensible purchase?" More often than not, when they're asking this question, they're already in the safe zone and the answer is yes."

Excerpted and abridged from:
Shift: How Top Real Estate Agents Tackle Tough Times
 By: Gary Keller with Dave Jenks and Jay Papasan
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TRI Commercial is a real estate **Brokerage and Property Management** company: we manage 2.5 million square feet of commercial property including multi-family, retail, office and industrial buildings throughout Northern California. TRI's Property Management combined with the Brokerage Services produce significant results:

January 1, 2008 we were awarded the Exclusive Listing of a **60 unit apartment** property. Subsequently we discovered a vacancy of 38% and no rent-ready units. We advised the owner that operations needed to be stabilized to facilitate a sale at the price we proposed. TRI Management implemented new policies, and developed a marketing plan and budget.

Property Management Corner

Occupancy initially declined as we evicted non-paying residents, but by July we were stabilized at 90%. In June, we initiated our marketing *for the sale* of the property and brought in 7 offers over the course of 5 months for the owners to consider. We are currently in contract and moving toward a successful close of escrow.

After brokering both sides of a **148 unit apartment** property and setting the highest per-unit record in the submarket, the new owners struggled with their management. Within months of the close, there was reported vacancy of 21.6%. TRI Management was assigned to turn the property around. TRI recruited and trained a new staff, implemented new policies, supervised capital improvements, coordinated a marketing plan, and created marketing collateral materials. Within 6 months, this resulted in reducing vacancy to 5% while successfully increasing rents by \$25 to \$50 per unit.



John Gallagher, CCIM, CPM

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