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THE WEEKLY UPDATE ON THE INSTITUTIONAL MARKETPLACE

Slump Negates Multi-Family's Advantages

Even though the multi-family sales market has some advantages over other sectors amid the deep economic slump, brokers and investors expect another bleak year marked by depressed transaction levels, continued price declines and downward pressure on rents.

Multi-family specialists think there might be some action in secondary and tertiary markets, as investors chase the higher yields available there. But unless they are in distress, owners in large, stable markets will have little incentive to sell properties at fire-sale prices. Buyers, meanwhile, will be restrained by concern that prices haven't yet touched bottom.

The sale of large apartment properties plunged by 51% last year, to $19.7 billion from $40.5 billion in 2007, according to **Real Estate Alert's** Deal database, which tracks transactions of at least $25 million. **CB Richard Ellis** was the most active broker again (see article on Page 10).

Top Multi-Family Brokers

		'08 Sales ($Mil.)
1	CB Richard Ellis	$4.1
2	Apartment Realty Advisors	2.3
3	MJC Associates	1.7

The multi-family market has held up somewhat better than other real estate sectors, largely because **Fannie Mae** and **Freddie Mac** are making up for the withdrawal of private-sector lenders and because demand for apartments has been bolstered by rising home foreclosures. Nevertheless, the sector still faces strong headwinds from eroding economic fundamentals: A rising unemployment rate and declining incomes are taking a toll on rents and occupancy rates.

"The biggest pressure is going to be employment," said **Bobby Lee,** senior vice president of Los Angeles-based **JRK Birchmont Advisors,** which bought a 3,965-unit portfolio from Denver-based **AIMCO** last year for $280 million. "We're already building in two years of negative rent growth, or zero growth, for our underwriting" on future bids, he said.

Against that backdrop, prices are likely to keep falling. Valuations have already plunged by 25-40% from the peak in most markets, and the decline could end up exceeding 50% in some areas. That translated into an increase of 100-150 bp in capitalization rates last year for most multi-family sales, to a range of 7-8%. Most brokers are advising their clients to expect cap rates to rise by another 100 bp or more this year.

In stable markets, like Boston, New York, Washington and San Francisco, current owners aren't likely to sell unless they have to. The head of one national brokerage's multi-family division says he's telling clients to put 10-year agency debt on their properties and basically "warehouse" them.

But volume could pick up in smaller markets. Most market players expect apartment REITS, including AIMCO, **Equity Residential** and **Camden Property,** to continue to sell long-held complexes in secondary and tertiary markets as they look to beef up their holdings in core markets on the East and West Coasts. That means local and regional apartment operators could see a wave of opportunities. But transactions are likely to be relatively small — in the $5 million to $20 million range.

"I think you're going to see more activity in those markets," said **Keith Misner** of **Cushman & Wakefield.** "Probably because the tertiary and secondary markets are where you can get the yield."

While job losses figure to take a toll on multi-family valuations in the near term, specialists think the sector is poised to benefit from rising foreclosures over the long run, as former owners become renters. The percentage of households owning their own homes has dropped to 67.5% from a record 69.2%, and continues to trend downward. Each percentage-point decline represents 1 million more people heading in to the rental pool, said **Dick Donnellan,** a broker at **Apartment Realty Advisors.** Plus, construction of rental units has dried up amid the credit crunch. "Supply and demand will be shifted to the benefit of the apartment investor," Donnellan said. ❖

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CB Dominates Apartment Ranking as Sales Drop by Half

CB Richard Ellis retained its status last year as the top broker of large multi-family properties, as deal volume plummeted 51% to a level not seen since the apartment-sales explosion in 2005.

CB led the way for the fourth straight year, brokering $4.1 billion of transactions. But its sales volume dropped by 62%, from $10.9 billion a year earlier. **Apartment Realty Advisors,** the perennial runner-up to CB, worked on $2.3 billion of deals — reflecting a 52% drop in volume, according to **Real Estate Alert's** Deal database, which tracks transactions of at least $25 million. While CB's slice of the market slipped to 24.5%, from 31.8%, Apartment Realty held fairly steady at 13.8% (see ranking and list of top deals on Page 11).

MJC Associates, a fledgling advisory firm in Philadelphia, made it first appearance in the ranking by capturing third place and a 10.3% market share. MJC's $1.7 billion total stemmed from helping **UDR** sell a portfolio to **DRA Realty Advisors.**

MJC supplanted **Cushman & Wakefield,** which dropped to fourth place from third, with a 7.9% chunk of the market. **Hendricks & Partners** (6.2%) rounded out the Top 5, moving up from sixth place. **Marcus & Millichap** (5.7%) slipped two notches to sixth place.

Overall, $19.7 billion of large apartment properties, including unbrokered transactions, changed hands last year. That was down from $40.5 billion in 2007, when the emergence of the credit crunch started to slow the multi-family sales boom that started in 2005. In 2005, transaction volume rose almost fourfold, to $51.8 billion, followed by $50.1 billion of sales in 2006.

Only 501 properties changed hands last year, down from 945 a year earlier. And most of those happened in the first half. "As strange as it sounds now, we had some deal momentum in the beginning of the year," said **Peter Donovan,** a senior managing director at CB. "Everything just stopped in the last quarter or so."

While mammoth portfolio offerings swelled the apartment-sales market from 2005 to early 2007, investor appetite for such acquisitions has since dried up almost completely. Only **AIMCO** tried to market a portfolio topping $3 billion last year, and the Denver REIT eventually had to split up the offering.

Almost every large apartment broker saw its business drop by at least half last year. That was especially true for companies that specialize in big portfolios and trophy properties. For example, **Eastdil Secured** tumbled eight notches in the ranking, to 13th place. Its $282.3 million of deals, down 85% from $1.8 billion, reflected the biggest percentage drop of all.

In addition to the dollar volume of transactions, CB led the way again when firms were ranked by the number of properties brokered. It handled 99 properties, followed by MJC (86) and Apartment Realty (63). No other firms brokered more than 28 properties.

New York was the most active market, as usual, with $2.1 billion of sales. Seattle finished a distant second, at $1.2 billion. The job-rich Texas markets were especially active, with $2.7 billion of combined sales in Dallas, Houston and Austin.

Capin & Associates, a boutique brokerage, handled $317 million of sales in Manhattan — leading the way in that market. Hendricks ranked first in Seattle. CB handled the highest volume of sales in five of the other Top 15 markets (Central/Northern Florida, Austin, Northern Virginia, Los Angeles and Phoenix), while Apartment Realty led four (Atlanta, Dallas, Houston and Denver).

The ranking was based on transactions of $25 million or more that closed in 2008. When multiple brokers shared a listing, the dollar credit was divided evenly, but each broker was credited with one property. Only brokers for sellers were given credit. Portfolio transactions were included if the sales prices was more than $200 million or if at least one property in the portfolio was known to be valued at $25 million or more. ❖

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Top Overall Brokers in 2008

Brokers representing sellers in deals of $25 million or more

	Broker	Office ($Mil.)	Shopping Centers ($Mil.)	Malls ($Mil.)	Multi-Family ($Mil.)	Industrial ($Mil.)	Hotels ($Mil.)	2008 Total ($Mil.)	Market Share (%)	'07-'08 Change (%)
1	CB Richard Ellis	$10,184.0	$813.2	$0.0	$4,135.2	$2,427.5	$126.8	$17,686.7	27.5	-59.5
2	Eastdil Secured	7,947.0	824.5	0.0	282.3	123.0	766.5	9,943.3	15.5	-85.2
3	Cushman & Wakefield	5,059.5	169.2	124.6	1,335.2	535.4	158.0	7,381.9	11.5	-66.7
4	Holliday Fenoglio Fowler	3,538.8	436.3	0.0	807.4	217.6	52.8	5,052.9	7.9	-66.8
5	Jones Lang LaSalle	2,218.4	72.1	0.0	268.4	221.0	563.3	3,343.2	5.2	-59.9
6	Apartment Realty Advisors	0.0	0.0	0.0	2,318.8	0.0	0.0	2,318.8	3.6	-51.7
7	MJC Associates	0.0	0.0	0.0	1,729.1	0.0	0.0	1,729.1	2.7	
8	Colliers International	989.4	63.6	0.0	91.2	512.1	0.0	1,656.3	2.6	-62.9
9	Grubb & Ellis	836.3	121.4	0.0	113.0	46.3	0.0	1,117.0	1.7	-53.5
10	Marcus & Millichap	0.0	29.3	31.0	961.2	25.5	0.0	1,047.0	1.6	-69.3
11	Hendricks & Partners	0.0	0.0	0.0	1,041.3	0.0	0.0	1,041.3	1.6	-31.5
12	Hodges Ward Elliott	23.0	0.0	0.0	0.0	0.0	927.3	950.3	1.5	-79.6
13	Transwestern Commercial	180.2	115.0	0.0	553.2	0.0	0.0	848.4	1.3	-33.1
14	J.P. Morgan	753.5	0.0	0.0	0.0	0.0	0.0	753.5	1.2	
15	ONCOR International	536.4	26.5	0.0	0.0	94.0	0.0	656.9	1.0	-64.8
16	DTZ Rockwood	174.4	42.2	303.5	89.0	0.0	0.0	609.1	0.9	18.7
17	NAI Global	268.5	115.0	0.0	0.0	111.3	0.0	494.8	0.8	-48.3
18	Eastern Consolidated	111.5	42.5	0.0	302.0	0.0	0.0	456.0	0.7	-69.1
19	Staubach Co.	379.3	0.0	0.0	0.0	55.5	0.0	434.8	0.7	42.2
20	Capin & Associates	58.0	0.0	0.0	317.0	0.0	0.0	375.0	0.6	
	OTHERS	2,009.1	444.6	318.8	2,510.1	535.3	502.7	6,320.5	9.8	-65.2
	Brokered Total	**35,267.3**	**3,315.4**	**777.9**	**16,854.4**	**4,904.5**	**3,097.4**	**64,216.8**	**100.0**	**-68.3**
	No Broker	7,245.0	3,430.8	1,051.1	2,817.4	1,214.7	2,801.6	18,560.6		-53.6
	TOTAL	**42,512.3**	**6,746.2**	**1,829.0**	**19,671.8**	**6,119.2**	**5,899.0**	**82,777.4**		**-65.8**