APARTMENT ADVISORY TEAM'S TRENDS Q1 2007

John Gallagher / Dean Bagneschi

ECONOMIC OVERVIEW

Population

The Sacramento Area which includes Sacramento County and portions of Placer, El Dorado, Yolo, Yuba and Sutter Counties grew an estimated 1.9% in 2006. Advancing over the 1.4% growth rate in 2005 and a fraction less than the 2% rate in 2004 when the Sacramento Area eclipsed the 2 million population mark.

Job Growth and Unemployment

The unemployment picture for Sacramento remains very bright as job growth was reported at 1.6% and unemployment decreased even further to continued low levels. In 2006, Sacramento's unemployment rate was a mere 4.3% compared to California's overall rate of 4.8%.

Rental Rates

Rental rates now averaging $1.12 per square foot per month jumped 2.8% from last year, a modest increase that continues to reflect a renter's market.

Occupancy Rates

The Sacramento single family housing boom that came to a close in 2005 continued with lackluster sales through 2006. Single family developers adjusted their inventory delivering only 9,000 units compared to 15,000 units in 2005. This drop in sales and construction activity had an impact on multi-family occupancy rates. Fewer first time home buyers were making their move from apartment dwelling, strengthening the demand for rental housing. Unfortunately, the drop reported in construction activity caused construction job layoffs that offset any potential occupancy gains. 2006 closed with occupancy rates at 92.5% dropping -.3% from 2005.

Another factor that weighs into consideration in 2006 was the number of single family homes that were purchased in 2005 with anticipation of a quick sale and profit. These were added to the rental stock in 2006.

Multi-Family Construction

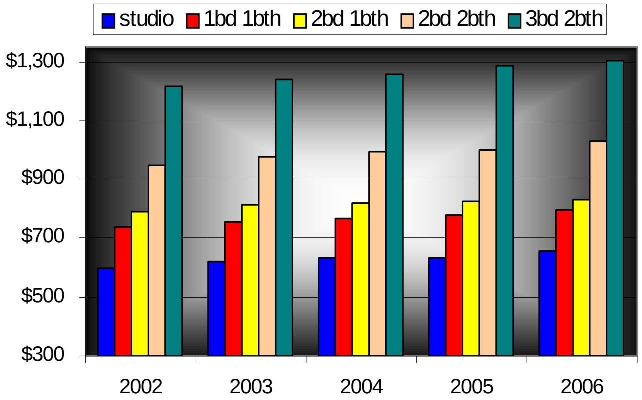
New construction estimates reflect 3,000 for sale and for rent units in 2006. The condominium market is saturated and sales have slowed causing concern over the fate of several conversion and development projects. DR Horton announced in September 2006 that it abandoned its plans for two downtown high rise condominiums totaling 450 units, with the declining "for sale" housing market as its reason.

APARTMENT FORECAST

We foresee an improvement in the rental market; the supply of new apartments is low and demand improving. Toward the 4th quarter, we expect vacancy rates to decline to the 5-6% range allowing landlords to curtail the offering of concessions to prospective residents followed closely by increased rental rates.

Our forecast of improved occupancy and rents is of course followed by our recommendation to invest in Sacramento apartments. Capitalization rates have softened, more reflective of a "buyer's market" and Interest rates are expected to remain low throughout the year with area lenders offering attractive financing options.

Rental Rates Sacramento County



APARTMENT SALES BY TRI APARTMENT ADVISORY TEAM JOHN GALLAGHER & DEAN BAGNESCHI

Property	Units	Price	$/Unit	Cap Rate	Sub-Market	Status
Country Village	44	$3,950,000	$89,773	5.6%	Carmichael	In Escrow
River Oaks	148	$20,750,000	$140,203	5.3%	Yuba City	Available
Bridge Street Commons	166	$17,250,000	$103,916	5.4%	Yuba City	**Sold**
Marconi Woods	64	$5,800,000	$90,625	5.0%	Carmichael	**Sold**
Courtside	87	$6,650,000	$76,437	5.2%	Carmichael	**Sold**
Rivergate	140	$12,300,000	$87,857	5.5%	Pocket	**Sold**

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Apartment Sales in Sacramento MSA

Sales activity began to decline mid-year 2005 as a result of increases in the 10 Year T-bill affecting lenders' mortgage rates. Although the increases were slight and fluctuating, investor interest was impacted by both negative financial leverage (mortgage rate exceeding pre-tax cash on cash return), as well as by the uncertainty of future interest rate increases, resulting in capitalization rates increases that could potentially lead to the erosion of equity. The shift from a "seller's" to a "buyer's" market continued through 2006 with less transactions occurring as investors no longer purchased based on their expectation of appreciation alone. More buyers are now looking for opportunities which provide reasonable cash flow, or at the very least an opportunity to re-position the asset, to create positive cash flow and added value. In 2006 we began to see a return of the strata of cap rates across class "A", "B" and "C" quality investments, historically reflected based upon risk. Capitalization rates for class "A" properties continue to be traded near 5%, "B's" and "C's" have increased to 5.5% and 6%+, respectively. As illustrated in the chart below, the increases in price per unit from 2005 to 2006 reflect appreciation predominantly seen in class "A" properties where investor interest continues to exceed available product.

Co-Star (properties 24 units and greater)	2006	2005	2004	2003
Transactions	119	167	208	240
Volume ($ mil)	$680.6	$942.5	$927.2	$815.8
Average $ / Unit	$102,111	$97,219	$95,037	$80,270
Average $ / SF	$123.80	$124.79	$112.22	$97.63
Average Cap Rate	5.8%	5.6%	5.9%	6.7%
Average GIM	10.2	10.7	10.0	9.0
Average Property Size (units)	62	58	47	43
Average Days on Market	95	64	41	60

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For more information on any of our listings,
or for a free market evaluation of your properties contact:
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