

MARKET OVERVIEW

In late February, a number of sub-prime residential mortgage lenders reported significant losses causing some upheaval in the commercial mortgage-backed securities market. Although there is no direct connection between the two, problems in the sub-prime market led investors and rating agencies to reevaluate the credit of bonds backed by commercial mortgages.

This scrutiny has driven loan spreads up by nearly one quarter percent and has impacted loan underwriting practices. Lenders in general, had based property valuations on future income, derived from projected rental increases. This practice had significantly increased the amount of loan proceeds – leverage. Rating agencies now indicate that they will penalize securitization of these loans.

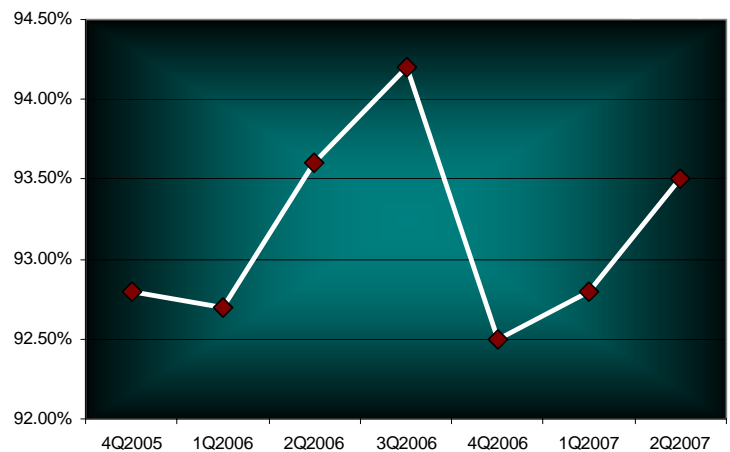
The implication of rising interest rates and tougher loan standards has led investors to consider the impact on apartment values. Demand from highly leveraged investors is likely to decline, however, there remains a pool of well capitalized investors seeking suitable investments. This suggests that bidding for quality assets will remain active – but in some cases at higher cap rates, as seen in past months.

In the midst of this activity in the financial markets, real estate fundamentals remain strong. Improved operational performance should provide positive support for apartment prices.

RENTAL RATES / OCCUPANCY

Increased rental demand should result in diminished rental concessions and lead to rent growth. Although less than recent years, Sacramento's continued population and job growth of 1.6% and 1.4% respectively, combined with fewer new rental units to be delivered to the market, suggest that rental demand should improve (*Pierce Eislen* reports 2,779 units under construction).

Occupancy rates reported by *RealFacts* through the second quarter of 2007, reflect a current level of 93.5%, an increase of .2% from the 4th quarter of 2006. In addition, Average Asking Rents collected from all asset classes reflect a 2.2% change from the 2nd quarter of 2006.



Rental Rates *Data Source: RealFacts*

	Class A \$/SF		Class B \$/SF		Class C \$/SF	
Studio	\$938	\$1.42	\$720	\$1.12	\$650	\$1.32
1 BR	\$1,048	\$1.32	\$852	\$1.22	\$741	\$1.13
2BR/1BA	\$1,140	\$1.17	\$947	\$1.07	\$840	\$1.01
2BR/2BA	\$1,263	\$1.17	\$1,061	\$1.09	\$938	\$1.00
3BR/2BA	\$1,474	\$1.17	\$1,337	\$1.12	\$1,236	\$1.03

A NOTE ON CONSTRUCTION REPLACEMENT COSTS

"In the current California environment of rapidly-escalating construction costs and lengthy periods for securing approvals, the fair market value of a property frequently is less than the owner's cost to purchase and improve that property. Yet many owners fail to consider this reality—and its impact—when faced with a re-valuation after completing New Construction."

~ Theodore F. Bayer, Esq., Pinnacle Law Group, LLP, May 2007
Theodore F. Bayer www.pinnaclelawgroup.com
Link to the Entire Article: <http://www.thespaceplace.net/articles/bayer200705.htm>

Quick Reference of Construction Cost Estimations

Following is a website to obtain a quick estimate of the construction costs of a project by square feet and zip code:
<http://www.rsmeans.com/calculator/index.asp>

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SALES ACTIVITY

As suspected, sales activity has slowed. Comparing the first two quarters of 2007 with the same period last year, we found 32 transactions in 2007 and 42 transactions in 2006, a decline of 24%. Below are the details of sales by unit range.
Data Source: CoStar

	5-19 Units	20-50 Units	51-100 Units	101-300 Units	301+
# of Transactions	8	10	6	7	1
Avg. \$'s per Unit	\$80,753	\$67,251	\$76,409	\$93,514	\$81,845
Avg. \$'s per SF	\$96.29	\$103.78	\$100.73	\$111.46	\$104.83
Avg. GIM	10.85	10.04	9.04	7.4	NA
Avg. Cap Rate	5.8%	5.42%	5.38%	5.81%	NA

RECENT SALES by TRI'S APARTMENT ADVISORY TEAM: JOHN GALLAGHER & DEAN BAGNESCHI

Property	Units	Price	\$/Unit	Sub-Market	COE
Country Village	44	\$3,775,000	\$85,795	Carmichael	05/31/07
Transpacific Gardens	106	\$6,100,000	\$57,547	Chico	04/27/07
Bridge Street Commons	166	\$16,250,000	\$97,892	Yuba City	01/24/07
Marconi Woods	64	\$5,000,000	\$78,125	Carmichael	12/18/06
Courtside	87	\$5,600,000	\$64,368	Carmichael	12/18/06
Orangevale Farms	49	\$3,075,000	\$62,755	Orangevale	08/02/06
Rivergate	140	\$12,300,000	\$87,857	Pocket	01/27/06



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**For information on currently available properties,
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