

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.

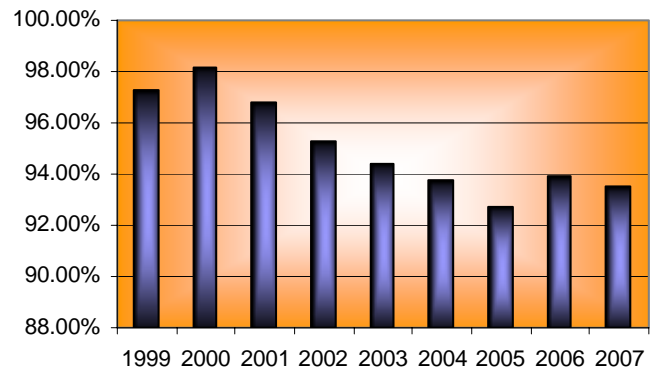
The implication of rising interest rates and tougher loan standards has led investors to consider the impact on apartment values. Demand from highly leveraged investors is likely to decline, however, there remains a pool of well capitalized investors seeking suitable investments. This suggests that bidding 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.

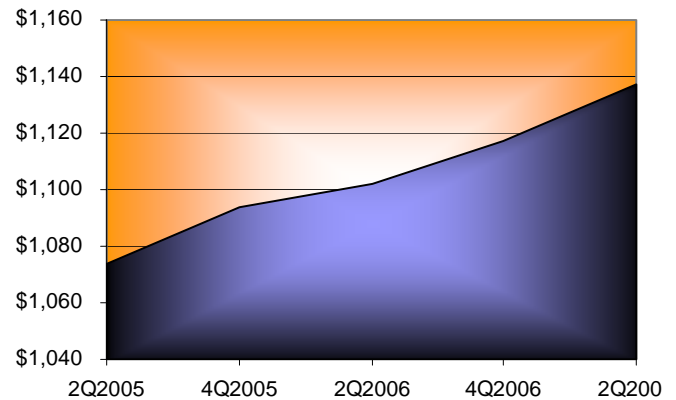
RENTAL RATES / OCCUPANCY

Occupancy rates for Solano County, as reported by *RealFacts*, reflect 93.5% average for 2007. Occupancy has been on a steady decline since its peak in 2000 at 98.2%, however, it appears to have stabilized since its low of 92.7% in 2005. In addition, Average Asking Rents, collected from all asset classes, reflect an increase of 5.9% since 2nd quarter 2005.

Occupancy Data Source: RealFacts



Rental Rates Data Source: RealFacts



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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SOLANO COUNTY SALES ACTIVITY

There have been 4 sales since August 2006 in all of Solano County as reported by *CoStar Comps*:

<u>Property</u>	<u>Units</u>	<u>Price</u>	<u>\$/Unit</u>	<u>Sub-Market</u>	<u>COE</u>
Royal Palms	36	\$3,325,000	\$92,361	Fairfield	06/21/07
Sunset Pines	36	\$4,275,000	\$118,750	Fairfield	01/12/07
Bridgeport Ranch	192	\$33,806,000	\$176,073	Fairfield	12/13/06
Park Crossing	200	\$33,600,000	\$168,000	Fairfield	11/20/06

RECENT SALES

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

<u>Property</u>	<u>Units</u>	<u>Price</u>	<u>\$/Unit</u>	<u>Sub-Market</u>	<u>COE</u>
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,
 or for a free market evaluation of your properties contact:
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