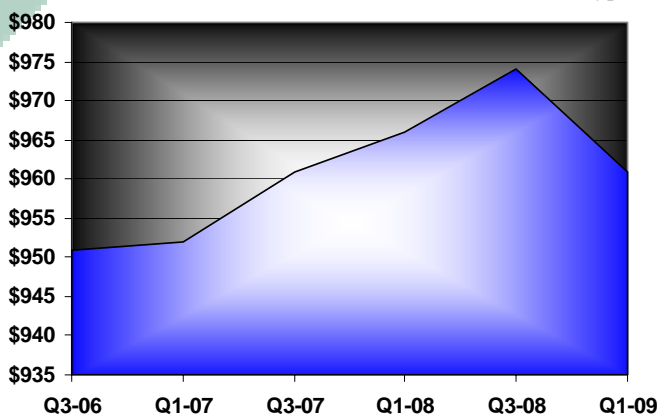


As we face one of the most challenging markets in decades, with Sacramento unemployment hitting 11.1%, we at the Apartment Advisory Team would like you, Apartment Owners throughout the region, to know that our resources are available to assist you. We have expertise in property management and apartment sales.

FOCUS: Operations

Now is the time to maintain occupancy, which may require adjusting rents and offering concessions, while you weather this market. According to Realfacts, of the 396 properties in the Sacramento MSA, average rental rates had increased year over year and quarter over quarter since 2001, until Q4-08 which was the 1st decrease in average rents in nearly a decade. They decreased once again slightly from Q4-08 to Q1-09, from \$966 average rent to \$961. Average occupancy has also decreased since 2001 where it was 96.6% to 92.2% currently.

Sacramento MSA Rental Trend (All Classes & Unit Types)



Listing & Sales Activity

Of the 52 current listings the Apartment Advisory Team tracks* in the Greater Sacramento Region, 40% have been on the market for over 6 months, and a 25% have been on the market for over a year. Of the 52 current listings, a third have announced price reductions, often multiple reductions. Very few completed transactions have occurred since buyers patiently search for solid footing on values and wait for an end to the credit crunch.

sale	units	property name	sale price in millions	reported cap rate
June 2009	60	Harrison Court North Highlands 95660	\$3.4	6.3%
June 2009	512	Overlook at Blue Ravine Folsom 95660	\$51	7.9%
May 2009	49	Magpie Creek REO Sale Sacramento 95838	\$3.05	N/A
March 2009	60	Manchester Apartments Sacramento 95825	\$5.0	6.4%

* The Apartment Advisory Team tracks listed properties over 24 units in Sacramento, Placer, El Dorado, Yolo, Yuba, Sutter & Butte Counties, & over 50 units in Solano, Stanislaus & San Joaquin Counties

Lending Affecting CRE Market

“Lenders' unwillingness to foreclose on loans and, in turn, make struggling properties available for sale is among the biggest roadblocks to strengthening sales-market activity, according to a broad cross-section of investment managers.

The managers of funds in several markets complain that in addition to reducing the volume of assets available for sale, lenders' unwillingness to foreclose and put properties on the market is making it impossible for investors to determine pricing points.

Until the government forces institutions to sell and create a market-clearing price, we will continue in this limbo land of not knowing where prices will settle.” ~Excerpted & Abridged from *Commercial Real Estate Direct*, a service of FM Financial Publishing LLC

Financing & Re-financing

Shrinking net operating incomes, declining property values and extremely tighter underwriting translate to lower loan dollars. Owners seeking replacement of debt that will mature in 2009 and 2010 are finding limited sources for apartment/commercial financing and as market values fall, their alternatives often include adding cash to pay down existing loan balances in order to reach acceptable loan-to-value and debt service coverage ratios.



In June 2008, we initiated our marketing of **Harrison Court Apartments** and brought in 7 offers over the course of 5 months. After an 7 month escrow, we closed on June 30, 2009 for \$3,400,000; \$56,666/Unit; \$68.37/SF; 6.3% Cap



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Apartment Advisory Team In The News

Dean Bagneschi, a principal in TRI Commercial Real Estate's Apartment Advisory Team, said apartments carry lower risk because vacancy rates in Sacramento are more attractive than other property types. But lenders don't necessarily heed the signs. "They've gone very conservative," Bagneschi said. "They've cut back dramatically. They say they are looking at deals, but there isn't a lot of activity." Buyers, meanwhile, are looking to score bank-owned apartment properties, but there isn't a glut of distressed property on the market.

That's contrary to the early 1990s recession, when apartment buildings were one of the most besieged property types, said Bagneschi's partner John Gallagher. During that recession, owners had more debt and less cash on hand. This time, banks that might have their hands full with other types of

foreclosed property are moving very slowly through the foreclosure process. In order for a deal to be funded, "the pitch has to be right down the middle of the plate," Gallagher said. Gallagher noted that Washington Mutual Bank was one of the biggest lenders for apartment transactions in Sacramento. The bank failed last year, and though its banking operations were purchased by J.P. Morgan Chase, the new owner's intentions toward restarting commercial lending for multifamily properties isn't clear, Gallagher said.

~From **Sacramento Business Journal Article** dated May 29, 2009:
Firm releases risk ratings for commercial real estate loans
Commercial investments are riskier now, but multifamily is safest bet,
by Michael Shaw Staff writer



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We can assist you in this challenging market with expert property evaluations and the best plan of action for your Apartment Investments.

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