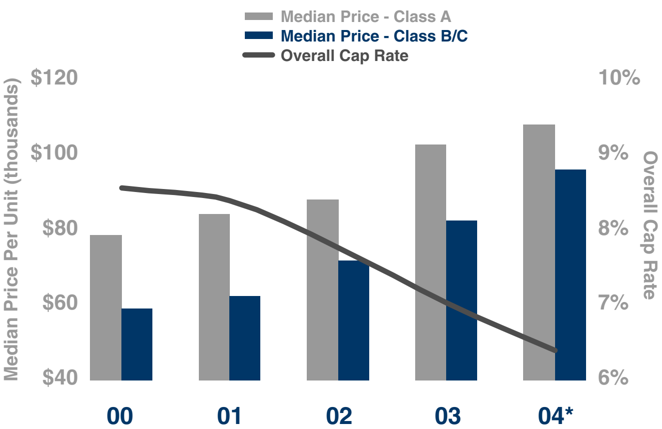
Multi-Family Price Trends



▲ Appreciation Overshadows Fundamentals. Despite weak supply and demand fundamentals, the nation's median price increased another 15 percent in 2004, to $93,000 per unit, following 2003's rise of 14 percent.

▲ Cap Rate Compression Continued. Nationally, the average cap rate dipped to 6.5 percent. Condo Conversions have traded as low as 4 percent.

▲ Larger Deals Fuel Sales Volume. Overall, 2004 transaction velocity grew by 24 percent, and sales over $5 million increased 18 percent. As a result, total investment was up 20 percent from 2003.

▲ Capital Flows Begin to Shift. Local private buyers' share of transactions eased from 43 percent in 2003 to 38 percent in 2004. Conversely, REITs and public funds were more active, accounting for 17 percent of transaction activity, up from 14 percent in 2003.

Investment Outlook: Defying Conventional Wisdom

Unique and extremely liquid best portrays the apartment investment environment. The strength and depth of the buyer pool, which has been underestimated by most, has led to price appreciation unheard of in a "recessionary" market. On a national basis, the median price per unit is up more than 50 percent since 2001, while revenue fell 1 percent over the same period. Cap rates have fallen more than 200 basis points over the past three years and are expected to remain low over the coming year. Large property sales are on the rise due to increased institutional activity and the implementation of tenancy-in-common partnerships, which facilitate small investors to participate in the acquisition of large-scale properties. Furthermore, condo conversion activity is surging, fueled by healthy demand due to significant appreciation in single-family home prices. More than $7 billion in apartment sales last year were slated for conversion. While occurring in most major metros, activity has been most prominent in Southern Florida, Southern California and select Northeast markets. While condos can be viewed as a direct competitor to apartments, we believe the benefit of a reduction in rental supply outweighs the lost renter demand in the short term.

Looking forward, buyer demand is likely to cool off somewhat as interest rates rise and yields tighten; however, the fundamental macro drivers of capital flows to apartments remain intact. These include baby boomers' need for cash-flow investments as well as institutional demand for low-risk returns. Investment strategies will continue to shift towards market inefficiencies. We expect increases in capital moving out of heated metros to secondary and tertiary markets, re-evaluation of markets that have fallen out of favor and moderate entrance into niche markets such as student and seniors housing.

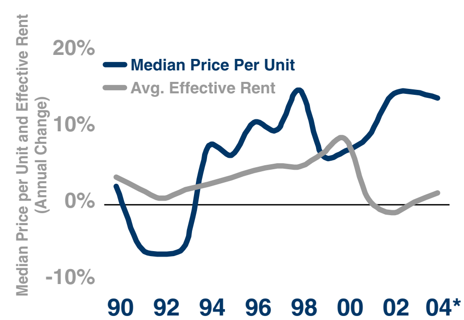
Forecast

▲ Market Forces Keep Cap Rates Low. Sustained buyer demand, improving fundamentals, rising material costs, shifting capital flows and room for compression in current spreads suggest cap rates will remain low in 2005.

▲ Condo Converters Active. Conversion activity will remain high as interest rates stay relatively low, fueling further price appreciation in the Class A market.

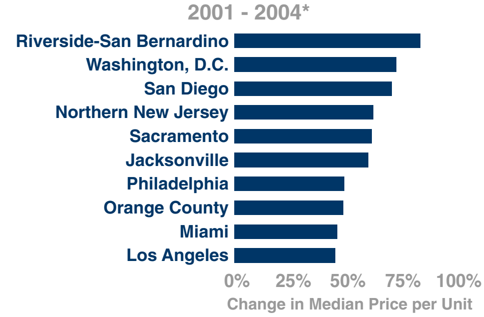
▲ Bubble or No Bubble? We expect appreciation to slow in 2005 as fundamentals catch up to pricing. Supported by job growth and the favorable demographic shifts forecast from 2005 to 2010, we expect that strong long-term NOI growth will resume, supporting buyer demand and valuations.

Capital Markets Driving Apartment Prices

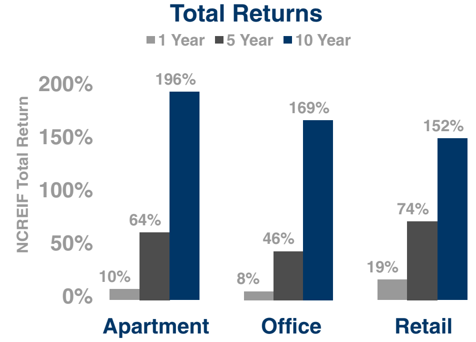


Markets with Greatest Price Appreciation

2001 - 2004*



Total Returns



* Estimate ** Forecast