

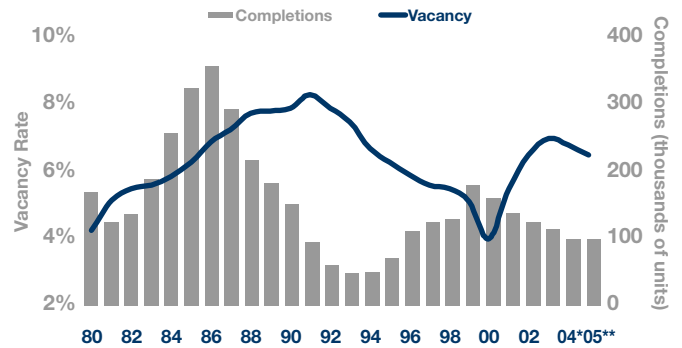
▲ Recovery Disappoints in 2004. Only a modest recovery materialized in 2004, as job growth continued to lag in some major U.S. metros and rental demand was further squeezed by the flight to homeownership.

▲ Apartment Construction Eased. Completions slowed by 13 percent in 2004, as developers added fewer than 100,000 rental units. Additionally, several condo conversions in major markets helped to offset the new rental supply (for now).

▲ Rent Growth Muted by Tenuous Demand. Owners, contending with tenant retention, were reluctant to push rents last year. Nationwide, modest asking rent growth of 2 percent was recorded in 2004. Effective rents rose at the same pace, indicating that concessions remained at 2003 levels.

▲ Vacancies Embark on a Positive Trend. In 2004, the nationwide vacancy rate improved 20 basis points, to 6.8 percent, following increases in each of the previous three years.

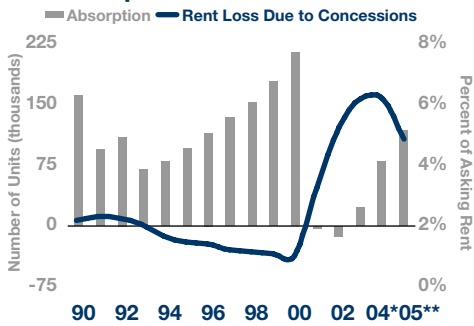
Vacancy and Completions



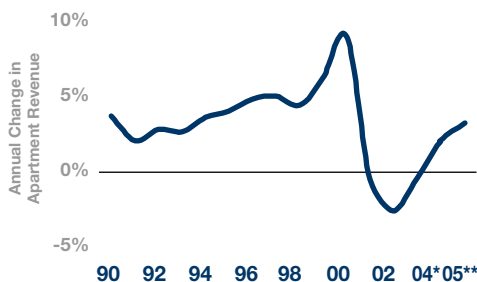
Apartment Overview: Recovery Cycle to Accelerate, Still Below Trend

Following 2004's rather lackluster operational performance, we embark on a new year with heightened expectations for the recovery to begin to gain real traction. Job growth is expected to accelerate to 2 percent, population within typical renter age groups will shift to long-term growth and continued foreign immigration underpin an optimistic outlook starting in 2005. Additionally, the atypical pressure exerted from homeownership will begin to wane. The affordability gap continues to widen with the nation's median single-family home price up 23 percent since 2001, while income growth measured only 7.3 percent over the same period. While the condo market looks to satisfy this gap, prices have increased by over 50 percent since 2001, more than double the rate of single-family homes. Finally, rising interest rates will likely result in increased mortgage defaults, boosting demand in the rental market. Originations of adjustable-rate mortgages have risen significantly since 2001, soaring to 35 percent of the total in 2004.

Absorption vs. Concessions

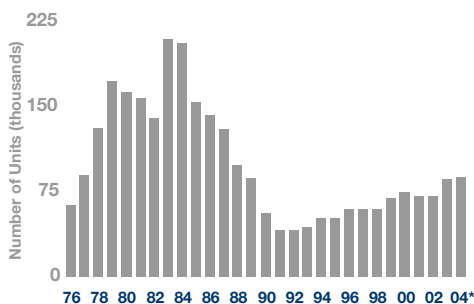


Apartment Revenue Index



The 2005 outlook calls for at least modest improvement in supply and demand fundamentals in most markets. In terms of operations, with further vacancy improvement expected, owners will begin seizing the opportunity to shave incentives. Consequently, in many cases concession burn-off will contribute to the majority of upside to operations in 2005. Nationally, rent loss due to concessions is forecast to fall 140 basis points to 4.7 percent of asking rents. As a result, we expect revenue growth of 3.9 percent in 2005 compared to 2 percent in 2004, as measured by the combined change in vacancy and effective rent.

Condominium Construction Starts



* Estimate ** Forecast

Forecast

- ▲ Recovery Gains Momentum. Accelerated job growth will translate into heightened renter demand. As a result, absorption will increase by 46 percent over 2004 and push the nation's vacancy rate down 40 basis points in 2005, to 6.4 percent.
- ▲ Construction Maintains 2004 Pace. Completions are expected to mirror the 2004 total, as slightly less than 100,000 rental units will be built. Condos continue to account for a growing share of multi-family permitting. Beyond the short term, speculation and a cooling housing market will likely increase for-rent supply.
- ▲ Concession Burn-Off Lifts Revenues. Owners will begin to limit incentives as leasing traffic increases. As a result, effective rent growth of 3.5 percent is expected in 2005, outstripping asking rent growth by 150 basis points.