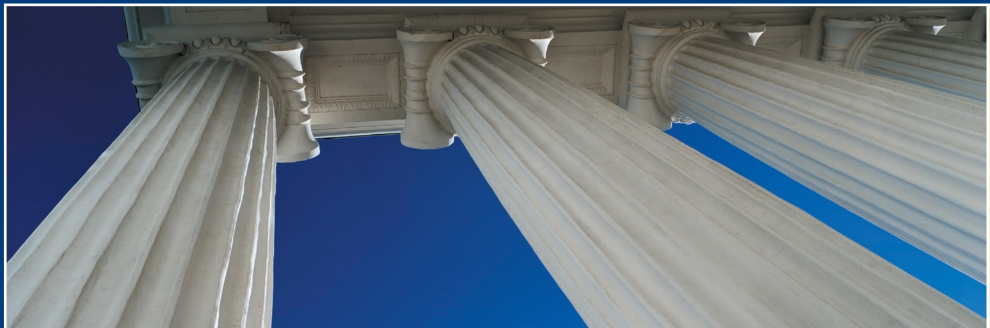


NATIONAL RESEARCH REPORT

Marcus & Millichap
RESEARCH SERVICES

APARTMENT

APARTMENT

To our valued clients:

Recent economic indicators suggest that employment growth will finally accelerate to levels that will generate meaningful demand for rental units. After two years of healthy advance, gross domestic product (GDP) is expected to cool off somewhat to a still respectable rate of 3.7 percent in 2005. In addition, corporate balance sheets are strong, business investment has returned, inflation remains tame and oil prices have come off their recent peak.

Despite the Fed's short-term interest rate increases, long-term rates remain low, reflecting investor caution and the effects of offshore capital flows into U.S. Treasuries. Our Asian trading partners continue to limit currency devaluation, which has become a major concern for many economists. The ballooning U.S. deficit, in addition to any major and/or sudden shifts in currency dynamics, poses significant risks to U.S. interest rates. This is one piece of the broader puzzle of increased volatility and geopolitical risk that will be with us for some time.

Meanwhile, real estate capital flows, particularly for apartments, continue to dominate the investment landscape and will do so again in 2005. Most evidence points to continuation of the economic expansion cycle, which will further attract real estate capital. We expect the yield on the 10-year Treasury to rise 100 to 150 basis points, still low by historical norms. The higher cost of capital will cause somewhat of a market shift, but the need for low-risk cash flow will dominate the investment strategy of private investors, who are largely aging baby boomers, institutional investors and advisors, as well as REITs. This macro trend, coupled with the durability of the expansion cycle and emerging echo-boom generation, bodes well for apartment investments.

That is not to say that investors should count on "status quo." Some of the most active apartment markets registered moderating investment activity and a slowdown in price appreciation as of late. At the same time, markets that lagged the recovery are getting more attention. Expect these market variations to continue in 2005. An increasing volume of capital from strong markets will move to contrarian markets that offer higher yields, value-add transactions and alternative property types. Many apartment owners are pursuing property types that offer an attractive cap rate spread and/or less intensive management. Office and single-tenant net-lease properties, in particular, will continue to gain favor as a result.

While improvement in apartment market fundamentals will be moderate, we are at least headed in the right direction. Rising mortgage rates will have a positive effect on renter demand, but improvement in vacancy will be hindered by new supply. Rent growth is forecast to remain somewhat moderate, but will be accompanied by easing concessions, which have cut deeply into NOIs in recent years.

To assist you in planning and executing a successful strategy, we are pleased to present our 2005 National Apartment Report. We hope you benefit from this tool and the expertise of our apartment investment specialists across the nation.

We look forward to being a part of your success.

Sincerely,

Harvey E. Green
President and
Chief Executive Officer

Hessam Nadji
Managing Director
Research Services

NATIONAL PERSPECTIVE

MARKET OVERVIEWS

CLIENT SERVICES

Written by Erica Linn, National Research Manager, James H. Holt, National Client Services Manager and edited by Hessam Nadji, Managing Director. The Capital Markets section was co-authored by William E. Hughes, Senior Vice President, Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap market analysts and investment brokerage professionals nationwide.

Executive Summary

National Apartment Supply/Demand Index

- Four of the top five markets are in Southern California, with Riverside-San Bernardino taking the top spot.
- Las Vegas broke into the top five thanks to a nation-leading job growth forecast, below-average vacancy rate and rising home prices. Some caution is in order, however, as for-sale single-family housing inventory has increased since mid-2004. If a share of these homes are placed into the rental pool, it would cut into Class A apartment demand.
- Six of the bottom 10 markets are located in the Midwest. While these markets are registering improvement, they are recovering at a slower pace than other markets in our index, which is pushing them down in the ranking.
- Markets with above-average concentrations of high-tech employment rose in the index, as we expect increased business investment into equipment and software to translate into jobs. Austin rose two spots to #27, Portland climbed two places to #26, San Jose rose three spots to #22 and Seattle gained eight positions to #18.

National Economy

- U.S. GDP growth is expected to come in at 4.2 percent for 2004. Next year, we expect some cooling off, with annual growth forecast at 3.7 percent.
- Employment growth in 2004 is estimated at 1.8 percent. We expect moderate acceleration to 2 percent next year, which equates to 2.6 million jobs, as the economic recovery gains traction.
- The positive effects of cashed-out equity and tax cuts are fading, which will cause a deceleration in consumer spending growth. Energy prices are trending down, however, which will relieve some of the pressure.
- Inflation has remained mild, ending 2004 at an estimated 2.5 percent. As 2005 progresses, oil prices are expected to decline further and interest rates will rise, which is forecast to keep inflation limited to the 2 percent to 3 percent range.

Capital Markets

- At the end of 2004, spreads on high-quality assets were 90 to 110 basis points over the 10-year Treasury, while lesser-quality properties were being underwritten at 110 to 130 basis points. Spreads could tighten further as interest rates rise and lenders remain competitive.
- Default rates for multi-family loans in CMBS pools are up from 2003, with the increase attributable to loans on properties in oversupplied markets; however, conduits are expected to remain active over the next year.
- The 10-year Treasury yield is forecast to rise 100 to 150 basis points in 2005, which is still low by historical standards.
- Construction loan activity remains brisk. Spreads are quoted at 150 to 220 basis points over LIBOR on high-leverage deals, with low-leverage transactions commanding spreads in the 120 to 150 basis point range.

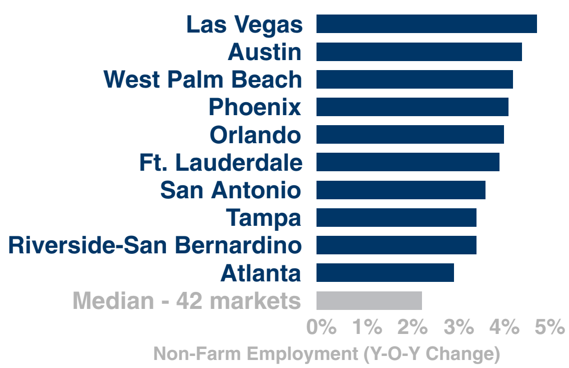
Apartment Market Overview

- Vacancy registered a 20 basis point decline in 2004, to 6.8 percent. Further improvement, to 6.4 percent, is forecast for 2005 as demand rises in response to stronger job creation.
- Concessions will begin to burn off in 2005. Effective rents are forecast to rise by 3.5 percent, outstripping asking rent growth by 150 basis points.
- Construction completions will total slightly less than 100,000 units in 2005, similar to the pace reported in 2004.
- Condo conversions remain popular. For now, conversions to for-sale units are offsetting new supply in many markets, but if the condo market slows, many of these units will likely be added to the rental pool.

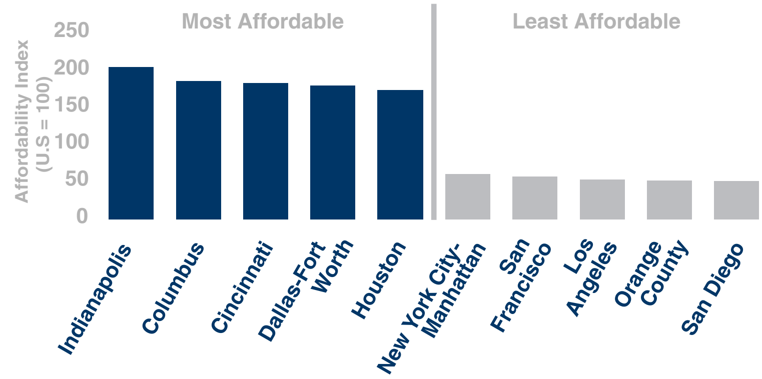
Investment Outlook

- Transaction velocity jumped 24 percent in 2004, while dollar volume rose to an estimated $36 billion. Activity for properties priced at more than $5 million increased 18 percent, as REITs and public funds were more active.
- Appreciation is likely to slow over the next year as fundamentals catch up to prices. We expect favorable demographic trends and job creation to translate into strong long-term NOI growth, supporting both buyer demand and valuations.
- The fundamental macro drivers of capital flows into apartments remain intact. These include baby boomers' need for cash-flow investments and institutional demand for low-risk returns.
- We expect a shift in activity as investors move out of heated metros to secondary or even tertiary markets to take advantage of more favorable yields.

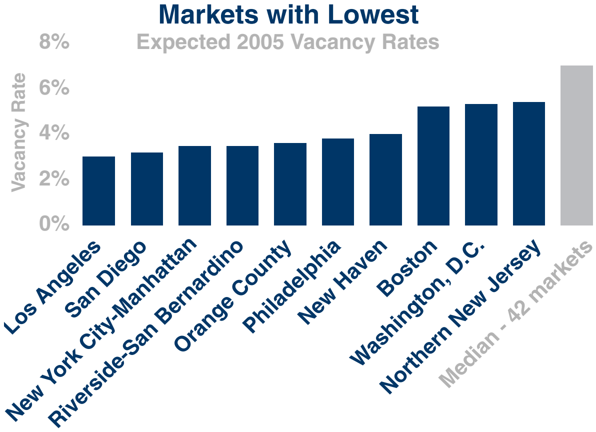
Markets with Highest
Expected 2005 Job Growth



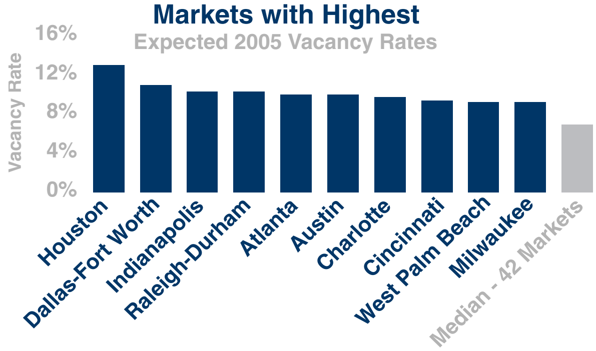
Single-Family Housing Affordability



Markets with Lowest
Expected 2005 Vacancy Rates



Markets with Highest
Expected 2005 Vacancy Rates



National Apartment Index

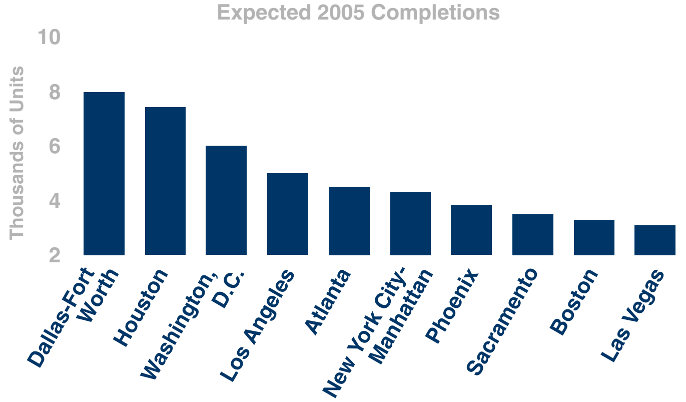
Marcus & Millichap is pleased to present the 2005 edition of the National Apartment Index (NAI). The NAI is a snapshot analysis that ranks 42 apartment markets based on a series of 12-month forward-looking supply and demand indicators. Markets are ranked based on their cumulative weighted-average scores for various indicators, including forecasted employment growth, vacancy, construction, housing affordability and rent growth. Taking into account both the forecasted level and the degree of change over the forecast period, the index is designed to indicate relative supply and demand conditions at the market level.

Users of the index are cautioned to keep several important points in mind: first, the NAI is not designed to predict the performance of individual investments. A carefully chosen investment in the bottom-ranked market could easily outperform a poor choice in the top-ranked market. Second, the index is geared toward a short-term time horizon. A market facing difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may change from one year to the next even if its fundamentals remain unchanged. This can happen when conditions are stable in one market while shifting in the market's peers. Finally, because the NAI is an ordinal index, differences in specific rankings should not be misinterpreted. For example, the second-ranked market is not necessarily twice as bad as the top-ranked market, nor is it five times better than the 10th-ranked market.

Index Results: High-Growth Markets Make Biggest Push

Riverside-San Bernardino, up three positions, assumes the #1 spot in the ranking, surpassing last year's leader Orange County. The region's strong demographic and employment trends, a recent run-up in housing prices and its below-average vacancy will fuel the nation's leading rent growth figure in 2005, at 6 percent. San Diego continues to occupy the second position in the ranking due to low vacancy, above-average rent growth and constrained supply. Orange County fell two positions to #3. At #4, Las Vegas broke into the top five, improving two positions, on the back of expected job growth of 4.8 percent and a forecasted vacancy rate of 5.8 percent. Rounding out the top five is Los Angeles, keeping all Southern California markets in the top-five for the third consecutive year. Los Angeles is expected to post the lowest vacancy and second-highest rent growth nationally in 2005, but job growth expectations

Markets with Highest
Expected 2005 Completions



MSA	Rank 2005	Rank 2004	04-05 Change
Riverside-San Bernardino	1	4	▲ 3
San Diego	2	2	■ 0
Orange County	3	1	▼ 2
Las Vegas	4	6	▲ 2
Los Angeles	5	3	▼ 2
Washington, D.C.	6	8	▲ 2
Boston	7	10	▲ 3
Fort Lauderdale	8	5	▼ 3
New York City-Manhattan	9	12	▲ 3
Oakland	10	7	▼ 3
Philadelphia	11	11	■ 0
San Francisco	12	9	▼ 3
Phoenix	13	15	▲ 2
West Palm Beach	14	18	▲ 4
Northern New Jersey	15	17	▲ 2
Tucson	16	14	▼ 2
Sacramento	17	13	▼ 4
Seattle	18	26	▲ 8
Tampa	19	22	▲ 3
Minneapolis-St. Paul	20	23	▲ 3
Orlando	21	24	▲ 3
San Jose	22	25	▲ 3
Chicago	23	19	▼ 4
Jacksonville	24	16	▼ 8
Denver	25	31	▲ 6
Portland	26	28	▲ 2
Austin	27	29	▲ 2
San Antonio	28	New	■ NA
Salt Lake City	29	20	▼ 9
New Haven	30	35	▲ 5
Miami	31	21	▼ 10
Atlanta	32	32	■ 0
Dallas-Fort Worth	33	33	■ 0
Charlotte	34	27	▼ 7
Detroit	35	30	▼ 5
Cleveland	36	37	▲ 1
Milwaukee	37	38	▲ 1
Columbus	38	34	▼ 4
Raleigh-Durham	39	New	■ NA
Houston	40	36	▼ 4
Cincinnati	41	39	▼ 2
Indianapolis	42	40	▼ 2

remain comparatively weak at 1.5 percent. The Northeast markets of Washington, D.C., and Boston hold the #6 and #7 spots, up two positions and three positions, respectively. Similar outlooks for low vacancy, above-average rent growth and a favorable relationship between job growth and new construction support their positions in the ranking. Fort Lauderdale comes in at #8. While vacancy in Fort Lauderdale is low, it is forecast to remain flat, causing it to fall three positions. New York City, at #9, moves back into the top 10 due to its exorbitant housing prices, which will elevate rental demand and allow for strong rent growth. Finally, at #10 is Oakland. Forecasts of more significant improvement in peer markets pushed Oakland down three places, but it remains in the top 10.

The markets occupying the bottom positions in this year's index continue to struggle with supply issues and/or a weak labor market. Supply continues to plague markets such as Houston (#40) and Dallas-Fort Worth (#33). The Midwest markets continue to fall in the lower quarter of the ranking as other markets in our coverage universe stage more aggressive recoveries. Six of the bottom 10 markets in the NAI are located in the Midwest. Minneapolis-St. Paul is a Midwest bright spot, however, improving three positions to #20. Among the markets in the middle, those with a significant high-tech presence improved their positions in this year's index. We expect rising capital expenditures in tech will translate into elevated job creation in 2005. San Jose (#22), Portland (#26) and Austin (#27) all moved up in the rankings.

Some significant shifts occurred in the 2005 NAI. Seattle (#18) made the biggest positive move of the 42 markets analyzed, rising eight positions. Seattle's high-cost of housing along with significant job creation compared to apartment completions propelled this region into the top 20. Jumping six positions, expectations for Denver (#25) are high in 2005, with the return of meaningful job growth leading to further vacancy improvement. West Palm Beach's position (#14) improved four spots this year due to above-average job growth coupled with a limited supply pipeline. Conversely, intense competition from the condo market caused Miami to slip 10 positions in the rankings to #31. Similarly, Chicago (#23) fell four positions. Salt Lake City's weak forecast pushed the region down nine positions to #29. Finally, Jacksonville's fundamentals will be strained by an affordable housing market and sustained apartment construction, placing it at #24, down eight positions from last year.

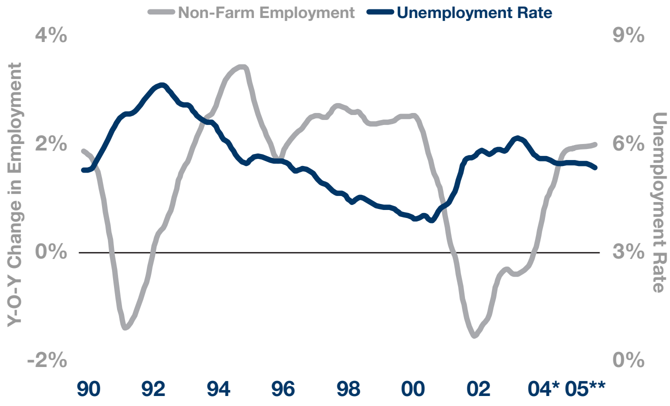
- Businesses Driving Growth. Consumers are likely to become more conservative as the impact of cashed-out equity runs its course. Businesses, however, have stepped up to the plate, with investment in equipment and software posting double-digit gains, and inventories are on the rise. GDP growth is estimated at 4.2 percent for 2004.

- Employment Growth Accelerating. Job creation picked up steam through the latter half of 2004 and is estimated at 1.8 percent for the year.

- Consumer Confidence on Rollercoaster Ride. After rising through midyear, the lead up to the presidential election brought attention to the problematic areas of the economy, causing a temporary dip in confidence, which was followed by a post-election bump.

- Energy Prices Trending Down. Oil prices skyrocketed in 2004, and high gas prices cut into disposable incomes. Prices are headed down, although "normalized" prices are not likely to re-emerge for some time.

Employment Trends



National Economy: Here Come the Jobs

The employment recovery was slow to materialize and now that we are heading in the right direction, it appears to be a somewhat long road ahead. On the positive side, businesses have begun to shore up inventories, the housing market remains strong, and oil prices are declining and are expected to end 2005 at approximately $40 per barrel. Consumers, however, who supported the economy during the most recent economic downturn, are likely to become more conservative over the next 12 months. As interest rates creep upward and the impact of cash-out refis and tax cuts run their course, consumers will have to rely on actual incomes. Fortunately, inflation has remained mild, with final 2004 figures estimated at slightly more than 2.5 percent. Inflation is forecast to remain in the 2 percent to 3 percent range over the next year, which bodes well for the consumer.

The most significant gains in employment in 2005 are forecast in the business and professional, and education and health care services sectors. We expect mortgage rates to remain low by historical standards, but they will slowly climb over the next 12 months, and home prices are also expected to rise at a moderate rate. As white-collar jobs are created at least at a moderate rate and housing becomes less affordable, apartment owners will reap the rewards, particularly in the Class A sector. The Class B/C sector will benefit from stabilization in manufacturing, immigration and growth in the leisure and hospitality industry.

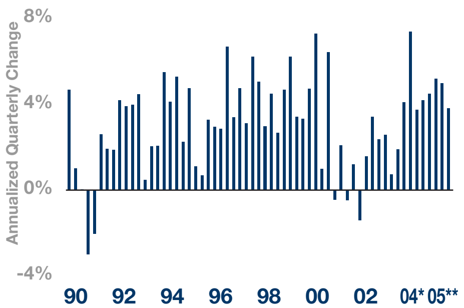
Forecast

- Stable Gains. GDP is expected to cool off somewhat but post a healthy gain of 3.7 percent in 2005. Going forward, however, high health care costs and the budget deficit remain concerns.

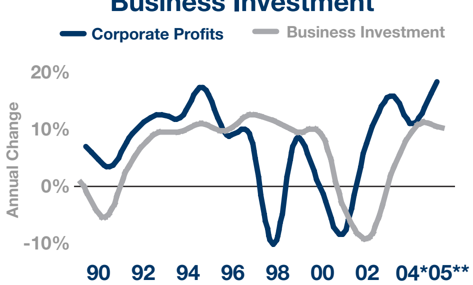
- Hiring to Pick Up. A rise in temporary jobs was reported in late 2004, which suggests businesses were in need of more workers but not ready to commit to full-time employees. In addition, above-average productivity leaves little room for expansion without hiring. Our forecast calls for employment to rise 2 percent in 2005.

- Residential Mortgage Delinquencies to Rise. While this is bad news for homeowners, it will have positive implications for the apartment market. Approximately two-thirds of subprime mortgage debt is adjustable, and as interest rates rise, we expect delinquencies to follow.

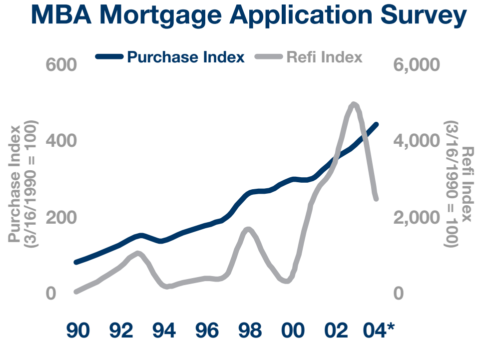
U.S GDP



Corporate Profits & Business Investment

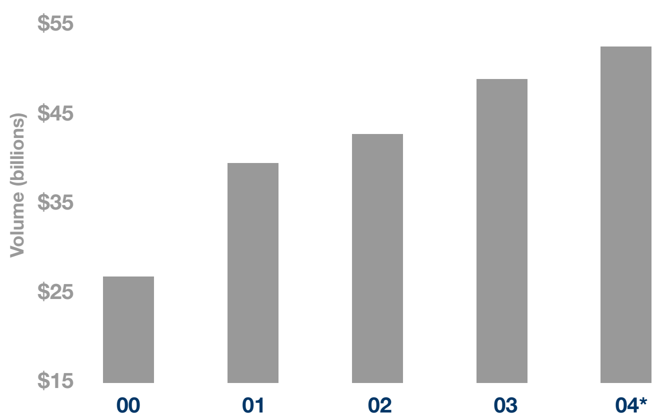


MBA Mortgage Application Survey



* Estimate ** Forecast

Multi-Family Loan Activity



- ■ Yields Flat. While the Fed began to raise short-term rates, the rate on the 10-year Treasury remained in the low- to mid-4 percent range in 2004, well below expectations early in the year.
- ▲ Competitive Environment. The conduits, agencies and portfolio lenders each recorded higher loan volumes in 2004. Lenders were willing to compete on terms and proceeds.
- ▲ Improved Pricing. Loan spreads on all classes of apartment properties tightened in 2004. Class B/C assets with compelling stories to tell were often aggressively underwritten.
- ▼ Ballooning Deficits: For the year ended September 2004, the federal budget deficit reached $413 billion, or 3.6 percent of gross domestic product. Many economists predict that without significant narrowing of the deficit, interest rates will climb steadily.

Capital Markets: Despite Rising Rates, Borrowers Will Find Favorable Environment

In 2004, the apartment financing environment was highlighted by competition between capital sources, tightening spreads and ample loan proceeds for borrowers. At the end of 2004, high-quality assets were being underwritten at 90 to 110 basis points over the 10-year Treasury, while lesser-grade properties were commanding deals from 110 basis points to 130 basis points. Spreads could contract further in 2005, as competition for deals remains intense, and lenders underwrite transactions using aggressive rent-growth assumptions for properties in many markets. Under these circumstances, buyers should take advantage of rates that are still low by historical standards, while sellers, in turn, are in a position to realize high asset prices and reinvest equity with low-cost debt. With property expenses well understood by lenders, and specific expense line items unlikely to suffer major spikes after rising in the past few years, conduit lenders are apt to maintain debt-service coverage ratios of 1.2x. Agency lenders and life insurance companies will underwrite at 1.25x to 1.3x.

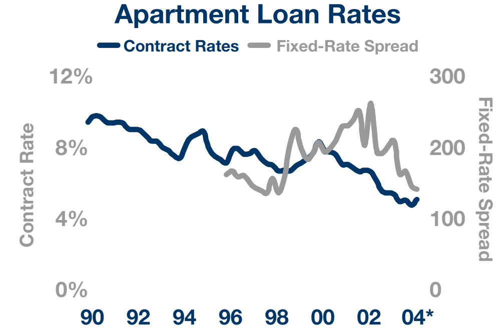
Default rates on multi-family loans in CMBS pools have risen since 2003, with the increase attributable to loans made on properties in overbuilt markets. Nonetheless, conduits are expected to remain active in multi-family lending, as many CMBS investors prefer issues with a high concentration of apartment loans. Construction loan activity is brisk in some markets. Spreads are quoted at 150 basis points to 220 basis points over LIBOR on high-leverage (75 percent LTV) deals, and 120 basis points to 150 basis points for low-leverage (50 percent LTV) transactions.

Forecast

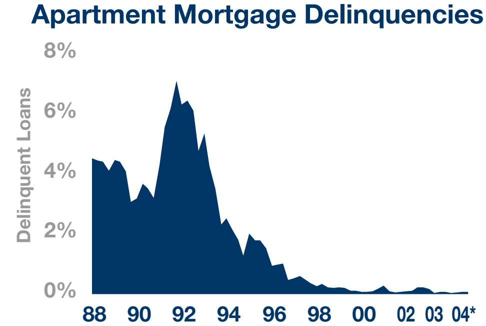
- ▼ Rising Rates. The 10-year Treasury yield is expected to "catch up" to the Fed and rise 100 to 150 basis points in 2005 – still low by historical standards. Exogenous events such as a large-scale unwinding of foreign positions in Treasuries could send rates soaring within a short time frame, but remain unlikely.
- ▲ Tightening Spreads. Spreads usually tighten in an environment of rising rates and improving fundamentals, both of which are predicted for 2005.
- ▲ Willing Pool of Lenders. As 2004 closed, the apartment market in many locales was improving. A stronger economy in 2005 and rapidly escalating single-family home values in many markets support stronger performance in 2005. Lenders will remain very interested in the apartment sector.

Yields Still Low

Apartment Loan Rates



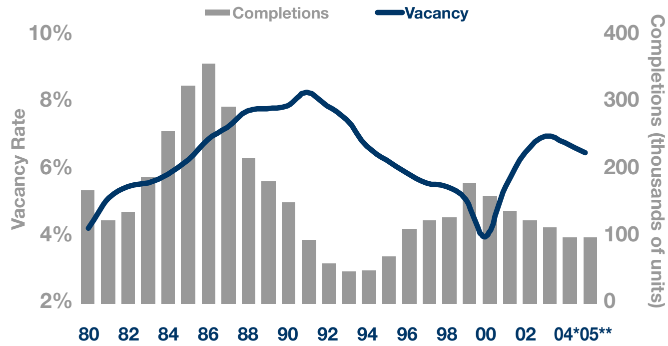
Apartment Mortgage Delinquencies



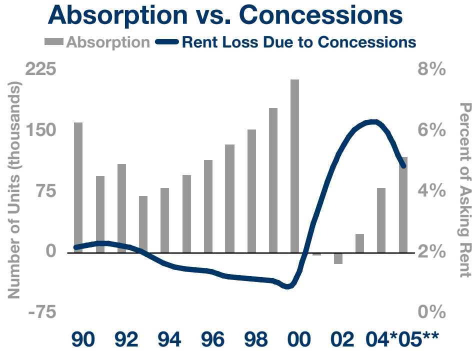
* Estimate

- ▲ 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.

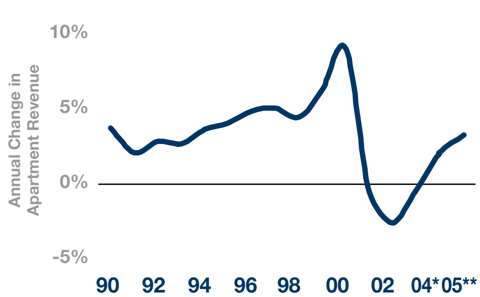
Vacancy and Completions



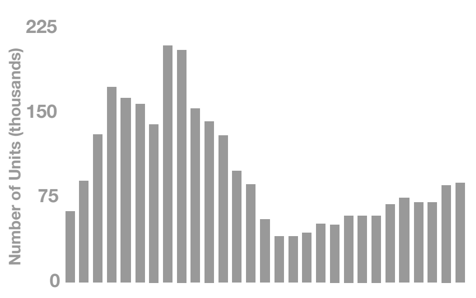
Absorption vs. Concessions



Apartment Revenue Index



Condominium Construction Starts



* Estimate ** Forecast

Apartment Overview: Recovery Cycle to Accelerate, Still Below Trend

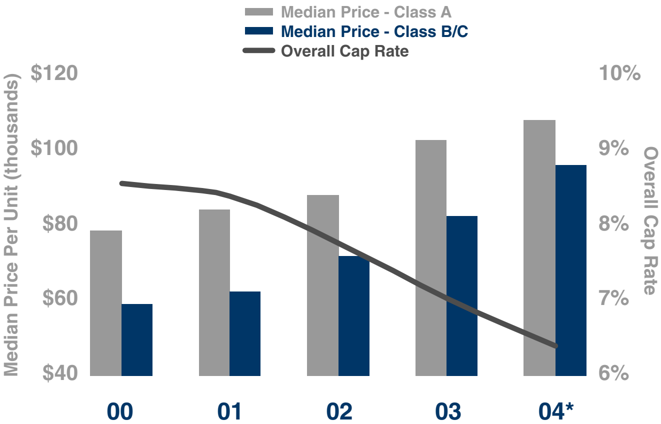
Following 2004's rather lackluster operational performance, we embark on a new year with heightened expectations for the recovery to begin to gain real traction. Job growth is expected to accelerate to 2 percent, population within typical renter age groups will shift to long-term growth and continued 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.

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.

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.

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.

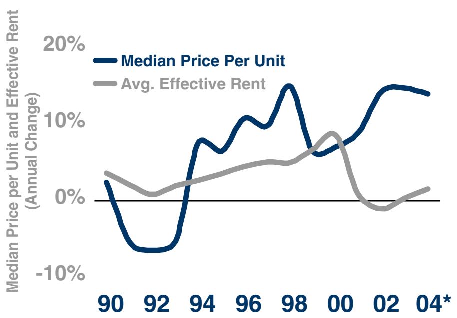
Forecast

▲ 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.

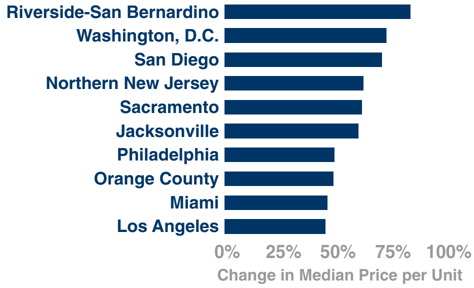
▲ Bubble or No Bubble? We expect appreciation to slow in 2005 as fundamentals catch up to pricing. Supported by job growth and the favorable demographic shifts forecast from 2005 to 2010, we expect that strong long-term NOI growth will resume, supporting buyer demand and valuations.

Capital Markets Driving Apartment Prices

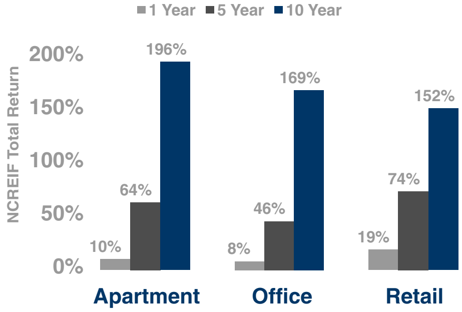


Markets with Greatest Price Appreciation

2001 - 2004*



Total Returns



* Estimate ** Forecast

Atlanta

■ No Change | 2005 Rank: 32 | 2004 Rank: 32

- ■ 2005 NAI Rank: 32, No Change. In spite of strong job growth, Atlanta held steady in the index due to double-digit vacancy.
- ▲ Employment Forecast: Atlanta-area firms are expected to hire an additional 65,830 workers in 2005, bringing the total employment base to 2.3 million. Growth in higher-paying sectors, such as financial activities, and professional and business services, will help boost demand for Class A units.
- ▲ Construction Forecast: Developers are forecast to complete 4,500 units this year, down from 5,700 units in 2004. Prime neighborhoods, including Buckhead and Midtown, will receive additional high-rise and luxury properties.
- ▲ Vacancy Forecast: Atlanta's vacancy rate is forecast to drop by 100 basis points, to 10 percent, in 2005. Owners in the northern suburbs will report improvement of at least 50 basis points this year as local companies increase payrolls.

Asking Rent and Vacancy Trends

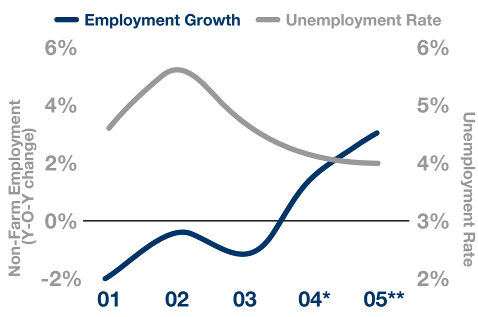
Atlanta's Perimeter Provides Fertile Ground for Value Players

Stronger employment growth, coupled with developer restraint, will provide a much-needed lift to Atlanta's apartment market. Metro-area owners are likely to report an improvement in NOIs by year-end 2005. The prospect of an uptick in returns will encourage additional investor interest in Atlanta, and we expect the inflow of out-of-state capital to accelerate throughout 2005. Out-of-state investors were primarily focused on properties in the northern suburbs last year, and they will continue to purchase in these communities in 2005. Institutional investors increased their stake in Atlanta, as well. Sales in excess of $5 million totaled nearly $1.6 billion over the past 12 months. Cap rates in large-scale transactions average 7.1 percent for garden-style communities, while mid- and high-rise properties garnered cap rates of 6.2 percent. The city's urban core will remain a top destination for investment. The Midtown area is fast becoming a prime residential neighborhood, with developers under way on a number of high-rise and luxury condominium towers. Condominium converters are expected to lend support to apartment values as they attempt to gain a foothold in the submarket.

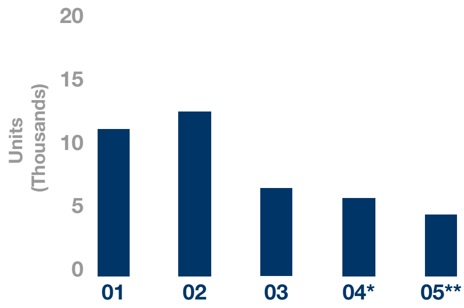
Investors seeking greater upside opportunities will turn their attention to close-in suburbs, such as Marietta and Sandy Springs. These areas are in the population growth path and near major employment hubs along the Perimeter (I-285). Properties with 150 to 200 units and vacancy issues will attract opportunistic investors. With minimal capital improvements, many of these properties can realize substantial improvements in occupancy. Other opportunities include complexes in weaker submarkets such as South DeKalb and South Fulton, where affordable rents and proximity to jobs will attract residents unable to upgrade to pricier locales.

- ▲ Rent Forecast: The MSA's average asking rent will rise slightly in 2005, gaining 0.5 percent, to $806 per month. Effective rents are forecast to increase by 1.4 percent this year, to $715 per month, as concessions wane.
- ▲ Investment Forecast: Investors unable to secure properties in central Atlanta will find more upside opportunities in the suburbs along the Perimeter. For example, buyers will be searching in College Park and East Point, where prices tend to be less expensive than in the urban core, and residents are close to downtown and the airport.

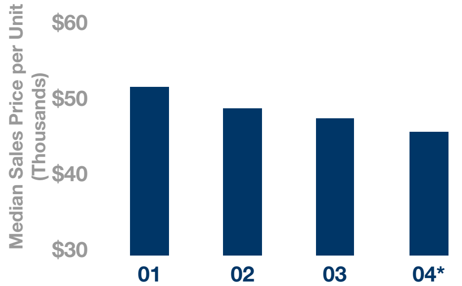
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Asking Rent and Vacancy Trends

- ▲ 2005 NAI Rank: 27, Up 2 Places. Vacancy will ease in 2005 but remains high relative to other markets in our coverage universe.
- ▲ Employment Forecast: Nearly all sectors are expected to show strong growth in 2005, with total employment increasing by 4.5 percent, or 29,880 jobs, after gaining 1.8 percent last year. Most importantly for this tech-driven economy, AMD and other technology firms are expected to hire 1,000 workers this year.
- ▲ Construction Forecast: Apartment development has been restrained over the last few years as builders quickly responded to weakened conditions. Completions will total 2,000 units in 2005, following construction of 2,500 units in 2004.
- ▲ Vacancy Forecast: The return of healthy job growth is increasing net migration, which is the primary driver of housing demand in Austin. As a result, vacancy declined by 40 basis points in 2004, to 10.8 percent, and is expected to decline by another 80 basis points in 2005.

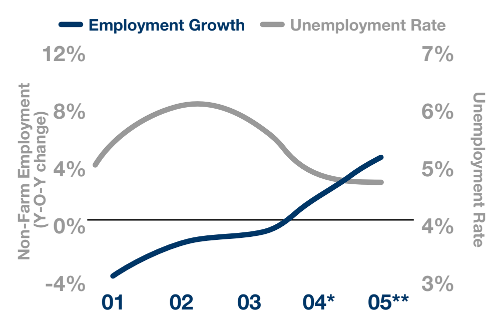
Urban Renter Demand Sparks Austin Apartment Recovery in 2005

Austin is emerging from a period of weak job growth with an expanding economy and the return of net migration, which will benefit the local apartment market. While the flight to homeownership is still prevalent in many submarkets, such as Cedar Park and Taylor, rising mortgage rates are slowing that trend and the renter pool is starting to expand. Demand has become especially strong in the Central submarket, due primarily to a rapidly growing cluster of renters with a preference for an urban lifestyle. While vacancy rose dramatically in the Central submarket during 2004 with the completion of 310 units, strong demand is expected to push vacancy down 200 basis points in 2005, to 8 percent. Net migration, which is playing a key role in reviving residential demand, will increase to 23,000 residents in 2005, thanks to the growing number of jobs in the region. The improving market will allow owners to achieve gains in gross revenue, which, on average, fell to a five-year low in 2004.

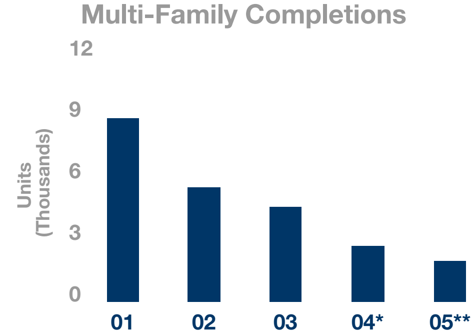
Rebounding market conditions are attracting numerous investors to the area as deals become easier to consummate and asset underwriting is less of a challenge. Prices rose very little in 2004, increasing just 1.1 percent, to $45,000 per unit. In spite of rising debt-service coverage, value growth will continue in 2005 as property operations register improvement. Also contributing to the rise in values in 2005 will be out-of-state buyers, who tend to be more open to paying a premium for local properties. Cap rates currently average between 7 percent and 9 percent, a relative bargain by West Coast standards, where sub-5 percent cap rates are common. The Central submarket is expected to be the most active area in terms of both leasing and sales activity. Properties trading in the submarket had a median price of $40,500 per unit and an average cap rate of 8.8 percent during 2004, which is on par with activity recorded in 2003.

- ▲ Rent Forecast: The local apartment market is on the road to recovery and demand is picking up, but it will take time before owners can achieve aggressive rent growth. As a result, asking rents are expected to increase just 2 percent in 2005, to $782 per month.
- ▲ Investment Forecast: Centrally located properties will be prime investment targets due to the improving fundamentals, while suburban properties remain at risk due to the oversupply of affordable homes.

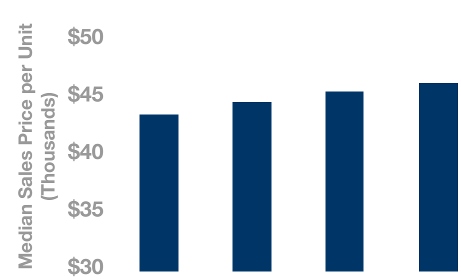
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

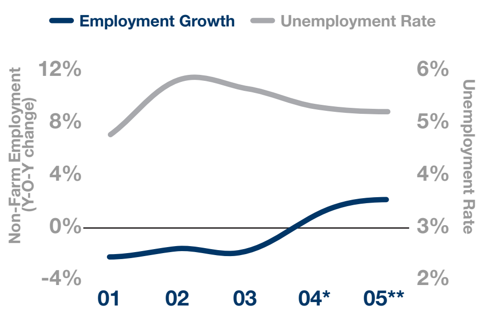
Boston

▲ 3 Places | 2005 Rank: 7 | 2004 Rank: 10

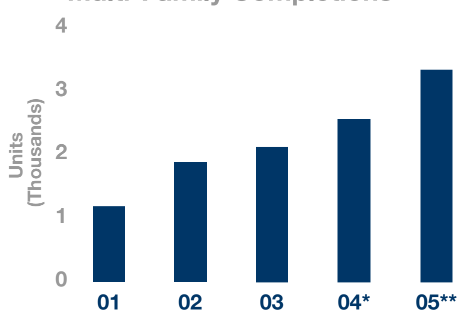
- ▲ 2005 NAI Rank: 7, Up 3 Places. Boston's below-average housing affordability and relatively low vacancy pushed it up in the index.
- ▲ Employment Forecast: Business demand and production growth is benefiting local employment, with job growth forecast to increase by 2 percent, or 62,340 workers, in 2005. Roughly one-third of the growth will come from well-paid positions in the professional and business services sector.
- ▼ Construction Forecast: Apartment development is on the rise, with 3,300 units slated to finish construction in 2005. Many developers have been switching projects from apartments to condominiums prior to completion, however, which could reduce the final tally of new rental units.
- ▲ Vacancy Forecast: Vacancy is expected to recede by 20 basis points in 2005, to 5.2 percent, as growing tenant demand offsets new construction. Cambridge will remain a top-performing submarket this year, with vacancy dipping below 3 percent.

Asking Rent and Vacancy Trends

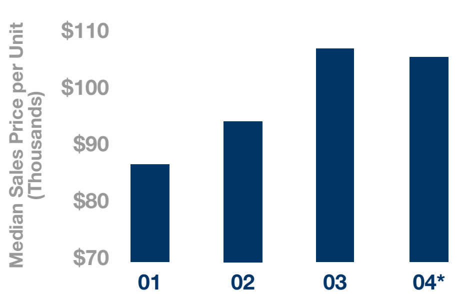
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Luxury Units Leading the Recovery of Boston's Apartment Market

Boston will continue to exhibit economic improvement in 2005, which, along with declining housing affordability, will boost demand for apartments. A sure sign that the economy is recovering is the growing wave of venture capital dollars flowing into the area, which is helping to expand the local biotech industry. The high-paying jobs entering the market are bolstering housing demand, but home prices have eclipsed $400,000, leaving fewer people who can a afford a home. As a result, net apartment absorption is improving, especially at luxury complexes, where vacancy declined by 100 basis points over the past year, to 6.4 percent. Another indication of improving market conditions is declining vacancy in Cambridge, the most expensive submarket in terms of rent. Growing demand for the area's upscale environment has caused vacancy to drop below 3 percent. Solid rent growth allowed owners to reap an increase of 6 percent, on average, in gross revenue per unit in 2004. Brighton/Brookline and Boston City are also displaying significant improvement, with vacancy in both submarkets declining by more than 100 basis points over the last year, and further declines are forecast for 2005.

Improving fundamentals prompted more apartment sellers to step up to the plate over the past year. Numerous buyers were active in the market during 2004, but the median price declined slightly. Despite a few high-end purchases in Cambridge by the likes of Equity Residential and Crescent Heights Investors, the median price fell due to the predominance of sales in the lower-end of the market. Trading was active in both Attleboro/Bedford and Saugus/Lynn, where properties sold for a median of $58,000 per unit and $78,000 per unit, respectively. Due to strong fundamentals and heightened buyer demand, Back Bay remains the most expensive area.

- ▲ Rent Forecast: Driven by solid gains in the Class A apartment sector, asking rents in the Boston market will increase by 3 percent during 2005, to an average of $1,607 per month.
- ▲ Investment Forecast: The number of institutional-grade apartment properties sold will increase this year as operations in the Class A segment continue to improve. The outlying suburban areas are the best bet for opportunistic investors, as vacancy is still relatively high and rents are just starting to stabilize.

2004 Rank: 27 | 2005 Rank: 34 | ▼ 7 Places

Charlotte

Asking Rent and Vacancy Trends

▼ 2005 NAI Rank: 34, Down 7 Places. Charlotte slipped in the NAI due to relatively high vacancy despite the recovery in place.

▲ Employment Forecast: Improving business conditions have put local employers into expansion mode, with total employment expected to increase by 1.9 percent, or 16,000 workers, in 2005. Nearly one-third of the growth will come from the well-paid, professional and business services sector, which will lead to increased demand for luxury apartments in the area.

■ Construction Forecast: Since development activity remains focused on the for-sale housing market, completions will total only 1,600 units in 2005, on par with the previous year.

▲ Vacancy Forecast: Job creation is picking up steam, which, coupled with limited completions, will start to increase net absorption of apartments. Vacancy in Charlotte is forecast to decline by 50 basis points this year, to 9.7 percent.

Fundamentals Improving, but Flight to Homeownership Hindering Gains

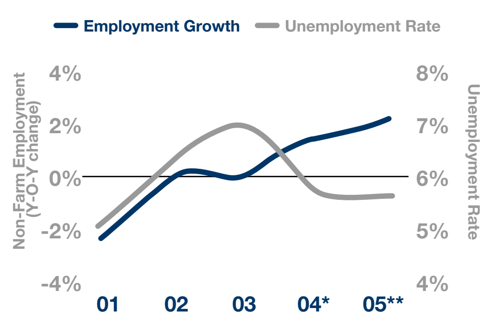
Recovery of the Charlotte apartment market has been slow, but demand is improving in response to rising net migration and the creation of more high-paying jobs in the market. Development activity has pulled back dramatically due to elevated vacancy, and household growth is improving, but absorption of apartments remains slow due to the affordability of homes in the region. Home builders are adding nearly 16,000 houses per year, and the home-ownership rate in Charlotte is among the highest in the nation, at 74 percent. Still, the prime renter age cohort of 18 to 24 years old will be one of the fastest-growing segments of the population over the next five years, adding an average of 4,000 residents per year. Since most individuals in this age group are unable to purchase a home, rental housing is starting to benefit from increased demand. Luxury apartments, for instance, have experienced a drop in vacancy of 100 basis points over the last year, to 8.8 percent. In terms of submarkets, investors who purchased properties downtown in early 2004 are reaping the rewards. A decline in rents and growing demand to live in the area caused vacancy to decline 500 basis points, to 8.5 percent. As a result, gross revenue per unit increased 4 percent during the year.

Investment activity increased slightly in 2004, as property operations showed improvement and low-cost capital was still readily available. Despite the threat of rising mortgage rates, more apartment sales are expected in the coming year as underwriting difficulties ease and investors see the long-term potential of the market. Small Class B/C properties will remain the prime focus of private investors, with the submarkets of North Pineville and East/Albemarle likely target areas. Both submarkets are expected to post rent growth in excess of 4 percent with vacancy receding into the 8 percent range.

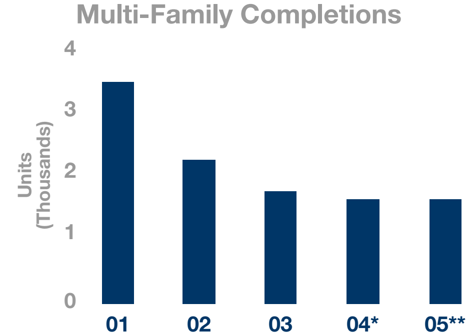
▲ Rent Forecast: Asking rents are expected to increase by 3 percent in 2005, to $765 per month. Growing tenant demand, especially downtown, will allow owners to start easing back on concessions by the second half of 2005, and effective rent growth will start to exceed that of asking rents.

▲ Investment Forecast: Opportunistic investors should seek out properties in the Northwest Charlotte/Airport submarket due to numerous apartments with upside potential and greatly improving property operations. Buyers need to exercise caution, however, as vacancy is still quite high and neighborhoods are not as well kept as other parts of the metro.

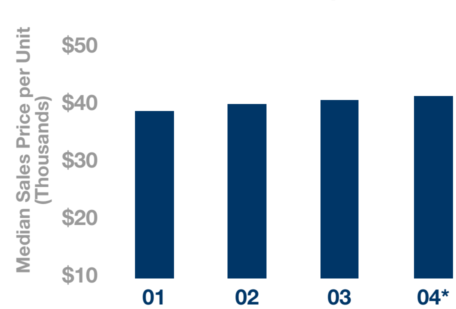
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

- ▼ 2005 NAI Rank: 23, Down 4 Places. An abundance of condo construction and Chicago's somewhat low job growth forecast contributed to its decline in the index.
- ▲ Employment Forecast: Job growth will increase in 2005, but gains will remain anemic when compared to the expansion years of the mid to late 1990s. In total, approximately 50,000 positions will be created in 2005, an increase of 1.2 percent.
- ▼ Construction Forecast: Development will total 1,800 rental units in 2005, a slight increase from the 1,500 units delivered last year. Most multi-family construction remains concentrated in condos, with an increasing number of seniors housing projects. Large complexes are still being constructed, though, including the 550-unit Shoreham apartments on South Water Street.
- ▲ Vacancy Forecast: The lackluster job market and still-affordable housing market will preclude large gains in occupancy this year. As a result, vacancy will drop just 30 basis points, to 6.9 percent.

Asking Rent and Vacancy Trends

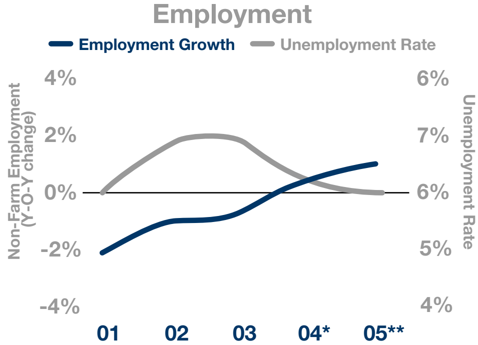
Soft Labor Market Hinders Chicago's Recovery

Chicago's apartment market remains clearly in the sights of investors, but it will take time before marked improvement in fundamentals is recorded. Economic expansion failed to materialize in 2004, which hindered the recovery of the apartment market. Further impeding local apartments is that flight to homeownership remains a prevalent trend, especially considering the deluge of affordable condos being released into the market. While the for-sale market will continue to sap some demand for apartments in 2005, the expanding employment base, coupled with limited new supply, will produce sufficient demand to allow owners to record a mild improvement in property operations. Submarket performance will vary greatly, though, with some areas continuing to suffer from a lack of demand. Investors should do their homework before purchasing in certain areas, such as submarkets south of Interstate 55, where demand is constrained by minimal job creation. This region is not expected to show improvement in occupancy during the year, and concessions will remain substantial.

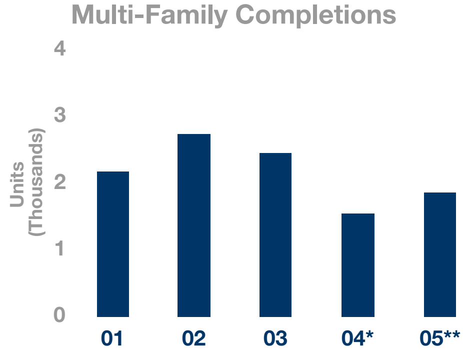
Sales velocity is expected to slow in 2005 due to the rising cost of capital, but no decline in values is forecast given the improving fundamentals. Despite the lack of better market conditions in 2004, investors pushed forward, and the median price rose by 4 percent, to $70,000 per unit. Due to the condo-conversion craze, properties with greater than 100 units recorded the highest gains, increasing in price by 38 percent, to $90,000 per unit. Value appreciation was the driving factor for buyers in 2004, but there will be a shift back to cash flow as the primary motivator due to rising interest rates. As a result, buyer interest will be highest in solid locations, such as the Schaumberg/Hoffman Estates and Glen Ellyn/Wheaton submarkets, where rising single-family home prices and limited development activity should contribute to improvement in property operations.

- ▲ Rent Forecast: Property owners will remain focused on improving occupancy rates in 2005 and will be hesitant to raise rents. As a result, rents will increase by only 2 percent this year, to $972 per month.
- ■ Investment Forecast: Condo conversions throughout Chicago will remain a popular choice among many investors in 2005 due to the tax advantages. Straight apartment buyers should purchase based on location and plan for an investment term of at least three years.

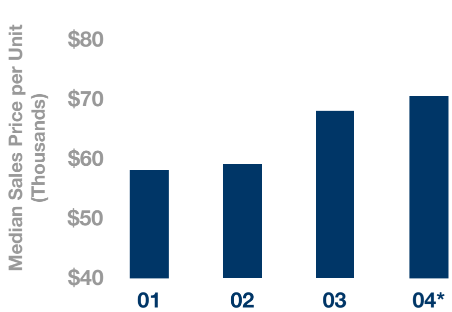
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Asking Rent and Vacancy Trends

- ▼ 2005 NAI Rank: 41, Down 2 Places. Construction will remain low but rents will post only a minor increase and vacancy is above average, causing a decline in the index.
- ▲ Employment Forecast: Cincinnati is poised for accelerating job growth in 2005 as professional and business services strengthen. Total employment is expected to grow by 2 percent, the largest gain since 1998.
- ▲ Construction Forecast: High vacancy levels have slowed development activity considerably. Only 544 units are expected to come online in 2005, down from 630 units in 2004. Construction will continue to be concentrated in the Northern Kentucky and Downtown Cincinnati submarkets.
- ▲ Vacancy Forecast: Job growth will cause a bump in demand, pushing the marketwide vacancy rate down 30 basis points in 2005, to 9.2 percent. While vacancies remain relatively high, the decrease will mark the first improvement that the area has registered in five years.

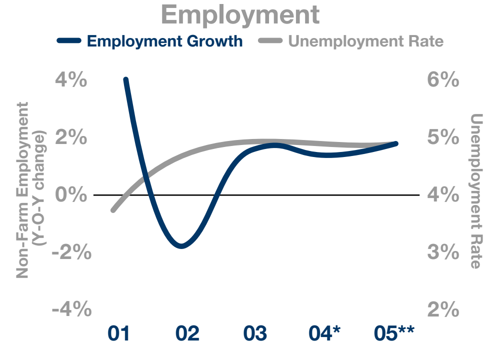
Opportunities Surface in Cincinnati Apartment Market

The effects of improving economic conditions in Cincinnati will spill over to the apartment market in 2005. A record level of home sales will suppress a more robust recovery, however, and many owners will continue to be hard pressed to raise rents, especially in the Class A segment where demand has been soft for the past four years. A confluence of increased employment and limited construction activity will be enough to ratchet down the metro area's vacancy rate, and the elevated level of renter traffic will allow owners to pull back on concessions. We project marketwide revenues to increase by 1.3 percent in 2005, the first gain since 2000. Inner-loop suburban submarkets, such as Southwest and Highway 27/127, have benefited from a lack of multi-family inventory growth. These areas are forecast to post the greatest reductions in vacancy, but the rate will still remain above 9 percent in both submarkets. Downtown, demand will outpace new supply due to a concentration of employers in the growing health care and tourism industries. Consequently, vacancies in this submarket are expected to drop by 50 basis points, to 8 percent.

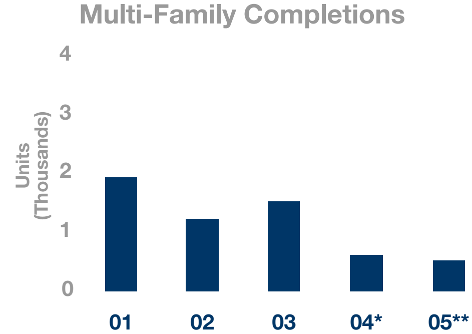
Investment activity in Cincinnati will continue to be dominated by local private investors targeting smaller properties. Investment has been concentrated in the Downtown submarket, where prices have been in line with the regionwide median price per unit of $30,000. Investors with long-term hold strategies may want to consider outlying submarkets such as Clermont County. Butler and Clermont counties, and Northern Kentucky have been the only areas in the market recording population growth greater than the national rate. Among the three, Clermont County's median price per unit is approximately 20 percent lower.

- Rent Forecast: Asking rents will remain unchanged in 2005 at $635 per unit. Elevated demand will allow owners to ease concessions, boosting effective rents 1 percent, to $604 per unit.
- Investment Forecast: Cincinnati will become a stable market for apartment investors in 2005. After four years of weakening fundamentals, the rebounding local economy will provide investment opportunities, particularly in the Class B/C market. The tenant base in this segment is less likely to migrate to homeownership.

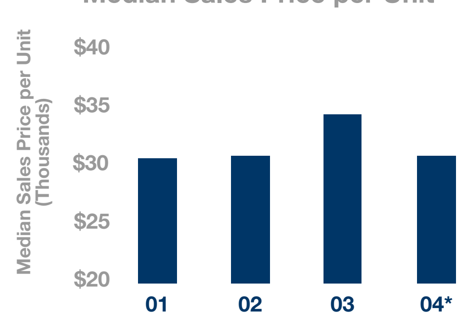
Employment



Multi-Family Completions



Median Sales Price per Unit

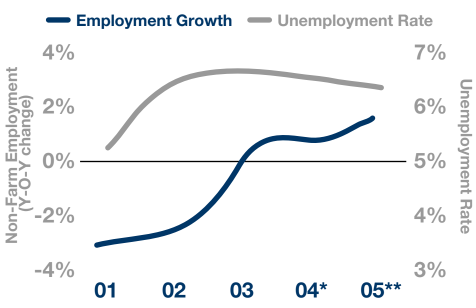


* Estimate ** Forecast

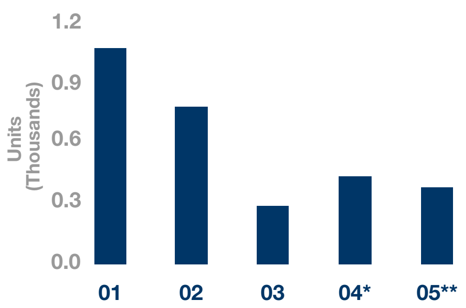
- ▲ 2005 NAI Rank: 36, Up 1 Place. Forecasts for limited construction and a slight decline in vacancy in 2005 led to Cleveland's minor gain in the ranking.
- ▲ Employment Forecast: Total employment will gradually improve in 2005, rising 1.6 percent, as 17,870 jobs are created. Growth will be led by the health care industry.
- ▲ Construction Forecast: Apartment completions are expected to fall 11 percent in 2005, to 400 units. Cleveland has maintained a minimal level of development for the past five years.
- ▲ Vacancy Forecast: A stabilizing economy in 2005, combined with limited new apartment product and a growing renter pool, will cause vacancies to drop 20 basis points, to 6.8 percent. Western suburbs such as Lakewood/Linndale and North Olmstead/Fairview Park will register noticeable gains in occupancy over the next year.

Asking Rent and Vacancy Trends

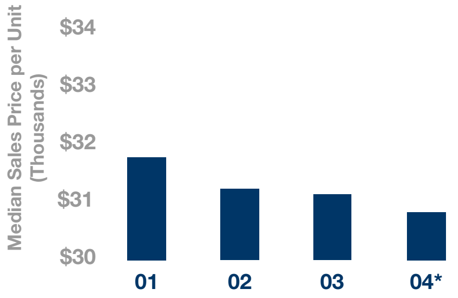
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Supply Constraint Begins to Pave the Way for Recovery

Despite slow job growth, Cleveland's apartment market is forecast to outperform several other major Midwest markets in 2005. The metro area's vacancy rate is expected to dip below 7 percent in the next 12 months. A growing pool of renters and restrained development activity will be the driving forces behind strengthening fundamentals this year. The increased demand will allow many owners to raise rents and cut incentives. Investors will continue to be somewhat concerned by a relatively high unemployment rate and persistent out-migration. These hindrances have been largely offset, however, by a very low rate of inventory growth. Cleveland's increase in stock has averaged 100 basis points below the U.S. rate since 1999. This has allowed the market to weather recession and manufacturing layoffs while keeping occupancies relatively stable. Reduced wages are barring many renters from purchasing a home. As a result, apartment-renting household growth will outpace growth in homeownership over the next 12 months, putting additional upward pressure on apartment demand.

Affordability and stable NOIs continue to attract investors to the Cleveland market. The transitioning economy has resulted in a greater number of low- and moderate-income households. This demographic shift has led to a rising number of residents in the rental market, presenting repositioning opportunities for Class B/C properties. We expect the Class B/C market to continue to fare better than the Class A sector in 2005 due to an increased supply of competitively priced condominiums that may siphon Class A renters from the apartment market. In 2004, Class B/C properties accounted for 72 percent of all units absorbed and 65 percent of all occupied units.

- ▲ Rent Forecast: Increased apartment demand will allow owners to pull back on concessions, causing effective rents to grow 1.5 percent, to $646 per month. Asking rents are expected to register a gain of 1 percent, to $687. Tightening occupancy and increases in effective rents will produce revenue growth that is expected to exceed gains in a number of U.S. markets, including many that are forecast to register greater employment gains.
- ▲ Investment Forecast: Cleveland will be an attractive market for apartment investors in 2005. Renter demand will increase as home purchases begin to decline. In addition, apartment prices will be among the most affordable in the Midwest, in the low-$30,000 per unit range.

2004 Rank: 34 | 2005 Rank: 38 | ▼ 4 Places

Columbus

Asking Rent and Vacancy Trends

▼ 2005 NAI Rank: 38, Down 4 Places. While construction will slow considerably, vacancy remains above the national average and rents will post minimal gains.

▲ Employment Forecast: Meaningful job growth will finally occur in the Columbus metro area after several quarters of firming economic indicators. We expect total employment to increase 2.2 percent in 2005, marking a return to pre-recession growth levels.

▲ Construction Forecast: Construction activity will drop significantly. Approximately 800 units will be brought to market in 2005, which is 54 percent less than the total completed in 2004.

▲ Vacancy Forecast: The five-year trend of rising vacancies will be halted in 2005. The marketwide vacancy rate is projected to fall by 50 basis points, to 8.5 percent. The Upper Arlington and University/Downtown submarkets will continue to register the lowest vacancy rates.

Columbus Stabilizes, Ready to Shift Gears

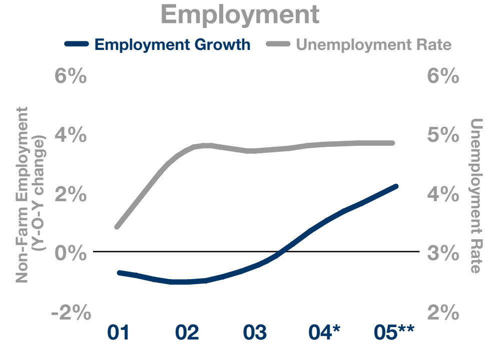
After five years of weakening fundamentals, 2005 will mark the beginning of a recovery in the Columbus apartment market. Increased demand stemming from an improving economy and favorable demographics will reduce the metro area's vacancy rate by 50 basis points. The median age in the Columbus area is approximately 33 years old, which makes it the youngest city in the Midwest, with nearly one-quarter of the population between the ages of 20 and 34 years old. Consequently, the apartment renter pool is sizeable and continues to grow, with the Ohio State University system serving as one of the primary catalysts. Despite OSU's rising tuition, which has recently sparked concern among community leaders and local business owners, Columbus' student population remains intact. Enrollment has continued to increase, with the total student population growing by 2 percent last year. As a result, demand in the downtown area will keep pace with newly added supply, and vacancy is forecast to remain low.

Apartment revenue growth will turn positive in 2005 due to an uptick in demand spurred by positive net migration and subdued inventory growth. This presents opportunities for investors, as price appreciation is expected to remain relatively low during the first half of the year. As improvement in market fundamentals materializes, look for prices to escalate slightly in the latter half of 2005. Investment activity will continue to be heavily concentrated in the Class B/C sectors and within close-in submarkets. High barrier-to-entry suburban submarkets, such as Dublin, may present opportunities for investors who are willing to pay a premium. Price appreciation in the Dublin area has been among the highest in the region, and new supply continues to be minimal.

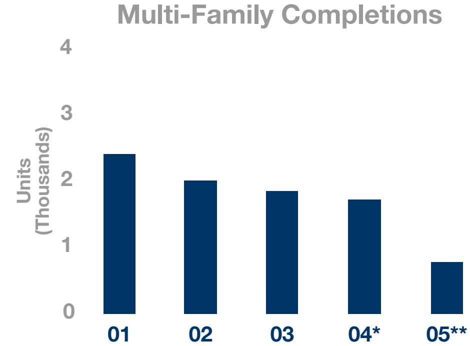
▲ Rent Forecast: A slight boost in occupancy will lead to marginal rent growth. Asking rents are projected to increase by 0.5 percent, to $623 per month, after declining by nearly the same margin in 2004.

▲ Investment Forecast: Sales activity will rise in 2005 as fundamentals improve. Close-in submarkets such as University/Downtown and Upper Arlington will lead in performance due to demand generated from the health care industry and Ohio State University. Speculative investors, however, will look to competitively priced high-vacancy areas such as Bexeley and Whitehall where for-sale inventory remains relatively high.

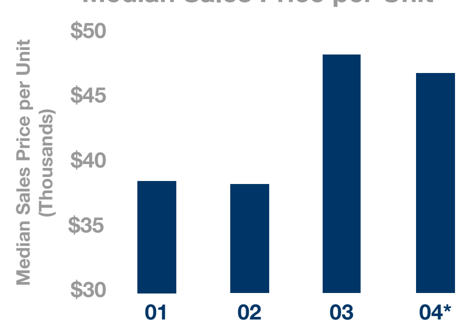
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

- ■ 2005 NAI Rank: 33, No Change. Though below 2004 levels, construction remains relatively high given anticipated job growth.
- ▲ Employment Forecast: Local companies are expected to expand payrolls by 3 percent in 2005, up from a 1.2 percent gain in 2004.
- ▲ Construction Forecast: Metroplex developers will slow the rate of completions in 2005. After delivering approximately 9,200 units in 2004, builders are planning to finish 8,000 units in 2005. Urban projects will continue to come online in both the Dallas and Fort Worth downtowns over the next 12 to 24 months.
- ▲ Vacancy Forecast: The strengthening job market, coupled with builder restraint, will help push the vacancy rate down by 60 basis points in 2005, to 11 percent. Increased hiring at trade and transportation companies will likely lift renter demand in areas near major distribution hubs, such as Grand Prairie and Irving.

Asking Rent and Vacancy Trends

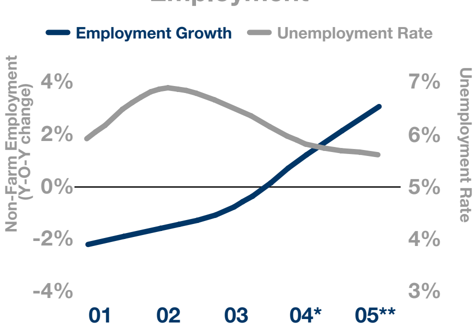
Turnaround Opportunities Draw Out-of-State Investors to Metroplex Apartment Market

The Dallas-Fort Worth apartment market will begin to gain traction in 2005. Since the start of the most recent economic downturn, local apartment owners have endured lackluster market conditions, which caused vacancy rates to rise into the double digits and effective rents to slide below levels recorded in 2000. The return of stronger employment growth will provide a much-needed boost to demand this year, and as a result, investment activity will remain high in the Metroplex. Out-of-state investors are expected to increase their capital commitments to the region in 2005. Many of these buyers are coming in search of higher returns than can be found in pricier areas, such as California. Investors are looking for turnaround plays, such as properties with vacancy or other operational issues. The northern suburbs, including Richardson and Plano, will continue to attract the majority of out-of-state buyers due to their location in the heart of the MSA's growth path and their large employer base.

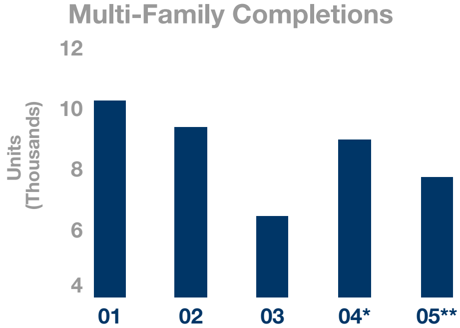
Institutional investors have upped their ante in the region, confident of Dallas' longer-term performance. Nearly $1.7 billion in large-scale transactions have occurred over the past 12 months, with institutions and REITs accounting for more than 30 percent of volume. Corporate expansions and developer activity in Las Colinas will draw numerous investors to the area. Citigroup is increasing its local payroll, which will boost renter demand in the vicinity. Developers are planning and building several complexes in Las Colinas to meet the expected influx of residents. Investors securing properties in Las Colinas and surrounding towns, including Coppell and Farmers Branch, may well capture outsized returns over the next several years.

- ▲ Rent Forecast: After holding relatively stable at $730 per month during the past two years, local operators will push the average asking rent up to $734 per month in 2005. Increased renter demand will encourage owners to reduce concessions, which will provide a boost to NOIs. The average effective rent is forecast to climb by 1.4 percent, to $672 per month, by year end.
- ▲ Investment Forecast: Investment activity in the urban core will continue, especially in the Uptown and Deep Ellum neighborhoods in Dallas. Buyers unwilling to pay the rapidly escalating prices and who want greater upside potential are going to secure properties just south of downtown Dallas, near the Trinity River Corridor Project.

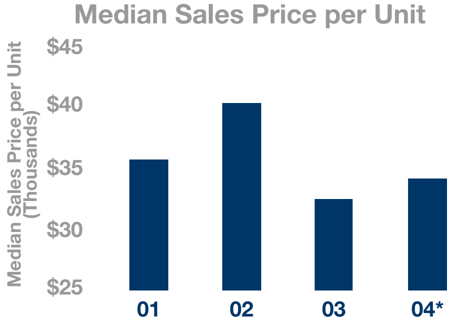
Employment



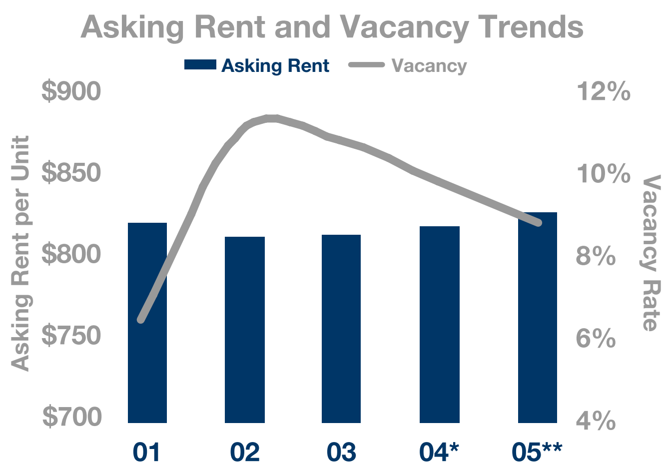
Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast



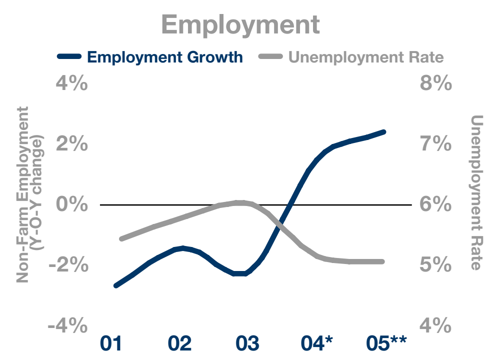
- ▲ 2005 NAI Rank: 25, Up 6 Places. Significant increases in housing prices coupled with relatively low construction allowed for Denver's climb in the index.
- ▲ Employment Forecast: Denver employers are expected to add over 28,900 jobs in 2005, a 2.5 percent gain. Resurgence in venture capital will boost emerging tech industries. Gains in transportation and hospitality helped fuel job growth of 1.5 percent in 2004.
- ▲ Construction Forecast: Apartment completions will decline further in 2005 as developers deliver only 2,000 units, down from 3,000 units in 2004. The CBD will account for 40 percent of new units entering the market over the next year.
- ▲ Vacancy Forecast: The vacancy rate in the Denver MSA will drop by 100 basis points in 2005, to 8.9 percent, as net in-migration rises and mortgage rates inch upward.

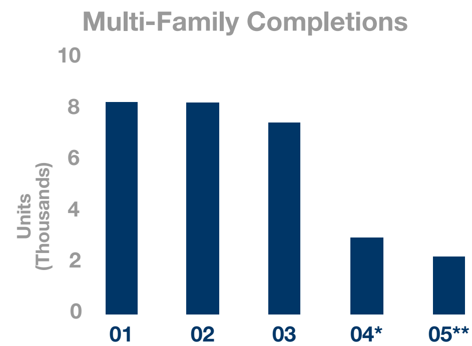
Denver's Urban Core Leads Market Rebound

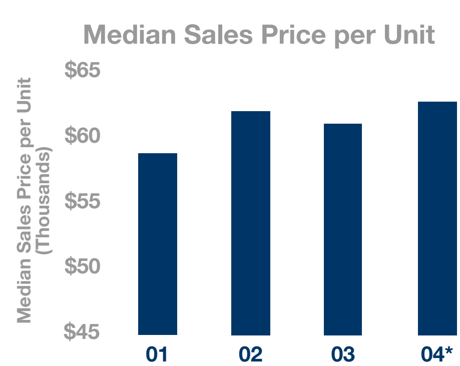
Investor sentiment for Denver apartments has remained positive despite the economic challenges the region has faced over the past several years. Transaction velocity for 2004 surpassed that of each of the previous two years, and per-unit prices set new records, trends which are forecast to continue in 2005. Prices have been buoyed by institutional activity. While Fairfield Residential and Legacy Partners have been sellers, Equity Residential, AMLI and Forest City all acquired Denver assets over the past year. Increased concessions kept rent rolls from improving in 2004, but vacancies are gradually declining, although some regions are lagging in the rebound. Investors interested in upside opportunities might investigate properties in the Denver South and Denver West Central submarkets, where occupancies have yet to improve but are expected to once the economy kicks into full gear. These locations typically afford investors higher returns, but usually require a more hands-on approach in operations. Conversely, investors seeking stability over cash flow or upside might look to the Boulder submarket for properties near the university, or those in the more affluent outlying areas of the community. Vacancy rates in these locations are among the lowest in the MSA, while rents are the region's highest at $970 per month.

The recent voter approval of the $4.7 billion, 12-year FasTracks transportation construction project will provide for 119 miles of rail corridors throughout the Denver MSA. Speculative investors might seek out properties along or near the proposed rail lines for future redevelopment, potential repositioning or asset appreciation opportunities once the project is completed. Properties in and around the two Lakewood submarkets might be of particular interest, as revitalization in the Belmar neighborhood has experienced tremendous success.

- ▲ Rent Forecast: Denver rents will continue to edge up in 2005 as the effects of an improving economy translate into higher demand. Asking rents are forecast to climb 0.7 percent, to $827 per month, after a similar increase in 2004.
- ▲ Investment Forecast: Long-term upside potential will continue to lure private investors and drive transaction volume in 2005. As single-family home prices continue to climb, demand for condos has increased. As such, conversion opportunities may exist in infill locations, where assets can be repositioned with upgraded amenities and sold individually.







* Estimate ** Forecast

▼ 2005 NAI Rank: 35, Down 5 Places. Employment is forecast to recover slowly, resulting in a five-spot decline.

▲ Employment Forecast: Detroit's economy continues to recover moderately, with an estimated 4,000 positions created in 2004. An increase of 22,500 jobs, or 1.1 percent, is forecast for 2005. Most new positions will be in the construction, and hospitality and leisure industries.

▼ Construction Forecast: Construction is expected to increase by 24 percent in 2005, to 1,100 units. Developers will continue to focus on the suburban submarkets, especially in Westland, Novi/Livonia and Macomb County.

▲ Vacancy Forecast: Vacancy is forecast to decline by 20 basis points, to 6.8 percent. The Pontiac/Westford submarket is expected to post the largest decrease in vacancy, dipping 60 basis points, to 6.5 percent, by year end.

Asking Rent and Vacancy Trends

Sales Volume Supported by Inflow of Coastal Investment Dollars

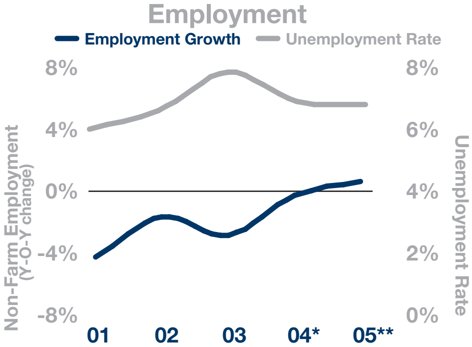
The Detroit apartment recovery will remain tepid in 2005, but investors will be active. Supply and demand fundamentals continue to be strained by out-migration due to the region's weak labor markets. As a result, many households have opted to leave in search of work, sending the average vacancy rate for apartments above 7 percent. This trend will slow in 2005, however, as continued growth in construction, and hospitality and leisure payrolls is expected to draw residents, benefiting the apartment market. Vacancy will decline moderately, while rental rates will register the largest gain in two years. The Southfield submarket will outperform in terms of both vacancy and rents. A 50 basis point decrease in vacancy, to 5.4 percent, is forecast for the area, and rents are expected to rise by 3 percent, to $922 per month.

Multiple offers continue to be placed on quality assets throughout the Detroit metro area, and transaction velocity is expected to heighten in 2005. During the past 12 months, the availability of apartment properties has increased, as many institutional and large private investors have opted to move out of the market, or at least decrease their stake in it. Sales velocity has not slowed, however, as outside investors from both the East and West coasts have purchased at a rapid pace, driving the median price above $46,000 per unit. Detroit offers more affordable options than can be found in many of the coastal markets, and most buyers are predicting a strong recovery in the apartment market once the economy rebounds. Class B/C properties comprised of less than 50 units remain popular among most investors, and sales transactions in 2005 are expected to take place in submarkets with already low, but improving, vacancy and high rent growth. The Oak Park/Royal Oak submarket was the most active in 2004, and numerous sales are expected there in 2005.

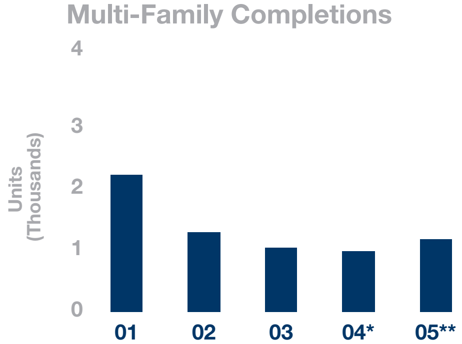
▲ Rent Forecast: The average asking rent is expected to increase 2 percent in 2005, to $814 per month. As concessions ease, we anticipate effective rent growth of 2.2 percent, pushing the average to $758 per month.

▲ Investment Forecast: Strong upside potential in several submarkets, such as Macomb County, Dearborn/Dearborn Heights and Pontiac/Waterford, still exists, as vacancies are forecast to decline while rents will grow by more than 2 percent. Strong investor demand is expected in these areas.

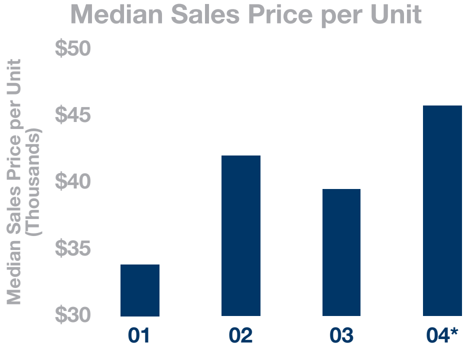
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

2004 Rank: 5 2005 Rank: 8 ▼ 3 Places

Fort Lauderdale

Asking Rent and Vacancy Trends

- ▼ 2005 NAI Rank: 8, Down 3 Places. Condo competition will keep vacancy flat in 2005 despite accelerating job growth.
- ▲ Employment Forecast: Total non-farm employment rose by 2.9 percent in 2004 and is forecast to increase 4 percent in 2005, an addition of 29,700 jobs. Professional and business services payrolls will grow by 7.4 percent, and financial services firms will record a 4.9 percent jump in employment, providing a catalyst for formation of renter households.
- ▼ Construction Forecast: Developers are forecast to add 2,300 units in 2005, up from 2,000 units in 2004. Many multi-family developers, however, are now shifting resources to building condominiums and townhomes.
- ■ Vacancy Forecast: Vacancies will remain flat in 2005 at 5.4 percent. Class A units will slightly underperform due to competitive pressures, but reliable demand for lower-class assets will help counteract vacancy erosion.

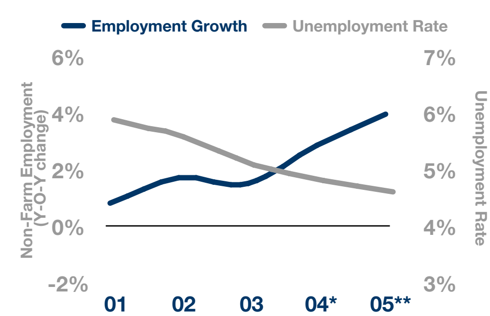
Some Challenges Ahead, but Fort Lauderdale Market to Remain Robust

Job growth is expected to accelerate to 4 percent in 2005, well above the national average of 2 percent. This will result in increased demand for apartment units when compared to 2004. Net absorption is forecast to rise 21 percent, to approximately 2,200 units, nearly consistent with the number of units expected to be delivered over the next year. Mitigating a greater increase in rental demand is the glut of available condo units that apartment owners are competing with in Fort Lauderdale. In the near term, submarkets that have either a high proportion or large absolute number of upper-end units, such as Coral Springs/Margate, will be vulnerable to the migration of tenants to owner-occupied housing. These submarkets will experience vacancy spikes in the near term and slow effective rent growth. It is important to note, however, that 56 percent of Fort Lauderdale apartments are Class C units. These properties are less affected by the pull of owner-occupied housing, and performance and asset values are attracting a flood of private capital.

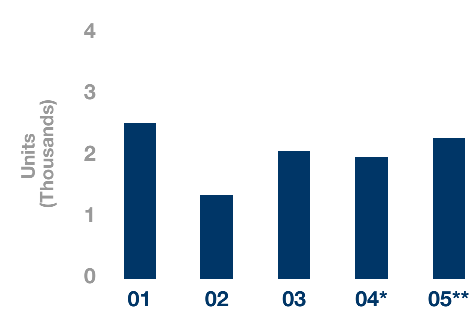
The majority of transactions in the Fort Lauderdale market involve Class C properties. While price appreciation has eased as of late, the median price per unit of Class C properties has increased 68 percent since 2000. The price of Class A assets has nearly doubled over the same period due to institutional activity and premiums paid on conversions. Institutions and REITs have increased activity in the upper end of the market, accounting for 52 percent of sales over $5 million over the past year. A challenge for all investors in the near term, however, is the escalation of property expenses, especially insurance premiums.

- ▲ Rent Forecast: Asking rents will increase 1.7 percent by year end, to $986 per month, on the strength of continued strong demand for Class B and Class C properties. Effective rents will remain about 7 percent less than asking rates, as the use of concessions is expected to persist among upper-end assets.
- ▲ Investment Forecast: Apartment prices will continue to rise as the availability of properties becomes limited and investor demand remains strong for Fort Lauderdale properties. Natural barriers, such as the Atlantic Ocean to the east and the Everglades to the west, preclude new development and lend further support to price appreciation in the future.

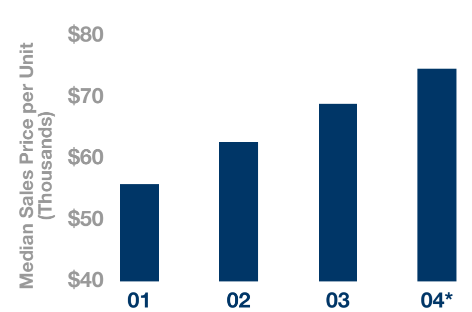
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Houston

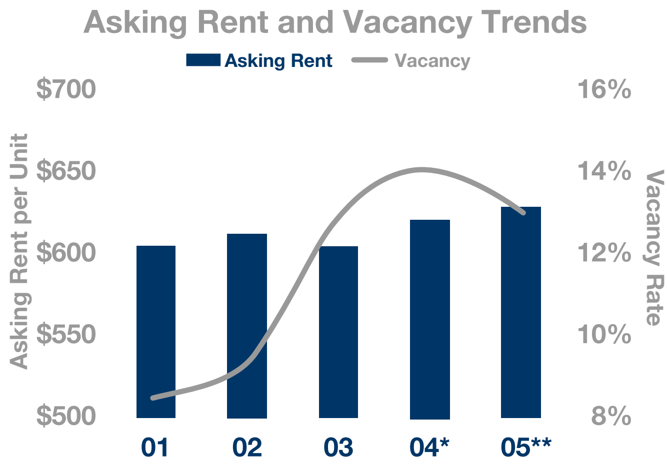
▼ 4 Places | 2005 Rank: 40 | 2004 Rank: 36

▼ 2005 NAI Rank: 40, Down 4 Places. Though declining, vacancy is high relative to other markets, which led to Houston's decline.

▲ Employment Forecast: Houston's employment market will continue to gather strength in 2005. Local companies, particularly in the trade and transportation, and professional and business services sectors, will add 57,500 workers by year end.

▲ Construction Forecast: Construction activity is expected to decrease by 43 percent, to 7,400 units, in 2005. Developers will continue to deliver units in many in-town neighborhoods, including Houston Heights and Midtown.

▲ Vacancy Forecast: After three consecutive years of rising vacancy rates, owners will welcome a 100 basis point drop, to 13 percent, in 2005. Increased hiring by financial firms will provide a lift to the luxury apartment market, particularly in the Galleria and Montrose/Museum/Texas Medical Center submarkets.



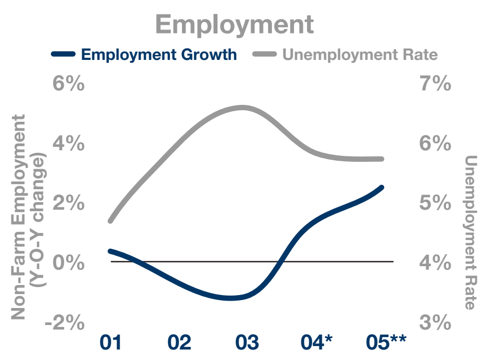
Supply Laden Houston Turns the Corner

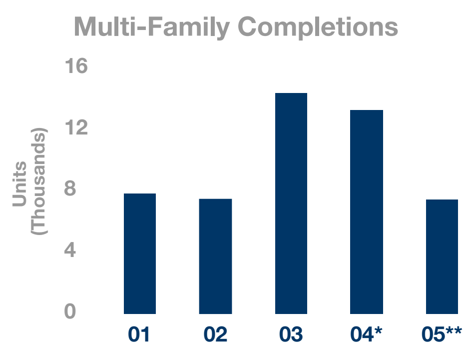
After a lackluster 2004, Houston apartment owners will welcome improvement in local apartment market fundamentals in 2005. The reviving employment market will provide a boost to tenant demand, which will help absorb thousands of recently completed units and minimize the impact of new supply entering the market this year. Increased employment opportunities in higher-paying industries will provide an uptick in demand for Class A units. This trend will not only encourage Class A owners to ease concessions, but also will help the Class B and Class C markets, which lost renter households to the high-end market due to attractive incentives of two to three months of free rent. Consequently, luxury apartment owners in prime neighborhoods, including the Galleria, Westchase and Midtown, will report improving NOIs by late 2005. In a vote of confidence that Houston's apartment market conditions will improve this year, a locally based REIT announced plans to move forward with three upscale communities that were deferred during the past few years. These projects will be built in desirable locations near major employment centers, such as downtown and the Galleria.

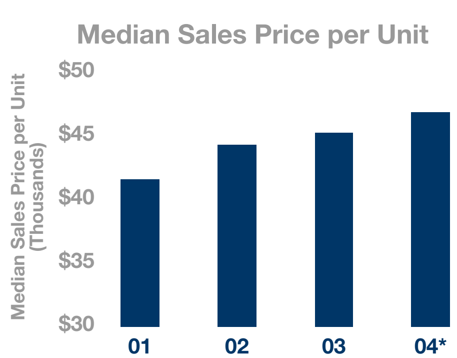
Rebounding fundamentals in the Houston region will likely attract additional funds from institutional and large private capital investors interested in the Class A market. Some of these investors are expected to concentrate their efforts in west Houston and within the 610 Loop. These buyers anticipate this segment will provide outsized returns over the next several years as professional and corporate positions are added in the metro area. Investors interested in the Class B and Class C sectors will likely have additional options in 2005, as improving market conditions will better support asking prices.

▲ Rent Forecast: Houston apartment operators will push the average asking rent up by 1 percent, to $627 per month, by year-end 2005. As renter demand increases and construction slows this year, concessions will ease. Consequently, the average effective rent is forecast to increase by 1.4 percent, to $540 per month, this year.

▲ On average, cap rates run in the 6 to 7 percent range for properties built within the last 15 years, particularly for properties with price tags in excess of $5 million. Investors may find opportunities among older properties in less desirable locales where cap rates can run 100 basis points higher.







* Estimate ** Forecast

Asking Rent and Vacancy Trends

Positive Economic Indicators Point to Improvement in Indy Apartment Market

Increased employment opportunities in Indianapolis will begin to lift apartment market fundamentals in 2005. The availability of affordable homes in growing suburbs, such as Plainfield, will continue to draw some renter households this year, but the loss of these tenants will have a negligible impact on the MSA's vacancy rate. The important trade and transportation industry will continue to add positions this year, with many of the jobs located near the Indianapolis International Airport. We expect a large share of the new workers to lease units in neighboring communities such as Camby and Speedway. As a result, vacancy in the Southwest/Johnson submarket is likely to drop below 10 percent this year. Apartment owners in the nearby West submarket will also report vacancy improvement in 2005. Similar to other Midwest markets, the manufacturing sector is likely to show signs of recovery in 2005. The return of hiring in this sector will lead to increased renter demand near major durable goods producers, such as Allison Transmission and Rolls Royce.

Investor interest in Indianapolis is likely to increase during 2005 as local economic conditions strengthen. Buyers seeking newer properties will direct the majority of their attention to the fast-growing north and south metro areas. Hamilton County will capture the lion's share of this group's focus. The area is home to several corporations, including Conseco and Delta Faucet, and has many recently completed high-end communities. The bulk of sales activity in the MSA involve garden-style complexes built in the 1970s, as these properties can offer above-average returns. Much of this product can be found in neighborhoods surrounding downtown or other major employment hubs.

- ▼ Rent Forecast: In a bid to lease units, local owners will continue to decrease asking rents in 2005. As a result, the average will dip by 0.2 percent, to $609 per month. The average effective rent, however, will rise by 0.7 percent to $566 per month this year, as concessions begin to burn off.

- ▲ Investment Forecast: Downtown Indianapolis will continue to attract investor attention in 2005. The area is drawing a variety of new residents, ranging from college students to young professionals. The availability of affordable for-sale homes is dwindling, and apartment construction is limited, which will benefit existing apartment properties located in the area.

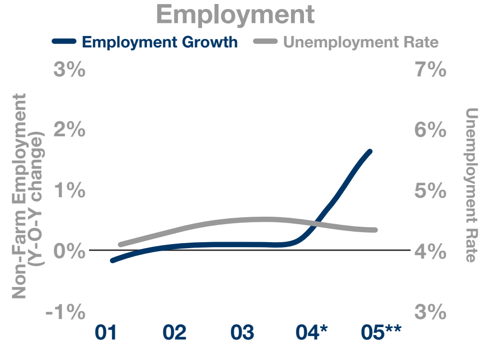
- ▼ 2005 NAI Rank: 42, Down 2 Places. Indianapolis' below-average job growth forecast and double-digit vacancy pushed it down in the NAI.

- ▲ Employment Forecast: Indianapolis' job market is projected to grow at a more rapid rate in 2005. Local employers are expected to expand payrolls by 1.7 percent this year, compared to 0.3 percent in 2004. The professional and business services, and trade and transportation industries will lead job creation.

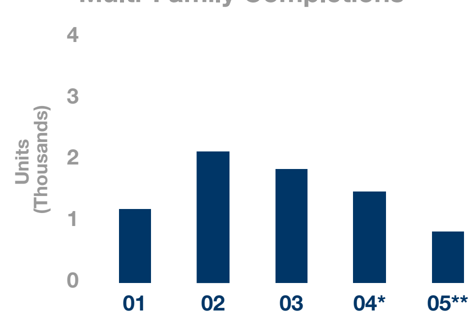
- ▲ Construction Forecast: The fast-growing northern and southern suburbs will receive the majority of completions in 2005. Developers are expected to deliver 800 units this year, down from 1,500 units in 2004.

- ▲ Vacancy Forecast: The strengthening employment market will bolster apartment demand in 2005. As a result, the metro area vacancy rate is forecast to dip by 40 basis points, to 10.3 percent, by year end.

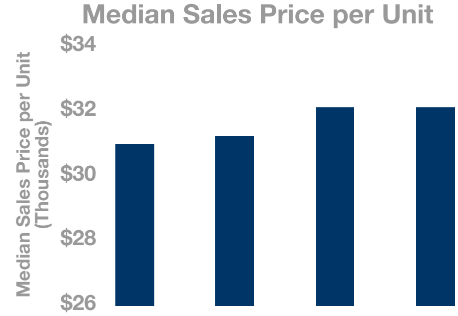
Employment



Multi-Family Completions

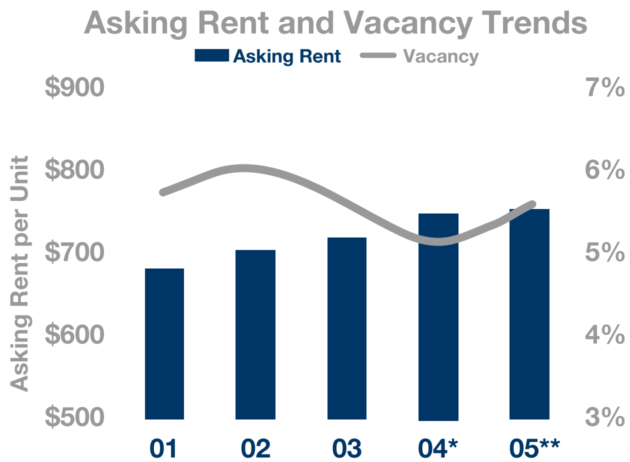


Median Sales Price per Unit



* Estimate ** Forecast

- ▼ 2005 NAI Rank: 24, Down 8 Places. Rising construction and the affordability of housing caused Jacksonville to slip eight spots.
- ▲ Employment Forecast: Growth of 2.5 percent is forecast for 2005, with the financial activities, and professional and business services sectors expected to lead. Civilian and defense department employment at Jacksonville's military installations also provides a source of demand for rental housing.
- ▼ Construction Forecast: Delivery of new supply is forecast to jump from 1,134 units in 2004 to 2,500 units in 2005. Most of the development will bring Class A buildings to the East and Southside submarkets, which offer tenants access to transportation arterials, new retail and recreation.
- ▼ Vacancy Forecast: The vacancy rate is expected to rise 40 basis points during the year, from 5.1 percent to 5.5 percent. Since 2000, 1.4 units have been built for every unit absorbed, a trend that is likely to continue in the near term as developers bank on continued population growth and in-migration.

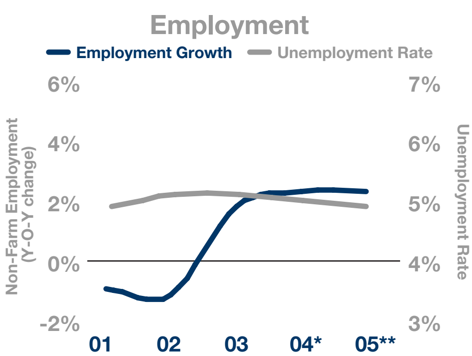


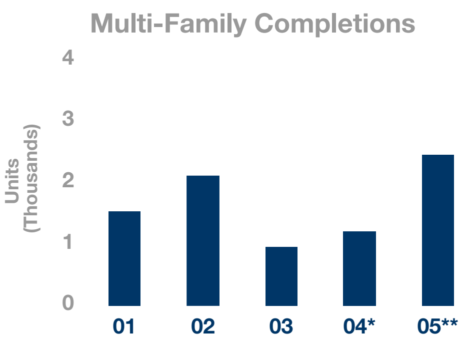
New Opportunities Likely to Emerge in Jacksonville Apartment Market

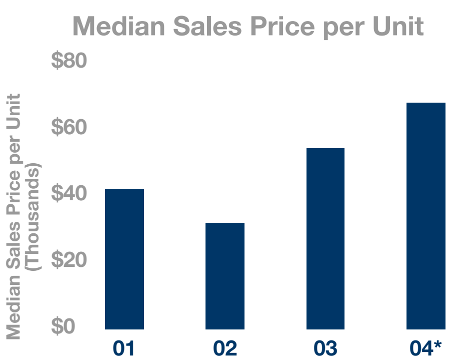
Jacksonville's apartment market will continue to show vigor in 2005, but owners will be keeping an eye on the single-family home market. Although the median price of a single-family home rose 20 percent in 2004, to $155,000, local homes remain highly affordable. In recent quarters, many Class A apartment renters have migrated to homeownership, which has put a strain on demand for high-end units. Many tenants in Class B and Class C complexes, however, have also upgraded to higher-end properties.

While the loss of renters to homeownership presents a challenge to existing owners and operators, the Jacksonville market has retained its strength, as evidenced by a vacancy rate in the 5 percent to 6 percent range. Asking rents and effective rents continue to rise, though not at the same pace, as concessions remain in force. By 2006, however, effective rent growth will exceed gains in asking rents as the competition from single-family homes eases, creating upside opportunities for investors. The East and Southside Bay Meadows submarkets should be areas of interest for investors. High population growth and development of other commercial properties characterize these submarkets, and each is forecast to experience significant increases in effective rents over the next three years. In the East submarket, for example, effective rent growth is expected to exceed the marketwide rate by an average of 200 basis points each year from 2006 to 2008.

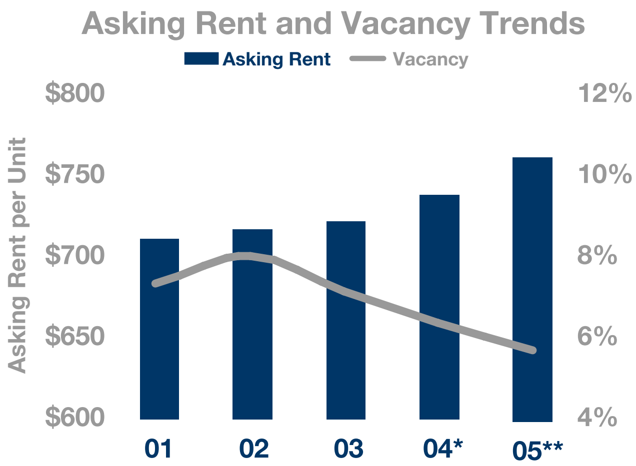
- ▲ Rent Forecast: Monthly asking rents will creep up 1 percent, from $743 to $750, as owners face competition from single-family homes and recently delivered complexes. Marketwide effective rent gains will be limited to 0.5 percent, but the Greater Arlington and Northwest Jacksonville submarkets will exceed the norm in 2005. A more significant rebound in effective rents is not expected until 2006.
- ▲ Investment Forecast: Investors have plenty of worthwhile options to consider, but properties with less than 50 units and existing assets near the recently completed I-295 beltway might merit an extended look. Properties with fewer than 50 units often fly under the radar and are not exposed to a large pool of potential buyers. They exist in nearly every submarket, but the beaches and the Northwest submarket have been especially active. Developers are placing projects along the I-295 corridor, and more residential areas are likely to emerge near the roadway.







* Estimate ** Forecast



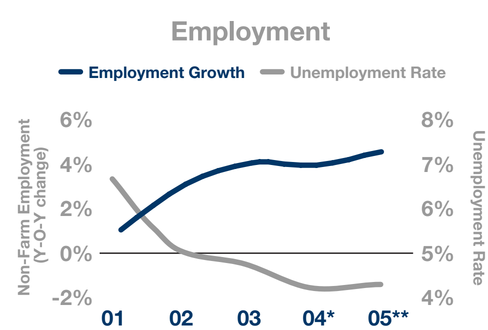
Las Vegas Apartment Market Continues Gaining Momentum

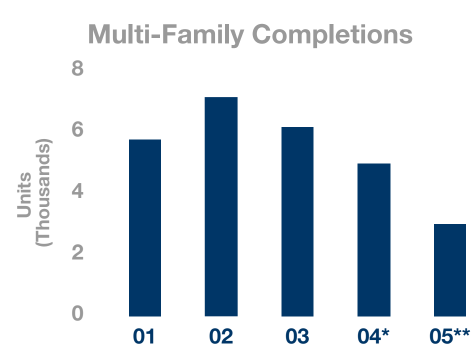
Nation-leading job growth has resulted in strong net in-migration. Strong demand for housing has caused single-family home prices to soar, prompting home developers to purchase almost all available vacant land in the region. With home prices at record levels, condo developers and converters are wagering that an increasingly large portion of the population will be excluded from homeownership. Some caution is in order, however, as home prices posted tremendous appreciation during the first half of 2004 but began to flatten out as for-sale inventory increased. If unsold, a large number of these homes could be placed on the rental market, which would cut into Class A apartment demand. In the near term, converters are paying top dollar for conversion prospects, often at price levels that do not support cash flow from traditional apartment operations. Conversion candidates primarily consist of newer, well-amenitized Class A properties, although well-located, older properties are also being purchased. Older Class C properties near the Strip have become fodder for speculative high-rise developers and will eventually be razed and replaced with luxury condo towers.

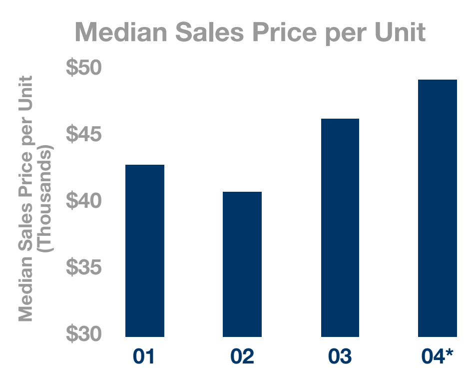
While institutional buyers have been looking to the suburban areas of Henderson and Summerlin for Class A apartments and conversion opportunities, private investors have focused on the core areas of the city. With excellent proximity to the Strip, properties in close-in submarkets have a larger renter pool and stronger occupancies. Investors willing to take on more management-intensive properties may be interested in the North Central submarket. Assets in this working-class area can be purchased for less than $30,000 per unit and typically offer higher cash flows. With vacancies at 4.5 percent, investors seeking smaller stable properties might consider the University submarket. The area is one of the tightest in the MSA as its strong location and variety of product attract students and new residents. Prices in the University submarket are indicative of the high demand, at over $60,000 per unit.

- ▲ Rent Forecast: Asking rents will increase by 2.5 percent in 2005 and concessions will decline modestly. The high-demand areas of Summerlin and Henderson will outperform with asking rent increases of 3 percent or more.
- ▲ Investment Forecast: Activity will remain solid throughout the Las Vegas area. Compared to West Coast markets, the relative affordability of Las Vegas suggests opportunity, as its dynamic economy continues to lead the nation.

- ▲ 2005 NAI Rank: 4, Up 2 Places. Las Vegas' rise is attributable to high levels of job creation and slowing construction.
- ▲ Employment Forecast: Las Vegas will again lead the nation in 2005 with a 4.8 percent increase in jobs. Employers will add almost 41,900 positions, led by expansion in the professional and business services, and hospitality sectors.
- ▲ Construction Forecast: Completions will decline for the third straight year in 2005 as builders confront rising construction and acquisition costs spurred by the scarcity of developable apartment land. Only 3,100 units will come online in 2005, 35 percent less than 2004 completions.
- ▲ Vacancy Forecast: The overall vacancy rate will drop 60 basis points in 2005, to 5.8 percent, after falling 70 basis points last year. Subdued construction and increasing demand spurred by strong in-migration will keep vacancies in check.







* Estimate ** Forecast

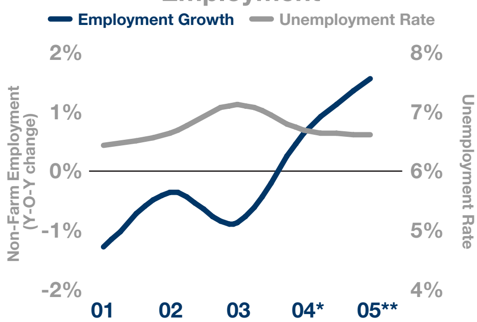
- ▼ 2005 NAI Rank: 5, Down 2 Places. Housing affordability issues and strong rent growth keep Los Angeles near the top of the NAI.

- ▲ Employment Forecast: Employment growth will continue in 2005, with the creation of 60,000 jobs. The professional and business services sector is expected to post the highest gain this year due to the rapidly expanding population. The trade and transportation sector will also register healthy growth as a result of increased international trade activity.

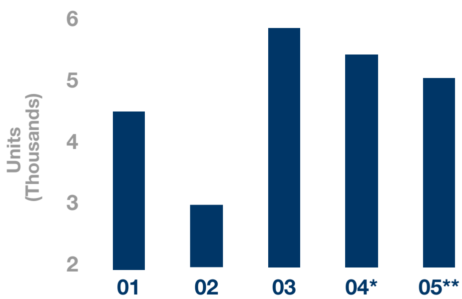
- ▲ Construction Forecast: Apartment development is settling into a pace of 5,000 to 6,000 units, which is forecast to last until 2007. Of the 5,000 units being completed in 2005, roughly one-third will be luxury apartments built in the Downtown submarket.

- ▲ Vacancy Forecast: Declining affordability among for-sale housing units will increase absorption of apartments and help vacancy to recede by 20 basis points in 2005, to 3 percent. Class A apartments will post the greatest improvement this year, dropping 50 basis points to 4.5 percent.

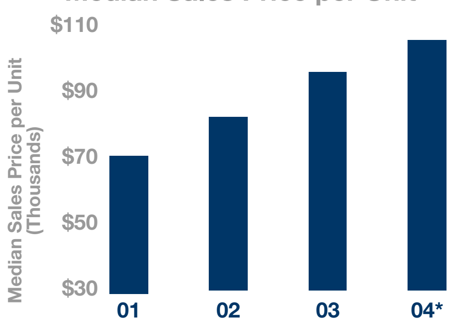
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Asking Rent and Vacancy Trends

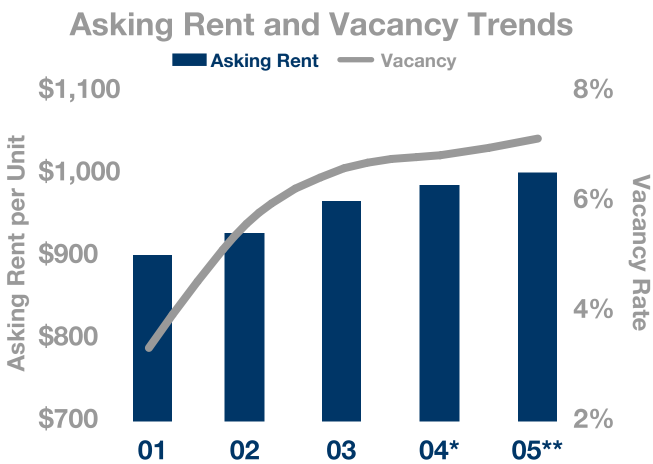
Demand Unwavering for Los Angeles Apartment Investments

Declining affordability and an expanding economy clearly tip the scale in favor of apartment owners in 2005. Apartment construction is slipping as many builders shift focus to the condo market. Since most new condos coming on the market, especially those downtown, have price tags in excess of $500,000 and housing affordability is a low 15 percent, the majority of the 50,000 households entering the county will be confined to the rental market. Further fueling demand for apartments is the recovery of more than 100,000 jobs that were lost from 2001 to 2003. Apartments in prime employment growth areas are already starting to show improvement in fundamentals. In the South Bay, for example, the expansion of defense-related firms has increased demand for local apartments, and vacancy declined by 80 basis points, to 3.2 percent. Further improvement is expected in 2005, and investors in the submarket can expect revenue, on average, to rise by more than 5 percent as vacancy falls below 3 percent and rent growth exceeds 4 percent. The only submarket not expected to show improvement in 2005 is downtown, as 1,600 units come online and owners are forced to increase concessions to attract new tenants.

The gap between buyers' and sellers' expectations is widening and sales velocity is slowing, but a price correction is not expected amidst tightening market conditions. The number of sales peaked in the first quarter of 2004 as buyers felt an urgency to purchase properties before interest rates rose, but the number of transactions receded during the year. Nonetheless, the median price still increased by 10 percent in 2004, to $105,000 per unit. Institutional-grade properties posted the highest price growth last year, increasing 25 percent, to $130,000 per unit, as REITs and other large investors came looking for stable investments, and local apartments fit the bill.

- ▲ Rent Forecast: The tightening market and growing renter pool will allow owners to achieve rent growth of 5 percent this year, to $1,280 per month.

- ▲ Investment Forecast: Improving economic conditions and apartment market fundamentals will keep numerous investors active in the market, but rising interest rates will start to deplete buying power and price growth will be minimal as a result. Some submarkets, however, are still expected to outperform in 2005, including West San Fernando Valley and the South Bay, where numerous high-paying jobs are being created and vacancy is low.



▼ 2005 NAI Rank: 31, Down 10 Places. Rising vacancy and significant condo construction pushed Miami down 10 spots.

▲ Employment Forecast: Local payrolls are expected to increase by 2.1 percent, or 21,460 jobs, in 2005 after a 1.5 percent increase in 2004. Employment in the professional and business services sector will lead the way, with small gains occurring in education and health services, and construction. Many workers will end up in apartments, but some are also apt to fill the market's growing stock of condominiums.

▲ Construction Forecast: Completions will rise to 2,500 in 2005. In 2003 and 2004, 4,300 new apartments were delivered, but apartment inventory increased by less than 100 units as existing stock was taken out of service for conversion to condos.

▼ Vacancy Forecast: In 2005, vacancy will climb to 7 percent, from 6.7 percent, continuing a weakening trend that began in 2002. Reasonably strong job growth should limit greater vacancy losses, but for-sale housing poses a threat to Class A properties.

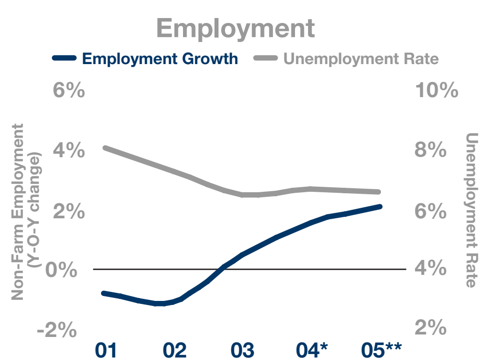
Investor Pool Expands Despite Weakened Fundamentals

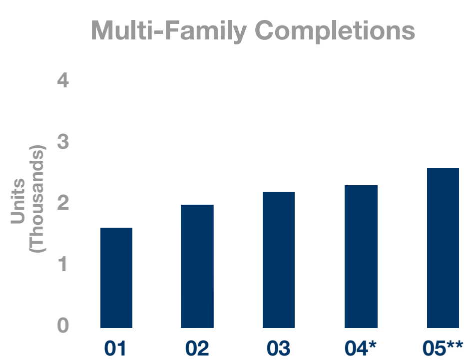
The temperature of the Miami apartment investment market has increased significantly in recent years and shows no signs of declining, as condo conversions have become the craze. Longtime owners are receiving offers from condo converters that are tough to resist. Owners have found that they can even flip their recently acquired properties, especially those located in coastal submarkets, for big profits. A 26-unit apartment property in Miami Beach, for example, was purchased for $37,500 per unit and sold seven months later for more than $65,000 per unit. Low interest rates and a favorable gap between the purchase price of apartments and the selling price of individual units after being converted to condominiums will keep the investment market performing well over the next year.

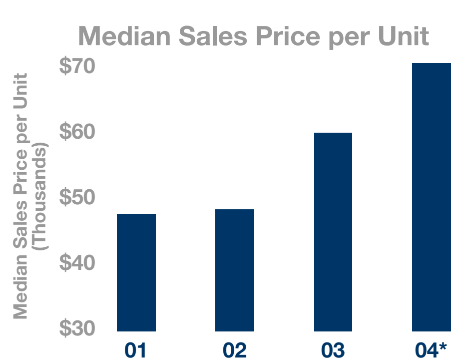
For investors who are not purchasing properties for conversion, Miami's apartment market fundamentals are still very favorable. Although the vacancy rate has risen in recent years, it is still relatively low and nearly equivalent to the national average. Population growth, constant in-migration and a core of partial-year residents that favor rentals also provide a sturdy foundation for steady and predictable property performance. Several submarkets merit attention from fundamentals-conscious buyers. The North Dade submarket, for example, has a vacancy rate in the 3 percent range, including one of the lowest Class A vacancy rates in the entire market. Effective rents in the area have been climbing faster than asking rents, creating upside opportunities for prospective buyers, and the median price per unit is 14 percent less than the marketwide median.

▲ Rent Forecast: Monthly asking rates will rise from $981 in 2004 to $996 per month in 2005. Effective rents will settle around $939 per month, up from $926 in 2004. Owners may face resistance if they try to push asking rents too high, as they confront competition from condominiums, many of which have been purchased for investment and are being leased to tenants.

▲ Investment Forecast: Two buyer pools have emerged in the past two years: apartment operators and condo converters. The latter group has been especially aggressive, helping to push the median price per unit to $70,000, a 17 percent increase from the year-earlier level. The run-up in prices presents unprecedented opportunities for sellers.







* Estimate ** Forecast

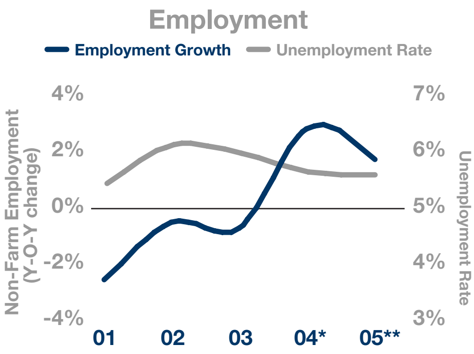
- ▲ 2005 NAI Rank: 37, Up 1 Place. Milwaukee rose one spot thanks to limited new supply and an improving job market.
- ▲ Employment Forecast: Local employers are expected to increase payrolls by 1.9 percent, or 16,150 workers, by year-end 2005. The professional and business services sector will lead in job creation, which will increase demand for high-end apartments, especially in neighborhoods surrounding downtown.
- ▲ Construction Forecast: Developers are expected to deliver 400 units in 2005, down from an estimated 420 units in 2004. Construction activity will be concentrated in the growing suburbs, including Franklin and Wauwatosa.
- ▲ Vacancy Forecast: The Milwaukee vacancy rate is forecast to dip by 20 basis points, to 9.1 percent, in 2005. Incremental job increases in the battered manufacturing sector will help apartment owners in Milwaukee's established neighborhoods.

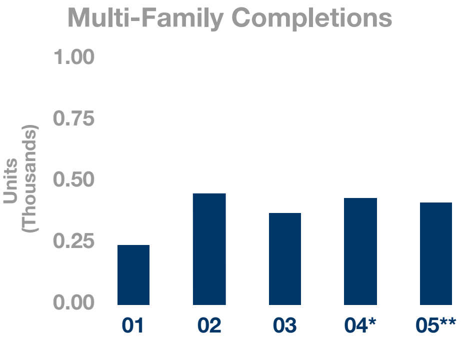
Continued Employment Gains to Lift Milwaukee Apartment Market

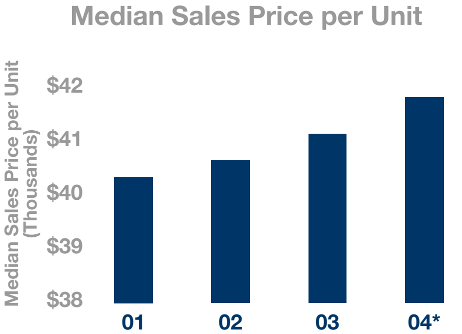
Downtown redevelopment will continue to draw investors' attention in 2005. Several notable projects, including Pabst City and the renovated Matthews Building, are expected to attract more residents, visitors and businesses to the urban core. Developers are building more residential units, primarily condominiums. The for-sale units are likely to draw some renter households from nearby Class A apartments as well as others from fashionable neighborhoods in Northshore and Waukesha County who wish to live in an urban setting. As a result, owners of Class A complexes are likely to continue offering concessions in 2005. The incentives will be less generous, however, due to the expanding job market, which is creating stronger renter demand. Investors will not be deterred from committing capital in Waukesha County or in Northshore communities, such as Glendale and Shorewood, as these areas will continue to attract companies in the growing health care, and professional and business services sectors. Construction activity will be constrained, particularly in Northshore, as large tracts of land for affordable single-family homes and large-scale multi-family projects are limited.

During the waning months of 2004, southeastern Wisconsin manufacturers were planning to increase hiring. We expect this trend to continue in 2005 as the national economy gathers additional momentum and favorable exchange rates keep U.S. goods competitive overseas. As a result, owners are going to report increases in absorption, particularly in complexes located near major durable-goods producers, such as Harley Davidson and Compo Steel Products. Areas of investor interest will include west Milwaukee and close-in suburbs such as West Allis and Wauwatosa.

- ▲ Rent Forecast: Milwaukee apartment operators will push the average asking rent up by 1 percent, to $702 per month, due to rising demand from young professionals and manufacturing workers. As a result, owners will be able to ease off concessions, enabling them to realize a 1.5 percent gain in effective rents this year.
- ▲ Investment Forecast: Investors seeking outsized returns are likely to secure properties in Milwaukee's southern suburbs, such as Franklin and Oak Creek. These communities are near growing employment centers such as General Mitchell Field, and numerous light-manufacturing firms.



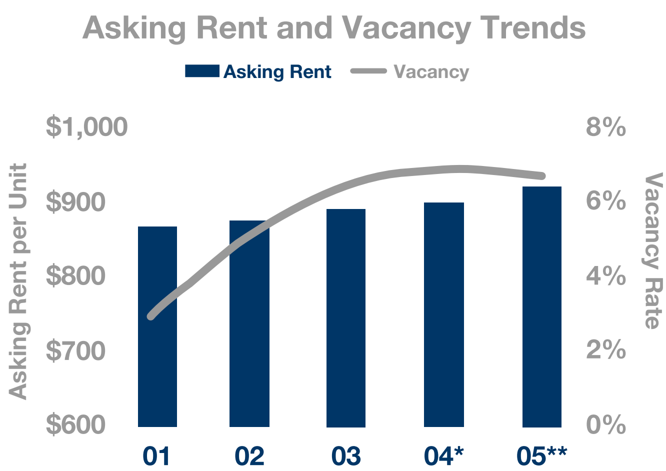




* Estimate ** Forecast

2004 Rank: 23 | 2005 Rank: 20 | ▲ 3 Places

Minneapolis-St. Paul



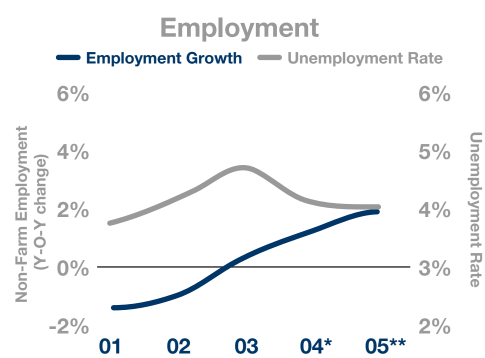
- ▲ 2005 NAI Rank: 20, Up 3 Places. Rising home prices, below-average vacancy and a limited supply pipeline pushed Minneapolis into the top 20.
- ▲ Employment Forecast: Local employers are forecast to add almost 37,000 workers in 2005. Growth amounted to 1 percent in 2004, a gain of 17,260 positions.
- ▲ Construction Forecast: The focus on condo development has caused apartment construction to dwindle. Completions in 2005 will total 1,400 units, 450 fewer than were delivered in 2004. Most of the new apartments are being built in St. Paul, where nearly 700 units are slated for completion.
- ▲ Vacancy Forecast: Stronger job growth and rising mortgage rates will help alleviate the adverse effects that the booming condo market is having on apartments. Vacancies are expected to decline by 20 basis points this year, to 6.6 percent, representing the first improvement in five years.

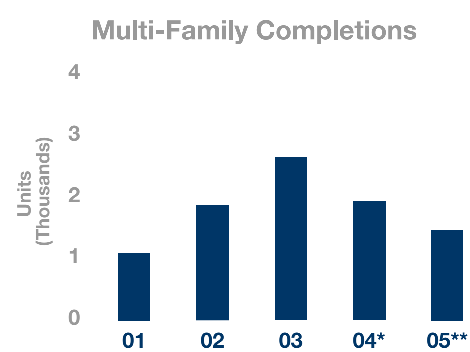
Condo Development Craze puts Apartments on the Back Burner

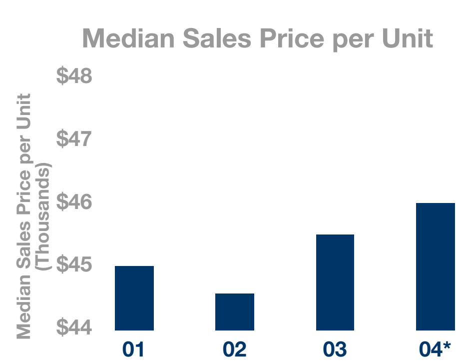
Improving economic conditions are fueling demand in the Minneapolis-St. Paul multi-family housing market, but the growing popularity of condos will continue to sap demand from the apartment market in 2005. Thanks to low interest rates and a reviving job market, entry-level homes are in short supply. This has prompted many builders to switch from apartment development to condos. The hot housing market has proven detrimental to the apartment sector, which ended 2004 with vacancy up 50 basis points at 6.8 percent. Despite the softened conditions, owners managed slight increases in rents and the gross revenue per unit. This trend will continue in 2005, with a few submarkets expected to outperform. The Anoka County submarket bounced back from a wave of move-outs in early 2004, and is expected to end 2005 with vacancy down 40 basis points, at 4.4 percent. The submarket is benefiting from healthy population growth, especially in the prime renter age group of 18 to 24 year olds. The Northeast submarket is experiencing substantial improvement, especially in the luxury apartment sector, as the number of retirees in the area increases. Overall, vacancy in the Northeast submarket ended 2004 down 70 basis points, at 5.5 percent, with expectations for another 50 basis point decline in 2005.

Apartment buyers will continue pursuing properties in the region, and investment activity is forecast to pick up in 2005 due to improving economic conditions and a dip in vacancy. Stronger fundamentals will allow values to continue rising in 2005, after growing 1 percent in 2004. Underperforming Class C properties in Anoka County and in the Northeast are likely investment targets as Class C vacancy in these submarkets is expected to be the lowest in the region, at sub-4 percent.

- ▲ Rent Forecast: Improved rent growth is forecast for 2005, after a minimal gain last year. Many of the positions being created are low-end retailing or tourism-industry jobs, which will boost demand at local apartments and give owners the ability to achieve asking rent growth of 2.5 percent, pushing the average to $918 per month.
- ▲ Investment Forecast: The growing popularity of condos will prompt many Class A apartment owners to start the conversion process or sell, given the profit per unit is much higher for condo-mapped properties.







* Estimate ** Forecast

Statistical

MSA Name	Employment Growth (%)[1] 02	03	04*	05**	Vacancy (Year-End, %)[1] 02	03	04*	05**	Asking Rent (Year-End, $)[1] 02	03	04*	05**
Atlanta	0.0	(0.5)	1.5	3.0	10.3	11.0	11.0	10.0	798	798	802	806
Austin	(1.1)	(0.6)	1.8	4.5	11.6	11.2	10.8	10.0	783	767	767	782
Boston	(1.9)	(1.7)	0.8	2.0	4.3	5.4	5.4	5.2	1,537	1,532	1,560	1,607
Charlotte	0.0	0.0	1.8	1.9	10.8	10.5	10.2	9.7	728	732	743	765
Chicago	(1.0)	(0.7)	0.2	1.2	6.7	7.3	7.2	6.9	951	953	953	972
Cincinnati	(0.9)	1.0	1.1	2.0	8.0	9.5	9.5	9.2	634	635	635	635
Cleveland	(2.4)	0.6	0.4	1.6	7.0	7.1	7.0	6.8	670	672	680	687
Columbus	(1.1)	(0.5)	1.0	2.2	7.9	8.2	9.0	8.5	622	624	620	623
Dallas-Fort Worth	(1.6)	(0.8)	1.2	3.0	11.2	11.6	11.6	11.0	731	729	730	734
Denver	(1.5)	(2.3)	1.5	2.5	11.1	10.9	9.9	8.9	814	815	821	827
Detroit	(1.2)	(2.4)	0.2	1.1	6.0	6.9	7.0	6.8	789	790	798	814
Fort Lauderdale	1.7	1.5	2.9	4.0	5.3	5.3	5.4	5.4	927	953	970	986
Houston	(0.3)	(0.7)	1.8	2.7	9.4	12.8	14.0	13.0	613	605	621	627
Indianapolis	0.1	0.1	0.3	1.7	9.3	10.7	10.7	10.3	614	610	610	609
Jacksonville	(1.0)	2.0	2.5	2.5	6.0	5.5	5.1	5.5	697	718	743	750
Las Vegas	3.3	4.3	4.2	4.8	7.9	7.1	6.4	5.8	719	722	740	759
Los Angeles	(0.4)	(0.9)	0.6	1.5	3.4	3.6	3.2	3.0	1,110	1,161	1,219	1,280
Miami	(1.2)	0.4	1.5	2.1	5.5	6.5	6.7	7.0	924	962	981	996
Milwaukee	(0.8)	(1.0)	2.5	1.9	9.4	9.8	9.3	9.1	683	693	695	702
Minneapolis-St. Paul	(0.8)	0.4	1.0	2.1	5.0	6.3	6.8	6.6	873	887	896	918
New Haven	(0.8)	(1.0)	0.5	1.6	5.1	5.4	4.5	4.0	913	915	934	960
NYC-Manhattan	(0.6)	(1.3)	1.5	1.7	4.6	4.5	4.2	3.5	2,844	2,853	2,922	3,000
Northern New Jersey	(0.7)	(0.2)	1.6	1.9	3.9	5.7	5.7	5.4	1,243	1,295	1,325	1,355
Oakland	0.0	(2.3)	1.2	2.0	5.7	6.8	7.0	6.9	1,247	1,207	1,200	1,200
Orange County	0.9	1.3	0.7	2.3	4.1	4.2	3.9	3.6	1,217	1,246	1,296	1,348
Orlando	1.5	2.2	2.5	4.1	8.9	8.3	7.9	7.5	740	755	774	789
Philadelphia	0.1	0.1	0.5	1.5	3.3	3.8	3.8	3.8	851	878	902	931
Phoenix	1.3	1.7	2.8	4.2	9.8	9.6	9.2	8.6	681	679	687	699
Portland	(0.9)	(1.4)	1.0	2.3	7.4	7.8	7.8	7.4	695	689	689	696
Raleigh-Durham	0.1	0.3	2.3	3.0	11.3	10.7	10.6	10.3	761	763	763	771
Riverside-San Bernardino	3.7	1.4	3.0	3.5	3.8	4.3	3.9	3.5	821	870	927	983
Sacramento	1.4	1.0	0.4	2.6	5.2	6.9	7.5	7.1	867	880	902	920
Salt Lake City	(1.1)	0.3	2.0	2.2	8.1	6.8	7.3	7.1	649	650	655	662
San Antonio	0.8	(0.5)	2.2	3.7	8.1	8.5	8.5	8.2	618	631	634	647
San Diego	1.2	0.7	2.3	2.8	3.5	4.0	3.5	3.2	1,070	1,111	1,165	1,212
San Francisco	(3.8)	(3.6)	1.2	2.0	5.5	5.8	6.0	6.0	1,621	1,565	1,565	1,565
San Jose	(7.8)	(3.9)	0.4	2.5	6.5	6.9	6.4	5.9	1,427	1,327	1,310	1,335
Seattle	(2.0)	(0.4)	2.2	2.9	7.4	7.8	7.6	7.2	815	809	818	830
Tampa	0.0	1.6	2.3	3.5	8.6	8.3	8.3	7.7	711	724	737	750
Tucson	0.5	0.5	2.0	2.8	9.0	8.5	7.5	6.9	560	560	571	585
Washington, D.C.	1.0	0.9	2.7	2.2	4.4	4.8	5.5	5.3	1,085	1,124	1,152	1,179
West Palm Beach	1.9	0.9	2.5	4.3	8.7	9.8	10.0	9.2	957	972	987	1,002

* Estimate ** Forecast

Summary

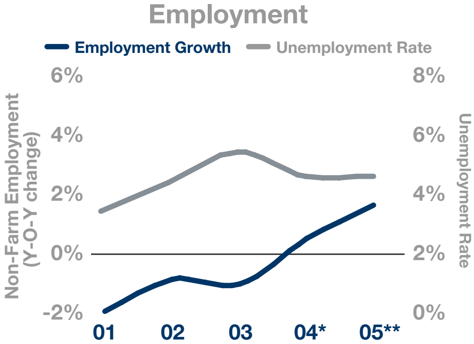
Median Sales Price per Unit ($)[1]			Completions (Units)[1]				
02	03	04*	02	03	04*	05**	MSA Name
48,586	47,284	45,393	12,100	6,300	5,700	4,500	Atlanta
43,750	44,500	45,000	5,259	4,412	2,500	2,000	Austin
94,400	107,000	105,500	1,898	2,100	2,550	3,300	Boston
38,500	39,250	40,500	2,200	1,700	1,600	1,600	Charlotte
58,804	67,500	70,000	2,677	2,380	1,500	1,800	Chicago
30,130	33,279	30,208	1,210	1,530	630	544	Cincinnati
31,338	31,250	30,895	800	300	450	400	Cleveland
38,331	48,421	46,968	2,033	1,850	1,750	800	Columbus
40,463	32,604	34,234	9,600	6,700	9,200	8,000	Dallas-Fort Worth
62,500	61,793	63,100	8,100	7,273	3,000	2,000	Denver
42,140	39,700	46,000	1,200	1,000	890	1,100	Detroit
63,156	69,241	75,000	1,404	2,111	2,000	2,300	Fort Lauderdale
43,912	44,922	46,269	7,326	14,039	13,000	7,400	Houston
31,130	32,000	32,000	2,100	1,800	1,500	800	Indianapolis
31,334	53,781	67,500	2,083	920	1,134	2,500	Jacksonville
40,625	46,093	49,062	7,000	6,000	4,800	3,100	Las Vegas
81,500	95,260	105,000	3,000	5,800	5,400	5,000	Los Angeles
47,913	59,630	70,000	1,909	2,117	2,200	2,500	Miami
40,580	41,110	41,730	428	350	420	400	Milwaukee
44,595	45,500	46,000	1,800	2,550	1,850	1,400	Minneapolis-St. Paul
38,150	45,652	54,950	950	900	1,095	900	New Haven
109,250	119,098	125,730	4,427	4,244	3,370	4,300	NYC-Manhattan
45,912	53,846	66,833	1,110	2,500	1,000	850	Northern New Jersey
105,449	112,500	117,500	2,275	1,889	1,770	1,100	Oakland
94,750	110,620	122,000	3,300	2,100	1,900	2,000	Orange County
40,588	43,756	53,244	5,300	3,135	2,249	3,000	Orlando
43,359	54,166	54,680	1,414	1,590	1,430	1,450	Philadelphia
39,983	42,169	43,434	6,300	4,700	3,900	3,800	Phoenix
49,370	52,720	54,100	1,000	1,300	1,815	1,450	Portland
48,000	46,500	46,500	4,168	1,856	1,200	1,500	Raleigh-Durham
51,580	64,810	85,000	1,700	2,150	3,000	2,600	Riverside-San Bernardino
61,515	73,181	81,341	2,800	2,500	5,800	3,500	Sacramento
44,000	44,000	45,000	810	850	1,100	750	Salt Lake City
35,615	39,799	40,198	2,187	3,981	3,126	2,700	San Antonio
87,500	106,909	120,000	3,725	3,800	3,000	3,100	San Diego
162,500	175,000	180,385	1,890	1,360	1,425	1,000	San Francisco
140,661	130,000	132,000	3,300	1,500	1,850	1,600	San Jose
74,937	72,483	86,725	4,000	2,600	2,100	1,700	Seattle
46,555	44,922	47,375	5,000	3,000	3,400	2,500	Tampa
31,296	33,125	34,450	1,490	410	218	350	Tucson
44,660	79,687	83,417	5,934	6,400	7,700	6,000	Washington, D.C.
59,000	60,383	68,921	2,209	2,738	2,450	2,000	West Palm Beach

[1] See Statistical Summary Note, page 57.

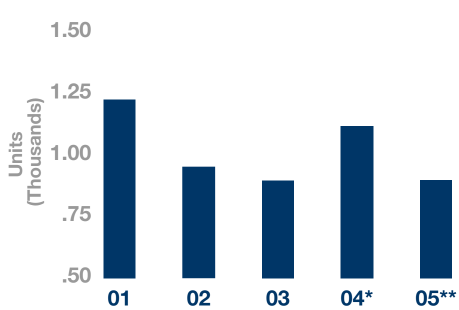
- ▲ 2005 NAI Rank: 30, Up 5 Places. With a vacancy rate well below the national average and further improvement expected in 2005, New Haven rose five spots in the index.
- ▲ Employment Forecast: New Haven turned a corner in 2004 as the tide of job losses was stemmed. We expect job growth to reach 1.6 percent in 2005, up from 0.5 percent last year. The strongest gains will come from the financial services, and education and health services sectors.
- ▲ Construction Forecast: Approximately 900 units are expected to reach completion in the New Haven market this year, down slightly from the 2004 total.
- ▲ Vacancy Forecast: The vacancy rate will close 2005 at 4 percent. Properties built between 1980 and 1989 will register the tightest vacancy at 3.5 percent. The stiffest competition will still be among suburban properties constructed since 1990, which are forecast to end 2005 with a vacancy rate of 8.5 percent.

Asking Rent and Vacancy Trends

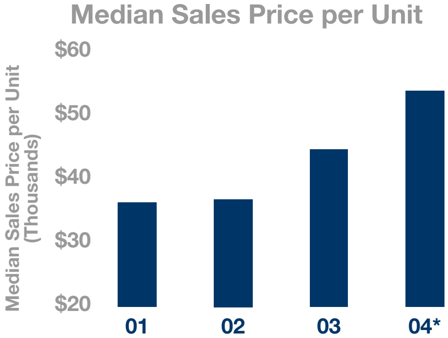
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Investors Attracted to New Haven's Stability, Growth Prospects

New Haven's economy has reached a turning point that will pay dividends for the apartment market. The bright spots continue to be education and health services, financial services and biotech. These industries have been anchors for the apartment market by providing a steady stream of well-paid renters. Apartment owners may soon receive an additional boost from the manufacturing and government sectors. Both industries lost jobs for most of 2004 but are forecast to return to growth in 2005. Would-be investors should keep any economic discussions in perspective. Fundamentally speaking, New Haven is one of the most stable apartment markets in the country. At the height of the last downturn, apartment vacancies peaked at 5.4 percent, a figure that was the envy of many markets. New Haven could register a stronger-than-expected performance in 2005. With election-year jitters behind, equity markets could be in for a solid performance. The area's prominence in financial services would reap a disproportionate benefit and thereby fortify apartment operations.

Investors seem willing to buy as many apartment properties as are brought to market. Sales velocity increased by approximately 30 percent over the last year. There are still a relatively small number of sales in the market, which can make statistical conclusions difficult. Nevertheless, asset appreciation shows no signs of abating. The median price rose to nearly $55,000 per unit in 2004, up from $45,652 per unit one year earlier. A strengthening economy and high levels of investor demand will continue to put upward pressure on prices over the next year. The greatest risk, as with most other markets, lies in interest rate increases that are anticipated as the year progresses.

- ▲ Rent Forecast: Overall asking rents will rise to $960 per month this year. The strongest rent growth will be realized in the Naugatuck/Waterbury submarket. The most moderately priced of all submarkets, Naugatuck/Waterbury is forecast to post a gain of 4 percent in asking rents. Rents will be relatively flat in the Metro-New Haven submarket.
- ▲ Investment Forecast: Investors looking to gain a foothold in the market will find the greatest stability in Naugatuck/Waterbury area. Nevertheless, the overall strength of the market can be found in Metro-New Haven and North Haven/Wallingford/Meriden as well.

Asking Rent and Vacancy Trends

▲ 2005 NAI Rank: 9, Up 3 Places. Low and declining vacancy coupled with above-average rent growth allowed Manhattan to rise into the top 10.

▲ Employment Forecast: Employment growth of 1.7 percent is forecast for 2005, up from 1.5 percent last year. The professional and business services sector, where average annual salaries are high enough for workers to afford apartments in many Manhattan submarkets, will lead employment gains.

▼ Construction Forecast: Deliveries in Manhattan will increase from 3,370 units in 2004 to 4,300 units in 2005. Considerable activity is occurring in the Morningside Heights/Washington Heights and West Village/Downtown submarkets. Conversions of office buildings to residential rental units has slowed.

▲ Vacancy Forecast: Vacancy in Manhattan will decline 70 basis points in 2005, to 3.5 percent. Improvement in fundamentals is being driven by the city's brightening economic conditions.

Investors Maintain Keen Interest in Manhattan as Fundamentals Improve

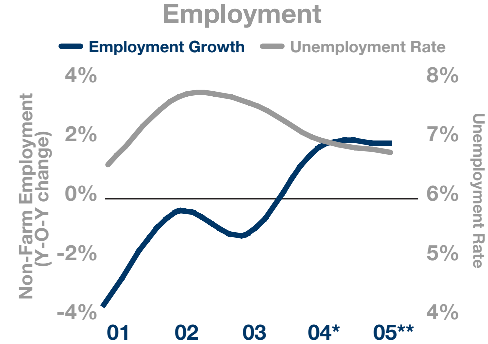
With vacancy rates improving in all submarkets, the Manhattan apartment market continues to attract investors. Effective rent growth is keeping pace with asking rent growth after lagging for a few years. A return to a sub-3 percent vacancy rate, last seen in 2001, is unlikely without substantial job growth in the financial services sector, an important catalyst for rental housing demand. The vacancy rate, however, should fluctuate between 3 percent and 4 percent in the near term, sufficiently low to support continued rent growth. Specific submarkets will confront challenges. Property performance in the West Village/Downtown submarket may trail performance in other submarkets for the next few quarters as new units come online and tenants slowly warm to new residential neighborhoods. Properties west of Eighth Avenue in Midtown, many of which were delivered recently, are still facing their initial round of lease renewals. The outcome of these re-leasing efforts should confirm the viability of projects in neighborhoods that are distant from subway stations.

Investors are finding reasonable values and upside opportunities in the outer boroughs where fundamentals have remained strong. The vacancy rates in Queens, Brooklyn and the Bronx are expected to be lower than that of the overall market in 2005 as many residents become priced out of Manhattan. Effective rents as a percentage of asking rents are higher in the outer boroughs and will continue to be higher in the near term. Additionally, the Queens market has enjoyed steady population growth and is the first destination for many of the metro area's immigrants, both factors that underpin strong demand.

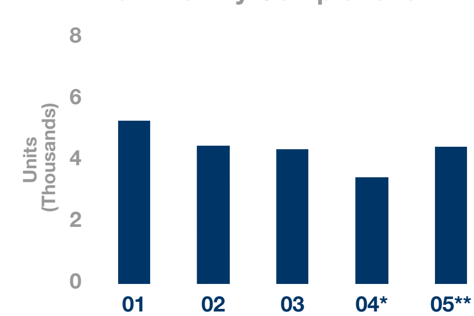
▲ Rent Forecast: A 2.7 percent increase in asking rents for Manhattan apartments, from $2,922 to $3,000 per month, will occur in 2005 as owners continue to regain the pricing power they ceded for a few quarters beginning in late 2001. Effective rents will also go up as the use of concessions wanes. Asking rent growth in the outer boroughs will be 2.3 percent.

■ Investment Forecast: Investors will likely focus on Manhattan's Morningside Heights/Washington Heights submarket, as they did in 2003 and 2004, due to a greater number of opportunities. The median price per unit is the lowest among the Manhattan submarkets and is in line with values in Queens or the Bronx, where buyers are also likely to venture more frequently.

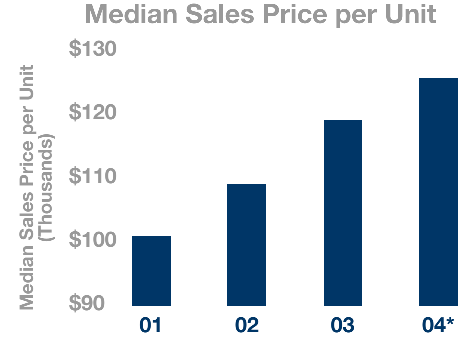
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

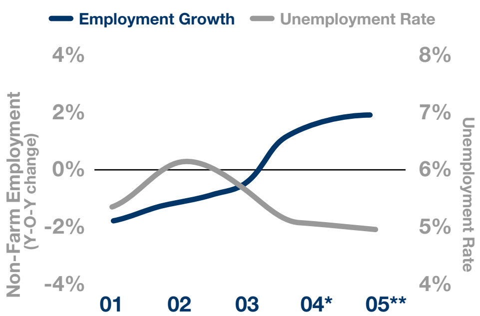
Northern New Jersey

▲ 2 Places 2005 Rank: 15 2004 Rank: 17

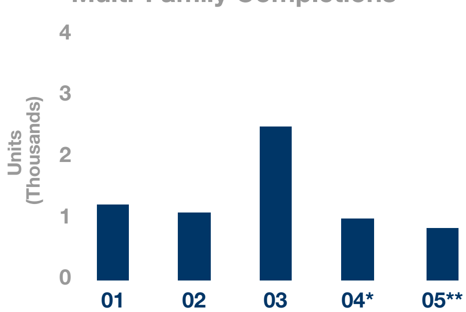
- ▲ 2005 NAI Rank: 15, Up 2 Places. Northern New Jersey benefits from limited new construction, low vacancy and job growth, which pushed the market up two spots in the index.
- ▲ Employment Forecast: Job growth of 1.9 percent is forecast for 2005. The financial activities sector will expand at a pace almost twice the national average. Gains in high-paying sectors will prove critical to the long-term health of the region.
- ▲ Construction Forecast: A key crossover will take place this year as new multi-family construction is expected to fall short of anticipated demand. Approximately 850 rental units will be delivered while demand will top 1,100 units.
- ▲ Vacancy Forecast: The shortfall in new supply and the improving economy will allow vacancy to improve for the first time since 2002. Year-end 2005 vacancy is forecast at 5.4 percent, a decrease of 30 basis points over 2004.

Asking Rent and Vacancy Trends

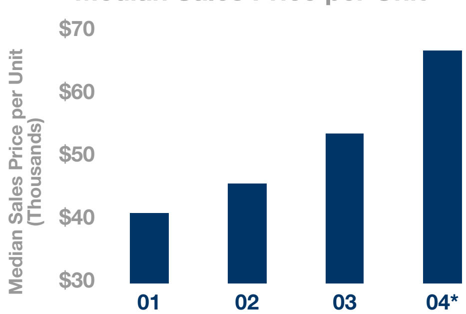
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Prices Soar as Construction Falls and Jobs Abound

Resurgent employment growth in Northern New Jersey will bring about a fundamental shift in the apartment market as the year progresses. After posting a healthy gain of over 30,000 jobs in 2004, we expect almost 37,000 positions to be created this year. Furthermore, the leaders in job creation will be the financial activities, education and health services, and professional and business services sectors. These industries will bring an influx of well-paying positions that will support the expansion of the renter pool. Rent growth will be relatively modest due to competition from abundant homeownership opportunities. As with many other metro areas, the enticement to buy a home is significant. Developers have been in sync with this trend; over 50 percent of multi-family permits issued last year were for condominiums and townhouses. One of the most notable conversions was Maxwell Place. This former Maxwell House coffee plant is now home to 800 residential units. Though interest rates have risen in recent months, we expect this competition to remain a constraining factor for rent growth through the remainder of the year.

Investor demand for apartments has a long way to go before being satiated. Rapid price escalation has characterized the market for the past three years. While this may seem counter-intuitive to statisticians, most buyers recognize that the prime location of the market makes Northern New Jersey an excellent long-term investment. The median sales price per unit rose 24 percent last year, to nearly $67,000. A portion of the increase can be attributed to a large volume of high-end assets trading hands, though scarcity of available properties played the most significant role. In 2005, prices are forecast to continue to rise, albeit at a more moderate rate.

- ▲ Rent Forecast: Landlords will enjoy some pricing power in 2005, with rents forecast to advance 2.3 percent, to $1,355 per month. Owners are advised to carefully monitor homebuying activity as a gauge for rent increases.
- ▲ Investment Forecast: Rapid economic improvement in Manhattan will benefit owners of Hudson County properties. This area had been somewhat hampered by new construction, but now stands to gain from a strong recovery in nearby New York. Investors should be careful when considering properties that draw tenants primarily from the warehouse operations in Northern New Jersey as wholesale trade continues to suffer.

2004 Rank: 7 | 2005 Rank: 10 | ▼ 3 Places

Oakland

Asking Rent and Vacancy Trends

- ▼ 2005 NAI Rank: 10, Down 3 Places. Oakland fell slightly in the NAI but remains in the top 10 due to low housing affordability and a solid job growth forecast.
- ▲ Employment Forecast: Job growth will accelerate to 2 percent in 2005. A resurgence of venture capital has filtered through to many local technology businesses and will boost growth in manufacturing for the first time in several years.
- ▲ Construction Forecast: Apartment developers in Oakland will continue to limit new projects in 2005, as just 1,100 units are slated for completion, down 38 percent from 2004. The Oak to Ninth project is the most noteworthy development under consideration, and if approved, would revitalize the area near the Oakland Estuary.
- ▲ Vacancy Forecast: After climbing steadily for the past four years, vacancies will level off in the East Bay. The vacancy rate is forecast to ease by 10 basis points in 2005, to 6.9 percent.

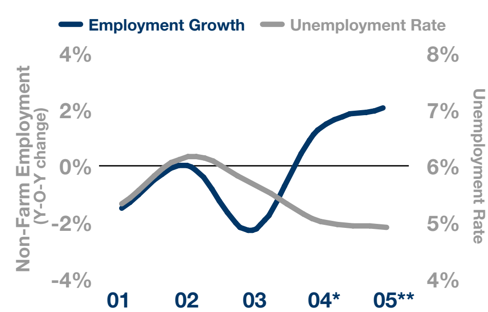
Jump in Professional Jobs to Boost Higher-End Submarkets

Investor demand has remained strong for East Bay properties, driving values up 40 percent since 2000. Despite weakened fundamentals, buyers have been enticed by the relative affordability of Oakland-area apartments compared to the rest of the Bay Area. The East Bay economy has begun to exhibit signs of improvement, while other Bay Area locations continue to struggle. Financial services and business services companies are expected to lead in hiring for 2005, adding almost 10,000 jobs, while the hospitality sector is forecast to add almost 6,000 positions. The increases should bode well for the apartment market, as these sectors typically employ apartment renters. Additionally, the creation of entry-level positions within these service-based segments will further expand the region's already strong 20- to 34-year-old age cohort, a prime source of apartment renters. Migration of renters to homeownership has been less of an issue for East Bay owners as the cost of living is 28 percent higher than the national average.

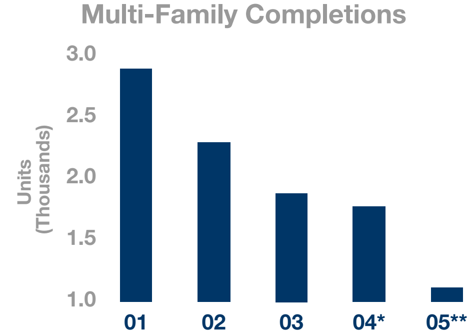
Although apartment prices are at record-high levels across the East Bay, opportunities still exist. Investors interested in repositioning prospects have several options. Under-managed properties and management-intensive assets in blue-collar locations such as East Oakland could present opportunities for entrepreneurial buyers to creatively remarket or find a new niche for struggling properties. Other value plays might be found in North Oakland, where redevelopment has transformed this well-located submarket over the past five years. Properties in this area often benefit from renovations that include adding hardwood flooring and updated amenities, and its close proximity to U.C. Berkeley provides an excellent tenant base for well-kept, upscale units.

- ■ Rent Forecast: For the first time in four years, Oakland apartment owners will avoid rent cuts as vacancy improves. Asking rents in the area are forecast to remain unchanged in 2005, at $1,200 per month.
- ▲ Investment Forecast: Slight occupancy gains, waning concessions and stable rents will boost NOIs by late 2005. Properties in the Tri-Valley submarket could be of particular interest. This area has traditionally lagged the region in rent growth and occupancy, but has recently become a strong rental destination due to its convenient location and comparative affordability.

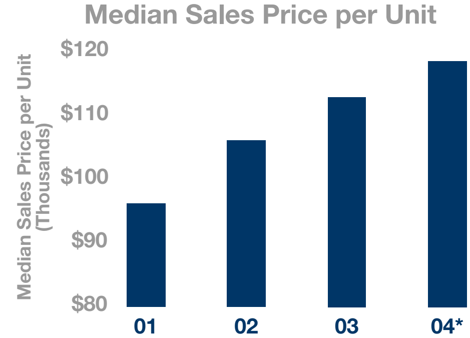
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

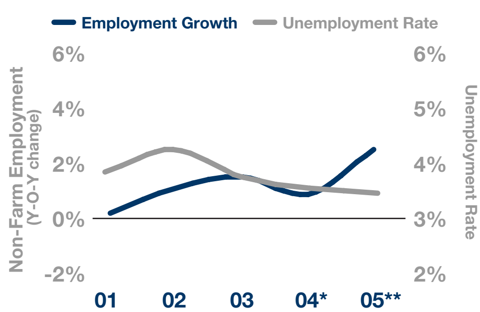
Orange County

▼ 2 Places 2005 Rank: 3 2004 Rank: 1

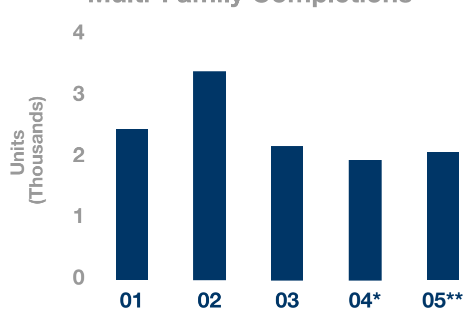
- ▼ 2005 NAI Rank: 3, Down 2 Places. While Orange County slipped two spots, high housing prices, below-average vacancy and significant barriers to entry keep it ranked near the top.
- ▲ Employment Forecast: Nearly all sectors are expected to expand in 2005, with employment forecast to rise by 2.3 percent, or just over 33,200 positions. Construction is the only sector expected to lose jobs as housing development eases.
- ▼ Construction Forecast: Completions will increase by 100 units in 2005, to 2,000 units. As is usually the case, most development activity is taking place in Irvine. The only exceptions are a 300-unit project in Anaheim and a 115-unit building in Brea.
- ▲ Vacancy Forecast: Demand for apartments is increasing, with vacancy expected to decline by 30 basis points in 2005, to 3.6 percent. Luxury apartments ended 2004 at 6 percent, but renewed demand will drop vacancy 50 basis points this year.

Asking Rent and Vacancy Trends

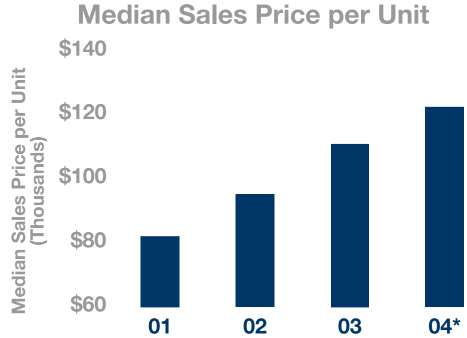
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Cooling Housing Market to Benefit Local Apartments

Rising interest rates will cool the housing market and, coupled with a growing number of jobs, benefit the Orange County apartment market in 2005. The median home price ended 2004 at $660,000, which left the affordability gap at $2,400 per month. More jobs are entering the market and housing demand is high, but most new residents will find themselves priced out of the for-sale market. As a result, vacancy is expected to decline by 30 basis points during 2005, to 3.6 percent, with most of the improvement coming from the luxury sector. This puts areas such as Irvine and South County back in solid rent growth mode, both of which have suffered during the recent wave of tenant migration to home-ownership. As a result, institutional investors are scouring these submarkets for available properties, which are somewhat hard to find. United Dominion was successful in acquiring the 400-unit Huntington Villas community last year for $71 million. Numerous opportunities still exist for private investors in the central part of the county, though, including the cities of Anaheim and Santa Ana, which have experienced price increases of 15 percent and 20 percent, respectively. In 2004, some properties coming to the market still have room for rent growth and value appreciation as long-time owners in these cities have been hesitant to raise rents.

Solid fundamentals and increased job growth kept investment activity brisk in 2004, but rising interest rates will likely slow future sales velocity. The median price ended 2004 up 17 percent, at $130,000 per unit, but the number of properties on the market and time it takes to sell a property has increased. Realistically priced properties are still garnering offers and selling quickly, but some buildings have experienced longer marketing times due to the additional time it takes to narrow the expectations between buyers and sellers. Investors will continue seeking Class C properties in Central Orange County during 2005, but price growth in this area is expected to be minimal.

- ▲ Rent Forecast: High home prices will limit many new residents to the rental market, allowing apartment owners to continue raising rents in 2005. Asking rents are expected to increase by 4 percent, to $1,348 per month.
- ▲ Investment Forecast: While prices are not likely to increase at the same rate achieved over past years, no major price correction is on the horizon. Rising revenue levels are expected to offset increased debt payments.

Asking Rent and Vacancy Trends

- ▲ 2005 NAI Rank: 21, Up 3 Places. Job creation in the hospitality industry supports improving demand for apartments. Housing affordability held Orlando back from further gains in the NAI.
- ▲ Employment Forecast: We expect job growth to reach 4.1 percent in 2005, led by gains in tourism-based industries, professional and business services, and education and health services.
- ▼ Construction Forecast: Completions are forecast to rise to 3,000 units in 2005, up from 2,249 units in 2004. Condominium construction is present in the market, though at a lesser pace than the national average. Thirty-five percent of multi-family permits are condominiums, compared to 42 percent nationally.
- ▲ Vacancy Forecast: Demand is forecast to outpace new additions to market this year. Absorption is expected to account for 3,400 units, which will allow vacancy to improve slightly, to 7.5 percent, down from 7.9 percent in 2004.

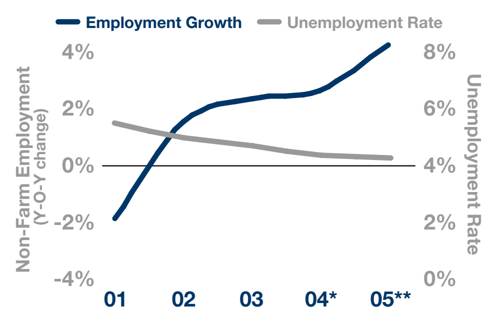
Orlando Owners Benefit from Job Gains, Competitive Investment Market

Orlando apartment values will continue their steady upward climb this year even as construction levels rise moderately. Increased strength in the market will come largely from robust employment growth. After realizing 2.5 percent growth last year, job creation is forecast to accelerate to a 4.1 percent annual rate. This translates into approximately 39,280 new positions. While the sheer number of jobs is important, apartment investors will also take heart that several other key economic drivers are vastly improved. Tourism, one of the critical aspects of the Orlando economy, was up by 20 percent last year, while construction employment grew by 8.6 percent. With a solid foundation in place, Orlando is well positioned to forge ahead with ambitious downtown redevelopment plans and further economic diversification. Apartment owners will gain much greater stability in their rent rolls, and concessions will begin to taper off in 2005. We forecast that rental rates, net of concessions, will increase by the largest amount since 2000. The one note of caution is a slight uptick in construction. Demand is still forecast to outpace supply this year; therefore, investors need only keep a watchful eye on this trend.

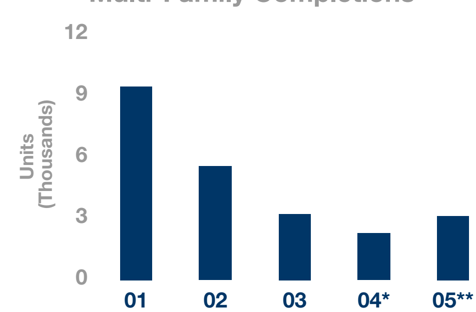
The investment market was characterized by stiff competition for available opportunities over the last year, which pushed the median price per unit to more than $53,000. Cap rate compression continues to be a major factor in rising prices. Average cap rates have fallen by 140 basis points over the past few years, and price increases are holding firm. We expect that two things will contribute to a further 20 basis point to 30 basis point decrease in cap rates this year. First, as the economy regains full steam, buyers will compete aggressively to gain entrance into this premier Sunbelt market. Second, interest rates should remain at levels that support premium pricing.

- ▲ Rent Forecast: Moderate pricing power returned to Orlando last year and will remain in 2005. We expect asking rents to advance by 2 percent to $789 per month, while effective rents post growth of 2.5 percent.
- ▲ Investment Forecast: After a meteoric 22 percent rise in 2004, we anticipate price growth to cool to approximately 5 percent. Given the strength of the local economy, we advise investors to capitalize on downtown redevelopment efforts. Government focus and investment in the core will provide a new wave of opportunities for investors.

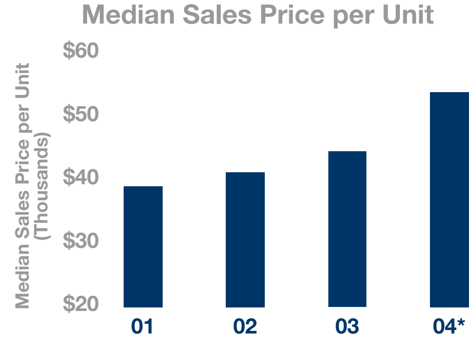
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

- 2005 NAI Rank: 11, No Change. While rent growth will outperform the national average, vacancy will remain flat, leaving Philadelphia unchanged in the index.

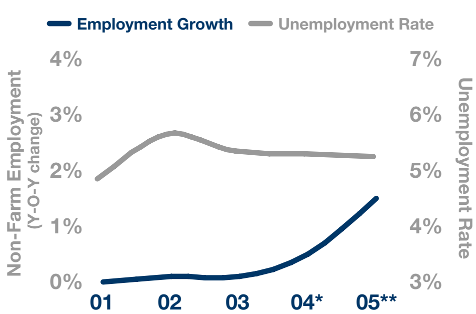
- ▲ Employment Forecast: Philadelphia employers will add over 36,000 positions in 2005, a 1.5 percent gain. Pharmaceutical firms will continue to expand their local employment base, which will strengthen demand for housing.

- Construction Forecast: Construction has been flat for the past four years, with approximately 1,500 units completed annually. This trend will continue in 2005 as developers are scheduled to deliver approximately 1,450 units. The pipeline is growing and currently has over 8,000 units listed in the planning phase.

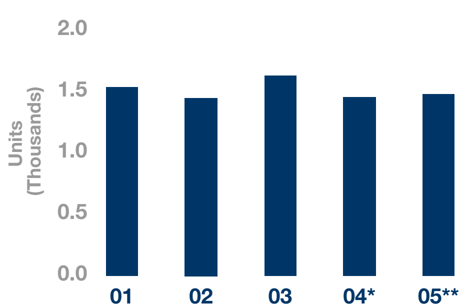
- Vacancy Forecast: Stability has been the prevailing characteristic of the Philadelphia apartment market. The vacancy rate has moved only 130 basis points in the past five years. Regionwide, vacancy will remain unchanged in 2005, at 3.8 percent, as improving job growth is negated by the effects of new supply.

Asking Rent and Vacancy Trends

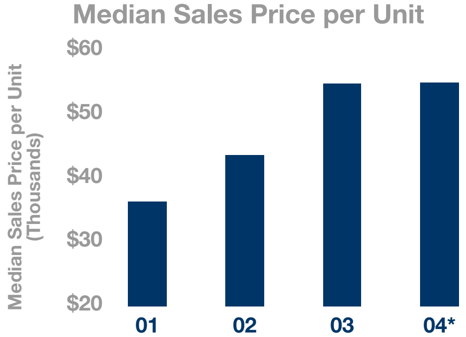
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

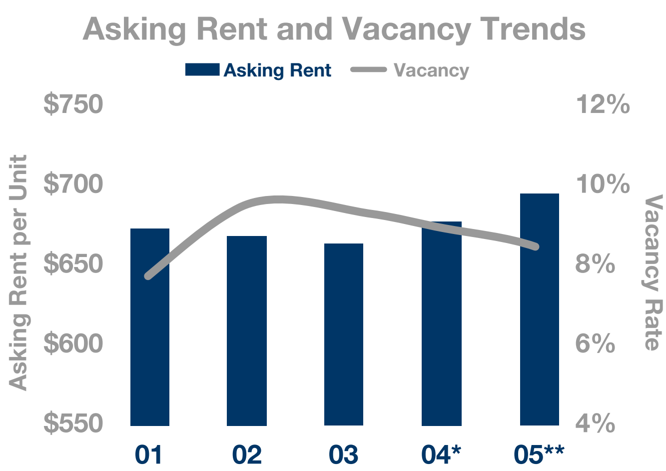
Market Provides Solid Foundation for Repositioning Opportunities

The Philadelphia MSA is a supply-constrained rental market, where limited new development and moderate job growth have prevented vacancies from rising significantly, unlike most East Coast markets. Fundamentals have wavered little over the past four years as vacancies have not risen above 4 percent, and rents have continued to climb modestly. Consequently, the investment market has remained a favorite of institutional and private investors alike, who combined to push total sales and transaction volume to record highs in 2004. While institutional investors have set their sights on the conversion of old office and industrial properties into luxury apartments, condo conversions and repositioning opportunities have arisen for smaller investors as well. Center City has been a haven for redevelopment and condo conversions, and the trend shows no sign of slowing as demand for rental housing in the area remains strong. Philadelphia has the third-largest concentration of downtown residents in the country, behind New York and Chicago. As prices have continued to climb in this area, the redevelopment of other neighboring submarkets has ensued, and once-blighted areas such as Northern Liberties and Fishtown are now hotbeds of activity. Per-unit prices in these areas are often less than $35,000.

Investment prospects will not be limited to the city of Philadelphia. Investors willing to take on management-intensive properties in traditionally marginal rental submarkets are also encountering opportunities. Vacancy rates in areas such as Germantown and Chester have been holding firm and, in many cases, improving for Class C inventory, while rents have increased by an average of 3.5 percent annually over the past four years. Prices, however, have remained relatively flat, resulting in higher cash flows for investors willing to undertake a more active role in operations.

- ▲ Rent Forecast: The relative strength of the local apartment market has exerted positive rent pressure throughout the MSA. Asking rents are forecast to rise 3.2 percent in 2005, to an average of $931 per month.

- ▲ Investment Forecast: Investment activity in the Philadelphia apartment market will continue to gather momentum in 2005. Investors interested in repositioning opportunities might consider Class C properties in the Camden submarket, as rents in this area have recently begun to post strong growth thanks to the submarket's gradual revitalization.



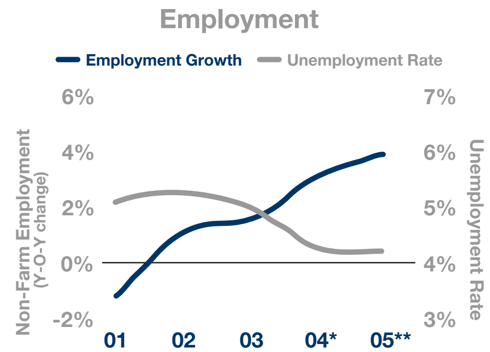
- ▲ 2005 NAI Rank: 13, Up 2 Places. Favorable demographic and employment trends keep Phoenix in the top half, but above-average vacancy holds improvement to two places.
- ▲ Employment Forecast: Phoenix's employment market is poised to expand by 4.2 percent in 2005 after growing 2.8 percent last year. Employers are forecast to add 70,500 jobs, with gains in the financial and business services sectors paving the way.
- ▲ Construction Forecast: The metro area is forecast to receive 3,800 units in 2005, down 100 units from 2004. The West Valley is going to move to the forefront in deliveries as the area will continue to attract residents this year.
- ▲ Vacancy Forecast: Increased employment opportunities, coupled with stronger in-migration patterns, will provide a boost to absorption this year. The Valley's vacancy rate will drop for the third consecutive year in 2005, declining by 60 basis points, to 8.6 percent.

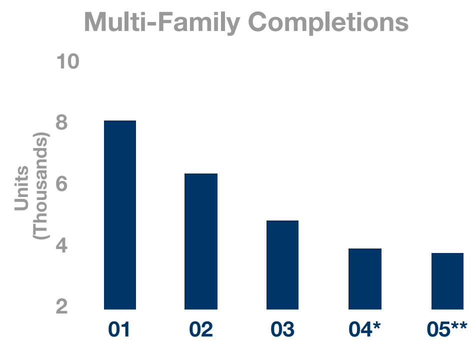
Investors Will Direct Additional Capital to Established Valley Neighborhoods

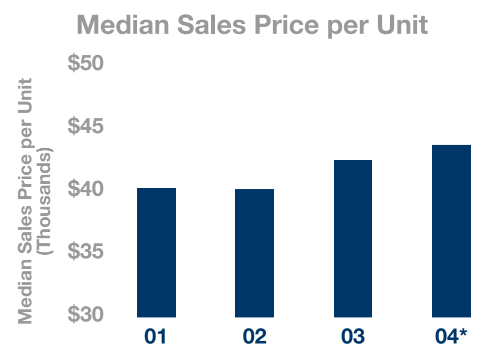
Phoenix apartment market conditions will begin to show signs of improvement in 2005. The ceaseless inflow of job seekers to the Valley will provide a boost to absorption, especially in submarkets with growing companies. Owners in the Chandler/Ahwatukee submarket are likely to report decreasing vacancy rates as major employers, particularly financial firms, increase hiring. Countrywide Financial Corp. announced plans to increase its presence in Chandler from about 500 employees to approximately 1,000 workers in the short term. While the submarket was hit hard by the loss of high-tech jobs during the recent economic downturn, owners are likely to report improving NOIs during 2005 and over the next several years as other large employers, including Wells Fargo, expand operations in the area. Investors looking for newer communities are also going to search in the north Valley, particularly near Deer Valley. This area is home to many national and international firms, including American Express and USAA, and is an easy commute to the expanding employment market at the Scottsdale Airpark. Employees unable to lease units in North Scottsdale will find more affordable options in the Deer Valley area.

While investors purchasing newer communities focus their attention on the growing suburbs, buyers seeking older properties, primarily built before 1980, will search in established Valley neighborhoods such as east Phoenix, Tempe and south Scottsdale. Many Class B and Class C properties in these areas will offer outsized returns. In many cases, these properties require minimal capital improvements, as management changes will be enough to boost occupancies. These neighborhoods are also close to major employment centers such as downtown Phoenix and Sky Harbor International Airport, which provides additional incentives to prospective tenants.

- ▲ Rent Forecast: Phoenix apartment owners are going to push the average asking rent up by 1.7 percent, to $699 per month, in 2005. Stronger renter demand this year will encourage many operators to rein in concessions, which will lift the average effective rent by 2.1 percent, to $644 per month.
- ▲ Investment Forecast: Investors seeking properties in a more urban setting will put upward pressure on prices in Central Phoenix neighborhoods. Investors are optimistic that the future light-rail line along Central Avenue and redevelopment in downtown will draw more residents to the area.







* Estimate ** Forecast

- ▲ 2005 NAI Rank: 26, Up 2 Places. Portland moved up in the index due to its strong job growth forecast and limited new supply.
- ▲ Employment Forecast: Portland employers are forecast to add 21,400 positions in 2005 after 8,900 jobs were created in 2004. The job market is expected to grow by 2.3 percent, supported by strong gains in the business services and information sectors.
- ▲ Construction Forecast: Portland's construction levels continue to remain low compared to the 1990s. While 1,815 units were completed in 2004, only about 1,450 market-rate units will come online in 2005.
- ▲ Vacancy Forecast: The overall vacancy rate in the Portland MSA will drop 40 basis points in 2005, to 7.4 percent. The greatest decrease will be in the Class A sector, where rising interest rates and high-tech job gains will increase renter demand.

Asking Rent and Vacancy Trends

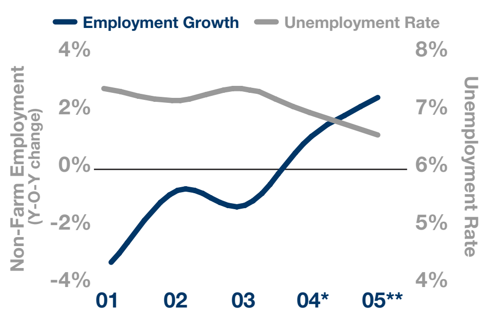
Positive Outlook for Portland Apartment Market

The Portland apartment market has struggled over the past three years. High unemployment, rising vacancy, lower rents and elevated concessions have combined to exert pressure on NOIs. Prices have remained flat in many of the metro's submarkets, with median per-unit prices hovering around $50,000, as other West Coast markets have recorded tremendous price appreciation. While some submarkets have not been affected by tenant migration to single-family homes, low interest rates have nonetheless enabled renters in luxury units to make the renter-to-owner transition, thereby placing additional strain on challenged operations. The submarkets that have struggled most have been suburban areas such as Hillsboro, Beaverton and Gresham, where the region's highest concentration of Class A units are located. In these submarkets, vacancy rates are in the 15 percent to 17 percent range, approximately 35 percent higher than the market average. Investors may look to these submarkets for upside opportunities as fundamentals improve over the next 12 to 18 months.

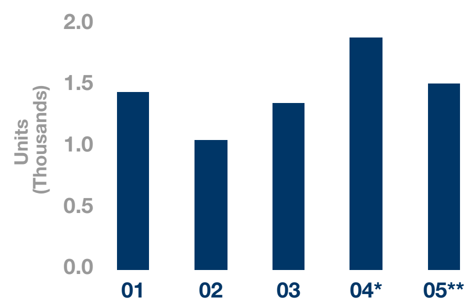
The rebound in the metro Portland economy has been slow to evolve, but confidence in an imminent turnaround remains high. While high-tech firms have not been expanding payrolls as greatly as was expected one year ago, workers have been added at a steady pace. Additionally, the core apartment renting demographic, the 25- to 34-year-old cohort, will likely expand as businesses gain confidence in the economy and step up hiring of entry-level employees. Newly renovated areas downtown that naturally draw highly paid young professionals stand to gain under this scenario. Investor demand for assets in these locations will remain high and will continue to lead the market for sales velocity and lease rates, with per-unit prices topping $100,000.

- ▲ Rent Forecast: Increases in asking rents will be nominal in 2005. A reduction in concessions will lead to an increase in effective rents throughout the MSA, helping to offset rising expenses and bolstering NOIs.
- ▲ Investment Forecast: Declining unemployment, steady in-migration, rising interest rates and a slowdown in construction will support stronger performance for local properties, particularly in affordable suburban areas. As such, repositioning or cash-flow opportunities might be found in areas such as the Northeast submarket, where comparatively affordable rents will continue to draw new residents.

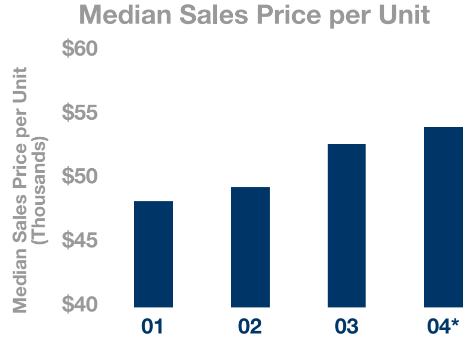
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Asking Rent and Vacancy Trends

■ 2005 NAI Rank: 39. High vacancy relative to other markets and the availability of affordable housing led to Raleigh-Durham's ranking.

▲ Employment Forecast: Raleigh-Durham continues to recover, with an estimated 16,000 positions created in 2004. An increase of 21,000 jobs, or 3 percent, is forecast for 2005. Most new positions will be in the financial services, education and health services, and the leisure and hospitality industries.

▼ Construction Forecast: Demand generated by increased levels of in-migration should offset the 1,500 units expected to be added in 2005. Most construction activity is taking place along the State Route 70 corridor between Raleigh and Durham.

▲ Vacancy Forecast: Vacancy is forecast to decline for the third year in a row, dropping 30 basis points to 10.3 percent. The West Durham submarket is forecast to post the largest decrease, with the average expected to decline 110 basis points, to 8.8 percent.

Raleigh-Durham Apartment Market Emerging from Hibernation

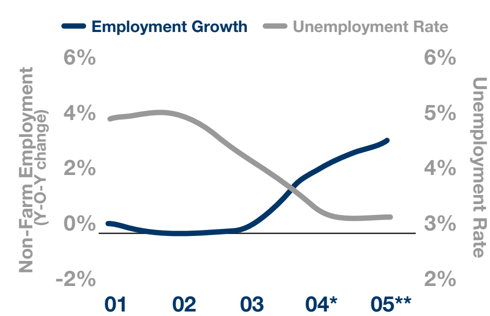
The Raleigh-Durham apartment market will show moderate improvement in 2005 as vacancies decline and rental rates begin to rise for the first time in two years. Increased home construction and a low level of in-migration have kept the median home price below $180,000. As a result, many new residents are able to purchase a single-family home, which has sapped demand in the rental market. Apartment vacancy ended 2004 well above 10 percent, with rents on par with the previous year, at $763 per month. Owners can expect gradual improvement in 2005, however, as single-family construction declines slightly and in-migration picks up in response to the creation of more jobs. Apartment construction will increase in 2005 but remains well below the 4,000-plus units built in both 2001 and 2002. Household formation in the Raleigh-Durham market in 2005 will be just shy of 13,000 and will offset new construction in most submarkets.

The median price for apartments in Raleigh-Durham stabilized in 2004 at $46,500 per unit, after declining the previous two years. Since the luxury apartment market has been weakened by low home prices, the majority of transactions involve private investors purchasing Class B/C buildings with less than 50 units. Most of these properties are located in the Chapel Hill and West Durham submarkets, where vacancy has held below 9 percent. This submarket will remain in the sights of buyers in 2005, since the combined student population at UNC at Chapel Hill and Duke University is expected to increase by 800 students in 2005, keeping apartments in the area in high demand. Opportunistic investors should seek out properties in the Cary submarket, where vacancy has peaked and absorption is starting to improve. The creation of more high-tech jobs at Research Triangle Park will increase housing demand and push vacancy in the area down by 40 basis points in 2005, with rents forecast to rise by more than 1 percent, to $801 per month.

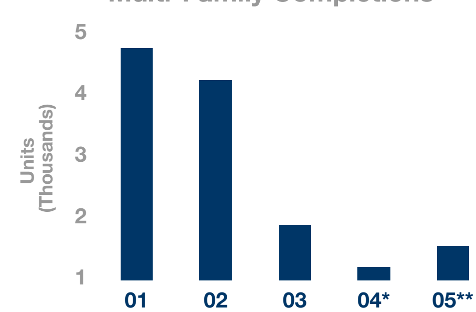
▲ Rent Forecast: The average asking rent is expected to increase by 1 percent in 2005, to $771 per month. Rents in the Northeast Raleigh submarket will show the most improvement, increasing 1.9 percent to $715 per month.

▲ Investment Forecast: Improving fundamentals are expected to prompt more buyers to step forward, allowing for moderate value gains. Opportunities lie in markets that are historically strong, but have been recently challenged, such as Cary, Chapel Hill and West Durham.

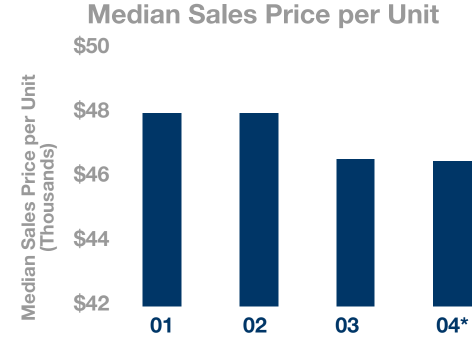
Employment



Multi-Family Completions



Median Sales Price per Unit

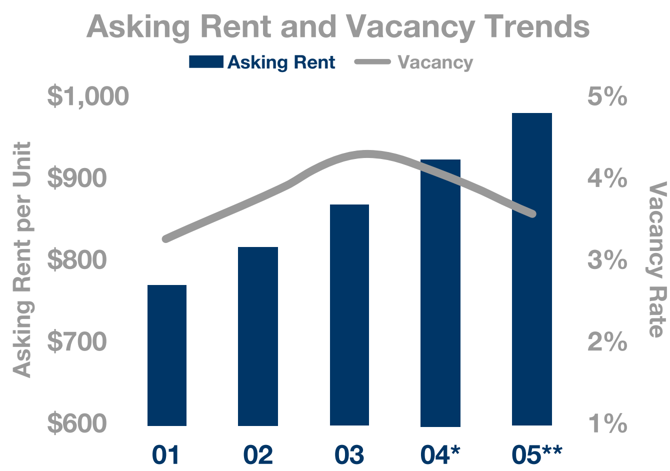


* Estimate ** Forecast

Riverside - San Bernardino

▲ 3 Places 2005 Rank: 1 2004 Rank: 4

- ▲ 2005 NAI Rank: 1, Up 3 Places. High rankings for rent growth, vacancy and job growth secured the Inland Empire the top spot.
- ▲ Employment Forecast: The Inland Empire is becoming a self-sustaining economy, with a growing number of jobs in key industries. Overall, employment is expected to grow by 3.5 percent in 2005, a gain of 39,400 jobs. Nearly 9,000 jobs will be created in the trade and transportation industry, and the area will gain 3,000 manufacturing jobs due to business in-migration.
- ▲ Construction Forecast: Housing development remains concentrated in the for-sale market, with apartment builders expected to complete 2,600 units in 2005, down from 3,000 units in 2004.
- ▲ Vacancy Forecast: Rising home values are pricing most new residents out of the for-sale market, which bodes well for apartment owners this year. Vacancy is forecast to decline by 40 basis points, to 3.5 percent, after declining 40 basis points in 2004, to 3.9 percent.

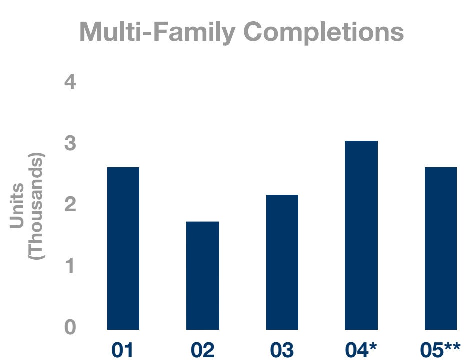


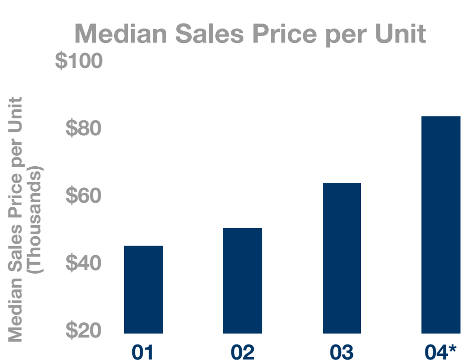
Jobs, Net Migration and Low Construction Fuel Apartment Market

Demand for rental housing is on the rise in the Inland Empire as in-migration, a lack of construction and rising home prices keep the local apartment market among the strongest in the nation. Recent spikes in home prices dropped affordability to less than 25 percent, which bodes well for apartment owners. Owners in expanding job centers, including Rancho Cucamonga and Riverside, are benefiting the most from increased absorption and are expected to record a rise in average revenue of 5 percent during 2005. Institutions continue to be active in the luxury apartment sector, which struggled with move-outs early last year but ended 2004 with vacancy down 80 basis points, at 4.9 percent. Cap rates have fallen to an average of 6.5 percent in this sector. Class A apartments will continue showing improvement in 2005 as many new residents and young professionals will be priced out of the local for-sale market. While condos may strain demand for some luxury apartments, investors of most Class B/C properties can find comfort in the fact that the affordability gap between monthly condo payments and average rents has grown to $700 per month.

Rising interest rates will slow investment activity from the frenetic pace experienced in 2004, but those looking for a drop in prices will be disappointed. The large number of private buyers in the market has kept competition for smaller properties intense, with the median price for buildings with less than 20 units rising by more than 32 percent during 2004, to $86,000 per unit. Areas with an abundance of small properties, including east San Bernardino, will remain prime targets of investors in 2005. The city of San Bernardino is known for having problem areas and less expensive rents, but major redevelopment plans allowed astute investors to overlook adversity, and prices were up by 15 percent in 2004, to $54,000 per unit.

- ▲ Rent Forecast: The growing gap between rents and mortgage payments, coupled with limited new supply and steady household formation, will give owners the leverage needed to raise rents by 6 percent, to $983 per month.
- ▲ Investment Forecast: The strength of the market will keep investors actively pursuing local properties. Opportunistic investors should focus on established areas with limited construction and solid revenue gains, such as the city of Riverside and University City.





* Estimate ** Forecast

Asking Rent and Vacancy Trends

▼ 2005 NAI Rank: 17, Down 4 Places. Significant new supply and a strong housing market pushed Sacramento down in the NAI.

▲ Employment Forecast: Sacramento employers will add almost 20,000 jobs, or 2.6 percent, to the local work force in 2005. Uncertainty continues in the government sector. Almost 6,000 government jobs were cut in 2004, and recommendations have been made for a top-to-bottom overhaul of state government.

▲ Construction Forecast: Following the completion of 5,800 units in 2004, a moderate slowdown is expected in 2005 as many developers shift gears from apartments to condominiums, driven by rising home prices and a growing population.

▲ Vacancy Forecast: After climbing steadily for the past four years, vacancies will improve in 2005 as net in-migration rises in response to accelerating job growth. Although continued new development will pose uncertainty for several submarkets, vacancy will fall 40 basis points in 2005, to 7.1 percent.

Investors Capitalize on Sacramento Apartment Market

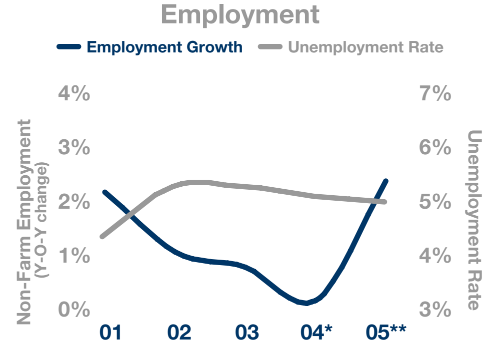
Sacramento apartments continue to garner the attention of both institutional and private investors as an affordable alternative to pricier West Coast markets. Solid job growth and strong prospects for long-term stability in fundamentals have kept buyers active in the market, which in turn has helped drive per-unit prices up almost 90 percent since 2000. Job growth in the region's working-class employment sectors will benefit Class B/C properties, particularly those assets in the Midtown submarket. Residents are drawn to Midtown for its central location and affordable rental rates, which has resulted in low vacancy and solid rental gains. As such, many entry-level investors have descended on Midtown, lured by its inventory of smaller properties, sound market fundamentals and an average transaction size of $860,000. Opportunistic investors might pay close attention to the 1950s-era properties in the North Sacramento submarket adjacent to Midtown. The availability of redevelopment funds from the city, combined with low prices and an excellent location, could lead to repositioning opportunities in the coming years.

Population growth will remain solid in 2005 after hitting 1.8 percent last year. Sacramento's residents are increasingly younger, which bodes well for the apartment market and is something developers of the downtown rail yard project are counting on. The redevelopment of the 240-acre site is scheduled to include 3,000 apartments and for-sale homes in an urban village setting geared toward young professionals. Increases in area home prices should also continue to benefit apartment owners as the affordability gap for homeownership widens. Continued employment gains in the retail sector as major chains expand into the high-growth areas of Rocklin near the Galleria and Stanford Ranch will also firm occupancies in these areas.

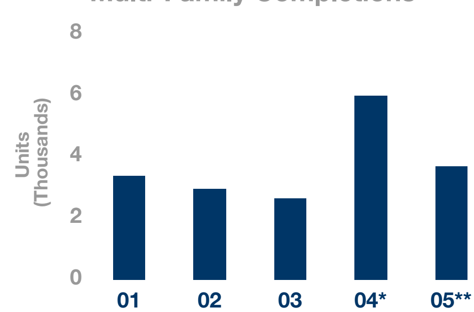
▲ Rent Forecast: Rents will continue to climb in 2005 as vacancy declines, although concessions will remain commonplace in the Class A sector. Regionwide, asking rents will rise 2 percent, to $920 per month.

▲ Investment Forecast: Transaction velocity will remain strong in 2005 as the comparative affordability of Sacramento continues to lure buyers. While transaction activity will be driven by investors seeking assets priced at less than $5 million, institutions will continue to acquire large Class A properties in areas such as Roseville, enticed by the area's positive long-term outlook.

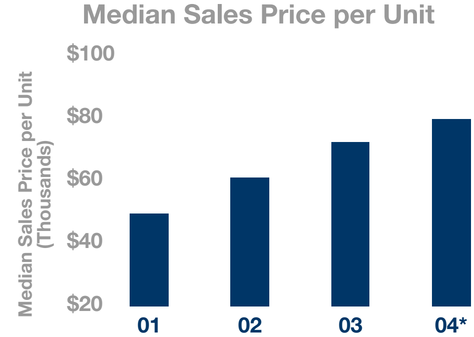
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

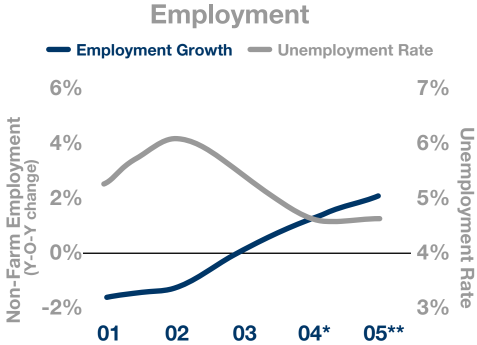
Salt Lake City

▼ 9 Places | 2005 Rank: 29 | 2004 Rank: 20

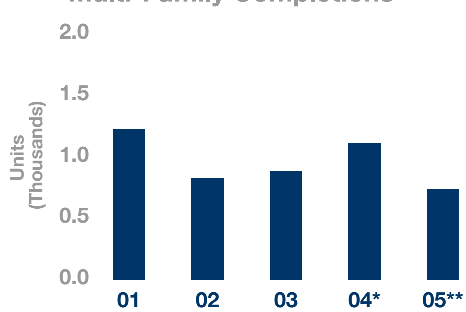
- ▼ 2005 NAI Rank: 29, Down 9 Places. Salt Lake's decline is due to expectations of a relatively small decrease in vacancy, allowing markets with more substantial improvement to surpass it.
- ▲ Employment Forecast: Salt Lake City continues to post strong employment gains, with an increase of almost 16,000 jobs, or 2.2 percent, forecast for 2005. Most new positions will be in the professional and business services industries, helping to boost demand for luxury apartment complexes.
- ▲ Construction Forecast: A significant decrease in construction is forecast for 2005, as only 750 units are expected to come online, compared to 1,100 units in 2004.
- ▲ Vacancy Forecast: After rising to 7.3 percent in 2004, vacancy will decline 20 basis points, to 7.1 percent, in 2005. Lower construction coupled with increasing job growth will keep vacancy declining. Davis County is forecast to have the lowest vacancy rate by year end, with the overall average expected to decline 70 basis points, to 5.7 percent.

Asking Rent and Vacancy Trends

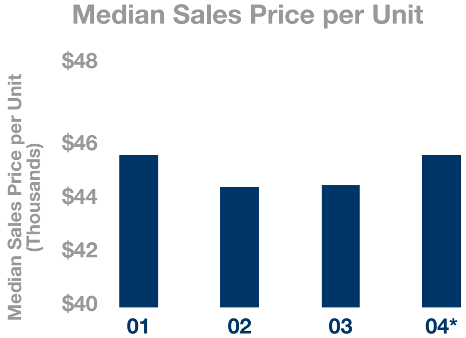
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Back-Office Hiring to Boost Rental Demand

Salt Lake City's apartment market is forecast to show improvement in 2005 as continued employment growth will keep demand steady in most submarkets. There has been a recent rebound in entry-level hiring by large professional service firms, such as Qwest and Verizon, due to Salt Lake's pool of young, well-educated but generally low-wage workers. The better economic outlook has given these new hires the confidence to rent, resulting in a decline in vacancy, especially in the desirable South Salt Lake and Murray submarkets, where vacancy is forecast to decrease to 7.1 percent and 6.2 percent, respectively. As a result, investors in these locations should expect moderate rent growth averaging more than 1.5 percent in 2005. Owners of Class A properties are forecast to raise rents by as much as 1.2 percent, as demand is growing due to the recent improvements in the economy. Class B/C owners, in turn, will be able to raise rents by 1 percent, with stronger gains expected in the West Valley and Davis County submarkets.

Buyer demand in the Salt Lake apartment market will remain high in 2005 as investors continue to wager on the future expansion of both the job market and the population base to lower vacancies and raise rents. For-sale inventory will remain limited, however, especially in the eastern submarkets where the recently stabilized vacancy rate has resulted in most properties selling for a premium, generally above $50,000 per unit. This has helped to drive the overall median price in Salt Lake to more than $45,000 per unit, with Class A properties selling for as much as $80,000 per unit. Sales activity in 2005 will remain the highest in the southwestern submarkets, where new construction continues to offer buyers numerous choices.

- ▲ Rent Forecast: The continued decline in vacancy in the Class A market will lift average asking rents by 1.1 percent, to $662 per month, next year. The Midvale/Sandy and West Jordan submarkets will outperform, as the average rents in these areas are forecast to rise by as much as 2.8 percent, to more than $740 per month.
- ▲ Investment Forecast: In 2005, transaction velocity should remain moderate, but prices will continue to escalate as private owners from outside states continue to bring 1031-exchange dollars to the market. Class B/C properties with 40 to 200 units in the southwest submarkets will garner the most sales activity.

Asking Rent and Vacancy Trends

Job Opportunities Draw More Residents to Alamo City

Stability best describes San Antonio's apartment market, due primarily to the fact that vacancy never hit double digits during the most recent economic downturn, unlike other major Texas metro areas. The lack of a high concentration of technology-related firms spared the region mass layoffs during the past few years. In 2005, the Alamo City's economy will build on last year's gains, which will underpin the apartment market. Increased hiring activity at major employers, such as USAA and Toyota, will attract additional job seekers to the region. As a result, tenant demand will continue to outpace supply, particularly during the second half of 2005. Some owners of Class B properties are likely to report softening in absorption in the first half of the year as new Class A units enter the lease-up phase. Apartment operators in fast-growing submarkets, such as Central and South Central, are likely to benefit from long-term positive absorption trends as many renter households choose to live near major employment centers. Also, investors are expected to seek out upside opportunities near the University of Texas at San Antonio in northwest San Antonio, which is the third-largest campus in the University of Texas system. The university is expected to experience increased enrollment over next the few years.

San Antonio's relatively affordable prices, coupled with growing renter demand, will attract additional capital this year, particularly from investors based in more expensive markets. As a result, buyers are expected to bid prices higher in desirable neighborhoods, including Stone Oak and the medical center area. Many local owners will continue to take advantage of market conditions by paring portfolios of smaller or older communities and deploying the proceeds to larger Class A and Class B properties.

▲ Rent Forecast: The continued inflow of residents to the Alamo City is helping to strengthen renter demand. As a result, the average asking rent will rise by 2.1 percent in 2005, to $647 per month. In addition, many owners will limit concessions, providing an additional boost to NOIs.

▲ Investment Forecast: Investors are likely to search for properties in rejuvenating neighborhoods, such as King William Historic District and Terrill Hills, to capture higher returns. As more residents seek to live near work, shopping and entertainment venues, vacancy rates in these areas will decline, allowing for an increase in market rents.

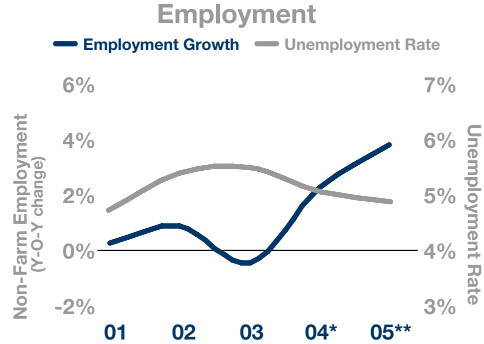
■ 2005 NAI Rank: 28. The affordability of housing and above-average vacancy rate place San Antonio at the 28th spot.

▲ Employment Forecast: After gaining approximately 16,000 jobs in 2004, local employers are expected to hire more than 27,000 workers by year-end 2005. The important hospitality industry will create 5,600 positions this year, with the majority likely to be at major attractions, such as the River Walk in downtown.

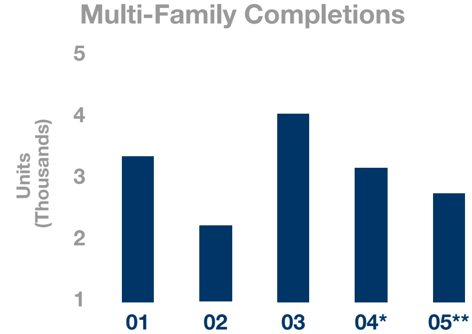
▲ Construction Forecast: Construction activity is expected to decrease 13 percent in 2005 as developers attempt to maintain equilibrium between supply and demand. Approximately 2,700 units are forecast to be delivered by year-end 2005, down from 3,100 units last year.

▲ Vacancy Forecast: The metro-area vacancy rate is forecast to drop 30 basis points, to 8.2 percent, in 2005. Increased hiring in key employment sectors, such as government, professional and business services, and trade and transportation will help boost renter demand.

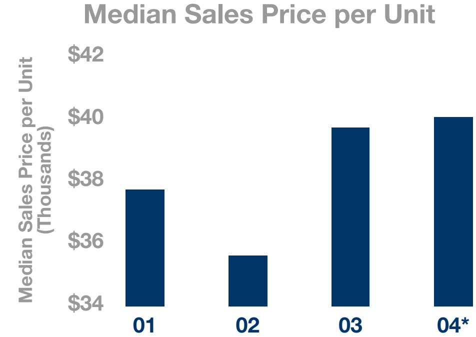
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

■ 2005 NAI Rank: 2, No Change. High barriers to entry, low vacancy and relatively strong rent growth led to San Diego's #2 rank.

▲ Employment Forecast: San Diego continues to post strong employment gains, and an increase of 35,700 jobs, or 2.8 percent, is forecast for 2005. Most new positions will be in the financial services sector, which will heighten demand for luxury apartment complexes.

▼ Construction Forecast: A slight increase in construction is expected, from 3,000 units last year to 3,100 units in 2005. Most construction will be in the Mission Valley and Downtown submarkets.

▲ Vacancy Forecast: Vacancy is forecast to decline by 30 basis points in 2005, to 3.2 percent. The Mission Bay/Pacific Beach submarket will post the lowest vacancy at 3.1 percent, while the North Beach and Clairemont submarkets will outperform with vacancy declining 120 basis points to 3.6 and 4.2 percent, respectively.

Asking Rent and Vacancy Trends

Institutional Dollars Return to San Diego Apartment Market

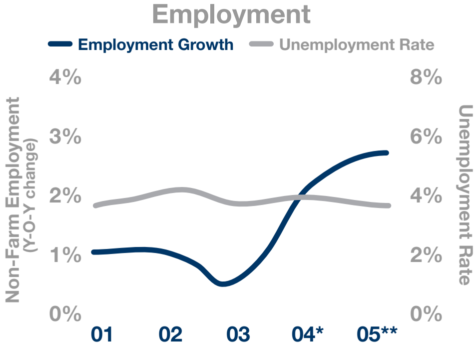
San Diego will remain one of the top-performing apartment markets in the western United States during 2005, as the improving job market, strong net in-migration and out-of-reach home prices drive vacancies down and rental rates up. With over 20,000 positions added, and the financial services sector leading the way, job growth in San Diego County out-paced most of the nation in 2004 and is primed for even stronger gains in 2005. Significant growth in the construction, and leisure and hospitality sectors is expected, providing steady income to the typically renter-oriented employees in these industries. As a result, vacancies and rents are forecast to improve, especially in the Class B/C market, where affordability remains a primary concern. Additionally, strong in-migration will further exacerbate the local affordable housing shortage, as only 10 percent of all San Diego residents can now afford the metro area's median home price of $580,000.

Investment activity in 2005 will remain strong across most submarkets as institutional investors re-enter the apartment market and small private investors continue to purchase at a rapid pace. Most activity will be focused on properties in the East and North County, where newer buildings with high unit counts have been constructed in the past several years. Properties with less than 50 units, however, will account for the majority of sales as declining vacancy and rising rents will keep demand for these buildings high despite rising mortgage rates and escalating prices. The University Heights submarket will remain the most active, as properties in this area generally have fewer than 20 units and sell for less than $5 million. Outside the central core, investors can expect South and East County to remain an affordable option, with median prices below the San Diego County average of $120,000 per unit. Several deals may still be found in North County, but condo conversions in areas such as Carlsbad and Oceanside have raised the median price to $130,000 per unit.

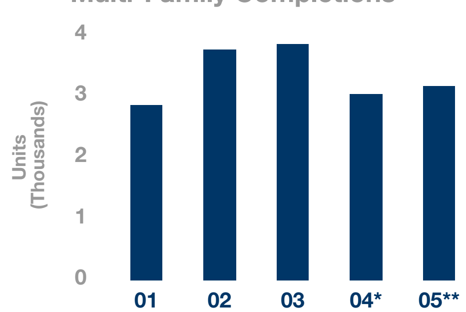
▲ Rent Forecast: Asking rents are expected to increase by 4 percent in 2005, to $1,212 per month. A similar gain is forecast for effective rents, which are expected to end the year at an average of $1,149 per month.

▲ Investment Forecast: All submarkets remain viable choices for investment in 2005, as upside potential is expected across all property types. Investors will likely look toward the city of El Cajon for the most affordable options.

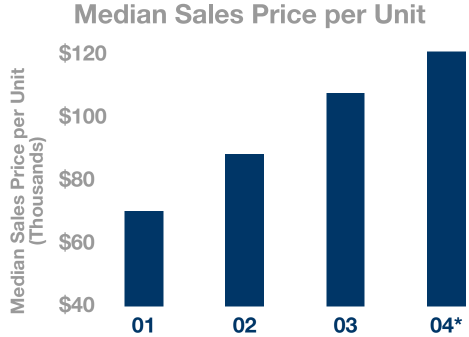
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

San Francisco

Asking Rent and Vacancy Trends

Investment Strong Despite Uphill Battle with Vacancies

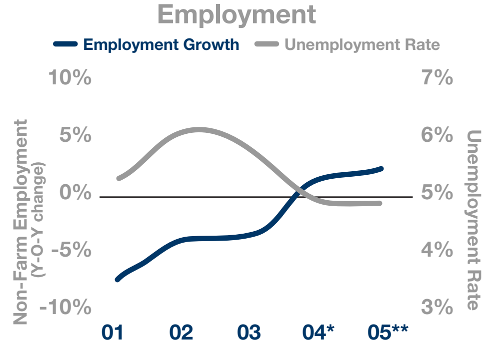
After a dramatic slowdown that resulted in modest downward pressure on sales prices a few years ago, the San Francisco apartment market has exhibited clear signs that investor demand is on the rise in spite of weakened market fundamentals. Modest employment growth has returned to the region, boosting net in-migration, which is a very positive sign following a 3 percent decline in population during the most recent economic downturn. As a result, fundamentals have finally stabilized, but a full recovery remains elusive. Good news for apartment owners can be found in the region's demographic trends. Almost 25 percent of San Francisco's population is in the 25- to 34-year-old age cohort, one of the segments most likely to rent, and nearly 60 percent of the area's residents live in non-family households. Entry-level employment growth in the financial services sector in 2005 is expected to fuel growth in renter household formation, undoubtedly benefiting property owners.

What is considered high vacancy by historical standards in San Francisco looks promising to investors from other regions. "High" vacancies of 6 percent are still below the national average, and while rents have fallen almost 25 percent since 2000, they remain 3 percent above 1999 levels and more than 50 percent above the national average. Apartment investors in San Francisco continue to be confident in the area's long-term prospects. Prices are rising and ended last year at more than $180,000 per unit. Further appreciation is expected in 2005 as strong demand for properties within the city continues to exert upward pressure. Properties comprised of six units or less will remain in highest demand and represent one of the few value-added opportunities in the city; however, investor appetites for assets of this type typically exceeds the available supply.

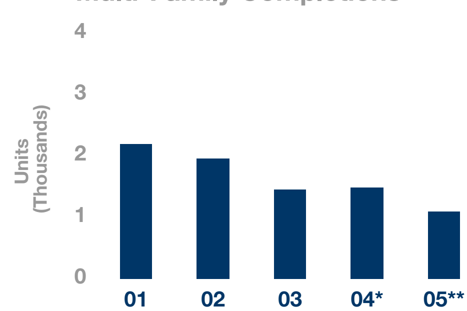
- ■ Rent Forecast: Asking rents will remain unchanged at $1,565 per month in 2005. Stabilizing occupancies, however, will enable apartment owners to trim concessions, thus raising effective rents 1 percent, to $1,543 per month.
- ▲ Investment Forecast: After three years of waning sales velocity, 2004 brought increased activity to the San Francisco apartment market. Further increases are forecast for 2005 as investors look to capitalize on still-favorable interest rates and an improving market. Transaction activity will be driven by smaller assets in the city that are priced at $3 million or less.

- ▼ 2005 NAI Rank: 12, Down 3 Places. San Francisco fell out of the top 10 due to forecasts for flat vacancy and average job growth.
- ▲ Employment Forecast: San Francisco employers will add almost 19,100 jobs, or 2 percent, in 2005 after employment grew 1.2 percent in 2004. Hiring in financial services and hospitality sectors are forecast to lead the local economy.
- ▲ Construction Forecast: In 2005, developers will bring 1,000 units online. Though down 30 percent from 2004, completions are still sufficient to keep vacancies from improving. Renewed interest in high-rise housing developments has resulted in several condo and rental projects planned for the city.
- ■ Vacancy Forecast: Vacancies will remain flat in 2005 at 6 percent. Further increases to vacancy will be prevented by more substantial job growth, which will draw residents back to the region. Marked improvement will be held at bay for at least another 12 months.

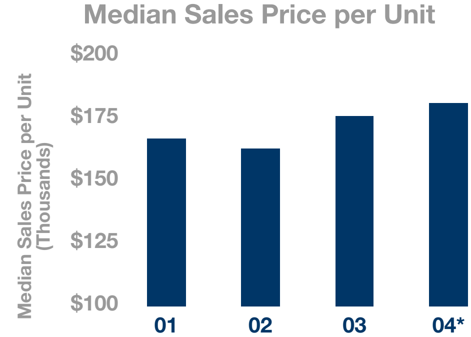
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

San Jose

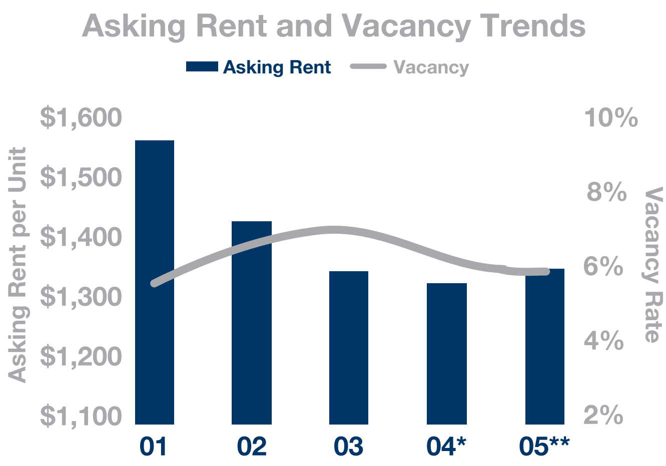
▲ 3 Places 2005 Rank: 22 2004 Rank: 25

▲ 2005 NAI Rank: 22, Up 3 Places. Unlike San Francisco and Oakland, San Jose is expected to register above-average job growth, pushing it up three places in the index.

▲ Employment Forecast: Employment in San Jose is on the rebound with over 21,000 jobs forecast to be added in 2005, a gain of 2.5 percent. Venture capital providers are emerging once again after an extended absence, which is welcome news to Silicon Valley technology and manufacturing firms.

▲ Construction Forecast: Apartment developers are forecast to pull back slightly in 2005, with 1,600 units scheduled for completion. Approximately 900 of these units broke ground in late 2004.

▲ Vacancy Forecast: Job growth and restrained development will strengthen demand in 2005 for the second year in a row. The vacancy rate is forecast to fall 50 basis points, to 5.9 percent, following a similar decline in 2004.



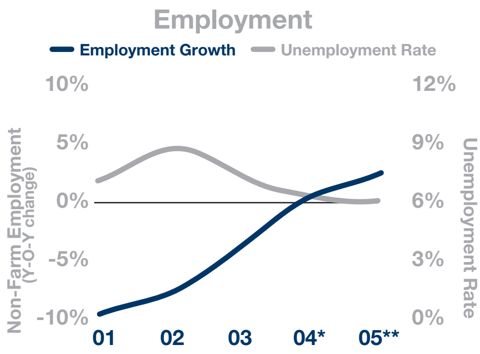
Investors Lured by Promise of Silicon Valley

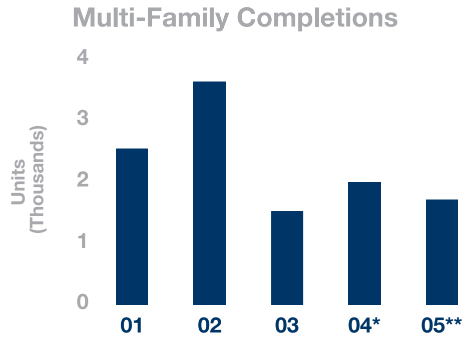
Investment activity continues to climb in the San Jose MSA, and investors have remained confident in the apartment market despite challenging operating conditions. There is only one Silicon Valley, and most believe that employment will eventually return to the region. Buyers have recognized that the positive long-term outlook far outweighs the area's immediate shortcomings. Modest job creation in 2004, coupled with a slowdown in construction activity were sufficient to allow for a reduction in vacancy and a mild cutback in concessions. The information services sector began its comeback in late 2004, but the manufacturing and professional services sectors have yet to rebound. Nevertheless, the apartment market has continued to perform well. As is the case throughout most of the Bay Area, the population is relatively young, and many are employed in high-paying professions, both positive influences on the rental market. In addition, high housing costs preclude most of this group from purchasing a home.

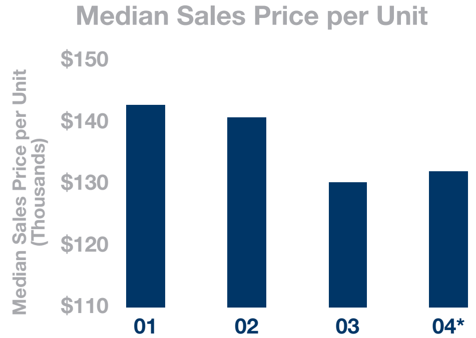
Investors seeking stability and long-term asset appreciation over immediate cash flow are looking to stable markets such as Palo Alto, where older, well-managed apartment properties comprise much of the city's high-priced inventory. Buyers interested in repositioning assets have their sights set on east and north San Jose, where future redevelopment will bring both light rail and BART service to the area. Properties in these locations often sell at prices less than the MSA's median per unit price of $132,000. While modest cash flow opportunities exist in Sunnyvale and Santa Clara, many investors are seeking properties in these stable areas for future returns and strong appreciation. When the economy begins to show more significant signs of recovery, however, these locations are expected to post the greatest rent increases, boosting future cash flows.

▲ Rent Forecast: Asking rents are forecast to climb 1.9 percent in 2005, to $1,335 per month, representing the first increase in four years. Effective rents are improving at a slightly quicker pace than asking rents.

▲ Investment Forecast: Depressed NOIs have not deterred investors, who are instead zeroing in on the opportunity for asset appreciation. Upside opportunities exist in Mountain View, as rents in this area have been hard hit, while vacancies are again beginning to fall.







* Estimate ** Forecast

Seattle

Asking Rent and Vacancy Trends

- ▲ 2005 NAI Rank: 18, Up 8 Places. Strong job growth and a high cost of living support Seattle's favorable outlook and its climb in the index.

- ▲ Employment Forecast: Puget Sound employers are forecast to add more than 39,700 jobs in 2005, a 2.9 percent gain. Microsoft recently announced plans to increase employment by 3,000 jobs at its headquarters in Redmond, and expand research and development spending by 4 percent in 2005.

- ▲ Construction Forecast: Developers will pull back for the third consecutive year in 2005, delivering 1,700 units, down 19 percent from 2004. The pipeline contains more than 7,000 units in various stages of planning. Most projects are located in central Seattle where many residents are priced out of homeownership.

- ▲ Vacancy Forecast: Above-average job growth and controlled construction in the apartment market will support a 40 basis point decline in vacancy, to 7.2 percent.

Puget Sound Apartment Market Staging a Comeback

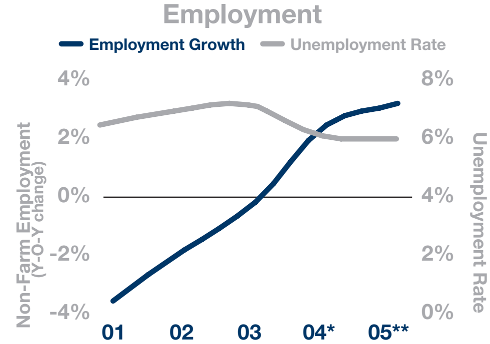
Improving economic conditions led to increased demand for rental housing in 2004, and we expect the market to register a more noticeable decrease in vacancy over the next 12 months. Net in-migration is projected to reach approximately 15,000 new residents. Historically, Seattle has been a magnet for young adults seeking technology and other computer-related jobs. This trend will resume as companies such as Microsoft and Amazon.com continue with strong investment in product development and marketing. The rate of growth in homeownership will diminish over the course of the year, as prices have escalated in response to low mortgage rates. More limited single-family housing affordability and an influx of young professionals will expand the marketwide renter pool considerably. The most stable areas for multi-family investment are submarkets in central Seattle, such as Ballard/Greenlake, Queen Anne/Magnolia and Downtown/Hills, where high-quality units, urban-living amenities and proximity to employment centers support tenant retention.

The Puget Sound region attained a record level of investment over the past year. The gain is due to a rising number of out-of-state buyers and growing institutional activity, as evidenced by an increase in sales of $5 million or more. Equity Residential, for example, closed three large-scale transactions in 2004, increasing its stake in Seattle by nearly 1,000 units. Strong investor demand has pushed cap rates down to the 6.5 percent range in the upper-end of the market. In addition, a rise in the number of investors with short-term strategies was noted, as many are seeking condominium conversion deals. In 2004, the median price per unit registered a 20 percent gain. A continuation of incremental increases in interest rates, however, will gradually roll back investment levels, as financing becomes more difficult, condos become less affordable and conversions less feasible. We therefore expect modest price appreciation in 2005, with valuations based more on revenue.

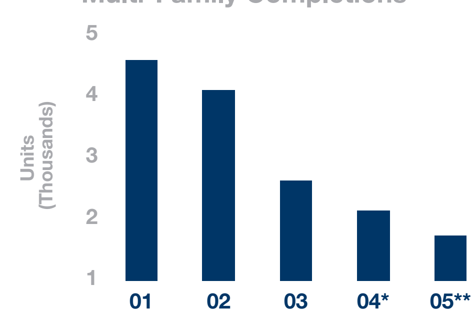
- ▲ Rent Forecast: Asking rents are forecast to climb 1.5 percent in 2005 to their pre-recession high of $830 per month. Effective rents, however, will be $771, with several submarkets offering up to one month free on a 12-month lease.

- ▼ Investment Forecast: A modest slowdown in activity is forecast for the Puget Sound apartment market in 2005, after record levels were posted in 2004. Buyers are increasingly more critical of underwriting, fearing increases in interest rates will arrive sooner than improving NOIs.

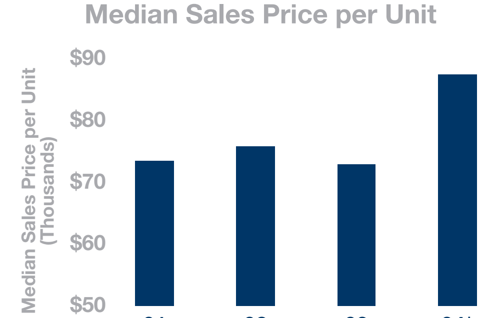
Employment



Multi-Family Completions



Median Sales Price per Unit



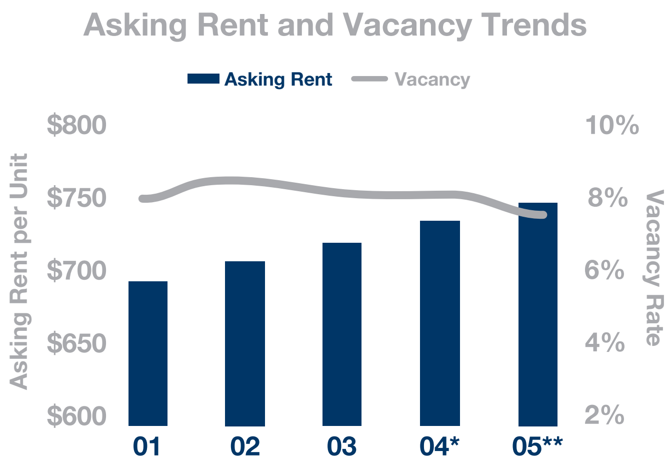
* Estimate ** Forecast

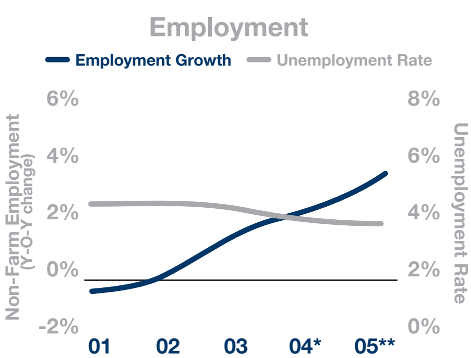
▲ 2005 NAI Rank: 19, Up 3 Places. Tampa's break into the top 20 is due to its high job growth forecast and a significant reduction in construction.

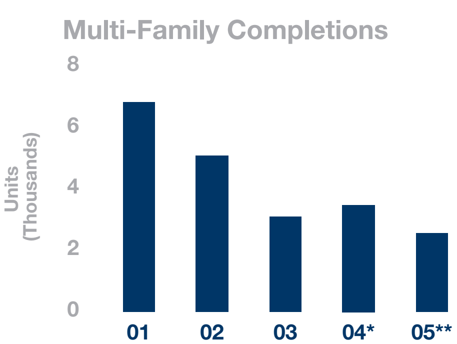
▲ Employment Forecast: Tampa employment is expected to rise by more than 44,000 positions in 2005, or 3.5 percent, up from approximately 28,000 new jobs in 2004. Continued growth in the area's financial services sector will lead the economy this year.

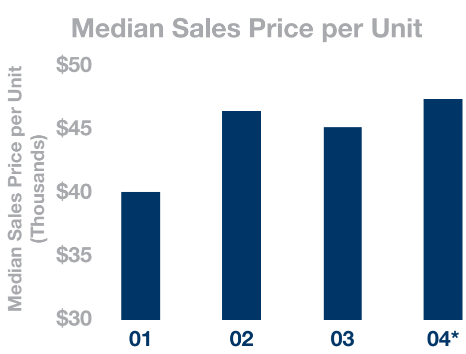
▲ Construction Forecast: Tampa developers will pull back significantly in 2005, delivering just 2,500 units, which is down 53 percent from the average over the past five years. Approximately 3,400 units came online in 2004.

▲ Vacancy Forecast: After remaining relatively flat since 2001, vacancy will decline in 2005 as a result of restrained development, increased job growth and rising home prices. The regionwide vacancy rate will improve 60 basis points in 2005, to 7.7 percent.









* Estimate ** Forecast

Construction Cutbacks Support Tampa Apartment Investment Market

A healthy economy and moderate population growth will fuel investor interest in Tampa apartments in 2005. The favorable tax structure and low cost of living in Tampa blend perfectly with the moderate climate, providing the opportunity for both young professionals and retirees to achieve a high-quality lifestyle. Population-driven employment sectors are expanding at a strong pace, particularly those that cater to the region's retiree population, such as health care and professional services. Tampa has also effectively established itself as a financial hub in Florida. As a result, the financial services sector has been growing at an average annual pace of 4.4 percent since 1994. Young professionals are increasingly looking to the employment possibilities of the Tampa Bay area, which is enhancing the renter demographic in the region. Older areas of downtown St. Petersburg and South Tampa are once again thriving as young professionals and recent college graduates, looking for the charm of older housing with the convenience of a central location, relocate to the region's two main business centers. As such, investors are finding repositioning opportunities, including renovating smaller, older properties by combining updated amenities with hardwood floors and crown molding.

Apartment developers have been stymied by rising impact fees and soaring land costs, allowing luxury condo developers to outbid builders of rental housing for land. Areas primarily dominated by older single-family homes and Class B apartment properties have become prime destinations for condo converters. While most conversions are still in water-oriented locations, low interest rates and strong buyer demand are now driving converters to purchase properties in non-waterfront and non-infill locations. Opportunities for conversions exist in areas of Pinellas County and in central portions of Hillsborough County.

▲ Rent Forecast: Rents will climb to record levels in 2005 as occupancies firm. Regionwide, asking rents will rise 1.8 percent, to $750 per month.

■ Investment Forecast: Sales activity will continue at a solid pace in 2005 as the comparative affordability of Tampa apartments continues to lure buyers from other locales. Opportunities exist for Class C properties in the highly transient areas of northeast Tampa, where per-unit prices can be as low as $30,000.

Asking Rent and Vacancy Trends

- ▼ 2005 NAI Rank: 16, Down 2 Places. Tucson remains in the top 20 but fell slightly due to greater improvement among peer markets.
- ▲ Employment Forecast: Metro-area companies are expected to add 9,900 jobs in 2005. The hospitality industry will create 2,200 positions this year, with many of the new hires expected to be prime renter candidates at complexes near the Catalina Foothills, where many of the city's resorts are located.
- ▼ Construction Forecast: Encouraged by strengthening apartment market fundamentals during the past two years, developers are planning to complete 350 units by year-end 2005, up from approximately 220 units in 2004.
- ▲ Vacancy Forecast: The MSA vacancy rate is forecast to decline by 60 basis points, to 6.9 percent, by year end. Owners in the fast-growing northwest metro area will report vacancy improvement thanks to a shrinking supply of affordable homes, thus keeping would-be first-time homebuyers in the renter pool.

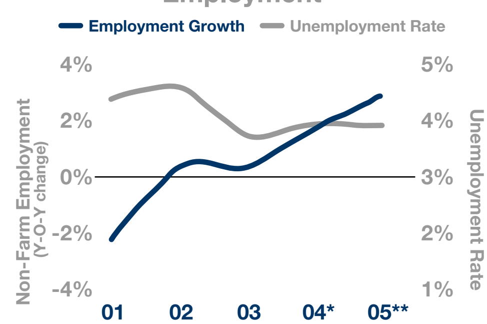
Tucson Apartment Market Shows Further Signs of Strengthening

The Tucson apartment market will remain a prime destination for out-of-state investors searching for higher yields than are obtainable in major Southwest and coastal markets. This buyer group comprised approximately 70 percent of the dollar volume during the past two years, and we expect this trend to continue over the next 12 to 24 months. Many are encouraged by the strong employment market, which will attract additional job seekers this year, providing a lift to tenant demand. The professional and business services sector will lead in job creation this year, which will help boost demand for apartments, particularly for luxury properties. Rising absorption of high-end units will be welcomed by not only Class A owners, but also Class B operators. Class A concessions will ease, which helps to keep Class B renters from upgrading to newer units. In addition, Class B owners will be able to ease concessions and begin to realize stronger NOI growth this year.

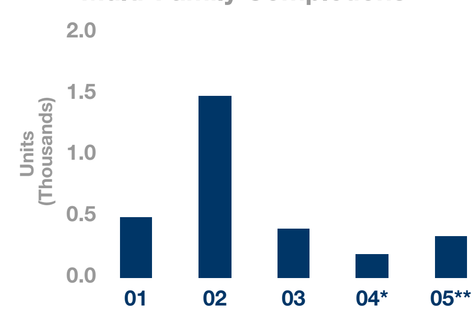
Fast-growing areas, including Marana and Sahuarita, are becoming increasingly more expensive and pricing many would-be first-time homebuyers out of the for-sale market. As a result, condominium converters are likely to begin searching the metro area for potential opportunities. Consequently, prices for high-end complexes in prime neighborhoods, such as the Catalina Foothills, are going to escalate. The majority of sales activity will be in areas of Tucson south of River Road toward Broadway Road. Buyers are able to secure properties for less than $1.5 million and capture NOI growth due to increased demand from students attending the University of Arizona and professionals working in nearby employment hubs such as downtown and the Tucson Mall.

- ▲ Rent Forecast: Tucson apartment owners are forecast to push the average asking rent up by 2.5 percent, to $585 per month, in 2005. Encouraged by rising demand, operators will be able to ease concessions, allowing for a 3 percent gain in effective rents, bringing the average to $553 per month.
- ▲ Investment Forecast: Investment activity will remain strong in 2005. First-time buyers are likely to focus on in-town submarkets, including Midtown and the Tucson Mall. These areas attract a multitude of renters, from college students to young professionals. As a result, prices will continue to climb over the next year.

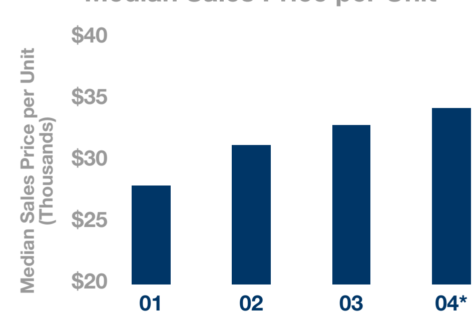
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

- ▲ 2005 NAI Rank: 6, Up 2 Places. Low and declining vacancy coupled with a solid job growth forecast and low housing affordability support Washington, D.C.'s rise in the index.

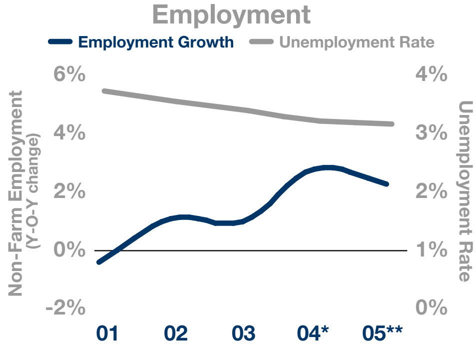
- ▲ Employment Forecast: Job growth will continue in 2005 as Washington, D.C., employers add 64,150 positions, a 2.2 percent growth rate. Bolstered by the election, the region added the most jobs in the nation in 2004.

- ▲ Construction Forecast: Developers are scheduled to bring 6,000 units online in 2005, after delivering over 7,700 units to the D.C. area in 2004. While institutional developers are continuing to deliver Class A product to the area, many of the properties once slated for apartments are now being finished as condominiums.

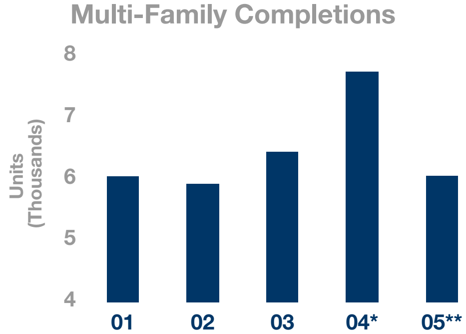
- ▲ Vacancy Forecast: After climbing slightly over the past four years, vacancies will improve as the effects of strong employment growth and subdued development are felt. The vacancy rate is forecast to fall 20 basis points in 2005, to 5.3 percent.

Asking Rent and Vacancy Trends

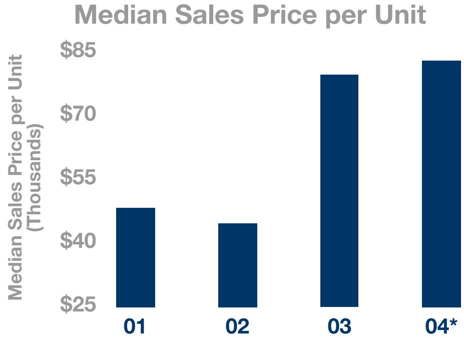
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

Job Growth to Drive D.C. Apartment Market

The Washington, D.C., economy has continued to expand despite the fiscal doldrums faced by the rest of the nation over the past few years. Vacancies have risen throughout much of the region, but have remained well below 6 percent, while asking rents have climbed almost 28 percent since 2000. Job growth in 2005 will be led by gains in industries driven by government outsourcing, with the most significant increases expected to be posted in the professional and business services sector. The region's strong concentration of employment in this high-paying sector will continue to benefit the District's submarkets, especially the affluent Logan Circle area, where many renters have migrated to homeownership. Additionally, professionals employed in these areas are usually transient, and chose to rent second residences within the city rather than uproot their families from the Virginia or Maryland suburbs. Speculative investors in search of repositioning opportunities might be interested in the proliferation of condo conversions within the District, where older, smaller assets are being renovated with upgraded unit amenities, and eventually sold off as individual condos.

The working-class areas of Anacostia and Deanwood might interest investors searching for higher returns, as properties in these areas often sell for above-average cap rates. Additionally, the region also boasts a long-term, family-oriented resident base, which has contributed to higher occupancies for properties consisting of mostly two- or three-bedroom units. Although these properties tend to be more management intensive, the median per-unit price remains under $40,000, substantially less than the regional average of approximately $84,000.

- ▲ Rent Forecast: Rent growth will continue at a solid pace in 2005 as occupancies begin to firm in the D.C. MSA. Asking rents in the area are forecast to climb 2.3 percent in 2005, to $1,179 per month. A similar gain is forecast for effective rents, which are expected to end 2005 at an average of $1,116.

- ▲ Investment Forecast: Investment activity will remain robust throughout 2005 as strong job growth and sound fundamentals lure investors to the region. Properties in the northwest quadrant could interest buyers in search of turn-key type properties. The area traditionally has strong occupancy and a less transient tenant base than is typically seen in area apartments.

Asking Rent and Vacancy Trends

West Palm Beach Investors Look Past Short-Term Vacancy Issues

Investors have maintained their interest in West Palm Beach despite weakened fundamentals, but 2005 will mark the onset of a turnaround. The vacancy rate has risen each year since 2000, but is forecast to decline this year. Monthly asking rents also climbed over this period, but so too have concessions, though this trend now appears to be slowly reversing. While condominium converters often set the tempo in the market and push up prices with aggressive bidding, apartment operators have not been completely excluded from the deal flow. West Palm Beach is a market sustained by strong job creation and consistent in-migration, and experienced operators have invested in the area's compelling growth story. Investors may have to endure soft market fundamentals in the early part of 2005, but there is upside opportunity in the quarters and years ahead.

The West Palm Beach market is relatively small, with only 66,000 units, and even a minor spike in renter demand could significantly reduce vacancy, which would permit owners to achieve rent growth above expectations. The population is expected to grow 2.1 percent annually through 2008, and in 2005 alone, the number of new jobs expected to be created is more than three times the forecast number of vacant units. Additionally, in years past, many new residents were able to purchase single-family homes, but in 2004, the median price of a single-family residence was 5.5 times greater than the median household income, up from 3.4 times in 2001. As the affordability gap widens, more new arrivals will be forced to select rental housing, which will benefit local apartment owners.

- ▲ Rent Forecast: Asking rents in the West Palm Beach area will rise 1.5 percent in 2005, to $1,002 per month. Effective rents will run 7 percent below asking rates, an improvement from 2004, as owners begin to ease concessions.

- ▲ Investment Forecast: Even before the hurricanes struck, 2004 transaction velocity in West Palm Beach had slowed from 2003, which was an exceptional year. Condo converters are active, helping to drive the median price per unit up 14.8 percent over the past year, to $68,900. Outbid in the close-in submarkets by condo converters, long-time apartment operators are increasingly seeking opportunities in often-overlooked North Palm Beach County and points farther north.

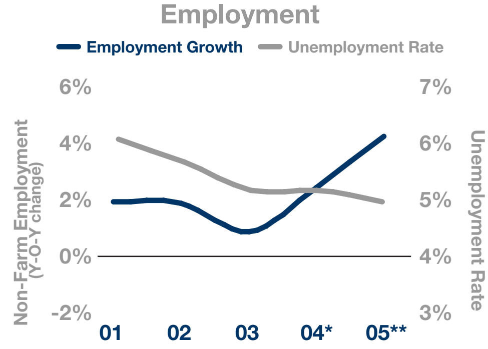
- ▲ 2005 NAI Rank: 14, Up 4 Places. A substantial decrease in vacancy and high levels of job creation pushed West Palm Beach up in the NAI.

- ▲ Employment Forecast: West Palm Beach continues to be one of the leading metros in the nation for job growth. Total employment will rise 4.3 percent in 2005, including a 7 percent gain in the professional and business services sector. Nearly 23,400 jobs will be added in 2005, a level certain to boost renter demand.

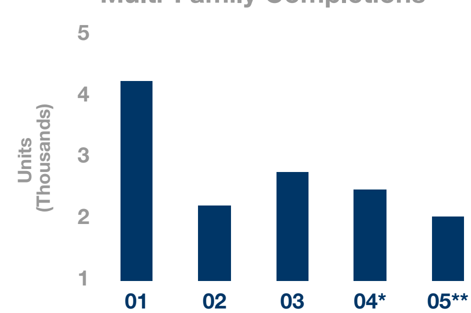
- ▲ Construction Forecast: Approximately 2,000 units will be completed in 2005, down from 2,450 units in 2004. The focus of multi-family construction has shifted to condos, as more than 15,000 are planned, compared to only 4,400 rentals.

- ▲ Vacancy Forecast: Vacancy has increased each year since 2000, as completions have outpaced demand by nearly two-to-one. In 2005, the vacancy rate will decrease 80 basis points, to 9.2 percent, as population and job growth spur demand. Condominiums will siphon some prospective renters, however.

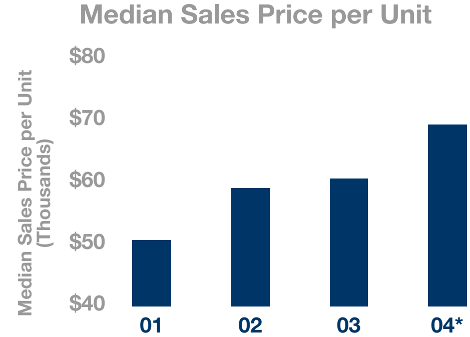
Employment



Multi-Family Completions



Median Sales Price per Unit



* Estimate ** Forecast

National Multi Housing Group

NMHG

Marcus & Millichap's National Multi Housing Group (NMHG) is comprised of experienced and qualified multi-family investment professionals who provide advisory and transaction services across the country. This national team of multi-family experts provides private investors, institutions, investment advisors and developers with custom disposition, acquisition and market analysis capabilities through a highly managed process.

Turning Expertise into Investor Value

Setting the Standard for Market and Asset Analysis

- The foundation of our ability to create investor value is our approach to analyzing multi-family properties and markets. From thorough submarket research, including detailed inspection of competing assets and forecasting supply/demand trends, to comprehensive analysis of income and expenses, every factor is examined to compile a credible assessment of the investment's current and future value.

Integrating Research, Marketing and Transaction Expertise

- Our NMHG professionals work with clients to formulate the right marketing strategy and execute each transaction with maximum efficiency and confidence. The combination of our specialized research, financial analysis and marketing experience has resulted in an impressive list of satisfied clients and a large volume of repeat business.

Unprecedented Marketing Capacity; Tightly Coordinated Process

- For each assignment, a team of qualified multi-family specialists is formed by the NMHG based on the specific objectives of the client and project. A custom marketing strategy is then designed to assure the proper exposure, investor targeting and control.

Unparalleled Access to Private and Institutional Investors

- Our NMHG management and multi-family professionals are in constant communication with institutional investors as well as high-net worth individuals, syndicators and developers. Our 33-year history of maintaining personal relationships with a diverse base of investors creates the most effective exposure to the right investors. The result is maximum value through a reliable and timely process.

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Multi-Family Research Services

Marcus & Millichap's Research Services group utilizes a two-tiered approach of combining local market research with national economic and real estate analysis to develop premier research services for real estate investors. Marcus & Millichap's research capabilities are customized by property type to service the unique needs of owners and investors in various property sectors. Market reports are produced on a regular basis in addition to specific submarket and area analysis to support clients' investment decisions.

Fact-Based Investment Strategies

Multi-Family Demand Analysis

- Extensive demographic analyses are performed, including studies of population, age, employment, education, income and traffic volume. Housing affordability, household formation and housing value trends are tracked and analyzed for their impact on renter demand. Customized maps and reports are produced for submarket and property comparisons.
- Comprehensive economic analyses and forecasts are produced based on data provided by respected private, academic and government sources. Indicators, such as job formation, growth by industry, major employers and income trends, are constantly monitored.

Multi-Family Property Analysis

- Marcus & Millichap Research routinely updates and analyzes rents, vacancies, sales and construction activity nationally.

Financial Analysis

- Our team works closely with clients to create financial analysis scenarios supporting acquisition, disposition and pricing strategies.

Customized Research and Consulting Services

- In addition to multi-family publications and reports, we provide customized market studies, property and portfolio analysis and development feasibility studies. These services are designed to help clients formulate strategies ranging from acquisitions and dispositions to maximizing returns during the hold period.

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Research

MMCC

Marcus & Millichap Capital Corporation

Marcus & Millichap Capital Corporation (MMCC) provides owners and investors access to the most competitive real estate financing through prominent national and regional lenders. Our network of experienced and dedicated finance professionals assures that each refinance, acquisition or development financing receives the ideal rate and terms available in the marketplace. Each transaction is executed through a reliable and closely managed process.

Experience, Relationships Produce Optimum Financing

Specialized Financing Expertise

- Our national team of finance professionals has specialized experience in providing financing for a full range of investment property types. Our goal is to secure the most competitive financing in both loan terms and proceeds by leveraging our expertise in local real estate markets as well as the national capital markets.

Proactive Loan Package Design

- Our financing experts optimize the loan package, structure and terms based on the specific needs and objectives of the client. From the application process to lender selection and managing the funding, we use a proactive approach to simplify the entire process for the client.
- The track record and market knowledge of our representatives play a critical role in designing the right loan package up front. Each transaction is positioned to achieve the best financing before the application process begins. Based on the latest local real estate market conditions, we produce a detailed assessment of the subject property and current capital market conditions.

A Broad Selection of Lender Relationships

- Through our long-term relationships with well-established and respected lenders, our professionals are able to secure the right financing, with the most attractive rates and terms, for each transaction.
- Reliability and the ability to deliver the ideal financing package on time are key aspects of our lender selection, which includes commercial banks, securitized lenders, Fannie Mae, Freddie Mac, life insurance companies and other capital sources. Only lenders with a proven history of execution are chosen on behalf of our clients.

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Statistical Summary Note: Employment growth is calculated on a year-over-year basis. Vacancy and annual asking rent are year-end figures. Annual asking rents exclude concessions. Median prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole.

Note: Averages may be based on all property classes or Class A and B only in some markets. Geographic market boundaries, survey samples, methodologies and data may change, affecting historical reporting basis and comparability with past reports or analyses. In the event of a basis change, historical data is recalculated. If you have any questions regarding historical series or methodology, please contact Erica L. Linn at (602) 952-9669. The information contained in this report is deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, expressed or implied, may be made as to the accuracy or reliability of the information contained herein.

Sources: Marcus & Millichap Research Services, ALN Systems, Inc., American Council of Life Insurers, Austin Investor Interests, Blue Chip Economic Indicators, California Association of Realtors, California Employment Development Department, Colorado Department of Labor, Costar Group, Inc., Dupre + Scott Apartment Advisors, Inc., Economy.com, Monarch Data, Morgan Stanley, National Association of Realtors, National Council of Real Estate Investment Fiduciaries, National Real Estate Index, O'Connor and Associates, Oregon Department of Labor, Property & Portfolio Research (PPR), Real Data, Real Estate Center at Texas A&M University, RealFacts, Reis, The Conference Board, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Securities and Exchange Commission.

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