To our valued clients:

The U.S. economy showed resiliency into the second half of 2008, including below-trend job losses and consumer strength, despite multiple headwinds. These encouraging signs have given way to rapidly rising job losses and a serious recession, due largely to the escalating global financial crisis. Government intervention, seemingly one step behind throughout this crisis, will eventually help stabilize the system and re-establish capital flows and confidence. This process will take time and may require a sizable stimulus package aimed at creating new jobs and limiting further declines in the housing market.

Additional shocks, potentially related to oil supplies, unwinding of credit swaps and troubled assets, along with the fate of the U.S. auto industry, still pose risks. Notwithstanding these forces, the housing market should reach bottom this year, setting the foundation for the start of an economic recovery in 2010.

Apartment fundamentals have been the most stable of any property sector throughout the downturn. The exceptions are metro areas with large supply imbalances. Excess housing supply, in tandem with another year of job losses, will further exacerbate rising vacancies and falling rents in these markets. Meanwhile, supply-constrained markets with solid economic drivers during the past few years entered the downturn with low vacancy and are well positioned to weather the economic storm. The return of millions of households to the rental market after temporary homeownership, the emergence of echo-boomer renters and a significant drop in new supply pipelines will ultimately lead to several years of strong rent growth. The challenge will be getting through 2009, which will require exceptional tenant retention, aggressive marketing at the property level and an unwavering focus on operations.

Despite a major drop in sales activity from the peak, apartment properties are trading and being financed, thanks largely to agency lenders and still-active local and regional commercial banks. The current apartment transaction climate, defined by various degrees of price declines, should be distinguished from the sector's long-term intrinsic value. Properties that must be sold in today's environment clearly require discounting to clear the market. On the other hand, owners without a compelling need for an immediate sale, the majority of whom report healthy operations, are positioned to hang on through the downturn. More than ever, a fresh look at each property's hold, refinance or sell strategy is warranted, given the recent market volatility. There will be increased buying opportunities and distressed assets, more than any time in recent history, but investors should not generalize the overall condition of the apartment market as distressed.

To assist you in planning a successful strategy, we are pleased to present our 2009 National Apartment Report. We trust you will find this report helpful in formulating and executing your investment strategies, and our investment professionals look forward to assisting you in meeting your goals.

Sincerely,

Harvey E. Green
President and
Chief Executive Officer

Hessam Nadji
Managing Director
Research Services

2009 National Apartment Report

NATIONAL PERSPECTIVE

MARKET OVERVIEWS

CLIENT SERVICES

Written by Peter O'Neil, National Publications Manager, and Erica Linn, Senior Analyst, and edited by Hessam Nadji, Managing Director. The Capital Markets section was co-authored by William E. Hughes, Managing Director, Marcus & Millichap Capital Corporation. Additional contributions were made by Marcus & Millichap market analysts and investment brokerage professionals nationwide.

Executive Summary

National Apartment Index

- San Francisco retained the top position in this year's National Apartment Index (NAI), supported by the strongest effective rent growth in the ranking. San Diego climbed six places to #2 due to the lowest vacancy rate of the markets covered.
- Metro areas with high barriers to apartment construction and low home affordability continue to fare well in the NAI, even as home prices have fallen. Oakland (#6), San Jose (#7), Orange County (#8) and New York City (#9) all rank near the top of the index because of their high propensity to capture renters, despite forecast job losses.
- Economic volatility is reflected in the NAI, as markets that consistently fared well during the housing boom, such as Las Vegas (#16) and Phoenix (#31), have fallen. Many stable Midwestern markets, on the other hand, including Minneapolis-St. Paul (#15) and Milwaukee (#20), posted the most significant moves up in the index.

National Economy

- The economy withstood the housing and capital markets shakeup through much of 2008, but the deterioration of the financial markets and deep job cuts anticipated for the fourth quarter elevated the turmoil into a more severe economic crisis. Government intervention has reached unprecedented levels and will likely result in another stimulus package, however, the impact of the measures will take time to filter through the economy.
- GDP is forecast to decline by an annualized 2.5 percent to 3.0 percent from peak to trough, the most significant recession since the early 1980s. While the housing market is expected to bottom and financial markets should stabilize by midyear, downside risks are present, including looming concerns for the auto industry.
- Total nonfarm employment is forecast to contract by 1.5 million jobs, or 1.1 percent, in 2009, though reductions will be concentrated in the first half of the year. In 2008, net job losses totaled 2.3 million positions.

National Apartment Market Overview

- Despite some weakness, apartments will register the healthiest fundamentals among major commercial property sectors. The U.S. homeownership rate rose from 66 percent in the late 1990s to more than 69 percent in late 2004. Since 2005, the rate has declined to less than 68 percent, or by 2.6 million households, most of whom are likely renters.
- The national apartment vacancy rate is forecast to increase 100 basis points in 2009 to 7.7 percent due to job losses and competition from shadow rentals.
- Average effective rents nationally will be flat in 2009, while asking rent growth is expected to reach 1.7 percent. Rent trends will vary greatly at the metro level, with owners in the hardest-hit housing markets reducing rents and offering significant concessions to attract and retain renters.

Capital Markets

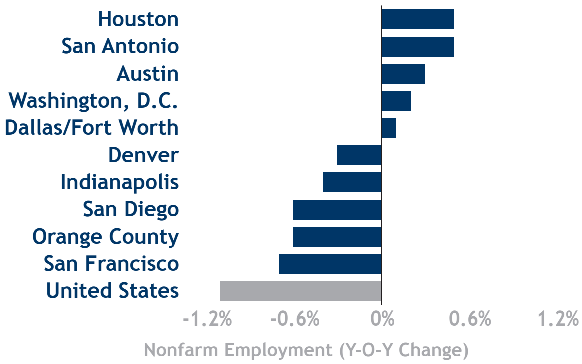
- While financing for commercial real estate has been more difficult to obtain, the apartment market has been supported by Fannie Mae and Freddie Mac. Low delinquency in the agencies' multi-family portfolios has enabled them to remain active, despite being seized by the Treasury after recording heavy losses associated with their single-family loans.
- The government has moved from one-off solutions to attempts at a systemic fix through the issuance of unprecedented amounts of credit to the banking and securities industries and the purchases of equity stakes in financial institutions. The benefits of these actions have yet to trickle through the system, and credit will likely remain tight.
- Investors should expect debt-service coverage ratios in the 1.25 to 1.30 range this year, which is well above the average in recent years but closer to historical norms. Loan-to-values have declined significantly over the past 18 months to approximately 60 percent to 70 percent, reflecting greater lender caution.

Investment Outlook

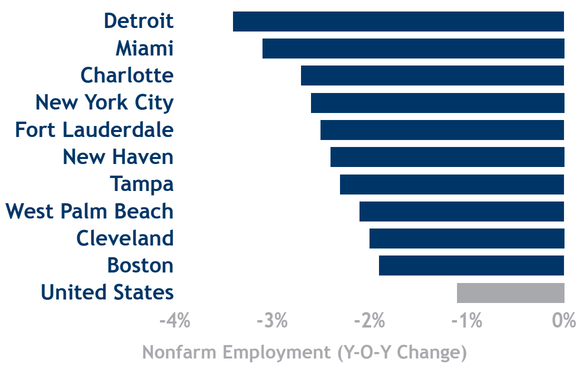
- Tightened lending standards and a pricing disconnect between buyers and sellers are hampering sales activity. In 2008, sales volume was down nearly 50 percent from year-earlier levels.
- The apartment investment market has been bifurcated by the current transactional climate. Properties that have to be sold require discounting, while a long-term outlook supports apartment values due to strong fundamentals. Price adjustments will continue to be driven by property quality and market.
- More than half of the commercial property transactions over the past year have involved assumable or seller financing. Buyers will continue to be attracted to these opportunities but still have to meet tighter lending qualifications.

National Apartment Index

Markets with the Highest Expected 2009 Employment Growth



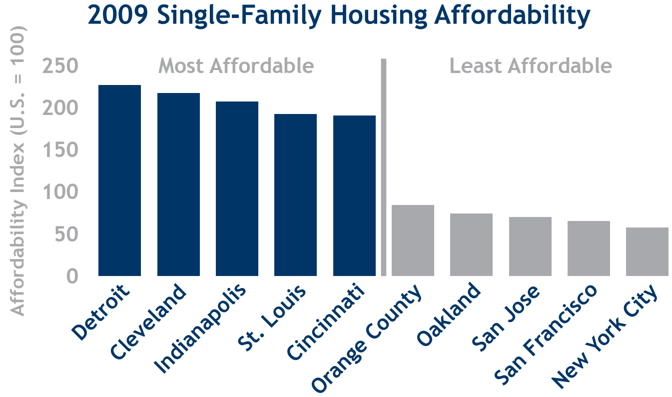
Markets with the Greatest Expected 2009 Employment Losses



Markets with the Highest Expected 2009 Vacancy Rates

Markets with the Lowest Expected 2009 Vacancy Rates

2009 Single-Family Housing Affordability



2009 National Apartment Index

Marcus & Millichap is pleased to present the 2009 edition of the National Apartment Index (NAI). The NAI is a snapshot analysis that ranks 43 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 forecast employment change, vacancy, construction, housing affordability and rents. Taking into account both the predicted level and degree of change over the forecast period, the index is designed to indicate relative supply and demand conditions at the market level.

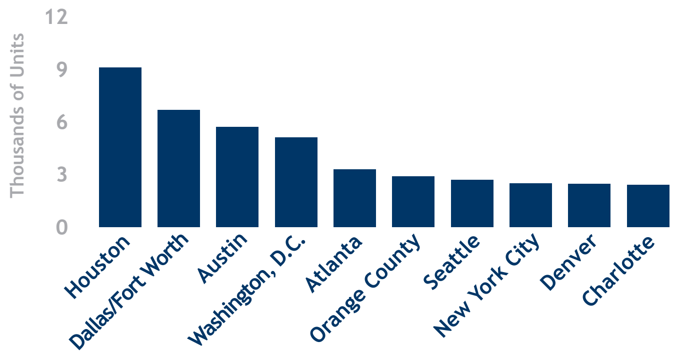
Users of the index are cautioned to keep a few important points in mind. First, the NAI is not designed to predict the performance of individual investments. A carefully chosen investment in the bottom-ranked apartment market could easily outperform a poor choice in the top-ranked market. Second, the apartment index is geared toward a short-term time horizon. Third, a market's ranking in the index can improve from one year to the next, even if its fundamentals are weakening. This is especially evident during shifts in the real estate cycle. For example, a number of markets that rose in the index will record modest vacancy increases this year, but the forecast vacancy rate in many of these areas remains well below the national average.

It is also important to note that because the NAI is an ordinal index, differences in specific rankings should not be misinterpreted. For example, the top-ranked market in the index is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

Supply Constraints and Low Affordability Drive Strongest Markets; Excess Housing and Job Losses Hit Weakest Regions

Apartment fundamentals have held up well in most markets, but the current economic weakness is causing some strain, particularly in Sunbelt areas that outperformed during the housing boom. Threats are present in a number of metro areas, as payrolls are being trimmed and single-family homes and condos are competing with apartment properties for renters. Many of the top 10 markets in our index are those where housing affordability remains a challenge and supply constraints are most significant. With only a handful of metros forecast to add jobs in 2009, oversupply threats have become a more pressing concern. As such, markets where apartment construction has been modest in recent years are expected to fare well during the downturn.

Markets with the Highest Expected 2009 Completions



San Francisco Retains the Top Spot; Midwestern Markets Move Higher

San Francisco claimed the top spot of the NAI for the second consecutive year. While the metro area's large concentration of professional and financial firms is expected to result in job cuts, San Francisco ranked near the top in nearly all of the other measurements used in the index. San Diego climbed six places to take over the #2 position in this year's ranking. Throughout 2009, owners in the market will leverage tight conditions and still-low housing affordability to implement above-average effective rent growth. Washington, D.C., moved up six places to #3, as the government will continue to add workers and apartment construction is slowing. Los Angeles checks in at #4 this year; developers in the market are responding to limited household formation by easing deliveries, allowing vacancy to remain fairly healthy and supporting modest rent growth. Despite job cuts by prominent local employers, rent growth will continue in the Puget Sound region, and Seattle claimed the #5 spot in the NAI.

A sluggish housing market caused Oakland (#6) to drop one place, but the East Bay remains in the top 10 due to relatively low vacancy and above-average rent gains. San Jose fell three spots in the ranking to #7. The metro area is expected to shed jobs again in 2009, but apartment construction will be minimal, which will limit the rise in vacancy. Orange County dropped one position to #8 in this year's index. Layoffs in the local mortgage industry have largely run their course, and we expect the metro to record healthy apartment operating fundamentals. Vacancy in New York City (#9) will increase due to deep cuts in investment-related job sectors, but the market will remain one of the tightest in the country. Portland stayed in the #10 spot based on healthy expected household growth.

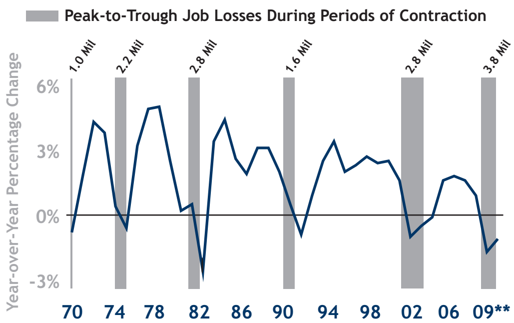
Several Midwestern markets rose in the ranking due to their relative stability as other metro areas weaken. Minneapolis-St. Paul (#15) and Milwaukee (#20) will record net job losses in 2009, but household formation is largely keeping pace with deliveries, allowing vacancy to remain fairly tight. These markets each rose 14 places in the index. Additionally, apartment performance in Cleveland (#27) and Detroit (#36) will be fairly steady during the next 12 months, as construction is limited and residents are hesitant or unable to purchase homes. The long-term outlook, however, remains uncertain in both metros.

All four Texas markets are expected to record job growth again in 2009, but the metros posted mixed results in the NAI. Houston (#29) and San Antonio (#23) are forecast to post the strongest job gains this year, rising a respective six and nine places. In Austin (#22) and Dallas/Fort Worth (#26), growth will be more modest and oversupply remains a concern; Austin held its spot and Dallas/Fort Worth fell three places.

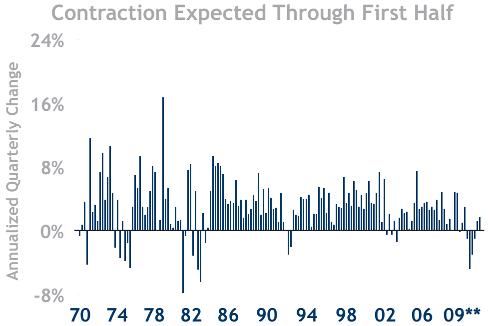
MSA	Rank 2009	Rank 2008[1]	08-09 Change
San Francisco	1	1	■ 0
San Diego	2	8	▲ 6
Washington, D.C.	3	9	▲ 6
Los Angeles	4	6	▲ 2
Seattle	5	2	▼ 3
Oakland	6	5	▼ 1
San Jose	7	4	▼ 3
Orange County	8	7	▼ 1
New York City	9	3	▼ 6
Portland	10	10	■ 0
Denver	11	13	▲ 2
Philadelphia	12	21	▲ 9
Chicago	13	11	▼ 2
New Jersey	14	New	■ NA
Minneapolis-St. Paul	15	29	▲ 14
Las Vegas	16	14	▼ 2
Riverside-San Bernardino	17	16	▼ 1
Salt Lake City	18	17	▼ 1
Miami	19	18	▼ 1
Milwaukee	20	34	▲ 14
Sacramento	21	25	▲ 4
Austin	22	22	■ 0
San Antonio	23	32	▲ 9
Boston	24	12	▼ 12
Fort Lauderdale	25	15	▼ 10
Dallas/Fort Worth	26	23	▼ 3
Cleveland	27	37	▲ 10
Columbus	28	38	▲ 10
Houston	29	35	▲ 6
Indianapolis	30	31	▲ 1
Phoenix	31	19	▼ 12
Orlando	32	26	▼ 6
Tucson	33	20	▼ 13
Cincinnati	34	41	▲ 7
New Haven	35	39	▲ 4
Detroit	36	42	▲ 6
Atlanta	37	28	▼ 9
Jacksonville	38	30	▼ 8
West Palm Beach	39	24	▼ 15
St. Louis	40	40	■ 0
Tampa	41	27	▼ 14
Kansas City	42	33	▼ 9
Charlotte	43	36	▼ 7

[1] See National Apartment Index Note on page 59.

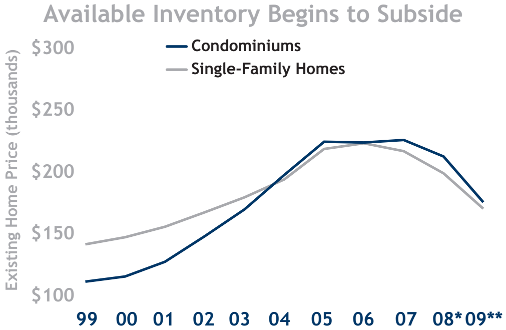
U.S. Nonfarm Employment



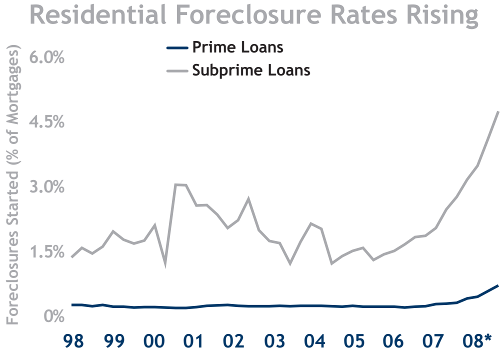
U.S. Gross Domestic Product
Contraction Expected Through First Half



Home Price Correction to Continue Until Available Inventory Begins to Subside



Residential Foreclosure Rates Rising



* Estimate ** Forecast

Recession Deepens; Global Stimuli to Support Modest Expansion in 2010

The resiliency demonstrated by the U.S. economy through the first half of 2008, particularly below-trend job losses, turned into a serious recession as the downturn escalated into a global financial crisis. Elevated job reductions are likely to dominate headlines for several months, with total losses considerably higher than during the dot-com bust and 9/11 tragedies. Similar to other periods of shock, concerns regarding additional risk — from falling consumption to the uncertain impact of the auto industry troubles — dominate the general economic psyche.

Clearly, there are reasons for concern; however, a number of factors should also be considered that could mitigate the depth of the recession, barring exceptional surprises. Domestic payrolls entered the downturn lean, having grown at the slowest rate of any expansion period since 1954. Government intervention, while choppy and uncertain in some respects, has become unprecedented in the U.S. and abroad and will likely be expanded with another sizable stimulus package this year. Confidence is yet to be restored, and the financial system is a long way from operating normally, but early signs point to a gradual improvement. Significant foreclosures and high for-sale inventories have driven home prices down by an average of 10 percent nationally and as much as 35 percent in some markets, sparking a modest rise in sales activity. A bottoming of the housing sector by midyear, as expected in most metro areas, and improving credit markets should begin to stabilize the economy and set the stage for a recovery beginning in 2010.

2009 National Economic Outlook

- **Economy Expected to Stabilize in the Second Half, but Significant Risks Remain.** GDP began to contract in the third quarter of 2008 and is forecast to decline by an annualized 2.5 percent to 3.0 percent from peak to trough, the most significant downturn since the early 1980s. The risks are clearly to the downside with the uncertainty affecting the automobile industry a primary concern.

- **Further Job Reductions Expected in 2009.** Total nonfarm employment is forecast to contract by 1.5 million jobs, or 1.1 percent, in 2009. Job losses will outpace cuts during the last recession due to the broader nature of the current downturn.

- **Unemployment to Rise Further.** The unemployment rate is expected to reach 8.0 percent to 8.5 percent in 2009. Rising unemployment often leads to more modest household formation in the younger age cohorts, as many renters double up or move back with their parents to conserve cash.

- **Price Pressures Easing Considerably; Deflation Now a Concern.** Oil prices have fallen more than 60 percent from their peak, and wage pressures have declined dramatically. The headline rate of inflation is forecast to drop to 1 percent this year, the lowest annual change since the early 1960s. Avoiding deflation will be a primary focus for the Fed in the short term, shifting quickly to the inflationary effects of stimuli once the economy recovers.

- **More Homeowners Underwater.** An estimated 12 million homeowners owe more on their mortgages than their homes are worth in today's market. As a result, some homeowners have begun to walk away from their mortgages, resulting in escalating foreclosure activity and putting downward pressure on pricing.

Apartment Fundamentals Showing Cracks; Markets Diverging

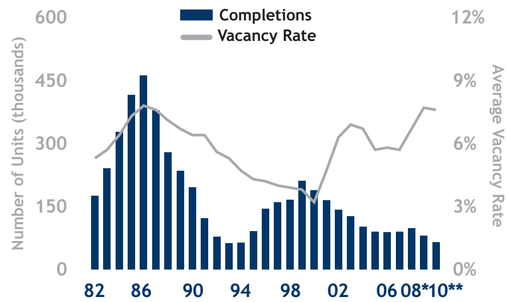
The national apartment market fared well throughout the downturn in 2008; however, accelerating job losses will translate into higher vacancies. The return of failed conversion projects to rental inventory and ground-up condo development, along with for-rent homes, will remain a source of competition for multi-family owners, particularly in the Class A segment. The performance gap among metros is widening rapidly. The recession in overbuilt markets such as Las Vegas, Phoenix, Riverside-San Bernardino and most of Florida will make 2009 a tough year. Healthier markets such as San Francisco, Los Angeles and New York City will also see rising vacancies due to job losses but are better-positioned to get through the downturn. In most metros, Class B/C properties will be the least affected by the economic downturn, as many households will continue to be forced to seek more affordable housing options. Fundamentals in the pricier Class A segment have been disproportionately impacted by eroding household credit quality, which has made it difficult for many renters to qualify for high-end units.

Economic and demographic trends support a positive long-term outlook for apartments beyond 2009. In stark contrast to just a few years ago, mortgage underwriting standards are tight and first-time homebuyer programs are scarce, reducing attrition from the renter pool. Even higher-quality borrowers are facing tougher mortgage standards, with approximately 70 percent of banks tightening requirements for prime mortgages in recent quarters. At the same time, echo boomers — totaling roughly 70 million U.S. residents — are entering their prime renting years, a trend that will continue over the next five to 10 years. On the supply side, construction starts are declining rapidly for all types of residential units, which should translate into a quick recovery for apartment vacancy and rents once economic expansion and job growth return. On average, new supply as a percentage of existing apartment inventory is forecast to reach just 0.7 percent annually through 2010, down considerably from the late 1990s and early 2000s.

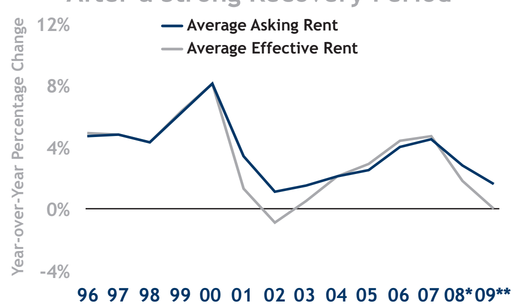
2009 National Apartment Market Outlook

- **Homeownership Rates Declining.** The U.S. homeownership rate soared from around 66 percent in the late 1990s to more than 69 percent in late 2004. Since 2005, however, the rate has declined to less than 68 percent, resulting in an additional 2.6 million renter households.
- **Developers React to Slower Conditions.** Only 80,000 apartments are slated for completion in 2009, down from 98,000 units in 2008. New supply will fall to its lowest level since the mid-1990s, as construction financing remains relatively expensive and difficult to obtain. Deliveries will include some projects that were originally planned as condos that will come online as rentals.
- **Rise in Vacancy Expected.** The national apartment vacancy rate is expected to rise 100 basis points this year to 7.7 percent.
- **Rent Growth Stalling.** Effective rents, on a national basis, will be flat in 2009, falling short of asking rent growth, which is expected to reach 1.7 percent. Rent trends will vary greatly at the metro level, however, with owners in the hardest-hit housing markets using significant concessions to attract and retain renters. In 2008, asking and effective rents rose 2.8 percent and 1.8 percent, respectively.

Falling Construction, Modest Employment Recovery Should Stabilize Vacancy in 2010

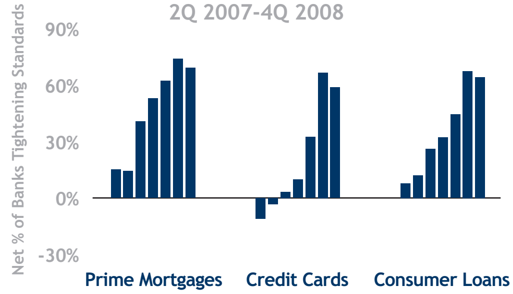


Apartment Rent Growth Stalling After a Strong Recovery Period

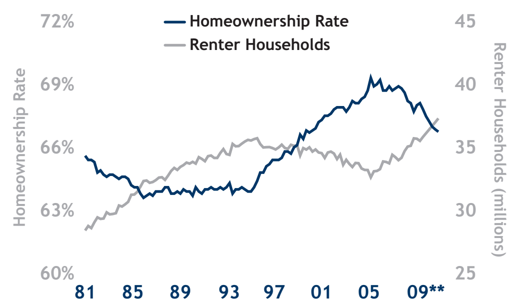


Potential Homebuyers and Consumers Facing Tougher Lending Standards

2Q 2007-4Q 2008



Reversal in Homeownership Rate Points to Increase in Renter Households



* Estimate ** Forecast

Apartments Faring Best in Credit Crunch as Agencies and Some Local Banks Remain Active

The apartment sector has not been immune to the credit crunch, but it has fared better than other property types due to continued lending by government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Apartments have been a bright spot for the GSEs, which were seized by the Treasury after recording heavy losses tied to their single-family residential mortgage portfolios. Combined, the GSEs hold or back 36 percent of all outstanding multi-family mortgage debt, followed by commercial banks and CMBS. Final figures are not yet available for the latter half of 2008, but midyear results show that the GSEs ramped up apartment mortgage origination by 66 percent from one year earlier. During the same period, conduit lending became almost nonexistent, and commercial banks and life insurance companies slowed originations by nearly 30 percent. The CMBS market was a major source of funding from 2004 to mid-2007, and its absence has clearly impacted capital flows into the investment market. The model of securitizing commercial mortgage debt is likely to re-emerge at some point; however, it is unlikely that this will occur in 2009, as greater regulation of CMBS and its ratings will be necessary to restore confidence in the market.

Commercial mortgage delinquency rates have ticked up throughout the marketplace, but they remain close to historical lows, with the overall average below 1 percent. The number of distressed assets will rise over the next year as fundamentals weaken and institutions and major investors continue to deleverage their portfolios. Additionally, some development deals will likely stall due to financing issues. Investors must differentiate distressed properties from the rest of the marketplace, which remains healthy compared to historical standards and other property sectors. There is greater delinquency risk in the years ahead, however, with a significant number of large, floating-rate loans due to mature between 2010 and 2012.

2009 Capital Markets Outlook

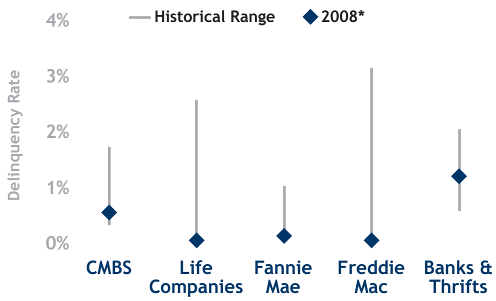
- **Long-Term Rates Low.** The threat of deflation drove the 10-year Treasury yield to record lows late last year. The rate is expected to rise in 2009 as the government finances the $700 billion Emergency Economic Stabilization Act and stimulus measures begin to take effect.

- **Credit to Remain Tight at Least Through the First Half.** Credit conditions have reached an extreme, generating unprecedented government response globally. The positive effects of these measures have yet to take hold, and it will take time for stimuli to trickle through the system, making it likely that credit will remain tight through midyear. Fortunately, apartment financing is still available through the GSEs, as well as some commercial banks and life insurance companies.

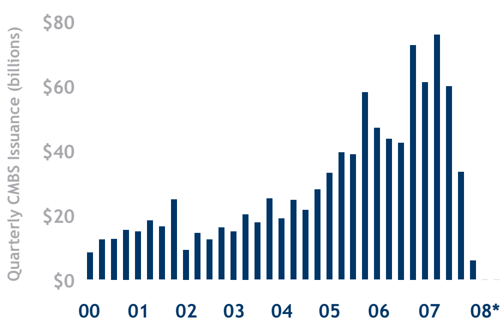
- **Spreads Volatile.** During the second half of 2008, spreads fluctuated dramatically on a weekly basis. Spreads will come in as credit markets stabilize but will remain vulnerable to wide swings. Agency lender spreads are currently 340 to 365 basis points over the 10-year Treasury, while portfolio lenders are pricing loans at 350 to 500 basis points over.

- **Lender Requirements to Remain Conservative.** Investors should expect debt-service coverage ratios to remain in the 1.25 to 1.30 range, which is well above the average in recent years but closer to historical norms. Loan-to-values have declined significantly over the past 18 months to approximately 60 percent to 70 percent, reflecting greater lender caution.

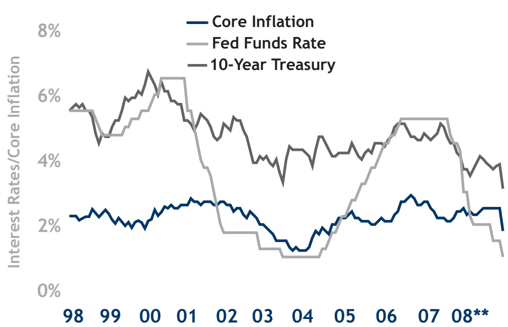
Commercial Delinquency Rates Remain Near Historic Lows



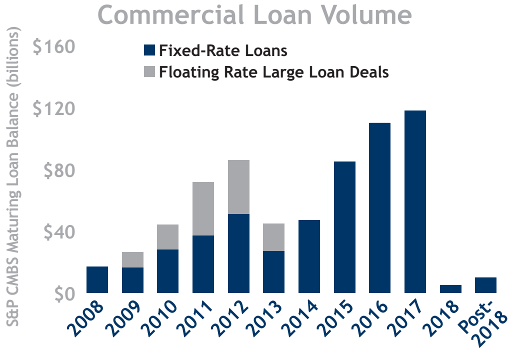
U.S. CMBS Issuance



Inflation and Interest Rate Trends



Commercial Loan Volume



* Estimate ** Forecast

Apartment Investment Market Bifurcated: Current Climate Versus Long-Term Value

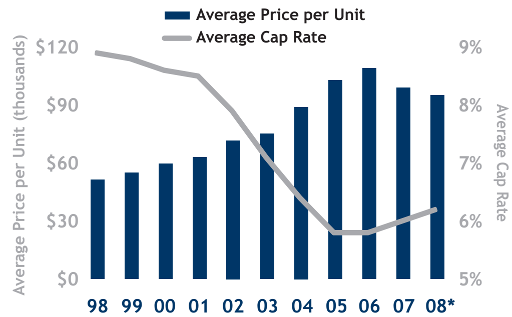
Last year's drop of nearly 50 percent in apartment sales volume is indicative of more than constraints in financing and tighter underwriting. In a period of extreme financial market volatility and significant economic weakness, buyers are demanding higher yields. Apartment owners, the vast majority of whom have had the luxury of solid occupancies and several years of strong rent growth, have opted to hold and ride out the downturn. Situations requiring a sale reflect price reductions necessary to clear the market. The degree of discounting varies sharply. During the past 12 months, Class A properties in primary markets have traded with an average cap rate increase of 25 to 50 basis points and 75 basis points in secondary markets. Class B/C assets have sold with an average cap rate increase of 100 to 150 basis points. True distress sales have been limited to failed conversions and highly leveraged new developments and acquisitions made at the height of the market based on aggressive rent growth forecasts. Transaction activity below $20 million has held up the most due to the influence of private buyers and more obtainable financing.

Additional upward pressure on cap rates is expected this year, with the spread widening further by quality of product and market. More distressed properties will emerge, dominated by high leverage, weak operations in the lower-tier markets and submarkets, and maturing loans. A number of major owners, particularly some REITs, may have to sell assets to increase liquidity, creating attractive buying opportunities; however, buyers should be cautioned against expectations of an overall distressed condition in the greater apartment market. Owners with balanced leverage and relatively healthy operations still comprise the majority of the marketplace. These investors will continue to ride out the downturn and will be rewarded by several key factors that point to long-term value. The significant decline in new construction now taking hold, combined with renter demographics similar in scope to the baby boom wave as they entered peak renting years, will be the main drivers of value creation.

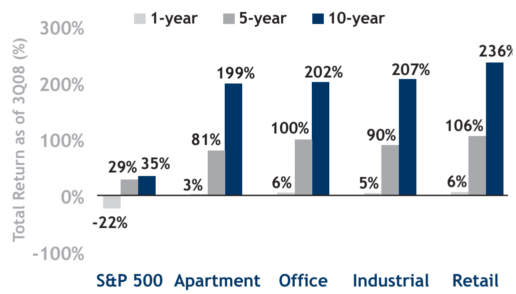
2009 Investment Outlook

- **Buyers Seeking Discounts.** In today's environment, owners who need to sell are facing price adjustments necessary to clear the market. While average cap rate increases over the past 12 months have been fairly modest, buyers are seeking cap rates that range from 75 basis points to 200 basis points greater than last year's initial yields.
- **Assumable and Seller Financing in High Demand.** More than half of the commercial transactions during the past year have involved assumable or seller financing. Buyers will continue to be attracted to these opportunities but still have to meet tighter lending requirements.
- **Strong Buying Opportunities Emerging.** Several high-quality, well-located properties that changed hands as part of major portfolios and/or REIT privatizations have begun to hit the market, and many major owners will become motivated sellers as they require more capital to cover maturing debt.
- **Student Housing Attracting Large Buyers.** Institutional activity in student housing properties has been fairly active. A few large portfolios changed hands in 2008, and per-bed prices also reflect healthy demand. Interest in this niche of the market is likely to remain elevated during the next several years as echo boomers make their way through college.

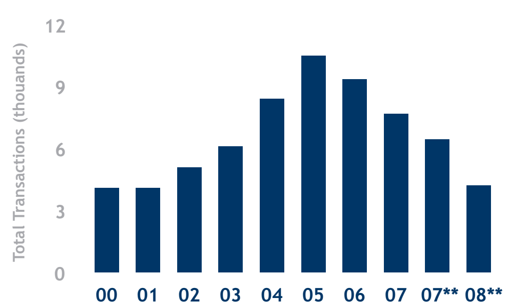
Apartment Price and Cap Rate Trends



Long-Term Real Estate Returns Outperform Stocks

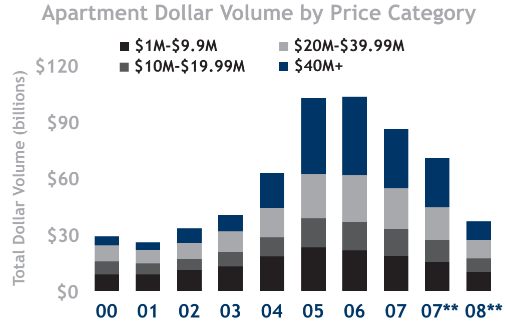


Apartment Transaction Activity

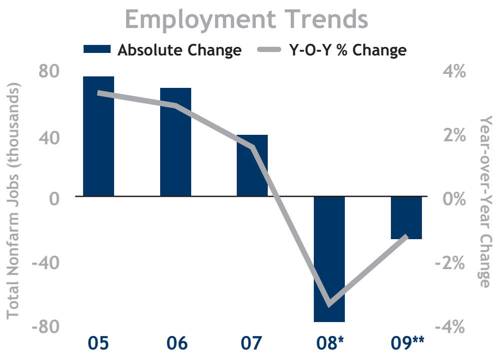


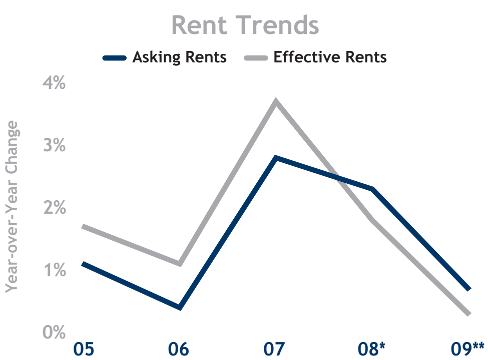
U.S. Investment Trends

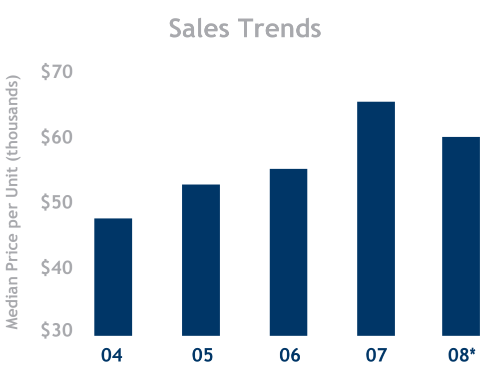
Apartment Dollar Volume by Price Category



* Estimate ** Year to Date Through September







* Estimate ** Forecast

Development Easing in Atlanta, but Job Cuts Expected to Push Vacancy Higher

Asset performance within Atlanta's apartment market will run counter to the national trend, as Class A complexes are expected to record steady operations, while lower-tier properties may underperform as a result of job cuts in lower-paying sectors. Completions will slow dramatically this year, which should keep Class A vacancy in the low-7 percent range, well below the metrowide average for all properties. Occupancy in the top tier is also being supported by uncertainty in the local housing market. Residents who might otherwise transition into homeownership are expected to remain in the renter pool as concerns of further price declines linger. Conditions in the metro's Class B/C segment will be more volatile, as blue-collar job losses will weigh on renter demand. Panasonic and Acuity Brands will close major manufacturing plants this year, cutting approximately 1,000 jobs. These reductions, combined with tenants doubling up in units, will increase Class B/C vacancy to nearly 12 percent by year end.

Despite the challenges facing the Atlanta apartment market in the near term, investment opportunities will persist. Experienced buyers are expected to increasingly re-enter the market, capitalizing on a number of underperforming assets in the metro and seeking discounts on properties with value-add potential. Repositioning prospects may be available for lower-tier properties in the Decatur/Avondale submarket, as vacancy among the area's premium assets remains tight and Class B/C units are renting at a considerable discount. Additionally, renter demand is anticipated to be strong north of downtown as residents look for quality rental housing in more affluent areas, which should appeal to conservative investors. Cap rates, which averaged in the mid-7 percent range last year, will creep higher, especially among the market's lower-quality assets.

2009 Market Outlook

- **2009 NAI Rank: 37, Down 9 Places.** Rising vacancy and ongoing job cuts moved Atlanta down nine spots in this year's ranking.
- **Employment Forecast:** Employers are forecast to trim payrolls by 1.2 percent in 2009, shedding 27,200 jobs.
- **Construction Forecast:** Completions are expected to total 3,300 apartments this year, down from 5,000 units in 2008. Over the past five years, annual deliveries have averaged approximately 4,500 units.
- **Vacancy Forecast:** Additions to supply and moderating renter demand will result in a 90 basis point increase in vacancy to 10.7 percent this year. In 2008, vacancy rose 170 basis points.
- **Rent Forecast:** In 2009, asking rents are forecast to gain 0.7 percent to $869 per month, and effective rents are expected to push up 0.3 percent to $775 per month. Last year, asking and effective rents advanced 2.3 percent and 1.8 percent, respectively.
- **Investment Forecast:** While lower-tier properties will likely underperform in the near term, investment opportunities exist for these assets in submarkets where vacancy is tight and renter demand remains high, such as Roswell or Alpharetta.

Market Forecast | Employment: 1.2% ▼ | Construction: 34% ▼ | Vacancy: 90 bps ▲ | Asking Rents: 0.7% ▲

No Change 2009 Rank: 22 2008 Rank: 22

Austin

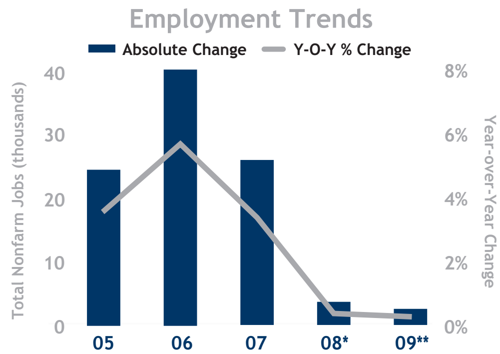
Job Creation Positive but Cooling; University Enrollment Sustaining Renter Demand

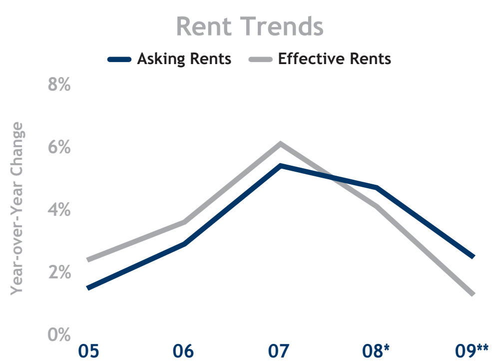
Austin is anticipated to have one of the nation's healthiest economies in 2009, spurring renter demand for apartments. While completions will be significant again this year, the building boom may begin to subside, as permitting activity peaked in the summer of 2008 and has declined steadily in recent months. This trend highlights a growing wariness among developers concerning potential oversupply and heightened difficulty in obtaining construction loans. Deliveries will put upward pressure on vacancy, especially during the first half of the year, but renter demand will remain healthy due to favorable demographic trends. The University of Texas, for instance, provides a steady renter base for local owners, and enrollment is expected to grow. During the last economic downturn, from 2001 to 2003, enrollment jumped nearly 7 percent with the addition of 3,200 students. Moreover, Austin has historically retained a significant portion of its college graduates, a trend that should continue as employment opportunities across the country remain limited.

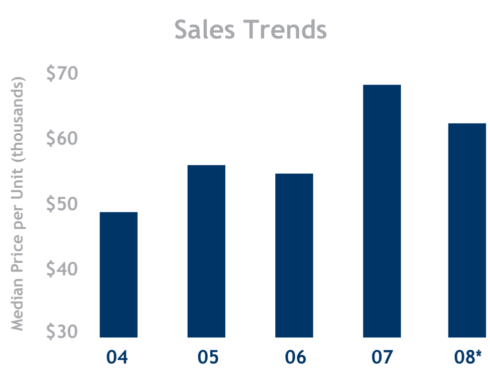
A still-growing local economy will help to maintain investor interest for Austin apartment properties in 2009. As institutions and REITs focus more on primary markets, some large, private buyers may be able to acquire assets with less competition from cash-heavy counterparts. Significant capital will remain a requirement, however, especially if cap rates stay in the current high-6 percent range. Over the past several years, highly active out-of-state investors have pushed initial yields to the lowest level in the state, a trend that has begun to reverse as the balance of deals starts to favor local buyers. Listing activity is also primed to accelerate as out-of-state owners attempt to divest assets and raise capital to weather the downturns in their home markets. Some of these deals will be in the sought-after East and Near South Central areas, where students and workers priced out of the Central submarket support demand.

2009 Market Outlook

- **2009 NAI Rank: 22, No Change.** Austin held its spot in the NAI due to a forecast for modest employment growth, despite rising vacancy.
- **Employment Forecast:** Local employers are expected to add 2,100 jobs this year, a 0.3 percent gain. Job growth is slowing, however, as approximately 3,200 positions were created in 2008.
- **Construction Forecast:** Despite more modest permitting activity, 5,700 apartments will come online in 2009, down from 6,000 units last year.
- **Vacancy Forecast:** Vacancy is expected to push up 150 basis points to 9.4 percent this year. In 2008, vacancy rose 130 basis points as hiring slowed and builders increased deliveries.
- **Rent Forecast:** Asking rents are projected to reach $895 per month, a 2.5 percent gain, while effective rents inch up 1.3 percent to $794 per month.
- **Investment Forecast:** Investors targeting assets in the tech-heavy northwestern and southwestern areas of the city may pause in the near term. A significant downturn in global demand for manufactured technology goods could negatively impact apartment fundamentals in these areas.







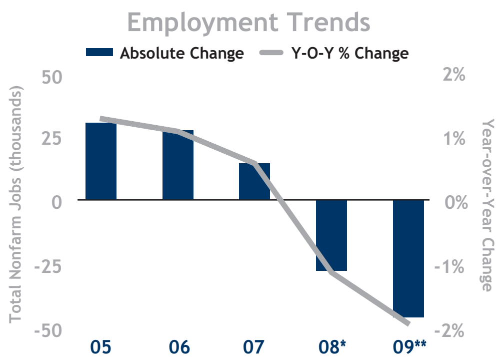
* Estimate ** Forecast

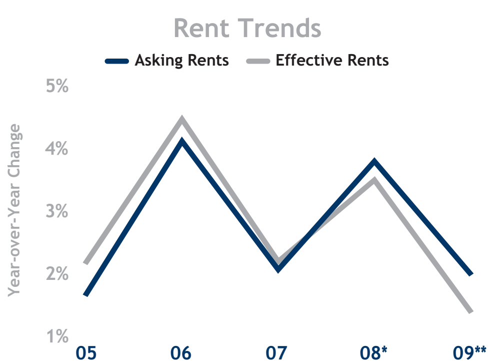
Market Forecast Employment: 0.3% ▲ Construction: 5% ▼ Vacancy: 150 bps ▲ Asking Rents: 2.5% ▲

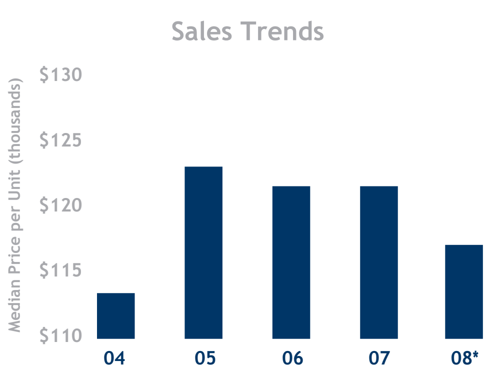
Boston

Down 12 Places | **2009 Rank: 24** | **2008 Rank: 12**

Vacancy Creeping Higher in Boston; Buyers Beginning to Pursue Bargains







* Estimate ** Forecast

Job losses and competition from shadow rentals will continue to impact Class A apartment vacancy in Boston's outlying submarkets, while core assets are expected to outperform. The economy is weakening, as evidenced by layoff announcements from major employers such as Boston Scientific, Gillette and the state government. In addition, the unraveling financial markets could result in far-reaching cuts by local financial companies. As a result, uncertainty is prompting some renters to transition into less expensive housing to trim costs. Class A properties in the outlying submarkets of North Shore and Mystic River North/Route 128, both of which thrived during the housing boom, will compete with shadow-rental stock this year, pushing vacancy higher. Lower-tier apartments in Cambridge/Watertown and Brookline/Brighton are expected to perform well due to consistent student demand and renters seeking more affordable housing close to the city.

Investment trends in the Boston apartment market will likely diverge in 2009; demand for stable assets in close-in submarkets will remain strong, supporting current values, while properties in tertiary areas will face challenges. In the outer reaches of the metro, assets purchased using aggressive pro forma underwriting at the peak of the market will present some buying opportunities for investors seeking bargains. While average cap rates are approximately 7.5 percent throughout the metro area, investors will pay a premium for stabilized properties in premier submarkets such as Brookline, Somerville and Cambridge; these assets are expected to trade at cap rates in the low- to mid-6 percent range.

2009 Market Outlook

- **2009 NAI Rank: 24, Down 12 Places.** A weakening job market and rising vacancy drove Boston down 12 spots in the NAI this year.
- **Employment Forecast:** The metro's high concentration of professional and financial jobs makes it particularly vulnerable to the economic downturn. In 2009, payrolls will decline by 46,000 positions, or 1.9 percent. Last year, 27,800 jobs were eliminated.
- **Construction Forecast:** Developers are responding to weaker demand by slowing multi-family construction activity. Approximately 2,100 apartments are scheduled to be completed this year, following the delivery of 3,300 units in 2008.
- **Vacancy Forecast:** Vacancy is forecast to rise 80 basis points in 2009 to 7.5 percent. Last year, when construction was more robust, vacancy increased 100 basis points.
- **Rent Forecast:** As vacancy edges higher, rent growth will moderate. Asking rents are expected to gain 2 percent in 2009 to $1,777 per month, while effective rents advance 1.4 percent to $1,679 per month.
- **Investment Forecast:** Investors will continue to pursue value-add properties in the months ahead. Seasoned local buyers may pick up their activity by year end, seeking discounts on smaller, distressed assets with operational challenges.

Market Forecast | Employment: 1.9% ▼ | Construction: 36% ▼ | Vacancy: 80 bps ▲ | Asking Rents: 2.0% ▲

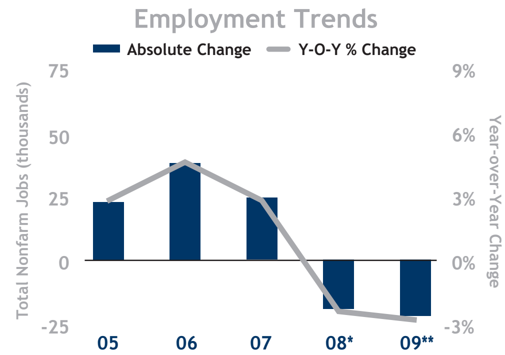
Banking Contraction to Weigh on Charlotte's Apartment Fundamentals in the Short Term

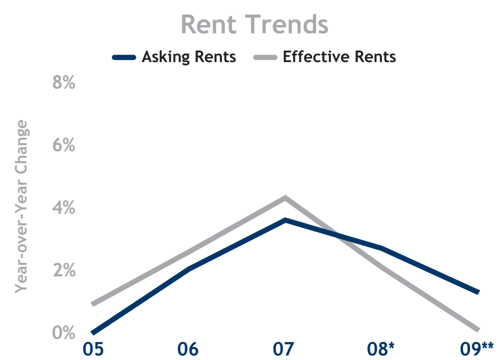
Fundamentals within the Charlotte apartment market will soften in 2009, with challenges from the nation's banking and investment industries dragging on local employment. The late-2008 acquisition of Merrill Lynch by Charlotte-based Bank of America will prompt restructuring efforts as the company seeks to trim $7 billion in operating costs. In addition, the impact of Wells Fargo's takeover of Wachovia, one of Charlotte's top employers, is expected to lead to job cuts. As such, reductions in the professional and business services and financial activities sectors are projected to account for approximately half of all employment losses in the metro this year. Renter demand for Class A properties downtown and south of the city will likely soften as a result, despite a modest decline in metrowide construction. The North Pineville and Fairview North submarkets will be impacted most significantly, as more than one-third of Charlotte's new inventory will be delivered in these areas. Additionally, Class C properties will record a higher degree of operational weakness in 2009. Lower-wage employment losses will drive up Class B/C vacancy in the North Tryon and East Charlotte/Albemarle Corridor submarkets, causing local owners to offer greater concessions than in recent years.

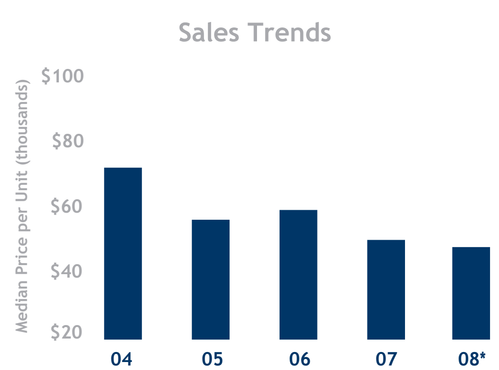
Investment activity is expected to pick up during the latter half of 2009 as more conservative underwriting pushes cap rates higher, attracting investors who are waiting to enter the market. The expectations gap between buyers and sellers appears to be narrowing, with investors seeking assets at cap rates in the low- to mid-8 percent range. Looking forward, Class B properties in affluent areas such as near Ballantyne, located south of downtown Charlotte, or north of the city's core, around Lake Norman, will perform well due to strong renter demand and a lack of more affordable alternatives.

2009 Market Outlook

- **2009 NAI Rank: 43, Down 7 Places.** A significant projected vacancy increase and deep job cuts caused Charlotte to drop to the bottom of the 2009 index.
- **Employment Forecast:** Employers are expected to reduce payrolls 2.7 percent in Charlotte this year with the loss of 22,000 positions.
- **Construction Forecast:** Nearly 2,400 apartments will come online in 2009, expanding local inventory by 2.6 percent. Last year, developers delivered 2,600 units.
- **Vacancy Forecast:** Vacancy is forecast to increase 210 basis points to 10 percent in 2009, due to apartment construction and a weak job market.
- **Rent Forecast:** Asking rents are expected to finish 2009 at $810 per month, a 1.3 percent gain. Effective rents are forecast to tick up 0.1 percent to $718 per month as owners increase concessions to help combat rising vacancy rates.
- **Investment Forecast:** Despite some operational weakness in the quarters ahead, buyers with long-term objectives may want to consider lower-tier assets east of the downtown area. A lack of available land for development prohibits significant competition from new construction.







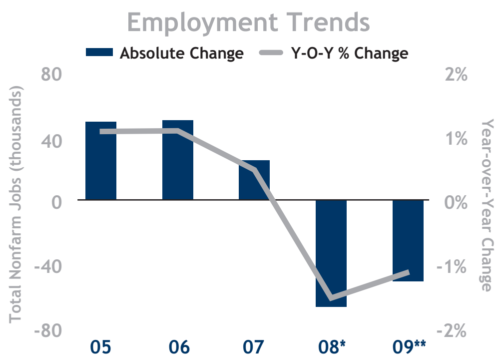
* Estimate ** Forecast

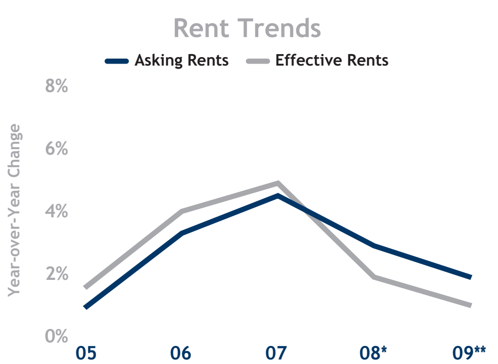
Market Forecast | Employment: 2.7% ▼ | Construction: 8% ▼ | Vacancy: 210 bps ▲ | Asking Rents: 1.3% ▲

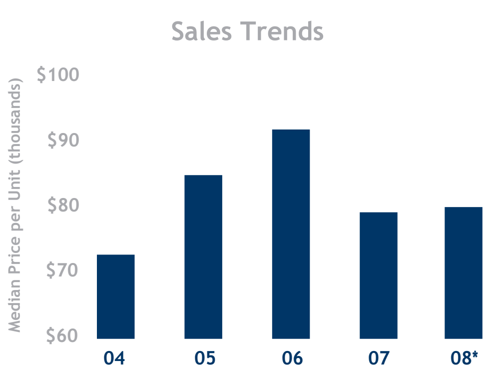
Chicago

Down 2 Places | **2009 Rank: 13** | **2008 Rank: 11**

Suburban Demand Expected to Remain Strong; Shadow Stock Hindering Downtown







* Estimate ** Forecast

Apartment conditions in Chicago are forecast to soften this year, due to continued job cuts and overbuilding in some areas. Employment reductions in manufacturing will lessen renter demand for lower-tier units in the southern suburbs, while cuts in the financial activities sector will slow absorption of Class A units in core areas. The citywide condo boom has ended, and many recently completed and under way projects are now being employed as rentals. In the City West submarket, for example, sales at the 130-unit Lofts at Lakeview Collection were weak, and some units have been brought online as apartments instead. The effects of the shadow market will be most pronounced in the Gold Coast area, where condo construction was heaviest during the last three years. The impact of shadow rentals is less significant in the suburbs, but vacancy will rise this year as apartment deliveries accelerate.

Solid fundamentals in suburban Class B/C apartments will likely attract investors in 2009. Demand for well-located lower-tier properties in the Downers Grove and Woodridge/Lisle submarkets is anticipated to increase, with traffic congestion luring renters closer to employment and transportation corridors. Institutional activity should remain minimal in 2009 due to the heightened risk associated with weakening fundamentals. Buyers seeking smaller assets may target upper-tier properties in northern neighborhoods of the city, as renter demand is projected to stay relatively healthy. Transaction velocity will continue to be affected by the buyer/seller expectations gap, which is not expected to narrow significantly, although cap rates will push up from the high-6 percent to low-7 percent range.

2009 Market Outlook

- **2009 NAI Rank: 13, Down 2 Places.** Ongoing job cuts caused Chicago to fall two spots in the NAI this year.
- **Employment Forecast:** Employers are forecast to eliminate 51,000 jobs in 2009, a 1.1 percent contraction. Last year, 67,000 positions were cut.
- **Construction Forecast:** This year, 2,230 units are expected to come online, increasing apartment inventory by 0.5 percent. Development will be concentrated in the suburbs, following a wave of completions downtown during the past two years.
- **Vacancy Forecast:** Metrowide vacancy is forecast to end 2009 at 6.7 percent, 90 basis points higher than last year. Heavy competition from shadow stock will raise downtown vacancy 140 basis points to 6.5 percent, while supply additions and job losses will increase suburban vacancy 70 basis points to 6.9 percent.
- **Rent Forecast:** Asking rents are projected to reach $1,096 per month this year, while effective rents will average $1,010 per month, annual gains of 1.9 percent and 1.0 percent, respectively.
- **Investment Forecast:** The Oak Park submarket is expected to benefit from increased renter demand due to the ongoing expansion of Rush University Medical Center. The center is expected to generate 1,500 new jobs when completed.

Market Forecast | Employment: 1.1% ▼ | Construction: 28% ▲ | Vacancy: 90 bps ▲ | Asking Rents: 1.9% ▲

Infill Demand and Renewal Efforts Support Leasing Activity Downtown

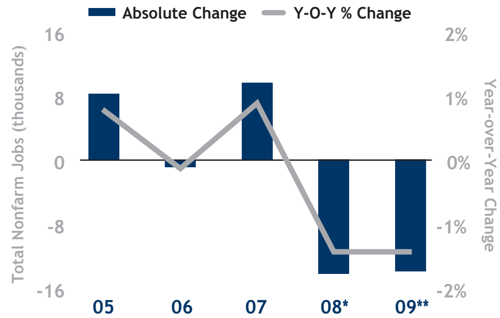
Despite growth in Cincinnati's educational and health services sector, overall job losses will continue to weigh on the local apartment market in 2009. Considerable employment reductions are projected in the manufacturing and trade, transportation and utilities sectors, which will likely result in more modest renter demand for Class B/C properties in some areas. In the Northeast submarket, for example, owners may be forced to decrease rents to stave off rising vacancy rates. In contrast, leasing activity is expected to be fairly healthy downtown, highlighted by city-supported renewal efforts. One of these developments is the mixed-use Banks project, which broke ground in the second half of 2008 and is scheduled to be delivered in several phases over the coming years. Additionally, while the metro's condo inventory is forecast to expand marginally in 2009, particularly downtown, these units are likely to pose little competitive threat to traditional apartments due to prices that will result in monthly mortgage payments well in excess of Class A rents.

Transaction velocity will continue to be subdued in 2009, with investors targeting Class B/C properties in Northern Kentucky and downtown Cincinnati. Above-average Class A rent growth over the past several quarters has priced some renters out of these areas, buttressing lower-tier demand. The median price for an apartment asset in the metro has stabilized in the mid-$30,000 per unit range as a result of a higher number of experienced local buyers re-establishing their presence during the last year. These investors will once again be the primary players in the market in 2009, and cap rates are anticipated to remain in the low- to high-9 percent range. Investors may also find opportunities in newer assets in Northern Kentucky. In recent years, the local government has tried aggressively to attract businesses to the area using tax incentives, resulting in healthy rent growth and price appreciation. Renters are beginning to balk at the high rents in the submarket's Class A segment, however, which could motivate some owners to list these properties.

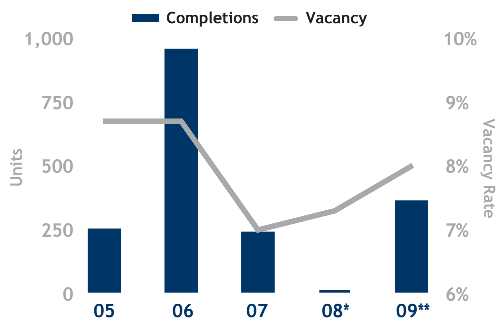
2009 Market Outlook

- **2009 NAI Rank: 34, Up 7 Places.** Cincinnati jumped seven places in this year's ranking due to limited apartment construction.
- **Employment Forecast:** Local payrolls are forecast to contract by 14,000 positions, or 1.4 percent, in 2009. Last year, employers shed 14,300 jobs.
- **Construction Forecast:** This year, completions are expected to total 350 units; no apartments were delivered in 2008.
- **Vacancy Forecast:** After rising 30 basis points last year, vacancy is forecast to increase 70 basis points to 8 percent in 2009.
- **Rent Forecast:** Asking rents will rise 1.5 percent to $722 per month this year, while effective rents edge 1.2 percent higher to $681 per month. In 2008, asking and effective rents gained 2.7 and 3.1 percent, respectively.
- **Investment Forecast:** Class B/C assets in the Downtown and Northern Kentucky submarkets could attract renters moving into less expensive apartments after several years of aggressive Class A rent growth.

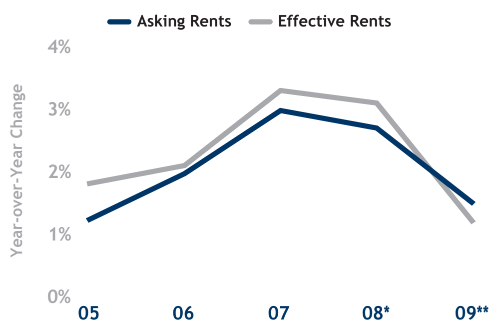
Employment Trends



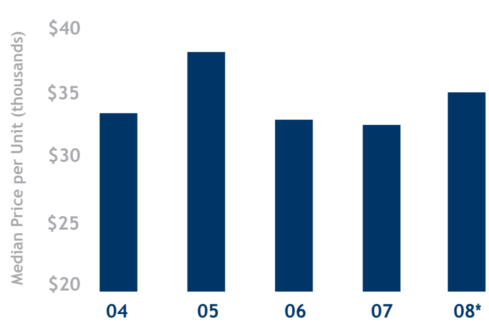
Supply and Demand



Rent Trends



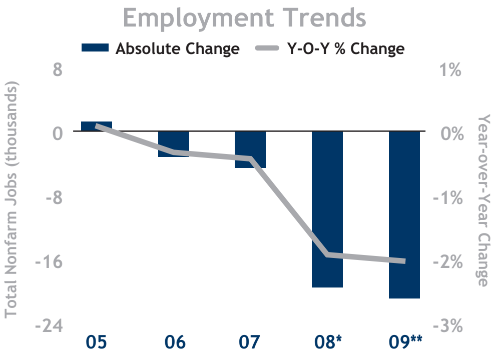
Sales Trends

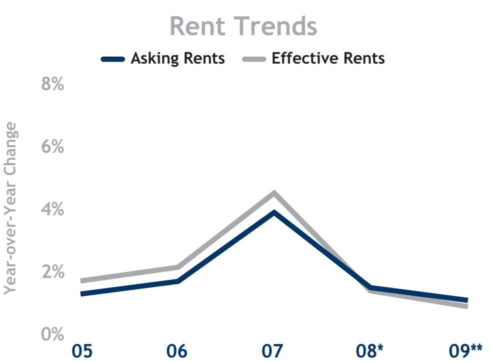


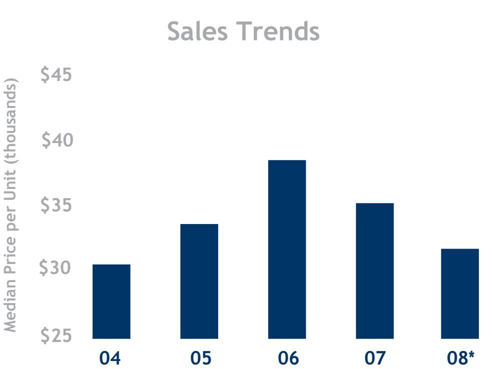
* Estimate ** Forecast *** No completions in 2008

Market Forecast Employment: 1.4% ▼ Construction: N/A*** Vacancy: 70 bps ▲ Asking Rents: 1.5% ▲

Sagging Job Market a Concern, but Limited New Supply to Keep Vacancy in Check







* Estimate ** Forecast

Despite some uncertainty in Cleveland's employment outlook, minimal construction will support healthy apartment operations in 2009. During the past year, weakness in the manufacturing sector has resulted in payroll cuts, and with auto sales remaining dismal due to tight credit markets and consumer uncertainty, this trend is likely to persist through 2009. The trade, transportation and utilities sector, the metro's largest employment segment, is expected to contribute to an increase in unemployment this year, as retail sales will contract for the first time since 2002. Renters' concerns about jobs will weigh on demand in the lower tiers, while a weak housing market will sustain steady interest for Class A units. The median home price is falling toward a level last recorded in 1995, though individuals remain reluctant to enter the market for fear of purchasing in advance of further declines. On the supply side, a lack of available financing is keeping the development pipeline in check, as this year's completions will add just 0.3 percent to existing apartment stock.

Investment activity in Cleveland will continue to be dominated by buyers seeking above-average yields. The absence of competition from speculative out-of-market investors has driven a modest rise in cap rates. Well-maintained Class A and Class B properties have changed hands with initial yields in the high-7 percent range during the past 12 months, up about 50 basis points from one year ago. Prospects for NOI growth through improved operational efficiency are drawing local buyers to quality assets. Lower-tier properties will likely trade less frequently as risk aversion and expectations for additional increases in cap rates persist. Long-term opportunities exist for complexes in submarkets with strong renter demographics, such as Willoughby/Mentor, Westlake/Avon Lake and Olmsted. Top-tier properties in these areas should maintain their values due to steady renter and investor demand.

2009 Market Outlook

- **2009 NAI Rank: 27, Up 10 Places.** Below-average vacancy and limited completions drove Cleveland up 10 spots in the ranking this year.
- **Employment Forecast:** Led by reductions in the manufacturing and trade, transportation and utilities sectors, employers will cut 21,000 positions this year, a 2 percent decrease. In 2008, 19,600 jobs were lost.
- **Construction Forecast:** In 2009, builders are expected to complete 200 apartments, down from 275 units last year.
- **Vacancy Forecast:** Minimal new stock will partially offset weaker demand for area apartments. Vacancy is forecast to increase 80 basis points this year to 6.5 percent.
- **Rent Forecast:** Asking rents will gain 1.1 percent in 2009 to $747 per month, while effective rents tick up 0.9 percent to $710 per month.
- **Investment Forecast:** Investors will shy away from riskier assets, which could cause lower-tier cap rates to rise significantly. Buyer interest may support price growth in well-managed Class A and Class B properties in stabilized submarkets such as North Olmsted and Beachwood.

Market Forecast Employment: 2.0% ▼ Construction: 27% ▼ Vacancy: 80 bps ▲ Asking Rents: 1.1% ▲

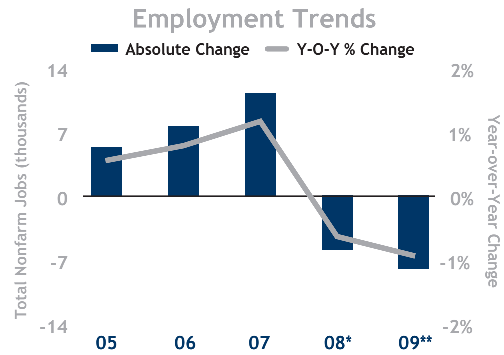
Student Population Supporting Renter and Investor Demand for Apartment Properties

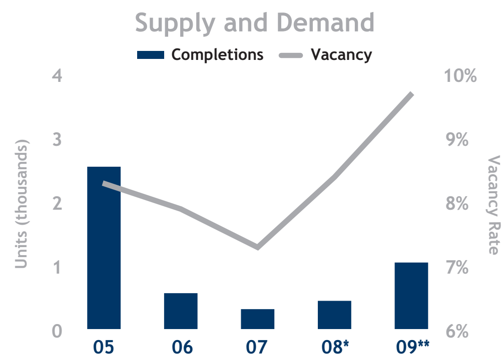
The Columbus apartment market has posted solid results during the past several quarters, but a softer economy will result in mixed fundamentals in the months ahead. In the near term, rent growth in submarkets with large proportions of Class B/C stock, such as Grove City, Whitehall/Gahanna and Sharon/Worthington, will lag the metro average. Projected job cuts in the construction, retail trade and transportation sectors will weaken renter demand for apartments, spurring an uptick in vacant units and forcing some tenants to double up. The Class A sector, meanwhile, is expected to perform relatively well due to the effects of tighter mortgage underwriting on the ability of the metro area's large population of well-paid white-collar workers to purchase single-family housing. While vacancy is pushing higher and rent growth is cooling, the Columbus apartment market will end 2009 with healthier fundamentals than earlier in the decade.

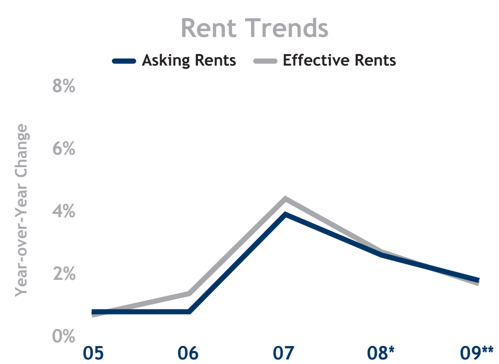
In the investment market, local properties may not receive the attention merited by their fairly steady performance and attractive returns. As 2009 begins, cap rates for stabilized product in the metro area vary from the low-7 percent range for Class A or top Class B properties to approximately 9 percent for Class C assets. Investor attention will remain fixed primarily on apartments located within or offering easy access to the Interstate 270 Outerbelt. Rent growth at properties far beyond I-270 typically lags increases within the metro's urban core. Buyers will also target properties in the University/Downtown submarket due to the area's large student population, although these assets generally trade at premium prices.

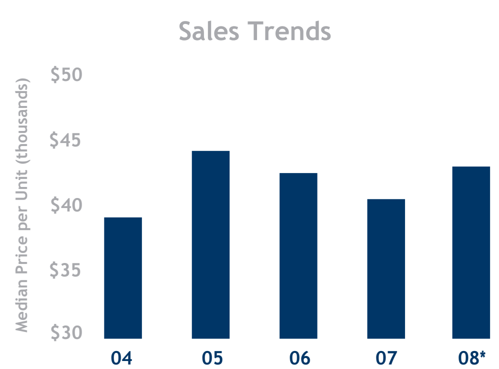
2009 Market Outlook

- **2009 NAI Rank: 28, Up 10 Places.** Above-average effective rent growth enabled Columbus to advance 10 places in the NAI this year.
- **Employment Forecast:** One year after employers cut 6,000 jobs, a weak economy will generate a loss of 8,000 positions in the Columbus metro area, a 0.9 percent decrease.
- **Construction Forecast:** Builders will complete 1,000 apartments in 2009, representing a 0.8 percent expansion of rental stock. Last year, approximately 400 units were brought online. The projects scheduled for delivery this year are located primarily in areas with easy access to Interstate 270 and Interstate 71.
- **Vacancy Forecast:** Vacancy is projected to rise 130 basis points to 9.7 percent in 2009, following a 110 basis point jump last year.
- **Rent Forecast:** In 2009, asking rents are forecast to climb 1.8 percent to $693 per month, while effective rents advance 1.7 percent to $648 per month. Last year, asking rents rose 2.6 percent, and effective rents posted a 2.7 percent gain.
- **Investment Forecast:** An estimated 100,000 college students comprise a large pool of potential renters. With many secondary-education institutions in the metro unable to meet student housing needs, opportunities to fulfill housing demand exist for owners of properties near colleges and universities.





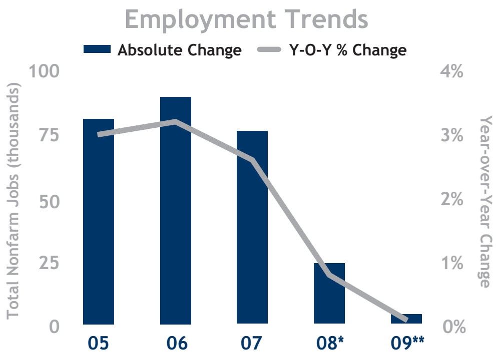


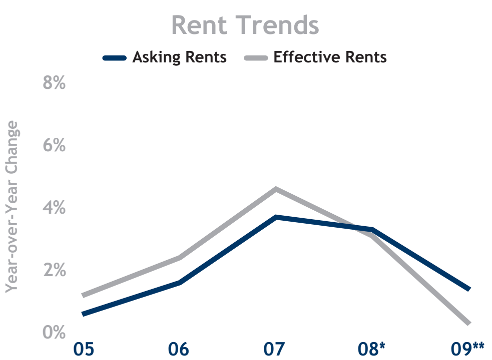


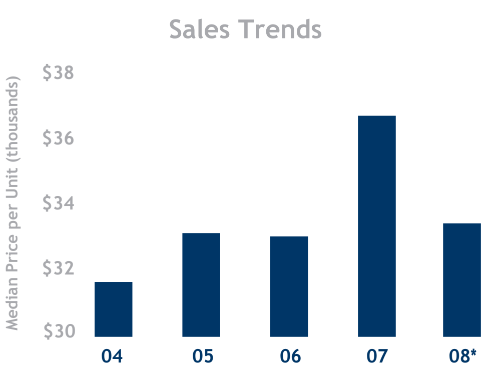
* Estimate ** Forecast

Market Forecast	Employment: 0.9% ▼	Construction: 150% ▲	Vacancy: 130 bps ▲	Asking Rents: 1.8% ▲

Economy Likely to Stall; Ongoing Construction to Result in Vacancy Rise







* Estimate ** Forecast

Job growth in Dallas/Fort Worth will be modest in 2009, following a five-year stretch where the Metroplex added approximately 340,000 new positions. Since the market serves as the main distribution center for goods coming from Mexico and the Port of Houston, relaxed consumer spending will stall payroll expansion near intermodal transfer facilities south of Dallas and near Alliance Airport in Fort Worth. As such, renter demand for apartments in these areas will slip this year. In Denton County and the Plano/Allen/McKinney submarket, however, in-migration will bolster demand. Despite less robust growth in the near term, the local apartment market is positioned to rebound from the national economic slowdown quickly, with renewed population growth as early as the end of 2009 ultimately expanding renter demand.

Apartment investment activity in Dallas/Fort Worth will remain more brisk than in much of the nation due to healthy long-term growth prospects and cap rates in the mid-7 percent to low-8 percent range. Institutional and REIT activity could pick up during the second half of the year as the apartment building boom comes to a close and suburban fundamentals begin to stabilize. The Dallas CBD is going through another revitalization after previous gentrification efforts failed to gain traction. AT&T's recent relocation from San Antonio is adding jobs to the area and creating opportunities for smaller buyers in locations adjacent to the Oaklawn/Uptown/CBD submarket. Occupancy in the popular area is tight, and rents are out of reach for many residents, generating demand for more affordable housing alternatives. Assets near DART stations are anticipated to receive the most interest from buyers and renters.

2009 Market Outlook

- **2009 NAI Rank: 26, Down 3 Places.** Steadily rising vacancy and slowing job growth caused Dallas/Fort Worth to fall three places in the ranking.
- **Employment Forecast:** Employers in Dallas/Fort Worth are forecast to add just 3,600 positions this year, a 0.1 percent increase. Slowing international trade could result in cuts in distribution-related employment in the near term.
- **Construction Forecast:** Apartment development will ease in 2009 to 6,700 new units, a 1.4 percent increase to inventory. Last year, builders added 10,800 apartments.
- **Vacancy Forecast:** Vacancy is expected to rise 180 basis points to 9.2 percent by year end due to weaker renter demand. Supply-side pressure pushed vacancy up 130 basis points in 2008.
- **Rent Forecast:** Asking rents are projected to finish 2009 at $798 per month, a 1.4 percent gain, while effective rents increase 0.3 percent to $723 per month.
- **Investment Forecast:** Implementation of the Lamar-Collins Mixed-Use Overlay District in Arlington will result in denser development over the next several years, which should provide investors with raze-and-redevelop opportunities.

Market Forecast Employment: 0.1% ▲ Construction: 38% ▼ Vacancy: 180 bps ▲ Asking Rents: 1.4% ▲

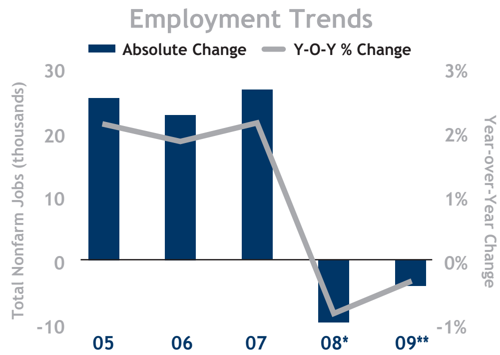
Foreclosures Entering Late Stages; Limited Shadow Stock Supporting Apartments

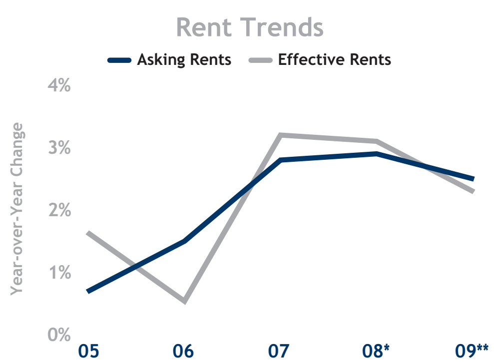
While Denver has not been immune from the current national economic downturn, job cuts are anticipated to be minimal this year, and the metro is poised for a recovery. The local housing market entered the downturn earlier than most of the country, resulting in nation-leading foreclosure rates for several quarters. Recently, however, foreclosure activity has subsided. As such, an economic recovery could gain traction late this year while many other metros in the West struggle to absorb the glut of single-family homes on the market. In addition, Denver's significant base of federal jobs is expected to expand this year, which will support renter demand for apartments. Absorption should be fairly healthy in the metro's western cities, including Arvada, Lakewood and Broomfield, while Class A properties in core areas like LoDo and the Central Platte Valley will continue to post high occupancy levels.

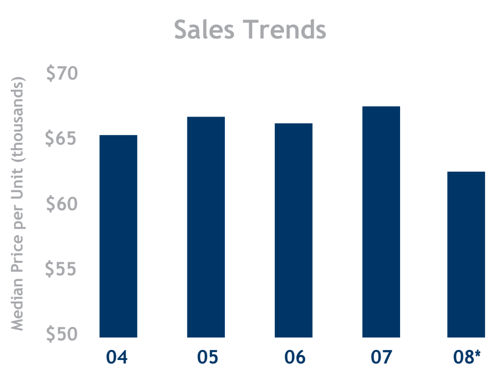
A positive investment outlook is expected for Denver this year, despite a modest vacancy rise. In 2008, buyers seeking repositioning deals targeted assets in Aurora, where prospects for healthy rent growth existed. This trend could reverse in the near term, however, as area prices and rents have reached levels where immediate upside potential is less likely. As a result, value-add investors are projected to hunt for opportunities in the Arvada/Broomfield and Lakewood-North and Lakewood-South areas, which have a higher percentage of Class B/C properties and are near key employment centers. Metrowide cap rates for apartments rose an average of 75 basis points in 2008 to the high-6 percent to low-7 percent range. Initial yields are expected to continue to increase this year as sellers adjust prices to try to meet buyers' expectations.

2009 Market Outlook

- **2009 NAI Rank: 11, Up 2 Places.** Forecasts for healthy rent growth drove Denver up two spots in the index, despite modest job losses.
- **Employment Forecast:** Denver-area employers are expected to eliminate 4,100 positions this year, a 0.3 percent payroll reduction. In 2008, approximately 9,800 jobs were cut.
- **Construction Forecast:** After 2,260 units were completed last year, developers are scheduled to deliver 2,450 units in 2009, increasing apartment stock by 1.6 percent.
- **Vacancy Forecast:** An accelerating pace of completions will result in a 120 basis point uptick in metrowide vacancy to 8.2 percent this year. In 2008, vacancy rose 70 basis points.
- **Rent Forecast:** Still-healthy demand drivers will continue to support rent growth in Denver. Asking rents are forecast to advance 2.5 percent to $936 per month, while effective rents are expected to reach $817 per month, a 2.3 percent gain.
- **Investment Forecast:** Buyers may find attractive opportunities in outlying areas such as Louisville, where the new ConocoPhillips campus will be located, and Boulder, which benefits from consistent renter demand generated by a large student population.





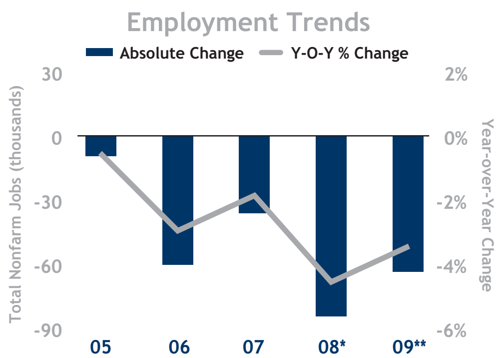


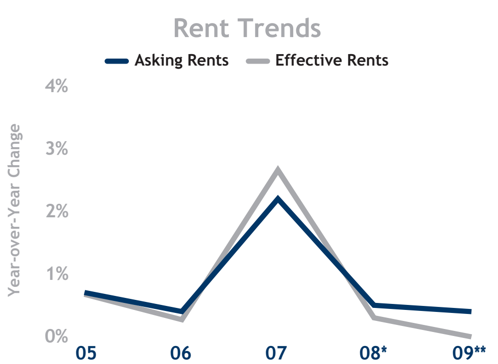
* Estimate ** Forecast

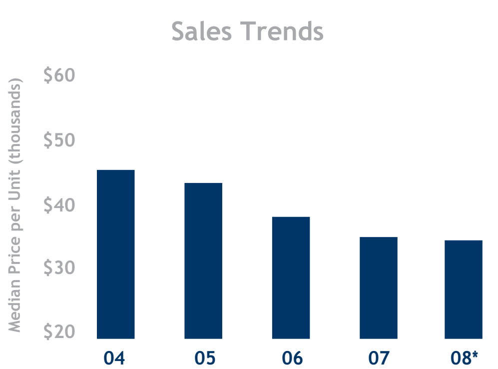
Market Forecast Employment: 0.3% ▼ Construction: 8% ▲ Vacancy: 120 bps ▲ Asking Rents: 2.5% ▲

Detroit

Up 6 Places | **2009 Rank: 36** | **2008 Rank: 42**







* Estimate ** Forecast

Cap Rates Drawing Investors to Strong Submarkets, Despite Auto Industry Concerns

Although Detroit's economy will continue to struggle through the downturn, apartment fundamentals are expected to remain fairly steady this year due to ongoing weakness in the area's housing market and minimal construction activity. Foreclosures and falling home prices will persist, increasing the renter pool while keeping many potential homebuyers on the sidelines. In addition, residents concerned about downsizing at their companies are unlikely to commit to homeownership until the local manufacturing sector stabilizes. As consumer spending wanes nationwide, auto sales will continue to be a major threat for the metro's short- and long-term outlooks. Additionally, a merger or bankruptcy in the auto industry could lead to drastic job cuts in 2009. On the supply side, few apartment developments can command rents to justify construction costs, limiting the potential competitive threat from new units.

Investor sentiment will remain mixed for Detroit's apartment properties in 2009, with yield-seeking buyers staying the most active. Cap rates, which are approaching 9 percent, are among the highest in the country, attracting buyers but also illustrating the long-term uncertainty in the market. Limited reinvestment opportunities for current owners, however, have kept the number of listings restricted in recent quarters. As such, competition among buyers will hold prices fairly steady, though the heightened cost of capital could force some sellers to modify their expectations. Properties will remain in high demand in Ann Arbor, where the University of Michigan provides a consistent renter base. Additionally, in Wayne County, tenants have few housing alternatives, so stabilized properties should produce predictable cash flows for buyers upon purchase.

2009 Market Outlook

- **2009 NAI Rank: 36, Up 6 Places.** Limited construction activity pushed Detroit up six spots in the ranking, despite ongoing economic uncertainty, significant job cuts and rising vacancy.
- **Employment Forecast:** After eliminating 84,800 positions in 2008, employers are expected to cut 64,000 jobs this year, a 3.4 percent decline. A bankruptcy in the auto industry could alter this forecast dramatically.
- **Construction Forecast:** Approximately 250 units are projected to come online in 2009, a 0.1 percent increase in stock.
- **Vacancy Forecast:** Despite a lack of significant new construction, deep job cuts will result in a supply/demand imbalance. As such, vacancy is expected to push up 50 basis points this year to 7.1 percent, following a 40 basis point rise in 2008.
- **Rent Forecast:** In 2009, asking rents are forecast to gain 0.4 percent to $841 per month, while effective rents remain flat at $773 per month.
- **Investment Forecast:** Buyers searching for long-term investments may want to target the Macomb County submarket. Annual population growth in the county of 0.7 percent over the next five years will outpace the metro, while the disparity between the area's rents and mortgage payments indicates the potential for future rent growth.

Market Forecast | Employment: 3.4% ▼ | Construction: 48% ▼ | Vacancy: 50 bps ▲ | Asking Rents: 0.4% ▲

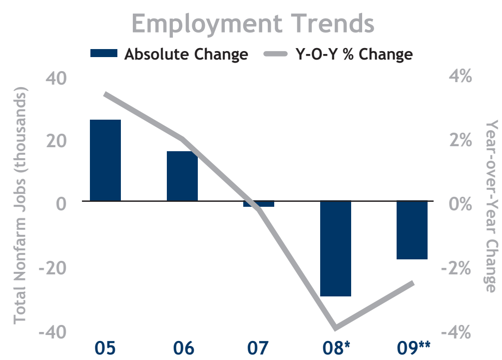
Job Losses, Excess Housing Continue to Erode Apartment Fundamentals — For Now

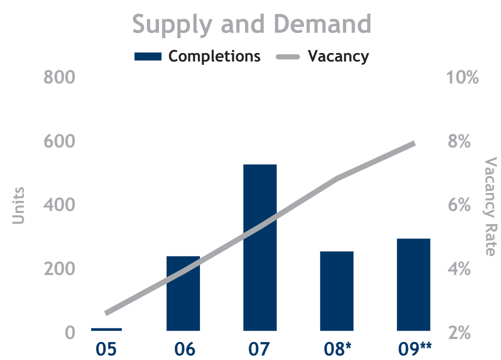
In 2009, total employment in Broward County is forecast to decline for the third consecutive year, resulting in greater apartment vacancy and lower rents. Local financial companies will be especially affected by forces reshaping the industry. For the year, 5,000 financial services positions are expected to be eliminated, a total that would include jobs lost from closures of bank branches. Wachovia and Washington Mutual, for example, operate approximately 100 retail locations in the county. Employment reductions will curtail housing demand, lifting marketwide vacancy to nearly 7 percent this year. Meanwhile, unsold condos continue to compete with apartments. Areas that had significant conversion activity, and where rental fundamentals may be most susceptible to the effects of shadow stock, include Hallandale, Hollywood, Miramar and Pembroke Pines. The positive aspect of supply-side fundamentals, however, is an ongoing reduction in permit issuance; last year, permits for 1,400 multi-family units were issued, an amount that is expected to fall to fewer than 1,000 units in 2009.

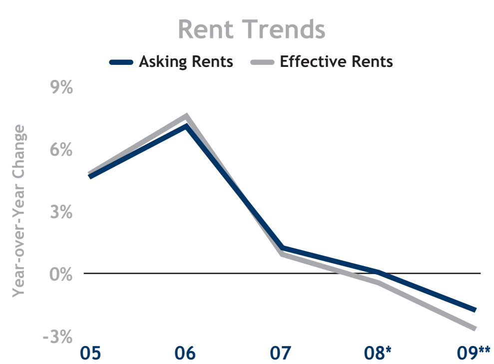
Within the investment arena, transaction velocity will likely remain subdued in the first part of 2009. Velocity declined last year, and the limited number of deals has made it difficult to discern values and pricing trends, especially for stabilized rental assets. Cap rates are settling in the low-7 percent range, and a few sales in the early part of this year could impart momentum and start to relieve pent-up investor demand. Buyers are expected to focus on properties in established communities with large daytime populations, such as Fort Lauderdale and Pompano Beach, where renter demand will rebound quickly once employment improves. Communities in western Broward County, including Pembroke Pines and Sunrise, are forecast to record high population growth, but it may take longer for supply and demand fundamentals to realign.

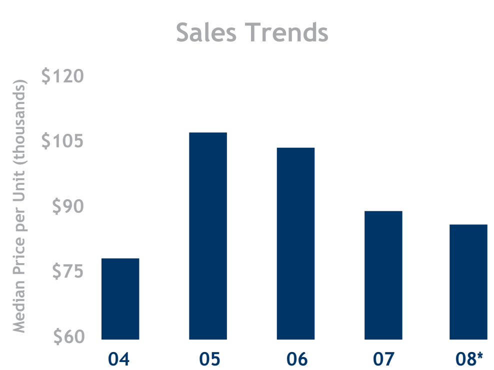
2009 Market Outlook

- **2009 NAI Rank: 25, Down 10 Places.** Slow household formation and a weak labor market caused Fort Lauderdale to drop 10 spots in the NAI.
- **Employment Forecast:** Further declines in the trade, transportation and utilities and financial activities sectors will underpin a loss of 18,300 jobs in Broward County this year, a 2.5 percent decline. In 2008, 30,000 positions were cut.
- **Construction Forecast:** Apartment stock will increase 0.4 percent in 2009 with the completion of 280 units. Last year, 240 apartments came online.
- **Vacancy Forecast:** Competition for renters from shadow stock, plus a drop in demand, will result in a 110 basis point rise in the vacancy rate this year to 7.9 percent. Vacancy increased 150 basis points in 2008.
- **Rent Forecast:** Asking rents are expected to fall 1.7 percent in 2009 to $1,094 per month, while concessions will tick up, causing effective rents to slip 2.6 percent to $1,025 per month.
- **Investment Forecast:** Opportunistic investors will continue to seek bulk purchases of unsold condos in converted apartment properties to lease out until the for-sale market improves, potentially in 2010.







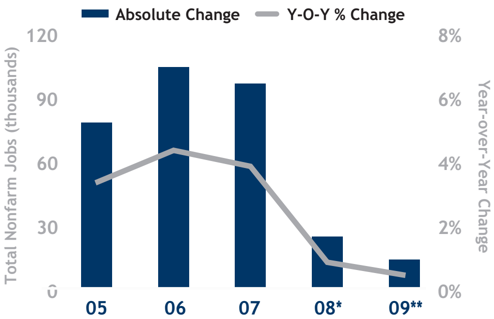


* Estimate ** Forecast

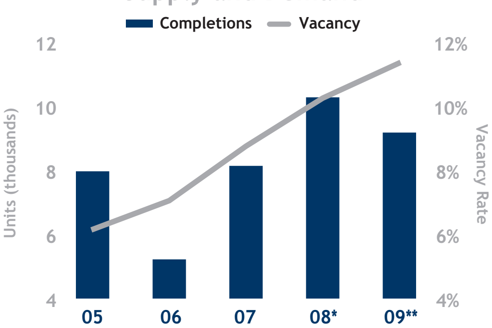
Market Forecast Employment: 2.5% ▼ Construction: 17% ▲ Vacancy: 110 bps ▲ Asking Rents: 1.7% ▼

Energy Markets Cast Shadow; Decline in Construction a Long-Term Positive

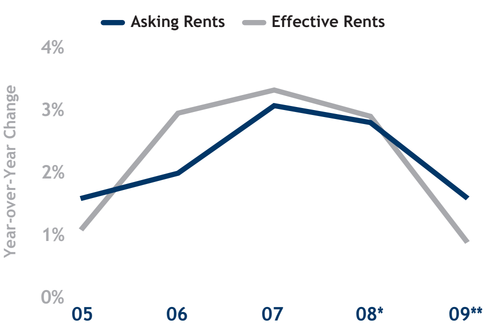
Employment Trends



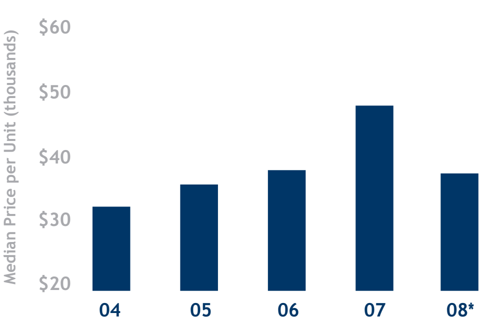
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Economic and demographic forecasts offer a positive outlook for the Houston apartment market in 2009 and for years to come. In the short term, risk from the national housing and financial crises is not likely to have much of a direct impact on the local economy. Home prices in the market have retreated only modestly, keeping the foreclosure rate below the U.S. average and limiting competition from shadow stock. A significant economic downturn, however, could lessen import activity at the Port of Houston. Additionally, a global reduction of demand for gasoline may impact exports and refinery operations, diluting apartment demand near the port. Improvement in apartment fundamentals near job centers has been robust in recent years, largely the result of the energy sector. As revenue falls, some smaller oil companies may slow the pace of expansion or even cut positions, leading to reduced demand for Class A units. Suburban assets, especially in Montgomery County, should begin to perform better this year due to strong population growth and delayed home purchases.

The Houston apartment market will remain attractive to investors, supported by a wide array of options and rising cap rates that were in the mid-7 percent range at the end of 2008. Distressed properties are anticipated to come to market more frequently in 2009, while owners with a penchant for improving occupancy levels may target assets southwest of the city center. The end of the FEMA voucher program has left several of these properties struggling to keep vacancy in check, resulting in motivated out-of-state sellers. Deferred maintenance in these assets is expected to be significant, however, which may keep local buyers on the sidelines until the properties are returned to the bank. Elsewhere, Class A apartment complexes near the Texas Medical Center are well-positioned to provide stable returns, which should attract larger investors willing to pay premiums.

2009 Market Outlook

- **2009 NAI Rank: 29, Up 6 Places.** A forecast for the nation's strongest employment growth pushed Houston up six spots in the ranking.
- **Employment Forecast:** Employers are expected to generate 13,400 jobs in Houston this year, a 0.5 percent increase.
- **Construction Forecast:** Development activity will remain robust in 2009 as 9,100 apartments are delivered, a 1.5 percent expansion of stock. Last year, 10,200 units came online.
- **Vacancy Forecast:** Supply-side pressure will push vacancy up 110 basis points to 11.4 percent this year, after a 150 basis point rise in 2008.
- **Rent Forecast:** As vacancy creeps higher in 2009, owners will offer greater concessions. Asking rents are projected to finish the year at $771 per month, a 1.6 percent gain, while effective rents advance 0.9 percent to $711 per month.
- **Investment Forecast:** Brazoria County apartments received a boost late last year from Galveston residents displaced by Hurricane Ike. The improved occupancy levels are expected to be short-lived, however, and should not significantly impact metrowide fundamentals in 2009.

Market Forecast Employment: 0.5% ▲ Construction: 11% ▼ Vacancy: 110 bps ▲ Asking Rents: 1.6% ▲

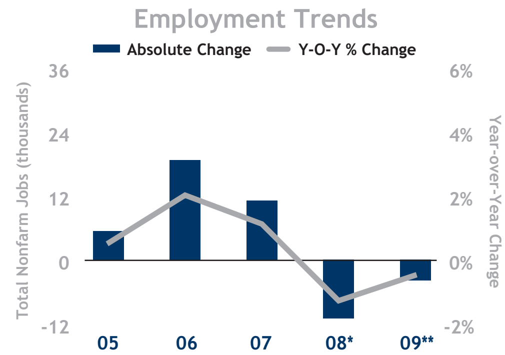
Renter Demand Shifting from Hamilton County to Western Submarkets

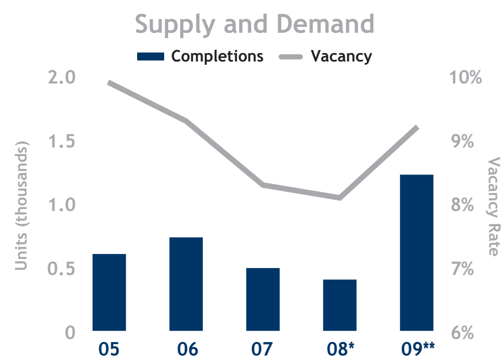
While the Indianapolis employment market will contract this year, cuts will be minimal, and steady renter demand for apartments will persist. A spike in deliveries will weigh down operating conditions in the near term; however, this weakening is anticipated to be short-lived, as the extended forecasts for employment and population expansion are quite strong. The majority of this year's completions will be located in Hamilton County, particularly along the 146th Street corridor, which will lead to a temporary oversupply. In contrast, the Boone/Hendricks submarket is expected to perform well this year, as the $2 billion expansion of Indianapolis International Airport has driven an increase in support positions and retail services employment. Furthermore, construction has historically been modest in the submarket, a trend expected to continue through 2009. As a result, vacancy improvement and rent gains in the area are forecast to lead the metro this year.

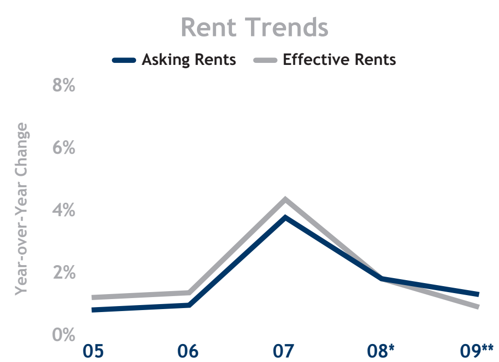
Interest from out-of-state buyers will remain elevated in 2009, as the local apartment market offers a fairly bright long-term outlook and attractive initial yields. Current cap rates are in the mid-7 percent range but will likely rise modestly this year as sellers adjust prices to more closely match buyers' expectations. Additionally, a greater number of distressed listings are projected to come online, providing discounted opportunities for buyers with strong market knowledge. These investors may target assets in Plainfield, west of the city's core, or in Lawrence, to the northeast, as renter demand in these areas is expected to increase, supporting rent growth. Investors with extended hold strategies will continue to seek properties in the Central submarket due to ongoing redevelopment efforts that should prop up apartment fundamentals in the years ahead.

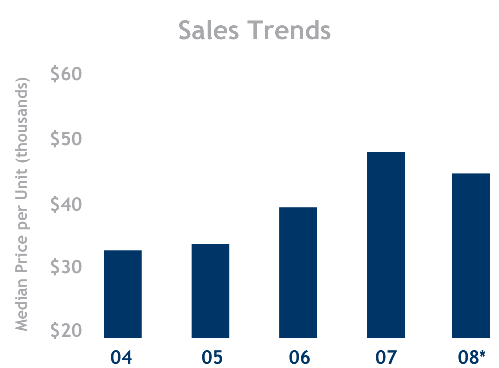
2009 Market Outlook

- **2009 NAI Rank: 30, Up 1 Place.** Despite modest job losses, Indianapolis ranks as one of the better employment markets in the country this year. As such, the metro rose one spot in the index.
- **Employment Forecast:** Local employers are expected to eliminate 3,900 jobs this year, thinning payrolls by 0.4 percent, after a 1.2 percent contraction in 2008.
- **Construction Forecast:** Construction activity is forecast to accelerate in 2009. Developers are projected to complete 1,200 apartments, increasing inventory by 1.1 percent. Last year, only 375 units came online.
- **Vacancy Forecast:** Following a 20 basis point improvement in 2008, vacancy is expected to climb 110 basis points to 9.2 percent this year.
- **Rent Forecast:** Premiums for new units will drive rent gains in 2009. Asking rents are forecast to increase 1.3 percent to $684 per month, while effective rents rise 0.9 percent to $642 per month.
- **Investment Forecast:** Developers are expected to add nearly 250 condos to the Central submarket this year, some of which may come online as rentals. Despite this challenge, strong demand drivers provide a positive extended outlook for the area.









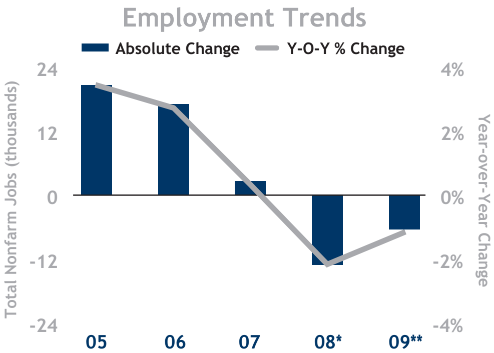
* Estimate ** Forecast

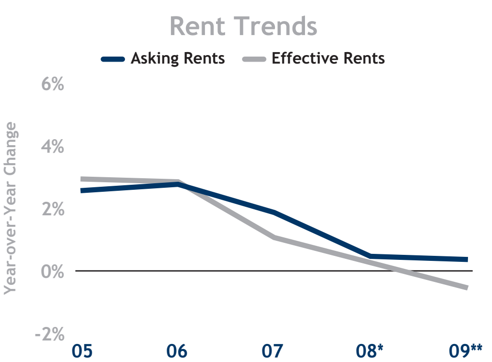
Market Forecast	Employment: 0.4% ▼	Construction: 220% ▲	Vacancy: 110 bps ▲	Asking Rents: 1.3% ▲

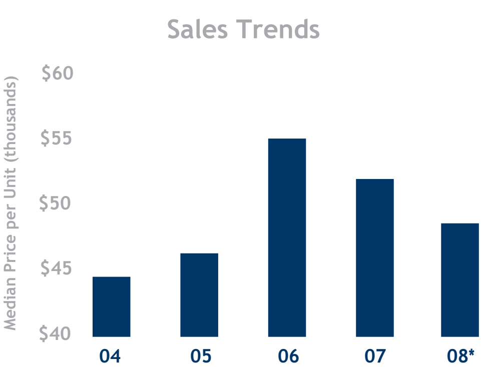
Beyond Short-Term Weakness, Port Presents Improving Outlook in Jacksonville

While the performance of Jacksonville's apartment market will moderate through 2009, the extended outlook remains fairly bright. Major employers in the financial activities and banking industries, including Wachovia and Citigroup, will trim staffing levels this year, although traffic at the port is expected to strengthen the metro area's economic stability. In late 2008, JAXPORT officials reached an agreement with Hanjin Shipping Co. Ltd. to move the company's operations to the TracPac Terminal at Dames Point. The relocation will create 1,600 direct and 4,000 indirect jobs over the next several years. Additionally, it was announced that Mayport Naval Station would be the home port for a nuclear-powered carrier, a move that will eventually result in as many as 5,000 new positions. While these developments will prop up apartment demand over the long term, competition from shadow stock is weighing on fundamentals, and vacancy is expected to push higher this year.

The local apartment market will continue to present opportunities for investors. Transaction velocity is forecast to pick up in 2009 as declining revenues limit owners' ability to refinance. Consequently, a greater number of assets that were purchased using aggressive financing at peak pricing will likely come to market, offering buyers the chance to acquire properties at a discount. Investors may also find upside potential by repositioning bank-owned assets in areas suffering from competition with shadow rentals, like Orange Park. Additionally, investment activity in the metro may receive a boost from South Florida buyers who are beginning to increase their presence due to Jacksonville's affordable per-unit prices and long-term projections for economic and population growth. Investors looking for stability may want to target properties in the Southside submarket, where proximity to office employment and elevated incomes should continue to support values.







* Estimate ** Forecast

2009 Market Outlook

- **2009 NAI Rank: 38, Down 8 Places.** The nation's highest vacancy rate caused Jacksonville's eight-spot drop in this year's NAI.
- **Employment Forecast:** Employers are expected to decrease payrolls 1.1 percent in 2009, shedding 6,500 positions.
- **Construction Forecast:** Approximately 1,000 apartments will come online this year, down from 2,300 units in 2008.
- **Vacancy Forecast:** After a 190 basis point increase last year, vacancy will rise 110 basis points to 12.9 percent by year-end 2009.
- **Rent Forecast:** Shadow stock and job contractions will hamper rent gains. Asking rents are forecast to tick up 0.4 percent this year to $803 per month, while effective rents drop 0.5 percent to $755 per month.
- **Investment Forecast:** Short-term weakness due to the local economy and shadow rentals will drive apartment investors to the more stable Southside and Jacksonville Heights areas. Opportunities will also exist in the Western and Northern submarkets as foreclosures and bank-owned assets offer investors the chance to purchase at a discount.

Market Forecast Employment: 1.1% ▼ Construction: 57% ▼ Vacancy: 110 bps ▲ Asking Rents: 0.4% ▲

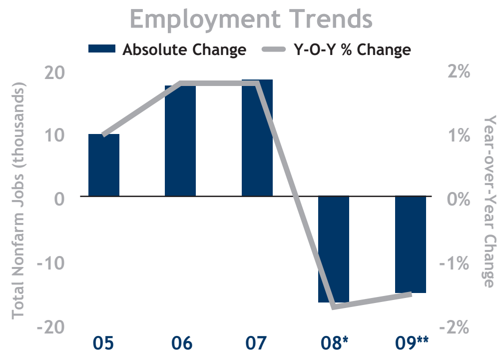
Down 9 Places | 2009 Rank: 42 | 2008 Rank: 33

Kansas City

Suburban Areas to Outperform Downtown, Despite Ongoing Redevelopment Efforts

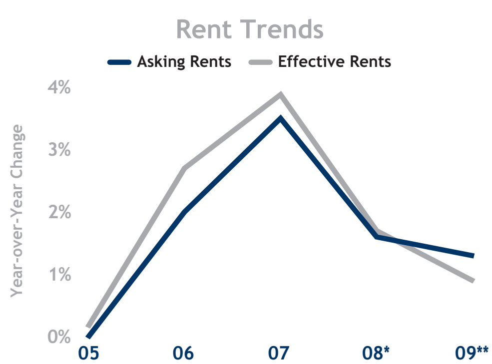
New apartment construction and redevelopment efforts in Kansas City's downtown will eventually lead to healthy renter demand, although this effect will likely not take hold in 2009. Projected job losses and the growing shadow-rental market will result in higher vacancy levels and more modest rent gains. The elimination of 5,000 positions last year by Overland Park-based Sprint Nextel, Kansas City's largest employer, highlights the economic strains present in the metro area. While developments in the River Market and Power & Light District have drawn many residents to downtown submarkets over the past few years, apartment construction and competition stemming from condos serving as rentals will outpace demand growth in 2009. Nearly 70 percent of this year's apartment completions will be located downtown, adding competition for existing units. As such, rent growth in the near term will be concentrated in suburban areas like Johnson and Clay counties, where Class A units dominate the rental market.

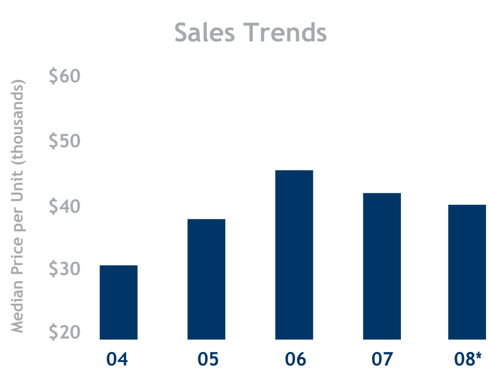
The pricing disconnect between buyers and sellers should narrow this year, as regional buyers will likely re-enter the market, enticed by elevated cap rates and attractive pricing. This trend is expected to stabilize transaction velocity, which should return to a normalized pace in late 2009. Initial yields are forecast to climb approximately 50 basis points across all classes in the first six months of the year to the mid-8 percent range. Lower-tier properties in Johnson County, Independence and the Northland area may receive increased investor interest due to a migration of renters into more affordable units as the local economy weakens.



2009 Market Outlook

- **2009 NAI Rank: 42, Down 9 Places.** Increased construction and continued job cuts pushed Kansas City down nine places in the index.
- **Employment Forecast:** Total employment is forecast to contract by 1.5 percent this year with the loss of 15,200 positions. In 2008, approximately 16,700 jobs were cut.
- **Construction Forecast:** Developers will add 700 units in Kansas City this year, expanding apartment inventory by 0.6 percent. In 2008, 530 apartments were completed.
- **Vacancy Forecast:** A weak labor market will hinder absorption this year, causing metrowide vacancy to rise 140 basis points to 8.8 percent. In 2008, vacancy increased 80 basis points.
- **Rent Forecast:** Asking rents are forecast to advance 1.3 percent to end 2009 at $708 per month, while effective rents reach $660 per month, a 0.9 percent gain. Last year, when job cuts were more modest, asking and effective rents gained 1.6 percent and 1.7 percent, respectively.
- **Investment Forecast:** Fundamentals in Lee's Summit have strengthened, driven by favorable demographics and a healthy employment base. Investors seeking stable cash flow may find opportunities in the area's lower tiers, where rents are currently below the average market rate and conditions are projected to remain stable in 2009.





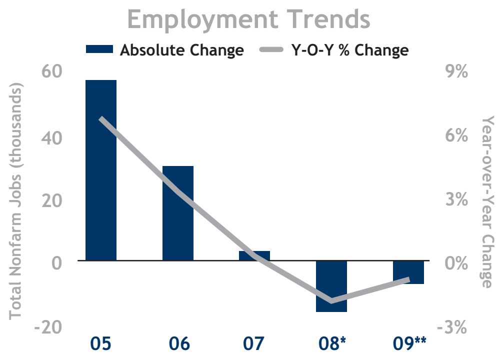
* Estimate ** Forecast

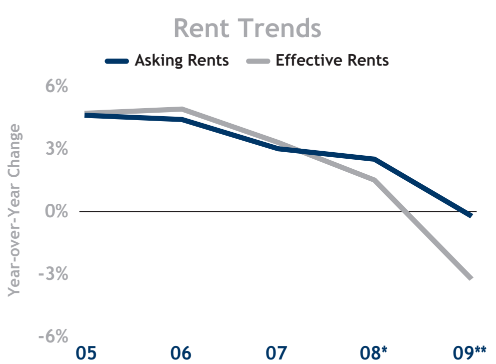
Market Forecast | Employment: 1.5% ▼ | Construction: 32% ▲ | Vacancy: 140 bps ▲ | Asking Rents: 1.3% ▲

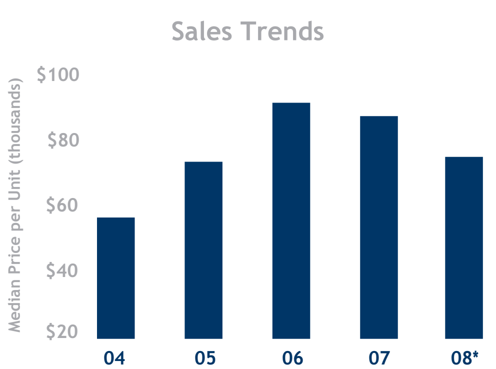
Las Vegas

Down 2 Places | **2009 Rank: 16** | **2008 Rank: 14**

Short-Term Risks Remain, but Construction Halt Sets Stage for Recovery







* Estimate ** Forecast

The Las Vegas apartment market will stay in flux during 2009 due to lingering economic stresses, but signs of a recovery are starting to appear. After years of strong expansion in the housing sector and the ensuing downturn, the local economy will again rely heavily on the gaming industry to drive growth. Although several major projects on the Strip have come to a standstill, resulting in deep job cuts in the construction sector, the opening of Encore at Wynn Las Vegas will help to prop up demand for close-in apartment assets, as roughly 5,000 workers are expected to be hired. The outlying areas of Henderson and North Las Vegas, where home building efforts were robust during the boom years, will record some of the market's highest apartment vacancy rates as a result of single-family homes competing as rentals. Shadow stock may affect Class B/C operations in these areas as more lower-income residents double up. Class A units will also be impacted by shadow stock, but tenants are becoming wary of renting a home that could be foreclosed upon before the lease terms expire.

Fundamentals in the local apartment market are expected to begin stabilizing late in 2009, which may present opportunities for investors waiting on the sidelines for a turnaround. Assets adjacent to master-planned communities along Interstate 215 will attract large buyers and some syndicates due to their proximity to job centers. Distressed properties in the perimeter, where many complexes were acquired by investors unable to achieve pro forma vacancy and rents, may lure bargain-hunting buyers. Investors seeking stability will likely have to stretch for well-maintained and well-operated Class B/C complexes in the University submarket, as listings in this area tend to be limited. Metrowide, cap rates are averaging in the mid- to high-6 percent range and are projected to rise modestly in 2009. Lower-tier initial yields, however, are currently in the mid- to high-7 percent range, while cap rates for some Class C assets in the outskirts of the metro area are exceeding 8 percent.

2009 Market Outlook

- **2009 NAI Rank**: **16, Down 2 Places.** Rent declines and rising concessions caused Las Vegas to drop two spots in the NAI.
- **Employment Forecast**: Employers are forecast to cut 7,400 positions in 2009, a 0.8 percent decline.
- **Construction Forecast**: Builders delivered 2,670 apartments to Las Vegas in 2008; production will slow to 280 units this year.
- **Vacancy Forecast**: The impact of shadow-rental stock will begin to dissipate in 2009, resulting in a 60 basis point uptick in the vacancy rate to 8.9 percent. Last year, vacancy increased 220 basis points.
- **Rent Forecast**: Asking rents are expected to dip 0.2 percent to $873 per month, while effective rents drop 3.2 percent to $804 per month.
- **Investment Forecast**: Value-add plays in North Las Vegas may surface in the coming years, stemming from plans to rehabilitate older neighborhoods along Las Vegas Boulevard North. Nearly $1 billion in gentrification projects are proposed for the 238-acre redevelopment area.

Market Forecast Employment: 0.8% ▼ Construction: 90% ▼ Vacancy: 60 bps ▲ Asking Rents: 0.2% ▼

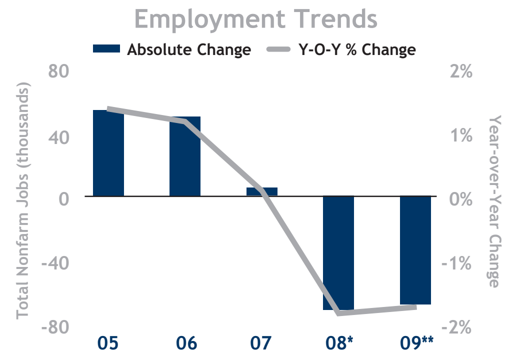
Some Softening Expected, but Long-Term Outlook for Local Apartments Healthy

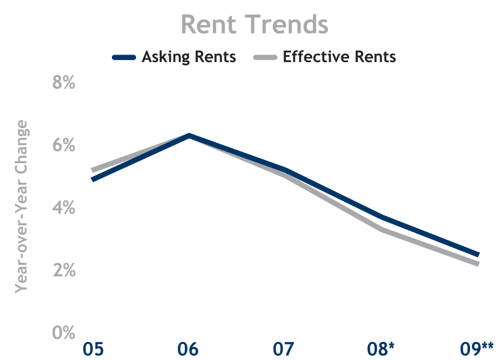
The Los Angeles apartment market will remain one of the nation's top performers in 2009, though a softer local economy will result in rising vacancy. Despite the uptick, the gap between renting and owning is significant, allowing for reasonable rent gains this year. The pace of rent growth, however, will vary by location. Increases may be stronger in rent-regulated areas such as Santa Monica, Beverly Hills and West Hollywood, as some contracts that required owners to lease to lower-income residents are expiring. Deeper job cuts may lead to higher turnover rates in these units as tenants are forced to relocate or double up, enabling owners to reset rents to market rates. In locations with a dense working-class renter mix, like the South Bay/Long Beach submarket, vacancy will stay in the low-3 percent range, supporting revenue growth. Elsewhere, the downtown core will remain flooded with for-rent condos, resulting in elevated concessions and a projected metro-high apartment vacancy rate in the mid-11 percent range by year end.

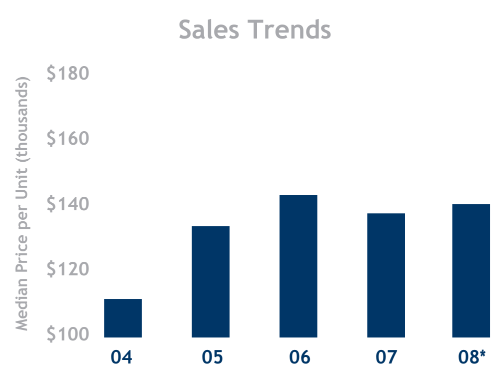
Seasoned Los Angeles property investors that were inactive as 2008 came to a close may be preparing to re-enter the market. Reduced competition from highly leveraged buyers could encourage investors to expand or realign their portfolios. Outside of downtown, Class C complexes are forecast to outperform during the downturn due to increased demand from renters seeking affordable housing; these assets may offer investors upside through improved expense and management oversight. Affluent portions of the Westside Cities will sustain interest from institutions, which are driven to historically tight locations with strong prospects for NOI growth. Buyers who are targeting stability but have been priced out of the Westside Cities may want to track Class B/C assets in South Bay/Long Beach. Vacancy in the area is consistently among the lowest in the metro, and land constraints hinder new development. Currently, cap rates for core properties throughout Los Angeles County are in the mid- to high-5 percent range, while initial yields for lower-quality assets can be above 6 percent.

2009 Market Outlook

- **2009 NAI Rank: 4, Up 2 Places.** Easing construction and below-average vacancy drove Los Angeles up two spots in the index.
- **Employment Forecast:** Employers are expected to trim payrolls by 1.7 percent in 2009, shedding 68,000 jobs.
- **Construction Forecast:** Deliveries are anticipated to total roughly 1,500 apartments this year, after 3,560 units were completed in 2008.
- **Vacancy Forecast:** Following a 110 basis point increase last year, vacancy will rise 100 basis points to 5.7 percent by year-end 2009.
- **Rent Forecast:** Asking rents will gain 2.5 percent to $1,516 per month this year, while effective rents advance 2.2 percent to $1,457 per month.
- **Investment Forecast:** Investors may want to track opportunities downtown. While the area will record some weakness in 2009, redevelopment efforts should provide long-term upside as the market settles and housing demand near "live, work, play" districts gains traction.







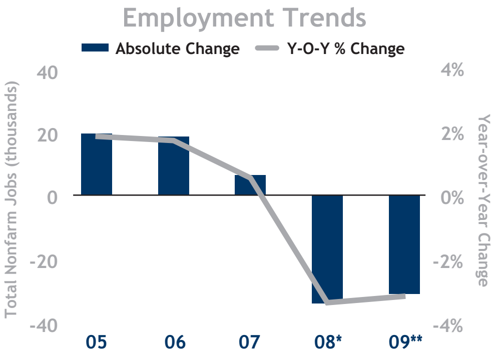
* Estimate ** Forecast

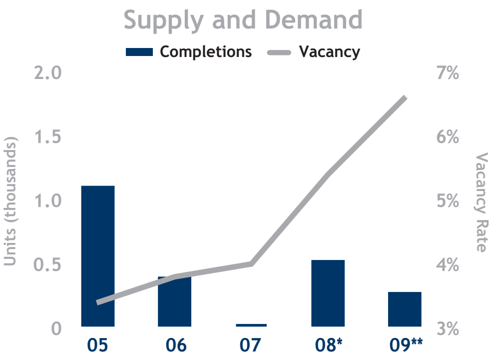
Market Forecast Employment: 1.7% ▼ Construction: 58% ▼ Vacancy: 100 bps ▲ Asking Rents: 2.5% ▲

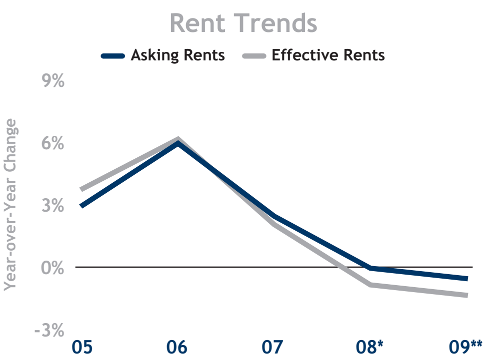
Miami

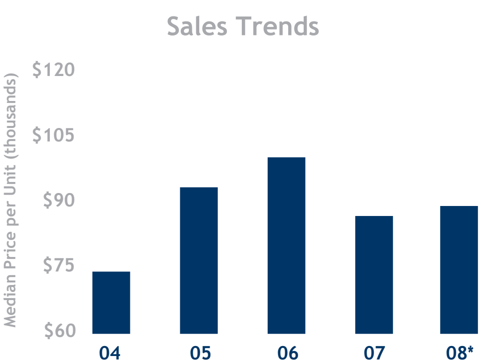
Down 1 Place | **2009 Rank: 19** | **2008 Rank: 18**

Return of Fundamentals-Based Buying Likely to Lead to Steady Sales Activity









* Estimate ** Forecast

Rental housing demand in Miami-Dade County will ease in 2009 due to continued reductions in the local work force. The key characteristics of the local market will mitigate the impact of declining employment on apartment demand, however, and vacancy is expected to remain below 6 percent. Indeed, approximately 75 percent of the market's multi-family rental stock is in Class B/C properties, helping to meet the needs of working-class residents who are unable to afford single-family housing. Lower-tier assets across the county, especially in areas with blue-collar demographics, such as Hialeah and North Miami, will continue to post vacancy of 30 basis points to 50 basis points less than the marketwide rate. Rents will drop throughout the metro this year as owners seek to retain long-term renters and quickly fill vacant units. Concessions are forecast to rise slightly during the year to 6.3 percent of asking rents.

Transaction velocity picked up as 2008 progressed, and the momentum is expected to be sustained this year as investment activity continues to recover. The practice of conversion-oriented pricing is fading into the past, and properties are being underwritten only on supply and demand fundamentals as traditional rentals. Assets listed at cap rates from 7 percent to 8 percent are trading relatively quickly, as lenders are willing to provide financing for properties with stable operating histories. Sales of small Class B/C complexes dominate activity and will continue to do so in the near term, especially in high-demand submarkets like North Miami and North Miami Beach. Indeed, these lower-tier properties offer investors the reliability of working-class tenant mixes and modest but steady rent growth.

2009 Market Outlook

- **2009 NAI Rank: 19, Down 1 Place.** Despite below-average vacancy levels and reduced construction, Miami dropped one spot in this year's ranking due to deep job cuts.
- **Employment Forecast:** In 2009, employers are forecast to eliminate 31,500 jobs, a 3.1 percent decline. Last year, 34,000 positions were cut.
- **Construction Forecast:** Developers are expected to complete 250 apartments this year, down from 500 units in 2008. Additionally, builders have put more than 1,200 units of subsidized rental housing into the planning pipeline.
- **Vacancy Forecast:** A weak job market and shadow-rental stock will underpin a 120 basis point rise in the vacancy rate to 6.6 percent in 2009. Last year, vacancy increased 140 basis points.
- **Rent Forecast:** A 0.5 percent decline in asking rents to $1,109 per month is projected this year, while effective rents are forecast to decrease 1.3 percent to $1,039 per month. In 2008, asking rents were flat, and effective rents dropped 0.8 percent.
- **Investment Forecast:** Investor interest in apartments near public transportation is expected to heighten. These properties can fulfill the housing needs of the approximately 90,000 county households that do not own a vehicle.

Market Forecast | Employment: 3.1% ▼ | Construction: 50% ▼ | Vacancy: 120 bps ▲ | Asking Rents: 0.5% ▼

Up 14 Places | 2009 Rank: 20 | 2008 Rank: 34

Milwaukee

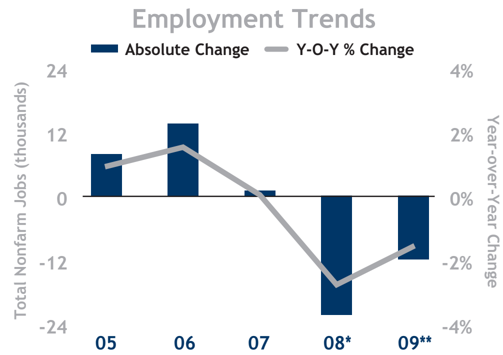
Strong Performance Forecast in the Suburbs; Construction Weighing on Downtown Vacancy

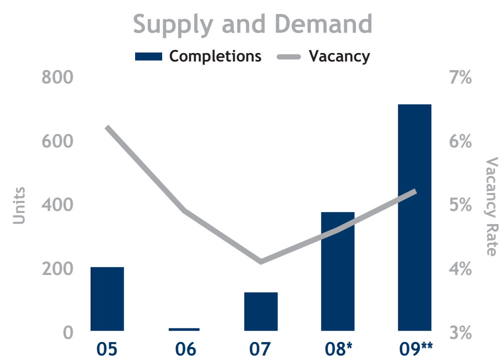
Fundamentals in the Milwaukee apartment market are forecast to soften in 2009 as elevated deliveries and ongoing job losses place upward pressure on vacancy. This year, developers are scheduled to complete the most new units in a decade, the majority of which will be located in the City East and City West submarkets. As a result of this influx of new stock, downtown apartment properties will likely record weaker performance than in recent years. Renter demand is anticipated to be strongest in the outlying areas of Waukesha County, Greenfield and Oak Creek, which have benefited from urban flight patterns and limited competition from new construction during the past three years. These trends are forecast to continue in 2009, strengthening suburban fundamentals, particularly in the Class B/C segment. There could be some stresses in Class A properties in these areas, though, if the housing and credit markets begin to stabilize, making home-ownership more easily accessible for current renters.

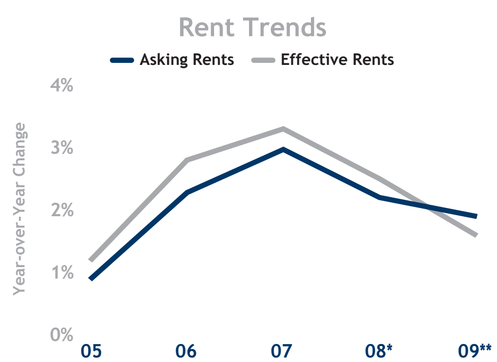
The expectations gap continues to affect transaction velocity in Milwaukee; however, unlike other Midwestern markets, buyers will likely have to increase offers to obtain properties. Owners have recorded strong returns over the past two years and have been reluctant to offer discounts. As such, cap rates, which are currently in the low- to mid-8 percent range, should remain relatively stable this year. Buyers seeking distressed listings will likely be disappointed, as vacancy is expected to stay fairly tight and very few properties were financed using overly aggressive underwriting in recent years. Suburban Class B/C assets could garner the most interest, as fundamentals in this segment are forecast to outperform those in the metro's top tier in the near term.

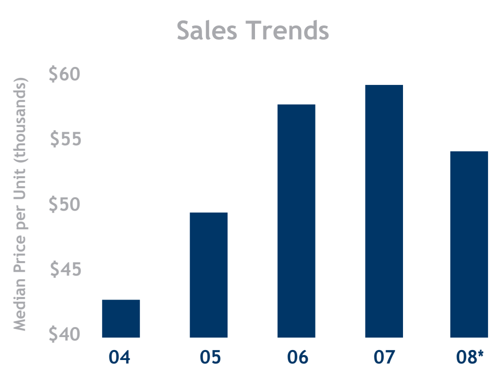
2009 Market Outlook

- **2009 NAI Rank: 20, Up 14 Places.** Tight operating conditions will support modest rent growth, driving Milwaukee up 14 spots in the NAI.
- **Employment Forecast:** The local market is undergoing a shift to a service-based economy, but the change has been slow to gain momentum. As such, Milwaukee-area employers are forecast to trim 12,000 positions this year, cutting payrolls by 1.5 percent. In 2008, 22,400 jobs were eliminated in the metro.
- **Construction Forecast:** Approximately 700 apartments are expected to come online in 2009, a 0.7 percent addition to local inventory. Last year, developers completed 363 units.
- **Vacancy Forecast:** Vacancy is forecast to rise 60 basis points to 5.2 percent this year due to increased construction activity. In 2008, when deliveries were modest, vacancy pushed 50 basis points higher.
- **Rent Forecast:** Asking rents are anticipated to gain 1.9 percent to $865 per month in 2009, while effective rents rise 1.6 percent to $827 per month.
- **Investment Forecast:** Continued employment growth and limited construction activity along Interstate 94 in the Cudahy/South Milwaukee/Oak Creek submarket may provide investors with the potential for long-term revenue growth.





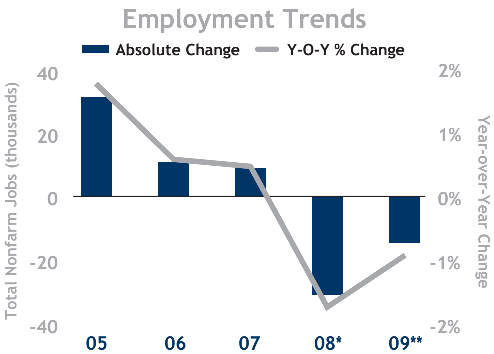


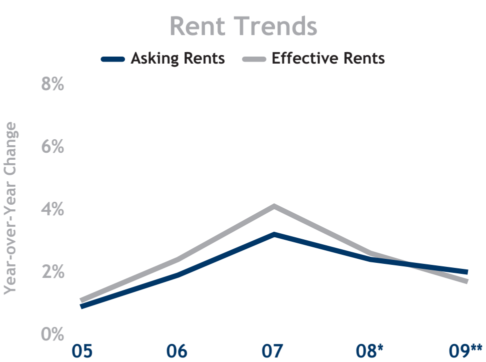


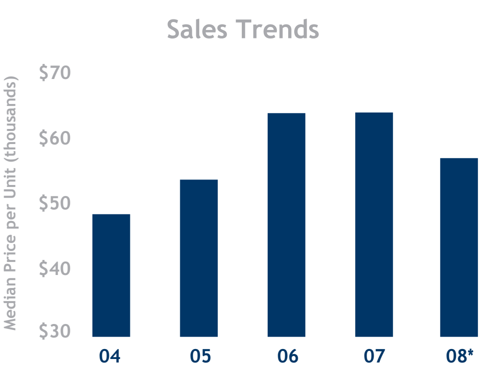
* Estimate ** Forecast

Market Forecast | Employment: 1.5% ▼ | Construction: 93% ▲ | Vacancy: 60 bps ▲ | Asking Rents: 1.9% ▲

Relatively Low Vacancy Offsetting Impact of Job Cuts







* Estimate ** Forecast

While construction activity will slow and population growth is expected to remain healthy, weakening local employment prospects will be a drag on the Twin Cities' apartment market this year. Employment cuts in typically lower-paying industries will reduce near-term demand for Class B/C properties. Conversely, renter demand is anticipated to increase for assets in close-in suburbs and infill locations as residents move closer to employment centers and arterial routes. This will likely lead to higher vacancy levels in some outlying areas, however, particularly Washington County. The arrivals of the Northstar Commuter Rail and the Central Corridor Light Rail are too far in the future to lure tenants; still, developers are beginning to seek sites along the routes for future projects. As a result, leasing activity in the near term will likely be concentrated in Anoka County, downtown Minneapolis and downtown St. Paul.

A diverse employment base will facilitate a more rapid recovery in the Twin Cities than in many neighboring metros. As such, out-of-state buyers may view Minneapolis-St. Paul as a relatively safe choice over the long term, making it a solid hedge market for extended hold strategies. Local investors are expected to remain active, targeting distressed assets for repositioning. More of these properties have entered the market recently, as many unseasoned investors who made purchases during the price run-up are now attempting to sell. Other buyers are taking advantage of cooling prices and less froth in the market to obtain top-tier assets that suit their long-term investment goals. While the pricing disconnect is still considerable, sellers have begun to adjust their expectations. This year, cap rates are projected to increase 20 basis points to 50 basis points from their current low- to mid-7 percent range.

2009 Market Outlook

- **2009 NAI Rank: 15, Up 14 Places.** Slowing construction drove the Twin Cities up 14 spots in this year's index, despite rising vacancy.
- **Employment Forecast:** Employers are expected to trim payrolls by 0.9 percent in 2009, eliminating roughly 14,800 jobs. Last year, 31,000 positions were cut.
- **Construction Forecast:** After 1,200 units came online in 2008, developers are expected to slow the pace of construction, delivering 500 units this year, the majority of which are in the Minneapolis submarket.
- **Vacancy Forecast:** Job losses will ease renter demand throughout the metro area, which will raise vacancy 70 basis points in 2009 to 5.4 percent, following a 60 basis point increase last year.
- **Rent Forecast:** Asking rents are projected to reach $976 per month by year end, while effective rents rise to $921 per month, annual gains of 2.0 percent and 1.7 percent, respectively.
- **Investment Forecast:** Investors with extended hold strategies may want to explore opportunities in Dakota County, as the submarket's employment base and population are poised to expand rapidly in the coming years, while new construction is projected to remain minimal.

Market Forecast Employment: 0.9% ▼ Construction: 58% ▼ Vacancy: 70 bps ▲ Asking Rents: 2.0% ▲

Up 4 Places | 2009 Rank: 35 | 2008 Rank: 39

New Haven

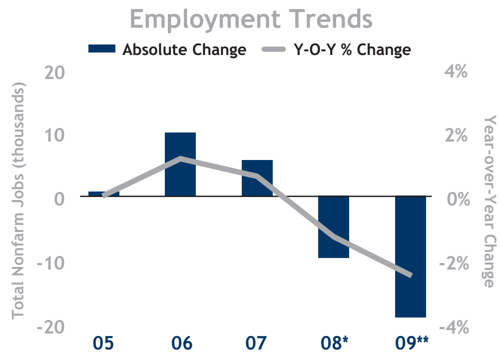
Economic Weakness to Support Renter Demand in Class B/C Properties

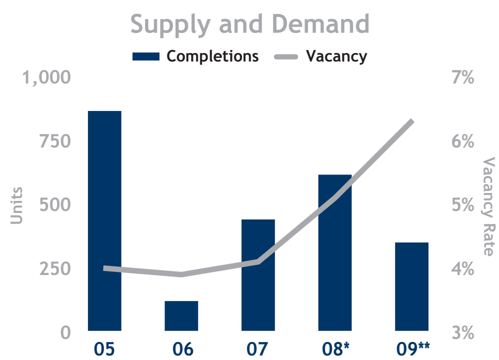
Job market struggles in the New Haven market will persist through 2009, yet low housing affordability and a reduced pace of apartment construction are expected to keep vacancy fairly tight. Although contraction of the professional and business services and financial activities sectors will slacken top-tier rental demand this year, Class A properties in the New Haven Harborside submarket should perform well due to the area's relatively affordable rents when compared to Fairfield County. The greatest strains in the market are expected in tertiary submarkets such as Naugatuck/Waterbury, where rent gains will moderate and vacancy should creep higher as renters begin to double up. Elevated land and construction costs have historically insulated the metro area from overbuilding, and developers are responding to local economic uncertainty by slowing apartment deliveries in 2009 and in the years to come.

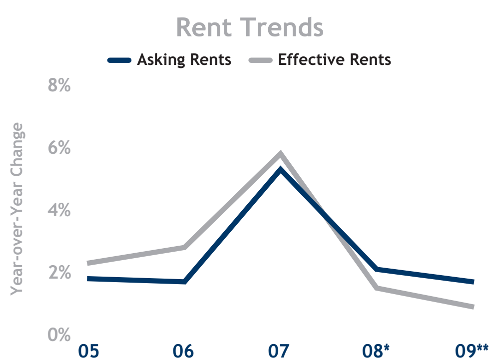
Following a steady decline in 2008, investment activity in New Haven could gain some momentum this year. Last year, investors' fears of the added risks associated with lower-tier assets limited transactions to mostly Class A properties. While reduced investor demand for properties in lesser locations will continue, buyers are expected to target Class B/C apartments in top submarkets. Buyers will likely target lower-tier properties in the New Haven core, Hamden and the Fairfield/Bridgeport/Trumbull triangle, where students represent a consistent pool of renters. Fewer Class A transactions and the presence of low-leverage opportunistic buyer funds will likely result in a shift in pricing trends, causing cap rates to increase to the mid- to high-7 percent range.

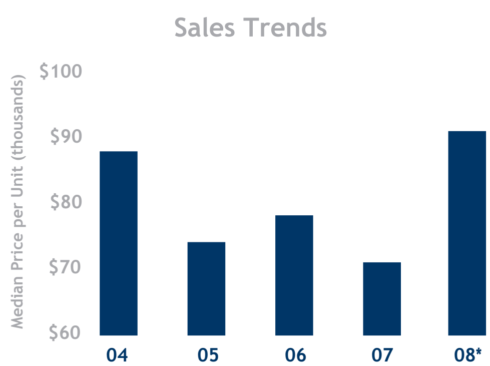
2009 Market Outlook

- **2009 NAI Rank: 35, Up 4 Places.** Significant employment cuts kept New Haven near the bottom of the ranking this year.
- **Employment Forecast:** After shedding approximately 9,700 workers last year, employers are forecast to shrink payrolls by another 19,000 positions, or 2.4 percent, in 2009. The largest reductions will likely occur in the financial activities sector.
- **Construction Forecast:** The pace of development will slow this year, with builders expanding inventory by just 335 units. In 2008, 600 apartments came online.
- **Vacancy Forecast:** Vacancy is projected to increase 120 basis points to 6.3 percent in 2009, following a 100 basis point rise last year.
- **Rent Forecast:** Asking and effective rents are expected to advance 1.7 percent and 0.9 percent this year to $1,626 per month and $1,564 per month, respectively. Rent growth will likely be most significant in the lower tiers, where vacancy remains tight.
- **Investment Forecast:** Despite slightly weaker fundamentals, investor interest in local apartments should persist. Still-high single-family home prices will support continued activity in assets marketwide, although Class B/C properties may make up a larger share of closed deals than in recent years.









* Estimate ** Forecast

Market Forecast	Employment: 2.4% ▼	Construction: 44% ▼	Vacancy: 120 bps ▲	Asking Rents: 1.7% ▲

Statistical

MSA Name	Employment Growth[2]				Vacancy (Year-End)[2]				Asking Rent (Year-End)[2]			
	06	07	08*	09**	06	07	08*	09**	06	07	08*	09**
Atlanta	2.9%	1.6%	-3.3%	-1.2%	8.3%	8.1%	9.8%	10.7%	$821	$844	$863	$869
Austin	5.7%	3.4%	0.4%	0.3%	7.2%	6.6%	7.9%	9.4%	$791	$834	$873	$895
Boston	1.1%	0.6%	-1.1%	-1.9%	5.5%	5.7%	6.7%	7.5%	$1,644	$1,678	$1,742	$1,777
Charlotte	4.7%	2.9%	-2.3%	-2.7%	6.9%	5.8%	7.9%	10.0%	$752	$779	$800	$810
Chicago	1.1%	0.5%	-1.5%	-1.1%	5.2%	4.8%	5.8%	6.7%	$1,001	$1,046	$1,076	$1,096
Cincinnati	-0.1%	0.9%	-1.4%	-1.4%	8.7%	7.0%	7.3%	8.0%	$672	$692	$711	$722
Cleveland	-0.3%	-0.4%	-1.9%	-2.0%	6.5%	5.6%	5.7%	6.5%	$701	$728	$739	$747
Columbus	0.8%	1.2%	-0.6%	-0.9%	7.9%	7.3%	8.4%	9.7%	$639	$664	$681	$693
Dallas/Fort Worth	3.2%	2.6%	0.8%	0.1%	7.1%	6.1%	7.4%	9.2%	$735	$762	$787	$798
Denver	1.9%	2.2%	-0.8%	-0.3%	7.2%	6.3%	7.0%	8.2%	$863	$887	$913	$936
Detroit	-2.9%	-1.8%	-4.5%	-3.4%	7.4%	6.2%	6.6%	7.1%	$816	$834	$838	$841
Fort Lauderdale	2.0%	-0.2%	-3.9%	-2.5%	3.9%	5.3%	6.8%	7.9%	$1,098	$1,112	$1,113	$1,094
Houston	4.4%	3.9%	0.9%	0.5%	7.1%	8.8%	10.3%	11.4%	$716	$738	$759	$771
Indianapolis	2.1%	1.2%	-1.2%	-0.4%	9.3%	8.3%	8.1%	9.2%	$639	$663	$675	$684
Jacksonville	2.8%	0.4%	-2.1%	-1.1%	5.4%	9.9%	11.8%	12.9%	$781	$796	$800	$803
Kansas City	1.8%	1.8%	-1.7%	-1.5%	6.9%	6.6%	7.4%	8.8%	$665	$688	$699	$708
Las Vegas	3.3%	0.3%	-1.8%	-0.8%	4.6%	6.1%	8.3%	8.9%	$829	$854	$875	$873
Los Angeles	1.2%	0.1%	-1.8%	-1.7%	3.1%	3.6%	4.7%	5.7%	$1,356	$1,426	$1,479	$1,516
Miami	1.8%	0.6%	-3.3%	-3.1%	3.8%	4.0%	5.4%	6.6%	$1,088	$1,115	$1,115	$1,109
Milwaukee	1.6%	0.1%	-2.7%	-1.5%	4.9%	4.1%	4.6%	5.2%	$807	$831	$849	$865
Minneapolis-St. Paul	0.6%	0.5%	-1.7%	-0.9%	4.9%	4.1%	4.7%	5.4%	$906	$935	$957	$976
New Haven	1.2%	0.7%	-1.2%	-2.4%	3.9%	4.1%	5.1%	6.3%	$1,487	$1,566	$1,599	$1,626
New Jersey	0.7%	0.1%	-1.4%	-1.7%	3.3%	3.4%	4.0%	4.8%	$1,222	$1,279	$1,317	$1,345
New York City	1.8%	2.0%	-2.1%	-2.6%	2.2%	2.1%	3.4%	4.7%	$2,623	$2,855	$2,944	$3,006
Oakland	1.0%	0.1%	-4.0%	-1.7%	5.1%	5.1%	5.6%	6.4%	$1,271	$1,360	$1,410	$1,449
Orange County	1.7%	-1.5%	-3.3%	-0.6%	3.3%	3.6%	5.0%	5.9%	$1,452	$1,537	$1,588	$1,634
Orlando	3.4%	1.0%	-1.5%	-1.0%	4.9%	7.1%	9.5%	10.7%	$865	$876	$880	$883
Philadelphia	0.7%	0.6%	-1.1%	-0.8%	4.5%	4.1%	5.6%	6.6%	$958	$1,001	$1,030	$1,054
Phoenix	4.1%	0.2%	-4.6%	-1.6%	6.6%	8.1%	11.1%	12.2%	$749	$773	$779	$768
Portland	2.9%	1.7%	-2.7%	-0.8%	5.2%	4.2%	5.4%	6.6%	$756	$800	$825	$846
Riverside-San Bernardino	2.0%	-0.4%	-3.5%	-0.9%	5.4%	6.2%	7.1%	7.8%	$1,024	$1,057	$1,069	$1,055
Sacramento	1.1%	0.5%	-3.3%	-1.9%	7.5%	6.5%	7.3%	7.9%	$951	$962	$976	$979
Salt Lake City	4.5%	3.2%	-0.7%	-1.4%	5.7%	4.3%	5.7%	7.9%	$685	$724	$755	$772
San Antonio	3.5%	2.3%	0.7%	0.5%	7.4%	6.4%	8.5%	9.8%	$661	$684	$701	$713
San Diego	1.5%	0.3%	-2.0%	-0.6%	4.0%	3.7%	3.9%	4.3%	$1,243	$1,298	$1,351	$1,398
San Francisco	2.5%	2.1%	-0.7%	-0.7%	4.7%	3.9%	4.2%	4.5%	$1,695	$1,861	$1,934	$2,002
San Jose	2.2%	1.6%	-0.6%	-1.8%	3.7%	3.9%	4.9%	5.6%	$1,481	$1,647	$1,716	$1,755
Seattle	2.9%	2.9%	-1.2%	-0.8%	5.3%	4.3%	5.6%	6.6%	$900	$962	$1,017	$1,044
St. Louis	1.1%	0.2%	-1.9%	-1.4%	8.0%	6.7%	7.5%	8.7%	$700	$717	$732	$740
Tampa	1.5%	-1.2%	-2.9%	-2.3%	5.4%	6.9%	8.4%	9.7%	$820	$828	$841	$834
Tucson	3.7%	-0.7%	-4.9%	-1.8%	7.0%	8.2%	11.2%	12.8%	$618	$637	$641	$633
Washington, D.C.	1.4%	0.8%	0.5%	0.2%	4.4%	5.1%	5.9%	6.5%	$1,251	$1,317	$1,368	$1,410
West Palm Beach	1.6%	-0.6%	-2.5%	-2.1%	6.5%	8.0%	8.7%	9.9%	$1,111	$1,113	$1,107	$1,094

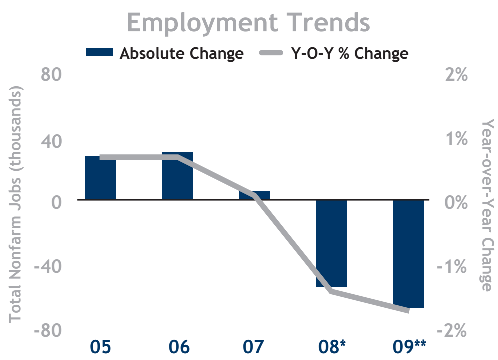
* Estimate ** Forecast

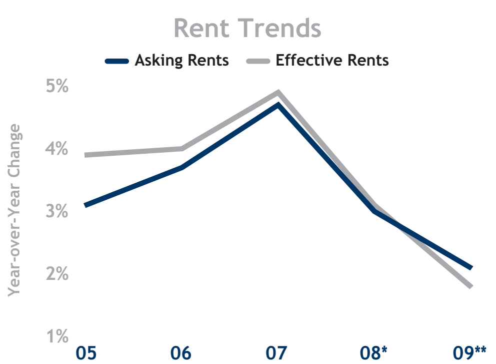
Summary

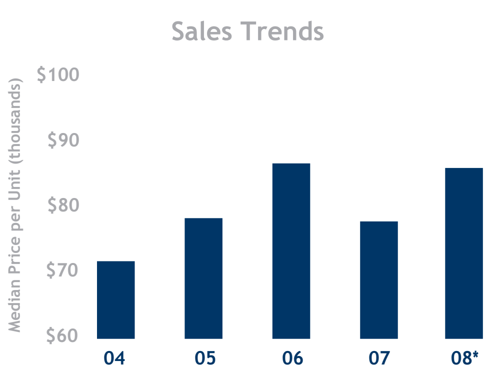
Median Sales Price per Unit[2]			Completions (Units)[2]				
06	07	08*	06	07	08*	09**	MSA Name
$55,200	$65,500	$60,100	4,085	4,665	5,000	3,300	Atlanta
$54,700	$68,300	$62,400	2,389	4,018	6,000	5,700	Austin
$121,500	$121,500	$117,000	4,964	4,824	3,300	2,100	Boston
$59,000	$49,800	$47,600	1,498	1,673	2,600	2,400	Charlotte
$91,700	$79,000	$79,800	807	588	1,736	2,230	Chicago
$32,993	$32,611	$35,066	943	228	0	350	Cincinnati
$38,500	$35,200	$31,700	514	256	275	200	Cleveland
$42,500	$40,500	$43,000	520	265	400	1,000	Columbus
$33,049	$36,700	$33,400	8,003	6,694	10,800	6,700	Dallas/Fort Worth
$66,200	$67,500	$62,500	1,968	910	2,260	2,450	Denver
$38,250	$35,200	$34,700	484	346	480	250	Detroit
$103,600	$89,000	$85,900	225	512	240	280	Fort Lauderdale
$38,060	$48,000	$37,600	5,136	8,062	10,200	9,100	Houston
$39,600	$48,100	$44,800	710	472	375	1,200	Indianapolis
$55,000	$51,900	$48,500	962	1,714	2,300	1,000	Jacksonville
$45,600	$42,100	$40,300	654	971	530	700	Kansas City
$91,600	$87,500	$75,000	1,160	2,721	2,670	280	Las Vegas
$142,900	$137,200	$140,000	2,641	4,126	3,560	1,500	Los Angeles
$100,000	$86,500	$88,800	374	0	500	250	Miami
$57,700	$59,200	$54,100	0	112	363	700	Milwaukee
$63,900	$64,000	$57,000	575	415	1,200	500	Minneapolis-St. Paul
$78,000	$70,833	$90,909	106	425	600	335	New Haven
$86,548	$77,645	$85,764	1,706	3,370	1,800	1,720	New Jersey
$146,875	$137,500	$127,375	1,726	2,423	1,997	2,500	New York City
$137,500	$141,667	$133,854	964	287	1,400	1,000	Oakland
$180,900	$178,600	$172,500	1,430	2,265	1,034	2,900	Orange County
$70,400	$63,600	$64,300	1,280	1,417	2,700	2,200	Orlando
$69,400	$70,600	$66,700	1,987	643	1,600	1,000	Philadelphia
$66,500	$71,400	$58,500	2,373	5,510	5,000	2,200	Phoenix
$66,500	$69,959	$73,953	1,204	667	1,500	1,850	Portland
$114,100	$103,100	$95,000	3,720	2,374	480	260	Riverside-San Bernardino
$90,900	$85,795	$89,583	620	715	170	100	Sacramento
$61,000	$75,800	$76,000	460	308	400	800	Salt Lake City
$48,760	$54,300	$45,000	3,611	3,043	3,200	2,300	San Antonio
$138,700	$127,300	$123,400	2,189	923	970	400	San Diego
$212,000	$225,000	$228,846	385	759	0	400	San Francisco
$164,000	$153,125	$180,556	906	668	900	175	San Jose
$102,600	$121,742	$122,500	2,220	2,407	3,000	2,700	Seattle
$53,200	$46,100	$45,000	908	248	186	400	St. Louis
$67,900	$66,600	$59,800	2,617	956	2,300	900	Tampa
$54,700	$46,700	$50,900	25	137	185	525	Tucson
$102,000	$104,800	$100,700	4,142	7,716	7,000	5,100	Washington, D.C.
$112,500	$105,300	$85,800	1,080	297	0	500	West Palm Beach

[2] See Statistical Summary Note on page 59.

Apartment Fundamentals to Remain Fairly Stable in New Jersey, Despite Job Losses







* Estimate ** Forecast

In 2009, residential demand and household formation will slow as a result of ongoing employment contraction. Merck's plans to cut as many as 3,000 workers, spillover woes from Wall Street, and declining government payrolls and tax revenues will all act as a drag on leasing activity. Despite the challenges, apartment operating fundamentals will remain in check in many areas. In Northern New Jersey, residential foreclosures should increase the renter pool, while the large base of service employees will keep Class C vacancy low. In Central and Southern New Jersey, Class B properties are expected to perform well as employment concerns reduce tenant turnover and keep occupancy levels elevated. Additionally, owners in Southern New Jersey will benefit from limited new supply.

Weakening economic conditions and highly leveraged acquisitions in recent years will create significant investment opportunities in 2009; however, fire-sale pricing expectations are unrealistic. Cap rates will likely push 30 basis points to 50 basis points higher for top-tier and well-located assets, while initial yields are forecast to rise as much as 100 basis points for lower-tier properties and complexes in tertiary locations. Oversupply issues may cause speculators to change investment strategies in Hudson and Monmouth counties, where shadow-rental threats will persist this year. Aside from a projected development upswing in those counties, statewide supply levels will remain relatively static, sustaining investment demand during the economic downturn.

2009 Market Outlook

- **2009 NAI Rank: 14, New to Ranking.** Vacancy will remain tight in New Jersey, supporting rent growth and placing the state at #14 in the NAI.
- **Employment Forecast:** Job losses will accelerate this year, with employers shedding nearly 68,000 workers, a 1.7 percent reduction. In 2008, 55,000 positions were lost.
- **Construction Forecast:** Apartment inventory is forecast to expand by 1,720 units in 2009. Supply additions will be greatest in Hudson County, which will receive more than 50 percent of the state's completions this year.
- **Vacancy Forecast:** Across New Jersey, employment losses and slowing renter demand will underpin an 80 basis point increase in vacancy to 4.8 percent in 2009.
- **Rent Forecast:** This year, asking and effective rents are projected to rise 2.1 percent and 1.8 percent to $1,345 per month and $1,300 per month, respectively. In 2008, asking rents gained 3 percent, while effective rents pushed 3.1 percent higher.
- **Investment Forecast:** Elevated home prices and above-average population density should maintain a healthy investment outlook in the New Jersey apartment market this year, although sales activity is not expected to increase significantly. Little to no supply additions in Southern New Jersey and Passaic, Somerset and Ocean counties should drive buyer interest in these areas.

Market Forecast Employment: 1.7% ▼ Construction: 4% ▼ Vacancy: 80 bps ▲ Asking Rents: 2.1% ▲

New York City

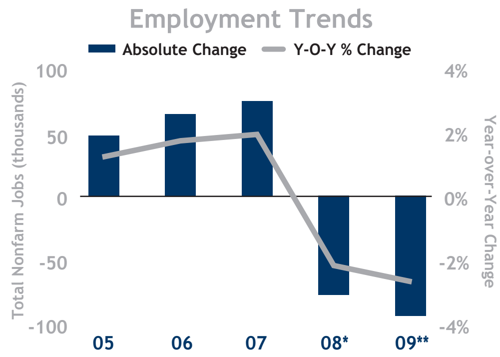
Job Losses to Hit Hard; Vacancy Rising but Expected to Remain Below National Average

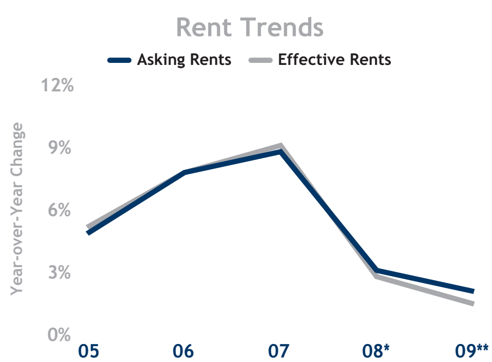
Following years of robust growth, the upheaval on Wall Street will soften fundamentals in the New York City apartment market. The fallout from the collapse of the investment banking industry, along with the late-2008 announcement that Citigroup will be cutting 10 percent of its worldwide work force, will result in the direct elimination of thousands of positions. Despite the downside risks to the multi-family market, the local reliance on rental housing is expected to prevent significant revenue declines. Additionally, vacancy is forecast to remain in check in popular Manhattan and Brooklyn neighborhoods such as the Upper East Side and Upper West Side, the Village, downtown Brooklyn, and Park Slope as distressed renters take on roommates rather than move out of desirable locations. In contrast, supply concerns will mount in Long Island City, Midtown West, the Financial District and southeastern Harlem, where deliveries will be elevated and the threat of shadow rentals persists.

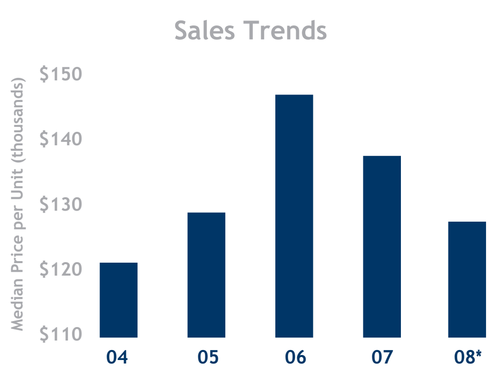
While local transaction velocity will remain modest in 2009, the buyer pool should change significantly. Experienced New York property owners who have waited on the sidelines for the froth in the investment market to dissipate are poised to re-enter the market. Sovereign wealth and opportunistic investment funds are also expected to increase their presence this year as economic and financing issues provide easier entry for buyers with cash. Going forward, investment speculation will gravitate toward location and strong historical performance, although the trickle of distressed property sales that has begun in tertiary locations like Brownsville/East New York, Bedford-Stuyvesant, South Bronx and East Harlem will likely offer buying opportunities.

2009 Market Outlook

- **2009 NAI Rank: 9, Down 6 Places.** Deep job losses in the financial sector drove New York City down six places in this year's ranking.
- **Employment Forecast:** Citywide, employment is expected to contract by 94,000 positions, or 2.6 percent, in 2009.
- **Construction Forecast:** Builders are projected to add roughly 2,500 market-rate units to inventory this year. In 2008, 1,997 units were brought online.
- **Vacancy Forecast:** As employers trim payrolls in 2009, vacancy is expected to climb 130 basis points to a still-tight 4.7 percent.
- **Rent Forecast:** In large, market-rate complexes, asking rents are forecast to advance 2.1 percent this year to $3,006 per month, while effective rents gain 1.5 percent to $2,906 per month.
- **Investment Forecast:** Economic and capital market struggles will change the buyer makeup in New York City, with liquid, experienced local investors playing a more significant role than in recent years. Acquisition activity will be conservative and based on location and steady returns. Additionally, the fairly predictable revenues of rent-stabilized housing will provide investors with a means to hedge the risks to cash flows.



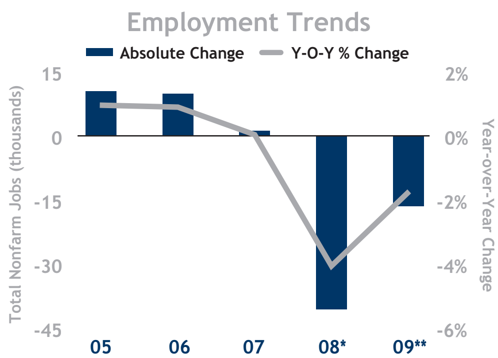


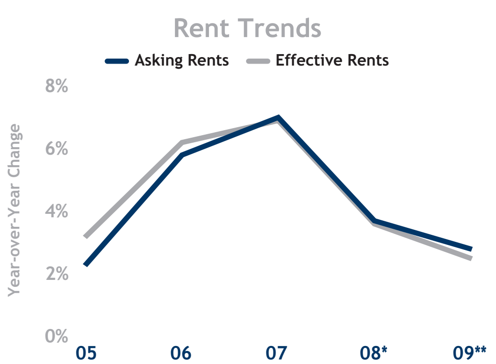


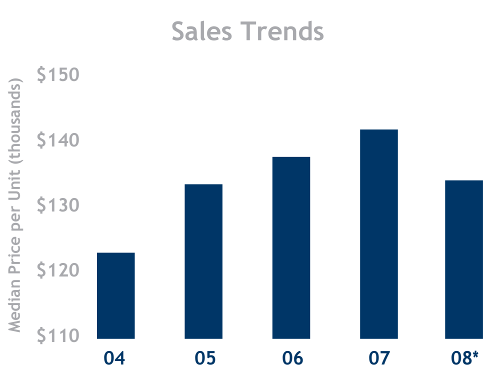
* Estimate ** Forecast

Market Forecast	Employment: 2.6% ▼	Construction: 25% ▲	Vacancy: 130 bps ▲	Asking Rents: 2.1% ▲

Home Foreclosures and Job Cuts to Continue, but Corporate Relocations Limit Slide







* Estimate ** Forecast

The economic slowdown will result in payroll reductions in the East Bay this year, but pockets of strength are emerging for the long term. Oakland has become a viable alternative for large employers looking to set up operations in the Bay Area at affordable rates, supporting current and future renter demand for apartment properties. Following a run-up in office rents, an increasing number of companies that signed leases in San Francisco and San Jose in the earlier part of the decade are seeking relocation options. Levi Strauss & Co. and Salesforce.com, for example, are considering transferring to downtown Oakland, where office rents are considerably lower than in neighboring metros and renewal efforts persist. As such, renter demand for local apartments could receive a boost if the moves take place. In the Tri-Valley and Livermore areas, technology employers have migrated from nearby submarkets, increasing apartment demand among the region's highly skilled work force.

While transaction velocity in the East Bay apartment market is expected to be modest in 2009, area fundamentals will continue to support investor optimism. Cap rates ended 2008 in the low-6 percent range and will likely maintain upward movement this year, particularly in the metro's outlying areas. The North Alameda submarket will display strength, most notably in retail corridors surrounding Lake Merritt. Assets in the emerging Broadway corridor, between the Uptown district and Piedmont Avenue, could also provide upside potential. In the northwestern portion of the metro, Class B/C properties are expected to be among the more stable investments, as the demand for affordable housing persists and the surplus of single-family homes operating as rentals serves as a threat primarily to Class A owners.

2009 Market Outlook

- **2009 NAI Rank: 6, Down 1 Place.** Despite persistent job cuts, Oakland remained near the top of the index due to the metro area's low housing affordability and limited construction activity.
- **Employment Forecast:** Local employers are projected to trim payrolls by 1.7 percent in 2009, cutting 16,600 jobs.
- **Construction Forecast:** Construction will slow this year, as developers are scheduled to bring 1,000 apartments online; 1,400 units were completed in 2008.
- **Vacancy Forecast:** An increase in alternative housing options, such as condos employed as rentals, is expected to push apartment vacancy up 80 basis points to 6.4 percent in 2009.
- **Rent Forecast:** Asking rents are forecast to advance 2.8 percent to $1,449 per month this year, while effective rents will finish 2009 at $1,370 per month, a 2.5 percent gain.
- **Investment Forecast:** The late-2008 groundbreaking of the 600,000-square foot 601 City Center office tower in downtown Oakland demonstrates developers' confidence in the market. Apartment operators could benefit from employment-related demand generated by this and future office projects.

Market Forecast Employment: 1.7% ▼ Construction: 29% ▼ Vacancy: 80 bps ▲ Asking Rents: 2.8% ▲

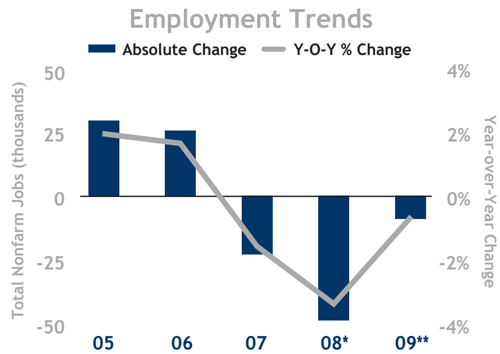
Apartment Fundamentals Weaken but Defy Magnitude of Economic Shock

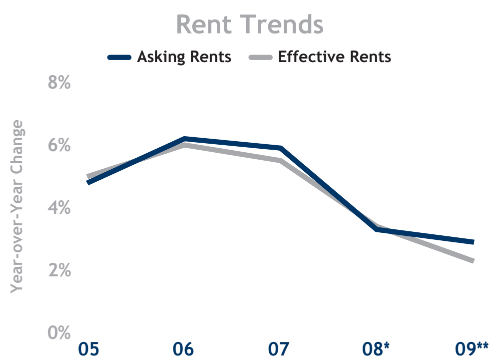
The Orange County economy is expected to remain vulnerable to the strains in the housing market and the financial sector during the next several quarters. The slowdown in mortgage originations is likely to result in modest job cuts in 2009, easing renter demand that had been generated by robust employment growth through the housing boom. Nonetheless, apartment fundamentals will stay healthy compared to the national average, given Orange County's shortage of affordable housing. Renter demand should be strongest for apartments near large business districts, particularly in Newport Beach and Tustin, where vacancy rates are projected to hover in the mid-3 percent to low-4 percent range throughout the year. Supply threats still exist in the Irvine and South Anaheim submarkets, which will receive 1,600 units and 1,000 units, respectively, in 2009. Additionally, a greater number of unsold condos have come to market recently as high-end apartments, including the 250-unit Avalon Anaheim Stadium project in the Platinum Triangle. This trend could become more pronounced if the local housing market continues to slump.

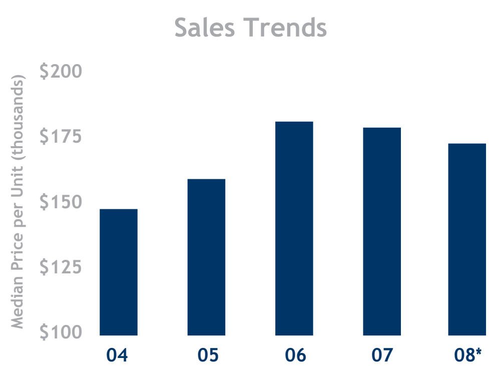
Orange County's apartment buyers are expected to shift from short-term value-add investors anticipating rapid price growth to those with a renewed focus on long-term fundamentals. Cap rates are averaging in the mid- to high-5 percent range, though a modest uptick is likely to occur as the year progresses, depending upon property type and location. Initial yields for Class A assets should remain fairly stable this year, while lower-tier properties, which were trading with cap rates as high as 6.5 percent as 2008 came to a close, are expected to record a more significant rise. Institutions will likely target coastal and premium infill properties, driven by a flight to safety for assets that offer stability. In particular, properties in Newport Beach and Huntington Beach will remain in demand.

2009 Market Outlook

- **2009 NAI Rank: 8, Down 1 Place.** Healthy rent growth and below-average vacancy kept Orange County in the top 10 of the NAI.
- **Employment Forecast:** Orange County's concentration of mortgage-related businesses and the persistent volatility in the capital markets will result in the loss of 9,100 workers in 2009, a 0.6 percent reduction.
- **Construction Forecast:** Apartment construction will exceed last year's levels as developers finish several larger complexes. Roughly 2,900 units are scheduled to be delivered this year, compared with 1,034 units in 2008.
- **Vacancy Forecast:** After a 140 basis point rise last year, vacancy will increase 90 basis points to 5.9 percent by year-end 2009.
- **Rent Forecast:** The considerable gap between renting and owning is allowing for continued rent growth. This year, owners will boost asking rents by 2.9 percent to $1,634 per month, while effective rents are expected to advance 2.3 percent to $1,574 per month.
- **Investment Forecast:** Anaheim's density of tourism-related and retail employees should support steady demand for lower-tier apartments, which will likely sustain the interest of more risk-averse buyers.





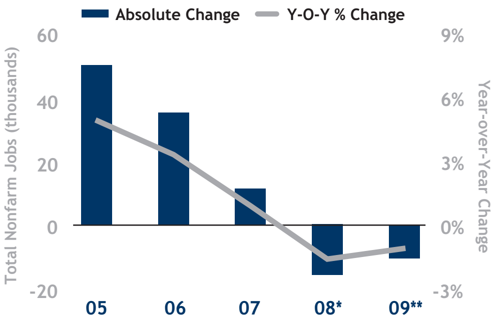


* Estimate ** Forecast

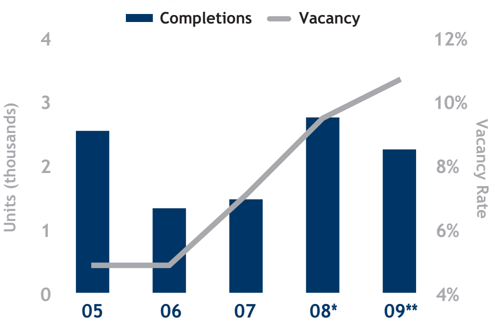
Market Forecast Employment: 0.6% ▼ Construction: 180% ▲ Vacancy: 90 bps ▲ Asking Rents: 2.9% ▲

Deliveries Slowing, but Metrowide Job Cuts Causing Vacancy to Creep Higher in Orlando

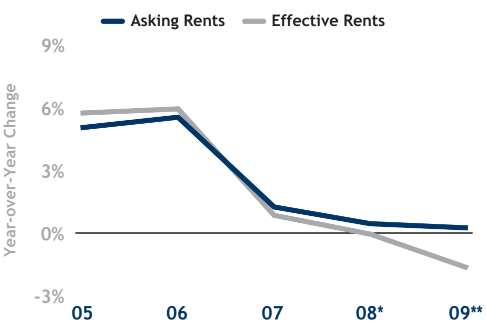
Employment Trends



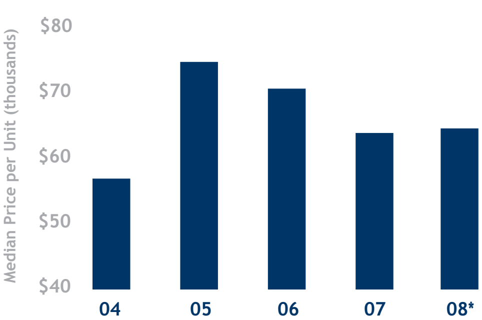
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

Projected job losses in Orlando will contribute to an increase in vacancy and virtually flatten rent growth, but some positive trends will emerge throughout 2009. For one, additions to supply are slowing and will continue to fall in step with a decline in permitting activity. Also, more stringent underwriting and the likelihood that many residents will resist taking on mortgage debt will sustain demand for apartments. This trend will help to offset the adverse effects of employment losses in the construction, retail and government sectors. In addition, approximately 6,100 hotel rooms are expected to be completed in Orlando this year, supporting the hiring of 1,200 leisure and hospitality workers. Employees in this industry often occupy rental housing rather than purchase homes.

Investment activity is expected to remain slow in the early part of 2009. Despite the effects of weakening economic growth, investors are optimistic about the area's long-term prospects and more robust apartment fundamentals in the quarters ahead. Currently, cap rates appear to be settling between 6.5 percent and 7.3 percent, depending on property class and location. First-year returns may even inch up as buyers' and sellers' expectations continue to realign. Areas of interest in the near term include the emerging medical services corridor that runs from Lake Nona to the University of Central Florida. Employers such as the Burnham Institute and the UCF College of Medicine are expected to create a significant number of jobs, generating housing demand.

2009 Market Outlook

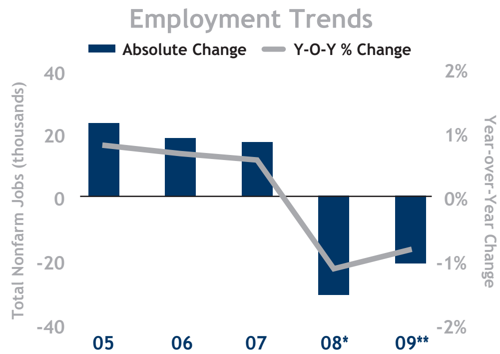
- **2009 NAI Rank: 32, Down 6 Places.** Falling effective rents and continued job losses drove Orlando down six positions in the ranking.
- **Employment Forecast:** Led by reductions in the professional and business services and financial activities sectors, total employment in Orlando will fall by 10,600 workers this year, a 1 percent decrease. In 2008, employers cut 15,800 jobs.
- **Construction Forecast:** In 2009, developers are slated to complete 2,200 apartments, down from 2,700 units last year. Multi-family permit issuance is expected to decline from about 6,000 units in 2008 to 4,000 units this year as construction pipelines are adjusted.
- **Vacancy Forecast:** The average vacancy rate is projected to increase 120 basis points in 2009 to 10.7 percent. Last year, a rise in completions resulted in a 240 basis point vacancy spike.
- **Rent Forecast:** Asking rents are expected to advance 0.3 percent this year to $883 per month. Effective rents are forecast to drop 1.6 percent to $805 per month as owners offer greater concessions to attract renters.
- **Investment Forecast:** Due to the recent slowdown in transaction velocity, buyers may be able to negotiate favorable terms in the early part of 2009. This trend will be most evident in sales of fractured condo conversions across the metro area and in deals involving recently built properties with low occupancy, especially near major employers in southern Orange County.

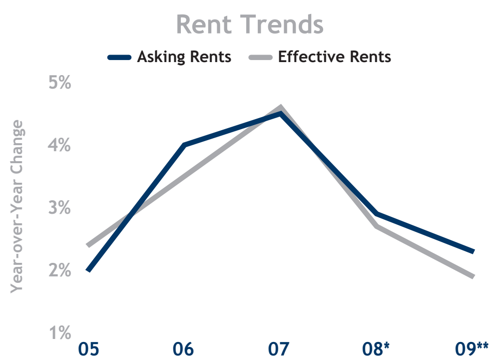
Market Forecast | Employment: 1.0% ▼ | Construction: 19% ▼ | Vacancy: 120 bps ▲ | Asking Rents: 0.3% ▲

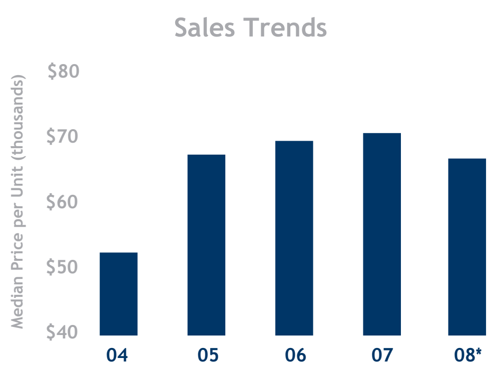
Philadelphia's Relative Stability Attractive Amid Economic Turbulence

While the performance of Class A and Class B apartments in Philadelphia is expected to remain fairly strong this year due to a soft single-family housing market, Class C fundamentals will weaken. Specifically, reductions in lower-wage employment sectors will force many renters to double up. As local stores close, employment in retail trade will decline by 4,000 jobs this year, following a loss of 2,100 positions in 2008. Also, a slowing economy will affect travel, contributing to a loss of 2,000 leisure and hospitality workers. While job cuts in low-paying employment sectors will erode demand for rental housing, owners of higher-end apartment properties will receive a modest boost from ongoing expansion of the educational and health services sector. Led by the growth of large employers such as the University of Pennsylvania and Jefferson Health System, the sector is forecast to add 2,000 positions this year.

Sales activity in Philadelphia may increase as investors adjust to the current climate. Sellers who had been seeking premium valuations captured in previous years are beginning to alter price expectations due to rising operating and financing costs. Cap rates are currently averaging in the low- to mid-7 percent range. Stabilized properties along the Main Line and in attractive areas of Chester and Montgomery counties will garner considerable investor interest going forward, and prices will likely stay fairly stable. Opportunities also may exist in parts of Lower Bucks and New Castle counties, where Class C properties facing operational challenges are prompting short sales or foreclosures. More thorough inspection of asset performance and additional discounts could be required to close transactions in these submarkets, which are suffering from job losses in manufacturing and construction.







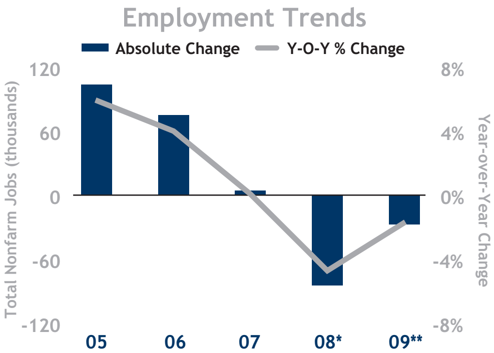
* Estimate ** Forecast

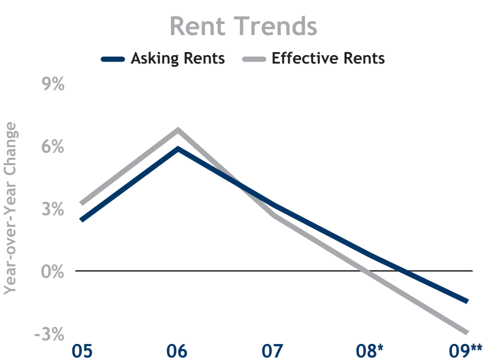
2009 Market Outlook

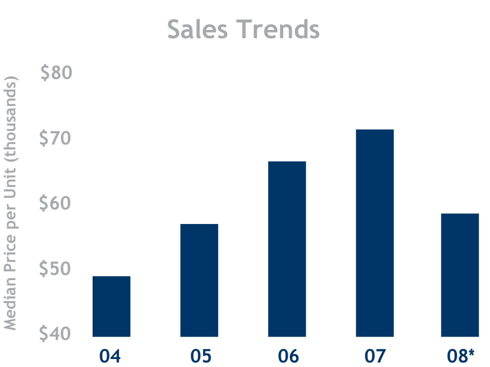
- **2009 NAI Rank: 12, Up 9 Places.** Slowing construction and steady rent growth led to Philadelphia's nine-spot rise in the NAI this year.
- **Employment Forecast:** Employers are expected to decrease payrolls 0.8 percent in 2009, cutting 21,200 positions.
- **Construction Forecast:** Multi-family builders are scheduled to complete 1,000 apartments in the Philadelphia metro this year. In 2008, 1,600 units came online.
- **Vacancy Forecast:** Following a 150 basis point increase last year, vacancy is expected to rise 100 basis points in 2009 to 6.6 percent.
- **Rent Forecast:** Softening employment will cause rent growth to slow. This year, asking rents are forecast to gain 2.3 percent to $1,054 per month, while effective rents advance 1.9 percent to $1,008 per month.
- **Investment Forecast:** Current weakness among properties in submarkets dominated by blue-collar employment, such as Newark and East Delaware County, may offer long-term upside potential. These areas are likely to record some distress through the first half of 2009, but a lack of development could present opportunities to buyers willing to take on additional risk.

Market Forecast | Employment: 0.8% ▼ | Construction: 38% ▼ | Vacancy: 100 bps ▲ | Asking Rents: 2.3% ▲

Housing Glut Hits Apartments; Buyers Looking to Core Areas, Betting on the Long Term







* Estimate ** Forecast

The Phoenix apartment market is expected to remain in a state of transition in 2009 due to a considerable supply/demand imbalance. An glut of vacant homes and weakened sales will continue to push single-family homes and unsold condos into the rental market. This excess of shadow stock is having the greatest impact in outlying areas that were hubs for new construction and speculative buying during the boom. Apartment vacancy rates in the Chandler/Gilbert and Goodyear/Avondale submarkets, for instance, will trend up to the mid-teens this year. As such, concessions in these areas will increase. In affluent locations such as Scottsdale, for-rent single-family residences pose less of a threat to apartment fundamentals due to mortgage payments that are considerably higher than market rents.

Following years of robust investment activity from California buyers, velocity is now returning to more sustainable levels. Seasoned local investors are the primary participants in the market, although the pricing disconnect between buyers and sellers remains significant. Investment activity, which had been fairly healthy in outlying areas of the Valley during the housing boom, is expected to be increasingly concentrated in core locations in the coming months. Some buyers may target properties near the 20-mile starter line of the recently opened METRO light rail that connects Phoenix, Mesa and Tempe. Transit-oriented projects adjacent to the track should help to bolster the appeal of housing close to boarding stations. As pricing expectations begin to reflect current market conditions, cap rates are expected to push up from the low-7 percent range.

2009 Market Outlook

- **2009 NAI Rank: 31, Down 12 Places.** A steep rise in concessions and continued employment reductions will hamper revenue growth in Phoenix, causing the metro's 12-spot fall in the 2009 index.
- **Employment Forecast:** Underpinned by Phoenix's reliance on the housing market, employers are forecast to eliminate 28,000 jobs this year, a 1.6 percent drop. In 2008, 85,000 positions were cut.
- **Construction Forecast:** With alternative housing options providing a competitive threat to traditional rentals, deliveries will slow to 2,200 apartments in 2009, after the completion of 5,000 units last year.
- **Vacancy Forecast:** Following a 300 basis point rise in 2008, vacancy is forecast to increase 110 basis points to 12.2 percent this year.
- **Rent Forecast:** Waning demand and heightened competition will slow rent growth and escalate the use of leasing incentives. Asking rents are expected to decline 1.4 percent in 2009 to $768 per month, while effective rents fall 2.9 percent to $691 per month.
- **Investment Forecast:** The Mesa City Council recently approved major amendments to the General Plan that will allow the General Motors Desert Proving Ground to be transformed into a dense mixed-use community. As the local population expands over the next several years, the surrounding Gateway area could become a new urban center.

Market Forecast Employment: 1.6% ▼ Construction: 56% ▼ Vacancy: 110 bps ▲ Asking Rents: 1.4% ▼

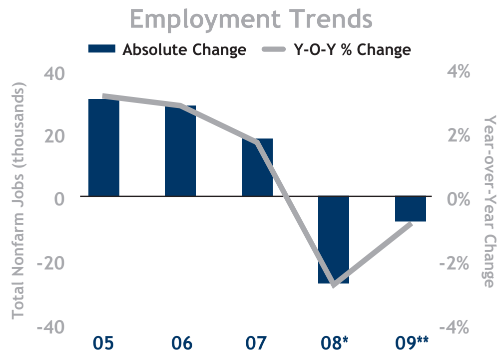
Despite Household Growth, Shadow Stock and Construction to Push Vacancy Higher

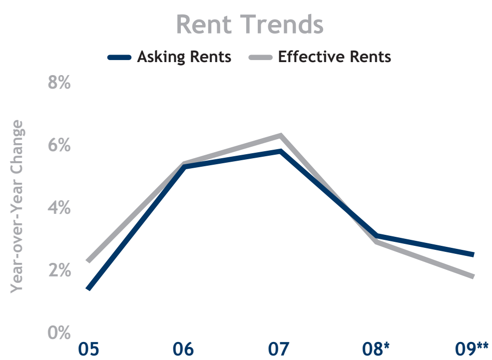
The national economic downturn was late to hit Portland, and the impact on apartment fundamentals will likely be subdued, as the area is not as heavily reliant upon job creation to drive household formation as other markets. Indeed, the Portland metro is expected to expand by approximately 15,000 households in 2009, only a slight dip from recent years, which will stimulate renter demand for apartments. Despite the addition of residents through in-migration, supply concerns persist, particularly in the top tier, as alternative housing options may lure high-end renters away from Class A apartments. With the local residential market continuing to sag, a higher number of condo developments will emerge as rentals in 2009. In the Northwest/Downtown submarket, for example, the CYAN/PDX project was originally slated as for-sale units; however, the developer announced that the building will instead come online this summer as a premier rental property.

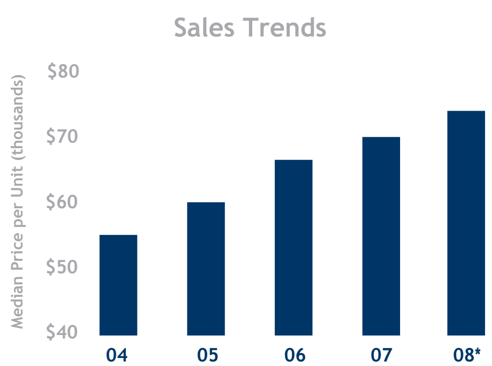
Investment activity is expected to remain measured in the first half of 2009 as many sellers maintain unrealistic expectations about pricing and buyers continue to find access to debt capital a challenge. As the year progresses, however, some owners who bought at the market's peak are expected look to divest assets, which could present opportunities at attractive price points for local buyers wishing to stay active. Despite the credit crunch, cash-heavy investors with accumulated equity will continue to seek value-add prospects throughout the Portland area, injecting capital for upgrades and bringing rents up to market rates. Buyers may want to track assets in the expanding Vancouver submarket, where ongoing renewal efforts at the former Boise Cascade site could help to generate a greater residential presence.

2009 Market Outlook

- **2009 NAI Rank: 10, No Change.** Portland maintained its spot in the NAI due to healthy forecasts for new households and rent growth.
- **Employment Forecast:** Employers will cut 8,000 jobs this year, a 0.8 percent reduction, following the elimination of 27,400 positions in 2008.
- **Construction Forecast:** Metrowide inventory is forecast to expand by 1.9 percent in 2009 with the completion of 1,850 units. Last year, builders brought 1,500 apartments online.
- **Vacancy Forecast:** Ongoing job reductions and an influx of new stock will push vacancy up 120 basis points to 6.6 percent this year; vacancy also rose 120 basis points in 2008.
- **Rent Forecast:** Asking rents are forecast to advance 2.5 percent to $846 per month in 2009. Owners will opt to elevate concessions in response to rising vacancy, causing effective rents to edge just 1.8 percent higher to $784 per month.
- **Investment Forecast**: Buyers seeking stability may want to focus on assets in the Inner North/Northeast/Southeast submarket, where minimal stock additions have kept conditions tight and rents among the highest in the metro.







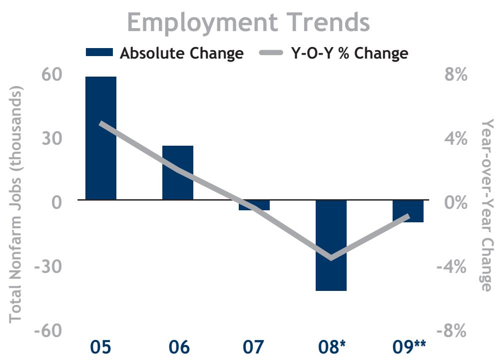
* Estimate ** Forecast

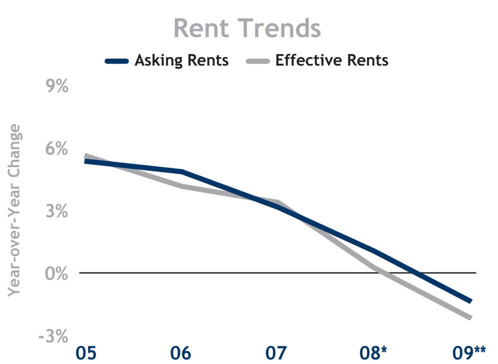
Market Forecast Employment: 0.8% ▼ Construction: 23% ▲ Vacancy: 120 bps ▲ Asking Rents: 2.5% ▲

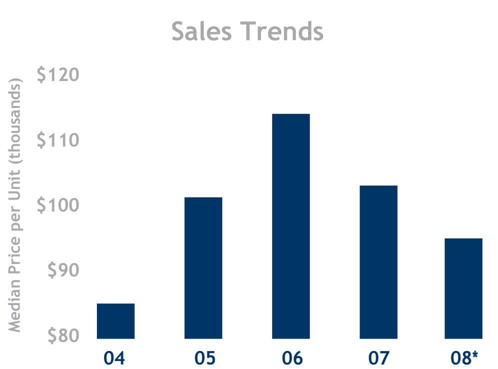
Riverside-San Bernardino

Down 1 Place | **2009 Rank: 17** | **2008 Rank: 16**

Housing Oversupply and Job Losses Point to Further Weakness; Recovery Base Forming







* Estimate ** Forecast

The Inland Empire's housing correction has left tenants with a number of options when pursuing rental housing. The region's widespread residential volatility is expected to persist in 2009, leading to the third consecutive year of net job losses. Years of brisk home building in the High Desert region, Moreno Valley and the southern stretch of Riverside County have saturated the market with single-family homes employed as rentals. As a result, some residents are finding attractive rents in investor-owned shadow stock, particularly in the eastern portion of the metro. Despite these underlying threats, apartment performance in infill areas like Corona and Ontario should stay relatively stable and may begin to firm later in 2009 due to these cities' proximity to major coastal job centers. Developers are responding to the Inland Empire's slowing demand for housing by minimizing completions and multi-family permitting activity, which should help to alleviate supply-side pressure.

Revenue gains that were attainable during boom years have largely diminished, which may bring more financially distressed assets to the market in 2009. Sales velocity will remain measured, however, as buyers consider forecasts for limited rent growth. With fewer investors active in the market, cap rates are expected to continue to creep higher from the mid- to high-6 percent range, particularly for newer assets in outlying areas where institutions were active during the metro's period of robust growth. Consequently, owners wanting to divest Class A complexes will have to price their assets accordingly. As the market begins to recover, investors will likely focus on traditionally tight areas along commuter routes in the western submarkets of the metro.

2009 Market Outlook

- **2009 NAI Rank: 17, Down 1 Place.** Rent declines caused the Inland Empire to fall one spot in the index, despite limited construction.
- **Employment Forecast:** Ongoing housing struggles are forecast to result in the loss of 10,600 jobs in 2009, a 0.9 percent decline. Last year, employers reduced payrolls by roughly 42,700 workers.
- **Construction Forecast:** Approximately 260 apartments will be delivered this year, after 480 units came online in 2008. Construction has slowed from peak levels; completions averaged nearly 2,300 units annually for the past five years.
- **Vacancy Forecast:** After rising 90 basis points last year due to competition from shadow stock and waning renter demand, vacancy is projected to push up 70 basis points to 7.8 percent in 2009.
- **Rent Forecast:** This year, asking rents will dip 1.3 percent to $1,055 per month, while effective rents fall 2.1 percent to $1,007 per month.
- **Investment Forecast:** Properties in the western portion of the metro are being less impacted by the glut of shadow rentals and are expected to outperform over the next few years. Investors may find opportunities in the North Ontario, Upland and Rancho Cucamonga submarkets, though the pricing expectations gap remains significant in these areas.

Market Forecast | Employment: 0.9% ▼ | Construction: 46% ▼ | Vacancy: 70 bps ▲ | Asking Rents: 1.3% ▼

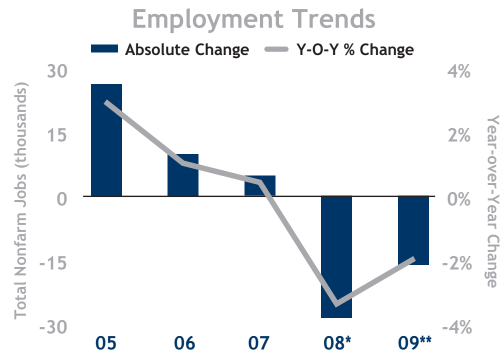
Class B/C Assets in Primary Locations Offer Stability; Surplus of High-End Rentals Persists

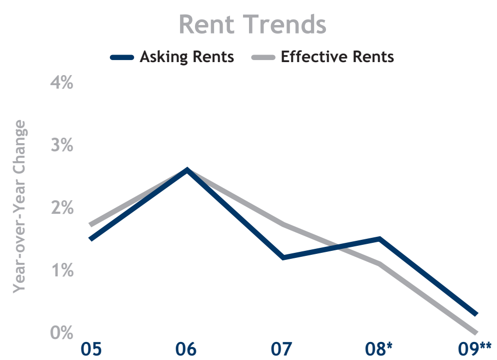
Apartment construction in Sacramento is expected to come to a near standstill this year, easing overbuilding concerns, but other threats to the market remain present. Employers are projected to shed jobs again in 2009, and ongoing state budget woes are causing uncertainty to linger in Sacramento's government sector. The local housing market is another concern. While the wave of residential foreclosures that hit the metro has placed many former homeowners back into the renter pool, the supply overhang stemming from shadow stock has enticed some residents to move away from traditional apartments. As a result, vacancy will creep higher, particularly in the Class A segment. There is less downside risk in the metro's Class B/C properties, where vacancy and rents have been improving steadily since late 2006, despite recent cuts in construction employment. Household growth in Sacramento is expected to continue in 2009, albeit at a more modest rate than in recent years. This should spur renter demand for apartments, especially with residents hesitant to make home purchases before the market stabilizes.

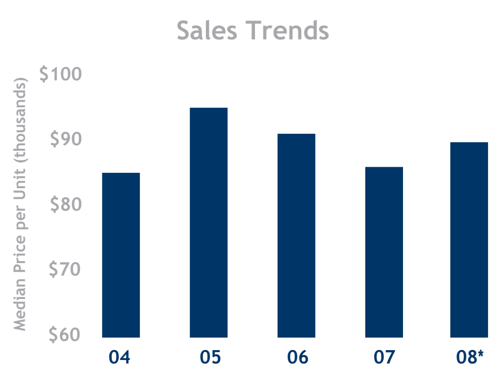
Investors will remain selective when pursuing apartment properties in the Sacramento market this year, but opportunities will emerge. Buyers are expected to turn to lower-tier product in primary locations poised for long-term growth, such as downtown and midtown. These areas stand to benefit from increased renter demand generated by ongoing renewal efforts, including The Railyards and West Sacramento's Triangle neighborhood. Buyers should expect to pay a premium for these assets, however which typically close at cap rates below the metrowide average of the mid- to high-6 percent range.

2009 Market Outlook

- **2009 NAI Rank: 21, Up 4 Places.** Limited apartment construction pushed Sacramento up four spots in the ranking, though shadow stock and contracting payrolls remain concerns.
- **Employment Forecast:** Local employers are projected to cut 16,200 jobs in 2009 for a 1.9 percent loss. Last year, 28,700 positions were eliminated.
- **Construction Forecast:** Developers are scheduled to deliver only 100 new apartments this year, following the completion of 170 units in 2008. The planning pipeline consists of fewer than 2,000 units.
- **Vacancy Forecast:** Healthy demand for lower-tier apartments will help to counter the impact of increased shadow rentals on vacancy. In 2009, vacancy is expected to creep up 60 basis points to 7.9 percent, after an 80 basis point rise last year.
- **Rent Forecast:** Asking rents are forecast to gain 0.3 percent this year to $979 per month, while effective rents remain flat at $927 per month.
- **Investment Forecast:** Risk-averse investors may want to track assets in the Davis submarket, where renter demand stemming from the area's student population has sustained some of the tightest conditions in the market. Furthermore, a limited development pipeline should keep supply-side threats in check.



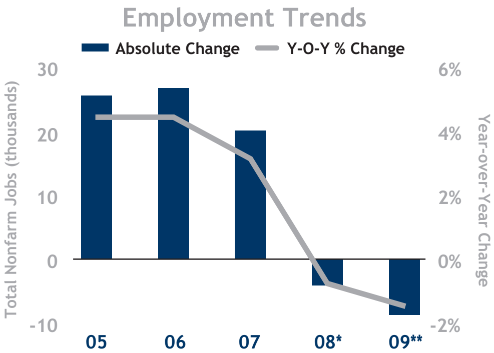


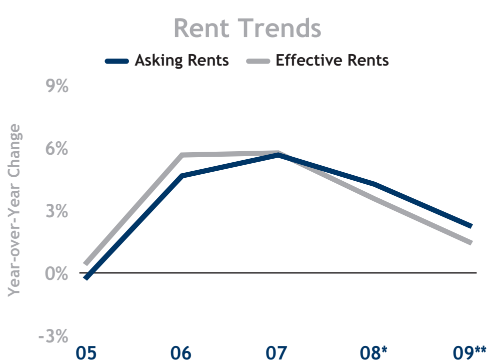


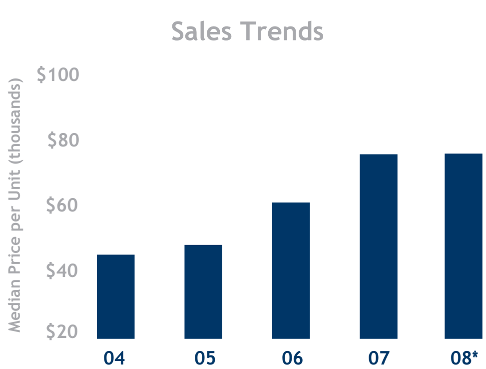
* Estimate ** Forecast

Market Forecast	Employment: 1.9% ▼	Construction: 41% ▼	Vacancy: 60 bps ▲	Asking Rents: 0.3% ▲

Easing Out-of-State Investor Demand Presents Upside Potential for Local Buyers







* Estimate ** Forecast

While the economic downturn was fairly late to reach Salt Lake City, employers are expected to trim payrolls again in 2009, resulting in a slowdown in renter demand. In addition, a greater number of vacant homes and condos are hitting the market as rentals, posing a threat to apartment occupancy levels. This trend is most pronounced in Central Salt Lake City and West Jordan, where development has been concentrated over the past few years. Healthy population and household growth should eventually allow these units to be absorbed, but this year's deliveries will add more than 1 percent to metrowide apartment inventory, pushing vacancy higher in the near term. Migration toward densely populated areas and employment hubs has spurred an increase in transit-oriented and mixed-use projects, particularly along the TRAX light rail and FrontRunner commuter line. One example of this trend is Eaglewood Village in North Salt Lake. The development consists of 570 residential units, a portion of which will come online as apartments, as well as 120,000 square feet of retail and 340,000 square feet of office space.

Owners who participated in Salt Lake City's investment boom in recent years will find the climate more conservative in 2009. Investors who purchased properties before the housing downturn and the economic slowdown have begun to realign expectations to current market conditions, offering attractive deals. Local buyers are beginning to find attractive opportunities in West Valley City and Taylorsville, where some distressed owners are looking to sell at cap rates above the metrowide average, which is currently in the mid- to high-6 percent range. The Murray area is a fairly safe haven for investors, as significant barriers to entry insulate against overbuilding and the nearby Intermountain Medical Center provides continued renter demand.

2009 Market Outlook

- **2009 NAI Rank: 18, Down 1 Place.** Steady household growth allowed Salt Lake City to drop just one position in the NAI, despite job losses.
- **Employment Forecast:** Employers are expected to trim payrolls by 1.4 percent in 2009, eliminating 8,800 positions.
- **Construction Forecast:** Approximately 800 apartments are scheduled to come online this year, up from 400 units in 2008. Almost all of the completions are located in the West Jordan submarket.
- **Vacancy Forecast:** Vacancy is projected to increase 220 basis points to 7.9 percent in 2009, following a 140 basis point rise last year.
- **Rent Forecast:** The addition of new stock is driving rents higher. Asking rents are forecast to advance 2.3 percent this year to $772 per month, while effective rents gain 1.5 percent to $725 per month.
- **Investment Forecast:** Apartment operators in the Northwest Salt Lake/Airport submarket will likely benefit from the airport extension of the TRAX light rail, which broke ground in late 2008. The convenience of additional transportation options, as well as proximity to the renewed downtown area, should help boost renter demand.

Market Forecast Employment: 1.4% ▼ Construction: 100% ▲ Vacancy: 220 bps ▲ Asking Rents: 2.3% ▲

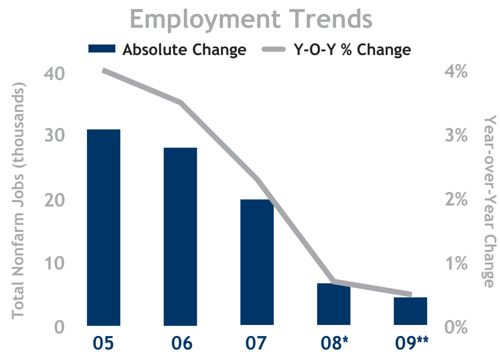
Slower but Still-Positive Job Growth Forecast; Construction Expected to Cool

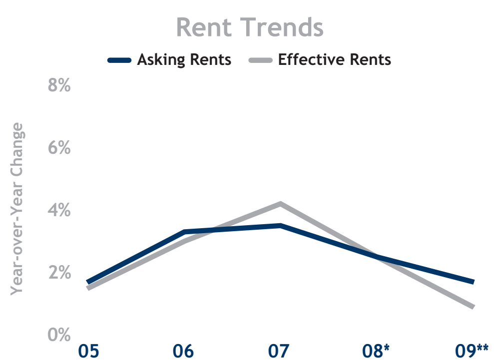
Employers in San Antonio will continue to add jobs in 2009, which should alleviate some pressure on apartment fundamentals. As the year progresses, improvements to Loop 1604 and U.S. Highway 281 will shift demand away from employment centers in the northern and northwestern portions of the market as commuting becomes more manageable. Apartment construction in the area has been robust recently, which will result in higher concessions until absorption picks up and occupancy levels firm near the end of 2009. Apartment owners around Fort Sam Houston will get a boost from the military's decision to consolidate its medical training operations at the base; the efforts are expected to create thousands of private-sector jobs through 2011. Nearby, Rackspace just moved into its new headquarters at the former Windsor Park Mall, relocating 1,300 employees to the area, which could generate renter demand for apartments.

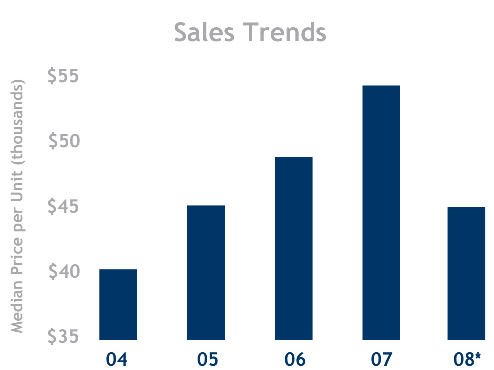
While the local economy in San Antonio is one of the most stable in Texas, cap rates have been the highest in the state for the last several years. Currently in the mid- to high-7 percent range and climbing, initial yields in the metro area provide opportunities for investors to expand their portfolios in a market that has repeatedly added residents and workers. Financing will continue to be a challenge through much of the year, though. Local banks have stayed active but are increasing requirements to include operations experience in the area. As such, out-of-state investors are facing higher hurdles to obtaining financing, opening the door for local players to negotiate for better terms. Until the credit markets loosen, some out-of-state buyers are likely to overcome lending requirements by forming syndicates with area management companies or other investors.

2009 Market Outlook

- **2009 NAI Rank: 23, Up 9 Places.** Continued job growth supported San Antonio's nine-spot rise in the ranking this year, despite an elevated vacancy rate.
- **Employment Forecast:** After adding 6,100 positions last year, employers in San Antonio are expected to expand payrolls by 3,900 jobs in 2009, a 0.5 percent gain.
- **Construction Forecast:** Apartment development activity will drop to 2,300 units this year, a 1.3 percent increase to inventory. Construction reached 3,200 units in 2008.
- **Vacancy Forecast:** Slower job growth and the delivery of new units will result in a 130 basis point rise in vacancy to 9.8 percent in 2009, after a 210 basis point jump last year.
- **Rent Forecast:** As occupancy falls, concessions are expected to increase. Asking rents are projected to gain 1.7 percent to $713 per month this year, while effective rents advance 0.9 percent to $668 per month.
- **Investment Forecast:** In South San Antonio, Toyota reopened only one of its Tundra assembly lines after a short halt in production. If gas prices do not increase dramatically, demand for the trucks may re-emerge, potentially bringing more jobs to the area.







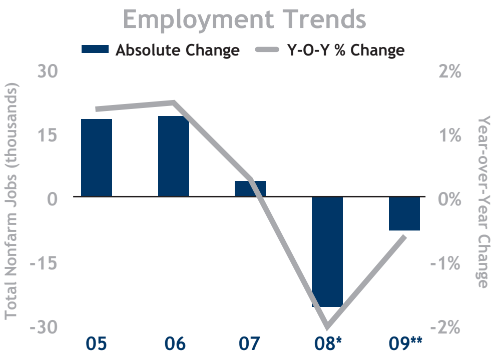
* Estimate ** Forecast

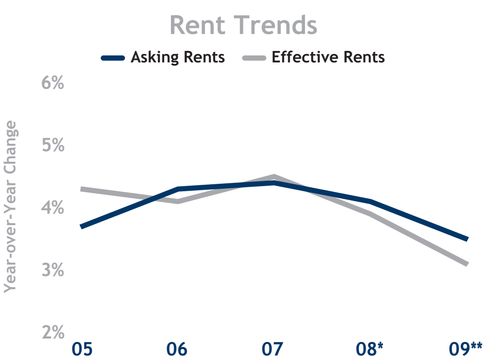
Market Forecast Employment: 0.5% ▲ Construction: 28% ▼ Vacancy: 130 bps ▲ Asking Rents: 1.7% ▲

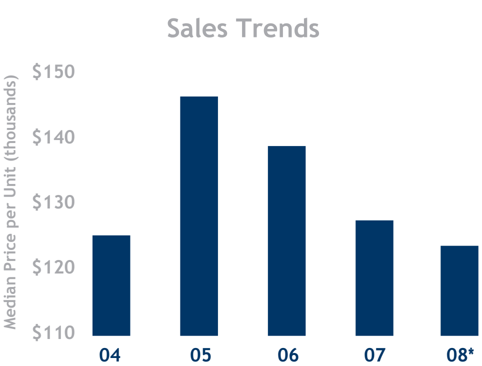
Low Housing Affordability Driving Renter and Investor Demand for San Diego Apartments

Apartment operations in San Diego will stay healthy in 2009, supported by high barriers to new construction and low housing affordability. Despite recent declines, home prices remain elevated, making apartments the most practical option for many residents. Still, softened economic conditions will limit demand growth, and renters have a variety of choices to consider beyond traditional apartments. Concerns regarding shadow rentals will linger, particularly in the eastern portion of San Diego County, where conversion activity was rampant. Additionally, the downtown area is saturated with unsold condos, some of which are competing as high-end rentals. In contrast, conditions will firm in the centrally located neighborhoods of the Balboa Park/West of I-15 submarket, as housing demand near job centers is growing. Class B/C assets in the South Bay will also remain steady, fueled by a dense population of blue-collar workers.

Solid underlying fundamentals will capture the attention of major buyers seeking stability, despite recent economic challenges. Cap rates are in the low-6 percent range and are likely to trend up as sellers begin to adjust prices to get deals closed, especially in suburban areas. Investors repositioning their portfolios are expected to remain bullish on mid-sized assets in the Balboa Park area but may have to pay a premium for these centrally located complexes. The North Park and Hillcrest neighborhoods will receive significant interest due to redevelopment efforts, including several new mixed-use projects that are supporting renter demand from young professionals. Opportunistic funds, meanwhile, will hunt for bargains among failed condo conversion projects that are coming to market at discounted rates in the hard-hit eastern areas of the county.







* Estimate ** Forecast

2009 Market Outlook

- **2009 NAI Rank: 2, Up 6 Places.** San Diego rose to the #2 spot in the NAI as a result of strong effective rent growth and the lowest vacancy rate of all markets covered.
- **Employment Forecast:** After thinning payrolls by 26,000 spots in 2008, employers are forecast to cut 8,000 jobs this year, a 0.6 percent decrease.
- **Construction Forecast:** Land constraints and elevated building costs will limit construction activity to just 400 apartments in 2009.
- **Vacancy Forecast:** Vacancy is forecast to rise 40 basis points this year to 4.3 percent. The historically tight Class B/C sector will partially counterbalance softer demand for top-tier rentals.
- **Rent Forecast:** Despite competition from shadow stock, rents will push higher. Asking rents are forecast to advance 3.5 percent to $1,398 per month, while effective rents pick up 3.1 percent to $1,350 per month.
- **Investment Forecast:** Class A complexes in the La Jolla/University City submarket typically record healthy operating conditions and recently posted one of the metro's lowest vacancy rates. Consequently, pent-up demand for top-tier assets in the area may be satisfied through capital improvements to Class B/C properties.

Market Forecast Employment: 0.6% ▼ Construction: 59% ▼ Vacancy: 40 bps ▲ Asking Rents: 3.5% ▲

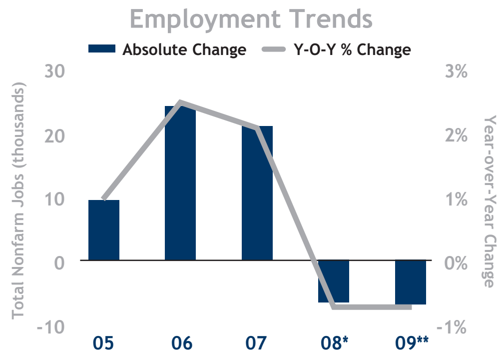
Individual Buyers Less Active, but Revenue Growth Sustaining Valuations

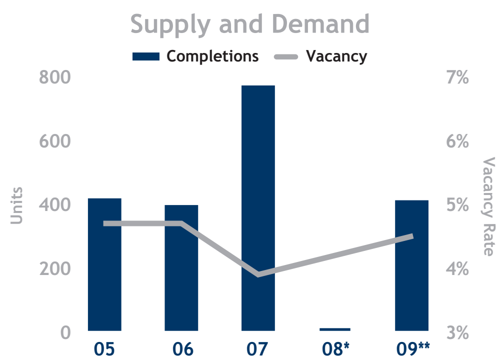
The San Francisco apartment market is expected to maintain relatively healthy operations in 2009, though the threat of payroll contraction in response to the upheaval in the financial markets bears monitoring. In the wake of the Lehman Brothers collapse late last year and the Merrill Lynch and Wachovia takeovers, the metro area entered 2009 displaying some signs of weakness. As such, employment-related demand will ease, particularly in the high-end segment of the market, while rent gains will be more modest than in recent years. Following a steep run-up in metrowide rental rates since 2006, apartment operators in the Civic Center/Downtown submarket may benefit from demand generated by prospective renters who have been priced out of the highly desirable Marina/Pacific Heights and Russian Hill/Embarcadero areas.

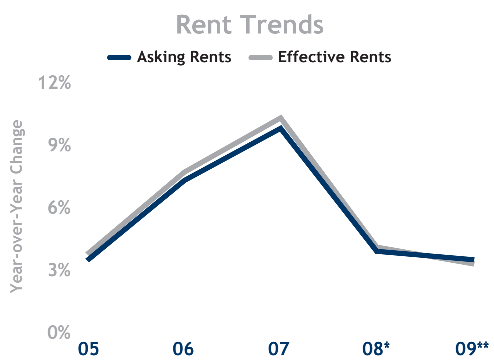
Despite some short-term concerns regarding the market's employment forecast, investors will continue to target apartment properties in San Francisco, driven by the healthy extended outlook. Sellers' perceived valuations may not be in line with the current climate, however, as some of the area's large, private buyers have curtailed their activity. Investor attention will likely be focused near dense employment districts at the northern end of the city, while properties in the western outer portions of San Francisco could record longer marketing periods. Cap rates averaged in the mid- to high-4 percent range at the close of 2008 and will likely push somewhat higher this year, though buyers expecting deep discounting will find few opportunities.

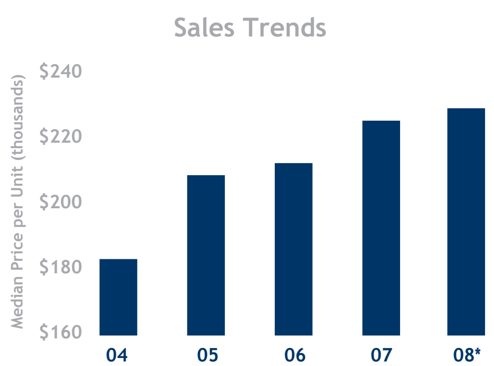
2009 Market Outlook

- **2009 NAI Rank: 1, No Change.** San Francisco retained the top spot in the index this year due to forecasts for a minimal vacancy uptick and healthy effective rent growth.
- **Employment Forecast:** Local employers are projected to cut payrolls by 0.7 percent in 2009 with the elimination of 7,000 jobs. Last year, 6,700 positions were lost.
- **Construction Forecast:** Developers are scheduled to deliver 400 units this year, following no completions in 2008.
- **Vacancy Forecast:** Vacancy is expected to edge up 30 basis points to 4.5 percent in 2009. Last year, vacancy also rose 30 basis points.
- **Rent Forecast:** Rent growth will moderate from recent years, though gains will remain healthy. Asking rents are forecast to advance 3.5 percent to $2,002 per month, while effective rents will end the year at $1,897 per month, a 3.3 percent increase.
- **Investment Forecast:** Forward-looking buyers may want to track assets near the redevelopment of the Transbay Terminal and its surrounding district at First and Mission streets, where upside potential exists. The multi-phase project, which broke ground late in 2008, is expected to add 2,600 residential units, 3 million square feet of office space and 100,000 square feet of retail space to the market, as well as generate increased renter demand in nearby neighborhoods.





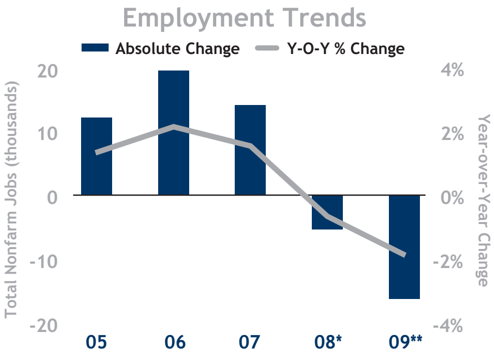


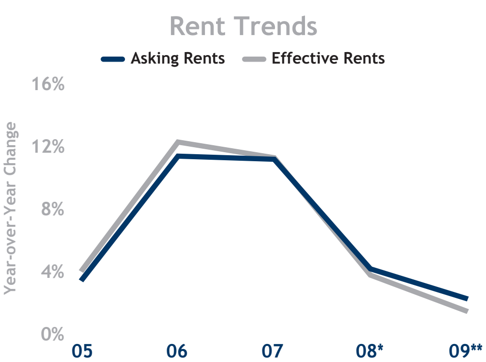


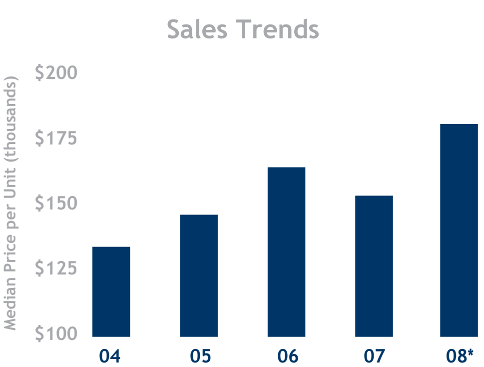
* Estimate ** Forecast *** No completions in 2008

Market Forecast Employment: 0.7% ▼ Construction: N/A*** Vacancy: 30 bps ▲ Asking Rents: 3.5% ▲

Apartments to Fare Better than in Previous Downturns, Despite Cuts by Top Tech Firms







* Estimate ** Forecast

As financial market turmoil continues to squeeze venture capital in San Jose, a sluggish technology sector is expected to weigh on metrowide employment in 2009. Silicon Valley-based eBay, Sun Microsystems, Hewlett-Packard and Yahoo all announced layoffs in the second half of 2008 as turbulence in the economy trickled into San Jose's tech-heavy employment base. Despite uncertainty in the metro's top industry, apartments are forecast to record relatively healthy fundamentals, and softening will likely be far more mild than in the earlier part of this decade. Properties in Mountain View and Sunnyvale consistently post strong fundamentals, a trend that is expected to continue this year, while renewal efforts are under way to lure more residents and employers to downtown San Jose. The soft housing market, however, has prompted some developers to bring high-end condos online as rentals, posing a threat to existing Class A stock in the downtown area.

This year, investment activity will be driven by the South Bay's prospects for sustainable long-term growth, though a wide expectations gap between buyers and sellers will continue to slow transaction velocity. At the end of last year, cap rates had edged up to the high-4 percent range, and additional increases are expected in 2009, particularly for properties located on the outskirts of the metro. Opportunities for upside may exist in the Northeast San Jose submarket, where initial yields are above the metro average. Additionally, the new Tesla Motor auto plant and headquarters will be located in the area; groundbreaking on the buildings is scheduled for this spring, with factory production anticipated to begin by 2010. The arrival of the automaker is expected to add more than 3,000 direct and support jobs to the local work force, boosting renter demand in nearby communities.

2009 Market Outlook

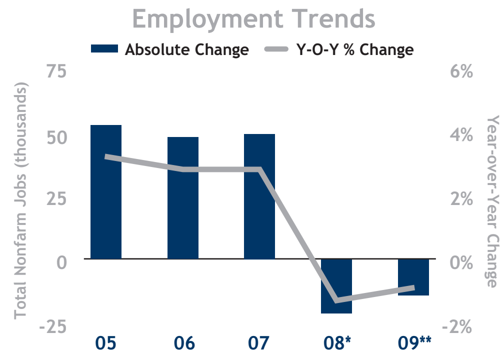
- **2009 NAI Rank: 7, Down 3 Places.** Accelerating job losses caused San Jose to drop three spots in the index, despite low housing affordability.
- **Employment Forecast:** Metrowide employment is forecast to record a net loss of 1.8 percent in 2009, or 16,300 positions. Last year, employers cut payrolls by 5,400 workers.
- **Construction Forecast:** Developers are responding to the cooling local economy, and only 175 apartments are scheduled to be completed this year. In 2008, 900 units came online.
- **Vacancy Forecast:** Vacancy is expected to push up 70 basis points by the end of 2009 to 5.6 percent.
- **Rent Forecast:** Rent growth will ease further this year, following a run-up in rates through the first half of 2008. Asking rents are forecast to increase 2.3 percent to $1,755 per month in 2009, while effective rents gain 1.5 percent to $1,652 per month.
- **Investment Forecast:** Buyers may want to track assets in the East San Jose submarket, where the final phase of the 646,000-square foot Plant power center is scheduled to come online in 2009. Class B/C operators will likely benefit from the influx of retail jobs generated by the project.

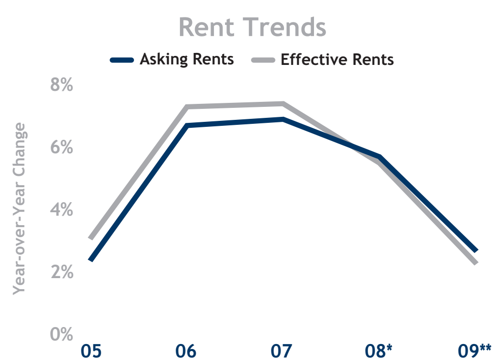
Market Forecast Employment: 1.8% ▼ Construction: 81% ▼ Vacancy: 70 bps ▲ Asking Rents: 2.3% ▲

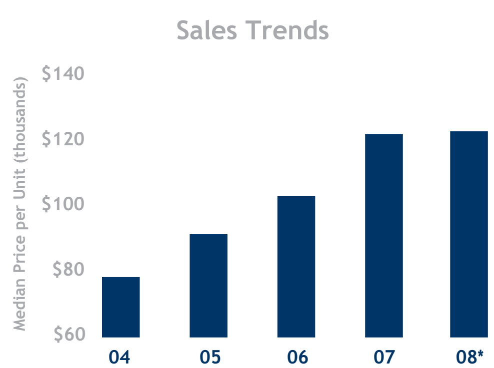
Spillover Demand in Seattle's Suburban Areas Presents Opportunities for Local Buyers

Following years of robust gains, employment in Seattle is forecast to contract in 2009, due primarily to operational restructuring and layoffs in some of the metro's major employers, including Boeing, Washington Mutual and Starbucks. The local housing market began to cool last year, leading to more modest economic expansion but also increasing renter demand for apartments. Downtown Seattle and Bellevue remain highly desirable to residents, though the steep run-up in rental rates over the past few years has priced some prospective tenants out of these areas. As a result, spillover demand will benefit suburban submarkets such as Redmond and Renton, where occupancy levels are relatively steady and limited additions to inventory will mitigate supply-side threats this year.

While the extended outlook for the Seattle apartment market will continue to attract investors, the heavy influence of out-of-state buyers and aggressive financing that drove rapid price appreciation are unlikely to return anytime soon. Going forward, some owners who have built-up equity and feel the market may have reached a peak could list properties at reasonable prices to narrow the expectations gap and close deals. Cap rates that averaged in the mid- to high-5 percent range at the end of 2008 are projected to push roughly 50 basis points higher in the coming quarters. This trend may be pronounced in the outer fringes of Pierce and Snohomish counties, where added risk is being factored into valuations. Buyers with extended holding periods will remain active in the marketplace, seeking apartment assets in suburban areas, particularly along the 405 corridor around Bellevue, where initial yields exceed the metrowide average.







* Estimate ** Forecast

2009 Market Outlook

- **2009 NAI Rank: 5, Down 3 Places.** Despite job cuts, Seattle remained near the top of the NAI due to an above-average rent growth forecast.
- **Employment Forecast:** Cuts by prominent local employers will result in a 0.8 percent drop in metrowide employment. In 2009, net losses will total 14,000 positions, after 21,000 jobs were eliminated last year.
- **Construction Forecast:** Approximately 2,700 apartment units will be delivered this year, down from 3,000 units in 2008.
- **Vacancy Forecast:** Easing demand and steady stock additions will drive vacancy up 100 basis points to 6.6 percent in 2009, following a 130 basis point rise last year.
- **Rent Forecast:** This year, asking rents are forecast to advance 2.7 percent to $1,044 per month, while effective rents finish 2009 at $985 per month, a 2.3 percent gain.
- **Investment Forecast:** In the short term, elevated construction levels in the Downtown/Capitol Hill/Queen Anne and Bellevue/Issaquah submarkets are expected to push up vacancy rates. Amazon and Microsoft have multimillion-square foot office leasing commitments in place in these areas, which should result in added renter demand from employees working for the technology giants.

Market Forecast Employment: 0.8% ▼ Construction: 10% ▼ Vacancy: 100 bps ▲ Asking Rents: 2.7% ▲

St. Louis

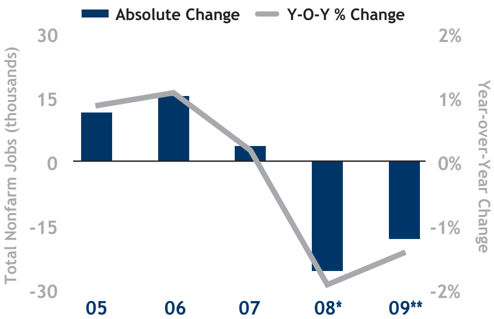
No Change | **2009 Rank: 40** | **2008 Rank: 40**

Pockets of Strength Expected to Emerge; Supply Concerns Hindering Downtown

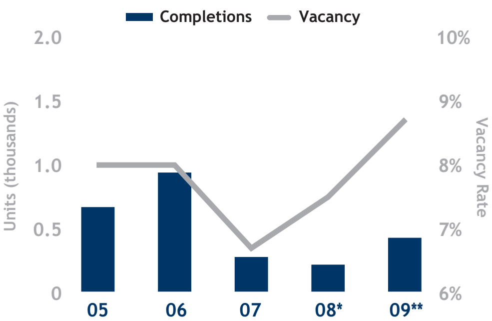
Apartment conditions in St. Louis will soften this year due to job losses and localized oversupply; however, some areas of the metro will record relatively strong performance. In the near term, fundamentals will firm in the Clayton and Mid-County submarkets and in the Illinois bedroom communities of Edwardsville and Belleville, where strong local economies and proximity to arterial routes continue to generate healthy renter demand. Vacancy rates in South County and Jefferson County are also poised to tighten, driven primarily by elevated income levels and limited inventory expansion. Job growth, particularly over the long term, will be strongest along Interstate 55 and Highway 44 in the southern portion of the metro, providing opportunities for investors with extended hold strategies. Ongoing redevelopment and gentrification efforts have slowed downtown, but apartment developers remain fairly active in the area, which is slated to receive the bulk of the market's completions this year.

Transaction velocity in St. Louis should pick up late in 2009, assuming the expectations gap narrows. Local buyers will likely remain active, with regional investors re-entering the market as the credit markets stabilize. Cap rates metrowide are currently in the low- to mid-7 percent range and are expected to creep higher. Buyers may find opportunities in distressed or failed conversion projects downtown, where there is insufficient demand for luxury rentals. Occupancy levels will hinder sales activity in St. Charles County, where cap rates are approximately 75 basis points above the metro average. Investors could also be drawn to the southern submarkets this year, as properties in this area typically offer greater amenities and comparatively low rents.

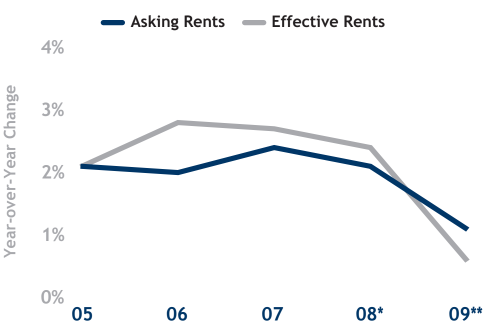
Employment Trends



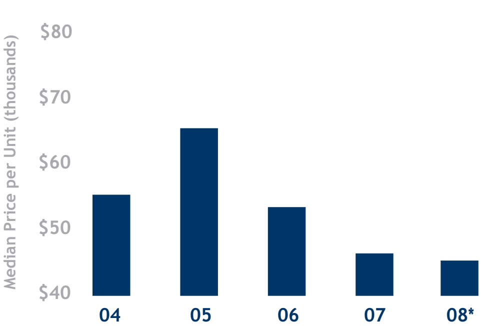
Supply and Demand



Rent Trends



Sales Trends



* Estimate ** Forecast

2009 Market Outlook

- **2009 NAI Rank: 40, No Change.** Above-average vacancy levels and continued job losses kept St. Louis near the bottom of the NAI.
- **Employment Forecast:** After 25,900 positions were cut in 2008, another 18,400 jobs will be eliminated this year, thinning payrolls by 1.4 percent.
- **Construction Forecast:** Roughly 400 apartments are expected to come online in 2009, expanding metro stock by 0.3 percent.
- **Vacancy Forecast:** Oversupply in some areas and employment contraction will drive metrowide vacancy up 120 basis points to 8.7 percent this year.
- **Rent Forecast:** In 2009, rent gains are forecast to decelerate to the slowest pace in more than five years. The average asking rent is expected to reach $740 per month, while effective rents will rise to $696 per month, annual gains of 1.1 percent and 0.6 percent, respectively.
- **Investment Forecast:** Buyers seeking stabilized assets may find opportunities in the Manchester/West County submarket, where fundamentals are expected to recover at a faster rate than in other areas of the metro. Additionally, positive demographic trends will persist in the submarket, and competitive threats from new apartments will be minimal through 2010.

Market Forecast | Employment: 1.4% ▼ | Construction: 115% ▲ | Vacancy: 120 bps ▲ | Asking Rents: 1.1% ▲

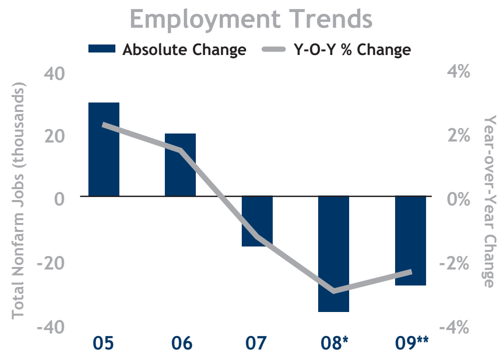
Cuts in Financial Services Somewhat Offset by Households Returning to Rentals

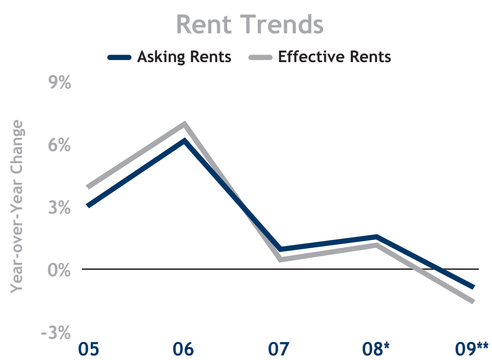
As job losses continue this year, vacancy in Tampa-St. Petersburg will rise, while rents inch lower. Upheaval in the housing market could mitigate the expected erosion of key performance measures, however, as tougher mortgage underwriting will restrict the migration out of rentals. This trend may most directly benefit the Class A sector in areas of Hillsborough County, as well as in North Pinellas County and the North St. Petersburg submarket, all of which have large proportions of upper-tier properties. Meanwhile, foreclosures in the Tampa-St. Petersburg metro area persist, though apartment property owners have not observed a material increase in renter traffic attributable to this trend. Instead of moving into traditional apartments, many foreclosed homeowners are renting single-family residences, thereby deferring demand for apartments until the housing market begins to firm.

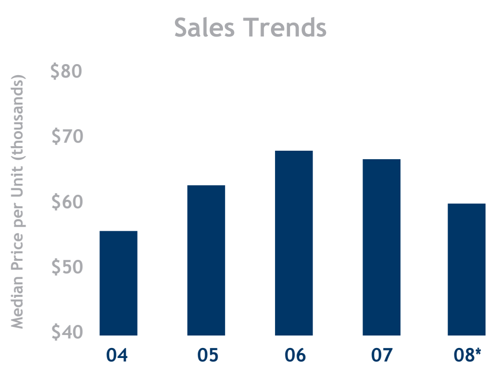
In the investment arena, Class A complexes are currently trading at cap rates of approximately 6 percent, with Class B/C assets pricing in the 7.2 percent to 8.0 percent range. Top-quality assets in strong submarkets, though, will sell at less than 6 percent if a buyer can underwrite reduced concessions and even modest rent growth within 24 months following the sale. In the near term, investors will remain highly selective concerning a property's specific demand generators. Assets near back-office financial services employers in central Pinellas County and in Brandon and Riverview, for example, may be examined more closely to better understand their tenant mixes. Meanwhile, developers will step up activity to secure sites in the path of projected population growth in Hernando and western Pasco counties. Builders are also considering previously overlooked sites in core areas such as South Tampa or near Tampa International Airport.

2009 Market Outlook

- **2009 NAI Rank: 41, Down 14 Places.** Slowing household formation will cause vacancy to rise and rents to drop, driving Tampa down 14 spots in the ranking this year.
- **Employment Forecast:** Metrowide employment is expected to contract by 2.3 percent, or 28,000 positions, in 2009, compared with the elimination of 36,400 jobs last year.
- **Construction Forecast:** Approximately 900 units will be delivered in the metro area this year. In 2008, 2,300 apartments were completed.
- **Vacancy Forecast:** Marketwide vacancy is expected to climb 130 basis points to 9.7 percent in 2009 as employment reductions weigh on demand. Job losses in lower-paying sectors will contribute to an increase of approximately 180 basis points in Class B/C vacancy.
- **Rent Forecast:** Asking rents are forecast to fall 0.8 percent in 2009 to $834 per month, while effective rents decline 1.5 percent to $779 per month.
- **Investment Forecast:** Assets in South Shore communities such as Apollo Beach, Gibsonton and Ruskin offer solid first-year returns based upon proven operating histories. Untapped development opportunities also exist in the area, which is located along the Interstate 75 corridor.



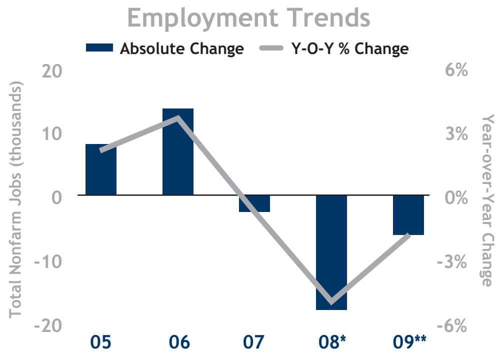


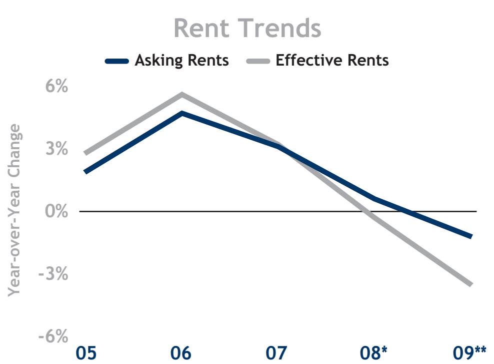


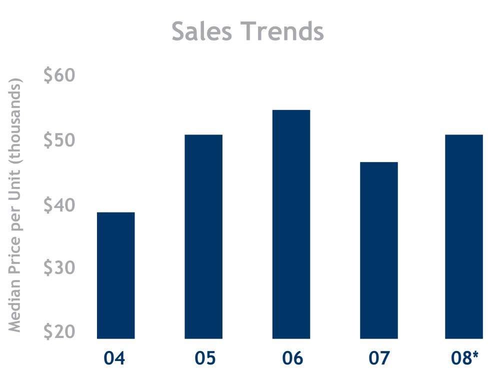
* Estimate ** Forecast

Market Forecast Employment: 2.3% ▼ Construction: 61% ▼ Vacancy: 130 bps ▲ Asking Rents: 0.8% ▼

Buyers Targeting Financially Distressed Properties and Infill Assets







* Estimate ** Forecast

Fundamentals in the Tucson apartment market are expected to adjust further this year as a result of a soft economy, competition from shadow stock and new legislation. The large volume of unsold condos and single-family homes being employed as rentals will underpin a metrowide rise in vacancy. This trend will have a greater impact on property performance in outlying areas such as the Catalina submarket, where home building and speculative buying activity accelerated in recent years, prompting apartment owners to increase concessions. Conversely, operations should remain fairly stable in the Central/University submarket, which features consistent renter demand due to a large student population. In addition to job cuts in blue-collar sectors, Arizona has enacted some of the nation's toughest employer sanctions against hiring undocumented workers, which may delay an economic rebound in Tucson. The legislation, combined with thinning payrolls in the construction sector, is expected to soften Class C operations, particularly the South/Southwest submarket.

Sales velocity will likely remain subdued in the Tucson apartment market this year. Financially distressed assets that were purchased with aggressive pro forma underwriting, as well as some failed conversion projects, are anticipated to come to market. This is expected to begin to pull inactive buyers from the sidelines. Investors looking for stability may want to pursue infill assets that cater to students in the Central/University submarket, as these properties are likely to outperform in the near term. Assets in the area seldom trade, however, and motivated buyers may have to stretch to acquire them. Although the bid-ask spread remains wide, the gap should narrow by year end as motivated sellers lower prices to restore interest, which is expected to result in cap rates rising from the current 7 percent range.

2009 Market Outlook

- **2009 NAI Rank: 33, Down 13 Places.** Tucson's elevated vacancy rate caused the market to drop 13 spots in this year's index.
- **Employment Forecast:** In 2009, employers will cut 6,300 workers, a 1.8 percent decrease, after 18,000 jobs were eliminated last year.
- **Construction Forecast:** Builders are slated to deliver 525 apartments this year, up from 185 units in 2008.
- **Vacancy Forecast:** An abundance of housing options will raise the vacancy rate 160 basis points to 12.8 percent in 2009.
- **Rent Forecast:** Asking rents are projected to decline 1.2 percent this year to $633 per month. Local operators will increase concessions considerably in an attempt to stabilize occupancy levels, resulting in a 3.5 percent drop in effective rents to $582 per month.
- **Investment Forecast:** Risk-averse buyers with extended holding periods may want to assess opportunities among age-restricted communities. Operations within these sites have remained stable, as Tucson has long been a popular retirement destination. Moreover, nearly 40,000 new residents age 55 and older are projected to relocate to the metro by 2012, further supporting renter demand.

Market Forecast Employment: 1.8% ▼ Construction: 184% ▲ Vacancy: 160 bps ▲ Asking Rents: 1.2% ▼

Up 6 Places 2009 Rank: 3 2008 Rank: 9

Washington, D.C.

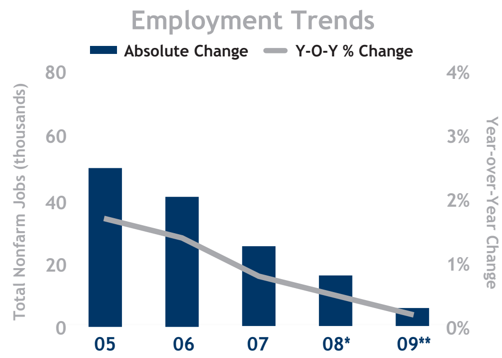
Apartment Completions Slowing and Job Growth Cooling; Condos Pose a Modest Threat

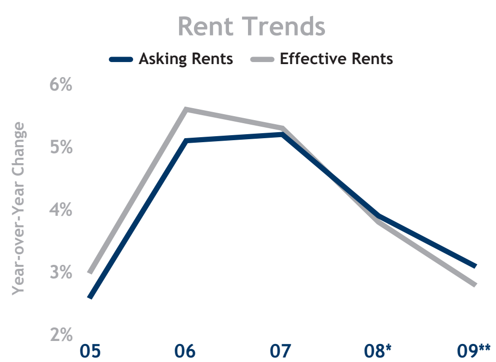
The Washington, D.C., apartment market is projected to post strong results this year, as the metro will be one of a few in the country to record employment gains. Additionally, the increase in vacancy is forecast to be modest, with a 70 basis point rise to 6.9 percent expected in Northern Virginia as demand continues to lag completions. Vacancy will tick up to 5.6 percent in the District, as the rate there typically increases when a new administration takes office. In Suburban Maryland, vacancy will edge higher to 6.3 percent, despite a drop-off in new supply. Indeed, apartment building will decelerate in 2009 as development pipelines conceived years ago empty, although condo construction remains a concern. A decline in permitting should result in reduced construction activity beyond this year as well. In the District, Northern Virginia and Prince George's County, for example, multi-family permit issuance is expected to drop 30 percent in 2009 to 3,000 units as builders realign developments to meet anticipated population growth. Metrowide, projected permitting this year will total less than 1 percent of existing apartment stock.

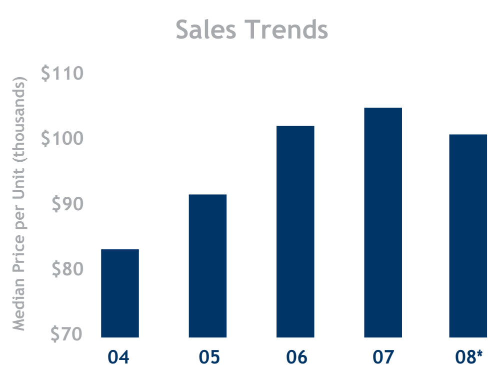
Encouraged by some of the strongest operating fundamentals in the country, national investors will increasingly look to establish or expand portfolios in the region over the next 12 months. Local players will also become more active as credit availability loosens, focusing on smaller, older properties or repositioning opportunities. Cap rates vary from 5.8 percent in premier locations such as Northern Virginia, Montgomery County and the Northwest District to about 7.5 percent in less affluent submarkets, including Prince George's County. On average, Class A properties change hands with cap rates from 25 basis points to 50 basis points less than Class B/C assets. Areas of interest in the near term include the Dulles Corridor and Montgomery County, where the presence of steadily performing office-using and biotech employers will generate demand for rental housing.

2009 Market Outlook

- **2009 NAI Rank: 3, Up 6 Places.** Forecast additions to payrolls propelled Washington, D.C., up six positions in the 2009 ranking.
- **Employment Forecast:** Employers will create 4,800 jobs this year, a 0.2 percent increase, following the addition of 15,000 new hires in 2008.
- **Construction Forecast:** Approximately 5,100 apartments are slated for completion in 2009, after 7,000 units were brought online last year. In the District, 1,400 units are forecast, while 1,700 units and 2,000 units will be delivered to Suburban Maryland and Northern Virginia, respectively.
- **Vacancy Forecast:** Metrowide vacancy is expected to rise 60 basis points this year to 6.5 percent.
- **Rent Forecast:** Asking rents are projected to advance 3.1 percent to $1,410 per month in 2009, while effective rents increase 2.8 percent to $1,351 per month. Rent growth will lag slightly in Suburban Maryland.
- **Investment Forecast:** Despite continued job growth, the unemployment rate is rising, which could encourage investors to focus on properties with more two-bedroom units as some renters begin doubling up.



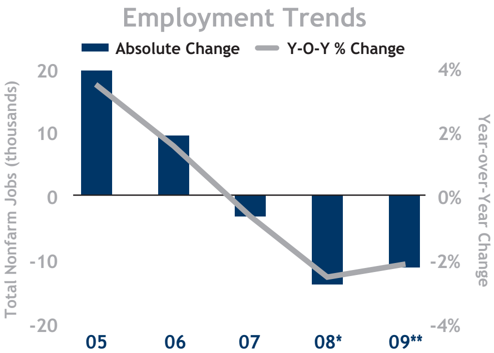


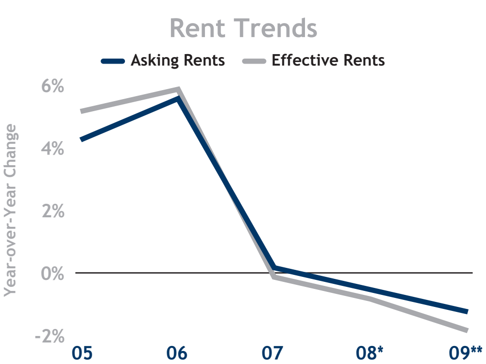


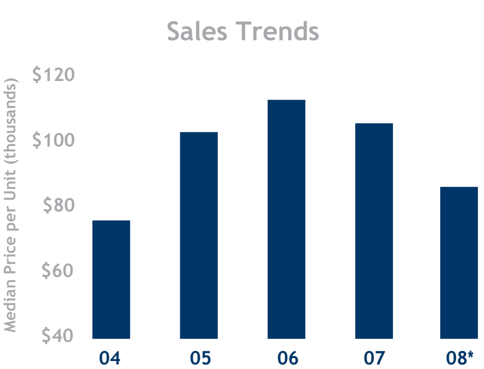
* Estimate ** Forecast

Market Forecast Employment: 0.2% ▲ Construction: 27% ▼ Vacancy: 60 bps ▲ Asking Rents: 3.1% ▲

Construction in Check, but Condo Reversions and Job Losses Will Weigh on Apartments







* Estimate ** Forecast *** No completions in 2008

Apartment development in Palm Beach County will be limited in 2009, but a slump in rental demand related to weak employment will lead to higher vacancy and force many owners to trim rents. The financial activities sector merits watching in the months ahead as a gauge of how projected staff reductions may influence housing demand. Within the segment, about 2,000 jobs are expected to be eliminated this year, following a loss of 1,500 positions in 2008. The decrease in financial services employment will have the greatest impact on renter demand in and around Boca Raton, which houses the local operations for several national firms, including A.G. Edwards, Citigroup, Merrill Lynch, Morgan Stanley and Wachovia. Additionally, Wachovia has more than 30 retail locations in the county, and some could be closed as a result of the firm's merger with Wells Fargo. Despite the possible effects of job losses in the metro's large financial services companies on apartments, growth in local government employment and some in-migration will help to support demand for rental housing.

In the transaction arena, cap rates are settling from 7.0 percent to 7.9 percent for mature, stabilized properties in established communities such as Boca Raton and West Palm Beach. Prospective investors continue to look for bargains, especially in fractured condo conversions that can be redeployed as rentals, and some deals are being closed at a significant discount from the original purchase price. Meanwhile, tenant mixes at rental complexes with exposure to financial services employers will likely bear closer inspection in the coming months, forcing investors to realign rent growth assumptions. Indeed, the pace of rent decreases is forecast to accelerate this year, and gains are not expected to resume until the local employment market improves.

2009 Market Outlook

- **2009 NAI Rank: 39, Down 15 Places.** Job losses and elevated vacancy drove West Palm Beach down 15 spots in the NAI.
- **Employment Forecast:** Total employment in Palm Beach County is expected to contract 2.1 percent, or by 11,400 workers, in 2009. Last year, 14,000 jobs were eliminated.
- **Construction Forecast:** Approximately 500 units are slated for delivery this year, compared with no completions in 2008; 900 units are planned.
- **Vacancy Forecast:** Sluggish demand will support a 120 basis point increase in the vacancy rate to 9.9 percent, following a 70 basis point rise in 2008.
- **Rent Forecast:** In 2009, a 1.2 percent decline in asking rents to $1,094 per month is projected. Effective rents are expected to drop 1.8 percent to $1,021 per month. Last year, asking rents fell 0.5 percent, and effective rents slipped 0.8 percent.
- **Investment Forecast:** The arrival of the first buildings of The Scripps Research Institute will provide a near-term boost to apartment fundamentals in the northern part of the county. Over the longer term, the frequent turnover of rentals used as temporary housing for relocating or contract workers could lift property incomes.

Market Forecast Employment: 2.1% ▼ Construction: N/A*** Vacancy: 120 bps ▲ Asking Rents: 1.2% ▼

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National Multi Housing Group

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 advisers and developers with custom disposition, acquisition and market analysis capabilities through an expertly 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 project and the specific objectives of the client. 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 38-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.

For further information, contact:

Linwood C. Thompson
Managing Director, National Multi Housing Group
Marcus & Millichap
500 Northpark Town Center
1100 Abernathy Road, N.E.
Building 500, Suite 600
Atlanta, Georgia 30328
Tel: (678) 808-2700
lthompson@marcusmillichap.com

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 analysis 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 monitored constantly.

Multi-Family Property Analysis

- Marcus & Millichap Research Services 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.

For further information, contact:

Hessam Nadji
Senior Vice President, Managing Director, Research Services
Marcus & Millichap
2999 Oak Road, Suite 210
Walnut Creek, California 94597
Tel: (925) 953-1700
hnadji@marcusmillichap.com

Marcus & Millichap Capital Corporation

Marcus & Millichap Capital Corporation 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 Optimal 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.

For further information, contact:

William E. Hughes
Managing Director, Marcus & Millichap Capital Corporation
19800 MacArthur Blvd., Suite 150
Irvine, California 92612
Tel: (949) 419-3200
whughes@marcusmillichap.com

National Multi Housing Group

Linwood C. Thompson, Managing Director, National Multi Housing Group

National Research Team

John Chang, National Research Manager
Bryan O'Keefe, National Client Services Manager
Peter O'Neil, National Publications Manager
Thomas Hershey, Senior Analyst
Erica Linn, Senior Analyst
Sarah Brewer, Research Administrator
Michael Brown, Research Analyst
Amber Bryan, Assistant Editor
Greg Clemmer, Market Analyst
David Delich, Research Analyst
Neil Evans, Research Associate
Art Gering, Senior Market Analyst
Josh Gisselquist, Research Associate
Steve Hovland, Market Analyst
Jon McNulty, Research Associate
Nancy Olmsted, Research Associate
Jarrod Thuener, Research Associate
Patricia Trinidad, Research Associate
Michael Yeager, Research Associate

Communications/Graphic Design

Michelle Cocagne, First Vice President, Corporate Communications
John Sterns, Marketing Manager
Stacey Corso, Public Relations Manager

Contact:

John Chang
National Research Manager
2398 E. Camelback Road, Suite 550
Phoenix, Arizona 85016
Tel: (602) 952-9669
Fax: (602) 952-9825
john.chang@marcusmillichap.com

Managing Directors

Harvey E. Green, President and Chief Executive Officer
Tel: (818) 212-2700 | hgreen@marcusmillichap.com

Linwood C. Thompson, Senior Vice President, Managing Director
National Multi Housing Group
Tel: (678) 808-2700 | lthompson@marcusmillichap.com

Gary R. Lucas, Senior Vice President, Managing Director
Tel: (415) 963-3000 | glucas@marcusmillichap.com

Bernard J. Haddigan, Senior Vice President, Managing Director
National Retail Group
Tel: (678) 808-2700 | bhaddigan@marcusmillichap.com

John J. Kerin, Senior Vice President, Managing Director
Tel: (818) 212-2700 | jkerin@marcusmillichap.com

Hessam Nadji, Senior Vice President, Managing Director
Research Services
Tel: (925) 953-1700 | hnadji@marcusmillichap.com

Stuart E. Kaiser, Chief Financial Officer, Managing Director
Tel: (818) 212-2700 | skaiser@marcusmillichap.com

William E. Hughes, Senior Vice President, Managing Director
Marcus & Millichap Capital Corporation
Tel: (949) 419-3200 | whughes@marcusmillichap.com

Kevin A. Assef, Senior Vice President, Managing Director
Tel: (909) 456-3400 | kassef@marcusmillichap.com

Paul S. Mudrich, Chief Legal Officer, Managing Director
Tel: (650) 396-1900 | pmudrich@marcusmillichap.com

Gene A. Berman, Senior Vice President, Managing Director
Tel: (954) 245-3400 | gberman@marcusmillichap.com

Alan L. Pontius, Senior Vice President, Managing Director
National Office and Industrial Properties Group
Tel: (415) 963-3000 | apontius@marcusmillichap.com

National Apartment Index Note: Employment and apartment data forecasts for 2009 are based on the most up-to-date information available as of October 2008 and are subject to change. Due to significant restatements of historical employment data by the Bureau of Labor Statistics in March 2008 and the acceleration of the credit crunch to a full-blown crisis, we re-benchmarked several markets in the 2008 NAI. Market coverage for New Jersey has been expanded to include the entire state.

Statistical Summary Note: Metro-level employment growth is calculated on a year-over-year basis using a fourth quarter average. Vacancy and annual asking and effective rent are year-end figures. Effective rent is equal to asking rent less 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. Forecasts for employment and apartment data are made during the fourth quarter.

Note: Averages and medians may be based on all property classes or Class A and Class 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 a historical series or methodology, please contact John Chang at john.chang@marcusmillichap.com. 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, American Council of Life Insurers, Blue Chip Economic Indicators, Bureau of Economic Analysis, California Association of Realtors, California Employment Development Department, Commercial Mortgage Alert, CoStar Group Inc., Dupre + Scott Apartment Advisors Inc., economy.com, Federal Reserve, Freddie Mac, Morgan Stanley, Mortgage Bankers Association, National Association of Realtors, National Council of Real Estate Investment Fiduciaries, National Real Estate Index, Property & Portfolio Research, Real Capital Analytics, Real Data, Real Estate Center at Texas A&M University, RealFacts, Reis, Standard & Poor's, The Conference Board, TWR/Dodge Pipeline, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Securities and Exchange Commission, U.S. Treasury Department, Wachovia.

Office Locations

Corporate Headquarters
Marcus & Millichap
First Financial Plaza
16830 Ventura Boulevard
Suite 352
Encino, CA 91436
Tel: (818) 212-2700
www.MarcusMillichap.com

Albany
11 N. Pearl Street
Suite 1202
Albany, NY 12207
Tel: (518) 432-4444
Gary R. Lucas

Atlanta
500 Northpark Town Center
1100 Abernathy Road, N.E.
Building 500, Suite 600
Atlanta, GA 30328
Tel: (678) 808-2700
John M. Leonard

Austin
8310 N. Capital of Texas Highway
Suite 150
Austin, TX 78731
Tel: (512) 338-7800
Brent Smith

Baltimore
1720 Belt Street
Baltimore, MD 21230
Tel: (410) 878-2062
Gary R. Lucas

Birmingham
3535 Grandview Parkway
Suite 425
Birmingham, AL 35243
Tel: (205) 747-3700
Matthew M. Fitzgerald

Boise
802 W. Bannock Street
Suite 305-A
Boise, ID 83702
Tel: (208) 331-8381
Gary R. Lucas

Boston
400 Fifth Avenue
Suite 105
Waltham, MA 02451
Tel: (781) 373-7100
Gary R. Lucas

Brooklyn
16 Court Street
Floor 2A
Brooklyn, NY 11241
Tel: (718) 475-4300
J.D. Parker

Central Illinois
328 Susan Drive
Suite 400
Normal, IL 61761
Tel: (309) 451-7300
Matthew M. Fitzgerald

Charlotte
405 Eagle Bend Drive
Waxhaw, NC 28173
Tel: (704) 443-0600
Gary R. Lucas

Charlotte Uptown
101 S. Tryon Street
Suite 2460
Charlotte, NC 28280
Tel: (704) 831-4600
Gary R. Lucas

Chicago
8750 W. Bryn Mawr Avenue
Suite 650
Chicago, IL 60631
Tel: (773) 867-1500
Greg LaBerge

Chicago - Downtown
333 W. Wacker Drive
Suite 200
Chicago, IL 60606
Tel: (312) 327-5400
John M. Przybyla

Chicago - Oak Brook
One Mid America Plaza
Suite 200
Oakbrook Terrace, IL 60181
Tel: (630) 570-2200
Tim Rios

Cincinnati
201 E. Fifth Street
Suite 2050
Cincinnati, OH 45202
Tel: (513) 878-7700
Steven R. Chaben

Cleveland
5005 Rockside Road
Suite 1100
Independence, OH 44131
Tel: (216) 264-2000
Michael Glass

Columbus
21 E. State Street
Suite 2300
Columbus, OH 43215
Tel: (614) 360-9800
Steven R. Chaben

Dallas
Centura Tower
14185 N. Dallas Parkway
Suite 650
Dallas, TX 75254
Tel: (972) 755-5200
Tim A. Speck

Denver
1225 17th Street
Suite 1800
Denver, CO 80202
Tel: (303) 328-2000
Adam P. Christofferson

Des Moines
1011 Office Park Road
Suite 1
West Des Moines, IA 50265
Tel: (515) 645-3200
Matthew M. Fitzgerald

Detroit
28411 Northwestern Highway
Suite 750
Southfield, MI 48034
Tel: (248) 415-2600
Steven R. Chaben

Encino
First Financial Plaza
16830 Ventura Boulevard
Suite 100
Encino, CA 91436
Tel: (818) 212-2700
Scott Lamontagne

Fort Collins
First Community Bank Plaza
3711 JFK Parkway
Suite 320
Fort Collins, CO 80525
Tel: (970) 267-3300
Adam P. Christofferson

Fort Lauderdale
5900 N. Andrews Avenue
Suite 100
Fort Lauderdale, FL 33309
Tel: (954) 245-3400
Gregory Matus

Fort Worth
500 Throckmorton Street
Suite 325
Fort Worth, TX 76102
Tel: (682) 478-1200
Andrew Kile

Grand Rapids
99 Monroe Avenue N.W.
Suite 201
Grand Rapids, MI 49503
Tel: (616) 482-1600
Steven R. Chaben

Greenville
538 Old Howell Road
Suite 101
Greenville, SC 29615
Tel: (864) 292-4717
John M. Leonard

Houston
777 Post Oak Boulevard
Suite 900
Houston, TX 77056
Tel: (713) 452-4200
Michael E. Hoffman

Indianapolis
900 E. 96th Street
Suite 150
Indianapolis, IN 46240
Tel: (317) 218-5300
Joshua Caruana

Jackson
617 Renaissance Way
Suite 200
Ridgeland, MS 39157
Tel: (601) 790-3300
Matthew M. Fitzgerald

Jacksonville
4600 Touchton Road East
Building 100, Suite 150
Jacksonville, FL 32246
Tel: (904) 296-6765
David Bradley

Kansas City
2 Emanuel Cleaver II Boulevard
Suite 410
Kansas City, MO 64112
Tel: (816) 410-1010
Gary R. Lucas

Lafayette
140 Rue Beauregard
Suite A
Lafayette, LA 70508
Tel: (337) 231-5174
Michael E. Hoffman

Las Vegas
3993 Howard Hughes Parkway
Suite 300
Las Vegas, NV 89169
Tel: (702) 215-7100
John Vorsheck

Long Beach
One World Trade Center
Suite 2100
Long Beach, CA 90831
Tel: (562) 257-1200
John F. Rodiles

Los Angeles
915 Wilshire Boulevard
Suite 1700
Los Angeles, CA 90017
Tel: (213) 943-1800
Stepehen Stein

Los Angeles - West
12100 W. Olympic Boulevard
Suite 350
Los Angeles, CA 90064
Tel: (310) 909-5500
Justin White

Louisville
9300 Shelbyville Road
Suite 605
Louisville, KY 40222
Tel: (502) 329-5900
Gary R. Lucas

Madison
1468 N. High Point Road
Suite 201
Middleton, WI 53562
Tel: (608) 830-2500
Matthew M. Fitzgerald

Manhattan
270 Madison Avenue
Seventh Floor
New York, NY 10016
Tel: (212) 430-5100
Edward Jordan

Memphis
5050 Poplar Avenue
Suite 1028
Memphis, TN 38157
Tel: (901) 620-3600
Matthew M. Fitzgerald

Miami
5201 Blue Lagoon Drive
Suite 100
Miami, FL 33126
Tel: (786) 522-7000
Kirk A. Felici

Milwaukee
13845 Bishop's Drive
Suite 150
Brookfield, WI 53005
Tel: (262) 364-1900
Matthew M. Fitzgerald

Minneapolis
8300 Norman Center Drive
Suite 810
Bloomington, MN 55437
Tel: (952) 852-9700
Solomon Poretsky

New Haven
265 Church Street
Suite 210
New Haven, CT 06510
Tel: (203) 672-3300
Edward Jordan

New Jersey
River Drive Center 3
611 River Drive
Fourth Floor
Elmwood Park, NJ 07407
Tel: (201) 582-1000
Michael J. Fasano

Newport Beach
19800 MacArthur Boulevard
Suite 150
Irvine, CA 92612
Tel: (949) 419-3200
Joseph Cesta

Oakland
500 12th Street
Suite 260
Oakland, CA 94607
Tel: (510) 379-1200
Jerry C. Smith

Oklahoma City
5609 N. Classen Boulevard
Suite 100
Oklahoma City, OK 73118
Tel: (405) 254-2200
Gary R. Lucas

Omaha
10050 Regency Circle
Suite 515
Omaha, NE 68114
Tel: (402) 343-9700
Matthew M. Fitzgerald

Ontario
One Lakeshore Center
3281 E. Guasti Road
Suite 800
Ontario, CA 91761
Tel: (909) 456-3400
Douglas McCauley

Orlando
1900 Summit Tower Boulevard
Suite 650
Orlando, FL 32810
Tel: (407) 557-3800
Bryn Merrey

Palo Alto
2626 Hanover Street
Palo Alto, CA 94304
Tel: (650) 494-8900
Steven J. Seligman

Philadelphia
8 Penn Center
1628 John F. Kennedy Boulevard
Suite 1200
Philadelphia, PA 19103
Tel: (215) 531-7000
Spencer Yablon

Phoenix
2398 E. Camelback Road
Suite 550
Phoenix, AZ 85016
Tel: (602) 952-9669
David Guido

Portland
101 S.W. Main Street
Suite 1850
Portland, OR 97204
Tel: (503) 200-2000
Anthony Cassie

Reno
255 W. Moana Lane
Suite 209
Reno, NV 89509
Tel: (775) 827-5700
Robert B. Hicks

Reston
11710 Plaza America Drive
Suite 2000
Reston, VA 20190
Tel: (703) 871-5396
Ramon Kochavi

Sacramento
3741 Douglas Boulevard
Suite 200
Roseville, CA 95661
Tel: (916) 677-4100
Robert B. Hicks

Salt Lake City
50 West Broadway
Suite 100
Salt Lake City, UT 84101
Tel: (801) 736-2600
Richard Bird

San Antonio
100 N.E. Loop 410
Suite 600
San Antonio, TX 78216
Tel: (210) 343-7800
J. Michael Watson

San Diego
9255 Towne Centre Drive
Suite 700
San Diego, CA 92121
Tel: (858) 373-3100
Kent R. Williams

San Francisco
750 Battery Street
Fifth Floor
San Francisco, CA 94111
Tel: (415) 963-3000
Jeffrey M. Mishkin

Santa Fe
551 W. Cordova Road
Suite 462
Santa Fe, NM 87505
Tel: (505) 466-7027
Gary R. Lucas

Seattle
1420 Fifth Avenue
Suite 1600
Seattle, WA 98101
Tel: (206) 826-5700
Gregory S. Wendelken

Southern Virginia
5360 Discovery Park Boulevard
Suite 101-B
Williamsburg, VA 23188
Tel: (757) 253-1861
Gary R. Lucas

St. Louis
120 S. Central Avenue
Suite 1100
St. Louis, MO 63105
Tel: (314) 889-2500
Jeffery R. Algatt

Tampa
7650 Courtney Campbell Causeway
Suite 920
Tampa, FL 33607
Tel: (813) 387-4700
Bryn Merrey

Tucson
6083 E. Grant Road
Tucson, AZ 85712
Tel: (520) 296-3232
David Guido

Vero Beach
1701 Highway A1A
Suite 214
Vero Beach, FL 32963
Tel: (772) 453-2400
Gregory Matus

Washington, D.C.
1620 L Street N.W.
Suite 600
Washington, D.C. 20036
Tel: (202) 536-3700
Ramon Kochavi

Yuma
17490 S. Avenue E
Somerton, AZ 85350
Tel: (928) 627-3833
Gary R. Lucas

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Market Reports Via E-mail

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2398 E. Camelback Road, Suite 550 ◆ Phoenix, Arizona 85016
www.MarcusMillichap.com
Marcus & Millichap
RESEARCH SERVICES

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