PACIFIC NORTHWEST

MULTI-HOUSING MARKET
Q3 2008 OVERVIEW

APARTMENT REALTY ADVISORS

QUICK STATS

	2008 (YTD)	2007	Change
Occupancy	95.7%	96.1%	⇩
Avg. Rents	$1,026	$1,001	⇧
Sales Volume	$776 Million (YTD)	$2.42 Billion	⇩
Avg. Price/Unit	$135,336	$135,857	⇔
Average Yield	5.0%	4.9%	⇧

OVERVIEW

Multi-housing remains the preferred sector for commercial real estate investing in 2008. Apartments continue to out perform office, industrial and retail properties. While all sectors will feel the impact of a slower economy, apartment investors see upside to the multi-housing sector.

Financing stability from the Freddie Mac and Fannie Mae government bailout provides another advantage to the multi-housing sector.

During the first half of 2008, sellers and buyers probed the market without fully engaging. Buyers have been more selective but have responded quickly when presented with opportunities to "buy quality." They are location sensitive and have accepted lower going-in yields for markets with favorable NOI fundamentals such as the Seattle and Portland CBD's. Investors have moved aggressively for real value-add opportunities but the market for commodity assets has been thin.

The second half of 2008 will be more telling. Buy-side success will vary more by investor profile than has been the case in recent years. Discretionary funds that leverage 60% to low 70% are well suited to an environment with more conservative debt underwriting. Target internal rates of return typically range from 13% to 16% after leverage.

Private investors are more prevalent in multi-housing than other commercial sectors. They have focused on 'in-place' yields and positive leverage. Those who have relied on high leverage cannot compete. Those able to put in more equity will still account for a significant share of multi-housing transactions. Lower transaction volume all over the country will result in fewer 1031 buyers, a frequent source of capital that makes private investors competitive.

Larger deals will have fewer capable buyers due to the increased equity requirements.

Tenant-in-Common investors will be especially quiet until they can find available and reliable lenders at reasonable rates.

Institutional investors are best positioned for buy-side success in 2008, but it is unclear how aggressively they will invest. They have billions of capital available to invest yet, the pressure to do so is modest. Look for all cash IRR's of 7.5% to 8.5% to work for core to core-plus deals. More money is available for legitimate value-add deals.

Sellers and buyers will need to work hard to find common ground to finish out 2008. To be determined, will seller's take less or will equity settle for less? The good news is that multi-housing fundamentals in most parts of the country are positive, and the sector should be one of the most promising investment alternatives.

Puget Sound multi-housing fundamentals are strong for the third year in a row. I wouldn't say it's recession-proof, but Seattle will withstand the national recession better than most markets. Microsoft, Boeing and Amazon continue to hire and gobble up office space. In the next two years, 9,418 apartment units are expected to complete. Of these units, 4,003 will be located in Seattle (43% of total supply), with 1,986 units located on the Eastside (21% of total supply). The remaining units proposed or under construction are in the Southend (1,719 units) or North in Snohomish County which includes Everett (1,710 units). Considering that the total apartment demand projected over the next two years is approximately 12,963, the introduction of 9,418 new apartment units fails to meet demand, thus pushing rents even higher.

The information contained herein has been obtained from sources that we deem reliable. We have no reason to doubt its accuracy, but we do not guarantee it.

PRESENTED BY

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PACIFIC NORTHWEST REGION

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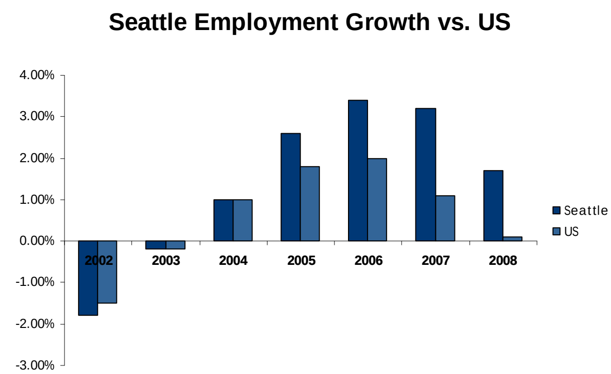
EMPLOYMENT GROWTH

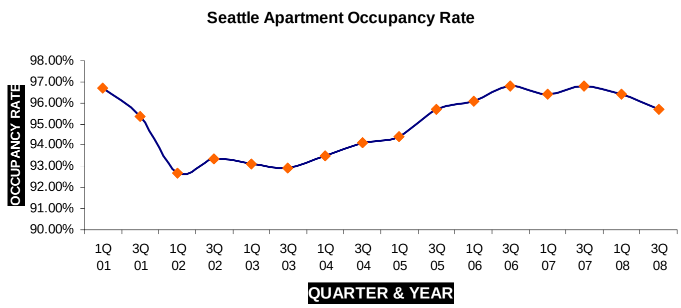
The Puget Sound's broad based job growth continues to increase. 2008 is projected to add 33,000 new jobs. Hiring at Microsoft, Boeing and Amazon is brisk. A surge of hiring at Microsoft will lead average annual growth of 4.6% in the information services sector through 2011, as the sector adds more than 20,000 new positions during that period. Although Seattle is not undergoing a major housing downturn, conditions in the national mortgage market are dragging down employment growth in the financial activities sector. Washington Mutual is expected to cut 550 Seattle-area jobs during 2008. In total, we expect the financial activities sector to shed 1,300 jobs during 2008. Employment growth in each of the other major sectors in Seattle is healthy, with the second slowest sector, government, expanding a solid 1.3%. Through the forecast period, we expect hiring in Seattle to accelerate, increasing 2.2% in 2012, demonstrating the comparative strength of the Seattle economy.



OCCUPANCY / VACANCY

Seattle multifamily product is being driven by relatively robust job gains, heady population growth, lack of significant new supply and an unaffordable for-sale housing market.

The third quarter 2008 vacancy rate has risen slightly to 4.63% from 4.26% in the first quarter 2008. In response to the tight market conditions, rents are rising, and with the single family and debt markets in a state of disarray, developers will be focusing on rental properties. Therefore, we anticipate the market to be tight through 2012, with the census vacancy rate hovering in the mid- to low 5% range.



RENT GROWTH

Taking advantage of Seattle's relatively high occupancy rate, apartment operators are still able to push rents in the region at an aggressive pace. By mid-year 2008, all submarkets experienced growth in rents with an overall weighted increase of 5.2% over rent levels at the end of 2007.

Less than 10 percent of Seattle's apartment communities offer rent concessions. Expectations for annual rental rate growth are that rates will increase by around 7.0% through 2008 and approximately 7.0% for the year 2009 and 6.5% in 2010.

TOP 5 BUYERS

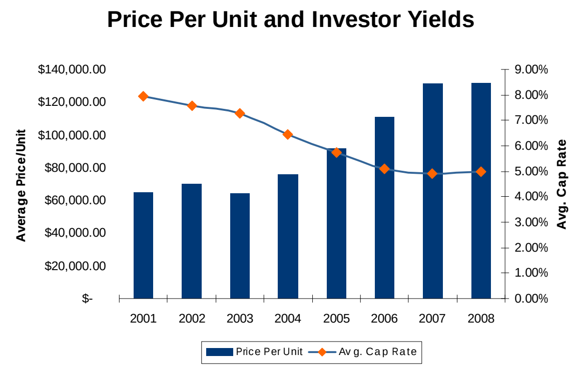
- Carmel Partners
- Kennedy Wilson
- FSC Realty
- UDR
- Security Properties

TOP 5 SELLERS

- Avalon Bay
- Equity Residential
- FSC Realty
- IntraCorp
- Longwell Co.

SALES/VOLUME

Looking at the number of sales that closed each month, activity peaked in mid-2005, with close to 70 sales a month taking place that summer. There has been a fairly steady decline in sales activity since then. So far this year, sales volume is running closer to 20 sales a month for all 5-unit and larger sales. That is the lowest monthly volume we have seen in this decade. Volume peaked in 2005, with just over $3 billion. Volume dropped to $2.8 billion in 2006 and $2.4 billion last year. Buyers have closed $776 million so far this year. At this time in 2007, volume was $1.6 billion. At an average of $135,336 per unit this year, 100-unit and larger sales fetch a premium. Prices this year are basically unchanged from last year's average of $135,857 per unit for all counties. The average in-city Seattle price is $189,021 per unit.



SUPPLY/DEMAND

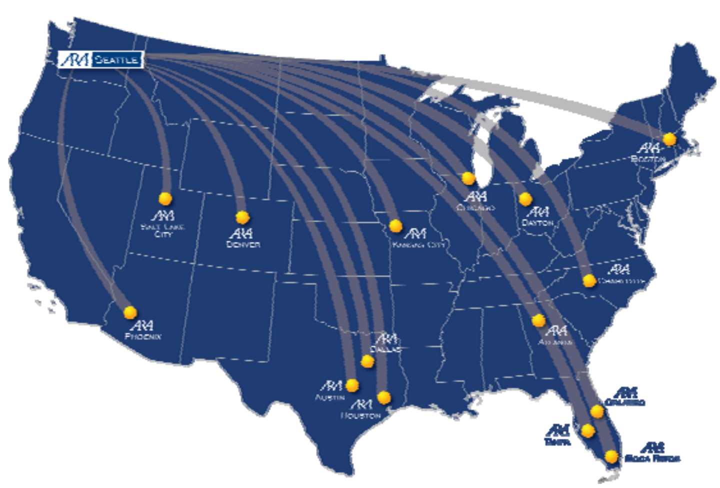
Slowing home sales, sluggish appreciation and rising inventories are convincing developers to rethink condo projects. Whereas many planned developments are being cancelled, other projects under way or recently completed are being converted into apartment units. Almost 1,700 new units are projected for 2008, with 2009 and 2010 expected to have far more new units built at 6,587 and 6,359 respectively. The expected rising interest rates and higher construction costs could temper some new development. Rental demand is generally highest in urban areas, which is evident in the growth of the resident population in downtown during recent years. Between 1990 and 2007, the residential population downtown grew 61%, compared to 12.5% city-wide.

OUTLOOK/MARKET RISKS

The risk of oversupply is increasing as more properties and projects under development are converted from condos into rental units. In particular, oversupply is most likely in the high-end market, as many of the units undergoing conversion were originally planned as luxury condos. Although the majority of recent growth in Seattle is fairly recession proof, the downturn in consumer spending could hurt some companies headquartered in Seattle like Amazon.com, Nordstroms and Starbucks.

If the national downturn is deeper than expected, and consumer spending drops further, employment growth in the Seattle region could slow more dramatically. Cap rates will escalate higher due to an increase in interest rates and tighter lending terms. NOI growth takes the lead, but development and oversupply from failed condos could slow some revenue gains. Longer term, sustained demand will keep our market at equilibrium.

Apartments still seem poised for a good long run.



APARTMENT™ REALTY ADVISORS

AVAILABLE PROPERTIES

Mallard Point
Auburn, WA
180 Units

Pinewood Village
Federal Way, WA
104 Units

Oxford
Seattle CBD
49 Units + Commercial

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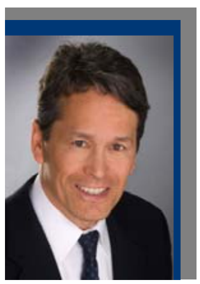
Jim Claeys, Vice President, is responsible for institutional business development and transaction management brokerage services in markets throughout Washington, Oregon and Idaho. Jim contributes to underwriting, analysis, pricing, marketing strategies and client development for all multihousing assignments taken on by Apartment Realty Advisors Pacific Northwest office.

Jim, a life-long resident of Seattle, has over 20 years of real estate brokerage experience specializing in multifamily properties. Throughout his tenure, Jim has closed more than 300 apartment transactions representing a total sales volume in excess of $2 billion dollars.



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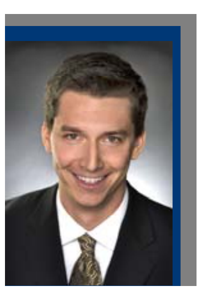
Jeffrey Wysong, Associate Broker, has been in the multifamily investment business since 1988. He is responsible for brokerage advisory services in markets throughout the Pacific Northwest. Focusing primarily on institutional transactions, Jeffrey has listed and sold more than 4,000 units located from Washington to Arizona. He began his career with CB Commercial and was previously associated with Pinnacle Realty where he negotiated the largest multifamily and multifamily land real estate transaction in Washington and Arizona in 3 separate years.

More recently, Jeffrey managed WCC providing him direct, in depth experience as a national rehab/value add developer for apartments and condominium conversions.



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J.P. Harlow, Transaction Manager, oversees all aspects of transactions from valuation, pricing strategies, marketing and client contact, due diligence to deal funding and closing. J.P. is also responsible for financial analysis, market research and business development for brokerage advisory services in the Pacific Northwest.