

MARKET OVERVIEW

This report comes to you following news of the Federal Reserve Board's most recent 25 basis point increase from 5% to 5.25% to the Federal Funds Rate, the interest rate that commercial banks charge each other on loans. This was the 17th consecutive increase since June 2004 in an effort by the Fed to curb rising inflation. The federal funds rate directly influences other short-term rates such as the prime rate effecting consumer and business loans alike.

According to Freddie Mac's Chief economist, Frank Nothaft, "financial markets continue to expect more rate hikes by the Fed over the next six months, which has added pressure on mortgage rates". In related news, the average rate on 30 year fixed rate mortgages rose to 6.78%, the third straight week of increases hitting the highest level since May 24, 2002.

Dean and I are seeing the effects of these increases with a larger number of apartment properties on the market, more frequent price reductions and fewer recorded transactions. The market has in fact shifted from a "sellers" market to a "buyers" market while patient investors search for value. As capitalization rates rise following interest rate increases, the definition of value is measured more in cash flow than anticipated appreciation.

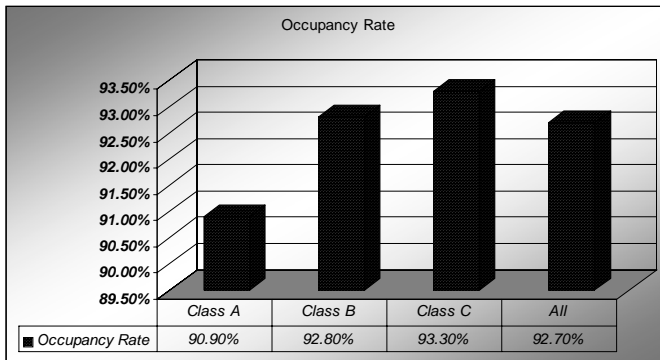
Amid this shift in the financial markets and change in investors' attitudes, buyers remain enthused in our Sacramento apartment market. The statistics may not be there but the indicators, such as continued population and job growth, reduced single family home affordability and fewer apartments under construction, suggest that occupancy and rental rates will increase in the near term.

OCCUPANCY RATES

The occupancy rate and annual percentage change reported by product class is as follows:

	Class A	Class B	Class C	All
Occupancy Rate	90.9%	92.8%	93.3%	92.7%
Annual % Change	2.5%	.10%	.40%	.70%

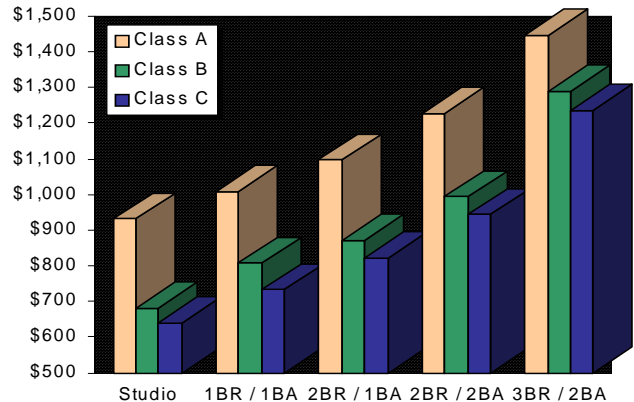
Data Source: Real Facts



RENTAL RATES

The average asking rental rate for area apartments rose 1.5% from one year ago. Rents by product class and floor plan are as follows (monthly rent & rent per square foot):

	Class A		Class B		Class C	
Studio	\$933	\$1.23sf	\$681	\$1.35sf	\$640	\$1.38sf
1 / 1	\$1,009	\$1.25sf	\$808	\$1.18sf	\$733	\$1.10sf
2 / 1	\$1,097	\$1.12sf	\$871	\$1.03sf	\$822	\$0.99sf
2 / 2	\$1,227	\$1.14sf	\$995	\$1.04sf	\$944	\$0.98sf
3 / 2	\$1,447	\$1.15sf	\$1,290	\$1.09sf	\$1,236	\$1.01sf



MARKET TRENDS

Increasing land and construction costs mean that a significant percentage of new units coming on line this year will be "for sale product". This reduction in the supply of new rental units coupled with continued population and job growth and the decline of single family home affordability lead Dean and me to predict a decline in the market vacancy rate with rental rates steadily increasing throughout 2006.

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