Philadelphia, PA

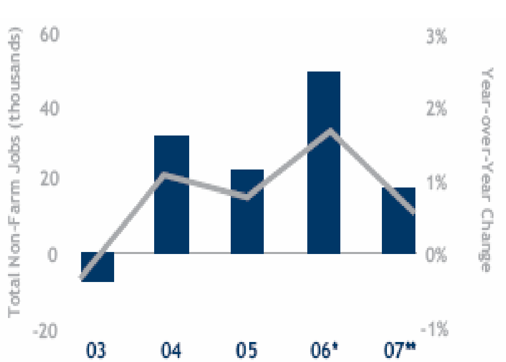
Steady Property Performance Commands Greater Investor Attention

Despite slower economic growth, apartment properties in Philadelphia are expected to perform well in 2007. Market wide vacancy will remain below 5 percent, a level that was last breached in 1993. Rent growth, though not as significant compared to other markets where stock reductions have drastically altered supply and demand fundamentals, will progress at a moderate and sustainable pace. Recently affected by the migration of some renters to for-sale housing, vacancy and rent growth in Class A properties may strengthen in the months ahead. As job creation slows, would-be home buyers may opt to remain renters in upper-tier properties for a while longer. The vacancy rate for Class A units is expected to hold around 5 percent, but owners should be able to raise asking rents by approximately 3.5 - 4.0 percent, up from the low-3 percent range last year. In the Class B/C sector, projected vacancy in the 4-percent range attests to the persistent vigor of the market's more affordable segment.

In the investment market, buyers will likely extend their search in the metro area beyond the urban core to high-density suburban counties in Pennsylvania. As an alternative, an increasing number of buyers will consider the New Jersey section of the market, where renter demand is driven by population growth. In Burlington County, for example, 3,000 new households are projected annually over the next five years. Apartment properties in Burlington County have recorded vacancy in the 2-percent range for the past several years, while at the same time posting modest rent increases. As a result, apartment owners have realized steadily increasing income streams and a moderate rate of price appreciation.

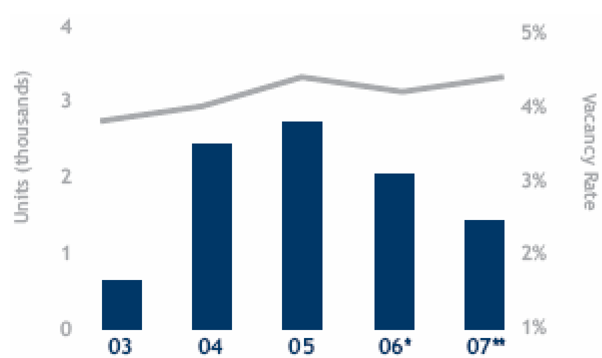
Employment Trends

Absolute Change
Y-O-Y % Change



Supply and Demand

Completions
Vacancy



Source: Marcus & Millichap Real Estate Investment Research: 2007 National Apartment Report

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2007 Market Outlook

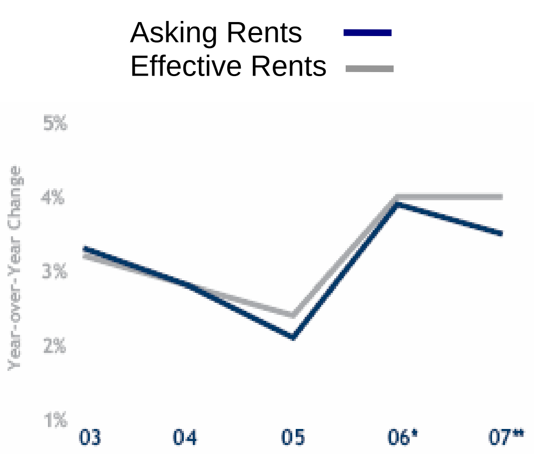
Employment Forecast: One year after employers added 47,000 jobs, employment growth is projected to slow to roughly 17,000 positions in 2007, a 0.6 percent gain. Recent growth in the trade, transportation and utilities sectors will recede to more normalized levels this year. Business, technology, medical and financial support sectors are expected to have above average growth based on regional supply demand constraints coming from neighboring metro markets..

Construction Forecast: Approximately 1,400 units are slated for completion in 2007. Last year, 2,000 apartments were brought online. Scheduled completions in 2007 include 340 units in Cherry Hill, an expanding office-employment market.

Rent Forecast: Owners are expected to raise asking rents 3.5 - 4.0 percent to $1052 per month this year, with effective rents forecast to rise 4 percent to $1027 per month. As a result, an already low level of concessions will fall to 2.9 percent of asking rents from 3.3 percent in 2006.

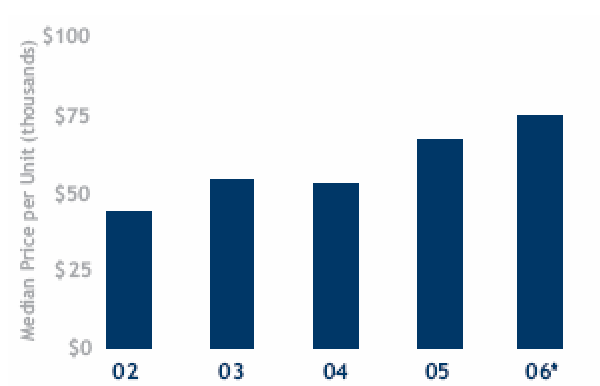
Investment Forecast: Suburban Chester and Montgomery counties in Pennsylvania may receive more attention from investors this year. Supply constraints are in place in many communities, and the metro's largest work force will continue to support rental demand. These highly desirable mainline communities with higher ranking schools, retail centers and accessibility to the center city will put upward pressure on the area.

Rent Trends



* Estimate ** Forecast

Sales Trends



Source: Marcus & Millichap Real Estate Investment Research: 2007 National Apartment Report