



Multi-Family Market Report

Compared to the Previous Period:

Vacancy

DOWN

Rental Rates

FLAT

Cap Rates

UP

GRM

UP

Price Per Unit

UP

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Market Highlights

- Interest Rates Continue to Drive the Market** - Just when you thought interest rates couldn't get any lower, mortgage rates declined by another 35 basis points in the second quarter. This has had a two-fold impact on the apartment market. The lower mortgage rates have made it possible for apartment investors to justify lower apartment cap rates. In addition, investors have continued to seek apartments as a safer alternative to bonds for generating cash flow while maintaining an inflation hedge. While apartments do offer the potential for rent appreciation to track rising interest rates, this relationship is far from guaranteed. Just as bonds typically lose value in the face of rising interest rates, apartment cap rates would most likely increase as well. Time will tell how well any increases in rents will track rising interest rates.
- Transaction Volume Remains Moderate** - As of the end of the second quarter, the number of apartment transactions has increased by 4.2% over the 2011 pace, although the number of units sold is down by 5.8%. This is consistent with stronger activity being reported in small building sales and fewer large transactions. The total dollar sales volume further reflects this trend, declining by 15.9% on an annualized basis compared with 2011. The number of apartment sales transactions represents an increase over the 2008-2010 market bottom, but is still less than half the transaction volume experienced between the 1999-2005 bull market. The median price per square foot is up only slightly, 1.7%, while the median GRM has been flat at a 9.9 multiple. This apparent price stability masks a tale of two markets. Prices have escalated in the stronger, A and B

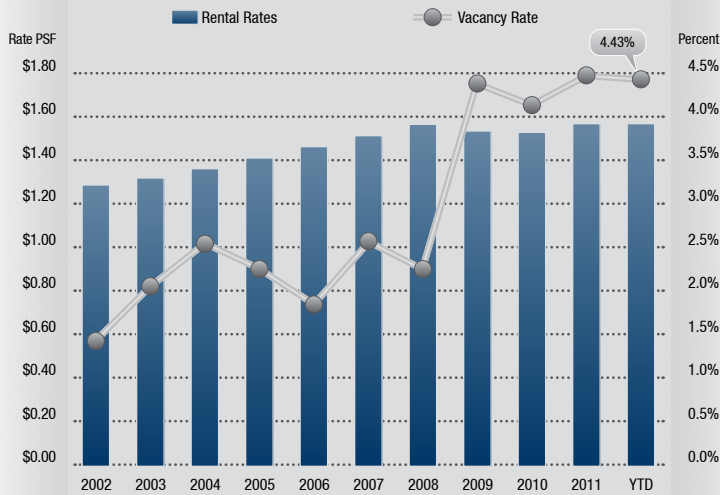
grade markets while the C grade inventory continues to experience relatively softer demand.

- Sell by December 31st to Avoid Far Higher Tax Rates** - Investors who are giving any consideration to an apartment sale in the next few years will be wise to consider placing their properties on the market no later than third quarter of 2012. Investors who close transactions after December 31, 2012 will be among the first Americans who will contribute an additional 3.8% of their investment income to fund our new national health care program. This 3.8% increase will be in addition to the 25% or more in State and Federal capital gains tax typically paid by California apartment investors. But wait... there's more! If the Bush era capital tax rates are not extended by Congress, the Federal capital gains rate will rise from 15% to 20%. The bottom line is that apartment sellers will see their tax rate shift from approximately 25% of their gain to roughly 33.8%! That's no small change.
- Employment** - The unemployment rate in San Diego County was 8.8% in May 2012, unchanged from a revised 8.8% in April 2012 and below the year-ago estimate of 9.8%. This compares with an unadjusted unemployment rate of 10.4% for California and 7.9% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 13,400 payroll jobs from May 2011 to May 2012 — 5,400 in educational and health services and 5,300 in professional and business services. Manufacturing posted the greatest year-over-year decline- a loss of 2,300 jobs.

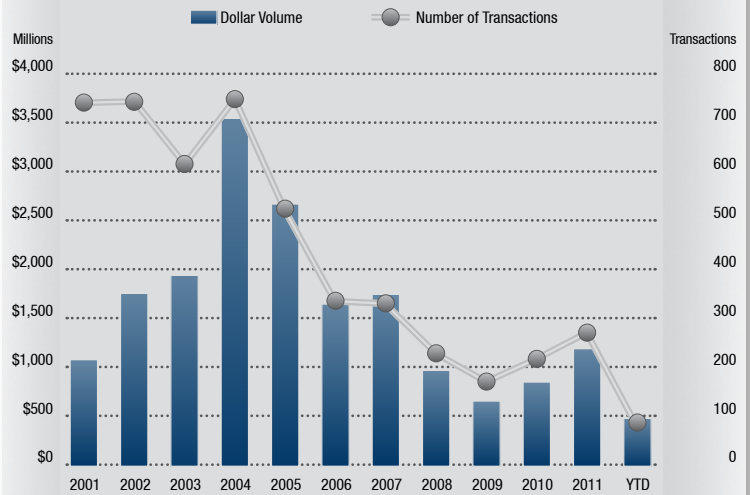
MULTI-FAMILY MARKET OVERVIEW

Quarterly	2Q12	1Q12	2Q11	% of Change vs. 2Q11
Cap Rate	6.16%	6.00%	6.29%	(2.07%)
Gross Rent Multiplier	10.49	9.76	9.65	8.70%
Median Price Per Square Foot	\$170.05	\$148.58	\$145.25	17.07%
Median Price Per Unit	\$117,174	\$109,655	\$111,392	5.19%
Semi-Annually	Mar 2012	Sept 2011	Mar 2011	% of Change vs. Mar 2011
Vacancy Rate	4.43%	4.49%	5.06%	(12.45%)
Rental Rate Per Square Foot	\$1.57	\$1.57	\$1.54	1.95%

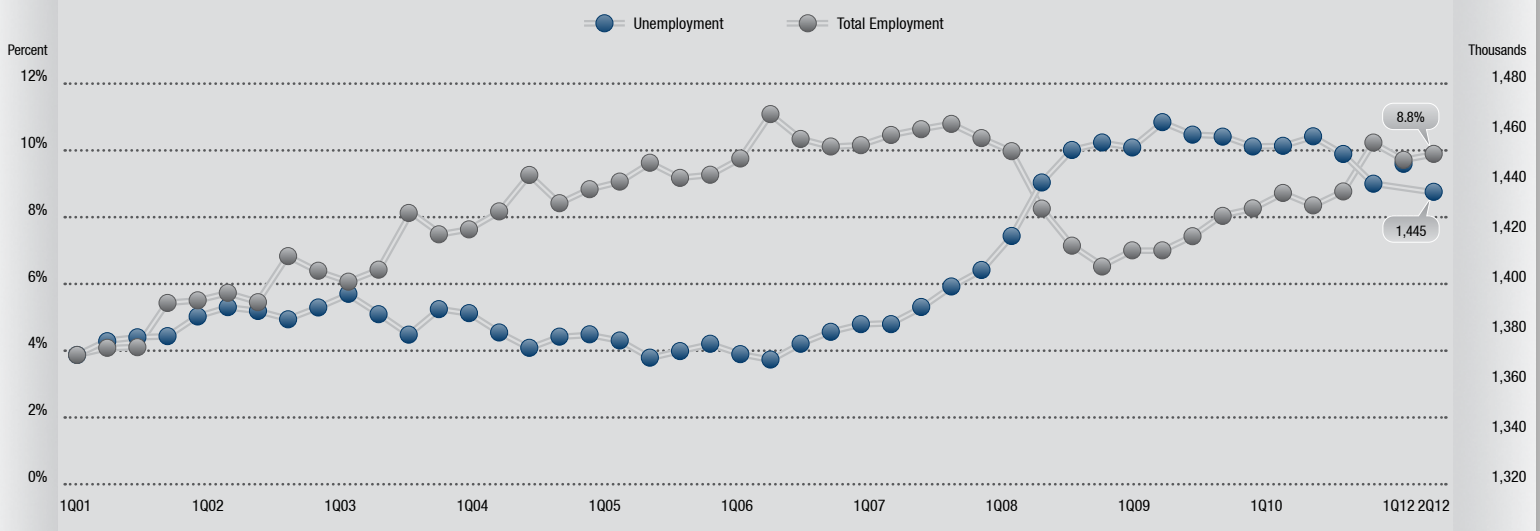
VACANCY RATE VS. RENTAL RATE



DOLLAR VOLUME VS. NUMBER OF TRANSACTIONS



UNEMPLOYMENT RATE VS. TOTAL EMPLOYMENT



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