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**YEAR-END 2006 REPORT:
WASHINGTON METROPOLITAN AREA
INVESTMENT GRADE,
CLASS B APARTMENT MARKET**

Prepared For:

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Partners in Excellence With



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Delta Associates also publishes reports on office and industrial markets for the following metro areas:
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and Washington, DC.

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Delta Associates, the research affiliate of Transwestern, is a firm of experienced professionals offering appraisal, consulting and data services to the commercial real estate industry for over 25 years. The firm's practice is organized in three related areas:

1. **Appraisal** and valuation services for commercial real estate assets, loans secured by same, and real estate companies and fractional interests in them.
2. **Consulting, research and advisory services** for commercial real estate projects, including market studies, market entry strategies, asset performance enhancement studies, pre-acquisition due diligence, and financial and fiscal impact analyses.
3. **Subscription Data** for select metro regions for office, industrial, retail, condominium, and apartment markets.

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SPECIAL REPORTS

TrendLines 2007: Trends in Washington Commercial Real Estate

This report is the tenth in our annual series on the Washington market. Its purposes are to distill the trends of 2006 and to shed light on pivotal forces and issues that we believe will affect the region's economy and real estate in the period ahead. The report details trends and opportunities, discusses what is happening in the national and regional economies, and provides an update on the office, flex/industrial, multifamily, and retail markets. It also addresses the outlook for investment sales.

This report will be released in February 2007 and sells for \$45.

Washington Area Retail Outlook

In this semi-annual report, Delta provides a quantitative and qualitative assessment of the Washington area retail market, with a focus on grocery-anchored shopping centers. Information is included on vacancy rates, rents, investment sales, projects of interest, and key trends in the retail market. The report is co-sponsored by

The Rappaport Companies, and is available free of charge via e-mail.

The latest issue of this report was released in December 2006. Call or e-mail Delta to subscribe.

The National Office Market: Recent Trends and Forecast

This annual report reviews the state of the national economy, current office market conditions, and our forecast of market performance through this expansion cycle. We also take a look at the investment climate. Markets highlighted in this report include: Atlanta, Austin, Boston, Chicago, Dallas/Ft. Worth, Denver, Houston, Los Angeles, New York, Orange County, Phoenix, San Francisco Bay Area, South Florida, and Washington.

This report was updated in September 2006 and is available for \$300.

The National Distribution Market: Current Conditions and Forecast

This annual report reviews the current condition of the national distribution market and forecasts the likely performance over the next several years. How much distribution space is being absorbed? What is the vacancy rate and how low will it get? Are rents rising? How strong will rent escalation be in the period ahead? Markets covered in this report include: Atlanta, Austin, Boston, Charlotte, Chicago, Dallas/Ft. Worth, Denver, Detroit, Houston, LA Basin, New York/Northern New Jersey, Philadelphia, Phoenix, San Antonio, San Francisco Bay Area, Seattle, South Florida, and Washington/Baltimore.

This report was updated in June 2006 and is available for \$300.

Condo Conversion: Boom or Bubble Waiting to Burst?

This report reviews the status of the national residential condominium market, and analyzes which metro markets are headed for a "soft landing" and which are headed for a "hard landing."

This report was released in February 2006 and is available free of charge on Delta's website.

Please visit DeltaAssociates.com.

To order your copy of these studies, please visit DeltaAssociates.com or call our publications representative at 703-836-5700.

ANNOUNCEMENTS

10th Annual Washington TrendLines Event is Thursday, February 8, 2007

Save the date and plan on attending the 10th annual **TrendLines: Trends in Washington Commercial Real Estate**. The event will be held on Thursday, February 8, 2007, beginning at 5 PM at the Ronald Reagan Building and International Trade Center. As in prior years, Gregory Leisch will present an overview of the national and regional economy and commercial real estate market, and our TrendSetters of the Year will be presented with awards.

The event is by invitation only. For more information, please contact: Christine.Masney@Transwestern.net.

Condominium Report Expanded to Include Philadelphia

We are pleased to announce that Delta's quarterly condominium report was expanded to include the Philadelphia metro area starting with the Year-End 2006 issue. We will be making additional changes to the condominium report in 2007 to provide our subscribers with even more information on this important product type.

Delta's New Website is Online

Delta Associates' new website is online. More market information is available, including many free reports covering various real estate product types. In 2007, we plan to introduce additional functionality, including the ability for our subscribers to download their reports via the Web.

Please visit us at DeltaAssociates.com.

2006 Award Winners
Mid-Atlantic Rental Apartment Industry Awards for Excellence
By Delta Associates

- **Best Mid-Atlantic Mid-Rise or High-Rise Apartment Community**
2400 M Apartments Washington, DC: Equity Residential * The JBG Companies * WDG Architecture, PLLC.
- **Best Mid-Atlantic Garden Apartment Community**
Stone Point Apartments Annapolis, MD: Donatelli Development, Inc. * Ralph J. Duffie, Inc. * Bozzuto Management Company * Architects Collaborative, Inc.
- **Best Mid-Atlantic Adaptive Reuse Apartment Project**
The Flats at Dupont Circle Washington, DC: Archstone-Smith * WDG Architecture, PLLC * Linowes Design Associates, Inc.
- **Best Mid-Atlantic Community Impact Apartment Project**
MetroPlace at Town Center Camp Springs, MD: Metropolitan Development Group * The Lessard Group, Inc.
- **Best Lease-Up Pace for a District of Columbia Apartment Community**
Meridian at Gallery Place Washington, DC: Paradigm Management Company.
- **Best Lease-Up Pace for a Suburban Maryland Mid-Rise or High-Rise Apartment Community**
The Montgomery at Wheaton Metro Wheaton, MD: The Bozzuto Group.
- **Best Lease-Up Pace for a Northern Virginia Mid-Rise or High-Rise Apartment Community**
TIE Lofts 590 Arlington, VA: Archstone-Smith.
TIE The Clarendon Arlington, VA: Clark Realty Management, LLC.
- **Best Lease-Up Pace for a Suburban Maryland Garden Apartment Community**
Elms of Montjoy Ellicott City, MD: Elm Street Development * Legend Management Group.
- **Best Lease-Up Pace for a Northern Virginia Garden Apartment Community**
TIE Masons Keepe Manassas, VA: Wood Partners * The Pomeroy Companies * Bozzuto Management Company.
TIE Camden Fairfax Corner Fairfax, VA: Camden Development, Inc.
- **Best Lease-Up Pace for a Baltimore Area Apartment Community**
Spinnaker Bay Baltimore, MD: The Bozzuto Group * H&S Properties Development Corp.
- **Best Lease-Up Pace for a Philadelphia Area Apartment Community**
TIE Cherry Hill Towers Cherry Hill, NJ: Viking Associates.
TIE Mews at Princeton Junction Princeton, NJ: Toll Brothers Realty Trust.
- **Landmark Mid-Atlantic Class A Mid-Rise or High-Rise Apartment Sale: Price per Unit**
Chase at Bethesda Bethesda, MD: Monument Realty * AEW Capital Management, L.P.
- **Landmark Mid-Atlantic Class A Garden Apartment Sale: Price per Unit**
Windsor Villa North Bethesda, MD: Toll Brothers * General Investment and Development.
- **Landmark Mid-Atlantic Class B Mid-Rise or High-Rise Apartment Sale: Price per Unit**
The Pavilion Rockville, MD: Triton Real Estate Partners * Home Properties.
- **Landmark Mid-Atlantic Class B Garden Apartment Sale: Price per Unit**
West Falls Station Falls Church, VA: Equity Residential * BlackRock Realty.
- **Mid-Atlantic Multifamily Transaction Volume Leader**
Magazine Acquisition GP LLC
- **Mid-Atlantic Apartment Builder Sales Volume Leader**
Archstone-Smith

Sponsorship of this Program: Transwestern & First Horizon Bank

2006 Award Winners
Mid-Atlantic Condominium Industry Awards for Excellence
By Delta Associates

● **Best Mid-Atlantic Condominium Project**

The Palladium at McLean McLean, VA: Madison Homes, Inc. * Waterford Development, LLC * McWilliams Ballard, Inc.
* The Lessard Group.

● **Best Mid-Atlantic Condominium Switch Project**

The Odyssey Arlington, VA: Monument Realty * Capital Residential Properties, LLC * Shalom Baranes Associates.

● **Best Mid-Atlantic Condominium Conversion Project**

West Village of Shirlington Arlington, VA: KSI Services, Inc. * McWilliams Ballard, Inc. * Cooper Carry.

● **Best Mid-Atlantic Adaptive Reuse Condominium Project**

Landmark Lofts at Senate Square Washington, DC: Abdo Development.

● **Best Mid-Atlantic Community Impact Condominium Project**

Twelve09 North Charles Baltimore, MD: Struever Bros. Eccles & Rouse * Canyon-Johnson Urban Funds
* Design Collective.

● **Most Innovative Mid-Atlantic Condominium Project**

The Wooster and Mercer Lofts Arlington, VA: Abdo Development * Cunningham & Quill Architects, PLLC.

● **Highest Sales Pace for a Mid-Atlantic Mid-Market Condominium Project**

Vantage at Merrifield Town Center Merrifield, VA: Uniwest Group, LLC * McWilliams Ballard, Inc.

● **Highest Sales Pace for a Mid-Atlantic Luxury Condominium Project**

One Park Crest McLean, VA: The Penrose Group * The Donohoe Companies * The Mayhood Company.

● **Mid-Atlantic Condominium Development and Sales Volume Leader**

KSI Services, Inc. * McWilliams Ballard, Inc.

● **Mid-Atlantic Condominium Conversion Volume Leader**

Crescent Heights * The Bryan Group * Weichert and Associates, Inc.

Sponsorship of this Program: Transwestern & First Horizon Bank

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DELTA ASSOCIATES' WASHINGTON/BALTIMORE PUBLICATIONS

APARTMENT MARKET REPORTS

Class A Rental Apt. & Condo: Mid-Atlantic (Washington, Baltimore, Philadelphia & Southern NJ)
Class B: Greater Washington Metropolitan Area

YEAR-END (Fourth Quarter) REPORT: Issued each January. Contents include:

- 1.* Report on the national & regional economies and the multifamily industry: Delta Associates' narrative review of the year and prognosis for the coming year vis-à-vis the national, regional and local economies, implications for apartment sector and trends in rents, vacancy and absorption.
2. State of the apartment market report: in-depth narrative analysis supplemented with illustrative graphs.
3. Statistical reports: organized by area, our reports review:
 - **key market indicators** such as year-end statistics and comparison since 1989 for each of 30 Class A and 31 Class B submarkets and regional total for (a) rent levels, (b) vacancy and (c) absorption of units at actively marketing projects.
 - **pipeline** information (Class A), i.e. projects under construction, projects likely to be delivered within 36 months, and longer-term planned projects.
 - **renovation** information (Class B) such as a comprehensive list of properties in renovation, including budget and timetable.
 - **building sales** - a thorough listing and analysis for the year with comparison of prices to prior years. Land sales are included in the Class A report.
4. Condo market report (Class A / Washington & Baltimore area only): pipeline, pricing, and absorption experience.
- 5.* Experience report (Class A): Statistical portrait of the local industry's experience with operating expenses, replacement reserves, and hard and soft development costs.
- 6.* Market Maker report: Annual survey results of those who "make the market" on subjects of: capitalization rates, investment posture, thoughts on the economy and more.
- 7.* Players report (Class A): Listing of significant developers active in the market.

QUARTERLY REPORTS (First Quarter, Mid-Year and Third Quarter): Issued in April, July and October. Contents include:

Items 1 through 4 from year-end report, updated each quarter.

WASHINGTON/BALTIMORE OFFICE MARKET REPORT

YEAR-END (Fourth Quarter) REPORT: Issued each January. Contents include:

- 1.* Economic Overview: Delta Associates' narrative review of the year and prognosis for the coming year vis-à-vis the national and metro area economy, implications for office market sector and trends in rents, vacancy, absorption, job growth, unemployment, core industry performance, capital markets and other factors. Insights also provided by Dr. Stephen Fuller, one of the nation's leading economists. Illustrative graphs and charts throughout these sections.
- 2.* Market Maker Report: Annual survey results of those who "make the market" on subjects of: capitalization rates, investment posture, thoughts on the economy and more.
3. Metro Area Office Market Report: In-depth narrative analysis supplemented with illustrative graphs. Section data includes: overview, absorption, vacancy, construction, rents, investment sales, investment returns, land sales, development economics, and outlook. Tables on deliveries, vacancy rates projected two years out, development economics and operating expenses.
4. Substate area Reports: Similar to #3 above. Also includes major submarket activity and "by submarket" data as follows: summary of office market indicators for all space and Class A space only (details total rentable SF, total available SF, vacancy rates for the past four years, current SF under construction, and net absorption for the past four years), rental rate analysis, and summaries of building and land sales.
5. Miscellaneous information on methodology, definitions of terms and submarkets, and metro area maps showing submarkets.

QUARTERLY REPORTS (First Quarter, Mid-Year and Third Quarter): Issued in April, July and October. Contents include:

Items 1, 3, 4 and 5 from year-end report, updated each quarter.

WASHINGTON/BALTIMORE FLEX/INDUSTRIAL REPORT

YEAR-END (Fourth Quarter) REPORT: Issued each January. Contents include:

- 1.* Economic Overview: Delta Associates' narrative review of the year and prognosis for the coming year vis-à-vis the national and metro area economy, implications for industrial market sector and trends in rents, vacancy, absorption, job growth, unemployment, core industry performance, capital markets and other factors. Insights also provided by Dr. Stephen Fuller, one of the nation's leading economists. Illustrative graphs and charts throughout these sections.
- 2.* Market Maker Report: Annual survey results of those who "make the market" on subjects of: capitalization rates, investment posture, thoughts on the economy and more.
3. Metro Area Flex/Industrial Market Report: In-depth narrative analysis supplemented with illustrative graphs. Section data includes: overview, absorption, vacancy, construction, rents, investment sales, land sales, and outlook. Tables on deliveries, vacancy rates projected one year out, and investment sales.
4. Substate area Reports: Similar to #3 above. Also includes major submarket activity and "by submarket" data as follows: summary of flex/industrial market indicators for all space (details total rentable SF, total available SF, vacancy rates for the past four years, vacancy rate with sublet space included, current SF under construction, and net absorption for the past four years), rental rate analysis, and summaries of building and land sales.
5. Miscellaneous information on methodology, definitions of terms and submarkets, and metro area maps showing submarkets.

MID-YEAR REPORTS (Issued in July). Contents include: Items 1, 3, 4 and 5 from year-end report, updated mid-year.

* Features not offered by our competitors.

Section 1

**EXPLANATION OF GEOGRAPHIC
COVERAGE AND TERMS UTILIZED**

EXPLANATION OF GEOGRAPHIC COVERAGE AND TERMS UTILIZED IN THIS REPORT

Market Area Definition

Delta Associates currently surveys 30 Class B garden and high-rise apartment submarkets in the Washington Metropolitan Area. The ten Northern Virginia garden apartment submarkets included are: Reston, Fairfax City, Falls Church/Merrifield, Rosslyn/Ballston, South Arlington, Old Town Alexandria, Arlandria, Route 1 Corridor of Alexandria, West Alexandria, and Annandale. The nine Class B garden apartment submarkets included in Suburban Maryland are: Rockville, Gaithersburg, Columbia, Landover/New Carrollton, Andrews, Oxon Hill/Camp Springs, Greenbelt/Takoma Park, Laurel, and Silver Spring. The eleven high-rise Class B apartment submarkets are: Arlandria, West Alexandria, Falls Church/North Arlington, South Arlington, and Crystal City, Virginia; Rockville, Silver Spring and Bethesda/Chevy Chase, Suburban Maryland; Upper Northwest, Mount Vernon Square, and Southwest, Washington, D.C.

Coverage

Delta Associates inspects and collects data on a representative sampling of the Class B product in each submarket. To date, a total of approximately 175 Class B properties are surveyed by Delta Associates each quarter – accounting for some 65,000 units.

Product Definition

“Class B” product is defined by Delta Associates as well maintained, older product, generally built in the 1960’s or 1970’s (some submarkets only have product older than 1960, so that is surveyed), and which does not offer a separate clubhouse nor decorated model unit nor two bedroom/two bathroom floor plans.

Class B communities typically offer limited project amenities. The landlord typically pays gas and/or electric for the common areas and individual units. The projects are typically 200+ units except in submarkets where product is scarce.

Face Rent/Utilities

Face rent is the asking rent for each unit, excluding any concessions or rent specials. Delta Associates quotes the weighted average asking base rent for each submarket – the asking rent for a first floor unit without any premiums for fireplace, view, etc. A few Class B projects are separately metered and tenants pay their own utilities. In these cases, rents are adjusted to include all utilities as follows:

	Effic.	1 Bdrm	2 Bdrms	3 Bdrms
Utility Adjustment	\$25	\$35	\$45	\$55

Beginning with the 2nd Quarter 2006 publication, Delta Associates has utilized one utility adjustment for all projects that require tenants to pay their own utilities, regardless of the type of utilities. Delta has found that the variety of utility arrangements varies much more widely and changes more often than previously recognized. This reporting change will help to eliminate inconsistencies due to these variances.

Effective Rent

Effective rent is face rent adjusted downward for concessions or rent specials. Typically, concessions are used selectively to lease weaker floor plans or surplus units.

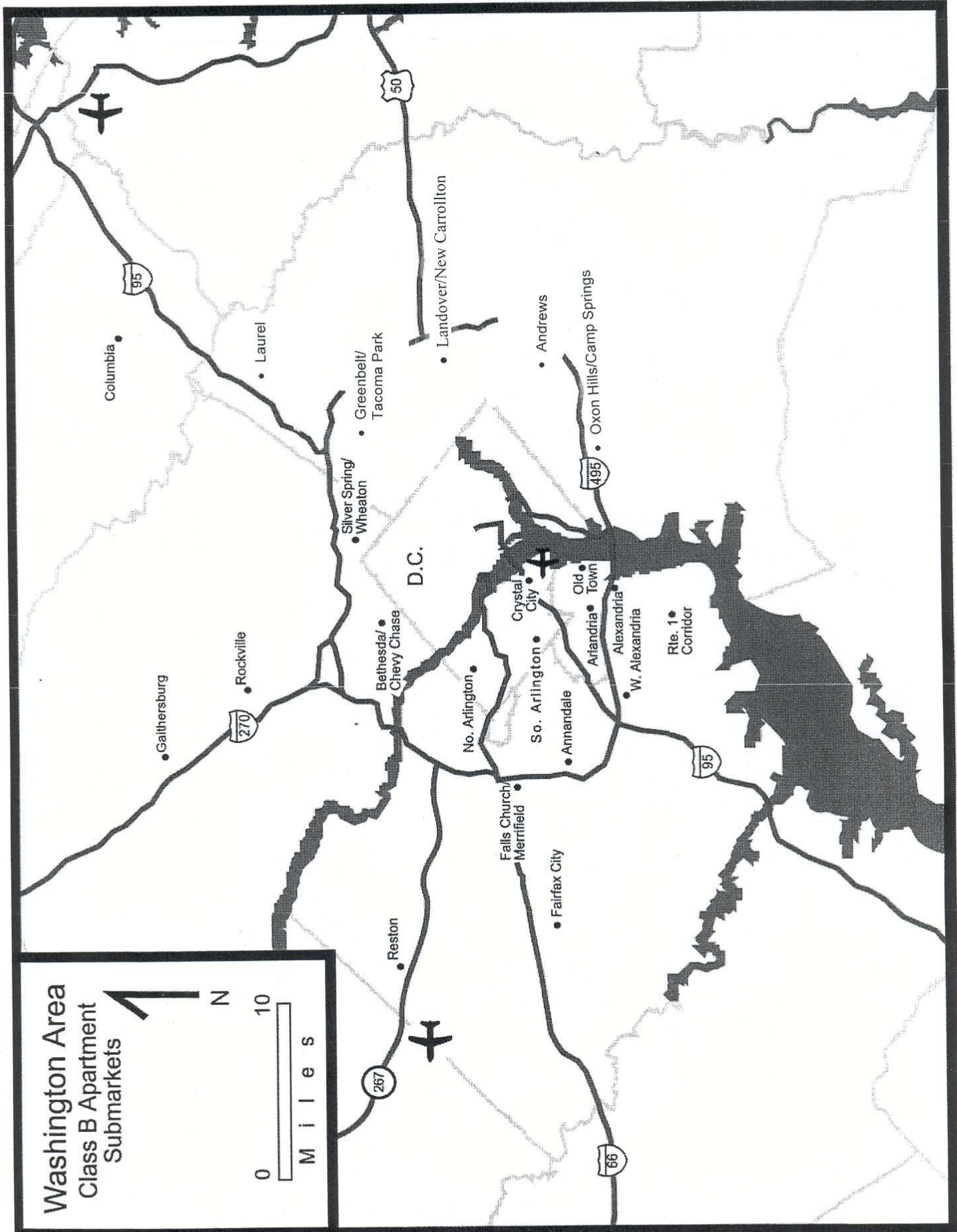
Stabilized Vacancy

“Stabilized Vacancy” as used herein is the rate of “available units” in stabilized properties. Once a property achieves 95% occupancy, it is considered “stabilized” and stays in our pool of stabilized properties even if it falls below 95% at a subsequent reporting date.

We obtain information on “available units” when conducting our surveys. Obtaining the information this way may produce several important differences from “vacancy” as reported in financial statements. Simply stated the difference can be characterized as:

- Delta’s: Available units to lease
- Financial statement: Economic vacancy

“Available units” is understated compared to “economically vacant” by our exclusion of units occupied by dead-beat tenants and units not available for lease, such as employee units and model apartments. Our occupancy rate is overstated compared to financial reporting by our exclusion of economically vacant, on-notice units for which a lease to occupy in the future has been signed. As compared to the “vacancy rate” as used in financial reports, we estimate that the former reduces our “available units” (vacancy rate) estimate by about 100 to 150 basis-points and the latter another 150 to 200 basis-points.



Section 2

STATE OF THE NATIONAL AND REGIONAL ECONOMIES AND APARTMENT MARKET

THE NATIONAL ECONOMY YEAR-END 2006

Mixed Signals Suggest Tempered But Continued Growth in 2007

The economy is giving us mixed signals of late:

- While the services sector remains healthy, the manufacturing sector is contracting.
- While job creation has been substantial, the rate of growth is decelerating.
- Oil prices have been declining lately, but the tenuous situation in Iraq threatens to push them higher at any time.
- The correction in the residential real estate market is taking liquidity out of the economy, while the rise in the stock market has replaced it.
- Wages have been rising, but only modestly, and consumer debt remains massive.

Despite these mixed signals, we see enough momentum in the economy to avoid a recession in 2007. In fact, we expect:

- GDP growth of 2.1% - 2.3%
- Payroll job growth of 1.0 - 1.2 million
- A housing market comparable to 2003
- Neutral to accommodating policy from the Federal Reserve

If this is the case, then 2008 could be a more robust performer than 2007.

Of course, geopolitical concerns remain significant, and could derail these expectations.

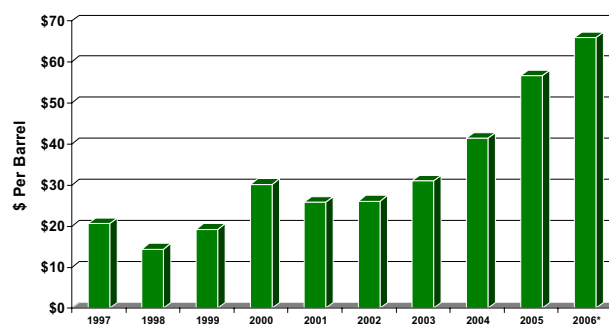
Construction costs remain a problem for developers, as many new projects are unlikely to achieve the rents needed to generate an adequate return on cost. Steel prices have been problematic for developers, with costs up 9.6% over the last 12 months, far outstripping the average inflation rate. Cement prices have risen 6.0% during the past year. High costs are being driven by demand for raw materials from China and a shortage of qualified labor at home. High construction costs and gradually softening job growth may combine to reduce commercial development in 2007. How will

interest rates and underwriting standards affect this equation?

Oil prices declined gradually during the past several months, but remain high by historical standards. The cost of fuel has cut into discretionary spending. Oil prices spiked to \$70/barrel in September 2005 following Hurricane Katrina before retreating a bit, then rose again, and then declined once more. The overall trend remains clear, however, as shown in the graph following: prices have more than doubled in the past three years. The average price for the 12 months ending in October was \$65.91/barrel.



Oil Prices

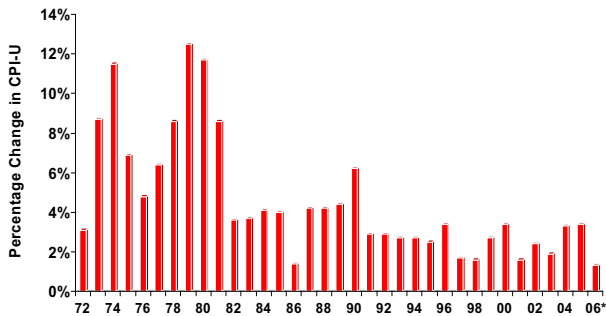


Source: GAsSearch; December 2006. Note: 12 month averages of WTI NYMEX prices. *12 months ending in October 2006.

Inflation has been reined in by the Fed – at least for the time being. Prices were up just 1.3% during the 12 months ending in October. Raising short-term interest rates has kept inflation for core goods and services under control, but fuel prices are rising much faster than prices for most other products. Wage inflation has moderated in the past few months; wages were up just 2.3% in the third quarter on an annualized basis.



U.S. Inflation



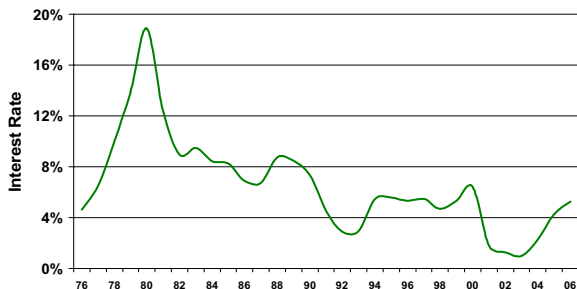
*12-month percentage change through October 2006.

Source: Bureau of Labor Statistics; December 2006.

Interest Rates. The Fed raised short-term interest rates to 5.25% as of late June (but has kept the rate unchanged since then) in an effort to stave off higher inflation. The central bank may raise rates again in the winter if consumer confidence rises and the economic outlook is bright, but could cut rates if inflation remains under control and job growth looks weak.



Federal Funds Rate

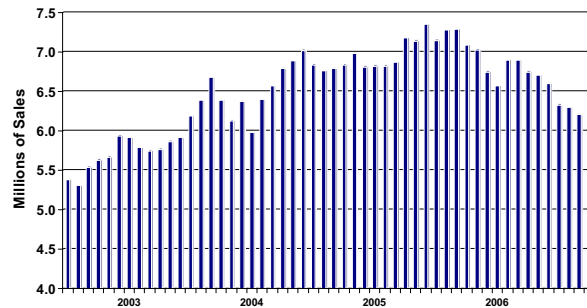


Source: Federal Reserve Board; December 2006.

Housing. Although U.S. housing is better described as hundreds of different local markets rather than a single national market, the overall housing picture certainly has softened this year. Existing homes sold at an annualized volume of 6.24 million units through October 2006. Mortgage rates remain low – around 6.11% for a 30-year fixed loan at mid-December – which is helping to keep some buyers in the market, especially in areas of high job growth, such as Los Angeles, Washington, and New York. Still, many potential buyers are taking more time to make a decision than they were a year ago, when delays meant losing out on a home.



Existing Home Sales



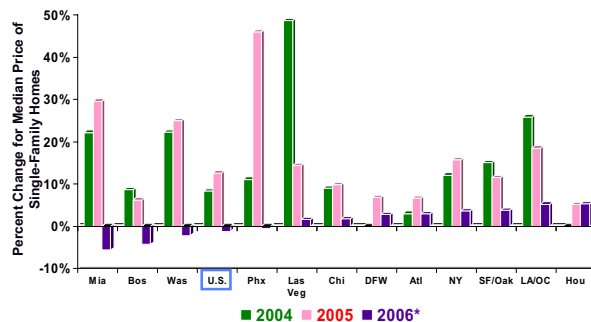
Note: Through October 2006; annualized.

Source: National Association of Realtors; December 2006.

Home prices have cooled but remain high by historical standards. Nationally, home prices declined 1.2% during the 12 months ending in September. Only two major markets, Los Angeles and Houston, experienced growth of at least 5% during that period. Some overheated metro markets – notably Miami – have slowed due to the prevalence of interest-only loans and adjustable rate mortgages in combination with excessive supply. The two strongest markets over the past 12 months, Los Angeles and Houston, also are among the leading metro areas in job creation.



Annual Escalation of Existing Home Sale Prices



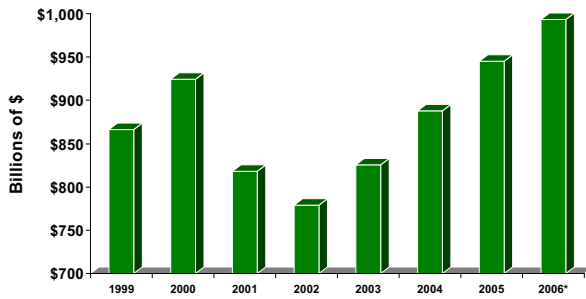
*12-month percentage change through September 2006.

Source: National Association of Realtors; December 2006.

Business spending on high-tech equipment and software continues to increase. Spending in this category is well above the previous peak period in 2000, and was over \$992 billion for the first three quarters of 2006, annualized. As a result, professional services companies are hiring at a steady pace to fulfill demand.



Capital Investment In Equipment and Software



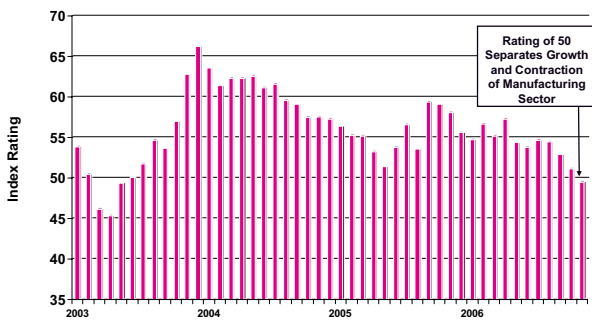
Note: Figures are seasonally adjusted. Jan.-Sep. 2006 annualized.

Source: Bureau of Economic Analysis; December 2006.

Manufacturing. Production in the Manufacturing sector declined in November after 41 consecutive months of growth. This index stands in contrast to growth in the services sector, and makes forecasting national economic performance in 2007 quite a challenge. Some of the slowdown in manufacturing is due to less demand for homebuilding equipment, as residential construction starts are well off last year's pace.



Purchasing Managers' Index



Note: Through November 2006.

Source: Institute for Supply Management; December 2006.

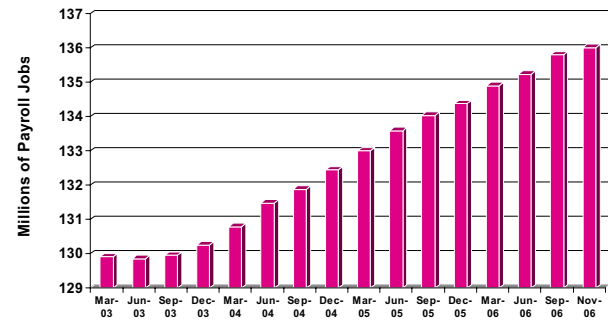
Payroll jobs rose by 1.8 million over the 12 months ending in November 2006, compared to an increase of 2.0 million during the previous 12 months. The pace of job growth remains healthy, but it has slowed. The growth of well-paying jobs remains high: over the 24 months ending November 2006, the Professional/Business Services sector accounted for 24% of new jobs, while Education/Health accounted for 22%. The Education/Health sector is likely to remain a force for economic growth during the rest of the current business cycle. Even though some

Delta Associates

professional services fields may see slowing growth in the near-term, such as government contracting, the well-educated service workforce should exert growing dominance over manufacturing and other fields in terms of job creation.



U.S. Payroll Jobs

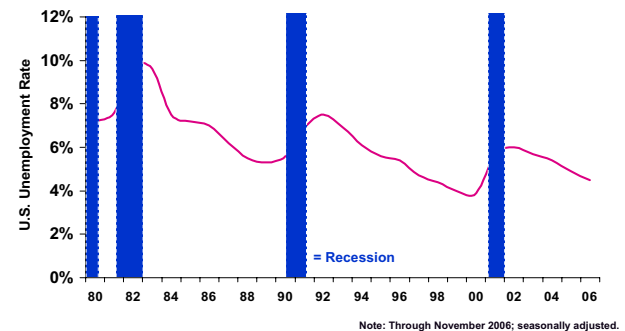


Source: Bureau of Labor Statistics; December 2006.

The U.S. **unemployment rate** is 4.5% as of November 2006. The unemployment rate held between 4.4% and 4.8% throughout 2006.



U.S. Unemployment Rate



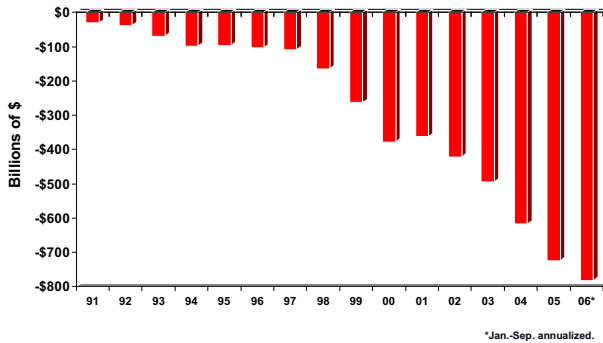
Note: Through November 2006; seasonally adjusted.

Source: Bureau of Labor Statistics; December 2006.

The **trade deficit** continues to expand year-over-year, and now totals \$782 billion (for the January to September period, annualized). The **federal budget deficit**, which recently had been projected to moderate slightly, likely will rise in 2006 as a result of spending on the War in Iraq. The budget deficit for 2005 was \$318 billion; the current estimate for 2006 by the CBO suggests a deficit of \$336 billion. Most economists feel we must rein in our budget and trade deficits in order to assure long-term economic health.



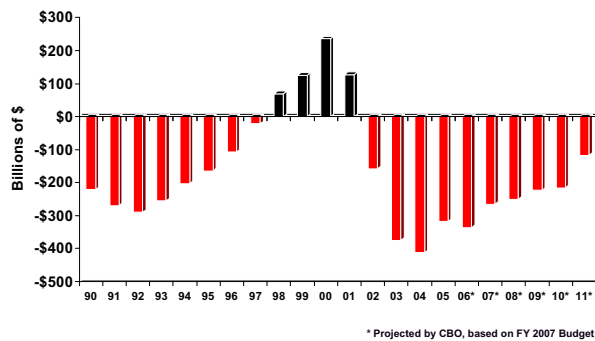
U.S. Trade Deficit



Source: U.S. Census Bureau, Bureau of Economic Analysis; December 2006.



Federal Budget Deficit

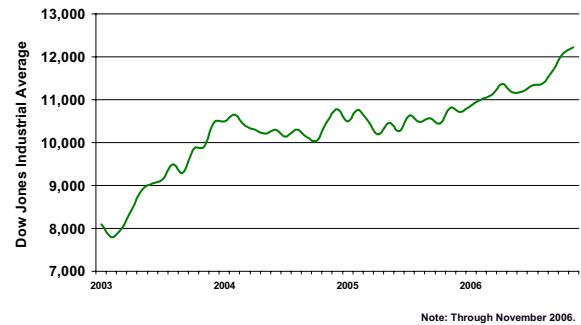


Source: OMB, CBO; December 2006.

Stock Market. Since the Dow Jones Industrial Average first closed above the 12,000 level on October 19, it has finished a trading session under that level just once (on November 3). Will steady corporate profits and job growth keep it above 12,000 for good? And if so, will renewed interest in stocks lure investors away from real estate? We believe the progress the stock market has been making will siphon some capital from real estate; investment sales volume should decline modestly in 2007. However, the large amount of cash that has been earmarked by institutions for real estate purchases is likely to keep that investment class healthy in 2007, even if the stock market continues to offer attractive returns.



Dow Jones Industrial Average

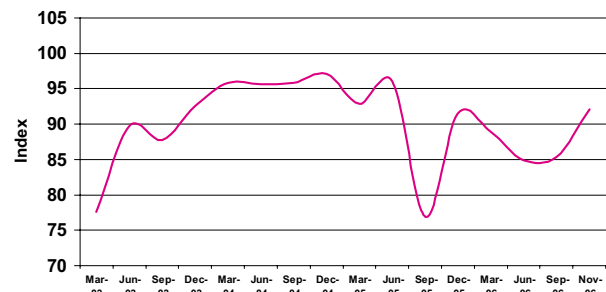


Source: Dow Jones, Yahoo! Finance; December 2006.

Consumer sentiment has been flat overall in 2006, although it has experienced some dramatic swings, largely corresponding to the price of fuel. The University of Michigan's monthly index of consumer sentiment ticked up from 91.5 to 92.1 during the January to November period. Geopolitical events and the rate of inflation are likely to shape consumer sentiment in the year ahead.



Consumer Sentiment

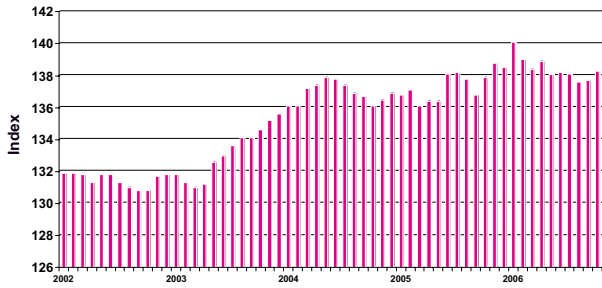


Source: University of Michigan, Federal Reserve Bank of St. Louis; December 2006.

The leading economic indicators index ticked up in October, although it remains at about the level where it finished 2005. The index of leading indicators was 138.3 in October. Over the last 12 months the index has been flat, suggesting that the national economic expansion will be very gradual in the early part of 2007.



Leading Economic Indicators Index



Note: Through October 2006. 1996 = 100

Source: The Conference Board; December 2006.

Economic Outlook

We expect the U.S. economy will expand during 2007, although fluctuating consumer confidence and a slowdown in residential construction should restrain GDP growth. The policies of the Federal Reserve should keep inflation manageable. The key factors affecting national economic performance are likely to be fuel prices, the housing market, and geopolitical events.

Wachovia Bank economists estimate **U.S. GDP growth** for 2006 at 3.2%, and expect 2.1% growth in 2007, and 3.4% growth in 2008. We agree with this trend. Given current Fed policies, recent job growth trends, and the unstable situation in Iraq, 2007 GDP growth is likely to take a step back, with 2008 being a better year for the U.S. economy.

National Payroll Job Growth Summary

U.S. payroll job growth remains healthy, adding 1.8 million positions over the 12 months ending November 2006. Those gains represent a growth rate of 1.3%. The pace of job growth slowed in 2006.

	Job Change	% Change
2006*	1,787,000	1.3%
2005	2,035,000	1.5%
2004	1,431,000	1.1%
2003	-349,000	-0.3%
2002	-1,490,000	-1.1%
2001	40,000	0.0%

*Change for 12 months ending in November 2006; others are comparisons of annual averages.

12-MONTH PAYROLL EMPLOYMENT CHANGE THROUGH OCTOBER 2006					
METRO AREA	JOB CHANGE		METRO AREA	JOB CHANGE	
	#	%		#	%
Phoenix	94,500	5.2%	Minneapolis-St. Paul	36,500	2.1%
LA Basin			Philadelphia	30,900	1.1%
Los Angeles/Long Beach/Glendale	35,600	0.9%	Tampa-St. Pete	27,200	2.1%
Riverside/San Bernardino/Ontario	28,000	2.3%	Salt Lake City	26,500	4.4%
Orange County (Santa Ana/Anaheim/Irvine)	15,600	1.0%	Portland (OR)	22,900	2.3%
Subtotal LA Basin	79,200	1.2%	Denver-Boulder	22,200	1.6%
Houston	72,700	3.1%	Raleigh-Durham	20,900	4.4%
Dallas/Ft. Worth	65,700	2.3%	Nashville	18,200	2.4%
Washington, DC	65,100	2.2%	Austin	18,100	2.6%
New York	60,300	0.7%	Boston (Metropolitan NECTA)	17,900	0.7%
New Orleans	49,700	12.6%	San Diego	17,100	1.3%
Chicago	48,800	1.1%	Sacramento	15,900	1.8%
Atlanta	48,700	2.1%	San Antonio	15,600	2.0%
Seattle	48,600	2.9%	Charlotte	12,200	1.5%
South Florida			Jacksonville	11,600	1.9%
Fort Lauderdale	19,900	2.6%	Baltimore	10,300	0.8%
West Palm Beach/Boca Raton	18,400	3.2%	Oklahoma City	9,600	1.7%
Miami/Miami Beach/Kendall	8,900	0.8%	Cincinnati	9,300	0.9%
Subtotal South Florida	47,200	2.0%	Pittsburgh	5,600	0.5%
San Francisco Bay Area			Kansas City	5,200	0.5%
San Francisco/San Mateo/Redwood City	17,300	1.8%	Memphis	5,200	0.8%
Oakland/Fremont/Hayward	16,700	1.6%	Columbus	4,500	0.5%
San Jose/Sunnyvale/Santa Clara	9,100	1.0%	Indianapolis	3,500	0.4%
Subtotal Bay Area	43,100	1.5%	St. Louis	2,500	0.2%
Las Vegas	42,700	4.8%	Cleveland	(1,000)	-0.1%
Orlando	37,200	3.5%	Detroit (Detroit/Warren/Livonia)	(27,400)	-1.3%

Source: Bureau of Labor Statistics, Delta Associates; December 2006.

THE WASHINGTON AREA ECONOMY YEAR-END 2006

Economic Growth Slowing; Metro Area Performance Remains Above-Average

Prepared with the invaluable assistance of Dr. Stephen Fuller

Washington metro area economic conditions remain above-average at year-end 2006, as employment continues to expand and unemployment is below 3% at October 2006. However, conditions are starting to taper from the robust growth experienced in 2004 and 2005, as the effects of reduced Federal government procurement spending growth are felt by area businesses.

Overall, the Washington area economy continued to expand in 2006, but at a decelerating pace. Growth in 2007 will be largely shaped by how much procurement spending the metro area receives.

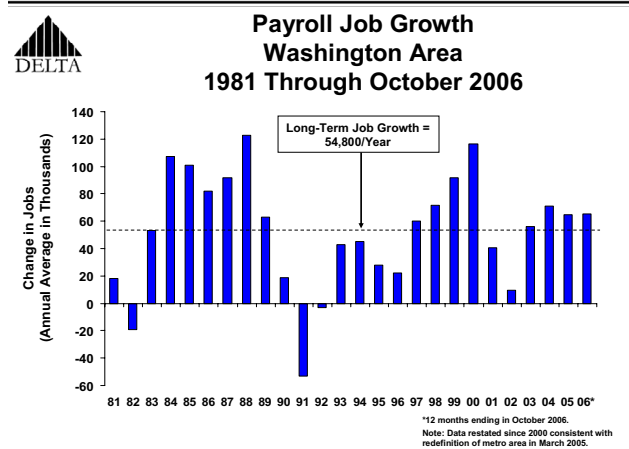
Key Economic Indicators ¹ Washington Metro Area	
	At October 2006
"Payroll" Employment	3,019,700
12-Month Job Growth	65,100
Unemployment Rate	2.9%
Coincident Index ^{2/}	119.4
Leading Index ^{2/}	110.9

1/ BLS redefined the Washington metro area in March 2005. Current data is not precisely comparable with data reported previously.
2/ At September 2006.

Source: Bureau of Labor Statistics, GMU-CRA; December 2006.

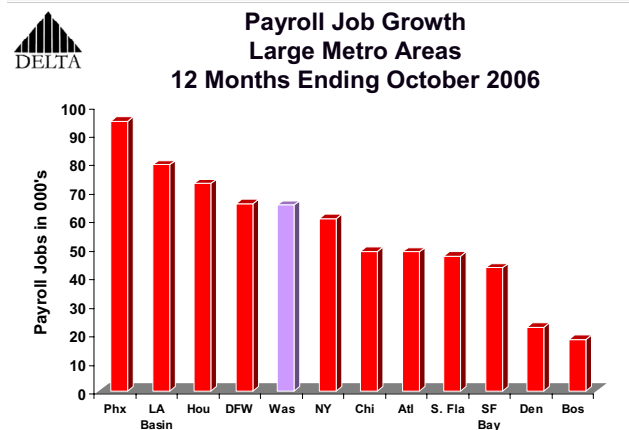
Job Growth

Payroll employment gains in the Washington metro area totaled 65,100 net new positions during the 12 months ending October 2006, a 2.2% increase. Although job growth has been above 65,000 for most of 2006, we anticipate job growth, when the numbers are finalized by the Bureau of Labor Statistics, will be near our original projection of 65,500 new positions for 2006.



Source: Bureau of Labor Statistics; December 2006.

Phoenix, LA Basin, Houston and Dallas/Ft. Worth lead the nation in employment gains for the past 12 months, as these areas are experiencing growth similar to that achieved by the Washington metro area in 2004 and 2005. Regardless, the Washington metro area continues to experience above-average job growth, at 19% above the long-term average of 54,800.



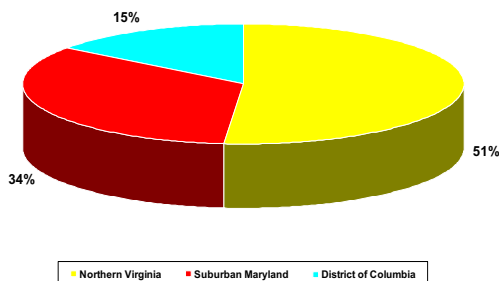
Northern Virginia created 51% of all new payroll jobs in the Washington metro area in the last 12 months. Suburban Maryland created 34% and the District of Columbia created 15%.

Although Northern Virginia captures the majority of jobs created in the metro area, Suburban Maryland has made notable employment gains this year. Employment in Suburban Maryland has increased by 2.0% since the start of 2006, compared to 1.8% in Northern Virginia. In all of 2005, employment increased by 3.6% in Northern Virginia and by only 0.9% in Suburban Maryland.

The reduced growth rate of Federal government procurement spending is beginning to affect the Northern Virginia economy, as many large government contractors are located there. In addition, with the shift in Congress providing Democrats more leverage, procurement funding priorities are expected to change.



**Payroll Job Growth by Substate Area
12 Months Ending October 2006**



Source: Bureau of Labor Statistics; December 2006.

Job Growth by Sector

For the 12 months ending October 2006, the top three sectors leading job growth in the Washington metro area are Professional and Business Services, Education/Health, and Retail Trade.

The **Professional and Business Services** sector gained 30,100 jobs during the last 12 months, a growth rate that is 27% above the 10-year average. 63% of these jobs were created in Northern Virginia, as contractors, who contributed notably to this sector, continue to feed off the growth experienced in 2004 and 2005.

The **Education/Health** sector gained 9,300 new jobs in the previous 12 months, 11% above the 10-year average. Northern Virginia and Suburban Maryland shared almost equally in job creation for this sector, creating 39% and 37% of these new positions, respectively.

The **Retail Trade** sector gained 7,900 new jobs in the previous 12 months. Given the robust commercial development in Northern Virginia, it is not surprising that 67% of the retail jobs were created in this substate area.

In the 12 months ending October 2006, the number of Federal government jobs in the metro area decreased by 2,200, while the number of Professional and Business Services sector jobs, which hosts a large portion of contractor companies, increased by 30,100. A shift is occurring, as employees are exiting government service for more pay as a contractor.

Employment growth in the construction sector has eased to 2,300 new jobs in the last 12 months, caused by a cooling housing market. The reduced employment growth in this sector contrasts with the above-average growth experienced in 2004 and 2005, with 9,200 and 9,500 jobs, respectively.

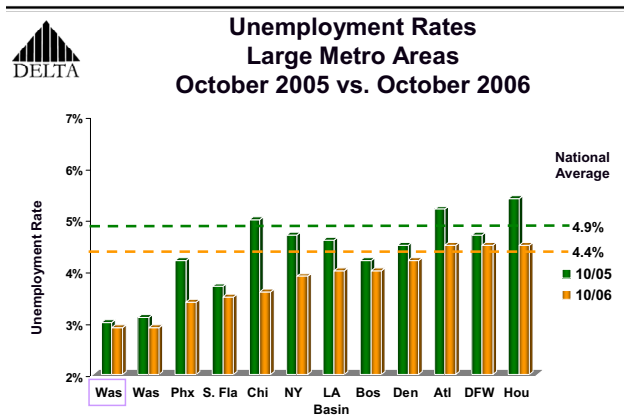
Trends in Employment by Major Sector Washington Metro Area (In 000's of Payroll Jobs)				
	October 2005	October 2006	12-Month Growth	10-Yr. Avg.
Prof./Bus. Svs.	653.5	683.6	30.1	23.7
Edu./Health	315.8	325.1	9.3	8.4
Retail Trade	272.6	280.5	7.9	3.2
Leisure/Hosp.	251.3	257.3	6.0	5.5
Other	167.1	171.9	4.8	4.2
Financial	162.4	165.2	2.8	3.3
Constr./Mining	193.2	195.5	2.3	7.0
Government	636.5	637.6	1.1	5.6
Information	99.2	99.7	0.5	1.1
Transport/Util.	65.9	66.4	0.5	0.4
Whole. Trade	72.6	72.7	0.1	1.3
Manufacturing	64.5	64.2	-0.3	-0.5
Total	2954.6	3019.7	65.1	63.2

Source: Bureau of Labor Statistics; December 2006.

Unemployment Rate

The Washington area unemployment rate was 2.9% in October, down from 3.0% 12 months prior. The current rate is the lowest in the nation among major metro areas and compares favorably to the national rate of 4.4% in October.

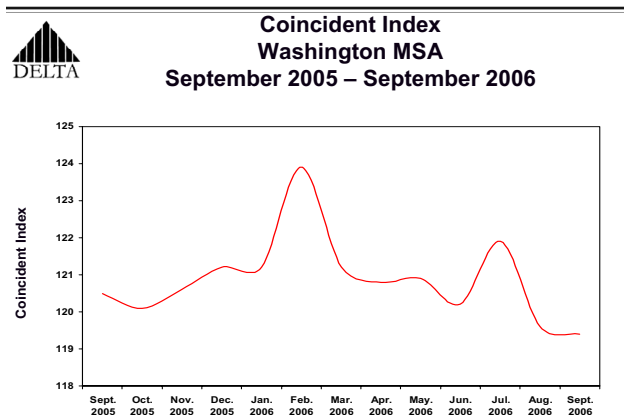
With above-average job growth and low unemployment, a limited labor pool remains a concern.



Source: Bureau of Labor Statistics; December 2006.

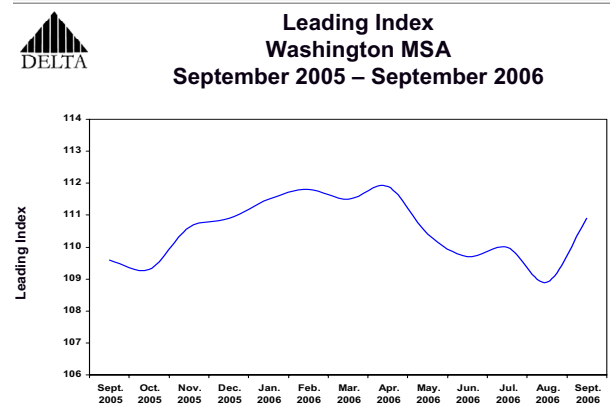
Coincident and Leading Indices

The Washington Coincident Index, which represents the current state of the metropolitan area economy, decreased to 119.4 in September 2006, from its high of 123.9 in February 2006. This suggests the regional economy has peaked for this cycle.



Source: GMU Center for Regional Analysis; December 2006.

The Washington Leading Index, which forecasts area economic performance, decreased to 110.9 in September 2006, from its peak of 111.9 in the spring of 2006. This is an added indicator that the regional economy is cooling.



Source: GMU Center for Regional Analysis; December 2006.

According to the George Mason University – Center for Regional Analysis, the metro area remains in an economic slowdown as consumer spending has lightened given the surge in oil costs earlier this year and a softened housing market.

Although consumers' view of the current economy has softened, expectations of future conditions brightened in September, as oil prices have begun to decline and building permits increased – suggesting an increase in residential building in 2007.

Overall, federal procurement spending in 2007 will have the greatest impact on conditions, as this is the mainstay of economic performance in the metro area. Regardless, with continued job growth and above-average income, the economy is expected to remain solid in 2007.

Region's Core Industries

The Washington area's gross regional product (GRP) was \$334.8 billion in 2006, an increase of 4.0% compared to 2005. And over one-third of it was generated by the Federal government – the region's most important core industry.



Core Sectors of the Economy Washington Metro Area

	2005		2006	
	\$	%GRP	\$	%GRP
GRP in Billions				
Total Federal \$s	\$112.0	34.8%	\$116.5	34.8%
Portion Procurement	\$52.4	16.3%	\$54.5	16.3%
Technology	\$51.2	15.9%	\$54.3	16.2%
Building Industry	\$20.3	6.3%	\$21.4	6.4%
Int'l Business	\$17.3	5.4%	\$17.9	5.3%
Hospitality	\$7.2	2.2%	\$7.5	2.2%
Other/Multiple Sectors	<u>\$113.9</u>	<u>35.4%</u>	<u>\$117.4</u>	<u>35.1%</u>
Total GRP	\$321.9	100.0%	\$334.8	100.0%

Note: 2005 figures are actuals; 2006 figures are estimates.
Procurement figures do not include US Postal Service and FAA purchases.

Sources: Dr. Stephen Fuller, Delta Associates; December 2006.

Total Federal spending in the Washington metro area was up in 2005 to \$112.0 billion, a 3.7% increase from 2004. Federal procurement was up only 2.5%, from \$51.1 billion in 2004.

Although procurement spending in the metro area remains solid, spending eased significantly during 2005, after growing by 19.0% in 2004 and 16.9% in 2003. Growth is expected to remain minimal in 2006, once the numbers are finalized. As procurement spending growth eases, so will job growth, given that roughly 7,000 new jobs are created per \$1 billion in additional Federal contract spending.

Federal Procurement Spending Growth Washington Metro Area	
Fiscal Year	% Change
2000 - 2001:	9.8%
2001 - 2002:	14.9%
2002 - 2003:	16.9%
2003 - 2004:	19.0%
2004 - 2005:	2.5%

Note: Figures do not include US Postal Service and FAA purchases.

Source: GMU Center for Regional Analysis; December 2006.

Federal Spending and a New Congress

Federal procurement spending could shift in the near-term, as the recent change in Congress has provided Democrats better leverage. Political analysts are forecasting future budget battles. With defense spending, one of the largest line items, on the radar for change, analysts believe Democrats will attempt to shift (rather than reduce) spending given the 2008 elections are fast approaching.

According to *Money* magazine, Democrats are expected to shift Federal procurement spending away from the Defense Department's weapons projects and toward Homeland Security with priority funding to protect ports and transportation systems.

If defense procurement spending ebbs, the Northern Virginia economy could take a hit, as several defense contractors are located in this substate area. With renewed focus on Homeland Security spending, which includes protecting against bioterrorism, Suburban Maryland could benefit, as this substate area hosts many health related contractors.

Weekly Wage Growth

Residents in Arlington, VA hold the highest average weekly wage in the Washington metro area, according to statistics recently released from the Bureau of Labor Statistics. At the 1st quarter of 2006, the most current data available, Arlington residents earned an average of \$1,402 weekly. The District and Fairfax, VA follow in 2nd place and 3rd place, respectively.

Loudoun County, VA experienced the largest weekly wage growth, as wages grew by 11.4% from the 1st quarter of 2005 to the 1st quarter of 2006. This growth rate ranks Loudoun in 22nd place out of the nation's 326 largest counties surveyed. Regardless, all counties in the metro area experienced solid wage growth, with all but the District at or above the national growth rate of 8.1%.

Average Weekly Wage Washington Metro Area Q1 2006		
	Q1 2006	12 Month % Change
Arlington, VA	\$1,402	8.2%
District of Columbia	\$1,371	7.3%
Fairfax, VA	\$1,314	11.3%
Montgomery, MD	\$1,133	8.8%
Loudoun, VA	\$1,114	11.4%
Alexandria City, VA	\$1,054	8.9%
Prince Georges, MD	\$865	8.5%
Frederick, MD	\$788	9.0%
Prince William, VA	\$717	9.6%
United States	\$838	8.1%

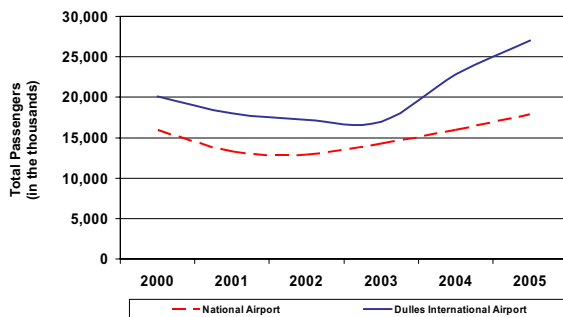
Source: Bureau of Labor Statistics; December 2006.

Increase in Airport Passengers Spurs Improvements

The Washington National and Dulles International Airports both experienced declines in passengers after 9/11. However, since the airline industry has regained its footing, these airports have experienced growth in airport travel. Passenger travel at Dulles increased 35% in 2004 and 18% in 2005. At National, the passenger count grew by 12% in both 2004 and 2005.



**Airport Passenger Travel
Washington Metro Area Airports
2000 – 2005**



Source: Washington Airport Authority, Delta Associates; December 2006.

With growth in tourists, jobs and population, the number of passengers traveling through both area airports is expected to climb.

The \$3.4 billion in improvements underway is expected to alleviate capacity and security issues. In addition to the newly constructed passenger walkways and parking garages, which added 8,500 new spots, the following are examples of airport projects:

- Airport train system (to open 2009): an underground system to transport passengers to and from the main terminal to each concourse.
- A fourth runway (to open 2008): this additional runway will also provide an opportunity for a fifth runway in the future.
- Additional gates (to open 2008): will provide 12 additional aircraft gates to Concourse B.
- New control tower (to open 2007).
- Expanded security clearance area.

Limit on Development

The population in the Washington metro area has increased by 9.9% since 2000 and is expected to grow further by 7.9% over the next five years. With population growth sparking commercial and residential development in the metro area, a few counties want to regain control by limiting development in order to adequately plan for the future.

The Loudoun County Board of Supervisors recently approved a plan that limits the number of new homes that can be built in the western section of the county. The board settled on allowing 18,000 new homes. Although the number is a reduction compared to what the board originally intended, it is above the previous zoning regulation of 10,000 new homes. Since 2000, population has grown by 56%, making this county the fastest growing county in the metro area. Residents are split on the board's decision, as some want to control growth and others want to see growth expand to the western part of the county in order to benefit from increased housing prices spurred by the new development.

The Prince William County Board of Supervisors passed a one-year block on residential projects, to start January 1st of 2007. This will prevent any approval of rezoning requests for new homes until the close of 2007. As the second fastest growing county in the metro area, at a 26% growth rate since 2000, the county wants to ensure the pace of growth does not outpace services and infrastructure given traffic congestion has become a major concern of Northern Virginia residents.

Montgomery County hopes to pass a moratorium at the start of 2007, which will prohibit large residential and commercial projects, except for previously approved developments and projects near Metro stations. The county would like to review current zoning regulations and consider future plans to prohibit development unless it is supported by the necessary infrastructure.

Overall, the impact of these regulations will be seen in the near-term, as each county attempts to review growth and plan for future needs.

Technology Growth

According to *Washington Technology*, seven of the top ten fastest growing technology government contractors in the nation are located in the Washington metro area. Of these seven, four are located in Northern Virginia and three in Suburban Maryland.

Fastest Growing Technology Government Contractors Top Ten 2006		
Company	Location	Growth Rate
Merlin International	Greenwood Vill., CO	233%
DKW Communications	Silver Spring, MD	213%
Guident Technologies	Herndon, VA	148%
Gestalt LLC	Fairfax, VA	147%
Telesis Corporation	Rockville, MD	144%
G&B Solutions	McLean, VA	138%
SBI Technologies Corp.	Columbia, MD	129%
Binary Consulting	Bethesda, MD	125%
Int. Software Solutions	CO Springs, CO	124%
Platinum Solutions	Reston, VA	116%

Source: Washington Technology; December 2006.

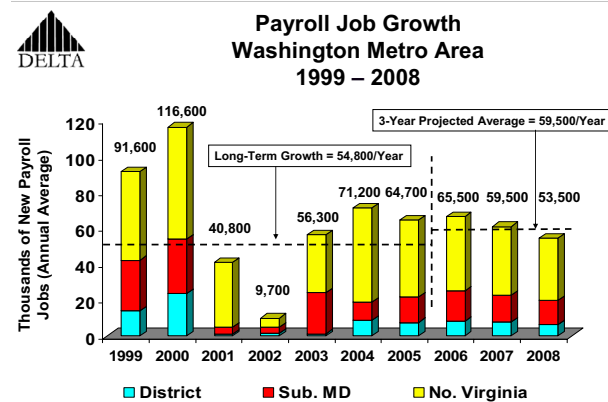
The technology sector is expected to expand further in the Washington metro area, as 20% of local technology companies plan to add jobs in the near-term, according to Robert Half Technology.

Washington Area Outlook

The Washington metro area economy should continue to experience growth in 2007, but at a reduced pace compared to the past three years, as the economy transitions from a hyper-growth to a solid-growth period in the economic cycle.

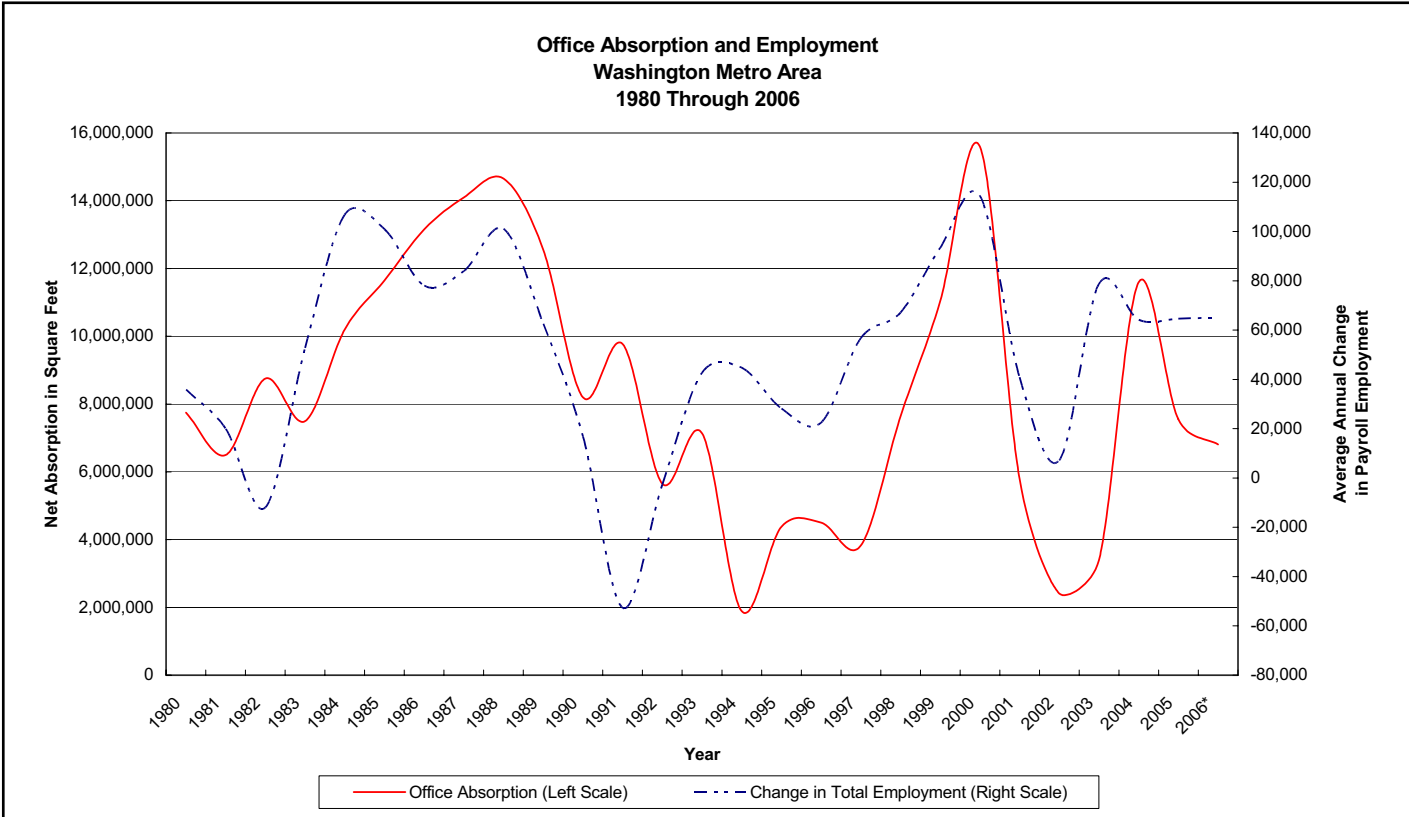
The Professional and Business Services sector should continue to lead job growth, as Federal procurement dollars continue to be funneled to area businesses – even as growth in that sector eases. Although the shift in Congress should not reduce procurement spending, as the 2008 election is near, how the spending is delegated in the near-term could transfer some of the spending from Northern Virginia’s defense contractors to Suburban Maryland’s health contractors. The Education/Health sector is expected to grow, as the baby boomer generation is aging and utilizing more health resources. Despite consumer hesitation, retail should continue to produce jobs, as oil prices are easing and area residents have adequate disposable income.

In consultation with Dr. Stephen Fuller of George Mason University, *we project that 65,500 new payroll jobs will be created in the Washington area in 2006 when the numbers are finalized, 20% above the long-term average for the region.* In 2007 and 2008 job growth is expected to average 56,500 new jobs per annum – closer to the long-term average of 54,800.



Note: Data restated since 2000 consistent with redefinition of metro area in March 2005

Source: Dr. Stephen Fuller and Delta Associates; December 2006.



*12-month job growth through October 2006.

Source: Bureau of Labor Statistics, Delta Associates; December 2006.

STATE OF THE CLASS B APARTMENT MARKET YEAR-END 2006

Rents Up Sharply; Vacancy Edges Up; Suburban Maryland The Weak Performer

Class B apartment rents and vacancy rates are up year-over-year.

- Average rent rates increased to \$1,263, up 5.8% from a year ago.
- Vacancy increased by 20 basis points to 2.9% during the same period.

The District is the only area that saw a drop in vacancy year over year and a spike in rents. The trend over the past year:

Northern Virginia:

- Effective rents: up 6.6%
- Vacancy flat at 2.7%

Suburban Maryland:

- Effective rents up 3.8%
- Vacancy up 70 BP to 3.5%

District:

- Effective Rents up 10.1%
- Vacancy down 20 BP to 1.5%

In 2005, we observed that Class B rent rates had become close enough to Class A rents that we were seeing a flight to quality – move-ups to Class A apartments for not a lot more money. We have called this concept “rent compression.” This in turn created vacancy in the Class B stock. As the acceleration in Class A rents took off in 2005 and continues through Year-End 2006, compression has eased. This trend has helped ease the effect of the cooling housing market combined with “shadow rentals” of condominium units rented out by investors that we have seen impact the market in the fourth quarter. ***In areas where rent spread between the two apartment Classes continues to grow and condominium rentals are less prevalent, we expect to see continued growth in Class B rents.***

We have seen the impact of the “shadow rentals” on absorption particularly in this quarter. Last quarter in a year-over-year comparison, vacancy across the Washington metropolitan area declined 90 basis points to 1.7%. This quarter in a year-over-year comparison, vacancy has seen a modest increase of 20 basis points to 2.9% across the metro area.

Outlook for the Washington Metro Area Class B Apartment Market in 2007

Class B apartment rents are expected to rise 4.0% per year, the same as Class A rents.

This will support an active renovation environment.

We expect the Class B apartment market to enjoy a healthy year throughout 2007 for the following reasons:

- **Class A rents are expected to rise at the long-term average of 4%;** this should price out some renters, leaving the Class B apartment the more practical option for many.
- **Although for-sale housing price increases** have moderated from their torrid pace of 2004/05, high overall prices leave rental as the only alternative for more and
- **Job creation** will likely run near 60,000 in 2007. The improving economy will create an option for more tenants (such as from un-doubling and move-outs of adult children) that was previously not available.
- **However, we will have to closely monitor the effect of the slowing condominium market on Class B rentals.** Strong job growth is still attracting people to the region, but the increasing number of condominium rental units is siphoning off a sizable portion of overall demand.

Vacancy: Mixed Story

The Washington metro area Class B apartment vacancy rate edged up to 2.9% at year-end 2006 from 2.7% at year-end 2005.

High-rise vacancies are up to 3.0% from 2.2% last year and garden vacancies are flat at 2.9%. The current vacancy rates for gardens and high-rises in all sub-state areas range from 1.5% in the District to 3.9% in Suburban Maryland.

Garden apartments at 2.9% vacancy: The vacancy rate for garden developments declined from last year in Northern Virginia and increased in Suburban Maryland. In Northern Virginia, vacancy moved down from 2.9% last year to the current rate of 2.5%. Suburban Maryland vacancy is up to 3.4% from 2.9% last year. We do not believe the movements to be of significance, as the rates are so low, that all projects should be able to operate well.

Class B high-rise vacancy is 3.0% – 80 basis points lower than this time last year.

Class B high-rise vacancy rates at Year-End 2006:

- Northern Virginia 3.1%
- Suburban Maryland 3.9%
- The District 1.5%

The District exhibits the lowest high-rise vacancy in the MSA. The District's high-rise vacancy has decreased 20 basis points year over year.

Rents: Up Over the Year

Northern Virginia is the top performer in garden rent growth at Year-End 2006. Washington, DC leads rent growth this quarter for high-rises.

A Word About Our Definition of Vacancy Rate

We sometimes hear from apartment developers and managers that their portfolio vacancy rate is 200 to 400 basis points higher than the numbers we report, which places them under unfair investor scrutiny. While we state methodological matters at the end of our report (Chapter 8), we thought it appropriate to describe here our term "vacancy".

When we conduct our quarterly surveys, we obtain information on "units available to lease" – that is, physical vacancy. Obtaining the information this way, of course, may produce several important differences from "vacancy" as reported in your financial statements. Simply stated, the difference can be characterized as:

Delta's Definition: Available units to lease

Operating Statement Vacancy: Economic vacancy

Our definition (available units) may therefore be understated compared to yours (economically vacant) by our *exclusion* of units occupied by non-paying tenants (which we cannot know), and of units not available for lease, such as employee units and model apartments. We estimate that this adds about 100 to 150 basis points to your definition of vacancy, as compared to ours. Our vacancy rate may also be understated, compared to yours, by our *exclusion* of what at present are economically vacant, on-notice units for which a lease to occupy in the future has been signed (hence, they are not currently available to lease). We estimate that this potentially adds another 150 to 200 basis points to your definition of vacancy, as compared to ours.

High-Rise Rents: Up 8.5%

Class B high-rise rents have demonstrated strong growth in The District and Northern Virginia, with the average effective rent in the MSA now at \$1,432. Whereas Suburban Maryland led the way for high-rise rent growth for most of 2006, its year-over-year growth rate of 7.0% has been outpaced this quarter by even stronger growth in the other sub-state areas. Rents continue to be the highest in the District at an average of \$1,550, and rent growth was also highest here at 10.1%.

Annual high-rise rent change during the past year by sub-state area:

- Northern Virginia 8.7%
- Suburban Maryland 7.0%
- The District 10.1%

After losing the title for the most expensive rents to Crystal City briefly last quarter, Upper Northwest DC has regained it with effective rents at \$1,781. Crystal City is only \$5 behind at \$1,776. Crystal City's average rent per square foot of \$1.74 is still less than Mt. Vernon Square at \$2.07, as well as NW DC at \$2.02. Bethesda/Chevy Chase is now third highest with rents of \$1,636, or \$1.84 per SF.

Garden Rents: Up 4.1%

Class B garden apartment rents in the Washington metro area increased 4.1% over the past year. The average effective rent for Class B garden apartments is currently at \$1,163 per month, or \$1.35/SF. Rent change by sub-state area during the past 12 months:

- Northern Virginia: 5.3%
- Suburban Maryland: 2.6%

Northern Virginia:

Steady Rent Growth. Garden rents are up 5.3% from last year with the average effective rent at \$1,218. Northern Virginia had smart rent growth across most submarkets.

Suburban Maryland:

Class B garden apartment rent increased 2.6% over the year. Garden rents are up 6.3% in Rockville and have eroded 3.9% in Silver Spring/Wheaton. Gaithersburg had the second highest growth in Suburban Maryland this quarter, demonstrating rent growth at 6.1%.

Prince George's County has year-over-year rent increases of 3.2%. Average effective rent rates are at \$1,020.

Rents dropped by 0.4% this year in Columbia to \$1,139.

Value-Added Strategy: Renovation

Opportunities continue for renovating existing B and C grade properties. In our view, these opportunities can be the most profitable where the rent spread is widest between Class A and Class B (or Class C) rents (because units can be renovated; rents

can be raised correspondingly; and still represent a discount to the prospective tenant compared to Class A rents). Owners appear to be recognizing this, as Delta has noted an active renovation environment, especially in Suburban Maryland and Northern Virginia.

At Year-End 2006, that rent spread continues to be most pronounced in the District. Currently, the District exhibits a \$0.75/SF spread between Class A and B high-rise products. In dollar terms, the largest rent spreads between Class A and B product are in high-rises in the District with overall average spreads of \$759 per month, and in Suburban Maryland with \$631 difference in rent. Particular submarkets to note would be Bethesda/Chevy Chase/North Bethesda with a spread of \$741; Upper NW DC with a spread of \$528; and metro-accessible parts of Arlington, which showed rent spreads of \$467 to \$530.

Properties renovated to Class B+ can generally achieve rents that are \$50 to \$150 and more per month higher than the lowest Class B's. This allows for a \$4,000 to \$12,000 per unit renovation budget, and still yields sufficient revenue (\$600 to \$1,800 or more per year) to generate a 15% + return on investment in renovations.

Value-creation in the Washington apartment market is still competitive, as illustrated by our representative sample of renovation projects (see Table 9). There are currently close to 18,000 units in the Washington metropolitan area in our sample with substantial renovations or upgrades planned or ongoing – this is slightly lower than the numbers found last year. The average renovation budget per unit is over \$19,000 – this amount is almost \$7,000 more than for properties in renovation at Year-End 2005. The number of units renovating in our sample for Year-End 2006 has remained steady since Third Quarter 2006. It should be noted however, that the renovation budget per unit went up significantly from \$8,000 to over \$19,000.

Renovation Volume Comparisons To Prior Periods	
As Of	# Units In Renovation
Year-End 2004	11,508
Year-End 2005	19,804
Year-End 2006	17,985

Sales of Apartment Buildings: Garden Values Still Strong

During 2006, there have been 38 Class B garden apartment sales noted, totaling 11,261 units, and trading at an average price of \$115,767 per unit. That is over 11% higher than the average unit price realized during the same period last year, when 45 Class B garden sales were recorded.

There were ten Class B high-rise sales posted in 2006, comprising a total of 3,542 units at an average price of \$136,340 per unit. For comparison, seven high-rise transactions were realized this time last year trading at an average price of \$156,556 per unit – a year-over-year decrease of 15%.

Class B Apartment Property Sales: Year-End 2006		
Number of Transactions	Type of Property	Average Price Per Unit
38	Garden	\$115,767
10	High-Rise	\$136,340

What Does The Future Hold?

A strong regional economy has driven up rents in the Class B apartment market all across the Washington metro area. ***We believe the strong economy will continue to drive demand for housing, and continued high prices for housing of all types will put added demand on B Class assets as one of the more affordable alternatives.***

Expect the Class B vacancy rate to edge up slightly over the next 4 quarters as tenants find other affordable alternatives in:

- The condo investor “shadow” rental market
- Frustrated home-seller market

Here are specific opportunities we see for Class B projects:

- 1) The differences in rent prices between Class A and Class B properties in specific submarkets continue to favor the investor who takes advantage of **renovation opportunities.**
- 2) **Convenient locations thrive as the economy continues to expand,** with the addition of over 65,000 jobs created over the past 12 months in the Washington metro area. Falls Church/North Arlington, West Alexandria and Bethesda/Rockville submarkets benefit due to their easy access to those jobs via highways (West Alexandria) and the Metro (Falls Church/North Arlington and Bethesda/Rockville).

Section 3
SUBMARKET REPORT

TABLE 1
ESTIMATED EFFECTIVE RENT AND STABILIZED¹ VACANCY RATE FOR
INVESTMENT GRADE CLASS A AND B APARTMENTS^{2,3}
YEAR-END 2006

	Geographic Area							
	Northern Virginia		Suburban Maryland		The District		Wash. Metro Area	
Total Units Responding to Survey: ⁴	81,265		55,147		9,069		145,481	
	Vacancy	Eff. Rent	Vacancy	Eff. Rent	Vacancy	Eff. Rent	Vacancy	Eff. Rent
Class A Garden	3.6%	\$1,374	2.6%	\$1,353	NA	NA	3.1%	\$1,365
Class A High-Rise	1.9%	\$1,860	2.0%	\$2,038	3.2%	\$2,308	2.2%	\$1,985
Total Class A²	3.1%	\$1,521	2.6%	\$1,374	3.2%	\$2,308	2.9%	\$1,533
Class B Garden	2.5%	\$1,218	3.4%	\$1,094	NA	NA	2.9%	\$1,163
Class B High-Rise	3.2%	\$1,406	3.9%	\$1,407	1.5%	\$1,550	3.0%	\$1,432
Total Class B³	2.7%	\$1,287	3.5%	\$1,178	1.3%	\$1,550	2.9%	\$1,263
Total Class A and B	2.9%	\$1,418	3.0%	\$1,302	2.2%	\$1,953	2.9%	\$1,410
Comparison at 12/2005	2.5%	\$1,334	2.5%	\$1,204	2.0%	\$1,764	2.5%	\$1,302
Comparison at 12/2001	3.0%	\$1,189	1.9%	\$1,100	2.6%	\$1,749	2.6%	\$1,190
Rent Increase/Annum:								
-Since 12/2005: ⁵	--	5.0%	--	3.7%	--	8.2%	--	4.7%
-Since 12/2001:	--	2.4%	--	3.1%	--	1.5%	--	2.6%

¹ Includes only projects which are no longer in initial lease-up.

² Effective rent excludes units' utility costs for Class A product.

³ Effective rent includes units' utility costs for Class B product.

⁴ Based on sample of 145,481 Units believed to be 85% or more of the Class A inventory and 35% of the most competitive Class B/High Class B inventory.

⁵ Excludes projects that were not marketing at date of previous survey, i.e. same project/unit price comparison.

Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, Virginia 22314

Phone: (703) 836-5700; Fax: (703) 836-5765. Last Update: 12/31/2006.

TABLE 2
KEY MARKET INDICATORS FOR INVESTMENT GRADE CLASS B RENTAL GARDEN APARTMENTS
WASHINGTON METROPOLITAN AREA
YEAR-END 2006

Market Indicator	Geographic Area		
	Northern Virginia	Suburban Maryland ¹	Suburban Area Total/Average ²
Number of Units Surveyed	21,910	17,926	39,836
<u>Rent Levels (Avg. of All Unit Sizes)</u>			
Face Rent @ December 2006	\$1,253	\$1,120	\$1,194
Concessions as a % of Face Rents	2.8%	2.4%	2.6%
Effective Rent @ December 2006	\$1,218	\$1,094	\$1,163
Effective Rent per Square Foot @ December 2006	\$1.42	\$1.27	\$1.35
<u>Per Annum Effective Rent Increase to December 2006</u>			
Since December 2005 :	5.3%	2.6%	4.1%
Since Early 1990's :	4.4%	NA	4.4%
<u>Vacancy: December 2006</u>	2.5%	3.4%	2.9%
<u>Vacancy: December 2005</u>	2.9%	2.9%	2.9%

¹ Includes all surveyed submarkets in Prince George's County, Montgomery County, and Columbia.

² Starting with the Year End 2001 Class B Apartment Report, Suburban Maryland weighted averages reflect the inclusion of all Prince George's County submarkets.

Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, Virginia 22314
Phone: (703) 836-5700; Fax: (703) 836-5765. Last Update: 12/31/2006.

TABLE 3
KEY MARKET INDICATORS FOR INVESTMENT GRADE CLASS B RENTAL HIGH-RISE APARTMENTS
WASHINGTON METROPOLITAN AREA
YEAR-END 2006

Market Indicator	Geographic Area			
	Northern Virginia	Suburban Maryland	Washington, DC	Wash Metro Area Total/Average
Number of Units Surveyed	12,774	6,491	4,192	23,457
Rent Levels (Avg. of All Unit Sizes)				
Face Rent @ December 2006	\$1,423	\$1,441	\$1,583	\$1,457
Concessions as a % of Face Rents	1.3%	2.3%	2.2%	1.8%
Effective Rent @ December 2006	\$1,406	\$1,407	\$1,550	\$1,432
Effective Rent per Square Foot @ Dec 2006	\$1.61	\$1.56	\$1.94	\$1.65
Per Annum Effective Rent Increase to Dec 2006 Since December 2005 :	8.7%	7.0%	10.1%	8.5%
<u>Vacancy: December 2006</u>	3.1%	3.9%	1.5%	3.0%
<u>Vacancy: December 2005</u>	2.5%	2.0%	1.7%	2.2%

Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, Virginia 22314
Phone: (703) 836-5700; Fax: (703) 836-5765. Last Update: 12/31/2006.

TABLE 4
KEY MARKET INDICATORS FOR INVESTMENT GRADE CLASS B RENTAL GARDEN APARTMENTS
SELECTED SUBMARKETS - NORTHERN VIRGINIA
YEAR-END 2006

Market Indicator	Submarket										Overall Total/Weighted Average
	Reston	Fairfax City	Falls Ch./Merrifield	Rosslyn/Ballston	South Arlington	Old Town Alexandria	Atlantia	Rt. 1 Corridor Alexandria	West Alexandria	Annandale	
Number of Units Surveyed:	792	1,859	1,917	1,607	1,846	1,284	1,306	3,239	5,291	2,769	21,910
Average Year Built of Project Surveyed:	1973	1970	1968	1947	1954	1954	1948	1972	1961	1967	1961
Rent Levels (Avg. of All Unit Sizes) ¹											
Face Rent @ December 2006	\$1,439	\$1,375	\$1,323	\$1,434	\$1,151	\$1,095	\$1,068	\$1,159	\$1,274	\$1,266	\$1,253
Concessions as a % of Face Rent	1.9%	3.3%	5.5%	0.4%	3.3%	0.0%	0.5%	2.4%	3.4%	3.3%	2.8%
Effective Rent @ December 2006	\$1,414	\$1,328	\$1,251	\$1,427	\$1,110	\$1,095	\$1,063	\$1,132	\$1,231	\$1,225	\$1,218
Effective Rent per Square Foot @ December 2006	\$1.37	\$1.34	\$1.34	\$1.99	\$1.48	\$1.53	\$1.54	\$1.39	\$1.49	\$1.15	\$1.42
Per Annum Effective Rent Increase to December 2006											
Since December 2005 :	5.5% ²	6.5% ⁴	6.8%	5.2%	6.1%	4.5% ³	5.2% ²	5.1% ²	5.7%	2.7%	5.3%
Since Early 1990's :	6.9%	4.8%	NA	NA	NA	4.2%	3.5% ²	3.9% ²	NA	NA	4.4%
Vacancy: December 2006	3.8%	3.6%	3.0%	0.5%	1.3%	0.9%	2.7%	2.7%	1.7%	4.7%	2.5%
Vacancy: December 2005	1.7%	2.2%	3.6%	3.9%	1.7%	1.8%	1.4%	4.0%	2.4%	4.4%	2.9%

1 Rents include/assume landlord-paid utilities.
2 Effective rent increase since 1990.
3 Effective rent increase since 1992.
4 Effective rent increase since 1993.

Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, VA 22314. Phone: (703) 836-5700, Fax: (703) 836-5765. Last Update: 12/31/2006.

TABLE 5
KEY MARKET INDICATORS FOR INVESTMENT GRADE CLASS B RENTAL GARDEN APARTMENTS
SELECTED SUBMARKETS - SUBURBAN MARYLAND
YEAR-END 2006

Market Indicator	Submarket						Suburban Maryland Overall Total/ Weighted Average
	Rockville	Gaithersburg	Silver Spring/ Wheaton	Subtotal - Montgomery County	Columbia	Subtotal - Prince George's County ²	
Number of Units Surveyed:	1,660	1,658	1,916	5,234	1,838	10,854	17,926
Average Year Built of Project Surveyed:	1971	1973	1978	1974	1974	1965	1969
Rent Levels (Avg. of All Unit Sizes) ¹							
Face Rent @ December 2006	\$1,413	\$1,239	\$1,134	\$1,256	\$1,175	\$1,043	\$1,120
Concessions as a % of Face Rent	0.2%	3.3%	3.6%	2.4%	3.0%	2.3%	2.4%
Effective Rent @ December 2006	\$1,410	\$1,200	\$1,093	\$1,228	\$1,139	\$1,020	\$1,094
Effective Rent per Square Foot @ December 2006	\$1.68	\$1.23	\$1.17	\$1.34	\$1.23	\$1.24	\$1.27
Per Annum Effective Rent Increase to December 2006 Since December 2005 :	6.3%	6.1%	-3.9%	2.5%	-0.4%	3.2%	2.6%
Vacancy: December 2006	1.3%	1.1%	3.1%	1.9%	6.7%	3.5%	3.4%
Vacancy: December 2005	1.4%	1.3%	2.1%	1.6%	1.8%	3.4%	2.9%

¹ Rents include/assume landlord-paid utilities.

² See Table 6 for Prince George's Submarkets.

Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, VA 22314. Phone: (703) 836-5700, Fax: (703) 836-5765. Last Update: 12/31/2006.

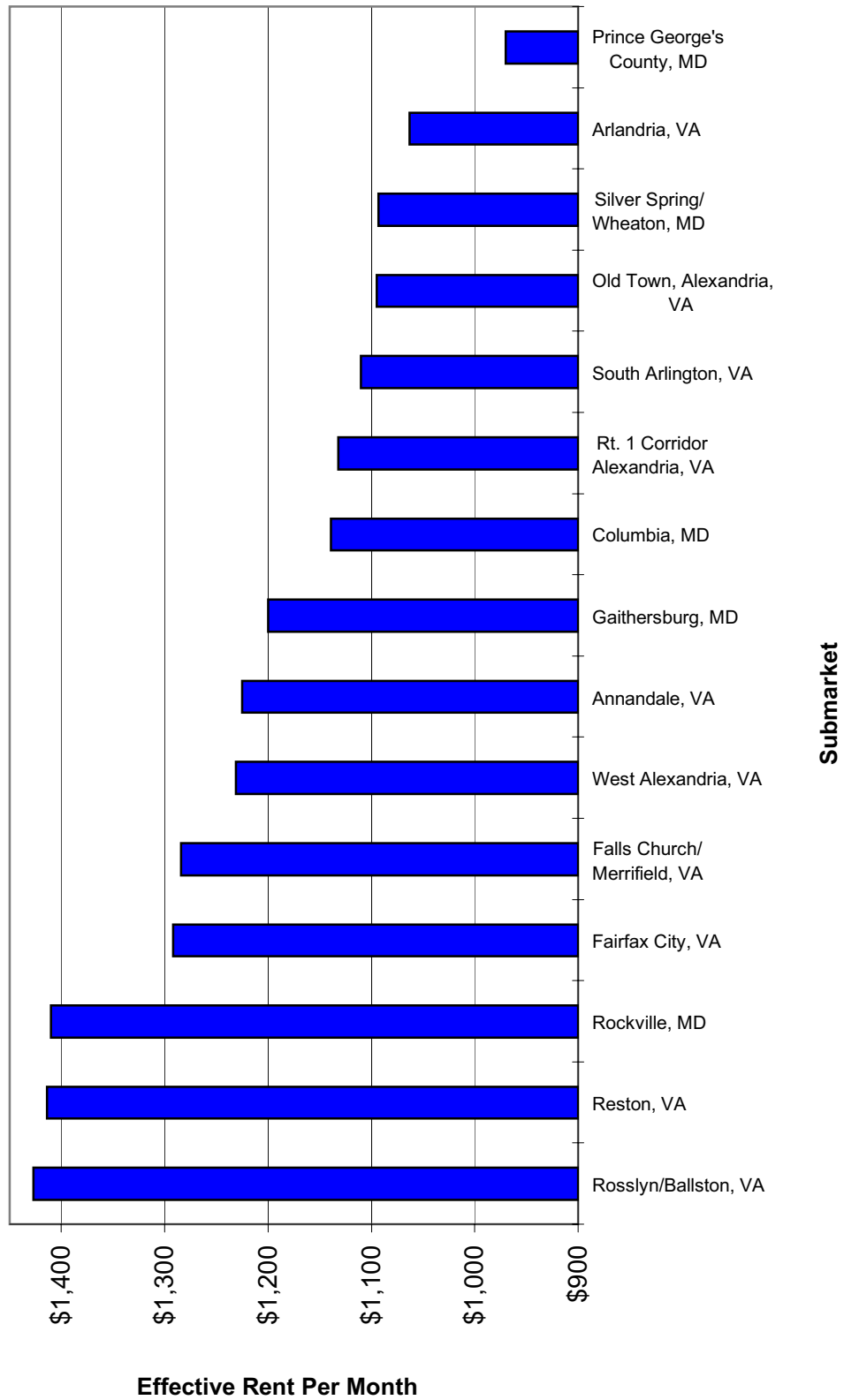
TABLE 6
KEY MARKET INDICATORS FOR INVESTMENT GRADE CLASS B RENTAL GARDEN APARTMENTS
SELECTED SUBMARKETS - PRINCE GEORGE'S COUNTY MARYLAND
YEAR-END 2006

Market Indicator	Submarket					Subtotal - Prince George's County
	Andrews ²	Oxon Hill/Camp Springs ³	Landover/ New Carrollton ⁴	Greenbelt/ Takoma Park ⁵	Laurel	
Number of Units Surveyed:	2,265	2,039	2,289	2,171	2,090	10,854
Average Year Built of Project Surveyed:	1964	1972	1968	1960	1963	1965
Rent Levels (Avg. of All Unit Sizes) ¹						
Face Rent @ December 2006	\$1,017	\$1,021	\$1,046	\$1,030	\$1,103	\$1,043
Concessions as a % of Face Rent	1.8%	2.0%	4.1%	0.7%	2.8%	2.3%
Effective Rent @ December 2006	\$998	\$1,003	\$1,007	\$1,022	\$1,072	\$1,020
Effective Rent per Square Foot @ December 2006	\$1.36	\$1.05	\$1.19	\$1.39	\$1.25	\$1.24
Per Annum Effective Rent Increase to December 2006 Since December 2005 :	1.4%	3.3%	-0.9%	8.7%	4.0%	3.2%
Vacancy: December 2006	4.2%	2.0%	3.0%	4.0%	4.5%	3.5%
Vacancy: December 2005	3.0%	2.7%	4.5%	2.9%	1.6%	3.0%

1 Rents include/assume landlord-paid utilities.
2 Data represents consolidated former Capitol/District Heights, Forestville and Suitland submarkets.
3 Data represents consolidated former Oxon Hill and Temple Hill submarkets.
4 Data represents consolidated former Landover and New Carrollton submarkets.
5 Data represents consolidated former Hyattsville/Riverdale, Greenbelt, and Adelphi/College Park submarkets.

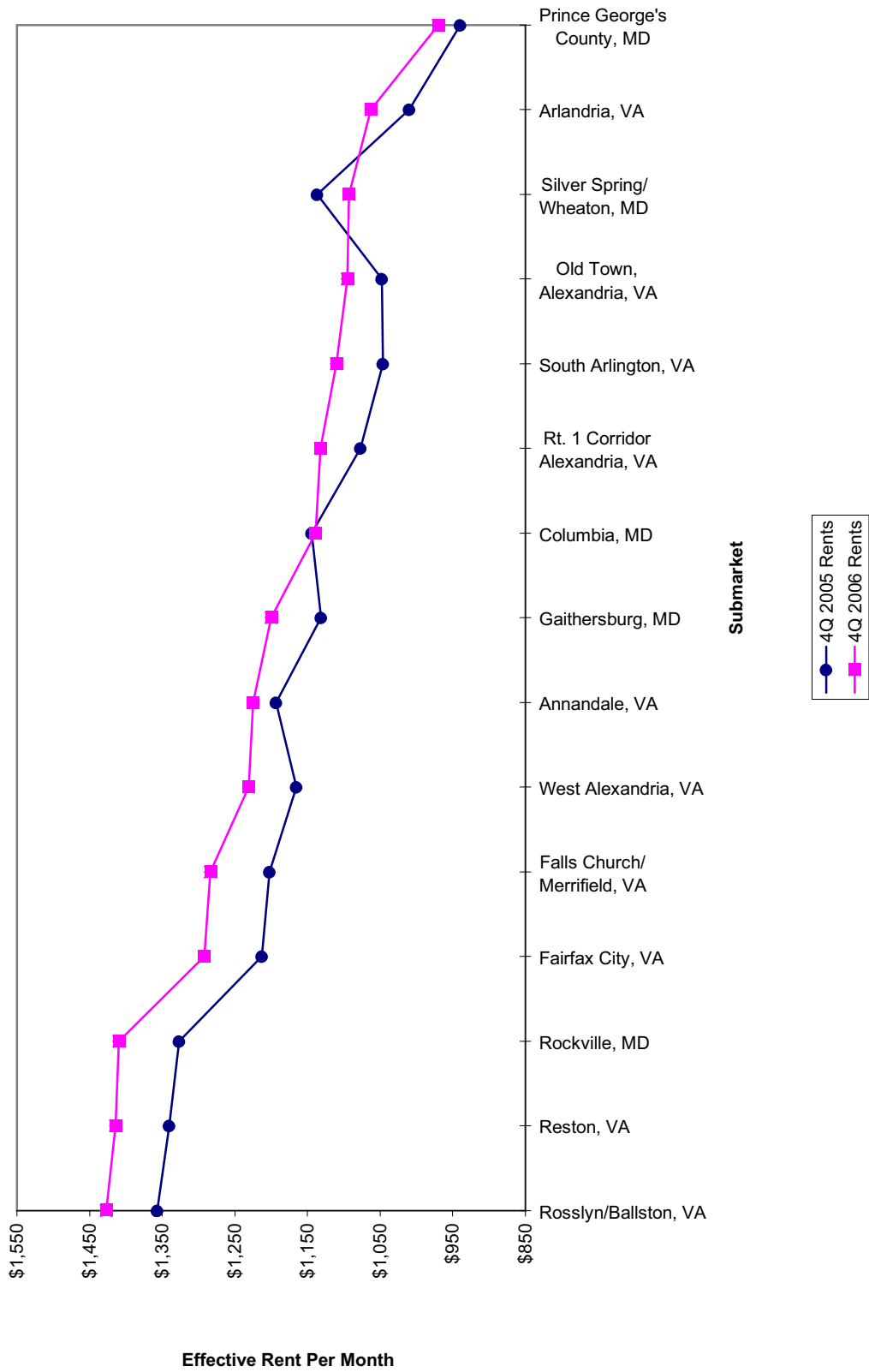
Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, VA 22314. Phone: (703) 836-5700, Fax: (703) 836-5765. Last Update: 12/31/2006.

**Class B Garden Apartment Effective Monthly Base Rents
By Submarket at Year-End 2006**



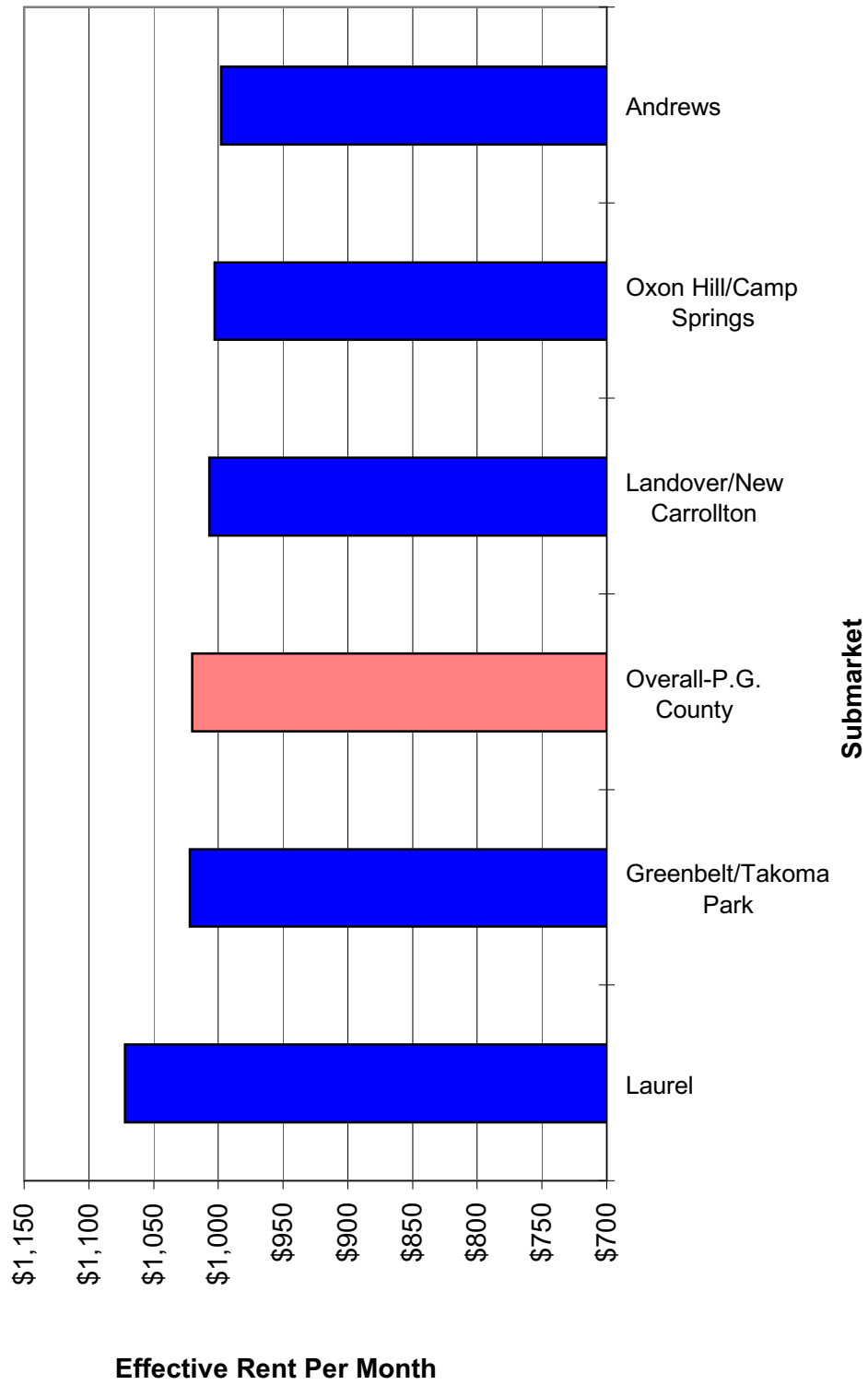
Source: Delta Associates, Year-End 2006.

**Change in Effective Rents at Class B Garden Apartment Projects
Year-End 2005 vs. Year-End 2006**



Source: Delta Associates, Year-End 2006.

Prince George's County, Maryland Class B Garden Apartment Monthly Effective Base Rents By Submarket at Year-End 2006



Source: Delta Associates, Year-End 2006.

TABLE 7
KEY MARKET INDICATORS FOR INVESTMENT GRADE CLASS B RENTAL HIGH-RISE APARTMENTS
SELECTED SUBMARKETS - NORTHERN VIRGINIA
YEAR-END 2006

Market Indicator	Submarket					Subtotal-Virginia
	Falls Church/ North Arlington	South Arlington	Arlandria	West Alexandria	Crystal City	
Number of Units Surveyed:	2,905	1,462	1,164	3,903	3,340	12,774
Average Year Built of Project Surveyed:	1966	1961	1963	1972	1967	1966
Rent Levels (Avg. of All Unit Sizes) ¹						
Face Rent @ December 2006	\$1,401	\$1,357	\$1,122	\$1,245	\$1,783	\$1,423
Concessions as a % of Face Rent	1.9%	3.1%	1.0%	1.2%	0.4%	1.3%
Effective Rent @ December 2006	\$1,375	\$1,312	\$1,110	\$1,234	\$1,776	\$1,406
Effective Rent per Square Foot @ December 2006	\$1.65	\$1.54	\$1.45	\$1.52	\$1.74	\$1.61
Per Annum Effective Rent Increase to December 2006 Since December 2005 :	13.2%	9.3%	6.3%	7.3%	6.9%	8.7%
Vacancy: December 2006	1.7%	2.8%	0.3%	4.4%	4.0%	3.1%
Vacancy: December 2005	2.4%	1.5%	1.3%	3.3%	2.6%	2.5%

¹ Rents include/assume landlord-paid utilities.

Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, VA 22314. Phone: (703) 836-5700, Fax: (703) 836-5765. Last Update: 12/31/2006.

TABLE 8
KEY MARKET INDICATORS FOR INVESTMENT GRADE CLASS B RENTAL HIGH-RISE APARTMENTS
SELECTED SUBMARKETS - SUBURBAN MARYLAND AND WASHINGTON, D.C.
YEAR-END 2006

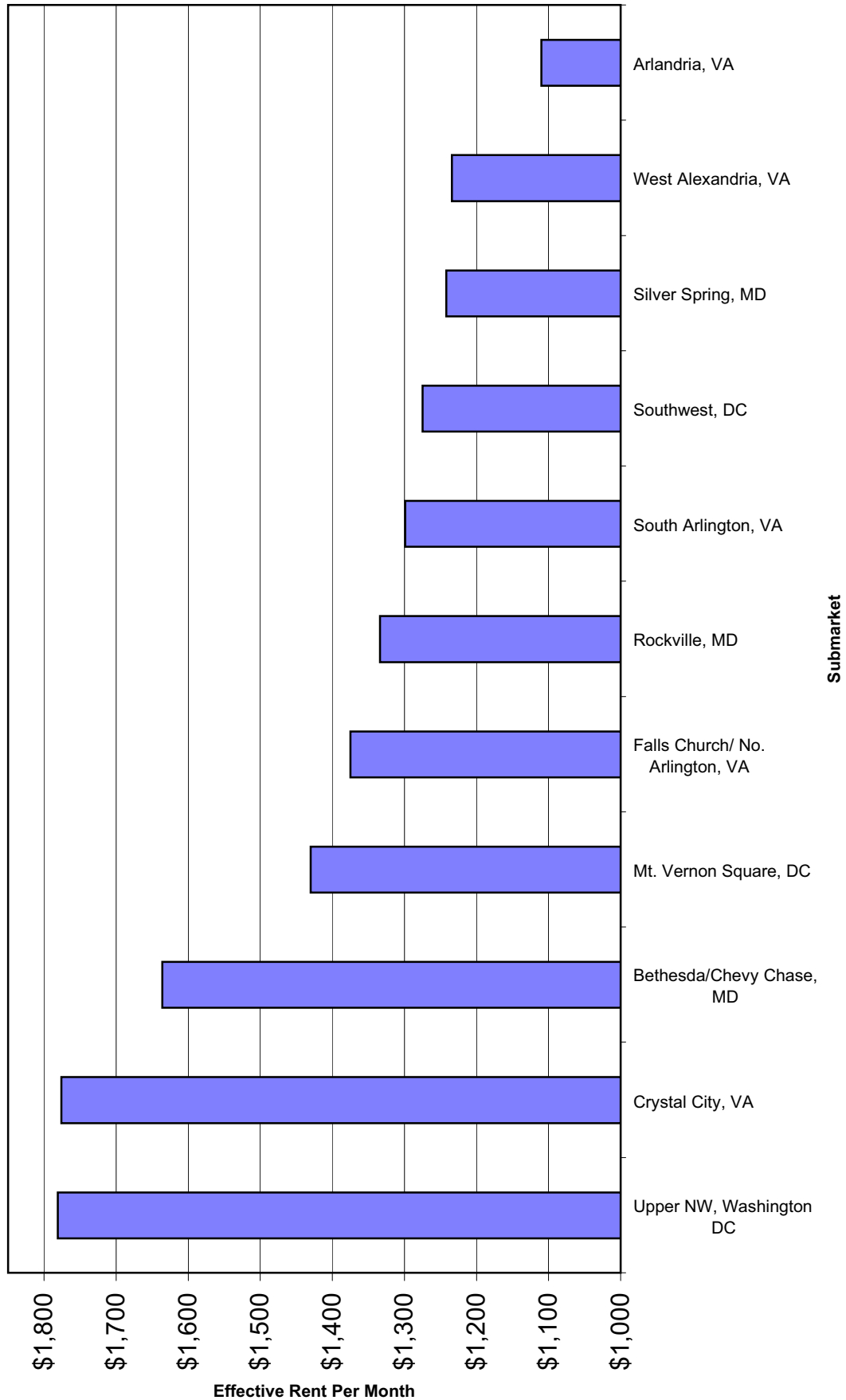
Market Indicator	Submarket									
	Suburban Maryland					District of Columbia				
	Silver Spring	Bethesda/ Chevy Chase	Rockville	Subtotal-Maryland	Upper Northwest	Mt. Vernon Square, NW	Southwest	Subtotal-District		
Number of Units Surveyed:	1,887	2,149	2,455	6,491	1,963	1,039	1,190	4,192		
Average Year Built of Project Surveyed:	1966	1963	1964	1965	1963	1967	1970	1966		
Rent Levels (Avg. of All Unit Sizes) ¹										
Face Rent @ December 2006	\$1,439	\$1,636	\$1,417	\$1,441	\$1,827	\$1,430	\$1,315	\$1,583		
Concessions as a % of Face Rent	1.9%	0.0%	5.7%	2.3%	2.6%	0.0%	3.4%	2.2%		
Effective Rent @ December 2006	\$1,414	\$1,636	\$1,334	\$1,407	\$1,781	\$1,430	\$1,275	\$1,550		
Effective Rent per Square Foot @ Dec 2006	\$1.37	\$1.84	\$1.43	\$1.56	\$2.02	\$2.07	\$1.66	\$1.94		
Per Annum Effective Rent Increase to Dec 2006 :										
Since December 2005 :	4.7%	8.9%	7.0%	7.0%	8.3%	8.1%	14.9%	10.1%		
Vacancy: December 2006	3.2%	0.6%	7.4%	3.9%	1.7%	0.6%	1.3%	1.5%		
Vacancy: December 2005	1.5%	0.5%	3.8%	2.0%	2.7%	0.3%	1.3%	1.7%		

¹ Rents include/assume landlord-paid utilities.

** Some submarket sample sizes not significant after condo conversions.

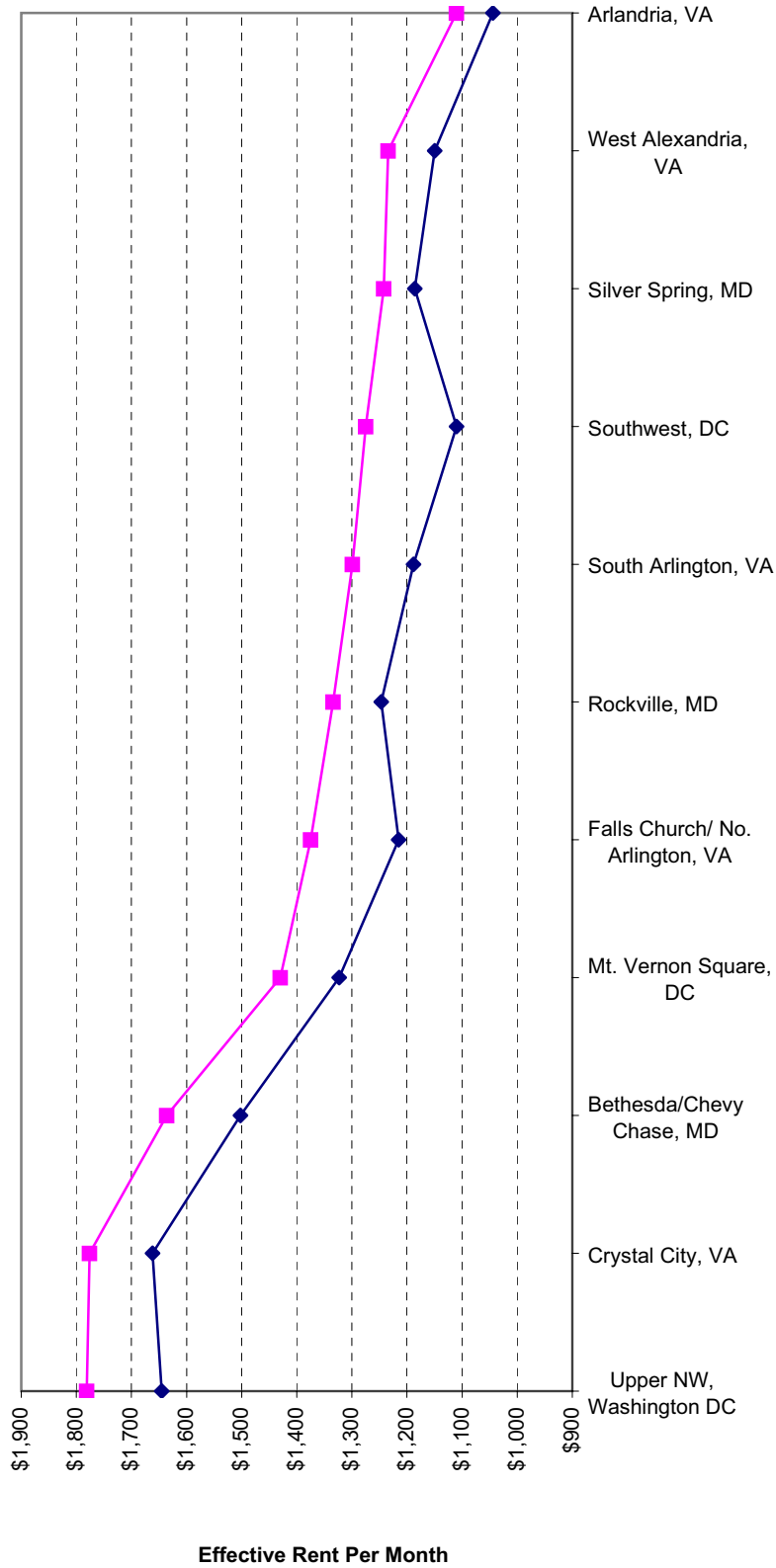
Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, VA 22314. Phone: (703) 836-5700, Fax: (703) 836-5765. Last Update: 12/31/2006.

Class B High-Rise Effective Monthly Base Rents By Submarket at Year-End 2006



Delta Associates, Year-End 2006.

Change in Effective Rents at Class B High Rise Apartment Projects Year-End 2005 vs. Year-End 2006



Submarket



Source: Delta Associates, Year-End 2006.

Section 4

RENOVATION REPORT

**TABLE 9
SUMMARY OF MAJOR CLASS B APARTMENT RENOVATIONS
WASHINGTON METROPOLITAN AREA
YEAR-END 2006**

Comp #	Project Name/ Location	# of Units	Sponsor	Type	Date of Original Construct.	Total Renovation Cost	Renovation Cost per Unit	Comments
1.	Marlow Heights Temple Hills, Maryland	172	Bozzuto	Garden	NA	\$1,150,000	\$6,686	Exterior, new windows and sliders, foundation, fencing, controlled access, signage, concrete
2.	Marlow Plaza Temple Hills, Maryland	257	Bozzuto	Mid-Rise Garden	NA	\$3,760,000	\$14,630	Exterior, new windows, foundation, fencing, controlled access, signage, concrete
3.	Spring House Laurel, Maryland	220	Bozzuto	Mid-Rise Garden	NA	\$1,100,000	\$5,000	Exterior, new windows, foundation, fencing, controlled access, signage, concrete
4.	River Pointe Greenbelt, Maryland	170	Bozzuto	Garden	NA	\$1,000,000	\$5,882	Roof work, some landscaping, exterior painting, appliances, some hvac on as needed basis
5.	Laurel Square I and II Laurel, Maryland	987	Bozzuto	Garden	NA	\$10,200,000	\$10,334	Common areas and units on as needed basis
6.	Forest Village Forestville, Maryland	410	Bozzuto	Garden	NA	\$3,370,000	\$8,220	Exterior, new windows, foundation, fencing, controlled access, signage, concrete
7.	Shadyside Gardens Suitland, Maryland	410	Bozzuto	Garden	NA	\$3,150,000	\$7,683	Exterior, new windows and sliders, foundation, fencing, controlled access, signage, concrete,
8.	Devonshire Falls Church, Virginia	84	A.J. Dwoskin	Garden	NA	\$840,000	\$10,000	Ceramic in bathroom and kitchen, two-tone paint, upholstery, and fixtures renewals
9.	Tysons Glen Falls Church, Virginia	327	A.J. Dwoskin	Garden	NA	\$3,270,000	\$10,000	Ceramic in bathroom and kitchen, two-tone paint, upholstery, and fixtures renewals
10.	Stuart Woods Herndon, Virginia	450	A.J. Dwoskin	Garden	NA	\$900,000	\$2,000	Ceramic in bathroom and kitchen, two-tone paint, upholstery, and fixtures renewals
11.	Albemarle Washington, DC	234	Archstone Smith	High-Rise	NA	\$2,000,000	\$8,547	Lobby, click café
12.	Castlegate Silver Spring, Maryland	376	Fairfield Residential	Garden	1981	\$6,250,000	\$16,622	Roofs, windows, common areas, landscaping, club house
13.	Oakfield Wheaton, Maryland	371	Fairfield Residential	Garden	NA	\$13,230,000	\$35,660	Full rehab
14.	Steeplechase Largo, Maryland	156	Fairfield Residential	Garden	1985	\$1,250,000	\$8,013	Exterior work, kitchens, baths
15.	Crystal Towers Arlington, Virginia	907	Archstone Smith	High-Rise	1966	\$2,000,000	NA	Construction on cement outside
16.	Hampton Hollow Silver Spring, Maryland	240	Fairfield Residential	Garden	NA	\$1,500,000	\$6,250	Currently renovating common areas and individual units
17.	Brentwood Manassas, Virginia	265	Fairfield Residential	Garden	NA	\$6,500,000	\$24,528	Currently renovating common areas and units. Plans to build a new club house. landscaping-interiors-sliding-tax credit deal-100% affordable-3rd way through
18.	Heritage Park Adelphi, Maryland	299	Dreyfuss Brothers	Garden	1960	NA	NA	Remodelling one building of the complex. Renovations are being done on all floor plans
19.	Glen Oaks Apartments Greenbelt, Maryland	263	Realty Management Services	Garden	1963	NA	NA	Currently undergoing renovations of kitchens and bathrooms
20.	Brittany Place Greenbelt, Maryland	591	Home Properties Inc.	Garden	1973	\$8,865,000	\$15,000	Renovating kitchens and bathrooms as needed. Also renovations to exterior and comon areas and landscaping
21.	Columbia Landing Columbia, Maryland	300	Equity Management Inc.	Garden	1970	NA	NA	--
22.	Brookdale at Mark Center Alexandria, Virginia	472	The JBG Companies	Garden	1966	\$3,572,568	\$7,569	Interior improvements to individual units as units are vacated. Upgrades include new kitchen appliances, cabinetry, tile, breakfast bar, and updated fixtures in bath.
23.	Hillwood at Mark Center Alexandria, Virginia	599	The JBG Companies	Garden	1966	\$6,484,175	\$10,825	Interior improvements to individual units as units are vacated. Upgrades include new kitchen appliances, cabinetry, tile, breakfast bar, and updated fixtures in bath.
24.	Stoneridge at Mark Center Alexandria, Virginia	198	The JBG Companies	Garden	1966	\$1,290,168	\$6,516	Interior improvements to individual units as units are vacated. Upgrades include new kitchen appliances, cabinetry, tile, breakfast bar, and updated fixtures in bath.
25.	MeadowCreek at Mark Center Alexandria, Virginia	556	The JBG Companies	Garden	1966	\$5,328,148	\$9,583	Interior improvements to individual units as units are vacated. Upgrades include new kitchen appliances, cabinetry, tile, breakfast bar, and updated fixtures in bath.
26.	Willow Run at Mark Center Alexandria, Virginia	399	The JBG Companies	Garden	1966	\$3,945,711	\$9,889	Interior improvements to individual units as units are vacated. Upgrades include new kitchen appliances, cabinetry, tile, breakfast bar, and updated fixtures in bath.

**TABLE 9
SUMMARY OF MAJOR CLASS B APARTMENT RENOVATIONS
WASHINGTON METROPOLITAN AREA
YEAR-END 2006**

Comp #	Project Name/ Location	# of Units	Sponsor	Type	Date of Original Construct.	Total Renovation Cost	Renovation Cost per Unit	Comments
27.	Shirlington House Arlington, Virginia	437	The JBG Companies	High-Rise	1962	\$3,242,564	\$7,420	Upgrading kitchens with new appliances and flooring and bathrooms as tenants vacate units. No targeted completion date due to nature of renovation. Renovations to take place on turnover.
28.	Fairway Apartments Reston, Virginia	346	The JBG Companies	Garden	1971	\$3,946,130	\$11,405	Renovations include new kitchen appliances, counters, flooring and breakfast bar. Bathroom renovations to tub, shower, cabinets and fixtures. Renovations to take place on turnover.
29.	Dominion Towers Arlington, Virginia	331	The JBG Companies	High-Rise	1960	\$4,395,680	\$13,280	Renovations include new kitchen appliances, counters, flooring and breakfast bar. Bathroom renovations to tub, shower, cabinets and fixtures. Renovations to take place on turnover.
30.	Ashford at Woodlake Silver Spring, Maryland	534	The Donaldson Group	Garden /TH	1974	\$5,000,000	\$9,363	Interior renovations as units are vacated. Building up to 90 new condominiums on surplus acreage
31.	Ashford at Henson Creek Temple Hills, Maryland	450	Federal Capital Partners	Garden	N/A	\$4,000,000	\$8,889	Exterior renovations completed 8/05. Common area upgrades including new fitness and business center. Individual units will receive kitchen, bathroom and flooring upgrades.
32.	The Woodner Apartments Washington, DC	1,128	Jonathan Woodner Company	High-Rise	1953	NA	NA	Replacing windows and two elevators
33.	The Wellington (formerly Arlington Overlook) Arlington, Virginia	711	Fairfield Residential	High-Rise	N/A	\$13,500,000	\$18,987	Purchased for \$90.15 million in September 2004
34.	Princeton Estates Temple Hills, Maryland	474	Sawyer Apartments	High-Rise	1972	NA	NA	Conducting exterior enhancements to replace siding and awnings. Common areas to have fresh paint and new carpeting.
35.	Coopers Crossing Landover, Maryland	712	Federal Capital Partners	Garden	1978	NA	NA	New cabinets, new appliances, vanities, and medicine cabinets for vacant 1 and 2 bedrooms
36.	Briarwood Laurel, Maryland	330	The Stephen A. Goldberg Company	Garden	1965	\$2,145,000	\$6,500	New cabinets, countertops, appliances, foyer floor, bathroom and kitchen floors
37.	Summerlyn Place (formerly Milestone Manor) Laurel, Maryland	424	Ross Development & Investment	Garden	1960's & 1980's	\$8,000,000	\$18,868	Upgrades to hallways, common areas, pool area and new HVAC. Washer/dryer units added to all apartments; new kitchens, bathrooms, carpets, and paint. Roof replacement, lighting, signage, fencing, parking lots, landscaping, painting, and pool deck. Target completion date 2008
38.	Westgate of Laurel Laurel, Maryland	218	Realty Management Services, Inc.	Garden	1965	\$1,526,000	\$7,000	Interior renovations began 2/05 and should be completed by 2/08. Individual units will receive new kitchens (appliances, floors, countertops, and cabinetry), updated bathroom fixtures, and new carpeting where needed
39.	Kirkwood Apartments Hyattsville, Maryland	662	Kay Apartment Communities	Garden	1960 +/-	NA	NA	--
40.	Bren Mar Alexandria, Virginia	134	A.J. Dwoskin & Associates	Garden	1983	\$1,340,000	\$10,000	Cabinetry, ceramic in bathroom and kitchen, two-tone paint, upholstery, and fixtures renewals
41.	Madison Ridge Apartments Centreville, Virginia	216	Wesley Housing Development	Garden	1983	\$5,400,000	\$25,000	118 of the units are being converted to condos. The remaining 98 units will be renovated and remain as rental units. Renovation will include new flooring, washers and dryers, and upgraded kitchens with new appliances and fixtures. Completion scheduled for end of 2007.
42.	Taylor Place Arlington, Virginia	218	United Dominion Realty Trust	High-Rise	1963	NA	NA	Renovations of kitchens including granite tiles counters and new cabinets.
43.	Fenland Field Columbia, Maryland	234	Home Properties Inc.	Garden	1972	\$3,510,000	\$15,000	Renovating kitchens and bathrooms as needed. Also renovations to exterior and comon areas.
44.	Laurelton Court Laurel, Maryland	132	Southern Management	Garden	1963	\$1,526,000	\$7,000	--
45.	225 South Whiting Alexandria, Virginia	175	Ross Development & Investment	High-Rise	NA	NA	NA	New cabinets and countertops in units on turnover
46.	Cypress Creek Hyattsville, Maryland	760	Ross Development & Investment	Garden	NA	NA	NA	New kitchens/baths, pool house upgrades, windows, common areas
47.	Topaz House Bethesda, Maryland	326	NA	High-Rise	NA	NA	NA	New cabinets and countertops in units on turnover
48.	5126 Steven's Forest Road Alexandria, Virginia	300	Ross Development & Investment	Garden	1972	NA	NA	New cabinets and countertops in units on turnover
49.	Hannibal Grove Columbia, Maryland	132	NA	Garden	1969	\$2,640,000	\$20,000	Complete upgrades of interior apartments

**TABLE 9
SUMMARY OF MAJOR CLASS B APARTMENT RENOVATIONS
WASHINGTON METROPOLITAN AREA
YEAR-END 2006**

Comp #	Project Name/ Location	# of Units	Sponsor	Type	Date of Original Construct.	Total Renovation Cost	Renovation Cost per Unit	Comments
50.	Oxford Square at White Flint Rockville, Maryland	167	NA	Garden	1967	NA	NA	--
51.	Warwick Apartments Rockville, Maryland	395	NA	High-Rise	1967	NA	NA	Upgrades of kitchens and baths in individual units
52.	Calvert Alexandria, Virginia	183	United Dominion Residential Communities	High-Rise	1962	NA	NA	Renovations of kitchens and bathrooms.
53.	Potomac River House Alexandria, Virginia	647	Cafritz	High-Rise	1958	NA	NA	--
54.	Fairfax Square Apartments Fairfax, Virginia	502	Van Metre	Garden	1967	\$4,518,000	\$9,000	Renovations includes new kitchens, bathrooms, and additional interior improvements.
55.	VanMetre at Fort Georgetown Arlington, Virginia	202	Van Metre	Garden	1945	NA	NA	--
56.	Munson Hill Towers Falls Church, Virginia	279	Washington Real Estate Investment Trust	Mid-Rise	1962	NA	NA	--
57.	Roosevelt Towers Falls Church, Virginia	191	Washington Real Estate Investment Trust	Mid-Rise	1962	NA	NA	--
58.	Country Club Towers Arlington, Virginia	227	Washington Real Estate Investment	High-Rise	1963	NA	NA	Both structural and cosmetic renovations
59.	The Barton House Falls Church, Virginia	213	Schlosberg Properties	Mid-Rise	1966	NA	NA	--
60.	Barcroft Plaza Falls Church, Virginia	196	Kay Management	Garden	1966	NA	NA	Kitchen and bathroom renovations only. Renovating one unit per month.
61.	Colonies of Arlington Arlington, Virginia	395	Gates, Hudson, & Associates, Inc.	Garden	1955	NA	NA	--
62.	Steward Manor Laurel, Maryland	422	Southern Management	Garden	1959	NA	NA	--
63.	Riverside Park Alexandria, Virginia	1,222	AIMCO	Garden	NA	\$120,000,000	\$98,200	New floors, wiring, fixtures, W&D's, appliances, countertops, cabinetry, balcony rails and dividers, club house, grocer, athletic facility, new heat pumps, smoke detectors, track lighting, in top floors
	Total/Average:	17,985	--	--	--	\$352,538,474	\$19,602 ¹	

¹ Represents average renovation cost per unit for properties #1-17, 20, 22-31, 33, 36-38, 40-41, 43-44, 49, 54, 63.

Note: If you have any major renovations planned or underway which we have overlooked, please call or fax us.

Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, Virginia 22314; Phone: (703) 836-5700; Fax: (703) 836-5765. Last update 12/31/06.

Section 5

TRANSACTION REPORT

TABLE 10
SUMMARY OF CLASS B GARDEN AND HIGH-RISE APARTMENT BUILDING SALES
WASHINGTON METROPOLITAN AREA
THROUGH NOVEMBER 2006

Project Name/Location	Date of Sale	# of Units	Year Built	Sale Price	
				Total	Per Unit
Garden/Mid-Rise Apartments					
Class B					
1. Comparable # 1 Reston, Virginia	11/06	258	1978	\$40,000,000	\$155,039
2. Comparable # 2 Fort Washington, Maryland	11/06	170	NA	\$16,400,000	\$96,471
3. Comparable # 3 Laurel, Maryland	11/06	319	1964	\$30,600,000	\$95,925
4. Comparable # 4 Riverdale, Maryland	11/06	103	1964	\$7,100,000	\$68,932
5. Comparable # 5 Annapolis, Maryland	10/06	147	NA	\$14,500,000	\$98,639
6. Comparable # 6 Woodbridge, Virginia	9/06	100	NA	\$14,000,000	\$140,000
7. Comparable # 7 Forestville, Maryland	9/06	599	1968	\$33,250,000	\$55,509
8. Comparable # 8 Oxon Hill, Maryland	9/06	510	1963	\$35,600,000	\$69,804
9. Comparable # 9 Bethesda, Maryland	8/06	125	NA	\$10,000,000	\$80,000
10. Comparable # 10 Riverdale, Maryland	8/06	179	1965	\$11,400,000	\$63,687
11. Comparable # 11 Greenbelt, Maryland	8/06	320	1966	\$23,500,000	\$73,438
12. Comparable # 12 Dumfries, Virginia	7/06	188	1987	\$18,000,000	\$95,745
13. Comparable # 13 Laurel, Maryland	7/06	420	1968 Ren. 1987	\$36,782,000	\$87,576
14. Comparable # 14 Laurel, Maryland	7/06	562	1969	\$49,218,000	\$87,577
15. Comparable # 15 Washington, DC	7/06	300	1920	\$42,000,000	\$140,000
16. Comparable # 16 East Port, Maryland	6/06	29	NA	\$3,200,000	\$110,345
17. Comparable # 17 Alexandria, Virginia	6/06	141	1975	\$26,500,000	\$187,943
18. Comparable # 18 Hyattsville, Maryland	6/06	168	1968	\$13,725,000	\$81,696
19. Comparable # 19 Gaithersburg, Maryland	6/06	85	1964	\$10,400,000	\$122,353
20. Comparable # 20 Alexandria, Virginia	6/06	32	1954	\$5,800,000	\$181,250
21. Comparable # 21 Capitol Heights, Maryland	6/06	272	1964	\$19,300,000	\$70,956
22. Comparable # 22 Laurel, Maryland	6/06	526	1966	\$46,250,000	\$87,928
23. Comparable # 23 Suitland, Maryland	5/06	349	1961	\$30,300,000	\$86,819
24. Comparable # 24 Suitland, Maryland	5/06	410	1966	\$34,540,000	\$84,244
25. Comparable # 25 Temple Hills, Maryland	5/06	172	1965	\$14,000,000	\$81,395
26. Comparable # 26 Temple Hills, Maryland	5/06	257	1965	\$19,159,000	\$74,549
27. Comparable # 27 Landover Hills, Maryland	5/06	727	1964 Ren. 2003	\$43,400,000	\$59,697
28. Comparable # 28 Frederick, Maryland	4/06	120	1968	\$8,331,000	\$69,425
29. Comparable # 29 Hyattsville, Maryland	4/06	760	1949	\$72,965,000	\$96,007
30. Comparable # 30 Annapolis, Maryland	3/06	84	1978	\$14,000,000	\$166,667
31. Comparable # 31 Alexandria, Virginia	3/06	575	1958-1960	\$115,120,395	\$200,209
32. Comparable # 32 Alexandria, Virginia	3/06	416	1964	\$138,172,664	\$332,146
33. Comparable # 33 Alexandria, Virginia	3/06	399	1962	\$81,905,560	\$205,277
34. Comparable # 34 Alexandria, Virginia	3/06	472	1960	\$94,498,828	\$200,209
35. Comparable # 35 Annandale, Virginia	3/06	388	1962 Ren. 2002	\$47,222,046	\$121,706
36. Comparable # 36 Reston, Virginia	3/06	346	1968	\$47,609,316	\$137,599
37. Comparable # 37 Arlington, Virginia	2/06	13	1963	\$2,900,000	\$223,077
38. Comparable # 38 Laurel, Maryland	1/06	220	1986	\$32,000,000	\$145,455
Total/Average:	--	11,261	--	\$1,303,648,809	\$115,767

TABLE 10
SUMMARY OF CLASS B GARDEN AND HIGH-RISE APARTMENT BUILDING SALES
WASHINGTON METROPOLITAN AREA
THROUGH NOVEMBER 2006

Project Name/Location	Date of Sale	# of Units	Year Built	Sale Price		
				Total	Per Unit	
High-Rise Apartments						
Class B						
1. Comparable # 1 Arlington, Virginia	11/06	507	1960	\$68,500,000	\$135,108	
2. Comparable # 2 Arlington, Virginia	11/06	104	1968	\$11,500,000 approx.	\$110,577	
3. Comparable # 3 Greenbelt, Maryland	10/06	178	1967	\$18,000,000	\$101,124	
4. Comparable # 4 Alexandria, Virginia	10/06	574	1970	\$131,000,000	\$228,223	
5. Comparable # 5 Suitland, Maryland	9/06	283	1968	\$23,000,000	\$81,272	
6. Comparable # 6 Washington, DC	6/06	74	1915	\$7,846,800	\$106,038	
7. Comparable # 7 Arlington, Virginia	6/06	606	1973	\$97,800,000	\$161,386	
8. Comparable # 8 Takoma Park, Maryland	5/06	450	1960's	\$15,199,400	\$33,776	
9. Comparable # 9 Arlington, Virginia	3/06	436	1963	\$62,651,020	\$143,695 allocated	
10. Comparable # 10 Arlington, Virginia	3/06	330	1957	\$47,419,350	\$143,695 allocated	
Total/Average:	--	3,542	--	\$482,916,570	\$136,340	

Note: Delta Associates no longer provides the name of each project listed above except to appraisal clients of the firm and those who provide this type of transaction data to Delta. If you wish a list of project names and you qualify to receive same, email your request to: Alyson.Bode@DeltaAssociates.com.

Source: Compiled by Delta Associates, 500 Montgomery St., Suite 600, Alexandria, Virginia 22314.
 Phone: (703) 836-5700; Fax (703) 836-5765. Last update: 12/31/06.

Section 6

EXPERIENCE REPORT

TABLE 11
CLASS B APARTMENT OPERATING EXPENSE EXPERIENCE
MID-ATLANTIC AREA
2006
(Landlord Paid Utilities)

Average 2006 Operating Expenses Per Unit Per Year					
Project Type/Location	Real Estate Taxes	Utilities	Other Controllable Expenses	Total	Annualized Change Since 1996
Garden - Average	\$670	\$1,809	\$5,611	\$8,090	9.0%
High-Rise - Average	\$605	\$1,662	\$3,696	\$5,963	--

Source: Compiled by Delta Associates, 500 Montgomery Street, Suite 600, Alexandria, Virginia 22314. Phone (703) 836-5700; Fax (703) 836-5765, based on the operating expense experience at projects that in aggregate contain 3,700+ apartment units; 12/06.

TABLE 12
REPLACEMENT RESERVE REQUIREMENTS
FOR CLASS B GARDEN AND HIGH-RISE APARTMENTS
MID-ATLANTIC REGION
2006
(Per Unit/Per Year)

Garden Apartments		High-Rise Apartments
Range:	\$642 - \$735	Insufficient Data
Average:	\$688	Insufficient Data

Source: Compiled by Delta Associates, 500 Montgomery Street, Suite 600, Alexandria, Virginia, 22314.
 Phone (703) 836-5765, based on a survey of owners, managers, brokers, and developers who control/manage units in the Washington, MSA; 12/06.

Section 7

**APARTMENT INDUSTRY “MARKET MAKER” SURVEY
YEAR-END 2006**

THE WASHINGTON REGION MARKET MAKER SURVEY RESULTS AT YEAR-END 2006

Delta Associates conducts a survey at the end of each year of those who make the real estate market in the Washington region. The results of that survey are reported below, as they are instructive as to where development and investment dollars will flow in the coming year as well as investor expectations of economic and market conditions in the period ahead.

Investment Worthiness: Edging Down

The average investment worthiness score edged down to 6.4 in 2006, from 6.5 in 2005, and 6.6 in 2004. Although the investment worthiness score has ticked down since 2004, the average score for each of the past three years remains considerably higher than the average score of 5.8 experienced in 2002, the lowest point in the cycle. Notably, each of the property types scored tightly, within the 6.2 to 6.8 range, confirming that all commercial property types in the Washington area are investment worthy, as job growth and property performance are solid.

Most preferred property types:

- High-rise apartments
- Class A suburban garden apartments
- Industrial/distribution facilities

Lower-preference property types:

- Class A Suburban office
- Class B Suburban office
- Hotels

The District remains one of the top two office investment markets in the nation, along with Midtown Manhattan, due to its low vacancy rates and the stable nature of its tenant base. Average cap rates on all office property types have declined in the last year as a result of still-low interest rates. Overall office scores remain higher than office scores in 2003.

INVESTMENT WORTHINESS INDEX WASHINGTON COMMERCIAL REAL ESTATE AT YEAR-END 2006 (For score: 10 = most worthy; 0 = least worthy)					
Product Type	Score 2006	Rank 2006	Rank 2005	Rank 2004	Rank 2003
Office: Suburban – Class A	6.2	10	3	3	5
Office: Suburban – Class B	6.2	9	5	6	7
Office: CBD – Class A	6.4	5	10	8	4
Office: CBD – Class B	6.4	6	8	7	3
Industrial/Distribution: Class A	6.5	3	2	2	2
Shopping Center: Grocery Anchored – Class A	6.4	7	9	1	1
Apartments: Suburban Garden – Class A	6.5	2	6	4	9
Apartments: Suburban Garden – Class B	6.5	4	7	9	6
Apartments: High-Rise – Class A	6.8	1	4	5	8
Hotels: Suburban – Class A	6.2	8	1	10	10

Source: Delta Associates' annual Market Maker Survey of industry leaders in the region, October 2006.

Capitalization Rates:
Cyclical Decline is Easing

Cap rates declined by 33 basis points for all product types in 2006, compared to a 99 basis point decline in 2005, and a 59 basis point decline in 2004. Cap rate decline began in 2002 due to low interest rates and cash flooding into real estate in the face of weaker equity markets. Since the peak in 2001, the average cap rate for all property types has declined by 326 basis points. Cap rates for all product types declined in 2006, as strong demand for Washington area assets boosted prices. Although hotels experienced the largest cap rate decline, this does not suggest they are a heavily favored asset in this market, as they have the highest average cap rate of any product type, at 7.17% according to hotel developers.

Product Type	Basis Point Change in Cap Rate 10/05-10/06
Hotels	-50
Office	-46
Industrial/Distribution	-39
Apartments	-17
Shopping Center	-5

The Regional Economy:
Most Expect Comparable Business Conditions in 2007

58% of respondents believe 2007 business conditions will be about the same as conditions in 2006. Respondents expecting business conditions to be better over the next year increased slightly to 23%, compared to 16% in 2005. This tick up could be due to a handful of respondents expecting returns to rise in 2007, as prices for commercial assets should moderate. 19% of those surveyed believe that conditions next year will be worse, a decline from 24% in 2005.

55% of respondents believe market conditions will improve over the next few years, while 45% believe conditions will decline. Among those who believe that business conditions will improve, the most common response was that things would pick up starting in the 2nd quarter of 2007. Among those who believe that conditions will decline, the most commonly noted starting point was the 1st and 2nd quarters of 2007.

CAP RATES IN USE AT YEAR-END 2006 BY THOSE LOOKING TO ACQUIRE ASSETS		
Product Type	All Respondents	Developers of This Property Type
Apts.: High-Rise – Class A	5.29%	5.22%
Apts.: Suburban Garden – Class A	5.47%	5.45%
Office: CBD – Class A	5.72%	5.69%
Apts.: Suburban Garden – Class B	5.99%	5.97%
Shop. Ctr.: Groc. Anchor – Class A	6.38%	6.46%
Office: CBD – Class B	6.40%	6.36%
Office: Suburban – Class A	6.48%	6.50%
Industrial/Distribution: Class A	6.76%	6.80%
Hotels: Suburban – Class A	6.96%	7.17%
Office: Suburban – Class B	7.02%	7.05%

Note: Buyer's cap rate, based on prior 12 months NOI, before reserves.

Source: Annual survey by Delta Associates, conducted October 2006, of the region's leading commercial real estate players.