RED CAPITAL GROUP®

Market Overview

Newark, New Jersey

Multifamily Housing Update **May 2008**

EXECUTIVE SUMMARY

The economic downturn that began last August gradually tightened its grip on the Newark / Northern New Jersey metro area. Employment growth slowed to a trickle in 1Q08, falling to a 1,100-job, 0.1% pace from the 4,700-job, 0.5% rate recorded in 3Q07. Total payrolls in March were no higher than in the same month of 2007, representing the first zero year-over-year growth comparison observed in two years.

At 3.3%, the rate of unemployment in March remained well below the 5.2% national average. Nevertheless, the metro rate was up 90 basis points from March 2007, comparing unfavorably to a 70 bps rise in U.S. unemployment in the same period.

Weakness in the retail and financial sectors was largely responsible. Belt tightening by consumers contributed to the exit of major retail tenants, including Levitz Furniture, the Rag Shops and CompUSA, which in turn produced a 1,300-job, -1.0% y-o-y decline in retail trade payrolls. Likewise, the sub-prime tremors felt on Wall Street gave rise to a series of front and back office job cuts at banks, contributing to a 900-job, -1.1% decline in finance sector employment.

With little economic momentum to carry it forward during the national downturn, the Newark MSA may see a net payroll employment decline in 2008, as was the case in 3 of the previous 5 years. But the **RED Research** econometric model doesn't foresee it. The model forecasts 2,000-job and 3,000-job advances in 2008 and 2009, respectively. Confidence intervals are 0 to 5,000 jobs and 0 to 6,000 jobs.

Job losses by retail trade and back office finance personnel contributed to a weak leasing environment in the class-B&C apartment sector. While class-A properties benefited from consumer reluctance to purchase homes in a weak price environment (luxury properties absorbed 268 units in 1Q), the lower tier lost a net of 810 tenants, precipitating a 50 basis point decline of B&C occupancy to 96.2%. Overall, vacant inventory increased by 850 units, after negative net absorption of 543 units, completion of a 90-unit property in Bergen County and a 217-unit condominium ***reversion*** in Hudson County. Consequently, the metro vacancy rate increased 40 bps to a 3-year high 3.6%.

Effective rent growth moderated from 4Q07's sturdy $15 (1.1%) advance to a gain of $12 (0.8%) in 1Q08. A weak year-ago comparison boosted y-o-y growth to 5.6%, however, the highest figure recorded in 7 years. Pricing power was unevenly distributed, as owners in Morris and Hudson Counties achieved sequential gains equal to 1.4% and 1.2%, respectively, while Passaic and Essex Co. projects experienced flat or declining rents.

Reis expect average metro occupancy to fall another 20 bps by year-end to 96.2%. The service forecasts a commensurate slowdown in rent growth to 3.8% for the year, with further deceleration anticipated in 2009-2010. By contrast, **RCR**'s internal rent model is considerably more optimistic, pointing to gains of 5% or greater.

Recent trades demonstrate a growing global interest in Newark assets. About one-third of buyers now come from out-of-state or offshore. Demand for institutional quality apartments is so strong that the NCREIF metro cap rate index compressed from 6.5% in 1Q07 to 5.0% in 4Q.

The acquisition of Courtyard at Jefferson at an estimated 4% cap rate suggests that prices can rise further as buyers scramble to accumulate NYC-area assets. **RCR** recommend acquiring Newark assets, but at ***opportunistic*** prices. Yields now may be too low.

SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (3.6% - 1Q08)	▲ 20 bps	▼ 10 bps
Effective Rents ($1,453 - 1Q08)	▲ 5.6%	▲ 3.8%
Cap Rate (6.1% - 1Q08)	▲ 130 bps	▲ 30 bps
Employment (1,023.2m - 1Q08)	▲ 3.2m	▲ 2m

KEY POINTS

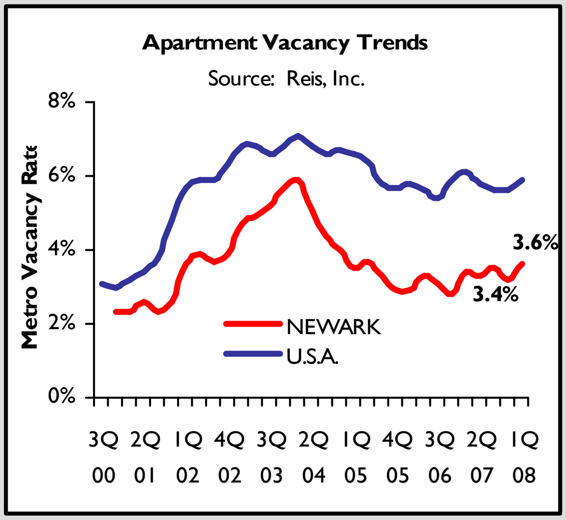
- Job creation slowed to a trickle in 1Q08. Metro payrolls increased at a 1,100-job, 0.1% pace, down significantly from the 4,700-job, 0.5% rate recorded in 3Q07.
- The slowdown was primarily attributable to job losses in retail trade and finance.
- **RED** expect job growth to stabilize in 2H08. Monthly average payrolls will rise by about 2,000 jobs this year. Metro growth should accelerate moderately in 2009.
- Class-B&C apartments lost 850 net tenants in 1Q08, resulting in a 50 bps vacancy rate increase to 3.8%. Demand for class-A apartments remained brisk, but absorption in this sector could not offset losses in the second and third tiers. Average metro vacancy overall increased 40 bps to 3.6%.
- Class-B&C rents increased only $2 (0.2%) sequentially in 1Q08. By contrast, class-A rents continued their rapid ascent, rising $25 (1.2%) to $1,934. Overall, effective rents rose 0.8% sequentially and 5.6% y-o-y. The latter metric was the fastest over-the-year advance observed in seven years.
- Accumulate Newark at ***opportunistic*** prices.

VACANCY TRENDS

- Strong demand for class-A units persisted in the first quarter, irrespective of accelerating Wall Street job losses. Tenants absorbed a net of 268 class-A units in 1Q, up from negative net absorption of -8 units in 4Q07, and negative absorption of -536 units in 1Q07.
- Conversely, class B&C properties experienced weak 1Q08 demand. Owners lost a net of –810 leased tenants, offsetting the 605 net-move-ins recorded in 4Q07. Class vacancy increased 50 bps to 3.8%.
- The average metro vacancy rate increased 40 bps from December to March to a 3-year high 3.6%. Over-the-year, the rate was up 20 bps.

RANK: 2nd out of 50 (Theoretical: Newark is not ranked among the **RED 50**).

COMMENT: If it were a RED 50 market, Newark would rank #2 with regard to 1Q08 average vacancy rate behind only New York.

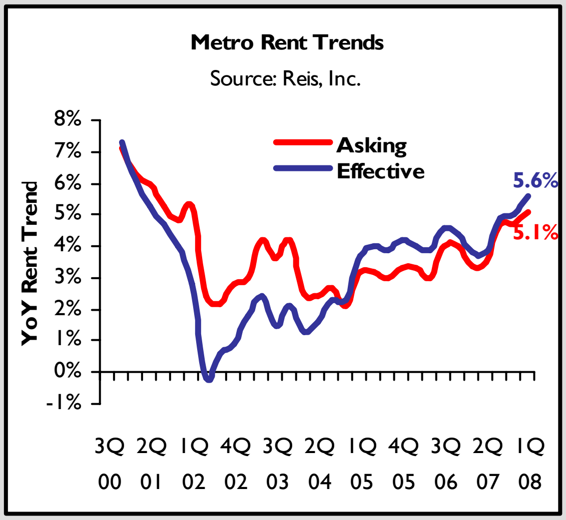


RENT TRENDS

- Class-A property rents rose at a brisk clip, ascending an average $23 (1.2%) sequentially and $113 (6.2%) year-over-year to $1,934.
- Class-B&C rents advanced only $2 (0.2%) sequentially and $50 (4.0%) year-over-year to $1,291.
- Submarkets with large class-A inventories tenanted with NYC commuters, notably Bergen and Hudson Counties, experienced rent growth exceeding 6% year-over-year.
- Conversely, Passaic and Essex County submarkets struggled to achieve positive rent growth in the first quarter.
- Reis expect metro rent growth to slow to 3.8% in 2008.

RANK: 9th out of 50 (Theoretical: Newark is not included among the **RED 50**)..

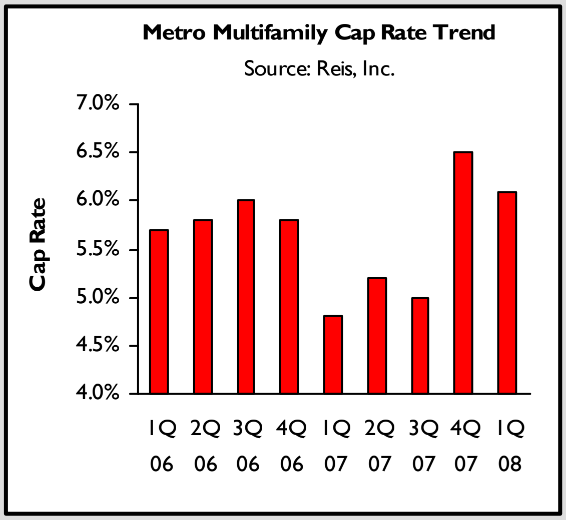
COMMENT: RCR expect rent growth to surpass 4.0% in 2008.



PROPERTY MARKET & CAP RATE TREND

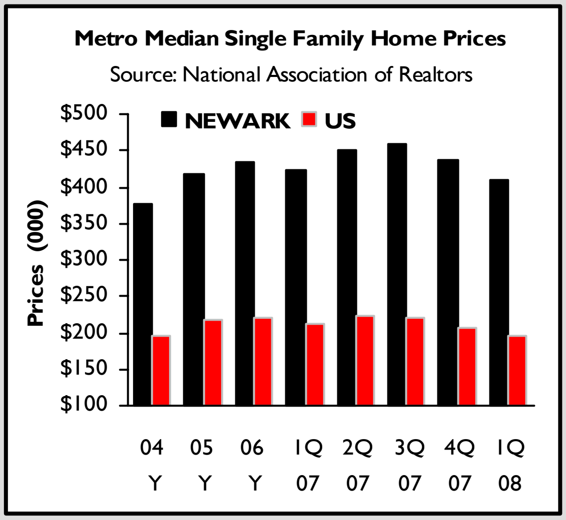
- Trade in the fourth quarter was unusually brisk, as seven institutional quality assets changed hands.
- Class-C properties in the Hillside / Irvington area proved to be appealing to investors. Three properties traded in this area at cap rates ranging from 6.5% to 8.9%, according to Reis. The median price of units sold was $50,000.
- The acquisition of Courtyard at Jefferson by AEW was the benchmark trade. The 7-year-old mid-rise in the Columbus Park section of Hoboken was acquired for $437,500 per unit to yield an estimated 4.0%.

COMMENT: The Newark market provides a more cost effective means of entering the high-performing New York Metro market. Fundamentals are constructive, but buyers must understand the market and avoid over-paying.



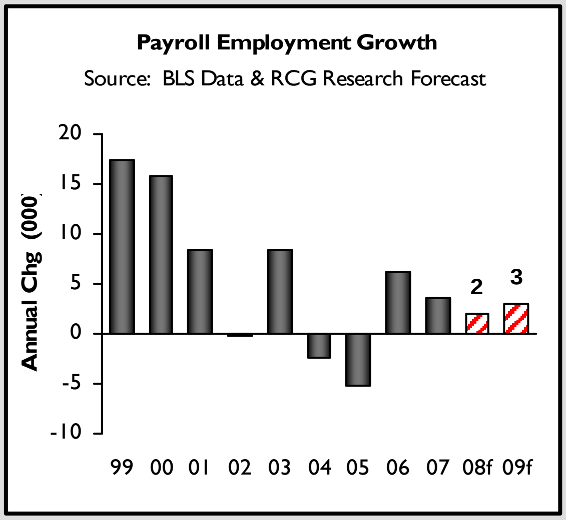
NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Catherine Gardens	**B**	Apr-2008	$3.7	$87,838	5.9%
Windsor Mariners. Twr (Bergen)	A	Nov-2007	$23.0		
Parkwood Place Apts (E. Essex)	B	20-Feb-2008	$22.0	$75,085	6.7%
Courtyard @ Jefferson (Hobkn)	A	Oct-2007	$63.0	$437,500	4.0%



DEMOGRAPHICS & HOUSING MARKET

- According to data released by the National Association of Realtors, the median price of a Newark metropolitan home was $409,300 in 1Q08, down -3.4% from the comparable period of 2007. The comparable metric for the New York-White Plains MSA was -3.9%, while the typical U.S. home lost -7.7% of its value.
- Population growth in the Newark-Union Metropolitan Division was positive in 2007, rising for the first time in three years. Population increased by 545 persons to 2,128,679.
- Housingtracker.net reported on May 13, 2008 that 8,630 homes and condos were listed for sale in the Newark metro division area. The median asking price was $399,000, down –8.3% year-over-year. The inventory of unsold homes exhibited signs of growth, rising 11.7% from the same time last year.



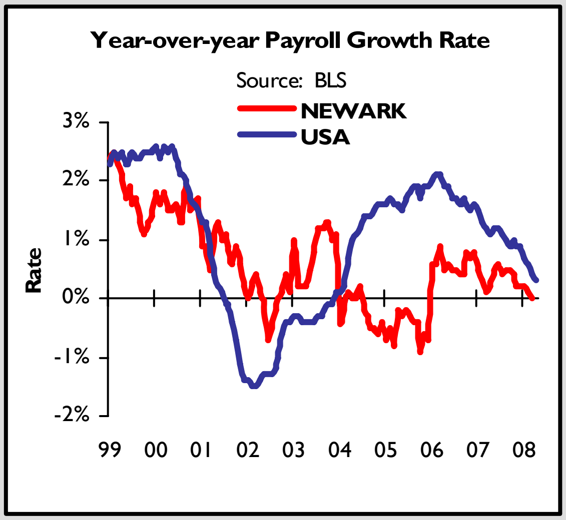
EMPLOYMENT TRENDS

Past 12 Months

- After a solid first half in which payroll employment increased at a 3,700-job, 0.4% rate, Newark delivered an exceptional third quarter performance during which metro payrolls surged to a 4,700-job year-over-year growth rate, paced by faster hiring in retail trade, health care, hospitality and personal services.
- Payroll growth was slower thereafter, however, falling to a 2,500-job annual pace in 4Q07. Job attrition in the retail trade, government and financial services sectors was primarily responsible.

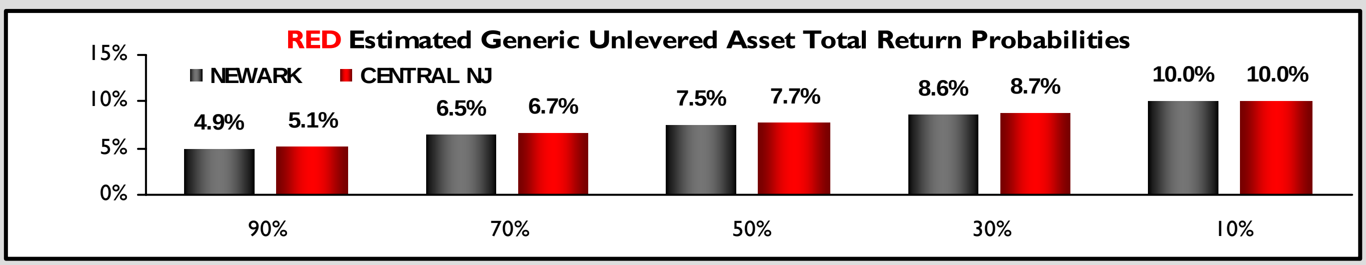
First Quarter 2008

- Employment trends continued to decelerate in the first quarter of 2008. Employment growth for the quarter dropped to an 1,100-job, 0.1% pace, the slowest in two years. The slowdown was principally attributable to job cuts in the retail trade and financial services industries.
- Several large retailers exited the market due to bankruptcy or significant shift in marketing strategy, including Levitz Furniture and CompUSA. Not only were retail real estate vacancy rates affected but retail payrolls were as well.
- The reverberations from the sub-prime mortgage crisis began to be felt on Wall Street over the winter, precipitating a series of front and back office job cuts at commercial and investment banks. Financial service payrolls underwent a –3,100-job, -4.3% decline in 1Q08 as a result.



Forecast

- Newark's erratic payroll series doesn't lend itself well to econometric modeling. **RED** tackled the assignment anyway, generating a 2008 forecast for 2,000 (0.2%) payroll jobs within a confidence interval of 0 and 4,000 jobs. For 2009, the forecast range shifts marginally to 0 to 6,000 jobs with a point estimate of 3,000 (0.3%).

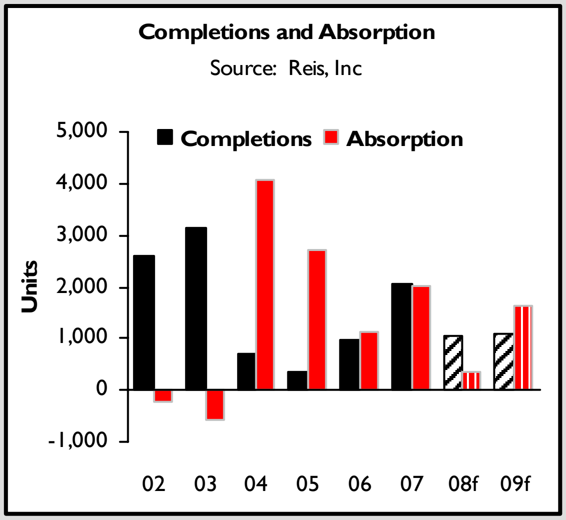


SUBMARKET TRENDS

Submarket	Effective Rent 1Q07	Effective Rent 1Q08	Effective Rent Change	Physical Vacancy 1Q07	Physical Vacancy 1Q08	Physical Vacancy Change
Bergen County	$1,422	$1,518	6.8%	2.6%	3.6%	100 bps
Passaic County	$1,144	$1,202	5.0%	2.6%	2.9%	30 bps
Morris County	$1,101	$1,169	6.1%	2.9%	2.4%	-50 bps
West Essex County	$1,390	$1,461	5.1%	3.8%	2.4%	-140 bps
East Essex County	$853	$856	0.3%	5.1%	6.1%	100 bps
Hudson County	$2,391	$2,550	6.6%	3.1%	3.5%	40 bps
Union County	$1,082	$1,117	3.3%	2.9%	2.3%	-60 bps
Metro	**$1,376**	**$1,453**	**5.6%**	**3.4%**	**3.6%**	**20 bps**

SUPPLY TRENDS

- Reis identify 1,491 apartment units currently under construction in the metro area. This total includes two projects scheduled to come on line in 2008 encompassing 558 units. The larger of the two is called Flat Rock Square, located in the city of Englewood. The smaller is called Park Square in Rahway. Park Square is scheduled to receive final CO in July.
- Equity Residential is developing a 480-unit mid-rise in Jersey City near the New York Bay Waterfront across from Downtown Manhattan. The property was scheduled for 2009 delivery, but a fire in October may delay completion.
- Reis report that 4,218 condominium units have been or will be completed in 2008. This supply represents approximately 50% of the existing homes currently listed for sale in the Newark area, according to HousingTracker.net. Downward price pressure and potential shadow supply development may result.



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