2005 Year in Review

- Economic Background
  - HR (Hampton Roads) favorable unemployment rate of 3.6% (vs. 4.7% for US)
  - Demand exceeds supply
  - 2,595 units under construction and 1,764 proposed
  - Long term interest rates historically low and steady
  - Home prices have increased significantly

2005 Year in Review (Continued)

- Fundamentals
  - Vacancy 3.8%
  - Average rent $785
    - Rent growth in excess of inflation
  - Strong fundamentals compared to nearby regions

Source: Real Data
Average Rents by City - 2005

Hampton Roads Avg. Rent and Median P&I for a Newly Purchased Home

Comparison to Nearby Regions

<table>
<thead>
<tr>
<th></th>
<th>HR</th>
<th>Richmond</th>
<th>Raleigh-Durham</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy</td>
<td>3.8%</td>
<td>6.3%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Avg. Rent</td>
<td>$785</td>
<td>$726</td>
<td>$700</td>
</tr>
<tr>
<td>2 yr. % Change rent</td>
<td>13.8%</td>
<td>6.5%</td>
<td>-7.8%</td>
</tr>
</tbody>
</table>

Source: Real Data

Operational Trends

- Condo conversions
- “Renters by choice”
- Urbanism
- Life style amenities
  - Concierge Service
  - Automated rent payments and web based maintenance requests
  - Business center
  - Cyber-café
  - Hot tubs / tanning booths

Multifamily Transactions

- Recent prices for multifamily properties have increased significantly since 2001:
  - 2001, $36,700
  - 2004, $72,700
  - 2005, $68,600

- Number of units traded increased:
  - 2001, 2,200 units
  - 2004, 4,000 units
  - 2005, 2,700 units

Data: CBRE, reported broker transactions

Hampton Roads Apartment Units Sold and Average Price per Unit
Multifamily Transactions (Continued)

- Tenants in common (TIC)
- Cap Rate Compression
  - Interest rates are low
  - Limited financial return alternatives for investments
- Financial returns significantly based on property appreciation

![HR Multifamily Cap Rates* and Interest Rates (10 years)](chart)

Opportunities / Cautions

- National perspective
- BRAC
- Interest rates
- Vacancy

Conclusion

- Multifamily economics remain strong
- Valuations questionable
- Watch fundamentals