

Wichita, Kansas



EXECUTIVE SUMMARY

The Wichita economy averted the recession through 1Q09 but employment conditions in the “Air Capital of the World” deteriorated in the second quarter. Following average monthly year-over-year job growth of 4,800 (1.6%) jobs from January 2008 to March 2009, metro establishment reduced headcounts by -5,700 (-1.8%) y-o-y in 2Q09. Falling aircraft demand was largely to blame. According to national data from the Census Bureau, new orders for non-defense aircraft and parts fell -73% y-o-y to less than \$17 billion in the first five months of 2009. Consequently, the region’s aerospace employers shed -6,000 jobs y-o-y in 2Q09.

On the other hand, the balance of the metro’s economy fared relatively well. Job losses in the retail and transportation / utilities sectors only moderately outweighed the increase in wholesale trade employment, resulting in a net decline of 500 workers. Moreover, employment levels in the finance and business service sectors were unchanged y-o-y in 2Q09. Additionally, the health care and education sectors added a net of 1,800 workers y-o-y, better than the 1,200-job annual advance recorded in 1Q09.

RED CAPITAL Research (RCR) predict that payrolls will continue to decline through YE 2010. Our econometric model project annual losses of -6,500 (-2.1%) and -5,500 (-1.8%) in 2009 and 2010, respectively.

Housing market data showed mixed results in recent months. After posting a 3.9% y-o-y increase in 4Q08, the National Association of Realtors calculated a -3.5% annual decrease in the median single-family home price in the first quarter. Employing a repeat sales approach, the Federal Housing Finance Agency calculate annual home appreciation of 2.4% in

1Q09, the 13th fastest advance among the 294 markets tracked by the source. Also, the pace of decline in home sales velocity moderated from -32% y-o-y in March to -8.7% y-o-y in June.

Apartment occupancy declined 30 basis points from 93.5% in 4Q08 to 93.2% in 1Q09 due to sluggish tenant demand and increased supply. Owners net leased 56 units and developers completed 141 units from January to March. On the other hand, robust demand in the previous nine month period still gave rise to a 90 basis point y-o-y occupancy improvement.

Declining asking rent and increased concessions produced a sharp decrease in effective rent in the first quarter. Following a -0.2% decrease in 4Q08, the average asking rent fell -0.4% sequentially to \$512 in 1Q09. Additionally, the size of the average concession package rose from 4.9% of asking rent to 5.1%. Consequently, the average effective rent declined -0.6% quarter-over-quarter to \$486.

Preliminary second quarter performance data reveal that managers continued to increase face rents despite waning demand. Metro average occupancy rate fell to 92.5% while average asking rent rose 0.4% in 2Q09.

In April, Reis predicted occupancy will fall to 91.7% by year-end. But weak demand in a typically strong seasonal second period will likely cause the service to downwardly revise the YE 2009 occupancy estimate.

Only two trades involving properties priced at or above \$5 million were recorded in the twelve-month period ended in March. Although Real Capital Analytics report that an 8.5% cap rate was applicable to the March trade, utilizing rent and occupancy data, **RCR** estimate that the property sold at a 10.5% going-in yield.

SNAP SHOT

	Y-o-y change	Projected 2009
Vacancy (6.8% - 1Q09)	90bps ↓	150bps ↑
Effective Rents (\$486 - 1Q09)	2.5% ↑	2.0% ↓
Cap Rate (N/A - 1Q09)	↔	↔
Employment (306.1m - 1Q09)	0.7m ↑	6.5m ↓

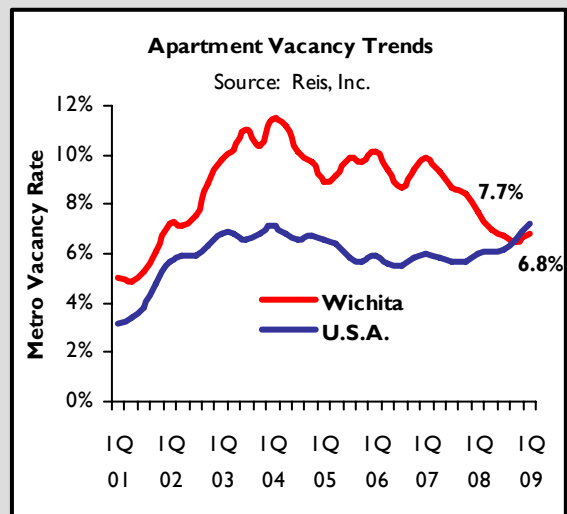
KEY POINTS

- The metro vacancy rate increased 30 basis points sequentially to 6.8% in 1Q09. Sluggish tenant demand was largely to blame as positive net absorption totaled 56 units in the first quarter. The second quarter *First Glimpse* report by Reis, show that the metro vacancy rate rose to 7.5% in June.
- According to Reis, no apartment units are expected to open later this year. But vacancy is forecast to rise to 8.3% by year-end nonetheless.
- On an annual basis, the average effective rent advanced 2.5% in 1Q09, slower than the 4.7% year-over-year increase in 4Q08.
- The National Association of Realtors report a median single-family MSA home price of \$108,700 in 1Q09, down -3.5% year-over-year. Conversely, the metro registered a 2.4% annual increase in the 1Q09 FHFA home price index.
- Two investor-grade transactions were consummated in the twelve-month period ended in March. The properties sold at an average price of \$27,239 per unit.

VACANCY TRENDS

- Development outpaced demand, resulting in a 30 basis point increase in vacancy from 6.5% in 4Q08 to 6.8% in 1Q09. Developers completed 141 units and tenants occupied 56 units from January to March.
- On a year-over-year basis, vacancy decreased 90 basis points due to strong tenant demand in the spring and summer months last year. Net absorption totaled 540 units in the twelve-month period ended in March.
- Reis expect negative net absorption of 393 units to produce a sharp 150 basis point increase in vacancy by year-end. The service predicts similar conditions to give rise to another 190 basis point vacancy increase in 2010.

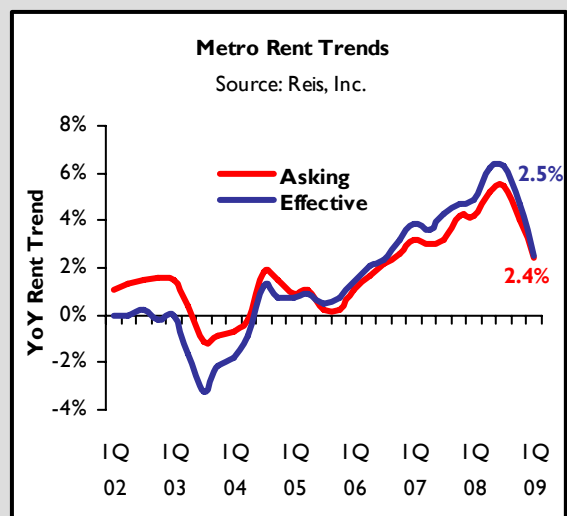
COMMENT: Preliminary 2Q09 vacancy rate: 7.5%



RENT TRENDS

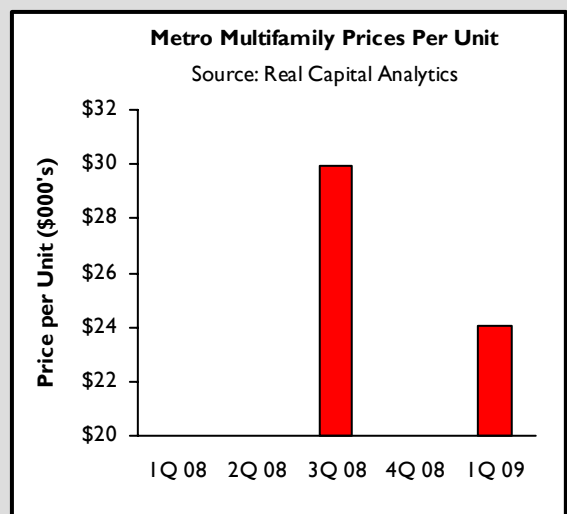
- The average asking declined for the second consecutive quarter, falling -0.2% in 4Q08 and -0.4% in 1Q09. Consequently, the pace of year-over-year asking rent growth decelerated from 5.5% in 3Q08 to 2.4% in 1Q09.
- In addition to falling asking rent, concessions rose in the past six months. The size of the average concession package increased from 4.7% of asking rent in September to 5.1% in March. As a result, the average effective rent fell -0.4% and -0.6% in 4Q08 and 1Q09, respectively.
- Reis predict that year-over-year effective rent growth will plunge to -2.0% in 4Q09. The service expects effective rent to decrease -0.8% in 2010.

COMMENT: Preliminary data show that asking rent increased 0.4% in 2Q09.



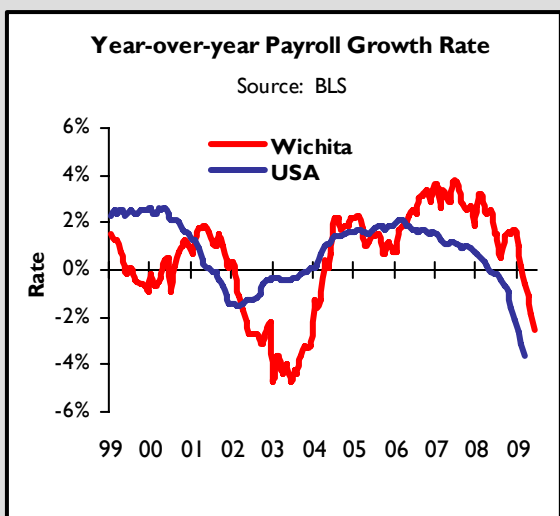
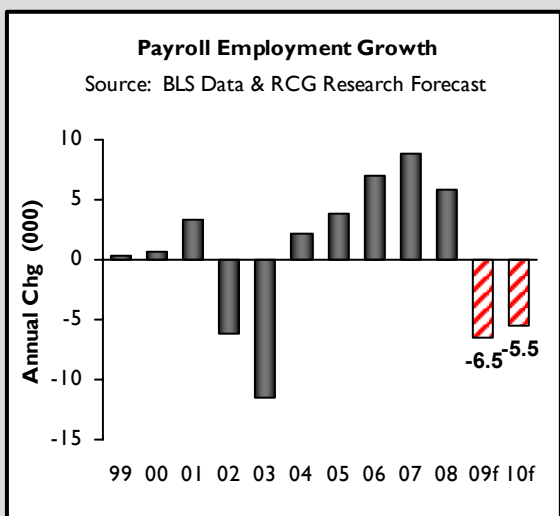
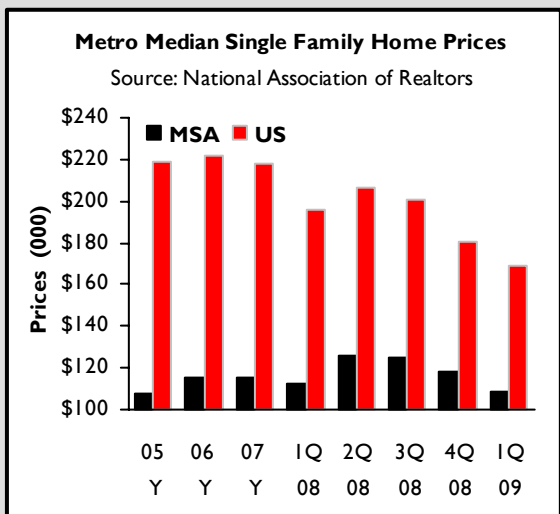
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics report that two transactions involving properties priced at or above \$5 million occurred in the twelve-month period ended in March.
- One asset traded in March for \$5.2 million, or \$24,074 per unit. Based on Reis rent and occupancy data, **RCR** calculate a 10.5% cap rate. RCA report an 8.5% “pro forma” cap rate.
- The other transaction was consummated in September 2008. The property sold for \$7.6 million. RCA estimate an 8.4% cap rate.
- At an assumed going-in yield of 10.5%, the **RCR** total return model produces a 2.0% expected rate of total return.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Falcon Pointe	BC	March 2009	\$5.2	\$24,074	10.5%



DEMOGRAPHICS & HOUSING MARKET

- Metro population growth accelerated from 1.2% in 2007 to 1.4% last year, due to an uptick in net domestic migration.
- According to the National Association of Realtors, the median price of a single-family MSA home fell -3.5% year-over-year from \$112,700 in 1Q08 to \$108,700 in 1Q09.
- At 2.4%, the metro posted the 13th fastest rate of home price appreciation among the 294 markets tracked by the Federal Housing Finance Agency.
- RealtyTrac.com calculate a 0.23% Wichita foreclosure rate in 1Q09, far below the 0.63% US average.
- Single-family permit issuance fell -32% year-over-year to 1,312 in the twelve-month period ended in May.

EMPLOYMENT TRENDS

First Quarter 2009

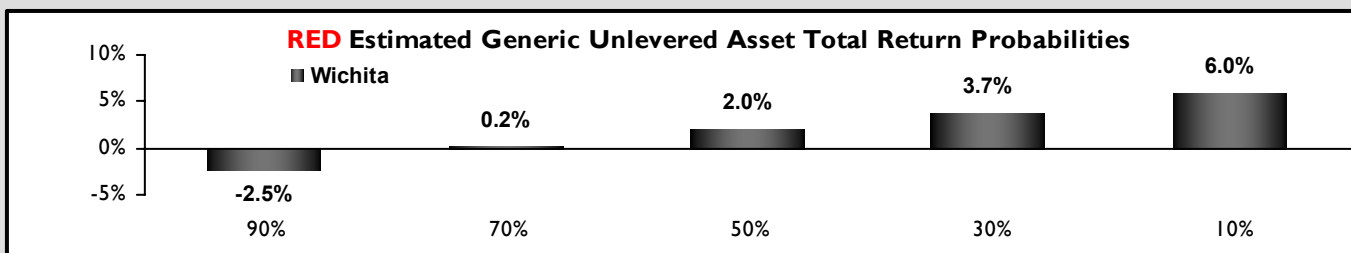
- Metro payrolls continued to rise, albeit at a sluggish pace in the first quarter. On a year-over-year basis, firms added 700 (0.2%) workers in 1Q09, slower than the 4,900 (1.6%) job advance in the previous period.
- Falling demand for temp agency workers resulted in sluggish job growth in the business service super-sector. Employment service firms trimmed 500 workers year-over-year in 1Q09. Consequently, business service job growth slowed from 1,000 jobs year-over-year in 4Q08 to 200 jobs in the first quarter.

Second Quarter 2009

- But the metro economy deteriorated in the second quarter. Employers eliminated -5,700 (-1.8%) positions from payrolls year-over-year in 2Q09, the largest decline since 4Q03.
- Weak aircraft demand was largely to blame. Following a monthly year-over-year average gain of 2,400 workers in 2008, the aerospace product and parts manufacturing industry cut -5,800 workers year-over-year in 2Q09.
- Construction sector establishments eliminated -1,100 jobs in the twelve-month period ended in June.
- The metro unemployment rate rose from 4.1% in May 2008 to 8.3% in the same month this year. Rapid growth in the labor force was largely to blame. The size of the labor force advanced 3.9% and total employment declined -0.7% over the period.

Forecast

- RCR forecast a -6,500 (-2.1%) job decrease in 2009 and another -5,500 (-1.8%) job decline next year.

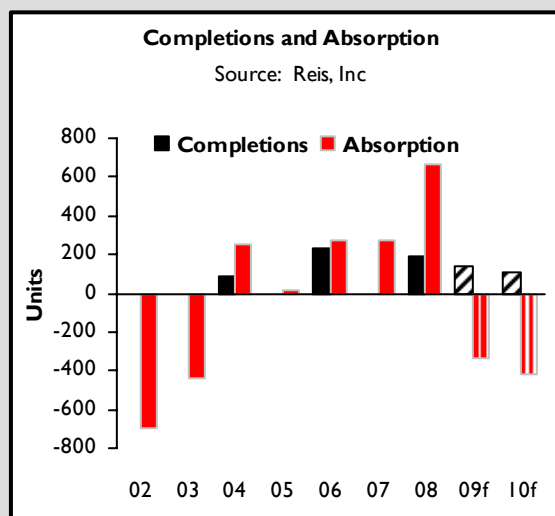


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	1Q08	1Q09	Change	1Q08	1Q09	Change
North Wichita	\$443	\$453	2.3%	6.6%	7.3%	70 bps
WSU / Northeast	\$559	\$570	2.0%	7.0%	8.3%	130 bps
McConnell AFB	\$431	\$450	4.5%	8.3%	5.9%	-240 bps
South Wichita	\$397	\$399	0.4%	12.3%	6.2%	-610 bps
West Wichita	\$549	\$561	2.2%	5.1%	6.4%	130 bps
Metro	\$474	\$486	2.5%	7.7%	6.8%	-90 bps

SUPPLY TRENDS

- Completions totaled 194 units in 2008, up from an average of 64 units from 2000 to 2007.
- One apartment property was completed in 1Q09. The asset, which contains 141 units, is located in the North Wichita submarket and was delivered in February. Additionally, one rental property was under construction in April. The 110-unit property is also located in the North Wichita submarket.
- Reis expect apartment supply to average 105 units per year from 2011 to 2013.
- Multifamily permit issuance rose 60% year-over-year to 737 units in the twelve-month period ended in May.



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Wichita, Kansas



Multifamily Housing Update

August 2008

EXECUTIVE SUMMARY

Employment growth propelled forward in 2007, marking the fourth consecutive year of metropolitan job gains. The 8,500 (2.9%) workers added in the year represented the strongest advance since 1998. The increase was fueled by robust growth in aerospace manufacturing, steady business service hiring and a surge in retail employment levels.

Unfortunately, the momentum gained in 2007 was lost in the early months of this year. Aerospace producers continued to expand but at a slower rate. Business service hiring decelerated sharply and even turned negative in June due to weak demand for staffing services. Retailers scaled back hiring plans, adding 200 workers year-over-year through June, down from 1,600 in the same period of 2007.

Sluggish job trends threaten to generate annual job losses in 2008 but **RED CAPITAL Research** believe that the metro will produce positive results. Our econometric model generates point estimates of 1,000 (0.3%) new jobs this year and 3,000 (1.0%) additional positions in 2009.

Home price trends in Wichita remained positive at mid-year. According to regional MLS data, the median price of an existing single-family home increased 6.0% y-o-y to \$120,825 in June. In addition, prices on new homes rose 19.4% to \$201,450 over the period. But sales velocity on new and existing homes continued to tumble. A total of 2,886 homes sold in 2Q08, down 18.5% from the same period of 2007.

Metro apartment owners achieved robust occupancy gains in 2Q08. The metro occupancy rate improved 60 basis points sequentially to 92.8%. The increase was attributable to posi-

tive net absorption of 162 units and no supply. The occupancy rate rose 210 bps y-o-y due to robust tenant demand.

Strong unit demand allowed owners to raise rents aggressively. Effective rents rose 1.9% sequentially and 6.2% year-over-year to \$483 in 2Q08. The increase was partially attributable to falling concessions. The size of the typical concession package fell from 5.8% of asking rent in 2Q07 to 4.9% in 2Q08.

Despite the market's momentum, Reis expect conditions to deteriorate over the next several quarters. The service forecasts a 70 bps decrease in occupancy by year-end, owing to increased supply and weaker demand. Despite a relatively tame supply outlook for 2009, Reis project a 90 basis point drop in occupancy as a net of 135 units are vacated. Consistent with falling occupancy rates, Reis anticipate effective rent growth to decelerate. The service forecasts effective rent growth of 4.5% in 4Q08 and 3.5% in 4Q09.

The South Wichita submarket posted the largest y-o-y occupancy gain in 2Q08. Positive net absorption of 132 units contributed to the 330 basis point increase. Still, the submarket possessed the lowest occupancy rate (88.1%) among the five metro submarkets.

No trade activity was recorded in Wichita in 1H08 but the strong rent and occupancy fundamentals may usher-in prospective buyers. Given the Reis outlook for rent and occupancy trends, investors should seek assets that are "*opportunistically*" priced; with initial cap rates in the low to mid 7% range. Buyers may justify slightly lower going-in yields based on the belief that the Reis forecasts are overly pessimistic.

SNAP SHOT

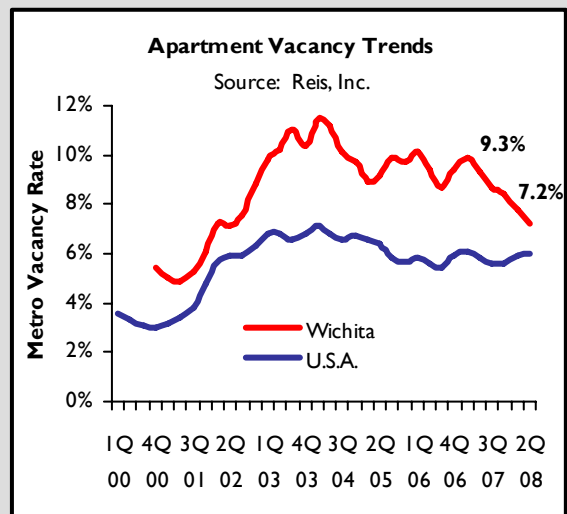
	Y-o-y change	Projected 2008
Vacancy (7.2% - 2Q08)	↓ 210bps	↑ 70bps
Effective Rents (\$483 - 2Q08)	↑ 6.2%	↑ 4.5%
Cap Rate (N/A - 2Q08)	↔ N/A	↔ N/A
Employment (304.5k - 2Q08)	↑ 1.1k	↑ 1.0k

KEY POINTS

- The metro vacancy rate fell 60 basis points sequentially and 210 basis points year-over-year to 7.2% in 2Q08. The rate was the metro's lowest since 2Q02.
- Asking and effective rents increased 5.2% and 6.2% year-over-year, respectively in 2Q08. The average effective rent rose \$16 to \$483 in the first six months of the year. Reis expect the average rent to advance only \$5 in the second half.
- Home price trends were positive in Wichita year-to-date. The Center for Real Estate at Wichita State University report a 6.0% year-over-year increase in the metro median home price in June. Trade activity was below trend however, owing to tighter credit conditions. Nearly 5,100 new and existing homes were sold in the first half of 2008, down 15.3% from the same period of 2007.
- The metro economy created 8,500 (2.9%) payroll jobs in 2007. The surge was attributable to increased hiring among manufacturing, retail, business service, education and health care firms. But less robust conditions this year will translate into only 1,000 (0.3%) net new jobs. Growth is forecast to accelerate to 3,000 (1.0%) in '09.

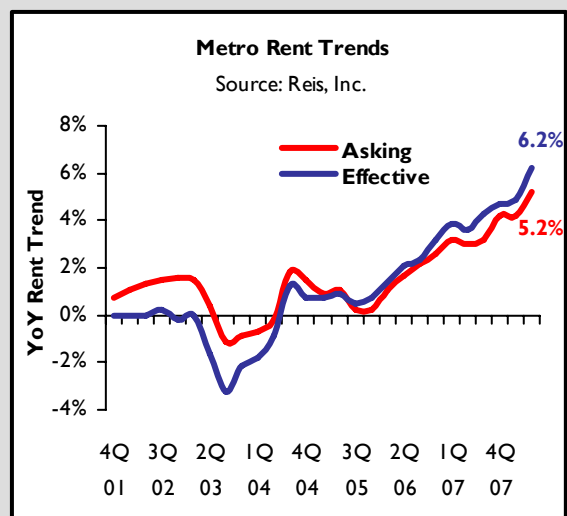
VACANCY TRENDS

- The metro vacancy rate fell 60 basis points sequentially to 7.2% in 2Q08. The improvement was attributable to positive net absorption of 162 units. Vacancy decreased 210 basis points year-over-year as 562 units were absorbed in the twelve-month period ended in June.
- No units were completed in 2Q08, marking the sixth consecutive quarter without supply. Recently released construction data reveal that one property containing 194 units was delivered in July. Another project totaling 141 units is scheduled to reach completion in October.
- Reis anticipate that the supply pressure will reverse some of the recent occupancy gains; the service forecasts a vacancy rate of 7.9% at year-end. Reis expect negative net absorption of -135 units to result in a 90 basis point increase in vacancy in 2009.



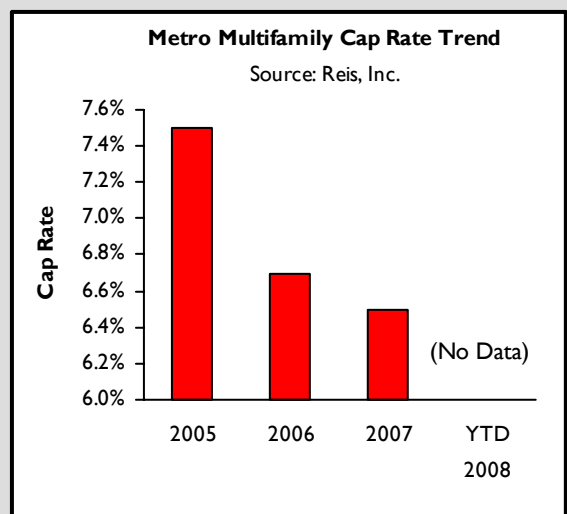
RENT TRENDS

- Average effective rents increased 1.9% sequentially to \$483 in 2Q08. The increase surpassed the previous quarter's gain of 1.5%. On a year-over-year basis effective rents rose 6.2%, the largest increase in the metro's 10-year data history.
- Asking rents advanced 1.6% sequentially and 5.2% year-over-year to \$508. The value of the average concession package was 4.9% of asking rent in 2Q08, down from 5.8% in 2Q07.
- The strongest rates of year-over-year effective rent growth were recorded in the West Wichita (7.5%) and McConnell AFB (7.1%) submarkets.
- Reis expect year-over-year effective rent growth to decelerate to 4.5% this year and 3.5% in 2009.



PROPERTY MARKET & CAP RATE TRENDS

- Reis did not record a single property trade year-to-date in 2008. The source identified four trades in 2007, all of which occurred in the second half of the year. Trade volume totaled \$16.5 million and the average price per unit was \$34,721.
- The average cap rate fell to 6.5% last year, down 20 basis points from the average yield recorded in 2006. According to NCREIF, the average cap rate in Kansas fell from 6.2% in 2006 to 5.7% in 2007. The rate rose to 6.0% in 1Q08.
- A review of property listings reveal that the typical multifamily asset is offered at a pro forma cap rate in the 7.5% to 8.5% range. Based on historical performance however, cap rates appear to be closer to 6.5%.

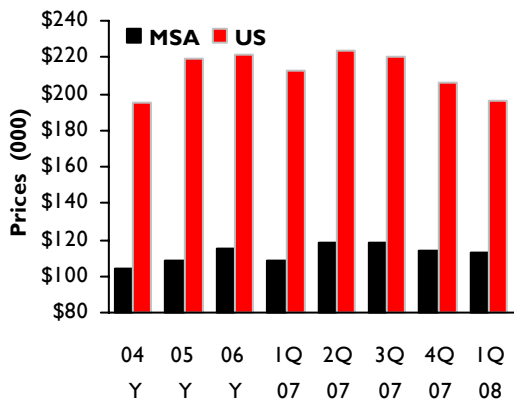


NOTABLE PROPERTY LISTINGS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Pro Forma Cap Rate
Turtle Creek Townhomes	A	Listing	\$5.1	\$40,476	8.1%
Pawnee Park Apartments	B	Listing	\$3.3	\$27,049	8.5%
Somerset Apartments	BC	Listing	\$6.8	\$35,625	8.5%
Central Park Apartments	A	Listing	\$2.2	\$72,697	7.5%

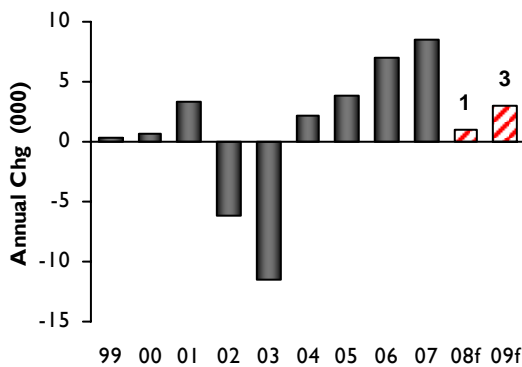
Metro Median Single Family Home Prices

Source: National Association of Realtors



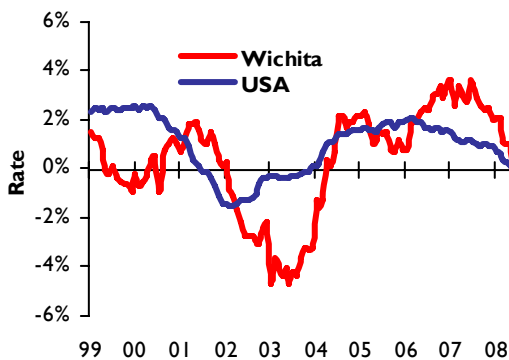
Payroll Employment Growth

Source: BLS Data & RCG Research Forecast



Year-over-year Payroll Growth Rate

Source: BLS



DEMOGRAPHICS & HOUSING MARKET

- The population of the Wichita metropolitan area advanced at a 1.2% pace in 2007, exceeding the 0.8% growth rate recorded in 2006.
- According to the National Association of Realtors, the median price of a single family MSA home increased 4.0% year-over-year to \$112,700 in 1Q08. The Wichita State University's Center for Real Estate report a median home resale price of \$120,825 in June, up 6.0% year-over-year. The median price for new homes rose 19.4% to \$201,450 in June.
- Sedgwick County home price appreciation averaged 2.6% year-over-year in February, based on the Wichita State University home price index. The best trend (3.9%) was recorded in the Northeast portion of the county.

EMPLOYMENT TRENDS

Past 12 Months

- Metropolitan payrolls expanded at a 8,500 (2.9%) job pace in 2007, owing to strong growth among manufacturing, retail, business service, education and health care firms.
- Job gains were much less robust year-to-date. Preliminary data reveal that -2,600 (-0.8%) positions were eliminated year-over-year in June. Decreased hiring among aerospace products producers was partially responsible. Temp agency and government job attrition was also to blame.

Second Quarter 2008

- Year-over-year headcount growth decelerated from 5,300 (1.8%) in 1Q08 to 1,100 (0.4%) last quarter.
- Payroll job losses did not translate into rising unemployment in Wichita. According to the household survey, metro employment increased 1,100 (0.4%) year-over-year in June. The unemployment rate remained unchanged at 4.3%.

Forecast

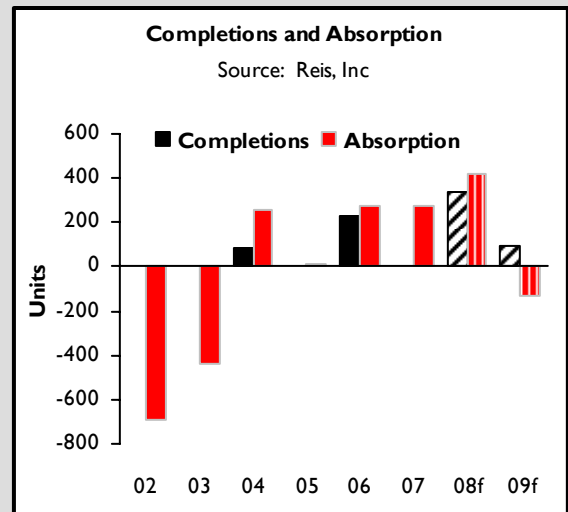
- National City Bank economist Dr. Richard DeKaser forecasts GDP growth of 2.0% per year in 2008 and 2009.
- The **RED CAPITAL Research** econometric payroll model forecasts metro job growth to decelerate to 1,000 (0.3%) in 2008. The confidence interval ranges from no growth to 2,000 (0.7%) new jobs. In 2009, **RCR** expect conditions to moderately improve as payroll growth accelerates to 3,000 (1.0%).

SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	2Q07	2Q08	Change	2Q07	2Q08	Change
North Wichita	\$434	\$453	4.4%	7.3%	6.0%	-130 bps
WSU/Northeast	\$545	\$572	5.0%	9.2%	6.3%	-290 bps
McConnell AFB	\$411	\$440	7.1%	9.4%	7.3%	-210 bps
South Wichita	\$380	\$403	6.1%	15.2%	11.9%	-330 bps
West Wichita	\$517	\$556	7.5%	6.1%	5.1%	-100 bps
Metro	\$455	\$483	6.2%	9.3%	7.2%	-210 bps

SUPPLY TRENDS

- No units were completed in 1H08, extending development lull to 18 months.
- One property was completed in July and another development is scheduled to open in October. The properties will add a combined 335 units to the market, enough to make the 2008 vintage larger than any since 1999.
- Two condo projects containing a total of 94 units are slated for completion in 2H08. Another condo project is in the planning stage with a preliminary delivery date of June 2009.
- Permits for 255 multifamily housing units were pulled in 1H08. By comparison, no multifamily permits were issued in 1H07.



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