



Lexington, Kentucky

Multifamily Housing Update 3Q11 February 2012

Payroll Job Summary

Total Payrolls:	248.2m
Annual Change:	+2.9m
2011 (Preliminary)	+3.0m
2012 Forecast	+2.8m
2013 Forecast	+2.3m
2014 Forecast	+5.1m
Unemployment	7.0% (NOV)

3Q11 Payroll Trends and Forecast

Metro employment grew at a steady pace in the fourth quarter. Establishments added a net of 700 workers to payrolls measured on a seasonally-adjusted basis, comparable to the 800-job add posted in the third quarter. Expressed on a year-on-year comparison basis, metro payrolls increased at a 3,100-job, 1.3% pace in 4Q, slightly faster than 3Q's 2,800-job, 1.2% growth performance.

Hiring was largely attributable to business service concerns and state agencies (including UK), which

expanded at 1,200 (4.0%) job and 1,300 (2.4%) job annual rates. Consumer-driven markets were weaker by comparison as slow consumer good and home sales led to a net loss of 1,000 jobs in the retail trade and construction industries.

Job creation should continue at a moderate pace in 2012 and 2013, as payrolls rise between 2,500 and 3,500 jobs per year. The U.S. economy should gain strength by 2014, however, boosting local payroll growth over the 5,000-job threshold.

Vacancy Rate Summary

Vacancy Rate (Reis)	6.7%
Annual Chg (Reis)	-1.2%
Prelim. Reis YE11	6.2%
Reis YE12 Forecast	6.4%
Reis YE13 Forecast	6.4%
Reis YE14 Forecast	6.6%

3Q11 Absorption and Vacancy Rate Trends

Demand for Lexington apartment space surged over the summer as tenants filled a net of 242 vacant units, up from 46 and -37 units recorded in 2Q11 and 1Q11, respectively. The 3Q11 performance was slightly weaker than the year earlier quarter, when tenants occupied 316 vacant units, but compared favorably to the 60-unit 3Q average observed from 2004 to 2010.

Average occupancy improved 80 basis points sequentially, rising to 93.3%. The gain was one of the largest recorded by the 82 primary markets

covered by Reis, surpassed only by a 100 bps advance recorded in Memphis. Preliminary data for 4Q11 indicate that occupancy improved another 50 bps, raising the metro average to 93.8%.

Reis expect occupancy growth to level off beginning in 2012, holding average metro occupancy rates in the mid-93% range through 2015. But metro stock is expected to grow at a measured pace, adding fewer than 400 (2%) new units to inventory through 2014. Consequently, further occupancy gains to the 95% area are achievable.

Effective Rent Summary

Mean Rent (Reis)	\$625
Annual Change	1.5%
Prelim. Reis YE11	1.6%
Reis 2012 Forecast	2.4%
Reis 2013 Forecast	3.1%
Reis 2014 Forecast	3.2%

3Q11 Rent Trends

Lexington area rents popped for the second consecutive quarter. After posting \$5 sequential average asking and effective rent increases in 2Q11, metro owners implemented \$6 hikes in 3Q11 to \$659 and \$625, respectively, representing 0.9% and 1.0% quarter-over-quarter gains.

Pricing power was strongest inside New Circle Road. Effective rents in the South and North Circle submarkets increased \$10 (1.8%) and \$6 (1.0%), respectively, fueled by strong demand from the

college student market. Trends in suburban areas were weaker by comparison: average suburban submarket rents increased from 0.6% to 0.7%.

Preliminary data for 4Q11 suggest that the pace of rent growth moderated in the fall, consistent with seasonal norms. Average asking rents increased about \$3 September to December to \$662, representing sequential quarter and year-on-year gains of 0.5% and 1.6%. Reis forecast an effective rent increase of 2.4% for 2012.

Trade & Return Summary

2011 \$2mm+ Sales	5
Approx. Proceeds	\$33.7mm
Cap Rate (2011 Avg.)	5.7%
Avg. Price/Unit	\$37,115
Expected Total Return	NA
RED 46 ETR Rank	NA
RAI NA	RAI Rank NA

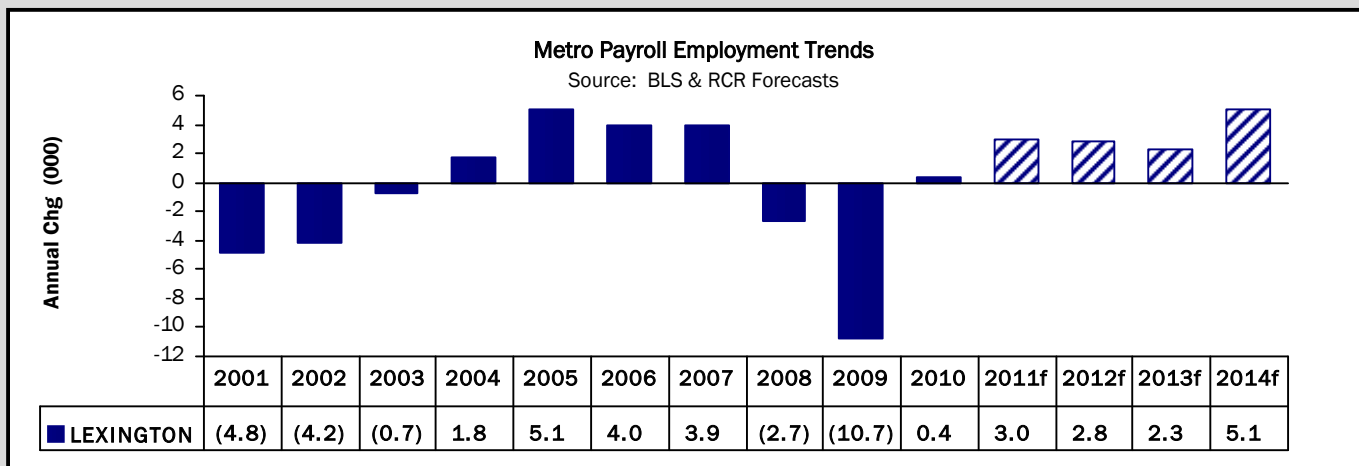
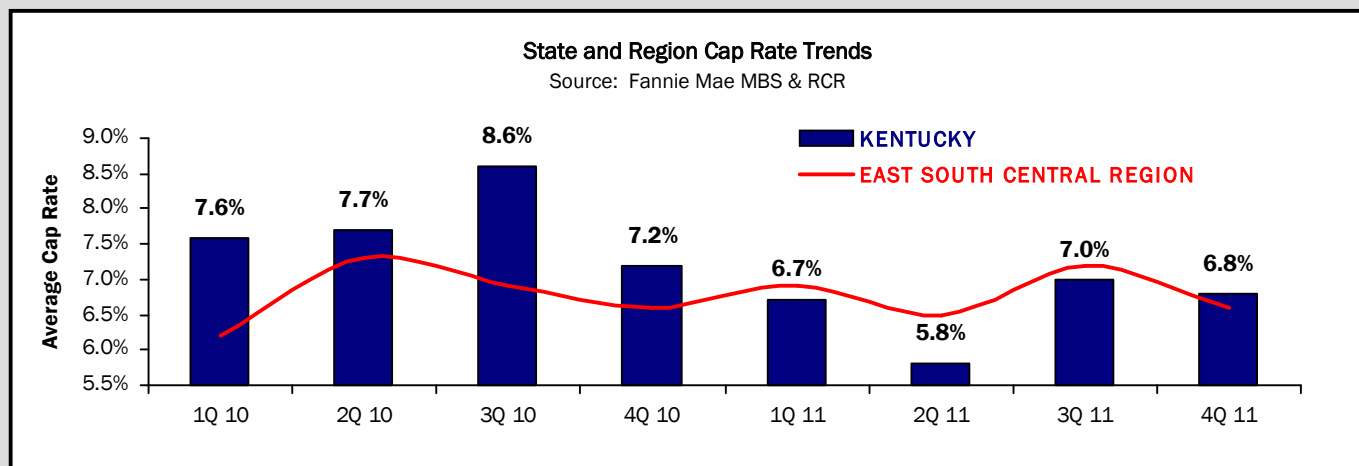
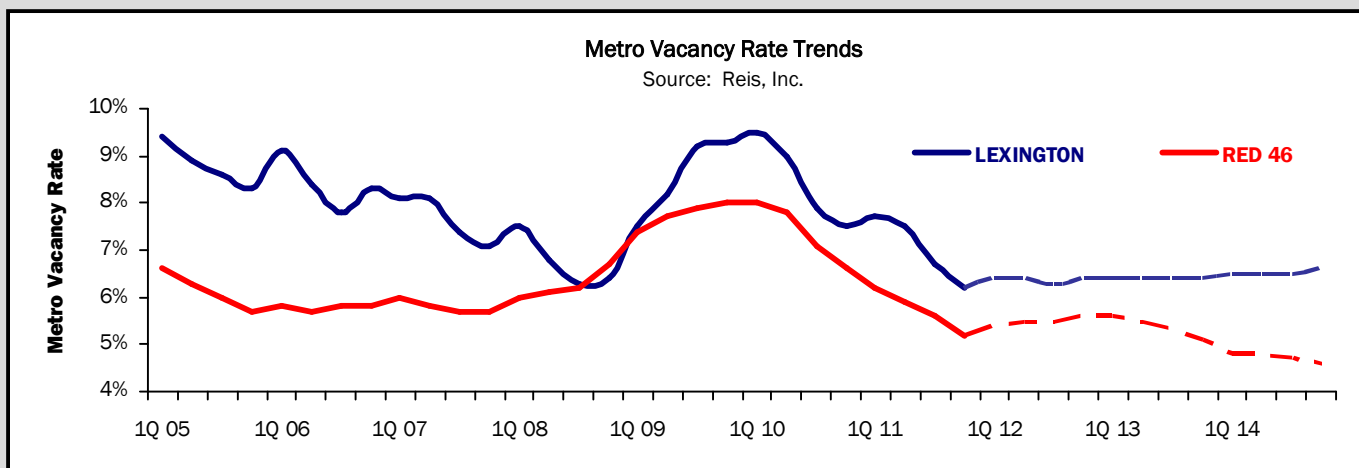
3Q11 Property Markets and Total Returns

Investors acquired five traditional multifamily properties valued at \$2 million or more last year for total proceeds of \$33.7 million. Assets ranged widely from class-C suburban garden complexes and distressed situations to institutional quality suburban and project targeted toward students.

Class-C 1970's-era product traded at prices equating to \$14,000 to \$17,000 per unit, producing in-place or pro forma yields of 10% or higher. Quality suburban and infill assets were another matter entirely, as prices in the \$65,000 to \$80,000 per

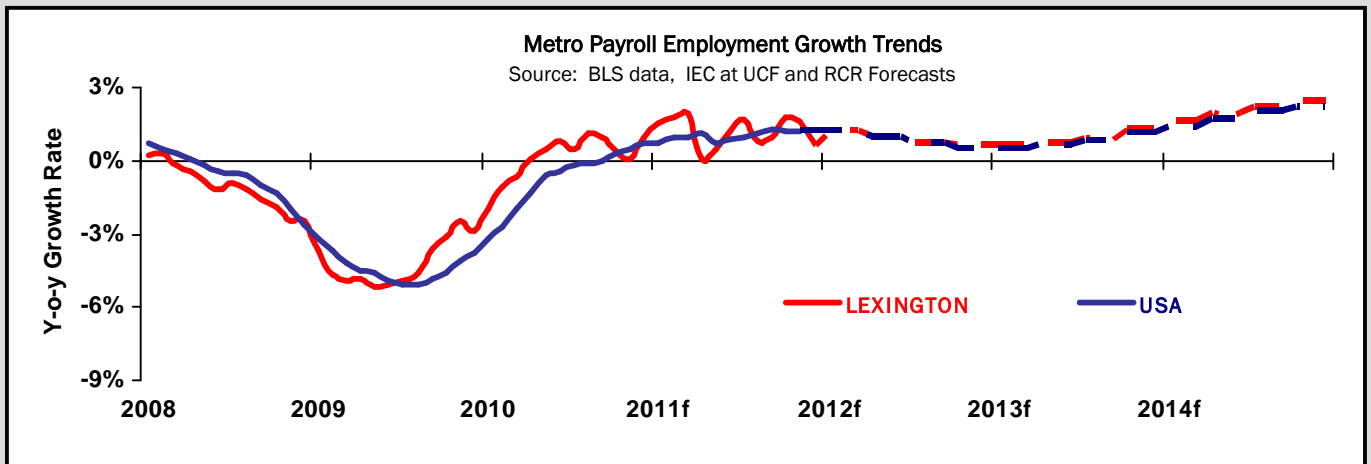
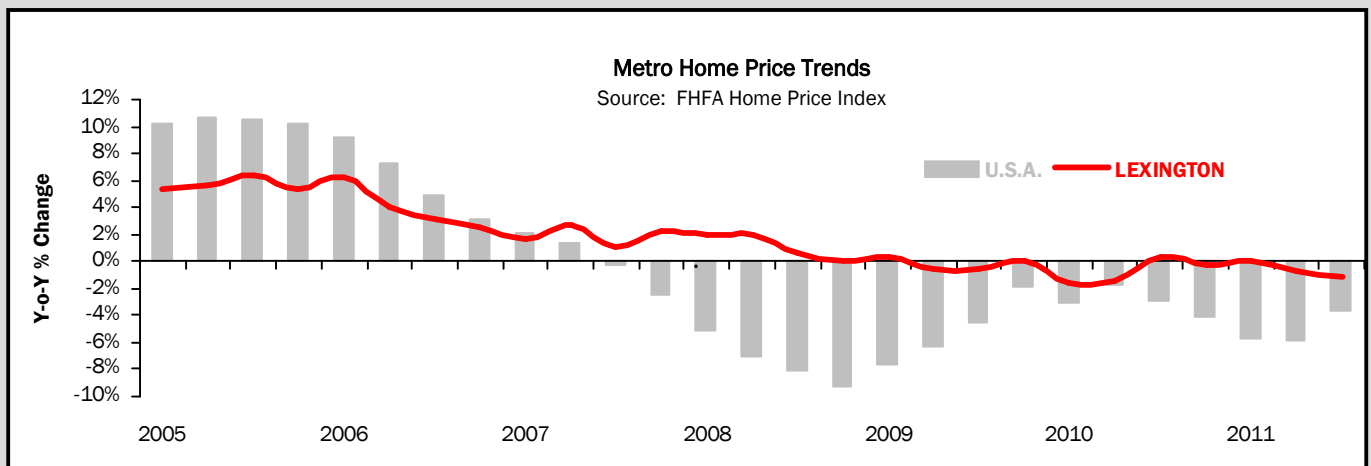
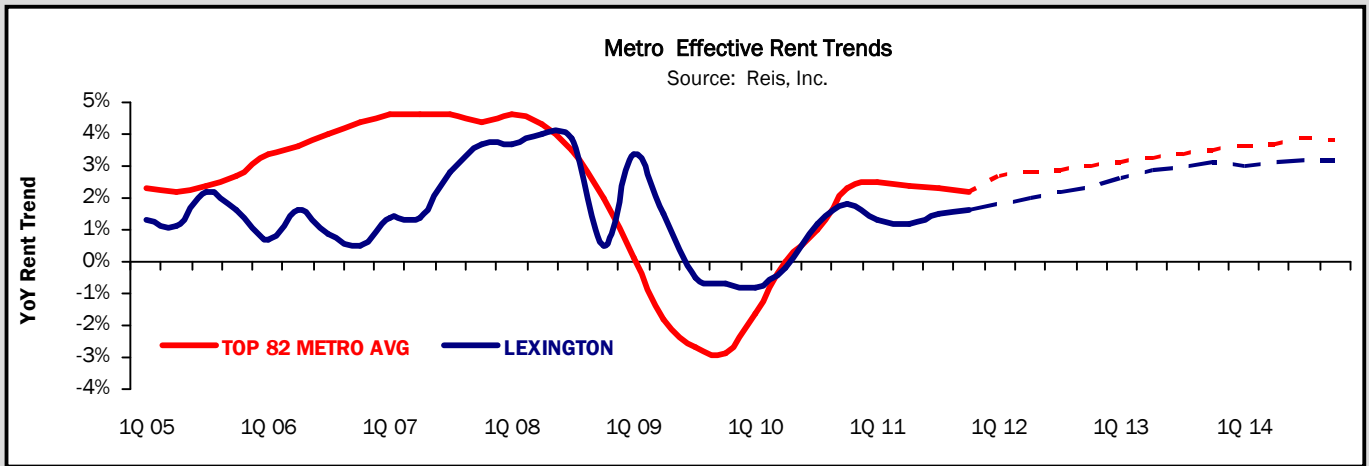
unit range were the norm, generating going-in yields below 5% for properties located near U.K. and mid-6% levels for newer garden complexes.

The bellwether trade involved a recent construction purpose-built student housing asset located on Angliana Avenue near the university. The property traded in January 2011 at a hefty \$41.0 million price tag equating to \$55,405 per bed. We estimate that the buyer, a New York-based private equity investor, generated a going-in yield in the high 5% to low-6% range on this transaction.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
University Lofts. (North Circle.)	A-	17-Nov-2011	\$6.7	\$77,907	3.4% (Reis)
Fairway Apts. (West Fayette Co.)	C+	26-May-2011	\$4.285	\$18,794	10.0%
Oak Grove (W. Fayette Co.)	A-	28-Apr-2011	\$15.8	\$68,869	6.7%
428 E. Euclid (North Circle)	B-	14-Apr-2011	\$2.2	\$61,111	4.7% (Reis)



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SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	3Q10	3Q11	Change	3Q10	3Q11	Change
South Circle	\$572	\$569	-0.5%	9.6%	9.2%	-40 bps
North Circle	\$577	\$585	1.4%	8.9%	7.9%	-100 bps
West Fayette County	\$677	\$692	2.2%	5.0%	4.7%	-30 bps
East Fayette County	\$557	\$561	0.7%	9.6%	8.0%	-160 bps
Metro	\$616	\$625	1.5%	7.9%	6.7%	-120 bps

RED CAPITAL GROUP

For more information about RED's research and origination capabilities contact:

Kenneth H. Bowen

President, Red Mortgage Capital, LLC.
kxbowen@redcapitalgroup.com
614-857-1482

Daniel J. Hogan

Director, Research
djhogan@redcapitalgroup.com
614-857-1416



Two Miranova Place_Columbus, Ohio_43215
1.614.857.1400_toll free 800.837.5100_f 614.857.1660
www.redcapitalgroup.com