



Grand Rapids, Michigan

Multifamily Housing Update 3Q11 January 2012

Payroll Job Summary

Total Payrolls:	372.0m
Annual Change:	+8.8m / 2.4%
2011 Forecast	+7.1m
2012 Forecast	+3.8m
2013 Forecast	+3.9m
2014 Forecast	+8.9m
Unemployment	6.5% (Nov.)

3Q11 Payroll Trends and Forecast

The Grand Rapids labor market went from strength to strength during the third quarter, improving on 2Q11's robust 6,300-job, 1.7% year-over-year rate of growth with an 8,800-job, 2.4% gain. Hiring by durable goods manufacturing and employment services companies was largely responsible as the sectors collectively added workers to payrolls at 5,700-job, 8.3% y-o-y pace. Rapid growth also was evident among hospitality and health care service providers. Firms in these sectors expanded at a 2,900-job, 3.7% annual rate.

Preliminary data suggest that 4Q got off to a slow start but rebounded neatly in November. Seasonally-adjusted figures show a sequential month -3,200-job setback in October offset by a 4,100-job sequential-month advance in November. Likewise, the unemployment rate fell to 6.5% in November, the lowest metric posted in 41 months.

RCR models indicate that 2012 and 2013 will produce weaker job growth results. Faster U.S. expansion should spur a return to form in 2014.

Vacancy Rate Summary

Vacancy Rate (Reis)	3.4%
Shadow RED 50 Rank	5th
Annual Chg (Reis)	-2.1%
Prelim. Reis YE11	NA
RCR YE12 Forecast	NA
RCR YE13 Forecast	NA
RCR YE14 Forecast	NA

3Q11 Absorption and Vacancy Rate Trends

After a steady 2Q performance in which occupancy was essentially unchanged, space demand improved materially during the third quarter. Tenants net leased about 200 units, trimming 70 basis points from the average metro vacancy rate to 3.4%, the lowest level recorded in Reis surveys since the firm launched Grand Rapids coverage in 2005. The median vacancy rate among the 159 metro properties surveyed slipped to only 2.7%. Indeed, 25% of properties reported occupancy levels above 98.5%.

As a result, Grand Rapids enjoyed the 25th lowest vacancy rate among the 200 US metro markets covered by Reis. The performance represents a remarkable improvement from the metro's 136th place ranking among 169 covered metros reported by Reis at the end of the third quarter 2007.

Still tighter markets should evolve in the short term. Positive absorption is likely to continue in 2012, while supply will remain subdued as no major projects were permitted since 2008.

Asking Rent Summary

Mean Rent (Reis)	\$665
Annual Change	1.1%
Shadow RED 50 Rank	49th
Prelim. Reis YE11	NA
RCR 2012 Forecast	NA
RCR 2013 Forecast	NA
RCR 2014 Forecast	NA

3Q11 Rent Trends

In spite of record tight markets and vigorous job growth, owners continued to search for elusive pricing power. Average asking rents increased \$3 (0.5%) sequentially and \$7 (1.1%) year-over-year to \$665. More than 25% of metro properties experienced sequential quarter rent decreases and only 50% of surveyed owners reported sequential quarter rent gains.

Demand appeared to be strongest for smaller units allowing owners to raise studio and 1-

bedroom unit rents more aggressively. Studio rents increased 5.6% to \$1.08/sf from January to September after posting a -0.4% decline for the full year 2010. Likewise, average 1-bedroom rents advanced 1.9% year-to-date, up from 2010's 0.7% increase. But 2-bedroom rent trends were weaker than last year's and 3-bedroom units suffered a -1.8% asking rent decrease, down from a 2.9% hike observed by Reis in 2010.

Trade & Return Summary

2H11 \$2mm+ Sales	2
Approx. Proceeds	\$11.2mm
Cap Rate (T12M Avg.)	9.0%
Avg. Price/Unit	\$42,490
Expected Total Return	NA
RED 46 ETR Rank	NA
RAI NA	RAI Rank NA

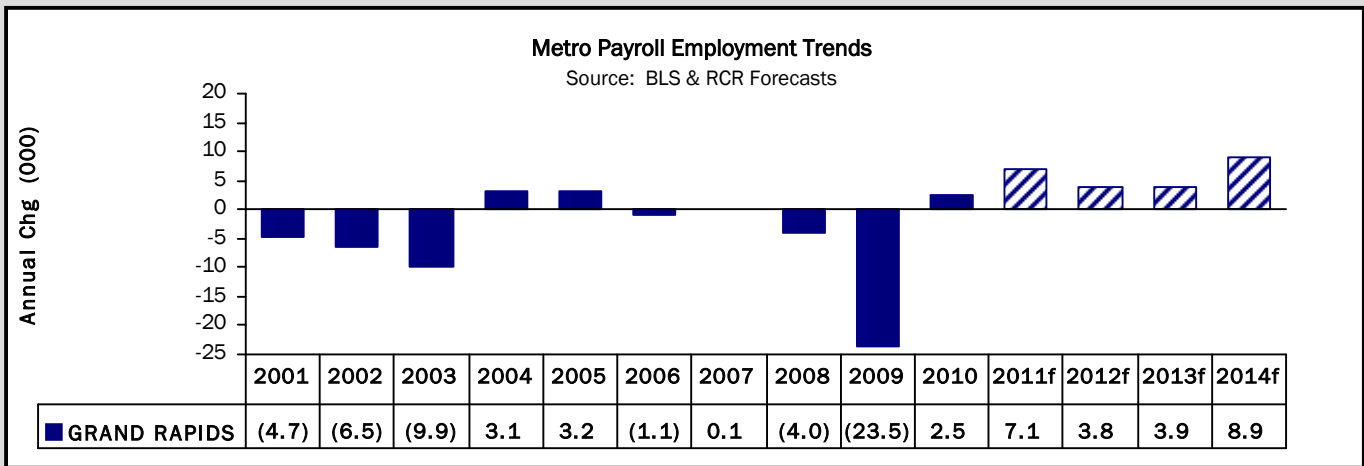
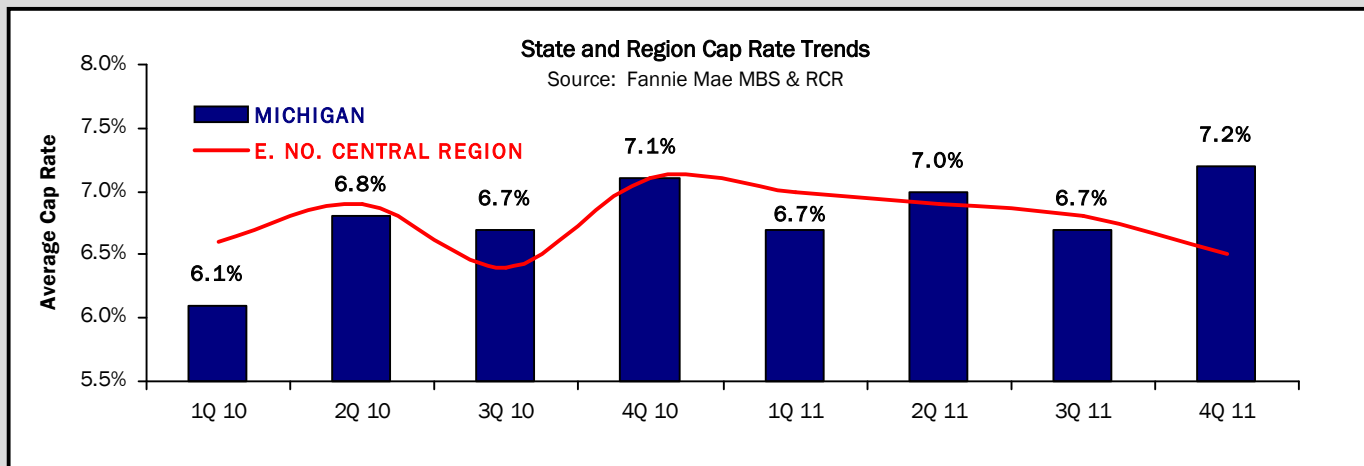
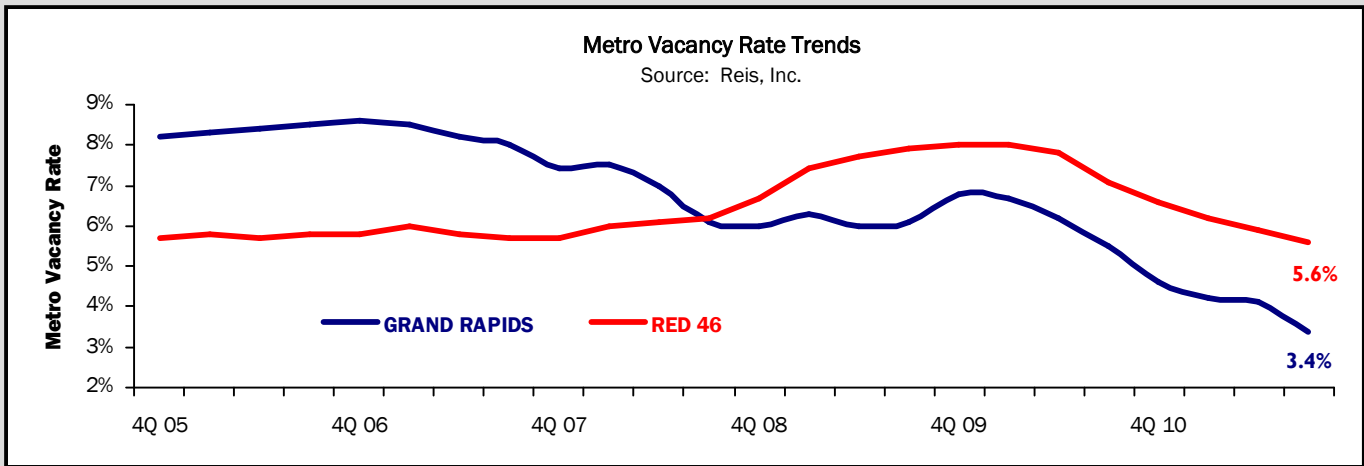
3Q11 Property Markets and Total Returns

Scant investment sales activity was observed last year as there was little to motivate either sellers of buyers. Only two properties valued at \$2 million or more exchanged ownership, according to Loopnet data, accounting for \$11.2 million of total sale proceeds. The properties are listed as affordable by the MSHDA. Both transactions closed in December.

The first deal is a 138-unit, 1995-construction family property located in northeast Grand Rapids. The transaction was priced at \$5.5 million or

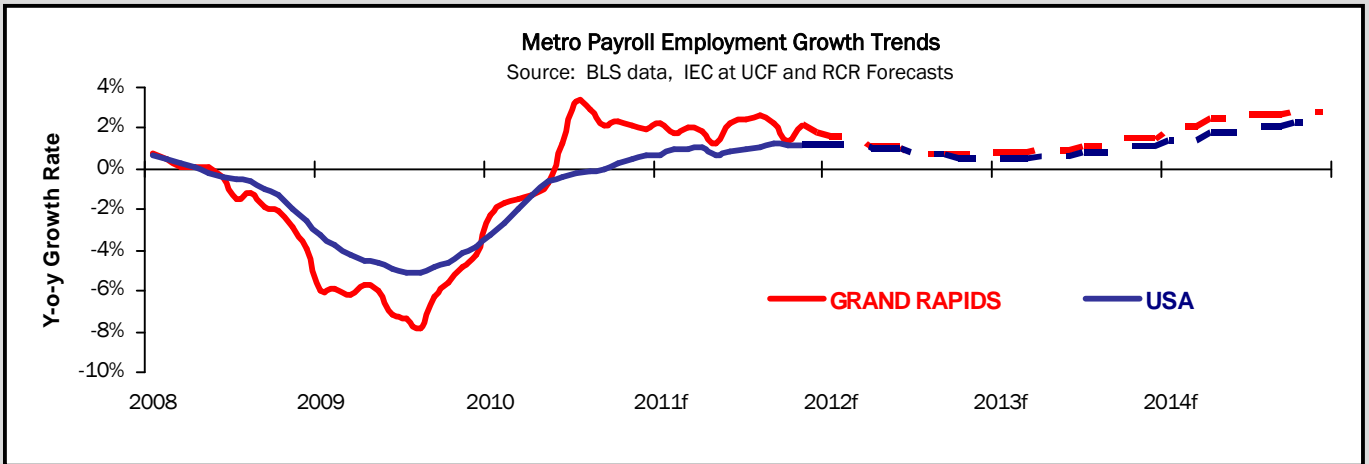
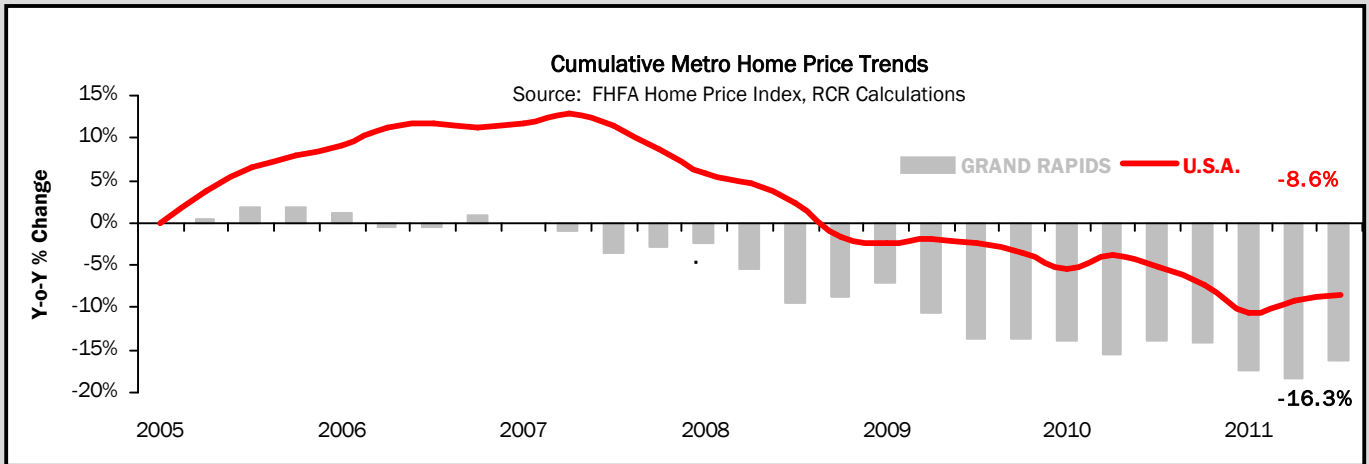
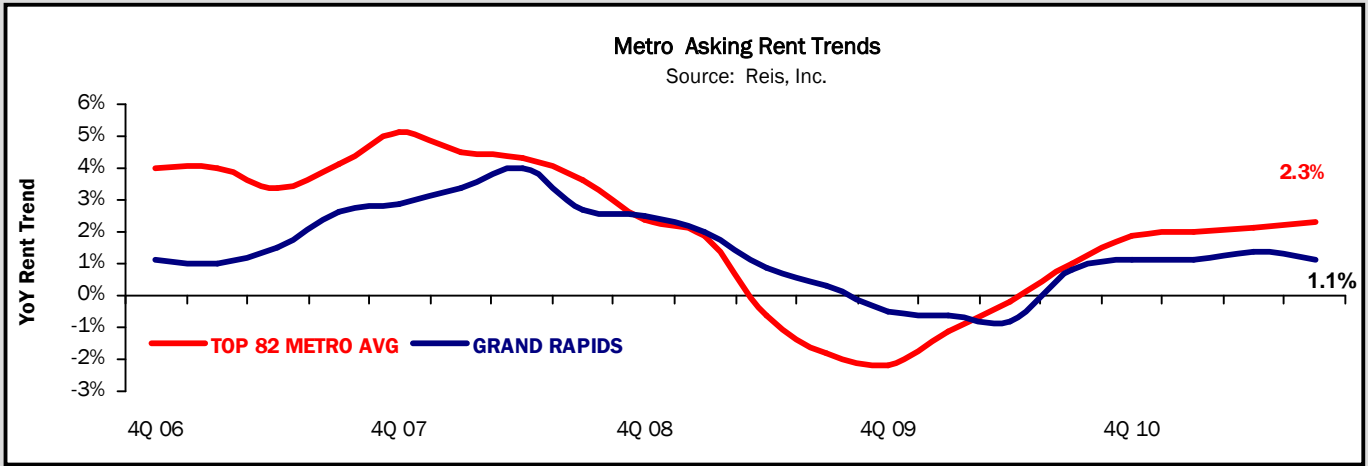
\$39,855 per unit. Reis report that rents averaged \$773 per month and that occupancy was nearly 95%. Adjusting for utilities, we estimate an initial yield to the investor of about 9%.

The second traded asset is a 125-unit, 1980-vintage age-restricted patio home style complex located in Wyoming. Rents were priced consistent with 50% and 60% of AMI guidelines. We estimate that the cap rate was in the mid-8% range, assuming \$600 average rents and a \$45,400 per unit purchase price.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Orchard Place (NE Grand Rapids)	B (Affordable)	Dec-2011	\$5.5	\$39,855	9.0%
Pinery Park (Wyoming / SW)	(Age Restricted / Affordable)	Dec-2011	\$5.675	\$45,400	8.5%



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