



Greensboro, North Carolina

Multifamily Housing Update 2Q13 September 2013

Payroll Job Summary

Total Payrolls	506.1m
Annual Change	2.7m(0.5%)
2013 Forecast	1.7m
2014 Forecast	3.4m
2015 Forecast	4.9m
2016 Forecast	2.8m
Unemployment	9.2% (July)

2Q13 Payroll Trends and Forecast

Greensboro-Winston-Salem metropolitan payroll job growth gained momentum during the spring and early summer months, accelerating to a 2,700-job, 0.5% rate after 1Q's sluggish 300-job, 0.1% advance. The Greensboro component made the largest contribution, adding 1,930 (0.6%) jobs year-on-year versus about 770 (0.4%) in Winston-Salem. Seasonally-adjusted data were consistent, showing a 4,300-job sequential quarter gain during 2Q13 following 1Q's -3,000-job setback.

Stronger second quarter results were largely attributable to improved conditions in the leisure

and business service sectors. Concerns in these sectors expanded at a 2,100-job, 1.6% annual rate, up from a -900-job -0.7% setback in 1Q13.

RCR's first Greensboro payroll model is primarily influenced by national and metropolitan payroll and personal income trends and the 10-year Treasury yield. The model forecasts a slow-growth labor market (0.4%-0.6%) through mid-2014, followed by a period of accelerated hiring in the second half 2014 and 2015 (0.8%-1.0%). Annual net gains should fall in the 2,000- to 5,000-job range with peak production in 2015.

Occupancy Rate Summary

Occupancy Rate (Reis)	94.0%
RED 50 Rank	NA
Annual Chg. (Reis)	+1.3%
RCR YE13 Forecast	94.2%
RCR YE14 Forecast	95.5%
RCR YE15 Forecast	95.5%
RCR YE16 Forecast	95.1%

2Q13 Absorption and Occupancy Rate Trends

Tenant demand slowed during the second quarter as households occupied a net of 50 vacant units, the smallest quarterly net absorption total since 2009. Adjusting for a 136-unit condominium conversion, a net of 186 units were absorbed, still lower than 1Q13 and 2Q12's comparable 401- and 534-unit totals. Nonetheless, metro occupancy improved 50 basis points sequentially and 130 bps year-over-year, one of the strongest performances observed among the top 80 Reis metros, Axiometrics surveys of 159 larger properties (222

average units) found a 92.7% occupancy rate, up 50 bps sequentially and 40 bps year-on-year.

Reis expect annual absorption to slow significantly over the next several years, falling to an average of 492 units in 2014-17, down from a mean of 2,200 in 2010-12. RCR's first GW-S model comes to a different conclusion, projecting 1,414-unit average annual absorption against average supply of 1,291. As a result, we expect occupancy to rise 150 bps by YE2015 (flattish thereafter), while Reis project a 100 bps decrease for the period.

Effective Rent Summary

Mean Rent (Reis)	\$650
Annual Change	1.7%
RED 50 Rank	NA
RCR YE13 Forecast	1.8%
RCR YE14 Forecast	2.8%
RCR YE15 Forecast	2.4%
RCR YE16 Forecast	1.9%

2Q13 Effective Rent Trends

Reis report that average effective rents increased \$3 (0.5%) sequentially to \$650 during 2Q13, up from a \$2 (0.3%) increase during 1Q. Momentum slowed when expressed on a year-over-year basis, however, slipping to 1.6%, representing the slowest metric posted since 2010. Axiometrics surveys uncovered a more robust \$11.66 (1.8%) sequential quarter same-store gain to \$675.71, but only a 1.0% y-o-y advance, reflecting the effects of widespread rent decreases observed in fall 2012. Class-A assets significantly outperformed the mar-

ket, posting a 4.6% average 2Q13 sequential gain,

Reis expect metro rents to rise 1.6% this year, followed by 2.5% to 3.0% 2014 to 2017 gains. RCR's initial Greensboro model arrives at a similar conclusion, projecting a 1.7% advance this year, accelerating to the 2.3%-2.8% range during 2014 and 2015. Axiometrics are more optimistic anticipating 3.0% to 3.4% 2013 and 2014 gains, culminating in a 2.8% compound annual rate of growth over five years. RCR (2.2%) and Reis (2.5%) anticipate moderately slower 5-year CAGRs.

Trade & Return Summary

\$3mm+ Sales	9
Approx. Proceeds	\$42.0mm
Avg. Cap Rate (FNM)	6.7%
Avg. Price/Unit	\$21,048
Expected Total Return	7.9%
RED 46 ETR Rank	NA
Risk-adjusted Index	4.89
RED RAI Rank	NA

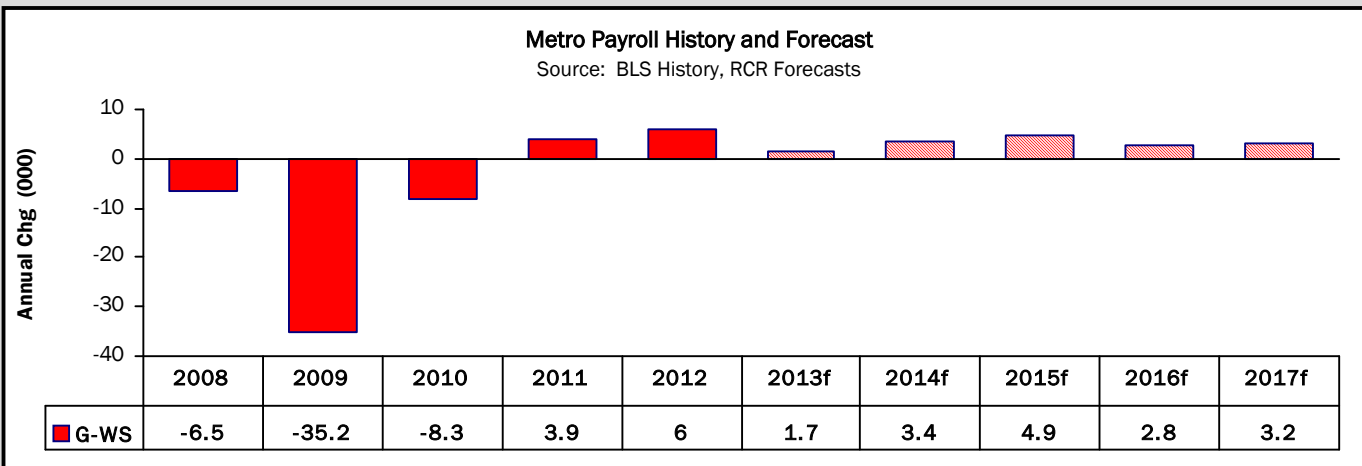
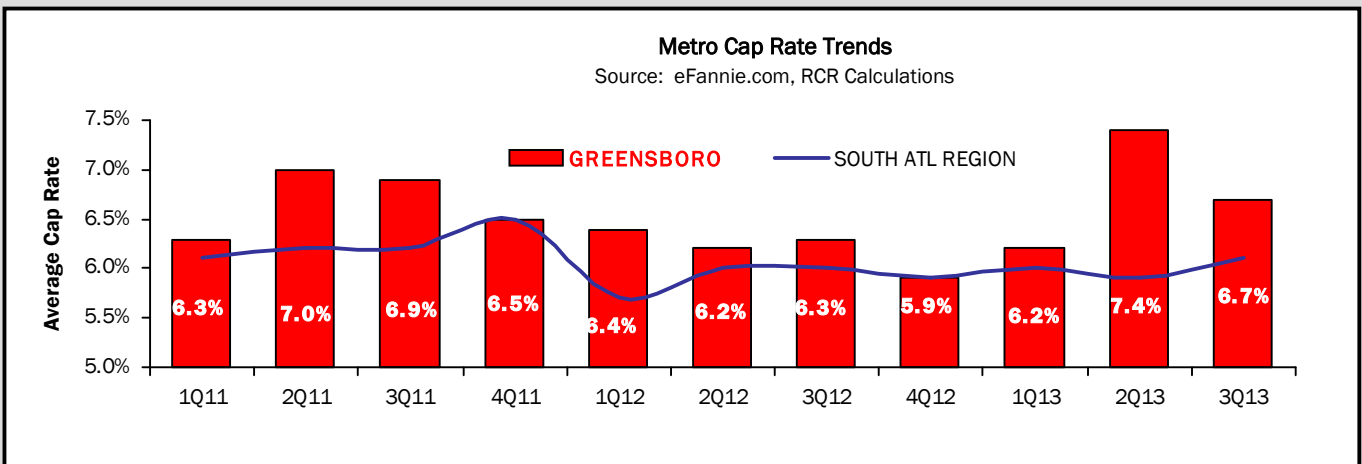
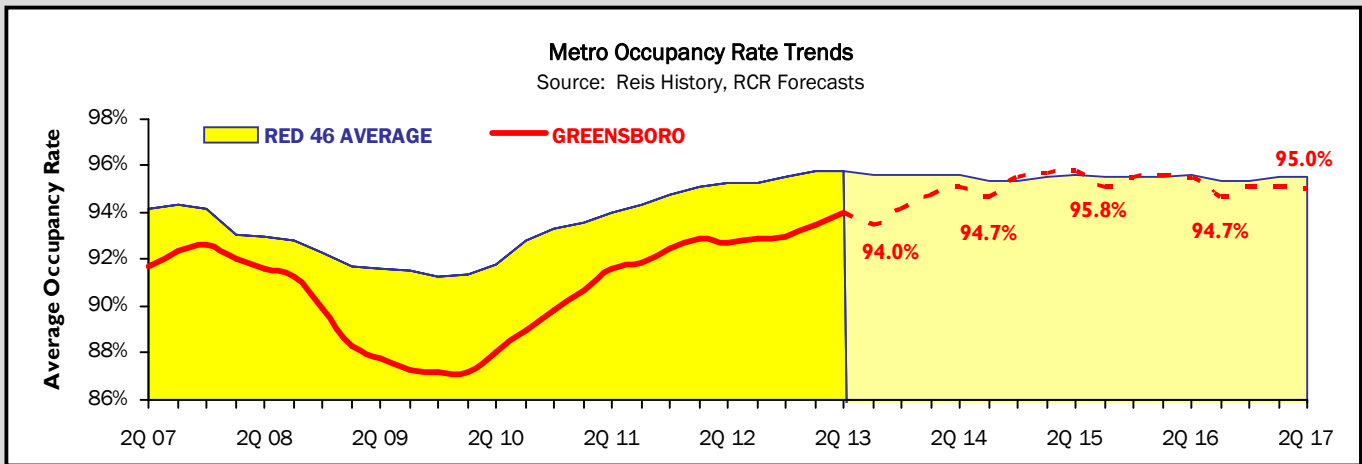
2Q13 Property Markets and Total Returns

Investors were active during the spring, accumulating nine Triad properties valued at \$3 million or more for total proceeds of \$42mm. The average price of traded units was only \$21,048, however, as a heavy concentration of class-C+ properties characterized the asset mix. Trade fell into a summer lull during the third quarter as only two assets exchanged hands through early September for total proceeds of about \$23mm.

Cap rates are higher than in other major North Carolina markets. Sales for which sufficient infor-

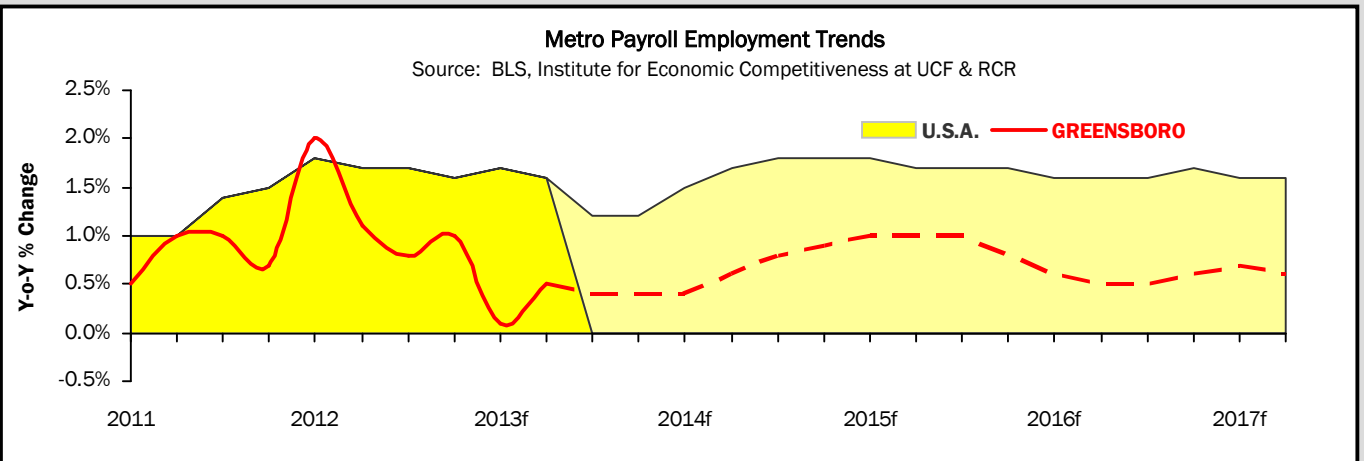
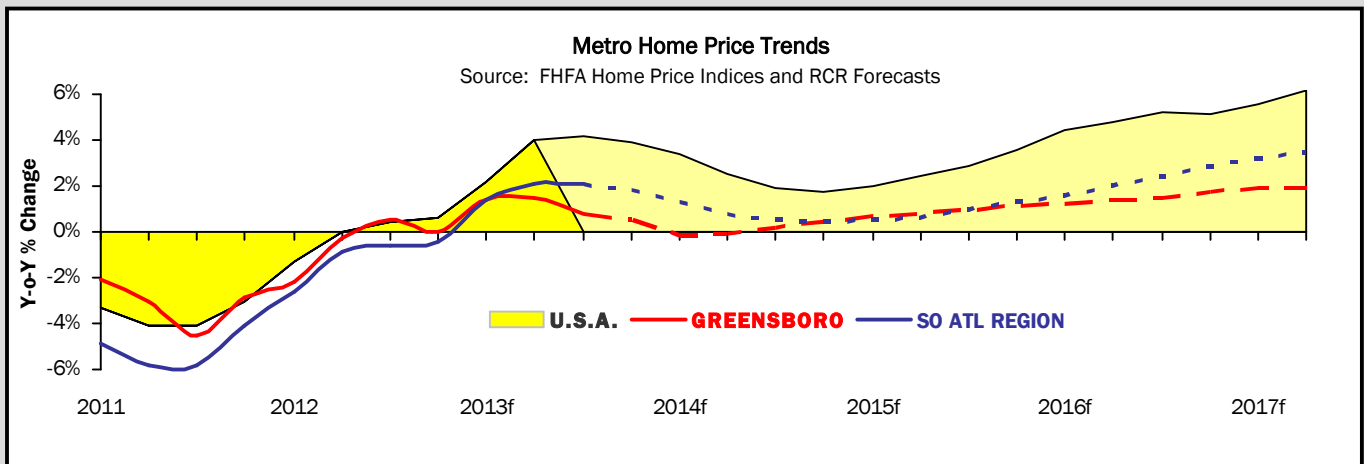
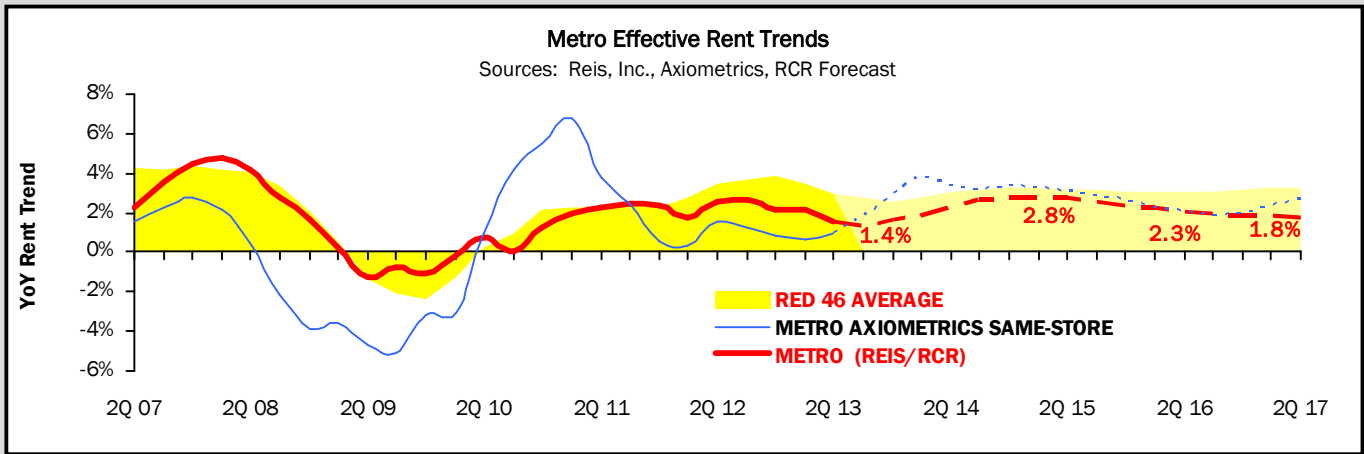
mation is available to estimate the going-in yield suggest that most assets trade in the 7% to 9% range. Fannie Mae data indicate that institutional quality assets trade in the mid- to high-6% area.

Using 6.8% as a generic cap rate and RCR's model occupancy, rent and derived terminal cap rate of 7.6%. Largely by virtue of our projection of substantial occupancy growth, we estimate that an investor would expect to achieve an 7.9% 5-year unlevered return, over 100 bps greater than the most recent calculation of the RED 46 average..



NOTABLE TRANSACTIONS

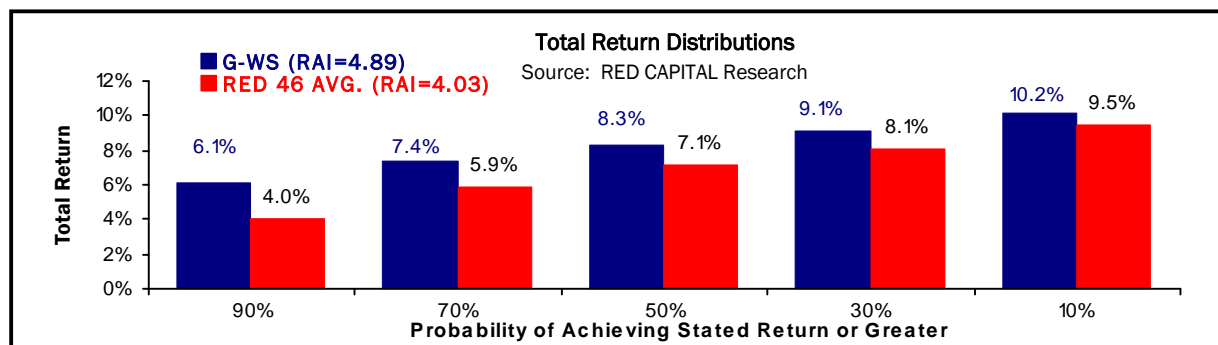
Property Name (Submarket)	Property Class/ Type (Constr.)	Date of Transaction	Total Price/ <Appr. Val> (in millions)	Price / <Appr. Val.> per unit	Estimated Cap Rate
Yorktowne Apts. (South Greensboro)	B- / GLR (1973)	24-Mar-2013	\$10.0	\$31,847	9.2%
Willow Trace Apts. (West Winston-Salem)	B / GLR (1972)	1-May-2013	\$6.3	\$41,118	8.0%
Hunter's Glen (Northeast Greensboro)	C+ / GLR (1972)	29-May-2013	\$7.1	\$27,250	7.2%
Campus Green (Northeast Greensboro)	STD HG(1949/92)	20-Jul-2013	\$15.0	\$67,186	7.6%
Abbotswood Irving Park (NE Greensboro)	SR HSG (1987)	Apr-2013	<\$22.0>	<\$180,571>	6.9% FNM Refi



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SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	2Q12	2Q13	Change	2Q12	2Q13	Change
North Winston-Salem	\$582	\$588	1.0%	9.0%	7.4%	-160 bps
West Winston-Salem	\$671	\$678	1.0%	6.4%	6.0%	-40 bps
Southwest Winston-Salem	\$557	\$568	2.0%	8.8%	5.3%	-350 bps
Southeast Winston-Salem	\$576	\$583	1.3%	6.7%	4.6%	-210 bps
Northwest Greensboro	\$697	\$703	0.9%	7.3%	6.3%	-100 bps
Northeast Greensboro	\$641	\$661	3.1%	6.7%	6.3%	-40 bps
Southwest Greensboro	\$706	\$712	0.8%	7.1%	5.8%	-130 bps
High Point / Thomasville	\$564	\$576	2.1%	6.3%	6.1%	-20 bps
Alamance County	\$663	\$672	1.4%	7.0%	5.6%	-140 bps
Metro	\$640	\$650	1.6%	7.3%	6.0%	-130 bps



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Greensboro/Winston-Salem

Multifamily Housing Update 3Q11 November 2011

Payroll Job Summary

	<i>G/HP</i>	<i>W-S</i>
Payrolls (000s):	339.1	206.6
Y-o-Y Change:	+0.2m	+4.1m
Year-to-date (SA)	+2.4m	+4.6m
2012 Forecast	+3.3m	+4.0m
2013 Forecast	+3.5m	+3.5m
Sep Unemployment	10.4%	9.4%

3Q11 Payroll Trends and Forecast

The Winston-Salem MSA labor market rebounded in 3Q, posting the strongest quarterly results in three years. Payroll employers added workers at a 4,100-job, 2.0% year-on-year rate, up from an 800-job add during 2Q11. Net gains were fueled by faster hiring in the construction, manufacturing and E&HC service sectors and slower attrition by business service and government establishments.

By contrast, employment growth in Greensboro-High Point decelerated, falling from a 1,200-job

net gain in 2Q11 to a 200-job advance in 3Q. Slower hiring among business service concerns and accelerating jobs losses in the health care and education service sector was responsible.

The outlook for Triad employment trends is constructive. A linear RED model projects total payroll gains in 2012 approaching 7,500 jobs, followed by a moderately smaller 7,000-job add in 2013. Stronger construction and manufacturing hiring should boost metro incomes and consumption.

Vacancy Rate Summary

Vacancy Rate (Reis)	8.0%
Shadow RED 50 Rank	47th
Annual Chg (Reis)	-3.0%
Reis YE11 Forecast	7.8%
Reis YE12 Forecast	6.8%
Reis YE13 Forecast	6.5%

3Q11 Absorption and Vacancy Rate Trends

Net tenant demand decreased for the fourth consecutive quarter in 3Q as 354 Triad units were absorbed, down from 538 and 1,265 in the previous and prior-year quarters, respectively. Developers delivered only 54 units of new supply, however, making room for a 40 basis point sequential average occupancy gain to 92.0%, a 3-year high.

Every metro submarket posted positive net absorption except Alamance Co., where -33 net unit move-outs were recorded. Owners in three submarkets filled a net of 82 units or more: North

Winston-Salem and Northeast and Southwest Greensboro. Each chalked down a 70 (SWG) to 110 (NWS) bps sequential occupancy gain.

Reis expect tenants to absorb another 247 units in 4Q11 and 1,261 in 2012. The firm foresees offsetting supply of 919 units during the same period, lifting average occupancy to 93.2% by YE12. Reis expect demand to continue to outstrip supply through 2015, when the firm sees average occupancy approaching 95%. NWS is tipped for the best performance, rising 380bps to 95.3%.

Effective Rent Summary

Mean Rent (Reis)	\$626
Annual Change	2.3%
Shadow RED 50 Rank	T25th
Reis 2011 Forecast	2.6%
Reis 2012 Forecast	3.2%
Reis 2013 Forecast	3.8%
CAGR 2010 -15	3.6%

3Q11 Rent Trends

Effective rents remained in a gradual ascending trajectory, rising \$2 (0.3%) sequentially to \$626, the second consecutive quarterly gain of this magnitude and third in four quarters. Asking rents advanced \$1 (0.14%) to an average of \$679.

Eight of the metro's nine submarkets posted sequential effective rent increases, the exception being Southwest Greensboro (-0.6%), where rents averaged \$691, highest in the market. Elsewhere, sequential gains ranging from 0.2% to 0.8% were

recorded, with the largest advances observed in North (0.7%) and West (0.8%) Winston-Salem and Northwest Greensboro (0.7%).

Reis have a bullish view of prospective metro rent trends, forecasting a robust \$6 (0.96%) increase for the fourth quarter and a useful \$20/3.2% bump next year. The service also expects above average 3.6% compound annual rent growth to persist through 2015.

Trade & Yield Summary

\$5mm+ Sales	11
Approx. Proceeds	\$105mm
Cap Rate (T12 Med)	7.1%
Avg. Price/Unit	\$45,250
Class-A Cap Rates:	6% - 6.9%
Class-B Cap Rate:	6.5% - 8.0%
Distressed Assets:	9.5%+

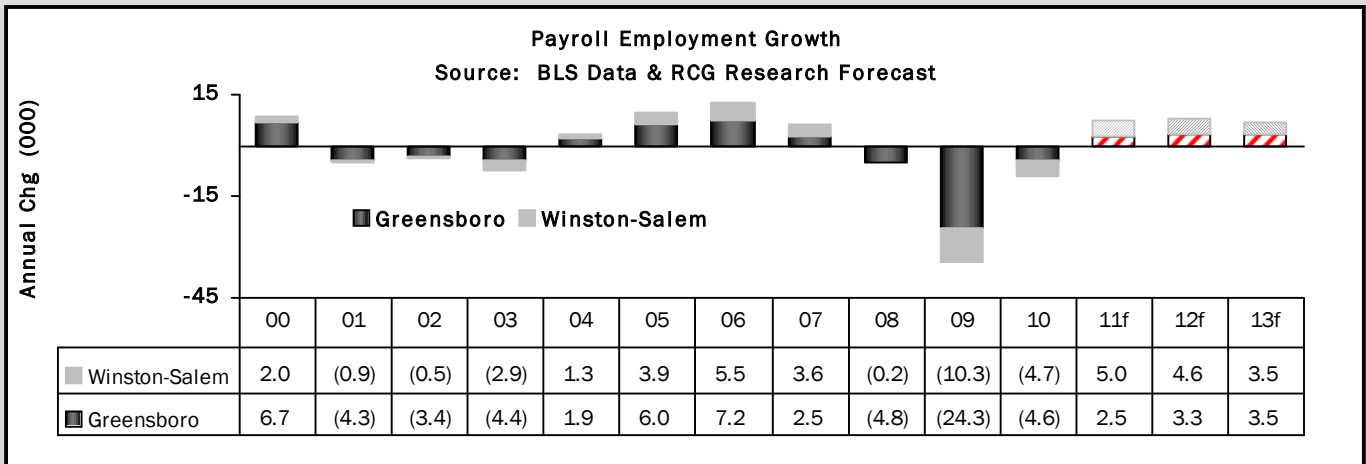
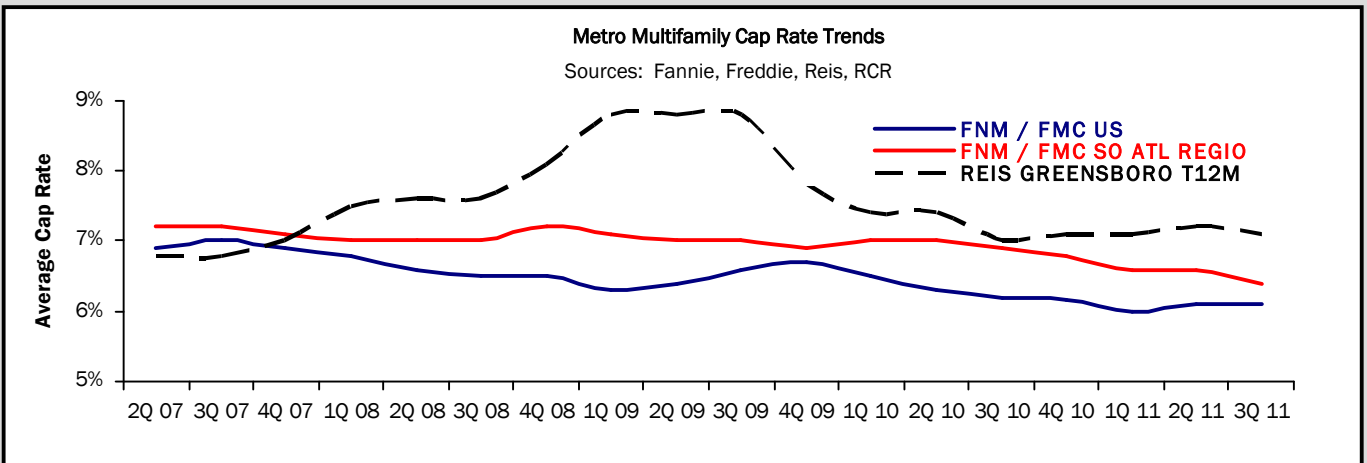
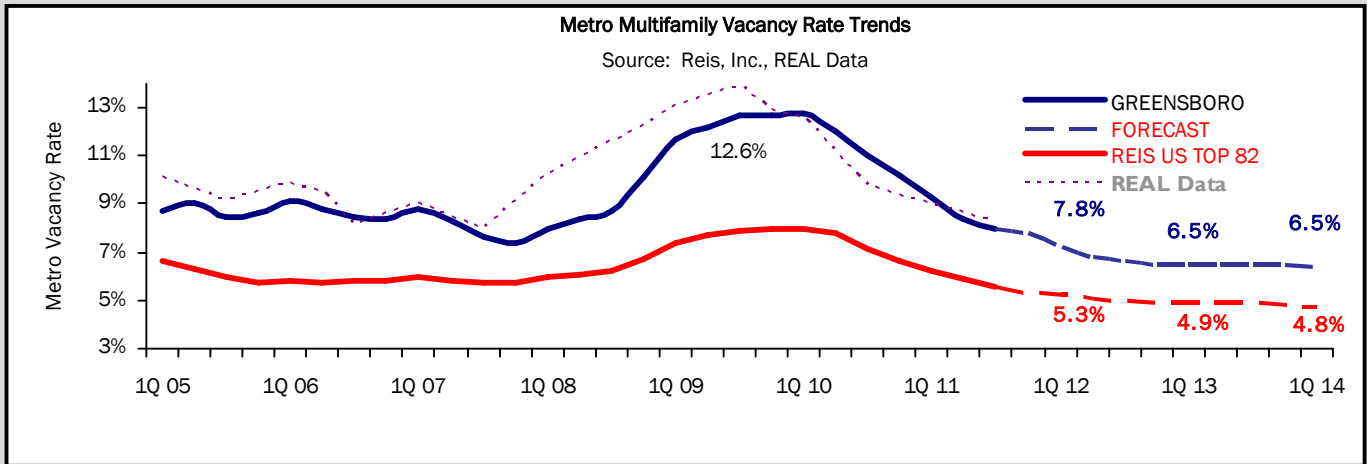
3Q11 Property Markets and Total Returns

Investors actively pursued Triad multifamily opportunities, catalyzing some of the fastest sales velocity observed in any U.S. tertiary market. At least 12 properties valued at \$5mm or more exchanged hands through the October, with total proceeds approaching \$105mm. In the comparable period of 2010, only four trades were consummated for total value of approximately \$50mm.

The price of an average unit year-to-date was in the \$45,000 range. Three properties traded at

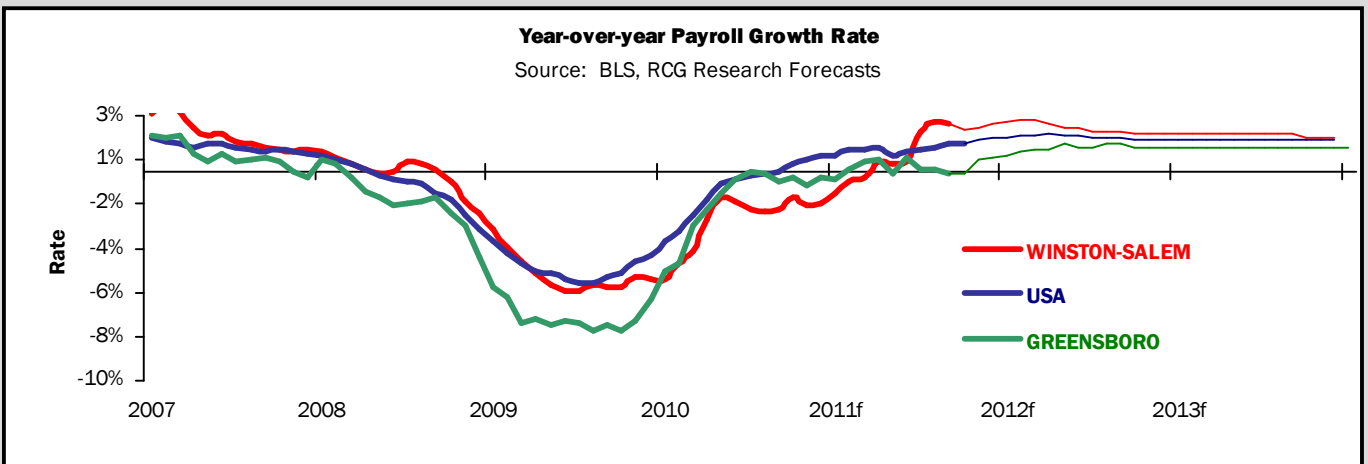
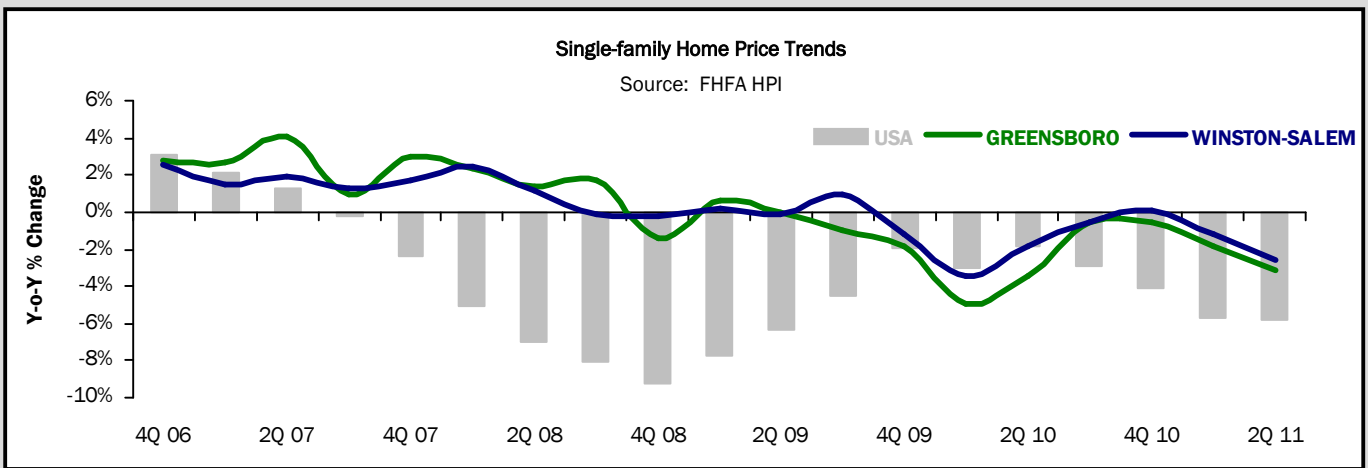
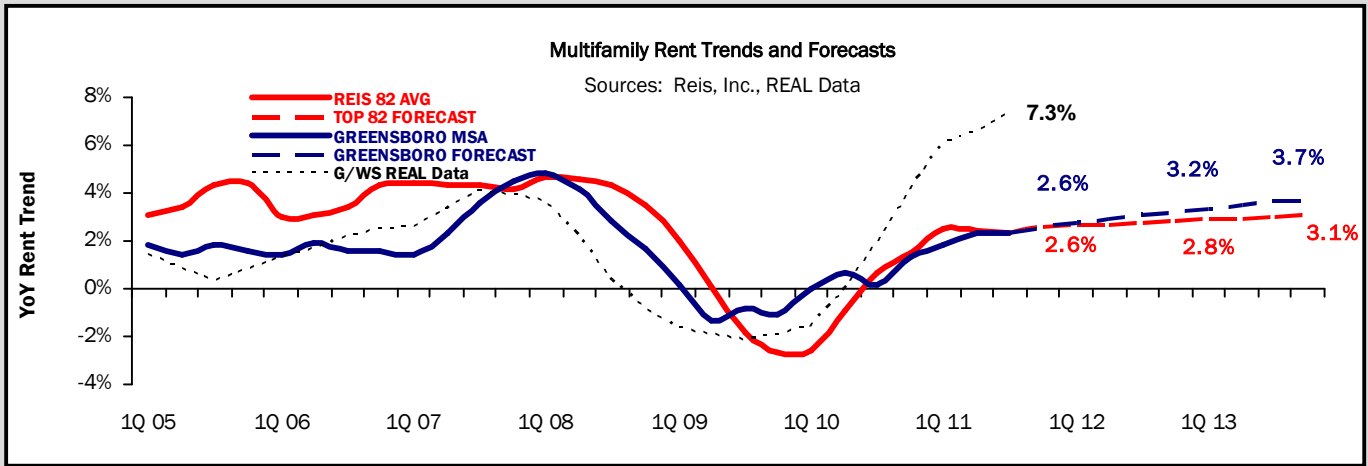
prices equating to more than \$60,000 per unit, most notably a 232-unit, 1999-vintage SW Greensboro asset traded at a \$75,000/unit price.

Institutional investors evinced a willingness to bid aggressively for newer assets with up-management potential. The 1999-vintage SW Greensboro trophy traded to an estimated 6.2% cap rate. Distressed assets, conversely, trade at relatively high cap rates. Investors appeared to achieve 9.5% and high levels for bank REO assets.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Arbors Landmark (SW Greensboro)	A-	May-2011	\$17.4	\$75,000	6.2%
Highland Oaks (WS Winston-Salem)	B	Jul-2011	\$10.5	\$58,333	6.1%
Madison Place (SEWS/Kernersville)	A-	Aug-2011	\$13.3	\$65,196	6.9%
The Waverly (North Winston-Salem)	B- (Distr)	May-2011	\$11.7	\$27,033	10.0%



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SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	3Q10	3Q11	Change	3Q10	3Q11	Change
Alamance County	\$636	\$657	3.3%	10.2%	8.6%	-160 bps
High Point / Thomasville	\$539	\$554	2.8%	11.4%	7.5%	-390 bps
North Winston-Salem	\$562	\$566	0.7%	12.4%	9.0%	-340 bps
Northeast Greensboro	\$609	\$626	2.8%	11.7%	8.0%	-370 bps
Northwest Greensboro	\$660	\$682	3.3%	8.6%	6.3%	-230 bps
Southeast Winston-Salem	\$544	\$561	3.1%	10.3%	8.0%	-230 bps
Southwest Greensboro	\$675	\$691	2.4%	12.0%	8.1%	-390 bps
Southwest Winston-Salem	\$536	\$545	1.7%	12.0%	8.8%	-320 bps
West Winston-Salem	\$644	\$653	1.4%	9.5%	7.8%	-170 bps
Metro	\$612	\$626	2.3%	11.0%	8.0%	-300 bps

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