

Rochester, New York



Multifamily Housing Update

November 2010

EXECUTIVE SUMMARY

Headline Rochester job trends were mixed in recent months. The pace of year-over-year payroll job attrition decelerated from -8,400 (-1.7%) in 1Q10 to only -1,500 (-0.3%) in 2Q10. But conditions deteriorated in 3Q10 as -3,400 jobs were lost y-o-y. Third quarter losses were partially attributable to job cuts among local government agencies. Local governments cut -2,700 jobs y-o-y in 3Q10, after adding 500 jobs y-o-y rate in 2Q10.

Private sector job trends largely improved, particularly in the skilled service sectors. For example, business service firms added 700 workers y-o-y in 3Q10, up from a 200-job gain the previous period. Additionally, education and health service firms created a combined 1,800 jobs y-o-y in 3Q10.

On a seasonally-adjusted basis, Rochester employers added 1,400 positions to payrolls during the third quarter, marking the first quarterly gain since 4Q09 (+1,300 jobs). The Manpower Employment Outlook Survey suggests that employers will add workers at a slightly slower pace in the fourth quarter. In September, 19% of area firms expressed plans to hire workers in the fourth quarter. By contrast, only 11% of companies planned to trim staffs.

RED CAPITAL Research (RCR) forecast a modest -3,200 (-0.6%) job loss this year to be followed by strong growth of 6,200 (1.2%) and 9,000 (1.8%) net new jobs in 2011 and 2012, respectively. Economy.com also predict that growth will resume next year. Specifically, the source expects employers to add 1,510 workers in 2011 and 10,900 workers in 2012.

Home prices were stable, but home sales velocity plunged in the third quarter. According to the National

Association of Realtors, the median price of a single family MSA home increased 0.2% y-o-y from \$121,500 in 3Q09 to \$121,700 in 3Q10. But data from the Greater Rochester Association of Realtors show that only 2,664 homes were sold during the third quarter, down -27% from the same period last year.

The metro apartment occupancy rate was unchanged sequentially as apartment demand (82 units) kept pace with supply (77 units). On the other hand, the 95.3% occupancy rate was down 30 basis points y-o-y due to sluggish demand in 4Q09 (-100 units) and 1Q10 (-163 units). Class-A rentals posted a 96.3% occupancy rate in the third quarter, up 10 basis points sequentially and 30 basis points y-o-y. Class B/C properties, by comparison, were 94.9% occupied in the third quarter.

Property managers pushed effective rent 0.9% from \$720 in 2Q10 to \$727 in 3Q10. As a result, the third quarter figure was up 2.3% from \$710 in 3Q09. Managers of Class B/C properties registered a 0.9% sequential asking rent gain and a 2.3% y-o-y increase in the third quarter. Class-A asking rent rose at a moderately slower 1.9% annual rate to \$901.

Reis predict that occupancy will remain unchanged through year-end and improve 10 basis points to 95.4% in 2011. The service also expects that the pace of annual effective rent growth will accelerate to 3.1% in 4Q10 and remain relatively stable (3.0%) in 2011.

Based on an assumed 7.0% going-in yield, **RCR** expect a 9.4% total rate of return, comparing favorably to the 8.2% **RED** 50 average. Moreover, low levels of historic NOI growth volatility produces a strong 6.59 measure of risk-adjusted return.

SNAP SHOT

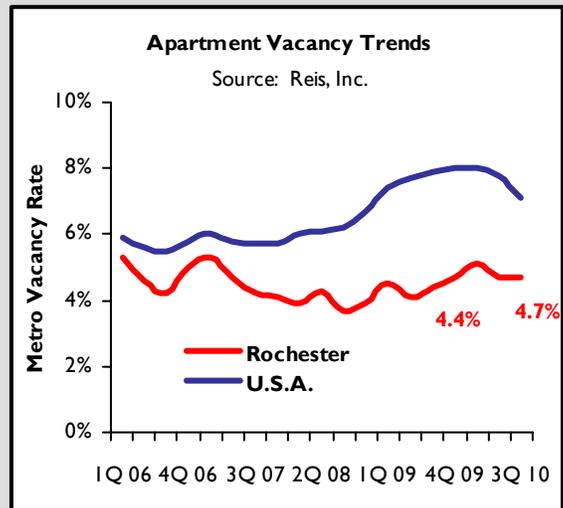
	Y-o-y change	Projected 2010
Vacancy (4.7% - 3Q10)	↑ 30bps	↔ Unchg
Effective Rents (\$727 - 3Q10)	↑ 2.3%	↑ 3.1%
Cap Rate (N/A - 3Q10)	↔	↔
Employment (496.2m - 3Q10)	↓ 3.4m	↓ 3.2m

KEY POINTS

- The metro vacancy rate was unchanged sequentially at 4.7% in 3Q10. On the other hand, vacancy increased 30 basis points year-over-year as supply (119 units) outpaced demand (23 units) in the year-ended in September.
- Asking rent increased 0.9% sequentially and 2.2% year-over-year to \$769 in 3Q10. Additionally, the size of the average concession package fell slightly from 5.6% of asking rent in 3Q09 to 5.5% in 3Q10. As a result, effective rent advanced at a 2.3% annual rate.
- According to the National Association of Realtors, the median price of a single-family MSA home increased 0.2% year-over-year to \$121,700 in 3Q10. By comparison, The Greater Rochester Association of Realtors report that the median price rose from \$120,840 in 3Q09 to \$122,500 in 3Q10.
- Loopnet.com were aware of two transactions involving properties priced at or above \$1 million in the first eleven months of 2010. Sales volume totaled \$3.8 million and the average price per unit was \$34,363.

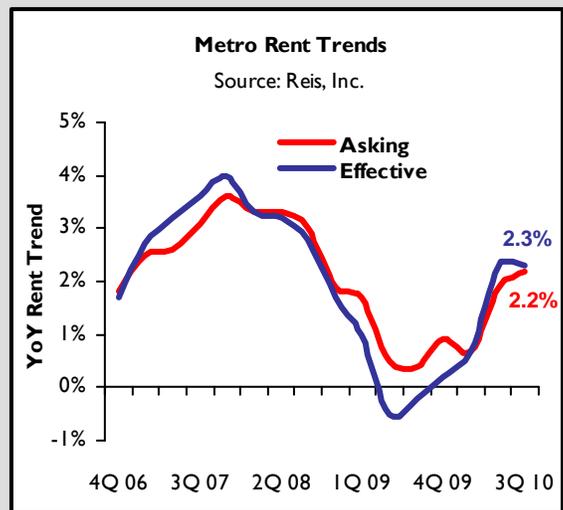
VACANCY TRENDS

- At 4.7%, the metro vacancy rate was unchanged sequentially as tenant demand (82 units) outpaced supply (77 units). On the other hand, the vacancy rate was up 30 basis points year-over-year owing to weak demand in 4Q09 and 1Q10; tenants vacated 100 units in 4Q09 and 136 units in 1Q10.
- Vacancy among Class-A properties improved 10 basis points sequentially to 3.7%, while Class B/C vacancy (5.1%) remained stable.
- The Central Rochester submarket vacancy rate rose 40 basis points from 4.9% in 2Q10 to 5.3% in 3Q10 due to supply. Developers completed 49 units and property managers net leased only 24 units during the period.
- Reis expect vacancy to decrease 10 basis points by December 2011.



RENT TRENDS

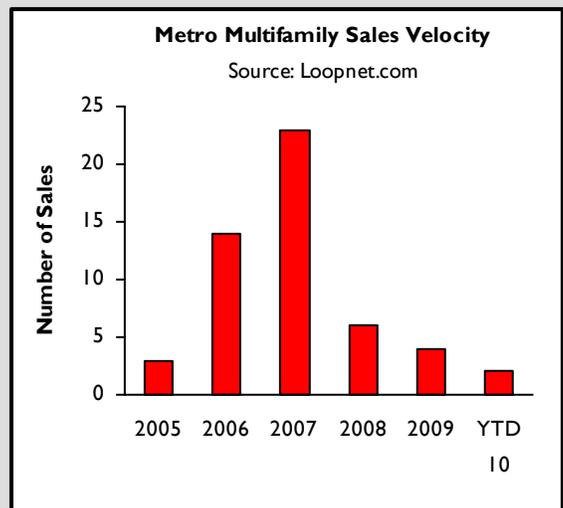
- The average effective rent increased 2.3% year-over-year from \$710 in 3Q09 to \$727 in 3Q10. On a sequential basis, the pace of effective rent growth decelerated slightly from 1.1% in 2Q10 to 0.9% in 3Q10.
- Class B/C properties generated a 2.3% year-over-year asking rent gain in 3Q10, comparing favorably to the 1.9% advance observed among Class-A rentals.
- The Southeast Monroe / East Counties (3.4%) and Central Rochester (3.3%) submarkets posted the fastest over-the-year effective rent gains among the metro's six submarkets.
- Reis predict that the pace of year-over-year effective rent growth will accelerate to 3.1% in 4Q10.



COMMENT: According to Reis, US effective rent rose 1.0% y-o-y in 3Q10.

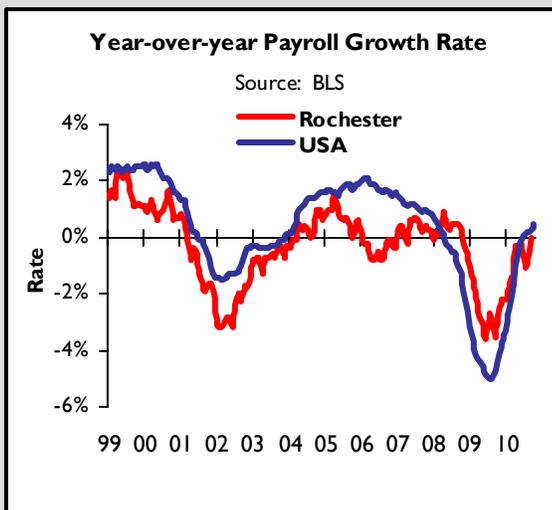
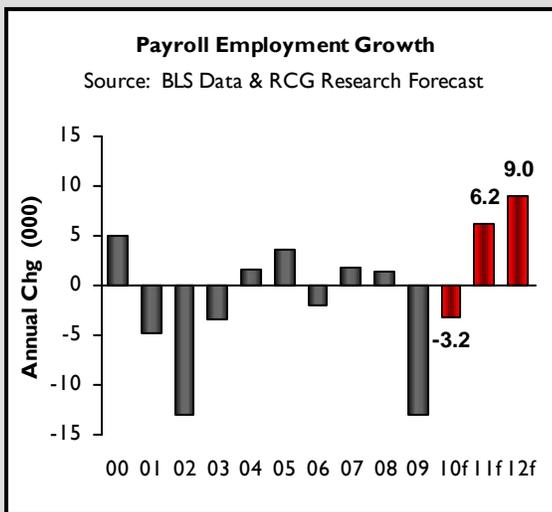
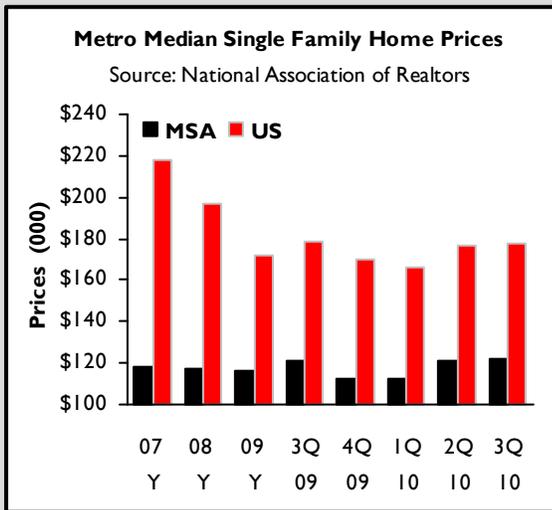
PROPERTY MARKET & CAP RATE TRENDS

- According to Loopnet.com two apartment properties priced at or above \$1 million were sold year-to-date. By comparison, four transactions were recorded in calendar 2009.
- The 1Q10 transaction involved a 56-unit garden property. The buyer paid \$1.7 million or \$30,357 per unit for 1966-vintage property. The other trade involved a 1925-vintage mid-rise property that sold for \$2.1 million or \$38,518 per unit.
- Based on an assumed 7.0% going-in yield, **RCR** calculate a 9.4% expected rate of total return. Moreover, low levels of historic NOI growth volatility produced a high 6.59-measure of risk-adjusted return. Rent trend volatility (1.2%) and vacancy volatility (0.8%) were among the lowest in the country.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Barbara Manor Apartments	B/C	Q1 2010	\$1.7	\$30,357	N/A
Ambassador	B/C	Q3 2010	\$2.1	\$38,518	N/A
Winston Woods Townhouses	B/C	Listing	\$2.7	\$45,000	8.0% p.f.



DEMOGRAPHICS & HOUSING MARKET

- The population of the Rochester metro area increased 0.2% in 2009, on par with the increase observed in 2008.
- According to the National Association of Realtors, the median price of a single-family MSA home edged up 0.2% from \$121,500 in 3Q09 to \$121,700 in 3Q10. The source calculates a 2.7% year-over-year increase in the median condo price.
- Similarly, the Greater Rochester Association of Realtors estimate that the median home price advanced 1.4% year-over-year to \$122,500 in 3Q10. The source also reports that 2,664 homes sold from July to September, down -27% from the same period last year.
- Based on data from RealtyTrac.com, the Rochester foreclosure rate (0.08%) was the ninth lowest among the 206 markets tracked by the source.

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

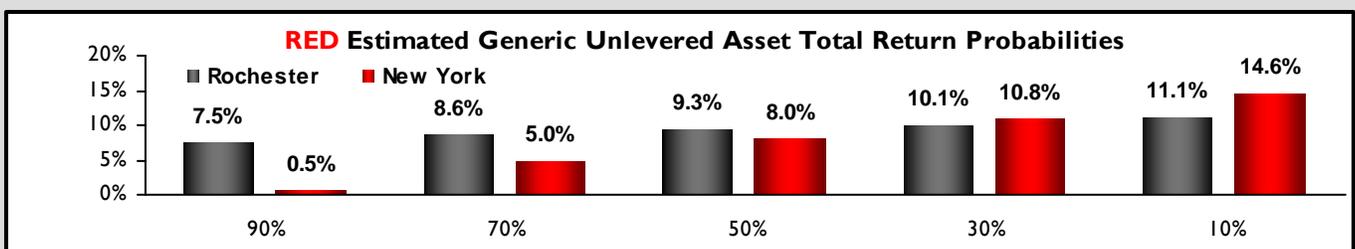
- The pace of annual payroll job attrition accelerated slightly from -1,500 (-0.3%) in 2Q10 to -3,400 (-0.7%) in 3Q10. Declining employment among local government was largely to blame. Following a 500-job increase in 2Q10, sector headcounts declined -2,700 year-over-year in 3Q10.
- On the other hand, the skilled service sectors created jobs during the third quarter. The business service super sector created 700 jobs year-over-year in 3Q10, while the education and health service sectors added 600 and 1,100 jobs year-over-year, respectively.
- Based on the BLS's household survey, total employment increased 2,935 (0.6%) in the twelve-month period ended in September. As a result, the metro unemployment rate decreased from 7.9% in September 2009 to 7.4% in the same month this year.

Seasonally-Adjusted

- On a seasonally-adjusted basis, employers added 1,400 workers in the third quarter following two consecutive -1,000-job quarterly declines.
- The Manpower Employment Outlook Survey suggests that job growth will decelerate in the fourth quarter as the share of companies that plan to add workers fell from 22% in June (regarding 3Q10) to 19% in September 19% (regarding 4Q10).

Forecast

- RCR expect payroll growth to return next year as employers add 6,200 (1.2%) workers in 2011 and 9,000 (1.8%) jobs in 2012.
- Economy.com foresee slower growth of 1,510 net new jobs next year.

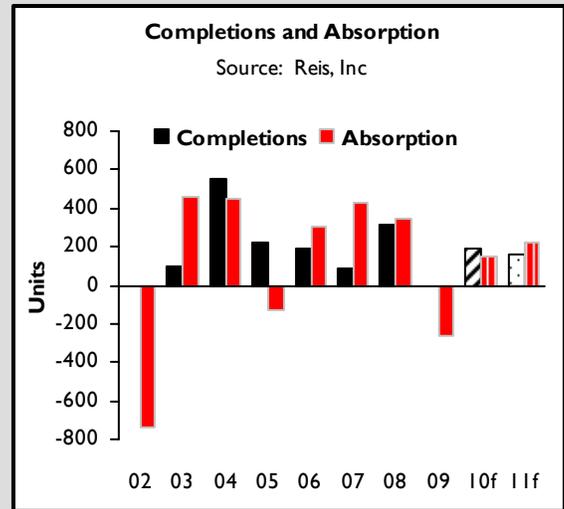


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	3Q09	3Q10	Change	3Q09	3Q10	Change
Central Rochester	\$675	\$698	3.3%	4.2%	5.3%	110 bps
Brighton	\$760	\$771	1.4%	4.2%	4.4%	20 bps
Irondequoit / Webster	\$704	\$719	2.1%	4.8%	5.4%	60 bps
Greece	\$650	\$658	1.3%	4.9%	5.1%	20 bps
Southeast Monroe / East Counties	\$789	\$816	3.4%	3.4%	3.6%	20 bps
West Monroe / West Counties	\$676	\$690	2.0%	5.0%	4.3%	-70 bps
Metro	\$710	\$727	2.3%	4.4%	4.7%	30 bps

SUPPLY TRENDS

- Reis identified five apartment properties that were completed in the first eleven months of 2010, adding 179 units to the rental stock. Two of the assets debuted in the West Monroe / West Counties (102 units), two are located in Central Rochester (49 units) and one 28-unit property opened in the Southeast Monroe / East Counties submarket.
- Only one apartment property was under construction in November. The 128-unit asset is located in the West Monroe / West Counties submarket. Reis expect the property to debut in April 2012.
- Additionally, five apartment assets were in the planned / proposed phase in November. Three of the development sites, containing 370 units, are located in the Central Rochester submarket. The balance area located in the Greece (24 units) and Irondequoit / Webster (100 units) submarkets.



Daniel J. Hogan
Director of Research
djhogan@redcapitalgroup.com
614-857-1416

William T. Hinga
Business Development
wthinga@redcapitalgroup.com
614-857-1499

RED CAPITAL GROUP
Two Miranova Place
Columbus, OH 43215
www.redcapitalgroup.com
800.837.5100



©2010 RED CAPITAL GROUP