

Dayton, Ohio



Multifamily Housing Update

November 2007

EXECUTIVE SUMMARY

Payroll employment fell -700 (-0.1%) year-over-year in 3Q07 and -2,800 (-0.7%) in October. The 3Q07 metric compares favorably to the monthly average of 1,800 lost jobs in 2006. A turnaround in the transportation equipment manufacturing sector was partially responsible. Production payrolls fell 600 year-over-year in 3Q07 compared to 1,800 jobs lost in 1Q07. Retail and transportation / warehousing firms combined to lose 2,100 jobs in 2Q07 and 1,300 in 3Q07.

RED expect job losses to total 2,200 (-0.5%) in 2007. In 2008, we anticipate smaller job losses, but losses nevertheless. Our econometric model generates a point estimate of 1,000 (-0.2%) fewer jobs with a confidence band of 3,000 (-0.7%) job losses to a 1,000 (0.2%) job gain. By way of comparison, Economy.com forecast job losses of 2,900 (-0.6%) in 2007 and 570 (-0.1%) in 2008.

The MSA population fell 0.3% to just below 840,000 in 2006. Negative net domestic migration was largely to blame. Home prices were stable. According to OFHEO, prices rose 0.6% year-over-year in 2Q07. The National Association of Realtors report a 0.8% year-over-year decline in the median home price in 3Q07.

The 3Q07 occupancy rate was 92.2%, up 50 basis points sequentially. The increase was attributable to positive net absorption of 138 units and no new supply. On a year-over-year basis the occupancy rate rose 60 bps, due to robust demand and limited supply.

Reis anticipate sluggish demand and moderate supply in 4Q07, leading to a 50 bps decrease in occupancy. In 2008, the service expects a 20 basis point improvement as occupancy in-

creases to 91.9%.

Effective rents increased 1.8% y-o-y in 3Q07, from \$561 to \$571. Asking rents grew at a moderately faster 2.0% rate to \$602. The value of the average concession package was \$31 per month or 5.1% of asking rent. Reis forecast year-over-year effective rent growth of 2.5% in 2007 and 1.9% in 2008.

Average occupancy in the Clark County submarket increased 100 bps y-o-y to 94.5%, the highest among the metro's six submarkets. Effective rents rose only 0.6% y-o-y to \$487 and the typical concession was approximately 0.7 months free-rent on a twelve-month lease.

According to Reis, six apartment properties traded in the twelve months ended in September, totaling \$59 million in proceeds. The average price per unit was \$24,000 and the average cap rate was 8.4%.

RED recommend that investors bid "*Opportunistically*" for metro assets. High going-in yields are attractive but Reis expect little improvement in fundamentals over the next five years. Effective rents are forecast to grow at an average annual rate of 1.8% from 2008 to 2011, basically at the rate of inflation. Moreover, Reis do not foresee significant occupancy gains. Consequently, expected investment returns are not sufficient to support an active buying program. Suburban submarkets, on the other hand, may attract investors due to a superior rent growth outlook. For example, Reis forecast average annual rent growth of 2.7% from 2008 to 2011 in the Clark County and Miami County submarkets. Effective rents in the Northwest submarket are forecast to grow at an annual rate of 2.5%.

SNAP SHOT

| | Y-o-y change | Projected 2008 |
|-----------------------------------|--------------|----------------|
| Vacancy (7.8% - 3Q07) | 60bps ↓ | 30bps ↑ |
| Effective Rents (\$571 - 3Q07) | 1.8% ↑ | 1.9% ↑ |
| Cap Rate (8.0% - 3Q07) | 20bps ↑ | unch ↔ |
| Employment (405.3k - 3Q07) | 0.7k ↓ | 1.0k ↓ |

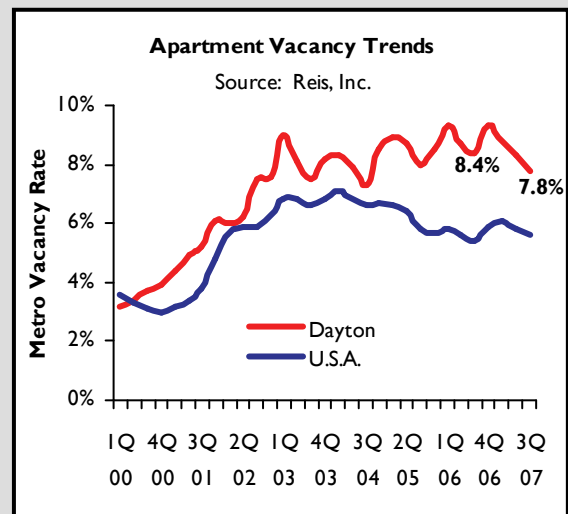
KEY POINTS

- The vacancy rate in Dayton fell 50 basis points sequentially to 7.8% in 3Q07. On a year-over-year basis the vacancy rate fell 60 basis points due to robust demand and limited supply.
- Effective rents increased 1.1% sequentially and 1.8% year-over-year to \$571 in 3Q07. Asking rents rose 2.0% year-over-year to \$602.
- The median price of a single-family MSA home fell 0.8% year-over-year to \$121,400 in 3Q07. The homeownership rate fell from 66.1% in 2005 to 64.6% in 2006.
- According to Loopnet three investor grade properties traded in the first nine of 2007, totaling \$35.5 million in proceeds. The average per unit price was \$20,040. The median cap rate was 8.9%.
- **RED** assign an "Opportunist" ranking for metro investments. Investors should be selective. Reis do not expect significant fundamental improvement and the market suffers from low liquidity. By the same token, high going-in yields are attractive for yield-oriented investors.

VACANCY TRENDS

- The metro vacancy rate fell 50 basis points sequentially to 7.8% in 3Q07, the third consecutive quarter of occupancy gains. Positive net absorption totaled 138 units and no supply was delivered.
- Vacancy decreased 60 basis points year-over-year, hampered by negative net absorption in 4Q06. Since then, demand outpaced supply 609 units to 140 units.
- Reis are unimpressed by recent market performance. The service forecasts net absorption of only 57 units in 4Q07, despite supply of 238 units. This will result in a 50 basis point increase in vacancy to 8.3%. In 2008, Reis anticipate slightly better conditions to allow vacancy to fall 20 basis points to 8.1%.

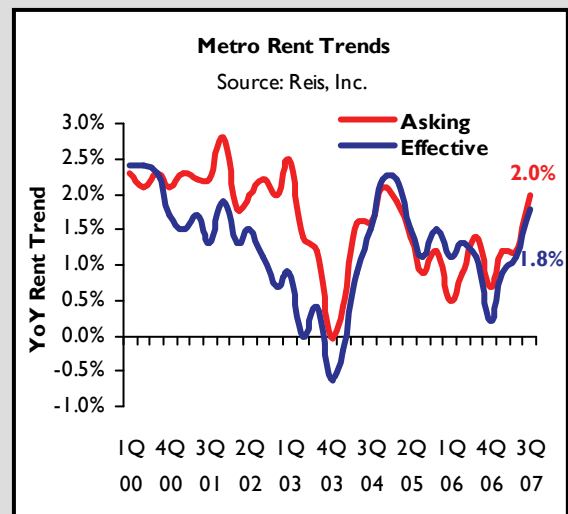
COMMENT: We expect stronger demand in 4Q07. Housing market weakness and stricter mortgage underwriting standards are likely to deter homeownership.



RENT TRENDS

- Effective rents increased 1.1% sequentially in 3Q07, the largest quarter-over-year gain on record for the metro. The average effective rent rose 1.8% year-over-year to \$571. Asking rents increased 1.3% sequentially and 2.0% year-over-year to \$602 in 3Q07.
- The fastest rate of effective rent growth occurred in the Miami County submarket. The average effective rent rose 2.5% quarter-over-quarter and 4.9% year-over-year to \$489.
- Reis expect year-over-year effective rent growth to accelerate to 2.5% in 4Q07 before falling to 1.9% next year.

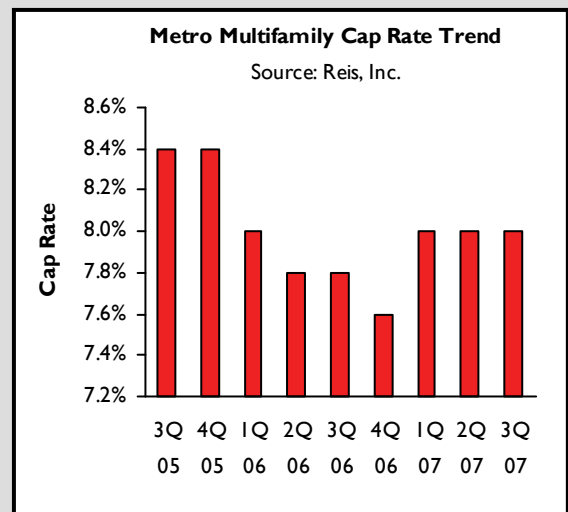
COMMENT: Stronger than expected demand could lead to faster rent growth next year.



PROPERTY MARKET & CAP RATE TREND

- According to Reis, only six properties traded in the twelve-month period ended in September. The average price was approximately \$24,000 per unit.
- Real Capital Analytics report one trade involving a property priced at \$6 million in the six months ended in October.
- According to Loopnet, the only sales activity involving properties priced at or above \$5 million involved a three property portfolio. The transaction, which closed in February, involved three assets priced from \$16,250 to \$24,099 per unit.

COMMENT: Low liquidity makes for a difficult exit strategy.

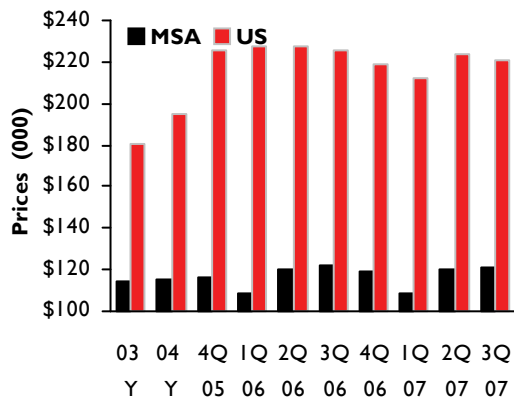


NOTABLE TRANSACTIONS

| Property Name | Property Class | Date of Transaction | Total Price (in millions) | Price per unit | Estimated Cap Rate |
|-----------------|----------------|---------------------|---------------------------|----------------|--------------------|
| Yorktown Colony | BC | February 2007 | \$12.8 | \$24,099 | 8.9% |
| Woodman Park | BC | February 2007 | \$11.0 | \$21,154 | 8.3% |
| Maple View | BC | February 2007 | \$11.7 | \$16,250 | 14.8% |

Metro Median Single Family Home Prices

Source: National Association of Realtors



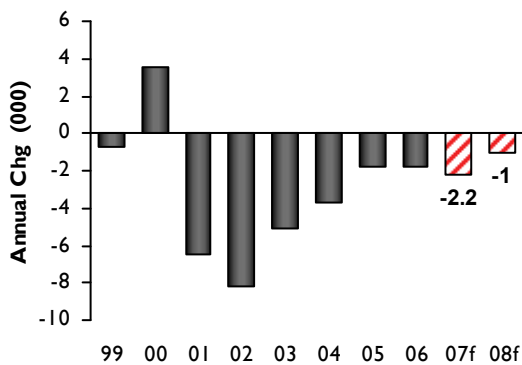
DEMOGRAPHICS & HOUSING MARKET

- The metro population fell 0.3% in 2006, owing to negative net domestic migration.
- The metro homeownership rate fell from 66.1% in 2005 to 64.6% in 2006.
- The median price of a single-family MSA home fell 0.8% year-over-year to \$121,400 in 3Q07.
- A total of 10,598 homes sold in the first nine months of 2007, down 6.6% from the comparable period last year. September sales decreased 17.1% year-over-year as 1,016 units sold.

COMMENT: Slower home sales and weak price trends should benefit rentals.

Payroll Employment Growth

Source: BLS Data & RCG Research Forecast



EMPLOYMENT TRENDS

Past 12 Months

- Preliminary BLS data show that employment fell -2,800 (-0.7%) year-over-year in October. This compares to 2,000 jobs lost in the same month last year.

Third Quarter 2007

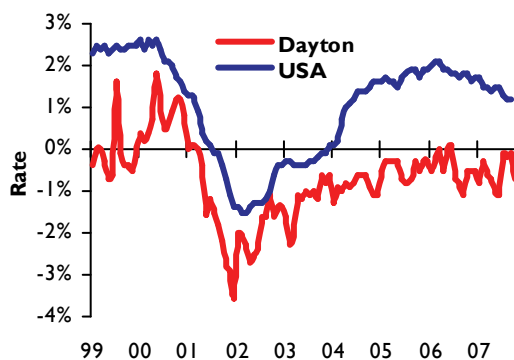
- Only 700 (-0.1%) positions were eliminated year-over-year in 3Q07. This was the best quarter since 2Q06 when only 600 jobs were lost. Employment fell 3,800 year-over-year in 2Q07.
- Improved 3Q07 job trends were largely due to slower attrition among retail, transportation / warehousing and transportation equipment manufacturers. The sectors combined to lose 3,900 employees year-over-year in 2Q07 and 1,900 in 3Q07. **RED** attribute stronger 3Q07 payroll numbers to abnormally weak year-over-year comparisons for 3Q06. The same phenomenon is observed in the household survey of employment.

Forecast

- We expect employment losses to total -2,200 (-0.5%) in 2007, with a confidence interval of -2,500 (-0.6%) to -2,000 (-0.5%). Our econometric model generates a point estimate of -1,000 (-0.2%) fewer jobs in 2008. The confidence band ranges from a -3,000 (-0.7%) job loss to a 1,000 (0.2%) job gain.
- Economy.com forecast job losses of -2,900 (-0.6%) in 2007 and -570 (-0.1%) in 2008.

Year-over-year Payroll Growth Rate

Source: BLS



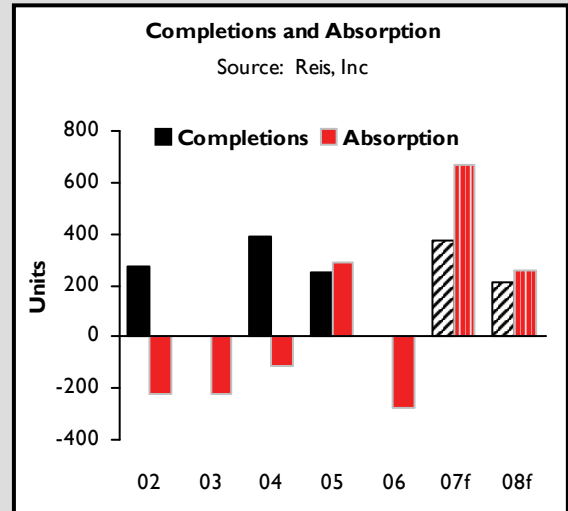
SUBMARKET TRENDS

| Submarket | Effective Rent | | | Physical Vacancy | | |
|----------------|----------------|--------------|-------------|------------------|-------------|----------------|
| | 3Q06 | 3Q07 | Change | 3Q06 | 3Q07 | Change |
| Central Dayton | \$480 | \$488 | 1.7% | 9.1% | 8.9% | -20 bps |
| Northeast | \$607 | \$616 | 1.5% | 7.7% | 7.9% | 20 bps |
| Northwest | \$514 | \$521 | 1.4% | 7.1% | 7.5% | 40 bps |
| South | \$614 | \$626 | 2.0% | 8.9% | 7.5% | -140 bps |
| Miami County | \$466 | \$489 | 4.9% | 13.8% | 10.5% | -330 bps |
| Clark County | \$484 | \$487 | 0.6% | 6.5% | 5.5% | -100 bps |
| Metro | \$561 | \$571 | 1.8% | 8.4% | 7.8% | -60 bps |

SUPPLY TRENDS

- No supply was delivered in 3Q07, following 140 unit completions in 2Q07. Reis expect developers to complete 238 units in 4Q07, all of which are located in the Northeast submarket. The service forecasts lighter supply of only 212 units in 2008.
- Trailing 12-month single-family permit issuance fell 18% to 1,564 units in September. Developers pulled only 117 permits for multifamily development, down 30% from the comparable period last year.

COMMENT: Development will remain concentrated in suburban locations. No units were completed in the Central submarket since 1Q05. No supply is forecasted for the submarket through 2011.



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