Columbia, South Carolina

Multifamily Housing Update 3Q11 January 2012

Payroll Job Summary

Total Payrolls:	344.1m
3Q Y-o-Y Change:	+3.2m
2011 Forecast	+2.2m
2012 Forecast	+4.4m
2013 Forecast	+5.4m
2014 Forecast	+8.7.m
Unemployment	7.9% (NOV)

3Q11 Payroll Trends and Forecast

After posting a steady stream of year-on-year payroll losses for three years Columbia job trends returned to the black in July and gained strength steadily through the fall. Headcounts increased at a 3,200-job, 0.9% annual pace during 3Q, up from 2Q's -1,000-job decline. Hiring accelerated in October and November when y-o-y comparisons recorded respective gains at 6,200– and 8,700-job annual rates; the latter was fastest since 2007.

Signs of recovery also were evident in seasonally-adjusted data. On this basis, Columbia establishments added 6,000 jobs September through November, representing the largest 3-month job add observed over the past decade.

We expect slower global and domestic growth in 2012, limiting metro gains to only 4,400 jobs next year. But a full recovery should arrive by 2013, laying the groundwork for more robust job creation. We expect Columbia concerns to hire 5,400 workers in 2013, and a net of 8,700 in 2014.

Vacancy Rate Summary

Vacancy Rate (Reis)	8.7.%
RED 50 Rank	NA
Annual Chg (Reis)	-1.0%
Prelim. Reis YE11	8.0%
Reis YE12 Forecast	7.7%
Reis YE13 Forecast	7.8%
Reis YE14 Forecast	6.6%

3Q11 Absorption and Vacancy Rate Trends

Stronger job creation fueled improved space demand. Tenants leased a net of 198 units during 3Q11, up from 93 and –125 during 2Q11 and 1Q11, respectively. No new supply was delivered for the seventh consecutive quarter producing a 60 basis point sequential quarter occupancy gain to 91.3%, highest in nearly five years.

Owners continued to experience robust lease interest during the fall quarter. According to preliminary Reis data, metro occupancy surged another 70 bps to 92.0% on absorption of nearly 200 units, the first time the Columbia market pierced the 92% threshold level since 2000.

Reis expect steady improvement through 2015 when occupancy is expected to reach the mid-93% range. Given the unexpected surge in demand observed in 4Q, an upward revision of near-term occupancy levels is likely to be in the cards.

Permit issue was slightly higher in 2011, but remains well-below observed 2006—09 levels. Supply won't be a market obstacle for several years.

Effective Rent Summary

Mean Rent (Reis)	$694
Annual Change	0.4%
RED 50 Rank	NA
Prelim. Reis YE11	0.7%
Reis 2012 Forecast	2.1%
Reis 2013 Forecast	2.4%
Reis 2014 Forecast	2.4%

3Q11 Rent Trends

Owners emphasized occupancy over rent growth. Average metro asking and effective rents inched forward $2 (0.3%) sequentially to $725 and $694, respectively, up from $1 and $2 gains posted during 2Q11. Year-over-year comparisons decelerated to 0.3% and 0.4%, representing the lowest metrics recorded since 1Q10 and one of the slowest gains recorded among Reis's top 82 markets.

Preliminary data for 4Q11 was little improved. Average asking rents increased another $2 sequentially to $727. The y-o-y comparison increased slightly to 0.7%, however.

Reis forecasts suggest that metro rents will continue to rise at a deliberate pace over the next several years. Indeed, the service projected in November only a 2.1% advance in 2012 effective rents The forecast ranks as one of the five weakest among the top 65 U.S. markets. Incremental gains are likely to accrue after 2013, but rent growth promises to remain below the U.S. average.

Trade & Return Summary

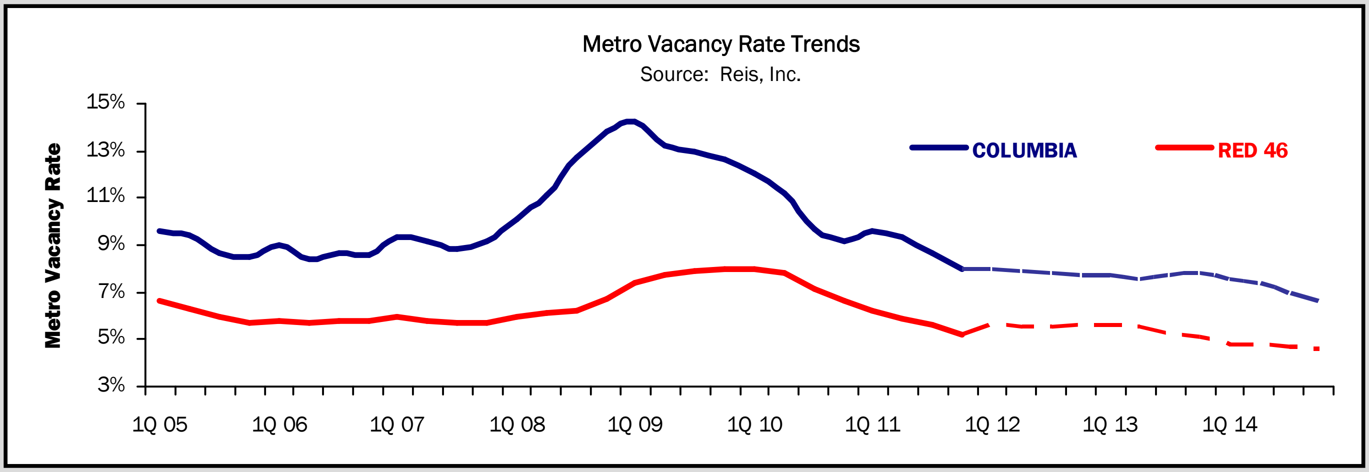
2H11 $10mm+ Sales	2
Approx. Proceeds	$52.3mm
Cap Rate (T3M Avg.)	6.1%
Avg. Price/Unit	$105,769
Expected Total Return	NA
RED 46 ETR Rank	NA
RAI NA	RAI Rank NA

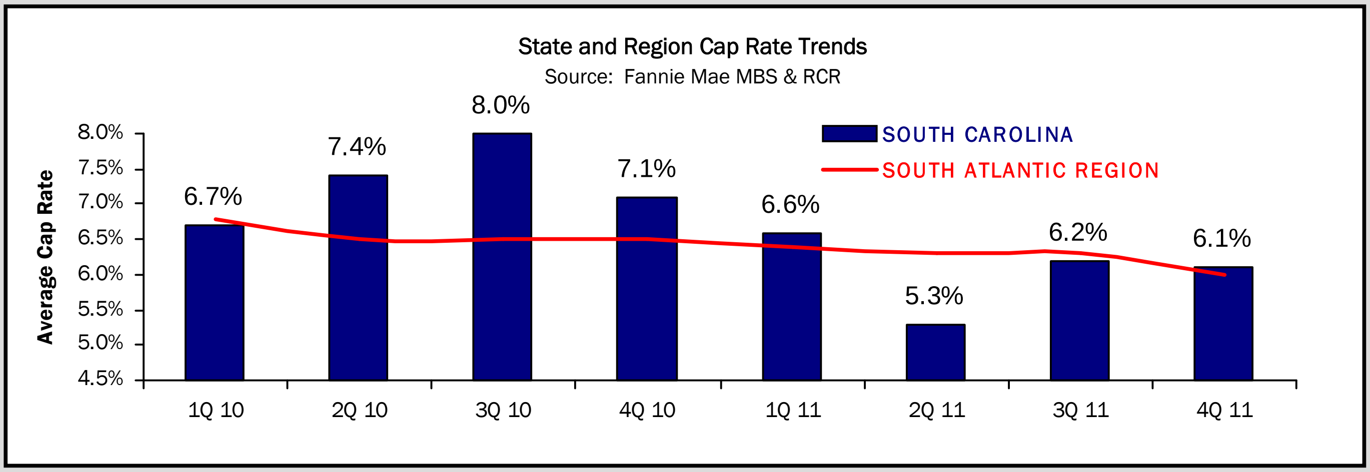
3Q11 Property Markets and Total Returns

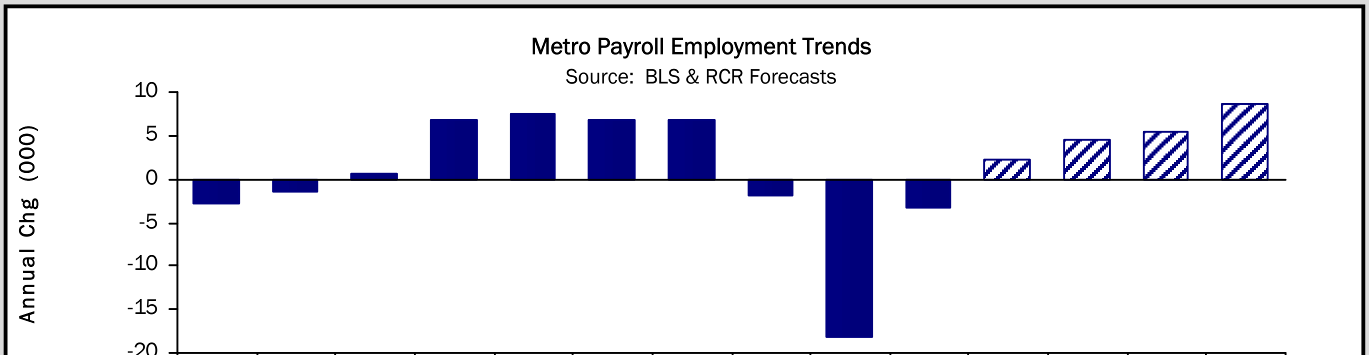
Two institutional quality properties exchanged hands during the third quarter for total proceeds of $52.3mm. The average price per unit was $105,769. This compares to only one transaction recorded during the first half of the year for $16.2mm or $61,174 per unit.

Cap rates varied considerably. On one hand, a condo-quality 2009-vintage project located on Lake Murray traded for more than $125,000/unit to yield an estimated 4.5%. On the other, a 2005-construction class-A property located in Irmo, about 5 miles to the northeast, commanded an $80,000/unit price equating to an estimated initial yield of about 6.5% (6.6% quoted as per RCA).

Investors should receive several good indicators of value during 1Q12. At least two institutional quality garden complexes were listed for sale in late 2011. These including a 1980-vintage class-B asset located in Northeast Columbia and a 1990-vintage, class-A project located in Northwest Columbia near the Columbiana Centre Mall. Prices will be determined by the market.



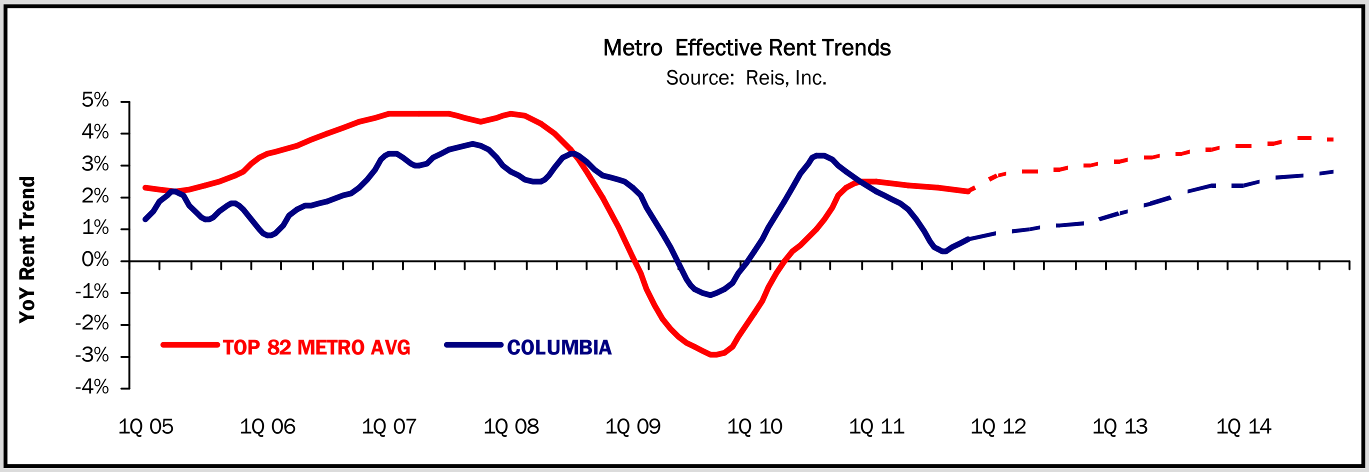


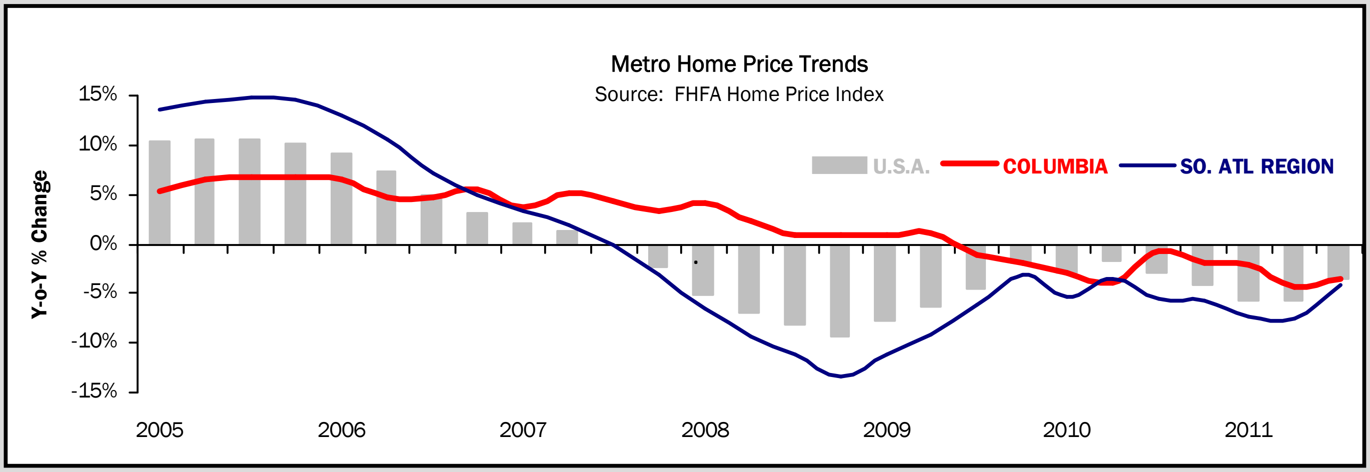


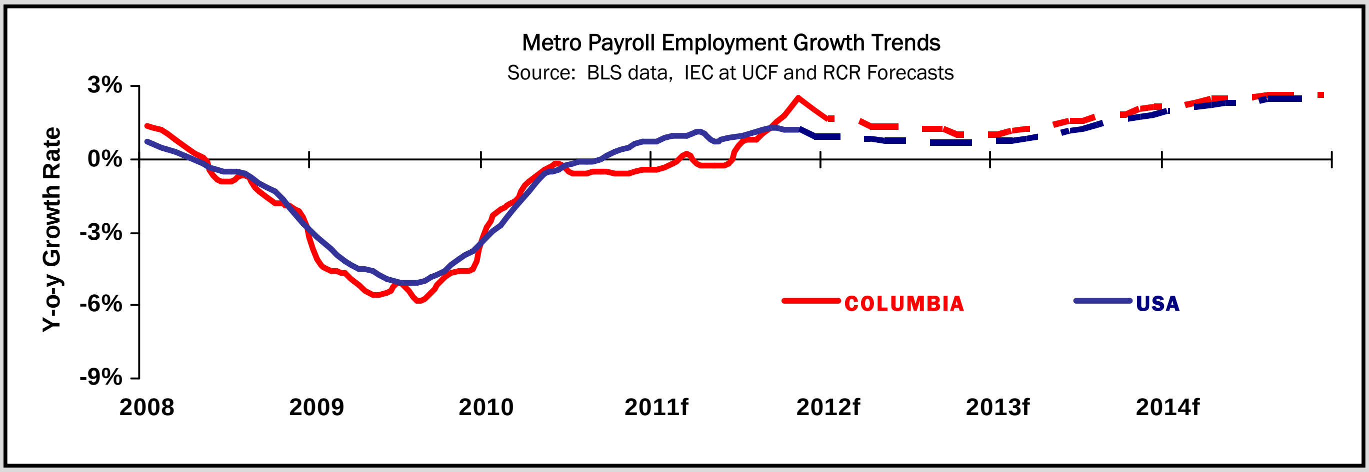
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011f	2012f	2013f	2014f
COLUMBIA	-2.9	-1.5	0.5	6.9	7.4	6.9	6.7	-1.9	-18.2	-3.3	2.2	4.4	5.4	8.7

NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Century Heights (Dutch Fork)	A	Aug—2011	$18.5	$80,435	6.5%
Haven Lake Murray (Lexington Co.)	A	Dec-2011	$33.75	$127,841	4.5%
Grove at Wildwood (North)	A-	Apr-2011	$16.15	$61,174	7.0%


Metro Effective Rent Trends
Source: Reis, Inc.
YoY Rent Trend
5%
4%
3%
2%
1%
0%
-1%
-2%
-3%
-4%
TOP 82 METRO AVG
COLUMBIA
1Q 05
1Q 06
1Q 07
1Q 08
1Q 09
1Q 10
1Q 11
1Q 12
1Q 13
1Q 14


Metro Home Price Trends
Source: FHFA Home Price Index
Y-o-Y % Change
15%
10%
5%
0%
-5%
-10%
-15%
U.S.A.
COLUMBIA
SO. ATL REGION
2005
2006
2007
2008
2009
2010
2011


Metro Payroll Employment Growth Trends
Source: BLS data, IEC at UCF and RCR Forecasts
Y-o-y Growth Rate
3%
0%
-3%
-6%
-9%
COLUMBIA
USA
2008
2009
2010
2011f
2012f
2013f
2014f

SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	3Q10	3Q11	Change	3Q10	3Q11	Change
Dutch Fork / West River	$611	$622	1.8%	9.1%	8.8%	-30 bps
Lexington County	$659	$664	0.8%	8.8%	8.3%	-50 bps
North	$724	$726	0.3%	9.9%	8.6%	-130 bps
South	$775	$769	-0.8%	11.1%	9.3%	-180 bps
Metro	$691	$694	**0.4%**	**9.7%**	**8.7%**	**-100 bps**

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Market Overview

Columbia, SC

Multifamily Housing Update **January 2008**

EXECUTIVE SUMMARY

Following three years of above average growth, payroll gains moderated in 2007. Employers added 3,900 (1.1%) jobs year-over-year in 3Q07, the lowest metric registered since 1Q04.

Rapid attrition among construction and retail firms was largely to blame as a net of 3,600 payroll jobs were lost. The decrease was somewhat surprising given the strength of the metro housing market and favorable demographic trends. But November single-family permit issuance, measured on a twelve month trailing basis, was the lowest recorded since early 2004 when there were 8.1% fewer construction workers on payrolls.

RED forecast job growth of about 5,200 (1.4%) in 2007. Our econometric model generates a point estimate of 4,000 (1.1%) jobs in 2008, with a confidence interval of 3,000 (0.8%) to 5,000 (1.4%) jobs.

The Columbia housing market was among the healthiest in South Carolina and the nation in 3Q07. According to the National Association of Realtors, the median home price rose 6.7% year-over-year to $149,500. The national and state median home prices fell 2.0% and 0.5% y-o-y, respectively. Sales velocity fell 13.7% y-o-y in November, slightly better than the 14.4% decline statewide.

The for-sale market performance in 2008 is uncertain. Slower sales velocity for November may indicate a growing divide between buyers and sellers or could reflect tighter mortgage underwriting standards. Both benefit apartment owners by potentially reducing the number of move-outs to homeownership.

The metro vacancy rate fell 40 basis points from 9.2% in 2Q07 to 8.8% in 3Q07. The improvement was attributable to robust tenant demand, especially in the South and Lexington County submarkets. The vacancy rate fell 100 bps sequentially in Lexington County and 40 bps in the South submarket.

According to recently published reports, Reis forecast supply of 1,337 units in 2008, up from 1,130 units delivered in 2007. Slower payroll growth does not bode well for apartment demand but developers may benefit from a sluggish for-sale housing market. Even a small shift in the preference of newly formed households in favor of renting could lead to healthy apartment demand in 2008.

Apartment owners were able to raise rents aggressively in 3Q07. The average effective rents in the North and Dutch Fork submarkets rose 4.5% y-o-y to $697 and $609, respectively. Metro-wide, the average effective rent grew by 3.5%, the largest gain dating back to 1999.

Reis expect rent growth to decelerate to 2.3% in 2008. Downside risks are evident, however; if demand is not sufficient to absorb the increase in supply, concessions are likely to rise and cut into effective rent growth. Nevertheless, the most likely outcome is for another year of solid demand that allows rent growth to range from 2.5% to 2.8%. Negative demand effects from slightly slower payroll growth will be offset by reduced demand for owned housing.

Property trading was relatively light in 3Q07 as only one investment grade apartment complex traded. Going-in yields are high and should attract yield-oriented buyers despite low liquidity. Market fundamentals are below average yet steady. **RED** assign a ranking of "***Opportunistic***" to metro assets as fundamentals do not warrant an active buying program but attractively priced assets could add yield to an investors portfolio.

SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (8.8% - 3Q07)	▲ 10bps	▼ 40bps
Effective Rents ($653 - 3Q07)	▲ 3.5%	▲ 2.3%
Cap Rate (N/A - 3Q07)	N/A	N/A
Employment (362.8k - 3Q07)	▲ 3.9k	▲ 4k

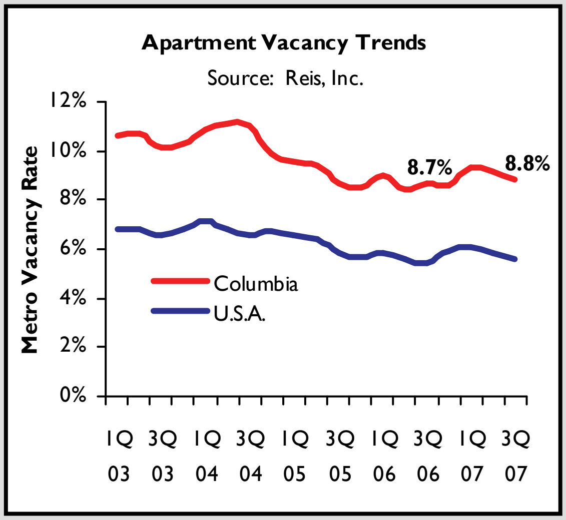
KEY POINTS

- The metro vacancy rate fell 40 basis points sequentially to 8.8% in 3Q07. The vacancy rate increased 10 basis points year-over-year due to weak demand in 4Q06 and 1Q07.
- Asking and effective rents increased 3.2% and 3.5% year-over-year, respectively. Reis forecast year-over-year effective rent growth to decelerate to 3.0% in 4Q07 and 2.3% in 2008.
- According to the South Carolina Realtor Association 2,927 homes sold in 3Q07, a 4.5% decrease year-over-year. By comparison, sales velocity in the state fell 9.6% over the same period.
- **RED** forecast job growth of 5,200 (1.4%) in 2007 and 4,000 (1.1%) in 2008.
- Multifamily property trade volume fell from $33.7 million in 2Q07 to only $9.1 million in 3Q07. The average price per unit increased 25% from $42,700 in 2Q07 to $53,200 in 3Q07.
- **RED** assign a rating of "**Opportunistic**" to metro investment due to high going-in yields and below average market fundamentals.

VACANCY TRENDS

- The metro vacancy rate fell 40 basis points sequentially from 9.2% to 8.8% in 3Q07. The improvement was attributable to an up-tick in demand that outpaced supply.
- On a year-over-year basis the vacancy rate inched up by 10 basis points to 8.8%. Weak demand in 4Q06 and 1Q07 was largely to blame.
- Looking ahead, Reis forecast the vacancy rate to rise 20 basis points to 9.0% in 4Q07 before falling 40 basis points to 8.6% in 2008. The service forecasts a sharp reduction in supply next year, leading to the optimistic vacancy forecast.

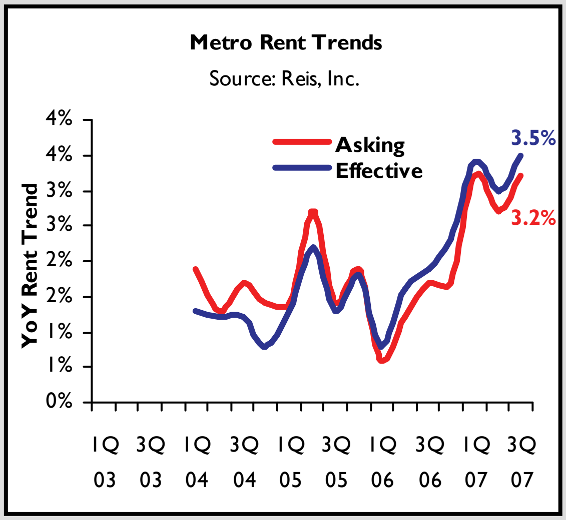
COMMENT: Updated construction data from Reis suggests that the 40 basis point reduction in the vacancy rate may not come to fruition in 2008. Expected supply may total as much as 1,337 units, 1,187 more than previously expected.



RENT TRENDS

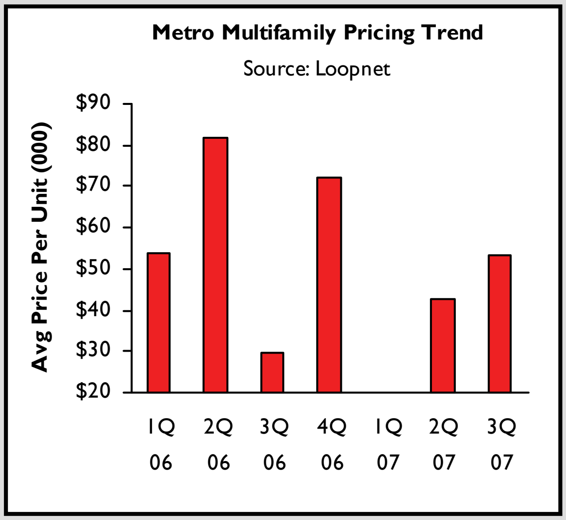
- Apartment owners in Columbia experienced some of the greatest rent gains in recent history in 3Q07. Effective rents advanced 1.1% sequentially and 3.5% year-over-year to $653 in 3Q07. Asking rents posted a 1.0% sequential increase and were up 3.2% over-the-year.
- The rent gains were not distributed evenly among the submarkets. The North and Dutch Fork submarkets each achieved 4.5% year-over-year effective rent growth whereas the South and Lexington County submarkets posted gains of only 1.2% and 1.6%, respectively.
- Reis expect year-over-year effective rent growth to decelerate to 3.0% in 4Q07 and 2.3% in 2008.

COMMENT: If the expected rise in supply in 2008 is not met with sufficient demand it is likely that concessions will rise as owners attempt to find initial occupants for newly constructed units.



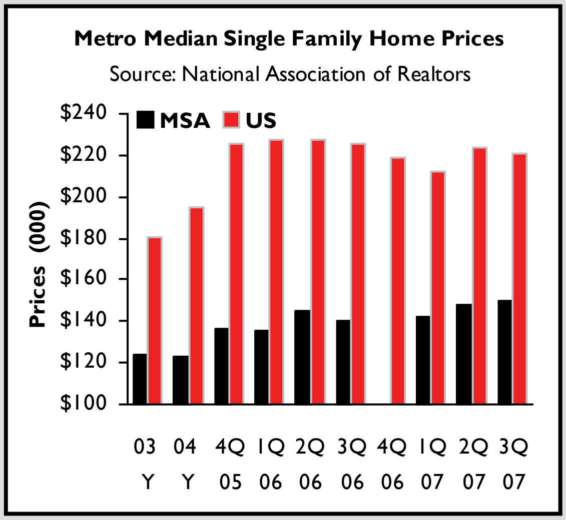
PROPERTY MARKET & CAP RATE TREND

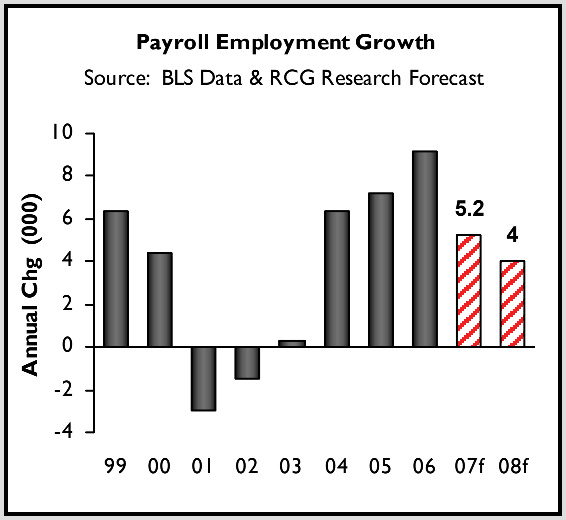
- Property trading was thin in the third quarter. Only one investor grade property trade was consummated in the three months ended in September, totaling about $9.1 million. Four trades totaling $33.7 million in proceeds were recorded in the prior quarter.
- **RED** observed a 100 basis point spread between Class A and Class B/C sales. Class A assets typically traded in the low- to mid- 7% range whereas Class B/C assets were sold in the low- to mid- 8% range.
- According to Reis, the median cap rate among transactions that occurred in the twelve months ended in September was 7.3%.

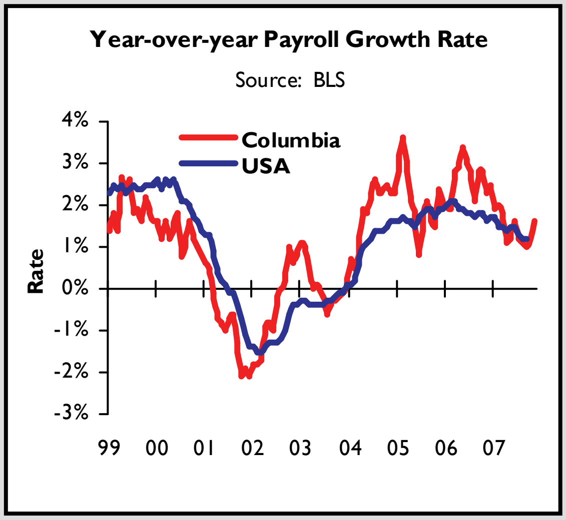


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Whaleys Mill (South)	BC	August 2007	$9.1	$53,235	8.1%
Quail Hollow (Lexington Co)	A	June 2007	$11.2	$51,860	7.1%
Essex Park (Dutch Fork)	BC	June 2007	$10.9	$33,746	8.5%
West Winds (Dutch Fork)	A	June 2007	$5.9	$58,500	7.5%







DEMOGRAPHICS & HOUSING MARKET

- Population growth rebounded to 1.9% in 2006, following a disappointing performance in 2005 when the count advanced by only 0.9%. A resurgence of net domestic migration was largely responsible.
- The median price of a single-family MSA home increased 6.7% year-over-year to $149,500 in 3Q07. The advance ranked 18th highest among the 156 metro areas included in the NAR survey. OFHEO data revealed similar strength in the local housing market. The MSA realized a 6.4% year-over-year advance in the OFHEO index.
- The Columbia housing market remained healthy in 3Q07 but less so in the months that followed. According to The South Carolina Realtor Association, sales were off only 1.8% year-to-date through November as compared to the same period last year. The November datum itself was weak, however, as sales fell 13.7% year-over-year.

EMPLOYMENT TRENDS

Past 12 Months

- Employers added a net of 5,800 (1.6%) employees year-over-year in November, down from 8,200 (2.3%) in the same month last year. Job losses among construction firms and retailers were largely to blame.

Third Quarter 2007

- Payroll growth slowed to 3,900 (1.1%) year-over-year in 3Q07, the lowest gain since 1Q04 when job growth was just gaining momentum. The 3Q07 growth metric represents a 900-job slowdown from the previous quarter.
- Third quarter payroll trends were hampered by job losses among construction and retail firms. Combined the sectors lost 3,600 employees. This compares to a combined net gain of 1,400 jobs in 3Q06.
- The most significant sources of job creation were the business service and education and health service sectors. They added 2,400 and 1,600 payroll jobs year-over-year, respectively, in 3Q07, but were down from 2,500 and 1,800 in 2Q07.

Forecast

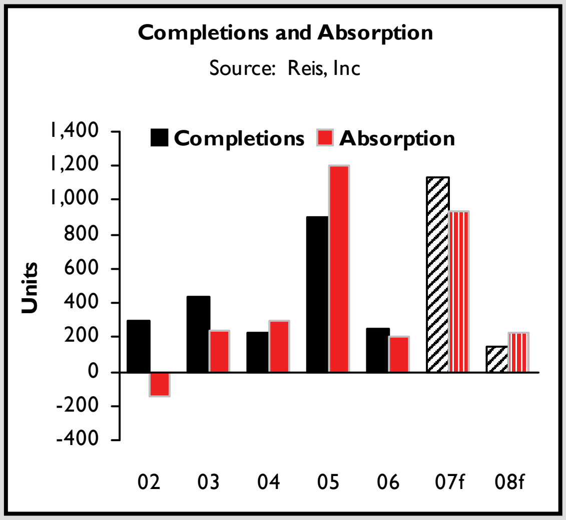
- National City Bank economist Dr. Richard DeKaser forecasts GDP growth to slow from a seasonally adjusted annual rate of 4.9% in 3Q07 to 1.4% in 4Q07. In 2008, DeKaser expects GDP growth to rise from a projected 2.2% in 2007 to 2.6% due to strong conditions in the second half of the year.
- **RED** forecast job growth of 5,200 (1.4%) in 2007. In 2008 we expect payroll growth to moderate to 4,000 (1.1%), with a confidence interval of 3,000 (0.8%) to 5,000 (1.4%).

SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	3Q06	3Q07	Change	3Q06	3Q07	Change
South	$676	$684	1.2%	8.1%	9.4%	130 bps
North	$667	$697	4.5%	9.3%	9.7%	40 bps
Dutch Fork	$583	$609	4.5%	8.1%	7.4%	-70 bps
Lexington County	$608	$618	1.6%	9.2%	8.8%	-40 bps
Metro	**$631**	**$653**	**3.5%**	**8.7%**	**8.8%**	**10 bps**

SUPPLY TRENDS

- According to updated Reis data, two apartment projects containing 379 units were delivered in 3Q07. Both properties are located in the South submarket. The updated data set also reveals one completion in 4Q07 that contained 240 units in the city of Elgin (North submarket).
- Reis originally estimated only 150 units of supply in 2008. The source revised the estimate to 1,337 units on 12-31-07. Reis count 528 units under construction in the North submarket, 420 units in Lexington County and 389 units in the South submarket.
- Measured on a trailing 12-month basis multifamily permit issuance fell 14% year-over-year in November.



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