



Memphis, Tennessee

Multifamily Housing Update 2Q11 August 2011

Payroll Job Summary

Total Payrolls:	586.7m
Annual Change:	- 8.0m
2011 Forecast	- 2.9m
2012 Forecast	+ 6.9m
2013 Forecast	+ 7.1 m
Unemployment:	10.9% (June)

2Q11 Payroll Trends and Forecast

Memphis payroll trends weakened during the second quarter as job losses accelerated from the 6,000-job, -1.0% annual pace recorded during 1Q11 to an 8,000-job, -1.3% rate. Trend deterioration was widespread among super-sectors: 7 of 12 posted weaker quarter-to-quarter results. The government sector was largely responsible, however, accounting for a -3,500 job y-o-y loss, down from a -900 job setback during the prior quarter.

Preliminary July results were more encouraging.

Memphis payrolls increased at a 3,500 job y-o-y rate, the first positive metric since January 2008. The advance was attributable in part to significant improvement in construction and business service trends. Expressed on a seasonally-adjusted basis, metro establishment created 2,900 jobs during the month, the strongest July report since 2005.

RCR project further payroll job losses in 2011, but firmer trends developing next year. Gains averaging 7,000 jobs are expected in 2011 and 2012.

Vacancy Rate Summary

Vacancy Rate (Reis)	11.0%
RED 50 Rank	N/A
Annual Chg (Reis)	-2.0%
Reis YE11 Forecast	9.9%
Reis YE12 Forecast	9.4%

2Q11 Absorption and Vacancy Rate Trends

Tenants absorbed 313 apartment units during 2Q11, according to Reis, up from 148 and 178 units during the prior quarter and the year-earlier periods, respectively. Against no supply, metro occupancy increased 40 basis points sequentially to 89.0%, a three-year high. Over the trailing 12 months, owners tenanted 1,587 units, raising occupancy 200 bps after accounting for only 92 units of new supply.

Class-A properties attracted the lion's share of interest in the first half as tenants net leased 342

units January to June compared to 148 class B&C units. Occupancy among the metro's 30,384 class-A units (93.9%) is substantially higher than the lower tier, where the average rate has held below 86% since the summer of 2008.

Occupancy was stable or higher in every submarket with the exception of Downtown/Midtown, where 43 net move-outs resulted in a 210 bps decline to 89.9%. Adjacent Riverside gained 110 bps, however, to 94.3%, near highest in the Memphis metro area.

Effective Rent Summary

Mean Rent (Reis)	\$635
Annual Change	2.6%
RED 50 Rank	N/A
Reis 2011 Forecast	3.5%
Reis 2012 Forecast	2.9%

2Q11 Rent Trends

Asking and effective rents increased \$5 sequentially, reaching \$687 and \$639, respectively. The 0.7% and 0.8% quarter-to-quarter gains were the largest recorded in Memphis in three years. Expressed on a year-on-year basis, face and net rents advanced at 2.2% and 2.6% rates, also representing the fastest growth since 2008.

Rent trends were robust in the Riverside and Shelby County submarkets, where effective rents surged \$11 (1.2%) and \$9 (1.5%), respectively. From December 2010 to June, Riverside rents

increased \$22 (2.4%) to an average of \$924, approaching the \$927 record high and a return to the 2008 high water mark and a robust recovery from the \$892 recessionary trough set in 1Q10.

Reis expect average metro effective rents to rise \$13 (2.0%) to \$652 by YE11, which would be the strongest June-to-December increase since in at least 12 year. The service projects slower growth in 2012, however, when rents are expected to advance \$19 (2.9%) over the year to \$671. Compound growth of 3.0% from 2012-15 is forecast.

Trade & Return Summary

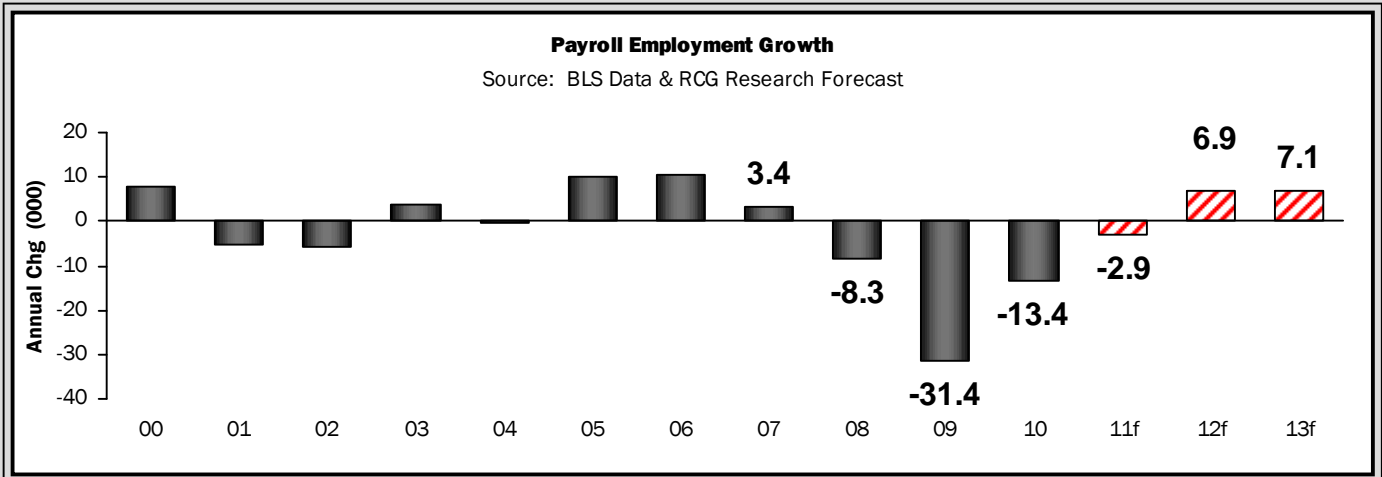
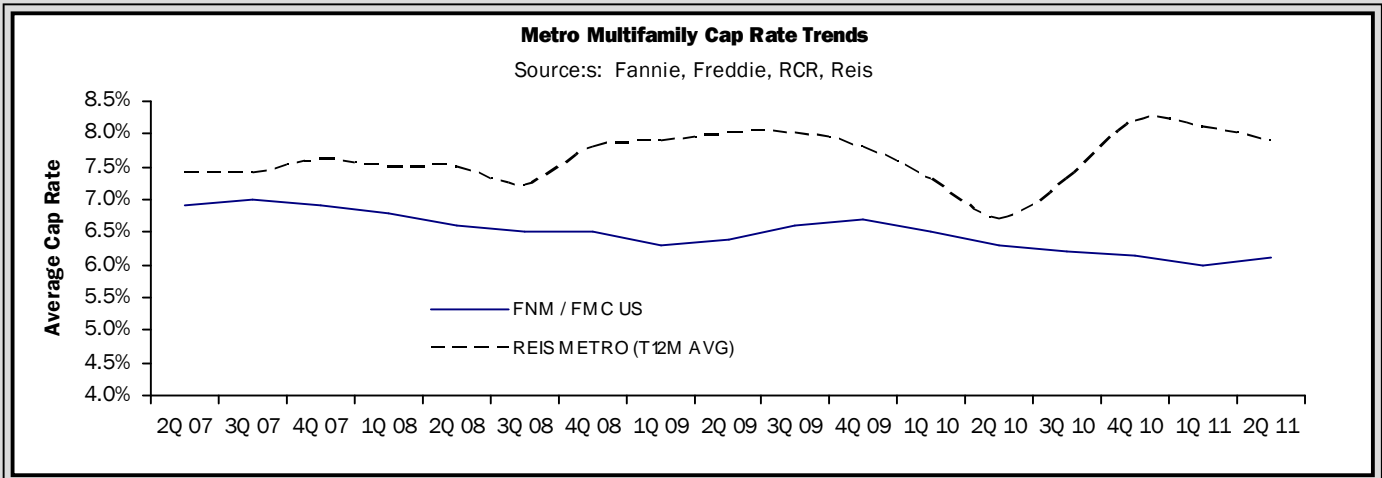
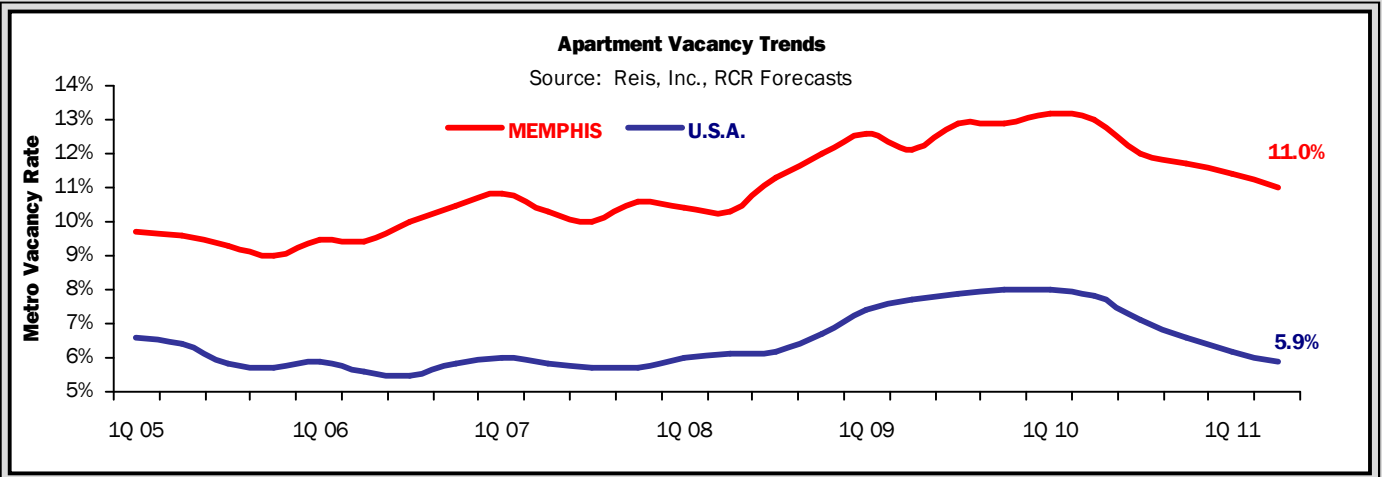
\$2mm+ Sales (1H11)	10
Approx. Proceeds	\$118mm
Median Cap Rate	7.3%
Avg. Price/Unit	\$52,920
Expected Total Return	NA
RED 50 Rank	NA
Risk-adjusted Index	NA

2Q11 Property Markets and Total Returns

Real Capital Analytics report that nine garden and one mid-rise property exchanged hands during the first six months of 2011, accounting for total sales proceeds of \$117.5mm. This compares favorably to the comparable period of 2010 when only five apartments exchanged hands for total proceeds of \$29.5mm. Although sales activity accelerated, cap rates were range-bound, gravitating to the low- to mid-7% area in both periods. Initial property yields in the Memphis area traditionally trade above the national average, but the rate appears to have

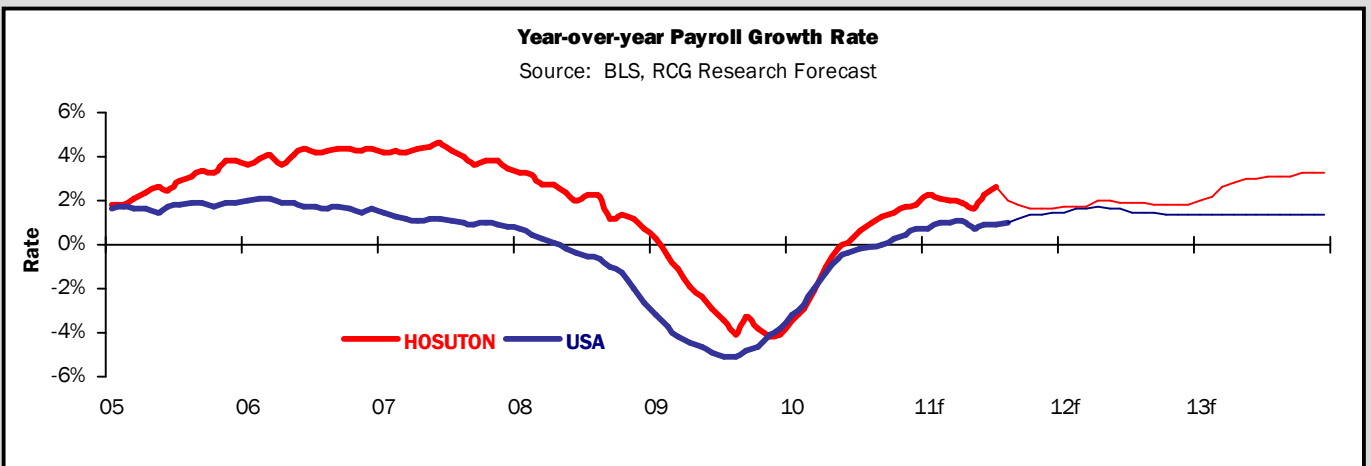
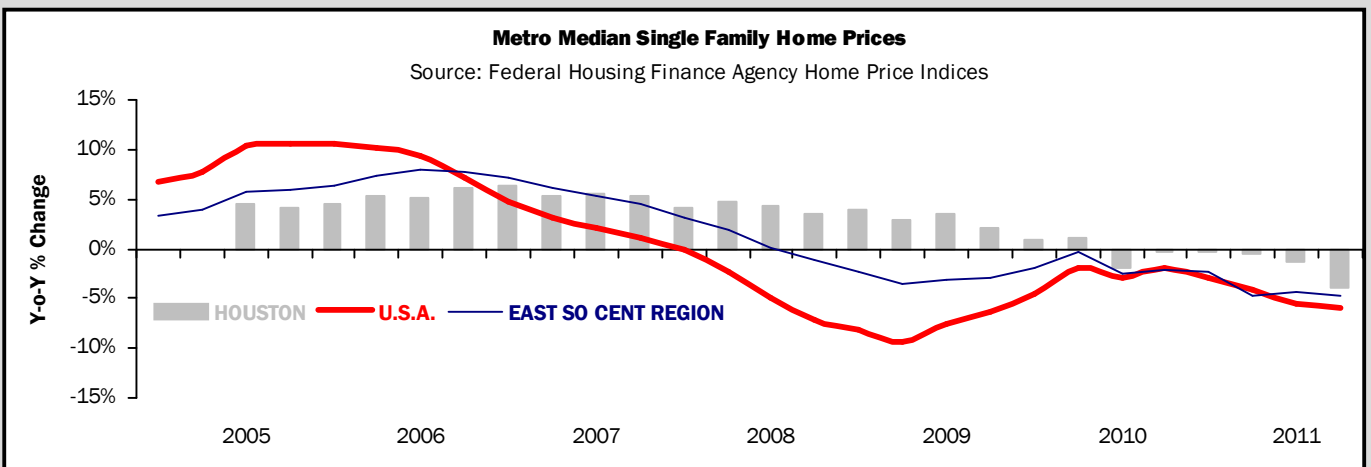
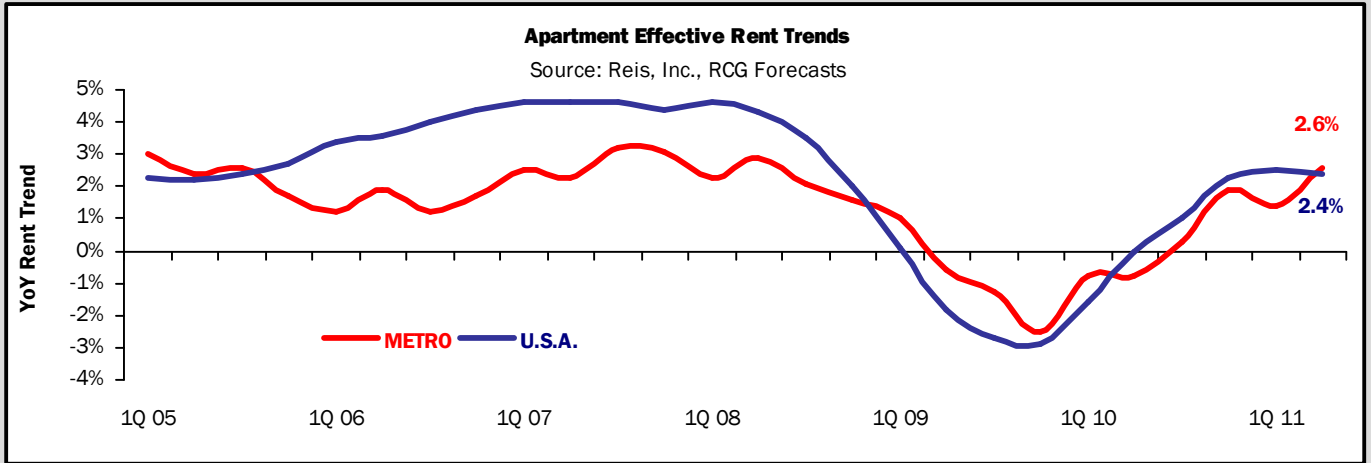
widened in recent months. As illustrated in the graph on page 2, the spread between the trailing 12-month average national FNM and FRD cap rate and the metro average rate widened from 80 basis points in 1Q10 to 180 bps in 2Q11.

The heavy weighting of older class-B&C properties among Memphis area sales biases the average cap rate higher. This point is illustrated by two recent class-A suburban garden project trades (see page 2). Cap rates for the 2008 and 2002 assets were 5.7% and 5.8%, respectively.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rae
Legends of Wolfchase (Raleigh)	A	Jul-2011	\$27.8	\$92,733	5.8%
Preserve Forest Creek (Germ'twn)	A	Jun-2011	\$45.5	\$109,903	5.7%
Orchards of Collierville (Germ'twn)	B	May-2011	\$15.7	\$69,499	6.8%



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SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	2Q10	2Q11	Change	2Q10	2Q11	Change
Cordova	\$725	\$738	1.8%	7.5%	5.4%	-210 bps
Downtown / Midtown	\$529	\$536	1.3%	10.6%	10.1%	-50 bps
East Memphis / University	\$580	\$598	3.1%	9.2%	10.6%	140 bps
Frayser	\$404	\$415	2.7%	18.3%	25.5%	720 bps
Germantown / Collierville	\$814	\$837	2.8%	7.0%	4.8%	-220 bps
Raleigh / Bartlett	\$589	\$616	4.6%	14.7%	13.0%	-170 bps
Riverside	\$901	\$924	2.6%	9.3%	5.7%	-360 bps
South Memphis	\$366	\$376	2.7%	30.2%	25.4%	-480 bps
SE Shelby Co. / Ridgeway	\$579	\$592	2.2%	13.0%	10.6%	-240 bps
Whitehaven / Airport	\$519	\$527	1.5%	16.8%	14.7%	-210 bps
Metro	\$623	\$639	2.6%	13.0%	11.0%	-200 bps

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Memphis, Tennessee



Multifamily Housing Update

April 2011

EXECUTIVE SUMMARY

The economic recovery in Memphis is off to a rocky start. The metro economy underperformed national and regional comparisons year-to-date. Job counts for January and February were down -5,700 jobs (-1.0%) year-over-year as compared to gains for 1.2% in Tennessee and 0.9% nationally. Local weakness was partially attributable to sharp declines (-3,300 jobs) among leisure and hospitality service providers.

Anecdotal reports collected by the Federal Reserve Bank of St. Louis also revealed weakness in the Memphis economy at year-end. The source noted that the metro's real estate, construction and banking / finance sectors remained subdued. Reports from manufacturers were mixed as producers of household appliances, HVAC and medical equipment planned to expand while container and tire manufacturers expressed plans to reduce staffs.

Area firms are cautiously optimistic about near-term growth. The St. Louis Fed reports that business service, air transportation and select manufacturing employers planned to add workers in the coming months. Likewise, 12% of metro businesses surveyed in March by Manpower expressed plans to hire workers in 2Q11, on par with the results from the December survey. Furthermore, the percentage of firms that plan to contract fell from 9% to 6%.

The **RED CAPITAL Research (RCR)** econometric model suggests that Memphis payrolls will increase at a sluggish 5,600 (0.9%) job pace this year. On the other hand, the model predicts that growth will accelerate to 16,100 (2.7%) net new jobs in 2012. Economy.com hold a similar outlook, projecting gains of 8,050 and 15,830

jobs in 2011 and 2012, respectively.

Home price and sales trends also remained weak. According to the National Association of Realtors, the median price of a single-family MSA home fell -6.4% y-o-y to \$113,100 in 4Q10. Furthermore, data from the Memphis Association of Realtors show that home sales plunged -15.4% y-o-y as 2,954 homes sold in 1Q11.

Low levels of new supply contributed to strong occupancy growth over the past year. The Memphis occupancy rate rose from 87.1% at year-end 2009 to 88.6% in the comparable period last year. Developers completed only one project, a 92-unit mid-rise asset in the Riverside submarket. By comparison, positive net absorption totaled 1,239 units during the year. Property managers were most active in the Raleigh / Bartlett, Whitehaven / Airport / Southhaven, Riverside and Germantown / Collierville submarkets.

Rent trends continued to rebound due to firming apartment demand. Class-A asking rent rose 1.0% y-o-y and Class B/C asking rent advanced at a faster 2.1% annual pace, representing significant improvements over dismal 2009 trends. Moreover, the pace of metro effective rent growth accelerated to 1.9% as the size of the average concessions package fell from 7.5% of asking rent in 4Q09 to 7.1% in 4Q10.

Based on an assumed 7.0% going-in yield, **RCR** calculate a strong 12.2% unlevered five-year holding period total return, owing to favorable Reis forecasts. Effective rent is forecast to increase 3.4% annually while the metro occupancy rate rises to 92.0% by year-end 2015. Additionally, the metro boasts a high (4.38) measure of risk-adjusted return owing to low levels of historic rent trend volatility.

SNAP SHOT

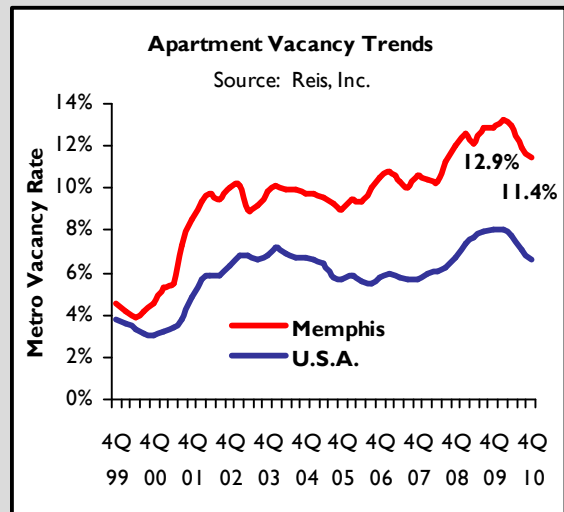
	Y-o-y change	Projected 2011
Vacancy (11.4% - 4Q10)	↓ 150bps	↓ 140bps
Effective Rents (\$630 - 4Q10)	↑ 1.9%	↑ 4.6%
Cap Rate (N/A - 4Q10)	↔	↓
Employment (588.2m - 4Q10)	↓ 10.5m	↑ 5.6m

KEY POINTS

- The metro vacancy rate decreased 50 basis points sequentially and 150 basis points year-over-year to 11.4% in 4Q10. Strong apartment demand and limited supply were responsible. Property managers net leased 1,239 units and developers delivered only 92 units during the year.
- Property managers increased face rents 1.5% in 2010 and reduced concessions, as well. The size of the average concession package was 7.1% of asking rent in 4Q10, down from 7.5% in the same period of 2009. Consequently, the average effective rent rose at a 1.9% year-over-year pace in 4Q10.
- According to the National Association of Realtors, the median price of a single-family MSA home sold during 4Q10 decreased - 6.4% year-over-year to \$113,100.
- Real Capital Analytics identify 11 investor-grade transactions totaling \$67.3 million closed in the year-ended in January. The average price per unit (\$17,939) suggests that many were distressed assets.
- At an assumed 7.0% cap rate, **RCR** calculate an above average 12.2% expected rate of total return.

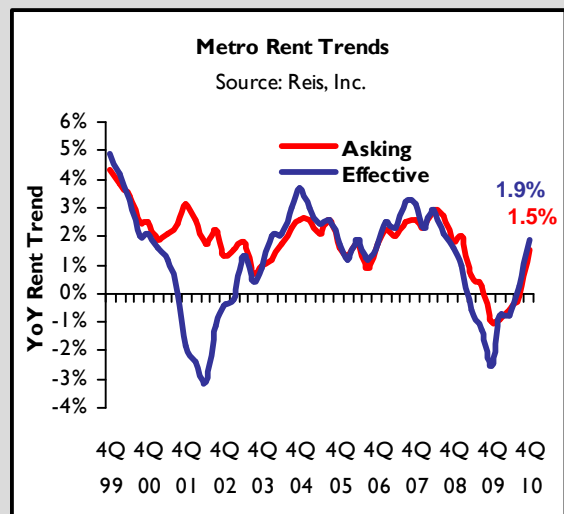
VACANCY TRENDS

- The metro vacancy rate decreased 50 basis points sequentially to 11.4% in the fourth quarter as property managers net leased 371 units and no units were completed during the period. Additionally, vacancy declined 150 basis points year-over-year.
- High average metro vacancy was largely attributable to weak demand for lower-tier assets. Class B/C vacancy was 14.1% in the fourth quarter, as compared to a 7.2% rate recorded among Class-A properties.
- Public REIT data show that same-store occupancy increased 60 basis points year-over-year to 95.6% in 4Q10.
- Reis predict that vacancy will fall to 10.0% by year-end as property managers net leased 1,588 units.



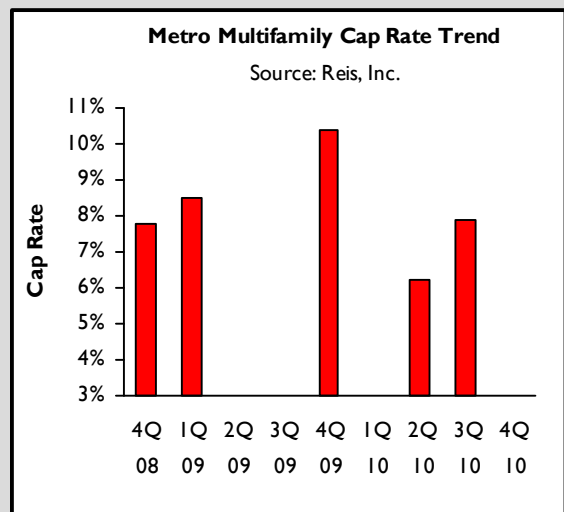
RENT TRENDS

- The average effective rent increased 0.4% sequentially in 4Q10, down slightly from the 0.7% advance observed in the previous quarter. On the other hand, the pace of year-over-year effective rent growth accelerated from 0.3% in 3Q10 to 1.9%, partially owing to a weak over-the-year comparison.
- Falling concessions also contributed to faster rent growth. The size of the average concession package fell from 7.5% of asking rent in 4Q09 to 7.1% in 4Q10.
- According to public REIT disclosures, same-store effective rent increased 1.5% sequentially and 1.9% year-over-year to \$696.
- Reis believe that the pace of annual effective rent growth will accelerate to 4.6% this year.



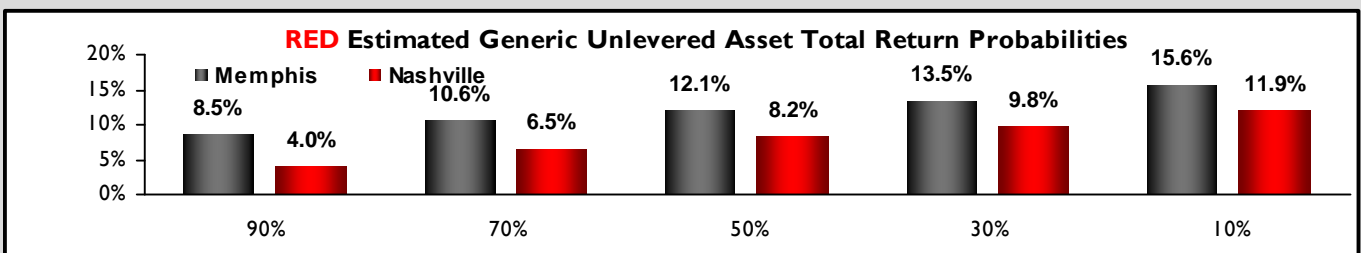
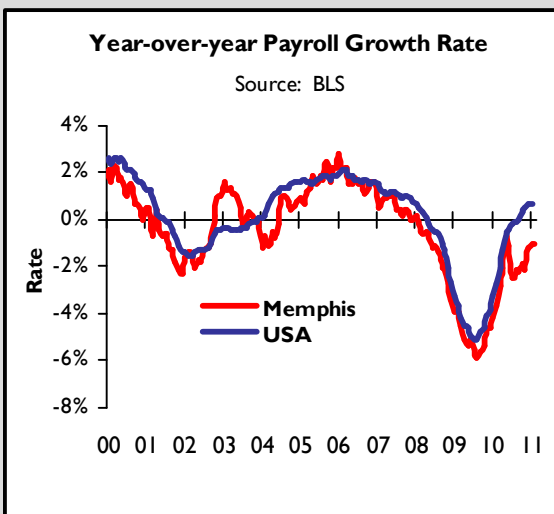
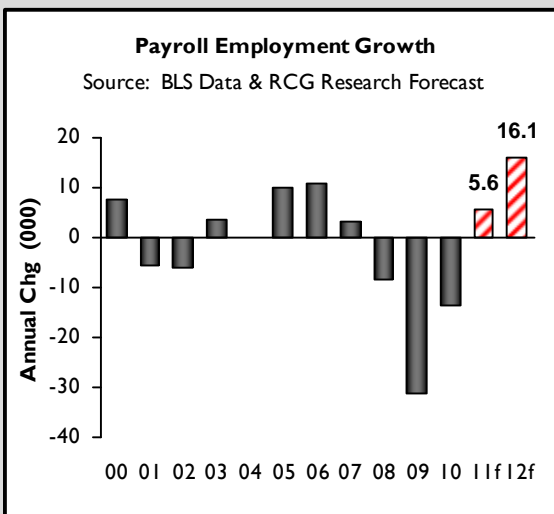
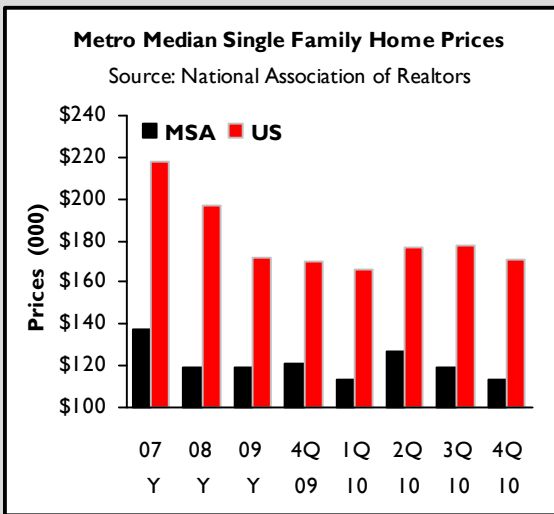
PROPERTY MARKET & CAP RATE TRENDS

- Investor interest in Memphis apartment assets remained muted in recent months. Real Capital Analytics identify 11 transactions involving properties priced at or above \$5 million in the year-ended in January. Sales volume totaled \$67.3 million and the average price per unit was \$17,939.
- The February CB Richard Ellis cap rate survey shows that stabilized Class-A assets traded at cap rates between 6.25% and 7.0%. Additionally, the source reports stabilized Class-B cap rates ranging from 7.5% to 8.5%. By comparison, Integra Realty Resources estimate a metro average cap rate of 7.25% at year-end.
- At an assumed 7.0% metro average cap rate, **RCR** calculate a 12.2% expected rate of total return, comparing favorably to the 8.2% Nashville return.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate



DEMOGRAPHICS & HOUSING MARKET

- The US Census Bureau report that the Memphis MSA population increased at a 0.9% compound average annual rate from 2000 to 2010. Tactician Corp. predict that the pace of population growth will decelerate slightly to 0.6% though 2015.
- According to the National Association of Realtors, the median price of single-family MSA homes sold during 4Q10 decreased -6.4% year-over-year to \$113,100.
- The Memphis Association of Realtors reveal that housing market conditions remained weak in the first quarter. The number of home sales declined -15.4% year-over-year to 2,954 and the median home price dropped -4.7% year-over-year to \$81,000.
- RealtyTrac.com estimate a 2.16% metro foreclosure rate in 2010, ranking 68th highest among the 206 markets tracked by the source.

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

- The Memphis economy remained weak in the fourth quarter as -10,500 (-1.7%) positions were eliminated from payrolls. The largest decline (-4,200 jobs) was observed in the leisure and hospitality sector, followed by losses in retail (-1,800 jobs) and government (-1,700 jobs).
- The pace of payroll job attrition decelerated to -5,600 in the twelve-month period ended in February, partially owing to growth among education and health service providers. Combined, the sectors were responsible for a -100 job year-over-year decrease in 4Q10. But headcounts advanced 1,500 year-over-year in February.
- Conversely, business service hiring trends deteriorated year-to-date. The super-sector created 1,200 jobs year-over-year in 4Q10 but shed -500 jobs in the year-ended in February.
- Unemployment also trended lower, falling from 10.9% in February 2010 to 10.4% in the same month this year.

Seasonally-Adjusted

- On a seasonally-adjusted basis, job trends were dismal in 2H10. Following a gain of 3,000 jobs in the first six months of the year, employers shed -11,700 jobs in the second half. Fortunately, preliminary data suggest that 700 positions were added to payroll in the first two months of 2011.

Forecast

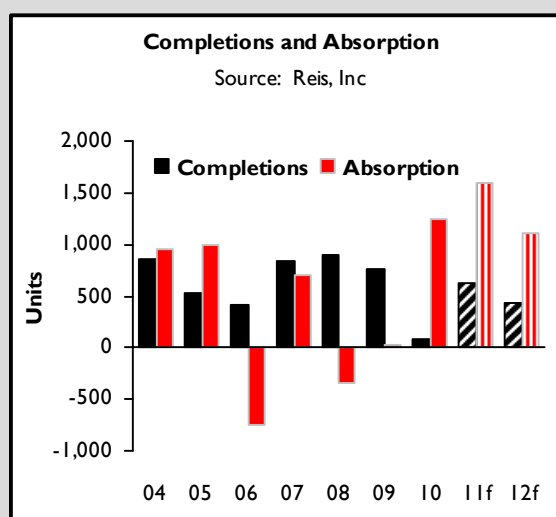
- RCR expect Memphis headcounts to rise 5,600 (0.9%) in 2011 and 16,100 (2.7%) in 2012.
- Economy.com generate a similar forecast of 8,050 (1.4%) net new jobs this year and 15,830 (2.7%) jobs in 2012.

SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	4Q09	4Q10	Change	4Q09	4Q10	Change
East Memphis / University	\$598	\$596	-0.3%	10.5%	9.8%	-70 bps
South Memphis	\$363	\$369	1.7%	23.6%	21.1%	-250 bps
Frayser	\$426	\$412	-3.3%	16.8%	16.8%	Unchg
Raleigh / Bartlett	\$594	\$605	1.9%	15.7%	13.1%	-260 bps
Southeast Shelby County / Ridgeway	\$564	\$581	3.0%	12.5%	12.8%	30 bps
Whitehaven / Airport / Southhaven	\$516	\$523	1.4%	17.5%	15.1%	-240 bps
Riverside	\$895	\$902	0.8%	10.9%	7.5%	-340 bps
Germantown / Collierville	\$811	\$824	1.6%	7.3%	5.2%	-210 bps
Downtown / Midtown	\$527	\$528	0.2%	9.8%	9.2%	-60 bps
Cordova	\$714	\$736	3.1%	7.4%	6.1%	-130 bps
Metro	\$618	\$630	1.9%	12.9%	11.4%	-150 bps

SUPPLY TRENDS

- Developers completed only one apartment asset in 2010. The 92-unit mid-rise property was completed in the Riverside submarket in July. The property was 40.2% occupied in December.
- Reis also were aware of three apartment properties under construction in April, totaling 440 units. All of the properties are located in the Riverside submarket.
- Fourteen apartment properties (2,799 units) were in the planned or proposed phase in April.
- Condo developers also were active in the Riverside submarket as two condo properties were under construction in April. The assets contained 86 and 94 units, respectively. Additionally, a 40-unit condo property was under construction in the East Memphis / University submarket.



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