

Austin, Texas



Multifamily Housing Update

August 2010

EXECUTIVE SUMMARY

After missing an upgrade cycle or two during the recession, business customers were anxious to replace aging PC's in the spring, boosting Round Rock-based Dell's 2Q earning 16% and returning the company to world #2 status in PC sales. Meanwhile, strong global demand for home computers, mobiles, PDA and tech capital goods, pushed global semiconductor sales up 37% year-on-year and 47% year-to-date, according to the Semiconductor Industry Association, helping Austin post some of the strongest payroll growth in the country: 16,800 jobs created January to July, expressed on a seasonally-adjusted basis.

Year-on-year comparisons showed a 6,200-job advance in 2Q10, up from 1Q's 5,000-job, -0.7% setback. Gains were still stronger in July when total payrolls revealed an 18,600-job, 2.5% y-o-y advance, the strongest metric recorded in 26 months.

While high tech revenues may have been the catalyst, electronics firms weren't the principal source of new jobs. Rather, the hospitality and state government sectors made the largest contributions, accounting for 8,100 jobs y-o-y in 2Q and 13,300 over the 12-month period ended in July. The data suggest that expansion at U.T. and strong leisure travel activity were responsible for the robust conditions.

The strength of Austin's economy won praise from a host of media sources recently, earning kudos from Kiplinger's, Forbes and CNN since June. **RED Research's** econometric model was no exception, forecasting that capital area firms will add an average of 9,000 jobs in 2010, surging to 17,700 and 28,000 in 2011 and 2012, respectively. Next year's 2.4% growth rate would be the third fastest pace posted among the **RED 50**, following only Dallas and Nashville.

Austin's economic strength and Gen Y-friendly lifestyle make it a magnet for ambitious Twenty-something job seekers. Second quarter apartment demand was exceptionally strong as a result, producing meaningful occupancy gains. Tenants net leased 1,255 units in 2Q, according to Reis, the strongest spring quarter results in four years. With supply reduced to a four-year quarterly low 552 units, occupancy increased 50 basis points sequentially and 90 bps year-over-year to 90.4%. Submarkets with high tech and Gen Y tenant bases posted the strongest sequential gains, led by Central, Round Rock and Cedar Park, where occupancy increased 210, 170 and 120 bps, respectively.

2Q rent trends were mixed, rising sharply in some areas and falling in others. Overall, average asking rents were unchanged quarter-to-quarter while concessions levels declined about 2%, producing a \$2 (0.3%) effective rent advance. Rents in the Northwest suburbs (RR620N and Cedar Park) posted healthy 170 bps or greater increases, while infill areas recorded moderate rent declines, including the Central and Near North submarkets, where effective rents declined 40 and 230 bps, respectively.

The performance outlook generated by Reis forecast models continued to improve. The service now expects occupancy to rise to 90.7% by YE10, up from forecasts of 90.1% made in February and May. With regard to effective rents, the latest Reis projection foresees a 1.8% advance in 2010, up from 1.2% and -0.4% published in the previous two quarterly cycles.

RCR's estimate of unlevered returns follows accordingly. In the latest iteration, annual total returns from generic Austin assets are expected to average 9.0%, ranking fourth highest among the **RED 50** markets.

SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (9.6% - 2Q10)	↓ 90 bps	↓ 20 bps
Effective Rents (\$789 - 2Q10)	↑ 1.7%	↑ 1.8%
Cap Rate (6.0% - 2Q10)	↓ 1.0%	↔ Neutral
Employment (768.6m - 2Q10)	↑ 6.2m	↑ 9.0m

KEY POINTS

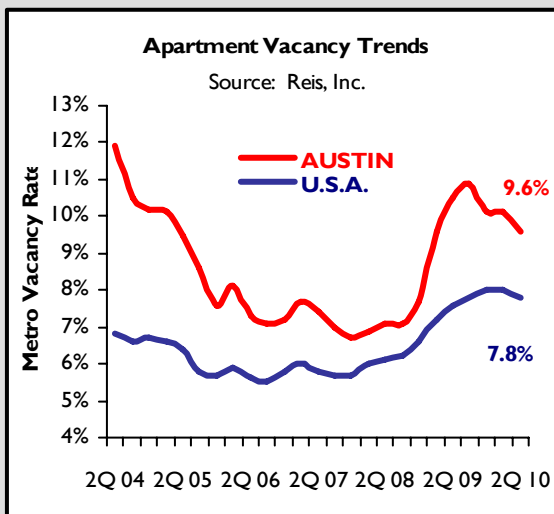
- Austin displayed impressive job and demographic growth in the first half, generating some of the strongest apartment demand in the country. Reis report that tenants absorbed 1,255 units during 2Q10, giving rise to a 50 basis point increase in average market occupancy to 90.4%.
- Rent trends were mixed as apartment owners emphasized occupancy growth over revenue enhancement. The average metro face rent was unchanged sequentially, although a small decrease in lease concessions allowed effective rents to rise \$2 (0.3%) to \$789.
- Hiring by accommodations and food service establishments, university labs and faculties and professional service firms paced a job surge in the early summer. Payrolls increased by a monthly average of 6,200 jobs in 2Q and 18,600 jobs year-on-year in July.
- Transaction activity accelerated, rising from four transactions valued at \$60mm in 1H09 to nine transactions valued at \$132mm during the first half 2010 (Real Capital Analytics).
- A recent construction SoCo mid-rise sold for \$27mm in April, priced to a 6% estimated cap rate, setting a market value standard.

2Q10 VACANCY TRENDS

- Brisk demand chipped away at the metro average vacancy rate for the third consecutive quarter. Tenants absorbed 1,255 units against supply totaling 552, increasing metro occupancy by 50 basis points to 90.4%.
- Demand in the Far South submarket, largely running from Manchaca to the Colorado River, and Round Rock submarket was exceptional, approaching 1,700 units between them. Respective submarket occupancy rates increased 40 bps and 170 bps sequentially.
- Owners of infill units near Downtown and the U.T. campus must have been pleased by tenant demand. Central submarket occupancy increased 210 bps sequentially after net absorption of about 300 units.

RANK: 37th out of 50

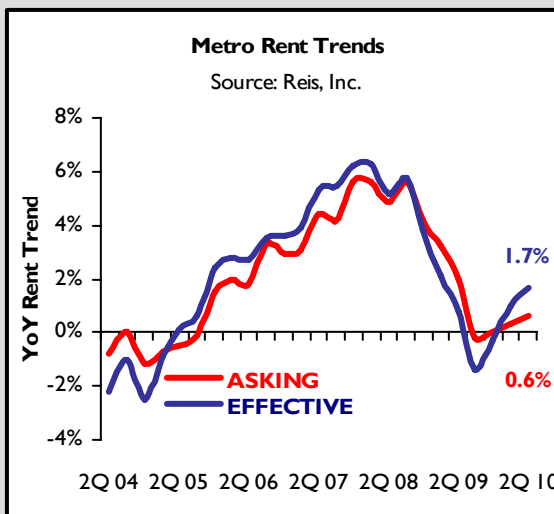
Reis expect occupancy to rise 20 bps by YE10 and ultimately to 92.7% by YE14. Six public REITs with 7,360 Austin units posted a 20bps sequential gain in 2Q10.



2Q10 RENT TRENDS

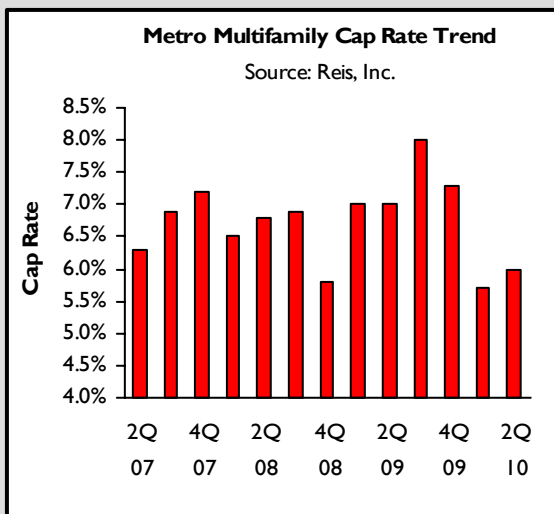
- Following 1Q10's impressive 0.8% effective rent surge, average gains in the second quarter were modest. Reis found that average face rents were steady March to June, while concession levels receded by \$2. As a result, average effective rents increased 0.3% sequentially to \$789.
- M/PF Research report that effective rents declined -0.5% during the second quarter, despite estimated net absorption of 3,800 units. The firm typically is a reliable source of Texas market data.
- O'Connor & Assoc. report that average Austin rent per unit was \$818 in June, a 0.3% increase from \$815.50 in March.
- Reis forecast a \$6, 0.7% average effective rent increase for Austin in 2H10, accelerating to \$18 (2.3%) in 2011, and \$23 (2.8%) in 2012.

RANK: 5th out of 50



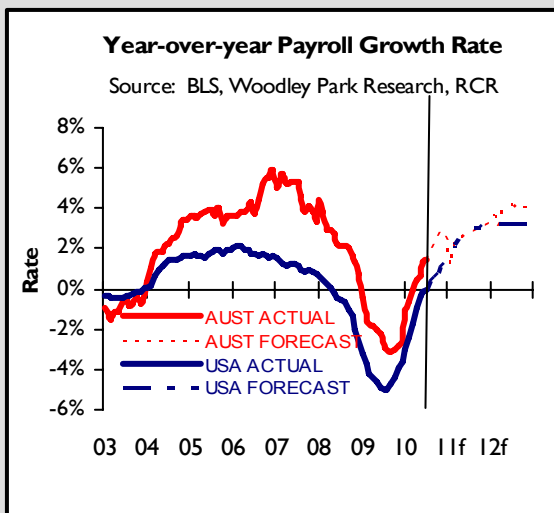
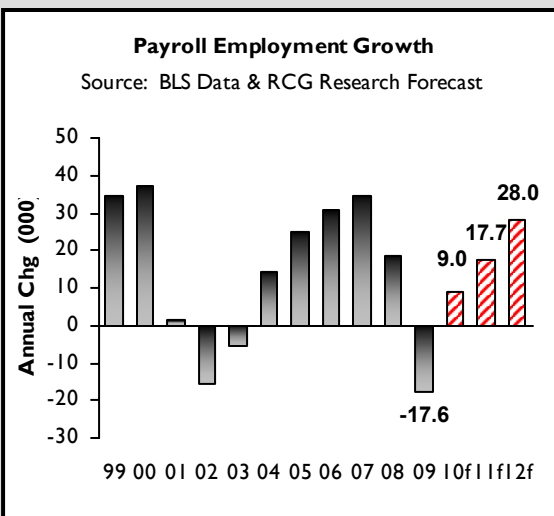
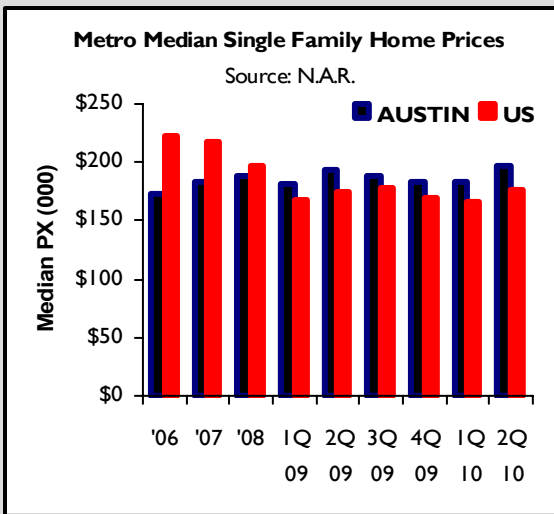
PROPERTY MARKET & CAP RATE TRENDS

- Investors stepped up acquisition efforts in the Capital City, acquiring nine properties in the first half 2010 for a total of \$132 million, up from four transactions valued at \$60mm in the same period of 2009.
- The marquis transaction was the acquisition of a 2008-construction mid-rise property in South River City. A nationally-branded management company paid an estimated \$27mm for the property or approximately \$160,000 per unit. **RCR** estimate that the price equates to a 6.0% yield.
- Using a 6.0% generic cap rate assumption, **RCR** derive a 9.0% expected five-year, unlevered total rate of return for Austin property investments. Only San Antonio, Charlotte and Fort Lauderdale produce higher measures of expected return. Austin is a volatile market, however, trimming the risk-adjusted index to a 46th-ranked 1.46.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Malibu Apartments (Far North)	C	Jun-2010	\$21.0 (est)	\$44,118	4.5%
SoCo Midrise (Far South)	A	Apr-2010	\$27.0	\$159,763	6.0%



DEMOGRAPHICS & HOUSING MARKET

- Austin home prices have been remarkably stable over the past five years, in stark contrast to the roller coaster ride experienced in many market areas during the period. According to the N.A.R., the median price of an Austin MSA home sold in 2Q10 was \$196,200 (+1.3% y-o-y). The metro median prices observed in the second quarters of 2007, 2008 and 2009 were \$186,600, \$194,200 and \$194,000, respectively.
- According to HousingTracker.net, the median listing price of Austin homes during August was \$230,000, representing an -8.0% decline from August 2009, and a -1.9% decrease from July 2010.
- Home sales tumbled in July, falling 25% year-over-year, according to the Austin Board of Realtors, largely due to expiry of the federal buyers credit. The median priced home traded for \$222,000, up 15% y-o-y, and the average market time shortened by two days to 73.

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

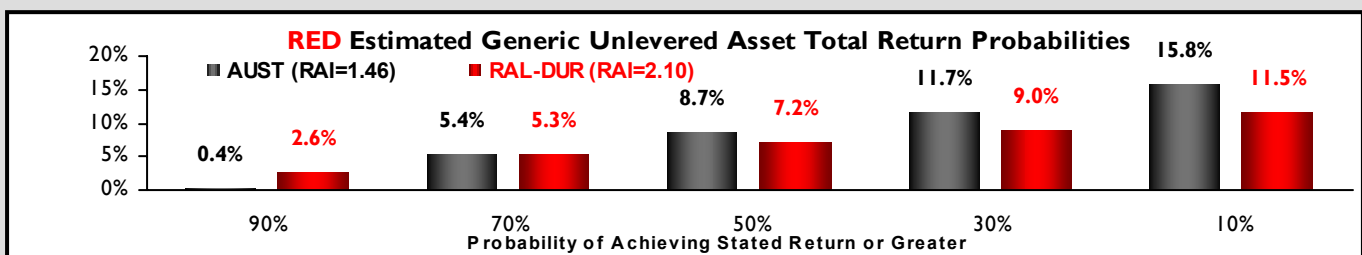
- Metro payroll trends improved considerably in the spring. Year-over-year comparisons for the April—June period showed a 6,200-job, 0.8% increase, up from 1Q10's 5,000-job, -0.7% decline. Growth in 2Q compared favorably to the nation's -0.5% annual rate of job loss.
- Faster hiring among wholesale and retail trade shops, growth in the tech-related business services and hospitality industries and firmer conditions in the goods producing sectors propelled the advance.
- Lodging, food service and professional service firms and the state government accelerated hiring in July. The foregoing brought new employees on at a 12,700-job annual rate, boosting total payrolls 18,600 jobs above the comparable total in July 2009.
- The Austin workforce expanded by nearly 20,000 (2.2%) individuals in the 12 months ended in June. Consequently, the unemployment rate held steady at a near record 7.4% despite robust job creation.

Seasonally-Adjusted

- Establishment payrolls increased in eight of ten months from October 2009 to July 2010, rising 19,300 jobs in the process. Of this amount, 10,900 jobs were created during the second quarter, up from 5,400 in 1Q10. The rate of progress slowed to only 500 jobs in July, however.
- Temporary hiring for the 2010 Census had a minor bearing on 2Q10 payroll expansion, accounting for roughly 500 jobs.

Forecast

- Austin job trends appear to be on the cusp of a major positive move. The RCR payroll model projects that year-on-year payroll expansion will accelerate to a 15,800-job rate in 3Q10, rising gradually to a 21,000-job pace by 4Q11. The trend is expected to produce a 9,000-job average monthly advance this year, followed by 17,700-job and 28,000-job adds in 2011 and 2012, respectively.

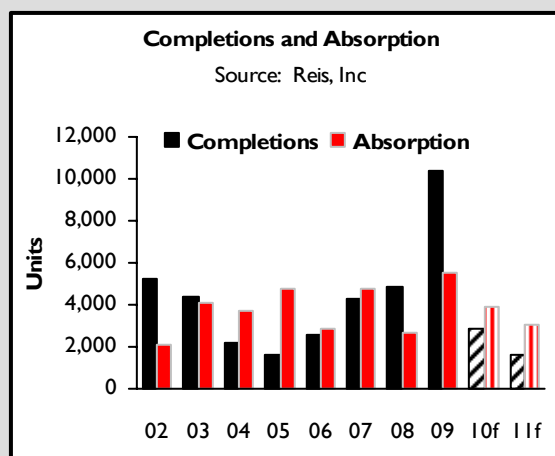


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	2Q09	2Q10	Change	2Q09	2Q10	Change
Central Austin	\$987	\$1,043	5.7%	12.0%	9.4%	-260 bps
East Austin	\$615	\$649	5.5%	8.6%	12.7%	410 bps
Far North Central	\$567	\$568	0.2%	8.4%	11.9%	350 bps
Far Northwest	\$855	\$851	-0.5%	6.2%	7.4%	120 bps
Far South	\$838	\$862	2.9%	11.7%	8.8%	-290 bps
Highway 183 / Cedar Park	\$722	\$722	0.0%	10.8%	10.0%	-80 bps
Near North Central	\$666	\$689	3.4%	6.6%	14.4%	780 bps
Near Northwest	\$758	\$765	0.9%	7.6%	8.5%	90 bps
Near South Central	\$946	\$920	-2.7%	10.4%	7.2%	-320 bps
North Travis	\$725	\$727	0.3%	11.6%	7.0%	-460 bps
Ranch Road 620N / FM2222	\$1,027	\$1,040	1.2%	13.6%	9.0%	-460 bps
Round Rock / Georgetown	\$780	\$796	2.0%	17.5%	11.9%	-560 bps
San Marcos / North Hays Co.	\$718	\$727	1.3%	8.3%	10.6%	230 bps
Southeast Austin	\$684	\$696	1.7%	9.4%	11.1%	170 bps
Metro	\$776	\$789	1.7%	10.5%	9.6%	-90 bps

SUPPLY TRENDS

- After welcoming the largest crop of new apartment units in the 21-year Reis data series (10,337) in 2009 (quite an achievement for this active market), Austin supply level eased in 1H10 and are poised to decline sharply over the next several years.
- Developers completed five projects encompassing 1,387 units during the first half 2010, down from 6,071 units in 1H09, and 4,266 units in 2H09. Reis expect 1,475 units to be delivered in the second half (including a 294-unit mid-rise near Lady Bird Lake completed in August) and 1,622 units (an 18-year low) in 2011.
- The trailing 12-month trend of building permits in structures with 5 or more units peaked in April at 7,802. The trend plummeted thereafter, falling to a series-low 735 units during the year ended in June. From January to July 2010, only 386 units were permitted.
- Reis identify six large apartment projects presently under construction. Four are expected to receive final CoO during 2010, adding 1,181 units to the market inventory. The other two are projected to reach completion by 1Q12, contributing 518 units to stock. A total of 32 projects encompassing 8,183 units are in the planning phase, according to Reis. O'Connor & Assoc. counted 2,820 units underway and 2,342 units in the planning stage in June.



- A 174-unit Allandale mid-rise entered lease-up in late 2009 and was completed in April. Asking rents ranged from \$930 to \$2,015 in August. The property was 80% occupied in June at rents averaging \$1,497 (Reis).
- A 288-unit garden project in Kyle (Hays County) began leasing units in January and received a final Certificate of Occupancy in April. The project was 38% occupied in June at rents averaging \$831.

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