RED CAPITAL GROUP®

Market Overview

Salt Lake City, Utah

Multifamily Housing Update **January 2010**

EXECUTIVE SUMMARY

Recent figures revealed that Salt Lake City employment headcounts declined at a faster rate in the third and fourth quarters. Indeed, the pace of payroll job attrition averaged -17,800 (-2.8%) in 1H09 and -28,500 (-4.4%) in 2H09. Likewise, annual total employment declines totaled -14,043 (-2.4%) in 1H09, but accelerated to a monthly average of -26,672 (-4.5%) jobs from July to November.

Attrition among construction firms and business service establishments was largely to blame. Slower residential construction activity contributed to a -9,500 job y-o-y decrease in builder payrolls in 2H09, following a -7,100 job y-o-y decline in 1H09. In the business service super-sector, firms eliminated -7,800 positions from payrolls y-o-y in 2H09. A majority of the loss (-5,800) was observed among administrative support service providers.

Employers were relatively optimistic regarding near-term employment expectations. Among metro firms that responded to the Manpower Employment Outlook Survey in December, 17% expected to create jobs in 1Q10, outnumbering the 14% that planned to contract. By comparison, results from the September survey showed that an equal share (17%) of companies planned to expand headcounts as did reduce payrolls.

Of course, business sentiment is a poor predictor of actual behavior. In December 2008, 18% of Salt Lake City firms planned to add staffs and only 12% anticipated cutbacks, yet seasonally-adjusted job figures showed that 1Q09 was the weakest period of the recession as a net of -9,800 jobs were eliminated from January to March.

The **RED CAPITAL Research** (**RCR**) econometric model suggests that businesses may be better prognosticators now. Our payroll model forecasts flat employment levels this year and a stout 16,500 (2.7%) job expansion in 2011. Economy.com are bullish, by comparison projecting a 26,830 (3.3%) job gain in 2010 and a robust 34,250 (4.1%) job boom next year.

Weak job trends hampered apartment demand in the past year. As a result, the metro occupancy rate fell 100 basis points y-o-y from 95.0% in 3Q08 to 94.0% in 3Q09. Negative net absorption totaled 122 units and developers completed 619 units in the twelve-month period ended in September. Preliminary data show that conditions were even worse in the fourth quarter. Reis estimate a 92.8% 4Q occupancy rate and Marcus & Millichap report a 93.5% rate.

Attempting to maintain occupancy levels, property owners cut asking rents and increased concessions. The 3Q09 asking rent was $750, down -0.5% from the same period of 2008. The size of the average concession package surged from 5.2% of asking rent in 3Q08 to 7.5%, producing a -2.9% annual decrease in effective rent. As was the case with occupancy, asking rent trends weakened in 4Q09, falling -0.9% sequentially.

Apartment acquisition activity was muted in 2009. Real Capital Analytics were aware of only three transactions involving properties priced at or above $5 million, totaling $55 million in sales proceeds. Marcus & Millichap attribute sluggish sales to different expectations from buyers and sellers as well as weak economic and demographic conditions. But the source predict that activity will improve this year as the market stabilizes, with the caveat that investors may choose to target foreclosed homes, rather than apartment assets.

SNAP SHOT

	Y-o-y change	Projected 2009
Vacancy (6.0% - 3Q09)	▲ 100bps	▲ 60bps
Effective Rents ($694 - 3Q09)	▼ 2.9%	▼ 2.4%
Cap Rate (N/A - 3Q09)	↔	▲
Employment (612.5m - 3Q09)	▼ 28.8m	▼ 28.1m

KEY POINTS

- Vacancy increased 20 basis points sequentially to 6.0%, owing to negative net absorption of 48 units. On an annual basis, vacancy rose 100 basis points as developers completed 619 units in year-ended in September. According to the Reis ***Flash Report***, vacancy rose to 7.2% in the fourth quarter.

- Rents continued to trend lower in the third quarter. The average effective rent fell -0.1% sequentially and -2.9% year-over-year to $694 in 3Q09. Asking rent declined at a slower -0.5% annual rate. But asking rent trends deteriorated sharply in fourth quarter as the figure fell -0.9% sequentially.

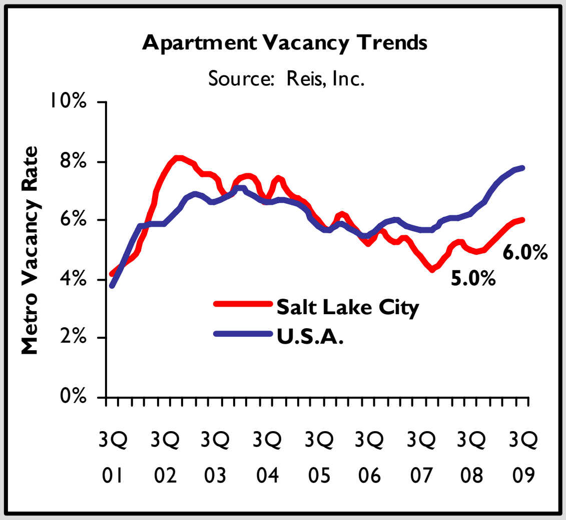
- Data from the FHFA home price index show that the pace of annual home price depreciation accelerated from -7.1% in 2Q09 to -8.4% in 3Q09. Conversely, the NAR estimate that the median single-family home price dropped at a slower -4.9% in 3Q09 as compared to the -7.6% decrease in 2Q09.

- Real Capital Analytics estimate that sales volume totaled $55 million in 2009, down -86% from 2008. The average price per unit was $72,180 and the average cap rate was 8.4%.

VACANCY TRENDS

- The metro vacancy rate increased 20 basis points sequentially and 100 basis points year-over-year to 6.0% in 3Q09. Negative net absorption was partially to blame as tenants vacated 48 units in 3Q09 and 122 units in the twelve-month period ended in September.
- Only two of the metro's ten submarket experienced lower vacancy year-over-year in 3Q09. Vacancy in the West Valley City submarket fell 110 basis points from 5.7% in 3Q08 to 4.6% in 3Q09. Likewise, the Northwest Salt Lake submarket vacancy rate decreased 30 basis points to 4.3%.
- Preliminary Reis data show that vacancy rose to 7.2% in the fourth quarter. By comparison, Marcus & Millichap estimate a 6.5% vacancy rate in 4Q09.

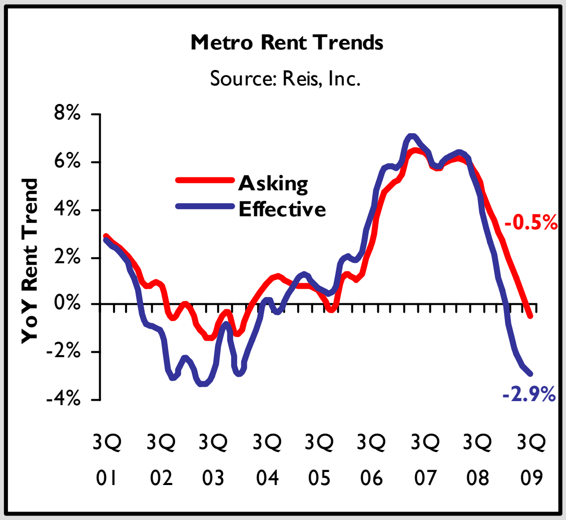
RANK: 14th out of 50



RENT TRENDS

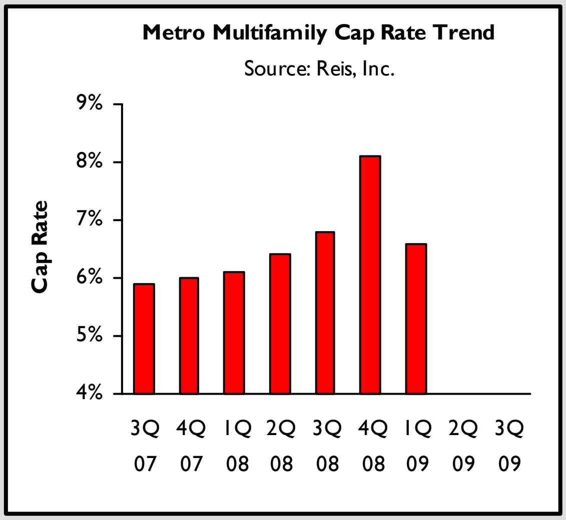
- Effective rent continued to plunge in the third quarter. The average effective rent fell -2.1% year-over-year in 2Q09 and -2.9% year-over-year in 3Q09. Asking rent declined at a moderately slower -0.5% annual pace to $750 in 3Q09.
- Class-A asking rent decreased -0.7% year-over-year to $877. By comparison, Class B/C asking rent dropped at a -0.6% rate from $700 in 3Q08 to $696 in 3Q09.
- The Davis County submarket effective rent advanced 0.4% year-over-year to $670. Effective rent in all of the other submarket decreased over-the-year.
- Based on Preliminary Reis data, asking rent fell -0.9% sequentially in 4Q09.

RANK: 37th out of 50



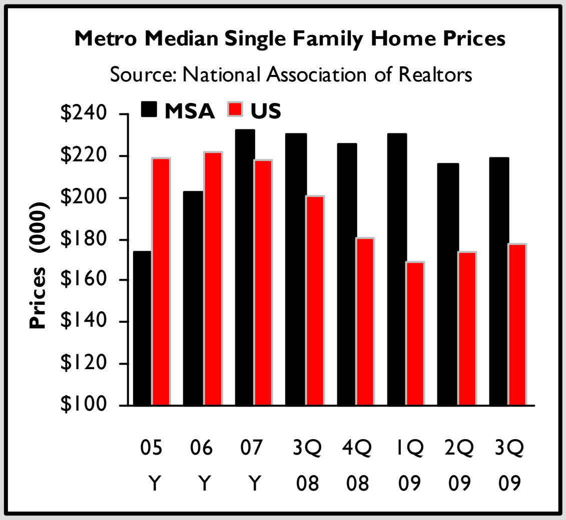
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics identify three investor-grade trades in 2009, down from 20 transactions in 2008. The source reports that sales volume totaled $55 million, -86% below the 2008 tally. The average price per unit was $72,180 and the average cap rate was 8.4%.
- Only one transaction was recorded in the second half of the year. The 1992 vintage asset located in the Midvale / Sandy submarket sold for $56,010 per unit, yielding an estimated 8.4% cap rate.
- Marcus & Millichap expect transaction activity to increase this year. The source report that cap rates for Class-A properties averaged 7.5% last year and going-in yields for Class B/C assets were around 9%.
- At an assumed 6.8% cap rate, **RCR** calculate a 6.0% expected rate of total return, above the 5.4% **RED** 50 average. Likewise, Salt Lake City boasts an above average 2.45 measure of risk-adjusted return.



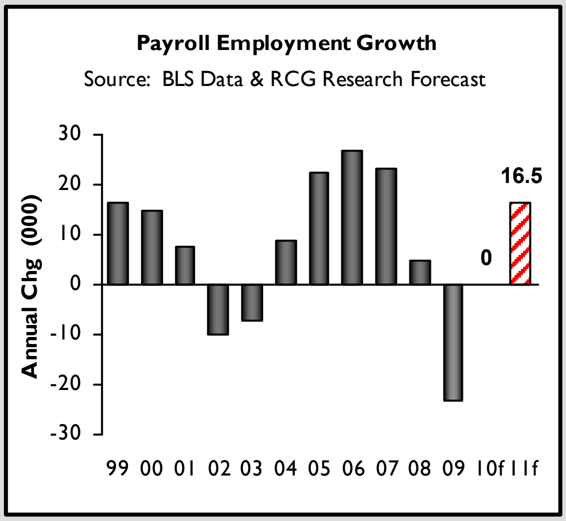
NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Cottonwood Apartments	B/C	November 2009	$5.8	$56,010	8.4%



DEMOGRAPHICS & HOUSING MARKET

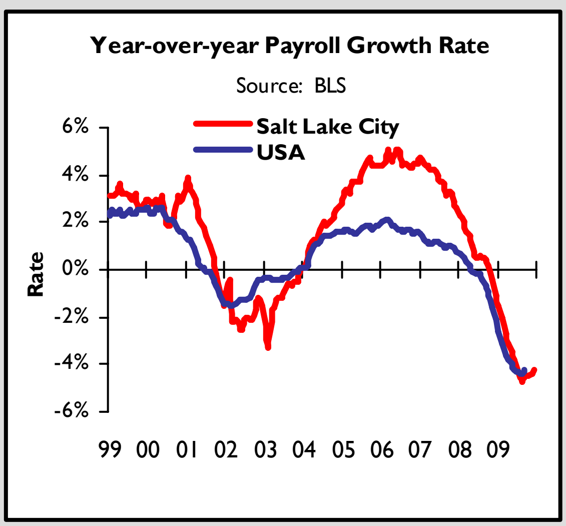
- Positive net domestic migration slowed from 1,301 residents in 2007 to 243 residents in 2008. As a result, metro population growth decelerated from 2.0% to 1.9%.
- The National Association of Realtors report that the median price of a single-family MSA home decreased -4.9% year-over-year from $230,200 in 3Q08 to $218,900 in 3Q09. Additionally, the source calculate that the median condo price decreased -5.8% annually to $157,300.
- Salt Lake City registered an -8.4% over-the-year decrease in the FHFA home price index in 3Q09, the fifth consecutive quarterly decline.
- At 1.08%, the metro Q3 foreclosure rate ranked 41st among the 203 markets tracked by the source.



EMPLOYMENT TRENDS

Non-Seasonally Adjusted

- Payroll employment conditions in the Salt Lake City metro area were weak in the third and fourth quarters. On an annual basis, net losses totaled -28,800 (-4.5%) jobs in 3Q09 and -28,100 (-4.4%) jobs in 4Q09.
- Losses among construction and business service firms were largely to blame. Combined, the sectors cut -17,600 jobs year-over-year in 3Q09 and -16,800 jobs year-over-year in 4Q09.
- By contrast, education and health service firms added workers at a moderately faster pace in 2H09. The sectors added a monthly year-over-year average of 2,000 employees in 1H09 and posted a 2,400-job year-over-year average gain in 2H09.
- The metro unemployment rate peaked at 6.3% in October, far below the US comparison (9.5%). But tame growth in the metro unemployment rate belied job trends. Total employment fell -32,372 (-5.5%) in the twelve-month period ended in October, but a -2.4% drop in the size of the labor force slowed the rise in unemployment.



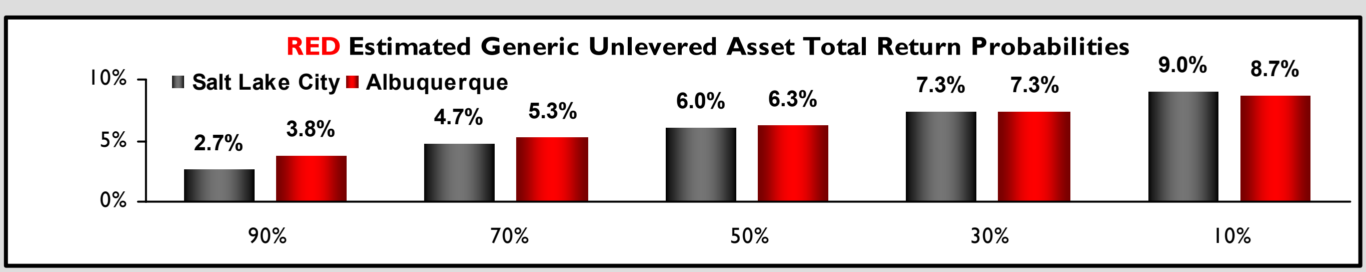
Seasonally-Adjusted

- According to seasonally-adjusted payroll data, most of the metro job loss occurred from October 2008 to June 2009, averaging about -2,300 jobs lost per month. By comparison, the pace of job attrition decelerated to a monthly average of -1,200 jobs during 2H09.

Forecast

- The **RCR** econometric model predicts that employment levels will stabilize this year and expand 16,500 (2.7%) in 2011.

RANK: 34th out of 50

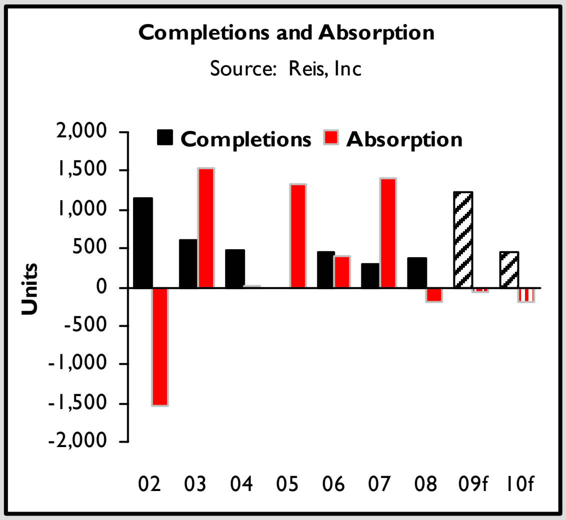


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	3Q08	3Q09	Change	3Q08	3Q09	Change
Central Salt Lake	$776	$753	-3.0%	4.0%	5.5%	150 bps
South Salt Lake	$684	$657	-3.9%	5.2%	7.3%	210 bps
Murray	$742	$734	-1.1%	3.9%	5.4%	150 bps
Midvale / Sandy	$765	$743	-2.9%	4.9%	5.3%	40 bps
West Jordan	$798	$762	-4.5%	5.1%	6.4%	130 bps
Southwest Salt Lake	$682	$648	-5.0%	5.4%	6.7%	130 bps
West Valley City	$697	$667	-4.3%	5.7%	4.6%	-110 bps
Northwest Salt Lake	$640	$616	-3.8%	4.6%	4.3%	-30 bps
Davis County	$667	$670	0.4%	5.7%	5.8%	10 bps
Weber County	$635	$633	-0.3%	6.0%	7.3%	130 bps
Metro	**$715**	**$694**	**-2.9%**	**5.0%**	**6.0%**	**100 bps**

SUPPLY TRENDS

- Following a six-year lull in development, builders were active in 2009. A total of ten apartment properties totaling 1,960 units were completed during the year, up from a total of 2,226 units delivered from 2003 to 2008.
- Of the ten completed properties, four (1,132 units) were delivered to the West Jordan submarket. Units were also added to the inventories of the Weber County (349 units), Central Salt Lake City (204 units), Murray (128 units), Midvale / Sandy (93 units) and Davis County (54 units) submarkets.
- As of January, Reis were aware of 2,791 units under construction and scheduled to debut by year-end. One other property, containing 496 units was under constriction with a 2011 delivery date. Among properties under construction, 2,088 units are located in the West Jordan submarket.



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