

EXECUTIVE SUMMARY

National Economic Trends

- Condition in the US economy continued to deteriorate in 3Q08. The preliminary estimate of third quarter GDP growth of -0.5% represented the second quarterly contraction in the last four quarters. The decline was largely attributable to a reduction in personal consumption expenditures. PCE advanced 1.2% in 2Q08 but declined -3.7% in 3Q08.
- Payroll employment trends took a dramatic turn for the worse in September and October. In the first eight months of 2008, a net of 655,000 jobs were trimmed from payrolls. A combined 524,000 positions were cut in the September and October. Weak retail sales figures do not bode well for seasonal hiring, indicating that significant job losses will persist through the end of the year.
- In his latest forecast, National City Bank economist Richard DeKaser predicts that GDP will continue to contract through 1Q09. Mr. DeKaser projects a -3.4% decline in 4Q08 and a -0.6% drop in 1Q09. Consistent with reduced output, establishments are forecast to shed about 1.5 million payroll employees (-1.0%) next year, giving rise to a 7.4% unemployment rate.

Mideast Region Economic Trends

- Employment trends in the four-state Mideast Region mirrored the nation. After losing only 60,100 (-0.4%) workers in the first eight months of the year, establishments trimmed -52,600 positions from payrolls in September and another -36,700 in October. Non-seasonally adjusted year-over-year payroll attrition accelerated from a monthly average of -59,900 (-0.4%) from January to August to -132,200 (-0.9%) in September and -134,400 (-0.9%) in October.
- Nearly all employment sectors experienced weaker hiring in 3Q08. The once-robust skilled service sectors generated only 17,400 new jobs year-over-year, about one-third of the average quarterly gain from 2007. Financial service firms cut -6,200 jobs year-over-year in 3Q08, down from -6,100 in the previous quarter. Trade, transportation and utility companies were hampered by reduced trade flows, losing -12,000 workers in 3Q08.

Total Return Analysis

- Projected total returns were largely lower in 3Q08, owing to less robust effective rent growth forecasts by Reis. Mideast generic asset five-year holding period total returns declined from 7.8% in 2Q08 to 6.2% in 3Q08. Likewise, the **RED 50** expected return decreased from 6.9% to 5.8%.
- Indianapolis and Louisville boast the highest expected returns in the Mideast (7.0%) and trail only San Antonio (7.8%) in the **RED 50** ranks. Columbus falls only slightly behind with a 6.9% expected rate of total return. Cleveland (6.6%), Cincinnati (6.4%), Detroit (6.4%) and Pittsburgh (5.9%) are the relative laggards in the region. Nevertheless, the outlook for each of the metros exceeds the **RED 50** average.
- Mideast markets generate comparatively better risk-adjusted returns, owing to relatively stable historic revenue growth trends. Louisville and Cincinnati rank in the top three in the **RED 50**, and the other markets in the Midwest rank within the top 11 markets.

Investment Rankings

- **RED CAPITAL Research (RCR)** recommend that investors consider allocating portfolio capital into Mideast markets. Columbus, Indianapolis, Pittsburgh and Louisville earn unconditioned "*Accumulate*" honors due to relatively high going-in cap rates and above average expected and risk-adjusted returns. We are only slightly less enthusiastic regarding Cincinnati as metro cap rates are comparatively low.
- Investors should seek discounts in Detroit and Cleveland. We are concerned that sluggish domestic economic activity will aggravate the already weak Cleveland and Detroit job markets. Consequently, we have a downside bias with regard to future effective rent. Thus, total returns may fall short of the expected rates. Purchase assets "*opportunistically*" at above average cap rates.