Columbia, South Car

Multifamily Housing Update 3Q11 January

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.

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