RED CAPITAL GROUP®

Market Overview

Milwaukee, Wisconsin

Multifamily Housing Update April 2007

EXECUTIVE SUMMARY

Leaders in the Milwaukee metro area received some welcome news in March from the Bureau of Labor Statistics. The agency reported an upward revision of 2006 metro payroll job growth from a lethargic initial estimate of 2,500 to a more robust 6,800 (0.8%). The BLS also more than doubled its previous estimate of 2005 job creation from 3,600 to 8,600 (1.0%). Moreover, the government job counters fiound faster economic momentum in the fall 2006 data. The BLS added an average of 9,300 jobs per month to its original 4Q06 payroll estimates.

The new-found joy originated largely in the trade and transportation sector, which gained 8,500 (5.6%) jobs in the revision for the month of December. The business services and government sectors also contributed, while construction, manufacturing and financial services were revised down by 5,800 (2.5%) jobs in the same time period.

Early 2007 data were encouraging as well. January and February payroll estimates reflected year-over-year growth of 1.5% and 1.3%, respectively, two of the strongest metrics recorded since 1999. Surging finance (2.1%) and transportation (1.6%) employment were largely responsible.

Recent signs of economic strength bode well for the future. **RED CAPITAL's** econometric payroll forecast model generates a 2007 projection of 11m to 15m jobs, with point estimate of 13,000. The model forecasts a slower but healthy market in 2008, when 9,000 jobs will be created.

Conditions in the apartment market reflected the improved economic trends. 4Q average occupancy increased 30 basis points to 95.1%, the highest level recorded in four years. The 130 bps y-o-y advance was the 2nd best among the **RED 63,** trailing only Charlotte. Tenants absorbed 270 units, up substantially from negative net absorption of 630 units in the comparable period of 2005. Customer demand was well distributed, led by the City West and West Allis submarkets, where owners inked a net of 74 and 84 leases, respectively.

Some of this success can be attributed to a cautious approach toward rents exhibited by owners. Sequential average asking and effective rents grew only $3 (0.4%) and $4 (0.5%), respectively, reaching $804 and $769. Effective rents increased $21 (2.8%) y-o-y, ranking a humble 36th among the **RED 50**. By contrast, the value of the typical concession package was 4.7%, the 15th lowest in the group.

Reis expect conditions to deteriorate in 2007, the result of added supply and sluggish demand. Occupancy is projected to fall 20bps and another 30bps in 2008, after developers complete the biggest vintage since 1999. The firm anticipate supply pressures to do further harm in 2009, dropping occupancy to 94.1%. Rent trends are expected to lag the U.S. average, with gains of 2.6% and 2.3% expected in 2007 and 2008, respectively.

Sales velocity was sluggish last year, as only 8 trades greater than $3mm in size were recorded. Total proceeds were $72mm, equating to an average of $67m/unit, down from $97mm and $109mm/unit in 2005. Cap rates averaged 6.9%, but ranged widely from 5.6% to 8.8%. Trade accelerated in January, when 3 properties traded for $36mm, including a class-A infill asset yielding 4.9% at $250,000/unit.

Improved fundamentals and above average yields make Milwaukee an interesting investment play. While rent trends aren't strong enough to compel us to assign an Accumulate ranking, one must consider the Brew City a high ***"Opportunistic"*** market. Buy when prices are attractive.

SNAP SHOT

	Y-o-y change	Projected 2007
Vacancy (4.9% - 4Q06)	↓ 130 bps	↑ 20 bps
Effective Rents ($769 - 4Q06)	↑ 2.8%	↑ 2.5%
Cap Rate (7.4% - 4Q06)	↔ unch	↓
Employment (856.6k - 4Q06)	↑ 7.8k	↑ 13k

KEY POINTS

- The BLS re-benchmarking exercise cast metro economic trends in a new and more becoming light. The new data upgraded 2006 job creation from 3,600 to 8,600, and depicted 4Q06 activity as surprisingly robust.
- Early 2007 payroll estimates were constructive, up 1.5% y-o-y in January and 1.3% in February. These bullish indicators were determinant in causing the **RED CAPITAL** econometric payroll model to produce a forecast of 13,000 payroll jobs in 2007 and 9,000 in 2008.
- The metro apartment performed admirably. Occupancy rose 130 bps to 95.1% and effective rents increased 2.8%. Reis expect poorer results in 2007, but **RED CAPITAL** are more optimistic: recent economic gains suggest that apartment demand is likely to be stronger than forecast by Reis.
- Sales volume picked up in January headlined by a $27.5mm purchase of a class-A City West building with a sub-5% yield.