

GREATER CINCINNATI

APARTMENT REPORT

FIRST HALF 2011

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MARKET PERSPECTIVE

Optimism Abounds in 2011

After several difficult and turbulent years, the prevailing sentiment amongst multi-family investors is cautious optimism as a nascent recovery takes hold across the economy. The current "housing crisis" is arguably a painful return to the long-term mean of the ratio between renting and homeownership in the United States.

In the past two years, the homeownership rate in the United States has declined from 67.8 percent in 2008 to 66.9 percent in 2010 and every decrease of one percentage point translates into one million new renter households. At the same time, new apartment supply has been constricted by lack of construction financing. These two key factors are causing a notable tightening in rental fundamentals across the country.

HISTORIC HOMEOWNERSHIP RATES											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
U.S.	67.4	67.8	67.9	68.3	69.0	68.9	68.8	68.1	67.8	67.4	66.9
Ohio	71.3	71.2	72.0	72.8	73.1	73.3	72.1	71.4	70.8	69.7	69.7

Source: U.S. Census Bureau, Annual Statistics: 2010

Another key rental market metric has always been employment. Jobs fuel household formation and create demand for housing. As employment has risen in the past nine months, rental rates have surged in lockstep. The newly employed and re-employed are renting either by choice or by necessity.

The prevailing optimism in the market has not reached the point of boundless enthusiasm. Lending for multifamily is improving, but we have not returned to a fully-functioning capital market. Default rates on multifamily CMBS loans that were modeled at less than 1 percent are now over 10 percent and may go higher over the next several years. Sizable loan maturities on currently performing loans will occur and some of these will be challenged to find a new lending source.

In the near- and mid-term, multifamily remains the real estate asset class of choice. It is widely recognized as a strong hedge against wage inflation; rental rates theoretically can be adjusted with frequency to reflect rising prices. Some of the strongest NOI growth in history occurred during the 1970s as inflation raged in the double-digits.

With interest rates low, investors are finding the need to assume more risk with less liquidity in order to achieve desired yields. An abundance of fresh equity is seeking a home in the multifamily arena and this is serving to stabilize pricing and compress cap rates for core assets.

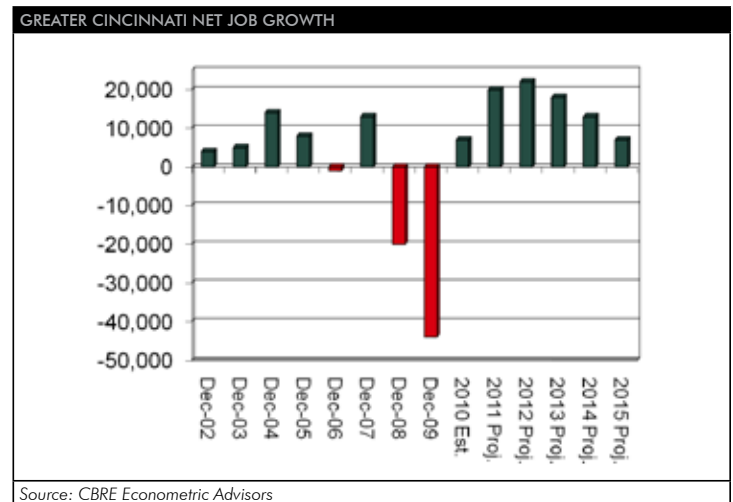
There is a very high likelihood that the positive trends occurring will remain in place for several years as we travel through this recovery phase of the investment cycle.

RENTAL MARKET

Rents and Occupancy on the Upswing

The Greater Cincinnati rental market showed evidence of a strong recovery in 2010 with increases in effective rental rates and overall occupancy. Based on CBRE's survey of more than 58,000 units in December 2010, effective rents increased an average of 2.5 percent for the year and occupancies grew 3.4 percent during the same period.

These positive results were not unexpected. The local economy added an estimated 8,000 jobs in 2010 after two consecutive years of job losses. At the same time, rental losses due to home buying dramatically diminished, triggering further demand for rental product.



Source: CBRE Econometric Advisors

The strongest rental growth was in the one-bedroom and two-bedroom/two-bath styles. One-bedroom increases can likely be attributed to an unwinding of many roommate arrangements that occurred out of necessity during the economic downturn. In two-bedroom styles, two-bath plans increased 3.4 percent on average while one-bath plans increased an average of 1.2 percent. Most of the two-bedroom/one-bath units are concentrated in older 1970s vintage properties and rental rate performance varied widely based on location and condition of the asset.

	CHANGE IN EFFECTIVE RENTS ONE- AND TWO-BEDROOM UNIT TYPES					
	1 Bed / 1 Bath		2 Bed / 1 Bath		2 Bed / 2 Bath	
	2009	2010	2009	2010	2009	2010
Cinti East	\$569	\$579	\$609	\$587	\$818	\$825
Cinti West	\$445	\$439	\$499	\$530	\$734	\$697
Cinti N.E.	\$649	\$664	\$660	\$694	\$879	\$901
Cinti N.W.	\$539	\$548	\$618	\$610	\$733	\$724
Cinti Central	\$610	\$672	\$683	\$651	\$980	\$1,181
Cinti N. Ky.	\$551	\$569	\$587	\$600	\$763	\$783
Cinti Overall	\$573	\$601	\$599	\$606	\$822	\$850

Source: CB Richard Ellis, Annual Rent & Occupancy Survey 2010

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GREATER CINCINNATI APARTMENT MARKET 2010 AND 2009

:: COMPARATIVE RENT SURVEYS

Sub-Market	Average Rent			10	10	2010 Annual Incr %
	Dec'09	Jul'10	Dec'10	First Half Incr %	Second Half Incr %	
	Overall	\$675	\$696	\$690	3.1%	
Northwest	\$654	\$666	\$652	1.8%	-2.1%	-0.3%
Northwest	\$804	\$857	\$816	6.6%	-4.8%	1.5%
West	\$516	\$521	\$524	1.0%	0.6%	1.6%
East	\$675	\$675	\$659	0.0%	-2.4%	-2.4%
Northern Kentucky	\$654	\$645	\$665	-1.4%	3.1%	1.7%
Central	\$690	\$710	\$737	2.9%	3.8%	6.8%

OVERALL MARKET						
	Dec 2009		Dec 2010		Chg.	
Units Surveyed:	57,836	Units	58,525	Units		
Properties:	297		307			
Average Size:	195	Units	191	Units		
Market Vacancy:	11.6%		8.2%			
Market Eff. Rent:	\$675		\$690		2.2%	
Market Rent/S.F.:	\$0.74		\$0.77			

	Dec 2009		Dec 2010		Annual Incr %
	Rent	Per S.F.	Rent	Per S.F.	
1BR/1BA	\$573	\$0.83	\$601	\$0.87	4.9%
2BR/1BA	\$599	\$0.70	\$606	\$0.71	1.2%
2BR/2BA	\$822	\$0.76	\$850	\$0.79	3.4%
3BR	\$904	\$0.68	\$897	\$0.69	-0.8%

NORTHWEST						
	Dec 2009		Dec 2010		Chg.	
Units Surveyed:	12,154	Units	11,593	Units		
Properties:	46		49			
Average Size:	264	Units	237	Units		
Market Vacancy:	12.2%		9.0%			
Market Eff. Rent:	\$654		\$652		-0.3%	
Market Rent/S.F.:	\$0.67		\$0.71			

	Dec 2009		Dec 2010		Annual Incr %
	Rent	Per S.F.	Rent	Per S.F.	
1BR/1BA	\$539	\$0.76	\$548	\$0.79	1.7%
2BR/1BA	\$618	\$0.71	\$610	\$0.71	-1.3%
2BR/2BA	\$733	\$0.69	\$724	\$0.70	-1.2%
3BR	\$839	\$0.69	\$852	\$0.68	1.5%

NORTHEAST						
	Dec 2009		Dec 2010		Chg.	
Units Surveyed:	11,234	Units	11,063	Units		
Properties:	48		51			
Average Size:	234	Units	217	Units		
Market Vacancy:	10.2%		6.5%			
Market Eff. Rent:	\$804		\$816		1.5%	
Market Rent/S.F.:	\$0.81		\$0.84			

	Dec 2009		Dec 2010		Annual Incr %
	Rent	Per S.F.	Rent	Per S.F.	
1BR/1BA	\$649	\$0.88	\$664	\$0.90	2.3%
2BR/1BA	\$660	\$0.75	\$694	\$0.76	5.2%
2BR/2BA	\$879	\$0.79	\$901	\$0.82	2.5%
3BR	\$1,089	\$0.83	\$1,243	\$0.86	14.1%

WEST						
	Dec 2009		Dec 2010		Chg.	
Units Surveyed:	6,796	Units	5,633	Units		
Properties:	33		27			
Average Size:	206	Units	209	Units		
Market Vacancy:	15.2%		10.1%			
Market Eff. Rent:	\$516		\$524		1.6%	
Market Rent/S.F.:	\$0.64		\$0.66			

	Dec 2009		Dec 2010		Annual Incr %
	Rent	Per S.F.	Rent	Per S.F.	
1BR/1BA	\$445	\$0.71	\$439	\$0.72	-1.3%
2BR/1BA	\$499	\$0.61	\$530	\$0.64	6.2%
2BR/2BA	\$734	\$0.71	\$697	\$0.69	-5.0%
3BR	\$654	\$0.60	\$735	\$0.66	12.4%

EAST						
	Dec 2009		Dec 2010		Chg.	
Units Surveyed:	7,373	Units	9,236	Units		
Properties:	44		61			
Average Size:	168	Units	151	Units		
Market Vacancy:	9.2%		7.3%			
Market Eff. Rent:	\$675		\$659		-2.4%	
Market Rent/S.F.:	\$0.77		\$0.77			

	Dec 2009		Dec 2010		Annual Incr %
	Rent	Per S.F.	Rent	Per S.F.	
1BR/1BA	\$569	\$0.82	\$579	\$0.85	1.8%
2BR/1BA	\$609	\$0.74	\$587	\$0.71	-3.6%
2BR/2BA	\$818	\$0.79	\$825	\$0.80	0.9%
3BR	\$848	\$0.67	\$851	\$0.68	0.4%

NORTHERN KY						
	Dec 2009		Dec 2010		Chg.	
Units Surveyed:	10,146	Units	11,552	Units		
Properties:	52		63			
Average Size:	195	Units	183	Units		
Market Vacancy:	12.0%		7.8%			
Market Eff. Rent:	\$654		\$665		1.7%	
Market Rent/S.F.:	\$0.69		\$0.72			

	Dec 2009		Dec 2010		Annual Incr %
	Rent	Per S.F.	Rent	Per S.F.	
1BR/1BA	\$551	\$0.78	\$569	\$0.83	3.3%
2BR/1BA	\$587	\$0.67	\$600	\$0.72	2.2%
2BR/2BA	\$763	\$0.69	\$783	\$0.70	2.6%
3BR	\$844	\$0.63	\$913	\$0.68	8.2%

CENTRAL						
	Dec 2009		Dec 2010		Chg.	
Units Surveyed:	10,133	Units	9,448	Units		
Properties:	74		56			
Average Size:	137	Units	169	Units		
Market Vacancy:	11.6%		9.7%			
Market Eff. Rent:	\$690		\$737		6.8%	
Market Rent/S.F.:	\$0.83		\$0.91			

	Dec 2009		Dec 2010		Annual Incr %
	Rent	Per S.F.	Rent	Per S.F.	
1BR/1BA	\$610	\$0.93	\$672	\$0.99	10.2%
2BR/1BA	\$683	\$0.78	\$651	\$0.78	-4.7%
2BR/2BA	\$980	\$0.91	\$1,181	\$1.06	20.5%
3BR	\$864	\$0.59	\$975	\$0.62	12.8%

2010 SELECTED SALES (TRANSACTIONS GREATER THAN \$1M)

Property Name	City	County	Sale Date	Zip code	Units	Year Built	Sale Price	Price/Unit	Submarket
Sun Valley Apartments	Cincinnati	Hamilton, OH	03/02/10	45223	116	1968	\$1,875,000	\$16,164	Cinti Central
5723 Winneste Avenue	Cincinnati	Hamilton, OH	03/15/10	45232	253	1963	\$1,920,000	\$7,589	Cinti Central
Sterling at McMillan	Cincinnati	Hamilton, OH	08/02/10	45219	122	2006	\$14,000,000	\$114,754	Cinti Central
Garden Green	Cincinnati	Hamilton, OH	10/06/10	45230	48	1972	\$1,300,000	\$27,083	Cinti East
Country Place Apartments	Hebron	Boone, KY	03/26/10	41048	150	1993	\$6,185,889	\$41,239	Cinti N. KY.
Walton Ridge Apartments	Walton	Boone, KY	09/30/10	41094	60	2007	\$2,200,000	\$36,667	Cinti N. KY.
Nantucket	Deerfield Twp	Warren, OH	08/09/10	45140	394	2002	\$35,000,000	\$88,832	Cinti N.E.
Glenbridge Manors	Cincinnati	Hamilton, OH	09/21/10	45249	274	2002	\$26,200,000	\$95,620	Cinti N.E.
Burgundy Court Apartments	Cincinnati	Hamilton, OH	09/08/10	45239	234	1969	\$5,308,000	\$22,684	Cinti N.W.
Woodmere Apartments	Cincinnati	Hamilton, OH	09/08/10	45251	150	1971	\$3,402,000	\$22,680	Cinti N.W.
Mills Run Apartments	Cincinnati	Hamilton, OH	09/14/10	45240	212	1989	\$7,650,000	\$36,085	Cinti N.W.
Meadowood	Cincinnati	Hamilton, OH	11/30/10	45240	106	1985	\$1,300,000	\$12,264	Cinti N.W.

RENTAL MARKET, CONTINUED

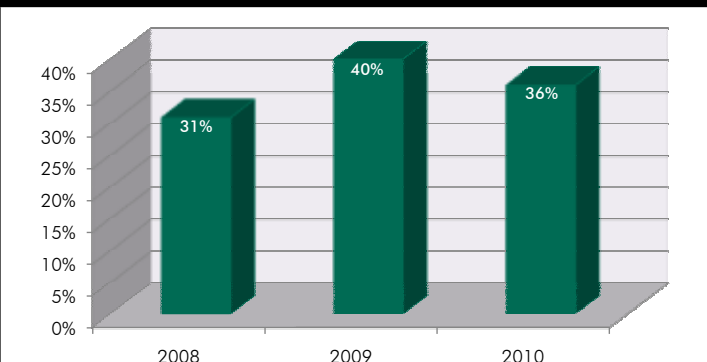
Geographically, the market leader was the Central submarket, posting impressive gains averaging a whopping 6.8 percent. Much of this strength was recorded in the Downtown and Uptown neighborhoods as renters concentrate near employment centers. Average rents in the Central submarket were \$0.91 per SF compared to a metro area average of \$0.77 per SF.

The Northeast corridor also delivered rental gains with the highest rent increases posted in Blue Ash and Deerfield Township. Rental rates in this submarket should continue their climb as occupancy rates of 93.5 percent lead the market.

Despite job losses at the CVG International Airport, the Northern Kentucky submarket grew rents 1.7 percent and occupancy improved from 88.0 percent to 92.2 percent year-over-year.

In 2011, effective rents are forecast to increase by 3.0 percent with two-thirds of this increase coming from the burn-off of concessions and the balance from street rent increases. Overall market occupancy is expected to increase even further through the year as market indicators point to ever-improving supply and demand fundamentals.

PERCENTAGE OF PROPERTIES OFFERING CONCESSIONS



Source: CB Richard Ellis

INVESTMENT MARKET

Distressed Trades Dominate the Sale Market

Sale activity in 2010 was light in relation to historic averages

and most of the trades involved distressed assets clearing the market in sales to private buyers. Ohio is a judicial foreclosure state and as a result, a lender's ability to recover an asset may involve a lengthy process over months or even years.

In 2010, Greater Cincinnati sale volume of multifamily assets over \$1 Million in value totaled only \$110 Million, following \$107 Million in sales in 2009. These trading levels are well below the fifteen-year average of \$220 Million in sales and the high-water mark of \$325 Million in 2007.

Some notable distressed trades included: Burgundy Court (234 units) and Woodmere (150 units), sold in a package to a local investor, PLK Communities; Sun Valley (116 units) in Mount Airy, sold for \$1,875,000 after selling in 2007 for \$2,675,000; and Meadowood (106 units) in Forest Park, sold for \$1,300,000.

Due to the lengthy foreclosure cycle, lenders in some cases are opting for note sales and control of several properties is changing hands behind the scenes. The combination of REO or Receiver Sales along with Note transactions is slowly but surely clearing distress from the market.

On the other end of the spectrum, investors are demonstrating strong demand for high-quality core assets. Two notable trades of newer assets in the Northeast corridor were Nantucket (394 units), sold for \$35,000,000 and Glenbridge Manors (274 units), sold for \$26,200,000.

CBRE estimates cap rates for A assets will remain stable at 6.25 percent to 6.75 percent and B grade deals will price out between 7.00 percent and 8.00 percent. Most C grade deals are trading on a price per pound and the cap rate dispersion is wide.

DEVELOPMENT PIPELINE

Excitement in the Pipeline

An aging apartment inventory is ready for refreshment as renters look for higher-quality housing options. Several new projects are underway with 2011 deliveries planned.

The Current @ The Banks will begin delivering units in the spring and is experiencing strong demand in pre-leasing with average rents near \$1.60 per SF. The high profile location on

DEVELOPMENT PIPELINE, CONTINUED

the Cincinnati Riverfront is generating considerable buzz in the community.

In Uptown, 65 West will deliver 300 beds of LEED-certified student housing for the upcoming school year. Pre-leasing is reportedly strong as The University of Cincinnati grows enrollment. The initial success of 65 West has spawned several off-shoot projects on Short Vine with deliveries for the 2012 school year.

Hills Communities broke ground on its upscale Palmera project in Deerfield Township. Palmera will feature top-level finishes and amenities in a mix of garden and townhome styles. Deliveries will begin this year and top out at 360 units when complete.

Overall deliveries in 2011 are expected to be around 700 units and grow to 900 units in 2012.

DEVELOPMENT: PALMERA



Source: Hills Communities

DEVELOPMENT: CURRENT @ THE BANKS



Source: Village Green Management

DEVELOPMENT: JEFFERSON STREET (SHORT VINE)



Source: Uptown Rental Properties

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