WHY WE DIVERSIFIED

Why we are diversifying our student housing investment portfolio by entering the conventional multifamily market.

By Barbara Gaffen and Michael Zaransky, Co-CEOs, Prime Property Investors, Ltd.

Our company successfully built a student housing portfolio on seven major university campuses with a focus on the acquisition of close to campus assets at schools with housing shortages. Our decade in the student housing niche makes us an old timer compared to many of the new entrants to the industry. Of late, we have noticed the entry into the student housing niche of several conventional multifamily firms chasing better yields and our industry's compelling macro demographics. While we continue to remain bullish on the student housing market and its long-term prospects, over the last three years, we have made the reverse commute and diversified our real estate holdings with acquisitions in the conventional multifamily market.

Emerging demographic trends coupled with unique market conditions have created a significant opportunity for increased cash flow and future appreciation in values for Class A suburban garden style and urban high rise apartment complexes. Many major city MSAs provide considerable upside due to a recent lack of new construction, significant barriers to entry, and projected growing renter demand. The echo-boomer generation, that has driven Prime's success in the student housing market, has begun the creation of a sustainable demand for high quality rental housing product near major urban metropolitan areas upon graduation from college. This increased demand, for Class A rentals, is coming at the same time as available multifamily housing mortgage financing rates are at a 30-year low, and many institutional sellers are looking to sell quality assets at transaction prices well below replacement cost.

Demand To Exceed Supply

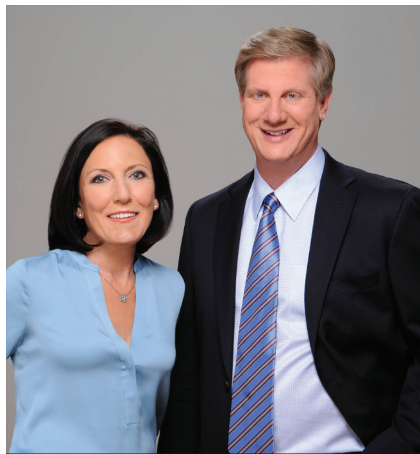
Several recent studies by well respected industry and academic institutions have confirmed the growing size of the emerging renter population due to both the size of the population graduating college and entering the workforce and the return to more stringent mortgage underwriting for first time homeowners. The percentage of Americans who will remain renters, as well as the size of the primary age renter population, is projected to greatly increase. At the same time, as a result of a number of recent years worth of construction loan capital market constraints, escalating building costs, and lack of availability of well located infill land, new construction of suburban Class A multifamily apartment complexes in many major markets have come to a virtual standstill.

As an example, in our home market of Chicago, where we have recently made $75 million worth of conventional suburban multifamily asset acquisitions, the MSA is poised to experience a shortage in available Class A suburban apartments available for rent. There is currently an insignificant number of new Class A apartment complexes under construction in the entire suburban Chicago market. Current occupancies, in well located, Class A suburban Chicago apartment properties, remain in the mid to high 90 percent range. Similar trends are evident in several major markets throughout the country making our entry into the conventional market a logical and thoughtful diversification to our student housing investments.

Excess demand in a supply constrained market bodes well for rental rate growth, increased cash flow, and appreciation in value for apartment complex investors. Echo boomer generation renters and transplanted homeowners' strong preference for luxury amenities and quality in rentals points to future strong demand for Class A suburban and urban high rise apartment rentals.

Continued Growth In Conventional Renter Households

The Joint Center for Housing Studies of Harvard University recently released its report, the State of the Nation's Housing 2012, which confirms the positive future prospects for the conventional multifamily market. The number of renter households increased by 1 million nationally in 2011. This is the largest single year increase since the early 1980s. The first decade of the 2000s has already seen the highest decade growth in renter households in the last 60 years. The number of renters surged by 5.1 million. There is no sign that this trend of increasing numbers of conventional market renters will taper off anytime soon. What's more, our student housing college graduates making up the key 25- to 34-year-old renter group, accounted for 645,000 net new renter households over the recent period from 2006-2011! As a result, well-managed and located conventional multifamily properties are experiencing unprecedented low vacancy rates and significant rent growth.



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Further fueling the likelihood of future continued rent increases and high occupancy, the rental market does not seem to have fully benefited from the large influx of the echo-boomer college graduate generation leaving our student apartments. The recession has dampened household formation by young people under the age of 25, at a time when renting is most common. Once there is further job creation and economic recovery, increased number of echo boomers will enter the rental market and provide additional demand for conventional apartments.

Management "No Brainer" Compared to Student Housing

Conventional multifamily property management takes skill and expertise. However, for those of us trained and experienced in the student housing space, along with our unique compressed lease up and intense turn cycles, a conventional multifamily diversification can be a management breath of occasional fresh air. We'll never tire of our love for the student housing industry and college campus life, but, for part of our portfolio, lease expirations and turns strategically spaced out throughout the year is living on management easy street! SHB

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