New Opportunity in the Tar Heel State

Even during uncertain economic times, the Triangle area of North Carolina has proven to be a successful region for PRG and its investors. With our existing nine communities in Raleigh, Cary, and Durham continuing to churn out great returns, with net operating income up 20% year over year to be exact, PRG Principals Steven Berger and Jon Goodman gave a clear message to the PRG acquisitions team: “Find us some more deals in the Triangle!” On October 16th, PRG did just that by taking further advantage of the area’s strong economy as we closed on the 216-unit Bainbridge in the Park. Formerly owned and managed by Hawthorne Residential, Bainbridge in the Park gave PRG the opportunity to purchase an additional Durham asset in a prime location, boasting secure gated access, unique curb appeal and plenty of value-added opportunity. The property sits on 24.4 acres and is located just 2.5 miles from well-known Research Triangle Park and is less than a five minute drive to shopping at the upscale Southpoint Mall as well as interstate I-40 and I-540. The property becomes the neighbor of two other PRG Durham profit centers, the 308 unit Park Ridge Estates and the 230 unit South Square Townhomes.

PRG just doesn’t buy properties. We improve them! And that’s what we intend to do at Bainbridge. Our capital improvement program is already underway with a light exterior refreshing including power washing, painting the trim, repairing minor drainage issues and replacing patio light fixtures. The big job (and biggest value add opportunity) is our plan to complete a comprehensive interior renovation program. This $1,600,000 project will include the installation of new solid wood maple cabinetry, faux-granite countertops, brushed nickel plumbing and lighting fixtures, appliances, and new faux wood vinyl and carpeting. It’s no surprise our plan is coming together as PRG has performed the same type of value added capital improvement program time and time again, in each instance creating value by increasing rents and maintaining high occupancy rates. Bainbridge in the Park will be another excellent example of PRG executing this time tested strategy. We can’t wait to report back with the final results!
PRG properties and personnel were recognized and honored Saturday, December 1st at both the Greater Lexington Apartment Association Awards Gala and the Greater Nashville Apartment Association Awards and Installation Banquet!

The team at Chinoe Creek picked up a trophy for placing 3rd in the Beautification Showcase. It was an extreme honor and the entire team was on stage to represent the property and receive the trophy.

Saddlebrook was honored with a plaque as the community that collected the most cans in the “can for the cause” promotion, all proceeds benefiting the Ronald McDonald House. Congratulations to Saddlebrook on this outstanding community service award!

To highlight the evening, PRG Real Estate Management was a winner of the Property Management Company of the Year trophy! This award is judged on areas such as employee training and education opportunities, employee retention programs and company outreach.

There were almost 25 employees representing all 4 Kentucky properties on the stage to receive that award! What a way to end the evening!!!

Meanwhile, in Nashville at the Greater Nashville Apartment Association Awards and Installation Banquet, Chari Lewis was recognized for being an active Past President and NAA Lyceum Graduate. She was awarded the 2012 Professional Designate of the Year for her leadership and volunteer activities within the association.

PRG takes great pride in being recognized for the continued success of our properties and managers. A big congratulations to the staff members that accepted the high honors given out by the Greater Lexington Apartment Association and the Greater Nashville Apartment Association.

Fond Farewell to Flagler Pointe, or
(Even Hedge Fund Manager Steven Cohen would be Jealous)

On October 12, 2012, PRG ended an era by selling Flagler Pointe apartments. Acquired in 1995, Flagler was one of the first major rehabilitation properties undertaken by PRG, and one of which we could not be more proud. $1 invested in Flagler Pointe in 1995 returned $13.50 to our partners. A total annual return of 30+% over 16 years. Not even you know who could claim results like that. In comparison, $1 invested in the S&P 500 index over the same time frame would have grown to $3.18 by 2012. No wonder we were so fond of the property.

It all began in July of 1995 with the acquisition of the then Bridgetower Apartments in St Petersburg Florida. Metropolitan Life Insurance Company owned the property as the result of a foreclosure and it had fallen into a serious state of decay. Managed by Lincoln Properties, a company known for upscale apartments, it could only be described as languishing in deteriorated and dangerous condition. As Jon Goodman remembers, “when I asked Lincoln’s manager what the property was like at night, her quick response was that she wouldn’t dream of staying after dark. It didn’t take long to understand just what she meant. The first night after we completed the purchase I locked myself in the model apartment and didn’t come out until dawn. That woman wasn’t kidding.” Fortunately our partners, John Kirwin at Odyssey Capital, and Rich Humphrey from Colonial Bank, were able to look past the current conditions and see the future potential of the property.

Rolling up our sleeves, and with the help of a retired Miami police officer, the PRG team cleared out the criminal element and stabilized income and expenses. But that left the not insignificant challenge of dealing with the deteriorated physical conditions. In what became our first of many successful collaborations with Ray Kimsey from Niles Bolton Architects a plan was drawn up to convert the property from decaying English Tudor into the style reminiscent of Henry Flagler’s early Florida. Using the grand hotels Flagler built along his railroad lines as inspiration, Ray Kimsey drew up a plan that transformed the property. When it came time for the new name there was no argument, Flagler Pointe it was.

With a new look and improving resident base PRG never looked back. Succeeding years saw further upgrades with new kitchens and washers and dryers installed in the units. Each year saw improvements in NOI, first under the watchful eye of Joyce Kolk, and then later, Denise Reed. For Steve Berger and Jon Goodman it was one of our earliest and biggest successes and thus it was with a little bit of heartache that we bid it goodbye.
**April**

Brandy Carothers collected every penny of rent at Governors Ridge in April, finishing with 0% delinquency! Also well under the PRG standard of 3%, Jay Rawls finished at 0.70% and Shayne Martin had delinquency of only 0.73%.

1. Governors Ridge 0.0% Brandy Carothers
2. Lake Johnson 0.70% Jay Rawls
3. Chinoe Creek 0.73% Shayne Martin

**May**

Brandy Carothers tops the list again this month at Governors Ridge with only 0.14% of rent outstanding. Jay Rawls and Jayme Presley are close behind with 0.47% and 0.53% delinquency, respectively.

1. Governors Ridge 0.14% Brandy Carothers
2. Lake Johnson 0.47% Jay Rawls
3. Linkhorn Bay 0.53% Jayme Presley

**June**

Almost all rent was again collected at Governors Ridge in June. Nice work Brandy Carothers! Saddlebrook and Cascades take the number two and three spots with impressive 0.24% and 0.32% results.

1. Governors Ridge 0.01% Brandy Carothers
2. Saddlebrook 0.24% Sarah Arnett
3. Cascades 0.32% Brandy Carothers

**July**

Brandy takes the top two spots, collected almost 100% of rent at both Pittsburgh properties. Sarah is close behind at Saddlebrook with only 0.16% of rent outstanding.

1. Governors Ridge 0.00% Brandy Carothers
2. Cascades 0.09% Brandy Carothers
3. Saddlebrook 0.19% Sarah Arnett

**August**

An impressive month in August with 3 properties at 0% delinquency!

1. Saddlebrook 0.00% Sarah Arnett
2. Governors Ridge 0.00% Brandy Carothers
3. Cascades 0.00% Brandy Carothers

**September**

The top 3 properties in September all finished under 1%.

1. Governors Ridge 0.00% Brandy Carothers
2. Cascades 0.00% Brandy Carothers
3. Chinoe Creek 0.65% Shayne Martin

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**Titanium Tool Belt**

**April**

The winners of the April Titanium Tool Belt are Ivan Ferrer, Drew Trayer, and Adam James! These maintenance supervisors had the fewest open work orders at the end of the month.

1. Palmetto Place Ivan Ferrer
2. Coquina Bay Drew Trayer
3. Cary Pines Adam James

**May**

Congratulations to the May Titanium Tool Belt winners – Walter Chavis, Jonathan Milton, and Adam James - with 0 open work orders and the most completed this month.

1. Lake Johnson Walter Chavis
2. Tate’s Creek Jonathan Milton
3. Cary Pines Adam James

**June**

In June, James Wright, Christopher Blevins and Walter Chavis all had 0 work orders outstanding for more than 5 days and the fewest total open work orders. Thanks for your hard work!

1. Country Club James Wright
2. Carolina Woods Christopher Blevins
3. Lake Johnson Walter Chavis

**July**

Congratulations to the Titanium Tool Belt winners – Eric Vazquez, David Strain and James Jamison - with 0 open work orders and the most completed this month.

1. Lake Boone Eric Vazquez
2. Magnolia David Strain
3. Tiffany Square James Jamison

**August**

The winners of the April Titanium Tool Belt are Earl, Julio and Chris! These maintenance supervisors had the fewest open work orders at the end of the month.

1. Hyde Park Earl Brice
2. Treetop Julio Ventura
3. Carolina Woods Chris Blevins

**September**

In September, James, Jose and Melvin had fewest total open work orders. Thanks for your hard work!

1. Country Club James Wright
2. Lancaster Arms Jose Alvelo
3. Sawgrass Melvin Sosa
April
Angela Pemberton obtained 10 approved applications this month at Huntington Apartments in Mulberry, FL. She had the most applications in the portfolio as compared to the property's total units. Stacey Williams at Wellspring and Matt Morrison at Honeytree also had strong leasing stats this month.

1. Angela Pemberton Huntington 20
2. Stacey Williams Wellspring 15
3. Matt Morrison Honeytree 5

May
Matt Morrison continues to lease apartments, keeping Honeytree above 95% occupied. Vera Sherrod had an excellent month at Hilton with 16 applications and Anna Wyatt at Bavaria leased 21 apartments, helping to increase occupancy 5% month over month!

1. Matt Morrison Honeytree 10
2. Vera Sherrod Hilton Village 16
3. Anna Wyatt Bavaria 21

June
Matt Morrison tops the list every month this quarter at Honeytree, increasing his applications each month! Katie Moore joins the list this month with 13 applications at Woodcreek and Vera Sherrod once again ranks in the top 3!

1. Matt Morrison Honeytree 13
2. Katie Moore Woodcreek 13
3. Vera Sherrod Hilton Village 10

July
Lauren Crabtree moved into the top spot this month with 14 applications, leasing her property well above 95%.

1. Lauren Crabtree Magnolia 14
2. Matt Morrison Honeytree 9
3. Katie Moore Woodcreek 14

August
Matt Morrison, Britany Haney-Jones and Amber Anderson are our top leasers this month. Keep up the great work!

1. Matt Morrison Honeytree 16
2. Britany Haney-Jones Corners 17
3. Amber Anderson Country Club 7

September
Britany Haney-Jones makes it to the number 1 spot this month with 14 applications at Corners!

1. Britany Haney-Jones Corners 14
2. Matt Morrison Honeytree 7
3. Kaitlyn Glovas Villas 13

Show Me the Money
Willow Ridge, the 456-unit property in Charlotte, NC, is the winner of the 2nd and 3rd quarter Show Me the Money Award! Property Manager Kelsey Cantrell and Maintenance Supervisor Ray Judd had two excellent quarters, beating net operating income budget by an impressive $112,252! The property team continues to make significant progress with this asset’s performance, maintaining above 95% occupancy with 10% year-to-date effective rent growth.

Lakecrest, the 224-unit property in Greenville, surpassed budgeted net operating income by almost $100,000 in the second and third quarters! Melanie Nichols was promoted to Property Manager in the second quarter. Together, she and Maintenance Supervisor Margie Zakkour have more than doubled the property’s year to date net operating income.

Also performing well ahead of budget is Courtyards of Chanticleer located in Virginia Beach, VA. Chris Hirth has achieved net operating income performance that is $73,745 ahead of budget. Net operating income has increased 12% year to date.

1. Willow Ridge – Kelsey Cantrell - $112,252
2. Lakecrest – Melanie Nichols - $91,801
3. Chanticleer – Chris Hirth - $73,745
Juggling multiple priorities comes naturally for Shayne Martin (right), Property Manager for Chinoe Creek and Senior Property Manager for the Kentucky region. Shayne joined PRG in June 2010 and her twenty-five plus years of experience in property management shows! Residents praise Shayne for keeping Chinoe Creek an amazing property with an incredibly helpful staff. This mom of two college students has proven her worth to PRG with the entire Kentucky region having delinquency averaging under 1% for the year, above budget net operating income, and cumulative 4% effective year to date rent growth. Somehow Shayne finds the time to also be VP of the Apartment Association, serve on various committees and spend quality time with her spouse of twenty-five years cheering on their beloved University of Kentucky Wildcats.

Multiple nominations made James Wright (left), Maintenance Supervisor at Country Club Apartments, a shoe-in for the 2nd Quarter Raving Fan Award. James joined PRG in March 2010 at Linkhorn Bay Apartments and did such a fantastic job that when an opportunity was available for a Supervisor at Country Club Apartments we knew just the person for the job. Since taking the maintenance helm at County Club, residents and staff have all noticed an incredible improvement in work order turnover and attribute it to James’ tireless efforts and great attitude. You know you’re liked when the residents ask you to play on their softball team! This dad of five is a model for those who want to see what success looks like (though sometimes we think he sees work as a vacation from all of those kids!)

Can you say dedication? Tim Dickison (left), who joined PRG in July 2008, is so devoted to the residents at the Hampton Chase Apartments that an after-hours call interrupting his college basketball game viewing or fishing trip isn’t a problem, it’s just another day in the life of this award winning maintenance supervisor. Tim and his team receive numerous compliments from the residents for their quick response, professionalism and kindness and pride themselves on being an integral part of Hampton Chase’s occupancy retention. Their efforts aren’t going unnoticed by management either – occupancy increased 3% the past quarter and averaged an impressive 96.5% in August. So next time you’re in Nashville, stop by to see the team at Hampton Chase and have Tim show you the sites in his Mustang along with his four legged pal, Shortie.

Speak with Robert Harris (right), Maintenance Supervisor at San Pablo, and you can’t help but notice his enthusiasm! This soon-to-be second time dad and University of Alabama fan joined PRG in June 2012 and wasted no time in making his mark with the residents. What do they, and PRG, love about Robert? Why his professionalism, energy, and above all, his communication skills of course! Even if their issue can’t be immediately addressed, Robert and his team keep residents informed of the progress and follow it through to completion. New job, new baby, and a Raving Fan Award? Not a bad first year at all!
As a self-proclaimed film buff, January 10th marks an interesting day for me with the announcement of 2012’s Oscar nominations. Will the Best Picture nod go to a big blockbuster such as the latest James Bond thriller Skyfall or will an indie flick, perhaps Beasts of the Southern Wild (a personal favorite) take home the hardware? Only when Seth MacFarlane, this year’s sardonic host, opens the golden envelopes will we know the winners. One can try to predict, actually one could even bet on, which films will be crowned. The trouble with predicting Academy Award Winners is that no one really knows the criteria. It’s an almost arbitrary selection often times chalk full of political motivations. E.g. how does the top grossing movie of all time Avatar with its surreal 3D effects and $2.8 billion of ticket revenue suffer a loss to the Hurt Locker, a movie which at the time no one had ever seen? It is much easier to select winners based upon measurable and relevant criteria. In the real estate investment business as well as the property management world we have clear cut metrics to determine the winners and losers. Let’s see how PRG did in the various award categories for 2012:

**Best Returns for Investors:** The sale of the 416-unit Flagler Pointe in St. Petersburg produced an IRR of a 30+% over its 17 year hold period with a cash multiple of 14 times the initial investment. A close second, and also a homerun deal, was the 292 unit Lake Boone Trail in Raleigh, NC which produced a 27% IRR and doubled the investment returns in a little more than three years.

**Annual NOI Growth:** PRG’s same-store Net Operating Income rose 8% from 2011 to 2012 despite a poor labor market and continued economic uncertainty. That level of increase is not surprising given that our effective average rents rose almost 4.5% across the portfolio and our operating expenses remained relatively flat.

If we listed other categories such as Lowest Resident Turnover in the past Five Years, Highest Employee Retention Rate in Five Years, and Lowest A/R during a major recession the 2012 PRG team would be a clear favorite to make a clean sweep. How we do it is a subject for the next newsletter. That we do it is what really matters to our investment partners and our 300 person strong organization. Just be sure to buy a big enough trophy case to store all of the hardware because before you know it the 2013 Awards season will be upon us.

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**A Cost Saving Culture**

PRG is always looking for ways to save money and add value for our investors and employees. This quarter one area of focus was health insurance. Over each of the past three years health insurance costs have increased by double digit percentages accelerating after the passage of the Affordable Care Act. The increases placed a sizeable financial hardship on our employees and property income statements. After the last renewal in July we embarked upon a new strategy with our benefits broker, Hays Companies, to come up with a long term plan to lower health insurance costs. Hays recommended several options. We elected to change our renewal date to January 1st thereby showing the insurance carriers an improved claims history, partially a result of successful implementation of a portfolio wellness program. The strategy paid off! PRG received an 11.43% decrease for our January 1st renewal. In this day and age one would be hard pressed to find another operating company with true decreases. The result is great news for our employees and investors!

Our second area of focus was telecommunications. PRG evaluated all phone contracts associated with cellular service, local and long distance plans, as well as internet providers. The project was divided into two phases. Phase one was aimed at reducing the number of cell phones we have in service as well as optimizing our existing pooled minute plans. Phase one itself helped us to achieve a monthly savings in excess of $3,000. For phase two, we engaged The Spyglass Group, Inc. to assist in identifying cost saving opportunities. Spyglass is a consulting company who specializes in auditing of telecommunications invoices resulting in recommendations for future savings. During the audit of our thousand page plus phone bill Spyglass identified incorrect charges that resulted in a retroactive credit to the PRG portfolio of $3,900. Further, a usage analysis was performed on all of our phone lines that resulted in annual savings of $15,500 after adjustments were made. The last part of this process involves long distance. It is anticipated that PRG will save an additional $17,000 annually by implementing one of the long distance options recommended by Spyglass. When the process is fully completed, PRG will have saved approximately $36,000 a year on its telecommunication expenses.

In 2013, we will continue to analyze expenses in order to reduce costs and increase the bottom line. There is no resting when it comes to peak performance.