



THE CORNERSTONE

"The Newsletter So Good Someone Named A Company After It"

Volume 8, Issue II

PRG Real Estate Management, Inc.

Second Quarter 2007

Turning Stones Others Overlook

The market for acquiring multi-family investments at present is one which is extremely picked over, with low inventory, undesirable assets, and unrealistically high prices. To combat the present environment, PRG has been forced to be more resourceful than ever. In our last issue, we described finding Altamonte Trace while banging around on the Internet. In the second quarter, we followed up that acquisition with a property that was not only off market, but also in a bit of an out of the way location.



The Woods in Winston-Salem

Our newest community is called "The Woods" and it is situated on the Northwest side of Winston-Salem. While the city is off the radar screen for most, we found the close proximity to Wake Forest and abundant shopping attractive. It is no coincidence that we only learned of the property through direct referral.

The Woods is exactly the type of property that PRG seeks. Although well maintained, the community lacks marketing appeal. Despite being undermanaged, The Woods stood at 92% occupied during due diligence. Most of the property's 209 units are laid out in two-story garden style buildings, with many 2-bedroom floorplans over 1,000 square feet. The Woods has one mid-rise elevator building, and a leasing center with a cathedral ceiling overlooking an attractive pool area.

Due to its excellent condition, the investment will allow us to make major changes that will generate the greatest revenue. At present a complete color change is contemplated for the uninspiring brown exterior. The paving will be repaired, re-sealed, and re-stripped. The pool area will receive a cosmetic face-lift, while substantial dollars will be invested in the landscaping. New signage will be added, new vinyl dumpster fences will be erected, and washer/dryer connections will be installed in many units. Add to this an attractive waterfall at the front of the community, and we are confident that the end result will be another classic PRG renovation! ☺

The Palms at Altamonte Springs

Often, changing the image of a community involves a change of name, so when "Altamonte Trace" was re-named "The Palms of Altamonte Springs", it reflected the use of a common weapon in the PRG arsenal. But this modification was small in relation to the change in image derived from the million capital dollar improvements that the construction department has planned.

Under the direction of Bob Black, the program kicked off the first week of August in vigorous fashion. The community, which was purchased for \$53K per unit, sits in the very upscale Altamonte Springs but at present does not fit the surroundings at all. Our biggest challenge will be to address the bland building exteriors, and in response to this, the construction group is contemplating changing the building exterior by adding shutters to upstairs windows and pediments below.

We plan to invest heavily to upgrade the landscaping, re-decorate the pool area, and completely rehabilitate the tennis court. A new wrought iron style fence will be installed across the front of the property to lend an air of distinction to the community. As is typical with so many PRG investments, a new sign package will be installed, and vinyl dumpster fencing will be added. Finally, the clubhouse will undergo significant renovation.

The unit interiors at the property are in excellent condition and require little upgrade. However, three additional items are planned that are sure to enable us to increase rents. Washer/dryer connections will be added to all two bedroom floorplans. Also, all first floor apartments will have patio areas enclosed to match units upstairs. Finally, a new fitness center will be added to the clubhouse area.

Once construction is complete, we think we will have an asset far more in keeping with the Altamonte ambiance! ☺



The Palms at Altamonte Springs

Squeezing Every Ounce of Performance

We return to Valencia, Spain, where in July the winning Alinghi racing team from Switzerland scratched and clawed their way to a one second victory over Emirates Team New Zealand to capture the 32nd America's Cup. This is a good lesson for us all to consider. After four years of the most highly skilled engineering, testing models for wind and water resistance, building multiple boats and hiring the world's most capable sailing team, one second was all that separated the victor from the vanquished. Even this hardly describes what was accomplished over four years and with a \$100 million budget.

But to those of us here at PRG, there are many similarities that we share with the defending world champions from Switzerland. While they have held the Cup since 2003, we have held our own version of the real estate management cup since 1999 when we increased same store by 24.8%. From 1999 to 2005, we increased same store NOI in the aggregate by 57.0%, while REITs we benchmark against increased in the aggregate by 14.3%. And

year to date through June 30, we stand a robust \$1,200K ahead of budget.

So what is our challenge now? Simply to ensure that we are achieving every last dollar of profitability! To accomplish this, we need to approach our work each day in a manner by which we constantly turn over every stone, consistently seek to improve old practices, and always strive to deliver superior execution.

We have many examples of those here at PRG who have taken over our most difficult situations and demonstrated exactly that. In marketing, Ashley Massey became manager of The Corners in a weak market in Spartanburg. However, as a result of Ashley's skill and determination, in June she achieved zero vacancy, an unheard of number in that neck of the woods. In collections, Ali Smith-Watson set a new PRG record by collecting every last dollar for the first six months in 2007. Regarding ancillary income, no company can touch PRG's 11.6% of rental income. But at Magnolia Townhomes, Avril Carter achieved the highest cable TV profit margin at \$16.83 per unit.



Robert Dominy, President

And when it comes to average rents, no one can match Pamela Penny's aggressive bulk renewal increases following completion of renovations at Cary Pines.

To squeeze out every last second, or in our case dollar of performance, we need an innovative game plan, superior execution, the utmost in tenacity, and an extraordinarily detailed approach. That is what will be needed if PRG is to defend it's trophy in 2007. *♯*

Feeding The Appetite For Cash

It has only been 90 days since Sandy Stern took over as our Chief Accounting Officer. Who would have known that over that period of time the level of finance activity would actually increase?! But that is a reflection of the demands necessary to feed the appetite for cash in the money machine that PRG has become!

We are fortunate that the lending environment has continued to work in our favor. Despite the headlines about the sub-prime debacle and rumors of tighter underwriting criteria, our experience continues to be substantially favorable. Interest rates continue to remain low, and many loans are achieved interest free for the first two to three years.

Sandy recently consummated a new \$7.4M loan on the Altamonte Trace acquisition. This loan was received through Freddie Mac, courtesy of Don Marshall and Capmark, at a very favorable 5.90% interest rate. Next up was The Woods in Winston-Salem. That \$6.3M loan will also be received from Fred-

die Mac via Capmark with a 5.93% rate.

As pleased as we are with those loans, there has been plenty of additional activity in the area of refinancings. At Linkhorn Bay in Virginia Beach, Sandy will be replacing two loans with one new loan also through Freddie Mac. This loan is anticipated to be for \$65M, and will be obtained with a 6.0% interest rate.

Hilton Village in Newport News will also be refinanced. This reflects another "win" for PRG, resulting in the return of all equity to our investors in just over two years. Sandy is also working on a \$950K supplemental loan for Honeytree, which will also enable us to return all cash to investors. In future months, once the smoke clears, Sandy will be looking at restructuring the financing at Willow Ridge, adding a second loan at San Pablo, and taking out a second at Lakecrest, which will reflect the return of all cash to investors in record time! *♯*



Sandy Stern

Where in the World is Our Acquisitions Team?!!

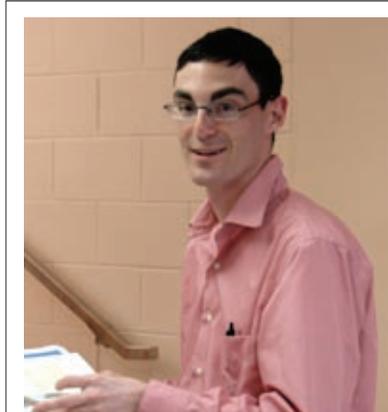
In a buying environment as difficult as the one we are presently experiencing, we have to be thrilled with the acquisition which Jon Goodman found in The Woods in Winston-Salem. But in March, Sam Foster was added to our acquisitions team to give us the ability to prospect more aggressively. And in that regard, our personnel have been all over the Eastern United States.

Sam has been successful in identifying a number of very interesting opportunities. As a result of his work, we are currently involved in negotiations on an attractive community in Upstate South Carolina. We presently have a bid in on a 200 unit community in Knoxville which looks promising. And we have also reached the “Best and Final” round on a 300 unit community in Louisville, KY. Sam has also been spending a considerable amount of time working on a

seven property portfolio situated predominantly in Raleigh and in Charleston, S.C.

But Sam is far from PRG’s only representation out in the field these days. Steve Berger has been working on a three property portfolio in the Tampa area. And Bob Dominy has been focusing on Louisville, KY, and a seven property portfolio situated in Baltimore, MD, a market that we would dearly like to enter for strategic reasons.

What will come next within our present geographic footprint is hard to tell until tomorrow’s mail arrives. However, we have also considered entry into new markets including Louisiana as well as New York. The opportunities require creativity and imagination, but we have certainly demonstrated the capability to find those overlooked by others in the past! ☺



Sam Foster

Where Madison Ave Meets Luzerne Street

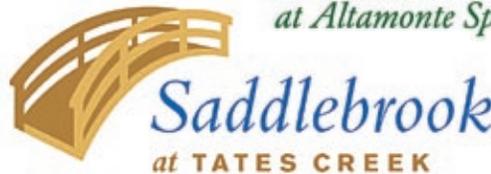
Although it may not be as well known as we presume, at PRG HQ we are acutely appreciative of the fact that Madison Ave. intersects with Luzerne St. right at the desk of Kathy Simon, Director of Outsource Services. In this capacity, Kathy is our behind the scenes person most responsible for image creation for the company as a whole, as well as individual properties. And she is additionally in charge of directing our many technical initiatives.

One of the most visible projects that Kathy is in charge of is image creation for new PRG acquisitions. This includes name and logo selection, as well as the production of brochures, letterhead and business cards. Over the past year, Kathy has worked closely with senior leadership on the name change in Cary from the outdated “Cardinal Woods” to “Cary Pines.” Kathy also played a key role in the first quarter when we changed the name of Lexington’s “Greenhouse” to “Saddlebrook.” More recently, Kathy has been working on an image change in Columbus from “Forest Park” to “Whispering Pines,” and in Florida from “Altamonte Trace” to “The Palms of

Altamonte Springs.” Presently, she is working on a new logo for our latest acquisition, “The Woods” in Winston Salem.

Simultaneously, Kathy has been working on a number of image related projects for PRG as a whole. She has ambitiously tackled the issue of branding and all of the facets that concept would involve. One major aspect of branding is the redesign of the web site. While Kathy intends to enhance the image, she is also interested in expanding our web capabilities into resident and employee portals. One example of enhanced web resources is in a new manager page, designed to advise incoming managers of many particulars of a community to accelerate their process down the learning curve.

Finally, PRG may be a smartly designed race car, but it would not travel very fast or very long without the engineer to keep it finely tuned. Kathy is that person who supports all PRG on-line activity including Yardi, our management software system. Within Yardi, she plans to expand the utility billing module and template letters capabilities. Whether the project is out in front or behind the scenes, it’s obvious that Kathy’s contribution to PRG is virtually immeasurable in terms of the value that it creates! ☺



The Rockets Red Glare

By July 4, 2007, those of us at PRG were unsure if the fireworks over the Delaware were the annual fourth of July celebration, or the response to the accounting department's early release of the mid-year numbers. For half way through the year, the company wide \$1,200K variance placed PRG on a record pace for highest variance ever!

The powerful financial performance seemed to play no favorites, with 28 of 32 communities showing favorable variances. The top performers were also an interesting mix from a geographic perspective, and included both properties which have been long term hold as well as more recent acquisitions.

Leading the company and at the top of the heap was the Staples Mill Town Homes in Richmond. This 2005 acquisition managed by Tabitha Deberry was a stunning \$168,685 ahead of budget. Staples has thus far increased its NOI 15.7% from a year ago. In second place was another Virginia community and long time outstanding performer Linkhorn Bay, which under the direction of Jeff Fritz was \$100,890 over budget.

Next in line was Flagler Pointe in St. Petersburg. Under the direction of Summer Davis, Flagler was showing a \$95K positive variance to budget. In fourth position was another new acquisition,

Tiffany Square in Rocky Mount. Manager Nikki Lowry has guided that property to an \$83K favorable variance at an asset which we thought would be a solid investment but never regarded as the home run which it has become. Rounding out the top five is Willow Ridge in Charlotte. Pam Williams has kept a firm hand on the wheel at this 416 unit community, and at mid-year is \$78K positive.

Many of the NOI percentage increases have offered pleasant surprises. In Spartanburg, Magnolia was 13.7% improved over 2006, while The Corners was 13.1% ahead of last year. In Columbus, Forest Park increased its NOI by 13.1%, while Bavaria in Nashville was up 16.9%. Best of all, Hilton Village increased its NOI by a company leading 22.4%. ✍



Jeff Fritz at Linkhorn Bay

Injecting the "Value" in Value-Added

As most know by now, PRG's investment model is based upon a two pronged attack. We seek properties that are under performing due to weak management and replace them with well trained, highly educated PRG personnel. But second, we seek investments that we can cost effectively make into something that they are not, and that is where our vaunted construction team comes in.

Under the technical direction of Bob Black, the administration of Meschelle Roten, and marketing oversight of Melissa Good, we feel this group is as good, if not better than any other. By August, our contractors were concluding the project schedule at Saddlebrook in Lexington. This community now rivals any other PRG investment in sheer beauty. The property has been transformed from red cedar siding to a more Nantucket grey and white, with picturesque landscaping leading to lake views. The final touches included completion of the new leasing center, and the installation of a fountain in the river at the front of the property.

Bob and Melissa were proceeding at a blistering pace to kick off

The Palms at Altamonte improvements. Most important was the intended transformation of the buildings from a very plain and dated stucco to a far more architecturally pleasing design. The million dollar program will also feature many other enhancements, most of which will focus on the exterior.



Saddlebrook at Tates Creek

Once this project is up and humming, it will be time to kick off the renovations at The Woods in Winston Salem. This \$800K project will be very time sensitive. An August 24th closing date will make it extremely difficult to impact the marketing campaign in 2007. And of course, our competitive advantage is that we implement change in a marketing sensitive manner overlooked by most competitors.

Our construction team will be involved in projects at a total of 15 properties over the second half of 2007, or almost half of our portfolio. Next in order of priorities is a new paint job and color scheme at Coquina Bay in Jacksonville, followed by a new leasing center at Staples Mill in Richmond. ✍

THE PRG HONOR ROLL

SECOND QUARTER 2007

Top Gun Collections

APRIL

Ali has collected every dollar owed in 2007! Lindsay was sensational at a 456 unit property, and Kami overcame high fuel bills to finish in third!

1. Ali Smith-Watson	Honeytree	\$0.00
1. Lindsay Savage	Willow Ridge	\$0.62
3. Kami Poole	Cascades	\$0.67

MAY

If you can't top Ali, Nikki at least tied her! And Hollie Robinson at Linkhorn had a great month with 864 units!

1. Ali Smith-Watson	Honeytree	\$0.00
2. Nikki Lowry	Tiffany Square	\$0.00
3. Hollie Robinson	Linkhorn Bay	\$0.28

JUNE

Ali made it a perfect Q2 for '07, while Nikki joined in with a zero collections rate once again!

1. Ali Smith-Watson	Honeytree	\$0.00
1. Nikki Lowry	Tiffany Square	\$0.00
3. Todd Hodge	Altamonte	\$0.13

Show Me the Money!

1. Jeff Fritz	Linkhorn Bay	\$83,749
2. Tabitha Deberry	Staples Mill	\$68,437
3. James Hollins	Hyde Park	\$68,040

Jeff Fritz reestablished Linkhorn Bay in Q2 as the financial team to beat, winning our most coveted award by a \$15K margin. Jeff increased occupancy to 98% and out-performed on the income side--where we like to see it most!

Tabitha Deberry beat her Staples Mill budget by \$68K putting her \$168K ahead of YTD budget! Her North Richmond property, originally purchased with investment partner Capmark, has exceeded all expectations.

James Hollins at Hyde Park moved up the leader board into 3rd place. A graduate of UNC in Chapel Hill, James has seized the opportunity in his first managerial role.

Credit is due to Steve Prochnow at Lakecrest in Greenville, SC for finishing \$58,190 ahead of budget -- 4th best at PRG. Other properties above \$40K favorable include Kami Poole at Cascades (\$49,906), Summer Davis from Flagler Pointe (\$46,651), and Nikki Lowry from Tiffany Square (\$40,926).

Razzle Dazzle Leasing

APRIL

Julie Logan led everyone in marketing by capturing 24 leases, with Jena Paulenich only one behind at Linkhorn!

1. Julie Logan	Hyde Park	24
2. Jena Paulenich	Linkhorn Bay	23
3. Jessica Henry	Lancaster Green	20
3. Matt Sugg	Staples Mill	20

MAY

In May, Julie made it two in a row! Marissa captured 21 at Flagler to finish a strong second.

1. Julie Logan	Hyde Park	27
2. Marissa Myers	Flagler Pointe	21
3. Matt Sugg	Staples Mill	16
3. Vanessa Francis	Chanticleer	16

JUNE

Julie Logan swept Q2 with a 3rd consecutive victory, but Vanessa and Tony will be tough to beat in days to come.

1. Julie Logan	Hyde Park	29
2. Vanessa Francis	Chanticleer	23
2. Tony Leanillo	Flagler Pointe	23

Who Are Those Guys?!

1. John Brooks	Ambassador	0.00
2. Javier Aguayo	Honeytree	0.00
3. Jim Gantz	Lancaster Green	0.01

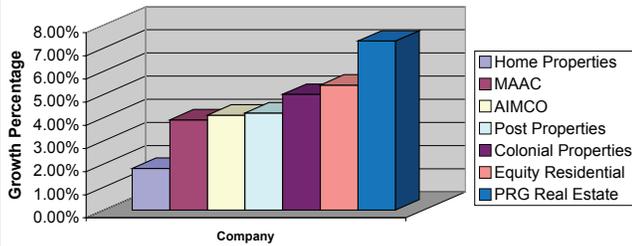
Not long ago, The Ambassador in Pittsburgh was regarded as exceptionally difficult, given the vintage of the highrise buildings. That was before John Brooks got his hands on this asset. After finishing Q1 with a near perfect 0.01 score, he achieved perfection in Q2, thus winning a share of our "Who Are Those Guys" award.

Also winning a share of this award was Javier Aguayo at Honeytree, a long term outstanding PRG performer, who also had a perfect quarter at his Raleigh community. Given Javier's long history of outstanding performances, winning this award was no surprise.

Jim Gantz, with regional duties in Pennsylvania coupled with those as maintenance supe at Lancaster Green, missed out on a perfect record by a whisker! This result reflects his considerable experience as well as his tireless effort.

Across the board, PRG properties achieved an average score of 0.99, meaning that the average work order was completed in just under one day. No wonder so many of our residents are smiling!

2007 2nd Quarter Same Store NOI Growth



VA is for Investors!



Katie Eagle at Hilton Village

O.K., so you thought we were going to say it was for lovers. At PRG, we take care of the investing and the rest should take care of itself! The latest best example of this is at Hilton Village in Newport News. This is a 160 unit community which we only purchased in July of 2005 but are now preparing to refinance and return all equity in just over 24 months!

To a great degree, the success of this property can be attributed to the PRG Pyramid. At Hilton Village, manager Katie Eagle has taken full advantage of this system, which consists of eight steps designed to keep managers' priorities in order. Whereas other companies get bogged down in administrative detail, the PRG system is designed to place the emphasis upon the customer and upon maximizing financial performance.

The top level of the pyramid involves property inspection, based on the belief that you never get a second chance to make a good first impression. Second, managers are responsible to ensure that quality personnel are always in place. The third level focuses upon training. Next, managers are taught to address external marketing through evaluation of traffic statistics. Managers are then taught to address delinquencies, since it does little good to generate income if it is not collected. The sixth level concentrates on financial performance, while the seventh involves a review of maintenance performance.

The eighth and final level of management involves what we refer to as "things." This includes all of the administrative responsibilities that most other property management companies get bogged down in. And that is how we get to return all equity on Hilton Village in just over 24 months! ☺

PRG Versus the REITs

This is a match we wish was covered on Versus TV, but we couldn't get coverage due to the lack of competition! Unfortunately, match racing is only fun when both entries can be seen without split screen!



THE CORNERSTONE

Volume 8, Issue II

PRG REAL ESTATE MANAGEMENT

2701 EAST LUZERNE STREET PHILADELPHIA, PA 19137
PHONE . 215 . 744 . 1200 FAX . 215 . 744 . 4042
WWW.PRGREALESTATE.COM

STEVEN BERGER, PRINCIPAL
JON GOODMAN, PRINCIPAL
ROBERT DOMINY, PRESIDENT
EDITING AND LAYOUT - KATHRYN SIMON

Impact Players

In the second quarter of this year PRG reaped the benefits of not three but rather four performances which had a major impact on their properties. At The Corners in Spartanburg, S.C., weak market conditions have always been a source of concern. That is, they USED to be a source of concern until Ashley Massey arrived in April as a newly minted manager making the relocation up from Columbia. Ashley has always been known for her ability to close, and she simply dazzled the competition with her capabilities. The end result was that there were no more apartments to lease at her community! Ashley also achieved a \$7.13 delinquency rate and beat her budget by \$17K!



Ashley Massey

In May, we saw a different but equally impressive performance from Tony Smith, maintenance supervisor at Coquina Bay in Jacksonville, FL. Following an unfavorable visit from a city inspector, Tony brought 56 HVAC units up to code at a savings of \$63K to his community.

And in June, marketing took center stage once again as Julie Logan from Hyde Park won her third consecutive Razzle Dazzle leasing award. And in St. Petersburg, Tony Leanillo leased 23 units in his first month on the job at Flagler Pointe! ☺