

THE CORNERSTONE



PRG Real Estate Management, Inc.

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Third Quarter 2003

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

CAROLINAS INVESTMENTS RATED "OUTPERFORM"!



In December, 2002, we closed on the 456 unit Willow Ridge Apartments in Charlotte, North Carolina, and that began a series of acquisitions in the Carolinas that appeared promising in the long term, if nevertheless challenging in the near term.

It is now the fourth quarter, 2003, and we think that it is about time that we give you a report regarding the state of how our trio of central Carolinas investments are doing. Through three quarters, Willow Ridge, under the direction of Karen Reid is a crisp \$224K ahead of budget. The community is 93.6% occupied in a sub-market which is only 85%, our weakest in the country. The performance has been so far above our expectations that we have recently decided to refinance the property almost immediately, unlike our proforma which called for a refinancing after 3 years of ownership. The community also looks great, with resurfaced tennis courts, a renovated fitness center, and a redecorated clubhouse having been completed under the supervision of June Hill.

In May of this year PRG closed on the 308 unit Park Ridge Apartments in South Durham, North Carolina. The community is situated very close to Research Triangle Park, as well as the RDU airport. While the market in this area continues to be in the high 80's, Park Ridge has an occupancy rate of 92.5%. The lease-up of this community, which was directed by Pamela Penny and Andrea Superak, was completed three months early, a new PRG record! The property has also demonstrated a strong financial performance, and is \$220K ahead of budget. Virtually all improvements are now complete, including resurfaced tennis courts, renovation of the screen porches, reconstruction of the retaining walls, and repainting of the exterior.

Our latest investment is the 232 unit Wellspring Apartments in Columbia, South Carolina. PRG closed on this investment on October 1, 2003. While the community is already 94% occupied in a market which is 89%, the occupancy, as well as the prices will only go up after the usual PRG renovation program is complete. Under the direction of Heather Morgan and Brian DeWeese, we plan to resurface all parking lots, resurface the pool deck, add extensive landscaping and completely renovate the clubhouse.

We're almost reluctant to mention what is happening in Spartanburg, South Carolina, for fear of giving away too many secrets. But at the time of this writing, The Corners is now 94.9% occupied, while the Magnolia Townhomes is 91.8%. It's beginning to look like success in the Carolinas is contagious!

THE ACQUISITIONS TEAM PURSUES SOUTHEASTERN OPPORTUNITIES!

Three acquisitions in nine months for a privately held organization with a portfolio of 23 communities is a most impressive performance. This is especially true given the difficult buying environment in which we exist today. But let it be known that there is no moss growing on the rolling stone called PRG!

With virtually unlimited access to capital, your senior level management team is preparing to strike again!



We're pleased to announce that Jon Goodman, principal, has recently reached an agreement to acquire the San Pablo Apartments in Jacksonville, Florida. This is a 200 unit community which Jon has had his eye on ever since we purchased Coquina Bay, which is located just down the street. We are currently in the due diligence period, so no one should begin packing their suitcases yet! A lot still has to happen, but we do feel a sense of optimism that this acquisition may survive!

Jacksonville is by no means the only market in which we have identified promising opportunities. Steve Berger, principal, has also identified two attractive opportunities which we continue to investigate in Southern Virginia and a third in Atlanta. And Bob Dominy has recently visited properties in Sarasota as well as in Orlando.

Our investment philosophy continues to be the same. We seek under-performing assets anywhere on the East Coast from 100 units and up. And the poor performance can be attributed to either the physical appearance of the property or to the existing management. Coquina Bay, for example, involved extensive rehab, while Willow Ridge mostly required changes in management policies. At Park Ridge in Durham, we found it necessary to make physical changes as well as changes to management policies.

Financing of new communities, as well as refinancing of existing ones, are handled by Steve Berger and by our CFO, Jim Smith. Many of our loans are placed with either FNMA or Freddie Mac, since they allow us to place second loans quickly.

But one way or another, the acquisitions will continue to roll in. And with an ever expanding portfolio, the opportunities for personal growth are certain to increase as well!

The Portfolio of Communities That Shine.....



The year 2003 has been a great one for PRG when considered in terms of that which has been accomplished in capital renovations. At a time when so many others within this industry have been cutting back to help to offset a drooping bottom line, this organization has been pressing forward at full throttle.

By October of this year, we are proud to announce that we were finally able to open our new leasing center at the 864 unit Linkhorn Bay community in Virginia Beach. Although you would never know it by the property's high occupancy rate, it has been a challenge for the past 12 months to operate in a reduced amount of space established for temporary purposes.

However, immediately upon entering the new, sparkling facilities which overlook a salt water pond leading to Linkhorn Bay, prospects will know immediately that this company is nothing but first class. The primary leasing area is both spacious as well as graciously appointed, complete with new, tastefully selected furniture. To the right and rear are private offices as well as administrative areas. To the left are closing rooms which feature water views. We're sure that ambiance such as this

combined with PRG University leasing techniques will cause closing ratios to soar.

The new leasing center, now our best in the country, is certainly not all that has happened at Linkhorn Bay in 2003. This is the year in which we completed our exterior program, which transformed buildings which previously featured T111 siding into one completely vinyl sided in two tone natural colors. But that is not to say that our program is complete by any means. We've only recently begun a new program to renovate all kitchens and baths. And still ahead of us is a complete modernization of our exercise facility, The Escape, which for those who have never visited Linkhorn is exceptional in that it is constructed on pilings overlooking a portion of our salt water pond. All of this is only possible because Linkhorn Bay is a community which has seen the value of its equity increase by almost 1500% since 1998.

Of course, much more has happened in capital improvements than that which has taken place at Linkhorn Bay alone. Across the bay, at the Courtyards of Chanticleer, PRG recently completed a \$1.6M kitchen and bath renovation program. All kitchens and baths were renovated at Flagler Pointe in St. Petersburg, Florida as well at a cost of \$1.9M.

Then there have also been the completion reserve programs at our latest acquisitions in the Carolinas. At the 308 unit Park Ridge Apartment community in Durham, a program involving the replacement of roofs, resurfacing of the tennis courts, resurfacing of roads, restoration of retaining walls and re-plumbing of all apartments was recently concluded. Traveling further south on Rt. 85, our completion reserve program at the 456 unit Willow Ridge in Charlotte was close to conclusion as well. This involved redecoration of the leasing center, refurbishment of the fitness center, resurfacing of many roads as well as the tennis courts, and an extensive landscaping program. Only the construction of a new maintenance shop remains. And just for good measure, we are about to embark upon a substantial program at Wellspring, the 232 unit community which has recently been acquired in Columbia, South Carolina.

The year 2003 has also seen ongoing programs at our Pittsburgh communities, particularly at McKee Place as well as at The Ambassador. We seem to be on a never ending cycle. Refinancings lead to capital improvements, which cause our equity to increase and cause us to refinance all over again. It's what separates PRG from so many others in this industry!

...And the Rising Stars Who Will Make Them Fly!

Let it never be said that PRG is a company without a career path. And by this time, now six years into our existence, we have a number of rising stars within the organization to prove it! As a result of the rapid growth which we continue to experience here at PRG, we actually have a rather substantial need for individuals to continually demonstrate their capability to rise up to the next level. It is therefore imperative for our managers in training to continually develop into our managers of the future. This quarter we focus upon present and former MIT's in the Charlotte region.

One former MIT who merits recognition is Richard Counselman, who is now property manager of The Corners in Spartanburg. Richard is a graduate of Randolph and Macon College in

Virginia. He began his career at Linkhorn Bay,



assisted us through a marketing downturn at Gateway Lakes, became marketing director at Willow Ridge, and in February of this year became property manager at The Corners. Since he has taken over, things have never gone better in Spartanburg. In October of this year, he had increased the occupancy to 94.9%, ranked second in collections, and ranked sixth in third quarter financial variance.

Another MIT who is in the process of living up to the potential which we predicted is Pamela Penny. Pamela is a 2002 graduate of the University of Tennessee (you should hear her rendition of "Way up on Rocky Top"). Pamela has enjoyed nothing but success since she joined PRG. She began working for PRG as a

marketing rep at the Tree Top Apartments in Raleigh. In May of this year, she moved on to work on the lease-up at Park Ridge, which was a spectacular success. And recently Pamela was promoted to marketing director at Willow Ridge.

A third MIT who is in the process of establishing himself at PRG is David Page, business manager at Willow Ridge. David is a graduate of North Carolina State University, and worked as a teacher prior to finding his way to PRG. He began working at Willow in May as a marketing rep, and when the company decided to take water billing in-house, David was selected for his exceptional attention to detail. By September, he had increased water collections to a record level, and also reduced the delinquency rate by 50% from August.

PRG University Takes Off!

Your child may not be the only one who is experiencing that “back to school” feeling once again! On October 7th and 8th, PRG University officially kicked off its initial session under the



direction of Melissa Good with two days of training in Raleigh, North Carolina.

PRG University takes the place of our

annual marketing conference and offers many significant advantages. The marketing conference was unfortunately only offered once per year, and only had managers and assistant managers in attendance. The benefit of PRG University is that it is mobile, it may be scheduled at any time of year in which we find a need, and it is held at an actual PRG community.

The session held at the TreeTop Apartments in Raleigh focused upon inside sales techniques. Melissa took the opportunity to teach such sophisticated leasing techniques as trial closes, overcoming objections, and a variety of different closes intended to enable PRG to outperform in every market.

Those in attendance included Pamela Penny from Willow Ridge, Lisa Healy from Tree Top, Christy Haycox from Willow Ridge, Pam Williams from Magnolia, Andrea Superak from Park Ridge and Carrie Buttles from Honeytree. Rumor has it that Ms. Penny gave a reasonable account of how she was able to lease up Park Ridge three months early!

Of course, an added benefit expected from PRG University is the opportunity to interact with peers from other PRG communities and other cities. And in that regard, the entire group was treated to an evening out at the Stonewood Tavern & Grill. Our understanding is that a grand time was had by all!

The next marketing training session is tentatively scheduled for December, and will be held in either Jacksonville or in Virginia Beach. It is also expected that PRG University will be expanded to include many other topics, included some which are maintenance related.

Florida State Heads Packed College Recruitment Schedule

In our last issue, we gave you the great news that we had recently been added to the Advisory Board to the College of Human Sciences at Florida State University. This department, which is under the direction of Ms. Patty Hattaway, has the largest property management program in the country. But we are now pleased to advise you that our relationship with Florida St. has continued to grow in a variety of ways, and we are certain that this will lead to many property management majors joining PRG in future years.

Recently the property management program invited a member of PRG to make a two hour presentation to a leadership class consisting of 43 seniors. This gave us an excellent opportunity to acquaint many students with PRG, and to begin to define the differences between ourselves and other organizations. In addition to the class presentation, we also recently participated in an FSU golf tournament, attended our first board meeting, and took part in a career fair.

We are also being particularly diligent this year about conducting our most aggressive college recruitment program ever. This year's list for on campus recruiting includes the University of Florida, Stetson University, Converse College, UNC-Charlotte, North Carolina State, Old Dominion, Virginia Tech, William and Mary, the University of Pittsburgh and Millersville University.

The college recruitment process is quite sophisticated and must be done exactly right in order to be effective. After making contact with the target schools, we next place advertising in all student newspapers to promote PRG. We then provide information about PRG to all placement offices. Next, resumes are forwarded from each school, usually via e-mail. Students must then be contacted, schedules arranged, first and second interviews must take place, and personality testing is given. The final step is that offer letters are mailed, and students make their final decision. The end result of course is a far more intelligent and professional work force than may be found among any of our competitors!

Changes in Latitudes, Changes in Attitudes

On October 22nd, and 23rd, PRG held it's annual budget kick-off seminar at the Coquina Bay apartment community in Jacksonville, Florida. The meeting was hosted by Tim Shearer, Virginia Regional Director, and by Eric Brown, Florida Regional Director. It was attended by all managers and many assistant managers and managers in training.



The meeting focused upon a variety of financial and quantitatively driven activities. Among these were the year 2004 budgets, ten year plans, mid-month projections and Rapid Response calculations.

Of course, work was only a part of the reason that the event was held in Jacksonville. The evening of the 22nd was spent at the First Street Grill, overlooking the Atlantic Ocean. And all attendees stayed at the Mariott Court Yard-Mayo Clinic, a palm treed tropical garden. It's all part of the PRG philosophy that as long as your work hard, you should get to play hard too!

The More We Change, The More the Results Will Stay the Same



...A Few Words From Bob Dominy

World Series Time. I did have a certain vested interest until Game #7 Yankees-Red Sox you know. Wasn't it Satchell Paige, at the time the oldest pitcher in baseball history, who coined the phrase, "don't ever look back, someone may be gaining on you,"?

It was probably some time in August that I began asking myself what's next in terms of the direction that we take PRG and this incredibly profitable portfolio. And my first reaction was that we should change nothing. After all, we were over a half million dollars ahead of budget in a year in which everyone else within this industry is spilling red ink. So why fix something that is not broken? And why change a thing if what we are already doing is so successful? But then I reconsidered, and realized that if the best way to keep our lead is to continue to innovate, to continue to change, and to continue to lead the industry.

So in the 75 days since, we have seen a lot of change designed to maintain our lead over the competition. First, there is the new regional configuration which involved adding a fifth regional director in Raleigh-Durham. This will reduce travel time, provide expertise previously unavailable locally, and facilitate tighter supervision to our Raleigh investments.

The second major change was the creation of PRG University, under the direction of Melissa Good. In the past we held once per year marketing seminars in Baltimore with all managers and

assistant managers invited. Now, we are able to take PRG University on the road at any time of year so that no one has to wait to receive sales training. Also, it is the marketing representatives, those in need of training the most, who are invited. And holding the classes on a property provides a superior environment for learning given that a model is readily available.

The next change to be discussed is the location of the October budgeting seminar, and for that matter the Rent Roll/Reporting seminar in January. The October seminar was held in Jacksonville, and the January seminar will be held in either St. Petersburg or Sarasota. This is being done to give more of a resort feel to our seminars, and also in order that it can be more of a reward for our many over achievers throughout the field.

The recruitment program is in the process of being overhauled as well. We've recently established a close relationship with Florida State University. In addition, our 2004 recruitment program will be centrally coordinated so that advertising in student newspapers will be the same, double schedules will always be reserved, and we schedule the best recruiting dates.

Over the past five years, we've developed a considerable lead over our competition. My goal is that, unlike Satchell Paige, if you ever did look back, you would only see that lead continuing to increase!

An Old Friend Returns Home to PRG

The lease-up of Park Ridge was a spectacular success. But the new managers in North Raleigh could benefit from some closer, local supervision. And the weather was getting cold in Chicago. Enter Erin K. Murphy. That's right - the same EKM who served as the Virginia/Jacksonville Regional Director from September 2000 through July, 2002, until she decided that home and family in Chicago were calling. And we're thrilled to have such a capable manager and all around nice person return to PRG.



In the summer of 2000, Erin had been working as a multi-site manager in the Windy City when she began interviewing for the property manager position at the 864 unit Linkhorn Bay apartments in Virginia Beach. At the time, Erin was looking for a fresh opportunity, and was already familiar with that part of Virginia. Besides, she is one of the few native Chicagoans who detests cold weather!

Erin's performance at Linkhorn was nothing but a smashing success. When she arrived at Linkhorn, it had

been behind budget for the first three quarters of the year, but she immediately turned in a positive variance in the 4th quarter 2000. It was not long after that her responsibilities were increased, and she became the Virginia Regional Director, overseeing Hyde Park in Richmond, Country Club in Williamsburg, and The Courtyards of Chanticleer in Virginia Beach itself. In 2001, Erin had a terrific year financially, exceeding her budgets by \$253K.

By early 2002, PRG had acquired Coquina Bay in Jacksonville, and it was determined that Erin would be the best person to take over that city. She was also given responsibility for Silversmith Creek. Prior to leaving for Chicago in the summer of 2002, Erin had almost completed supervision of the renovations to Coquina Bay, and was well on her way to completing the lease-up as well. By the time she left, Erin was off to another great year, and was another 192K ahead of her budgets.

Over the period that Erin worked at PRG, she established a reputation as an exceptionally detailed and conscientious worker. So it is with great enthusiasm that we welcome Erin back, and with great confidence that we hand over responsibility for the Raleigh-Durham assets.

THE PRG HONOR ROLL



Show me the Money!

THIRD QUARTER, 2003

1. Tina Kaster	Linkhorn Bay	\$92,999
2. Nan Rollins	Park Ridge	\$58,128
3. Tamba Estill	Chanticleer	\$28,827

In the third quarter, it was Tina Kaster from Linkhorn Bay by a landslide! And given that this is Virginia Beach, there won't be any recall! Nan Rollins had the second strongest quarter at Park Ridge, our new acquisition in Durham. Nan exceeded her budget by \$58,128. And Tamba Estill, Tina's colleague from just across the bay, finished in third with a favorable variance of \$28,827 at Chanticleer. But these were by no means all of the spectacular performances! We must mention that Marilyn Fields from McKee Place in Pittsburgh finished in fourth with a favorable variance of \$23,450. Given the increases in rents that Marilyn achieved in September, she is sure to be a strong contender in the final quarter of the year at this all student property. And Caryn Burlingame, manager of Coquina Bay in Jacksonville finished in fifth, a solid \$18,323 ahead of her budget. Honorable mention goes to Richard Counselman from the Corners, who finished in sixth. This is the first time that the Corners has been among the leaders in any quarter!

Razzle Dazzle Leasing Winners

JULY

In July, Jennifer DeProspro had a fabulous month in leasing and ended a long streak of winners from Linkhorn Bay.

1. Jennifer DeProspro	Lancaster Green	27
2. Pamela Penny	Park Ridge	23
3. Richard Counselman	Corners	21

AUGUST

In August, Holly Browne, who is always a threat to win this award, came through again with 26 deposits and finished in first place! In doing so, Linkhorn is at the top of the leaderboard again!

1. Holly Browne	Linkhorn Bay	26
2. Jodi Ahlemeyer	Willow Ridge	25
3. Pamela Penny	Park Ridge	22

SEPTEMBER

In September we had a rare tie for the top spot in the race for the Razzle Dazzle award. Joy Brock from Linkhorn Bay and Jodi Ahlemeyer from Willow Ridge each racked up 20 deposits in the month!

1. Joy Brock	Linkhorn Bay	20
2. Jodi Ahlemeyer	Willow Ridge	20
3. Holly Browne	Linkhorn Bay	19

Top Gun Collections Winners

JULY

In a hotly contested competition, Caryn Burlingame surged ahead in the waning days of July and claimed first place for her Jacksonville property!

1. Caryn Burlingame	Coquina Bay	\$0.68
2. Hollie Robinson	Linkhorn Bay	\$1.64
3. Marilyn Fields	McKee Place	\$1.73

AUGUST

In August, Marilyn won, and also finished in the top three for at least her sixth consecutive month. Hollie Robinson established a new record at Linkhorn!

1. Marilyn Fields	McKee Place	\$0.58
2. Caryn Burlingame	Coquina Bay	\$0.93
3. Hollie Robinson	Linkhorn Bay	\$1.00

SEPTEMBER

Suzanne Nardini didn't take any chances in September. She collected every cent, just to make sure that her East Pittsburgh community won top prize!

1. Suzanne Nardini	Alcoma	\$0.00
2. Marilyn Fields	McKee Place	\$0.15
3. Jackie Johnson	Governor's Ridge	\$1.11

Superstar Award Winners

JULY

Jennifer DeProspro, Assistant Manager, Lancaster Green

In July, Jennifer led the company with 27 deposits, the first time in memory that anyone from Lancaster Green has led the company in this category. She also reduced the property's delinquency rate to a solid \$8.61, and she supervised the community while her manager was away.

AUGUST

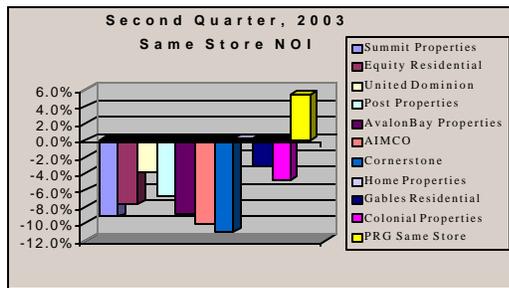
Russell Sampson, Maintenance Supervisor, McKee Place

Russell and his team at McKee Place accomplished the impossible in August. This year, the University of Pittsburgh began classes on August 25th, which just happens to be the day all leases expire at this all student property. But under Russell's direction, not only did everyone move in on time, but he also saved a substantial amount in contract expense.

SEPTEMBER

David Page, Manager in Training, Willow Ridge

In September David's performance was exactly what this award is all about. He worked endless hours to reduce Willow's delinquency, which at month end was only \$10.40, an approximate 50% reduction. He also was responsible for the highest utility income collections in any one single month!!!



PRG versus the REITs

The more things change, the more they stay the same. That is, we keep changing, and the results continue to be the same! In the second quarter, we scored an across the board wipe once again. To our larger, lumbering friends in the industry, we'd like to recommend a company outing to a showing of "Seabiscuit" to see what a swift, agile performance really looks like! Either that, or just watch us!

Visit our Fabulous New Website: www.prgrealestate.com

STANDARD OPERATING PROCEDURE... NOT!

This is the third installment in our continuing series designed to help our larger, lumbering, slower operating, publicly held friends within the industry otherwise known as REITs. The difficulty which they are having in matching our performance should be noted by referring to the chart at the top of this page.

Now here is a really novel idea. Instead of attempting to install 1960's style command and control, top down, centralized management already proven as a failure in past attempts at central planning and collective farming, why not be more like us? Instead, hire the best and the brightest, encourage them to think out of the box, and incentivize them to achieve superior performance. That's right, not more home office standardization, no more "Right Time Pricing", as if it's better to automate price reductions as opposed to walking across the parking lot to find that there is a dumpster in front of that vacant apartment!

A simple case in point will help. In the year 2000, PRG purchased McKee Place, an all student apartment community catering to the University of Pittsburgh students. The community was physically in the worst condition of any PRG community, and was spread out over several different city blocks.

Among the first ideas was one proposed by our Pennsylvania Regional Director to sell units which were not contiguous to one another, and to purchase others which enabled us to own entire city blocks. We also sold units remotely located which were less profitable.

Next, the property manager, Marilyn Fields, and the regional director, Melissa Good, initiated a program through which the units adjacent to one another would be combined to create larger units with more bedrooms. This has resulted in rents increasing by as much as 100% over the rent which was being received on both apartments combined!



Marilyn and Melissa next found an unused parcel of land behind one building which was occupied only by dumpsters and other assorted trash. At a cost of approximately \$1,500, they placed stone over the area, brought in parking blocks, and created parking for 30 spaces which rent for \$65 each!

The end result of these and many other changes is that the property has seen it's NOI increase by 186% over the three years that it has been owned by PRG. And virtually every idea was proposed by Marilyn and Melissa. Do you get the picture?

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WHO ARE THOSE GUYS?

The third quarter service request competition concluded with an unprecedented ending. For no less than three properties finished with a perfect 0.00 record! At Gateway Lakes in Sarasota, Dennis Schermock and his fabulous team continued to provide all the service that residents at this resort like community have come to expect. Across state, at Coquina Bay in Jacksonville, Tony Smith and his supporting cast also provided the highest level of service to their residents as well. And in Pittsburgh, Kenny Griffin and his staff also provided service to perfection!



And that is not to say that service elsewhere was more than a whisker away from perfection as well! McKee Place finished at 0.01, Governor's Ridge was 0.04, and Honeytree and Alcoma were each 0.05. Do you get the picture? To live at a PRG community means that you come to expect exceptional service!

For those unfamiliar with this award, the "Who Are Those Guys" award is presented each quarter to the maintenance team with the best record for service request completion. A score of 0.00 equates to no resident ever during the quarter having an incomplete work order at the conclusion of work on Friday of any week. A score of 1.00 equates to an average work order taking one day to complete. And the name for this award comes from a famous scene in the movie "Butch Cassidy and the Sundance Kid", and reflects the feelings we are certain are felt by residents who experience swift and high quality service.

We would also like to recognize Travis Massey, our new maintenance supervisor at The Corners in Spartanburg. Travis was a maintenance technician for PRG until getting promoted in July. And many times the next step up can pose new challenges for any employee. However, Travis has been particularly diligent with regards to his promotion, and as a result The Corners has never operated better than it does now. The community looks as neat as a pin on the exterior. On most occasions, all service requests are complete and he is consistently ahead of his make-ready schedule. And in addition to this, his attitude is exemplary for any PRG employee. Despite a recent promotion, we feel that The Corners has never been in better hands!