OVERVIEW
Sales of multi-family properties proved to be one of the better segments of the market for 2010. Less volatile vacancy rates compared to office, retail, and industrial properties, coupled with significantly easier access to debt financing were the main demand drivers.

Vacancies
According to the South Dakota Multi-housing Association’s most recent survey, apartment vacancy rates dropped from 11.05% in July 2010, to 7.87% in January 2011. Two main events account for this drop in vacancy. First, expiration of the homebuyer’s tax credit program stopped the increase in vacancies that was caused when many renters became home buyers. Second, increased optimism with the economy has led to stronger apartment demand as more young workers, now more confident in their jobs, entered the apartment rental market. Economist Peter Lindemann echoed this point at a recent NAI convention indicating, “Nationwide there is significant pent up demand for apartments.” Given the significant recent reduction of vacancies and strong summer rental market almost upon us, we are projecting that multi-family vacancy rates could fall to 5 - 6% by end of year 2011.

Investor Demand/Cap Rates
Investor demand remained strong in Sioux Falls as local, regional, and national investors seem to like the stability of our market and our somewhat higher yields.

Locally, cap rates for 2010 closed multifamily transactions ranged between 7.5% - 10.25%. For 2011 and beyond, we see cap rates moving higher as interest rates increase and sellers of older properties become more motivated and realistic in their asking prices.

BUILDING PERMIT DATA
Multi-family construction was 232 units in 2010 relative to 539 units constructed in 2009.

FORECAST
We expect to see strong investor demand for properly priced existing properties and also expect an increase in new construction activity. Four of five apartment developers, we surveyed, indicated they have plans to build in 2011.

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**AVERAGE RENTAL RATES:** *(Source: South Dakota Multi-Housing Association)*

<table>
<thead>
<tr>
<th>Average Rental Rates</th>
<th>1 bedroom</th>
<th>2 bedroom</th>
<th>3 bedroom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conventional</td>
<td>$506</td>
<td>$795</td>
<td>$825</td>
</tr>
<tr>
<td>Tax Credit</td>
<td>$533</td>
<td>$599</td>
<td>$715</td>
</tr>
<tr>
<td>HUD</td>
<td>$614</td>
<td>$693</td>
<td>$946</td>
</tr>
</tbody>
</table>

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NOTABLE MULTI-FAMILY SALE TRANSACTIONS

<table>
<thead>
<tr>
<th>PROPERTY</th>
<th>SALE PRICE</th>
<th>SALE DATE</th>
<th>UNITS</th>
<th>PRICE/UNIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>LaVerne LaVilla Apartments</td>
<td>$2,700,000</td>
<td>November 2010</td>
<td>51 Units</td>
<td>$52,941.18</td>
</tr>
<tr>
<td>Tower of David Apartments</td>
<td>$2,275,000</td>
<td>February 2010</td>
<td>80 Units</td>
<td>$28,437.50</td>
</tr>
<tr>
<td>Sherman Park Apartments</td>
<td>$1,675,638</td>
<td>September 2020</td>
<td>30 Units</td>
<td>$55,854.60</td>
</tr>
<tr>
<td>Richmond Townhomes</td>
<td>$1,049,000</td>
<td>May 2010</td>
<td>22 Units</td>
<td>$47,681.82</td>
</tr>
<tr>
<td>Cedar House Apartments</td>
<td>$951,603</td>
<td>September 2010</td>
<td>24 Units</td>
<td>$39,650.13</td>
</tr>
</tbody>
</table>

Source: Minnehaha County/Local Appraisers

SIGNIFICANT SALE
LaVerne LaVilla Apartments
- One & two bedroom units
- Elevator and wheelchair accessibility
- Hot water heat and central air
- Tenant pays electricity, cable and phones
- Landlord pays heat, water, sewer, trash, snow removal and lawn care
- Detached garages

Vacancy Rates

If you are interested in either buying or selling a multi-family property, please call Jeff or Mike at (605) 357-7100 or e-mail at jbrooks@naisiouxfalls.com or morr@naisiouxfalls.com. Please visit our website at www.siouxfallscommerical.com for further information and a list of our current multi-family property listings.