

WITH ECONOMY DOWN, BUYERS FORESEE LITTLE NOI GROWTH

Apartment property fundamentals in the Tampa metro area continue to be significantly affected by the economic downturn, a trend that will delay the onset of the market's recovery for several more quarters. Vacancy is rising and will exceed 10 percent by year end as job losses accumulate, and the rate already equals or exceeds that threshold in the Clearwater and Pinellas Beaches submarkets. Rents have increased year over year as a result of supply additions but may start to trend downward in recent months as employment reductions intensify. Pressure will continue to fall upon owners to lower asking rents and employ concessions to maintain occupancy in the months ahead, although attempts to stimulate demand by offering inducements may not be effective in an environment of rising unemployment. Supply growth, meanwhile, has started to moderate and will help to stabilize the market ahead of a recovery, notwithstanding a spike in multi-family permitting.

In the investment arena, buyers are underwriting potential acquisitions more rigorously due to capital market constraints. Many investors are focusing on acquisition opportunities with attractive assumable financing in place or circumstances where sellers are prepared to carry a second mortgage. Cap rates for new Class A product in established areas of Pinellas and Hillsborough counties start in the high-6 percent to low-7 percent range and rise approximately 100 basis points for each quality class. Generally, investors are underwriting properties for minimal or no NOI growth this year and into the next, with only a modest increase expected two years hence, depending on the timing of an economic recovery. Concessions are assumed to rise modestly in the near term, with burn-off beginning in late 2010 or early 2011. Entrepreneurial buyers continue to circle the market for fractured condos, although acquisition financing is still challenging. In addition, most investors are not assuming that the sell-off of remaining unsold units in fractured condo deals will occur in the coming months.

2009 ANNUAL APARTMENT FORECAST



Employment: One year after employers cut 46,400 positions in the Tampa metro area, an additional 50,000 jobs will be eliminated in 2009, a 4.2 percent decrease. The decline in employment will reduce household formation and weaken housing demand.



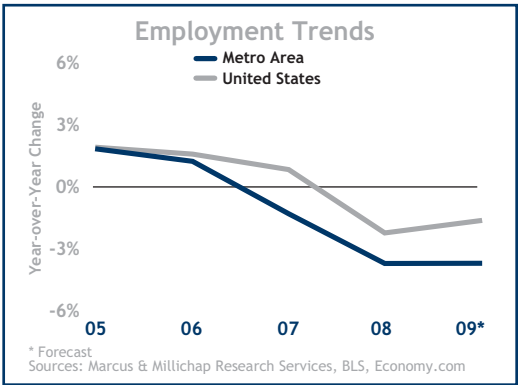
Construction: Builders are forecast to complete 900 units this year, expanding inventory by 0.6 percent. More than 2,300 rental units were delivered in 2008. Despite a recent surge in activity, multi-family permit issuance is expected to total 2,600 units, down 41 percent from last year.



Vacancy: Further increases in vacancy are expected this year, driven primarily by weakened demand. Marketwide vacancy is projected to climb 160 basis points to 10.4 percent, after rising 190 basis points in 2008.



Rents: In 2009, asking rents are forecast to fall 3.6 percent to \$814 per month, while effective rents will retreat 4.4 percent to \$759 per month. Last year, asking rents rose 1.8 percent, and effective rents increased 1.4 percent.

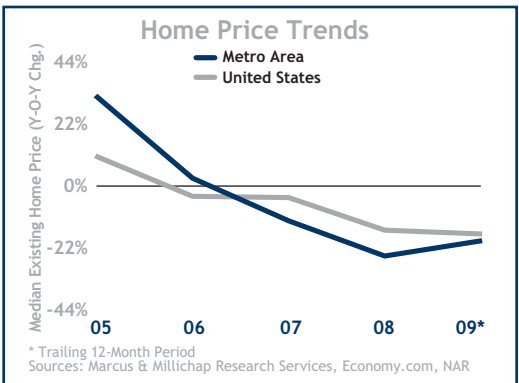


ECONOMY

- ◆ Total employment has declined by 57,000 workers in the past 12 months. Since the third quarter of last year, when the national economic downturn steepened, 38,700 positions have been eliminated in metro Tampa.
- ◆ A weak housing market has contributed to the shedding of 12,400 construction jobs during the past year, a decrease of 16 percent. Construction employment is now at its lowest level in eight years. In addition, 15,200 positions in the trade, transportation and utilities sector have been cut in that time. Included in that total are 7,300 retail jobs.
- ◆ The unemployment rate climbed 320 basis points in 2008 to 8 percent and has surpassed 10 percent so far this year. Rising unemployment will force many renters to vacate units and find alternative housing.
- ◆ **Outlook:** One year after employers cut 46,400 positions in the metro, an additional 50,000 jobs will be eliminated in 2009, a 4.2 percent decrease.

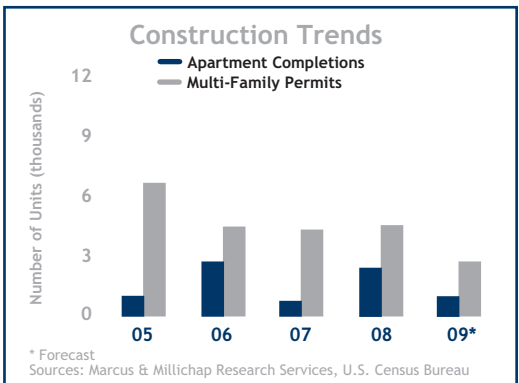
HOUSING AND DEMOGRAPHICS

- ◆ In the 12 months ending in the first quarter, multi-family permit issuance rose 50 percent to 4,800 units. The current level of permit issuance, while greater than a year ago, is 18 percent less than the annual average permit issuance this decade.
- ◆ Combining single-family and multi-family issuance, permits for 9,000 units of housing were projected to be issued in the 12 months ending in the first quarter, a 15 percent decline from one year earlier. Based upon the current estimate, 0.9 households are being created for every unit of housing, compared with 0.6 households in the preceding 12-month period.
- ◆ With the median price of a single-family home at \$142,200 in the first quarter, the median household income of \$43,500 per year exceeds the minimum needed to purchase the median-priced home by 13 percent.
- ◆ **Outlook:** Housing demand, as measured by household creation, and housing supply, as reflected in permit issuance, will continue to realign over the course of this year.



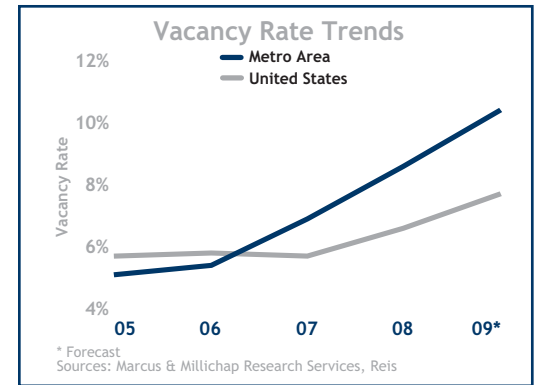
CONSTRUCTION

- ◆ With the completion of 644 units in the Central Tampa submarket early this year, 2,100 rental units have been added to stock in the past 12 months. Approximately 1,700 units have been delivered in the last six months alone.
- ◆ The pipeline of projects under construction is dwindling. Currently, 1,100 units are under way in the market, compared with 2,000 units at the beginning of the year.
- ◆ Approximately 7,500 rental units are planned, including 5,800 apartments in Hillsborough County. The recent decline in construction employment may make it difficult for developers to advance planned projects, however, potentially extending the completion timelines for new properties.
- ◆ **Outlook:** Builders are forecast to complete 900 units this year, expanding inventory by 0.6 percent. More than 2,300 rental units were delivered in 2008.



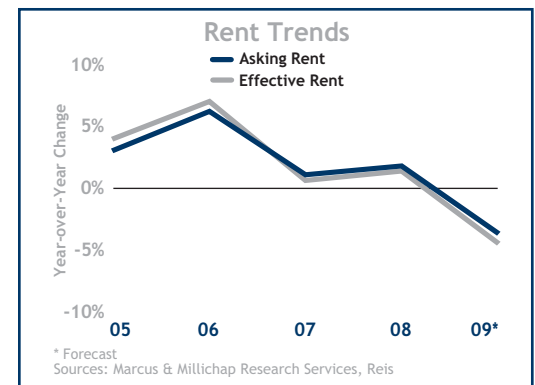
VACANCY

- ◆ Supply growth in the Class A segment and substantially reduced demand for Class B/C apartments led to a 50 basis point jump in the marketwide vacancy rate to 9.3 percent in the first quarter. Year over year, vacancy was up 190 basis points.
- ◆ The number of Class A units has increased by 3.9 percent, or 2,200 units, in the past 12 months, contributing to a 110 basis point rise in vacancy during that time to 8.2 percent. The vacancy rate is also 50 basis points greater than the level posted at year end.
- ◆ Significant job reductions in low-paying sectors such as construction and retail trade fueled a 250 basis point year-over-year surge in the Class B/C vacancy rate to 10 percent in the first quarter. In the past six months, when a large number of positions were cut, vacancy spiked 150 basis points.
- ◆ **Outlook:** Further increases in vacancy are expected this year, driven primarily by weakened demand. Marketwide vacancy is projected to climb 160 basis points to 10.4 percent, after rising 190 basis points in 2008.



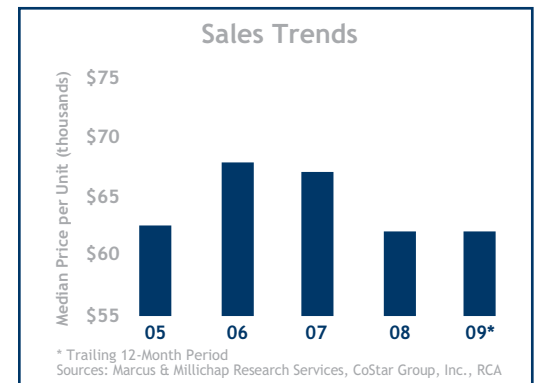
RENTS

- ◆ Due to the effects of higher-priced Class A space entering the market, asking rents of \$848 per month in the first quarter were 1.9 percent greater than one year earlier. Effective rents have gained 1.6 percent to \$796 per month over the past 12 months.
- ◆ In the Class A segment, asking rents have risen 0.6 percent during the past six months to \$1,018 per month and are up 0.3 percent year to date. Class B/C asking rents of \$741 per month have decreased 0.1 percent since the third quarter of last year.
- ◆ A 0.4 percent fall in effective rents has been registered in the past six months. As a result, concessions have inched up from 5.8 percent of asking rents to 6.2 percent of asking rents during that time.
- ◆ **Outlook:** In 2009, asking rents are projected to drop 3.6 percent to \$814 per month, while effective rents will retreat 4.4 percent to \$759 per month.



SALES TRENDS**

- ◆ Transaction velocity has declined 35 percent over the past year due to greater caution among buyers and financing challenges. Few Class A properties have changed hands in the last 18 months.
- ◆ The median price of properties sold during the past 12 months was \$62,000 per unit, a decrease of 8 percent from the preceding year. The current median price is 9 percent less than the peak achieved more than three years ago, and it is not clear whether the bottom has been reached.
- ◆ Cap rates generally start at around 7 percent for Class A assets, 8 percent for Class B properties and 9 percent or more for Class C buildings.
- ◆ **Outlook:** Prospective buyers will act very conservatively, often delaying decisions to purchase assets in the belief that property prices will fall further. Many investors are focusing on acquisition opportunities with attractive assumable financing in place or instances where the sellers carry a second mortgage.



** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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CAPITAL MARKETS

BY WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Despite ongoing uncertainty in the financial markets and among some of the country's largest banks, debt financing remains available for multi-family loans. Standards have tightened considerably, however, with lenders requiring LTVs of 55 percent to 75 percent marketwide. Debt-service coverage ratios are in the 1.25 to 1.30 range, higher than in recent years, but closer to historical norms.
- ◆ The apartment sector has benefited from the presence of Fannie Mae and Freddie Mac, as both agencies continue to fund deals. The yield on the 10-year Treasury has been volatile, dropping to nearly 2 percent late last year, prompting many lenders to favor all-in rates, which are averaging in the high-5 percent to mid-6 percent range for agency loans. Commercial banks and life insurance companies are issuing loans with all-in rates ranging from the mid-6 percent range to 8 percent.
- ◆ With apartment fundamentals weakening and delinquencies creeping higher, lenders are devoting greater attention to sponsorship. A borrower's asset base and potential economic stresses that may affect the underlying assets are playing a significant role in determining loan terms.

SUBMARKET OVERVIEW

- ◆ Properties delivered in the Central Tampa submarket this year are the 249-unit Vintage Lofts at West End and 395 units at the Element. The addition of these complexes, plus another 422 units completed in the final quarter of 2008, contributed to the year-over-year rise in area vacancy and supported a 5.5 percent increase in effective rents.
- ◆ The pipeline of planned projects contains approximately 1,100 units in Pinellas County. Tenant demand in the area must recover, however, before any of these developments advance. In 2008, the county lost residents for the fifth year in a row, and the population has decreased 2.3 percent this decade.
- ◆ The University of South Florida has moved closer to creating a campus hospital that will concentrate on research into diabetes and neuroscience. The emergence of such a facility is regarded as a catalyst for the development of the metro area's life sciences industries. Currently, the Merck-Moffitt Cancer Center is expanding near the university.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Westshore	5.9%	-10	\$848	-2.5%
2	Central St. Petersburg	6.6%	60	\$716	-0.4%
3	North Hillsborough County	6.7%	30	\$879	-0.1%
4	North St. Petersburg	8.3%	20	\$826	0.4%
5	Pinellas Park/Seminole	8.3%	250	\$751	1.3%
6	Largo	9.0%	280	\$745	0.4%
7	Temple Terrace	9.3%	80	\$673	-1.5%
8	Clearwater	9.9%	170	\$786	2.5%
9	Pinellas Beaches	10.5%	550	\$786	2.5%
10	Central Tampa	11.5%	520	\$967	5.5%