RED CAPITAL GROUP®

Market Overview

Jacksonville, Florida

Multifamily Housing Update February 2007

EXECUTIVE SUMMARY

Economic conditions grew moderately weaker in 2006, although the rate of payroll growth continued to outpace the national average. Job growth totaled 23,700 (4.1%) in 2005, falling to 17,500 (2.9%) in 2006. Reduced hiring in retail trade, transportation and the education and health service sectors contributed to the slowdown. Combined, the sectors added 7,400 jobs in 2005 and only 2,800 in 2006.

Employment growth continued to weaken in 4Q06, as only 12,200 positions were added to payrolls, the lowest total since 1Q04. The slower housing market played a significant role. Construction firms added 1,000 fewer positions in 4Q06 compared to 3Q06. Reduced mortgage origination volume caused fourth quarter hiring in the financial activities sectors to fall to 800 from 1,300 in 3Q06.

RED expect the slowdown to continue in 2007. Our econometric model predicts job growth between 6,000 (1.0%) and 11,000 (1.8%) in 2007 with a point estimate of 8,000 (1.3%). Anecdotally, we expect job creation to tend toward the upper bound of the forecast range. In 2008, **RED** anticipate stronger job growth of approximately 12,000 (1.9%) positions with a confidence interval of 8,000 (1.3%) and 16,000 (2.5%).

At 94.6%, the occupancy rate ranked 23rd highest among the 50 metro areas tracked by **RED** CAPITAL (**RED** 50) in 4Q06. The occupancy rate fell 110 basis points sequentially in 4Q06, attributable to negative net absorption of 986 units. There were no net conversions in 4Q06, a major factor in the occupancy improvement through the first three quarters.

Reis project stronger tenant demand to cause occupancy to rise 20 basis points to 94.8% in 2007. The service anticipate further gains to follow as developer constraint and stout absorption to elevate occupancy to 95.2% in 2008.

Effective rents increased 2.9% year-over-year, outpacing advances in asking rent for the sixth consecutive quarter. The value of the average concession was $32 or 4.1% of asking rent, ranking 12th lowest among the **RED** 50, down $35 per month in 1Q05. By way of forecast, Reis expect y-o-y effective rent growth of 2.8% in 2007 and 3.1% in 2008.

At 7.2%, the fourth quarter Reis cap rate index is rich to the South Atlantic region average but above the national metric. Fourth quarter sales proceeds totaled $167 million, up from $17 million in 3Q06, $129 million in 2Q06 and $74 million in 1Q06. Investor grade properties largely traded at cap rates in the 5.0% to 5.5% range. Real Capital Analytics reported an average cap rate of 6.5% and an average price of $77,365 per unit in 1H06. According to RCA, the metro's 1H06 cap rate was 50 bps above the Southeast regional average.

The total return profile for metro assets is above average and the risk adjusted returns rank among the five best in the **RED** 50. Expected total returns are near the metro average but downside risks are low. Moreover, the yield / volatility ratio among the best in the **RED** 50. As a result, **RED** assign a rating of "***Accumulate***" to metro assets indicating that the current pricing environment is favorable toward acquisition.

SNAP SHOT

	Y-o-y change	Projected 2007
Vacancy (5.4% - 4Q06)	▲ 160bps	▼ 40bps
Effective Rents ($749 - 4Q06)	▲ 2.9%	▲ 2.8%
Cap Rate (7.2% - 4Q06)	▼ 10bps	◄► unch
Employment (630.7k - 4Q06)	▲ 12.2k	▲ 8.0k

KEY POINTS

- Vacancy increased 160 basis points year-over-year from 3.8% to 5.4%. The Southside submarket was the only submarket to experience vacancy improvement as the rate fell 10 basis points year-over-year to 5.5% in 4Q06. The reintroduction of condo units into the rental pool is responsible in part.
- Asking and effective rents increased 2.8% and 2.9% year-over-year, respectively. Reis project the rate of effective rent growth to decelerate to 2.8% in 2007.
- The Reis average cap rate index fell 10 basis points in 4Q06 to 7.2%. The metric was 10 bps above the comparable period of 2005.
- **RED** forecast payroll job growth of 8,000 (1.3%) in 2007 and 12,000 (1.9%) in 2008.