RED CAPITAL GROUP®

Market Overview

Orlando, Florida

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Multifamily Housing Update June 2011

EXECUTIVE SUMMARY

The Bureau of Labor Statistics report that the tourism industry accounts for 23.2% of Orlando's non-government jobs, the second highest percentage in the nation after Las Vegas. While not an entirely unalloyed blessing (the sector is unusually volatile), recent improvement in the leisure travel business have made it a welcome growth catalyst for the metro economy.

Metro payroll employment increased at a 21,400-job, 2.1% year-over-year rate during the first quarter, the second fastest pace after Dallas among metro areas with more than 1 million payroll jobs. The leisure and hospitality industry was largely responsible as payroll employment in the sector surged at a 15,300-job, 8.1% y-o-y pace, representing its fastest expansion since 1997.

The lodging segment was responsible in part, as record tourist visitations in 2010 (55.5 million) and solid momentum in early 2011 boosted average hotel occupancy, contributing to a 7.1% advance in accommodations headcounts. But it was the theme park industry that accounted for the lion's share of growth, reflected in a 7,100-job, 11.4% surge in entertainment and recreation payrolls, the fastest advance in the sub-sector since 1999.

Expressed on a seasonally-adjusted basis, Orlando added 8,600 jobs in the first quarter, up from a 7,000-job gain during 4Q10. It also was the largest tally in a winter quarter since 2007.

Preliminary April data was disappointing by comparison, as 12-month job growth slipped to 15,800 (1.5%) from 20,800 (2.1%) in March. Likewise, the seasonally-adjusted series turned negative, recording a -2,200 decline in payroll jobs from March.

The April data were likely an outgrowth of weaker growth trends observed nationally. As the slowdown likely was a temporal "bump in the road" our econometric model continues to produce an optimistic forecast of 2011 job creation. The model foresees a 21,500-job gain this year, followed by a 33,200-job add in 2012.

Apartment demand was commensurate as renters signed a net of 761 leases, representing the strongest first quarter absorption since 2001. As no new supply was delivered for the third consecutive quarter metro vacancy continued to plunge, falling 70 basis points sequentially and 360 bps y-o-y (the second largest annual decline recorded among the **RED 50**) to 7.9%. Sequential occupancy rates were unchanged or higher in every submarket, including Kissimmee, Northwest and Southwest, which chalked down 100 bps gains or more.

Rent trends gained momentum. Average asking rent increased $4 (0.4%) sequentially, the largest quarter-to-quarter advance in nearly three years. Effective rent increased $4 (0.5%) as well, pushing the y-o-y comparison into positive territory (+0.1%) for the first time in two years. Submarket data were mixed, however; as seven submarkets recorded sequential gains while four reported further declines.

Reis maintain a cautious market performance outlook. The service expects occupancy to rise another 60 bps to 92.7% by year-end, but hover below 93.7% through 2015. Likewise, rents are projected to rise 2.6% this year, but decelerate in 2012 and 2013, and ultimately advance at a lackluster 2.8% compound rate between 2011 and 2015, considerably slower than the 3.8% U.S. mean. Largely for this reason, metro investments are likely to generate returns that fall below the 9.0% **RED 50** mean. Currently, **RCR** estimate that Orlando assets will yield 5-year total returns of only 6.9%.

SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (7.9% - 1Q11)	▼ 3.6%	▼ 0.6%
Effective Rents ($809 –1Q11)	▲ 0.1%	▲ 2.6%
Cap Rate (5.2% - 1Q11)	▲ 0.2%	▲ 0.3%
Employment (1,011.8m - 1Q11)	▲ 20.4m	▲ 21.5m

KEY POINTS

- A surge in hospitality sector hiring fueled strong metro payroll growth. Employment increased at a 20,400-job, 2.1% annual rate in 1Q11, trailing only Dallas in this regard among metros with 1 million jobs or more.
- Labor market gains spurred robust apartment absorption. Tenants net leased 761 units during the first quarter, the strongest winter harvest since 2001. Average occupancy increased 70 basis points sequentially and 360 bps year-over-year to 92.1% as a result, ranking as the 5th and 2nd largest advances among the **RED 50** markets, respectively.
- Pricing fundamentals continued to firm. Reis report that average asking and effective rents rose $4 sequentially, gaining 0.4% and 0.5%, respectively, to $871 and $809. As a result, effective rents increased on a y-o-y basis for the first time in two years.
- Investment in Orlando area properties continued at a brisk pace. At least 9 transaction valued at $5mm or more were closed during the first five months of 2011 for total value of approximately $150mm.
- Using a 5.5% cap rate assumption, **RCR** estimate expected ORL total returns of 6.9%.

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