RED CAPITAL GROUP®

Market Overview

Palm Beach, Florida

Multifamily Housing Update March 2007

EXECUTIVE SUMMARY

Employment in Palm Beach County expanded by 3.3% in 2006 as 19,000 positions were added to payrolls. While well above the national average, the pace of job growth was much slower than the 4.9% rate recorded in 2005. The slowdown is attributable to reduced hiring among construction firms as well as providers of professional and business services. Combined, the two sectors added 16,600 jobs in 2005 and 8,700 in 2006.

Payroll growth rebounded in 4Q06, however, as year-over-year growth averaged 21,100 (3.6%), ranking fourth highest among the 50 metro areas tracked by **RED** CAPITAL (**RED** 50). By comparison, head-count growth ranked eighth in 3Q06 as 17,900 jobs were added to payrolls. Faster job creation in the fourth quarter is attributable to increased hiring in leisure and business service sectors. Leisure service job growth averaged 2,200 in the third quarter and 3,300 in the fourth quarter. The professional service sector added 7,300 jobs year-over-year in 4Q06, up from 5,600 in 3Q06.

RED forecast 2007 job growth between 16,000 (2.7%) and 21,000 (3.5%) with a point estimate of 18,000 (3.1%). In 2008 **RED** expect moderately cooler growth ranging from 10,000 (1.6%) to 15,000 (2.4%) jobs.

The metro occupancy rate fell 200 basis points year-over-year from 95.5% to 93.5% in 4Q06, marking the largest y-o-y decline since 3Q03. Unanticipated supply from the reversion of 937 condo units to rental was largely responsible. Delivery of 396 units of supply also contributed to weaker conditions. Combined, the reversions and completions lead to a 2.6% increase in metro inventory in the fourth quarter and demand failed to keep pace.

Reis anticipate apartment supply totaling 239 and 595 units in 2007 and 2008, respectively. On the other hand, the swollen pipeline of condo units under construction poses a risk should units emerge as rentals. Notwithstanding this concern, Reis forecast occupancy to rise 10 basis points in 2007 and 30 basis points in 2008 to 93.9%.

Effective rent growth outpaced advances in asking rent for the eleventh consecutive quarter, increasing 5.9% year-over-year. Effective rents were up only 0.4% sequentially, the slowest rate since 3Q03. Reis anticipate the slower rate of effective rent growth to persist. The service forecast y-o-y rent growth of 5.2% in 2007 and 4.5% in 2008.

The Reis average cap rate index fell 40 basis points year-over-year and 10 bps sequentially to 5.7% in 4Q06. Real Capital Analytics (RCA) report an average cap rate of 4.1% in the metro, down 50 basis points from 2005.

Sales volume fell to $416.8 million in 2H06, from $697.2 million in 1H06, reflecting the retreat of condo conversion buyers. On the year, sales volume was down 41% from 2005. On a per unit basis prices averaged $164,135 in 2006, up 11% over 2005 according to RCA.

The total return profile for Palm Beach assets ranks in the top ten among the **RED** 50 and risk adjusted returns rank even higher. Therefore, **RED** assign a rating of "***Accumulate***" to metro assets, indicating that current pricing is favorable toward acquisition. Caution is warranted, however, as condo reversion activity which is not fully incorporated in Reis forecasts poses a risk to supply and thus fundamental improvement.

SNAP SHOT

	Y-o-y change	Projected 2007
Vacancy (6.5% - 4Q06)	▲ 200bps	▼ 10bps
Effective Rents ($1,049 - 4Q06)	▲ 5.9%	▲ 5.2%
Cap Rate (5.7% - 4Q06)	▼ 40bps	▲ up
Employment (604.7k - 4Q06)	▲ 21.1k	▲ 18.3k

KEY POINTS

- Vacancy increased 200 basis points year-over-year and 170 basis points sequentially to 6.5% in 4Q06.
- Asking and effective rents increased 5.6% and 5.9% year-over-year, respectively .
- The median condo price rose 3.0% year-over-year to $200,700 in 4Q06.
- The Reis average cap rate index fell 40 basis points year-over-year to 5.7%. Real Capital Analytics estimate a 4.1% cap rate for 2006, down 50 basis points from the 2005 rate.
- **RED** forecast payroll job growth of 18,000 (3.1%) in 2007 and 12,000 (2.0%) in 2008.

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