RED CAPITAL GROUP®

Market Overview

Tampa, Florida

Multifamily Housing Update — **April 2008**

EXECUTIVE SUMMARY

Metro economic conditions deteriorated rapidly in 2007, in sharp contrast to the superb job gains posted in 2004 and 2005. Re-benchmarked payroll data from the BLS revealed that a net of -3,300 (-0.3%) positions were eliminated from payrolls last year. Prior to the revision, the source estimated a metro payroll add of 16,400 (1.3%) workers.

Housing-related employment sectors were largely responsible for the losses. Construction and finance establishments lost a combined -7,100 employees last year. The outlook for this year is not much better; sector payrolls were down -10,100 year-over-year in March.

Business service firms were not immune to the slowdown. After adding 6,700 employees in 2006, establishments reduced payrolls by -5,600 y-o-y in 4Q07. The pace of annual losses accelerated to -10,300 in March. The attrition was concentrated in the lower-wage administrative support service sector; high-wage paying professional service firms, by contrast, continued to expand.

RED do not foresee a rebound until 2009. We expect employment losses to total -16,000 (-1.2%) in 2008. Conditions will begin to improve next year as payroll growth is forecast to reach 7,000 (0.5%). The Institute for Economic Competitiveness at the University of Central Florida is more optimistic, forecasting 5,800 (0.4%) new jobs this year and 17,400 (1.3%) in 2009.

The Greater Tampa Association of Realtors report a 32% y-o-y decrease in home sales velocity in 1Q08. The typical home that sold in March spent 118 days on the market, up from 96 in the same month last year. The median single-family home price fell 15.6% y-o-y to $189,900.

The occupancy rate in Tampa fell 40 basis points to 93.1% in 4Q07. Negative net absorption, apartment development and condo reversion activity were responsible. The same cast of characters caused the occupancy rate to drop 150 bps on an annual basis. Combined, Reis expect apartment and condo completions to total 2,619 units this year and 13,221 in 2009.

Asking rents fell 0.4% sequentially in 4Q07, reversing the gain observed in 3Q07. Effective rents decreased 0.6% as concessions rose to 5.6% of asking rent. The rate of y-o-y asking and effective rent growth decelerated to 1.0% and 0.5% respectively, comparable to the rates observed in 3Q03.

The preliminary data released from Reis show that owners squeezed out a 0.4% increase in asking rents in 1Q08, regaining the loss observed in the fourth quarter. Occupancy, on the other hand, fell 50 bps to 92.6% the lowest rate since 3Q04.

Apartment sales volume fell 53% in 2007 as 40 properties priced at or above $5 million traded for a total of $855 million in proceeds. The average cap rate reported by Real Capital Analytics was 6.2%, down 40 bps from the previous year.

According to NCREIF the average cap rate rose 30 bps sequentially to 5.0% in 4Q07. The rate was the second highest among major Florida metros, only Jacksonville (5.2%) produced a higher cap rate. Still, **RED** believe that assets are "rich" relative to underlying fundamentals. As a result, we assign a rating of "***hold***" for investors. In addition, current owners may want to consider taking profits before cap rates rise farther. Investors who have a tolerance for risk may wish to seek assets that were initially planned as condos but could not generate sufficient pre-sales. Such properties may sell at a discount.

SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (6.9% - 4Q07)	↑ 150bps	↑ 50bps
Effective Rents ($782 - 4Q07)	↑ 0.5%	↑ 0.9%
Cap Rate (6.6% - 4Q07)	↓ 50bps	↑
Employment (1,298.9k - 4Q07)	↓ 13.6k	↓ 16k

KEY POINTS

- The metro vacancy rate rose 40 basis points sequentially to 6.9% in 4Q07. According to preliminary data, the rate increased another 50 basis points to 7.4% in 1Q08. The struggling housing market was largely to blame. Competition from shadow supply contributed to negative net absorption and the reversion of units from condo to apartment added more vacant units to the metro inventory.
- The supply and demand imbalance kept owners from achieving even modest rent gains in 4Q07. Sequential effective rent growth was -0.6%.
- Attrition among construction and finance firms resulted in decreased employment levels in 2007. The trend is expected to worsen: **RED** forecast -16,000 (-1.2%) fewer positions this year.
- Recent trade activity suggests that properties continue to sell at cap rates in the mid- to upper 4% range. Based on our total return analysis, cap rates are too low to warrant investment. Therefore, we assign a rating of ***hold***. Distressed condo properties may offer an adequate pro forma return but with significant risks.

RED CAPITAL GROUP • 800-830-5100 • www.redcapitalgroup.com