

Orlando, Florida



Multifamily Housing Update

April 2009

EXECUTIVE SUMMARY

The domestic economic recession took a toll on the Orlando labor market in recent months. On a seasonally-adjusted basis, metro employers cut -11,400 positions from payrolls in 4Q08 and an additional -23,000 jobs in 1Q09. Likewise, non-seasonally adjusted year-over-year payroll attrition accelerated from -39,400 (-3.6%) jobs in 4Q08 to -54,800 (-5.0%) jobs in 1Q09.

Home builders continued to reduce staffs due to the weak housing market. Indeed, the construction sector lost -14,800 workers in the twelve-month period ended in March. Faster attrition among business service sector establishments also was to blame. Super-sector headcounts fell -19,300 y-o-y in 1Q09. The largest decline was noted among administrative support sector firms (-12,500 jobs). But professional, scientific and technical service providers cut payrolls as well.

Local economic conditions will begin to improve in 2H09. The **RED CAPITAL Research (RCR)** econometric model generates a point estimate of -37,100 (-3.4%) jobs lost this year, comparing favorably to the sharp decrease in 1Q09. We expect that Orlando will post positive payroll growth next year as the model forecasts a 1,300 (0.1%) job advance.

Home prices in Orlando continued to tumble as forced sales increased. According to the Orlando Regional Realtor Association the median home price fell -37.7% y-o-y to \$137,000 in March. Bank-owned and distressed property sales accounted for nearly half of the March total. The median price among bank-owned homes was \$95,000 and the median price of distressed sales was \$143,500. Voluntarily marketed homes sold for a median price of \$174,995.

The metro apartment occupancy rate fell 90 basis points sequentially from

91.2% in 3Q08 to 90.3% in 4Q08. The decline was partially attributable to negative net absorption of 75 units. Additionally, developers added 1,115 units to the rental inventory. On an annual basis, the occupancy rate plunged 250 basis points owing to weak demand and increased supply. Owners net leased 146 units in 2008, far shy of the 3,373 unit delivery total. Occupancy fell 10 bps to 90.2% in 1Q09.

Owners increase asking and effective rents in 4Q08, albeit at a modest pace. Average effective rent increased 0.1% sequentially and 0.9% y-o-y to \$825. Sequential and annual asking rent growth rates were comparable, averaging 0.5% and 1.6%, respectively.

Reis expect rent and occupancy trends to deteriorate this year but improve in 2010. The source forecasts an 80 basis point decrease in occupancy to 89.5% in 2009. Consequently, the average effective rent will fall -1.6% to \$812 as owners attempt to preserve occupancy. Reis foresee favorable fundamentals next year, allowing occupancy to rebound to 90.1% and effective rent to advance 0.4%.

According to Real Capital Analytics, credit constraints produced a sharp decrease in Orlando multifamily asset sales last year. The source reported that sales volume slid -45% to \$639 million. Likewise, the average price per unit fell -15% to \$75,371. The sales pace grew even slower in recent months as only three transactions totaling \$53 million in sales proceeds closed from October 2008 to February 2009.

Reis believe that Orlando is ahead of the curve for a fundamental recovery. Therefore, our model calculates above average measures of total and risk-adjusted return for Orlando assets. As a result, we recommend that investors “*Accumulate*”, but with caution.

SNAP SHOT

	Y-o-y change	Projected 2009
Vacancy (9.7% - 4Q08)	↑ 250bps	↑ 80bps
Effective Rents (\$825 - 4Q08)	↑ 0.9%	↓ 1.6%
Cap Rate (8.5% - 4Q08)	↑ 200bps	↔
Employment (1,064.2k - 4Q08)	↓ 39.4k	↓ 37.1k

KEY POINTS

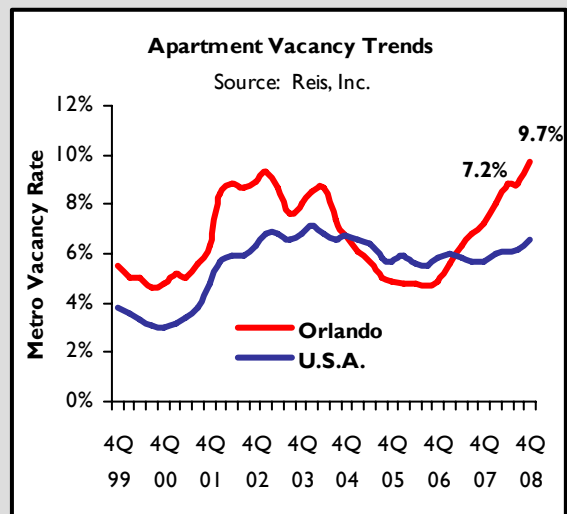
- The metro vacancy rate increased 90 basis points sequentially and 250 basis points year-over-year to 9.7% in 4Q08. Supply totaled 1,115 units during the fourth quarter and 3,373 units in 2008. Preliminary data reveal that the vacancy rate rose to 9.9% in 1Q09, owing to negative net absorption of about 230 units.
- Annual asking and effective rent growth averaged 0.9% and 1.6%, respectively in 4Q08. The size of the average concession package rose from 6.6% in 4Q07 to 7.3% in 4Q08.
- According to the Orlando Regional Association of Realtors, the metro median home price fell -37.7% year-over-year to \$137,000 in March. The sharp decline was largely attributable to the sale of bank-owned or distressed properties.
- Real Capital Analytics count three trades involving properties priced at or above \$5 million from October 2008 to February 2009. Sales volume totaled \$53 million and the average price per unit was \$55,980.
- Based on a 7.3% going-in yield, we calculate a 7.5% expected rate of total return.

VACANCY TRENDS

- Weak tenant demand and increased supply produced a 90 basis point increase in vacancy from 8.8% in 3Q08 to 9.7% in 4Q08. Properties reported negative net absorption of 75 units, while developers added 1,115 units to rental stock. The vacancy rate increased 250 basis points year-over-year as supply (3,373 units) outpaced demand (146 units).
- Five of the metro's 11 submarkets recorded a double-digit vacancy rate in 4Q08, up from only one submarket in the same period last year.
- Reis forecast vacancy to rise 80 basis points to 10.5% this year due to sluggish demand. The service expects stronger demand to give rise to lower vacancy (9.9%) next year.

RANK: 45th out of 50

COMMENT: Preliminary Reis data reveal that the vacancy rate increased 10 bps to 9.8% in 1Q09.

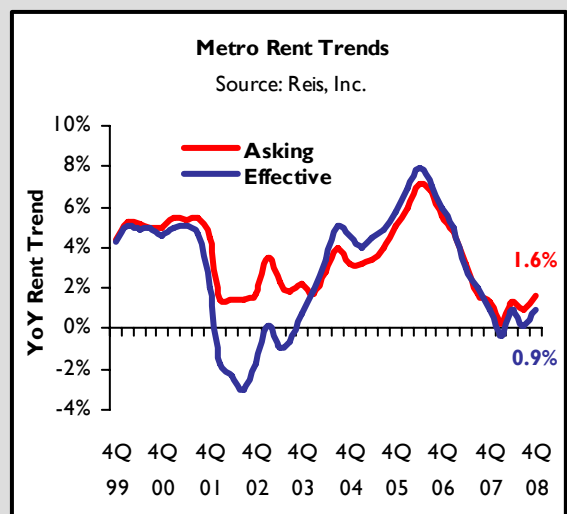


RENT TRENDS

- Orlando apartment owners managed to squeeze out a 0.1% increase in effective rent in 4Q08, regaining a portion of the -0.2% loss in the previous period.
- The average asking rent increased 0.5% sequentially and 1.6% year-over-year in 4Q08. Preliminary Reis data reveal that the average asking rent fell -0.1% sequentially to \$889 in 1Q08.
- At 3.9%, the South Central submarket reported the strongest rate of annual effective rent growth in 4Q08.
- Reis expect the average effective rent to fall -1.6% to \$812 this year. The service forecast a modest 0.4% advance in 2010.

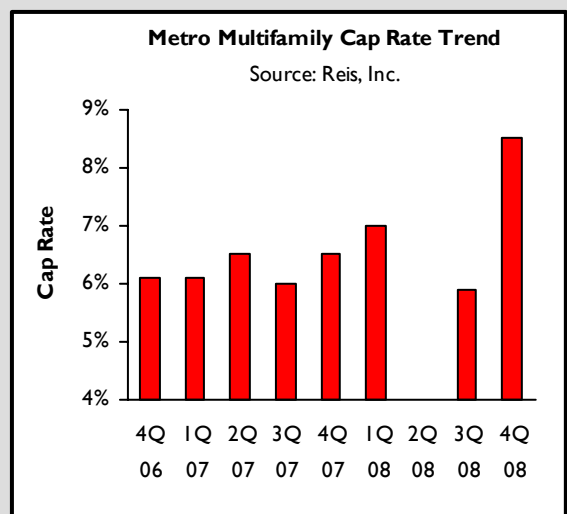
RANK: 41st out of 50

COMMENT: The average asking rent fell -0.1% sequentially to \$889 in 1Q09.



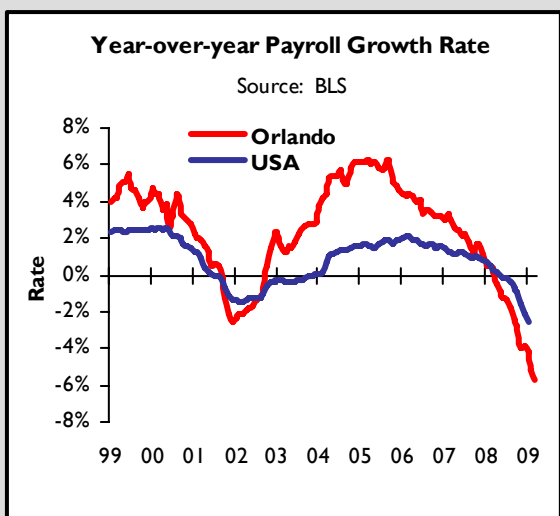
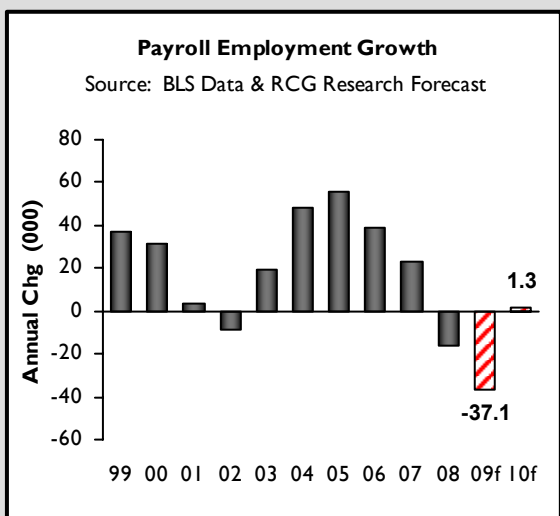
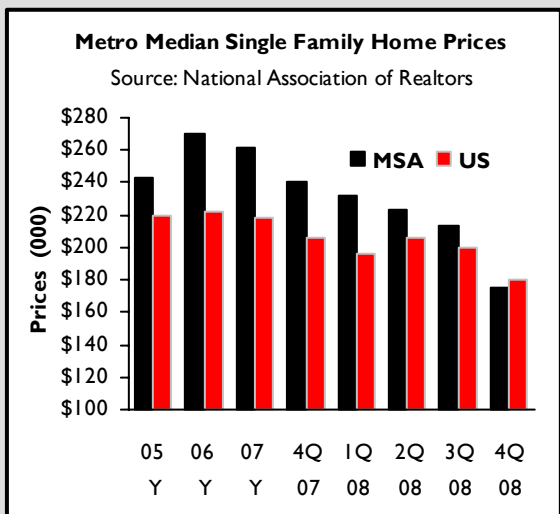
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics identify 22 investor grade property trades in 2008. Sales volume totaled \$639 million, down -45% from the previous year. The average price decreased -15% to \$75,371 per unit.
- The source identified three trades totaling \$53 million in sales proceeds during the five-month period ended in February. The average price per unit was \$55,980.
- According to the April 2009 CB Richard Ellis cap rate survey, cap rates for Class A stabilized properties in Orlando rose about 110 basis points to 6.75% between November 2008 and March 2009.
- Based on an assumed going-in yield of 7.3%, **RCR** calculate a 7.5% expected rate of return, better than the 6.6% **RED** 50 average. The market also boasts an above average measure of risk-adjusted return.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Sawgrass Apartments		December 2008	\$12.6	\$60,577	7.6%



DEMOGRAPHICS & HOUSING MARKET

- Metro Orlando population growth decelerated from 1.7% in 2007 to 1.3% in 2008.
- According to the National Association of Realtors, the median price of a single-family MSA home fell -27.1% year-over-year to \$175,200 in 4Q08.
- The Orlando Regional Realtor Association note that the median home (condo and single-family) was \$137,000 in March, down -37.7% year-over-year. Nearly half of the sales (811 of 1,653) involved either bank-owned or distressed properties.
- Orlando registered an -18.0% year-over-year decline in the fourth quarter OFHEO home price index, ranking 260th among the 292 markets tracked by the source.

EMPLOYMENT TRENDS

Fourth Quarter 2008

- Year-over-year job losses rose from -20,300 (-1.9%) in 3Q08 to -39,400 (-3.6%) in 4Q08.
- Faster attrition among retail trade and business service firms was partially to blame. In addition, the leisure travel sector added 7,300 jobs year-over-year in 3Q08 but the sector headcount was unchanged year-over-year in 4Q08.

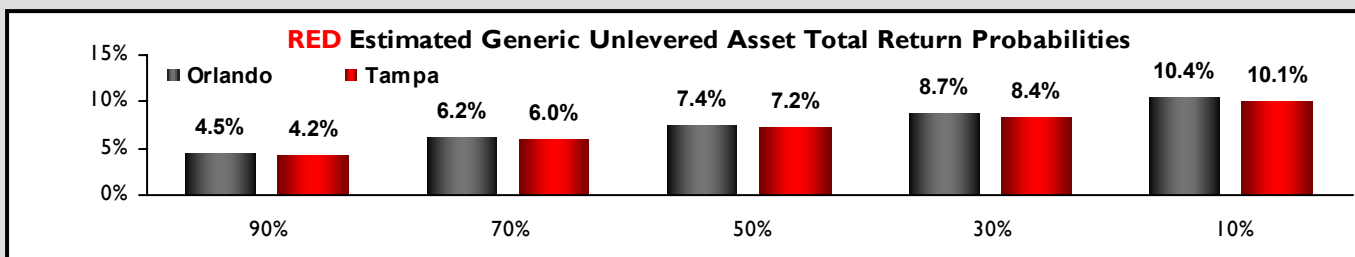
First Quarter 2009

- Conditions in the Orlando economy continued to deteriorate this year. Seasonally-adjusted payroll data reveal that -7,500 jobs were eliminated in March, bringing the 1Q09 job loss total to -23,000 jobs. On a year-over-year basis, attrition accelerated from -55,800 (-5.1%) in February to -62,600 (-5.7%) in March.
- The construction, business service and leisure travel sectors were largely to blame, accounting for -47,100 jobs lost year-over-year in March.
- The unemployment rate soared to 9.7% in February 2009, down from 4.5% in the same month of 2008.

Forecast

- Our econometric model generates a point estimate of -37,100 (-3.4%) jobs lost this year, as year-over-year attrition moderates in 2H09.
- The outlook for 2010 is comparatively bright. RCR forecast a 1,300 (0.1%) job advance next year.

RANK: 44th out of 50

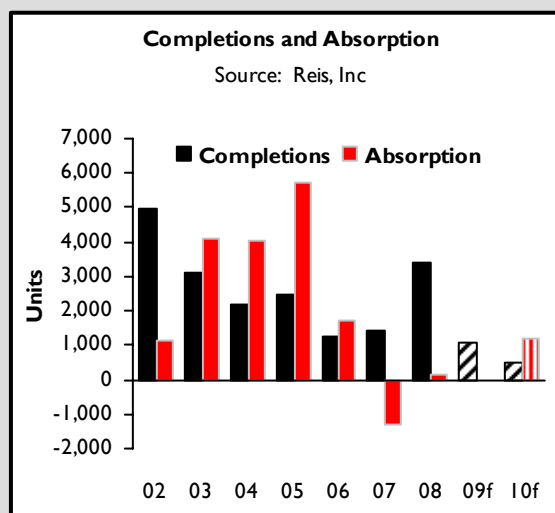


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	4Q07	4Q08	Change	4Q07	4Q08	Change
Far North	\$888	\$859	-3.3%	5.3%	7.4%	210 bps
West Altamonte Springs	\$798	\$802	0.6%	7.9%	8.4%	50 bps
East Altamonte	\$793	\$781	-1.6%	8.0%	8.7%	70 bps
Northwest / 441	\$658	\$651	-1.1%	9.8%	12.3%	250 bps
Maitland / Winter Park	\$827	\$837	1.2%	5.7%	10.4%	470 bps
Northeast / 436 / 551	\$815	\$816	0.1%	5.8%	9.9%	410 bps
Southeast / Airport	\$842	\$856	1.6%	10.7%	12.7%	200 bps
South Central / 527 / 441	\$775	\$805	3.9%	5.7%	10.5%	480 bps
Southwest / 435	\$875	\$890	1.8%	5.9%	6.9%	100 bps
Far South	\$968	\$978	1.0%	7.0%	7.1%	10 bps
Kissimmee / Osceola	\$816	\$823	0.9%	5.0%	10.5%	550 bps
Metro	\$818	\$825	0.9%	7.2%	9.7%	250 bps

SUPPLY TRENDS

- Developers completed 3,373 apartment units in 2008. Three properties totaled 1,115 units were delivered in 4Q08. Two of the assets (839 units) are located in the Southeast / Airport submarket. The other property is located in the Northeast / 436 / 551 submarket.
- An April 2009 construction report identified 1,474 apartment units under construction at that time. Another 11,098 units were in the planned or proposed phase.
- Condo development was subdued as only 1,361 condo units were under construction in April. In addition, 3,894 condo units were in the planned or proposed stage.
- Multifamily permit issuance declined -49% year-over-year to 3,622 units in the twelve-month period ended in February. Diminished supply levels will help Orlando return to market equilibrium.



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