ApartmentResearch
MARKET UPDATE

Marcus & Millichap

Tampa Metro Area *Fourth Quarter 2009*

Investors Assuming Further Deterioration in Fundamentals

Vacancy has risen so far this year in the Tampa metro area and is projected to push higher over the rest of 2009 as the recession persists. Key data points such as employment have improved somewhat but remain too weak to spark a near-term recovery in property fundamentals. Indeed, apartment demand has waned this year due to the estimated loss of 43,000 jobs through the third quarter. In addition, the labor force has contracted and household creation has slowed to a trickle. As a result, vacancy has climbed to more than 10 percent in several submarkets, and diminished demand has forced owners to employ greater rent concessions to combat rising vacancy. In the third quarter, concessions reached an estimated 6.8 percent of asking rents, compared with 5.8 percent of asking rents one year earlier. Concessions are expected to increase over the rest of this year and will not likely stabilize until an economic recovery gets under way. Additional time will be needed for concessions to return to the low-5 percent range recorded during the peak of the recent economic boom in 2006.

In the investment arena, deal flow has been subdued thus far in 2009, as the economic downturn continues to affect buyer sentiment. Property underwriting currently assumes the continuation of current trends during the early phase of ownership. Specifically, vacancy is expected to rise through at least mid-2010, while rent growth and the burn-off of concessions will not occur until later. Generally, cap rates for performing Class A assets start in the mid- to high-7 percent range, while other stabilized product is estimated to trade from 8 percent to 9 percent. Cap rates on high-vacancy properties are likely more than 10 percent. To date, some lender-owned assets have been sold, but, with operating fundamentals softening, additional distressed and REO properties are expected to come to market in the quarters ahead. Meanwhile, the possibility that an active hurricane season would elevate property insurance premiums was an area of concern for investors earlier in the year, though a mild season has since allayed those concerns.

2009 Annual Apartment Forecast

4.5% decrease in total employment

Employment: The rate of employment losses will continue to ease over the remainder of the year. In 2009, 54,600 positions are forecast to be cut in Tampa, a decrease of 4.5 percent. Last year, employers eliminated 46,400 jobs.

1,500 units will be completed

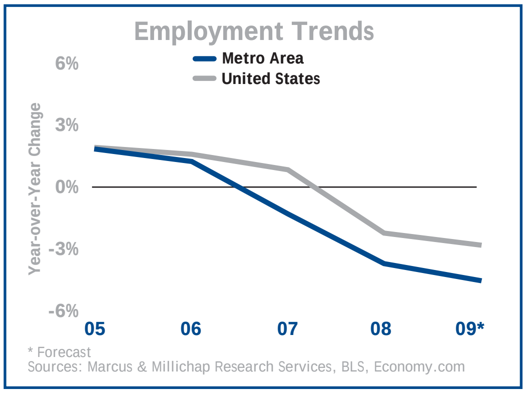
Construction: Most of the projects slated for completion this year have already come online. In 2009, 1,500 units are scheduled to be delivered; last year, 2,500 units were added. The pipeline of planned projects contains about 5,200 units.

120 basis point increase in vacancy

Vacancy: The marketwide vacancy rate is forecast to climb 120 basis points this year to 10.1 percent, following a 200 basis point jump in 2008.

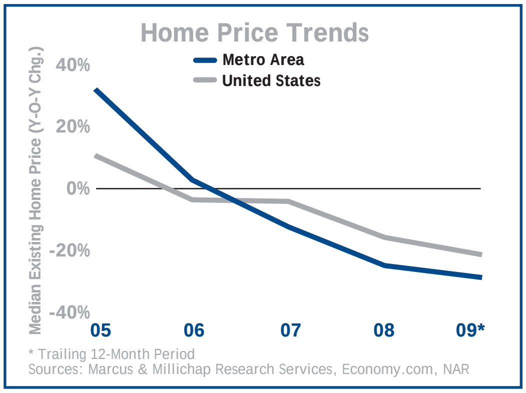
3.6% decrease in asking rents

Rents: The influence of new space on average marketwide rents will wane over the next few months. Accordingly, asking rents are forecast to fall 3.6 percent this year to $815 per month, and effective rents are expected to slip 4.9 percent to $755 per month.



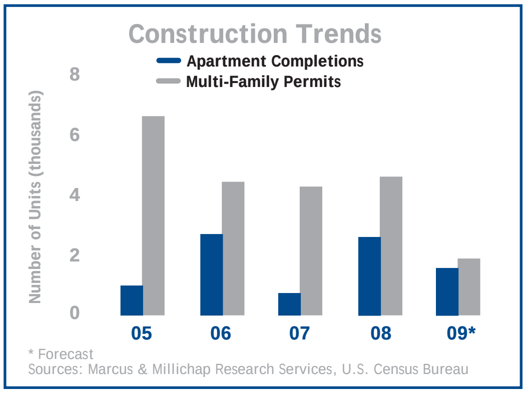
Economy

- With the projected loss of 10,400 jobs in the third quarter, employers have eliminated 57,800 local positions during the past 12 months, a decline in total employment of 4.7 percent.
- The rate of layoffs remains elevated but is easing slightly. Approximately 20,000 positions have been trimmed in the metro over the last six months, compared with the loss of 37,600 jobs in the preceding six-month span.
- The unemployment rate hit an estimated 11.3 percent in the third quarter, compared with 8.6 percent at the end of last year. The increase is attributable to a 30 percent jump in the number of unemployed residents and a contraction in the labor force of 5,200 workers.
- **Outlook:** The rate of employment losses will continue to ease over the remainder of the year. In 2009, 54,600 positions are forecast to be cut in Tampa, a decrease of 4.5 percent. Last year, employers eliminated 46,400 jobs.



Housing and Demographics

- Residential permitting fell 40 percent over the 12 months ending in the third quarter. Permits for 6,100 single- and multi-family units were issued during this time, while an estimated 1,700 new households were formed, a 0.1 percent increase.
- A first-time homebuyer credit and a decrease in prices have spurred a projected 50 percent rise in sales of existing single-family residences over the last 12 months. The median price has dropped 31 percent year over year to $116,200, reflecting sales of deeply discounted and foreclosed homes.
- Falling prices have made for-sale housing affordable. The monthly payments on the median-priced home are less than both the average Class A and Class B/C asking rents.
- **Outlook:** A significant migration of renters to for-sale housing is not likely to materialize until a recovery in the job market occurs.

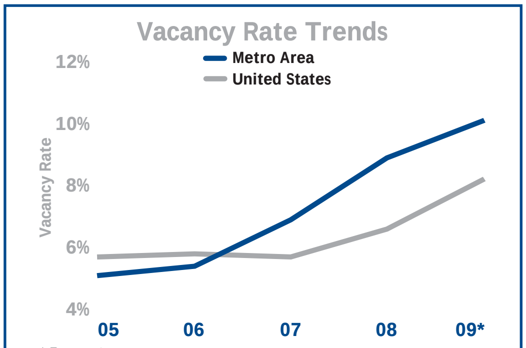


Construction

- During the 12 months ending in the third quarter, developers put 2,600 new apartments into service, an increase in rental stock of 1.7 percent. In the preceding year, 1,300 units were completed.
- New units are concentrated in the Central Tampa submarket. Of the apartment properties that have come online over the past year, approximately 2,300 units are in the submarket, a 32 percent expansion of area inventory.
- Future construction will be subdued. Permits for 2,500 units of multi-family housing have been issued in the last 12 months, a 42 percent decline from the preceding year. Almost all of the permits were pulled in the first six months of the period.
- **Outlook:** Most of the projects slated for completion this year have already come online. In 2009, 1,500 units are scheduled to be delivered; last year, 2,500 units were added.

Vacancy

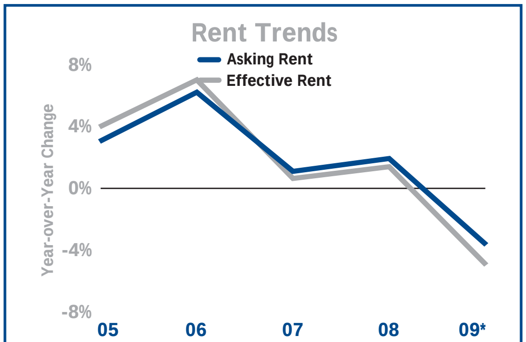
- The addition of high-end units and slumping demand contributed to an estimated 50 basis point increase in vacancy during the third quarter to 9.7 percent. Over the past 12 months, vacancy has climbed 200 basis points.
- All of the new rental stock put into service in the last year was Class A product. Demand has not kept up with supply growth during this time, resulting in a 310 basis point rise in Class A vacancy to 9.3 percent. The vacancy rate ticked up 40 basis points in the third quarter.
- Year over year, Class B/C vacancy has surged 150 basis points to 10 percent on a decrease in demand. In the third quarter, Class B/C vacancy inched up 50 basis points.
- **Outlook:** The marketwide vacancy rate is forecast to climb 120 basis points in 2009 to 10.1 percent, following a 200 basis point jump last year.



* Forecast
Sources: Marcus & Millichap Research Services, Reis

Rents

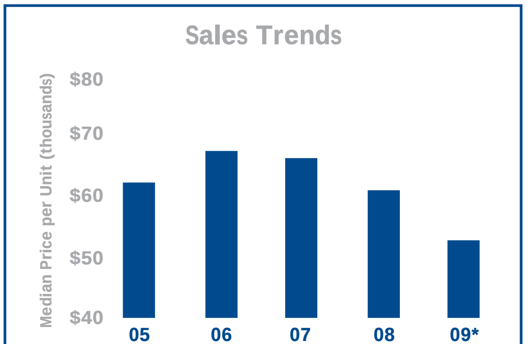
- In the third quarter, asking rents slipped 1.3 percent to $829 per month and were down 1.7 percent since the third quarter of 2008. Effective rents, meanwhile, dipped 1.8 percent in the third quarter to $773 per month. On a year-over-year basis, effective rents have receded 2.6 percent.
- Class A asking rents have risen 0.1 percent over the past year to $1,010 per month due to the influx of higher-priced new units. The increase is primarily attributable to trends in the Central Tampa submarket, where the addition of Class A units in the last year has resulted in a 15.7 percent gain in rents for high-end units. Excluding Central Tampa, marketwide Class A rents have declined about 1 percent in the past year.
- Class B/C asking rents dipped 1.8 percent in the third quarter to $713 per month. Lower-tier asking rents have receded 3.9 percent in the past year.
- **Outlook:** The influence of new space on average marketwide rents will wane over the next few months. Accordingly, asking rents are forecast to fall 3.6 percent this year to $815 per month, and effective rents are expected to slip 4.9 percent to $755 per month.



* Forecast
Sources: Marcus & Millichap Research Services, Reis

Sales Trends**

- Deal flow has declined 35 percent over the past 12 months, as lending standards have tightened and uncertainty over the near-term operations has intensified.
- The median price in transactions closed in the last year was $52,800 per unit, a decline of 14 percent from the preceding 12 months. The peak of the market was reached in 2006, when prices hit $68,000 per unit.
- Top Class A assets with solid fundamentals may trade at cap rates starting in the 7 percent range, while Class B/C product can sell at initial yields ranging from 8 percent to 9 percent. Older, high-vacancy assets are changing hands at cap rates of approximately 10 percent.
- **Outlook:** Investors will underwrite for higher near-term vacancy and greater use of concessions, with improvements not expected until the second year of ownership, when the economy is expected to be growing again.



* Trailing 12-Month Period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

*** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.*

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Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.

- Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 150 basis points to 175 basis points lower. The government recently assumed full control of Fannie Mae and Freddie Mac, which may boost confidence in the GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties.

- Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

Submarket Overview

- In addition to the stock added over the past 12 months, more than 2,200 rentals are planned in the Central Tampa submarket. None of the proposed projects is scheduled to start construction. Recent building has raised Class A vacancy in the submarket to 26.5 percent.

- Concessions in the North Pinellas submarket, which includes Dunedin and Palm Harbor, have risen 100 basis points this year to 8.6 percent of asking rents. The area's Class B/C properties in particular have been hurt by the downturn, as vacancy in these buildings has climbed more than 500 basis points this year to 11.7 percent.

- Recent sales in the market include the 25-unit Northbay Villa apartments in the Central St. Petersburg submarket. The property changed hands for $29,200 per unit.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Central St. Petersburg	6.5%	-10	$705	-3.8%
2	Westshore	7.3%	160	$815	-5.1%
3	North Hillsborough	7.7%	140	$861	-3.0%
4	Brandon/Plant City	8.5%	20	$820	-1.4%
5	Pasco County	8.7%	20	$625	-5.9%
6	North Pinellas	8.8%	280	$782	-3.5%
7	University North	10.4%	170	$659	-5.0%
8	Temple Terrace	12.8%	540	$654	-4.2%
9	University South	14.5%	450	$651	-0.2%
10	Central Tampa	20.7%	1,350	$1,060	13.4%

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