Uneven Recovery Taking Shape in Tampa

Although modest in its intensity and occurring in only a few submarkets, the recovery of the Tampa apartment market has begun, and conditions will continue to stabilize over the remainder of 2010. The expected improvement in fundamentals, however, will likely be bumpy as job growth wanes amid the termination of temporary census jobs and cautious hiring among private-sector employers. Soft demand sustained concessions near 6.1 percent of asking rents in the second quarter, as owners remained unable to exert significant pricing power. Concessions pushed higher in submarkets such as North Hillsborough and Central Tampa, where new units have come online, and will be withdrawn only gradually in the near term. Indeed, only a more robust pace of job growth will spur demand sufficient to enable owners to reduce leasing incentives without concern for losing tenants. The most recent unemployment data highlights why investors are taking a sober view of the market, as the local rate of 12 percent exceeds the statewide average.

Local buyers will continue to drive investment activity as out-of-state investors wait for more vigorous economic and population growth. Top-quality, stabilized assets draw interest and command high prices when brought to market, but activity will mostly center on properties with some level of distress. Sellers able to offer incentives such as revenue guarantees and financing will provide these for strong buyers, while assumable financing also will enhance the probability of executing a successful transaction. While sales will remain limited to either high-quality, cash-flowing properties or those owned by particularly motivated sellers, land sales appear certain to pick up in the months ahead. Prices have declined from pre-recession highs, and investors with development capabilities have very gradually begun to seek sites for projects to commence as rent growth accelerates. Waterfront plots and centrally located sites with access to transportation and major employers will garner the greatest interest, in addition to sites near high-speed rail and light-rail stations.

2010 Annual Apartment Forecast

0.3% increase in total employment

Employment: Total employment will expand 0.3 percent, or by 3,100 workers, in 2010, following the loss of 56,500 jobs last year.

1,300 units will be completed

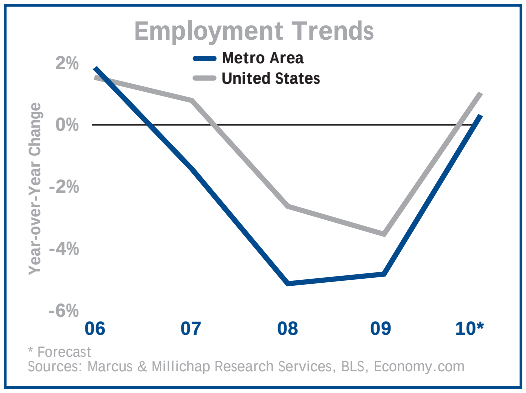
Construction: Builders will deliver 1,300 apartments this year, split between Hillsborough and Pasco counties. In 2009, more than 1,800 units were completed. The pipeline of planned projects contains 6,400 units, representing 4.2 percent of existing stock.

40 basis point decrease in vacancy

Vacancy: A slow rate of relocations from out of state and a more tepid pace of job growth in the second half of the year will raise vacancy from its current level. In 2010, vacancy will nevertheless decline 40 basis points to 10.3 percent.

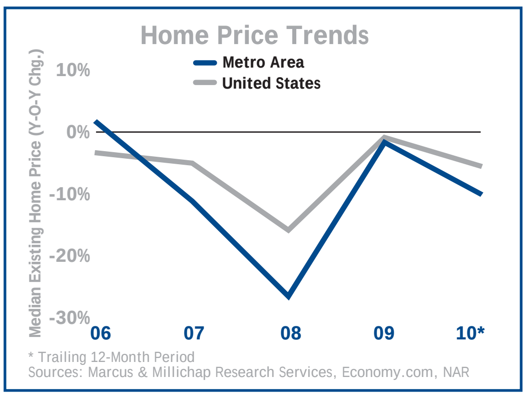
0.9% increase in asking rents

Rents: An erratic recovery in the job market will hinder property owners' ability to raise rents this year. Asking rents will inch up 0.9 percent to $802 per month, while effective rents will rise 1.6 percent to $755 per month.



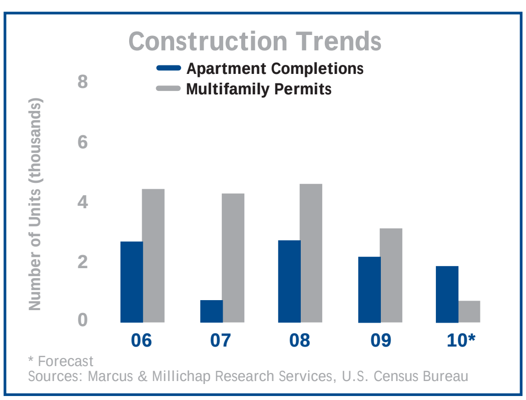
Economy

- Fueled by additions to government payrolls, employers in the Tampa metro area hired 6,600 workers in the first half of 2010, the first six-month period of growth since 2006. Year over year, however, total employment declined by 8,800 jobs.
- Excluding the government sector, employment increased by 1,500 workers in the first half of 2010 as private-sector employment lagged. Only the professional and business services, trade, transportation and utilities, and leisure and hospitality sectors created jobs in the first six months of 2010.
- Despite recent improvements in the job market, unemployment remains elevated and will continue to curtail household formation. Each of the four counties in the metro area has a higher unemployment rate than the statewide level, led by a 14.3 percent reading in Hernando County and 13.3 percent unemployment in Pasco County.
- **Outlook:** Total employment will expand 0.3 percent, or by 3,100 workers, in 2010, following the loss of 56,500 jobs last year.



Housing and Demographics

- Planned residential construction remains depressed, as permits for 7,200 units of housing were issued over the 12 months ending in the second quarter, well below the average of 21,000 units annually during the past 10 years. Builders continue to scale back in light of excess inventories of unsold and unoccupied single-family homes.
- A soft job market and the inability of out-of-state residents to sell homes and relocate to Tampa continues to suppress household creation. In the past year, 7,500 new households were created in the metro area, an improvement from a year ago, when 4,300 households were formed. Still, an average of 14,900 households were created annually during the last decade.
- The price of an existing single-family home in Tampa fell 4 percent in the past year to $132,800 due to sales of foreclosed or distressed residences.
- **Outlook:** A continuation of sluggish permit issuance assures that minimal threats from new housing supply will emerge as an economic recovery gains momentum next year.

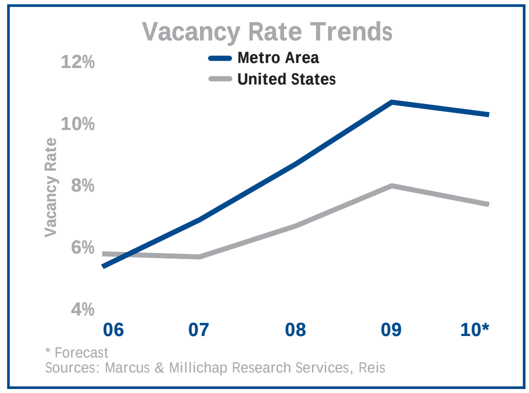


Construction

- In the past 12 months, developers completed nearly 1,500 units, a 1 percent addition to rental stock but a decline from the preceding 12-month span, when 2,200 apartments came online.
- Two projects totaling 418 units were completed in the second quarter. In the Central Tampa submarket, the 210-unit Mosaic Westshore opened, while 208 apartments at the Providence at Zephyr Ridge in Pasco County were delivered.
- Planned projects in the second quarter totaled 6,400 units, down slightly from the 6,600 units in the pipeline earlier this year. None of the planned developments has a date scheduled to start construction.
- **Outlook:** Builders will deliver 1,300 apartments this year, split between Hillsborough and Pasco counties. In 2009, more than 1.800 units were completed.

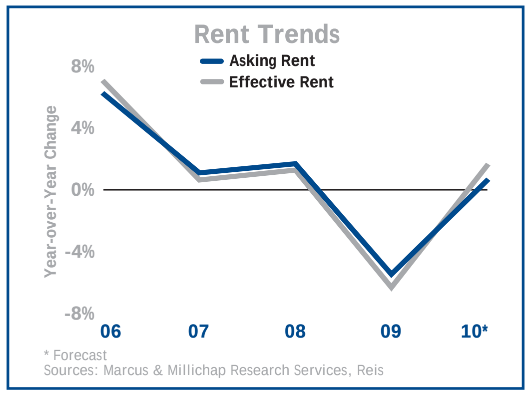
Vacancy

- Steady demand for Class A units helped push down vacancy 30 basis points in the second quarter to 9.8 percent, following a decline of 60 basis points in the first quarter. In the past 12 months, however, inventory growth offset a resurgence in demand, resulting in a 40 basis point rise in vacancy.
- Led by the absorption of new apartments in the Central Tampa submarket, Class A vacancy marketwide declined 30 basis points in the past year to 8.7 percent, although the rate was flat in the second quarter. Class A vacancy in the submarket decreased 1,000 basis points during the last 12 months to 18.8 percent, as more than 800 additional apartments were occupied.
- Class B/C vacancy rose 90 basis points in the past year to 10.6 percent but declined 100 basis points year to date as job growth resumed. So far in 2010, net absorption totals nearly 900 units.
- **Outlook:** A slow rate of relocations from out of state and a more tepid pace of job growth in the second half of the year will raise vacancy from its current level. Still, vacancy will decline 40 basis points in 2010 to 10.3 percent.



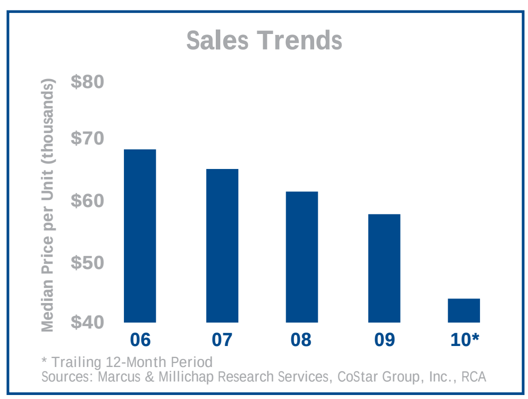
Rents

- Despite a modest recovery in demand, asking rents slipped 0.1 percent in the second quarter to $800 per month, following a 0.5 percent hike in this year's opening period. After rising 0.8 percent in the first quarter, effective rents rose 0.3 percent in the most recent period to $751 per month.
- Year to date, Class A asking rents climbed 0.7 percent to $964 per month. Approximately half of the submarkets registered an increase in Class A rents this year, led by Westshore and Clearwater. Despite high vacancy, Class A asking rents in Central Tampa rose 0.4 percent year to date.
- Class B/C asking rents inched down 0.3 percent in the second quarter and are unchanged so far this year at $688 per month. Lower-tier asking rents have fallen 5.5 percent since the start of the recession, compared with a 2.5 percent drop for Class A asking rents.
- **Outlook:** An erratic recovery in the job market will hinder property owners' ability to raise rents this year. Asking rents will tick up 0.9 percent to $804 per month, while effective rents will rise 1.6 percent to $755 per month.



Sales Trends**

- Transaction velocity declined 14 percent in the past 12 months. Activity in the first half of 2010, however, was up from the corresponding period a year ago as investors intensified searches for acquisitions.
- Prices continue to fall, reflecting sales of distressed and REO properties at discounts. During the last year, the median price of properties sold decreased 25 percent to $43,800 per unit.
- Class A cap rates have compressed considerably since 2009, with recent sales in the low-6 percent range. For Class B assets, cap rates are either stable or rising slowly, with recent deals executed from 7.5 percent to 8.5 percent.
- **Outlook:** Amid continuing concerns over the near-term economic outlook, out-of-state investors will maintain a low profile in the market. Without competition from this pool, locally based investors will attempt to drive prices lower.



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

Capital Markets

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

- Mixed economic indicators, stock market volatility and concerns surrounding the European debt crisis continue to drive investors to safety. As a result, the yield on the 10-year U.S. Treasury has declined since peaking at 4 percent in April; as of late July, the yield had fallen to 3 percent.

- Capital markets loosened over the past year, with life insurance companies ramping up lending and CMBS showing renewed signs of life. Nonetheless, the agencies remain the dominant sources of multifamily lending. This trend will continue through 2010 as the GSEs' multifamily portfolios outperform their residential mortgage operations, reducing the likelihood of drastic government-mandated changes to their apartment lending arms.

- Multifamily loan originations increased 37 percent in the second quarter but remained below levels reported during the same period last year. Fannie Mae and Freddie Mac's origination volume followed a similar pattern, rising in the second quarter but falling short of year-earlier levels.

- Loan-to-values range from 60 percent to 75 percent for portfolio lenders and push up to around 80 percent for best-of-class, agency-financed deals. All-in rates for five-year agency loans fall into the low-4 percent range, while 10-year loans price between 4.75 percent and 5.15 percent. While life companies will compete at these levels for best-of-class deals, most portfolio lenders are 100 basis points to 225 basis points higher.

Submarket Overview

- More than 2,500 units are planned in the Central Tampa submarket, where properties delivered over the past two years are only now being absorbed. Of the planned projects, more than 1,000 rentals are pegged for the area bordered by Kennedy Boulevard, Howard Avenue and Interstate 275.

- The vacancy decline in Clearwater over the past year occurred primarily as a result of resurgent demand for Class A units. Upper-tier vacancy in the submarket fell more than 500 basis points to 7.4 percent in that time, while concessions were virtually unchanged at 4.1 percent of asking rents.

- Academic and administrative buildings measuring approximately 475,000 square feet are under construction and slated for delivery within the next two years on the University of South Florida campus. Students and employees will help stabilize Class B/C apartment demand near the school.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Brandon/Plant City	7.0%	-20	$833	1.3%
2	North Hillsborough	7.0%	10	$804	-6.9%
3	North St. Petersburg	7.6%	-40	$777	-3.4%
4	Central St. Petersburg	7.9%	120	$671	-4.4%
5	Clearwater	8.5%	-230	$755	-1.8%
6	Westshore	9.0%	220	$808	-1.6%
7	North Pinellas	9.6%	100	$764	-2.9%
8	Largo	9.9%	70	$700	-3.8%
9	Pasco County	11.1%	300	$611	-2.4%
10	Central Tampa	17.6%	-260	$1,008	-2.4%

Marcus & Millichap

NATIONAL MULTI HOUSING GROUP

Visit www.NationalMultiHousingGroup.com or call:
Linwood C. Thompson
Senior Vice President, Managing Director
National Multi Housing Group
Tel: (678) 808-2700
lthompson@marcusmillichap.com

Marcus & Millichap
Real Estate Investment Services

Prepared and edited by
Art Gering
Senior Market Analyst
Research Services

For information on national apartment trends, contact
John Chang
Vice President, Research Services
Tel: (602) 687-6700 ext. 6803
john.chang@marcusmillichap.com

Tampa Office:
Bryn Merrey
Regional Manager
bmerrey@marcusmillichap.com
7650 Courtney Campbell Causeway
Suite 920
Tampa, Florida 33607

Tel: (813) 387-4700
Fax: (813) 387-4710

Price: $150