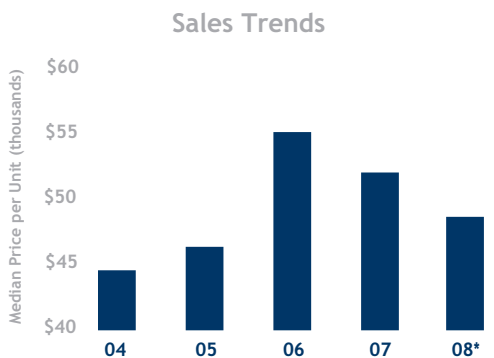
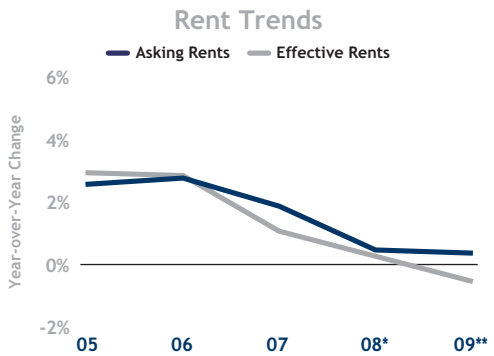
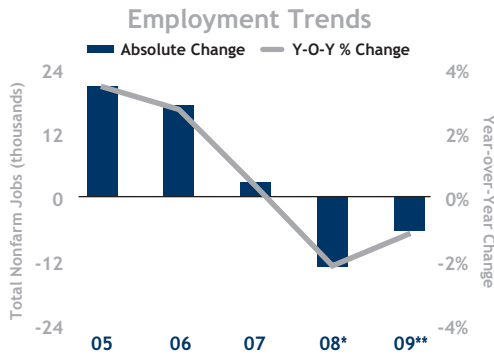


Beyond Short-Term Weakness, Port Presents Improving Outlook in Jacksonville

While the performance of Jacksonville's apartment market will moderate through 2009, the extended outlook remains fairly bright. Major employers in the financial activities and banking industries, including Wachovia and Citigroup, will trim staffing levels this year, although traffic at the port is expected to strengthen the metro area's economic stability. In late 2008, JAXPORT officials reached an agreement with Hanjin Shipping Co. Ltd. to move the company's operations to the TracPac Terminal at Dames Point. The relocation will create 1,600 direct and 4,000 indirect jobs over the next several years. Additionally, it was announced that Mayport Naval Station would be the home port for a nuclear-powered carrier, a move that will eventually result in as many as 5,000 new positions. While these developments will prop up apartment demand over the long term, competition from shadow stock is weighing on fundamentals, and vacancy is expected to push higher this year.

The local apartment market will continue to present opportunities for investors. Transaction velocity is forecast to pick up in 2009 as declining revenues limit owners' ability to refinance. Consequently, a greater number of assets that were purchased using aggressive financing at peak pricing will likely come to market, offering buyers the chance to acquire properties at a discount. Investors may also find upside potential by repositioning bank-owned assets in areas suffering from competition with shadow rentals, like Orange Park. Additionally, investment activity in the metro may receive a boost from South Florida buyers who are beginning to increase their presence due to Jacksonville's affordable per-unit prices and long-term projections for economic and population growth. Investors looking for stability may want to target properties in the Southside submarket, where proximity to office employment and elevated incomes should continue to support values.



* Estimate ** Forecast

2009 Market Outlook

- ◆ **2009 NAI Rank: 38, Down 8 Places.** The nation's highest vacancy rate caused Jacksonville's eight-spot drop in this year's NAI.
- ◆ **Employment Forecast:** Employers are expected to decrease payrolls 1.1 percent in 2009, shedding 6,500 positions.
- ◆ **Construction Forecast:** Approximately 1,000 apartments will come online this year, down from 2,300 units in 2008.
- ◆ **Vacancy Forecast:** After a 190 basis point increase last year, vacancy will rise 110 basis points to 12.9 percent by year-end 2009.
- ◆ **Rent Forecast:** Shadow stock and job contractions will hamper rent gains. Asking rents are forecast to tick up 0.4 percent this year to \$803 per month, while effective rents drop 0.5 percent to \$755 per month.
- ◆ **Investment Forecast:** Short-term weakness due to the local economy and shadow rentals will drive apartment investors to the more stable Southside and Jacksonville Heights areas. Opportunities will also exist in the Western and Northern submarkets as foreclosures and bank-owned assets offer investors the chance to purchase at a discount.

Market Forecast Employment: 1.1% ▼ Construction: 57% ▼ Vacancy: 110 bps ▲ Asking Rents: 0.4% ▲