ApartmentResearch
MARKET UPDATE

Miami-Dade County *Third Quarter 2010*

Fundamentals Stabilizing; Prices Near Bottom

A modest pace of job growth helped stabilize primary measures of apartment property performance in Miami-Dade County during the first half of 2010, but a sustainable improvement in fundamentals remains unlikely until next year. The market currently possesses one of the lowest vacancy rates among the nation's large metros but, as in other areas of the country, the market faces near-term challenges. Specifically, unemployment in the county has stayed above 10 percent for more than a year, and the expected pace of job creation in the next few quarters will be insufficient to substantially reduce the rate. As a result, only gradual improvement in vacancy and rents will occur until a more vigorous pace of economic activity stimulates household formation and rental housing demand. Questions concerning which employment sectors will lead the way out of a recession persist, and in Miami-Dade, some established industries will set the pace. Leisure and hospitality employers continue to modestly increase staffing, while strong ties to Latin America will bolster trade and finance employment.

The gradual stabilization of operating fundamentals and near-bottoming of property prices will enhance investment conditions over the remainder of the year. In addition, favorable currency valuations and the market's stature as an international gateway will attract investors from Europe and, especially, Latin America. Overall, rental properties in the county will continue to transact at a sustainable, albeit slow, pace, provided that pricing reflects current operating conditions and property-specific risks. In this regard, buyers and sellers continue to reset pricing expectations, and deal volume will accelerate in the months ahead as the economic recovery gains momentum. Cap rates, however, vary based upon property location and quality, with some deals for newer assets in core locations pricing in the 6 percent range recently. Bulk condo deals also remain a focus for cash-laden investors of top-quality properties seeking to place capital quickly. Most of the units purchased will constitute shadow rentals until the thousands of unsold units clear the market.

2010 Annual Apartment Forecast

0.2% increase in total employment

Employment: Some temporary government positions will be eliminated in the second half, moderating the rebound in total employment for 2010. This year, 2,200 jobs will be created, a 0.2 percent increase and a considerable improvement from 2009, when 43,000 positions were cut.

800 units will be completed

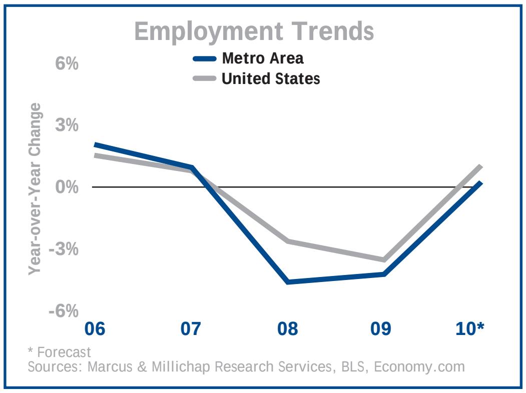
Construction: Builders will complete 800 units in 2010; no completions were recorded last year. Nearly 22,000 units, however, were removed from stock during the past decade.

30 basis point increase in vacancy

Vacancy: A lack of vigorous demand drivers will maintain vacancy near its current level. This year, vacancy will rise 30 basis points to 6.4 percent, following a 100 basis point jump in 2009.

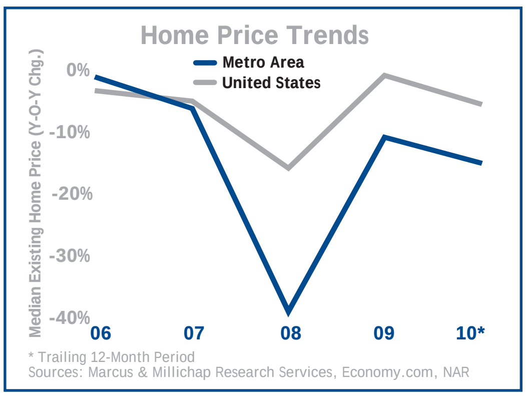
1.5% increase in asking rents

Rents: Marketwide asking rents will advance 1.5 percent in 2010 to $1,057 per month, accompanied by a 2.5 percent increase in effective rents to $993 per month. Asking rents fell 5.7 percent last year, while effective rents slipped 6.9 percent.



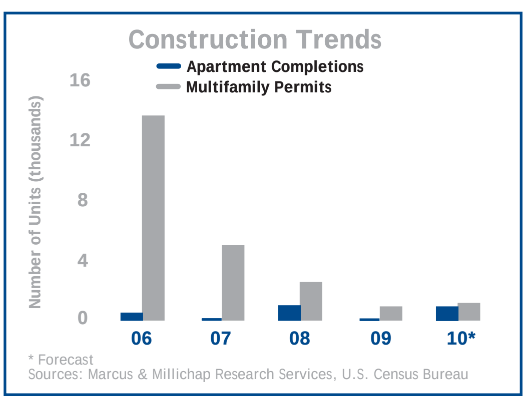
Economy

- Local employment expanded by 2,800 workers in the first half of the year, due primarily to the addition of 2,400 government positions. Overall, jobs were created in three of the first six months of 2010.
- Three of 10 private employment sectors recorded net payroll additions in the first half of 2010. In the trade, transportation and utilities sector, a modest rebound in air travel and port activity contributed to a gain of 5,000 jobs. The education and health services sector, which hired workers throughout the worst months of the recession, added 1,000 employees year to date.
- The countywide unemployment rate climbed 60 basis points in the first half of 2010 to 12.2 percent. Encouraged by an improving economy, the labor force grew at a faster rate than the number of employed workers in the period, accounting for the increase.
- **Outlook:** Some temporary government positions will be eliminated in the second half, resulting in a modest rebound in total employment for 2010. This year, 2,200 jobs will be created, a 0.2 percent increase and a considerable improvement from 2009, when 43,000 positions were cut.



Housing and Demographics

- Attempting to capitalize on demand generated by the first-time homebuyer tax credit, single-family home developers pulled permits for 350 units of single-family housing in the second quarter, nearly double the number issued in the prior period. Permit issuance will likely wane over the remainder of the year as demand eases.
- In the multifamily segment, permits for 1,100 housing units were issued in the 12 months ending in the second quarter, a 21 percent drop from one year earlier. Permits for 700 units have been issued so far in 2010, as developers have started to line up projects ahead of the economic recovery.
- The median price of an existing single-family residence in the county fell 8 percent in the 12 months ending in the second quarter to $178,900 and has decreased more than 40 percent in the past two years.
- **Outlook:** Class B/C asking rents in the county average less than the $986 per month mortgage payment on the median-priced home. The disparity will continue to support strong demand for lower-tier rentals, despite some weakness in the sector so far this year.

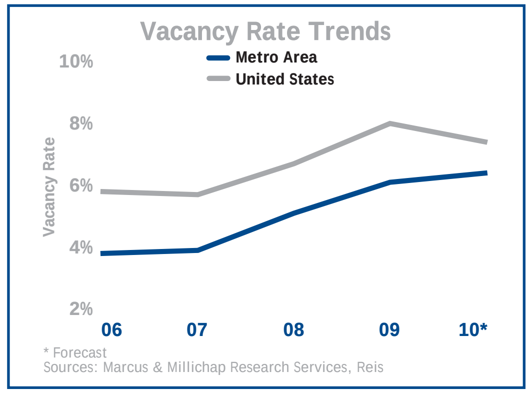


Construction

- No projects were completed in the second quarter, but 404 units came online in the past 12 months. Red Road Commons in the Kendall East/Coral Gables submarket was delivered early in 2010 and accounts for all of the production in the last year.
- Construction proceeds on three projects totaling nearly 400 units, with completions expected in the second half of this year. The largest of the developments is the 224-unit Cordoba in the Airport West submarket.
- More than 2,300 units are planned in Miami-Dade, a slight increase from earlier this year. None of the projects is slated to start construction.
- **Outlook:** Builders will complete 800 units in 2010. Nearly 22,000 units were removed from stock in the past decade.

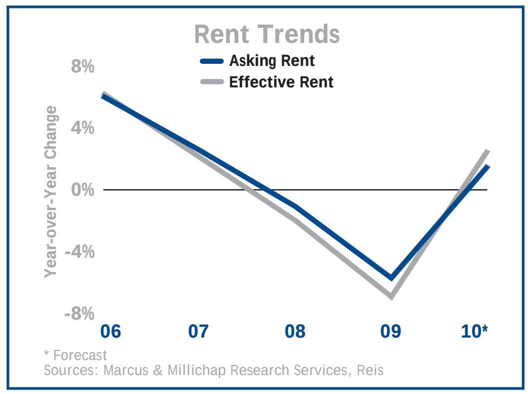
Vacancy

- Countywide vacancy slipped 10 basis points in the second quarter to 6.2 percent, due primarily to strong performance in the market's small Class A segment. So far this year, marketwide vacancy has increased 10 basis points; the rate has averaged no more than 6.3 percent for the past year.
- Relatively elevated concessions in Miami and North Miami Beach lowered Class A vacancy in those submarkets and contributed to a 30 basis point dip in marketwide upper-tier vacancy in the second quarter to 6.6 percent. Class A vacancy was 6.7 percent at the end of last year.
- In the Class B/C segment, which comprises more than 73 percent of stock in the entire county, vacancy was unchanged in the second quarter at 6.0 percent as the number of vacant units was virtually flat. In the first half, Class B/C vacancy rose 10 basis points.
- **Outlook:** This year, vacancy will tick up 30 basis points to 6.4 percent, following a 100 basis point jump in 2009.



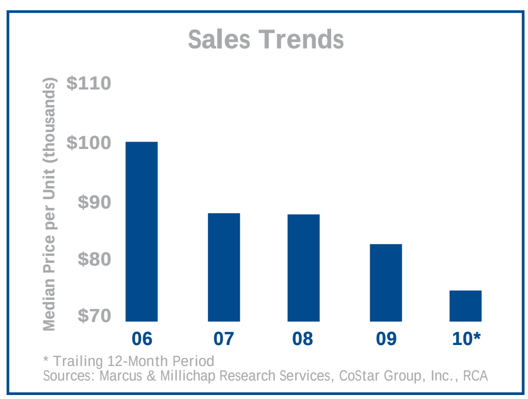
Rents

- After increasing 1.3 percent in the first quarter, asking rents receded 0.1 percent in the second quarter to $1,054 per month. Effective rents, though, rose 0.6 percent in the second quarter to $991 per month and are up 2.3 percent this year.
- Class A asking rents advanced 1.2 percent in the second quarter to $1,360 per month, following a 1.7 percent rise in the first quarter as a result of a sizable gain in the beach submarkets. Also in the second quarter, Class B/C asking rents slipped 0.6 percent to $945 per month but are up 0.2 percent year to date due to increases in 10 of 13 submarkets.
- Concessions fell 60 basis points in the second quarter to 6 percent of asking rents. Although the burn-off commenced in the first quarter, concessions in the North Miami Beach/Bal Harbour and North Miami/Bayshore submarkets remain more than 9 percent of asking rents.
- **Outlook:** Asking rents will rise 1.5 percent this year to $1,057 per month, accompanied by a 2.5 percent increase in effective rents to $993 per month.



Sales Trends**

- Transaction velocity fell 15 percent over the past 12 months, a slight improvement from the preceding period, when deal volume dropped by more than 25 percent.
- The median price in deals closed over the past 12 months decreased 9 percent to $75,000 per unit. In transactions executed in the second half of that period, the median price was virtually flat.
- Average cap rates have compressed about 100 basis points in the past nine months to the low-7 percent range, reflecting sales of both discounted assets and top-quality stabilized properties. Lesser-quality, performing assets can sell at cap rates closer to 8 percent on current fundamentals.
- **Outlook:** The median price appears to be stabilizing at 25 percent below the peak of the market four years ago, providing numerous opportunities for investors to purchase larger properties at prices that make sense for rental operations.



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

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

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

- The largest planned projects in the county is the 607-unit Village in the Miami submarket. The development has not yet been scheduled for construction; in all, projects containing 943 units are planned in the submarket.

- Mass layoffs have slowed in Miami-Dade County this year, helping the employment market start to stabilize. In the second quarter, however, Jackson Health Services in Miami commenced layoffs of more than 500 workers.

- The protracted economic recovery has taken a toll on the Hialeah market, historically the tightest submarket in all of South Florida. Class B/C vacancy in the area increased more than 200 basis points this year to 4.6 percent due to the number of occupied units falling by 100. Lower-tier vacancy in the submarket typically averages less than 3 percent.

Submarket Vacancy Ranking

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Miami	4.1%	-190	$859	3.0%
2	South Beach/Miami Beach	4.2%	-190	$1,389	2.3%
3	Hialeah	5.3%	230	$823	0.0%
4	North Miami/Bayshore	5.3%	100	$766	3.4%
5	Kendall East/Coral Gables	5.6%	110	$1,166	-6.5%
6	Airport West	6.0%	-50	$1,060	0.3%
7	Kendall West	6.1%	140	$954	3.2%
8	North Miami Beach/Bal Harbour	6.6%	-280	$1,208	4.8%
9	Miami Lakes	6.8%	230	$959	1.2%
10	North Dade	7.2%	310	$873	-1.9%

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

Miami Office:
Kirk Felici
Regional Manager
kfelici@marcusmillichap.com
5201 Blue Lagoon Drive
Suite 100
Miami, Florida 33126

Tel: (786) 522-7000
Fax: (786) 522-7010

Price: $150