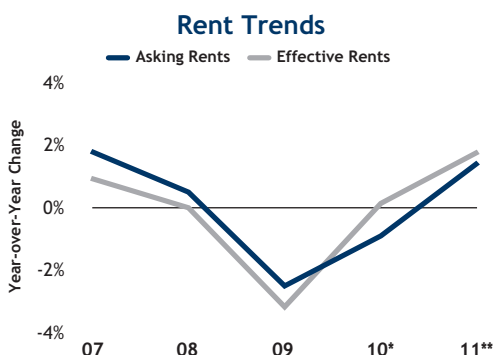
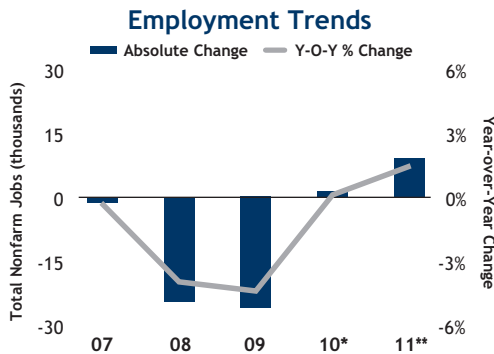


Late Emergence from Recession Creating Distressed-Asset Opportunities

Jacksonville will retain one of the highest vacancy rates in the country during 2011, but operating conditions will improve as demand strengthens and development subsides. Vacancy plummeted last year as households de-bundled and single-family foreclosures shifted many owner-occupied households to the rental sector. As a result, the number of occupied rentals in the market rose an unprecedented 4.4 percent in 2010, compared with a 2 percent increase nationwide. While ongoing foreclosures will expand the renter pool, a healthier pace of job creation will become the dominant driver of demand in the months ahead. The most significant trend, however, will be another decline in completions. Limited supply constraints have historically emboldened developers, but projects slated for delivery in 2011 represent one of the lowest annual totals in the past 15 years. Although the improving economy will encourage developers to refill the construction pipeline, still-high vacancy will restrain supply growth for the next two years.

Many sales late last year involved large, lender-owned properties, and additional sales of this type will occur in the first half of 2011 while the recovery in property operations gains momentum. Distressed assets typically sell for less than \$30,000 per unit, providing investors an attractive entry point and an opportunity to raise the value of a property through improving occupancy. In addition, stabilized, cash-flowing complexes will come to market more frequently this year as owners record several months of strengthening operations. Properties in the Southside/Baymeadows area will attract attention, but revitalized service-sector hiring will also help stabilize operations in older sections of the market. Cap rates can vary widely, but for many Class B/C properties, first-year returns of 9 percent or more will garner interest.



* Estimate ** Forecast
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., RCA

2011 Market Outlook

- ◆ **2011 NAI Rank: 44, No Change.** The nation's highest vacancy rate kept Jacksonville at the bottom of this year's NAI.
- ◆ **Employment Forecast:** Local employers will add 9,000 positions this year, a 1.5 percent increase and an improvement from 2010, when only 1,200 jobs were created. The greatest gains will occur in the trade and education and health services sectors.
- ◆ **Construction Forecast:** Supply growth will wane for the second consecutive year, as developers will complete 500 units in 2011, down from 790 rentals last year.
- ◆ **Vacancy Forecast:** Easing construction will support a 50 basis point drop in vacancy to 10.9 percent this year, after the average rate declined 300 basis points in 2010.
- ◆ **Rent Forecast:** During 2011, marketwide asking rents will advance 1.4 percent to \$783 per month, accompanied by a 1.8 percent bump in effective rents to \$746 per month.
- ◆ **Investment Forecast:** Class A property investors will continue to focus on new complexes in areas of southeastern Duval and northern St. Johns counties, where supply growth was strongest over the past several years.