

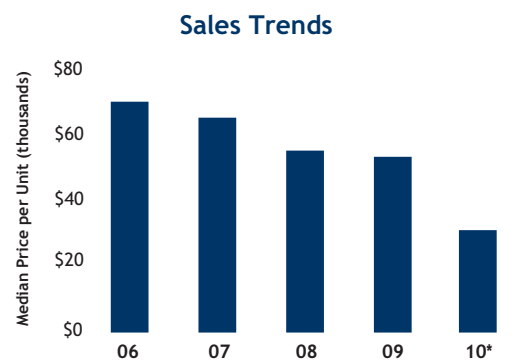
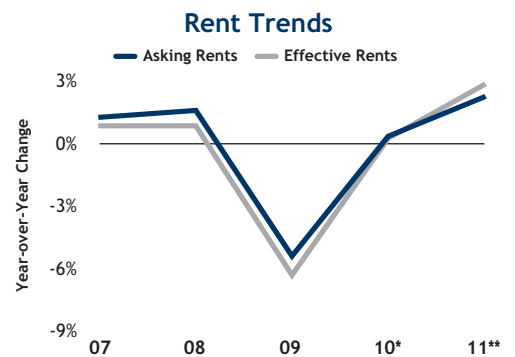
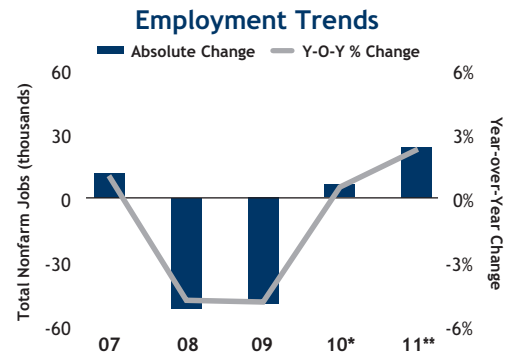
Recovery Tourism, Service Sectors Spark Performance Improvements

Lingering uncertainty in the Orlando housing market and a rebound in tourism will accelerate the recovery in apartment operations that began last year. During 2010, ongoing single-family foreclosures lowered the homeownership rate from approximately 72 percent to 68 percent, initiating the movement of many former homeowners into the renter pool. The likelihood of additional foreclosures will further expand the renter base throughout 2011. Also, hiring trends in services sectors will serve as an indicator of future leasing traffic and unit absorption. Approximately 8,000 leisure and hospitality jobs will be created this year as theme park attendance continues to recover and foreign tourist volume increases as a result of the weaker dollar. Additionally, the expansion of local medical facilities will support the hiring of 4,400 education and health services workers during 2011, generating Class A apartment demand.

The decline in property prices stemming from the cessation of conversion activity and subsequent erosion of operating income due to the recession will present opportunities for investors. Sales of lender-owned or distressed assets will continue in the first half of 2011, although expected improvements in vacancy and rents may enable some owners to avert further difficulties. Prices for distressed assets can drop to less than \$30,000 per unit, providing an attractive entry point for investors capable of executing value-add strategies. Well-located, stabilized properties will also generate intense bidding, as the lack of rental construction will enable operators to raise rents without concern for newer assets in lease-up. Areas of interest will include the southern part of the metro near tourist attractions, as well as properties that will benefit from steady enrollment at the University of Central Florida.

2011 Market Outlook

- ◆ **2011 NAI Rank: 30, Up 5 Places.** Orlando's five-spot jump in the ranking is supported by above-average job growth and healthy absorption.
- ◆ **Employment Forecast:** Employers will create 23,500 jobs this year, a 2.3 percent increase to payrolls and an improvement from 2010, when 6,000 jobs were added.
- ◆ **Construction Forecast:** Developers will complete only 700 units in 2011, down from 1,300 units last year and well below the five-year average of 2,000 rentals.
- ◆ **Vacancy Forecast:** Projected net absorption of 2,100 units will push down vacancy 120 basis points this year to 8.4 percent; the vacancy rate decreased 160 basis points in 2010.
- ◆ **Rent Forecast:** During 2011, asking rents will rise 2.2 percent to \$864 per month. Concessions will decline 50 basis points to 7.8 percent of asking rents as effective rents grow 2.8 percent to \$797 per month.
- ◆ **Investment Forecast:** Cap rates higher than the national average will support strong out-of-state bidding for Orlando properties. Lower per-unit prices will also enable investors to build scale relatively quickly.



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

Market Forecast

Employment: 2.3% ▲

Construction: 630 ▼

Vacancy: 120 bps ▼

Effective Rents: 2.8% ▲