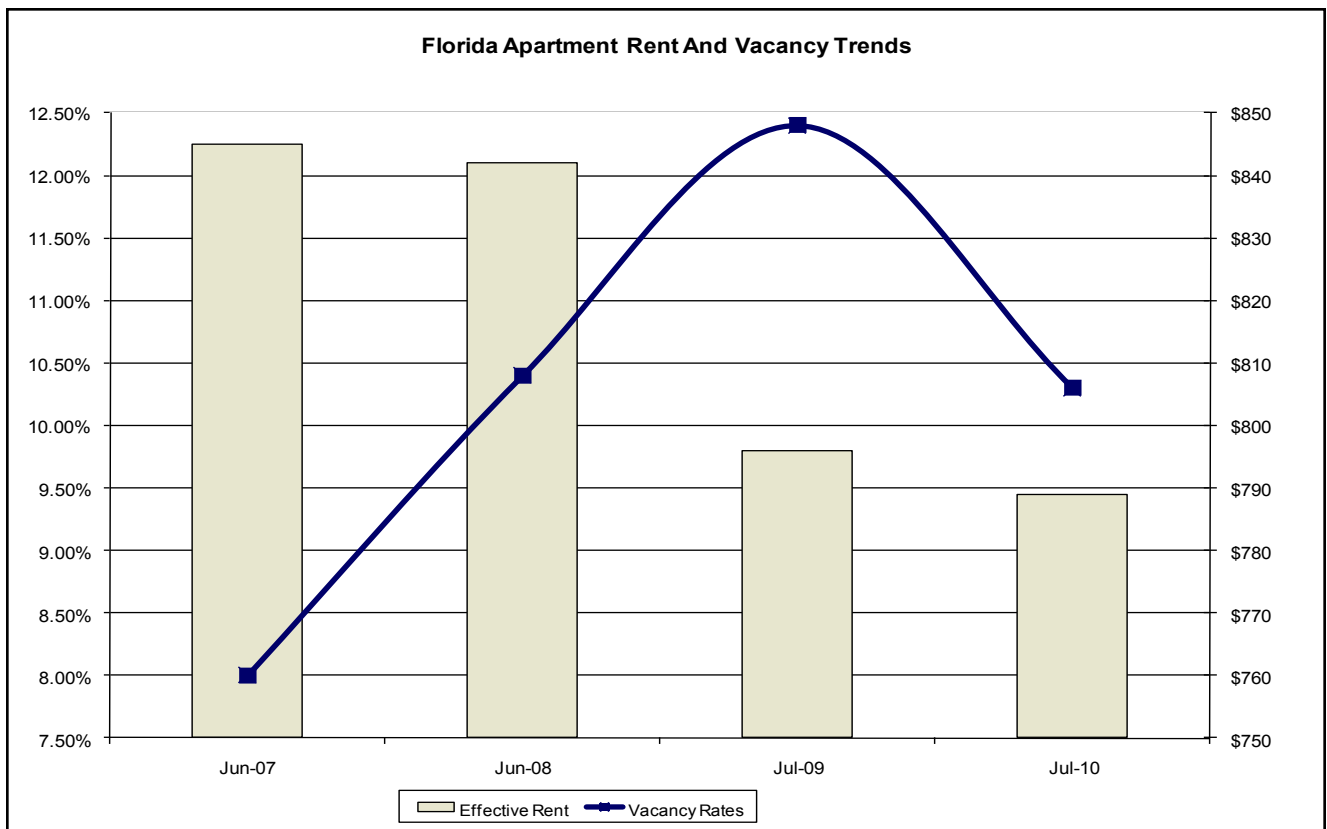




BESHEARS & ASSOCIATES COMMERCIAL PROPERTY ANALYSTS

Beshears & Associates appraises over 500 commercial properties annually throughout the state of Florida. We periodically publish newsletters reflecting our insights regarding the rapidly changing Florida market. If you have any questions about our analyses or services please contact David W. Beshears, MAI at 813-254-2885 x204 or dbeshears@beshears.net; www.beshears.net.

Our newsletter this month focuses on the apartment market. No property type in Florida's volatile real estate market has experienced greater changes than the apartment market, from the heights reached at the peak of the condo conversion craze in November 2005 to its present state, which hopefully represents the bottom. Over the past 12 months Beshears & Associates has appraised over 80 apartments, condominiums or fractured condominium projects. Listed below are the trends we are seeing.



Source: www.ALNdata.com

- ▶ Beshears & Associates is seeing the worst effects of the market decline in Class C properties. Class C properties have lost tenants either to job loss or competition from Class B properties which offer a better product at discounted lease rates. For the same reasons but to a lesser degree, Class B properties have suffered to Class A properties. Class A properties have also benefited from increased demand via former homeowners who have lost their homes to foreclosure.
- ▶ Most deals are being done with government agency debt, Fannie Mae, Freddie Mac and HUD. Financing terms are very favorable with interest rates in the low 4.00% range, and loan to value ratios maxing out at 83% and terms at 35/35. All lenders want stronger debt service coverage ratios than before the crash, as well as tighter underwriting requirements.

- ▶ Financially solvent local commercial banks are willing to lend money to good credit investors in order to buy apartment properties, but require personal guaranties (recourse loans) and liquidity from borrowers. Additionally, borrowers must move entire banking relationships to the bank. These local banks are willing to lend up to 75% LTV.
- ▶ Apartment projects are being priced on trailing 12 month results with very conservative assumptions about future rent increases and vacancy reductions. However, Class A prices are rising (cap rates compressing) due to increased demand from investors, resulting from a lack of available product for sale, and more readily available financing. Brokers indicate that they are getting 25+ offers on new listings once they are publicly listed for sale.
- ▶ While limited new development in the market has benefited existing apartment properties, a few developments that had been on hold are going forward with construction. As Class A properties values rise, we suspect new construction will pick up, due to the lack of other development opportunities.
- ▶ Banks are continuing to aggressively market notes in order to avoid the cost of protracted foreclosure proceedings and the liability of becoming a landlord. Because so many troubled assets have involved note sales, it has significantly limited the amount of projects being sold on the open market. We expect another wave of transactions to occur when note buyers have foreclosed on troubled projects and sell the assets to re-coup their investment.
- ▶ While less common, some bank-owned properties are not publicly listed for sale. Instead, some lenders are selecting an exclusive broker and asking the broker to submit one buyer to them who they know has the financial resources and ability to expedite the closing of a sales transaction.
- ▶ Brokers are indicating that although fundamentals are stabilizing with rental rates flattening and vacancy rates coming down, some property owners are still losing their properties. Property owners that were leveraged up with CMBS debt from 2005 to 2007, during the height of the market, had ten year terms with the first five years being interest only. CMBS mortgages originating in 2005 are now rolling to principal and interest payments which is throwing properties that could have cash flowed on interest only debt into default.
- ▶ Most observers believe we will see a significant amount of troubled assets work their way through the system. Banks still have numerous troubled assets in their portfolios. Special Servicers for CMBS debt have been slow to work through troubled assets due to problems with B-price buyers, property owners, and the sheer magnitude of loans they are processing.
- ▶ There is a tremendous demand for well located stabilized properties, particularly Class A and B assets. With low financing rates, Class A assets are trading in the sub 6% capitalization rate range based on trailing 12 months financials, while Class B assets are trading in the high 7% to mid 8% range. Generally, properties selling for under \$20,000/unit have a bad combination of high vacancy and significant deferred maintenance. Properties selling for under \$10,000/unit also have bad locations and are on the verge of being condemned.
- ▶ Finally market rents and occupancy levels have stabilized. ALN Apartment Data (www.alndata.com) surveys major Florida submarkets on a monthly basis. ALN surveys show vacancy which averaged 8.0% in July, 2007 topped out at 12.40% in July, 2009 before declining to 10.30% in July, 2010. Every submarket has seen a significant decline in vacancy over the past year.
- ▶ Rental rates have declined from an average of \$845 in July 2007 to \$789 in July 2010. The significant decline in rental rates seems to have bottomed out. Concessions have declined as well. In the surveys, approximately one-half of the properties report offering concessions which generally range from 1 to 1 1/2 months free rent on a one-year lease. This is down from the three months free rent found in some markets in 2008.
- ▶ One bright spot has been a reduction in operating expenses. Insurance expenses that doubled or tripled following the devastating effects of Hurricanes Charlie, Rita and Katrina have since declined as much as two-thirds from the peak. Real estate taxes have also declined as property appraisers are significantly reducing assessments on traditional rental communities and on condominium projects turned rental. Finally maintenance and construction services have also decreased.

Florida Effective Rent & Vacancy Rates						
Submarket Vacancy Rates	Jun-07	Jun-08	Jul-09	Jul-10	% s 2007-2010	% s 2009-2010
Tampa/St Pete	7.20%	9.10%	11.30%	9.40%	30.56%	-16.81%
Orlando/Daytona Beach	7.60%	9.70%	12.50%	10.00%	31.58%	-20.00%
Jacksonville 1/			14.80%	13.30%		-10.14%
Gainesville 1/			13.60%	12.40%		-8.82%
Ft. Myers/Naples	12.50%	16.40%	14.90%	12.40%	-0.80%	-16.78%
West Palm Beach	8.80%	9.50%	10.10%	8.10%	-7.90%	-19.80%
Tallahassee	6.60%	10.20%	14.60%	12.10%	83.33%	-17.12%
Pensacola	7.60%	15.20%	13.20%	8.90%	17.11%	-32.58%
Melbourne	11.90%	14.20%	13.70%	8.90%	-25.21%	-35.04%
Florida Average	8.00%	10.40%	12.40%	10.30%	28.75%	-16.94%
Submarket Effective Rent	Jun-07	Jul-08	Jul-09	Jul-10	% s 2007-2010	% s 2009-2010
Tampa/St Pete	\$817	\$811	\$733	\$773	-5.39%	0.00%
Orlando/Daytona Beach	\$857	\$858	\$812	\$787	-8.17%	-3.08%
Jacksonville 1/			\$737	\$729		-1.09%
Gainesville 1/			\$884	\$846		-4.30%
Ft. Myers/Naples	\$879	\$840	\$765	\$774	-11.95%	1.18%
West Palm Beach	\$1,062	\$1,070	\$1,019	\$1,044	-1.69%	2.45%
Tallahassee	\$841	\$826	\$814	\$816	-2.97%	0.25%
Pensacola	\$748	\$765	\$720	\$722	-3.48%	0.28%
Melbourne	\$738	\$731	\$662	\$660	-10.57%	-0.30%
Florida Average	\$845	\$842	\$796	\$789	-6.63%	-0.88%

1/ ALN Apartment Data surveyed Jacksonville & Gainesville as a combined market in 2007 & 2008

Source: ALN Apartment Data; www.alndata.com

In conclusion, Beshears & Associates believes that apartment fundamentals (rent, vacancy rates and operating expenses) will remain stable in the short term. The market still has several years to work through the problem assets that need to be renovated, leased up, re-leveraged or all of the above. As long as financing rates remain favorable, values should remain stable; however increased financing costs could push capitalization rates higher and property values down. Overall most properties will be purchased for a fraction of replacement cost in the near term, until all the problem assets are worked through.



Name	City	Year Built	Units	Sale Date	Price/Unit	Price /RSF	Cap Rate
Oxford Place	Tampa	2006	230	Sep-10	\$85,086	\$86.68	6.69%
Hiawasseo Oaks	Orlando	1983	100	Jul-10	\$28,000	\$29.60	
Ohio Apartments	Tampa	1972	32	Jul-10	\$22,188	\$25.28	
Landings at Boot Ranch	Palm Harbor	1997	232	Jul-10	\$48,491	\$45.25	3.53%
1601 E. Alabama	Plant City	1967	80	Jun-10	\$13,750	\$15.83	
Laurel Oaks	Deland	1984	56	Jun-10	\$29,464	\$36.49	8.76%
Garden Grove	Sarasota	1972	200	Jun-10	\$32,750	\$31.32	8.40%
Yacht Club at Heritage	Bradenton	2007	392	Jun-10	\$110,969	\$73.66	5.78%
210 Watermark	Bradenton	2003	216	Jun-10	\$85,648	\$93.10	6.73%
Twin Brooks	St. Petersburg	1971	39	Jun-10	\$25,641	\$33.98	12.59%
1889 Old Dixie Highway	Vero Beach	1986	20	Jun-10	\$45,000	\$57.35	
Bay Breeze Villas	Fort Myers	1999	180	Jun-10	\$75,147	\$67.47	4.49%
Sweet Bay Club*	Tallahassee	2003	164	Jun-10	\$18,293	\$31.34	
Osceola Village Hall*	Tallahassee	1966	114	Jun-10	\$28,307	\$63.46	
Providence Place	Brandon	1989	444	Jun-10	\$67,568	\$72.55	6.33%
Bridgewater Place	St. Petersburg	1988	260	Jun-10	\$25,462	\$29.15	
J&K Court	Tampa	1973	200	Jun-10	\$44,000	\$54.97	
Caribbean Park	Plant City	1965	81	Jun-10	\$13,580		
Fountains of Largo**	Largo	1973	135	May-10	\$31,852	\$29.19	4.55%
The Carlisle	Bonita Springs	2007	46	May-10	\$91,805	\$58.22	5.92%
Cumberland Forest	Tallahassee		28	May-10	\$10,579	\$5.59	
Altamonte Springs Apt.	Altamonte Springs	1986	224	May-10	\$67,411	\$57.55	
Sugar Mill Apartments	Melbourne	1974	212	May-10	\$29,811	\$34.90	
Solana Vista	Bradenton	1984	200	May-10	\$52,000	\$55.32	
Fairway Apartments	Daytona Beach	1990	24	May-10	\$19,167	\$22.02	12.95%
Estates at Park Ave.	Orlando	2001	432	May-10	\$100,116	\$88.71	6.20%
Conquistador Village	Bradenton	1986	174	Apr-10	\$34,483	\$33.40	9.50%
Promenade Tampa Palms**	Tampa	2000	144	Apr-10	\$41,667	\$16.08	
The Palms at Freeport	Freeport	2006	67	Apr-10	\$48,358	\$26.87	
Summerwind	Jacksonville	1984	62	Apr-10	\$17,742	\$31.85	
Cottages at Stoney Creek	Fernandina Beach	2007	160	Apr-10	\$68,000	\$31.36	
Magnolia Point	Jacksonville	1973	229	Apr-10	\$17,031	\$19.41	
Cedar Creek	Sanford	1991	140	Apr-10	\$27,143	\$32.87	
Cinnamon Cove	Tampa	1965	314	Apr-10	\$10,828	\$19.86	7.50%

Name	City	Year Built	Units	Sale Date	Price/Unit	Price /RSF	Cap Rate
Lexington at Westchase	Tampa	2002	400	Apr-10	\$106,250	\$94.32	
Star Suite*	Tallahassee	2003	34	Apr-10	\$58,088	\$20.77	
Sienna Bay	St. Petersburg	1986	276	Apr-10	\$61,051	\$64.56	7.36%
Estates at Tuscany	Tampa	2007	450	Apr-10	\$111,333	\$97.72	6.77%
Willow Bend	Orlando	1974	192	Mar-10	\$15,156	\$20.80	
Twin Oaks	Ocala	2006	40	Mar-10	\$29,375	\$30.40	15.04%
Blanding Place	Orange Park	1986	232	Mar-10	\$51,724	\$49.10	4.97%
222 Weis Lane	Pensacola	1983	28	Mar-10	\$37,143	\$40.00	11.00%
Bermuda Island	Naples	1998	360	Mar-10	\$81,944	\$78.35	
Summer Oaks	Jacksonville	1972	400	Mar-10	\$31,000	\$26.52	7.70%
Park View	St. Petersburg	1958	20	Mar-10	\$14,100	\$27.12	
Walker Club	Vero Beach	2001	172	Mar-10	\$30,814	\$29.18	5.07%
Legacy Townhomes**	Tampa	1983	121	Feb-10	\$17,355		
Waterford Landing	Orlando	1989	72	Feb-10	\$32,800	\$11.08	5.47%
Genesis Apartments	Jacksonville	1967	23	Feb-10	\$10,435	\$12.22	
Lakeside Hideaway	Bonita Springs	2007	36	Feb-10	\$78,500	\$18.76	
The Waterways	Orlando	1988	360	Feb-10	\$16,944	\$20.41	
Valencia Apartments	Tampa	1974	132	Feb-10	\$14,636		
Madison Oaks**	Palm Harbor	1988	199	Feb-10	\$54,271	\$40.79	
28 Unit Apartment	Fort Myers		46	Feb-10	\$15,761	\$17.51	9.00%
Mystic Point	Orlando	1995	373	Feb-10	\$23,056	\$18.17	
Pinecrest Apartments	Sarasota	1978	39	Feb-10	\$52,179	\$52.18	
Venue Apartments	Orlando	2005	306	Jan-10	\$86,601	\$80.29	6.50%
1836 Villa Drive	Clearwater	1989	32	Jan-10	\$60,938	\$49.87	
Park Place	St. Petersburg	1955	23	Jan-10	\$16,522	\$25.45	
Lincoln Shores	St. Petersburg	1984	631	Jan-10	\$38,352	\$51.09	10.70%
Waterscape	Ft. Walton Beach	2008	339	Jan-10	\$69,378	\$57.10	
Wellington Apartments	Deland	1966	24	Jan-10	\$30,833	\$50.68	8.57%
Riley Chase	North Port	2000	312	Jan-10	\$26,282	\$28.48	10.05%
Ambassador	St. Petersburg	1969	40	Jan-10	\$34,250	\$41.63	
Bay Isle Key**	St. Petersburg	1997	510	Jan-10	\$63,725	\$65.76	
Minimum		1955	20		\$10,435	\$5.59	3.50%
Maximum		2008	631		\$111,333	\$97.72	15.04%
Average		1987	182		\$43,664	\$42.44	7.79%
Median		1986	164		\$32,800	\$33.69	7.07%

*—Student Housing

**—Fractured Condo Conversion

Sources: Costar, CBRE, Franklin Street Financial Advisors, NAI Realvest and Beshears & Associates

