



How smart investors think about real estate

Supply & Demand Outlook

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PortReal
Supply & Demand Outlook Report
Analysis by Remarc, LLC
2nd quarter 2007

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How to use this report

This Supply Demand Outlook Report provides localized insight about housing demand. We use the following techniques:

(1) Demand analysis: We evaluate new office construction projects. We use new office space as a proxy for new jobs creation. We calculate disparities in supply and demand by comparing the rate of new office space creation to the rate of new housing supply (new apartment construction). As described in the Methodology section, there is a consistent relationship between new housing construction and new office space construction. Temporary disparities in the ratio represent opportunities to buy or sell by the investor.

(2) Pricing analysis: We evaluate rent per square foot in various submarkets across the metropolitan area. Higher rents are associated with higher priced investment properties in areas generally perceived as desirable living options.

Some tips to help you read the maps and charts.

Maps feature loops that designate areas of focus. These loops are color-coded:

- Blue means “favorable”
- Red means “unfavorable” or “less favorable”

Apartment supply and demand are represented visually by variably-sized circles. Larger circles indicate larger numbers (greater number of units of estimated housing demand). Again, these are color coded:

- Green means potential demand for new housing
- Red means oversupply of housing relative to local employment opportunities

The Projects Table shows major new office construction projects planned for this metropolitan area in the next few years. Using proprietary estimates, we translate new office construction projects into housing demand, expressed in apartment units. These will be some blend of one-bedroom, two-bedroom, and three-bedroom units. The estimates should be used to assess **relative** demand between submarkets rather than as an absolute indicator of housing demand.

The charts showing rent per square foot use color-coded dots to indicate price variation across a metropolitan area. These numbers do not account for differences in amenities, features, size, or regional attractions of the apartment units. However, they will help investors and planners form a bird’s-eye view of the variability in pricing across the metropolitan area. Comparing pricing and the supply/demand maps may reveal opportunities for new construction at certain price points.



Benefits

We expect users to benefit from our analysis in the following ways:

- **Market selection:** Identify localities in a metropolitan market that may be underserved compared to demand projections.
- **Risk evaluation:** Identify markets that may have housing overcapacity compared to other areas in the market.
- **Market insight:** By understanding supply/demand trends, pricing, and how new office construction may affect local development, the user may identify new investment opportunities.

Sources of data

The Supply & Demand Outlook Reports are an exclusive service of PortReal, LLC, with analysis provided by Remarc, LLC. The data used in the analysis is adapted from various public and commercial sources. We believe these data to be accurate, but have not performed an independent verification.

In all cases, the data have inherent limitations, largely due to the nature of using large sets of data collected over extended periods of time to draw conclusions that are specific in time or circumstance. We apply proprietary methods to convert data sources into common and consistent formats. We have made best efforts to normalize data for consistency and to permit 'apples to apples' comparisons.



Executive Summary

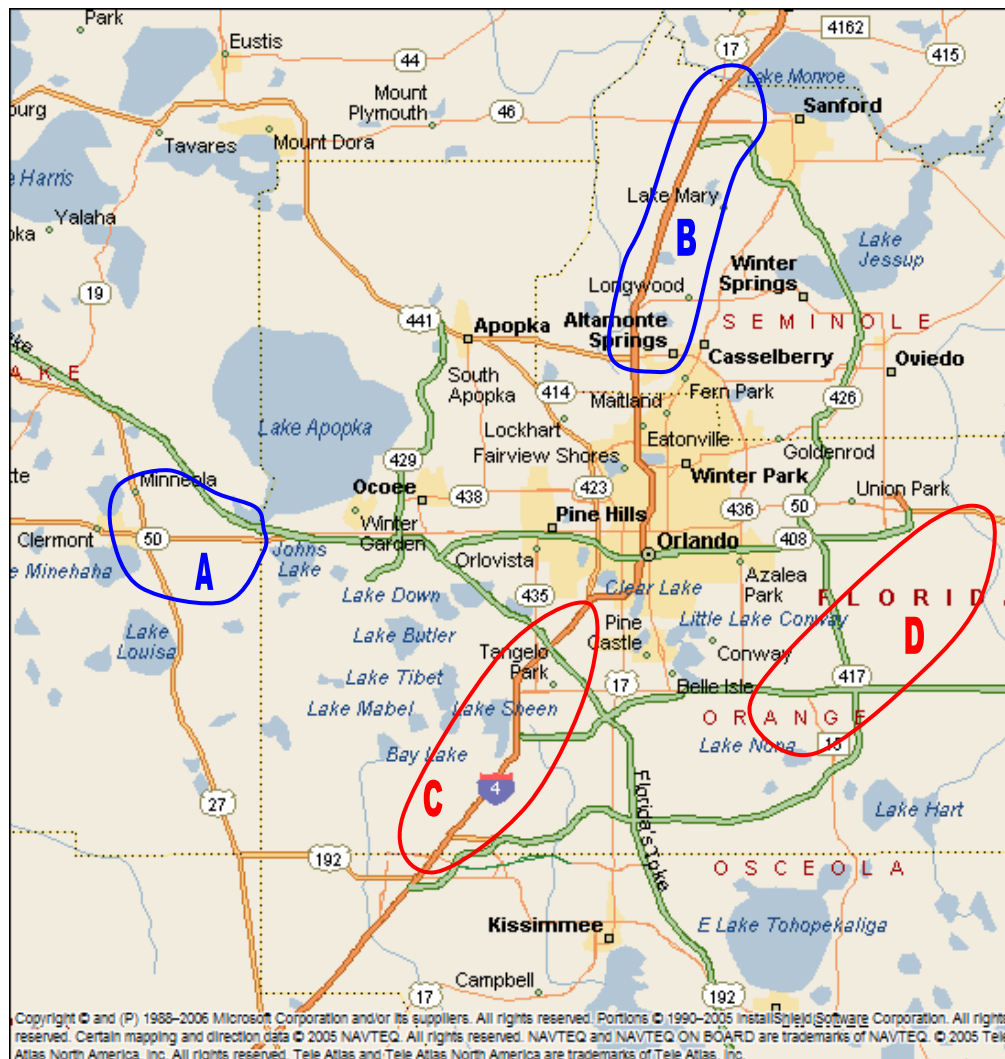
Investors would do well to exercise caution when seeking residential rental investment opportunities in the Orlando area. The supply and demand outlook is most favorable in areas notated on the map below as A and B. Supply & demand dynamics are likely to be least favorable in the areas notated as C and D.

Favorable areas

- A Clermont/Minneola area
- B I-4 corridor from Lake Monroe to Altamonte Springs

Less Favorable areas

- C I4 corridor, from Florida Turnpike to Route 192
- D Intersection of highways 417 and 528 and vicinity



Regions defined for Orlando area

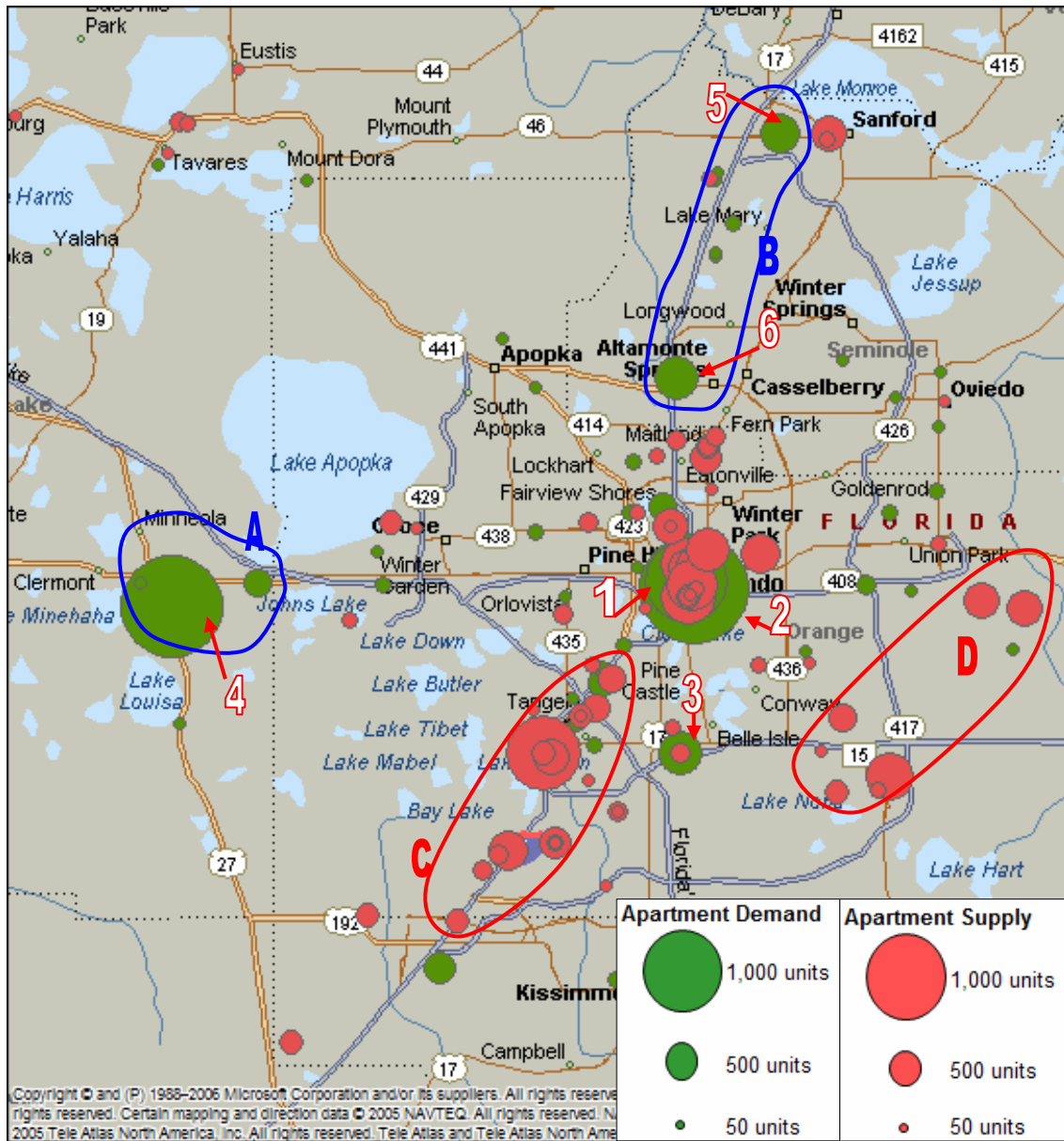
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Supply and Demand

A stable relationship exists between office space and apartment units (see Methodology section). Using planned office space development to estimate rental apartment demand, we project that rent growth, which translates to value appreciation, is likely to be above-average in areas A and B due to employment increases outpacing new rental apartment supply. Rent growth in areas C and D are likely to under-perform due to increased rental apartment supply coupled with little employment growth.

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Supply (new apartment construction) and demand (new office space construction), Orlando area

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Demand by Development Project

Major office construction projects are summarized below. The project numbers, in red, correspond to the numbers on the Supply and Demand chart in the previous section. Apartment Demand is the projection of new apartment units (of various sizes) required to meet the demand from households employed by new jobs represented by the planned office construction projects. Target Completion is expressed in terms of month and year, when available.

	<u>Project</u>	<u>Developer</u>	<u>Apartment Demand</u>	<u>Target Completion</u>
1	400 N. Orange	Palm Beach Land Trust	833 ¹	TBD
2	Sky City Orlando Mixed Use	Sky Development Group	953 ²	Aug-10
3	Colonial Town Park	Colonial Properties Trust	555	TBD
4	Lost Lake Professional Village	Westshore Development	926	Nov-07
5	North Park Commerce Center	McDonald Development	545	TBD
6	Centerpointe on the Park	Emerson International	561 ³	TBD

¹ Four phases, each with 225,000 SF are planned. A four-year build-out is assumed and two years of prorated space (450,000 SF) is used to derive apartment demand.

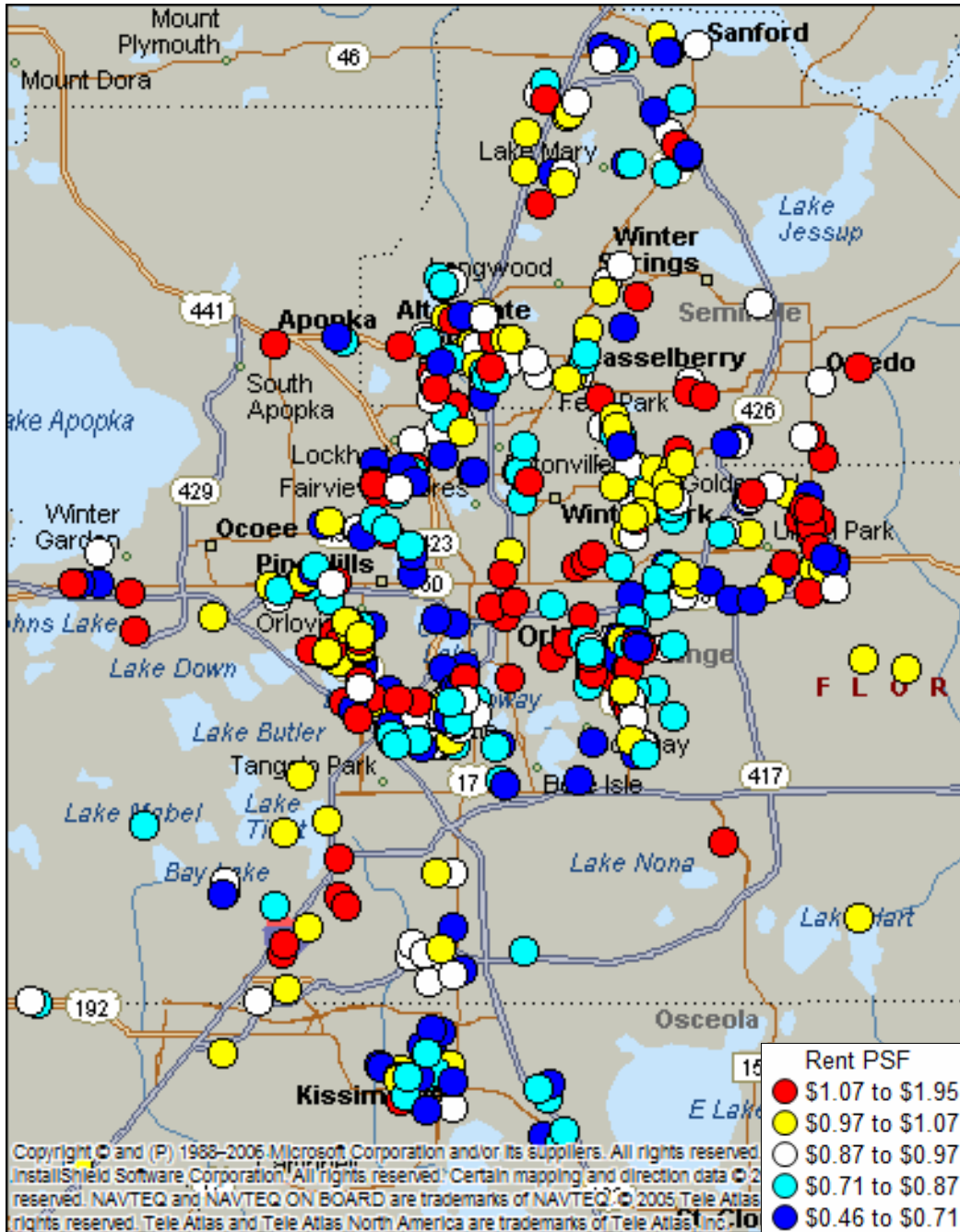
² Sky Tower I is planned as a 25-story, Class A office property containing 515,000 square feet of leasable space. The 35-story Sky Tower II will be comprised of a 350-room hotel beneath 120 luxury residential units. A total of 46,500 square feet of ground-floor retail is also planned.

³ Five years is assumed for the remaining build-out (phases 3-6) and two years of prorated space (303,200 SF) is used to derive apartment demand.



Regional rents

Relative to other metropolitan areas, Orlando's rents appear evenly dispersed. Rents in Kissimmee are generally lower than average. There are relatively fewer low rent properties in the Northeast / Winter Park quadrant.



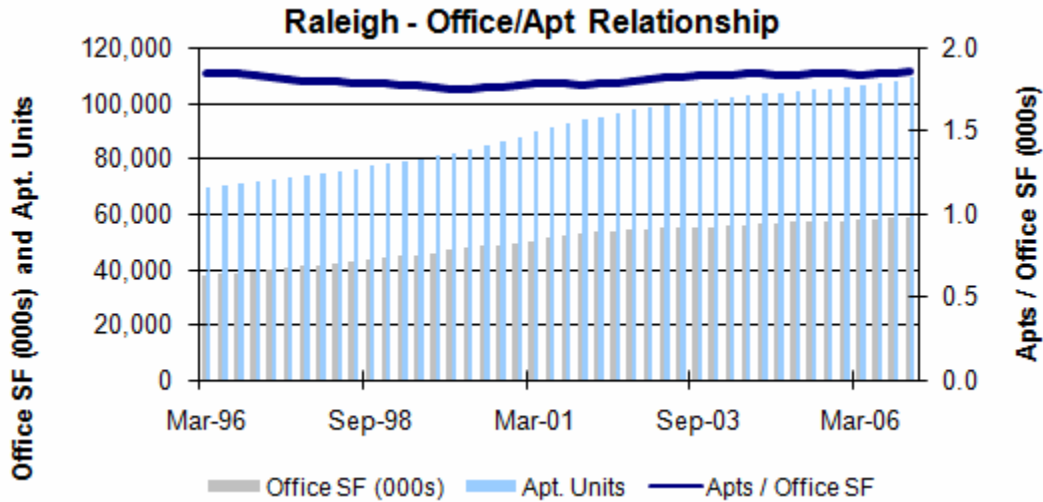
Rent per square foot, Orlando area

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Methodology

Development of new employment centers, especially office space, increases demand for apartment units. We have found that there is a consistent relationship between the amount of apartment units and office space in metropolitan area. For illustration, the relationship between office space and housing is shown for the Raleigh market below:



Source: Data from PPR.

In our methodology, we plot office sites that are under construction or in the planning process onto a map using green marker symbols. The size of these symbols corresponds to the respective amounts of projected incremental apartment unit demand. These projections are derived from the amount of planned office space using ratios derived as shown in the chart above. Large green markers indicate submarkets where apartment demand is likely to be high.

Likewise, we plot apartment sites that are under construction or in planning. We use red marker symbols to identify these projects. The size of the markers corresponds to the amount of planned new apartment units for each project.¹

To summarize: an area showing a red marker and a green marker of equal size would indicate that supply and demand are roughly in balance in that particular locality. Areas with significantly more and larger green markers than red markers indicate potential demand, and therefore potential investment opportunity.

¹ Due to the housing market correction, particularly the substantial decline in condominium sales, many planned condominium projects are being recast as apartment rental communities. Additionally, historical norms are for roughly 30% of condominiums to be rented out by individual investors. For these reasons, planned condominium projects are treated the same as planned rental apartment projects in this analysis.

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