Survey of Emerging Market Conditions

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For more information about the survey or the Bergstrom Center for Real Estate Studies, visit our website at www.realestate.ufl.edu.

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Executive Summary & Conclusions

Like the graying skies over Florida, tainted by drought-driven brush fires, the mood for Florida real estate has grown more somber since January. Perhaps the implications of the sub-prime “meltdown” are creating a disquieting haze; perhaps anxiety over property taxes and high insurance rates are shrouding Florida’s otherwise sunny outlook. In any case there are few signs of improvement in Florida’s real estate markets since the first Quarter, and some signs of weakening, though the basics of rental property markets are perceived to remain healthy.

Prominent Findings

- There remains a significant difference between the assessment of single family markets and condominium markets, with the latter in notably more stressed condition, and absorption of single family viewed as continuing to move toward stability.
- Price changes for new single family and condo, on average, are not expected to keep up with inflation, but they are not expected to decline.
- While rental markets have lost some of their luster from the first quarter, they are reported to remain, on average, stable and healthy.
- Cap rates and yields remain extremely stable, despite the turbulence of the associated property markets.
- The outlook for respondents’ own business has declined further.

The Survey

Our quarterly survey, conducted by the Bergstrom Center for Real Estate Studies, Warrington College of Business Administration, University of Florida, is in its seventh fielding. The total number of participants, at 306, is the most extensive survey of Florida real estate professionals conducted on an ongoing basis. It includes respondents representing thirteen urban regions of the state and up to fifteen property types.

Single Family & Condominium Development

The markets of broadest concern are single family and condominium residences. One ray of optimism is in the outlook for single family absorption, where our survey respondents reported a significant stabilizing trend last quarter and a modest continued improvement this quarter. However, expectations for condo absorption, after a significant stabilizing last quarter, have shown further deterioration. Expectations for price changes in new residences also lost ground, with the average expectation for price increases below the rate of inflation (but not for actual declines).

Perhaps most importantly, the outlook for investment in residential development weakened slightly after a notable improvement during the previous two quarters. Still, for single family development the outlook is quite mixed, perhaps reflecting regional variation within Florida. The outlook for condo development remains poor, and weakening.

Apartments

Apartments constitute the second most important real estate market. Our survey respondents depict apartment markets as stable. For market rent apartments respondents see no change in occupancy rates, and rents just keeping up with inflation. With apartments in condo conversion respondents have become more pessimistic in the last quarter, expecting rents to lag inflation. These views translate to a mixed outlook for investment. While the outlook for investment in market rent apartments remains
fairly positive (though slightly down from last quarter), the outlook for investment in condo conversion projects remains slightly negative (though improved from last quarter).

**Industrial**

Markets for industrial properties (warehouse and distribution, flex space and office-warehouse) are regarded as generally solid, but the views have weakened slightly. Respondents still expect occupancy rates to improve, but their optimism has diminished notably since first quarter. Rental rates are expected to keep up with inflation, though confidence in that expectation also has weakened slightly. Despite these somewhat fading expectations, the outlook for investment in industrial property remains mixed but unchanged.

**Office Markets**

Views on markets for office properties are less sanguine than in first quarter, but still positive. Expectation for occupancy still favors increases, but just barely. Rental rates are expected to keep up with inflation, though the expectation has weakened slightly since January. Finally, the outlook for investment in office properties is mixed, and has taken a downward turn after a three quarter trend of improvement.

**Retail**

Views on retail markets have been the most stable of any property type from the first quarter. As before, the expectation is for no change in occupancy. Rental rates for all retail property types are expected to keep up with inflation, which is a slight improvement in the case of strip centers and large retail. The outlook for retail investment remains mixed, but better than it was in late 2006.

**Land Investment**

The outlook for investment in undeveloped land has changed little since late 2006, remaining generally mixed. However, there is some variation, with the weakest outlook still for unentitled land and land with residential entitlements. The strongest (still mixed) outlook is for office/retail and for warehouse. In between are land for urban renewal and land entitled for hospitality.

**Cap Rates & Yields**

A remarkably stable aspect of real estate markets is reported cap rates and yields. While cap rates vary across property types from under 6 percent for condo conversions to 10 percent and higher for hospitality, there has been remarkably little change within property types for the last six quarters. This is despite a substantial change in market conditions over that time.

**Own Business Outlook**

A particularly sobering result from our respondents is the assessment of their own business outlook. From the inception of our survey in August of 2005 this own business outlook has steadily declined. It stabilized from the last quarter of 2006 to first quarter of 2007. However, it took a decided step downward again in the current quarter.
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Introduction

The Survey of Emerging Market Conditions targets the experienced leadership of Florida’s real estate development and investment community to gain insights and market intelligence on matters of fundamental importance to real estate practitioners and policy-makers across Florida. A full report, including comments from respondents and analysis of specific geographic markets, will be available online in early June at www.realestate.ufl.edu.

Methodology

This Survey is the only Florida-centered survey of leaders and professional advisors in the real estate industry. It analyzes prospective data to produce extensive forecasting information pertinent to 37 of the state’s 67 counties. The survey is administered by the Bergstrom Center for Real Estate Studies at the University of Florida.

With the highly fragmented nature of real estate, no survey can encompass all aspects of the real estate industry. To face this challenge, our Survey employs a quarterly sounding from multiple groups of market leaders and professional groups advising them.

Respondents

Our respondent group boasts some of the most impressive credentials in the industry. Members of the 140-member UF Real Estate Advisory Board are some of our most prominent and valuable resources, providing years of experience and unparalleled success in every geographic area of Florida, and in every market type. Other participants include members of the Florida Chapter of the CCIM (Certified Commercial Investment Member) Institute, Society of Industrial and Office Realtors© (SIOR), Appraisal Institute Chapter X, and leadership from the International Council of Shopping Centers (ICSC).

Scope

Like virtually all surveys of investment real estate markets, this survey gathers opinion. Thus, it distills complex judgments, and amounts to a carefully controlled and structured conversation with truly qualified real estate experts. The survey asks questions carefully designed to avoid ambiguities, a major problem in collecting complex information.

The Survey of Emerging Market Conditions screens respondents at two levels of refinement to assure truly expert opinions. First, only persons with established real estate credentials are invited to participate. Second, each respondent is asked to respond only for those localities and property types where he or she is an active expert.

The result is that all the data collected can be regarded as authoritative, no matter how small the sample of responses for a property type-locality “cell.” (We maintain a minimum of at least four respondents for any market cell to guard against response mistakes.) In short, even data from the least actively covered markets that we report have value as an additional expert opinion. In the more actively reported market cells, our data represent an extraordinary consensus of the experts.

Survey results are anecdotal findings about required returns and investment objectives of owners and investors contemplating acquisitions or deciding about the timing of dispositions. Therefore the survey is a measure of current and prospective market perceptions, including the confidence levels exhibited by leading real estate professionals and market participants. In other words, the
Survey of Emerging Market Conditions is a report of anticipated returns, business outlook and other forecasting views, rather than an analysis of actual or historical performance. The most valuable benefit for many may be interpretation of survey results over time to better comprehend market trends and shifts.

**About the Bergstrom Center**

For more than 30 years, the Bergstrom Center for Real Estate Studies at the University of Florida has been cultivating synergy between research, academics, students, and industry leaders who drive the real estate marketplace. The Bergstrom Center supports the UF real estate courses and degree programs housed in the Warrington College of Business Administration’s Department of Finance, Insurance, and Real Estate.
Section 1: Residential Development

Overview

For single family absorption, our survey respondents reported a significant stabilizing trend last quarter and a modest continued improvement this quarter. However, expectations for condo absorption, after a significant stabilizing last quarter, have shown further deterioration. Expectations for price changes in new residences also lost ground, with the average expectation for price increases below the rate of inflation (but not for actual declines). Perhaps most importantly, the outlook for investment in residential development weakened slightly after a notable improvement during the previous two quarters. Still, for single family development the outlook is quite mixed, perhaps reflecting regional variation within Florida. The outlook for condo development remains poor, and weakening.

Expected Absorption Rates

Following a notable improvement in the previous quarter, the outlook for residential absorption rates continues to progress upward toward an expectation of no change. After consistent expectations of declining rates from the second quarter of 2006 to the fourth quarter of 2006, it appears that the dramatically improved outlook from the prior period has begun to level off as a return to neutral expectations appears to be occurring. Not surprisingly, expectations for condo absorption rates are more pessimistic than for single family, and have edged downward.

Expected Price Changes

The expectation for new residence prices, however, appears to be weakening somewhat. Following what appeared to be a notable move toward stability in the previous quarter, expectations have once again begun to settle for increases lagging inflation. Once again, the outlook for condo prices is more pessimistic than for single family.
Investment Outlook

Following the considerable upturn that occurred from the third quarter of 2006 to the first quarter of 2007, the outlook for investment in residential development appears to be declining once again. As a result, it appears that it is a mixed time to buy, with indications that the outlook may further decline. Again, the outlook for condo development is less optimistic than for single family.
Section 2: Apartments

Overview
Our survey respondents depict apartment markets as stable. For market rent apartments respondents see no change in occupancy rates, and rents just keeping up with inflation. With apartments in condo conversion respondents have become more pessimistic in the last quarter, expecting rents to lag inflation. These views translate to a mixed outlook for investment. While the outlook for investment in market rent apartments remains fairly positive (though slightly down from last quarter), the outlook for investment in condo conversion projects remains slightly negative (though improved from last quarter).

Expected Occupancy
While their average expectation remains on the side of rising occupancy for market rent apartments and condo conversions, our respondents appear to be settling towards expectations of no change. Expectations in both markets appear to be moving away from the optimism expressed during the previous quarter.

Expected Rental Rates
Expectations for apartment rental rates in Florida have experienced a decline over the past quarter. For apartments considered to be potential condo conversions, expectations of rental rates have experienced a dramatic decrease during the second quarter of 2007 and are expected to increase at less than the rate of inflation. Expectations have also declined for market rate apartments, though the growth in rental rates still is expected to rise at the rate of inflation.
Investment Outlook

The outlook for apartment investment had been mixed throughout 2006 but improved dramatically in the first quarter of 2007. While the outlook for investment in market rate apartments appears to have settled, the outlook for potential condo conversions is continuing to rebound from its low in fourth quarter of 2006. Nonetheless, it still appears to be a mixed time to buy.
**Cap Rates**

Cap rates are particularly significant as an indicator of fundamental condition in real estate markets. The fact that apartment cap rates in Florida have remained at a relatively low level, with virtually no movement over the past quarter, signals that investors have remained steady in their confidence and risk perceptions of apartments during that time. Despite the relative stability that has been witnessed over the past few quarters, our respondents’ expectations still appear to indicate an increase in the future.
**Required Yields**

Required yields for condo conversions have understandably run higher than for market rent apartments. However, required yields for both types of apartments appear to have leveled off over the last quarter, experiencing relatively no change during this time period. Despite apparent stability over the past quarter, expectations are for yields to increase in the future for condo conversions.
Section 3: Industrial

Overview
Markets for industrial properties (warehouse and distribution, flex space and office-warehouse) are regarded as generally solid, but the views have weakened slightly. Respondents still expect occupancy rates to improve, but their optimism has diminished notably since first quarter. Rental rates are expected to keep up with inflation, though confidence in that expectation also has weakened slightly. Despite these somewhat fading expectations, the outlook for investment in industrial property remains mixed but unchanged.

Expected Occupancy
The expectation for industrial occupancy has significantly declined over the last quarter. There appears to have been a dramatic movement away from the optimism of the first quarter of 2007 and subsequently towards more neutral expectations of no change.

Expected Rental Rates
Expectations for rental rates appear to be reverting back towards a neutral outlook. For both types of properties the expectation is for rental rate growth to rise at or close to the rate of inflation.
**Investment Outlook**

Contrary to the indications of the previous quarter, it appears that expectations for investment in industrial property have decreased. The outlook for investment in industrial property types has declined during the second quarter of 2007. As a result, it appears that our respondents believe that it is currently a mixed time to buy.
Cap Rates

Over the last six quarters, actual cap rates for industrial properties have remained relatively stable. However, expectations over the same period have not been as consistent. The volatility of expectations in 2006 appears to have stabilized over the first two quarters of 2007, where the outlook leans slightly toward a positive change.

Current Cap Rates - Industrial

Expected Change in Cap Rates - Industrial
**Yields**

The trends in required yields for warehouse and distribution as well as Flex, R & D and office-warehouse, appear to be relatively stable over the past six quarters, though there has been some slight volatility during this time period. While the expectation for yields changed notably in the last two quarters, declining from strongly expected increases to expected stability, this quarter’s results indicate a potential upward movement towards future increases.
Section 4: Office

Overview
Views on markets for office properties are less sanguine than in first quarter, but still positive. Expectation for occupancy still favors increases, but just barely. Rental rates are expected to keep up with inflation, though the expectation has weakened slightly since January. Finally, the outlook for investment in office properties is mixed, and has taken a downward turn after a three quarter trend of improvement.

Expected Occupancy
While occupancy expectations for office properties have been consistently positive over the past six quarters, there has been a significant decrease from the fourth quarter of 2006 to the second quarter of 2007. Optimism seems to be wavering as it appears that expectations are quickly approaching neutral territory.

Expected Rental Rates
Expectations for office rental rates have continued their decline from the fourth quarter of 2006 to the second quarter of 2007. It appears that the expectation is for rental rate growth to rise at or close to the rate of inflation, in contrast to the previous quarter’s indication that rates would continue to rise at a rate higher than inflation.
Investment Outlook

It appears that the outlook for investment in offices has been scaled back as well from those predictions of just a quarter ago. The solid positive expectations for investment that were apparent over the prior three quarters, appear to have begun a reversion back to neutrality. As a result, it appears that it is currently a mixed time to buy.
**Cap Rates**

Over the past six quarters, actual cap rates for offices have remained relatively stable. While expectations have not been as free of volatility over this same period, the past three quarters seem to indicate a more stable picture. From the fourth quarter of 2006 through the second quarter of 2007, expectations have shown a slightly increasing trend.

![Current Cap Rates - Office](chart1.png)

![Expected Change in Cap Rates - Office](chart2.png)

**Yields**

While perceptions of required yields for offices have shown some volatility throughout 2006, there appears to be more stability thus far in 2007. As might be expected, Class B yields are
slightly higher than those of Class A, reflecting more perceived risk in Class B. Expectations of changes in the required yield have not been as volatile, but rather appear to exhibit a decreasing trend over the past six quarters, gravitating toward a neutral outlook for the future.
Section 5: Retail

Overview
Views on retail markets have been the most stable of any property type from the first quarter. As before, the expectation is for no change in occupancy. Rental rates for all retail property types are expected to keep up with inflation, which is a slight improvement in the case of strip centers and large retail. The outlook for retail investment remains mixed, but better than it was in late 2006.

Expected Occupancy
For all four types of retail — large centers, neighborhood centers, strip centers and free standing — the outlook for occupancy has been fairly volatile. However, it appears that over the past quarter the outlook for each type of retail is settling towards an expectation of no change in occupancy.

![Outlook for Occupancy: Retail](chart)

Expected Rental Rates
While expected rental rates for retail had been mixed throughout 2006, it appears that there has been a consistent upward trend in each of the four retail types over the past three quarters. In the last quarter of 2006, expectations of increases declined to below the rate of inflation for all property types. However, they appear to have rebounded for all property types in both quarters of 2007 and indicate that rental rates are now expected to rise at the rate of inflation.
Outlook for Rental Rates - Retail

Outlook for Investment: Retail

**Investment Outlook**

Despite the optimistic rebound that occurred in the second half of 2006, the investment outlook on all four types of retail appears to be reverting towards neutrality. As a result, it appears that it is currently a mixed time to buy.
**Cap Rates**

Through three quarters of 2006, perceptions were that all retail cap rates would increase. However, actual cap rates have remained virtually flat throughout the year and into the second quarter of 2007. Following a decline of expectations from fourth quarter 2004 through the first quarter of 2007, this latest results indicate that expectations are once again moving toward an increase in cap rates.
**Yields**

Though required retail yields have been volatile over the past six quarters, they have generally arrived at a level similar to several other property types, around ten percent. Expectations of yield changes have been just as volatile over this same time period and presently are indicating trend toward an increase in the future.
Section 6: Outlook for Investment in Undeveloped Land

Overview
The outlook for investment in undeveloped land has changed little since late 2006, remaining generally mixed. However, there is some variation, with the weakest outlook still for unentitled land and land with residential entitlements. The strongest (still mixed) outlook is for office/retail and for warehouse. In between are land for urban renewal and land entitled for hospitality.

Land without Entitlements or with Residential Entitlements
The outlook for investment in land without entitlements or with residential entitlements appears to have declined from favorable to somewhat unfavorable over 2006. Despite indication of an improved outlook in the first quarter of 2007, the present quarter’s results signal that a downward trend may resume.

Land with Office or Retail Entitlements
While the outlook for investment in land with office or retail entitlements remained positive and steady throughout 2006, it appears that it has experienced some volatility in the first two quarters of 2007. In addition, the second quarter 2007 results indicate that optimism may be scaled back in favor of a mixed investment outlook.

Land with Hospitality Entitlements
Views on the outlook for land with hospitality entitlements have been consistently mixed over the past six quarters. It appears that the present quarter’s results reinforce the fact that the investment outlook will remain largely neutral.

Land with Entitlements for Warehouse or R & D
While the outlook on land with entitlements for warehouse or R&D has consistently been positive over the past six quarters, it appears that there has been a decline towards neutrality over the past quarter.
**Land for Urban Renewal**

The outlook for investment in land for urban renewal declined over 2006 from a positive to neutral expectation. While expectations improved slightly in the first quarter of 2007, second quarter results indicate a return to neutrality.

![Graph showing outlook for investment in land: Hospitality, Industrial, Urban Renewal](chart)

- **Bad Time To Buy**
- **Mixed Time To Buy**
- **Good Time To Buy**

Legend:
- Blue: Land With Hospitality Entitlements
- Pink: With Warehouse/R & D Entitlements
- Yellow: For Urban Renewal
Section 7: Business and Capital Availability Outlook

Capital Availability

While there appears to have been some volatility over the past six quarters in the expectations of capital availability, it appears that the overall outlook remains for no change.

[Diagram showing capital availability over time with expecting increase, no change, and decrease categories for development and acquisitions]

Outlook of Own Business

The survey respondents’ perception of their own business’ outlook has continued to decline over the past six quarters, experiencing a significant decrease in the latest quarter.

[Diagram showing own business outlook over time with a downward trend]
Section 8: Dominant Investors

Respondents indicated which of five investor groups they perceived to be the most active for their types of property. For ten of 15 property types, private investors were the most dominant. The exceptions included large retail and neighborhood retail centers, market rent apartments, warehouse and distribution, and Class A offices. REITs were perceived to be the most active in the two retail categories previously mentioned, as well as in warehouse and distribution. Institutional investors played a large part in Class A offices and were also notable in the other four categories not dominated by private investors. Foreign investment was perceived to remain limited.
Section 9: Characteristics of Survey Respondents

Profession of Respondents

In the latest survey, nearly sixty percent of the 306 respondents reported being an appraiser, half with designations of MAI, SREA or SRPA. The next largest groups, representing about fifteen percent and ten percent of respondents respectively, were brokers and consultants.

Markets of Familiarity

Each respondent selected up to four regional markets with which they are familiar. Altogether, in the latest survey these choices accumulated to 588 observations. Every region was represented by a minimum of 20 observers, with five of the regions having over sixty observers. The highest number of responses was for the Broward market with 80 representatives. The lowest were Gainesville and Palm Beach with 20.
**Property Types of Familiarity**

Each respondent selected up to three property types with which they were familiar. Altogether, 743 selections were made in the latest survey round. Single family development was selected by 116 respondents while condominium development was selected by 96. Nine property types were selected by at least 40 respondents, and four more had at least 20 respondents.
Section 10: Details of Cap Rates, Yields & Expected Changes

Table 1 summarizes survey respondents’ estimates of cap rates and yields for twelve property types over the last four quarters of the survey. In addition, it shows the distribution of expectations for changes in each reported cap rate and yield. For expectations, the table reports the percent of respondents expecting each cap rate and yield to either rise or fall in the future. Excluded is the percentage of respondents expecting no change. This third percentage can be computed as 100 less the two percentages reported. Since prior sections discuss the content of Table 1, further comment is not given here. The table is simply provided as a reference to facilitate application of the survey results.
## Survey of Emerging Market Conditions

### April 2007

#### Cap Rates

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<th>Apartments - Market Rental</th>
<th>Condo Conversion</th>
<th>Warehouse and Dist.</th>
<th>Flex Space, R &amp; D</th>
<th>Office: Class A</th>
<th>Office: Class B</th>
<th>Retail - Large</th>
<th>Neighborhood Centers</th>
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<th>Hospitality Business</th>
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<td>6.9%</td>
<td>7.8%</td>
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#### Yields

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