
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

The most important finding from the January round of our *Survey of Emerging Market Conditions* is that residential development may have bottomed out. Given the scale of the residential development market, this would be good news for all real estate markets and for Florida in general. Meanwhile, most other real estate markets are stable, if not improving, giving a sense that almost all is nearly well in the land. An exception may be condominium markets and apartments for condo conversion that continue to struggle, though they, too, are perceived to be improved.

In brief, leading observations include the following:

- Residential absorption rates are expected to stabilize for both single family development and condo development.
- Residential prices are expected to lag inflation, but fewer respondents look for actual declines than previously did.
- Investment in single family residential development is no longer regarded as clearly a poor prospect, though condo development, while improving, has further to go.
- All types of rental property except hospitality are viewed more favorably as investment opportunities than they were in the previous survey, and generally are viewed as positive opportunities.
- The outlook for respondents' own business, which has declined steadily in the last year, remained stable relative to the previous quarter.

The Survey

Our quarterly survey, conducted by the Bergstrom Center for Real Estate Studies, Warrington College of Business, University of Florida, is in its sixth fielding. Participation increased almost 75 percent in the January round, up to 318 participating real estate professionals, with an increasingly broad coverage of thirteen urban regions in the state and fifteen property types.

Results by Property Type

By property types, the markets perceived to be strongest include market rent apartments, industrial, and Class A office, but with most retail close behind. In raw land, land with industrial and commercial entitlements showed most favorably. Weakest were condominium development, apartments for condo conversion, land without entitlements and land with residential entitlements.

Occupancy and Rental Rates

The survey inquires about occupancy and rental growth rates for rental real estate. Across the board, respondents expect occupancy of rental real estate to remain stable or increase in the months ahead, with office and industrial expected to gain the most. The strongest prospects for rental rate growth also are in industrial and Class A office, with growth expected to exceed the rate of inflation. On the other hand, most retail, along with apartments for condo conversion is expected to have rental rate growth at rates below the rate of inflation.

Cap Rates and Yields

The survey monitors cap rates and yields for ten types of property. Despite the dramatic concerns over rental property costs due to the insurance crisis and rising property taxes, the survey finds no effect on cap rates or yields. By and large cap rates have remained very stable. This suggests that the concerns for operating costs, put into context, have not disrupted real estate markets to the extent some observers feared. Further comfort to real estate investors may come from the view of

respondents that required yields are, if anything, tending to decline. This further suggests that concerns about operating cost risk or other market risks are not dominating investor markets at this time.

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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 March 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 Department of Finance, Insurance, and Real Estate.

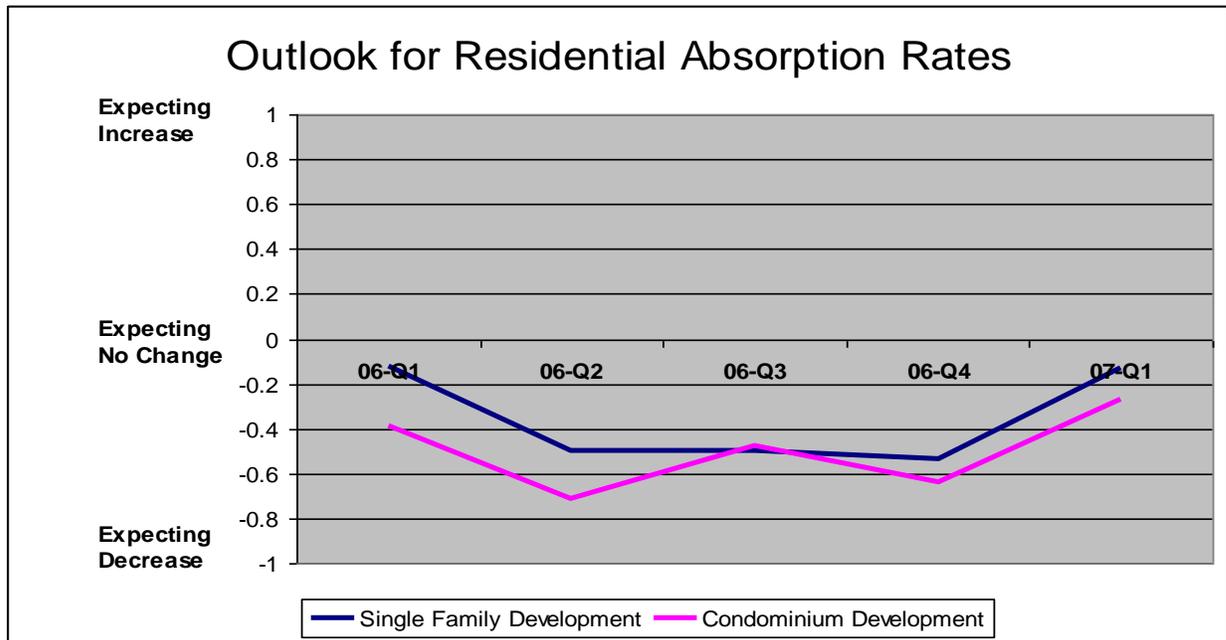
Section 1: Residential Development

Overview

The combination of signals for residential development in Florida suggest that the market may have bottomed out. Especially significant is a notable upturn in the outlook for investment in residential development, and other signals are in harmony with that perception.

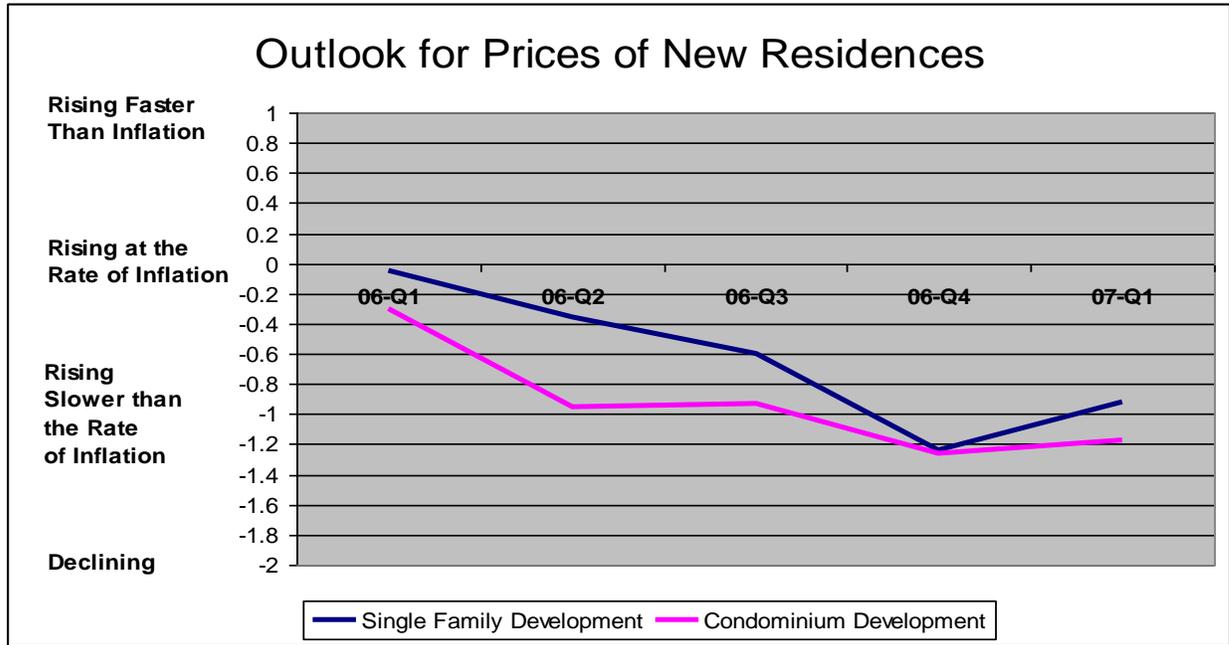
Expected Absorption Rates

The outlook for residential absorption rates has changed in a surprising manner in the last quarter. After a strong expectation of decline beginning in the second quarter of 2006, it suddenly has mitigated to an expectation of no change. While this may reflect a currently low level of absorption, it also may signal that the worst has occurred.



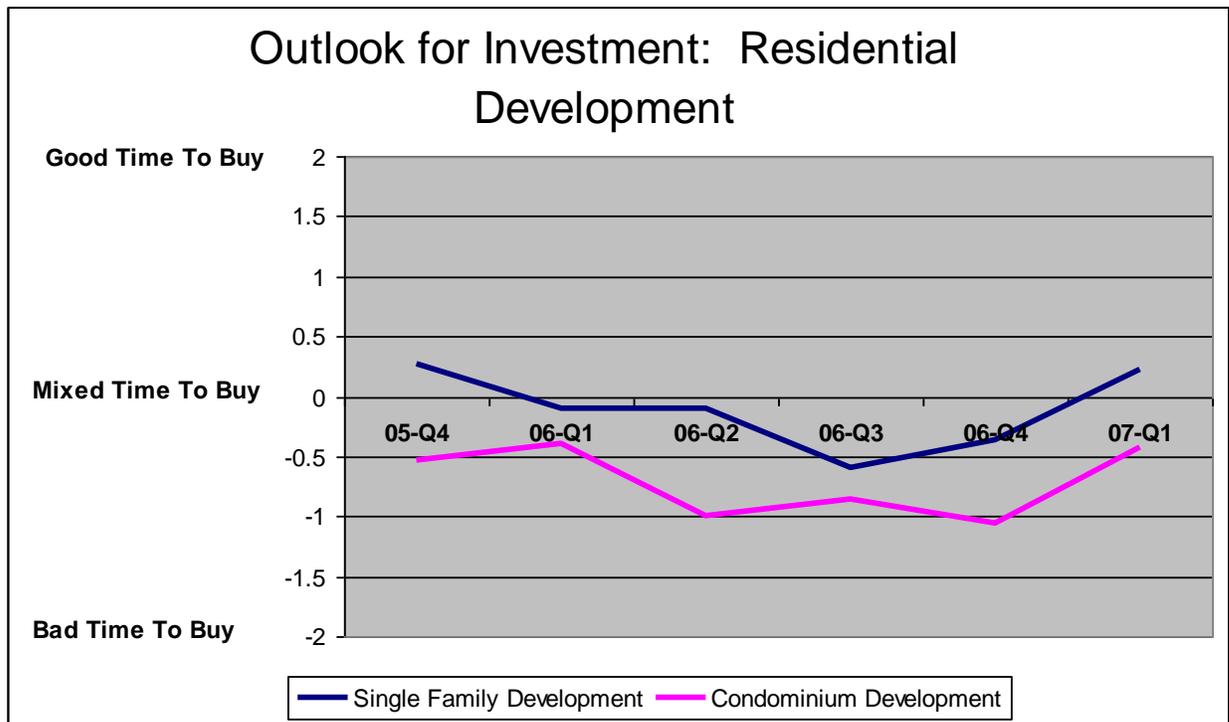
Expected Price Changes

The expectation for new residence prices may further signal a turn in residential development conditions. While expectations for future prices became quite negative through 2006, the expectations show a notable move toward stability since last quarter. Expectations are still quite negative, but have changed direction.



Investment Outlook

From a year ago the outlook for investment in residential development had declined for both market rent apartments and condo conversion candidates. The surprise this quarter is a notable upturn in the outlook for both types. While the assessment remains negative, on balance, for condo development, it is now on the side of positive for single family, though still fairly mixed.



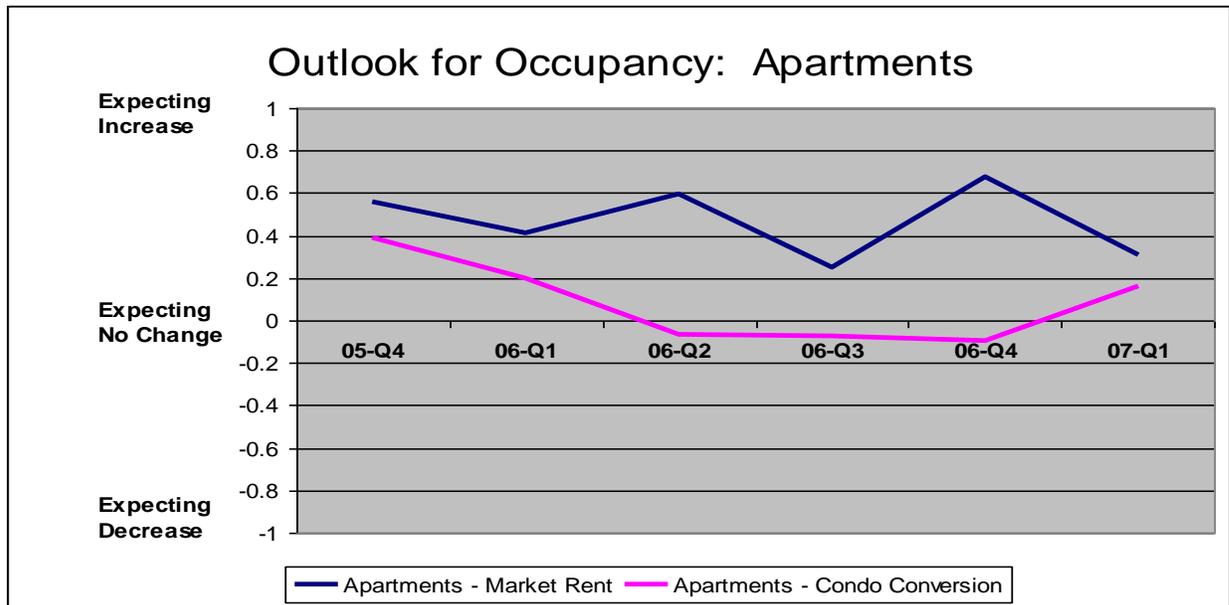
Section 2: Apartments

Overview

The various indicators reported below for apartment markets add up to stable and improving market conditions, particularly for the main stream of market rent apartments. The investment outlook has risen significantly in the last quarter for market rent apartments, though apartments for condo conversion remain questionable .

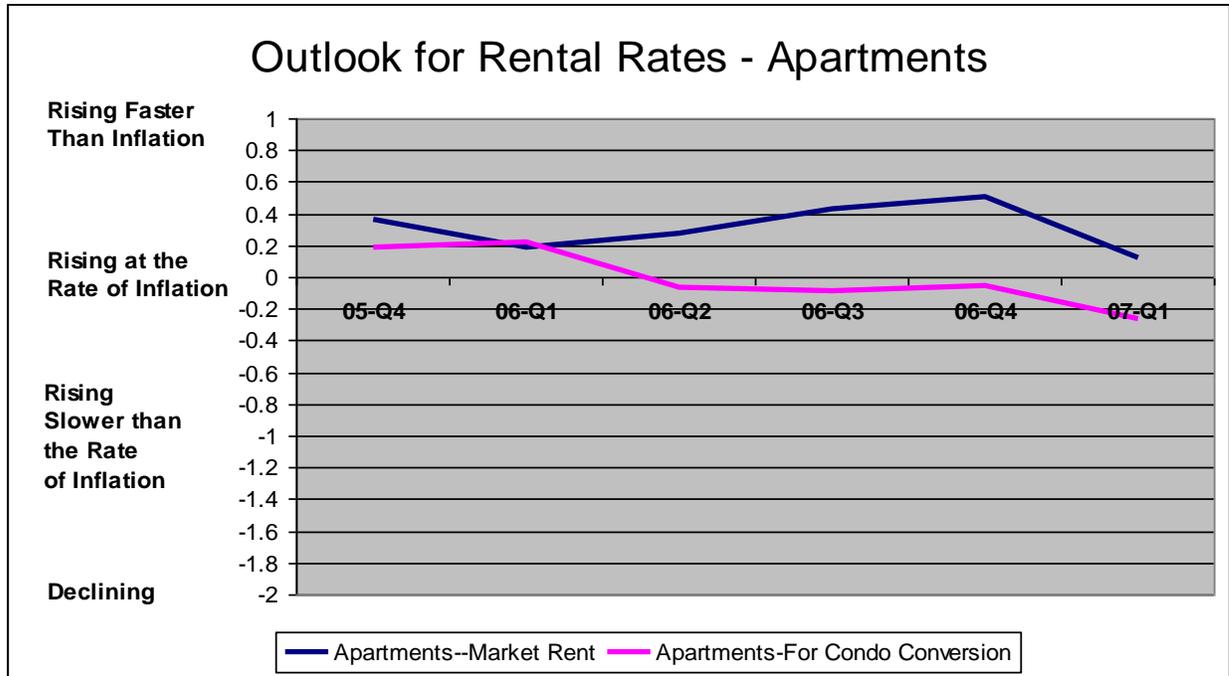
Expected Occupancy

In the outlook for apartment occupancy in Florida our respondents remain optimistic. While their average expectation is lower than last quarter, it remains on the side of rising occupancy for market rent apartments. Surprisingly, the expectation of our respondents for occupancy in apartments up for condo conversion has improved from last quarter, going cautious expectation of no change to a definite expectation of increases.



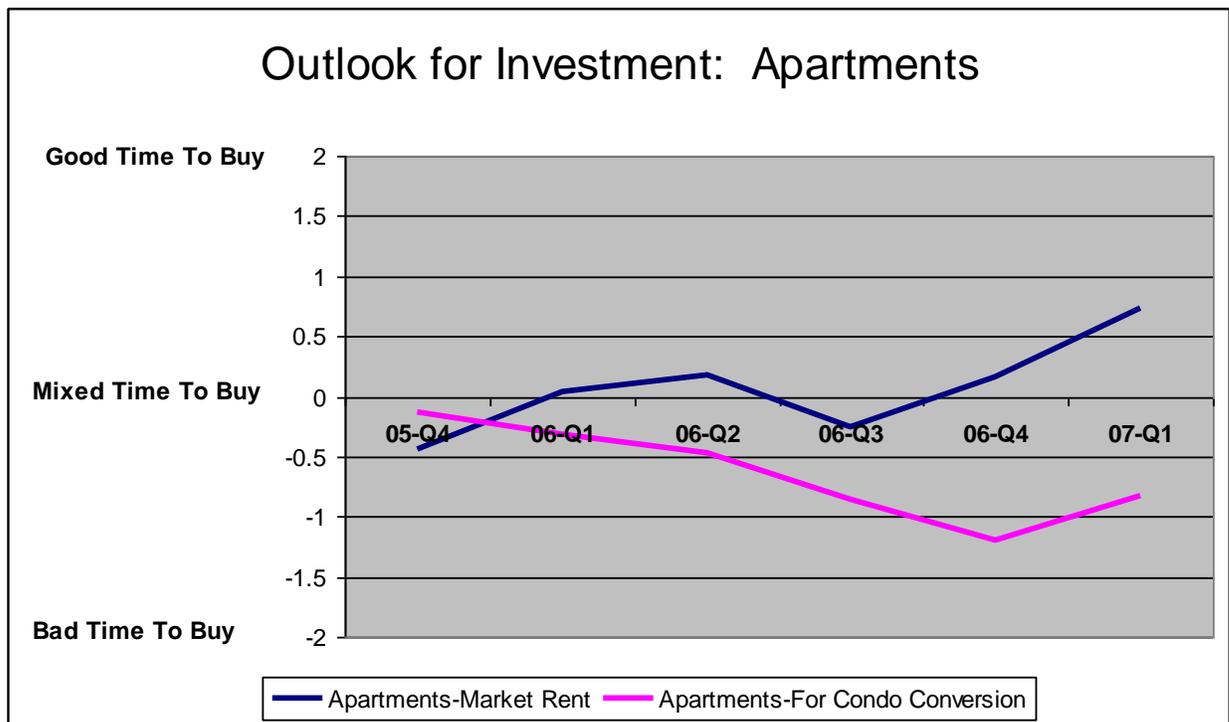
Expected Rental Rates

Expectations for apartment rental rates in Florida are mixed, and notably lower this quarter than last. For apartments considered to be potential condo conversions rental rates are expected to increase at less than the rate of inflation. On the other hand, while expectations have declined for market rate apartments, the growth in rental rates still is expected to exceed the rate of inflation. On the whole, if rental rate growth at the rate of inflation is the sign of a balanced and healthy market, then both types of apartments are close to that standard.



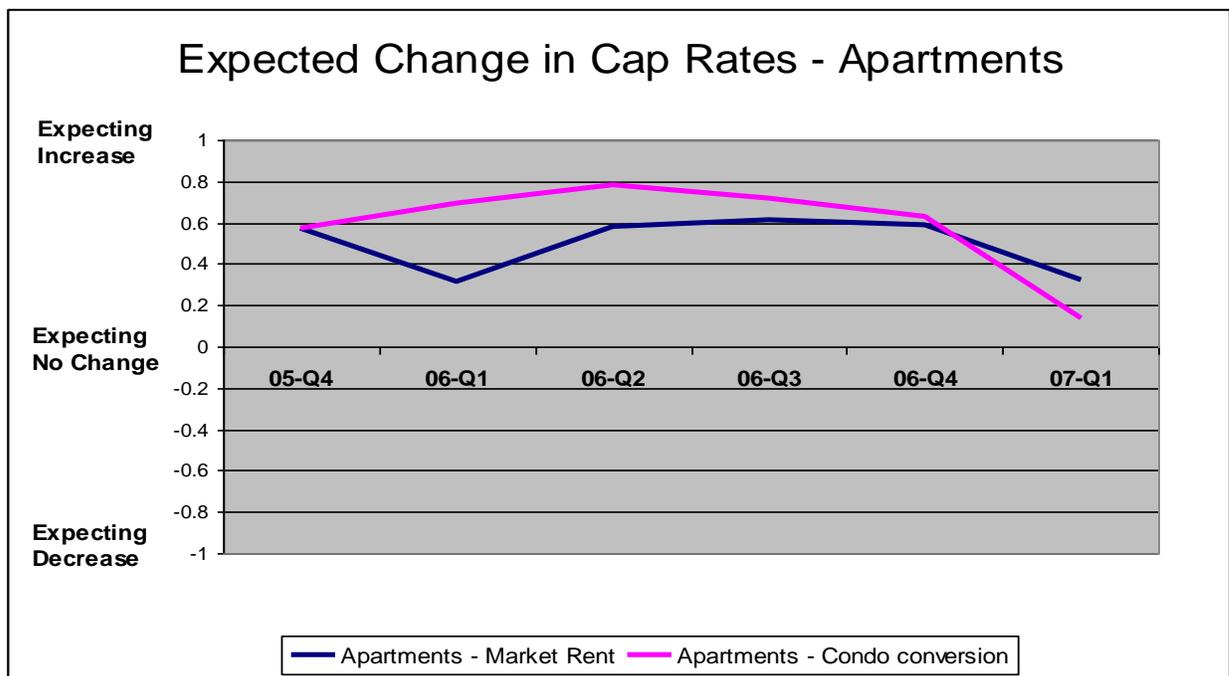
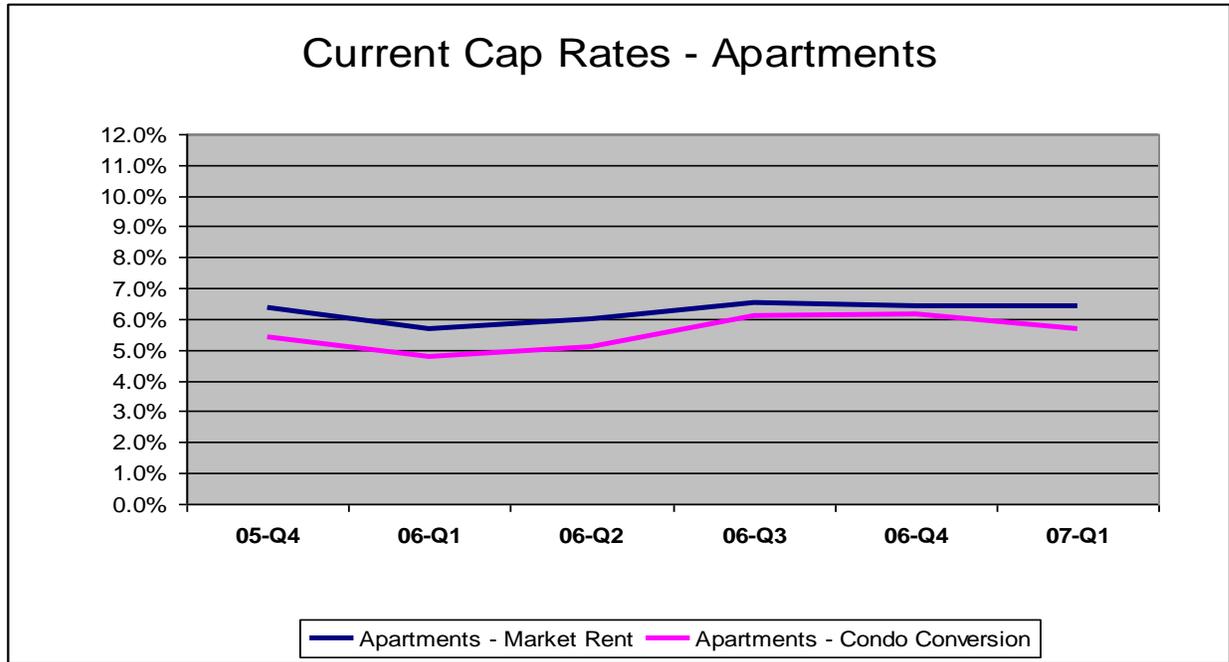
Investment Outlook

The outlook for apartment investment has been mixed throughout 2006 but has improved dramatically in the last quarter for market rent apartments. While the outlook for investment in potential condo conversions had rebounded from a low in fourth quarter of 2006, it remains questionable.



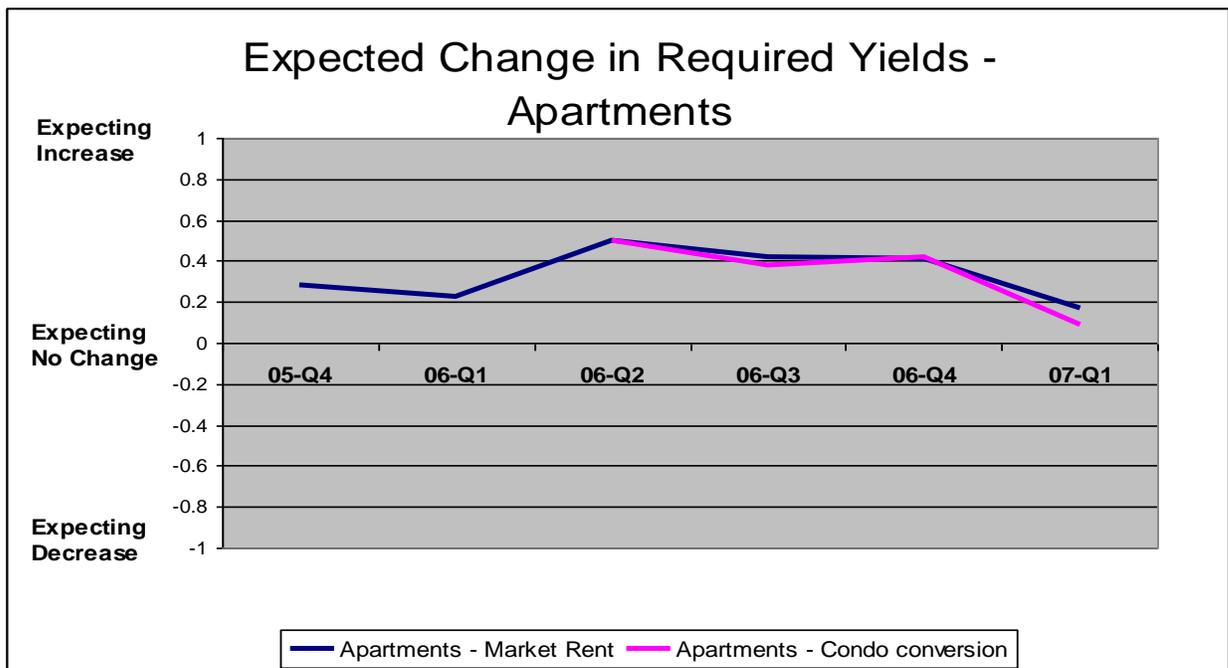
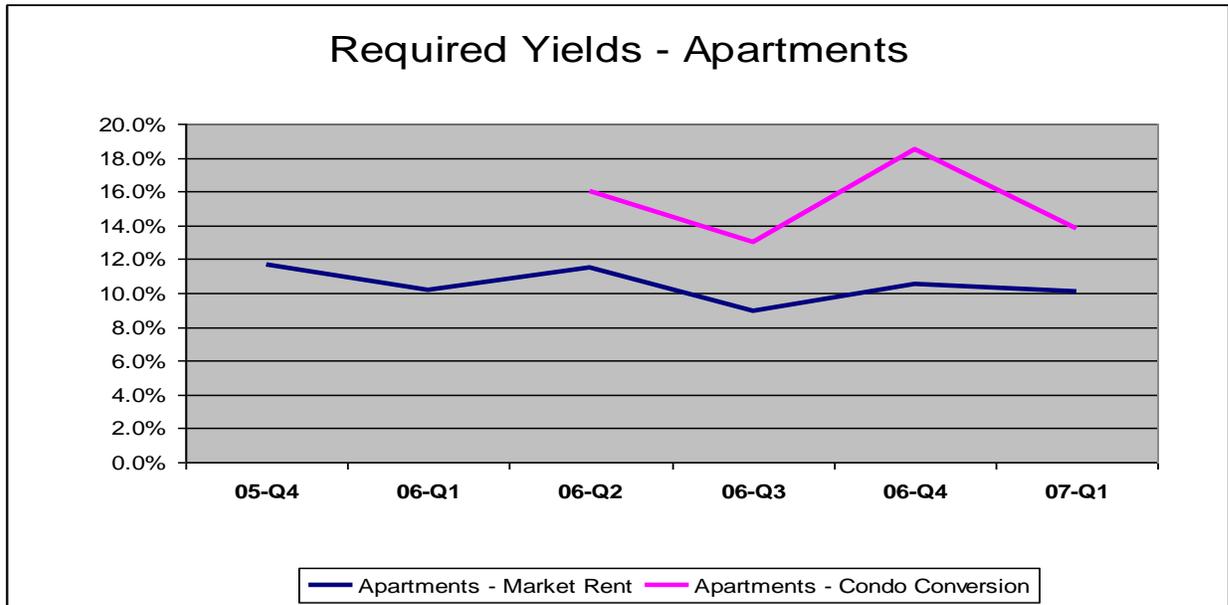
Cap Rates

Cap rates are particularly significant as an indicator of fundamental condition in real estate markets. The fact that apartment cap rates in Florida have continued relatively low, with no increase for two quarters, is a signal that investors have remained steady in their confidence and risk perceptions of apartments during that time. This is despite widely noted concerns about insurance costs. Further, expectations for the future have grown more optimistic in that concern about increases apartment cap rates has significantly faded.



Required Yields

Required yields for condo conversions have understandably run higher than for market rent apartments. Though required yields for both types of apartments have declined in the last quarter, the decline for potential condo conversions has been dramatic while the decline for market rent apartments has been slight. This suggests that the risks in condo conversion may be perceived as subsiding in the last three months. The perception of subsiding risk is further attested in the expectation of yield changes. From an outlook of rising yields the expectation has dropped noticeably to an expectation of no change in required yields.



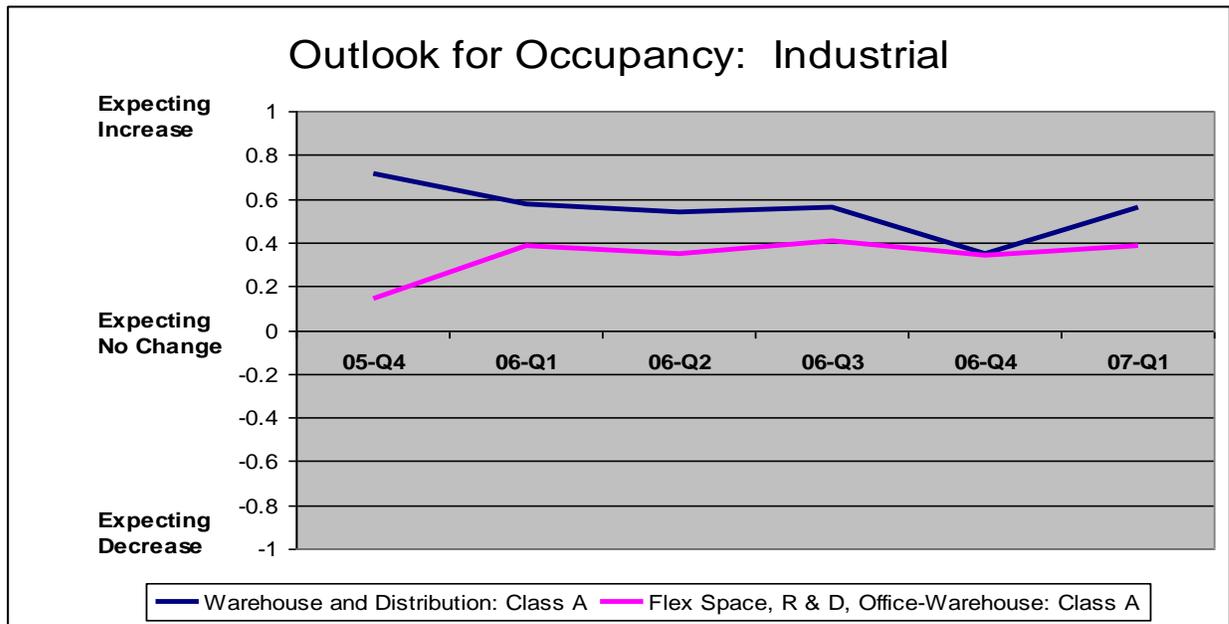
Section 3: Industrial

Overview

Industrial properties appear to be generally attractive at this time. They have exhibited very positive performance and stability in the last year, and are increasingly viewed as attractive for investment.

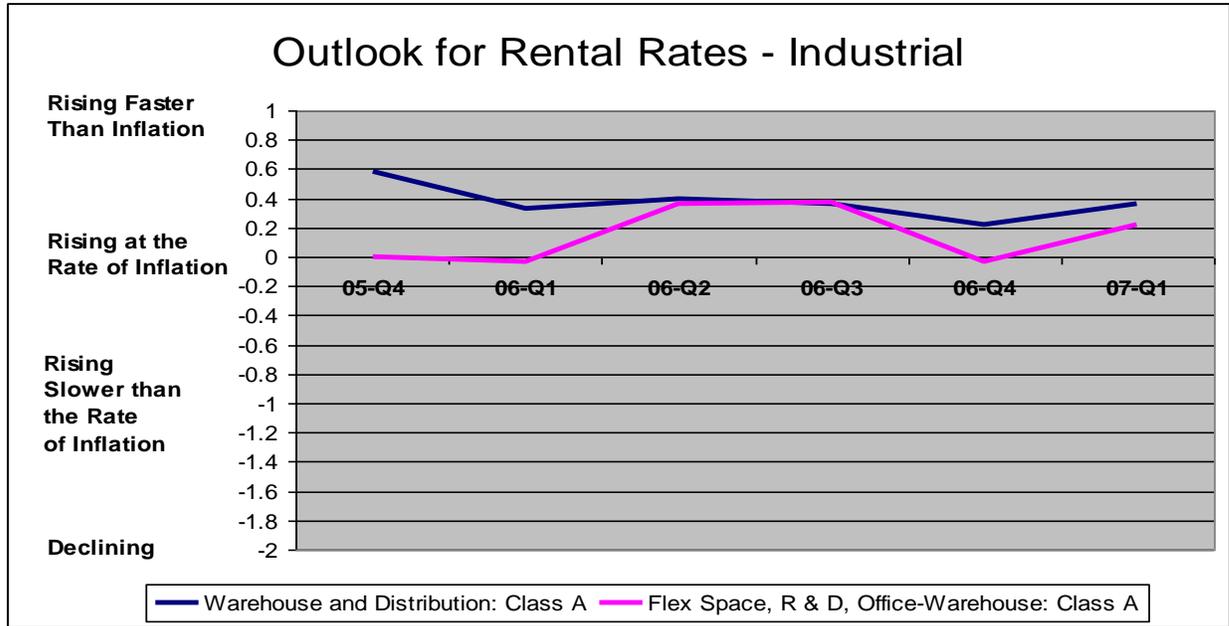
Expected Occupancy

The expectation for occupancy, after decreasing slightly in late 2006 has rebounded to quite positive. Expectations are strong for rising occupancy, particularly for warehouse and distribution properties.



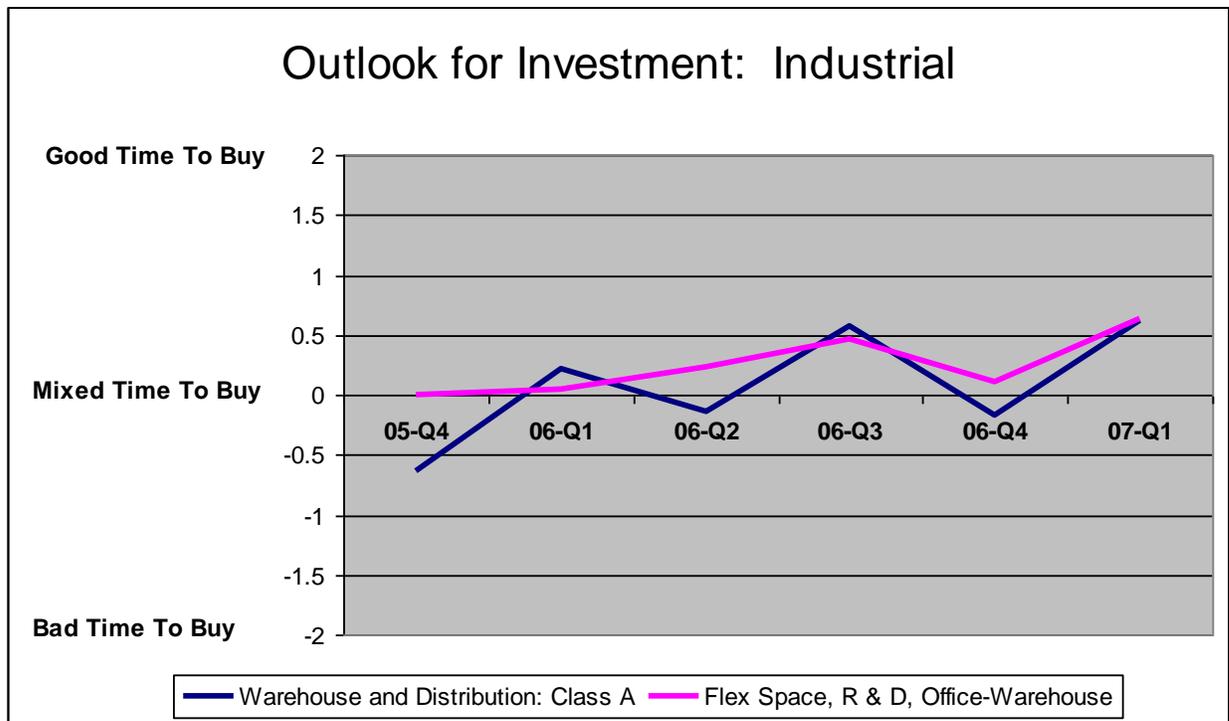
Expected Rental Rates

Expectations for rental rates also are indicative of a robust market. For both types of properties the expectation is for rental rate growth to exceed the rate of inflation, suggesting an active market.



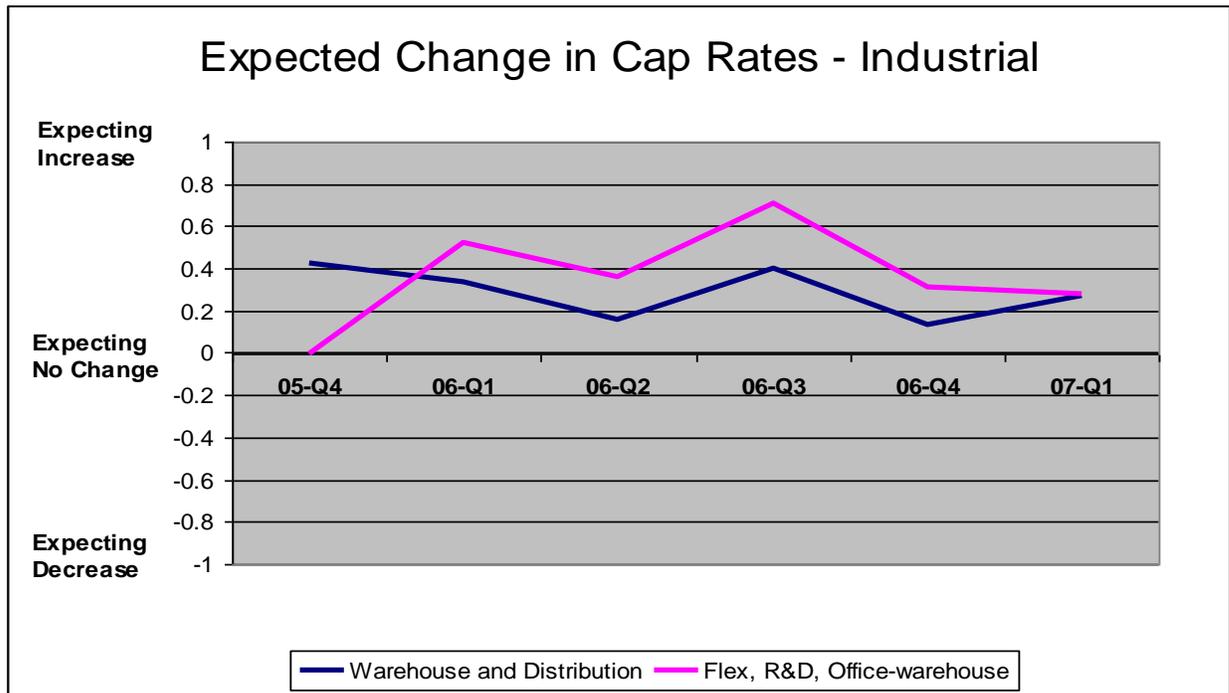
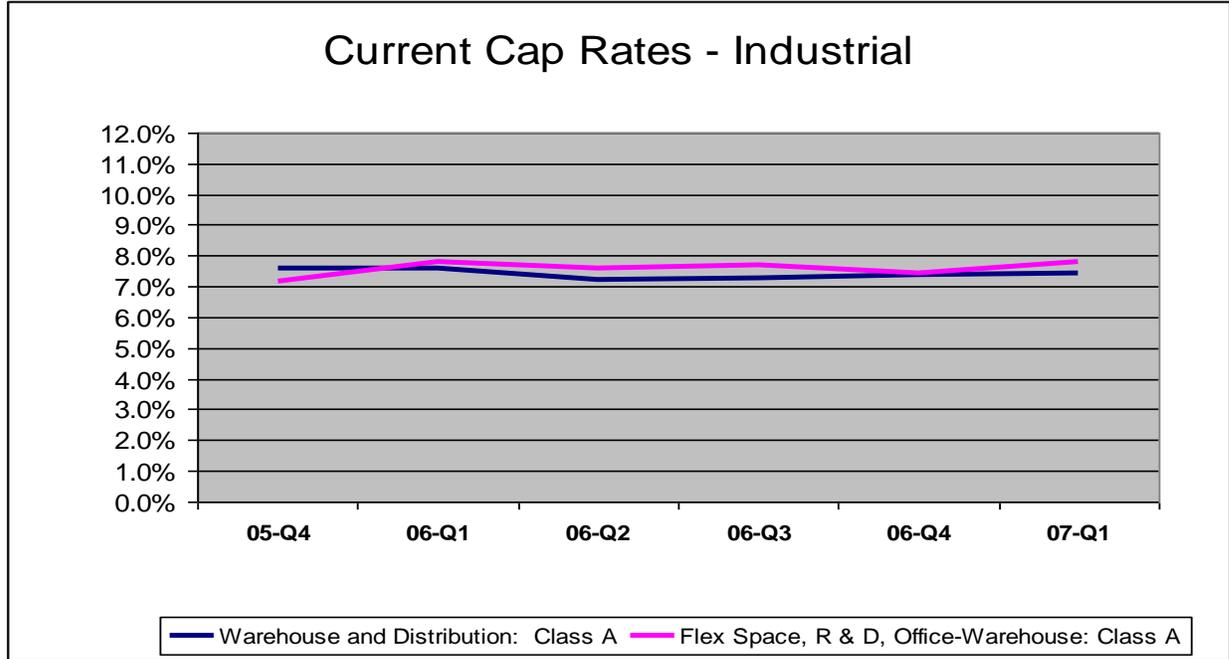
Investment Outlook

The outlook for investment in industrial property types rose through the first three quarters of 2006. After a decline in the last quarter of 2006, it resumed its upward movement. Given the solidly positive occupancy and rental rate expectations, it appears that industrial investment is promising. This is despite such cost issues as insurance and property taxes.



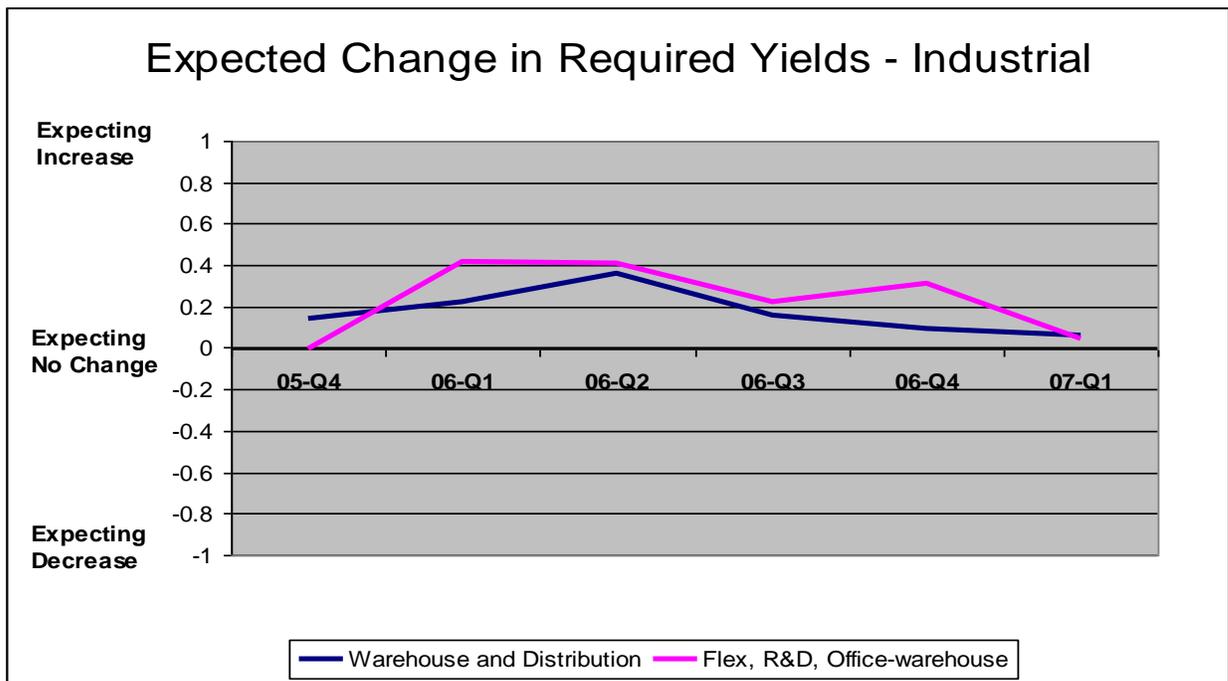
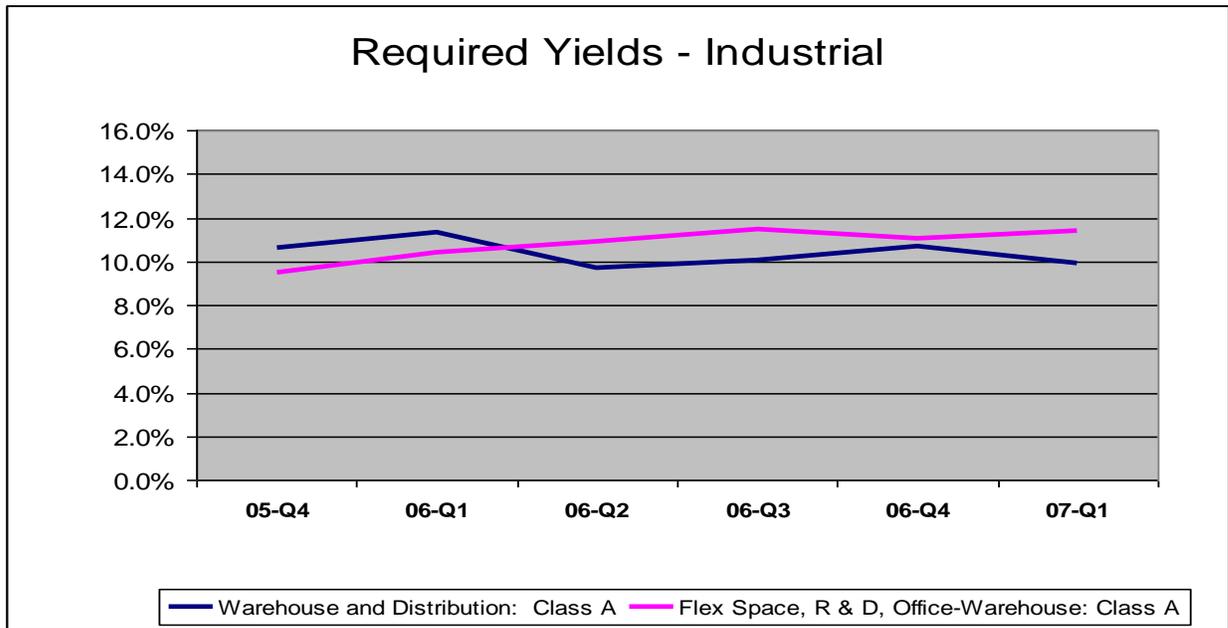
Cap Rates

Our respondents report an apparent dissonance between actual cap rates and expected cap rates for industrial property. While the actual cap rates are reported to remain remarkably unchanged over the last six quarters, expectations have persisted that cap rates will rise. The expectation of increases may have reflected a concern that market softness or additional insurance costs would emerge; the failure of cap rates to rise may reflect that neither threat has materialized.



Yields

The trends in required yields differ slightly between warehouse and distribution on one hand and Flex, R & D and office-warehouse on the other. Required yields for warehouse and distribution have had no trend over the last six quarters, though some variation has occurred. By contrast, yields for Flex, etc. are reported to rise slightly, but consistently over the last six quarters for a total increase of about 200 basis points. Meanwhile, the expectation for yields has changed notably in the last two quarters, declining from strongly expected increases to expected stability.



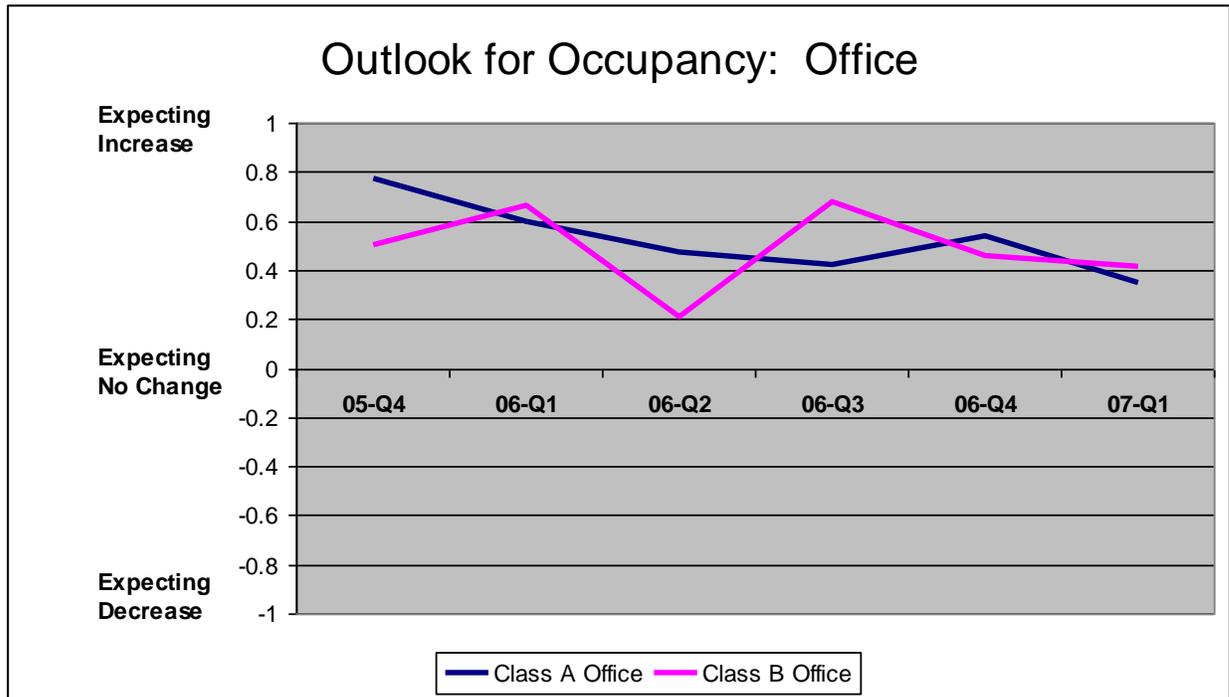
Section 4: Office

Overview

By most signals, office properties have been and continue to be regarded as a solid investment. Class A is viewed as slightly stronger at this time than Class B, but both are perceived positively.

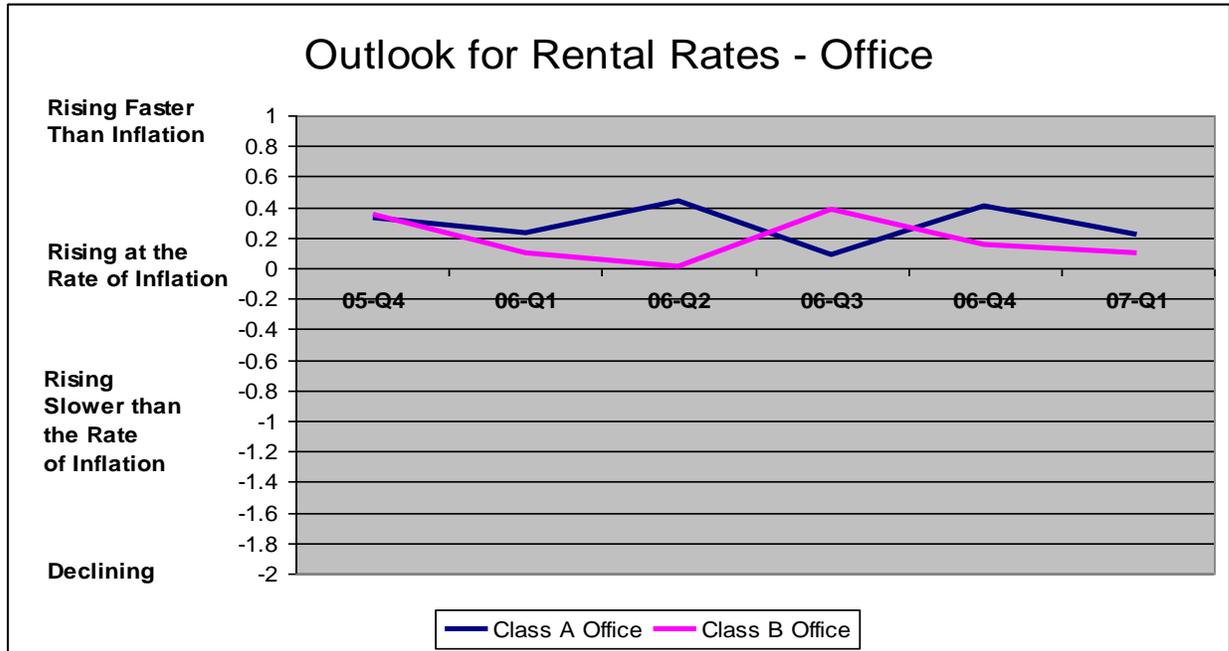
Expected Occupancy

Optimism is strong for office occupancy in Florida. While there have been differences between occupancy expectations of Class A and Class B, both are very positive. Despite a drift downward since third quarter of 2006 for both classes of offices, the optimism for both remains strong.



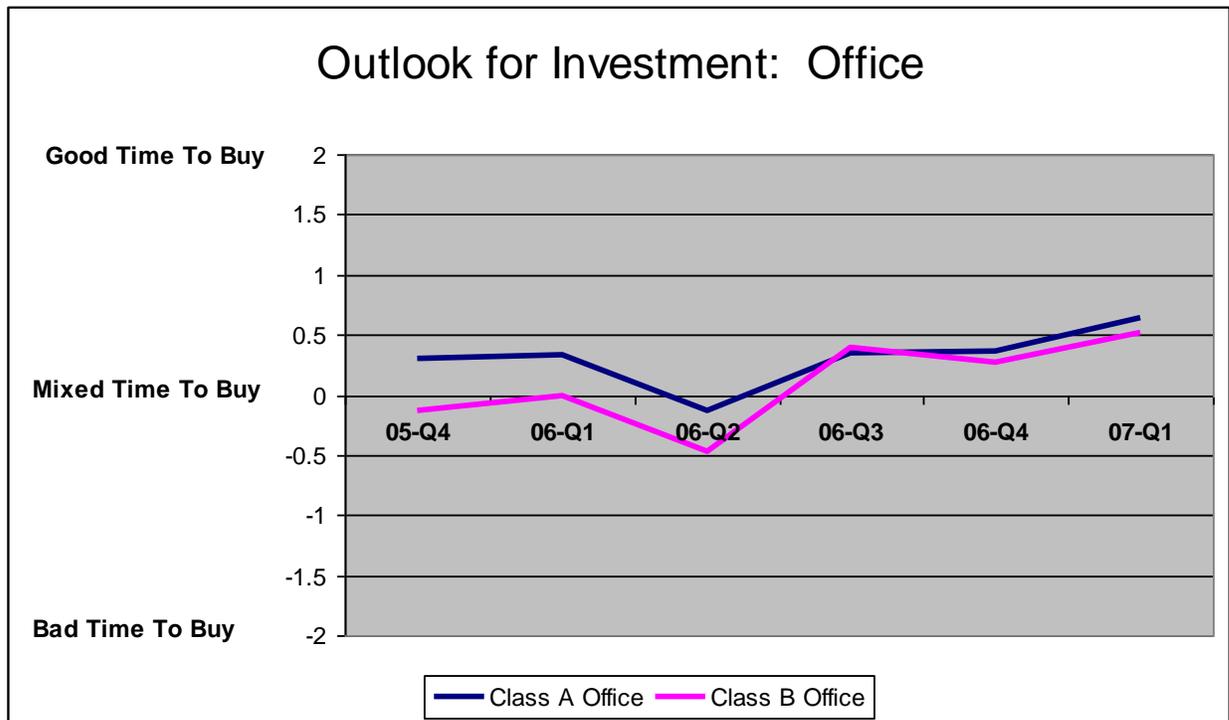
Expected Rental Rates

Expectations for office rental rates are consistent with expectations for occupancy. For both classes of offices expectations have been persistently for rental rate increases above the rate of inflation. While expectations for both classes of offices have been somewhat volatile over the last year, there has been no discernable trend in the outlook. It remains consistently positive.



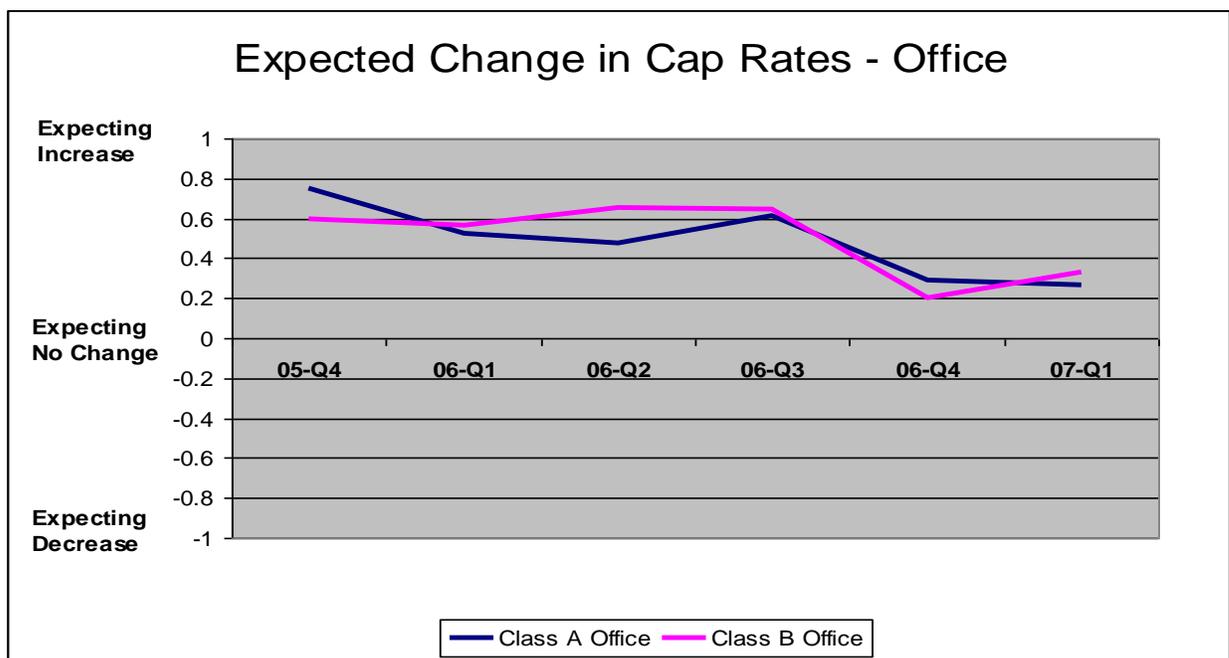
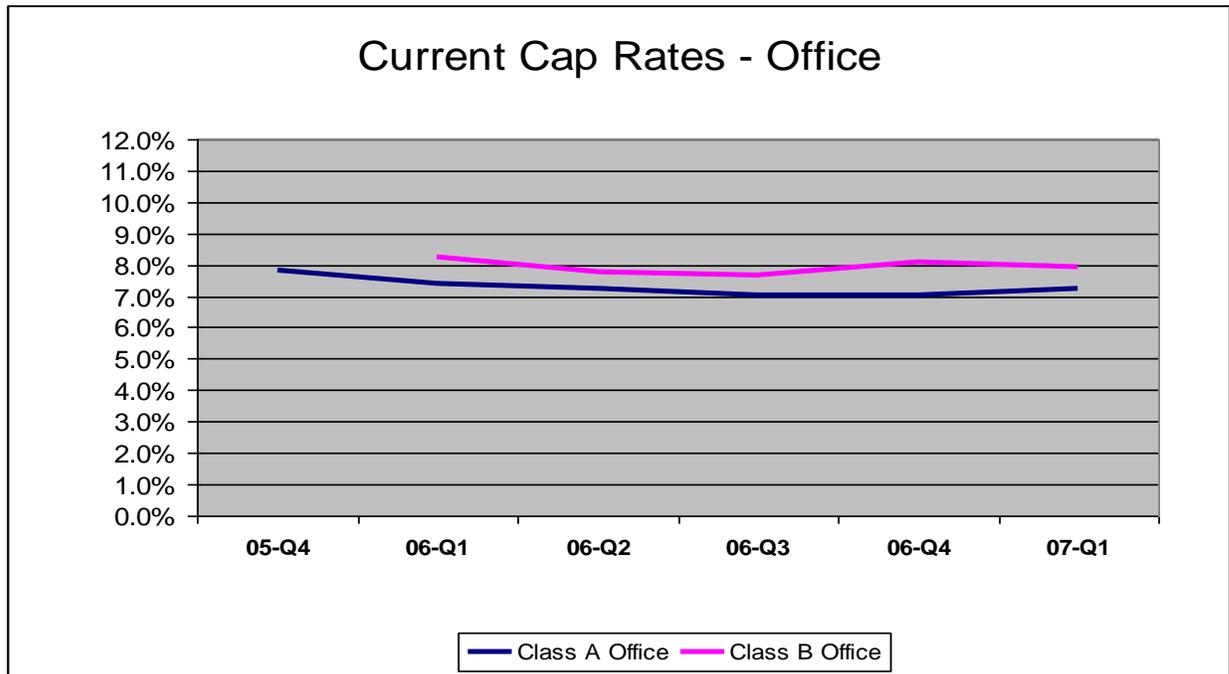
Investment Outlook

The solidly positive expectations for occupancy and rental rates have largely carried over into a positive investment outlook for offices. Both classes of office properties have been perceived in the last three quarters as good investment opportunities. While this perception dipped to the cautionary side in second quarter of 2006, it recovered and remained steady thereafter.



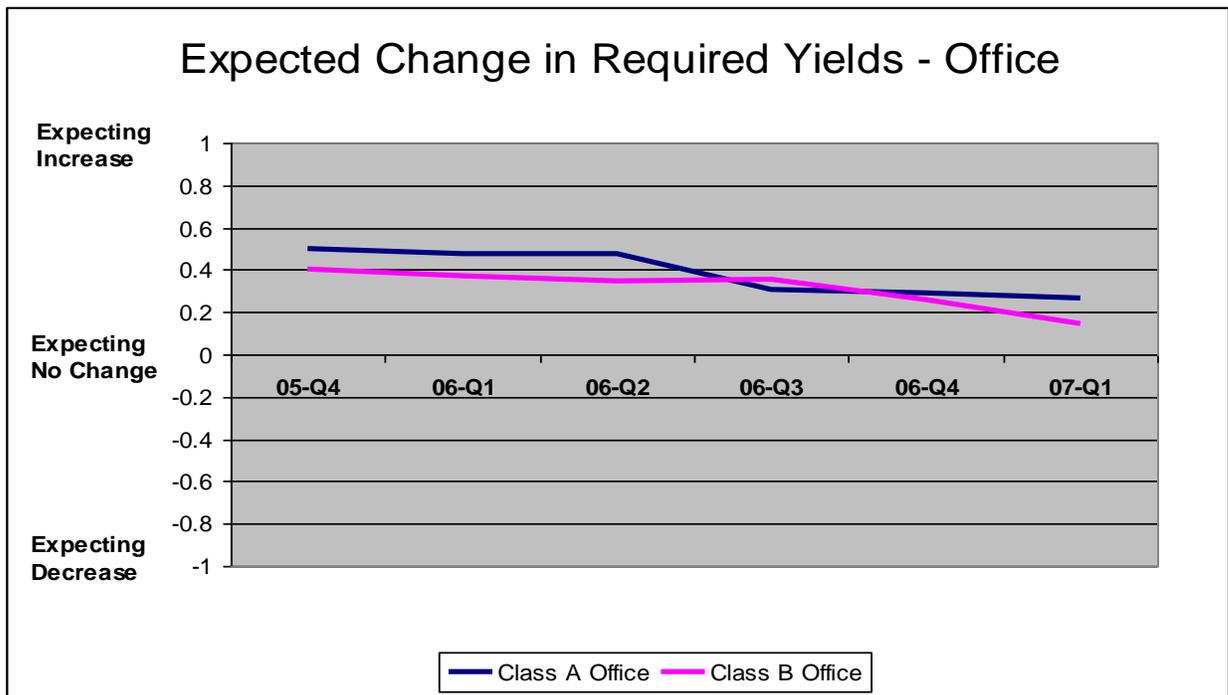
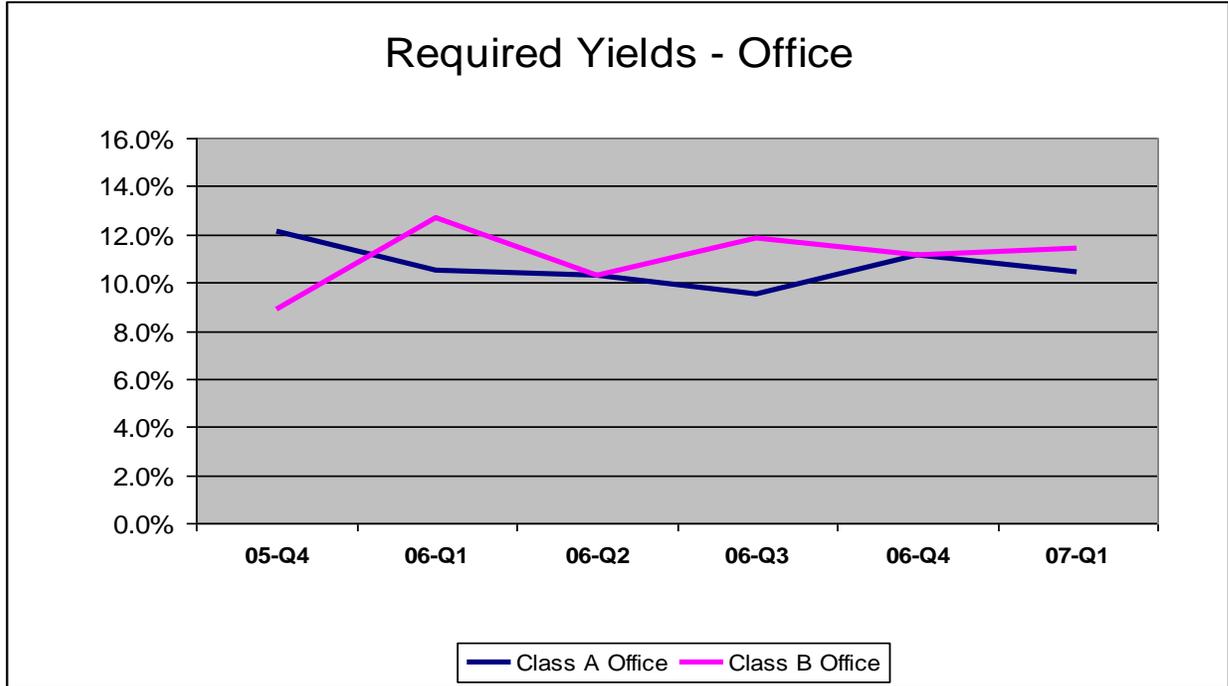
Cap Rates

Our respondents have had mixed perceptions for office cap rates. During much of 2006 they expected office cap rates to rise, but cap rates have remained constant (Class B) or followed a persistent trend downward (Class A). While the drift for Class A over six quarters has been less than one percentage point, it has been very consistent. The good news is that expectations rather than cap rates themselves have made the reconciling adjustment. The outlook has moved much closer to an expectation of no change. The constancy of cap rates is an important indicator of a strong market.



Yields

Perceptions of required yields for offices have been steady, if somewhat volatile. Generally they are as might be expected, with required yields for Class B slightly higher than for Class A, reflecting more perceived risk. Class A required yields are have gravitated around ten percent, consistent with required yields for apartments, industrial and retail. A fairly steady and strong expectation for rising cap rates through 2006 did not materialize. This may be due to less effect than expected from insurance and property tax costs.



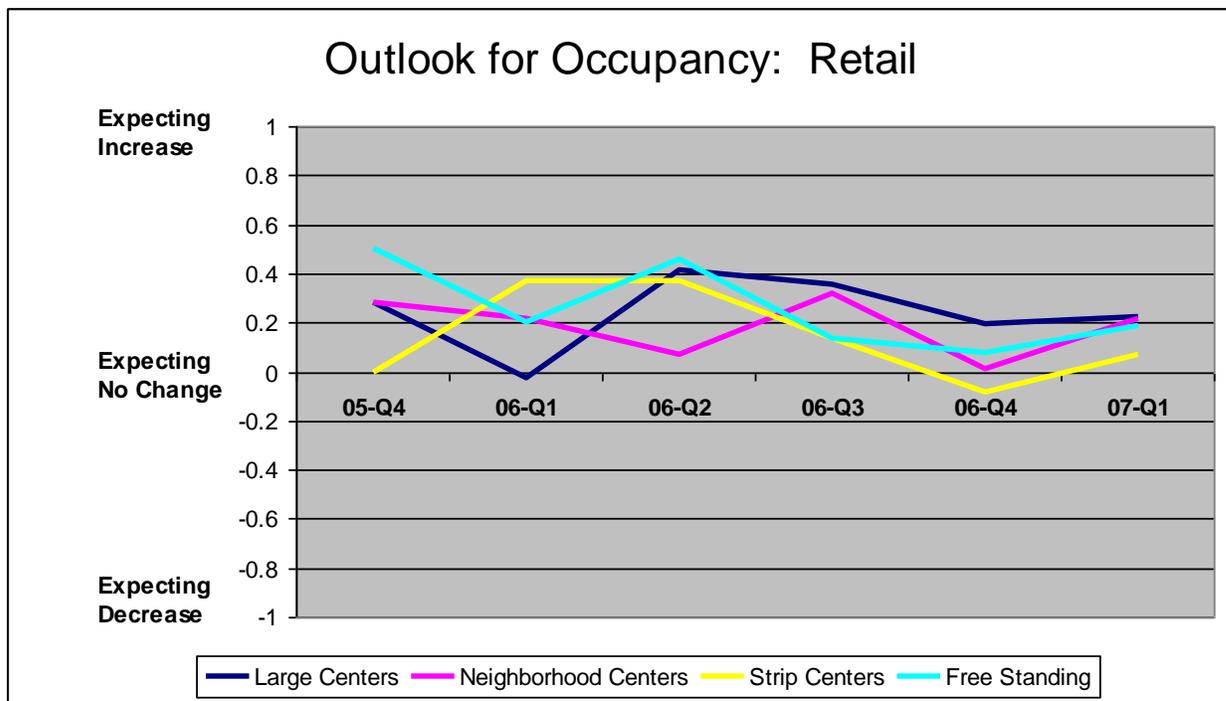
Section 5: Retail

Overview

Retail has generally acquitted itself well in the eyes of our respondents. Its steady to positive expected occupancy, the expectation of rental rates rising with inflation, steady cap rates and the positive shift in investment outlook in 2007 all speak of a property type regarded well for investment.

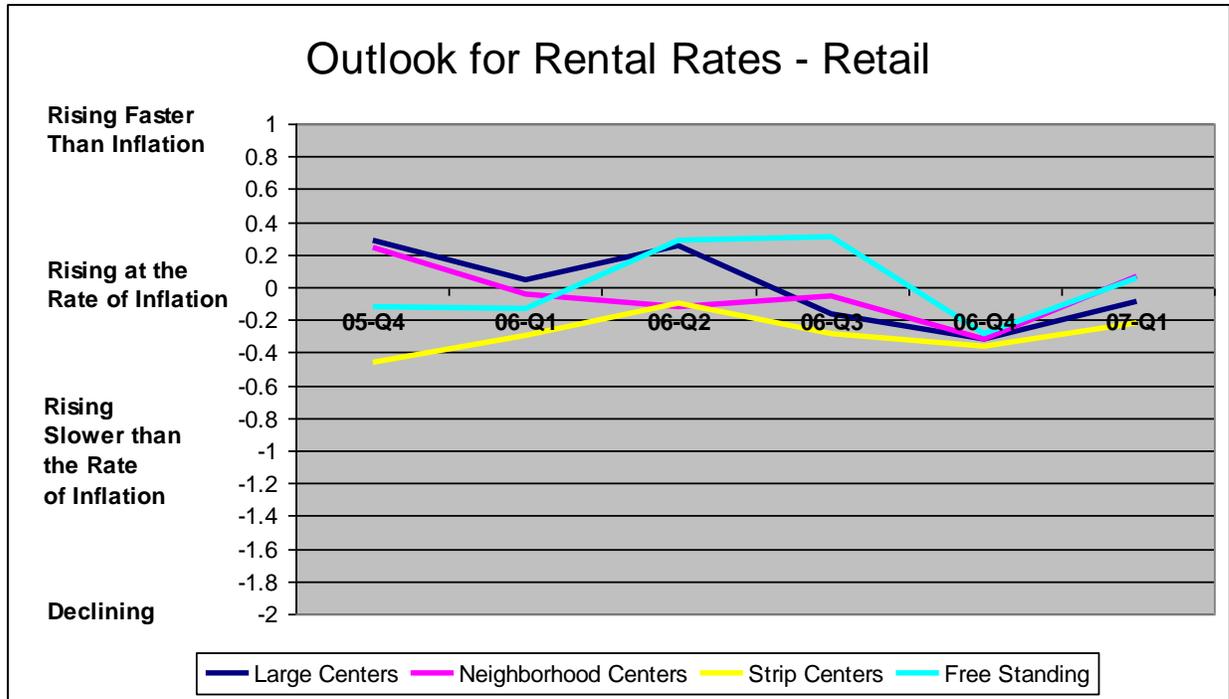
Expected Occupancy

For all four types of retail — large centers, neighborhood centers, strip centers and free standing — occupancy has been expected over 2006 to remain steady or (more likely) increase. While there has been variation in expectations for all four types, only for one case (Strip centers, 06-Q4) did expectations hint of a possible decline in occupancy. In short, the occupancy outlook for Florida retail remains solid.



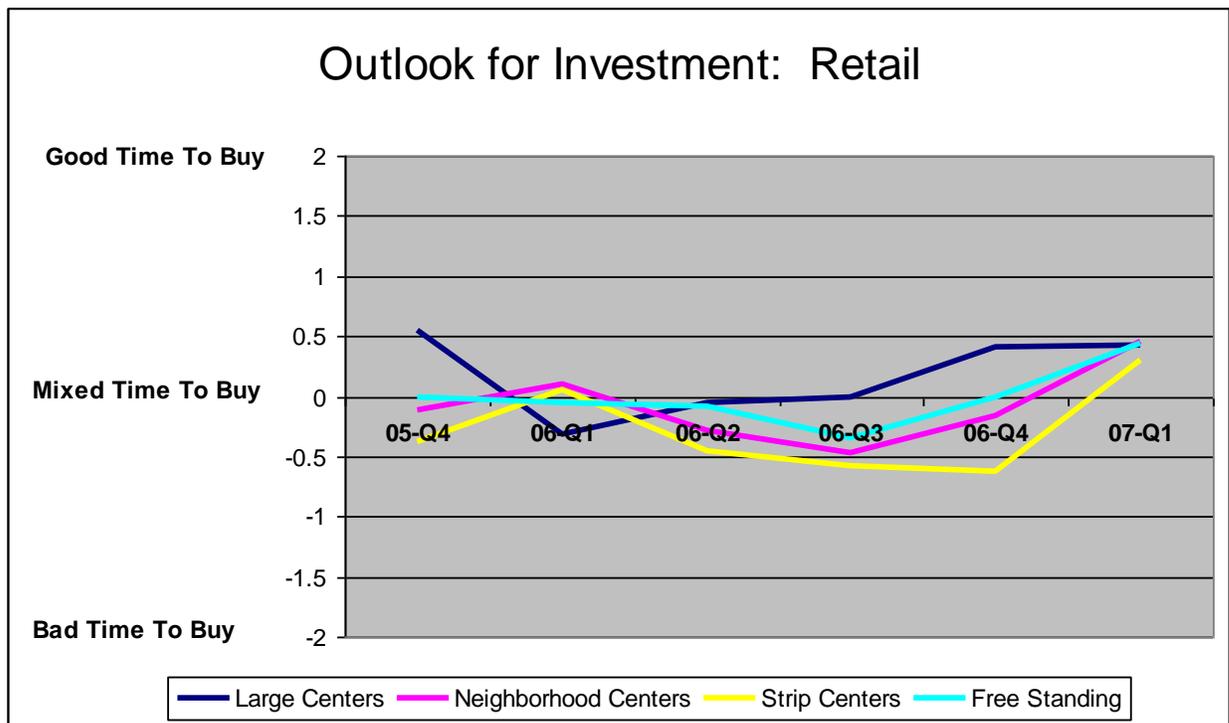
Expected Rental Rates

Expected rental rates for retail have been mixed through 2006. While expectations have roughly averaged at rental rate increases equal to the rate of inflation, there has been much volatility. In the last quarter of 2006 expectations of increases declined to below the rate of inflation for all property types, but they have partially rebounded for all property types in the first quarter of 2007. Generally, the picture is of a somewhat volatile set of expectations, around a fairly steady equilibrium.



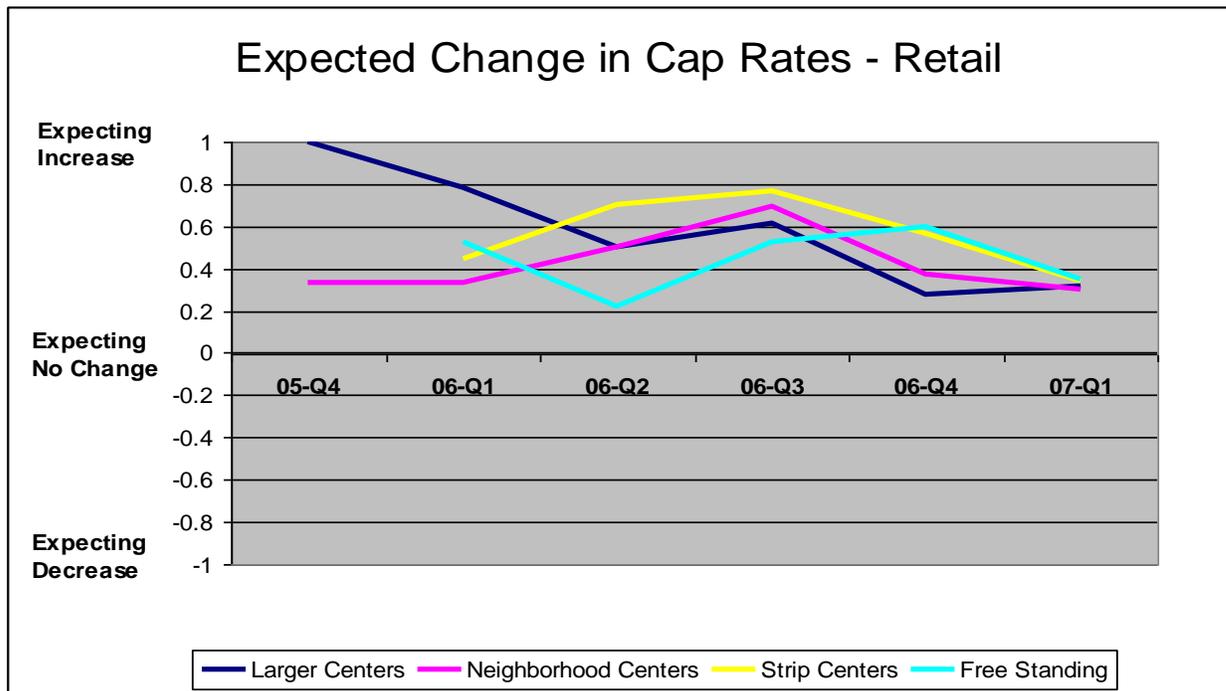
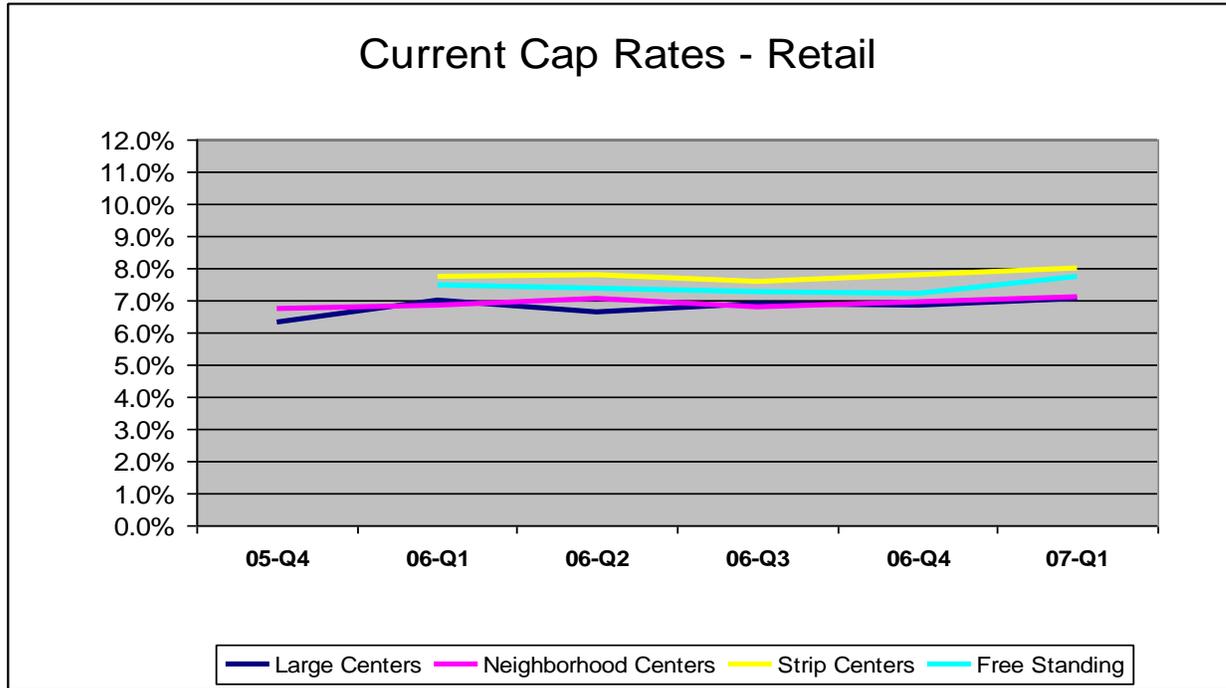
Investment Outlook

During the first half of 2006 retail was regarded as a mixed to questionable investment opportunity. However, in the subsequent quarters, all four types of retail have become perceived as offering mixed to good opportunities for investment.



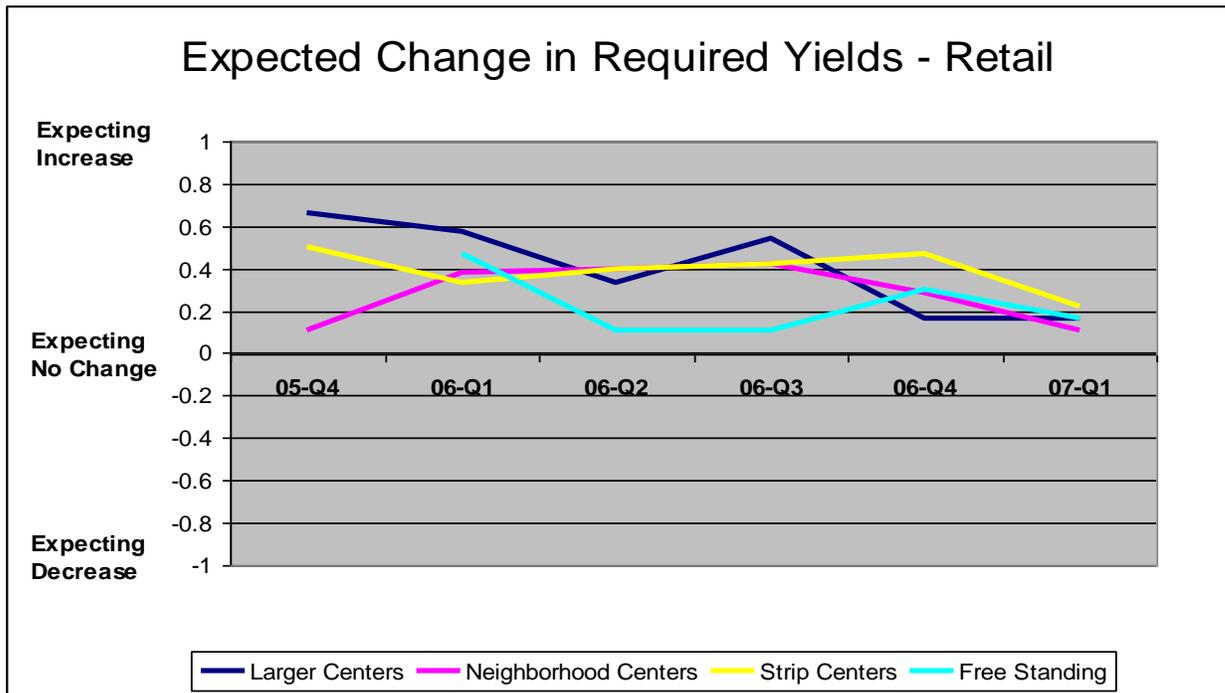
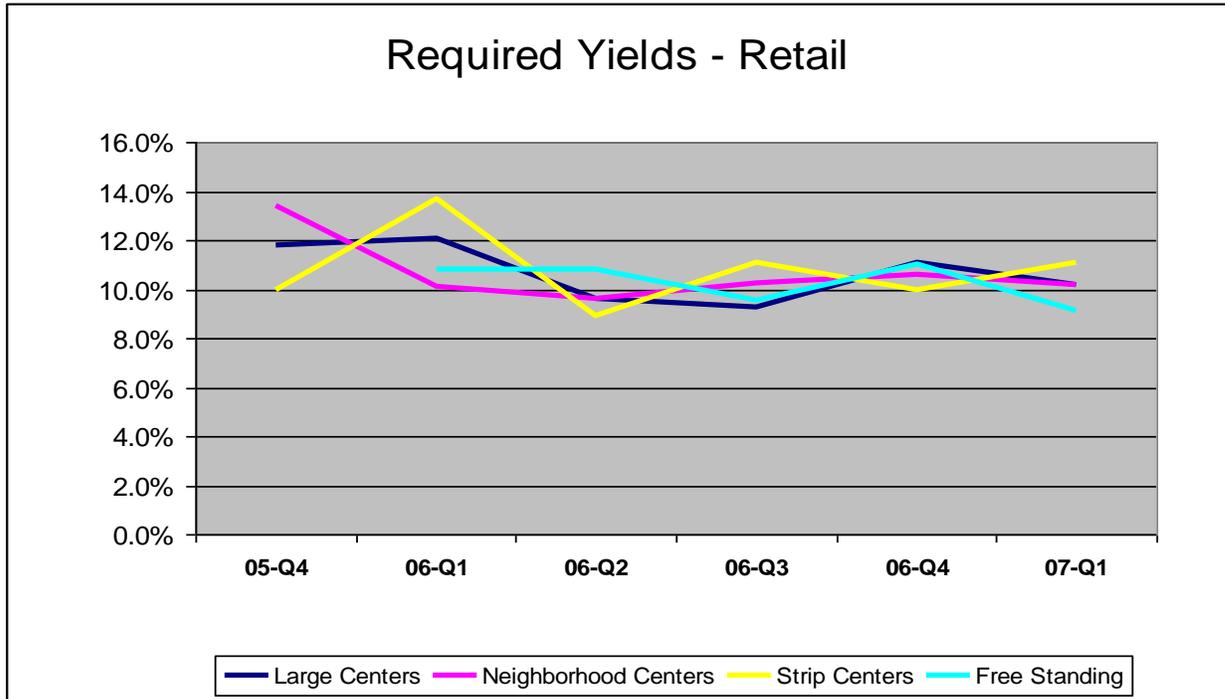
Cap Rates

Once more there seems to have been a discord between expectations for cap rates and cap rate changes. Through much of 2006, perceptions were that all retail cap rates would increase. However, all retail cap rates remained virtually flat throughout the year and into the first quarter of 2007. Once again, partial reconciliation has come through lowered expectations of increases coming into 2007. The downward drift in expected cap rate changes suggests an improved assessment of retail investment.



Yields

Required retail yields have been less stable than for some other property types, drifting downward over 2006, but generally arriving at the same level as several other property types, around ten percent. This trend has been despite the strong perception throughout most of 2006 that required yields would increase. The contrast may be indicative that certain risks, such as insurance costs and property tax burdens create less risk than initially expected.



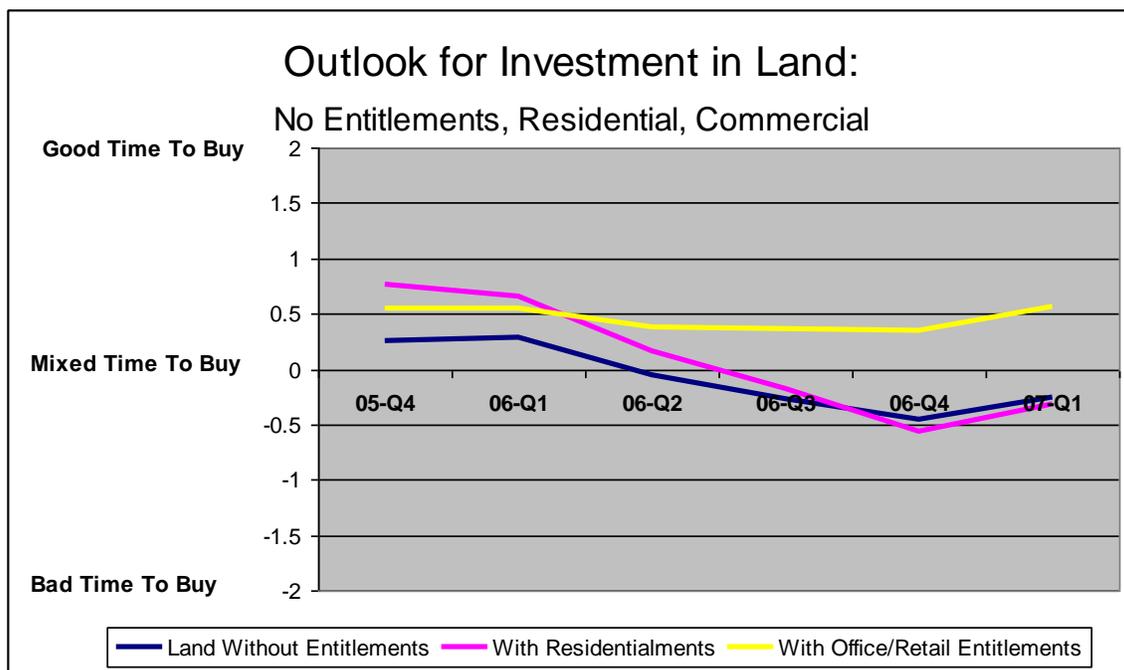
Section 6: Outlook for Investment in Undeveloped Land

Land Without Entitlements or with Residential Entitlements

The outlook for investment in land without entitlements or with residential entitlements has declined from favorable to somewhat unfavorable over 2006. However, that pattern changed direction in the last survey, with respondents indicating a somewhat improved outlook.

Land With Office or Retail Entitlements

The outlook for investment in land with office or retail entitlements has remained positive and very steady throughout 2006 and into the current survey.



Land with Hospitality Entitlements

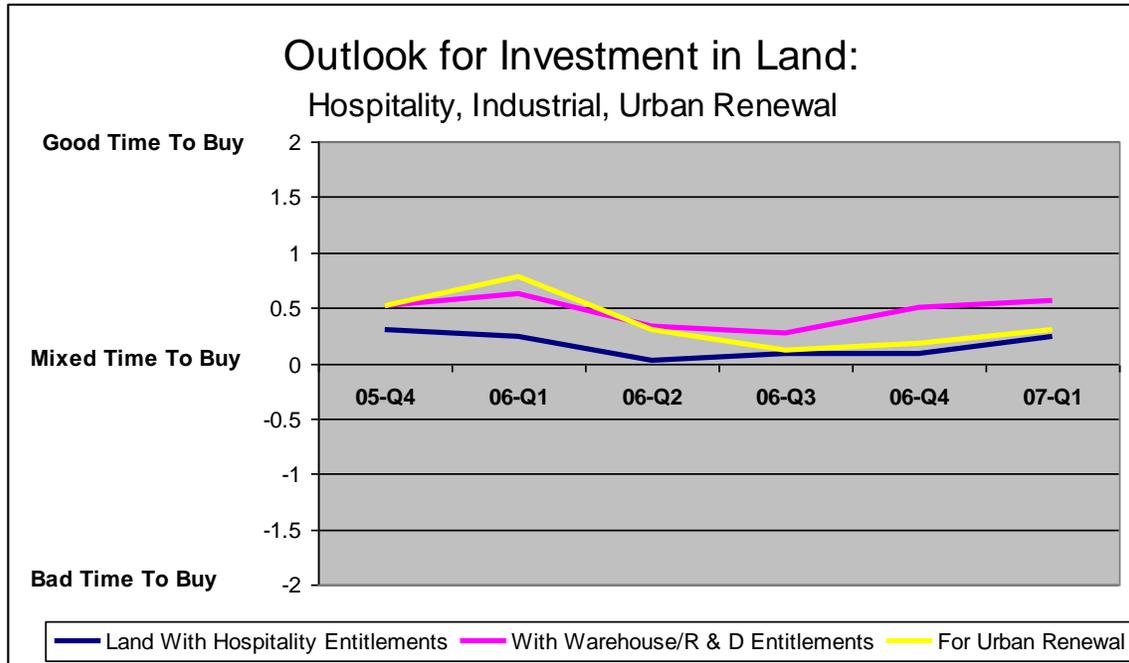
Views on the outlook for land with hospitality entitlements have been very mixed. While slightly positive on balance and trending positively, they remain largely neutral.

Land with Entitlements for Warehouse or R & D

Similar to views on land entitled for commercial use, views on land with hospitality entitlements have remained steadily positive. While there was a slight decline in mid 2006, the views have regained their positive level of early 2006 in the latest survey.

Land for Urban Renewal

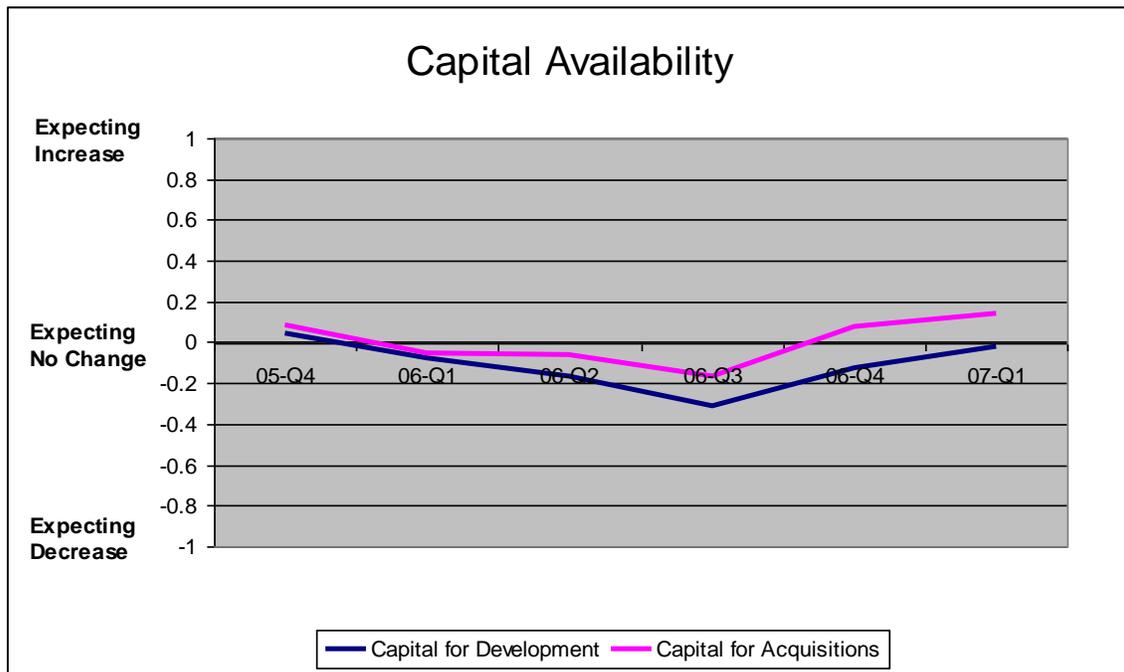
The outlook for investment in land for urban renewal declined over 2006 to a very mixed level. While it has improved slightly in the latest survey, it remains quite mixed.



Section 7: Business and Capital Availability Outlook

Capital Availability

Over the last year, capital availability has remained a non-issue. While there was an increase in those expecting a decline during the third quarter, that view reversed in the latest survey.



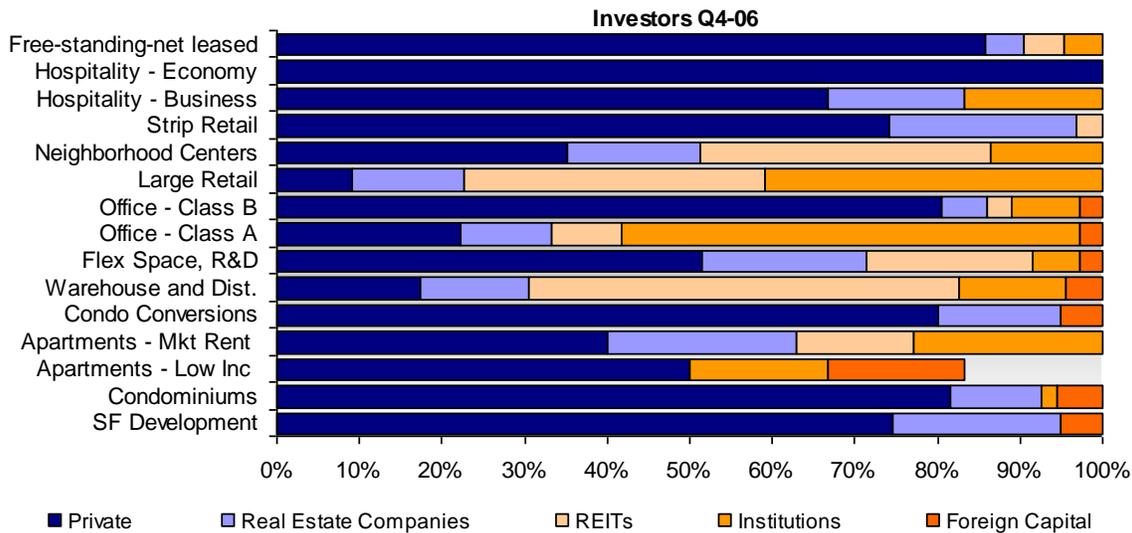
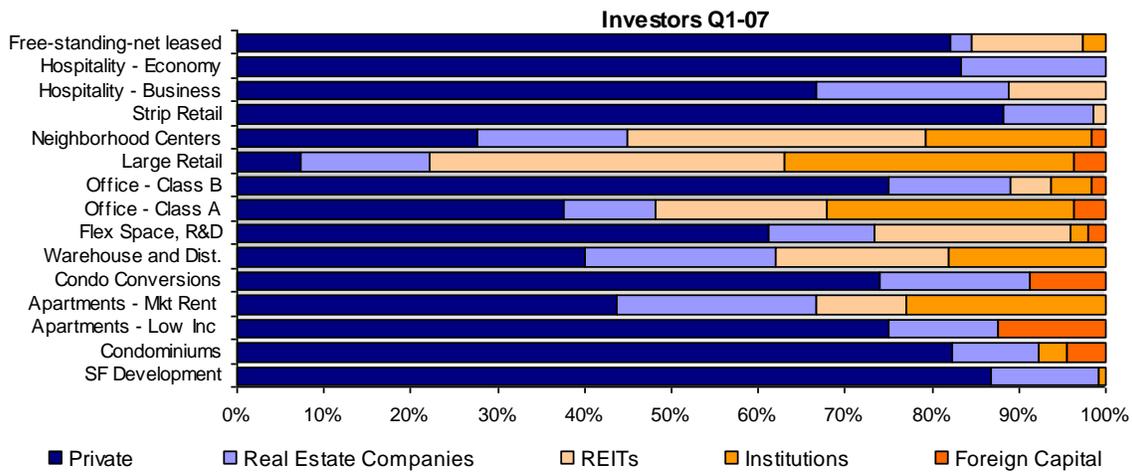
Outlook of Own Business

The perception of respondents of their own business outlook declined steadily through 2006. However it has stabilized in the last two quarters.



Section 8: Dominant Investors

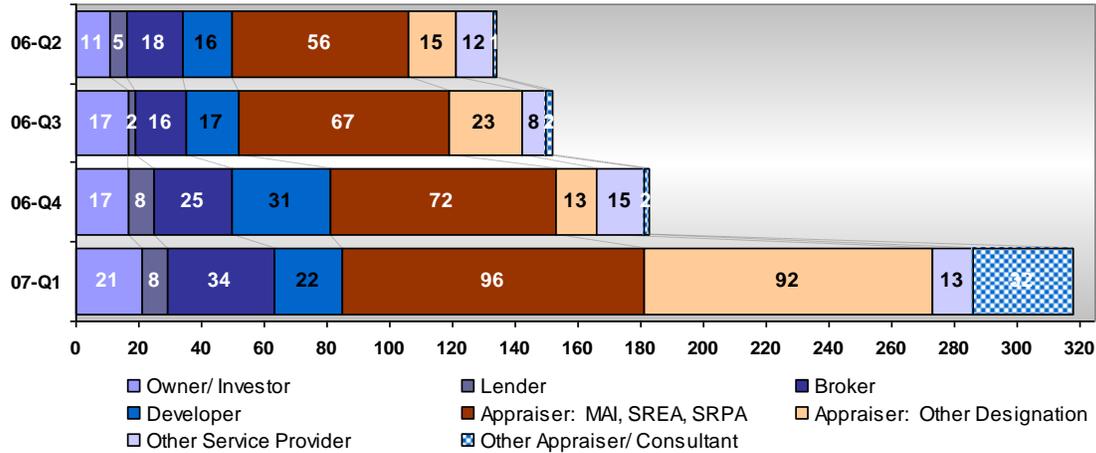
Respondents indicated which of five investor groups they perceived to be the most active for their types of property. For ten of fifteen property types private investors dominated in the most recent survey. The exceptions included large retail and neighborhood retail centers, market rent apartments, warehouse and distribution and Class A offices. REITs were perceived to dominate the two retail categories, and to play a large role in Class A office and warehouse and distribution as well. Institutional investors were also notably active in the five categories not dominated by private investors. Foreign investment was perceived to remain limited.



Section 9: Characteristics of Survey Respondents

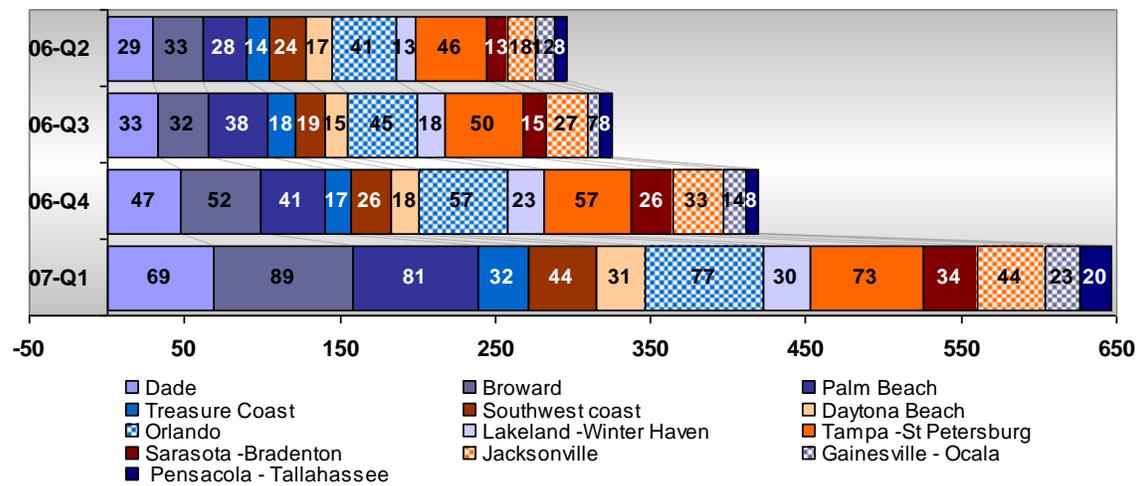
Profession of Respondents

In the latest survey round, two thirds of the 318 respondents reported being an appraiser, half with designations of MAI, SREA or SRPA. The next largest groups, each representing about ten percent of respondents, were consultants and brokers.



Markets of Familiarity

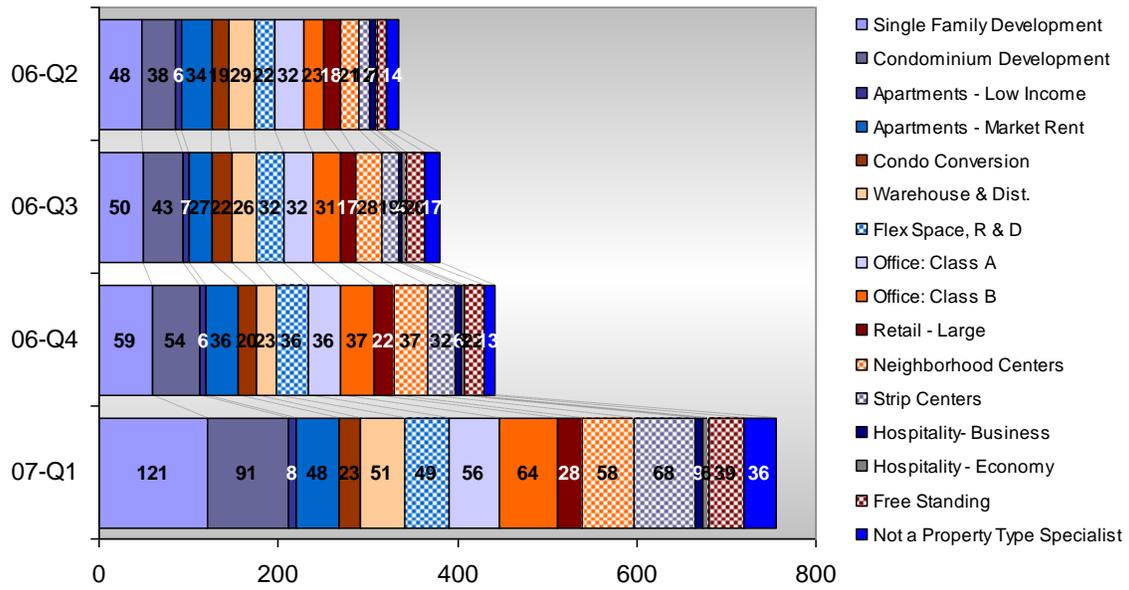
Each respondent selected up to four regional market with which they are familiar. All together, in the latest survey these choices accumulated to 647 observations. Every region was represented by a minimum of 20 observers, with five of the regions having over sixty observers.



Property Types of Familiarity

Each respondent selected up to three property types with which they were familiar. Altogether, 755 selections were made in the latest survey round. Single family development was selected by

121 respondents while condominium development was selected by 91. Seven property types were selected by at least 40 respondents, and four more had at least 20 respondents.



Section 10: Industry Leaders' Comments

The *UF Survey of Emerging Market Conditions* receives input from a number of leaders and professionals in Florida's real estate industry. The following comments come from members of the UF Real Estate Advisory Board, leadership from the International Council of Shopping Centers (ICSC), as well as membership of the Appraisal Institute's Region X, SIOR/NAREIT, and CCIM.

Insurance Crisis

Once again the insurance crisis is at the forefront of our respondents' comments. While many noted insurance as one of the main threats in the market today, several also commented as to who is most affected by the insurance crisis. Lenders are requiring insurance coverage that may not be available, while large institutions are using blanket coverage or self insurance to meet their coverage needs.

"We are starting to receive positive news on the coastal property insurance crisis. Apparently more re-insurers will be getting back into the insurance arena in 2007, which will help bring about more competition and lower insurance costs. This is a very positive sign for Florida apartment developers and apartment owners as builders' risk insurance and permanent property insurance costs should start to recede after the record 400% to 500% increases from 2006."

Name withheld

"Increases in operating expenses, particularly insurance, continue to affect commercial tenants/owners, the ability to increase rental rates, and remains a factor on new acquisitions. Larger companies with ability to spread insurance coverage across properties geographically have the clear advantage on commercial property acquisitions."

Ted Starkey, Sr. Vice President, Wachovia Bank, *Tampa, Florida*
member, *UF Real Estate Advisory Board*

"2007 will be a watershed year for Florida State government to assist non-REIT, non-institution owners to overcome the insurance hardship so that they can remain competitive."

Robert Dikman, ALC, CCIM, CRB, SIOR, The Dikman Company, *Tampa, Florida*
member, *SIOR Florida Chapter*

"Insurance and rising construction costs... Rising property insurance rates have had an effect on the markets in 2006. This is especially true for wood frame rental apartments. We have typically been able to insure properties under a blanket policy for windstorm. Our blanket policy excludes wood frame apartments in Florida. A premium is also now charged to properties within a certain zone for windstorm."

Name withheld

Lending

The general sentiment is that there is plenty of capital, but with tighter underwriting requirements, higher risk and uncertainty, and the need for insurance, it has become much more difficult for the lenders to find quality projects. For this reason lending has become very competitive and favorable rates and terms are out there.

“As the major Florida construction lenders are rapidly being repaid on their condo loans and not having many new condo construction loan opportunities, they are becoming very aggressive in apartment loan pricing.”

Timothy A. Peterson, CFO and Partner, The Altman Companies, *Boca Raton, Florida*
member, *UF Real Estate Advisory Board*

“There is more money available today for quality projects than I can recall. However, the challenges of catastrophic events affecting real estate in Florida is causing investors to focus on the quality of construction and type of materials used more so than in the past. In leases, if a developer has not protected his insurance recovery rights from tenants in the event of casualty, the premiums can be more than the developer/owner is willing to pay. Lenders are focusing more on this topic. Otherwise, I am getting 12-18 month forward loan commitments on my developments with no bp premiums. This highlights the excess of capital chasing quality deals.”

David T. Rattner, Vice President, North American Properties, *Ft. Myers, Florida*
member, *UF Real Estate Advisory Board*

“Lowering of return requirements by institutional investors in order to win deals. Tremendous competition is still putting downward pressure on returns. In spite of that, money continues to flood into the asset class.”

Name withheld

“The banks are requiring greater pre-sales and are doing more inspections and investigations before loaning. But they are still actively looking for good loans.”

Name withheld

“Condo Conversion money has pretty much dried up for all of the SE markets as the market for condos is very soft now. Plenty of conventional money is available at high leverage and low cost. Mezzanine funds remain widely available as well for apartments allowing leverage up to 95%. Fannie and Freddie remain very aggressive and will now lever up to 85% LTV. Some conduits are underwriting DSC on an IO constant to a 1.20x instead of an amortizing constant allowing far more dollars to be delivered when compared to competitors using an amortizing constant. The GSE's have not been willing to do this but still had record production levels in 2006. The Yield Curve remains inverted to flat, creating the unusual situation where 10-year money is more expensive than 5-year money for most transactions. Interest Only deals for up to 10 years at high leverage are more available now than in past years and were popular in 2006.”

Glenn Housman, MAI, CBRE/Melody, *Orlando, Florida*
member, *Appraisal Institute Region X*

“To liquid, developer restraint and tighter underwriting is warranted going forward.”

Stuart Lieberman, MAI, *Davie, Florida*
member, *Appraisal Institute Region X*

Sources and Uses of Capital

There was a lot of disagreement on the availability of capital. Like the banks, the consensus is saying there is money out there from all sort of sources, and if things stabilize, more money will come off the sidelines.

“Banks continue to be very conservative in their underwriting of land A&D loans, especially for multifamily projects. Until the existing inventory is absorbed, we expect this to continue. One exception is for affordable and workforce housing with lower price points.”

Name withheld

“Once the general economy stabilizes after the recent volatility, capital sources which had been taking a wait and see approach should have a higher comfort level regarding risk. In addition, slightly rising rates should provide more appealing returns.”

Randall Reid, Director of Business Development, Hardin Construction Co., LLC, *Tampa, Florida*
member, *UF Real Estate Advisory Board*

“We are seeing a trend towards more institutional capital sources and a private capital flight out of the South Florida Market due to large increases in insurance premiums for smaller entrepreneurial ownership. Also the cap rate environment has made it difficult for private investors to compete with Pension Funds and REIT’s.”

C. Todd Everett, SIOR, NAI Merin Hunter Codman, *West Palm Beach, Florida*
member, *SIOR Florida Chapter*

“There is a lot of inflow of foreign investment money, we see a lot of 1031 money and we expect even more as Congress approaches the 2010 deadline for changing the tax laws. Most investors expect a Democratic Congress to change capital gains rates upward and to increase the tax rates on higher income individuals. European investors see us as a bargain due to exchange rates and South American capital is expected to seek safe havens as governments continue to nationalize profitable industries. We have seen some of our local investors seeking to sell in Florida and reinvest in other less hurricane prone regions but this trend will probably peak in 2007 or 2008 unless we have more hurricanes.”

Lloyd Norfleet, CCIM, SIOR, NAI Rauch, Weaver, Norfleet, Kurtz & Co., *Ft. Lauderdale, Fla*
member, *SIOR Florida Chapter*

“Money remains extremely loose for commercial deals, but many banks have lost all interest in for sale residential projects. REITs, Pension Fund Advisors and other institutional investors remain flush with cash, and most report difficulty finding adequate product.”

Name withheld

“As the insurance ‘crisis’ bleeds into the Commercial sector, DCR’s (Debt Coverage Ratio) will trend downward, increasing risk in the lenders’ eyes, which will create unseen stringence and scrutiny in underwriting the deals. Lenders will want to lend money in this period of opportunity to get in equity-rich properties but will start ‘cherry picking’ their deals (only the newer loans on properties with reasonable insurance and tax expenses will be written). I expect to see the lenders invest heavily in the other retirement markets (Arizona and Washington state) and overseas deals and avoid the riskier deals in Florida. It’s not the Sunshine State anymore, it’s the Taxes & Insurance Mess state now, and lenders will run like the insurance companies have. I see more venture capital filling the short-term void, but the consensus is that this is only the tip of the iceberg for insurance rate increases.”

Joseph Harper, MAI, *Bartow, Florida*
member, *Appraisal Institute Region X*

“Money is everywhere from private groups, public sources, athletes, not just banks anymore... compounded by globalization.”

Name withheld

“We are seeing a marked increase in off shore (foreign pension funds) institutional investors seeking US operating platforms through which they are investing equity into US real estate. We represent a number of major investment funds that simply cannot find enough product to acquire.”

David Materna, Partner, The Stornoway Company, LLC, *Jacksonville, Florida*
member, *UF Real Estate Advisory Board*

“Explosive growth in the CDO market will ensure liquidity continues to flow into commercial real estate through the next disruption in the business cycle, likely two to three years off as the excesses of this business cycle create uncertainty in financial markets. Full steam ahead until then!”

Roger Kellogg, President, Kellogg Development, *Jacksonville, Florida*
member, *UF Real Estate Advisory Board*

“We are seeing much more interest in Joint Venture (JV) development arrangements involving property owners who did not sell at the height of the market frenzy but still hope to get prices that they previously missed. We are also seeing more interest by private capital partners.”

John Dohm, CCIM, CFP, SIOR, Terra Real Estate, *Deerfield Beach, Florida*
member, *SIOR Florida Chapter*

Growth Management

The section groups several categories of responses including which areas are growing and why, as well as how the local governments need to foster and manage this growth. Each county has its own concurrency needs, with the main issues being roads, water supply and schools. With taxes as high as they are, impact fees and other creative taxing methods are a growing concern for new developments.

“The approval process most communities employ is detrimental to effectively developing projects. The underpinning for Florida’s growth has been population. Unless wages increase or values decline, it will be difficult for new workers to enter the State. Homestead Exemption portability is also likely to stagnate real estate markets unless it can be addressed.”

Name withheld

“Senate Bill 360 is an Act passed by the Florida Legislature relating to Infrastructure planning and funding. There are several parts of the bill that assist developers including requiring each county to have a comprehensive plan that is financially feasible and requiring the capital improvements element to include a schedule of improvements that ensure the adopted LOS (level of service) standards are achieved and maintained, and authorizing local governments to adopt a 10- or 15-year long term concurrency management system for transportation and school facilities. This should assist developers in negotiating development agreements with the counties to build the off site improvements needed for their future developments and receive impact fee credits. I believe we will be building more infrastructure than in the past.”

David T. Rattner, Vice President, North American Properties, *Ft. Myers, Florida member, UF Real Estate Advisory Board*

“Polk County has seen tremendous growth over the past few years and most municipalities have run out of capacities to service the demand for infrastructure. The slow down in the demand for single family has been substantial and abrupt. Retail/Commercial uses continue to develop to service the recent growth.”

Name withheld

“Collier County recently reassessed road, school, etc. taxes, which came at a high price due to the lack of increase over the past 10 years. This has caused numerous projects to be put on hold until they could cover the new costs.”

Name withheld

“As Palm Beach County continues to thrive as primarily a service market, I see the local market poised for significant growth in the years ahead due to constant growing population and shrinking inventory of developable land. Due to these dynamics I believe we will continue to see new urbanism and in-fill developments re-shape our eastern corridors while more contrived lifestyle centers in the western corridors will serve the growing desire for more urban lifestyles.”

C. Todd Everett, SIOR, NAI Merin Hunter Codman, *West Palm Beach, Florida member, SIOR Florida Chapter*

“When you take the rapid increase in residential values and the ensuing concerns over property tax impacts and couple that with the impacts of the growth management act I believe you will see a move by the development community to purchase property in the short term in anticipation of future governmental reluctance to issue development permits. I believe we are just now beginning to feel the impacts of development concurrency issues and when those realities are fully realized you will see a proliferation of secondary taxing structures to address the governmental controls, which will be placed upon ad-velorum taxes. The real result of all of this will be the

disappearance of affordable and workforce housing in the single family market and an increase in rental and condo properties. The Florida government is passing down to the local level a disproportionate share of infrastructure costs without providing a revenue source for implementation, costs which in reality should be the state's burden. The basic premise of SB 360 is to pass on to developers the costs of infrastructure improvements, but the reality is that these developers thru CDD's and MSTU's simply pass it along to the consumer thru higher taxes and property costs. Taking these issues into account and adding future controls on aquifer depletion, school concurrency and transportation issues, there is a financial storm on the horizon with the capabilities to bankrupt local governments."

John Glanzer, MAI, *Newberry, Florida*
member, *Appraisal Institute Region X*

Land

With the risk and uncertainty for development (especially in the residential market) in today's market, several respondents make their case for investing in raw land

"National Homebuilders that also develop their own lots have shed future land positions in order to reflect the slow down in home sales. With the reduced pace now being the new forecast for the future, land owners are facing a re-pricing of undeveloped land. This is being reflected in more favorable conditions for land acquisitions in both pricing and terms."

Perry Reader, President – Florida Division, Crosland, Inc., *Orlando, Florida*
member, *UF Real Estate Advisory Board*

"I believe the price of fully entitled residential land/lots is beginning to exceed economic limits. Some have approached 35% in markets that typically see 10 to 22%. Time will prove whether the markets will support these prices. I believe that those with patience and the capital resources may do better to purchase raw developable lands, get the entitlements, etc. will be the most profitable in the next 1 to 3 years (the typical private LLC, developers)."

Bruce Beckham, MAI, *Jacksonville, Florida*
member, *Appraisal Institute Region X*

"Even though 2007 will be a tough year on the residential side of the business, we are currently investing our capital in residential land (both entitled and un-entitled) in strategic markets throughout Florida."

Peter Donnantuoni, Chief Operating Officer, Kolter Communities, *St. Petersburg, Florida*
member, *UF Real Estate Advisory Board*

"The question of whether or not it is a good time to purchase land for development or redevelopment, needs some explaining in regards to the ability to hold for future development when the timing is better. It is always good to invest in land in the Dade or Broward County areas due to scarcity of land in general. If the investor has holding power for when certain markets aren't so saturated (as the condo market is now), the decision to invest is still strong. The warehouse and retail market continues to be strong even as many older areas that had been slow in prior years are being re-discovered and brought back to life with very good success, especially

in the industrial market. It appears the next industrial market is heading south toward the Homestead area, which has seen a huge amount of development in the residential and retail markets.”

Name withheld

“I am an appraiser of vacant land tracts, primarily agricultural properties, in the NE Florida market. I have seen over the past twelve months the market virtually stop. My opinion on the slow down of these transactions is due to higher finance rates, increased costs associated with acquiring properties, and general increases in market prices asked for these properties. I expect the market return to more of a normalcy (prior to 2005) this year.”

Name withheld

“Much doom and gloom has been predicted for the residential development market in Southwest Florida, however population growth alone will create a continued demand for new residential development, and the timing for development is 1.5 to 2 years away, about the same time it takes to plan and get approvals for development. That is, developers should be looking for development sites now and begin their planning now.”

Thomas Tippet, MAI, Integra Realty Resources – SWF, Naples, Florida
member, Appraisal Institute Region X

Taxes

“Given the recent increases in market value, and the concomitant increase in ad valorem tax assessments, now may be a great time to get into the tax appeal business! However, the dark side to increasing market values is the ad valorem tax issues. I recently completed a consultation assignment for a client whose ad valorem tax payment went from approximately 25% of her NOI to over 100% of her NOI. This creates the conundrum/paradox of having a property that is so valuable that the ad valorem taxes on it eat up its entire pre-tax cash flow, thus rob it of its ability to generate income, thus to have value as an income producing property. She can’t sell it since it produces no cash flow, yet sales in the immediate neighborhood support the ad valorem tax assessment. I have turned down every tax appeal case that came my way because it is my experience that, in Palm Beach County at least, the assessments are market oriented, and my appraisals (were I to do them) would have to reflect that fact. Some Ma and Pa operators will clearly be put out of business. Yet their greatest asset, their real estate, may be worthless since it can no longer generate a pre-tax cash flow.”

Name withheld

“We are seeing a significant amount of supply of developed residential land and finished end units, which is resulting in moderate to significant declines in asking prices. Additionally, many developed residential properties are assessed above market value this year, resulting in substantial developer tax liability for inventory that they are having a difficult time selling. We would expect assessed values to decrease substantially in the next year.”

Name withheld

“...the quality of life enjoyed by those residing here (Treasure Coast), due to such factors as: moderate temperatures, proximity of the Indian River Lagoon and the Atlantic Ocean, and lesser degrees of traffic, crime, etc. than that found in South Florida and larger metropolitan areas.

However, for the first time, I am not quite as confident, due to the current situation of real estate taxes and homeowners insurance. I feel that our area in particular was undervalued prior to 2003, compared with many other areas. And therefore, the appreciation that we experienced between 2003 and 2005 was unavoidable. As is usually the case however, the pendulum swung too far to the other side, and a correction in prices was then necessary. Naturally, assessed values will increase proportionately with market values of properties. However, I do not believe that the actual tax dollars needed should necessarily increase at the same rate. Therefore, rather than bragging about not increasing the millage rates, millage rates should have decreased so as not to over tax. Due to the incredibly high increase in real estate taxes, many business development opportunities, investment opportunities and even normal household relocations within the community are, at best, less attractive and, at worst, no longer feasible.

Adam Preuss, MAI, Adam Preuss Appraisal Service, *Sebastian, Florida*
member, *Appraisal Institute Region X*

“Insurance availability and costs and real estate taxes will continue to be a burden on real estate investment. Government has been enjoying a large increase in the tax revenues over the past year and is not prepared for the likelihood of reduced tax rolls that reflect declining property values in the residential markets. Local governments will become overextended as new building subsidies, reducing permit and associated fees. As a result, tax (millage rates) will be increased. A wide scale insurance reform is required; maybe a national program like flood insurance. The state of Florida needs to put non-partisan experts on committees to find solutions to the insurance crisis.”

Name withheld

“Property taxes: Many people who would like to move within Florida are staying in their present homes until there is some change in the method of property taxation that rescues them from high taxes on their new home. Too many others, especially young families, are moving out of the State. High-end property taxes and bottom of the nation salaries don’t bode well for future development.”

Name withheld

“If positive changes are made regarding the s.o.h. (e.g. transferring current cap to new property), then we should see more sales of properties, more people upgrading to larger homes as weak as some downsizing done by retirees who could not afford to move previously.”

Name withheld

Other Issues

- Increase of mixed-use developments
- Oversupply of residential condominium units
- Green Development
- Increased investment in northern areas such as the Carolinas due to uncertainty in the Florida market
- Increase in foreclosures
- Unavailability of affordable housing

