Published October 21, 2008

THE ECONOMY

"Northeast Florida's economy is healthier than the rest of the state, but it lags the rest of the nation." So stated the *Jacksonville Business Journal* in a September report. Along with its abiding strengths—a diverse economy with a substantial white-collar employment base, popularity among relocating corporations, expansion of local port facilities with its substantial economic component, a history of strong population growth and strong demand for housing—Jacksonville, like much of Florida, has been hit hard by the housing-lending debacle. While its second quarter foreclosure rate was the most favorable among major Florida cities, metropolitan areas, it nonetheless ranked 33rd among the nation's top 100 metro areas, according to RealtyTrac. Active condominium development and conversion trends have been contributing factors.

Reflecting the turmoil in the housing and financial sectors, employment in Construction has fallen negative. According to data provided by the U.S. Department of Labor, Bureau of Labor Statistics (BLS), employment therein as of July was down fully 7.8% (3,800 jobs) from 12 months prior. Preliminary data for August indicate an identical year-over-year loss. The Financial Activities sector, also vulnerable in the current climate, has done a little better, breaking about even July to July and suffering a 500-job decline August over August according to the preliminary numbers. Employment in Professional and Business services, however, fell 4.1% (3,800 jobs) July to July with a moderately larger 12-month loss indicated by the early August numbers.

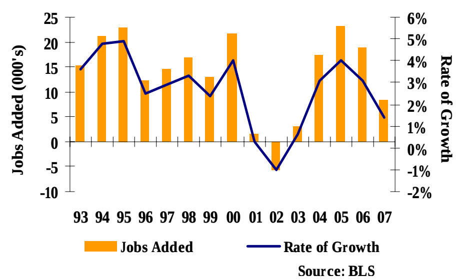
These losses were too large to be overcome by the local economy's stronger elements. Accordingly, nonagricultural employment overall now is written in red. Total non-farm employment as of July was down 0.6% (3,900 jobs) from a year prior; a larger loss is indicated August to August. As indicated in the sidebar, the MSA unemployment rate has shown substantial recent increases.

Population growth, meanwhile, has been cut in half. According to data provided by Moody's Economy.com, growth over the five-year period concluding with 2006 averaged 2.1% per annum (about 26,000 residents per year). Growth dropped to 1.3% last year and is expected to slip farther, to 1.1%, in 2008 for a net gain of about 14,900 persons.

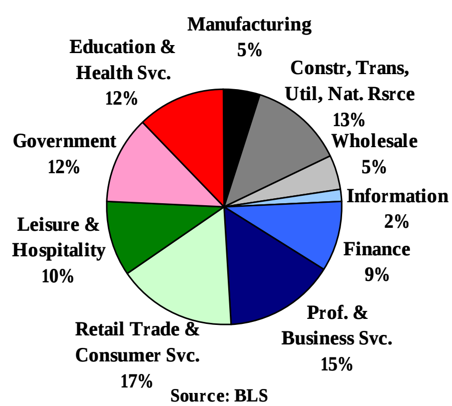
Employment:

- *BLS reports a seasonally unadjusted unemployment rate of 6.4% in July for the Jacksonville MSA, up from 4.3% one year earlier.*
- *Moody's Economy.com reports a second quarter 2008 average household income of $102,303 for Jacksonville. Average household incomes of $117,869 and $107,155 are reported for the top metros in the nation and South Atlantic region, respectively.*

Employment Growth



Employment by Sector:

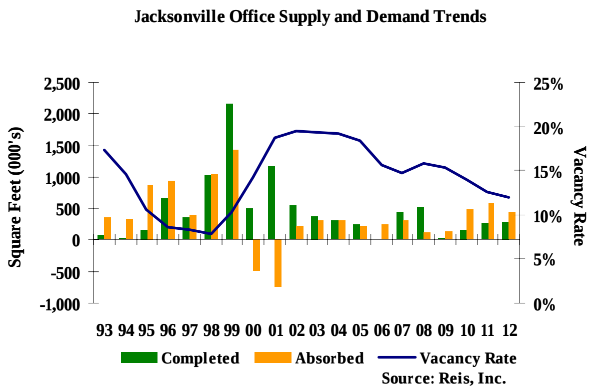


OUTLOOK

"There's no shame in winning the silver," noted the *Journal*. "We're betting that our growing port will propel us to gold over the next four years, despite the hits the financial sector will continue to take." Over the long haul, Jacksonville's cost advantages for business and the enhancement of its port facilities should be major assets. In the meantime, it likely will be a new world for the financial sector.

THE REAL ESTATE MARKET

OFFICE



"The weakened job market led to a decline in office market fundamentals in the second quarter of 2008," stated Cushman & Wakefield Inc. in its latest report on the local market. In a more recent report, the *Jacksonville Business Journal* reported in early October 2008 that the trauma emerging in the stock and credit markets has negatively affected the office sector with respect to investment and the ability of business to lease new spaces (see Special Real Estate Factors for more information). "There's a whole new market out there," an executive with locally-based Holly Real Estate informed this source. Reis's research confirms a period of change. Net absorption, running positive since late 2005, fell negative during fourth quarter last year and has remained so year-to-date through second quarter 2008. The year-to-date net is put at minus 218,000 square feet. Fortunately, the recent increases in construction have been modest, and the market, with its waning demand, will not be faced with an overwhelming flood of new supply. A total of 516,000 square feet are projected to deliver all told this year, 34,000 of which arrived during first half; completions thereafter will decline sharply.

Nonetheless, the gap between supply and demand has affected occupancy and rent growth. Second quarter vacancy was 15.6%, up 50 basis points from a quarter earlier, up 110 year over year. Preliminary third quarter data puts the rate at 16.7%. Rent growth is projected to slow to respective gains of 2.2% and 1.3% for the asking and effective averages for the year. Second quarter averages were $18.47 and $15.17 psf, up 0.5% and 0.1% from a quarter earlier. Preliminary third quarter data puts the asking average at $18.48 psf. Class A vacancy and mean asking lease price for second quarter were 14.3%, up 110 points year over year, and $20.78 psf,

Special Real Estate Factors:

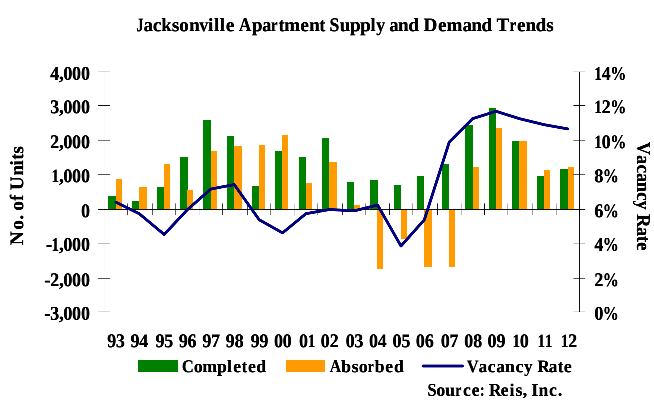
- ***Office***: *Commentary on financial meltdown effects. The declines and the tightening of credit have had separate, negative effects on the office sector, according to an October 2008 report in the Jacksonville Business Journal. According to an executive with GVA Advantis, two deals were "pulled" as a result of the stock market. "If the stock prices continue to be depressed for the next several quarters," stated another executive, "companies will not be able to raise as much capital, which will impact their ability to take down additional office space. The credit market is more critical to real estate at this moment and it is having a negative impact on people's psychology. It appears that the cynics are taking over." "We have had numerous transactions delayed and/or canceled completely because of the lack of financing," commented an executive with NAI Commercial Jacksonville. According to an executive with locally-based Holly Real Estate, "The credit markets are gone. You can't go out and apply for a loan today and get financing." Holly also finds opportunity: "There's a whole new market out there… This is the greatest opportunity to buy in our lifetime, but it's not for everyone. The cash buyer has to have a healthy dose of fear yet simultaneously be bold and act with confidence that they are buying at a discount and that the market will eventually stabilize."*

up 2.9%. According to Cushman, meanwhile, recent negative absorption (the net year-to-date through mid-year was minus 178,300 square feet according to this source) and rising vacancy have resulted in "a steady decline in the direct average asking rental rate during the past year." Effective rents going forward will suffer more than asking prices, added the firm, "as landlords become more aggressive by offering free or reduced rent or increased tenant improvement allowances." This source reports 388,500 square feet under construction per mid-year. The largest for-lease project under construction as of October according to Reis was the 184,000-square-foot Greenland Commerce Center at Greenland Road and Greenland Chase Boulevard in Jacksonville's Southside area, its busiest for office development in recent years. NewCom Development LLC, its developer, is seeking LEED certification. Reis expects completion in November. Scheduled for completion the same month is Flagler Development Group's 142,000-square-foot Lakeside Five at Flagler Center, also in the Southside.

- *Cushman & Wakefield put second quarter overall and direct vacancy rates at 15.6%, up 110 basis points year over year, and 14.8%. The average asking rent for the quarter was $18.23 psf, down 1.4%.*

APARTMENT

"It doesn't make any sense," a financial analyst informed the *Jacksonville Business Journal* in late July. "It's contrary to what we've seen in the industry." The analyst is referring here to the simultaneity of increases in both vacancy and rents. The former, however, is not difficult to understand. Developers, after a sojourn into the condo market, have refocused on apartments even as competition from a large shadow market—unsold units from the glutted condo sector and troubled single-family homes placed up for rent—dilutes demand for traditional apartments. Indeed, apartment market net absorption was negative at 1,687 units last year, according to Reis, and, while positive in 2008, will



Special Real Estate Factors:
Continued

- ***Apartment***: *The shadow market. Wayne Archer, director of the University of Florida's Bergstrom Center for Real Estate Studies, expressed surprise that a recent survey revealed a "significant drop in occupancy rates primarily due to foreclosed homes serving as rentals and the general downturn in the economy causing some residents to improvise," the Jacksonville Business Journal reported in late August. "One, there is some re-entry into the rental market of distressed properties," stated Mr. Archer. "Two, renters were hedging their bets with employment headed in the wrong direction here in Florida particularly with our heavy orientation to real estate construction…People who might rent their own place are doubling up with someone else, at least temporarily. Demand is down in that sense." "The 'shadow market' is really hurting us," stated Peggy Queen, an executive with First Coast Apartment Association. "People renting condos, people renting their house and new developments are big factors." A slowdown in population growth is contributing to rising vacancy, according to an executive with Real Estate Strategy Center of North Florida.*

again trail new supply. Construction completions, moreover, will rise this year to 2,448 units, the firm predicts, most in a year since 1997. Respective construction completion and net absorption totals year-to-date through second quarter were 656 and 124 units. The combination of these factors has produced dramatic increases in vacancy. The rate for second quarter was 10.6%, up 280 basis points over 12 months, up 620 over 24. Preliminary third quarter data shows a further increase to 11.0%. With the bulk of the year's new supply scheduled to deliver during the second half of the year, Reis is projecting year-end vacancy at 11.3%. The market has not seen a rate this high since 1987. In the Class A sector, which sees most of the shadow market competition, mid-year vacancy was 12.1%, up 800 basis points over two years.

The persistence of rent growth, according to the Journal report, is more difficult to fathom. An executive with The Vestcor Companies offers a possible explanation: "some developments might be offering concessions and move-in specials instead of lowering rates." The gains, in any case, are not great. By Reis's analysis, asking and effective averages will grow at respective rates of 2.1% and 2.0% this year, up from 1.9% and 0.9% in 2007. Respective averages for second quarter were $801 and $760 per month, up 0.5% and 0.8% from the quarter preceding. Preliminary third quarter data shows the asking average unchanged. The second quarter mean Class A asking price was $982, up 1.0% for the quarter, up 2.5% year over year. The condo market, meanwhile, may continue to influence the apartment sector. Reis reports approximately 1,300 condo and townhome units under construction as of early October 2008; about 1,600 more reside in planning and proposal stages. Only one significant project, however—the 222-unit second phase of Beekman Plaza in northwest Jacksonville—is expected to deliver within the next few months. Reis cites a completion date of January 2009. Major apartment complexes due on line within the coming months include the 440-unit Falcon Lake complex in north Jacksonville from Falcon Residential Development, scheduled to deliver this October; 450 are scheduled to complete in May next year at the mixed-use Markets at Town Center project in east Jacksonville. Atlanta-based Pinehill Markets Operating LLC is the developer.

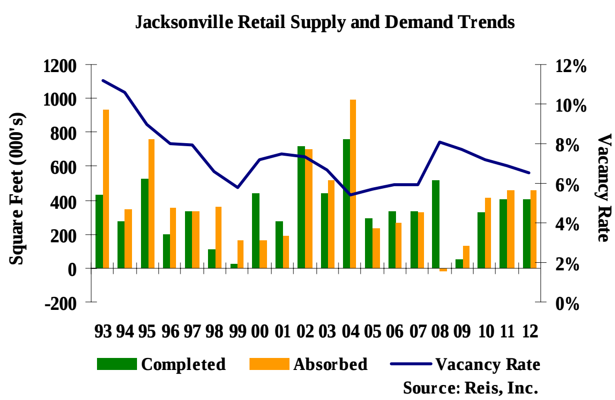
- *ALN Systems Inc. reported September 2008 vacancy and average rent for metro Jacksonville at 11.7%, up 290 basis points year over year, and $800 per month, down 1.5%.*

Special Real Estate Factors:
Continued

- ***Retail**: For retail property sales completed over the four-quarter span concluding with the second of 2008, Reis reports average capitalization rate and selling price at 7.4% and $177 psf. Values for sales closed during second quarter alone are recorded at 8.6% and $152 psf. Recent deals include Wild Plum LLC's $4.75 million ($228 psf) June acquisition from Wild Plum Plaza LLC of the 20,840-square-foot Wild Plum Plaza neighborhood center at 3980 Southside Boulevard in Jacksonville. A 7.7% going-in cap rate is cited.*

- ***Industrial**: Troubling news. "Local industrial development projects have already been delayed or scrapped because of tighter lending practices, and some fear more may follow and ultimately slow growth in that booming local market." So stated the Jacksonville Business Journal in a September 2008 report. "Problems in the residential real estate market during the past two years forced lenders to tighten requirements. The change that has squeezed out many would-be homebuyers also has started to affect the borrowing capabilities of commercial developers." According to an executive with Norfolk Southern Corporation, "Anybody going to the banks looking for new money or a new loan is not getting it." "That's*

RETAIL



"The slowing economy has stifled growth in the retail market, but hasn't stopped it," stated the *Jacksonville Business Journal* in a recent report. A related marked drop-off in space under construction is cited. There may be less here than meets the eye, however. The high under-construction figure indicated for year-end 2007 included the 1.2 million-square-foot first phase of developer Ramco-Gershenson's River City Marketplace in the Northside submarket. Opening last year, the project completed construction in March 2008. Indeed, it seems natural that construction would slow even without the current negative economic input. Jacksonville has gone through a few years of massive retail development that began with the completion a few years ago of Simon Property Group's St. Johns Town Center lifestyle center. The 850,000-square-foot Oakleaf Town Center power center in southwest Duval County from The Sembler Company and Granite Properties Inc. completed construction late last year. Kimco Realty's 600,000-square-foot Avenues Walk power center is underway for completion at Phillips Highway and I-95 in January. A number of other major projects are in the planning pipeline. These include but are not limited to the 1.3 million-square-foot Esplanade at St. Johns open-air mall in St. Johns County between Jacksonville and Augustine, expected to open in 2010. Esplanade, from The Devlin Group, will offer office, residential and other components as well. The Markets at Town Center mixed-use project, cited in the Apartment Space section above, has 350,000 square feet of retail under construction for delivery in May 2009.

In its second quarter report on the local community and neighborhood center market, Reis projects the delivery this year of 513,000 square feet, most in a year since 2004. With retailers hunkering down as a result of economic pressure and the reigning general anxiety, the timing is not auspicious. The firm projects net absorption for the year at negative 22,000 square feet. Even less auspicious are the data for the first half of

Special Real Estate Factors:
Continued

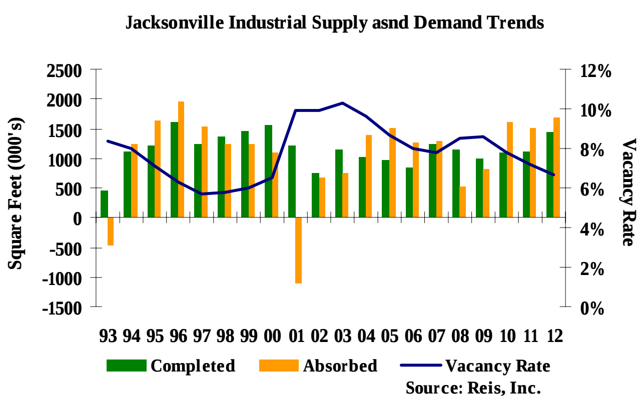
troubling news for Northeast Florida," the Journal continued, "which for now has the most robust industrial development construction market among the four largest markets in Florida, according to recent market statistics."

the year alone—negative net absorption at 225,000 square feet alongside the lack of deliveries. While the firm, accordingly, expects net absorption to improve during the year's latter half (to about plus 200,000 square feet), the latter half of the year will witness all of the year's anticipated deliveries.

With conditions in the economy deteriorating as rapidly as they have been recently, uncertainty accrues to the forecasting of demand. It is to be hoped that the expected revival of net absorption is supported by substantial leasing of the supply underway. Reis reports second quarter community-neighborhood center market vacancy at 6.9%, up 60 basis points from a quarter earlier, up 160 year over year. Early reporting of third quarter data points to another 50 basis point increase. The rate is expected to jump to 8.1% by year-end, its highest level since 1995. The weak absorption and vacancy rate spike are reflected in rent growth projections for the year—a 1.2% increase for the average asking rent and a 0.7% loss for the mean effective rate. Respective rates for second quarter were $15.61 and $13.64 psf, down 0.1% and 1.2% from the quarter preceding. Early third quarter data puts the asking average at $15.60 psf.

- *The Jacksonville Business Journal reports second quarter Jacksonville area overall retail vacancy at 6.8%, up from 5.4% at year-end 2007.*

INDUSTRIAL



A brighter side of the declining value of the U.S. dollar has been the increase in exports through U.S. ports. Indeed, with trade activity on the rise in the last few years, a number of the nation's ports are undergoing substantial expansion with greater port capacity resulting in enhanced demand for distribution and logistics facilities. Jacksonville is a case in point. Current planning calls for the development of East Coast hubs here by two Asian shipping concerns, Hanjin Shipping Company and Mitsui O.S.K. Lines (MOL). The latter's $220 million TraPac Terminal facility is scheduled to open in January 2009; the other's $360 million development is expected to take until 2011. Thousands of jobs will be created along the way. According to Cushman & Wakefield, as reported by the *Jacksonville Business Journal* in September, 4.7 million square feet of industrial product were under construction as of mid-year (up a million from three months prior), the "majority" of which is located "on the north and west sides of the city around the Jacksonville Port Authority's marine terminals."

That said, troubles in the financial sector are making it more difficult to launch additional projects (see Special Real Estate Factors). A case in point: Locally-based Planet Five is developing its first mixed-use industrial project across the street from the Dames Point Marine Terminal, reported the *Journal*. "Although the company always tries to have adequate cash equity for each project to make the loan request more attractive to lenders," noted a company executive, "finding projects that would be more attractive to lenders has become an increasingly important criterion when choosing new projects." Contributing more equity to their projects forces developers to charge higher rental rates, the report continued, which could compromise competitiveness for some projects. Indeed, high industrial rental rates in South Florida have enhanced the competitiveness of the Jacksonville market. "Things could slow down by as much as 50%," stated a Norfolk Southern Corporation executive. "It's just getting tougher and tougher all the time."

According to Reis, net absorption of multi-tenant non-manufacturing space, which had run in excess of new supply for the past four years, will dip below completed construction this year. The firm projects respective construction delivery and net absorption totals of 1.14 million and 520,000 square feet for 2008 all told. Thus the downward trend in vacancy, underway since the end of 2003, also has ended. The latest forecast calls for a year-end rate of 8.5%, up 70 basis points from the end of 2007. Rent growth, however, did not wait until this year to slow. The 1.5% and 1.1% increases reported for the asking and effective averages for 2007 were well below the gains achieved during the previous two years. Indeed, 2008 is expected to bring improvement: the current forecast calls for respective increases of 2.0% and 1.6%. Asking and effective averages are forecast to close 2008 at $4.06 and $3.82 psf.

- *Cushman & Wakefield, as cited by the Journal, reported second quarter overall industrial vacancy at 7.8%, up 20 basis points from the quarter preceding. The average asking was $5.03 psf, up from $4.95.*

Vacancy

Sector	2Q08	2Q07	Chg
Office	15.6%	14.5%	110 bps
Multifamily	10.6%	7.8%	280 bps
Retail	6.9%	5.3%	160 bps
Industrial	7.8%	8.0%	-20 bps

Rents

Sector	2Q08	2Q07	Chg
Office	$18.47 psf	$17.77 psf	3.9%
Multifamily	$801 month	$791 month	1.3%
Retail	$15.61 psf	$15.51 psf	0.6%
Industrial	$3.98 psf	$3.92 psf	1.5%

For additional metro and submarket level information on the top 80 markets for the four principal property types, visit www.reis.com or call Reis at: (800) 366-REIS.