THE ECONOMY

Tourism and construction, two sectors heavily devastated by the recession, are now leading the Orlando area economy in recovery. According to preliminary data provided by the U.S. Bureau of Labor Statistics (BLS), employment in the local Construction sector as of October was up 4,600 jobs (11.1%) from just 12 months earlier. Same-term job growth in the large Leisure and Hospitality sector (fully 20.5% of total non-farm employment by the latest count) was 6,700 jobs (3.3%). Growth in this sector over 24 months, moreover, was 14,100 jobs (7.1%). Other major sectors have been swept along. The Professional and Business Services segment showed a 3,600-job (2.2%) increase over the latest October-to-October span. Even Government—the national albatross of the post-recession period—has grown in Orlando. Employment therein per October was up 600 jobs (0.5%) from 12 months prior. Overall non-farm employment growth, as a result, has been strongly positive. The October non-farm total was up 21,700 jobs (2.1%) over 12 months and was up 30,100 jobs (3.0%) over 24.

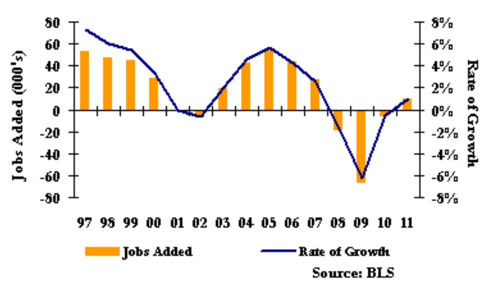
That said, the twin traumas that fell upon local tourism and housing (and, therefore, construction) as a result of the recession left Orlando in a deep hole: the recent gains have recovered only fractions of the preceding losses. Thus total non-farm employment as of October remained 54,800 jobs (5.0%) shy of the total recorded five Octobers prior. And employment in Construction as of October 2012 was barely half the total reported for October 2006. The same, however, cannot be said of the Leisure and Hospitality sector, the local stalwart. Leaving all its losses behind, employment therein was up fully 18,100 jobs (9.3%) from the peak-for-October reached that month in 2008.

Also on the mend is the local housing market. "Persistent job and income growth in Orlando is driving an increase in home sales," an economist with PNC Financial Services Group informed the *Orlando Business Journal* in late November. Sales were up 14.0% in October year-over-year, according to the report. Prices have risen as well. According to Orlando Regional Realtor Association as cited by the *Journal* in a separate November report, the October median selling price was $122,900, up 9.24% year-over-year. Further, "the inventory of foreclosed homes in Central Florida was moving well in the third quarter," the *Journal* reported in December. The 3,353 short sales and bank-owned home sales completed during the third quarter were up 31.8% year-over-year and were up 46.9% from the second quarter of 2012. A final good sign is the

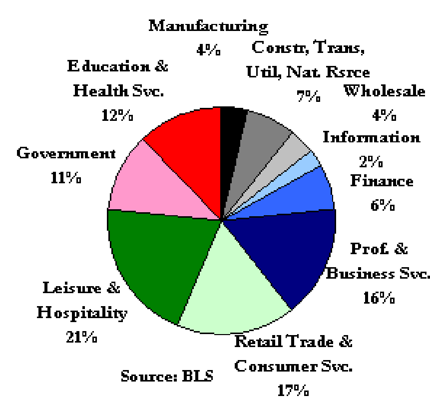
Employment:

- *The BLS reports a seasonally unadjusted unemployment rate of 8.4% in September for the Orlando-Kissimmee-Sanford MSA, down from 10.5% one year earlier.*
- *Moody's Economy.com reports a third quarter 2012 average household income of $94,557 for Orlando. Average household incomes of $125,309 and $114,183 are reported for the top metros in the nation and South Atlantic region, respectively.*

Employment Growth:



Employment by Sector:



return of construction. According to the U.S. Bureau of the Census, meanwhile, the 9,277 residential building permits awarded through the first 10 months of 2012 were up 88.9% from the total recorded for the comparable period of 2011. Of this sum, 6,024 were for single-family detached residences, up 54.9%.

Orlando's economy has thrived as well as a result of strong population growth. Annual increases above 3.0% were common pre-2006. After falling nearly to the national rate, local population growth is again on the rise. Moody's Economy.com projects a 1.9% increase in 2012 to be followed by a gain of 2.4% in 2013.

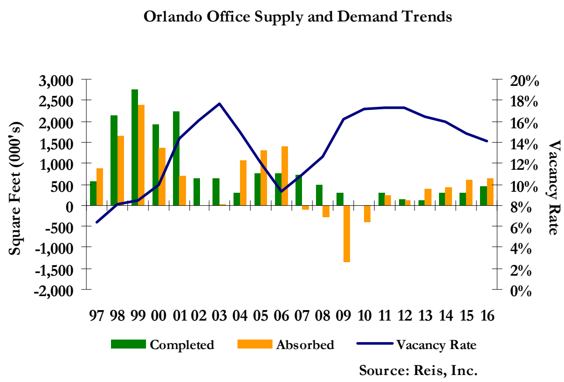
OUTLOOK

Orlando remains dependent on its established sources of growth—tourism, housing and population growth. As long as the national economy continues to progress, these segments of the local economy should expand as well. Others should follow suit.

THE REAL ESTATE MARKET

OFFICE

Orlando's relatively small 32.7 million-square-foot general purpose, multi-tenant office market has yet to launch a substantial recovery. While absorption has turned positive, it continues to trail new supply volumes (neither of which are large, however). And although job growth is running very strong in some sectors, the gains reported for the Professional and Business services sector, as indicated, are relatively modest. Since reaching 17.4% in the third quarter of 2010, the vacancy rate has scarcely budged. Indeed, it closed the third quarter of 2012 at 17.5%, the highest rate of the latest cycle (and the highest since 1990).



Net absorption year-to-date through the third quarter alongside 147,000 square feet of new supply (see below) was just 37,000 square feet. The third quarter total alone was negative 43,000 square feet. A decline in vacancy to 17.4% followed in October amid 49,000 square feet of positive absorption. Rent growth reflects the apparent stagnation. At $21.00 psf and $16.64 psf, third quarter asking and effective averages were up one cent and unchanged for the period (growth at 0.0% for both rates). Respective year-to-date growth rates were negative 0.3% for both rental categories. Rent growth for the year, despite the small gains anticipated for the fourth quarter, is expected to be negative. Accordingly, no appreciable changes are indicated for October.

The year 2012 all told will see 147,000 square feet of competitive general purpose office space complete construction in two projects, both of which arrived on line during the first quarter. The 134,000-square-foot Building 1 at Kirkman Point Professional Park completed in February in South Orlando. The 12,500-square-foot Building 10 at Lake Nona Village completed in the same submarket the following month. Still on the

Special Real Estate Factors:

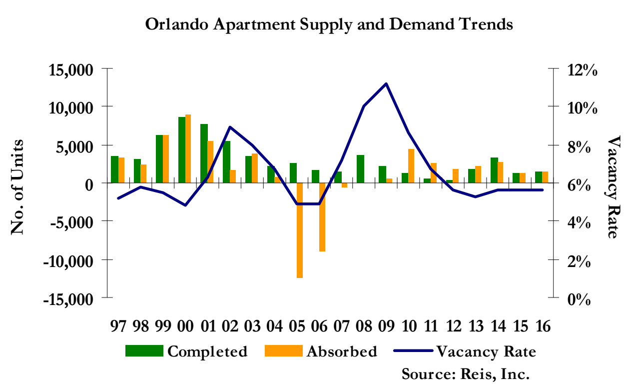
- ***Office***: *An exception. Despite an overall "softness" in demand, "the Southwest Orlando submarket, which has been the market leader since the start of 2011, continued to show strong tenant demand," reports Jones Lang LaSalle in its third quarter report on the local market. "Despite loosening conditions in the first half, the submarket, which is heavily dependent on the tourism sector, absorbed 80,000 square feet of direct space. Moreover, we expect significant absorption in the fourth quarter as tenants occupy already-leased space." (Reis' South Orlando submarket, corresponding to some degree to the area designated by Jones Lang LaSalle, saw 217,000 square feet of net absorption in the first three quarters of 2012, a sum more than four times the metro area total for the period.)*

under-construction list is the 100,000-square-foot Majesty Building in Altamonte Springs. Construction began as long ago as 2000. Office-condo and retail components also are included. The $40 million building should be ready for tenants by February 2014, the *Orlando Business Journal* reported in November. The market's remaining construction activity includes three widely-dispersed medical-office projects with a combined total of 56,000 square feet.

- *Positive net absorption during the fourth quarter should reduce the vacancy rate to 17.3%. Additional declines are expected for 2013 as demand improves. Rent growth should remain positive in the year ahead.*

APARTMENT

A slowdown in construction, strong rental demand, a jobs-producing economy and a return to rates of population growth more typical for this area are driving a persuasive apartment market recovery. Net absorption of 1,435 market-rate units through the first three quarters of 2012 meshed well with 717 units of new supply. Construction, however, is slowly ramping up. According to the firm's December 11 report on individual projects, 1,034 market-rate units are expected to complete all told in four projects in 2012, all of which had delivered per the date of this report. The year's largest, finishing in February, is the 420-unit Camden Lavina in southeast Orlando. In addition, 2,294 units were under construction in seven projects per report date, 698 of which, in three, are assigned 2013 delivery dates. And three others with a combined total of 988 units are scheduled to break ground by the end of April 2013.



Among projects recently started, the 462-unit Colonial Grand at Randal Park in southeast Orlando broke ground in September. And an August groundbreaking is indicated for the 410-unit third phase of Post Lakes at Baldwin Park in northeast Orlando. In December, the *Orlando Business Journal* reported at the time, ground was broken by Southgate

Special Real Estate Factors:
Continued

- ***Apartment**: Impediments to development. "Despite general improvement in the capital markets over the past year," states Marcus & Millichap's fourth quarter 2012 report on the local market, "construction loans remain challenging except for the most qualified sponsors. Also, local construction employment has been decimated, placing added pressure on builders to cost-effectively assemble experienced crews should a backlog of projects develop."*
- *Robbins Property Associates paid Sentinel Real Estate Corporation $30 million for the 43-building, 348-unit Highpoint Club Apartments in Orlando's Waterford Lakes neighborhood "within the high-performing University/East Orange County submarket," GlobeSt.com reported in November.*

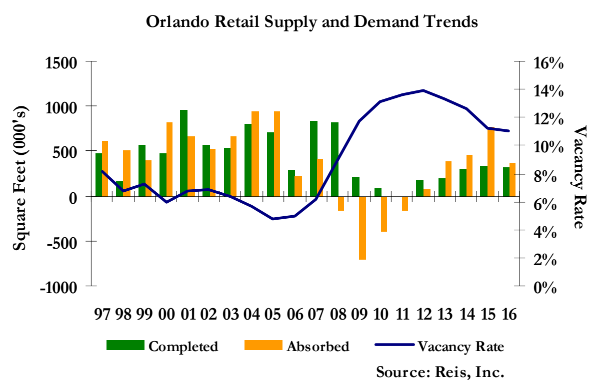
Development for a 35-acre site near Seminole Towne Center for a $70 million "apartment and restaurant development." A 20-acre site has been sold to Greystar Corporation for apartment development. Others are on the way.

The market seems well-primed for the new construction. Vacancy ended the latest quarter at 5.9%, down 30 basis points for the quarter, down 80 year-to-date. The 27 units of net absorption that followed in October made no impact on the vacancy rate. Additional absorption in fourth quarter, however, is expected to result in additional declines. Rent growth lends additional support. At $895 and $840 per month, third quarter asking and effective averages were up 0.7% and 0.8% for the period and were up 2.3% and 3.1% year-to-date. October followed with gains of 0.2% for both—on the way to respective growth rates of 3.4% and 4.4% for the year all told. All losses sustained as a result of the recession and its weak aftermath, moreover, have been redeemed.

- *The market's strong fundamentals should remain in place, barring the unforeseen. The increases in construction now getting underway should lead to a balanced market with vacancy under 6.0% for an extended term; oversupply is not anticipated (see Special Real Estate Factors for related commentary). Rent growth in the neighborhood of 4.0% per year is expected for the period ahead.*

RETAIL

Recovery, following severe recessionary setbacks, finally is taking hold in the local retail real estate market. Marcus & Millichap attributes the positive turn to two economic factors—the return of expansion and strong job growth to the Leisure and Hospitality sector as tourist volumes increase; and expansion in the Education and Health Services sector.



Generally speaking, community-neighborhood shopping center markets tend to be a little slower to recover than some other classes of retail

Special Real Estate Factors:
Continued

- ***Retail**: Huge project, huge impact. Osceola County commissioners have approved Compass (a.k.a. Center for International Commerce), a $1.2 billion retail-hotel-commercial development proposed for a site across the street from Osceola Heritage Park in Kissimmee, the Orlando Business Journal reported in December. A $1.4 billion economic impact is anticipated. Plans call for 1.5 million square feet of "wholesale/retail space." a 500-room hotel and 728 residences. "Compass is envisioned to become the gateway hub for Asian and South American manufacturers to connect with American, and European buyers. Compass will exist to assist American and European buyers in purchasing manufactured products at full-container-load prices and less than container-load quantities."*

property. That, in any case, appears to be the case in Orlando. Indeed, the vacancy rate, while nearly flat, continues to inch up slightly amid unsteady demand. Thus vacancy in this sector closed the latest quarter at 13.8%, up 10 basis points for the period and a return to the first quarter cyclical high. While October followed with a decline of 10 basis points, Reis' third quarter analysis calls for an increase in the rate to 13.9% by year-end—a new peak. The third quarter national rate for this property category was notably lower at 10.8%.

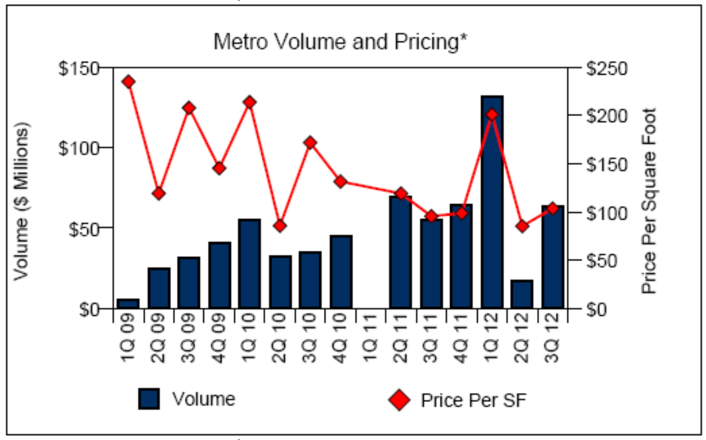
The near-100,000 square feet of community-neighborhood sector space that arrived on line in two projects year-to-date through the third quarter (both in April) were accompanied by only 26,000 square feet of net absorption market-wide. The total for the third quarter alone was negative 40,000 square feet. Fourth quarter, additionally, is expected to see 192,000 square feet deliver in three additional neighborhood centers, two of which, with 125,400 square feet between them, delivered in November. Meanwhile, an 114,000-square-foot community center expansion commenced in October in southeast Orlando. A June 2013 finish is expected. Rent growth remains stingy. At $17.34 psf and $14.83 psf, third quarter mean asking and effective rates for community-neighborhood shopping center space were up 0.3% and 0.2% for the period but were down 0.2% and 0.3% year-to-date. October followed with loses of 0.1% for each.

The development of large-format projects has been largely absent. (A major exception now moving forward is described in *Special Real Estate Factors*; others are in planning phases). A few mixed-use developments, an outlet center expansion and the 850,000-square-foot Pavilion at Sand Lake regional-scale project, are listed by Reis as "planned." However, only one power center, a 400,000-square-foot project planned for Clermont, is found in the current development pipeline. Reis put third quarter power center vacancy at 7.8%, down 150 basis points for quarter alone, down 120 year-over-year. The third quarter national rate, for the sake of comparison, was notably lower at 6.1%. The third quarter mean asking rent for local non-anchor power center space was $21.75 psf, down 0.9% year-over-year.

- *With fourth quarter's portion of new supply, vacancy in the community-neighborhood shopping center market could rise additionally by year-end before a definitive downward trend takes hold in 2013. Losses of 0.1% and 0.2% are projected for both the average asking and effective rents for 2012 all told. Positive growth at about 1.0% should follow in the new year.*

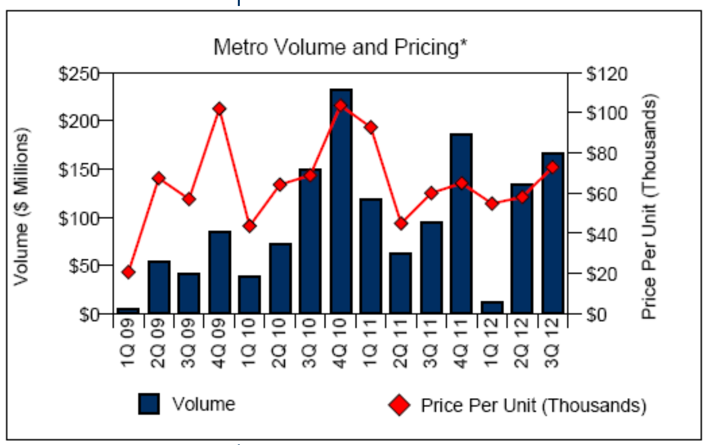
TRANSACTION ANALYTICS

Office



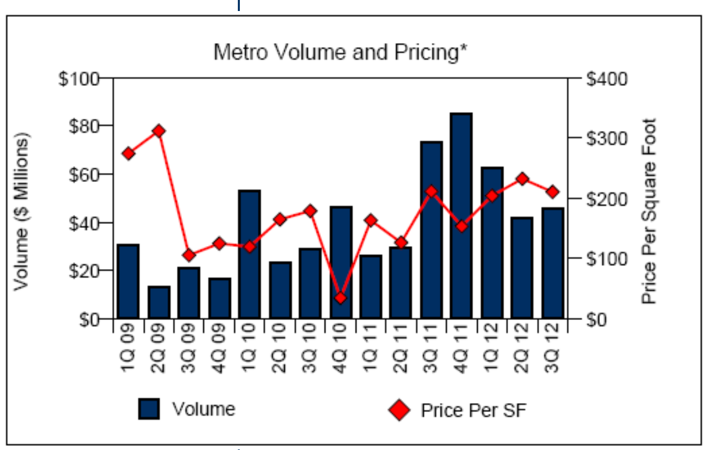
The $63.1 million gathered by eight qualifying office investment sales during the third quarter brought the year-to-date total to $211.6 million for 11 deals, above the dollar total recorded for all of 2011.* Average selling prices for the quarter and year-to-date were $104 and $145 psf. In the third quarter's largest deal, second-largest in a year, West Partners LLC paid Inland Real Estate Investment Corporation $31.1 million ($155 psf) for the 200,929-square-foot fully-occupied, 220 Celebration Place single-tenant property in Kissimmee. The deal closed in September at a 7.3% cap rate.

Apartment



Apartment investment has been relatively steady over the past couple of years. The $312.1 million exchanged in 15 deals through the first three quarters of 2012 left the market roughly on track with levels of activity seen in 2011 and 2010. The total for the latest quarter alone for six completed transactions was $166.2 million. Average selling prices for the quarter and year-to-date were $73,000 and $65,000 per unit. The average cap rate for the third quarter sales was 8.0%. The 12-month mean rolling cap rate per quarter-end was 6.9%. In the quarter's largest sale, second largest in a year, Mid-America Apartments LP paid Rock Companies $49.5 million ($125,635 per unit) in August for the 1.0%-vacant, Class A, 394-unit Legend Lake Nona property in Orlando.

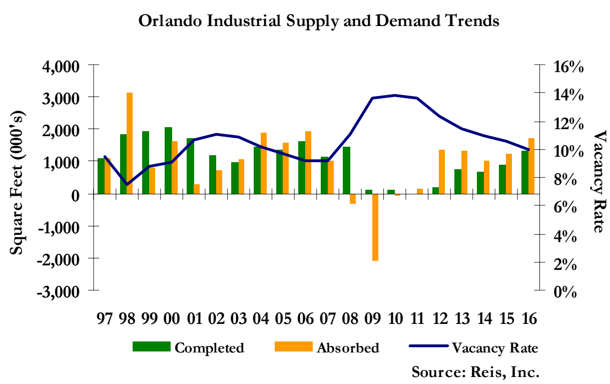
Retail



The $45.7 million exchanged in 12 retail deals during the third quarter of 2012 kept the market on pace, more or less, with the performance seen in 2011. The total year-to-date for 29 transactions was $149.8 million. Average selling prices for the latest quarter and year-to-date were $210 psf and $213 psf. Respective mean cap rates were 8.8% and 8.3%. The 12-month rolling cap rate per the end of the latest quarter was notably lower at 6.6%, down 60 basis points from a year earlier. In third quarter's largest sale, second-largest in a year, PX Regency Village LP paid American Commercial Realty Corporation $16.0 million ($177 psf) for the 90,311-square-foot Regency Village neighborhood center in Orlando. The sale closed at the end of August at an 8.0% cap rate. The property, built in 2002, was 3.0% vacant at date of sale.

INDUSTRIAL

Recovery in the Orlando warehouse/distribution market proceeds unevenly but persuasively nonetheless. Net absorption, accompanied by no new supply deliveries, leapt to 583,000 square feet in the third quarter following a negligible positive total the quarter before. The total year-to-date through the third quarter, alongside just 97,000 square feet of new supply in two new projects, was 879,000 square feet. The completion since the quarter ended of two additional projects with a combined total of 167,800 square feet brought the 2012 total to about 265,000 square feet, some of which is speculative. No other warehouse/distribution projects will complete in 2012. None was under construction per the date of this report.



While the development of warehouse/distribution space has been limited, a start is drawing near for one major project. Reis reports a February 2013 groundbreaking date set for a 970,000-square-foot distribution center for grocer Publix at 5 Goldenrod Road, Orlando. Completion should follow in November 2014. In addition, a potentially large deal by Amazon.com may be looming on the horizon. The firm, which has been expanding in markets across the country, usually in huge distribution facilities, may now have its eyes on Orlando—for space or land for a new distribution center, the *Journal* reported in November. A 300,000-square-foot first phase is seen as a possibility.

Special Real Estate Factors:
Continued

- ***Industrial**: Commentary on demand, Cushman & Wakefield, Third Quarter 2012. "While absorption remained positive and overall vacancy registered its greatest decline since first embarking on its downward trajectory in late 2010, both developments were primarily driven by past events as a decline in leasing volume in the quarter gave rise to concerns moving forward.... A sharp drop-off in leasing undoubtedly poses some questions for the Orlando industrial market. However, while a diminished absorption pipeline will ensure only modest improvement in the final quarter, Cushman & Wakefield believes tenant interest will re-intensify through 2013 in the face of both rising consumer demand and greater political clarity."*

Favorable demand in conjunction with limited new supply deliveries has pointed the vacancy curve downward. From its 16.5% peak five quarters earlier, the rate had slipped to 14.9% by the end of third quarter 2012 (the decline for the quarter alone was fully 90 basis points). The completion of 88,000 square feet in October accompanied by 110,000 square feet of negative net absorption drove the vacancy rate to 15.2%. Two years of loss for average rents have been followed by moderate growth in 2012. At $4.50 psf and $4.05 psf, asking and effective averages were up 0.2% and 0.7% for the period and were up 0.4% and 1.3% year-to-date. October's negative absorption was accompanied by an essentially flat performance for rents.

Positive net absorption at 274,000 square feet in Orlando's 23.5 million-square-foot Flex/R&D sector for the first three quarters of 2012 was accompanied by no new supply deliveries. The third quarter net absorption total was 169,000 square feet. While October took 6,000 square feet back in the form of negative absorption, additional positive numbers are anticipated for the year's final two-month span. Vacancy ended the third quarter at 11.1%, down 80 basis points for the period, down 120 year-to-date. October added back 10 points. At $7.27 psf and $6.40 psf, average third quarter Flex/R&D asking and effective lease rates were up 0.1% and 0.3% for the period and were up 0.7% and 1.6% year-to-date. The mean asking rate saw no change in October while the effective average shed a penny. Small increases are expected for the fourth quarter all told. The sole industrial project under construction metro wide per report date is the 100,000-square-foot Second Harvest Distribution Center in northwest Orlando, classified as Flex/R&D. Construction began in May and is scheduled to conclude in January 2013. In addition, a February 2013 start is scheduled for a 150,000-square-foot bioscience wet lab in northeast Orlando. A May 2014 completion date is cited.

- *The warehouse/distribution market should continue to tighten in 2013 and after. Progress, though, may be less than rapid as construction activity increases. Rent growth at 0.9% asking and 1.5% effective in 2012 should be followed by moderately higher growth rates.*

Vacancy

Sector	3Q12	3Q11	Chg
Office	17.5%	17.3%	20 bps
Multifamily	5.9%	7.4%	-150 bps
Retail	13.8%	13.6%	20 bps
Warehouse	14.9%	16.3%	-140 bps
Flex/R&D	11.1%	12.3%	-120 bps

Rents

Sector	3Q12	3Q11	Chg
Office	$21.00 psf	$21.03 psf	-0.1%
Multifamily	$895 month	$879 month	1.8%
Retail	$17.34 psf	$17.42 psf	-0.5%
Warehouse	$4.50 psf	$4.48 psf	0.4%
Flex/R&D	$7.27 psf	$7.22 psf	0.7%

For additional metro and submarket level information on the 82 top markets for the four principal property types, visit www.reis.com or call Reis at: (800) 366-REIS.