

OFFICE MARKET OVERVIEW

The compilation of the *Maddux Report* survey, a local real estate monthly publication, includes multi-tenant office buildings with a minimum of 25,000 square feet in Hillsborough and Pinellas counties and 15,000 square feet in Polk, Pasco, Pinellas, Sarasota and Manatee counties. Buildings fully leased for two or more quarters are excluded. Therefore, we have considered the Maddux data accordingly. The subject property is located in the Hernando County market. Although the Maddux Office Market Overview does not cover Hernando County, it is a good indication of the overall market.

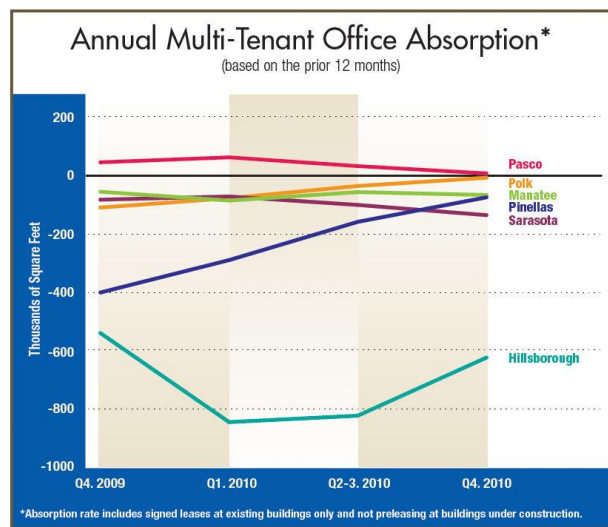
According to the Maddux Report, in their research report by Laurel S. McQueen entitled *Office Vacancy: An All-Time High* she reports:

“At the end of 2010 Tampa Bay’s office vacancy rate hit the highest level reported by the Maddux Report in the past 27 years – 23.7 percent. The vacancy rate was 21.8% in our prior appraisal.

At least 13.7 million square feet stands vacant out of a total inventory of 57.7 million square feet region-wide. Of those vacancies, 52.3% are in Hillsborough County; 26.2% in Pinellas; and 9.6% in Sarasota.

Meantime the region’s ongoing contraction of office leasing activity – or negative absorption – slowed in 2010 by only about on-fifth when compared to 2009. But it’s still worst than 2008.

Only two counties improved over 2009 – Pinellas and Polk. Of the region’s loss this year, Hillsborough accounted for 69 percent; that compares to 47 percent in 2009.”



Multi-Tenant Office Market							
	Existing Leasable Space (S.F.)	Existing Vacant Space (S.F.)	% Vacant	Total Space Under Construction	Net Qtrly. Absorp.*	12-Month Absorp.*	Weighted Average Rents
Downtown	6.67-Mil	1.57-Mil	23.6%	0	4,100	-120,000	\$21.75
Westshore	12.27-Mil	2.98-Mil	24.3%	0	-80,300	-342,030	\$23.60
Southwest	413,010	70,100	17.0%	0	-2,370	-14,380	\$21.61
Northwest	2.86-Mil	484,140	16.9%	0	-65,340	-71,740	\$18.02
North Central	881,210	261,215	29.6%	0	-44,130	-16,160	\$16.67
I-75 Parkway	8.13-Mil	1.79-Mil	22.0%	0	-600	-59,180	\$18.33
Hillsborough Total	31.22-Mil	7.16-Mil	22.9%	0	-188,640	-623,490	\$21.21
Clearwater/North	3.23-Mil	920,970	28.5%	0	44,120	41,920	\$16.90
Bayside	1.6-Mil	413,250	25.8%	0	47,760	-900	\$17.68
Gateway and Mid	5.1-Mil	1.31-Mil	25.8%	0	-84,800	-37,230	\$17.76
South	641,290	360,080	56.1%	0	-750	840	\$14.86
St. Petersburg	2.29-Mil	577,270	25.3%	0	-53,530	-78,820	\$20.21
Pinellas Total	12.86-Mil	3.58-Mil	27.9%	0	-47,200	-74,190	\$17.86
Downtown	2.33-Mil	418,540	18.0%	0	-75,960	-101,390	\$20.88
I-75 Corridor	2.82-Mil	595,930	21.2%	0	7,440	15,570	\$18.32
Suburban/Venice	1.88-Mil	294,490	15.7%	0	6,190	-48,970	\$14.62
Sarasota Total	7.02-Mil	1.31-Mil	18.6%	0	-62,330	-134,790	\$18.16
Manatee	3.08-Mil	682,420	22.2%	0	-31,335	-65,880	\$17.75
Pasco	1.49-Mil	444,990	29.9%	0	-8,140	7,590	\$14.66
Polk	2.05-Mil	497,980	24.3%	0	11,980	-7,020	\$13.77
REGION TOTAL	57.72-Mil	13.68-Mil	23.7%	0	-325,665	-897,780	\$19.49

For Pinellas:

“2010 is a case not so much of good news ... but of the best bad news it’s had in a while. It closed the year with an annual loss of 74,190 sf – about one-fifth the loss of 2009 and the best level in three years. Class A space contributed to about three-fourths of this loss, driven primarily by Downtown St. Petersburg. The county’s vacancy rate remained stable at 27.9% while Class A space notched up to 26.7% and Class B-C fell a bit to 29.2%. Rents for the county dropped an average of \$0.94 per sf through the year.

Bayside recorded substantial leasing for the quarter at 47,760 sf – its best in 16 quarters. Its asking rents declined an average of \$1.30 per sf over the year.

Gateway had a net quarterly loss of 84,800 sf, thus wiping out all its gains through the year. About two-thirds of that loss came from Class B-C space. Its rent average declined by \$0.65 per sf in 2010.

Downtown St. Petersburg’s loss for the year of 78,820 sf was greater than all of Pinellas County’s. And its asking rents endured one of the region’s sharpest declines – an average of \$1.80 per sf.”

We expect the Hernando County office market to continue to struggle until the real estate market and economy begin a recovery and the excess inventory of space is absorbed.