



Phoenix
Apartment Market Survey
1st Quarter 2009

Bernard/Allison Management Services, Inc
2400 East Arizona Biltmore Circle, Suite 1400
Phoenix, Arizona 85016
(602) 840-8337

An Institute of Real Estate Management
Accredited Management Organization

Table of Contents

Executive Summary	2
Quarterly Vacancy	3
Four Quarter Moving Average Vacancy	4
Average Annual Vacancy vs. Rent Changes	5
Inventory & Occupied Units	6
New Units & Absorption	7
Apartment Permits	8
Housing Inventory	9
Apartment Inventory by Unit Type	10
Average Rent by Unit Type	11
Apartment Sales Price Per Unit	12
Apartment Value by Rating	13
Employment	14
Population	15
Apartment Expense Distribution	16
Sources of Information & Editor's Note	17

Executive Summary

While three of the five major metrics indicated flat or worsening conditions, the absorption fundamental began to demonstrate a positive characteristic. It is uncertain whether this points to a "market-bottom"; however absorption is often a leading indicator (2nd consecutive quarter showing improvement).

Rents continued to drop and vacancy was slightly up, however new construction activity showed slowing- a positive indication. If we continue to absorb multifamily product at a more "normal" level, we could see some improvement in other fundamentals.

The second quarter should reveal a great deal about the direction of the market.

VACANCY:	↑
ABSORPTION:	↑
RENTS:	↓
PERMITS:	↓
SALES:	↓

Vacancy

- Metropolitan Phoenix: 12.65%
- Quarterly Comparison: (increase from 4th Quarter 2008) 0.12%
- Annual Comparison: (increase from 1st Quarter 2008) 2.38%
- Statistical District High: 19.53% (12-W. Central Phoenix)
- Statistical District Low: 7.60% (15S-Ahwatukee Foothills)

Absorption

- Metropolitan Phoenix: 1,121 units
- Statistical District High: 255 units (20-W. Suburbs)
- Statistical District Low: -199 units (6-Glendale)

Rents

- Metropolitan Phoenix (average monthly unfurnished) \$781 per unit
- Rent per Square Foot: \$0.93 per Square Foot
- Quarterly Comparison: (decrease from 4th Quarter 2008) \$4.00
- Statistical District High: \$952 (1N-N. Scottsdale/Ftn. Hills)
- Statistical District Low: \$592 (7-NW Phoenix)

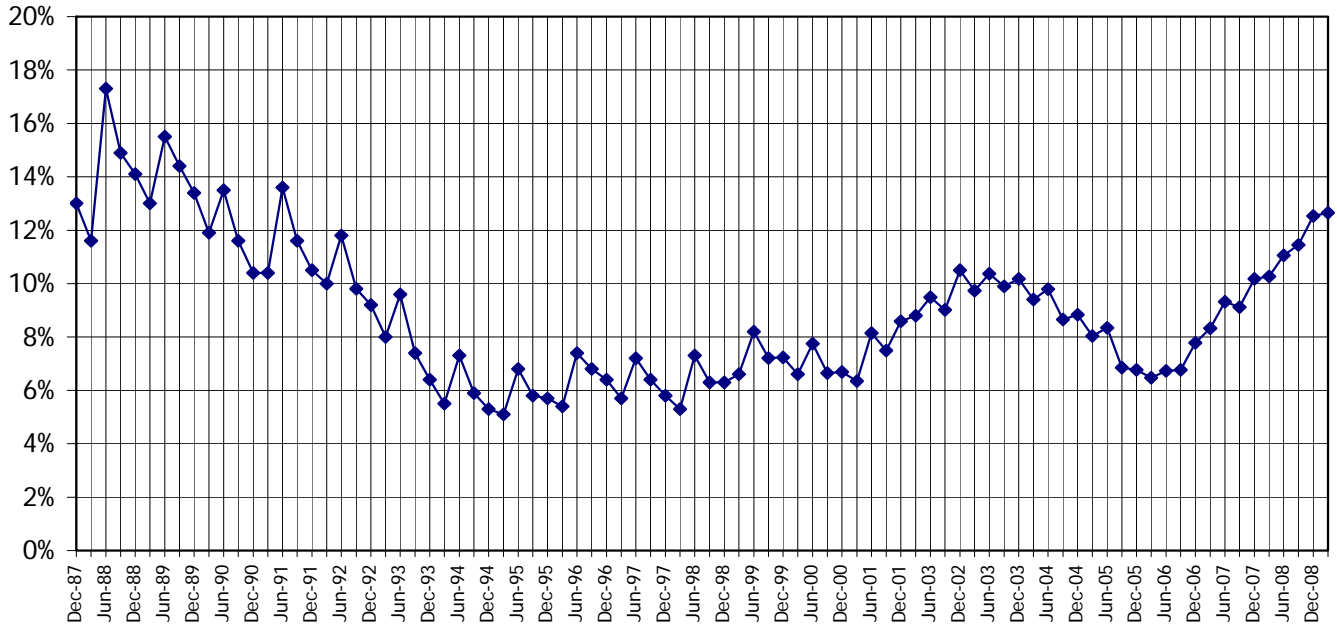
Permits

- Metropolitan Phoenix Multifamily: 349 permits
- Quarterly Comparison: (decreased from 4th Quarter 2008) -770 (-69%)
- Annual Comparison: (decreased from 1st Quarter 2008) -1,117 (-76%)

Sales

- Metropolitan Phoenix Average Sales Price: \$81,646 per unit
- Average Price per Square Foot: \$76.97 per Square Foot
- Quarterly Comparison: (decrease from 4th Quarter 2008) -\$2,606 (-3.09%)
- Average year of construction: 1986

Quarterly Vacancy Rate 1987-2009



Source: Phoenix Metro Housing Study All Units '87-'89; RealData, Inc. 100+ Unit Properties '90-'09

Submarket Vacancy:

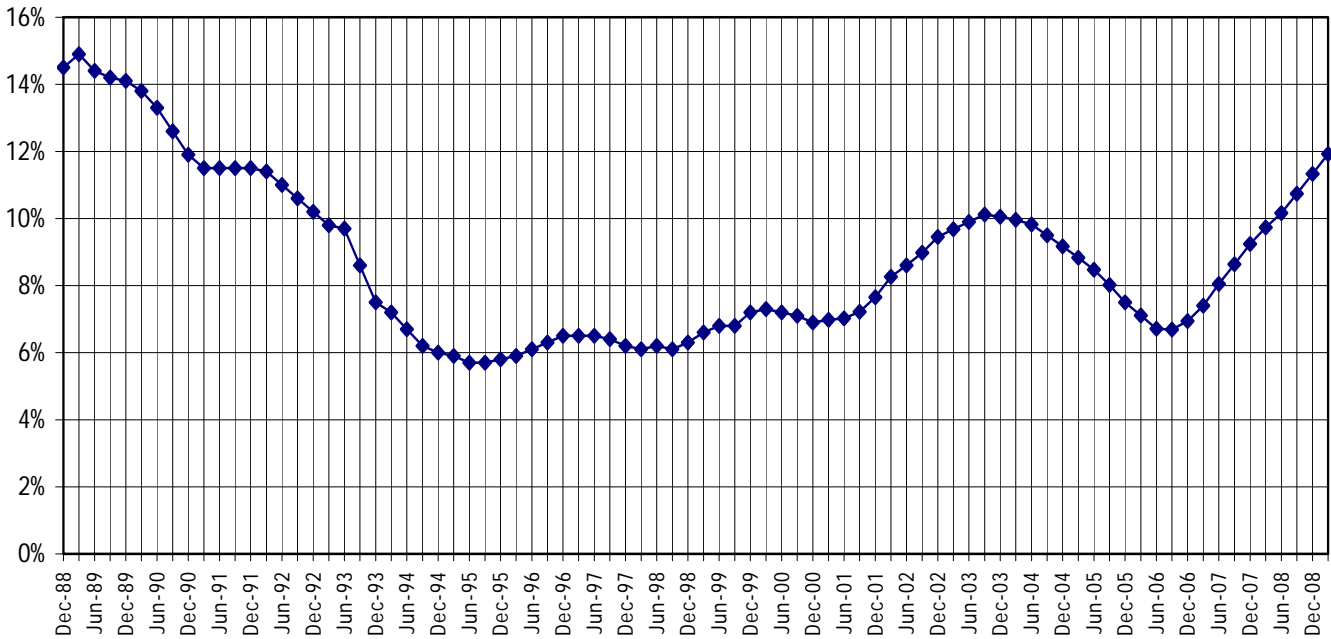
<u>District</u>	<u>% Vacancy</u>	<u>District</u>	<u>% Vacancy</u>
1N-North Scottsdale	9.31%	14-Sky Harbor	8.53%
1S-South Scottsdale	8.87%	15N-South Phoenix	11.92%
2N-North Paradise Valley	10.26%	15S-Mountain Park (Low)	7.60%
2S-South Paradise Valley	14.12%	16N-North Tempe	11.80%
3-Sunnyslope	13.50%	16S-South Tempe	9.73%
4N-North Black Canyon	13.20%	17N-North Mesa	15.07%
4S-Metrocenter	15.82%	17S-South Mesa	14.03%
5-Sun City/Youngtown/Peoria	10.57%	18N-East Mesa	8.79%
6-Glendale	17.36%	18S-Superstition Springs	10.98%
7-Northwest Phoenix	18.74%	19E-Gilbert	8.91%
8-Christown	16.03%	19W-Chandler	9.19%
9-East Camelback	15.78%	20-Western Suburbs	12.69%
10-Central East Phoenix	14.06%	21E-Union Hills	12.18%
11-Uptown	12.07%	21W-Deer Valley	9.27%
12-Central West Phoenix (High)	19.53%	22E-Northeast Maricopa County	*
13-Maryvale	15.61%	22W-Southwest Maricopa County	*

(*There are no stabilized, conventional properties in this district.)

Recent Historical Vacancy Rates:

	2005	2006	2007	2008	2009
1 st Quarter	8.03%	6.47%	8.32%	10.27%	12.65%
2 nd Quarter	8.34%	6.73%	9.32%	11.06%	
3 rd Quarter	6.85%	6.77%	9.12%	11.45%	
4 th Quarter	6.77%	7.78%	10.18%	12.53%	

Four-Quarter Moving Average Vacancy Rate 1988-2009



Source: Phoenix Metro Housing Study All Units '88-'89;
RealData, Inc. 100+ Unit Properties '90-'09

The four-quarter moving average vacancy rate is determined by adding the current quarter vacancy rate and the three previous quarters, then dividing by four. This moving annual average vacancy rate is used as a barometer to determine the relative health of the apartment market.

Historical Extremes:

- Peak: (1st Quarter of 1989) 14.9%
- Low Point: (3rd Quarter of 1995) 5.7%

Current Rate:

11.92%

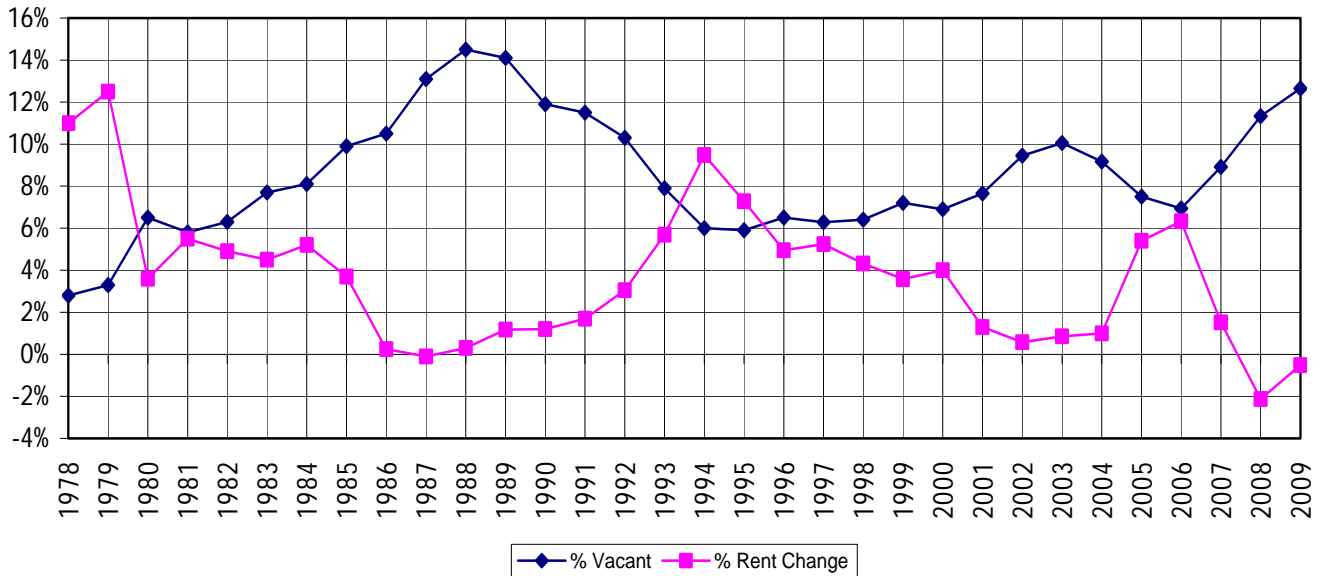
Quarterly Comparison:

- Current Quarter: 11.92%
- 4th Quarter 2008: 11.33%
- Net Quarterly Change: 0.59%

Annual Comparison:

- Current Quarter: 11.92%
- 1st Quarter 2008: 9.73%
- Net Annual Change: 2.19%

Average Annual Vacancy vs. Market Rent Changes



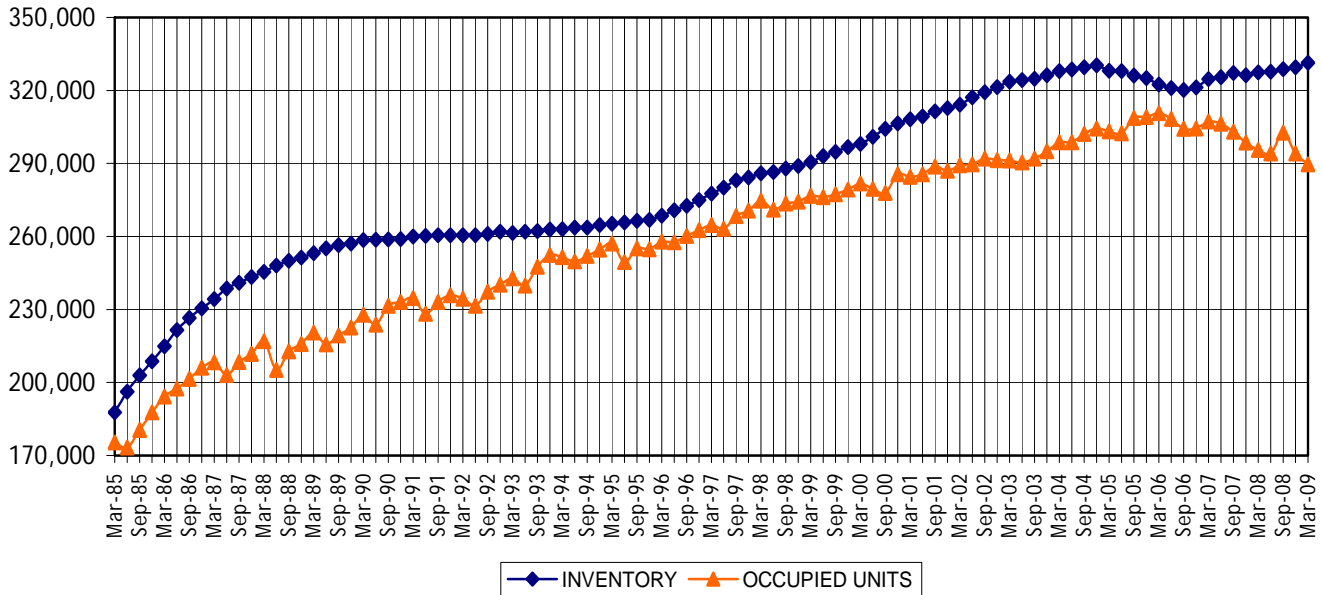
Source: RealData, Inc. 100+ Unit Properties '90-'09

This comparison shows the relationship between rent changes and the average annual vacancy rate. Rents are directly affected by vacancy rates. The rents used for this comparison are market rents and do not include the adjustment for rent concessions, delinquencies, etc. There are no data sources readily available to track net effective rent changes.

	Average Annual Vacancy	Annual Market Rent Changes*
1992	10.3%	3.05%
1993	7.95	5.69%
1994	6.0%	9.48%
1995	5.9%	7.28%
1996	6.5%	4.95%
1997	6.2%	5.24%
1998	6.4%	4.32%
1999	7.2%	3.58%
2000	6.9%	3.99%
2001	7.65%	1.30%
2002	9.45%	.58%
2003	10.05%	.86%
2004	9.17%	1.00%
2005	7.50%	5.40%
2006	6.94%	6.33%
2007	9.24%	1.52%
2008	11.33%	-2.13%
2009	12.65%	-0.51%

*Based on unfurnished, utilities and concessions excluded rental rates. Current year rent changes are based on annualized performance to date.

Apartment Inventory & Occupied Units Quarterly History

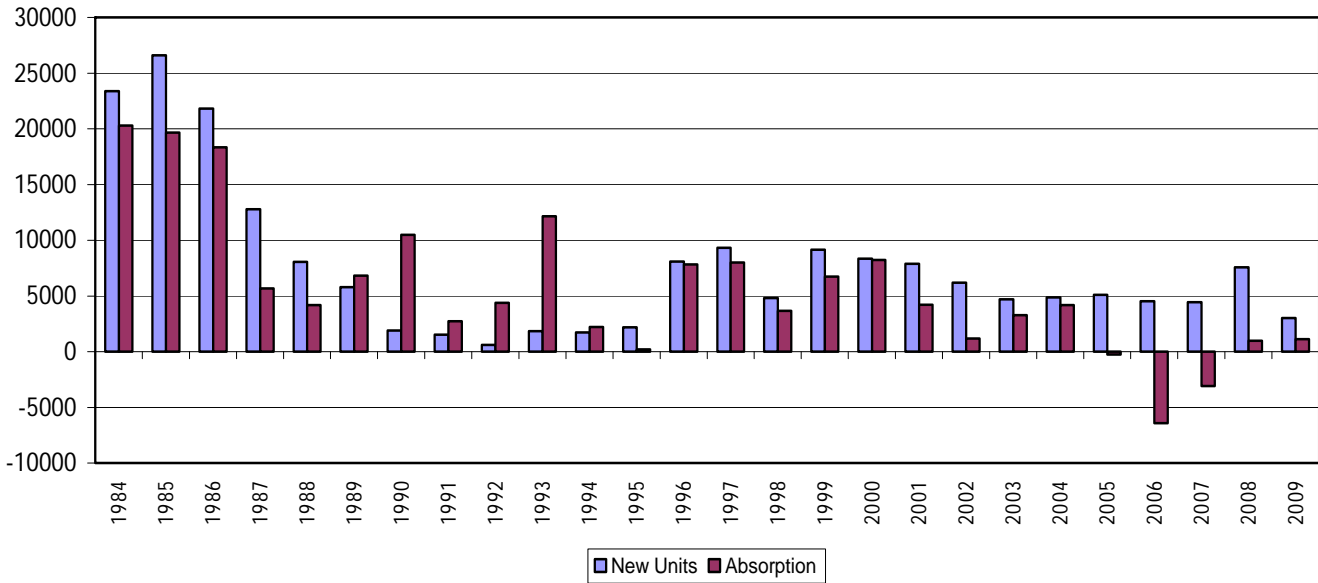


Source: Phoenix Metro Housing Study All Units

The inventory and occupied units comparison is based on sites greater than 100 units, not including 100% subsidized units, and is another general barometer of the health of the market. The distance between the two lines represents a measurement called the "vacancy gap." In general, the closer the gap, the healthier the market is. A widening of the gap indicates softening market conditions. Inventory, absorption, and vacancy rate trends can be determined by this graph.

Year	Qtr.	Occupied	Vacant	Total Inventory	Year	Qtr	Occupied	Vacant	Total Inventory
2002	1 st	289,198	25,050	314,248	2006	1 st	310,646	11,800	322,446
	2 nd	289,637	27,550	317,187		2 nd	308,343	12,675	321,018
	3 rd	292,063	27,300	319,363		3 rd	304,238	16,025	320,263
	4 th	291,334	30,125	321,459		4 th	304,369	16,925	321,294
2003	1 st	291,190	32,425	323,615	2007	1 st	307,278	17,375	324,653
	2 nd	290,373	33,900	324,273		2 nd	306,336	19,150	325,486
	3 rd	291,976	32,900	324,876		3 rd	303,008	24,225	327,233
	4 th	295,036	31,275	326,311		4 th	298,523	27,750	326,273
2004	1 st	298,723	29,200	327,923	2008	1 st	295,561	31,900	327,461
	2 nd	298,680	29,875	328,555		2 nd	294,176	33,525	327,701
	3 rd	302,157	27,325	329,482		3 rd	302,638	26,125	328,763
	4 th	304,266	26,025	330,291		4 th	294,057	35,450	329,507
2005	1 st	303,714	24,425	328,139	2009	1 st	289,638	41,750	331,388
	2 nd	302,398	25,515	327,913		2 nd			
	3 rd	308,675	17,425	326,100		3 rd			
	4 th	309,022	16,100	325,122		4 th			

Annual New Units & Absorption



Source: Phoenix Metro Housing Study '82-'98; RealData Inc. '99-'09

Apartments Under Construction:

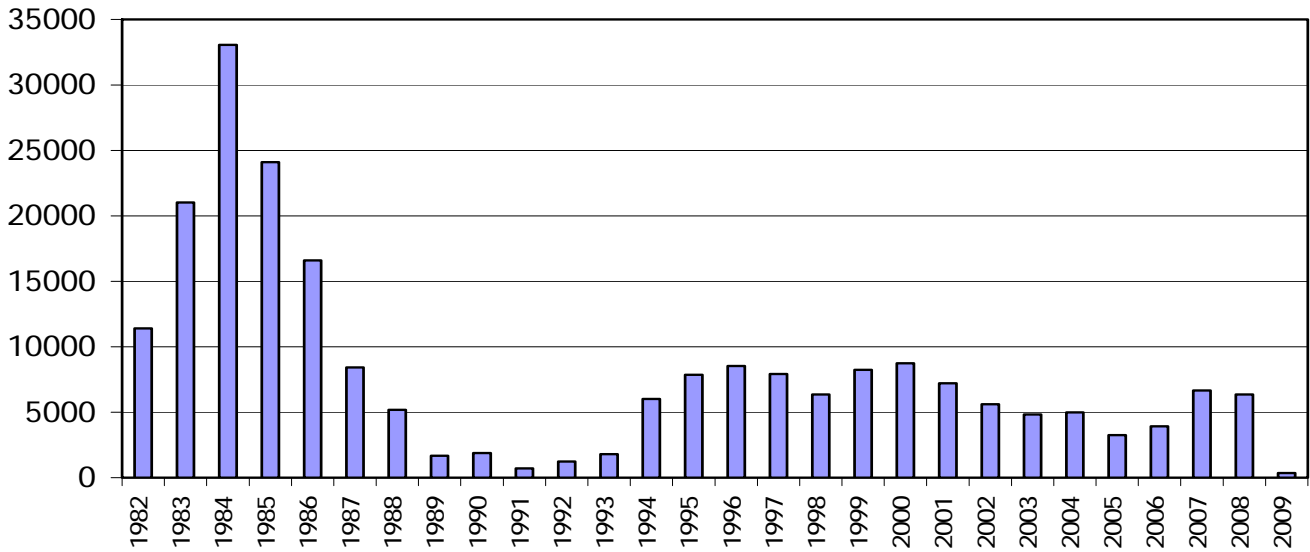
16 projects totaling 4,322 units

Statistical District Leaders:

- Under Construction:
 - N. Tempe (16N) 1,063 units
 - Deer Valley/North Peoria (21W) 807 units
- Planned:
 - Goodyear/Avondale (20) 1,232 units
 - Union Hills/Cave Creek (21E) 1,447 units

Recent Historical			Current Year		
<u>Yearly Total</u>	<u>New Apts.</u>	<u>Absorption</u>	<u>2009</u>	<u>New Apts.</u>	<u>Absorption</u>
1999	9,152	6,721			
2000	8,330	8,222			
2001	7,888	4,208			
2002	6,179	1,187			
2003	4,691	3,272			
2004	4,868	4,180			
2005	5,098	-261			
2006	4,534	-6,431			
2007	4,452	-3,108			
2008	7,570	960			
			Total	3,013	1,121

Annual Apartment Permits



Source: Phoenix Metro Housing Study

Quarterly Permits:

- Current Quarter: 349
- 4th Quarter 2008: 1,119
- Quarterly Change: -770
- Percentage Change: -69%

- Current Quarter: 349
- 1st Quarter 2008: 1,466
- Annual Change: -1,117
- Percentage Change: -76%

Recent Apartment Permitting Cycle:

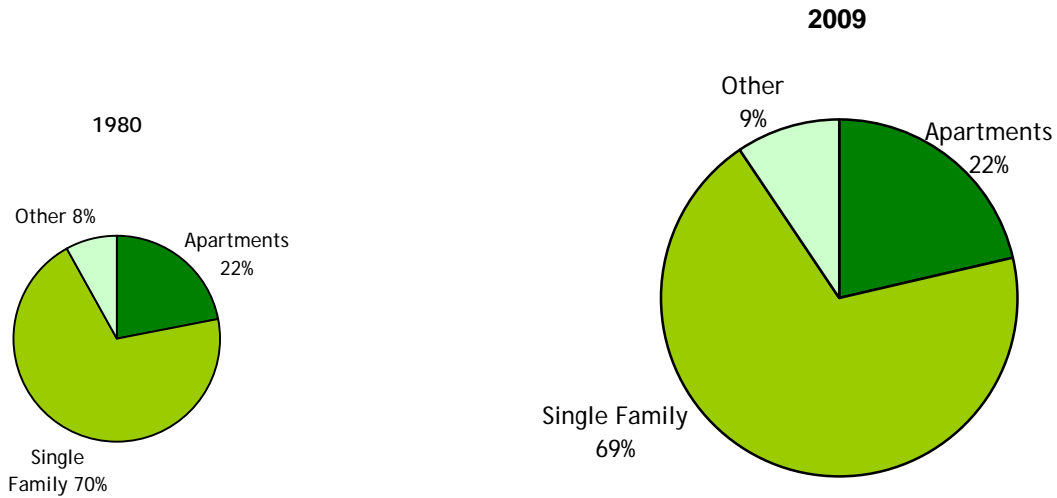
Recent Historical		Recent Historical		Current Year	
Year	# of Permits	Year	# of Permits	2009	# of Permits
1993	1,799	2002	5,607	1 st Quarter	349
1994	6,015	2003	4,836	2 nd Quarter	
1995	7,991	2004	4,997	3 rd Quarter	
1996	8,533	2005	3,250	4 th Quarter	
1997	7,930	2006	3,922		
1998	7,877	2007	6,676		
1999	8,253	2008	6,365	Total YTD	349
2000	8,741				
2001	7,201				

(25% of total quarterly permits)

Other Housing Permits:

Type	Units	% of Total Permits
Single Family Permits	839	61%
Townhouse/Condominium Permits	190	14%

Housing Inventory



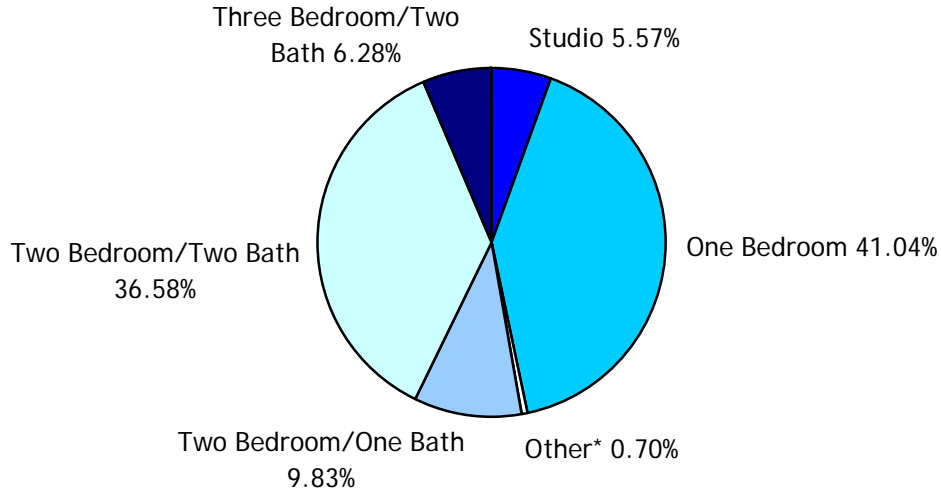
Source: Phoenix Metro Housing Study

Total Housing Inventory Changes: (expressed in housing units)

• Current Quarter:	1,542,842
• 4 th Quarter 2008:	1,538,049
• Quarterly Change:	4,793
• Percentage Change:	0.31%
• Current Quarter:	1,542,842
• 1 st Quarter 2008:	1,525,577
• Annual Change:	17,265
• Percentage Change:	1.13%

	1980 4 th Quarter Total Units	2009 1 st Quarter Total Units	New Units	% Increase over 1980 Inventory
Single Family	398,339	1,067,173	668,834	167.91%
Townhouse/Condominium	46,191	144,281	98,090	212.36%
Apartments	127,853	331,388	203,535	159.19%
Totals	572,383	1,542,842	970,459	169.55%

Apartment Inventory by Unit Type 2009



Source: RealData, Inc.**

Total Projects: 934 projects surveyed

Total Units: 231,599 units surveyed

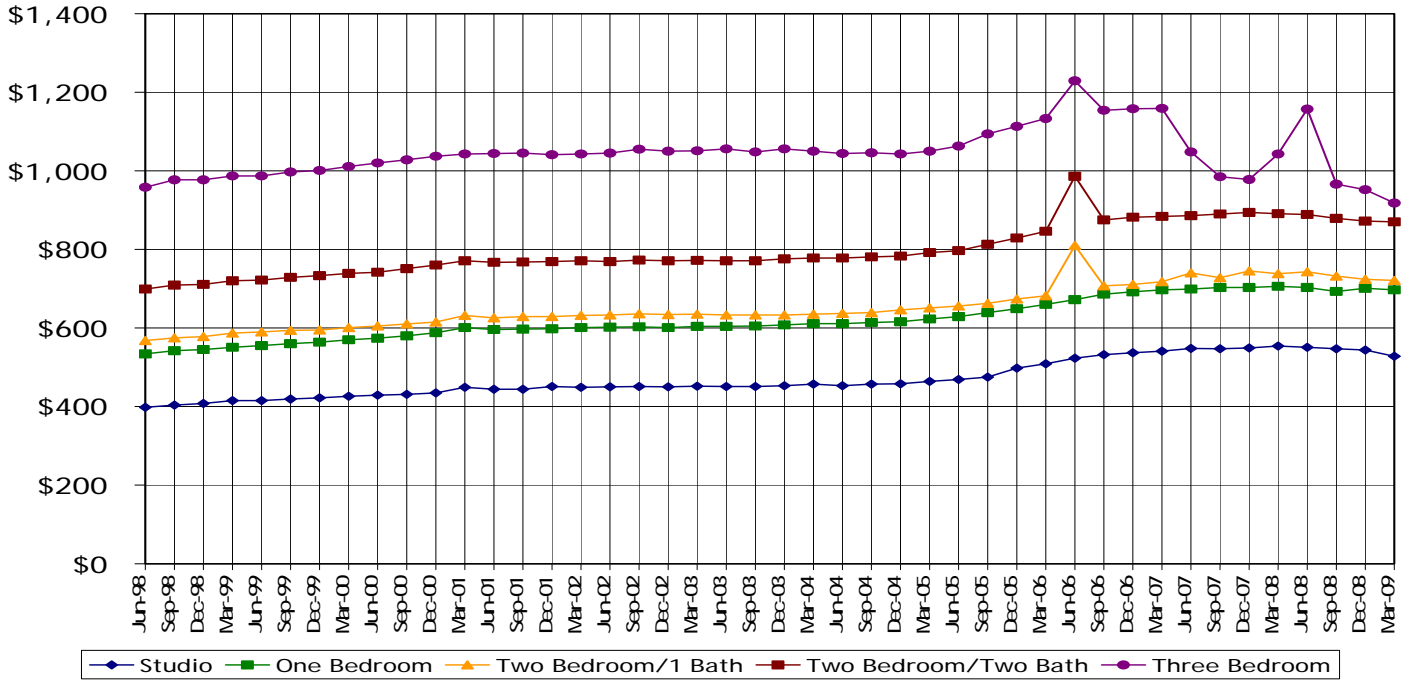
Unfurnished Apartments	Utilities Excluded Avg. SF	Utilities Included Avg. SF	% of Market Share
Studio	444	394	5.57%
One Bedroom	674	597	41.04%
One Bedroom/Den	850	850	0.24%
Two Bedroom/One Bath	812	828	9.83%
Two Bedroom/Two Bath	990	933	36.58%
Three Bedroom/One Bath	941	932	0.18%
Three Bedroom/Two Bath	1,230	1,118	6.28%
Four Bedroom	1,209	1,290	0.28%
Market Average	838	656	100%

Note: Since the late 1980's, the development trend, in terms of unit mix, has been increasingly weighted toward larger Two bedroom/Two Bath and Three Bedroom apartments.

**Other represents the combined percentages of the One Bedroom/Den, the Three Bedroom/One Bath, and the Four Bedroom Market Shares.*

***Real Data, Inc. bases the apartment inventory by unit type upon a survey of all communities of 100 units or more.*

Average Rent by Unit Type



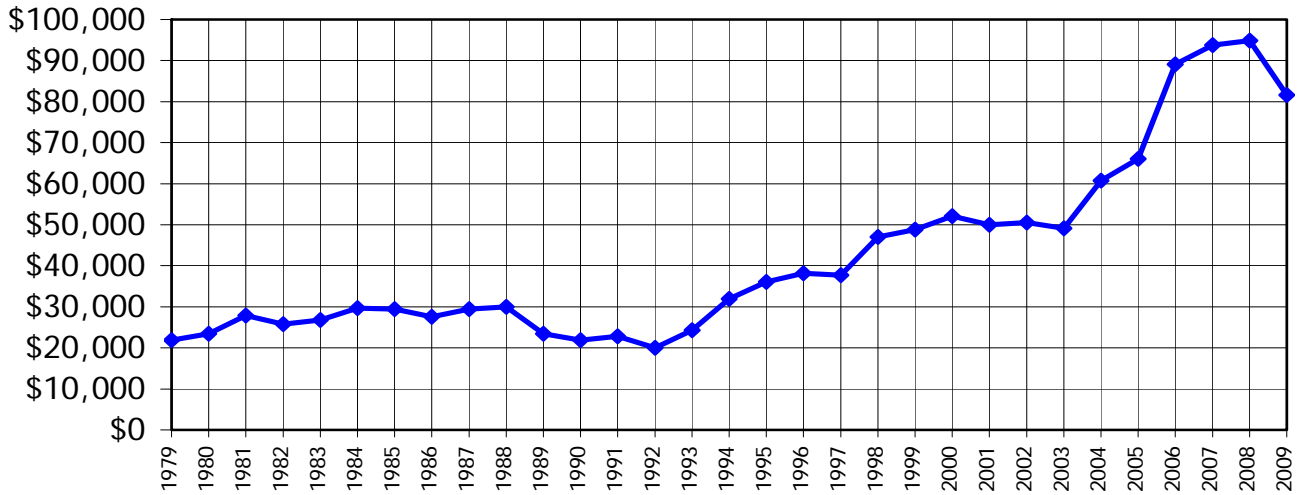
Source: RealData, Inc.*

Summary of rents for unfurnished apartments: (1st Quarter 2008 vs. 1st Quarter 2009)

Apartment Type	Utilities Excluded			Utilities Included		
	Market	Sq. Ft.	% Change	Market	Sq. Ft.	% Change
Studio	\$528	\$1.19	-2.94	\$533	\$1.35	-1.84
One Bedroom	\$697	\$0.92	-0.57	\$853	\$1.16	+29.83
Two Bedroom/One Bath	\$721	\$0.89	-0.41	\$728	\$0.88	-2.67
Two Bedroom/Two Bath	\$870	\$0.88	-0.23	\$840	\$0.90	-1.29
Three Bedroom	\$918	\$0.84	-3.57	\$918	\$0.90	-1.50
Market Average	\$747	\$0.94	-1.56	\$774	\$1.04	-3.78

*This graph represents the average quarterly market rent by unit type (utilities excluded) since 1998.

Apartment Sales (100 Units or Greater, Price per Unit)



Source: RealData, Inc.

Average Apartment Sales Price:

- Sales price per unit: \$81,646
- Sales price per Square Foot: \$76.97

Average Year of Construction:

1986

Quarterly Comparison:

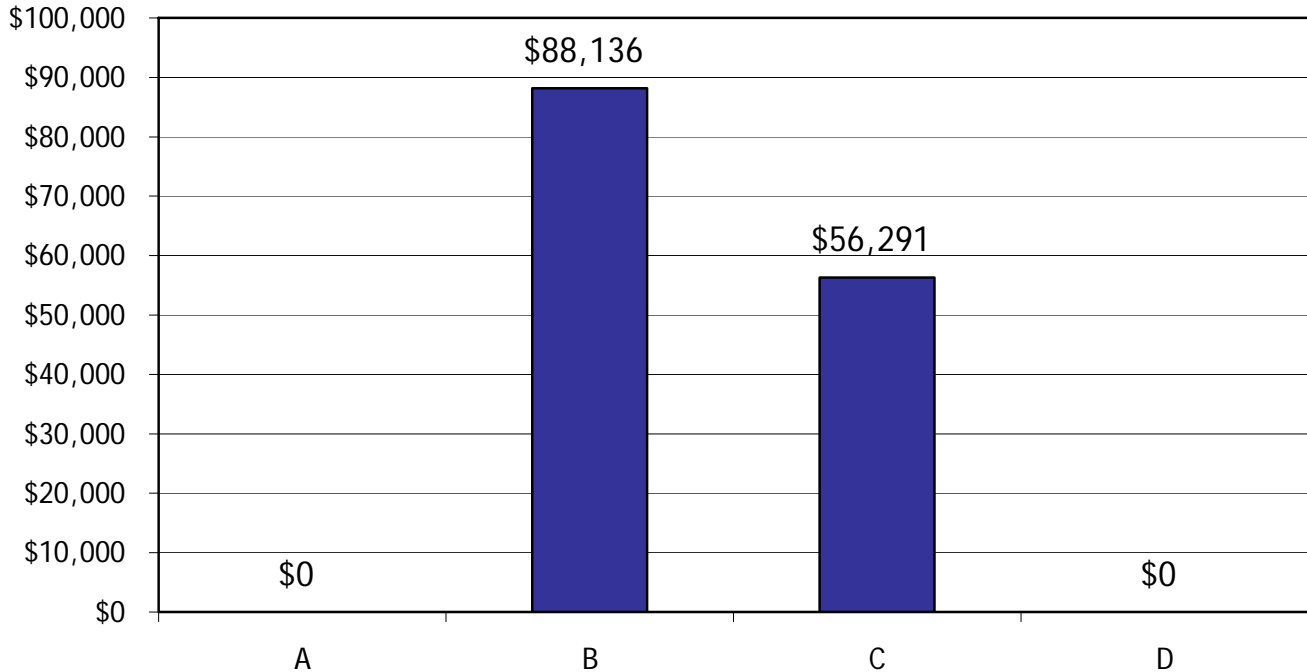
- 4th Quarter 2008 Sales Price per unit: \$84,252
- **Change in Sales Price:** -\$2,606
- **Percentage Change:** -3.09%

- 4th Quarter 2008 Sales price per Square Foot: \$105.55
- **Net Change in Sales Price per Square Foot:** -\$28.58
- **Percentage Change:** -27.08%

Historical per unit sales and per square foot averages:

Year	Per Unit	Per Sq. Ft.	Year	Per Unit	Per Sq. Ft.
1986	\$27,599	\$37.09	1998	\$47,043	\$57.39
1987	\$29,406	\$38.06	1999	\$48,826	\$59.78
1988	\$30,002	\$38.99	2000	\$52,076	\$63.88
1989	\$23,460	\$31.27	2001	\$49,978	\$61.88
1990	\$21,852	\$29.93	2002	\$50,524	\$63.53
1991	\$22,801	\$31.02	2003	\$49,165	\$62.66
1992	\$20,008	\$26.00	2004	\$60,764	\$74.61
1993	\$24,290	\$65.56	2005	\$66,011	\$82.88
1994	\$31,958	\$41.36	2006	\$89,064	\$110.61
1995	\$36,040	\$46.33	2007	\$93,770	\$117.48
1996	\$38,199	\$47.35	2008	\$94,894	\$112.37
1997	\$37,656	\$51.60	2009	\$81,646	\$76.97

2009 Apartment Values Price Per Unit Related to Quality Rating



Source: RealData; Pierce-Eislen, Inc.

Bernard/Allison analyzed 3 sales (100 units or greater) totaling 741 units, which occurred in the 1st quarter of 2009. To determine the type of property sold, each property is rated from "A" (high end) to "D" (poor, physically distressed). Property ratings are based upon Bernard/Allison standards for location, architecture, renter profile, maintenance, etc.

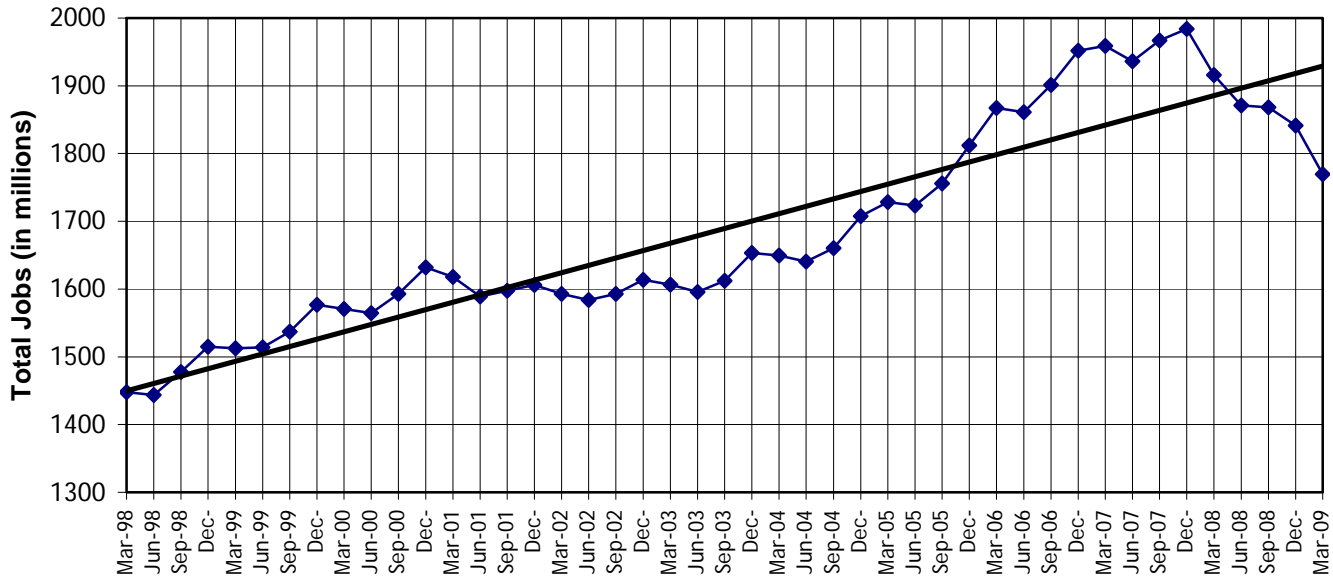
Percent of Total Sales:

- "A" Rated: 0%
- "B" Rated: 67%
- "C" Rated: 33%
- "D" Rated: 0%

1st Quarter 2009 vs. 4th Quarter 2008:

Class	Q4 2008	Q1 2009	%Change
A	\$144,145	\$0	N/A
B	\$35,354	\$88,136	149.3%
C	\$22,936	\$56,291	145.4%
D	N/A	N/A	N/A

Quarterly Employment



Source: Department of Economic Security*

12 month changes: Between March 2008 and March 2009, 136,000 net jobs were lost in Phoenix, a 7.14% decrease.

Unemployment (Adjusted):

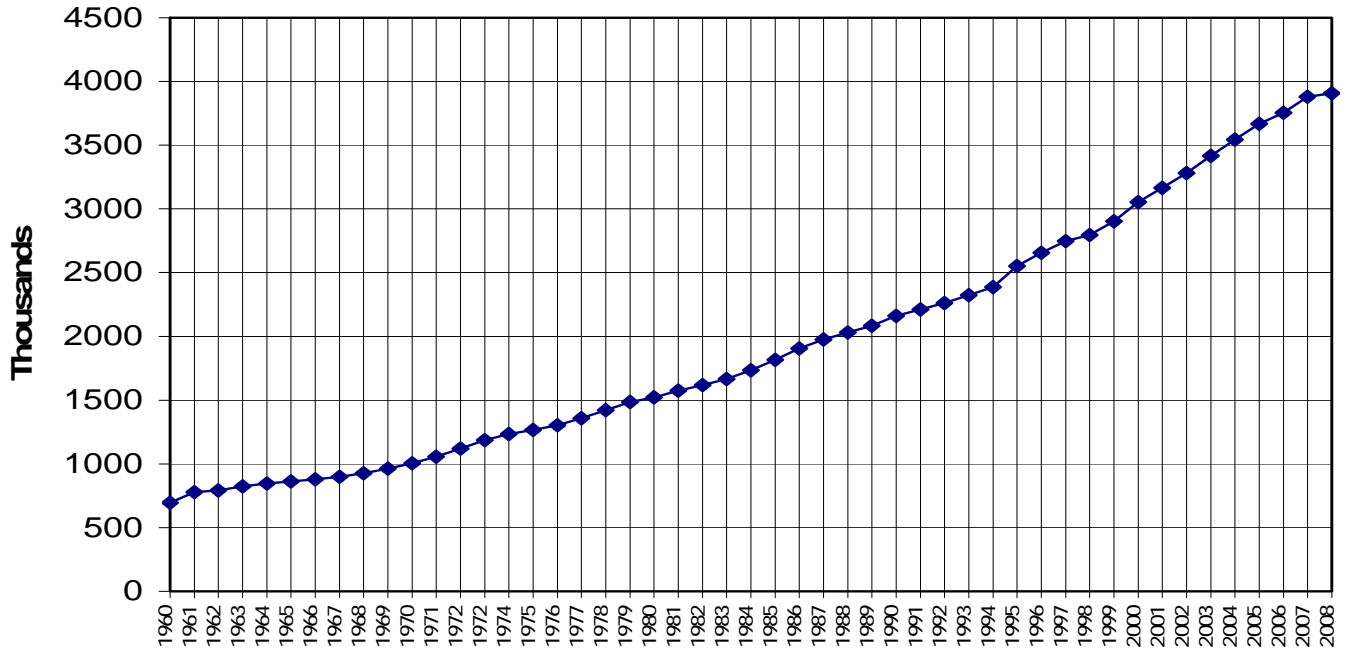
- Phoenix: 7.2%
- Arizona: 7.8%
- National: 8.5%

12 Month Employment Changes in Metropolitan Phoenix by Sector: (↑ = High, ↓ = Low)

Sector	Total Jobs (March 2009)	Change	% Change
Manufacturing	125,000	-6,600	-5.28%
Natural Resources & Mining	3,300	-300	-9.09%
↓ Construction	107,000	-41,700	-38.97%
Trade, Transportation & Utilities	363,600	-24,800	-6.82%
Information	30,600	-1,400	-4.58%
Financial Activities	142,500	-6,500	-4.56%
Professional & Business Services	276,600	-40,200	-4.53%
↑ Educational & Health Services	216,000	1,200	+0.56%
Leisure & Hospitality	181,600	-11,000	-6.06%
Government	72,800	-1,800	-2.47%
Other Services	250,600	-2,900	-1.16%
Total/Net Change	1,769,600	-136,000	-7.14%

*See Editor's Note on Employment

Annual Population Growth



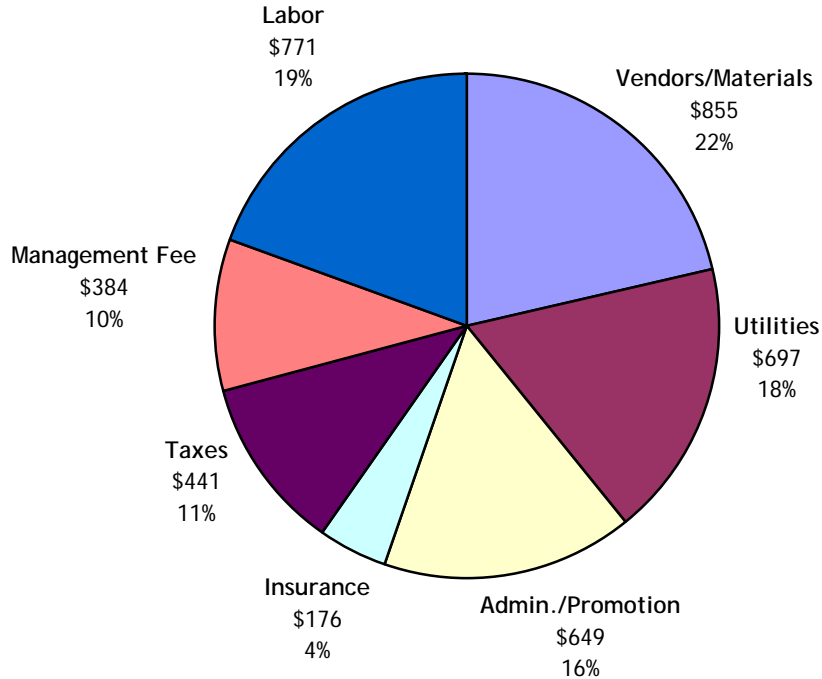
*Source: Department of Economic Security '60-'80;
Center for Business Research '81-'02;
AZ Department of Commerce

Population Growth Since 2000:

<u>Year</u>	<u>Maricopa County</u>	<u>% Change</u>	<u>Arizona</u>	<u>% Change</u>
2000	3,053,150	-	5,064,616	-
2001	3,165,646	3.68%	5,218,999	3.05%
2002	3,282,407	3.69%	5,397,192	3.41%
2003	3,416,869	4.08%	5,596,779	3.70%
2004	3,544,211	3.73%	5,787,560	3.41%
2005	3,668,319	3.50%	5,979,724	3.32%
2006	3,753,440	2.32%	6,128,715	2.49%
2007	3,907,492	4.10%	6,500,194	6.06%
2008 (Estimate)	3,987,942	2.05%	6,629,455	1.99%

*See Editor's Note on Population Growth

Expense Per Unit Detail 2007



Source: Institute of Real Estate Management (Apartment Expenses 2008 Edition)

The graph shows median 2007 Phoenix apartment expenses expressed as a percent of total operating expenses in dollars per unit per year. Data was obtained from the Institute of Real Estate Management and is for properties with individually metered utilities, located in the Metro Phoenix area.

Information Basis:

- Site Sampling: 97 garden-style properties
- Total Units: 26,999
- Average unit size: 870 Square Feet
- *Median total expenses (per Unit):* \$3,973
- *Median total expenses (per Square Foot):* \$4.57

Note: Because the expense figures above are medians rather than averages, the sum of the medians for each expense classification does not equal the median total operating expenses. Also note that data for the Expense Per Unit Detail Report is updated annually for the previous year.

Sources of Information

Arizona Department of Economic Security (Population 1960-1980; Employment)

ASU Center for Business Research (Population 1981-2003)

CB Commercial (Apartment Sales, 1989-1993)

Kammrath & Associates (Apartment Sales, 1978-1988)

Institute of Real Estate Management (Apartment Expenses, 2007 Edition)

Phoenix Metropolitan Housing Study (Select data)

Pierce-Eislen, Inc. (Select data)

RealData, Inc. (Select data)

U.S. Department of Commerce, Census Bureau (Population, 2000-2008)

Editor's Note

*This Executive Summary and the entire quarterly report have been prepared using the data available for the entire Metropolitan Phoenix area. Within this area, there are 32 separate sub-markets that vary significantly from the average of the whole. (see Editor's note for market extremes) Because of the location differences in vacancy rates, the vacancy rate for the entire Metropolitan Phoenix market should not be used to gauge the performance of specific properties or sub-markets.

In addition, population increases and net jobs gained or lost can vary significantly by sub-market.

The data being summarized, therefore, is an indication of the overall strength or weakness in the Metropolitan Phoenix area and CANNOT be used to gauge market conditions, trends or performance in individual sub-markets.

Employment: In 2003 the categorization of the employment tables changed. Arizona was using the Standard Industrial Classification System (SIC), which is no longer being supported by the US Department of Labor, prompting the conversion to the North American Industrial Classification System (NAICS). The Arizona Department of Economic Security has re-classified the information and the included table was changed to reflect the adjusted job numbers for all non-farm employment.

Population Growth: The determination of a mid-decade special census for Maricopa County on October 27, 1995 was a population of 2,551,765. This is substantially higher than the Center for Business Research (CBR) had previously been estimating. As a result, the graph above appears abnormal in 1995 population growth.

The Center for Business Research officially announced suspension of its work on Phoenix population estimates, citing increasingly difficult demographic conditions. There is no other data source readily available that publishes quarterly Phoenix population estimates, forcing a change in the way population growth will be analyzed going forward.

Estimated population numbers will now be obtained when published by the Arizona Department of Commerce at the end of each year. The above graph was changed from 2000-2003 to reflect the new source numbers creating irregular growth between 1999 and 2000. The highest four quarter population growth was 166,100 (1995-1996).