



Tucson  
Apartment Market Survey  
4<sup>th</sup> Quarter 2007

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An Institute of Real Estate Management  
Accredited Management Organization

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## Executive Summary

The Metro Tucson apartment market fundamentals began to weaken in the fall of 2007 and continued in the fourth quarter.

The "shadow" market of single-family rental housing has remained a limiting force due to the affordability relative to apartments.

Per-unit pricing has declined significantly in the B-product category indicative of the disappearance of the condo-premium pricing structure and upward pressure on CAP rates.

The sales climate should continue to shift toward the buyer as the current fundamentals continue in 2008.

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

### Vacancy\*

- Metropolitan Tucson: 8.20%
- Quarterly Comparison: (increase from 3<sup>rd</sup> Quarter 2007) 7.61%
- Annual Comparison: (decline from 4<sup>th</sup> Quarter 2006) 16.98%
- Statistical District Range: 4.94% to 13.25%
- Statistical District High: 13.25% (2 - O. Valley/Catalina)
- Statistical District Low: 4.94% (10 - University)

### Absorption

- Metropolitan Tucson: -453 units
- Statistical District High: +61 units (11-S. Central)
- Statistical District Low: -161 units (13- S. Tucson/Airport)

### Rents

- Metropolitan Tucson (average monthly unfurnished) \$635 per unit
- Rent per Square Foot: \$0.87 per Square Foot
- Quarterly Comparison: (increase from 2<sup>nd</sup> Quarter 2007) 0.63%
- Statistical District High: \$882 (5-NE Tucson)
- Statistical District Low: \$514 (13-S.Tucson/Airport)

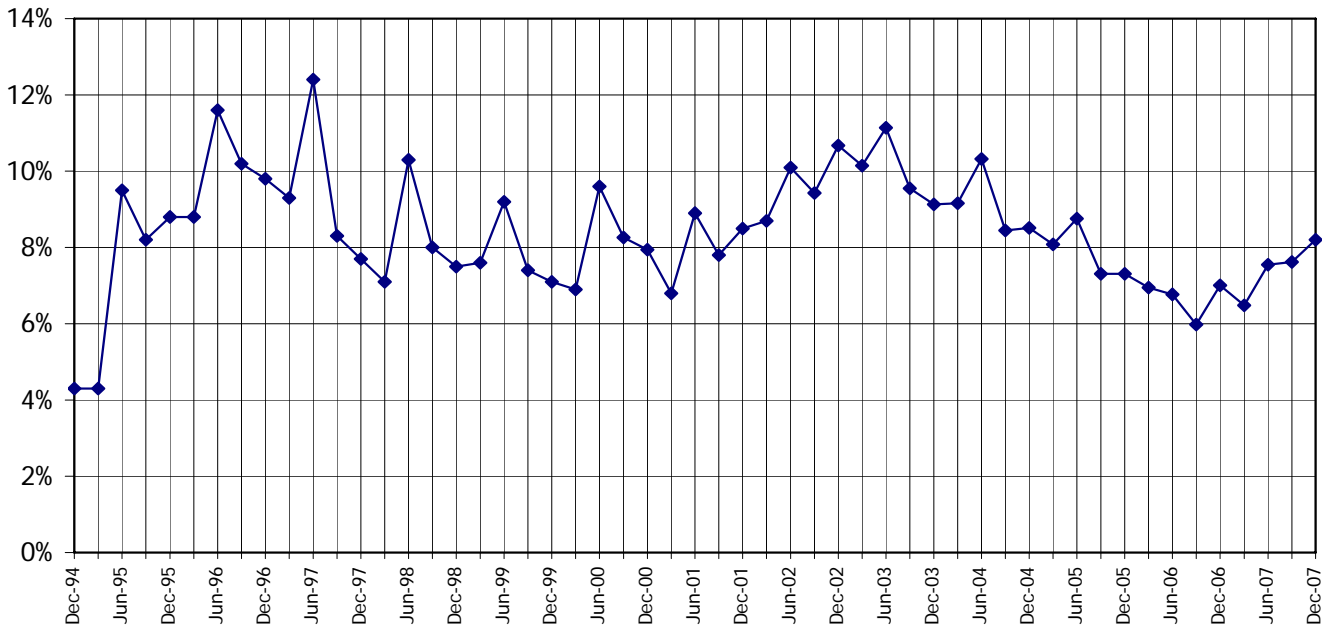
### Permits

- Metropolitan Tucson Multifamily: 318 permits
- Quarterly Comparison: increased from 3<sup>rd</sup> Quarter 2007 205 (181%)
- Annual Comparison: increased from 4<sup>th</sup> Quarter 2006 165 (107%)

### Sales

- Metropolitan Tucson: Average Sales Price \$44,883 per unit
- Average Price per Square Foot: \$75.04 per Square Foot
- Quarterly Comparison: (Decline from 3<sup>rd</sup> Quarter 2007) -\$27,550 per unit (-38%)
- Average year of construction: 1985

## Quarterly Vacancy Rate 1994-2007



Source: Metropolitan Tucson Land Use Study All Units '94-'98; RealData, Inc All Units '99-'07

### Submarket Vacancy:

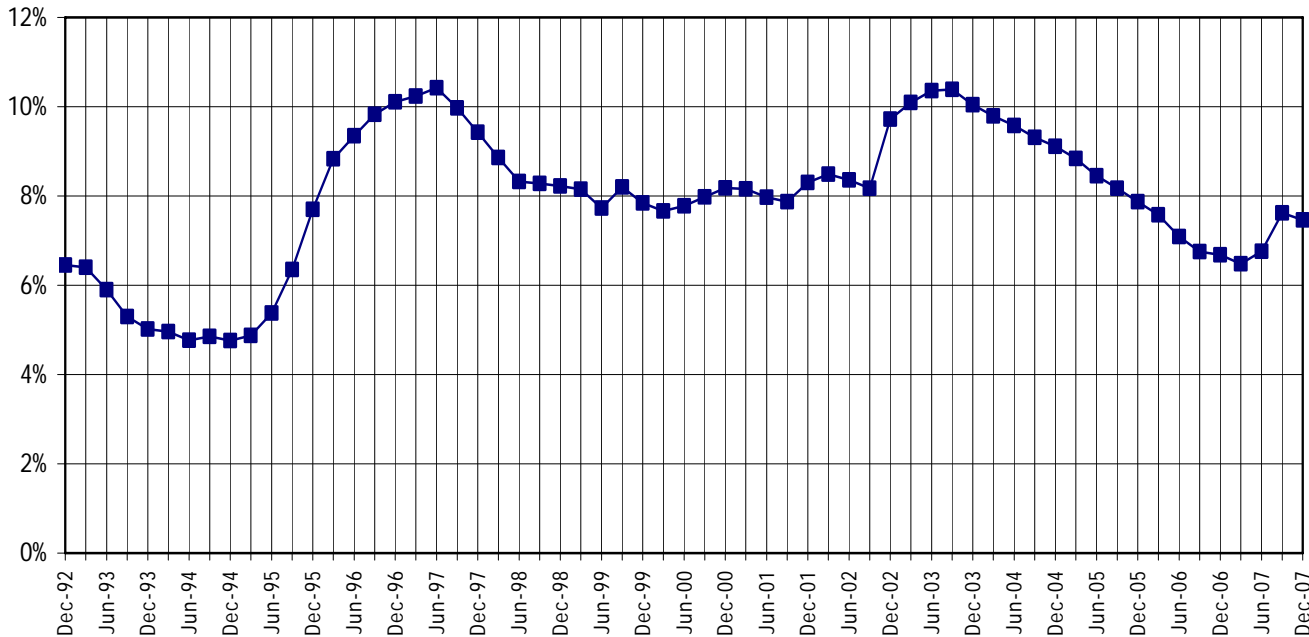
District	% Vacancy	District	% Vacancy
1 - Marana/Avra Valley	*	9 - Tucson Mountain Foothills	7.60
2 - Oro Valley/Catalina	13.25	10- University	4.94
3 - Northwest Tucson	7.78	11- South Central Tucson	8.97
4 - Catalina Foothills	5.51	12- Pantano/Lakeside	10.07
5 - Northeast Tucson	6.24	13- South Tucson/Airport	11.85
6 - East Tucson	8.69	14- Southwest Tucson	6.71
7 - North Central Tucson	7.49	15- Southeast Tucson	8.04
8 - Flowing Wells	8.16		

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

### Recent Historical Vacancy Rates:

	2002	2003	2004	2005	2006	2007
1 <sup>st</sup> Quarter	8.70%	10.15%	9.16%	8.08%	6.95%	6.48%
2 <sup>nd</sup> Quarter	10.10%	11.14%	10.32%	8.76%	6.77%	7.55%
3 <sup>rd</sup> Quarter	9.43%	9.55%	8.45%	7.31%	5.98%	7.62%
4 <sup>th</sup> Quarter	10.67%	9.13%	8.51%	7.31%	7.01%	8.20%

## Four-Quarter Moving Average Vacancy Rate 1992-2007



Source: Metropolitan Tucson Land Use Study '92-'98; RealData, Inc '99-'07

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:

- High: (2<sup>nd</sup> Quarter of 1997) 10.43%
- Low: (4<sup>th</sup> Quarter of 1994) 4.76%

Current Rate: 7.46%

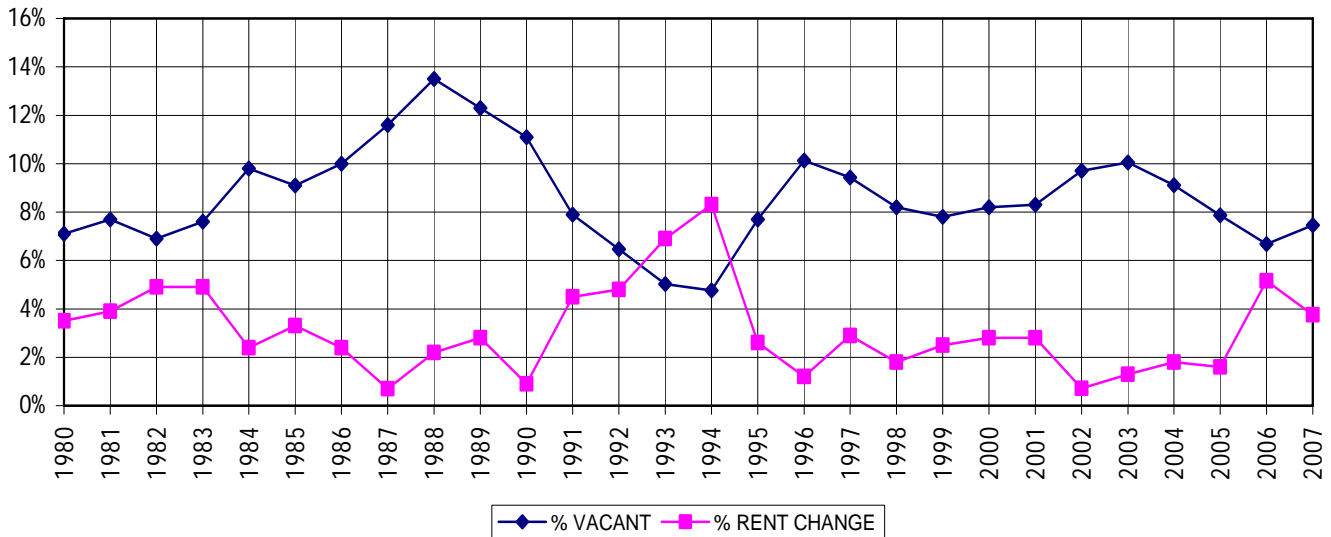
### Quarterly Comparison:

- Current Quarter: 7.46%
- 3<sup>rd</sup> Quarter 2007: 7.17%
- Net Quarterly Change: 0.29%

### Annual Comparison:

- Current Quarter: 7.46%
- 4<sup>th</sup> Quarter 2006: 6.68%
- Net Annual Change: 0.78%

## Average Annual Vacancy vs. Market Rent Changes



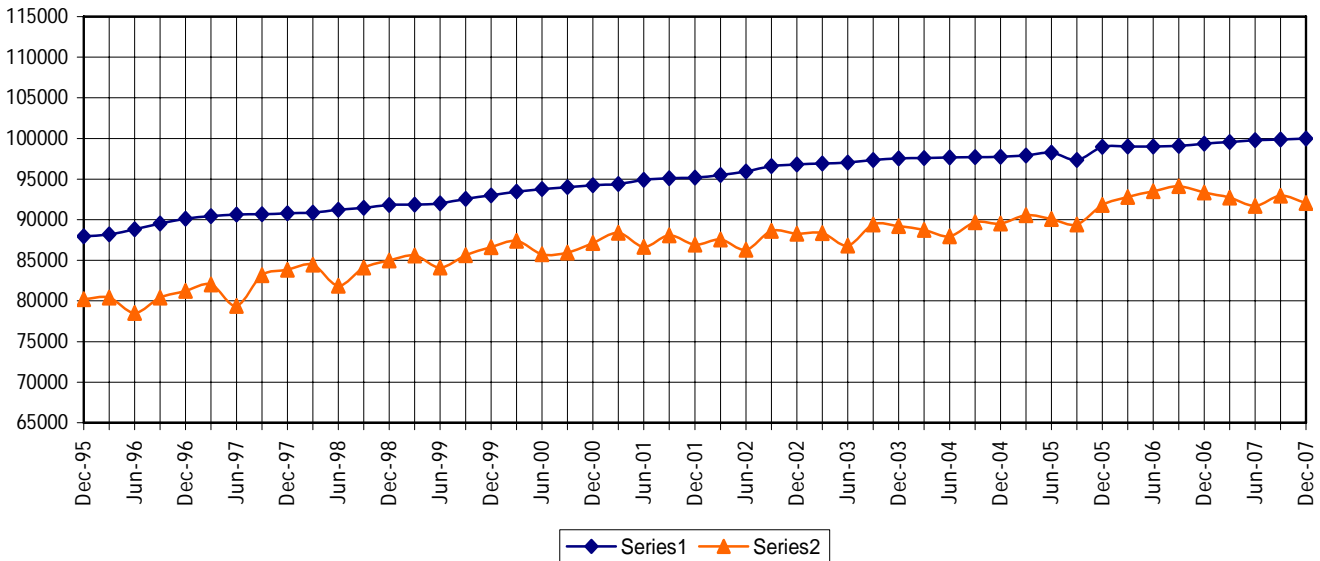
Source: Metropolitan Tucson Land Use Study, Marketing Strategies; RealData, Inc

*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*
1996	10.1%	1.30%
1997	9.4%	2.9%
1998	8.2%	1.8%
1999	7.8%	2.5%
2000	8.2%	2.8%
2001	8.3%	2.8%
2002	9.7%	0.72%
2003	10.05%	1.3%
2004	9.11%	1.8%
2005	7.87%	1.6%
2006	6.68%	5.16%
2007	7.46%	3.76%

\*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

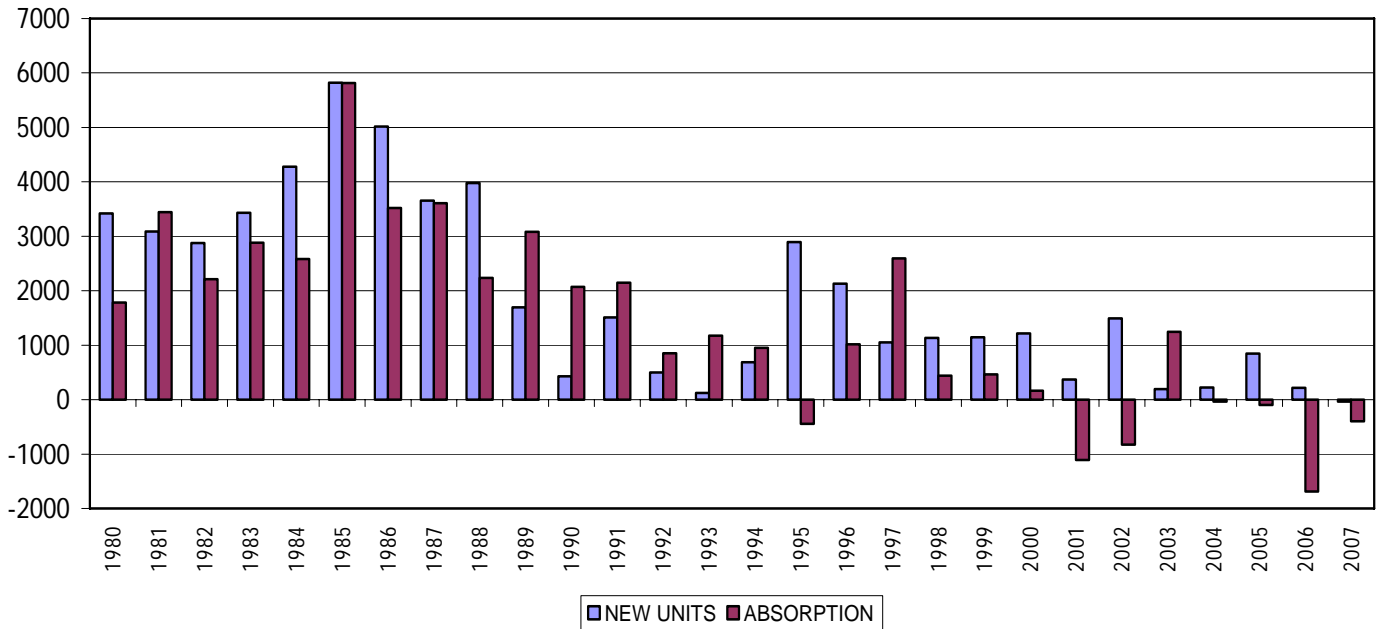


Source: Metropolitan Tucson Land Use Study

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
2001	1 <sup>st</sup>	88,372	6,043	94,415	2005	1 <sup>st</sup>	90,567	7,333	97,900
	2 <sup>nd</sup>	86,640	8,277	94,917		2 <sup>nd</sup>	90,076	8,195	98,271
	3 <sup>rd</sup>	88,070	7,048	95,118		3 <sup>rd</sup>	89,399	7,964	97,363
	4 <sup>th</sup>	86,925	8,262	95,187		4 <sup>th</sup>	91,798	7,176	98,974
2002	1 <sup>st</sup>	87,555	7,956	95,511	2006	1 <sup>st</sup>	92,779	6,227	99,006
	2 <sup>nd</sup>	86,301	9,632	95,933		2 <sup>nd</sup>	93,516	5,496	99,012
	3 <sup>rd</sup>	88,617	7,968	96,585		3 <sup>rd</sup>	94,136	4,944	99,080
	4 <sup>th</sup>	88,255	8,526	96,781		4 <sup>th</sup>	93,352	5,990	99,342
2003	1 <sup>st</sup>	88,332	8,587	96,919	2007	1 <sup>st</sup>	92,709	6,839	99,548
	2 <sup>nd</sup>	86,806	10,217	97,023		2 <sup>nd</sup>	91,690	8,114	99,804
	3 <sup>rd</sup>	89,399	7,964	97,363		3 <sup>rd</sup>	92,963	6,922	99,885
	4 <sup>th</sup>	89,233	8,311	97,544		4 <sup>th</sup>	92,063	7,936	99,999
2004	1 <sup>st</sup>	88,731	8,851	97,582					
	2 <sup>nd</sup>	87,975	9,688	97,663					
	3 <sup>rd</sup>	89,691	8,022	97,713					
	4 <sup>th</sup>	89,525	8,220	97,745					

## Annual New Units & Absorption



Source: Metropolitan Tucson Land Use Study; Real Data

**Apartments Under Construction:**

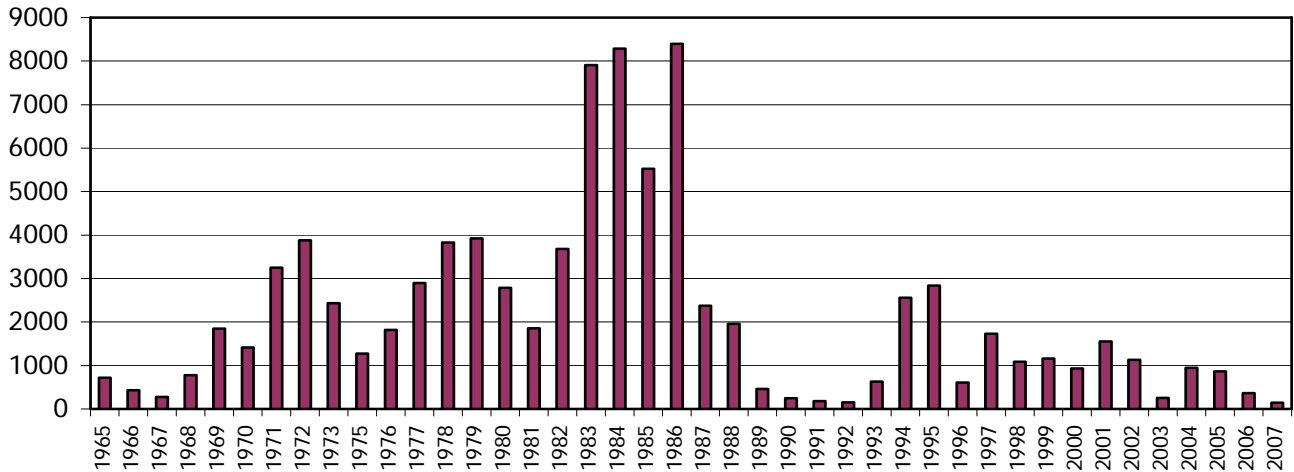
3 project totaling 229 units

**Statistical District Highs:**

- Under Construction:
  - South Tucson/Airport (13): 69 units
  - University (10): 96 units
- Planned:
  - University (10): 68 units
  - Oro Valley/Catalina (2): 112 units

Recent Historical			Current Year		
<u>Yearly Total</u>	<u>New Apts.</u>	<u>Absorption</u>	<u>2007</u>	<u>New Apts.</u>	<u>Absorption</u>
1999	1,146	462			
2000	1,217	166	1 <sup>st</sup> Quarter	0	905
2001	369	-1,106	2 <sup>nd</sup> Quarter	0	-823
2002	1,492	-827	3 <sup>rd</sup> Quarter	-2	-27
2003	192	1,247	4 <sup>th</sup> Quarter	-32	-453
2004	226	-34			
2005	848	-98	<b>Total</b>	<b>-34</b>	<b>-398</b>
2006	219	-1,688			

## Annual Apartment Permits



Source: Metropolitan Tucson Land Use Study

### Quarterly Permits:

- Current Quarter: 318
  - 3<sup>rd</sup> Quarter 2007: 113 units
  - Quarterly Change: 205
  - Percentage Change: 181.42%
- 
- Current Quarter: 318
  - 4<sup>th</sup> Quarter 2006: 153 units
  - Annual Change: 165
  - Percentage Change: 107.84%

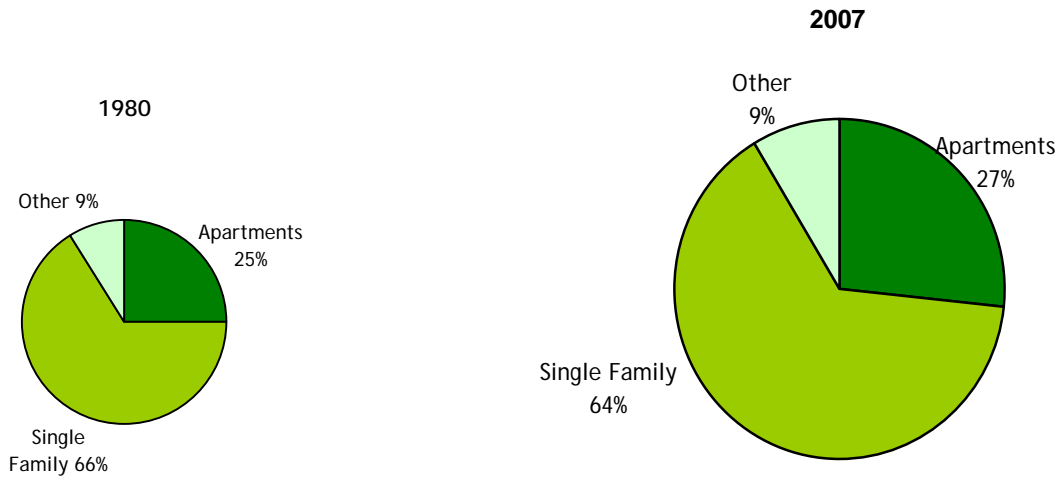
### Recent Apartment Permitting Cycle:

Recent Historical		Recent Historical		Current Year	
Year	# of Permits	Year	# of Permits	2007	# of Permits
1993	630	2002	1,132	1 <sup>st</sup> Quarter	153
1994	2,557	2003	260	2 <sup>nd</sup> Quarter	32
1995	2,840	2004	948	3 <sup>rd</sup> Quarter	113
1996	612	2005	865	4 <sup>th</sup> Quarter	318
1997	1,734	2006	367	Total YTD	616
1998	1,084				(30% of total quarterly permits)
1999	1,160				
2000	934				
2001	1,553				

### Other Housing Permits:

Type	Units	% of Total Permits
Single Family Permits	699	66%
Townhouse/Condominium Permits	40	4%

## Housing Inventory



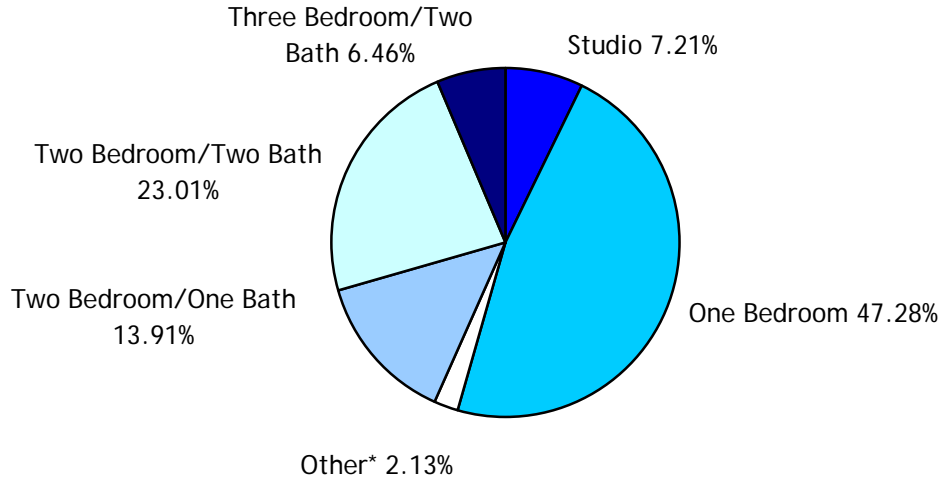
Source: Metropolitan Tucson Land Use Study

### Total Housing Inventory Changes: (expressed in housing units)

- Current Quarter: 379,354
  - 3<sup>rd</sup> Quarter 2007: 375,927
  - Quarterly Change: 3,427
  - Percentage Change: 0.91%
- 
- Current Quarter: 379,354
  - 4<sup>th</sup> Quarter 2006: 370,982
  - Annual Change: 8,372
  - Percentage Change: 2.26%

	1980 4 <sup>th</sup> Quarter Total Units	2007 3 <sup>rd</sup> Quarter Total Units	New Units	% Increase over 1980 Inventory
Single-Family	124,598	346,877	122,279	110.98%
Townhouse/Condominium	16,141	32,478	16,337	101.21%
Apartments	47,398	99,999	52,601	98.14%
<b>Totals</b>	<b>188,137</b>	<b>379,354</b>	<b>191,217</b>	<b>101.64%</b>

## Apartment Inventory by Unit Type 2007



Source: RealData, Inc.\*\*

**Total Projects:** 389 projects surveyed

**Total Units:** 62,622 units surveyed

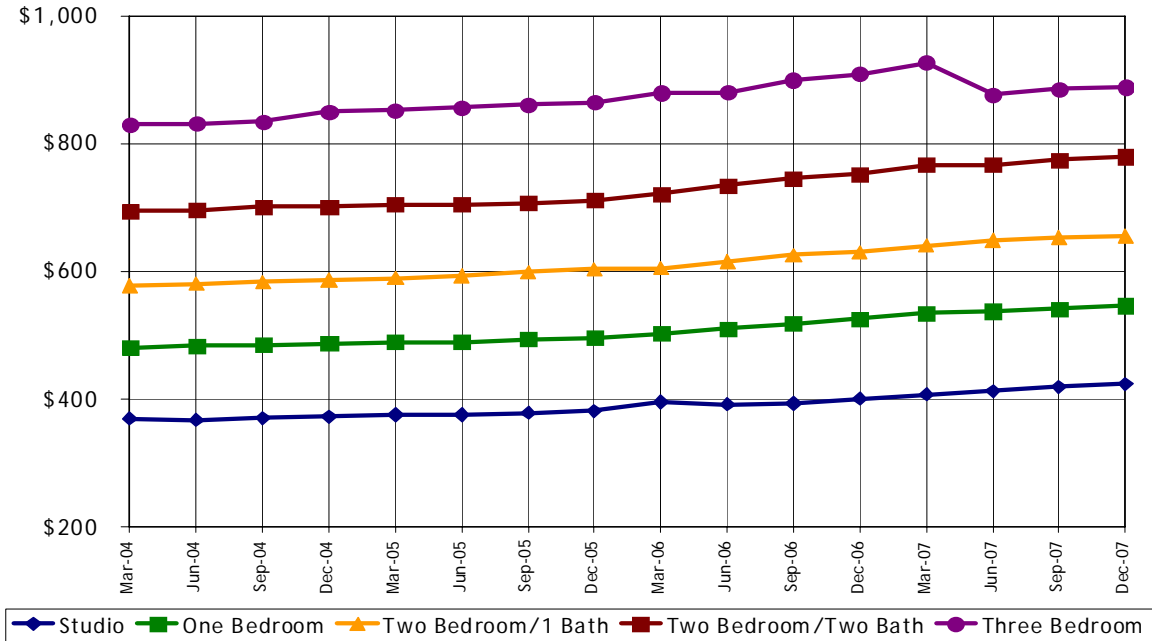
Unfurnished Apartments	Utilities Excluded Avg. SF	Utilities Included Avg. SF	% of Market Share
Studio	397	402	7.21
One Bedroom	586	578	47.28
One Bedroom/Den	866	N/A	0.11
Two Bedroom/One Bath	788	822	13.91
Two Bedroom/Two Bath	957	975	23.01
Three Bedroom/One Bath	1,020	N/A	0.30
Three Bedroom/Two Bath	1,146	1,102	6.46
Four Bedroom	1,364	N/A	1.72
<b>Market Average</b>	<b>729</b>	<b>655</b>	<b>100%</b>

*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 40 units or more.*

### Average Rent by Unit Type



Source: RealData, Inc.\*

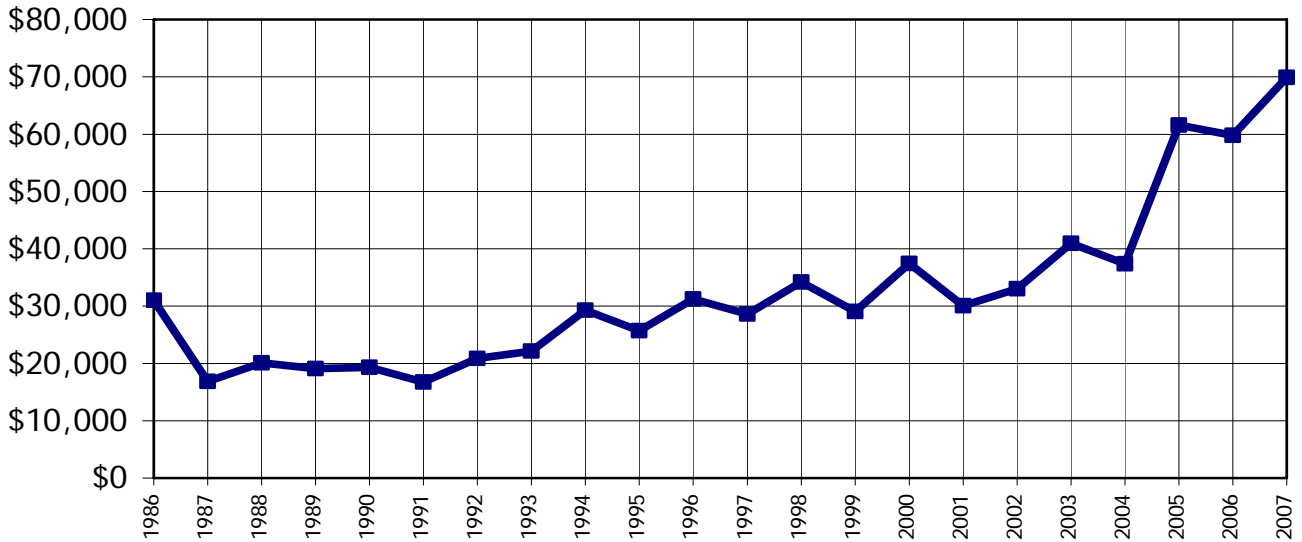
Summary of rents for unfurnished apartments: (4<sup>th</sup> Quarter 2007 vs. 4<sup>th</sup> Quarter 2006)

Apartment Type	Utilities Excluded			Utilities Included		
	Market	Sq. Ft.	% Change	Market	Sq. Ft.	% Change
Studio	\$424	\$1.07	+5.74	\$479	\$1.19	+3.23
One Bedroom	\$547	\$0.93	+3.99	\$589	\$1.02	+4.06
Two Bedroom/One Bath	\$656	\$0.80	-10.46	\$724	\$0.88	+5.08
Two Bedroom/Two Bath	\$780	\$0.81	+3.59	\$799	\$0.82	+8.27
Three Bedroom	\$889	\$0.76	-2.31	\$949	\$0.86	+15.03
Market Average**	\$635	\$0.87	+3.76	\$630	\$0.96	+5.53

\*This graph represents the average quarterly market rent by unit type (utilities excluded) since 1996.

\*\*Market Average rent is calculated as a weighted average.

## Apartment Sales (40 Units or Greater, Price per Unit)



Source: RealData, Inc.

**Average Apartment Sales Price:**

- Sales price per unit: \$44,883
- Sales price per Square Foot: \$75.04

**Average Year of Construction:**

1985

**Quarterly Comparison:**

- 3<sup>rd</sup> Quarter 2007 Sales Price per unit: \$72,433
- Change in Sales Price: -\$27,550
- Percentage Change: -38%

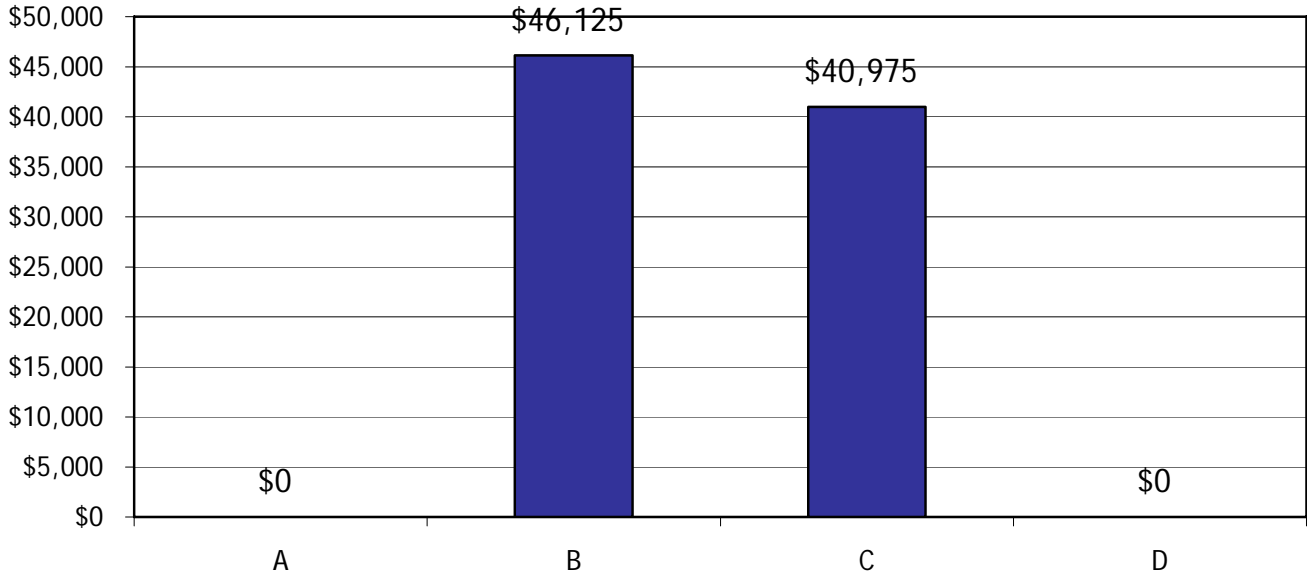
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- 3<sup>rd</sup> Quarter 2007 Sales price per Square Foot: \$94.56
- Net Change in Sales Price per Square Foot: -\$19.52
- Percentage Change: -20.6%

**Historical per unit sales and per square foot averages:**

Year	Per Unit	Per Sq. Ft.	Year	Per Unit	Per Sq. Ft.
1988	\$20,103	\$28.34	1998	\$34,200	\$45.10
1989	\$19,058	\$28.90	1999	\$29,083	\$40.88
1990	\$19,321	\$27.40	2000	\$37,430	\$46.48
1991	\$16,755	\$27.16	2001	\$30,072	\$39.78
1992	\$20,849	\$29.66	2002	\$38,443	\$53.56
1993	\$22,168	\$32.67	2003	\$41,270	\$55.73
1994	\$29,306	41.96	2005	\$61,611	\$79.81
1995	\$25,700	\$36.52	2006	\$59,796	\$80.79
1996	\$31,221	\$42.20	2007	\$69,896	\$90.22
1997	\$28,628	\$41.56			

## 2007 Apartment Values Price Per Unit Related to Quality Rating



Source: Bernard/Allison Management Services; Pierce-Eislen, Inc., Real Data, Inc

*Bernard/Allison analyzed 6 sales (100 units or greater) totaling 999 units, which occurred in the 4<sup>th</sup> Quarter of 2007. 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.*

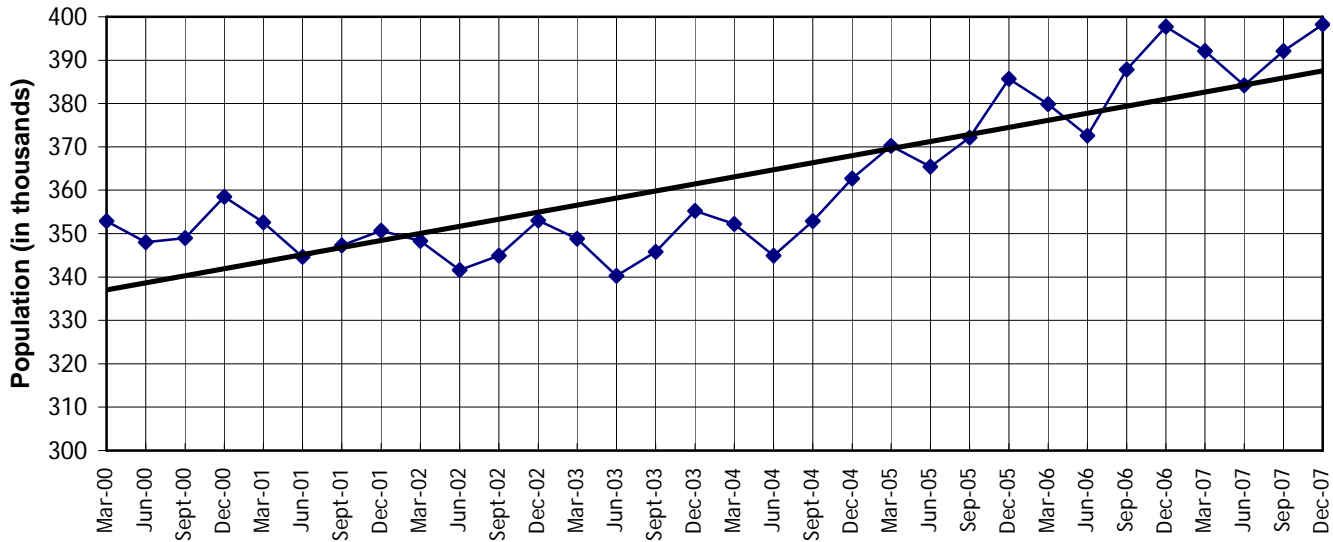
**Percent of Total Sales:**

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

**4<sup>th</sup> Quarter 2007 vs. 2006 Calendar Year:**

Class	2006	Q4 2007	%Change
A	\$109,968	\$0	N/A
B	\$74,516	\$46,125	-38.10%
C	\$40,829	\$40,975	-0.30%
D	\$29,717	\$0	N/A

## Quarterly Employment



Source: Department of Economic Security\*

12 month changes: Between December 2006 and December 2007, 7,200 net jobs were gained in Tucson, a 1.84% increase.

### Unemployment (Adjusted):

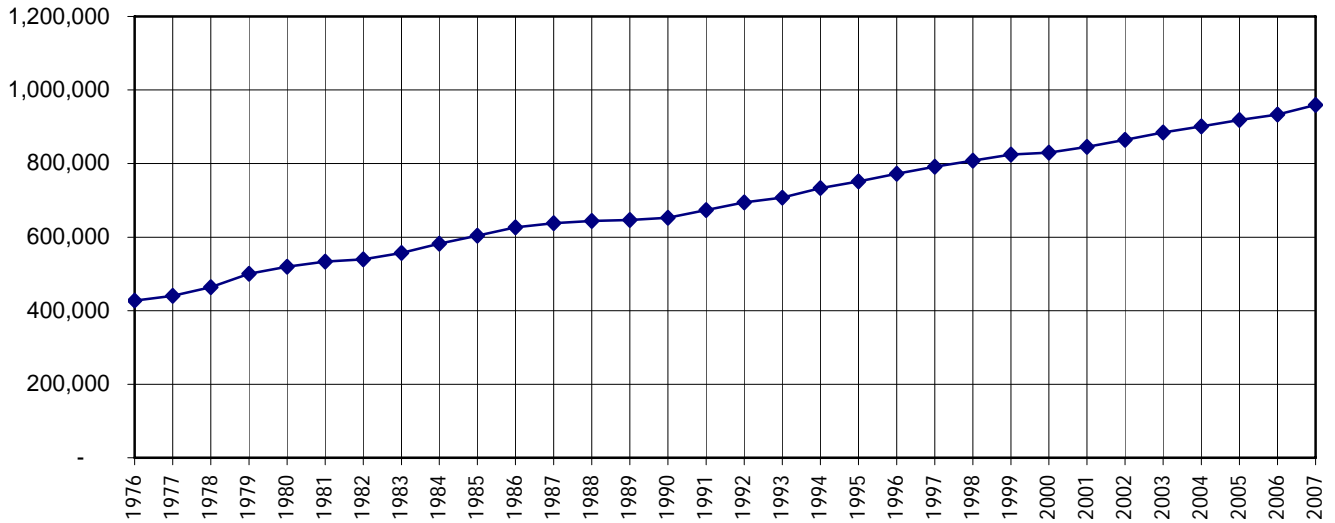
- Tucson: 4.7%
- Arizona: 4.7%
- National: 5.0%

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

Sector	Total Jobs (December 2007)	Change	% Change
Manufacturing	29,200	1,300	4.66
Natural Resources & Mining	2,400	700	41.18
↓ Construction	26,300	-2,400	-8.66
Trade, Transportation & Utilities	67,400	2,600	4.01
Information	5,600	-1,000	-15.15
Financial Activities	16,600	-1,200	-6.74
Professional & Business Services	52,400	1,600	3.15
↑ Educational & Health Services	57,400	3,100	5.71
Leisure & Hospitality	43,900	1,900	4.52
Government	80,000	200	4.94
Other Services	17,000	800	-0.25
<b>Total</b>	<b>398,200</b>	<b>7,200</b>	<b>1.84</b>

\*See Editor's Note on Employment

## Annual Population Growth



\*Source: Arizona Department of Economic Security - Arizona Workforce

### Population Growth Since 2000:

<u>Year</u>	<u>Tucson</u>	<u>% Change</u>	<u>Arizona</u>	<u>% Change</u>
2000	830,077	-	5,064,616	-
2001	845,728	3.68%	5,218,999	3.05%
2002	864,203	3.69%	5,397,192	3.41%
2003	884,542	4.08%	5,596,779	3.70%
2004	901,408	3.73%	5,787,560	3.41%
2005	918,703	3.50%	5,979,724	3.32%
2006	932,958	2.32%	6,128,715	2.49%
2007	959,242	3.37%	6,336,240	3.39%

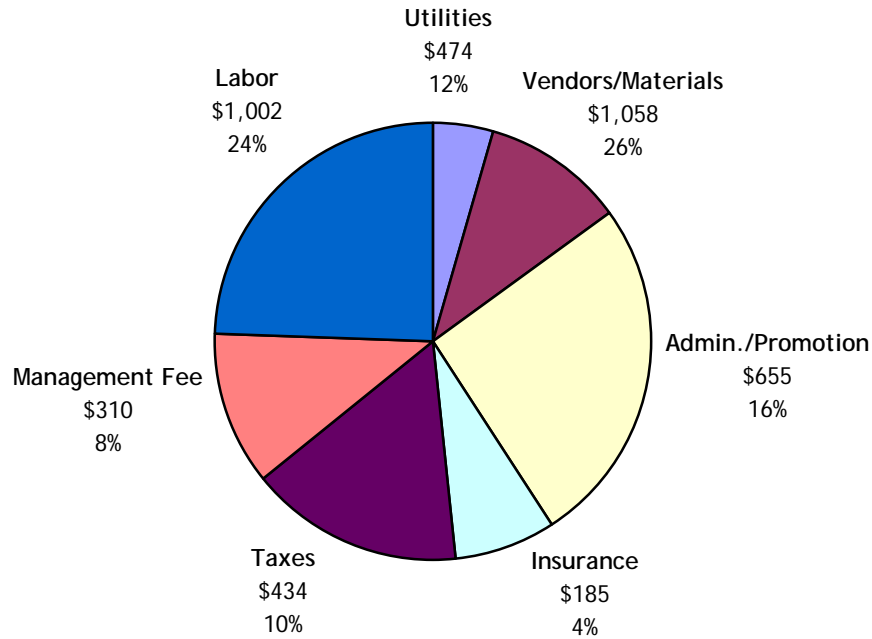
### Pima County, Arizona:

- Growth: Gained 129,165 residents
- Term: between 2000 and present
- 15.56% growth since 2000

(U.S. Census Bureau, March 22, 2007)

\*See Editor's Note on Population Growth

## Expense Per Unit Detail 2006



Source: Institute of Real Estate Management (Apartment Expenses 2007 Edition)

*The graph shows median 2006 Tucson 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 Tucson area.*

### Information Basis:

- Site Sampling: 14 garden-style properties
- Total Units: 3,032
- Average unit size: 669 Square Feet
- *Median total expenses (per Unit):* \$3,530
- *Median total expenses (per Square Foot):* \$4.84
- Average turnover rate: 77.5%

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)  
Metropolitan Tucson Land Use Study (Select data from 1960-2007)  
Pierce-Eislen, Inc. (Select data)  
RealData, Inc. (Select data)  
U.S. Department of Commerce, Census Bureau (Population, 2000-2005)

### Editor's Note

\*This Executive Summary and the entire quarterly report have been prepared using the data available for the entire Metropolitan Tucson 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 Tucson 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 and indication of the overall strength or weakness in the Metropolitan Tucson 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.

The Center for Business Research officially announced suspension of its work on Tucson population estimates, citing increasingly difficult demographic conditions. There is no other data source readily available that publishes quarterly Tucson 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 US Department of Commerce in July of each year. The above graph was changed from 2000-2003 to reflect the new source numbers creating irregular growth between 1999 and 2000.