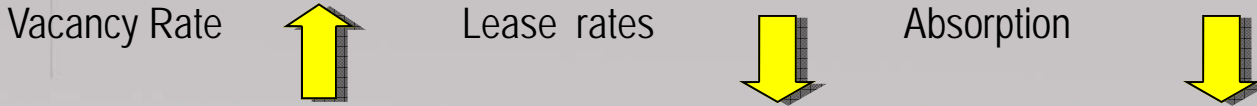




APARTMENT FUNDAMENTALS - THE WORST MAY BE OVER



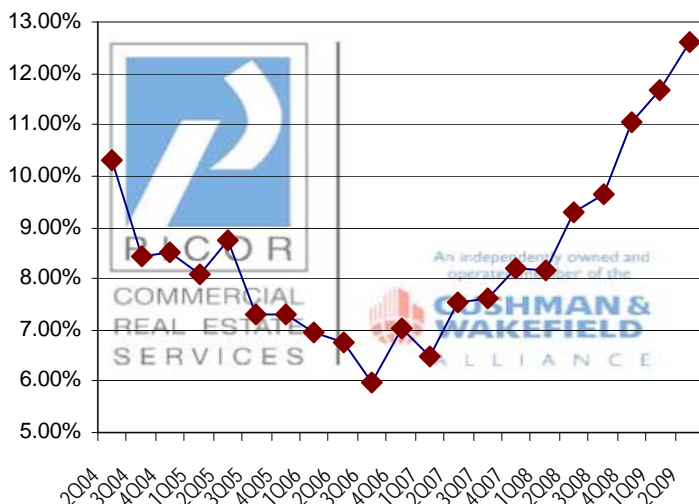
While the fundamentals did deteriorate during the 2nd quarter there are signs that the market is stabilizing. Overall vacancy did increase by 0.94% to 12.61% from 11.67%, however an increase was expected due to the loss of students and winter visitors and was in line or a bit lower than our typical 3rd quarter increase in vacancy. The disparity between markets, and between property class, continues to be wide with the South Tucson/Airport market showing a very high 19.18% vacancy rate while the Foothills market experiencing a more moderate 9.52% vacancy rate. The South Tucson/Airport market is generally comprised of C properties while the Foothills market is comprised primarily of B and A properties.

Rental rates continued their slow decline with *Apartment Insights* reporting an average rental rate of \$632 per unit and \$0.87 PSF, down \$4 in the quarter and \$4 from 2008 2nd quarter. Concessions continue to be very prevalent in the market with one month free on a one year lease being very standard and other incentives creeping in as well. The increased concessions bring the net income per unit down a few more dollars.

Absorption has continued negative with a negative absorption of 460 units this quarter and a total negative absorption of 1682 units during the past year. The current quarter is the ninth quarter in a row with negative absorption, this means that the Tucson rental market has lost tenants for over 2 years.

Despite the data above, which quite frankly is very negative, there does appear to be a light at the end of the tunnel. That light being the negative absorption during the 2nd quarter was relatively low, for a 2nd quarter, and the non empirical positive is that property managers are experiencing higher traffic and have seen stabilization in occupancy levels and in gross income. At the same time, corporate earnings reports released in recent days have generally beat expectations, housing sales have improved and consumer confidence is improving, all positive signs for apartment demand. Expect improvements in operating fundamentals to be gradual in the near term as employment growth is expected to be slow in the early part of the recovery.

HISTORICAL VACANCY RATES



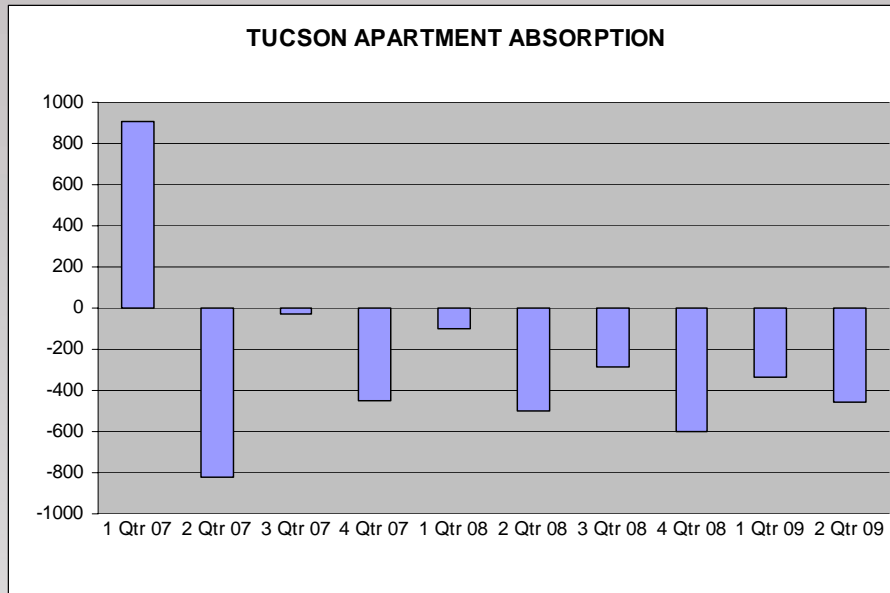
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SALES and FORECLOSURES

The sales environment continues to be very slow. Only one property of 40 more units has sold so far this year that being a 48 unit property sold at a price 20% lower than it sold for in 2006. This sale clearly reflects the deterioration in values. A few smaller properties, which are distress sales, are being marketed. These along with other sales in the coming quarters will set pricing and cap rate expectations in the marketplace. Until then we will have to look to the national and Phoenix markets for pricing direction.

A recent count shows there are currently 10 properties of 40 units or more in the foreclosure process and one property, Casa Bella on Valencia, which has been taken back by the lender who intends to hold it until the market improves. The beginning of the foreclosure process does not necessarily mean that a property will come to market in the coming months however foreclosure does mean that the property will be recapitalized under a more reasonable debt structure and will emerge healthier once the markets improve.

Tucson remains in a good position to come out of the downturn early and strong. While there are national and regional indicators that the economy is stabilizing it is also important to realize that unemployment in Tucson is below the national and state average and that Arizona was one of the first states to fall into the economic slowdown and should be one of the first out of the slowdown. The presence of The University of Arizona, Davis Monthan Air Force base, Raytheon Missile systems and the State highway improvement projects in Southern Arizona along with other strong smaller companies have lessened the economic impact on Tucson and create a strong base for recovery.

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UNEMPLOYMENT 2009	
United States	9.7%
Arizona	8.9%
Pima County	7.1%