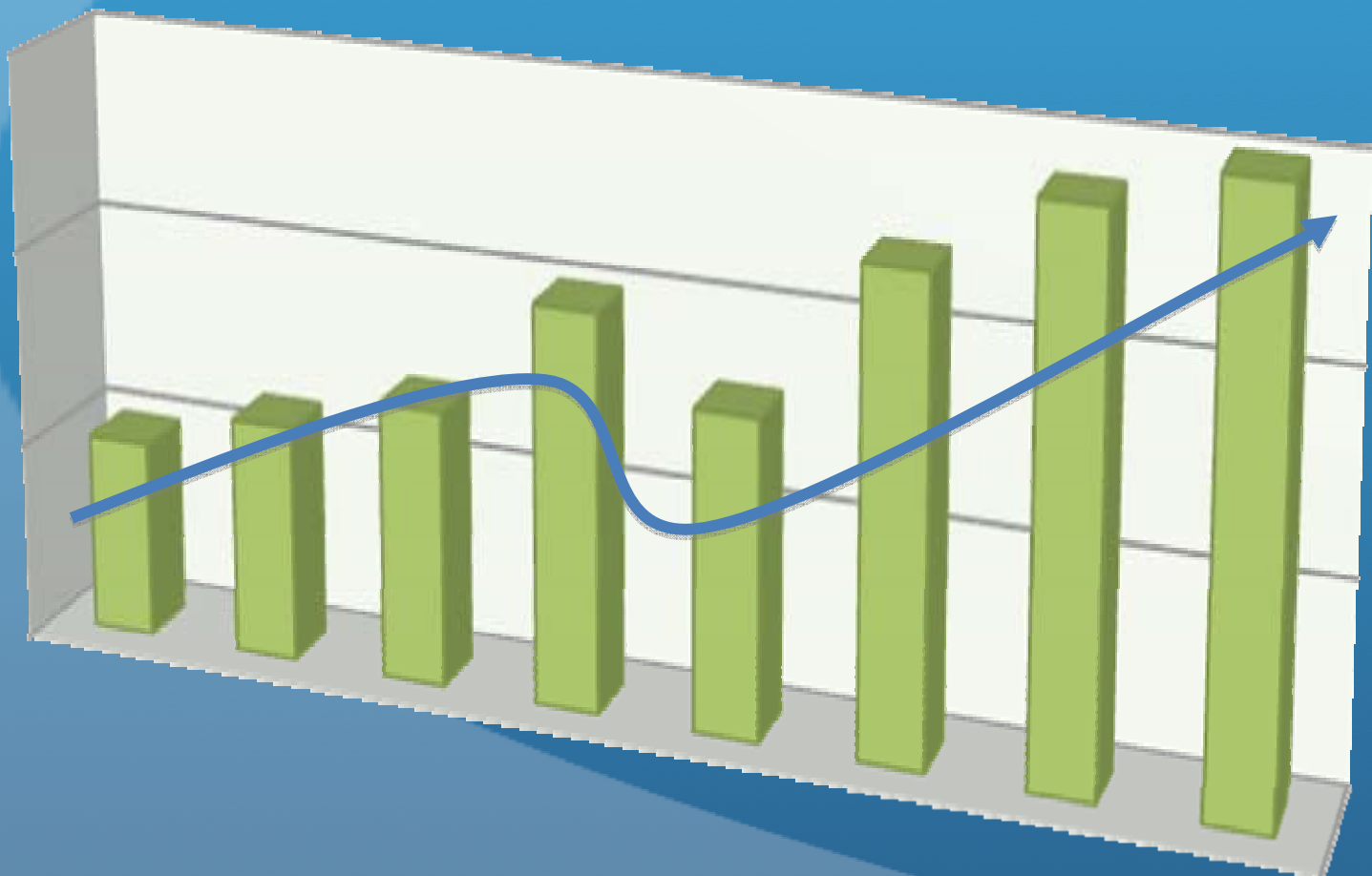


Mid Year Report 2010

# Market Trends

For Metro Tucson Multi - Family



COMMERCIAL  
REAL ESTATE  
SERVICES



An independently owned and  
operated member of the

**CUSHMAN &  
WAKEFIELD**  
ALLIANCE

## MARKET TALK

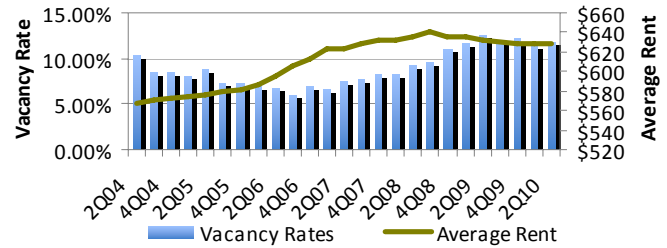


Operating fundamentals improved in the first half of the year with slight improvements in absorption, occupancies and lease rates. Mid year 2010 vacancies city wide stood at 11.77% an improvement from 12.21% at year end 2009. A net of 660 units have been absorbed in the past year pointing to a gradually improving rental environment. Another positive factor is that the erosion in lease rates seems to have stopped with lease rates stabilizing and even improving a slight bit in the past quarter. While the above numbers do point to a bottoming of the market and to slight improvements the rental market continues to be divided by location and asset quality. Properties either in A locations or near the University and of B+ or better quality continue to perform much better than those in lower income demographic areas and of C quality. This is evidenced by mid year vacancy rates in the South submarket at 20.54% vs 8.58% in the University submarket and 7.69% and 9.18% in the high income NW and NE submarkets.

The Tucson economy is showing slight job growth which portends for well for the remainder of 2010 and beyond. The collapse of the housing market and foreclosures sales along with the state budgetary issues will be a drag on the recovery through the next few years. However Tucson remains an attractive and affordable place to live and those factors will continue to lead Tucson and Southern Arizona out of the recession and increase the demand for apartments.

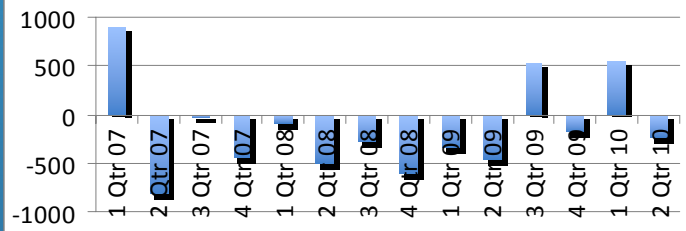
Apartment sales transactions have come back to life in the 2<sup>nd</sup> quarter of the year after being mostly dormant in 08 and 09 with eight properties worth \$71 Million changing hands during the 2<sup>nd</sup> quarter. Look for increased volume in the second half of the year with a few portfolios and some lender owned properties on the market or set to close in the coming months. Investor interest has been strong particularly for A quality properties and deals with upside potential. Although there appears to be fear of a double dip recession investors are feeling that a bottom is being established and values will increase as occupancies and operating fundamentals improve. The lending environment has also improved with FNMA and FDMA loosening their criteria, with spreads coming in back to historical levels and with Insurance companies and traditional banks also slowly getting back in the business of lending.

### Vacancy Rates and Average Rent



A challenging rental market has caused vacancies to rise and rental rates to deteriorate after reaching peak levels in late 2006. A small increase in rental rates during the 2<sup>nd</sup> quarter 2010 and a very modest decrease in vacancy point to a leveling out and perhaps a small improvement in both.

### Tucson Apartment Absorption

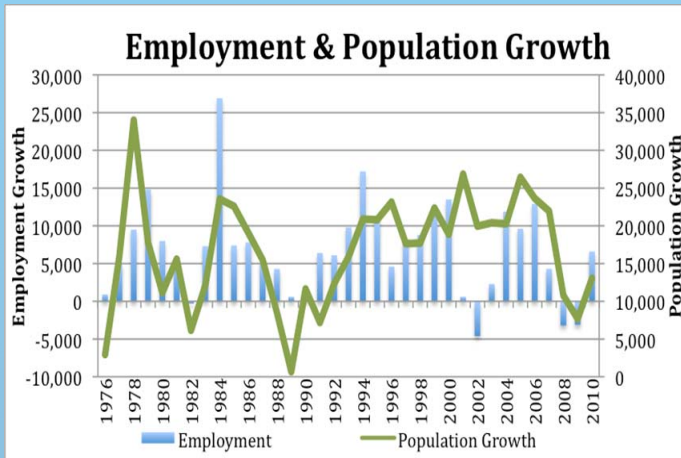


The market has faced negative absorption in ten of the past twelve quarters. Very moderate negative absorption of 245 units in the always difficult 2<sup>nd</sup> quarter after positive absorption of 548 units in the 1<sup>st</sup> quarter point to an improving absorption situation overall.

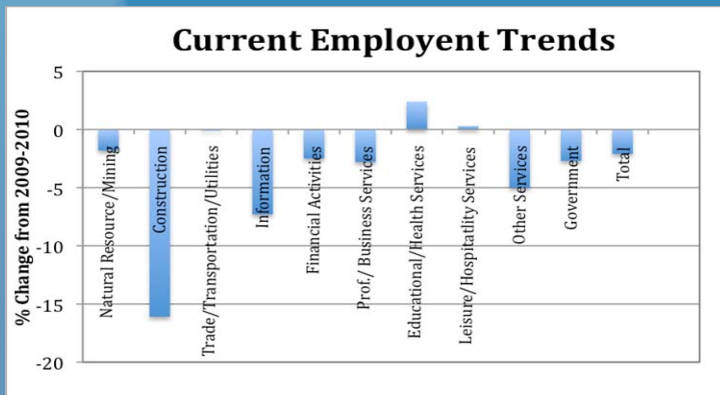
### Unemployment Rate

	Pima County	Arizona	United States
May 10	9.0%	9.6%	9.7%
May 09	8.5%	9.2%	9.4%
May 08	5.1%	5.2%	5.5%





According to the Pima Association of Governments, modest job growth of 6600 jobs is expected in 2010 after negative job growth of 3200 and 3100 in 2008 and 2009. This combined with an expected population growth of 13,033 in Pima County will keep apartment fundamentals improving in 2010 and beyond.



Job losses occurred in all major categories except government and health services, which will all come under stress in 2010 due to severe state budgetary issues. Look for a rebound in employment in 2010 lead by hiring in retail and service industries.

Apartment Sales came back to life in the 2<sup>nd</sup> quarter with 8 sales occurring. Most sales were either by distressed owners or lenders and special servicers. Heavy Buyer interest has resulted in strong pricing, weather measured by CAP rates, Price Per Unit or Price Per SF. Look for a continued improvement in transaction volume.

## SOUTHERN ARIZONA TOP 25 EMPLOYERS

1.	Raytheon Missile Systems	12,140
2.	University of Arizona	10,363
3.	State of Arizona	8,708
4.	Davis Monthan Air Force Base	7,755
5.	Walmart	7,192
6.	Tucson Unified School District	7,012
7.	US Army Intelligence Ctr & Ft. Huachuca	6,236
8.	Pima County	6,235
9.	City of Tucson	5,635
10.	Carondelet Health Network	4,566
11.	Tohono O'odham Nation	4,353
12.	Freeport McMoRan Copper & Gold	3,997
13.	University Medical Center	3,542
14.	US Border Patrol	3,530
15.	Fry's Food Store	3,109
16.	TMC HealthCare	3,050
17.	Corrections Corp. of America	2,512
18.	Citi	2,500
19.	Pinal County	2,455
20.	University Physicians Healthcare	2,219
21.	Asarco LLC	2,125
22.	Southern AZ VA Health Care	2,117
23.	Basha's Inc.	1,900
23.	Target Stores Inc.	1,900
25.	Safeway, Inc.	1,685

Year-To-Date Apartment Sales						
Property Name	Sale Price	No. of Units	Building Age	Price Per Unit	Price per Sq Ft	Class
Catalina View	\$1,350,000	31	41	\$43,548	\$45.89	C
Oasis in the Catalinas	\$1,400,000	28	44	\$50,000	\$70.17	B
Verde Meadows Apartment	\$1,000,000	59	32	\$16,949	\$29.75	C
Tierra Vida Apartments	\$15,200,000	200	10	\$76,000	\$98.66	A
The Retreat at Speedway	\$22,500,000	304	8	\$74,013	\$86.14	A
Tanque Verde Apartments	\$11,400,000	428	31	\$26,636	\$36.81	C
Valencia Apartments	\$1,200,000	60	49	\$20,000	\$23.40	C
Condos at Williams Center	\$17,150,000	238	15	\$72,059	\$83.42	A
Average/ Total	\$71,200,000	1348	29	\$47,401	\$59.28	

For Additional Information,  
Please Contact:

Bob Kaplan  
*Principal*  
PICOR  
(520) 546-2737  
bkaplan@picor.com

Allan Mendelsberg  
PICOR  
(520) 546-2721  
amendelsberg@picor.com

PICOR Commercial Real Estate Services  
1100 N. Wilmot  
Suite 200  
Tucson, Arizona 85712  
Phone: (520) 748-7100  
Fax: (520) 546-2799  
www.picor.com



No warranty of representation, expressed or implied, is made as to the accuracy of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listings conditions imposed by our principals.

Information Sources: Tucson Regional Economic Opportunities, Pima Association of Governments, Arizona Workforce Informer, Real Data- Apartment Insights, U.S. Bureau of Labor Statistics.