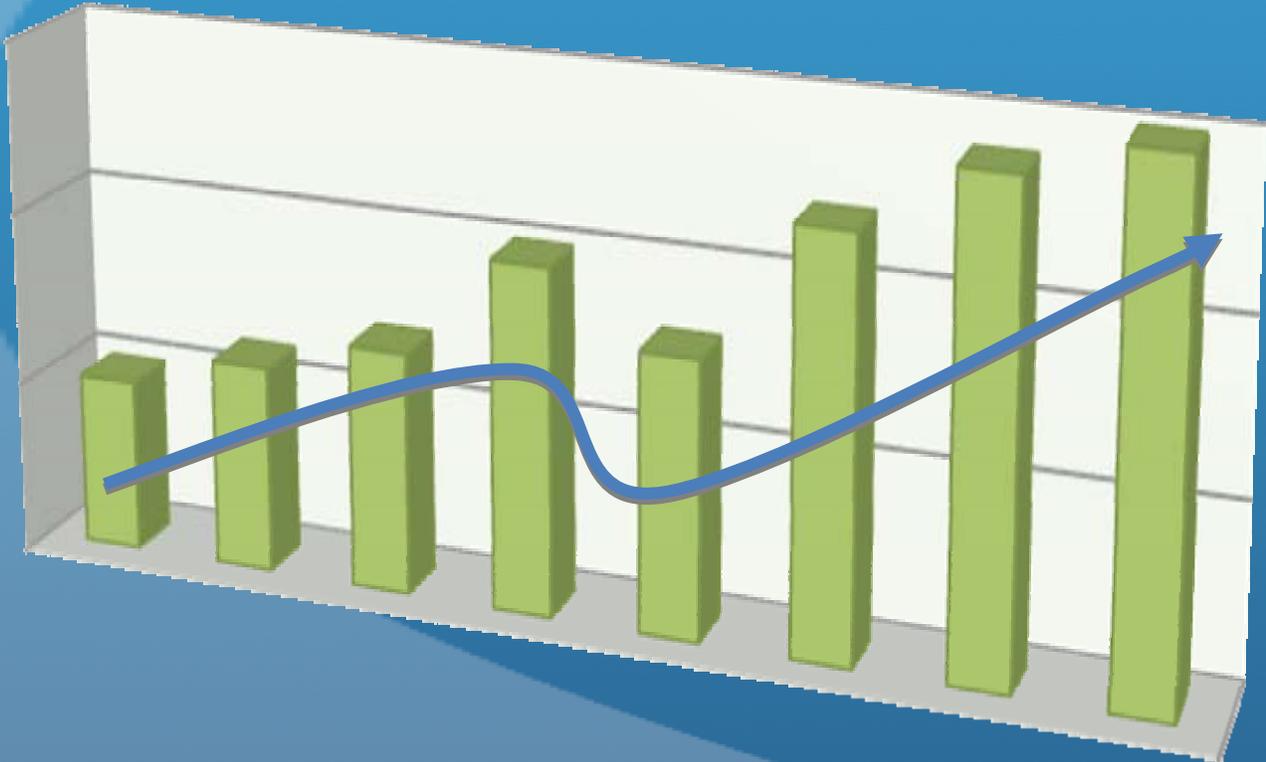


# Market Trends

For Metro Tucson Multi-Family



## MARKET TALK

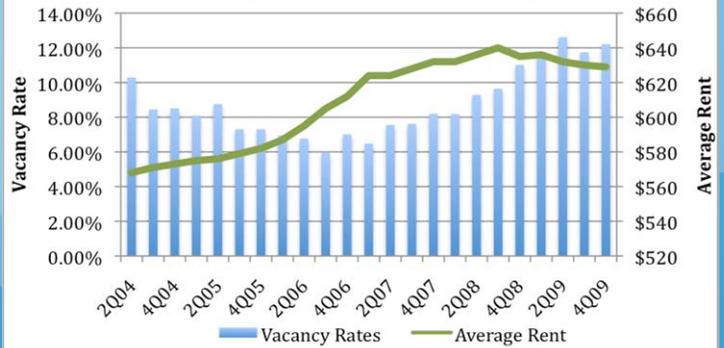


Market fundamentals declined again in the 4<sup>th</sup> quarter after a small improvement in the 3<sup>rd</sup> quarter, and ended the year with citywide vacancy at 12.21%. Average rental rates dropped for the full year and absorption was a negative 439 units for the full year. While these are all negative indicators, there are many signs that the worst is over and a gradual improvement may have already begun.

The Tucson economy has continued to fare better than the nation and the state of Arizona, with unemployment levels below state and national averages, and is showing some signs of improvement. We expect to see a slow increase in employment during 2010, which should lead to a slow improvement in apartment demand and occupancies. Tucson remains a desirable and affordable place to live. Job and population growth, including in-migration, should resume later this year, increasing demand for housing, including apartments.

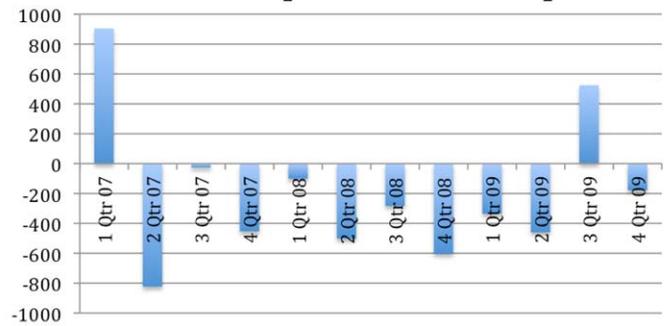
Apartment transactions are still stalled, and 2010 ended with only a handful of sales of properties of 40 units or more. There are a number of properties on the market, some of which should close in the late 1<sup>st</sup> quarter or early 2<sup>nd</sup> quarter, which will give the marketplace pricing indicators and help restart transactions. There is very strong investor interest in all types of properties from well-located stabilized A properties to C properties with substantial deferred maintenance and repositioning needed. Expect to see more foreclosure and distressed sales in 2010, as well as other sellers coming to market wanting to reposition themselves or raise cash. We expect to see a continued increase in transactions as the year progresses and price discovery and liquidity improve.

## 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. Look for a gradual improvement in both indicators as employment slowly improves in 2010.

## Tucson Apartment Absorption



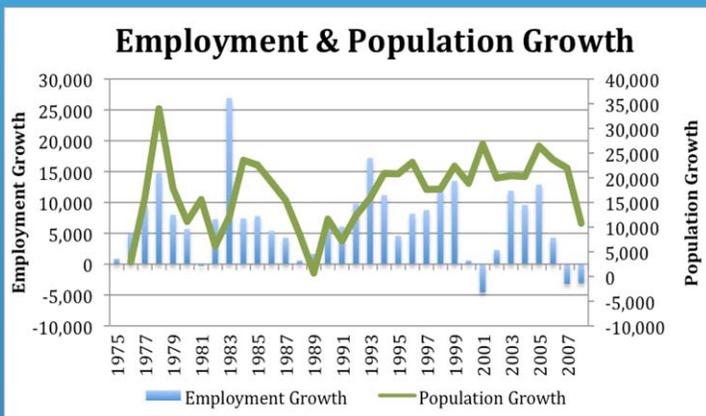
The market has faced negative absorption in ten of the past twelve quarters. A growing shadow market and mounting job losses have drawn prospective tenants away from the market.

## Unemployment Rate

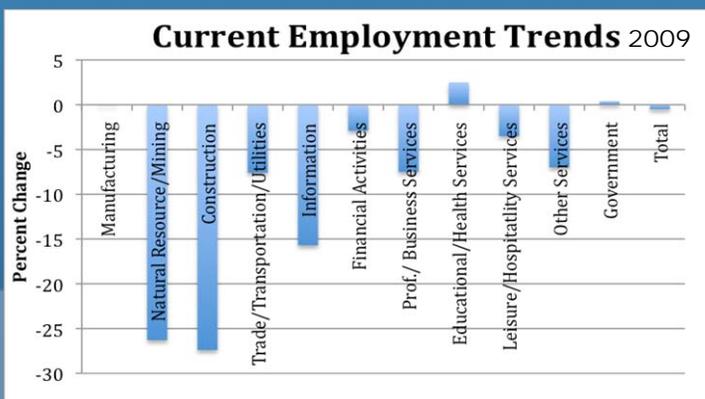
	Pima County	Arizona	United States
<b>Dec 07</b>	4.2%	4.3%	4.8%
<b>Dec 08</b>	6.1%	6.7%	7.1%
<b>Dec 09</b>	8.0%	8.7%	9.7%



Home sales rebounded in 2009 to 11,661 units from 10,578 units in 2008, while the median home sales price has stabilized around \$165,000. The federal government's first time home buyer tax credit has been a big plus for the home sales market.



After a net loss in jobs in 2008 and 2009, Pima County is expecting a moderate increase of 8,000 jobs in 2010. Population will continue to increase at a very moderate pace of 1% in 2010 after similarly moderate increases in 2008 and 2009.



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 led by hiring in retail and service industries.

## Southern Arizona Top 25 Employers

1. Raytheon Missile Systems	11,539
2. University of Arizona	10,575
3. State of Arizona	9,329
4. Davis Monthan Air Force Base	7,509
5. Tucson Unified School District	7,227
6. U.S. Army Intelligence Center and Fort Huachuca	6,463
7. Pima County	6,235
8. Wal-Mart	6,715
9. Freeport McMoRan Copper & Gold	5,987
10. City of Tucson	5,635
11. Carondelet Health Network	4,570
12. Tohono O'odham Nation	4,553
13. University Medical Center	3,552
14. U.S. Border Patrol	3,468
15. TMC HealthCare	3,184
16. Asarco LLC	2,575
17. Corrections Corp. of America	2,468
18. Pinal County	2,450
19. Citi	2,400
20. Fry's Food Stores	2,268
21. University Physicians Healthcare	2,039
22. Southern Arizona VA Health Care	2,026
23. Basha's Inc.	1,938
24. Target Stores Inc.	1,800
25. Safeway Inc.	1,715

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