

MARKETBEAT

PHOENIX MULTIFAMILY REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



MID-YEAR 2010

ECONOMIC OVERVIEW

Job growth is the leading indicator of an economic recovery and Phoenix may have turned the corner. The monthly employment report from the Arizona Department of Commerce reported positive month-over-month job gains in four of the past five months thru May 2010 and eight of the past ten months dating back to August 2009. Year-to-date, Phoenix increased its employment by 8,500 jobs which was led by Leisure and Hospitality (9,200) and Government (6,300) sectors. Federal hiring of temporary census workers in May accounts for much of the government sector gains. The seasonally adjusted unemployment rate was 9.2% as of May 2010, up slightly from 8.9% a year ago. Moody's | Economy.com revised its forecast to 14,000 jobs gained in 2010 and projects 2.1% annual growth.

APARTMENT OVERVIEW

Developments that broke ground in 2008, when more than 6,300 building permits were issued, began to deliver to the market during the past 12 months. Seventeen apartment complexes finished construction during the second half of 2009, adding 5,052 units to inventory. Over the first half of 2010, 2,844 units in eight developments were completed, increasing inventory to 262,902 units, according to Pierce-Eislen. Since 2008, development activity has slowed considerably, as evidenced by only 637 permits issued in 2009 and 180 permits drawn through the first six months of 2010.

Market fundamentals have shown signs of stabilization during the first half of the year. Current market vacancy dropped 1.2 percentage point to 11.8%, down from 13.0% at year-end 2009; however, overall asking rental rates continued their slide from a high of \$777.00 per month in 2007 to a recent low of \$686.00 per month. Concessions have tapered off but are still significant in order for owners to attract and retain tenants. As a percent of the average annual rental rate, concessions peaked at 12.1% last year to settle to 10.0% currently. By comparison, in the height of the market in 2006, concessions were 4.5% of the average annual rent.

Foreclosed home sales have steadily increased each quarter since 2009, many of which are immediately available for rent and compete with the multi-family market, putting pressure on rental rates. Conversely, traditional single-family sales have waned during the same period, even though the first time home buyer tax credit was available. This sales volume indicates that better value was achieved by the purchase of foreclosure properties over traditional sales.

OUTLOOK

Defaults and foreclosures among commercial and residential real estate in the Phoenix area rose steadily since the beginning of the year. The downward pressure on pricing will further erode capitalized values and lead to more distressed properties during the remainder of 2010. Few construction starts will help improve market fundamentals over the coming years. Job growth in the last ten months has been strong compared to the losses incurred during the previous two years.

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BEAT ON THE STREET

"We've seen cap rates tighten with an increase in transaction volume. The buyer pool has expanded and the buyers are paying premiums for well-located and well-maintained operating assets. Operations appear to have stabilized recently with no new supply on the horizon and slightly higher occupancy levels."

- Jim Crews, Director

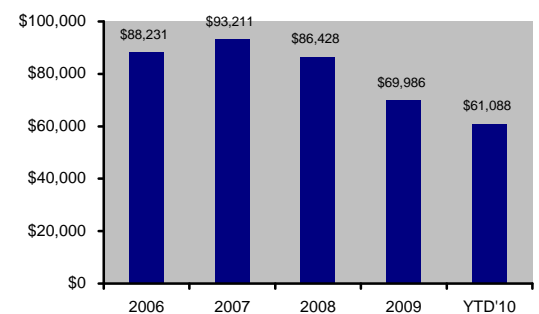
ECONOMIC INDICATORS

| National | 2009 | 2010F | 2011F |
|--------------------------------|----------|----------|----------|
| GDP Growth | -2.4% | 3.1% | 3.9% |
| 30 Year Treasury Interest Rate | 4.2% | 3.9% | 5.0% |
| CPI Growth | -0.3% | 1.8% | 2.1% |
| Unemployment * | 8.5% | 9.5% | 9.5% |
| Employment Growth * | -4.3% | 0.7% | 2.4% |
| Population * | 4.3 Mil. | 4.4 Mil. | 4.5 Mil. |
| Household Income * | \$52,639 | \$50,261 | \$50,101 |

Source: Moody's | Economy.com

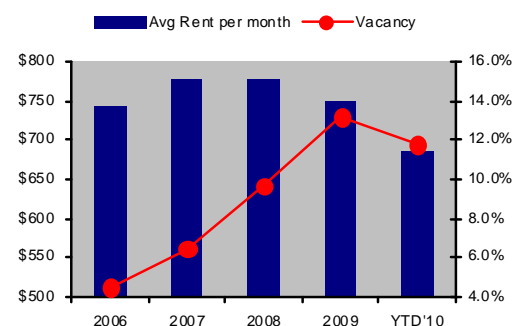
* Phoenix Metropolitan Area

AVERAGE SALES PRICE PER UNIT



Source: CoStar - 100+ units

OVERALL RENTAL VS. VACANCY RATES



Source: Pierce-Eislen, Inc.

INVESTMENT SALES

Pricing for 100+ unit assets traded this year have dropped 30.8% from 2006 levels and 12.7% below 2009 pricing. Even though cap rates have strengthened in the past four quarters, the downward pressure on monthly rental income caused values to plummet.

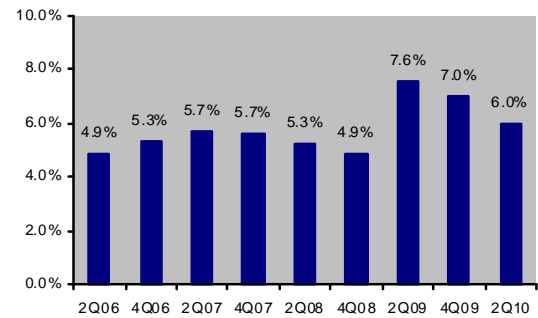
Twenty projects have traded year-to-date and sales activity for 2010 is on pace to narrowly surpass the 36 sales of 100+ unit multi-family projects that closed in 2009. This total is well below the annual average of 167 sales that occurred between 2004 and 2007, but the activity signals a return of investors to the market.

Half of the largest sales in the first half of the year were distressed, REO or short-sale lender-driven transactions. There will be more distressed sales in the second half of the year with the activity to set new benchmarks and establish project values.

Moody's | Economy.com projects strong population growth in the coming years, adding an average of 115,000 people to the Metropolitan Phoenix area. The influx of people is expected to

introduce potential new renters to the market. Market rents will need to improve for multi-family values to reverse course. However, the limited supply deliveries, increased population, and job growth will set the stage for market fundamentals to strengthen in the coming months.

AVERAGE CAP RATES



Source: CoStar - 100+ units

SIGNIFICANT 2010 YEAR-TO-DATE APARTMENT SALES TRANSACTIONS

| PROPERTY NAME/ADDRESS | SELLER | BUYER | UNITS | TOTAL PURCHASE PRICE |
|--|---------------------------|-----------------------------------|-------|------------------------------------|
| Desert Parks Vista 9393 East Palo Brea Drive, Scottsdale | P.B. Bell Asset Mgmt | PASSCO Companies | 202 | \$32,630,000 \$161,535 per unit |
| Biscayne Bay Apartments 300 East Warner, Chandler | Waterton Associates LLC | Private Portfolio Group | 512 | \$43,500,000 \$84,961 per unit |
| Trillium Villas * 10847 West Olive Avenue, Peoria | Trillium Residential LLC | Weidner Investment Services, Inc. | 340 | \$27,500,000 \$80,882 per unit |
| Monterra Apartments 1333 North 24th Street, Phoenix | Aslan Monterra I | Weidner Investment Services, Inc. | 258 | \$16,650,000 \$64,535 per unit |
| Casa Santa Fe Apartments * 11105 North 115th Street, Scottsdale | Fairfield Residential LLC | HSL Properties, Inc. | 264 | \$16,000,000 \$60,606 per unit |
| Ridge Gate Apartments 2811 West Deer Valley, Phoenix | Verde Investments Inc. | Nevins, Adams, Lewbel & Schell | 216 | \$12,960,000 \$60,000 per unit |
| Cabrillo Apartments * 11620 East Sahuaro Drive, Scottsdale | Fairfield Residential LLC | HSL Properties, Inc. | 224 | \$12,600,000 \$56,250 per unit |
| Bayside Apartments 20245 North 32nd Drive, Phoenix | River Oaks Apartments LP | Pacific Realty Advisors | 176 | \$9,416,000 \$53,500 per unit |
| Verona Park * 1666 South Extension Road, Mesa | General Electric Company | Acacia Capital Corporation | 304 | \$15,200,000 \$50,000 per unit |
| Elliots Crossing Apartments 7250 South Kyrene Road, Tempe | Sentinel Realty Advisors | Slosburg Company | 247 | \$11,850,000 \$47,976 per unit |
| Argenta * 4104 East Broadway Road, Mesa | General Electric Company | Acacia Capital Corporation | 396 | \$18,200,000 \$45,833 per unit |

Source: Real Capital Analytics

* Distressed, Short or REO sales



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