

EISLEN
Benchmark

REPORT

Phoenix Market
May/June 2008 Survey

Benchmark Methodology

The Eislen Benchmark Report surveys the entire market-rate universe of 50+ unit properties during three periods annually – January/February, May/June, and September/October. Rental rates and rental concessions are surveyed by telephone surveyors represented as prospective renters. Rental rate definitions are weighted mean average rents, representative of all floorplans included in all market-rate properties.

How We Categorize Rental Properties

Rental household categories – Workforce Housing, Low Mid-Range, Upper Mid-Range, and Discretionary Households – are composed from the Pierce-Eislen Context® Improvements rating categories as:

Category	Household Type
A/A+	Discretionary
A-/B+	Upper Mid-Range
B/B-	Low Mid-Range
C+/C/C-/D	Workforce

Terminology – Development properties are classified as *under construction*, *planned*, or *prospective* :

Under Construction – Properties are under construction until final certificate of occupancy issuance.

Planned – A planned apartment community is actively progressing through the city approval process.

Prospective – A level of uncertainty regarding when, or if, a property will be developed as apartments.

Examples include: Properties requiring entitlement approvals; properties shelved by the developer; inclusion into mixed use developments, or undeclared as to whether the property will be sold as condominiums, or rented as apartments.

Secondary Research Sources

Subject	Source
Employment Base	U.S. Bureau of Labor Statistics State Department of Economic Security
Median Home Price	Secondary Media Sources/National Association of Realtors
Median Household Income	United States Bureau of Labor Statistics
Interest Rate	United States Federal Reserve
Public Transportation	County and State Transportation Agencies
Multi-Family Sales	County Recorder Sites/Trade Publications
Development Pipeline	City and County Planning Departments/Trade Publications

Note – For more definitive information regarding methodologies, please see **Our Methods** at <http://www.pi-ei.com/>.

Executive Summary

The May/June Phoenix apartment market survey illustrated softened rental market conditions.

May/June 2008 Phoenix apartment market conditions, compared with the same 2007 period, illustrated indicator category changes as:

- *The average monthly rental rate* increased 3.4% (\$30.22) from the prior year.
- *Concession participation rates* increased from a prior period 24.2% participation, to 26.4% during the current period.
- *Investor market transactions* reduced 54.9% in number of properties sold; by 48.9% in total dollar sales.
- *Twelve-month period development added* 16 properties – 3,633 units.

Market Inventory

Inventory of 50+ unit fully affordable and market rate (competitive) properties:

Category	Market Properties		Market Units	
	Number	Share of Total	Number	Share of Total
Discretionary	144	12.4 %	42,627	17.5 %
Upper Mid-Range	214	18.5	60,210	24.7
Low Mid-Range	265	22.9	62,437	25.6
Workforce	412	35.6	63,187	25.9
Affordable	122	10.5	15,068	6.2
Total	1,157	100.0 %	243,529	100.0 %

Among the apartment market's three primary segments – *Rental, Development, and Investor* – activity illustrated:

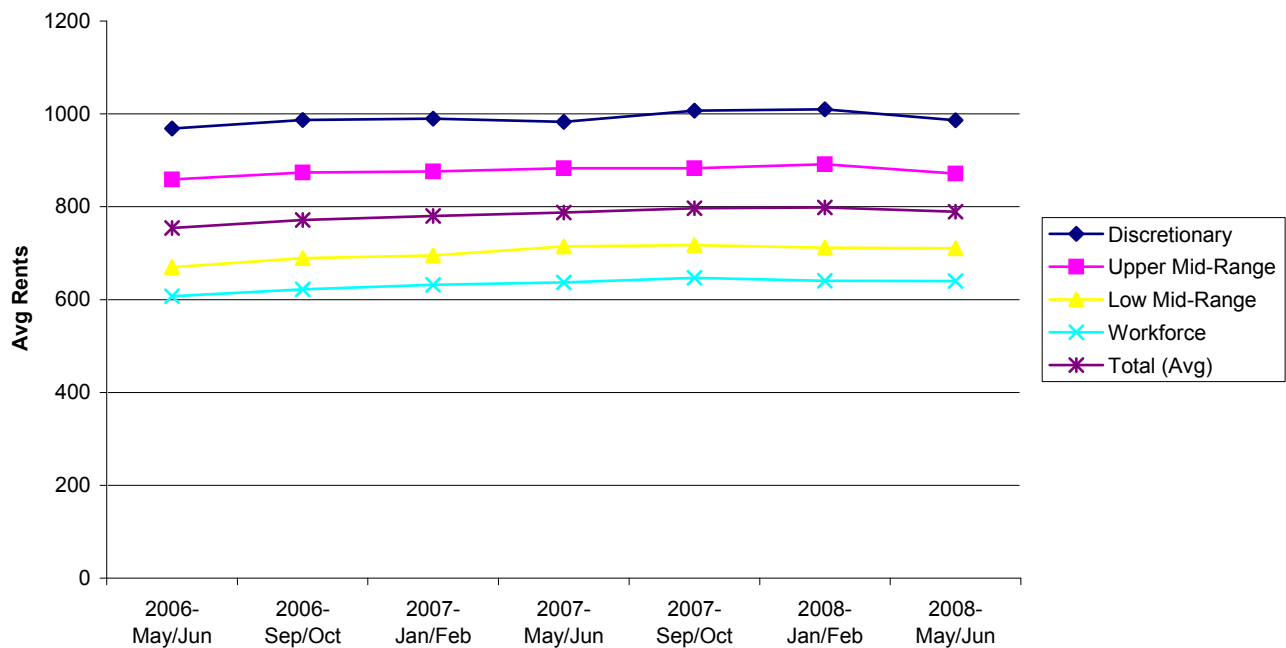
Rental Market Conditions

Rental Rate Change

Market average rents, comparing May/June 2007 with same-period 2008, increased slightly on average by \$1.79 – 0.2% – with the rate of change ranging among rental categories as:

Rental Household Type	Average Rental Rate		Change – 2007/2008	
	2007	2008	Dollars	Percentage
Discretionary	\$982.71	\$986.20	\$3.49	0.4 %
Upper Mid-Range	882.90	871.23	(11.67)	(1.3)
Low Mid-Range	714.77	710.85	(3.92)	(0.5)
Workforce	637.19	639.87	2.68	0.4
Total	\$787.75	\$789.54	\$1.79	0.2 %

Period-to-period change among surveys (January/February; May/June; and September/October) during the 24-month period extending from May/June 2006, through May/June 2008 illustrated rental category rental rate change as:



Rental Market Conditions *(continued)*

Of Phoenix's 32 submarkets, five were distinguished by rental rate average increases well above the metropolitan area average:

Submarket	Inventory (Units)	Metro Area Average Rents		Change – 2007/2008	
		2007	2008	Dollars	Percentage
16N – North Tempe	13,879	\$826.62	\$943.44	\$116.83	14.1 %
11 – Uptown	6,694	784.49	828.61	44.12	5.6
14 – Sky Harbor	2,428	888.67	920.12	31.45	3.5
9 – East Camelback	5,425	740.66	765.78	25.12	3.4
5 – Sun City - Youngtown - Pe	3,788	828.32	853.21	24.89	3.0

At the other end of the rent spectrum, five submarkets illustrated average rental rate change below the metropolitan area averages:

Submarket	Inventory (Units)	Metro Area Average Rents		Change – 2007/2008	
		2007	2008	Dollars	Percentage
1N – North Scottsdale	10,644	\$1,053.72	\$1,005.99	(\$47.73)	(4.5) %
22W – Southwest Maricopa Co	564	847.98	801.44	(46.54)	(5.5)
15S – Mountain Park	8,268	908.61	865.59	(43.02)	(4.7)
18N – East Mesa	1,844	763.47	732.52	(30.96)	(4.1)
6 – Glendale	14,130	672.77	649.00	(23.77)	(3.5)

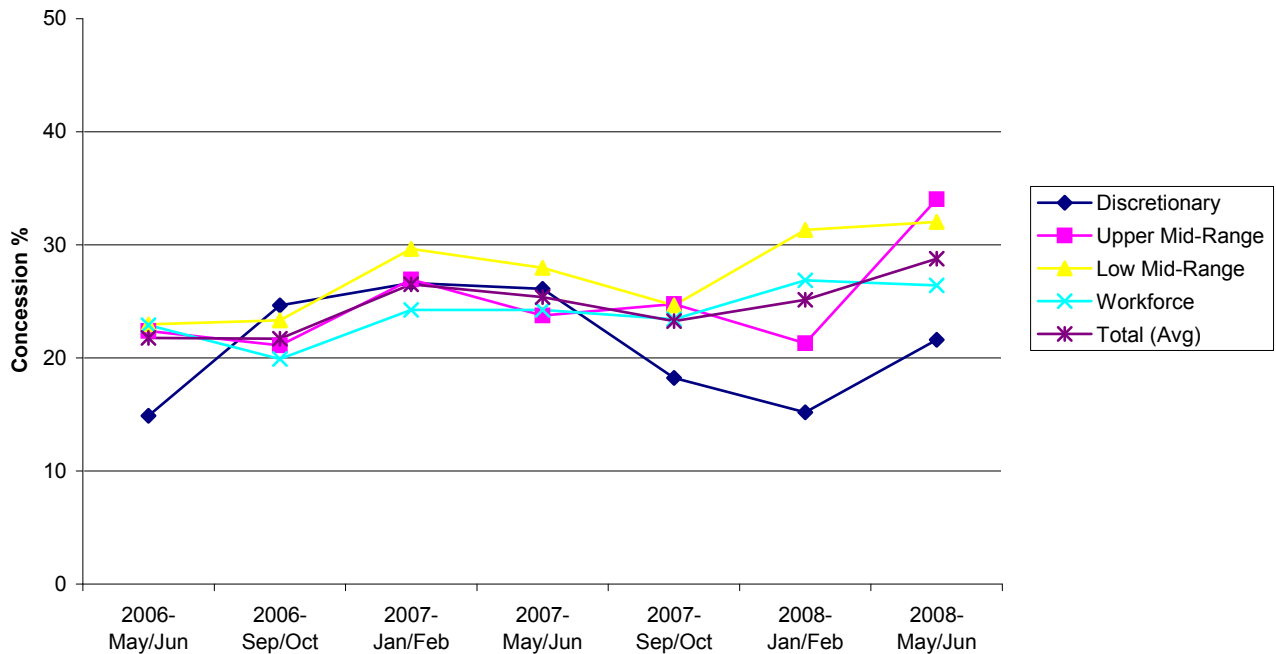
Rental Concessions

Rental concessions participation during the period increased among rental categories, except for a reduction in Discretionary:

Rental Household Type	Concession Participation Rate		
	2007	2008	Change – 2007/2008
Discretionary	26.1 %	21.6 %	(4.5) %
Upper Mid-Range	23.7	34.0	10.3
Low Mid-Range	28.0	32.0	4.1
Workforce	24.2	26.4	2.2
Total	25.4 %	28.8 %	3.4 %

Rental Market Conditions (continued)

A thirty-six month illustration of concessions participation ranged among categories as:



Five submarkets reported the market's highest concession participation:

Submarket	Property Inventory	Concessions	
		Participation	Depth
15N – South Phoenix	18	44.4 %	5.1 %
20 – Western Suburbs	38	42.1	9.3
18S – Superstition Springs	31	41.9	10.2
17S – South Mesa	67	40.3	10.3
6 – Glendale	74	39.2	8.4

In contrast, five submarkets reported the market's lowest concession participation:

Submarket	Property Inventory	Concessions	
		Participation	Depth
22W – Southwest Maricopa Co	4	0.0 %	0.0 %
18N – East Mesa	11	9.1	2.5
14 – Sky Harbor	10	10.0	16.7
9 – East Camelback	40	12.5	5.0
8 – Christown	30	13.3	12.3

Apartment Development Market

Twelve month period Phoenix apartment completions included 3,633 units among sixteen apartment communities, illustrating considerable emphasis on the Upper Mid-Range category:

Rental Household Type	Completions				Change – 2007/2008	
	2007		2008		Properties	Units
	Properties	Units	Properties	Units		
Discretionary	9	2,667	7	1,930	(2)	(737)
Upper Mid-Range	15	3,874	8	1,642	(7)	(2,232)
Low Mid-Range	2	332	1	61	(1)	(271)
Workforce	—	—	—	—	—	—
Total	26	6,873	16	3,633	(10)	(3,240)

Phoenix apartment development in process included 12,517 units under construction among 43 properties; 84 properties were included in planning and preplanning:

Development Status	Properties	Units
Under Construction	43	12,517
Planned	74	19,230
Prospective	10	4,373
Total	127	36,120

The metropolitan area's most active developers included:

Developer	Developments Under Construction	
	Properties	Units
Gray Development Group	6	2,066
Trillium Residential	4	1,630
Alliance Residential Company	4	1,084
Fairfield Residential	4	1,078
Trammell Crow Residential	2	741
Fore Property Company	1	715
American Campus Communities	1	600
Total	22	7,914

Investor Market Activity

One hundred and Seventeen fewer properties – 54.9% – were sold during the 12-month period versus the prior year same-period:

Rental Household Type	Property Sales		Share of Total	Change – 2007/2008	
	2007	2008		Numeric	Percentage
Discretionary	26	16	16.7 %	(10)	(38.5) %
Upper Mid-Range	53	15	15.6	(38)	(71.7)
Low Mid-Range	57	28	29.2	(29)	(50.9)
Workforce	77	37	38.5	(40)	(51.9)
Total	213	96	100.0 %	(117)	(54.9) %

Total metropolitan area dollar sales reduced by a factor of 48.9% from the prior year:

Rental Household Type	Dollar Sales (000)		Share of Total	Change – 2007/2008	
	2007	2008		Dollars (000)	Percentage
Discretionary	\$1,030,030	\$633,183	28.5 %	(\$396,847)	(38.5) %
Upper Mid-Range	1,669,996	585,700	26.3	(1,084,296)	(64.9)
Low Mid-Range	957,776	618,756	27.8	(339,020)	(35.4)
Workforce	694,769	387,025	17.4	(307,743)	(44.3)
Total	\$4,352,570	\$2,224,664	100.0 %	(\$2,127,907)	(48.9) %

The metropolitan average selling price per unit increased from the prior period:

Rental Household Type	Average Selling Price Per Unit		Change – 2007/2008	
	2007	2008	Dollars	Percentage
Discretionary	\$131,448	\$138,099	\$6,650	5.1 %
Upper Mid-Range	108,611	111,265	2,655	2.4
Low Mid-Range	67,478	84,013	16,536	24.5
Workforce	54,988	57,516	2,528	4.6
Total	\$86,980	\$92,915	\$5,935	6.8 %

Average per-square-foot selling prices also increased from the prior period:

Rental Household Type	Average Selling Price Per Square Foot		Change – 2007/2008	
	2007	2008	Dollars	Percentage
Discretionary	\$128.88	\$134.72	\$5.84	4.5 %
Upper Mid-Range	120.51	121.36	0.85	0.7
Low Mid-Range	91.83	102.68	10.85	11.8
Workforce	81.88	94.82	12.93	15.8
Total	\$106.77	\$113.31	\$6.53	6.1 %

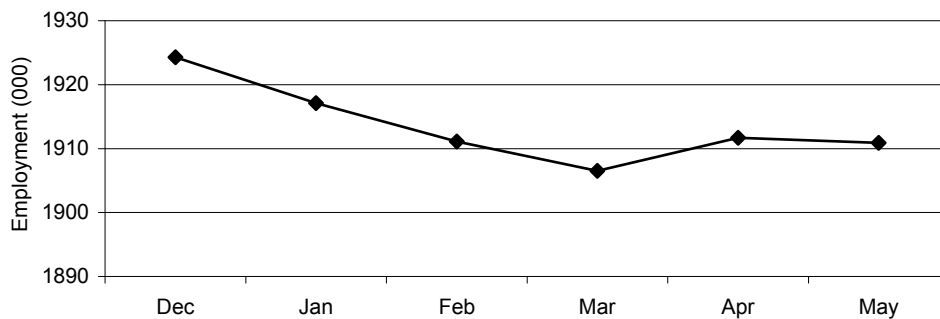
Employment

Phoenix non-agricultural employment during the two-year period extending from 2005 through 2007 year-end added 67,500 jobs – a 3.6% increase.

Period Ending	Employment (000)	Change	
		Jobs (000)	Percentage
12/2005	1,860.5	–	– %
12/2006	1,929.6	69.1	3.7
12/2007	1,928.0	<1.6>	<0.1>

Source: Arizona Department of Commerce

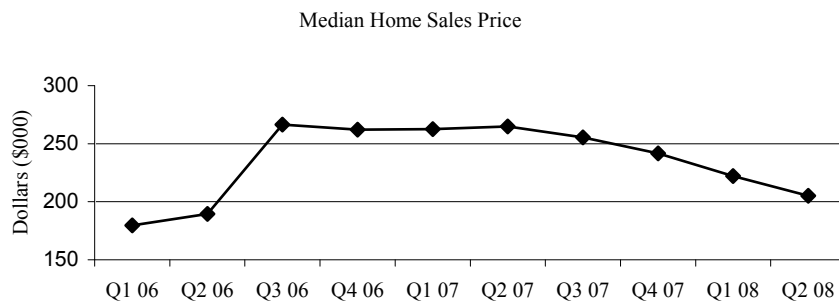
The moving three month employment average illustrated a stable condition during the most recent period:



Source: Arizona Department of Commerce

Single Family Housing Activity

Metropolitan area home sales prices continued to lose value through the second quarter of 2008:



Source: National Association of Realtors

Single Family Housing Activity *(continued)*

Recent Affordability Index change illustrated continuing improvement in the median income households' ability to purchase a median-priced home.

<u>Quarter</u>	<u>Affordability Index</u>
2007 1	95
2	99
3	98
4	103
2008 1	111
2	118

Sources:

Median Home Price: National Association of Realtors

Median Household Income: United States Dept of Housing & Urban Development

Interest Rate (applied to affordability index calculation): U.S. Federal Reserve

Public Transportation

METRO Light Rail Development

Metro Light Rail is planned in the cities of Phoenix, Tempe, and Mesa, Arizona. The 20-mile starter segment is projected to begin service in December 2008.

Freeway Development

Route 51 – This project will add one new HOV lane in each direction on State Route 51 (Piestewa Freeway) between Shea Blvd. on to the Loop 101 to Tatum Blvd. Completion is scheduled for Fall 2008.

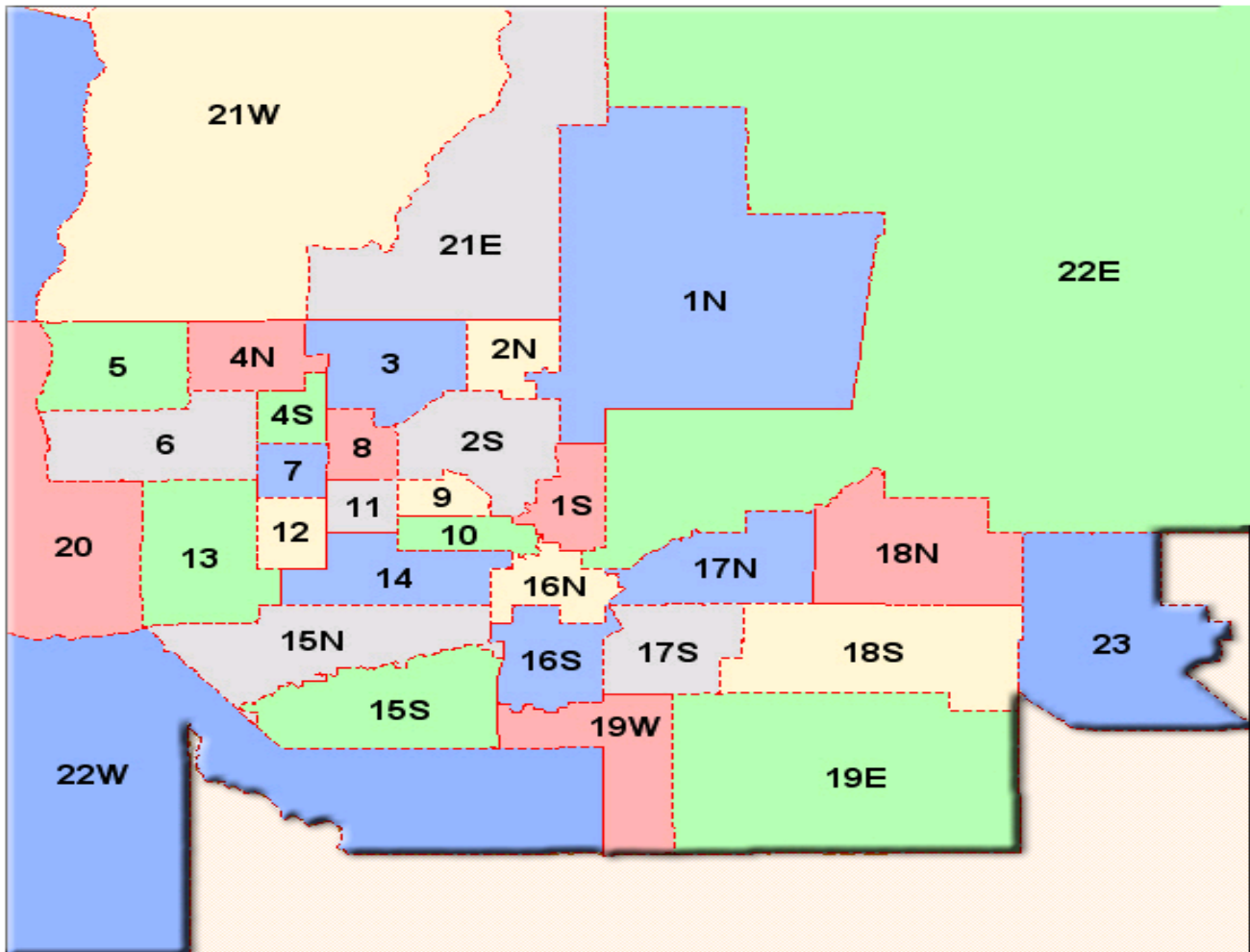
Loop 101 Pima Freeway HOV Lanes – Construction is now underway to add an HOV lane on the Loop 101 from Princess Drive to Loop 202. The HOV lane from SR 51-Loop 101 is scheduled for completion in Winter 2008. An HOV lane from Tatum Boulevard to Princess Drive on the Loop 101 is scheduled for completion in Spring 2009.

64th St. Traffic Interchange – This project is making the 64th Street Interchange into a six-lane The interchange will provide freeway access ramps (entry/exit) for both directions of Loop 101. Construction has started on this project.

Loop 101 Price Freeway – This project will add HOV lanes from the Red Mountain Freeway to the Santan Freeway. Completion is scheduled for 2009.

Source: Arizona Department of Transportation.

Phoenix Metropolitan Area Submarkets



- | | | |
|---------------------------------|---------------------------|------------------------------|
| 1N - North Scottsdale | 9 - East Camelback | 17S - South Mesa |
| 1S - South Scottsdale | 10 - Central East Phoenix | 18N - East Mesa |
| 2N - North Paradise Valley | 11 - Uptown | 18S - Superstition Springs |
| 2S - South Paradise Valley | 12 - Central West Phoenix | 19E - Gilbert |
| 3 - Sunnyslope | 13 - Maryvale | 19W - Chandler |
| 4N - North Black Canyon | 14 - Sky Harbor | 20 - Western Suburbs |
| 4S - Metrocenter | 15N - South Phoenix | 21E - Union Hills |
| 5 - Sun City\ Youngtown\ Peoria | 15S - Mountain Park | 21W - Deer Valley |
| 6 - Glendale | 16N - North Tempe | 22E - Northeast Maricopa Co. |
| 7 - Northwest Phoenix | 16S - South Tempe | 22W - Southwest Maricopa Co. |
| 8 - Christown | 17N - North Mesa | 23 - Apache Junction |