

# M/PF-TWR Multi-Housing Outlook

M/PF YIELDSTAR<sup>®</sup>  
Asset Optimization System

CBRE | TORTO WHEATON  
RESEARCH

Fall 2009

## PHOENIX - OVERVIEW

The population of the Phoenix area stands at 4.37 million, 10th largest of the multi-housing markets we track. The average per capita income (according to recent data from Moody's Economy.com) is estimated to be \$33,801 - approximately 15% below the national average. Total employment stands at 1.75 million workers.

Key Statistics	Level	Rank
Per Capita Income (\$000)	33.8	53
Total Employment (mil.)	1.75	11
Total Inventory (units x 1000)	321	10
Vacancy Rate (%)	11.6	57
Rent Index (\$/unit)	714	46

1-Quarter Change	Metro	All Mkts
Total Employment Growth	↑	↑
Completion Rate	↔	↔
Absorption Rate	↑	↑
Vacancy Rate	↑	↑
Rent Inflation	↓	↓

## Phoenix

The Phoenix market is defined as Maricopa and Pinal counties in Arizona.

### Capital Markets Summary

Phoenix  
U.S.

## MULTI-HOUSING MARKET FORECAST

The short-term forecast calls for an overall decline in the number of workers through year-end 2010. Total net absorption is forecasted to be a positive 7,554 units, out-pacing supply during the same period. By year-end 2010, the annualized vacancy rate is expected to be 10.8% while rents are forecasted to decline to \$646.32 compared to current market rents of \$713.67.

### Phoenix Forecast Summary: Fall 2009

	Demand			Supply			Performance	
	New Jobs Total Emp.	Net Absorp (Units)	Absorp Rate (%)	Rentable Completions (Units)	Compl Rate (%)	Vac Rate (%)	Rent Index (\$/Unit)	Rent Infl (%)
2008	-94,000	-4,462	-1.5	7,403	2.4	9.1	736.81	-2.7
2009F	-125,000	-118	0.0	5,282	1.7	11.7	687.75	-6.7
Q1	-54,000	-2,382	-0.8	1,579	0.5	11.5	726.43	-1.4
Q2	-24,000	946	0.3	1,684	0.5	11.6	713.67	-1.8
Q3F	-36,000	-188	-0.1	1,431	0.4	12.1	701.73	-1.7
Q4F	-11,000	1,506	0.5	588	0.2	11.8	687.75	-2.0
2010F	25,000	6,236	2.2	562	0.2	10.8	646.32	-6.0
<b>Historical Performance</b>								
Min	-136,000	-7,658	-2.7	855	0.4	3.8	504.95	-5.2
Max	118,000	23,116	16.3	30,786	25.0	10.8	756.89	9.0
Mean	40,030	6,227	3.1	8,710	5.5	6.5	661.66	2.4

Historical minimum, maximum, and average values for each variable are provided to put current market performance in perspective. The time period from which these values are calculated is 1980 (or the earliest year of available data) to the current year.



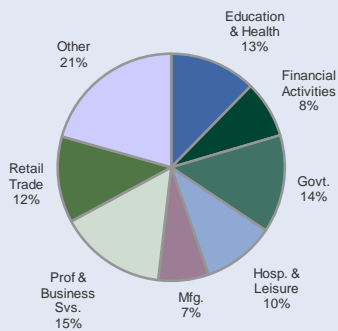
Source: Real Capital Analytics, Inc.  
Transactions \$5 million and greater

Total Employment Growth Rankings

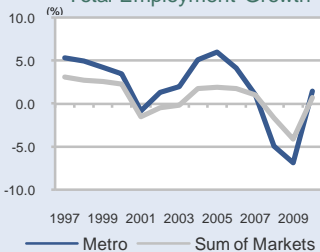
History	Growth (%)	Rank
1 year	-7.1	59
2 year	-4.4	59
5 year	0.9	16

Forecast	Growth (%)	Rank
1 year	-2.0	51
2 year	0.3	28
5 year	2.4	9

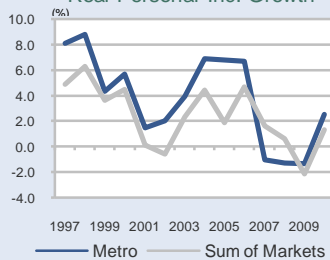
Largest Employment Sectors  
Share of Total Employment (%)



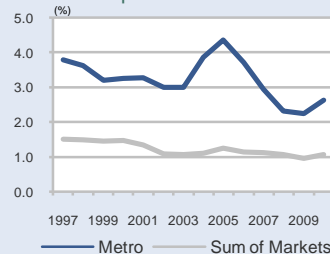
Total Employment Growth



Real Personal Inc. Growth



Population Growth



THE PHOENIX ECONOMY

Over the last five years, total employment in the Phoenix area has grown at an average annual rate of 0.9% while across the U.S., employment has grown at an average annual rate of 0.1%. In the last 4 quarters, Phoenix's employment has declined at an average annual rate of 7.1%. Our forecast predicts growth of 2.4% in the Phoenix area in the next five years. Phoenix's business services employment sector will post the best job performance over the next five years.

The table below presents the current employment levels for major industry groups as well as historical growth rates over the last five years, last 12 months, and the next five years.

Employment Levels and Growth Rates: Phoenix vs. Nation

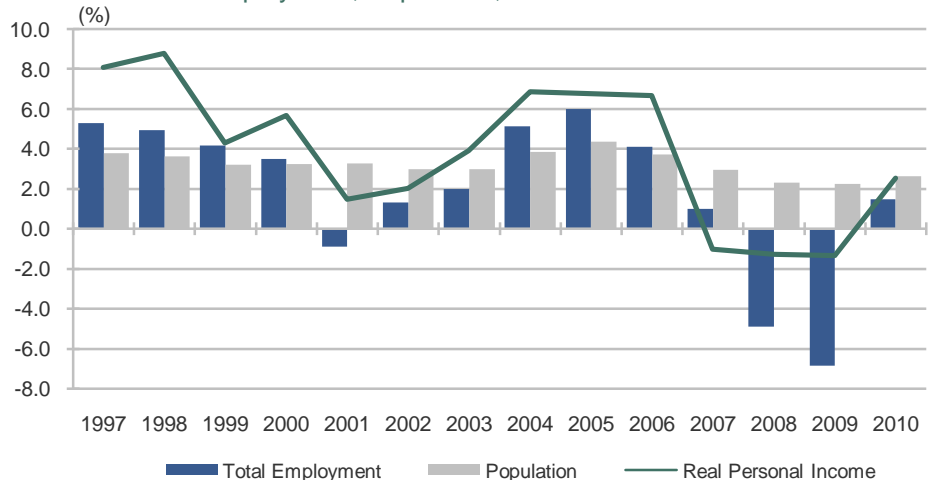
NAICS Category	Level (x 1000)	Location Quotient	Avg Annual Growth Rates (%)					
			Last 5 Years		Last 12 Mos.		Next 5 Years	
			Metro	U.S.	Metro	U.S.	Metro	U.S.
Agriculture & Mining	3	0.32	9.5	4.4	-16.3	-4.3	-1.9	-2.7
Construction	105	1.26	-5.3	-1.9	-27.5	-13.4	2.5	1.9
Manufacturing	125	0.79	-0.9	-3.5	-4.7	-11.5	0.3	-1.0
Wholesale Trade	85	1.13	1.6	0.1	-5.3	-4.9	2.5	0.6
Retail Trade	214	1.09	1.4	-0.3	-7.1	-3.9	2.1	0.8
Transportation & Warehousing	57	1.01	1.5	0.0	-3.5	-6.7	3.0	0.6
Information	30	0.79	-3.2	-1.8	-4.8	-5.0	1.6	1.0
Financial Activities	142	1.38	0.5	-0.6	-4.2	-4.8	1.7	0.6
Prof. & Business Svcs.	267	1.21	-0.4	0.4	-14.8	-6.6	4.1	2.6
Education & Health	215	0.85	4.6	2.6	-0.4	2.2	3.1	2.4
Hospitality & Leisure	180	1.03	2.3	1.1	-3.0	-2.4	3.2	2.5
Other Services	71	0.99	2.3	0.0	-3.0	-2.1	2.4	1.6
Government	243	0.81	2.0	0.9	-0.7	0.5	1.4	1.0
<b>Total</b>	<b>1,747</b>	<b>n/a</b>	<b>0.9</b>	<b>0.1</b>	<b>-7.1</b>	<b>-3.9</b>	<b>2.4</b>	<b>1.3</b>

Source: Moody's Economy.com, Torto Wheaton Research

ECONOMIC DRIVERS OF DEMAND

Population, personal income, and most importantly, total employment are the primary economic drivers of multi-housing demand. The graph below shows the annual growth rates of these variables from 1997 through year-end 2010.

Total Employment, Population, and Real Personal Income Growth



## PHOENIX ANNUAL HISTORY AND FORECAST

Presented below is our six-year forecast for the Phoenix multi-housing market. Historical measures are provided back to 2000. Market data through the 2nd quarter of 2009 are included in the year-end 2009 estimates.

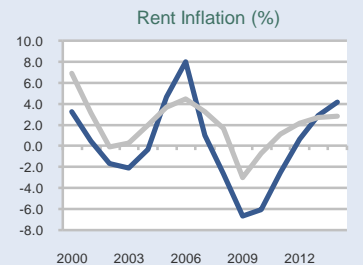
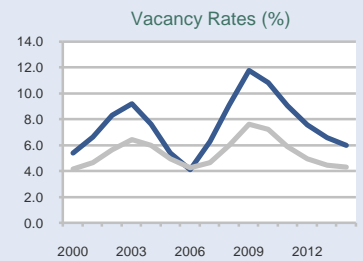
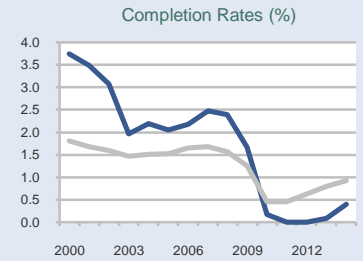
Phoenix Annual History & Forecast: 2000 - 2014

Year	Total Employment (x 1000)	Real Personal Income (\$ billions)	Rentable Inventory (units)	Rentable Completions (Units)	Vacancy Rate (%)	Net Absorption (units)	Rent Index (\$/unit)	Rent Inflation (%)
<b>HISTORY</b>								
2000	1,599	116.0	261,264	9,414	5.4	12,291	688.57	3.2
2001	1,585	117.7	270,360	9,096	6.6	-476	691.77	0.5
2002	1,606	120.1	278,655	8,295	8.3	5,663	680.29	-1.7
2003	1,638	124.8	284,110	5,455	9.2	3,452	665.88	-2.1
2004	1,722	133.4	290,337	6,227	7.6	12,279	663.64	-0.3
2005	1,825	142.4	296,282	5,945	5.4	13,123	694.33	4.6
2006	1,900	151.9	302,741	6,459	4.1	3,245	749.67	8.0
2007	1,919	150.4	310,207	7,466	6.3	2,607	756.89	1.0
2008	1,825	148.4	317,610	7,403	9.1	-4,462	736.81	-2.7
<b>FORECAST</b>								
2009	1,700	146.4	322,892	5,282	11.7	-118	687.75	-6.7
2010	1,725	150.1	323,454	562	10.8	6,236	646.32	-6.0
2011	1,794	157.8	323,454	0	9.0	5,712	629.97	-2.5
2012	1,869	167.2	323,454	0	7.6	4,204	633.81	0.6
2013	1,934	174.7	323,722	269	6.5	2,970	651.96	2.9
2014	1,987	181.2	325,022	1,300	6.0	2,478	679.00	4.1

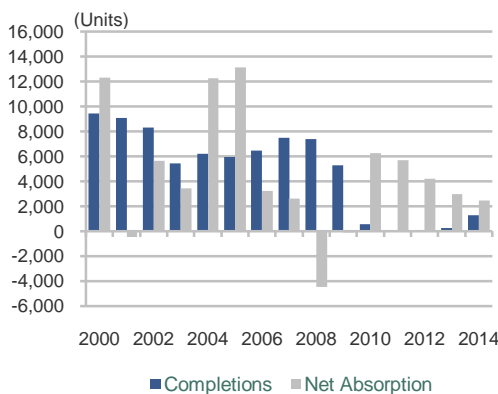
### MARKET TRENDS

Phoenix vs. All Markets

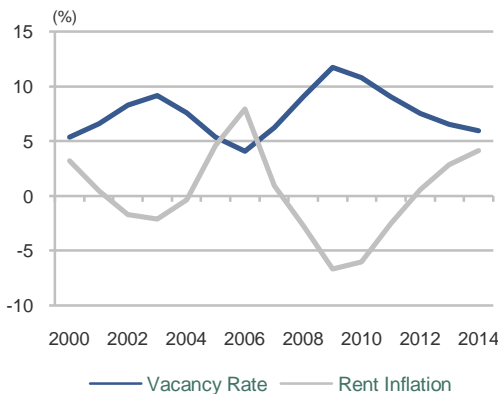
Phoenix  
All Markets



Completions vs. Net Absorption



Vacancy Rate vs. Rent Inflation



Total employment in the Phoenix is projected to grow by 162,000 jobs during the 2009-2014 period. During the same time period, new supply is expected to average 1,235 units, while net absorption is expected to average 3,580 units, out-pacing new supply. Vacancy rates are expected to improve to 6.0%, while rents are forecasted to drop to \$679.00.

## MULTI-HOUSING MARKET SNAPSHOT - SUBMARKET DETAIL

Submarket	Inventory		Completions		Net Absorption		Vacancy Rate		Rent Index	
	Units	Share (%)	Curr Qtr (Units)	YTD (Units)	Curr Qtr (Units)	YTD (Units)	Curr Qtr (%)	YOY Chg (BPS)	Curr Qtr (\$/Unit)	YOY Chg (%)
Central Phoenix	35,208	11.3	0	0	-697	-1,179	15.5	658	647.09	-9.7
Chandler/South Phoenix	24,570	7.9	0	0	44	-258	8.8	60	820.33	-4.7
Far North Phoenix	37,308	11.9	815	815	638	152	12.4	251	661.89	-10.5
Gilbert/Southeast Phoenix	7,022	2.2	0	264	64	348	8.4	-656	763.10	-4.8
Intown Phoenix	19,156	6.1	346	346	-22	-20	12.9	264	723.68	-7.5
Mesa	39,520	12.6	0	0	720	-529	12.0	73	644.14	-7.2
North Central Phoenix	12,877	4.1	0	0	-139	-455	14.2	161	640.88	-9.2
North Scottsdale	18,491	5.9	0	99	87	-71	7.9	-86	927.15	-3.5
North Tempe	20,323	6.5	0	0	-262	-65	10.8	-1	748.88	-5.5
Residual Metro	5,474	1.8	0	0	-234	-322	16.4	334	706.58	-4.8
South Glendale/South Peoria	44,264	14.2	399	1,012	429	753	14.5	268	600.90	-8.0
South Scottsdale	12,209	3.9	0	0	21	48	8.8	195	795.41	-7.5
South Tempe	6,877	2.2	72	720	83	538	8.5	97	768.97	-6.3
Southwest Phoenix	13,071	4.2	508	648	872	568	12.1	-254	714.64	-0.2
Sun City/North Glendale/North Peoria	16,375	5.2	246	306	-80	34	10.1	322	760.63	-7.8
<b>Total: Phoenix</b>	<b>312,745</b>	<b>100.0</b>	<b>2,386</b>	<b>4,210</b>	<b>1,524</b>	<b>-458</b>	<b>11.6</b>	<b>150</b>	<b>713.67</b>	<b>-6.8</b>

## MULTI-HOUSING MARKET UNDER CONSTRUCTION PROFILE - SUBMARKET DETAIL

Submarket	Inventory		Hist. Completions (Units)		New Supply (Units)		Under Construction (Units)		
	Units	% Share	5-Year Avg.	2-Year Avg.	Completed 2008	Completed YTD 2009	Due 2009	Due After 2009	Total UC
Central Phoenix	35,208	11.3	0	0	0	0	0	240	240
Chandler/South Phoenix	24,570	7.9	309	16	32	0	0	0	0
Far North Phoenix	37,308	11.9	1,028	1,138	1,100	815	0	1,028	1,028
Gilbert/Southeast Phoenix	7,022	2.2	572	645	314	264	491	0	491
Intown Phoenix	19,156	6.1	330	419	356	346	357	0	357
Mesa	39,520	12.6	171	0	0	0	384	0	384
North Central Phoenix	12,877	4.1	159	245	490	0	0	0	0
North Scottsdale	18,491	5.9	130	152	204	99	348	0	348
North Tempe	20,323	6.5	540	722	1,444	0	1,032	633	1,665
Residual Metro	5,474	1.8	122	304	296	0	0	0	0
South Glendale/South Peoria	44,264	14.2	838	1,090	915	1,012	274	0	274
South Scottsdale	12,209	3.9	0	0	0	0	0	0	0
South Tempe	6,877	2.2	144	360	0	720	0	0	0
Southwest Phoenix	13,071	4.2	650	690	430	648	1,067	346	1,413
Sun City/North Glendale/North Peoria	16,375	5.2	404	253	200	306	756	382	1,138
<b>Total: Phoenix</b>	<b>312,745</b>	<b>100.0</b>	<b>5,396</b>	<b>6,033</b>	<b>5,781</b>	<b>4,210</b>	<b>4,709</b>	<b>2,629</b>	<b>7,338</b>

## MULTI-HOUSING MARKET 2-YEAR FORECAST - SUBMARKET DETAIL

Submarket	Rentable Inventory		Rentable Completions		Net Absorption		Vacancy Rate		Rent Growth (%) Performance Relative to Metro
	Units	Share (%)	Level (Units)	Share (%)	Avg Ann (Units)	Share (%)	End Rate (%)	Ann Chg (BPS)	
Central Phoenix	36,123	11.3	111	8.6	675	16.0	12.3	-320	Under Perform
Chandler/South Phoenix	25,209	7.9	156	12.1	239	5.7	8.0	-80	Outperform
Far North Phoenix	38,278	11.9	147	11.4	508	12.0	10.4	-200	Under Perform
Gilbert/Southeast Phoenix	7,204	2.2	38	2.9	64	1.5	7.6	-80	Outperform
Intown Phoenix	19,654	6.1	71	5.5	275	6.5	10.7	-220	Under Perform
Mesa	40,547	12.6	136	10.5	491	11.6	10.2	-180	Under Perform
North Central Phoenix	13,212	4.1	39	3.0	211	5.0	11.5	-270	Under Perform
North Scottsdale	18,972	5.9	113	8.8	155	3.7	7.4	-50	Outperform
North Tempe	20,851	6.5	93	7.2	222	5.3	9.5	-130	Outperform
Residual Metro	5,474	1.7	19	1.5	119	2.8	12.6	-380	Under Perform
South Glendale/South Peoria	45,414	14.2	139	10.8	751	17.8	11.7	-280	Under Perform
South Scottsdale	12,526	3.9	54	4.2	97	2.3	8.0	-80	Outperform
South Tempe	7,056	2.2	35	2.7	57	1.3	7.8	-70	Outperform
Southwest Phoenix	13,411	4.2	48	3.7	176	4.2	10.1	-200	Average
Sun City/North Glendale/North Peoria	16,801	5.2	95	7.4	184	4.4	9.0	-110	Outperform
<b>Total: Phoenix</b>	<b>320,873</b>	<b>100.0</b>	<b>1,291</b>	<b>100.0</b>	<b>4,223</b>	<b>100.0</b>	<b>9.7</b>	<b>-190</b>	<b>-5.6</b>

## RECENT MULTI-HOUSING PROPERTY TRANSACTIONS

Property	Property Info		Transaction		Buyer	Seller
	Size (Units)	Type	Price (\$)	Month		
Sky View Ranch 4632 E Germann Rd Gilbert, AZ	232	Multifamily Garden	\$17,500,000 \$75,431/Unit	June 2009	Mid-America Apartment Communities	Fairfield Residential
Alexan Paradise Lane 8092 W Paradise Ln Peoria, AZ	240	Multifamily Garden	\$21,500,000 \$89,583/Unit	June 2009	Benjamin E Sherman & Sons Inc	Opus n/a Trammell Crow Residential (TCR)
Redwood Place 2015 W Cactus Rd Phoenix, AZ	186	Multifamily Garden	\$5,900,000 \$31,720/Unit	June 2009	ESI Ventures	Vestin Realty Mortgage
La Contenta 1133 W Baseline Rd Tempe, AZ	472	Multifamily Garden	\$20,616,667 \$43,679/Unit	June 2009	Select Suites	Capmark Financial Group
Citi on Camelback 909 E Camelback Rd Phoenix, AZ	178	Multifamily Garden	\$12,430,000 \$69,831/Unit	June 2009	Orion Residential n/a Scott Communities USA	SunVest Resort Communities

Source: Real Capital Analytics, Inc. The information and data maintained by Real Capital Analytics encompasses all markets nationally and includes only properties and portfolios exceeding \$5 million. For a full glossary and complete methodologies, visit Real Capital Analytic's website at <http://www.rcanalytics.com>.

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