

Apartment Market Summary

PHOENIX

1st Quarter 2003

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ACCREDITED MANAGEMENT ORGANIZATION

Table of Contents

Executive Summary	1
Editor's Note	2
Quarterly Vacancy	3
Four Quarter Moving Average Vacancy	4
Average Annual Vacancy vs. Rent Changes	5
Inventory & Occupied Units	6
New Units & Absorption	7
Apartment Permits	8
Housing Inventory	9
Apartment Inventory	10
Average Rent by Unit Type	11
Apartment Sales Price Per Unit	12
Apartment Value by Rating	13
Employment	14
Population	15
Phoenix Apartment Expense Distribution	16
Sources of Information	17

Executive Summary
PHOENIX
1st Quarter 2003

- The 1st Quarter 2003 vacancy rate of 9.73% is .93 percentage points higher than the same quarter of the previous year, and .77 percentage points lower than the previous quarter. The 1st Quarter Metro Phoenix sub-market vacancy rates range from 6.33 % to 19.84%. Because of locational differences in vacancy rates the vacancy rate for the entire Metro Phoenix market should not be used to gauge the performance of specific properties or sub-markets.
 - A positive absorption of 2,021 units occurred in the 1st Quarter 2003 as compared with the positive absorption of 306 units that occurred in the same quarter of the previous year.
 - Gross rents increased .28% in the 1st quarter of 2003 from the 4th quarter 2002 and increased .43% in comparison to the 1st quarter of the previous year. Although gross rents indicate improvements, it did not did not come without costs. Net rents reflect the largest gap between gross rents and net rents in a 1st quarter history and the second consecutive year of net rent decline, which has never been seen. The decrease in net rents can be attributed to the ongoing use of concessions in an effort to improve occupancy.
- Note: Improvements with occupancy and growth in absorption may appear to indicate that there could be an upturn in market conditions. Real Data cautions that although there is evidence of improvement, they are not prepared to declare that the worst is over. The vacancy decreases are slight and although it may seem that households are opting for multifamily units, due to the affordability of homes, competition between single family and multi-family units will continue for some time. With ongoing rental incentives and concessions being offered we should see reasonable levels of multi-family absorption.
- 521 apartment permits were issued in the 1st Quarter 2003, a 24.92% decrease when compared to the 694 permits issued in the same quarter of the previous year.
 - The 1st Quarter 2003 average apartment sales price is \$49,062 per unit. This is a 2.89% decline over the 2003 average sales price per unit of \$50,524.
 - Single-family housing permit activity decreased to 8,030 units in the 1st Quarter from 8,273 in the previous quarter. District 20 (Western Suburbs) leads the districts with 1,848 new permits, and district 19E (Gilbert) follows with 1,691 new permits issued in the 1st Quarter.
 - Per the Arizona Workforce, the categorization of employment tables have changed; please see page 16 for details. Arizona's adjusted unemployment rate increased to 5.7%. The national rate was slightly higher than the state at 5.8%. The Phoenix Metropolitan area is performing favorably with an unemployment rate of 5.2%, which is .60% better than the national rate and .50% better than the Arizona adjusted unemployment rate. Between March 2002 and March 2003, 10,000 net jobs were gained. Twelve-month employment changes include:

	Total Jobs as of 2/03	#CHANGE	% CHANGE
Manufacturing	131,300	-9,700	-6.87%
Natural Resources and Mining	2,300	0	0%
Construction	124,000	1,800	1.47%
Trade, Transportation and Utilities	325,900	7,100	2.22%
Information	37,000	-3,500	-8.64%
Financial Activities	129,800	-1,200	-.91%
Professional and Business Services	250,600	3,100	1.25%
Educational and Health Services	159,000	9,100	6.07%
Leisure and Hospitality	156,500	3,400	2.22%
Government	219,000	4,300	2.0%
Other Services	61,900	1,500	2.48%
NETCHANGE	1,597,300	15,900	1.0%

EDITOR'S NOTE

This Executive Summary and the entire quarterly report have been prepared using the data available for the entire Metropolitan Phoenix area. Within this area, there are 26 separate sub-markets that vary significantly from the average of the whole.

The following summarizes the extremes found in this quarter's update:

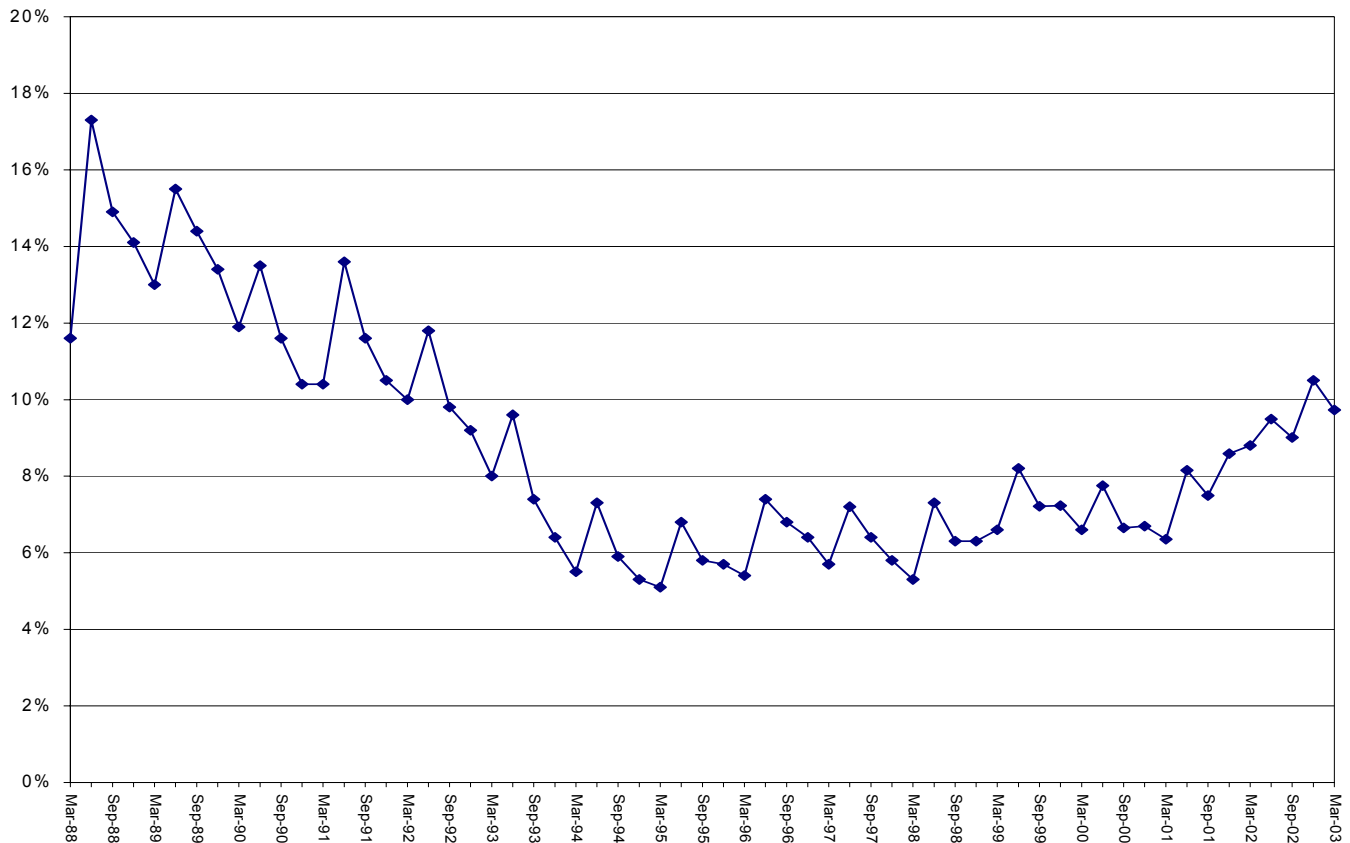
	<u>Low</u>	<u>High</u>
Vacancy (stabilized)	6.93%	19.84%
Absorption	-124	273
New Construction	0	1,497
Market Rents*	\$ 525	\$ 883
Rent Per Square Foot	\$0.75	\$1.00

*Unfurnished, utilities excluded

In addition, population increases and net jobs gained or lost can vary significantly by sub-market.

The data being summarized, therefore, is an indication of the overall strength or weakness in the Metropolitan Phoenix area and CANNOT be used to gauge market conditions, trends or performance in individual sub-markets.

PHOENIX Quarterly Vacancy Rate 1988-2003



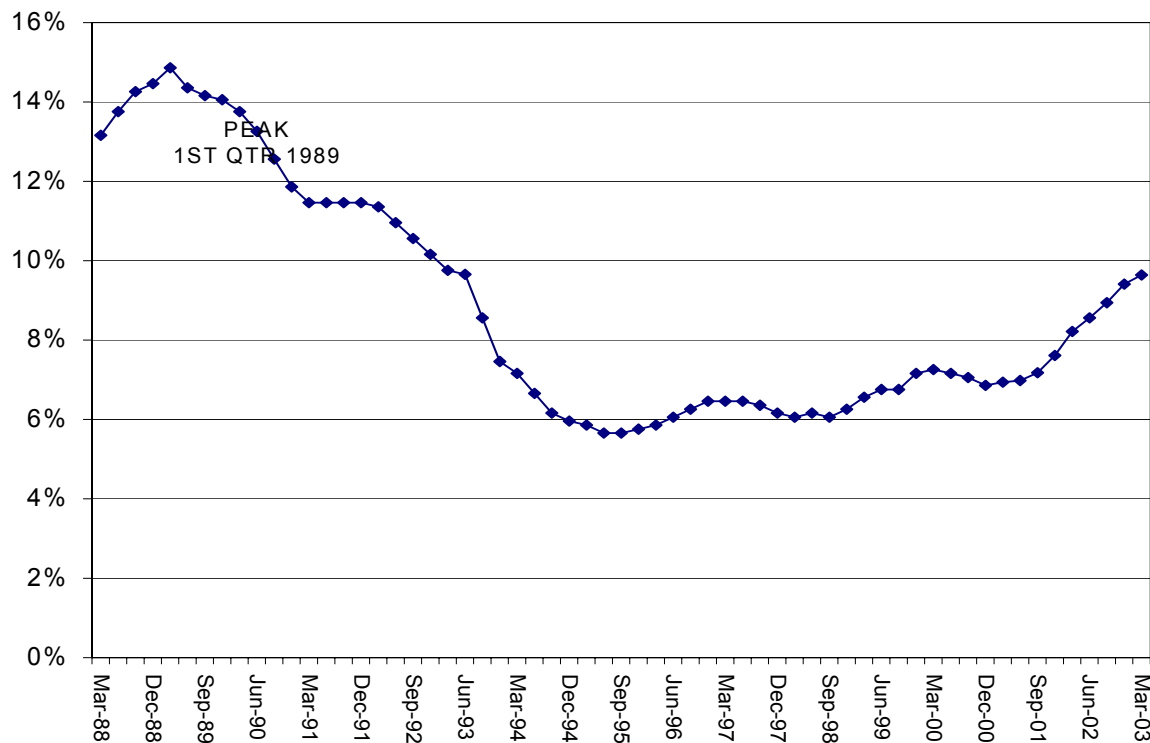
Source: Phoenix Metro housing Study All Units '88-89; RealData 100+ Unit Properties '90-

Multifamily vacancy in the 1st Quarter of 2003 decreased to 9.73%, which is .93 percentage points higher than the same quarter of the previous year. However, vacancy rates can vary widely, as one sub-market had vacancy rates in excess of 19%. Because of locational differential in vacancy rates, (1st Quarter Metro Phoenix sub-market vacancy rates for stabilized properties range from 6.33% to 19.84%) the vacancy rates for the entire Metro Phoenix market in the table below and graph above, should not be used to gauge the performance of specific properties or sub-markets.

Apartment quarterly vacancy rates for the last 20 quarters are:

	1998	1999	2000	2001	2002	2003
1st Quarter	5.3%	6.4%	6.60%	6.35%	8.80%	9.73%
2nd Quarter	7.3%	8.2%	7.75%	8.15%	9.49%	
3rd Quarter	6.3%	7.2%	6.65%	7.49%	9.01%	
4th Quarter	6.3%	7.2%	6.90%	8.59%	10.50%	

PHOENIX 1988-2003 Four Quarter Moving Average Vacancy Rate



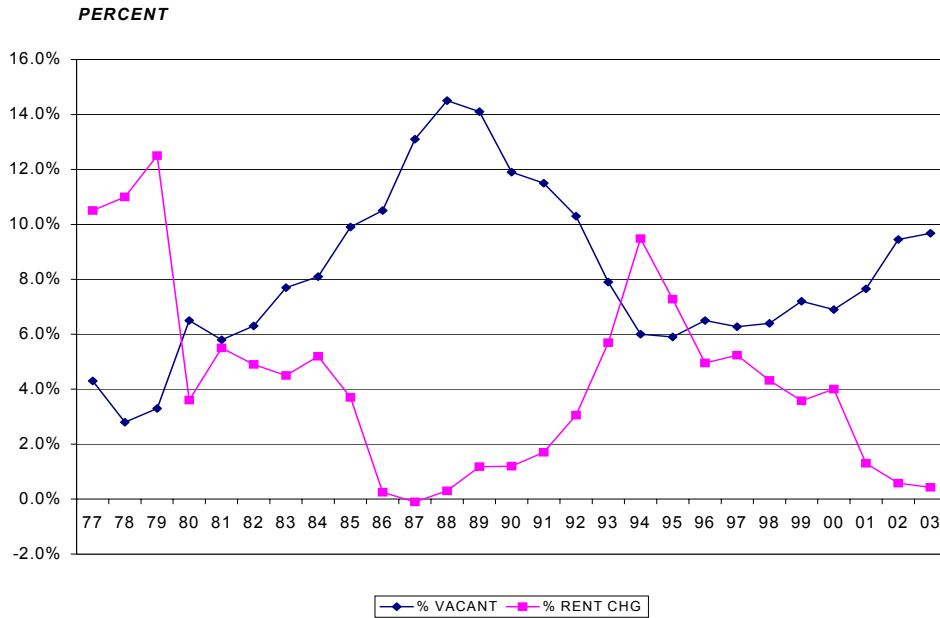
Source: Phoenix Metro Housing Study All Units '88-89; RealData 100+ Unit Properties '90-

The four-quarter moving average vacancy rate is determined by adding the current quarter vacancy rate and the three previous quarters, then dividing by four. This moving annual average vacancy rate is used as a barometer to determine the relative health of the apartment market.

After peaking at 14.9% in the 1st Quarter of 1989, the moving average vacancy rate declined to its lowest level of 5.75% in the 3rd Quarter of 1995.

A less pronounced peak occurred in the 1st Quarter of 2000 (7.30%), but in the four subsequent quarters, the moving average vacancy rate briefly declined. However, in 2001, the moving average vacancy rate began another upward climb, rising to 9.45% in the 4th quarter 2002 and slightly increasing to 9.68% in the 1st Quarter 2003.

Average Annual Vacancy vs. Market Rent Changes



Source: Real Data 100+ Unit Properties '90-'03

This comparison shows the relationship between rent changes and the average annual vacancy rate. Rents are directly affected by vacancy rates.

The rents used for this comparison are market rents and do not include the adjustment for rent concessions, delinquencies, etc. There are no data sources readily available to track net effective rent changes.

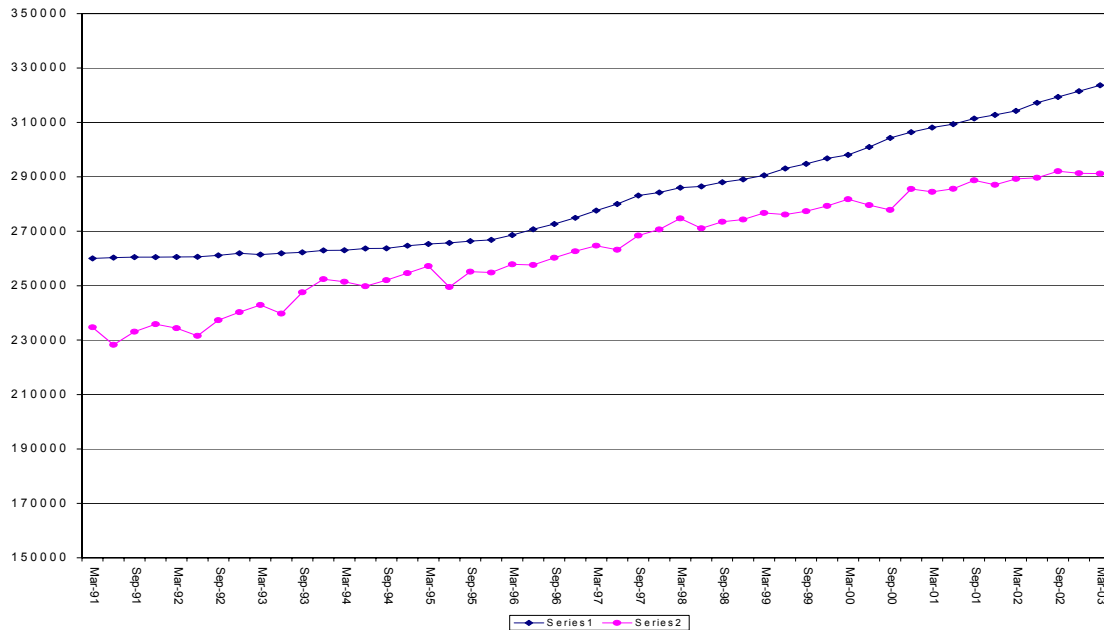
	Annual Vacancy	Annual Market Rent Changes*
1990	11.9%	1.20%
1991	11.5%	1.70%
1992	10.3%	3.05%
1993	7.9%	5.69%
1994	6.0%	9.48%
1995	5.9%	7.28%
1996	6.5%	4.95%
1997	6.2%	5.24%
1998	6.4%	4.32%
1999	7.2%	3.58%
2000	6.9%	3.99%
2001	7.65%	1.30%
2002	9.45%	.58%
2003	9.68%	.43%

*Based upon unfurnished, utilities excluded rent rates.

*Do not reflect concessions.

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Apartment Inventory & Occupied Units Quarterly History

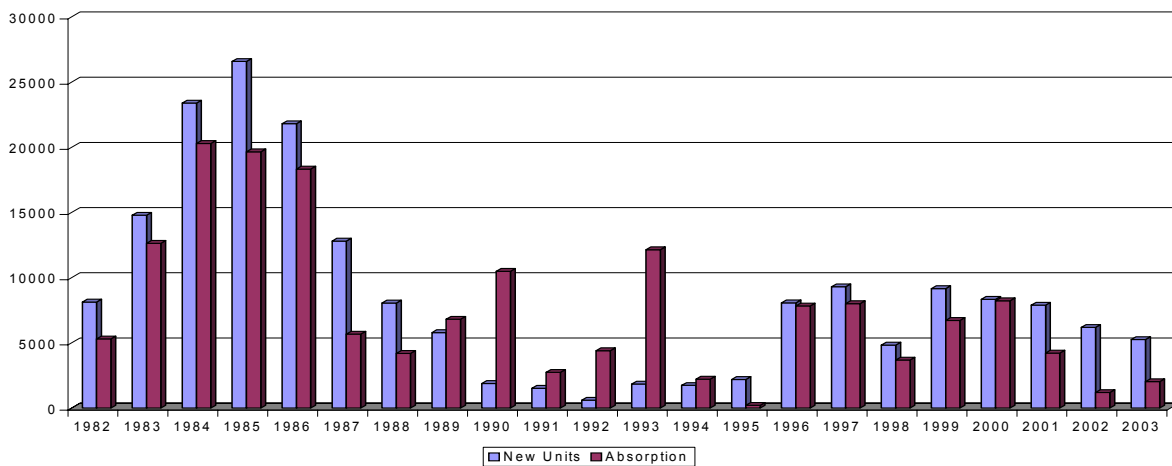


Source: Phoenix Metro Housing Study All Units

The inventory and occupied units comparison is based on sites greater than 100 units, not including 100% subsidized units, and is another general barometer of the health of the market. The distance between the two lines represents a measurement called the "vacancy gap." In general, the closer the gap, the healthier the market. A widening of the gap indicates softening market conditions. Inventory, absorption, and vacancy rate trends can be determined by this graph.

Year	Qtr	Occupied	Vacant	Total Inventory	Year	Qtr	Occupied	Vacant	Total Inventory
1997	1 st	264,670	12,925	277,595	2000	1 st	281,737	16,350	298,087
	2 nd	263,140	16,875	280,015		2 nd	279,603	21,325	300,928
	3 rd	268,449	14,625	283,074		3 rd	277,835	26,425	304,260
	4 th	270,620	13,600	284,220		4 th	285,536	20,850	306,386
1998	1 st	274,691	11,300	285,991	2001	1 st	284,483	23,625	308,108
	2 nd	271,071	15,400	286,471		2 nd	285,607	23,725	309,332
	3 rd	273,480	14,525	288,005		3 rd	288,708	22,725	311,433
	4 th	274,294	14,750	289,044		4 th	287,061	25,700	312,761
1999	1 st	276,686	13,850	290,536	2002	1 st	289,198	25,050	314,248
	2 nd	276,105	16,975	293,080		2 nd	289,637	27,550	317,187
	3 rd	277,369	17,400	294,769		3 rd	292,063	27,300	319,363
	4 th	279,311	17,450	296,761		4 th	291,334	30,125	321,459
					2003	1st	291,190	32,425	323,615

PHOENIX Annual New Units & Absorption



Source: Phoenix Metro Housing Study '82 – '98; Real Data '99 – '03

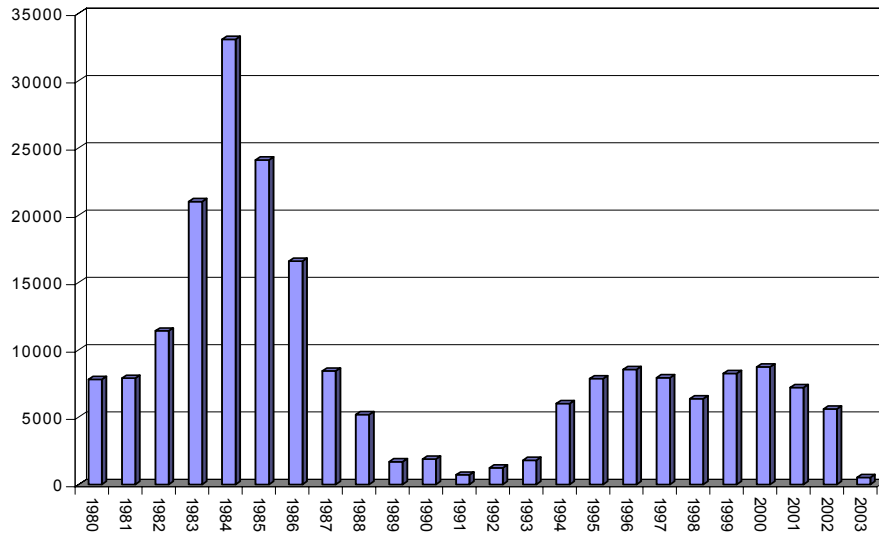
This graph shows additions to inventory and absorption, or changes in the number of occupied apartments. In each year from 1989 through 1994, the number of units absorbed exceeded the number of new units constructed. In 1995 through 2002, the reverse was true. Total absorption during the 1989-1994 time period (38,762 units) was nearly triple the number of units constructed over the same period (13,337). Since 1995, the number of units constructed (55,930) exceeded the number of units absorbed (40,044). A positive absorption of 2,021 units occurred in the 1st quarter 2003.

Twelve apartment projects, totaling 3,319 units, were under construction in Metro Phoenix during the 1st Quarter of 2003. The areas of strongest activity were Phoenix at 1,393 units, followed by the City of Maricopa at 529 units.

	<u>New Apts.</u>	<u>Absorption</u>		<u>New Apts.</u>	<u>Absorption</u>
1996 Total	8,070	7,820	2002 1 st Quarter	2,091	302
1997 Total	9,301	8,001	2 nd Quarter	2,440	552
1998 Total	4,824	3,674	3 rd Quarter	582	2,640
1999 Total	9,152	6,721	4 th Quarter	1,066	-2,307
2000 Total	8,330	8,222	TOTAL	6,179	1,187
2001 Total	7,888	4,208	2003 1 st Quarter	524	2,021

Note: Improvements with occupancy and growth in absorption may appear to indicate that there could be an upturn in market conditions. Real Data cautions that although there is evidence of improvement, they are not prepared to declare that the worst is over. The vacancy decreases are slight and although it may seem that households are opting for multifamily units, due to the affordability of homes, competition between single family and multi-family units will continue for some time. With ongoing rental incentives and concessions being offered we should see reasonable levels of multi-family absorption.

PHOENIX Annual Apartment Permits



Source: Phoenix Metro Housing Study

Apartment permits in the 1st quarter of 2003 (521 units) decreased 33.20% from the same quarter of the previous year (694 units). Annual apartment permits activity in 2002 fell below the current cycle's peak year of 2000 by 35.8%.

Recent Apartment Permitting Cycle

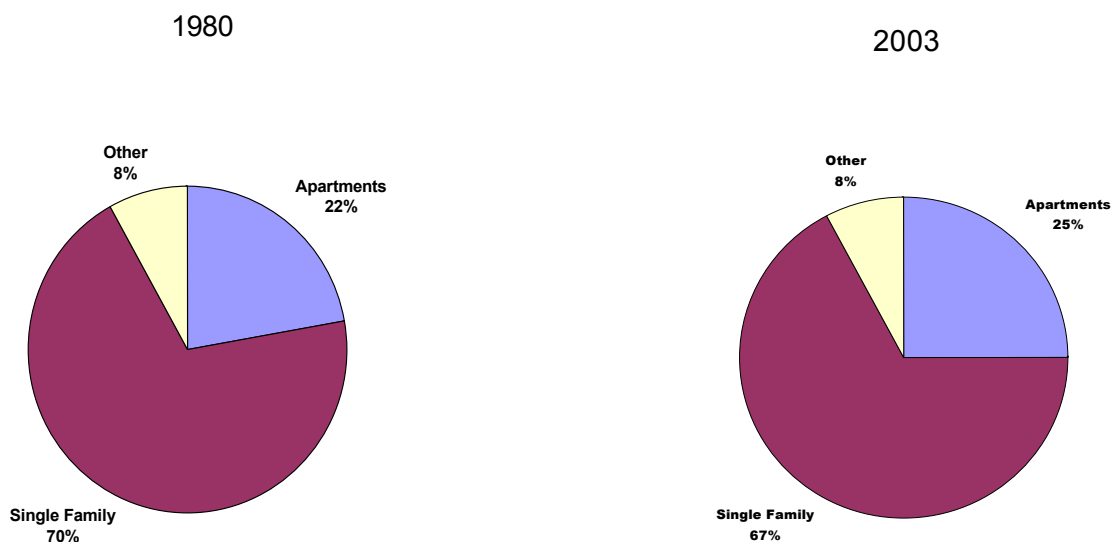
1990 - 1,891	1996 - 8,533	2002 - 5,607
1991 - 710	1997 - 7,930	2003 - 1 st Quarter - 521
1992 - 1,234	1998 - 7,877	
1993 - 1,799	1999 - 8,253	
1994 - 6,015	2000 - 8,741	
1995 - 7,991	2001 - 7,201	

(5.85% of total qtlly. permits)

2003 - Other Housing Permits

	Units	% of Total Permits
Single Family Permits	8,030	90.28%
Townhouse/Condominium Permits	343	3.85%

PHOENIX Housing Inventory



Source: Phoenix Metro Housing Study

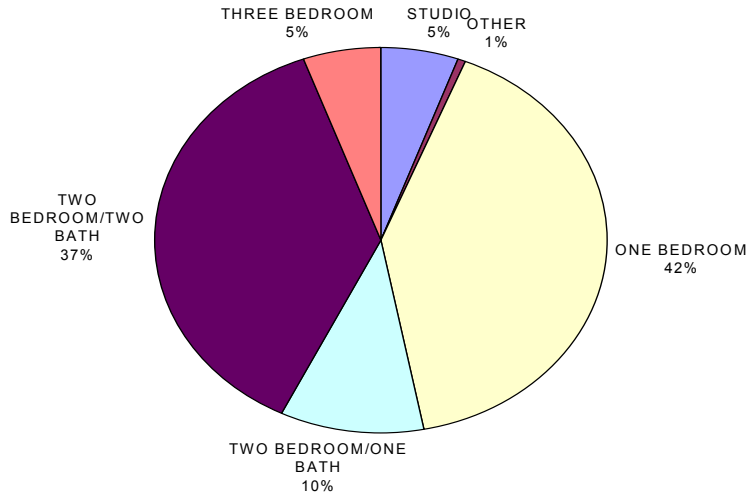
	1980 4 TH Quarter Total Units	2003 1 ST Quarter Total Units	New Units	% increase over 1980 inventory
Apartments	127,853	323,615	195,762	153.11%
Townhouse/Condominium	46,191	998,860	53,669	116.18%
Single Family	398,339	872,369	474,030	119.00%
TOTALS	572,383	1,295,844	723,461	124.40%

The distribution of the housing inventory has shifted slightly in the last 23 years. The apartment share has grown by 3.0 percentage points, the single-family housing share has decreased by 3.0 percentage points, while the townhouse/condominium share has remained constant.

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Apartment Inventory by Unit Type

2003



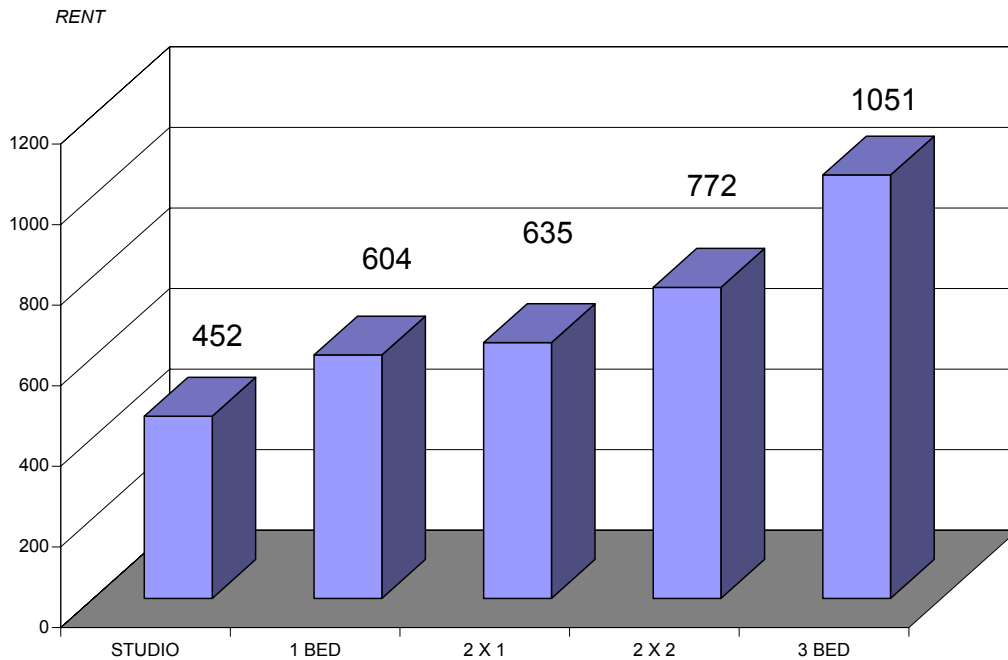
Source: Real Data

RealData, Inc. bases the apartment inventory by unit type upon a survey of all communities of 100 units or more, 890 projects, totaling 216,819 units. One bedrooms have the largest percentage of the market share (40.99%) followed by two bedroom-two bath apartments (37.19%) than the two bedroom-one bath (10.24%). Three bedrooms (5.49%) and studio apartments (5.47%) make up the smallest percentages. "Other" (.62%) includes one-bedroom dens and four bedroom apartments. Since the late 1980s, the development trend, in terms of unit mix, has been increasingly weighted toward larger two-bedroom/two bath and three bedroom apartments.

The average square footage for each unit type is:

<u>Unfurnished Apartments</u>	<u>Utilities Included</u>	<u>Utilities Excluded</u>
Studio	395 sf	425 sf
One Bedroom	601 sf	672 sf
Two bedroom-One bath	834 sf	837 sf
Two bedroom-Two bath	948 sf	986 sf
Three bedroom-Two bath	1,126 sf	1,241 sf
Four bedroom	1,290 sf	1,410 sf
Market Average	662 sf	836 sf

PHOENIX Average Rent by Unit Type



Source: RealData, Inc.

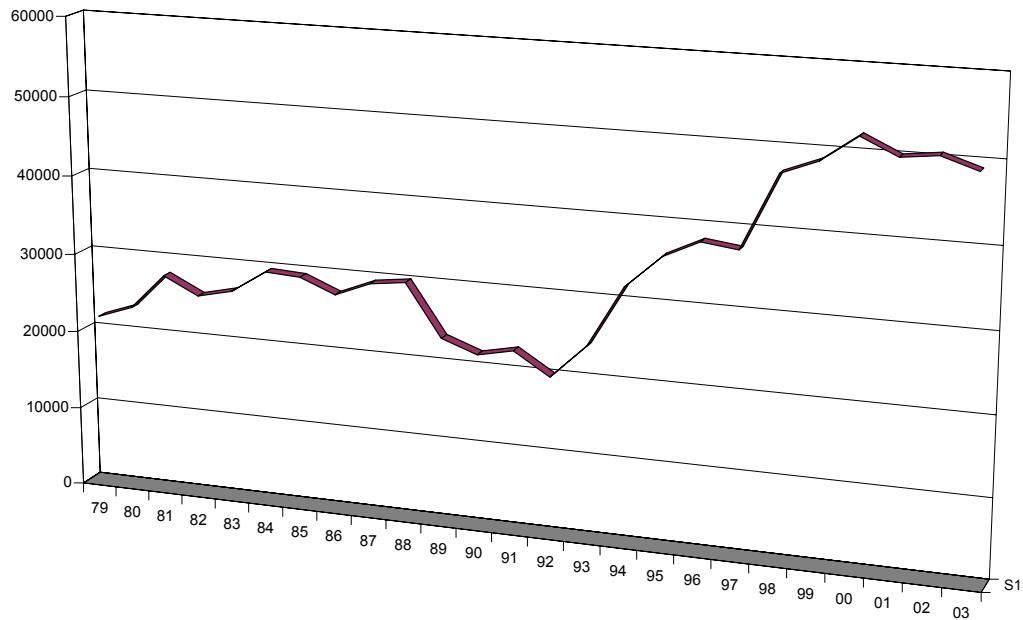
This graph represents the average rent for five apartment types (unfurnished, utilities excluded). The average rent does not take into consideration any rent concessions.

Below is a summary of rents for unfurnished apartments in the 1st quarter of 2003 and the percentage increase over the 1st quarter of 2002:

<u>Apartment Type</u>	<u>Utilities Excluded</u>			<u>Utilities Included</u>		
	<u>Market</u>	<u>Sq.Ft.</u>	<u>4 Qtr. % Increase</u>	<u>Market</u>	<u>Sq.Ft.</u>	<u>4 Qtr % Increase</u>
Studio	\$452	\$1.06	-0.22	\$467	\$1.18	-1.70
One Bedroom	\$604	\$0.90	+0.50	\$590	\$0.98	-1.19
Two Bedroom - One Bath	\$635	\$0.78	+0.79	\$693	\$0.83	-0.43
Two Bedroom - Two Bath	\$772	\$0.78	+0.26	\$767	\$0.81	-1.43
Three Bedroom	\$1,051	\$0.85	+0.86	\$857	\$0.76	-1.39
Market Average *	\$694	\$0.83	+0.58	\$616	\$0.93	-1.13

* Market average rent is not calculated as a simple average. See Real Data Quarterly Report.

Apartment Sales 100 Units or Greater Price Per Unit



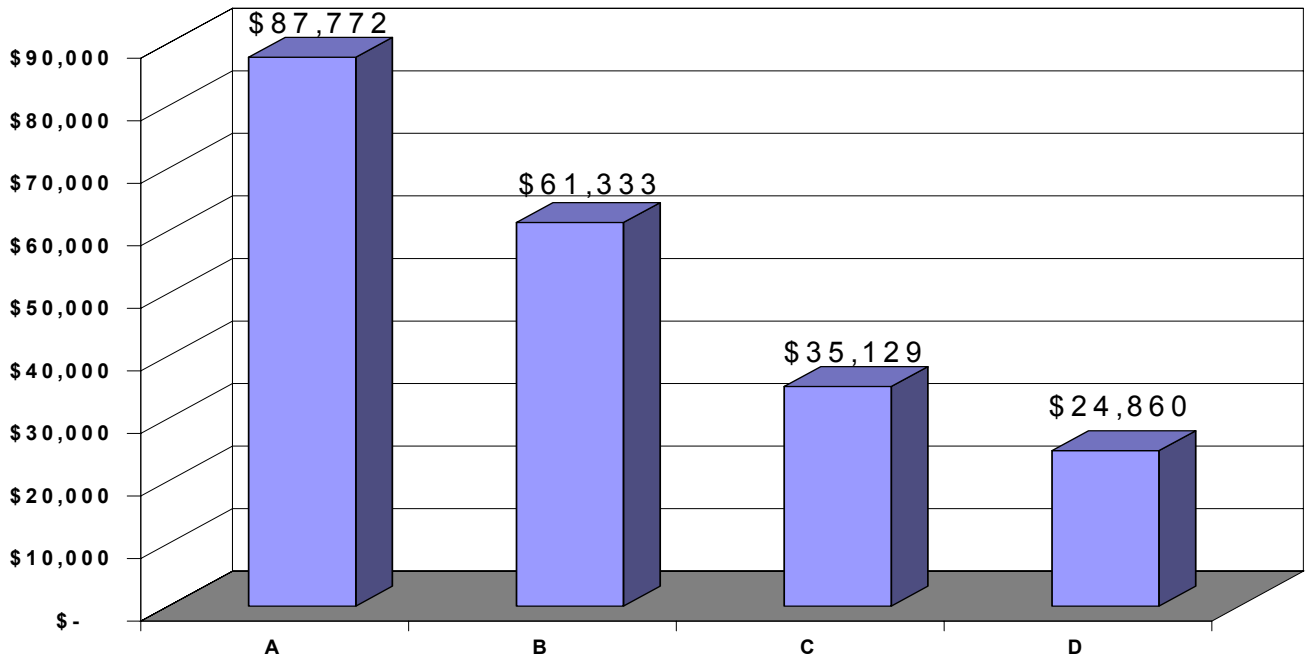
Source: RealData, Inc.

The average apartment sales price of \$49,062 per unit was a 2.89% decrease over the 2002 average of \$40,524.

Below are the historical per unit sales as well as the per square foot averages.

	Per Unit	Per Sq. Ft.		Per Unit	Per Sq. Ft.
1983	\$26,775	\$39.62	1993	\$24,290	\$35.56
1984	\$29,646	\$44.38	1994	\$31,958	\$41.36
1985	\$29,406	\$44.80	1995	\$36,040	\$46.33
1986	\$27,599	\$37.09	1996	\$38,199	\$47.35
1987	\$29,406	\$38.06	1997	\$37,656	\$51.60
1988	\$30,002	\$38.99	1998	\$47,043	\$57.39
1989	\$23,460	\$31.27	1999	\$48,826	\$59.78
1990	\$21,852	\$29.93	2000	\$52,076	\$63.88
1991	\$22,801	\$31.02	2001	\$49,978	\$61.88
1992	\$20,008	\$26.00	2002	\$50,524	\$63.53
			2003	\$49,062	\$63.33

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2003 Apartment Values
Price Per Unit Related to Quality Rating



Source: Bernard/Allison Management Services

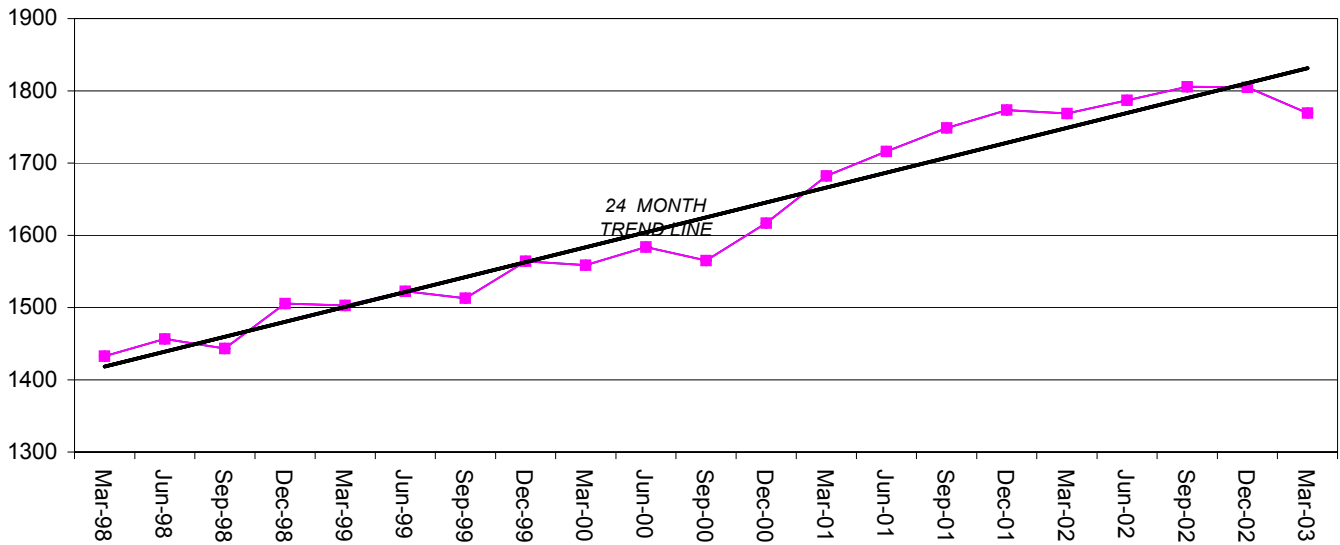
Bernard/Allison analyzed 17 sales (100 units or greater) totaling 3,431 units, which occurred in the 1st Quarter of 2003. To determine the type of property being sold, each property is rated from "A" (high end) to "D" (poor, physically distressed). Property ratings are based upon Bernard/Allison standards for location, architecture, renter profile, maintenance, etc.

The 1st quarter 2003 produced sales qualifying under each rating. "C" rated sales signified 31% of sales, followed by "B" rated sales at 33% and "D" rated sales at 7% represented the smallest percentage of the total sales, and "A" rated sales at 29%.

The following table compares the sales price per unit for the 2002 and 2003 calendar years. This comparison shows that "A" and "D" rated projects experienced significant increases, "B" and "C" rated sales generated slight decreases in price per unit.

	2002	2003	% Change
A	\$83,794	\$87,772	+4.74%
B	\$65,672	\$61,333	-6.60%
C	\$36,807	\$35,129	-4.55%
D	\$23,773	\$24,860	+4.37%

PHOENIX Quarterly Employment



Source: Department of Economic Security

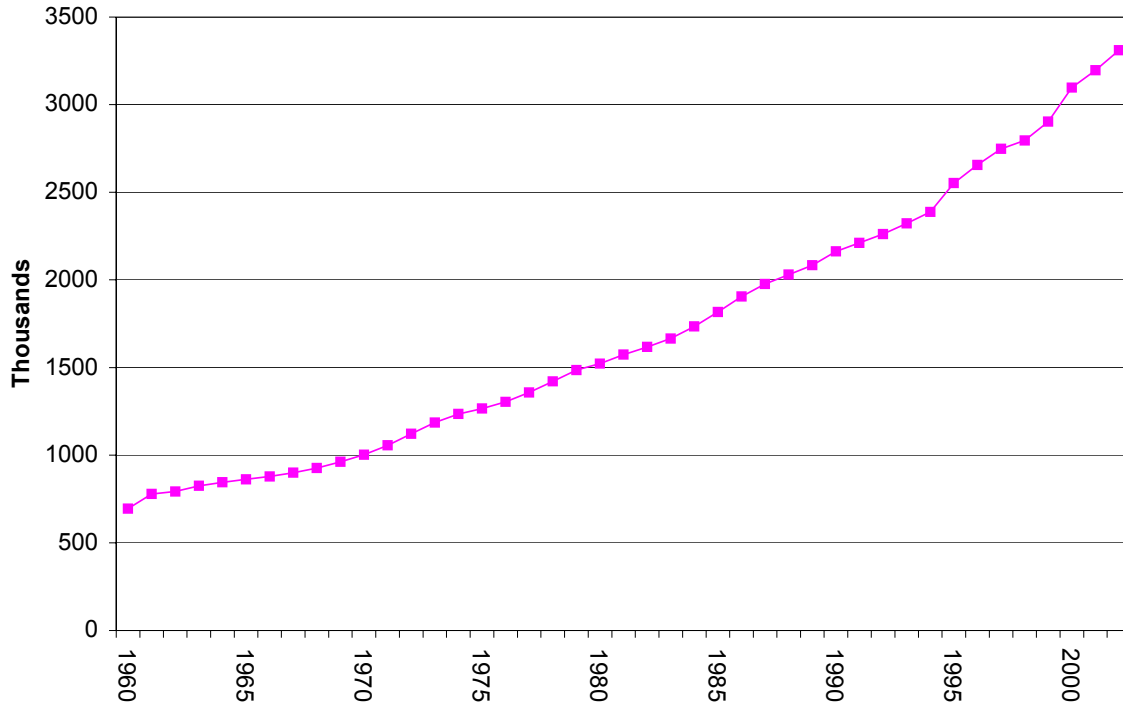
As noted in the Executive Summary, the categorization of the employment tables has changed. Arizona was using the Standard Industrial Classification System (SIC), which is no longer being supported by the U.S. Department of Labor, prompting the conversion to the North American Industrial Classification System (NAICS). The Arizona Department of Economic Security has re-classified the information and the above table has been changed to reflect the adjusted job numbers for all non-farm employment.

Between February 2002 and February 2003, 15,900 net jobs were gained. The total wage and salary employment increased slightly from 1,581,400 to 1,597,300 jobs, a 1% annual increase.

In terms of jobs created, the Educational and Health Services sector led growth with 9,100 new jobs, which is a 6.07% increase from 2002. The largest decrease in jobs is found with the manufacturing sector with 9,700 jobs lost, a 6.87% decrease from one year ago. The Information sector also experienced a decrease of 8.64% from February of 2003.

Arizona's adjusted unemployment rate increased to 5.7%. The national rate was slightly higher than the state at 5.8%. The Phoenix Metropolitan area is performing favorably with an unemployment rate of 5.2%, which is .60% better than the national rate and .50% better than the Arizona adjusted unemployment rate. Between March 2002 and March 2003, 10,000 net jobs were gained

PHOENIX Annual Population Growth

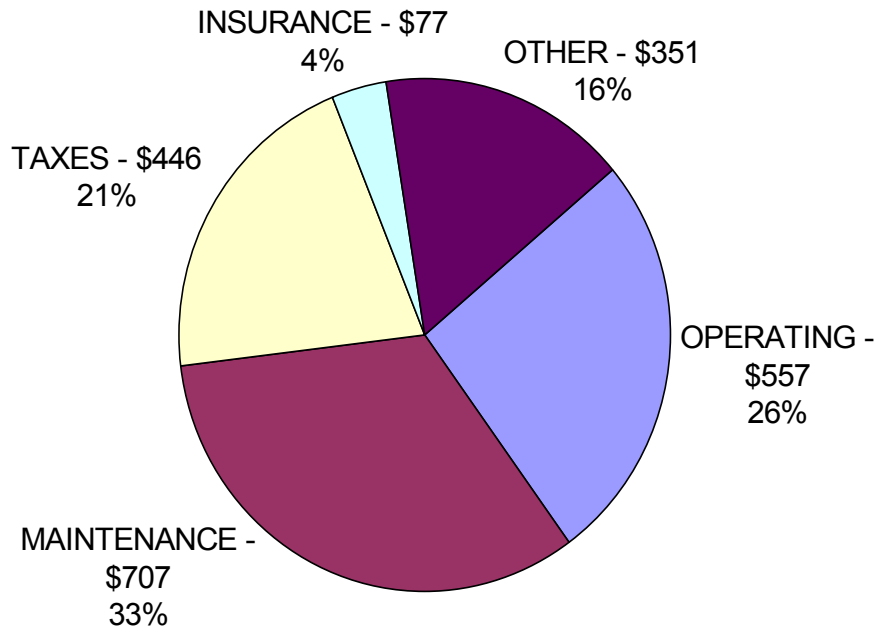


Source: Department of Economic Security '60-'80 & Phoenix Metro Housing Study '81-'02

The determination of a mid-decade special census count for Maricopa County on October 27, 1995 was a population of 2,551,765. This is substantially higher than the Phoenix Metro Housing Study (PMHS) had previously been estimating. As a result, the graph above appears abnormal in 1995 population growth.

Between the 1st quarter of 2002 and the 1st quarter of 2003, population growth was estimated at 80,900 people, a population growth rate of 2.47%. Net in-migration contributed a 58% share (47,000 people), while net natural population growth contributed the remaining 41.9% share (33,900 people). It should be noted that the highest four-quarter population growth was 166,100 (1995-1996).

PHOENIX Expense Per Unit Detail



The graph shows median 2001 Phoenix apartment expenses expressed as a percent of total operating expenses in dollars per unit per year. Data was obtained from the Institute of Real Estate Management and is for properties with individually metered utilities, located in the Metro Phoenix area. The median total expenses were \$3,175 per unit and \$5.87 per square foot.

This information is based upon a sampling of 106 garden-style properties totaling 27,649 units. The average unit size is 920 square feet. The average turnover rate is 71%.

Note: Because the expense figures above are medians rather than averages, the sum of the medians for each expense classification does not equal the median total operating expenses.

Also, note that data for this Expense Per Unit Detail Report, for the previous year, is updated annually during the 3rd quarter.

Sources of Information

Arizona Department of Economic Security (Population 1960-1980; Employment)

ASU Center for Business Research (Population 1981-01)

CB Commercial (Apartment sales, 1989-1993)

Kammrath & Associates (Apartment sales, 1978-1988)

Institute of Real Estate Management (Apartment expenses, 1999)

Phoenix Metropolitan Housing Study (Select data from 1960-01)

RealData, Inc. (Select data)

