

Apartment Market Summary

TUCSON

1st Quarter 2003

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Executive Summary
TUCSON
1st Quarter 2003

The 1st Quarter 2003 vacancy rate of 10.15% is 1.43 percentage points higher than the same quarter of the previous year and .52 percentage points lower than the previous quarter. It is important to note that vacancy rates vary widely according to submarket. The vacancy rate in one Tucson sub-market is in excess of 11.61%.

Positive apartment absorption of 457 units occurred in the 1st Quarter 2003, compared to the negative absorption of 586 units in the previous quarter.

Note: While the absorption this quarter was a small step in the right direction; the second quarter is being considered the key that will unlock the outcome of the multifamily market for the remainder of this year. Positive indications at this time is there were no apartments added to the inventory this quarter, with only 410 units under construction that may come online in 2003 and 108 in the planning stages, the lowest number since 1993, limiting the new supply.

The 1st Quarter 2003 multifamily permit activity of 58 permits was a 74% decrease over the number of permits issued in the same quarter of the previous year (224).

Per RealData, apartment sales in the 1st Quarter averaged \$29,502 per unit and averaged \$50.60 per square foot. Four "arms-length" transactions of 40 units or more occurred in the 1st Quarter of 2003.

Single-family housing permit activity in the 1st quarter of 2003 totaled 62 units.

Population increased 14,392 (1.65%) between the 1st Quarter 2002 and 1st Quarter 2003. The total population of the Tucson metropolitan area as of the 1st Quarter 2003 was 883,958.

Per the Arizona Workforce, the categorization of employment tables have changed; please see page 13 for details. Arizona's adjusted unemployment rate increased to 5.7%. The national rate was slightly higher than the state at 5.8%. The Tucson Metropolitan area is performing favorably with an unemployment rate of 4.2%, which is .1% higher than last quarter yet a .7% decrease from the 1st Quarter 2002. In the past four quarters, 2,000 jobs were gain in the Tucson market. Twelve-month employment changes include:

	Total Jobs as of 3/03	# Change	% Change
Natural Resources and Mining	1,400	-200	-12.5
Construction	23,100	+1,300	+5.9
Manufacturing	29,300	-1,800	-5.8
Trade, Transportation and Utilities	54,700	900	+1.7
Information	7,600	-400	-5.0
Financial Activities	14,300	200	+1.4
Professional and Business Services	40,400	-600	-1.5
Educational and Health Services	45,100	1,700	+3.9
Leisure and Hospitality	38,500	100	+0.3
Government	80,300	400	+0.5
Other Services	14,300	400	+2.8
NET CHANGE	349,400	2,000	+0.6

EDITOR'S NOTE

This Executive Summary and the entire quarterly report have been prepared using data available for the entire Tucson urbanized area. Within this area, there are 15 separate sub-markets that vary significantly from the average of the whole.

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

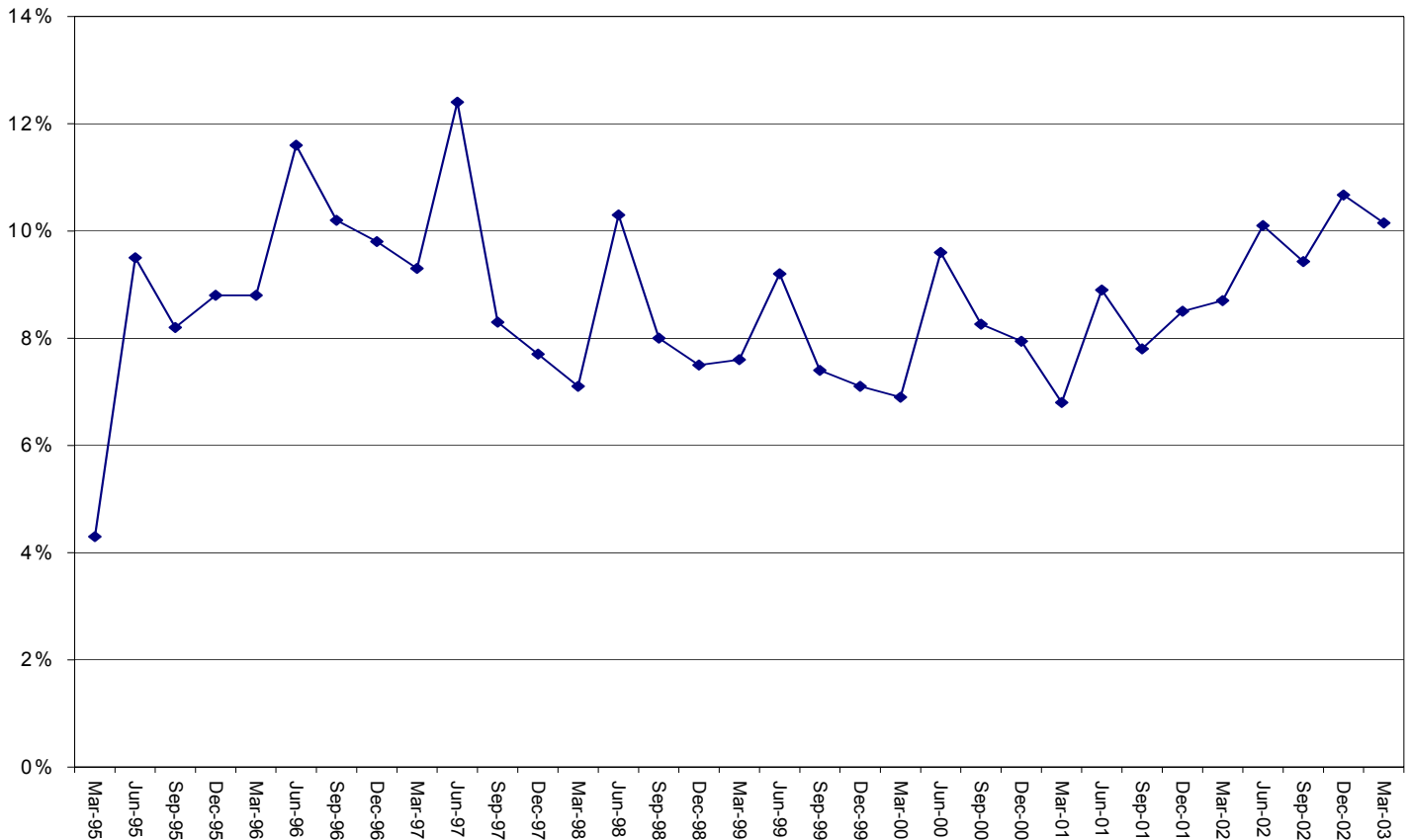
	<u>Low</u>	<u>High</u>
Vacancy	7.68%	11.61%
Absorption	- 32	+134
New Construction	0	218
Market Rents*	\$434	\$732
Rent Per Square Foot	\$0.72	\$0.99

*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 Tucson urbanized area and CANNOT be used to gauge market conditions, trends or performance in individual sub-markets.

TUCSON Quarterly Vacancy Rate 1995-2003



Source: Metropolitan Tucson Land Use Study All units '94-98; RealData All Units '99-'03

The 1st Quarter 2003 vacancy rate of 10.15% is 1.43 percentage points higher than the 1st Quarter 2002 vacancy rate and .52 percentage points lower than the previous quarter's vacancy rate. Vacancy rates vary widely according to location. In one Tucson sub-market, for example, the vacancy rate is in excess of 11.61%.

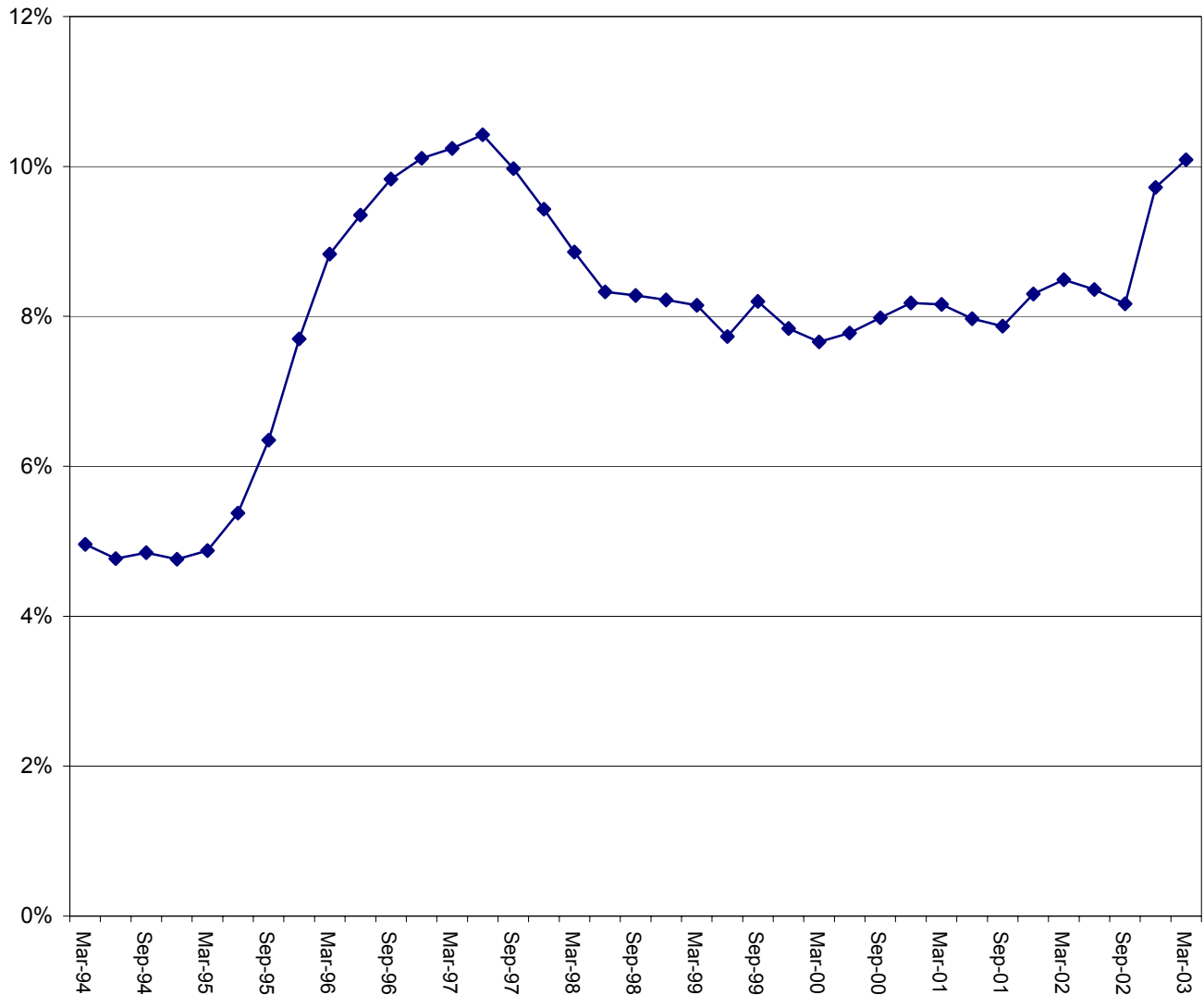
Apartment quarterly vacancy rates for the last 17 quarters are:

	1999	2000	2001	2002	2003
1 st Quarter	7.6%	6.9%	6.8%	8.7%	10.15%
2nd Quarter	9.2%	9.6%	8.9%	10.1%	
3rd Quarter	7.4%	8.26%	7.8%	9.43%	
4th Quarter	7.1%	7.94%	8.5%	10.67%	

Other Housing Source: Metropolitan Tucson Land Use Study

- The single-family vacancy rate for the 1st Quarter of 2003 is 1.28%.
- The townhouse/condominium vacancy rate for the 1st Quarter 2003 is 1.14%.

TUCSON 1994-2003 Four Quarter Moving Average Vacancy Rate

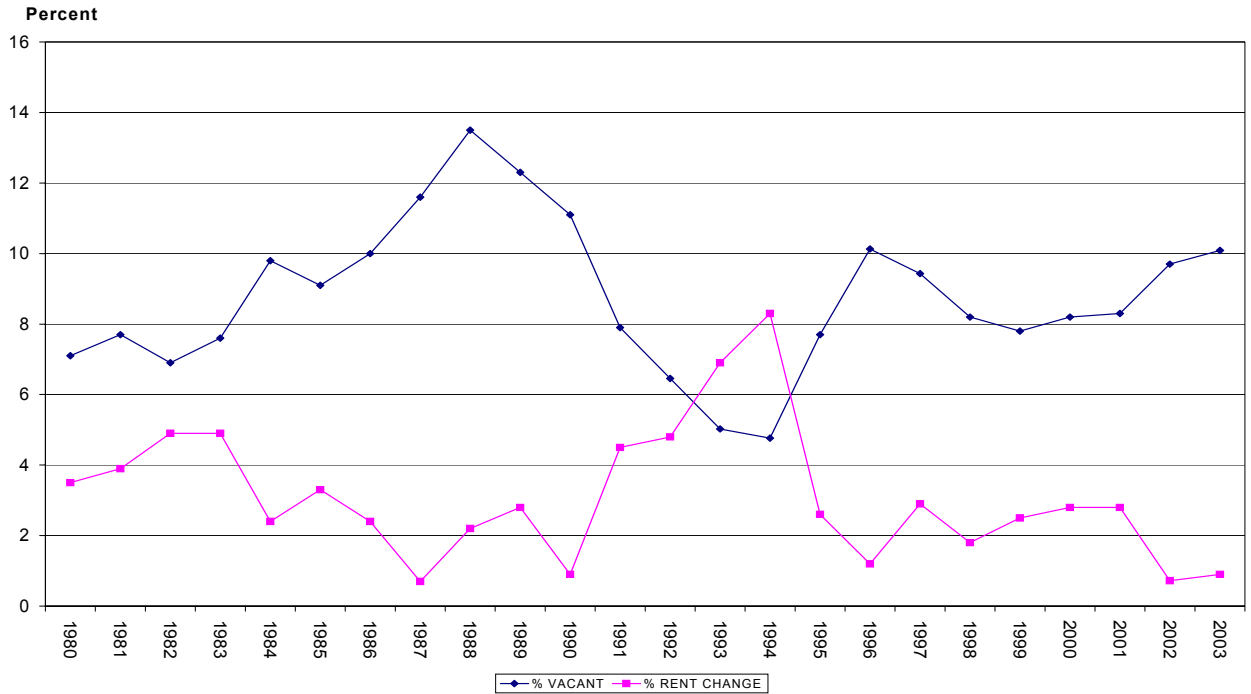


Source: Metropolitan Tucson Land Use Study '92-'98; Real Data '99-'03

The Four Quarter Moving Average Vacancy Rate is determined by adding the current quarter vacancy rate (of projects surveyed by the Real Data) 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 declining to a low of 4.765% in the 4th Quarter of 1994, the moving average vacancy climbed dramatically in response to the largest increase in apartment inventory since 1988 and the affordability of single-family housing. After reaching an average of 10.43% in the 2nd Quarter of 1997, the moving average vacancy rate declined to a little over 8% in June 1998. The current four quarter moving vacancy rate is again on the rise, increasing to 10.09%, which is a 3.8% increase from the 1st Quarter 2002.

TUCSON Average Annual Vacancy vs. Market Rent Changes



Source: Metropolitan Tucson land Use Study, Marketing Strategies & RealData, Inc.

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 adjustments for rent concessions, delinquencies, etc. Gross rents increased .90% over the same quarter of the previous year, an annual increase of \$5 on average.

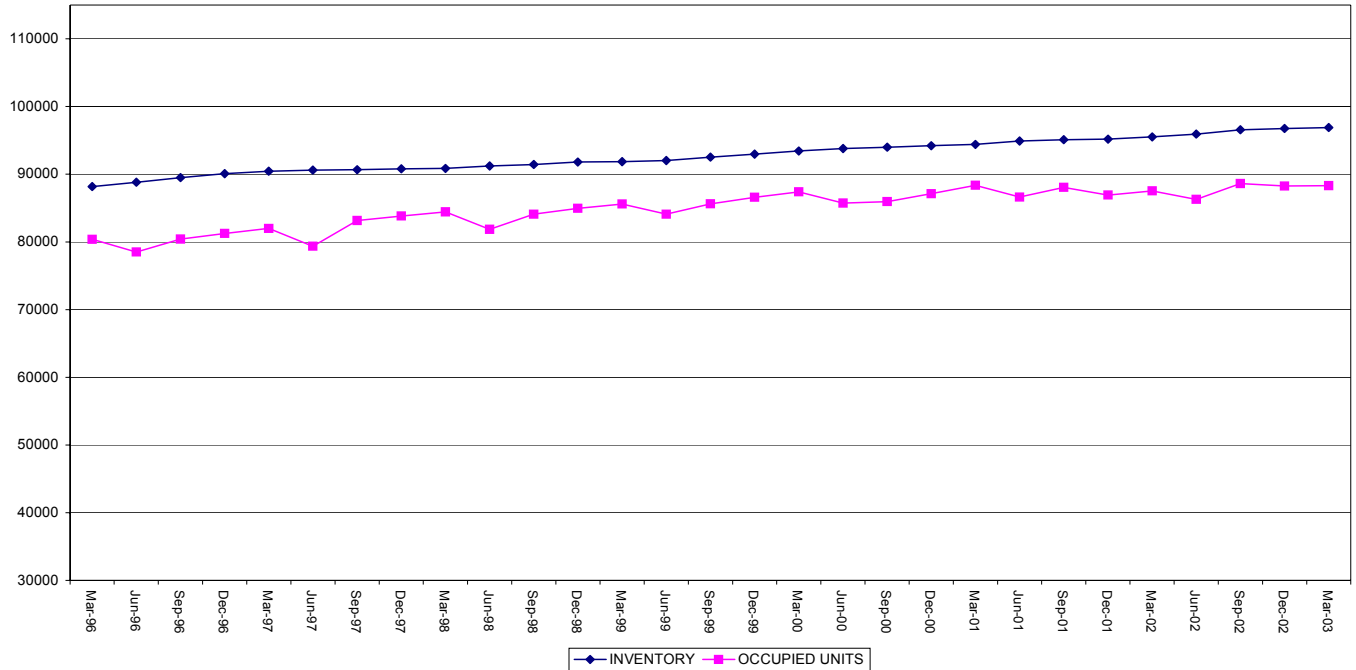
	Annual Vacancy	Market Rent Changes*
1994	4.8%	8.3%
1995	7.7%	2.6%
1996	10.1%	1.3%
1997	9.4%	2.9%
1998	8.2%	1.8%
1999	7.8%	2.5%
2000	8.2%	2.8%
2001	8.3%	2.8%
2002	9.7%	.72%
LAST 4 QUARTERS	10.09%	.90%

* Based upon unfurnished, utilities excluded rent rates

*Do not reflect concessions

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Apartment Inventory and Occupied Units Quarterly History



Source: Metropolitan Tucson Land Use Study

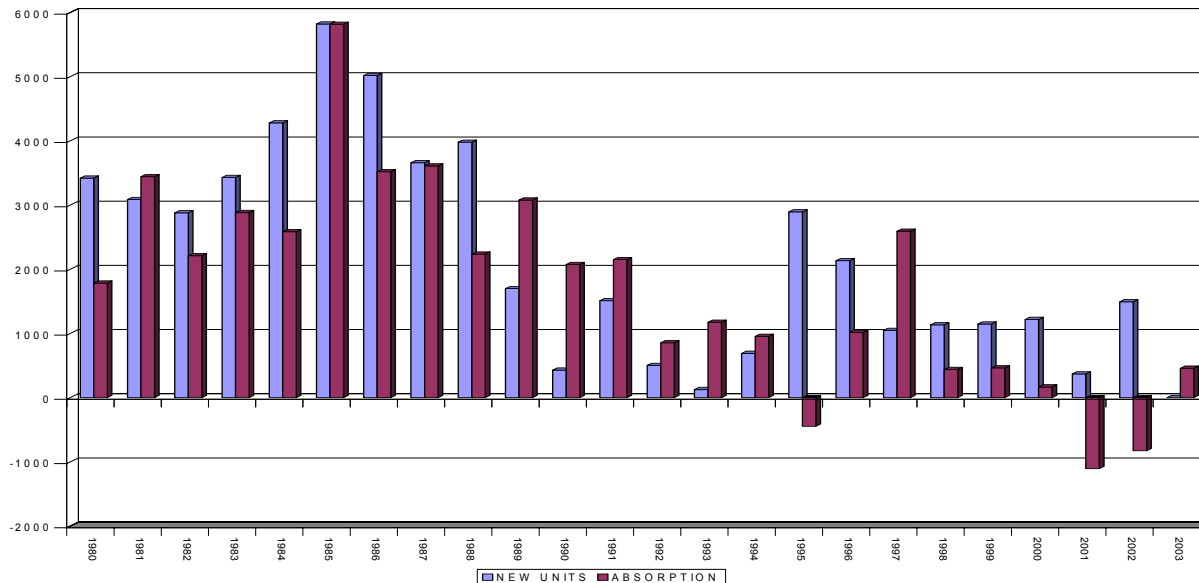
The inventory and occupied units comparison is a general barometer of the health of a market. The distance between the two lines represents a measurement called the "vacancy gap." In general, the closer the gap, the healthier the market. A widening of the gap indicates softening market conditions. Inventory, absorption, and vacancy rate trends can be determined by this graph. The following is the number of vacant units for apartments, single-family, and townhouse/condominiums.

VACANT UNITS

Year	Qtr	Apts	Single Family	Town-house	Total Vacant
1998	1 st	6,425	2,218	433	9,076
	2 nd	9,359	1,807	388	11,554
	3 rd	7,333	2,285	443	10,061
	4 th	6,859	2,544	488	9,891
1999	1 st	6,256	2,472	423	9,151
	2 nd	7,923	2,001	368	10,292
	3 rd	6,913	2,148	404	9,465
	4 th	6,379	1,946	344	8,669
2000	1 st	6,065	2,095	380	8,540
	2 nd	8,038	1,846	362	10,246
	3 rd	8,027	1,960	352	10,339
	4 th	7,105	2,212	328	9,645

Year	Qtr	Apts	Single Family	Town-house	Total Vacant
2001	1 st	6,043	2,115	307	8,465
	2 nd	8,277	1,852	278	10,407
	3 rd	7,048	1,951	317	9,316
	4 th	8,262	2,185	343	10,790
2002	1 st	7,956	2,285	322	10,563
	2 nd	9,632	2,096	290	12,018
	3 rd	7,968	2,238	305	10,511
	4 th	8,526	2,507	329	11,362
2003	1 st	8,587	2,652	353	11,592

TUCSON Annual New Units and Absorption



Source: Metropolitan Tucson Land Use Study & Real Data

This graph shows additions to inventory and absorption, or changes in the number of occupied apartments.

	<u>New Apts</u>	<u>Absorption</u>		<u>New Apts</u>	<u>Absorption</u>
1997 Totals	1,048	2,593	2002 1 st Quarter	0	457
1998 Totals	1,135	439			
1999 Totals	1,146	462			
2000 Totals	1,217	166			
2001 Totals	369	-1106	2003 Totals	0	457
2002 Totals	1,492	-827			

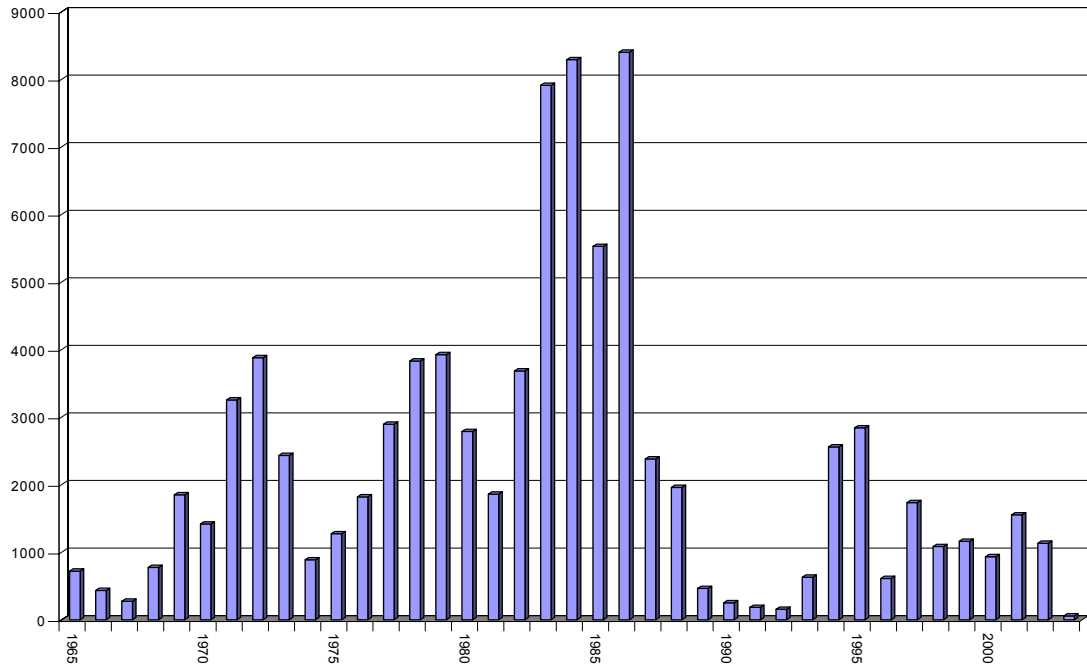
2002 - Other Housing Data

	<u>New Units</u>	<u>Absorption</u>
Single Family	*441	3,458 units
Townhouse/Condominium	21	166 units

- The Metropolitan Tucson Land Use Study only reports additions to Single Family and Townhouse Inventory in the 2nd and 4th Quarters, while demolitions are reported each quarter.

Absorption this quarter was a small step in the right direction. There were no apartments added to the inventory this quarter, with only 410 units under construction that may come online in 2003 and 108 in the planning stages, the lowest number since 1993.

TUCSON Annual Apartment Permits



Source: Metropolitan Tucson Land Use Study

Apartment permit activity in 1997 was nearly triple the level of activity in the previous year, but remained significantly lower than the levels recorded in 1994 and 1995. The 58 permits issued in the 1st Quarter 2003 was a 95% decrease over the number of permits issued in the previous year (1,132).

Apartment Permitting History

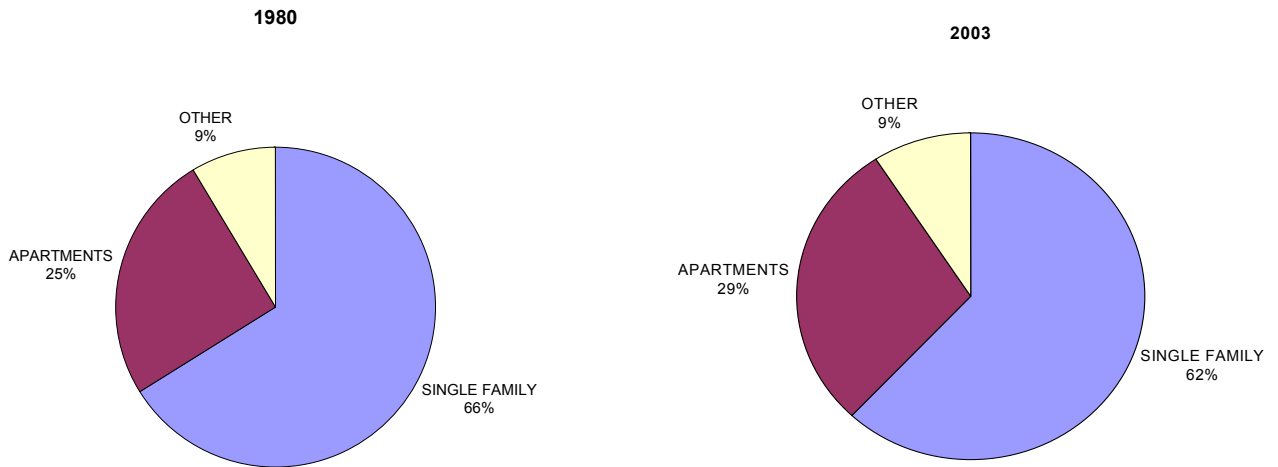
1991 - 184	1997 - 1,734	2003 1 st quarter - 58
1992 - 156	1998 - 1,084	
1993 - 630	1999 - 1,160	
1994 - 2,557	2000 - 934	
1995 - 2,840	2001 - 1,553	
1996 - 612	2002 - 1,132	Total 58

(3.03% of total qtly. permits)

2002 - Other Housing Permits

	Units	% of Total Permits
Single Family Permit	1,792	93.72%
Townhouse/Condominium Permit	62	3.24%

TUCSON Housing Inventory



Source: Metropolitan Tucson Land Study

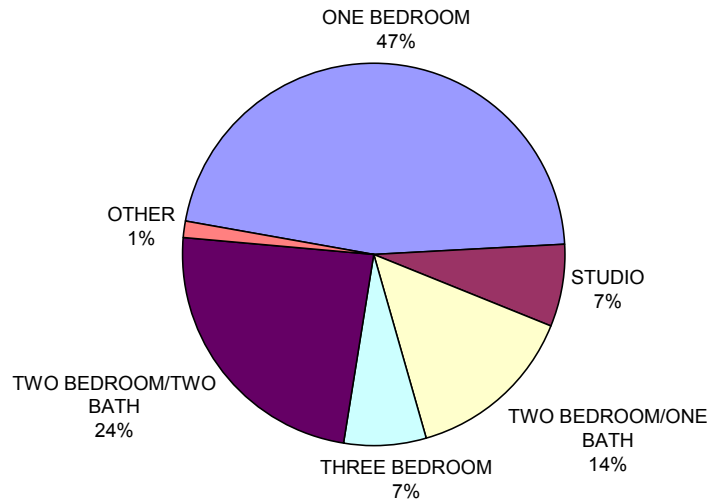
	1980 4 TH Quarter Total Units	2003 1 ST Quarter Total Units	New Units	% increase over 1980 inventory
Apartments	47,398	96,919	49,251	104%
Townhouse/Condominium	16,141	31,005	14,864	92%
Single Family	124,598	207,189	82,591	66%
TOTALS	188,137	335,113	146,976	78%

The distribution of the housing inventory has shifted in the last 23 years. The apartment share has shown an increase at 4.0 percentage points. The single-family housing share has decreased by 4.0 percentage points. The townhouse/condominium share has maintained the same percentage of inventory.

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Apartment Inventory by Unit Type

2003



Source: RealData, Inc.

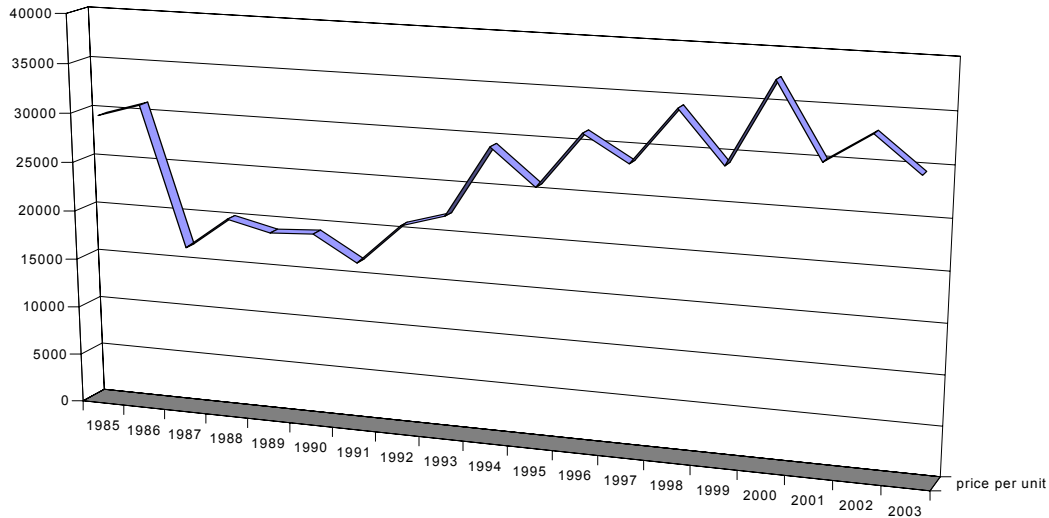
The apartment inventory by unit type is based upon a survey of 64,217 units in 407 properties of 40 units or more by RealData, Inc. One bedrooms have the largest percentage of the market share (46.5%) followed by two bedroom-two bath apartments (23.9%), then two bedroom-one bath (14.3%), Three Bedrooms (7.0%) followed by Studios (6.9%) and other apartments (1.4%) make up the smallest percentages. "Other" includes one bedroom dens and four bedroom apartments.

The average square footage for each unit type is:

<u>Unfurnished Apartments</u>	<u>Utilities Included</u>	<u>Utilities Excluded</u>
Studio	406	395
One Bedroom	579	588
Two bedroom-One bath	815	794
Two bedroom-Two bath	980	964
Three bedroom-Two bath	1,155	1,153
Four bedroom-Two bath	N/A	1,364
Market Average (all unit types)	663	738

TUCSON 40 Units or Greater - Price Per Unit

Source: Bernard/Allison Management Services, Inc., CB Commercial & RealData, Inc.



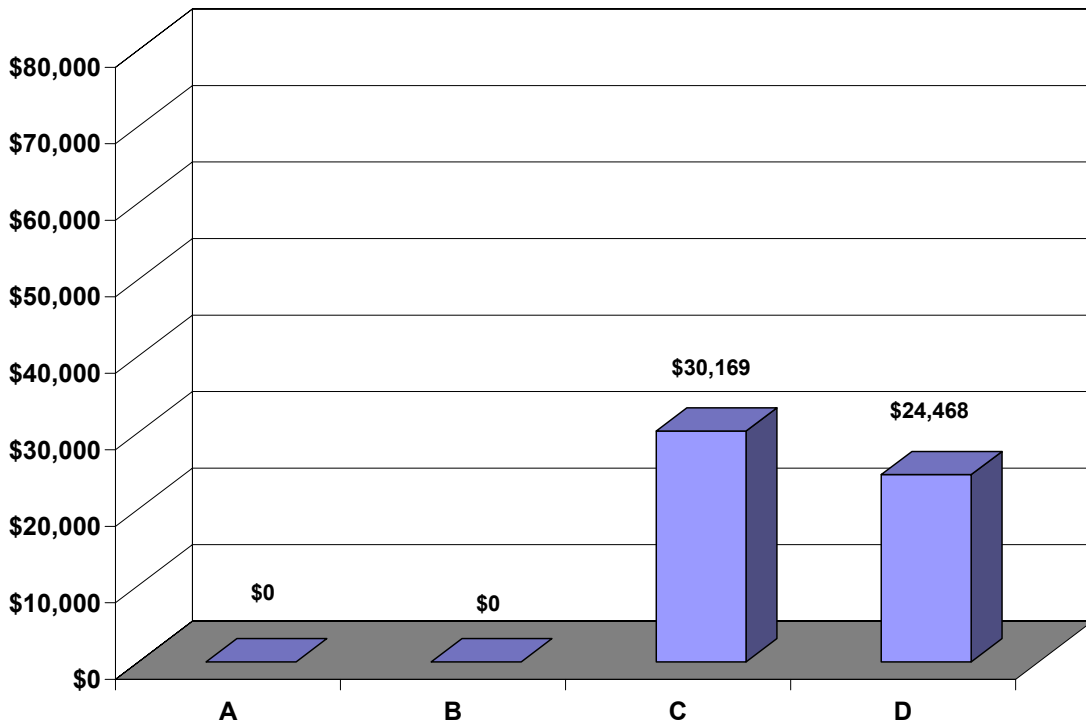
The average price per unit during the 1st Quarter of 2003 for apartments with 40 units or greater decreased 30.46% compared to the 1st Quarter of 2002. This is mainly due to only older product being sold this quarter and is not an indication of what the year will bring.

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

	Per Unit	Per Sq. Ft.		Per Unit	Per Sq. Ft.
1986	\$31,007	\$39.63	1995	\$25,700	\$36.52
1987	\$16,828	\$24.33	1996	\$31,221	\$42.20
1988	\$20,103	\$28.34	1997	\$28,628	\$41.56
1989	\$19,058	\$28.90	1998	\$34,200	\$45.10
1990	\$19,321	\$27.40	1999	\$29,083	\$40.88
1991	\$16,755	\$27.16	2000	\$37,430	\$46.48
1992	\$20,849	\$29.66	2001	\$30,072	\$39.78
1993	\$22,168	\$32.67	2002	\$38,443	\$53.56
1994	\$29,306	\$41.96	2003	\$29,502	\$50.60

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2003 Apartment Values Price Per Unit Related to Quality Rating



Source: Bernard/Allison Management Services, Inc.

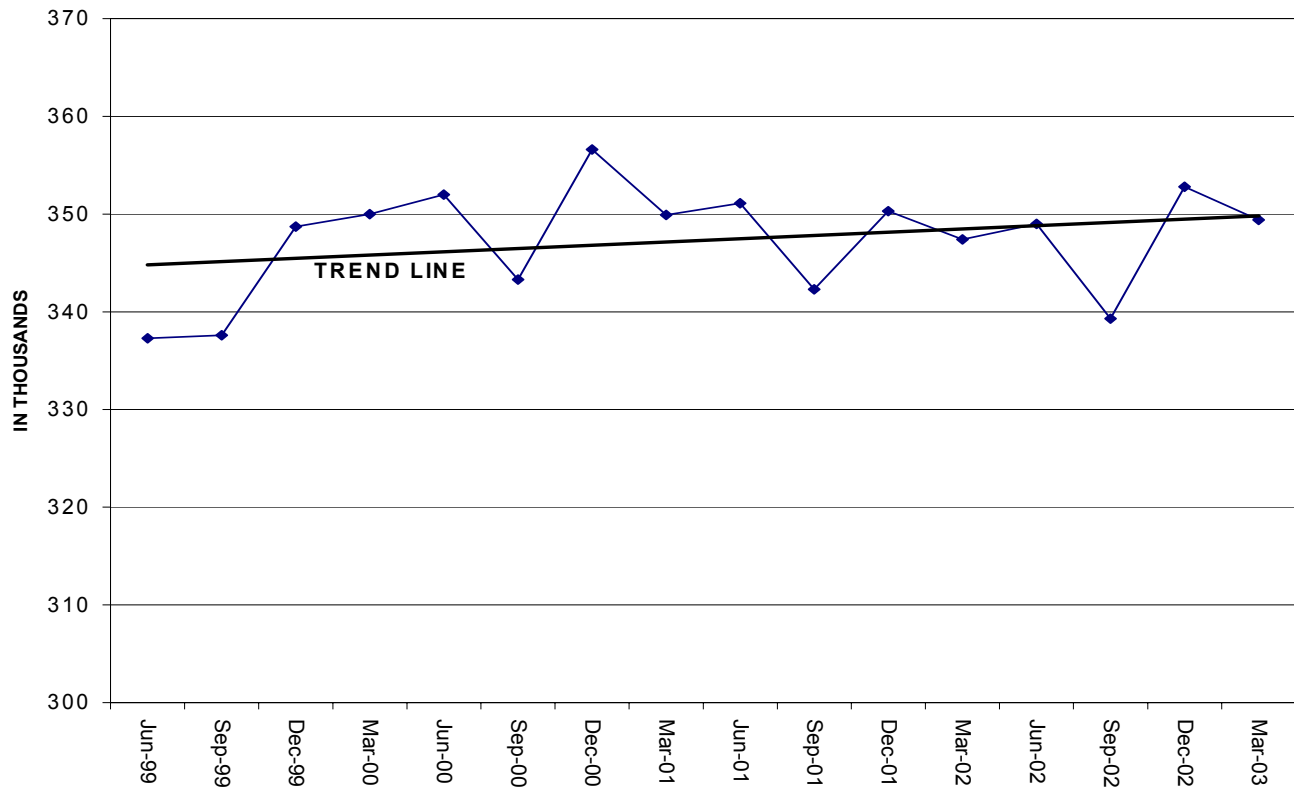
Bernard/Allison analyzed four apartment sales (40 units or greater), totaling 402 units in the 1st Quarter 2003. To determine the type of property being sold each property is rated from "A" (high end) to "D" (poor, physically distressed). Property ratings are based upon Bernard/Allison standards for location, architecture, renter profile, maintenance, etc.

"C" rated sales signified the largest percentage of sales in the 4th quarter 2002 at 75.0% followed by "D" rated sales at 25.0%. There were no "A" and "B" rated sales in the 1st quarter which resulted in the low per unit and square foot figures for the 1st quarter.

The following table compares the sales price per unit for the 2002 calendar year and 2003 sales as of the end of the 1st Quarter. This comparison shows that "D" rated sales prices have achieved a slight increase, while "C" rated projects experienced a moderate decrease. With a minimal number of sales this quarter, the listed average price below should not be used as an insight to sale prices for the rest of the year.

	2002	2003	% Change
A	85,200	N/A	N/A
B	60,877	N/A	N/A
C	34,157	30,169	-11.68%
D	23,194	24,468	+5.49%

TUCSON Quarterly Employment



Source: Arizona Department of Economic Security-Arizona Workforce

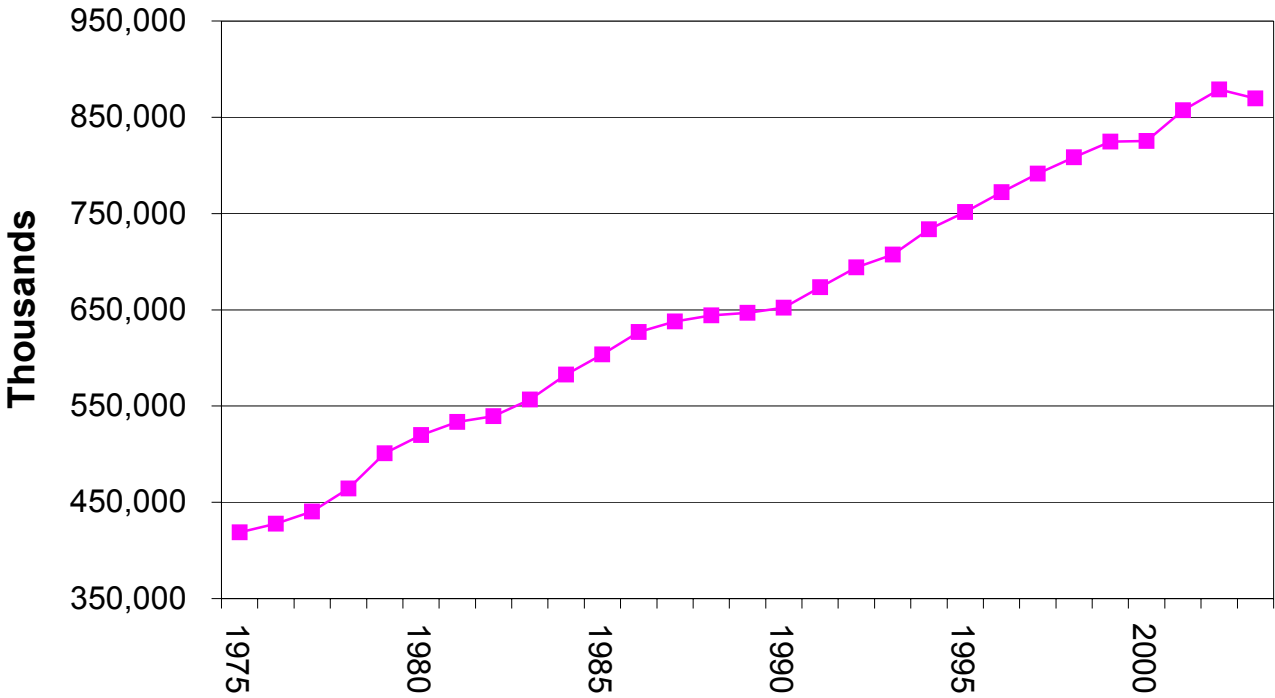
As notated in the Executive Summary, the categorization of the employment tables has changed. Arizona was using the Standard Industrial Classification (SIC) system, which is no longer being supported by the U.S. Department of Labor, prompting the conversion to the North American Industrial Classification 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 of 2002 and February of 2003, 2,000 net jobs were gained. Total employment increased from 347,400 to 349,400. The 1st Quarter Metropolitan Tucson unemployment rate of 4.2% continues to compare favorably with the state unemployment rate of 5.7% and the national unemployment rate of 5.8%. Arizona Workforce stated that the state unemployment rate, although higher than seasonally expected, was more than likely attributed to firms hesitating to hire due to pre-war anxieties. The affects the war truly had on unemployment rates, if reported, will be more evident next quarter.

In terms of sheer number of jobs created, the Educational and Health Services sector experienced the largest growth with 1,700 new jobs achieving an annual growth rate of 3.9%. In terms of percentage growth within a sector, Construction led with a 5.9% annual growth rate.

The Manufacturing sector experienced the largest decline in the number of job in the last year with a total of 1,800 jobs lost.

TUCSON Annual Population Growth



Source: City of Tucson Planning Department

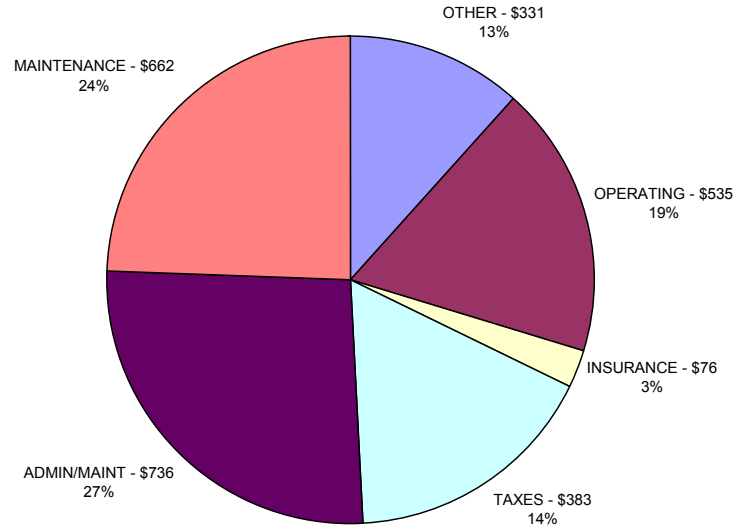
Between the 1st Quarter 2002 and 1st Quarter 2003, the population of the Tucson Urbanized Area increased by 14,392 from 852,062 to 869,566, a 1.64% annual increase.

The population increased by 184,632 between March 1993 and March 2003. The 10-year average annual population increase is 18,463.

Peak Historic Population Growth Years (1974-2002)

1979	36,673	1984	25,783
1998	29,391	1978	23,715
1994	26,677	1986	23,058

TUCSON 2001 Expense Per Unit Detail



Source: Institute of Real Estate Management

The graph above is a detail of the median 2001 Tucson apartment expenses expressed as a percent of total and in dollars per unit per year. Data is provided by the Institute of Real Estate Management. The 2001 median annual expense was \$2,723 per unit and \$3.83 per square foot.

This data is based upon a sample of 18 garden-style properties totaling 4,125 units. The average unit size is 778 square feet.

Note: Because the figures above are medians rather than averages, the sum of the individual category medians will not equal the median total operating expenses.

Also, note that data for this Expense Per Unit Detail Report is available only in the 3rd quarter of following year.

Sources of Information

Arizona Department of Economic Security (Employment data)

Metropolitan Tucson Land Use Study (Select data from 1960-2003)

Marketing Strategies, Inc. (Select data)

Institute of Real Estate Management (Apartment expenses)

RealData, Inc. (Select data)