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BACKGROUND: PETE TEKAMPE

Marcus & Millichap

MARCH 2020

- Marcus & Millichap 24+ yrs./AMA BOD (6 yr.)
- Landiscor Housing Study/Land Development Grunt DENRO
- Bottom Up vs. Top Down (DATA →INFORMATION →KNOWLEDGE)
- Strategic Advisor to Principals/Lenders
- Focused on helping private investors make $$$
- ACCURATE APARTMENT FORECASTS (+ or -)

2005/06 FORECAST: UP 2007: Level then DOWN

MONEY WISE

Diversification is called key when investing in real estate

Rents are rising for apartments, but landlords face new woes

Wise words to graduates for handling money, future

BUSINESS

US Airways rallies its new crew

Updated airliner visits hub cities

FTC fines Hi-Health $450,000 over ads

Too-hot housing market good news for landlords

Google launches voice, text-messaging service

African-artifacts dealer wins lawsuit against Arizona Mills

Business

EAST VALLEY | SCOTTSDALE TRIBUNE

SATURDAY, JANUARY 27, 2007

Valley rent should stabilize

Apartment rental changes

Valley apartment rents are projected to rise and the vacancy rate to fall in 2007, even though thousands of new units are expected to hit the market.

SOURCE: Marcus & Millichap Scott Kirchhofer/TRIBUNE

Market expected to remain strong

By MISTY WILLIAMS
TRIBUNE

After facing hefty rent increases the past few years, Valley apartment hunters may find a bit of relief in 2007.

The rental market is expected to remain strong in the coming year, but some industry observers say landlords will offer more concessions as the market begins to normalize.

"The rate at which rents have been increasing is unsustainable," said Pete TeKampe, a senior investment associate at Marcus & Millichap and board member of the Arizona Multihousing Association.

The average Valley rent was $751 in the third quarter 2006 – the highest the region's ever seen, TeKampe said.

A report by the national brokerage firm, which looked at more than 40 major metropolitan areas, forecasted that the average asking rent in the Valley could hit $785 in 2007.

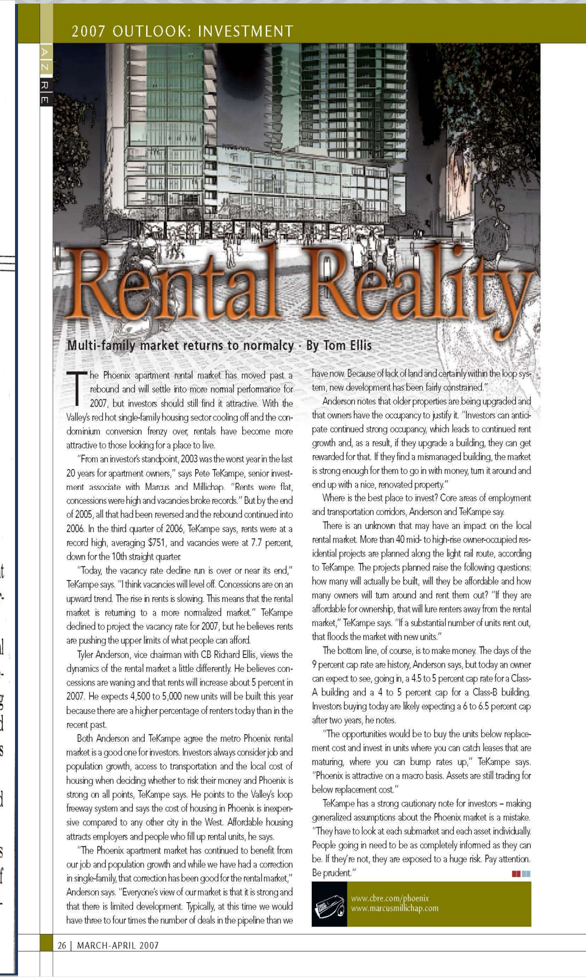
It also showed a steady decline in vacancy Valleywide – dropping from 8.8 percent in 2004 to a projected 4.6 percent this year.

One reason for the rental market's growth was the tremendous increase in housing prices during the boom, said Bob Kammrath, who tracks Valley apartment trends.

Many people were priced out the market, he said.

During the frenzy, investors also converted thousands of apartment units into condo-

SEE RENT • PAGE B2



AZ RE

Rental Reality

Multi-family market returns to normalcy · By Tom Ellis

The Phoenix apartment rental market has moved past a rebound and will settle into more normal performance for 2007, but investors should still find it attractive. With the Valley's red hot single-family housing sector cooling off and the condominium conversion frenzy over, rentals have become more attractive to those looking for a place to live.

"From an investor's standpoint, 2003 was the worst year in the last 20 years for apartment owners," says Pete TeKampe, senior investment associate with Marcus and Millichap. "Rents were flat, concessions were high and vacancies broke records." But by the end of 2005, all that had been reversed and the rebound continued into 2006. In the third quarter of 2006, TeKampe says, rents were at a record high, averaging $751, and vacancies were at 7.7 percent, down for the 10th straight quarter.

"Today, the vacancy rate decline run is over or near its end," TeKampe says. "I think vacancies will level off. Concessions are on an upward trend. The rise in rents is slowing. This means that the rental market is returning to a more normalized market." TeKampe declined to project the vacancy rate for 2007, but he believes rents are pushing the upper limits of what people can afford.

Tyler Anderson, vice chairman with CB Richard Ellis, views the dynamics of the rental market a little differently. He believes concessions are waning and that rents will increase about 5 percent in 2007. He expects 4,500 to 5,000 new units will be built this year because there are a higher percentage of renters today than in the recent past.

Both Anderson and TeKampe agree the metro Phoenix rental market is a good one for investors. Investors always consider job and population growth, access to transportation and the local cost of housing when deciding whether to risk their money and Phoenix is strong on all points, TeKampe says. He points to the Valley's loop freeway system and says the cost of housing in Phoenix is inexpensive compared to any other city in the West. Affordable housing attracts employers and people who fill up rental units, he says.

"The Phoenix apartment market has continued to benefit from our job and population growth and while we have had a correction in single-family, that correction has been good for the rental market," Anderson says. "Everyone's view of our market is that it is strong and that there is limited development. Typically, at this time we would have three to four times the number of deals in the pipeline than we have now. Because of lack of land and certainly within the loop system, new development has been fairly constrained."

Anderson notes that older properties are being upgraded and that owners have the occupancy to justify it. "Investors can anticipate continued strong occupancy, which leads to continued rent growth and, as a result, if they upgrade a building, they can get rewarded for that. If they find a mismanaged building, the market is strong enough for them to go in with money, turn it around and end up with a nice, renovated property."

Where is the best place to invest? Core areas of employment and transportation corridors, Anderson and TeKampe say.

There is an unknown that may have an impact on the local rental market. More than 40 mid- to high-rise owner-occupied residential projects are planned along the light rail route, according to TeKampe. The projects planned raise the following questions: how many will actually be built, will they be affordable and how many owners will turn around and rent them out? "If they are affordable for ownership, that will lure renters away from the rental market," TeKampe says. "If a substantial number of units rent out, that floods the market with new units."

The bottom line, of course, is to make money. The days of the 9 percent cap rate are history, Anderson says, but today an owner can expect to see, going in, a 4.5 to 5 percent cap rate for a Class-A building and a 4 to 5 percent cap for a Class-B building. Investors buying today are likely expecting a 6 to 6.5 percent cap after two years, he notes.

"The opportunities would be to buy the units below replacement cost and invest in units where you can catch leases that are maturing, where you can bump rates up," TeKampe says. "Phoenix is attractive on a macro basis. Assets are still trading for below replacement cost."

TeKampe has a strong cautionary note for investors – making generalized assumptions about the Phoenix market is a mistake. "They have to look at each submarket and each asset individually. People going in need to be as completely informed as they can be. If they're not, they are exposed to a huge risk. Pay attention. Be prudent."

www.cbre.com/phoenix
www.marcusmillichap.com

WHAT WE'LL LOOK AT TODAY

Marcus & Millichap

MARCH 2020

- EXPOSE THE TRUTH ABOUT MARKET
- EXAMINE WHAT CAUSES BUILDINGS TO MAKE OR LOSE MONEY
- LOOK AT SUBMARKET/NEIGHBORHOOD-MICRO LEVEL (NO SUNSHINE)
- IMPORTANT TO LENDERS/INVESTORS

WHY THIS IS IMPORTANT TO YOU

Marcus & Millichap

MARCH 2020

- ONE CANNOT BE TOO INFORMED
- INFORMED = PREPARED
- MAXIMIZE UNFOLDING OPPORTUNITIES
- INSULATION FROM RISK
- SOUND DECISIONS
- SOLID STRATEGIES
- PREDICTIABLE OUTCOMES

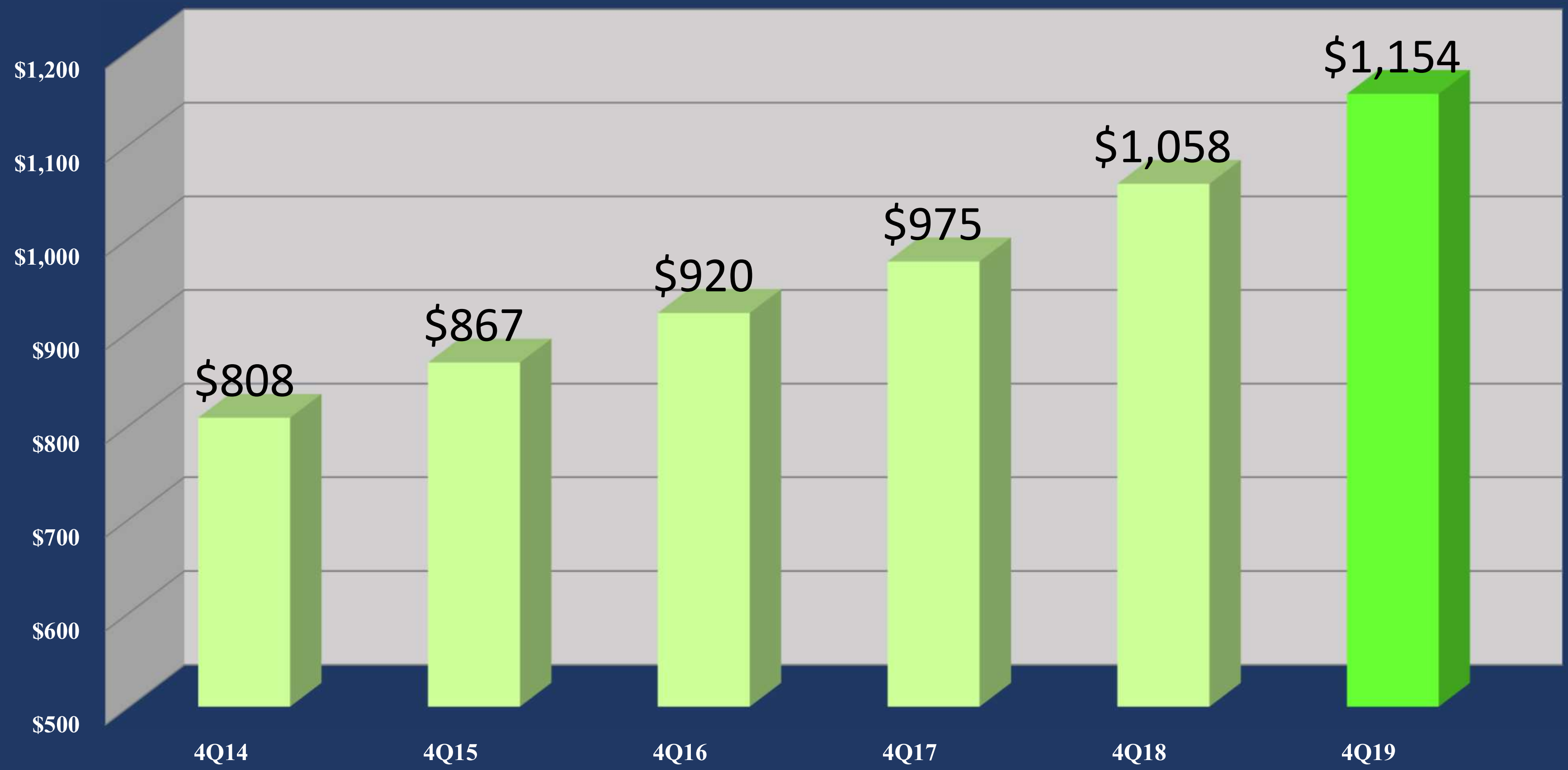
DISCUSSION POINTS

Marcus & Millichap

MARCH 2020

- RENTS
- VACANCIES
- CONCESSIONS
- NEW CONSTRUCTION
- SUBMARKET - UNIT MIX/CRIME
- NEIGHBORHOOD ANALYSIS

4Q14-4Q19: Phoenix Metro Area Asking Rent



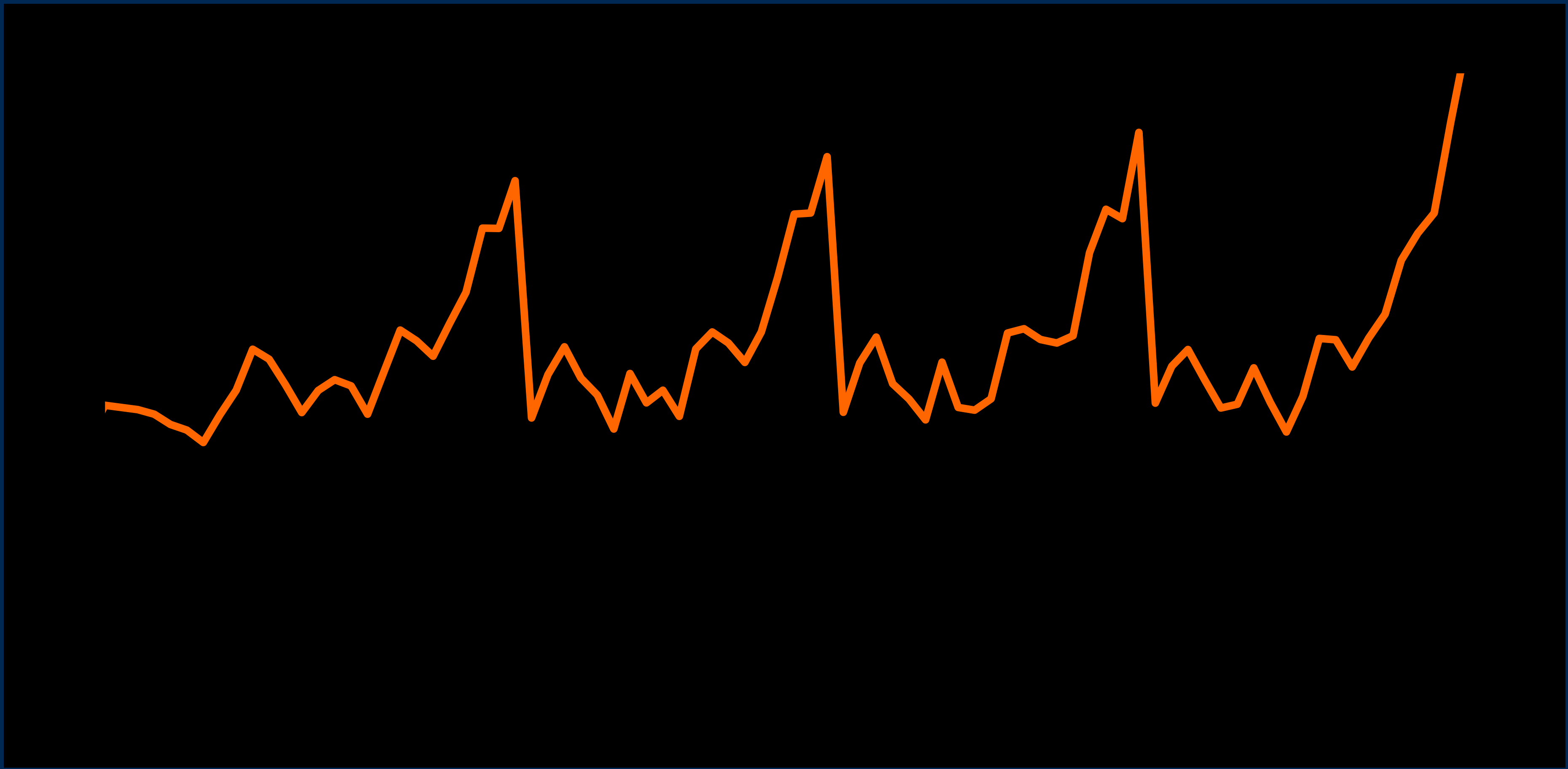
4Q19: YOY Rent Growth by Decade of Construction

YOY Rent Growth by Unit Type and Decade of Construction* 4Q18-4Q19

	Unit Type		
Decade Built	**Studio**	**1 BD 1 BA**	**2BD 2BA**
1950s	-1.3%	2.2%	10.7%
1960s	9.4%	8.7%	7.9%
1970s	7.5%	7.9%	6.8%
1980s	10.6%	8.7%	9.8%
1990s	13.4%	8.6%	6.9%
2000s	7.2%	8.6%	8.4%
2010s	7.1%	6.6%	6.5%
All Decades	10.2%	9.1%	9.0%

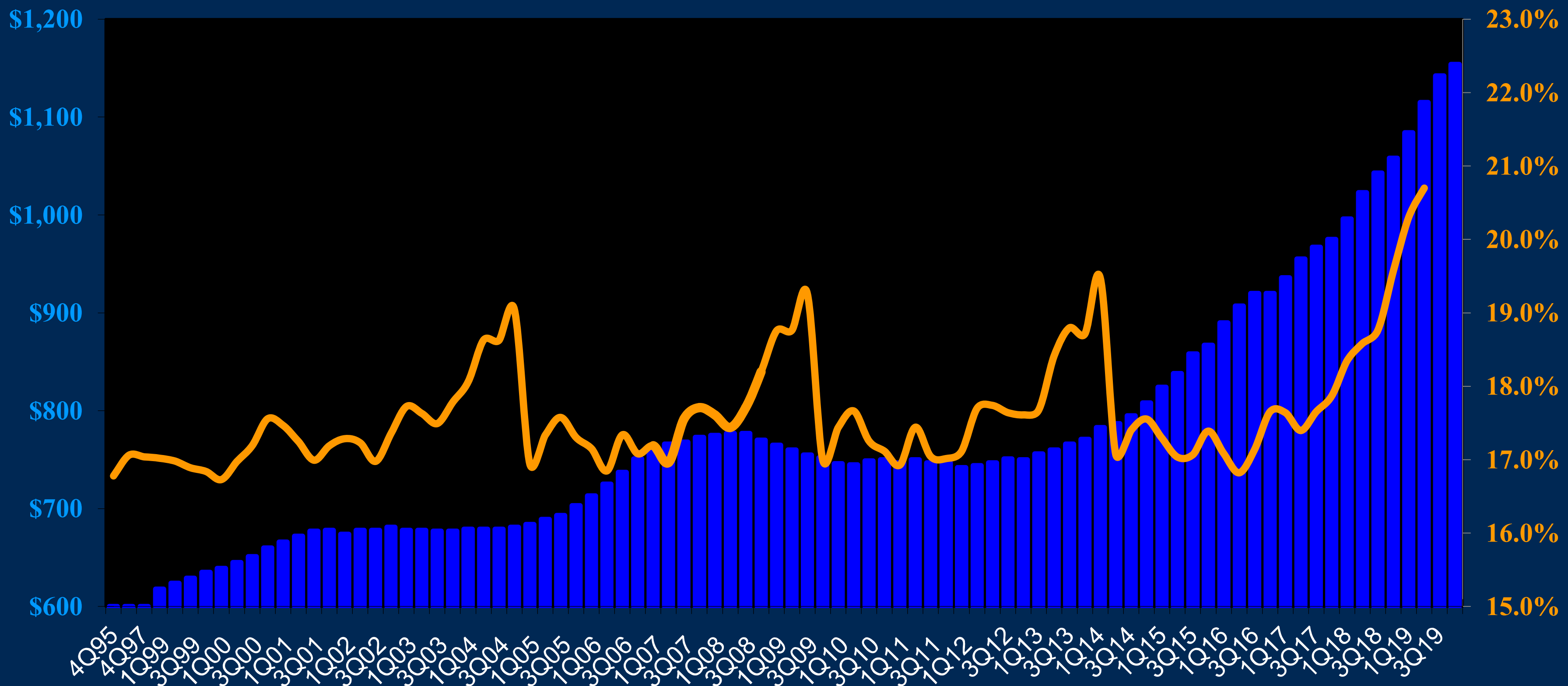
***Phoenix Metro Area Communities 50+ Units**

4Q95-4Q19: %Income Spent on Rent



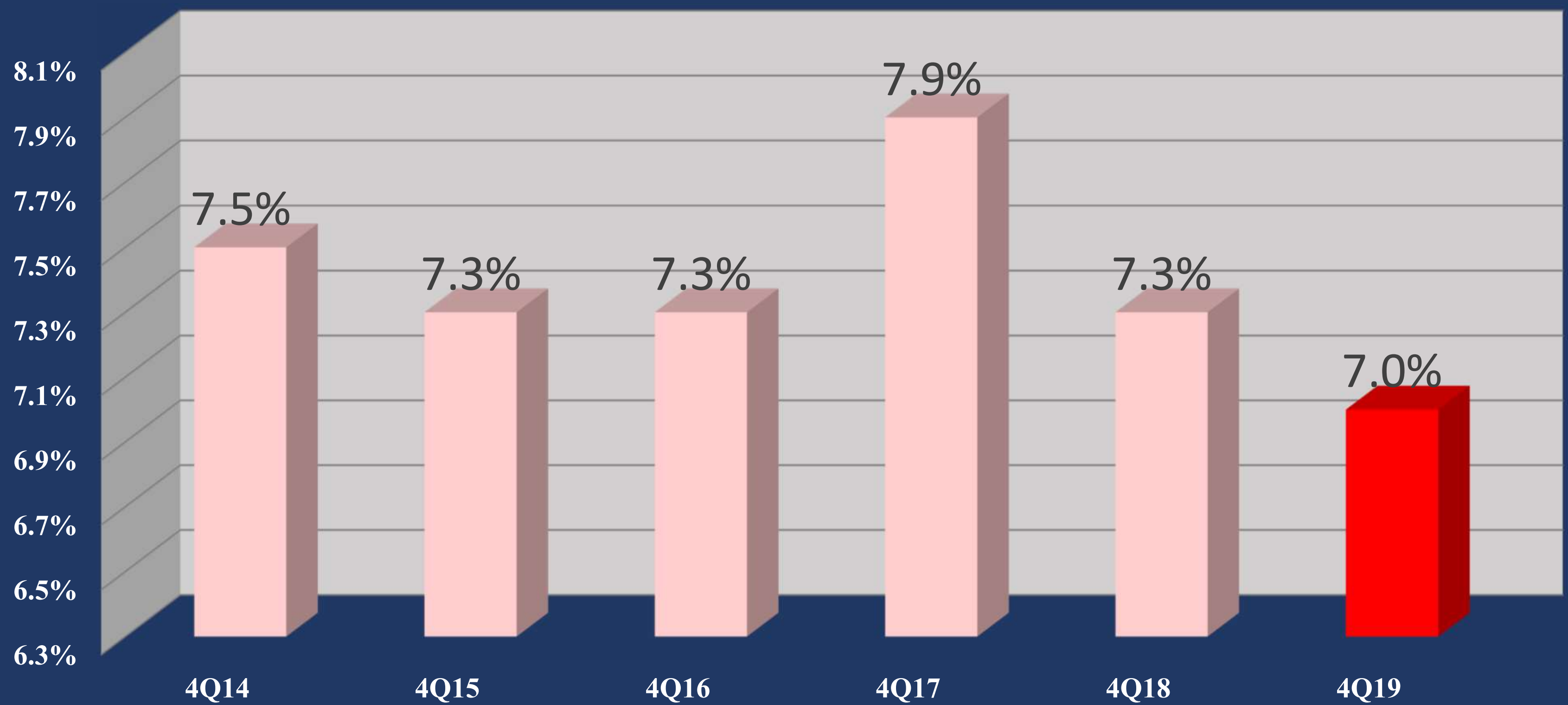
Source: Realdata Inc/Phoenix, Marcus & Millichap Research Services, RealData Inc./Phoenix, Peter E. TeKampe, P.C.

4Q95-4Q19: RENT vs. MGMI % Spent on Rent

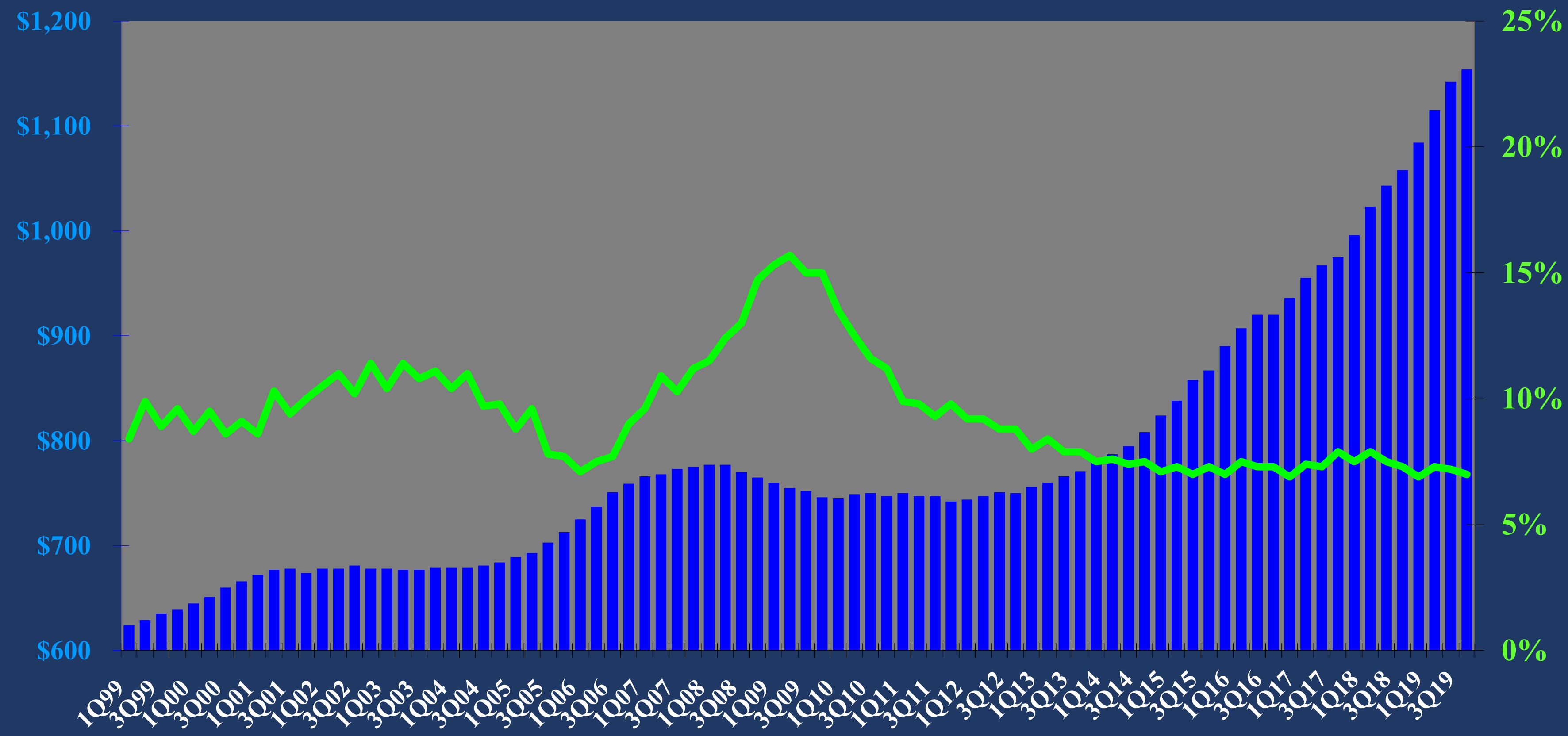


Source: Realdata Inc/Phoenix, Marcus & Millichap Research Services, RealData Inc./Phoenix, Peter E. TeKampe, P.C.

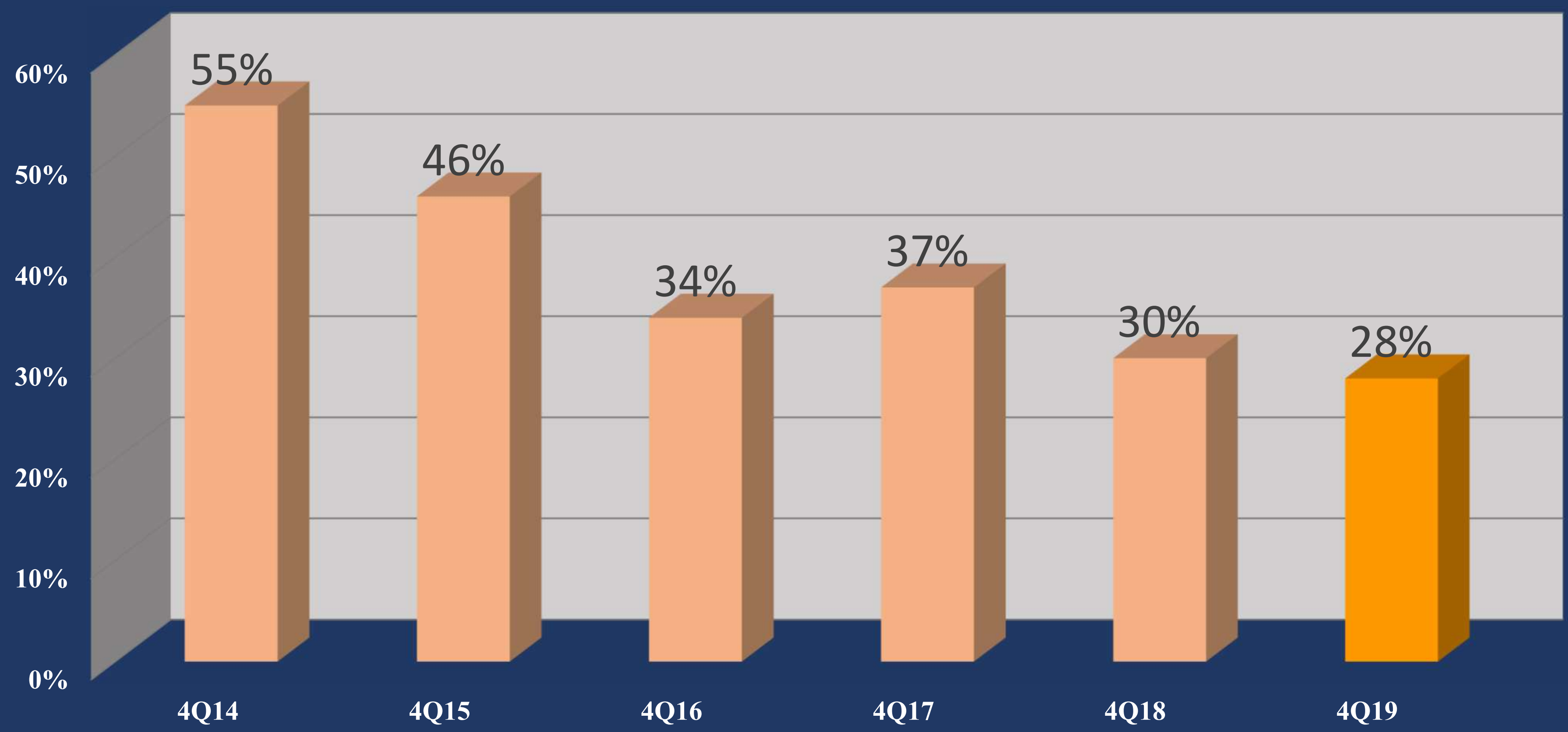
4Q14-4Q19: Phoenix Metro Area Vacancy



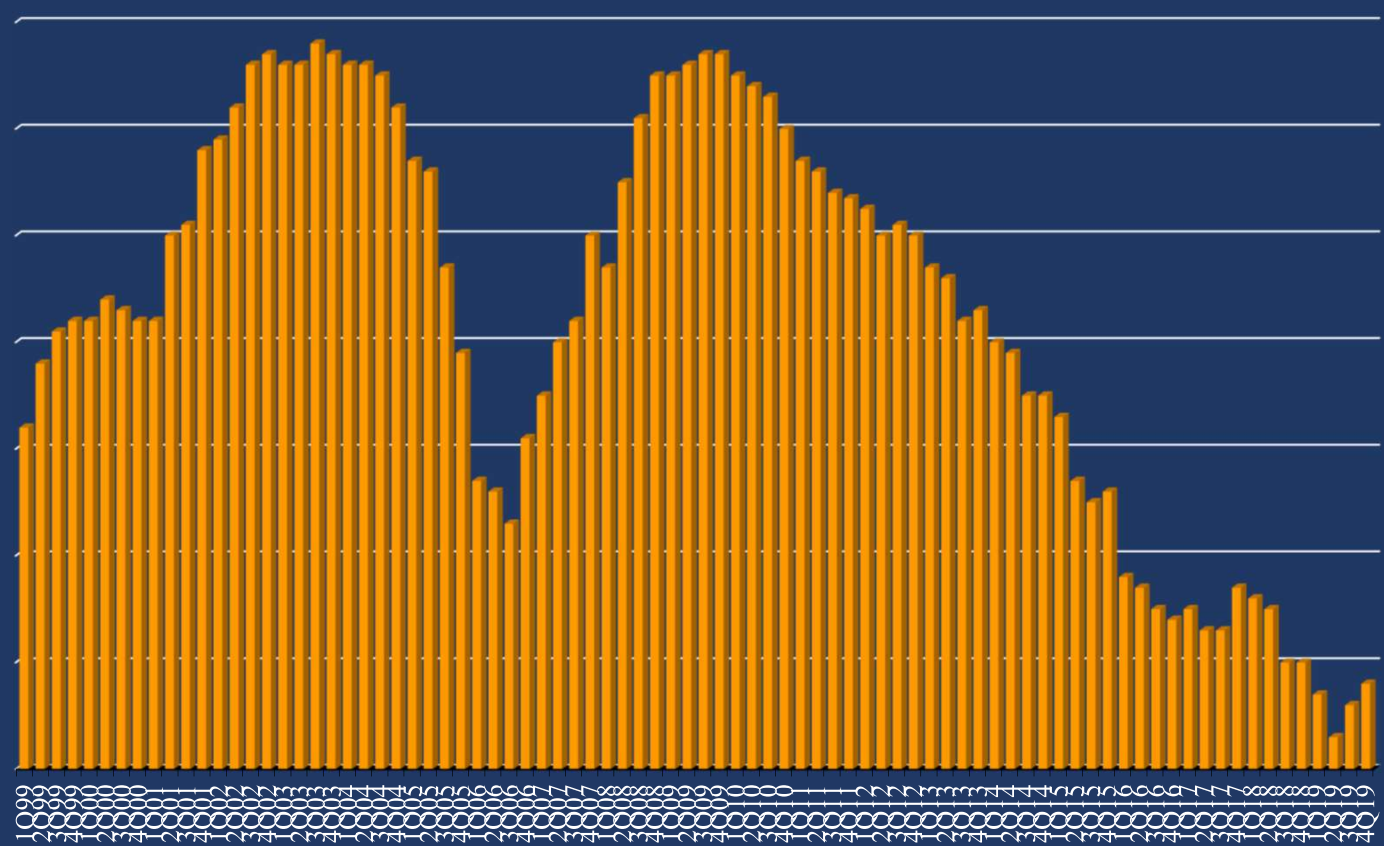
1Q99-4Q19: Rents vs. Vacancy



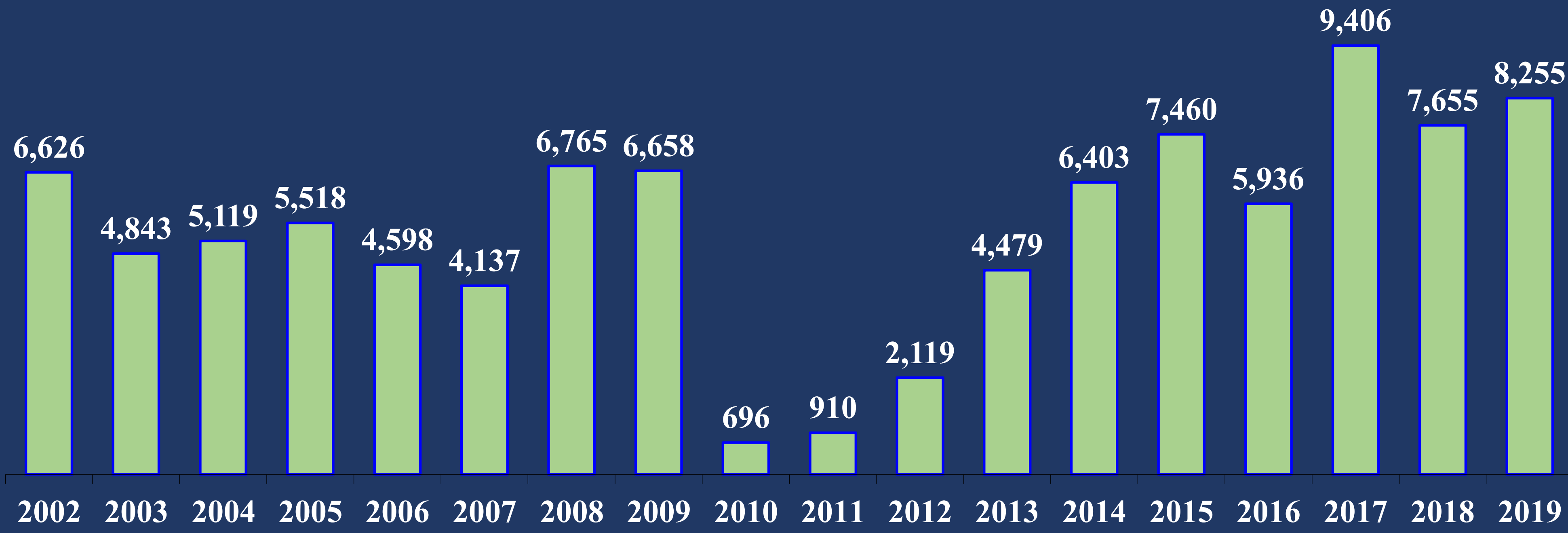
4Q14-4Q19: Phoenix Metro Area Concession Ratio



1Q99-4Q19: Concessions



2000-2019: Number of Units Built



Unit Mix/Rents of 2019 Constructed Buildings

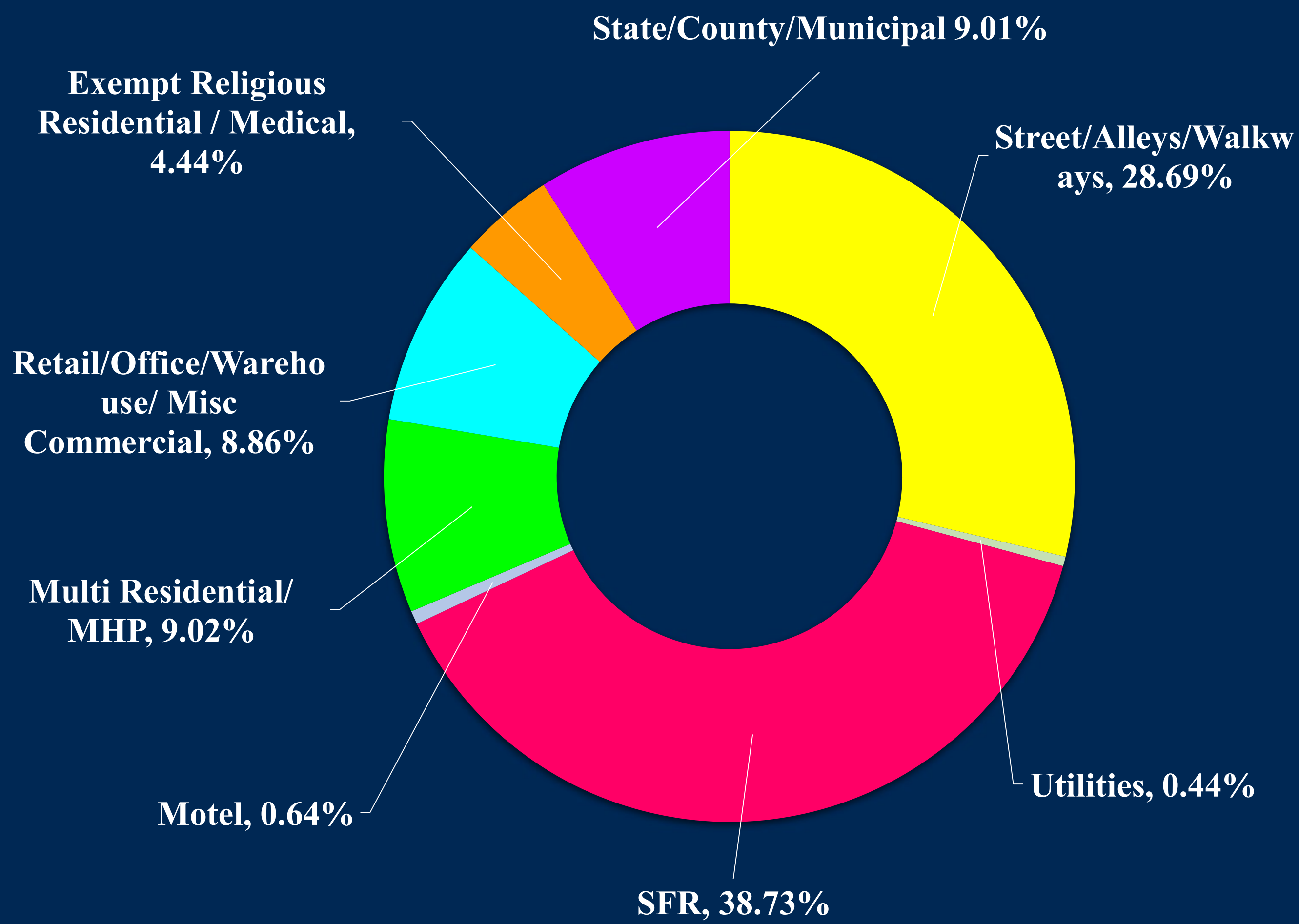
BD x BA	# of Units	SF	$	$/SF
0 x 1	656	570	$1,347	$2.36
1 x 1	3,763	741	$1,451	$1.96
1 x 1.5	1	1,200	$3,449	$2.87
1 x 2	8	1,296	$1,799	$1.39
2 x 1	116	837	$1,717	$2.05
2 x 1.5	1	1,025	$1,683	$1.64
2 x 2	2,956	1,118	$1,915	$1.71
2 x 2.5	7	1,448	$4,167	$2.80
3 x 2	447	1,361	$2,045	$1.50
3 x 2.5	144	1,643	$1,884	$1.15
3 x 3	62	1,735	$3,900	$2.25
4 x 2	9	1,936	$4,532	$2.34
4 x 3	32	1,909	$2,339	$1.23
4 x 3.5	53	2,200	$2,266	$1.03
ALL	8,255	937	$1,686	$1.79

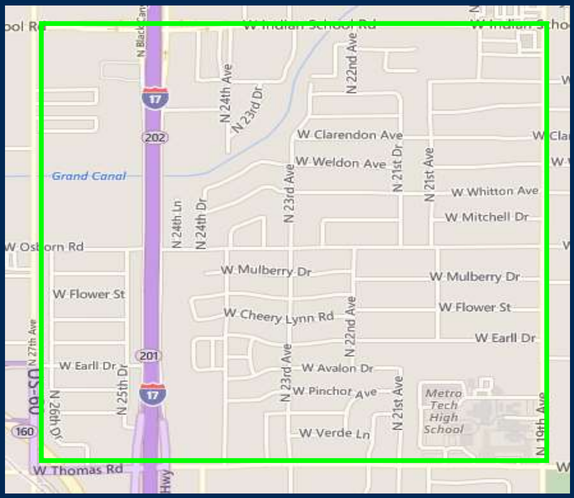
March 2020

Marcus & Millichap

- ANATOMY OF A SUBMARKET
- TOWNSHIP /RANGE- SECTION
  - Detail level previously ignored
  - Uncovers hidden opportunity
  - Spread between owning and renting

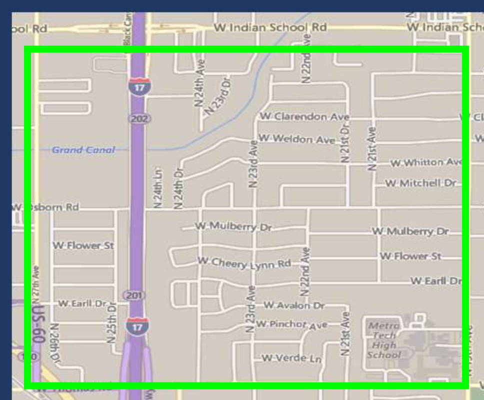
Section 25 T2N R2E: Land Uses





Section 25 T2N R2E: YOY Rent vs. Ownership Cost

Year	# of Sales	Avg Price	YOY %Δ	Average Price /SF	Mortgage Payment	Average Submarket Rent	Own vs. Rent Spread
2013	43	$122,887	--	$84.30	$512.83	$577	-$64.17
2014	38	$143,721	17%	$104.14	$599.77	$566	$33.77
2015	57	$164,859	15%	$119.56	$687.99	$594	$93.99
2016	66	$179,671	9%	$133.45	$749.80	$632	$117.80
2017	83	$201,168	12%	$148.37	$839.51	$669	$170.51
2018	103	$275,965	37%	$192.42	$1,151.65	$738	$413.65



LOOKING AHEAD

MARCH 2020

Marcus & Millichap

- UNCERTAIN TIMES
- ALL TIME LOW FINANCING RATES
- INFILL WORKFORCE HOUSING- INTENSE DEMAND
- Current Rent of $1,350 is supported by income
- MGMI needs to grow to support rent rate of growth
- Nontraditional approach to finding upside opportunities
    - Crime/Evictions/Missed Rent Opportunities (Unit Mix)

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