

# GREATER PHOENIX APARTMENT OWNER'S NEWSLETTER

KASTEN LONG COMMERCIAL GROUP

RE/MAX Commercial Investment

## 2nd Quarter 2008

### IN THIS ISSUE ...

- Apartment Sales  
(April – June 2008)
- Vacancy Rate up again to 10.2%
- The Apartment Market – yuk,  
unless you have cash!

**KLCommercialGroup.com**  
Formerly: PhxAptsForSale.com

Vacancy rates continued upward to 10.2%, the larger the complex – the higher the vacancy. The smaller properties (less than 50 units) are at 6% or less. Vacancy rates are clearly tied to the dismal single family housing market – that may get worse before it gets better. Failed condo conversions or “unable to be sold” vacant homes compete head-on for tenants with the larger communities with higher rents. There were only 21 apartment sales in the entire 2<sup>nd</sup> quarter. YTD thru the 2<sup>nd</sup> quarter, the number of sales compared to the same period, is 39.3% of 2007 and only 30.6% of 2006.

**Kasten Long Commercial Update:** The Group sold 24% of all apartment transactions in the 2<sup>nd</sup> Quarter in the 10 to 50 unit size range. For some transactions we’ve continued to set high water marks, for properties with weak financials, we’ve needed to be creative – but we always get the job done.

Of the nearly 200 apartments currently for sale, at least 30% have had price reductions. **Looking for an investment opportunity? Call us.**

## Vacancy Continues Increase to 10.2%

At the end of the 2<sup>nd</sup> quarter of 2008 the vacancy rate for all-size, existing (>6 mo.’s) multifamily units increased from 9.7% in the 1<sup>st</sup> quarter to 10.2%. Of the 327,701 total multifamily units, there were 33,525 reported as vacant.

# of Units	2008 1st Qtr.	2008 2nd Qtr.
2 - 24	3%	3%
25 - 50	8%	6%
51 - 75	8%	7%
76 - 99	7%	8%
100 - 150	8%	8%
151 - 200	9%	9%
200+	11%	11%
<b>Average</b>	<b>9.7%</b>	<b>10.2%</b>

The highest vacancy rates were reported in Gilbert (16%) and Maryvale (15%). The lowest vacancy rate was reported for south Scottsdale (7%). The trend continues that the larger complexes have the higher vacancy rates.

There were 2,167 apartment permits issued in the 2nd quarter. This was led by projects in Sun City (13300 N. 88<sup>th</sup> Av - 485 units), Deer Valley (33600 N 27<sup>th</sup> Dr. - 260 units) and Maryvale (8400 W Virginia Av – 274 units). Two significant projects were completed: 204 units in Union Hills (17950 N. 68<sup>th</sup> St) and 304 units in Deer Valley (33350 N 27<sup>th</sup> Dr).

## Multifamily Data - Greater Phoenix Area

Year	Permits	Absorp.	Vacancy
2000	8,009	6,225	7%
2001	7,201	1,525	8%
2002	5,351	4,273	9%
2003	4,836	3,702	9.6%
2004	4,997	9,230	7.9%
2005	3,250	4,756	5.0%
2006	3,922	(4,653)	5.3%
2007	6,675	(5,846)	8.5%
2008(1)	1,466	(2,962)	9.7%
2008(2)	2,167	(1,385)	10.2%

Districts with more than 500 units under construction include: Glendale, Gilbert, Western Suburbs, Union Hills and Deer Valley.

The multifamily rental rate index dropped 0.9% in the 2<sup>nd</sup> quarter after a similar drop in the 1<sup>st</sup> quarter.

Vacancy rates for each of the Valley’s 32 sub-districts (with map), plus a list of new construction projects are posted under “Apartment Market Data” on [www.KLCommercialGroup.com](http://www.KLCommercialGroup.com)

Data Source for Vacancy and Demographics:

- Phoenix Metropolitan Housing Study, AZ R.E. Center  
Arizona State University’s Polytechnic Campus

# Greater Phoenix Apartment Sales

## 2nd Qtr - 2008

ADDRESS CITY "NAME"	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
3010 W Yorkshire Dr Phoenix, 'Deer Valley Vlg'	832 430,361	\$85,200,000 \$197.97	4/4/2008 1996	\$8,442,725 \$102,404	9.7 5.0	360 1/1, 96 2/1, 260 2/2, 116 3/2 About \$2M planned in capital improvements
8250 E Via Paseo Del Norte Scotts, 'McCormick PL N&S'	230 183,238	\$21,850,000 \$119.24	5/21/2008 1975	\$95,000		43 st, 102 1/1, 85 2/2 60-65% occupied
6131 W Thomas Rd Phoenix, 'Brookside'	203 137,400	\$10,300,000 \$74.96	6/23/2008 1984	\$1,461,432 \$50,739	5.9	109 1/1, 30 2/1, 64 2/2
2828 W Camelback Rd Phoenix, 'Serrano Village'	124 93,388	\$6,750,000 \$72.28	5/16/2008 1973	\$958,800 \$54,435	7.0 6.2	40 st, 24 1/1, 12 2/1.5, 24 2/2, 24 3/2
17802 N 19 <sup>th</sup> Ave Phoenix, 'Morningside Villa'	50 47,190	\$3,500,000 \$74.18	4/3/2008 1983	\$70,011		38 2/1, 12 3/2
6324 N Black Canyon Hwy Phoenix, 'Canyon Greens'	44 29,606	\$1,912,500 \$64.60	4/24/2008 1972	\$292,752 \$43,466	6.5 7.5	2 st, 38 1/1, 4 2/2
1515 W Missouri Ave Phoenix, 'Acacia Gardens'	44 31,900	\$1,550,000 \$48.59	6/3/2008 1973	\$356,400 \$35,227	4.3	33 1/1, 11 2/2 60% occupied, master meter
740-756 E Portland St Phoenix, 'Portland Manor'	32 18,800	\$1,535,000 \$81.65	5/19/2008 1964	\$211,200 \$47,696	7.3	28 1/1, 4 2/1
1621 W Denton Ln Phoenix, 'Sun Ray'	28 23,950	\$1,575,000 \$65.76	5/1/2008 1985	\$186,960 \$56,250	9.4 6.2	10 1/1, 8 2/1, 10 2/2
1623 W Denton Ln Phoenix, 'Keswick'	28 24,100	\$1,540,000 \$63.90	5/9/2008 1979	\$218,100 \$55,000	7.1	4 1/1, 24 2/1 <b>Kasten Long Commercial Group Sale</b>
3212 N 70 <sup>th</sup> St Scotts, 'Scotts. Townhouse'	27 26,200	\$2,700,000 \$103.05	6/27/2008 1973	\$292,440 \$100,000	9.8 7.2	1 1/1, 25 2/1.5, 1 3/1
7325 E Belleview St Scotts, 'Fountain Villas'	20 16,900	\$3,100,000 \$183.43	6/16/2008 1969	\$237,240 \$155,000	13.1	2 st, 16 2/1.5, 2 3/3 Failed condo conversion
1641 W Yucca St Phoenix	20 15,800	\$900,000 \$56.96	4/24/2008 1982	\$139,200 \$45,000	6.5	20 2/2 Short sale
3225-3241 W Jefferson St Phoenix	20 11,470	\$850,000 \$74.11	6/25/2008 1954	\$156,000 \$42,500	5.4	20 2/1
6501 N 3 <sup>rd</sup> Ave Phoenix, 'J-Hess'	16 13,212	\$1,325,000 \$100.29	4/14/2008 1977	\$115,200 \$82,813	11.5	16 2/1 85% occupied
2980 W Foothill Dr Phoenix, 'Foothills Villas'	16 10,756	\$879,000 \$81.72	6/12/2008 1951	\$108,000 \$56,938	8.1	9 1/1, 7 2/1 <b>Kasten Long Commercial Group Sale</b>
7732 N 27 <sup>th</sup> Ave Phoenix, 'Northview Manor'	15 12,544	\$995,000 \$79.32	6/30/2008 1974	\$122,100 \$66,333	8.4 7.4	1 st, 12 2/1, 1 2/2, 1 3/1
5026 N 17 <sup>th</sup> Ave Phoenix, 'Christown Manor'	14 8,800	\$747,500 \$84.94	5/8/2008 1982	\$103,800 \$53,393	7.2	8 1/1, 6 2/1 Condo mapped Seller financed down
1810 N 16 <sup>th</sup> St Phoenix	11 7,060	\$490,000 \$69.41	6/13/2008 1950	\$44,545		8 1/1, 3 2/1
1517 W Indian School Rd Phoenix	10 6,326	\$278,000 \$43.95	5/30/2008 1958	\$27,800		9 1/1, 1 2/1 REO sale of shell only
44 N May St Mesa, 'May Street'	10 6,016	\$385,000 \$64.00	5/15/2008 1980	\$60,000 \$38,500	6.4 9.2	10 1/1 <b>Kasten Long Commercial Group Sale</b>

**CAP** Cap Rate (NOI / Sales Price)  
**GSI** Gross Scheduled Annual Income (Assumes 0% vacancy)  
**GRM** Gross Rent Multiplier (Sales Price / GSI)  
**NOI** Net Operating Income (Total income less vacancy and expenses)

Table compiled by: **Kasten Long Commercial Group**  
 RE/MAX Commercial Investment  
 Data source: COSTAR, MLS, Pierce-Eislen and  
 personal knowledge. All information is believed to be  
 accurate but is not guaranteed.

## If Cash Flow is Causing a Real Problem – Here are Some Options

We've talked to a number of owners that have high vacancy issues and strong negative cash flow. When owner funds are scarce, properties often go into a downward spiral. Here are a few options:

1. Ask us for help. Sometimes we can simply review your income and expense reports and offer helpful suggestions.
2. List with us. We know our market. We sold 24% of all apartment transactions in the 2<sup>nd</sup> Quarter in the 10 to 50 unit size range. Since 2003, we have been ranked in the TOP FOUR Commercial teams for RE/MAX in the U.S.
3. We work with several local owner/managers that are excellent at repositioning apartments. On some properties, these owner/managers have taken over all aspects of the property, including the responsibility for paying the underlying mortgage payments and supporting not only the negative cash flow but adding monies to upgrade the property. In return, they ask for a portion of the future sale price after the property has been repositioned and rent stabilized.

## Are You Taking Advantage of the Market? – It Just Makes Good Sense

The apartment market is ugly – but for an investor with cash, it represents a basket full of opportunities. We track every apartment property “for sale”. Many are still priced too high, but we do see a few that offer a significant investment opportunity. Buy smart and enjoy solid cash flow while you wait for the rebound in the market – it's not rocket science!

### An option for investing – Partner with a local group

Over the ten years we've been doing apartment brokerage, we've worked with a few local groups that have a strong track record in repositioning, managing and subsequently selling apartments for appreciable profits. These groups are seeking additional investors and cash to purchase more properties while this opportunity lasts. These groups will put in their own cash as well - so they have a vested interest in the property. Enclosed is a brochure on The Beatty Group, individuals we have worked with for the past eight years. Call them and see if there might be a fit.

## The Apartment Market

(continued from page 4)

The number of resale SFH sales increased slightly in the 2<sup>nd</sup> quarter, but of the 8,747 sales, 40.8% were foreclosures. In July, Valley foreclosures climbed to 3,470, up from 3,275 in June. Projections as to when the housing market will stabilize range from 6 to 18 months.

Much of our investment market has always been driven by California investors. Southern California is in a similar situation with their housing market and it's likely having a similar negative impact on apartments. SFH sales are increasing but the median resale price is down 31% from a year ago and 43.6% of all SFH sales in 2008 were lender owned.

Our Group always reminds me to talk about the positives as well as the negatives, so many times you have seen me comment on our “sunbelt” location with its projection for a huge population increase. I've also noted the business-friendly environment and a strong, affordable employee base. Everyone, I think, knows that the projection for a strong economy, decreasing vacancy rates and escalating apartment values is a given, it's just a matter of time. Something caught my attention on the radio last week and it got me excited. I don't have great stats to back this up yet – but here's something to watch. At some point, the effect of driving many workers out of the State will create such a depleted work force that the State may be forced to pass a law allowing undocumented workers a method to obtain a “work visa” (or some such). **This could easily create a flood of apartment-seeking persons back into the State.** Even the suggestion of this scenario would likely drive up apartment values. If it becomes a reality, for our apartment market, this would be like penicillin on steroids.

Jim Kasten, CCIM

## The Apartment Market

Transactions are down, cap rates are increasing and vacancy rates continue to rise. Lenders are tightening qualifying criteria, apartment foreclosures are appearing and buyers are scavenging for properties with real cash flow and/or strong “value added” potential. In the 2<sup>nd</sup> qtr, there were only 21 apartment sales, down from 34 in the 1<sup>st</sup> qtr. The 1<sup>st</sup> and 2<sup>nd</sup> qtr combined sales were 53. This was 39.3% of the same period in 2007 and 30.6% of 2006 (see chart).

Size	Apartment Sales (10+ units)		
	1 <sup>st</sup> half 2006	1 <sup>st</sup> half 2007	1 <sup>st</sup> half 2008
10 – 20	23	22	17
21 – 50	40	21	17
51 – 100	21	13	6
100+	<u>89</u>	<u>79</u>	<u>13</u>
	<b>173</b>	<b>135</b>	<b>53</b>

Physical vacancy was reported at 10.2%, with the brunt being taken by the larger communities (see 1<sup>st</sup> page). It’s no wonder that the bulk of the apartment sales are in the smaller communities where vacancies range from 3% to 6%. The overall increasing vacancy rate for the larger complexes is the result of multiple issues:

1. Employer Sanctions Law – inability to hire undocumented workers;
2. Round-up and deportation of illegal persons (largely a result of Sherriff Arpaio’s activities);
3. Failed condo conversions reverting back into the apartment inventory – with many units being condo quality at affordable rents; and
4. Tenants either renting “unable to be sold” vacant homes at reduced rental rates or buying homes at discounted prices.

The last two issues are the most significant, especially for the larger, typically higher rent, properties and this relates directly to the problems of the local housing market. The median sales price for resale single family homes (SFH) has dropped from \$265,000 at mid-year 2006 to \$200,000 mid-year 2008 (24.5%). Current values are similar to early 2005.

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### KASTEN LONG COMMERCIAL GROUP

#### APARTMENTS “FOR SALE”

44 units, 830 N Alma School Rd, Mesa List: \$3.6M  
 44 units, 1626 W Desert Cove, Phx List: \$2.599M  
 36 units, 5510 N 35th Ave, Phx List: \$2.65M  
 24 units, 3105-3127 E Fairmount Ave, Phx List: \$1.4M  
 24 units, 825 N 2nd Ave, Phx List: \$1.249M  
 21 units, 5502 W Palmyra Ave, Glnl List: \$949K  
 18 units, 4207-4213 N 9th St, Phx List: \$875K  
 16 units, 1331 N 50th St, Phx List: \$799L  
 16 units, 1814 W Vogel, Phx List: \$849K  
 15 units, 3406 N 38th St, Phx List: \$1.035M  
 15 units, 1810 N 51st St, Phx List: \$995K  
 14 units, 4822 E Holly St, Phx List: \$850K  
 13 units, 498 N Arizona Ave, Chandler List: \$458K  
 12 units, 181 & 185 W Morelos, Chandler List: \$675K  
 11 units, 2425 W Turney Av, Phx List: \$599K  
 10 units, 1634 W Shangri La Rd, Phx List: \$599K  
 9 units, 2414-2416 W Coolidge, Phx List: \$450K  
 8 units, 32741 W Colter St., Phx List: \$649K  
 8 units, 1017-1031 E Fairmount Ave, Phx List: \$599K  
 8 units, 2749 & 2751 E Broadway, Phx List: \$259.8K  
 7 units, 7115 N 83rd Ave, Glnl List: \$1.1M  
 6 units, 7561 N 27<sup>th</sup> Ave, Phoenix List: \$425K  
 5 units, 4132 N 45th Pl, Phx List: \$450K

#### OTHER PROPERTIES “FOR SALE”

**Commercial Bldg**  
 7162 N 57<sup>th</sup> Ave, Glnl List: \$595,000  
 4010 N 19<sup>th</sup> Ave, Phx List: \$499,000  
 7142 N 57<sup>th</sup> Dr, Glnl List: \$229,000

**Land**  
 7115 N 83rd Ave, Glnl List: \$1.1M  
 7101 N 80<sup>th</sup> Ave, Glnl List: \$253,270  
 7154 N 57<sup>th</sup> Dr, Glnl List: \$199,000  
 1537 W Denton Ln, Phx List: \$199,000  
 71XX N 80<sup>th</sup> Ave, Glnl List: \$63,299

**Single Family Residence**  
 4419 E Chaparosa Wy, C. Crk List: \$284,900  
 5620 N Rattler Wy, Litch Pk List: \$249,000  
 3719 W Woodridge Dr, Phx List: \$249,000  
 1537 W Denton Ln, Phx List: \$199,000  
 8839 W Sells Dr, Phx List: \$134,900

#### 2<sup>nd</sup> Quarter 2008 CLOSINGS

16 units, 2980 W Foothills Dr, Phx \$879K  
 16 units, 1804 W Tuckey, Phx \$790K  
 10 units, 44 N May, Chandler \$385K  
 3 units, 4419 N 27<sup>th</sup> St, closeout Phx \$470K

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