

GREATER PHOENIX APARTMENT OWNER'S NEWSLETTER

KASTEN LONG COMMERCIAL GROUP

RE/MAX Commercial Investment

1st Quarter 2009

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(January – March 2009)
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KLCommercialGroup.com
Formerly: PhxAptsForSale.com

To say that this is a tough market is an understatement. With the Valley-wide vacancy rate up to 12.6%, rental rates are dropping, concessions and move-in specials are increasing and overall cash flow – well you know the story. The culprit, besides the economy, is the continued supply of investor-purchased REO houses competing for tenants.

Lender-controlled apartment sales dominate the market. Just like the residential market, until the short sales and REO sales stop, investors will continue to look for these opportunities instead of valuing purchases on cash flow. The staggering low prices, however, offer investors a huge opportunity!

Kasten Long Commercial Update: The Group has been helping apartment owners with their cash flow, negotiating the restructure of their existing loans, and when appropriate, marketing their properties via “short sale”. Providing the best service possible to apartment owners is what we do. We’re also finding great “deals”. Note below - the low vacancy rate on the 2-50 unit apartments. Let us know how we can help.

Vacancy Jumps to 12.6%

At the end of the 1st quarter of 2009 the vacancy rate for all-size, existing (>6 mo.'s) multifamily units jumped from 10.8% in the 4th quarter to 12.6%. This is the highest vacancy rate since 1991. Of the 331,388 total multifamily units, there were 41,750 reported as vacant. The total inventory gained 1,881 units.

| # of Units | 2008 4th Qtr. | 2009 1st Qtr. |
|----------------|---------------|---------------|
| 2 - 24 | 4% | 4% |
| 25 - 50 | 5% | 6% |
| 51 - 75 | 8% | 9% |
| 76 - 99 | 9% | 10% |
| 100 - 150 | 11% | 11% |
| 151 - 200 | 11% | 14% |
| 200+ | 11% | 13% |
| Average | 10.8% | 12.6% |

The larger complexes (151+ units) are taking the brunt of the increased vacancy. Across the Valley, a 21% vacancy rate was reported for NW Phoenix and Maryvale and 18% was reported for Peoria and Central West Phoenix.

There were only 349 apartment permits issued in the 1st quarter led by JBL's 225 units at 1949 E University in Tempe. There were five projects totaling 1,578 units completed in the 1st quarter, located in Glendale, North Tempe, Deer Valley and two in the Western Suburbs.

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 | 6,365 | (4,466) | 10.8% |
| 2009(1) | 349 | (4,419) | 12.6% |

Based on the multifamily rent index, rental rates decreased 0.8 percent in the 1st quarter, with a cumulative decrease of 5.7% over the past year.

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

Data Source for Vacancy and Demographics:

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

| ADDRESS CITY "NAME" | UNITS SIZE (SF) | SOLD PRICE PRICE / SF | SALE DATE YEAR BLT. | GSI PRICE / UNIT | GRM CAP | COMMENTS |
|--|--------------------|--------------------------|------------------------|-------------------------|------------|---|
| 10255 E Via Linda Scottsdale, 'La Privada at Scottsdale Ranch' | 350 417,843 | \$32,000,000 \$76.58 | 3/2/2009 1985 | \$4,606,572 \$91,729 | 6.9 7.3 | 72 1/1, 243 2/2, 35 3/2 Failed condo conversion, condo mapped Sold on Oct. 2006 for \$94,900,000. \$20,200,000 loan from Freddie Mac (63% LTV) |
| 6745 E Superstition Springs Mesa, 'San Montego' | 240 239,040 | \$20,000,000 \$83.67 | 1/13/2009 1996 | \$2,313,000 \$83,333 | 8.6 7.0 | 80 1/1, 120 2/2, 40 3/2 Portfolio Sale (1 of 7 properties) |
| 650 S Country Club Dr Mesa, 'Mesa Ridge' | 151 129,552 | \$8,500,000 \$65.61 | 3/12/2009 1974 | \$1,135,560 \$56,291 | 7.5 | 32 1/1, 119 2/2 54% occupied, deferred maintenance |
| 3040 N 2 nd St Phoenix, 'Villa Riviera' | 38 28,182 | \$1,275,000 \$45.24 | 2/24/2009 1957 | \$33,553 | | 28 1/1, 10 2/1 40% occupied, Short Sale, ALL CASH |
| 333 W Medlock Dr Phoenix, 'Majestic Palms' | 20 13,525 | \$1,250,000 \$92.42 | 3/10/2009 1957 | \$180,000 \$62,500 | 6.9 7.5 | 19 1/1, 1 3/2 Deferred maintenance (est. \$30,000) \$800,000 loan from Bank 1440 (64% LTV) |
| 3105-3127 E Fairmount Ave Phoenix, 'Peppertree' | 24 19,200 | \$1,010,000 \$52.60 | 2/20/2009 1963 | \$169,532 \$42,083 | 6.0 8.7 | 2 1/1, 20 2/1, 2 3/1 Short Sale, KASTEN LONG GROUP SALE \$727,200 loan from Wash Fed (72% LTV) |
| 6017-6053 N 61 st Ave Glendale, 'Virginia Manor' | 26 14,490 | \$993,000 \$68.53 | 1/2/2009 1962 | \$166,560 \$38,192 | 6.0 8.1 | 24 1/1, 2 2/1 Seller financed with 5% Down |
| 2330 W Lone Cactus Dr Phoenix | 12 10,368 | \$387,500 \$37.37 | 3/12/2009 1983 | \$75,600 \$32,292 | 5.1 | 12 2/2 67% occupied (4 vacant) Seller financed with \$200,000 down |
| 2836 E Van Buren St Phoenix, 'Pueblo Inn' | 22 9,300 | \$297,000 \$31.94 | 1/16/2009 1959 | \$13,500 | | 12 st, 10 1/1 Lender owned sale, 100% vacant - ALL CASH Sold for \$1,100,000 in Oct. 2007 |

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, ARMLS, Pierce-Eislen and
 personal knowledge. All information is believed to be
 accurate but is not guaranteed.

The Apartment Market – Continued from page 4

CMBS loans and future impact

The future of commercial real estate may be in how CMBS (Commercial Mortgage Backed Securities) loans are handled. A CMBS loan started as a normal loan and then was pooled and sold thru Wall Street. The lender is now gone and the investors (100's to 1,000's) paid a range in monies for differing levels of security plus tax advantages. On behalf of the investors, a Special Agent now administers the loan, but is supposedly bound by the guidelines established by Wall Street. Special Agents claim that they do not have the ability to adjust loan terms/interest to adjust to the current market – with their only option being foreclosure. If this “hard line” can not be softened, either by the Feds, BK judges or internal adjustments allowing self-preservation, many commercial properties will be forced into foreclosure. Another major concern for many commercial loans is that many are due to be refinanced this year. Without lenders available for all disciplines (retail, office, industrial, etc.), if the commercial loans can not be modified, this will also promote more foreclosures.

Jim Kasten, CCIM

Cash Flow Problems ?? We Know Apartments and We Can Help

Over the past ten years, we have worked with many apartment owners and reviewed hundreds and hundreds of operations. We've brokered over 350 apartment complexes (\$250,000,000+). We have also owned, either directly or indirectly, many apartments and currently the Group holds interest in 15 complexes (295 units). Based on knowledge we have learned from working with these owners and managing our own properties, we have been able to assist apartment owners with suggestions to improve income and reduce expenses. We're happy to share what we know. Depending on your situation, we can:

1. **Review your income and expenses;**
2. **Negotiate the restructuring of your existing commercial or residential loan;**
3. **Offer your property for "Short Sale"; or**
4. **Provide "Asset Management"**

Kasten Long Current Activities (in addition to our normal brokerage)

REO Single family and 4-Plex Acquisition

We have developed models for the purchase REO single family homes and 4-plexes. The model includes either a buy and flip OR a buy – rent – then flip scenarios, pending on the acquisition price and neighborhood market. Acquisition is sensitive to location, price, condition and projected resale price.

REO Apartment Acquisition – Phoenix is "ON SALE"

As vacancies increase and lenders dump properties onto the market, values continue to drop. Cash is king, as there is virtually no financing for distressed properties. The program here is to buy, stabilize tenancy, and then refinance. Our 2nd quarter newsletter will highlight properties sold at \$15,000 to \$20,000 per unit.

ASSET MANAGEMENT (Owner and Lender Help)

For owners trying to protect their credit (eliminate a foreclosure) we have negotiated with lenders to facilitate short sales. To stabilize the property – allowing a buyer to obtain financing, we have taken over the property as asset managers. In other cases, we have taken over the property as asset manager, stabilized tenancy and property condition, and helped reorganize the loan so that the owner can keep the property, have sufficient cash flow to make the loan payments and prevent the bank from acquiring the property as an REO – thereby selling at a depressed value and writing off a huge loss.

Local Partnerships Being Created

As has been the case in the past, we are attracting many investors from out-of-state. With apartments, the concern is always, who will manage and how can the buyer be sure the property is managed properly. To solve this, and it's a no-brainer, simply team-up with a local company on the purchase. We'll make the introductions and let the buyer decide on the structure of the deal. With a quality local person (group) having an interest in the property – the management worry is solved.

Want e-mail updates? If you would like to receive our newsletter and or our weekly e-zine (local news that affects our apartment market) – just let us know.

e-Mail Jim Kasten (Jim@KLCommGroup.com)

The Apartment Market

The apartment market is being driven by lender-controlled apartment sales (REO or “short sales”), the lack of lenders and a strain on apartment occupancy due to the foreclosed residential homes being purchased by investors and turned into rentals. There were nine apartment sales (10+ units) in the 1st quarter of 2009. Four of these had significant vacancy issues and these sold with either “seller financing” or “all cash”. For well-run properties, financing is available. Washington Federal provided a 72% LTV loan for the 24-unit Peppertree Apartments for a local buyer. This was a “short sale” that we brokered. The property had originally been financed with two loans on each of the six 4-plexes using four lenders and a total of 12 loans.

Apartment REO or “short sales” dominate the market

We track all apartments “for sale” and update our list weekly. As of May 5, there were 134 apartment complexes (10+ units) on the market. Of these, half have been on the market in excess of six months and 59 (44%) have had price reductions. Within the greater Phoenix area, there are 25 apartment complexes in foreclosure, and likely many many more with non-performing loans. Many apartments have loan balances in excess of the current value. With vacancies increasing and cash flow being more of a problem every month – owner’s motivation is increasing and prices are dropping. Lenders know that completing a foreclosure and selling the asset as an REO in this market is not the best solution. We continue to work with many lenders on behalf of owners to work-out a loan modification. It’s the best solution for everyone.

Single family REO’s compete for tenants

The on-going supply of investor-purchased REO houses continues to compete for tenants and is the primary reason for the high vacancy rates across the entire Valley. Values of residential homes appears to be bottoming-out and the number of homes listed on the MLS has now dropped from \pm 55,000 last fall to 39,000. Of the 26,267 homes sold this year (January – April), 67% were lender owned (17,244) and 9% are short sales (2,400). The decrease in MLS home inventory is a good sign, but we expect a slug of new REO homes to hit the market now that the Fannie-Freddie moratorium on foreclosures has expired. About half the home mortgages were backed by Fannie Freddie. Once the REO home inventory is depleted, the competition for tenants will subside and apartment occupancy rates should increase.

Continued on page 2

KASTEN LONG COMMERCIAL GROUP Activity

APARTMENTS “FOR SALE”

44 units, 830 N Alma School Rd, Mesa List: \$3.6M
44 units, 1626 W Desert Cove, Phx, List: \$1.595M
12 units, 605 W Pierson, Phx List: \$445K
12 units, 181 & 185 W Morelos, Chandler List: \$560K
9 units, 2414-2416 W Coolidge, Phx List: \$375K
4 units, 6601 W Ocotillo, Glendale List: \$150K

OTHER PROPERTIES “FOR SALE”

Commercial Bldg

616 E Southern Ave, Mesa List: \$800K
4010 N 19th Ave, Phx List: \$499K/ obo

Land

123 E 1st Ave, Mesa List: \$175,000

Single Family Residence/ with Tenant

3719 W Woodridge Dr, Phx List: \$139,900

COMMERCIAL PROPERTIES

“FOR LEASE”

616 E Southern Ave # 103, Mesa Annual \$39,860

RECENT GROUP SALES

24 units, 3105-3827 E Fairmount, Phx SOLD: \$1.01M
24 units, 825 N 2nd Ave, Phx SOLD: \$970K
4 units, 6609 W Ocotillo, Glendale SOLD: \$120K
1 SFR, 6601 E Kings, Phx SOLD: \$252K

For details on all our listings:
www.KLCommercialGroup.com

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