



# GREATER PHOENIX

## APARTMENT OWNER'S NEWSLETTER

4th QTR 2009

Vacancy rates remain high with little sign of immediate relief. The only bright spot is the continued lack of new apartment permitting. There were only 637 units permitted in 2009, 10% of 2008. The volume of apartment transactions is strong – as investors take advantage of the depressed prices. Rental rates and sale prices are pressured by the continued flood of REO and short sale apartment opportunities. In addition, investor purchased, lender-controlled, inexpensive homes are still providing an on-going supply of rentals (the “Shadow Market”) that compete for apartment tenants.

**KASTEN LONG COMMERCIAL GROUP:** We are pleased to announce that Linda Fritz-Salazar has joined our group. Since 1993, Linda has been the broker for her own company, Marlin Commercial. She specialized in apartment brokerage with gross sales in excess of \$150 million (see page 3).

### Vacancy Rates Climb – 14.2%

At the end of 2009 the vacancy rate for all-size, existing (>6 mo.'s) multifamily units increased from 13.4% in the 3rd quarter to **14.2%**. Of the 336,338 total multifamily units, there were 47,600 reported as vacant. The total inventory gained 1,147 units.

# of Units	2009 3rd Qtr.	2009 4th Qtr.
2 - 24	13%	18%
25 - 50	16%	17%
51 - 75	13%	13%
76 - 99	11%	12%
100 - 150	12%	14%
151 - 200	14%	15%
200+	<u>13%</u>	<u>14%</u>
<b>Average</b>	<b>13.4%</b>	<b>14.2%</b>

All size complexes continue to have high vacancy issues. NW Phoenix and Maryvale reported the highest vacancy rates for the 4<sup>th</sup> quarter, 25% and 22% respectively. North Scottsdale, North PV, Mountain Park, and Gilbert were the only Districts that reported single digit vacancies.

Tofel's 28 units at 6839 N 63<sup>rd</sup> Ave. in Glendale was the only project permitted. Five projects totaling 1,486 units were completed in the 4th quarter. Two are located in Phoenix at 4225 E McDowell Rd. (357) and 8400 W Virginia Av. (274), two in Tempe at 1811 E Apache Bl. (408) and 922 E Apache Bl. (132) and one in Gilbert at 2910 S. Greenfield Rd. (315).

### WE KNOW APARTMENTS

#### Kasten Long Commercial Group

- Agents have closed more than \$700 Million in apartment sales.
- Working with owners and lenders to restructure loans (**FREE SERVICE**).

**CALL US – Short Sales, Market Valuations, Negotiating with Lenders, Buying Opportunities.**

### 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	637	(5,319)	14.2%

There are 2,919 units currently under construction - mostly in Deer Valley, North Tempe and the Western Suburbs submarkets. Based on the reported multifamily rent index by ASU, rental rates decreased 4.7% for the year. For older complexes, both small and large, we have often seen rental rates decrease 20% or more across the Valley.

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  
 - ARMLS

# Greater Phoenix Apartment Sales

4<sup>th</sup> Qtr - 2009

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
14435 S 48 <sup>th</sup> St Phoenix, 'San Melia'	488 493,192	\$47,824,000 \$96.97	10/30/2009 1998	\$98,000	6.8	172 1/1, 76 2/1, 168 2/2, 72 3/2 Future condo conversion planned
8902 N 19 <sup>th</sup> Ave Phoenix, 'Hunters Ridge'	428 288,656	\$18,500,000 \$64.09	12/31/2009 1987	\$3,228,480 \$43,224	5.7 7.0	272 1/1, 156 2/2 REO sale
2222 W Beardsley Rd Phoenix, 'Crossroads'	316 202,606	\$9,850,000 \$48.62	11/5/2009 1982	\$2,219,112 \$31,171	4.4 9.0	210 1/1, 48 2/1, 56 2/2, 2 3/1
15440 N 71 <sup>st</sup> St Scottsdale, 'Paragon @ Kier'	276 289,098	\$34,200,000 \$118.30	11/9/2009 2001	\$123,913		94 1/1, 146 2/2, 36 3/2
11105 N 115 <sup>th</sup> St Scottsdale, 'Casa Santa Fe'	264 220,757	\$16,000,000 \$72.48	12/23/2009 1988	\$60,606		136 1/1, 100 2/2, 28 3/2 Short sale
655 S Mesa Dr Mesa, 'La Mesa Village'	256 170,902	\$5,000,000 \$29.26	11/3/2009 1986	\$1,867,440 \$19,531		160 1/1, 54 2/1, 42 2/2 50% occupied, \$200-500k deferred, REO sale
900 N Rural Rd Chandler, 'San Brisas'	208 218,218	\$19,000,000 \$87.07	11/9/2009 1997	\$91,346		72 1/1, 104 2/2, 32 3/2 Future condo conversion planned
1333 N Dysart Rd Avondale, 'Newport'	204 148,512	\$8,200,000 \$55.21	12/29/2009 1986	\$40,196	8.5	8 st, 72 1/1, 124 2/2 Cash purchase
2930 W Camelback Rd Phoenix, 'Camelback Vista'	201 116,640	\$2,200,000 \$18.86	12/2/2009 1978	\$1,101,108 \$10,945	2.0	92 st, 106 1/1, 3 2/1 25% occupied, REO sale
8300 E McDowell Rd Scottsdale, 'McDowell Vlg'	197 212,709	\$24,000,000 \$112.83	10/21/2009 2005	\$121,827		197 2/1 master metered, Senior Distressed
4255 E Pecos Rd Gilbert, 'Painted Trails'	196 187,582	\$15,680,000 \$83.59	11/25/2009 2008	\$80,000		72 1/1, 60 2/1, 56 2/2, 8 3/2
2322 W Thomas Rd Phoenix, 'Encanto Park'	159 70,440	\$3,850,000 \$54.66	12/1/2009 1979	\$1,090,280 \$24,214	3.5	52 st, 106 1/1, 1 2/1 65% occupied
2211 W Campbell Av Phoenix, 'Lincoln Village'	115 81,285	\$2,150,000 \$26.45	10/30/2009 1980	\$18,696		55 1/1, 20 2/1, 40 2/2 with \$1.5M down Previous sale 10/15/09 for \$1.84M
3211 E Pinchot Av Phoenix, 'Pinchot Towers'	104 58,693	\$1,177,000 \$20.05	12/15/2009 1972	\$11,317		104 1/1 34% occupied, Trustees Sale, Cash purchase
708 N Country Club Dr Mesa, 'Brittany Place'	92 46,957	\$1,350,000 \$28.75	12/30/2009 1972	\$14,674		31 st, 60 1/1, 1 2/1 master metered Distressed
6805 N 27 <sup>th</sup> Av Phoenix, 'Casa Del Sol'	71 45,730	\$990,000 \$21.65	12/15/2009 1985	\$20,294		71 2/1 30% occupied, Trustees Sale, Cash purchase
4526 N Black Canyon Hwy Phoenix, 'Chelsey Park'	58 26,750	\$599,000 \$22.39	10/24/2009 1964	\$10,328		41 st, 4 1/1, 13 2/1 fka Burton Place Previous Trustee Sale 10/23/09 for \$476,000
5314 W Belleview St Phoenix	52 43,747	\$1,300,000 \$27.81	11/6/2009 1983	\$25,000		22 2/1, 25 2/1.5, 5 3/1.5 condo mapped 50% occupied, Short sale, Cash purchase
1626 W Desert Cove Av Phoenix, 'Garden Cove'	44 36,404	\$1,500,000 \$41.20	10/15/2009 1976	\$302,400 \$34,091	5.0 7.6	1 1/1, 13 2/1 80% occupied KLCG SALE
4435-4436 N 8 <sup>th</sup> Av Phoenix, 'Royal 8 <sup>th</sup> Ave'	36 27,032	\$975,000 \$36.07	11/24/2009 1963	\$236,400 \$27,083	4.1 7.5	10 1/1, 18 2/2, 2 3/2 66% occupied
6807 N 45 <sup>th</sup> Av Glendale, 'Franciscan'	28 25,200	\$925,000 \$36.71	12/23/2009 1965	\$33,036		
3600 N 5 <sup>th</sup> Av Phoenix, 'Pierre'	25 35,3690	\$1,182,500 \$33.13	12/15/2009 1961	\$47,300		4 1/1, 17 2/1, 4 3/2
1827 E Lemon St Tempe, 'Vallejo'	24 12,460	\$615,000 \$49.36	10/29/2009 1961	\$137,700 \$25,625	4.5	23 1/1, 1 2/1 50% occupied, deferred maintenance
806 E Carol Av Phoenix, 'Sunny Haven'	22 14,400	\$450,000 \$31.25	10/23/2009 1982	\$20,455		10 1/1, 12 2/1 50% vacancy, Short sale
5510 W Palmyra Av Glendale, 'Glendale Vlg'	21 13,170	\$240,000 \$18.22	10/22/2009 1952	\$11,429		10 1/1, 10 2/1, 1 3/1 REO Sale 20% occupied, \$120k deferred KLCG SALE

**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**  
 Data source: COSTAR, ARMLS, and personal knowledge.  
 All information is believed to be accurate but is not guaranteed.

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
45 N Lyn Rae Dr Mesa, 'Arizona Springs'	17 11,088	\$345,000 \$17.00	12/21/2009 1981	\$20,294		9 1/1, 8 2/1 47% occupied, Short sale KLCG SALE
5110 N 21st Av Phx, 'Camelback Gardens'	16 13,150	\$375,000 \$28.52	12/18/2009 1965	\$23,438		1 1/1, 15 2/1

**PARTIAL CONDO SALES**

6803 E Main St Scottsdale, 'The Mark'	82 123,407	\$17,300,000	10/29/2009 2008			82 of 95 condo project plus 3 acres land
5345 E Van Buren St Phoenix, 'Riverwalk'	79 71,398	\$4,875,000 \$68.28	11/24/2009 2000	\$870,756 \$61,709	5.6 5.8	53 1/1, 26 2/2 79 of 240 condo complex
5959 N 78 <sup>th</sup> St Scottsdale, 'Bella Vita Ph II'	74 68,359	\$6,850,000 \$100.21	10/28/2009 1981	\$92,568		66 2/2, 8 3/2 74 of 300 Cash purchase Distressed condo fka Scottsdale Crossing
2333 W Glenrosa Av Phoenix, 'Casa Del Cielo'	18 15,696	\$850,000 \$54.15	12/4/2009 1974	\$47,222		16 2/1, 2 3/1 18 of 26 condos KLCG SALE

## Introducing our newest Group member...Welcome aboard, Ma'am!

### Linda Fritz-Salazar

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Linda has over 22 years experience in commercial real estate in metro Phoenix. During that time she has successfully brokered thousands of apartment units with gross sales in excess of \$150 million. In addition, she has assisted developers in the acquisition of numerous land parcels for new apartments. Linda has hands-on knowledge of the apartment industry, having owned and her own properties. Before joining the Group she was the broker / owner of Marlin Commercial Realty. Lastly, Linda was a commercial lender with two financial institutions prior to owning her own brokerage, & has a Bachelor's degree from Indiana University.

"I have followed the Kasten Long Group since 2001, when we co-brokered a transaction. I have always been impressed with their focus and attention being first on their clients. They have always been on the cutting edge of the market. With the challenges and opportunities being found in our current market, they are, again, leading the way. When the opportunity arose to join this group, I did not hesitate." - Linda



### Announcing: Management Services now available.

At the request of numerous apartment owners, we are teaming-up with a local, family-run management group. Several of our associates have used this management team in the past and have been very pleased. For more information, please contact Jim Kasten (602.445.4113, Jim@KLCommGroup.com).

### WANT TO BE KEPT UP TO DATE ON THE PHOENIX APARTMENT MARKET?

Call or e-mail Jim Kasten 602.677.0655 / Jim@KLCommGroup.com

Or sign up for weekly UPDATES at SEND ME UPDATES link at  
www.KLCommercialGroup.com

## The Apartment Market

Apartment sales were strong in the 4<sup>th</sup> quarter with 25 transactions (20+ units). REO and short sales dominated – with values about the same as the previous two quarters. Values were higher when existing lenders were able to offer financing or a loan assumption. Short sales also resulted in higher prices than REO or Trustee Sales.

**Economic vacancy – ouch!** Physical vacancy rates increased again, now reported at 14.2%. Rent concessions and move-in specials remain common and rent collections are an increasing problem. With more and more short sales and REO transactions being purchased at low prices, either with “all cash” or with favorable lender terms, new owners are dropping rents to fill-up their properties. This puts pressure on surrounding complexes with overall result being an increase in “economic vacancy” and a further reduction in cash flow.

**Troubled waters ahead.** In addition to the reduced population growth and the depressed economy causing a reduction in jobs, investors purchasing low-priced houses for rentals (the “shadow market”) continues to effect vacancy rates. In 2009, there were 80,010 single family homes and condos sold. Of these, 55,175 (70%) were REO or short sales. With about half of all loans on single family homes in Arizona being under water – the pipeline for more foreclosures will continue. A less publicized concern is that \$1.4 Trillion in commercial loans are coming due between 2010 and 2014 with half being below water (reported by the Congressional Oversight Committee). Combine this with the lack of lenders and the increasing number of CMBS bonds in default – and the immediate future is a concern.

**For owners with severe cash flow problems – there are options.** The first option is to restructure the underlying loan. With our relationship with more than 30 commercial lenders, we have been able to work with owners and their lenders and have been very successful at significantly reducing payments for a number of owners. **We still do this as a free service and we’re happy to give you insight as to our success – just give us a call.**

**Seek Legal and Tax Counsel.** We also always suggest that owners seek advice from an attorney and a CPA, especially in regard to deficiency judgment, tax on debt forgiveness, options if a receiver is to be appointed, etc. As real estate agents, we do not have the legal ability to provide this advice. To help owners facing tough times, **Margaret (Meg) L. Steiner**, an attorney with Lorona, Steiner, Ducar, Ltd., offered to provide us a summary of the legal aspects of concern. Meg has helped several of our clients. We have included her comments with this newsletter and we will also post her comments on our web site - under Apartments – Market Data – Newsletters. Meg’s contact information: tel: 602 277 3000 or meg@azlawyers.com.

## KASTEN LONG COMMERCIAL GROUP Activity

### PHOENIX APARTMENTS “FOR SALE”

90	15425 N 25 <sup>th</sup> Street	\$1.8M	ss
68	2726 W Augusta Ave	\$1.4M	ss
56	16621 N 25 <sup>th</sup> St	\$825K	
50	3710 E McDowell Rd	\$1M	ss
36	1126 E Maryland Ave	\$2.38M	
34	5725 N 8th Place	\$1.05M	ss
30	3025 N 36th St	\$849K	ss
28	2615 E Greenway Road	\$649K	
24	1123 E Sierra Vista Ave	\$1.298M	
23	2201 W Heatherbrae Dr	\$529K	ss
22	1142 E Bethany Home Rd	\$550K	ss
18	4207-4213 N 9th St	\$499K	
16	1703 W Mountain View	\$699K	
16	312 E Hatcher	\$625K	
16	1814 W Vogel	\$399K	ss
12	3140 E Monte Vista	\$250K	ss
4	2503 N 16th St	\$375K	ss

### OTHER PROPERTIES “FOR SALE”

<u>Commercial Bldg</u>			
	4010 N 19 <sup>th</sup> Ave	Phx	\$325K
<u>Community Center / Church</u>			
	401 E Mohave St	Phx	\$675K
<u>Commercial Land</u>			
	9.26A SWC 107th Ave & Olive	Peoria	\$4.3M
	1.49A SWC 107th Ave & Olive	Peoria	\$1.0075M
<u>Single Family Residence</u>			
	18170 W Desert View Ln - ss	Goodyear	\$190K
	8803 W Monroe St	Peoria	\$122.5K
“ss” - short sale			

**For details on all our listings:**  
[www.KLCommercialGroup.com](http://www.KLCommercialGroup.com)

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