

GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

3rd QTR 2010

Vacancy rates dropped for the third straight quarter having now decreased from 14.2% to 10.8% since the end of last year. The smaller and older complexes are still reporting higher vacancy rates. In the 3rd qtr., new apartment permits (81u) and apartments currently under construction (144u) are very low. Apartment sales remained strong, however, with the YTD totaling 150 transactions, far more than the entire year totals for 2008 (75) and 2009 (57).

Owners are still trying to resolve tough cash flow situations due to decreased rental rates and occupancy. Meg Steiner, attorney, has included an insert for this newsletter issue, outlining options that exist for owners of troubled apartments.

KASTEN LONG COMMERCIAL GROUP: Sales activity has remained strong with the Group having closed 48 apartment sales (650 units) through the 3rd qtr. ranging in size from 4 to 97 units. We also continue to work with owners to facilitate restructured loans. We do this for free – let us know if we can help.

KASTEN LONG COMMERCIAL GROUP

- **The Largest, Independent, Local Commercial Apartment Brokerage**
- Specializing in apartment brokerage since 1998. \$750 Million in apartment sales by our agents.
- Work with owners and lenders to restructure loans (**FREE SERVICE**).

SERVICES: Property Valuations, Short Sales, Lender Negotiations, Buying Opportunities & Management.

Vacancy Rates Continue Decline – 10.8%

Vacancy rates for the 3rd Qtr of 2010 for all-size, existing (>6 mo.'s) multifamily units decreased from 11.9% in the 2nd quarter to **10.8%**. Of the 343,257 total multifamily units, there were 37,200 reported as vacant with 7,098 absorbed. The total inventory gained 3,748 units.

# of Units	2010 2nd Qtr.	2010 3rd Qtr.
2 - 24	11%	15%
25 - 50	15%	17%
51 - 75	13%	13%
76 - 99	14%	11%
100 - 150	12%	12%
151 - 200	11%	11%
200+	11%	11%
Average	11.9%	10.8%

The highest vacancy rates (20% to 25%) for the 3rd quarter were reported for NW Phoenix, CW Phoenix, and Uptown. Mountain Park, Chandler and Sky Harbor reported the lowest vacancy rates (4% to 5%),

Of the total 81 new permits issued in the 3rd quarter, Pearlman Architects accounted for 65u at 4570 N Central Av. Three projects were completed: NRP Group – 80u at 3330 E Van Buren and 68u at 2140 E Broadway Rd., and Spanos Group – 200u at 1247 S 96th St.

Multifamily Data - Greater Phoenix Area

Year	Permits	Absorp.	Vacancy
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%
2010 (1)	180	7,938	12.3%
2010 (2)	75	2,283	11.9%
2010 (3)	81	7,098	10.8%

There are only 144 units currently under construction - mostly in North Tempe and Uptown Phoenix. Rental rates increased 2.2% from the 2nd qtr. For older complexes, both small and large, our in-house survey indicates rental rates decreasing and vacancy rates often 20% or more.

Vacancy rates for each of the Valley's 32 districts, plus a list of new construction projects, are posted under "Apartments - 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

Greater Phoenix Apartment Sales

3rd Qtr - 2010

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
1944 W Thunderbird Rd Phoenix, 'Autumn Ridge'	672 530,208	\$27,000,000 \$50.92	9/24/2010 1979	\$40,179		368 1/1, 128 2/1, 136 2/2, 24 3/1, 16 3/2 REO, renovated & upgraded 2006-7
19920-19940 N 23 rd Av Phoenix, 'The Canyons'	629 460,525	\$45,500,000 \$98.80	7/8/2010 2004	\$3,870,876 \$72,337	6.6	78 st, 210 1/1, 49 2/1, 198 2/2, 58 3/2, 36 4/2 REO, 25% occupied, \$2M renovations planned
13300 N 88 th Av Peoria, 'Indigo at Trianna'	485 280,220	\$31,525,000 \$112.50	7/27/2010 2009	\$4,569,180 \$65,000	6.9	75 st, 300 1/1, 110 2/2 High vacancy
8330 N 19 th Av Phoenix, 'Montelano'	432 339,852	\$20,500,000 \$60.32	7/29/2010 1985	\$3,000,000 \$47,454	6.8 6.2	264 1/1, 48 2/1.5, 120 2/2 89% occupied, All Cash, \$4.3M recent renova.
21150 N Tatum Blvd Phx, 'Shade @ Desert Ridge'	342 344,104	\$42,525,000 \$123.58	9/17/2010 2006	\$4,005,859 \$124,342	10.6 5.8	134 1/1, 6 1/1.5, 178 2/2, 24 3/2 All Cash
1033 S Longmore St Mesa, 'Fiesta Park'	320 243,540	\$5,500,000 \$22.28	9/2/2010 1979	\$2,105,856 \$17,188	2.6	232 1/1, 88 2/2 All Cash, Short Sale
1311 W Baseline Rd Tempe, 'Mission Springs'	306 216,200	\$15,400,000 \$71.23	7/29/2010 1987	\$2,578,188 \$50,327	6.0 6.9	72 st, 80 1/1, 154 2/2 REO, All Cash
2025 W Indian School Rd Phx, 'Fountain Ridge'	280 133,308	\$3,150,000 \$23.63	7/23/2010 1973	\$11,250		128 st, 144 1/1, 4 2/1, 4 2/2 60% occupied, REO, master metered
825 W Queen Creek Rd Chandler, 'Ocotillo Springs'	272 253,548	\$24,700,000 \$97.42	8/17/2010 1998	\$3,059,376 \$90,809	8.1 5.3	76 1/1, 168 2/2, 28 3/2
17239 N 19 th Av Phx, 'Bell Cove'	256 204,800	\$9,200,000 \$44.92	9/23/2010 1984	\$1,891,200 \$35,938	4.9	112 1/1, 48 2/1.5, 96 2/2 70% occupied, REO
4032 W Osborn Rd Phx, 'Plaza'	247 178,470	\$3,500,000 \$19.61	7/16/2010 1985	\$1,344,108 \$14,170	2.6	1 st, 123 1/1, 60 2/1, 11 2/1.5, 52 2/2 Deferred maintenance
13720 N 88 th Av Peoria, 'Barossa @ Trianna'	246 215,256	\$19,680,000 \$91.43	7/27/2010 2009	\$2,538,168 \$80,000	7.8	60 1/1, 8 2/1, 150 2/2, 28 3/2 High vacancy
2225 W Frye Rd Chandler, 'Symphony'	234 249,988	\$26,300,000 \$105.21	7/22/2010 1998	\$112,393		59 1/1, 142 2/2, 33 3/2 Condo mapped, All Cash
901 S Dobson Rd Mesa, 'Sorrento'	226 168,324	\$9,700,000 \$57.63	9/29/2010 1982	\$1,712,568 \$42,920	5.7	18 st, 98 1/1, 42 2/1, 68 2/2 Last sale foreclosure 4/10, FKA Dobson Village
4776 E Guadalupe Rd Gilbert, 'Sonoma Landing'	220 192,611	\$20,000,000 \$103.84	7/26/2010 2001	\$2,418,240 \$90,909	8.3	84 1/1, 112 2/2, 24 3/2
909 E Northern Av Phx, 'La Siena Sr Living'	190 231,327	\$25,926,582 \$112.08	9/29/2010 2008	\$136,456		190 independent & assisted living units REO, Included \$1,787,719 personal property
15082 N 59 th Av Glendale, 'Sagewood'	176 115,008	\$7,900,000 \$68.69	8/10/2010 1984	\$1,563,468 \$44,886	5.1 6.5	24 st, 80 1/1, 72 2/2 86% occupied
950 S Terrace Rd Tempe, 'University Crossings'	150 116,800	\$4,800,000 \$41.10	7/26/2010 1968	\$1,073,280 \$32,000	4.5 6.5	83 1/1, 67 2/1 REO, All Cash
2925 N Greenfield Rd Phx, 'Loma Linda Gardens'	130 193,680	\$2,100,000 \$10.84	9/20/2010 1970	\$2,100,000 \$16,154	2.5	64 1/1, 66 2/1 REO, All Cash, 60% occ, defer. maintenance
3211 E Pinchot Av Phx, 'Pinchot Towers'	104 58,767	\$2,065,000 \$35.14	7/13/2010 1972	\$19,856		104 1/1 High vacancy, 30% occupied, master metered
660 E Broadway Rd Mesa, 'Arbor on Broadway'	97 46,950	\$1,500,000 \$31.95	8/6/2010 1969	\$666,000 \$15,464	2.3	27 st, 70 1/1 Master meter
111 E Mesa Dr Mesa, 'Sun Crest'	94 89,147	\$3,150,000 \$35.33	8/31/2010 1985	\$669,588 \$33,511	5.7 7.0	15 1/1, 37 2/1, 41 2/2, 1 3/2 Short sale, 75% occupied
7328 N 27 th Av Phoenix, 'Posada Bonita'	84 52,080	\$1,535,000 \$29.47	7/21/2010 1984	\$527,280 \$18,274	2.9	52 1/1, 32 2/1 All Cash
222 E Cody Dr Phoenix, 'Brighton Place'	80 67,200	\$1,100,000 \$16.37	9/15/2010 1990	\$13,750		80 2/1 Distress sale
9601 N 17 th Av Phoenix, 'North 17'	72 57,960	\$1,499,850 \$25.88	9/10/2010 1984	\$345,600 \$20,831	4.3	36 1/1, 36 2/1 REO, 40% occupied

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, BREW 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
6141 N 59 th Av Glendale, 'Desert Crest'	66 54,720	\$1,551,126 \$28.35	7/23/2010 1985	\$508,680 \$23,502	3.0 9.0	6 1/1, 60 2/2 REO, 83% occupied, All Cash
435 E 2 nd St Mesa, 'Sun View'	44 31,400	\$925,000 \$29.46	7/13/2010 1980	\$223,152 \$21,023	4.1 2.7	24 1/1, 20 2/1 REO, 64% occupied, All Cash
3044 E Fillmore St Phoenix, 'Celebrity'	41 28,700	\$500,000 \$17.41	8/10/2010 1986	\$275,520 \$12,195	1.8	41 2/1 Short Sale, All Cash
21239 N 24 th Av Phoenix, 'Sunlight Vista'	34 30,686	\$650,000 \$21.18	9/8/2010 1983	\$306,000 \$19,118	2.1	34 2/1 REO, 65% occupied
21239 N 24 th Av Phoenix, 'Sunlight Vista'	34 30,686	\$750,000 \$24.44	9/15/2010 1983	\$306,000 \$22,059	2.5	34 2/1 65% occupied, Resale from 9/8/2010
425 E Brown Rd Mesa, 'Mountain View'	30 25,224	\$1,000,000 \$39.64	8/16/2010 1973	\$230,400 \$33,333	4.3	18 2/1, 12 3/2 Condo conversion, REO, 60% occ.
914 W Glendale Av Phoenix, 'Glenwood Terrace'	30 24,670	\$1,535,500 \$62.24	8/17/2010 1961	\$187,200 \$51,183	8.2	8 1/1, 13 2/1, 8 2/1.5, 1 2/2 Assumed loan
2002 E Sweetwater Av Phoenix, 'Sweetwater Hills'	29 22,200	\$675,000 \$30.41	9/29/2010 1984	\$179,700 \$23,276	3.8	5 1/1, 24 2/1 REO, additional \$50K credit, 28% occupied
730-820 E Turney Av Phoenix, 'Carolyn Place'	29 19,050	\$560,000 \$29.40	7/23/2010 1944	\$19,310	3.2	24 1/1, 4 2/1, 1 3/2 All Cash
6331 – 6333 N 10 th St Phoenix, '10 th Street Palms'	24 21,980	\$958,000 \$43.59	8/20/2010 1963	\$39,917		8 2/1, 16 2/2, Renovated in 1983 All cash
2121-2221 W Heatherbrae Dr Phoenix, 'West Heatherbrae'	23 17,250	\$375,000 \$21.74	9/15/2010 1962	\$131,100 \$16,304	2.9	23 2/1 REO, All Cash, 26% occupied
2222 S Rural Rd Tempe, 'Villa Carmel'	20 12,190	\$425,000 \$34.86	7/13/2010 1960	\$21,250		20 2/1 REO, All Cash, 10% occupied
3413-3415 E Earl Dr Phoenix, 'EdMar'	18 12,160	\$525,000 \$43.17	9/17/2010 1974	\$115,680 \$29,167	4.9 10.2	3 st, 15 2/1 All Cash
1709 W Mountain View Rd Phoenix, 'Monte Vista'	16 12,160	\$266,000 \$21.88	7/29/2010 1985	\$86,400 \$16,625	3.1	16 2/1 Short Sale, All Cash
6557 E Osborn Rd Scotts, 'Palms @ Scottsdale'	16 9,781	\$460,000 \$47.03	8/27/2010 1960	\$28,750		3 st, 11 1/1, 2 2/1 All Cash
813 E Marlette Av Phoenix, 'Villa Marlette'	12 12,536	\$430,000 \$34.30	7/23/2010 1962	\$35,833		All Cash
520-526 E Pierson St Phoenix, 'Woodbrier'	12 8,064	\$234,000 \$29.02	8/30/2010 1964	\$19,500		12 1/1 (4 triplexes) All Cash
3145 E Cypress St Phoenix, 'Cypress Arms'	12 6,192	\$400,000 \$64.60	7/12/2010 1975	\$79,200 \$33,333	5.1	12 1/1 All Cash, resale from January 2010
6020-6034 N 21 st Av Phoenix	12 9,360	\$240,000 \$25.64	7/9/2010 1963	\$20,000		12 2/1 All Cash, 0% occupied
1810 N 16 th St Phoenix	11 7,060	\$235,000 \$33.29	7/30/2010 1950	\$21,364		8 1/1, 3 2/1 All Cash
4838-4902 E Culver St Phoenix, 'Galaxy Estates'	10 7,768	\$210,000 \$27.03	9/21/2010 1960	\$70,200 \$21,000	2.9	4 1/1, 6 2/1 All Cash, previous sale 9/13/10 for \$160K
Broken Condo Sales						
2155 E Liberty Ln Phx, 'San Riva @ Foothills'	230 of 280 202,919	\$15,789,845 \$77.81	7/22/2010 1999	\$68,651		Broken condo conversion
2625 E Indian School Rd Phoenix, 'Biltmore Palms'	46 of 106 36,755	\$2,500,000 \$66.02	8/27/2010 1982	\$54,348		Broken condo conversion, 46 1/1's.
7750 N 12 th St Phoenix, 'Vista del Monte'	18 of 176 18,622	\$184,000 \$9.88	8/6/2010 1972	\$10,222		12 2/1, 6 3/1, REO, All cash Broken condo conversion



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The Apartment Market

In the 3rd quarter, there were 46 apartment transactions (10+ units), three broken condo sales and six 3rd party trustee sale purchases. Of the 46 regular sales, 27 (59%) were 'all cash'. In almost every non 'all cash' sale, the existing lender provided a loan for a new buyer with better terms and reduced principle – typically resulting in a 20% to 25% higher price, but a complete loss of the original loan. Because of current banking regulations, lenders are often forced to help a new buyer rather than have a higher write-down due to a restructured loan being deemed a 'troubled asset'. **Many lenders, however, are really trying to help current owners – we applaud their efforts.** If there is no longer a lender, as in the case of CMBS, the loan is in the hands of special servicing agents, whom are typically unable to offer any loan modification as the loan is tied-up in bonds and divided among many investors. Loans held by Fannie Mae are in similar situations. If you are considering trying to obtain a loan modification, it's important to know who holds your loan. Liquidity is still almost nonexistent. This hampers the resale market, but is severely hurting borrowers with loans that are due, even if there is no default. Due to existing banking regulations, often the only avenue for a lender is foreclosure.

The outlook for the near future is not good. Unemployment remains at a 25 year high and the default rate for CMBS loans in Arizona is the highest in the US. Due to the ±40,000 homes currently in foreclosure and about the same number already owned by the bank, the supply of REO sales is projected to drive the median single family home price down 5% to 20% in 2011. On the positive side, this will create even more affordable housing. Combine this with the appeal that Arizona offers and the lack of new construction in recent years, when the economy rebounds, it may do so faster than many expect!

We recently held our first seminar for the public. It was well attended, including many owners that are suffering from the lack of cash flow due to the economy and depressed rents resulting from the many REO and 'short' sales at very low prices. Meg Steiner, attorney, Dave Isaac, CPA and Terry-Ann Shepstead, title provided clear insight into legal, tax and escrow concerns. Meg has again provided an insert for our newsletter – highlighting options owners may have when confronted with tough decisions needed to be made when cash is vanishing. Jim Kasten, CCIM, Owner/Designated Broker.

KASTEN LONG COMMERCIAL GROUP Activity

PHOENIX APARTMENTS "FOR SALE"

100	11600 N 75th Ave, Glendale	unpriced	9	502 E Mariposa	\$245,000
96	820 E Brown Rd, Mesa	\$2,600,000	8	317 N 17th Dr	\$365,000
54	2508 W Elm St	\$1,100,000	8	1345 E Campbell Ave	\$325,000
47	6702 N 17th Ave	\$920,000	4	1902 W Michigan	\$145,000
44	2820-44 W Augusta	\$880,000	4	251 N 93rd St	\$139,000
40	2848 E Greenway Rd	\$800,000	4	6434 S 22nd St	\$109,000
34	2522 W Highland	\$499,000	4	6440 S 22nd St	\$109,000
34	5725 N 8th Place	\$975,000	4	6444 S 22nd St	\$109,000
29	1623 & 1625 W Missouri	\$675,000	4	6450 S 22nd St	\$109,000
18	4207-4213 N 9th St	\$449,000	4	6454 S 22nd St	\$109,000
12	1541-45 W Roosevelt	\$135,000	4	2829 E Adams St	\$79,900
12	35 N May, Mesa	\$245,000	4	2838 E Adams St	\$95,000
9	715 & 721 W Cinnabar	\$165,000	4	2842 E Adams St	\$95,000
			3	3436 E Melvin St	\$79,000

OTHER PROPERTIES "FOR SALE"

Community Center / Church		Commercial Land			
401 E Mohave St	Phx	\$595,000	9.26A SWC 107th Ave & Olive	Peoria	\$3.025M
			1.49A SWC 107th Ave & Olive	Peoria	\$812,500
			317 N 17th Dr	Phx	\$65,000

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