

GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

2nd QTR 2011

Vacancy rates increased a bit in the 2nd quarter (10.9%) with absorption at a negative 3,891. Part of the vacancy increase may be from the “shadow market” - from a shift by investors from fix and flip to fix, rent and hold. Permitting for new apartment construction in Q2 was still very low with 78 units. Sales activity continues strong with 59 regular apartment sales (10+ units). Apartment values have started increasing due to a decreased supply and increasing investor pressure. Bank owned and bank-controlled properties still dominate the market.

KASTEN LONG COMMERCIAL GROUP: The Group had 11 apartment closings in Q2. As in the past, we continue to assist owners who suffer with properties with poor cash flow. Often times we simply offer suggestions for improving operations. For some, we have been able to assist with restructuring bank loans and if a “short sale” is the only option, we protect the owner from a possible deficiency judgment.

Vacancy Rates Rise – 10.9%

Vacancy rates for the 2nd quarter for all-size, existing (>6 mo.'s) multifamily units increased from 9.7% in the 1st quarter to **10.9%**. Of the 345,294 total multifamily units, there were 37,550 reported as vacant. The total inventory gained only 34 units with the final completion of Mickelberg's 75-unit project at 2428 E Apache Blvd, in Tempe.

# of Units	2011 1st Qtr.	2011 2nd Qtr.
2 - 24	2%	12%
25 - 50	11%	14%
51 - 75	10%	10%
76 - 99	7%	7%
100 - 150	9%	8%
151 - 200	8%	8%
200+	10%	10%
Average	9.7%	10.9%

In general, the Cities of Phoenix, Glendale and Peoria had double digit vacancy rates while Tempe and the entire east valley was below 10%. For the 2nd quarter of 2011, there were only 78 units permitted, 60 being by NPR Group for 3330 E Van Buren in Phoenix and an 18 unit project in south Mesa.

ASU reports there are 131 units currently under construction in two projects. Both are in Phoenix, one at 4570 N Central Av. and one at 1050 N 16th St. From news articles, however, we see more than 1,500 units reported as under construction for multiple types of apartment projects.

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.
- Working with owners and lenders to restructure loans (**FREE SERVICE**).

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

Multifamily Data - Greater Phoenix Area

Year	Permits	Absorbed	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	408	20,743	10.3%
2011 (1)	4	2,154	9.7%
2011 (2)	78	(3,891)	10.9%

Vacancy rates for each of the Valley's 32 districts, plus a list of all apartments reported as under construction 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

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
24250 N 23 rd Av Phx, 'Trillium Pinnacle Peak'	724 569,772	\$76,000,000 \$133.39	5/31/2011 2009	\$8,355,720 \$104,972	10.0	650 1/1, 50 2/2, 24 3/2 Ground lease
17249+17435 N 7 th St Phx, 'Desert Hs'+Remington'	824 607,136	\$41,350,000 \$68.11	4/15/2011 1982	\$5,738,578 \$50,182	7.2 6.9	Portfolio sale
7777+7725 W McDowell Rd Phx, 'Indigo+Barossa @ Park'	558 408,879	\$40,850,000 \$99.91	4/29/2011 2009	\$73,208		Portfolio sale, cash
1905 W Las Palmaritas Phx, 'Northern Point'	486 246,420	\$7,200,000 \$29.22	6/28/2011 1979	\$14,814		192 st, 220 1/1, 74 2/1 88% occupied, master metered, REO, portfolio
11050 N Biltmore Dr Phx, 'Lakes @ Metro'	420 257,970	\$10,080,000 \$39.07	5/12/2011 1975	\$2,306,016 \$24,000	4.4	78 st, 201 1/1, 72 2/1, 36 2/1.5, 33 2/2
1926-1930 E Camelback Rd Phx, 'Colonnade+Ferntree'	415 266,320	\$16,250,000 \$61.02	4/29/2011 1968/1973	\$39,157	6.7	129 st, 236 1/1, 9 2/1, 41 2/2 Master metered, buyer assumed loan
4140 N Central Av Phx, 'Station on Central'	414 365,484	\$36,500,000 \$99.87	5/3/2011 2001	\$3,721,752 \$88,164	9.8 3.5	240 1/1, 162 2/2, 12 3/2 REO sale, fka Empirian on Central
411 E Indian School Rd Phx, 'Empirian @ Steele Pk'	398 366,201	\$30,800,000 \$84.11	4/14/2011 1999	\$77,387		188 1/1, 33 2/1, 159 2/2, 18 3/2 Deed in Lieu, fka Jefferson at Steele Park
2800 W Sahuaro Dr Phx, 'Timbertree'	387 272,288	\$11,980,000 \$44.00	5/6/2011 1979	\$2,618,000 \$30,956	4.6 6.9	43 st, 172 1/1, 84 2/1, 88 2/2 TIC
4640 N 24 th St Phx, 'Biltmore Club'	378 191,958	\$11,000,000 \$57.30	4/29/2011 1973	\$29,101		192 st, 186 1/1
2400 N Arizona Av Chndlr, 'San Cierra'	332 336,590	\$33,940,000 \$100.83	5/3/2011 2004	\$3,875,376 \$102,229	8.8 5.8	150 1/1, 150 2/2, 32 3/2 Buyer assumed loan
3800 W Chandler Blvd Chndlr, 'Chandler Court'	316 269,935	\$24,000,000 \$90.39	6/7/2011 1986	\$77,215	6.0	1 st, 108 1/1, 1 2/1, 163 2/1.5, 30 2/2, 3 2/2.5, 10 3/2
209 W Jackson St Phx, 'Campaigne Pl on Jcksn'	300 129,533	\$2,425,500 \$18.72	5/12/2011 2003	\$5,000		300 st Master metered, distress sale, \$1.5M fed \$\$\$
2524 W Glenrosa Av Phx, 'Canyon Woods'	224 143,808	\$3,136,000 \$21.81	4/28/2011 1984	\$1,300,000 \$14,000	2.4 12.7	160 1/1, 32 2/1, 32 2/2 50% occupied, short sale, all cash
1600 N Arizona Av Chndlr, 'San Hacienda'	220 202,740	\$26,180,000 \$129.13	6/28/2011 2006	\$2,666,256 \$119,000	9.8 5.5	80 1/1, 116 2/2, 24 3/2 Cash
2634 N 51 st Av Phx, 'Paseo Del Sol'	215 98,035	\$2,790,000 \$28.46	6/28/2011 1981	\$13,037		80 st, 135 1/1 89% occupied, master metered, REO, portfolio
3007 N Black Canyon Hwy Phx, 'Rancho Encanto'	214 169,592	\$2,700,000 \$15.92	6/20/2011 1973	\$1,654,320 \$12,617	1.6	4 st, 40 1/1, 168 2/2, 2 3/2 REO sale
8130 W Indian School Rd Phx, 'Terrace Park'	213 173,556	\$5,775,000 \$33.27	4/28/2011 1984	\$1,448,760 \$27,113	4.0	16 1/1, 124 2/1, 73 2/2 85% occupied, REO sale
2506 W Dunlap Av Phx, 'Arete'	205 150,825	\$16,000,000 \$106.08	4/29/2011 2006	\$1,954,507 \$78,049	8.2 5.9	46 st, 78 1/1, 21 2/1, 60 2/2
3331 W Taylor st Phx, 'Bella Vista'	200 96,300	\$3,200,000 \$33.23	5/24/2011 1963	\$1,132,620 \$16,000	2.8 10.0	REO sale
6152 W Oakland St Chndlr, 'River Ranch'	186 138,550	\$12,200,000 \$88.05	6/7/2011 1986	\$1,563,240 \$65,591	7.8 5.7	98 1/1, 32 2/1.5, 56 2/2 REO sale
1701 E Don Carlos Av Tempe, 'Cabana / McClintock'	181 146,980	\$6,400,000 \$43.54	4/18/2011 1962	\$34,359	7.5	69% occupied, all cash, fka 'Vlg of McClintock'
4728 N 15 th St Phx, 'Highland Gardens'	161 105,750	\$5,300,000 \$50.12	6/1/2011 1969	\$1,098,108 \$32,919	4.8	17 st, 129 1/1, 9 2/1, 6 2/2 85% occupied, cash, \$3M renovation planned
7077 W McDowell Rd Phx, 'Sunpoint'	152 122,232	\$4,864,000 \$39.79	4/29/2011 1984	\$995,000 \$32,000	4.9 9.1	64 1/1, 88 2/2 REO sale, all cash
14145 N 92 nd St Scottdl, 'Allison Condos'	142 123,719	\$10,337,876 \$83.56	4/5/2011 1988	\$72,802		74 1/1, 68 2/2 50% occupied, Condo mapped, cash 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, ARLMS, 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
5039 N 57 th Av Gndl, 'Cedar Creek'	144 141,000	\$3,850,000 \$27.30	5/13/2011 1984	\$1,056,864 \$26,736	3.6 8.4	48 1/1, 40 2/1, 56 2/2 Buyer modified & assumed loan
950 N Gilbert Rd Glbtr, 'Country Villa'	130 80,592	\$7,700,000 \$95.54	6/15/2011 1986	\$1,114,312 \$59,231	6.9 6.1	94 1/1, 36 2/2
3515 E Bell Rd Phx, 'WindSprings'	130 118,300	\$7,607,500 \$64.31	6/1/2011 1985	\$1,046,647 \$58,519	7.3 5.8	32 1/1, 98 2/2 Buyer assumed loan
3434 E McDowell Rd Phx, 'Papago Place'	128 91,784	\$3,100,000 \$33.77	6/23/2011 1985	\$714,144 \$24,219	4.3 8.0	36 1/1, 92 2/1 70% occupied
6131 N 16 th St Phx, 'Mission Palms'	125 104,061	\$6,250,000 \$60.06	4/19/2011 1975	\$988,680 \$50,000	6.3 6.0	49 1/1, 26 2/1, 26 2/1.5, 24 2/2 86% occupied
1111 E Apache Blvd Tempe, 'Villas on Apache'	111 113,283	\$14,756,000 \$130.26	4/5/2011 1987	\$132,937		111 2/2 Student housing, cash
11600 N 75 th Av Peoria, 'Land Pointe'	100 81,280	\$3,235,000 \$39.80	5/18/2011 1985	\$723,600 \$32,350	4.5 11.2	99 2/2, 1 3/2 75% occupied, REO sale
4915 E Thomas Rd Phx, 'Palmwood Terrace'	100 38,152	\$1,810,000 \$47.44	6/28/2011 1978	\$615,600 \$18,100	2.9 8.0	52 st, 47 1/1, 1 2/2 88% occupied, REO sale
820 E Brown Rd Mesa, 'Aspen Ridge'	96 88,000	\$2,208,000 \$25.09	4/11/2011 1972	\$607,680 \$23,000	4.0 8.5	16 1/1, 80 2/1 85% occupied, cash
4815 E Thomas Rd Phx, 'Silktree'	86 53,386	\$2,490,000 \$46.64	6/28/2011 1980	\$664,740 \$28,953	3.7 7.3	70 1/1, 16 2/2 REO sale
1123 E Apache Blvd Tempe, 'Apache Terrace'	78 58,566	\$4,875,000 \$83.24	6/30/2011 1988	\$732,600 \$62,500	6.6	54 1/1, 23 2/2, 1 3/2 Cash
2641 W Butler Dr Phx, 'Desert Sun'	75 60,830	\$1,800,000 \$29.59	4/28/2011 1972	\$567,900 \$24,000	4.1 7.7	15 st, 15 1/1, 45 2/2 REO sale, all cash
400 N 96 th Av Tolleson, 'Sundancer'	72 66,160	\$2,100,000 \$31.74	4/22/2011 1985	\$29,167		24 1/1, 48 2/2 Condo mapped
6625 N 17 th Av Phx, 'Casa Bonita'	64 47,422	\$1,050,000 \$22.14	6/30/2011 1969	\$529,800 \$16,406	2.0 15.0	27 1/1, 37 2/2 Master metered, cash
6320 N 63 rd Av Gndl, 'Gibraltar House'	56 36,540	\$1,230,000 \$33.66	5/16/2011 1963	\$301,728 \$21,964	4.5 7.2	28 1/1, 28 2/1 86% occupied, deferred maintenance
1920 E Hayden Ln Tempe, 'Galleon'	36 26,640	\$1,500,000 \$56.31	6/7/2011 1984	\$41,667		36 2/1 Condo mapped, cash
4435-4436 N 8 th Av Phx, 'Phoenix Gardens'	36 27,032	\$1,055,000 \$39.03	6/30/2011 1963	\$226,860 \$29,306	4.7 9.4	16 1/1, 18 2/2, 2 3/2
2344 W Devonshire Av Phx, 'Palm Creek'	33 28,300	\$400,000 \$14.13	4/11/2011 1972	\$236,400 \$12,121	1.7	1 st, 32 2/1 Quit Claim Deed
9223-9237 N 8 th St Phx, 'Cherry Hills'	32 19,456	\$530,000 \$27.24	4/22/2011 1981	\$187,200 \$16,563	2.8 8.2	16 1/1, 16 2/1 70% occupied, REO sale, all call
2002 E Sweetwater Av Phx, 'Sweetwater Hills'	29 22,200	\$1,075,000 \$48.42	6/22/2011 1984	\$188,100 \$37,069	5.7 9.1	5 1/1, 24 2/1 76% occupied, all cash, 1031 exchange
7701-7737 E 1 st Av Scottsdale "Parkway"	24 17,688	\$1,150,000 \$65.02	4/29/2011 1962	\$176,232 \$47,917	6.5 6.0	17 1/1, 7 2/1 REO sale, all cash
2510 W Palo Verde Dr Phx, 'Palo Verde'	23 8,550	\$290,000 \$33.92	4/18/2011 1973	\$102,120 \$12,609	2.8 9.4	23 1/1 REO sale, cash
7011 N 68 th Dr Gndl, 'Garden Palms'	22 13,114	\$250,000 \$19.06	6/14/2011 1978	\$132,000 \$11,363	1.9	14 1/1, 8 2/1 0% occupied, all cash, deferred maintenance
320-330 W Medlock Dr Phx, 'Medlock West'	20 22,146	\$697,500 \$31.50	5/13/2011 1959	\$34,875		4 1/1, 12 2/2, 4 3/2 Seller carryback
1346 E Mountain View Rd Phx, 'Mountain View Acres'	20 16,000	\$475,000 \$29.69	6/6/2011 1986	\$110,580 \$23,750	4.3 8.4	20 2/1 Purchased with 20% down
4207 N 9 th St Phx, 'La Monte'	18 11,662	\$399,000 \$34.21	5/9/2011 1965	\$155,244 \$22,167	2.6 8.0	3 st, 11 1/1, 3 2/1, 1 3/1 Cash



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The Apartment Market

Apartment sales continued with strong activity – similar to the past four quarters. For the 2nd qtr., there were 59 regular sales (10+ units), six multi-property (portfolio) sales, two partial condo sales, and four 3rd party trustee sales. Of the 59 regular sales, 35 had either new financing or assumptions of existing loans. Properties with financing options commanded a higher price than “all cash”. While it’s not easy to compare apples to apples for apartments, we have seen a trend of increasing values over the past year. We attribute this to a shortage in multifamily inventory and a steady stream of investor pressure. Since October 2010 (approx. 11 months) there have been 123 apartment trustee sales, of which 25 were purchased by third parties. These values have also increased.

From various news articles, we have compiled a list of 1,517 apartments currently reported to be under construction and 2,648 in the planning stage. Most of these are in-fill as opposed to the projects completed during the last decade that were mostly in the outlying growth areas. The renewed construction supports the belief that vacancies will continue to decline and rents to increase. The additional supply will not be much of a factor for a couple years, and will affect the class “A” market much more than the “B” and “C” quality properties. A map and list of all projects is posted on our web site – under “Apartments” – “Market Data”.

The Effect of the “Shadow Market” on Apartment Vacancy Rates

Year-to date, bank-owned and short sold properties have accounted for 66% of the home sales (37,855 out of 57,226) – many being purchased by investors. The number increases with the homes purchased at trustee sales (about 10,000 YTD). Instead of investors fixing and flipping houses, many houses are now being fixed and held as rentals due to the decreased spread between purchase price and resale value. This has caused an increase in rental inventory and may be a reason for the slight increase in multifamily vacancy rates. Each week, we report statistics on the “shadow market” in our e-zine. If you are not receiving this report, just go to our web site and click “send me updates”.

Residential re-sales hit a new median low price (\$80/sf, \$115,000) last month, but we expect the prices to start increasing. We base this on various factors: 1. the number of foreclosures is decreasing; 2. the overall inventory of available homes on the MLS is the lowest in many years (15,726); 3. the list price for homes, especially bank owned, has increased sharply since May; and 4. mortgage interest rates remain quite low. As home values increase, home rental rates will also increase – leading to higher apartment rental rates as well.

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KASTEN LONG COMMERCIAL GROUP (Specializing in Apartment Brokerage since 1998)

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Kasten Long Commercial Group

Delivering THE New Standard of Excellence for
Apartment Owners, Investors and Lenders

Specializing only in Apartments

We are CLIENT, *not dollar*, driven - making us Unique in Phoenix