



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

3rd QTR 2011

Vacancy rates continued their decline, now having dropped from a high of 14.2% at the end of 2009 to 9.9%. There was some renewed permitting activity for new apartment construction, but still below past levels prior to 2009. With almost no recent growth in the multifamily inventory and minimal projects under construction, the demand for apartments will intensify as the economy improves. Banks are still under the pesky eyes of bank regulators. Until the economy strengthens, owners that have already received help from their lenders on temporary loan modifications need to help the bank support a continued loan payment reduction.

KASTEN LONG COMMERCIAL GROUP: The Group had 17 apartment closings in Q3. We also were pleased to be able to present an apartment market update at the October AZREIA meeting. The slide presentation is posted on our web site.

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.

Vacancy Rates Drop to 9.9%

Vacancy rates for the 3rd quarter for all-size, existing (>6 mo.'s) multifamily units dropped from 10.9% in the 2nd quarter to **9.9%**. Of the 345,298 total multifamily units, there were 34,075 reported as vacant. The total inventory gained only 4 units.

# of Units	2011 2nd Qtr.	2011 3rd Qtr.
2 - 24	12%	14%
25 - 50	14%	8%
51 - 75	10%	10%
76 - 99	7%	5%
100 - 150	8%	9%
151 - 200	8%	10%
200+	10%	10%
Average	10.9%	9.9%

Similar to last quarter, the Cities of Phoenix, Glendale and Peoria mostly had double digit (10% to 15%) vacancy rates while Tempe and the entire east valley was below 10%. Northwest Phoenix had the highest vacancy rate with 23%. For the 3rd quarter of 2011, there were 1,117 units permitted in seven projects, the largest being: 224 units by Mark Taylor in North Tempe, 274 units by LBA Architectures in Union hills and 383 units by Mark Taylor in Chandler.

ASU reports there are only 24 units (of the 65 total project) under construction at 4570 N Central Avenue. We also track "planned"

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%
2011 (3)	1,117	3,479	9.9%

and "projects under construction" ourselves – see map and list posted on our WEB site. Vacancy rates for each of the Valley's 32 districts, are also posted under "Apartments - Market Data" on www.KLCommercialGroup.com. Rental rates increased 1.0% from last quarter – a further sign of improving market conditions.

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 - 2011

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
13820 S 44 th St Phx, 'Windsor @ Mtn Pk Rch'	360 435,840	\$44,550,000 \$102.22	7/29/2011 1996	\$4,722,999 \$123,750	9.4 6.1	120 2/2, 240 3/2 Cash
4225 E McDowell Rd Phx, 'Residences @ 4225'	357 332,854	\$42,012,000 \$126.22	8/16/2011 2009	\$3,762,056 \$117,681	11.2 5.8	10 st, 197 1/1, 132 2/2, 18 3/2 \$15.063M down, \$26.949M NorthMarq
2912 E Indian School Rd Phx, 'Brandywood'	354 176,220	\$5,675,000 \$32.20	8/4/2011 1979	\$1,918,152 \$16,031	2.9 6.7	168 st, 186 1/1, \$1.975M down, \$3.7M Sir Mort. 72% occ., mstr mtr, partial subsidized housing
505 W Baseline Rd Tempe, 'Sun River Village'	334 286,168	\$18,700,000 \$65.35	7/22/2011 1981	\$2,429,075 \$55,988	7.7 6.2	160 1/1, 56 2/1, 100 2/2, 18 3/2, \$100K contrib. \$3.776M down, \$14.924M Berkadia
2400 N Bullard Av Gdyr, 'Aldea @ Estrella Falls'	328 328,244	\$32,850,000 \$100.08	8/30/2011 2008	\$100,152	5.2	168 1/1, 136 2/2, 24 3/2 \$14.85M down, \$18.0M new loan
34807 N 32 nd Dr Phx, 'Ironhorse @ Tramonto'	324 291,468	\$30,500,000 \$104.64	9/23/2011 2005	\$91,136	4.5	180 1/1, 36 2/1, 96 2/2, 12 3/2 REO, \$11.915 down, \$18.585M seller (lender)
7205 W McDowell Rd Phx, 'Hampton Square'	298 378,135	\$22,650,000 \$59.90	9/19/2011 2005	\$2,600,000 \$79,007	8.7 5.7	185 2/2, 113 3/2, \$2.265M down \$20M assumed modified loan
33600 N 27 th Dr Phx, 'Canyon Crossroads'	280 279,360	\$32,325,000 \$115.71	7/28/2011 2008	\$3,842,144 \$115,446	8.4 5.9	104 1/1, 136 2/2, 40 3/2, \$12.325M down \$20M new loan, FKA Broadstone Canyon
10741 W El Cortez Pl Peoria, 'Encantada'	271 254,577	\$25,500,000 \$100.17	8/23/2011 2009	\$91,096	6.5	149 1/1, 114 2/2, 8/ 3/2 REO, \$5.1M down, \$20.4M seller (lender)
2354 W University Dr Mesa, 'Shadow Creek'	266 193,720	\$12,675,000 \$65.43	8/31/2011 1984	\$1,905,013 \$47,650	6.7 6.5	128 1/1, 138 2/2 \$3.805M down, \$8.87M new loan
20401 N 19 th Av Phx, 'Palm Court'	256 221,432	\$19,700,000 \$88.97	9/23/2011 1999	\$79,953	5.6	48 1/1, 80 2/1, 128 2/2 \$6.7M down, \$13.0M new loan
1550 E Campbell Av Phx, 'Level @ Sixteenth'	240 168,000	\$40,000,000 \$238.10	7/6/2011 2008	\$3,591,756 \$166,667	11.1 5.7	46 st, 102 1/1, 92 2/2 Cash
1225 N 40 th St Phx, 'Fountain Oaks'	224 158,814	\$8,300,000 \$52.26	9/8/2011 1983	\$1,655,340 \$37,054	5.0 7.3	224 2/1 \$4.18M down, \$4.12M new loan
8650 W Peoria Av Peoria, 'Suntree'	216 172,080	\$8,108,000 \$47.12	9/21/2011 1984	\$37,537	6.0	144 1/1, 72 2/2, \$1.621M down \$6.487M assumed modified loan
151 E 1 st St Mesa, 'Cimarron'	210 118,710	\$7,550,000 \$63.60	8/19/2011 1985	\$35,952		195 1/1, 15 2/1 REO, cash
102 S 4 th Ave Avndl, 'Edgewater'	196 148,704	\$7,000,000 \$47.07	7/14/2011 1985	\$35,714	7.8	40 1/1, 116 2/1, 24 2/2, 16 3/2 Cash
12231 N 19 th St Phx, 'Paradise Foothills'	180 133,897	\$10,500,000 \$78.42	9/30/2011 1985	\$1,321,009 \$58,333	7.9 6.6	94 1/1, 1 2/1.5, 85 2/2 REO, \$4.2M down, \$6.019M seller (lender)
4502 E Paradise Vlg Pky Phx, 'Enclave @ PV'	174 143,058	\$10,150,000 \$70.95	7/14/2011 1985	\$1,430,251 \$58,333	7.1 6.4	120 1/1, 54 2/2 \$3.382M down, \$6.768 new loan
2540 W Maryland Av Phx, 'Maribela'	171 124,020	\$3,250,000 \$26.21	8/23/2011 1985	\$963,000 \$19,006	3.4 8.4	45 1/1, 126 2/1 of 192, 171 of 192 condos REO, \$540K insur. claim, \$650K dn + new loan
4444 W Ocotillo Rd Glndl, 'Arroyo Palms'	159 153,081	\$2,700,000 \$17.64	9/8/2011 1975	\$16,981		47 1/1, 28 2/1, 36 2/1.5, 18 3/1, 30 3/2 REO, mstr mtr, \$615K down, \$2.085M private
333 E Van Buren St Avndl, 'Mountain View'	150 88,694	\$5,400,000 \$60.88	9/7/2011 1984	\$36,000		18 st, 108 1/1, 24 2/2, REO 85% occ., \$1.374M dn, balance seller (lender)
825 W Osborn Rd Phx, 'Barrington Regent'	123 111,864	\$7,050,000 \$63.02	7/28/2011 1980	\$1,156,248 \$57,317	6.1 6.7	93 1/1, 30 2/2, short sale \$1.65M down, \$5.4M new loan
65 E Olive Av Gilbert, 'Orion @ Heritage Sq'	120 111,840	\$7,500,000 \$67.06	7/21/2011 1984	\$62,500		16 1/1, 104 2/2, \$2.773M dn, \$4.727M new ln. Condo mapped, fka Towne Center
1325 W Guadalupe Rd Mesa, 'Dobson Square'	120 102,600	\$5,400,000 \$52.63	7/14/2011 1978	\$886,320 \$45,000	6.2 6.9	18 1/1, 102 2/2, REO \$1.4M down, \$4.0M new loan
5235 N 43 rd Av Phx, 'Oasis West'	100 81,520	\$1,600,000 \$19.63	9/19/2011 1972	\$663,600 \$16,000	2.4 7.2	20 1/1, 60 2/1, 20 3/1.5 REO sale, \$440K down, \$1.2m private

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
650 S 80 th St Mesa, 'Sun Villas Resort'	98 57,050	\$2,210,000 \$38.74	9/22/2011 1976	\$643,320 \$22,551	3.4 8.3	47 st, 51 1/1 20% occupied, cash
248 N MacDonald Mesa, 'Vita Bella'	94 59,572	\$3,225,000 \$51.14	7/22/2011 1987	\$34,309		\$100K down, \$325K seller contribution, \$2.8M private – possible senior housing
2520 W McLellan Blvd Phx, 'Casa Blanca'	80 56,640	\$700,000 \$12.36	7/12/2011 1972	\$8,750		Cash, seller contributed \$400K
818 W 3 rd St Tempe, 'Hidden Glen'	72 50,763	\$3,104,861 \$64.38	9/29/2011 1981	\$43,123		Cash, seller contributed \$400K
6805 N 27 th Av Phx, 'Casa Del Sol'	71 44,730	\$1,080,000 \$24.14	8/10/2011 1985	\$383,400 \$15,211	2.8 9.3	71 2/1 70% occupied, cash
5701 S Rural Rd Tempe, 'Granada Lakes'	69 42,000	\$2,287,500 \$54.46	8/26/2011 1978	\$438,466 \$33,152	5.2 6.5	68 1/1, 1 2/2 REO sale, cash
6702 N 17 th Av Phx, 'Crest'	47 60,602	\$1,090,000 \$35.62	7/25/2011 1979	\$276,600 \$23,191	3.9 9.2	2 st, 17 1/1, 28 2/2, \$163.5K down, REO Bank 1440 \$926.5K loan, 83% occupied
43 N Harris Dr Mesa, 'Hermosa Palms'	47 16,950	\$590,500 \$34.84	7/18/2011 1987	\$12,564	7.4	29 st, 18 1/1, cash 42% occupied, ±\$25K deferred maintenance
3101 N 36 th St Phx, 'Tamarack Shadows'	45 29,851	\$968,000 \$32.43	7/29/2011 1979	\$278,020 \$21,511	3.5 8.9	32 1/1, 1 2/1, 12 2/2 60% occupied, distress sale
1835 E Don Carlos Ave Tempe, 'Rancho Don Carlos'	39 26,100	\$1,020,000 \$39.08	8/29/2011 1972	\$256,108 \$26,154	4.0 8.0	36 1/1, 3 2/1 \$295K down, \$725K seller
16627 N 25 th St Phx, 'Villa Del Ray'	32 24,480	\$565,000 \$23.08	8/1/2011 1962	\$172,416 \$17,656	3.3 8.4	32 2/1 REO sale, 85% occupied, cash
314-340 N 14 th Av Phx, 'Dakota'	30 19,662	\$525,000 \$26.70	9/14/2011 1985	\$181,800 \$17,500	2.9 9.6	3 st, 24 1/1, 6 2/1, \$135K down, \$390K private REO, 33% occupied
1623-1625 W Missouri Av Phx, 'Missouri Crest'	29 22,700	\$670,000 \$29.52	7/25/2011 1966	\$178,740 \$23,103	3.7 9.7	20 1/1, 8 2/1.5, 1 3/2, REO \$100.5K down, \$569.5 BK 1440, def. maint.
1826 N 51 st St Phx, 'Desert Villas'	29 19,810	\$640,000 \$32.31	8/31/2011 1984	\$192,300 \$22,069	3.3	21 1/1, 8 2/1, cash REO sale, 50% occupied
3420 W Rose Ln Phx, 'Plaza West'	28 22,600	\$760,000 \$33.63	8/10/2011 1962	\$27,143		Cash, was acquired at trustee sale in July for \$720K
9633 N 17 th Av Phx, 'Mountain View'	26 18,000	\$460,000 \$25.56	9/2/2011 1983	\$142,440 \$17,692	3.2 9.9	10 1/1, 16 2/1, \$180K dn, \$280K Sir Mortgage REO, \$78K def. maint.
4917 E Holly St Phx, 'Holly'	22 19,328	\$750,000 \$38.80	8/26/2011 1963	\$150,000 \$34,091	5.0 8.7	22 2/2, cash Flip from purchase in Dec. 2010 (\$500K)
7011 N 68 th Dr Gndl, 'Garden Palms'	22 13,114	\$295,000 \$22.50	7/1/2011 1978	\$132,000 \$13,409	2.2	14 1/1, 8 2/1 Distress sale
2222 S Rural Rd Tempe, 'Casa Carmel'	20 12,190	\$1,000,000 \$82.03	7/14/2011 1960	\$162,756 \$50,000	6.1 8.5	20 2/1 \$350K down, \$650K Bank of the Internet
1441 E Polk St Phx	18 9,792	\$240,000 \$24.51	9/16/2011 1984	\$13,333		11 1/1, 7 2/2, cash 85% occupied
5110 N 21 st Av Phx, 'Camelback Courts'	16 13,150	\$495,000 \$37.64	9/2/2011 1965	\$123,900 \$30,938	4.0	1 1/1, 15 2/1 Cash, double escrow (\$450K to \$495K)
6516 N 17 th Av Phx, 'Parkway'	16 13,300	\$432,000 \$32.48	8/5/2011 1964	\$107,040 \$27,000	4.0 10.2	4 1/1, 12 2/1 Cash
1709 W Mountain View Rd Phx, 'Monte Vista'	16 12,160	\$350,000 \$28.78	8/17/2011 1985	\$86,400 \$18,750	4.4 8.0	16 2/1
7537 N 21 st Av Phx, 'Rose Vista'	11 9,600	\$310,000 \$32.29	9/22/2011 1961	\$68,799 \$28,182	4.5 9.2	4 1/1, 1 1/2, 6 2/1 REO, 70% occupied
2414 W Devonshire Av Phx, 'Devonshire Manor'	16 10,946	\$300,000 \$27.41	8/11/2011 1964	\$18,750		8 1/1, 8 2/1
2030 N 36 th St Phx, 'Palm Lane'	16 9,852	\$225,000 \$22.84	8/12/2011 1966	\$84,480 \$14,063	3.8 12.3	12 1/1, 4 2/1 40% occupied, \$160k def. Maint.



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The Apartment Market

Apartment sales in the 3rd quarter were similar volume to recent quarters with 61 regular sales (10+ units), three multi-property (portfolio) sales, seven partial condo sales, and six 3rd party trustee sales. Of the 61 regular sales, 37 had new financing, seller or existing lender financing or assumptions of existing loans (often modified). 26 of the regular sales were less than \$1.0M, 20 were over \$1.0M and 15 were more than \$10.0M. All of the trustee sales were less than \$1.0M. The portfolio sales had a combined purchase price of \$686M.

Six of the past seven quarters have reported a drop in vacancy rates. The 3rd quarter drop of a full point was a strong sign of continued improvement plus the 1.0% increase in rental rates. Portions of central Phoenix and most areas west of I-17 are still struggling with occupancy as well as jobs. Across the Valley, the larger, well-run properties (with amenities) typically report occupancy of 90+%. Properties that are not able to offer a quality product continue to struggle.

Lenders, that have the ability, continue to work with borrowers on temporary loan modifications. Lenders appreciate that they will not receive a strong price if they are forced to foreclose and sell a property as an REO, nor do they want the headache of ownership. Often times, however, depending on how a loan is modified, the loan may be deemed a "troubled asset" to the bank. With banks fearful of being taken over by the FDIC, lenders always need to balance between helping a borrower and their own balance sheet. As we have noted many times before, if you need help, keep your lender informed of your situation. Borrowers also need to maintain the condition of the property and the occupancy as best possible and show the lender what you would do with the extra money if the loan payment was reduced. Even if a lender has modified your loan in the past, be proactive. The lender will always need continued evidence that the borrower is doing everything possible. Keeping accurate and verifiable records is also critical.

Quality properties with consistent and strong financials are selling at much lower cap rates than expected for our market. This is interesting. Because interest rates have remained low, large money funds are struggling to find quality investments with a reasonable return. As a result, many properties are being purchased between a 5% and 6% cap rate. Across the Valley, all types of properties are being pushed up in value due to the increasing numbers of individuals and investment-pooled monies, from the US, Canada and overseas – taking advantage of our low prices.

The future: If you've been receiving our weekly local apartment news e-zine, you've seen many stories that support our continued economic recovery. The fact that apartment vacancy rates have dropped from 14.2% to less than 10% since 2009, highlights this move to recovery as well. As the recovery gains momentum and jobs return, the need for construction of not just apartments, but all commercial (and residential) needs, should create lots of jobs and slingshot us to a strong and more rapid recovery than expected. Jim Kasten, CCIM, Designated Broker

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