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KASTEN LONG COMMERCIAL GROUP

GREATER PHOENIX APARTMENT OWNER'S NEWSLETTER

4th QTR 2011

In the 4th quarter, vacancy rates inched upwards to 10.5% with a negative 1,947 absorption. There were 60 regular apartment sales in Q4, similar to previous quarters this year. For the entire year, there were 265 total apartment sales. This was 19% more than 2010 (223) and much more than in 2008 and 2009. Of the 60 regular sales in Q4, 28% were "flips" – properties purchased at bargain prices over the past couple years – and now being resold. We expect this trend to increase, but we also see a continued opportunity for values to increase as the economy rebounds and liquidity returns.

KASTEN LONG COMMERCIAL GROUP: After specializing in apartment brokerage since 1998, we now offer expertise with sales and leasing for office, retail and industrial. Recent additions to our group include: Paul Blum, JD, CCIM (602 369 7575) and Peter McSorley, MBA (602 628 5066), both highly respected, dedicated and very knowledgeable.

KASTEN LONG COMMERCIAL GROUP

- An Independent Local Full –Service Commercial Brokerage
- Experienced professional agents with a strong "Client First" mandate.
- SERVICES: Apartment brokerage - office, retail & industrial brokerage and leasing.

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Vacancy Rate Inches Up to 10.5%

Vacancy rates for the 4th quarter for all-size, existing (>6 mo.'s) multifamily units increased from 9.9% in the 3rd quarter to **10.5%.** Of the 345,451 total multifamily units, there were 36,175 reported as vacant. The highest percentage increase was seen in the smaller units (see chart below), but the overall increase was due to a gain in the 200+ size. The total inventory gained 153 units.

# of Units	2011 3rd Qtr.	2011 4th Qtr.
2 - 24	14%	21%
25 - 50	8%	9%
51 - 75	10%	9%
76 - 99	5%	5%
100 - 150	9%	9%
151 - 200	10%	10%
200+	10%	11%
Average	**9.9%**	**10.5%**

Central and west metro Phoenix cities continue to struggle with double digit vacancy rates, the highest district again was NW Phoenix with 22%. Scottsdale and the east valley cities (Tempe, Mesa, Gilbert, Chandler) mostly remained below 10%. Vacancy rates for each of the Valley's 32 districts, are posted under "Apartments-Market Data" on **www.KLCommercialGroup.com**.

For the 4th quarter of 2011, there were 762 units permitted in three projects: 334 units by MT Builders at 3250 S. Arizona Avenue, in Chandler; 300 units by Optima Construction at 6895 E Camelback Road, in Scottsdale; and 114 units by NRP Contractors at 4150 N 9th Street, in Phoenix. Rental rates dropped 0.1% from last quarter. At the end of the year, ASU reports that there are 1,112 units under construction and 748 permitted – but not yet started.

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%
2011 (4)	762	(1,947)	10.5%

Data Source for Vacancy and Demographics:
- Phoenix Metropolitan Housing Study, AZ R.E. Center Arizona State University's Polytechnic Campus

Greater Phoenix Apartment Sales 4th Qtr - 2011

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
1960 W Keating Ave Mesa, 'Aventerra@Dobson R'	576 450,880	$29,100,000 $64.54	11/1/2011 1980	$4,342,800 $50,521	6.7 7.6	336 1/1, 80 2/1, 160 2/2 REO, Renov 2007
111 N Gilbert Rd Mesa, 'Valencia Crossing'	397 263,144	$15,522,700 $58.99	12/29/2011 1984	$2,423,766 $39,100	6.4 6.3	132 1/1, 265 2/1 Renov 2005
4315 E Thunderbird Rd Phx, 'Villa Encanto'	385 313,842	$30,100,000 $95.91	10/11/2011 1983	$3,056,700 $78,182	9.8 7.0	10 st, 211 1/1, 140 2/2, 24 3/2
1415 N Country Club Dr Mesa, 'Country Club Veranda'	348 195,694	$13,000,000 $66.43	10/17/2011 1985	$2,386,968 $37,356	5.4 6.1	318 1/1, 30 2/1 REO, Cash
8275 E Bell Rd Scotts, 'GlenEagles'	330 362,685	$55,422,000 $152.81	10/21/2011 2000	$4,863,912 $167,945	11.4 5.7	72 1/1, 86 1/1.5, 86 2/2, 86 3/2
2627 N 45th Ave Phx, 'Pine Ridge'	301 273,288	$4,500,000 $16.47	12/01/2011 1972	$2,255,400 $14,950	2.0 8.3	33 1/1, 130 2/1, 138 3/1.5 REO, 67% occupied
3625 E Ray Rd Phx, 'Mountainside'	288 280,104	$32,000,000 $114.24	12/14/2011 1995	$3,147,384 $111,111	10.2 5.6	68 1/1, 196 2/2, 24 3/2 Cash
1800 E Covina St Mesa, 'Asante Village'	265 172,300	$7,450,000 $43.24	11/3/2011 1979	$1,709,700 $28,113	4.4 6.4	133 1/1, 132 2/1 REO, FKA Riviera Pointe
8092 W Paradise Ln Peoria,'Enclave@ParadiseLn'	240 247,964	$26,900,000 $108.48	12/8/2011 2007	$2,413,666 $112,083	11.1 5.6	48 ST, 48 1/1, 132 2/2, 12 3/2
8450 N 67th Ave Glndl, 'Sunset Landing'	224 140,224	$7,800,000 $55.63	11/18/2011 1985	$1,740,480 $34,821	4.5 6.3	112 1/1, 112 2/2 82% occupied
3175 N Price Rd Chndlr, 'Chandler Meadows'	200 173,248	$12,600,000 $72.73	12/13/2011 1983	$1,595,570 $63,000	7.9 6.2	80 1/1, 48 2/1, 60 2/2, 12 3/2 Cash
16682 N West Point Pky Surprise, 'Vlg @ West Point'	168 167,244	$14,150,000 $84.61	11/29/2011 2004	$1,808,640 $84,226	7.8 5.5	64 1/1, 40 2/1, 40 2/2, 24 3/2
4121 W McDowell Rd Phx, 'Hacienda Del Rio'	146 81,942	$4,100,000 $50.04	12/28/2011 1985	 $28,082		146 1/1 Subsidized senior housing
13610 N 51st Ave Glndl, ' Glenridge'	135 94,200	$5,730,000 $60.83	11/23/2011 1985	$1,082,340 $42,444	5.3 6.0	12 st, 75 1/1, 12 2/1, 36 2/2 Cash
2855 E Broadway Rd Mesa, 'Lindsay Palms'	132 128,836	$11,411,000 $88.57	12/16/2011 1999	$1,226,000 $86,447	9.3 5.5	36 1/1, 20 2/1, 68 2/2, 8 3/2 REO, resale from 9/09
8080 N 51st Ave Glndl, 'Maplewood'	130 90,172	$4,125,000 $45.75	12/20/2011 1984	$727,104 $31,731	5.7 5.9	74 1/1, 56 2/2 REO, resale from 5/11
11850 N 19th Ave Phx, 'Cheyenne Pointe'	128 60,303	$1,600,000 $26.53	12/16/2011 1985	$595,440 $12,500	2.7 9.6	18 st, 85 1/1, 25 2/1 REO, cash, renov 2005
1120 S Sycamore Mesa, 'Sycamore Shadows'	120 102,340	$6,250,000 $61.07	11/18/2011 1978	$1,215,360 $52,083	5.1 6.8	1 1/1, 119 2/2 REO
5235 N 43rd Ave, Phx, 'Oasis West'	100 81,520	$2,350,000 $28.83	11/21/2011 1972	$663,600 $23,500	3.5 4.9	20 1/1, 60 2/1, 20 3/1.56 63% occupied, cash, resale from 9/11
8622 N 59th Ave Glndl, 'Village Sereno'	93 111,369	$10,250,000 $92.04	11/30/2011 2009	 $110,215	 6.0	REO, Condo mapped
708 N Country Club Dr Mesa, 'The Brittany'	92 47,850	$1,900,000 $39.71	11/14/2011 1970	$569,496 $20,652	3.3 9.6	31 st, 60 1/1, 1 2/1 REO, resale from 12/09
454 W Brown Rd Mesa, '454 West'	80 80,000	$3,000,000 $37.50	11/30/2011 1972	$623,040 $37,500	4.8 8.7	80 2/2 REO, cash
10825 N Cave Creek Rd Phx, 'North Mountain Lodge'	65 26,845	$348,700 $12.99	11/10/2011 1963	 $5,365		27 st, 36 1/1, 1 2/1, 1 3/1 REO, sold to subsidized housing
125 N 18th St Phx, 'Casa Nueva'	64 60,876	$2,100,000 $34.50	12/15/2011 2001	$539,904 $32,813	3.9 10.9	12 1/1, 36 2/2, 16 3/2 REO
2502-2524 W Elm St Phx, 'Elm Street'	54 39,322	$795,000 $20.22	11/23/2011 1964	$266,136 $14,722	3.0	32 1/1, 22 2/1 REO, 67% 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
1030 N 3rd St Phx, 'Continental'	48 22,788	$1,250,000 $54.85	10/19/2011 1964	$249,600 $26,042	5.0 7.8	40 st, 8 1/1 Cash
5343 E Taylor St Phx, 'Papago Fairways'	47 36,780	$1,725,000 $46.90	10/18/2011 1989	$336,300 $36,702	5.1 8.1	23 1/1, 24 2/2 REO, cash
5024 E Thomas Rd Phx, 'Carlton Court'	46 30,570	$1,175,000 $38.44	12/29/2011 1963	$327,156 $25,543	3.6 10.3	9 st, 19 1/1, 15 2/1, 3 3/2 Cash, renov 1997
1110 E Highland Ave Phx, 'Highland Villa'	39 23,409	$980,000 $41.86	12/30/2011 1972	$243,600 $25,128	4.0	5 st, 33 1/1, 1 2/1 Cash
1920 E Hayden Ln Tempe, 'Galleon'	36 26,640	$1,800,000 $67.57	11/14/2011 1984	$262,440 $41,667	6.9 6.0	36 2/1 Double escrow – 1st sale ($1.5M)
2534 W Georgia Ave Phx, 'Georgia Villa'	36 25,100	$720,000 $28.69	12/09/2011 1979	$219,600 $20,000	3.3 10.1	26 1/1, 10 2/2 Cash, 70% occupied
436 W 8th St Mesa, 'Olive Tree Vistas'	36 23,760	$576,000 $24.24	12/13/2011 1986	$203,378 $16,000	2.8	36 1/1 REO, cash, 0% occupied, defer. maintenance
2424 E Grandview Rd Phx, 'Grandview Terrace'	36 23,850	$800,000 $33.54	12/7/2011 1984	$228,600 $22,222	3.5 9.7	3 st, 6 1/1, 27 2/1 Condo mapped
6825 E 4th St Scotts, 'El Dorado Resort'	33 29,096	$2,175,000 $74.75	11/25/2011 1960	 $65,909		2 st, 9 1/1, 20 2/2, 2 3/2
4848 E Holly St Phx, 'Garden Terrace'	32 27,346	$1,220,000 $44.61	11/17/2011 1984	$197,255 $38,125	6.2 7.0	14 1/1, 8 2/1, 10 2/2 REO, cash
425 E Brown Rd Mesa, 'Mountain View'	30 25,224	$1,500,000 $59.47	11/22/2011 1973	$283,320 $50,000	5.3 9.3	18 2/1, 12 3/2 Condo mapped, cash, renov 2008
3102 E Paradise Ln Phx, 'Paradise Arbor'	28 25,008	$602,000 $24.07	10/19/2011 1985	 $21,500	 7.0	2 2/1.5, 36 2/2 82% occupied
2108 S Rural Rd Tempe, 'Villa Tempe'	28 20,150	$900,000 $44.67	11/2/2011 1959	$168,000 $32,143	5.4	15 1/1, 13 2/1 REO, 50% occupied
3009 N 36th St Phx, 'Melbourne'	26 16,650	$855,000 $51.35	12/9/2011 1964	$160,080 $32,885	5.3	6 st, 12 1/1, 8 2/1 Cash, 50%, resale from 11/21/12 ($775,750)
5301 N 19th Ave Phx, 'Metro 1 Townhomes'	25 45,000	$3,375,000 $75.00	12/19/2011 2010	$390,000 $135,000	8.7 6.4	25 2/2.5 REO, cash, condo mapped
5410 S 3rd St Phx, 'Southview'	24 15,600	$515,000 $33.01	12/28/2011 1986	 $21,458	 9.1	24 2/1
1604 W Pasadena Ave Phx, 'West Pasadena'	23 13,300	$425,000 $31.95	12/13/2011 1948	$136,200 $18,478	3.1 9.5	4 st, 18 1/1, 1 2/1 REO, cash, 56% occupied
7011 N 68th Dr Glndl, 'Garden Palms'	22 13,114	$359,000 $27.38	10/28/2011 1978	$132,000 $16,318	2.7	14 1/1, 8 2/1
1441 E Polk St Phx	18 9,792	$330,000 $33.70	11/30/2011 1984	 $18,333		11 1/1, 7 2/2 Cash
635 N 4th Ave Phx, 'Georgia Arms'	18 7,640	$660,000 $86.39	12/29/2011 1949	$71,040 $36,667	9.3	16 st, 2 1/1 Cash
310 W Medlock Dr Phx	17 16,328	$500,000 $30.62	12/14/2011 1964	$142,800 $29,412	3.5	17 2/2 $30,000 deferred maintenance
6817 N 17th Av Phx, 'Silver Oaks'	16 14,400	$421,000 $29.24	11/07/2011 1962	$105,600 $26,313	4.0	16 2/1 REO, 25% occupied, cash
1801-1809 W Mountain View Phx, 'Mountain View'	16 10,975	$295,000 $26.88	11/29/2011 1963	$75,072 $18,438	3.9 9.1	1 st, 6 1/1, 9 2/1 Cash
1840 N 51st St Phx, 'Seville East'	15 10,700	$177,000 $16.54	10/26/2011 1945	 $9,833		6 st, 4 1/1, 5 2/1 REO, cash, renov 1971
1810 N 51st St, Phx, 'Millhaven'	15 12,600	$310,000 $24.60	12/14/2011 1962	$107,100 $20,667	2.9	15 2/1 Cash
3002 N 40th St Phx	14 11,500	$535,000 $46.52	10/20/2011 1962	$94,800 $38,214	5.6	5 1/1, 2 2/1, 7 2/2 Cash

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The Metro Phoenix Apartment Market (Q4 2011)

In the 4th quarter, there were 60 regular apartment sales (10 or more units) – similar to each previous quarter in 2011. Of these, half sold for more than $1M and 33 of the 60 were "all cash". The 27 sales that had financing were mostly from new loans or restructured / assumed loans from the existing lender. What was different about the 4th quarter was that we are now seeing the resale of many properties that were purchased at bargain prices over the past couple years ("flips"). Of the 60 regular sales, 17 (28%) were "flips". Some of these "flips" had little work done, some were repositioned after some degree of upgrading, and some were sold by owners that decided that apartment ownership was not as easy as expected – or maybe they just believed that their broker's "proforma" was reality! Not our buyers…..

For 2011, all apartment sales (10 units or more) including regular, 3rd party trustee and partial condo sales (not including portfolio sales), totaled 265. The number of total sales was an increase of 19% over 2010 (223 total sales) and was much higher than in 2008 (75) and 2009 (57). The industry showed a renewed faith in the market by permitting 1,961 units for new construction in 2011, this compared to 408 units in 2010 and 637 units in 2009. Most of the new construction is planned as "in-fill", as opposed to the previous trend of building in the path of expansion on the outskirts of the cities.

Trustee Sales Reduced – Auction Platforms Growing in Popularity for REO's

In the past few years, we have seen a number of apartments sold to 3rd parties at Trustee Sales. However, in the 4th quarter, there were only two 3rd party trustee sales for apartments. Many lien holders are trying to complete a sale prior to the trustee sale in an effort to avoid the liability of ownership - requiring additional time and expense for management, deferred maintenance, and all health and safety issues. There is a growing trend for lenders that do take on ownership to resell the asset via an auction platform. While this covers the lenders concern about being "transparent", the prices obtained are typically much less than a properly marketed community using the full service of an apartment broker.

Liquidity: Still Dismal for Most – Great for Some

Liquidity (money for financing) in the market is still minimal – but there are signs of life. The distressed, "B" and "C" properties are still only serviced with loans with higher interest rates (10% to 18%) at 50% to 60% loan-to-value (LTV). As these properties are refurbished and rent-stabilized, a strong owner may be able to obtain 70% LTV with reasonable interest rates. For "A" and "B" quality properties with strong historical financials, Fannie Mae, Freddie Mac and others have been offering ±4.5% interest rates at 80% LTV. Minimum loan amounts are about $2.0M. These larger, quality properties are being purchased at 5% to 6% cap rates since large investment funds are receiving very low interest from banks and have minimal options for finding other investments with reasonable returns.

The Next Jump in Value

Property values have inched upwards with the steadily increasing domestic and international buying pressure, but there is plenty of upside as the economy and financing improves. Banks are still failing across the country and are being absorbed by larger, more solvent banks. Because of these failures, for many smaller banks, the FDIC and banking regulators have such a tight hold on the bank's operations, it often prevents them from doing loans – including apartment loans in metro Phoenix. As banks, big or small, grow out from under this tight control, look for liquidity to come back in the market. For the "B" and "C" properties, we expect to see a jump in values when liquidity returns. At present, the "all cash" buyer's return is essentially the "cap rate". When liquidity returns and investors can use leverage for acquisition, the selling cap rates for the "B" and "C" properties will drop and values will jump.