

KASTEN LONG COMMERCIAL GROUP

Specializing in Apartments since 1998

Presentation for:

**Arizona Real Estate Investor's Association
(AZREIA)**

October 10, 2011



Group's Sales History

Agents Sales Volume

\$750,000,000+



Apartment info. on our website

www.KLCommercialGroup.com

➤ **Apartment Market Data**

Quarterly - Apartment Newsletters

Vacancy by submarket

Map of apartments under construction

➤ **KLCG Listings (flyers & data packages)**

Greater Phoenix Apartment Owner's Newsletter

(Every Quarter Since 1998)

- **Vacancy Rates**
- **Newly Permitted**
- **Recent Apartment Completions**
- **Apartment Sales**
- **Apartment Market Overview**

Where to Find Apartment Data

Sold Comps: CoStar (LoopNet)

For Sale: LoopNet (CoStar)

MLS

General Property Information:

Real Data (50+ units)

Pierce-Eislen (50+ units)

Kammrath

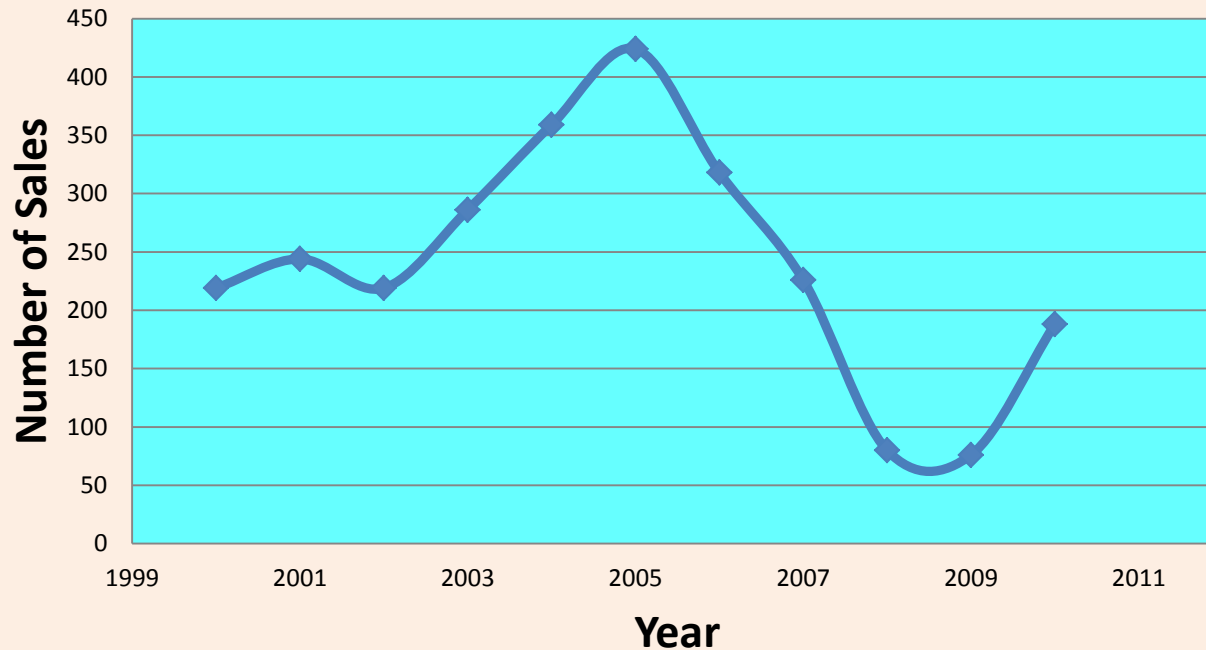
General Data: ASU Multihousing Study (vacancy rates, new const., permits)

Greater Phoenix Apartment Market

October 10, 2011

AZREIA

Number of Apartment Sales (10+ units) 2000 – YTD 2011



Thru 3rd Qtr. 2011

164 Regular

20 Trustee

10 Portfolio

13 Partial Condo

Apartment Values

“B” and “C” class Apartments
dropped in value to **about a third** of
what they had been selling for
prior to mid-2008 if “All Cash”



Apartment Value Comparison

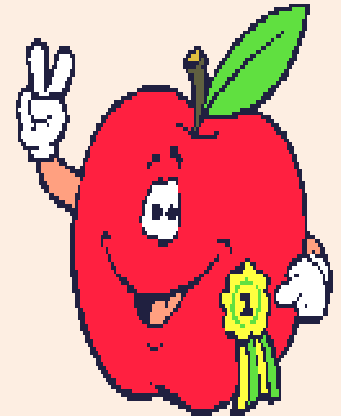
Difficult to do Apples to Apples



≠



≠



2010 vs YTD 2011 Apartment Prices

10 – 50 units, Built: 1930 – 1987

| | <u># of Sales</u> | <u>Price/unit</u> | <u>Price/sf</u> |
|----------------------------------|-------------------|-------------------|-----------------|
| 2010 | 79 | \$22,469 | \$31.07 |
| 2011 (3rd Qtr) | 75 | \$20,934 | \$32.13 |

2010 vs YTD 2011 Apartment Prices

50 – 100 units, Built: 1930 – 1987

| | <u># of Sales</u> | <u>Price/unit</u> | <u>Price/sf</u> |
|----------------------------------|-------------------|-------------------|-----------------|
| 2010 | 33 | \$18,263 | \$26.65 |
| 2011 (3rd Qtr) | 22 | \$26,093 | \$36.04 |

**Properties
offering financing
command higher
prices**



Sun Crest Apts – 94 Units - Short Sale

Highest “All Cash” offer: \$2,600,000
Sold Price with lender financing: \$3,150,000

Sold for 21% More with existing lender financing

Trustee Sale Prices (10 units or more)



| | | |
|-----------------|-------------------|-------------------|
| 2010 | \$19,667/u | \$27.66/sf |
| 2011 YTD | \$24,870/u | \$35.10/sf |

Note: Represents Average of 20 Trustee Sales each year

(newer) 100+ Units

Selling at a 7.2 to 7.4 cap

Weis Reports 10.6.2011

Apartment Vacancy Rates

Reported Vacancy vs Economic Vacancy

Reported Vacancy (by ASU) 2nd Qtr 2011 (10.9%)

- Actual Vacant Units

Economic Vacancy (20% - 25%+)

- Actual Vacant Units - plus loss of Rent due to:
 - Move-In Specials
 - Discounted Deposits
 - Renewal Incentives
 - Collection Problems

Vacancy Rate by Unit Size

2010 to 2011

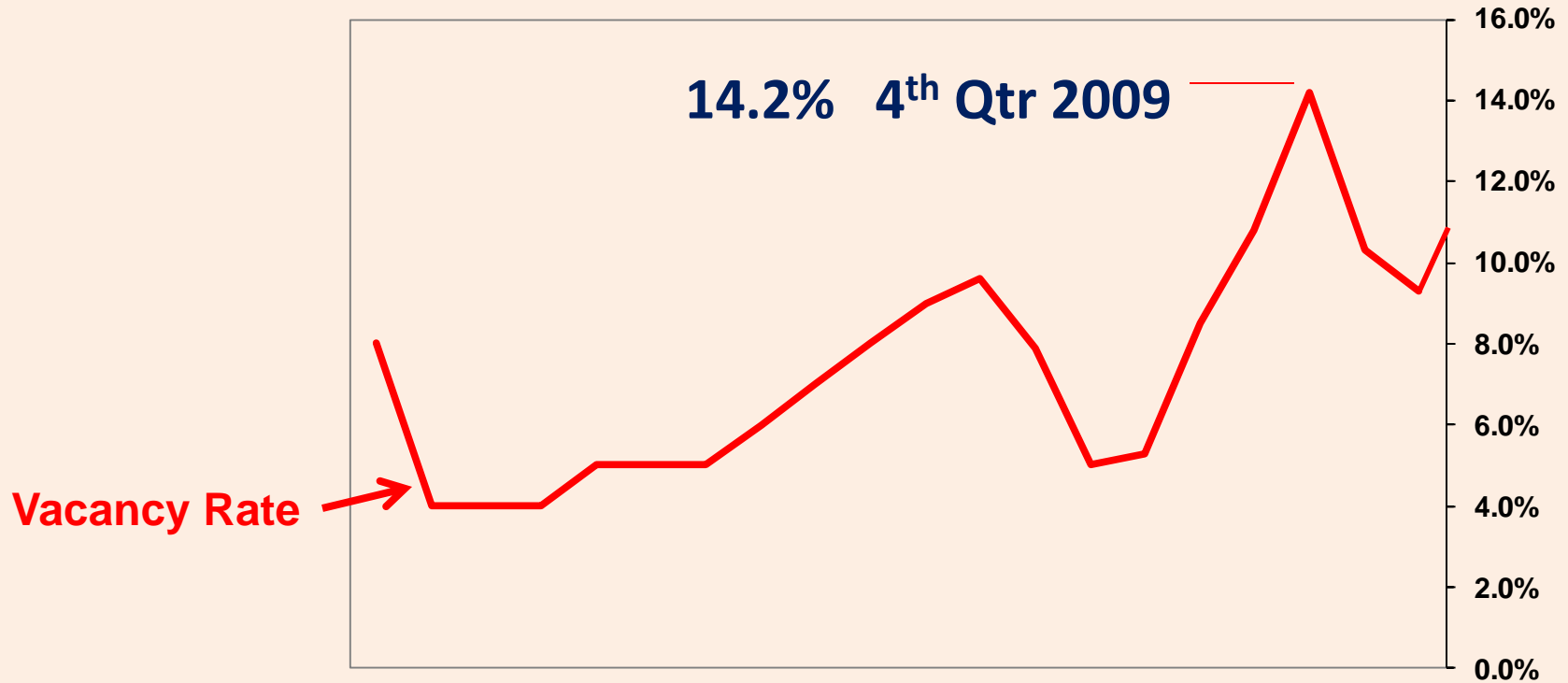
| Units | 2010 2 nd Qtr | 2011 2nd Qtr |
|-----------|--------------------------|--------------|
| 2 - 24 | 11% | 12% |
| 25 - 50 | 15% | 14% |
| 51 - 75 | 13% | 10% |
| 76 - 99 | 14% | 7% |
| 100 - 150 | 12% | 8% |
| 151 - 200 | 11% | 8% |
| 200+ | <u>11%</u> | <u>10%</u> |
| | 11.9% | 10.9% |

Vacancy Rates by Submarket (2nd Qtr 2011)

| | | | |
|-------------------|-----|----------------|-----|
| N. Scottsdale | 7% | Maryvale | 14% |
| S. Scottsdale | 7% | Sky Harbor | 18% |
| N. PV | 6% | S. Phoenix | 13% |
| S. PV | 9% | Mountain Park | 6% |
| Sunnyslope | 8% | N. Tempe | 7% |
| N. Black Canyon | 11% | S. Tempe | 7% |
| Metrocenter | 10% | N. Mesa | 8% |
| Sun City / Peoria | 12% | S. Mesa | 9% |
| Glendale | 12% | E. Mesa | 6% |
| NW Phoenix | 22% | Super. Springs | 6% |
| Christown | 9% | Gilbert | 6% |
| E. Camelback | 13% | Chandler | 5% |
| CE Phoenix | 9% | West. Suburbs | 10% |
| Uptown | 18% | Union Hills | 11% |
| CW Phoenix | 17% | Deer Valley | 9% |

Vacancy Rate

1992 - 2011



Rental Rates (“B” and “C” Quality Apts.)

With Increase in Vacancy:

- Concessions increased
- Move-in specials increased
- **Rental rates dropped (15% to 25%)**
- **Cash Flow Decreased**

Typical Owner Scenario

- Purchased with 70% to 80% LTV
- Strong Buyer (assets, FICA score, etc)
- Initially had Good Cash Flow

2008 – Trouble

- Vacancy Rates Increase
- Rent and Cash Flow Decreases



THE DEFINING MOMENT

- Owner reduces maintenance to make loan payment

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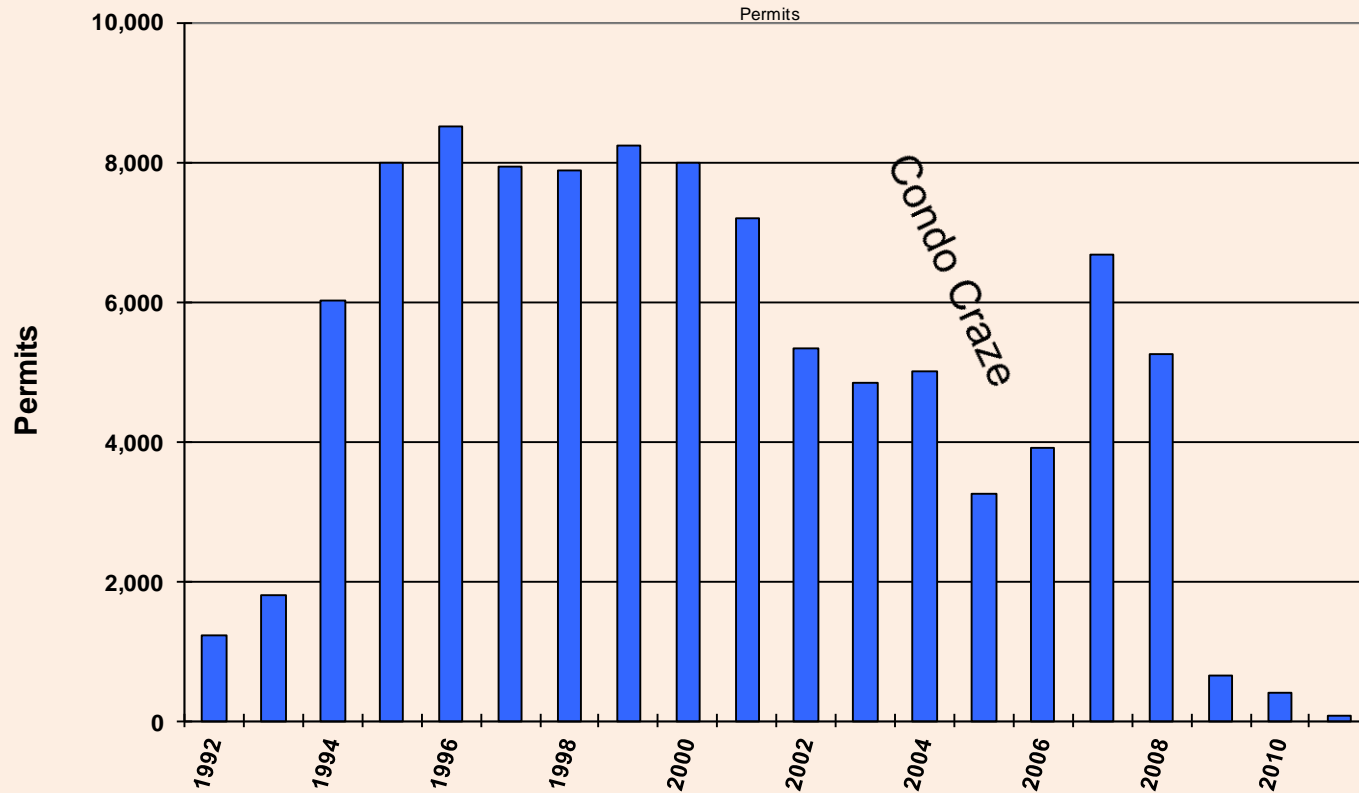
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**Property Spirals Down in
Occupancy, Cash Flow and Value**

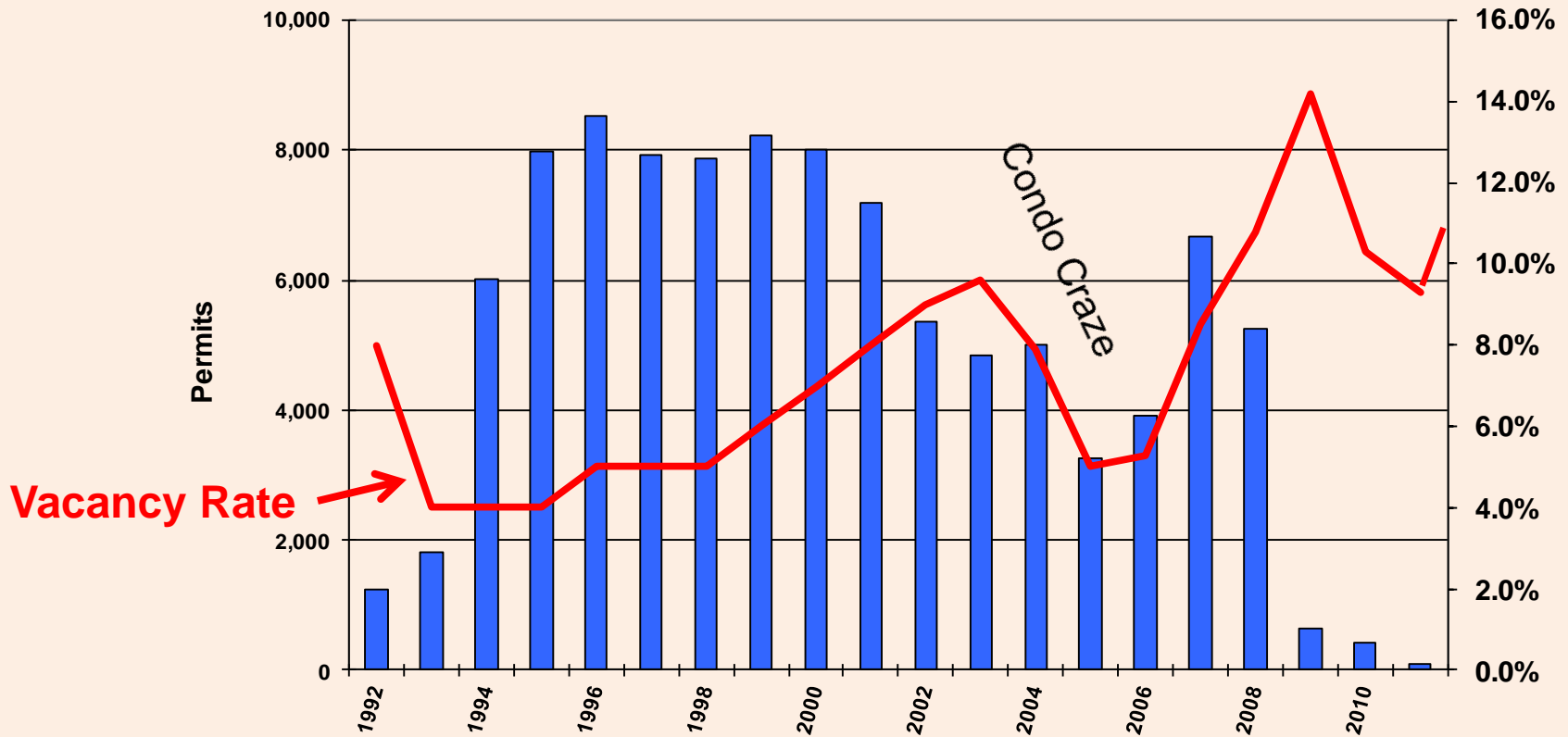
Permits Issued for New Apartments

1992 - 2011

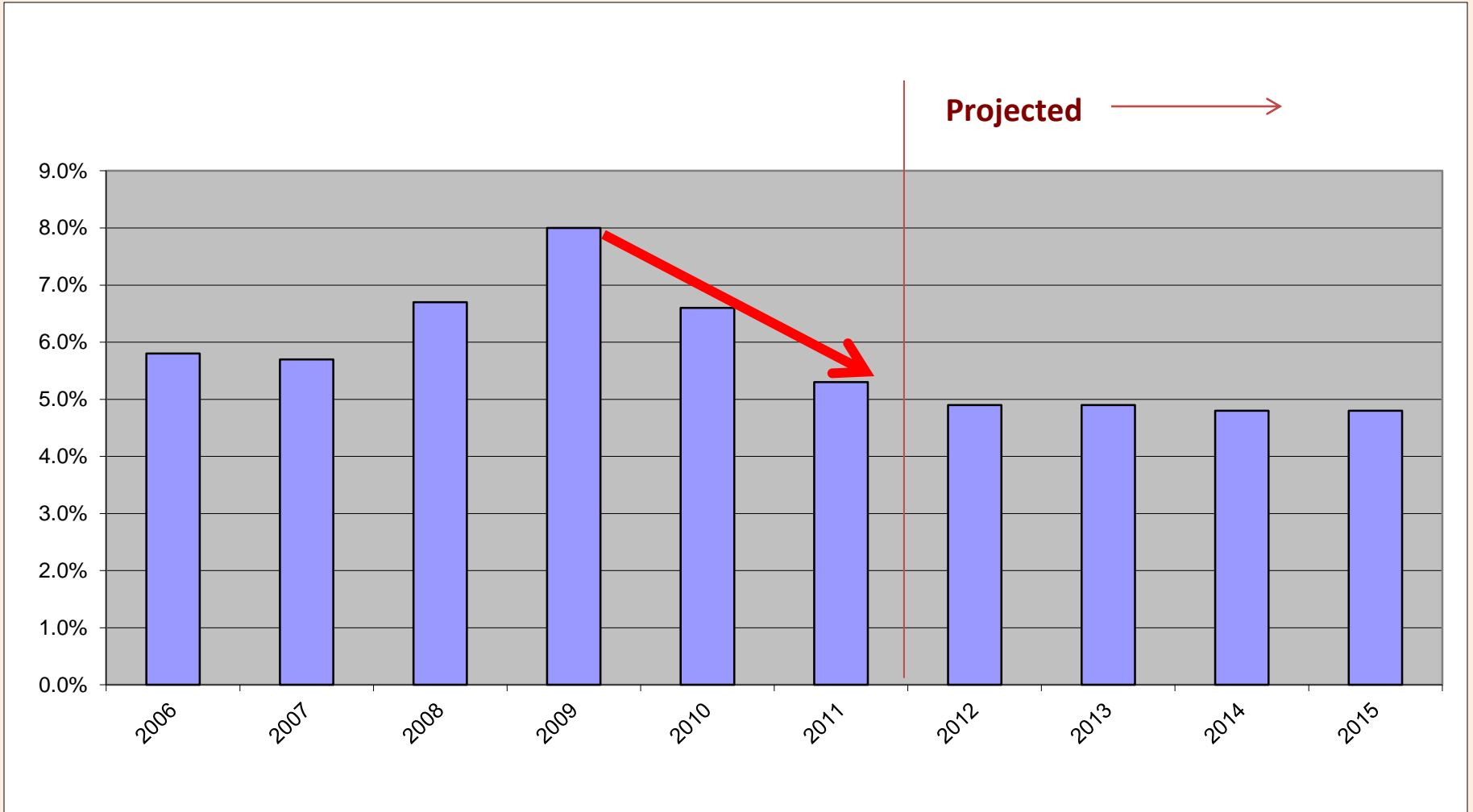


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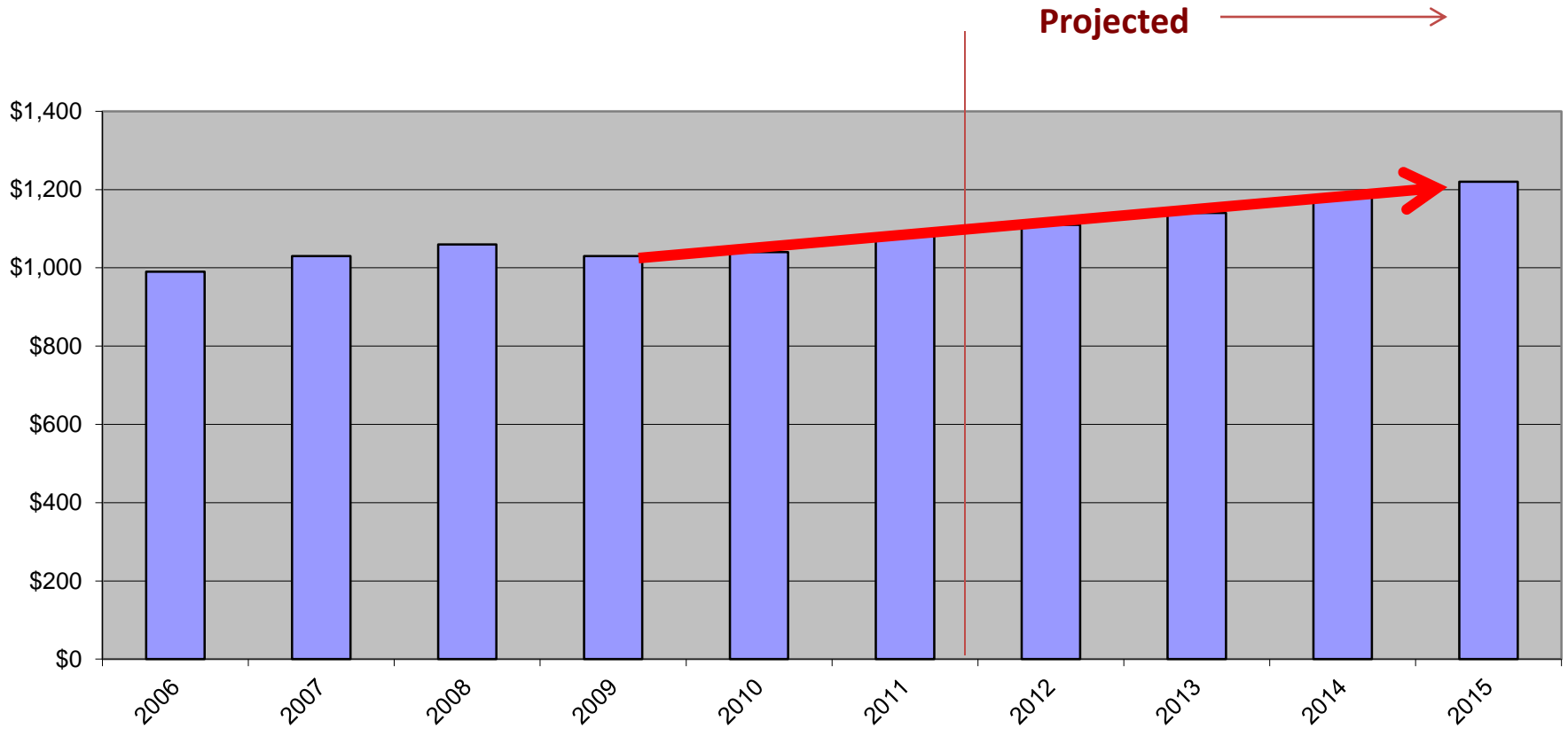
1992 - 2011



100+ Units – VACANCY RATE



100+ Units – RENTAL RATE



New Apartment Construction



As of end 2nd Quarter 2011:

3 Complexes Under Construction

- **191 Units (Reported by ASU)**

New Permits in July and August

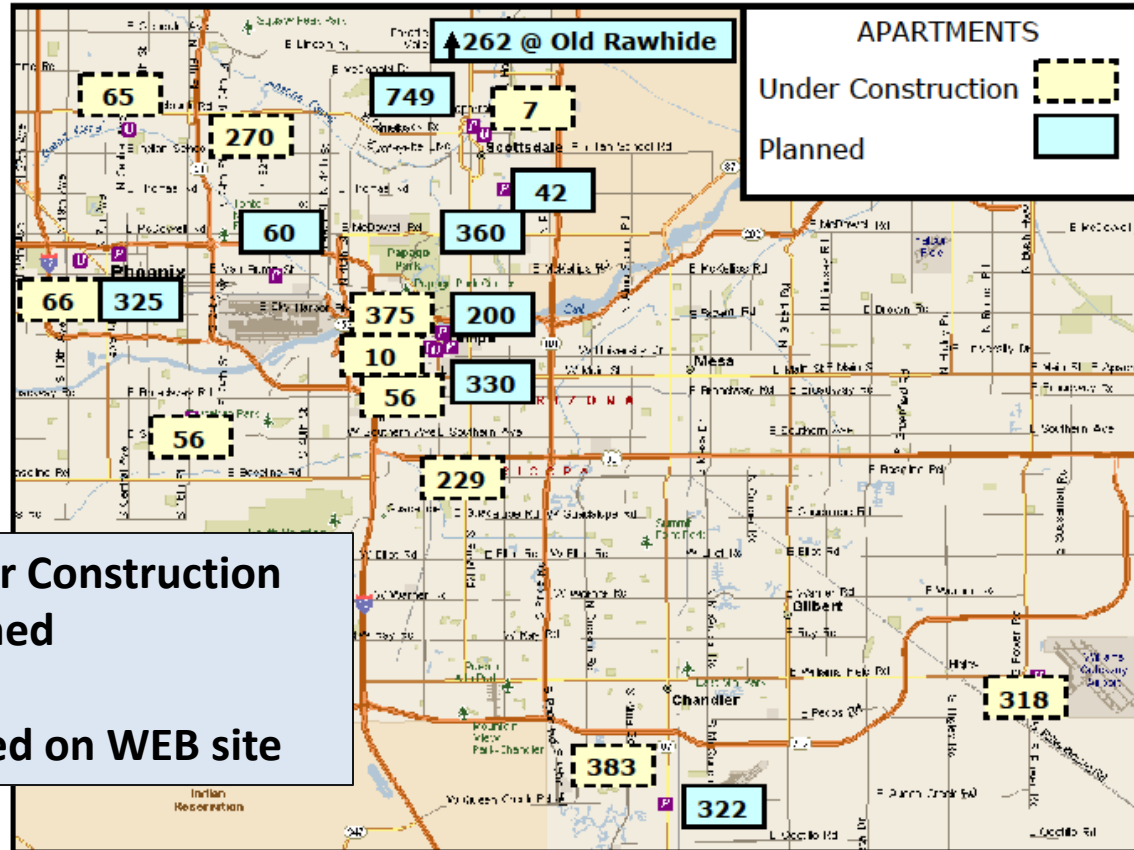
224 units at Baseline & Rural Road

383 units at Alma School & Loop 202

❖ **Permitting activity on our web site**



New Apartments – 8/15/2011



1,517 Under Construction
2,650 Planned

Details posted on **WEB** site

Under Construction - ??

Sometimes just a truck with a sign

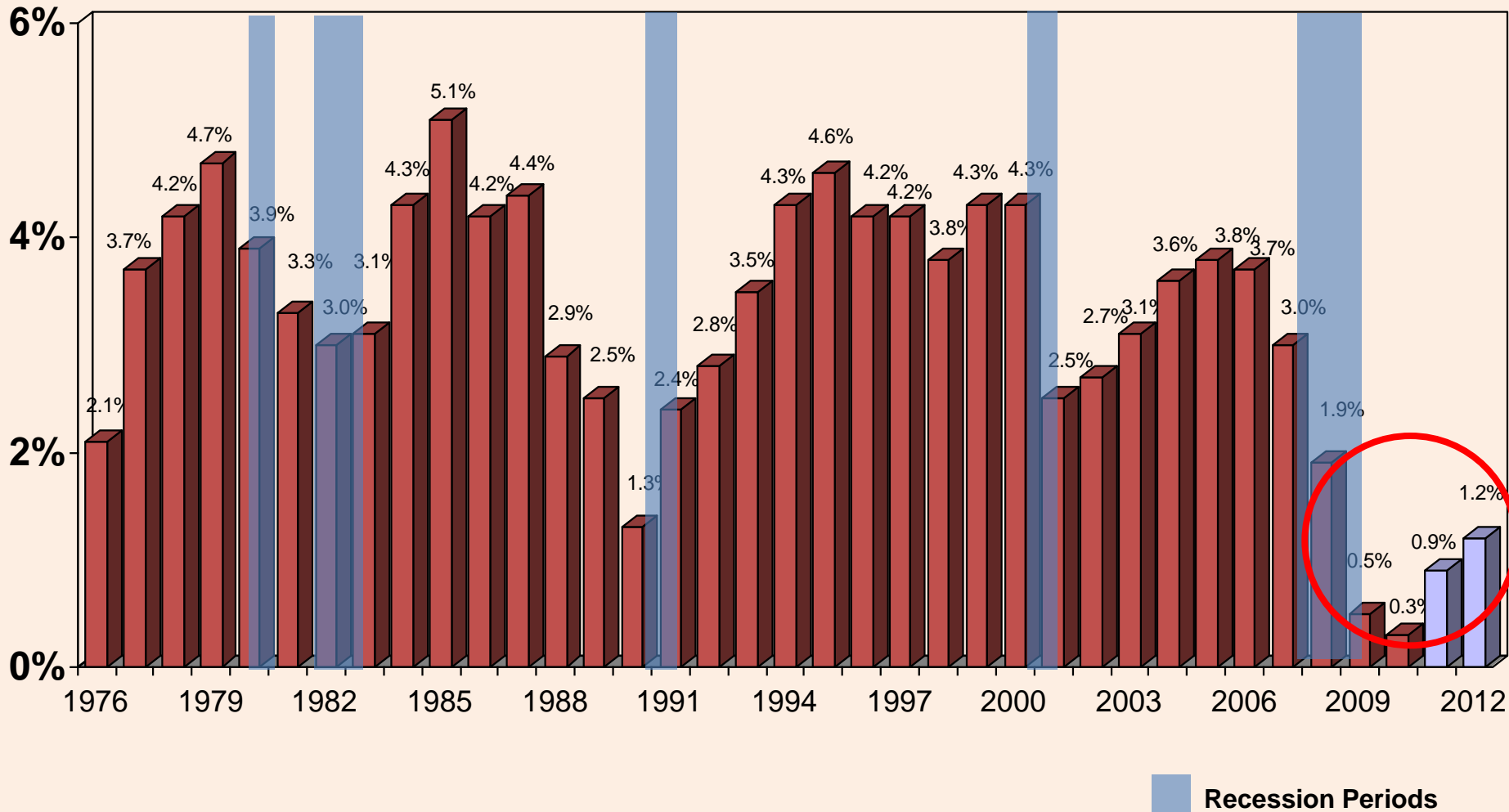


Factors Affecting the Apt. Market

- **The Economy – Slowed Population Growth**
- **High Unemployment – Job Loss**
- **Many, Low-priced Apartment REO and Short Sales**
- **The Shadow Market (single-family rentals)**
- Lenders (Agents) not restructuring loans
- Tight credit markets

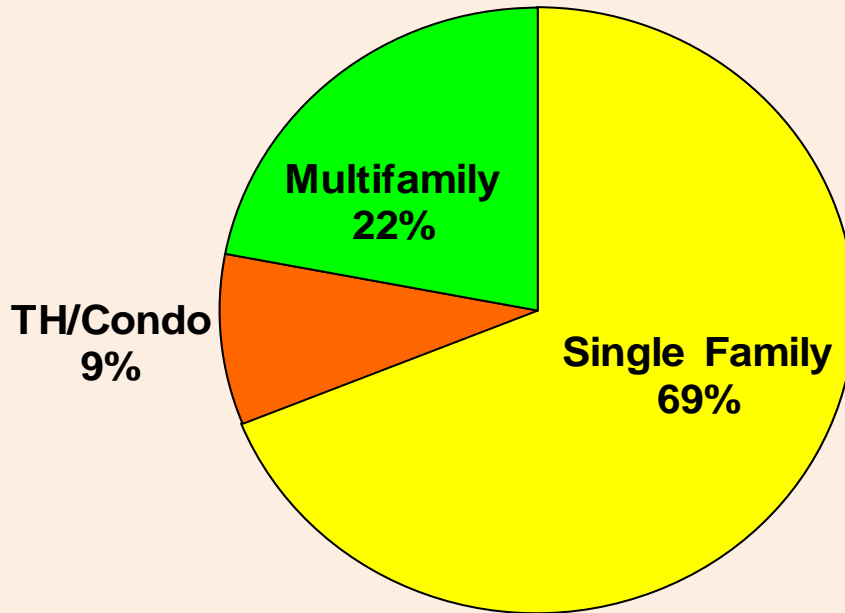
Greater Phoenix Population Annual Percent Change 1976–2012*

Source: Arizona State University & Department of Commerce, Research Administration



* 2011 & 2012 forecast is from *Elliott D. Pollack & Co.*

Total Residential Units



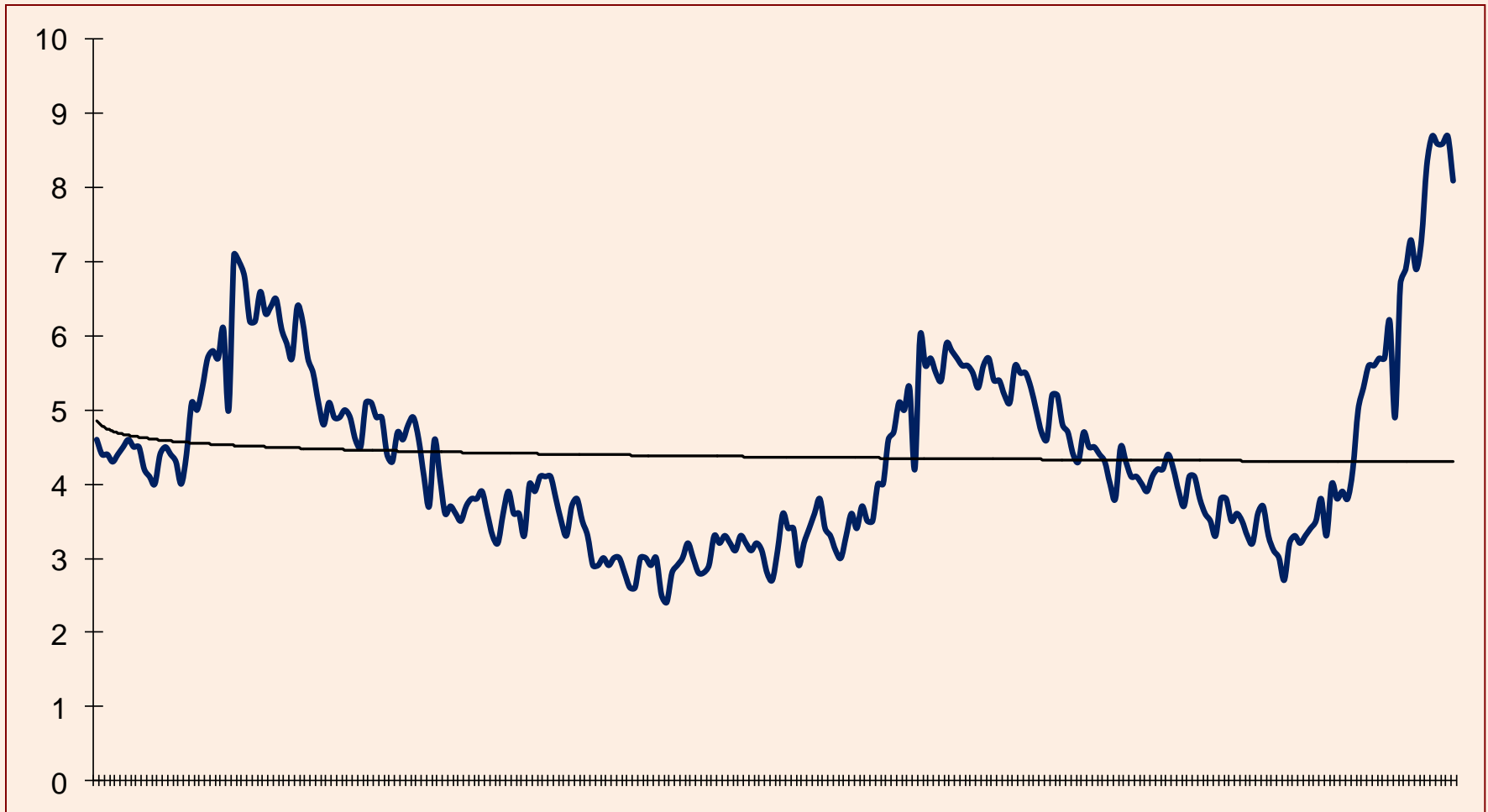
Single Family **1,079,746**

TH/Condo **142,756**

Multifamily **345,294**

1,567,796

Unemployment Rates 1990 - 2011



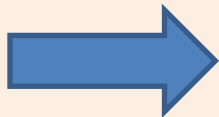
Apartment REO and Short Sales



±40% of the apt. sales are “All CASH”

RESULT: New owners, without a loan payment, drop rents to stabilize occupancy

- drives nearby apts to lower rents
- decreases nearby apts cash flow



more REO's and Short Sales

The Shadow Market

**Low-Priced houses and Condos
Purchased by Investors
Turned into Rentals**



YTD 2011

66,728 Total Single Family & Condo Sales

66% (44,142) - REO or Short Sales

Let's Talk 4-Plexes

4-plex Proforma – All Cash

4 units at \$500/mo (\$2,000/mo), 750 sf each (total: 3,000 sf)

Price: \$100,000 (all cash)

GSI \$24,000

- VAC 4,800 (20%)

GOI \$21,600

- EXP \$12,000 (\$3,000/unit, \$4.00/sf)

NOI \$ 9,600

CAP: \$9,600 / \$100,000 (9.6%)

ROI: (9.6%) – if all cash

4-plex Return with Financing

4 units at \$500/mo (\$2,000/mo), 750 sf each (total: 3,000 sf)

Price: \$100,000 (\$25,000 down, 6%, 30 yr loan)

NOI \$ 9,600

-\$5,396

Annual Loan Pmt. on \$75,000

\$ 4,204

CAP: \$9,600 / \$100,000 (9.6%)

ROI: \$4,404 / \$ 25,000 (17.6%)

4-Plex Data – MLS



| Year | # Listed For Sale | Above \$100,000 |
|----------------|-------------------|-----------------|
| 2009 | 250 | 30% |
| 2010 | 150 | 50% |
| 2011 (October) | 90 | 65% |
| | Pending | |
| | 50 | 74% |

Where to Find Apartment Investments

Where to Find Apartment Investments

MLS – RE Agents

Apt. Brokers – non MLS

Owners

Trustee Sales

Lenders

Note Holders (lenders and private)

Auctions (Auction.com, Tranzon.com)

Writing Offers on Apartments

- **In The Past –**
 - 10 days due diligence – books and records
 - 10 days due diligence – physical inspection
 - 30 day due diligence – financing
- **NOW**
 - ALL CASH
 - 10 days to close
 - Subject only to clear and marketable title

***** Do your due diligence in advance of making offer**

Apartment Trustee Sales (10+ units) -- last 12 months --

125 Apartment Offered at Trustee Sales

- 25 purchased by 3rd party (1 in 5) - **\$41.8M**

Trustee Sales - Issues

- **Most postponed**
- **No opening bid till day prior (like houses)**
- **Lenders often jump bid – no advance notice**
- **Lenders also will instruct Trustee to bid up the price – unknown upper limit**

Trustee Sales – Apartment Issues

- **Must pay all delinquent taxes**
- **Title may have issues**
- **Will not receive deposits or prorated rents**
- **May not have leases for tenants**

96 unit – Recent Trustee Purchase and Resale



Purchase: \$1,650,000 (\$17,187/u)
\$ 800,000 Cash
\$ 850,000 Loan (18%)
\$ 50,000 Rehab

Sale: \$2,208,000 (\$23,000/u)

Cash on Cash: 40.1% (Sale – 9 months after purchase)

Financing (Hard to Soft \$)

- **RLS Capital** – Scott Gould (**24 hours to close**)
 - $\pm 50\%$ LTV, 18% interest, minimal processing cost
 - Great for Trustee Sales
- **Sir Mortgage** – Greg Sir
 - 10% to 12%, ± 2 pts, 2 weeks



Buying Notes

- Notes are offered by lenders to investors. Web sites, auction, direct contact, etc.
- Most times, Note buyer trades owner – Deed in Lieu for waive of Deficiency Judgment

The Predatory Note Buyer

- **Some Buyers foreclose on an owner and then go after borrower for a Deficiency Judgment**

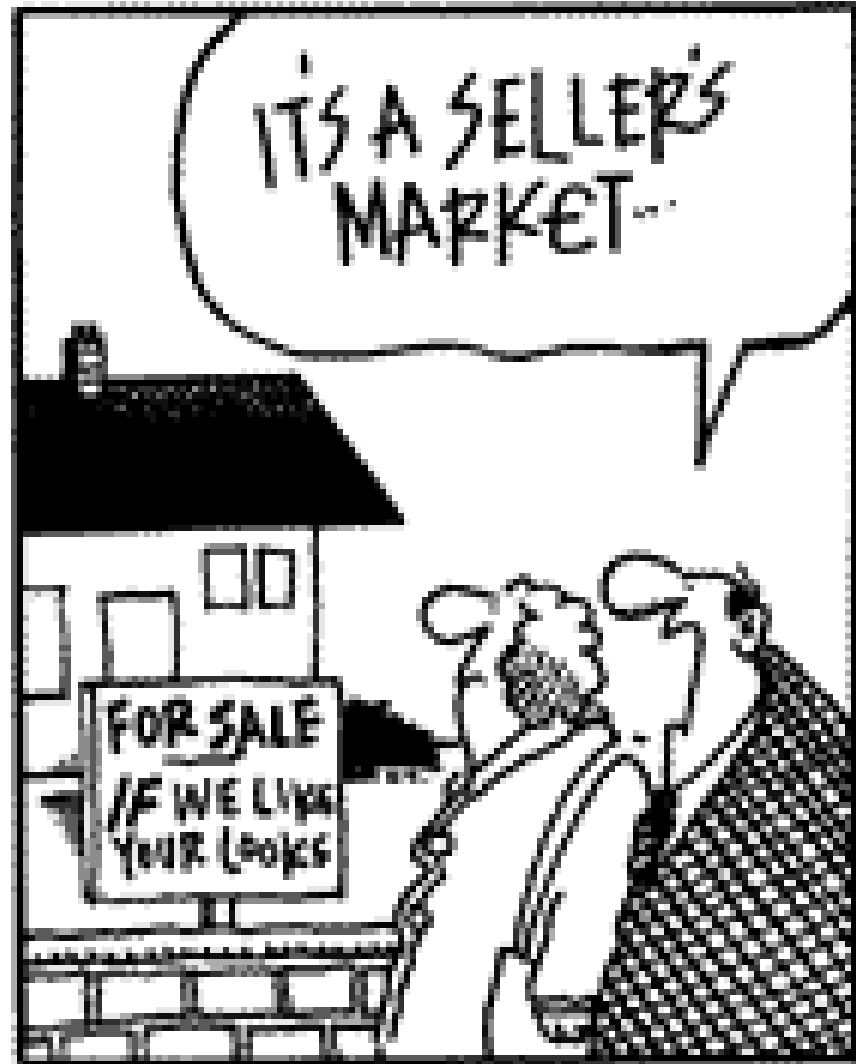
Financing – Existing Lender

Short Sales & REO - Obtain new loan from existing lender

- High leverage
- Good terms
- Pay a bit more

Existing lender will be able to write off less due to a higher price – opts for this rather than restructure the existing borrower's loan – deemed a distressed asset.

Will we get
back
here?



Future Concerns

1. **\$1.4 Trillion in Commercial Loans due 2012 – 2014**
2. **CMBS Loan Defaults Increasing (now – 9.5%)**
3. **Few Banks Lending – More Bank Failures**
4. **Europe's Financial Crisis**
5. **REO and Short Apartment Sales – being purchased at very reduced prices**
6. **Shadow Market's – Competition for tenants**

A Bright Future

With an Increased Population the Lack of New Apartment Construction will Create a Supply Shortage. Result:

- **Low Vacancy Rates**
- **Higher Rents**
- **Elimination of Move-in Specials**
- **Strong Cash Flow**



Increase in Property Values

A Slingshot Recovery

As the rest of the U.S. improves, folks from the colder climates will be able to sell their homes and move to AZ. Housing construction will lead the way to our recovery, but as the population explodes, we will also need to build more offices, warehouses, retail, etc.
JOBS JOBS JOBS



With the lack of construction for many years for homes and commercial, the building boom will slingshot Arizona back to prosperity.

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