

GREATER PHOENIX APARTMENT OWNER'S NEWSLETTER

KASTEN LONG COMMERCIAL GROUP

RE/MAX Commercial Investment

4th Quarter 2008

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(Oct – Dec 2008)
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KLCommercialGroup.com
Formerly: PhxAptsForSale.com

Vacancy Rate at 10.8%

At the end of the 4th quarter of 2008 the vacancy rate for all-size, existing (>6 mo.'s) multifamily units was reported at 10.8%. This was an increase of 2.3% from the 4th qtr of 2007. Of the 329,507 total multifamily units, there were 35,450 reported as vacant. The 3rd qtr vacancy rates as reported by ASU are shown below – but I believe these to be incorrect.

# of Units	2008 3rd Qtr.	2008 4th Qtr.
2 - 24	4%	4%
25 - 50	4%	5%
51 - 75	4%	8%
76 - 99	6%	9%
100 - 150	7%	11%
151 - 200	9%	11%
200+	8%	11%
Average	7.9%	10.8%

The larger complexes (100+ units) reported 11% with the smaller complexes ranging from 45 to 9%. The highest vacancy rate (16%) was reported for Central West Phoenix and the lowest rates (6% & 7%) were reported for Mountain Park and South Scottsdale Districts.

There were 1,150 apartment completions in the 4th qtr, led by two projects in Sun City and projects at 20050 N. Cave Creek (Union Hills), at 96th Av and Northern Ave. (Glendale) and at 77th Av and McDowell (Maryvale).

Vacancy rates remain relatively high with little relief in sight. Economic vacancy (including rent concessions, move-in specials, etc.) is estimated at double this amount. There were only eight apartment transactions (10+ units) in the 4th quarter, down from an average of 70 to 80 per quarter a couple years ago. With few buyers in the market, financing being tight (but not gone) and “short sales” and REO properties hitting the market, values have tumbled.

Unlike residential lenders, commercial lenders are far better at helping owners. Lenders do not want to own real estate. Our Group has been working with many owners and lenders in multiple ways – depending on the individual situation. **IF YOU NEED HELP – CALL US.**

Kasten Long Commercial Update: The Group has been helping apartment owners with their cash flow, renegotiating their existing loans, and when appropriate, selling their properties via “short sale”. Providing the best service possible to apartment owners is what we do. Let us know how we can help.

Multifamily Data - Greater Phoenix Area

Year	Permits	Absorp.	Vacancy
2000	8,009	6,225	7%
2001	7,201	1,525	8%
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%

There were 1,119 multifamily building permits issued in the 4th qtr., led by 226 units at 4225 E McDowell Rd. (Central East Phoenix) and 1900 E Apache Bl (North Tempe).

The multifamily rent index in the 4th quarter dropped 3.0%, annualized for a 5.8% decrease from 2007. The year ended with a negative absorption of 4,466.

Vacancy rates for each of the Valley's 32 sub-districts (with map), plus a list of new construction projects are posted under “Apartment 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

4th Qtr - 2008

ADDRESS CITY "NAME"	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
8902 N 19 th Avenue Phoenix, 'Morgan Park'	428 289,935	\$25,700,000 \$88.64	12/11/2008 1987	\$3,024,000 \$60.047	8.5	272 1/1, 156 2/2 Trustee's Sale
33350 N 27 th Drive Phoenix, 'Las Colinas...'	245 313,000	\$43,820,223 \$140.00	11/7/2008 2008	\$178,858		99 1/1, 110 2/2, 36 3/2 New construction with attached garages
2551 W McLellan Blvd Phoenix, 'Fig Tree'	38 28,555	\$1,220,000 \$42.72	12/15/2008 1982	\$32,105		1 st, 13 1/1, 24 2/1
9836 N Central Avenue Phoenix, 'Central Mtn Villas'	32 32,400	\$2,300,000 \$70.99	11/7/2008 1964	\$300,000 \$71,875	7.6 7.1	22 2/2, 10 3/2 \$200,000 deferred maintenance
318-326 N 52 nd Street Phoenix, 'Papago View'	20 14,000	\$925,000 \$66.07	12/5/2008 1964	\$138,000 \$46,250	6.7 6.8	15 1/1, 5 2/1
430 W 3 rd Street Mesa, 'Elizabeth's Plaza'	12 8,722	\$681,296 \$78.11	12/11/2008 1959	\$100,740 \$56,775	6.8 7.9	11 1/1, 1 2/2
830 E Turney Avenue Phoenix, 'English Manor'	12 10,488	\$550,000 \$52.44	11/18/2008 1963	\$99,600 \$45,833	5.5 7.6	12 2/1
2216 N 16 th Street Phoenix, 'Westwind'	12 3,794	\$220,000 \$57.99	10/16/2008 1946	\$18,333		11 st, 1 2/1 Master metered, short 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**
 RE/MAX Commercial Investment
 Data source: COSTAR, MLS, Pierce-Eislen and
 personal knowledge. All information is believed to be
 accurate but is not guaranteed.

Greater Phoenix Apartment Sales

Year	Sales	\$/unit	\$/sf
2002	215	\$41,615	\$56
2003	300	\$43,321	\$59
2004	377	\$51,648	\$69
2005	416	\$52,301	\$75
2006	318	\$63,227	\$97
2007	134	\$82,187	\$103
2007	92	\$58,323	\$97
2008	70	\$64,267	\$85

Note: 2008 Greater Phoenix apartment sales data may include some condo reversions, sales of partially refurbished apartments into condos, and group sales of apartments within a larger, failed condo community.

2008 Apartment Sales

Number of Units

Built	10 - 19		20 - 49		50 - 99		100 - 199		200 +	
	\$/ Unit	\$/ sf	\$/ Unit	\$/ sf	\$/ Unit	\$/ sf	\$/ Unit	\$/ sf	\$/ Unit	\$/ sf
1940 & 1950's	\$46,251	\$75	\$59,039	\$73	---	---	---	---	---	---
1960's	\$59,813	\$76	\$74,465	\$91	---	---	---	---	---	---
1970's	\$76,870	\$66	\$58,817	\$72	\$55,485	\$92	---	---	---	---
1980's	\$50,696	\$90	\$53,333	\$80	\$60,115	\$77	\$69,578	\$94	---	---
1990's	---	---	---	---	---	---	---	---	\$116,197	\$118
2000's	---	---	---	---	---	---	---	---	\$144,778	\$141
Total Sales	37		43		28		40		79	
Total Sales Price	\$34.2M		\$72.7M		\$129.3M		\$505.7M		\$2,626B	

--- Three sales required per category for data entry.

Data from Costar. Includes all apartment sales with at least 10 units and purchase price of at least \$250,000 that had price, size and number of units reported. Some apartments were sold as "failed condos" and commanded a stronger sale price than standard apartments due to the "condo" upgrades. Sales of partial failed condo projects were not included in the data.

Cash Flow Problems ?? We Know Apartments and We Can Help

Over the past ten years, we have worked with many apartment owners and reviewed hundreds and hundreds of operations. We've brokered over 350 apartment complexes (\$300,000,000+). Based on knowledge we have learned from working with these owners, we have been able to help many others with suggestions to both improve income and reduce expenses. We have also owned, either directly or indirectly, many apartments and currently the Group holds interest in 15 complexes (295 units). We also currently serve as asset managers for eight properties – 230 units. If you need our help, we're happy to share the knowledge we have gained. Depending on your situation, we might be able to help by:

1. **Reviewing your income and expenses;**
2. **Helping to restructure your existing commercial or residential loan;**
3. **Offering your property for "Short Sale"; or**
4. **Providing "Asset Management"**

Lenders and the Apartment Market (Continued from page 4)

Unless lenders restructure existing loans to current market values foreclosures will continue and the market value free-fall will continue. Time after time, instead of renegotiating loans and writing down a portion of the existing loan amount, lenders opt to take the property back via a foreclosure and end-up writing off a far greater amount. If banks accept bail-out monies from the Feds, the banks should be forced to adjust loan amounts to a value close to the current market.

If the lender will not restructure the existing loan to adjust to current market values, another option is a "short sale". By doing a short sale, the owner prevents a foreclosure on their credit, but still may be liable for a deficiency judgment – a critical aspect of the negotiation with the lender. Since mid-last year, our Group has been working with owners on many apartment short sales ranging from 4-plexes to 100 units.

Last summer, we took on the challenge of negotiating a short sale on a 24-unit apartment community that had 12 underlying loans held by four different lenders. The property consisted of 6 individual (and identical) 4-plexes, with each 4-plex being on a separate parcel and having been financed by the borrower obtaining a 1st and a 2nd loan. Regardless of the fact that this was a "one-owner" property, since it had only one water meter, one sewer hookup, etc., each lender mandated that each loan be treated separately. Appraisals obtained by the lenders on identical 4-plexes ranged from \$156,000 to \$218,000/4-plex. Inaccurate appraisals are another industry problem that needs help. Negotiating the short sale took five months and saved the owner from the necessity of filing bankruptcy.

Asset Management as an Option during a Short Sale

Since an owner does not receive any proceeds from a short sale, their incentive to maintain the property and a stabilized tenant base can be less than adequate to maintain the property's value. In some cases, with our Group's extensive apartment ownership and management experience, we have taken over properties as "asset manager" to protect and maintain the property value for the lender until the short sale is completed. Because of the possible liability of a "deficiency judgment", an owner that helps maintain the lender's asset thru the short sale process may be looked on more favorably. No promises but maybe a help.

Jim Kasten, CCIM

If you would like to receive our newsletter and or our weekly e-Zine (local news that affects our apartment market) – just let us know.

e-Mail Jim Kasten (Jim@KLCommGroup.com)

Residential lenders and the Apartment Market

The apartment industry, as well as the entire economy, is suffering dramatically from the continued inaction of residential lenders to address the problem created by their sub-prime lending policies. Once the bubble burst on the housing market boom the free-fall of home values started. The initial cure needs to be to stop the foreclosures. Once a real estate bottom is established, the market can start moving forward and credit for both residential and commercial properties will reappear. The problem is – the current lack of action by these same lenders that created the problem, continues to fuel more foreclosures.

While a few foreclosed homes have little effect on a healthy market, massive numbers of foreclosures drive property values down. Here's why. Say the current market value of a home is \$150,000 and the bank takes the property back. The house is now vacant, and the bank will accept a bit less than market to get the property off their books – so they accept \$140,000 from a new buyer. With almost half the residential real estate sales now being lender owned, the \$140,000 now becomes the new current value. Over time, the repetition of this exact scenario has driven the median price of a resale home in the greater Phoenix area from \$265,000 (two years ago) to \$130,000 today. One way to stop the free-fall of values is to stop the foreclosures.

Most homeowners don't want to move or lose their home, but when their loan amount is significantly higher than their home value, there is little incentive to stay. It makes no sense for an owner to continue to pay the existing loan, in which they have little equity, when they can either move into a similar house for half the loan cost or buy a much larger home for the same cost? Individuals who have worked for years to establish excellent credit will weigh credit scores against equity – and this, fortunately, is keeping many homeowners from walking. For many folks, paying bills that you have agreed to pay is also the right (ethical) thing to do – and that's great. But what if you are paying monies to lenders that have directly caused the economic crisis by being greedy?

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KASTEN LONG COMMERCIAL GROUP

APARTMENTS "FOR SALE"

44 units, 830 N Alma School Rd, Mesa List: \$3.6M
44 units, 1626 W Desert Cove, Phx List: \$2.35M
24 units, 825 N 2nd Ave, Phx List: \$1.249M
18 units, 4207-4213 N 9th St, Phx List: \$795K
16 units, 1814 W Vogel, Phx List: \$849K
14 units, 4822 E Holly St, Phx List: \$850K
13 units, 498 N Arizona Ave, Chandler List: \$458K
12 units, 605 W Pierson St, Phoenix List: \$649K
12 units, 181 & 185 W Morelos, Chandler List: \$560K
10 units, 1634 W Shangri La Rd, Phx List: \$495K
10 units, 9221 & 9225 N 5th St, Phx List: \$275K
9 units, 2414-2416 W Coolidge, Phx List: \$375K
4 units, 6601 W Ocotillo, Glendale List: \$150K
4 units, 6609 W Ocotillo, Glendale List: \$150K

OTHER PROPERTIES "FOR SALE"

Commercial Bldg
616 E Southern Ave, Mesa List: \$925K
2924 N 24th Ave, Phx List: \$749K
4010 N 19th Ave, Phx List: \$499K
7165 N 57th Ave, Glndl List: \$400K

Land
123 E 1st Ave, Mesa List: \$175,000
7154 N 57th Dr, Glndl List: \$99,000

Single Family Residence/ with Tenant
3719 W Woodridge Dr, Phx List: \$139,900

COMM. PROPERTIES "FOR LEASE"

616 E Southern Ave # 103, Mesa Annual \$39,860
2920 E Mohawk Lane #101, Phx Annual \$28,500

For details on all our listings:
www.KLCommercialGroup.com

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Residential Specialist
Foreclosures and Short Sales