

GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

2nd QTR 2009

At some point, the lack of new apartment construction will create a supply shortage and a strong demand for apartments. The trick is to survive until this occurs. WE CAN HELP. With the continued flood of investor-purchased foreclosed homes and the overall poor economy, vacancy rates are likely to climb again in the 3rd quarter.

Looming over the entire world economy is the projected 5% default rate of over a TRILLION dollars of Commercial Mortgage Backed Securities (CMBS). The Feds continue to inject money into the economy – or should I say the banks. The overall hope is that some of these funds will actually stimulate the economy and that the Feds will do something to help the CMBS defaulting loans.

KASTEN LONG COMMERCIAL GROUP: We are excited to announce that we have formed our own company – allowing us greater opportunity to assist apartment owners and take advantage of the current market opportunities.

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- The Apartment Market Worst or Best?
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Vacancy Rates Still Climbing - 13.8%

At the end of the 2nd quarter of 2009 the vacancy rate for all-size, existing (>6 mo.'s) multifamily units increased from 12.6% in the 1st quarter to **13.8%**. Of the 333,249 total multifamily units, there were 46,050 reported as vacant. The total inventory gained 1,861 units.

# of Units	2009 1st Qtr.	2009 2nd Qtr.
2 - 24	4%	13%
25 - 50	6%	9%
51 - 75	9%	11%
76 - 99	10%	11%
100 - 150	11%	12%
151 - 200	14%	15%
200+	13%	14%
Average	12.6%	13.8%

All size complexes are now experiencing vacancy issues with the west side of the Valley suffering the most. Sun City/Peoria, NW Phoenix and Maryvale reported 18% to 20% vacancies. Only the North Scottsdale and Mountain Park Districts reported single digit vacancies.

There were only 214 apartment permits issued in the 2nd quarter led by The Spanos Group's 200 units at 1247 S 96th St., in Superstition Springs. There were three projects totaling 801 units completed in the 2nd quarter. These are located in Deer Valley and two in the Western Suburbs.

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%
2009 (1)	349	(4,419)	12.6%
2009 (2)	214	(2,439)	13.8%

Based on the reported multifamily rent index, rental rates decreased 0.8% in the 2nd quarter, with a cumulative decrease of 5.6% over the past 12 months.

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
- ARMLS

Greater Phoenix Apartment Sales

2nd Qtr - 2009

ADDRESS CITY "NAME"	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
1133 W Baseline Rd Tempe, 'Villagio'	472 403,472	\$20,250,000 \$50.19	6/4/2009 1983	\$4,775,772 \$42,903	8.8	200 1/1, 120 2/1, 132 2/2, 20 3/2 REO, FKA 'La Contenta'
6233 W Behrend Dr Glendale, 'Sage Stone at Arrowhead'	308 272,266	\$23,200,00 \$85.21	4/28/2009 2000	\$2,900,000 \$75,325	8.0 7.0	172 1/1, 16 2/1, 108 2/2, 12 3/2
655 S Mesa Dr Mesa, 'La Mesa Village'	256 170,902	\$6,970,106 \$40.78	5/21/2009 1986	\$1,867,440 \$27,227	3.7 12.1	160 1/1, 54 2/1, 42 2/2 REO
8092 W Paradise Ln Peoria, 'Alexan Paradise'	240 247,984	\$21,500,000 \$86.71	6/18/2009 2007	\$2,539,901 \$89,583	8.5 6.8	96 1/1, 132 2/2, 12 3/2
2015 W Cactus Rd Phoenix, 'Redwood Place'	186 154,400	\$5,800,000 \$37.56	6/12/2009 1984	\$1,955,400 \$31,183	3.0	94 1/1, 40 2/1.5, 52 2/2 59% occupied
909 E Camelback Rd Phoenix, 'Citi on Camelback'	178 170,619	\$12,460,000 \$73.03	6/2/2009 2001	\$1,825,000 \$70,000	6.8 6.0	2 st, 106 1/1, 3 2/1, 56 2/2, 11 3/2 178 of 360 condos
3621 N Black Canyon Hwy Phoenix, 'Canyon Pointe'	144 101,718	\$2,100,000 \$20.65	6/5/2009 1981	\$1,050,810 \$14,583		21 1/1, 63 2/1, 60 2/2 20% occupied, Short Sale
2525 - 2529 W Campbell Phoenix, 'Vista del Prado' & 'Casa del Norte'	122 104,420	\$1,800,000 \$17.24	4/3/2009 1972, 1980	\$724,680 \$14,754	2.5	72 units at Vista del Prado & 50 units at the adjacent Casa del Norte 78% occupied overall, REO
510 E McKellips Rd Mesa, 'Colores Del Sol'	120 114,320	\$9,210,000 \$80.56	4/24/2009 2000	\$1,232,640 \$76,750	7.0	16 1/1, 64 2/2, 40 3/2 Buyer assumed HUD loan
1855 E Don Carlos Ave Tempe, 'The Reach'	56 41,820	\$3,005,000 \$71.86	6/2/2008 1987			52 2/1, 4 3/1.5 Buyer assumed Fannie Mae loan
4308 N Longview Ave Phoenix, 'Regency'	36 27,312	\$800,000 \$29.29	6/12/2009 1985	\$22,222		8 1/1, 28 2/2 REO
2521 W Elm St Phoenix, 'Casa Paradise'	34 25,414	\$544,000 \$21.41	5/14/2009 1964	\$16,000		12 1/1, 22 2/1 50% occupied, REO
1908 N 32 nd St Phoenix, 'Hillcrest Arms'	27 17,750	\$550,000 \$30.99	6/5/2009 1983	\$147,000 \$20,370	3.7 8.0	2 st, 23 1/1, 2 2/2 37% occupied, REO
2802 E Roosevelt St Phoenix	26 16,428	\$280,000 \$35.31	6/11/2009 1963	\$22,306		26 st Distressed property - REO
825 N 2nd Ave Phoenix, 'Hilton'	24 9,809	\$970,000 \$98.89	4/30/2009 1954	\$129,840 \$40,417	7.4 5.9	20 st, 4 1/1 Cash plus small owner carry Kasten Long Commercial Group Sale
3131 N Black Canyon Hwy Phoenix, 'Casa Blanca'	21 13,184	\$410,000 \$31.10	6/1/2009 1985	\$19,524	4.8	11 1/1, 10 2/1 68% occupied, deferred maintenance
1709 N 25 th Pl Phoenix, 'Sun Terrace'	18 8,182	\$305,000 \$37.28	4/15/2009 1952	\$16,944		18 1/1 67% occupied, All Cash
716 E Turney Ave Phoenix, 'Turney Studios'	16 6,750	\$210,000 \$31.11	5/8/2009 1948	\$13,125		15 st, 1 2/1 Vacant, REO, All Cash
3949 E Earll Dr Phoenix, 'Earll'	15 7,140	\$240,000 \$33.61	5/28/2009 1980	\$81,600 \$16,000	2.9 9.5	2 st, 12 2/2, 1 2/1 All Cash
4230 N 21 st St Phoenix, 'Biltmore Court'	14 17,080	\$2,310,000 \$135.25	6/2/2009 2009	\$165,000		14 3/2 REO - partially completed condo project

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, Pierce-Eislen and personal
 knowledge. All information is believed to be accurate but is
 not guaranteed.

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Understand that banks are under increased scrutiny and how the loan is restructured may affect how the Feds value the Note. Also, realize that banks need numbers, like appraisals or BPO's, to make decisions. A common problem is that appraisers are using sales from earlier this year – and these values are too high. Owners doing short sales or lenders selling assets tend to hold-out for prices above the declining market. If cash flows have been problematic, the property condition and occupancy will likely decrease – resulting in a downward spiral of property value.

Future Rental Rates – a new factor

For months we have noted various factors affecting both rental rates and occupancy. These have included: the employer sanctions law, the overall economy (jobs) and the flood of investor-purchased single family homes being turned into rentals. These factors still have strong impact, but a new problem will be the increasing number of “all cash” REO apartment sales. Typically these properties have high vacancies, but with the low purchase prices, the new owner will be able to afford to under-cut market rental rates to quickly fill-up the new acquisition. This will affect the cash flow for all-size apartments across the Valley.

Opportunity – Cash is King

While it's important to be aware of the increasing vacancy rates and reduced rental rates, at some point, the extremely low-priced properties start making great sense. This is obviously when it's time to buy. Lenders are scarce for highly distressed properties – so cash is king. The concept would be to acquire using cash, hold and stabilize for six months, then refinance. If you do not self-manage, we can suggest several exceptional owner/operator groups to team-up with. We are in direct contact with many bank's REO departments – so if you have an interest in taking advantage of this market – call us.

KASTEN LONG COMMERCIAL GROUP

Current Activities (in addition to our normal brokerage)

REO ACQUISITION

Single family homes and 4-Plexes

We have been successfully acquiring REO single family homes and 4-plexes for investors. The model includes either a buy and flip OR a buy – rent – then flip scenarios.

Apartment Acquisition – Phoenix is “ON SALE”

As the number of REO properties hitting the market increases, the prices drop and the opportunities increase. For investors, this is the time everyone has been waiting for. Let us know if you're in the market.

LOAN NEGOTIATION – CALL US

For owners trying to protect their credit and/or eliminate a foreclosure, we have negotiated with lenders to either restructure their loans or facilitate short sales. In other cases, we have taken over the property as asset manager, stabilized tenancy and property condition, and helped reorganize the loan so that the owner can keep the property, have sufficient cash flow to make the loan payments and prevent the bank from acquiring the property as an REO.

LOCAL, OWNER / OPERATOR PARTNERSHIPS BEING CREATED TO ENHANCE VALUE

As has been the case in the past, we are attracting many investors, both local and from out-of-state. With apartments, the concern is always, who will manage and how can the buyer be sure the property is managed properly. To solve this, simply team-up with a local owner/operator at the time of the purchase. We'll make the introductions and let the buyer decide on the structure of the deal. With a quality local group having an interest in the property – the management worry is solved and the investment success is greatly improved.

E-mail updates? 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)

The Apartment Market– The Worst in Many Years (OR “Best” if you are investing)

With the 2nd quarter “physical vacancy” rates reported at 13.8%, the projected “economic vacancy” rate is likely 25% to 30%. Economic vacancy would include: rent concessions, move-in specials, lost rent, etc. For owners with severe negative cash flows, the options are: 1. Stay the course, or 2. Negotiate with the lender for a temporary payment reduction, or 3. Return the property to the lender. Almost every apartment sale in the 2nd quarter was an “all cash” purchase and either lender owned (REO) or lender controlled (Short Sale).

Apartment Values Plummeting

Between the 1st and 2nd quarters of 2009, for the small to mid-size apartments, the average price/unit and price/sf dropped 35.5% and 24.7% respectively. The 3rd quarter may be worse – based on the few sales reported to-date and the prices lenders are currently offering properties for purchase. The highest price/sf (\$98.89/sf) sale was reported by Scott Trevey – listing agent with the Kasten Long Commercial Group. For certain properties and borrowers there are still a few lenders. Call us if you need help finding financing for a purchase.

Negotiating with Lenders – Call Us If You Need Help

The first question needs to be: is this a securitized loan (CMBS) or does the lender hold the note? If the Note has been sold through Wall Street (CMBS), there is no lender – just a servicing agent for the Note. These agents claim to have minimal flexibility with terms. One of our clients is currently challenging an agent’s authority via a federal bankruptcy judge. It’s an uphill battle. Last week, one of the CMBS agents said it might be possible for the agent to carry paper for a buyer with a reasonable cash investment and a strong balance sheet – so maybe there is hope.

For Notes still being held by lenders there is a much greater chance to restructure the payments. In fact, lenders are finally realizing that if they are not proactive in the Phoenix market, they stand to have huge losses if forced to foreclose and sell as an REO property. When negotiating, it’s important to reach a qualified decision maker ASAP and be sure that person is aware of the rapidly declining Phoenix market.

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KASTEN LONG COMMERCIAL GROUP Activity

APARTMENTS “FOR SALE”

61 units, 3025 N 32nd St, Phx List: \$1.8M – ss
56 units, 5510 N 35th Ave, Phx List: \$1.4M – ss
44 units, 1626 W Desert Cove, Phx, List: \$1.595M
21 units, 5502 W. Palmyra Ave, Glndl List: \$289K - REO
18 units, 4207-4213 N 9th St, Phx List: \$695K
12 units, 605 W Pierson, Phx List: \$445K
12 units, 181 & 185 W Morelos, Chndlr List: \$372K – ss
10 units, 9221 & 9225 N 5th St Phx List: \$250K – ss
9 units, 2414-2416 W Coolidge, Phx List: \$375K
4 units, 1918 E Adams St, Phx List: \$80K – ss
4 units, 1922 E Adams St, Phx List: \$80K – ss
4 units, 4101 E Bellevue St, Phx List: \$67K – ss
4 units, 4007-4009 E Bellevue St, Phx List: \$67K – ss

OTHER PROPERTIES “FOR SALE”

Commercial Bldg
4010 N 19th Ave, Phx List: \$350K/ obo

Land
2020 N 36th St, Phx List: \$950,000

Single Family Residence – Short Sales
18086 W Las Cruces Dr, Gdyr List: \$220,000
12450 N 28th St, Phx List: \$145,000

RECENT GROUP SALES

4 units, 1831 N Spring St, Mesa SOLD: \$145K – SS
1 SFR, 1904 E Parkside Lane, Phx SOLD: \$340K - REO
1 SFR, 18811 W Earll Ct, Litch Pk SOLD: \$309K- REO
1 SFR, 13786 W Vernon Ct, Litch Pk SOLD: \$162K- REO
1 SFR, 13025 W Weldon Ave, Avndl SOLD: \$98K- REO
1 SFR, 5206 W Pecan, Phx SOLD: \$96,500
1 SFR, 4201 N 105th Ave, Phx SOLD: \$22.5K- REO

For details on all our listings:
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Residential Specialist
Foreclosures and Short Sales

Key

REO: Real Estate Owned – “Lender Owned”
SS: Short Sale – “Lender Controlled”