

GREATER PHOENIX APARTMENT OWNER'S NEWSLETTER

KASTEN LONG COMMERCIAL GROUP

RE/MAX Commercial Investment

3rd Quarter 2008

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(July – Sept 2008)
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Auction – Feb. 28, 2009

KLCommercialGroup.com
Formerly: PhxAptsForSale.com

The economy is in the tank and will get worse before it gets better. It may get much worse – so if cash flow is a concern, be prepared. If cash flow is a sincere problem – call us – let us help. There is a silver lining to the data this quarter, however, the seeming relentless amount of foreclosed homes may finally be driving folks into apartments.

Vacancy rates took a whopping drop from 10.2% to 7.9% - wow. If it continues, apartments may be the best real estate to own. As a note of caution, alternate reporting agencies to ASU reported a vacancy rate over 12%. We confirmed with ASU that the data collection process used was identical to previous quarters, but the extreme difference makes us suspect.

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.

Vacancy Drops to 7.9%

At the end of the 3rd quarter of 2008 the vacancy rate for all-size, existing (>6 mo.'s) multifamily units decreased from 10.2% in the 2nd quarter to 7.9%. Of the 328,763 total multifamily units, there were 26,125 reported as vacant. The total inventory gained 1,062 units.

# of Units	2008 2nd Qtr.	2008 3rd Qtr.
2 - 24	3%	4%
25 - 50	6%	4%
51 - 75	7%	4%
76 - 99	8%	6%
100 - 150	8%	7%
151 - 200	9%	9%
200+	11%	8%
Average	10.2%	7.9%

Almost every district reported a vacancy rate drop of 1% to 3% from the 2nd quarter. The larger complexes (200+ units) reported a drop from 11% to 8%. Double digit (10% to 13%) vacancy rates, however, were reported in Gilbert, Maryvale, North Black Canyon and the Western Suburbs.

There were 1,613 apartment permits issued in the 3rd quarter led by two projects in north Tempe and projects in the Western Suburbs, Union Hills and Deer Valley. There were 1,811 units completed in the 3rd quarter led by two projects completed in north Tempe, one in Gilbert one 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(1)	1,466	(2,962)	9.7%
2008(2)	2,167	(1,385)	10.2%
2008(3)	1,613	8,462	7.9%

The multifamily rent index in the 3rd quarter was down 1.0%, with an annual decrease of 2.3%. The record absorption of 8,462 and the sharp decrease in vacancy rates is clearly encouraging data for the future of the apartment market.

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

3rd Qtr - 2008

ADDRESS CITY "NAME"	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
3301 E Ray Rd Gilbert, 'Alexan Lyon's Gate'	312 299,088	\$35,250,000 \$117.89	8/5/2008 2005	\$3,177,853 \$112,981	11.1 5.5	156 1/1, 120 2/2, 36 3/2
17447 N Avenue of Arts Surprise, 'Canyon Ridge'	192 182,122	\$17,650,000 \$96.91	7/29/2008 2001	\$2,091,456 \$91,927	8.4 5.2	80 1/1, 80 2/2, 32 3/2
123 N Robson St Mesa, 'Sunnybrook'	103 70,404	\$5,225,000 \$74.21	7/31/2008 1969	\$675,000 \$50,728	7.7 5.1	10 st, 73 1/1, 20 2/1 70% occupied
1318 S Vineyard Mesa, 'Sonoma Village'	96 72,960	\$5,100,000 \$69.90	7/31/2008 1973	\$828,204 \$53,125	6.6 6.7	16 1/1, 80 2/1 \$1,050,000 cap. improve. 95% remodeled, 63% furnished units
550 E Earll Dr Phoenix, 'Executive Plaza'	92 55,200	\$5,200,000 \$94.20	7/22/2008 1974	\$640,320 \$56,522	8.1 7.3	92 1/1 \$1.2M rehab planned
2930 N 46 th St Phoenix	60 49,120	\$4,147,500 \$84.44	8/28/2008 1973	\$69,125	6.1	44 1/1, 16 2/2
16621 N 25 th St Phoenix, 'Keen'	56 31,325	\$2,475,000 \$79.01	7/9/2008 1978	\$44,196		55 1/1, 1 2/1
5350 N 17 th Ave Phoenix, 'Solano Park'	48 31,604	\$2,230,000 \$70.56	7/31/2008 1987	\$293,400 \$46,458	7.6	33 1/1, 15 2/2 50% occupied
1010 N Stapley Dr Mesa, 'Arcos De Mesa'	44 21,560	\$2,250,000 \$104.36	8/27/2008 1985	\$263,640 \$51,136	8.5 6.6	30 st, 12 1/1, 2 2/2
2424 E Grandview Rd Phx, 'Grandview Terrace'	36 23,850	\$1,800,000 \$75.47	7/21/2008 1984	\$245,700 \$50,000	9.4 7.1	3 st, 6 1/1, 27 2/1
1502-1516 E Rovey Ln Phoenix, 'Idle Hours'	28 24,362	\$2,100,027 \$88.20	7/3/2008 1956	\$200,200 \$75,001	10.5 5.0	26 2/1, 2 2/1.5
1424 S Jentilly Ln Tempe, 'Raintree Villas'	24 22,642	\$2,200,000 \$97.16	7/28/2008 1981	\$97,667		8 1/1, 16 2/2 Vacant at time of sale, deferred maintenance
3610 N 6 th Ave Phoenix, 'El Lorenzo'	24 21,600	\$1,595,000 \$73.84	7/31/2008 1970	\$66,458		24 1/1 Master metered
3600 N 6 th Ave Phoenix, 'Capri North'	21 18,164	\$1,400,000 \$77.08	8/29/2008 1960	\$155,160 \$66,667	9.0	1 st, 8 1/1, 10 2/2, 2 3/2
345 W Pasadena Ave Phoenix, 'Tamarack'	20 16,560	\$1,050,000 \$63.41	7/15/2008 1959	\$148,800 \$52,500	7.1 6.3	8 1/1, 12 2/1 Deferred maintenance.
357 W Pierson St Phoenix, 'Aristo Arms'	20 16,461	\$850,000 \$51.64	8/27/2008 1958	\$172,740 \$42,500	4.9 8.0	6 1/1, 9 2/1, 5 3/2 High vacancy, lender owned, def. maint.
1525 W Indian School Rd Phoenix	18 11,442	\$396,500 \$34.65	7/8/2008 1959	\$22,028		4 st, 8 1/1, 6 2/1 Lender owned, Vandalized.
4002 N Kalarama Ave Scottsdale, 'Kalarama'	17 10,806	\$1,150,000 \$106.42	9/17/2008 1962	\$156,000 \$67,647	7.4	1 st, 12 1/1, 4 2/1 High vacancy and deferred maintenance
1804 W Tuckey Ln Phoenix, 'Villa St Lorraine'	16 17,624	\$790,000 \$44.83	7/31/2008 1963	\$139,200 \$49,375	5.7	4 1/1, 12 2/1.5 70% occupied, defer main. Kasten Long Commercial Group Sale
312 E Hatcher Rd Phoenix, 'Hatcher'	15 7,800	\$850,000 \$108.97	9/29/2008 1980	\$105,600 \$56,667	8.0 6.6	16 1/1 Kasten Long Commercial Group Sale
3807 N 30 th St Phoenix, 'Lofts at Arcadia'	11 8,295	\$1,191,666 \$143.66	9/15/2008 1975	\$108,333		9 1/1, 2 2/1.5 Balance inventory of condo conversion
3024 E Fillmore St Phoenix, 'Catalina'	11 5,787	\$385,000 \$66.53	7/31/2008 1960	\$35,000		2 st, 8 1/1, 1 2/1 Purchased for land to build charter school
7221 E Virginia Scottsdale, 'Palm Cove'	10 7,980	\$500,000 \$62.66	8/27/2008 1972	\$72,000 \$50,000	6.9	10 2/1

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.

Cash Flow Problems – We Can help

We've talked to a number of owners that have high vacancy issues and strong negative cash flow. When owner funds are scarce, properties often go into a downward spiral. If needed, we can:

1. **Review your income and expense reports;**
2. **Help restructure your existing loan** – we've been very successful with both 4-plex (residential) and commercial lenders in convincing lenders it's better for them to help the owner now rather than risk owning the asset in the future;
3. **Offer your property for "Short Sale"**. By working closely with lenders, we have successfully marketed and sold a number of apartments via a "short sale";
4. **Aggressively market your property**. Since 2003, we have been ranked in the TOP FOUR Commercial teams for RE/MAX in the U.S.; and
5. Consider offering your property in the **AZProperty.com auction** (see below and our website).

ALERT

ALERT

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NEED To SELL? – HERE'S an OPPORTUNITY



HUGE Commercial / Residential Auction
February 28, 2009

Contact us for information (Jim Kasten, CCIM – 602 445 4113 Jim@KLCommGroup.com)

Detailed information is posted on our website www.KLCommercialGroup.com



The Apartment Market

Earlier this year, we were working with apartment owners with the discussion primarily being if they should take a reduced price and sell. The idea being “the first loss is the best loss”. Maybe even take the dollars that might be gained and reinvest into a better scenario. Over the past few months, this discussion has given way to how to preserve sufficient cash to last the economic tailspin. Buyers are few and far between and are mostly bottom-feeding. The 3rd quarter only reported 23 apartment transactions – a long way from the quarterly average of 75 to 85 apartment sales that were common over the past two years. Recently, we lost two more apartment lenders that had offered reasonable rates and terms. Finding financing is not impossible but getting tougher.

Our Group is still finding ways to sell apartments in this market, but we spend most of our time helping owners with suggestions on increasing their property’s cash flow, helping negotiate with their lenders to restructure existing loans, working with owners to complete “short sales” and representing lenders with properties they have acquired at Trustee Sales. This is not a market you want to be a seller but if you are having difficulty maintaining sufficient funds in reserve to last whatever the time-frame is for a market turn-around, let us know. We’ve added huge value to many apartment owners – helping them get through these difficult times. Our motto of “providing the best service possible to apartment owners” is not just words – we stand behind this goal – so let us know how we can help.

We don’t know what’s ahead for the local or national economy. Our opinion would just be that – just another opinion. It is pretty obvious that almost everyone has virtually stopped excessive spending – so look for final numbers on retail Holiday sales to be ugly – which will precipitate more layoffs – and then more home foreclosures and higher unemployment. With huge amounts of money being injected into the economy – at some point, this should help turn things around – it’s just when and how much will it help.

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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, 3105-3127 E Fairmount Ave, Phx List: \$1.4M
24 units, 825 N 2nd Ave, Phx List: \$1.249M
22 units, 5502 W Palmyra Av List: \$949K
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: \$645K
11 units, 2425 W Turney Av, Phx List: \$453K
10 units, 1634 W Shangri La Rd, Phx List: \$495K
10 units, 9221 & 9225 N 5th St, Phx List: \$375K
9 units, 2414-2416 W Coolidge, Phx List: \$450K
8 units, 32741 W Colter St., Phx List: \$629K
8 units, 1017-1031 E Fairmount Ave, Phx List: \$579K
7 units, 7115 N 83rd Ave, Glnl List: \$1.1M
6 units, 422 E Hatcher, Phoenix List: \$229K
5 units, 4132 N 45th Pl, Phx List: \$450K

OTHER PROPERTIES “FOR SALE”

Commercial Bldg
7162 N 57th Ave, Glnl List: \$499,000
2924 N 24th Ave, Phx List: \$749K
4010 N 19th Ave, Phx List: \$499,000
2229 W Bethany Home Rd, Phx List: \$ 325K
7142 N 57th Dr, Glnl List: \$199,000

Land
7115 N 83rd Ave, Glnl List: \$1.1M
123 E 1st Ave, Mesa List: \$225,000
7154 N 57th Dr, Glnl List: \$159,000
71XX N 80th Ave, Glnl List: \$63,299

Single Family Residence
5620 N Rattler Wy, Litch Pk List: \$249,000
3719 W Woodridge Dr, Phx List: \$249,000

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

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