

GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

1st QTR 2012

KASTEN LONG COMMERCIAL GROUP: The Group also offers expertise with sales and leasing for office, retail and industrial. Walter Unger, CCIM, recently joined our Group and has been a top commercial agent in Arizona for more than ten years (602 759 1202, Walter@KLCommercialGroup.com).

Transactions of Merit:

- Linda Fritz-Salazar, Assoc. Broker, and Scott Trevey, CCIM, completed the sale of the 88-unit, Sunflower Apartments (5959 W Olive Av., Glendale, AZ) - working with the owner, Washington Federal and the Federal bankruptcy court.
- Paul Blum, JD, CCIM, represented District Medical Group (DMG) on an 11-year, \$13.5 million, 56,530 sf lease at Park Central (3141 N 3rd Av., Phoenix, AZ). The premises will be used as a multidisciplinary medical clinic for Children's Rehabilitative Services, a program treating severely medically challenged children. DMG is a recognized leader in providing high quality, innovative medical care in a fiscally responsible manner.

Vacancy Rates Drop – Rents Increase

For more than 20 years, ASU has been reporting apartment data as part of their "Phoenix Metro Housing Study" and we have been summarizing this data in our newsletters since 1998. This report has now been discontinued. We have approached ASU to see if we can assist with a renewal of this data collection. In the meantime, the data provided will be from alternate sources that reflect the 100+ size apartment rather than "all size" apartments.

Depending on the reporting agency, vacancy rates for the 1st quarter decreased from about the 9.5% level to between 8.5% and 6.7% with class "A" apartments being even lower. The precise value is less important than the trend, and clearly everyone is reporting a sharp decrease in vacancy rates across metro Phoenix.

Central Phoenix and Maryvale continue to struggle with double digit vacancy rates, but occupancy continues to improve even in these troubled districts. South Scottsdale and South Tempe reported the lowest vacancy rates. As occupancy increases, concessions are decreasing and rental rates are increasing.

There were no new apartment projects completed in the 1st quarter but more than 4,000 units are reported to be under construction with an additional 12,000 units in the planning stage. A total of 1,260 are expected to be completed this year.

A Bright Future

With vacancy rates now at five-year lows, we expect to see significant additional multifamily construction especially in the east Valley, Scottsdale, downtown Phoenix and along transportation and light-rail routes. The increased rents for class "A" properties will push tenants into class "B" and "C" properties, resulting in higher rents and increased occupancy – good news for all apartment owners and investors.

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	1,961	(205)	10.5%

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.

Greater Phoenix Apartment Owner's Newsletter

- published quarterly since 1998
- previous issues posted on our web site

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Greater Phoenix Apartment Sales

1st Qtr - 2012

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
14435 S 48 th St Phx, 'San Melia'	488 493,192	\$68,750,000 \$139.40	03/09/2012 1998	\$140,881	5.8	Condo map, Renov 2007, partial assumption
7017 S Priest Dr Tempe, 'Metropole'	408 412,500	\$44,250,000 \$107.27	03/26/2012 2008	\$4,325,027 \$108,456	10.2 5.5	228 1/1, 144 2/2, 36 3/2
922 S Longmore St Mesa, 'Camden Vista Valley'	357 329,452	\$24,500,000 \$74.37	01/12/2012 1986	\$2,486,460 \$68,627	9.9 6.5	124 1/1, 333 2/2 Condo map, 85% occupied
4202 E Cactus Rd Phx, 'Greenspoint @ PV'	336 278,064	\$29,750,000 \$106.99	03/29/2012 1985	\$3,184,000 \$88,542	9.3 6.0	168 1/1, 84 2/1.5, 84 2/2 Renov 2008, \$500k general upgrades planned
600 N 4 th St Phx, 'Alta Phoenix Lofts'	332 304,779	\$59,500,000 \$181.43	03/29/2012 2009	\$4,910,640 \$179,217	12.1 5.2	86 st, 161 1/1, 4 1/2, 69 2/2, 12 2/3 Inc 9,872 sf ground fl retail, Land lease
2155 S 55 th St Tempe, 'San Portella'	308 358,819	\$45,100,000 \$125.69	02/01/2012 2008	\$4,384,944 \$143,429	10.3 5.2	104 1/1, 164 2/2, 40 3/2
4839 S Darrow Dr Tempe, 'Green Leaf Sienna'	272 192,100	\$15,250,000 \$79.39	02/03/2012 1983	\$2,165,664 \$56,066	7.0	136 1/1, 68 2/1, 68 2/2
2155 E Liberty Ln Phx, 'San Riva @ Foothills'	239 252,850	\$21,850,000 \$86.41	02/24/2012 1999	\$2,394,719 \$91,423	9.1 6.7	135 1/1, 92 2/2, 12 3/2 of 280 Cash
3030 N 7 th St Phx, 'Country Club'	222 138,971	\$6,400,000 \$46.05	01/23/2012 1959	\$1,650,000 \$28,829	3.9 6.3	42 st, 114 1/1, 56 2/2, 8 3/2, 2 3/2.5 88% occupied
1923 N 70 th St Scottsdale, 'Summertree'	193 122,687	\$8,900,000 \$72.54	03/08/2012 1963	\$1,404,803 \$46,114	6.3 6.8	113 1/1, 80 2/2
1502 W Glendale Ave Phx, 'Canyon Walk'	166 95,784	\$3,202,500 \$33.43	04/13/2012 1974	\$19,292		Via Auction platform
2045 W Butler Dr Phx, 'The Fairways'	160 118,192	\$5,000,000 \$42.30	03/19/2012 1981	\$1,040,304 \$31,250	4.8	20 st, 88 1/1, 52 2/2 Subsidized housing
2606 N 44 th St Phx, 'Shadow Tree'	148 94,704	\$5,250,000 \$55.44	02/29/2012 1979	\$1,006,800 \$35,473	5.2 8.7	4 st, 112 1/1, 32 2/2 Master meter
2925 N Greenfield Rd Phx, 'Monterra'	130 91,368	\$3,250,000 \$35.57	01/23/2012 1970	\$969,444 \$25,000	3.4 10.1	1 st, 63 1/1, 66 2/1 85% occupied, REO Sale, master meter, cash
40 E Sunland Dr, Phx, 'West View'	117 90,876	\$2,285,000 \$25.14	01/26/2012 1988	\$674,460 \$19,530	3.4 8.5	33 1/1, 64 2/1, 20 2/1.5 60% occupied, REO Sale, 100% financing
6738 N 45 th Ave Glendale, 'Norwood Village'	115 94,090	\$2,530,000 \$26.89	03/26/2012 1971	\$864,600 \$22,000	2.9 7.2	1 1/1, 95 2/1, 18 3/1, 1 4/2 REO Sale, master meter, becoming low income
3613-3644 N 5 th Ave Phx, 'Academy'	96 97,880	\$4,075,000 \$41.63	02/15/2012 1959	\$739,200 \$42,448	5.5 7.0	40 1/1, 52 2/2, 4 3/2 85% occupied, cash, \$125k deferred
210 N Alma School Rd Mesa, 'Rosewood Villas'	76 59,660	\$2,600,000 \$43.58	01/09/2012 1980	\$34,211	8.3	42 1/1, 34 2/2 1031 exchange
8818 S Central Ave Phx, 'Due South'	128 58,944	\$1,556,000 \$26.40	02/22/2012 1986	\$654,144 \$12,156	2.4 7.9	8 st, 108 1/1, 12 2/1 50% occupied, distress sale
1025 W Cochise Dr Phx, 'Cochise'	55 40,200	\$1,188,000 \$29.55	01/06/2012 1983	\$21,600		10 1/1, 29 2/1, 16 2/2 REO Sale
6721 N 25 th Dr Phx, 'Wilshire Place'	48 33,600	\$810,000 \$27.08	03/05/2012 1983	\$221,075 \$18,958	3.7 6.1	24 1/1, 24 2/1 20% occupied, REO Sale
6721 N 25 th Dr Phx, 'Wilshire Place'	48 33,600	\$910,000 \$27.08	03/23/2012 1983	\$221,075 \$18,958	4.1 6.1	24 1/1, 24 2/1 19% occupied, cash
5220 N 30 th Dr Phx, 'Colter Cove'	37 30,340	\$1,225,000 \$40.38	01/31/2012 1981	\$33,108		37 2/1 Cash
7150 N 27 th Ave Phx, 'Glen Vista'	35 16,582	\$1,275,000 \$76.89	02/15/2012 1964	\$303,780 \$36,429	4.2 13	1 st, 34 1/1 1031 exchange
21239 N 24 th Ave Phx, 'Sunlight Vista'	34 30,686	\$1,100,000 \$35.85	03/30/2012 1983	\$32,353		34 2/1 Cash

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
617 N 3 rd Ave Phx, 'Town'	34 15,300	\$425,000 \$27.78	02/16/2012 1958	\$224,400 \$12,500	1.9	34 st Cash
2615 E Greenway Rd Phx, 'Running Brook'	28 18,710	\$850,000 \$45.43	01/25/2012 1981	\$151,920 \$30,357	5.6 8.0	12 1/1, 16 2/1 Cash
2101 W Colter St Phx, 'Camelback Gardens'	26 30,994	\$910,000 \$29.36	02/09/2012 1983	\$212,904 \$35,000	4.3 9.0	18 2/1.5, 8 2/2, cash 77% occupied, condo conversion, deferred
1335 E Thomas Rd Phx, 'Terrace on Thomas'	26 21,730	\$662,000 \$30.46	03/22/2012 1954	\$51,500 \$25,462	12.9 10.0	5 1/1, 20 2/1, 1 3/2 35% occupied, cash
2417 W Campbell Ave Phx, 'Buena Vida'	24 17,160	\$493,000 \$28.73	03/01/2012 1983	\$136,800 \$20,542	3.6 10.3	24 2/1 29% occupied, renov 2004
4020 N Parkway Ave Scottsdale	24 10,272	\$1,180,000 \$114.88	02/22/2012 1961	\$174,600 \$49,167	6.8 10.6	22 st, 2 1/1
2321 N 52 nd St Phx, 'Casitas del Cielo'	24 19,832	\$672,000 \$33.88	01/23/2012 1971	\$28,000		24 2/1 Cash
4901 E Holly St Phx, '29 Palms'	22 20,550	\$825,489 \$40.17	03/30/2012 1964	\$37,522		22 2/2 75% occupied, note purchase, cash
3601 N 5 th Ave Phx, 'Shorewood'	21 25,165	\$895,000 \$35.59	02/03/2012 1960	\$193,200 \$42,643	4.6	7 1/1, 14 2/2 66% occupied, cash
3015 E Paradise Ln Phx, 'Sunflower Villa'	21 18,750	\$555,000 \$29.60	03/09/2012 1985	\$26,429		1 1/1, 20 2/1 Cash, via BK Court approval
44 S Horne Mesa, 'Holiday Villas'	20 16,200	\$386,100 \$23.83	02/03/2012 1959	\$19,305		6 1/1, 14 2/1 Cash, REO
1840 N 51 st St Phx, 'Seville East'	18 10,700	\$275,000 \$25.70	03/08/2012 1945	\$98,700 \$15,278		1 st, 8 1/1, 9 2/1 Cash
845 N 2 nd Ave Phx	16 18,782	\$996,542 \$53.06	02/01/2012 1916	\$62,284		16 2/1
6542 N 17 th Ave Phx, 'Huntington Gardens'	16 16,496	\$572,000 \$34.68	03/30/2012 1964	\$113,400 \$35,750	5.0	2 1/1, 2,2/1, 10 2/2, 2 3/2 80% occupied
110-114 S Wilson St Phx, 'Wilson Street'	16 7,200	\$416,000 \$57.78	03/30/2012 1960	\$81,600 \$26,000	5.1	16 st 80% occupied
651 E Commonwealth Ave Chandler, 'Bueno Vista'	16 13,870	\$396,000 \$28.55	01/27/2012 1986	\$24,750		Cash
16266 N 31 st St Phx, "Sandra Terrace"	16 13,840	\$875,000 \$63.22	03/08/2012 1984	\$54,688		16 1/1 Cash
3219 N 67 th Pl Scottdsl, 'Scottsdale Shadows'	15 10,450	\$600,000 \$57.42	03/20/2012 1958	\$40,000		
3110 N 40 th St Phx, 'Melrose Place'	13 12,575	\$529,102 \$42.08	01/11/2012 2003	\$99,300 \$40,700	5.3	4 1/1, 8 2/2, 1 3/2 Cash
1921 E Hayden Ln Tempe, 'Hayden Lane'	13 11,050	\$532,000 \$48.14	02/22/2012 1985	\$101,400 \$40,923	5.3 10.0	13 2/1 REO Sale
5115 N 12 th St Phx	12 9,992	\$581,494 \$58.20	02/29/2012 1959	\$48,458		12 2/1 Seller carryback
2216 N 16 th St Phx, 'Westwind'	12 3,794	\$185,000 \$48.76	03/23/2012 1946	\$15,417		11 st, 1 2/1 Hi vacancy, master meter, cash
1625 N 31 st Pl Phx	12 3,578	\$95,000 \$26.55	02/02/2012 1945	\$7,917		7 1/1, 5 2/1 Cash, sold for land value
4538 N 8 th Pl Phx, 'Island'	10 7,350	\$225,000 \$30.61	01/19/2012 1983	\$59,400 \$22,500	3.8	10 2/1 Double escrow
4538 N 8 th Pl Phx, 'Island'	10 7,350	\$275,000 \$37.41	01/19/2012 1983	\$59,400 \$27,500	4.6	10 2/1 Double escrow

The Metro Phoenix Apartment Market (Q1 2012)

The appetite for buying investments remains quite strong, but the number of apartment sales decreased a bit from previous quarters due primarily to a shrinking supply of product. In the 1st quarter, there were 50 regular apartment sales (10+ units) and three broken condo sales. There were no apartment communities sold at a trustee sale and one of the regular sales was via an auction platform. Of the 50 regular sales, half were greater than one million in price, half were “all cash”, 16 were greater than 100 units in size, and 12 (25%) were “flips” (purchased within the past three years and now resold for a profit). Seven of the sales were “bank owned” (REO) but most all were bank-controlled via short sales.

The newer, class “A” properties are selling for strong values, (as low as 5.2% to 5.5% cap rates) and typically have very strong occupancy (95%+). The low cap rates commanded by these properties is driven by the desire of large funds to place significant capital plus the ability to obtain 80% LTV financing with rates in the range of 4.0% to 4.25%. The majority of the “B” and “C” property sales are driven by investors seeking value-added opportunities. There is an increased demand for these properties from investment groups that have been buying homes and have the personnel already in place for repositioning assets. With an ever-shrinking supply of “deals”, the price being paid for distressed assets has steadily been increasing since about the fall of 2010.

As we predicted, the greater Phoenix apartment market is getting stronger quickly. Vacancy rates and rental concessions have decreased, rental rates and values have increased and the investor demand for all quality and size apartments continues to escalate. The overall metro Phoenix economy is still weak, but gaining strength rapidly. Recall that for many years, Arizona was one of the fastest growing states for population in the US. Because Arizona was hit harder than most other States, in addition to the factors that drove this population boom in the past, we now have very affordable housing, a much more friendly business climate, an available work force and a commitment by the legislature to promote business and job creation.

Every employment sector added personnel in the past year creating 45,000 new jobs, half being hired in the 1st quarter of 2012. Tourism, health services and education saw the strongest gains. Metro Phoenix unemployment is down to 7.6% (from a high of 9.9% in fall of 2010) and population is increasing to fill the demand for new jobs. New home construction is finally happening with a 30% increase in single-family permit applications in the past year. Combine this with the overall US economy gaining strength, and the baby boomers that live in the cold climates finally being able to sell their homes and move to warmer climates – the metro Phoenix population is about to explode.

The lack of construction of houses and apartments over the past few years has already started to spark new construction to meet the new demand. Just as Arizona has experienced in the past, construction will mean more jobs – and in turn will create more population and the need for more housing – and thus more jobs! Combine this with banks finally starting to make loans. The “slingshot” recovery is in full gear. While this is great news for apartment owners and buyers seeking investment opportunities, the market will still take many years to recover to values seen from the highs in 2005 – 2008.

Kasten Long Commercial Group

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