



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

3rd QTR 2012

KASTEN LONG COMMERCIAL GROUP (KLCG): Delivering the New Standard of Excellence

Apartment sales activity remained strong in the 3rd quarter with large, class "A" & "B" assets enjoying strong values due to very attractive financing. The smaller, class "C" asset values have been climbing and should be poised for a jump – awaiting improved financing. With the effect of the increase in apartment construction unknown and future interest rates likely to increase, some owners are hedging their bets and have decided to sell now.

KLCG Recent Apartment Transactions of Merit:

- **Linda Fritz-Salazar**, Assoc. Broker, closed the 92 unit, San Tan Senior Cottages (\$4.275M) in Apache Junction.
- **Scott Trevey**, CCIM, closed the 30 unit, Olive Gardens Apts. (\$1.35M), the 34 unit, Casa Loma Apts. (\$1.1M) and the 16 unit, 4th Avenue Apts. (\$600K), all in Phoenix.

** Congratulations to Arvle Knight for receiving the CCIM designation at the recent CCIM Convention in Las Vegas. **

Vacancy Rates Drop – Rents Increase

For the larger (100+ unit size) apartments, vacancy rates dropped across the Valley from 6.5% in the 2nd quarter to 6.4%. This was the 11th continuous quarterly drop in vacancy rates from a high at the end of 2009. Vacancy rates in the 3rd quarter increased slightly in NE Phoenix, North Tempe and West Mesa but decreased up to a half point in Goodyear/Avondale, South Glendale, Central Phoenix and Paradise Valley.

Rental rates continued to escalate with metro Phoenix reporting an increase of 0.4% compared to the 2nd quarter. East Mesa and South Tempe dropped about a half point. Sunnyslope, NE Phoenix, Central Phoenix and Deer Valley reported increased rent - up to 1.5% from the 2nd quarter. The highest rents were reported from the class "A" communities in North Scottsdale.

Permitting Making Strong Comeback

For the past three years, the number of permits for new apartment construction averaged about 1,000/yr. Over the past ten years, the average was 3,840/yr. As of the 3rd quarter of this year, the number of **permits jumped to more than 10,000** with many projects already breaking ground.

Large Apartments Under Construction

- 322u, 3250 S Arizona Av., Chandler
- 270u, 26th St. and Camelback Rd., Phoenix
- 388u, Norterra & North Valley Pkwy., Phoenix
- 325u, 1301 N Scottsdale Rd, Scottsdale
- 265u, Lincoln and Scottsdale Rd., Scottsdale
- 781u, 67th Street and Camelback Rd., Scottsdale

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%
	3,840	10 year average	

KASTEN LONG COMMERCIAL GROUP

- **An Independent, Local, Full Service Commercial Real Estate Brokerage**
- Experienced professional agents with a strong "Client First" mandate.
- **SERVICES:** Apartment, land, office, retail & industrial brokerage and leasing.

Greater Phoenix Apartment Owner's Newsletter

- published quarterly since 1998
- previous issues posted on our website

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Greater Phoenix Apartment Sales

3rd Qtr - 2012

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
4424 E Baseline Rd Phx, 'Brookstone @ Foothills'	528 472,152	\$35,570,000 \$99.12	09/27/2012 1986	\$67,367		160 1/1, 316 2/2, 52 3/2, new loan REO sale. Sold with 256 unit "Madera Point"
15801 S 48 th St Phx, 'Andante'	576 512,616	\$61,300,000 \$119.58	07/27/2012 1999	\$106,424	5.3	364 1/1, 212 2/2 REO sale, new loan
16636 N 58 th St Sctsd, 'Broadstone Desert..'	514 349,052	\$48,250,000 \$138.23	08/16/2012 1987	\$93,872	5.3	176 1/1, 170 2/2, 68 3/2 New loan
909 W Grove Pky Tempe, '909 West'	408 388,416	\$39,500,000 \$101.70	08/31/2012 1999	\$96,814	5.7	170 1/1, 170 2/2, 68 3/2, new loan \$2M sprinkler system to be remedied
3225 E Baseline Rd Gibr, 'Vista Montana'	341 298,550	\$28,000,000 \$93.79	07/16/2012 1988	\$82,111	5.2	141 1/1, 200 2/2 New loan
1802 W Maryland Av Phx, 'Estates on Maryland'	330 422,310	\$27,900,000 \$66.07	08/16/2012 2001	\$84,545	6.0	130 1/1, 50 2/1, 100 2/2, 50 3/2
2910 S Greenfield Rd Gibr, 'Pillar @ San Tan'	315 317,140	\$46,300,000 \$145.99	08/20/2012 2009	\$146,984		105 1/1, 105 2/2, 105 3/2
12115 W Van Buren St Avndl, 'Coldwater Springs'	301 287,784	\$27,200,000 \$94.52	08/30/2012 2007	\$90,365	5.5	132 1/1, 135 2/2, 34 3/2 New loan
3161 W Cheryl Dr Phx, 'Smoketree'	280 189,880	\$7,250,000 \$38.18	07/26/2012 1974	\$1,837,920 \$25,893	3.9 7.2	86 st, 148 1/1, 46 2/2, new loan 83% occupied, master meter, short sale
3600 W Ray Rd Chndlr, 'San Ventura'	272 262,984	\$29,650,000 \$112.74	07/19/2012 1997	\$109,007	5.7	104 1/1, 144 2/2, 24 3/2 Debt assumption.
20934 E Ocotillo Rd Queen Creek, 'Encantada'	264 495,255	\$28,000,000 \$56.54	08/31/2012 2008	\$106,061	5.5	100 1/1, 124 2/2, 40 3/2 New loan
445 S Dobson Rd Mesa, 'Madera Point'	256 192,880	\$14,350,000 \$74.40	09/27/2012 1985	\$1,944,480 \$56,055	7.4	176 1/1, 16 2/1, 64 2/2, new loan REO sale – sold with 528 unit "Brookstone"
1440 S Val Vista Dr Mesa, 'Cortona @ Dana Park'	222 231,910	\$17,400,000 \$75.03	07/10/2012 1986	\$1,855,596 \$78,378	9.4 6.2	74 1/1, 148 2/2 New loan
805 W Brown St Tempe, 'The Arbors'	200 146,520	\$12,200,000 \$83.27	08/10/2012 1967	\$61,000	8.6	24 st, 36 1/1, 64 2/1, 76 2/2 Debt assumption, deferred maintenance
1820 W Lindner Av Mesa, 'La Costa'	194 202,342	\$16,050,000 \$79.32	07/23/2012 1979	\$2,316,120 \$82,732	6.9 6.5	194 2/2 Condo mapped, REO Sale
2045 E Broadway Rd Tempe, 'Timber Lake'	180 156,280	\$12,350,000 \$79.02	09/12/2012 72, 07 Reno	\$1,597,462 \$68,611	7.7 6.8	46 1/1, 106 2/1, 28 2/2 New loan
20245 N 32 nd Dr Phx, 'Bayside'	176 147,296	\$12,363,000 \$83.93	07/02/2012 1999	\$70,244	5.2	64 1/1, 48 2/1, 64 2/2 1031 exchange, new loan
10851 N 43 rd Av Phx, 'Silver Creek'	174 137,400	\$7,000,000 \$59.95	07/23/2012 1984	\$1,442,472 \$40,230	4.9	80 1/1, 94 2/2 Debt assumption, deferred maintenance
1825 N Stapley Dr Mesa, 'Mesa Royale'	152 125,012	\$9,725,000 \$77.79	08/03/2012 85, 08 Reno	\$63,980	6.2 6.5	20 st, 64 1/1, 33 2/1, 28 2/2, 7 3/2 Debt assumption
1212 E Bethany Home Rd Phx, 'Broadstone on Twelfth'	150 129,663	\$9,050,000 \$69.80	08/23/2012 1971	\$1,506,044 \$60,333	6.0 6.3	6 st, 77 1/1, 67 2/2 \$10M in upgrades planned, - new loan
4341 N 24 th St Phx, 'Cabana on 24 th '	149 88,996	\$9,025,000 \$101.41	08/24/2012 79, 07 Reno	\$1,220,356 \$60,570	6.7 5.7	33 st, 86 1/1, 30 2/2, new loan Condo mapped, fka Biltmore Center
8550 W McDowell Rd Phx, 'Del Mar'	144 145,848	\$12,200,000 \$83.65	07/17/2012 2008	\$1,259,232 \$84,722	9.7	40 1/1, 88 2/2, 16 3/2
1718 S Jentilly Ln Tempe, 'Agave'	137 148,020	\$7,350,000 \$49.66	09/12/2012 68, 06 Reno	\$1,347,960 \$53,650	5.5 7.7	74 1/1, 30 2/1, 12 2/2, 21 3/2 86% occupied, cash
2945 W Colter St Phx, 'Mercy Court'	124 108,296	\$2,800,000 \$25.86	08/31/2012 1986	\$753,600 \$22,581	3.7 8.5	116 2/1, 8 2/2 Affordable housing, LURA
324 S Home Mesa, 'Palms @ Mesa'	120 116,486	\$4,300,000 \$36.91	08/20/2012 1972	\$35,833		

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
3211 E Pinchot Av Phx, 'Pinchot Towers'	104 58,767	\$3,100,000 \$52.75	08/31/2012 72, 10 Reno	\$29,808	8.1	104 1/1 Master meter, new loan
10860 N 85 th Av Peoria, 'Villas @ Montebella'	100 72,100	\$2,950,000 \$40.92	07/12/2012 1974	\$696,000 \$29,500	4.2 8.3	20 1/1, 80 2/1 \$300K reno planned, new loan
5701 N 67 th Av Gndl, 'Maridale Villa'	98 83,342	\$1,958,103 \$23.49	07/11/2012 1974	\$19,981		30 1/1, 41 2/1, 21 3/2, 6 4/2 Condos being dissolved, short sale, high vac
900-940 W Indian School Rd Phx, 'Brentwood Gardens'	96 99,600	\$2,620,000 \$26.31	07/09/2012 1957	\$677,748 \$27,292	3.9 10.5	41 2/1, 55 2/1.5 84% occupancy, new loan
251 N 114 th St Apch Jntn, 'Sr Cottages of AJ'	92 80,176	\$4,275,000 \$53.32	09/28/2012 2000	\$711,574 \$46,467	5.7 7.2	24 1/1, 44 2/1, 24 3/1 New loan, senior housing
1006 W Main St Mesa, 'Hidden Village Mesa'	84 67,320	\$4,000,000 \$59.42	09/28/2012 1986	\$47,619		24 1/1, 60 2/2 New loan
57 N Alma School Rd Mesa, 'Chelsea'	76 70,300	\$3,000,000 \$42.67	07/26/2012 1983	\$39,474		32 1/1, 44 2/2 Condo mapped, cash
8050 N 61 st Av Gndl, 'Village Diamante'	69 92,866	\$6,700,000 \$72.15	07/19/2012 2009	\$783,000 \$97,101	8.6 6.4	36 2/2, 23 3/2, 10 3/3, new loan CM, REO sale, seller \$100K upgrade
5104 E Thomas Rd Phx, 'Villa Tomas'	66 22,412	\$1,415,700 \$63.17	07/31/2012 1973	\$431,208 \$21,450	3.3 9.9	36 st, 30 1/1 38% occupied, cash, deferred maintenance
3025 N 32 nd St Phx, 'Arcadia Vistas'	61 25,536	\$964,300 \$37.76	09/13/2012 1968	\$347,568 \$15,808	2.8 10.5	30 st, 29 1/1, 2 2/1, new private loan 86% occupied, distressed, deferred maint.
4526 N Black Canyon Hwy Phx, 'Chelsey Park'	59 31,700	\$630,000 \$19.87	07/25/2012 1964	\$10,678		40 st, 4 1/1, 15 2/1, new private loan 50% occupied, master meter, deferred maint.
16621 N 25 th St Phx, 'Rancho La Fluente'	56 31,325	\$1,568,000 \$50.06	09/28/2012 1978	\$233,400 \$28,000	6.7 6.8	55 1/1, 1 2/1 New loan
15425 N 25 th St Phx, 'Greenway Landing N'	50 38,732	\$1,437,500 \$37.11	07/09/2012 1981	\$28,750	8.3	1 1/1, 49 2/1 76% occupied, new loan
447 W 8 th St Mesa, 'Cypress Commons'	48 39,216	\$2,275,000 \$58.01	08/06/2012 1986	\$47,396	5.8	48 2/2 85% occupied, condo mapped, cash
2820-2844 W Augusta Av Phx, 'Augusta Cove'	44 33,600	\$1,175,000 \$34.97	07/31/2012 1959	\$284,820 \$26,705	4.0 12.3	1 st, 13 1/1, 28 2/1, 1 3/1, 1 4/1 Cash
815 N 3 rd Av Phx, 'McKinley Court'	40 18,540	\$1,665,000 \$89.81	09/28/2012 1960	\$41,625		18 st, 22 1/1, cash 85% occupied, deferred maint., redevl. proj.
2732 W Medlock Dr Phx, 'Villa Rose'	40 28,292	\$1,100,000 \$38.88	07/24/2012 1982	\$228,456 \$27,500	5.2 7.8	12 1/1, 28 2/1 83% occupied, 1031, new loan
501 E Willetta St Phx, 'Carol Mary'	40 23,320	\$825,000 \$35.38	09/04/2012 1963	\$20,625		40 1/1 0% occupied, cash, master meter
2445 W Glenrosa Av Phx, 'La Buena Vida'	38 28,720	\$1,282,050 \$44.64	09/28/2012 1983	\$204,000 \$33,738	6.3 6.6	14 1/1, 24 2/1 Cash
1518 W Colter St Phx, 'Colter Manor'	35 29,750	\$700,000 \$23.53	07/24/2012 1963	\$262,323 \$20,000	2.7 8.1	35 2/1 Land lease
620 N 2 nd Av Phx, 'Marquee'	34 23,913	\$1,500,000 \$62.73	07/13/2012 1958	\$44,118	5.9	2 st, 32 1/1 Affordable housing, new private loan
912 W Highland Av Phx, 'Highland'	32 29,892	\$1,200,000 \$40.14	07/16/2012 1964	\$37,500		28 2/1, 4 3/1.5 Affordable housing, new loan via TCAP
3432 N 12 th Pl Phx, 'Olive Gardens'	30 23,900	\$1,350,000 \$56.49	08/17/2012 1971	\$246,300 \$45,000	5.5 9.0	1 st, 1 1/1, 24 2/1, 4 2/2 90% occupied, cash
338 N 23 rd St Phx, 'Polk Terrace'	30 17,400	\$660,000 \$37.93	09/11/2012 1985	\$156,600 \$22,000	4.1 9.7	18 1/1, 12 2/1 Cash, REO, short sale
837 E Montecito Av Phx, 'Los Jardines'	28 20,392	\$730,000 \$35.80	07/27/2012 1981	\$26,071		12 1/1, 16 2/2 New private loan
1503 W Missouri Av Phx, 'The Vue'	26 21,500	\$985,000 \$45.81	07/23/2012 1967	\$173,700 \$37,885	5.5 8.1	8 1/1, 18 2/2 90% occupied, new loan

The Metro Phoenix Apartment Market (Q3 2012)

In the 3rd quarter, there were 64 regular apartment sales (10+ units) and four broken condo sales, similar volume to recent quarterly sales. Two properties, Orange Arbor (164 u) and Pierson Place (28 u), both located in central Phoenix, reverted back to the beneficiary at trustee sale. There were no 3rd party trustee sale purchases. Of the 64 regular sales, 27 had more than 100 units with a gross sale volume of \$531 million. Most of these sales had some type of financing (new, seller, or assumption of restructured debt). There were 37 apartments sold with 10 to 100 units with a gross sale volume of \$51 million. Half of these sales were “all cash”.

Strong Increase in Permitting and New Apartment Construction

The number of permits for new construction grows almost daily. Some of the projects are still seeking financing, so may not be built, however, in Scottsdale alone, there are more than 8,000 permits in various stages with three projects being built and several more scheduled to start soon. The reason for the new construction is obviously due to the increasing demand. The effect of the added supply will be dependent on the population growth and movement from homes to apartments. Some owners of larger communities are selling now – taking advantage of the very inexpensive financing available for buyers – and hedging their bets against the possible competition of new product.

Previous Apartment Sales

In general, the apartment sales activity has been divided into two unique property types. The larger, class “A” and “B” communities, with strong occupancy and financials, have been selling for low cap rates (5% to 6%) due to the very available, inexpensive money ($\pm 4\%$) with LTV’s of 75% to 80%. Buyers of this property type, typically institutional and large investor groups, enjoy the spread between the cap rate and the low interest rate. The upside in income and value is being driven by increased rents. The other unique property type has been the “B” and “C” properties, without strong financials, that were purchased by investors seeking value-added opportunities.

With an ever-shrinking supply of “deals”, the price being paid for distressed assets has steadily increased since the fall of 2010. Much of the distressed multi-family product has now been purchased, repositioned and subsequently rolled back out into the market. About 30% of the apartment sales reflect this scenario. With a decreased inventory of value-add opportunities, many “rehab” investors are now moving on, leaving more stabilized inventory available - and just in time for the ‘return’ of financing - well sort of. . .

Financing – good for class “A” and “B” – but not quite yet for smaller class “C”

For the larger class “A” and “B” assets that have been recently repositioned, Fannie Mae still offers their very attractive financing with minimal trailing financials. Unfortunately, Fannie Mae’s minimum for loans, does not help the smaller, typically “C” apartment owners or buyers. For these properties, lenders are seeking 6 to 18 months of solid financials to support a strong LTV and attractive interest rates. **Savvy investors continue to appreciate the future opportunity - “Get it Bought” and wait for the financing to return.** For many of the “C” quality apartments, values have gone up. We encourage you to call us to discuss the value of your property. We would be glad to prepare a “Broker Price Opinion” and discuss the pros and cons of selling now.

ASU’s W.P. Carey School of Business reports Arizona to now be number four in job growth in the country. Combine this with shrinking vacancies, increasing rental rates and financing likely to improve in the future – investing in apartments remains very attractive.

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