

GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

3rd QTR 2015

KASTEN LONG COMMERCIAL GROUP: The Kasten Long Commercial Group has specialized in apartment brokerage in metro Phoenix since 1998. Our agents have brokered more than 1,000 communities with gross sales in excess of 1 billion dollars.

The company provides weekly updates (by e-mail) on apartment sales and has published a quarterly apartment newsletter for sixteen years – past issues are available on the company's web site www.KLCommercialGroup.com. **WATCH FOR OUR NEW APARTMENT LISTINGS ON THIS SITE AS WELL!!**

Vacancy Rates Lowest in 17 Years

Vacancy rates for the 3rd quarter for “stabilized” properties with 50 or more units decreased **from 6.1% to 5.7%**. This is the lowest vacancy rate since 1998 as tracked by RealData. While this sounds great, it's likely that the newly constructed projects are not yet deemed “stabilized”. Vacancy rates for the 50-99 communities decreased slightly from 5.3% to 4.9 and the 100+ properties also decreased from 6.1% to 5.8%. Vacancy rates for each sub-market are posted on our web site under Apartments – Market Data.

No Slowdown in New Construction in Q3

Ten projects were completed totaling 2,054 units and eight new apartment projects started totaling 1,440 units. There are 31 projects currently under construction representing **6,613 units**. There are also 59 additional projects in various stages from initial rezoning to final permitting - totaling **15,605 units**. The combined total of “under construction” and in the “pipeline” is **22,218 units**. In Q2, the total was 21,448 units. A detailed list of all projects is posted on our web site.

Average Rental Rates Continue Increase

For apartment communities with 50-99 units, the average unfurnished rental rate **increased 1.0%**, going from \$728 to \$735 per unit in Q3. YTD, the rate is up 3.8%. The 50-99 size range typically represents the older, “B” and “C” properties.

The average unfurnished rental rate for the 100+ communities **increased by 2.0%**, going from \$850 to \$867 per unit in Q3. YTD, the rate is up 5.9%. Seven of the 32 sub-markets reported average rents greater than \$1,000/mo. Since the values reported represent all age communities with 100+ units and include “A”, “B” and “C” class properties - the actual values are not relative – but the overall trend is. In part, however, the increased rental rate may be from higher rents being obtained from the newly constructed “A” class projects that are now deemed to be stabilized and are now being included in the overall statistics.

KASTEN LONG COMMERCIAL GROUP

- An independent, local, commercial brokerage - **since 1998.**
- Experienced professional specialists with a strong “Client First” mandate.
- **SERVICES:** Apartments and land brokerage - office, retail & industrial brokerage and leasing.

2821 E Camelback Rd, #600, Phoenix, AZ 85016

Jim@KLCommercialGroup.com

602 677 0655

Multifamily Data - Greater Phoenix Area

Year	Const.	Absorp.	Vacancy
2006	4,660	(4,653)	5.3%
2007	4,637	(5,846)	8.5%
2008	7,037	(4,466)	10.8%
2009	6,737	(5,319)	14.2%
2010	698	20,743	10.3%
2011	910	2,154	9.7%
2012	2,031	3,028	8.3%
2013	4,452	4,822	7.3%
2014	5,658	4,716	6.1%
2015 (1)	1,578	2,676	5.7%
2015 (2)	513	(883)	6.1%
2015 (3)	2,055	1,242	5.7%

Data Sources:

2005 - 2011: ASU's Phx Metro. Housing Study (20+ units)
 2012 - 2015: RealData, Inc. (50+ units – stabilized)

On a weekly basis via e-mail we offer:

1. Recent Apartment sales
2. Metro Phoenix News
3. All apartments currently being marketed for sale – principals only

If interested and if you're not already on our distribution list – just let us know.

Greater Phoenix Apartment Sales

3rd Qtr - 2015

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
3010 W Yorkshire Drive Phx, 'IMT Deer Valley'	832 723,960	\$100,500,000 \$138.82	9/29/2015 1996	\$120,793	5.91	360 1/1, 96 2/1, 260 2/2, 116 3/2 FKA 'Deer Valley Village'
19940 N 23 rd Avenue Phx, 'Element Deer Valley'	629 475,623	\$66,300,000 \$139.40	7/16/2015 2004	\$105,405	5.65	78 st, 180 1/1, 79 2/1, 220 2/2, 36 3/2, 36 4/2 Cash Sale, Flip: 12/12 - \$50M
1655 E University Drive Tempe, 'Gateway'	288 289,704	\$56,750,000 \$195.89	7/27/2015 1998	\$197,049		18 1/1, 54 2/2, 72 3/2, 96 4/2, 48 4/4 Bankruptcy Sale, Cash Sale
21150 N Tatum Boulevard Phx, 'Elevate at Desert Ridge'	342 400,418	\$52,000,000 \$129.86	8/17/2015 2006	\$152,047		140 1/1, 178 2/2, 24 3/2 Cash Sale, Ground Lease, FKA 'Shade at DR'
2529 W Cactus Road Phx, 'Villas at Cave Creek'	696 572,764	\$43,150,000 \$75.34	9/18/2015 1986	\$61,997	5.88	432 1/1, 240 2/2, 24 3/2
1889 W Queen Creek Road Chandler, 'Ocotillo Bay'	296 274,108	\$39,250,000 \$143.19	9/17/2015 1997	\$132,601	5.1	144 1/1, 136 2/2, 16 3/2
105 N Beebe Street Gilbert, 'Highland Groves'	228 250,000	\$38,300,000 \$153.20	7/6/2015 2014	\$167,982	4.95	84 1/1, 120 2/2, 24 3/2 Cash Sale
4130 S Mill Avenue Tempe, 'The Huntington'	442 347,460	\$34,600,000 \$99.58	9/29/2015 1973	\$78,281	5.76	37 st, 136 1/1, 113 2/1, 156 2/2 FKA 'Mill Pointe' and '201 West'
4520 E Baseline Road Phx, 'Siena'	352 276,972	\$31,025,000 \$112.01	8/31/2015 1986	\$88,139		160 1/1, 48 2/1, 120 2/2, 24 3/2 1031 Exchange, Flip: 6/12 - \$13M
1031 S Stewart Mesa, 'Indian Springs Village'	460 376,408	\$29,800,000 \$79.17	7/28/2015 1980	\$64,783		240 1/1, 80 2/1, 104 2/2, 36 3/2
2300 W Pecos Road Chandler, 'Elevation'	163 150,000	\$28,700,000 \$191.33	9/02/2015 2014	\$176,074	5.0	107 1/1, 56 2/2
10455 E Via Linda Scottsdale, 'Morningside'	160 164,196	\$28,000,000 \$170.53	7/16/2015 1989	\$175,000		32 1/1, 92 2/2, 36 3/2, Flip: 3/13 - \$21.6M 1031 Exchange, Debt Assumption
1891 N Litchfield Road Goodyear, 'Palm Valley'	264 235,832	\$27,200,000 \$115.34	7/31/2015 1997	\$103,030	5.25	96 1/1, 120 2/2, 48 3/2
1865 N Higley Road Mesa, 'Springs at Alta Mesa'	200 196,640	\$24,760,000 \$125.92	9/09/2015 2000	\$123,800	5.6	8 st, 64 1/1, 96 2/2, 32 3/2
4839 S Darrow Drive Tempe, 'Ponderosa Ranch'	272 192,100	\$23,200,000 \$120.77	8/26/2015 1983	\$85,294	5.60	136 1/1, 68 2/1, 68 2/2 FKA 'Green Leaf Sienna', Flip: 2/12 - \$15.25M
5128 N 15 th Street Phx, 'Sienna Springs'	395 201,113	\$20,500,000 \$101.93	8/3/2015 1974	\$51,899		164 st, 185 1/1, 23 2/1, 23 2/2 Renovated 2006
1330 W Broadway Tempe, 'Anzio Apartments'	240 184,752	\$19,500,000 \$105.55	8/28/2015 1971	\$81,250	6.0	96 1/1, 108 2/1, 36 2/1.5 FKA Versante, Flip: 9/13 - \$15M
9652 N 31 st Avenue Phx, 'The Villages'	290 232,644	\$19,000,000 \$81.67	8/10/2015 1974	\$65,517	6.0	24 st, 120 1/1, 30 2/1, 110 2/1.5, 6 3/2
3330 W Greenway Road Phx, 'Oakridge Apartments'	282 194,454	\$17,000,000 \$87.42	8/11/2015 1984	\$60,284		30 st, 172 1/1, 24 2/1, 56 2/2
1923 N 70 th Street Scottsdale, 'Dwell'	193 122,687	\$14,275,000 \$116.35	8/4/2015 1963	\$73,964	6.0	21 st, 92 1/1, 80 2/2 Flip: 3/12 - \$8.9M
7611 S 36 th Street Phx, 'The Montana'	134 154,895	\$14,050,000 \$90.71	9/29/2015 1998	\$104,851		40 1/1, 81 2/2, 13 3/2 Debt Assumption, Flip: 11/12 - \$11.5M
12810 N Cave Creek Road Phx, 'Copper Palms'	206 153,638	\$13,900,000 \$90.47	9/15/2015 1986	\$67,476	6.0	18 st, 84 1/1, 48 2/1.5, 56 2/2
17805 N 40 th Street Phx, 'Paradise North'	138 151,460	\$10,750,000 \$70.98	9/30/2015 1984	\$77,899		138 2/2
11459 N 28 th Drive Phx, 'Waterfront'	288 188,892	\$10,000,000 \$52.94	8/25/2015 1980	\$34,722		216 1/1, 36 2/1, 36 2/2 Auction Sale, REO Sale, Renovated 2006
1408 N Central Avenue Avondale, 'Las Casitas'	168 155,471	\$9,750,000 \$62.60	7/24/2015 1974	\$58,036	7.0	45 1/1, 16 2/1.5, 75 2/2, 32 3/2 1031 Exchange, Flip: 12/12 - \$7.025M

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, RealData, VIZZDA
 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
7021 W McDowell Road Phx, 'Ventana Palms'	160 145,854	\$8,552,000 \$58.63	8/27/2015 1989	\$53,450		52 1/1, 108 2/2
3333 W Dunlap Avenue Phx, 'Copper Glen'	288 245,280	\$8,154,000 \$33.24	7/8/2015 1973	\$28,313		240 2/1, 48 3/2, Flip: 6/12 - \$5.8M Deferred Maintenance, Master Metered
6241 N 27 th Avenue Phx, 'Palm Aire'	186 140,616	\$7,475,000 \$53.16	9/22/2015 1982	\$40,188	7.06	65 1/1, 121 2/2 Flip: 5/12 - \$4.2M
5615 N 7 th Street Phx, 'Inhabit on 7 th '	74 41,040	\$5,000,000 \$121.83	7/14/2015 1973	\$67,568	6.0	17 st, 57 1/1, Flip: 11/13 - \$4M Master Metered, FKA 'Sunshine Terrace'
109 E Broadway Road Tempe, 'Decco 109'	40 31,200	\$4,250,000 \$136.22	8/13/2015 1965	\$106,250		12 1/1, 28 2/1, Portfolio – Flip: 11/14 Cash Sale, High Vacancy, Master Metered
1855 E Don Carlos Avenue Tempe, 'Moderno'	56 48,000	\$4,185,000 \$87.19	9/29/2015 1987	\$74,732		52 2/1, 4 3/1.5
3536 E Cambridge Avenue Phx, 'Greenbrook'	80 64,352	\$4,100,000 \$63.71	7/21/2015 1974	\$582,720 \$51,250	7.04 6.0	54 1/1, 26 2/2
1433 W University Drive Mesa, 'Warren Park'	92 90,874	\$3,800,000 \$41.82	9/30/2015 1970	\$41,304	7.0	29 1/1, 45 2/1, 18 3/1
2130 W Indian School Road Phx, 'Indian Canyon'	72 50,994	\$3,650,000 \$71.58	9/30/2015 1982	\$50,694	6.8	18 1/1, 54 2/1 Renovated 2008, Flip: 6/14 - \$2.016M
4802 N 15 th Avenue Phx, 'Pinewood Village'	93 81,088	\$3,325,000 \$41.00	9/18/2015 1980	\$35,753		46 st, 47 1/1 Master Metered
7125 N 19 th Avenue Phx, 'Villa Ventura'	50 45,000	\$3,197,500 \$71.06	8/27/2015 1970	\$63,950		50 2/1 Flip: 10/13 - \$2.451M
525 E Bethany Home Road Phx, 'Bethany at Midtown'	40 24,100	\$3,160,000 \$131.12	8/10/2015 1969	\$331,200 \$79,000	9.54 6.0	8 st, 18 1/1, 14 2/1 Renovated 2013, Flip: 3/13 - \$1.73M
1350 E Bethany Home Road Phx, 'Bethany Biltmore'	32 40,624	\$2,900,000 \$71.39	7/31/2015 1964	\$90,625		4 1/1, 24 2/2, 4 3/2
4446 N 36 th Street Phx, 'Arc Loft'	34 24,458	\$2,764,500 \$113.03	7/14/2015 1964	\$81,309		18 1/1, 9 1/1.5, 7 2/2
3510 N Miller Road Scottsdale, 'Bristol'	20 18,106	\$2,500,000 \$138.08	9/01/2015 1958	\$125,000		Redevelopment Project REO Sale, Cash Sale, FKA 'Scottsdale Villas'
3311 N 18 th Street Phx, 'Mode at 18'	18 16,982	\$1,995,000 \$117.48	7/21/2015 1979	\$110,833	6.25	18 2/1.5, Flip: 7/14 - \$825K Cash Sale, Renov 2015, FKA 'La Promenade'
4138-4146 N Longview Ave Phx, 'Palm Vista'	40 27,200	\$1,950,000 \$71.69	8/3/2015 1982	\$48,750		8 1/1, 32 2/1 1031 Exchange
3110 N 40 th Street Phx, 'Melrose Place'	13 12,575	\$1,900,000 \$151.09	9/30/2015 1965	\$146,154		4 1/1, 8 2/2, 1 3/2 Flip: 11/13 - \$750K
2610 N Recker Road Mesa, 'Red Mountain'	28 21,760	\$1,830,000 \$84.10	8/3/2015 1984	\$220,500 \$65,357	8.30 6.23	1 1/1, 26 2/1, 1 2/2 1031 Exchange, Flip: 3/14 - \$1.31M
8940 N 8 th Street Phx, 'Rancho Valencia'	40 25,601	\$1,800,000 \$70.31	9/30/2015 1985	\$259,200 \$45,000	6.87	24 1/1, 16 2/1 Flip: 4/14 - \$1.45M
2835 W Northern Avenue Phx, 'Northern Palms'	47 32,400	\$1,720,000 \$53.09	9/30/2015 1954	\$36,596		47 1/1 Master Metered
6725 N 17 th Avenue Phx, 'La Casa'	29 27,283	\$1,650,000 \$60.48	7/17/2015 1977	\$56,897	6.6	1 1/1, 12 2/1, 16 2/2 1031 Exchange
3044 E Fillmore Street Phx, 'La Colonia'	41 28,700	\$1,525,000 \$53.14	8/19/2015 1986	\$37,195	6.7	41 2/1 FKA 'Celebrity Apartments'
6502 N 17 th Avenue Phx, 'The Parisian'	16 14,190	\$1,450,000 \$102.18	7/13/2015 1964	\$90,625	5.71	4 1/1, 12 2/1 Cash Sale
837 E Montecito Avenue Phx, 'Los Jardines'	28 20,392	\$1,360,000 \$66.69	8/27/2015 1981	\$48,571		12 1/1, 16 2/2 Flip: 7/12 - \$730K
31 W 2 nd Street Mesa, 'Irving Manor'	20 15,672	\$1,350,000 \$86.14	9/10/2015 1960	\$144,313 \$67,500	9.35 6.1	12 1/1, 8 2/1
25 E Eva Street Phx, 'The Sierra'	23 15,328	\$1,315,000 \$85.79	9/15/2015 1960	\$175,704 \$57,174	6.27	10 st, 8 1/1, 5 2/1 Cash Sale, Flip: 7/14 - \$1.25M
5302 E Van Buren St, #15s Phx, 'Belafllora'	15 10,596	\$1,255,000 \$118.44	7/16/2015 2002	\$83,667		11 1/1, 4 2/2 15 Unit Portfolio Sale, Condo Conversion

The Metro Phoenix Apartment Market (Q3 2015)

In the third quarter of 2015, there were a total of 75 individual multifamily transactions with 10 units or more. There were 77 last quarter – so, activity still strong. There was also a three-property portfolio sale totaling \$116M. A third of the transactions had more than 100 units, 13 were purchased with “cash” and 11 had at least one leg that was a “1031 exchange”. Of the 75 total sales, 28 were “Flips” – properties resold within the past four years. Most of the “flips” were properties with less than 100 units (see pages 2 and 3 for details). Some of the stronger gains were on properties that had been repositioned, but some just enjoyed the continued value increase that we have seen over this time period.

What’s Driving the Value Increase in our Market?

Ten years ago we had a similar run-up in apartment values – but today’s market is far different and offers continued appreciation. The significant difference is in the combination of record low vacancies with strong rent growth. The driving forces are the continued population increase, both the millennials and the retired folks desire to rent and not own, and a portion of our population is still suffering from the economic downturn and an inability to obtain a loan for a home. We would also suggest that the forecast for next year’s population growth of about 1.7% for greater Phoenix is probably low. In part, this is due to the previous method of establishing population growth – by counting roof tops. Many homes and apartments have extra residents (family or friends) and may not be counted in the population. The end result is an increased demand for rentals (homes and apartments) with a supply that has not kept up with demand. Thus creating higher rents, higher property values and a healthy apartment market for at least the near-term.

The New “Fix and Flip”

We’ve used this expression for some time now – and it’s not a new concept. Almost all buyers in our market are seeking “value add” opportunities. There are two plays here: one being to simply raise rents to market and enjoy the increased cash flow. The other is to reposition a property, maybe not to “condo” quality but going that direction. Reposition would also include a face-lift with an up-scale look plus a change in the tenant base. A solid property in a good location is critical. We’ve seen rents often increase by more than 50% with this scenario.

How to Find Opportunities

More than 40% of the 3rd quarter apartment sales, noted in this newsletter, were not advertised in venues such as LoopNet or CoStar. The properties may have been listed but sold in-house with no co-broke offered. While we believe that this limits an owner’s exposure and ability to obtain the best price and buyer, it’s a reality of our market. As a result of this progression, we have many buyers for these “off-market” opportunities - saving owners a bit on fees and providing minimal disturbance to tenants. If you’re a buyer, let us know what you are seeking. For owners, *“call us for a free valuation and to possibly explore potential buyer interest / offers.”*

Residential and 4-plex Owners and Buyers (new rules)

KLCG focuses on “B” and “C” class apartments mostly from 20 to 200+ units. However, we also have agents that help owners and buyers with homes (Kristine Remmers, 602 881 9391) and 4-plexes (Jan Long, CCIM, 602 432 9882 and Arvle Knight, CCIM, 602 885 8000). There are new rules and regulations (TRID) that will affect sales. Call them for what these means to you – besides more paperwork and extended closings.

Kasten Long Commercial Group: Scott Trevey, CCIM (480 205 0862), Linda Fritz-Salazar, Assoc. Broker (602 989 9487), Jim Kasten, CCIM (602 677 0655), Jan Long, CCIM (602 434 9882), Arvle Knight, CCIM (602 885 8000), Walter Unger, CCIM (520 975 5207), John Locke (480 432 7179), Jon Coffen (602 653 3600), De Bowles (480 809 2900) and Chris Norton (480 559 9775).

Kasten Long Commercial Group

A FULL SERVICE COMMERCIAL REAL ESTATE BROKERAGE

Delivering THE New Standard of Commercial Brokerage Excellence

www.KLCommercialGroup.com