



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

4th QTR 2016

KASTEN LONG COMMERCIAL GROUP: The Kasten Long Commercial Group has specialized in apartment brokerage and research 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 commercial news. Newsletters and other market data are posted on our website www.KLCommercialGroup.com.

KLCG recently partnered with the AZ Multihousing Assoc. (AMA) to oversee their Independent Rental Owners (IRO) division. This includes all apartment owners with communities up to 250 units. **The 1st meeting will be March 1 at Macayo's in Tempe** with Tempe's former Vice Mayor (Corey Woods) being the keynote speaker. KLCG's market update will also be on our website.

12,759 Units Under Construction

In addition to the 12,759 units currently "under construction", there are 19,254 "planned" and 9,137 units noted as "prospective". That's a total of 41,150 units. Of the projects "under construction", there are 7,303 units in 33 complexes slated to be completed in 2017. That would be slightly less than the 34 projects with **8,024** units completed in 2016. Since a low in 2011, when financing and demand dried-up, both across the US and locally, the number of new apartment completions has steadily increased, now having reached pre-recession levels. A map showing the location of new construction is posted on our website. We expect to see a slowing of new construction soon as land and construction costs increase.

Occupancy Down Slightly – Concessions Up

For all class (50+) properties, occupancy is still very strong but dropped about a point from a year ago. This was roughly from 95.5% to 94.5%. The peak was early in 2016 and may stand as the high for some years going forward. Year-end vacancy was 5.8%.

Over this past year, "asking" rents are up: 6.7% for Class A, 9.0% for Class B and 8.6% for Class C properties. Since a low in 2010, Class A rents are up 35.7%, 32.2% for Class B and since 2011, Class C rents are up 29.4%. Again, these increases are based on "asking" rents. What we have started to see are rent concessions being offered in Class A properties, most notably in areas with significant new construction. The amount of the concession ranges from 6.8% to 9.3% in North and South Tempe, South Scottsdale, South Mesa, and Gilbert.

We also track apartments with less than 50 units. These are typically older (built between 1960 to 1980). With the continued very low vacancy rates, rents in these properties continue to jump. These are also prime candidates for repositioning.

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.

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Multifamily Data - Greater Phoenix Area

| Year | Const. | Vacancy |
|------|--------|---------|
| 2007 | 4,637 | 8.5% |
| 2008 | 7,037 | 10.8% |
| 2009 | 9,315 | 14.2% |
| 2010 | 2,593 | 10.3% |
| 2011 | 614 | 9.7% |
| 2012 | 1,372 | 8.3% |
| 2013 | 3,655 | 7.3% |
| 2014 | 4,820 | 6.1% |
| 2015 | 5,089 | 5.7% |
| 2016 | 8,024 | 5.8% |

Data Sources:

2005 - 2011: ASU's Phx Metro. Housing Study (20+ units)
 2012 - 2015: RealData, Inc. (50+ units - stabilized)
 2016: Yardi Systems, 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
New - Interactive Map Available

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

| ADDRESS CITY, 'NAME' | UNITS SIZE (SF) | SOLD PRICE PRICE / SF | SALE DATE YEAR BLT. | GSI PRICE / UNIT | GRM CAP | COMMENTS |
|---|------------------|---------------------------|---------------------|-------------------------|---------|--|
| 3800 N El Mirage Rd Avondale, '3800 Lux' | 715 1,062,924 | \$87,500,000 \$82.32 | 12/19/2016 2008 | \$122,378 | | 160 1/1, 396 2/2, 1 2/2.5, 158 3/2 FLIP - 11/14, \$66,500,000 |
| 11 S Central Ave Phx, 'CityScape Res' | 224 220,720 | \$75,250,000 \$340.93 | 12/22/2016 2014 | \$335,938 | | St. 32, 119 1/1, 6 1/2, 62 2/2, 5 3/3 |
| 300 E Warner Rd Chandler, 'Biscayne Bay' | 512 475,720 | \$71,500,000 \$150.30 | 11/17/2016 2000 | \$139,648 | 5.27 | 224 1/1, 272 2/2, 16 3/2 |
| 1260 E University Rd Tempe, 'Alta Tempe' | 296 403,364 | \$67,900,000 \$168.33 | 11/22/2016 2015 | \$229,392 | 5.15 | St.10, 116 1/1, 90 2/2, 30 3/2 |
| 4650 N Central Ave Phx, 'Elevation on Central' | 266 200,713 | \$60,000,000 \$298.93 | 11/17/2016 2015 | \$225,564 | | St. 77, 90 1/1, 33 2/1, 66 2/2 |
| 1675 E Morten Ave Phx, 'Altitude 1675' | 225 349,082 | \$60,000,000 \$266,667 | 10/27/2016 2016 | \$266,667 | 5 | 95 1/1, 105 2/2, 25 3/2 1031 Exchange |
| 1121 N 44 th St Phx, 'Alanza Place' | 360 446,986 | \$57,325,000 \$128.25 | 10/20/2016 2002 | \$159,236 | | 191 1/1, 161 2/2, 8 3/3 |
| 9259 E Raintree Dr Scotts, 'Scottsdale Horizon' | 330 291,391 | \$51,000,000 \$175.02 | 12/22/2016 1986 | \$154,545 | 5.2 | 168 1/1, 162 2/2 |
| 2475 W Pecos Rd Chandler, 'Cantera' | 288 257,351 | \$46,000,000 \$178.74 | 10/03/2016 2002 | \$159,722 | 5.11 | 192 1/1, 16 2/1, 72 2/2, 8 3/2 FLIP – 07/14, \$36,750,000 |
| 1930 E Camelback Rd Phx, 'The Colonnade' | 415 256,296 | \$44,600,000 \$174.02 | 10/11/2016 1968 | \$107,470 | 4.66 | St. 109, 254 1/1, 2 2/1, 50 2/2 FLIP – 07/14, \$25,500,000, 1031 Exchange |
| 20250 N 67 th Ave Glendale, 'Isle at Arrowhead' | 256 244,608 | \$42,000,000 \$171.70 | 12/01/2016 1996 | \$164,063 | | 88 1/1, 128 2/2, 40 3/2 |
| 1901 W Germann Rd Chandler, 'Vive' | 194 216,396 | \$41,500,000 \$191.78 | 11/16/2016 2014 | \$213,918 | | 82 1/1, 100 2/2, 12 3/2 |
| 12115 W Van Buren St Avdle, 'Coldwater Springs' | 301 287,784 | \$40,966,500 \$142.35 | 10/05/2016 2007 | \$136,101 | | 132 1/1, 135 2/2, 34 3/2 Non Arms Length |
| 15164 N 140 th Dr Sprrise, 'Harmony at Surprise' | 312 350,000 | \$40,600,000 \$116.00 | 10/28/2016 2008 | \$130,128 | | 60 1/1, 216 2/2, 36 3/2 |
| 5900 E Thomas Rd Scotts, 'Scottsdale 59' | 360 218,975 | \$35,100,000 \$160.29 | 12/14/2016 1973 | \$97,500 | 5 | St. 103, 224 1/1, 28 2/1, 5 2/2 |
| 1923 N 70 th St Scotts, 'Dwell Apt Homes' | 193 122,687 | \$20,850,000 \$169.94 | 12/21/2016 1963 | \$108,031 | 5.75 | St. 20, 92 1/1, 80 2/2 FLIP – 08/15, \$20,850 |
| 242 S Beck Ave Tempe, 'Salado Springs' | 144 121,712 | \$20,200,000 \$165.97 | 12/01/2016 1986 | \$140,278 | | 32 1/1, 112 2/2 |
| 4715 N Blk Canyon Hwy Phx, 'Solano Terrace' | 288 192,600 | \$19,000,000 \$98.65 | 12/29/2016 1985 | \$65,972 | 6.3 | St. 36, 144 1/1, 36 2/1, 36 2/2 FLIP – 06/15, \$12,250,000 |
| 16801 N 49 th St Phx, 'Tatum Place' | 164 134,380 | \$18,100,00 \$134.69 | 12/15/2016 1984 | \$110,366 | | 60 1/1, 104 2/2 |
| 4748 W Sierra Vista Dr Glendale, 'Arroyo Villas' | 196 154,400 | \$13,700,000 \$88.73 | 12/12/2016 1984 | \$1,437,600 \$69,898 | | 76 1/1, 120 2/2 |
| 6565 W Bethany Home Rd Glendale, 'Casa Bellisima' | 276 176,598 | \$13,500,000 \$76.44 | 10/21/2016 1984 | \$48,913 | 6.96 | St. 68, 168 1/1, 16 2/1, 24 2/2 FLIP – 04/15, \$8,950,000 |
| 2107 W Broadway Rd Mesa, 'Broadway Modern' | 155 108,279 | \$10,850,000 \$100.20 | 10/21/2016 1983 | \$70,000 | | St. 14, 91 1/1, 12 2/1, 38 2/2 |
| 5008 E Thomas Rd Phoenix, 'Revival on Thomas' | 155 95,602 | \$10,600,000 \$110.88 | 10/25/2016 1979 | \$63,387 | 5.5 | St. 20, 102 1/1, 17 2/1, 16 2/2 |
| 2540 W Maryland Ave Phoenix, 'Casa Maribela' | 192 141,600 | \$9,400,000 \$66.38 | 11/22/2016 1985 | \$48,958 | 6.9 | 48 1/1, 144 2/1 |
| 3443 E University Dr Mesa, 'Val Vista Gardens' | 98 82,616 | \$9,400,000 \$113.78 | 12/29/2016 1986 | \$95,918 | | St. 2, 38 1/1, 58 2/2 |

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, YARDI, ARMLS, BREW, 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 |
|--|--------------------|--------------------------|------------------------|------------------------|------------|---|
| 3222 W Indian School Rd Phoenix, 'Select Apartments' | 272 113,730 | \$9,248,000 \$81.32 | 12/19/2016 1977 | \$34,000 | | 172 1/1 |
| 6816 W Bethany Home Rd Glendale, 'Tuscano Village' | 120 114,213 | \$8,000,000 \$70.04 | 10/13/2016 1974 | \$66,667 | 7.29 | 37 2/1, 83 3/1 FLIP - 02/15, \$5,800,000 |
| 2408 W Myrtle Ave Phoenix, 'Sierra Bella' | 169 99,226 | \$7,200,000 \$72.56 | 11/23/2016 1971 | \$42,604 | 6.8 | St. 49, 70 1/1, 26 2/1, 21 2/2, 3 3/1 1031 Exchange |
| 1133 W 5 th St Tempe, '1133 West Fifth' | 44 41,580 | \$7,150,000 \$171.96 | 10/5/2016 1973 | \$162,500 | 6 | 44 2/2 FLIP - 02/15, \$3,050,000, 1031 Exchange |
| 3030 N 35 th Ave Phoenix, 'Verde Vista' | 181 74,674 | \$6,600,000 \$88.39 | 10/3/2016 1978 | \$36,464 | 6.97 | St. 80, 94 1/1, 7 2/1 Flip - 09/13, \$4,400,000 |
| 350 W 13 th Pl Mesa, 'Country Club Greens' | 68 55,964 | \$6,025,000 \$107.66 | 10/31/2016 1985 | \$88,603 | 5.9 | 9 1/1, 59 2/2 FLIP - 02/13, \$4,000,000 |
| 4530 W McLellan Rd Glendale, 'Maryland West' | 100 80,914 | \$5,900,000 \$72.92 | 10/27/2016 1970 | \$59,000 | 4 | 10 1/1, 64 2/1, 26 3/1 |
| 801 W Turney Ave Phoenix, 'Avenue 801' | 60 39,080 | \$5,425,000 \$138.82 | 12/2/2016 1956 | \$90,417 | 5.9 | 32 1/1, 28 2/1 FLIP - 04/14, \$2,700,000 |
| 6801 N 25 th Dr Phoenix, 'Las Ventanas' | 120 91,200 | \$5,300,000 \$58.11 | 12/16/2016 1984 | \$44,167 | | 48 1/1, 72 2/1 |
| 8818 S Central Ave Phoenix, 'Calle Central' | 128 58,944 | \$5,200,000 \$88.22 | 12/12/2016 1986 | \$40,625 | | St. 7, 96 1/1, 25 2/1 FLIP - 12/13, \$3,200,000 |
| 1116-1130 W Indian School Phoenix, 'Casablanca Apt' | 121 48,782 | \$4,200,000 \$86.10 | 10/27/2016 1964 | \$34,711 | 8.8 | St. 92, 28 1/1, 1 2/1 Double Escrow |
| 15430 N 25 th St Phoenix, 'Fernwood Court' | 32 35,520 | \$4,000,000 \$112.61 | 11/15/2016 2010 | \$348,103 \$125,000 | 5.3 | 32 3/2 |
| 3710 E McDowell Rd Phoenix, 'Papago View' | 50 27,815 | \$3,650,000 \$131.22 | 11/18/2016 1979 | \$73,000 | 6.59 | St. 11, 39 1/1 FLIP - 10/15, \$2,850,000, 1031 Exchange |
| 2950 E Greenway Rd Phoenix, 'Park Greenvale' | 62 40,491 | \$3,200,000 \$79.03 | 11/22/2016 1985 | \$440,280 \$51,613 | | 32 1/1, 30 2/1 1031 Exchange |
| 210 S Roosevelt St Tempe, 'Revival on Roosevelt' | 20 16,581 | \$3,000,000 \$180.93 | 10/13/2016 1988 | \$150,000 | | 4 1/1, 16 2/2 FLIP - 08/14, \$1,950,000 |
| 5045 N 17 th Ave Phoenix, 'Christown Manor II' | 34 32,200 | \$2,830,000 \$87.89 | 12/15/2016 1985 | \$83,235 | | 8 1/1, 26 2/2 |
| 1925 E Hayden Ln Tempe, 'Hayden Terrace' | 30 22,548 | \$2,800,000 \$124.18 | 10/3/2016 1984 | \$93,333 | 5.89 | 30 2/1 FLIP - 10/13, \$1,860,000 |
| 6725 N 17 th Ave Phoenix, 'Level on 17 th ' | 29 27,283 | \$2,727,500 \$99.97 | 12/22/2016 1977 | \$94,052 | 6.93 | 1 1/1, 12 2/1, 16 2/2 FLIP - 07/15, \$2,727,500, 1031 Exchange |
| 9431 N Cave Creek Rd Phoenix, 'Mountain Ridge' | 62 47,820 | \$2,700,000 \$56.46 | 12/6/2016 1966 | \$43,548 | | St. 2, 30 1/1, 6 2/1, 24 2/2 1031 Exchange |
| 625 N Alma School Rd Chdlr, 'Tuscany at Chandler' | 42 26,734 | \$2,700,000 \$100.99 | 11/28/2016 1973 | \$64,286 | 5.7 | St. 5, 16 1/1, 21 2/1 1031 Exchange |
| 16621 N 25 th St Phoenix, 'Rancho La Fuente' | 56 32,050 | \$2,600,000 \$81.12 | 10/18/2016 1978 | \$46,429 | 6.79 | 56 1/1 |
| 3234 N 38 th St Phoenix, 'Trinity Arcadia' | 16 14,765 | \$2,600,000 \$176.09 | 10/19/2016 1962 | \$162,500 | 6.55 | St. 2, 13 2/1, 1 3/2 FLIP - 03/15, \$860,000 |
| 1107 E University Dr Mesa, 'Sun Ridge Manor' | 45 32,400 | \$2,600,000 \$77.47 | 10/05/2016 1984 | \$55,778 | 5.35 | 1 1/1, 44 2/1 FLIP - 07/13, \$1,700,000 |
| 4138 N Longview Ave Phoenix, 'Palm Vista' | 40 28,400 | \$2,500,000 \$88.03 | 11/22/2016 1982 | \$62,500 | 6.3 | 8 1/1, 32 2/1 FLIP - 10/15, \$1,950,000, 1031 Exchange |
| 6501 N 3 rd Ave Phoenix, 'The Haven' | 16 13,200 | \$2,463,158 \$186.60 | 12/19/2016 1977 | \$153,947 | 6.45 | 16 2/1 FLIP - 12/16, \$2,463,158, 1031 Exchange |
| 4020 N Parkway Ave Scottsdale, 'Parkway Manor' | 24 12,400 | \$2,075,000 \$167.34 | 11/7/2016 1961 | \$86,458 | 6 | St. 22, 2 1/1 |
| 1950 W Aster Dr Phoenix, 'Aster Gardens' | 28 28,704 | \$2,025,000 \$70.55 | 12/20/2016 1970 | \$72,321 | | St. 1, 3 1/1, 21 2/1, 3 3/2 |
| 8605 E Coronado Rd Scottsdale, 'Coronado Apt' | 22 15,240 | \$1,920,000 \$125.98 | 11/30/2016 1968 | \$170,640 \$87,273 | | 5 1/1, 17 2/1 |

The Metro Phoenix Apartment Market (Q4 2016)

In the 4th quarter of 2016, there were a total of 90 individual apartment sales with 10 or more units. Of these, 31 had at least 100 units and 16 included at least one leg of a 1031 exchange. Of the 90 total sales, 28 were “Flips” – properties resold within the past four years (see pages 2 and 3 for details). For the entire year, there were 390 apt. sales (10+ units). **This was one of the highest number of annual apt. sales over the past 26 years.** We only have sales data starting from 1990, 26 years ago.

Where do we go from here? THE CONCERNS

In addition to the very strong sales activity, we’ve also had staggering rent growth and value appreciation. If you understand the typical real estate cycles, it’s obvious we are starting to overbuild with vacancy and rental rates coming under pressure – especially Class A properties. There are obvious concerns about the effect of increasing mortgage interest rates and banks tightening their lending criteria. The Federal Reserve’s Chairwoman, Janet Yellen, has suggested that the US may see several interest rate hikes this year. President Trump’s immigration policies might significantly affect the properties of working class tenants if deportation escalates. Apartment prices may have reached a price point that does not offer as much upside as in the past. Certainly that’s the perception to many potential buyers. The increased rents on those properties occupied by working-class tenants may also reach a point that top’s out, just due to the tenants not being able to afford higher rents. Home ownership is also rising, now expected to rise from 62% to 64% with the norm being about 66%. Each percentage point represents about 40,000 people. It’s already being reported that the millennials are getting married, having children and pets and moving into single family homes. Year to date 2017 shows sales are down about 30% and advertised listings are down about 15% of the norm.

Where do we go from here? THE POSITIVES

For apartments, it always boils down to POPULATION and JOBS. We have both. Did everyone watch or go to the Waste Management 2017 Phoenix Open? While many were watching golf from the northern US States, where they were battling a tough cold winter, we had 70 degree weather with blue skies. As the US economy strengthens, more folks will be headed to the sun-belt (including AZ). A couple of years ago, it was estimated that Maricopa County (essentially metro Phoenix) would grow by 1.7% per year. The revised estimate is now 2.3%. With a population of about 4 million, that equates to an increase of about 92,000 new residents per year. In general, about 20% of our population lives in apartments, and on average there are two persons living in each apartment. By the numbers, the new construction may still not be able to support the increased population. Moreover, the location of many of the new homes are in the suburbs, away from the major employment centers.

Besides folks just coming to Arizona for the weather, we now have a diversified job market with many companies forming or relocating to our area – some with significant salaries. In metro Phoenix, our 2+% job growth exceeds the US job growth rate. Since 2010, unemployment has steadily decreased being led by health care and construction. Intel’s \$7 billion additional investment in their facility in Chandler and Apple’s manufacturing facility in Mesa are examples of industry expansion which will provide new JOBS.

If you own apartments – do you sell or hold?

From the record setting number of apartment sales in 2016, it’s obvious that many owners understand the “concerns” and appreciate that apartment values have probably peaked. Owners who have not sold also see the favorable projections for jobs and population, and just hope the pressure on the rents and the lessening property values will not be too significant. Going forward, class A and B properties will probably take the greatest hit. The working class C properties should be fine – pending immigration policies.

Kasten Long Commercial Group

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