



# GREATER PHOENIX

## APARTMENT OWNER'S NEWSLETTER

4th QTR 2017

The **KASTEN LONG COMMERCIAL GROUP (KLCG)** has focused on apartment brokerage and research in metro Phoenix since 1998. Our agents have brokered more than 1,000 communities with gross sales more than 1 billion dollars. The market research includes: weekly updates on apartment sales, in-depth quarterly apartment newsletters, tracking vacancy/rental rates/concessions by each submarket, and compiling updated data on all current, planned and prospective new apartment construction. Our knowledge, negotiating/escrow expertise and "client first" dedication equates to the best service possible for all apartment owners and buyers.

### KLCG Partnership with the AMA

As part of our partnership with the **Arizona Multihousing Association (AMA)**, KLCG-AMA and the East Valley Partnership (EVP) will have our first 2018 event on January 31, at the Mesa Arts Center in downtown Mesa. The event "Where to Invest and When to Sell" will highlight the possibility of the PHX East Valley becoming the fastest growing area in the US, the five areas to have the strongest employment growth (JOBS), and where the current and planned Light Rail offers significant investment opportunities across the Valley. Our events are open to everyone. For more information please contact Jim Kasten, CCIM ([jim@KLCommercialGroup.com](mailto:jim@KLCommercialGroup.com), 602 677 0655). See also: [www.KLCG-AMA.com](http://www.KLCG-AMA.com).

### 41,316 Units in New Apt. Const. Pipeline

There were 6,543 units completed in 2017 in 29 projects. This was 760 units and 4 projects less than projected, due mostly to labor shortages. The forecast for 2018 is 9,221 units in 42 projects. Currently there are 17,089 units under construction in 65 projects, 11,525 units planned and 12,702 units prospective. Specific details are available upon request. Site availability, tougher financing requirements plus increasing land and labor costs are keeping new construction at a sustainable level.

### Occupancy/Rents Strong But Leveling

At mid-year, occupancy started dropping slightly for all class properties from a high of over 95% earlier in the year. The drop leveled off over the past few months with a net decline of about a half percent. Over the past three years, rental rates for "A", "B" and "C" class properties have increased 19%, 22%, and 24% respectively. This increase has been steady except, over the past three months, rental rates have leveled off or slightly decreased. With the continued new apartment construction, we expect added concessions and a down-tick in occupancy and possibly rental rates in areas with a concentration of new construction.

#### KASTEN LONG COMMERCIAL GROUP

- An independent, locally-owned, commercial brokerage - **since 1998**.
- Experienced professional specialists with a strong "Client First" dedication.
- **SERVICES:** Apartments and land brokerage -- office, retail & industrial brokerage and leasing.

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#### Greater Phoenix Multifamily Data

Year	Const.	Vacancy
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	<b>5.7%</b>
2016	8,024	5.8%
2017	6,543	<b>5.4%</b>

Data Sources: Yardi Matrix, CoStar, Vizda

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 you're not already on our distribution list, just let us know.

# Greater Phoenix Apartment Sales

4th Qtr - 2017

ADDRESS CITY, 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
1849 S Power Rd Mesa, 'Lakeview Superstition'	676 680,718	\$101,000,000 \$148.37	11/09/2017 1998	\$149,408	5.03	180 1/1, 332 2/2, 42 2/2.5, 122 3/2
1601 E Highland Ave Phoenix, 'The Highland'	350 469,456	\$75,250,000 \$160.29	10/23/2017 1998	\$215,00		132 1/1, 208 2/2, 10 3/3 Flip 12/14 \$57,000,000
700 N Coronado St Chandler, 'Coronado Crossing'	320 307,055	\$57,750,000 \$188.08	12/21/2017 1998	\$180,469		112 1/1, 160 2/2, 48 3/2
801 N Federal St Chandler, 'Pinnacle Terrace'	300 277,368	\$56,000,000 \$201.90	12/20/2017 1998	\$186,667		132 1/1, 140 2/2, 28 3/2
601 W Fillmore St Phoenix, 'Pure Fillmore'	230 354,800	\$55,950,000 \$157.69	11/29/2017 2016	\$243,261	5.00	147 1/1, 83 2/2
1031 S Stewart Mesa, 'Indian Springs Village'	460 \$376,408	\$49,000,000 \$130.18	11/6/2017 1980	\$106,522	4.9	240 1/1, 80 2/1, 36 3/2 Flip 7/2015 \$29,800,000
1891 N Litchfield Rd Goodyear, 'Palm Valley'	264 276,178	\$41,000,000 \$148.45	12/20/2017 1997	\$155,503		96 1/1, 120 2/2, 48 3/2 Flip 07/15 \$27,200,000
4221 E Ray Rd Phx, 'Mountain Park Ranch'	240 230,560	\$40,400,000 \$175.23	11/16/2017 1994	\$168,333	4.6	72 1/1, 119 2/2, 49 3/2 1031 Exchange
1311 W Baseline Rd Tempe, 'Mission Springs'	306 216,200	\$33,800,000 \$156.34	11/28/2017 1987	\$110,458	5.5	152 1/1, 154 2/2
15645 N 35 <sup>th</sup> Ave Phx, 'The Grove Deer Valley'	208 174,432	\$25,000,000 \$143.32	12/08/2017 1996	\$120,192	4.5	96 1/1, 8 2/1, 96 2/2, 8 3/2 1031 Exchange, Flip 4/16 \$18,720
5631 W Colter St Gdale, 'Arroyo Vista Apts'	304 264,064	\$25,000,000 \$94.67	11/15/2017 1984	\$82,237	5.8	72 1/1, 208 2/2, 24 3/2
8102 N 19 <sup>th</sup> Dr Phx, 'Phoenix on the Rail'	488 246,420	\$24,700,000 \$100.24	10/12/2017 1979	\$50,615	5.5	St. 168, 246 1/1, 74 2/1
4045 W Bell Rd Phx, 'Villas on Bell'	168 173,580	\$24,650,000 \$142.01	12/4/2017 2002	\$146,726		24 1/1, 128 2/2, 16 3/2
5220 W Norther Ave Glendale, 'Solano Village'	260 185,504	\$24,000,000 \$129.38	10/31/2017 1979	\$92,308	5.9	St. 40, 152 1/1, 8 2/2 Flip 3/2016 \$15,350,000
3330 W Greenway Rd Phx, Oakridge Apartments'	282 194,454	\$23,970,000 \$123.27	10/23/2017 1984	\$85,000	5.1	St. 30, 172 1/1, 24 2/1, 56 2/2
20245 N 32 <sup>nd</sup> St Phoenix, 'Bayside'	176 147,296	\$23,900,000 \$162.26	12/01/2017 1999	\$135,795		64 1/1, 48 2/1, 64 2/2
3333 W Dunlap Ave Phoenix, 'Dunlap Falls'	288 245,280	\$22,600,000 \$92.14	10/24/2017 1973	\$78,472	6.25	240 2/1, 48 3/2 1031 Exchange, Flip 07/15 \$8,154,000
1825 N Stapley Dr Mesa, 'Mesa Royale'	152 116,940	\$21,750,000 \$185.99	12/28/2017 1985	\$143,092		St. 20, 64 1/1, 33 2/1, 28 2/2, 7 3/2
2928 E Osborn Rd Phx, 'The Grove at Biltmore'	302 266,564	\$21,250,000 \$79.72	10/31/2017 1971	\$70,364		St. 22, 103 1/1, 32 2/1, 145 2/2
3330 S Gilbert Rd Chandler, 'Santana Ridge'	109 100,000	\$21,200,000 \$212.00	12/01/2017 2015	\$194,495		82 2/2, 27 3/2
2045 E Broadway Rd Tempe, 'Tempe Vista'	186 156,280	\$20,500,000 \$131.17	10/02/2017 1972	\$110,215	6.14	48 1/1, 106 2/1, 32 2/2
7611 S 36 <sup>th</sup> St Phoenix, 'The Montana'	134 154,895	\$20,000,000 \$129.12	12/12/2017 1998	\$149,254		40 1/1, 81 2/2, 13 3/2 Flip 09/15 \$14,050,000
1212 E Bethany Home Rd Phoenix, 'Vertu'	150 129,663	\$19,575,000 150.97	10/17/2017 1971	\$76,465	5.3	St. 6, 76 1/1, 67 2/2, 1 3/2
1303 W Juniper Ave Gilbert, 'Vintage Luxury Apts'	107 130,000	\$18,550,000 \$142.69	12/31/2017 2000	\$173,364	4.7	St. 7, 20 1/1, 40 2/2, 40 3/2 Flip 10/15 \$14,250,000
6917 N 71 <sup>st</sup> Ave Gdale, 'Desert Eagle Estates'	196 210,000	\$18,100,000 \$86.19	11/14/2017 2006	\$92,347		16 1/1, 60 2/2, 56 3/2, 40 3/2.5

**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
65 E Olive Ave Gilbert, 'Olive East'	120 111,840	\$17,100,000 \$152.90	11/03/2017 1984	\$142,500	5	18 1/1, 102 2/2 1031 Exchange, Flip 6/2015 \$12,050,000
1350 E Northern Ave Phx, 'La Mirada Apartments'	300 233,640	\$15,000,000 \$64.20	12/22/2017 1973	\$50,000		72 1/1, 108 2/1, 72 2/2, 48 3/2
7021 W McDowell Rd Phx, 'Ventana Palms Apt'	160 145,854	\$14,250,000 \$97.70	12/08/2017 1989	\$89,063	6	52 1/1, 108 2/2 Flip 8/2015 \$14,250,000
3851 N 28 <sup>th</sup> St Phoenix, 'Avalon Apts'	117 96,750	\$13,700,000 \$141.60	12/27/2017 1973	\$117,094		81 1/1, 36 2/2 Flip 12/2015 \$13,700,000
4140-4141 W McDowell Rd Phoenix, 'Desert Wind'	216 136,976	\$13,400,000 \$97.83	11/21/2017 1987	\$62,037		128 1/1, 56 2/1, 32 2/2
15010 N 59 <sup>th</sup> Ave Glendale, 'Country Gables'	139 85,350	\$12,300,000 \$144.11	11/30/2017 1984	\$88,489		96 1/1, 43 2/2
2322 W Thomas Rd Phx, 'Courtyard at Encanto'	160 82,450	\$8,800,000 \$106.73	10/17/2017 1979	\$55,000	5.56	St. 50, 110 1/1
948 E Devonshire Ave Phx, 'Apex off 7 <sup>th</sup> St'	104 70,000	\$8,750,000 \$125.00	11/21/2017 1980	\$84,135		96 1/1, 8 2/2
3101 N 32 <sup>nd</sup> St Phx, 'Arcadia Gardens Apts'	76 43,830	\$8,475,000 \$193.36	11/21/2017 1969	\$111,513		St. 28, 34 1/1, 14 2/1
454 W Brown Rd Mesa, '454 West Apartments'	80 80,000	\$7,000,000 \$87.50	10/25/2017 1972	\$87,500		80 2/2
6625 N 15 <sup>th</sup> Ave Phoenix, 'The Addison'	62,082	\$7,000,000 \$112.75	12/19/2017 1969	\$102,941		Flip 10/2015 \$2,475,000
36-150 E Vaughn Ave Gilbert, 'Tides at Downtown'	38 41,274	\$6,764,100 \$163.88	10/19/2017 2005	\$178,003		
4232 N 32 <sup>nd</sup> St Phx, 'The Markley on 32 <sup>nd</sup> '	27 26,040	\$4,700,000 \$180.49	10/10/2017 1964	\$174,074	6	14 1/1, 12 2/2, 1 2/3 1031 Exchange
1545 W Camelback Rd Phoenix, 'Phoenician Villas'	92 43,366	\$4,500,000 \$103.77	12/18/2017 1967	\$48,913		St. 44, 48 1/1 Flip 12/18 \$2,750,000
17402 N 19 <sup>th</sup> Ave Phoenix, 'Bell Villas 28'	28 33,880	\$4,400,000 \$129.87	11/07/2017 2016	\$157,143	6	14 2/1, 14 3/1 1031 Exchange
654 S Stapley Pl Mesa, 'Stapley Place'	46 36,644	\$3,300,000 \$90.06	12/01/2017 1985	\$71,739	5	46 2/2
6721 N 25 <sup>th</sup> Dr Phx, 'Willshire Place Apts'	48 33,600	\$3,050,000 \$90.77	11/27/2017 1983	\$63,542	7.67	24 1/1, 24 2/1 Flip - 06/14 \$1,625,000
1335 E Thomas Rd Phoenix, 'Coronado Flats'	26 21,215	\$3,015,000 \$142.12	12/08/2017 1954	\$115,962	6.01	St. 1, 4 1/1, 20 2/1, 1 3/1.5 1031 Exchange
1010 N Stapley Dr Mesa, 'Arcos De Mesa'	44 21,560	\$3,010,000 \$139.61	12/08/2017 1985	\$68,409	6	12/ 1/1, 2 2/2 1031 Exchange
1815 W Colter St Phoenix, 'Crowne Point'	35 30,000	\$2,975,000 \$99.17	11/07/2017 1970	\$85,000	6.04	35 2/1
8111 W Glendale Ave Glendale, 'Stadium Court'	44 25,000	\$2,900,000 \$116.00	11/20/2017 1973	\$65,909	9.1/- 6.2	44 1/1 1031 Exchange
2021 W Hayward Ave Phx, 'Cottages at Hayward'	29 24,360	\$2,865,000 \$117.61	10/05/2017 1970	\$98,793	10.32/- 5.88	29 2/1 1031 Exchange, Flip 07/16 \$2,865,000
405 N 40 <sup>th</sup> Ave Phoenix, 'Gran Jardin Apts'	45 28,125	\$2,830,000 \$100.62	10/02/2017 1971	\$62,889		45 2/1
2940 N 40 <sup>th</sup> St Phoenix, 'Tahiti Palms'	27 22,500	\$2,815,000 \$125.11	11/27/2017 1963	\$104,259		11 1/1, 15 2/2, 1 3/2
120 W Dobbins Rd Phoenix, 'Casa Monte Vista'	45 40,000	\$2,800,000 \$70.00	12/26/2017 1985	\$62,222	8.10/- 6	45 2/1 1031 Exchange
3031 N 36 <sup>th</sup> St Phoenix, 'The Beverly'	30 21,640	\$2,675,000 \$123.61	10/27/2017 1970	\$89,167	3.32	20 1/1, 8 2/1, 2 3/2 1031 Exchange, Flip 12/15 \$1,380,000
2939 N 36 <sup>th</sup> St Phoenix, 'Avanti Apartments'	30 16,788	\$2,650,000 \$157.85	11/16/2017 1981	\$88,333	6.3	28 1/1, 2 2/1 1031 Exchange
1641 E Grovers Ave Phoenix, Grovers East Apts'	30 22,020	\$2,650,000 \$120.35	12/13/2017 1986	\$88,333		12 1/1, 17 2/1, 1 3/2

## The Metro Phoenix Apartment Market (2017 Year-end & Q4)

There were 83 regular apartment sales (10+ units) in Q4 and a total of 314 for the entire year. While this activity is strong, it was less than in 2015 (350) and in 2016 (390). The decrease was not due to a lack of buyer demand, but simply from a reduced amount of available properties for sale that make sense for acquisition. Roughly 23% of the total 2017 sales had at least one leg using a 1031 exchange. So, it's significant that the 1031 tax deferred exchange ability remained intact with the new tax laws.

### **How long can this RE cycle continue before we have a correction?**

The short answer is that we expect the metro Phoenix apartment market to continue to be strong for at least several more years. There are many reasons for this, but owners should be cautious going forward. We're sure that everyone appreciates that Real Estate is cyclical and since 2010, we have been in a strong apartment market with rents and values now at unprecedented levels. In the past, our market has been driven by the US. But in recent years, globalization now plays a much stronger part, especially from foreign investors, currency turmoil and unstable governments. If you have built up equity that you need for the future, just be careful.

Here are some of the reasons to justify the continued strong market. New apartment construction is back to pre-recession levels with occupancy remaining strong in all class properties. Occupancy is driven by population and population is driven by JOBS. Out of 182 cities in the US, WalletHub.com ranks Chandler, Scottsdale, Peoria, and Gilbert in the **top five cities as "Best Places to Find a JOB."** Peoria, Chandler and Gilbert are in the **top three for "Highest Employment Growth."**

RE cycles just don't occur, they are driven by something. Overbuilding is an obvious reason. But in the case of the downturn in 1986, the cause was the new tax laws that essentially eliminated the huge write-offs from property depreciation. The recently passed 2018 tax law, however, should be a plus for apartment owners. A few of the highlights include: mortgage interest still deductible, capital gains reduced (35% to 21%) and changed from 1 to 3 years holding period, 1031 tax deferred untouched and more favorable tax treatment to REIT holders.

At some point, we expect millennials to see the merit of creating wealth via home ownership. However, the fact that the standard deduction for a married couple has been increased to \$24,000 will keep some folks renting a bit longer. The Tax Credits for Affordable Housing Projects now have less value due to the reduction in the capital gains tax. The single-family housing market may come into play, especially if more houses are converted to rentals. From the front page of this newsletter, note that rental rates and occupancy have started slipping. Since rents determine value and if rents have peaked, values may also be at the top of the market.

Something to watch in 2018 is the availability of apartments "for sale." With the high occupancy valley-wide, many owners are enjoying strong rental income and the ability to be more selective with their tenants. As such, the thought of selling is not on the top of their list. Even with 1031 laws still in place, finding a suitable replacement property will be difficult. With a decreased supply of product, if the demand continues prices may continue to escalate. While this sounds good, it may create a negative result. Any hiccup in rents may cause loan defaults, banks increasing the lending criteria and overall values declining.

**Just to be clear, there are many positives to support the continued strong market. But real estate has always been cyclical and there are several issues that may cause some correction in the near term.**

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## **Kasten Long Commercial Group**

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