



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

1st QTR 2014

KASTEN LONG COMMERCIAL GROUP: The Kasten Long Commercial Group has specialized in apartment brokerage in metro Phoenix since 1998. Agents have brokered more than 1,000 communities with gross sales in excess of 1 billion dollars. The company also provides weekly updates (by e-mail) on apartment sales and publishes an apartment market update on a quarterly basis – past issues are available on the company's web site www.KLCommercialGroup.com.

If you are interested in buying more apartments – we track both advertised and off-market “pocket listings”. If you are seeking top-dollar for your assets or simply desire further insight on the market affecting your property – don't hesitate to ask.

Vacancy Rates Take Significant Drop

Vacancy rates for the 1st quarter for stabilized 50+ multifamily properties decreased from 7.3% to **6.6%**. This is the lowest vacancy rate since we hit the high mark of 14.2% in Q4 2009 and a significant drop in just one quarter. Central Black Canyon is still in double digits. Of the 32 metro Phoenix sub-districts surveyed, 26 reported reduced vacancy rates! Vacancy rates for each sub-district are posted on our web site www.KLCommercialGroup.com.

New Construction and Permitting

In Q1, there were 13 new apartment projects started (3,337u), mostly in Scottsdale, Phoenix and Tempe. There are a total of 21 now under construction representing **5,422 units**. Twelve projects were completed in Q1 totaling **1,690 units**. Nine of these were in Phoenix. The projection is for a total of 5,383 units to be completed in 2014. There are also 74 projects in various stages from initial rezoning to final permitting - representing **17,472 units**. Details of each project and a map showing the location of the current construction activity is posted on our web site under “Apartments” – “Market Data”.

Average Rental Rates (Individually Metered)

For 50 - 99 unit size apartment's, rental rates climbed 2.5% since Q1 2013 while the 100+ unit's only increased 1.4% over the same period. The smaller size communities outpacing the larger projects has been a strong trend. We would expect this to continue, especially with rent pressure soon to come from the apartment construction boom.

Size	Studio	One Bedroom	Two Bedroom
50 - 99	\$496 (1.16/sf)	\$598 (0.96/sf)	\$620 (0.76/sf)
100+	\$560 (1.23/sf)	\$695 (1.02/sf)	\$710 (0.87/sf)

KASTEN LONG COMMERCIAL GROUP

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

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Multifamily Data - Greater Phoenix Area

Year	Const.	Absorb.	Vacancy
2005	4,779	4,756	5.0%
2006	4,660	(4,653)	5.3%
2007	4,560	(5,846)	8.5%
2008	6,938	(4,466)	10.8%
2009	6,668	(5,319)	14.2%
2010	696	20,743	10.3%
2011	800	2,154	9.7%
2012	2,019	3,028	8.3%
2013	4,114	4,822	7.3%
2014 (1)	1,564	1,482	6.6%

Data Sources:

2005 - 2011: ASU's Phx Metro. Housing Study (20+ units)
 2012 - 2014: 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

1st Qtr - 2014

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
17425 N 19 th Av Phx, 'Carlton Club'	436 350,576	\$22,242,000 \$63.44	3/24/2014 1984	\$51,014		40 1/1, 268 2/1, 128 2/2 REO Sale
6529 W Glendale Av Glndl, 'Glendale Manor'	328 197,079	\$6,667,500 \$33.83	1/17/2014 63 / 73 reno	\$20,328		48 st, 117 1/1, 2/1 82, 81 2/2 Flip: 6/12 - \$5.325M
647 W Baseline Rd Tempe, 'Alta Ravenwood'	240 305,088	\$44,450,000 \$145.70	2/28/2014 2005	\$185,208	5.8	48 2/2, 192 3/2 Condo mapped, debt assumed
8650 W Peoria Av Peoria, 'Monterey Pines'	216 172,080	\$10,800,000 \$62.76	2/28/2014 1984	\$50,000		144 1/1, 72 2/2 FKA SunTree, Flip: 9/11 - \$8.108M
1075 N Miller Rd Scottdl, 'Chazal Scottsdale'	188 179,970	\$23,000,000 \$127.80	2/6/2014 1987	\$122,340	5.9	61 1/1, 7 2/1, 111 2/2, 9 3/2
1283 W Parklane Blvd Chndlr, 'Park Tower'	180 147,048	\$15,200,000 \$103.37	3/31/2014 1986	\$84,444		88 1/1, 92 2/2
4530 E McDowell Rd Phx, 'Papago Crossing'	180 149,520	\$8,100,000 \$54.17	1/22/2014 1980	\$45,000		96 1/1, 84 2/2 REO Sale, Cash
17602 N Cave Creek Rd Phx, 'The Meadows'	165 113,400	\$7,725,000 \$68.12	3/13/2014 1985	\$46,818		24 st, 72 1/1, 69 2/2 Flip: 11/10 - \$4.65M
604 W 8 th Av Mesa, 'Mesa Park'	140 184,212	\$6,300,000 \$34.20	1/31/2014 1999	\$45,000		20 2/2, 120 3/2 Partially affordable housing
226 N Hobson Rd Mesa, 'Park Village'	118 95,480	\$3,900,000 \$40.85	3/10/2014 73 / 12 reno	\$956,880 \$33,051	4.1 8.3	66 1/1, 16 2/1, 36 2/2 Deferred maintenance
9802 N 9 th Av Phx, 'Ironwood'	79 61,000	\$3,350,000 \$54.92	2/3/2014 1985	\$42,405	7.7	72 2/1, 7 3/1 Condo mapped
2433 W Campbell Av Phx, 'Mirabella'	76 64,600	\$2,000,000 \$30.96	2/12/2014 1972	\$26,316		76 2/2 Cash, FKA Canterbury, Flip: 12/10 - \$1.15M
6575 W Ocotillo Rd Phx, 'Woodridge Manor'	72 69,678	\$2,770,000 \$39.75	2/14/2014 1984	\$38,472		54 2/1, 18 3/2 Cash, Flip: 2/11 - \$1.3M
3010 W Colter St Phx, 'Colter Meadows'	71 115,784	\$3,970,000 \$34.29	3/11/2014 1985	\$55,915		21 2/2, 50 2/2.5 Condo mapped, Flip: 10/13: \$3.25M
4111 N 21 st St Phx, 'Villa 21'	68 62,706	\$7,050,000 \$112.43	2/18/2014 1987	\$103,676	5.8	24 1/1, 44 2/2 FKA Verandas,
1637 E Missouri Av Phx, 'Missouri Gardens'	52 24,610	\$2,100,000 \$85.33	3/31/2014 1966	\$298,585 \$40,385	7.0 7.3	41 st, 11 1/1 Cash, FKA Missouri Breaks
15425 N 25 th St Phx	50 38,732	\$1,733,333 \$44.75	3/13/2014 1981	\$34,667		50 2/1, sold with Greenway Landing 84% occup, portfolio sale, price allocated, cash
120 W Dobbins Rd Phx, 'Casa Monte Vista'	45 35,800	\$1,550,000 \$43.30	2/7/2014 1985	\$34,444	8.2	45 2/1 Flip: 5/10 - \$719K
2502 E Greenway Rd Phx, 'Greenway Landing S'	40 31,200	\$1,386,667 \$44.44	3/13/2014 1985	\$34,667		Sold with 15425 N 25 th St Portfolio sale, price allocated, cash
6101 N 60 th Av Glndl, 'Heatherbrae'	38 27,476	\$1,216,000 \$44.26	1/8/2014 1984	\$32,000	7.3	11 1/1, 27 2/2 87% occupied, cash
121 E Broadway Rd Tempe, 'Tempe Gardens'	36 26,098	\$1,700,000 \$65.14	2/5/2014 1962	\$47,222		16 1/1, 20 2/1, Flip: 6/13 - \$1.35M 0% occupied, complete renovation planned
15427 N Jerry St Srprs, 'Saguaro Heights'	34 31,280	\$1,300,000 \$41.56	3/25/2014 1987	\$38,325		34 2/1.5
536 E Portland St Phx, 'Lexington Court'	32 16,275	\$1,700,000 \$104.45	2/24/2014 1963	\$53,125	5.3	19 st, 12 1/1, 1 2/1 High rise zoning for future redevelopment
301 W Turney Av Phx, 'Parker Court'	32 22,800	\$1,375,000 \$60.31	3/10/2014 50 / 90 reno	\$42,969	6.8	16 1/1, 16 2/1 Loan assumed
1700 S College Av Tempe, 'University'	30 23,728	\$2,000,000 \$84.29	2/11/2014 1960	\$66,667		12 1/1, 18 2/1 Seller financed

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
1826 N 51 st St Phx, 'Desert Villas'	29 19,810	\$1,300,000 \$65.62	2/24/2014 81 / 84 reno	\$44,828	6.5	21 1/1, 8 2/1 Flip: 8/11 - \$640K
2610 N Recker Rd Mesa, 'Red Mountain'	28 22,460	\$1,310,000 \$58.33	3/27/2014 1984	\$46,786	10.2	28 2/1
6923 N 80 th Av Glncl, 'Setting Sun'	28 22,400	\$870,000 \$38.84	1/17/2014 1983	\$172,777 \$31,071	5.0 7.0	28 2/1 79% occupied
1908 N 32 nd St Phx, 'Hillcrest Arms'	27 17,750	\$787,000 \$44.34	2/13/2014 1983	\$29,148	7.0	2 st, 23 1/1, 2 2/2 60% occupied, cash, Flip: 6/09 - \$550K
2802 N Roosevelt St Phx, 'Roosevelt'	26 16,428	\$745,000 \$45.35	3/21/2014 63 / 09 reno	\$28,654	6.5	12 1/1, 14 2/1, Flip: 6/09 - \$580 FKA 'Del Rey', deferred maintenance
9411 N 13 th Av Phx, 'Foothill Acres'	25 15,040	\$416,516 \$27.69	1/30/2014 1976	\$16,661	9.0	24 2/2, 1 2/1 Cash
621 N 30 th Pl Phx, 'Bella Vista'	24 14,720	\$595,000 \$40.42	3/11/2014 1959	\$24,792		20 1/1, 4 2/1, Double escrow (\$515K, \$595K) 88% occupied, cash, deferred maintenance
45 E Lexington Av Phx	23 13,275	\$1,035,000 \$77.97	3/28/2014 1963	\$45,000		15 st, 8 1/1 0% occupied, extensive reno planned
2121-2221 W Heatherbrae Phx, 'West Heatherbrae'	23 17,250	\$700,000 \$40.58	1/17/2014 1962	\$30,435		23 2/1 78% occupied, Flip: 9/10 - \$375K
301 E Townley Av Phx, 'Townley Manor'	23 6,981	\$535,500 \$76.71	1/16/2014 1980	\$23,283		22 st, 1 1/1 Flip: 1/13 - \$480K
3015 E Paradise Ln Phx, 'Paradise Square'	21 18,750	\$775,000 \$41.33	3/26/2014 1985	\$36,905	5.9 7.3	1 1/1, 20 2/1 Flip: 3/12 - \$555K
5915-5927 W Rose Ln Glncl, 'Delana'	21 12,846	\$650,000 \$50.60	3/6/2014 1963	\$30,952	7.8	12 1/1, 7 2/1, 2 3/1 Flip: 4/10 - \$270K
1081 N California St Chndlr, "Northpark"	20 12,880	\$825,000 \$64.05	2/20/2014 1964	\$41,250	8.3 7.2	20 2/1, Sold on an Agmt for Sale 70% occupied, cash, deferred maintenance
151 N Hibbert Mesa, 'Town Centre'	20 12,000	\$575,000 \$47.92	2/19/2014 1963	\$28,750	10.7	20 1/1 Cash, AKA Galaxy
602 E Townley Av Phx, 'Townley Square'	18 10,700	\$449,000 \$41.96	3/26/2014 1983	\$24,944		6 1/1, 12 2/1 50% occupied, short sale, cash, def. mainten.
1709 N 25 th Pl Phx, 'Sun Terrace'	18 8,182	\$378,000 \$46.20	3/27/2014 1952	\$97,200 \$21,000	3.9	18 1/1, Flip: 4/09 - \$305K 66% occupied, cash, deferred maintenance
298-310 322 N McQueen Rd Chndlr, 'McQueen'	16 12,384	\$985,000 \$79.54	3/25/2014 1984	\$61,563		8 2/1, 8 3/2 Cash
245 W 10 th Pl Mesa, "Towne House Manor"	16 23,116	\$960,000 \$41.53	1/1/2014 1960	\$60,000	6.5	15 2/1.5, 1 3/1.5 Distress sale, \$350K reno planned
1301 E Thomas Rd Phx	16 16,142	\$788,000 \$48.82	3/20/2014 1953	\$49,250		12 1/1, 4 2/1 0% occupied, remodel planned
4822 E Holly St Phx, 'Jennifer'	14 9,910	\$534,000 \$53.88	3/20/2014 48 / 85 reno	\$88,200 \$38,143	6.1 8.0	2 st, 2 1/1, 9 2/1, 1 2/2 Cash, Flip: 8/13 - \$375K
4121 N 33 rd Dr Phx, 'Indian Palms'	14 9,100	\$415,000 \$45.60	2/7/2014 1959	\$29,643		10 1/1, 3 2/1, 1 3/2 64% occupied, cash, Flip: 12/12 - \$330K
7131 N 67 th Av Glncl, 'Hadsells'	13 4,560	\$277,500 \$60.86	3/14/2014 1955	\$21,346		11 st, 2 1/1 Flip: 7/12 - \$268K
3621 N 68 th St Sc ttsdl, 'Fountain Terrace'	12 9,788	\$1,300,000 \$132.82	3/11/2014 1959	\$108,333		6 1/1, 6 2/1
746 W Turney Av Phx	12 7,285	\$1,125,000 \$154.43	3/3/2014 1956	\$96,750		
4525 N 74 th St Sc ttsdl, "Royal Palms"	12 8,556	\$775,000 \$90.58	2/10/2014 1956	\$64,583		8 1/1, 2 2/1, 2 3/2 Flip: 10/13 - \$720K
1701 N 7 th Av Phx	12 8,255	\$700,000 \$84.80	1/22/2014 1930	\$58,333		2 st, 2 1/1, 8 2/1 Cash, 1031 exchange, Flip: 10/10 - \$275K



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The Metro Phoenix Apartment Market (Q1 2014)

Strong sales volume was reported for Q1, but of the 62 sales with 10 or more units, only 10 transactions had 100 units or more. In 2013, there was an average of 21 communities sold with 100 or more units each quarter. Twenty-two of the 62 regular sales were “all cash” and twenty-two (35.5%) were flips – properties purchased within the past few years and now sold at a profit. The “flips” are noted on pages 2 and 3 with sale date and prior sale amount. Two of the regular sales were “1031 tax-deferred exchanges”, which we hope is just the beginning of exchange activity. There is a return to actual value based on cash flow, but having said that, there were 14 sales with either high vacancy and/or distressed condition providing buyers value-add opportunities. The 24 unit, Ocotillo North Apartments located at 2502 W Ocotillo Road in Phoenix was the only 3rd party Trustee Sale at \$650,000 (\$27,083/u).

Financing remains very competitive for all size apartment loans. FHA / HUD and Fannie Mae, Freddie Mac offer 75% to 80% nonrecourse loans with rates in the low to mid 4's. Buyers for smaller properties (usually with loans of less than \$2.0M) are obtaining starter rate, 5 year, recourse loans below 4.0% / amortized 30 years with max LTV's of 75%. Refinancing is also available for all size assets with “cash out” available for the larger, institution loans, but “cash-out” is typically limited to the amount of cash previously invested in the property with the smaller loans.

Buyers are now seeking current – not proforma – cash flow. The smaller apartments (less than 100 units) have seen an increase in value due to the more aggressive loan rates – providing buyers the cash flow desired. Rental rates in the smaller properties are also increasing faster than the larger properties – allowing apartment brokers (like us) to make a strong case for future increased revenue. With the projected population increase, and no “B” and “C” properties being constructed, the increased demand for these properties further supports the continued rent growth.

The big story in metro Phoenix is the amount of new apartment construction. As of Q1 2014, there were 21 projects under construction representing 5,422 units. In addition, there were 76 projects representing an additional 17,472 units in various phases of the rezoning / permitting process, not including new condos being built to be leased as apartments such as Optima's 781 units in Scottsdale. The dominant locations for the new apartment projects are in cities experiencing strong economic growth, including Scottsdale, Tempe, Phoenix, Chandler and Gilbert. Another trend for new construction is along the metro Light Rail – especially as it links the education hubs of downtown Phoenix, the ASU campus in Tempe and east to the five new universities in downtown Mesa. Many additional, large scale projects are also being announced almost weekly.

The main question existing owners should be asking is **“What will be the effect of the new construction on my apartment community?”** In most cases, realize that the older properties typically have larger unit size with far less rent/sf. When comparing rents for the newly constructed communities, understand that in addition to the stated rent, there may be additional charges for water/sewer, common area and other miscellaneous fees. Use this to attract and/or keep existing tenants. If there are a number of older properties in your submarket, you want to be the best alternative available. On the flip side, a new, class “A” community in your area may be very beneficial as these tenants may warrant more up-scale retail (restaurants, shops, etc.) – thus improving your neighborhood. To determine your best strategy to combat possible negative effects of nearby new contraction, please use us as a resource. Happy to help.

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Kasten Long Commercial Group

A FULL SERVICE COMMERCIAL REAL ESTATE BROKERAGE

Delivering THE New Standard of Commercial Brokerage Excellence

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