



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

2nd QTR 2014

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 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 Up – 1st Time Since Q4 2010

Vacancy rates for the 2nd quarter for stabilized 50+ multifamily properties increased from 6.5% to **6.8%**. This is the first increase in 13 quarters. Vacancy rates for the 50-99 communities decreased 0.02% - but the 100+ increased by 0.36%. Of the 32 metro Phoenix sub-districts surveyed, 20 reported increased vacancy rates. Not included in the overall vacancy rate are 16 recently completed projects (5,725u) in lease-up. Vacancy rates for each sub-district are posted on our web site www.KLCommercialGroup.com.

New Construction Remains Very Strong

In Q2, there were 12 new apartment projects started (3,389u), mostly in Phoenix and Tempe. There are a total of 28 now under construction representing **7,496 units**. Three projects were completed in Q2 totaling **777 units**, two in Chandler and one in Tempe. There are also 67 projects in various stages from initial rezoning to final permitting - representing **15,950 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 2.9% since Q2 2014 while the 100+ unit's increased 2.6% over the same period. The smaller size communities still outpaced the larger projects. The increased construction will put pressure on existing properties, but going forward, the new communities will skew the average rates with their increased rents.

Size	Studio	One Bedroom	Two Bedroom
50 - 99	\$508 (1.18/sf)	\$602 (0.97/sf)	\$632 (0.77/sf)
100+	\$568 (1.24/sf)	\$702 (1.03/sf)	\$721 (0.88/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	6.5%
2014 (2)	777	52	6.8%

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

2nd Qtr - 2014

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
800 W Willis Rd Chndlr, 'Parcland Crossing'	383 518,365	\$65,000,000 \$125.39	6/16/2014 2012	\$169,713		167 1/1, 192 2/2, 24 3/2
4140 N Central Av Phx, 'Station on Central'	414 419,212	\$53,000,000 \$126.43	6/24/2014 2001	\$128,019	5.5	240 1/1, 162 2/2, 12 3/2 Flip: 5/11 - \$36.5M
1255 E University Dr Tempe, 'Quadrangle Village'	540 375,660	\$41,875,000 \$111.47	4/7/2014 1987	\$5,083,437 \$82,108	8.2 7.4	18 st, 246 1/1, 10 2/1, 236 2/2 Loan assumed
800 W Queen Creek Rd Chndlr, 'Pinnacle Queen Crk'	252 262,660	\$33,300,000 \$126.78	6/9/2014 2001	\$132,143		84 1/1, 1282/2, 40 3/2 1031 exchange. Sold 4/14 w/ 73 prop. portfolio
909 W Colter St Phx, 'Colter Park'	384 246,400	\$27,300,000 \$110.80	6/19/2014 1972	\$71,094	6.0	128 st, 192 1/1, 64 2/2 REO sale, \$4M cap improve by lender
3033 E Thunderbird Rd Phx, 'Crestone/Shadow Mtn'	248 248,260	\$27,200,000 \$109.56	5/14/2014 1992	\$109,677	5.7	108 1/1, 108 2/2, 32 3/2
4545 W Beardsley Rd Glncl, 'Adobe Ridge'	224 214,264	\$26,050,000 \$121.58	6/12/2014 2005	\$116,295	5.3	136 1/1, 76 2/2, 12 3/2
710 S Hardy Dr Tempe, 'Sierra Vista I & II'	467 279,820	\$23,825,000 \$85.14	5/28/2014 71/ 95 reno	\$51,017	6.4	93 ST, 187 1/1, 94 2/1, 93 3/1 Cash
8150 N 61 st Av Glncl, 'Northern Greens'	420 302,400	\$21,200,000 \$70.11	6/4/2014 1988	\$3,366,720 \$50,476	6.3 7.3	210 1/1, 105 1/1.5, 105 2/2
14145 N 92 nd St Scettsdl, 'Allison Scetts Condos'	152 of 332 145,216	\$19,000,000 \$130.84	6/19/2014 1988	\$125,000		81 1/1, 34 2/2, 37 2/2 lofts Broken condo 152 of 332 this sale
510 S Extension Rd Mesa, 'Alantra'	244 235,136	\$18,750,000 \$79.74	6/12/2014 1987	\$76,844	5.8	64 1/1, 180 2/2 Condo-mapped
1651 S Dobson Rd Mesa, 'Waterstone'	269 159,840	\$17,125,000 \$107.14	4/24/2014 79/12 reno	\$63,662	6.0	66 st, 139 1/1, 31 2/1, 31 2/2, 2 3/2 Flip: 4/12 - \$11.287M, 1031 exchange, FKA 'Quail Creek'
945 W Broadway Mesa, 'Sendero Ridge'	288 193,068	\$15,000,000 \$88.69	5/30/2014 86/00 reno	\$52,083		144 1/1, 51 2/1, 93 2/2 Condo-mapped
201 W Hermosa Dr Tempe, '201 West'	223 206,272	\$13,830,045 \$78.94	4/8/2014 1973	\$62,018		Sold with 4130 S Mill Av – see below
4130 S Mill Av Tempe, 'Mill Pointe'	218 140,204	\$13,519,955 \$96.43	4/8/2014 1980	\$62,018		Sold with 201 W Hermosa Av – see above
102 S 4 th Av Avndl, 'Edgewater'	196 151,265	\$10,200,000 \$67.43	6/27/2014 1985	\$52,041	5.8	40 1/1, 116 2/1, 24 2/2, 16 3/2 Flip: 7/11 - \$7M
14830 N Black Canyon Hwy Phx, 'Tuscany Pointe'	236 154,736	\$10,100,000 \$65.27	4/24/2014 1981	\$1,441,826 \$42,797	7.0 6.8	28 st, 112 1/1, 96 2/2 87% occupied
9350 N 67 th Av Glncl, 'Northwest Gardens'	198 159,078	\$9,005,000 \$56.61	5/28/2014 1984	\$45,480	6.3	67 1/1, 64 2/1, 67 2/2 REO sale
16222 N 123 rd Av Srprs, 'Oasis @ Surprise'	98 123,000	\$8,500,000 \$69.11	5/7/2014 1996	\$89,735		50 3/2, 48 4/2 all with 1 car attached garage Cash, FKA Fox Hill Run
3030 N 7 th St Phx, '3030 North'	222 138,971	\$8,440,000 \$60.73	6/5/2014 1959	\$38,018	6.0	38 st, 117 1/1, 58 2/1, 8 3/1, 2 3/2.5 Flip: 1/12- \$6.4M, 79% occupied, FKA 'Country Club'
3835 N 30 th St Phx, 'Jamestown'	136 of 142 101,660	\$7,503,863 \$73.81	6/6/2014 1972	\$55,147		136 2/1 Sold 81 units & assigned Interest in 55 notes
2945 W Colter St Phx, 'University Village'	125 108,296	\$7,500,000 \$69.25	6/30/2014 1986	\$60,000	6.7	117 2/1, 8 2/2 Flip: 8/12 - \$2.8M 75% occupied, FKA 'Mercy Court'
7102 N 43 rd Av Glncl, 'Paradise Vista'	352 167,079	\$7,000,000 \$41.90	5/15/2014 75/06 reno	\$1,963,296 \$19,886	3.6 4.0	136 st, 130 1/1, 86 2/1 84% occupied, deferred maintenance
17927 N Parkview Pl Srprs, 'Vig @ Cottage Park'	180 171,564	\$6,900,000 \$40.22	5/22/2014 1993	\$38,333		56 1/1, 56 2/1, 34 3/2, 34 4/2
333 E Van Buren St Avndl, 'Mountain View'	150 88,396	\$6,300,000 \$71.27	5/30/2014 1984	\$972,752 \$42,000	6.5 6.1	18 st, 68 1/1, 40 2/1, 24 2/2 1031 exchange Flip: 9/11 - \$5.4M

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
1314 W University Dr Tempe, 'Sierra Park'	109 117,042	\$6,300,000 \$56.83	6/5/2014 68/02 reno	\$57,798		68 1/1, 41 2/1
1801 S Cutler Dr Tempe, 'Parkside'	99 70,315	\$5,950,000 \$84.62	5/5/2014 62/03 reno	\$60,101		83 1/1, 16 2/1
3010 W Colter St Phx, 'Colter Meadows'	71 115,790	\$5,485,000 \$47.37	6/4/2014 1985	\$77,254		21 2/2, 50 2/2.5 Flip: 3/14 - \$3.97M Cash, redevelopment project- GCU
2930 W Camelback Rd Phx, 'Camelback Vista'	200 116,640	\$5,125,000 \$43.94	6/27/2014 1978	\$56,625		96 st, 104 1/1 Cash, redevelopment project- GCU
6534 W Montebello Av Glnl, 'Del Sol'	218 114,060	\$4,796,000 \$42.05	6/23/2014 1963	\$1,012,500 \$22,000	4.7 4.6	49 st, 145 1/1, 22 2/1, 2 3/1 FKA 'Montebello' Flip: 1/11 - \$2.65M
12235 W Thunderbird Rd El Mirage, 'Casa Mirage'	128 126,048	\$3,925,000 \$31.14	5/9/2014 1993	\$30,664		32 1/1, 32 2/1.5, 32 3/2, 32 4/2 Low income housing
1255 E University Dr Mesa, 'Parkwood Villa'	67 59,304	\$3,800,000 \$64.08	5/9/2014 1969	\$56,716	7.4	12 1/1, 49 2/2, 6 3/2 1031 exchange
3535 W Camelback Rd Phx, 'Copper Sky'	166 83,715	\$3,600,000 \$43.00	6/25/2014 1976	\$796,248 \$21,687	4.5 7.5	111 st, 52 1/1, 1 2/1, 2 2/2 Flip: 12/12 - \$2.373M
2408 W Myrtle Av Phx, 'Sera Bella'	168 98,005	\$3,340,000 \$34.08	6/19/2014 1971	\$882,300 \$19,881	3.8 5.7	49 st, 70 1/1, 25 2/1, 21 2/2, 3 3/1 FKA 'Canyontree'
615 S Williams Mesa, 'Western Sun'	60 88,156	\$3,100,000 \$35.16	6/12/2014 1981	\$51,667		43 2/1, 9 3/2, 8 4/2 Debt assumption
501 E Willetta St Phx, 'Carol Mary'	40 23,320	\$3,000,000 \$128.64	5/13/2014 1963	\$75,000	7.0	40 1/1
1701 N Palo Verde Dr Gdyr, 'Country Aire'	60 45,154	\$2,825,000 \$62.56	5/27/2014 1982	\$47,083		1 1/1, 59 2/1 Condo-mapped
6500 W Olive Av Glnl, 'The Courtyards'	108 68,350	\$2,808,000 \$41.08	4/1/2014 1980	\$26,000		24 st, 36 1/1, 48 2/1 Distress sale
801 W Turney Av Phx, 'Oak Creek'	60 34,464	\$2,700,000 \$78.34	4/15/2014 1956	\$45,000		32 1/1, 28 2/1
2433 W Campbell Av Phx, 'Mirabella'	76 64,600	\$2,681,280 \$41.51	6/24/2014 1972	\$35,280		76 2/2
1835 E Don Carlos Av Tempe, 'Atrium'	38 21,945	\$2,625,000 \$119.62	4/7/2014 72/12 reno	\$69,079	6.7	35 1/1, 3 2/1 1031 exchange
110-122 W Maryland Av Phx, 'Ranch @ Midtown'	32 27,744	\$2,560,000 \$92.27	6/9/2014 1957	\$80,000		20 1/1, 12 2/1 1031 exchange
1030 N 3 rd St Phx, 'Continental'	48 22,788	\$2,300,000 \$100.93	5/13/2014 1964	\$47,917	6.9	42 st, 6 1/1 Master metered
2130 W Indian School Rd Phx, 'Indian Canyon'	72 52,353	\$2,016,000 \$38.51	6/25/2014 82/08 reno	\$28,000	7.9	18 1/1, 54 2/1 Flip: 6/12 - \$1.8M
3601 N 5 th Av Phx, 'Shorewood @ Midtown'	21 25,1658	\$1,900,000 \$75.50	6/6/2014 1960	\$90,476		7 1/1, 14 2/2
4435-4436 N 8 th Av Phx, 'Phoenix Garden'	36 27,032	\$1,800,000 \$66.59	5/22/2014 1963	\$50,000	5.3	16 1/1, 18 2/2, 2 3/2 Deferred maintenance
1815 W Colter St Phx, 'Crowne Point'	35 28,800	\$1,875,000 \$65.10	6/12/2014 1970	\$53,571	5.0	35 2/1 FKA 'Casa Valia'
1102 E Maryland Av Phx, 'Jackson on Maryland'	21 14,900	\$1,615,000 \$108.39	6/5/2014 60/14 reno	\$76,905	6.0	4 st, 15 1/1, 2 2/1 Cash, 1031 exchange
749 E Dunlap Av Phx, 'Rancho Valencia'	40 25,601	\$1,450,000 \$56.64	4/15/2014 1985	\$218,912 \$56,250	6.6 7.5	24 1/1, 16 2/1
2535 W Coolidge St Phx, 'Carole Arms'	44 30,280	\$1,159,500 \$28.29	6/10/2014 1985	\$26,352		20 1/1, 24 2/1
3611 N 5 th Av Phx, 'Aztec'	12 14,400	\$1,025,000 \$71.18	5/29/2014 1961	\$85,417		8 2/2, 4 3/2 Cash

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
6516 N 17 th Av Phx, 'Parkway'	16 13,300	\$960,000 \$72.18	4/8/2014 1964	\$60,000	7.2	4 1/1, 12 2/1 1031 exchange Flip: 8/11 - \$432K
1701 E Cambridge St Phx, 'Cambridge'	12 8,600	\$880,000 \$102.33	4/23/2014 1986	\$73,333	7.0	8 1/1, 4 2/1 Cash Flip: 11/12 - \$416K
3406 N 38 th St Phx, 'Orinoco'	15 12,500	\$850,000 \$68.00	6/16/2014 1973	\$56,667	6.2	4 1/1, 10 2/1, 1 3/2 Deferred maintenance
813 E Marlette Av Phx, 'Villa Marlette'	12 12,536	\$840,000 \$67.01	4/14/2014 1962	\$70,000		12 2/2
4316 N 27 th St Phx	15 11,406	\$830,000 \$72.77	5/27/2014 1967	\$55,333	6.7	1 st, 2 1/1, 11 2/1, 1 3/1
2503 E Clarendon Av Phx, 'Clarendon Arms'	18 16,650	\$825,000 \$49.55	6/6/2014 1960	\$127,800 \$45,833	6.5 8.5	18 2/1 Deferred maintenance
4029 W McDowell Rd Phx, 'Casa West'	32 24,799	\$800,000 \$32.26	5/16/2014 1968	\$25,000		1 1/1, 31 2/1 Cash, Sold at Trustee Sale
645 W Hazelwood St Phx, 'Hazelwood'	15 9,935	\$735,888 \$74.07	6/2/2014 1959	\$49,059	6.3	13 1/1, 2 2/1 1031 exchange
1232 N Hayden Rd Scottsdl, 'The Hayden'	11 5,712	\$682,000 \$119.40	5/29/2014 1963	\$62,000	6.5	11 1/1
750 E 1 st Av Mesa, 'Southwest Villa'	16 7,200	\$540,000 \$75.00	4/22/2014 1978	\$33,750	8.9 6.3	8 st, 8 1/1
4233 N Longview Av Phx, 'Waterside'	12 10,800	\$515,000 \$47.69	5/30/2014 1987	\$42,917	7.0	12 2/2
1632 E Cambridge Av Phx, 'Cambridge'	14 7,800	\$475,000 \$60.90	6/13/2014 1955	\$55,751 \$33,929	8.5 6.3	1 st, 6 1/1, 7 2/1 72% occupied, cash, deferred maintenance
1820 W Mulberry Dr Phx, 'National'	16 10,240	\$429,500 \$41.94	6/18/2014 1964	\$26,844		16 1/1
7108 N 80th Av Gndl, '80th Avenue'	14 7,296	\$415,000 \$56.88	5/23/2014 1950	\$55,800 \$29,643	7.4 9.1	1 st, 12 1/1, 1 2/1 Cash Flip: 11/13 - \$\$350K
3511 W Rovey Av Phx, 'Innsbruck'	10 6,380	\$395,000 \$61.91	6/6/2014 1969	\$39,500		1 st, 3 1/1, 6 2/1 40% occupied, cash Flip: 3/11 - \$103K
1930 W Van Buren St Phx, 'Las Casitas Villas'	30 15,850	\$360,000 \$22.71	6/23/2014 1940	\$12,000		12 st, 16 1/1, 2 2/1 30% occupied, REO sale

The Metro Phoenix Apartment Market (Q2 2014)

In the 2nd quarter of 2014, there were a total of 66 apartment sales with 10 units or more, including 3 REO sales. Fourteen of the 66 sales (21%) were “flips” – properties purchased within the past few years and resold for a profit. The number of projects sold with 100 or more units jumped from 10 in Q1 to 31, almost half the total sales. There were also two large broken condo sales (Jamestown and Allison Scottsdale Condos) and one Trustee Sale. Seven transactions included a 1031 exchange. In the mid-2000’s, most every transaction included an up leg or a down leg of a 1031 exchange. This was a powerful force in our apartment market – and we expect this to happen again.

What’s Driving our Market?

There is still significant money looking for a home and multifamily investments appear safe plus offer attractive cash on cash returns – especially with the low interest rates and projected upside in value. Many of the larger properties are being driven in this regard, especially REITs. A number of sales were made with the intent to reposition the asset – either from cash flow or in some cases, with a major cash infusion. In some cases, properties are being “repurposed” – especially for assisted or long-term care facilities. Grand Canyon University, as part of their major campus expansion, purchased two properties in the 30th Av and Camelback area of central Phoenix (Colter Meadows and Camelback Vista).

Mortgage Interest Rates

Everyone anticipates an increase in loan rates, but the fact that they have not come off the bottom yet implies a very fragile economy. The question is however, not “IF” – but “WHEN”. The Federal Funds Rate is at a quarter point which is where it has been since December 2008. We may get through 2014 without much if any increase, but 2015 will likely be a different story. Apartment lenders are hedging their bets by offering excellent starter rates, but then bumping the rates after a few years – and then going to a variable rate. Whether you’re buying or refinancing – these are great times. **If you’re selling, realize that a buyer can pay more for your property with the low rates.**

New apartment construction continues.

As of Q2 2014, there were 95 projects either under construction or in the permitting pipeline representing 23,446 possible units. The dominant locations for the new apartment projects are in Tempe, in and around downtown Scottsdale, along the southern Loop 202, along the northern Loop 101 and a few in-fill Phoenix sites. Another strong 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 four new universities in downtown Mesa. With the slight up-tick in vacancy rates, it may be that the recently completed projects are starting to put pressure on the overall market. For downtown Scottsdale, the developers (Alliance, Optima and JLB) are hoping that “if you build it – they will come” will be true and fill the many large, high-end projects currently under construction.

Opportunities

We remain very optimistic about multifamily offering solid investment opportunities in metro Phoenix. We strongly believe that our population increase will ramp-up, rental rates and thus values will continue to climb, and all the new construction will mainly affect the larger class “A” properties. Having said that, we are not oblivious to the pending increase in mortgage rates, the lack of high-paying wages, the shortage of a skilled work force and the overall fragile US economy.

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Kasten Long Commercial Group

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