



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

3rd 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 Continue Decline

Vacancy rates for the 3rd quarter for stabilized 50+ multifamily properties decreased from 6.8% to **6.5%**. This is the 13th decrease in the past 14 quarters. Vacancy rates for the 50-99 communities decreased 0.14% - and the 100+ decreased by 0.39%. Of the 32 metro Phoenix sub-markets surveyed, 18 reported decreased vacancy rates and only four reported vacancy rates above 8% (west central and south Phoenix). Vacancy rates for each sub-market are posted on our web site www.KLCommercialGroup.com.

New Construction Remains Very Strong

Seven projects were completed in Q3 totaling 1,869 units, one in Chandler, two in Tempe, two in Gilbert, one in Scottsdale and two in Phoenix. YTD there have been 3,821 units completed. There were 12 new apartment projects started (2,777u) in Q3, mostly in Phoenix, Scottsdale and Tempe. There are now a total of 33 currently under construction representing **9,089 units**. This includes Optima's 781 units at Sonoran Village. Many of these projects have commenced pre-leasing. There are also 61 additional projects in various stages from initial rezoning to final permitting - representing **14,148 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, the average rental rate was \$700, a **2.8%** over the Q3 2013. For the 100+ unit communities, the current average rental rate is \$807, a **2.9%** increase of Q3 2013. We expect the rates to continue to increase, but for the larger complexes, the increase will likely be driven by the new construction with significantly higher rents as opposed to an overall increase that should be experienced by the smaller communities.

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	4,967	4,756	5.0%
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 (1)	1,340	1,482	6.5%
2014 (2)	612	52	6.8%
2014 (3)	1,869	1,697	6.5%

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.

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
2625 E Camelback Rd Phx, 'Broadstone Cmlback'	271 220,280	\$74,750,000 \$339.34	7/17/2014 2013	\$276,852		54 st, 75 1/, 35 1/1.5, 107 2/2 Cash
1849 S Power Rd Mesa, 'Lakevw@SuperSpgs'	676 680,718	\$66,600,000 \$97.84	8/21/2014 1995	\$98,521	5.4	230 1/1, 374 2/2, 72 3/2
13820 S 44 th St Phx, 'Verano Townhomes'	360 435,840	\$49,000,000 \$112.43	7/30/2014 1996	\$136,111	5.7	120 2/2.5, 120 3/2, 120 3/2.5
1811 E Apache Blvd Tempe, 'Grigio Metro'	408 584,641	\$47,050,000 \$80.48	8/21/2014 2009	\$115,319	5.2	183 st, 183 1/1, 30 2/2, 12 3/2 Ground Lease
9340 E Redfield Rd Scotsd, 'Sonoran Vista'	264 271,112	\$43,000,000 \$158.61	8/15/2014 1996	\$3,710,805 \$162,879	8.6	64 1/1, 44 2/1.5, 88 2/2, 44 2/2.5, 24 3/2
801 N Federal St Chandler, 'Pinnacle Terrace'	300 333,433	\$39,200,000 \$117.56	7/2/2014 1998	\$130,667		Cash
1949 E University Dr Tempe, 'Block 1949'	225 264,555	\$38,700,000 \$146.28	7/3/2014 2010	\$172,000		25 St, 10 1/1.5, 64 2/2, 27 3/3, 99 4/4 REO sale, Cash
2475 W Pecos Rd Chandler, 'Cantera'	288 257,351	\$36,750,000 \$142.80	7/31/2014 2002	\$127,604		192 1/1, 24 2/1, 72 2/2
4750 E Union Hills Phx, 'Pinnacle @ Union Hills'	264 308,220	\$36,250,000 \$117.61	7/2/2014 1997	\$137,311		Cash
2225 W Frye Rd Chndlr, 'Symphony'	234 249,998	\$35,500,000 \$142.00	8/21/2014 1999	\$151,709	5.1	48 1/1, 11 2/1, 142 2/2, 33 3/2
18250 N 25 th Ave Phx, 'Avenue 25'	254 100,000	\$35,400,000 \$354.00	7/11/2014 2014	\$139,370		60 1/1, 14 2/1, 168 2/2, 12 3/2 65% occupied
4315 E Thunderbird Rd Phx, 'Stonebridge'	385 313,842	\$34,265,000 \$109.18	8/14/2014 1983	\$89,000	5.9	10 st, 211 1/1, 140 2/2, 24 3/2 FKA Villa Encanto
825 W Queen Creek Rd Chndlr, 'Ocotillo Springs'	272 213,257	\$33,400,000 \$156.62	8/22/2014 1998	\$122,794	4.5	76 1/1, 168 2/2, 28 3/2 1031 Exchange
265 N Gilbert Rd Mesa, 'Sonora Canyon'	388 312,952	\$30,000,000 \$95.86	7/23/2014 1985	\$77,320	6.2	254 1/1, 48 2/1, 116 2/2
4502-4505 S Hardy Dr Tempe, 'Ovation @ Tempe'	270 238,940	\$25,850,000 \$108.19	8/18/2014 1984	\$95,741	5.7	64 1/1, 172 2/2, 34 2/2.5 FKA Monarch @ Tempe
1930 E Camelback Rd Phx, 'The Collonade'	415 257,648	\$25,500,000 \$98.97	7/30/2014 1968	\$61,446	6.2	109 st, 294 1/1, 1 2/1, 51 2/2
7250 S Kyrene Rd Tempe, 'Pinnacle Grove'	247 182,166	\$22,250,000 \$122.14	7/24/2014 1987	\$90,081	4.6	167 1/1, 24 2/1, 56 2/2 FKA Elliot's Crossing
1737 N Central Av Goodyear, 'Desert Sage'	208 202,096	\$19,500,000 \$96.49	8/15/2014 2002	\$93,750	5.3	56 1/1, 20 2/1, 104 2/2, 20 3/1, 8 3/2
8025 E Lincoln Dr Scotsd, 'Miramonte'	151 123,747	\$18,500,000 \$149.50	7/31/2014 84/06 reno	\$1,699,056 \$122,517	10.9	1 st, 88 1/1, 62 2/2 1031 Exchange
12231 N 19 th St Phx, 'Paradise Foothills'	180 133,897	\$12,550,000 \$93.73	7/21/2014 1985	\$69,722		103 1/1, 77 2/2
2912 E Indian School Rd Phx, 'Brandywood'	355 176,220	\$12,500,000 \$70.93	7/29/2014 1979	\$35,211	6.3	161 st, 194 1/1 FKA Bella View
1517 E Colter Phx, 'Paradise Palms'	130 132,840	\$12,325,000 \$92.78	9/3/2014 1964	\$1,300,384 \$94,808	9.5	3 st, 51 1/1, 32 2/1, 36 2/2, 8 3/2
4326 N 35 th Av Phx, 'Fountainhead'	273 135,040	\$8,145,000 \$60.32	9/25/2014 1984	\$29,835		56 st, 161 1/1, 56 2/2
3851 N 28 th Dr Phx, 'Castellana'	117 96,750	\$7,000,000 \$72.35	9/5/2014 1973	\$59,829		81 1/1, 36 2/2 Master metered
4221 W Dunlap Av Phx, 'Villa Serena'	137 117,732	\$6,420,000 \$54.53	8/8/2014 1982	\$46,861		63 1/1, 74 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, 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
502 N 51 st St Phx, 'Hill N' Dell'	140 113,625	\$6,000,000 \$52.81	8/21/2014 1971	\$42,857	7.0	33 1/1, 70 2/1, 37 3/1
1807 E Missouri Av Phx, '18 th @ Biltmore'	51 45,540	\$5,600,000 \$122.97	7/18/2014 62 / 11 reno	\$573,840 \$109,804	9.8 6.5	15 1/1, 12 2/1, 24 2/2
3450 W Missouri Av Phx, 'Briarwood'	126 68,520	\$4,050,000 \$59.11	8/28/2014 1983	\$32,143		8 st, 112 1/1, 4 2/1, 2 2/2 Deferred maintenance
5350 N 17 th Av Phx, 'Solano Park'	48 31,604	\$3,696,000 \$116.95	9/30/2014 1987	\$433,392 \$77,000	8.5	33 1/1, 15 2/2 1031 Exchange
6500 W Olive Av Glnl, 'The Courtyards'	108 68,350	\$3,620,000 \$52.96	7/28/2014 1980	\$33,519		24 st, 36 1/1, 48 2/1 Double escrow, 1 st leg (\$2,916,000)
2242-2302 E Pinchot Av Phx, 'Pinchot Greens'	54 45,390	\$3,600,000 \$79.31	9/26/2014 1967	\$430,896 \$66,667	8.4 7.0	22 1/1, 28 2/1, 4 3/2 1031 Exchange, FKA Knight
5712 N 67 th Av Glnl, 'La Mesa Village'	70 54,800	\$3,025,000 \$55.20	8/7/2014 1985	\$43,214		45 1/1, 25 2/2 1031 Exchange
2726 W August Av Phx, 'El Descanso'	68 44,955	\$2,000,000 \$44.49	8/22/2014 1983	\$29,412	9.0	36 1/1, 32 2/1
210 S Roosevelt St Tmp, 'Revival On Roosevelt'	20 16,581	\$1,950,000 \$117.60	8/28/2014 1988	\$97,500	6.2	4 1/1, 16 2/2 FKA Blue Haven
3101 N 36 th St Phx, 'Tamarack Shadows'	45 29,536	\$1,750,000 \$59.25	7/30/2014 1979	\$38,889	6.0	32 1/1, 1 2/1, 12 2/2 1031 Exchange
529-530 E Mariposa St Phx, 'Bonfire @ Midtown'	24 15,240	\$1,650,000 \$108.27	8/22/2014 1964	\$175,628 \$68,750	9.4 6.5	14 1/1, 8 2/1, 2 2/1.5 1031 Exchange, FKA Grand Cayman
2740 W Medlock Dr Phx, 'Suntree'	40 29,340	\$1,500,000 \$51.00	9/5/2014 1982	\$37,500		12 1/1, 28 2/1, sold with 2745 W Colter St. Recent \$100k improvements
2936 N 34 th Pl Phx, 'Prairie Ridge'	45 20,540	\$1,400,000 \$68.16	9/10/2014 1973	\$299,580 \$31,111	4.7 7.5	14 st, 31 1/1 FKA Newcastle
1840 W Thomas Rd Phx, 'Whispering Greens'	26 29,988	\$1,250,000 \$41.68	9/9/2014 1962	\$48,077		20 2/2, 6 3/2 85% occupied
25 E Eva St Phx, 'The Sierra'	23 15,328	\$1,250,000 \$81.55	7/2/2014 1960	\$54,348	6.7	10 st, 8 1/1, 5 2/1
2745 W Colter St Phx	32 23,606	\$1,200,000 \$51.00	9/5/2014 1969	\$37,500		32 1/1. Sold with 2740 W Medlock Drive
902 E Palm Ln Phx	10 5,700	\$975,000 \$171.05	9/26/2014 1928	\$97,500		10 1/1 1031 Exchange, seller carry
2980 W Foothill Dr Phx, 'Foothills Villas'	16 10,756	\$855,000 \$79.49	7/28/2014 1951	\$53,438	7.2	9 1/1, 5 2/1, 2 2/2
3311 N 18 th St Phx, 'La Promenade'	18 16,200	\$825,000 \$50.93	7/18/2014 1979	\$113,400 \$45,833	7.3 7.2	18 2/1.5 1031 Exchange, cash, deferred maintenance
6826 N 45 th Av Glnl, 'The Gardens'	23 18,884	\$795,000 \$42.10	9/4/2014 1962	\$34,565	7.0	13 1/1, 9 2/1, 1 3/1
3125 N 37 th St Phx, 'The Olive Tree'	14 11,256	\$750,000 \$66.63	8/14/2014 1972	\$53,571	6.0	14 2/1 Cash
2416-2430 W Augusta Av Phx	11 11,150	\$750,000 \$67.26	8/14/2014 1985	\$90,805 \$68,182	8.3	5 2/1, 5 2/2, 1 3/2 1031 Exchange, cash
4226 N 27 th St Phx, 'Holiday Resort'	10 8,340	\$750,000 \$89.93	7/3/2014 1971	\$75,000		1 st, 8 2/1, 1 3/2 Vacant, to be razed, three vacant lots adjoin.
626 S Wilson St Tempe	12 6,979	\$720,000 \$103.17	7/31/2014 1960	\$80,520 \$60,000	8.9 5.6	10 1/1, 2 2/1 FKA Patio Palms
602 E Townley Av Phx, 'Townley Square'	18 10,700	\$650,000 \$60.75	8/6/2014 1983	\$36,111	8.2	6 1/1, 12 2/1



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The Metro Phoenix Apartment Market (Q3 2014)

In the 3rd quarter of 2014, there were a total of 55 regular apartment sales with 10 units or more, including only one REO sale. 26 of these sales had 100 units or more. There was also one large portfolio sale that included 7 local properties for a price of \$168,500,000. Eleven transactions included a 1031 exchange. We continue to see an increase in 1031 transactions – a good sign. With the loan interest rates staying low, there were only 7 properties purchased “all cash”.

Vacancy and Rental Rates – Understanding the Numbers

Vacancy rates are the lowest since 2009, however, we expect the rate to increase as the recently completed apartment projects start being classified as “stabilized”. Many projects are currently in lease-up and are not part of the overall stabilized vacancy rate. We also expect average rental rates to increase – partly from the new apartments with very high rents being added to the stabilized inventory. To fully understand the dynamics of any particular sub market, having an in-depth understanding what the numbers mean will be critical.

Is it Time to Sell?

This is a question we are asked often, but it’s a difficult one to answer. Apartment values have not quite regained the pre-2008 levels, but anyone that made a purchase after 2010 probably has significant equity. Since the fall of 2010, we have seen a steady drop in vacancy rates, and an increase in rental rates and overall property values. Since we are inherently optimistic, we believe that the overall US economy will continue to improve, that Arizona will have real job growth and a strong increase in population. Especially for the “B” and “C” properties, we believe that apartment values will continue to increase in value. Due to the strong new apartment construction, some of the class “A” and “B” properties may experience downward pressure on rental rates and occupancy. If you believe in the continued up-side in apartment values, it might make sense to move up into a larger property. Clearly this is how many investors made appreciable gains during the run-up from 2002 to 2007.

Possible Risks of Not Selling Now

Realize that not taking advantage of the current strong market is a calculated risk. What if values dropped next year – and you really needed to sell soon and needed the money. This scenario might be appropriate for someone that wants to retire or simply may no longer desire to be involved with apartment ownership. The concern is that although there are many positive signs to support values increasing, there are negative concerns that might significantly impact near-term future values. For example, at some point vacancy rates will start increasing, loan interest rates will increase, the competition from all the new construction, there are geo-political risks from the Middle East, the ebola virus, the US dollar being devalued and/or no longer being used as the international trading currency, rising inflation, 47 million persons in the US on food stamps, etc. Real estate is cyclic and we have had a run-up in values for the past four years.

KLCG EXPANDS WITH SMALL APARTMENT DIVISION

KLCG has typically brokered “B” and “C” quality apartments with sizes from 20 to 100+. We’ve now added several agents to provide the same level of expertise for owners of smaller apartment communities (4-20 units). We can now assist investors as they acquire starter properties and also move up into larger communities.

Kasten Long Apartment Team: 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), Jon Coffen (602 653 3600).

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Kasten Long Commercial Group

A FULL SERVICE COMMERCIAL REAL ESTATE BROKERAGE

Delivering THE New Standard of Commercial Brokerage Excellence

www.KLCommercialGroup.com