



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

4th 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 provides weekly updates (by e-mail) on apartment sales and has published a quarterly apartment newsletter for fifteen years – past issues are available on the company's web site www.KLCommercialGroup.com. **WATCH FOR OUR NEW APARTMENT LISTINGS ON THIS SITE AS WELL!!**

We have recently expanded with the addition of three experienced agents, Walter Unger, CCIM, De Bowles and Chris Norton.

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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Vacancy Decline Led by Smaller-Size Apts

Vacancy rates for the 4th quarter for stabilized 50+ unit multifamily properties decreased from 6.6% to **6.1%**. This is the 14th decrease in the past 15 quarters. **Vacancy rates for the 50-99 communities decreased from 6.5% to 5.5%** and the 100+ decreased from 6.5% to 6.2%. The 50-99 units typically represent older, "B" and "C" class apartments (see page 4). Vacancy rates for each sub-market are posted on our web site www.KLCommercialGroup.com.

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%
2014 (4)	1,837	1,485	6.1%

Data Sources:

2005 - 2011: ASU's Phx Metro. Housing Study (20+ units)
2012 - 2014: RealData, Inc. (50+ units – stabilized)

New Construction Remains Very Strong

Nine projects were completed in Q4 totaling 1,837 units, five located in Scottsdale. In 2014, there were a total of 5,456 units completed. There were 9 new apartment projects started (1,575 u) in Q4, mostly in Phoenix. There are 33 currently under construction representing **8,554 units**. This includes Optima's 781 units at Sonoran Village. Many of these projects have commenced pre-leasing. There are also 49 additional projects in various stages from initial rezoning to final permitting - representing **11,563 units**. The combined total of "under construction" and in the "pipeline" is **20,117 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 Continue Increase

For individually metered **50-99 unit** size apartments, the average rental rate for 1/1's was \$612 (\$0.98/sf) and for the 2/1's it was \$640 (\$0.78/sf). The overall rent including all size units was \$708/u. This was a 3.5% gain from this same period a year ago.

For individually metered **100+ unit** size apartments, the average rental rate for 1/1's was \$719 (\$1.05/sf) and for the 2/1's it was \$727 (\$0.89/sf). The overall rent including all size units was \$819/u. This was a 4.1% gain from this same period a year ago. The actual values reported are not as significant as the continual upward trend.

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

4th Qtr - 2014

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 Avndl, 'Mirabella I & II'	715 693,892	\$66,500,000 \$95.84	11/7/2014 2009	\$93,007		160 1/1, 400 2/2, 155 3/2
28515 N North Valley Pky Phx, 'San Norterra'	388 232,000	\$62,500,000 \$269.40	11/21/2014 2013	\$161,082	5.0	128 1/1, 220 2/2, 40 3/2
1601 E Highland Av Phx, 'Altera Highland'	350 362,742	\$57,000,000 \$157.14	12/18/2014 1998	\$162,857		142 1/1, 208 2/2, 10 3/3
2505 E Williams Field Rd Glbtr, 'Twin Fields'	314 306,121	\$47,100,000 \$153.86	12/4/2014 2007	\$150,000		118 1/1, 148 2/2, 48 3/2
1550 E Campbell Av Phx, 'Level @ Sixteenth'	240 168,000	\$41,150,000 \$244.94	10/1/2014 2008	\$171,458		40 st, 100 1/1, 100 2/2 FKA 'Broadstone @ Town Square'
7311 E Southern Av Mesa, 'Waterford@ Sup Spr'	280 387,375	\$33,000,000 \$85.19	12/1/2014 2007	\$117,857	5.3	116 1/1, 140 2/2, 3/2 24
1333 W Guadalupe Rd Glbtr, 'Desert Mirage Luxury'	258 270,243	\$32,750,000 \$121.19	12/18/2014 1998	\$126,938	5.1	6 st, 72 1/1, 144 2/2, 36 3/2 Cash
7749 E Camelback Rd Scottdl, 'Cortesian'	328 294,732	\$31,000,000 \$105.18	12/18/2014 71/05 reno	\$93,373	6.4	138 1/1, 74 2/1, 16 2/1.5, 100 2/2 Assumption, condo mapped, master metered
1247 S 96 th St Mesa, 'Superstition Canyon'	200 296,907	\$24,500,000 \$82.52	12/19/2014 2009	\$122,500		72 1/1, 128 2/2 Excess land
505 W Baseline Rd Tempe, '505 West Apt Hms'	334 286,168	\$24,225,000 \$84.65	11/14/2014 1981	\$2,659,592 \$72,530	6.3	160 1/1, 56 2/1, 100 2/2, 18 3/2 Assumption, FKA 'Suncadia'
105 N Links Dr Avndl, 'Club @ Coldwtr'	251 257,565	\$24,000,000 \$93.18	12/1/2014 2004	\$2,447,957 \$95,618		48 1/1, 93 2/1, 90 2/2, 20/3/2
15425 N Tatum Blvd Phx, 'Waterford on Tatum'	128 135,000	\$14,175,000 \$105.00	11/12/2014 1985	\$110,742		32 1/1, 96 2/2
801 E McKellips Rd Tempe, 'Solaire Apts Homes'	124 103,788	\$12,400,000 \$119.47	12/12/2014 1965	\$1,188,912 \$100,000	6.2	124 2/1 FKA 'Shadetre'
985 N Granite Reef Rd Scottdl, 'Scottsdale Hacienda'	79 of 180 78,000	\$9,250,000 \$118.59	11/7/2014 1985	\$51,676	5.9	79 2/2 Broken Condo conversion
4030 N 44 th Av Phx, 'Cove on 44 th '	255 134,400	\$7,780,000 \$57.89	12/18/2014 1983	\$30,510		127 st, 128 1/1
900 N Country Club Dr Mesa, 'Sierra Madre'	206 96,614	\$6,610,000 \$68.42	12/2/2014 1978	\$32,087		87 st, 119 1/1 Master Metered
214 N Gilbert Rd Mesa, 'Southern Ridge'	113 96,861	\$6,510,000 \$67.21	11/4/2014 86/07 reno	\$863,880 \$57,611	5.4	33 1/1, 80 2/2 1031 Exchange, condo mapped
5902 W Royal Palm Rd Glnl, 'Glendale Shadows'	138 95,765	\$4,975,000 \$51.95	12/29/2014 1975	\$36,051		7 st, 51 1/1, 80 2/1
1601 W Campbell Rd Phx, 'Camelot'	188 94,482	\$4,338,613 \$45.92	11/6/2014 1970	\$23,078		109 st, 78 1/1, 1 2/1 Bankruptcy sale, master metered
4302 N 103 rd Av Phx, 'Fairway Vistas Condos'	76 72,520	\$4,150,000 \$57.23	12/19/2014 1979	\$54,605		76 2/1 Condo mapped
4201 N 35 th Av Phx, 'Tamarak Gardens'	144 75,336	\$3,903,000 \$51.81	12/29/2014 1984	\$27,104		72 st, 60 1/1, 12 2/1
708 N Country Club Dr Mesa, 'The Brittany'	92 47,850	\$3,189,680 \$66.66	12/18/2014 1970	\$34,670	6.5	31 st, 60 1/1, 1 2/1 Master metered
4333 N 27 th Av Phx, 'Sunset Ridge'	96 64,584	\$3,000,000 \$46.45	11/20/2014 1985	\$31,250		48 1/1, 48 2/1
1116 W Indian School Rd Phx, 'Casablanca'	121 54,612	\$2,700,000 \$49.44	12/29/2014 1964	\$22,314		47 st, 14 1/1, 60 2/1 Double escrow, cash
7002-7040 N 76 th Av Glnl, 'Glenview Estates'	32 25,096	\$1,900,000 \$75.71	12/31/2014 1966-68	\$59,375		1 1/1, 30 2/1, 1 3/1

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
1220 N 44 th St Phx, 'Charter Palms'	74 61,894	\$2,825,000 \$45.64	12/9/2014 1974	\$38,176		10 1/1, 48 2/1, 16 3/2 Master metered, 1031 exchange
241 E 1 st Av Mesa, '241 East'	46 31,802	\$1,985,000 \$62.42	11/21/2014 1966	\$43,152	6.8	38 1/1, 8 2/1 FKA 'Mesa Town Square'
1424 S Jentilly Ln Tempe, 'Raintree Villas'	24 22,642	\$1,940,000 \$85.68	11/21/2014 1981	\$80,833		8 1/1, 16 2/2
9423 N 17 th Av Phx, 'Nueva Vista'	72 52,200	\$1,900,000 \$36.40	10/10/2014 1984	\$26,389		18 1/1, 54 2/1 FKA 'Palm Meadows'
2501 W Ocotillo Rd Phx, 'Winding Creek'	54 39,300	\$1,700,000 \$43.26	10/1/2014 1982	\$31,481	6.0	6 1/1, 48 2/1 1031 Exchange, assumption
805-825 N 2 nd Av Phx, 'Hilton'	24 9,809	\$1,500,000 \$152.92	11/21/2014 54/99 reno	\$165,120 \$62,500	6.0	20 st, 4 1/1 1031 Exchange, Partial Seller Carry
2222 S Rural Rd Tempe, 'Casa Carmel'	20 12,300	\$1,500,000 \$121.95	11/17/2014 60/ 10 reno	\$174,000 \$75,000	8.6 6.3	20 2/1 1031 Exchange
1503 W Missouri Av Phx, 'The Vue'	26 21,500	\$1,450,000 \$67.44	12/2/2014 1967	\$55,769		8 1/1, 18 2/2 FKA 'Villa Marian' & "Missouri Manor"
1218-1246 W 4 th St Tempe, 'Town Lake'	28 17,179	\$1,450,000 \$84.41	11/4/2014 1963	\$51,786	6.8	9 st, 17 1/1, 2 2/1
3025 N 32 nd St Phx, 'Arcadia Vistas'	62 25,150	\$1,375,000 \$54.67	10/27/2014 1968	\$22,177		31 st, 29 1/1, 2 2/1 Master metered
5510 N 35 th Av Phx, 'Silver Oaks'	36 30,758	\$1,250,000 \$40.64	10/15/2014 1959	\$263,520 \$34,722		26 2/1, 10 3/1 1031 Exchange, cash, deferred maintenance
4415-4420 N 8 th Av Phx, 'Moon River'	24 14,380	\$1,248,000 \$86.79	10/1/2014 1956	\$52,000		20 1/1, 4 2/1.5 Remodeled
718-720 W McDowell Rd Phx	12 7,670	\$1,200,000 \$156.45	10/15/2014 1940	\$100,000		Seller carry, FKA 'Palmcroft'
2522 W Highland Av Phx, '6 Palms'	35 24,520	\$1,075,000 \$43.84	12/12/2014 1964	\$30,714	7.2	1 st, 13 2/1, 21 2/1
4207 N 9 th St Phx, 'La Monte'	18 28,295	\$1,075,000 \$37.99	12/5/2014 1965	\$59,722	7.4	3 st, 11 1/1, 3 2/1, 1 3/1 1031 Exchange
1632 E Cambridge Av Phx, 'Cambridge'	14 7,800	\$910,000 \$116.67	12/23/2014 1955	\$65,000		1 st, 6 1/1, 7 2/1
67 E Roanoke Av Phx, 'Downtown Palms'	24 11,540	\$904,300 \$78.36	11/26/2014 60/15 reno	\$37,679		10 st, 14 1/1 79% occupied, Double Escrow \$476,800
512-524 E Mariposa St Phx, 'Plantation'	18 10,520	\$870,000 \$82.70	11/11/2014 1951	\$48,333		18 1/1 Deferred maintenance, FKA 'Mariposa Park'
1223 N Dysart Rd Avndle, 'Summer Estates'	22 12,518	\$831,000 \$66.42	12/31/2014 1969	\$37,795	6.8	14 1/1, 8 2/1 1031 Exchange
9633 N 17 th Av Phx, 'Mountain View'	26 18,000	\$800,000 \$44.44	10/30/2014 1983	\$30,769	6.5	10 1/1, 16 2/1
1942 W Berridge Ln Phx, 'Beverly Palms'	12 of 30 10,800	\$770,000 \$71.30	11/25/2014 1961	\$25,667	8.2	8 1/1, 20 2/1, 2 3/2 Broken condo
3131 N Black Canyon Hwy Phx, 'Casablanca Paso'	21 13,428	\$750,000 \$55.85	10/31/2014 1985	\$139,844 \$35,714	9.4	9 1/1, 12 2/1
8822 N 1 st St Phx, 'Fiesta Arms'	20 11,625	\$740,000 \$63.66	10/24/2014 1963	\$37,000	6.0	1 st, 19 1/1
621 N 30 th Pl Phx, 'Bella Vista'	24 14,720	\$720,000 \$48.91	11/18/2014 1959	\$30,000		20 1/1, 4 2/1
3015 E Paradise Ln Phx, 'Villa Schiliro'	21 18,750	\$646,000 \$34.45	12/24/2014 1985	\$30,762	7.0	1 1/1, 20 2/1

The Metro Phoenix Apartment Market (Q4 2014)

In the 4th quarter of 2014, there were a total of 60 apartment sales with 10 or more units, plus two broken condo sales and one 3rd party trustee sale. A total of 18 of the 60 sales had 100+ units. Most of the sales took advantage of the continued low interest rates and were financed. Nine of the sales had at least one leg as a 1031 tax deferred exchange. Overall, this is consistent sales activity, but there could be more sales if more quality apartments were available for sale. The buying pressure is clearly here.

Vacancy Rates – Decline Led by Smaller-Size B and C class Apartments

We have been predicting that the lack of construction for the B and C product – combined with the increasing demand from our population growth – will result in high occupancy. In Q4, vacancy dropped a full point (6.5% to 5.5%) in the 50-99 size apartments. The 50-99 size range typically represents older, B and C class communities. Essentially, a 5.5% vacancy rate represents full occupancy – with just small gaps in time for turning units. The stated annual rent increase for the 50-99 unit properties of 3.5% (see front page) may be accurate – but it's misleading. We've seen rents jump 15% to 20% in one year in nicely kept properties and good areas. Tenants will pay the extra rent.

The 100+ size apartments still reported a slight vacancy decrease. With **20,117** units currently under construction and in the pipeline and more to come, the new construction will soon start having an effect on the competing communities. We may see a slowdown in the construction as developers are finding it more difficult to secure prime sites plus the cost of construction has gone up considerably over the past few years.

This is a HOT Market – Getting in the Game

After losing 50% or more in value over the past five years, we are about back to where values were before “the crash”. For those that survived the crash and SB 1070 – congratulations. For the smart banks that helped restructure loans – many thanks. The demand for multifamily is back to about 2003 levels and increasing – especially from California buyers. Smart buyers realize that the fundamentals are in place for a significant run-up in value over the next few years – maybe longer – especially in the B and C class communities. To make a purchase, however, a buyer must now do more than just look at past financials and apply a reasonable cap to determine value. **To get in the game**, buyers need to appreciate the projected strong rent growth and pay a bit more than desired. We've been here before – and it's happening again. Buyers - make sure that some of the rents are already at higher levels – and don't be bashful about asking for a reduction for leases that are not yet up to current market rent. We call this “loss to old lease”.

The New “Fix and Flip” or “Fix and Keep”

Everyone seems to always want a “value add” property. A similar option for buyers is to acquire a property with “good bones” and in a good area – then reposition the property – not especially to condo quality, but with a facelift and new amenities. This is replacing the “value add” and is what we call the new “Fix and Flip”. We continue to see this process across the Valley with all size apartment communities – from 10 to 100+ units. We've seen huge jumps in rents (and therefore value) with this scenario. The end result of the reposition is not always a “flip” – as these properties are providing strong cash flow.

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Kasten Long Commercial Group

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Delivering THE New Standard of Commercial Brokerage Excellence

www.KLCommercialGroup.com