



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

2nd QTR 2015

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 sixteen 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!!**

Vacancy Rates Start Climbing

Vacancy rates for the 2nd quarter for stabilized properties with 50 or more units **increased from 5.7% to 6.1%**. The 5.7% we had in the 1st quarter may be lowest we will see for some time – simply due to the new construction. Note that absorption was a negative 883 units. Vacancy rates for the 50-99 communities decreased slightly from 5.6% to 5.3% while the 100+ properties increased from 5.7% to 6.1%. Vacancy rates for each sub-market are posted on our web site under Apartments – Market Data.

No Slowdown in New Construction in Q2

Two projects were completed totaling 505 units, one in Scottsdale and one in Tempe. There were five new apartment projects started totaling 876 units, one each in Mesa, Tempe and Scottsdale and two in Phoenix. There are 33 projects currently under construction representing **7,227 units**. There are also 60 additional projects in various stages from initial rezoning to final permitting - totaling **14,221 units**. The combined total of “under construction” and in the “pipeline” is **21,448 units**. In Q1, the total was 20,912 units.

Average Rental Rates Continue Increase

For apartment communities with 50-99 units, the average rental rate increased 0.7%, going from \$723 to \$728 per unit. Annualized, this would represent about the historical average of 3% increase per year. The 50-99 size range typically represents the older, “B” and “C” properties.

The average rental rate for the 100+ communities increased by 1.6%, going from \$837 to \$850 per unit. Annualized, this would reflect about a 6% increase. Since the values reported represent all age communities with 100+ units and include “A”, “B” and “C” class properties - the actual values are not relative – but the overall trend is significant. In part, however, the increased rental rate may be from higher rents being obtained from the newly constructed “A” class projects that are now deemed to be stabilized and are now being included in the overall statistics.

KASTEN LONG COMMERCIAL GROUP

- An independent, local, commercial brokerage - **since 1998**.
- Experienced professional specialists with a strong “Client First” mandate.
- **SERVICES:** Apartments and land brokerage - office, retail & industrial brokerage and leasing.

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Multifamily Data - Greater Phoenix Area

Year	Const.	Absorp.	Vacancy
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	5,658	4,716	6.1%
2015 (1)	1,578	2,676	5.7%
2015 (2)	513	(883)	6.1%

Data Sources:

2005 - 2011: ASU's Phx Metro. Housing Study (20+ units)
 2012 - 2015: 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 - 2015

ADDRESS CITY 'NAME'	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
1301 N Scottsdale Road Scottsdale, 'Skysong'	325 210,000	\$67,500,000 \$321.43	6/12/2015 2013	\$207,692		160 1/1, 20 1/1.5, 125 2/2, 20 3/2 Ground Lease
44 W Monroe Phx, '44Monroe'	184 249,504	\$50,650,000 \$203.00	4/15/2015 2008	\$275,272	4.8	2 st, 124 1/1.5, 19 2/2, 35 2/2.5, 4 3/2 184 of the 198 total condo units.
5201E Hampton Avenue Mesa, 'Stone Canyon'	392 358,168	\$47,000,000 \$131.22	5/11/2015 2000	\$119,898	5.72	196 1/1, 196 2/2 1031 Exchange
11545 N Frank Lloyd Wright Sctsd, 'Broadstone Ancala	330 261,092	\$41,650,000 \$159.52	6/4/2015 1988	\$126,212	5.77	166 1/1, 164 2/2
14300 N 83 rd Avenue Peoria 'Pillar at Rock Canyon'	296 289,164	\$36,200,000 \$125.19	5/21/2015 2002	\$122,297	5.25	160 1/1, 127 2/2, 12 3/2
4242 E Cactus Road Phx, 'Cactus Forty-2'	200 203,732	\$36,000,000 \$176.70	6/9/2015 2014	\$180,000	5.0	20 st, 68 1/1, 112 2/2
9335 E Baseline Road Mesa, 'Palms at Augusta'	238 241,927	\$31,000,000 \$128.14	6/11/2015 2002	\$130,252		68 1/1, 136 2/2, 34 3/2 Cash
1645 E Thomas Road Phx, 'Cabana on Thomas'	382 207,311	\$24,350,000 \$117.46	5/4/2015 1971	\$3,233,004 \$63,743	6.35	152 st, 171 1/1, 59 2/2 Flip: 4/12 - \$9.03M, renovated in 2013.
1440 S Val Vista Drive Mesa, 'Green Leaf'	222 231,910	\$22,100,000 \$95.30	5/29/2015 1987	\$99,550	5.95	74 1/1, 148 2/2, Flip: 7/12 - \$22.1M FKA Cortona at Dana Park, renovated
1303 W Juniper Avenue Gilbert, 'Vintage Rental'	106 84,800	\$14,250,000 \$168.04	4/10/2015 2000	\$134,434	5.2	10 st, 10 1/1, 40 2/2, 46 3/2
601 S Alma School Road Mesa, 'Beacon at 601'	276 146,750	\$12,250,000 \$83.48	5/26/2015 1984	\$44,384	4.5	255 1/1, 21 2/1 FKA Crestwood Apartments
4715 N Black Canyon Hwy Phx, 'Sonoma Grand'	288 192,600	\$12,250,000 \$63.60	6/30/2015 1985	\$42,535	6.83	36 st, 144 1/1, 36 2/1, 72 2/2 Flip: 9/11 - \$7.631M
65 E Olive Avenue Gilbert, 'Heritage Square'	120 111,840	\$12,000,000 \$107.30	6/25/2015 1984			18 1/1, 102 2/2
1225 N 40 th Street Phx, 'Fountain Oaks'	224 158,814	\$10,900,000 \$68.63	6/5/2015 1983	\$48,661	6.0	224 2/1 Flip: 9/13 - \$8.3M
1821 E Covina Street Mesa, 'Gilbert Square'	164 123,000	\$10,650,000 \$86.59	4/15/2015 1979	\$64,939	6.0	80 1/1, 84 2/2
6131 W Thomas Road Phx, 'Brookside Apartments'	204 137,400	\$10,000,000 \$72.78	4/30/2015 1985	\$1,495,358 \$49,020	6.58	16 st, 96 1/1, 64 2/1, 28 2/2
11821 N 28 th Drive Phx, 'Brentwood Apartments'	224 159,400	\$9,650,000 \$60.54	6/10/2015 1980	\$43,080	6.1	24 st, 120 1/1, 80 2/2
2045 S McClintock Drive Tempe, 'Quail Canyon'	112 90,490	\$9,300,000 \$102.77	6/19/2015 1980	\$83,036	6.0	30 1/1, 50 2/1, 32 2/2 1031 Exchange
5020 W Peoria Avenue Glendale, 'Ridgepoint'	164 107,414	\$9,150,000 \$85.18	4/22/2015 1986	\$55,793		96 1/1, 68 2/2
6565 W Bethany Home Road Glendale, 'Glendale Commons	276 176,598	\$8,950,000 \$50.68	4/3/2015 1984	\$32,428		68 st, 168 1/1, 16 2/1, 24 2/2 Debt Assumption, FKA Bethany Village
8603 N 22 nd Avenue Phx, 'Tesoro Apartments'	150 91,200	\$8,900,000 \$97.59	4/30/2015 1983	\$59,333	6.56	24 st, 96 1/1, 30 2/2 1031 Exchange
3613-3644 N 5 th Avenue Phx, 'Aura at Midtown'	96 97,880	\$8,690,000 \$88.78	5/11/2015 1959	\$90,521	6.0	40 1/1, 40 2/1.5, 12 2/2, 4 3/2 Flip: 2/12 - \$4.075M, Renovated 2014
980 N Granite Reef Road 'Scottsdale New Ventura'	135 80,882	\$7,400,000 \$91.49	6/3/2015 1977	\$54,815		133 1/1, 2 2/1
1205 E Apache Boulevard Tempe, 'Sonoran Ridge'	78 67,450	\$7,300,000 \$108.23	6/4/2015 1985	\$93,590		2 st, 76 2/1.5, Flip: 1/13 - \$2.45M Assemblage, Redevelopment Project, Cash
1248 S Vineyard Mesa, 'Country Park Villas'	97 82,592	\$6,100,000 \$73.86	5/27/2015 1971	\$62,887		16 1/1, 81 2/1

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
4235 N 35 th Avenue Phx, 'The Franciscan'	140 114,028	\$5,200,000 \$45.60	4/6/2015 1971	\$37,143		24 1/1, 92 2/1, 24 3/1, Flip: 1/13 - \$2.45M Deed Restriction, FKA Sterling Place
6041 W Thomas Road Phx, 'Villa de la Paz'	103 88,960	\$4,900,000 \$55.08	6/10/2015 1982	\$47,573	6.0	32 1/1, 71 2/2 1031 Exchange, Flip: 11/12 - \$2.8M
1254 E Broadway Mesa, 'La Petite Chateau'	89 39,350	\$3,471,000 \$88.21	5/1/2015 1974	\$39,000	6.5	42 st, 47 1/1 1031 Exchange, Master Metered
6141 N 59 th Avenue Glendale, 'Desert Crest'	66 54,720	\$3,450,000 \$63.05	5/1/2015 1985	\$52,273	6.5	6 1/1, 60 2/2 Cash, Flip: 3/13 - \$2.079M
1805 W Cortez Street Phx, 'Vista Village'	60 40,560	\$3,300,000 \$81.36	6/15/2015 1986	\$55,000		60 2/1 1031 Exchange, Flip: 2/11 - \$1.9M
2110 N 32 nd Street Phx, 'Monte Vista Gardens'	88 46,596	\$3,300,000 \$70.82	5/29/2015 1982	\$564,960 \$37,500	6.3	44 st, 44 1/1
1457 W University Drive Mesa, 'Warren House Mesa'	107 52,343	\$3,300,000 \$63.05	6/12/2015 1970	\$30,841		60 st, 25 1/1, 22 2/1 Master Metered
1420 E Bethany Home Road Phx, 'Bethany Gardens'	35 31,500	\$3,200,000 \$101.59	5/18/2015 1978	\$384,300 \$91,429	6.48	35 2/2
16802-16804 N 26 th Street Phx, 'Northview Estates'	64 50,688	\$3,072,000 \$60.61	4/30/2015 1983	\$48,000	7.36	1 st, 1 1/1, 8 2/1, 54 2/2 Cash
4402 N 36 th Street Phx, 'The Palms at Arcadia'	31 25,916	\$3,000,000 \$115.76	4/10/2015 1962	\$96,774		14 1/1, 6 2/1, 6 2/2, 5 3/2 Flip: 4/13 - \$1.6M
3212 N 70 th Street 'Scottsdale Townhouse Apts'	27 26,200	\$2,787,500 \$106.39	5/1/2015 1973	\$103,241		27 2/1.5
3816 E McDowell Road Phx, 'Harbor View'	52 30,033	\$2,756,000 \$91.77	6/10/2015 1981	\$53,000	6.26	8 st, 44 1/1 Flip: 8/13 - \$1.872M
5110 N 19 th Avenue Phx, 'The Villager Apartments'	56 27,222	\$2,700,000 \$99.18	6/22/2015 1967	\$401,616 \$48,214	7.68	18 st, 30 1/1, 8 2/1 1031 Exchange, Flip: 8/13 - \$2.425
2726 W Augusta Avenue Phx, 'El Descanso'	68 44,955	\$2,550,000 \$56.72	5/7/2015 1983	\$414,720 \$37,500	4.5	32 1/1, 36 2/1 Cash, Flip: 8/14 - \$2.0M
109 E Brinker Drive Avondale, 'Parkside'	54 40,704	\$2,400,000 \$58.96	4/1/2015 1964	\$44,444		12 1/1, 26 2/1, 16 3/1
3602 E Monte Vista Road Phx, 'Villa Martel'	37 33,414	\$2,350,000 \$70.33	5/13/2015 1974	\$63,514	7.0	2 1/1, 24 2/1, 11 3/2 1031 Exchange
3001 N 36 th Street Phx, 'Catalina Apartments'	33 23,000	\$2,200,000 \$95.65	6/22/2015 1985	\$66,667	6.8	25 1/1, 8 2/2 1031 Exchange, Flip: 12/12 - \$880K
4514 N 20 th Street Phx, 'Oasis Twenty'	19 14,584	\$2,100,000 \$143.99	6/4/2015 1960	\$110,526		9 1/1, 10 2/1 Flip: 7/12 - \$700K
2620 N 40 th Street Phx, 'Village Phoenix'	43 38,000	\$2,100,000 \$55.26	5/4/2015 1951	\$48,837		15 1/1, 28 2/2
301 W Turney Avenue Phx, 'Melrose Apartments'	32 22,800	\$2,075,000 \$91.01	6/17/2015 1950	\$64,844		16 1/1, 16 2/1 Flip: 3/14 - \$1.375M
6741 N 45 th Avenue Glendale, 'Renovatio'	30 25,960	\$1,970,000 \$75.89	5/15/2015 1968	\$65,667	6.3	28 2/1, 2 3/1 1031 Exchange
45 E Lexington Avenue Phx, 'Lexington Apartments'	23 13,275	\$1,875,000 \$141.24	4/9/2015 1963	\$81,522	6.5	15 st, 8 1/1 Flip: 3/14 - \$1.035M
1110 E Highland Avenue Phx, 'Highland Villa'	36 23,409	\$1,710,000 \$73.05	4/8/2015 1972	\$262,620 \$47,500	6.4	5 st, 30 2/1, 1 3/2 Master Metered, Flip: 12/13 - \$1.2M
1515 W Missouri Avenue Phx, 'Acacia Gardens'	44 31,900	\$1,500,000 \$47.02	4/2/2015 1973	\$34,091	5.3	33 1/1, 11 2/2 Master Metered
1621 W Denton Lane Phx, 'Sun Ray Apartments'	28 23,950	\$1,470,000 \$61.38	4/17/2015 1985	\$52,500	6.49	10 1/1, 8 2/1, 10 2/2 1031 Exchange, Flip: 7/13 - \$1.43M
2030 E Broadway Road Mesa, 'The Groves'	37 27,490	\$1,400,000 \$50.93	5/15/2015 1963	\$37,838	7.5	8 1/1, 2 1/2, 26 2/1, 3/1
6923 N 80 th Avenue Glendale, 'Sun Setting Apts'	28 22,400	\$1,350,000 \$60.27	6/15/2015 1983	\$178,979 \$48,214	6.68	28 2/1 Flip: 1/14 - \$870K
3325 E Pinchot Avenue Phx, 'Pecan Tree Apartments'	26 15,790	\$1,265,000 \$80.11	6/10/2015 1983	\$48,654	6.0	14 1/1, 12 2/1 1031 Exchange



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The Metro Phoenix Apartment Market (Q2 2015)

In the second quarter of 2015, there were a total of 78 individual multifamily transactions with 10 units or more. This was a 44% jump in sales volume from the 1st quarter's 54 sales. There were also two two-property portfolio sales, one totaling \$80.5M and one totaling \$1.91M. Of the individual sales, 25 had more than 100 units and 13 included at least one leg of a 1031 exchange. Most all of the larger sales utilized financing with the continued low mortgage interest rates. Of the 78 total sales, 32 were "Flips" – properties resold within the past four years. Most of the "flips" were properties with less than 100 units.

Where's the Opportunity Now?

From the increased sales activity and the number of "Flips", especially in the smaller apartments, it's pretty obvious that investors are harvesting significant profits. With the low interest rates, it's certainly a good time to sell as buyers can obtain great financing. This may change if we have a strong bump in interest rates. The question might be asked – where's the opportunity now? The answer – as always, is related to jobs, population and rent growth. Even though Arizona and the entire US have not rebounded from the economic downturn, metro Phoenix still had a 1.7% increase in population last year. As a result of the lack of apartments to absorb the population, significant rent growth has already occurred – with no immediate end to the increasing rents in sight. Recall that prior to the downturn in the economy, Arizona was the fastest growing State in the US for population – and may be the best reason to invest in Arizona than any other State.

IF we're doing well now, just imagine how much better we will be once the overall US economy strengthens and the cold-weather residents can finally sell their homes and move to the Sunbelt. With the increasing population, the demand for homes and apartments will increase, creating more jobs – and thus more population and thus more demand for housing. The new apartments are picking up some of the new population demand – and in fact, may be responsible for the slight up-tick in overall vacancy rates. Going forward, we expect increasing vacancy rates on the new and existing "B+" to class "A" apartments.

As we have noted many times, no one is building the "B" and "C" rent range apartments and that might be the "place to be". Note that the 50-99 size range apartments (typically "B" and "C" class) reported a decrease in vacancy. KLCG has focused on the "B" and "C" properties since 1998. We have never seen rent growth in this segment as we have experienced over the past year. As a consequence, many owners are simply not keeping up with the market rents. Often, owners have been happy to be able to renew a lease and have a \$25 increase in rent. However, the market in their area over the past year may have increased \$75/mo. Looking for an opportunity? – look for properties where rents are well below the market. This is often the case with the smaller apartments where relationships have been nurtured between owner/managers and their tenants.

In the shadow of all the new class "A" apartment construction, many investors are buying the older, but well-located "C" buildings with good bones. Of course the easy play here is to "reposition" the asset, or to upgrade the curb appeal, ambiance, and amenities in such a way as to 'upgrade' the tenancy- and thus the revenues. Unit remodels, courtyard makeovers, providing wi-fi and other contemporary amenities are all components of repositioning. There is an abundance of tenants able to pay a little more for this type product, and higher rents equals increased value. Many of the "Flips" for the Q2 sales underwent a reposition – with significant profit.

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