



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

3rd QTR 2016

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, commercial news and posts past newsletters and other market data on our web site www.KLCommercialGroup.com.

NEW OFFICE LOCATION – Our former office building will soon be an upscale, high-rise Marriott Hotel. We have moved to 5110 N 40th Street, Ste 110, located just north of Camelback and Chelsea's Kitchen restaurant.

10,561 Units Under Construction

In addition to the 10,561 units currently under construction, there are 23,060 "planned" and 7,911 units in the early phases. That's a total of 41,532 units. The bulk of the "under construction" is in Phoenix (3,849), Tempe (2,462), Chandler (1,256) and Mesa (1,024). Year-to-date, there have been 27 Apartment Communities completed with 6,328 units. By year-end, there are an additional 13 projects scheduled for completion with 2,474 units. That would be a total of 8,802 units for 2016. The projection for 2017 is that 25 projects will be completed with 5,900 units, slightly less than 2016. Since a low in 2011, when financing and demand dried-up, the number of apartment completions has steadily increased. For a number of reasons, we expect the new construction to level off or even decrease a bit in the future. See our web site for a detailed list of all new construction, including "Current", "Planned" & "Prospective".

Low Vacancy Still Driving Higher Rents

If you own apartments in Metro Phoenix, you know that we have about a zero vacancy. **The reported vacancy for all types and sizes of stabilized complexes is roughly 5%.** In reality, the 5% is just the time it takes to make the vacated unit rent-ready. Of possible significance is that the A and B properties had a slight uptick in vacancy (0.5%). This is not much of a change, but it was the greatest increase in vacancy in almost 8 years.

With the continued low vacancy across the Valley, rental rates have been increasing – now up 25% over the past four years for all class communities. For the B and C, typical two-bedroom one bath (about 800sf) apartment, we've seen rents jump from \$650 to \$825 this past year. The larger, professionally managed properties often keep pace with the market. Owner managed tend to lag a bit, largely due to lower debt service and relationships developed with their tenants.

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.	Vacancy
2007	4,637	8.5%
2008	7,037	10.8%
2009	9,315	14.2%
2010	2,593	10.3%
2011	614	9.7%
2012	1,372	8.3%
2013	3,655	7.3%
2014	4,820	6.1%
2015	5,089	5.7%
2016	8,802	5.0%

Data Sources:

2005 - 2011: ASU's Phx Metro. Housing Study (20+ units)
 2012 - 2015: RealData, Inc. (50+ units – stabilized)
 2016 Yardi Systems, 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
New - Interactive Map Available

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
15345 N Scottsdale Road Scotts, 'Crescent Scottsdale'	275 265,000	\$87,000,000 \$328.30	08/17/2016 2015	\$316,364		45 st, 155 1/1, 75 2/2 Cash Sale, NEW CONST.
2471 W Edgewater Way Chandler, 'Almeria at Ocotillo'	389 400,000	\$79,784,000 \$199.46	08/12/2016 2014	\$205,100	4.3	155 1/1, 188 2/2, 46 3/2 1031 Exchange, NEW CONST.
2220 W Mission Lane Phx, 'San Valiente'	604 695,138	\$71,300,000 \$102.57	07/27/2016 1997	\$118,046	5.5	192 1/1, 332 2/2, 80 3/2
10255 E Via Linda Scottsdale, 'La Privada'	350 418,563	\$64,000,000 \$152.90	07/20/2016 1985	\$182,857	5.67	72 1/1, 278 2/2 FLIP - 5/12, \$45M
909 W Grove Parkway Tempe, '909 West'	408 388,416	\$55,500,000 \$142.89	07/14/2016 1999	\$136,029	5.55	170 1/1, 170 2/2, 68 3/2 FKA 'Tempe Groves', FLIP - 8/12, \$39.5M
1586 W Maggio Way Chdlr, 'Arches at Hidden Crk'	432 461,904	\$55,000,000 \$119.07	09/06/2016 1986	\$127,315	5.24	208 1/1, 166 2/2, 58 3/2 FLIP - 9/14, \$41.75M
3730 S Mill Avenue Tempe, 'Solara at Mill Ave'	515 548,798	\$47,500,000 \$86.55	08/26/2016 1970	\$92,233		63 st, 204 1/1, 39 2/1, 209 2/2
33600 N 27 th Drive Phx, 'Canyon Crossroads'	280 279,360	\$45,000,000 \$161.08	09/06/2016 2009	\$160,714		104 1/1, 136 2/2, 40 3/2
1710 S Gilbert Road Mesa, 'Gateway on Gilbert.'	432 387,424	\$42,700,000 \$110.22	07/01/2016 1985	\$98,843	6.10	256 1/1, 48 2/1, 128 2/2, FLIP - 8/13, \$34M 1031 Exchange, Debt Assumption, Renov 2012
4411 E Chandler Blvd Phx, 'Allegro at Foothills'	264 278,748	\$41,760,000 \$149.81	09/30/2016 1996	\$158,182		102 1/1, 30 2/1, 120 2/2, 12 3/2
19635 N Cave Creek Road Phx, 'The Reserve'	237 361,233	\$34,650,000 \$95.92	09/30/2016 2006	\$146,203		38 st, 73 1/1, 102 2/2, 24 3/2 FKA 'The Pietra', Condo mapped
1615 E Georgia Avenue Phx, 'The Trend at 51'	192 200,000	\$33,150,000 \$165.75	08/26/2016 2015	\$172,656		70 st, 118 1/1, 4 2/2 NEW CONST.
2101-2141 N Evergreen St Chandler, '2101 Chandler'	248 188,512	\$29,500,000 \$156.49	08/31/2016 1985	\$118,952	5.4	108 1/1, 68 2/1, 72 2/2
2020 E Inverness Street Mesa, 'Windemere'	224 188,272	\$25,600,000 \$135.97	07/29/2016 1986	\$114,286	5.25	112 1/1, 112 2/2
2222 W Beardsley Road Phx, 'Crossroads'	316 202,606	\$25,200,000 \$124.38	08/31/2016 1982	\$79,747	5.5	32 st, 177 1/1, 49 2/1, 56 2/2, 2 3/1 1031 Exchange
333 E McKinley Street Phx, 'Proxy 333'	118 150,000	\$21,800,000 \$145.33	09/28/2016 2016	\$184,746		21 st, 78 1/1, 19 2/2 1031 Exchange, NEW CONST.
805 W Brown Street Tempe, 'The Arbors at 5 th '	197 146,520	\$21,300,000 \$145.37	07/28/2016 1967	\$108,122		20 st, 36 1/1, 64 2/1, 77 2/1.5 FLIP - 8/12, \$12.2M
8222 N 19 th Avenue Phx, 'Maya Linda'	360 213,528	\$21,000,000 \$98.35	09/20/2016 1980	\$58,333	5.75	108 st, 184 1/1, 12 2/1, 56 2/2 Deferred Maintenance
10201 N 44 th Drive Glendale, 'Club Valencia'	270 199,300	\$20,300,000 \$101.86	08/04/2016 1985	\$75,185		30 st, 120 1/1, 52 2/1, 68 2/2 Renovated 2014, FLIP - 12/13, \$12.8M
8530 N 22 nd Avenue Phx, 'Rancho Viejo'	266 209,566	\$19,600,000 \$93.53	08/31/2016 1985	\$73,684	5.9	152 1/1, 114 2/2
1701 E 8 th Street Tempe, 'Foxfire'	188 127,368	\$19,560,000 \$153.57	08/01/2016 1984	\$104,043	5.5	4 st, 88 1/1, 40 2/1, 56 2/2
625 W 1 st Street Tempe, 'Amber Gardens'	164 116,550	\$17,000,000 \$145.86	09/30/2016 1985	\$103,659	6.24	55 st, 19 1/1, 90 2/2
620 N Litchfield Road Goodyear, 'Park Shadows'	237 189,600	\$15,500,000 \$81.75	07/22/2016 1943	\$65,401	6.0	59 1/1, 119 2/1, 59 3/2
1230 N Mesa Drive Mesa, 'Woodstream Village'	156 136,500	\$15,100,000 \$110.62	07/29/2016 1982	\$96,795	5.3	156 1/1
7111 N 75 th Avenue Glendale, 'Country Creek'	336 272,502	\$15,000,000 \$55.05	08/17/2016 1984	\$44,643	8.44	40 st, 136 1/1, 96 2/1, 64 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, 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
6801 W Ocotillo Road Glendale, 'Summerhill Place'	232 181,360	\$14,550,000 \$80.23	09/08/2016 1983	\$62,716	6.13	88 1/1, 144 2/2
7102 N 43 rd Avenue Glendale, 'Paradise Vista'	352 173,700	\$14,000,000 \$80.60	09/21/2016 1974	\$39,773	7.61	136 st, 130 1/1, 86 2/1, FLIP – 5/14, \$7M Renovated 2015, Deferred Maintenance
2606 N 44 th Street Phoenix, 'Arcadia Walk'	148 94,704	\$13,660,000 \$144.24	07/29/2016 1978	\$92,297	5.5	4 st, 112 1/1, 32 2/2 FLIP – 2/12, \$13.66M
2055 E Hampton Avenue Mesa, 'The Hamptons'	249 168,025	\$12,500,000 \$74.39	07/01/2016 1981	\$50,201		125 1/1, 124 2/1 Renovated 2006, FKA "Superstition Villas"
501 E McKellips Road Mesa, 'Colores Del Sol'	120 170,514	\$11,500,000 \$67.44	07/20/2016 2000	\$95,833		24 1/1, 60 2/2, 36 3/2
2430 S Mill Avenue Tempe, 'Aria on Mill'	76 70,400	\$8,525,000 \$121.09	09/09/2016 1986	\$112,171	6.18	16 1/1, 60 2/2, FLIP – 1/13, \$6M Debt Assumption, FKA 'Sonoma Park'
2540 N 51 st Avenue Phx, 'Springwood'	160 117,370	\$8,080,000 \$68.84	09/23/2016 1986	\$50,500	8.92 6.25	16 st, 50 1/1, 80 2/2, 14 3/2 1031 Exchange, Cash
2141 E University Drive Tempe, 'Twenty141'	90 73,882	\$7,200,000 \$97.45	09/23/2016 1972	\$80,000		22 1/1, 44 2/1, 24 3/1 Reverse 1031 Exchange, Master Metered
4444 W Ocotillo Road Glendale, 'Las Casitas'	159 153,196	\$6,850,000 \$44.71	07/26/2016 1975	\$43,082		47 1/1, 1 1/1.5, 28 2/1, 36 2/1.5, 47 3/2 Master Metered, FLIP – 9/13, \$5.75M
6015 W Olive Avenue Glendale, 'Veranda'	120 87,600	\$6,816,000 \$77.81	09/30/2016 1972	\$56,800		12 st, 84 1/1, 24 2/1 Reverse 1031 Exchange, FLIP – 6/15, \$5.32M
1915 E Broadway Road Mesa, 'Sonoma Gardens'	96 70,180	\$6,430,000 \$91.62	09/29/2016 1973	\$66,979		16 1/1, 80 2/1 FLIP – 7/13, \$3.072M
2211 W Campbell Avenue Phx, 'Lincoln Village'	115 142,092	\$6,175,000 \$43.46	07/14/2016 1980	\$53,696	7.0	55 1/1, 20 2/1, 40 2/2 1031 Exchange
1807 E Missouri Avenue Phx, '18 at Biltmore'	51 45,540	\$6,045,000 \$132.74	07/18/2016 1962	\$118,529		15 1/1, 12 2/1, 24 2/2, FLIP – 7/14, \$5.6M Renovated 2011, Sold for Land Value
4903 W Thomas Road Phx, 'Lilly Garden'	180 68,150	\$5,450,000 \$79.97	07/14/2016 1977	\$30,278	6.5	88 st, 92 1/1 Master Metered, FKA 'Bella Rio'
210 N Alma School Road Mesa, 'The Pacifica'	76 59,660	\$5,400,000 \$90.51	08/01/2016 1980	\$649,200 \$71,053	8.3 6.04	49 1/1, 27 2/2 1031 Exchange, FKA 'Rosewood Villas'
1523 W Colter Street Phx, 'Patio 15'	62 49,300	\$5,325,000 \$108.01	09/28/2016 1986	\$85,887	7.0	48 2/1, 14 3/1 FLIP – 2/15, \$3.455M
4114 N 22 nd Street Phx, 'Monterosa Villas'	19 55,536	\$4,382,000 \$78.90	08/10/2016 2010	\$230,632	4.8	19 3/2.5 Cash
1802 W Cholla Street Phx, 'Whispering Willows'	99 91,653	\$4,247,600 \$46.34	09/13/2016 1986	\$42,905	5.1	35 1/1, 28 2/1, 36 2/2 Deferred Maintenance, Cash
2929 N 36 th Street Phx, 'Canberra'	64 32,652	\$4,000,000 \$122.50	08/30/2016 1971	\$562,800 \$62,500	7.1 6.6	20 st, 20 1/1, 24 2/1 Renovated 2015, Master Metered
447 W Rio Salado Parkway Mesa, 'Cypress Commons'	48 39,216	\$3,850,000 \$98.17	08/10/2016 1986	\$432,000 \$80,208	8.9 6.5	48 2/2, Condo mapped FLIP – 8/12, \$2.275M
4325-4329 M 23 rd Avenue Phx, 'Sandalwood Square'	68 57,320	\$3,800,000 \$66.29	07/27/2016 1964	\$548,160 \$55,882	6.9 5.25	2 st, 21 1/1, 4 2/1, 40 2/2, 1 3/2 1031 Exchange, Renovated 1998
3101 N 36 th Street Phx, 'Tamarack Shadows'	45 29,536	\$3,460,000 \$117.15	09/09/2016 1979	\$353,100 \$76,889	9.8 7.39	32 1/1, 1 2/1, 12 2/2 1031 Exchange, FLIP – 7/14, \$1,750
7325 E Bellview Street Scottsdale, 'Fountain Villas'	20 16,900	\$3,035,000 \$179.59	08/23/2016 1969	\$258,300 \$151,750	11.7 6.37	20 2/2
16625-16645 N 31 st Street Phx, 'Paradise Place'	57 41,250	\$3,012,000 \$73.02	08/18/2016 1984	\$424,200 \$52,842	7.1 6.2	17 1/1, 40 2/1 1031 Exchange
1939 E Missouri Avenue Phx, 'Shalimar'	20 21,688	\$3,000,000 \$138.33	08/26/2016 1958	\$150,000	6.5	18 2/1.5, 2 3/2
3830 W McDowell Road Phx, 'Greenridge'	72 50,563	\$2,920,000 \$57.75	09/21/2016 1986	\$40,556	6.1	4 st, 28 1/1, 28 2/1, 8 2/2, 4 3/1 1031 Exchange, FLIP – 4/12, \$1.722M
425 E Brown Road Mesa, 'Mountain View'	30 25,290	\$2,675,000 \$105.77	08/10/2016 1973	\$255,420 \$89,167	10.5 6.2	15 2/1, 15 3/2 1031 Exchange, Renovated 2008
1547 E Broadway Road Mesa, 'Villa Stefan'	42 35,632	\$2,537,000 \$71.20	09/06/2016 1984	\$60,405		11 1/1, 31 2/2 FLIP – 7/13, \$1.750

The Metro Phoenix Apartment Market (Q3 2016)

In the 3rd quarter of 2016, there were a total of 88 individual apartment sales with 10 or more units. Of these, 35 had at least 100 units. Twenty transactions included at least one leg of a 1031 exchange, with two of these being reverse 1031 exchanges. Of the 88 total sales, 31 were “Flips” – properties resold within the past four years (see pages 2 and 3 for details). Two properties were recently sold that were just completed and stabilized. See top of page 2. We expect many of the newly constructed apartments to be sold. There were also 3 portfolio sales, two were small and one included three properties with a total of 437 total units.

Obviously there are many more sales than we show on pages 2 and 3. It’s just a matter of space. We also have a wealth of information on each of the sales. Please call if you need more data and/or if you would like to receive our weekly e-mail with detailed information on the past weeks apartment sales.

Staggering Rent Growth

The summer of 2016 will be remembered for two main things: staggering rent growth and unprecedented escalation of apartment values. Vacancy rates have been decreasing since the fall of 2010. We’re now at a point that there is a waiting list at most apartments. Owners and managers can not only be more selective with tenancy, but can test higher rent rates too.. Over the past four years, rents for all class properties are reported to have gone up about 25%. On some properties, we’ve seen this amount of increase just this year. There’s been a concern about how much tenants would be able to pay. From discussions with tenants, when they are finally able to find an apartment to rent, sometimes after lots of searching, they are also finding a way to pay the higher rent. These are difficult times for tenants with minimal fixed income.

Values UP – Way UP

In the mid-2000’s, we experienced fairly strong value increases, but not to the extent we have seen this year. A very important difference to the previous run-up in values, is that the increase in rents actually is supporting the increase in values. For those that sold last year, never look back on making a profit, but this year’s prices are considerably higher partially due to the higher rents and partly due to buyers paying sellers more of a premium for the ability to raise rents and increase the value. Pages 2 and 3 of this newsletter clearly highlight the values increases. For sellers, it’s still important to obtain the strongest rent roll possible in advance of marketing your property. Banks look to this mostly for lending and buyers still look for the highest loan possible in deciding which property to purchase. Good agents will show prospective buyers where rents could go, pending the overall market and suggestions of what a new owner could do to warrant even higher rents – and value.

Be Aware of the Real Estate Cycle

Hopefully every investor understands that real estate is cyclic. The industry has been cyclic for years and will be in the future. We’ve been on a good upswing for six years. We do believe that Phoenix with its renewed strong population growth is in a better position to buffer a downturn than most other US cities. We also believe our local housing market may be a good indicator of our market. Look for a move from renting to home ownership to foretell a possible increase in apartment vacancy rates. We know that new construction is very strong and at some point should create an oversupply. We’re also sensitive that mortgage interest rates will likely start increasing in December.

The Trump Effect

We feel good (great) at having a businessman in office. We hope a revised immigration policy will be fair and not drive good folks out of the Country. Building a wall along Arizona’s 389 mile southern border would clearly provide many jobs. We’re hopeful that the 1031 Tax Deferred Exchange rules will remain and hopefully the capital gains tax will not be increased.

Kasten Long Commercial Group

A FULL SERVICE COMMERCIAL REAL ESTATE BROKERAGE

Delivering THE New Standard of Commercial Brokerage Excellence

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