



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

3rd QTR 2017

The **KASTEN LONG COMMERCIAL GROUP** (KLCG) has specialized in apartment brokerage in metro Phoenix since 1998. Our “client first” agents have brokered more than 1,000 communities with gross sales more than 1 billion dollars. The company is also a resource for all metro Phoenix apartment owners and provides weekly updates on apartment sales, in-depth quarterly apartment newsletters, tracks vacancy/rental rates/concessions by each submarket and maintains updated data on all new apartment construction.

KLCG – AMA Partnership

KLCG has formed a partnership with the **Arizona Multihousing Association** (AMA) to be a resource and provide market data to their independent apartment owners. Our most recent event was held at Grand Canyon University and focused on the West Valley – “The Next Best Place to Invest”. Our next event will focus on the East Valley. This will include possible new routes for the Metro Light Rail and the effect on property values resulting from reducing retail and adding major medical and education facilities to the newly purchased Fiesta Mall. The tentative event date is January 31. Meetings are open to everyone. Please contact Jim Kasten, CCIM (jim@KLCommercialGroup.com, 602 677 0655) for information on past and future meetings.

New Apt. Construction Sustainable

There were 4,207 units in 20 properties completed through Q3 of this year with **6,342** units total scheduled for completion in 2017. A total of **10,072** units are projected for completion in 2018. As of 10.17.17 there were 16,704 units under construction, 11,837 units planned and 12,019 units prospective. This amounts to 40,560 units in the pipeline. Site availability, tougher financing requirements, increasing land and labor costs plus labor availability are keeping new construction at a sustainable level. At some point in the future, there will be overbuilding, but we expect this to be an issue in other cities before Phoenix, simply due to our strong population increase.

Vacancy Low – Rents May Be Slipping

Vacancy rates for all class properties across the Valley remain at very low levels and the same as Q2 (5.1% reported, 50+ units). A trend we continue to see is very little rent growth. For Q3, there was 1% rent growth reported for all class apartments (50+ units). While this equates to a 4% rent growth annually, we believe this is a little misleading. For the upper-end apartments, there is a reported 5.6% average concession. In addition, if a property has been re-positioned, the rents would be increased, but that’s not rent growth as we define it.

KASTEN LONG COMMERCIAL GROUP

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

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Greater Phoenix Multifamily Data

Year	Const.	Vacancy
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	8,024	5.8%
2017 (1)	1,607	4.9%
2017 (2)	1,380	5.1%
2017 (3)	1,120	5.1%

Data Sources: Yardi Matrix, CoStar, Vizzda

On a weekly basis via e-mail we offer:

1. Recent Apartment sales
 2. Metro Phoenix Commercial RE 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
3010 W Yorkshire Dr PHX, 'Heritage at Deer Vly'	832 723,960	\$125,500,000 \$173.35	09/29/2017 1996	\$150,841		360 1/1, 96 2/1, 116 3/2 Flip
1033 N Parkside Dr Tempe, 'Lofts at Rio Salado'	466 463,848	\$75,500,000 \$162.77	08/23/2017 2006	\$161,670		ST. 112, 147 1/1, 144 2/2, 63 3/2
1725 S Coronado Rd Gilbert, 'Vistara'	366 380,000	\$73,200,000 \$192.63	09/12/2017 2016	\$200,000		177/1, 173 2/2, 6 2/2.5, 10 3/2
1925 S Coronado Rd Gilbert, 'Redstone San Tan'	382 504,894	\$71,500,00 \$141.61	08/14/2017 2013	\$187,173		182 1/1, 182 2/2, 17 3/2
4140 N Central Ave PHX, 'The Station On Central'	414 419,212	\$63,500,000 \$151.47	09/26/2017 2001	\$153,382	5.1	158 1/1, 240 2/2, 16 3/2 Flip – 06/14, \$53,000,000 1031 Exchange
18330 N 79 th Ave Gdale, 'Arrowhead Summit'	412 372,760	\$60,545,000 \$162.42	09/22/2017 1999	\$146,954		232 1/1, 180 2/2
901 S Country Club Dr Mesa, 'Tuscany Palms'	582 318,042	\$49,750,000 \$156.43	07/10/2017 1987	\$85,481		ST. 160, 362 1/1, 60 2/1
3600 W Ray Rd Chandler, 'The Ventura'	272 262,920	\$47,600,000 \$181.04	08/31/2017 1997	\$175,000	5.15	104 1/1, 144 2/2, 24 3/2
3601 E McDowell Rd Phoenix, 'The Urban'	435 311,361	\$47,500,000 \$152.56	07/31/2017 2004	\$109,195	5.2	ST. 138, 126 1/1, 49 2/1, 50 2/2, 36 3/2 Flip – 11/15, \$33,000,000
11120 W Van Buren St Avondale, 'Versante'	336 406,422	\$45,650,000 \$112.32	08/29/2017 2007	\$135,863		122 1/1, 64 2/1, 120 2/2, 40 3/2
29675 N North Valley Pky PHX, 'Marquis Sonoran Pre'	307 364,459	\$45,400,000 \$124.57	07/26/2017 2009	\$147,883	4.85	152 1/1, 38 2/1, 117 2/2
6811 E Main St Scottsdale, 'The Standard'	137 112,690	\$43,000,000 \$381.58	08/10/2017 2016	\$320,896		84 1/1, 47 2/2, 3 3/2, 3 3/3
18250 N 25 th Ave PHX, 'Avenue 25 Apartments'	254 272,274	\$40,250,000 \$147.83	07/03/2017 2013	\$158,465	5.1	64 1/1, 102 2/1, 168 2/2, 12 3/2 Flip – 07/14, \$35,400,000
4630 S Lakeshore Dr Tempe, 'CityScape'	214 214,220	\$39,250,000 \$183.22	08/22/2017 1994	\$183,411		108 1/1, 48 2/1, 88 2/2
4505 S Hardy Dr Tempe, 'Ovation at Tempe'	270 205,620	\$36,000,000 \$175.08	07/19/2017 1984	\$133,333	5.21	64 1/1, 172 2/2, 34 2/2.5 Flip – 08/14, \$25,850,000, 1031 Exchange
8400 W Virginia Ave PHX, 'West Town Court'	274 233,647	\$34,475,000 \$147.55	09/17/2017 2009	\$125,821		138 1/1, 120 2/2, 16 3/2
14625 S Mountain Pky Phoenix, 'San Paulo'	208 324,748	\$32,500,000 \$100.08	07/25/2017 1996	\$156,250		80 1/1, 112 2/2, 16 3/2 Flip – 05/15, \$22,100,000
1944 W Thunderbird Rd PHX, 'Latitude Apt & Casita'	672 530,208	\$31,590,000 \$99.30	07/11/2017 1979	\$78,348		368 1/1, 128 2/1, 136 2/2, 40 3/2 Partial interest sale 60%
1440 S Val Vista Dr Mesa, 'Dana Park Apts'	222 231,910	\$28,500,000 \$122.89	09/15/2017 1987	\$128,378	5.6	74 1/1, 148 2/2
11100 N 115 th St Scottsdale, 'Centerra'	202 150,738	\$25,950,000 \$172.15	08/14/2017 1986	\$128,465		120 1/1, 82 2/2
1330 W Broadway Rd Tempe, 'Anzio Apartments'	240 184,752	\$25,700,000 \$81.28	08/31/2017 1985	\$107,083	5.25	96 1/1, 108 2/1, 36 2/1.5 Flip – 08/15, \$19,500,000
1050 W 8 th Ave Mesa, 'Avenue 8'	194 215,000	\$21,200,000 \$98.60	09/05/2017 1986	\$109,278	5.7	194 2/2 1031 Exchange
3425 E Chandler Blvd PHX, 'Santa Rosa'	112 115,736	\$19,500,000 \$168.49	07/14/2017 1997	\$174,107	4.95	32 1/1, 72 2/2, 8 3/2
5020 W Thunderbird Rd Glendale, 'Tela Verde'	196 164,100	\$19,150,000 \$116.70	07/20/2017 1984	\$97,704	5.65	74 1/1, 122 2/2 Flip – 07/14 (Part of Portfolio)
12211 N Paradise Vlg Pky S Phoenix, 'Parkridge Apts'	244 206,080	\$17,100,000 \$140.83	08/01/2017 1983	\$101,786		108 1/1, 60 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, YARDI, 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
5601 W McDowell Rd Phoenix, 'Marble Creek'	244 206,080	\$16,750,000 \$81.28	08/31/2017 1985	\$68,648		108 1/1, 48 2/1, 88 2/2 Flip - 10/15, 12,100,100
3802 N 27 th Ave PHX, 'Las Vistas at Papago'	200 133,380	\$13,550,000 \$101.59	07/10/2017 1982	\$67,750	5.9	100 1/1, 100 2/1
3802 N 27 th St PHX, 'Urban Walk Apts'	138 96,819	\$11,950,000 \$123.43	07/28/2017 1985	\$86,594	5.09	54 1/1, 84 2/2 1031 Exchange
3030 E Broadway Rd Mesa, 'Royal Oaks of Mesa'	126 97,146	\$11,450,000 \$117.86	09/29/2017 1985	\$1,177,351 \$90,873	5.75	18 1/1, 108 2/2
900 N Country Club Rd Mesa, 'Sonoran Palms'	206 96,614	\$10,300,000 \$106.61	09/19/2017 1978	\$50,000	5	ST. 87, 119 1/1 Flip - 12/14, \$6,695,000, 1031 Exchange
202 S Hardy Dr Tempe, 'Dolce Villagio'	37 52,157	\$10,000,000 \$191.73	07/18/2017 2007	\$270,270	6.04	21 2/2.5, 16 3/3 Flip - 01/15, \$7,000,000, 1031 Exchange
6105 N 59 th Ave Gdale, 'Chateau Gardens'	182 76,898	\$8,721,500 \$113.42	09/1/2017 1977	\$47,920	7	ST. 91, 91 1/1
5902 W Royal Palm Rd Gdale, 'Terra Vista Palms'	138 95,765	\$8,400,000 \$87.71	09/20/2017 1975	\$60,870	5.5	ST. 7, 51 1/1, 80 2/1 Flip - 12/14, \$4,975,000
550 W Maryland Ave PHX, 'Valencia Townhomes'	36 49,884	\$8,250,000 \$165.38	07/21/2017 2009	\$229,167	5.85	12 2/2, 24 2/2.5 Flip - 06/15, \$6,590,000
12815 N 28 th Dr PHX, 'Broadway Terrace Apt'	100 79,188	\$7,657,000 \$96.69	07/19/2017 1984	\$76,570		100 1/1
1637 E Missouri Ave Phoenix, 'Arcos PHX'	51 22,800	\$5,475,000 \$240.13	08/11/2017 1966	\$463,668 \$107,353	5.98	ST. 42, 9 1/1 Flip - 03/14, \$2,100,000, 1031 Exchange
16437 N 31 st St PHX, 'Aire Libre Apartments'	80 55,900	\$5,250,000 \$93.92	08/24/2017 1985	\$65,625	6.53	40 1/1, 40 2/1
1510 N 48 th St Phoenix, 'Horizons'	51 48,450	\$4,675,000 \$96.49	07/31/2017 1986	\$91,667		51 2/2 Flip - 05/16, \$3,100,000, 1031 Exchange
5712 N 67 th Ave Glendale, 'The Villas'	70 51,550	\$4,500,000 \$87.29	09/8/2017 1985	\$64,286	5.8	45 1/1, 25 2/2 Flip - 08/14, \$3,025,000
111 N Mesa Dr Mesa, 'Sun Crest Apartments'	94 121,800	\$4,449,960 \$36.53	09/27/2017 1964	\$47,340	6.36	14 1/1, 37 2/1, 42 2/2, 1 3/2
1547 E Broadway Rd Mesa, 'Park Mesa'	42 35,632	\$3,850,000 \$108.05	08/31/2017 1984	\$91,667	6.3	11 1/1, 31 2/2 Flip - 07/13, \$2,537,000
4435-4436 N 8 th Ave Phoenix, 'Melrose'	36 27,032	\$3,700,000 \$136.87	08/11/2017 1963	\$102,778	5.5	16 1/1, 18 2/2, 2 3/2 Flip - 05/14, \$1,800,000
2835 W Northern Ave PHX, 'Northern Palms Apts'	50 30,404	\$3,125,000 \$102.78	07/18/2017 1954	\$66,489	6.3	49 1/1, 1 2/1 Flip - 09/15, \$1,720,000
1917 E Broadway Rd Tempe, 'Country Club Apts'	27 16,698	\$2,690,000 \$161.10	07/28/2017 1963	\$99,630	6	6 1/1, 19 2/1, 2 2/2 Flip - 11/15, \$2,150,000
2301-2309 S College Ave Tempe, 'Tempe Cottages'	18 11,034	\$2,550,000 \$231.10	09/21/2017 1963	\$141,667	5.25	18 1/1 Flip - 04/16, \$1,280,000, 1031 Exchange
3212 N 37 th St Phoenix, 'Lee Villa'	12 10,506	\$2,295,000 \$218.45	09/28/2017 1969	\$191,250		11 2/1, 1 3/1 Flip - 11/15, \$700,000
357 W Pierson St Phoenix, 'Pierson Palms'	20 16,461	\$2,220,000 \$134.86	09/11/2017 1958	\$168,840 \$111,000	3.95	6 1/1, 9 2/1, 5 3/2
837 E Montecito Ave PHX, 'Los Jardines Apts'	28 20,392	\$2,187,500 \$107.27	08/28/2017 1981	\$78,125	6.25	12 1/1, 16 2/2 Flip - 08/15, \$1,360,000
1010 E Maryland Ave Phoenix, 'Mirage Apartments'	15 12,100	\$2,025,000 \$167.36	08/22/2017 1969	\$135,000	4.94	8 1/1, 6 2/1, 1 3/2 1031 Exchange
4120 N 22 nd St Phoenix, 'Barron Apartments'	11 10,700	\$1,980,000 \$185.05	07/11/2017 1986	\$180,000	5.7	10 2/2, 1 3/2 Flip - 12/15, \$895,000

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NOI Net Operating Income (Total income less vacancy and expenses)

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The Metro Phoenix Apartment Market (Q3 2017)

In the 3rd quarter of 2017, there were a total of 66 individual apartment sales with 10 or more units. Between 2014 and 2016, the total individual apartment sales through thru Q3 increased 17% to 20% each year. For 2017, sales thru Q3 were down 20%. All but 3 transactions used financing and 15 involved at least one leg of a 1031 tax deferred exchange. Of the 66 total sales, 35 were “Flips” – properties resold within the past four years. These could have been repositioned or simply sold at a higher price after just raising rents without doing much work.

Repositioned Assets Make Strong Profit

For investors with the ability to reposition a property, significant monies have been made over the last couple years by acquiring a property in a good location, with good “bones” and making the units essentially condo quality. The cost can easily be \$25,000 to \$30,000/unit including some exterior work. The new rents are often twice the original. While \$30,000/unit may seem high, with the much higher rents, the property value can typically jump \$40,000 to \$70,000/unit. Most of the repositioned properties are older with less than 50 units. There were two examples of smaller repositioned quick flips sold in Q3. A 12 unit at 3212 N 37th St in Phoenix went from \$58K/u to \$101K/u, and an 18 unit at 2301 S College in Tempe went from \$71K/u to \$141K/u.

Rental Rates Holding

Since the summer of last year, metro Phoenix has had staggering rent growth and unprecedented escalation of apartment values. Vacancy rates have been decreasing since the fall of 2010 and have stayed near the 5% rate since the beginning of this year. With the time required to turn a unit, 5% is about as low as vacancy can go. For the four years prior to 2017, rents for all class properties went up about 25%. This was due to supply and demand plus the increased rents from repositioned assets. Near the end of 2016, the rental rate percentage increase slowed with rents holding during 2017. Where the new class A construction has nearby competition, concessions are offered, essentially reducing effective rent. On the lower rent range apartments, there is a practical limit to the amount a tenant with essentially fixed income can afford to pay. With the continued population influx and few housing units available with rents affordable to many, a difficult situation may arise.

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 seven years. We also believe our local housing market may be a good indicator of our market. As we have noted before, 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 eventually may create an oversupply.

KLCG Supports the Community and Grand Canyon University (GCU)

KLCG hosted at happy hour on Oct. 23 for the benefit of GCU’s neighborhood programs that are transforming large portions of the West Valley and greatly improving challenged high school student’s ability to learn and attend college. GCU is providing 100 full tuition scholarships each year to students from four West Valley high schools that have met certain requirements and academic achievements. Not only did President Brian Mueller and Learning Lounge director Dr. Joseph Veres attend the happy hour, but also two scholarship recipients currently in their engineering college. More than 70 individuals from corporations and the commercial real estate community attended the event and we thank all those that helped support GCU by donating to the Students Inspiring Students Scholarship program. For donations: www.geuscholarshipfoundation.org/donate/

Kasten Long Commercial Group

A FULL SERVICE COMMERCIAL REAL ESTATE BROKERAGE

Delivering THE New Standard of Commercial Brokerage Excellence

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