



GREATER PHOENIX

APARTMENT OWNER'S NEWSLETTER

4th QTR 2018

The **KASTEN LONG COMMERCIAL GROUP (KLCG)** has focused on apartment brokerage and market research in metro Phoenix since 1998. Our agents have brokered more than 1,000 communities. The market research includes: weekly updates on apartment sales, in-depth quarterly apartment newsletters, and tracking vacancy/rental rates/concessions by each submarket.

KLCG-AMA Town Hall Meeting – 3.27.2019

How to find Apartment opportunities – call for details. Registration at www.KLCG-Events.com/reg.

New Apt. Construction ends 25% over 2017

In 2018, there were 37 projects completed with a total of 8,162 units. This was seven less than projected. Phoenix had the most completions with 13, followed by Tempe with 6, Gilbert and Scottsdale with 4 each and Mesa with 3. The forecast for 2019 is 48 project completions with a total of 10,899 units. Most projects are in Phoenix (19) with Tempe (7), Chandler (6) and Scottsdale (4) all still very active. Currently there are 52,921 units in 224 projects in the pipeline. This includes 63 Under Construction (15,763 units), 71 Planned (16,110 units) and 90 Prospective (21,048 units). Contact us for details on any of these projects. We also have a map showing the location of each project in the pipeline on our web site.

Population Driving Rent Growth

In the past, we have noted that the low vacancy has been driving rent growth. While this is true, it's really the strong population growth that is driving the low vacancy and rent growth. Depending on the source, the estimate is that metro Phoenix is increasing in population between 80,000 to 100,000 persons per year. In addition, the lack of B and C class new construction and the inability of the class A apt.'s new construction to keep up with the demand adds to the continued low vacancy – now at an historical low level.

Since 2010, vacancy has been steadily dropping. Since 2015, vacancy for all class properties has hovered between 5% and 6% with Q4 2018 reporting 4.7%, the lowest in many years. The lowest vacancy (4.3%) for Q4 was reported for B+ properties – the same property class with the highest rent growth for 2018. The Lower Working Class reported the highest vacancy for Q4 (5.9%).

For all class properties, there has been a consistent and steady increase in rents since 2010. The highest annualized increase (6.3%) was in high-end Discretionary product and the lowest (4.0%) in the Lower Working class. In 2018, all class properties continued to see a similar rent increase with the B+ properties reaching 6.6% increase and the Lower Working class slipping a bit to 2.7%.

KASTEN LONG COMMERCIAL GROUP

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

5110 N 40th Street, Ste. 110, Phoenix, AZ 85018

Jim@KLCommercialGroup.com

602 677 0655

Greater Phoenix Multifamily Data

Year	Const.	Vacancy
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	6,543	5.4%
2018	8,162	4.7%

Data Sources: Yardi Matrix, CoStar, Vizda

On a weekly basis via e-mail we provide:

- Details of Recent Apartment sales
- Metro Phoenix Commercial News
- All apartments currently being marketed for sale – principals only

If interested and you're not already on our email 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
14435 S 48th St Phx, 'San Melia Apts'	488 493,192	\$105,300,000 \$213.51	12/21/2018 1998	\$215,779		197 1/1, 221 2/2, 70 3/2 Flip 12/15 \$84,000,000
4626 N 16th St Phx, 'Crescent Highland'	349 350,000	\$90,000,000 \$257.14	11/21/2018 2017	\$257,880		St. 65, 197 1/1, 87 2/2
8375 E Via de Ventura Scottsdale, 'Avana Mc. Ranch'	330 289,370	\$63,500,000 \$219.44	12/20/2018 1977	\$192,424		St 7, 100 1/1, 111 2/1, 90 2/2, 22 3/2
4130 S Mill Ave Tempe, 'Tides at South'	442 347,460	\$55,500,000 \$180.26	10/30/2018 1973	\$125,566	4.6	St 37, 136 1/1, 113 2/1, 156 2/2
1811 E Apache Blvd Tempe, 'Tempe Metro'	408 584,641	\$53,500,000 \$91.51	10/30/2018 2009	\$129,227	4.8	St 183, 183 1/1, 30 2/2, 12 3/3
9393 E Palo Brea Dr Scottsdale, 'Desert Parks'	202 216,366	\$52,000,000 \$240.33	11/28/2018 2006	\$257,426		89 1/1, 87 2/2, 14 2/2.5, 12 3/2
4104 E Broadway Rd Mesa, 'Argentia Apts'	396 272,549	\$50,275,000 \$184.46	11/16/2018 1985	\$126,957	5.1	102 1/1, 223 2/1, 71 2/2 1031 Exchange
5010 E Cheyenne Dr Phx, 'Sedona Ridge'	250 275,586	\$42,800,000 \$155.31	10/12/2018 1989	\$171,200		119 1/1, 117 2/2, 14 3/2
1464 S Stapley Dr Mesa, 'Indigo Springs'	240 224,430	\$41,685,000 \$185.74	10/17/2018 1999	\$173,688		90 1/1, 120 2/2, 30 3/2
15815 S Lakewood Pky W Phx, 'Village at Lakewood'	240 224,840	\$40,300,000 \$179.24	12/13/2018 1988	\$167,917		92 1/1, 120 2/2, 28 3/2
8530 N 22nd Ave Phx, 'Sanctuary on 22nd'	266 209,566	\$31,827,500 \$151.87	11/29/2018 1985	\$119,652		152 1/1, 114 2/2 Flip 8/16 \$19,600,000
17625 N 7th St Phx, 'Breckenridge'	308 306,635	\$31,550,000 \$102.89	12/21/2018 1983	\$102,435		
4727 E Warner Rd Phx, 'Vista Sureno'	186 161,876	\$28,200,000 \$174.21	11/13/2018 1985	\$151,613		54 1/1, 132 2/2 Flip 11/15 \$17,400,000
805 W Brown St Tempe, 'Tides on 5th Apts'	197 146,520	\$27,500,000 \$187.69	12/12/2018 1967	\$139,594	4.6	St 20, 36 1/1, 64 2/1, 77 2/1.5 Flip 7/16 \$21,300,000
5401 E Thomas Rd Phx, 'Tides at East Arcadia'	181 168,102	\$26,600,000 \$158.24	12/21/2018 1979	\$146,961		32 1/1, 49 2/1, 100 2/1.5 Flip 4/17 \$12,150,000
222 W Clarendon Ave Phx, 'Clarendon Park'	138 120,607	\$24,000,000 \$198.99	12/6/2018 2002	\$173,913		St 36, 18 1/1, 84 2/2 Flip 3/17 \$17,500,000
2524 W Glenrosa Ave Phx, 'Canyon Woods'	224 143,808	\$19,950,000 \$138.73	10/3/2018 1984	\$89,063	4.8	160 1/1, 32 2/1, 32 2/2 1031 Exchange
1111 W Parklane Blvd Chandler, 'Place Alma School'	77 114,560	\$19,635,000 \$171.39	11/19/2018 2017	\$255,000	5.3	
1601 W Camelback Rd Phx, 'Urban 188'	188 110,480	\$17,000,000 \$153.87	10/25/2018 1970	\$90,426		St 109, 79 1/1
77 W Coolidge St Phx, 'Icon on Central'	120 92,394	\$16,440,000 \$177.93	11/2/2018 1974	\$137,000		76 1/1, 44 2/2 Flip 2/17 \$12,050,000
1457 W University Dr Mesa, 'Excel Courtyard'	198 90,874	\$15,000,000 \$165.06	11/13/2018 1970	\$75,377	4.1	St 36, 64 1/1, 80 2/1, 18 3/1
11645 N 25th Pl Phx, 'Zen Senior Living'	100 92,000	\$11,950,000 \$129.89	11/16/2018 1985	\$119,500	5.1	29 1/1, 10 2/1, 61 2/2
2000 N 36th St Phx, 'The Grove'	42 75,360	\$11,350,000 \$150.61	12/28/2018 2018	\$270,238		42 3/2.5
6240 N 63rd Ave Glendale, 'The Glen'	200 144,732	\$9,490,000 \$65.57	10/23/2018 1985	\$47,450		153 1/1, 28 2/1, 19 2/2
3426 N 32nd St Phx, 'Ava North'	73 51,604	\$8,300,000 \$160.84	11/30/2018 1973	\$113,699	4.9	40 1/1, 33 2/1.5 1031 Exchange

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
1133 W 5th St Tempe, 'Apts'	44 41,580	\$7,500,000 \$180.38	11/30/2018 1973	\$170,455	5.7	44 2/2
6315 N 16th St Phx, 'North Point Apts'	86 74,546	\$7,430,000 \$99.67	11/14/2018 1969	\$86,395		74 2/2, 12 3/2 Flip 3/16 \$4,100,000
7979 E Wilshire Dr Scottsdale, 'Apts'	26 20,960	\$5,800,000 \$276.72	11/29/2018 2017	\$223,077	5.5	20 1/1, 6 2/2
6825 E 4th St Scottsdale, 'Apts'	33 42,984	\$5,780,000 \$134.75	10/16/2018 1960	\$175,152	5.4	St 2, 9 1/1, 21 2/2, 1 3/2
109 E Broadway Rd Tempe, 'Decco 109'	42 31,200	\$4,800,000 \$153.85	10/30/2018 1965	\$114,286	5.5	14 1/1, 28 2/1
815 N 3rd Ave Phx, 'Mckinley Court'	40 23,000	\$4,761,476 \$207.02	11/27/2018 1960	\$119,037		St 18, 22 1/1
3105-3127 E Fairmount Ave Phx, 'Fairmount Villas'	24 19,200	\$4,550,000 \$236.98	12/14/2018 1983	\$189,583	5.9	24 2/1 Flip 4/17 \$2,208,000
1145 E Mountain View Rd Phx, 'Mountain View Square'	77 53,600	\$4,425,000 \$82.56	10/10/2018 1984	\$57,468	5.7	St 43, 34 2/1
3132 N 32nd St Phx, 'Ava South'	50 26,885	\$4,300,000 \$159.94	11/30/2018 1984	\$86,000	4.9	St 5, 44 1/1, 1 2/1 1031 Exchange
6721 N 25th Dr Phx, 'Wilshire Place'	48 33,600	\$3,700,000 \$110.12	12/14/2018 1983	\$77,083		24 1/1, 24 2/1 Flip 11/17 \$3,050,000
2835 W Northern Ave Phx, 'Northern Palms'	47 30,404	\$3,410,000 \$112.16	10/31/2018 1954	\$72,553		47 1/1 Flip 7/17 \$3,125,000
3208 E Flower St Phx, 'Flower Apts'	22 16,018	\$2,675,000 \$167.00	10/31/2018 1986	\$121,591	5.2	8 1/1, 14 2/2
16801 N 31st St Phx, 'Willowood Square'	28 20,006	\$2,623,500 \$131.14	10/4/2018 1985	\$93,696	6	10 1/1, 18 2/2
2922 N 35th St Phx, 'Vara'	21 14,400	\$2,500,000 \$173.61	10/3/2018 1968	\$119,048	6	19 1/1, 2 2/1 Flip 2/17 \$1,365,000
1801 W Cholla St Phx, 'Villa Angela'	32 25,600	\$2,500,000 \$97.66	12/20/2018 1986	\$78,125	6.9	32 2/1
2014 W Berridge Ln Phx, 'Signature 18'	18 15,200	\$2,475,000 \$162.83	10/12/2018 1961	\$137,500	6	Flip 5/16 \$1,305,000
1340 E Highland Ave Phx, 'Highland Arms'	24 15,590	\$2,450,000 \$157.15	12/20/2018 1978	\$102,083		St. 1, 19 1/1, 4 2/1
8930 W Monroe St Phx, 'Ironwood Estates'	40 63,510	\$2,300,000 \$36.21	11/21/2018 2003	\$57,500	6.2	40 3/2
502-518 E Roanoke Ave Phx, 'Roanoke Apts'	15 9,260	\$2,250,000 \$242.98	12/28/2018 1955	\$150,000	5.2	15 1/1 Flip 5/16 \$1,445,000
3244 N 38th St Phx, 'Villas on 38th'	13 10,350	\$2,222,500 \$214.73	10/19/2018 1955	\$170,962		13 2/1 Flip 9/16 \$1,118,000
809 E Vogel Ave Phx, 'Parkview North'	26 18,800	\$1,950,000 \$103.72	12/12/2018 1969	\$75,000		10 1/1, 16 2/1
806 W Turney Ave Phx, 'Apts'	12 7,275	\$1,875,000 \$257.73	10/9/2018 1956	\$156,250	6.2	12 1/1
100 W Ray Rd Chandler, 'Sundance'	16 12,800	\$1,780,000 \$139.06	11/26/2018 1965	\$111,250	5.2	16 2/1 Flip 3/16 \$1,150,000
1916 N 32nd St Phx, 'Apts'	16 12,400	\$1,710,000 \$137.90	10/16/2018 1985	\$106,875	6.5	
706 E Palm Ln Phx, 'Apts'	12 5,848	\$1,675,000 \$286.42	11/13/2018 1925	\$139,583		2 St, 5 1/1, 5 2/2 Flip 3/16 \$940,000
2049 W Hayward Ave Phx, 'Apts'	16 11,817	\$1,616,000 \$136.75	12/14/2018 1985	\$101,000	5.2	1 1/1, 14 2/1, 1 3/1
3111 E Clarendon Ave Phx, 'Villa North Condos'	10 8,480	\$1,390,000 \$163.92	10/29/2018 1981	\$139,000	5	10 2/2
328 E Willetta St Phx, 'Ritz Tower'	14 6,700	\$1,350,000 \$201.49	11/15/2018 1967	\$96,429	4.3	St. 12, 11 1/1, 4 2/1

The Metro Phoenix Apartment Market (Q4 2018)

In the 4th quarter of 2018, there were 61 individual apartment transactions with 10 or more units, plus 12 additional that were part of portfolio sales. Of the 61 individual sales, only 8 paid “all cash”, showing that the slight increase in interest rates are still not impacting buyers. More than half of the individual transactions were “flips” – properties resold within 3 years of acquisition. Many were after repositioning and greatly increasing the rents and value. Of the “flips” most were built prior to 1990, almost 30 years old. These are “B” and “C” class properties – ripe for adding value. Except for a slight dip in 2017, the number of apartment transactions has steadily increased each year since 2008. In addition, every year since 2008, the average price/unit has increased and CAP rates have decreased. By the way, we’ve been doing apt. brokerage for 20 years and can help find reposition opportunities.

New Apartment Construction Still Strong – but with some caution

In talking with developers, there is a feeling of caution after a 9-year strong run-up in rents and value. In addition, labor, materials and land costs are way up, plus there is a shortage of quality labor. Completion times have often been extended – costing more money for the construction loan and delays projected from rental income. The rising interest rates are a concern – but bearable – but still impacting the bottom line margins. In some of the higher density areas where there are many new projects, some are experiencing rent concessions. In some cities across the US, where population growth is not as strong as AZ, rental rates have begun to decrease.

It’s really hard to find any dark clouds in this “blue-sky” economy although many predict an economic slow-down soon. In addition, pending the source, the estimates for population growth in metro Phoenix range from 80,000 to 100,000 per year. If $\pm 35\%$ live in apartments, and on average there are two persons per apartment, if we assume only 80,000 per year, we need 14,000 apartment units added to the inventory each year. With only 8,162 units completed last year, there is a continued shortfall. The new construction is primarily class “A”. There are essentially no new “B” and “C” class apartments being built. It’s not surprising that the vacancy rate and rental rates are setting historic levels. Jobs and good paying jobs, plus affordable housing and a friendly business climate, continue to support the strong population growth.

Impact of the Millennials on Housing and Apartments

Millennials (born 1981 – 1996) have had a much different experience than Baby Boomers. They came out of college with minimal jobs, burdened with student debt and often with parents that had struggled to keep their homes. As such, they have not purchased homes, often not married and still are waiting to have kids. In recent years, with good paying jobs now available, student debt is being paid off, and if they desire to have children, the clock is ticking. We see this as a move into homes and into suburbia, although this will be a far different suburbia than what exists. The new suburbia will be high tech., have high walk scores and nearby work. We expect this to be a boom for housing sales and development in the near future. The appreciation on existing homes was 8.1% last year supporting the start of this impact. For the “B” and “C” class apartments – they will stay in high demand, but the class “A” apartments in the current, high-density locations may come under pressure – unless the new suburbia’s are unable to provide the high walk score environments.

Kasten Long Commercial Group: 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), Walter Unger, CCIM (520 975 5207), John Locke (480 432 7179), Jon Coffen (602 653 3600), Chris Norton (480 559 9775), David Flower (303 520 8545) and Angie Ritchie, KLCG Operations Manager (602 445 4112).

Kasten Long Commercial Group

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