

Silicon Valley Multifamily News

FROM THE DESK OF MICHAEL SHIELDS CCIM

Q3 2012

Silicon Valley Apartment Sector Accelerates Into Midyear

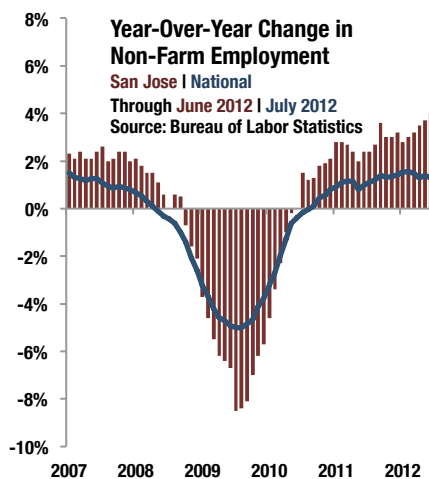
Higher Occupancy Underpins Strong Cash Flow Trends

Apartment rents in Silicon Valley and the Greater Bay Area approached new record highs during the second quarter of 2012, bolstered by strong tenant demand and a limited number of new buildings coming to market. San Jose asking rents passed the \$2,000 mark for the first time in the second quarter, rising more than 5.0 percent from the prior quarter and almost 9.0 percent over the year. How hot is Silicon Valley's apartment market? In comparison with San Jose, national rent growth is considered strong at less than half the pace. New construction projects and development projects already underway will drive an increase in available space beginning in 2013. Barring a reversal on the jobs front, operating income is set to accelerate in the interim.

Underpinning the tightening market, hiring in the region's high tech sectors is driving more sustained population growth than in peer markets. That has pushed occupancy rates in San Jose to 97 percent, well above the threshold for outsized increases in asking rents. Concessions by landlords have largely evaporated, with leases being signed above market rates at the best properties. While housing market conditions were more stable in the second quarter, challenges in obtaining mortgages kept many aspiring homeowners in the rental fold. Tight lending standards will be the norm until the economy and national job

market improve, which might allow Fannie Mae and Freddie Mac to ease away from restrictive underwriting. By the time that happens, however, single-family borrowing costs will inevitably have risen from the lows, moderating the value proposition of ownership for many young families.

The demographics of San Jose's job gains are also a factor in driving new households to the rental market. The market ranks fourth in the nation for the number of high-skill foreign workers, behind New York, San Francisco, and Los Angeles. Relative to market size, San Jose has the highest density of skilled foreign workers of any metro area in the nation. Without permanent status in the United States, this segment of the labor market weighs heavily to renting.



San Jose job gains pulled away from the frustratingly slow national trend, with regional employment in June rising 4.0 percent from a year earlier.

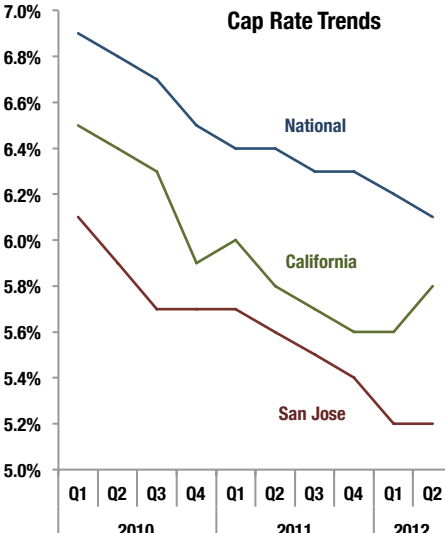
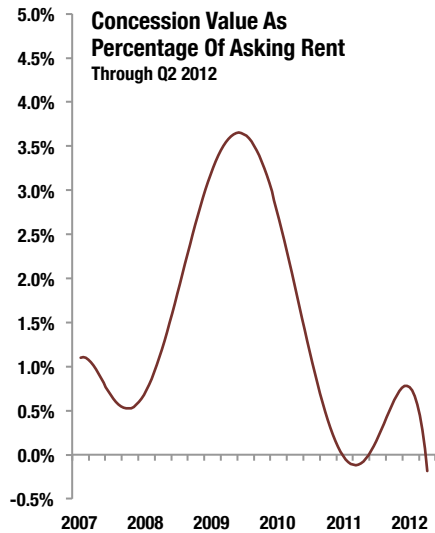
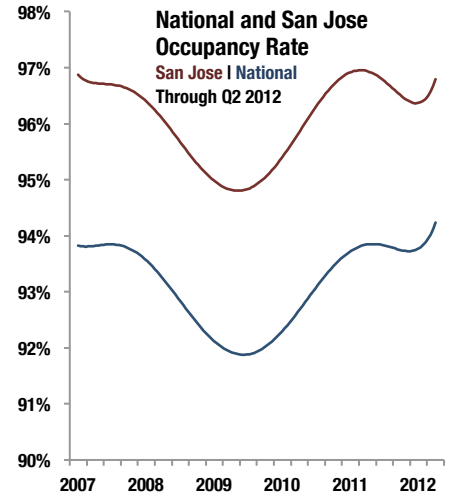
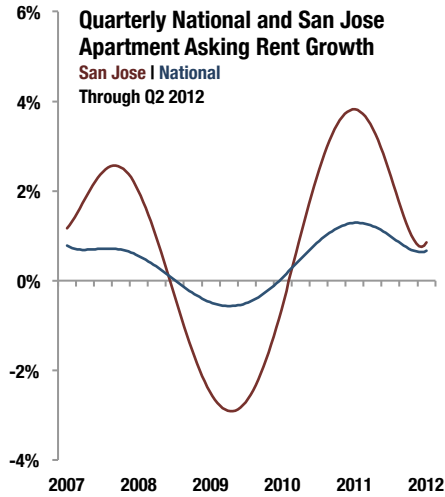
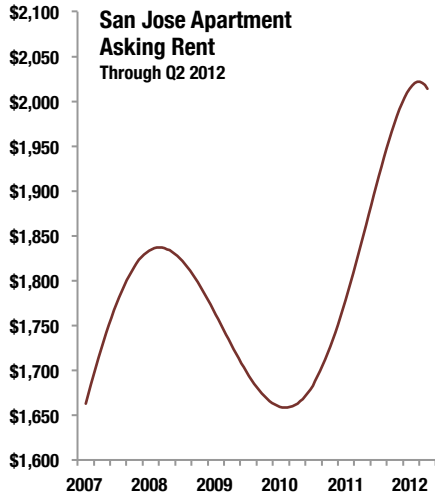
Rising Prices and Access to Financing

Silicon Valley's strong fundamentals are pushing prices higher, demanding that investors navigate the market carefully. Lenders are supporting competition for assets with record-low financing costs and – in contrast with the single-family market – easing lending standards for well-qualified borrowers. Chandan Economics reports that long-term permanent financing rates fell to an average of just 4.0 percent in the second quarter, a result that depended heavily on a further drop in Treasuries. In San Jose, the average interest rate was slightly lower, which allowed debt service coverage ratios to improve even as lenders offered higher leverage.

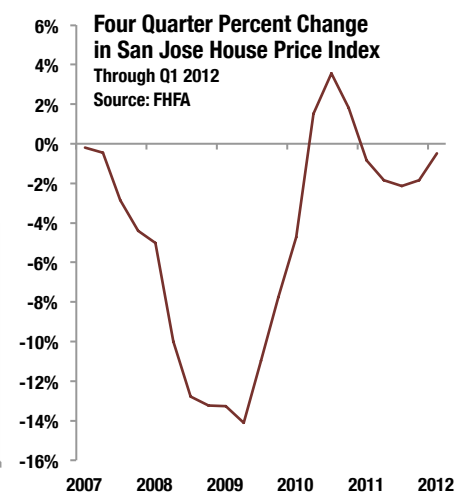
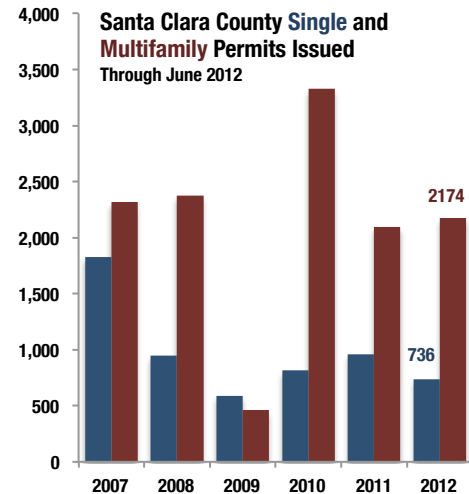
Financing and local policy moves are supporting development activity that is driving an uptick in construction-related fees for some local governments. Earlier this year, Republic Urban Properties secured an \$8.3 million bridge loan to support the land acquisition for its new 218-unit mixed-use development near Santana Row. On a larger scale, the Ohlone transit-oriented development is in the approval stages and has the potential to bring 800 Build It Green units to market. To encourage more high-rise development in San Jose's core, the City Council in May approved a set of temporary measures that will speed application review and cut fees and development taxes in half.

Contact Michael Shields at (408) 354-7470 or michael@svmultifamily.com

SAN JOSE APARTMENT TRENDS



Cap Rate Trends as of Q2'12			
Quarter	San Jose	California	National
Q1'10	6.1%	6.5%	6.9%
Q2'10	5.9%	6.4%	6.8%
Q3'10	5.7%	6.3%	6.7%
Q4'10	5.7%	5.9%	6.5%
Q1'11	5.7%	6.0%	6.4%
Q2'11	5.6%	5.8%	6.4%
Q3'11	5.5%	5.7%	6.3%
Q4'11	5.4%	5.6%	6.3%
Q1'12	5.2%	5.6%	6.2%
Q2'12	5.2%	5.8%	6.1%





AVAILABLE

Sunnyvale Fourplex with Cupertino Schools

- Excellent Unit Mix: (4) Large Townhouse Style, 2 bed / 1.5 bath units
- Highly Desirable Rental Area in Cupertino School District
- Amenities include: Patio, Carport, On-site laundry
- Price: \$1,150,000



AVAILABLE

San Jose Downtown Near University

- 9 Units: (2) 1/1 units, (1) studio, (6) efficiencies
- All units legal & Permitted
- Walking distance to San Jose State University
- 2 car garage. Basement with Storage Lockers
- 12.15 GRM; 5.57% Cap Rate; \$105,556 per unit
- Price: \$950,000



IN CONTRACT

6 Units Downtown East San Jose

- (6) Units: (2) 2/1 units & (4) 1/1 units
- Amenities: individual HVAC systems, Carports, Storage, On-site Laundry
- Many upgrade: Double-Pane Windows, HVAC system
- Price: \$799,000

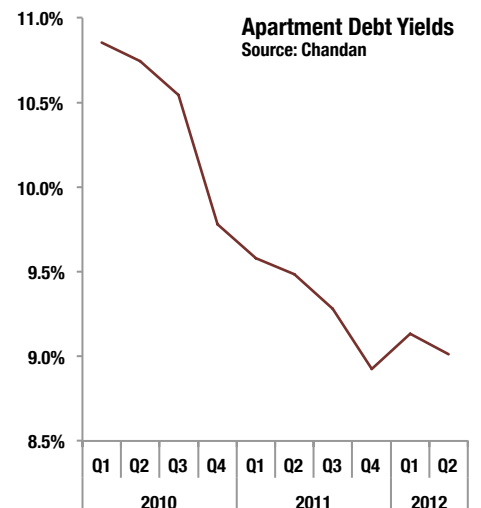
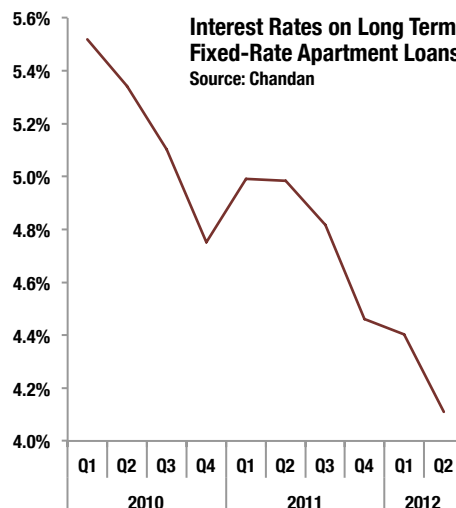
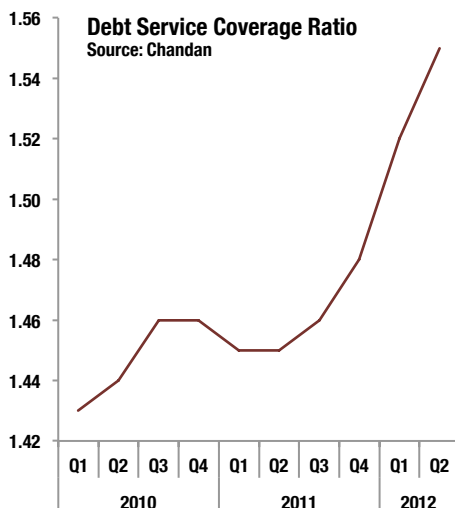


SOLD

Sold Over the Asking Price with Multiple Offers

- (12 Units: (11) 1/1 units & (1) 2/1 unit
- 6.11% Cap rate, 10.84 GRM (at list price)
- Amenities: Gated Entry, Guest parking, On-site Laundry
- Sold with Seven Offers in one week
- Sale Price: \$1,477,500; List Price: \$1,450,000

INTEREST RATE TRENDS



Silicon Valley Multifamily News



Michael Shields CCIM

Apartment / Investment Broker
408-354-7470

michael@svmultifamily.com
www.siliconvalleymultifamily.com



Michael Shields is a licensed commercial real estate broker specializing in buying and selling multifamily properties in Silicon Valley. As a CCIM, Michael also assists clients reposition their underperforming or management intensive apartment buildings into other commercial real estate properties such as triple-net, leased retail investments located in areas of the country offering a greater rate of return. In addition, Shields is also hired as a consultant to review operations, resolve problems or conduct market research and analysis.

Selected Q2 2012 Silicon Valley Multifamily Sales

Name / Address	City	Units	Price	Cap Rate	GRM	PPU
415-425 S Bernardo Avenue	SU	86	\$16,270,000	4.2%		\$189,186
2020-2024 Clarmar Way	SJ	34	\$5,270,000			\$155,000
458-466 5 th Street	SJ	35	\$4,800,000	6.3%	10.4	\$137,143
230 E San Salvador Street	SJ	14	\$3,180,000		10.5	\$227,143
360 W Olive Street	SU	12	\$2,380,000	5.0%		\$198,333
255 N 3 rd Street	SJ	16	\$2,195,000	7.5%	9.0	\$137,188
1565 Monroe Street	SC	12	\$2,000,000	4.5%	14.8	\$166,667
21740 Olive Avenue	CU	6	\$1,935,000	4.3%		\$322,500
1987 Colony Street	MV	8	\$1,815,000	4.4%	14.1	\$226,875
1220 Cortez Drive	SU	10	\$1,775,000	5.2%	13.0	\$177,500
511 E Reed Street	SJ	12	\$1,690,000	6.4%	10.6	\$140,833
677 Iris Avenue	SU	10	\$1,660,000			\$166,000
659 S 9 th Street	SJ	14	\$1,600,000	5.4%	12.1	\$114,286
510 Chiechi Avenue	SJ	10	\$1,510,000	5.4%	10.9	\$151,000
265 N 6 th Street	SJ	12	\$1,477,500	6.0%	11.0	\$123,125
1738 Virginia Avenue	SJ	11	\$1,200,000	6.8%	9.6	\$109,091
810 Williams Way	MV	4	\$1,335,000		18.9	\$333,750
546 N 3 rd Street	SJ	8	\$1,150,000			\$143,750

The properties above were listings of other brokerages. This information has been provided by sources deemed reliable but is not guaranteed.

Interested in selling your property? Call today for a no-obligation market analysis.



"Folks, we're in a hot market....so you might want to make an offer before the fire trucks get here."

Return Address
900 East Hamilton Avenue Suite 100
Campbell, CA 95008