

Event Calendar

Interview with Tod Spieker

Dial in to our conference call to listen to our interview with one of the top Bay Area investors, with a portfolio of more than 2,200 units.

Wednesday, April 29, 2015
2:00 p.m. - 2:30 p.m. PST
(605) 562-0020
Meeting ID: 935-668-109

Multifamily Investing & Management Workshop

By popular request we will be presenting a 4-hour workshop on investing in & managing multifamily properties. Broker, Michael Shields, and Property Manager/CAA Trainer, Jody Marshall, team up to present more than just the basics on successfully buying, managing and selling multifamily properties for a profit.

Workshop Syllabus

1. How to Invest in Apartment Buildings: An overview of how successful investors review the properties, use purchase metrics, and look at market conditions when buying
2. What Kind of Landlord do You Want to Be? A definitive look at the landlord/tenant relationship and its complexities
3. Renting Units and the Screening Process: How to screen and choose the best tenants at the highest rent
4. The Move-In Process: A proper process using the right contracts, forms and documentation results in fewer problems
5. Fair Housing – It's the Law! Protect yourself from lawsuits with an overview of Federal and California fair housing laws
6. Understanding Landlord Responsibilities: Maintaining the property and the right kind of relationship with your tenants
7. How to Get the Maximum Value for your Apartment Building: Learn the strategies top brokers and investors utilize to get the highest price when selling

Saturday, May 16, 2015
9:00 a.m. - 1:00 p.m. PST

For more information, go to www.siliconvalleymultifamily.com or call Rebecca or Michael at (408) 356-1900

Publication Schedule

Silicon Valley Multifamily News is published quarterly. Spring and Fall editions are in print format. Winter and Summer are in electronic format. To receive the Winter & Summer Editions in electronic format, contact us at **408-356-1900**.

Market Perspective: It's All About Rents!

In today's Santa Clara and San Mateo County apartment markets, owners are dancing to the same tune: rents, rents, rents! And by rents, I mean rising rents that, according to market data, have clocked double-digit growth for the last four years with no sign of slowing down.

Spurred on by booming job growth in the Bay Area's high-tech industry, workers continue to migrate to Silicon Valley, which now reaches well up onto the Peninsula in San Mateo County. With them comes an unending demand for housing, specifically – apartments – and occupancy rates that are all but super-glued at or above 96%. Of course, rents vary based on the type of unit, and even more so by the type of building (Class A, B or C). Since the majority of our inventory is of the Class C type (older buildings with limited amenities), our survey focuses on these rental rates. (Contact me for rates for the other class types.) The average rent for a one-bedroom unit in Santa Clara County (in Silicon Valley) is \$2,133, and for a two-bedroom unit the average rent is \$2,273. San Mateo County chimes in at \$2,110 for a one-bedroom unit and \$2,483 for a two-bedroom unit. These rents are the culmination of an average annual growth rate above 10%, causing renters to cry foul and politicians to scream rent control. But is this caused by owners raising rents to gauge renters, or is it the simple law of supply and demand?

As an owner myself, I hear my tenants scream every year I raise rents, and yet my rents are still 10% to 15% below market. Indeed, an owner I know just raised rents in her 100+ unit complex an average of \$500 per unit. As you might expect, the tenants cried foul – until they decided to look at available apartments. More than 95% stayed.

Combine this with a series of facts that are affecting the rental housing market: 1) Single-family housing prices (and down payments) are at an all-time high, 2) Many of the new units constructed in the last few years are Class A properties and have been readily absorbed, 3) New construction of master planned communities is down, and 4) Many homeowners displaced from the recession are still renting. The factors in this supply-and-demand equation result in significant profits for multifamily owners, which are long overdue after The Great Recession. Indeed, because of these rising rents, many are reluctant to now sell, despite extremely high demand from both local, national and international investors. The desire among these investor groups to get in on the Santa Clara County/San Mateo County multifamily product type is fueled by high income buildings, low interest rates and a robust long-term employment outlook for the high-tech industry.

This demand for buildings has resulted in all-time high prices that are generating sales of even Class C buildings in the sub-4% CAP rate range in both Santa Clara and San Mateo Counties. Looking back

just four years ago, local values were sitting at a near low point in the cycle. We'd turned the corner toward recovery and deal volume had enjoyed its first kick-start, but pricing for multifamily units had reset to 2005 levels. What a difference four years – and a 40%+ spike in rental rates – can make! Today, average values for the same asset class have increased to approximately \$260,000 per unit in Santa Clara County and more than \$300,000 per unit in San Mateo County.

This upswing is so astronomical that owners from San Mateo to Palo Alto to San Jose are reluctant to sell. As a result, we've seen a big drop in the number of properties on the market, and an increase in the number of buyers asking brokers to find them deals by making unsolicited offers on off-market properties. Indeed, owners of 20+ unit buildings tell me they have received 3 to 4 offers each year. Some owners are taking these offers and cashing out. Some are opting for a 1031 exchange in the hopes they can move up the ladder in property size. Others are moving their capital out of the area into either triple-net, leased investments with higher CAP rates or into larger multifamily properties in different cities. The key to success with this strategy is to work with a broker that has ready, willing and able buyers who are willing to pay a premium to purchase a property. There are many pitfalls to accepting unsolicited offers: from buyers offering too little to lenders unfamiliar with the market or the property and torpedoing a deal. So choose your representation wisely.

For those considering a sale, we are without doubt in a high-value market. My crystal ball cracked from overuse, so whether prices will increase further is hard to say. What is clear is that property values and per-unit values are at an all-time high, CAP rates are at an all-time low, buyers in the market are still fueled by low interest rates, and sheer demand among both small and large investors remains strong. This mix has generated multiple offers on all of my deals, and final sale prices that are always at least at list – and these days, often significantly above what my sellers are asking.

National Rent Ranking by City

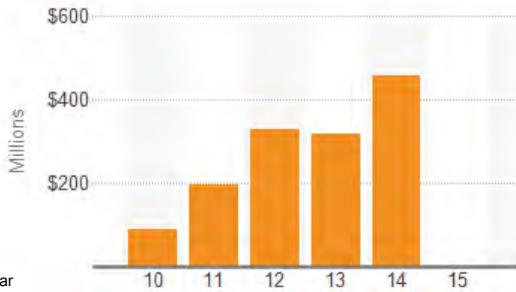
MSA	Average Rent	Yr-over-Yr Average Dollar Increase	Annual Percentage Increase
San Francisco	\$2,294	\$251.00	12.3%
San Jose	\$2,365	\$207.00	9.6%
Denver	\$1,223	\$133.00	12.2%
Vallejo	\$1,310	\$129.00	10.9%
Santa Rosa	\$1,567	\$122.00	8.4%
Seattle	\$1,349	\$ 99.00	7.9%
Portland	\$1,104	\$ 88.00	8.7%
Atlanta	\$1,011	\$ 76.00	8.1%
Sacramento	\$1,072	\$ 73.00	7.3%
Colorado Springs	\$ 865	\$ 61.00	7.6%
National Average	\$1,164	\$ 71.00	6.5%

Source: RealFacts database 4Q14

* San Francisco includes San Mateo County.

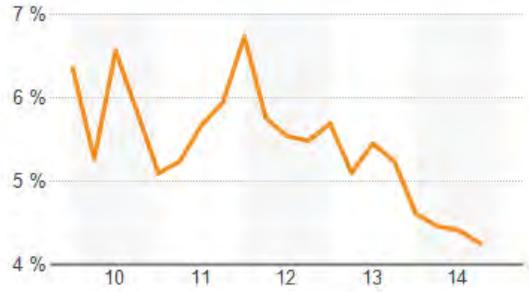
Santa Clara & San Mateo County Apartment Trends Q4 2014

Sales Volume - San Jose 4-100 Units



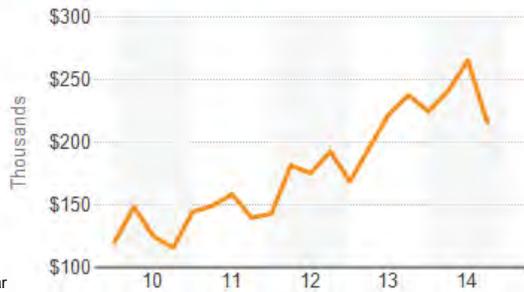
Source: CoStar

Cap Rate Trends



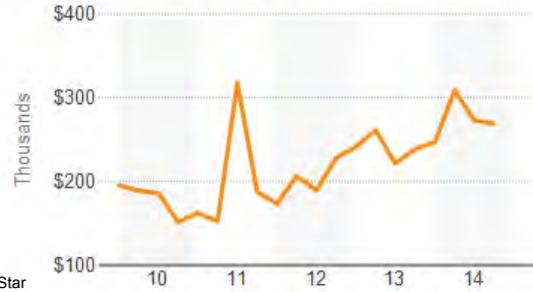
Source: CoStar

Avg. Sale Price Per Unit - San Jose 4-100 Units



Source: CoStar

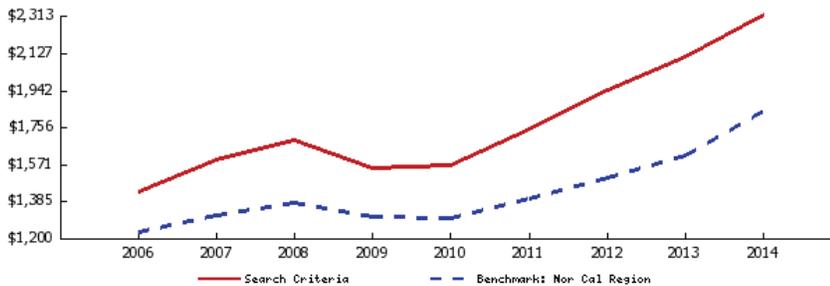
Avg. Sale Price Per Unit - San Mateo 4 - 100 Units



Source: CoStar

Average Asking Rent - Santa Clara County

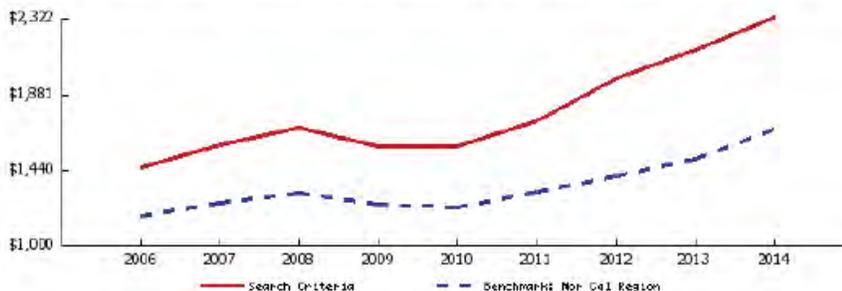
	2006	2007	2008	2009	2010	2011	2012	2013	2014	4 Yr. Change
AVERAGE	\$1,428	\$1,594	\$1,688	\$1,549	\$1,562	\$1,747	\$1,938	\$2,105	\$2,313	48.1%
studio	\$1,001	\$1,132	\$1,171	\$1,067	\$1,052	\$1,167	\$1,316	\$1,470	\$1,658	57.6%
1bd 1bth	\$1,274	\$1,441	\$1,520	\$1,372	\$1,384	\$1,560	\$1,742	\$1,888	\$2,082	50.4%
2bd 1bth	\$1,366	\$1,519	\$1,602	\$1,500	\$1,493	\$1,671	\$1,856	\$2,021	\$2,212	48.2%
2bd 2bth	\$1,670	\$1,844	\$1,960	\$1,803	\$1,828	\$2,037	\$2,245	\$2,440	\$2,652	45.1%
2bd TH	\$1,799	\$2,021	\$2,125	\$1,988	\$1,998	\$2,195	\$2,417	\$2,623	\$2,829	41.6%
3bd 2bth	\$1,952	\$2,120	\$2,292	\$2,153	\$2,187	\$2,412	\$2,646	\$2,840	\$3,195	46.0%
3bd TH	\$2,443	\$2,608	\$2,769	\$2,652	\$2,583	\$2,844	\$3,139	\$3,387	\$3,617	40.0%



Source: RealFacts

Average Asking Rent - San Mateo County

	2006	2007	2008	2009	2010	2011	2012	2013	2014	4 Yr. Change
AVERAGE	\$1,451	\$1,577	\$1,678	\$1,574	\$1,568	\$1,723	\$1,969	\$2,139	\$2,322	48.1%
studio	\$1,011	\$1,083	\$1,138	\$1,095	\$1,090	\$1,190	\$1,363	\$1,508	\$1,649	51.3%
1bd 1bth	\$1,298	\$1,417	\$1,497	\$1,406	\$1,403	\$1,548	\$1,765	\$1,907	\$2,110	50.3%
2bd 1bth	\$1,541	\$1,686	\$1,796	\$1,654	\$1,655	\$1,825	\$2,123	\$2,309	\$2,483	50.0%
2bd 2bth	\$1,816	\$1,953	\$2,095	\$1,969	\$1,948	\$2,135	\$2,420	\$2,627	\$2,792	43.3%
2bd TH	\$1,676	\$1,825	\$1,975	\$1,854	\$1,804	\$1,999	\$2,264	\$2,418	\$2,606	44.5%
3bd 2bth	\$2,256	\$2,410	\$2,614	\$2,428	\$2,434	\$2,602	\$2,962	\$3,260	\$3,466	42.4%
3bd TH	\$1,934	\$2,159	\$2,243	\$2,115	\$2,126	\$2,363	\$2,499	\$2,959	\$3,210	51.0%



Source: RealFacts

Our Listings & Recent Sales

3860 Barker Dr., San Jose, CA



- 4 Units with Excellent Unit Mix:
 - (1) 3 Bed/2 Bath (~1600 sf) w/Back Yard & Garage
 - (3) 2 Bed/1 Bath (800+ sf/Unit) w/ Private Garages
 - Higher Income Potential
 - Low Operating Expenses
- Offered at \$1,298,000**

620 S. 7th St., San Jose, CA



- 6 Units - All 2 Bed/1 Bath
- Downtown Location
- Large Upside Potential
- 1031 Exchange for Seller

Offered at \$1,300,000

550 S. 4th St., San Jose, CA



- 6+ Units – 1 Bed/1 Bath & Studios
- Downtown Location
- Large Upside Potential
- 1031 Exchange for Seller

Offered at \$1,250,000

4005 Will Rogers Dr., San Jose, CA



- 8 Units – All 1 Bed/1 Bath
- High Maintenance, High Headaches
- 1031 Exchange for Seller
- Exchanged for Medical Office

Sold for \$1,500,000

Contact Michael Shields at (408) 356-1900 for information on the above properties.

Multifamily Interest Rates

Prevailing Rates from Local Lenders:

Fixed Rates		Various Lenders		
Term	LTV	Interest Rates	DSC	Amortization
1 Yr	50%-60%	2.75%	1.20 - 1.25	25-30 yrs
3 Yr	50% - 75%	3.125% - 4.125%	1.20 - 1.25	25-30 yrs
5 Yr	50% - 80%	3.10% - 4.25%	1.20 - 1.25	25-30 yrs
7 Yr	50% - 80%	3.5% - 4.77%	1.20 - 1.25	25-30 yrs
10 Yr	50% - 80%	3.7% - 5.0%	1.20 - 1.25	25-30 yrs
15 Yr	50% - 70%	4.125% - 5.125%	1.20 - 1.25	15 yrs

"We've gotten used to thinking of a zero interest rate as normal—it's far from normal."

- Fed Vice Chairman Stanley Fischer

"Employment figures continue to surpass analyst estimates and the trend over the last six months has been strong. Last Friday's upside surprise sent interest rates higher. It is expected that the Fed moves off its zero bound peg by September. "June has to be on the table," adding that as the economy meets his expectations, "June would strike me as the leading candidate for liftoff" in moving short-term interest rates off their current near-zero levels... quoting Federal Reserve Bank of Richmond President Jeffrey Lacker."

- Forbes

Loan conditions and restrictions vary per program.

For referrals to commercial lenders, contact:

Michael Shields

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Michael Shields, CCIM

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Michael Shields, CCIM, is the Managing Director for Silicon Valley Multifamily Group and has been an apartment/investment broker specializing in the purchase and sale of multifamily properties in Northern California since 2002. Focusing on buildings of 4-100 units in size, Mike assists owners with 1031 exchanges into larger properties, triple-net leased investments, retail and office properties, or cash-out options. He is also an apartment building owner, manager and investor, with a focus of refurbishing distressed properties. (BRE 01327546)

Partial List of Santa Clara County Property Sales for Q4 2014

Address	City	Units	Sale Price	Unit Price
360 Meridian Ave	SJ	90	\$17,250,000	\$191,667
126 W Ahwanee Ave	SU	68	\$16,100,000	\$236,765
405 Stierlin Rd	MV	56	\$15,041,000	\$268,589
2483-2491 Whitney Dr	MV	40	\$11,700,000	\$292,500
465 Stierlin Rd	MV	48	\$10,000,000	\$208,333
1489 Fruitdale Ave	SJ	40	\$10,000,000	\$250,000
2665 South Dr	SC	72	\$6,106,500	\$84,813
670-686 S 8th St	SJ	28	\$4,910,000	\$175,357
524 S 9th St	SJ	25	\$4,800,000	\$192,000
7190 Egleberry St	GY	23	\$3,850,000	\$167,391
948-954 Ravenscourt Ave	SJ	16	\$3,700,000	\$231,250
655 Mariposa Ave	MV	9	\$3,330,000	\$370,000
279 Bush St	MV	8	\$3,136,000	\$392,000
110 Graham Ave	SJ	16	\$3,000,000	\$187,500
925 Azure St	SU	7	\$2,950,000	\$421,429
537 Mariposa Ave	MV	12	\$2,944,000	\$245,333
168 Waverley St	PA	10	\$2,884,000	\$288,400
616 S 8th St (2 Properties)	SJ	14	\$2,830,000	\$202,143
2645 Fayette Dr	MV	10	\$2,400,000	\$240,000
7630-7640 Church St	GY	16	\$2,240,000	\$140,000
336 N 5th St	SJ	10	\$2,180,000	\$218,000
1755 Hester Ave	SJ	12	\$1,960,000	\$163,333
37 Sherland Ave	MV	6	\$1,950,000	\$325,000
3201 Cadillac Dr	SJ	10	\$1,830,000	\$183,000
2351 Sutter Ave	SC	6	\$1,775,000	\$295,833
547 S 11th St	SJ	8	\$1,695,000	\$211,875
170 Waverly St	PA	6	\$1,650,000	\$275,000
25 S 10th St	SJ	8	\$1,550,000	\$193,750
3285 Alma St	PA	7	\$1,485,000	\$212,143
95 N 8th St	SJ	8	\$1,480,000	\$185,000
803 Maryann Dr	SC	5	\$1,425,000	\$285,000
807 Deland Ave	SJ	6	\$1,350,000	\$225,000
432 College Ave	PA	6	\$1,275,000	\$212,500
1360 Pomeroy Ave	SC	5	\$1,125,000	\$225,000
1359 Lewis St	SC	8	\$1,085,000	\$135,625
7510 Rogers Ln	GY	6	\$1,025,000	\$170,833
2129 Randolph Dr	SJ	6	\$985,000	\$164,167

Contact me today for an analysis of your property's value!

Properties listed above were listings of brokerages throughout the area.

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(What we'd really like to say.)