

# Silicon Valley Multifamily News

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FROM THE DESK OF MICHAEL SHIELDS CCIM

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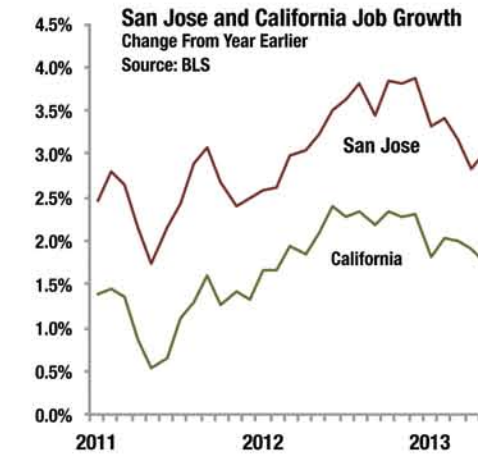


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## At the Top of the National Rankings, Silicon Valley Rent Gains Leveling Off

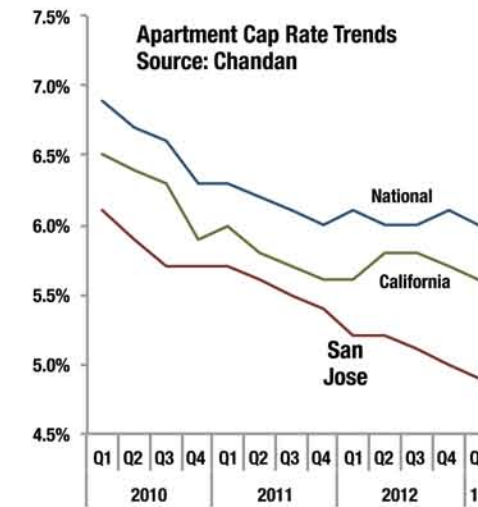
Silicon Valley's apartment market remains firmly entrenched in the top tier of the nation's apartment sector.

While some markets can boast a lower vacancy rate or slightly higher rent growth, few if any offer the same balance of strong rental fundamentals and a robust jobs-driven outlook. The pace of job growth has slowed in San Jose but remains nearly double the statewide rate.



### Cap Rates Hit New Low

The market's exceptional investor appeal pushed average cap rates to 4.9 percent in the first quarter, well below the national average of 6.0 percent. Preliminary readings for the second quarter show another small decline. Recent bidding on St. James Plaza, an office property in downtown San Jose, showed that competition from investors with different intended uses is adding to price pressure. One developer was keen to convert the property to mixed use, including apartments and retail.



### Surge in Development

Land sales and Silicon Valley's construction boom have both grown stronger in the first half of 2013. Local governments are encouraging development as apartment rents set new records, reducing affordability. San Jose City Council voted in early June to proceed with a study of development fees to fund new affordable housing. Higher property price are allowing developers for market-rate units to respond in kind, lifting starts.

### Adaptive Reuse

In addition to high profile projects like One South Market, the gap between apartment values and construction costs is supporting adaptive reuse of older properties in the area. Among recently announced projects, the Irvine Company hopes to build 825 units on the former Extreme Networks campus, not far from the Santa Clara Technology Campus, another Irvine Company project. Prometheus Real Estate Group is converting a former Kaiser Permanente building into 550 new units.

### Rising Interest Rates

Apart from a turnaround in housing, which has had little impact on apartment demand in Silicon Valley so far, the main challenges facing apartment investors relate to potential overbuilding and rising interest rates. Borrowing costs and debt yields were at record lows in the first quarter, but that is set to change. Treasury yields are rising as the Federal Reserve hints at a withdrawal of its extraordinary interventions. That will exert pressure on cap rates and borrowing costs where rents do not keep pace.

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

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

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

Name / Address	City	Units	Price	GRM	PPU
612-626 W Parr Ave	LG	107	\$15,000,000		\$140,187
2388 Madden Ave	SJ	46	\$11,350,000		\$246,739
1457-1475 Santa Clara St	SC	15	\$2,850,000	12.3	\$190,000
3189 Cadillac Dr	SJ	20	\$2,600,000	10.0	\$130,000
1060 Oakmont Dr	SJ	15	\$2,495,000	10.0	\$166,333
495 E William St	SJ	12	\$1,864,907		\$155,409
151 S 13th St	SJ	11	\$1,860,000		\$169,091
270 Dunster Dr	CA	10	\$1,767,000	13.5	\$176,700
1581-1585 W El Camino Real	MV	5	\$1,700,000		\$340,000
136 Towne Ter	LG	7	\$1,600,000		\$228,571
515 N San Pedro St	SJ	12	\$1,500,000		\$125,000
3190 Homestead Rd	SC	6	\$1,450,000	14.0	\$241,667
266-280 Perryman Ave	SJ	12	\$1,450,000		\$120,833
721-723 Menker Ave	SJ	8	\$1,300,000		\$162,500
2242 Curtner Ave	CA	7	\$1,250,000	12.3	\$178,571
444 Page St	SJ	8	\$1,140,000	9.3	\$142,500
497 Leigh Ave	SJ	8	\$1,060,000	12.0	\$132,500
3822 Seven Trees Blvd	SJ	7	\$1,060,000	12.2	\$151,429
30 S 8th St	SJ	10	\$995,000	7.7	\$99,500
420 S 7th St	SJ	6	\$959,900	11.1	\$159,983
355 S Willard Ave	SJ	9	\$920,000		\$102,222

Selected Silicon Valley Multifamily Property Sales

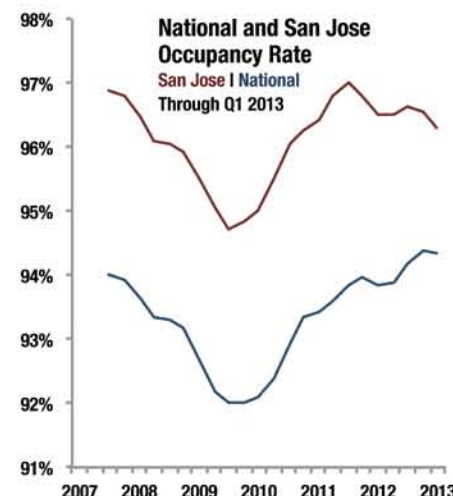
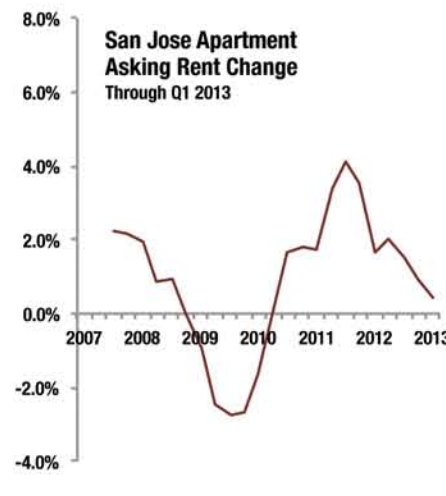
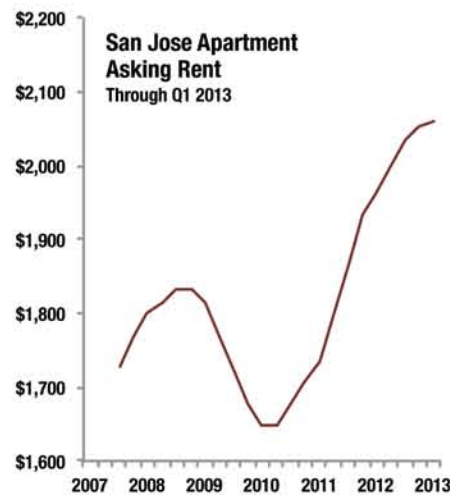
Michael Shields has been an apartment / investment broker specializing in the purchase and sale of multifamily properties in Silicon Valley since 2002. Focusing on buildings 4-100 units in size, he assists owners with 1031 exchanges into larger properties, triple-net leased properties, triple-net leased properties, or cash-out options. He also is an apartment building owner, manager & investor, with a focus of refurbishing older properties. (DRE 01327546)

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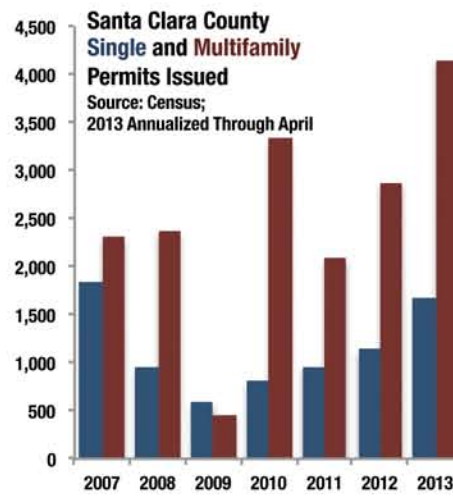
## SAN JOSE APARTMENT TRENDS



San Jose apartment cap rates in fell below 5 percent in the first quarter, more than 100 basis points lower than the statewide average. Property prices have been above construction cost for some time, prompting a sharp increase in development activity as far back as 2010. Multifamily permitting in Santa Clara County through April 2013 indicates a sustained surge in deliveries over the next several years.

Apartment rent growth is slowing as new buildings have eased some of Silicon Valley's occupancy pressure. Where vacancy rates have increased slightly, it reflects the impact of recent additions to the apartment inventory more than softening demand.

Investors should not be overly concerned about the slower pace of rent growth or the slightly higher vacancy rate. The market is stabilizing in the top tier of the national rankings. Even as fundamentals have slowed, concessions on new leases have turned negative, meaning that in a small but growing number of cases, tenants are paying above asking rent to secure their new apartment.



### Cap Rate Trends

Quarter	San Jose	California	National
Q1'10	6.1%	6.5%	6.9%
Q2'10	5.9%	6.4%	6.7%
Q3'10	5.7%	6.3%	6.6%
Q4'10	5.7%	5.9%	6.3%
Q1'11	5.7%	6.0%	6.3%
Q2'11	5.6%	5.8%	6.2%
Q3'11	5.5%	5.7%	6.1%
Q4'11	5.4%	5.6%	6.0%
Q1'12	5.2%	5.6%	6.1%
Q2'12	5.2%	5.8%	6.0%
Q3'12	5.1%	5.8%	6.0%
Q4'12	5.0%	5.7%	6.1%
Q1'13	4.9%	5.6%	6.0%

### Housing Trends and Apartments



House prices are rising rapidly in San Jose, reflecting the market's exceptional job growth as much as the broader national rebound.

Existing homeowners who are moving to another residence dominate home buying. For younger, first-time homebuyers, tight lending standards remain a challenge in exiting the rental market.

Market demographics support a strong outlook for rental demand. Santa Clara's population, employment, and incomes are all growing at a faster clip than the rest of California.

## PROPERTIES AVAILABLE FOR SALE

Contact Michael Shields  
408 354 7470



**8 Unit Multifamily in Aptos**  
Price: \$1,350,000

- 7362 Mesa Drive, Aptos, CA
- (8) 1 BR / 1 BA Units
- Plus Non-Approved (Rented) Cottage
- Over \$240,000 in Recent Capital Improvements
- Section 1 Clearance and More



**6 Unit Multifamily in Downtown San Jose**  
Price: \$1,489,000

- 256 N 3<sup>rd</sup> Street, San Jose, CA
- (6) Large 1 BR / 1 BA Units
- Excellent Condition, Many Amenities
- Many Capital Improvements
- Historic Building in Historic Hensley District



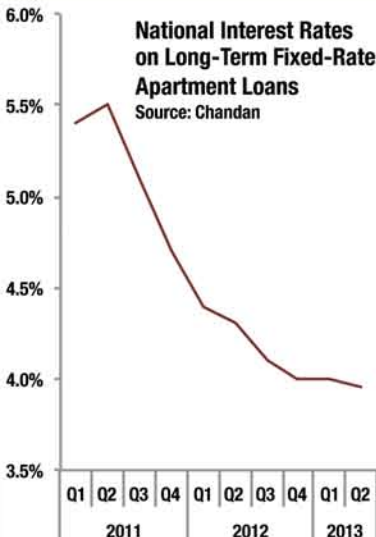
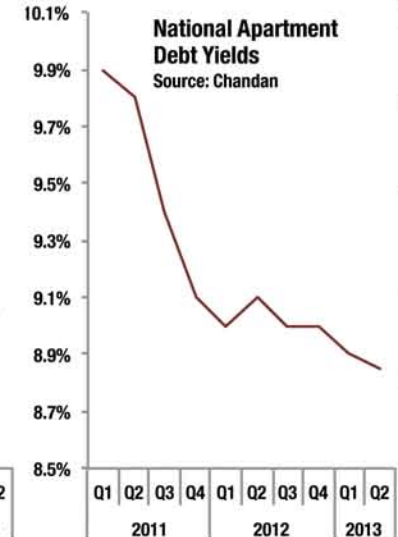
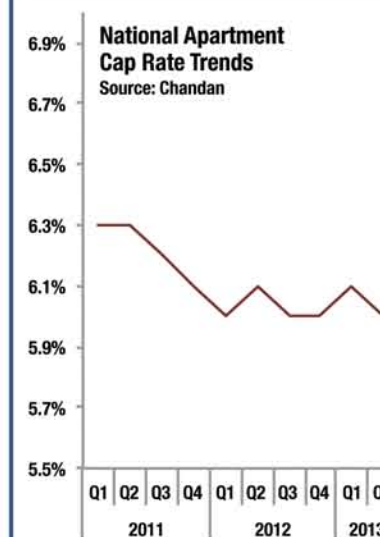
**23,000+ SF Retail Space in Reno**  
Price: \$1,850,000

- » 3405 Kietzke Lane, Reno, NV
- » Prime Location on Busy Major Street
- » Large and Visible Street Signage
- » Mature Landscaping and Sample Parking
- » Ready for Move In!



**2.6+ Acre Executive Estate Lot in Los Gatos**  
Price: \$1,975,000

- "The Top" of Top-of-the-Hill Road, Los Gatos, CA
- Residential Land Ready for Construction
- 360 Degree Views of Valley and Canyons
- Prime Site for Estate with Vineyards
- Los Gatos City Services



### Apartment Financing Costs in San Jose

#### Interest Rates

**3.9%**  
Long-Term Fixed-Rate

#### Spreads

**195**  
Basis Points  
Borrowing Cost Over 10-Year Treasury