

From the Desk of **Michael Shields**, CCIM, Managing Director

FALL 2015

The View from the Top (of the market)!

People always ask me, *“Are we at the top yet?”* Quickly followed by, *“How do you know?”*

There are certain telltale signs seasoned investors look for. And looking at the strong and steady indicators of the Silicon Valley multifamily market, I can say with confidence that we are indeed at the top of the market.

First, values are at an all-time high, driven by demand. Inventory is almost non-existent and capital remains cheap, which means banks are aggressively in the market to lend to those who are hot to buy. Values are also driven by income, and since rents have been on a continuous rise for the last four years, owners are reaping the benefits. Of course, rents are strong because of the sheer number of jobs! The local economy is very robust – among the strongest in the nation – and high-tech employees are in high demand.

Investors looking at Santa Clara and San Mateo Counties quickly gravitate to a few factors. First, our occupancy is almost permanently fixed at 97% or better. Even banks are now underwriting at a 3% vacancy rate, as opposed to the more traditional 5%.

Values are also exceptionally solid, approaching \$300,000 per unit for the combined Class A/B/C product types across Santa Clara and San Mateo Counties (with the caveat that price per unit varies wildly depending on condition and area). Like occupancy, rents are at a near all-time high, and still growing. The five-year average rent for studios is up almost \$400 to \$1,465 per month, one bedrooms are up \$837 to \$2,269 per month, and two bedrooms are up \$713 to \$2,473 per month.

This perfect storm of demand and value is further enhanced by institutional investors and international money flooding in from Asia – most notably, China. These buyers are watching the success of local leaders like Apple, Facebook, Google, LinkedIn and countless start-ups gone public or purchased

by larger players, and they parlay that into a verdict: When it comes to multifamily, Silicon Valley paints an undeniably positive economic picture, making it one of the most secure places in the world for investors to park their money.

A number of buyers are coming into the area and renovating and repositioning properties to take advantage of higher income employees looking for more appealing amenities. Indeed, with demand outstripping supply, it can be difficult for owners to keep rents up to market level. In my discussions with local owners, many are raising their rents 8% to 10% annually, yet they are still behind the market.

In truth, our market today looks much like the run-up to 2007. Interest rates have only one place to go, and the Fed is hinting of an increase in the Fall. Cap rates are also extremely low, with many larger properties trading at sub-4%.

The big question is: How much longer will this last? If the Fed raises rates (likely) the effect will be a dampening of values as capital becomes more expensive. Heading into an election cycle, much is calm now, but what will happen post-election? And we haven't even talked about the slowing Chinese economy or other world events.

If you're considering selling, is this the time? If you don't sell, are you in a position to hold through the next cycle? These are questions that owners should be asking themselves now.

If you fall into the potential seller category, I have a bevy of buyers ready to move on almost any size property. And for sellers wishing a quiet sale, I can even facilitate off-market negotiations that still land top dollar. Today's buyers are willing to consider all types of properties – from older assets with below-market rents and deferred maintenance to the true turnkey, trophy properties.



Leased Investment Profile: DaVita Dialysis

“The capital gains tax will kill me!” Sound familiar? I hear this often from owners who want to sell. With market inventory so tight, they want to know where they can place their money.

Many seek to transition into single tenant, net-leased investment, but sound investment opportunities are becoming few and far between. Finding a darling asset like Starbucks, Walgreens or another investment grade, national tenant property at anything above a 4.5% cap rate has become difficult. Remember the days of 6% cap rates?

Well, good news – I have found a net-leased investment that is in a strong financial position, expanding across the country, offering attractive returns and that appears to be virtually recession proof: DaVita Dialysis.

Funded by a combination of private insurance carriers and Medicare, DaVita (part of Fortune 500 company DaVita HealthCare Partners Inc.) is a leading dialysis services provider, treating patients with chronic kidney failure and end-stage renal disease.

DaVita operates more than 2,200 outpatient dialysis centers serving approximately 176,000 patients across the U.S. and 96 outpatient dialysis centers in 10 countries outside of the U.S. As the Baby Boomer demographic continues to age, these numbers are expected to continue to grow. Even Warren Buffett has invested heavily in the dialysis market, purchasing more than 17% of the company, with plans to buy more.

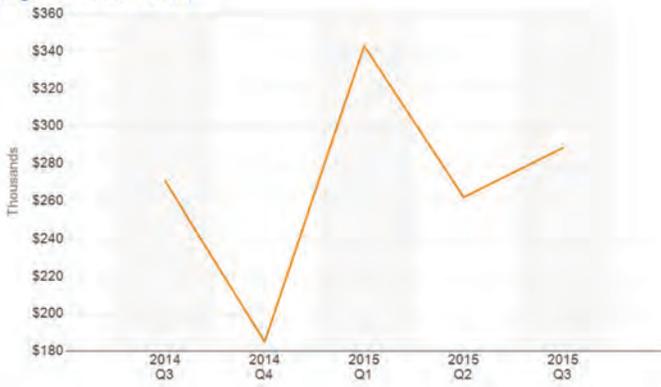
Thanks to a relationship with a leading DaVita Dialysis developer, I now have access to a number of hard-to-find off-market sites where buyers can expect attractive leases with cap rates at nearly 6% and a minimal escape clause scenario. If you are tired of the toilets, termites and tenants of multifamily ownership, call me today. These sites will not last long.

Contact Michael Shields at (408) 356-1900 or michael@svmultifamily.com.

San Jose/San Mateo Apartment Trends

Santa Clara County/San Mateo County PPU

Average Sale Price Per Unit



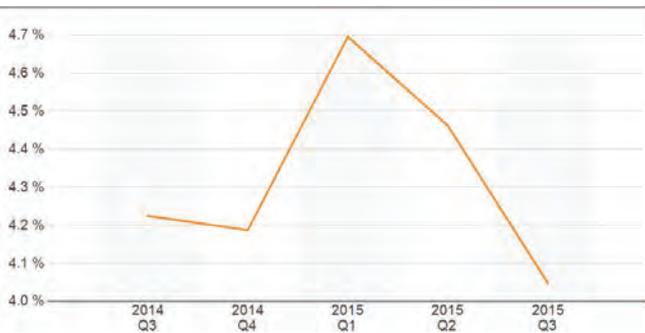
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8/9/2015

Santa Clara County/San Mateo County Sales

| Sales | Past Year | 5-Year Avg |
|-----------------------|-----------|------------|
| Sale Price Per Unit | \$300,645 | \$270,019 |
| Asking Price Per Unit | \$296,943 | \$267,059 |
| Sales Volume (Mil.) | \$900 | \$1,115 |
| Cap Rate | 4.4% | 4.7% |

CAP Rate



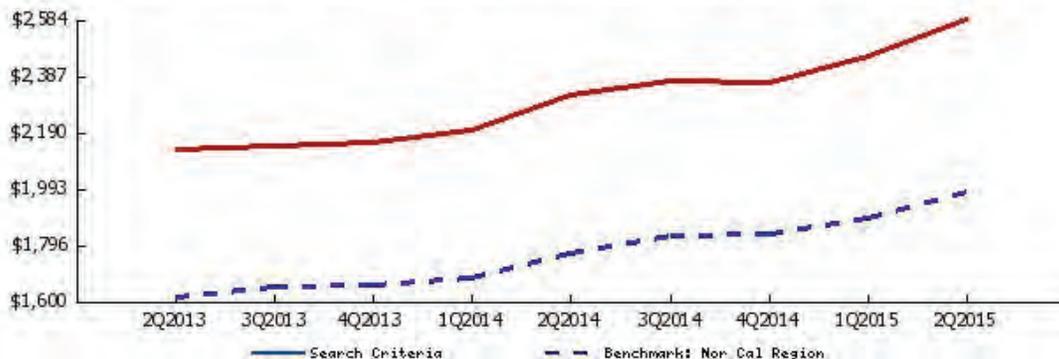
Occupancy & Vacancy

Occupancy & Rental Rates



Average Asking Rent - Santa Clara County

| Average Asking Rent | | | | | | | | | | |
|---------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------------|
| | 2Q2013 | 3Q2013 | 4Q2013 | 1Q2014 | 2Q2014 | 3Q2014 | 4Q2014 | 1Q2015 | 2Q2015 | 1 Yr. Change |
| AVERAGE | \$2,128 | \$2,140 | \$2,153 | \$2,197 | \$2,321 | \$2,369 | \$2,364 | \$2,457 | \$2,584 | 11.3% |
| studio | \$1,447 | \$1,514 | \$1,525 | \$1,557 | \$1,648 | \$1,716 | \$1,712 | \$1,749 | \$1,843 | 11.8% |
| 1bd 1bth | \$1,904 | \$1,919 | \$1,936 | \$1,978 | \$2,082 | \$2,135 | \$2,133 | \$2,218 | \$2,336 | 12.2% |
| 2bd 1bth | \$2,045 | \$2,059 | \$2,056 | \$2,095 | \$2,219 | \$2,261 | \$2,272 | \$2,356 | \$2,500 | 12.7% |
| 2bd 2bth | \$2,502 | \$2,467 | \$2,479 | \$2,533 | \$2,687 | \$2,700 | \$2,686 | \$2,808 | \$2,940 | 9.4% |
| 2bd TH | \$2,597 | \$2,677 | \$2,680 | \$2,688 | \$2,829 | \$2,884 | \$2,919 | \$2,980 | \$3,077 | 8.8% |
| 3bd 2bth | \$2,854 | \$2,893 | \$2,908 | \$2,989 | \$3,136 | \$3,315 | \$3,335 | \$3,375 | \$3,510 | 11.9% |
| 3bd TH | \$3,256 | \$3,450 | \$3,561 | \$3,505 | \$3,596 | \$3,700 | \$3,666 | \$3,709 | \$3,923 | 9.1% |



Properties Available for Sale

Bayview Apartments



- 33 Units: (4) 2/1 & (29) 1/1 Units
- Rarely Available Waterfront Property
- Partially Remodeled Units
- Substantial Upside Rent Potential
- Desirable Alameda Location

Price \$6,500,000

DaVita Dialysis



- Single Tenant, Net-Leased Investment
- Minimal Management Responsibilities
- Multiple New Sites Available
- Investment Grade National Company
- Excellent Cap Rates: 5.0% - 6.0%

Offered at \$2,400,000 - \$8,100,000

Salinas Apartments



- 8 Units in Salinas
- Completely Renovated in 2006
- Very Good Condition
- 6% Cap Rate!
- All 1 Bed/1 Bath Units

Price: \$890,000

King City Apartments



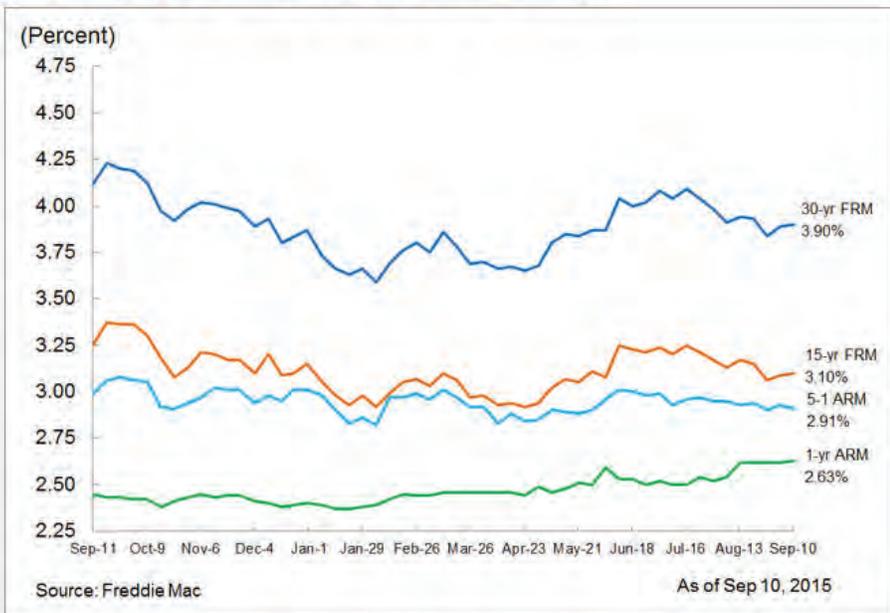
- 6 Units in King City
- 2004 Construction
- 6 Units: (4) 2/1 & (2) 1/1 Units
- Very Good Condition
- Turnkey Opportunity!

Call for Pricing!

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

Multifamily Interest Rates

Primary Mortgage Market Survey (U.S. Weekly Averages)



Sept. 17, 2015 – Information received since the Federal Open Market Committee met in July suggests that economic activity is expanding at a moderate pace. Household spending and business fixed investment have been increasing moderately, and the housing sector has improved further; however, net exports have been soft. The labor market continued to improve, with solid job gains and declining unemployment. On balance, labor market indicators show that underutilization of labor resources has diminished since early this year. Inflation has continued to run below the Committee's longer-run objective, partly reflecting declines in energy prices and in prices of non-energy imports. Market-based measures of inflation compensation moved lower; survey-based measures of longer-term inflation expectations have remained stable.

- Federal Open Market Committee

| Regional Breakdown | 30-Yr FRM | 15-Yr FRM | 5/1-Yr ARM | 1-Yr ARM |
|--------------------|-----------|-----------|------------|----------|
| Average Rates | 3.90 % | 3.10 % | 2.91 % | 2.63 % |
| Fees & Points | 0.6 | 0.7 | 0.5 | 0.3 |
| Margin | N/A | N/A | 2.74 | 2.74 |

**SILICON VALLEY
MULTIFAMILY GROUP**



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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.

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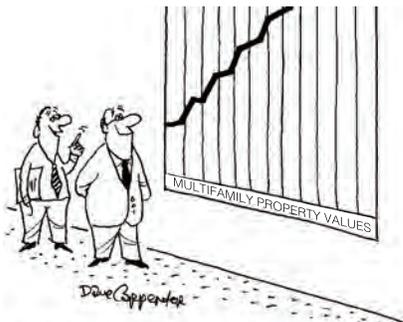
Properties Sold in Santa Clara & San Mateo Counties - Q2 2015

| Address | City | Units | Sale Price | \$/unit |
|----------------------------|---------------|-------|--------------|-----------|
| 471 Acalanes Dr | Sunnyvale | 45 | \$18,144,000 | \$403,200 |
| 180 Buckingham Ave | Redwood City | 48 | \$13,100,000 | \$272,917 |
| 1601 Santa Clara St | Santa Clara | 36 | \$11,900,000 | \$330,556 |
| 975 Boynton Ave | San Jose | 48 | \$11,835,000 | \$246,563 |
| 1331 Jefferson Ave | Redwood City | 30 | \$10,000,000 | \$333,333 |
| 466 S 5th St | San Jose | 35 | \$8,850,000 | \$252,857 |
| 330 Ventura Ave | Palo Alto | 15 | \$7,600,000 | \$506,667 |
| 3 Mulberry Ct | Belmont | 18 | \$7,425,000 | \$390,789 |
| 52 E 41st Pl | San Mateo | 20 | \$7,300,000 | \$365,000 |
| 2025 San Luis Ave | Mountain View | 17 | \$7,250,000 | \$426,471 |
| 2401 Carlmont Dr | Belmont | 16 | \$7,080,000 | \$442,500 |
| 15 Atherwood Ave | Redwood City | 17 | \$6,375,000 | \$375,000 |
| 910 Clinton St | Redwood City | 18 | \$6,050,000 | \$336,111 |
| 152 Lincoln Ave | Redwood City | 18 | \$5,300,000 | \$294,444 |
| 840 El Camino Real | Belmont | 14 | \$4,800,000 | \$342,857 |
| 1020 S 12th St | San Jose | 24 | \$4,800,000 | \$200,000 |
| 34 Broadway | Millbrae | 12 | \$4,488,000 | \$374,000 |
| 24 Kent Pl | Menlo Park | 6 | \$4,100,000 | \$683,333 |
| 1311 Mills St | Menlo Park | 8 | \$4,000,000 | \$500,000 |
| 755 9th Ave | Redwood City | 8 | \$4,000,000 | \$500,000 |
| 750 Meridian Way | San Jose | 8 | \$3,900,000 | \$487,500 |
| 939-949 Villa Ave | San Jose | 16 | \$3,875,000 | \$242,188 |
| 1110 Cypress Ave | San Mateo | 16 | \$3,800,000 | \$237,500 |
| 1220 Cortez Dr | Sunnyvale | 10 | \$3,600,000 | \$360,000 |
| 1433 Floribunda Ave | Burlingame | 5 | \$3,250,000 | \$650,000 |
| 615 Canyon Rd | Redwood City | 8 | \$2,900,000 | \$362,500 |
| 315 Beemer Ave | Sunnyvale | 7 | \$2,858,000 | \$408,286 |
| 20 Hobart Ave | San Mateo | 7 | \$2,820,000 | \$402,857 |
| 2991 - 3001 Magliocco Dr | San Jose | 12 | \$5,450,000 | \$227,083 |
| 1206 Bayswater Ave | Burlingame | 8 | \$2,400,000 | \$300,000 |
| 108 Hobart Ave | San Mateo | 6 | \$2,350,000 | \$391,667 |
| 615 Canyon Rd | Redwood City | 8 | \$2,300,000 | \$287,500 |
| 1535 Hess Rd | Redwood City | 7 | \$2,300,000 | \$328,571 |
| 100 Broadway | Los Gatos | 5 | \$2,100,000 | \$420,000 |
| 260 San Marco Ave | San Bruno | 6 | \$2,100,000 | \$350,000 |
| 809 Rollins Rd | Burlingame | 7 | \$2,100,000 | \$300,000 |
| 3532 Rolison Dr | Redwood City | 8 | \$2,080,000 | \$260,000 |
| 726 S 10th St | San Jose | 7 | \$1,795,000 | \$256,429 |
| 222-226 Hemlock Ave | Redwood City | 5 | \$1,750,000 | \$350,000 |
| 518-520 S Willard Ave | San Jose | 12 | \$1,705,000 | \$142,083 |
| 230 N 13th St | San Jose | 7 | \$1,700,000 | \$242,857 |
| 554 Lucerne Ave | Redwood City | 5 | \$1,660,000 | \$332,000 |
| 1052 Roewill Dr | San Jose | 8 | \$1,576,000 | \$197,000 |
| 95 N 8th St | San Jose | 8 | \$1,560,000 | \$195,000 |
| 561 S 7th St | San Jose | 6 | \$1,550,000 | \$258,333 |
| 202 N Delaware St | San Mateo | 5 | \$1,545,000 | \$309,000 |
| 741 S 3rd St | San Jose | 7 | \$1,490,000 | \$212,857 |
| 1200-1206 E Santa Clara St | San Jose | 7 | \$1,270,000 | \$181,429 |
| 430 N 2nd St | San Jose | 8 | \$1,235,000 | \$154,375 |
| 620 S 7th St | San Jose | 6 | \$1,175,000 | \$195,833 |
| 550 S 4th St | San Jose | 7 | \$1,125,000 | \$160,714 |

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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"And you'll be pleased to notice, sir, that we had to eliminate the top of the chart."