

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

FALL 2016

The Times They Are A Changin’

Silicon Valley and Peninsula multifamily properties have been some of the nation’s most popular property types for years, and demand across Class A, B and C communities is still very strong – as has been rent growth and value appreciation. Add in a low-interest-rate environment and we are seeing cap rates at sub-4 percent, even for Class C properties.

But make no mistake, we are past the peak.

After more than four years of double digit rent growth, Silicon Valley and the Peninsula’s multifamily sector are showing signs of softening. Units are taking longer to rent, more vacancies are coming to market and our rent growth streak has stabilized and actually started to reverse in some areas. The election and global events also create unknowns when it comes to domestic policies, as do worldwide economic stability and foreign investment activity – of which the Bay Area has always been a favorite.

With an interest rate hike by the Feds imminent, experts agree that it will be hard to avoid some degree of value erosion.

This is not to say that we’re in a bad market. But it is changing.

San Jose alone has ranked as a top ten U.S. multifamily market for years. Jobs and a high cost of housing have fostered an almost insatiable demand among Millennials and Baby Boomers. So has a “renter by choice” demographic that has local home ownership at its lowest level in more than half a decade. Factors like these have helped our local asking rents recover, and then push as much as 40 percent above their pre-recession peak.

Following a record-breaking 2015 for everything from rent growth and construction to sales volume, industry insiders still support a strong market prognosis through 2016, ending the year at an average sub-5 percent vacancy rate nationwide. After that, the outlook gets muddled...

Broadly speaking, our economy is robust. But there are quiet warning signs that – although unlikely to lead to a near-term recession – do indicate a leveling. For example, the large Bay Area tech companies that we’ve come to depend on aren’t hiring at the same pace, and in some cases are talking reductions.

The crazy thing is... Even in this softening market, cities are talking rent control!

At a time when rents are actually going to start falling, almost a dozen cities in the Bay Area are talking rent control. I was shocked when the San Jose City Council sidestepped widespread

recommendations earlier this year to pass a more stringent Apartment Rent Ordinance. And before we’ve been able to fully grasp even the fallout of this vote (and yes, there is fallout) the movement has spread.

Alameda, Burlingame, Campbell, Healdsburg, Lafayette, Mountain View, Pacifica, Richmond, San Mateo, Santa Rosa – each of these communities is at some stage of considering rent control. As a citizen, broker and owner, I have been a vocal opponent of this effort, and irate at the idea of the government trying to dictate fair market value.

While I applaud cities for wanting to provide solutions to our high cost of living, I abhor this illogical, knee-jerk policy that has proven only to lower property values, discourage investor interest, irrevocably weaken the quality of our multifamily inventory and actually decrease the number of affordable housing units available to those who truly need them. In the process, it places the burden of affordable housing solely on the shoulders of the building owner community.

Before it’s too late, I encourage you to take a deeper dive into this topic via my website: www.siliconvalleymultifamily.com, where you can access our recent rent control white paper and conversations I’ve had with publications such as The Registry, GlobeSt.com and the San Jose Mercury news. You can also stay up-to-date on local rent control initiatives via the California Apartment Association’s website: www.caanet.org. Then share your concerns with your city council, your friends and colleagues, and make your voice heard with a “NO” vote against the perfect storm that is rent control.

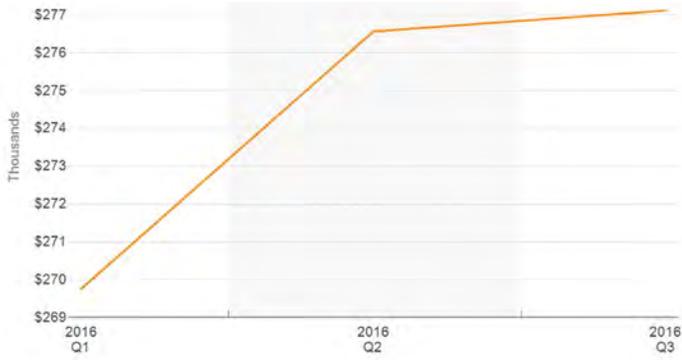
None of this is doom and gloom. But smart investors need to stay sharp.

In the natural real estate cycle, those empowered with knowledge are in the best position to balance risk with opportunity. In the face of rent control, owners need to be even more vigilant, keeping abreast of local initiatives and putting market-specific strategies to work, such as keeping rents at market rate. This has not been an easy thing to do during our years of rapid rent growth, but this one act could have a tremendous impact on your asset’s value.

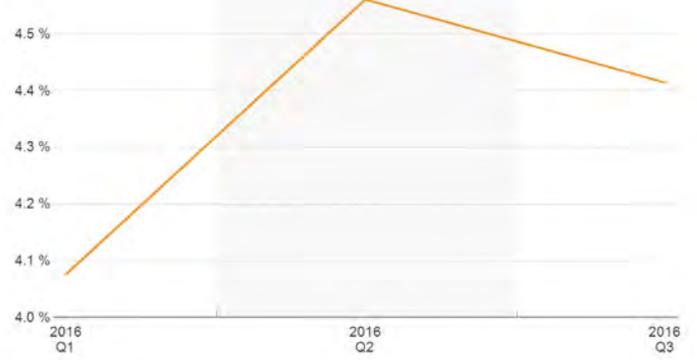
If you feel out-of-touch with market trends or if you have questions about a particular facet of the multifamily sector, call me today and I’ll bring you up to speed. And in a reference back to my last article... if you are considering selling in the next six to 12 months, don’t wait. Now is the time, while value and demand still sit at a near-historic peak, and interest rates remain favorable to potential buyers.

Santa Clara County Apartment Trends

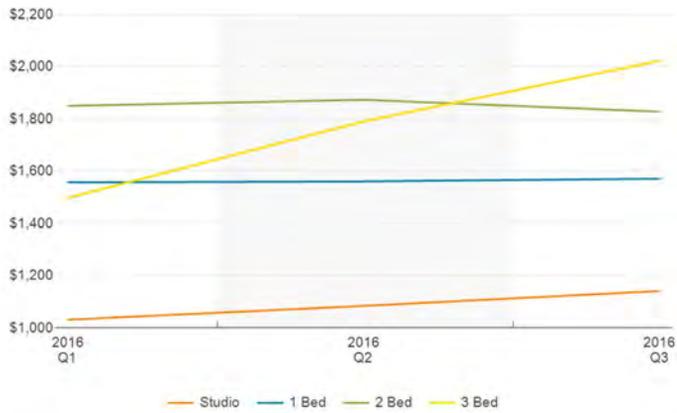
Price Per Unit



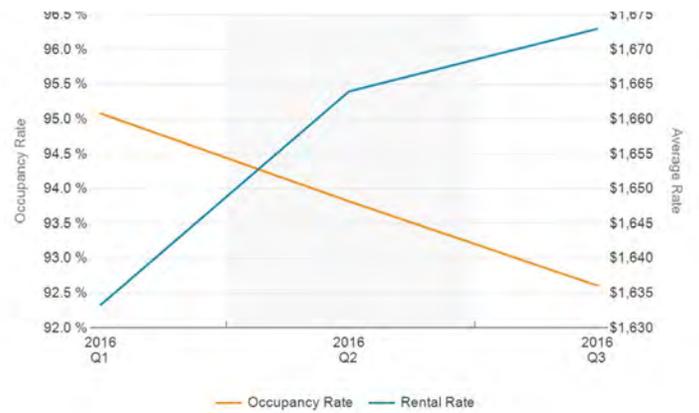
CAP Rate



Effective Rent By Unit Type

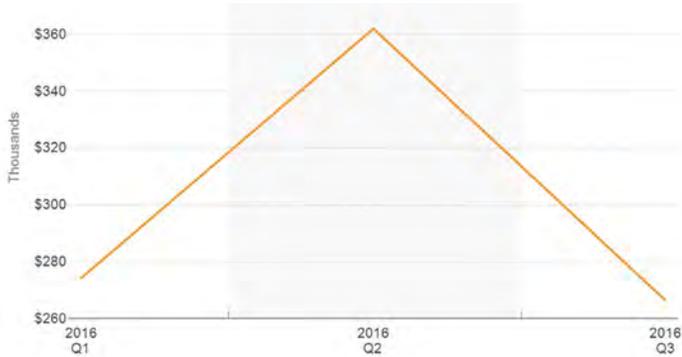


Occupancy & Rental Rates

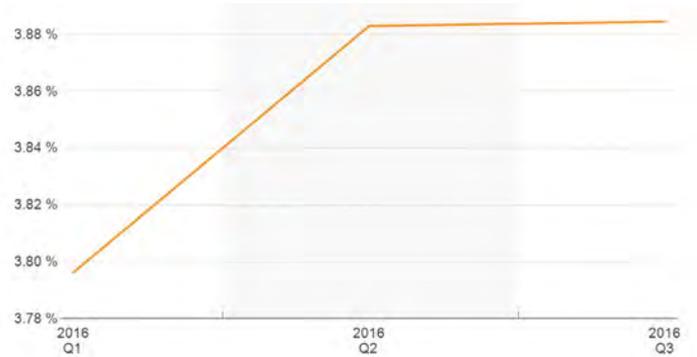


San Mateo County Apartment Trends

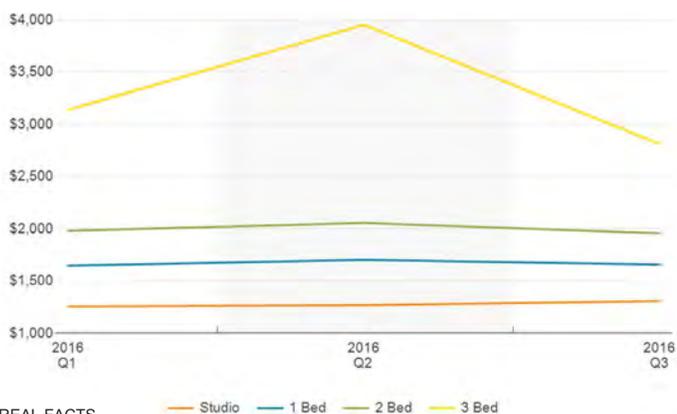
Price Per Unit



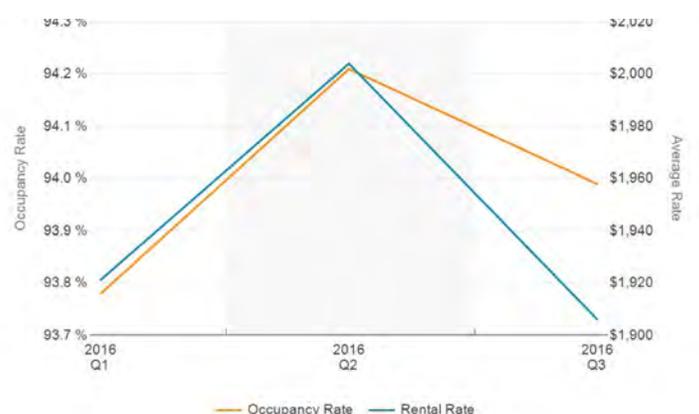
CAP Rate



Effective Rent By Unit Type



Occupancy & Rental Rates



Tom Woods Joins SVMG as Vice President, Investments Serving San Mateo County

A 30-year industry veteran, Tom Woods has joined Silicon Valley Multifamily Group as Vice President, Investments serving San Mateo County. In his new role, Tom applies deep expertise in real estate wealth management, income residential advisory and net leased investments, and 1031 exchanges and advisory services for SVMG clients. Tom has more than \$4.5 billion of direct and indirect transaction experience with deals ranging from major national investment entities to niche acquisitions, and wealth management to exchange space.

Across his career, he has helped convert 'active' equity to 'passive' equity in the net leased sector, largely assisting highly appreciated apartment owners 'sell high' and 'buy low', not only for yield but also for quality of life. Tom's depth in identifying vetted assets off market is paramount, given today's fast-moving NNN trading patterns.

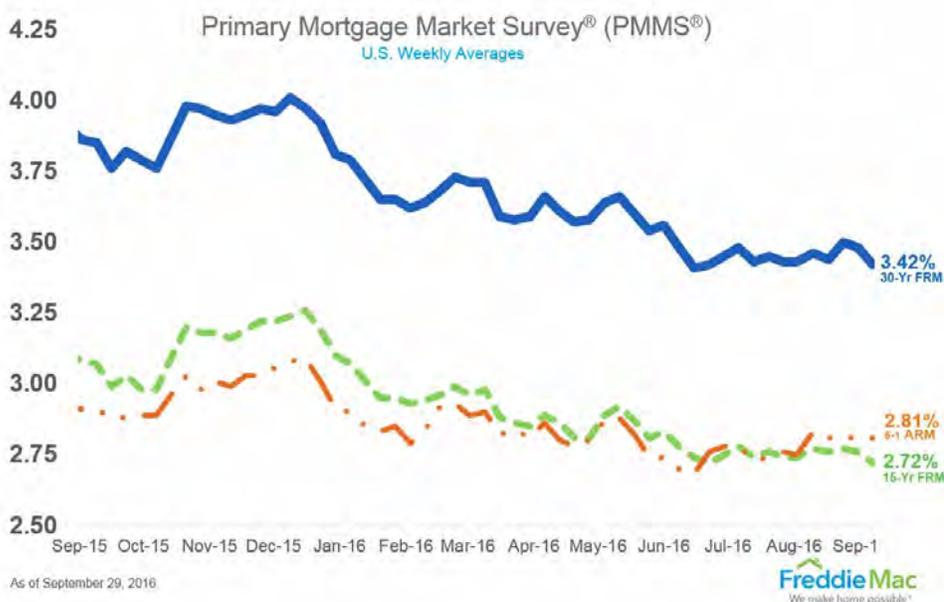
Prior to joining SVMG, Tom served in high-level brokerage and advisory positions at companies including Keller Williams Commercial, his own firm – Woods Loeb & Company, and a 12-year association with Moison Investment Company, where in 1997 he formed a separately owned entity, MIC East Bay Group, that enjoyed a dominant share of Bay Area market and affordable apartment sales. In 2002, he was recruited to open the Hendricks & Partners Northern California office, after which he returned to his position at Moison.

Tom entered the commercial real estate industry in 1982, holding positions in investment syndications, property management, asset management and finance at Landsing Property Company and Equitec Property Company. Prior to that, Tom was involved with the development of a revolutionary computer system at Triad Systems that led to a next-generation system at CAM Data Systems, resulting in an IPO in 1987. After the IPO, Fortune 500 firm MAI Basic Four recruited Tom to head a division as their national sales and marketing manager for a three-year stint.

Additional notable achievements have included top salesperson awards at Moison eight separate years, and at Woods Loeb & Company and CAM Data Systems five times. For three consecutive years, Tom led the largest individual multifamily transactions in Sonoma, Santa Clara and Alameda counties, and in 2015 participated in the largest multifamily sales in both Alameda and Santa Clara counties. He is a licensed California real estate broker and formerly licensed as a commercial appraiser. Tom also holds FINRA Securities Licenses Series 22 & 63. Education He is a graduate of the University of Colorado.



Multifamily Interest Rates



Federal Open Market Committee Analysis

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.

Source: Federal Open Market Committee

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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 – Q3 2016

Santa Clara County

Address	City	Sale Price	Units	\$/Unit
1150 Pedro St	SJ	\$15,360,000	51	\$301,176
225 Richfield Dr	SJ	\$10,100,000	37	\$272,973
3730 Moorpark Ave	SJ	\$9,280,000	32	\$290,000
283-301 Curtner Ave	PA	\$7,584,615	17	\$446,153
1277-1281 Ayala Dr	SU	\$7,047,000	16	\$440,438
2785 Homestead Rd	SC	\$6,750,000	19	\$355,263
2251-2277 Williams St	PA	\$6,400,000	11	\$581,818
991-997 Ravenscourt Ave	SJ	\$5,612,000	16	\$350,750
460 S 10th St	SJ	\$5,580,000	18	\$310,000
475-485 E William St	SJ	\$4,288,000	16	\$268,000
327 Curtner Ave	PA	\$4,015,385	9	\$446,153
283 Pamela Ave	SJ	\$3,600,000	12	\$300,000
1859 Joan Way	SC	\$3,050,000	9	\$338,889
95 Monroe St	SC	\$2,900,000	8	\$362,500
545 S 11th St	SJ	\$2,575,100	8	\$321,888
466 N 13th St	SJ	\$2,410,000	7	\$344,286
490 Page St	SJ	\$2,400,000	9	\$266,667
555 S 8th St	SJ	\$1,925,000	7	\$275,000
2243 Tomasina Ct	SJ	\$1,850,000	6	\$308,333
4612 Campbell Ave	SJ	\$1,650,000	7	\$235,714
7240 Hanna St	GY	\$1,630,000	8	\$203,750
7460-70 Rogers Ln	GY	\$2,400,000	10	\$240,000

San Mateo County

Address	City	Sale Price	Units	\$/Unit
36-70 Renato Ct	RC	\$16,500,000	56	\$294,643
180 Buckingham Ave	RC	\$15,000,000	48	\$312,500
2200 Village Ct	BMT	\$9,430,000	23	\$410,000
401 E Poplar Ave	SM	\$9,300,000	31	\$300,000
1120 Eaton Ave	SCAR	\$8,300,000	21	\$395,238
1019-1025 Laurel St	MP	\$5,695,000	8	\$711,875
479 Lincoln Cir	MLBR	\$4,700,000	9	\$522,222
1621 Sixth Ave	BMT	\$3,880,000	9	\$431,111
450-460 Laurel St	MP	\$3,800,000	6	\$633,333
1617 Sixth Ave	BMT	\$3,370,000	8	\$421,250
602 S Eldorado St	SM	\$3,365,000	6	\$560,833
1903 Middlefield Rd	RC	\$3,150,000	10	\$315,000
1926 Ivy St	SM	\$3,100,000	10	\$310,000
1065 Grand Ave	SSF	\$2,605,263	10	\$260,526
1059 Grand Ave	SSF	\$2,344,737	9	\$260,526
223 Lincoln Ave	RC	\$2,325,000	6	\$387,500
674 Grand Ave	SSF	\$1,925,000	7	\$275,000
537 Grand Ave	SSF	\$1,925,000	8	\$240,625
20 E 41st Pl	SM	\$1,720,000	6	\$286,667

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

Properties listed above were listings of brokerages throughout the area.

Silicon Valley Multifamily Group
401 Alberto Way, Suite 3
Los Gatos, CA 95032



"For the sake of full disclosure, I am obligated to inform you that this property is located on a planet besieged by war, poverty, disease, political unrest and rampant stupidity."