

## A Rising Tide...

The recession has officially ended for Silicon Valley, and that means that the worst is over. For multifamily owners and investors, the best news is that employment in the region has entered a growth stage, centering on... what else? High tech.

This trend can be seen in the number of companies hiring, notably: Facebook, Google, LinkedIn, Zynga, and Groupon, not to mention the hundreds of start-ups that are desperately seeking engineering talent. As one recruiter says, "The supply doesn't meet the demand."

Any student of real estate economics can tell you that jobs are what drive rents and values. People coming to an area for employment require housing. Couple this with Silicon Valley's characteristically high housing prices and the high number of homeowners-turned-renters who have been displaced due to foreclosures, and you get a multifamily market poised for the next phase of expansion. As a broker, property manager and Board Member for the Rental Owners Council of the California Apartment Association, I'm seeing this positive future manifest on both the rental and sales sides.

On the sales side... there is a notable increase in the number of properties coming to market, offers being tendered and contracts being forged. Because our resurgence has hit primarily within the last three months, we don't yet have formal data on its positive results. However, I personally have received offers on four of my last five listings, and new owners continue to contact me about listing their properties as well. My colleagues on the brokerage and escrow/title sides of the business are corroborating that same influx of new business.

The most recent statistics show that cap rates as of Q1 2011 had compressed approximately 100 basis points (one percentage point) from their market low in Q3 2009, and that gross rent multipliers increased approximately 50 basis points during this same time period.

We also are seeing more realistic buyers. The heady offers of the boom cycle and buyers looking for "a deal" are becoming few and far

between. Instead, investors want value and cash flow. Recently, a real estate syndicator told me that they were converting their "distressed asset" fund into a "value-add" fund, meaning if they can't buy distressed properties, they'll buy the next best thing.

Yet while it's good that offers are rolling in and transaction volume is up, don't expect multifamily values to rise anytime soon. Pricing has been reset—in some cases to 2005 levels—and it will take a sharp improvement in rent and investor demand for values to rise again. The good news is that we definitely are on the right path.

On the rental side... the story is equally encouraging. Rents are rising due to increased employment, renters facing the fallout of foreclosure, and a decrease in new multifamily construction for three straight years. Many owners, from all areas of Santa Clara County, have raised their rents at a rate of \$25—\$100 per unit. While some do not signify a rate increase on existing tenants, nearly all represent increased rents on newly vacant units. In my personal dealings, I have raised rents in all of the units I manage, and at a recent meeting of the Rental Owners Council watched as at least 80 percent of the 75 owners in attendance responded yes when asked if they had done the same in the last month.

This, of course, bodes well for occupancy rates, which are averaging 96.6 percent (average vacancy rate of 3.4 percent). Additionally, it is taking just 1—4 weeks for owners to turn a vacant unit, depending on the work required and the stringency of their new tenant parameters.

So what does this mean for you? In a nutshell, conditions have finally improved to a point where it is realistic to make a buy or sell move. Beyond positive employment, occupancy and rental rates, interest rates are also still down and values have stabilized. The next growth cycle is coming. As my experience—and that of other seasoned investors—illustrates, the time to set yourself up for that opportunity is now.



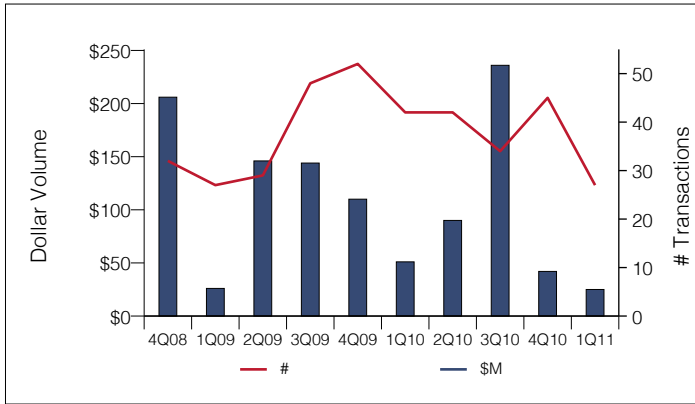
## Many Triple-Net, Leased Investment Properties Available

At the market's peak in 2007, closing a deal with a cap rate of anything over 9 percent for a national tenant with a respectable Moody's investment grade was unheard of. Not so today. There are now literally hundreds of these properties available throughout the country. The impetus? Developers who built quality, for-lease single- and multi-tenant retail space at break-neck speed during the boom, then delivered just as market values tanked. Until recently, market fundamentals forced builders to hold these assets, tying up needed capital for new projects.

Ranging from \$1 million to \$9 million, these newly available properties are typically well leased to nationally ranked and reputable companies like Walgreens, CVS, Starbucks and Jiffy Lube. They also can be obtained at cap rates ranging from 6.5 percent to 9 percent. I recently transitioned a long-time client from a multifamily portfolio (he'd had enough of apartment management—a so called "Passive Investment" by the IRS) into a leased investment with a cap rate of 9.4 percent.

Due to high supply, low demand, low prices and low interest rates, this type of buying opportunity is exceptional, but it is not expected to last. The best odds are with quick-acting investors who can use the low rates being offered by institutions to reposition their funds from investments earning less than 2 percent into those backed by real estate, offering greater than nine percent. My firm is always standing by, should you want to discuss further.

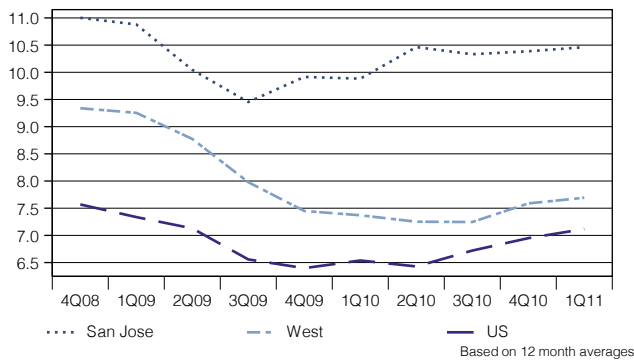
## Apartment Transaction Trends



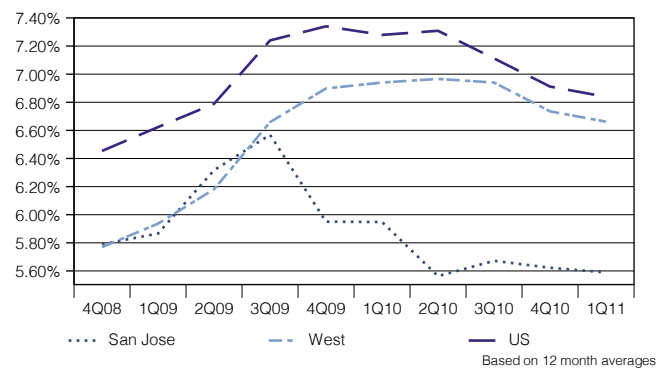
## Metro Transaction Comparison

	Dollar Volume (M)	# Units	# Transactions
Los Angeles	\$282	1,863	131
Denver	\$247	2,490	20
Phoenix	\$227	3,880	24
San Francisco	\$136	814	58
San Diego	\$124	860	50
Oakland-East Bay	\$40	283	19
Ventura County	\$39	171	2
Orange County	\$36	204	34
<b>San Jose</b>	<b>\$25</b>	<b>154</b>	<b>27</b>
San Bernardino/Riverside	\$23	427	10
Other West	\$48	768	23
<b>West Total</b>	<b>\$1,227</b>	<b>11,914</b>	<b>398</b>

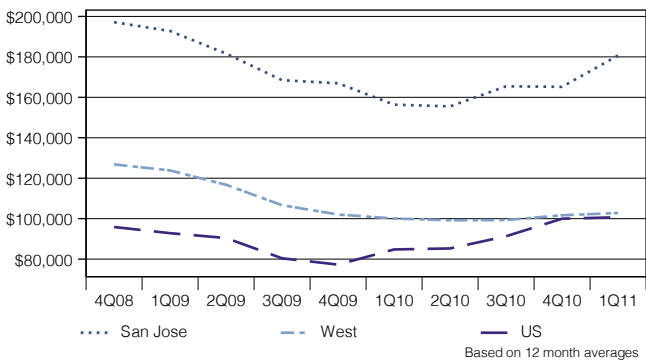
## Gross Rent Multiplier Trends



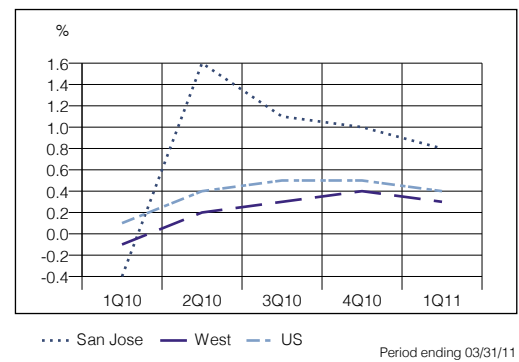
## Cap Rate Trends



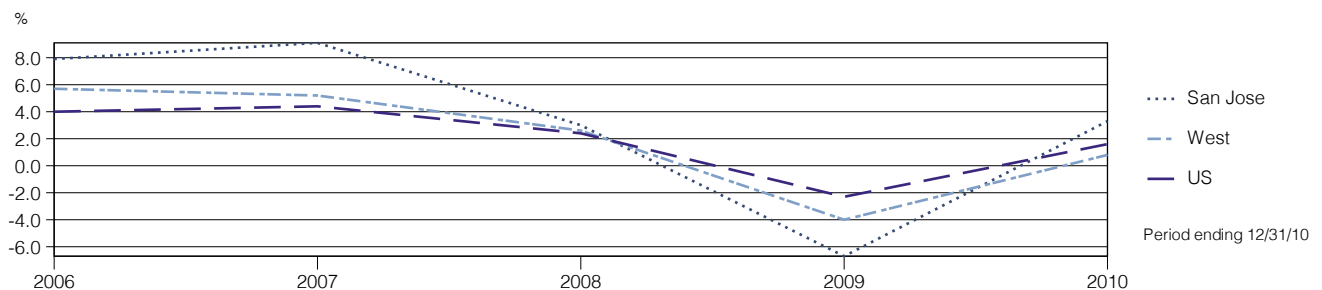
## Weighted Average Price Per Unit Trends



## Quarterly Rent Growth Rate Trends



## Asking Rent Growth Rate Trends



**4 Units in Sunnyvale, CA**



- (3) 2/1 Units & (1) 2/1.5 Unit
- Renovated
- Carports & Laundry Room
- Excellent Rental Location
- <http://sale.svn.com/grandfir>

Offered at \$865,000

**Office Condo in San Jose, CA**



- 1,144 sf with Offices, Work, Storage Area
- Class B Professional Office Building
- Corner Office Unit with Windows
- Short Sale with Lender Consent
- <http://sale.svn.com/airtechcondo>

Offered at \$225,000

**8 Units in Downtown San Jose, CA**



- (8) 1/1 Units
- Walking Distance to SJ State University
- Fully Occupied
- Upside Rent & Laundry Income Potential
- <http://sale.svn.com/132ereed>

Offered at \$875,000

**6 Units in Campbell, CA**



- (6) 2 /1 Units with Garages & Storage
- Good Condition
- Numerous Capital Improvements
- Below Market Rents=Upside Potential
- Desirable Rental Area
- <http://sale.svn.com/tomasina>

Offered at \$875,000

**Contact Michael Shields at (408) 354-7470 for information on the above properties.**

Financial Market Update

**Nationwide Multi-Family Rates (As of June 13, 2011)**

MULTI-FAMILY-NATIONWIDE			
Small Portfolio (\$500,000 to \$3M+)			
Max LTV	Fixed Term	Rate	Max. Amort.
Purchase - up to 75%	Floating	TBD	30
	5-year	3.59% - 4.01%	30
Rate/Term Refinance - up to 75%	7-year	4.24% - 4.66%	30
	10-year	4.76% - 5.18%	30
	15-year	5.62% - 6.04%	30
	20-year	5.38% - 5.80%	20
Cash-Out Refinance - up to 70%	30-year	6.25% - 6.67%	30
Large Portfolio - Non-Recourse (\$3M to \$20M+)			
Max LTV	Fixed Term	Rate	Max. Amort.
Purchase - up to 75%	Floating	TBD	30
	5-year	3.49% - 3.91%	30
Rate/Term Refinance - up to 75%	7-year	4.14% - 4.56%	30
	10-year	4.66% - 5.08%	30
	15-year	5.52% - 5.98%	30
	20-year	5.28 - 5.70	20
Cash-Out Refinance - up to 75%	30-year	6.15% - 6.57%	30
Special Products (All Product Types)			
Program	Fixed Term	Rate	Max. Amort.
Bridge / Private Money (up to 75% LTV)	1-3 year	7.99% - 12.00%	Interest-Only

**For More Information on Loan Programs and Prevailing Rates contact:**

**Michael Shields**

**408-354-7470 \* [michael.shields@svn.com](mailto:michael.shields@svn.com)**



## Michael Shields, CCIM

Managing Director  
michael.shields@svn.com  
(CA DRE 01327546)

**(408) 354-7470**  
[www.svn.com](http://www.svn.com)

**Michael Shields, CCIM**, is a licensed Broker and the Managing Director for Sperry Van Ness / SV Income Properties, Inc., a commercial real estate investment firm specializing in buying and selling multifamily properties in Silicon Valley. As a Certified Commercial Investment Member (CCIM), Shields also assists clients on a nationwide basis in repositioning funds tied up in underperforming, management-intensive multifamily properties into other commercial property types, such as triple-net leased investments. In addition to his more than 20 years of sales and marketing experience, Shields also owns rental properties and manages multifamily properties on behalf of clients.

© 2011 Michael Shields. All Rights Reserved.

## Santa Clara County Apartment Properties SOLD (July-December 2010)

Address	City	Units	Price	\$/unit	GRM	Cap Rate
101 E San Fernando St	San Jose	323	\$59,600,000	\$184,520		5.0
275 Union Ave	Campbell	264	\$42,500,000	\$160,985	10.4	5.4
383 Vista Roma Way	San Jose	231	\$54,000,000	\$233,766		5.0
373 River Oaks Cir	San Jose	226	\$50,300,000	\$222,566		5.2
3707 Poinciana Dr	Santa Clara	156	\$26,000,000	\$166,667	10.1	3.9
555 Umbarger Rd	San Jose	149	\$14,300,000	\$ 95,973	10.5	5.5
8575 Church St	Gilroy	48	\$ 4,900,000	\$102,083		5.8
630 Taylor Ct	Mtn View	24	\$ 2,432,000	\$101,333		
1020 Elm St	San Jose	23	\$ 2,050,000	\$ 89,130	9.3	6.9
2765 Homestead Rd	Santa Clara	19	\$ 2,350,000	\$123,684		6.3
3131 Cadillac Dr	San Jose	18	\$ 1,975,000	\$109,722		
1101 Noel Dr	Menlo Park	16	\$ 4,460,000	\$278,750	13.4	4.5
2748 Kollmar Dr	San Jose	16	\$ 1,750,000	\$109,375		
1978 Bellomy St	Santa Clara	14	\$ 1,800,000	\$128,571	10.0	5.5
28-30 N Jackson Ave	San Jose	14	\$ 1,700,000	\$121,429		6.7
358 N 7th St	San Jose	13	\$ 1,650,000	\$126,923		
457-481 Forest Ave	Palo Alto	12	\$ 3,047,500	\$253,958		
339-343 Willow St	San Jose	12	\$ 1,200,000	\$100,000	8.8	6.5
265-271 N 6th St	San Jose	12	\$ 1,022,500	\$ 85,208	10.5	6.0
69-81 Jose Figueres Ave	San Jose	12	\$ 915,000	\$ 76,250		
3559 Agate Dr	Santa Clara	11	\$ 1,400,000	\$127,273		
1481 Fremont St	Santa Clara	10	\$ 1,369,000	\$136,900		7.0
1678 Monroe St	Santa Clara	10	\$ 1,280,000	\$128,000		
557-571 Lytton Ave	Palo Alto	8	\$ 1,775,000	\$221,875	27.2	
2356 Sutter Ave	Santa Clara	8	\$ 1,015,000	\$126,875	11.9	5.6
906 Del Mar Ave	San Jose	8	\$ 697,000	\$ 87,125		
164 Michael Dr	Campbell	6	\$ 1,135,000	\$189,167	11.3	5.6
748 Carmel Ave	Sunnyvale	6	\$ 908,000	\$151,333		
2351 Sutter Ave	Santa Clara	6	\$ 802,000	\$133,667		5.0
1645 Mercy St	Mtn View	5	\$ 1,150,000	\$230,000	12.1	6.0
436 S 6th St	San Jose	5	\$ 750,000	\$150,000		
860 El Cerrito Way	Gilroy	5	\$ 550,000	\$110,000		
850 El Cerrito Way	Gilroy	5	\$ 550,000	\$110,000		
1588 Blossom Hill Rd	San Jose	4	\$ 680,000	\$170,000		
16150 Keith Way	Morgan Hill	4	\$ 620,000	\$155,000		
1179 Mesa Dr	San Jose	4	\$ 535,500	\$133,875		
127 W 9th St	Gilroy	4	\$ 485,000	\$121,250		
1352 Dubert Ln	San Jose	4	\$ 450,000	\$112,500		
110 Roundtable Dr	San Jose	4	\$ 450,000	\$112,500		
1011 Locust St	San Jose	4	\$ 450,000	\$112,500	10.1	6.8
1409 Dubert Ln	San Jose	4	\$ 399,749	\$ 99,937		
1566 Crucero Dr	San Jose	4	\$ 385,000	\$ 96,250		
1401 Dubert Ln	San Jose	4	\$ 350,000	\$ 87,500		
110 Roundtable Dr	San Jose	4	\$ 348,189	\$ 87,047		

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

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

900 E. Hamilton Ave., Suite 100  
Campbell, CA 95008

