



GALLELLI REAL ESTATE

MULTIFAMILY NEWSLETTER

DECEMBER 2017

2017 Wrap-Up and 2018 Forecast

The Sacramento apartment market's red-hot rent growth streak continued in 2017, as local rents climbed and investors continued to snatch up any available product. Limited new development and increased population growth continued to drive up local rents, which currently stand at \$1,359 per month for all size units. Sacramento remains #1 in the nation for year-over-year rent growth, a distinction it has held since June 2016. Local rents have increased 8.2% over the last 12 months and 48.8% over the last five years. Local apartment vacancy has seen minimal fluctuations but has remained firmly in the 1% to 3% range for the last two years.

Local investment activity was also strong throughout the year, as the continually tightening market conditions remained a huge draw for both local and regional investors. The market saw a few Class A sales during the year, including the sale of some of the region's newly built assets including Eviva Midtown and the Landing at College Square in Elk Grove, both of which completed in 2016. Though there were a few Class A sales during the year, most local Class A owners have been holding onto their properties. As such, the majority of annual investment activity focused on whatever Class B and C product investors could find.

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Year-to-date, the largest investment transaction was the November sale of The Element, a 288-unit, Class A, nearly 800-bed student housing complex located in Sacramento, which sold for \$81.8 million or \$284,323 per unit. Eviva Midtown, which sold in Q3, fetched the highest price-per-unit in the region, selling for approximately \$420,000 per unit (which includes the retail portion of the property and an approximate annual tax credit of \$300,000). On a year-to-date basis, the region recorded over \$943.3 million in total sales volume over 83 transactions, with an average price per unit of \$154,946 for all classes of product. Class A product has averaged \$286,349 per unit in 2017; Class B has averaged \$125,661 per unit; and Class C has averaged \$95,644 per unit.

What can investors expect from the Sacramento apartment market in 2018? Much of the same. New development will remain limited – local rents are rising, but so are the costs of permit fees, building materials and labor, which has made developers reluctant to start new suburban projects. Rising single-family home prices and stagnant income growth has created even higher demand for rental properties, especially Class B and C properties, as these are more affordable for tenants to rent and investors to purchase and own. Investment demand will stay strong, though momentum may slow somewhat, as available product is becoming scarce in the region.

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SIGNIFICANT Q4 APARTMENT SALES

NAME / ADDRESS	PRICE	# OF UNITS	PRICE/UNIT	PRICE PSF	SALE DATE	YEAR BUILT
The Element 6730 4th Avenue Sacramento, CA 95817	\$81,885,000	288	\$284,323	\$312.29	11/3/2017	2004
Landing at College Square Apartments 7640 W Stockton Blvd Sacramento, CA 95823	\$59,000,000	270	\$218,519	\$252.14	10/31/2017	2016
Wolf Ranch 7200 Jacinto Avenue Sacramento, CA 95823	\$35,000,000	160	\$218,750	\$179.49	10/2/2017	2008
Waterford Cove 7650 Windbridge Drive Sacramento, CA 95831	\$33,800,000	188	\$179,787	\$208.06	10/13/2017	1988
Lincoln Manor Apartments 150 Lincoln Avenue Woodland, CA	\$11,000,000	133	\$82,707	\$142.52	10/11/2017	1964

*Based on gross SF includes interior corridors, garages and tenant storage.

SELECTED TRANSACTION DETAILS

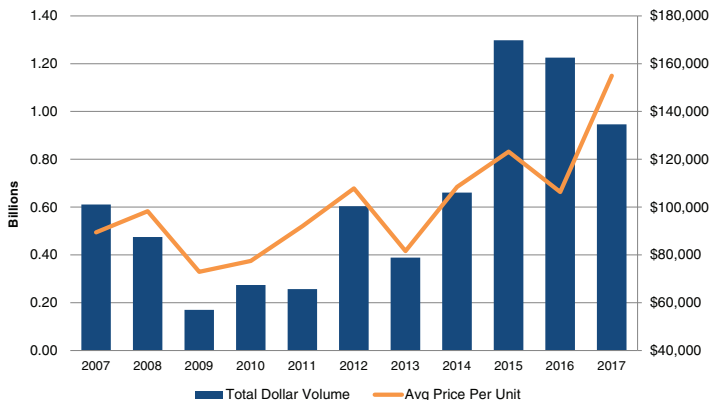
The Element 6730 4th Avenue, Sacramento

The Element, a 288-unit, 792-bed, student housing project has traded for the third time in the last four years. Located approximately $\frac{3}{4}$ of a mile south of the Sacramento State University campus, the Element is one of the newer student housing projects catering to Sacramento State students. The price of the asset skyrocketed from February 2013, when it traded for \$37,000,000, to the most recent price of \$81,885,000. During this time, the cap rate compressed from 6.75% to 5.20%. Student housing projects, with their ability to increase rents much faster than traditional multifamily properties, continue to be a very actively traded product across the country.

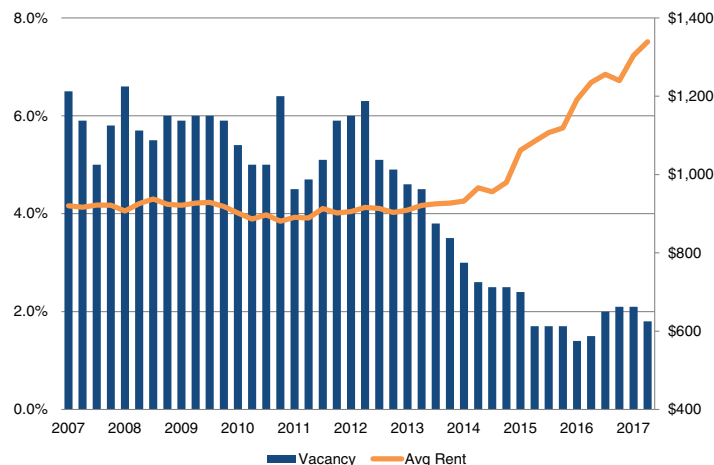
The Landing at College Square, 7640 W Stockton Blvd Sacramento

The Landing at College Square sold for approximately \$59 million or \$218,500 per unit. The property is located in close proximity to Cosumnes River College but it is not a student housing project. The asset was sold just a year after completion and reflects a growing trend among Class A investors of trying to tie up properties before traditional stabilization. The lack of availability of Class A assets has continued to drive investors to become more aggressive in both pricing and the amount of lease-up risk they are willing to assume when purchasing newly constructed properties.

2017 YTD MULTIFAMILY INVESTMENT SALES VOLUME



HISTORICAL VACANCY & AVERAGE RENTAL RATE GROWTH



CA LANDLORD UPDATES

AB 646 – Flood Zone Notification

This bill was signed into law by Gov. Brown in October and requires landlords with “actual knowledge” that is or her property is in a flood-hazard area to disclose this information to prospective tenants. Property owners with actual knowledge include those notified by a government agency, as well as owners required to carry flood insurance for the property. Beginning July 1, 2018, owners will have to make this disclosure in the rental agreement.

AB 291 – Immigrant Tenant Protection Act

This bill was signed into law by Gov. Brown in October and cracks down on rental property owners who discriminate against tenants based on immigration status. Under this bill, a landlord could face civil penalties if he or she attempts to influence a tenant to vacate the dwelling unit or attempts to recover possession of the dwelling unit based on the individual’s immigration status. The legislation offers protections against evictions for tenants whose landlords demand to see Social Security numbers or other validating documents after the landlord previously approved the tenant for occupancy with or without that information.

AB 1008 & AB 168 – Employment Discrimination

Under this pair of bills signed by Gov. Brown in October, it will be illegal for California employers to ask certain questions of prospective hires. AB 1008 makes it illegal for an employer with five or more employees to include on an employment application any question seeking disclosure of an applicant’s criminal history, and will also bar employers from asking an applicant about any convictions until the employer makes a conditional job offer. Under AB 168, employers cannot ask about a job applicant’s salary history. Moreover, the bill bans employers from relying on such information in deciding how much to pay a prospective hire. Source: Caanet.org

ON THE MARKET / NEW DEVELOPMENT

We are tracking 7 complexes over 40 units that are currently on the market. These complexes range in price from \$9 million to \$34 million and are located in Sacramento, Folsom and Fair Oaks. We are also tracking off-market transactions of properties 50 units or greater, as well as current multifamily construction and planned developments throughout the four-county region. Please contact our multifamily experts to learn more about any of these transactions or new developments.

MULTIFAMILY TEAM



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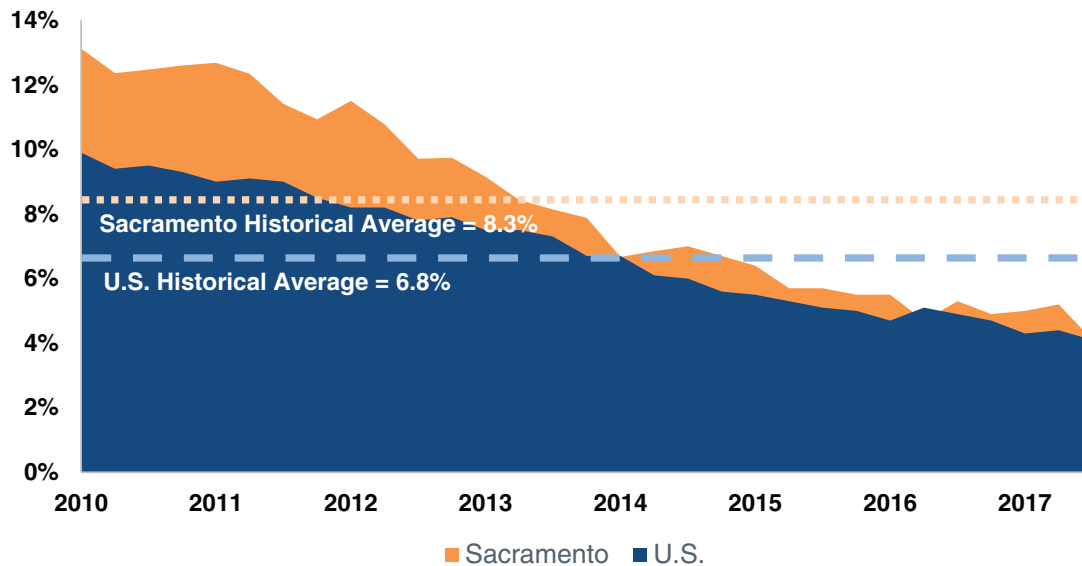


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EMPLOYMENT TRACKER - DECEMBER 2017



ABOUT GALLELLI REAL ESTATE

Multifamily Team

Gary Gallelli, Pat Ronan, and Lauren Godbee specialize in the sale of multifamily investment real estate. The team has assisted many financial institutions and investors throughout the US with assets on the west coast and have fulfilled transactions in California, Washington, Nevada and Arizona. With a deep understanding of real estate fundamentals and an intimate knowledge of local, regional, and national markets, Gallelli Real Estate is committed to providing clients with the highest commitment of service and expertise in the industry.



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