

GALLELLI REAL ESTATE

MULTIFAMILY NEWSLETTER

MAY 2016

Multifamily Pricing - A's vs. B's/C's

Sacramento's multifamily investment market continues to be on fire, as high job growth and lack of new development continue to fuel rental rates, which are now at an all-time high in the region. While Class A multifamily product has been the investment of choice among regional and institutional investors, Class B and C product are also seeing activity. What's interesting, however, is that we are seeing a large discrepancy between the pricing of Class A assets and Class B/C assets. Class A assets have typically been averaging over \$200,000 per unit; Class B assets are averaging in the neighborhood of \$125,000 per unit; and Class C assets are seeing \$75,000 or less per unit. These numbers may change, however, as the number of Class A projects on the market has steadily declined - currently, there are less than 5 Class A projects for sale in the region. Regional and institutional investors may turn to Class B projects as an alternative, as these can easily be upgraded then leased out for higher rents.

“New regulations and increased building costs have also helped to hinder local development.”

Where's the New Development?

In other markets across the country, high job and income growth have fueled rental rates, and the high rents and low vacancy have led to increased multifamily development. We have not seen this in the Sacramento market, however. Lack of new multifamily development across the region has been one of the largest motivators behind local rental rate growth. While new development isn't entirely nonexistent - we are currently tracking 10 projects under construction - the problem is that these projects consist mostly of high-profile projects Downtown (Eviva, Ice Blocks) or low-income/senior housing. These projects combined will only add a total of 1,700 units to the overall inventory, which is not nearly enough to help satisfy current demand levels.

New regulations and increased building costs have also helped to hinder local development. Though lawmakers are working on legislation to help deal with the anemic development, with little new development in the pipeline, we anticipate the apartment market will remain strong and competitive for the foreseeable future.



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SIGNIFICANT APARTMENT SALES

NAME / ADDRESS	PRICE	# OF UNITS	PRICE/UNIT	PRICE PSF	SALE DATE	YEAR BUILT
University Village Sacramento 7767 La Riviera Drive	\$23,675,000	251	\$94,700	\$127.98	3/25/2016	1975
Oak Pointe Apartments 2450 Seamist Drive	\$21,250,000	216	\$98,380	\$124.38	3/17/2016	1985
Wong Center 331 J Street	\$20,000,000	N/A	\$106,952	\$106.72	3/28/2016	1973
Twelve55 Living 1255 University Avenue	\$18,500,000	123	\$150,407	\$191.71	3/15/2016	1958
Park Village Apartments 5761 Shannon Bay Drive	\$6,000,000	44	\$136,364	\$151.52	4/29/2016	1988

SELECTED TRANSACTION DETAILS

Wong Center - 331 J Street

331 J Street is arguably one of the most recognizable buildings in all of Downtown Sacramento. Located on J Street, just off the primary freeway off-ramp leading into downtown, the mixed-use property includes over 17,000 square feet of office and retail space on the ground floor and 187 apartment units in the 11 stories above. The asset is a HAP-contracted property making it a highly sought after asset among tax credit purchasers. The property was originally put into contract nearly four years ago but was tied up in a legal fight between the family members who owned the property. The lawsuit was finally dropped after mounting legal expenses. The new owner plans to continue operating the project as Section 8 low-income senior housing.

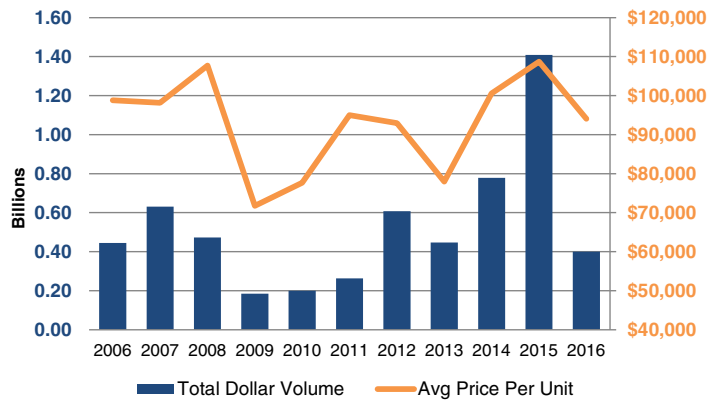
Twelve55 - 1255 University Avenue

The 123-unit Twelve Fifty Five (formerly University Gardens) was purchased by JCM Properties in January of 2014 for \$8.675M or \$70,528/unit. The property is located near CSU Sacramento and caters to mostly college students. However, JCM recognized an opportunity to rehab the project and rent out the units by the bedroom, as is typical at many student housing complexes. By undertaking this, JCM was able to increase rents by several hundred dollars per unit. The project most recently sold in March 2016 for \$18.5M or \$150,407 per unit. Deals are very tough to come by these days in Sacramento, as fundamentals are very sound and demand for investment properties is extremely hot. This deal shows that those willing to think outside the box can still find significant value in our marketplace.

For more information on the other apartment transactions, please contact our office 916 784 2700.

SALES VOLUME

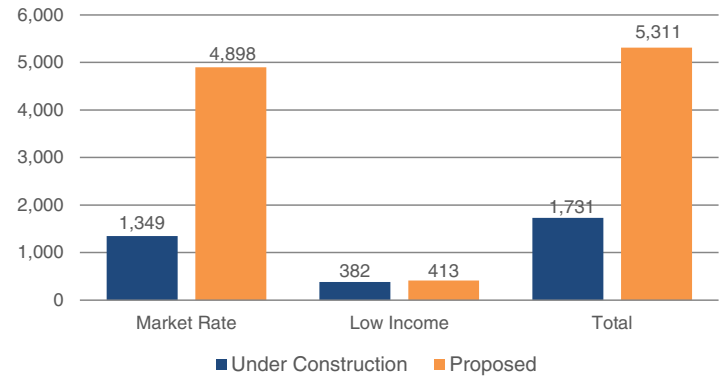
Multifamily Investment Sales Volume



*Price per unit dropped slightly in Q1-2016 due to the majority of sales being pre-1990, Class B/C complexes.

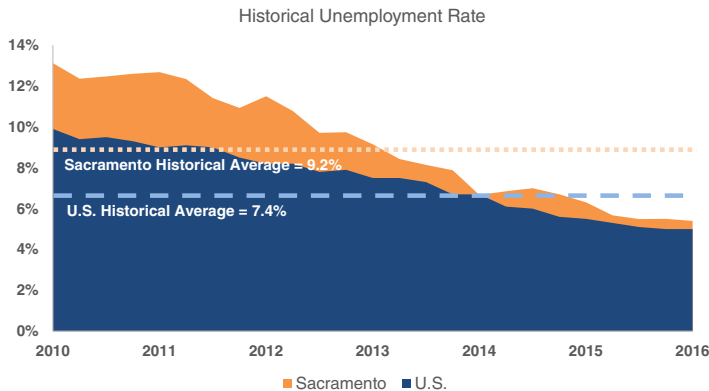
CONSTRUCTION

Multifamily Units Under Construction/Proposed



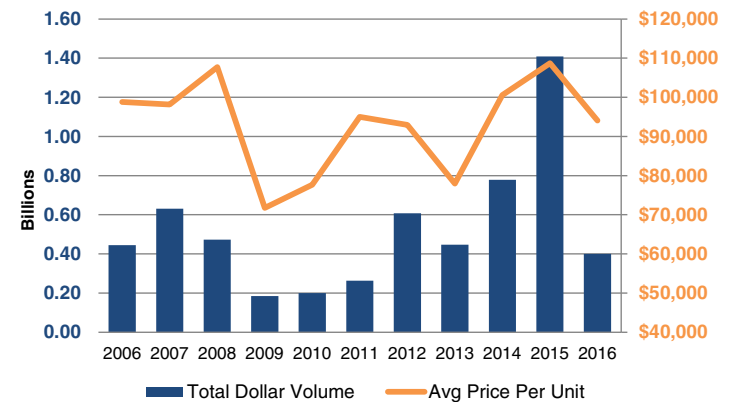
EMPLOYMENT

Historical Unemployment



RENTAL RATES

Historical Vacancy & Average Rental Rate Growth



GET INFORMED

- › Is now the best time to sell?
- › How can you reduce your expenses?
- › What capital improvements should you do?

Our team can help you answer the questions you have about your multifamily property. If you have not connected with us, visit our website to sign up for newsletters, market trends and breaking news to help you stay informed!

Visit www.GallelliRe.com today!



CA LANDLORD UPDATES

AB 2300 – Marijuana in Rental Properties

This bill would extend a 2011 law (SB 332) that permits California landlords to prohibit the smoking of cigarettes and other tobacco products on their rental properties. AB 2300 would enable landlords to also prohibit marijuana smoking of any kind on their rental properties, including medicinal marijuana.

“This is about protecting families that live in close proximity to others,” the author of the bill, Assemblyman Jim Wood said in a statement. “Second-hand smoke can be a real problem, especially for families who live in apartments or other multifamily residences.”

The bill was passed by the Assembly and is currently awaiting approval in the Senate. While the bill makes clear that property owners can ban marijuana smoking, it does not address the consumption of marijuana in non-combustible forms, such as edibles.

Source: Caanet.org

ON THE MARKET

We are tracking 18 complexes over 40 units that are currently on the market. These complexes range in price from \$3 million to \$12 million dollars and are located in Sacramento, Rancho Cordova, Carmichael, North Highlands and Auburn. Please contact our multifamily experts to get more information on any of these sales.

ABOUT GALLELLI REAL ESTATE

Multifamily Team

Gary Gallelli, Rod Ballinger and Pat Ronan 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.

MULTIFAMILY TEAM



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