

GALLELLI REAL ESTATE

MULTIFAMILY NEWSLETTER

JUNE 2017

Shifting Interests - What Goes Around Comes Around

There's no question that the San Francisco Bay Area is the most expensive place in California (and the nation) for both apartment renters and investors. Rents have risen rapidly and investment sales volumes have totaled billions over the last seven years. But as the Bay Area bubble has grown unchecked and quality investment product and affordable rents have become incredibly rare, many renters and investors have chosen to migrate out of the Bay Area to find product to suit their needs.

According to Department of Finance estimates, year-over-year population growth has declined for the entire San Francisco Bay Area, decreasing from 1.18% in 2015 to 0.87% in 2017. Overall job growth has also slowed, with year-over-year growth declining from 3.21% in 2015 to 0.81% as of April 2017. Though the Bay Area economy is still robust, declining job growth and the skyrocketing cost of housing has made the region less alluring to investors and renters alike.

Instead, the last two years have seen interest shift towards the Sacramento market. The population of Sacramento grew nearly 1.5 percent between 2016 and 2017, which

is the highest growth of any of the 10 largest cities in the state, including Los Angeles, San Diego, and San Jose. The Sacramento region has added over 50,000 people since 2015, and that number is anticipated to keep growing, as more and more people migrate to escape the exorbitant rents of the Bay Area. The Sacramento region has also added over 23,000 jobs since 2015. Multifamily investment has increased, with 2015 and 2016 both seeing over \$1.1 billion in total sales volume. Area home prices are also rapidly increasing - the median home sale price saw a year-over-year increase of 7.5% between April 2016 and April 2017.

Lack of new construction, increased population growth, and heavy demand for little available housing continue to put upward pressure on rental rates in Sacramento. The tightening market has been a huge draw for investors, who have snatched up most of the available product within the region, leaving little product left for sale. There are currently only 13 properties over 40 units on the market for sale within the four-county region. This has led to a noticeable slow down in multifamily investment activity so far during 2017.

With the Bay Area no longer a viable or affordable option, and Sacramento having such little available inventory, we are starting to see investors looking to tertiary markets like the Central Valley. Not only is there more available investment product for sale in these markets (and more un-renovated product), overall job and population growth are on par with Sacramento.

We are aware of numerous investment opportunities from San Joaquin to Kern County - for more information on these opportunities, please contact us at 916.784.2700.

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SIGNIFICANT APARTMENT SALES

NAME / ADDRESS	PRICE	# OF UNITS	PRICE/UNIT	PRICE PSF	SALE DATE	YEAR BUILT
The Eleven Hundred 1100 Howe Ave Sacramento, CA 95825	\$69,000,000	565	\$122,124	\$105.72	5/23/2017	1968
The Artisan 8282 Calvine Rd Sacramento, CA 95828	\$53,277,500	264	\$201,809	\$195.47	5/25/2017	2005
Allegre Apartments 1659 Drew Cir Davis, CA 95618	\$42,000,000	152	\$276,316	\$218.67	1/18/2017	2000
Atrium Court Apartments 3801 Duckhorn Dr Sacramento, CA 95834	\$24,500,000	224	\$109,375	\$112.58	5/15/2017	2004
Butterfly Garden Apartments 9100-9190 Tuolumne Dr Sacramento, CA 95826	\$19,375,000	210	\$92,262	\$106.05	5/12/2017	1970

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

SELECTED TRANSACTION DETAILS

City Park Apartments 815 E Street, Sacramento

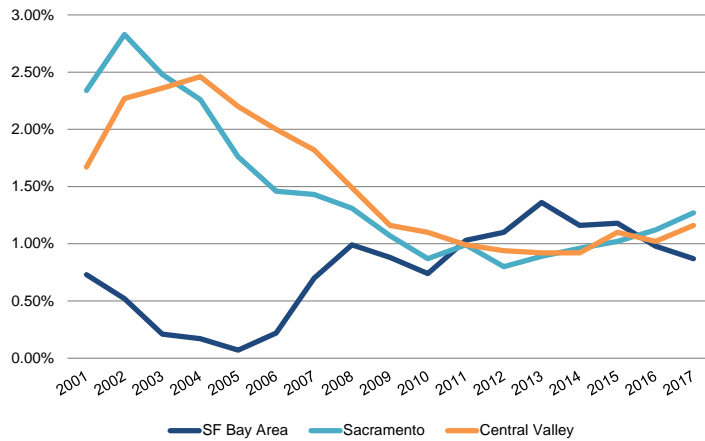
Gallelli Real Estate recently handled the sale of City Park Apartments recently to a Southern California investor making their fourth purchase in the Sacramento MSA and their first within the Downtown Core. The 103-unit property traded for approximately \$21.7 million, which is more than \$210,000 per unit. City Park is unique in that it is one of only five apartment projects in Downtown with more than 100 units, all of which are market rate. Every other property with more than 100 units has some portion dedicated to low income occupants. Additionally, the property is the only 100+ unit project that has been recently renovated. It was this renovation that piqued the buyer's interest, providing a turnkey asset adjacent to the planned Railyards development.

The Artisan/Broadstone at Strawberry Creek 8282 Calvine Road, Elk Grove

The Artisan (formerly Broadstone at Strawberry Creek) sold in a unique transaction involving the swap of 3 properties and some cash consideration. Decron Properties sold The Artisan, a 264-unit property, primarily due to it being in an outlying market for the company. The Artisan was the only property Decron owned in the region and did not offer the efficiencies of scale that Decron achieves with their assets closer to home. Sequoia Equities was selling two Southern California assets in Simi Valley and looking to redeploy capital in the Sacramento market. The two groups came to an agreement to swap the Elk Grove asset and cash for the two properties in Simi Valley. Total consideration for the transaction was valued at \$193 million. The Artisan's sale price was nearly \$53.3 million, or \$201,800 per unit.

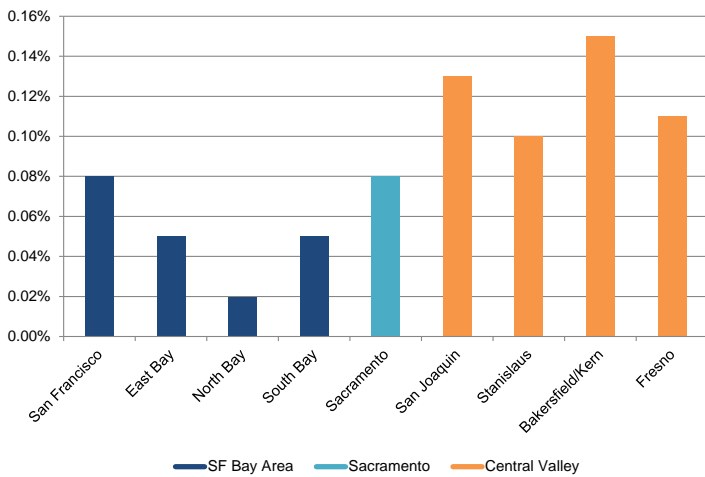
POPULATION GROWTH

Y-O-Y Population Growth



EMPLOYMENT GROWTH

Avg Annual Employment Growth since 2000



CA LANDLORD UPDATES

AB 646 - Flood-Zone Notification

This bill would require 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. Effective July 1, 2018, owners would have to make this disclosure in the rental agreement.

AB 678 - Housing Accountability Act

This bill would expand the existing Housing Accountability Act, which requires that local government follow certain legal mandates before denying housing projects that comply with their general plan and zoning rules. The expansion of this act would impose penalties, including fines for government that fail to comply with the act. That money would then be placed into a housing trust fund for the construction of affordable housing. The bill has currently passed the assembly and now heads to the Senate for committee hearings.

AB 291 - Housing Discrimination

The assembly has passed AB 291, which is a bill that would crack down on rental property owners who discriminate against tenants based on immigration status. Under the bill, rental housing providers would face fines for reporting existing tenants and occupants to immigration agents. The bill also offers protections against eviction for tenants whose landlords demand to see Social Security numbers or other validating documents even after the landlord previously approved the tenant for occupancy with or without that information.

Source: Caanet.org

ON THE MARKET / NEW DEVELOPMENT

We are tracking 13 complexes over 40 units that are currently on the market. These complexes range in price from \$2 million to \$10 million dollars and are located in Sacramento, Rancho Cordova, and Carmichael. 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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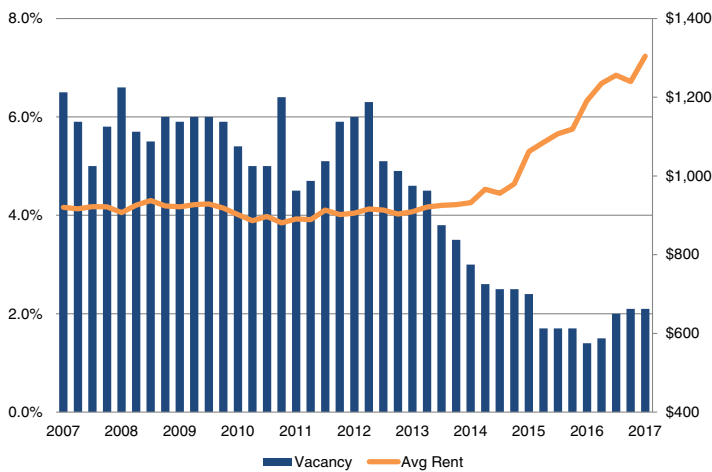
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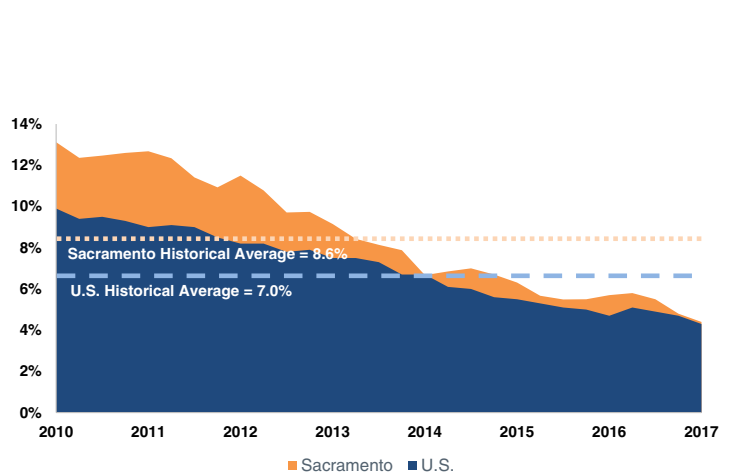
VACANCY AND RENTAL RATE

Historical Vacancy & Average Rental Rate Growth



EMPLOYMENT TRACKER

Historical Unemployment Rate



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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