



GALLELLI REAL ESTATE

MULTIFAMILY NEWSLETTER

SEPTEMBER 2017

Downtown Sacramento: Historical Growth, Development and Revitalization

A brand-new, state-of-the-art arena; a luxury hotel and residential condo tower; numerous upscale multifamily developments – there is no question that the landscape of Downtown Sacramento has undergone a major transformation over the last 10 years. The revitalization of Downtown has been in progress for some time and has succeeded in drawing new companies, more investor interest, and more people to the Sacramento region. It has also spurred new housing growth, as the Downtown market is one of the only areas in the region that is currently seeing multifamily construction.

Downtown Sacramento has seen an explosion of growth in the years since the economic recession. The population of the Downtown region increased 44.86% between 2010 and 2016, which equates to an average annual growth rate of 6.41% - higher than the average annual growth rate of the entire City of Sacramento, Sacramento County, and State of California combined. The population of Downtown currently exceeds 21,000 residents, and is anticipated to grow to 23,000 residents by 2021.

Population growth has led to housing growth and pent up demand within the Downtown core. Since 2010, Downtown has seen 11 multifamily projects totaling 1,246 units come online, with another 205 units currently under construction and 3,000 units in various stages of planning. Housing growth in Downtown has mirrored population growth, as newly constructed projects lease up almost immediately after delivery. Housing demand in the urban core has rapidly outpaced supply, as the area continues to become more dynamic, drawing interest from both local and regional (Bay Area) individuals seeking a 24/7, live-work-play experience in the city. To help alleviate some of this pent up demand, the Sacramento City Council created the Downtown Housing Initiative in 2015, which is a plan to create 10,000 new housing units in the Downtown market over the next 10 years.

As the Downtown area continues its revitalization efforts and more urban renewal projects are planned, investor interest in Downtown has also steadily increased over the last few years. Since 2012, the Downtown core has seen nearly \$393 million in total multifamily investment volume (complexes 20+ units), with over half of this total being recorded in the last 18 months. The average selling price per unit has steadily increased as well, rising from \$91,582 in 2014 to \$306,691 during 2017 for complexes with 20 or more units. Downtown has even seen the largest price per-unit sale in the Sacramento region's history - Eviva Midtown, the most recently constructed project in Midtown, sold earlier this month for approximately \$420,000 per unit after taking into account the portion of the sale price paid for the retail component. Downtown Sacramento has seen a massive transformation over the last few years, and this transformation is showing no signs of slowing any time soon

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SIGNIFICANT APARTMENT SALES

NAME / ADDRESS	PRICE	# OF UNITS	PRICE/UNIT	PRICE PSF	SALE DATE	YEAR BUILT
Eviva Midtown 1531 N St, Sacramento CA 95814	\$53,000,000	118	\$449,152	\$294.44	9/1/2017	2016
Alhambra at Mace Ranch 4500 Alhambra Blvd Davis, CA 95618	\$28,500,000	160	\$178,125	\$191.47	7/26/2017	1999
Savannah Court 4301-4399 Norwood Ave Sacramento, CA 95833	\$22,425,000	195	\$115,000	\$164.43	8/17/2017	1986
Sierra Fair Apartments 2500 Fair Oaks Blvd Sacramento, CA 95825	\$22,350,000	204	\$109,558	\$162.84	7/19/2017	1963
Willow Glen Apartments 7474 La Mancha Way Sacramento, CA 95823	\$9,500,000	94	\$101,063	\$133.92	7/20/2017	1989

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

SELECTED TRANSACTION DETAILS

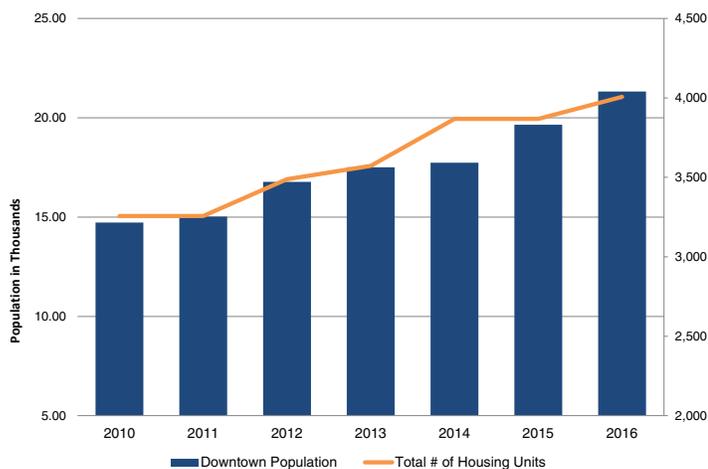
Eviva Midtown 1531 N Street, Sacramento

Eviva Midtown, a 118-unit complex located at 16th & N Streets, is the first mixed-use project in Sacramento to utilize modular building techniques. The project suffered construction delays due to the original contractor driving the cost up substantially. Ultimately, the project was a resounding success, with some of the highest asking rents in the submarket and setting a record when selling for approximately \$420,000 per unit when taking into account the retail portion of the property. In an unusual agreement, the Capitol Area Development Authority waived the two-year minimum hold period for new projects in which they are partnered, and allowed the early sale of Eviva Midtown. The property sold at a 4.78% capitalization rate, and the new buyers have already secured a Fannie Mae loan equaling 65% Loan to Value based on the \$53 million sales price.

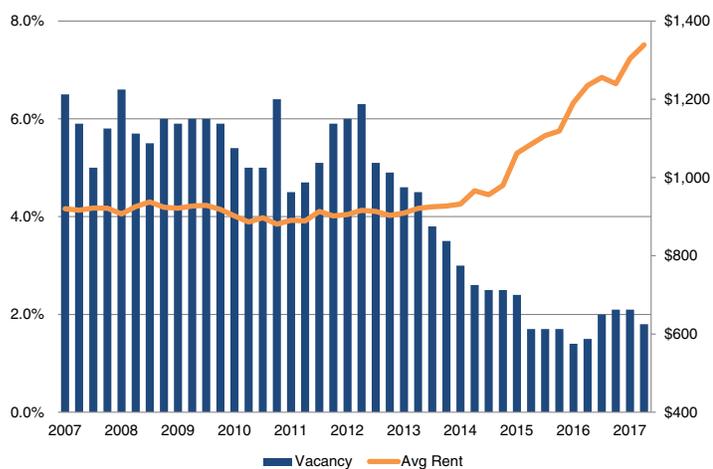
Sierra Fair Apartments 2500 Fair Oaks Boulevard, Sacramento

This 204-unit, value-add property located in the southeast quadrant of Fair Oaks Boulevard and Fulton Avenue/Monroe Street traded for \$22.35 million (\$109,559/unit). At this pricing, the in-place cap rate was 3.25%, which is a shockingly low number; however, it does not tell the entire story. The property was built in 1963 and lacked many of the amenities found in other nearby properties. Due to the lack of amenities and dated units, the property had a very significant loss to lease. The new ownership plans to upgrade the interior of the units, as well as add two clubhouses, a fitness center, and other common area upgrades. These upgrades will result in significant increases in the current rents.

DOWNTOWN POPULATION & HOUSING GROWTH 2010-2016



HISTORICAL VACANCY & AVERAGE RENTAL RATE GROWTH



CA LANDLORD UPDATES

Solving California's housing crisis is one of the top goals of the state legislature in 2017, and as such, there are currently more than 130 housing-related bills that have been proposed during the first half of the year. Below is a small rundown of just a few of the bills that have been proposed.

SB 62 – Affordable Housing for Seniors

This bill would establish the Affordable Senior Housing Program, which would guide and serve as a catalyst for the development of senior housing within the state.

SB 2 – Funding for Affordable Housing

This bill would establish a permanent funding source for affordable housing through a \$75 fee on recorded documents; it exempts owner-occupied residential real estate sales.

SB 3 – Veterans & Affordable Housing Bond Act

This bill would authorize the issuance of \$4 billion in bonds that would be used to fund various existing housing programs, infill infrastructure, and affordable housing.

SB 35 – Streamlining Housing Approval Process

This bill would streamline the approval process for new housing of all types by eliminating environmental and planning review for some projects. Under this bill, developers of projects in cities that aren't on track to meeting their housing goals would be allowed to bypass local government review.

SB 540 – Fast-tracking Housing Construction

This bill would streamline the approval process to spur housing construction by having cities identify where housing needs to be built and adopting specific, up-front plans and conducting all necessary environmental reviews and public engagement.

Source: Caanet.org

ON THE MARKET / NEW DEVELOPMENT

We are tracking 11 complexes over 40 units that are currently on the market. These complexes range in price from \$4 million to \$17 million dollars and are located in Sacramento, Folsom and Antelope. 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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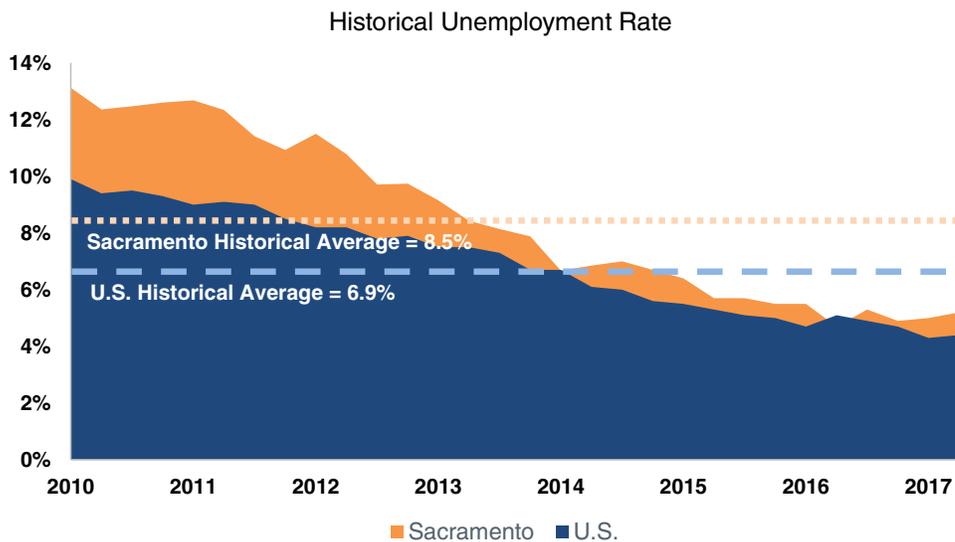


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EMPLOYMENT TRACKER - SEPTEMBER 2017



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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