

Commercial Market Rises Steadily in 2011

VALUES:
Santa Clara County is showing signs of recovery from the devastating market of 2010, when nearly all submarkets posted a decrease in value. The county closed out last year at \$134,000 average price per unit, the lowest total since 2004. Through the midway point of 2011, the county's average unit price jumped by 11 percent to \$149,000. West San Jose and Mountain View posted the largest gains, with an increase in average price per unit of 19 and 48 percent, respectively. Downtown San Jose remains the most affordable submarket in the county with a \$91,500 average unit price. The county's average price per unit for the second quarter of 2011 was \$169,000, a 30 percent gain from the prior quarter.

CAP rates and GRM's are fluctuating throughout most sectors of the county. Santa Clara County's average CAP rate dropped for the third straight year, at 5.08%. However, Sunnyvale's CAP rate rose 90 basis points and Campbell's gained 60 points in 2011. GRM's also dropped over 120 basis points countywide in 2011 as sellers are becoming more realistic in sales price. San Jose's GRM fell 110 basis points to 9.88, the lowest GRM in the county.

SALES:
Commercial apartment sales in Santa Clara County decreased for the fourth consecutive year. There were only 54 sales in 2010, almost three times less than the 2004-2007 average. However, sales velocity has picked through the first half of 2011. There have been 33 sales to date this year, compared to 27 sales during the same time frame last year. Conversely, the number of units sold is down 14 percent this year, meaning smaller buildings are selling more frequently.

Several cities have been quite active this year. Sunnyvale and Campbell have already surpassed last year's sales in just two quarters. Mountain View has equaled last year's totals, while posting an impressive 48 percent gain in average sales price. Santa Clara County finished the second quarter strong with 19 sales, the largest total in two years and a hopeful sign that the worst is behind us.

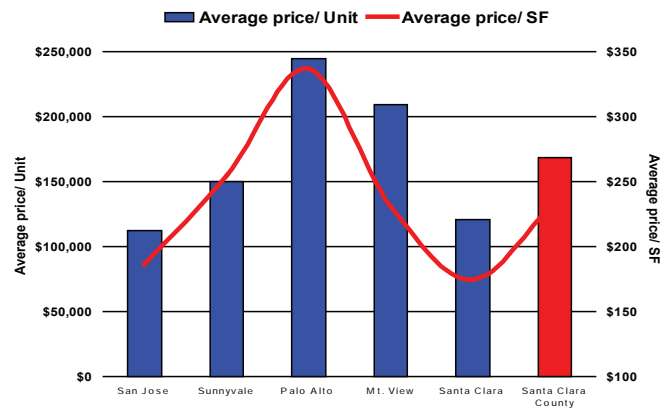
RENTS:
Bay area rents are been on the rise in 2011. Sunnyvale and Mountain View have increased their rents 18 and 13 percent, respectively, from last year. The tenant pool is steadily increasing from the booming tech recovery and the addition of former homeowners. A lot of households who lost homes in foreclosure prefer to rent, even with strong incomes. Local economists predict an 8-12 percent countywide rental increase over the next twelve months with a vacancy rate of less than three percent.

JOBS
According to the San Jose Mercury News, Silicon Valley saw strong job growth in June in most key sectors, with the Silicon Valley adding over 19,000 jobs this year. However, the unemployment rate jumped to 10.5 percent after several months of encouraging economic reports drew job seekers back to the hunt. Look for job growth to spike up asking rents for larger apartment complexes.

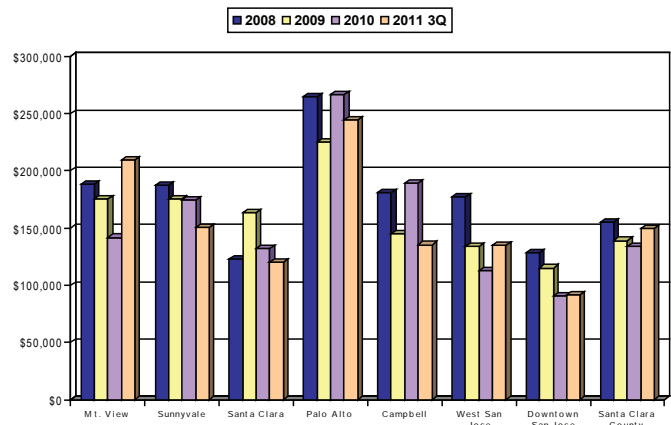
CONSTRUCTION
Due to the recent influx of renters, apartment builders are starting construction again. Developers will be looking at core markets like Santa Clara County for building sites. Currently, about 2,000 units are under construction in North San Jose, but they will not come online for 12 to 18 months.

SUMMARY:
It appears that the worst is finally behind us. Several factors indicate that the health of the commercial market in Santa Clara County is rebounding. Rents are sharply rising and the local job market is thriving. Vacancy rates are the lowest they've been in years. Values have increased countywide and the sales velocity has improved. Construction of multi-family units has commenced. Look for values to gradually increase the next two quarters and into 2012.

2011 Santa Clara County 5-50 Units



5-50 Units Average Price/Unit



Santa Clara County 5-50 Units Quarterly Stats

