



GALLELLI REAL ESTATE

# MULTIFAMILY NEWSLETTER

FEBRUARY 2018

## The Fight over Rent Control

With little new construction in the development pipeline, local rents continue to climb – Sacramento has been first in the nation for rental rate growth for the last 20 consecutive months. In response to the rising rents, rent control measures have been popping up in numerous municipalities. Sacramento, Santa Cruz, Long Beach, and San Diego are just a few of the cities that have launched campaigns and introduced rent control legislation.

By far, the largest campaign to introduce rent control has been the effort to repeal the California Costa-Hawkins Act. The Costa-Hawkins Rental Housing Act was introduced in response to extreme vacancy control ordinances put in place in numerous cities in the 1980s. It was signed into law in 1995, adding more protections for landlords and placing restrictions on future rent control ordinances. The bill exempted housing built after 1995, single-family homes, and condominiums from rent control laws. It also cleared the way for landlords to establish their own rental rates when units change tenancy.

The latest effort to repeal Costa-Hawkins was Assembly Bill 1506. AB 1506 was stopped in January, after it fell one vote shy of advancing to the assembly. The bill's defeat has not stopped

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supporters of repealing the bill – they are now collecting signatures to qualify the repeal measure for the November 2018 ballot.

If Costa-Hawkins is successfully repealed, what does that mean for landlords? Repealing the act would open the gate for state-wide rent control legislation to be introduced and possibly passed. It would also remove the 'vacancy decontrol' protection for landlords, prohibiting them from resetting rents even after changes in tenancy or upgrades to units. Finally, repealing the act could allow local governments to regulate rents for single family homes and individually owned condos/ townhouses, many of which are investment properties to supplement income for independent owners.

A repeal of Costa-Hawkins would also affect the overall apartment market. Rent control would make the current housing shortage even worse, as developers could not recoup construction costs through rent increases, further increasing their reluctance to build. It could also be damaging to tenants - rent control regulations would give property owners/landlords more incentive to convert units to condos for sale, further reducing the already limited supply of rentals and creating even more completion for housing. Rent control regulations would also affect the quality of rental housing, as owners/landlords would have no incentives to upgrade units.

It remains to be seen if advocates of a repeal measure will get enough signatures to it for the November 2018 ballot. For more information and to find out how you can help the effort to save the Costa-Hawkins Act, please see the California Apartment Association and visit their website <http://www.savecostahawkins.org/>.

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## SIGNIFICANT APARTMENT SALES

NAME / ADDRESS	PRICE	# OF UNITS	PRICE/UNIT	PRICE PSF	SALE DATE	YEAR BUILT	CAP RATE
<b>The Falls at Arden</b> 2345 Northrop Ave Sacramento, CA 95825	\$46,000,000	272	\$169,117	\$249.11	2/7/2018	1986	N/A
<b>Ellington Apartment Homes</b> 4849 El Cemente Ave Davis, CA 95618	\$25,800,000	125	\$206,400	\$240.97	1/31/2018	1980	4.25%
<b>Summertime Apartments</b> 6830 Walerga Rd Sacramento, CA 95842	\$23,600,000	160	\$147,500	\$165.65	12/11/2017	1987	5.50%
<b>Village at Fair Oaks</b> 10741 Fair Oaks Blvd Fair Oaks, CA 95628	\$19,300,000	124	\$155,645	\$172.85	12/22/2017	1985	5.24%
<b>Sycamore Square</b> 2051-2081 W La Loma Dr Rancho Cordova, CA 95670	\$16,160,000	140	\$115,428	\$150.11	1/26/2018	1970	6.25%

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

## SELECTED TRANSACTION DETAILS

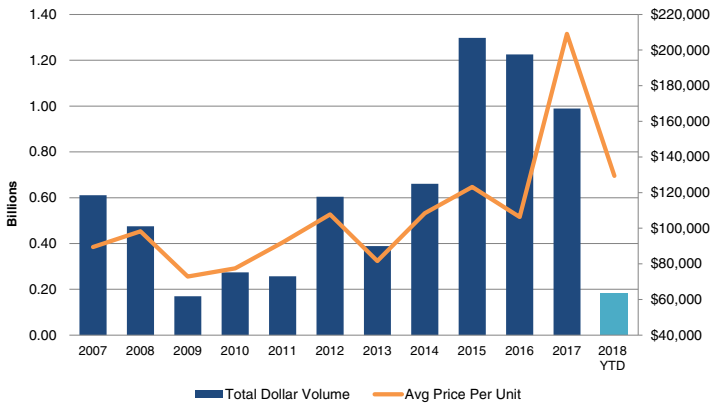
### Falls at Arden / Summertime Apartments / Sycamore Square

Three recent sales highlight the Sacramento MSA's dramatic increase in property values over the last two years: The Falls at Arden, Summertime Apartments, and Sycamore Square. These properties are located in separate, distinct parts of Sacramento: The Falls at Arden in Arden/Arcade, Summertime Apartments in Antelope, and Sycamore Square in Rancho Cordova.

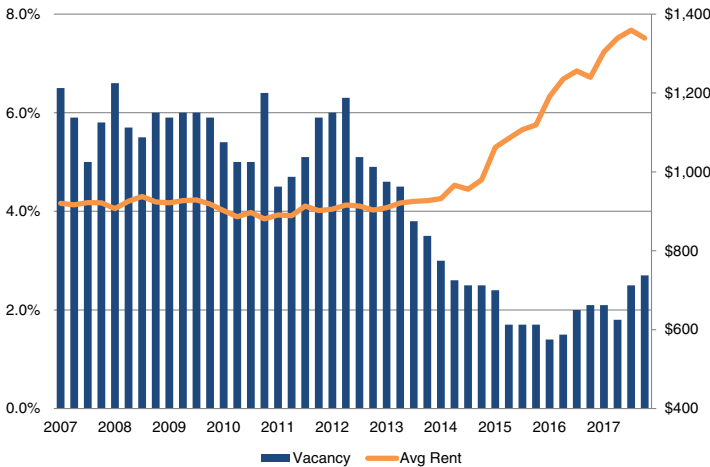
The unifying attribute of each sale is the relatively short hold period of the seller and the dramatic increase in pricing. The Falls at Arden was sold nearly two years to the day of the prior sale at a price approximately 67% higher. Summertime Apartments was held for just over two years and sold at a 48% premium, and Sycamore Square was held for just 13 months and sold for a price 58% above the most recent sale.

Each of these properties underwent some form of renovation and experienced significant increases in rent over the hold period. The new owners of Summertime and Sycamore Square plan to renovate the properties further. Ownership groups are realizing the dramatic increase in equity at properties recently purchased and appear to be willing to sell early to put that increased equity back to use in other properties.

## 2018 YTD SACRAMENTO MULTIFAMILY INVESTMENT SALES VOLUME



## SACRAMENTO 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 827 – Planning & Zoning: Transit Rich Housing Bonus

This bill is intended to encourage multifamily development around public transportation hubs. It would lift some locally imposed low-density zoning standards that can prevent the construction of apartment buildings in these infill locations. The bill is intended to address California’s ongoing housing shortage, and would offer environmental benefits by boosting higher density housing near public transit, reducing the need for citizens to commute by car.

### AB 1919 – Price Gouging: State of Emergency

This bill was introduced following the destructive wildfires that raged through California at the end of 2017, and targets rent gouging following declarations of disaster. The bill would clarify that, upon proclamation of a state of emergency by the governor, president or local official, it would be unlawful for a landlord to increase the monthly rental price for rental housing by more than 10 percent, even if an insurance company or third party is willing to pay a higher rental price.

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 \$34.6 million and are located in Sacramento, Fair Oaks, and Davis. 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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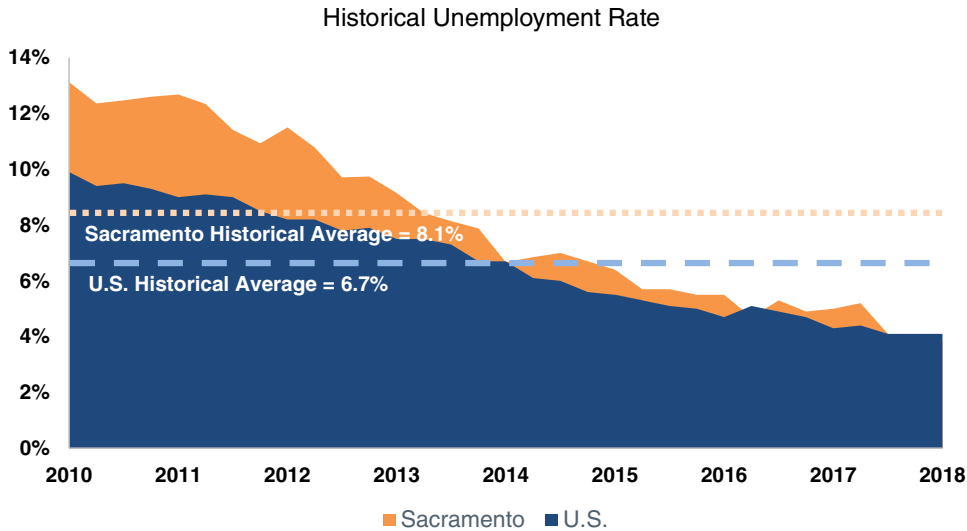


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## EMPLOYMENT TRACKER - FEBRUARY 2018



## 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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