

GALLELLI REAL ESTATE

MULTIFAMILY NEWSLETTER

AUGUST 2016

“A majority of the region’s 119 multifamily investment transactions in 2016 have been for older Class B and C properties.”

Value-Add Product in Older Submarkets Seeing High Demand

As prices for high-quality, Class A multifamily product continue to skyrocket in the region, investors are increasingly turning to Class B and C product within some of the older, more established submarkets in Sacramento. Areas like Rancho Cordova, South Sacramento, and Arden/Arcade are seeing more investment sale activity not just because these submarkets tend to have more Class B and C availability, but also because the prices are more attractive and they have a higher likelihood of containing older, value-add product. The majority of the region’s 119 multifamily investment transactions in 2016 have been for older Class B and C properties. The Arden/Arcade submarket has proved the most popular with investors, seeing 23 sales overall.

But as investors snatch up these older properties to rehab and resell, we are beginning to see an interesting issue emerge. Some older complexes, particularly those built pre-1980, suffer from deferred maintenance issues with plumbing, electrical or other internal infrastructures. While some investors/owners will put the money in to fix these issues, others are neglecting these repairs in favor of upgrading visible amenities - unit interiors, exterior

paint, windows, etc. - in order to quickly hike rental income and increase value. When these owners then try to sell the property, these problems are eventually discovered, causing potential buyers to either demand a price cut or walk away entirely.

This presents a unique challenge for local investors. Firstly, as older Class B and C properties continue to get purchased, rehabbed and resold, investors are running into a shortage of un-renovated product to purchase. Secondly, investors have to be more cautious of already renovated product because if the renovation was primarily cosmetic in nature, they could potentially get stuck footing the bill for any pre-existing deferred maintenance issues.

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SIGNIFICANT APARTMENT SALES

NAME / ADDRESS	PRICE	# OF UNITS	PRICE/UNIT	PRICE PSF	SALE DATE	YEAR BUILT
The Woodlands Apartments 2025 W El Camino Ave, Sacramento, CA	\$84,500,000	796	\$106,156	\$120.65	6/30/2016	1979
Montage Apartments 12801 Fair Oaks Blvd, Citrus Heights, CA	\$74,000,000	636	\$116,352	\$154.92	6/24/2016	1987
Bella Vista 6810 Di Lusso Dr, Elk Grove, CA	\$45,000,000	241	\$186,722	\$187.08	6/30/2016	1999
Park Knoll Apartments 10680 Coloma Rd, Rancho Cordova, CA	\$9,500,000	165	\$57,576	\$83.01	8/19/2016	1976
The Brighton 6050 Placer West Dr, Rocklin, CA	\$9,280,000	68	\$136,471	\$131.22	7/7/2016	1989

SELECTED TRANSACTION DETAILS

Montage Apartments

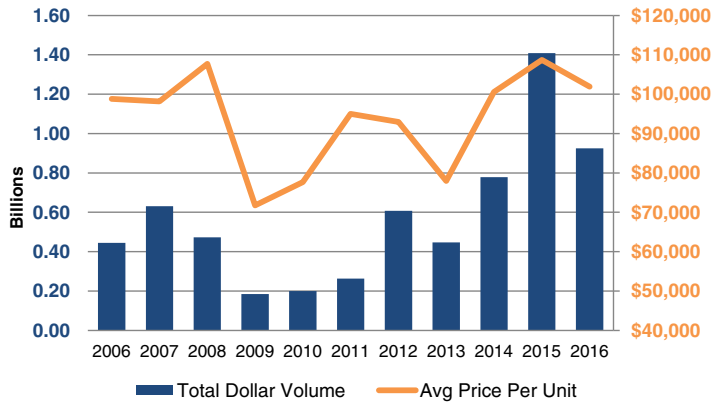
The 636-unit Montage Apartments in Citrus Heights sold in June for \$74 million (\$116,352 per unit). JRK Property Holdings from Southern California purchased the asset from Fowler Properties. The property was built in 1987 and features a mix of one bedroom and two bedroom units. More than half the units are one bedroom units, which makes the \$155/PSF appear to be aggressive. Fowler properties entry cap rate on this deal was a 6% actual cap rate, versus a 6.41% actual exit cap rate four years later. Fowler Properties purchased the property in October of 2012 for \$52.25 million (\$82,154 per unit). Fowler invested more than \$7 million (\$11,006/unit) on interior and exterior renovations to improve rents. There is a currently a huge demand for un-renovated properties in the Sacramento region built in the 1980's. Investors have been able to capture anywhere from \$100 increases, for partially renovated projects, to increases of more than \$300 for high end full renovations in some cases.

The Woodlands Apartments

The Woodlands Apartments, a 796-unit community located at 2025 El Camino Avenue in South Natomas, sold for \$84.5 million (\$106,155 per unit). Jackson Square Properties purchased the asset from a Joint Venture between Virtu Investments and Angelo Gordon & Company. This property was purchased by the Joint Venture just 21 months before the sale for \$62 million (\$77,889 per unit). Interestingly, the reported CAP rates at both times of sale were approximately the same at 5.9%. The rise in value stems primarily from the dramatic increases in rent that the greater Sacramento area has been experiencing over the last 2 years. The previous owners completed cosmetic upgrades to the interior of the units which helped the property achieve higher rents.

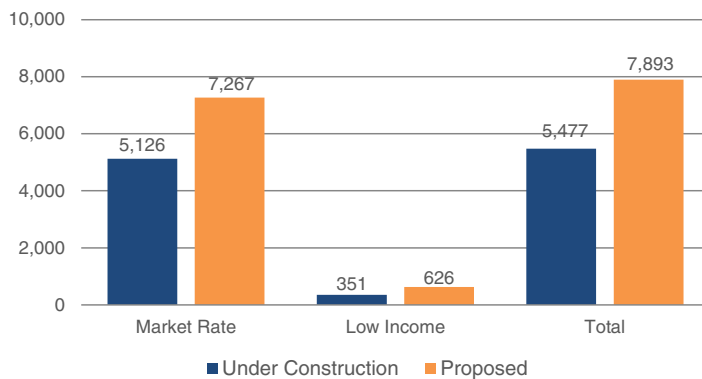
SALES VOLUME

Multifamily Investment Sales Volume



CONSTRUCTION

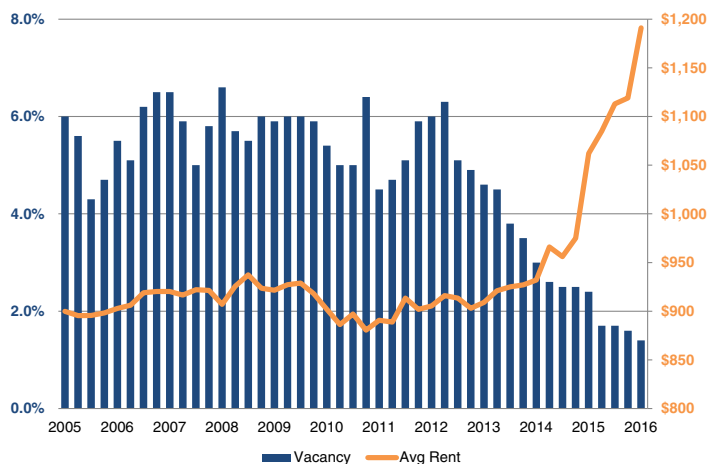
Multifamily Units Under Construction/Proposed



*The majority of planned projects are happening in the urban core of Sacramento.

VACANCY AND RENTAL RATE

Historical Vacancy & Average Rental Rate Growth



CA LANDLORD UPDATES

New Landlord-Tenant Laws For 2016

AB 2180 - Land Use: Development Project Review

This bill proposes to expedite the building permit process by shortening the number of days that a local government must take to approve a new housing project. Existing law requires agencies to approve or disapprove projects within 180 days from the date of certification of an environment impact report - the new bill would reduce this to 120 days. The bill is currently awaiting approval in the Senate.

AB 551 - Bed Bugs

This bill, which imposes protocols for bedbug eradication on landlords, tenants and pest control companies, has been amended after concerns that it might not be tough enough on property owners. The revised bill prohibits landlords from leasing property with a known bedbug infestation, encourages tenants to report a suspected infestation to landlords and protects them from landlord retaliation for reporting the problem, and requires pest control companies to provide a written report to the owner and tenants who have their units inspected for bedbugs.

Source: Caanet.org

ON THE MARKET / NEW DEVELOPMENT

We are tracking 12 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, North Highlands, 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.

Please contact our multifamily experts for more information.

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RECENT TRANSACTIONS



NAME / LOCATION	UNITS	SALE PRICE	PRICE / SF
Azalea Court Sacramento	119	\$8,910,000	\$96.42

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.



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