

GALLELLI REAL ESTATE

# MULTIFAMILY NEWSLETTER

SEPTEMBER 2016

## **Sacramento Multifamily Fall Forecast 2016**

The Sacramento multifamily market remains red-hot, with vacancy at all-time lows and rents at all-time highs. Multifamily vacancy currently stands at 1.5%, with the average rent for apartment units standing at \$1,264 per unit. As of Q3-2016, the region remains #1 in the nation for year-over-year rent growth, a rank it has maintained for the last three consecutive months. With minimal new construction on the horizon and skyrocketing rents, here is a look at some things to expect as we head into the final months of 2016.

**Buyer Trends** - Investors are snatching up Class B and C product, as Class A owners are holding on to their properties, content with their cash flows and unwilling to sell. Class A owners are wary of getting stuck in an exchange, as comparable high-quality assets are not currently on the market. As a result, investors are purchasing anything they can get their hands on, especially older product that can be easily renovated and leased out at higher rents. This trend should continue throughout the rest of the year and into the next, as investors remain highly interested in Class B and C product within the region.

**Construction Costs** - Lack of new construction has been the primary driver of rent growth, and as construction and land costs continue to rise throughout the region, developers remain reluctant to build. Though regional rents are skyrocketing, they are still not high enough to justify the costs of construction in the majority of submarkets, except in core markets such as Downtown and Midtown. For suburban development, developers would like to see average rents surpass \$2.00 per square foot before starting new projects; however, the highest average suburban rents currently fall within the \$1.60 to \$1.80 per square foot range. Though we are currently tracking over 1,800 units currently under construction in the region, the majority of these projects won't complete until 2017. According to Yardi, just 517 units will be delivered in the region this year, which is a significant decline from the 2,600 units delivered 10 years ago. Construction will remain minimal through the rest of the year and beyond, until rents increase further.

**Bay Area Influx** - With the average asking rent exceeding well over \$2,000 a month in most Bay Area submarkets, many people are being priced out and turning to Sacramento as a more affordable alternative. Some residents are getting pushed out to make way for new, high-density development - one example is The Reserve in San Jose, a low-income housing project scheduled to be demolished and replaced with a market-rate, mixed-use building. The existing 670 residents will be displaced and it is likely some of these people may relocate to the region, as comparable affordable housing can't be found in San Jose, and they are forced to seek both employment and housing in Sacramento. As long as Sacramento remains more affordable than the Bay Area, we should continue to see more Bay Area residents migrate here in the coming months.

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## SIGNIFICANT APARTMENT SALES

NAME / ADDRESS	PRICE	# OF UNITS	PRICE/UNIT	PRICE PSF	SALE DATE	YEAR BUILT
<b>Gold Ridge Apartments</b> 2929 Routier Rd Sacramento, CA 95827	\$27,400,000	268	\$102,239	\$123.75	8/31/2016	1986
<b>Amber Grove Apartments</b> 4009 Marconi Ave Sacramento, CA 95821	\$7,635,000	109	\$70,046	\$89.52	8/24/2016	1970
<b>Parkway Townhomes</b> 7236-7246 East Pkwy Sacramento, CA 95823	\$7,000,000	90	\$77,778	\$85.35	8/1/2016	1965
<b>Entro @ Midtown</b> 1325 18th St Sacramento, CA 95811	\$6,390,000	25	\$255,600	\$476.87*	8/25/2016	1956/2016
<b>The Redwoods at Mather Station</b> 2828-2850 La Loma Dr Rancho Cordova, CA 95670	\$6,200,000	76	\$81,579	\$98.41	8/1/2016	1972

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

## SELECTED TRANSACTION DETAILS

### Gold Ridge Apartments

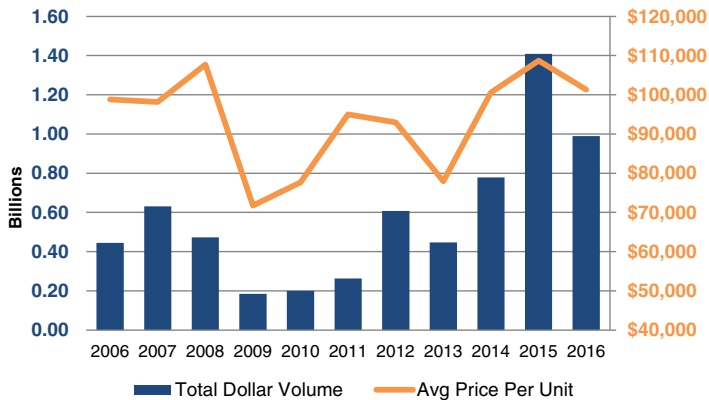
The 268-unit Gold Ridge Apartments in Rancho Cordova sold in August to a local 1031 exchange buyer. Gold Ridge is one of only a handful of quality, Class B assets in the Rancho Cordova market which consists mostly of Class C units. The property is located within walking distance of light rail and has easy access to Hwy 50. The buyer was able to push the envelope due to the exchange and ended up paying \$27.4M or \$102,239 per unit and \$123.75 per square foot. However, the value-add deal does have room for improvement and increased cash flow through additional renovations. The buyer was coming out of a 68-unit sale in Rocklin and was able to increase his cash flow with the much larger purchase of Gold Ridge, trading out of a smaller asset in a better location to a larger asset with a more attractive yield. Costar reported the actual cap rate for the sale as north of 6.0%.

### 1325 18th Street

1325 18th Street, a recently renovated, 25-unit complex, closed for \$6,390,000 or \$255,600 per unit. The seller, Cohen Rojas, purchased the property from the heirs of Rosa Rodriguez and immediately instituted a comprehensive renovation of the property. The renovation included a new façade, gutting the existing units to the studs, redesigning the layout of the units including moving bathrooms, installing central heating and air, stainless steel appliances and new cabinets throughout the units. The extensive renovations resulted in dramatic rent increases. The property benefits from its location which is within several hundred feet of popular restaurants along Capitol Avenue and half a block from the State of California's East End Project. The price per unit represents the upper strata of recent closings, which is all the more impressive considering the average square footage of the 25 one bedroom units is less than 600 square feet.

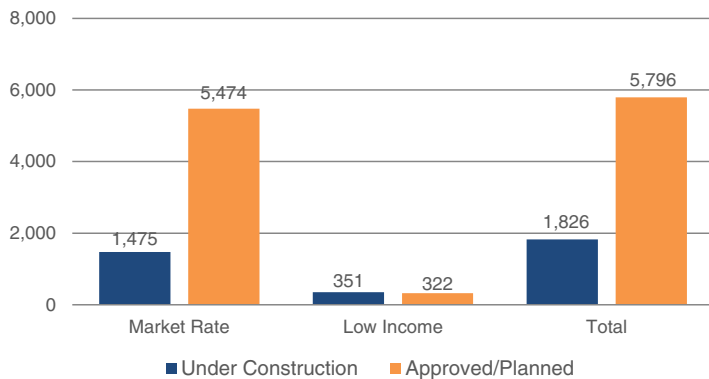
## SALES VOLUME

### Multifamily Investment Sales Volume



## CONSTRUCTION

### Multifamily Units Under Construction/Proposed



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

## CA LANDLORD UPDATES

### New Landlord-Tenant Laws For 2016

#### SB 7 - Water Meters

This bill would require installation of water submeters in all multifamily buildings built after January 1, 2018, so tenants can get a more accurate view of their water usage. “When a large part of our population — renters — do not receive a water bill, there is no incentive on their part to conserve,” said Debra Carlton, senior vice president of public affairs for CAA. “SB 7 will change that.” The bill would not affect existing properties without submeters, where tenants are billed separately through ratio-allocation utility systems, or RUBs.

#### AB 2208 - Local Planning: Inventory of Land for Residential Development

This bill would require that, before construction, rooftops of public buildings be offered to private or nonprofit developers for the construction of affordable housing. Existing law requires the housing element of a city or county to contain an inventory of land suitable for residential development, and requires that inventory be used to identify sites that can be development for housing and that are sufficient to provide for the jurisdiction’s share of the regional housing need for all incomes. This bill would revise the definition of land suitable for residential development to include the airspace above sites owned or leased by a city or county or both. According to Assemblyman Miguel Santiago, who introduced the bill, “AB 2208 capitalizes on the ingenuity of developers by encouraging localities to, in turn, think beyond just “vacant” or “surplus” property for potential future development.”

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 \$5 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.**

## MULTIFAMILY TEAM



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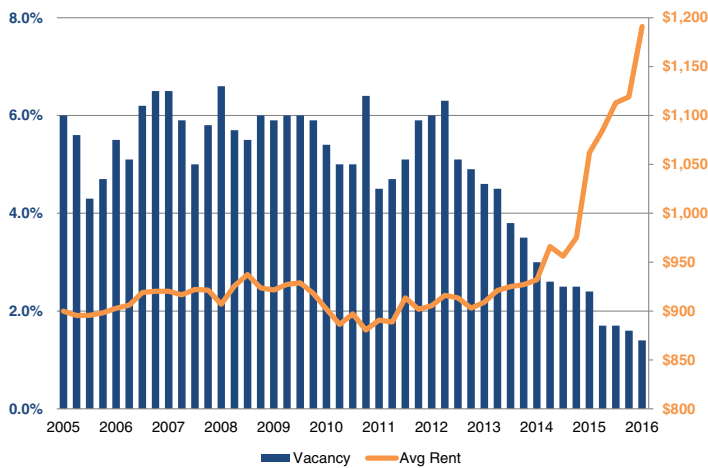
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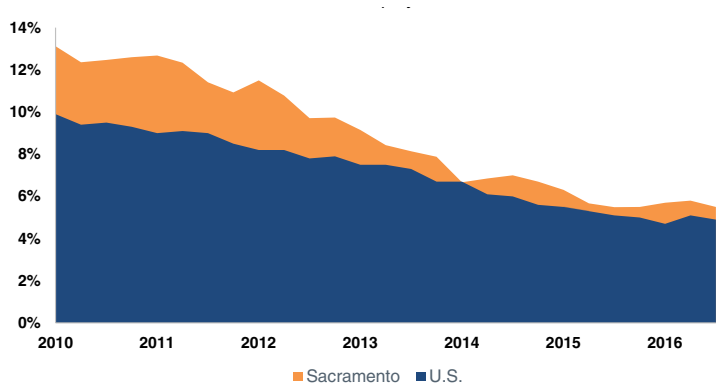
## VACANCY AND RENTAL RATE

Historical Vacancy & Average Rental Rate Growth



## EMPLOYMENT TRACKER

Historical Unemployment Rate



## ABOUT GALLELLI REAL ESTATE

### Multifamily Team

Gary Gallelli, 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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