

Sonoma County multifamily rents, sales rebound

Business Journal Guest Submission

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What started as a fairly benign Sonoma County multifamily income property market recovery turned into a full-blown juggernaut, as 2012 closed with a surge in sales and rental prices.

Literally, my phone started ringing again. It was from people looking to discuss anything from building units, selling units and, gratefully, buying units.

Let's take a look at actual Sonoma County performance:

- Average rent grew 4.6 percent — strong.
- Vacancy drops to 1.8 percent countywide — strong.
- Number of sales of complexes with more than six units jumps from 16 to 28 — solid.
- Sales volume totaled \$106.8 million — strong.

What we are seeing is a market recovery in a sector that is traditionally undersupplied. That being said, [I don't anticipate any significant building to add to that supply until rents grow another 20 percent](#). That could take three more years. We will probably see building start ramping up later this summer, if our friendly municipalities can get the fee and entitlement costs back in line.

Meanwhile, we are seeing strong, steady demand for a stable housing stock, which means rising rents. The local economy is gathering steam, but is far from the frothy San Francisco job market and economy. So, tempered rent growth is to be expected.

One local apartment investor has been testing the market and is finding the rental market to be undervalued in the mid- and low-end sectors of Sonoma County. For example, he recently purchased a property with one-, two- and three-bedroom units. The rents of \$795 a month for one bedroom immediately went to \$895 — a 15 percent increase. Similarly, two- and three-bedroom units re-rented for \$1,075 and \$1,350, respectively, or 12 percent to almost 20 percent above previous levels.

To be clear, I'm not saying rents are going up 10 percent to 20 percent. Many properties have left the rents low due to fear of vacancy and turnover, which is understandable. Property owners are just now getting caught up with staggering rate increases for water, sewer, gas and insurance over the past five years.

Going forward, expect more apartment investment as buyers are drawn to 5 percent to 7 percent returns with solid growth potential. Prices will remain strong as long as lending interest rates stay in the 3.5 percent to 4 percent range. Sonoma County rents will move 5 percent to 8 percent this year as demand remains strong and supply is constrained.

Link to article: <http://www.northbaybusinessjournal.com/69897/sonoma-county-multifamily-rents-sales-rebound/>

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