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Commercial Real Estate: Apartment complexes sell quickly in hot market

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Eagerness of commercial property investors to bet on North Bay multifamily real estate is seen in a number of recent deals.

Oak Coast Properties plans to finish in the next two months nearly $1 million in renovations to two Rohnert Park complexes acquired in June as part of nearly $200 million the Laguna Hills-based real estate investment company intends to invest in multifamily properties in the next 12 months.

Oak Coast, acting as **RP Apts Investments, LLC**, on June 28 acquired 100-unit **Holly Manor** at 400 Santa Alicia Dr. and 102-unit **The Commons** at 333 Enterprise Dr. for $22.9 million, or nearly $113,400 a unit. Since then, the company has been giving the properties a major exterior upgrade, and about another $1 million will go into upgrading the insides of the units as tenants move out in coming years.

The acquisition garnered local media attention in early July when 38 tenants receiving Section 8 housing assistance reported they received legal letters that their month-to-month leases were being terminated and had 90 days to move.

At that time, **Matt Heslin**, co-founder of Oak Coast, said 10 of those tenants had already negotiated new leases. About half the tenants in those complexes receive such assistance. Late last week, he said “a very high percentage” of existing tenants would be remaining.

Oak Coast is looking to acquire other North Bay properties because of Sonoma County’s faster-than-most job growth, soon-to-open Rohnert Park casino with as many as 2,000 hires and a plan by Amy’s Kitchen to hire around 800 for a expanded local food production, according to Mr. Heslin. Other target markets are western U.S. states plus Colorado and Texas.

“We think that’s a market we want to be in for the long haul,” he said.

Holly Manor and The Commons are the model for what Oak Coast will be looking for in properties to acquire — more than 200 units and in need of upgrades to become aesthetically and economically viable. Oak Coast’s portfolio has 11 apartment communities and about 1 million square feet of retail space.

In one example of the hot multifamiliy market is the early August sale of the 56-unit **Puerta Villa** complex at 825 W. Ninth St. in west Santa Rosa for $6.325 million, or nearly $113,000 a unit. Two years ago, the property didn’t sell because of its location in an economically challenged neighborhood and the required assumption of a loan with an interest rate of 5.5 percent, but this summer it received a handful of written offers, according to **Brad Pennington**, a **Marcus & Millichap** agent who represented seller Rockwell, LLC, led by Peninsula-based Acclaim Homes.

A Silicon Valley couple deployed funds from the sale of a home there to acquire the property in a tax-deferred exchange.

“The buyer was looking at this deal because it was 100 percent occupied and cash flow was better than other opportunities in the market,” Mr. Pennington said.

A dozen offers came in for **Marina Vista Apartments** at 1095 Marina Dr. in Napa, a 42-unit complex that sold Aug. 15 for $5.8 million, on a capitalization rate of 6.8 percent, after just three weeks on the market, according to **Vince Schwab**, a Marcus & Millichap agent who represented seller **Mike Zacopa**. A Southern California syndicate beat out two other offers from that region as well as five from San Francisco and four from Napa and Sonoma counties.

“Despite about a half-point interest rate increase we’ve seen this summer, buyer interest in well-located apartment buildings remains very strong,” said **Jeffrey Mishkin**, Marcus & Millichip regional manager in San Francisco.

Another multifamily property selling quickly was **Cedarwood Apartments** 725 W College Ave. in Santa Rosa. After less than two weeks on the market, the 35-unit complex sold to **Cedarwood Apartments, LP**, managed by Mill Valley-based syndicator **Montgomery Partners**, for $6.1 million, or about $174,000, according to **Scott Gerber**, a **Cassidy Turley** agent who represented the buyer and seller.

An affiliate of Fairfax-based syndicator **Broll Investments** purchased the Cedarwood complex in August 2012 for $4.1 million. A key factor in the premium price was full occupancy, $400,000 put into strategically considered renovations and the condominium map on the 2.8-acre property allowing future individual sales, according to Mr. Gerber.

He said he's seen signs of possible slowing demand because of the interest rate increase, but he continues to get calls every few days from an investor with a few million dollars in cash ready to invest in multifamily properties.

That's because the property type historically has been a good bet, particularly when limited construction of new apartments plus tougher lending standards on for-sale housing are contributors to occupancy of around 98 percent in Sonoma County and year-over-year rent growth of 7 percent to 10 percent, according to Mr. Gerber.

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Basin Street Properties plans to break ground in October on a 56,000-square-foot office building in north Petaluma to house 38,000 square feet of expansion for telecommunications equipment and software developer **Cyan** in late 2014.

The project may have come out of the ground a few months earlier had their not been a disagreement between the developer and the city of Petaluma over whether development impact fees negotiated when the project was approved in 2003 would apply to all future buildings, as Basin Street asserted, according to **Paul Andronico**, general counsel for the developer.

"Ultimately, the city didn't believe there was sufficient documentation for that proposition," he said. "We reached a compromise."

This difference in opinion was discovered as the company was preparing to seek funding for construction and checked with the city about fees. Basin Street now has agreed to pay all new fees in effect today and in the future, but the higher traffic fee rate at the time of approval would remain. The 2003 negotiated fee was $817,000, including more than a half-million for traffic. The new fee totals roughly $900,000.

Cyan currently occupies 26,000 square feet of the first office building, finished in 2005 in the **Redwood Business Center** development between Highway 101 and North McDowell Boulevard at the intersection with Old Redwood Highway. That building is currently full.

"Cyan is quickly outgrowing its current Petaluma facility and considering our long-standing relationship with Basin Street Properties, expanding into this new space made great sense to us," said **Rick Johnston**, Cyan co-founder and vice president of business operations. "Petaluma provides a strong technology talent pool and a great quality of life for our employee-base."

The new office building, set to be finished next summer, will have a glass-cladded third-floor walkway to connect the two Cyan spaces. The ground floor of the forthcoming building currently is available for lease, but rates have yet to be set.

Also at Redwood Business Center is a **Club One** health club building. Still to be built are a 90,000-square-foot three-story office building fronting on the freeway and a 7,500-square-foot retail pad at the intersection of Old Redwood and North McDowell.

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With scant large warehouse space available in south Napa Valley, builders are starting to respond with speculative projects.

E&P Properties, led by **Dennis Pauley**, owner of Benicia-based **Metropolitan Van & Storage**, in early September broke ground on a second 103,000-square-foot south Napa warehouse, going up on 5.8 acres of vacant land on Technology Way at Airpark Road in **Napa Valley Gateway Business Park**.

E&P Properties built the first warehouse, located at 1560 Airport Rd., to accommodate growth of Metropolitan Van & Storage. Finished in spring of 2012, half the space was leased in the second half of 2012 to two local wine-related companies, **DFV Wines** and **Eagle Rock Fulfillment**.

The 25,000 square feet left to lease in that building is one of two sizable warehouse spaces left in southern Napa Valley, according to project marketing agent **Bill Kampton** of **Colliers International** in Fairfield.

"If you're looking for space over 30,000 square feet, availability is zero," he said.

Designed by **RMW Architecture & Interiors**, the second E&P Properties building is set to be ready for tenant improvements in February, according to development consultant **George Condon** of **Sponsor Properties**. Sacramento-based **Panattoni Construction** is the project general contractor.

The project is expected to cost more than $8 million to build.

Also seeking building permits is Sacramento-based **Panattoni Development**, looking to build initially an 85,000-square-foot warehouse at its 50-acre, eight-building 750,000-square-foot **Napa Airport Corporate Centre** project just to the south at Devlin and South Kelley roads in American Canyon. The San Rafael-based **Dowling-Bracco Team of Cushman & Wakefield** is marketing the project.

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San Diego-based **Westcore Properties, LLC**, is cashing out of its five-and-a-half-year-old investment in the 135,000-square-foot, 11-building **Mariner's Landing** industrial complex in Sausalito. After the sale of individual buildings to investors and tenants in the past several months, Westcore sold 84,000 square feet in five buildings to Belvedere-based investor **Dan Morgan**, according to **Trevor Buck**, who with fellow **Cassidy Turley** agents **Steven Leonard** and **Brian Foster** represented Westcore in the sale.

The sale price for the five most recently sold buildings was said to be around $16 million.

Westcore is marketing two more Sausalito buildings. An investor is interested in the 27,000-square-foot 500 Gate Rd. building, and a company owner is considering the 2,700-square-foot 2660 Bridgeway building, according to Mr. Buck.

Westcore purchased the Sausalito property in February 2008 for $26.1 million and the 257,000-square-foot **Napa Airport Centre** complex in south Napa in February 2011 for $30 million.

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Inland American Lodging Group, part of Oak Brook, Ill.-based **Inland American Real Estate Trust**, purchased the 141-room **Andaz Napa** hotel along with a 151-room Savannah, Ga., hotel sporting that "boutique lifestyle" brand from Chicago-based Hyatt Hotels for about $115 million.

Built in 2009 and branded as Andaz last year, the five-story downtown Napa hotel on First Street at Franklin Street includes 89 "oversized" lofts and suites, 6,800 square feet of meeting and event space, and a 4,200-square-foot outdoor terrace.

"The purchase of these hotels further exemplifies our strategy of seeking continued improvement in the quality and performance of our portfolio through targeted acquisitions, selective dispositions, superior asset management and thoughtful capital improvements," said **Marcel Verbaas**, president and chief executive officer, **Inland American Lodging Advisor**.

The Napa and Savannah locations will be the second and third Andaz hotels in Inland American's portfolio, following the purchase of Andaz San Diego earlier this year. A Hyatt affiliate will continue to manage the newly acquired hotels.

Inland American Lodging acquired **Marriott Napa Valley Hotel & Spa** in north Napa in August 2011 for $72 million.

The recent sales to Inland American were among six hotels Hyatt has sold since May for a total of $433 million. That represents a 5 percent trailing-12-month net operating income capitalization rate, or more than 15 times pro forma earnings for preceding 12 months, according to Hyatt. It's part of an "asset recycling strategy" — selling certain hotels, maintaining presence in respective markets by entering into new management or franchise agreements, and putting sale proceeds back into acquisition or development, the company said.

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The 65,000-square-foot, three-building **Napa Square** office and retail complex at 955 Franklin St. in downtown Napa on Sept. 11 received a Gold-level certification under the Leadership in Energy and Environmental Design, or LEED, building rating system, according to Fairfield-based **MK2 Engineers**, the mechanical design firm on the project by Napa-based **CDI**.

The property received 34 out of 61 possible points under version 2.0 over the LEED Core & Shell standards.

The project was completed in June 2009.

Points-winning project attributes were 27 percent reduced energy use, 46 percent water-use reduction, 50 percent water-efficient landscaping, all core and shell green power and all underground parking.

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