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Apartment rents, sales jump in Sonoma County



Scott Gerber, a senior vice president with Cassidy Turley Commercial Real Estate Services, poses for a portrait at Cedarwood Apartments in Santa Rosa.

ALVIN JORNADA/Press Democrat

By ROBERT DIGITALE
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With rents rising faster here than in much of the nation, Sonoma County apartment complexes are attracting buyers as well as renters.

Sales of rental complexes rebounded in 2012, and the pace has picked up this year, experts said.

“It’s really strong in Marin County, Sonoma County,” said Nick Grotjahn, a spokesman for RealFacts, a Novato-based apartment market research firm.

Sonoma County's average apartment rent jumped 5.3 percent to \$1,407 in the third quarter, according to RealFacts. That was the largest gain from the previous quarter among 41 metropolitan areas around the country that are followed by the company.

The county's rents have jumped 10.4 percent in the past year, the fastest gain among 26 metro areas in California.

Apartment managers are reporting strong demand in Sonoma County from prospective renters. The county's average occupancy rate has climbed to 97.5 percent, up from 94.3 percent in 2009, RealFacts reported.

Demand among renters has grown due partly to a lack of new housing, experts said.

"We are in a supply-constrained market," said Scott Gerber, a senior vice president with Cassidy Turley in San Rafael.

Buyers, meanwhile, are attracted to apartment complexes partly because the return is better than for many other investments, Gerber said. As well, the county's occupancy rate has dipped below 95 percent only two times in the past 20 years, demonstrating that owners consistently have been able to find renters to fill their complexes.

As well, in recent years potential buyers have watched institutional investors snap up large apartment projects in the Bay Area and around the country.

Apartment sales slowed dramatically in Sonoma County in 2011, Gerber said, partly because investors remained concerned about the economy. That year the county recorded the sale of 12 complexes totaling \$126 million, according to Cassidy Turley.

Sales increased to 18 in 2012 and to 20 for the first nine months of this year. So far this year, buyers have spent \$98 million buying local apartment complexes, a lower number due to the sale of complexes with fewer units than two years prior.

Recent sales included the Cedarwood Apartments, a 35-unit complex originally built as condominiums on West College Avenue in Santa Rosa.

Cedarwood Apartments LP, a limited partnership managed by Montgomery Partners of Mill Valley, purchased the property in September for \$6.1 million. Gerber represented both the buyer and seller.

The seller, RMB Real Estate Investors 1, had purchased the complex for \$4.1 million in July 2012, according to public records.

While the price appreciation appears hefty, the property required \$500,000 in extensive renovations, including the replacement of all the second-story outdoor decks, said Brandon Broll, owner of Fairfax-based Broll Investments, who put together the 2012 purchase. Thirteen tenants had to be evicted for dealing drugs, other criminal activity or nonpayment of rent, he said.

“I got a decent return but there was also a very high level of risk,” said Broll. His apartment management team succeeded in making the upgrades and bringing in new tenants, but he recalled them looking like “we never want to do that again.”

Buyers this year are finding few complexes for sale in the county.

“The demand is greater than the inventory that is out there,” said Annette Cooper, an agent with Keegan & Coppin in Santa Rosa.

Rami Batarseh, the owner/broker of BN Commercial in Santa Rosa, said the lack of inventory in the county has led him to turn to other areas of commercial real estate. He called apartment sales “a very tight market, and Sonoma is definitely in demand.”

Sonoma County sales typically involve smaller complexes than deals in larger metro areas. The median number of units per complex has ranged between 20 and 30 during the past three years.

In the greater Bay Area, sales prices have risen significantly in the last year for complexes with 50-plus units. The average price per rental unit sold this year is \$307,837, an increase of 25 percent from 2012, according to RealFacts.

“It’s starting to get tougher and tougher to find a good buy, because the price has gone so high,” said Grotjahn.

Broll, the investor, said he still likes the North Bay apartment market but wonders whether it is getting “frothy.”

“I am a little concerned that it’s not going to go that much further,” he said.

Gerber maintained it is easier to argue that institutional investors are overpaying elsewhere for the large complexes than to make that case for the smaller buyers of North Bay properties.

“The small investors are buying on strong fundamentals,” he said.

Views were mixed on what difference new construction will make on the market.

Builders of both single- and multi-family housing have been looking for properties to develop, said Cooper. One reason is builders forecast demand as employment grows, including from the Graton Resort & Casino that opens next month in Rohnert Park.

“People are going to be building,” Cooper said.

As an example, cleanup work is underway on land that would house the 270-unit Range Ranch apartments south of Coddington Mall at Jennings and Range avenues. Full construction is expected to begin next month, said Rob

O'Dea, a spokesman for the owners, the Wolff Company of Scottsdale, Ariz.

The \$34 million project would be the county's first market-rate apartment complex built since 2009. Construction is expected to take 21 months.

While some multi-family construction will take place in the county, most observers questioned whether it will have much impact on vacancy rates, rents or the demand by investors for such complexes. They maintained that the cost of land and the fees by government planning and building agencies make it difficult to devise projects that pencil out.

“It's just simply too expensive to build,” said Broll.

Page: 1 | 2 | 3 | 4

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