

Investment Strategies

Rents rising in hot market for apartments

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NORTH BAY – The North Bay apartment rental market continues to sizzle with rising rents in both Marin and Sonoma counties and a significant tightening of occupancy rates in Marin County.



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For instance, in Marin County the average rent moved up nearly 9 percent over rates in 2007, with another 8 percent increase projected by the end of 2008. In Sonoma County, average rents were slightly more modest, with increases in the 7 percent to 8 percent range.

As the residential housing market has softened and first-time buyers are unable to obtain financing to purchase, tenants are forced to continue renting and must endure these large rental increases that are occurring now throughout the North Bay.

At the same time, occupancy rates for apartments have tightened up, moving from a low in Marin County in 2001 of 93.5 percent to an average now of nearly 97 percent.

In Sonoma County, apartment operators are experiencing the opposite of Marin building owners and saw a drop in the occupancy rates last year from 95.3 percent at the end of 2006 to a rate of 94.3 percent in the last quarter of 2007, according to Realfacts of Novato.

The high occupancy rates in Marin are due to the continuing high residential ownership costs, where median housing prices peaked at nearly \$1 million in mid-2007. Current occupants of Marin rental housing are electing to continue renting until either housing prices come down or interest rates and loan

The North Bay rental market is directly affected by rental rates in San Francisco, some of the highest in the nation. When renters can't afford the high rents in San Francisco, they migrate to Marin County, where rents are typically 15 percent lower for the same size apartment in San Francisco.

For example, in Sausalito, a renter can find a one-bedroom apartment for \$1,600 to \$1,700 per month. In San Francisco, the same size apartment would rent for \$1,800 to more than \$2,000 per month.

The booming North Bay rental market is making apartment operators less inclined to sell or trade up, as income streams are increasing and positive cash flow is the result. Apartment inventory has decreased over the past several years as the rental market saw these big increases.

In particular, smaller Marin County complexes from four to 10 units are in short supply in the marketplace and a significant increase in buyers is occurring this spring. This shortage of apartment inventory has allowed prices to remain stable with no sig-

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rent multipliers for properties being offered in the county are from 13.5 in central Marin to as high as 18 to 20 in Sausalito and Tiburon.

In Sonoma County, average gross rent multipliers for smaller complexes from four to 10 units have dropped only slightly from the market peak in 2005.

A significant factor in the North Bay apartment market this year is the available financing at very attractive rates. Major apartment lenders like Washington Mutual are offering a variety of programs starting at rates as low as 5.5 percent for purchases and refinances. Local lenders,

such as First Federal of San Rafael and Circle Bank of Novato, are offering competitive loan products matching the rates and terms of the big national lenders.

Down payments required for these purchases continue to average 30 percent of the purchase price, but many lenders are taking note of the strong rental market and are lending more aggressively on properties that show a significant rental upside.

This is all good news for local real estate investors and we expect to see the North Bay apartment market significantly increase in activity in 2008.