

# APARTMENT REPORT

## GALLELLI INVESTMENT

### THIRD QUARTER | 2011 | SACRAMENTO CALIFORNIA

## MARKET SUMMARY

### RENTAL AND VACANCY RATES

The Sacramento market had over \$321,000,000 in transactions for 2010, which was more than double the amount for 2009. For 2011, we are expecting to see slight increases in rental rates and increased occupancies and over \$400,000,000 in sale transactions.

The Gallelli Investment Team 2nd quarter 2011 apartment rental survey reports an overall market vacancy rate of 4.7% and an average rental rate for all types of units of \$889 per month. Average rental rates rose from \$886 in the 2nd quarter of 2010 to \$889 in the 2nd quarter of 2011. The survey also revealed that vacancy decreased 130 basis points over the past year from 6.0% to 4.7%.

Average rental rates have increased slightly as concessions have burned off and landlords have experienced vacancy decreases in most submarkets of Sacramento. The shadow market is still a factor, but not to the extent that it was when the recession began.

### SALES TRANSACTIONS

Strong fundamentals and limited construction have counterbalanced the large unemployment figures that would normally be a drag on the apartment market. Buyers have renewed interest in Sacramento and are taking advantage of what many perceive as the bottom for pricing for Class C assets. Class A assets are a completely different story as pricing is nearing peak pre-recession levels. Expect pricing to get even more aggressive by mid 2012 and continue an ascent as our employment figures should start to slightly improve by then. Buyers have decided to scout secondary markets like Sacramento as prices have risen too high in major markets. Lower pricing in secondary markets allows buyers to purchase anywhere from 100 to 150 basis points higher than primary markets, such as the San Francisco Bay Area. Transaction volume has picked up since the 1st Quarter of 2011. There is still a significant

amount of REO and distressed deals on the market, but the market is no longer dominated by that class of product.

We have weeded through the lower quality REO product and are now seeing B-/C+ assets in need of some value add or rehab work, whereas before almost all of the REO product was C-/C product. The market is beginning to see more Class A product hitting the market as investors are deploying capital into stable long term growth deals and paying top dollar for them. The 400+ unit Meridian at Stanford Ranch is on the market as well as the Villages at Galleria. Both properties are listed north of \$120,000 per unit.

Transaction volume increased dramatically in the 2nd Quarter of 2011. Total transactions were about equal to 1st Quarter 2011. However, the sale of the 612 unit Slate Creek at Johnson Ranch in the Roseville submarket accounted for the bulk of the total 2nd Quarter 2011 transaction volume. The property which was purchased in 2009 for \$54,000,000 fetched \$76,500,000 this time around. The only other notable transaction occurred in the downtown Sacramento submarket, as Governor's Village sold for \$8,450,000. The two large and notable transactions accounted for a combined 85% of the total 2nd Quarter 2011 sales volume.

### NEW CONSTRUCTION

Through July of this year, Sacramento has already surpassed last years total of 476 multifamily units permits issued.

### EMPLOYMENT

In June 2011, the Sacramento County unemployment rate rose to 12.6% from an 11.8% rate in May 2011. Sacramento's unemployment rate has remained in the 12% to 13% range since October of 2009.

### SIGNIFICANT APARTMENT SALES

		Price	# of Units	Price/Unit	Price PSF	Actual Cap Rate	Year Built
Terraces at Highland Reserve	Roseville, CA	\$40,500,000	273	\$148,352	\$146.12	5.30%	2002
Alder Ridge	Davis, CA	\$14,900,000	120	\$124,167	\$145.62	5.80%	1987
Garden Villas (1)	Sacramento, CA	\$6,610,666	65	\$101,703	\$104.31	N/A	2007
Rosedown	Sacramento, CA	\$5,800,000	108	\$53,704	\$71.40	7.00%	1995
Walnut Manor	Sacramento, CA	\$4,177,936	90	\$46,422	\$68.27	7.20%	1973
Springwood	Sacramento, CA	\$3,180,000	62	\$51,290	\$82.72	N/A	N/A
Victoria	Yuba City, CA	\$2,210,000	52	\$42,500	\$56.96	N/A	1976
Fountain Crest (1)	Rancho Cordova, CA	\$2,100,000	72	\$29,167	\$35.71	N/A	1965
Orangevale Commons (1)	Orangevale, CA	\$2,050,000	50	\$41,000	\$58.16	N/A	1963
Southgate (1)	Sacramento, CA	\$2,009,000	82	\$24,500	\$34.03	N/A	1966

(1) REO Sale

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## MULTI FAMILY COMPARISON

SACRAMENTO, CA

Area	THIRD QUARTER 2011				THIRD QUARTER 2010			
	<u>Units Surveyed</u>	<u>Avg Rent</u>	<u>Avg Rent Per Sq/Ft</u>	<u>Percent Vacant</u>	<u>Units Surveyed</u>	<u>Avg Rent</u>	<u>Avg Rent Per Sq/Ft</u>	<u>Percent Vacant</u>
1 Downtown Sacramento	789	\$1,099.00	\$1.58	2.9%	1,023	\$1,065.00	\$1.44	7.0%
2 East Sacramento	122	\$793.00	\$1.09	3.3%	87	\$797.00	\$1.15	2.3%
3A Land Park	200	\$764.00	\$0.90	3.0%	200	\$768.00	\$0.91	6.0%
3B South Sacramento	1,383	\$685.00	\$0.96	7.3%	1,197	\$671.00	\$0.94	9.2%
3C Florin	1,604	\$699.00	\$0.94	3.9%	1,883	\$720.00	\$0.97	7.3%
4 Greenhaven	2,805	\$922.00	\$1.05	4.8%	3,284	\$895.50	\$1.01	4.6%
5A Rancho Cordova	4,518	\$885.50	\$1.10	4.5%	4,595	\$855.50	\$1.06	4.5%
5B Capital Center	1,996	\$850.00	\$0.97	4.2%	1,996	\$856.50	\$0.98	2.6%
6 Arden/Arcade	3,632	\$868.50	\$1.07	5.5%	3,914	\$887.50	\$1.09	6.4%
7A Arden	2,189	\$707.50	\$0.97	6.3%	2,410	\$711.50	\$0.95	6.4%
7B Carmichael	2,049	\$747.00	\$0.90	5.7%	1,476	\$746.50	\$0.90	6.5%
8 Del Paso	110	\$608.00	\$0.71	0.0%	110	\$626.00	\$0.74	2.0%
9A South Natomas (W)	2,332	\$1,073.50	\$1.19	6.7%	1,954	\$1,012.50	\$1.15	5.4%
9B South Natomas (E)	3,280	\$790.00	\$0.96	4.3%	3,456	\$814.00	\$1.03	6.0%
10 North Natomas	3,014	\$1,108.50	\$1.17	5.7%	2,915	\$1,102.50	\$1.15	5.2%
11 North Highlands	2,633	\$742.50	\$0.94	8.1%	2,470	\$742.00	\$0.95	4.7%
12 Antelope	1,271	\$900.00	\$1.09	5.2%	1,611	\$907.00	\$1.07	4.3%
13 Citrus Heights	5,738	\$802.00	\$0.99	5.2%	5,917	\$812.00	\$1.00	4.3%
14 Fair Oaks	2,269	\$838.00	\$1.02	6.6%	2,083	\$797.00	\$1.00	6.1%
15 Orangevale	1,601	\$894.00	\$1.12	4.7%	1,872	\$868.00	\$1.08	3.6%
16 Folsom	2,732	\$1,258.50	\$1.34	5.2%	2,940	\$1,186.00	\$1.25	3.6%
17 Roseville/Rocklin	6,972	\$1,098.00	\$1.19	3.9%	7,387	\$1,031.50	\$1.11	4.4%
18 Elk Grove	982	\$932.00	\$0.97	2.7%	982	\$926.00	\$0.96	2.6%
19 West Sacramento	136	\$672.00	\$1.02	12.5%	92	\$781.00	\$1.08	3.3%
20 El Dorado Hills	564	\$1,398.00	\$1.38	3.5%	564	\$1,249.50	\$1.24	5.5%
21 Cameron Park	465	\$993.00	\$1.14	5.4%	268	\$983.00	\$1.14	4.1%
<b>TOTALS</b>	<b>55,386</b>	<b>\$913.38</b>	<b>\$1.06</b>	<b>5.1%</b>	<b>56,686</b>	<b>\$897.17</b>	<b>\$1.08</b>	<b>5.0%</b>

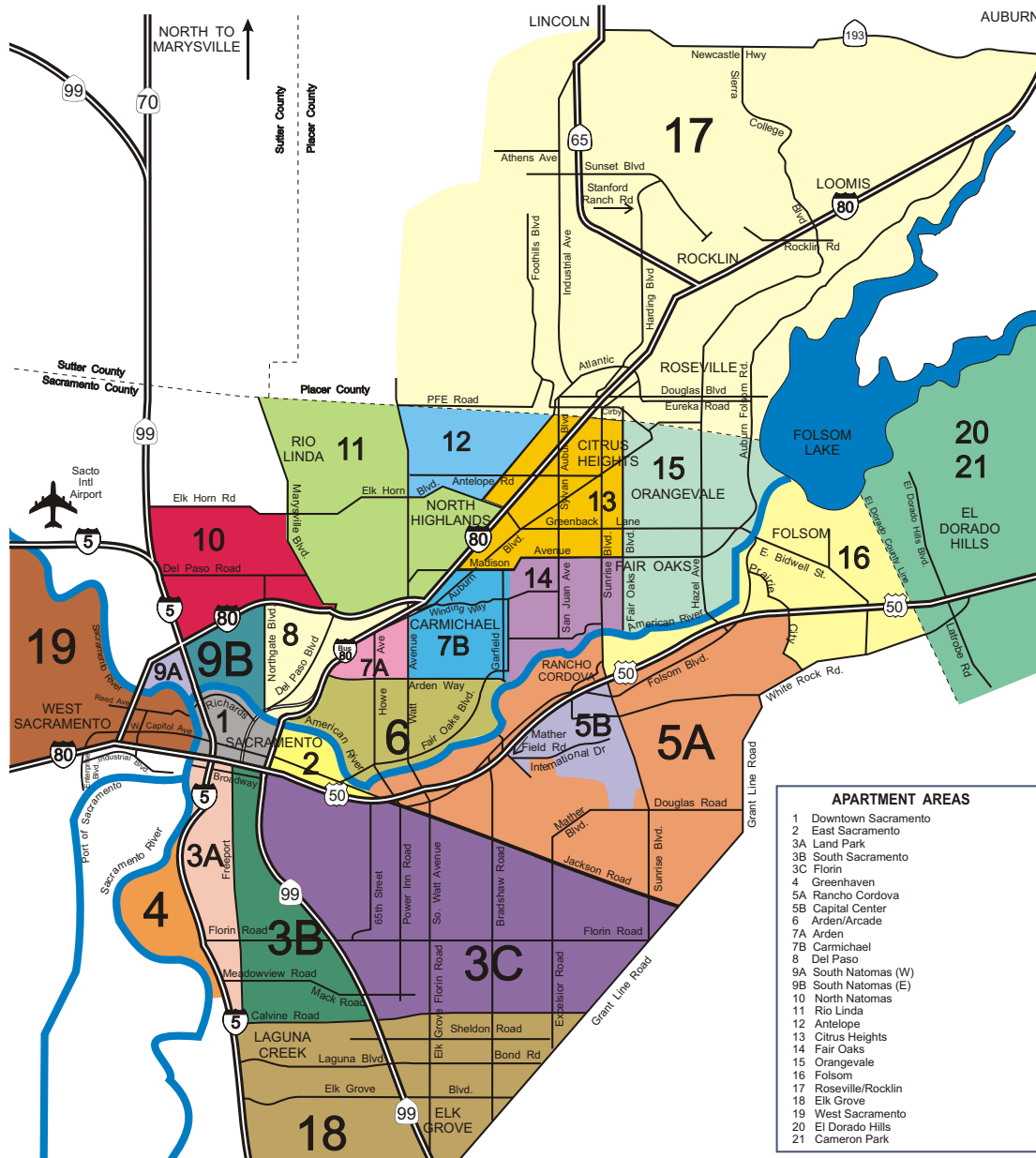
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THIRD QUARTER 2011

### AREA MAP

#### MULTI FAMILY COMPARISON



#### Contact Us:

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