



"Whether a Duplex or a 30-Unit Apartment Complex,  
 Let Marin's Apartment Specialist Represent You!"

# MARIN COUNTY 2011 Fall Market Update

Michael Burke has specialized in selling Marin's residential income property for over 25 years. He is one of the few agents that limits his practice to this market segment.

Income property sales require an expertise that not all agents have. Since many sales involve tax-deferring techniques, more than a casual knowledge of tax laws and practice is necessary. Income and expense statements must be analyzed, leases must be reviewed and tenant estoppels drawn. Showing an income property is completely different than showing houses. One cannot tour agents and buyers through rental property without risking a tenant uprising.

Whether a duplex or a large apartment complex, you deserve someone specializing in Marin's income properties representing you. Michael has been doing so for over 25 years and is the top producing agent in this field.

### Marin Rental Update

We have been providing our readers a quarterly update on rents since 1992. The information is posted on our web site shortly after we receive the data and then mailed in this format to Marin's apartment owners. Raw data is provided by Real Facts, a contract data service provider. They survey 5800 apartments within 40 different complexes in Marin for rents and vacancies. We break down their data into unit size and location to provide the most useful information to our readers.

The latest survey shows Marin's average apartment rent increasing to \$1754 per month. This is up a full 6.0% higher than this same period a year ago. Our vacancy rate decreased on a quarter over quarter basis to 3.6% from 4.2% and indicates a continuing strong rental market.

Keep in mind that 5% is considered "textbook" normal and rents tend to adjust up or down until a normal vacancy rate is achieved. If too far below 5%, rents rise until vacancy levels increase and if above 5%, rents tend to fall until the rate drops down below 5%.

One theory for this latest increase in rents is that the 20-somethings that have in the past few years moved back in with their parents or were sharing rentals with roommates have a renewed confidence in their career stability and are once again moving back into the rental market.

### Marin Apartment Market Update

The nationwide strengthening of the rental market has helped restore confidence in apartment building investment. Bolstering this

turnaround is also a lack of confidence in the stock and bond market. The recent declines in the stock market have sent investors running to the safety of Treasury Bills; sending their rates to historic lows. The returns on these Treasury Bills typify the rates of return available to investors. Returns available from apartment investment far exceed returns available in these competing investments.

In a recent publication from Meyers, LLC, a capital advisor and research group, they concluded that "The strong fundamentals for apartments have resulted in a flood of institutional lenders and investors flocking to multifamily product." They also created an investment index tracking 27 metro areas throughout the country for desirability for investment and expected returns in those areas. The San Francisco area was ranked #2 and suggested estimated CAP rates on class "A" buildings of 4-5%. These are the same rates available on small Marin apartment buildings.

Given the limited number of larger apartment sales in any year, trends are often hard to demonstrate. Duplex sales are more prevalent and may be more useful for indicating sales trends. During the first six months of 2011, there were 42 duplex sales recorded. This is about the same as in 2010 and up 50% from the same period in 2009.

While the apartment building investment market bottomed out in mid to late 2010, it is still somewhat anchored by the public's perception of the overall residential marketplace. It is interesting to note that during the first seven months of 2011, there were 1,476 single family residential sales in Marin. This is up 3.5 % from the same period in 2010 and up 34.7 % from the same period in 2009. This increase in sales is

coupled with a higher percentage of properties on the market having "Sales Pending". Of the 1,460 properties currently on the market for sale, 460 or 32 % have a sale pending. Foreclosures and notices of default (NOD) are down from last year. In the Bay area, foreclosures are down by 7.9% and NOD's are down 19.1% . In Marin NOD's are down 9.1%.

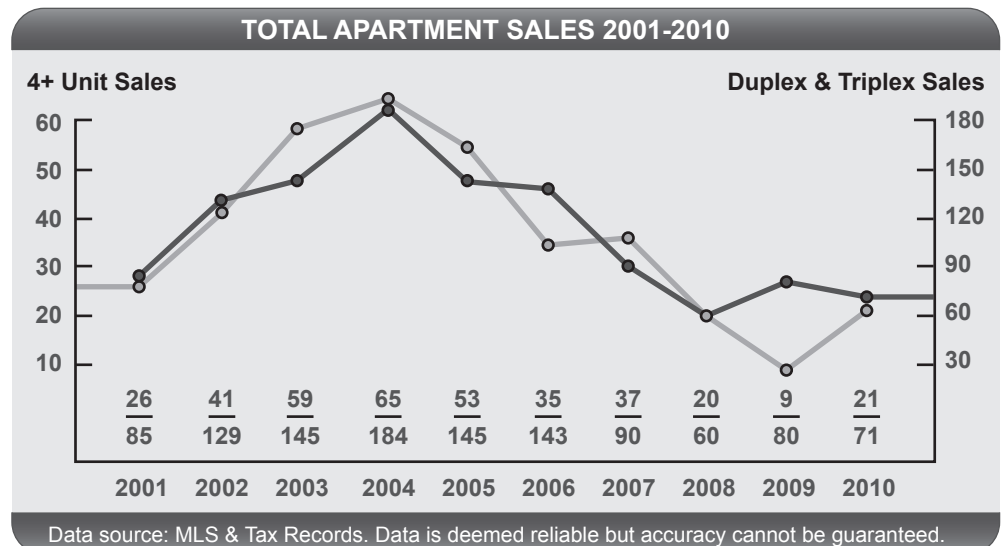
Apartment building sales of note: In Sausalito, a six unit building that had been on and off the market for the last few years sold for \$1,900,000. This was at 15.5 times income (GRM). In another Sausalito sale a seven unit building sold for \$2,270,000 or a 16.4 GRM. These sales clearly demonstrate that a premium price will be paid for premium real estate. On the other end of the spectrum, a 10 unit building in the Canal area of San Rafael just sold for \$1,190,000 and at 10.2 GRM. This building needed a lot of work, but still sold at a premium for the area.

### Values & Outlook

Valuations have changed! Buyers and sellers have been "sitting on the fence" waiting to confirm the direction of the market. While some sellers would like to wait for "prices to rebound", there is no reason to suggest that prices will rise anymore than what they would from normal Marin appreciation. Buyers have been slow to come to market thinking there is still room for prices to go down or waiting for that volley of foreclosures of income properties. It is not going to happen and the buyers are back.

While it has been difficult to get a handle on the market with the limited number of sales to

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use for comparables, prices have stabilized and are demonstrating current market valuations. Each property and each area within Marin is unique, and generalizations are difficult and dangerous. When rents declined during 2000-2005, values still increased pushing rent multipliers (GRM) up and CAP rates down. Now that rents have climbed and values have been downwardly adjusted, rent multipliers and CAP rates are moving back to more traditional and expected ranges.

A Marin duplex is selling between 15-20 times its annual income (GRM); a 4-plex at 13-15 GRM; a small apartment building at 12-14 GRM and a mid-sized complex at about 10-12 GRM. Premium areas will be at or above the upper end of this range and inferior locations or problem properties will be at or below the lower end of the range. Cap rates (return on investment) are running between 4% - 6% depending upon the size and location of the property.

Historically apartment building sales are 36% greater in the second half of the year than in the first. I believe we will see a big jump in the number of sales the second half of this year without any further price declines. Sellers have accepted the fact that prices have adjusted and more quality properties are on the market. Buyers, realizing that we are already past bottom, are anxious to once again buy and invest in Marin real estate.

#### **Sewer Rate Increases**

This is a very important "Hot Topic" and this is your CALL TO ARMS! You have recently received a letter from your local apartment

owner's association (MIPA) explaining the problem and asking you to write a letter to your local district. They included the contact information for all of the districts. I will also post that list on my web site [www.MarinApartments.com](http://www.MarinApartments.com) or call and I will send you the list. Please write that letter and consider joining their association as it exists only for your benefit - [www.MIPA-CAA.com](http://www.MIPA-CAA.com). There is power in numbers. If you would like to see a sample letter sent by an owner, let me know; bcc me a copy of your letter.

Your sewer bill is paid with and shown only on your property tax bill. Changes to the billing amount can often get lost with the many other items on your tax bill and it is only paid twice a year. Recent increases however, have been hard to miss.

There are at least 14 different Sanitary Districts throughout Marin and each sets their own rates. Over the last year we have seen most of these districts dramatically increase their rates; often more than doubling what they had been charging only a year earlier. As an example The City of Mill Valley is proposing to increase their current sewer service charge effective July 1, 2011 to \$694 per unit, up from \$297. This represents a 134% increase!

In fairness to the sewer districts, federal and state laws have increasingly required sewer districts to upgrade their systems to prevent sewer overflows. This means replacing miles of sewer mains. Replacement of the mains also reduces the amount of ground and storm water that leak into the sewer pipes and flow to the treatment plants for expensive processing.

I am not taking issue with the increased amount of money the various sewer districts need to operate. What I object to is the fairness in allocating the costs to different property owners. While the unfairness has existed for a long time, it was a small enough number that it did not seem worth the fight to try to change.

In almost all districts in Marin, an apartment building is charged the same rate for each of its apartments as is any single family home. In other words, an apartment building of 10 studios is charged a rate equal to 10 estate homes. Districts rightfully charge their commercial users on a rate schedule based more on their actual impact on the system. They are charged based on their water usage (flow rate). I would like to see sewer districts apply this same thinking to apartments or even different size homes for that matter.

This is not a small issue. Let's take a 10-unit apartment building in Mill Valley that is currently being charged \$297/unit or \$2,970 per year. With the proposed increase that same building will pay \$694/unit or \$6,940 per year. This is an increase in the building's operating expenses of \$3,970; or put another way, a decrease in the Net Operating Income