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# Apartment-complex deals draw investors

Rising rents and lack of return on other investments increase the lure

Premium content from Sacramento Business Journal by Sanford Nax, Staff Writer

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With the stock market in turmoil, investors are turning to apartment complexes.

“There is a lot of money chasing deals,” said [Ken Blomsterberg](#), first vice president of investments at Marcus & Millichap in Sacramento, who just helped sell the 264-unit Broadstone at Strawberry Creek apartments near Elk Grove for \$36 million, or \$136,300 per unit.

That was not a record per-unit price, but it was certainly “up there,” said Blomsterberg. The high price is indicative of the red-hot market for good-quality apartments, a demand driven by an improving economy, anxiety over the stock market, little income growth, little construction, families losing their homes to foreclosure, increasing rents and historically low interest rates.

The Elk Grove property attracted 12 offers and was bought by Decron Properties in Los Angeles for all cash. It is the company’s first foray into the Sacramento marketplace.

“There is a lot of interest in quality assets,” said Blomsterberg, who worked the Elk Grove deal with fellow agent [Ben Frazier](#), along with [Stan Jones](#), and [Phil](#) and [Sal Saqlimbeni](#), who are with Marcus & Millichap Institutional Property Advisors Group in Palo Alto.

Marcus & Millichap also was involved in the latest deal in Davis, where apartment vacancy rates are low, rents are high and properties don’t come up for sale very often. Pennsylvania Place, a 41-year-old 28-unit complex, changed hands in a \$3 million transaction, or \$107,000 per door. In addition, older apartment complexes are receiving much-needed TLC. An example is The

Grove, an 80-unit complex two miles from **University of California Davis**, that is halfway through an eight-month revamp.

The Grove is the new name for the former Brush Creek Apartments, which were built in 1981 and acquired in November by HighBridge Properties in San Francisco. The owners are installing new carpeting and wood-panel flooring, repainting all rooms, resurfacing kitchen countertops, and replacing window treatments and kitchen appliances, including the installation of dishwashers and free Wi-Fi service in all units.

Other changes include newly landscaped grounds, a resurfaced parking lot, new poolside furniture, a renovated community laundry room and a new outdoor barbecue area with gas grill. HighBridge principal [Paul Gradeff](#) wouldn't disclose the cost of renovation, except to say it was "substantial."

[Brian Jacks](#), vice president and regional director of East West Commercial Real Estate in Sacramento, said apartment complexes are luring investment money from the stock market and other types of real estate. His last two apartment transactions were to single-family landlords making their first apartment deals, and he is expecting an offer on a 31-unit apartment complex he has available in Sacramento. That offer is expected from an investor pulling money out of the stock market.

"There is just too much volatility in the stock market," he said. "Apartments are the most conservative and predictable real estate sector."

Distressed sales led the way in 2011, accounting for about two-thirds of all the deals, according to a CBRE report. But the spigot turned off this year and higher-quality properties are drawing the most interest — but are in relatively short supply.

"There is a wall of capital and a lack of opportunity," said [Marc Ross](#), vice president of CBRE Commercial Real Estate Services in Sacramento, which is marketing Oakshade Commons in Davis, a mixed-use development of apartments-turned-condominiums and two commercial spaces.

Oakshade Commons is described as "unpriced," a strategy becoming increasingly common with desirable properties.

There also has been a paucity of new construction, although the housing options will expand when Roseville-based USA Properties Fund builds two income-restricted affordable projects in Elk Grove. The first, the 102-unit Arbor Creek Family Apartments, could break ground this week on Elk Grove Florin Road east of Highway 99 in Elk Grove. A 60-unit complex slated for people 55 and older is proposed next door, said Art May, senior vice president of USA Properties. Both are financed by tax credit investors.

Ross and other real estate agents expect investor interest to pick up even more in Sacramento as Bay Area real estate becomes more competitive. "What happens is that they start looking at alternative geographies," Ross said. "Our fundamentals are doing well — if they can find stuff to buy."

Sanford Nax covers commercial and residential real estate and construction.

