



## Home Front: Asking rents in Sacramento region retreat to 2004 levels

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A long time ago, in the summer of 2006, leading apartment analysts said the party was over for Sacramento's happy tenants.

Big rent hikes would start within months, they warned. Supply was tightening, the theory went, and demand was moving in owners' favor.

They were so wrong.

The housing market collapsed instead, and the economy with it. Today, 3 1/2 years and 90,000 lost jobs later, a 12.4 percent unemployment rate in the Sacramento region has driven average asking rents at area apartment complexes back to 2004 levels. In an overbuilt housing market, the estimated 35 percent of the population that rents still holds the upper hand.

Owners are stressed now, especially those who bought at boom-era prices.

"Investors who bought near the top of the market haven't been able to achieve the expectations they had hoped for," said John Gallagher, a senior property management executive with TRI Commercial. "They're having a more difficult time making their debt service."

During the last three months of 2004, area landlords asked tenants for an average of \$913 a month. At the end of 2009, they asked for \$915.

While there have been some foreclosures in the apartment industry, Gallagher said banks have been willing to do loan modifications and agree to delayed payment plans with owners. He said, "I also think we'll see more short sales."

Gallagher and his TRI Apartment Advisory Team is soliciting short sale offers already on a 72-unit property in Sacramento called Bradford Pointe. "The lender is willing to let a buyer buy well below the principal balance," he said.

"Sobering" is how apartment industry tracker RealFacts of Marin County puts all this. It reported this week that asking rents at 76,000 apartments in Sacramento,

Yolo, Placer and El Dorado counties have collectively fallen 5.3 percent in the past year. RealFacts said 7.9 percent of units in 396 area complexes are vacant.

By comparison, 15.8 percent of Sacramento-area offices are vacant and 12 percent of shopping center space is empty, according to broker Colliers International. Nearly 12 percent of industrial space is also empty.

RealFacts said unemployment is the culprit for empty apartment units and falling rent throughout the United States. Layoffs and wage cuts are pushing more young people to move back in with parents.

Renters are doubling up to save money. And younger workers most likely to rent have borne the brunt of downsizing the work force.

Yet despite the economy, investors still bought and sold 17 area apartment complexes in 2009. Their combined sales price: \$183.4 million, said Gallagher.

### **No market for millwork**

Remember the good old days when you'd tour new model homes and rave about the lovely crown molding (always a more expensive upgrade, of course)?

All that manufactured millwork now is a victim of the worst new-home market in half a century. The financial analysis firm, Sageworks Inc., ranked the wood product manufacturing category as one of its worst-performing sectors in the past year.

### **Back under 5 percent**

Mortgage interest rates, which last year spent 22 weeks below 5 percent for 30-year loans, made their first appearance of 2010 below 5 percent this week.

Mortgage giant Freddie Mac's weekly Thursday survey showed averages of 4.99 percent before points.

That was down from 5.06 percent the previous week.

Freddie Mac also reported this week that adjustable-rate mortgages were 3 percent of U.S. homebuyer loans in 2009. That's because houses are cheaper again.

In very expensive 2005, ARMS were 73 percent of capital-area purchase loans, according to researcher MDA DataQuick.

