

# Tight market keeps apartment rents on the rise

Good news for landlords; bad news for low-income families with few options

MIKE MCCARTHY / STAFF WRITER

Sacramento's apartment rents and values continue to climb, a trend that delights landlords and developers but chills advocates of affordable housing.

The four-county Sacramento region's average rent rose a hefty 7 percent in the first quarter compared to a year earlier, according to Marcus & Millichap, a commercial real estate brokerage that spe-

cializes in investment properties.

The area's three-year trend toward higher rents is terrible, said Brian Augusta, staff attorney for Legal Services of Northern California. "The rent increases have a tremendous impact on very low-income people."

But it's still ...

**A blessing for landlords:** The average rent for the first quarter was \$839 a month, up \$55 year to year from \$784, said Aaron Frederick, an apartment agent with Marcus & Millichap.

That's slower than the 12.4 percent increase in 2000 or the 9.5 percent hike in 2001, but still well above the average

registered during the industry's slow years from the mid-1980s to the mid-1990s.

The hikes are likely to continue. This quarter should see a 5 percent hike over the second quarter of last year, and the whole year will probably see an overall uptick between 5 percent and 7 percent, predicted Frederick, who previously held the job of Marcus & Millichap's market analyst in Sacramento.

If that annual increase holds, it means rents will climb more steeply later this year than they have so far in 2002. Compared to the last quarter of 2001, the local average rent rose just \$4, and even fell slightly in the downtown Sacramento, Citrus Heights/Orangevale and Elk Grove submarkets.

**Above \$1K in Elk Grove, Folsom:** Year to year, the highest rent increases were seen in Elk Grove, South Sacramento and the Arden area.

Elk Grove led the region with a 10.6 percent hike to \$1,037 a month, the second-highest after Folsom's \$1,081. Both cities gained relatively upscale complexes that boosted rents.

The average rose 9.3 percent in the Arden area, to \$802. The area is one of the more stable, in-demand markets for local renters. Landlords saw an opportunity to raise rents, Frederick said, and they did.

North Highlands, a lower-income area, saw rents rise 8.3 percent to \$733, largely because the success of McClellan Park business park is sparking an economic renaissance in the area. And South Sacramento's rent hike of 8.8 percent, to \$632, reflected increased demand from renters seeking to escape the higher rents in other neighborhoods, he said.

Frederick forecasts an average rent of \$844 in the second quarter, up 5 percent from the second quarter of last year, but up just \$5 from the first quarter of 2002.

**Apartment prices rise:** As rents rise, so do the value of the apartments. The average apartment in the region was valued at \$71,969 in the first quarter of this year, Frederick said, up 51 percent from \$47,648 two years ago. Half of that value increase took place since the first quarter of last year.

In other words, apartment landlords are still enjoying the strongest apartment market since the mid-1980s, when overbuilding started to weaken a market that was hit again by the economic downturn of the early 1990s.

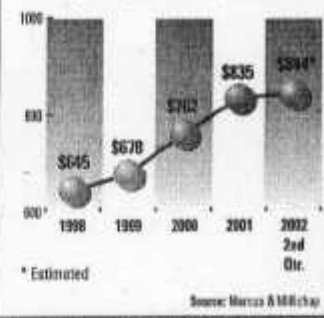
Apartment developers, responding to the demand that increased rents, have stepped up construction the last few years. They built 1,000 new units in 1997, then during the next four years they built 12,400 units, averaging 3,100 a year.

This year the volume is expected to reach 4,000 new apartments, although the level could fall to 3,000 next year, Frederick predicted.

The hectic construction has had

## Apartment rents rising

Average rent for apartments in El Dorado, Placer, Sacramento, Yolo counties



some effect on vacancies. The vacancy in March, the last quarter measured, was 4.9 percent, up from 2.4 percent a year before.

But vacancies are still low. Landlords traditionally figure that 5 percent of their units will be constantly vacant as a result of normal turnover, Frederick explained. He predicts a 3.9 percent vacancy rate by year-end.

**A curse for some renters:** Greater Sacramento's population growth and relatively strong economy is driving rents higher. Yolo, Placer, El Dorado and Sacramento counties all rank among the eight fastest-growing counties in the state, according to the U.S. Census Bureau.

The bureau's latest report shows that the four counties added 77,786 people from April 1, 2000 to July 1, 2001.

The result is a squeeze on the poorest renters, said economist Robert Fountain, analyst for the Sacramento Regional Research Institute at California State University Sacramento.

The population is growing largely due to the migration of workers and companies fleeing the Bay Area's high cost of living.

Many of the new arrivals are relatively well-heeled renters, and they aren't finding enough good choices. "If they can't find quality market-rate rentals, they take units from lower-income people," he said. "I think that's what's happening."

If so, Fountain said, the way to free up affordable homes is to build more market-rate housing in Greater Sacramento close to the places where the new arrivals work.

It's definitely harder these days for poor people to afford rentals, Augusta said.

"The housing crisis continues to escalate. Two minimum-wage workers working full time can't afford the average rent in Sacramento," he said. "People really are being made homeless by being pushed out of the rental market."

The recent rent hikes extend the affordability problem upward into another layer of lower-wage workers, he said, including teacher's assistants, clerks and child-care providers. They can't find affordable housing in outlying areas, where there is little such construction. So they double up in apartments in older neighborhoods, leading to overcrowding.

"It points up the need for all communities in the region to redouble their efforts to increase the supply of affordable housing," August said.

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**Brian Augusta**  
Legal Services of  
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