

## *Featured Listings*



**FedEx, Youngstown, OH** – Net Lease, high quality industrial building on 15.9 acre lot. New 10 year lease with national credit tenant starts June 2008. Good location with easy access to major highway. **CAP: 6.80%. \$6,120,000**



**271 Jayne Ave, Oakland, CA** – The subject property consists of 15 apartment units with a large living room in each unit. Perfect location in Adam's Point, near Oakland Whole Foods, Lake Merritt, and 19<sup>th</sup> St. BART. Fast access to major freeways and transportation to San Francisco ideal for commuters. Quiet neighborhood makes it easy to rent units; good upside in rents. On-site laundry room and some new appliances. New roof in 2007 with warranty; building has been well maintained and cared for.  
**CAP: 6.01%, GRM: 10.51. \$2,100,000**

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For more information, a free consultation, or a free estimate of value, contact:

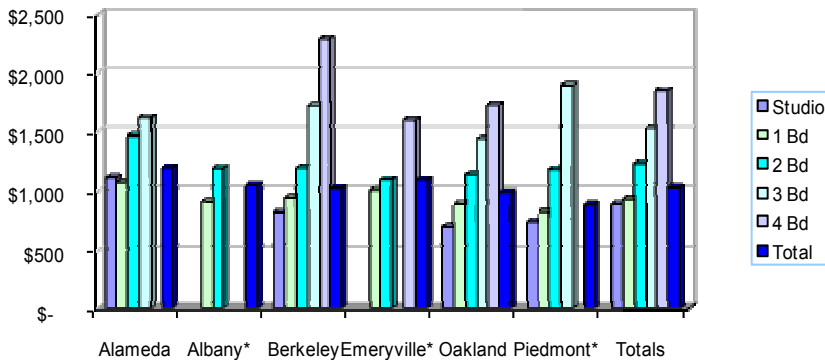
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## Market Analysis: Summary of Vital Statistics

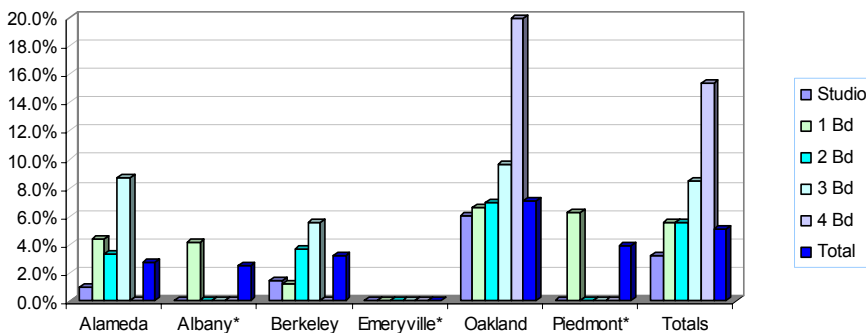
**Average Rents Alameda County**



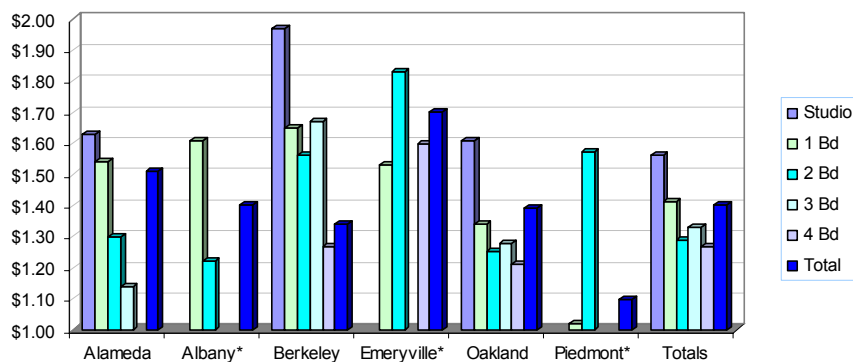
**Alameda County Overview**

	2006	2005	2004	2003
<b>Average Rent</b>	\$1,118	\$1,030	\$949	\$993
<b>Vacancy</b>	4.00%	5.10%	7.40%	7.00%
<b>Units Sampled</b>	4,082	4,102	3,896	2,151

**Average Vacancy Factor Alameda County**



**Average Rent per Sqft Alameda County**



\* Inadequate Sample Size  
Source: RHANAC

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## *Individual Market Reports*

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### Alameda

Many of the Alameda rental property owners we've been working with have noticed a surge in rental applications in the past few months and have been able to command significantly higher rents for their vacant units. Many believe this is directly related to the slowdown in the housing market. As current and prospective homeowners are being squeezed out of the housing market they've been returning, in droves, to the rental market. A recent rent survey reveals that year-over-year rental rates have increased almost 8% in the island city, which bodes well for landlords. Also of good news, well located and well maintained apartment buildings in Alameda have still been selling. On average, they've stayed on market longer than they would have the past two years but fortunately prices have remained consistent. While many homeowners have seen their property values reduced drastically from their highs of a year or two ago, Alameda apartment building owners can remain confident that their property values have been stable while their rental income has increased.

❖ **Jai Kohli 510-844-3658**

### Oakland

The Oakland apartment sales market has shown signs of waning in areas further east of Downtown and West Oakland, while North Oakland, Lake Merritt, Downtown and Rockridge have exhibited steady activity and gradual upward movement in Cap Rates. Consequently, average GRM's and CAP Rates city-wide have gone down by as much as 10% in less desirable areas, while areas in which the rental market is strong have seen stronger sale prices in comparison to 2006. The rental market has posted two of the strongest years since 2000 with asking rents going up by as much as 8–10% in many locations and vacancy rates staying below 5% in a majority of the City. Consequently, Oakland will continue to catch the eyes of investors given its superior location near Emeryville, Berkeley and San Francisco offering young professionals and families affordable housing and convenient access to freeways and public transportation. New retailers, including Trader Joes and Whole Foods, opened new locations in the Fall of 2007, further enhancing Oakland's broad appeal.

❖ **Grant Mace Chappell 510-844-3650**

### Southern Alameda County

Apartment rents in the Southern Alameda County cities of Castro Valley, San Leandro and Hayward showed steady 3–4% increases through the last half of 2007 and into 2008. Owners who have upgraded kitchens and baths are seeing the largest increases and the most demand from tenants for their units. Rents in the El Cerrito and Albany markets have also increased in the

past 8–12 months as more and more individuals and families are finding it harder to qualify for a loan and thus are forced to turn to the rental market. We are still seeing well located 5+ unit apartment properties with little deferred maintenance trading in the high 4% to low 5% CAP range, especially in non rent control cities such as Castro Valley, San Leandro and El Cerrito.

❖ **Rich Martini 510- 844-3657**

### Contra Costa County

*Location, Location, Location.*

Well located properties in Contra Costa continue to sell for a premium. While the apartment market in general has seen a decrease in volume and price, well located properties in areas such as Walnut Creek, Lafayette, Moraga, Pleasant Hill and Concord continue to sell for the same low CAP rates and high gross rent multipliers that we have seen the last few years. The main driver of the continued appreciation in these areas is the increased rental rates owners have been able to charge. A recently performed rent survey in Lafayette showed a 10% increase for several buildings from just nine months ago.

❖ **Zach Evanish 510-844-3648**

### Berkeley

*A Healthy Year for Berkeley, Emeryville and North Oakland Properties*

In Berkeley, Emeryville and North Oakland, investors are shopping smarter. We saw properties 18 month ago with CAP's in the 4's and sometimes 3's, favoring sellers. Today we see a different picture. CAP are GRM's are on the rise. 3 and 5-year interest rates are commonly available at 5.5% and 5.75% respectively. This is very healthy for both buyers and sellers because properties will sell, not sit. Berkeley: 17 properties sold (MLS), Average CAP 5.33 / GRM 11066, Average days on the market (DOM) was 63. Total dollar value \$24,737,500. North Oakland (zip 94609): 10 properties sold (MLS), Average CAP 6.74 /GRM 6.69, Average DOM was 156. Total dollar value \$8,964,000. There are also some local ordinances that one should remember when preparing to sell or list. In Berkeley, RECO and Sewer Lateral need to be performed by or during escrow. The Soft Story ordinance in Berkeley requires some 450 residential income properties earmarked by the city to perform seismic engineering to conform. Lastly, Condo Conversion is alive and well. Less well known TIC sales for smaller multifamily properties now are easier to finance as some 6 lenders offering fractional lending. Rates are only a point or so higher than typical commercial rates. For up-to-the-date property evaluations to consider your options, don't hesitate to call.

❖ **Don Holm 510-844-3652 &**

❖ **Will Blucher 510-844-3664**

## *Don't Put All Your Eggs in One Property!*

*Nils Ratnathicam, Piedmont Capital Funding*

Leverage levels are often overlooked in the world of real estate. Simply put, your leverage level is the balance on your loan versus the value of your property; or the amount of risk you have in a property versus the risk the bank has. There are several reasons why, contrary to popular belief, owning a property with little or no loan is not necessarily the most financially sound way to invest in real estate. Each reason is built off the previous to help explain why you should be leveraged between 40 and 60 percent, not only to make more money but to protect that money. I give this advice to my clients who are investing for long term profits, as opposed to those who are looking to flip properties in the short term.

As we all know (though wholeheartedly refuse to admit!), real estate can be a risky investment. What everyone doesn't know is that a mortgage can be a great way to leverage this risk. Let's say you own a property free and clear. In a worst case scenario where either the economy or your property itself is in jeopardy, your exposure will be the entire value of that property. On the other hand, let's say you took out a mortgage for half the value of this same property. **Now this same risk is shared by you and the lender**, without you sacrificing the benefits of 100% ownership. If a bank is willing to share the risk while at the same time forfeiting ownership rights, why not take advantage?

A valid response to this would be to point out the interest you pay on the mortgage. However, that would bring me directly into my next point, which is that **your unused equity can earn you more money than it costs to borrow it.**

I'll use numbers to help make this clear. Let's pretend you own a property worth \$1,000,000 without any debt. This property nets you \$4,000 per month and appreciates at a conservative rate (admittedly not overly unrealistic in the current market) of 3% per year. Your outlook after 10 years:

Scenario I:  
One Property, No Debt

Rental Income = \$4,000/month x 12 months/year x 10 years = \$480,000  
Appreciation = 3% for 10 years on \$1,000,000 = \$343,916  
➔ **Total increase in wealth = \$823,916**

Now let's look at this same scenario, but this time you've taken a \$500,000 mortgage out on the property and purchased a similar property with the proceeds. You now own two \$1,000,000 properties, and owe \$500,000 on each. Your net rental income has now been cut to \$1,000 per property, (after debt payments). Your outlook after 10 years:

Scenario II:  
Two Properties, 25% Debt

Rental Income = \$2,000/month x 12 months/year x 10 years = \$240,000  
Appreciation = 3% for 10 years on \$2,000,000 (2 properties) = \$687,833  
➔ **Total increase in wealth = \$927,833**

As you can see, even with interest payments, **you stand to be \$100,000 richer after 10 years** if you utilize half of your equity to purchase another building. Not only will you have more money, but you will have spread your overall risk between two properties rather than one. This brings me to my last point:

The idiom "don't put all your eggs in one basket" applies to real estate just like any other investment. You wouldn't place all your money in one stock, so why would you place all your money in one property?

**By diversifying your investments and properly leveraging your mortgage(s), you will not only reduce your overall financial risk, but you also stand to come out ahead in the long run.**

Many of you have asked me about impounds, subordination agreements, and other terms commonly found on commercial loans. I will address those questions in a future article, so please keep your questions coming!

*Nils Ratnathicam is a loan advisor with Piedmont Capital Funding. His area of expertise is in commercial mortgage. Nils can be reached at 510-740-1435 or Nils@PiedmontCapitalFunding.com*

## Triple Net Lease Case Study



### Before

- Client spent several hours a week managing building for over 40 years.
- Had 3 historically low rent paying tenants.
- Recently spent a lot of money to repair some damage and remodel four units.
- Concerned about capital improvement costs.

### Financial Analysis

Property Value: \$ 3,100,000  
 2007 Income (yr)\*: \$ 72,881  
 2007 Expenses (yr): \$ 38,190  
**2007 Cashflow (yr): \$ 34,691**

Current CAP: 4.81%  
 Current GRM: 16.05

**Net to Seller\*\*:** \$2,347,640

\* Includes 5% vacancy factor and debt service  
 \*\* Includes loan payoff and cost of sale

## → Exchanged into Fed Ex and Arby's



### After

- Strong franchisee signed 20-year lease contract at close of escrow with personal guarantee from principal with 10% increases every 5 years.
- Lessee responsible for maintenance, bills, and property taxes—no capital improvement cost to owner.
- Absolutely **NO landlord obligations**.
- Client receives stable cash flow that is more than triple the prior income, or **almost double her prior cashflow** when factoring her new mortgage.



### Financial Analysis

Combined Property Value: \$4,255,000  
 Gross Income (yr): \$ 285,810  
 Mortgage (yr): \$ 201,924  
**First Year Cashflow (yr): \$ 83,886**

New CAP: 6.7%

**Change in Cashflow (yr): \$49,195 or +142%**

## Kilpatrick & Company Listings



**Karol Way @ Haas Ave., San Leandro, 19 2-Bedroom Apt. Units**, huge 37,000 sq. ft. lot with room for adding more units, located near vibrant San Leandro city center, less than a mile from

BART, no rent control in San Leandro. **CAP: 7.21%, GRM: 9.26. \$2,370,000**



**3380 Adeline St., Berkeley, 14 Apartment Units**, great location in Downtown Berkeley, 5 minute walk from Ashby BART, on-site laundry and parking, less than 2 miles from UC Berkeley. **CAP:**

**7.25%, GRM: 8.98. \$1,750,000**



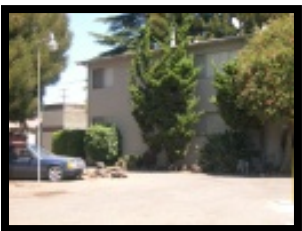
**968 Addison St., Berkeley, 18 Apartment Units**, superb Downtown Berkeley neighborhood near BART and AC Transit, off-street parking, huge upside in rents, separate meters for gas and

electricity. **CAP: 5.64%, GRM: 10.46. \$2,000,000**



**300-320 Parker Ave., Rodeo, 24 Apt. Units**, situated in a quality Rodeo location, easy access to Vallejo, Berkeley, and Oakland, low operating expenses, 36 parking spaces, separate meters for

gas, electricity, and water, on-site laundry. **CAP: 6.29%, GRM: 10.29. \$3,150,000**



**2737 Humboldt Ave., Pleasant Hill, 18 Mixed Apartment Units**, huge 41,000+ sq. ft. lot with room for adding more units, excellent location in Fruitvale neighborhood near 580 Freeway,

substantial upside in rents. **CAP: 7.25%, GRM: 8.62. \$1,399,000**



**61-69 Camelback Ct., Pleasant Hill, 5 Apt. Units**, highly desirable neighborhood, walking distance from Diablo Valley College, near award-winning schools, 9 parking spots, washers and

dryers in every unit. **CAP: 4.02%, GRM: 16.12. \$1,325,000**



**153 Maricopa Ct., Pleasant Hill, 5 Apt. Units**, very desirable Pleasant Hill location, 5 minutes from downtown and Sun Valley Mall, extremely well maintained

building, professionally managed, on site laundry and parking. **CAP: 4.56%, GRM: 14.16. \$1,250,000**



**828 San Pablo Ave., Albany, 25 Office Suites**, located 1/2 block from busy Solano Ave., tenant vacancy below 1%, very high demand office sub market, award-winning architecture, easy access to

80 and 580 Freeways and AC Transit ideal for commuters. **CAP: 5.41%. \$5,200,000**



**Littleton, NH, Fedex**, new 10 year lease with national credit tenant, good location, easy access to major highway, high quality industrial building

on 21+ acre lot, 10% increase in rent after 10 years. **CAP: 7.00%. \$6,120,000**



**2700 Park Blvd., Oakland, 7 Mixed Use Building (2 Commercial units, 5 Studios, 2 Billboards)**, tremendously visible location on busy Oakland street corner, studios include carpets

and bathroom tiling, units separately metered for gas and electricity. **CAP: 7.23%, GRM: 9.54. \$899,000**

**Recently Closed:**

- 24 Units in Berkeley.
- 24 Units in Oakland.
- 10 Units in Alameda.
- 15 Units in Concord.
- Mixed use in San Francisco.