Berkeley Investment Advisors
Real Estate Brokerage/Retirement Planning

Real Estate Investment Newsletter - October 2002

California Residential Real Estate Market News

According to the California Association of Realtors the median price of single-family homes rose 17.3% to $323,310 in the year ended in September. Statewide numbers mask a lot of variation across counties. Here are median prices in September for some selected counties of interest:

County	2002	2001	% Change Yr-to-Yr
San Francisco	$530,000	$510,000	3.9%
Los Angeles	$270,000	$232,500	16.1%
Sacramento	$215,000	$180,500	19.1%
Stanislaus	$185,000	$160,000	15.6%
Fresno	$135,000	$118,091	14.3%

Comprehensive local market data on the investment properties is not available but some trends are clearly evident. Apartment prices are rising along with single-family homes in areas where rents are still rising. In Sacramento and the central valley there is a shortage of properties for sale and the excess of buyers in the market has driven prices up quickly. Even in the Bay Area where rents have declined, Apartment prices are either rising or holding their gains from prior years. The net leased property market is also showing signs of inadequate supply relative to demand. Reasonably priced deals are snapped up as soon as they come on the market.

Even though there is stiff competition for good investments, the fragmented in inefficient nature of the real estate market means that there are always some attractive investments for those who put in the effort to find them and are willing to move quickly to make an offer and get the property under contract. A good example of this is a fast food restaurant with a long-term triple-net lease that recently came on the market. It was purchased for $850,000 and almost immediately put back on the market at an asking price of $1,056,000. Even at the higher price this property makes sense as an investment and it is under contract again just a few months after the last sale.

Featured Investment Opportunity

Bakery distribution facility leased through April 2010 to an investment grade public company. Under the terms of the lease the tenant pays all operating expenses of the property (triple-net lease) so it requires virtually no management. Net operating income is $27,600 on an asking price of $306,000 (9% Cap rate). This property should qualify for a mortgage of 229,500 (75% loan to value) at 6.85%. Taking into account working capital requirements and reserves for capital expenditures (but not closing costs), I project the return on equity over 10 years at **14%** compounded. The lot has an extra 2,400 square feet that could be built out to give the property some additional return. The purchase would require an investment of $80,000 plus closing costs.

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Contact Information:
RayMeadows@BerkeleyInvestment.com
Tokyo phone: (03) 5114-8379
San Francisco phone (510) 367-3280