

# Multi-Family Market Report

San Diego County  
Second Quarter 2010



# Multi-Family Activity Picking Up

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## Executive Summary

While the multi-family may be facing some challenges in this market, the consensus of most forecasts is that the apartment sector is poised to recover more quickly from this recession. The fundamentals of multi-family remain strong and with modest job and economic growth multi-family is expected to outperform other property types.

## Market Assessment

### Multi-Family Investment Market

Transaction and sales volume have picked up, as a wide array of buyers competed to place their equity in quality multi-family assets. REITS and multi-family equity funds have led the demand for multi-family in San Diego with sub-5 CAP bids on well located assets. Knowing these well-heeled buyers have access to inexpensive capital, many non-distressed owners, who were reluctant to sell a year ago, are interested in cashing out in this low CAP market. Moreover, distressed investors will have increasing pressure to sell with looming loan maturities.

The GSE's Fannie Mae and Freddie Mac continue to dominate the multi-family financing market, albeit with stricter

underwriting standards for both the property and the borrower. These agency rates, both floating and fixed, are at their lowest levels of the year this July, with treasuries below 3% and spreads near 200bps, 10-year rates are near 5%. In addition, Freddie just rolled out their mezzanine program with the goal of helping over-leveraged owners who are existing Freddie Mac customers or major owner/operators. The program allows mezzanine loans up to 90% percent LTV behind a Freddie first up to 75% percent. However, there may be a number of limitations including DSCR, interest rate and possible recourse. The biggest limiting factor is the four select mezzanine lenders and their preference for well-located properties in supply constrained markets, which may leave many owners out in the cold. Luckily, the capital markets also continue to see consistent interest from life companies, commercial banks and even conduit lenders who are slowly re-entering the multi-family financing market.

As the sideline capital becomes more and more impatient, and interest rates remain low, buyers will continue to assume low NOIs will grow, and offer on a price

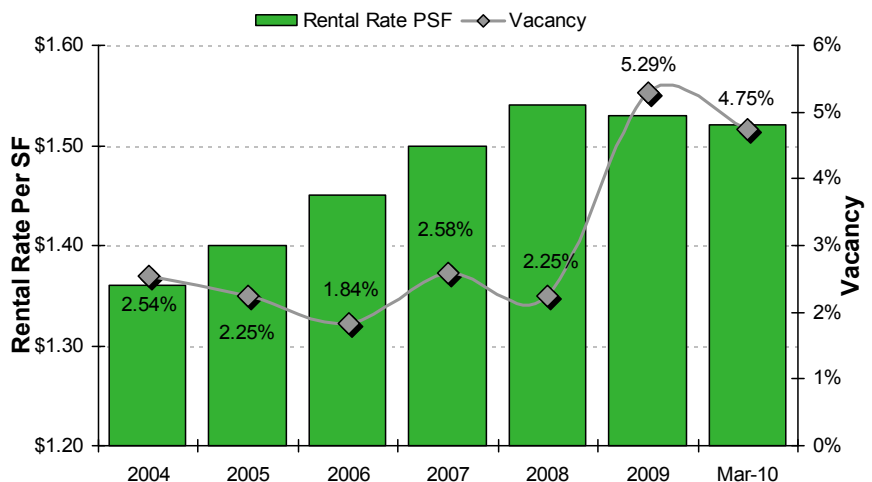
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## Multi-Family Vacancy Rate vs. Rental Rate per Square Foot

Source: MarketPointe Realty Advisors Next Release: September 2010



per unit basis, based on the scarcity of product. Many seasoned investors will continue to focus on San Diego as a target market for multi-family in 2010 and are aggressively seeking well-located, high quality assets. San Diego continues to have numerous barriers to entry and one of the lowest vacancy rates in the nation. Those investors waiting for distressed multi-family in San Diego will continue to wait for more product as borrowers and banks wrestle with loan workouts, bankruptcies and foreclosures. Whether the assets are distressed or not, cash rich buyers will continue to drive the market demand for multi-family with REITs and multi-family funds leading the way in 2010 and 2011.

### Vacancy Rates

San Diego continues to be characterized by low and stable vacancy rates which are some of the best in the country. Although San Diego has seen the countywide multi-family vacancy rate increase since the end of 2007 – the official start of this recession - from 2.58 percent recorded in September 2007 to 4.75 percent in March 2010, according to MarketPointe Realty Advisors, this is well below the national average for major MSAs. The North County Coastal market recorded the lowest vacancy rate in March 2010 at 3.59 percent, while the East County market recorded the highest vacancy rate at 5.70 percent. Central County, South County, the Interstate 15 corridor and the Highway 78 markets recorded vacancy rates between four and six percent.

In March 2010, the lowest vacancy rate was reported in four bedroom (3.30 percent) and studio (4.18 percent) apartments and the highest vacancy rate was reported in three (6.34 percent) and two (4.69 percent) bedroom apartments. In comparison to September 2009, the lowest vacancy rate was reported in one bedroom (4.02 percent) and studio (4.27 percent) apartments and the highest vacancy rate was reported in four bedroom (7.38 percent) and three bedroom (5.56

### Vacancy Rates in San Diego County

Source: MarketPointe Realty Advisors Next Release: September 2010

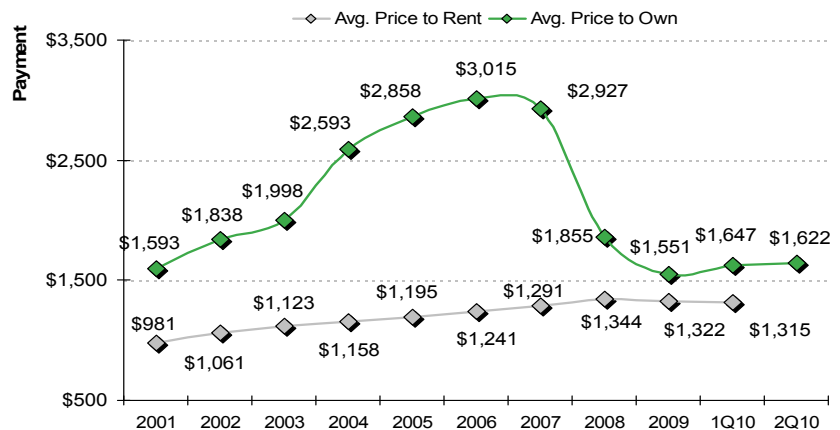
Submarket Area	March-10	September-09	March-09
East County	5.70%	5.36%	5.17%
Highway 78 Corridor	4.87%	4.91%	5.46%
Interstate 15 Corridor	4.58%	4.69%	6.28%
North County Coastal	3.59%	2.28%	4.45%
San Diego Central	5.43%	4.86%	6.43%
South County	4.01%	4.12%	3.68%
<b>Countywide</b>	<b>4.75%</b>	<b>4.39%</b>	<b>5.29%</b>

Bedroom Category	March-10	September-09	March-09
Studio	4.18%	4.27%	5.63%
1-Bdrm	4.56%	4.02%	5.26%
2-Bdrm	4.69%	4.47%	5.23%
3-Bdrm	6.34%	5.56%	N/A
4-Bdrm	3.30%	7.38%	0.00%
<b>Countywide</b>	<b>4.75%</b>	<b>4.39%</b>	<b>5.29%</b>

### Cost to Rent vs. Own

Avg. County Rental Rate vs. Avg. County Mortgage Payment



Source: MarketPointe Realty Advisors, California Association of Realtors, Wells Fargo, Freddie Mac and Beacon Economic  
Avg. county mortgage payment calculated by taking national average rate 30 year fixed rate conforming mortgages and historic median sales prices of existing single family homes in San Diego County. Assumes 20% down payment.

percent) apartments. Over the last two years, many renters had doubled up or have moved back home in order to cut their living expenses. This trend is expected to decline as the employment market starts adding jobs.

So far, employment growth countywide – the single-greatest driver of demand for real estate – has been up one month and down the other and is yet to show a steady trend of improvement. The countywide unemployment rate, which decreased for two consecutive months in April and May,

increased 0.4 percentage points to 10.5 percent in June and remains a concern. Countywide, 1,200 jobs were lost between May and June 2010, but 12,600 jobs have been added between March and June 2010, evening out the monthly ups and downs. New renters who feel more confident about their financial situation compared to the last year have begun renting apartments translating into a stable vacancy rate countywide.

According to the Moody's Economy forecast, the countywide unemployment

rate is forecasted to rise to 11 percent by mid-year before the employment market turns from negative 0.8 percent in 2010 to a positive growth of 1.3 percent in 2011. Employment sectors that are forecasted to lead the recovery in 2010 and 2011 in San Diego are educational and health services; professional and business services; and financial activities sectors. As we enter the second half of the year, expect to see some pent-up demand from renters that had been putting off the decision to rent an apartment due to economic uncertainty, which will result in a slight decrease in countywide vacancy rate by year-end, well below the national average of eight to 10 percent.

**Rental Rates**

Rental rates countywide have decreased 0.5 percent from one year ago, but have increased 4.33 percent over the last three years from March 2007 to March 2010, according to MarketPointe Realty Advisors. North County rental rates have increased 3.33 percent to \$1,373, while South County rental rates have increased 5.48 percent to \$1,262 from March 2007 to March 2010. Countywide rental rates are expected to remain stable in 2010 and increase as employment and household formation return to positive growth by the end of 2010 or early 2011. Coastal

submarkets will continue to outperform the rest of the county with East County submarkets remaining the most affordable.

**Demographics & Demand**

Despite the weak economy, San Diego remains one of the strongest multi-family markets in the country due to positive demographic trends and numerous barriers to entry, including high land costs, high single family home costs, a large rental population (Generation Y renters) and extremely limited new multi-housing development. With the housing crisis in full force and high unemployment rates, renting has become an economic and lifestyle choice. In San Diego, Generation Y (age 20 to 34) is currently estimated to be over 900,000 people and is larger than the local Baby Boomer population (age 45 to 63) of 770,000, according to SANDAG. Nearly 705,000 of the Generation Y cohort are at the prime renting age – between the ages of 24 and 34. This age group is forecasted to increase 5.5 percent from 2009 to 2010. In addition, there is an increased demand for senior housing due to increasing life expectancy and medical advances. The 65 and older age group is forecasted to increase 44.2 percent from 2009 to 2020 in San Diego County. All of these demographic factors positively affect the San Diego multi-housing market.

**Featured Transactions**

**San Diego Housing Commission Broadcast Requirement**

We represent the SAN DIEGO HOUSING COMMISSION, which is seeking to purchase multi-family projects with the following specifications:

Geographic Area: City of San Diego

Preferred # of Units: 30 - 200 units

Preferred Year Built: 1980 or newer

Preferred Unit Mix: 2 and 3 bedroom units preferred, will consider some 1 bedroom units

Preferred Projects: A, B and C quality; conventional market-rate apartments that can be converted to affordable projects

Status: If you have a property that meets or comes close to meeting the above requirements, please contact us as soon as possible

Brokers: Diane Miramontes, Darcy Miramontes, Kip Malo



**Perris Gardens Apartments**

650 E. Nuevo Rd., Perris, CA

Property Type: Multi-Family units

Sale Amount: \$7,600,000

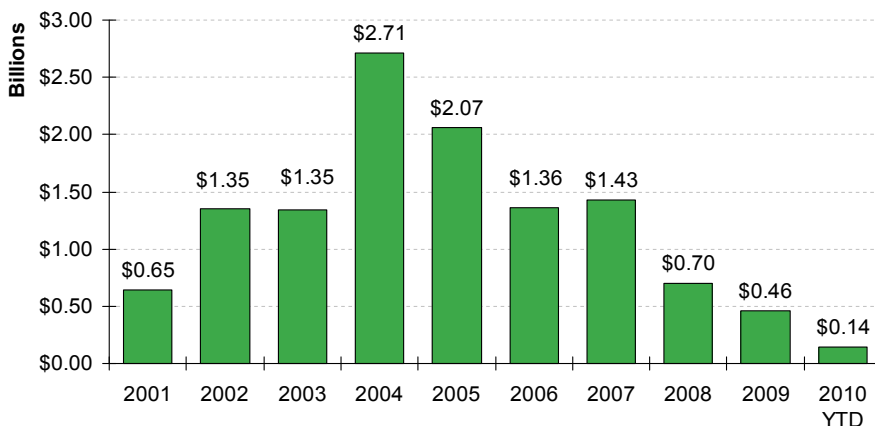
Size: 92 units

Status: Sold June 11, 2010

Buyer represented by: Ray Adams

**Sales Volume for Properties 25+ Units**

2010 YTD as of 6/30/2010 Source: CoStar



# Featured Transactions



## The Pier Project in Little Italy

1902 & 1954 Kettner Boulevard San Diego, CA

Property Type: Commercial Land for Multi-Family, Condominiums, Hotel, Mixed-Use Development  
Deal Type: Investment  
Sale Amount: Unpriced  
Size: Approx. 1.31 acres.  
Status: For sale. Currently entitled for 212 condominium mapped units. There are options to reconfigure for a 5 story or less podium.

Listed by: Diane Miramontes, Lin Martin, Darcy Miramontes, Kip Malo



## Stoneridge by the Lake Condominiums

5707 Baltimore Drive, La Mesa, CA

Property Type: Fractured condominium project  
Sale Amount: \$6,680,000  
Size: 42 of 51 condominium units  
Status: Sold September 28, 2009

Sold by: Diane Miramontes, Darcy Miramontes, Hunter Combs, Kip Malo



## 1984-1992 Abbott Street & 5113-5119 Saratoga Avenue

San Diego, CA

Property Type: Multi-Family investment located ocean front  
Sale Amount: \$3,800,000  
Size: 16 units with income  
Status: Sold

Sold by: Tim Winslow, Ray Adams, Jason Kimmel, Kevin Nolen



## Heritage at Canyon Pointe Condominiums

495-505 San Pasqual Valley Road, Escondido, CA

Property Type: Fractured condominium project  
Deal Type: Investment  
Sale Amount: \$5,500,000  
Size: 53 of 116 condominium units  
Status: Sold October 30, 2009

Sold by: Diane Miramontes, Darcy Miramontes, Kip Malo, Hunter Combs

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**About Cassidy Turley BRE Commercial**

Committed to remaining private and focused on the needs of clients, BRE Commercial has partnered with a group of market-leading private firms across the nation as founding fathers of a new company, Cassidy Turley. Cassidy Turley is one of the nation's leading full-service commercial real estate firms, with \$13 billion in annual transactions, 420 million square feet of managed space, 58 offices, 19 national markets and more than 25,000 Corporate Services locations. Our world-class expertise enables us to deliver integrated, tailored solutions around the globe. Our knowledge of local markets and deep industry connections allow us to achieve superior results. We are advocates for our clients and passionate about their long-term success. To learn more, visit [www.brecommercial.com](http://www.brecommercial.com).

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