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Investment Climate Favors Return to Multifamily Market

REAL ESTATE: Lower Than Average Vacancy Rate Helps Stir Demand

■ By LOU HIRSH

After a nearly five-year lull, experts say investors are gradually wading back into San Diego County's multifamily property market. Rising sales activity is being spurred by the region's relatively good employment prospects, a limited supply of new apartment buildings, and a financing picture that is less bleak than a year ago.

According to CoStar Realty Informa-



Photo courtesy of Crown Acquisitions

Crown Acquisitions is actively buying and renovating established San Diego apartment buildings, including this Las Palmas complex.

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tion Inc., aka CoStar Group Inc., the county in 2004 saw \$2.71 billion in sales of apartment properties of at least 25 units. By 2009, that had shrunk to \$480 million, the lowest level seen during the past decade.

As of the end of the first quarter of 2010, sales stood at \$100 million. Observers say signs point to 2010 eclipsing 2009 for several reasons.

Darcy Miramontes, a broker with Cassidy Turley/BRE Commercial who handles multifamily properties, noted that San Diego for years has had among the lowest apartment vacancy rates in the nation and



Darcy Miramontes

improving employment prospects for the region will likely keep vacancies in check.

On top of this, there is still little new supply being added to the region's apartment and condominium rental market. This coincides with pent-up demand among buyers, including real estate investment trusts, looking to take their money off the sidelines to boost returns.

"The REITs need to put their money to use by certain timelines," said Miramon-

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tes. She added that buyers are now being helped by financing, coming from entities such as Fannie Mae, Freddie Mac and life insurance companies that was less available a year ago.

Some investors are skipping the lenders and putting their cash directly into existing apartment buildings.

Series of Apartment Purchases

Crown Acquisitions Inc., based in Orange County, recently closed on its third apartment building purchase in San Diego within the last year, and is looking to close on a fourth property in the city by June 30.

Crown CEO Chris Mitchell said the Laguna Niguel company focuses exclusively on apartment properties, usually older buildings of at least 20 units.

Many of its buildings recently have been bought from banks following foreclosures, and in some cases directly from distressed owners. In nearly all instances, the buildings are bought for all cash or mostly cash.

For its first three San Diego acquisitions, totaling 75 apartments, Crown has spent nearly \$6 million — \$5.3 million for the purchases, with another \$660,000 in renovations under way. The properties so far are all within the city limits — The Palms on Acorn Street, Las Palmas on South 47th Street, and Valencia Park on Imperial Avenue.

Steve Heimuli, Crown's vice president of acquisitions, said these are the company's first purchases in San Diego, after previous investments in markets including Los Angeles and Orange counties, the Inland Empire and Tucson, Ariz. The company kept a relatively low profile in 2008 and early 2009 but saw San Diego as a launching point to ratchet up its investments as the economy recovers.

Mitchell said Crown, which he started in 2003, was attracted to San Diego because it will likely emerge first from the recession, after being one of the first regions to see a real estate downturn. He said buying existing older buildings in the city still costs a tiny fraction of the replacement cost for newly built properties.

"As long as our model works, we're go-

ing to continue to acquire, I would say for at least the next 36 months," he said.

Less Distress Than 1990s

Miramontes said the level of distress in the multifamily property market is less than it was in the early 1990s. That's in part because the region's economy is more diverse than it was then and also because land costs more and is less available for new projects than in other regions.

Generally, she said most of the sales locally are of newer properties, built in 2000 or later. All-cash buyers are often able to get a lower purchase price than others, though all-cash deals are still not common in the current market.

Cassidy Turley/BRE's recently released San Diego County market report for the first quarter notes that the gap between asking prices and offers is narrowing, "which means that the capital waiting on the sidelines for opportunistic investments is becoming more and more impatient."

Owners not in distress who may have been reluctant to sell a year ago are now seeking to capitalize on that pent-up demand, which is likely to stay relatively high as long as vacancy rates stay low.

Citing data from **MarketPointe Realty Advisors**, the report says the countywide multifamily vacancy rate went from 2.58 percent in September 2007 to 4.75 percent in March 2010, still well below the national average of about 8 percent.

Rental rates are down 0.5 percent from a year ago, but are up 4.33 percent from March 2007. Researchers note that countywide rental rates are expected to remain stable in 2010, but could increase by early 2011 as an improved employment climate brings more people into the rental market.

Earlier this year, the research and brokerage firm Marcus & Millichap ranked San Diego second in the nation, following Washington, D.C., in its annual listing of 44 major U.S. metro apartment markets. The ranking, intended as a guide to investors, rated the strength of markets based on forward-looking indicators such as vacancies, construction and employment growth.