



Multi-Family Market Report

Compared to the Previous Period:

Vacancy

DOWN

Rental Rates

FLAT

Cap Rates

UP

GRM

DOWN

Price Per Unit

UP

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Market Highlights

- Positive Signs Abound in Spite of the Economy** - If the headline above doesn't strike you as contradictory, it should. Our point is that yes, the local, state, and national economies have been dealt tremendous blows over the past five years. This makes it easy to overlook the fact that many of the most important variables that both drive and measure the performance of the San Diego County apartment market have substantially improved in the past 6–12 months. So are we ready to break out the champagne? No, not by a long shot, but it would be a mistake to get so caught up wallowing in negative news that we miss the following improvements within the market.
- Employment** - The unemployment rate in the San Diego County was 9.3% in February 2012, unchanged from a revised 9.3% in January 2012 and below the year-ago estimate of 10.2%. This compares with an unadjusted unemployment rate of 11.4% for California and 8.7% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 9,000 payroll jobs from February 2011 to February 2012—6,200 in professional and business services and 1,600 in professional, scientific, and technical services. Government posted the greatest year-over-year decline- a loss of 2,200 jobs.
- Rental Market** - Occupancies and Rents Continue To Improve: Apartments have now assumed the catbird seat within the real estate market. Occupancy, which was adversely effected early in the down-cycle, has rebounded within the past 18 months. Apartments are now experiencing a counter-cyclical increase in tenant demand, serving as a preferred alternative to home ownership for a rising percentage of the population. The average apartment rent in San Diego County increased by 3.5% in the past 12 months. There are large forces at work here, both behavioral changes engendered by the troubled economy and demographic forces lead by the maturation of the Echo Boomers, or Generation Y.
- Sale Transactions** - An Upward Trend Accelerated In 2011: Annual sales increased 38% from the 249 San Diego County apartment properties trading in 2010 to 344 complexes selling in 2011. The total dollar volume displayed a similar 34% increase, and the increased activity was concentrated in properties of less than 100 units. While sales activity accelerated in the second half of the year, we expect the number of sales to flatten in 2012 due to a shortage of willing sellers.
- Overall** - Two Paths and No Road Map: In 30 years of brokerage, we can't remember a time when the inventory of for-sale property has been this thin. Many observers view the Federal Reserve's deflation fighting tactics of the past four years as a path towards debasement of the currency. This includes numerous investors who are ready, willing, and able to acquire apartments at very low cap rates, typically ranging from 5.0%–6.5%. We think that inflation wary buyers will continue to outnumber sellers throughout 2012, although superior numbers does not ensure the accuracy of their inflation expectations. The recent Fed announcement that short-term rates will remain close to zero until 2014 implies a continuing fear at the highest levels of government that economic stagnation and deflation pose a greater risk than inflation. Southern Europe appears to have already entered into a deep deflationary depression, with sovereign debt defaults already baked into the cake. The United States would be unlikely to escape collateral damage from a European financial market meltdown, and the extent of the potential damage is difficult to quantify.

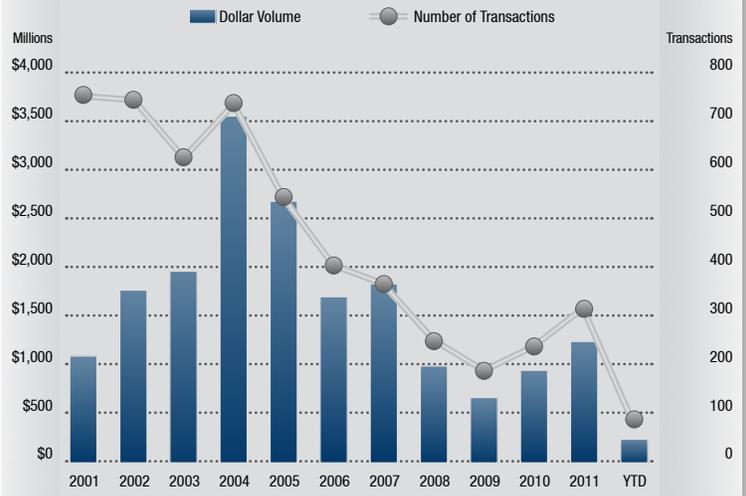
MULTI-FAMILY MARKET OVERVIEW

Quarterly	1Q12	4Q11	1Q11	% of Change vs. 1Q2011
Cap Rate	6.21%	6.00%	6.63%	(6.33%)
Gross Rent Multiplier	9.76	10.29	10.04	(2.79%)
Median Price Per Square Foot	\$149.46	\$171.97	\$148.63	0.56%
Median Price Per Unit	\$109,939	\$125,667	\$109,257	0.62%
Semi-Annually	1Q12	3Q11	1Q11	% of Change vs. 1Q2011
Vacancy Rate	4.43%	4.49%	5.06%	(12.45%)
Rental Rate Per Square Foot	\$1.57	\$1.57	\$1.54	1.95%

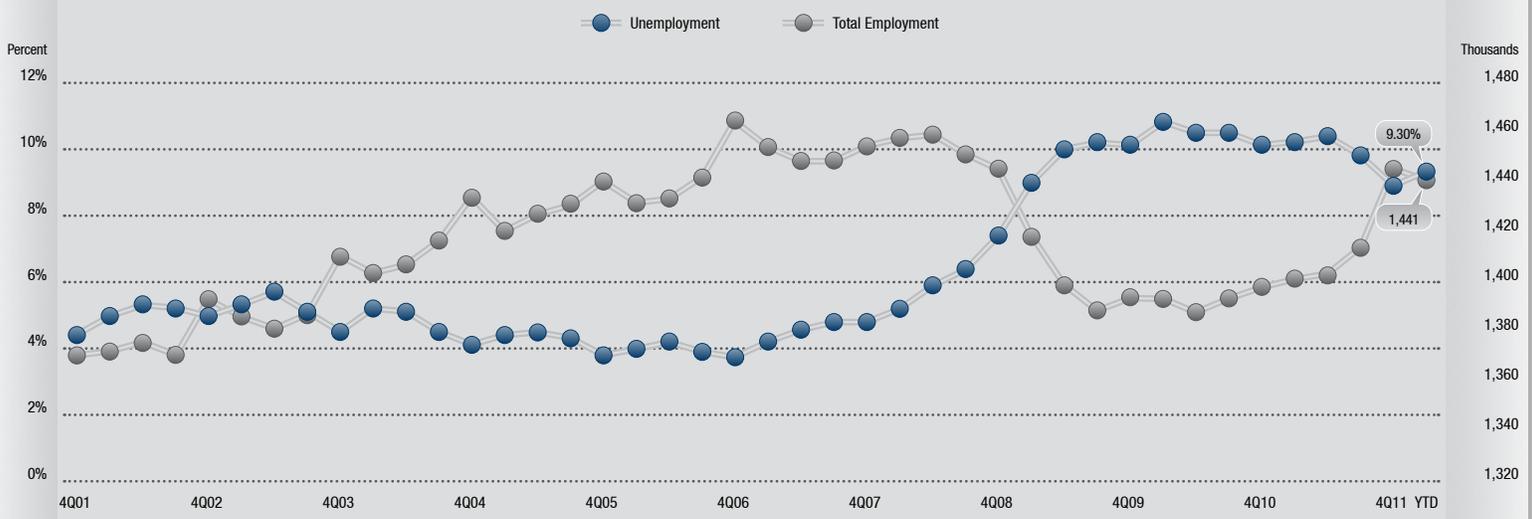
VACANCY RATE VS. RENTAL RATE



DOLLAR VOLUME VS. NUMBER OF TRANSACTIONS



UNEMPLOYMENT RATE VS. TOTAL EMPLOYMENT



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