



Multi-Family Market Report

Compared to the Previous Period:

Vacancy



Rental Rates



Cap Rates



GRM



Price Per Unit



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Market Highlights

- Rental Market Trends** - San Diego County has added a net 30,300 jobs in the past twelve months. While the national economic recovery may remain weak and uneven, the local rental market is in the early stages of expansion. Tenants who doubled-up and Gen-Y youth who boomeranged home during the recession have begun to enter the rental market and compete for existing apartments.
- Development and Renovation** - Developers are scouring the county, competing for buildable land. Construction has been completed on early market-cycle developments, including Sudberry's 306 unit Circa 37 within the new master planned Civita community in Mission Valley and Wood Partner's 379 unit Domain in Kearny Mesa. Existing supply constraints should allow the volume of new construction currently proposed to be readily absorbed into the rental market. The large proportion of San Diego County apartments constructed between 1967-1989 have become candidates for, and now frequently require major renovations, including new kitchens and baths. This aging of the rental housing stock will become a dual edged sword, creating both challenges and opportunities for apartment owners. The restoration or modernization work will demand greater owner expertise to successfully manage.
- Transactional Activity is Trending Upwards** - The number of apartment sales in San Diego County is up 29% this year, but the dollar volume is similar to 2011. While we are selling more properties, the average

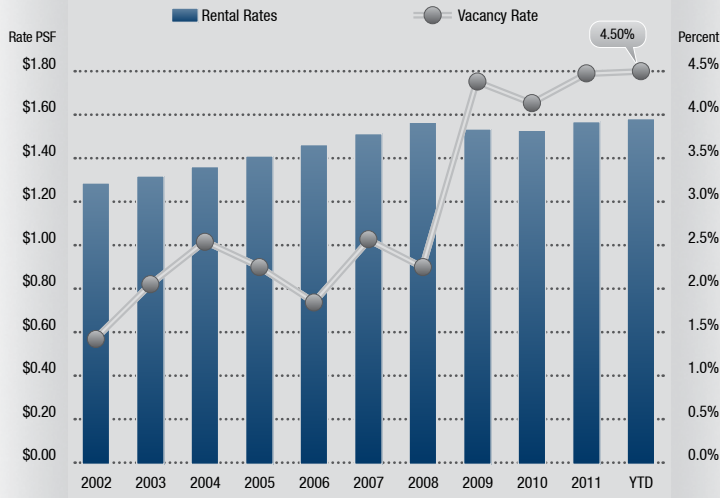
transaction size has fallen from 30 units per transaction in 2011 to 24 units per transaction this year. At this current sales pace, we are on track to close over 300 apartment transactions in 2012, the most since 2008. The trend is positive, but for perspective, the number of sales is barely above the pace experienced during the 1991-93 crash leading into the RTC liquidation period. Measured in dollars, the sales volume is only one-third the annual value of apartments sold during 2004 and 2005. That is quite a decline from the mid-decade condo conversion bubble. The potential clearly exists for a 4th quarter surge in transactions as investors rush to close sales ahead of the large spike in tax rates that will occur on January 1, 2013.

- Sell by December 31st to Avoid Far Higher Tax Rates** - Investors who are giving any consideration to an apartment sale in the next few years will be wise to consider placing their properties on the market no later than third quarter of 2012. Investors who close transactions after December 31, 2012 will be among the first Americans who will contribute an additional 3.8% of their investment income to fund our new national health care program. This 3.8% increase will be in addition to the 25% or more in State and Federal capital gains tax typically paid by California apartment investors. But wait... there's more! If the Bush era capital tax rates are not extended by Congress, the Federal capital gains rate will rise from 15% to 20%. The bottom line is that apartment sellers will see their tax rate shift from approximately 25% of their gain to roughly 33.8%! That's no small change.

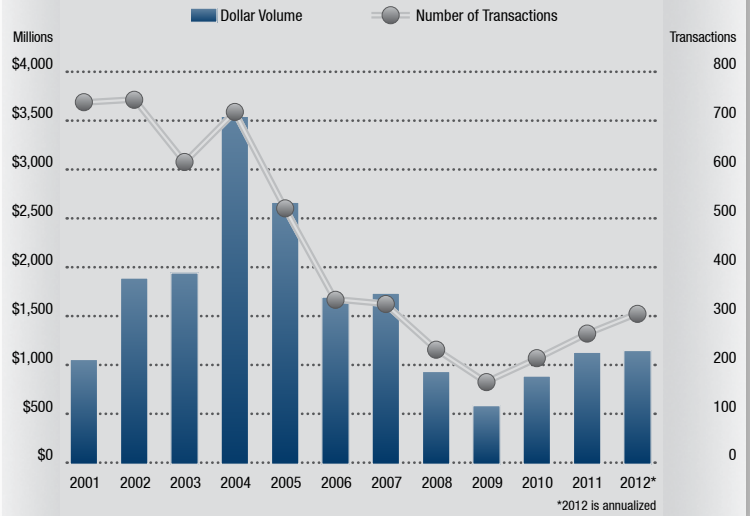
MULTI-FAMILY MARKET OVERVIEW

Quarterly	3Q12	2Q12	3Q11	% of Change vs. 3Q11
Cap Rate	6.01%	6.16%	6.04%	-0.50%
Gross Rent Multiplier	10.40	9.99	10.05	+3.48%
Median Price Per Square Foot	\$164.45	\$170.00	\$166.62	-1.30%
Median Price Per Unit	\$120,833	\$115,556	\$119,062	+1.49%
Semi-Annually	Sept 2012	March 2011	Sept 2011	% of Change vs. Sept 2011
Vacancy Rate	4.50%	4.43%	4.49%	+0.22%
Rental Rate Per Square Foot	\$1.58	\$1.57	\$1.57	+0.64%

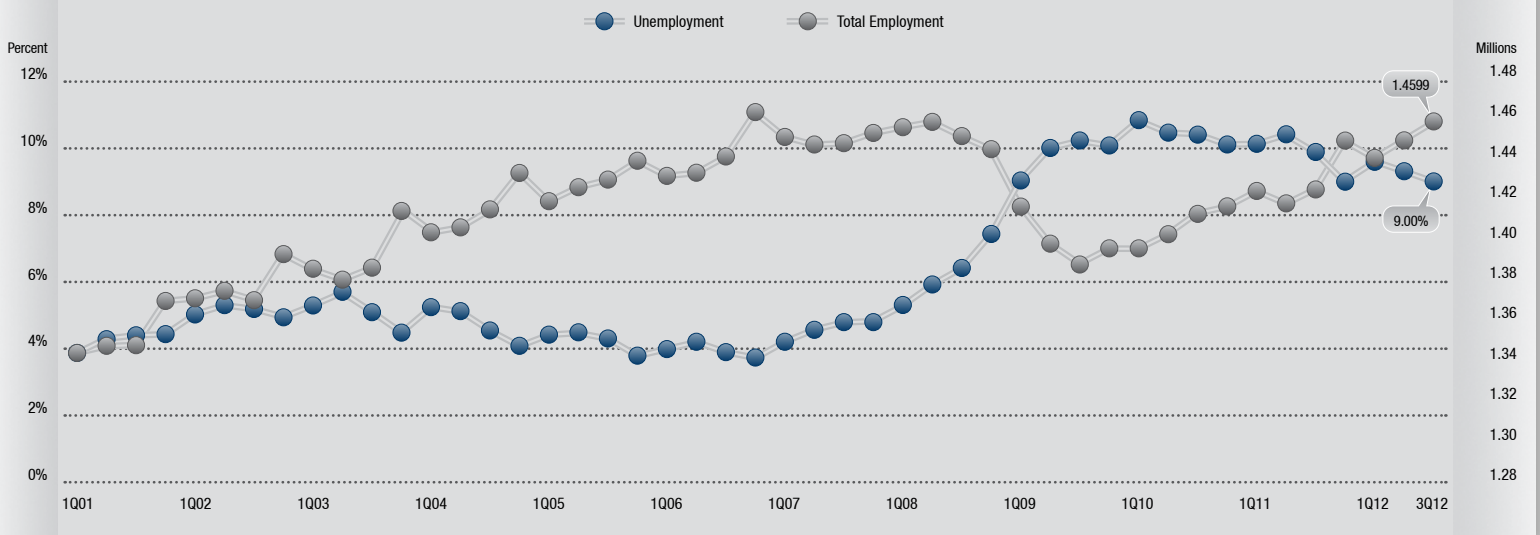
VACANCY RATE VS. RENTAL RATE



DOLLAR VOLUME VS. NUMBER OF TRANSACTIONS



UNEMPLOYMENT RATE VS. TOTAL EMPLOYMENT



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