



# Multi-Family Market Report

Compared to 2011:

**Vacancy**



UP

**Rental Rates**



UP

**Cap Rates**



DOWN

**GRM**



UP

**Price Per Unit**



UP

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## Market Highlights

- Year-End Transaction Surge** - The number of apartment sales in San Diego County in 2012 increased by 23% over 2011, continuing a three year upward trend. The county averaged 75 sales per quarter through the first three quarters of the year. Then there was a surge of 105 closings in the fourth quarter, spurred on by an anticipated increase in tax rates for 2013, leading to a total of 330 sales for the year. Twenty of those sales, over 6% of the county's total, were attributable to Voit San Diego's Valleria Apartment Advisors team. However, even with this significant 23% increase in total transactions, the aggregate transaction dollar volume fell by 10% compared with 2011. This represents a decrease of 37% in the average selling price, pointing to a dramatic shift in the composition of inventory changing hands, with fewer large properties transacting.
- Employment Gains** - The unemployment rate in the San Diego County was 8.3% in November 2012, down from a revised 8.6% in October 2012 and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.6% for California and 7.4% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 24,600 payroll jobs from November 2011 to November 2012– including 8,600 in professional and business services, and 5,300 from leisure and hospitality. Manufacturing was the only sector with year-over-year decline- a loss of 2,000 jobs. The 1,464,800 people employed within the county approximately matches the jobs figure from a pre-recessionary peak of December, 2006.
- Operational Emphasis** - Given that San Diego County is experiencing little new construction and slow but steady employment gains, we would expect to see a greater improvement in occupancy rates, as well as rent levels, than current rent and vacancy surveys are documenting. The discrepancy can be traced to stagnant income levels

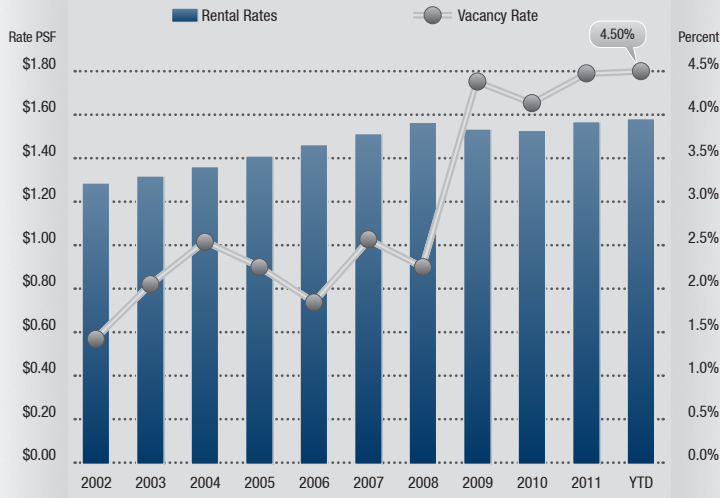
in the face of rising prices for other basic needs such as food, energy, and health care. The resulting impact on personal budgets may be prolonging the doubling-up within both rental housing and owner-occupied homes that began during the most recent recession. The increase in payroll taxes that became effective on January 1 is likely to continue this combination of depressed take-home pay and rising basic expenses into 2013. Therefore, apartment owners will need to boost the efficiency of their operations in an effort to generate positive net operating income growth in 2013. We anticipate greater challenges in maintaining net operating income growth within middle-to-lower income communities, especially those located greater distances from major employment centers within the county.

- Repositioning Expertise** - A large proportion of San Diego County's apartment stock was constructed between the late 1960's through the late 1980's. This housing is now 25-45 years old. Considering the hard wear and tear experienced by rental housing, these complexes are well into middle-age. We notice that the majority of private owners of small to mid-size properties are clinging to a status-quo approach towards maintenance. This is in contrast to a greater proportion of the large private and institutional operators who are taking a fresh approach towards renovation and modernization. With a wide variety of backgrounds, it's understandable that most of the private small to mid-size apartment owners do not have the design talent and construction expertise to modernize their buildings. However, such owners seem to have either a lack of awareness or interest in expending the resources necessary to hire qualified design professionals to revision their properties and then make the additional investment in the physical upgrades. While this repositioning does require a sizable investment of both time and capital, the next generation of San Diego County apartment owners is eager to acquire property for revitalization.

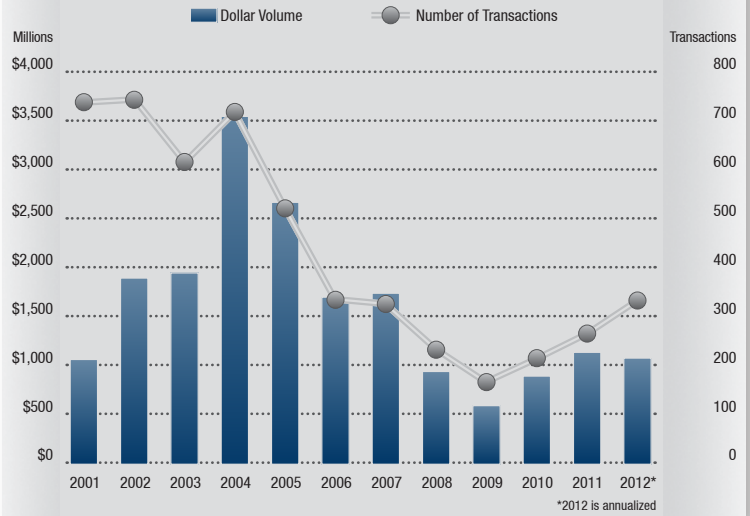
## MULTI-FAMILY MARKET OVERVIEW

Quarterly	2012	2011	2010	% of Change vs. 2011
Cap Rate	6.00	6.20	6.41	-3.23%
Gross Rent Multiplier	10.11	9.90	9.52	+2.12%
Median Price Per Square Foot	\$164.21	\$156.76	\$156.93	+4.75%
Median Price Per Unit	\$117,812	\$113,567	\$110,667	+3.74%
Semi-Annually	Sept 2012	March 2011	Sept 2011	% of Change vs. Sept 2011
Vacancy Rate	4.50%	4.49%	4.13%	+0.22%
Rental Rate Per Square Foot	\$1.58	\$1.57	\$1.52	+0.64%

VACANCY RATE VS. RENTAL RATE



DOLLAR VOLUME VS. NUMBER OF TRANSACTIONS



UNEMPLOYMENT RATE VS. TOTAL EMPLOYMENT



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