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Low-Interest Financing Helps Make Apartments Prime for Investing

REAL ESTATE: Experts Predict the Demand for Rental Units Will Swell

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Economic TRENDS 2011

A combination of low supply, cheap financing and rising demand for apartments made multifamily real estate the most active commercial segment for San Diego County transactions during 2010. And experts expect those trends will continue in 2011, bolstering the local apartment investment market's status among the strongest in the nation.

"There's very little distress for multifamily in this market," said Darcy Miramontes, a San Diego broker in the multifamily investments division of **Cassidy Turley BRE Commercial**.


Darcy Miramontes

According to the research firm **Real Capital Analytics**, countywide multifamily property sales in the first three quarters of 2010 reached $550 million, compared with $360 million for all of 2009.

Miramontes said the rise can be credited to several factors, including cheap financing for qualified buyers, available from lenders such as Freddie Mac, Fannie Mae and the Federal Housing Administration, recently holding at interest rates of 4 percent to 5 percent.

A 2011 forecast by Cassidy Turley, compiled with researchers at San Diego State University and National University, said buyers in the coming months will continue to take parked money off the sidelines to seek consistent returns. Lenders including banks, life insurance companies and firms involved in commercial mortgage-backed securities could all become more active in the multifamily sector.

Multiple Bids on Buildings

Already, the trend is being seen in multiple bids being offered for well-located apartment buildings. The forecast notes that seasoned investors, ranging from local players to national real estate investment trusts, are aggressively seeking San Diego assets, and nondistressed owners who were reluctant to sell a year ago "are seeking to capitalize on this pent-up demand."

Also, the local population of renters continues to grow. Among those fueling apartment demand are distressed homeowners fleeing the single-family housing market, and others for whom home prices remain out of reach.

Experts project that as job growth and consumer confidence improve in 2011, demand will also be boosted by renters now doubling up, or living at home with their parents, who will decide to get their own apartments.

A fourth-quarter apartment investment report by the brokerage firm **Marcus & Millichap**, previewing 2011 trends, noted that net absorption of local apartments was positive in San Diego County for each of the past five quarters, "indicating the local apartment market has entered a sustainable recovery."

As a result, the firm noted, rent increases and reduced concessions from landlords are likely in the coming year.

In the meantime, new apartment construction remains scarce. Marcus & Millichap said builders obtained permits for 1,180 multifamily units in the 12 months ending Sept. 30, down 13 percent from a year earlier and below the five-year average of 3,800 units.

Inventory Increasing

Builders were expected to deliver 1,280 new local apartments in 2010, enough to expand the rental inventory by 0.7 percent. The planning pipeline contains 3,900 apartment units, accounting for 2.2 percent of existing stock, though most of those projects have not broken ground.

The metro area's apartment vacancy rate was expected to close out 2010 at 4.3 percent, down slightly from 2009 and well below the national average of 7.2 percent, researchers said.

The Cassidy Turley forecast noted that many of the local apartment sales of 2010 did not involve distressed owners, and distress is likely to remain low in 2011. Researchers said the level of distressed multifamily properties countywide had fallen from $260 million in January 2010 to $216 million by October, representing just 3 percent of total multifamily distress on the entire West Coast.

Tony O'Neill, a senior associate in the San Diego office of **Voit Real Estate Services Inc.**, said he does not expect interest rates to rise to the point where they would dramatically impact the multifamily sector in the coming year.

Acquisition prices could head up as more investors chase available properties, but lenders like traditional banks may be more willing to stake qualified borrowers in that sector. "It will be interesting to see if lending guidelines loosen up," O'Neill said.

Avoiding Financial Distress

The local apartment market is generally faring better than neighboring counties in avoiding financial distress. For instance, O'Neill said he recently helped broker three multifamily property transactions, totaling more than 100 units, over a one-month period in Los Angeles County.

Two involved properties that had been taken over by their lenders, and the third involved the sale of a nonperforming loan.

The buyer in one of those transactions, an 18-unit foreclosed condominium development in Long Beach, was San Diego-based **Pathfinder Partners LLC**. Although the company has been active for several years in acquiring distressed multifamily and single-family properties, the bulk of their recent purchases were outside of San Diego County.

Since 2006, Pathfinder Partners has acquired more than $250 million in defaulted real estate loans and properties across six states.


Mitch Siegler

Mitch Siegler, Pathfinder's senior managing partner, said the multifamily market is akin to "a tale of two cities," with well-located assets getting multiple offers and others facing distress amid limited interest.