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2008 YEAR END VENTURA COUNTY APARTMENT SALES MARKET IN REVIEW

Apartment Investor Market
Spring 2009 Update

By Craig Lieberman and Nick Henry
T.A.S. Commercial
"Your Experts on Central Coast Multi-Family Property Investments"

Two-to-Four Unit Properties

The market has deteriorated dramatically, and is characterized by longer marketing periods, increased backlog of inventories, overall diminution in market values, and a major increase in distressed ("short sale" and foreclosures) inventory and sales. Distressed sales accounted for two-thirds of the sales activity in the last two quarters of 2008. This slowdown first occurred in 2007, and has only become more pronounced over time. Because this asset class can be financed using "sub-prime" mortgage product used in the housing market (i.e. low down payments and underwriting standards not tied to property revenue), many investors whom recently acquired these properties at elevated prices do not have the financial "staying power" to support debt loads as they reset.

One in four listed properties is REO (bank owned), which tends to cause a major drag on market value. Prices paid for REO properties imply a 9 to 10 GRM (Gross Rent Multiplier) based on the inferred rental income, a 20-25% disparity from "market" prices. Oxnard and, to a lesser extent, Santa Paula and the "Ventura Avenue", comprise most of the REO activity.

We can expect some further deterioration in the market as long as the sales of distressed properties encompass a major portion of sales activity. From the highs seen in 2005, when per-unit prices averaged just over $300,000 and the GRMs were over 20, we are now seeing per-unit prices as low as $125,000 and GRMs as low as 9-10 when considering REOs.

Five-to-Nine Unit Properties

Sales of these units have not been negatively affected by distressed sales activity, but sales are slower as investors play the "wait-and-see" game. As opposed to the smaller properties, lenders normally require a minimum of 35% down payment, thereby eliminating pressure from overwhelming debt pressure that has caused owners of smaller properties to sell under duress.

Consequently, the number of sales has not dropped significantly but the average GRM has decreased some 50 basis points in 2008 compared to 2007. Also, these properties are acquired by investors, whom, on average, have the financial resources to weather the market. To wit, there were only 12 sales the entire year of 2008.

<u>10+ Unit Properties</u>

These properties are not normally sold under distressed conditions because of the increased investor sophistication that requires minimum yields and cash flow; strict lender underwriting guidelines; decade-long strong rental growth, and historically low mortgage rates. Although the current depressed economy has caused rental rates to flatten recently, most owners are not forced to run their operations at the margin because of all these favorable conditions.

Notwithstanding the foregoing, the combination of the weak credit markets and the somewhat weaker rental market has caused both a decrease in sales volume and values– GRMs and capitalization (Cap) rates have worsened by 50 to 100 basis points since 2007. We are now seeing GRMs at 10 to 11, and the cap rates averaging 5.5% to 6%, with some more aggressive pricing on the institutional properties normally located in better areas. In contrast, at the peak of the market in 2005, the GRMs were averaging 11 to 12, while the capitalization rates were averaging 4.5% to 5%.

<u>Conclusion</u>

Hopefully, we will see some positive changes in the economy that will "kick-start" sales activity in the apartment sector. We can see sellers becoming much more active as the current capital gains tax provision, the best in history, becomes "sunsetted" the end of 2010. There has even been some partisan talk about the elimination of any capital gains tax during that period. Either way, economics could be a catalyst for sellers to place their properties for sale to avoid or, at a minimum, decrease the "tax bite" of sale.

Editor's Note: Special thanks to our guest authors – Craig Lieberman is the Managing Director of the Multi-Family Property Sales Division and Nick Henry is a Ventura County Investment Specialist. Both work at TAS Commercial.

Apartment Building Sales 2008 — Ventura County

10+ units	year 2008	Q1	Q2	Q3	Q4
# sales	15	4	4	3	4
$/unit	$136,045	$132,887	$111,000	$128,696	$125,000
GRM	10.7	11.15	10.6	10.4	10.5
5-9 units	**year 2008**	**Q1**	**Q2**	**Q3**	**Q4**
# sales	12	2	1	7	2
$/unit	$157,500	$150,000	$165,000	$159,596	$112,459
GRM	12.8	14	13.4	12.15	12
2-4 units (non-distressed!)	**year 2008**	**Q1**	**Q2**	**Q3**	**Q4**
# sales	30	5	9	9	7
$/unit	$173,000	$197,000	$204,000	$172,000	$165,000
GRM	13.5	n/a	14.7	12.1	12.9
2-4 units (distressed)	**year 2008**	**Q1**	**Q2**	**Q3**	**Q4**
# sales	39	5	6	15	13
$/unit	$166,000	$208,000	$198,000	$157,000	$124,000

Apartment Building Sales 2005-2008 Ventura County

10+ units	year 2008	2007	2006	2005
# sales	15	24	19	22
$/unit	$136,045	$159,840	$141,714	$123,834
GRM	10.7	11.5	11.8	11.3

5-9 units	year 2008	2007	2006	2005
# sales	12	13	20	7
$/unit	$157,500	$172,368	$158,734	$157,195
GRM	12.8	13.3	13.6	13.8

2-4 units (non-distressed!)	year 2008	2007	2006	2005
# sales	30	65	137	194
$/unit	$173,000	$278,239	$276,799	$307,972
GRM	13.5	19.7	21.7	21.5

2-4 units (distressed)	year 2008	2007	2006	2005
# sales	39	3	0	0
$/unit	$166,000	$203,500	n/a	n/a

Recent Lieberman Team Ventura County Sales:

1950 Lantana St, Oxnard
Units: 33
Sale Price: $3,650,000
GRM: 10.3

116 W. Harvard Blvd, Santa Paula
Units: 21
Sale Price $2,842,000
GRM: 10

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Nick Henry ext.105

Craig Lieberman ext. 107

The Lieberman Team
T.A.S. Commercial

T 805.687.5557
C 805.705.7311
F 805.435.2626
3892 State Street Suite 100
Santa Barbara, CA 93105
www.TASCommercial.com
"Experience The Difference"