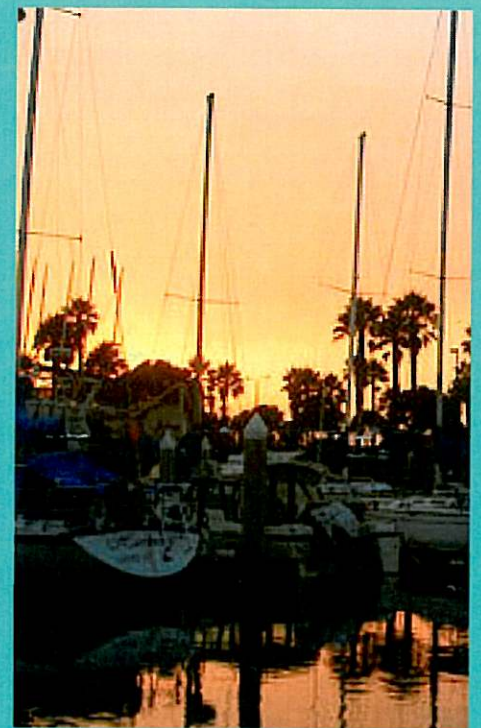




2009 Ventura County Economic & Real Estate Outlook

Update Edition



ALSTON + BIRD LLP

Apartment Investor Market

Autumn 2009 Update

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The Two-to-Four Unit Property Market

Since last year, distressed sales have continued to represent the "lion's share" of sales of smaller investment properties. Of the 63 sales that occurred on 2 to 4 unit properties over the first eight months of this year, 47 (75%) represented distressed sales (either "short sales" where the property sells for less than the outstanding principal balance, or REO sales). This is an increase from the last half of 2008, when 2 out of every 3 sales (67%) were distressed.

The average marketing time for non-distressed sales (137 days) is more than twice the average time taken to market distressed sale properties (63 days). This might imply that lien holders are anxious to get these distressed properties sold as soon as possible and get them "off their books." This may be evident in the lower per-unit prices (\$131,000) of the distressed sale properties sold versus the per-unit prices (\$147,000) of non-distressed properties sold.

There is a disproportionate number of sales occurring on distressed properties vis-à-vis non distressed properties, compared to last year when sales were evenly split between them. We are beginning to see more sales occur, but this increase is being caused by the number of distressed property sales from investors who are coming back into the market in droves (evidenced by the multiple offers on available distressed property offerings). Buyers believe the bottom of the free-fall in prices is near and these lower-priced properties now represent an invest-

ment vehicle that offer real estate investors a reasonable rate of return – a rarity in recent years.

Two-to-four unit properties are generating the same income potential per sales price as the larger properties, evidenced by the gross-rent-multipliers (GRM) that mirror those of larger properties (9 to 10 times the gross income). This is a logical conclusion because prices of smaller properties fell much more significantly than the larger properties (where prices have always been more closely correlated with their income potential rather than appreciation expectations generally held by investors of these smaller properties).

The Five-to-Nine Unit Property Market

Like last year, sales of this "transitory" investor product have not been affected by distressed sales activity like that of its smaller counterparts. The number of sales on an annualized basis through the end of August reflects stronger numbers than the robust years of 2005-2006.

Because most of the sales of these moderately-sized properties are not distressed, investors appear to be more confident in real estate fundamentals of these properties in general. These improved investor returns are directly related to the fact that the average per-unit prices (\$137,000) seem to have declined noticeably from the average of the last few years (\$158,000). The GRM of these properties has also declined dramatically from even last year.

10+ Unit Properties

Sales of larger properties have virtually ground to a halt. There has been only one recorded sale of a 10+ unit apartment property, a 106-unit apartment property. Most of these larger properties have been listed by brokerage firms, but either wind up as expired or cancelled listings, indicating that there still remains a wide gap between buyer and seller pricing expectations.

Moreover, because apartment property revenues have been hurt recently, sellers have been unable to secure per-unit pricing as high as what prevailed during the last couple of years. This is due to (1) lower occupancy rates and rental rates caused by the weak economy and (2) and the combined effect of lower GRMs (between 9 and 10) and higher cap rates (between 6% and 6.5%) related to the higher perceived risk by investors.

Furthermore, there is a much lower amount of available credit to finance investor acquisitions from the commercial mortgage backed securities industry (CMBS/"Conduit") that imploded in the Fall of 2007. Fortunately, unlike other commercial real estate sectors that have very little financing alternatives, the industry is "blessed" with the existence of Fannie Mae (FNMA) and Freddie Mac (FHLMC), now owned by the government.

Fannie and Freddie are readily available and willing to offer investors an inexpensive financing alternative on apartment properties, albeit with more strict underwriting guidelines than in years past.

Conclusions

- Apartment property investor activity seems to be concentrated in the smaller-properties, especially the 2-4 unit sector.
- Disproportionately available distressed property sales have dragged down pricing to levels prevailing at the turn of the century (or 50% of peak pricing).
- There is available financing to the investors acquiring these properties.
- For the first time in years, investors are no longer buying these properties speculating on future appreciation; rather, they are pricing these real estate assets on the cash flow fundamentals offered.
- The smaller investment properties are now being priced using the same value benchmarks used on larger properties.

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Apartment Investor Market **Ventura County**

	2005	2006	2007	2008	2009
10+ units					
# sales	22	19	24	15	1
\$/unit	\$123,834	\$141,714	\$159,840	\$136,045	\$132,750
CAP RATE or GRM	11.3	11.8	11.5	10.7	6.50%

5 - 9 Units					
# sales / (annualized)	7	20	13	12	22 / (33)
\$/unit	\$157,195	\$158,734	\$172,368	\$157,500	\$137,000
GRM	13.8	13.6	13.3	12.8	9 to 11

2 - 4 units (non-distressed)					
# sales / (annualized)	194	137	65	30	16 / (24)
\$/unit	\$307,972	\$276,799	\$278,239	\$173,000	\$147,000
GRM	21.5	21.7	19.7	13.5	12.79
Average Days on Market					137 days

2 - 4 units (distressed)					
# sales / (annualized)	0	0	3	39	47 / (70)
\$/unit	n/a	n/a	\$203,500	\$166,000	\$131,000
GRM					10.39
Average Days on Market					63 days