

Apartment Investor Market

Winter 2011 Update

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Two-to-Four Unit Properties

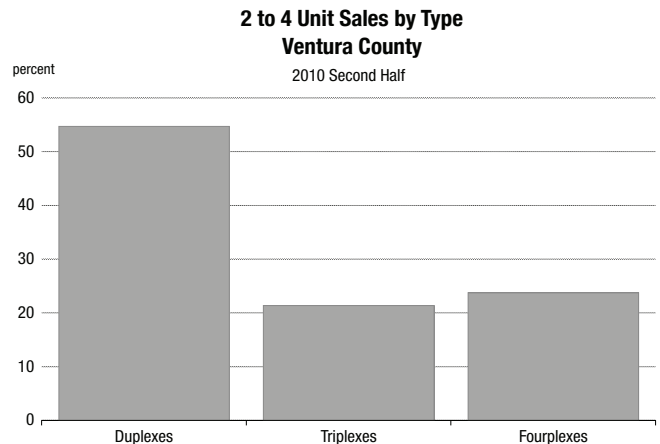
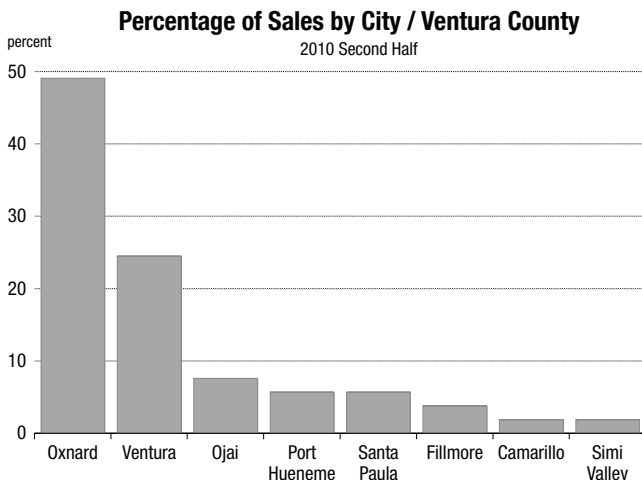
As we have seen consistently in the past, this smaller property category has seen a disproportionate amount of sales vis-à-vis larger property types – 73.7 percent of sales, with duplexes receiving the most activity of this size category – 54.7 percent; triplex (21.4 percent); and fourplex (23.8 percent).

Annually, more sales occurred the second half of the year (84) than the first half (68). While the first half of 2010 reflected a majority of sales were non-distressed (over 70 percent) reversing a trend of “distress”, the second half of the year indicated a slight majority of sales were distressed (55 percent) – but clearly not as disproportionate as was seen during the 2008-2009 strong foreclosure period.

Market stabilization in pricing appears to be occurring, as noted by the minor difference (14 percent) between average per-unit sales prices of distressed (\$144,240) and non-distressed (\$164,190) properties. Only the Ventura city sales reflected a large difference between distressed and non-distressed pricing -- \$151,530 and \$212,834 (over 40 percent).

Non-distressed properties clearly sell for a premium, with GRM rates of 10.2 and 12, respectively for distressed and non-distressed properties (or nearly a 20 percent difference). As would be expected, statistics also show resoundingly those cities that attract the investment community most (e.g. Ventura, Camarillo, Thousand Oaks, and Simi Valley), generate higher per-unit prices and GRMs.

As the accompanying chart depicts, Ventura and, especially, Oxnard accounted for close to three-quarters of total sales, with the other submarkets of Fillmore, Santa Paula and Ojai reflecting very anemic recent historical sales past.



Five-to-Nine Unit Properties

As has been the case in the past, this size category saw weak sales (only 8 sales on an annual basis). This is, quite likely, attributable to the greater difficulty in attracting financing that both the smaller (2-4 unit properties) and larger properties (10+ unit properties) enjoy through the governmental finance agencies of FNMA, FHLMC and FHA. Five-to-Nine unit properties, on the other hand, are primarily financed through local and regional banks that not only have random and stringent underwriting, but also have more expensive loan rates that make borrowing tougher to secure.

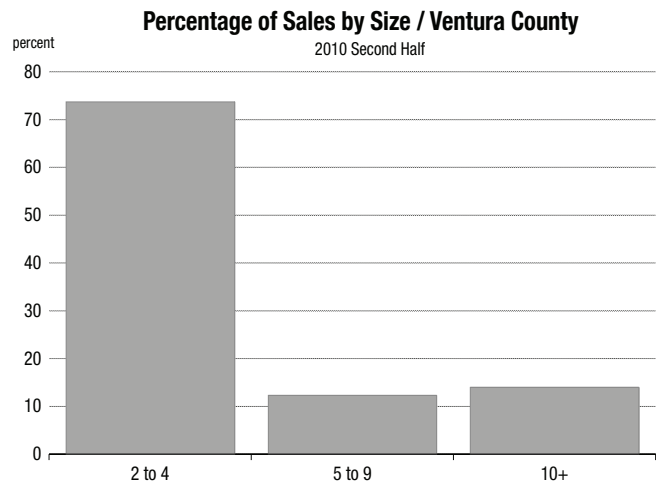
The average per-unit price of these mid-size properties was approximately \$97,083; however, because there were so few sales, when one outlier property in Ventura offering ocean-view two-bedroom units that generate high rents was considered, the average per-unit pricing jumped to \$124,375 – the average GRM was 9.6 excluding this property, but rises to 11 if it is included.

10+ Unit Properties

Sales of larger units appeared somewhat robust in the second half of 2010 (14 on an annualized basis). The average per-unit price was fairly low at \$104,425 excluding the landmark sale of the institutional-grade

Serenade at Oxnard’s Riverpark (400 units) master-planned community. With this sale included the averages become skewed upward. Institutional buyers are still paying “top dollar” for quality, and this sale brings the average price per unit to over \$132,000. The average capitalization rate was 6.1 percent, but is lower when considering the aforementioned large sale (a 5.3 percent cap rate), and the GRMs hover around 10.

As long as the government-related entities of FNMA, FHLMC and FHA (80 percent of the loans made) offer direct loans that have low interest rates, long fixed terms, and high loan-to-values, not only will sales activity continue to be strong, but also market values will be bolstered with this low cost of capital.

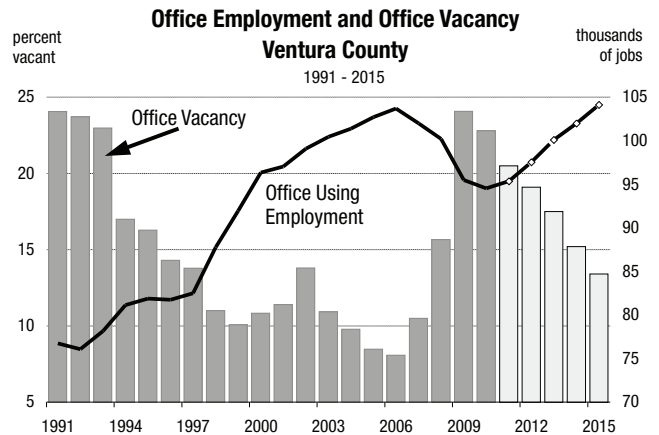


The Commercial Market Outlook for 2011

An improving labor market in 2011 will ensure that commercial space utilization increases. Rents are unlikely to increase while vacancy rates remain elevated, but the largest declines have passed. Expect upward pressure on rents to occur beginning in 2012.

By 2012 there will be more convincing improvement in all commercial real estate markets. Unemployment will be clearly in decline as new hiring returns to more normal levels, creating more demand for office space. Increasing consumer spending will fuel demand for both retail space as well as industrial production, which in turn will require more space to increase output.

The office market will see the most pronounced gains in 2011, as employment rises nearly 1 percent. Over the next 3 years, office employment growth slightly outpaces total non-farm growth. Space will quickly be absorbed once the expansion gains momentum, as there is currently no new construction entering the market.



Editor's Note: Special thanks to our guest authors –Paul Farry is Senior Vice President, specializing in the county's Industrial Market. Tom Dwyer is Senior Vice President, specializing in the county's Office Market. David Rush is Senior Vice President specializing in the Retail Sector. All three work out of the Camarillo Office of CB Richard Ellis. Craig Lieberman is the founder and president of TAS Commercial, where Pedro Vazquez is a principal.

Apartment Investor Market	Ventura County						
	2006	2007	2008	1st half 2009	2nd half 2009	1st half 2010	2nd half 2010
10+ Units							
# sales	19	24	15	2	2(REO)	10	14
\$/unit	\$141,714	\$159,840	\$136,045	\$132,750	\$72,000	\$116,100	\$104,425*
CAP RATE (%) or GRM (X)	11.8	11.5	10.7	6.50%	6.7	9.3	6.1%/10.1X
5 - 9 Units							
# sales annualized	20	13	12	33	10	6	8
\$/unit	\$158,734	\$172,368	\$157,500	\$137,000	\$141,380	\$88,760	\$97,083*
Gross Rent Multiplier	13.6	13.3	12.8	9 to 11	10.6	8.4	9.6
2 - 4 Units (non-distressed)							
# sales annualized	137	65	30	24	42	48	38
Percent of Total Sales	100%	96%	44%	25%	33%	71%	45%
\$/unit	\$276,799	\$278,239	\$173,000	\$147,000	\$162,440	\$202,410	\$164,190
Gross Rent Multiplier	21.7	19.7	13.5	12.79	10.2	12.8	11.96
2 - 4 Units (distressed)							
# sales annualized	0	3	39	70	86	20	46
Percent of Total Sales	0%	3%	57%	75%	67%	29%	55%
\$/unit	n/a	\$203,500	\$166,000	\$131,000	\$122,230	\$154,065	\$144,240
Gross Rent Multiplier				10.39	9.7	10.6	10.2

*prices excluding high-end outlier properties