Market Conditions Report

San Diego Multi-family Fundamentals are Strong!

Judging by the reports recently published in the local media, San Diego's real estate market continues to be neck-deep in turmoil. With home values still adjusting to the new market conditions, and a large numbers of homes still in foreclosure, the county is likely to face a shortage of apartments by August 2012.

Approximately 13,000 apartment buildings dot the skyline of San Diego, but currently just less than 130 apartment buildings are up for sale. Due to the shortage of saleable properties, cap rates have been compressed, fetching owners a higher value. It is the other extreme though when it comes to commercial sectors such as retail, office and industrial. Here, cap rates and vacancy rates remain at the highest peak while values continue to decline.

The number of transactions in the multi-family sector have not been considerable in recent months, but the reason was certainly not due to sizeable decline in values. Since the first quarter of 2008 to that of 2011, apartment value has declined by approximately 4%. In addition, the inventory of apartment properties for sale is less than 1%.

However, the market scenario looks promising in San Diego, today. The air of despair seems to have cleared and the market looks positive. Thanks to rents that continue to improve occupancy at record highs coupled with interest rates ranging from 4.5% to 5.0%, the market is definitely gaining momentum and is poised for rapid recovery.

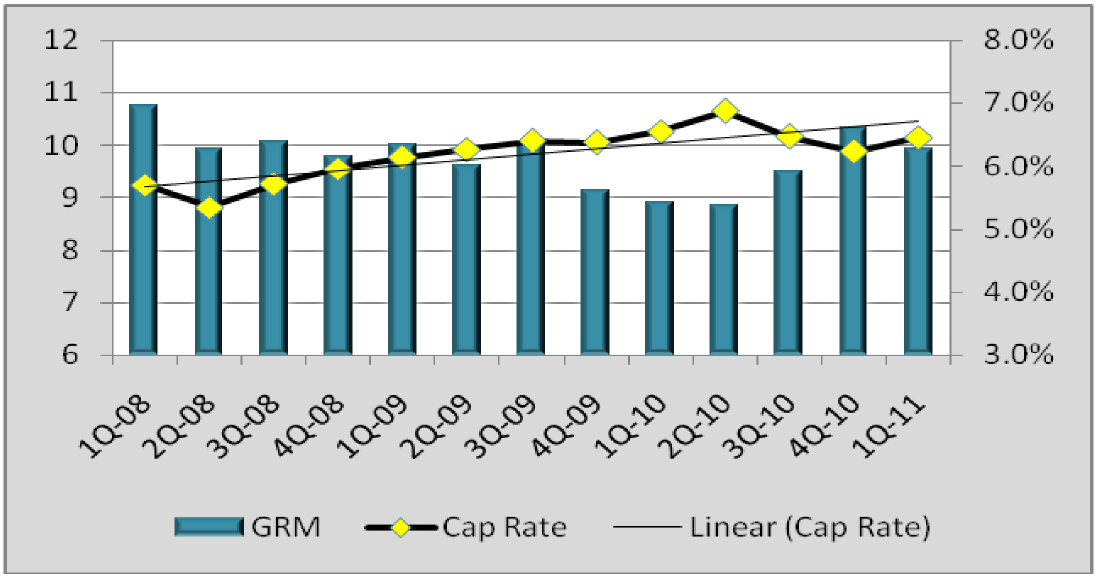
San Diego is confined by three natural boundaries − the border of Mexico, the Pacific Ocean and Camp Pendleton – and the development opportunities are quite minimal. Fortunately, San Diego did not witness a steep decline in values of multi-family units and this is mainly because the county was not subjected to over-construction of buildings as seen in the real estate markets of Phoenix, Arizona and Las Vegas , Nevada. In the multi-family housing segment, more permits have been approved in the first quarter of 2011 than in the whole of 2010. In addition, 649 multi-family units have been approved and permitted in San Diego this year. However, only 10 of the units issued were permitted in May 2011. In fact, it is the lowest monthly total since October 2009.

Several developers are still sitting on the fence, quite uncertain of the right time to commence construction. Once recovery sets in, more and more renters will opt for home ownership and this might cause some decline in occupancy. Simultaneously, interest rates will begin to increase, demanding additional revenues to cover these costs and drive up the cap rates. This could potentially lead to a decline in property value, but a counter-balance will be achieved when consumer confidence is restored and investors compete for limited supply.

Overall, the market fundamentals will remain strong in San Diego! Multi-family housing has always proved itself to be the safest strategy at the time of a recession or economical down-turn. As San Diego gears up for multi-family units, nothing is bound to go wrong!

Mission Valley by Nooren Apartment Investments

NAI San Diego



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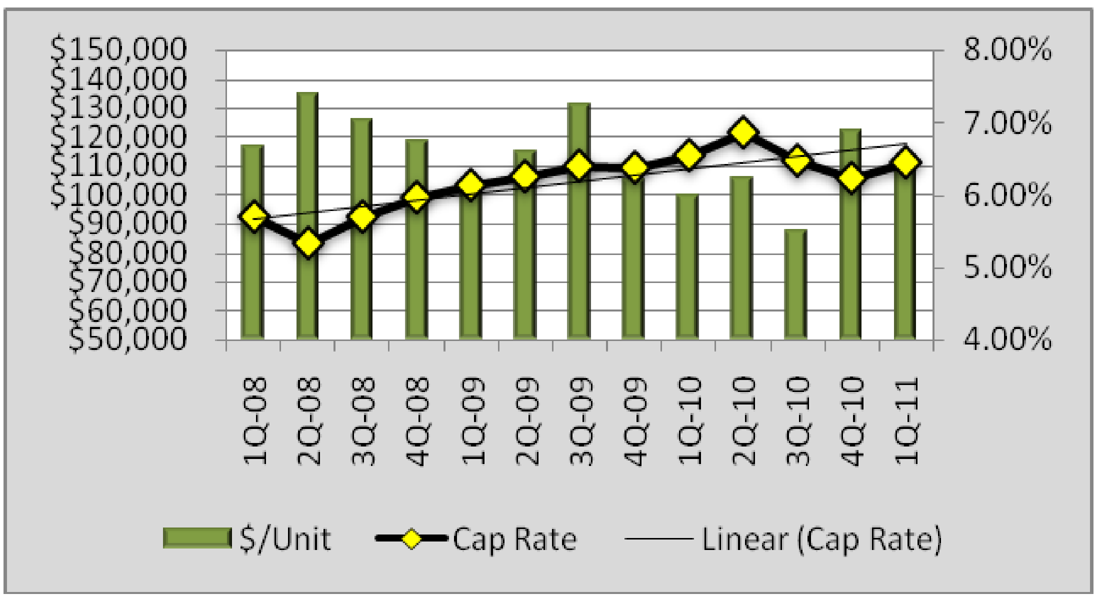

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