

# INVESTMENT PROPERTY REPORT

The Latest Commercial Real Estate News, Trends & Advice for the San Fernando Valley and Greater Los Angeles

Volume IX, Issue 2 ■ August 2010

## Analysts and Latest Reports Forecast Continued Multifamily Uptick



The current buzz within the commercial real estate market paints a promising picture for multifamily investors: Top analysts and reports concur that the apartment market is set to recover faster than the office or retail sectors from the nation's economic malaise. According to New York-based real estate research firm Reis Inc., apartment vacancies showed the first quarterly improvement in two years, as private-sector job growth increased demand for rental housing. "The vacancy rate for apartment properties was 7.8 percent," noted the Reis report, "down from a 30-year high of 8 percent in the first quarter and up from 7.7 percent a year earlier." There are also gains in effective rents relative to asking rents. For instance, there is evidence that concession packages are lessening, with owners waiving rent for less months or no longer needing to offer it altogether. Although, California isn't recovering as quickly as other markets.

*"Apartment vacancies showed the first quarterly improvement in two years."*

While prices for office and other commercial real estate sectors are in the process of stabilizing, multifamily prices nationally have already stabilized and are actually experiencing modest growth. A popular index tracked by Moody's and Real Estate Analytics states that apartment buildings have actually increased in value for the second consecutive quarter. And according to a just-released report by Integra Real Estate Resources Inc., multifamily properties will continue to see gains over the next six months. "This is exceptionally encouraging news," commented Jeffrey Rogers, President and COO of Integra, "given the continuing troubles in the world capital markets and the United States' unemployment rate." Despite these issues, though, there are numerous national indicators that bring better news. For one, extremely low interest rates have helped keep pricing relatively stable and have further fueled demand in the marketplace. Also, private sector employment has increased by 630,000, with about two-thirds of the gain occurring in March and April. However, the U.S. unemployment rate remained at 9.5 percent in July.

A recent Los Angeles Times article highlights the positive trend: "in a sign of the easing, heavyweight investors armed with buckets of cash are on the prowl, looking to snap up office buildings, warehouses, shopping centers and apartments at the market's low, industry observers say. The buyers are choosy, but the most desirable buildings elicit bidding wars when they come up for sale" ("Worst May Be Over for Commercial Real Estate," Roger Vincent, June 9, 2010).

*"Multifamily prices have already stabilized and are actually experiencing modest growth."*

Up until now, many owners remained on the sidelines in hopes that prices would stop dropping while buyers were waiting for a low point, but the tide is shifting among investors. Notes the LA Times article, "there is so much money sitting on the sidelines that when distressed assets or even small pools of loans come to market, there is a flood of interest... Money can't stay on the sidelines for long periods of time. It has to retool and be put to use."

*As always, if you would like to meet to discuss these findings or your personalized investment goals, please contact me at your convenience.*

WARREN BERZACK VICE PRESIDENT  
INVESTMENT REAL ESTATE ASSOCIATES

**IREA**