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Investors still on apartment-buying binge

Prices of complexes keep rising, along with fears of rental bubble

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Despite higher vacancy rates, investors continue to gobble up San Diego County apartments at a near-record clip, pushing up prices and raising fears of a market bubble.

A recent report by Burnham Real Estate Services said more apartment complexes were sold last year than

at any time in the past 13 years. Many of the buyers were large institutions seeking to diversify their battered stock portfolios with real estate.

These institutions, as well as other buyers, poured \$1.5 billion into the local apartment market in 2002, the report said.

"It all boils down to supply and demand," said George Carlson, a

vice president and apartment specialist at Burnham Real Estate. "There are still more buyers out there than sellers."

In all, 21,142 apartment units changed hands last year, a 46 percent increase over 2001. The biggest deal last year was the sale of Teresina at Lomas Verdes, a 440-unit complex in Chula Vista that was purchased by a Delaware partnership

linked to Eagle Real Estate Management Group for \$54 million.

As with the housing market, escalating prices being paid for apartments have raised fears of a market bubble, which could burst if the economy continues to sputter.

And there are signs of a recent slowdown in the rental market. A survey this month found that military deployments, additional layoffs at local companies and new apartment construction helped push up the county's apartment vacancy rate to 4 percent. A year ago, vacancies for apartments stood at just 2.8 percent.

There are signs of a recent rental slowing

Yet Marcus & Millichap, a real estate brokerage firm, still ranks San Diego as the third best city in the United States for apartment investing, down from the second best last year.

For apartment investors paying high prices, the risk is their expenses will rise at a time when they'll be unable to increase rents because of sluggish demand, particularly their interest payments on adjustable rate loans common when purchasing apartments.

Yet, at least for now, local experts don't see that scenario occurring in San Diego. They contend that as long as the local economy continues to add jobs, demand for apartments will remain strong.

"I've seen an acceleration in buyer interest since the first of the year," said Robert Vallera Jr., senior vice president of San

Diego's IPC Commercial Real Estate. "A lot of money is going into real estate because of the perception that good returns aren't available elsewhere."

San Diego apartments also look good to investors because home ownership remains out of reach for many local residents. That's in contrast with many cities nationwide, where record low interest rates allowed many apartment dwellers to become homeowners and boosted rental vacancy rates.

Lenders also are keenly aware of the potential for a market bubble. As a result, they've instituted conservative lending guidelines during the recent apartment sales surge, said Terry Moore, an apartment owner and broker with ACI Commercial Real Estate.

"They want at least \$120 in cash flow for every \$100 of mortgage payment, and that's after the bank has made a pretty conservative estimate on vacancy," Moore said.

He added that his research shows the median price paid by investors per apartment unit rose from \$57,000 in 2000 to \$82,500 last year.

Among the most aggressive buyers in this recent run of apartment sales are developers who purchase complexes and convert them into for-sale condominiums.