RED CAPITAL GROUP®

Market Overview

San Diego, California

Multifamily Housing Update **March 2010**

EXECUTIVE SUMMARY

Recent data suggest that a new "R" word is the best descriptor of the San Diego economy. Both seasonally-adjusted payroll employment and the Index of Leading Economic Indicators, published by the University of San Diego, indicate that a recovery was underway in recent months. With regard to the former, establishment headcounts increased 4,400 during 4Q09, the first increase since 3Q07. Moreover, five of the six components of the leading index improved from December to January. As a result, the January index value was up 0.6% month-over-month (seasonally-adjusted) and was also 2.6% above the January 2009 metric.

Payroll data remained negative on a year-over-year basis, although the pace of decline was more modest. Employers cut -56,600 (-4.4%) jobs y-o-y in 3Q09 and headcounts were down only -46,300 (-3.6%) y-o-y in 4Q09. With regard to sector employment, slower attrition was noted in the construction, manufacturing, wholesale trade, retail, business service, private education and hospitality sectors. Conversely, trends among transportation, utilities, information, finance, health care and government agencies worsened.

While the San Diego economy was most likely in the early stage of recovery in 4Q09, area businesses remain cautious. The December Manpower Employment Outlook Survey shows that the 14% of surveyed firms plan to add staffs in 1Q10, up from only 9% in September. Still, the majority of surveyed companies (71%) do not plan to change headcounts.

RED CAPITAL Research (**RCR**) predict that y-o-y losses will persist this year but foresee employment growth in 2011. Our econometric model produces point estimates of -2,200 (-0.2%) jobs lost in 2010 and a 13,200 (1.0%) job advance next year.

Area home values rebounded slightly in the fourth quarter. The National Association of Realtors report that the median single-family home price rose 7.3% y-o-y to $379,200. Likewise, the metro registered a 2.7% advance in the Case-Shiller home price index in the twelve-month period ended in December. As a result, the index value was -37.6% below the price peak, as compared to the -42.3% peak-to-trough decline.

Apartment occupancy rebounded in the fourth quarter. During the first nine months of 2009 the metro occupancy rate fell 90 basis points to 95.0%. But occupancy rose 10 basis point sequentially to 95.1% in 4Q09, largely attributable to positive net absorption of 260 Class-A apartment units. By contrast, tenants vacated 38 Class B/C units during the period.

Apartment owners preserved, but did not add to third quarter effective rent growth as the figure was unchanged sequentially at $1,227 in 4Q09. By comparison, the average asking rent decreased -0.3% sequentially, producing a slight decrease in the size of the average concession package from 4.0% of asking rent in 3Q09 to 3.7% in 4Q09.

Real Capital Analytics report that apartment sales volume fell -60% y-o-y to $319.7 million in 2009. The average price per unit was $120,078 and the average cap rate was 6.5%. Additionally, the source identified two transactions in January, totaling $97.8 million in sales proceeds. At a 6.3% assumed cap rate, **RCR** calculate a 7.0% total return, ranking 21st among the **RED** 50. Moreover, relatively low levels of historic NOI growth volatility produce the 16th highest measure of risk-adjusted return in the group.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (4.9% - 4Q09)	↑ 80bps	↑ 40bps
Effective Rents ($1,277 - 4Q09)	↓ 1.9%	↑ 0.1%
Cap Rate (7.6% - 4Q09)	↑ 190bps	↑
Employment (1,248.3m - 4Q09)	↓ 46.3m	↓ 2.2m

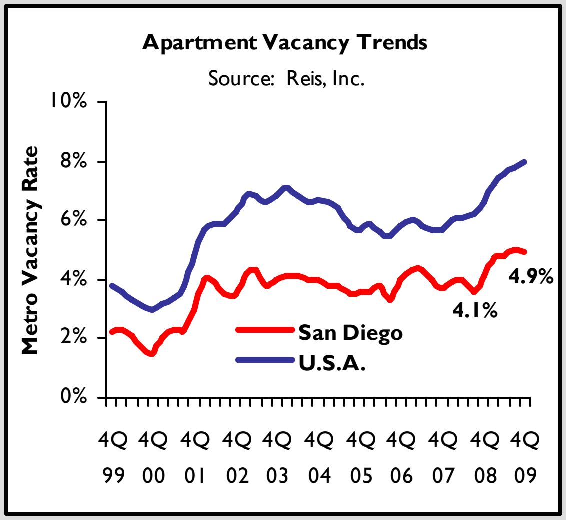
KEY POINTS

- The metro vacancy rate decreased 10 basis points sequentially to 4.9% in 4Q09. The improvement was attributable to positive net absorption of 222 units. Conversely, the 4Q vacancy rate was up 80 basis points year-over-year after tenants vacated 1,049 units in the first nine months of the year.
- Following three consecutive quarterly declines, the average effective rent rose 0.2% in 3Q09 and was unchanged in 4Q09. But annual rent trends remained negative, falling -1.9% to $1,227.
- Based on REIT disclosure data, same-store occupancy rose 100 basis points year-over-year to 96.0% in 4Q09. On the other hand, same-store average rent plunged -3.9% to $1,412 in the same time frame.
- San Diego home prices rose in 4Q09. According to the National Association of Realtors, the median price of a single-family MSA home advanced 7.3% annually to $379,200.
- Real Capital Analytics report that 2009 sales volume totaled $319.7 million and the average price per unit was $120,087.

VACANCY TRENDS

- The metro vacancy rate decreased 10 basis points sequentially, owing to steady tenant demand. Positive net absorption totaled 222 units, outpacing supply of only 27 units during the period. Conversely, the metro vacancy rate rose 80 basis points year-over-year as tenants vacated 827 units during 2009.
- Demand was particularly weak among Class B/C properties as negative net absorption totaled 984 units in 2009. By comparison, Class-A property managers net leased 14 units during the year.
- REIT disclosure data, covering 14,893 units, reveal that same-store occupancy rose 100 basis points from 95.0% in 4Q08 to 96.0% in 4Q09.
- Reis forecast that vacancy will rise to 5.3% this year.

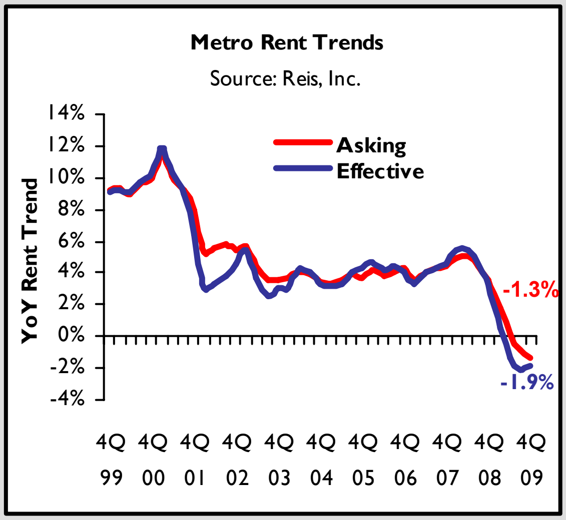
RANK: 3rd out of 50



RENT TRENDS

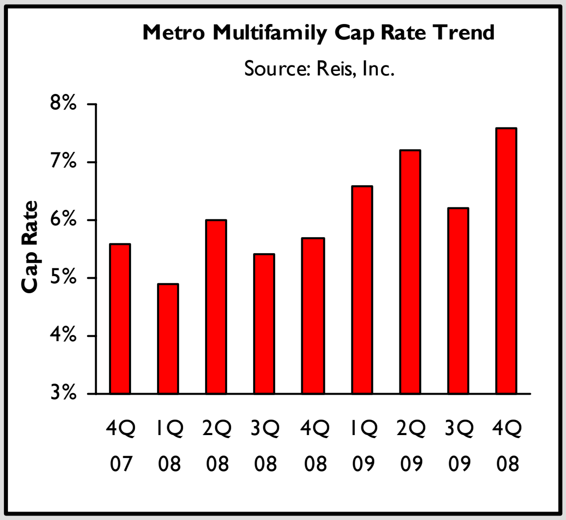
- At $1,277, the 4Q09 average effective rent was unchanged sequentially and down -1.9% year-over-year. By comparison, asking rent fell -0.3% quarter-over-quarter and at a -1.3% annual pace to $1,326 in the fourth quarter.
- The size of the average concession package dropped from 4.0% of asking rent in 3Q09 to 3.7% in 4Q09.
- Rent figures from public REITs revealed weaker over-the-year trends. The same-store average rent declined -3.9% year-over-year from $1,469 in 4Q08 to $1,412 in 4Q09.
- Reis predict that effective rent will advance 0.1% this year and at a 3.0% compound average annual rate from 2011 to 2014.

RANK: 26th out of 50



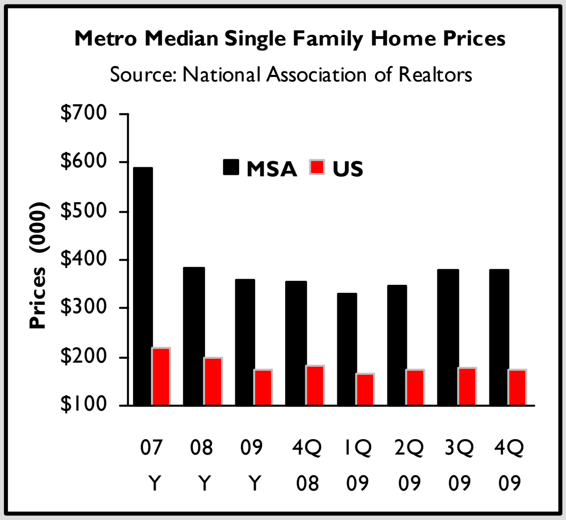
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics were aware of 23 transactions involving properties priced at or above $5 million in 2009. Sales volume totaled $319.7 million and the average price per unit was $120,087. Additionally, two trades occurred in January, totaling $97.8 million in sales proceeds.
- Only one of the recently traded properties was purchased for more than $200,000 per unit. Del Mar Ridge, located in the North Beaches submarket, was constructed in 1999 and sold for $44.8 million or $248,611 per unit. Based on Reis rent, occupancy and expense data, **RCR** calculate a 5.8% going-in yield.
- At an assumed 6.3% generic metro cap rate, **RCR** estimate a 7.0% expected rate of total return, better than the 6.7% **RED** 50 average. Moreover, San Diego boasts the 16th highest measure of risk-adjusted return in the **RED** 50.

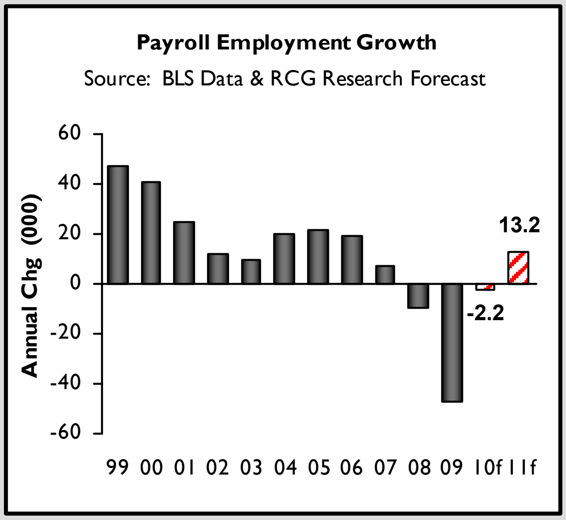


NOTABLE TRANSACTIONS

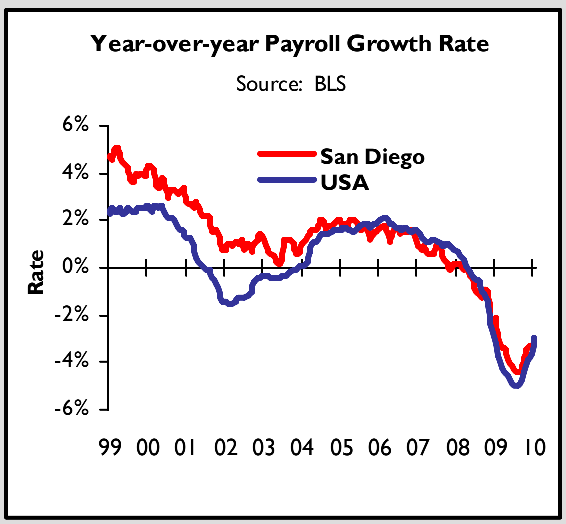
Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Del Mar Ridge	A	January 2010	$44.8	$248,611	5.8%
Casas	B/C	January 2010	$53.0	$136,598	7.1%
Rancho Las Brisas	B/C	November 2009	$16.1	$118,676	5.7%



Metro Median Single Family Home Prices
Source: National Association of Realtors



Payroll Employment Growth
Source: BLS Data & RCG Research Forecast



Year-over-year Payroll Growth Rate
Source: BLS

DEMOGRAPHICS & HOUSING MARKET

- Home price trends improved in 4Q09. According to the National Association of Realtors, the median price of a single-family MSA home increased 7.3% year-over-year from $353,400 in 4Q08 to $379,200 in 4Q09. Likewise, the median condo price advanced 12.7% to $215,100.
- The Case-Shiller repeat-sales home price index also turned positive, advancing 2.7% in the twelve-month period ended in December. By comparison, the 20-market composite index declined at a -3.1% annual pace.
- San Diego County housing prices continued to rise in January. DataQuick report that the median home price advanced 8.9% to $305,000.

COMMENT: **At 4.34%, the metro's 2009 foreclosure rate ranked 28th higher among the 203 markets tracked by RealtyTrac.com.**

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

- The pace of year-over-year payroll job attrition peaked at -56,600 (-4.4%) in 3Q09 and decelerated to -46,300 (-3.6%) in the fourth quarter. On the other hand, household survey data reveal that employment levels fell -73,442 (-5.0%) year-over-year in 4Q09, worse than the -69,076 (-4.7%) job decrease observed in 3Q09.
- Improved conditions among construction and business service firms were partially responsible for better payroll trends. Combined, the sectors eliminated -17,000 jobs year-over-year in 4Q09, following a -22,400-job annual decrease in 3Q09.
- Conversely, local government budget problems resulted in faster payroll losses in 4Q09. Local agencies trimmed -1,900 positions from payrolls in 3Q09 and -3,200 jobs year-over-year in 4Q09.

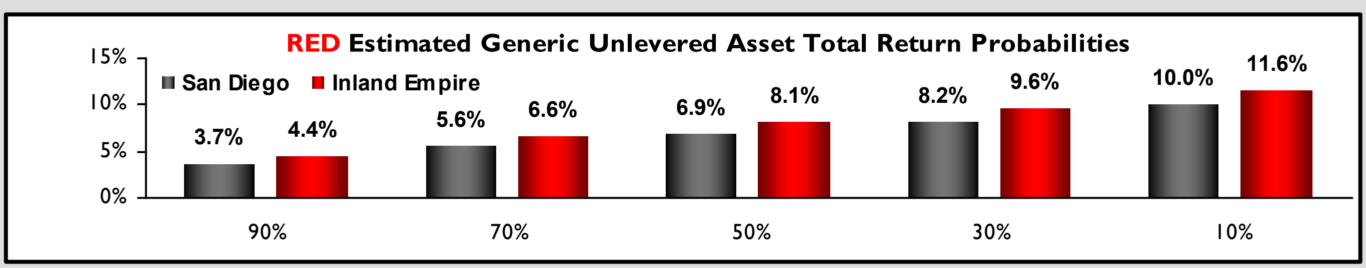
Seasonally-Adjusted

- Measured on a seasonally-adjusted basis, metro headcounts advanced 4,400 from October to December, marking the first quarterly gain since 3Q07.
- The December Manpower Employment Outlook Survey suggests that employment will continue to increase in 1Q10 as the percentage of firms that plan to expand (14%) was higher than the share of companies that expect to contract (12%).

Forecast

- **RCR** forecast that payroll employment will fall slightly (-2,200, -0.2%) this year but rebound as 13,200 (1.0%) jobs are created in 2011.

RANK: 32nd out of 50



RED Estimated Generic Unlevered Asset Total Return Probabilities

SUBMARKET TRENDS

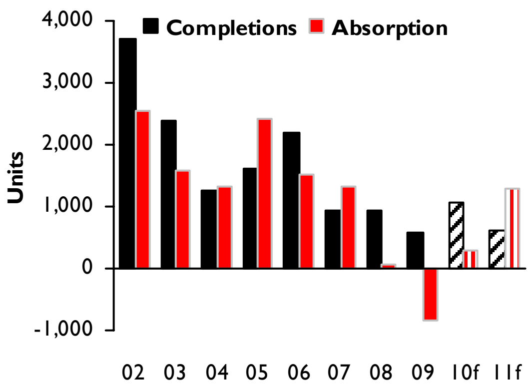
Submarket	Effective Rent			Physical Vacancy		
	4Q08	4Q09	Change	4Q08	4Q09	Change
Oceanside	$1,214	$1,189	-2.0%	4.0%	4.5%	50 bps
North Beaches	$1,590	$1,507	-5.3%	5.3%	5.1%	-20 bps
Vista	$1,185	$1,145	-3.4%	5.8%	4.9%	-90 bps
Escondido / San Marco	$1,106	$1,076	-2.7%	3.7%	5.0%	130 bps
Mira Mesa	$1,495	$1,477	-1.2%	4.9%	5.2%	30 bps
La Mesa / Spring Valley	$1,181	$1,197	1.4%	3.2%	4.3%	110 bps
El Cajon / Santee	$1,019	$998	-2.0%	2.6%	4.1%	150 bps
San Diego / East of I-15	$1,055	$1,018	-3.5%	4.9%	5.6%	70 bps
National City / Chula Vista	$1,157	$1,145	-1.1%	3.3%	4.1%	80 bps
Downtown San Diego	$1,690	$1,659	-1.8%	8.2%	6.9%	-130 bps
Balboa Park / West of I-15	$1,069	$1,016	-5.0%	3.4%	3.7%	30 bps
Clairemont	$1,415	$1,377	-2.7%	3.4%	5.8%	240 bps
Mission Bay / Pac Beach	$1,522	$1,484	-2.5%	3.6%	3.3%	-30 bps
Ocean Beach / Point Loma	$1,281	$1,263	-1.4%	1.8%	4.3%	250 bps
La Jolla / University City	$1,705	$1,691	-0.8%	3.1%	5.1%	200 bps
Metro	**$1,302**	**$1,277**	**-1.9%**	**4.1%**	**4.9%**	**80 bps**

SUPPLY TRENDS

- Developers completed six apartment complexes in 2009, totaling 668 units. Two of the assets (354 units) were delivered to the Clairemont submarket. The balance were completed in the La Jolla / University City (190 units), National City / Chula Vista (52 units), San Diego / East of I-15 (45 units) and Downtown San Diego (27 units) submarkets. Additionally, in a March construction report, Reis report that one apartment property was completed in January. The asset, consisting of 237 units, is located in the Clairemont submarket.
- Reis anticipate that the largest property under construction will debut this year. Development of the 644-unit National City / Chula Vista property is scheduled to conclude in December. Two properties, containing a total of 610 units are scheduled to open in 2Q10 and one additional asset (368 units) is under construction and slated to debut in 2011.

Completions and Absorption

Source: Reis, Inc



Daniel J. Hogan
Director of Research
djhogan@redcapitalgroup.com
614-857-1416

William T. Hinga
Business Development
wthinga@redcapitalgroup.com
614-857-1499

RED CAPITAL GROUP
Two Miranova Place
Columbus, OH 43215
www.redcapitalgroup.com
800.837.5100