

Forecast 2005: Building on the Successes of 2004

By Patti Maass

Looking toward the future of the housing market, experts foresee two major housing issues in 2004 continuing their course through 2005: condo conversions and rising interest rates. With thousands of Southern California units converted from apartments to condominiums in 2004, the lack of supply is predicted to put upward pressure on rents, resulting in higher demand and higher rents per unit. This, along with the continued rise in interest rates nationwide should inspire multi-family property owners and managers. According to a recent issue of *Builder* magazine, "The prospect of rising interest rates bodes well for the (multi-family) industry, which has been hit hard as prospective tenants decided to take advantage of rock-bottom mortgage deals rather than rent."

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The effects of these ongoing trends can be detected by observing local vacancy rates. A recent market summary, *Commercial Real Estate Quarterly*, published by the National Association of Realtors, reports that of the nation's 57 largest metropolitan markets, Riverside and San Diego rank second and fifth, respectively, for "Lowest Vacancy." According to the report, Riverside's vacancy rate in the third quarter 2004 was 2.9% while San Diego enjoyed an estimated vacancy rate of 3.1% for the same period. In addition, the San Diego and Phoenix markets were in the top ten listing of "Markets with Highest Net Absorption" for the third quarter of 2004. Phoenix ranked fifth on that list with a net absorption rate of 6.5% and San Diego ranked sixth with a net absorption rate of 5.9%. Furthermore, NAR predicts that each will add some 5,000 to 10,000 new units to their respective markets by 2006.

Unfortunately, San Diego's relatively low incomes and corresponding low housing affordability index has created a glass ceiling when it comes to rental growth rates, a weakness that is expected to continue in 2005. However, Riverside and Orange County both ranked on NAR's listing of "Markets with Highest Rent Growth", placing Riverside at No. 1 with 1.7% quarterly rent growth and Orange County at No. 9 with 1.1% quarterly growth.

Overall, we anticipate that 2005 will be a prosperous year for property owners, providing the long-awaited opportunity to reinvest in the upkeep and maintenance of their current properties. Most assets will see income growth of close to 4%, expenses will stabilize somewhat as insurance and workers compensation rates go down and the continued drive toward condo conversions will create an even stronger demand for quality rental communities. Internally, we are working to complete the implementation of our OneSite management information system that offers many marketing, resident service and site efficiency benefits to property owners.

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