

San Diego County
Vol. XX, Issue I Rental Trends Executive Summary March 2007

Editor: Robert D. Martinez- Director of Research

San Diego County's institutional grade rental complexes experienced the highest six-month increase in vacancy rate since March of 1995. The reason for this is likely multifaceted. With the for-sale conversion sector continuing to attract price sensitive buyers, and with rental rates continuing to climb, a potential large number of potential buyers jumped off of the fence and entered the home ownership arena. Also a possibility is the movement of renters from the institutional type of rental project to a single-unit rental home or townhome that a potential speculator turned landlord, decided to offer for rent. Another factor is the influx of rental units in the last six months, some 1,250 of them, where lease programs still have not yet hit their stride as 46 percent of those units are still vacant resulting in an almost one half percent push in the overall vacancy rate.

The countywide vacancy rate of 4.54 percent has climbed 2.7 percent higher than it was six months ago when the vacancy rate fell below 2 percent and compared to a year ago when the vacancy rate was 3.05 percent, today's 4.54 percent vacancy rate has increased by nearly 1.5 percent.

The average monthly rental rate in San Diego County increased \$20 in the last six months to \$1,261 per month. The current rental rate average is nearly 2 percent higher than it was as of our September 2006 survey and has increased better than 4 percent in the last 12 months. This current rental rate increase is the largest annual increase seen since March of 2003 when average rents increase by almost 6 percent.

As of our September 2006 audit there were 782 projects surveyed in Rental Trends. With the addition of ten new projects and the extraction of two projects, a net increase in the number of active projects in Rental Trends moved the total up to 790. Of the ten new projects, five are actually considered new, as five additional projects were previously for-sale condominium conversion projects that have returned some or all of their units to a rental program. These returnees from the for-sale sector combine to bring back nearly 1,000 units to the region's rental stock.

Figure 1
San Diego County Summary
March 2007

Category	San Diego County	North County	South County
Total Number of Complexes	790	354	436
Total Number of Units Surveyed	113,498	54,754	58,744
Total Number of Units Leased	108,344	52,283	56,061
Total Number of Units Vacant	5,154	2,471	2,683
Overall Vacancy Factor	4.54%	4.51%	4.57%
Average Monthly Rental Rate	\$1,261	\$1,329	\$1,197
Average Square Footage	857	885	831
Average \$/Square Foot	\$1.47	\$1.50	\$1.44

Source: MarketPointe Realty Advisors

Rental Rate Trends

The weighted average rental rate increased \$20 per month since the previous audit of **Rental Trends**. This increase in the rental rate average equates to a 1.63 percent increase. From an annual perspective, the countywide rental rate average is up 4.13 percent from an average of \$1,241.

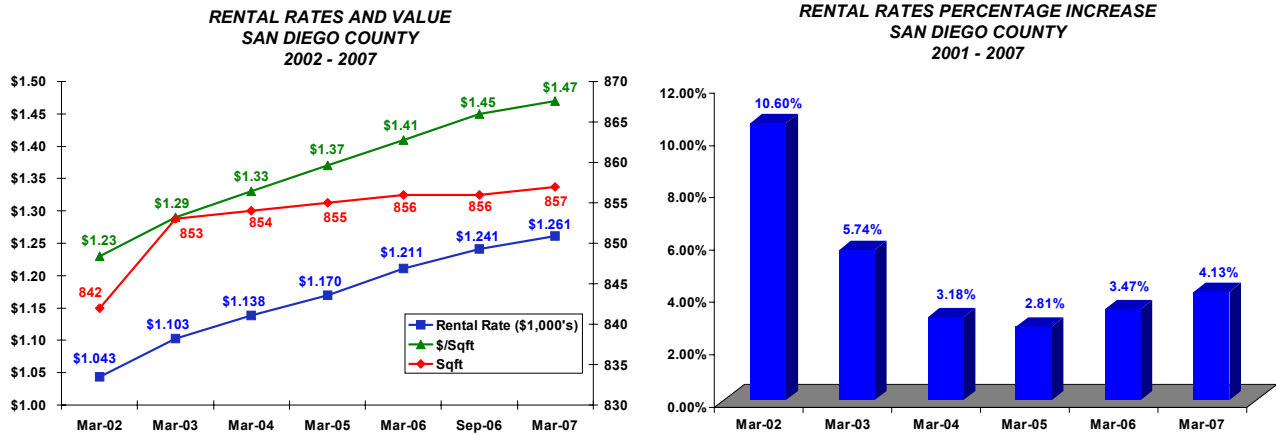


Figure 3, below, highlights changes in some key factors in the San Diego County rental market since March 2002. The average rental rate has increased by 7.75 percent over the last two years, and 10.78 percent over the last three years. Additionally, the average unit size has remained relatively stable gaining just 15 square feet, or less than 1 percent, since March of 2002.

Figure 3
San Diego County
Changing Market Factors
2002 - 2007

	Mar-02	Mar-03	Mar-04	Mar-05	Mar-06	Sep-06	Mar-07	Change			
								Sep-06 Mar-07	Mar-06 Mar-07	Mar-05 Mar-07	Mar-04 Mar-07
Rental Rates											
Total County	\$1,043	\$1,103	\$1,138	\$1,170	\$1,211	\$1,241	\$1,261	1.63%	4.13%	7.75%	10.78%
North County	\$1,101	\$1,161	\$1,193	\$1,226	\$1,280	\$1,306	\$1,329	1.74%	3.86%	8.41%	11.41%
South County	\$985	\$1,046	\$1,086	\$1,117	\$1,147	\$1,180	\$1,197	1.45%	4.37%	7.16%	10.22%
Square Footage											
Total County	842	853	854	855	856	856	857	0.20%	0.18%	0.28%	0.40%
North County	873	878	880	879	884	884	885	0.17%	0.10%	0.72%	0.61%
South County	823	829	830	831	829	830	831	0.20%	0.25%	0.04%	0.16%
\$/Sqft											
Total County	\$1.23	\$1.29	\$1.33	\$1.37	\$1.41	\$1.45	\$1.47	1.42%	3.94%	7.33%	10.35%
North County	\$1.26	\$1.32	\$1.36	\$1.39	\$1.45	\$1.48	\$1.50	1.57%	3.76%	8.00%	10.74%
South County	\$1.20	\$1.26	\$1.31	\$1.35	\$1.38	\$1.42	\$1.44	1.25%	4.12%	6.65%	10.04%
Total Units											
Total County	117,796	120,766	119,644	115,086	111,574	111,306	113,498	1.97%	1.72%	-1.38%	-5.14%
North County	58,736	59,569	58,409	55,293	53,629	53,390	54,754	2.55%	2.10%	-0.97%	-6.26%
South County	59,060	61,197	61,235	59,793	57,945	57,916	58,744	1.43%	1.38%	-1.75%	-4.07%
Total Vacant											
Total County	3,035	4,903	3,304	3,757	3,404	2,050	5,154	151.41%	51.41%	37.18%	55.99%
North County	1,848	2,322	1,693	1,644	1,838	1,038	2,471	138.05%	34.44%	50.30%	45.95%
South County	1,187	2,581	1,611	2,113	1,566	1,012	2,683	165.12%	71.33%	26.98%	66.54%
Vacancy Factor											
Total County	2.58%	4.06%	2.76%	3.26%	3.05%	1.84%	4.54%	146.56%	48.84%	39.30%	64.44%
North County	3.15%	3.90%	2.90%	2.97%	3.43%	1.94%	4.51%	132.12%	31.68%	51.95%	55.62%
South County	2.01%	4.22%	2.63%	3.53%	2.70%	1.75%	4.57%	161.38%	69.00%	29.38%	73.66%

Source: MarketPointe Realty Advisors

Figure 4, below, represents comparative data for rental rates and trends of newer units versus older units. While virtually all of the newer developments entering the marketplace in recent years have been offering larger, more highly amenitized units, the gap between rental rates commanded at newer versus older rental complexes has continued to widen. Units entering the marketplace since the beginning of 1998 offer, on average, a more than 20 percent larger unit than those opened prior to 1998. Additionally, while those units built since 1998 are averaging \$1,692 per month compared to just \$1,174 per month among units built prior to 1998 reflecting a 44 percent premium for newer units. Despite the fact that there is a \$518 per month average premium for newer units, new units entering the marketplace continue to be quickly absorbed thus demonstrating the strong demand for new rental housing in the region.

Figure 4
Rental Rate Comparison
New vs Older Units
March 2007

Data	Opened Pre-1998	Opened in 1998	Opened in 1999	Opened in 2000	Opened in 2001	Opened in 2002	Opened in 2003	Opened in 2004	Opened in 2005	Opened in 2006	Opened in 2007	Opened 1998-2006	Overall
Avg Rent	\$1,174	\$1,668	\$1,603	\$1,652	\$1,792	\$1,658	\$1,823	\$1,639	\$1,959	\$1,675	\$1,568	\$1,692	\$1,261
Avg Sqft	830	1,004	966	933	1,070	990	1,086	964	1,097	915	914	995	857
Avg \$/Sqft	\$1.42	\$1.66	\$1.66	\$1.77	\$1.67	\$1.67	\$1.68	\$1.70	\$1.79	\$1.83	\$1.72	\$1.70	\$1.47
Number Units	94,544	2,597	1,440	2,516	3,065	3,815	1,318	2,330	358	1,482	33	18,954	113,498
Number Leased	91,143	2,520	1,315	2,424	2,955	3,603	1,081	2,118	307	866	12	17,201	108,344
Number Vacant	3,401	77	125	92	110	212	237	212	51	616	21	1,753	5,154
Vacancy Rate	3.60%	2.96%	8.68%	3.66%	3.59%	5.56%	17.98%	9.10%	14.25%	41.57%	63.64%	9.25%	4.54%
Number of Projects	729	8	4	7	9	13	3	7	2	7	1	61	790

Source: MarketPointe Realty Advisors

Figure 5, below, analyzes rental rates by age of complex. Units built in 1998 currently are averaging \$1,668 per month reflecting a modest 3 percent increase over the last audit but a more robust 34 percent increase since initially introduced more than eight years ago. The average for complexes built in 2001 jumps to \$1,792 per month reflecting a 2 percent increase over the last audit. Complexes built in 2005 command the highest rental rate average with averages that had been positioned above \$2,000 per month until dipping below that mark this audit.

While both newer (built since 1998) and older (built prior to 1998) complexes saw their average rental rates increase by roughly 3 percent compared to a year ago, over the past six months the average rental rate increase among older complexes was slightly higher than the increase noted among newer ones, 1.3 percent compared to 0.2 percent.

Figure 5
Rental Rate by Age of Complex
March 2007

Opened	1998/1	1998/2	1999/1	1999/2	2000/1	2000/2	2001/1	2001/2	2002/1	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2	2007/1
Pre 98	\$746	\$784	\$814	\$845	\$872	\$923	\$960	\$992	\$1,007	\$1,035	\$1,049	\$1,064	\$1,079	\$1,094	\$1,104	\$1,123	\$1,137	\$1,162	\$1,177
1998		\$1,242	\$1,273	\$1,286	\$1,296	\$1,378	\$1,379	\$1,424	\$1,384	\$1,468	\$1,471	\$1,484	\$1,457	\$1,498	\$1,511	\$1,551	\$1,572	\$1,620	\$1,668
1999				\$1,449	\$1,450	\$1,445	\$1,512	\$1,491	\$1,455	\$1,494	\$1,486	\$1,500	\$1,517	\$1,554	\$1,498	\$1,552	\$1,560	\$1,643	\$1,603
2000					\$1,593	\$1,538	\$1,536	\$1,486	\$1,451	\$1,476	\$1,488	\$1,525	\$1,526	\$1,528	\$1,542	\$1,584	\$1,623	\$1,672	\$1,652
2001								\$1,709	\$1,513	\$1,611	\$1,617	\$1,646	\$1,595	\$1,623	\$1,619	\$1,669	\$1,698	\$1,753	\$1,792
2002									\$1,754	\$1,573	\$1,567	\$1,549	\$1,575	\$1,590	\$1,596	\$1,604	\$1,614	\$1,675	\$1,658
2003												\$1,785	\$1,729	\$1,836	\$1,804	\$1,797	\$1,804	\$1,817	\$1,823
2004													\$1,416	\$1,539	\$1,617	\$1,615	\$1,601	\$1,617	\$1,639
2005															\$2,015	\$2,040	\$2,040	\$2,040	\$1,959
2006																	\$2,000	\$1,804	\$1,692
2007																			\$1,568
1998-2007		\$1,242	\$1,273	\$1,322	\$1,341	\$1,430	\$1,461	\$1,497	\$1,453	\$1,527	\$1,535	\$1,558	\$1,548	\$1,573	\$1,581	\$1,623	\$1,640	\$1,690	\$1,693
Total	\$746	\$786	\$821	\$858	\$887	\$947	\$991	\$1,030	\$1,048	\$1,089	\$1,109	\$1,129	\$1,143	\$1,164	\$1,175	\$1,202	\$1,216	\$1,246	\$1,267

Source: MarketPointe Realty Advisors

Analysis By Bedroom Category

A distribution of the 113,498 rental units surveyed in the county by bedroom configuration is presented in **Figure 6**. This chart shows that the majority of the rental units surveyed, nearly 54 percent, fall within the two-bedroom classification followed by an additional 35.7 percent falling in the one-bedroom category. Combined, one and two bedroom units make up more than 89 percent of the rental market. Three-bedroom units account for over 7 percent of the supply and studios represent 3.4 percent of the market. Four bedroom units, meanwhile, represent just a fraction of the market, less than one-tenth of 1 percent.

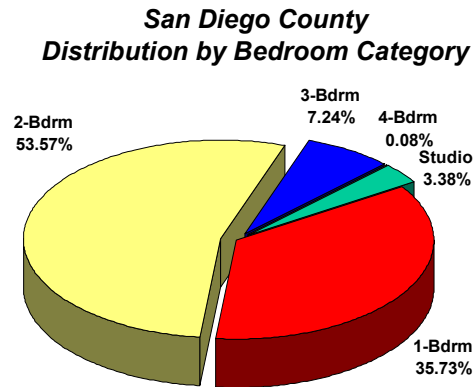


Figure 6

Figure 7
San Diego County
Rental Overview by Bedroom Category
March 2007

Bedroom Category	Total # Units	Total # Vacant	Vacancy Factor	Weighted Average		
				Rent	Sqft	\$/Sqft
Studio	3,837	290	7.56%	\$969	499	\$1.94
1-Bdrm	40,554	1,495	3.69%	\$1,096	683	\$1.61
2-Bdrm	60,797	2,847	4.68%	\$1,333	950	\$1.40
3-Bdrm	8,217	518	6.30%	\$1,668	1,199	\$1.39
4-Bdrm	93	4	4.30%	\$1,882	1,310	\$1.44
Total	113,498	5,154	4.54%	\$1,261	857	\$1.47

Source: MarketPointe Realty Advisors

Figure 7, above, represents an overview of the rental market by bedroom category. On average, one-bedroom units have 683 square feet of living space and rent for \$1,096 per month producing a value ratio of \$1.61 per square foot. This rental rate marks an increase of almost 2 percent over September 2006 and slightly more than a 4 percent increase over one year ago (**Figure 8**).

Two-bedroom units, which average \$1,333 per month (roughly a 22 percent premium over one-bedroom units) for 950 square feet of living space, have increased 1.6 percent over the last six months. Additionally, over the past year the rental rate average for the same two-bedroom unit has grown 4.2 percent. The current vacancy rate among two-bedroom units is 4.68 percent, while the vacancy rate among one-bedroom units is almost a full percentage less. Studios have the highest vacancy rate at nearly better than 7.5 percent.

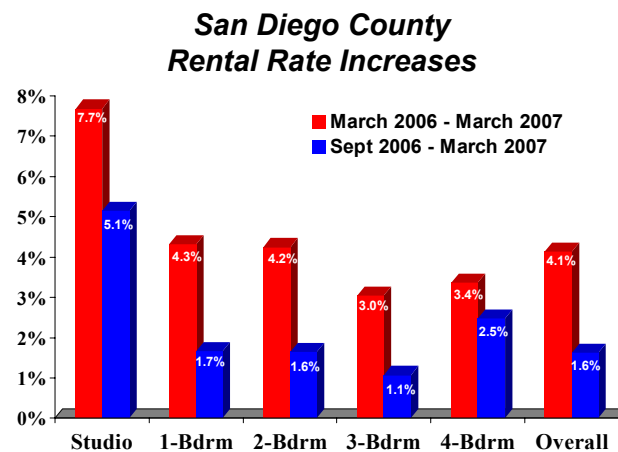


Figure 8

For those renting a three-bedroom unit, the average rental rate climbs to \$1,668 per month reflecting a \$335 per month premium, or nearly a 25 percent differential over two-bedroom units. Over the past six months, the rental rate average among three-bedroom units has increased about 1 percent and in the last year, the rental rate average has climbed 3 percent.

Rental rates vary widely between units built within the last few years compared to older units. **Figure 9**, below, further illustrates this fact with additional rental rate analysis by bedroom category and age. For instance, one-bedroom units built since 1998 are averaging \$1,458 per month. However, one-bedroom units built prior to 1998 are averaging just \$1,023 per month. In addition, newer two-bedroom units average \$1,786 per month, a 43 percent premium over the \$1,252 average among units built prior to 1998. With an average of \$2,082 per month for units built since 1998, the difference in rental rate in the three-bedroom market is \$579 per month compared to the \$1,503 per month average among older units.

Newer units entering the market are naturally able to command higher rents. As previously mentioned, in addition to being newer, they generally have larger floor plans as well as more modern conveniences and options. With an overall differential of \$518 per month between newer units and older units, the difference is noteworthy.

Figure 9
Rental Rate Comparison by Bedroom Category & Age
 March 2007

Bdrms	Data	Pre 1998	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1998-2007	Overall
Studios	Avg Price	\$918	\$1,155						\$1,209	\$1,350	\$1,386		\$1,303	\$969
	Avg Sqft	486	620						514	632	649		590	499
	Avg \$/Sqft	\$1.89	\$1.86						\$2.35	\$2.14	\$2.14		\$2.21	\$1.94
1-Bdrm	Avg Price	\$1,023	\$1,410	\$1,443	\$1,422	\$1,526	\$1,452	\$1,517	\$1,428	\$1,500	\$1,531	\$1,200	\$1,458	\$1,096
	Avg Sqft	666	750	762	720	826	764	861	768	667	723	682	766	683
	Avg \$/Sqft	\$1.54	\$1.88	\$1.89	\$1.97	\$1.85	\$1.90	\$1.76	\$1.86	\$2.25	\$2.12	\$1.76	\$1.90	\$1.61
2-Bdrms	Avg Price	\$1,252	\$1,773	\$1,663	\$1,734	\$1,841	\$1,727	\$1,916	\$1,765	\$2,217	\$1,827	\$1,650	\$1,786	\$1,333
	Avg Sqft	921	1,133	1,054	1,034	1,146	1,092	1,157	1,120	1,140	1,106	966	1,106	950
	Avg \$/Sqft	\$1.36	\$1.57	\$1.58	\$1.68	\$1.61	\$1.58	\$1.65	\$1.58	\$1.94	\$1.65	\$1.71	\$1.61	\$1.40
3-Bdrms	Avg Price	\$1,503	\$2,087	\$1,822	\$2,221	\$2,271	\$1,994	\$1,983	\$2,259	\$1,875	\$2,223		\$2,082	\$1,668
	Avg Sqft	1,156	1,320	1,207	1,302	1,380	1,288	1,192	1,405	1,364	1,331		1,307	1,199
	Avg \$/Sqft	\$1.30	\$1.58	\$1.51	\$1.71	\$1.65	\$1.55	\$1.66	\$1.61	\$1.37	\$1.67		\$1.59	\$1.39
4-Bdrms	Avg Price	\$1,761							\$2,700				\$2,700	\$1,882
	Avg Sqft	1,301							1,369				1,369	1,310
	Avg \$/Sqft	\$1.35							\$1.97				\$1.97	\$1.44
Overall Avg Price		\$1,174	\$1,668	\$1,603	\$1,652	\$1,792	\$1,658	\$1,823	\$1,639	\$1,959	\$1,675	\$1,568	\$1,692	\$1,261
Overall Avg Sqft		830	1,004	966	933	1,070	990	1,086	964	1,097	915	914	995	857
Overall Sum of Units		\$1.42	\$1.66	\$1.66	\$1.77	\$1.67	\$1.67	\$1.68	\$1.70	\$1.79	\$1.83	\$1.72	\$1.70	\$1.47

Source: MarketPointe Realty Advisors

Figure 10
San Diego County
Leased & Vacancy Summary
March 2007

Price Range		Studio	1-Bdrm	2-Bdrm	3-Bdrm	4-Bdrm	Total	Percent		
								Units	Leased	Vacant
<\$700	Units	801				342	1,143	1.0%		
	Leased	751				334	1,085		1.0%	
	Vacant	50				8	58			1.1%
\$700-799	Units	3,431				866	4,297	3.8%		
	Leased	3,308				832	4,140		3.8%	
	Vacant	123				34	157			3.0%
\$800-899	Units	5,878	1,577			742	8,197	7.2%		
	Leased	5,693	1,514			713	7,920		7.3%	
	Vacant	185	63			29	277			5.4%
\$900-999	Units	8,209	6,808	68		509	15,594	13.7%		
	Leased	7,981	6,596	68		500	15,145		14.0%	
	Vacant	228	212	0		9	449			8.7%
\$1000-1099	Units	4,378	7,607	199		441	12,625	11.1%		
	Leased	4,255	7,331	195		429	12,210		11.3%	
	Vacant	123	276	4		12	415			8.1%
\$1100-1199	Units	4,172	8,046	439		361	13,018	11.5%		
	Leased	4,041	7,749	416		339	12,545		11.6%	
	Vacant	131	297	23		22	473			9.2%
\$1200-1299	Units	4,068	7,725	710		141	12,644	11.1%		
	Leased	3,948	7,502	635		85	12,170		11.2%	
	Vacant	120	223	75		56	474			9.2%
\$1300-1399	Units	3,575	7,118	1,055	18	97	11,863	10.5%		
	Leased	3,480	6,841	1,021	18	78	11,438		10.6%	
	Vacant	95	277	34	0	19	425			8.2%
\$1400-1499	Units	2,955	4,335	759	44	119	8,212	7.2%		
	Leased	2,791	4,156	734	43	55	7,779		7.2%	
	Vacant	164	179	25	1	64	433			8.4%
\$1500-1599	Units	2,020	4,507	691	1	106	7,325	6.5%		
	Leased	1,809	4,288	647	1	86	6,831		6.3%	
	Vacant	211	219	44	0	20	494			9.6%
\$1,600-1699	Units	584	4,292	1,076		72	6,024	5.3%		
	Leased	565	4,000	999		63	5,627		5.2%	
	Vacant	19	292	77		9	397			7.7%
\$1700-1799	Units	364	2,842	639		19	3,864	3.4%		
	Leased	325	2,599	574		16	3,514		3.2%	
	Vacant	39	243	65		3	350			6.8%
\$1,800 & >	Units	119	5,940	2,581	30	22	8,692	7.7%		
	Leased	112	5,374	2,410	27	17	7,940		7.3%	
	Vacant	7	566	171	3	5	752			14.6%
Total	Units	40,554	60,797	8,217	93	3,837	113,498	100.0%		
	Leased	39,059	57,950	7,699	89	3,547	108,344		100.0%	
	Vacant	1,495	2,847	518	4	290	5,154			100.0%

Source: MarketPointe Realty Advisors

Rental Rate Distribution

Figure 10, highlighted on the previous page, provides a leased and vacancy summary by bedroom count and price range. The most prevalent price range is the \$900 to \$1,399 per month rental rate, which accounts for nearly 58 percent of units surveyed. Approximately 12 percent of the rental stock is positioned in the price sensitive under \$900 per month and an additional 16 percent is positioned in the more discretionary above \$1,600 per month rental rate.

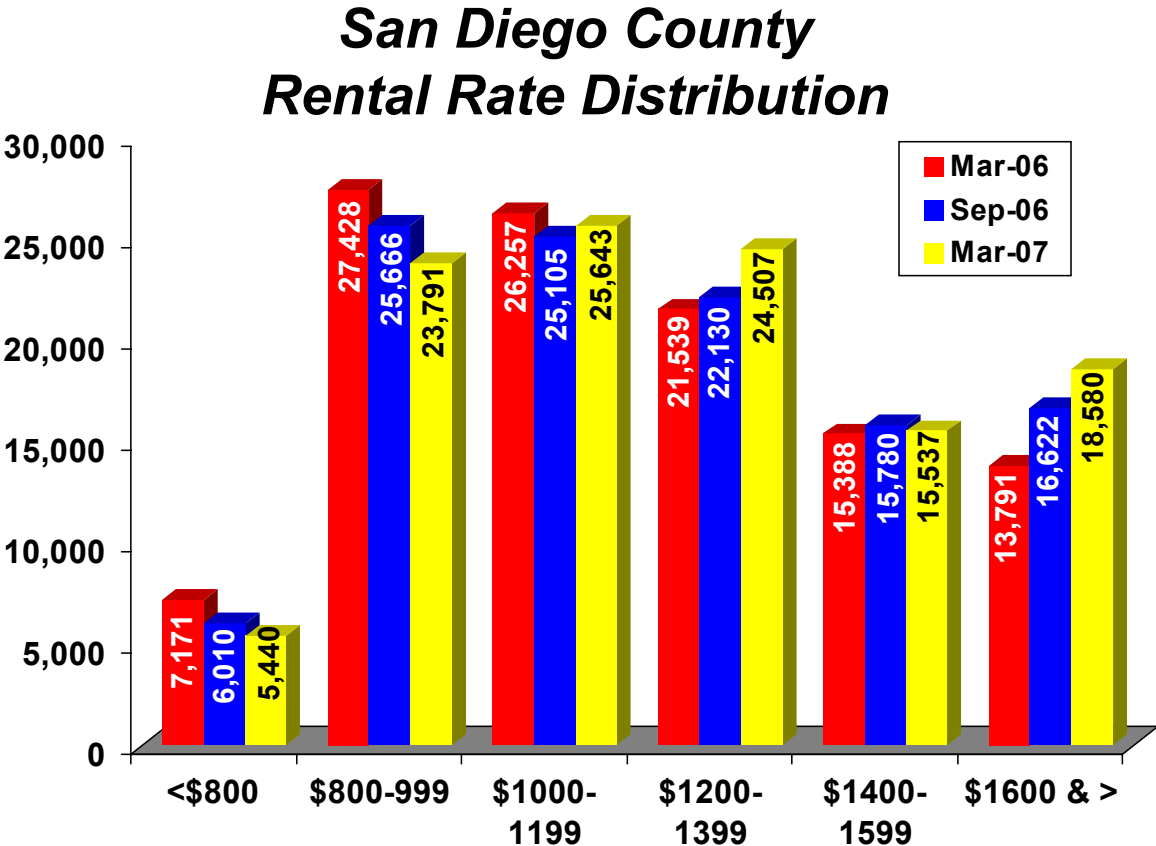


Figure 10A

Absorption Trends

Since April of 1998 there have been 19,136 new rental units added to the San Diego County rental marketplace. **Figure 11**, highlighted below, shows the absorption trends of new complexes that have entered the marketplace over the past nine years. Of the 19,136 units released since 1998, 17,593 units or 92 percent have been absorbed. Not all of these units remain in the rental inventory however as some 1,000 plus units have been converted to for-sale units in recent years. Despite the sky-high rental rates among newer projects, new units continue to lease quickly thus demonstrating the strong demand for new rental housing.

**Absorption Trends Among New Complexes
1998- 2007**

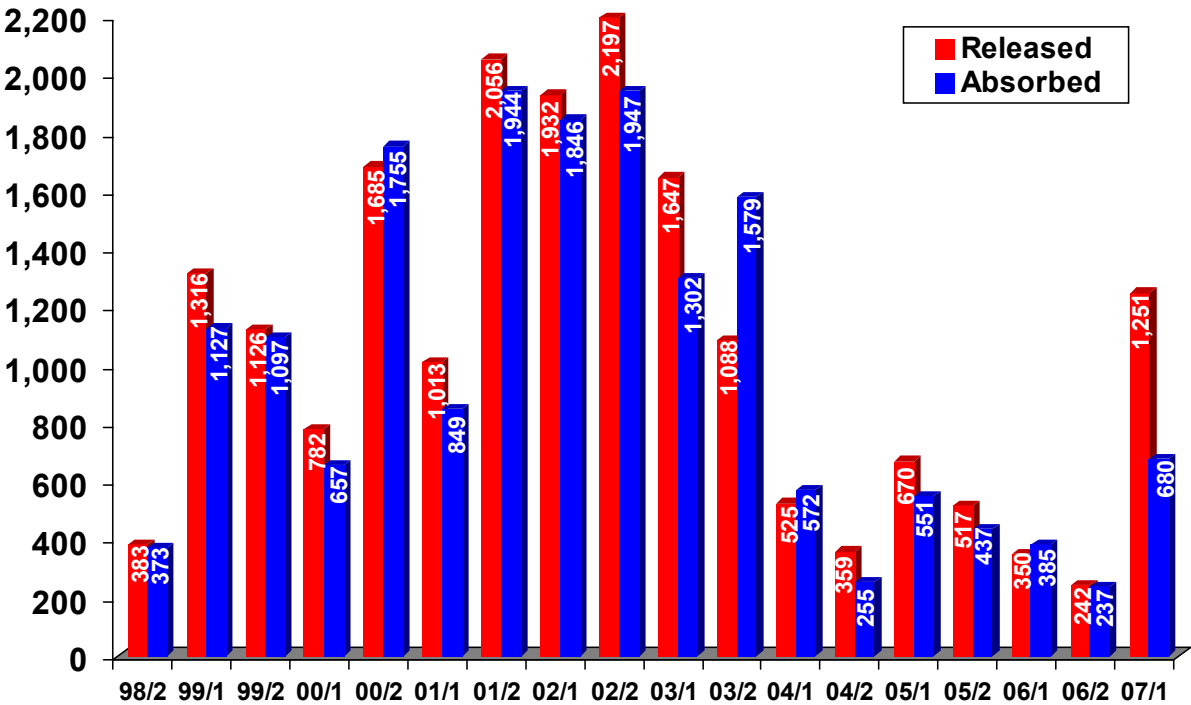


Figure 11

Of the more than 19,000 new apartment units added to the marketplace since April of 1998, 1,251 were added in just the past six months. Comparatively, the 12 months previous added a total of just 592 units. This current addition of more than 1,200 units is the highest in any single six-month period since March of 2003 when the region added more than 1,600 units. Not all of the recently added units are new construction however, as five projects that were formerly for-sale conversions have returned either the entire project or a portion of the project to a rental program.

This audit, five new complexes opened providing 837 new units to the marketplace. Three new projects in Downtown, **677 Seventh Lofts**, **Broadway Lofts** and **Market Street Village** bring a total of 454 units to the dynamic downtown marketplace with 213 rented.

Vacancy Rate Analysis

The fall in San Diego County’s overall vacancy rate was short lived, as can be seen in **Figure 12**. With the introduction of 1,251 new units to the rental market this audit, the vacancy rate increased 2.7 percent to 4.54 percent, the highest rate since March of 1995.

Figure 13 depicts the distribution of vacancies by rental rate range. Of the 5,154 vacant units, only 215 or 4.2 percent of the vacant units are positioned less than \$800 per month. On the other side of spectrum, 1,499 or 29 percent of the vacant units are positioned above the \$1,600 per month mark, with most of these vacancies found in the county’s newest rental complexes. By far, the majority of the vacant units were positioned in the \$800 to \$1600 per month rental rate range, two-thirds of the county’s vacancies concentrated in this range.

Figure 14 depicts vacancy rates by rental rate range as a percentage of the market. As the graph illustrates, the \$800 to \$1000 per month range had the lowest vacancy rate with only 726 of its 23,791 units vacant thus yielding a vacancy rate of 3.1 percent. The \$1,600 and up rental rate range had the highest vacancy rate, with 1,499 of the 18,580 units vacant, for a vacancy rate of 8.1 percent. All other rental rate ranges averaged between 3.5 and 6.0 percent vacancies.

**VACANCY RATES
SAN DIEGO COUNTY
2002 – 2007**

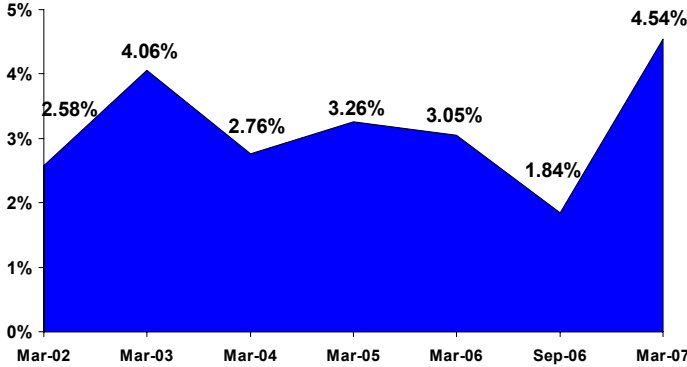


Figure 12

**San Diego County
Vacancies by Rental Rate Range**

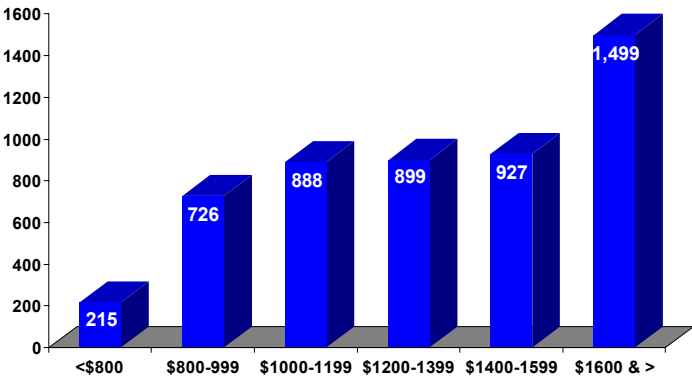


Figure 13

**San Diego County
Vacancy Rates by Rental Rate Range**

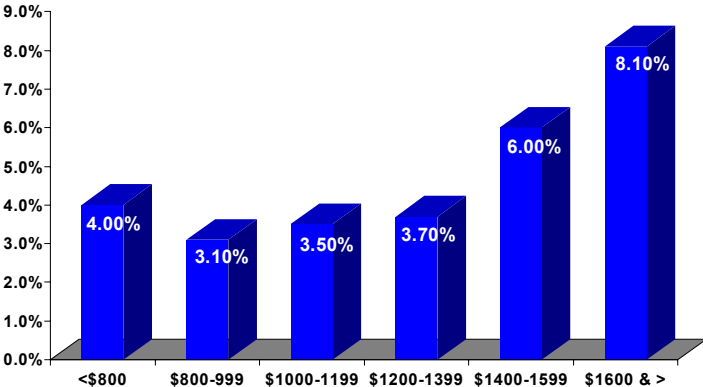


Figure 14

Geographical Distribution of Units

As shown in **Figure 15**, below, the areas with the most units surveyed are Tri-City area (which encompasses the communities of Carlsbad/La Costa, Oceanside and Vista) with 123 projects totaling 18,345 units, East San Diego County (which extends from La Mesa east to Alpine) with 157 projects totaling 17,040 units, and the South Bay (which includes communities from National City south to the Mexican border) with 128 projects totaling 17,099 units (**Figure 15 & 16**). Combined, the units surveyed in just these three geographical areas account for more than 46 percent of the total countywide units surveyed.

**San Diego County
Surveyed Units by Submarket**

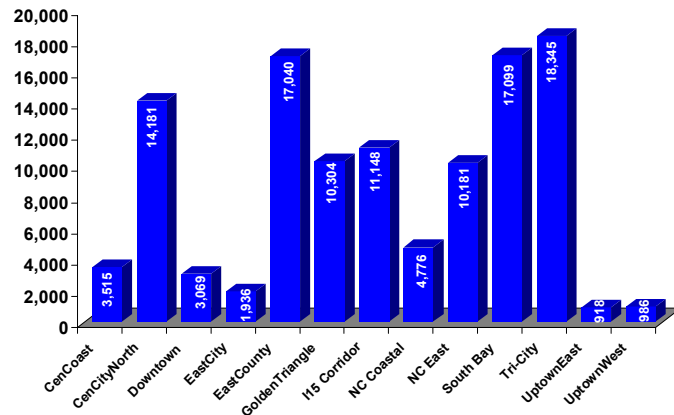


Figure 16

Other significant areas include the Central City North (which includes the communities of Tierrasanta, Mission Valley, Linda Vista, Kearny Mesa, and Clairemont) with 59 projects totaling 14,181 units, the Interstate 15 Corridor (which includes the communities such as Scripps Ranch, Rancho Bernardo, Poway, and Ramona) with 71 projects totaling 11,148 units and the North County East (which includes the communities of Bonsall, Escondido, Fallbrook and San Marcos) with 88 projects totaling 10,181 rental units.

**Figure 15
San Diego County
Rental Overview by Submarket**

Submarket Area	Total Projects	Total Units	Total Rented	Total Vacant	Vacancy Factor	Weighted Average		
						Rent	Sq. Ft.	\$/Sq. Ft.
Central City Coastal	17	3,515	3,416	99	2.82%	\$1,305	756	\$1.73
Central City North	59	14,181	13,471	710	5.01%	\$1,418	867	\$1.64
Downtown San Diego	24	3,069	2,653	416	13.55%	\$1,489	765	\$1.95
East San Diego City	18	1,936	1,833	103	5.32%	\$1,016	769	\$1.32
Eastern San Diego County	157	17,040	16,420	620	3.64%	\$1,064	838	\$1.27
Golden Triangle	42	10,304	9,853	451	4.38%	\$1,602	926	\$1.73
Interstate 15 Corridor	71	11,148	10,737	411	3.69%	\$1,355	871	\$1.55
North County Coastal	30	4,776	4,652	124	2.60%	\$1,645	972	\$1.69
North County East	88	10,181	9,408	773	7.59%	\$1,081	848	\$1.27
South Bay	128	17,099	16,421	678	3.97%	\$1,103	839	\$1.31
Tri-City	123	18,345	17,633	712	3.88%	\$1,216	869	\$1.40
Uptown East	16	918	895	23	2.51%	\$1,098	822	\$1.34
Uptown West	17	986	952	34	3.45%	\$1,103	687	\$1.61
Countywide	790	113,498	108,344	5,154	4.54%	\$1,261	857	\$1.47

Source: MarketPointe Realty Advisors

Of the 13 submarkets defined in San Diego County, six are commanding average rental rates higher than the countywide average of \$1,261 per month (**Figure 17**). The North County Coastal continues to be the most expensive submarket in San Diego County with a weighted average rent of \$1,645 per month for 972 square feet of living space (\$1.69 per square foot) reflecting a 30 percent premium over the countywide average of \$1,261 per month.

The highest value ratios, meanwhile, can be found in Downtown San Diego at \$1.95 per square foot, the Central City Coastal submarket at \$1.73 per square foot, and the Golden Triangle at \$1.73 per square foot. The most affordable submarket is East San Diego City, which moved above \$1,000 per month, meaning that all submarkets have a weighted average rent above \$1,000 per month. Other affordable submarkets are the East San Diego County submarket, the North County East submarket, and the Uptown East submarket, all of which feature rental rates below \$1,100 per month.

**San Diego County
Rental Rates by Submarket**

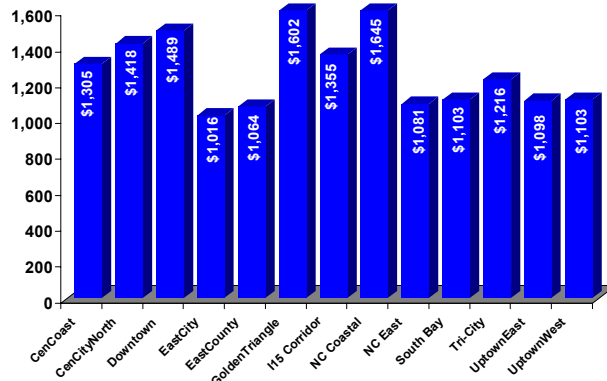


Figure 17

Figure 18 highlights the rental rate increases by submarket over the past year. The North County East saw the largest rental rate increase in the last year of 6.1 percent, followed by East San Diego City at 5.2 percent and Downtown San Diego at 4.9 percent. The lowest rate of increase was seen in the Tri-City submarket where the average rental rate increased by only 2.6 percent.

**San Diego County
Rental Rates Increases by Submarket
March 2006 – March 2007**

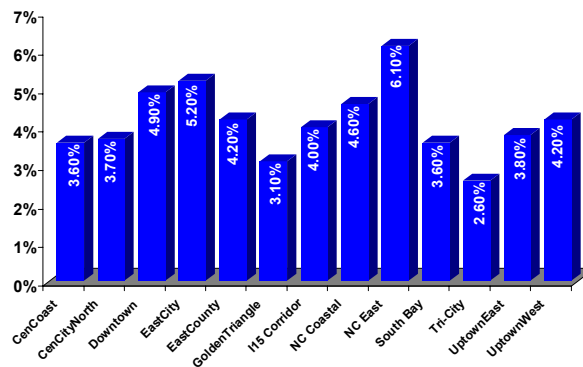


Figure 18

In **Figure 19**, current rental rates are compared with the rates generated six months ago. Rental rate increases varied markedly around the county, with only the North County East submarket (4.5 percent), and the East San Diego City submarket (3.6 percent) realizing a rental rate average increase in excess of 3 percent. Eight other submarkets saw their average rental rate climb by 1 percent or more and three saw less than a 1 percent rental rate increase.

**San Diego County
Rental Rates Increases by Submarket
September 2006 – March 2007**

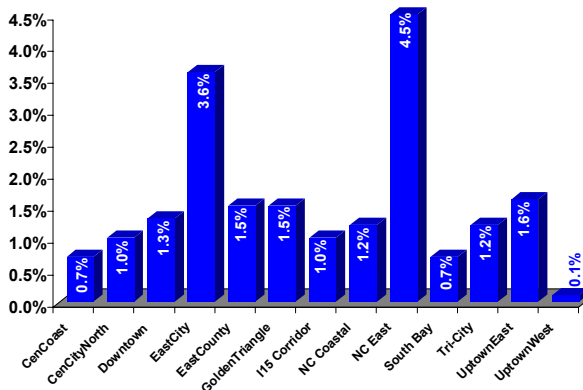


Figure 19

Proposed Development Activity

A total of 48 projects totaling 9,739 units have been identified as future rental housing developments for San Diego County. Just nine of these projects, with a combined 1,469 units, are in the latter stages of the entitlement process. However, four of those nine projects are affordable multi-family projects totaling 435 units. This indicates that, although there are a significant number of proposed units throughout the county, most are not likely to begin construction in 2007.

The San Diego Central sub-market will be the most active submarket with 2,307 units in the entitlement process. The Interstate 15 Corridor submarket and the South County submarket are the only other submarkets with over 1,000 proposed units. The North County Coastal submarket has the fewest proposed units in the entitlement process with 652 units, of which half are classified as market rate units.

Of the 48 projects, 16 projects totaling 1,522 units are classified as affordable. All of the affordable units are located in the San Diego Central, the North County Coastal and the Highway 78 Corridor.

**San Diego County
Proposed Rentals by Sub-market
March 2007**

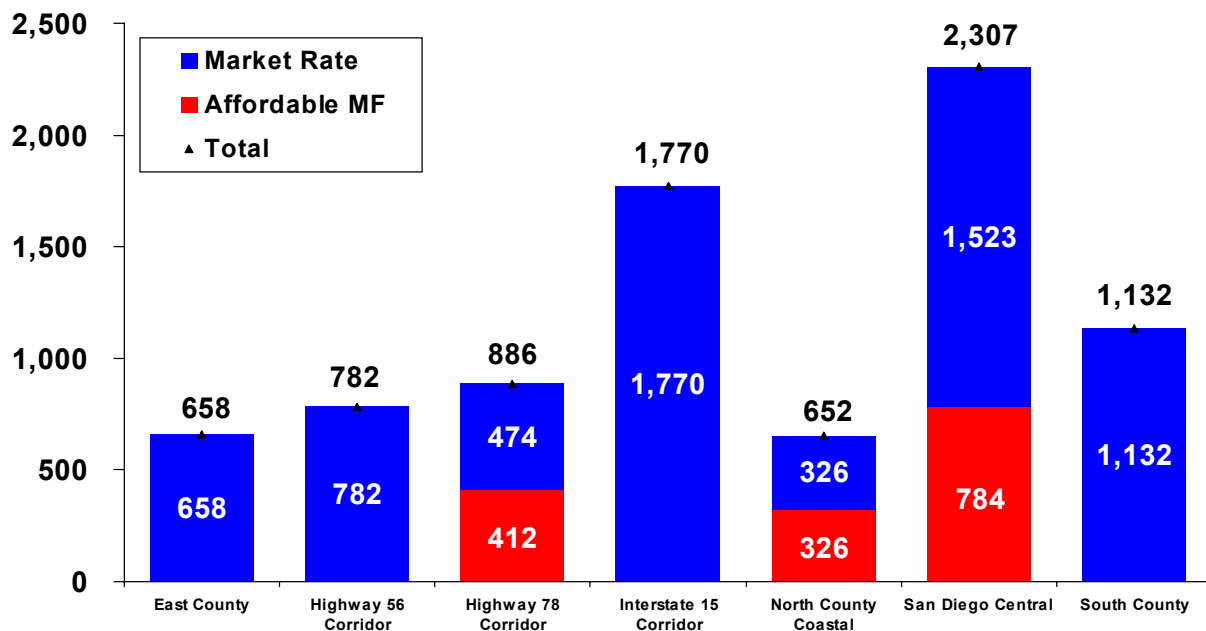


Figure 20