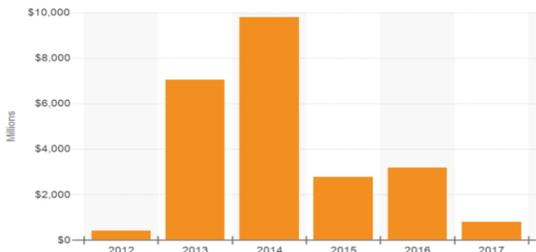




The San Diego Apartment Downturn: "Are You Ready For a Change?"

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Over the last several quarters, the San Diego apartment market appears to have peaked with downturn indications. Of course, it is still a little early to judge if this is a full-fledged down cycle or just a temporary slump. See CoStar market analysis, of sales volume (see graph 1).



Graph 1

CoStar market analysis, the annual rent growth rate will be expecting to decelerate from 7% to 2% thru 2021 (see graph 2).

Moreover, suggesting a market change is CoStar market analysis, the cap rates are beginning to move up again (see graph 3).

This is why market experts recommend us to treat this year's transformation as a warning.

Coming Economic Headwinds.

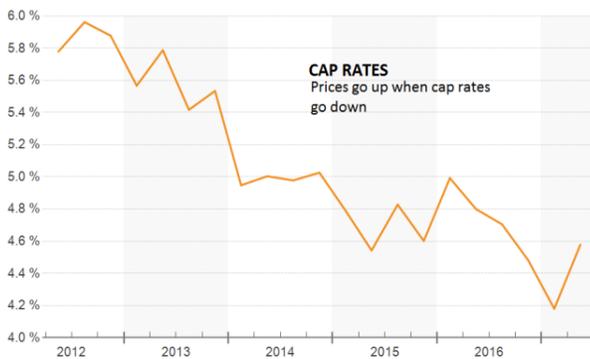
The "Headwinds" are rental unit affordability and new unit delivery. The average family unit spends 40% of its income on rent. 25% of renters pay more than 50%. Housing expenses over 30-35% are dangerous to the stability of the tenant. There are approximately 7,700 new apartments in the pipeline with delivery in next 2 years. The new units (mostly in downtown core) are targeting high-end and luxury consumers. New units will deliver faster than the market can absorb them. Oversupplies will lead to rental concessions such as lower prices, move-in specials, and renewal concessions. Once the rent concession ball starts rolling, all San Diego county apartment owners will feel the impact. Reduced incomes and additional risk starts the property value downside.



Graph 2

How to prepare now for the next down cycle.

This is the time to refinance, upgrade your problem tenants (slow payers, rule breakers, etc.), raising long-term tenant's rents (rent renewal increases) and tighten controllable expenses (landscape water usage, utility usage, etc.)



Graph 3

Peak of the market should I sell?

That depends. Are you in a financial position to weather a downturn? How did the last downturn affect your lifestyle? If I sell what do I buy, I don't want to pay capital gains. The IRS 1031 tax exchange program is the answer. Today, good choices are "Triple Net" NNN Real Estate Investments. The right NNN Investment generates a stable monthly income with no management duties. A "Triple Net" NNN investment leases the land under a fast food restaurant, auto parts store, retail strip center, etc. for 10+ years. When the lease is up, you own both the land and the building to re-lease or sell. NNN investments can be sold at any time of ownership!