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### **It is a Conundrum .....**

I am taking the literary liberty to borrow these words, from Chairman Alan Greenspan of the Federal Reserve Bank, in describing the current real estate investment market, and in particular the apartment market.

When it seems that the prices of apartment complexes have peaked, the next sale seems to shatter the record. In 2001, apartments complexes in Long Beach were selling for 7.5 to 10 GRM (gross rent multiplier), and currently they are selling at 10 to 15 GRM. It seems that investors are willing to accept lower return due to lack of comparable alternative investments, and long-term interest rate that have remained low.

However, several commercial real estate research firms, such as Global Real Analytics, Reis Inc., and Real Capital Analytics, were recently quoted in the Multi-Unit Housing News, that apartments prices are not justified by fundamentals, neither at national levels nor at all in some regional markets. Nationally, in 2004, prices rose 26% for apartment complexes, 21% for industrial properties, 14% for retail properties and 6% for Office buildings, according to Real Capital Analytics. However over the same period the average cap rates for apartment have decreased to 6.5 percent from an average of 6.8 percent—cap rates are the ratio of a property's yearly net income before debt payment to purchase price—an indication that operating income has not kept pace with the higher prices.

According to Peter Linneman Professor of Real Estate at Wharton School of Economics, speculation appears to be driving the prices of many apartment buildings. Another reason apartment valuation have increased is the continuing demand for apartments fueled in large part by condominium conversion boom. Even though all apartments are not candidate for condominium conversion; their value is affected commensurately.

Wharton Real Estate Letter further stated that over the past few months a number of major institutional and large private investors have been selling off large chunk of their real estate portfolio. CALPERS, the California pension fund, have been selling their real estate in what they see as "frothy" market and putting their proceeds in less expensive real estate or into other assets entirely.

However, for every seller there is a buyer, and other investors have rushed forward to buy these properties. Baring a calamity, investors should expect solid, if not spectacular returns, says Joseph Gyourko, also professor of real estate at Wharton. He predicts that while real estate prices are not going to fall, the days of double-digit appreciation is over. While Prof. Linneman argues, in case of broader real estate meltdown, investors would be wise to be in real estate asset that is least overvalued.

### **Alternate Tax Deferred Exchanges**

Tenant-in-Common (TIC) transaction has become a popular vehicle for Sellers to defer their capital gain tax under IRC #1031, from the sale of their appreciated property, by exchanging into a fractional interest in a property such as shopping center, office building and apartment buildings. This allows smaller investors to get into institutional quality property, and perhaps located in a less "frothy" area.

In addition, TIC owners get out from management-intensive real estate into a more passive investment, because the replacement properties are usually fully occupied with triple-net leases in place, or professionally managed. Also, aging Baby Boomers heading family real estate trusts are looking to simplify matters for heirs by lifting the operational burden via the TIC investments, and view TIC like they would a bond.

### **Major Properties Sold in Long Beach**

**CityPlace**, the 360,000 square foot downtown shopping center developed by DDR-Coventry Partners, was recently sold for approximately \$73.8 million to Shooshani Developers of Los Angeles. This sale did not include the 221 units apartment portion, which was acquired by Archstone Apartments Communities in 2004, and the Albertson's market anchored complex, which was sold for \$16.6 million.

**100 West Broadway**, office building owned by Arden Properties was recently sold to Adler Properties, in a portfolio consisting of four office buildings in Long Beach and Bakersfield, for \$56 Million.

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