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Another Year of Uncertainty... Or Opportunity?

Shifting economic winds continue to hamper
the recovery, but the obstacles aren't insurmountable

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SoCal Multifamily May Disappoint, Says StarPoint CEO

BEVERLY HILL, CA—The multifamily market in Southern California will have some pockets of growth in 2012, but it is not going to be as robust or as broad as some people are projecting, according to Paul Daneshrad of StarPoint Properties. REAL ESTATE FORUM caught up with the locally based CEO to discuss what's in store for multifamily market this year.

FORUM: *I have heard stories of dramatic recoveries. What key drivers are you seeing?*

Daneshrad: Are we going to see dramatic rental growth? No. People purchased in early 2011 expecting 3% to 6% rental growth, which drove the cap rates down into the 4% and 5% range. The drag of high unemployment and a stagnant economy will create headwinds that will keep a lid on rental growth. Still, it is a solid, stable market compared to the other property types.

FORUM: *Are there any pockets in Southern California that are faring better than others?*

Daneshrad: Any of the beach-specific locations are showing signs of strength. Job formation and the employment base

FORUM: *What does the future hold?*

Daneshrad: 2012 is an election year, the European debt crisis isn't resolved and our own debt crisis is an ongoing concern. There are too many negative forces that could impact investment strategies and clearly a conservative approach is warranted. That said, we did purchase a 558-

unit complex in the Inland Empire in 2011 for \$79 million. We are only purchasing assets that have strong current cash flow. We're not relying on asset appreciation to enhance our returns or warrant the purchase. That said, there is plenty of capital in the system for multifamily and it will still be the product of choice.—*Natalie Dolce* ♦

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are the strongest drivers in multifamily and will continue to remain so. As a result, areas where there have been no constraints to supply—such as the Inland Empire and San Bernardino, which have also been hit hard by higher than average unemployment—are much softer.

FORUM: *Are the fundamentals changing on the investment side?*

Daneshrad: Yes. The underwriting requirements are much tighter in today's market; people are much more conservative. A number of deals are not getting done because buyers are pushing back on the low cap rates. People will no longer make the aggressive assumptions they made in 2011. But the stable income streams and demand demographics that multifamily offers will keep the investment side healthy.