# Why apartments build wealth safely:

## Two laws almost guarantee sustained superior apartment returns

**Terry Moore**

*CCIM*

"America's 20 Best Cities: San Diego, CA No. 9" ~ MSN Real Estate

The earlier article mentioned the basic advantages that are common to all income properties: leverage, inflation protection, equity build up, cash flow, tax shelter, etc.

Laws of supply and demand severely limit risk and almost guarantee increased riches for rental owners. Supply and demand matter to renters and are far more impactful for investors. First we'll consider the renter perspective, then the investor side.

First consider rental demand. San Diego is a popular city to rent. We have higher percentage of "Gen Y", than either California or nation. Millenials love North Park, in the top 15 "hipster" zip codes nationally. 92104 is walkable, upgrading and extremely desirable. El Cajon, Chula Vista, Oceanside, and Escondido offer alternatives for different tenants. We have climate, culture, education, and a life pace that appeals a broad range of renters. Rentals are cheaper than buying.

Go deeper into rental demand. More than 10% of the families in LA and Orange County have told pollsters that they would prefer to live in San Diego. A million tourists visit us annually. Thousands plan to move here. More than 100,000 in Tijuana desperately wants to live in San Diego County. Thus there is an immense demand for rentals.

What about supply of apartments? For 27 of the last 30 years San Diego has not built as many apartments as were needed. Multi-family occupancy has averaged above 95% for more than a decade. Real estate markets are considered balanced when vacancy is 5%. When demand exceeds supply, prices increase. **San Diego rents have outpaced inflation over the last decade and the last generation.**

Next, think about investors demand for apartments. San Diego has lower vacancy rates and steadier appreciation than most other major US cities. Anually thousands of rental owners sell local rental houses, condos, duplexes, fourplexes. Trading up, doing a tax deferred exchange, is better than giving a third of the profit to government early. Interest rates are at the lowest rate in our lives.

What about other income property? Apartments have lower risk than office. The market, not the government, controls office development. New construction has meant that local office vacancy has ranged from 10 -20% in the last generation, usually at least twice as high as local multi-family rate. So there is immense investor demand for multifamily.

Think about supply of new apartments for sale. As mentioned in *The Daily Transcript*'s roundtable earlier, every California city has incentives for promote retail and discourage apartments. Down zoning, stricter parking requirements and increased development fees have stopped more than 50,000 county apartments. Government fees above $50k per unit stop all but luxury units, costing more than $300k. Less than 10% of our renter can afford the $2500 rent for new apartments. In the last generation we have built half as many apartments as we needed for our kids, nieces and nephews.

Next remember the existing apartments. Owners know they have a superior investment and low risk. For years there have been at least five times as many "wannabe" buyers for every real seller. Thus limited supply and big demand helps current owners.

The first article showed you seven reasons why rental ownership creates wealth. The following article will explain why San Diego is a lower risk market than almost all other major metropolitan areas.

---

If you have questions or want the laws of supply and demand to boost your wealth building, contact Terry at **tmoore1031@gmail.com**, (619) 889-1031, or visit **www.SanDiegoApartment Broker.com**.