

Yardi® Matrix

MULTIFAMILY REPORT

San Diego's Resolve Is Tested

Spring 2020

With Demand Dampened, Rents Decline

Transactions Stall Past the First Quarter

Development Continues, With New Rules

SAN DIEGO MULTIFAMILY

Yardi® Matrix

Market Fundamentals To Face Tough Test

As a Southern Californian market with a diverse economy, San Diego is a magnet for talent in several fields including military, research and technology. However, the COVID-19 pandemic and the resulting shutdown measures meant to contain its effects have put a dent in the state and local economies. As of April, the first effects on the multifamily market became visible. Rents were down 0.3% on a trailing three-month basis, while deal flow stalled past the first quarter.

Employment growth remained stable in 2019 with little to no fluctuations, but with the state processing 4.7 million unemployment claims produced by the coronavirus outbreak, pressure on relief funding has been building. Although a large swath of California's counties and cities have begun to ease shutdown orders, San Diego County's high population density makes it likely that the area will be among the last to fully eliminate restrictions. Meanwhile, local officials have put measures in place to allow the progression of construction projects. San Diego's moratorium on commercial and residential evictions has also been extended through the end of the second quarter.

San Diego's rate of rental deliveries has been below the national average throughout the cycle, meaning its occupancy has stayed solid, at 96.0% as of March. The aforementioned moratorium and an underway pipeline of 9,202 units will likely keep that rate high.

Market Analysis | Spring 2020

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern

Director of Research
and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Alex Girda
Senior Editor

On the cover: Photo by Jerry Uomala/iStockphoto.com

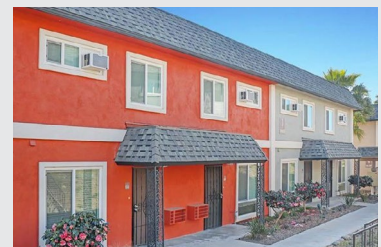
Recent San Diego Transactions

Presidio at Rancho Del Oro



City: Oceanside, Calif.
Buyer: TruAmerica Multifamily
Purchase Price: \$87 MM
Price per Unit: \$329,640

Serena Vista



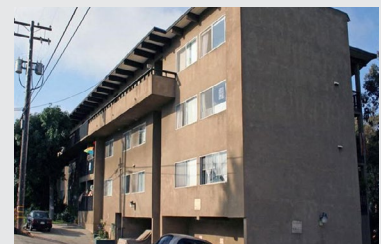
City: La Mesa, Calif.
Buyer: Universe Holdings
Purchase Price: \$34 MM
Price per Unit: \$313,181

Southern Highlands



City: National City, Calif.
Buyer: Lincoln Avenue Capital
Purchase Price: \$22 MM
Price per Unit: \$146,357

Citra

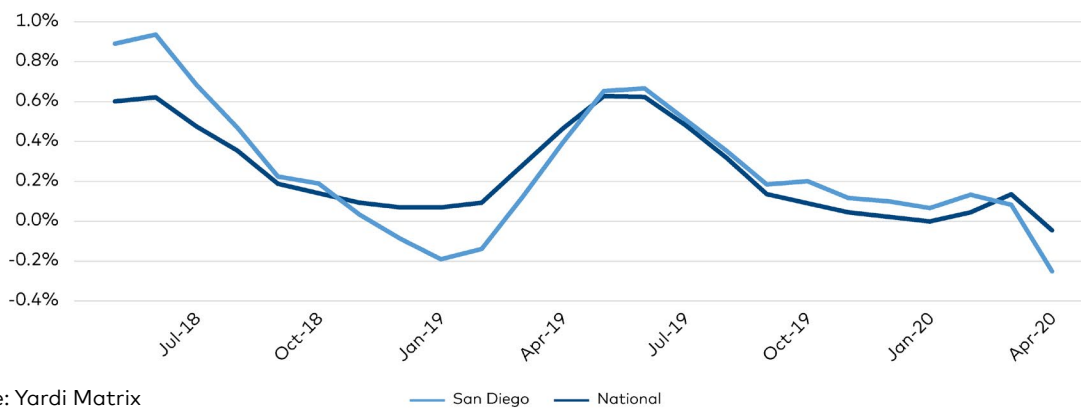


City: San Diego
Buyer: Interstate Equities Corp.
Purchase Price: \$18 MM
Price per Unit: \$304,583

RENT TRENDS

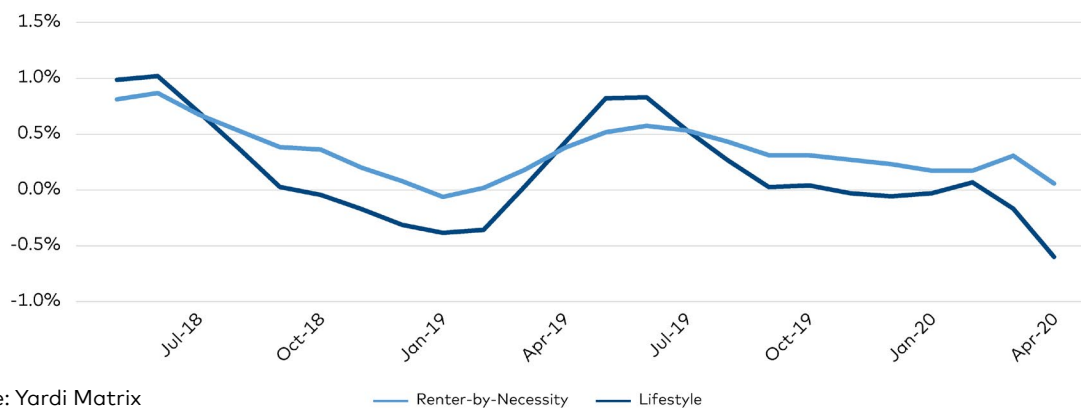
- ▶ Rents in San Diego were down 0.3% on a trailing three-month basis, while nationwide they stayed flat. The overall average rent was \$1,979 as of April, some \$500 over the U.S. figure. Economic fallout from the COVID-19 outbreak has directly impacted California, leading to dampening demand and a slowdown for the multifamily sector.
- ▶ Lifestyle rents have borne the brunt of the hardship over the past three months, with the segment down 0.6% to an average of \$2,362 on a trailing three-month basis. Working-class Renter-by-Necessity rents held up a little better, down 0.1% through the same interval. Average prices in the RBN segment stood at \$1,733, as of April.
- ▶ With the overall rate in stabilized assets at 96.0% as of March, the metro's occupancy is expected to remain high, as San Diego has extended its moratorium on commercial and residential evictions through the end of June, in an effort to protect individuals and businesses from further strife caused by the coronavirus pandemic.
- ▶ The submarkets leading rent growth in the 12 months ending in April were Peninsula (average rate up 5.0% to \$1,901), Chula Vista (up 4.7% to \$1,559) and Southeast San Diego (up 4.2% to \$1,526).

San Diego vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

San Diego Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ San Diego's economy had a steady 2019, with the rate of employment growth consistently in the 1.4% to 1.6% range throughout the year. With fallout from the pandemic now becoming increasingly clear, California's economy has taken a significant toll, and San Diego is directly feeling the impact. With leisure and hospitality accounting for 13.2% of its total non-farm employment, the metro will likely continue to see effects of the lockdown continuing through the summer.
- ▶ San Diego County's population density makes the area a likely target for later reopening. With this in mind, officials have extended the moratorium on residential and commercial evictions through the end of June.
- ▶ Like the rest of the U.S., California has seen a spike in in job volatility since the start of the pandemic, with unemployment claims crossing the 4.7 million mark. The state has distributed roughly \$12 billion in benefits in an attempt to curb the strain on residents. With costs estimated to balloon even further, the Employment Development Department has requested permission to borrow up to \$10 billion in order to fund further relief for those facing unemployment.

San Diego Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	261	17.4%
65	Education and Health Services	221	14.7%
30	Manufacturing	117	7.8%
55	Financial Activities	77	5.1%
90	Government	253	16.8%
50	Information	23	1.5%
70	Leisure and Hospitality	199	13.2%
40	Trade, Transportation and Utilities	220	14.6%
15	Mining, Logging and Construction	81	5.4%
80	Other Services	52	3.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Although a significant cohort of the population is looking elsewhere due to high living costs, Southern California still remains very attractive to incoming residents.
- ▶ The metro gained 18,000 residents in 2018—an increase fueled by natural population growth and immigration.

San Diego vs. National Population

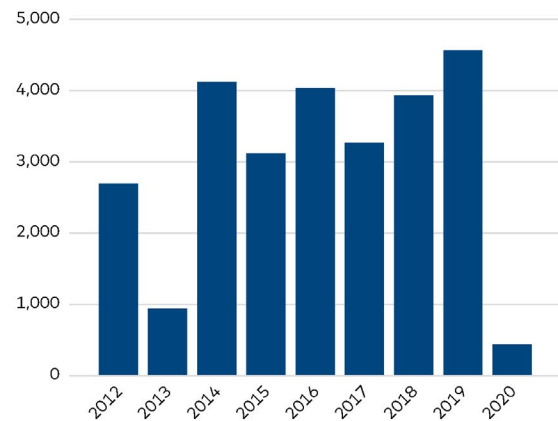
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
San Diego Metro	3,284,061	3,310,280	3,325,468	3,343,364

Sources: U.S. Census, Moody's Analytics

SUPPLY

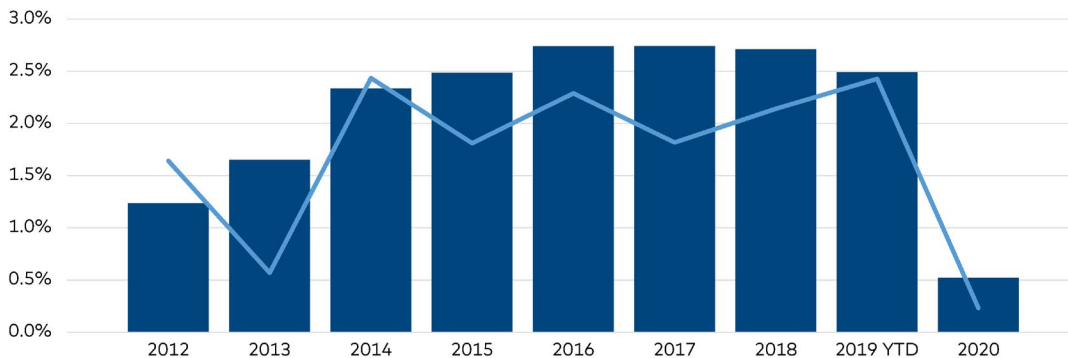
- ▶ Although delays are to be expected this year, San Diego's development pipeline is still significant, with 9,200 rental units underway. Another 28,000 units were in the planning and permitting stages, though the materialization of those projects depends on a broader set of factors. The bulk of units underway in the market is geared to Lifestyle renters, a segment in which average rents are well over the \$2,300 mark.
- ▶ Local authorities are making a push to keep construction going in the city, with the acceptance of online permits approved at the start of May. That, along with new safety regulations in place, would allow cranes to go up across the metro once again, despite the ongoing pandemic.
- ▶ Although more than 16,000 multifamily units have come online since the beginning of 2016, the rate of deliveries has consistently fallen short of the national average. That, combined with steady demand, has kept occupancy high, with the rate in stabilized properties at 96.0%, as of March 2020.
- ▶ Central San Diego (2,653 units under construction) and Kearny Mesa (2,554 units) accounted for more than half of the market's entire pipeline as of April, with most other submarkets having limited slates for incoming stock.

San Diego Completions (as of April 2020)



Source: Yardi Matrix

San Diego vs. National Completions as a Percentage of Total Stock (as of April 2020)

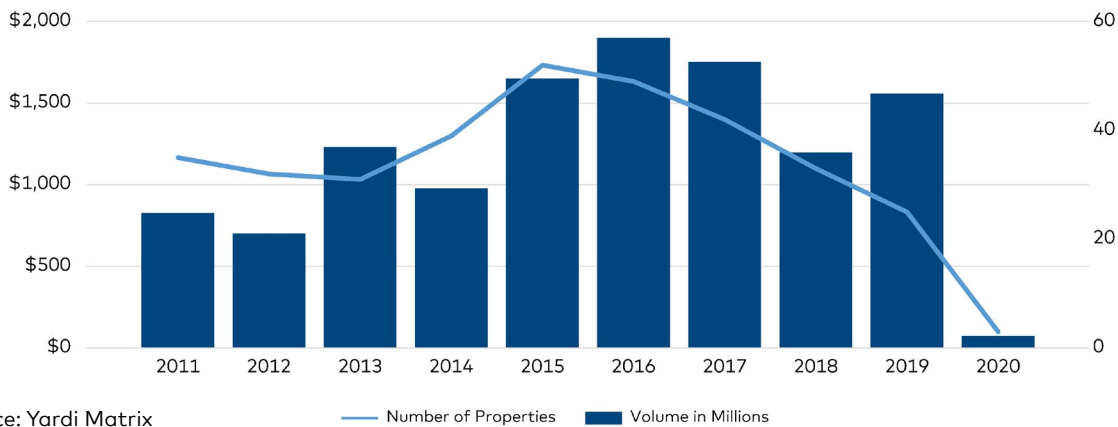


Source: Yardi Matrix

TRANSACTIONS

- ▶ As financial markets were heavily impacted by the COVID-19 outbreak, and California's lock-down policy was on the more restrictive side among larger U.S. metros, the flow of capital into San Diego's multifamily market was limited through the year's first four months. Three communities adding up to \$75 million traded in 2020 through April, all of them being in the Renter-by-Necessity segment.
- ▶ That, in turn, has impacted the average per-unit price. The average price per unit clocked in at \$164,252 for this limited sample size, just half of last year's average.
- ▶ While widespread uncertainty has put a serious damper on investment activity, the submarkets leading transaction activity in the 12 months ending in April were Oceanside (\$194 million), El Cajon (\$172 million) and Sweetwater (\$131 million).

San Diego Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

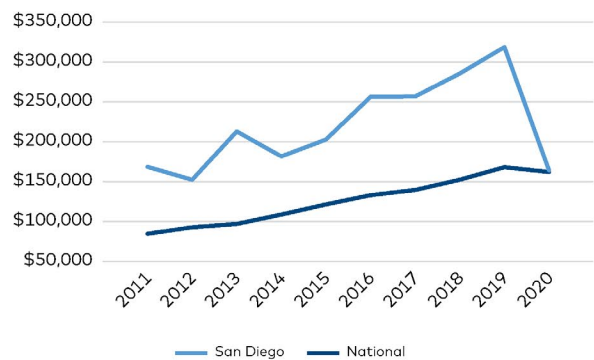
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Oceanside	194
El Cajon	172
Sweetwater	131
North San Diego	119
National City	95
Central San Diego	62
La Mesa	34

Source: Yardi Matrix

¹ From May 2019 to April 2020

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 SAN DIEGO SUBMARKETS FOR CONSTRUCTION ACTIVITY

By Timea-Erika Papp



data by
Yardi® Matrix

Despite the ongoing health crisis, development activity in San Diego has been moving forward as officials have taken measures and passed two key policy changes in order to keep construction going. In addition to implementing strict safety guidelines on construction sites, the city expanded the digital permitting process to include all types of permits as of early May. The platform had already been available for certain types of permits pre-COVID-19.

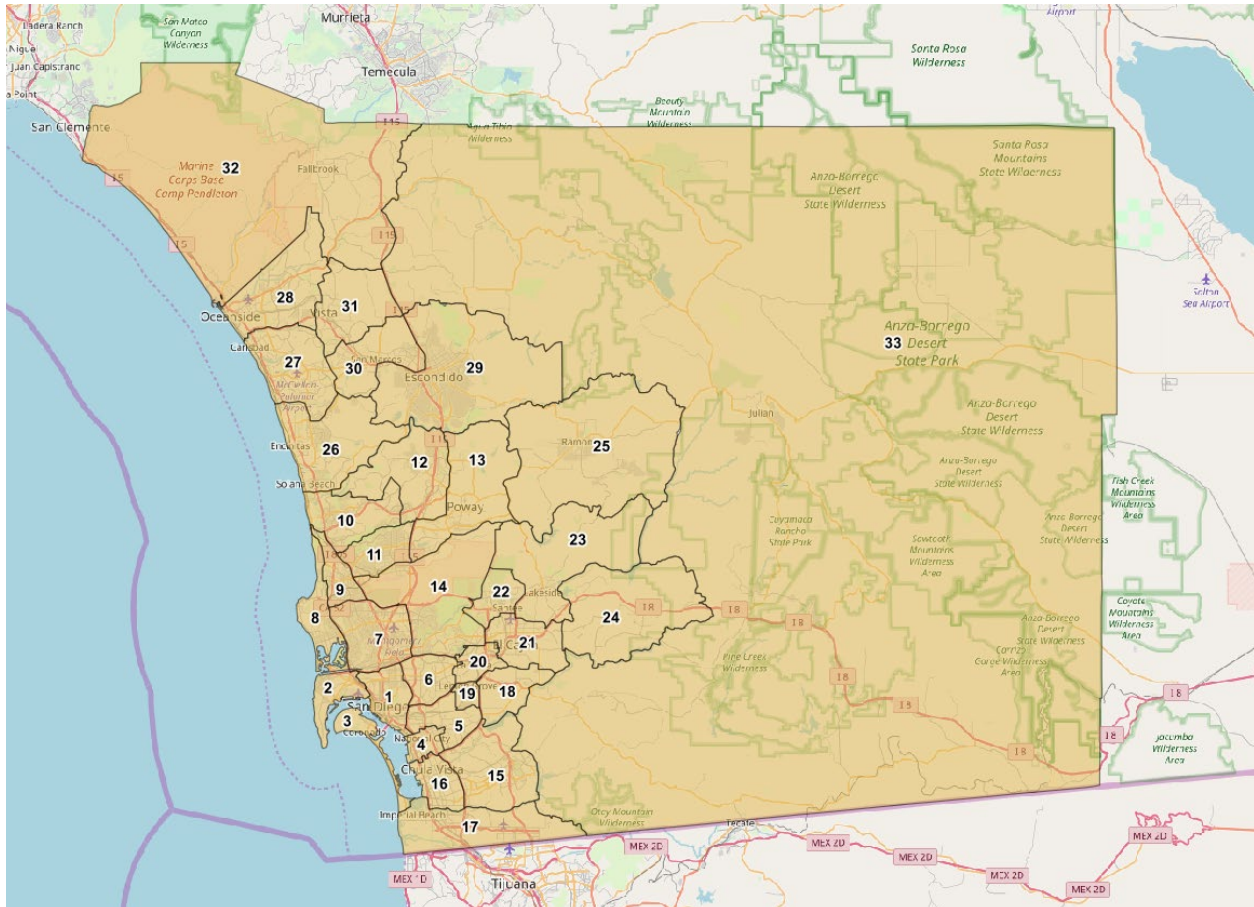
Rank	Submarket	No. of Units
1	Central San Diego	2,653
2	Kearny Mesa	2,554
3	Sweetwater	822
4	Vista	691
5	Del Mar	608

Del Mar

Following a year with no new deliveries, Del Mar kicked off 2020 with a total of 608 units underway. The submarket's delivery cycle peak of 484 apartments was recorded in 2015. As of April, one community was underway in Del Mar at 3200 Paseo Village Way. Kilroy Realty broke ground on One Paseo, a 23-acre mixed-use development, in early 2017 after nearly a decade of planning, costly setbacks and intense negotiations. One Paseo's residential component is set to include 61 affordable units. The development will also feature 286,000 square feet of office space.



SAN DIEGO SUBMARKETS



Area No.	Submarket
1	Central San Diego
2	Peninsula
3	Coronado
4	National City
5	Southeast San Diego
6	Mid-City
7	Kearny Mesa
8	Coastal
9	University
10	Del Mar
11	Mira Mesa
12	North San Diego
13	Poway
14	Elliot-Navajo
15	Sweetwater
16	Chula Vista
17	South Bay

Area No.	Submarket
18	Spring Valley
19	Lemon Grove
20	La Mesa
21	El Cajon
22	Santee
23	Lakeside
24	Alpine
25	Ramona
26	San Diegoito
27	Carlsbad
28	Oceanside
29	Escondido
30	San Marcos
31	Vista
32	Fallbrook
33	Outlying San Diego County

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;*
- *Students, who also may span a range of income capability, extending from affluent to barely getting by;*
- *Lower-middle-income ("gray-collar") households, composed of office workers, policemen, firemen, technical workers, teachers, etc.;*
- *Blue-collar households, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;*
- *Subsidized households, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;*
- *Military households, subject to frequency of relocation.*

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

How do you | find properties to buy or develop?

Invest confidently using the industry's most comprehensive market intelligence service. Only Yardi Matrix continuously updates and verifies critical data for 17 million+ units within more than 90,000 multifamily properties in 133 U.S. metros that encompass 90% of the population.



(800) 866-1144
YardiMatrix.com

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2020 Yardi Systems, Inc. All Rights Reserved.