



MULTIFAMILY REPORT

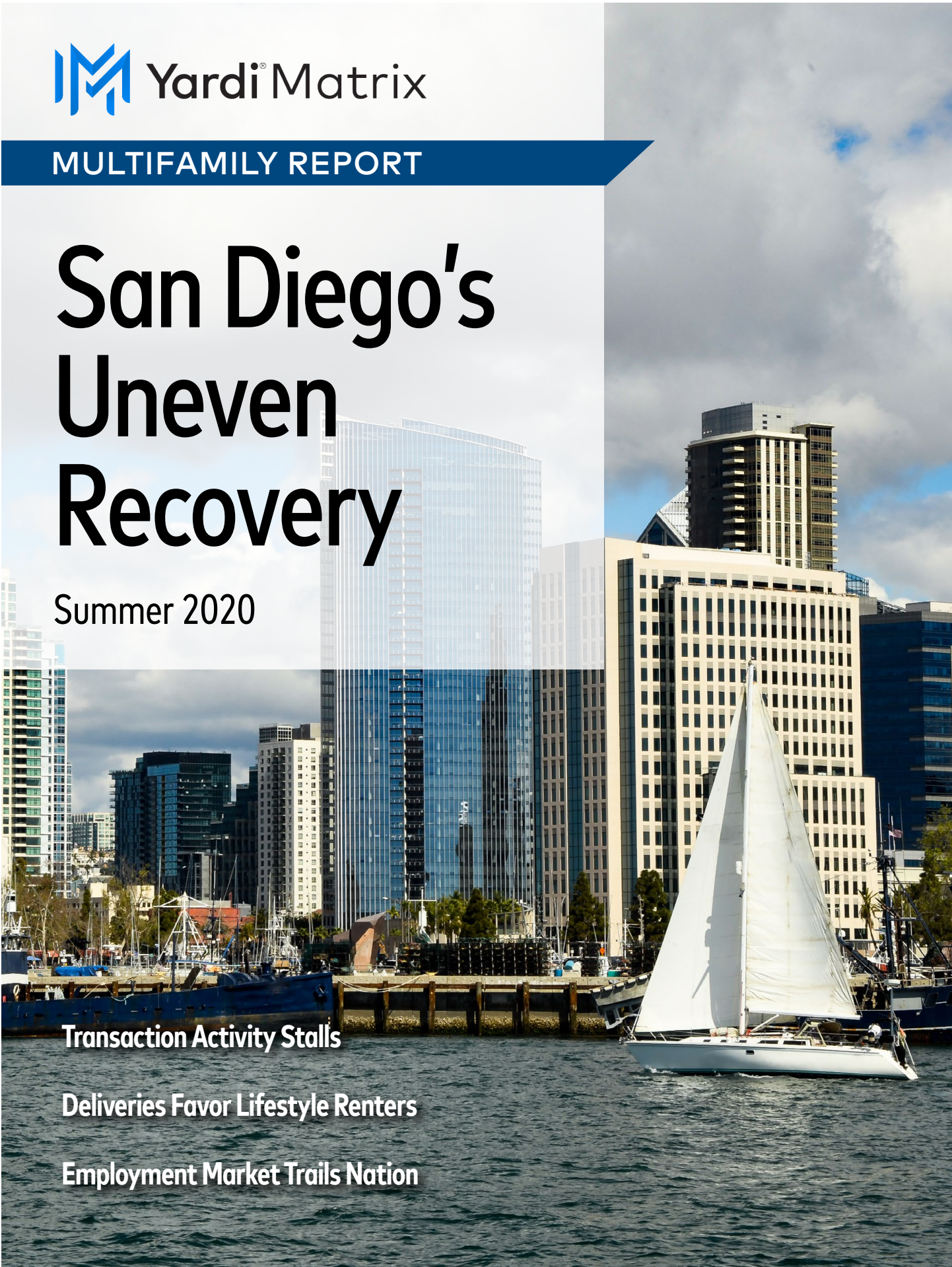
San Diego's Uneven Recovery

Summer 2020

Transaction Activity Stalls

Deliveries Favor Lifestyle Renters

Employment Market Trails Nation



SAN DIEGO MULTIFAMILY



Rents Hit Tailwinds Amid Economic Volatility

San Diego's multifamily sector has not lost its shine. After five months of contractions, the metro's rents rebounded with a 0.2% increase to \$1,987, on a trailing three-month basis through August, while the U.S. rate remained flat at \$1,463 during the same period. Meanwhile, the metro's occupancy rate in stabilized properties dropped 70 basis points to 95.6% in the 12 months ending in July.

Initial unemployment claims filed across the state between mid-March and the end of August exceeded 8.1 million, and San Diego registered historic highs in April and May, hitting the 15.0% mark. The jobless rate slid to 13.8% in June, while preliminary July data pointed to further improvement, clocking in at 12.3%. Professional and business services—San Diego's largest sector—shrank by only 2.5% in the 12 months ending in June, faring better than San Francisco. In the meantime, Gov. Gavin Newsom has extended the state's eviction moratorium through January.

Following last year's cycle peak for deliveries, developers added 1,748 units this year through August, with an additional 8,581 apartments underway. Deals nearly came to a halt in San Diego this year, with transactions totaling just \$129 million in the first eight months of 2020. By comparison, nearly \$1.6 billion in multifamily assets traded across the metro in 2019.

Market Analysis | Summer 2020

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Recent San Diego Transactions

Serena Vista



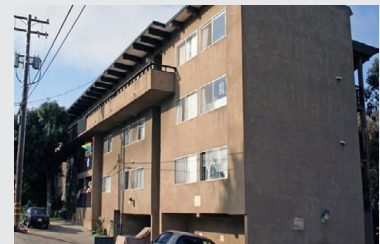
City: La Mesa, Calif.
Buyer: Universe Holdings
Purchase Price: \$34 MM
Price per Unit: \$313,182

Southern Highlands



City: National City, Calif.
Buyer: Lincoln Avenue Capital
Purchase Price: \$22 MM
Price per Unit: \$146,358

Citra



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

Tribeca on Mollison

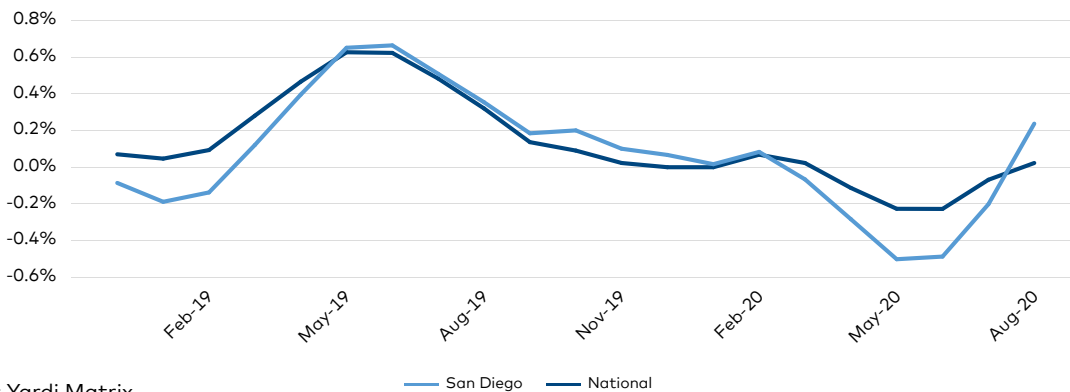


City: El Cajon, Calif.
Buyer: Swanson Real Estate Services
Purchase Price: \$16 MM
Price per Unit: \$235,294

RENT TRENDS

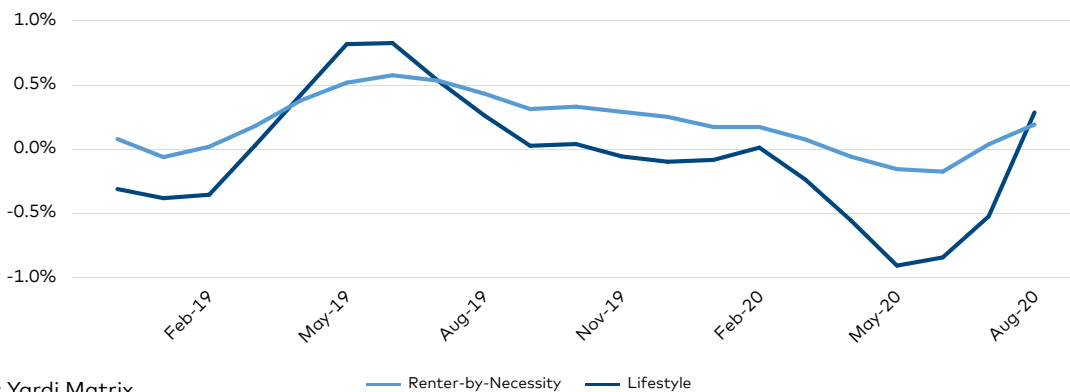
- ▶ San Diego rents rebounded after contracting for five consecutive months on a trailing three-month (T3) basis, up 0.2% through August to \$1,987. Meanwhile, the national average remained flat at \$1,463.
- ▶ Rates picked up for both Renter-by-Necessity and Lifestyle units. Rents in the working-class sector rose 0.3% to \$1,734 on a T3 basis through August, while those in the upscale segment increased by 0.2% to \$2,370.
- ▶ The occupancy rate in stabilized properties declined by 70 basis points in the 12 months ending in July, reaching 95.6%. With the eviction moratorium extended through January, occupancy received a boost that could help it stabilize. However, more than 4,000 units are scheduled to come online by year-end, which could put pressure on occupancy in the long run. At the same time, some upcoming projects are facing delays due to disruptions brought by the unfolding health crisis.
- ▶ Rents in some of the metro's priciest submarkets either contracted or were virtually flat in the 12 months ending in August, including Del Mar (-2.9% to an average of \$2,742), University (-7.3% to \$2,297) and Central San Diego (-1.9% to \$2,188). Meanwhile, many submarkets that feature large workforce housing components recorded gains despite the volatility brought by the pandemic—Chula Vista (4.1% to \$1,585), National City (3.8% to \$1,453) and Ramona (3.7% 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 unemployment reached a historic 15.2% in May, before a slight June recovery (13.8%), with preliminary July data reflecting continued improvement (12.3%). The metro last registered double-digit unemployment in October 2011, when it stood at 10.2%. The rate has steadily improved since then, hovering around the 3.0% mark for the last three years.
- ▶ California's early shelter-in-place order pushed initial unemployment claims in the state above 8.1 million between mid-March and the end of August. San Diego employment was down 5.7% year-over-year through June, underperforming against the U.S. average by 70 basis points. All sectors contracted over 12 months, led by leisure and hospitality (-27.7%) and information (-15.5%). The metro's main economic driver—professional and business services, which encompasses 18.4% of the workforce—held up well, contracting just 2.5%, thanks to the work-from-home option available to many office employees.
- ▶ San Diego is advancing slowly, and state authorities are working on a new reopening plan, while monitoring local and county-level hotbeds of COVID-19 cases. Gov. Newsom signed a bill extending the state's eviction moratorium through January 2021, superseding the freeze ordered by the Centers for Disease Control and Prevention.

San Diego Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	74	5.5%
15	Mining, Logging and Construction	82	6.0%
50	Information	20	1.5%
60	Professional and Business Services	250	18.4%
30	Manufacturing	108	8.0%
80	Other Services	41	3.0%
65	Education and Health Services	199	14.7%
90	Government	234	17.3%
40	Trade, Transportation and Utilities	200	14.7%
70	Leisure and Hospitality	149	11.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ San Diego lost 5,034 residents in 2019—a 0.2% drop—while the U.S. population grew by 0.3%.
- ▶ The decrease was fueled by several factors, including a reduction in affordability that led to negative domestic migration, a decline in births, and household formation delays.

San Diego vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
San Diego Metro	3,310,280	3,325,468	3,343,364	3,338,330

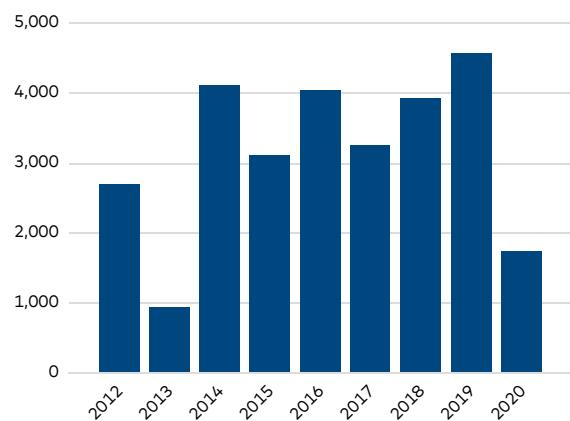
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ San Diego had 8,581 units under construction as of August, on the heels of the 2019 cycle peak for completions, when 4,571 apartments came online. While the metro's multifamily inventory has expanded by more than 17,500 units since the beginning of 2016, the rate of growth has constantly stayed below the U.S. figure.
- ▶ Developers completed 1,748 units across the metro this year through August, down from the 2,497 apartments that came online during the same period last year. The bulk of both deliveries and units underway was geared toward Lifestyle renters, while the metro's housing shortage kept demand high across the quality spectrum. As a result, workforce housing rents have performed well during the pandemic, a nationwide trend that has been more apparent during the last cycle.
- ▶ Development was fairly concentrated, with Kerny Mesa (2,704 units underway) and Central San Diego (2,383 units) accounting for nearly 60% of San Diego's pipeline as of August.
- ▶ State officials recently proposed a series of bills meant to boost the industry and incentivize developers, including AB 2580, which

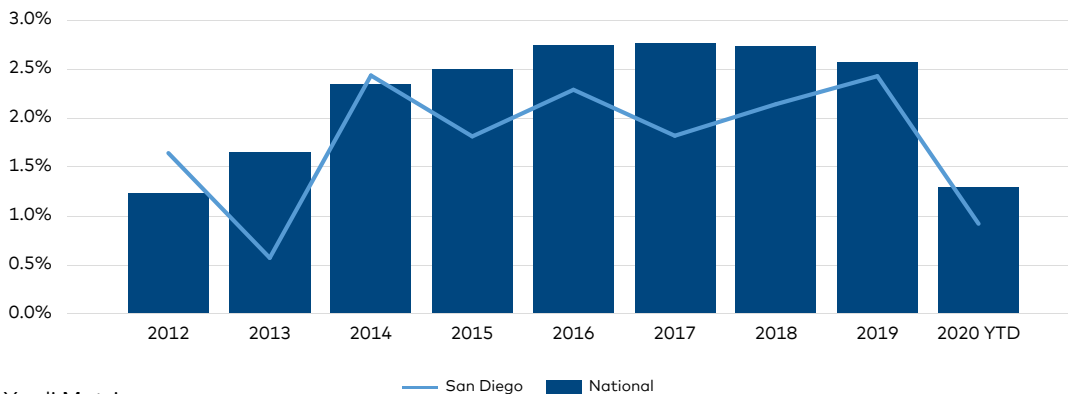
would streamline the requirements to convert hotels, motels and commercial buildings into multifamily housing; AB 1934, which would require city planners to approve affordable housing projects within 30 days if zoning requirements are met; and AB 10, which would expand the low-income housing tax credit program by some \$500 million a year.

San Diego Completions (as of August 2020)



Source: Yardi Matrix

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

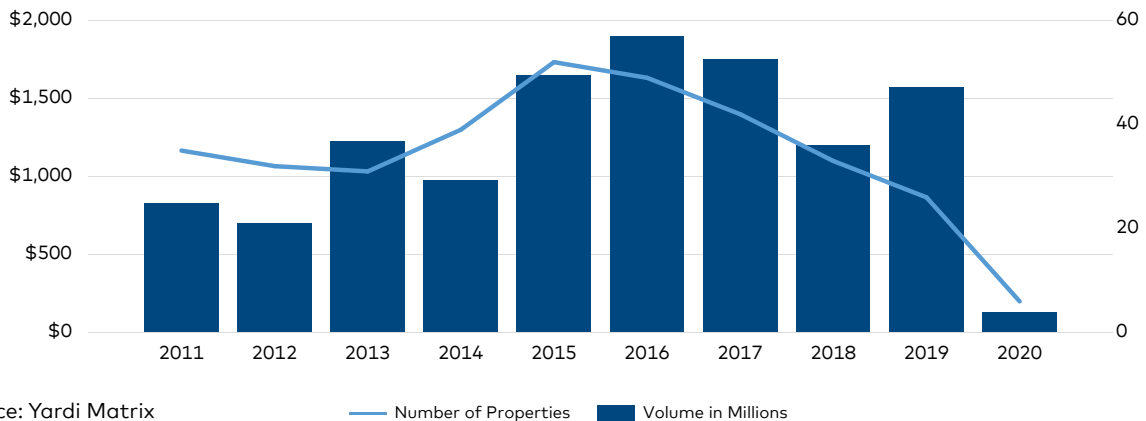


Source: Yardi Matrix

TRANSACTIONS

- ▶ Tepid activity dwindled further following the COVID-19 outbreak. This year through August, investors spent just \$129 million on six multifamily assets of 50-plus units, with only four communities traded through April for a combined \$75 million. By comparison, nearly \$900 million in 16 assets traded during the first eight months of 2019.
- ▶ All communities that traded this year were in the Renter-by-Necessity segment, while last year saw more than 1,000 units in upscale neighborhoods change hands during the same time frame. As a result, the per-unit price dropped sharply to \$177,760, just above the \$163,833 U.S. average.
- ▶ Since the pandemic hit, the asset that sold with the highest per-unit price was the 110-unit Serena Vista in La Mesa. Universe Holdings bought the property for some \$34.5 million, or \$313,182 per unit, from Cirrus Asset Management. The buyer used a \$24.2 million commercial mortgage-backed securities loan originated by Capital One.

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



Source: Yardi Matrix

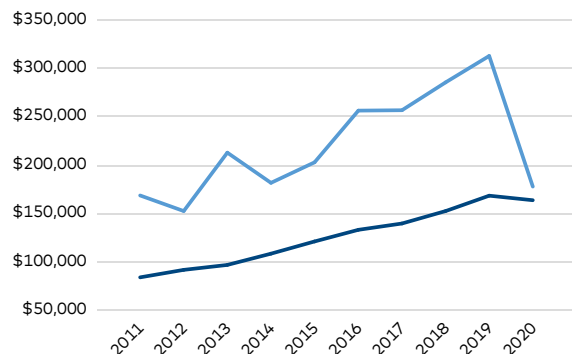
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
El Cajon	143
Sweetwater	131
Oceanside	128
North San Diego	119
National City	95
Central San Diego	62
La Mesa	34

Source: Yardi Matrix

¹ From September 2019 to August 2020

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

Top 5 Multifamily Projects Under Construction in San Diego

By Jeff Hamann

San Diego's multifamily development pipeline included almost 8,000 units under construction at the end of August, according to Yardi Matrix data, accounting for 4.5 percent of existing inventory. Even as California remains one of the hardest-hit states amid the coronavirus pandemic, the metro's developers are moving forward, adapting to strict social distancing and safety guidelines on project sites.

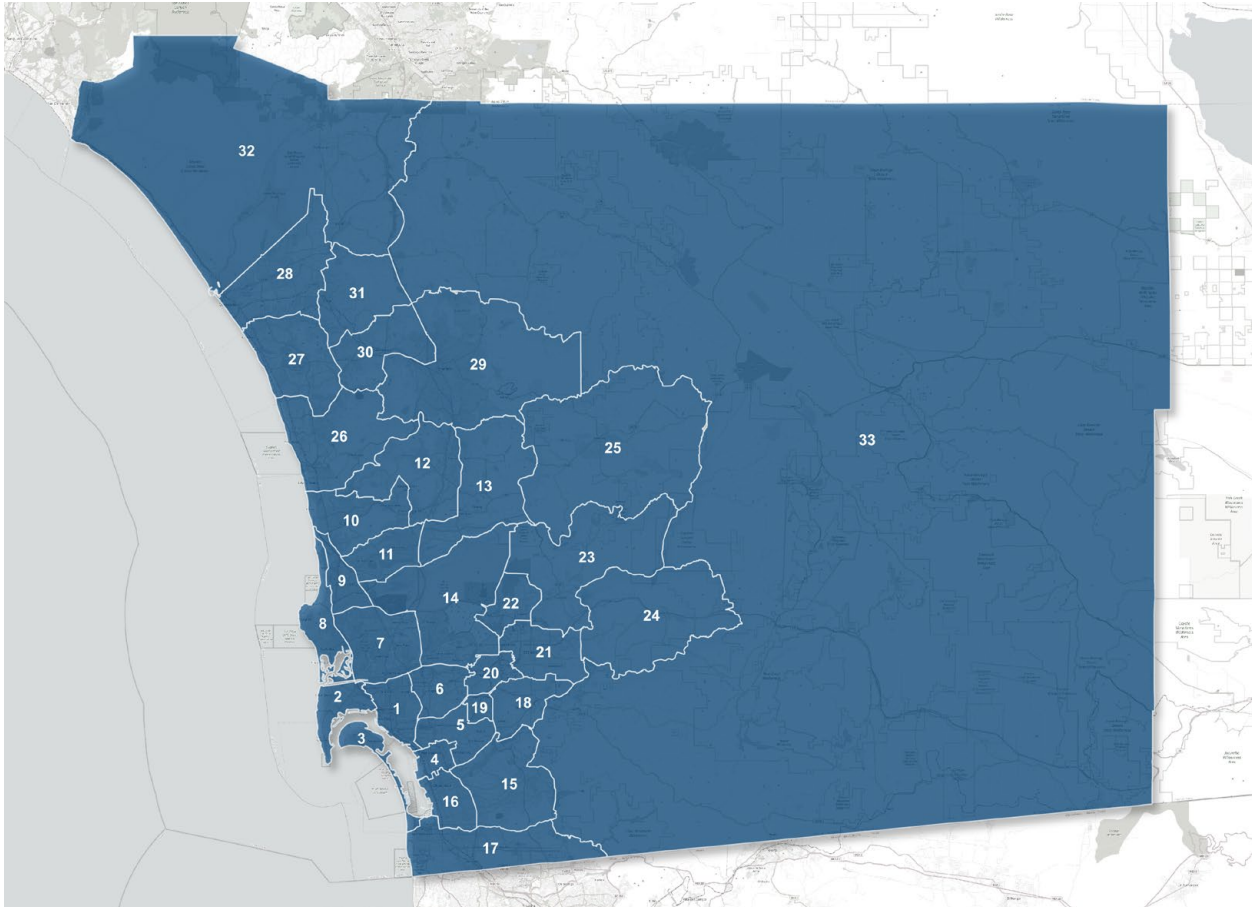
Rank	Property Name	Submarket	Owner	Units
1	Town & Country	Kearny Mesa	Holland Partners & North America Sekisui House	840
2	11th & Broadway	Central San Diego	Pinnacle International	618
3	The Block	Central San Diego	Bosa Development	617
4	LUX UTC Phase II	University	Garden Communities	445
5	Vive Lux	Kearny Mesa	Sunroad Enterprises	442

LUX UTC PHASE II

The second phase of Garden Communities' LUX UTC project began in mid-2019, approximately six months after the developer's first 115-unit tower opened its doors. Located at the eastern edge of the University of California, San Diego's campus, the luxury development is across the street from Westfield's 1.1 million-square-foot, open-air UTC shopping mall. Amenities at the 445-unit community will include a rooftop swimming pool, a coworking space, a club lounge and a car care station.



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 Dieguito
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 August 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 August 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, August 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.

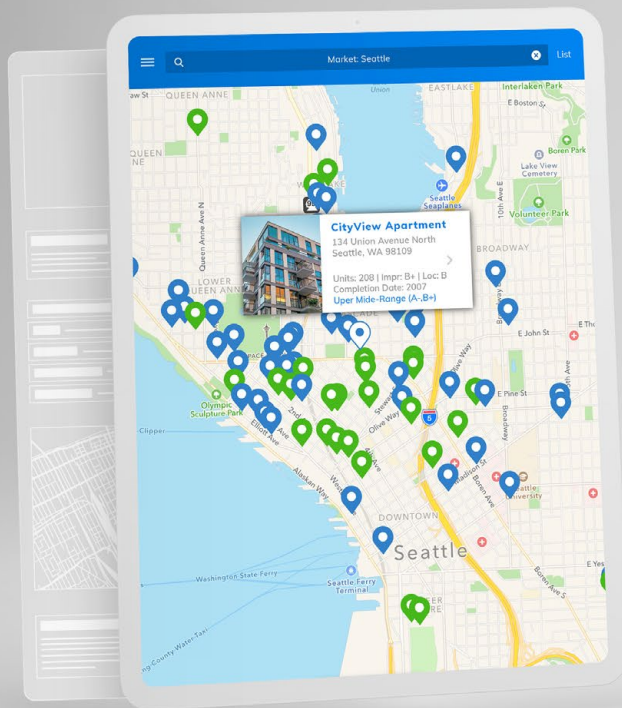
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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