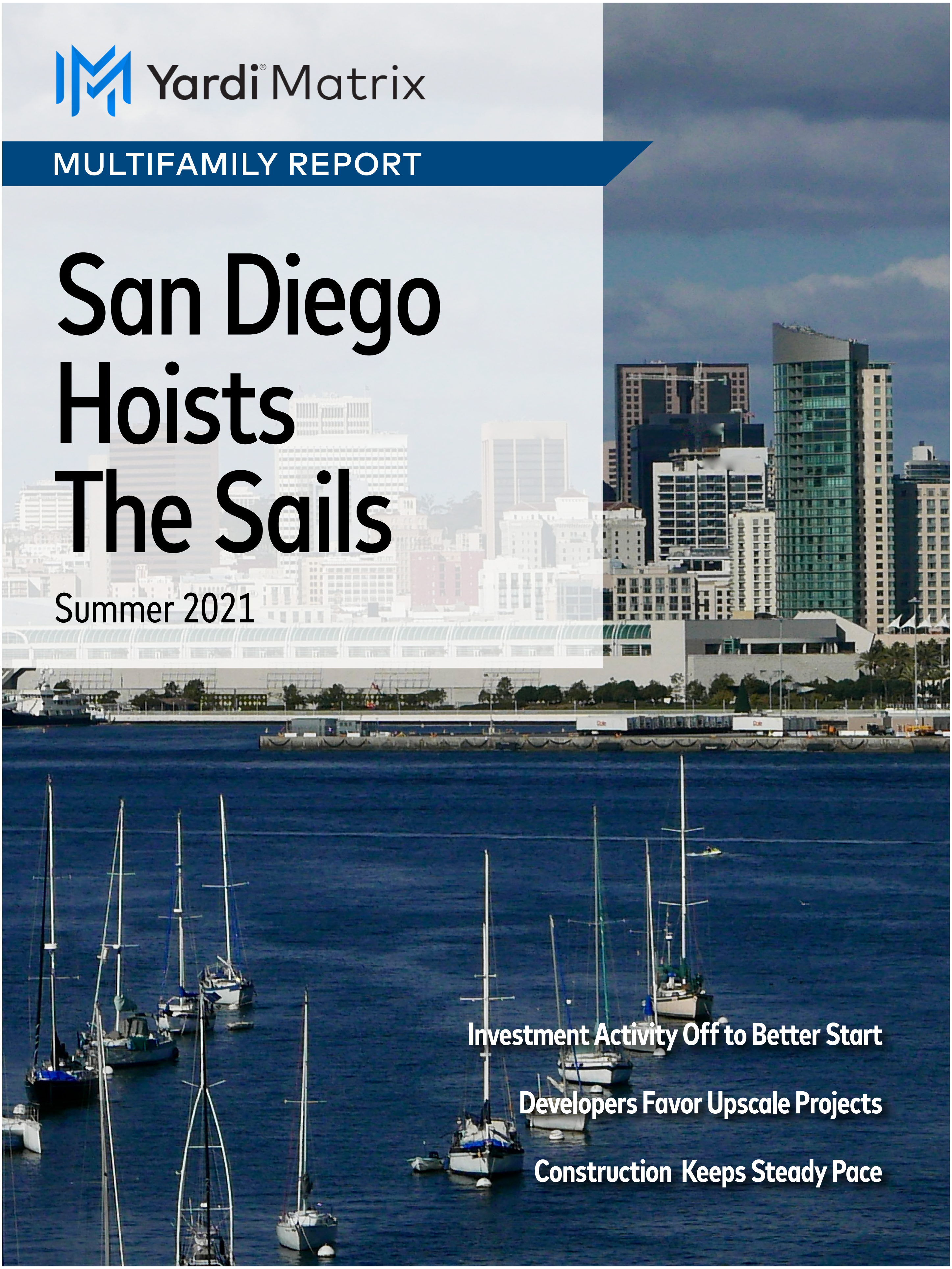
Yardi Matrix

MULTIFAMILY REPORT

San Diego Hoists The Sails

Summer 2021



Investment Activity Off to Better Start

Developers Favor Upscale Projects

Construction Keeps Steady Pace

SAN DIEGO MULTIFAMILY

Yardi Matrix

San Diego Rights the Ship

San Diego's multifamily market is overperforming by coastal city standards, with rents and occupancy up significantly, despite pandemic-driven woes. Rents were up 0.6% on a trailing three-month basis as of April, to an overall average of $2,056. Meanwhile, occupancy increased 50 basis points year-over-year, to 96.2% as of March.

Although San Diego employment was still down 9.1% year-over-year through February, the construction sector is a beacon of positivity. The sector recorded the addition of 1,600 jobs through the interval, up 1.9%. Unemployment stood at 6.9% according to March preliminary data, already on a downward path since January, when the rate was 8.0%. Apart from money coming in through the CARES Act, the city of San Diego has rolled out a small business relief fund to aid the local economy.

Investment activity for the first four months of the year stood at $201 million, roughly doubling the sales recorded same time last year. Development activity held strong despite health crisis-driven lockdowns and restrictions, with deliveries this year expected to come in close to the metro's five-year average. Some 8,960 units were under construction as of April, while another 39,000 units were in the planning and permitting stages.

Market Analysis | Summer 2021

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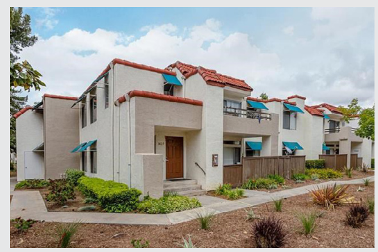
Recent San Diego Transactions

Vantage Pointe

City: San DIego
Buyer: Brookfield Properties
Purchase Price: $313 MM
Price per Unit: $460,236

The Resort at Encinitas



City: Encinitas, Calif.
Buyer: Interstate Equities Corp.
Purchase Price: $94 MM
Price per Unit: $480,301

Villa Del Sol

City: San Diego
Buyer: 29th Street Capital
Purchase Price: $49 MM
Price per Unit: $242,768

The Cove La Mesa

City: La Mesa, Calif.
Buyer: Bridge Investment Group
Purchase Price: $43 MM
Price per Unit: $325,188

RENT TRENDS

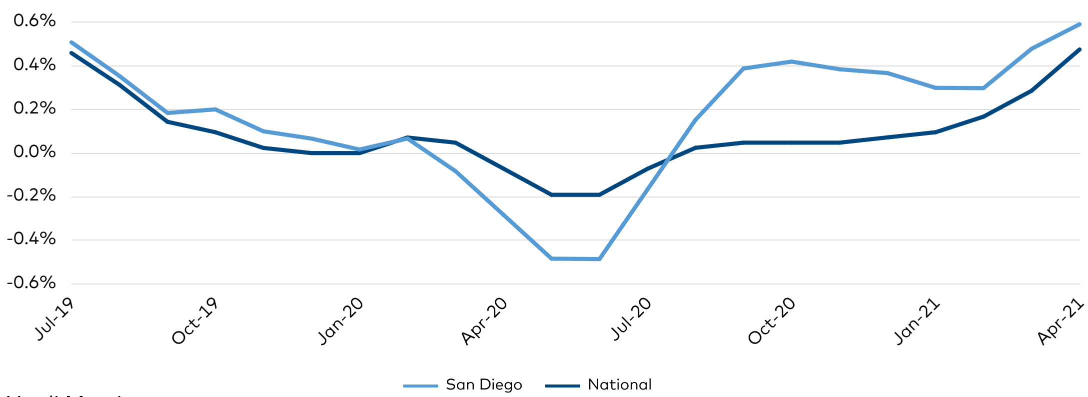
- Rent growth in San Diego stood at 0.6% on a trailing three-month (T3) basis as of April, a significant uptick and 10 basis points higher than the U.S. rate. The average overall rate was $2,056, substantially higher than the $1,417 national figure. On a year-over-year basis, the average San Diego rent advanced 3.5% as of April, more than twice the 1.6% U.S. rate.

- Although development is focused on upscale projects, rent growth for Lifestyle properties, at 0.7% on a T3 basis, has actually outperformed the Renter-by-Necessity segment, up 0.5%. Average rents for the two classes stood at $2,452 and $1,794, respectively, as of April, a substantial spread between quality segments.

- The overall average occupancy rate in stabilized properties was 96.2% as of March, up 50 basis points year-over-year. With development activity staying consistent through the health crisis, demand seems to be keeping up despite testing times.

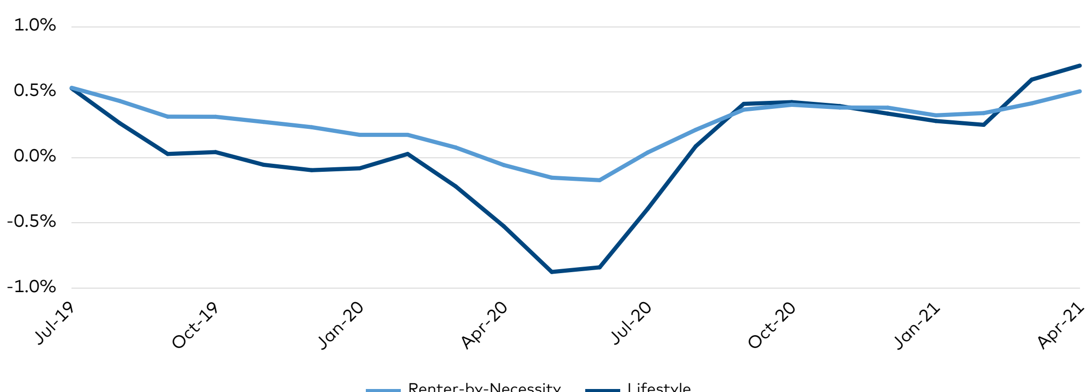
- Rent growth was solid across the map and quality segments: Carlsbad (up 6.9% year-over-year), Southeast San Diego (6.4%), Spring Valley (6.2%), Sweetwater (6.0%) and Elliot-Navajo (6.0%). These submarkets have a diverse unit profile across the quality spectrum, as well as spread between average rents and positioning, showcasing generalized rent improvement across metro San Diego.

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

- The unemployment rate in the metro stood at 6.9% as of March, according to provisional data from the Bureau of Labor Statistics. The rate was down 110 basis points since the start of the year alone. The local job market is faring better than California's overall market, with the state's unemployment rate at 8.3% as of March.

- However, San Diego's job market is still reeling from the impact of the health crisis, as leisure and hospitality alone lost some 66,000 positions in the 12 months ending in February. The construction sector was the only one to record year-over-year improvement.

- Local authorities have put programs in place to help both residents and businesses cope with the fallout from the health crisis. The city of San Diego has established an application process that allows affected businesses to seek help through its small business relief fund. The fund is meant to supplement aid from the CARES Act, as well as other federal and state programs. County supervisors also recently voted in favor of an eviction ban and rent-cap measure that should help residents who have fallen behind on payments. That measure is set to expire in August.

San Diego Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	86	6.2%
50	Information	22	1.6%
30	Manufacturing	115	8.3%
55	Financial Activities	74	5.4%
60	Professional and Business Services	256	18.5%
40	Trade, Transportation and Utilities	211	15.3%
80	Other Services	44	3.2%
65	Education and Health Services	210	15.2%
90	Government	235	17.0%
70	Leisure and Hospitality	132	9.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Diego lost some 5,000 residents in 2019, marking a 0.15% contraction.

- Health-crisis driven woes have pushed some residents away from high-priced coastal markets, leading to shifting demographics across the state of California.

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

- There were 8,960 units under construction across San Diego as of April, pointing to a steady influx of rental stock, despite some health crisis-driven woes.

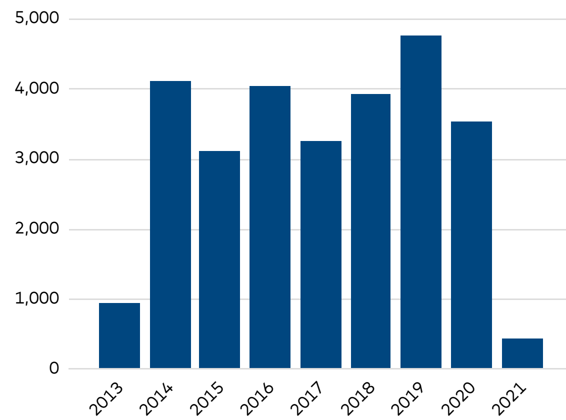
- Deliveries were off to a slow start this year, with a single property of 434 units coming online through April. However, projected completions for 2021 sit at 3,687 units, or 1.9% of existing stock, which points to an accelerating trend for the remainder of the year. That also means that deliveries will come in just under the metro's five-year average of 3,910 new apartments per year.

- Another 39,000 units were in the planning and permitting stages across San Diego as of April. Should market conditions continue on an improving trend, the metro will likely see a steady influx of multifamily stock for the next couple of years.

- Developers are showing a clear propensity for upscale projects, as 85% of the units currently under construction are in Lifestyle developments. Despite the trend, occupancy in the quality segment has actually increased by 40 basis points year-over-year, to 95.0%. The occupancy rate for the Renter-by-Necessity segment climbed 60 basis points to 97.0% as of March, showing once more that the segment is undersupplied.

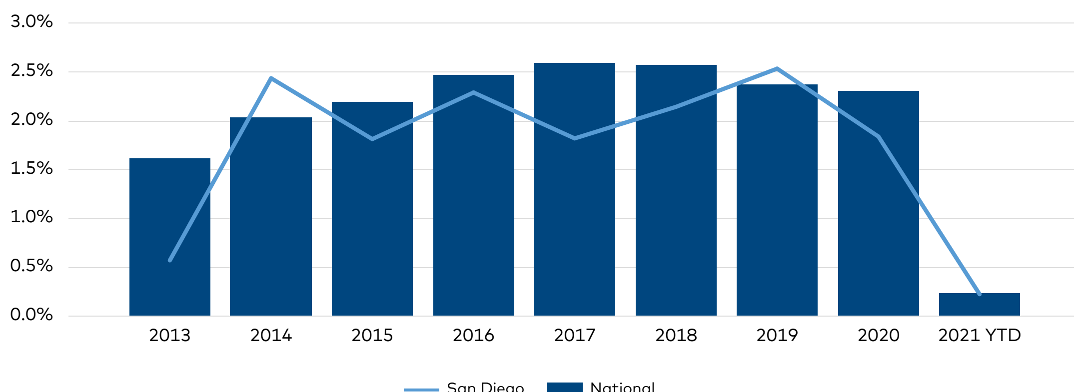
- Development focused primarily on two submarkets; 55% of all units under construction are located in Central San Diego (2,640 units) and Kearny Mesa (2,323 units).

San Diego Completions (as of April 2021)



Source: Yardi Matrix

San Diego vs. National Completions as a Percentage of Total Stock (as of April 2021)



Source: Yardi Matrix

TRANSACTIONS

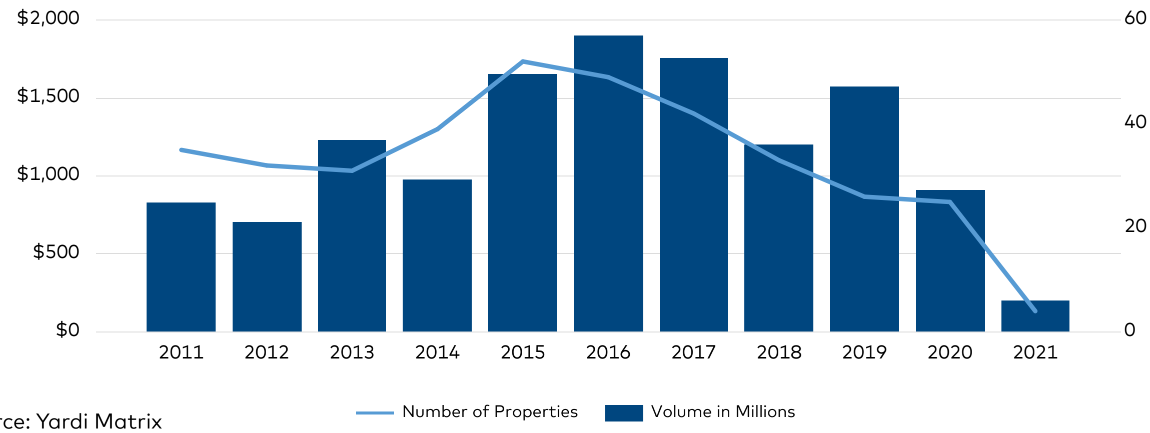
- Some $200 million in multifamily assets traded in San Diego this year through April, more than double the sales volume recorded in 2020 through the same interval. Sales activity had been on a largely downward trend since 2016, when the market hit $1.9 billion in annual sales.

- Per-unit prices jumped nearly $30,000 from last year's overall average, reaching $342,042, even as three of the four recorded multifamily transactions of 2021 were for properties in the Renter-by-Necessity segment.

- In the 12 months ending in April, investors focused most on dynamic submarkets with significant multifamily pipelines: Central San Diego ($477 million) and Kearny Mesa ($107 million).

- The largest deal of 2021 through April was Interstate Equities' $94.1 million purchase of The Resort at Encinitas, a 196-unit garden-style community previously known as Mission Ridge.

San Diego Sales Volume and Number of Properties Sold (as of April 2021)



Source: Yardi Matrix

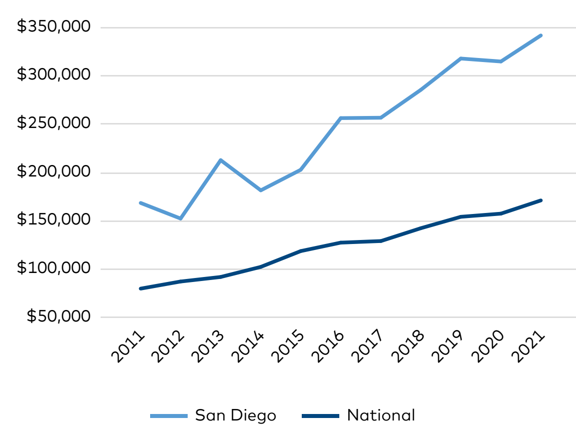
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Central San Diego	477
Kearny Mesa	107
San Dieguito	94
Elliot - Navajo	73
Mid-City	49
La Mesa	43
Carlsbad	40

Source: Yardi Matrix

[1] From May 2020 to April 2021

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

data by

Top California Markets for Multifamily Deliveries

By Lucia Morosanu

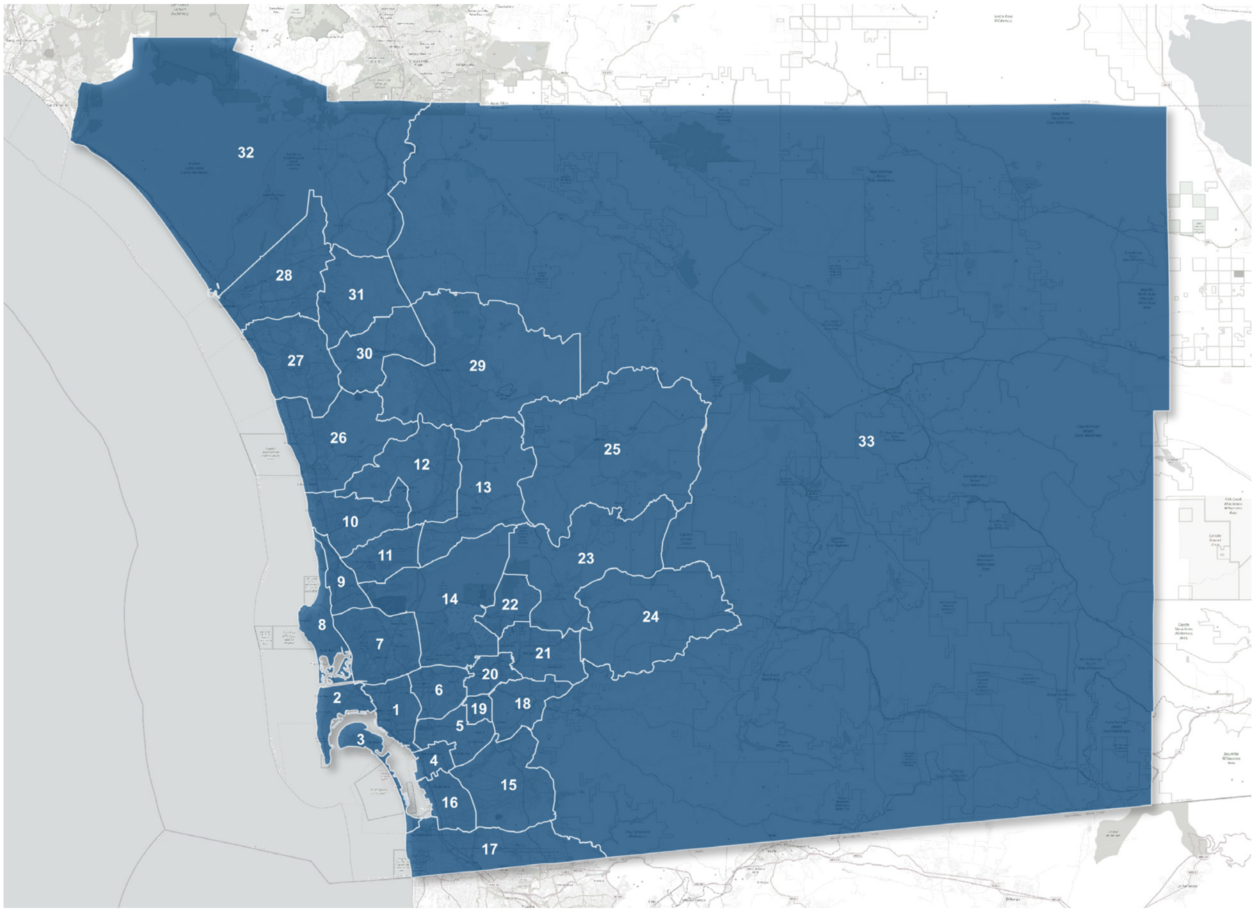
Construction in 2020 struggled, as stay-at-home orders imposed at the beginning of the year to help slow down the spread of COVID-19 generated delays in construction starts and permitting. Additionally, this year California had to deal with the exit of many big companies such as Oracle, Tesla, Hewlett-Packard Enterprise and Palantir.

Rank	Metro	Units Completed	Projects Completed	Percentage of Stock
1	Metro Los Angeles	3,287	13	1.7%
2	Bay Area–South Bay	2,052	6	1.6%
3	Bay Area–East Bay	1,524	8	1.1%
4	Orange County	1,103	5	0.5%
5	San Diego	740	2	0.4%
6	San Fernando Valley–Ventura County	452	3	0.3%
7	Eastern Los Angeles County	436	2	0.4%
8	Central Valley	333	2	0.3%
9	San Francisco–Peninsula	317	2	0.3%
10	Inland Empire	136	1	0.1%

San Diego

The metro added 740 units in only 2 properties, which comprises 0.4 percent of total stock. Through the end of the year, 4,442 units across 20 projects are expected to be delivered. San Diego saw 3,529 units come online in 2020, in 19 properties. The 434-unit Purl was the largest of the two projects completed this year. Sudberry Properties received a $110 million construction loan in 2017 from Pacific Western Bank to develop the luxury asset. Located at 7901 Civita Blvd. within the 230-acre Civita urban village, the property is adjacent to the future, 1.5-acre Creekside Park.

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 December 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 December 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, December 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.