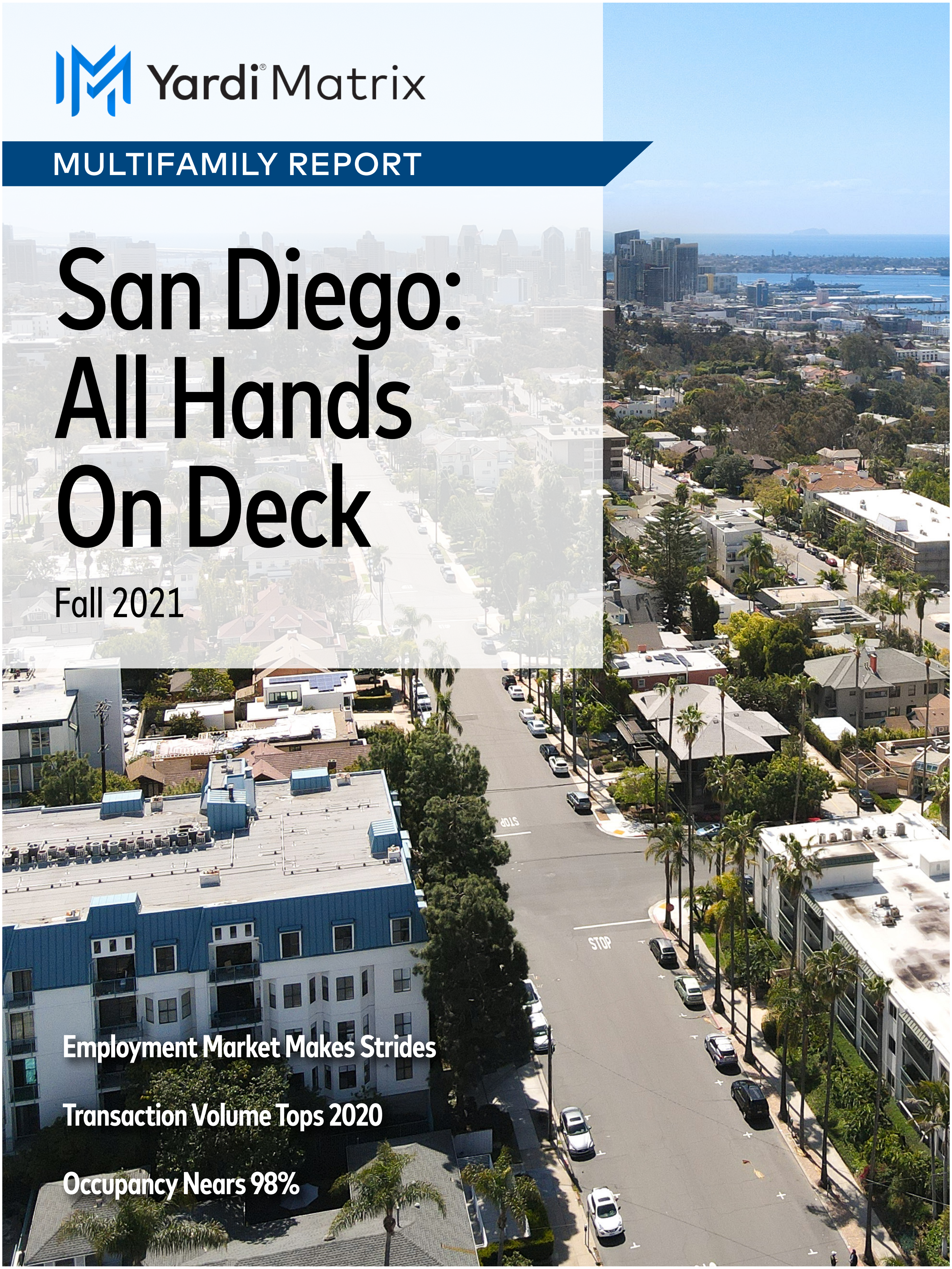
Yardi® Matrix

MULTIFAMILY REPORT

San Diego: All Hands On Deck

Fall 2021



Employment Market Makes Strides

Transaction Volume Tops 2020

Occupancy Nears 98%

SAN DIEGO MULTIFAMILY

Strong Demand Boosts Occupancy

The pandemic's impact on San Diego's multifamily market was less severe than the effect on other coastal cities. Rents rose 1.8% on a trailing three-month (T3) basis through September, to an overall average of $2,260. Furthermore, the occupancy rate in stabilized properties increased by a substantial 160 basis points in the 12 months ending in August, to 97.6%.

The unemployment rate improved to 6.6% in August, outperforming California's 7.5% but trailing the 5.2% U.S. figure. Employment continued to improve, expanding by 1.7%, or 60,800 jobs, in the 12 months ending in July. Despite two sectors still losing jobs, San Diego's economy outperformed those of all other major California markets during the period. Following leisure and hospitality (up 20.7%, or 27,800 jobs), two of the metro's largest sectors—professional and business services and education and health services—added 7,600 jobs each. However, mirroring the statewide trend, San Diego's population declined in 2020.

Developers had 9,353 units under construction as of September, but deliveries are lagging. During the first three quarters, just 1,910 units came online, heavily tilted toward the Lifestyle segment. Meanwhile, the transaction volume surpassed $1 billion and the per-unit price marked a hefty 47.4% increase over last year's first nine months, reaching $371,713.

Market Analysis | Fall 2021

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Recent San Diego Transactions

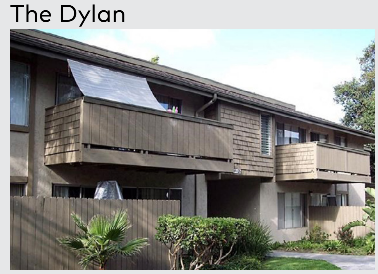
Capella at Rancho del Oro

City: Oceanside, Calif.
Buyer: Property West
Purchase Price: $110 MM
Price per Unit: $387,324

LIT Cortez Hill

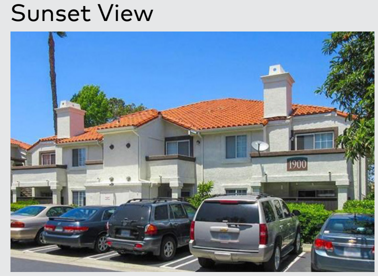
City: San Diego
Buyer: Sares-Regis Group
Purchase Price: $96 MM
Price per Unit: $321,001

The Dylan



City: Oceanside, Calif.
Buyer: Afton Properties
Purchase Price: $74 MM
Price per Unit: $356,250

Sunset View

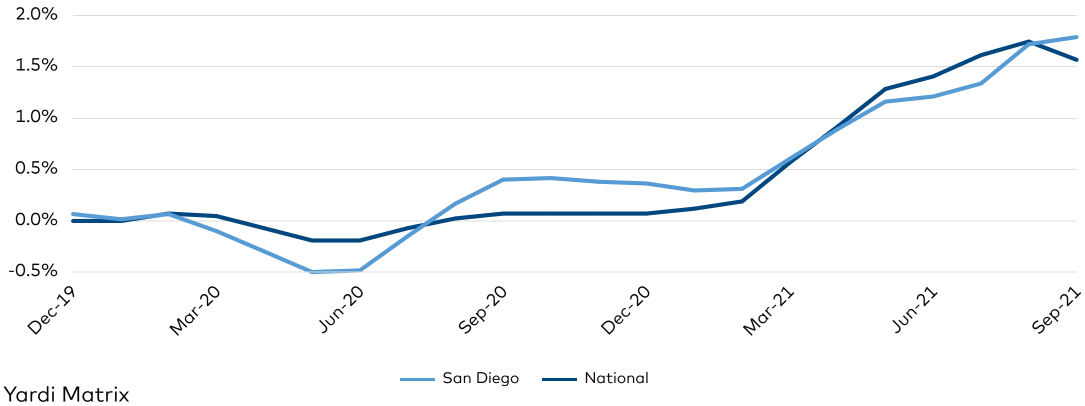


City: Oceanside, Calif.
Buyer: Silver Star Real Estate
Purchase Price: $46 MM
Price per Unit: $406,250

RENT TRENDS

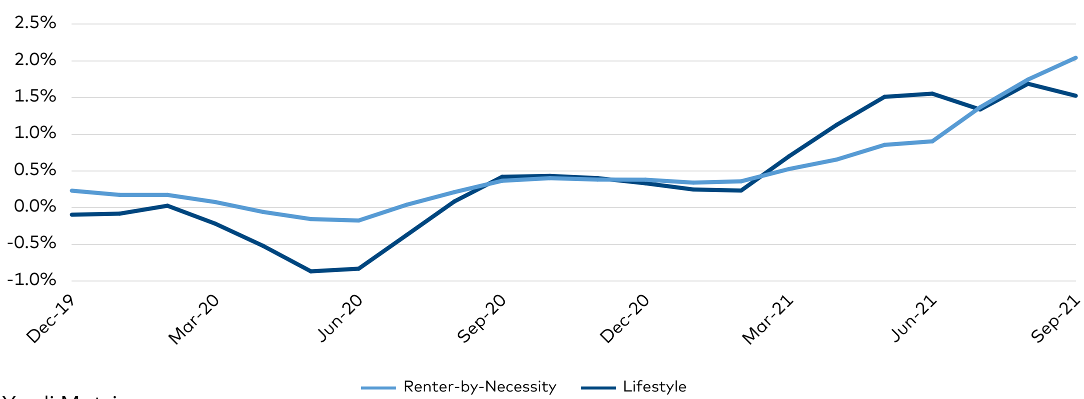
- San Diego rents rose 1.8% on a trailing three-month basis through September, outperforming the national rate by 20 basis points. The $2,260 average was well above the $1,558 U.S. figure. On a year-over-year basis, San Diego rates advanced 12.5%, above the already staggering 11.4% U.S. figure.
- With a scarce pipeline, rent growth was led by the working-class Renter-by-Necessity segment, up 2.0% on a T3 basis through September to $1,953. Meanwhile, the average rent in the upscale Lifestyle segment rose 1.5%, to $2,707.
- Multifamily demand remained remarkably high in San Diego, with the occupancy rate in stabilized properties up by 160 basis points in the 12 months ending in August, to 97.6%, pointing to a very tight rental market. Unlike in the case of rents, occupancy growth was led by the upscale segment, the rate rising by 2.1% to 97.1% for Lifestyle units, while for RBN apartments it went up by 1.3%, to 98.0%.
- Rent growth was substantial across the map, with some of the most sought-after submarkets posting strong double-digit increases on a year-over-year basis, including Del Mar (14.6% to $3,130), Coronado (18.6% to $3,004) and University (17.8% to $2,665). Moreover, of the 32 submarkets tracked by Yardi Matrix, 22 had average rents above the $2,000 mark, a significant change from just 13 submarkets a year ago.

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 unemployment rate improved to 6.6% in August, according to preliminary data from the Bureau of Labor Statistics, outperforming the 7.5% state rate but trailing the 5.2% national average. The rate has been fluctuating throughout 2021, from 8.0% in January to 6.3% in May.
- Following 14 months of year-over-year contractions, local employment stepped into positive territory, expanding by 1.7%, or 60,800 jobs, in the 12 months ending in July. While the expansion was 80 basis points below the national rate, it fared better than all other major California markets. Two sectors still recorded losses—financial activities (-1,100 jobs, or 5.2%) and government (-900 jobs, or 0.4%).
- Following the economic reopening, leisure and hospitality (27,800 jobs or 20.7%) led gains, but the sector still has a long way to go to fully recover. The professional and business services sector—San Diego's largest economic engine—remained afloat, helped by remote working policies, expanding by 7,600 jobs, or 3.1%.
- The metro's biotech hub status also helped the education and health services sector, which expanded by 3.7%, or 7,600 jobs, during the 12 months ending in July.

San Diego Employment Share by Sector

Code	Employment Sector	Current Employment (000)	Current Employment % Share
70	Leisure and Hospitality	162	11.6%
60	Professional and Business Services	249	17.8%
65	Education and Health Services	212	15.2%
80	Other Services	50	3.6%
15	Mining, Logging and Construction	88	6.3%
40	Trade, Transportation and Utilities	209	14.9%
50	Information	23	1.6%
30	Manufacturing	114	8.1%
90	Government	221	15.8%
55	Financial Activities	73	5.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Diego lost 5,903 residents in 2020, a 0.2% population drop, marking the second year of decline of the last decade. The drop can partially be attributed to pandemic-related woes and limited immigration.
- Meanwhile, the U.S. population marked a 0.4% increase in 2020.

San Diego vs. National Population

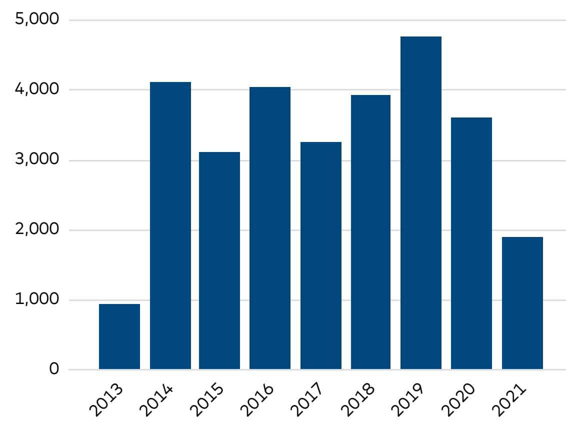
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
San Diego Metro	3,325,468	3,343,364	3,338,330	3,332,427

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

SUPPLY

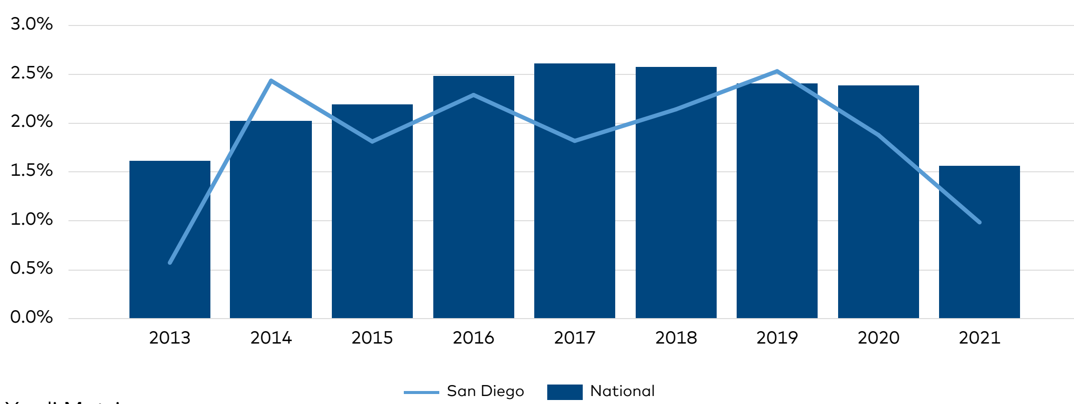
- San Diego had 9,353 units underway as of September, 3,162 of which are slated to come online by the end of the year. Yet, given supply chain disruptions and other pandemic-induced woes, many deliveries are likely to face delays. The metro had another 39,000 units in the planning and permitting stages.
- During the first three quarters of the year, developers delivered 1,910 units, roughly 1.0% of total stock and 60 basis points below the national average. Throughout the decade, the metro has been constantly trailing the U.S. in stock expansion.
- The bulk of deliveries in 2021 through September targeted high-income renters: 1,604 units were in Lifestyle projects, with the Renter-by-Necessity segment expanding by just 306 units in one fully affordable community. Similarly, of the properties under construction, 7,914 units were in upscale projects, while the Renter-by-Necessity segment comprised 1,289 units in fully affordable communities and 150 market-rate apartments.
- The two submarkets most attractive to investors also led in construction activity. Combined, these accounted for more than half the pipeline: Central San Diego (3,215 units) and Kearny Mesa (2,015 units). The former also houses the largest project delivered through September—the 617-unit Diega, a Bosa Development asset built with aid from a $213 million construction loan originated by Otera Capital in 2019.

San Diego Completions (as of September 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

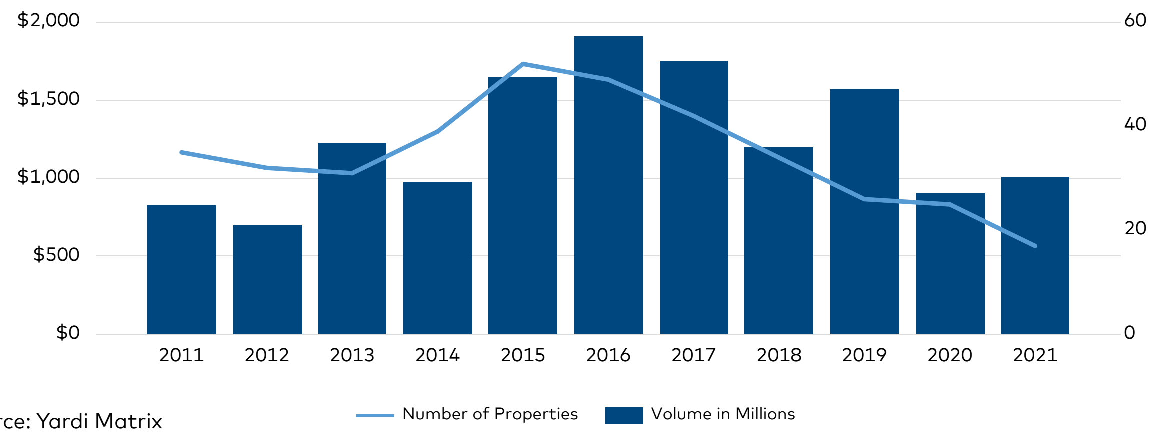
TRANSACTIONS

- San Diego transaction volume for the first three quarters slightly surpassed $1 billion, already above last year's total of $909 million. This reflects regained investor confidence, more so considering that sales for the previous 12 months were mostly concentrated in the last quarter of 2020, when $660 million in assets traded.

- Nearly two-thirds of sales comprised Renter-by-Necessity properties, but even so, the average per-unit price marked a solid 47.4% jump compared to the first three quarters of last year, to $371,713, double the $179,959 national figure.

- The largest transaction of 2021 through September was Property West's $110 million acquisition of Capella at Rancho del Oro. The 284-unit asset was purchased from FPA Multifamily for $387,324 per unit, the new owner assuming the outstanding balance of a $58.2 million CMBS loan placed in 2016.

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



Source: Yardi Matrix

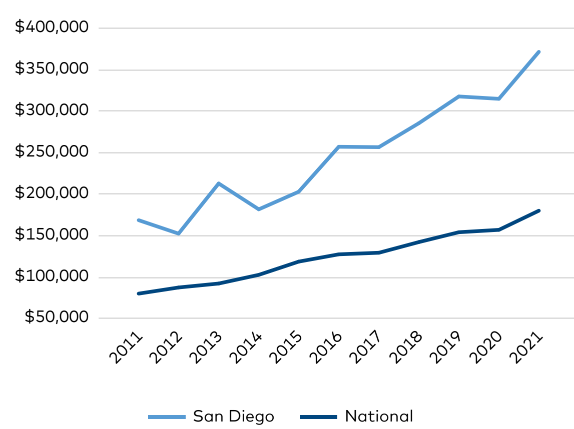
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Central San Diego	532
Kearny Mesa	295
Oceanside	259
Elliot - Navajo	219
San Dieguito	94
La Mesa	66
Mid-City	49

Source: Yardi Matrix

[1] From October 2020 to September 2021

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top California Markets for Multifamily Transactions

By Evelyn Jozsa

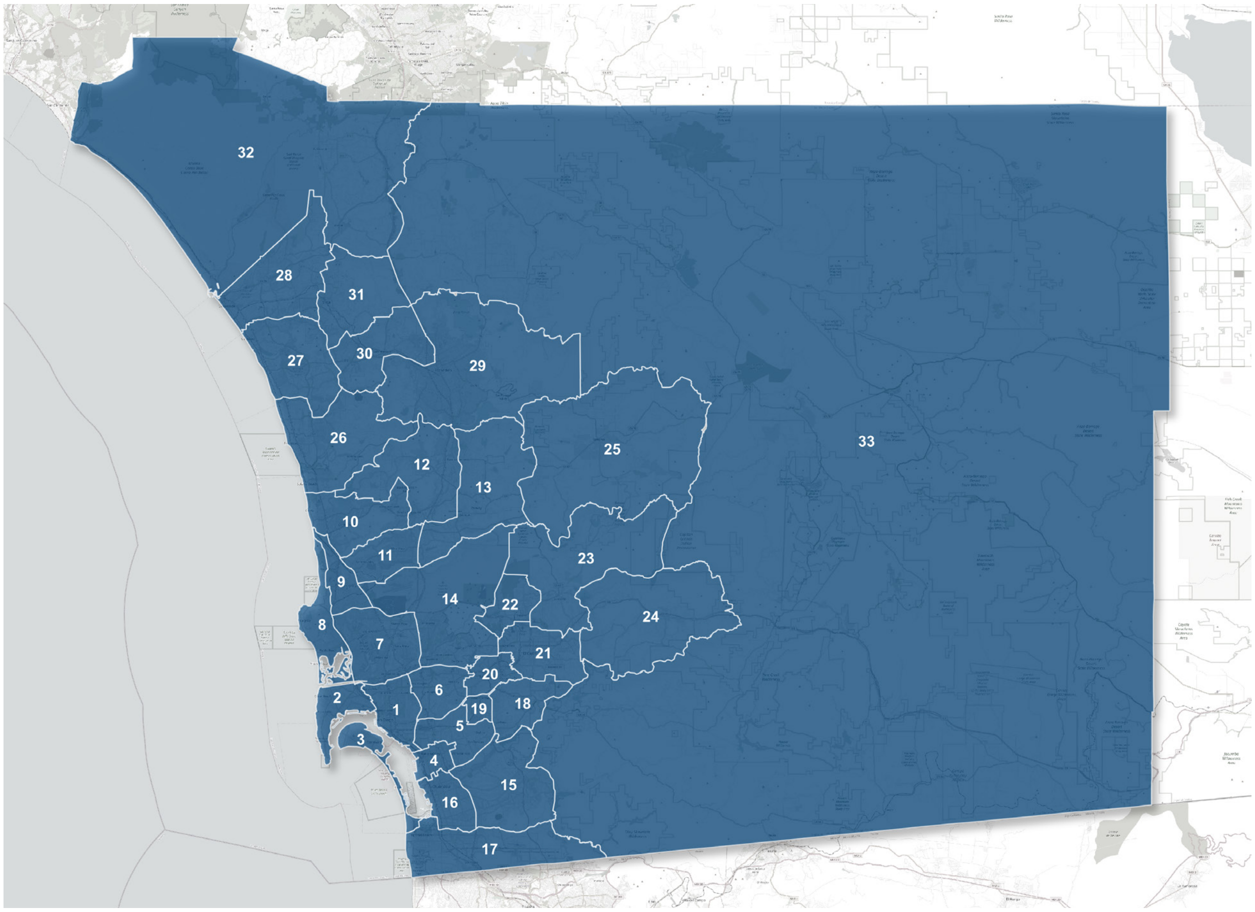
Thanks to solid performance in the multifamily sector, investors continue to forge ahead with notable ventures across the country. Year-to-date through August, California markets saw substantial investment activity, with $7.4 billion in multifamily deals closed in the first eight months of the year, according to Yardi Matrix data. Deal velocity has significantly improved compared to the same period in 2020, when total sales volume amounted to $3.9 billion.

Rank	Property Name	City	Submarket	Units
1	Las Positas	Camarillo	Camarillo	213
2	Mira	Canoga Park	Canoga Park	174
3	4252 Crenshaw	Los Angeles	Adams-Normandie-Hoover	111
4	Westmore Linden	Los Angeles	Koreatown	93
5	Imagine Village	Lancaster	Lancaster	75

SAN DIEGO

Investment slowed down in San Diego at the beginning of the health crisis, with only $145 million in multifamily deals closed between January and August 2020. As some of the concerns faded and market conditions stabilized, investors closed on an additional $765 million from September through the end of the year.

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.

Yardi® Matrix

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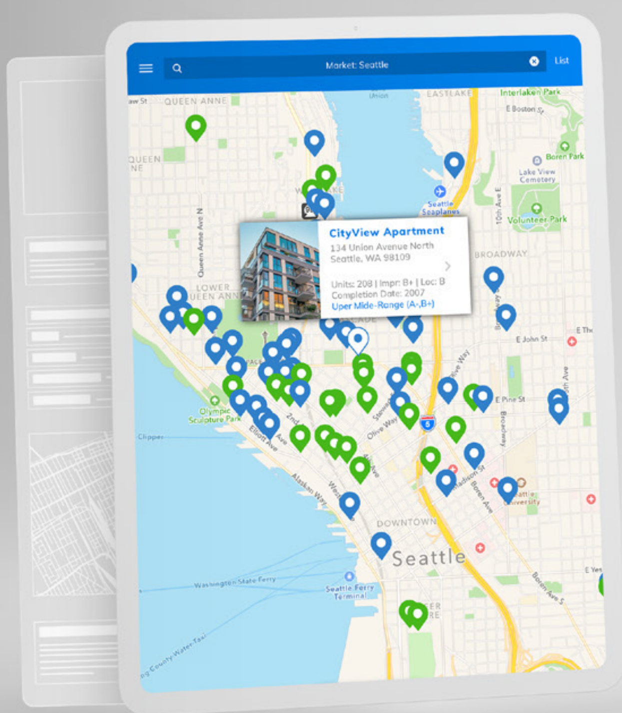

Yardi Matrix Multifamily provides accurate data on **19+ million units**, covering over **90% of the U.S. population**.

Key features

- Pierce the LLC every time with true ownership and contact info
- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
- Gain complete new supply pipeline information at the asset, competitive set and market level
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access exclusive aggregated and anonymized residential revenue and expense comps

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