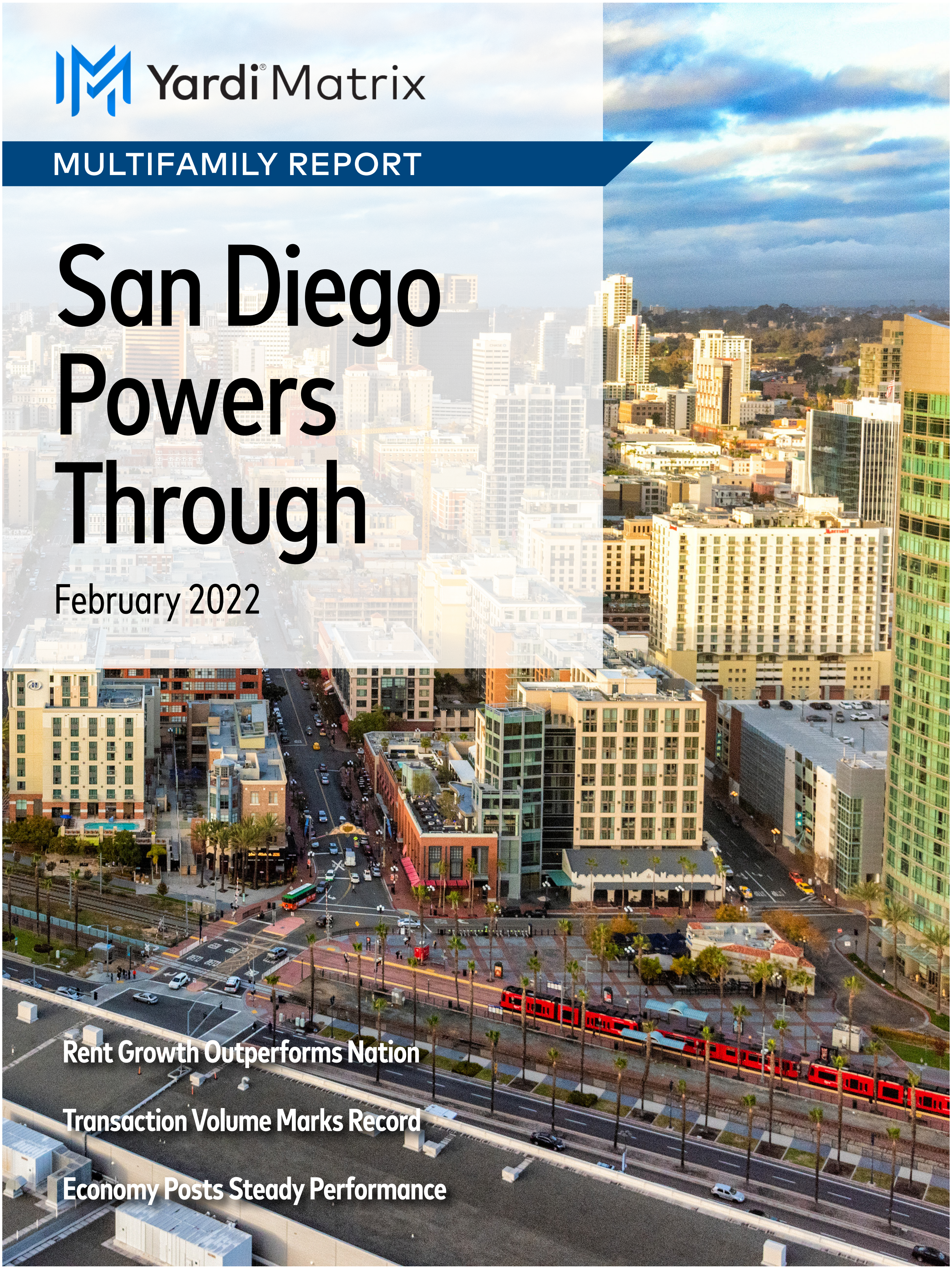
MULTIFAMILY REPORT

San Diego Powers Through

February 2022



Rent Growth Outperforms Nation

Transaction Volume Marks Record

Economy Posts Steady Performance

SAN DIEGO MULTIFAMILY

Yardi Matrix

Limited Supply Boosts Market Prospects

San Diego's multifamily market rebounded last year, sustained by strong demand paired with limited inventory expansion. This has led rents to rise 1.1% on a trailing three-month basis through December 2021, to $2,370. Meanwhile, occupancy increased to 97.8% as of November, up 1.5% year-over-year, signaling one of the tightest rental markets in the country.

The unemployment rate in San Diego improved to 4.6% in November, a 340-basis-point improvement since January, according to preliminary data from the Bureau of Labor Statistics. The employment market gained 61,600 jobs in the 12 months ending in October, accounting for a 5.4% expansion, 10 basis points above the U.S. rate. The leisure and hospitality sector led gains (26,400 jobs), but it's the professional and business services and biotech sectors that are likely to continue driving growth. Announced company expansions include Apple, Google, Amazon and Walmart Labs.

Developers delivered just 2,797 units in 2021, marking the second-slowest year in a decade. Another 8,154 units were under construction going into 2022. Meanwhile, transaction volume marked a new high, surpassing $2.7 billion last year, with investors most interested in value-add opportunities. Consequently, the average price per unit slid 5.4% year-over-year, to $313,236.

Market Analysis | February 2022

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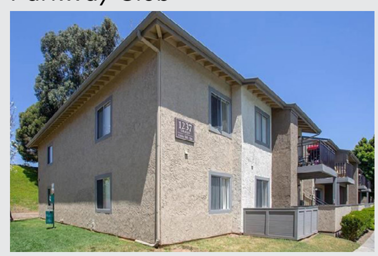
Recent San Diego Transactions

Latitude33

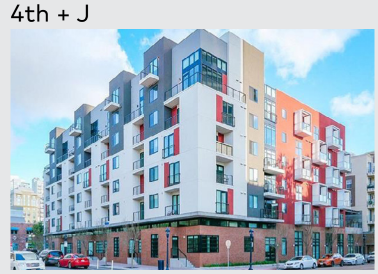
City: Escondido, Calif.
Buyer: California Municipal Finance Authority
Purchase Price: $97 MM
Price per Unit: $489,899

Parkway Club



City: El Cajon, Calif.
Buyer: Bridge Investment Group
Purchase Price: $87 MM
Price per Unit: $312,816

4th + J



City: San Diego
Buyer: Versity Investments
Purchase Price: $72 MM
Price per Unit: $425,893

Eighteen Ten State St.

City: San Diego
Buyer: Boardwalk Investments Group
Purchase Price: $64 MM
Price per Unit: $650,505

RENT TRENDS

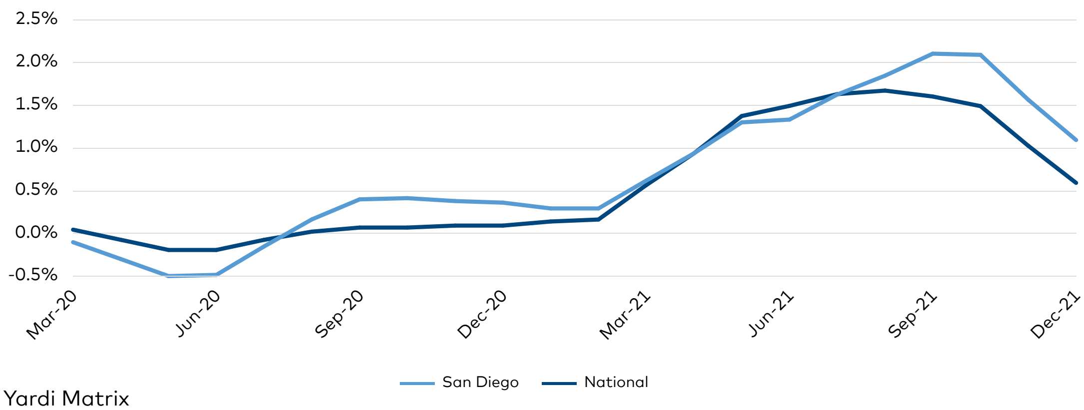
- San Diego rents rose 1.1% on a trailing three-month (T3) basis through December, nearly double the 0.6% national rate. The metro's average rent rose to $2,370, well above the $1,594 U.S. figure. Despite the remarkable performance, San Diego rents still softened at the beginning of the colder season. On a year-over-year basis, rates were up by a solid 16.6%, leading the already unprecedented 13.5% U.S. rate. Limited inventory expansion remained a defining factor that continued to drive growth in the region.

- Lifestyle units led expansion, with rents up 1.2% on a T3 basis through December, to $2,887. Gains in the upscale segment surpassed working-class Renter-by-Necessity assets, maintaining this lead throughout the year. RBN rents rose 1.0% on a T3 basis through December, to $2,011.

- Based on occupancy data, San Diego has one of the tightest rental markets in the country, with the rate in stabilized properties at 97.8% in November, following a 150-basis-point year-over-year increase. Drilling down by quality segments, Lifestyle occupancy was up by a substantial 200 basis points to 97.4%, while the limited inventory of RBN units pushed the rate up 130 basis points year-over-year, to 98.2%.

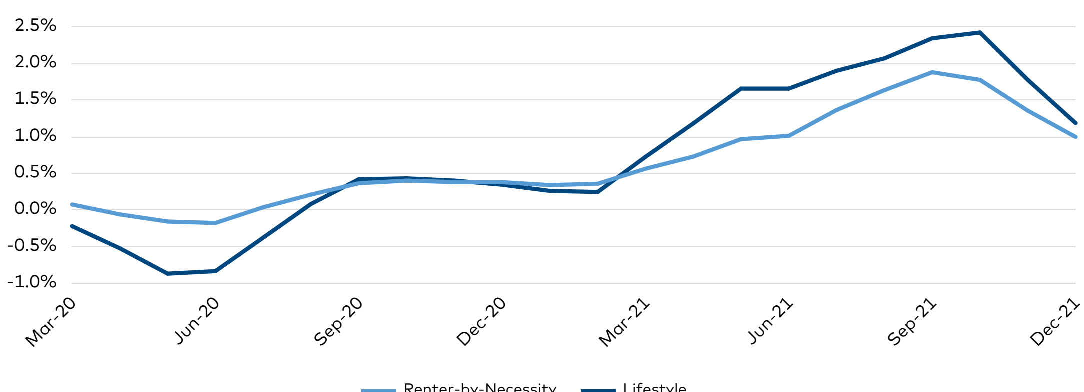
- Of the 32 submarkets tracked by Yardi Matrix, 24 registered double-digit rent increases, led by University (25.4% to $2,914) and Del Mar (24% to $3,467). The two areas are also San Diego's most expensive submarkets.

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 posted steady performance in 2021, with unemployment improving to 4.6% as of November from 8.0% in January. Even so, total employment hasn't yet reached pre-pandemic levels. Meanwhile, the U.S. rate stood at 3.9% in December 2021, representing a 220-basis-point drop from January.

- San Diego employment expanded by 5.4% or 61,600 jobs, in the 12 months ending in October, 10 basis points above the U.S. rate. Financial activities was the only sector to contract (-500 jobs). Leisure and hospitality led gains (+26,400 jobs), but the surge of the omicron variant proved another speed bump for the area.

- Professional and business services (+11,000 jobs) points to a promising future. Large companies are moving forward with expansions, including Walmart Labs and Amazon, both announcing development plans. Google leased two more floors in its existing office in Sorrento Mesa, and Apple plans to add 5,000 jobs in the next five years.

- San Diego remained one of the country's few markets relatively dominated by its life science hub status. The sector is poised for more growth. Companies are extending from North County, with the metro's core particularly in high demand, as life sciences organizations are expanding further.

San Diego Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	169	11.7%
60	Professional and Business Services	260	18.0%
80	Other Services	51	3.5%
15	Mining, Logging and Construction	90	6.2%
65	Education and Health Services	214	14.8%
90	Government	239	16.6%
40	Trade, Transportation and Utilities	212	14.7%
50	Information	23	1.6%
30	Manufacturing	113	7.8%
55	Financial Activities	73	5.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- For the second straight year, San Diego's population shrunk—by 0.2% or 5,903 residents in 2020. Meanwhile, the U.S. population rose by 0.4%.

- Between 2010 and 2020, the metro gained 229,121 residents for a 7.4% increase, above the 6.5% national rate.

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

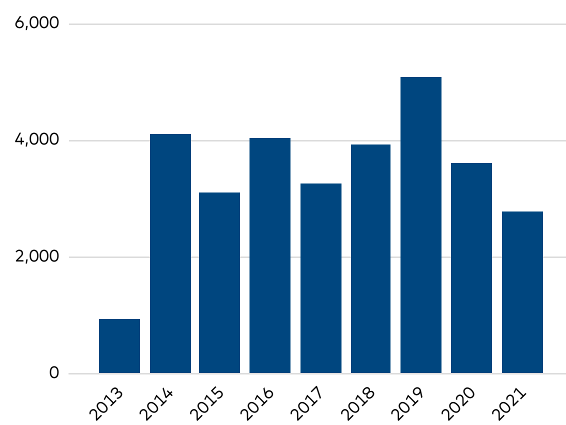
- San Diego's multifamily stock expanded by only 2,797 units last year. At 1.4% of total stock, the metro lagged the 2.3% national average. This placed 2021 as the second-slowest year for deliveries in the past decade. On top of secular trends, the pipeline softening can also be attributed to the pandemic's effects on the metro, doubled by the out-migration trend that came with it.

- The composition of last year's inventory expansion was heavily tilted toward the upscale segment, as Lifestyle properties accounted for nearly 90% of deliveries. The Renter-by-Necessity segment grew by just one fully affordable community comprising 306 units.

- Developers had 8,154 units under construction as of December 2021 and more than 39,000 apartments in the planning and permitting stages. As with recent completions, the pipeline mostly encompassed Lifestyle projects going into 2022 (83%). Meanwhile, the RBN segment consisted of several fully affordable properties, but no market-rate units.

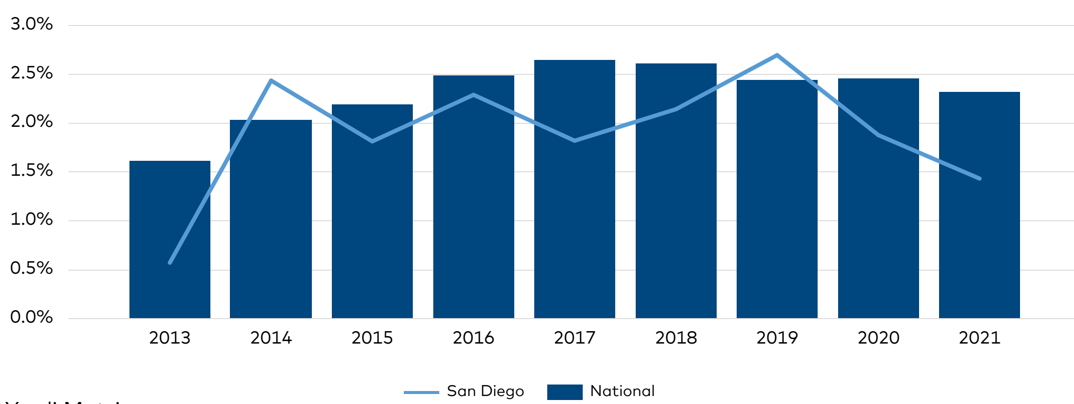
- More than half of the construction pipeline was centered in just two submarkets: Central San Diego (3,165 units) and Kearny Mesa (1,617 units). The latter also houses the largest project under construction—The Society. The 840-unit development is owned by Holland Partners in a joint venture with North America Sekisui House. The transit-oriented property received its building permit in August 2019 and is slated for completion by the final quarter of 2023.

San Diego Completions (as of December 2021)



Source: Yardi Matrix

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

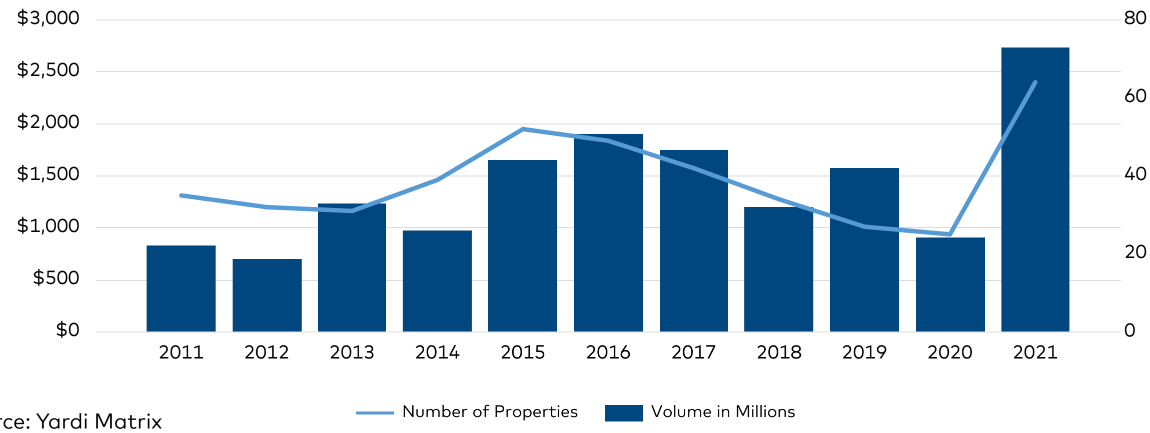


Source: Yardi Matrix

TRANSACTIONS

- Investors regained confidence in San Diego and the market posted its best year for transaction activity in 2021, when multifamily sales surpassed $2.7 billion, a robust 43.5% increase from the previous peak in 2016 ($1.9 billion).
- More than 80% of the assets that traded last year were Renter-by-Necessity properties, which led to a dent in the average per-unit price, down 5.4%, to $313,236. Meanwhile, the national average rose 19.4%, to $188,338.
- Three submarkets had investment volumes above the $300 million mark: El Cajon ($338 million), Escondido ($308 million) and Kearny Mesa ($307 million).
- Livcor, the multifamily arm of the Blackstone Group, was the most-active investor in the metro, having spent more than $1 billion on a plethora of value-add assets that it intends to renovate. The deal made Blackstone one of the largest real estate holders in the metro.

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



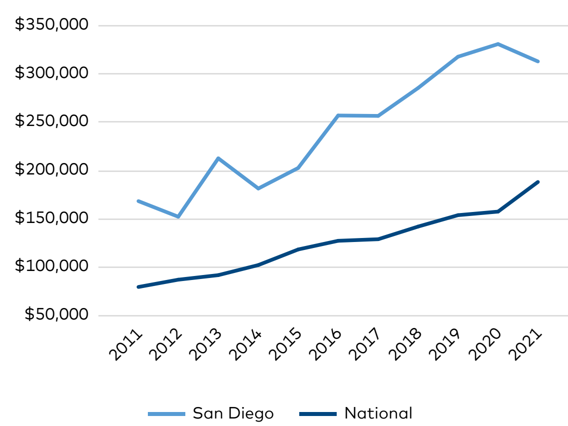
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
El Cajon	338
Escondido	308
Kearny Mesa	307
Central San Diego	285
Oceanside	259
Coastal	199
Elliot–Navajo	146

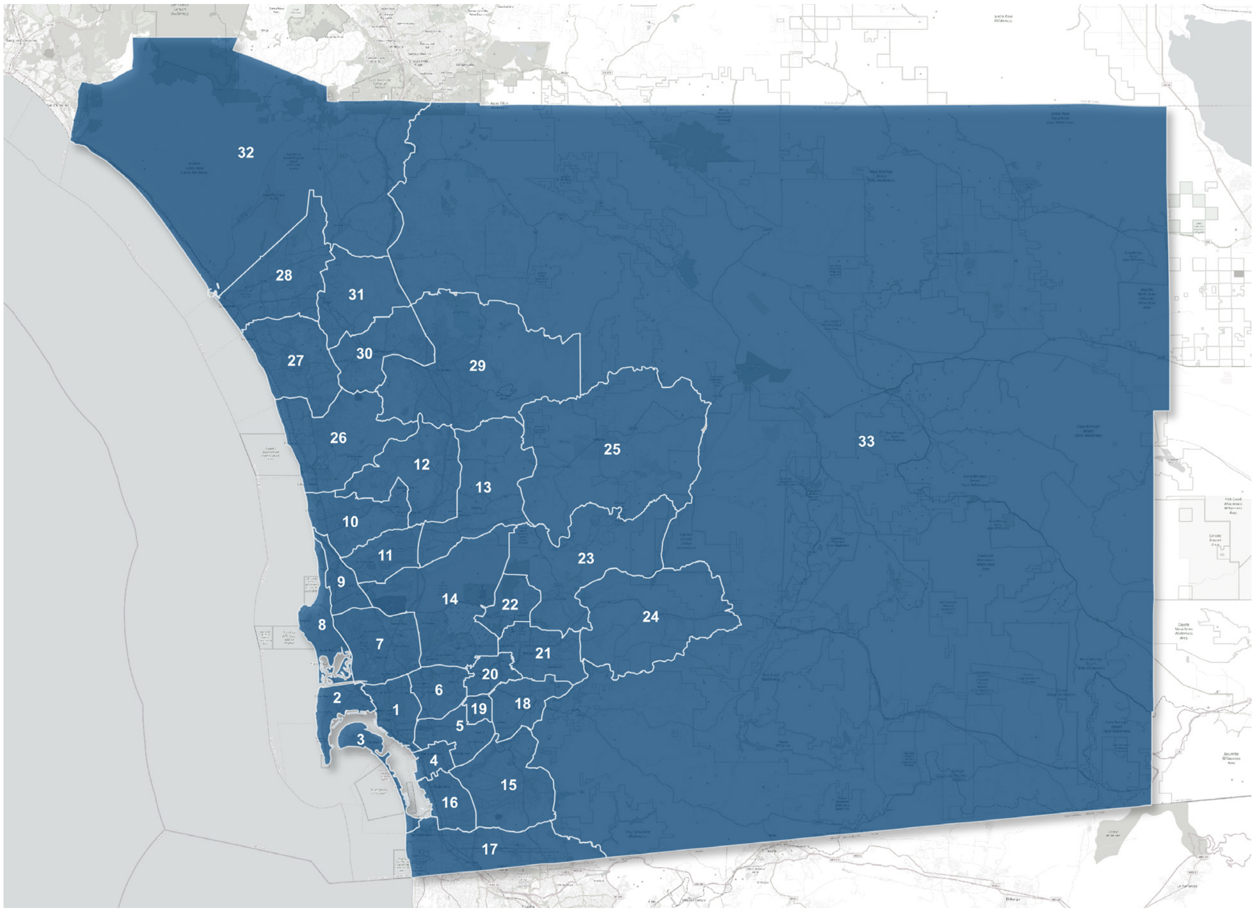
Source: Yardi Matrix
[1] From January 2021 to December 2021

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

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.

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Yardi® Matrix

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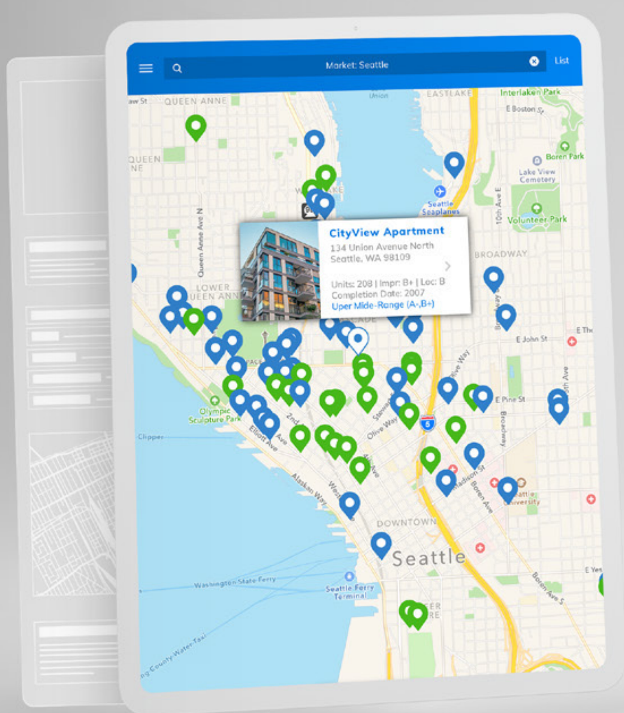

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