



MULTIFAMILY REPORT

San Diego Outperforms

June 2022



Economy on Right Track

Deal Activity Remains Fast-Paced

Rent Growth Highest in Southern California

SAN DIEGO MULTIFAMILY



Demand Outstrips Supply, Pipeline Still Lags

Leading up to the spring leasing season, San Diego multifamily fundamentals continued to strengthen after a relatively swift recovery for a coastal city. While occupancy increased 90 basis points over 12 months, year-over-year rent growth clocked in at a very strong 20.8%, outperforming the national average, as well as nearby Los Angeles, the Inland Empire and Orange County.

The metro's economy is also on the right track, having gained 104,300 positions in the 12 months ending in February, more than half of which were in the leisure and hospitality sector. Meanwhile, unemployment dropped to 3.4% in March, according to preliminary Bureau of Labor Statistics data, outpacing both the state and the nation. With the economic recovery advancing at a fast clip, metro San Diego's total employment fell just 7,540 positions short in March 2022 compared to February 2020, before the pandemic hit.

Following a record 2021, when \$3.7 billion in multifamily assets traded, the first four months of 2022 brought a transaction volume of \$731 million, a figure on par with last year's solid pace. Meanwhile, only 911 apartments came online across metro San Diego year-to-date through April, and another 8,445 units were underway at the beginning of the second quarter, a pipeline that is falling short of matching current demand.

Market Analysis | June 2022

Contacts

Jeff Adler

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

Ron Brock, Jr.

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

Doug Ressler

Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Bogdan Odagescu
Senior Editor

Recent San Diego Transactions

Sofi Ocean Hills



City: Oceanside, Calif.
Buyer: Pacific Urban Investors
Purchase Price: \$196 MM
Price per Unit: \$485,149

La Jolla Blue



City: San Diego
Buyer: Interstate Equities Corp.
Purchase Price: \$169 MM
Price per Unit: \$540,064

Mara Pacific Beach



City: San Diego
Buyer: Equity Residential
Purchase Price: \$113 MM
Price per Unit: \$656,977

Sunterra

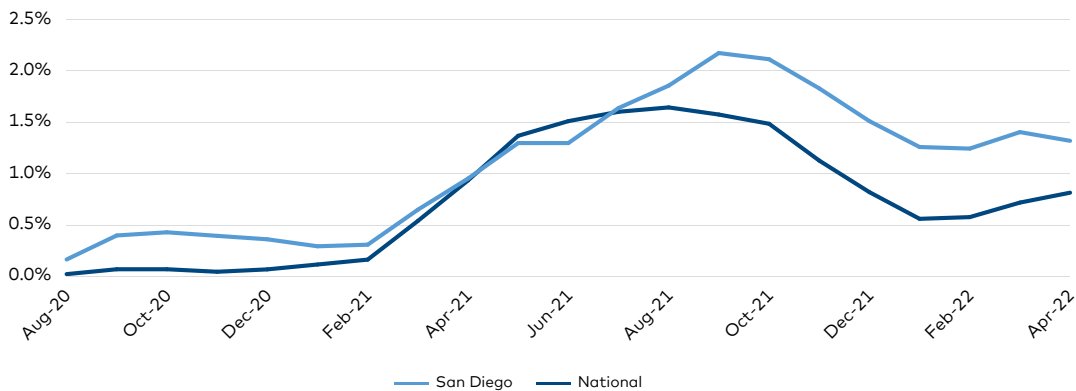


City: Oceanside, Calif.
Buyer: 29th Street Capital
Purchase Price: \$98 MM
Price per Unit: \$406,250

RENT TRENDS

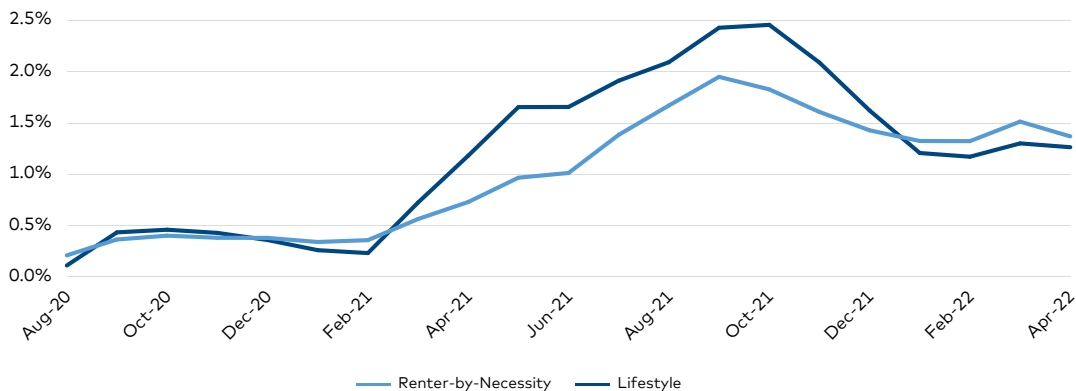
- ▶ Bouncing back during the spring leasing season, San Diego rents continued to outperform U.S. averages. Rates went up 1.3% on a trailing three-month (T3) basis as of April, to \$2,537. Meanwhile, the U.S. figure went up 0.8%, to \$1,659. Year-over-year, San Diego rents were up 20.8%, well above an overperforming national figure of 14.3% and also outpacing other areas in Southern California including Orange County (19.7%), the Inland Empire (16.8%) and Los Angeles (12.7%).
- ▶ Demand in San Diego is boosting rents across the board, with Lifestyle rates up 1.3% on a T3 basis, to \$3,083, while working-class Renter-by-Necessity rates advanced 1.4%, to \$2,153. The fact that demand continues to outstrip supply is also reflected in the occupancy rate in stabilized assets, which went up 90 basis points in the 12 months ending in March, to a tight 97.8%. During the period, RBN occupancy grew 80 basis points, and the rate advanced 110 basis points for Lifestyle communities.
- ▶ All 32 San Diego submarkets tracked by Yardi Matrix recorded double-digit growth in the 12 months ending in April, with half of them registering gains above 20.0%. University (42.4% to \$3,239), Coastal (28.8% to \$2,894) and Del Mar (27.2% to \$3,713) led the way.
- ▶ San Diego's single-family-rental segment is also recording sustained growth, with rates up 15.1% year-over-year through April, to \$3,667. Meanwhile, occupancy for the niche was virtually flat over 12 months, advancing 10 basis points in the year ending in February.

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 metro's unemployment rate dropped to 3.4% as of March, according to preliminary BLS data, outperforming both the state (4.9%) and the nation (3.6%). Despite California lagging other economies in the Sun Belt, San Diego has slowly but surely found its footing.
- ▶ The metro's economic profile helped it bounce back faster than many coastal cities, with San Diego staples such as its naval base and academic institutions and its status as a biotech hub anchoring the recovery. Leisure and hospitality also came roaring back, with the lifting of pandemic restrictions. San Diego added 104,300 jobs in the 12 months ending in February, marking a 7.4% expansion, above the 4.7% U.S. figure. More than half of gains were in the leisure and hospitality sector (52,700 jobs), followed by professional and business services (21,100) and government (10,100). While all sectors registered expansions, information (500), manufacturing (400) and financial activities (200) recorded only slight gains.
- ▶ Unemployment rates are slowly reaching pre-pandemic levels in many U.S. cities, but total employment is still falling short of where it was before the pandemic-induced contraction. Few metros are recording more jobs than they did in February 2020, and San Diego is very close to becoming one such metro. The MSA had 1,542,091 employees in March 2022, just 7,540 positions shy of pre-pandemic levels.

San Diego Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	184	12.3%
60	Professional and Business Services	280	18.8%
90	Government	244	16.4%
80	Other Services	51	3.4%
65	Education and Health Services	219	14.7%
40	Trade, Transportation and Utilities	219	14.7%
15	Mining, Logging and Construction	84	5.6%
50	Information	22	1.5%
30	Manufacturing	113	7.6%
55	Financial Activities	75	5.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ In line with most coastal metros, San Diego's population shrunk in 2021, contracting by 11,183 people.
- ▶ San Diego population growth has been decelerating during the past decade. Even so, 2021 was only the second year that registered a drop since 2000. The last decline was in 2019.

San Diego vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Diego	3,332,483	3,330,459	3,297,252	3,286,069

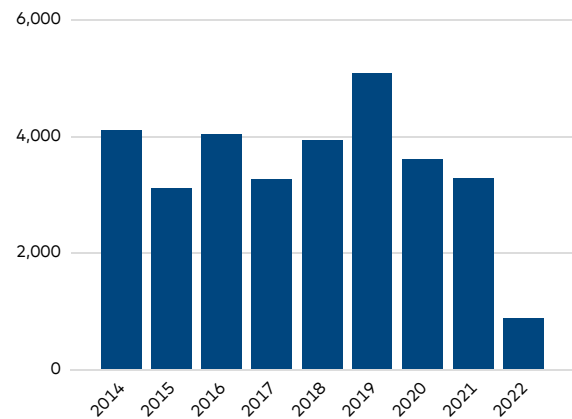
Source: U.S. Census

SUPPLY

- Metro San Diego had 8,445 units underway as of April 2022, with an additional 38,000 in planned and prospective stages. Despite being an undersupplied market, San Diego's pipeline is shrinking. Work started on only 487 units in the first four months of 2022, compared to 1,166 units for the same time frame last year. The fact that the city is undersupplied remains one of the main drivers for rent growth.
- A total of 911 apartments were delivered in 2022 through April across five properties, three of them in the Kearny Mesa submarket. Last year brought 3,285 new units to the inventory, which equates to 1.7% of total stock, below the 2.8% U.S. rate. Development has been slow but steady in recent years, with the five-year average at 3,808 new apartments.
- Central San Diego remains the most-active submarket for construction, with 3,223 apartments underway, accounting for more than one-third of the pipeline. Kearny Mesa (1,376 units under construction) and Sweetwater (960 units) rounded out the top three.

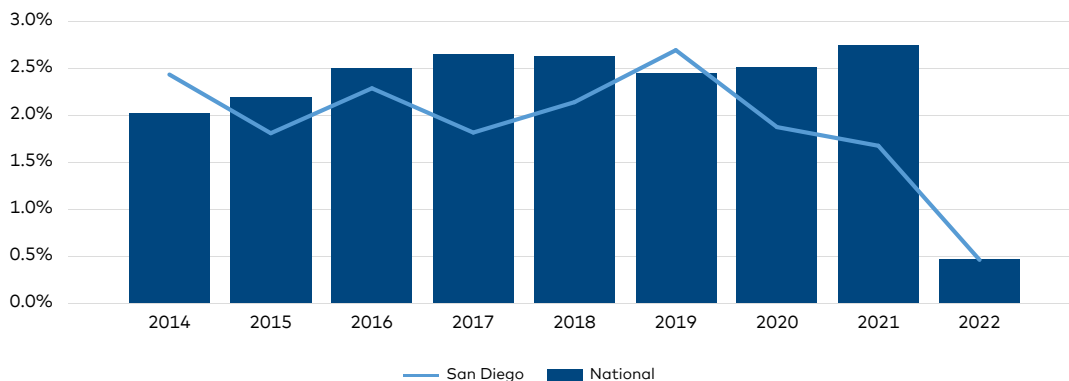
- Holland Partners' The Society, an 840-unit development in the Kearny Mesa submarket, was the metro's largest project underway as of April. The \$500 million Mission Valley project kicked off in 2018, when Holland bought the 10-acre site for \$82 million from the owners of the Town and Country Resort. The upscale project is slated for a 2023 completion.

San Diego Completions (as of April 2022)



Source: Yardi Matrix

San Diego vs. National Completions as a Percentage of Total Stock (as of April 2022)



Source: Yardi Matrix

TRANSACTIONS

- ▶ A total of \$731 million in multifamily assets traded across San Diego in the first four months of 2022, above the \$405 million recorded during the same time last year. The 2022 figure comes on the heels of San Diego's best year for transactions, with a record \$3.7 billion in multifamily properties changing hands in 2021.
- ▶ The San Diego price per unit jumped to \$444,507 year-to-date through April, more than double the \$209,274 U.S. figure and above the metro's average for last year, which clocked in at \$314,057.
- ▶ Blackstone-owned LivCor marked one of the metro's largest real estate transactions with the acquisition of a more than 5,000-unit portfolio from Progress Management in the summer of 2021. The overall, \$1.3 billion transaction involved 46 California properties, most of which were in the San Diego area.

San Diego Sales Volume and Number of Properties Sold (as of April 2022)



Source: Yardi Matrix

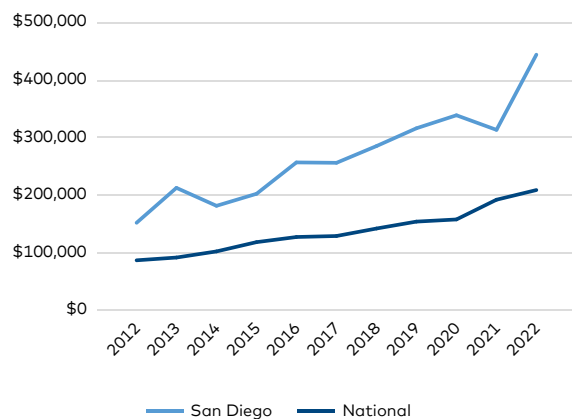
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Central San Diego	664
El Cajon	437
Elliot-Navajo	361
Oceanside	356
Coastal	340
Escondido	268
Carlsbad	232

Source: Yardi Matrix

¹ From May 2021 to April 2022

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

Top States for LEED-Certified Multifamily Properties in 2021

By Lucia Morosanu

The multifamily sector has experienced significant growth in the past year, as constant demand for space pushed new supply. The health crisis reinforced the need for clean air within both apartments and the communal areas of multifamily properties, while the prevalence of remote work made residents more mindful of their energy consumption. Sustainable multifamily communities are treated more and more as a requirement rather than an exception.

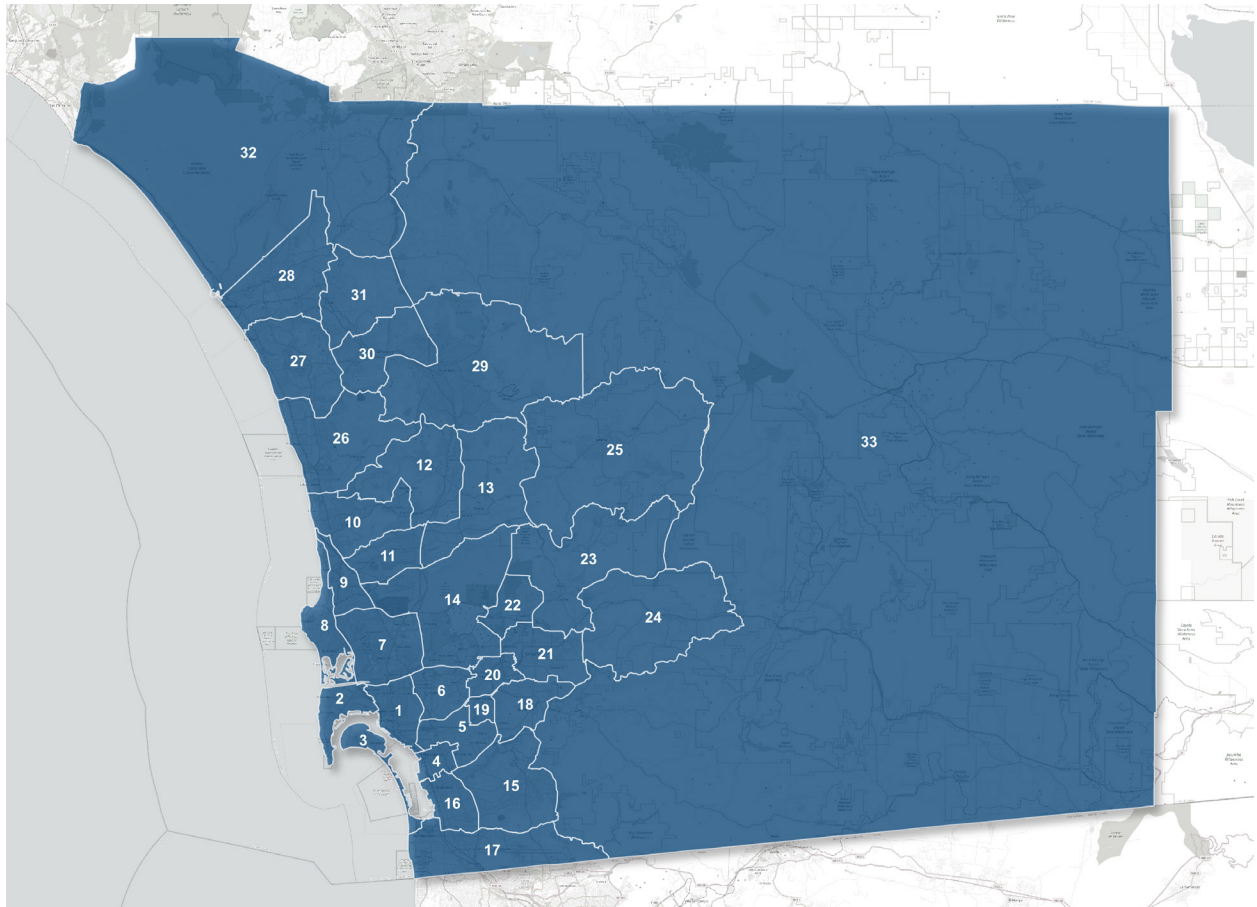
Rank	State	Number of Communities
1	California	47
2	Washington, D.C.	20
3	New York	18
4	Massachusetts	12
5	Maryland	10

California

The Golden State topped the list with twice as many certified communities than any other entry on the list. From the total 47 communities to be certified in 2021, one earned basic LEED certification, 11 communities became LEED-Silver certified, 20 became LEED-Gold certified and 15 received LEED Platinum certification. Millennium Santa Monica in Santa Monica, Calif., was the largest multifamily project to receive LEED Platinum certification last 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 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 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, 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.



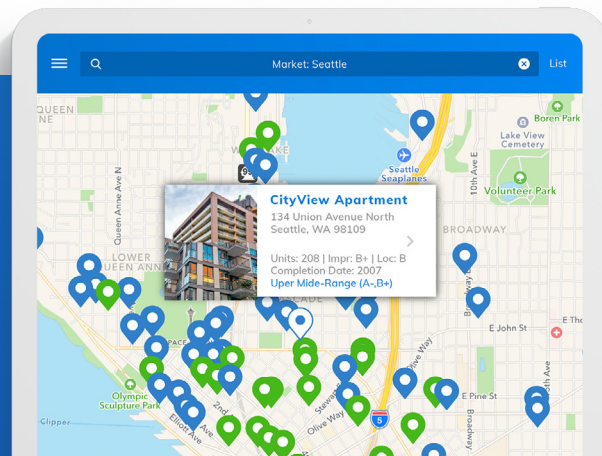
Yardi Matrix

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with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily
provides accurate data on
19.7+ million units, covering over
92% of the U.S. population.



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