Yardi Matrix

MULTIFAMILY REPORT

San Diego's Timely Surge

November 2022

Rent Gains Moderate, Still High

Construction Receives a Boost

Per-Unit Prices Soar

SAN DIEGO MULTIFAMILY

Yardi Matrix

Rate Growth Cools Slightly, Pipeline Picks Up Pace

In line with nationwide trends, San Diego multifamily is returning to more sustainable levels of growth after an unprecedented bull run that lasted about a year-and-a-half. The average San Diego rate was up just 30 basis points on a trailing three-month basis as of September, exactly 12 months after the figure hit a 2.2% high. On a year-over-year basis, San Diego rents were up 14.5%, still outpacing the 9.4% national figure. And while the occupancy rate in stabilized assets dropped 30 basis points in a year, it remained high, at 97.6% as of August.

Metro San Diego recovered most of the jobs lost during the early stages of the pandemic, just 15,000 positions short of the figure recorded in early 2020. Unemployment stood at a tight 3.4% as of August, down 130 basis points since the beginning of the year and outperforming the state's 4.1% rate. Leisure and hospitality, one of the area's main economic drivers, led job gains in the 12 months ending in July, adding 26,300 positions, as overall air travel and the number of overnight visitors inch closer to pre-pandemic values.

A total of 2,472 apartments were delivered in San Diego during the first three quarters of 2022, with an additional 7,593 units under construction as of September. Meanwhile, $1.4 billion in assets traded across the metro at a per-unit price of $394,036, significantly above both the national average and the figure recorded during the same time frame last year.

Market Analysis | November 2022

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On the cover: Photo by Wirestock/iStockphoto.com

Recent San Diego Transactions

Forest Park at Fletcher Hills

City: El Cajon, Calif.
Buyer: Bridge Investment Group
Purchase Price: $121 MM
Price per Unit: $357,988

The Heritage

City: San Diego
Buyer: The Green Cities Co.
Purchase Price: $119 MM
Price per Unit: $515,217

Celsius

City: Lemon Grove, Calif.
Buyer: Cameron Brothers Construction
Purchase Price: $43 MM
Price per Unit: $509,524

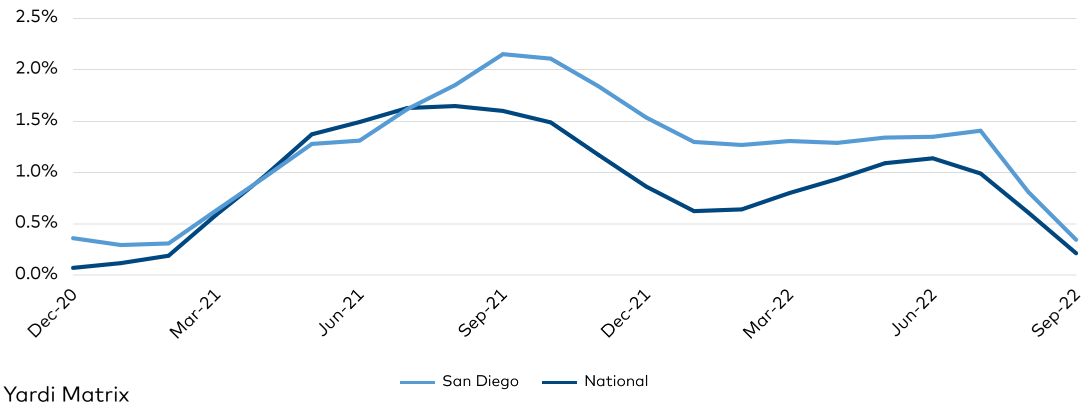
Carriage Road

City: Poway, Calif.
Buyer: F&F Income Properties
Purchase Price: $19 MM
Price per Unit: $365,385

RENT TRENDS

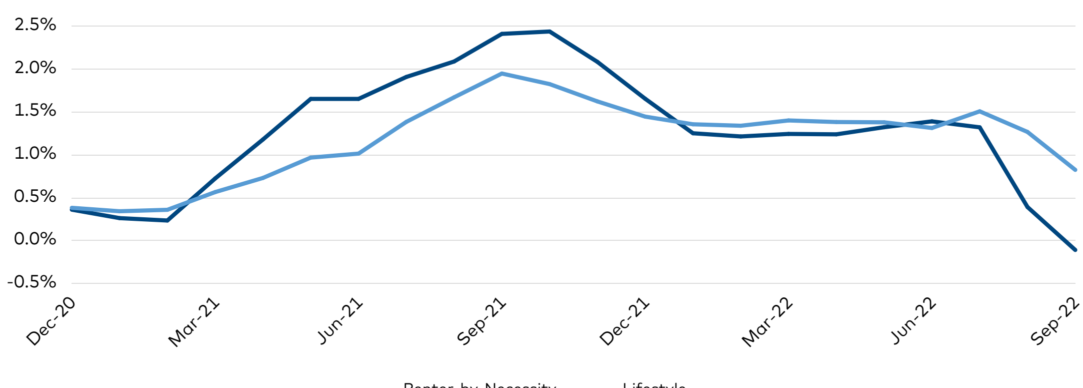
- After a stellar 2021 and a moderate first half of 2022, San Diego rate growth decelerated further, in line with nationwide trends. The average rent advanced 0.3% on a trailing three-month (T3) basis through September, to $2,645. Meanwhile, the national rate was up 0.2%, to $1,718. On a year-over-year basis, San Diego rents grew 14.5%. While still high, the rate is down significantly from the 20.8% recorded just three months prior.
- Growth decelerated across the board but reached negative territory in the upscale segment. Lifestyle rents were down 10 basis points on a T3 basis through September, to $3,169. Meanwhile, working-class Renter-by-Necessity rates were up 30 basis points, to an average of $2,269.
- While the occupancy rate in stabilized assets inched down 30 basis points in the 12 months ending in August, mirroring decelerating rent growth, it remained one of the highest in the country, at 97.6%. By comparison, the national rate sat at 95.9%. Occupancy dropped faster in the Lifestyle segment, down 40 basis points to 96.9%, while for RBN assets it decreased 10 basis points, to 98.1%.
- Of the 32 San Diego submarkets tracked by Yardi Matrix, all but one recorded double-digit rent growth, with Coastal (22.5% to $3,149) above the 20.0% threshold. Del Mar (18.6% to $3,889), Mira Mesa (18.4% to $3,026), University (18.3% to $3,318) and Lakeside (18.3% to $2,059) followed.

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 San Diego unemployment rate sat at a tight 3.4% as of August, according to preliminary data from the Bureau of Labor Statistics, down 130 basis points since January and outperforming California's 4.1% rate. The metro regained nearly all the jobs lost during the pandemic, just 15,000 positions short of the figure recorded in early 2020. However, considering the current economic climate, further improvement could be an uphill battle.

- Leisure and hospitality, a local staple, continued to lead gains, up 26,300 positions in the 12 months ending in July and marking a 14.9% hike, as conventions and other events powered through. According to the San Diego Union-Tribune, leisure travel already surpassed pre-pandemic levels this summer, providing a much-needed boost to the local economy. In June 2022, San Diego International Airport served more than 2 million passengers, for the first time since December 2019.

- Meanwhile, professional and business services (12,900 jobs, up 4.9%) and government (8,300 jobs, up 3.7%) rounded out San Diego's top three. Growth remained spotty, however, with two sectors shedding positions in the 12 months ending in July. Manufacturing and financial activities lost 3,500 jobs combined, while information added just 100 positions, remaining virtually flat.

San Diego Employment Share by Sector

Code	Employment Sector	Current Employment (000)	Current Employment % Share
70	Leisure and Hospitality	203	13.5%
60	Professional and Business Services	278	18.4%
90	Government	234	15.5%
80	Other Services	54	3.6%
65	Education and Health Services	219	14.5%
40	Trade, Transportation and Utilities	221	14.6%
15	Mining, Logging and Construction	88	5.8%
50	Information	23	1.5%
30	Manufacturing	114	7.6%
55	Financial Activities	75	5.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Diego lost 11,183 residents last year, marking a 30-basis-point drop. Meanwhile, the U.S. population expanded by 0.1%.

- During the 10 years ending in 2021, metro San Diego gained some 110,000 people, for a 3.5% population rise.

San Diego vs. National Population

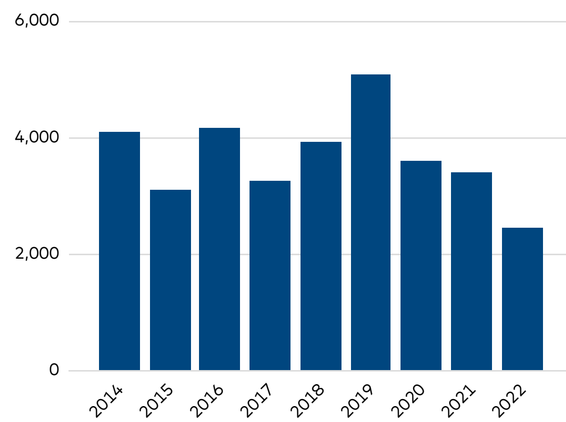
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Diego	3,332,483	3,330,459	3,297,252	3,286,069

Source: U.S. Census

SUPPLY

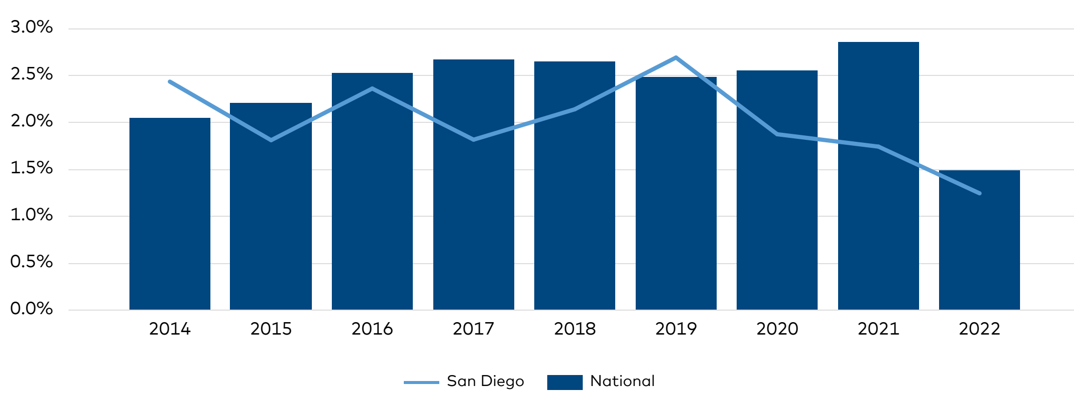
- San Diego had 7,593 multifamily units under construction as of September, some 1,600 more than it did one year prior. Historically a tight supply market, San Diego is once again showing signs of an accelerating pipeline. In addition to units underway, the metro has more than 35,000 apartments in the planning and permitting stages.
- A total of 2,472 units came online this year through September across San Diego, the vast majority of them in upscale developments. Yardi Matrix expects 3,937 apartments to be delivered throughout 2022, which would mark the metro's strongest year for completions since the 2019 decade-high of 5,088 units. Development has been relatively steady in recent years, with the five-year average at 3,808 units.
- Central San Diego dominates the pipeline by far, with 10 developments totaling 2,556 apartments under construction as of September. Sweetwater (960 units) and Kearny Mesa (936 units) rounded out the top three, with Elliot-Navajo and Peninsula following, each with 405 units underway.
- Development is slated to remain elevated in 2023, even with fewer projects kicking off. Of San Diego's top 10 multifamily projects by unit count as of September, seven are expected to come online next year, two in 2024 and only one at the end of this year.
- Metro San Diego has two projects of more than 500 units underway. Holland Partners is developing the 840-unit Society in Kearny Mesa, while Pinnacle International is working on completing Broadway Towers, a 618-unit project in the city's core.

San Diego Completions (as of September2022)



Source: Yardi Matrix

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

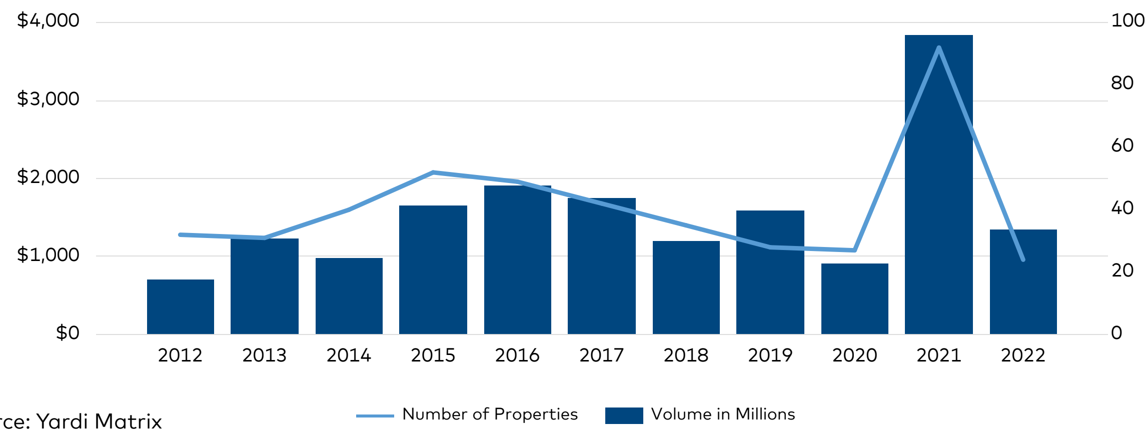


Source: Yardi Matrix

TRANSACTIONS

- A total of $1.4 billion in multifamily assets traded across San Diego in 2022 through September, with deal velocity slowing down significantly during the third quarter. This comes on the heels of San Diego's best year for transactions in at least a decade, with $3.8 billion in sales recorded in 2021.
- The price per unit climbed to $394,036 during the first three quarters of the year, significantly above the $292,168 recorded during the same time frame in 2021, and nearly double the $216,578 U.S. average.
- Bridge Investment Group was one of the metro's most-active buyers in the 12 months ending in September, having acquired 753 units across three assets for a total of $255.9 million, or almost $340,000 per unit. All three properties—Colonnade at Fletcher Hills, Forest Park at Fletcher Hills and Parkway Club—are located in the El Cajon submarket.

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



Source: Yardi Matrix

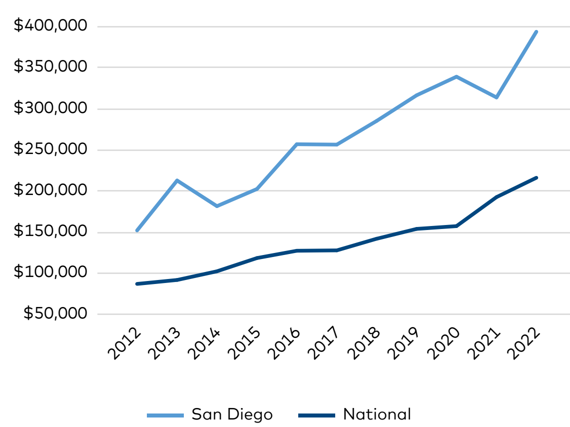
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Central San Diego	692
El Cajon	368
Escondido	337
Carlsbad	232
Elliot-Navajo	215
University	169
Coastal	141

Source: Yardi Matrix

[1] From October 2021 to September 2022

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

Wakeland's New CEO on California's Affordable Housing Crisis

By Anda Rosu

California's housing crisis is notorious. Demand for affordable housing in the state's biggest urban centers is sky-high, and developers are struggling to strike the right balance between catering to residents' need for affordable housing and the increasing cost of building. Wakeland Housing and Development Corp.'s new President & CEO Rebecca Louie discusses what is hindering construction, and how she plans to boost affordable housing production.

What are the top three reasons why it is so difficult to build affordable housing projects in the state today?

The top reason is the lack of resources for affordable housing development, including subordinate financing, project-based Section 8 vouchers, limitations on bond volume cap and 9 percent tax credit equity. The second is high construction and other development costs, many of which have been exacerbated by the pandemic. The third reason is a lack of political will, which often allows a vocal minority to block affordable housing projects before they are developed.

How do the recent interest rate hikes and the rising inflation impact California's affordable housing sector?

Inflation and interest rate hikes are slowing the production of affordable housing. Projects that were feasible six months ago have been delayed or shelved entirely. Developers have to spend longer securing additional funding to make projects feasible, and state, as well as local subordinate lenders, have to increase subsidies on a per-unit basis.

What are your plans as Wakeland's new CEO & President?

My top priority is always to build as many affordable homes as we can, at every level, from family housing to senior housing, to housing for people experiencing homelessness.

I also plan to be a strong advocate for improving our local, state and federal policies to encourage the production of more affordable housing. I plan on working with our policy makers to increase available resources for affordable development and reduce the barriers that are keeping us from getting it built.

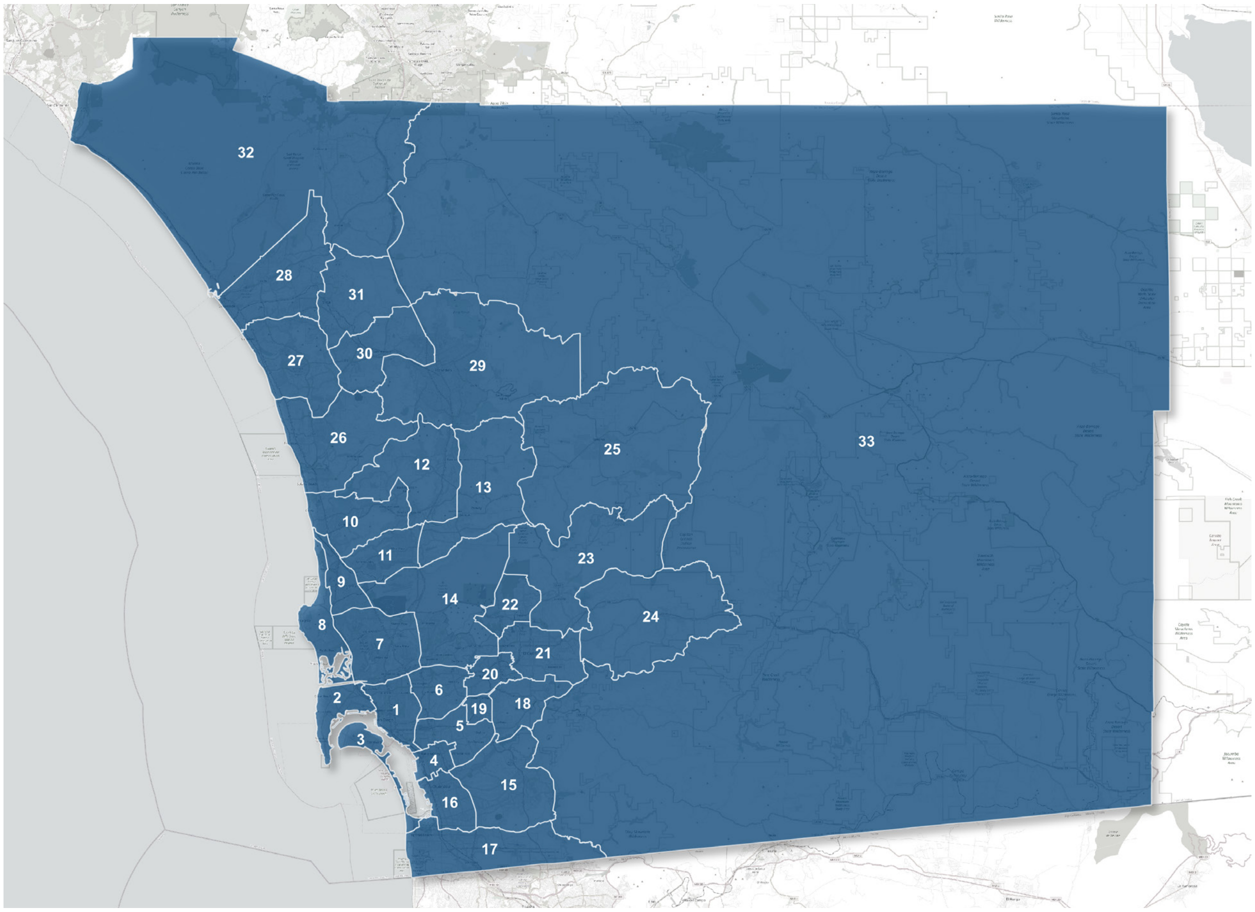
Could you share a few details about the projects that Wakeland has under construction in California today?

In San Diego, we have four projects under construction that will provide a range of homes for low-income families and individuals experiencing homelessness. All of our projects will come with high-quality services.

How is the current economic landscape going to impact the state's affordable housing market?

The impacts of inflation and rate increases will diminish project completions in 2024 and beyond. However, California policymakers must continue to invest in affordable housing production to solve our current housing and homelessness crisis. They also need to continue prioritizing strategies to reduce costs and development timelines.

SAN DIEGO SUBMARKETS



Area No.	Submarket	Area No.	Submarket
1	Central San Diego	18	Spring Valley
2	Peninsula	19	Lemon Grove
3	Coronado	20	La Mesa
4	National City	21	El Cajon
5	Southeast San Diego	22	Santee
6	Mid-City	23	Lakeside
7	Kearny Mesa	24	Alpine
8	Coastal	25	Ramona
9	University	26	San Dieguito
10	Del Mar	27	Carlsbad
11	Mira Mesa	28	Oceanside
12	North San Diego	29	Escondido
13	Poway	30	San Marcos
14	Elliot–Navajo	31	Vista
15	Sweetwater	32	Fallbrook
16	Chula Vista	33	Outlying San Diego County
17	South Bay		

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.

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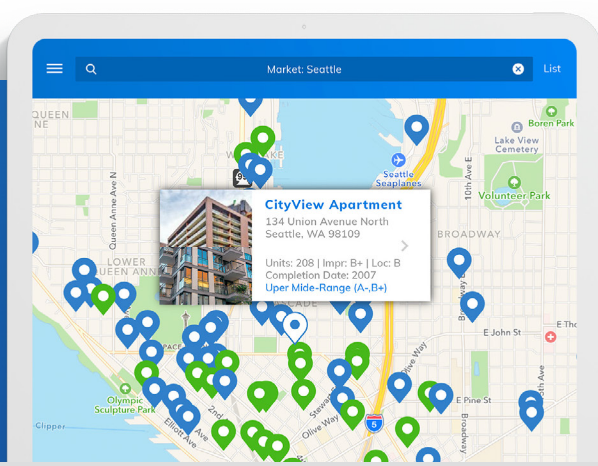
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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