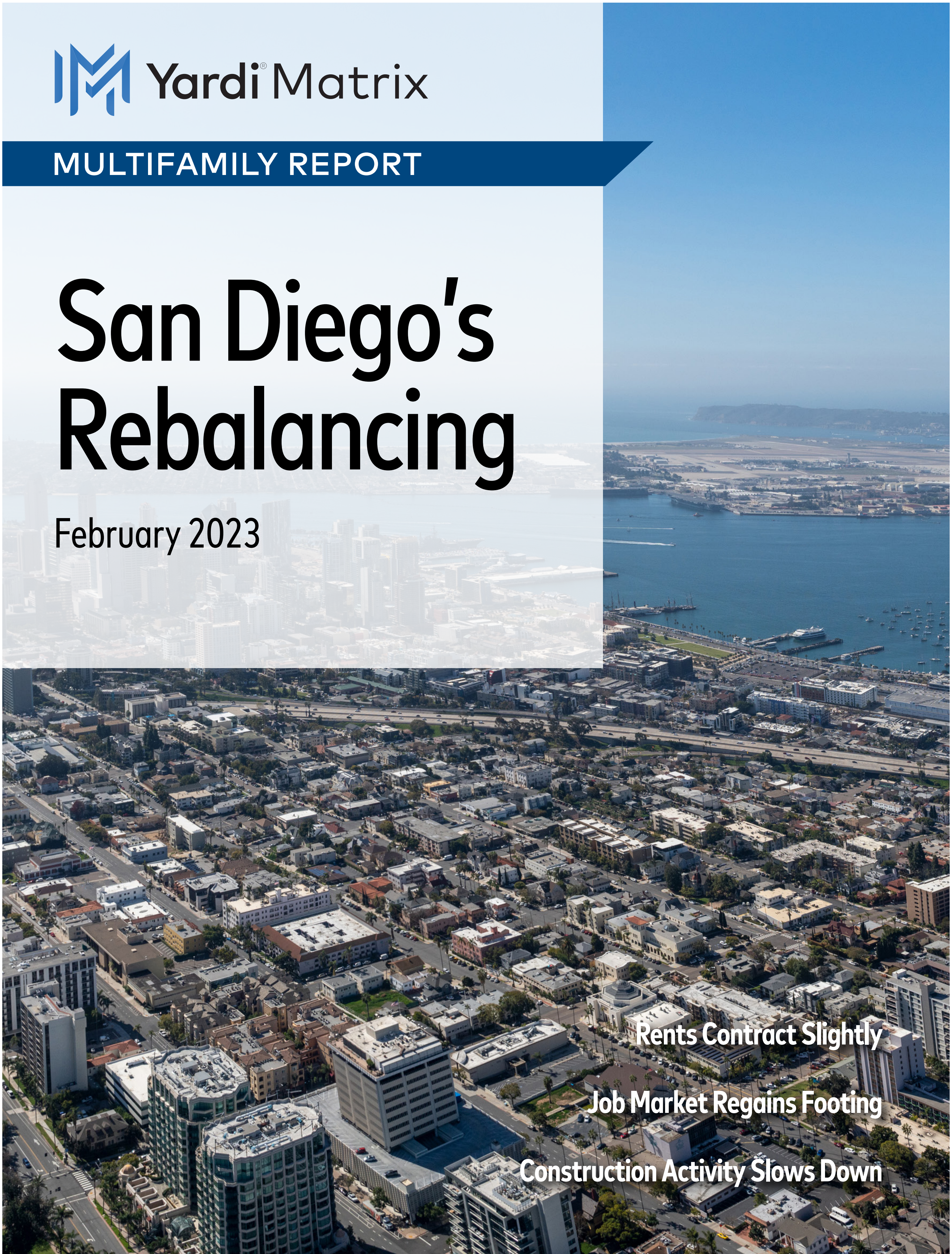
MULTIFAMILY REPORT

San Diego's Rebalancing

February 2023



Rents Contract Slightly

Job Market Regains Footing

Construction Activity Slows Down

SAN DIEGO MULTIFAMILY

Yardi Matrix

Market Stabilizes After Strong Growth Period

Toward the end of the year, San Diego's fundamentals began moderating, as the metro entered the winter season. After a strong first half of the year, rent growth ended 2022 with a 0.3% contraction on a trailing three-month (T3) basis through December, to an average of $2,658. Occupancy also followed this trend but remained elevated, with the rate dropping 60 basis points year-over-year, to 97.2%.

The job market regained its footing, with San Diego unemployment falling to 3.3% as of November, according to preliminary data from the Bureau of Labor Statistics. The metro outperformed both the California and national rates, showing strong performance. In the 12 months ending in October, the workforce expanded by 4.4%, with 44,500 positions added. The long-delayed plan to redevelop 331 acres at San Diego's Brown Field Municipal Airport gained traction—Industrial Realty Group entered a joint venture with Belzberg & Co. for the Metropolitan Airpark project in the Otay Mesa submarket. The 20-year development is estimated to cost $1 billion and will include more than 1 million square feet of retail, industrial space and a hotel.

Completions totaled 2,862 units, representing a 1.4% expansion of stock—30 basis points lower than 2021's figure and 70 basis points lower than the U.S. rate. Sales totaled $2.3 billion in 2022, cooling off after the $3.8 billion cycle-peak of the previous year.

Market Analysis | February 2023

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Recent San Diego Transactions

Domain San Diego

City: San Diego
Buyer: MG Properties
Purchase Price: $185 MM
Price per Unit: $487,071

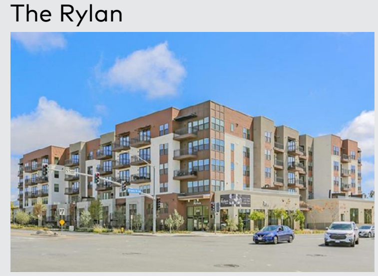
Veranda La Mesa

City: La Mesa
Buyer: Waterton
Purchase Price: $141 MM
Price per Unit: $347,291

The Residences at Escaya

City: Chula Vista
Buyer: Olympus Property
Purchase Price: $123 MM
Price per Unit: $450,368

The Rylan

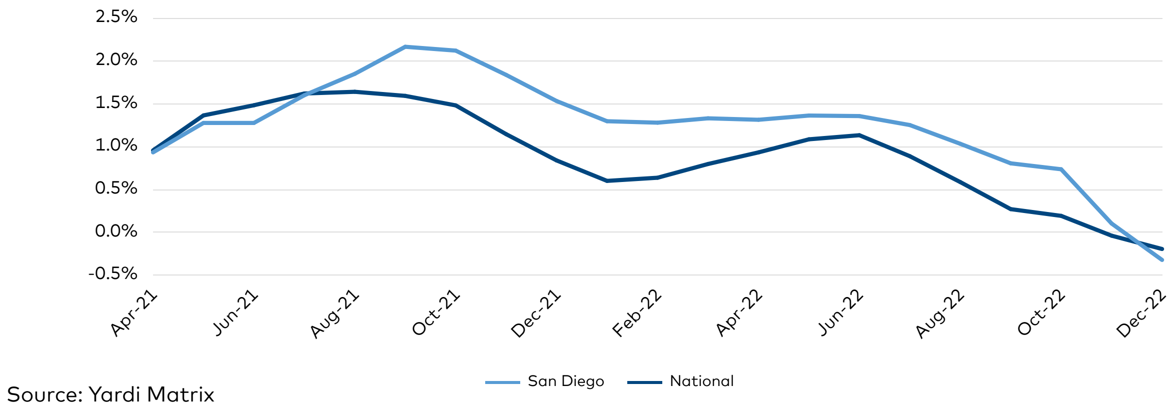


City: Vista
Buyer: Rockwood Capital
Purchase Price: $73 MM
Price per Unit: $575,700

RENT TRENDS

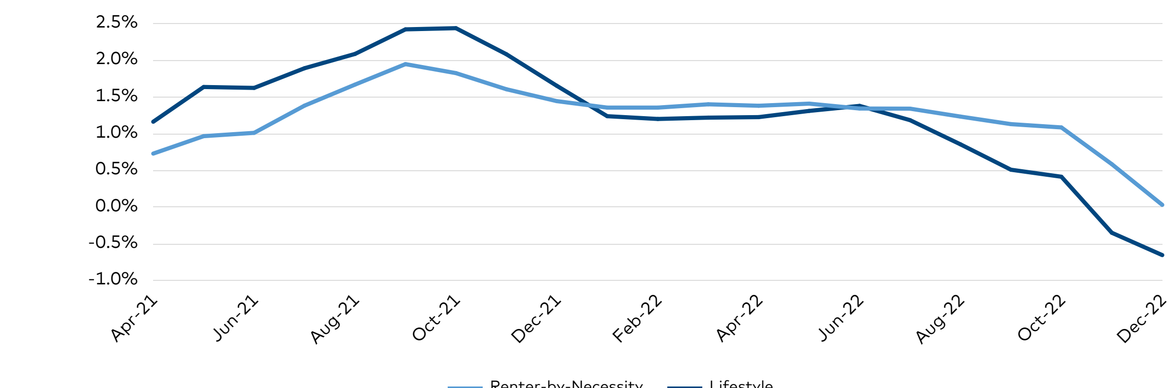
- After outpacing the national rate for 15 months, rent growth in San Diego ended the year with a 0.3% contraction on a trailing three-month (T3) basis through December—10 basis points lower than the national growth rate. In line with national trends, T3 rent expansion was highest during May and June, at 1.4%. The winter months saw gains recede, but on a year-over-year basis, the metro had its second-best year for growth in more than a decade, surpassed only by 2021. Year-over-year, rents were 9.9% higher—370 basis points above the U.S. rate.
- The average rent in San Diego reached $2,658 as of December, holding well above the U.S. average of $1,715. For working-class Renter-by-Necessity properties, rates plateaued on a T3 basis as of December, to an average of $2,294. The Lifestyle segment recorded a bigger hit, with rents contracting 0.7%, to $3,165.
- Although occupancy for stabilized assets declined 60 basis points, to 97.2% as of November, it remains among the highest recorded—the U.S. average was 95.4%. Lifestyle assets saw a decline of 70 basis points, to 96.5%, while the RBN segment recorded a 50-basis-point drop, to 97.8%.
- Of the 32 San Diego submarkets, 22 recorded year-over-year rent growth in double digits. Gains were led by Lemon Grove, which saw rents increase 19.2%, to $1,923. It was followed by Coronado (up 18.1%, to $3,629), Southeast San Diego (16.5%, to $2,030), Santee (16.2%, to $2,395) and National City (15.2%, to $1,799).

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 San Diego clocked in at 3.3% in November, according to preliminary data from the Bureau of Labor Statistics, down 120 basis points year-over-year. San Diego managed to outperform both the state of California (4.1% unemployment) and the U.S. average (3.6%). Job growth in California fully regained steam following pandemic-induced woes, as the California Economic Development Department found that in November, all 2.8 million jobs lost in 2020 had already been recovered.
- In the 12 months ending in October, San Diego gained 44,500 positions, with nearly all sectors posting growth. This represented a 4.4% expansion, 30 basis points above the national rate.
- Leisure and hospitality led growth, with 18,500 jobs added over the 12-month period through October, representing a 10.2% expansion. Professional and business services also experienced strong gains, with 12,100 jobs, or 4.4%. Two sectors lost jobs over this period—manufacturing contracted by 2.0%, or 2,300 positions, while financial activities decreased by 3.4%, or 2,600 jobs.
- The metro's status as a life science hub continued to attract more capital. San Diego-based National Resilience Inc., raised $625 million in 2022, bringing its total to more than $2 billion, to be used in expanding R&D operations.

San Diego Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	200	13.1%
60	Professional and Business Services	284	18.6%
90	Government	250	16.4%
65	Education and Health Services	222	14.5%
80	Other Services	54	3.5%
15	Mining, Logging and Construction	89	5.8%
40	Trade, Transportation and Utilities	220	14.4%
50	Information	23	1.5%
30	Manufacturing	113	7.4%
55	Financial Activities	74	4.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Diego's population decreased by 0.3% in 2021 compared to the previous year, losing 11,183 residents. However, the metro remains in a growing trend—between 2011 and 2021, the population expanded by 4.7%, or 148,833 residents.

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

- At the end of the year, San Diego had 7,882 units under construction across 34 properties. More than two-thirds of the pipeline comprised lifestyle properties, while only 18.4% of units were in the fully affordable segment. Additionally, the metro had 41,600 units in the planning and permitting stages.

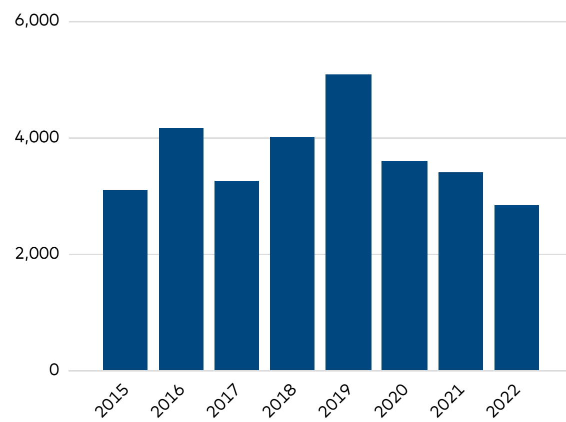
- In 2022, developers brought online 2,862 units across San Diego, down 16.2% year-over-year. This represented a 1.4% expansion of existing stock, with the historically undersupplied metro lagging the national average by 70 basis points. After a cycle-high peak for deliveries recorded in 2019 (5,088 units), the rate of completions started trending downward. However, 2023 could see this trend reversed—if market conditions hold, Yardi Matrix expects this year to see roughly 6,100 units added to the stock. On average, developers added 3,881 annually to the market over the past five years.

- New construction starts also declined, with only 1,567 units breaking ground in 2022, a 51.9% deceleration year-over-year.

- Central San Diego remained the most active submarket for development, with 2,380 units underway at the end of the year. It was followed by Kearny Mesa (1,255 units), Sweetwater (960) and Poway (548).

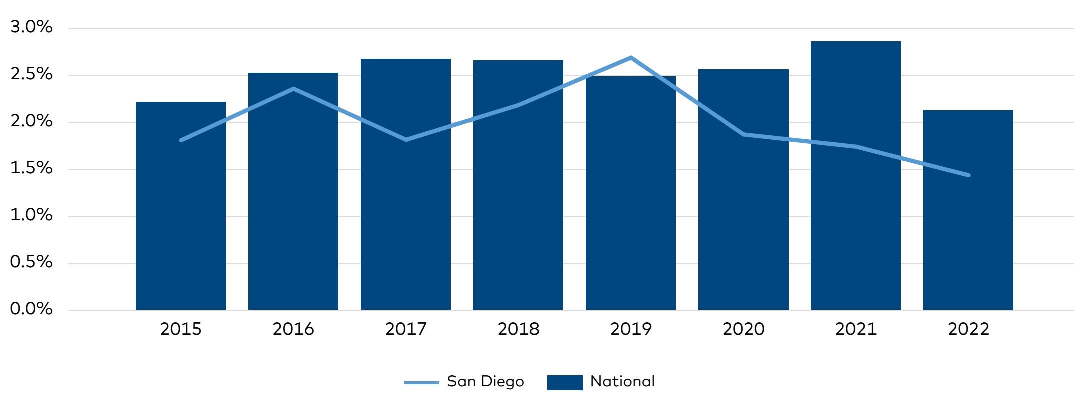
- The largest property to come online was the 442-unit Vive Luxe in the Kearny Mesa submarket. Sunroad Enterprises benefited from a $203-million loan, originated by Aegon, for the development of the Class A building. Vive Luxe includes 23 affordable units.

San Diego Completions (as of December 2022)



Source: Yardi Matrix

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

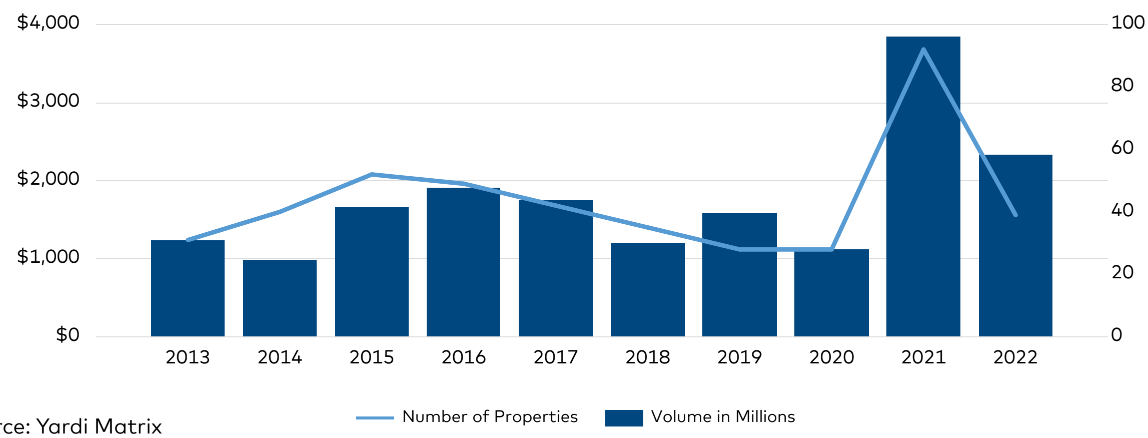


Source: Yardi Matrix

TRANSACTIONS

- Investment volume clocked in at $2.3 billion last year—across 39 sales—cooling off after 2021's cycle-high of $3.8 billion. After a slow third quarter—$90.8 million in volume—transactions picked up again in the final three months of the year. Overall, the year's total remained 22.8% higher than the annual average for the previous five years.
- The average price per unit jumped 26.6% year-over-year, to $397,649, at the end of 2022. Assets in the RBN segment traded for 19.7% higher year-over-year, with the average per-unit price at $335,910, while the Lifestyle segment recorded an 11.6% drop in prices, to $494,853.
- The largest transaction of 2022's second half involved the 379-unit Domain San Diego in the Kearny Mesa submarket. MG Properties acquired the asset from Magnolia Capital for $184.6 million, or 487,071 per unit. Domain San Diego was completed in 2012 and includes 35 affordable units.

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



Source: Yardi Matrix

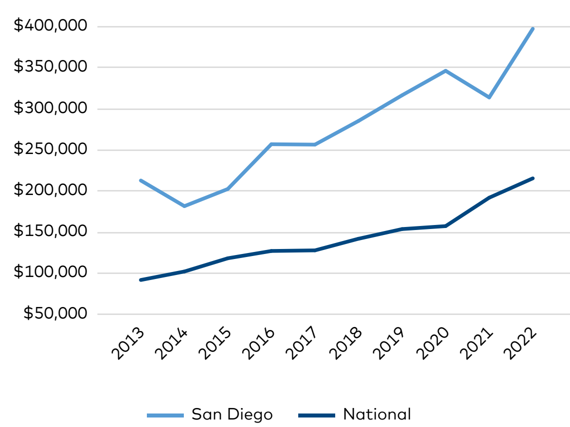
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Central San Diego	340
El Cajon	241
Kearny Mesa	206
Carlsbad	196
Mid-City	177
University	169
Coastal	141

Source: Yardi Matrix

[1] From January 2022 to December 2022

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top California Markets for Multifamily Construction Activity

By Anda Rosu

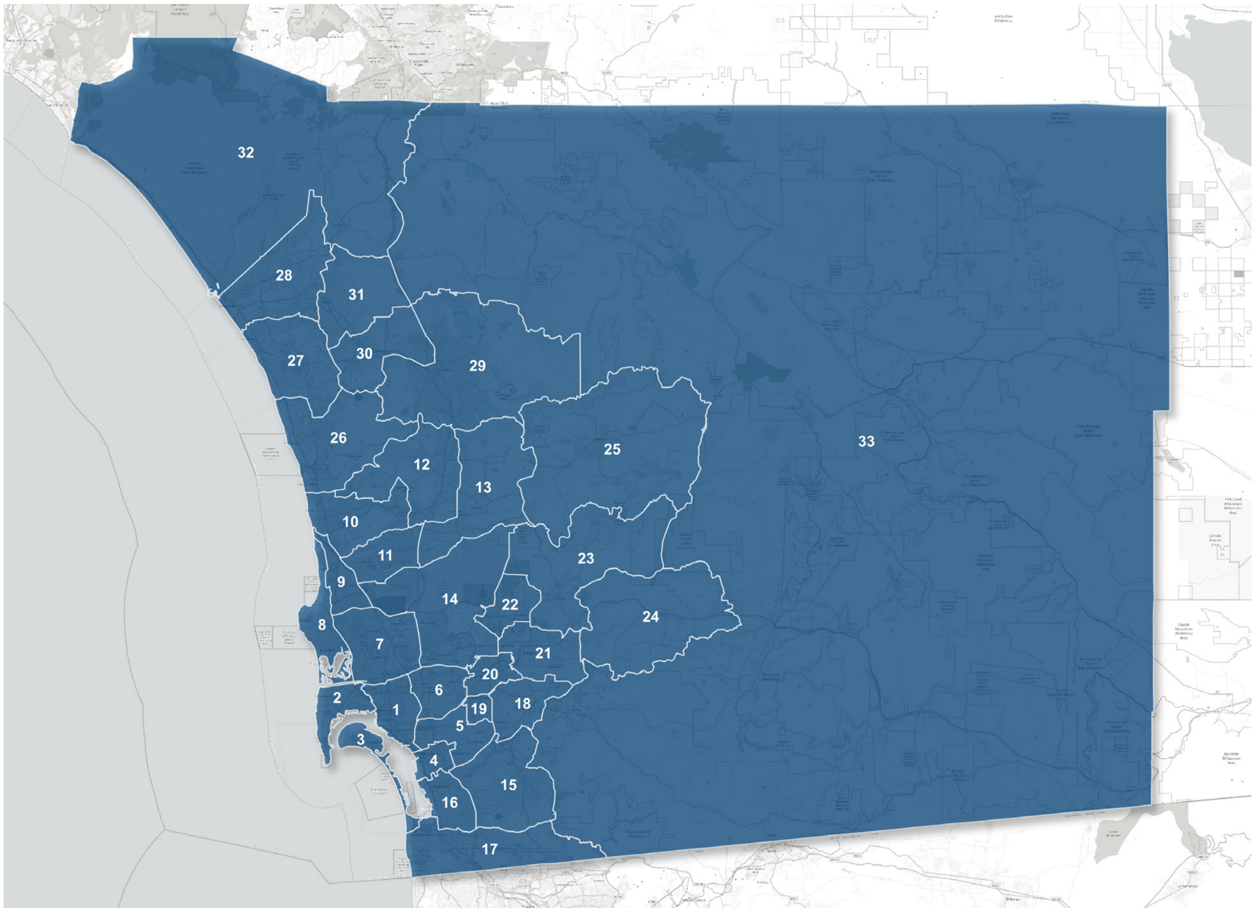
While metros such as Dallas, Austin and Phoenix have seen improved rental market performance since the onset of the health crisis, most California markets are still in a housing crisis. California continues to recover at a slower pace, with developers struggling to meet the demand for housing, especially in the affordable segment. In the list below, we highlight the top multifamily markets in California using Yardi Matrix data as of October 2022.

Rank	Metro	Units Under Construction	Units Delivered 2022 YTD	Units Delivered 2021
1	Los Angeles	33,114	6,487	13,037
2	San Francisco	20,244	5,740	10,820
3	Bay Area	8,908	1,124	7,230
4	Orange County	8,407	1,497	2,616
5	San Diego	7,138	2,862	3,417
6	Sacramento	7,104	1,588	2,120
7	Inland Empire	4,737	404	2,136
8	Central Valley	3,851	1,071	2,780
9	Central Coast	1,467	254	728

San Diego

As per Yardi Matrix data, the San Diego market has one of the largest average occupancy rates in stabilized assets in the state. According to the June multifamily report, then occupancy in the metro had increased 90 basis points over 12 months, while year-over-year rent growth clocked in at 20.8 percent, thus outperforming the national average.

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.

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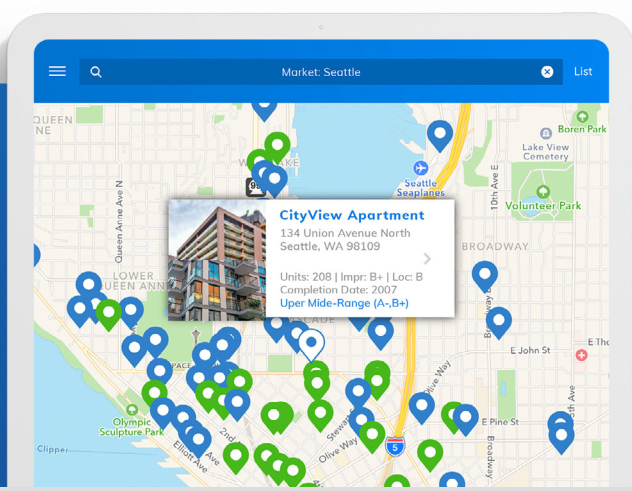
MULTIFAMILY KEY FEATURES

- 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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