Yardi® Matrix

San Diego Powers Through

Multifamily Report Winter 2018

Investors Remain Bullish

Lifestyle Rent Growth Rebounds

New Development Targets City Core

Market Analysis

Winter 2018

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Bogdan Odagescu
Senior Associate Editor

SoCal Remains a Landlord's Market

Demand continues to be healthy in San Diego, sustained by demographic expansion and a sluggish pipeline. Rent growth ended 2017 at 4.6%, nearly double the U.S. average. Although the city's housing shortage issues are ongoing, the market remains a more affordable living alternative to Los Angeles and San Francisco, especially for young, highly skilled professionals.

The metro is adding jobs across the board as its economy continues to diversify, with education and health services (4,300 jobs) leading growth. With the $2.1 billion trolley expansion slated for completion in 2021 and the $1.5 billion Seaport San Diego set to kick off the same year, other large projects are underway. Berkadia is working on closing a $650 million loan for Manchester Financial's 2.8 million-square-foot Manchester Pacific Gateway. Meanwhile, Westfield is investing $600 million in the upgrade of Westfield UTC retail center, and Hines is planning a $2 billion conversion of Riverwalk Golf Club into a mixed-use destination.

Some $1.6 billion in San Diego assets traded in 2017, continuing a three-year bull run. There were 8,700 units underway as of December, with development bound to accelerate due to continued demand. Although occupancy in stabilized properties dropped 80 basis points year-over-year to 96.5% as of November, the rate remains one of the highest among major U.S. metros. As demand should remain healthy, we expect rents to appreciate by 3.5% in 2018.

Recent San Diego Transactions

Avion at Spectrum

City: San Diego
Buyer: Prime Group
Purchase Price: $140 MM
Price per Unit: $312,567

Olympus Corsair

City: San Diego
Buyer: Olympus Property
Purchase Price: $137 MM
Price per Unit: $379,167

Waterleaf

City: Vista, Calif.
Buyer: MG Properties Group
Purchase Price: $118 MM
Price per Unit: $257,675

Ocean Air

City: San Diego
Buyer: R & V Management
Purchase Price: $55 MM
Price per Unit: $550,000

To Subscribe

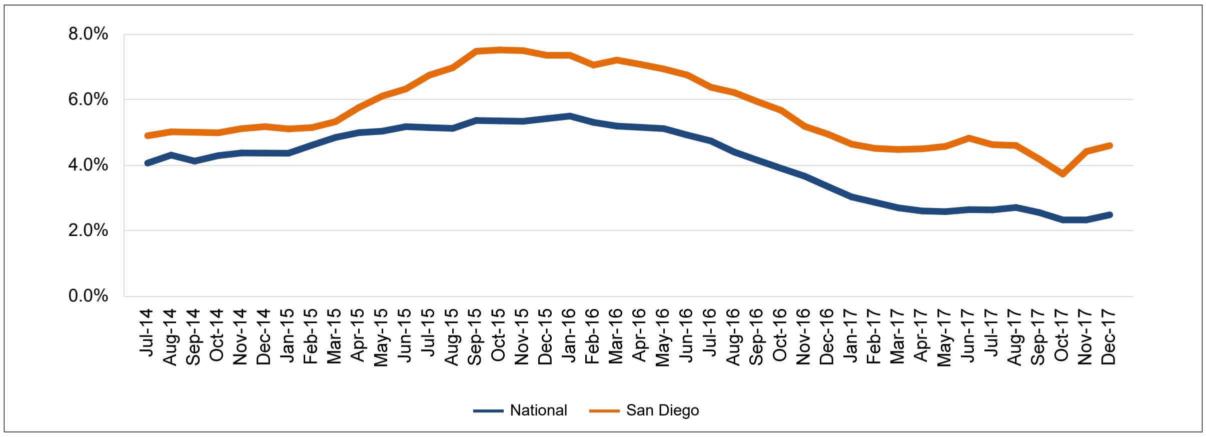
Hollie Zepke
Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

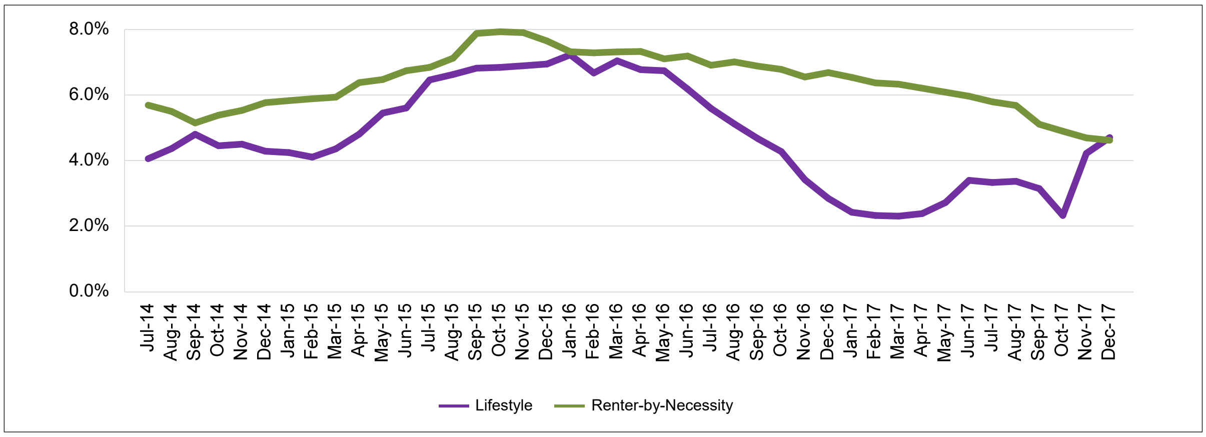
- San Diego rents rose 4.6% in 2017, one of the highest among major metros and well above the 2.5% national average. Fueled by demographic expansion and a lagging pipeline, rent growth in the metro outperformed the U.S rate throughout the entire cycle. San Diego rents reached $1,842, almost $500 over the U.S. average.
- Working-class Renter-by-Necessity rents were up 4.6%, to $1,586. Growth in the Lifestyle segment rebounded strongly in the second half of 2017, at 4.7% as of December, pushing upscale rents to $2,271.
- Although rates were up across all San Diego submarkets, areas north of Interstate 8 saw some of the greatest spikes, including Kearny Mesa (8.2%), Lakeside (7.0%), Poway (6.5%) and Elliot–Navajo (5.6%). With upscale demand rebounding and pushing rents further, some of the metro's most expensive submarkets recorded consistent gains, such as Del Mar (4.5%, to $2,607), Carlsbad (5.1%, $2,043) and Sweetwater (5.5%, $2,045).
- Occupancy in stabilized properties plunged 80 basis points in 12 months, reaching 96.5% as of November, but remains one of the highest among major U.S. metros. Although development is accelerating, a strong economy and the ongoing housing shortage should keep demand levels high in the foreseeable future. We expect rents to rise 3.5% in 2018.

San Diego vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

San Diego Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

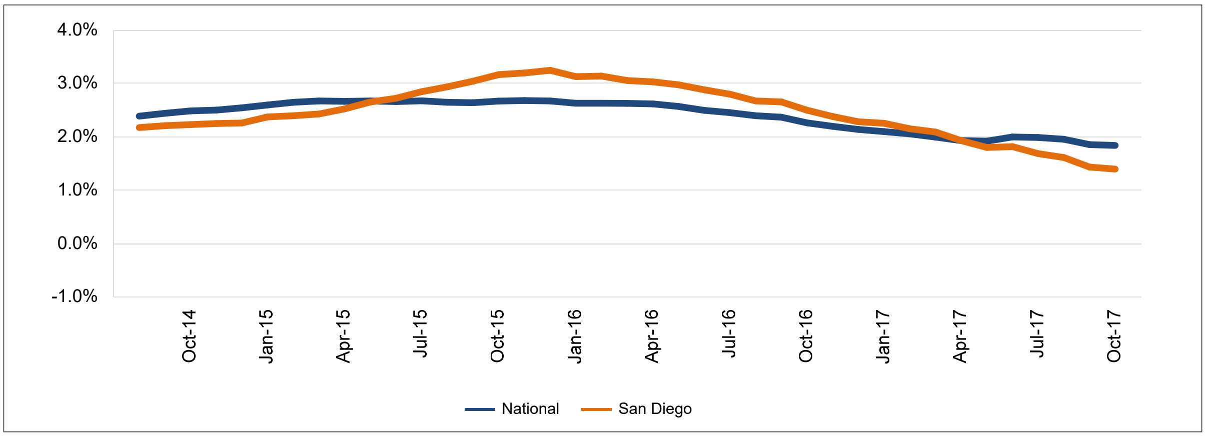


Source: YardiMatrix

Economic Snapshot

- San Diego added 16,600 jobs in the 12 months ending in October 2017, a 1.4% expansion year-over-year and 40 basis points below the U.S. average. Anchored by naval facilities, biotech clusters, higher-education institutions and health-care providers, San Diego benefits from a resilient economy and relative affordability when compared to Los Angeles and The Bay Area, offering an alternative to young, highly skilled residents.
- Education and health services led growth by adding 4,300 positions. Leisure and hospitality, another long-term anchor due to established touristic destinations, expanded by 2,900 positions.
- San Diego's office market is on a sound footing due to the city's steady addition of high-paying jobs. According to Yardi Matrix data, the metro had 1.1 million square feet of office space under construction as of January. Meanwhile, monthly office rates continue to surge, the average reaching $2.78 per square foot as of November.
- Construction added 1,800 jobs and the city's thriving economy is spurring large-scale projects. The $2.1 billion trolley line expected to link downtown and University City by 2021 is presenting opportunity for transit-oriented projects along the way. Manchester Financial is seeking a $650 million loan for the $1.3 billion Manchester Pacific Gateway, a 2.8 million-square-foot mixed-use project. At the same time, Hines is planning a $2 billion redevelopment of Riverwalk Golf Club and UC San Diego is slated to kick off a $600 million campus this year.

San Diego vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

San Diego Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	206	14.1%	4,300	2.1%
80	Other Services	60	4.1%	3,300	5.9%
90	Government	250	17.2%	2,900	1.2%
70	Leisure and Hospitality	196	13.5%	2,900	1.5%
55	Financial Activities	77	5.3%	2,400	3.2%
60	Professional and Business Services	236	16.2%	2,100	0.9%
15	Mining, Logging and Construction	81	5.6%	1,800	2.3%
30	Manufacturing	108	7.4%	-	0.0%
50	Information	24	1.6%	-100	-0.4%
40	Trade, Transportation and Utilities	220	15.1%	-3,000	-1.3%

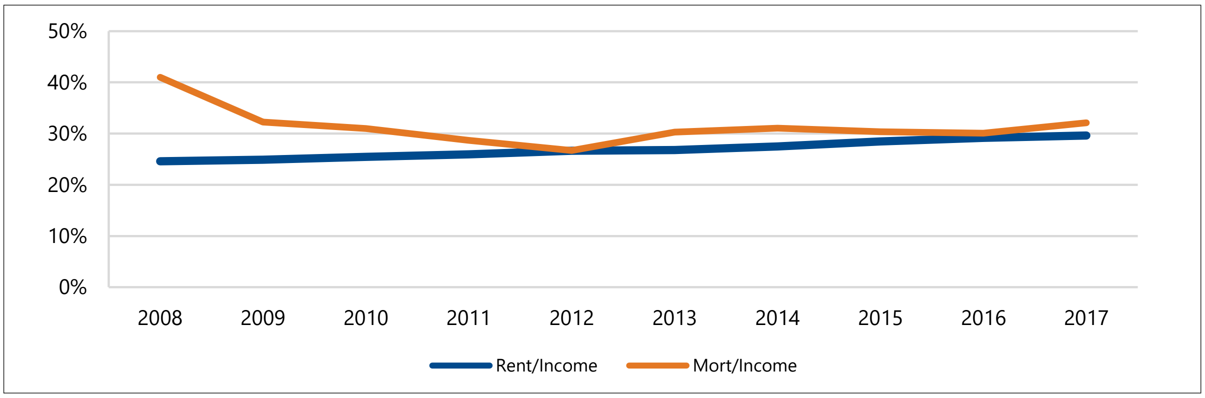
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

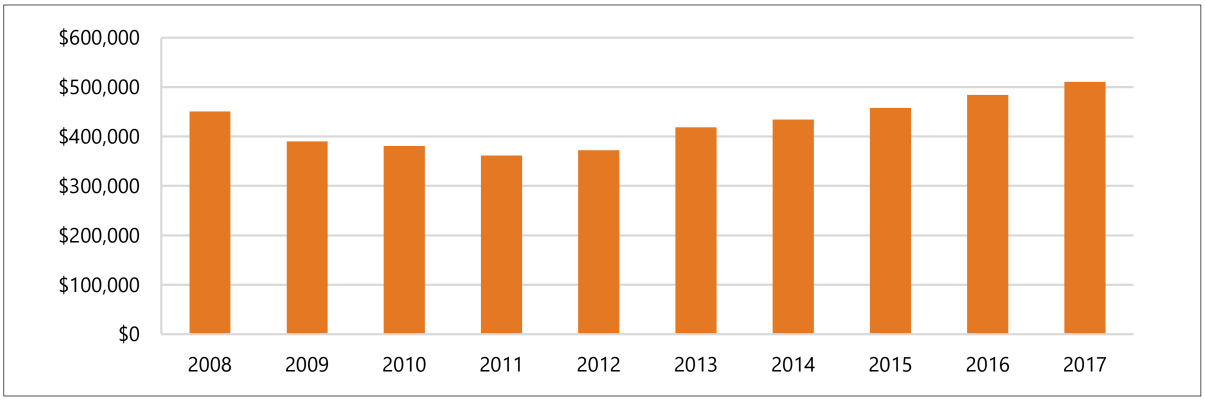
- The median home price reached $510,000 in 2017, up 5% in one year and 40% over the 2011 figure, the cycle low. Although the metro has a deep housing shortage, as well as a high barrier-to-entry for first-time buyers, the city remains less expensive than Los Angeles and relatively affordable among large metros in California.
- There is little difference between owning and renting in San Diego—the average mortgage payment accounted for 32% of the area's median income, while the average rent of $1,842 equated to 30%. With the high costs of buying a house pushing many residents into renting, the elevated apartment demand is putting further pressure on low-income households.

San Diego Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

San Diego Median Home Price



Source: Moody's Analytics

Population

- San Diego added roughly 136,000 residents between 2012 and 2016. This marks a 4.3% expansion, 140 basis points above the U.S. average.
- The metro expanded by more than 27,000 people in 2016, a 0.8% uptick.

San Diego vs. National Population

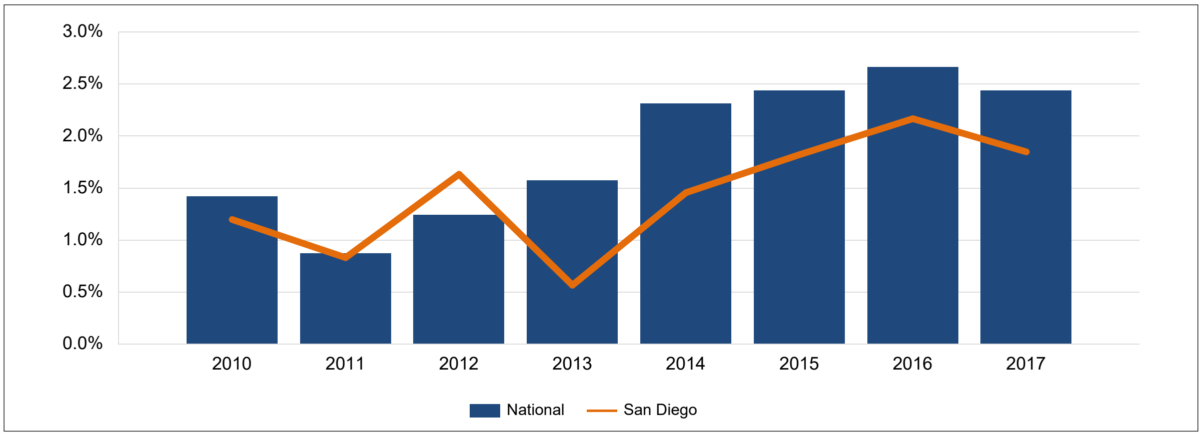
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
San Diego Metro	3,181,513	3,218,419	3,258,856	3,290,245	3,317,749

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

Supply

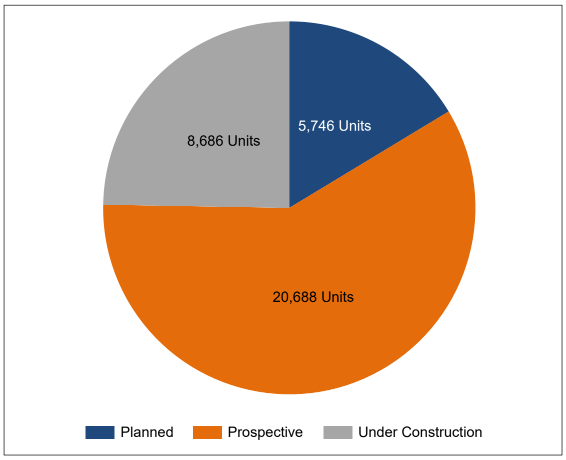
- Roughly 3,300 units came online in San Diego in 2017, accounting for 1.9% of total stock, 60 basis points below the national average. While adding residents at a faster rate than the U.S. over the past five years, San Diego has lagged behind the nation's rental development rate, boosting demand for affordable housing and continuing to put pressure on low- and middle-income residents. More than 12,500 units were delivered in the metro since the beginning of 2014, but the vast majority of these are in the Lifestyle segment and less than a quarter are in fully affordable communities.
- The metro had 8,686 units under construction as of December, more than a third of which are concentrated in Central San Diego (3,485 units). However, several other submarkets have consistent pipelines as well, including University (860), Sweetwater (819) and Mira Mesa (810). Adding planned and prospective projects, San Diego's pipeline totaled more than 35,000 rental units.
- Most large-scale communities are set to come online this year, but several notable projects are slated for delivery in 2019. The list includes Trammell Crow's 309-unit Alexan Millenia in Chula Vista, Westfield Corp.'s 300-unit Westfield UTC in University City and Shapell Investment's 263-unit Robertson Ranch in Carlsbad.

San Diego vs. National Completions as a Percentage of Total Stock (as of December 2017)



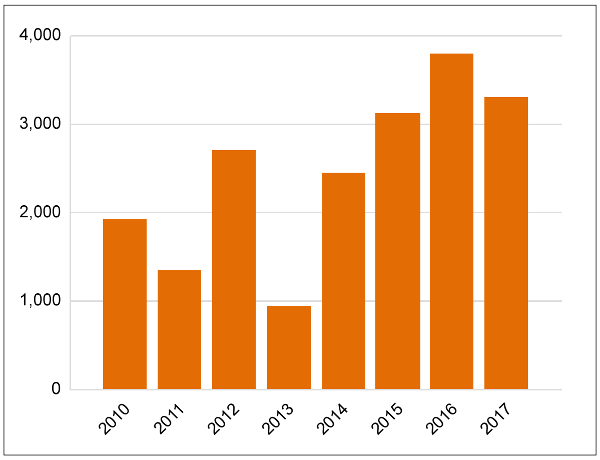
Source: YardiMatrix

Development Pipeline (as of December 2017)



Source: YardiMatrix

San Diego Completions (as of December 2017)

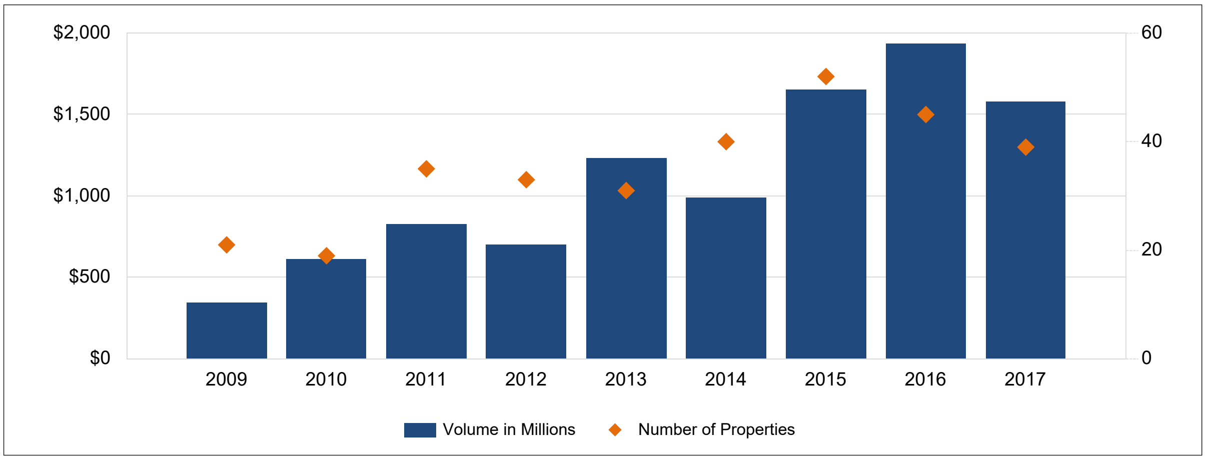


Source: YardiMatrix

Transactions

- Roughly $1.6 billion in multifamily assets traded in San Diego last year, slightly below the 2016 cycle high of $1.9 billion. Of the 39 transactions recorded in 2017, two-thirds involved Renter-by-Necessity assets.
- San Diego per-unit prices remained virtually flat in 2017, down 3% from the previous year, to $256,564. Even so, the average unit still traded for almost twice the $137,967 U.S. average. San Diego Class A multifamily yields remain in the 4.0% to 5.0% range, roughly on par with those in Los Angeles and San Francisco.
- Nine of the top 10 submarkets for transaction volume in 2017 are located north of Interstate 8. Kearny Mesa leads the list, with five multifamily assets trading for a total of $582 million, or roughly one-third of the metro's total volume. The five Kearny Mesa properties—four of which were constructed in the last 15 years—add up to 1,580 units and changed hands at an average of $368,313 per unit.

San Diego Sales Volume and Number of Properties Sold (as of December 2017)



Source: YardiMatrix

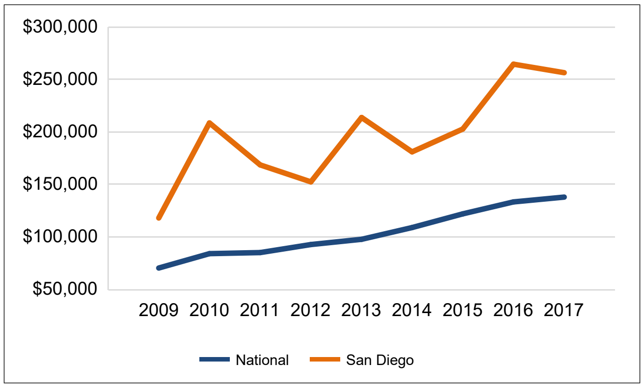
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Kearny Mesa	582
Oceanside	294
Mira Mesa	151
El Cajon	108
Escondido	97
La Mesa	62
Vista	56
Del Mar	55

Source: YardiMatrix

[1] From January 2017 to December 2017

San Diego vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!

BRIDGE, Holland To Develop 2 San Diego Mixed-Use Projects

Irvine Buys San Diego Office for $105M

San Diego Affordable Community Breaks Ground

Largest Solar System In MLB Lands at Petco Park

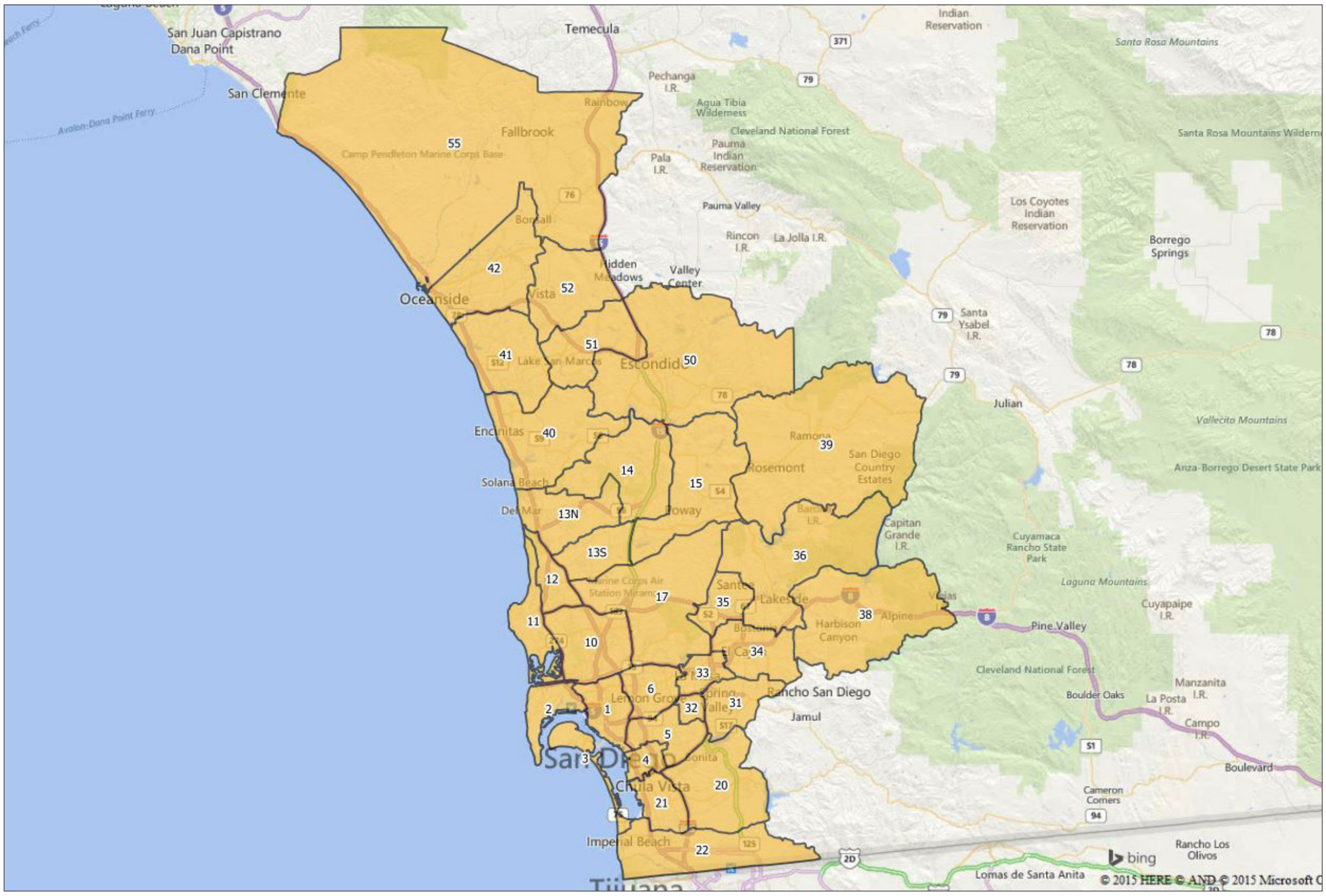
Get the latest San Diego real estate news at

COMMERCIAL PROPERTY EXECUTIVE™

MHN MULTI-HOUSING **NEWS**

Photo by photoquest7/iStockphoto.com

San Diego Submarkets



Area #	Submarket
1	Central San Diego
2	Peninsula
3	Coronado
4	National City
5	Southeast San Diego
6	Mid-City
10	Kearny Mesa
11	Coastal
12	University
13N	Del Mar
13S	Mira Mesa
14	North San Diego
15	Poway
17	Elliot-Navajo
20	Sweetwater
21	Chula Vista

Area #	Submarket
22	South Bay
31	Spring Valley
32	Lemon Grove
33	La Mesa
34	El Cajon
35	Santee
36	Lakeside
38	Alpine
39	Ramona
40	San Dieguito
41	Carlsbad
42	Oceanside
50	Escondido
51	San Marcos
52	Vista
55	Fallbrook

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 may 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 may 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, may 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.

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (http://www.yardimatrix.com/Terms) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2018 Yardi Systems, Inc. All Rights Reserved.