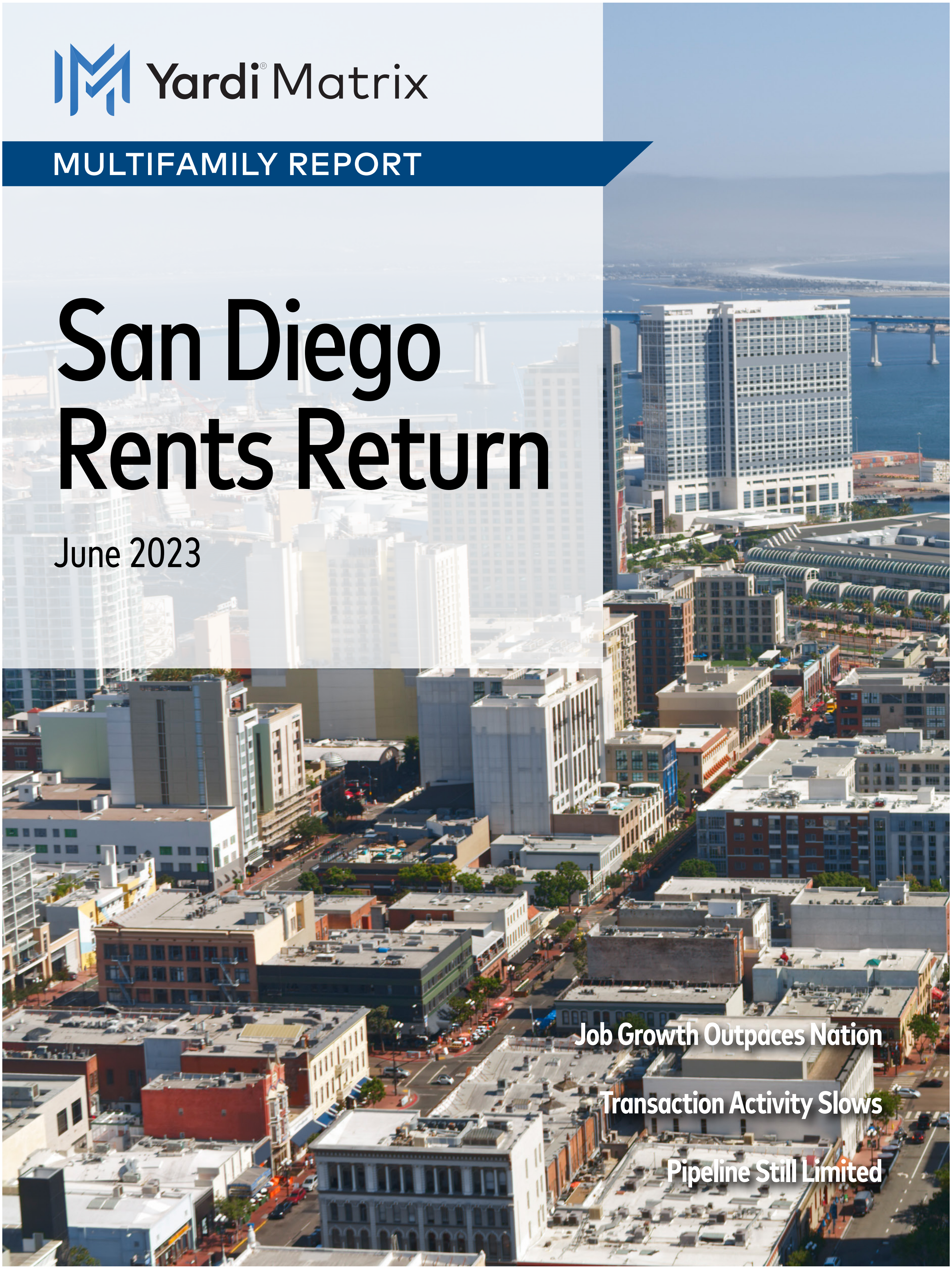
Yardi Matrix

MULTIFAMILY REPORT

San Diego Rents Return

June 2023



Job Growth Outpaces Nation

Transaction Activity Slows

Pipeline Still Limited

SAN DIEGO MULTIFAMILY

Yardi Matrix

Rents Rebound In Leasing Season

San Diego multifamily fundamentals began moderating in the fourth quarter of 2022, compared to earlier months, but the metro rebounded at the start of the spring leasing season, with rates improving 0.5%, on a T3 basis as of April, 30 basis points above the national rate. However, occupancy in stabilized assets declined 80 basis points year-over-year, to 96.8%, as of March.

Although San Diego's economy is outperforming the nation, the metro still has its highs and lows. San Diego gained 59,900 positions, up 4.1% year-over-year and outpacing the national rate by 70 basis points. Unemployment reached 3.7% as of January, surpassing the state, while still trailing national trends. Job gains were led by the leisure and hospitality sector, which added 20,200 positions in the 12 months ending in February. Biotech layoffs are expected to continue, as the industry's downturn persists, but the sector remains a cornerstone for the local economy.

San Diego's already limited multifamily pipeline shrank, as developers broke ground on only 389 units year-to-date. Central San Diego remained the most active submarket for construction, with 2,509 units underway. Holland Partner Group's 840-unit The Society in the Kearny Mesa submarket was the metro's largest project underway as of April 2023. A total of $178 million in assets traded in the first four months the year, well below recent comparable periods.

Market Analysis | June 2023

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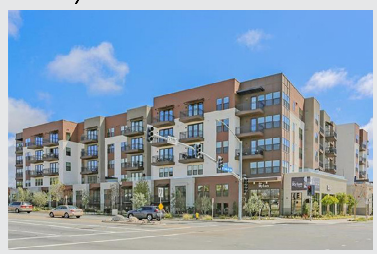
Recent San Diego Transactions

Arrive Clairemont

City: San Diego
Buyer: FPA Multifamily
Purchase Price: $90 MM
Price per Unit: $335,111

The Rylan

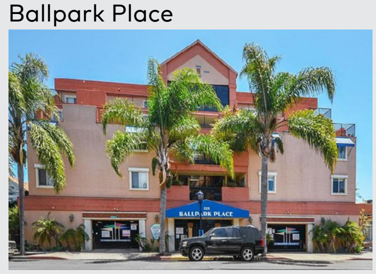


City: Vista, Calif.
Buyer: Rockwood Capital
Purchase Price: $73 MM
Price per Unit: $575,700

Nobel Court

City: San Diego
Buyer: R.W. Selby & Co.
Purchase Price: $67 MM
Price per Unit: $252,007

Ballpark Place

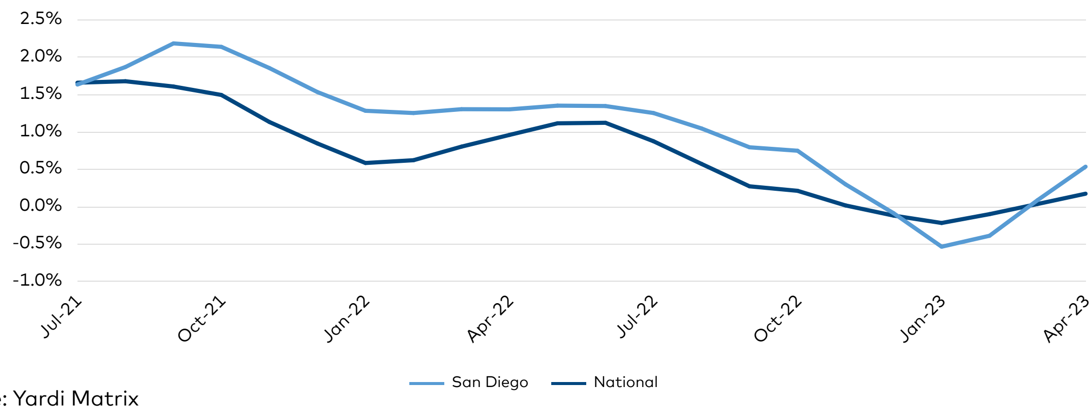


City: San Diego
Buyer: Forbix Capital Corp.
Purchase Price: $21 MM
Price per Unit: $210,000

RENT TRENDS

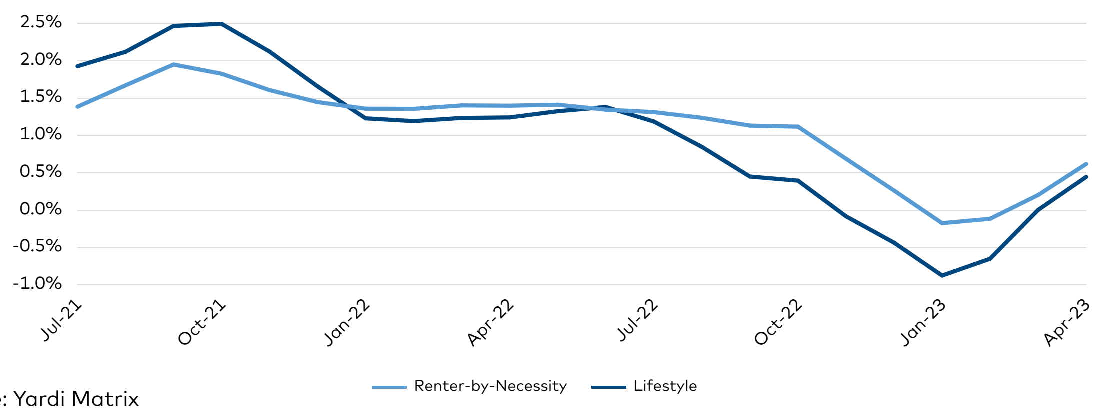
- San Diego rents continued to rebound, recording a 0.5% improvement on a T3 basis as of April, outperforming the national rate by 30 basis points. Growth in the SoCal market is up, following three months of short-term rent declines. The overall average in the metro was $2,699, well above the $1,709 U.S. figure. On a year-over-year basis, rates were up 6.3%, far outpacing the U.S. figure, at 3.2%.
- Demand in the metro propped up rents, while limited supply expansion also impacted the rental market. Renter-by-Necessity figures led the way, with 0.6% improvement on a T3 basis, to $2,350. Lifestyle rates were up 0.4%, to an average of $3,192.
- Year-over-year occupancy in stabilized assets declined 80 basis points, to 96.8% as of April, still outperforming the 95.0% national rate. Lifestyle assets saw a decline of 60 basis points, to 96.3%, while the RBN segment recorded a 100-basis-point drop, to 97.3%.
- Of the 32 San Diego submarkets tracked by Yardi Matrix, nine recorded year-over-year double-digit growth, although increases in the most expensive submarkets slowed down. In April 2023, gains were led by Southeast San Diego (up 14.4% to 1,848), Lakeside (up 14.3% to $2,230) and National City (up 13.7% to $1,887). No submarkets saw rent declines on a year-over-year basis.

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

- As of March, the metro's unemployment rate was 3.7%, the same rate as the previous two months, according to preliminary Bureau of Labor Statistics data. San Diego outperformed the state (4.4%) but trailed the U.S. (3.4%). In December 2022, unemployment clocked in at 3.0%.
- Overall, in the 12 months ending in February 2023, San Diego added 59,900 positions, for a year-over-year expansion of 4.1%, with nearly all sectors posting growth. The metro led the national rate by 80 basis points.
- Job gains were led by the leisure and hospitality sector, which added 20,200 positions. Education and health services (12,400 jobs), professional and business services (6,500) and government (5,400) followed. Trade, transportation and utilities and the information sector recorded only slight gains, adding a combined 500 jobs. The only sector that registered a decrease in employment was financial activities, which lost 100 jobs.
- Biotech layoffs are expected to increase, as the industry continues a tough run. In January, San Diego's Cue Health, a COVID-19 test-maker that grew during the pandemic, laid off 388 employees in an effort to cut costs. In March, Amgen announced it was cutting 450 positions, according to a Reuters report. Despite these losses, the sector remains a cornerstone for the metro's economy.

San Diego Employment Share by Sector

Code	Employment Sector	Current Employment (000)	% Share
70	Leisure and Hospitality	201	12.9%
65	Education and Health Services	236	15.1%
60	Professional and Business Services	288	18.5%
90	Government	250	16.0%
80	Other Services	57	3.7%
15	Mining, Logging and Construction	89	5.7%
30	Manufacturing	118	7.6%
40	Trade, Transportation and Utilities	222	14.2%
50	Information	22	1.4%
55	Financial Activities	77	4.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Diego continued a slightly downward demographic trend that began in 2019, losing some 11,000 residents in 2021, for a 0.3% decline year-over-year. Meanwhile, the U.S. population inched up 0.1%.

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

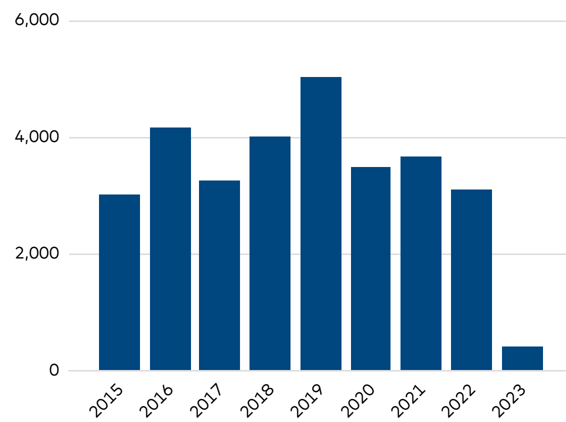
- Metro San Diego had 7,980 units across 36 properties underway as of April 2023, with an additional 23,200 in the planning and permitting stages. Despite being a traditionally conservative market when it comes to inventory growth, San Diego's pipeline is shrinking. Construction starts reached 389 units in the first quarter of 2023, compared to 1,502 units for the same time frame last year. This supply shortage is one of the main drivers for rent growth.

- A total of 429 apartments were delivered in 2023 through April, across three properties in the Kearny Mesa, Southeast San Diego and University submarkets. Last year saw 2,862 new units across San Diego, down 16.2%. These units accounted for 1.4% of existing inventory, with the historically undersupplied metro lagging the national average by 70 basis points. Development has been slow but steady in recent years, with the five-year average at 3,878 units.

- Central San Diego remains the most active submarket for construction, with 2,509 units underway, accounting for 31% of the pipeline. Kearny Mesa (1,286 units under construction) and Sweetwater (1,257 units) rounded out the top three.

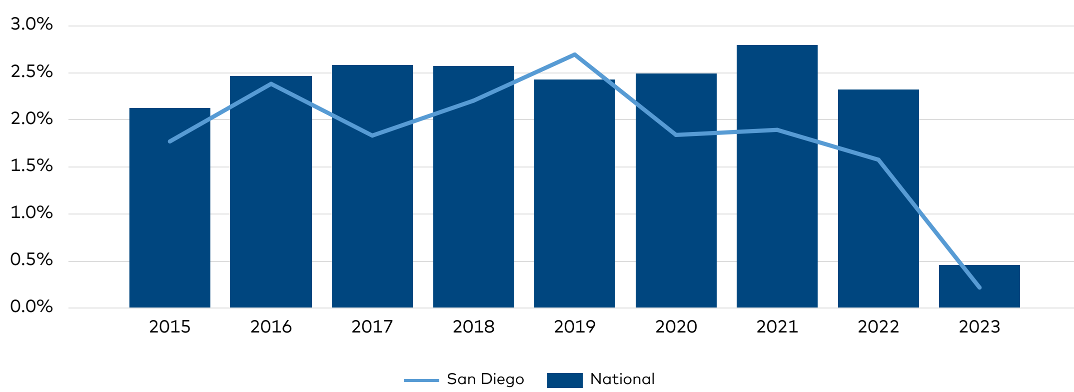
- Holland Partner Group's 840-unit The Society in the Kearny Mesa submarket was the metro's largest project underway as of April 2023, as it was in April 2022. The $500 million Mission Valley project kicked off in 2018, when Holland Partner Group bought the 10-acre site for $82 million from the owners of Town and Country Resort. The upscale project is slated for delivery this year.

San Diego Completions (as of April 2023)



Source: Yardi Matrix

San Diego vs. National Completions as a Percentage of Total Stock (as of April 2023)

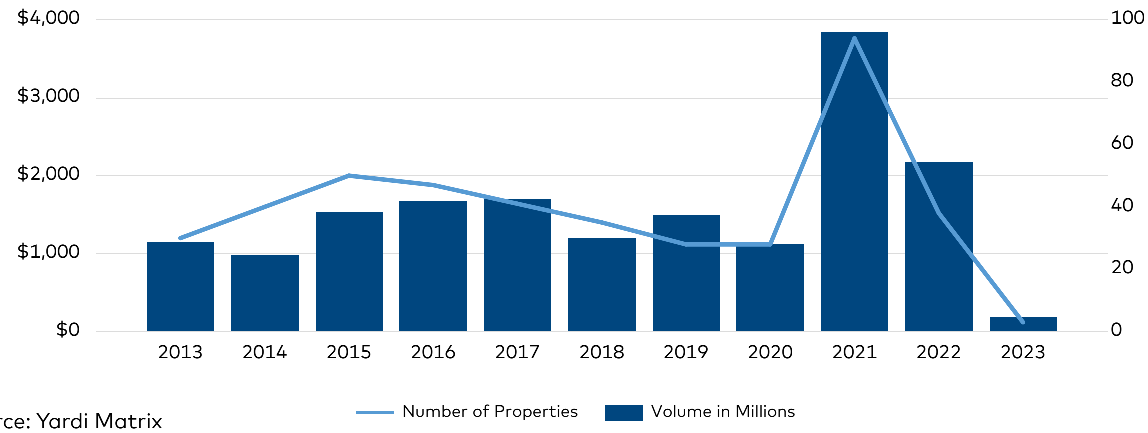


Source: Yardi Matrix

TRANSACTIONS

- A total of $178 million in multifamily assets traded across San Diego in the first four months of 2023, well below the $731 million recorded during the same interval in 2022. Last year's figures also came right on the heels of the metro's best year for transactions in the past decade.
- San Diego's overall average price per unit decreased to $280,637 in 2023, recording a 37% decrease from last year's figure. However, that was still 57% above the U.S. average, which clocked in at $178,275, after seeing a 15% slide compared to 2022 levels.
- Transaction activity in the 12 months ending in April was highest in the Kearny Mesa submarket ($314 million). FPA Multifamily's acquisition of Arrive Clairemont for $90.5 million in the submarket, was the year's largest deal. The company bought the asset from Trinity Property Consultants. Berkadia Commercial Mortgage originated a $48.6 million loan for the purchase of the 270-unit workforce housing community.

San Diego Sales Volume and Number of Properties Sold (as of April 2023)



Source: Yardi Matrix

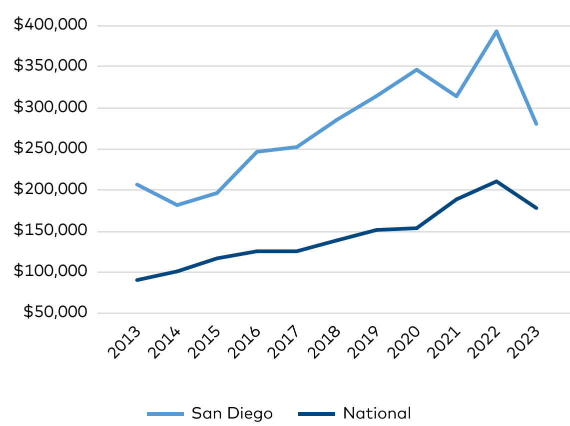
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Kearny Mesa	314
El Cajon	241
Central San Diego	221
La Mesa	141
Sweetwater	123
San Marcos	86
Vista	73

Source: Yardi Matrix

[1] From May 2022 to April 2023

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

Brought to you by:

Building Affordable in California, Hawaii: High Demand, High Hurdles

By Anda Rosu

The cost of housing in Hawaii is among the highest in the U.S. The state's shortage of affordable housing has become a major issue in recent years, with the high cost of living, limited available land for construction and only increasing demand only adding to its worsening affordable housing crisis. Similarly, California is also among the most expensive housing markets in the country, with a high concentration of cost-burdened renters.

What do you see as the top challenges in developing affordable housing communities across California and Hawaii today?

Jordan: As a developer of affordable housing communities in California and Hawaii, we are faced with several immediate challenges. In Hawaii, these include the availability of land and infrastructure, limited funding resources and legislative concerns, such as the permitting processes and zoning restrictions, which all create obstacles to timely and cost-effective development.

Similarly, in California, the key challenges revolve around highly competitive funding, competing political priorities, and the rising costs of labor and materials.

In what ways are Hawaii and California's markets similar, and what sets them apart?

Jordan: Hawaii and California's housing markets share several similarities, primarily in terms of the high cost of living and

the overall shortage of homes. Both states face significant challenges in meeting the demand for affordable housing, and this shortage is particularly concerning in the low- and very low-income sectors. Lastly, both states experience difficulties and complexities in the process of building new housing, due to regional regulations and permit procedures.

How do you ensure that your projects are integrated into the surrounding community, and promote economic and social equity?

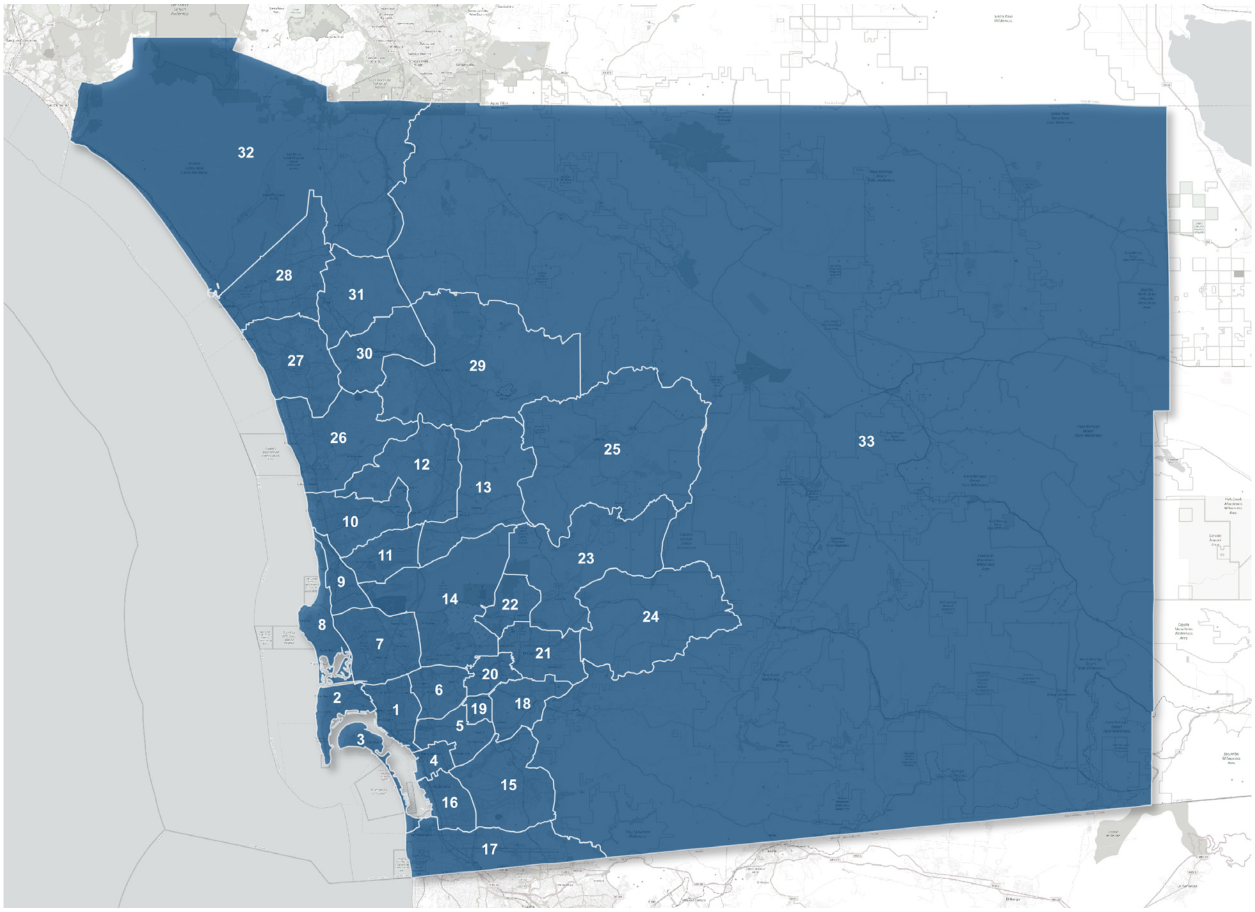
Jordan: To ensure our projects are integrated into the surrounding communities, we prioritize community outreach and resident services to foster positive relationships and address the needs of the local community. Given that we are both the developer, owner and operator for perpetuity, we take extra care to be good neighbors. We also provide resident services and amenities tailored to the populations we serve at our various developments.

What policy changes at the state or federal levels do you believe could encourage developers to build more and really make an impact on improving the affordable housing shortage in both California and Hawaii?

Jordan: At the federal level, there are several policy changes that could encourage developers to build more affordable housing and address the shortage in both California and Hawaii.

(Read the complete interview on multihousingnews.com.)

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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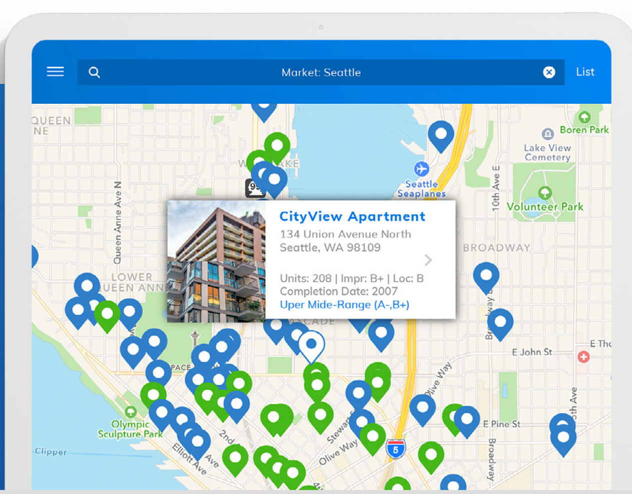
MULTIFAMILY KEY FEATURES

- 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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