

San Diego Tempers

November 2023



Construction Starts on Par With 2022

YoY Investment Volume Slides

Employment Growth Softens

SAN DIEGO MULTIFAMILY



Economic Slowdown Felt Across Market

San Diego's fundamentals recorded a slow pace in the third quarter, akin to most Western markets, while 2023's overall performance reflected mixed results for multifamily. A slower economy and a correction of supply pipelines led to most metrics slowing or turning negative. Rates were down 0.1% on a trailing three-month basis through September—on par with the U.S. figure—to an average of \$2,727. On a year-over-year basis, however, San Diego rents were up 1.9%, 110 basis points ahead of the national rate.

Unemployment in the metro reached 4.3% as of August, according to preliminary data from the Bureau of Labor Statistics, up 80 basis points year-over-year. Although much slower than the beginning of the year, economic growth maintained its momentum and stood ahead of the U.S. rate. San Diego's labor pool expanded by nearly 3.0% over the 12-month period ending in July, 40 basis points higher than national figures. The city added 39,300 jobs during this period, with gains led by education and health services (15,200 jobs) and leisure and hospitality (12,500 jobs).

Construction activity was diminished from previous years but was still in a healthy spot. San Diego had 11,894 units under construction, with an additional 37,800 in the planning and permitting stages. In line with national trends, transaction volume was down 68.9% year-over-year, to \$444 million for the first three quarters.

Market Analysis | November 2023

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Recent San Diego Transactions

Allina La Jolla



City: San Diego
Buyer: Pacific Urban Investors
Purchase Price: \$177 MM
Price per Unit: \$443,250

Veranda La Jolla

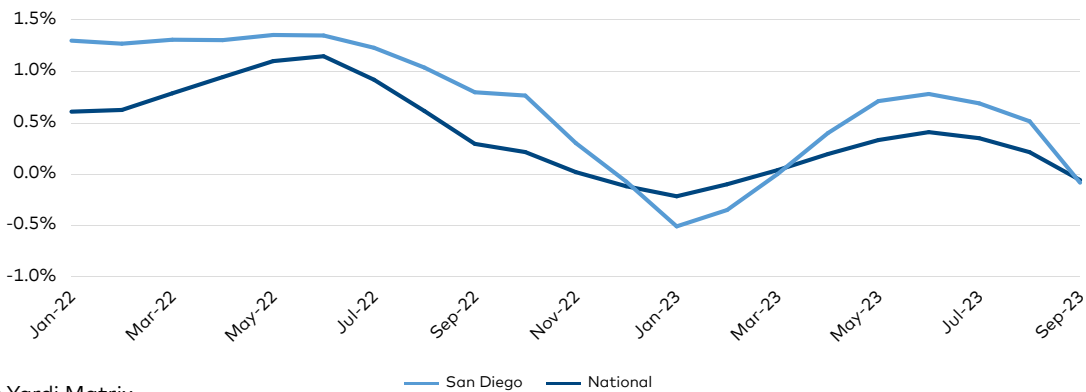


City: San Diego
Buyer: Pacific Urban Investors
Purchase Price: \$88 MM
Price per Unit: \$249,341

RENT TRENDS

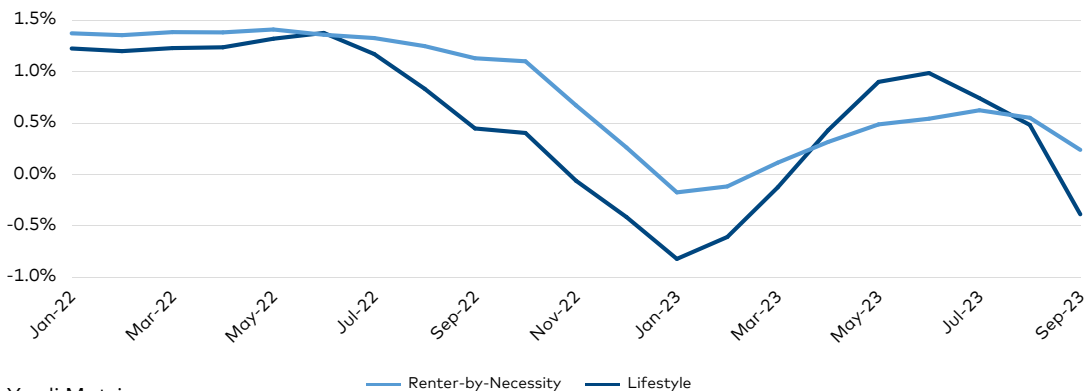
- ▶ San Diego rents were down 0.1% on a trailing three-month (T3) basis through September, on par with the U.S. rate. Over the previous five months, rent development was consistently ahead of the national rate, reaching 0.8% in June. Year-over-year growth in the metro clocked in at 1.9% as of September, 110 basis points higher than the U.S. figure.
- ▶ The average rent in San Diego stood at \$2,727 as of September, about \$1,000 more than the overall national figure. T3 rent contraction can be wholly attributed to the Lifestyle segment, which saw a decline of 0.4%, to \$3,227. Meanwhile, rates for RBN assets were up 0.2%, to \$2,370.
- ▶ Average occupancy in stabilized assets clocked in at 96.9% as of August, down 40 basis points year-over-year. Although new stock wasn't absorbed as quickly as in previous years, San Diego continued to surpass the U.S. average of 95.0%. Looking at quality segments, the decline in occupancy was uneven—Lifestyle occupancy dropped 10 basis points from last year, to 96.5%, while the RBN segment saw an 80-basis-point drop, to 97.1%.
- ▶ The Ramona submarket led rent gains with an outside 21.4% year-over-year growth rate, to \$2,238. It was followed by Coronado (up 8.1%, to \$3,777), San Dieguito (up 7.5%, to \$2,984) and South Bay (up 7.4%, to \$2,503). Out of San Diego's 33 submarkets, 13 had year-over-year rent gains of 5% or more.

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

- ▶ San Diego's unemployment inched up 40 basis points month-over-month as of August, to 4.3%—50 basis points higher than the U.S. rate—according to preliminary data from the Bureau of Labor Statistics. It also increased 80 basis points year-over-year. Although on a deteriorating trend, unemployment stood in a slightly better spot than California's 4.6% rate.
- ▶ Over a 12-month period through July, San Diego added 39,300 jobs, representing nearly 3.0% employment expansion. The metro's rate remained 40 basis points ahead of the U.S. Notably, the metro has outpaced national averages throughout the year, on the heels of the outside economic growth of 2022.
- ▶ Gains were led by education and health services, with the sector growing by 6.7%, or 15,200 jobs. Leisure and hospitality also recorded solid growth, up 6.3%, or 12,500 positions, followed by other services (4,700 jobs, 8.6%) and government (4,000 jobs, 1.7%).
- ▶ One of the biggest ongoing projects in San Diego is the \$2.7 billion expansion of its international airport. The project is being developed by a joint venture of Turner Construction and Flatiron Construction. It involves building a new terminal, along with supportive infrastructure and retail, and is set to come online in 2028.

San Diego Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	241	15.4%
70	Leisure and Hospitality	212	13.5%
80	Other Services	59	3.8%
90	Government	240	15.3%
55	Financial Activities	79	5.0%
40	Trade, Transportation and Utilities	224	14.3%
30	Manufacturing	119	7.6%
60	Professional and Business Services	286	18.2%
50	Information	22	1.4%
15	Mining, Logging and Construction	88	5.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ San Diego lost around 11,000 residents between 2020 and 2021, like most major metros during the pandemic. However, the metro's population was still on a positive trend—since 2011, it has grown by 4.7%, or 148,800 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

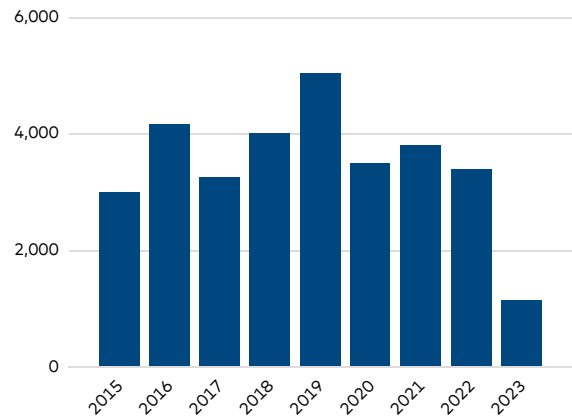
SUPPLY

- ▶ As of September, San Diego had 11,894 units under construction. The supply pipeline composition remained in favor of the high-end segment—80% of units were in Lifestyle properties, while 16.5% were in fully affordable assets. The remaining 3.6% were Renter-by-Necessity units. An additional 37,800 units are in the planning and permitting stages.
- ▶ Year-to-date through September, developers completed 1,153 units across metro San Diego, which represented a 0.6% expansion of existing stock—90 basis points below the national rate. Completions were also down 63.3% year-over-year. After the decade-high of 5,050 units recorded in 2019, the rate is returning closer to historical averages. Over the past five years, developers added about 3,900 units annually in San Diego.
- ▶ A total of 2,645 units broke ground over the first nine months of the year, roughly 100 fewer than what was recorded during the same period in 2022.
- ▶ Central San Diego led development activity, with 3,845 units underway. Kearny Mesa followed, with 1,799 units. The submarket is bound to remain at the top of the list, as au-

thorities approved a reimagined plan for the area in 2020, aiming to boost development and economic growth. Other submarkets with significant activity included Sweetwater (1,557 units) and South Bay (783 units).

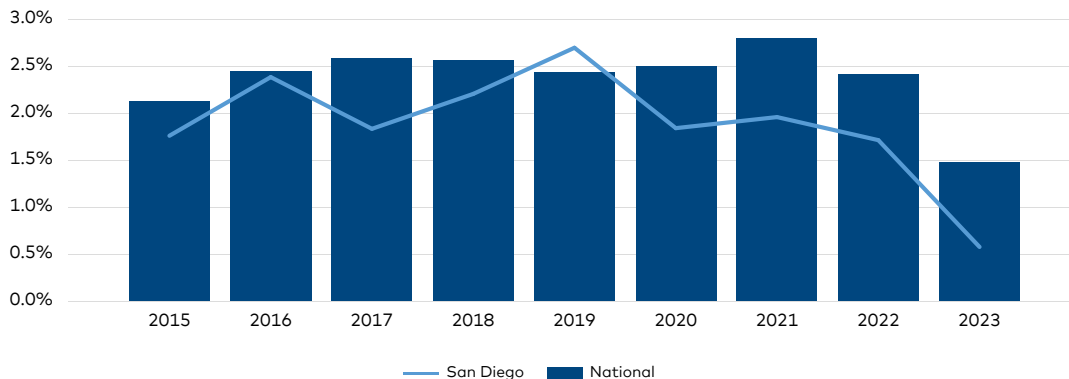
- ▶ HomeFed Corp.'s 280-unit Residences at Cota Vera was the largest property to come online this year. The developer funded its construction with a \$62 million loan.

San Diego Completions (as of September 2023)



Source: Yardi Matrix

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



Source: Yardi Matrix

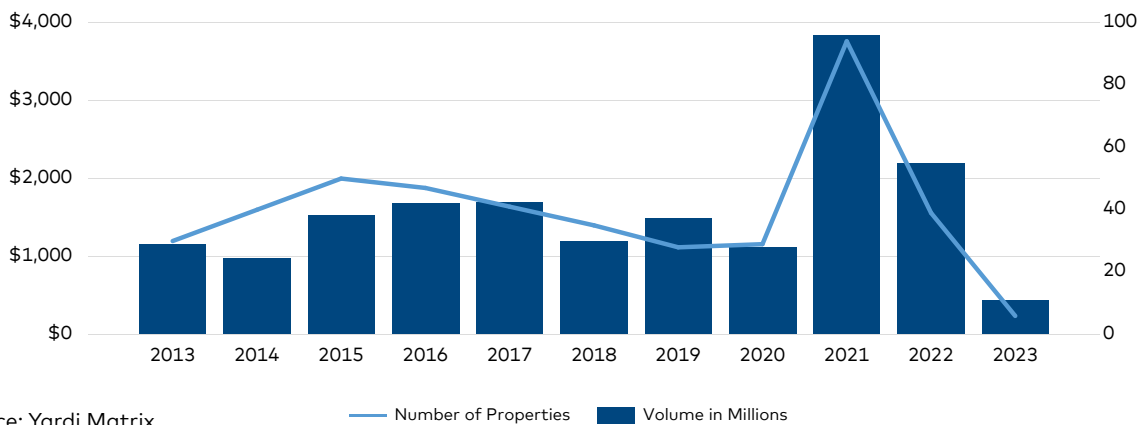
TRANSACTIONS

- ▶ Year-to-date through September, San Diego investors closed on six transactions involving properties of 50-plus units. The total sales volume was \$444 million, down 68.9% from the total recorded over the same period last year. The previous two years saw outsize performance—\$2.2 billion in 2022 and \$3.8 billion in 2021—but now it looks like investment activity has returned closer to historical averages.
- ▶ No new confirmed sales were recorded in the market after July. The average price per unit

stood at \$319,433, staying significantly ahead of the \$189,597 U.S. figure, but down 18.6% compared to last year's average.

- ▶ Over the 12-month period ending in September, sales volume totaled \$1.2 billion. The largest sale recorded was MG Properties' \$185 million acquisition of Domain San Diego in Kearny Mesa. The submarket's 2020-adopted Community Plan, intended to revitalize the area, continues to boost development and investment.

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



Source: Yardi Matrix

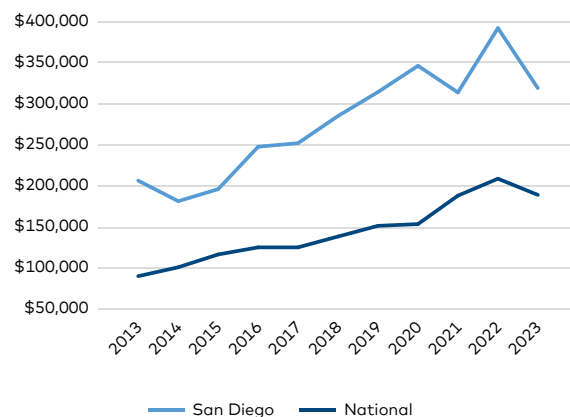
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
University	333
Kearny Mesa	292
La Mesa	141
Sweetwater	123
San Marcos	86
Vista	73
Central San Diego	58

Source: Yardi Matrix

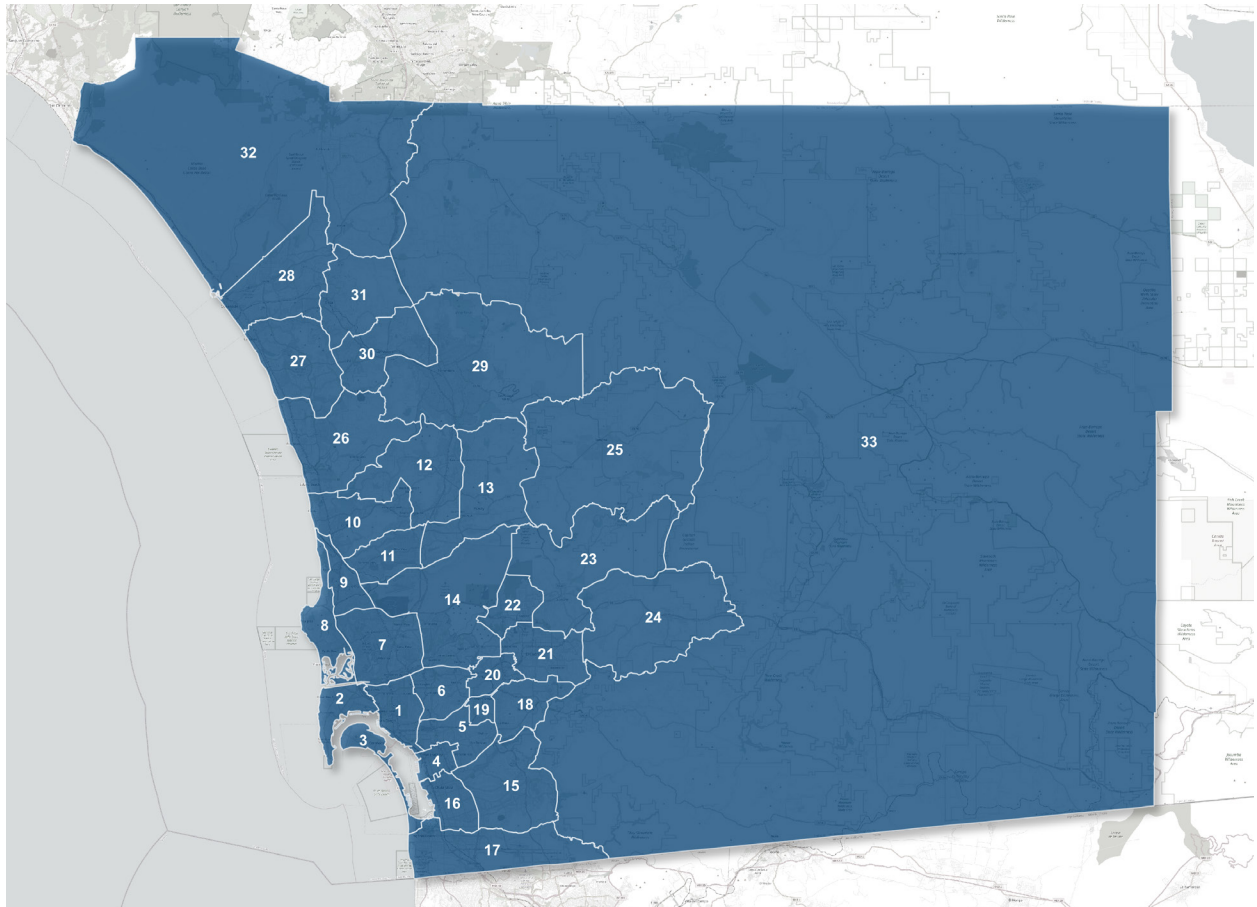
¹ From October 2022 to September 2023

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

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.



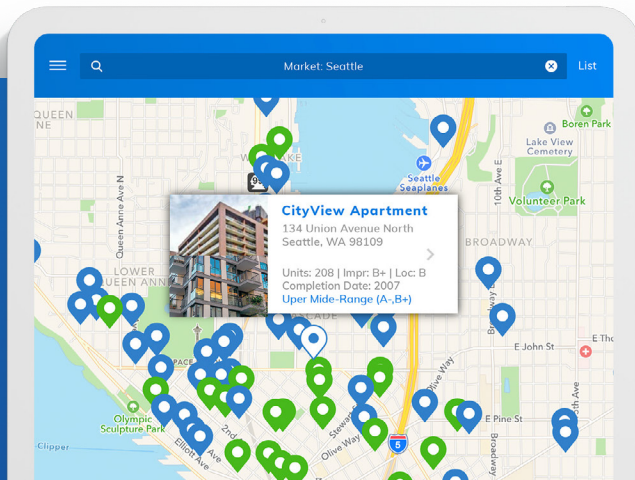
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