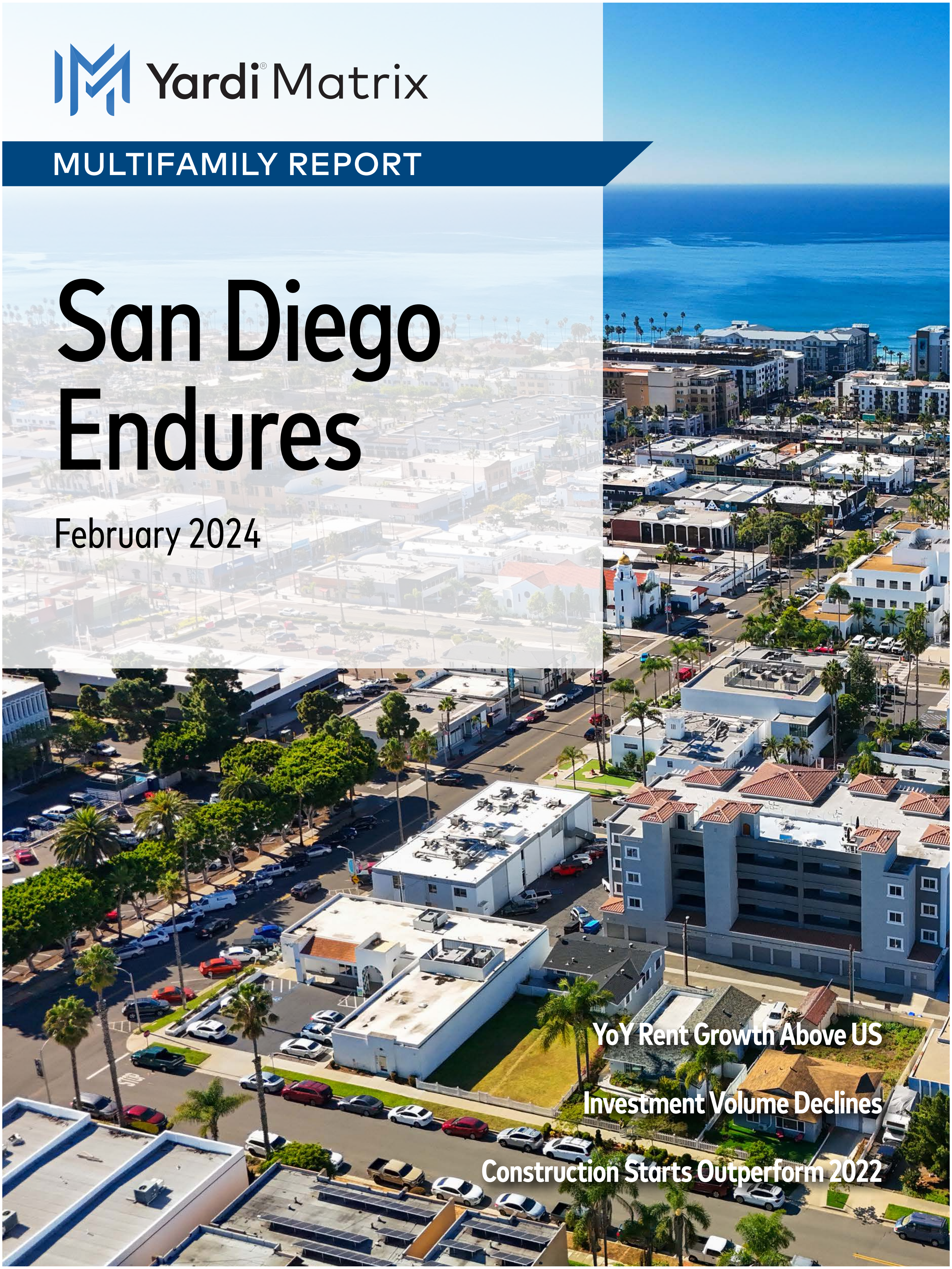
Yardi® Matrix

MULTIFAMILY REPORT

San Diego Endures

February 2024



YoY Rent Growth Above US

Investment Volume Declines

Construction Starts Outperform 2022

SAN DIEGO MULTIFAMILY

Yardi Matrix

Rent Growth Slows, New Starts Hold

As economic turmoil cleared slightly toward the second half of last year, San Diego rents were already feeling seasonal downward pressure. Rates contracted 0.3% on a trailing three-month basis through December—on par with the U.S.—to an average of $2,709. Year-over-year, San Diego fared better than many other major markets in 2023, with rents up 1.4%, 110 basis points above the national figure.

Unemployment reached 4.2% as of November 2023, up 50 basis points since the start of the year. This was the metro's highest rate since January 2022, as the high cost of capital slowed the pace of business. Still, San Diego was on better footing than California, which clocked in at 4.9%. In the 12 months ending in October, San Diego added 26,500 net jobs, a 2.2% expansion. After outpacing the national rate for the first nine months of the year, the trend shifted as 2024 drew closer. The metro's top performers were leisure and hospitality (11,100 jobs) and education and health services (10,100 jobs), while professional and business services lost 3,800 positions.

San Diego added 2,925 units to its inventory in 2023, which represented 1.5% of total stock, 90 basis points behind the nation. This was in line with the overall trend, but San Diego stood out in one category—4,907 units broke ground in 2023, almost 700 apartments more than 2022's total.

Market Analysis | February 2024

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Recent San Diego Transactions

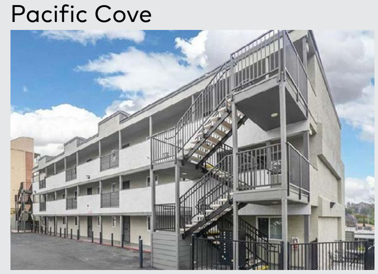
Waterleaf

City: Vista, Calif.
Buyer: MIG Real Estate
Purchase Price: $174 MM
Price per Unit: $381,579

Sunset Villa

City: Chula Vista, Calif.
Buyer: Floit Properties
Purchase Price: $28 MM
Price per Unit: $181,818

Pacific Cove

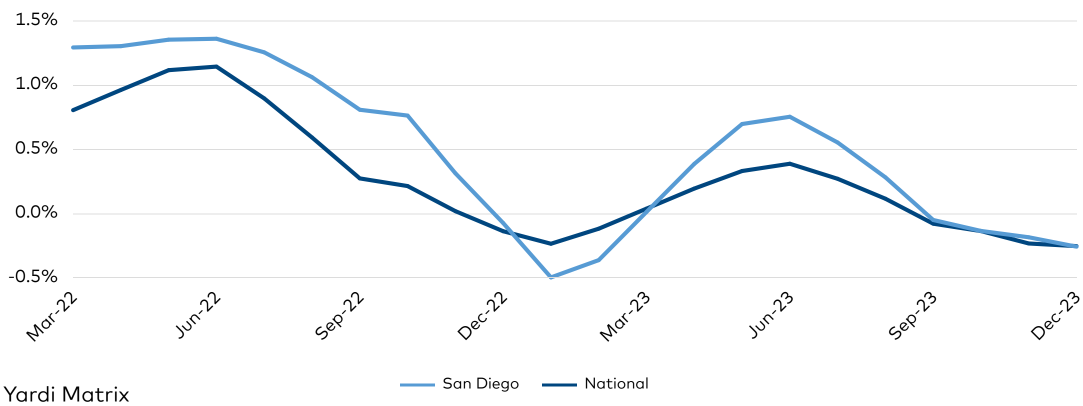


City: San Diego
Buyer: Herndon Capital Partners
Purchase Price: $18 MM
Price per Unit: $225,309

RENT TRENDS

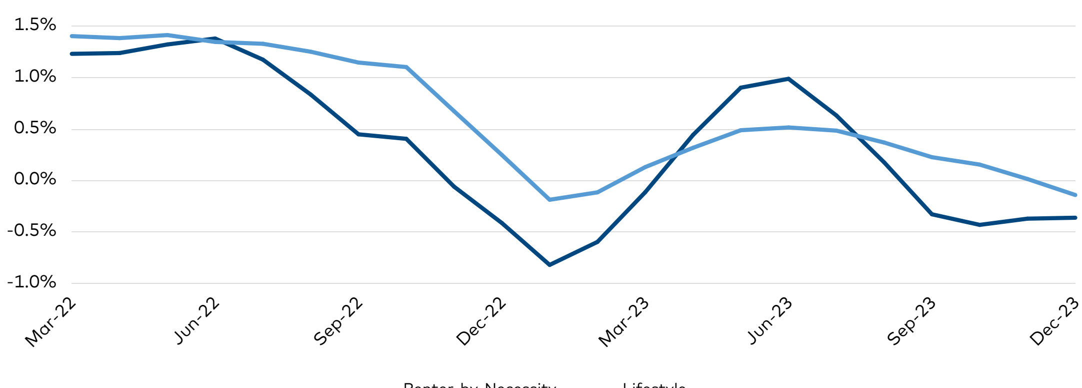
- San Diego rents were down 0.3% on a trailing three-month (T3) basis through December, on par with the national rate. Growth was tepid nationwide in 2023, but San Diego's T3 rate exceeded the nation's from April to August. Year-over-year, rents in the metro were up 1.4%, a solid 110 basis points above the U.S., Yardi Matrix data shows.
- The average rent was $2,709 as of December, $1,000 more than the U.S. rate. Rents in the working-class Renter-by-Necessity segment performed better, down only 0.1% on a T3 basis through December, to $2,357. Meanwhile, rates for Lifestyle assets dipped 0.4%, to an average of $3,198.
- Overall occupancy in stabilized San Diego assets was down 30 basis points over 12 months, to 96.7%, as of November 2023. Still, the rate remained 190 basis points above the U.S. figure. The short-term overcorrection of new supply coupled with reduced renter mobility led to pressures on occupancy nationwide. In San Diego, both quality segments took hits, with occupancy in RBN assets down 40 basis points, to 97.0%. Meanwhile, the Lifestyle figure was down 10 basis points, to 96.3%.
- Southern and eastern submarkets recorded some of the highest year-over-year rent gains. National City (7.8% to $1,963) led the list, followed by Chula Vista (5.5% to $2,159), El Cajon (4.5% to $2,147) and South Bay (4.4% to $2,484).

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 unemployment stood at 4.2% as of November 2023, according to preliminary data from the BLS—the highest rate since January 2022. The figure climbed 50 basis points since January of last year and was also 50 basis points higher than the national rate. Meanwhile, California unemployment clocked in at a higher 4.9%.
- The metro added 26,500 net jobs in the 12 months ending in October, for a 2.2% expansion of the labor pool, just 10 basis points behind the national rate. San Diego outpaced the national expansion rate for the first nine months of the year but continued to follow its multiyear deceleration path.
- Leisure and hospitality was still a top performer, with 11,100 positions gained, or a 5.6% expansion. Education and health services came in a close second, with 10,100 jobs, up 4.3%. Meanwhile, three sectors contracted: professional and business services (-3,800 jobs), manufacturing (-1,800) and information (-600).
- One of the largest upcoming projects in San Diego is the Midway Rising redevelopment, a 52-acre sports arena in the Midway District. At the end of last year, developers achieved a milestone in the years-long negotiations with the city. Plans call for a 16,000-seat arena, 130,000 square feet of commercial space and more than 4,600 residential units.

San Diego Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	210	13.3%
65	Education and Health Services	242	15.3%
40	Trade, Transportation and Utilities	227	14.3%
55	Financial Activities	79	5.0%
80	Other Services	59	3.7%
90	Government	254	16.0%
15	Mining, Logging and Construction	89	5.6%
50	Information	22	1.4%
30	Manufacturing	116	7.3%
60	Professional and Business Services	285	18.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- In line with most major metros, San Diego lost around 11,000 residents between 2020 and 2021, or a 0.3% decline. Meanwhile, the U.S. population expanded by 0.1%.

San Diego vs. National Population

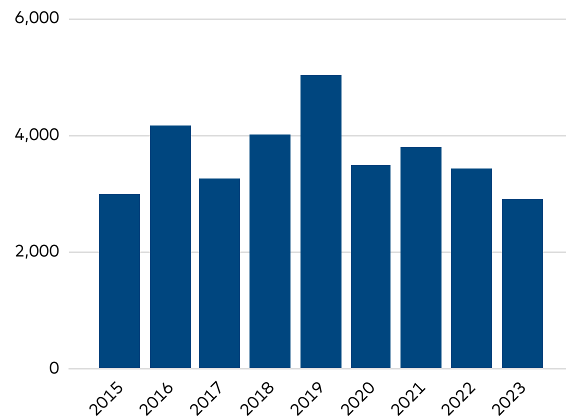
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Diego	3,332,483	3,330,459	3,297,252	3,286,069

Source: U.S. Census

SUPPLY

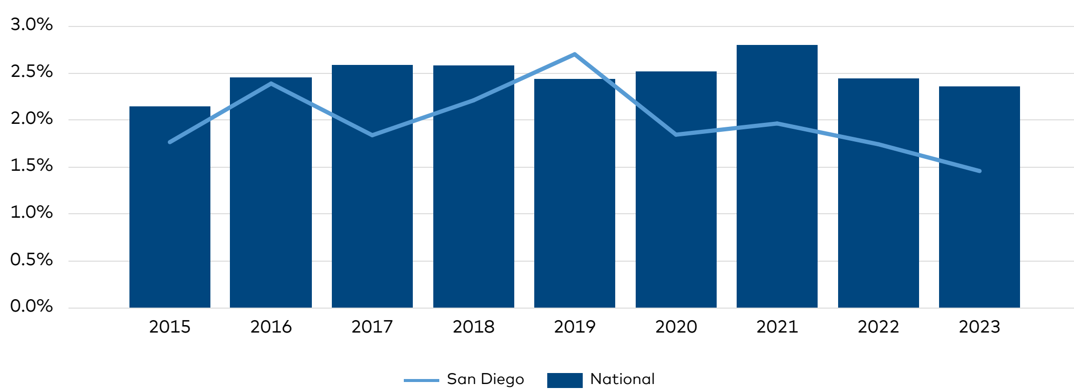
- In 2023, developers completed 2,925 units across metro San Diego, down 15% year-over-year. This represented 1.5% of stock, 90 basis points behind the national rate. Completions remained on a downward trend since 2019, which marked a decade peak, with 5,050 units. On average, the metro's inventory has grown by 3,750 units annually over the past five years. On top of development hurdles specific to Southern California, high interest rates will continue to pressure the landscape, which will also affect development over the next two years. Should market conditions hold, Yardi Matrix expects San Diego to grow its inventory by 4,026 units in 2024.
- At the end of last year, San Diego had 12,844 units under construction. The metro remained in line with national trends, as developers continued to focus on the upscale Lifestyle segment, which encompassed 82% of units underway. Almost all of the remaining 18% represented fully affordable projects. Meanwhile, an additional 37,000 units were in the planning and permitting stages.
- Bucking national trends, construction starts in San Diego last year surpassed 2022 by almost 700 units, for a total of 4,907 units.
- Three major submarkets comprised more than half of the development pipeline. These were: Central San Diego (3,717 units under construction), Kearny Mesa (2,330 units) and Sweetwater (1,307 units).
- The largest property to come online in 2023 was the 480-unit The Avalyn in the Sweetwater submarket. Ryan Cos. started development in 2020, funded with a $103.5 million construction loan from City National Bank.

San Diego Completions (as of December 2023)



Source: Yardi Matrix

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

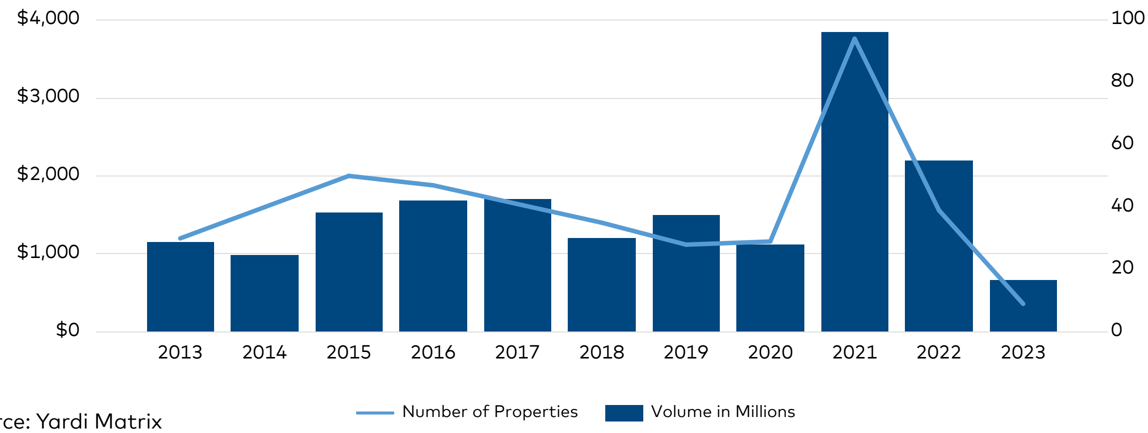


Source: Yardi Matrix

TRANSACTIONS

- In 2023, just nine confirmed transactions involving multifamily properties of more than 50 units closed in San Diego. That added up to $665 million, a 70% drop year-over-year. Two Lifestyle and seven RBN properties traded. As economic headwinds intensified and capital became more expensive, investors slowed the pace, with 2023 representing the lowest point in more than a decade.
- The average price per unit was $319,204 last year, significantly above the U.S. figure. The $392,493 average recorded in 2022 marked San Diego's highest price in 10 years. In 2023, RBN assets traded at $333,516 per unit—roughly $1,000 more than in 2022.
- The largest sale of the year took place in April. Pacific Urban Investors paid $177.3 million for the 400-unit Allina La Jolla, in the University submarket. The deal also marked the highest per-unit price of the year, at $443,250.

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



Source: Yardi Matrix

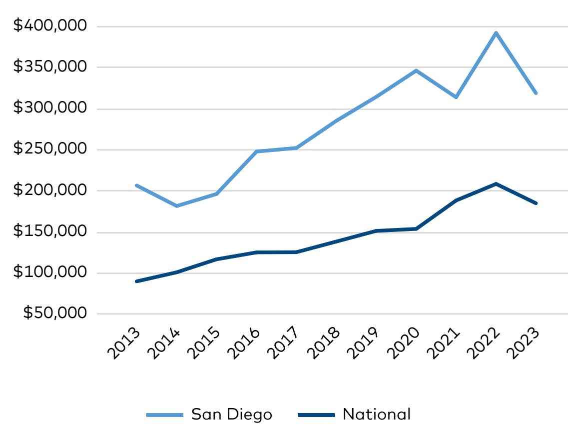
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
University	333
Oceanside	174
Kearny Mesa	90
Chula Vista	28
Central San Diego	21
Mid-City	18

Source: Yardi Matrix

[1] From January 2023 to December 2023

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

It Will Get Worse Before It Gets Better, a California Property Manager Warns

By Diana Firtea

As California continues to battle high living costs, stubborn inflation and rising insurance expenses, providing sustainable and affordable housing solutions is proving very challenging. eKevin Grani, president of Sterling Asset Management Co., the property management arm of Community Housing Opportunities Corp., talks about overcoming difficulties in one of the most supply-constrained affordable housing markets in the country.

What are the top challenges for California affordable housing operators today?

Property management in general comes with a unique set of challenges, and in affordable housing properties these challenges are not entirely new or unique. The challenge today is simply the lack of attainable affordable housing, given how long it takes to build.

We also often face the challenge when trying to find people to manage sites—due to budget restrictions—which are all driven by the rents that are controlled by California state agencies.

What can be done to alleviate the housing crisis?

There are so many different components to resolving this crisis but what it comes down to is supply and demand, and simply building more.

It's less of a management question and more about the development of housing and

providing supportive services to residents, which is where management can help. Things like financial literacy, guidance with finding food and rental assistance. You start with basic needs and then move to financial literacy and, eventually, self-sufficiency.

How can organizations maintain affordable rental rates when costs rise?

Frankly, it's incredibly difficult. Many in our industry are of the mind that it's not possible to keep rental rates lower as costs rise. As a property manager, CHOC does not set rental rates. The rates are set by state and federal agencies. Despite that, our hope is that we can develop more affordable housing to counteract this issue and, ideally, house as many people as we possibly can.

What are your short- and medium-term goals at Sterling?

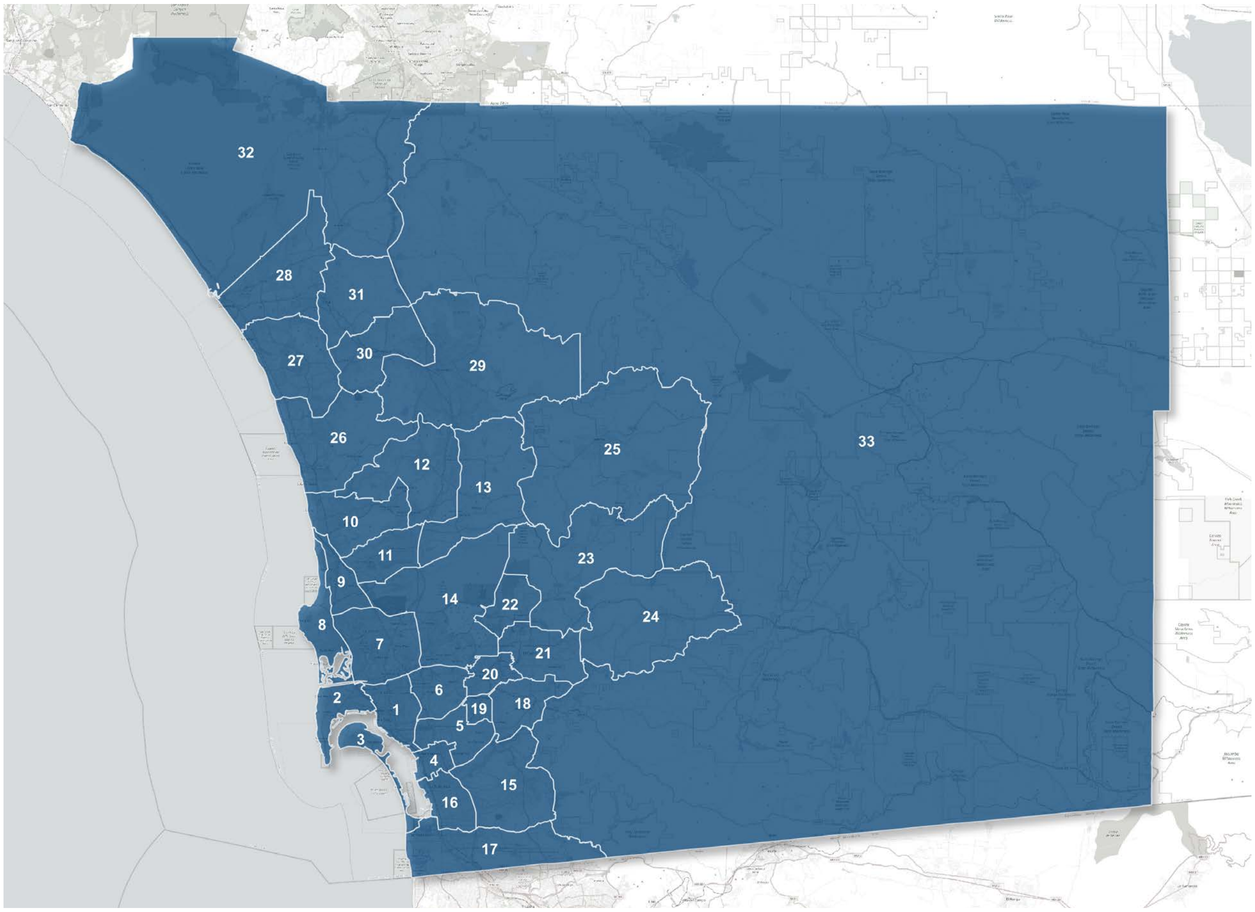
Our short-term goals include the ongoing development and investment in our property management team, across our portfolio, maximizing efficiencies wherever possible. However, that's only half the equation. Longer term, the resident experience is primary.

How do you expect the state's affordable housing crisis to evolve?

Unfortunately, as things stand, it will get worse before it gets better. It's essential that the state develops permanent sources of funding, in order to help organizations like ours develop and sustain multifamily affordable housing for as many people as possible.

(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:

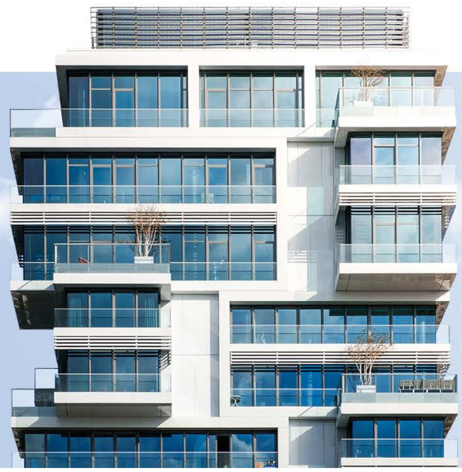
Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

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.

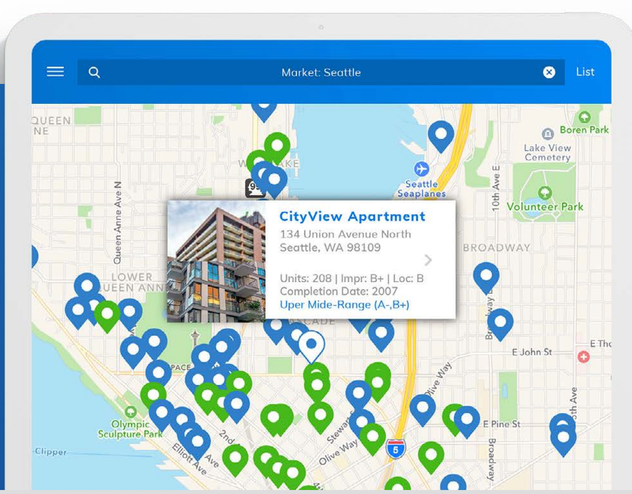
Yardi Matrix



Power your business with the industry's leading data provider

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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