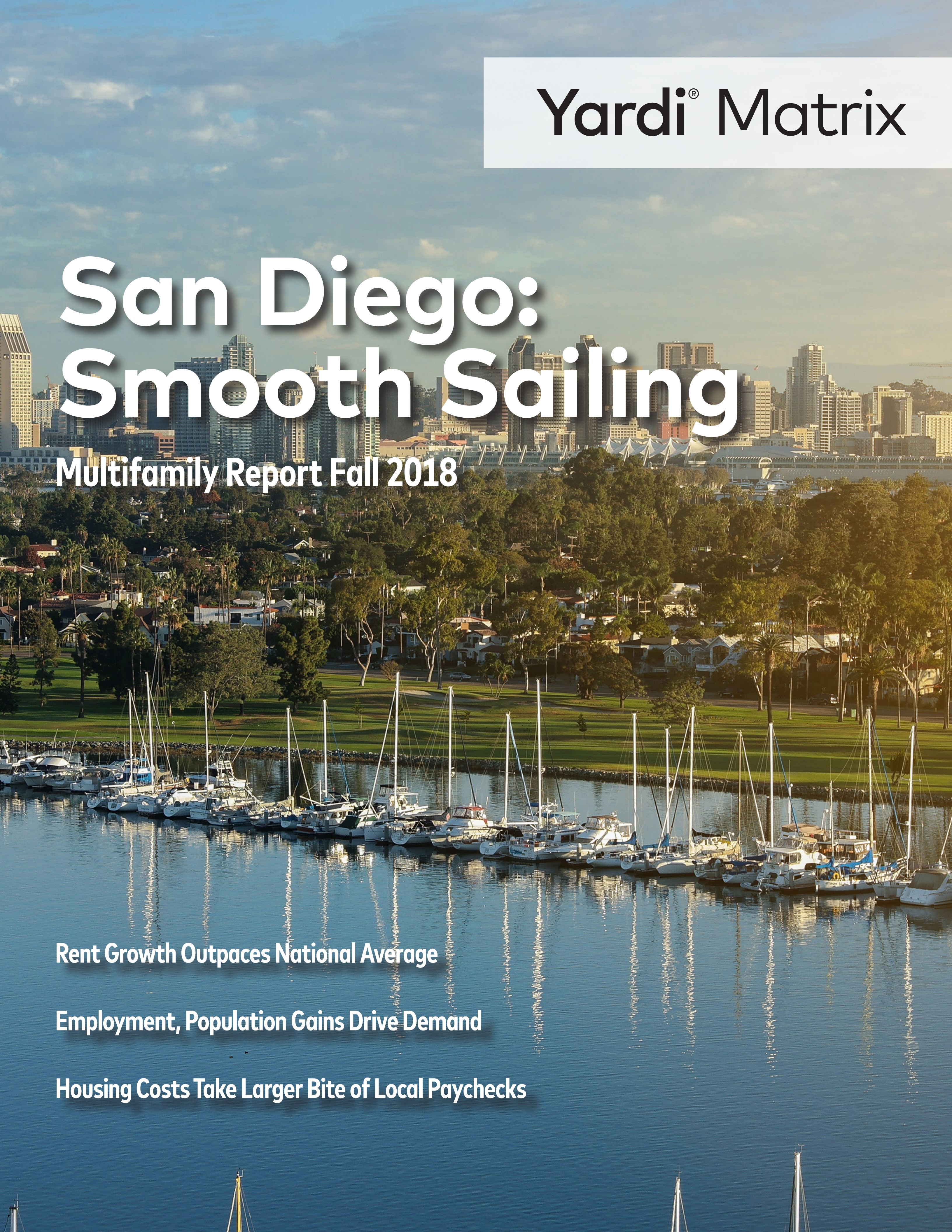

Yardi® Matrix

San Diego: Smooth Sailing

Multifamily Report Fall 2018

Rent Growth Outpaces National Average

Employment, Population Gains Drive Demand

Housing Costs Take Larger Bite of Local Paychecks

Market Analysis

Fall 2018

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Rental Demand Eclipses Supply

The multifamily market is strong in America's Finest City, where employment and population gains, along with a high barrier to homeownership, drive rent growth. Demand is especially solid among Millennials drawn to the region's well-paying STEM-oriented jobs.

Employment gains were led by professional and business services (11,500 jobs), followed by education and health services (5,000). As employers often recruit from outside the county, the tech industry is a significant contributor to the area's positive net migration, with fields such as cybersecurity, biotech, software development, data analytics and robotics expanding. The ongoing expansion of office-using employment is boosting demand for space, prompting further development. The $1.5 billion Manchester Pacific Gateway, one of the largest mixed-use developments in San Diego's history, broke ground in June. Plans call for 1 million square feet of Class A office space, two hotels, restaurants, retail space and a museum.

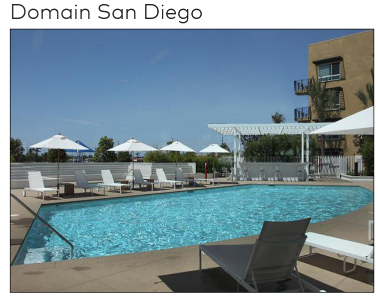
A high occupancy rate in stabilized properties and above-average rent gains are pushing up multifamily property values. As demand continues to outpace supply across the metro, we expect rent growth to remain fairly steady for the foreseeable future, in line with the 3.9% year-over-year rate recorded in September.

Recent San Diego Transactions

Alterra & Pravada

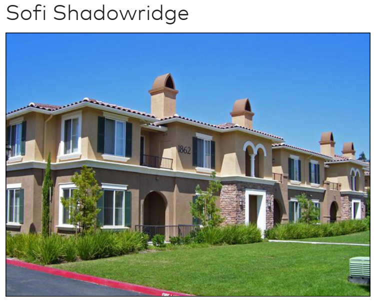
City: La Mesa, Calif.
Buyer: TruAmerica Multifamily
Purchase Price: $150 MM
Price per Unit: $283,681

Domain San Diego



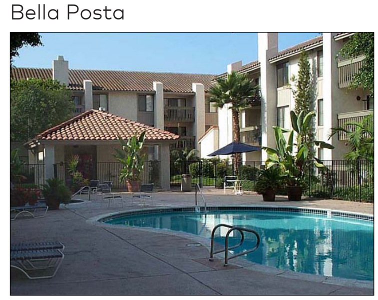
City: San Diego
Buyer: Magnolia Capital
Purchase Price: $132 MM
Price per Unit: $348,285

Sofi Shadowridge



City: Vista, Calif.
Buyer: Pacific Urban Residential
Purchase Price: $115 MM
Price per Unit: $366,242

Bella Posta



City: Mission Valley, Calif.
Buyer: Sares-Regis Group
Purchase Price: $98 MM
Price per Unit: $284,157

On the cover: Photo by xpoint/iStockphoto.com

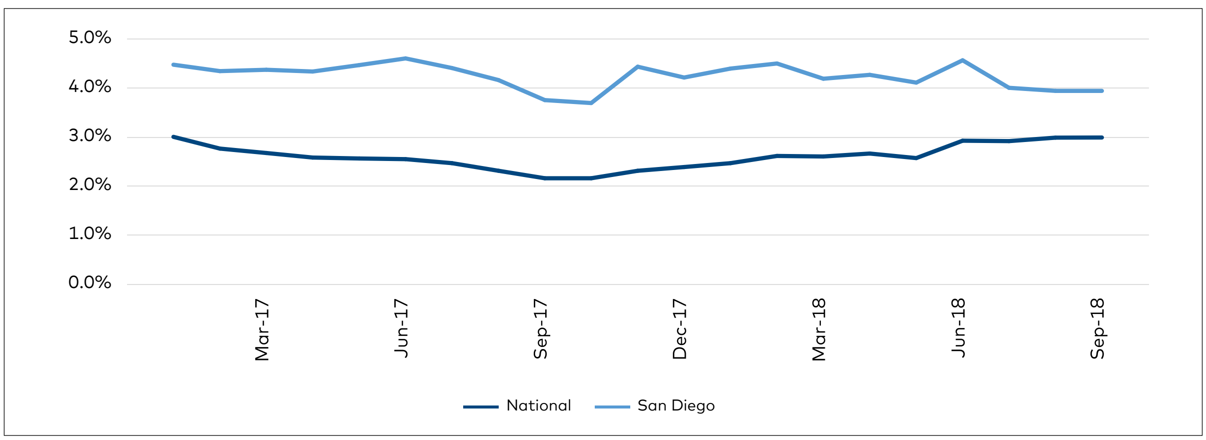
Rent Trends

- Rents in San Diego rose 3.9% year-over-year through September, outpacing the 3.0% national rate. The metro's average rent stood at $1,926, above the $1,412 national figure. Despite the delivery of more than 5,000 multifamily units from the beginning of 2017 through this September, occupancy in stabilized properties remained high, at 96.7% as of August, unchanged year-over-year, indicating a fast absorption of new product.

- Rents in the working-class Renter-by-Necessity segment rose 4.2% to $1,658, while Lifestyle rates increased 3.7%, to $2,367. Population and employment gains, along with a high barrier to homeownership, maintain strong rental demand across the metro. This is most evident among Millennials drawn to the region's well-paying STEM-oriented jobs. BLS statistics show that, between 2010 and 2017, San Diego posted a population increase of 76,282 residents due to migration alone.

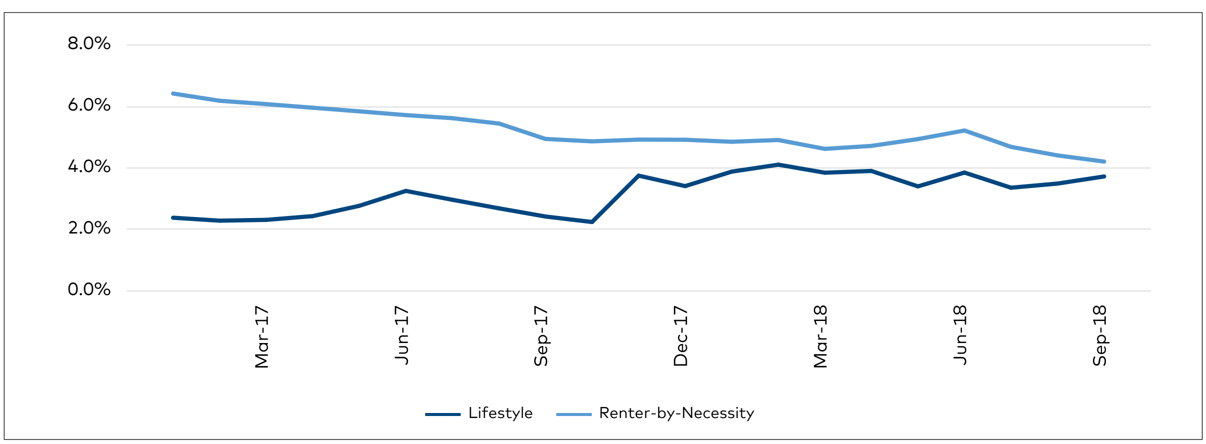
- Rents increased across all submarkets. Ramona saw the strongest year-over-year hike (up 8.6% to $1,418), followed by South Bay (8.3% to $1,795), Southeast San Diego (7.4% to $1,386), Mid-City (5.9% to $1,861), National City (5.8% to $1,282) and Mira Mesa (5.4% to $2,120). In Del Mar, which commands the highest average rate in the metro, rents were up 5.0%, to $2,733. In Central San Diego, the submarket leading development, the average rate rose 2.0% year-over-year.

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

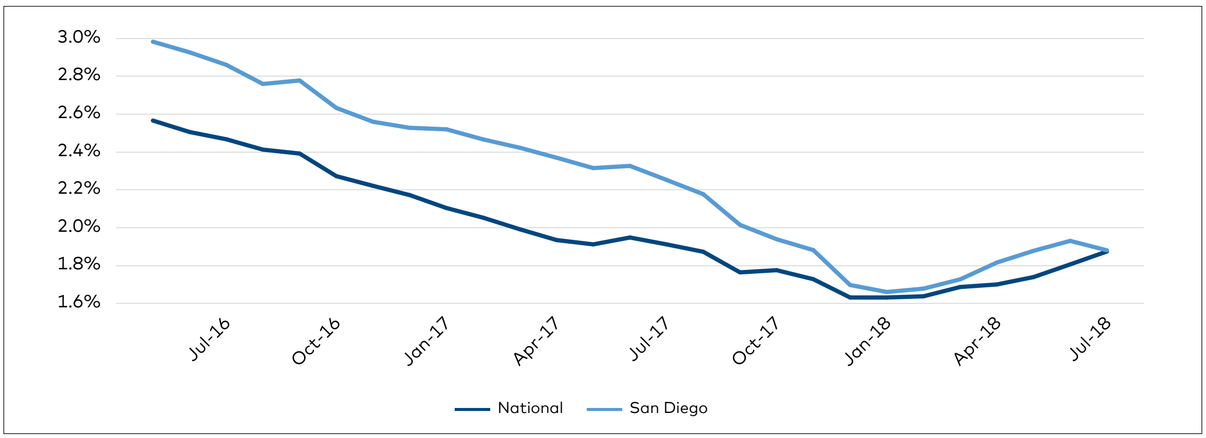
Economic Snapshot

- San Diego added 21,200 jobs over the 12 months ending in July, a 1.9% year-over-year increase, in line with the national growth rate. The unemployment rate stood at 3.5% for the same month, lower than the state's 4.2% and the nation's 3.9%, but higher than in April, when the metro's unemployment dipped to 2.9%, its lowest level in 18 years.

- With 11,500 jobs, professional and business services led growth by far, followed by education and health services (5,000). The rapidly expanding tech sector is particularly important to the local economy, thanks to a highly skilled workforce that continues to attract employers. In October, tech giant Teradata relocated its global headquarters from Ohio to Rancho Bernardo, a move that brought 300 new tech jobs and is expected to generate another 200 by the end of the year. In September, Amazon opened its 85,000-square-foot Tech Hub, which is set to create 300 tech jobs in University City.

- Office-using employment is boosting demand for space, fueling development and office leasing velocity. The San Diego office pipeline totaled almost 2.9 million square feet as of late October, with most large projects expected to come online in 2020. The $1.5 billion Manchester Pacific Gateway, which broke ground in June, is slated to bring 1 million square feet of downtown office space by 2021, along with two hotels, retail space and a museum.

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	%
60	Professional and Business Services	246	16.7%	11,500	4.9%
65	Education and Health Services	206	14.0%	5,000	2.5%
30	Manufacturing	114	7.7%	3,900	3.5%
15	Mining, Logging and Construction	83	5.6%	2,700	3.4%
80	Other Services	58	3.9%	2,400	4.3%
90	Government	241	16.4%	1,700	0.7%
50	Information	25	1.7%	100	0.4%
55	Financial Activities	74	5.0%	-1,400	-1.9%
40	Trade, Transportation and Utilities	227	15.4%	-1,400	-0.6%
70	Leisure and Hospitality	199	13.5%	-3,300	-1.6%

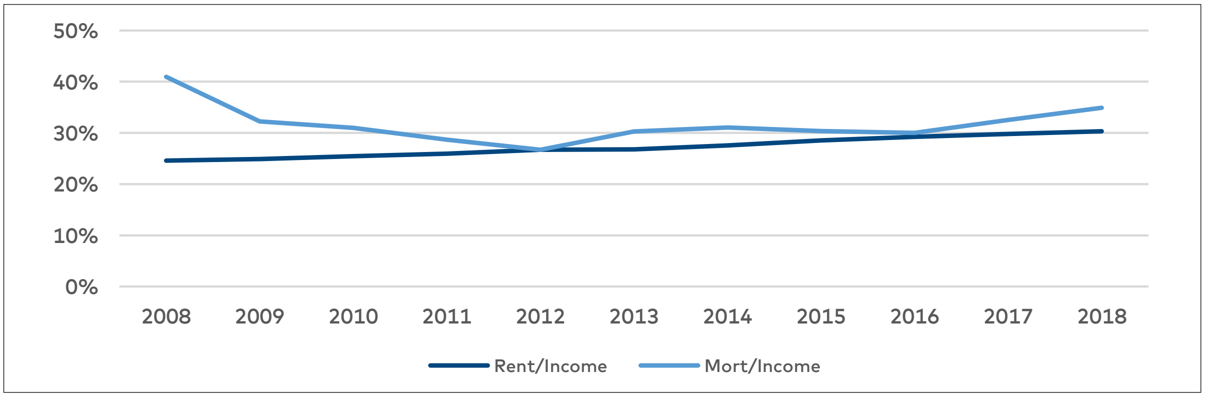
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

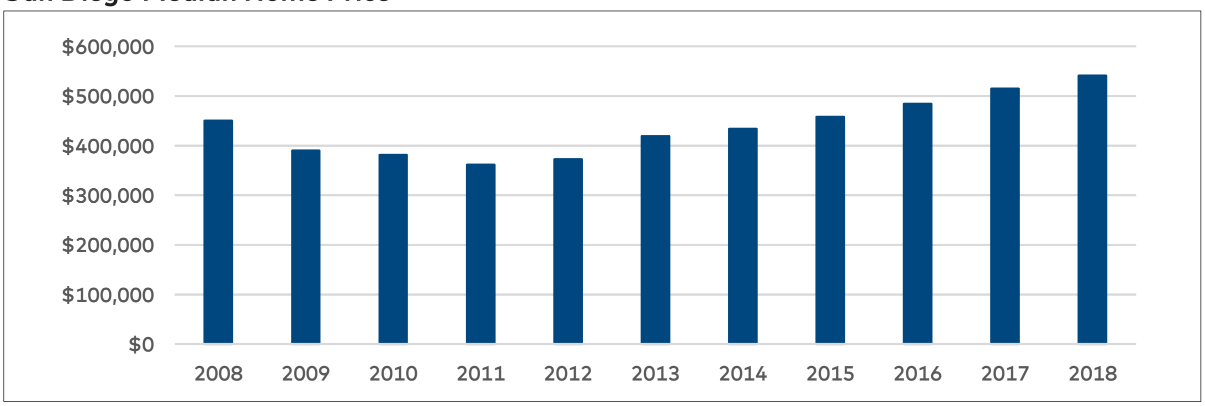
- The median home price in San Diego climbed to $540,660 in the first half of 2018, up 5% since 2017 and 50% above the 2011 level, marking a new strong cycle peak. The average rent accounted for 30% of the area's median income, while the average mortgage payment equated to 35%.
- As home prices have risen faster than wages, housing affordability in San Diego dropped in recent years, causing a shrinking of the middle class. More than 1 million San Diegans are burdened by their living costs, according to the Center on Policy Initiatives. This figure takes into account housing, food, transportation, childcare, medical expenses and taxes.

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 gained more than 20,000 residents in 2017, a 0.6% increase, trailing the 0.7% national growth rate.
- The metro added 121,000 people between 2013 and 2017, a 3.8% uptick, outpacing the 3.0% U.S. average.

San Diego vs. National Population

	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Diego Metro	3,216,522	3,256,875	3,290,044	3,317,200	3,337,685

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

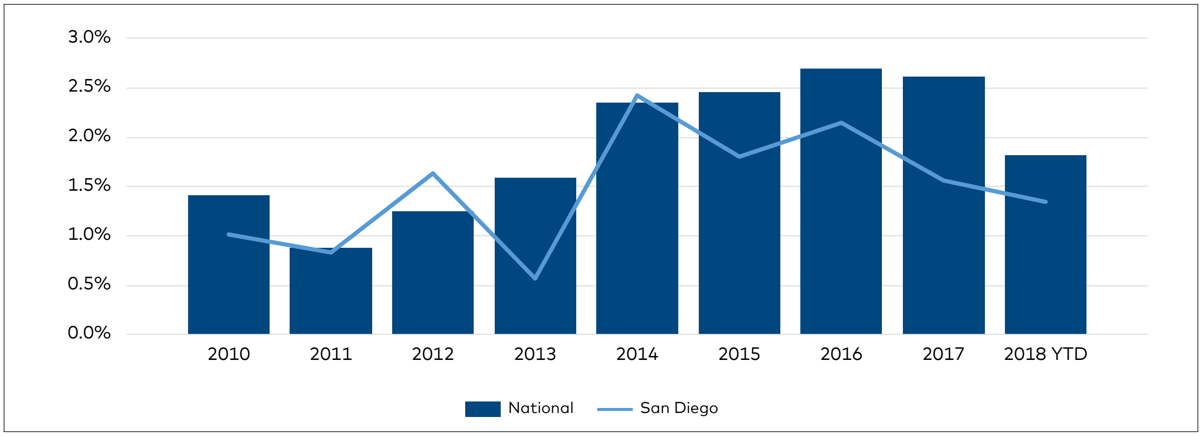
Supply

- Eleven properties totaling 2,453 units came online this year through September, with eight of these catering to Lifestyle renters. As several more projects are scheduled for delivery by year-end, 2018 completions could surpass the supply level of 2017, when 2,808 apartments representing 1.6% of total stock were added.

- More than 8,000 units were under construction as of September, while another 31,500 units were in the planning and permitting stages. Demand is keeping up with the pace of new supply, bolstering above-average rent growth. Occupancy in stabilized properties remained flat year-over-year, at 96.7% as of August, indicating a rapid absorption of new units.

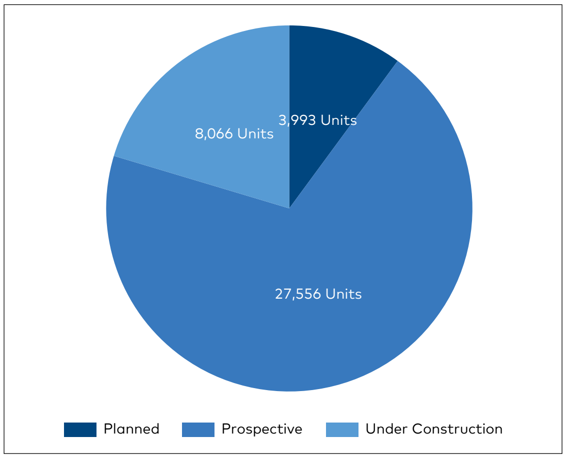
- Central San Diego had 14 multifamily projects underway, totaling 3,303 units. The largest of these, Pinnacle on the Park Phase II, is slated to bring 472 new apartments by early 2019. University City had 860 units going up, including the 560-unit LUX UTC, the metro's largest multifamily project under construction as of September. Developers are also active in Elliot–Navajo (713 units under construction), Carlsbad (642 units), Sweetwater (562 units) and Kearny Mesa (553 units).

San Diego vs. National Completions as a Percentage of Total Stock (as of September 2018)



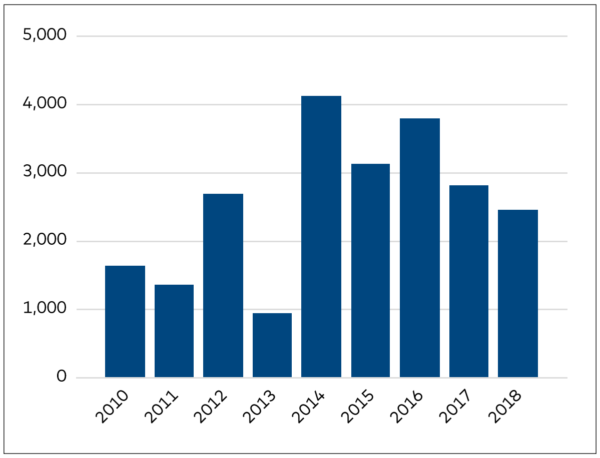
Source: YardiMatrix

Development Pipeline (as of September 2018)



Source: YardiMatrix

San Diego Completions (as of September 2018)

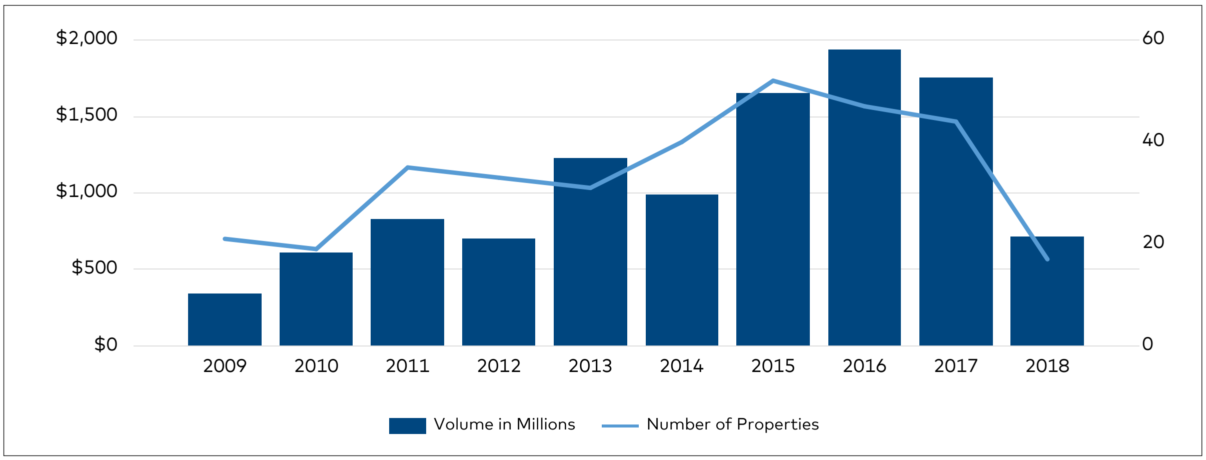


Source: YardiMatrix

Transactions

- Seventeen communities worth a combined $711 million traded in San Diego this year through September, at an average per-unit price of $283,669, well above the $151,135 national average. Last year, 44 properties worth nearly $1.8 billion changed hands at an average per-unit price of $256,838.
- Fourteen of the 17 traded communities are Renter-by-Necessity with a value-add component, with acquisition yields reaching 5.5% for Class C assets in infill locations and 6.0% for Class C suburban stock.
- TruAmerica Multifamily and Intercontinental Real Estate Corp.'s recent acquisition of the 527-unit Alterra & Pravada in La Mesa ranks as the largest deal of the 12 months ending in September. The joint venture paid nearly $150 million, or $283,681 per unit, for the transit-oriented asset developed by Fairfield Residential and the Metropolitan Transit Authority in 2010.

San Diego Sales Volume and Number of Properties Sold (as of September 2018)



Source: YardiMatrix

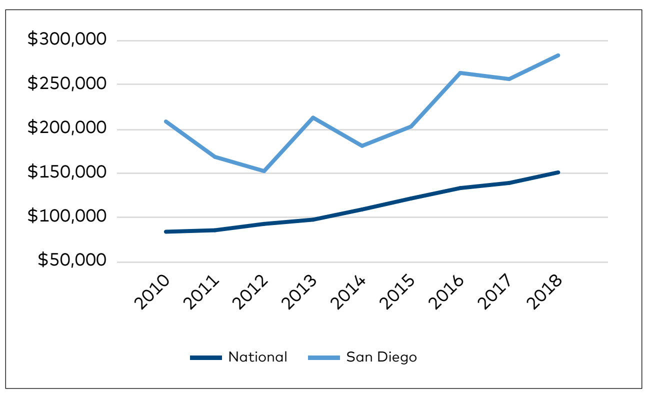
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Kearny Mesa	287
Oceanside	195
La Mesa	191
Vista	115
Elliot–Navajo	98
Mid-City	65
San Marcos	64
Del Mar	55

Source: YardiMatrix

[1] From October 2017 to September 2018

San Diego vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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LMC Launches Leasing at CA Community

Located in the Southern California seaside town of Carlsbad, the 278-unit Marisol features smart home technology and provides a range of amenities.

Affordable San Diego Asset Lands $52M Refi

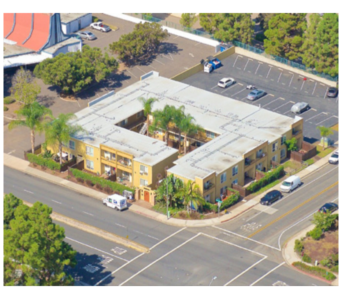
Berkeley Point arranged the financing for Lantana Hills Apartment Homes, a 380-unit asset built in two phases. The community underwent renovations between 2014 and 2017.

IPA to Market $21M CA Community

The firm will handle the sale of Villa Capri in Escondido, which includes 98 units and is currently 98 percent occupied.

Affordable CA Asset Trades for $30M

Marcus & Millichap facilitated the sale of Grandon Village, a 161-unit community in San Marcos. The age-restricted property was fully occupied upon closing.



Kidder Mathews Brokers 1031 Exchange

Jim Neil, Eric Comer and Merrick Matricardi represented the buyer in the transaction involving a 26-unit apartment building in Clairemont, Calif.

JV Acquires Massive San Diego-Area TOD

TruAmerica Multifamily and Intercontinental Real Estate Corp. secured Alterra & Pravada at Grossmont Station, a 527-unit property in La Mesa.

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MULTI-HOUSING NEWS

Tackling San Diego's Affordable Housing Crunch

San Diego is dealing with its most severe affordability crisis in 25 years. In a discussion with Associate Editor Laura Calugar, local developer Affirmed Housing's Jim Silverwood and SVA Architects' Ernesto Vasquez share their views on local housing legislation and trends in the sector.

San Diego is struggling with an ongoing affordability issue. At 4.1 percent year-over-year as of April, rent growth continues to heavily outperform the U.S. rate, according to Yardi Matrix data. In 2010, city officials estimated that the metro needed to build 38,680 affordable units before 2020 to meet the area's need.

What contributed to this affordable housing crisis?

NIMBY positions by local community planning groups that had grown too powerful over the years, lack of will by city council members, restrictions on density, restrictions on height, too much parking and expensive impact fees, due in large part to the tax rules imposed under Proposition 13 many years ago.

What do you think about the Affordable Housing Act initiative? How would rent control restrictions on new buildings affect the affordable housing market in the area?

We are opposed to rent control, as it may impact even affordable housing since there is no exemption for affordable housing. I also have concerns that politicians may believe that this would solve the affordable housing crisis, when in fact, it will simply exacerbate the current situation, as there will be reduced production of rental housing.

What should the metro's affordable housing strategy for the next five years include?

Increased funding for affordable housing. There are plans underway for a significant $900 million affordable housing bond measure for the city of San Diego. This would help make up for the tremendous loss of funds caused by the termination of RDAs back in 2012.

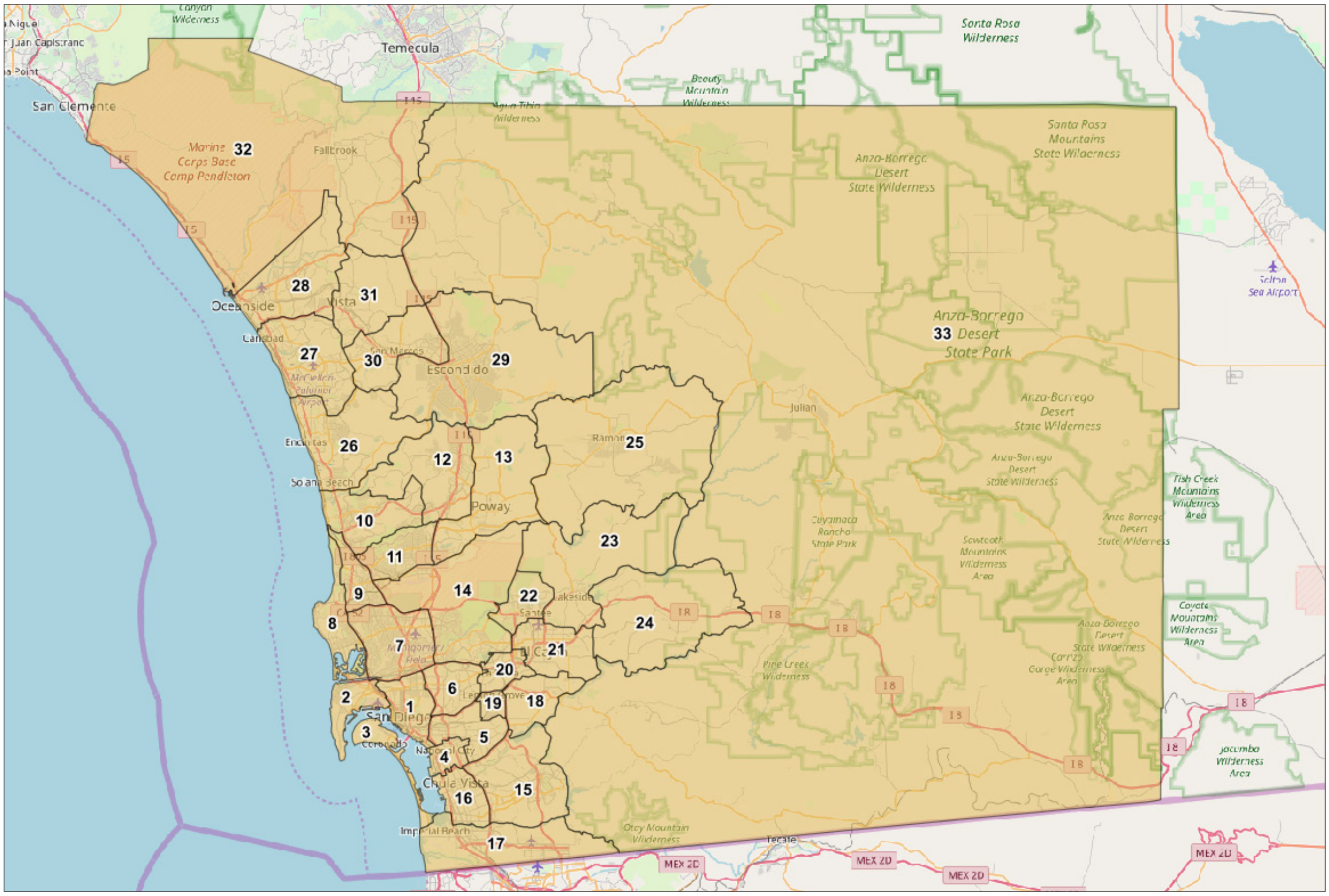
Tell us more about your most recent affordable housing projects.

We currently have 14 transactions in our development pipeline. These include everything from family housing to senior, to veteran and housing for the homeless. We are especially proud of the work we have done in the PSH (Permanent Supportive Housing) area. We now have three of these communities in operations, two more currently under construction and expect to break ground on five more within the next 12 months. We develop up and down the state of California, with a focus on Los Angeles, the Bay Area and, of course, our home base here in San Diego.

Please give us some details about the projects you are currently working on in the San Diego area.

Comm 22 is a great example of what can be done along the transit corridors. Comm 22 has a county clinic on the ground floor and youth education—all offered on light-rail transit. Additionally, it offers multifamily and senior housing situated together.

San Diego Submarkets



Area #	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 #	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 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.