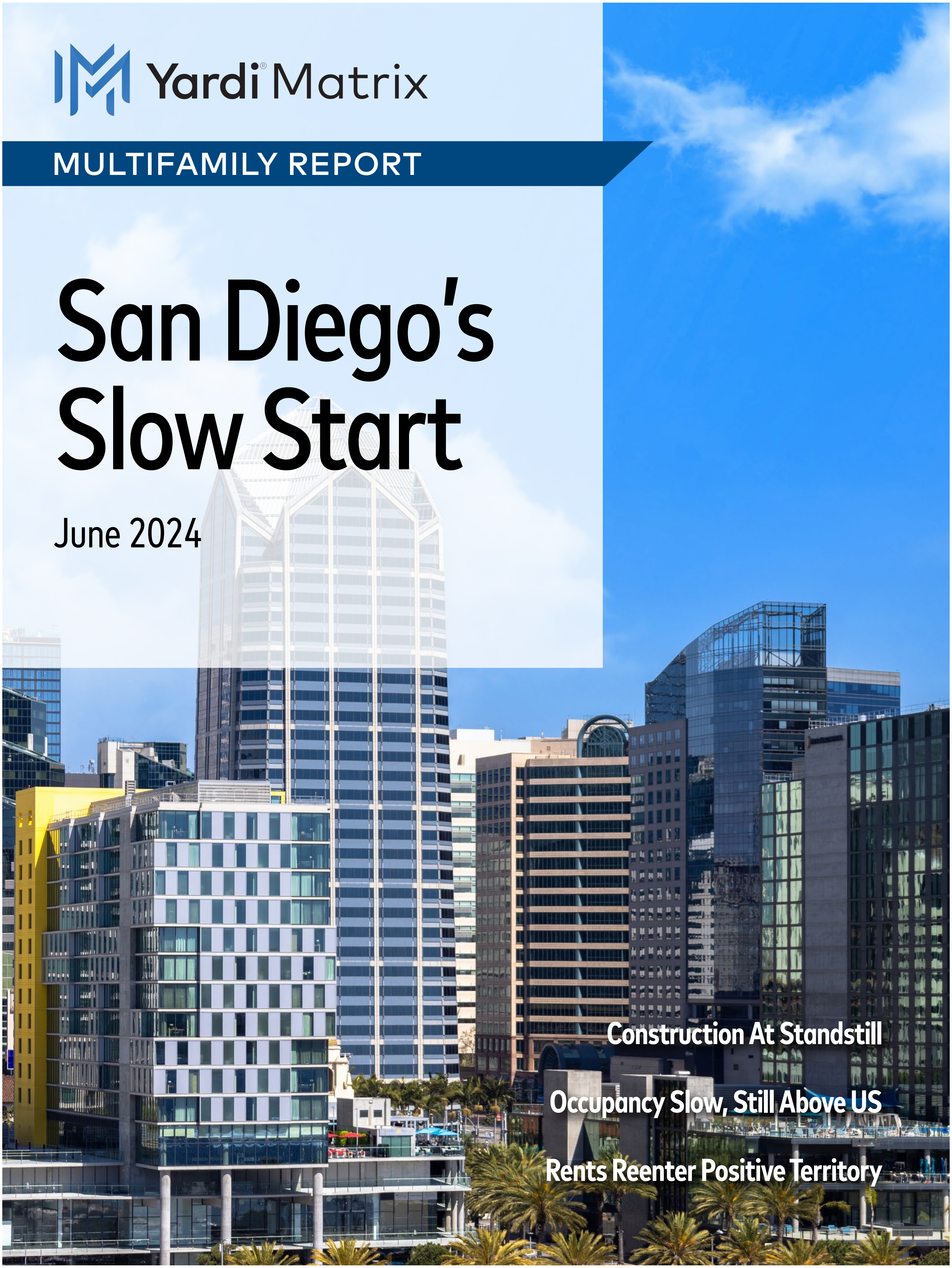
Yardi Matrix

MULTIFAMILY REPORT

San Diego's Slow Start

June 2024



Construction At Standstill

Occupancy Slow, Still Above US

Rents Reenter Positive Territory

SAN DIEGO MULTIFAMILY

Yardi Matrix

Rent Growth Improves As Fundamentals Slow

After five months of contractions, San Diego's rents returned to positive territory, improving 0.2% on a trailing three-month basis through April, but slightly lagging the nation's 0.3%. Year-over-year growth clocked in at 0.4%, to $2,705, behind the 0.7% U.S. rate. In line with national trends, occupancy for stabilized assets dropped 80 basis points, to 96.1% as of March, but remained above the nation's 94.5%.

The Southern California metro's economy is showing some signs of improvement, but progress is modest. Unemployment improved 40 basis points since February, to 4.4% as of March, according to preliminary data from the Bureau of Labor Statistics. This was higher than the 3.8% national rate, but below California's 5.3% figure. Job expansion over the 12 months ending in February stood at 0.9%, amounting to a net gain of 13,600 positions. Education and health services led growth, with 15,000 jobs gained (up 6.3%). A few sectors recorded losses, including professional and business services (-8,900) and manufacturing (-3,200).

Multifamily development remained sluggish at best, with only 126 units coming online during the first four months of the year. During this period, construction began on a single 192-unit property, indicating that developers are prepared to wait for more favorable conditions. Investment paints a similar picture, as only $198 million in deals closed through April.

Market Analysis | June 2024

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Recent San Diego Transactions

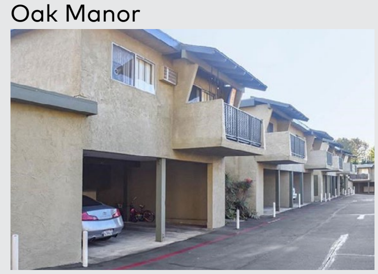
Pulse Millenia

City: Chula Vista, Calif.
Buyer: MG Properties
Purchase Price: $116 MM
Price per Unit: $424,908

The Emery at Terra Nova

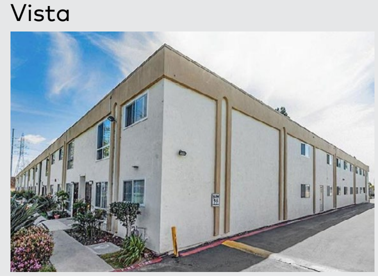
City: Chula Vista, Calif.
Buyer: Pacific Urban Investors
Purchase Price: $82 MM
Price per Unit: $351,931

Oak Manor



City: Vista, Calif.
Buyer: Oaks Property Management
Purchase Price: $43 MM
Price per Unit: $229,946

Vista

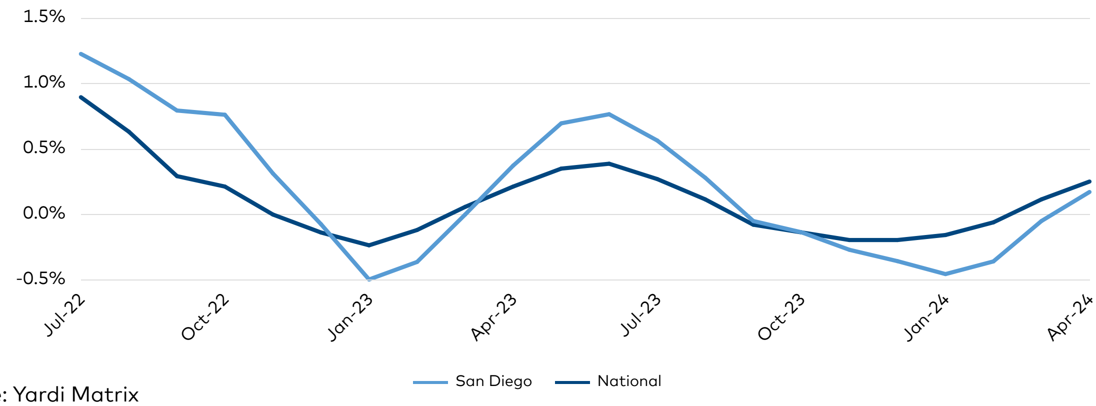


City: Chula Vista, Calif.
Buyer: Ethos Real Estate
Purchase Price: $37 MM
Price per Unit: $428,333

RENT TRENDS

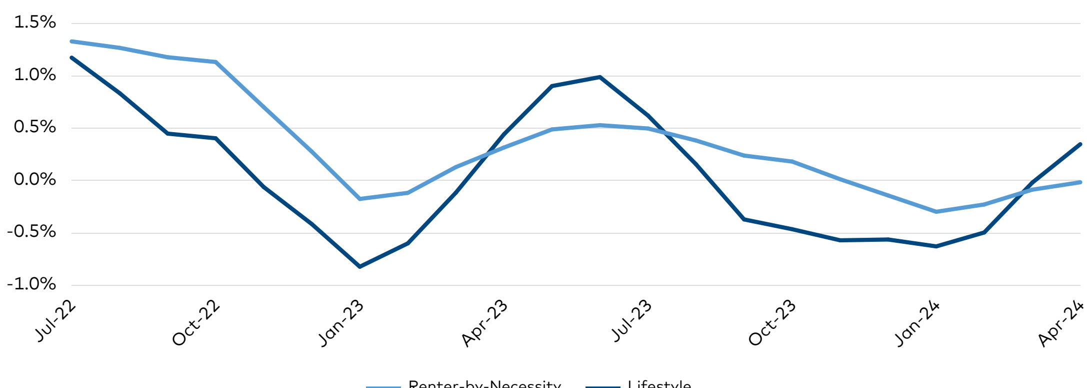
- San Diego rents were up 0.2% on a trailing three-month (T3) basis through April, lagging the nation by 10 basis points. This followed a month of flat development and, prior to that, five months of contractions that were 20 to 30 basis points below the national figure. On a year-over-year basis, rents were up 0.4%, 30 basis points behind the U.S. Should conditions remain stable, Yardi Matrix expects the metro's year-over-year rate to reach 0.8% by year-end.
- The average rent was $2,705 as of April, nearly $1,000 more than the $1,725 U.S. figure. Working-class Renter-by-Necessity rates remained flat on a T3 basis through April, at $2,352, following four months of slight contractions. Meanwhile, Lifestyle rates inched up to 0.3%, but this followed more drastic contractions, with the average settling at $3,188.
- Overall occupancy for stabilized assets in San Diego dropped 80 basis points year-over-year, to 96.1% as of March, still significantly above the 94.5% U.S. figure. RBN occupancy remained higher, at 96.4%, after an 80-basis-point drop, while the Lifestyle segment was down 70 basis points, to 95.8%.
- Of the 33 San Diego submarkets tracked by Yardi Matrix, 16 recorded above-average year-over-year rent growth, led by National City, up 8.6%, to $2,037. It was followed by other suburban submarkets, including Chula Vista (up 5.2% to $2,177), Santee (3.8% to $2,513), Spring Valley (3.1% to $2,554) and Vista (3.1% to $2,500).

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 4.4% in March, according to preliminary data from the BLS. This was a 40-basis-point improvement from February, but the rate was also 90 basis points higher year-over-year. Meanwhile, the U.S. rate stood at 3.8% and California at 5.3%.
- In the 12 months ending in February, San Diego gained 13,600 net jobs, for a 0.9% expansion—60 basis points below the U.S. figure. The metro's growth rate has been on a continuous downward trend since August 2022. It slid behind the national rate back in March 2023 and has failed to catch up since.
- Education and health services led growth, with 15,000 jobs gained, up 6.3%, followed by leisure and hospitality (6,100 jobs) and government (5.700). Several sectors lost jobs, with professional and business services taking the largest hit (-8,900), followed by manufacturing (-3,200).
- Life science investment took a huge hit in 2023, but this year shows a lot of promise due to a record number of FDA approvals for new drug applications in the pipeline. San Diego stands to benefit, with one of the largest developments in this sector slated to come online this year—IQHQ's $1.6 billion Research and Development District, which will occupy three city blocks.

San Diego Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	253	16.3%
70	Leisure and Hospitality	200	12.9%
90	Government	255	16.4%
80	Other Services	57	3.7%
15	Mining, Logging and Construction	90	5.8%
40	Trade, Transportation and Utilities	221	14.2%
50	Information	21	1.4%
55	Financial Activities	71	4.6%
30	Manufacturing	112	7.2%
60	Professional and Business Services	272	17.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Diego's population contracted by 0.2% between 2021 and 2022, losing 6,616 residents. On a 10-year basis however, the metro was up 189,201 residents. Meanwhile, the U.S. population grew 0.4% in 2022.

San Diego vs. National Population

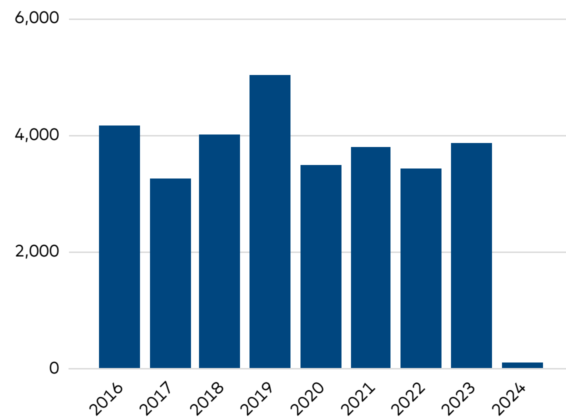
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
San Diego	3,316,073	3,323,970	3,296,317	3,289,701

Source: U.S. Census

SUPPLY

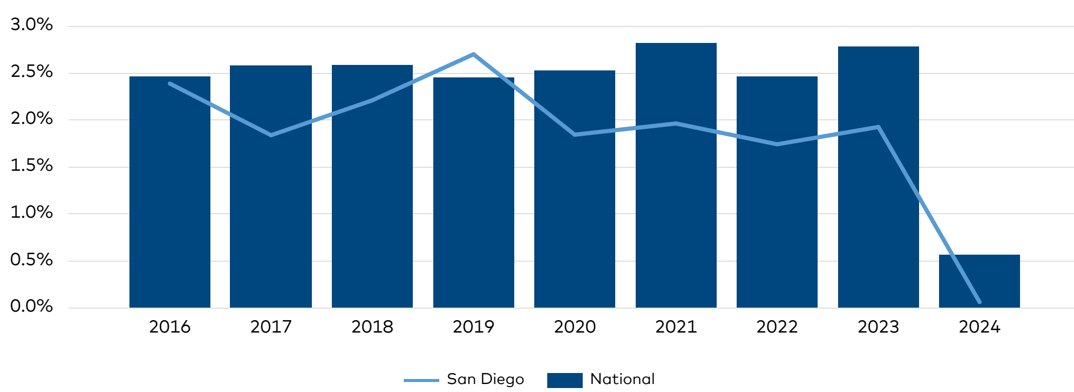
- San Diego completions were sluggish, with only two properties totaling 126 units coming online during the first four months of the year. This represented less than a 0.1% expansion of existing stock and was 50 basis points behind the U.S. rate. Last year's completions were stronger, with 3,884 units coming online—on par with the prior eight-year annual average of 3,896 units.
- The metro has had a steady pace of completions since 2016, but only exceeded the U.S. rate in 2019, when 5,050 units came online (2.7%). Should market conditions hold, Yardi Matrix expects San Diego to grow its inventory by 1.7% in 2024, in line with the past four-year average.
- San Diego had 12,310 units under construction as of April, 71.0% of which were in Lifestyle assets, followed by a significant 26.5% portion in fully affordable properties, while the remaining were RBN assets. An additional 40,000 units were in the planning and permitting stages.
- A single property broke ground in the first four months of the year, totaling 192 units, as developers wait for better economic prospects. This was a sharp decline from the six properties and 640 units that broke ground during the same period last year.
- Development was focused across the same four major submarkets as in previous years. Central San Diego (3,089 units), Kearny Mesa (2,320), Sweetwater (1,019) and South Bay (1,012) together accounted for 60.4% of the pipeline.
- The largest property underway is the 618-unit Broadway Towers, owned by Pinnacle International. It broke ground in 2019 and is expected to come online this year. It includes 11,361 square feet of retail and 49 affordable units.

San Diego Completions (as of April 2024)



Source: Yardi Matrix

San Diego vs. National Completions as a Percentage of Total Stock (as of April 2024)



Source: Yardi Matrix

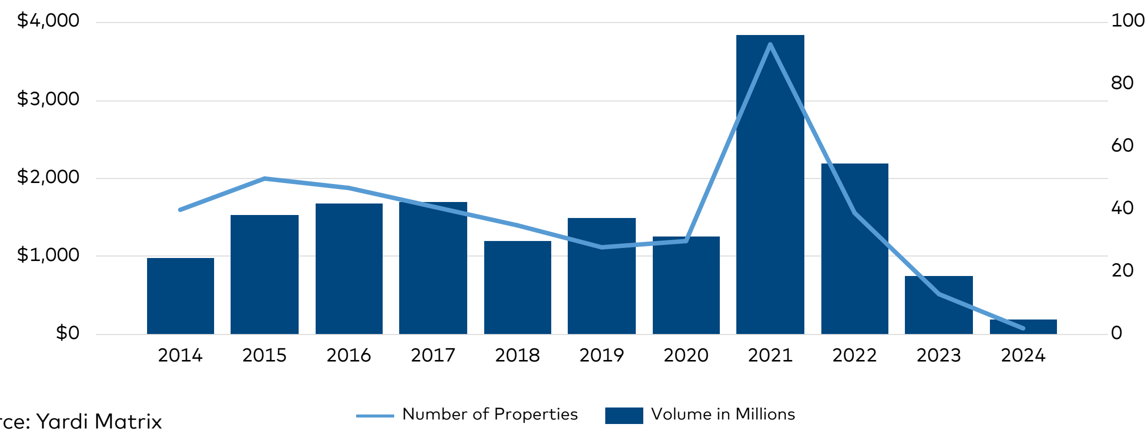
TRANSACTIONS

- Only two single-asset sales were recorded in San Diego during the first four months of the year, for a total of $198 million. Investment has continued to decline each year following a decade-high of $3.9 billion in 2021, dropping to $2.2 billion in 2022 and further to $755 million last year.

- The average price per unit fluctuated significantly over the past five years, from $314,632 in 2019, to $392,493 in 2022, and falling back to $305,169 last year. The two properties that traded this year through April recorded an average per-unit price of $391,304. Meanwhile, the U.S. figure stood at $181,913.

- Through the 12 months ending in April, two suburban submarkets stood out with more than $100 million in sales—Sweetwater with $198 million and Oceanside with $174 million. The former recorded two sales, while in the latter, a single transaction accounted for the volume.

San Diego Sales Volume and Number of Properties Sold (as of April 2024)



Source: Yardi Matrix

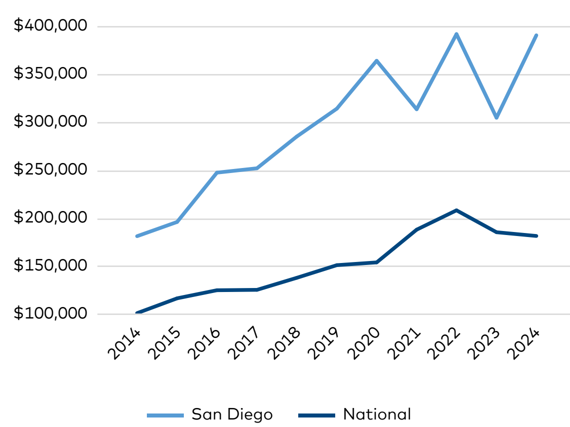
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Sweetwater	$198
Oceanside	$174
University	$88
Chula Vista	$65
Vista	$43
Mid-City	$18
Lakeside	$10

Source: Yardi Matrix

[1] From May 2023 to April 2024

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

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MHN MULTI-HOUSING NEWS

Serving the Underserved: An Affordable Housing Provider's Take

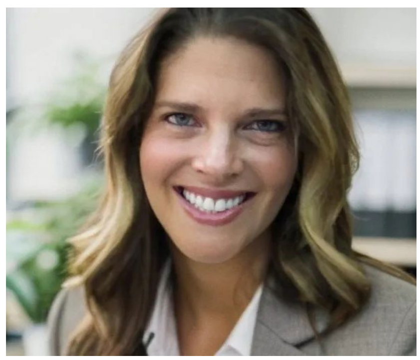
By Diana Firtea

Despite being one of the most supply-constrained markets in the country, California presents significant opportunities to both build and preserve affordable housing. And provider Housing on Merit is leveraging all the resources available to step up to the task. Jaymie Beckett—who joined the company as CEO in February—talks about challenges, policies and advocacy efforts, and HOM's approach to easing the state's notorious affordable housing crisis.

How do projects get off the ground today? What specific policies or efforts are the most beneficial to you?

We're on a mission to confront the housing affordability crisis head-on in California and in the rest of the nation. Our approach centers on advocating for and facilitating the development and preservation of affordable housing through strategic utilization of federal, state and county incentives.

Federal incentives, particularly the LIHTC program, serve as the cornerstone of our efforts. LIHTC not only supports the construction and revitalization of affordable rental housing but also attracts substantial private investment. We play an active role in guiding developers through the intricacies of applying for these credits and maximizing their impact. Additionally, we tap into HUD programs such as the HOME Investment Partnerships Program and the Community Development Block Grant to further bolster affordable housing and community development endeavors.



Tell us more about the imperative need to collaborate with local communities and government agencies to develop projects.

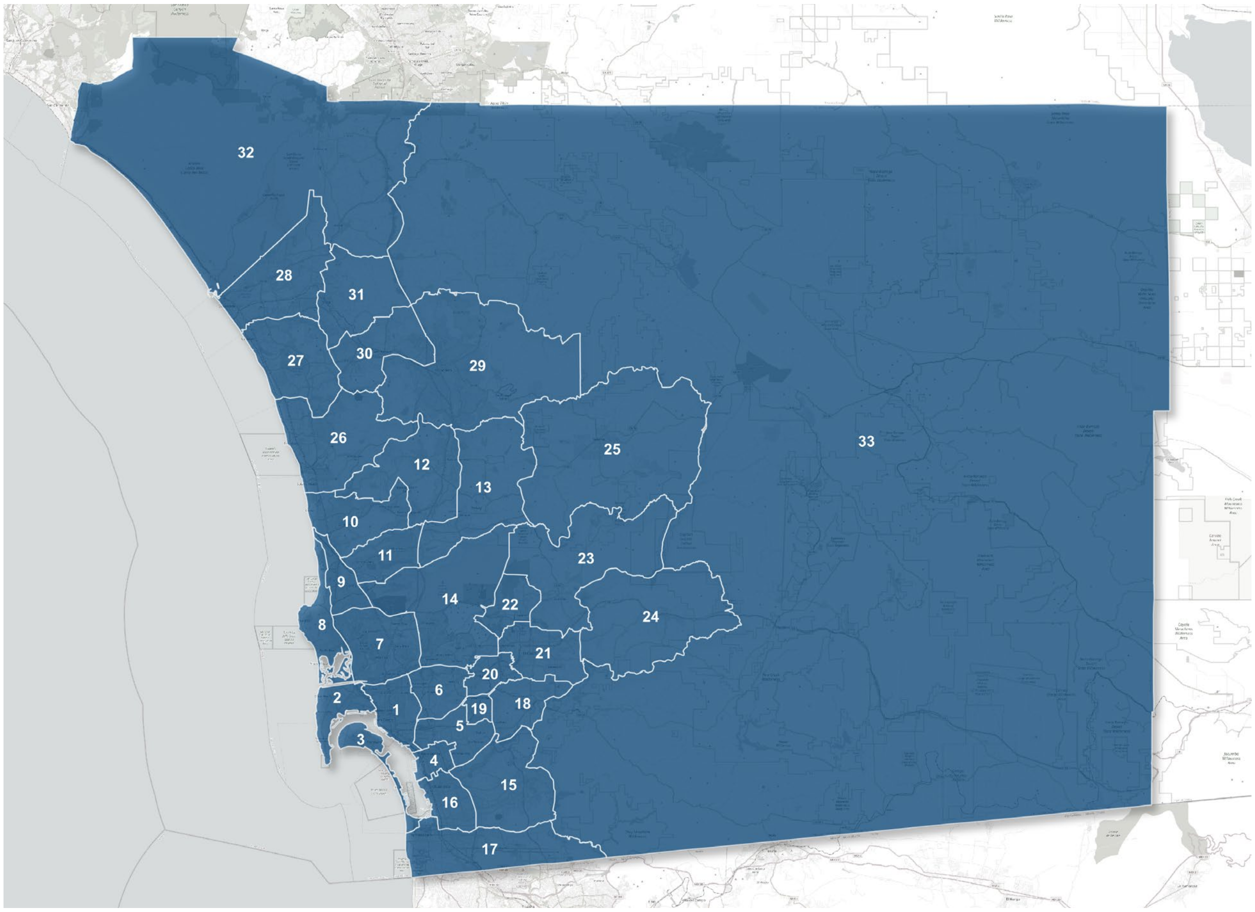
Every project requires diligent and creative collaboration with local communities and government agencies. Getting a project built or preserved for long-term affordability requires assembling a team of capital providers, government partners and local community representation. HOM leverages both government funding and private investments to maximize the impact of its affordable housing initiatives.

What would work best in alleviating California's notorious affordable housing crisis, besides simply building more?

The scale of building and preservation of affordable housing needed requires us to not only scale our efforts with our current development partners, but also to continue thinking outside the box on welcoming more development partners into the affordable housing space. Policy can have a big and immediate impact on the development pipeline. While other cities in California are following Los Angeles' lead—or coming up with their own incentives such as in San Diego under the Complete Communities' program—there are many more cities that can act with the same urgency in helping clear regulatory hurdles in the development process.

(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.

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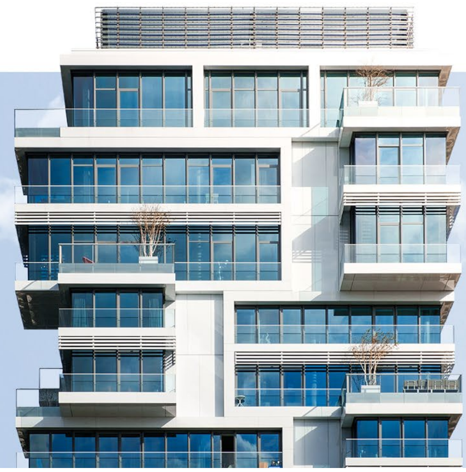

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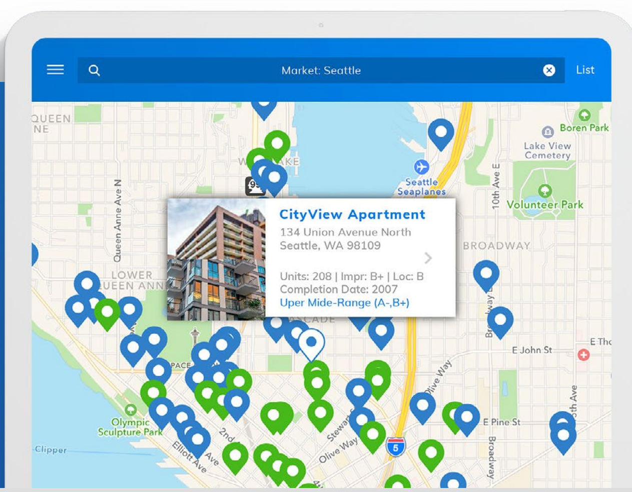
MULTIFAMILY KEY FEATURES

- 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



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