

The background of the entire page is a photograph of the San Diego skyline at dusk. The sky is a mix of blue and purple. In the foreground, there is a body of water. The skyline features several prominent buildings, including a tall, modern glass skyscraper with a distinctive blue-tinted facade and a white building with a red-tiled roof. A white banner is positioned at the top of the page, containing the text 'Yardi Matrix'.

Yardi[®] Matrix

San Diego: Still Shining

Multifamily Report Spring 2019

**Investor Demand
Keeps Prices High**

**Rent Growth Stays
Slow and Steady**

**Construction Activity
Picks Up Pace**

Market Analysis

Spring 2019

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Slow and Steady Success Story

San Diego's multifamily market has a lot going for it. The metro continues to attract new residents with growing biotechnology, defense and professional and business services sectors, all while being a less costly alternative on the California coastline. Meanwhile, development restrictions have kept supply down, pushing rents higher as demand continues to increase.

San Diego's economy is healthy. The metro added 28,400 jobs in 2018, and its 3.2% unemployment rate is among the lowest in the U.S. Development should be boosted by major projects such as the \$1.5 billion Manchester Pacific Gateway, a mixed-use destination encompassing a new headquarters for the U.S. Navy; entertainment, retail and office space; and the \$2.1 billion extension of the Blue Line trolley. Farther to the north, the University of California at San Diego broke ground on a massive expansion to its campus, which is estimated to increase enrollments and fulfill demand for more high-skilled workers in STEM fields.

To meet demand from the growing population, new inventory is on the rise, with about 9,000 units under construction and 5,500 expected to be delivered this year. San Diego remains a target of investors, as prices continue to rise steadily and acquisition yields remain extremely tight.

Recent San Diego Transactions

Regents La Jolla



City: La Jolla, Calif.
Buyer: Raintree Properties
Purchase Price: \$141.5 MM
Price per Unit: \$424,924

MARC San Marcos



City: San Marcos, Calif.
Buyer: MG Properties Group
Purchase Price: \$141.5 MM
Price per Unit: \$340,144

Fashion Valley



City: San Diego
Buyer: RW Selby & Co.
Purchase Price: \$71 MM
Price per Unit: \$439,440

Barham Villas

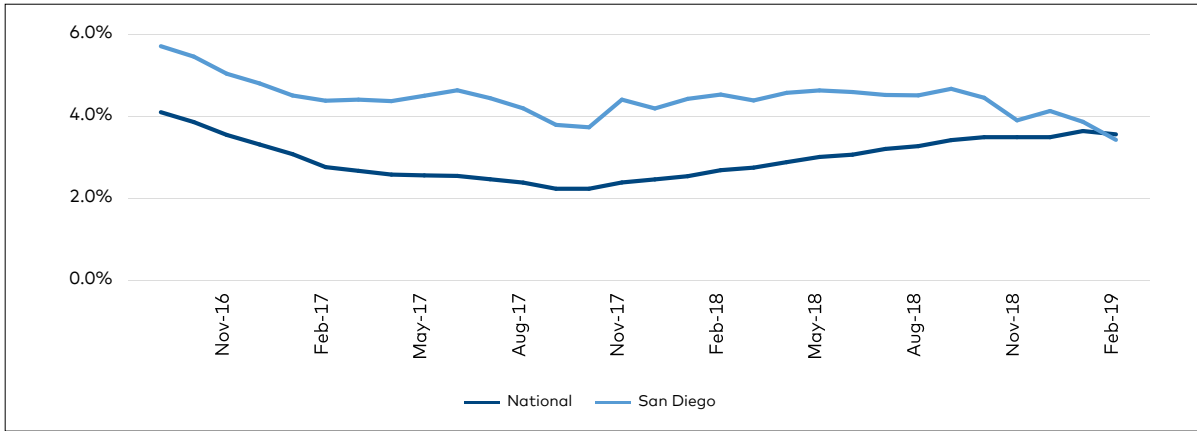


City: San Marcos, Calif.
Buyer: Virtu Investments
Purchase Price: \$52.2 MM
Price per Unit: \$310,714

Rent Trends

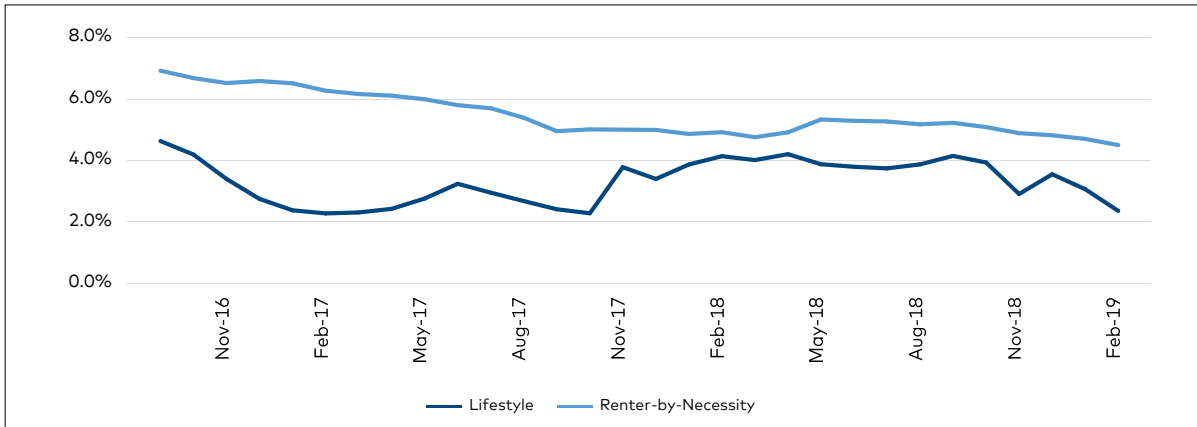
- After several years of above-trend growth, rent gains in San Diego decelerated to 3.4% as of February. The last time rent growth in the metro was below 4% was December 2013, and the rate of increase was above 5% for most of that time. The average rent as of February was \$1,932.
- We expect rent growth will stabilize in the 3% range in 2019. Although construction activity is set to increase to its greatest level in more than a decade, the metro should have no trouble absorbing most of the new stock due to the growth in high-paying jobs and steady in-migration.
- Rent growth remains highest in the Renter-by-Necessity segment, which averages \$1,673 and rose by 4.5% year-over-year through February. Rent growth for Lifestyle properties, which have an average rent of \$2,345, was 2.4%.
- Rents increased in every submarket except Coronado, where they decreased by 3.0% year-over-year through February. Coronado is the second most expensive submarket in the metro, with rents topping \$2,400. The highest rent growth was in Southeast San Diego (up by 9.7% to \$1,448) and Ramona (up by 9.4% to \$1,444). The most expensive submarket is Del Mar, where rents reached an average of \$2,784, up 6.6%.

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)

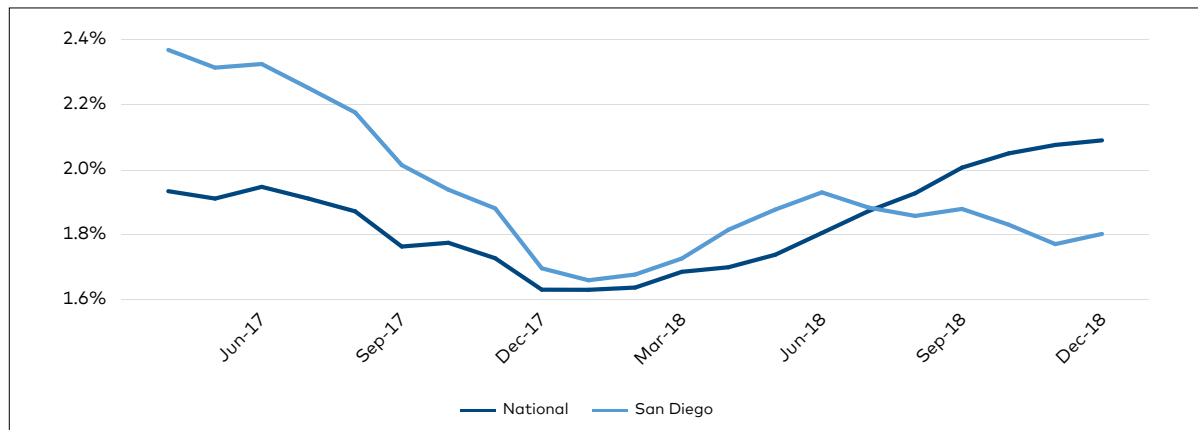


Source: YardiMatrix

Economic Snapshot

- San Diego's job growth has been strong for several years, and the unemployment rate has dropped significantly in the past five years to 3.2%. The metro added 28,400 new jobs in 2018, a 1.9% year-over-year increase and 20 basis points below the national growth rate.
- Gains were led by the professional and business services sector, which grew by 12,600 new jobs in 2018. Education and health services grew by 3%, adding 6,300 jobs to the already large number of people employed in the sector. The University of California, San Diego, broke ground on a \$1.6 billion expansion at its La Jolla campus, which is expected to be completed in 2021. The aim is to increase enrollment by more than 3,000 students.
- Transit-oriented development is likely to be spurred in 2019 by the metro's ongoing Blue Line trolley expansion, a \$2.1 billion project that will provide a direct link from Downtown to the University submarket.
- The government sector, which represents the biggest segment of the metro's workforce, added 4,600 jobs. San Diego's naval base is the principal homeport of the U.S. Pacific Fleet. The U.S. Navy will benefit from a new, 372,000-square-foot headquarters, part of the \$1.5 billion Manchester Pacific Gateway mixed-use development.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	251	16.7%	12,600	5.3%
65	Education and Health Services	214	14.2%	6,300	3.0%
30	Manufacturing	115	7.7%	4,700	4.2%
90	Government	257	17.1%	4,600	1.8%
80	Other Services	58	3.9%	3,700	6.8%
70	Leisure and Hospitality	194	12.9%	700	0.4%
50	Information	24	1.6%	-200	-0.8%
55	Financial Activities	74	4.9%	-300	-0.4%
15	Mining, Logging and Construction	80	5.3%	-1,800	-2.2%
40	Trade, Transportation and Utilities	236	15.7%	-1,900	-0.8%

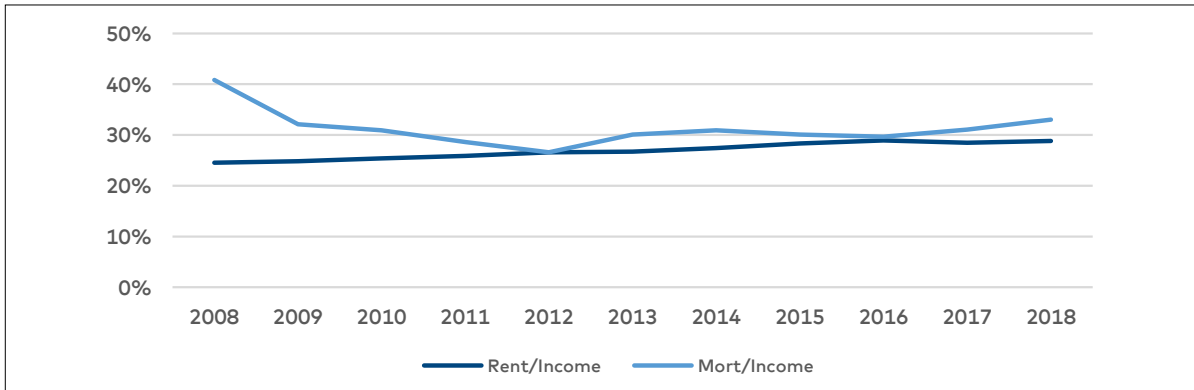
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

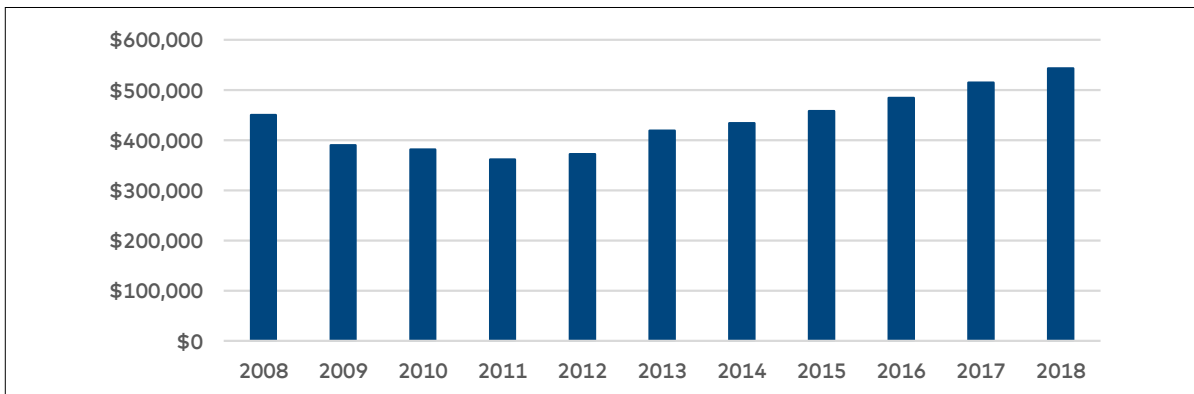
- San Diego's median home value reached \$543,167 in 2018. Renting is slowly becoming less affordable, as the average rent in the metro costs 29% of median income. Mortgage payments as a share of income are also increasing, currently at 33% of median income. The median home price has increased by about 50% since home values bottomed in 2011.
- Although San Diego's affordability issues are not as extreme as those faced by other West Coast cities, the cost of living is likely to continue rising at an increased pace through 2019, as more people are attracted by the metro's high-paying telecom, biotech and military jobs.

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's population grew by more than 20,400 residents in 2017, on par with the 0.7% national rate.
- The metro is likely to continue growing, as more high-paying jobs are being added, along with increased construction.

San Diego vs. National Population

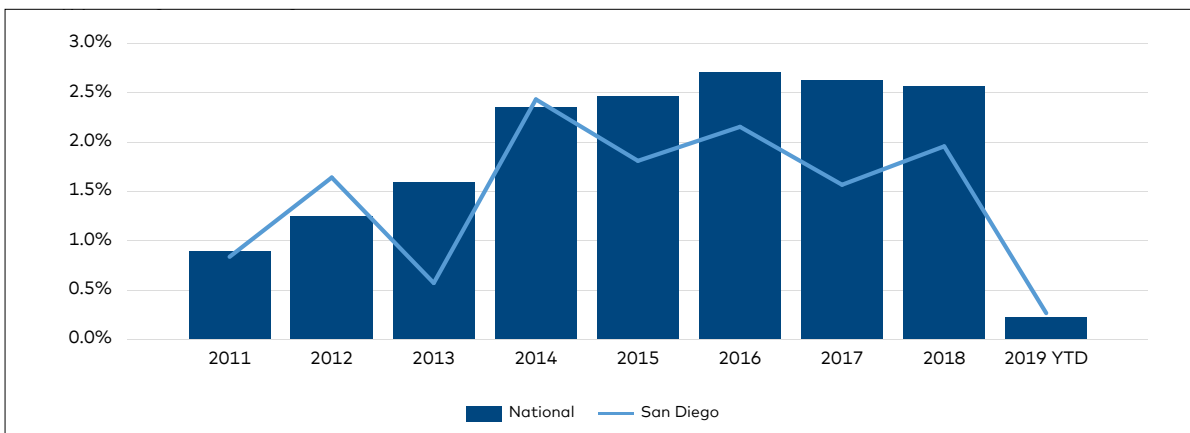
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Diego Metro	3,216,522	3,256,875	3,290,044	3,317,200	3,337,685

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

Supply

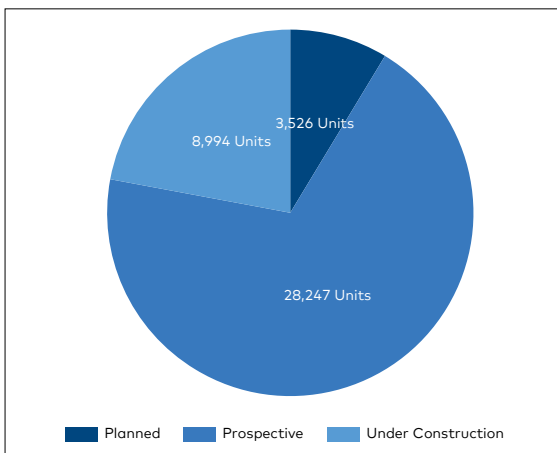
- Development activity is gaining momentum. Just under 9,000 units were under construction in San Diego as of the first quarter, with about 5,500 units slated for completion in 2019. That would mark the highest number of deliveries in the current cycle.
- Despite strong demand, California's strict regulatory regime has kept the supply pipeline at or below 2.0% of stock in recent years. In 2018, 20 properties with 3,578 units came online in San Diego, an uptick of 27.4% from 2017. Absorption of new inventory has been strong, indicative of ongoing demand growth; occupancy in stabilized properties remained flat year-over-year at 96.0%, despite a 1.9% increase in inventory. In a nod to the affordability issue, many new developments in the metro contain some element of government subsidies.
- Central San Diego topped metro submarkets in new supply in 2018, adding 1,082 units, and remains the most active submarket, with 3,774 units underway. Kearny Mesa (988), Elliot-Navajo (629) and Del Mar (608) are other top submarkets in construction activity. The largest development currently underway is Park 12 – the Collection, a 718-unit partially affordable property, in Central San Diego.

San Diego vs. National Completions as a Percentage of Total Stock (as of February 2019)



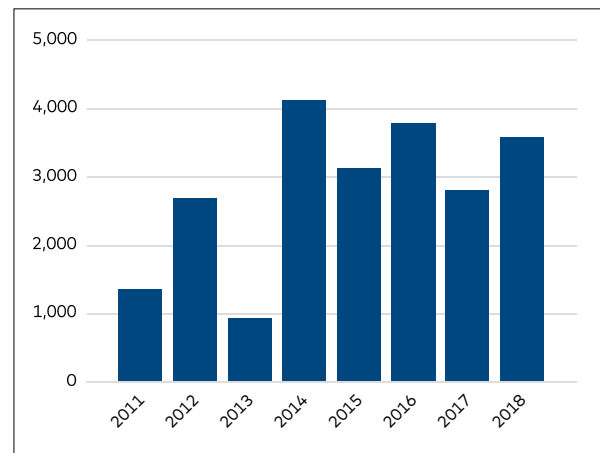
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

San Diego Completions (as of February 2019)

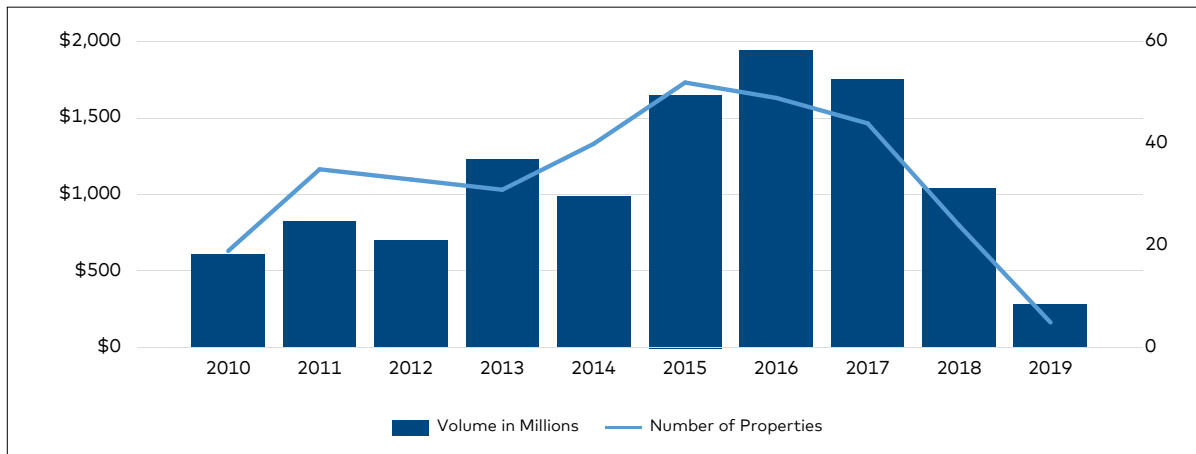


Source: YardiMatrix

Transactions

- After a dip in activity in 2018, transactions seem to be back on track, with \$283 million in deals closed in the first two months of 2019.
- Although deal flow has wavered, investor demand has not, as per-unit prices have continued to rise. The average price per unit in 2018 was \$293,000, a new cycle peak and almost double the national average (\$154,305). The trend is likely to continue, as the average price per unit of sales completed during the first two months of 2019 was above \$310,000. Another sign that investors are bullish on San Diego is that acquisition yields are very tight—they are in the 4.0% range for Class A stabilized properties, and in the 6.0% range for value-add assets.
- The largest transaction was the sale of Alterra & Pravada in La Mesa for \$149.5 million.

San Diego Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

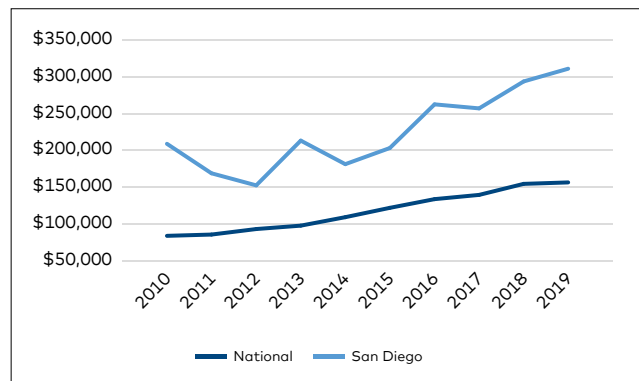
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Kearny Mesa	235
La Mesa	178
San Marcos	172
University	142
Vista	115
Escondido	104
Elliot-Navajo	98
Oceanside	97

Source: YardiMatrix

¹ From March 2018 to February 2019

San Diego vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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SoCal Luxury Community Breaks Ground

Modera San Diego, a 368-unit upscale multifamily property in the city's East Village neighborhood, is scheduled for initial resident move-in in spring 2021.



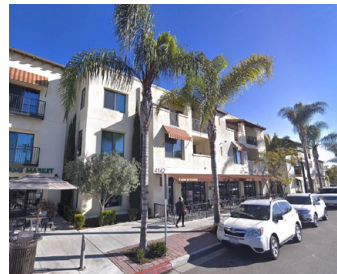
Raintree Partners Acquires San Diego Area Property

The 333-unit community is located within the University Town Center neighborhood in La Jolla, Calif. HFF arranged the sale and financing in the deal.



California Expands Affordable Housing Finance Incentives

The new program aims to incentivize affordable housing development for residents with a mix of incomes, the state's first program to reward such housing initiatives.



Berkadia Arranges \$28M in Sales In San Diego

Two properties traded for the highest per-unit price in their respective submarkets. Tyler Sinks, Ed Rosen and John Chu worked on behalf of the sellers.



San Diego Student Housing Changes Ownership

HFF worked on behalf of the seller, FPA Multifamily, which acquired the asset in 2015 from AIG Global Real Estate. The community serves San Diego University.



SoCal Asset Sells For \$20M

The 98-unit Villa Capri in Escondido benefited from an acquisition loan originated by Aetna Life Insurance Co. IPA represented the seller and procured the buyer.

Top 10 Multifamily Transactions in San Diego



By Jeff Hamann

data by
Yardi Matrix

Investors remain active in the San Diego multifamily market, despite an overall declining sales volume following the cycle high in 2016. In 2018, roughly \$1.1 billion in deals closed across the metro, according to Yardi Matrix. Average cap rates for stabilized properties in the area are now among the lowest in the U.S.—between 4 and 4.5%, according to data from CBRE’s North America Cap Rate Survey.

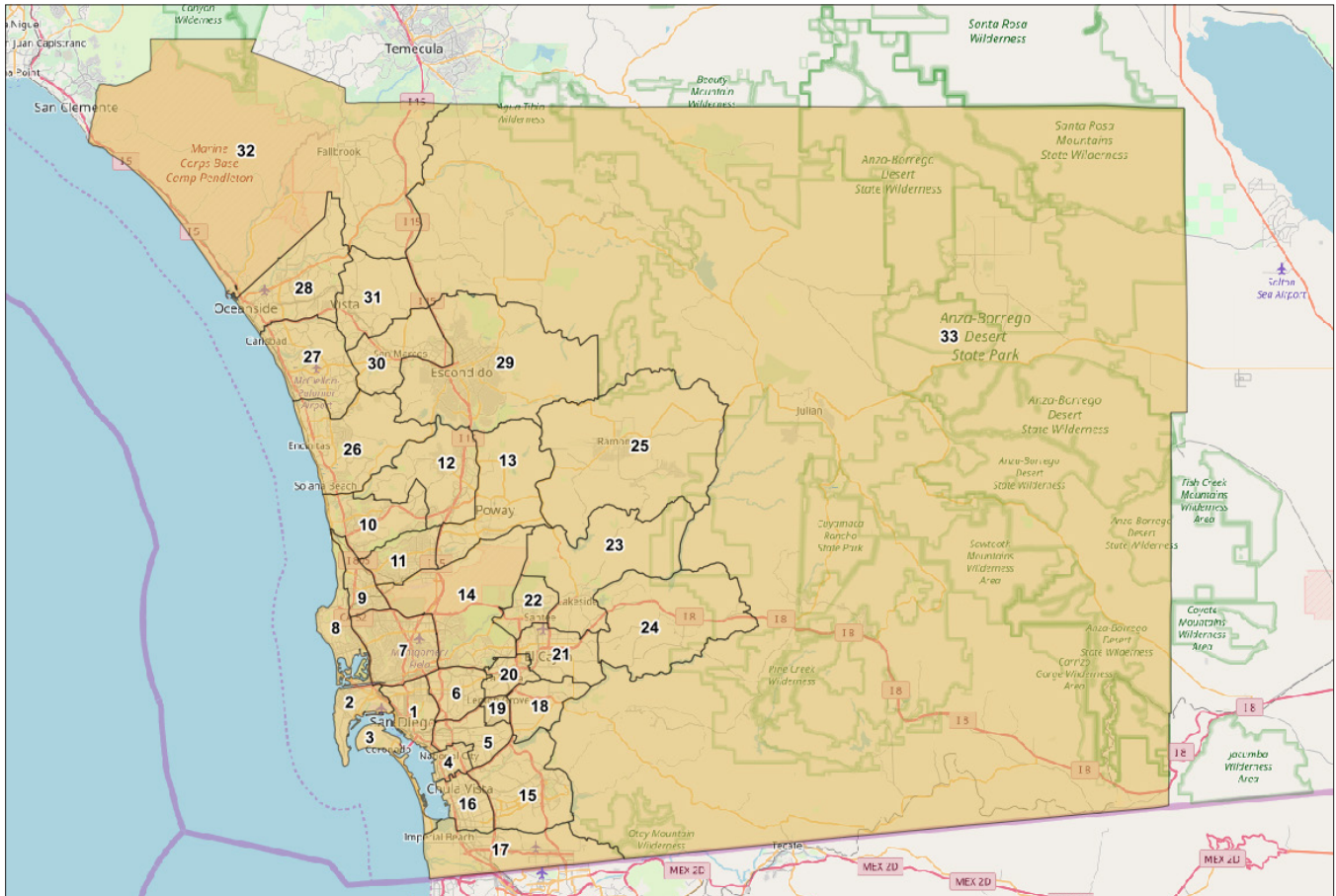
Property Name	Buyer	Seller	Sale Date	Unit Count	Total Sale Price (MM)
Alterra & Pravada	TruAmerica Multifamily	Fairfield Residential	08/10/2018	527	149.5
MARC San Marcos	MG Properties Group	Intracorp	10/11/2018	416	141.5
Regents La Jolla	Raintree Partners	LaSalle Investment Management	02/12/2019	333	141.5
Domain San Diego	Magnolia Capital	Essex Property Trust	06/12/2018	379	132
Sofi Shadowridge	Pacific Urban Residential	Invesco Real Estate	06/04/2018	314	115
Bella Posta	Sares-Regis Group	Private Investor	04/25/2018	344	97.75
Fashion Valley	RW Selby & Co.	AvalonBay Communities	10/26/2018	161	70.75
The Dylan	29th Street Capital	FPA Multifamily	01/31/2019	208	57.13
Barham Villas	Virtu Investments	MG Properties Group	10/01/2018	168	52.2
Entrada	IDEAL Capital Group	Security Properties	01/31/2019	172	46.6

ALTERRA & PRAVADA

The metro’s largest multifamily deal in the last year took place in the La Mesa submarket in August. TruAmerica Multifamily, in partnership with Intercontinental Real Estate, paid Fairfield Residential \$149.5 million for two adjacent Class B communities. Following the sale, the assets were merged into one 527-unit property, rebranded as Alterra & Pravada. The community is located at 8727 Fletcher Parkway, near Sharp Grossmont Hospital and the nearly 1 million-square-foot Grossmont Center. Downtown San Diego is less than 15 miles away, accessible via Interstate 8. Apartments range from one- to two-bedroom floorplans, each containing between 616 and 1,275 square feet. As of February, the property was 97.2 percent occupied.



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.

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