

An aerial photograph of San Diego, California, showing a dense urban skyline with numerous high-rise buildings. In the foreground, there is a large marina filled with many white sailboats and yachts. To the right, a large convention center with a distinctive white, tent-like roof is visible. The waterfront is bordered by a green park area with trees and a stone wall. The sky is blue with scattered white clouds.

Yardi® Matrix

San Diego's Next Horizon

Multifamily Report Summer 2019

Rent Growth Decelerates

Life Sciences, Tech Boost Hiring

Property Values Reach Cycle Peak

Market Analysis

Summer 2019

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Innovation Economy Boosts Demand

Multifamily demand in San Diego remained robust in the first half of 2019, sustained by population gains, household formation and steady hiring in well-paying industries. An innovation powerhouse, the metro continues to draw a talented workforce from local universities as well as from outside the city.

Employment growth in the 12 months ending in May was led by education and health services (8,700 jobs), followed by professional and business services (7,000 jobs). San Diego's life sciences cluster, one of the largest in the nation, is a key driver behind the region's economic growth, along with its thriving tech sector, which continues to diversify in fields such as autonomous driving, data analytics and robotics, while luring in Millennials at a high rate and contributing to the area's positive net migration.

Drawn by the market's stability and prospects for higher rents in the context of limited supply, multifamily investors pushed the average price per unit to \$359,375 in the first half of 2019. Despite strong apartment demand, with rentals remaining the primary housing option for many average earners, strict zoning and land-use regulations have been keeping the metro's annual new supply below 2.0% of total stock for the better part of this cycle. We expect 3,648 units to come online this year.

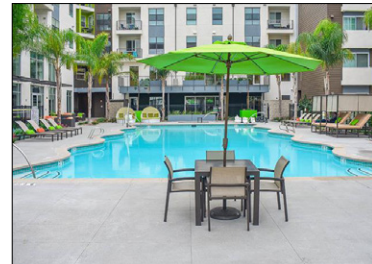
Recent San Diego Transactions

Hanover Mission Gorge



City: San Diego
Buyer: R & V Management
Purchase Price: \$149 MM
Price per Unit: \$398,396

The Millennium Mission Valley



City: San Diego
Buyer: R & V Management
Purchase Price: \$140 MM
Price per Unit: \$459,016

Fifty Twenty-Five



City: San Diego
Buyer: Cardinal Group Investments
Purchase Price: \$93 MM
Price per Unit: \$355,769

The Dylan

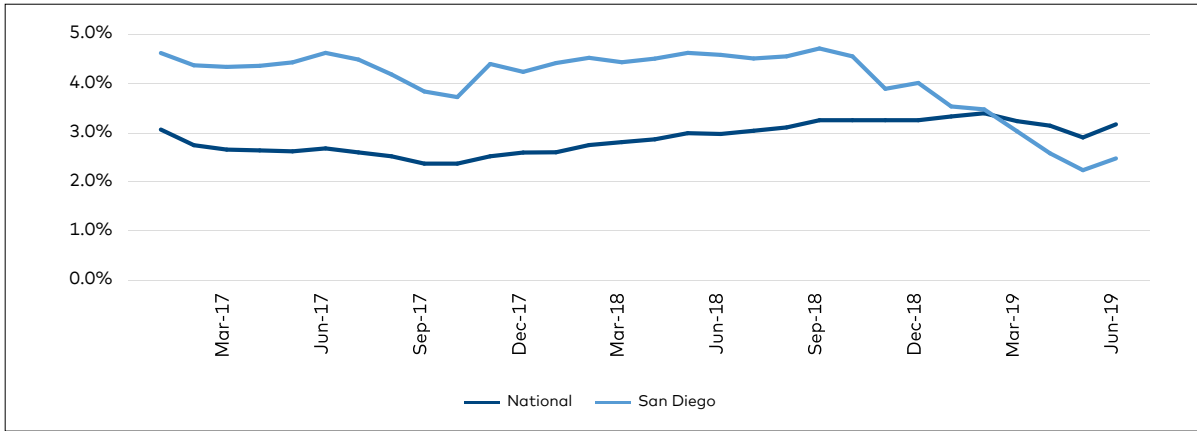


City: Oceanside, Calif.
Buyer: 29th Street Capital
Purchase Price: \$57 MM
Price per Unit: \$274,639

Rent Trends

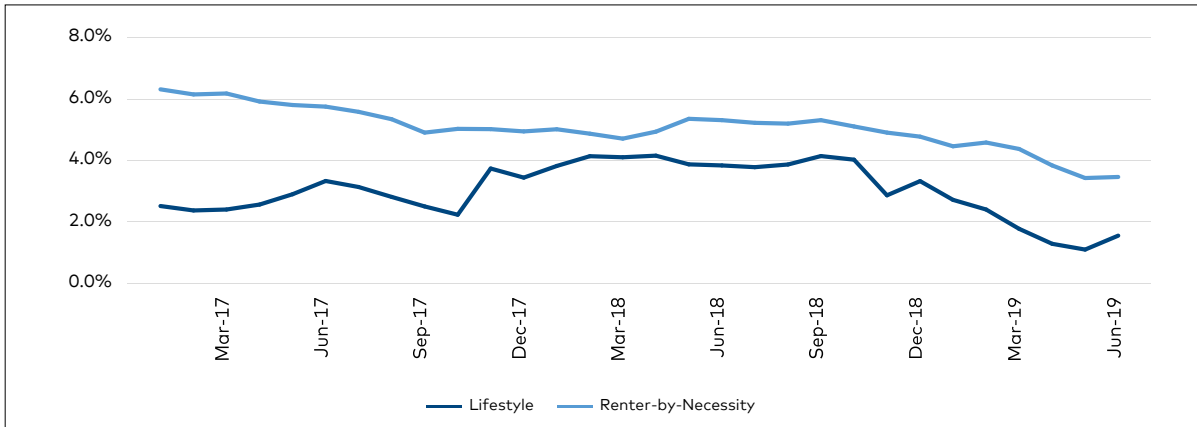
- Rents in San Diego rose 2.5% year-over-year through June, trailing the 3.3% national rate. The metro's average rent stood at \$1,987, above the \$1,465 U.S. figure. The occupancy rate in stabilized properties decreased 40 basis points year-over-year to 96.2% as of May following the delivery of nearly 3,800 units in 2018, but remains above the 95.0% national average.
- Rents in the working-class Renter-by-Necessity segment rose 3.5% to \$1,704, while Lifestyle rates increased 1.6%, to \$2,420. Demand is strong across asset classes, boosted by household formation and robust job gains in high-paying industries. Renting remains the primary housing option for many residents, as mortgage rates continue to rise at a faster pace than wages in the metro's supply-constrained single-family market. Compared to other California markets, San Diego is a relatively affordable alternative, while offering a high standard of living. The average rent as of June was \$2,226 in Los Angeles and \$2,735 in San Francisco.
- Submarkets recording the fastest rent growth rates were among the most affordable: In National City, the average rent rose 7.7% to \$1,382, while rents in Southeast San Diego went up 6.8% to \$1,477, followed by Vista (5.3% to \$1,764) and Chula Vista (4.9% to \$1,531). In Del Mar, which commands the metro's highest rents, rates rose 2.7% to \$2,861, while in University rates went up 4.1% to \$2,475.

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)

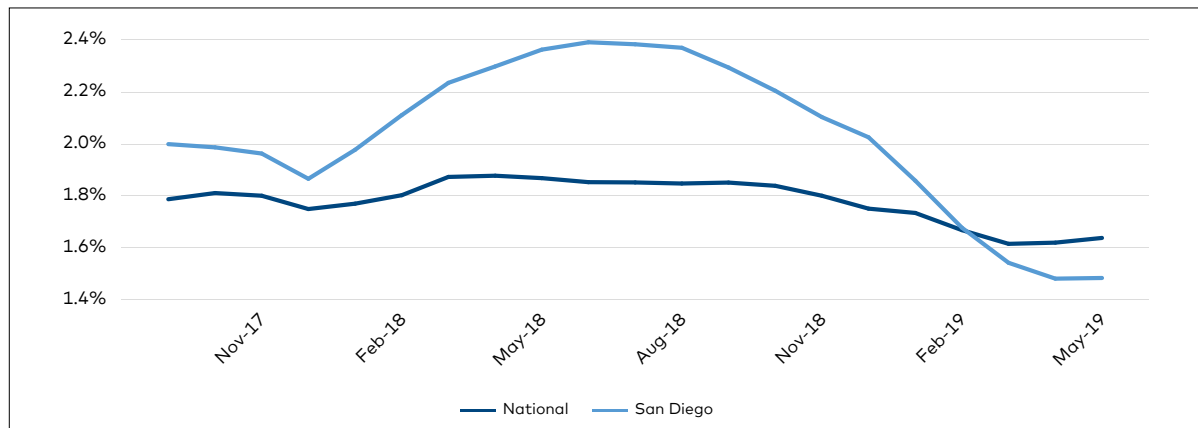


Source: YardiMatrix

Economic Snapshot

- San Diego gained 25,600 jobs in the 12 months ending in May for a 1.5% increase, trailing the 1.6% U.S. rate. Unemployment stood at 3.0% as of April, its lowest point since May 2018 (2.8%).
- A hotbed for PhD-level talent and innovative companies, San Diego ranks as the third-largest life sciences center in the U.S., according to CBRE. High demand for lab space has prompted Alexandria Real Estate Equities to build Alexandria GradLabs, a speculative project set to bring 980,000 square feet east of the University of California San Diego campus by 2020. An aging population is a major driver for the health-care expansion, particularly for outpatient facilities, with many being integrated into retail centers.
- Professional and business services gains are boosted by the metro's tech sector, which continues to diversify, especially in fields such as autonomous driving, software development, data analytics and robotics. A recent Cushman & Wakefield report showed that, in mid-2018, Millennials accounted for 24.3% of the total population, the third-highest rate among the 25 tech cities included in the study. Meanwhile, leisure and hospitality added 4,400 jobs, and more growth is expected over the summer. The San Diego Tourism Authority estimated that 4 million visitors were set to spend \$1.5 billion at local businesses in July alone.

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	%
65	Education and Health Services	218	14.4%	8,700	4.2%
60	Professional and Business Services	254	16.8%	7,000	2.8%
70	Leisure and Hospitality	205	13.6%	4,400	2.2%
90	Government	256	16.9%	3,800	1.5%
30	Manufacturing	116	7.7%	3,700	3.3%
80	Other Services	57	3.8%	1,800	3.3%
15	Mining, Logging and Construction	86	5.7%	500	0.6%
50	Information	24	1.6%	-500	-2.1%
55	Financial Activities	76	5.0%	-600	-0.8%
40	Trade, Transportation and Utilities	221	14.6%	-3,200	-1.4%

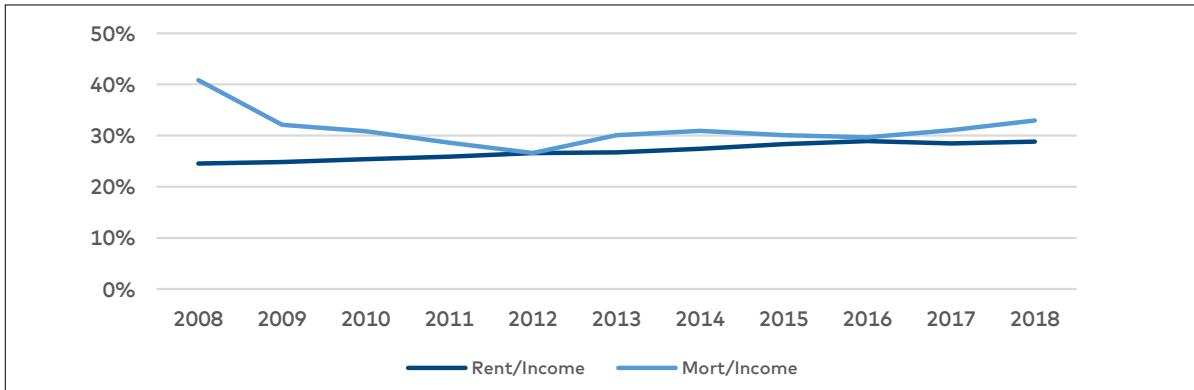
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

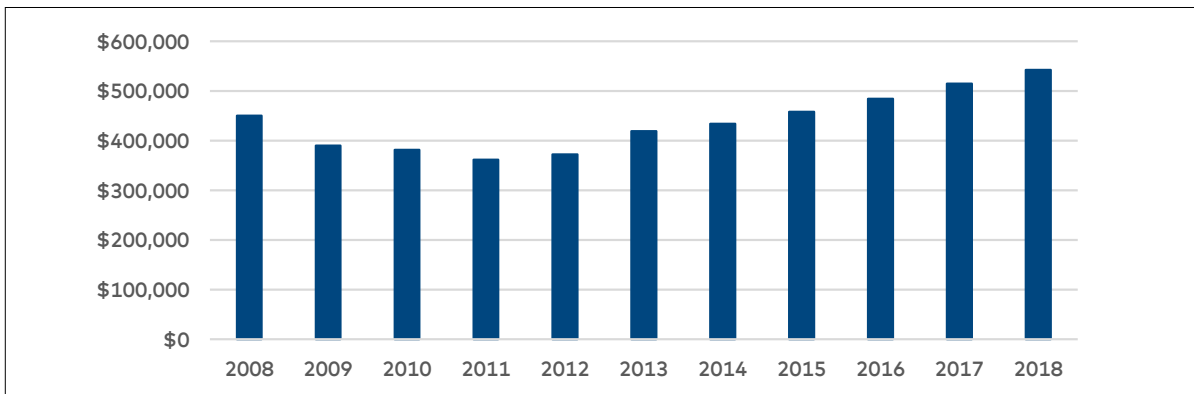
- The median home price in San Diego rose to \$542,532 in 2018, up 5.4% since 2017 and 50% above the 2011 level. The average mortgage payment accounted for 33% of the area median income, while the average rent equated to 29%.
- The high cost of building new homes in San Diego is keeping mortgages out of reach for many average earners who become long-term renters, while rising home prices outpace wage growth. The metro's housing market, however, remains relatively affordable when compared to other coastal California cities such as Los Angeles and San Francisco.

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

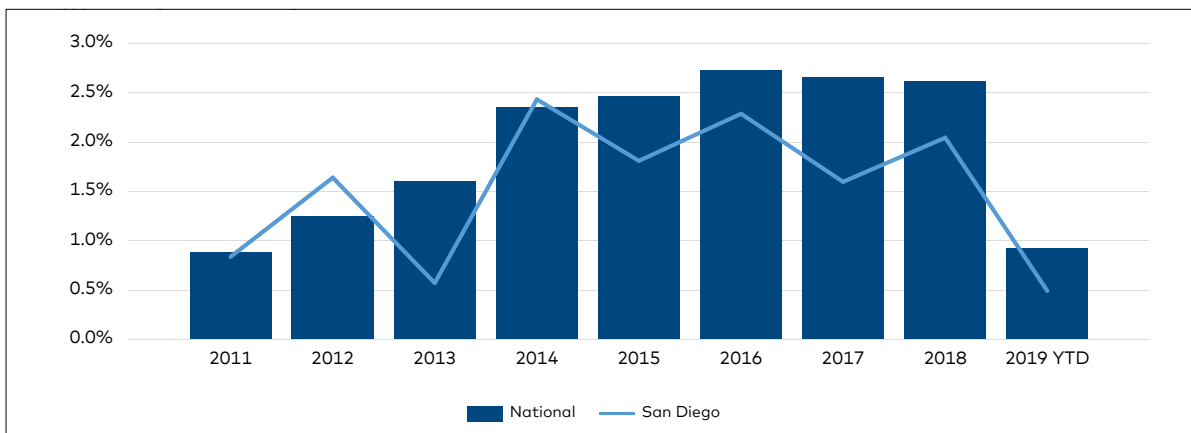
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Diego Metro	3,216,522	3,256,875	3,290,044	3,317,200	3,337,685

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

Supply

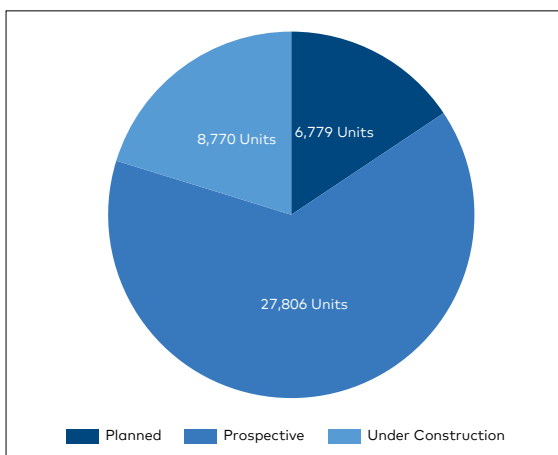
- More than 8,700 units were under construction across the metro as of June—1,231 are being developed in fully affordable communities. In the first half of 2019, four Class A projects came online, representing 0.5% of total stock, below the 0.9% national average. This followed last year's 3,748 new units, accounting for 2.0% of total stock.
- The pace of development has been relatively steady since 2014. However, due in part to California's strict zoning and land-use regulations, San Diego continued to lag national trends despite strong housing demand. As a result, both single-family and rental prices are rising across the metro, giving multifamily landlords more leverage to lift rents. We expect a total of 3,648 apartments to come online this year in the metro.
- Developers are mainly targeting Central San Diego, which had 3,524 units underway as of June, followed by Kearny Mesa (988 units), Elliot-Navajo (629 units) and Del Mar (608 units). Greystar's Park 12 – The Collection, a \$400 million luxury community totaling 718 units, ranked as the largest project underway at the end of the second quarter.

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



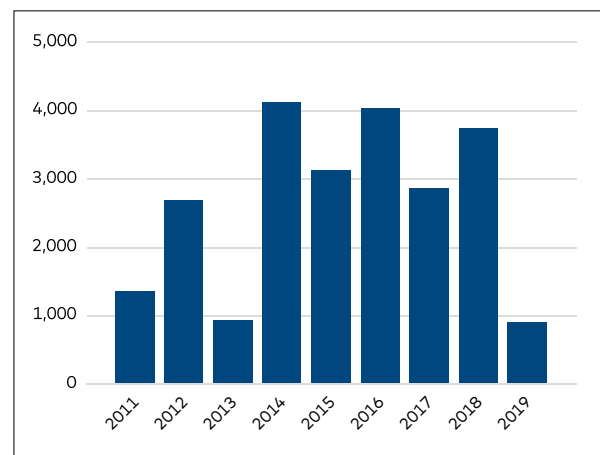
Source: YardiMatrix

Development Pipeline (as of June 2019)



Source: YardiMatrix

San Diego Completions (as of June 2019)

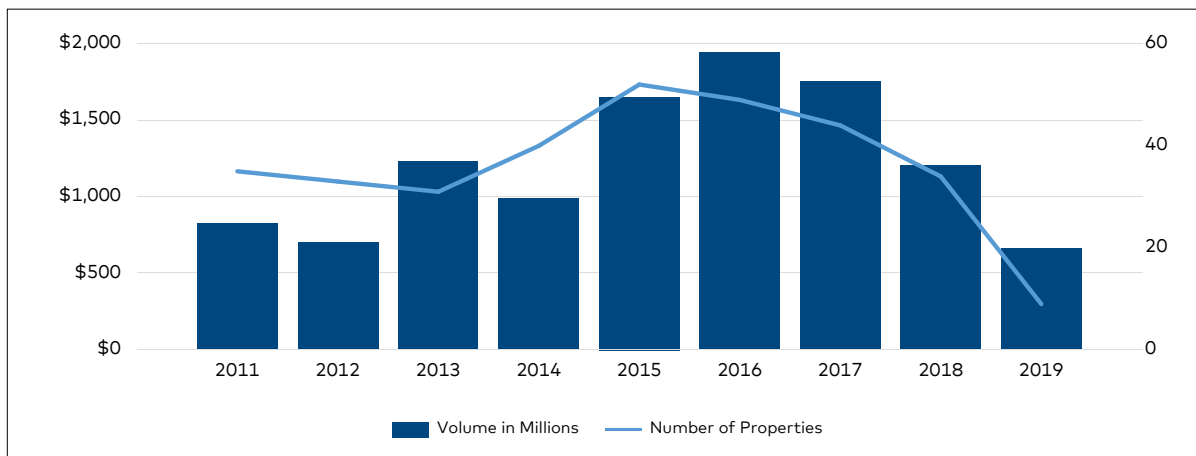


Source: YardiMatrix

Transactions

- Nine properties of 50 or more units traded in the metro in the first half of 2019, for a total of \$664 million and an average per-unit price of \$359,375, well above the \$157,028 U.S. average. In 2018, \$1.2 billion in multifamily assets traded at an average per-unit price of \$283,616.
- In the first half of 2019, investors mostly focused on Class A communities, with acquisition yields for this asset type generally ranging between 4.0% and 5.0%. Some buyers targeted Class C assets, for which first-year returns hover around 6.0%.
- The \$149 million sale of Hanover Mission Gorge, a 374-unit asset in the Elliot–Navajo submarket, ranked as the metro’s largest deal in the first half of 2019. R & V Management purchased the newly constructed Class A property from The Hanover Co. at nearly \$400,000 per unit.

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



Source: YardiMatrix

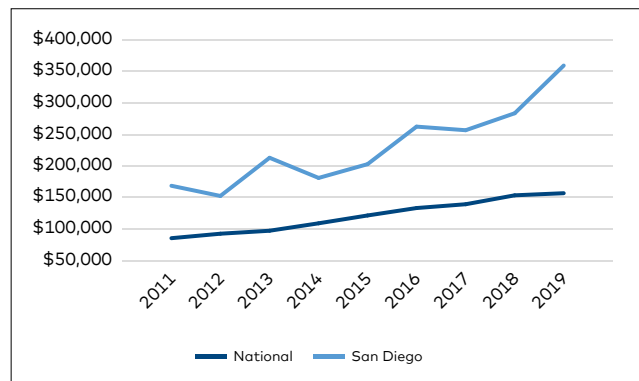
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
La Mesa	263
Kearny Mesa	243
San Marcos	172
Elliot–Navajo	149
University	142
Mid-City	110
Escondido	104
Oceanside	98

Source: YardiMatrix

¹ From July 2018 to June 2019

San Diego vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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San Diego Communities Land \$223M Refi

Totalling 803 units in the Kearny Mesa submarket, the two rental properties are part of the 232-acre Centrum Master Plan.



Kidder Mathews Hires VPs

Industry veterans Robert Black and Sean McNee have a combined 30 years of experience in the acquisition and financing of senior housing and health-care projects.



San Diego-Area Luxury Property Reaches Completion

Developed by Pathfinder Partners and Silvergate Development in Vista, the high-end property sits on a 1.5-acre parcel that was initially owned by the California Redevelopment Agency.



Mixed-Use Project Receives \$32M Loan

Parkview Financial provided the construction financing for a three-building development in Poway, a northern suburb of San Diego.



Mixed-Use Community Scores \$21M Refi

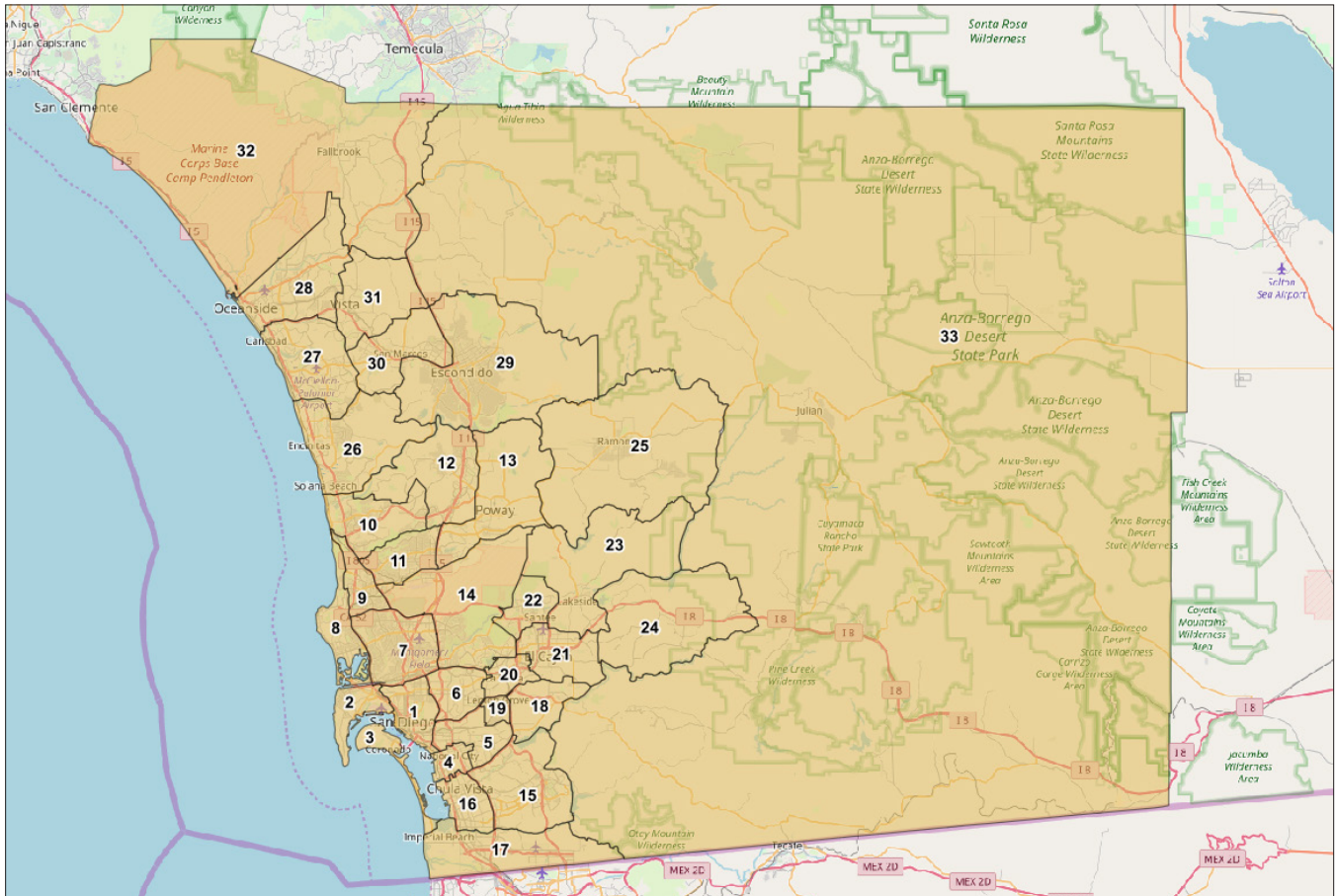
The proceeds of the 10-year, fixed-rate commercial financing arranged by HFF will be used to refinance an existing construction loan for The Californian, a luxury property in the Point Loma suburb.



San Diego Asset Commands \$149M

Berkadia handled the sale of the 374-unit property to Mission Gorge Investors, an entity controlled by R & V Management. The 2018-built asset was sold by Hanover Co.

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.

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