Sturdy San Diego

Multifamily Report Fall 2019

Rent Growth Decelerates

Per-Unit Prices Continue to Rise

Occupancy Rate Remains Healthy

Robust Demand Sustains Multifamily Growth

San Diego's multifamily market remained relatively strong going into 2019's last innings, boosted by population growth and a healthy, albeit slowing, economy. Housing demand continued on a high note, with supply one step behind. Meanwhile, rent growth softened slightly to 2.5% year-over-year as of October.

Employment growth was led by the professional and business services sector, which gained 7,700 positions in the 12 months ending in September 2019. The government sector followed, with 6,900 jobs. The ever-growing tech sector is further boosted by the University of California San Diego's economic impact, which is expected to reach $12.9 billion yearly by 2032 for the county alone, according to a Tripp Umbach report.

Investment activity remained sturdy during 2019's first 10 months, with more than $1.1 billion in assets trading as of October. Although apartment development stayed steady, the metro should have no trouble absorbing new stock due to the addition of jobs across the board, especially in high-paying sectors. As of October, more than 8,000 units were under construction metrowide. Rent growth is expected to remain relatively healthy going into 2020, boosted by positive demographic trends and an ongoing imbalance between supply and demand.

Recent San Diego Transactions

Alexan Millenia

City: Chula Vista, Calif.
Buyer: Barings
Purchase Price: $131 MM
Price per Unit: $423,948

Forest Park

City: El Cajon, Calif.
Buyer: LivCor
Purchase Price: $88 MM
Price per Unit: $261,360

Sunterra

City: Oceanside, Calif.
Buyer: IDEAL Capital Group
Purchase Price: $66 MM
Price per Unit: $276,041

Colonnade at Fletcher Hills

City: El Cajon, Calif.
Buyer: Blackstone Group
Purchase Price: $39 MM
Price per Unit: $282,978

Rent Trends

■ Following steady year-over-year growth in the 4.0% to 5.0% band during 2017 and most of 2018, San Diego rate gains started a slow yet steady deceleration path, hand in hand with an equally steady economic slowdown. As such, rent growth clocked in at 2.5% year-over-year as of October, 70 basis points below the 3.2% national average. The average San Diego rent reached $2,003 as of October, well above the $1,476 national figure.

■ Rents in the working-class Renter-by-Necessity segment rose 3.6% to $1,722, while Lifestyle rates were up 1.7%, reaching $2,428. Affordable housing demand is bound to remain robust, thus boosting further rate hikes, mainly due to the fact that new supply is almost exclusively upscale. Meanwhile the economy is adding jobs across the board, including in the manufacturing and construction sectors.

■ While metro San Diego rent gains softened, demand has nonetheless remained relatively strong across most submarkets, especially when it comes to more affordable workforce housing. This has kept the occupancy rate in stabilized properties one of the highest in the country—96.2% as of September and down just 20 basis points over 12 months—reflecting long-term growth potential, albeit at a slower pace than this cycle's high points.

San Diego vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
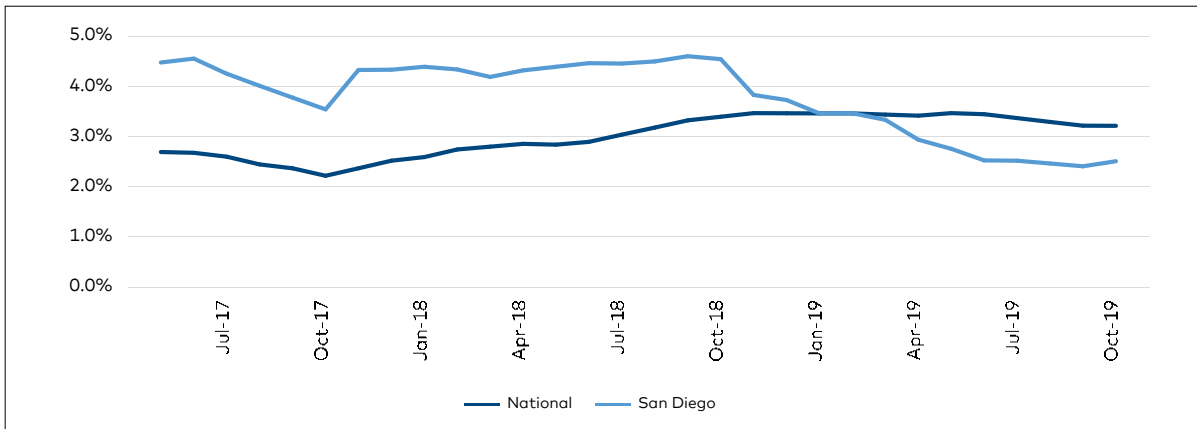
Source: YardiMatrix

San Diego Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)
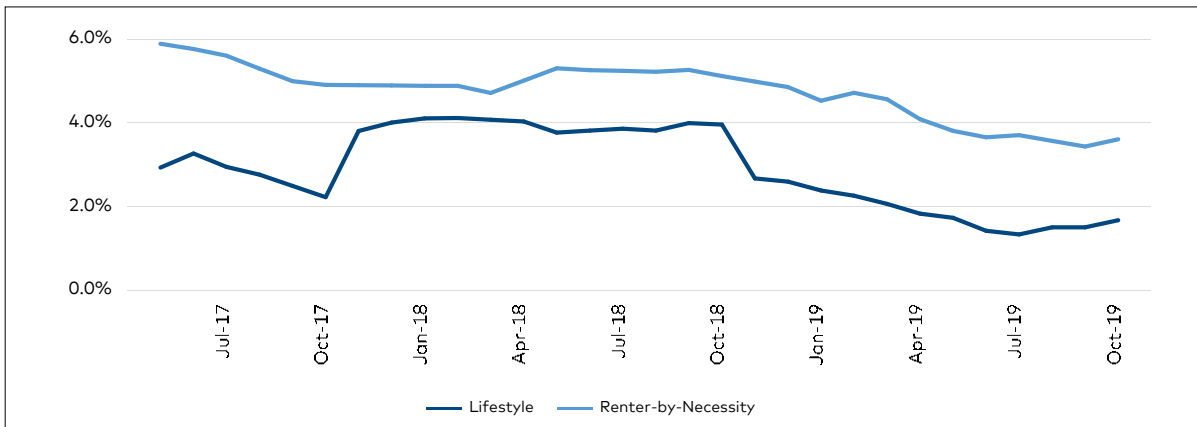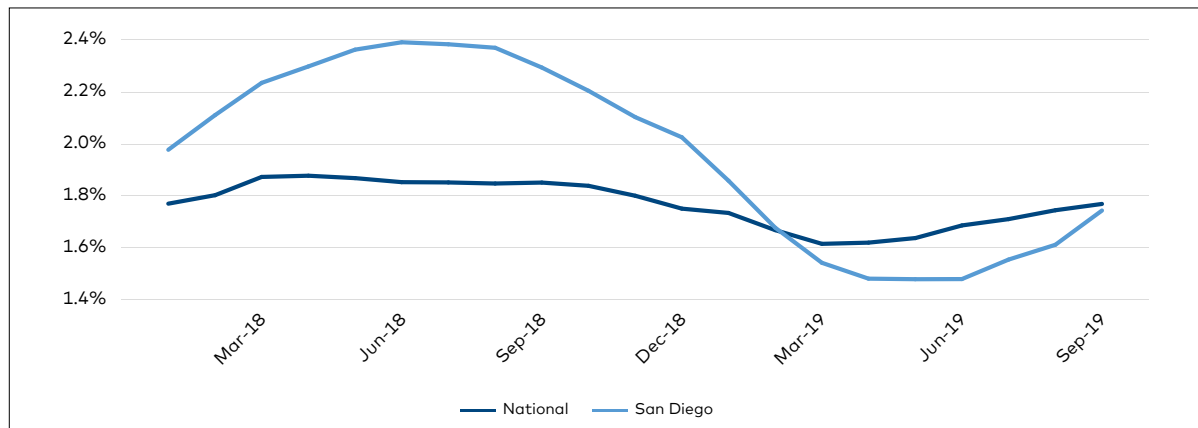

Source: YardiMatrix

Economic Snapshot

- San Diego gained 30,600 jobs in the 12 months ending in September 2019, a 1.7% year-over-year increase, almost on par with the 1.8% national growth rate. Unemployment stood at a whopping 2.7% as of August, reflecting a very tight employment market that leaves little room for rapid economic growth in the short run.

- Also receiving a boost from the metro's high-tech industries, the professional and business services sector led growth with 7,700 new positions. Meanwhile, education and health services gained 3,500 jobs. UC San Diego ranks as one the metro's largest catalysts, with $16.5 billion in annual economic impact across the state, according to a report by consulting firm Tripp Umbach. By 2032, the university's annual economic impact on the county alone is estimated to reach $12.9 billion.

- Construction added 5,500 jobs, recording the largest year-over-year growth rate of all sectors (6.4%). The metro is, indeed, in the middle of a development surge: Apart from the area's residential pipeline and infrastructure works, the list of projects underway as of mid-December also included 1.4 million square feet of office, nearly 700,000 square feet of industrial and 700,000 square feet of self storage space, according to Yardi Matrix data. This follows hospitality, retail and health-care developments, as well as some additional public projects.

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	257	17.0%	7,700	3.1%
90	Government	251	16.6%	6,900	2.8%
15	Mining, Logging and Construction	92	6.1%	5,500	6.4%
30	Manufacturing	118	7.8%	4,800	4.3%
65	Education and Health Services	216	14.3%	3,500	1.6%
70	Leisure and Hospitality	204	13.5%	2,500	1.2%
80	Other Services	58	3.8%	2,300	4.2%
50	Information	24	1.6%	-	0.0%
55	Financial Activities	75	5.0%	-800	-1.1%
40	Trade, Transportation and Utilities	222	14.7%	-1,800	-0.8%

Sources: YardiMatrix, Bureau of Labor Statistics
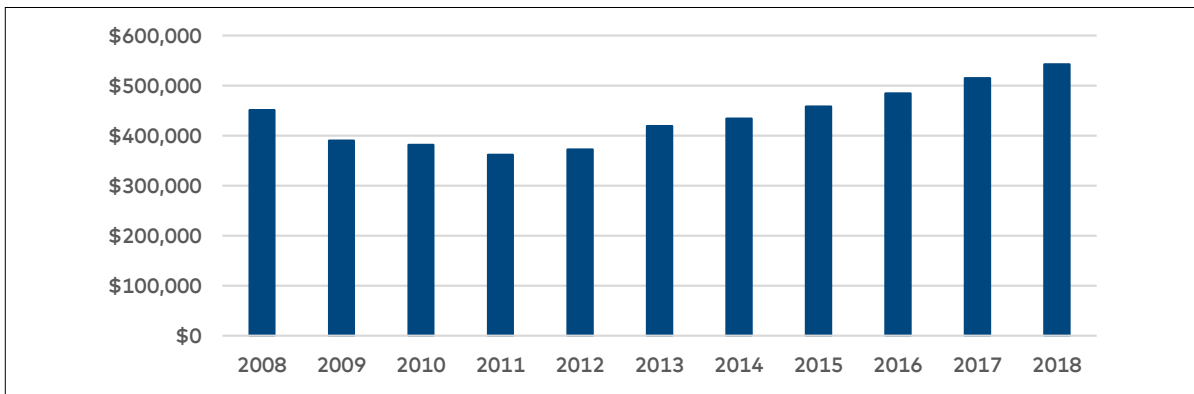
Demographics

Affordability

- The San Diego median home price reached $542,422 in 2018, up 5.4% in one year and 50% since 2011, when the market bottomed out. Last year, the average San Diego rent accounted for 29% of the area median income, while the average mortgage payment equated to 33%.

- The lack of affordable housing continues to be a significant problem in the metro, albeit less serious than Los Angeles and the San Francisco Bay Area. While the state's housing shortage has incrementally deepened for nearly half a century now, recent overall wage growth in San Diego has relatively matched rising housing costs, keeping area affordability relatively steady for the past five years.

San Diego Rent vs. Own Affordability as a Percentage of Income
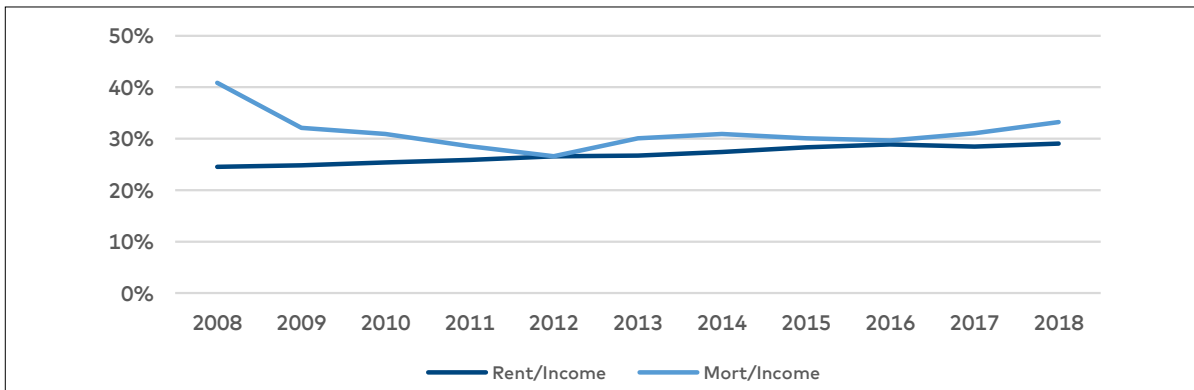
Sources: YardiMatrix, Moody's Analytics

San Diego Median Home Price

Source: Moody's Analytics

Population

- The metro added 17,896 residents in 2018, a 0.5% expansion, just 10 basis points under the national rate.

- The MSA gained more than 240,000 residents between 2010 and 2018, a 7.7% demographic uptick.

**San Diego vs. National Population**

	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
San Diego Metro	3,250,993	3,284,061	3,310,280	3,325,468	3,343,364

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

Supply

- San Diego's development pipeline remained steady, as 8,182 units were underway as of October. Despite an increasing number of units under construction, the metro should have no problem absorbing new stock due to its population growth and healthy job market.

- A total of 2,838 apartments came online across the metro in the first 10 months of 2019, representing 1.6% of the total stock, 30 basis points below the national figure. Central San Diego continued to lead development as of October 2019, with more than one-third of all apartments underway (3,177 units) located in this submarket. Kearny Mesa (988 units) and Sweetwater (822) rounded out the podium.

- Greystar's Park 12 - The Collection, a 718-unit community in Central San Diego, is the largest project to come online in 2019. The property, which benefited from a $163 million construction loan originated in mid-2016 by Pacific Life Insurance Co., is now in fact the largest single-building multifamily community in the metro, also making it into the market's top 10 overall, following several large garden-style properties.

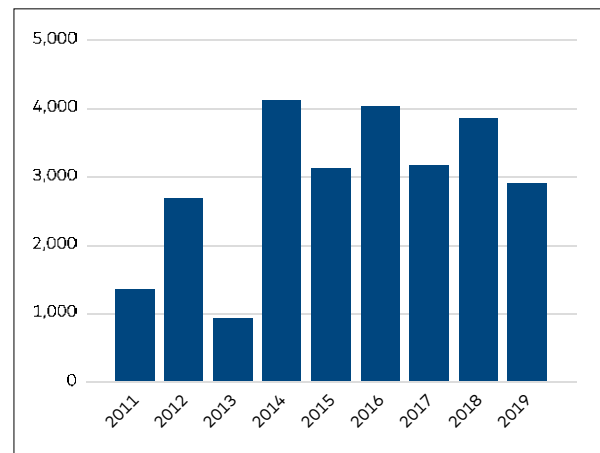**San Diego vs. National Completions as a Percentage of Total Stock** (as of October 2019)
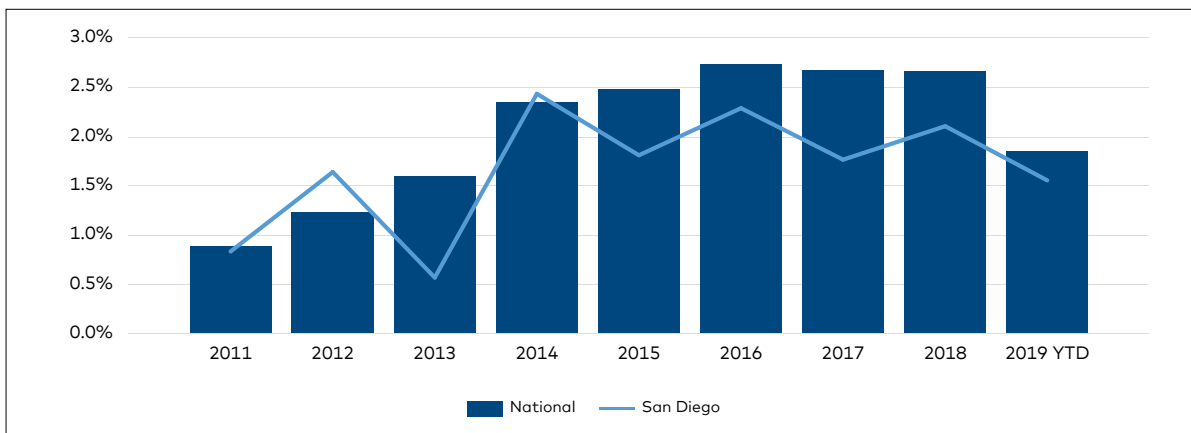
Source: YardiMatrix

Development Pipeline (as of October 2019)
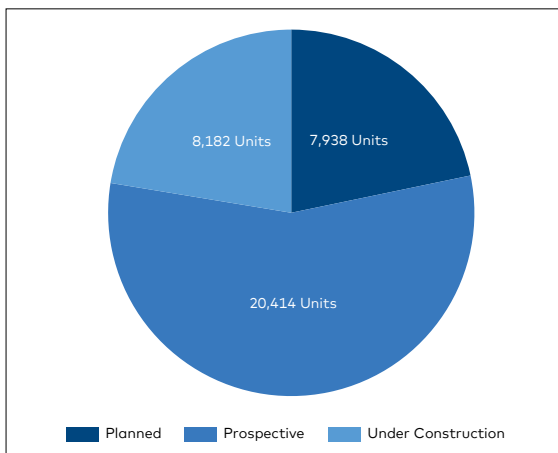
Source: YardiMatrix

**San Diego Completions** (as of October 2019)

Source: YardiMatrix

Transactions

- More than $1.1 billion in multifamily assets traded in San Diego in 2019 through October, roughly on par with 2018's total transaction volume ($1.2 billion). The average price per unit reached $318,919, the highest value this cycle and well above the $162,889 national average.

- Kearny Mesa and El Cajon attracted the most capital in the 12 months ending in October—nearly $350 million combined—followed by Oceanside ($164 million) and Elliot-Navajo ($149 million).

- The largest San Diego multifamily deal of the past six months was Barings LLC's acquisition of Alexan Millenia, also known as Boardwalk at Millenia, a newly constructed 309-unit property located in Chula Vista. Trammell Crow Residential sold the asset for $131 million, or $423,948 per unit. The property, which came online in 2019, was more than 90.0% occupied at the time of the sale.

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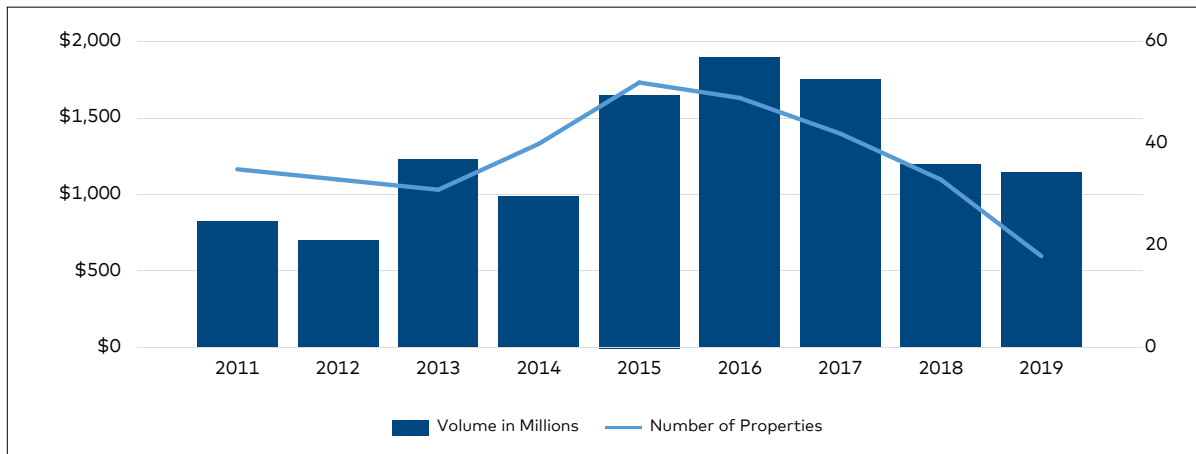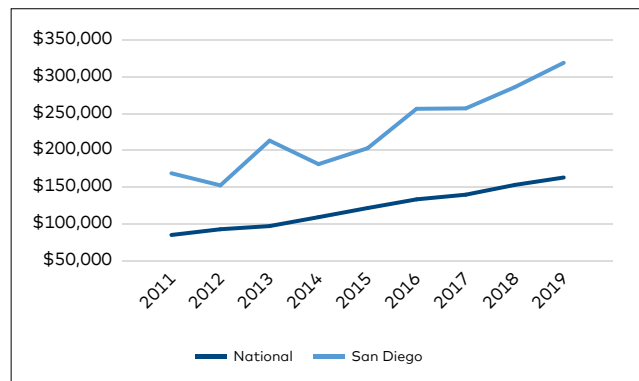

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Kearny Mesa	172
El Cajon	172
Oceanside	164
Elliot-Navajo	149
University	142
Sweetwater	131
Mid-City	110
La Mesa	99

Source: YardiMatrix
[1] From November 2018 to October 2019

San Diego vs. National Sales Price per Unit

Source: YardiMatrix

News in the Metro

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CBRE Brokers $11M Sale

Allen Chitayat and Nate Pepper represented the buyer, a Viewpoint Equities Inc. subsidiary. Hollister Creek Village traded for nearly $11 million.

Campus Advantage To Manage San Diego Student Housing

The 246-bed community is located on the south edge of San Diego State University's campus.

High-Rise Welcomes First Residents

Greystar Development will handle management of the 300-unit luxury Palisade at Westfield UTC.

JLL Secures Loan For Condominium Project

The company worked on behalf of the developer to arrange $15 million in financing for the 16-unit property.

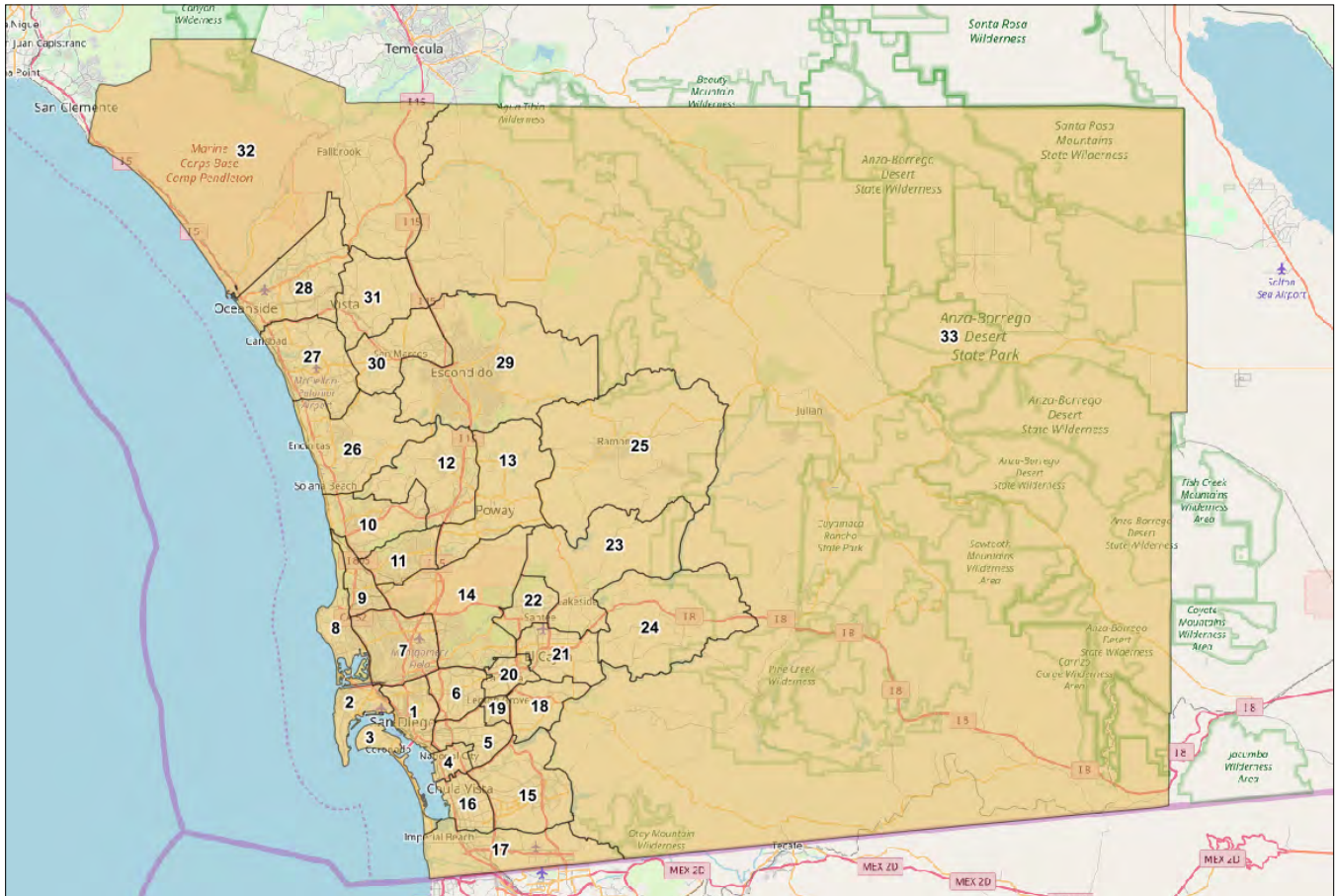### Wood Partners Debuts Luxury Community

The 110-unit Valentina by Alta is the developer's second multifamily property in the city.

Suburban Asset Sells for $66M

IDEAL Capital Group and Aegon Real Assets U.S. bought a community in Oceanside, one of California's last affordable beach cities, in a deal arranged by CBRE.

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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