

INVESTMENT FORECAST

Multifamily
San Diego

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

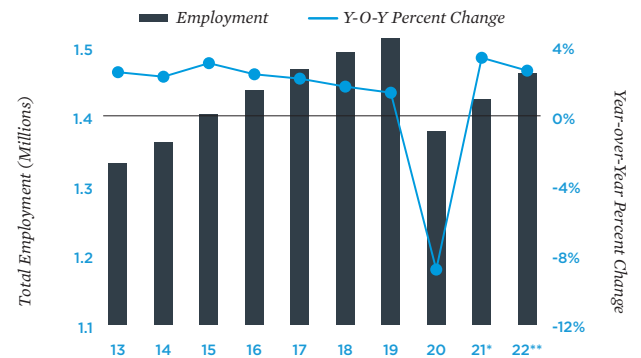
2022

Economic Gains and Record Home Prices Extend Span of Extremely Sparse Vacancy

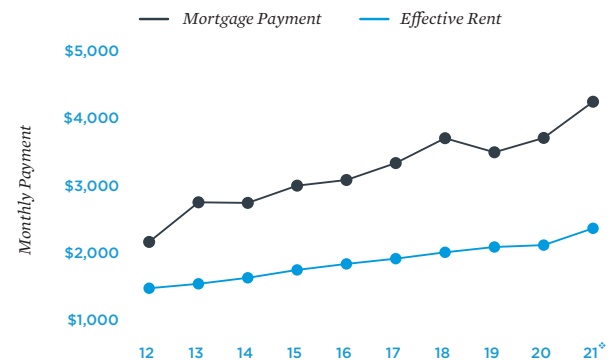
Three-pronged job growth fuels demand across tiers. Net absorption in San Diego County last year nearly doubled a two-decade-high volume of unit deliveries. This performance has placed the metro among the least-vacant markets in the nation heading into 2022, with several factors poised to maintain this standing. The local biotech sector continues to expand this year, evident by the number of projects that are transforming office and warehouse properties into life science facilities. While many employees in this industry earn a high wage, the median home price surpassing \$900,000 this year puts homeownership out of reach for many. Class A rentals will benefit as the number of units slated for delivery falls below the prior five-year average. Elsewhere, a rebound in tourism should boost leisure and hospitality hiring, with industrial growth near the U.S.-Mexico border driving trade, transportation and utilities-related job creation as well. Together, the growth of these sectors preserves what is already robust Class B and C demand.

Divergent institutional strategies deployed. Unit availability at Class A and B complexes is extremely sparse in San Diego County, fueling competition among institutional investors for properties with triple-digit unit counts. Class B listings in cities along the Highway 78 Corridor are attracting buyers seeking areas of population expansion and locally discounted rent. Here, mid-tier complexes constructed 20 to 40 years ago have recently traded at low-3 percent to low-4 percent cap rates. Similar properties are coveted in East County, where Class B vacancy is approximately 1 percent, and the average effective rent is more than \$500 below the metro mean. Institutions with a preference for luxury apartments and \$30 million-plus commitments are focusing on recently built Class A properties. Downtown San Diego and adjacent neighborhoods will provide these investors with the most opportunities as these areas accounted for one-third of the nearly 18,000 units completed over the past five years. Within the CBD, buyers are accepting first-year returns in the 3 percent range for these assets, with price tags above \$400,000 per unit common.

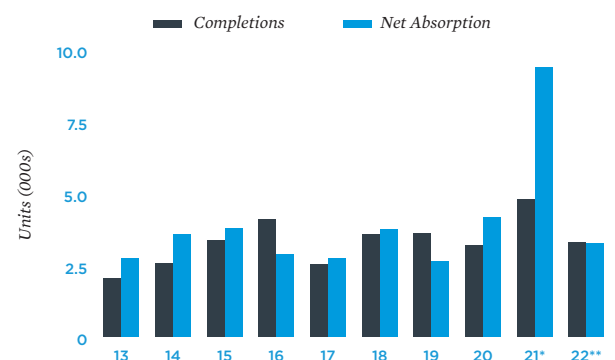
Employment Trends



Housing Affordability Gap



Supply and Demand



23.8% 2021 share of local population between 20 and 34 years old

35.1% of local population hold bachelor's degree or higher*

\$876,400 2021 median home price

* Estimate ** Forecast * Through 3Q
**2021: 25+ years old

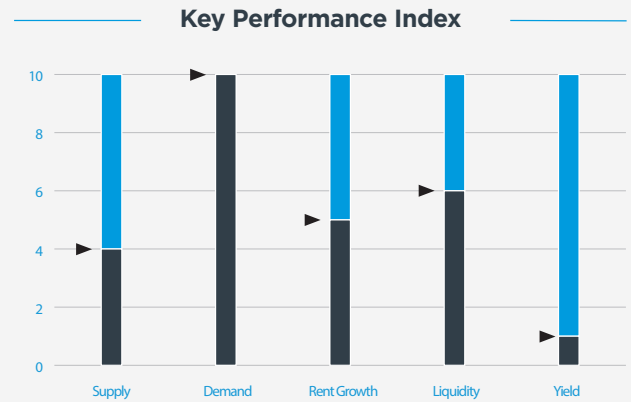
Sources: Marcus & Millichap Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

2022 Investment Outlook

Coming off a very strong year for absorption, San Diego grabs the highest possible score on the demand section of the Key Performance Index amid tight rental availability. The supply ranking is also moderate at 4, signaling another solid year for the metro's multifamily segment.

Liquidity in San Diego ranks near the middle of the pack at 6, which is roughly on par with the measure registered prior to the onset of the pandemic. Meanwhile, first-year returns are low when compared to the nation as a whole, contributing to the yield score of 1.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2022 Market Forecast

Employment

37,000 jobs



Metro **2.6%**
U.S. **2.5%**

Construction

as % of inventory*



Metro **1.0%**
U.S. **2.2%**

Class A Vacancy

Down 10 bps



Metro **2.2%**
U.S. **3.6%**

Class A Rent

\$2,904
per month



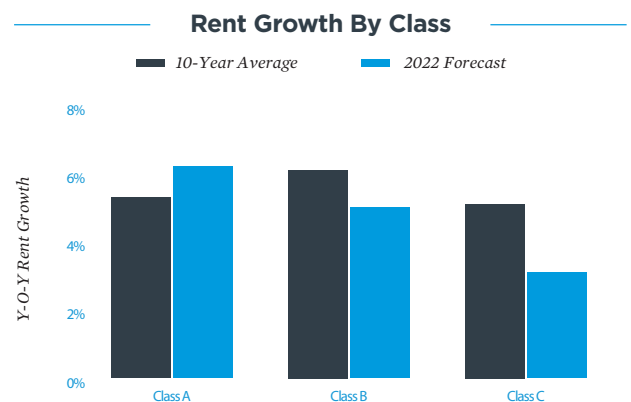
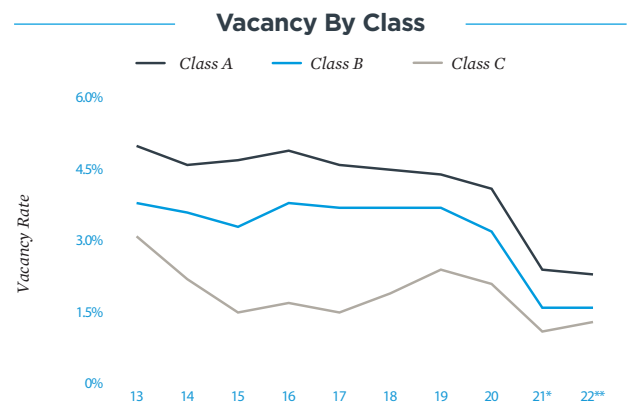
Metro **6.2%**
U.S. **7.5%**

Investment

3-yr. avg. activity
\$20+ million



Deals: **17**
Volume: **\$1.3 Billion**



John Sebree

Senior Vice President
Director IPA Multifamily
(312) 327-5400 | jsebree@ipausa.com

* Estimate ** Forecast
* Arrow reflects completions trend compared with 2021
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics