MARKET REPORT

Multifamily

San Diego Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

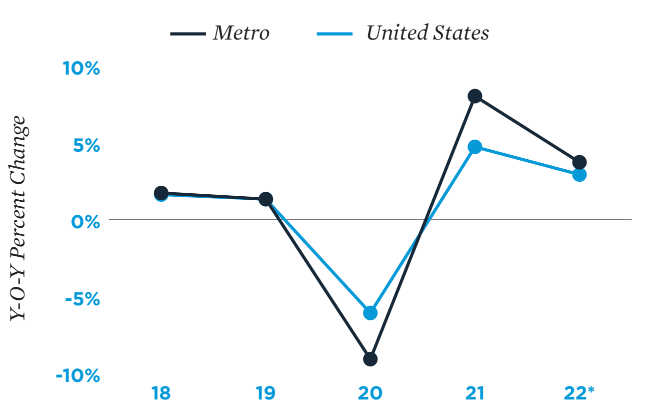
3Q/22

Scant Suburban Availability and Downtown Revival Aid West Coast's Lowest Vacancy

Metro achieves notable accolade. Strong countywide demand for suburban rentals enabled San Diego to enter the second half of this year with the nation's lowest vacancy rate. Spanning the past 12 months ended in June, renters absorbed 5,100 apartments outside of the CBD, with all 12 submarkets home to vacancy rates ranging from 1 percent to 2 percent. Responding to widespread tightness, developers broke ground on at least nine suburban projects during the first half of this year, lifting the active pipeline outside of Downtown San Diego to more than 8,100 units as of July. The metro's $3,200 affordability gap — the difference between an average mortgage payment on a median priced home and the mean effective rent — suggests these luxury apartments should be well received, namely by higher-earning households and individuals being priced out of homeownership.

Concessions and brief lull in CBD completions aid existing units. Downtown San Diego-Coronado recorded the largest vacancy decline among submarkets over the past year, and was the only locale to note a decrease in unit availability during the first half of 2022. Heightened demand for luxury and mid-tier units is to credit, as during the recent 12-month interval, nearly 2,000 of these rentals were absorbed. Concession usage also played a role, with 30 percent of available units offering some type of incentive over the past year. Moving forward, the potential for near-term compression exists as the CBD's active pipeline is comprised almost exclusively of projects slated to deliver units beyond this year.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

55,500 JOBS *will be created*

EMPLOYMENT:

Employers added 31,400 jobs in the first half, lowering unemployment to 3.4 percent. An expected rise in tech and life science positions, and the ongoing recovery of the hospitality sector, will enable the metro's workforce to expand by 3.7 percent this year.

3,100 UNITS *will be completed*

CONSTRUCTION:

Developers complete more than 3,000 units for a fifth straight year, expanding San Diego's rental stock by 1 percent. Roughly 90 percent of the apartments slated for delivery are in San Diego proper, with the remaining units primarily in La Mesa and Vista.

90 BASIS POINT *increase in vacancy*

VACANCY:

Unit availability will rise for the first time in six years. However, demand for lower-cost units and suburban rentals will enable San Diego to close out 2022 with a 2.3 percent vacancy rate, one of the lowest nationally.

11.0% INCREASE *in effective rent*

RENT:

Vacancy well below the long-term average supports a second consecutive year of double-digit rent growth. At $2,710 per month, San Diego's year-end average rent is slightly below that of Orange County and Los Angeles.

2Q 2022 - 12-Month Period

CONSTRUCTION

4,189 units completed

- Inventory grew by 1.3 percent during the 12-month span ended in June, as developers finalized more than 1,000 units in three of the past four quarters. Additions were concentrated in Downtown and Northeast San Diego.
- Entering July, projects underway comprised an average of roughly 270 rentals, with the active pipeline totaling 10,680 apartments.

VACANCY

90 basis point decrease in vacancy Y-O-Y

- Renters absorbed 6,920 units during the recent yearlong interval, placing vacancy at 1.7 percent in June.
- Conditions are tight across segments, with vacancy in the Class A and Class B sectors at 2.4 percent and 1.5 percent, respectively. The luxury segment's rate fell 120 basis points, while mid-tier logged an 80-basis-point drop.

RENT

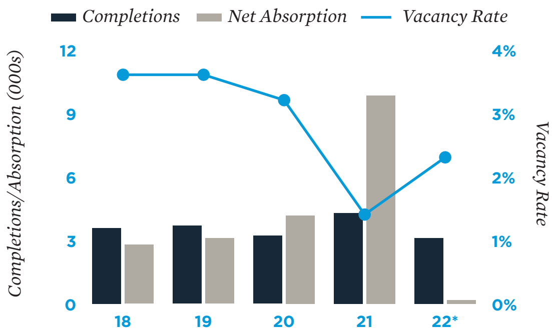
21.2% increase in the average effective rent Y-O-Y

- Six submarkets recorded 20 percent-plus rent growth over the past four quarters, elevating the metro's average effective rate to $2,633 per month.
- Entering the second half, the gap between Class A and Class B rent was more than $600 per month. The mean Class A rate stood at nearly $3,100 per month, following a 22.1 percent rise over the past year.

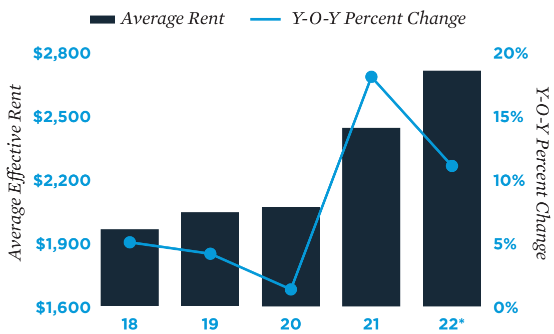
Investment Highlights

- Deal flow over the 12-month period ended in June mirrored activity from the prior yearlong span, with each of the past four quarters noting more than 100 closings. Institutional activity is on the upswing, evidenced by the record number of $20 million-plus sales that transacted over the past year. A portion of these trades involved newer-built Class A assets in Downtown San Diego and Mission Valley. Average pricing for these properties exceeded the $500,000 per unit benchmark, with cap rates in the 3 percent range.
- The rise in institutional-grade trading played a role in the average price point climbing 17 percent to $351,600 per unit. This increase compressed the mean cap rate to 3.7 percent, the lowest among major U.S. markets.
- Outside of Downtown San Diego and Mission Valley, the submarkets with the tightest Class A vacancy rates that may dictate increased institutional trading activity include Mid-City-National City and Escondido. Luxury segment availability in both areas is below 1.2 percent, and each locale registered year-over-year Class A rent gains of at least 14 percent.
- Larger-scale Class B complexes could garner heightened attention in Carlsbad-Encinitas-Del Mar, after segment availability dropped below 1 percent.

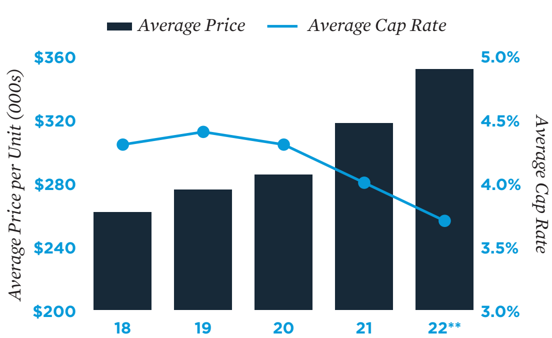
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250