MARKET REPORT

Multifamily

San Diego Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

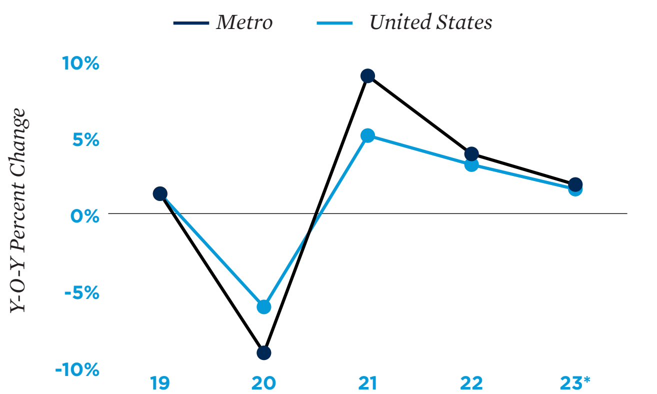
3Q/23

San Diego Ranks as One of the Nation's Tightest Major Rental Markets Across Property Tiers

Deliveries appear warranted. From a regional and national perspective, San Diego's multifamily sector entered the second half of 2023 in a favorable position. Through the first six months of this year, the metro was the only major Southern California market to register a drop in vacancy. The area is also home to the second-lowest Class A vacancy in the nation, and holds claim to the third-tightest Class B and C rates among major U.S. markets. The county's record job count and median home price, which exceeded $900,000 in June, are largely to credit for the strong, in-place rental demand. The delivery of more than 3,000 units in the second half, however, will test the metro's standout rates. Fortunately, completions are relatively well dispersed, suggesting the impact of additions on overall vacancy will be moderate. This enables San Diego to end the year with the lowest vacancy among major West Coast markets.

Construction pullback underway downtown. While vacancy is below 4 percent in all of San Diego's suburban submarkets, the CBD's rate was 5.5 percent in June. Still, downtown has exhibited positive performance of late, with vacancy falling 30 basis points on a quarter-over-quarter basis in the April through June interval. The lack of additions — roughly 30 units over the past 12 months — has aided demand for existing rentals. Moving forward, two 300-unit-plus projects are slated to deliver all of a portion of their units this year; however, apart from these properties, the CBD's pipeline is scant.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

30,000 JOBS
will be created

EMPLOYMENT:

Health care-related hiring drove overall job creation in the first seven months of this year. Additions in this and other sectors during the remainder of 2023 support a 1.9 percent annual rate of employment growth, lifting the local job count to a record mark.

4,500 UNITS
will be completed

CONSTRUCTION:

For the eighth time in the past 10 years, the metro's apartment inventory expands by at least 1 percent. Approximately 70 percent of the rentals delivered during 2023 are located within San Diego proper.

70 BASIS POINT
increase in vacancy

VACANCY:

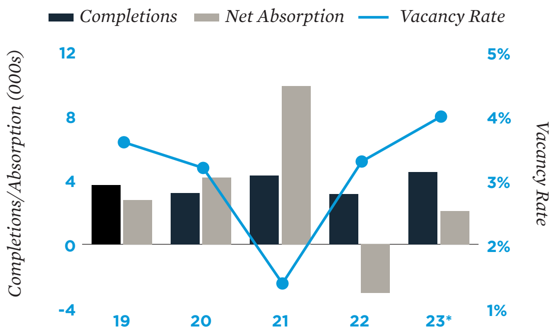
Positive net absorption is recorded during 2023, allowing the pace of vacancy increase to moderate from last year's 190-basis-point rise. At 4.0 percent, the year-end rate is 30 basis points above its long-term average.

3.5% INCREASE
in effective rent

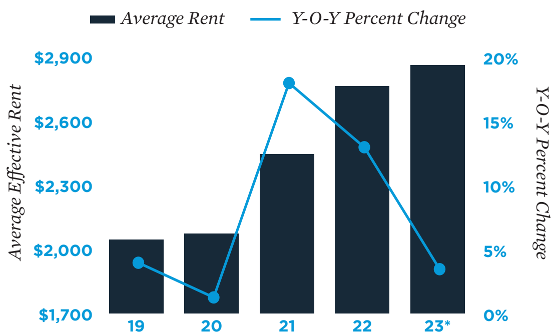
RENT:

One of the nation's lowest vacancy rates supports a 14th consecutive year of rent growth, placing the average effective rate at $2,860 per month. This local mean will exceed that of both Los Angeles and Orange County.

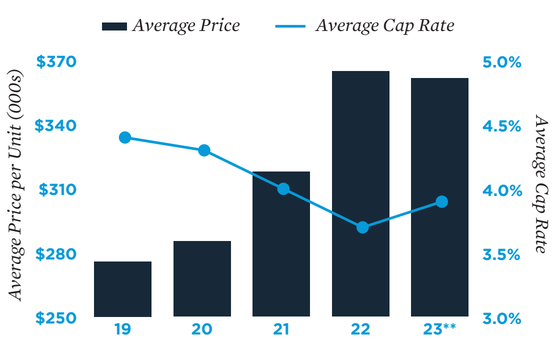
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

2,617 units completed

- Developers grew the metro's rental stock by 0.8 percent over the yearlong period ending in June. The number of units completed during this interval trailed the prior 12-month total by more than 1,600 apartments.
- Additions in Chula Vista-Imperial Beach and Northeast San Diego accounted for three-fourths of the rentals completed during the past year.

VACANCY

170 basis point increase in vacancy Y-O-Y

- Comparable increases in both CBD and suburban vacancy over the past year lifted the metro's overall rate to 3.4 percent in June.
- Across submarkets, vacancy rose by at least 120 basis points; however, four areas remained home to sub-3 percent rates: Escondido, Far North San Diego, La Mesa-Spring Valley and Mid-City-National City.

RENT

7.3% increase in the average effective rent Y-O-Y

- San Diego noted the largest rent gain among major markets west of the Mississippi over the yearlong span, placing the mean rate at $2,829 per month.
- Double-digit rent growth was registered in five of 13 submarkets, highlighted by Mid-City-National City and Escondido, which recorded increases of 15.2 and 11.7 percent, respectively.

Investment Highlights

- Multifamily deal flow reduced by 40 percent year-over-year in San Diego during the 12-month span ending in June. However, in an encouraging sign, sales velocity in the April through June stretch bested transaction totals from each of the prior two quarters. Preliminary data from the third quarter points to this trend continuing, with the metro's recently unchanged cap rate signaling more buyers and sellers are coming to agreement on terms.
- Class C trading dominated the transaction landscape over the past year, with assets in Balboa Park-adjacent neighborhoods and East County changing hands most frequently, including some for more than $10 million. In North Park, University Heights and other areas relatively proximate to downtown, pre-1990s-built assets traded for an average of $400,000 per unit, with cap rates generally ranging from 2 to 4 percent. In El Cajon, La Mesa and other eastern zones, mean pricing was just below $300,000 per unit, with maximum first-year returns reaching the 5 percent range.
- Transactions involving luxury properties were sparse of late, with the price ceiling for complexes built within the past five years now exceeding the $600,000 per unit threshold.