Market Report

MULTIFAMILY 2Q/26

San Diego Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2026 FORECAST

EMPLOYMENT
20,000 — Jobs will be created
1.3% — Increase Y-O-Y

CONSTRUCTION
5,700 — Units will be added
1.7% — Inventory increase Y-O-Y

VACANCY
4.3% — Vacancy rate
10 — BPS decrease Y-O-Y

RENT
$2,840 — Average effective rent by year-end
1.6% — Increase Y-O-Y

Primary Demand Drivers Maintain Limited Vacancy, Though Some Areas Note Pressure

Contrasting submarkets well positioned. San Diego apartment vacancy has held below 5 percent since early 2012, a stretch recently extended by strong demand at both ends of the price spectrum. In Carlsbad-Encinitas-Del Mar and La Jolla-University City, vacancy in March stood at 3.4 percent and 3.7 percent, respectively, despite rents typically above $3,200 per month. Here, vacancy should remain low as significant barriers to homeownership price out most prospective buyers, resulting in a sizable pool of mid- to higher-earning renters. Limited vacancy is also apparent in Mid-City-National City, Escondido, and East County, where rent below $2,400 per month — a notable discount to the metro average — should preserve tight conditions for the foreseeable future.

Pipeline well dispersed. More than 12,000 units were being built metrowide as of April, with two-thirds of these rentals in San Diego proper. Only 15 percent of the city's active pipeline, however, is concentrated downtown, marking a contrast to prior cycles. Instead, clusters of apartments are underway in Banker's Hill, Kearny Mesa, North Park, and Mission Valley, including several large-scale properties. Outside San Diego proper, another 4,000 units are underway, yet no city is slated to add more than 500 units during the second half of 2026.

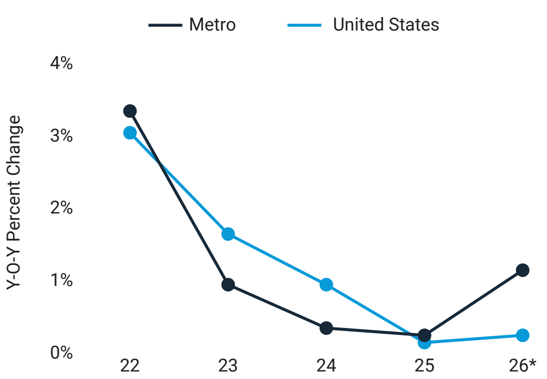
EMPLOYMENT

The metro gained 9,800 jobs during the first four months of 2026, with employment growth spearheaded by healthcare-related hiring, as well as additions in hospitality and professional services. Enrollment increases at San Diego's three primary universities should continue to provide the latter sector with a well-educated talent pool. Concurrently, ongoing medical office projects and hospital expansions will increase the need for health services professionals, supporting future job creation.

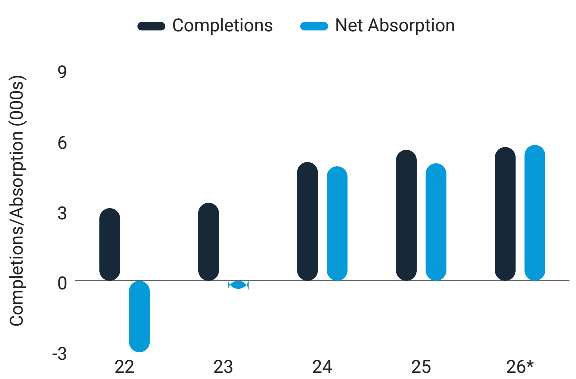
CONSTRUCTION

Developers completed more than 1,100 units in six of the prior seven quarters leading up to 2026. This trend continued over the first three months of this year, with roughly 1,315 units added. In contrast to some other major U.S. rental markets, San Diego's development pipeline continues to be consistently refilled. During the year ended in March, builders broke ground on 4,100 units, a total comparable to the prior 12 months and a sum equal to 1.2 percent of existing stock.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



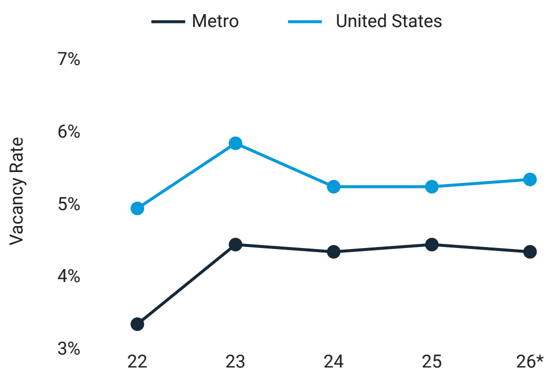
* Forecast

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

VACANCY

Vacancy inched up 10 basis points to 4.2 percent over the past year. However, Class A and B rates were unchanged at 4.6 and 4.2 percent, respectively. As such, the increase was driven by a 60-basis-point rise in Class C vacancy. Still, at 3.7 percent in March, the latter segment's rate was lowest among class cuts. Competition in affordable housing, however, may impact Class C demand. Roughly 1,300 income-restricted units are slated for delivery in 2026, following the addition of 1,900 such rentals last year.

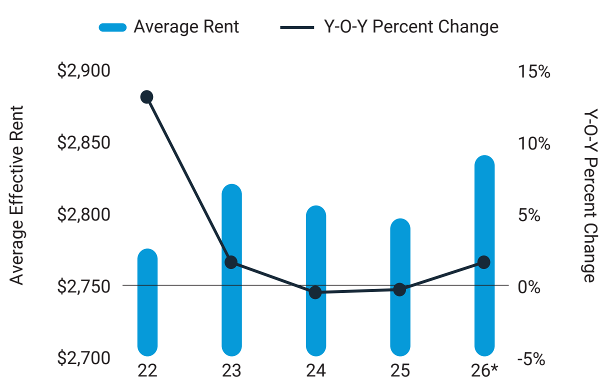
VACANCY TRENDS



RENT

Slight rent growth was registered across class cuts over the past year, lifting the metro's average effective rate to $2,832 per month in March. Comparable gains among property tiers preserved notable disparities between each sector's average rent, a dynamic that will continue to lock most households into a specific segment of the renter pool. This has positive implications for renewal activity following a first quarter in which conversion rates across property tiers trailed their respective prior five-year averages.

RENT TRENDS



* Forecast ** Through 1Q
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

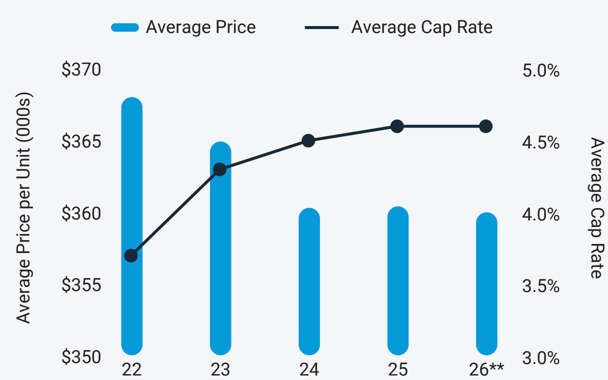
INVESTMENT HIGHLIGHTS

- San Diego continues to be the most active U.S. secondary market for multifamily transactions, supported by foundational demand drivers that should preserve steadfast renter demand for the foreseeable future. During the 12 months ended in March, the metro registered a roughly 25 percent year-over-year improvement in deal flow, with the number of trades representing the largest total since 2022. This was primarily facilitated by a rise in $1 million to $10 million sales, indicating that private buyers are acting amid nominal local pricing and cap rate movement.

- Of the sub-$10 million trades registered, roughly 80 percent involved Class C properties featuring fewer than 20 units. Primarily built before 1990, these assets are changing hands most frequently in San Diego proper, with activity in neighborhoods proximate to Balboa Park, San Diego State University, and various beaches. Pricing varies widely across these areas, with complexes in Pacific Beach and Ocean Beach commanding an average of more than $500,000 per unit over the past year. In contrast, pricing below the metro's $360,000-per-door average remains common in more central San Diego neighborhoods.

- Outside of San Diego proper, the North County cities of Oceanside and Carlsbad are among the most active trading areas. Here, Class C vacancy is among the tightest in the metro despite lower-tier rent that, on average, exceeds $2,500 per month. Buyers focused on cities with some of the lowest Class C rents are likely to target listings in El Cajon and Escondido.

SALES TRENDS



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