MARKET INSIGHTS

Steady construction levels supporting tight conditions

Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	5,240
UNITS DELIVERED	1,734

MARKET FUNDAMENTALS

VACANCY RATE	3.8%
YEAR-OVER-YEAR CHANGE	+50bps
ASKING RENTS	$2,350
YEAR-OVER-YEAR CHANGE	+2.8%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT*	$307,500

San Diego Multifamily
3Q 2023

HIGHLIGHTS

- The San Diego apartment market posted a very steady performance in the third quarter, with vacancy rates and rents essentially unchanged from midyear levels. Multifamily deliveries picked up in recent months and new projects should continue to come online through the end of the year.
- The local vacancy rate remained unchanged during the third quarter, finishing the period at 3.8 percent. Year over year, the rate rose 50 basis points.
- After trending higher for a period of more than two years, area rents were largely flat throughout much of the third quarter. Asking rents ended the period at $2,350 per month, closely tracking levels from the second quarter. Year over year, rents are up 2.8 percent.
- Multifamily transaction activity in San Diego remains light as deal volume so far in 2023 is well below last year's levels. The median sales price year to date is $307,500 per unit, down 14 percent from the median price in 2022.

SAN DIEGO MULTIFAMILY MARKET OVERVIEW

Conditions in the San Diego multifamily market showed some early signs of leveling off in the third quarter. Vacancy rates in the market held steady, but quarterly rent gains stalled, signaling that there may not be much more room for additional increases in the near term. This followed a period of more than two years where average rents in the region rose by nearly $500 per month. Apartment construction activity accelerated in recent months with the completion of roughly 1,050 units during the third quarter, bringing the year-to-date total to more than 1,700 units. While construction is ongoing throughout San Diego County, some of the most active areas for new development include Balboa Park, Downtown San Diego, Mission Valley, and the South Bay.

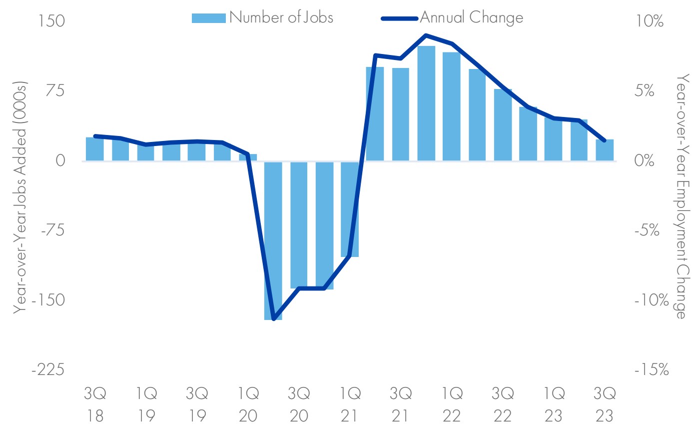
Although properties are still trading across San Diego, overall sales volume remains limited as higher interest rates and a challenging borrowing environment continue to hamper deal flow. The number of transactions year to date is down more than 40 percent from the same period in 2022. Pricing trended higher in recent months although the median figure to this point in the year is still below last year's peak. The median sales price thus far in 2023 is $307,500 per unit, although the median price in transactions that closed during the third quarter rose to $397,000 per unit. The handful of deals in the last three months were located throughout San Diego County including a couple of sales around Little Italy.

EMPLOYMENT

- Area employers added 23,400 workers during the past 12 months, an annual gain of 1.5 percent. The pace of expansion in the local labor market has been slowing in recent periods; one year ago, the growth rate was closer to 5 percent as the economy reopened and employers restaffed payrolls.
- Tourism remains a source of employment growth in the San Diego area, as personal and business travel rebounds. The local leisure and hospitality sector added 11,700 jobs during the past year, including more than 5,500 positions during the peak summer months.
- Rady Children's Hospital recently broke ground on a $1 billion expansion, the largest project in the hospital's 70-year history. Plans for the expansion feature a seven-story tower which will include new intensive care units, advanced pediatrics, operating rooms, and a larger emergency department. The new development is expected to be completed in 2027.
- **FORECAST:** Area employers are expected to add jobs at a modest pace in the remainder of the year. Total employment in San Diego is projected to grow by 20,000 workers, expanding by 1.3 percent.

Area employers added 23,400 workers during the past 12 months.

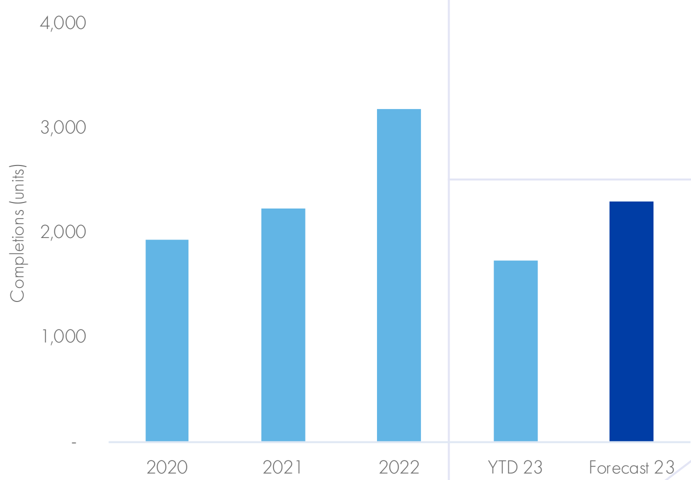
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 5,240 units are currently under construction.

DEVELOPMENT TRENDS



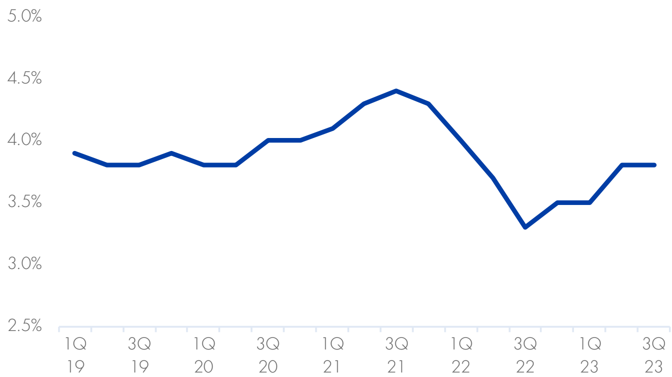
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Apartment development activity picked up in the last three months with the completion of approximately 1,050 units during the third quarter. Developers in San Diego have delivered more than 1,700 units through the first nine months of 2023, down 40 percent year over year.
- The construction pipeline has fluctuated in a fairly tight range between 5,000 units to 7,000 units under construction since 2016. Projects totaling 5,240 units are currently under way throughout the region.
- Permitting ramped up during the third quarter as developers pulled permits for more than 3,400 multifamily units. Roughly 5,600 permits were issued year to date, up 20 percent from the same period last year.
- **FORECAST:** Developers are expected to continue to bring units to the San Diego market at a steady pace through the remainder of this year. Approximately 2,300 units are slated for delivery in 2023.

Vacancy has averaged 3.7 percent since 2015.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

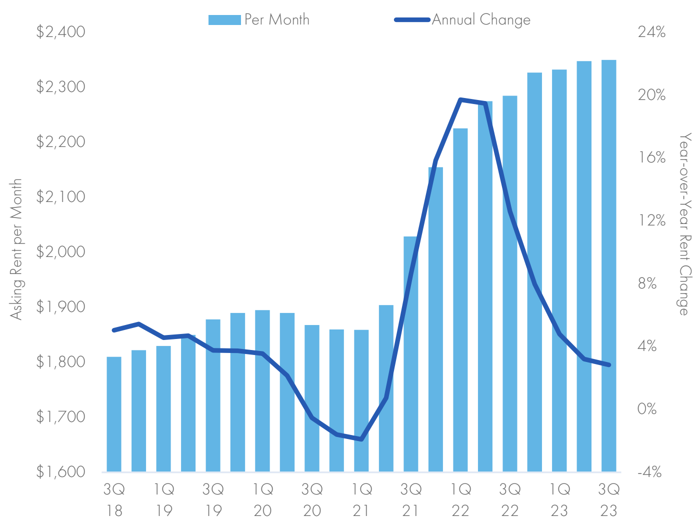
- Vacancy conditions in San Diego held steady during the third quarter at 3.8 percent. The local vacancy rate has increased by 50 basis points since reaching a recent low one year ago; vacancy has averaged 3.7 percent since 2015.
- The tightest vacancy rates are being recorded in more outlying submarkets where rents are generally lower and construction has been limited in recent years. Vacancy in the Escondido/San Marcos, San Diego/East of I-15, and El Cajon/Santee/Lakeside submarkets average below 2 percent.
- Area vacancy continues to be lowest in Class B and Class C properties, as demand for lower-cost units continues to exceed supply in San Diego. The combined vacancy rate in mid-tier and lower-tier units is just 2.1 percent, nearly identical to the figure from one year ago.
- **FORECAST:** Local vacancy is expected to be mostly stable through the end of the year. Vacancy in San Diego is projected to finish 2023 at 3.9 percent, an annual increase of 40 basis points.

RENTS

- Rent growth in San Diego stalled during the third quarter, but current levels are still higher than one year ago. Asking rents ended the third quarter $2,350 per month, up 2.8 percent year over year. Rents posted double-digit annual gains throughout much of 2021 and 2022.
- Downtown San Diego continues to command the most expensive rents in the county. Apartment rents in the city center ended the third quarter at nearly $3,200 per month, up 2.3 percent from year-earlier levels.
- Asking rents in Class B and Class C apartments are rising at a faster clip than properties in the top tier. Combined Class B and Class C rents spiked 5 percent in the past year, reaching $1,935 per month. Average Class A rents ended the third quarter at $2,830 per month.
- **FORECAST**: Following two years of robust growth, rents have likely peaked and are expected to tick lower in the fourth quarter. Asking rents in San Diego are forecast to end the year at $2,330 per month.

Asking rents ended the third quarter $2,350 per month.

RENT TRENDS



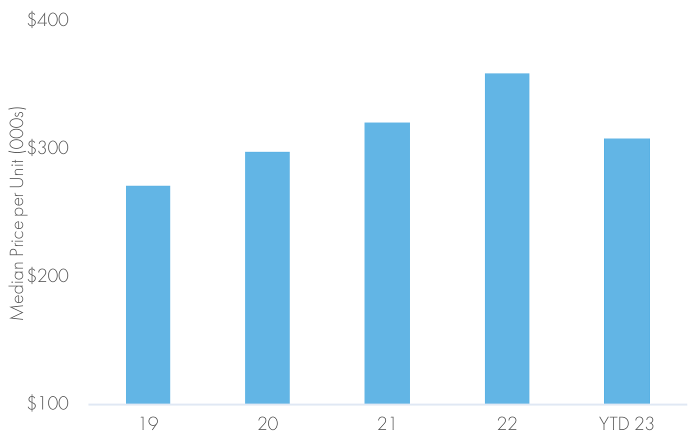
Sources: Northmarq, REIS

MULTIFAMILY SALES

- While multifamily sales activity picked up slightly from the second quarter to the third quarter, overall deal flow remains limited in San Diego. The number of transactions to this point in the year fell more than 40 percent from the same period in 2022.
- The median sales price thus far in 2023 is $307,500 per unit, down 14 percent from the 2022 figure. Prices rose in the third quarter, with a handful of properties trading for more than $400,000 per unit.
- Cap rates in San Diego are trading within a wider range than usual. Some properties are still selling with cap rates around 3 percent while other deals are recording rates as high as 6 percent. On average, cap rates have trended higher during the past year with most transactions in the 4 percent to 5 percent range.

The median sales price thus far in 2023 is $307,500 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

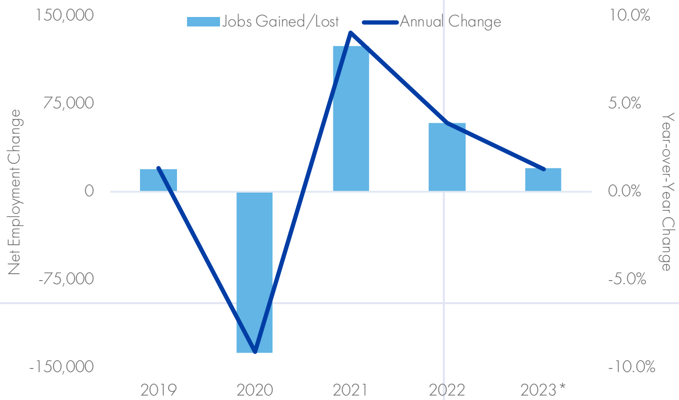
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Veranda La Jolla	3845 Nobel Dr., San Diego	354	$165,500,000	$467,514
The Continental	320 W Cedar St., San Diego	43	$21,350,000	$496,512
Contour Lofts	2120 Columbia St., San Diego	27	$20,715,000	$767,222
Pacific Cove	4025 Oakcrest Dr., San Diego	81	$18,250,000	$225,309
The Pacifica	2874 B St., San Diego	32	$10,450,000	$326,563
James Place Apartments	1311 4th Ave., Chula Vista	33	$10,147,000	$307,485

LOOKING AHEAD

Property fundamentals in San Diego are expected to remain healthy through the remainder of the year, although operators will likely trim rents slightly to keep vacancy rates near current levels. The lessening competitive impact of new supply should support market conditions. Deliveries in 2023 will come in lighter than levels that were recorded last year, and the total new units that come online will be about 30 percent lower than the market's five-year average. New units are being introduced to the market at a time where employers continue to add workers and demand for housing is strongest.

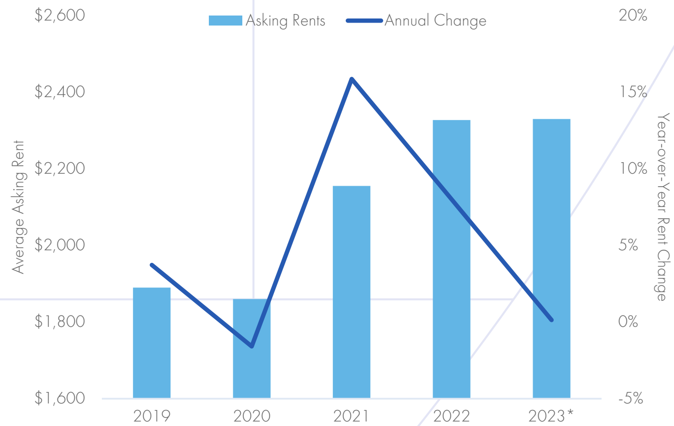
Preliminary readings show local investment activity in the fourth quarter gaining momentum, as investors target markets that are unlikely to be significantly impacted by competition from new supply. While there were a couple of properties totaling 200 units and greater that traded in recent months, the bulk of the deals in the region include properties with fewer than 50 units. While it may take some time for sales volume to return to levels recorded during the last five years, consistent and strong operating conditions will make San Diego one of the most attractive markets in the West region.

EMPLOYMENT FORECAST



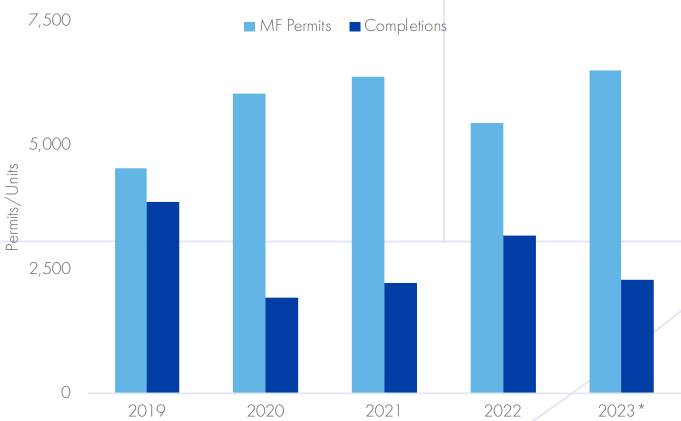
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



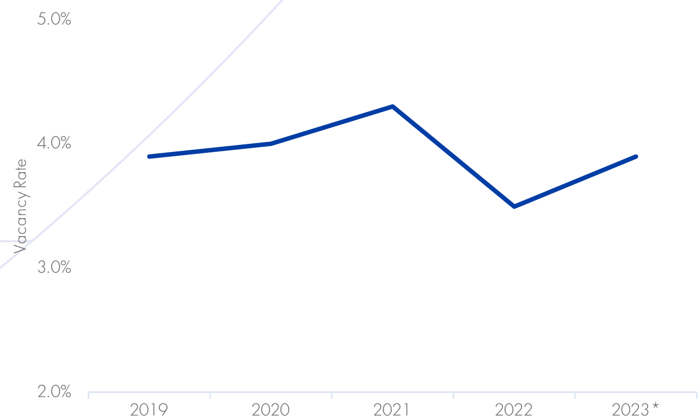
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, Census Bureau, CoStar

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, REIS

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