Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	7,557
UNITS DELIVERED (YTD)	2,049

MARKET FUNDAMENTALS

VACANCY RATE	4.2%
YEAR-OVER-YEAR CHANGE	+40bps
ASKING RENTS	$2,364
YEAR-OVER-YEAR CHANGE	0.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$351,900

SAN DIEGO MULTIFAMILY
2Q 2024

MARKET INSIGHTS

Prices rise, as newer assets begin to transact

HIGHLIGHTS

- Property fundamentals in the San Diego multifamily market posted a mixed performance during the second quarter as the vacancy rate ticked higher while rents gained some ground. The pace of deliveries spiked in recent months after starting the year off slow, and the development pipeline remains elevated.
- The vacancy rate in San Diego inched higher during the second quarter after posting a modest increase in the previous three months. The current vacancy rate is 4.2 percent, 40 basis points higher than one year ago.
- Rent growth has been steady to this point in 2024 after asking rents dipped in the closing three months of 2023. Asking rents rose 0.4 percent during the second quarter to $2,364 per month. During the past year, rents have ticked up 0.7 percent.
- Sales velocity picked up slightly in the second quarter, though overall transaction volume to this point in the year has been limited. Despite sales being light, prices have rebounded. The median price to this point in 2024 is $351,900 per unit, up 33 percent from last year.

SAN DIEGO MULTIFAMILY MARKET OVERVIEW

Operating conditions in the San Diego multifamily market have softened a bit in response to an accelerating pace of new apartment construction. Vacancies have inched higher in recent periods and rents are essentially flat, the longer-term apartment demand drivers remain in place, and operators should continue to expect steady property performance. The overall vacancy rate ended the second quarter at 4.2 percent, and the market vacancy has remained between 3.5 percent and 4.5 percent during the past five years. Vacancy is concentrated in Class A units and in submarkets where new development has been most active. More than half of the submarkets in the San Diego market feature vacancy rates below 4 percent, with a few submarkets having vacancy rates of 3 percent or lower.

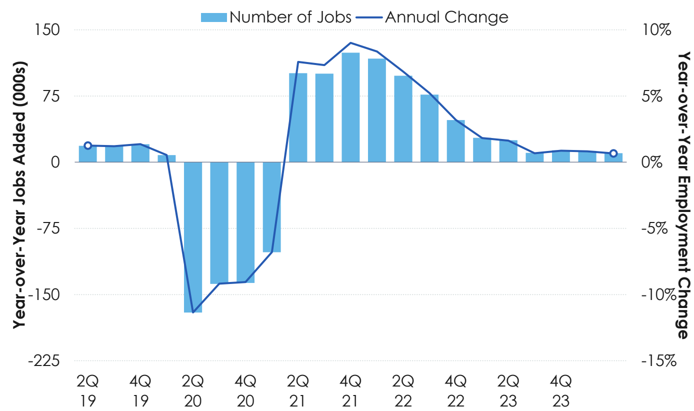
The investment market has produced some mixed results through the first two quarters of 2024. Sales velocity has been steady to this point, with transaction counts in the second quarter closely tracking levels from the first quarter. While the number of properties that are selling has been consistent, pricing trends have been more volatile. Per-unit prices peaked in 2022, before dipping last year. To this point in 2024, prices have rebounded. In recent months, a handful of properties that have been built in the past decade have changed hands. These properties have traded between $425,000 per unit and $550,000 per unit. Older, Class C properties have continued to transact as well, and these assets have generally sold for between $240,000 per unit and $350,000 per unit. While prices have fluctuated based on vintage, cap rates have remained between 4.5 percent and 5 percent.

EMPLOYMENT

- Employment growth in San Diego has been more modest in recent quarters after elevated gains in 2021 and 2022. In the past 12 months, area employers added 10,200 workers to payrolls, an increase of 0.7 percent.
- Recent growth has been concentrated in one sector, education and health services. With the addition of 15,500 workers, total employment in this sector has expanded by 6.5 percent in the past year. Gains in this sector have outpaced the total net job growth for the region as a whole.
- The overall pace of employment growth has been considerably slowed by recent losses in the professional and business services sector, San Diego's largest industry. Total professional employment has contracted by 1.6 percent in the past 12 months, a net loss of 4,500 positions.
- **FORECAST:** Employment growth in San Diego is expected to slow slightly this year, tracking just behind levels recorded in 2023. Local employers are forecast to add 12,500 workers to payrolls in 2024, an increase of 0.8 percent.

Area employers added 10,200 workers to payrolls.

EMPLOYMENT OVERVIEW



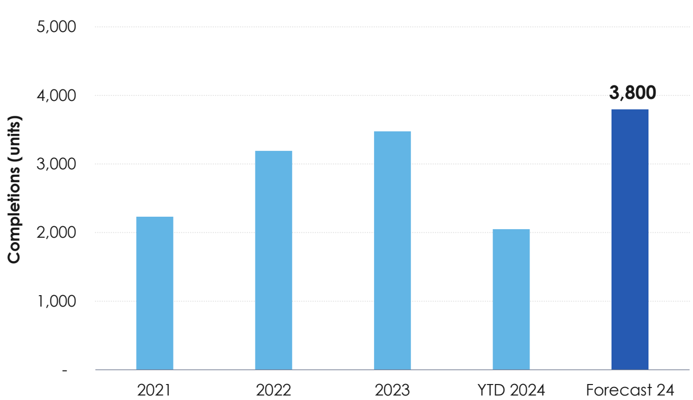
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries in San Diego picked up considerably in recent months, as projects totaling nearly 1,600 units came online during the second quarter. Year to date, about 2,050 units have been completed; in the same period last year, roughly 700 units were delivered.
- Projects totaling more than 7,550 units are currently under construction in San Diego, up 35 percent from one year ago. The Mission Valley/North Central submarket contains the largest share of development in the region with projects totaling approximately 2,500 units under construction.
- Multifamily permitting during the second quarter was roughly in line with the opening months of the year, keeping the development pipeline running at a steady pace. In the past three months, permits were pulled for projects totaling 1,400 units.
- **FORECAST:** Annual deliveries in 2024 are forecast to reach a six-year high. Projects totaling 3,800 units are forecast to come online for the full year. In the trailing five years developers completed an average of roughly 2,900 units per year.

Year to date, about 2,050 units have been completed.

DEVELOPMENT TRENDS

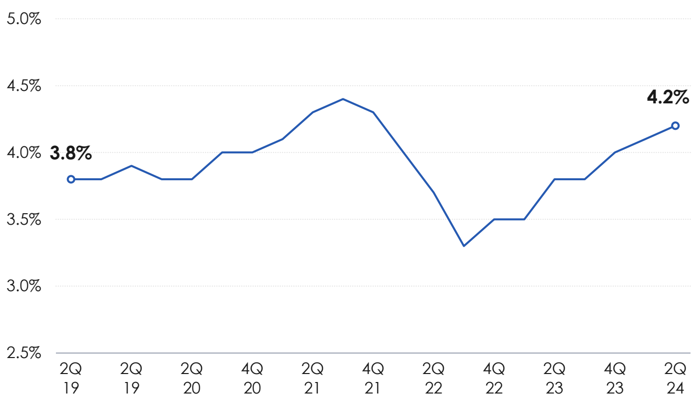


Sources: Northmarq, REIS

VACANCY

In the past 12 months, vacancy has risen by 40 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

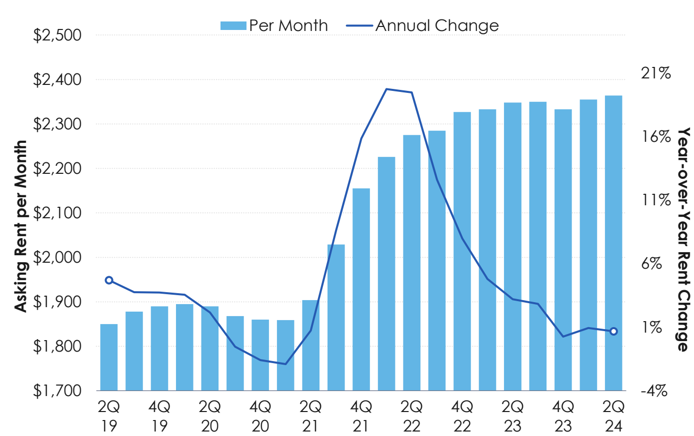
- The vacancy rate in San Diego continued to inch higher in the second quarter, rising 10 basis points to 4.2 percent. In the past 12 months, local vacancy has risen by 40 basis points.
- Vacancy patterns were mixed across submarkets, though the National City/Chula Vista submarket posted some of the tightest conditions in the region. Year over year, the vacancy rate in this submarket dropped by 40 basis points to 3.3 percent.
- The lowest vacancy rates are being recorded in mid-tier and lower-tier communities. The combined vacancy for Class B and Class C units is just 2.5 percent. Class A vacancies are closer to 6 percent, but nearly all of the net absorption is being recorded in these properties.
- **FORECAST:** As new projects continue to come online, vacancies are expected to continue to creep higher at a modest pace. The vacancy rate in San Diego is forecast to end 2024 at 4.5 percent, an annual rise of 50 basis points.

RENTS

- Rents in San Diego have been mostly flat over the course of recent periods. During the second quarter, asking rents crept up 0.4 percent, after a stronger gain in the first three months of the year. Year over year, rents in San Diego are up 0.7 percent to $2,364 per month.
- While rents at the market level have remained in a tight range, growth was much more pronounced in submarkets surrounding Downtown. Rents in the Balboa Park submarket spiked 7 percent during the past year, reaching $1,990 per month.
- Year over year, combined asking rents for Class B and Class C units rose by 1.8 percent, reaching $1,967 per month. Class A asking rents ended the second quarter at $2,801 per month, about 1 percent lower than one year earlier.
- **FORECAST:** Apartment rents in San Diego are expected to record modest gains through the end of the year. By the end of 2024, asking rents in San Diego are forecast to reach $2,380 per month, an annual rise of 2 percent.

Year over year, rents in San Diego are up 0.7 percent.

RENTS TRENDS



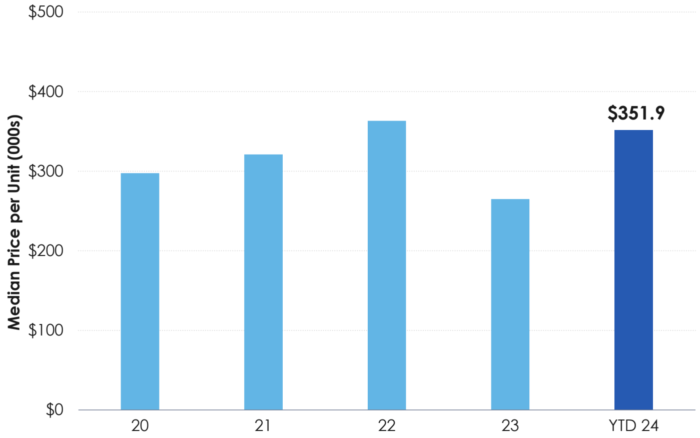
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Transaction activity in San Diego picked up slightly in the second quarter, but still lags behind prior averages. Total sales during the first half of 2024 closely tracked levels recorded in the first six months of last year.
- While transaction activity was modest compared to recent years, pricing on the properties that have traded this year has trended higher. The median sale price to this point in 2024 is $351,900 per unit, up 33 percent from last year. Current pricing is nearly identical to the peak levels recorded in 2022.
- Cap rates have remained within the same range in recent periods since rising through the first half of 2023. On average, cap rates in San Diego have averaged between 4.5 percent and 5 percent in 2024.

The median price in 2024 is $351,900 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

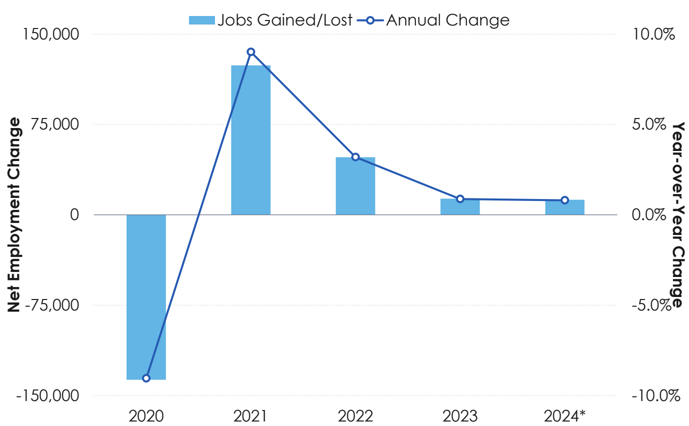
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Windsor Rancho PQ	14433 Penasquitos Dr., San Diego	331	$167,000,000	$504,532
ALX	300 14th St., San Diego	313	$137,000,000	$437,700
Mar at Mesa	3502 Angelucci St., San Diego	62	$21,500,000	$346,774
Pine View Apartments	900 Phillips St., Vista	59	$14,100,000	$238,983

LOOKING AHEAD

While there may be some fluctuation in operating fundamentals in the coming quarters, moves in the San Diego multifamily market will likely be small, reflecting the overall consistency in property performance. This year will be an active one for new deliveries, presenting some continued supply-side pressures in the Class A segment in a handful of submarkets. Outside of the top-tier, Class B and Class C properties are expected to continue to outperform. Vacancies across Class B and Class C properties are low—averaging just 2.5 percent—and these tight conditions, coupled with the persistent affordability challenges in the San Diego region, will result in continued steady demand for less expensive units.

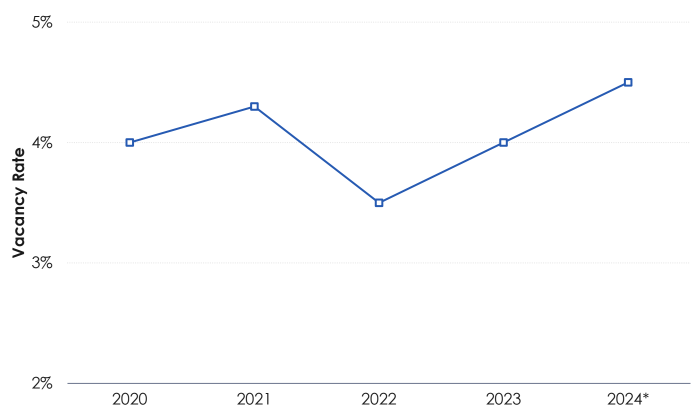
The local investment sales market may be poised to begin picking up in second half. Cap rates are higher than in recent years, somewhat offsetting the impact of higher borrowing costs, and most forecasts call for lower lending rates in the near future. These trends may be enough to move a few investors off of the sidelines and prompt some additional transaction activity. The current mix of properties that are selling is unlikely to change dramatically, with Class C assets under 150 units representing the bulk of the transactions, helped by their low vacancy rates and continued ability to post rent increases.

EMPLOYMENT FORECAST



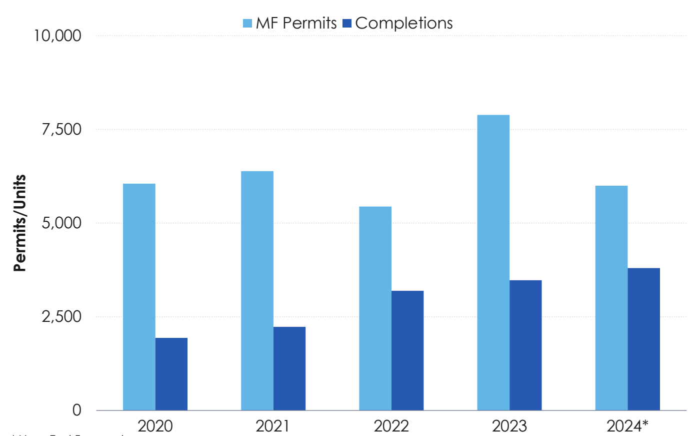
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



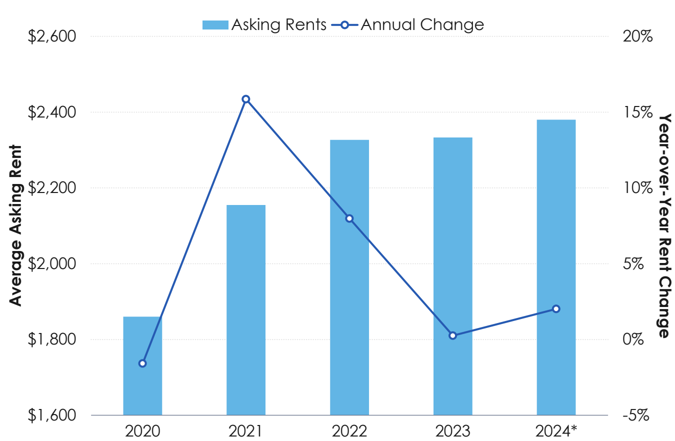
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*

RENTS FORECAST



** Year End Forecast*
Sources: Northmarq, REIS

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