

San Diego's Slow Year

November 2024



Advertised Asking Rents Trend Down

Unemployment Rate Improves

Investment Activity Picks Up

SAN DIEGO MULTIFAMILY



Asking Rents Contract, Investment Improves

San Diego's multifamily market ended the third quarter on a decelerating path, with advertised asking rents down 0.2%, on a trailing three-month basis through September, to \$2,728. The national average remained unchanged for the quarter, at \$1,750. The metro's occupancy declined 40 basis points year-over-year, to 96.1% in September, outperforming the 94.8% U.S. figure.

Unemployment in San Diego stood at 5.0% in August, according to preliminary data from the Bureau of Labor Statistics. This was the highest figure since October 2021. Job gains slowed down, to a 0.8% expansion over the 12 months ending in July, lagging the U.S. figure by 50 basis points. This represented a net gain of 13,500 jobs, with education and health services (12,900 jobs) and government (5,500) leading growth. Professional and business services (-4,500) and manufacturing (-3,700) recorded significant losses.

San Diego developers completed 2,977 units year-to-date through September, which represented 1.4% of stock and lagged the U.S. rate by 70 basis points. A 60% year-over-year drop in construction starts confirmed the slowdown in activity, a trend present across most markets. However, multifamily demand remained steady. Meanwhile, transactions recorded a 25% year-over-year volume increase, to a total of \$671 million for the first three quarters.

Market Analysis | November 2024

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Recent San Diego Transactions

ALX



City: San Diego
Buyer: Virtu Investments
Purchase Price: \$137 MM
Price per Unit: \$437,700

AVA Balboa Park



City: San Diego
Buyer: AvalonBay Communities
Purchase Price: \$51 MM
Price per Unit: \$510,000

Encinitas Terrace Senior



City: Encinitas, Calif.
Buyer: Property West
Purchase Price: \$29 MM
Price per Unit: \$286,275

Mar at Mesa

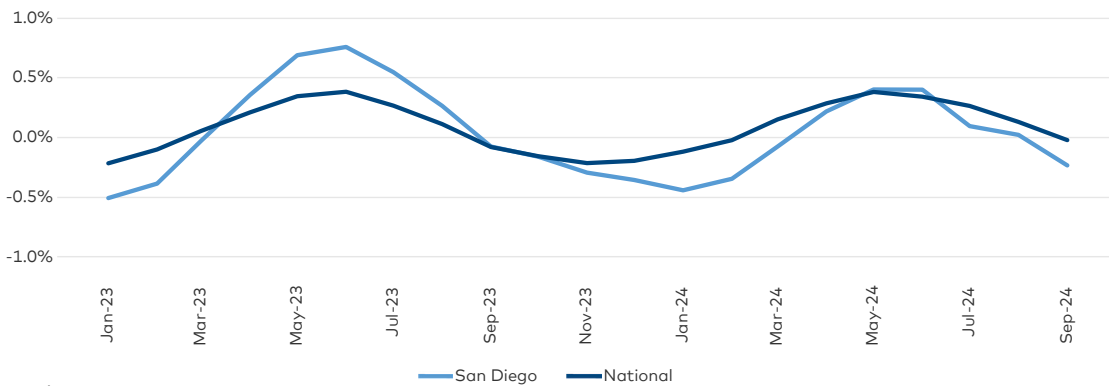


City: San Diego
Buyer: F&F Income Properties
Purchase Price: \$22 MM
Price per Unit: \$346,774

RENT TRENDS

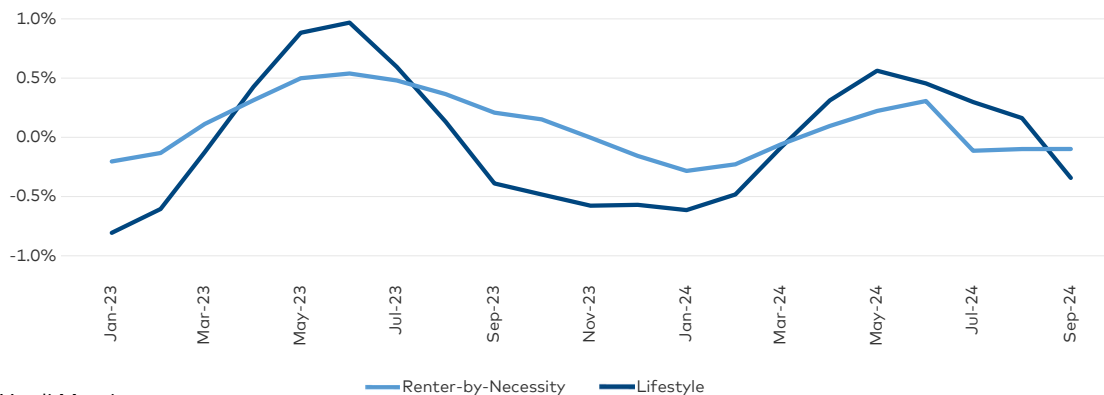
- ▶ San Diego average advertised asking rents were down 0.2% on a trailing three-month (T3) basis through September, while the national figure stagnated. This followed five months of tepid gains, with a T3 spike of 0.4% in May and June. San Diego rents also contracted, down 0.8% year-over-year, while the U.S. rate was up 0.9%. A strong influx of new supply, along with some recent seasonal softening, led to a rather slow year for the metro, in line with most of the Sun Belt.
- ▶ The average advertised asking rent in San Diego was \$2,728 as of September, while the national figure stood at \$1,750. Both of the metro's quality segments saw contractions—the working-class Renter-by-Necessity rate fell 0.1%, on a T3 basis through September, to \$2,374, while the upscale Lifestyle average was down 0.3%, to \$3,193. Although neither segment recorded outstanding performance, Lifestyle T3 rent gains reached a 0.6% peak in May, while RBN peaked at 0.3% in June.
- ▶ Average occupancy in the metro was down 40 basis points year-over-year, to 96.1% in September, while the national figure remained unchanged, at 94.8%. Occupancy for Lifestyle assets was down 40 basis points, to 95.8%, while the RBN segment saw a 50-basis-point decline, to 96.3%.
- ▶ Out of San Diego's 33 submarkets, several recorded significant year-over-year rent growth. The top five were National City (4.3% to \$2,043), Chula Vista (3.9% to \$2,226), Santee (3.5% to \$2,573), Escondido (3.4% to \$2,406) and Del Mar (1.9% to \$3,822).

San Diego vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

San Diego Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- San Diego unemployment climbed to 5.0% in August, 80 basis points higher than the national figure, according to preliminary data from the BLS. After dropping to 3.7% in May, the metro's rate increased sharply to its highest point since October 2021. California's rate stood at 5.3% in August.
- The metro gained 13,500 net jobs in the 12 months ending in July. This represented a 0.8% employment expansion, lagging the U.S. figure by 50 basis points. Employment growth, which had been consistently below the U.S. average since February 2023, declined at a similar rate to the national figure.
- Education and health services led growth, with 12,900 jobs, or a 5.3% expansion. The government (5,500 jobs) and leisure and hospitality (2,600) sectors also recorded significant gains. Meanwhile, professional and business services lost 4,500 positions, followed by manufacturing, which was down 3,700 jobs.
- IQHQ's 1.7 million-square-foot life science district opened downtown. It faced an uncertain office market and economic headwinds, as the owner has reportedly not signed any life science tenants yet. Still, large projects continue to pop up, such as UC San Diego's 200,000-square-foot Multidisciplinary Life Sciences building, which broke ground in September.

San Diego Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	254.6	16.3%
90	Government	244.4	15.7%
70	Leisure and Hospitality	209.9	13.5%
15	Mining, Logging and Construction	93.1	6.0%
80	Other Services	58.4	3.7%
40	Trade, Transportation and Utilities	222.3	14.3%
55	Financial Activities	72	4.6%
50	Information	20.8	1.3%
30	Manufacturing	111.9	7.2%
60	Professional and Business Services	270	17.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Diego lost 6,616 residents in 2022, for a 0.2% contraction. The U.S. population grew by 0.4%.
- The metro's population started contracting in 2020, down almost 35,000 residents in three years. Over a longer time frame, however, San Diego's population growth trend remains positive.

San Diego vs. National Population

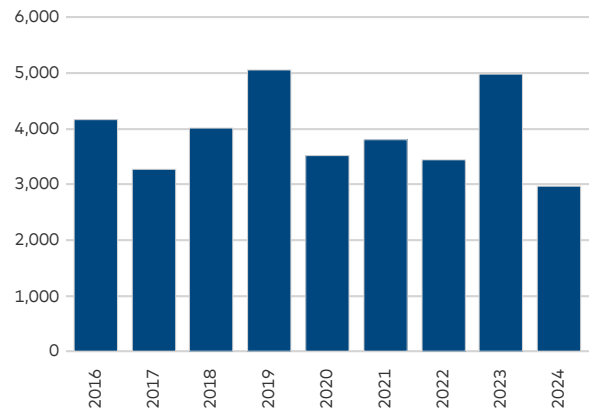
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
San Diego	3,316,073	3,323,970	3,296,317	3,289,701

Source: U.S. Census

SUPPLY

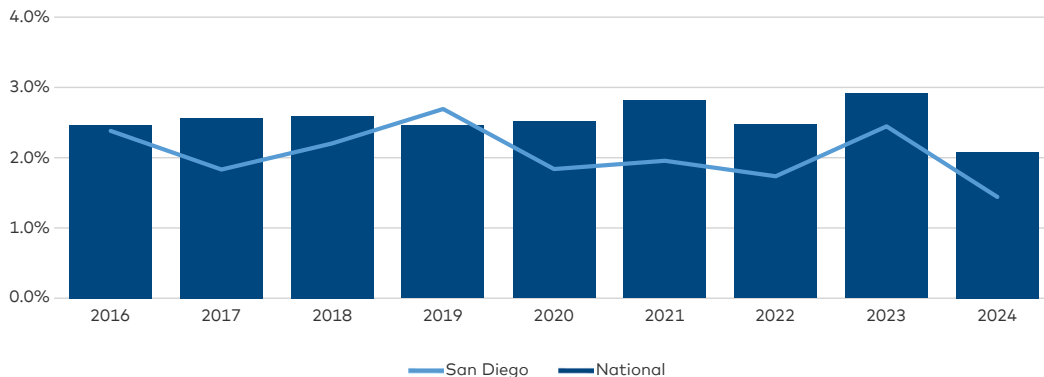
- ▶ San Diego had 10,125 units under construction as of September, across some 50 projects. Developers remained focused on the upscale Lifestyle segment, as nearly three-quarters of units underway were in such projects. Roughly 28% of the units were in fully affordable developments, an above-average share when compared to other major metros. Developers also had an additional 44,000 units in the planning and permitting stages.
- ▶ A total of 2,977 units, or 1.4% of existing stock, came online in metro San Diego during the first nine months of the year—70 basis points lower than the national figure. The metro was consistently behind the national rate of construction over the past eight years, but this year might represent a new low point. Completions declined 22.4% when compared to the same period last year. From 2016 to 2023, San Diego's inventory expanded, on average, by 4,033 units yearly.
- ▶ Construction starts paint a similar picture, as developers broke ground on 11 properties comprising 1,319 units this year through September. Work started on a total of 3,350 units across 17 properties during the same period last year.
- ▶ Central San Diego (1,892 units) and Kearny Mesa (1,793 units) led construction activity, followed by Sweetwater (819), Escondido (811) and South Bay (778).
- ▶ Trammell Crow Residential's ALX Camellia was the largest multifamily asset underway in the metro as of September, at 531 units. Part of a mixed-use development in Kearny Mesa, the community is slated to come online in 2026.

San Diego Completions (as of September 2024)



Source: Yardi Matrix

San Diego vs. National Completions as a Percentage of Total Stock (as of September 2024)



Source: Yardi Matrix

TRANSACTIONS

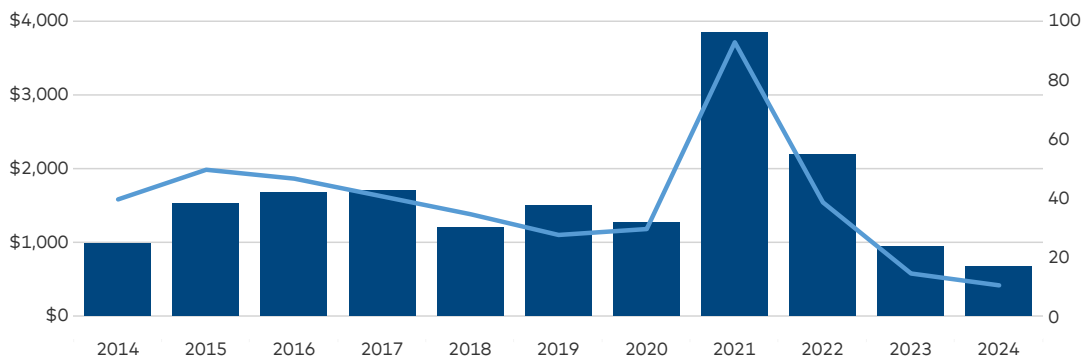
➤ San Diego investors traded \$671 million across 11 single-asset multifamily transactions year-to-date through September. Although volume grew 25.4% when compared to the same period last year, activity has yet to return to historic levels. Barring the outsize performances of 2021 and 2022—\$3.8 billion and \$2.2 billion—the average annual volume stood at \$1.4 billion over the previous seven years.

➤ Properties traded for an average of \$414,127 per unit this year, more than double the

\$188,379 national figure. San Diego prices grew 28.7% from 2023's average, and while the limited sample size influenced this year's figure, property prices remain on an upward trend.

➤ AvalonBay Communities paid \$510,000 per unit—the highest recorded this year—for a Central San Diego asset. Clarion Partners sold the 2015-built, partially affordable AVA Balboa Park for \$51 million.

San Diego Sales Volume and Number of Properties Sold (as of September 2024)



Source: Yardi Matrix

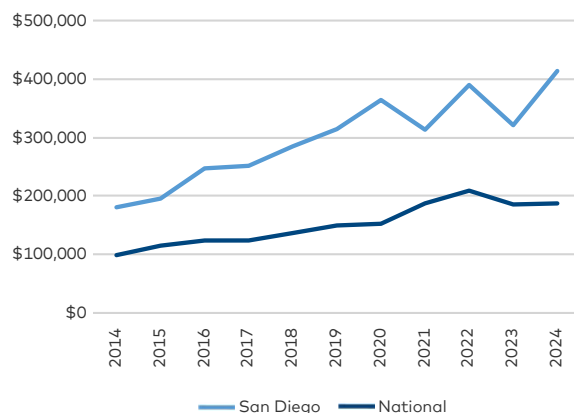
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Sweetwater	198
Central San Diego	188
Oceanside	174
North San Diego	167
Kearny Mesa	147
Vista	111
Chula Vista	65

Source: Yardi Matrix

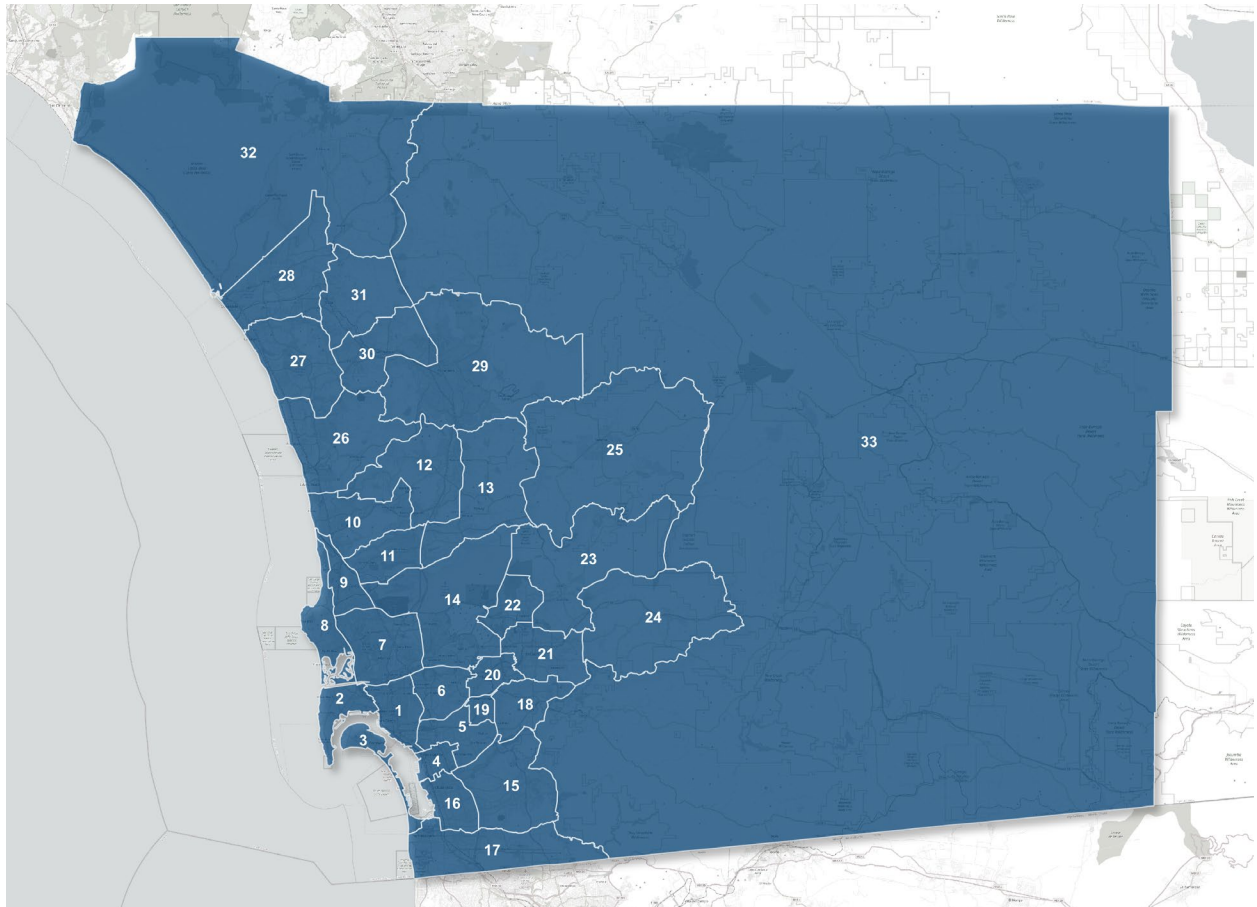
¹ From October 2023 to September 2024

San Diego vs. National Sales Price per Unit



Source: Yardi Matrix

SAN DIEGO SUBMARKETS



Area No.	Submarket
1	Central San Diego
2	Peninsula
3	Coronado
4	National City
5	Southeast San Diego
6	Mid-City
7	Kearny Mesa
8	Coastal
9	University
10	Del Mar
11	Mira Mesa
12	North San Diego
13	Poway
14	Elliot-Navajo
15	Sweetwater
16	Chula Vista
17	South Bay

Area No.	Submarket
18	Spring Valley
19	Lemon Grove
20	La Mesa
21	El Cajon
22	Santee
23	Lakeside
24	Alpine
25	Ramona
26	San Diegoito
27	Carlsbad
28	Oceanside
29	Escondido
30	San Marcos
31	Vista
32	Fallbrook
33	Outlying San Diego County

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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