



MULTI-FAMILY MARKET REPORT

SAN DIEGO, CA | Q1 OF 2023



SOURCE: COSTAR

12 Mo. Delivered Units

3,772

12 Mo. Absorption Units

11

Vacancy Rate

4.0%

12 Mo. Asking Rent Growth

4.4%

Overall demand has fallen since mid-2022, with luxury apartments the only class segment seeing positive absorption over the past two completed quarters, driven primarily by new buildings. Renters have shown a continued preference for high-end units over the past several years, even with average rents of about \$3,240/month.

While rents are up 4.4% year over year, that is coming off a peak of 13.9% on an annualized basis in early 2022. With moderation setting in on the demand side, rents declined on a month-over-month basis during the last four months of 2022 before stabilizing in January. More affordable submarkets in South and North County have been among the top performers in the past 12 months as costlier nodes such as Downtown and UTC have seen a sharper decline. That comes even as Downtown has seen some of the strongest demand across San Diego in the past 12 months.

The current pipeline of 7,700 units coupled with the moderation in household formation has applied upward pressure to vacancy, which is expected to see the rate return to its long-term average of 4.4%. Downtown remains at the forefront of development activity and

deliveries, although builders have branched out along the South I-15 Corridor, Balboa Park and Chula Vista more notably where strong demand drivers from the quality of life to employment attract renters and homeowners alike.

Although it is widely acknowledged that San Diego needs considerably more housing, both single-family and multifamily, neighborhood opposition remains formidable. Even with lawmakers in Sacramento trying to ease development impediments across the state, a notable increase in development is unexpected, although community plan updates across the region have provided the potential for more than 100,000 new housing units. One avenue that builders could target for new supply without running into substantial neighborhood opposition is the redevelopment of dark retail space into housing.

Suburban areas from North to South County remain among the most popular areas for investors, with value-add opportunities as a popular investment vehicle. However, high interest rates have placed pressure on the investment market, causing many investors to pause activity. That's particularly true given that many market participants continue to report a wide bid-ask spread.

KEY INDICATORS

Current Quarter	Units	Vacancy Rate	Asking Rent	Effective Rent	Absorption Units	Delivered Units	Under Constr Units
4 & 5 Star	56,292	6.8%	\$3,242	\$3,212	14	0	5,976
3 Star	88,323	3.6%	\$2,462	\$2,450	0	0	1,752
1 & 2 Star	128,844	3.0%	\$1,673	\$1,666	0	0	16
Market	273,459	4.0%	\$2,369	\$2,354	14	0	7,744

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	1.3%	4.4%	5.0%	5.5%	2009 Q3	2.5%	2021 Q3
Absorption Units	11	2,252	1,931	10,142	2021 Q3	(1,670)	2009 Q2
Delivered Units	3,772	2,546	3,061	5,359	2022 Q1	334	2011 Q2
Demolished Units	64	94	105	341	2009 Q3	0	2016 Q4
Asking Rent Growth (YOY)	4.4%	3.4%	2.8%	13.9%	2022 Q1	-2.1%	2009 Q3
Effective Rent Growth (YOY)	4.5%	3.4%	2.7%	13.8%	2022 Q1	-2.2%	2009 Q3
Sales Volume	\$3.1B	\$1.8B	N/A	\$6.5B	2022 Q2	\$478.5M	2009 Q4

Workers of all ages are attracted to San Diego because it is firmly cemented as a bastion of high-tech and life science research, not to mention 70 miles of coastline. Firms such as Bristol Myers Squibb, Amazon and Apple are expanding here with announcements that thousands of new positions will follow, particularly in North County, in the coming years. However, some of those job additions may be placed on hold in the coming year due to economic headwinds. San Diego also has roughly 150,000 active-duty military personnel, many of whom rent market-rate apartments from North County to Chula Vista.

Across all of San Diego, net absorption has tallied about 5 units over the past 12 months. Demand for high-end units has tallied roughly 2,600 units of absorption in the past 12 months. Each of the other class segments has seen absorption fall year over year. The overall vacancy rate is 4.0%, compared to the five-year average of 4.0%. The rate has shifted by 1.3% year over year. Some landlords have noted that they have tried to create vacancy in their communities, not only to raise rents higher, but also in an effort to improve demographics.

Landlords are again advertising their spaces en masse, and the market has largely returned to how it operated prior to the pandemic. The sunset of the eviction moratorium at the end of 2022 is beginning to loosen some demand here as those proceedings work through the court system. Property managers are also running into a new issue - many are having trouble finding qualified applicants. Coupled with persistent inflation and high interest rates, not to mention rising unaffordability, household formation has largely stalled across the region.

Buildings that opened in 2022 have averaged an

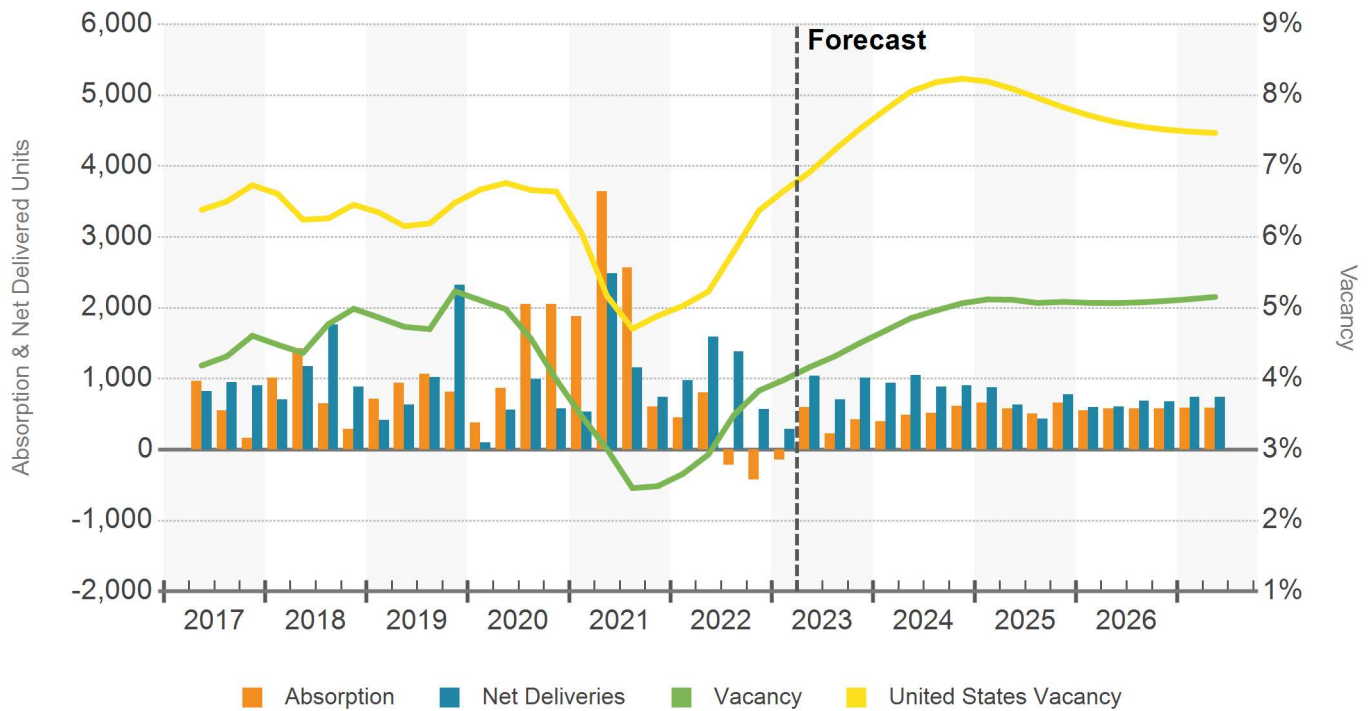
absorption rate of about 20 units per month. That's well above the average between 2018-20 when new buildings averaged about 14 units per month of absorption during lease up. However, it has fallen off the pace in 2021 when new communities averaged about 25 units per month until stabilizing.

Demand for Downtown luxury units remains elevated compared to the rest of the region. The vacancy rate in Downtown fell below 10% in 2021 for the first time since 2016, and the stabilized rate has settled below 5%. The submarket is currently in its longest sustained run of single-digit vacancy in more than a decade. Even so, the pervasiveness of homelessness in Downtown, particularly in the East Village, has led many renters to leave the area. Similarly, Downtown's school system does not match other areas of San Diego, compelling many households with families to move to the suburbs.

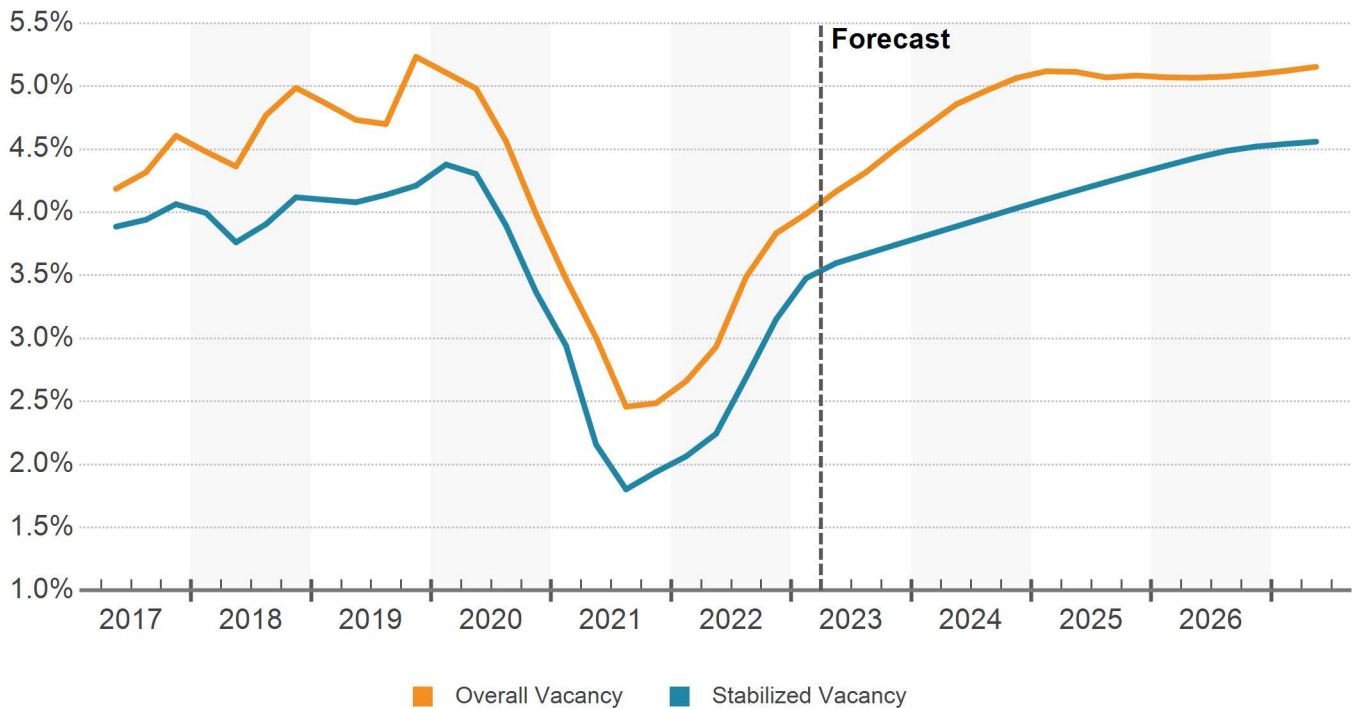
According to the U.S. Census, San Diego's population shrank in 2021, while Inland Empire's was the only population to have grown among Southern California markets in 2021. Many have chosen to leave San Diego altogether given soaring housing costs. It appears that larger households have left the market while single- and two-person households have made up for some of that loss.

Apartment landlords have little to worry about from homeownership pulling demand from apartment renters. Interest rates are rising that have made the purchase of a home more expensive. That should continue to keep renters by choice locked into the rental market. And while the growth in home prices has moderated, they still rose 4.8% year over year according to the Case-Shiller Home Price Index.

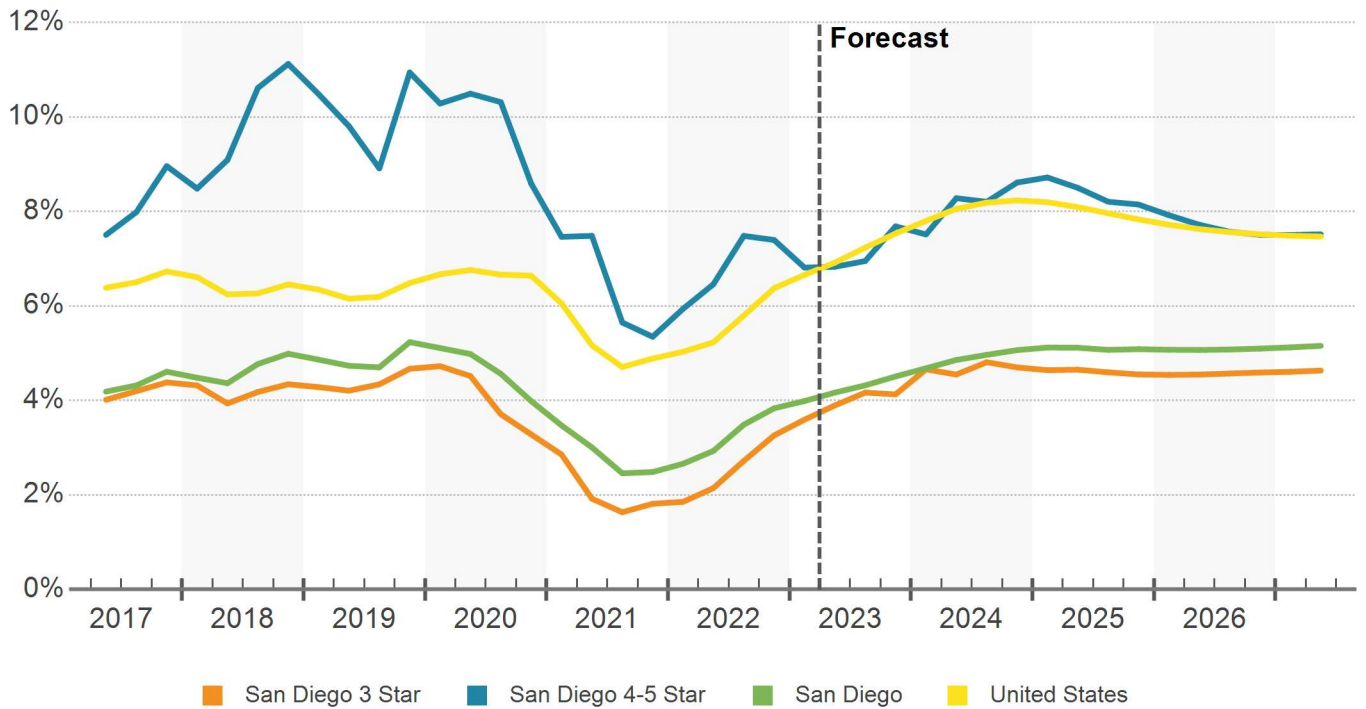
ABSORPTION, NET DELIVERIES & VACANCY



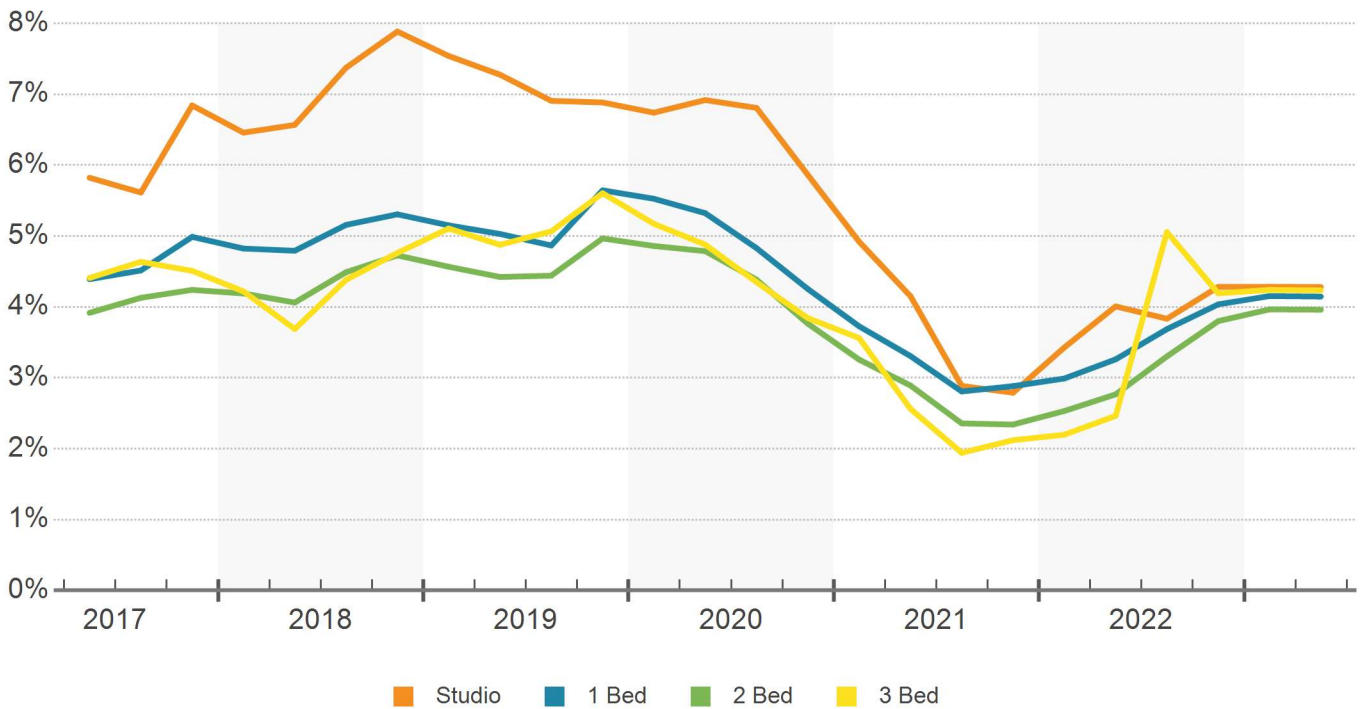
OVERALL & STABILIZED VACANCY



VACANCY RATE



VACANCY BY BEDROOM



With vacancy trending at 4.0%, rents are up 4.4% year over year, and average rent levels in the region sit at roughly \$2,370/month. However, rent growth across the county has moderated after peaking at 13.9% at the beginning of 2022, although it is still outperforming Southern California neighbors Orange County and Los Angeles. In fact, rent growth has outpaced every major West Coast market during the past 12 months. Rents fell during the final four months of 2022, which was the longest consecutive streak in 10 years. However, rents have stabilized since January ahead of the spring leasing season, and they are again on the rise. Rent growth is forecast to end the year in line with the long-term norm.

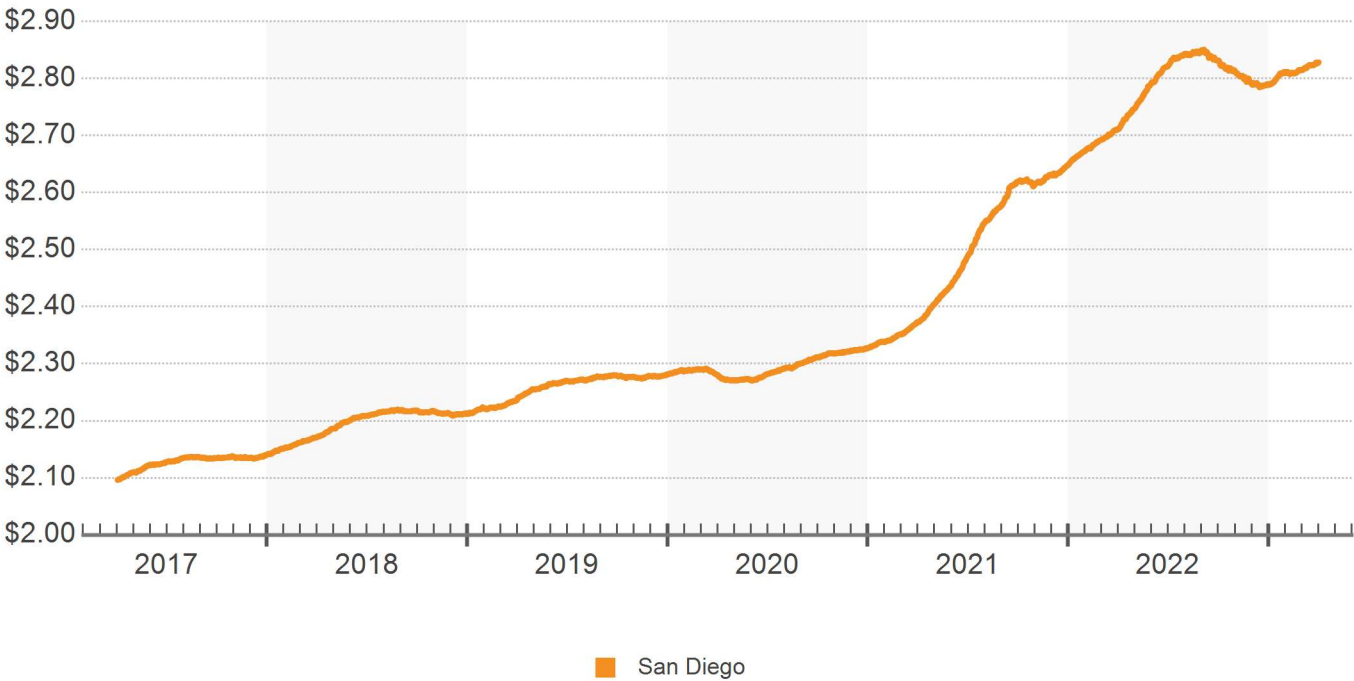
In terms of performance, the luxury segment has seen rent growth of 3.4% year over year, and although demand has been better in this class, it has experienced the most notable deceleration in recent months. Rents in mid-tier apartments, antithetically, have seen annualized growth of 5.2% coinciding with demand falling over the

past several quarters.

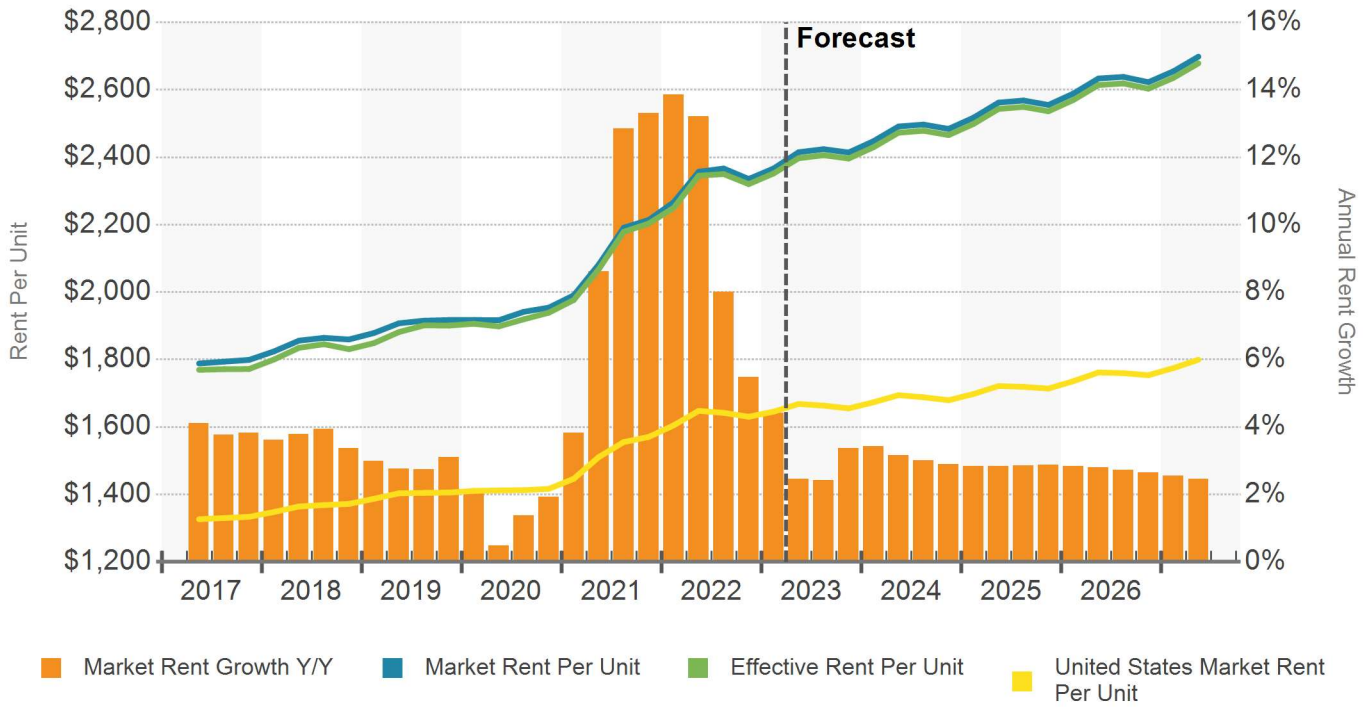
Downtown San Diego's rents have normalized after annual rent growth peaked in double digits in 2022. New one-bedroom units are offered at a substantial premium that often eclipses \$1,000/month compared to similar suburban rentals. Even Mission Valley's new one-bedrooms offer a \$250/month discount.

The level of concessions has increased modestly over the past few months. About 7% of communities have reported offering any concessions, and they are most prevalent in new properties. Renters in Mission Valley's newest communities still regularly receive four weeks, and sometimes up to six weeks, of free rent on select units. Concessions in Downtown are offered in roughly one-quarter of properties. Renters are now finding that to receive more free rent in new properties, up to eight weeks, they have to sign 18-month or longer lease terms.

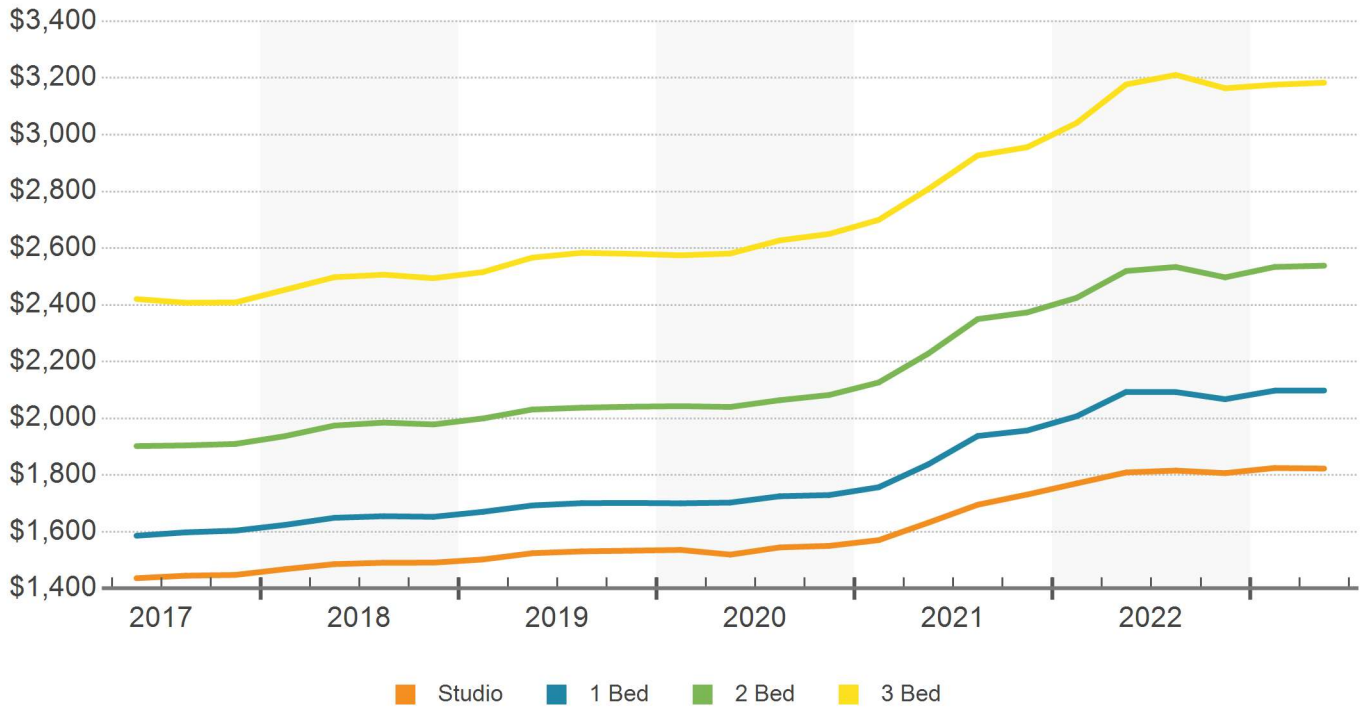
DAILY ASKING RENT PER SF



MARKET RENT PER UNIT & RENT GROWTH



MARKET RENT PER UNIT BY BEDROOM



4 & 5 STAR EXPENSES PER SF (ANNUAL)

Market / Cluster	Operating Expenses								Capital Expenditures			Total
	Mgmt.	Admin.	Payroll	Water	Utilities	Maint.	Insurance	Taxes	Appliance	Structural	Other	
San Diego	\$0.85	\$0.78	\$0.84	\$0.84	\$1.27	\$1.72	\$0.36	\$1.58	\$0.12	\$0.16	\$0.72	\$9.24
Balboa Park	\$0.81	\$0.70	\$0.80	\$0.90	\$1.30	\$1.72	\$0.35	\$1.64	\$0.11	\$0.13	\$0.57	\$9.03
Chula Vista/Imperial...	\$0.80	\$0.80	\$0.79	\$0.90	\$1.29	\$1.65	\$0.33	\$1.59	\$0.15	\$0.13	\$0.56	\$8.99
Coronado/Point Loma	\$0.85	\$0.53	\$0.69	\$0.65	\$1.14	\$2.50	\$0.46	\$1.43	\$0.13	\$0.09	\$0.35	\$8.82
Downtown San Diego	\$0.81	\$0.70	\$0.80	\$0.90	\$1.30	\$1.72	\$0.35	\$1.64	\$0.11	\$0.13	\$0.57	\$9.03
East County	\$0.79	\$0.99	\$0.78	\$0.96	\$1.38	\$1.53	\$0.28	\$1.46	\$0.11	\$0.30	\$1.58	\$10.16
La Jolla/UTC	\$0.83	\$0.62	\$0.68	\$0.66	\$1.14	\$2.30	\$0.50	\$1.59	\$0.12	\$0.09	\$0.35	\$8.88
Mission Valley/Nort...	\$0.84	\$0.50	\$0.70	\$0.68	\$1.18	\$2.58	\$0.47	\$1.25	\$0.13	\$0.12	\$0.50	\$8.95
National City/South...	\$0.81	\$0.73	\$0.80	\$0.90	\$1.30	\$1.72	\$0.35	\$1.64	\$0.14	\$0.13	\$0.57	\$9.09
North County	\$0.76	\$0.54	\$0.62	\$0.73	\$1.09	\$1.27	\$0.28	\$1.65	\$0.13	\$0.13	\$0.56	\$7.76
North I-15 Corridor	\$1.19	\$1.29	\$1.52	\$1.11	\$1.50	\$1.05	\$0.29	\$1.77	\$0.08	\$0.27	\$1.17	\$11.24
North Shore Cities	\$0.75	\$0.55	\$0.58	\$0.73	\$1.10	\$1.31	\$0.31	\$1.65	\$0.14	\$0.13	\$0.57	\$7.82
South I-15 Corridor	\$0.86	\$1.16	\$1.11	\$0.82	\$1.37	\$1.24	\$0.34	\$1.89	\$0.08	\$0.26	\$0.89	\$10.02

Expenses are estimated using NCREIF, IREM, and CoStar data using the narrowest possible geographical definition from Zip Code to region.

3 STAR EXPENSES PER SF (ANNUAL)

Market / Cluster	Operating Expenses								Capital Expenditures			Total
	Mgmt.	Admin.	Payroll	Water	Utilities	Maint.	Insurance	Taxes	Appliance	Structural	Other	
San Diego	\$0.73	\$0.65	\$0.77	\$0.81	\$1.22	\$1.20	\$0.23	\$1.37	\$0.12	\$0.17	\$0.77	\$8.04
Balboa Park	\$0.75	\$0.63	\$0.75	\$0.83	\$1.24	\$1.30	\$0.26	\$1.37	\$0.11	\$0.13	\$0.58	\$7.95
Chula Vista/Imperial...	\$0.74	\$0.65	\$0.76	\$0.86	\$1.24	\$1.33	\$0.26	\$1.39	\$0.14	\$0.12	\$0.54	\$8.03
Coronado/Point Loma	\$0.80	\$0.51	\$0.66	\$0.63	\$1.10	\$1.44	\$0.39	\$1.30	\$0.12	\$0.09	\$0.34	\$7.38
Downtown San Diego	\$0.74	\$0.63	\$0.76	\$0.84	\$1.24	\$1.30	\$0.25	\$1.38	\$0.11	\$0.12	\$0.54	\$7.91
East County	\$0.72	\$0.98	\$0.75	\$0.96	\$1.37	\$1.01	\$0.12	\$1.34	\$0.10	\$0.29	\$1.49	\$9.13
La Jolla/UTC	\$0.61	\$0.48	\$0.65	\$0.60	\$1.10	\$1.40	\$0.47	\$1.29	\$0.11	\$0.09	\$0.33	\$7.13
Mission Valley/Nort...	\$0.79	\$0.38	\$0.65	\$0.59	\$1.08	\$1.35	\$0.38	\$1.11	\$0.12	\$0.09	\$0.33	\$6.87
National City/South...	\$0.74	\$0.64	\$0.76	\$0.86	\$1.24	\$1.30	\$0.25	\$1.38	\$0.13	\$0.12	\$0.54	\$7.96
North County	\$0.70	\$0.52	\$0.61	\$0.70	\$1.04	\$1.16	\$0.15	\$1.55	\$0.13	\$0.12	\$0.54	\$7.22
North I-15 Corridor	\$0.63	\$0.40	\$1.42	\$0.83	\$1.19	\$0.89	\$0.19	\$1.40	\$0.08	\$0.25	\$1.11	\$8.39
North Shore Cities	\$0.68	\$0.52	\$0.55	\$0.69	\$1.05	\$1.22	\$0.18	\$1.54	\$0.13	\$0.12	\$0.54	\$7.22
Outlying San Diego...	\$0.74	\$1	\$0.76	\$1	\$1.41	\$0.97	\$0.13	\$1.35	\$0.10	\$0.34	\$1.61	\$9.41
Poway/Santee/Ram...	\$0.76	\$0.96	\$0.76	\$1.02	\$1.41	\$0.98	\$0.15	\$1.33	\$0.10	\$0.35	\$1.60	\$9.42
South I-15 Corridor	\$0.80	\$0.71	\$1.13	\$0.80	\$1.33	\$1.03	\$0.23	\$1.54	\$0.08	\$0.25	\$0.90	\$8.80

Expenses are estimated using NCREIF, IREM, and CoStar data using the narrowest possible geographical definition from Zip Code to region.

1 & 2 STAR EXPENSES PER SF (ANNUAL)

Market / Cluster	Operating Expenses								Capital Expenditures			Total
	Mgmt.	Admin.	Payroll	Water	Utilities	Maint.	Insurance	Taxes	Appliance	Structural	Other	
San Diego	\$0.65	\$0.47	\$0.72	\$0.65	\$1.07	\$0.99	\$0.20	\$0.99	\$0.10	\$0.13	\$0.62	\$6.59
Balboa Park	\$0.70	\$0.48	\$0.71	\$0.56	\$1.20	\$1.11	\$0.24	\$1.15	\$0.10	\$0.11	\$0.51	\$6.87
Chula Vista/Imperial...	\$0.67	\$0.61	\$0.72	\$0.80	\$1.12	\$1.23	\$0.24	\$0.80	\$0.13	\$0.11	\$0.51	\$6.94
Coronado/Point Loma	\$0.70	\$0.52	\$0.62	\$0.59	\$1.09	\$0.96	\$0.26	\$1.16	\$0.11	\$0.09	\$0.33	\$6.43
Downtown San Diego	\$0.71	\$0.51	\$0.72	\$0.58	\$1.22	\$1.15	\$0.24	\$1.17	\$0.10	\$0.11	\$0.51	\$7.02
East County	\$0.69	\$0.43	\$0.72	\$0.62	\$1	\$0.83	\$0.11	\$0.78	\$0.09	\$0.14	\$0.92	\$6.33
La Jolla/UTC	\$0.59	\$0.43	\$0.62	\$0.56	\$1.05	\$0.88	\$0.26	\$1.07	\$0.10	\$0.08	\$0.32	\$5.96
Mission Valley/Nort...	\$0.70	\$0.36	\$0.62	\$0.57	\$1.06	\$0.90	\$0.26	\$1.10	\$0.12	\$0.08	\$0.32	\$6.09
National City/South...	\$0.71	\$0.57	\$0.72	\$0.71	\$1.18	\$1.21	\$0.24	\$0.86	\$0.11	\$0.11	\$0.51	\$6.93
North County	\$0.50	\$0.48	\$0.60	\$0.64	\$1.01	\$1.01	\$0.14	\$1.25	\$0.12	\$0.12	\$0.55	\$6.42
North I-15 Corridor	\$0.51	\$0.29	\$1.20	\$0.73	\$0.92	\$0.69	\$0.17	\$1.06	\$0.07	\$0.24	\$1.05	\$6.93
North Shore Cities	\$0.50	\$0.49	\$0.54	\$0.63	\$1.03	\$1.04	\$0.16	\$1.28	\$0.12	\$0.11	\$0.49	\$6.39
Outlying San Diego...	\$0.71	\$0.42	\$0.72	\$0.64	\$1.02	\$0.72	\$0.12	\$0.73	\$0.09	\$0.17	\$0.98	\$6.32
Poway/Santee/Ram...	\$0.73	\$0.42	\$0.72	\$0.64	\$1	\$0.74	\$0.15	\$0.74	\$0.09	\$0.16	\$0.99	\$6.38
South I-15 Corridor	\$0.53	\$0.30	\$0.94	\$0.65	\$0.92	\$0.72	\$0.18	\$1.25	\$0.08	\$0.23	\$0.80	\$6.60

Expenses are estimated using NCREIF, IREM, and CoStar data using the narrowest possible geographical definition from Zip Code to region.

There are roughly 7,700 units under construction across San Diego, and the region has had an average of 7,900 units actively under construction over the past five years. Mission Valley and Downtown San Diego are still among the most popular spots for development, although there has been a notable uptick along the South I-15 Corridor, Chula Vista and the Balboa Park neighborhoods.

But San Diego is building far less than the number of apartment units needed to keep pace with household formation. San Diego Association of Governments estimates that the county requires roughly 20,000 total housing units annually over the coming decade to make up for the relative drop in total construction over the past two decades. That is a tall order considering that San Diego County only permits about 10,000 total housing units annually, although that does not always translate neatly into annual starts. For context, a net of about 4,400 market-rate units delivered in 2022 and only about 20,000 market-rate units have been built in the past five years.

Similarly, the rising cost of debt, coupled with the rise in cost for nearly every construction material aside from lumber, has made it more difficult for projects to break ground. Labor costs are also rising and many construction lenders have paused financing many deals. Consequently, construction starts have moderated.

An often exhaustive entitlement process (entitling a property for higher densities can often drag on for years, and permitting fees and soft costs can run upwards of 50% of the development cost), neighborhood opposition to increased density, and the generally high cost of development, with many new communities being built at a cost above \$600,000/unit, are all barriers to outsized growth. With these added costs, workforce housing becomes extremely difficult to pencil out, which is why more than 90% of inventory in the past decade has consisted of luxury units.

California's Department of Housing and Community Development issued an opinion in 2022 that would supersede local 30-foot height restrictions west of Interstate 5 because it is in conflict with state density bonus law. That could bring high-rise development to some coastal communities, which is likely to face stiff local opposition, although it would help pencil projects

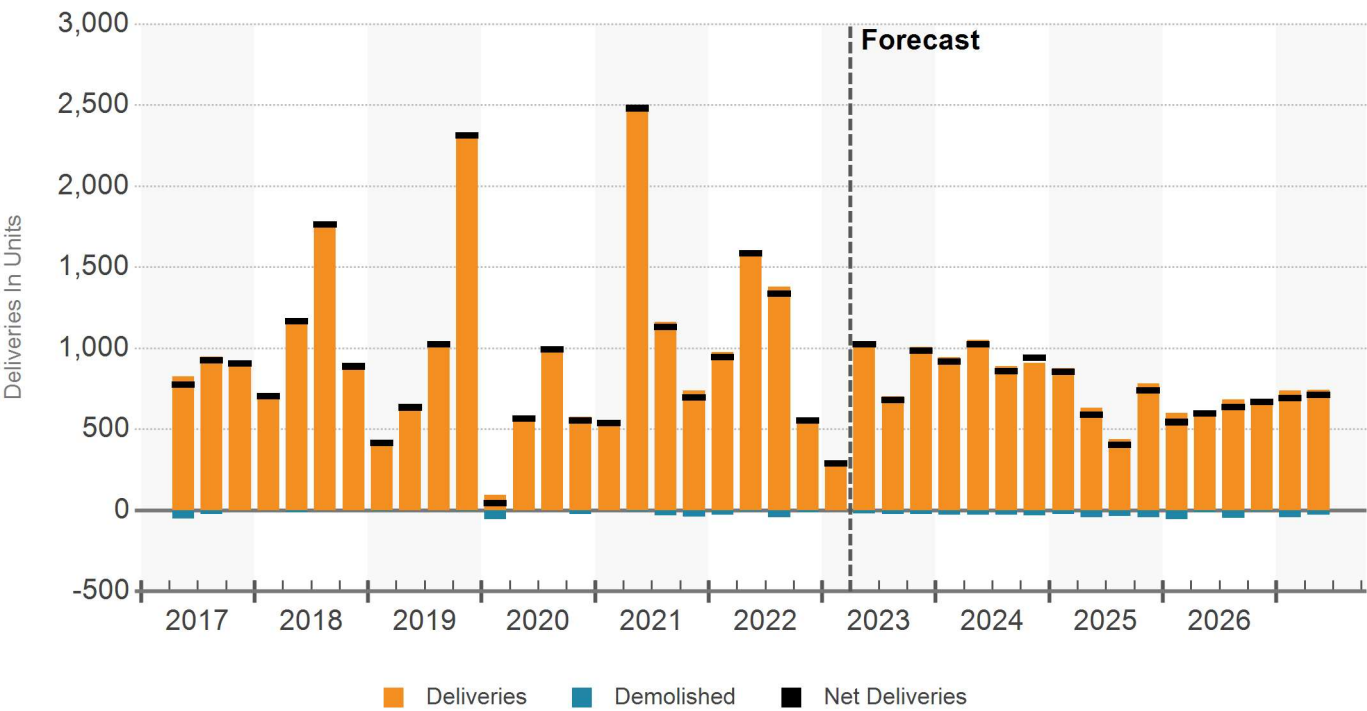
that would otherwise not be built. City and county officials in San Diego have committed to building upwards of 10,000 affordable units on government-owned land by the end of the decade. That joint commitment came at the end of 2022 and intends to ease regulatory burdens and permit denser, high-rise projects.

It is possible that developers may begin turning more notably toward retail properties. During 22Q1, G.H. Palmer paid \$165 million for the nearly 14-acre site of Zion Market and Kearny Mesa Bowl. The property sold with entitlements for more than 1,600 housing units on the site. Similarly, an adjacent project by Trammell Crow spanning more than 500 units is planned for Convoy St at the former site of Dixieline Lumber. Plans were also submitted to redevelop the former Sears on Broadway in Chula Vista into more than 250 townhomes.

Several master plans have recently been updated to add more density. The Midway District's update increases housing by upwards of 10,000 units. Other areas include the Morena Corridor, the Balboa Avenue Station Area in Pacific Beach, Linda Vista, Old Town, Mission Valley, and Kearny Mesa, to name a few. Mission Valley's, alone, adds more than 28,000 housing units, and an initial plan for the 60-acre site of the Navy's NAVWAR facility next to Point Loma calls for 10,000 housing units. That's in close proximity to the Midway District in Point Loma where upwards of more than 4,000 units are expected to be built on the Sports Arena site in the coming years. The surface street are already clogged during the day, and that will require substantial new infrastructure there to handle thousands of more residents. Since 2014, updates have added the capacity for more nearly 100,000 additional housing units in San Diego, although the likelihood of all of those units being built is remote.

The city council passed a measure in March 2019 that overhauled the city's minimum parking requirements for dense, urban housing. The plan eliminated the need to build off-street parking for communities built close to transit priority areas, both trolley and bus routes, with the expectation that it will increase density and lower rents, although that has yet to be proven. The policy also set a maximum of one parking space per unit for new Downtown projects.

DELIVERIES & DEMOLITIONS

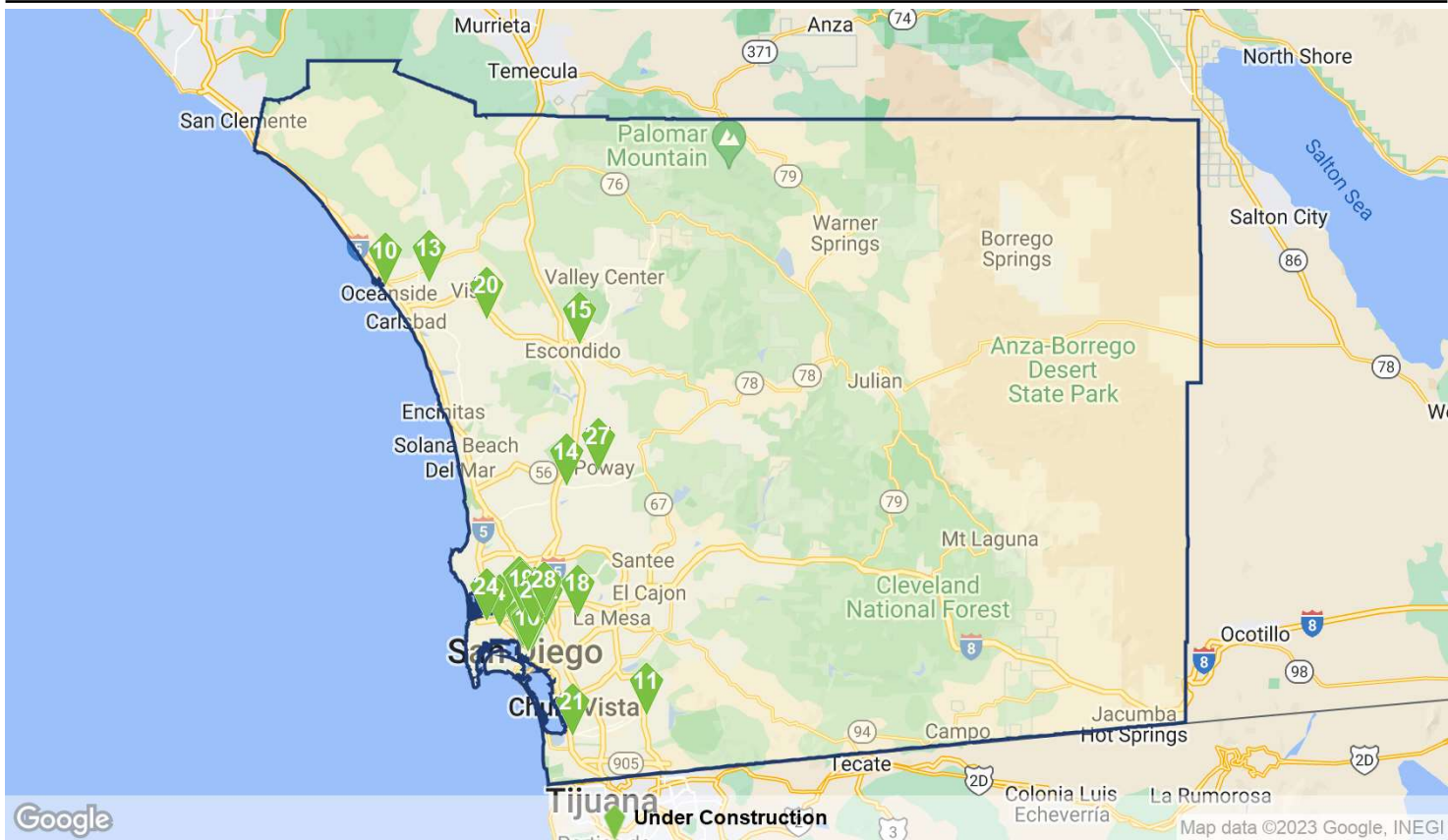


Under Construction Properties

San Diego Multi-Family

Properties	Units	Percent of Inventory	Avg. No. Units
61	7,744	2.8%	127

UNDER CONSTRUCTION PROPERTIES



UNDER CONSTRUCTION

Property Name/Address	Rating	Units	Stories	Start	Complete	Developer/Owner
1 1169 Eighth Ave	★★★★☆	473	40	Aug 2022	Feb 2024	Bosa Development California II, Inc. Bosa Development California II, Inc.
2 Courthouse Commons 1011 Union St	★★★★☆	431	37	Jul 2020	Mar 2024	Holland Partner Group Holland Partner Group
3 The Lindley 1331 Columbia St	★★★★☆	422	37	Jun 2022	Oct 2024	Swinerton Incorporated Toll Brothers, Inc.
4 Bevel Apartments 3260 Barnett Ave	★★★★☆	405	3	May 2022	Sep 2023	Fairfield CalSTRS
5 Simone 1401 Union St	★★★★☆	395	36	Dec 2020	Oct 2023	AAA Management LLC Trammell Crow Residential
6 800 Broadway	★★★★☆	384	41	Aug 2021	Dec 2023	CA Management Services CA Management Services
7 Winslow 4353 Park Blvd	★★★★☆	379	7	Jan 2021	May 2023	Quarterra Quarterra

Under Construction Properties

San Diego Multi-Family

UNDER CONSTRUCTION

	Property Name/Address	Rating	Units	Stories	Start	Complete	Developer/Owner
8	Jefferson Makers Quarter 1508 15th St	★ ★ ★ ★ ★	368	7	Apr 2020	Oct 2023	Wermers Companies R&V Management
9	The Heights at Fashion... 7050 Friars Rd	★ ★ ★ ★ ★	316	8	May 2021	Dec 2023	Fairfield Fairfield
10	Alta Oceanside 1015 N Coast Hwy	★ ★ ★ ★ ★	309	5	Jan 2022	Oct 2023	Wood Partners Prudential Financial, Inc.
11	PA-12 Town Center Dr	★ ★ ★ ★ ★	308	5	Jan 2022	Feb 2024	The REMM Group Baldwin Asset Management
12	Broadway Towers (North... 1150 E St	★ ★ ★ ★ ★	305	32	Mar 2022	Mar 2025	Pinnacle International Pinnacle International
13	Luma at El Corazon 3546 Village Commercial Dr	★ ★ ★ ★ ★	268	23	Aug 2022	Oct 2023	Hunsaker & Associates Irvine Inc Sudberry Properties, Inc.
14	Livia at Scripps Ranch 10380 Spring Canyon Rd	★ ★ ★ ★ ★	264	2	Aug 2020	May 2023	Monarch Group Essex Property Trust, Inc.
15	Palomar Heights 555 E Valley Pky	★ ★ ★ ★ ★	258	5	Feb 2023	Dec 2025	Integral Communities, Inc. Palomar Health
16	Radian Apartments 675 9th Ave	★ ★ ★ ★ ★	241	22	Jul 2021	Jun 2023	Cisterra Cisterra
17	4135 Park Blvd	★ ★ ★ ★ ★	190	7	Jul 2022	Aug 2024	CEDARst Companies CEDARst Companies
18	5474 El Cajon Blvd	★ ★ ★ ★ ★	162	5	Nov 2022	Mar 2024	- Family Health Centers of San Diego
19	Ruby at the Society 101 River Park Dr	★ ★ ★ ★ ★	145	8	Nov 2021	Oct 2023	- Holland Partner Group
20	Green Oak Villas 1086 Sycamore Ave	★ ★ ★ ★ ★	107	2	Jan 2022	May 2024	Latitude 33 Planning and Engine... Beazer Homes
21	Casa Anita 748-760 Anita St	★ ★ ★ ★ ★	96	2	Jan 2022	May 2023	Wakeland Housing and Develop... Wakeland Housing and Develop...
22	Casa Verde 3066 N Park Way	★ ★ ★ ★ ★	94	7	Jan 2021	May 2023	- -
23	The Parkline 4250 Oregon St	★ ★ ★ ★ ★	94	6	Mar 2022	Jun 2023	Titan Development Titan Development
24	Chapman Place Apartme... 3910 Chapman St	★ ★ ★ ★ ★	82	2	Jan 2021	Jun 2023	Greython Construction Mark Andrew Conger
25	Hillcrest 3935 Normal St	★ ★ ★ ★ ★	82	4	Dec 2021	May 2023	Econ Construction H.G. Fenton Company
26	North Park 4535 30th St	★ ★ ★ ★ ★	80	2	Jan 2022	Mar 2024	- H.G. Fenton Company
27	The Outpost at Poway 13247 Poway Rd	★ ★ ★ ★ ★	72	3	Oct 2020	Oct 2023	Capexco Inc. UC Funds
28	2911 Adams Ave	★ ★ ★ ★ ★	72	3	Nov 2022	Jan 2024	- BLVD Impact Housing

A cross-section of foreign, national, and local investors have been active in San Diego over the years, and the past 12 months have been no different. They are attracted to the historically strong demand, steady rent growth, and new inventory in the region.

But high interest rates have impacted the region, and deal flow has moderated notably since mid-2022 to a level last seen during the beginning of 2020. Local lenders have seen their business slow and buyers reassess their options. Even some investors are opting to pay capital gains in place of exchanging into a property. Both small and institutional investors have noted the difficulty in finding a property to purchase that makes financial sense, and high interest rates are "wreaking havoc." Most parties highlight the fact that the market is in a period of pricing discovery given that bid-ask spreads are hampering many deals from being completed. It has been voiced that sellers are pricing their properties at peak levels similar to early 2022, while values have fallen due to the cost of debt and rising expenses attached to soaring insurance rates. Similarly, policy goals announced by the city council have added a further layer of uncertainty for value-add investors, including a recent announcement to make housing a human right.

The average transactional price has been about \$380,000/unit over the past 12 months, with well-located suburban assets typically selling at a higher cap rate relative to coastal areas. Transactional cap rates have averaged roughly 3.6% in the past 12 months, although that figure is anticipated to rise in the coming quarters. Some properties are already trading at higher cap rates than in the recent past in reaction to higher interest rates.

Suburban assets have been in high demand. Pacific Urban Investors sold the 405-unit Veranda La Mesa in East County to the investment manager Waterton at the end of 2022 for \$141 million, or about \$350,000/unit, at a 3.85% cap rate. It was Waterton's first purchase in San Diego. The buyer intends to undertake a value-add strategy by improving some units and common areas.

The seller had renovated more than one-third of the units after acquiring the property in 2018 for \$99.4 million. Waterton had secured a seven-year fixed-rate loan from Freddie Mac Multifamily.

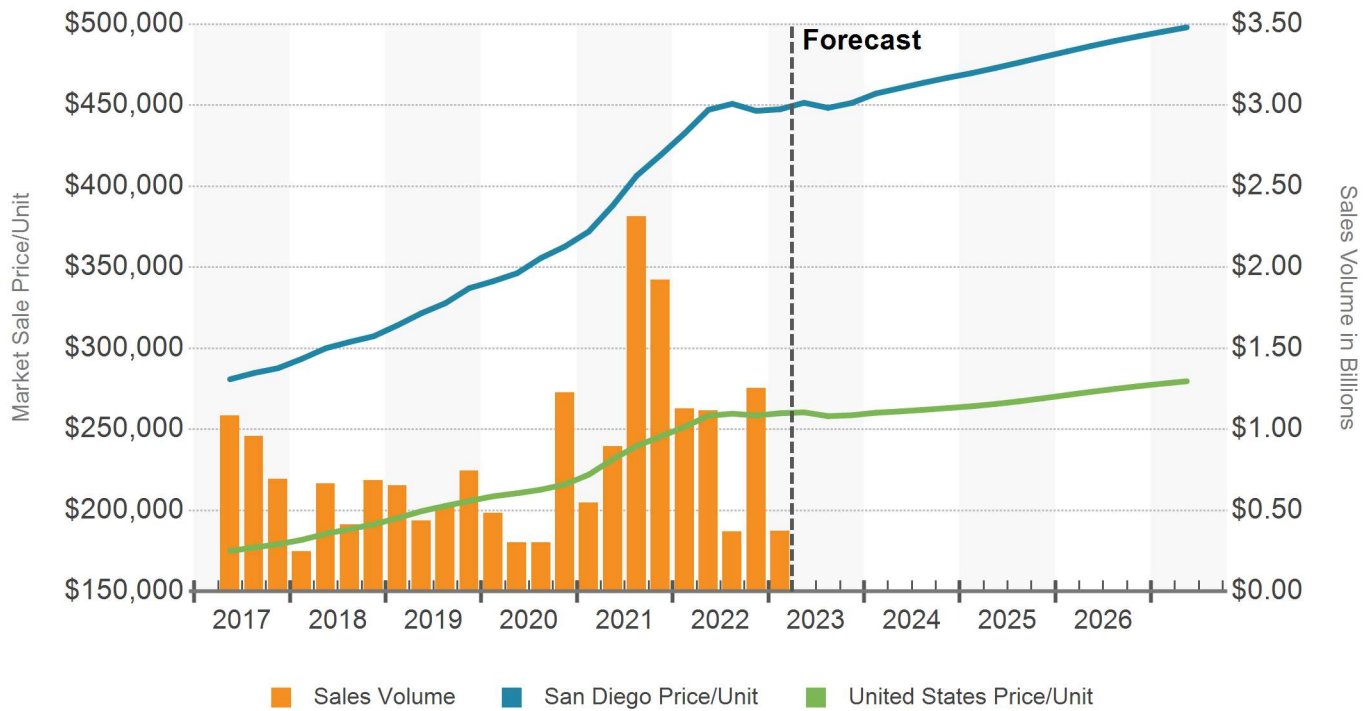
El Norte Villas, since rebranded Madera Ridge, in Escondido sold at the end of 2022 for \$86 million, or about \$364,000/unit, at a 4.6% cap rate. That was one of the higher institutional cap rates in the past year. ColRich acquired the 236-unit from G.W. Williams, which had owned the property for more than 20 years. It was 95% leased at the time of the sale.

A joint venture between MG Properties and Rockwood Capital acquired the 126-unit Rylan in Vista for \$72.5 million, or about \$575,000/unit, at a 4.5% cap rate during 22Q4. The property was built in 2020 by the seller, Streetlights Residential. The community had resort-style amenities and included five ground-floor retail spaces.

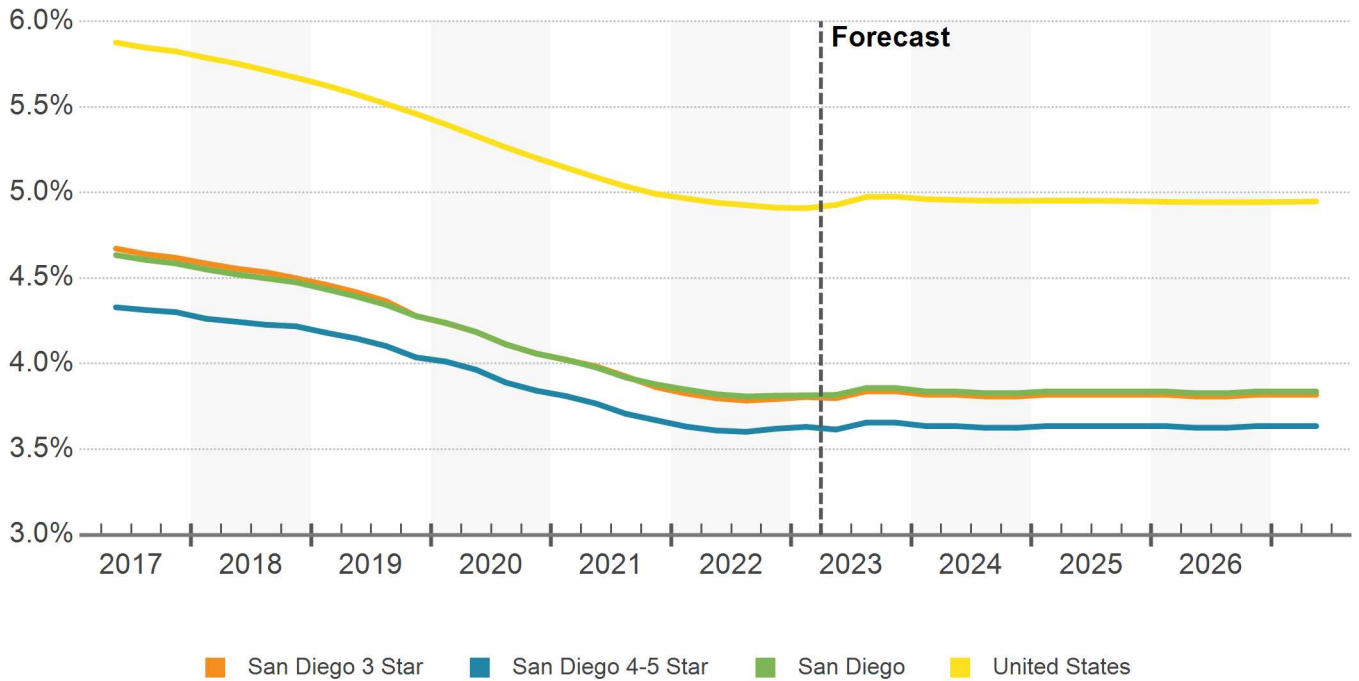
MG Properties and Rockwood Capital acquired Domain San Diego in Kearny Mesa during 22Q4 for \$184.6 million, or about \$487,000/unit. The buyer assumed the debt from the seller, Magnolia Capital and Goldman Sachs. The 379-unit community was built in 2012 and was 95% occupied at the time of the sale. Average monthly rents were about \$3,100 at the time of the sale. The seller purchased the property in mid-2018 for \$132.5 million.

Olympus Property purchased The Residences at Escaya in the Otay Ranch neighborhood of Chula Vista during 22Q4 for \$122.5 million, or about \$450,000/unit, at a 3.9% cap rate. The property was built in 2019 by HomeFed Corp, the seller, and consists of 272 units. Olympus Property cited the property's "outstanding connectivity to many of San Diego's key job centers including downtown," among the reasons for the investment. "These employment hubs offer a large concentration of job opportunities in high-paying industries including clean tech, life sciences, aerospace/defense and healthcare." The statement said the firm plans "continued expansion in the market."

SALES VOLUME & MARKET SALE PRICE PER UNIT



MARKET CAP RATE



Sales Past 12 Months

San Diego Multi-Family

Sale Comparables

Avg. Price/Unit (thous.)

Average Price (mil.)

Average Vacancy at Sale

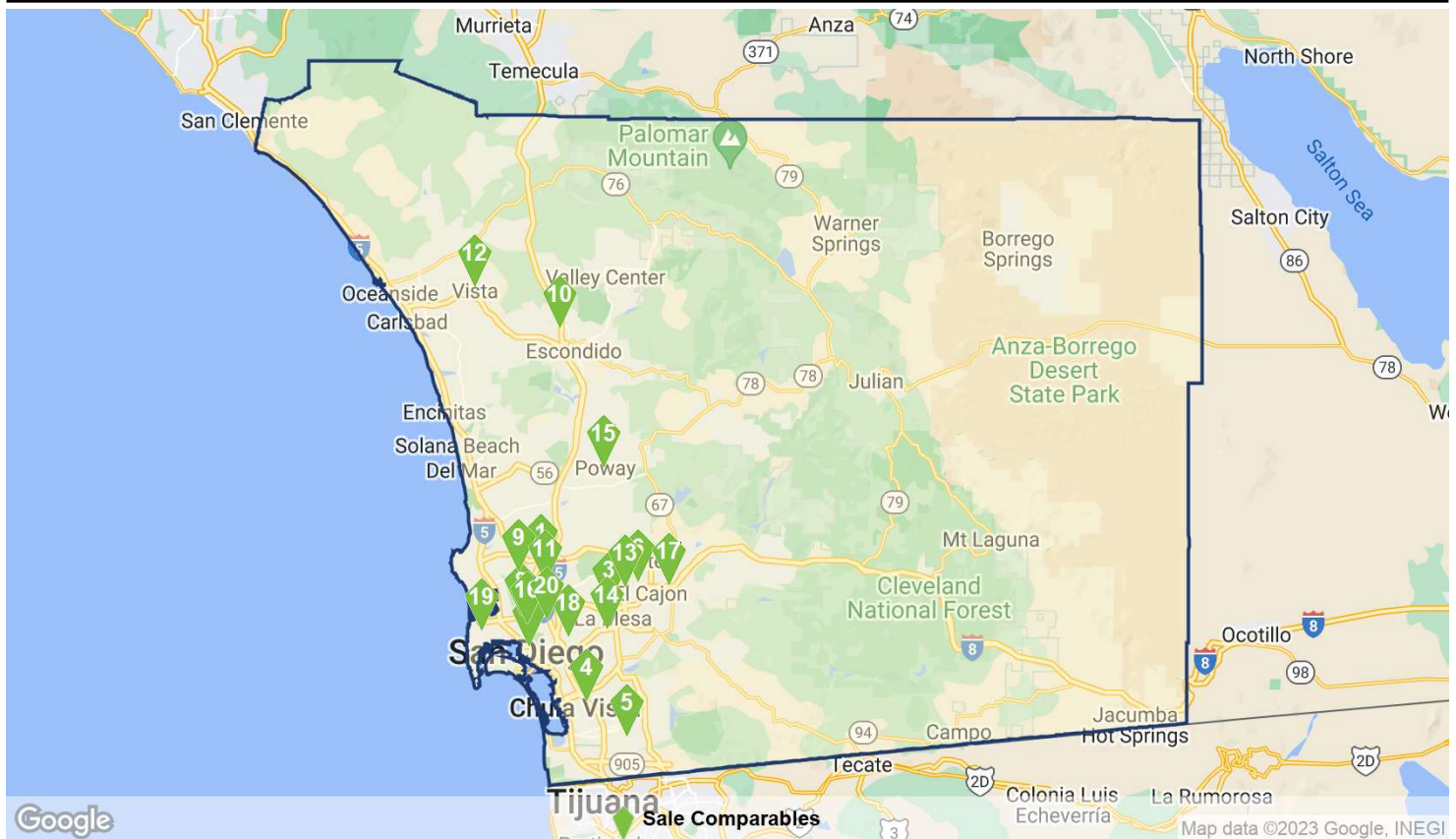
291

\$386

\$10.8

5.1%

SALE COMPARABLE LOCATIONS



SALE COMPARABLES SUMMARY STATISTICS

Sales Attributes	Low	Average	Median	High
Sale Price	\$875,000	\$10,790,339	\$3,425,000	\$184,600,000
Price/Unit	\$132,812	\$385,849	\$350,000	\$1,060,000
Cap Rate	1.0%	3.6%	3.6%	7.5%
Vacancy Rate At Sale	0%	5.1%	0%	48.4%
Time Since Sale in Months	0.1	7.0	7.5	11.9
Property Attributes	Low	Average	Median	High
Property Size in Units	5	28	10	406
Number of Floors	1	2	2	7
Average Unit SF	205	754	738	1,807
Year Built	1891	1970	1970	2022
Star Rating	★ ★ ★ ★ ★	★ ★ ★ ★ ★ 2.3	★ ★ ★ ★ ★	★ ★ ★ ★ ★

Sales Past 12 Months

San Diego Multi-Family

RECENT SIGNIFICANT SALES

Property Name/Address		Property Information				Sale Information			
		Rating	Yr Built	Units	Vacancy	Sale Date	Price	Price/Unit	Price/SF
1	Domain San Diego 8798 Spectrum Center Blvd	★★★★★	2012	379	5.1%	11/23/2022	\$184,600,000	\$487,071	\$507
2	Felix at the Society 310 Del Sol Dr	★★★★★	2021	282	12.8%	10/21/2022	\$183,765,000	\$651,648	\$652
3	Veranda La Mesa 5353 Baltimore Dr	★★★★★	1980	406	5.2%	11/8/2022	\$141,000,000	\$347,290	\$474
4	Point Bonita 250 Bonita Glen Dr	★★★★★	1970	294	6.5%	5/19/2022	\$128,870,118	\$438,333	\$553
5	The Residences at Escaya 1925 Avenida Escaya	★★★★★	2019	272	7.4%	11/15/2022	\$122,500,000	\$450,367	\$408
6	Forest Park 1250 Petree St	★★★★★	1974	338	3.6%	6/24/2022	\$121,000,000	\$357,988	\$477
7	Gema 1471 8th Ave	★★★★★	2002	230	3.9%	6/30/2022	\$118,500,000	\$515,217	\$558
8	Bradbury at The Society 610 Del Sol Dr N	★★★★★	2021	173	9.3%	10/21/2022	\$112,735,500	\$651,650	\$141
9	Arrive Clairemont 6363 Beadnell Way	★★★★★	1965	270	4.1%	2/16/2023	\$90,480,000	\$335,111	\$393
10	Madera Ridge 1051 W El Norte Pky	★★★★★	1986	236	10.2%	11/16/2022	\$86,000,000	\$364,406	\$386
11	ReNew Serra Mesa 3454 Ruffin Rd	★★★★★	1969	250	5.2%	2/16/2023	\$73,087,500	\$292,350	\$359
12	The Rylan 100 Main St	★★★★★	2020	126	7.1%	12/19/2022	\$72,500,000	\$575,396	\$527
13	Colonnade at Fletcher Hills 2950 Fletcher Pky	★★★★★	1973	138	5.8%	6/24/2022	\$48,250,000	\$349,637	\$401
14	Celsius 100 Citronica Ln	★★★★★	2017	102	0%	5/27/2022	\$42,800,000	\$419,607	\$599
15	Haven Poway 13656 Hilleary Pl	★★★★★	1985	107	7.5%	10/12/2022	\$41,700,000	\$389,719	\$543
16	The Warwick 606 Washington St	★★★★★	1986	80	6.3%	12/16/2022	\$37,375,000	\$467,187	\$828
17	The Madison 1360 E Madison Ave	★★★★★	1976	110	11.8%	7/28/2022	\$34,000,000	\$309,090	\$524
18	The Ridge At San Diego 4641-4677 Home Ave	★★★★★	1989	87	6.9%	10/12/2022	\$31,500,000	\$362,068	\$474
19	Nimitz Crossing 3909 Voltaire St	★★★★★	2020	36	2.8%	6/7/2022	\$30,000,000	\$833,333	\$923
20	Ollie North Park Lofts 4333 Illinois St	★★★★★	2022	44	13.6%	9/7/2022	\$27,500,000	\$625,000	\$625

After ending 2022 with the second-lowest unemployment rate in 20 years, the rate surged to 3.7% in January following the loss of more than 16,000 nonfarm jobs, according to the latest jobs report released by the Bureau of Labor Statistics. The jump from a revised 3% is still below California's unemployment rate of 4.6%, although it's the highest local rate since February 2022.

Part of that increase in the unemployment rate can also be attributed to the rise in the civilian labor force. It climbed to the highest level since February 2020 in January, reaching 1.6 million people for the first time since then, nearly matching the pre-pandemic level.

In January, the government sector was the only employment industry to see more than marginal job growth, adding 4,900 positions during the month.

Conversely, nearly every other employment sector posted job losses, with none more than the professional and business services sector. It shed 6,900 jobs in January. That was the driving force behind the widely recognized office-using sectors that also includes information and financial activities to see a drop in 6,600 jobs.

That sector could see further turbulence in the coming months given that several notable high-tech and life science firms have announced layoffs in the past month, according to Work Adjustment and Retraining Notices, known as WARN notices, filed with the State of California.

Among the layoff notices that have spread across the region: Thermo Fisher Scientific announced 384 layoffs; Sorrento Therapeutics announced 538; Qualcomm filed a notice for 79 layoffs; and Pfizer laid off 196 workers.

That could spell further disruption in the office market, particularly in the sublease market that has already seen the level reach a record high during the first quarter.

Sorrento Therapeutics' announcement came after it filed for bankruptcy at the end of February. The biotech firm has a new 163,000-square-foot lab property nearing completion in Sorrento Mesa and extended all of its local leases in 2022, covering more than 350,000 square feet, for 15 years.

Thermo Fisher occupies more than 1 million square feet from Carlsbad to Sorrento Mesa. The firm announced the layoffs, citing the drop in demand for COVID-19 testing kits coupled with economic headwinds.

It's possible that those same economic headwinds could lead to further turbulence across San Diego's employment landscape as firms navigate a period of economic uncertainty.

More than 80 research institutes are located in San Diego, from Scripps Research Institute to Salk Institute for Biological Studies, in addition to five universities. This cluster of research in the Golden Triangle has created one of the strongest life science cores in the United States. Furthermore, Scripps Health has five campuses across the metro and announced that it is spending \$2.6 billion on upgrades to its facilities, further bolstering San Diego as a destination for "medical tourism."

San Diego is also home to more than 140,000 active duty and civilian military employees. The defense industry accounts for more than 350,000 jobs in the region according to the San Diego Military Advisory Council. That is close to 25% of the economy. And the Navy's renewed focus on the Pacific theater of operation will result in a 60/40 split between the Pacific and Atlantic fleets, further solidifying San Diego's status as a major Navy hub.

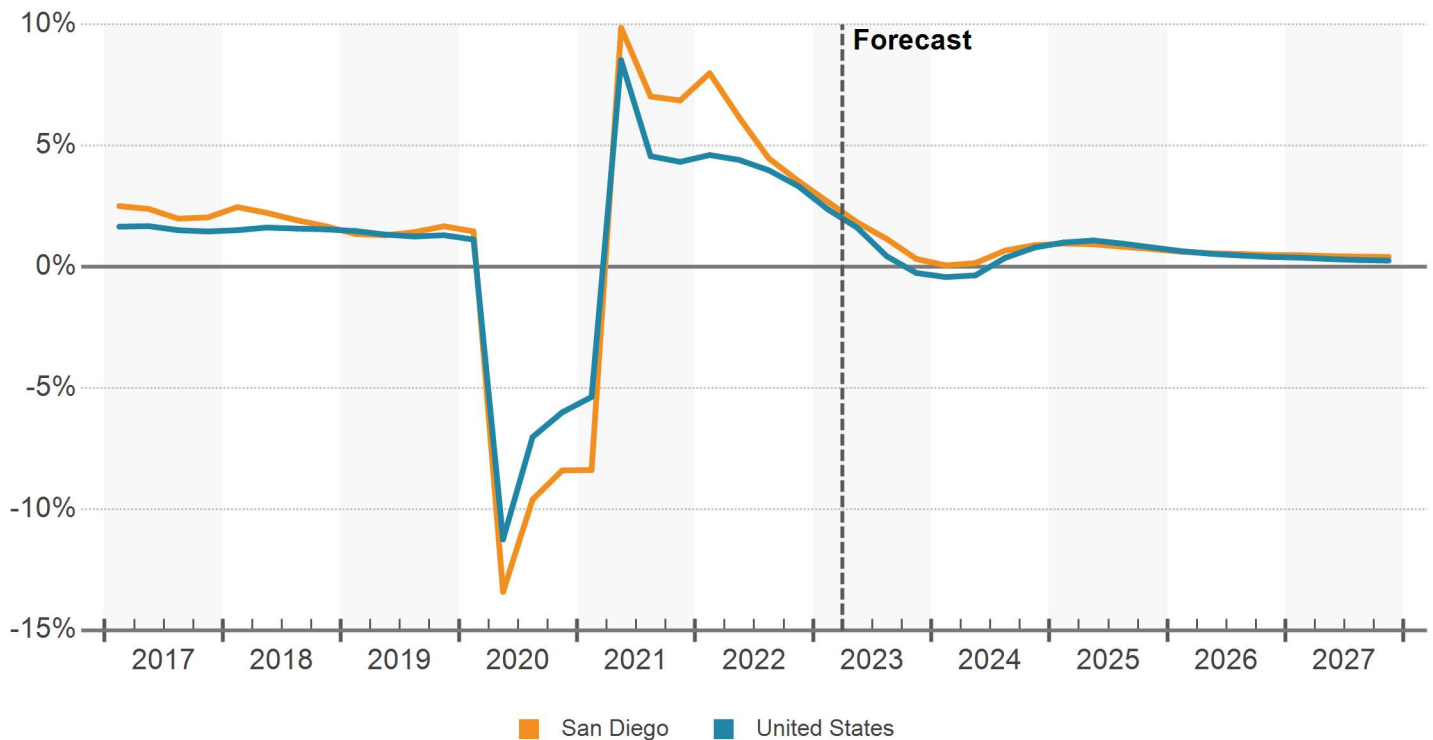
It is also why San Diego has one of the largest concentrations of millennials in the country, accounting for 25% of the population.

SAN DIEGO EMPLOYMENT BY INDUSTRY IN THOUSANDS

Industry	CURRENT JOBS		CURRENT GROWTH		10 YR HISTORICAL		5 YR FORECAST	
	Jobs	LQ	Market	US	Market	US	Market	US
Manufacturing	115	0.9	0.58%	2.52%	1.50%	0.78%	0.18%	-0.03%
Trade, Transportation and Utilities	225	0.8	1.82%	0.89%	0.56%	1.17%	0.00%	0.07%
Retail Trade	145	0.9	1.99%	-0.03%	0.41%	0.54%	0.05%	0.08%
Financial Activities	75	0.8	-0.56%	1.39%	0.60%	1.39%	0.03%	0.08%
Government	249	1.1	2.75%	1.18%	0.99%	0.25%	0.54%	0.55%
Natural Resources, Mining and Construction	88	1.0	3.79%	2.66%	3.83%	2.40%	0.71%	0.21%
Education and Health Services	228	0.9	3.78%	3.38%	2.42%	1.72%	0.91%	0.53%
Professional and Business Services	282	1.3	1.84%	2.41%	2.72%	2.07%	0.35%	0.33%
Information	23	0.7	3.90%	4.67%	-0.47%	1.32%	0.40%	0.21%
Leisure and Hospitality	199	1.2	4.99%	4.75%	1.95%	1.35%	1.08%	1.03%
Other Services	55	1.0	3.71%	2.56%	1.10%	0.59%	0.46%	0.30%
Total Employment	1,540	1.0	2.66%	2.35%	1.69%	1.28%	0.50%	0.37%

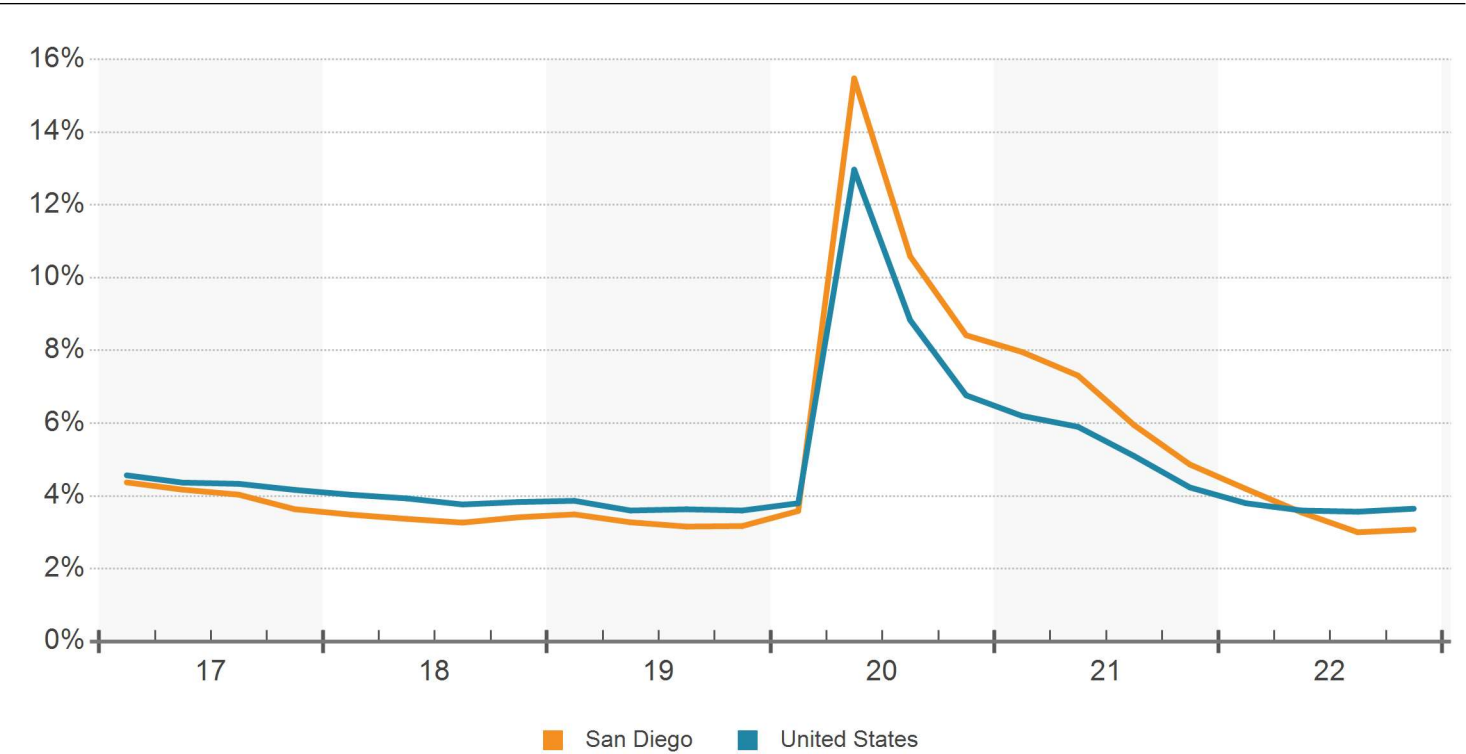
Source: Oxford Economics
LQ = Location Quotient

JOB GROWTH (YOY)

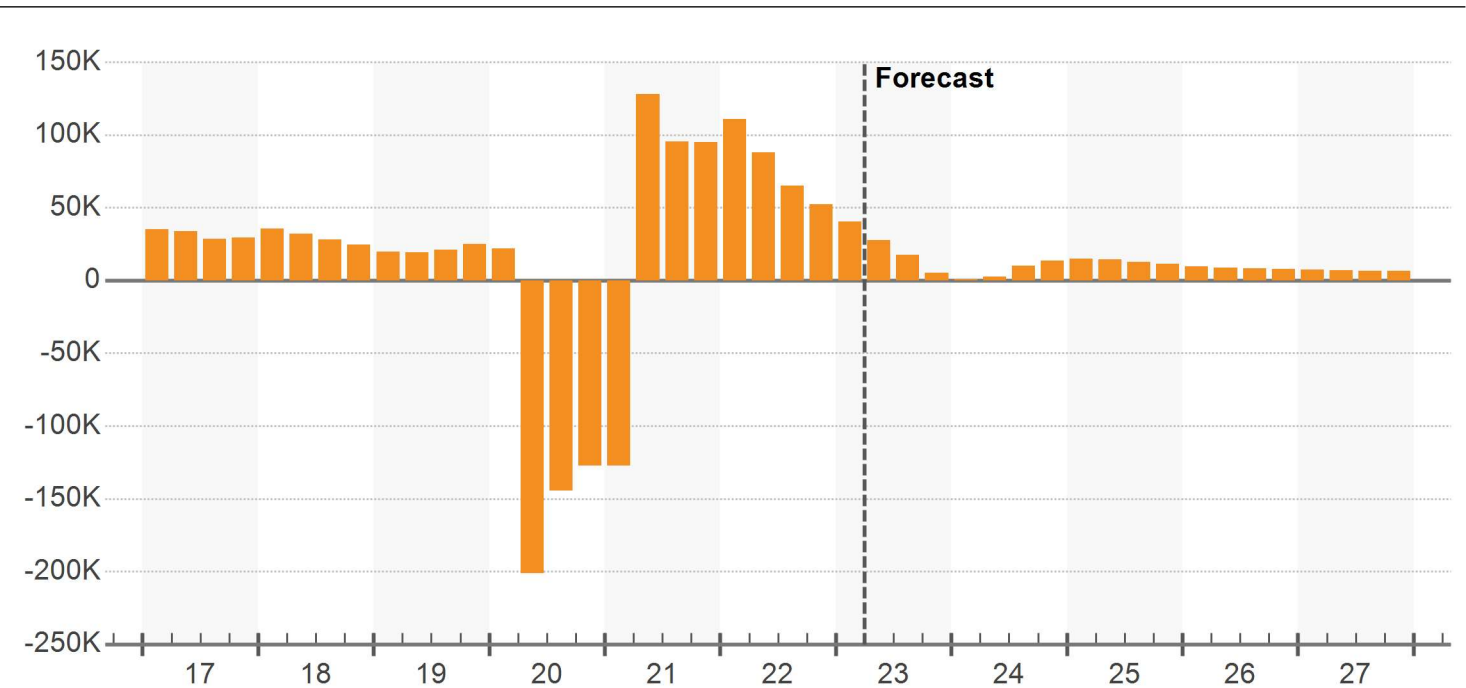


Source: Oxford Economics

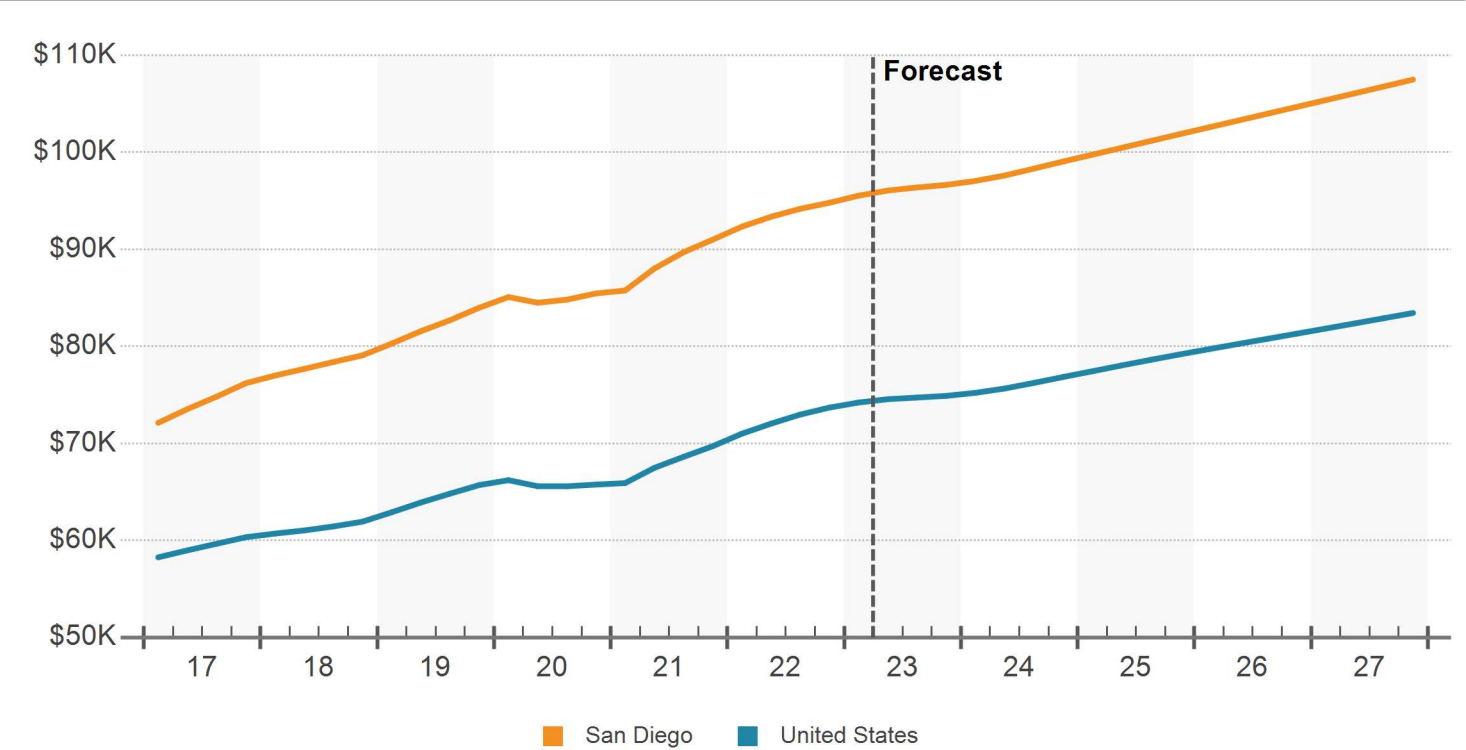
UNEMPLOYMENT RATE (%)



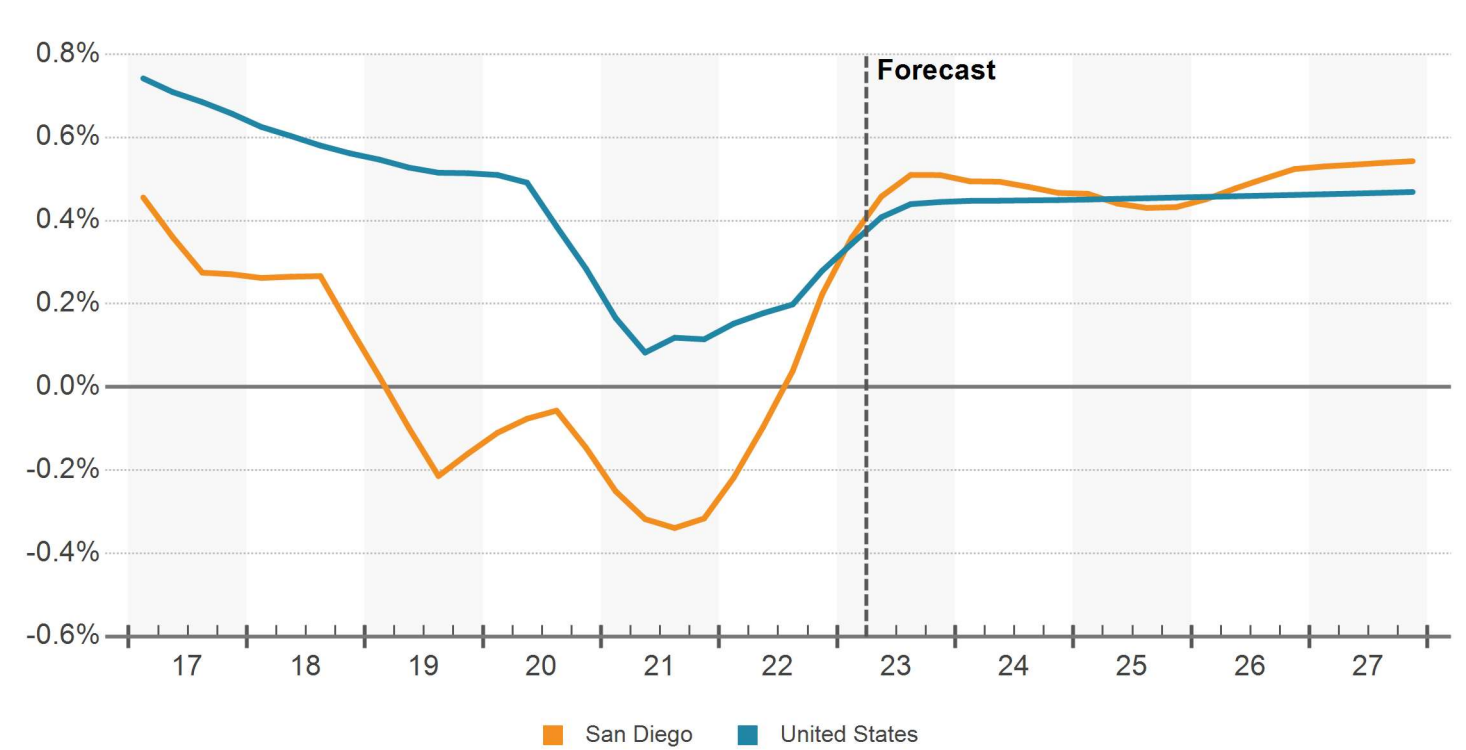
NET EMPLOYMENT CHANGE (YOY)



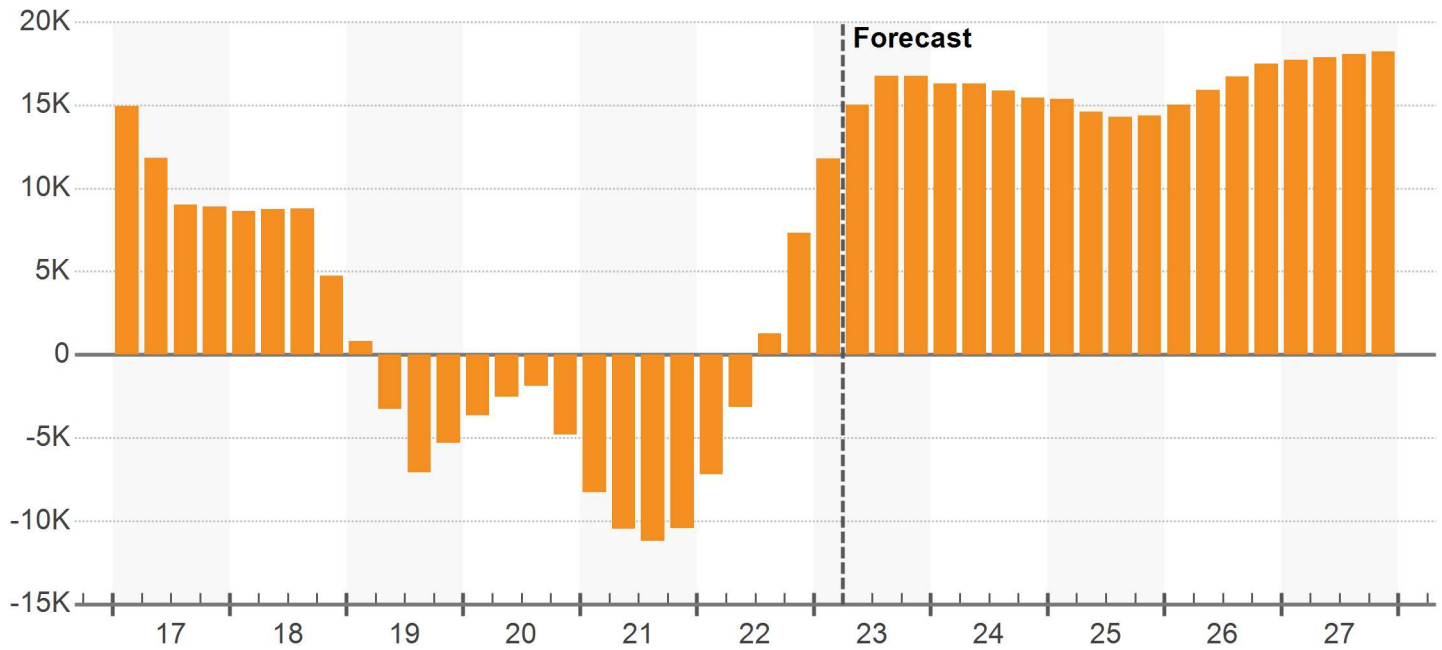
MEDIAN HOUSEHOLD INCOME



POPULATION GROWTH (YOY %)



NET POPULATION CHANGE (YOY)

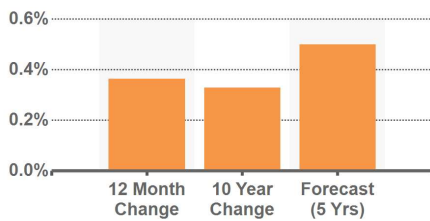


DEMOGRAPHIC TRENDS

Demographic Category	Current Level		12 Month Change		10 Year Change		5 Year Forecast	
	Metro	US	Metro	US	Metro	US	Metro	US
Population	3,295,919	333,309,000	0.4%	0.3%	0.3%	0.5%	0.5%	0.5%
Households	1,177,999	129,340,727	0.9%	0.9%	0.4%	0.8%	0.6%	0.6%
Median Household Income	\$95,555	\$74,229	3.4%	4.5%	4.7%	3.7%	2.5%	2.5%
Labor Force	1,590,587	165,148,906	0.5%	0.7%	0.4%	0.6%	0.4%	0.4%
Unemployment	3.1%	3.7%	-1.1%	-0.1%	-0.5%	-0.4%	-	-

Source: Oxford Economics

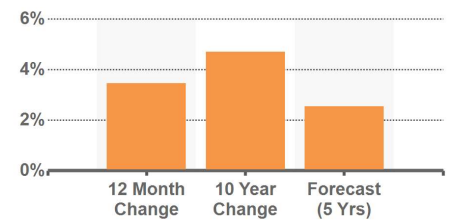
POPULATION GROWTH



LABOR FORCE GROWTH



INCOME GROWTH



Source: Oxford Economics