MARKET REPORT | 2Q/2021

San Diego Multifamily

NorthMarq

Cap Rates Compress in Active Sales Climate

Highlights

- Apartment rents in San Diego rose during the second quarter, reflecting the improvement in the overall economy. Hiring should continue in the second half of the year, supporting renter demand as deliveries of new units accelerate.
- Vacancy rose 20 basis points in the second quarter and is up 50 basis points year over year. The rate ended the second quarter at 4.3 percent.
- Asking rents rose 1.8 percent in the second quarter, reaching $1,904 per month. This followed a few periods of rent declines when the local economy slowed in response to the coronavirus outbreak. Year over year, rents are up 0.7 percent, with gains anticipated in the second half.
- Sales velocity cooled a bit during the second quarter, but activity levels in the first half of the year are ahead of the pace recorded in recent years. The median price year to date is $258,100 per unit, while cap rates have dipped to 3.8 percent.

Q2 Snapshot	San Diego Market
Market Fundamentals	
Vacancy	**4.3%**
- Year Over Year Change	**+50 bps**
Asking Rent	**$1,904**
- Year Over Year Change	**+0.7%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$258,100**
Cap Rates (Avg YTD)	**3.8%**
Construction Activity	
Units Under Construction	**4,386**
Units Delivered YTD	**617**

San Diego Multifamily Market Overview

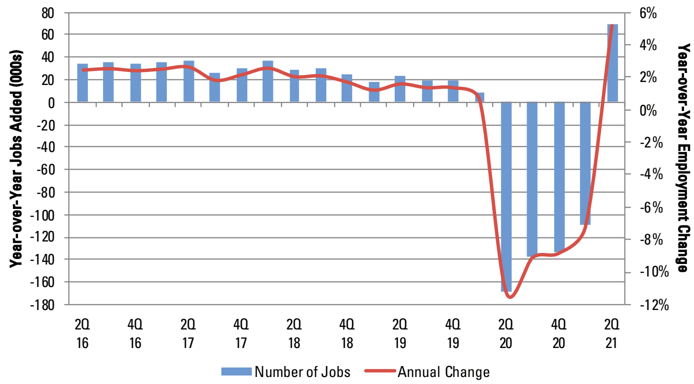
The San Diego multifamily market remained mostly stable through the first half of 2021. Vacancy inched higher during the second quarter, although several of the submarkets in the eastern portion of the metro area have lower vacancy rates between 2.5 percent and 3.5 percent. After ticking lower for a few quarters, area asking rents rebounded in recent months, nearly matching pre-COVID levels. Multifamily development picked up in the second quarter, as deliveries should continue to accelerate in the remainder of the year. Demand should improve with a recovering labor market. The region is expecting a boost in the coming quarters from technology companies such as Google, Apple, and several startups that are expanding in the city.

The investment market in San Diego is off to a strong start through the first half of the year with more properties changing hands than in recent years. The transaction mix during the second quarter consisted of several Class A properties, which bumped up the median sales price from the previous period. As the quality of properties being sold has increased and investor demand has intensified, cap rates have compressed, dipping below 4 percent. San Diego continues to maintain some of the lowest cap rates in the country, reflecting a steady and strong investment market.

Employment

- The employment market in San Diego is slowly improving. Employers added 8,200 jobs during the second quarter, following the addition of more than 16,000 positions in the first three months of the year. Although local employment is still below pre-COVID levels, job growth in San Diego is up more than 5 percent year over year.
- San Diego's health care and social assistance segment of the economy has remained one of the region's most stable sectors in recent periods. In the 12-month period ending in the second quarter, more than 9,000 healthcare jobs were added, which is a 5.3 percent increase.
- In addition to Apple and Google expanding in San Diego, software startup ClickUp will also be adding more high-paying jobs to the city. The company announced it doubled its workforce in 2020, expanding to 300 workers. An additional 100 jobs are expected to be added in the next 12 months at a new office facility near Petco Park.
- **Forecast:** The San Diego labor market is forecast to continue to improve in the coming quarters. For the full year, total employment is forecast to grow more than 3 percent with the addition of 42,000 jobs.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Job growth in San Diego is up more than 5 percent year over year

Vacancy

- Vacancy in San Diego crept up 20 basis points during the second quarter, reaching 4.3 percent. The local vacancy rate has generally ranged from about 3 percent to 4 percent since 2015 but has inched higher year to date.
- Year over year, vacancy rose 50 basis points in San Diego. After a fairly active period of new construction in recent years, the pace of development is easing, which should allow for vacancy to level off in coming quarters.
- Vacancy in Class A properties spiked during the second quarter, reaching 6.6 percent, up 50 basis points from last quarter. The rate has risen 100 basis points year over year.
- **Forecast:** Vacancy in San Diego is forecast to end this year at 4.3 percent, matching the rate at midyear.

Vacancy Trends

Sources: NorthMarq, Reis

Vacancy in San Diego crept up 20 basis points during the second quarter, reaching 4.3 percent

Rents

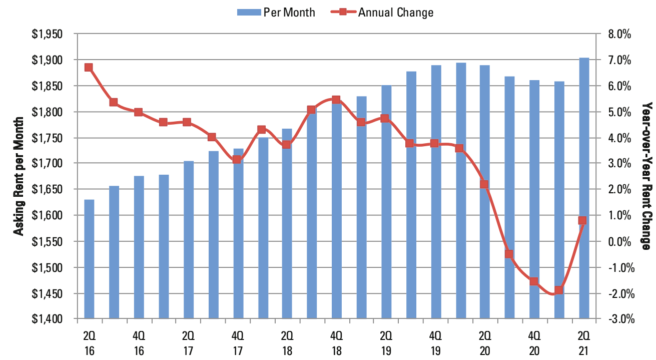
> Rents trended lower in the second half of 2020 but began to push higher in the second quarter of this year. Asking rents reached $1,904 per month at midyear, up 2.4 percent from the first quarter average.

> Local asking rents are up 0.7 percent year over year. It is expected that rents will continue to creep higher in the coming periods as California fully reopened last month.

> Despite an elevated vacancy rate, properties in the Downtown submarket continue to command the highest rents in the market. Asking rents in Downtown San Diego ended the second quarter at $2,609 per month, up 4.5 percent from last quarter. Downtown rents spiked by more than $100 per month in the second quarter.

> **Forecast:** After four consecutive quarters of declines, asking rents are expected to trend higher through the rest of the year. Average rents are forecast to end 2021 at around $1,942 per month, a 4.4 percent rent growth for the year.

Rent Trends



Sources: NorthMarq, Reis

Asking rents reached $1,904 per month at midyear

Development and Permitting

> Following a period of inactivity during the first three months of the year, the pace of apartment inventory growth trended higher in the second quarter as roughly 620 units were delivered. Apartment deliveries peaked in 2018 and have since been steadily declining.

> Projects totaling nearly 4,400 units are currently under construction in San Diego. Construction is forecast to gain momentum in the second half of this year.

> Multifamily permitting in San Diego slowed during the second quarter with developers pulling fewer than 1,000 permits. Permitting activity in the second quarter was down nearly 50 percent from totals in the first quarter.

> **Forecast:** Multifamily construction activity in San Diego is expected to accelerate during the second half of 2021. Despite a slow start for apartment deliveries through the first half of the year, more than 3,300 units are expected to come online by the end of 2021.

Development Trends

Sources: NorthMarq, Reis

Projects totaling nearly 4,400 units are currently under construction in San Diego

Multifamily Sales

> Sales velocity in San Diego slowed by approximately 25 percent from the first quarter to the second quarter. Despite the modest slowdown in recent months, sales velocity in the first half of this year has outpaced levels from both halves of 2020.

> The median price in transactions that closed in the first half of this year was approximately $258,100 per unit, 13 percent lower than the median price in 2020. Prices rose in the second quarter as a greater number of Class A buildings sold; the median price in transactions during the second quarter was over $325,000 per unit.

> Cap rates have compressed, as the economic outlook has brightened and competition for available properties has intensified. Cap rates averaged 3.8 percent during the first half of this year, 40 basis points lower than in 2020.

Investment Trends

Sources: NorthMarq, CoStar

Cap rates averaged 3.8 percent during the first half of this year

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

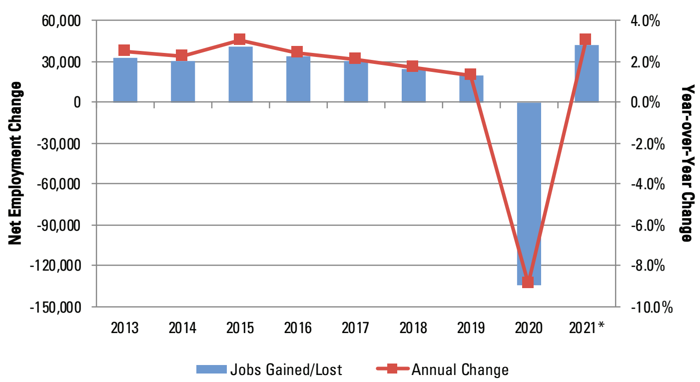
Property Name	Street Address	Units	Sales Price	Price/Unit
Griffis Mission Valley	1440 Hotel Cir N, San Diego	350	$155,700,000	$444,857
LIT Cortez Hill	1399 9th Avenue, San Diego	299	$95,979,000	$321,002
Il Palazzo	2040 Columbia Street, San Diego	108	$45,300,000	$419,444
The Cove	7400 Parkway Drive, La Mesa	133	$43,250,000	$325,188
Stone Arbor	612 Los Arbolitos Blvd, Oceanside	88	$29,300,000	$332,955
ReNew Alpine	1539 Tavern Road, Alpine	126	$28,270,000	$224,365
ReNew Summit	2660 Alpine Blvd, Alpine	108	$25,830,000	$239,167
Trolley Palm Apartments	4302 Palm Avenue, La Mesa	75	$22,250,000	$296,667

Looking Ahead

The San Diego multifamily market is forecast to record greater activity in the second half of this year. After the pace of deliveries slowed significantly in the first half of 2021, several projects are forecast to come online in the third and fourth quarters. The total new construction scheduled for this year will likely closely track levels from a few years ago. In addition to an accelerating pace of supply growth, renter demand for units should also pick up speed in the second half, as the economy gains momentum. Domestic travel to San Diego for the summer season appears to be off to a strong start, which would support additional hiring in the leisure and hospitality and retail sectors.

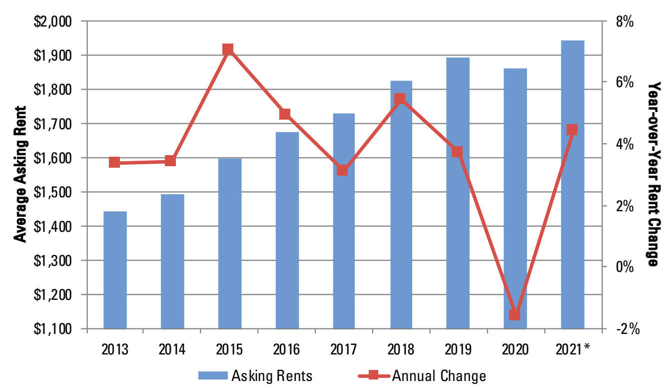
Cap rates for San Diego apartment properties have ticked below 4 percent, highlighting the strength of investor demand for local properties. Even after ticking lower in the second quarter, sales velocity to this point in 2021 has been more active than in the past few years and is closely tracking levels from peak periods of 2014 to 2017. With market fundamentals returning to their long-term trajectory, some owners who had originally planned to sell before the economic volatility of 2020 could bring properties to market as conditions stabilize.

Employment Forecast



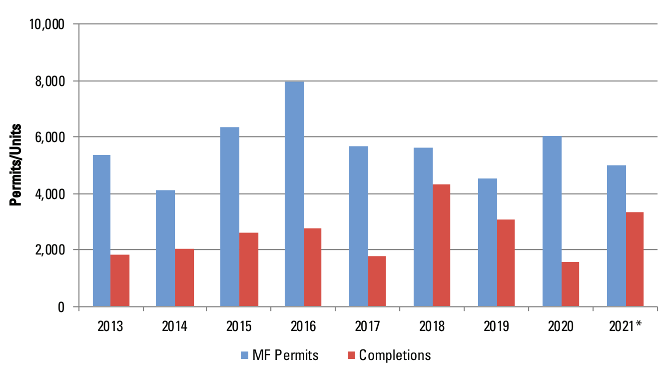
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



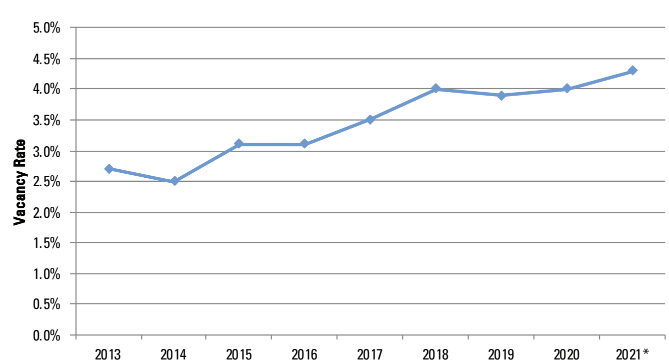
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than $16 billion, loan servicing portfolio of more than $65 billion and the multi-year tenure of our nearly 600 people.

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