Market Insights

San Diego Multifamily 1Q 2022

Northmarq

Construction Activity

6,001

Units under construction

850

Units delivered (YTD)

Market Fundamentals

4.0%

Vacancy

-10bps | Year over year change

$2,226

Asking Rent

+19.7% | Year over year change

Transaction Activity

$408,000

Median sales price per unit (YTD)

Rent Growth Accelerates to Start 2022

Highlights

- The San Diego multifamily market began 2022 on an upswing. Vacancy tightened and rents continued on an upward trajectory. Apartment construction is expected to remain active in the coming quarters as developers rush to meet demand.
- The vacancy rate dropped 30 basis points in the first quarter, ending the period at 4 percent. Year over year, the rate dipped 10 basis points. Local vacancy reached its lowest level since the end of 2020.
- Asking rents in San Diego rose 3.3 percent from January through March, reaching $2,226 per month. Year over year, average rents spiked 19.7 percent with additional gains forecast for the remainder of this year.
- While fewer properties changed hands, prices surged as the median sales price rose to $408,000 per unit in the first quarter. Cap rates remain low, averaging approximately 3 percent at the start of the year.

San Diego Multifamily Market Overview

The San Diego multifamily market strengthened in the first quarter with asking rents trending higher and vacancies inching lower. The improving property fundamentals in recent months are largely fueled by San Diego's employment market, which is in the middle of a sharp rebound and driving persistent renter demand. Multifamily developers have ramped up construction levels to meet demand with projects slated to come online in the next several quarters. A significant uptick in supply could inch the vacancy rate higher in San Diego, although the rate will still stay in line with its historical average.

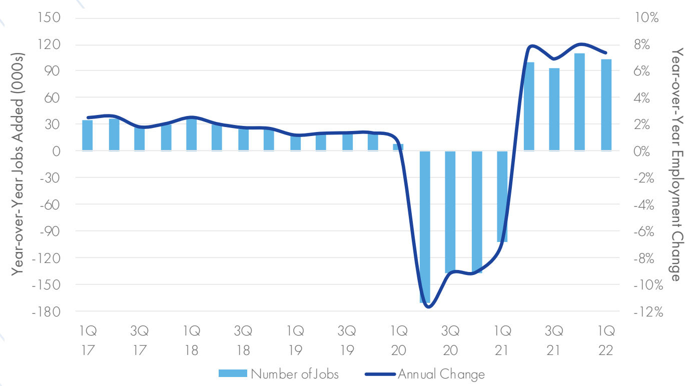
Following a spike in sales activity at the end of 2021, the pace of multifamily transactions cooled in recent months. After just a handful of Class A properties sold in 2021, activity picked up in the sale of newer assets in recent months. Additionally, the transactions to this point in 2022 occurred in some of the most expensive areas in San Diego, pushing sales prices higher. During the first quarter, three-fourths of the transactions sold for more than $85 million. Cap rates continued to compress, averaging about 3 percent in the first few months of the year.

Employment

- The employment market in San Diego continued to rebound at a steady pace at the start of 2022 with the addition of 19,600 jobs in the first quarter. Year over year, the labor market expanded by 7.3 percent and added nearly 103,000 positions.
- The leisure and hospitality sector surged in the past year, coinciding with the relaxation of COVID-related restrictions in California. Although total employment in this industry is still down 9.6 percent from its pre-pandemic peak, the leisure and hospitality sector added nearly 50,000 jobs in the last 12 months. Additional gains are likely as businesses ramp up for the peak summer travel season.
- Exact Sciences, a molecular diagnostics company that specializes in the detection of early-stage cancers, recently opened a new R&D and product development facility in the Torrey Pines section of the market. The company employs more than 60 people in San Diego and is expecting to double its workforce by the end of the year.
- **Forecast:** Employers are expected to continue to add back workers through the remainder of 2022. For the full year, employment growth is forecast to reach 3.4 percent with the addition of approximately 50,000 jobs.

> The local labor market added 19,600 jobs in the first quarter.

Employment Overview



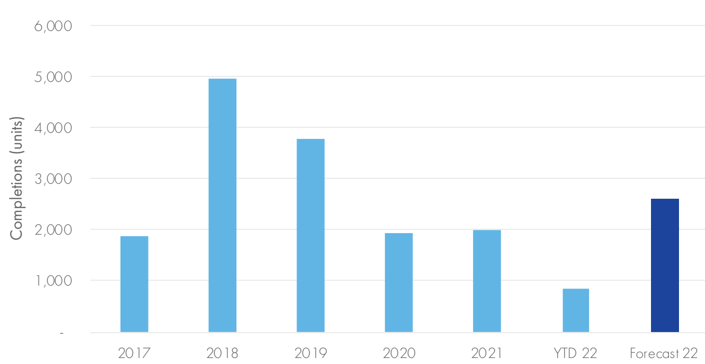
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- Multifamily developers were active in the first few months of 2022 with projects totaling 850 units coming online in the first quarter. Additionally, an elevated number of multifamily projects began construction in recent months compared to previous periods.
- Approximately 6,000 units are currently under construction in San Diego, up 18 percent from levels recorded one year ago. The most active areas for new construction include Downtown San Diego and Chula Vista. Developers have delivered approximately 5,700 units to Downtown San Diego since 2017.
- Developers pulled permits for nearly 1,400 multifamily units in the first quarter, down 22 percent from the same period in 2021. Despite the year-over-year decline, permitting levels in the first quarter were ahead of the market's historical average.
- **Forecast:** Multifamily developers are forecast to remain active in the remainder of 2022 and through 2023. Projects totaling approximately 2,600 units are expected to be delivered in 2022.

> Approximately 6,000 units are currently under construction.

Development Trends



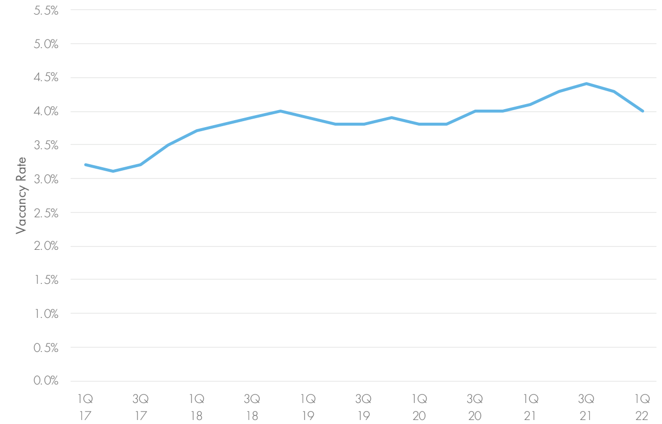
Sources: Northmarq, Reis, CoStar

Vacancy

- The vacancy rate tightened in San Diego in recent months, dropping 30 basis points during the first quarter to 4 percent. The rate is at its lowest point since year-end 2020.
- Year over year, vacancy dipped by 10 basis points. The submarkets that are further away from the coast and city center—and subsequently less expensive—continue to record the lowest vacancies in the county.
- Vacancy improvements in the first quarter were concentrated in the Class B and Class C segments of the market. The combined vacancy rate in Class B and Class C properties dropped 50 basis points in the first few months of the year to 1.9 percent.
- **Forecast:** As more projects come online, the vacancy rate is expected to inch higher in the coming quarters. Vacancy is forecast to end the year at 4.1 percent, down 20 basis points from the end of 2021.

> Vacancy dropped 30 basis points during the first quarter.

Vacancy Trends



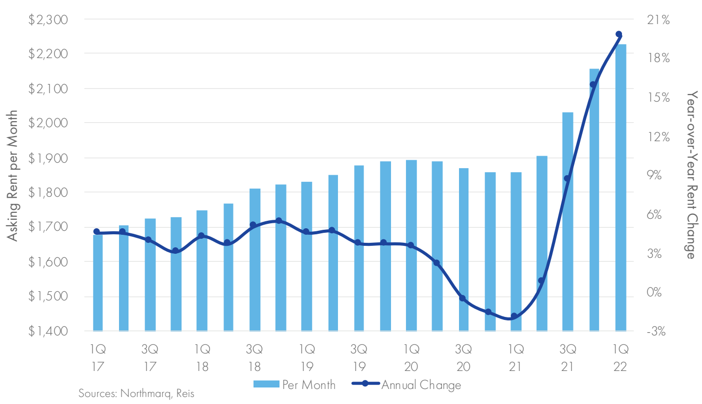
Sources: Northmarq, Reis

Rents

- Rents continued to climb in the first few months of 2022; local asking rents rose 3.3 percent in the first quarter to $2,226 per month.
- Average rents in San Diego surged during the past 12 months, rising 19.7 percent. This marked the largest annual rent growth on record; historically, rent growth in San Diego has averaged about 4.5 percent per year.
- Downtown is the highest-cost submarket in the market with average rents above $3,100 per month, up 22.2 percent year over year. Outside of the CBD, the La Jolla/University City and Mira Mesa/Rancho Bernardo submarkets both have asking rents of around $2,650 per month.
- **Forecast:** San Diego rents are expected to continue to push higher in the remainder of the year. Average rents are forecast to end 2022 at about $2,300 per month, up 7 percent for the year.

> Asking rents rose 3.3 percent in the first quarter.

Rent Trends



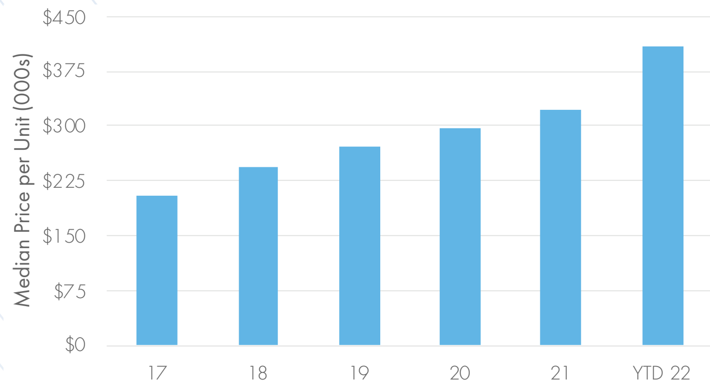
Sources: Northmarq, Reis

Multifamily Sales

- After hitting a five-year high in 2021, transaction activity in San Diego slowed at the start of this year. Sales velocity in the first quarter was down about 25 percent from the same period one year ago.
- The median sales price in the first quarter rose to approximately $408,000 per unit, up 27 percent from the median price in 2021. Strong rent growth has pushed prices higher in recent quarters, and Class A properties have accounted for a greater share of transactions to this point in 2022.
- As prices trended higher, cap rates compressed in San Diego. During the first quarter, cap rates averaged around 3 percent, one of the lowest rates in the country.

> The median price rose to approximately $408,000 per unit in the first quarter.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

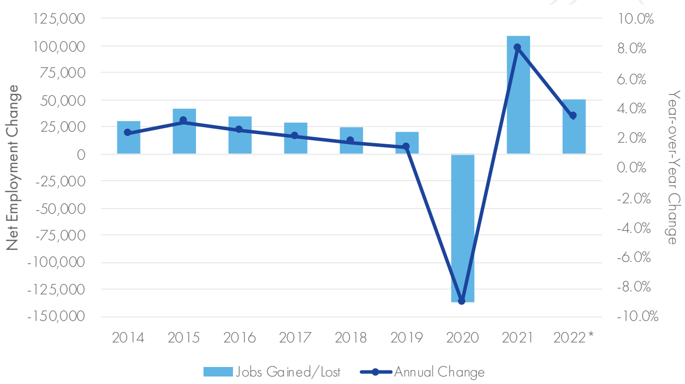
Property Name	Street Address	Units	Sales Price	Price/Unit
La Jolla Blue	7039 Charmant Dr., San Diego	312	$168,500,000	$540,064
Mara Pacific Beach	4275 Mission Bay Dr., San Diego	172	$113,000,000	$656,977
IDEA1	895 Park Blvd., San Diego	295	$106,000,000	$359,322
Griffis East Village	688 13th St., San Diego	208	$85,250,000	$409,856
Arrive Broadway Lofts	1007 5th Ave., San Diego	83	$33,000,000	$397,590
Bay Inn Apartments	2710 Grand Ave., San Diego	80	$28,100,000	$351,250

Looking Ahead

Building on healthy gains in the local economy in recent quarters, the labor market in San Diego is forecast to continue to rebound through the remainder of this year. The rapid additions to payrolls should continue to fuel renter demand for apartment units and support healthy rent increases across the region. Developers will accelerate activity to meet demand; more than 2,600 units are forecast to come online in 2022. Vacancy will likely remain in a fairly tight range throughout the year but will likely end 2022 slightly higher than the current rate, particularly in the submarkets where construction is most concentrated. Although multifamily development activity is spread throughout the entire county, more than one-third of the projects currently under construction are located in Downtown San Diego and Chula Vista.

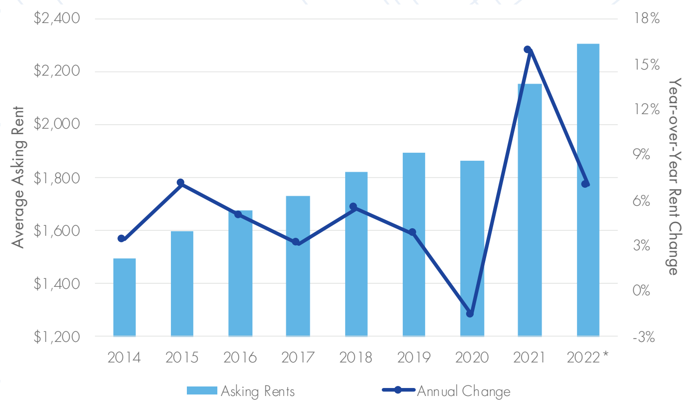
The multifamily investment market surged in the second half of 2021 and has since returned to more normal levels in the first quarter. Sales activity may gain momentum as the year goes on, although the pace of transactions will likely not repeat last year's spike in activity. The properties that changed hands to this point in 2022 were concentrated in the most expensive areas in the market, which combined with rapid rent growth, drove the per-unit prices higher. Cap rates have remained very low, averaging about 3 percent, reflecting the consistent and competitive investment market in Southern California. With interest rates on the rise, it may be difficult for future cap rates to match levels recorded in recent quarters.

Employment Forecast



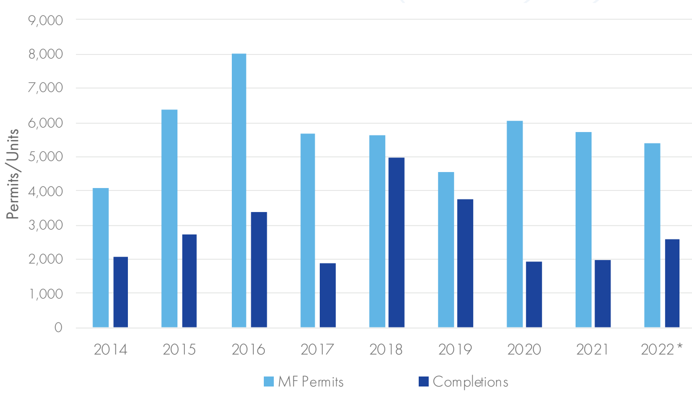
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



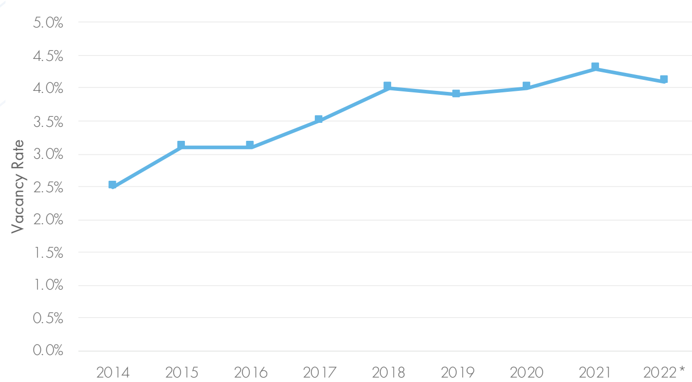
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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