

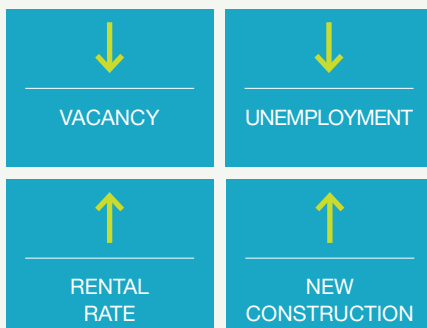
San Diego Multifamily

The San Diego apartment market remains lucrative for landlords as rents continue to rise and vacancy decreases, despite record-high construction. Low vacancies have led to impressive rent gains over the last five years, leading to a sustained development wave that is predicted to last for the next few years. Projects continue to break ground in nearly every submarket across the metro, but these put minimal downward pressure on rents as developers have largely focused their attention on luxury units due to the high costs of construction. Investors remain active in San Diego, and although the transaction volume slowed in 2017 compared to 2016, the dollar volume is almost equivalent, as the average price per unit has increased. With San Diego having a strong economic base buoyed by innovation, tourism, the military, and some of the most desirable weather in the U.S., the apartment market remains on firm footing heading into the New Year.

Rents continued to rise across the county at the end of 2018, pushing the year-over-year growth to 3.93%, with the biggest upward pressure in rent growth occurring over the last three years. The average asking rent per unit across the county reached an all-time record high of \$1,587 at the end of the year, continuing eight consecutive years of rising rents in a tight housing market. The North Shore Cities and La Jolla/UTC submarket clusters continue to command the highest rents at \$2,320 and \$2,123, respectively. By contrast the lowest rents are found in National City/South Central, which reported an average of \$1,192.

The market's overall vacancy fell to an all-time low, ending the year at 3.7%, the first time San Diego has posted a lower number than pre-recession rates, which bottomed out at 3.9% in 2007. Downtown continues to have one of the highest vacancy rates at 5.2%, a consequence of hosting the largest volume of new construction in San Diego County and competing with submarkets along the coast. Meanwhile the most constrained submarket clusters are Balboa Park at 2.4% and National City/South Central at 2.6%. Despite a plethora of construction projects, vacancy is forecasted to tighten further as new residents quickly fill in the new space.

Market Forecast Trends



Notable Sale Transactions

Avion at Spectrum
448 units in Kearny Mesa
\$140,000,000 (\$312,500/unit)

Waterleaf Apartment Homes
456 units in Vista
\$117,500,000 (\$257,675/unit)

Coronado Terrace Apartments
312 units in Otay Mesa
\$69,240,000 (\$221,923/unit)

Ocean Air
100 units in Carmel Valley
\$55,000,000 (\$550,000/unit)

Alta Vista
102 units in Escondido
\$34,250,000 (\$335,784/unit)

Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

Commerce
323.727.1144

Long Beach
562.472.0071

Orange County
949.557.5000

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909.764.6500

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The San Diego multifamily market recorded 426 investment transactions in 2017, totaling approximately \$3.08 billion in dollar volume, the highest dollar volume posted since 2004. The largest property to change hands this quarter was Pacific Ridge, bought by American Assets Trust, Inc., for \$232 million, among the biggest sales in a decade. The 533-unit luxury multifamily community is located atop a bluff offering unobstructed panoramic views of the Pacific Ocean and designed with a large focus on environmental sustainability. The property features a unit mix including studios, one-, two-, and three-bedroom units, and was 96% leased at the time of sale. The average price per unit marketwide was \$435,272 while the cap rate on average was 4.25%.

San Diego has been witnessing a surge in multifamily construction in the past couple of years, as vacancies continue to drop and developers try to cash in on the growing population. At the end of 2017, there were over to 11,015 units being built, which is the highest number San Diego has seen in history but will do little to quell the demand in the market. The Downtown area is seeing the bulk of this development with approximately 3,299 units under construction, most which are luxury units that command high rents. The largest projects being built include Hanover Mission Gorge at Grantville, where 58 of the 757 units will be designated as affordable housing. Another notable project, One Paseo in Carmel Valley, is a mixed use development that will bring 608 multifamily units, along with approximately 375,000 square feet of combined office and retail space.

Submarket Statistics

Submarket	Inventory Units	Asking Rate/Unit	Asking Rent Growth/Year	Vacancy	Net Absorption Units	Under Construction Units	Delivered Units
Balboa Park	40,416	\$1,323	2.4%	3.3%	56	569	21
Chula Vista / Imperial Beach	40,783	\$1,480	3.8%	3.0%	298	910	294
Coronado / Point Loma	11,784	\$1,730	4.4%	3.4%	55	12	16
Downtown	23,545	\$1,898	2.1%	9.3%	83	3,299	665
East San Diego / El Cajon	68,655	\$1,322	3.5%	3.1%	69	0	0
La Jolla / UTC	22,103	\$2,123	5.7%	4.7%	395	423	16
Mission Valley / North Central	45,000	\$1,876	3.6%	4.4%	8	1,579	11
National City / South Central	27,801	\$1,192	3.2%	2.6%	30	299	0
North County	50,063	\$1,602	4.4%	3.8%	5	1,298	0
North I-15 Corridor	35,416	\$1,468	4.7%	3.5%	15	533	23
North Shore Cities	10,375	\$2,320	5.0%	4.7%	32	939	0
Outlying San Diego County	2,333	\$1,376	3.2%	3.5%	14	0	0
Poway / Santee / Ramona	8,962	\$1,331	4.5%	3.3%	(5)	0	0
South I-15 Corridor	12,702	\$1,888	3.9%	3.9%	19	1,154	0
San Diego County Total	399,938	\$1,587	4.0%	3.7%	1,074	11,015	1,046

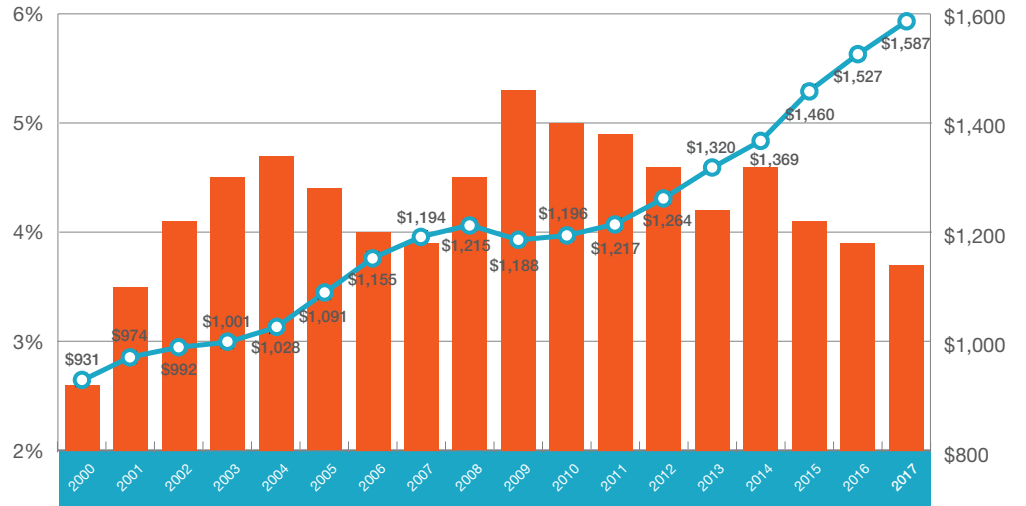
Notable Projects Under Construction

Property	Address	Submarket	# of Units	Owner	Expected Delivery Date
Hanover Mission Gorge	4440 Twain Avenue	Grantville	757	The Carlyle Group	January 2018
One Paseo	3289-3361 Del Mar Heights Road	Carmel Valley	608	Kilroy Realty Corporation	October 2019
Casa Mira View - Phase III	9800 Mira Lee Way	Mira Mesa	600	Garden Homes	August 2019
Pinnacle on the Park - Phase II	424 15th Street	East Village	472	Pinnacle International	April 2019
SHIFT	460 16th Street	East Village	396	Lennar	March 2018

4th Quarter 2017 San Diego Multifamily Market Statistics

HISTORICAL ASKING RENT PER UNIT AND VACANCY RATE*

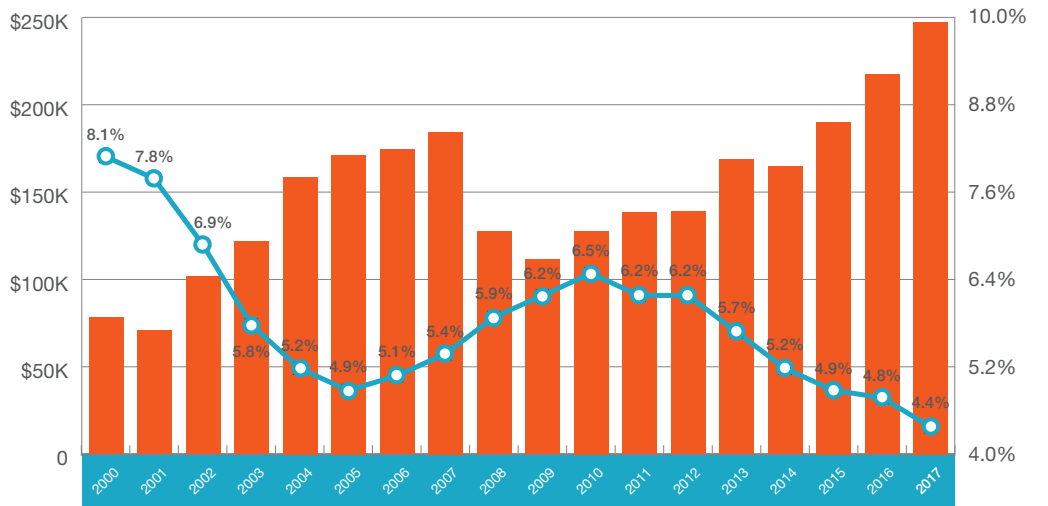
- Vacancy Rate
- Asking Rate/Unit



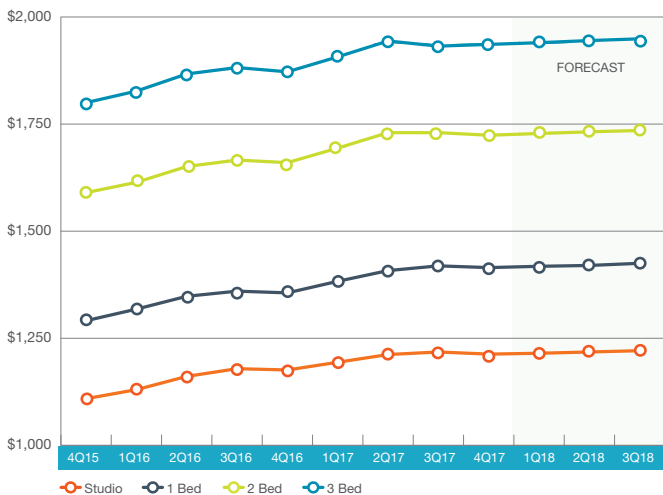
*Based on monthly rate

AVERAGE SALES PRICE PER UNIT & CAP RATES

- Sales Price/Unit
- Cap Rate



ASKING RENT



NET ABSORPTION - QUARTERLY

