



SAN DIEGO MSA | MULTIFAMILY | YE 2018 REPORT

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5+ UNIT PROPERTIES	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$2.03B	-26% ▼	\$2.76B
AVERAGE	Price/Unit	\$246,990 -0.3% ▼	\$247,747
	Price/SF	\$296.50 +0.3% ▲	\$295.54
	Year Built	1968 NO CHANGE	1968
5+	Average Rent	\$1,925 +5% ▲	\$1,833
	Occupancy Rate	96.5% -0.1% ▼	96.6%
	Units Delivered	3,578 -23% ▼	4,654

ABI GEONEWS - SAN DIEGO MSA YE 2018 SELECT NEWS

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Apple Will Open New San Diego Site, Employing 1,000



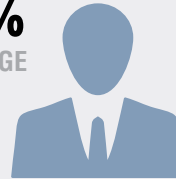
Pfizer Move To Transfer 100 Jobs To San Diego



Walmart Labs Expands Operations In North County, Hiring 110

3,337,685 **POPULATION**
CENSUS
▲ +0.6%

3.2%
NO CHANGE



UNEMPLOYMENT
Q-O-Q AS OF DECEMBER 2018

+1.7%



EMPLOYMENT GROWTH
Y-O-Y AS OF DECEMBER 2018

\$70,588
▲ +6.1%



MEDIAN HH INCOME
CENSUS

\$34,350
▲ +5.8%



PER CAPITA INCOME
CENSUS

9,514
Units (50+)









UNDER CONSTRUCTION
YARDI

368,509
Units (5+)



TOTAL INVENTORY
AS OF YE 2018

SAN DIEGO MSA - PER SUBMARKET ANALYSIS

SAN DIEGO MSA QUICK STATS	UNEMPLOYMENT RATE	MEDIAN HH INCOME	PER CAPITA INCOME	50+	
				TOTAL INVENTORY *	UNDER CONSTRUCTION
 San Diego MSA	3.2%	\$70,588	\$34,350	191,375	9,514
 North County Coastal	2.7%	\$98,954	\$64,210	17,620	1,319
 North County Inland	4.5%	\$69,396	\$29,611	29,924	354
 East County	5.2%	\$67,714	\$29,093	25,032	240
 South Bay	4.3%	\$54,438	\$23,107	28,744	484
 Metro San Diego	3.8%	\$68,117	\$35,199	94,718	6,737

* Total inventory numbers may vary due to zip/city overlap

SAN DIEGO MSA - PER SUBMARKET ANALYSIS

RENT & OCCUPANCY STATS

	N County Coastal	N County Inland	East County	South Bay	Metro San Diego
Average Rent (YE 2018)	\$2,079	\$1,716	\$1,580	\$1,678	\$2,150
% Change (y-o-y)	+5.6%	+4.2%	+4.6%	+6.1%	+6.5%
Occupancy Rate (YE 2018)	96.1%	96.5%	97.2%	97.4%	95.9%
% Change from 2017	-0.3%	-0.5%	-0.1%	--	-0.9%
Units Delivered (50+)	658	--	--	--	296

SALES DATA (50+)

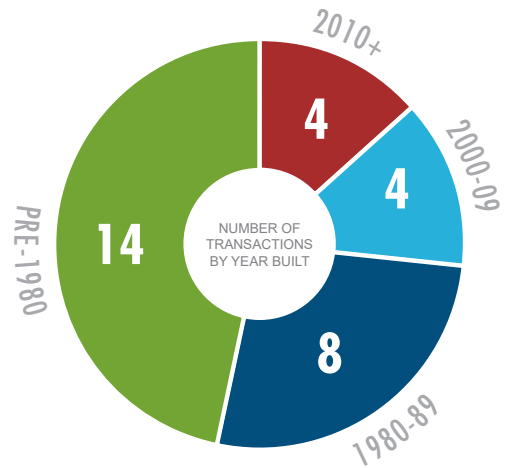
Total Sales Volume (YE 2018, 50+)	\$56,000,000	\$423,275,000	\$125,587,974	\$38,150,000	\$168,500,000
Total Sales Volume (YE 2017, 50+)	\$150,700,000	\$555,836,175	\$40,470,000	\$10,650,000	\$515,532,143
% Change (y-o-y)	-63%	-24%	+210%	+258%	-67%
Avg P/U (YE 2018, 50+)	\$283,969	\$291,713	\$168,123	\$223,099	\$333,663
Avg P/U (YE 2017, 50+)	\$293,191	\$227,989	\$236,667	\$100,472	\$356,277
% Change (y-o-y)	-3%	+28%	-29%	+122%	-6%

SALES DATA (5-49)

Total Sales Volume (YE 2018, 5-49)	\$55,600,000	\$68,249,009	\$25,356,000	\$37,025,000	\$207,490,794
Total Sales Volume (YE 2017, 5-49)	\$80,560,600	\$106,850,125	\$30,945,000	\$32,186,000	\$212,347,498
% Change (y-o-y)	-31%	-36%	-18%	+15%	-2%
Avg P/U (YE 2018, 5-49)	\$282,234	\$171,050	\$220,487	\$192,839	\$286,589
Avg P/U (YE 2017, 5-49)	\$297,272	\$178,978	\$170,967	\$184,977	\$274,706
% Change (y-o-y)	-5%	-4%	+29%	+4%	+4%

50+ UNIT PROPERTIES

	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$1.24B	-32% ▼	\$1.81B
AVERAGE Price/Unit	\$253,451	-4% ▼	\$263,209
AVERAGE Price/SF	\$290.46	-2% ▼	\$295.44
AVERAGE Year Built	1986	NO CHANGE	1986



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Avalon Fashion Valley

San Diego, 161 Units | \$70,750,000
\$439,441/Unit | \$384.34/SF | Built 2009



Monarch at Shadowridge

Vista, 314 Units | \$115,000,000
\$366,242/Unit | \$378.35/SF | Built 2005



LaTerra Select Stone Creek

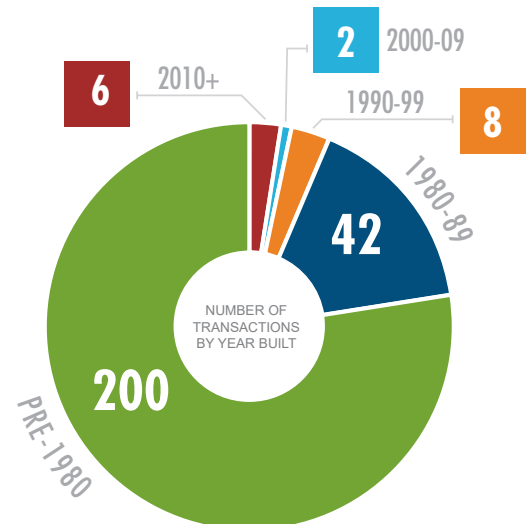
Chula Vista, 97 Units | \$35,000,000
\$360,825/Unit | \$455.66/SF | Built 2018

YE 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	4	\$301K	\$297
2000-09	4	\$293K	\$313
1990-99	0	--	--
1980-89	8	\$262K	\$290
Pre-1980	14	\$207K	\$274

5 - 49 UNIT PROPERTIES

	YE 2018	INCREASE/DECREASE	YE 2017
Total Sales Volume	\$790M	-17% ▼	\$948M
AVERAGE Price/Unit	\$237,489	+7% ▲	\$222,897
AVERAGE Price/SF	\$306.50	+4% ▲	\$295.62
AVERAGE Year Built	1966	NO CHANGE	1966

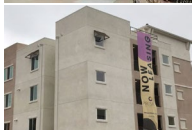


TOP 3 TRANSACTIONS BY PRICE/UNIT (5-49)



811 - 821 Coast Blvd S

La Jolla, 9 Units | \$7,800,000
\$866,667/Unit | \$1,114.29/SF



Prisma

San Diego, 8 Units | \$6,000,000
\$750,000/Unit | \$533.33/SF | Built 2018



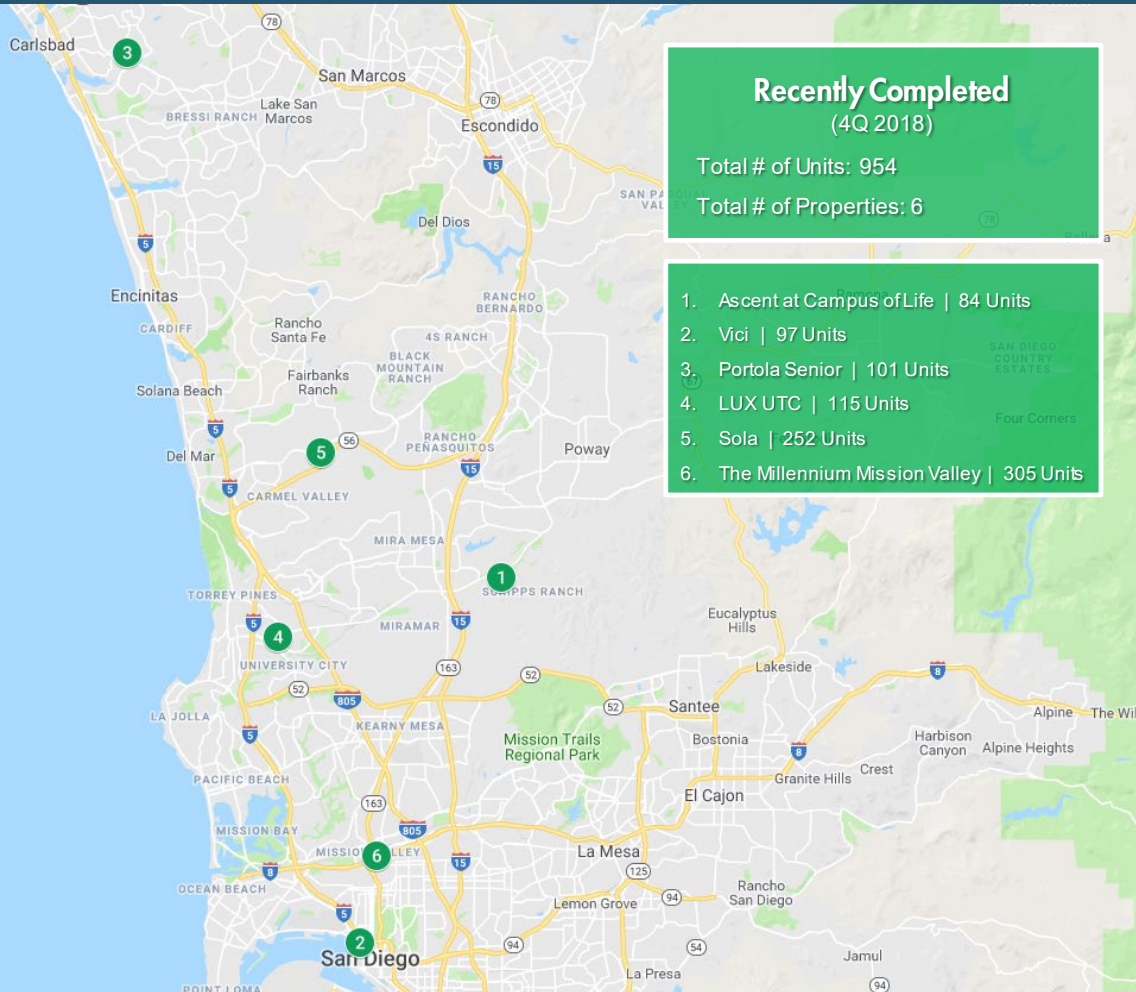
1144 Fresno Street

San Diego, 6 Units | \$4,350,000
\$725,000/Unit | \$375.10/SF | Built 2017

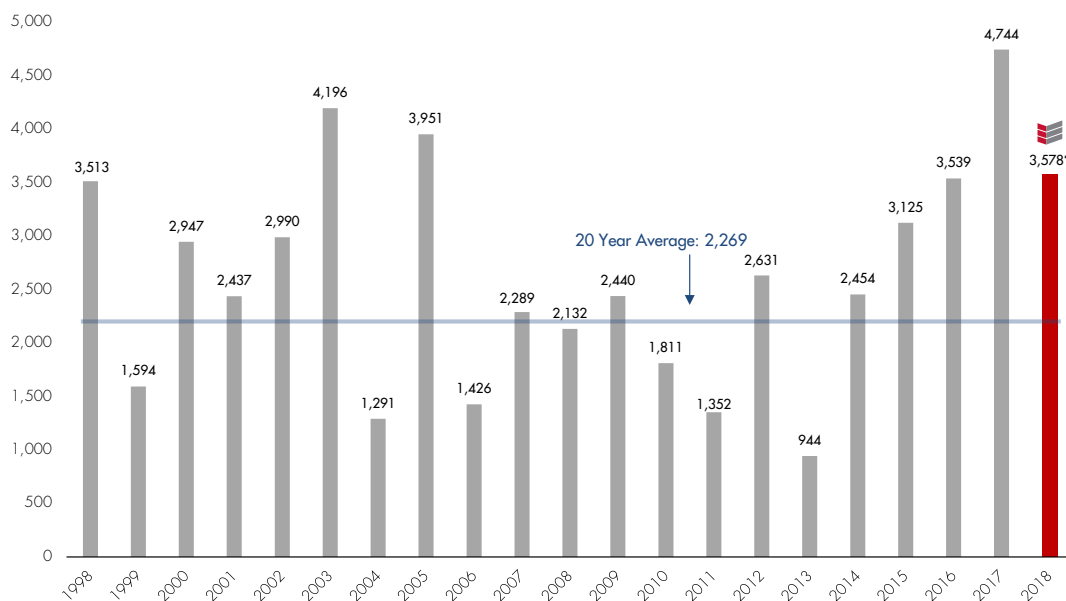
YE 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	6	\$519K	\$441
2000-09	2	\$304K	\$280
1990-99	8	\$283K	\$271
1980-89	42	\$229K	\$289
Pre-1980	200	\$224K	\$308

COMPLETED CONSTRUCTION



SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | YE 2018



* **Project Units Delivered.** Project units delivered is based on when the total project is completed, not as individual buildings/units are delivered

TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: **368,509**

50+ UNIT PROPERTIES: **191,375**

PRE-LEASE ABSORPTION RATE

11
Units/Property/Month (Avg)

Under Construction

Total # of Units: 9,514

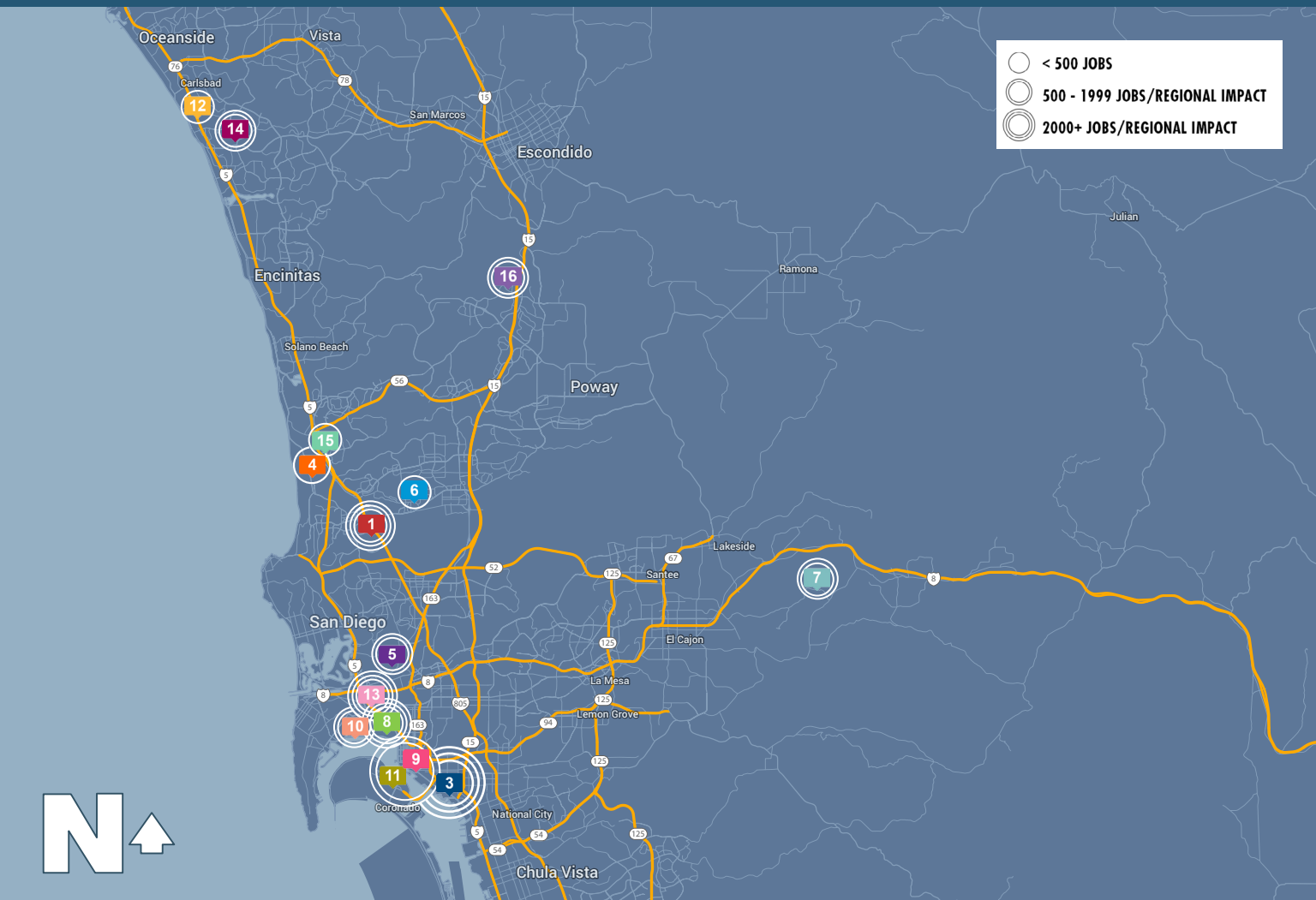
Total # of Properties: 49

Planned

Total # of Units: 2,583

Total # of Properties: 15

ABI GEONEWS: SAN DIEGO MSA - YE 2018 SELECT NEWS



1 Illumina | Illumina Grows SD Footprint with Manufacturing Facility

2 Apple | Apple will open new San Diego site, employing 1,000 (location has not yet been announced)

3 General Dynamics | General Dynamics NASSCO Hiring Up to 1000 Jobs

4 Pfizer | Pfizer Move to Transfer 100 Jobs to San Diego

5 Levi-Cushman Family Trust & Hines | Mission Valley's Riverwalk Redevelopment Project: Golf out, 80-acre Park in Plus 4,000 Homes, Offices, Shops

6 BioLegend | Biotech Firm BioLegend Starts Construction on New \$100M Campus

7 Sycuan | Sycuan to Hire More Than 700 Workers

8 Stockdale Capital Partners | Stockdale Capital Partners, Buys Moribund Horton Plaza, Plans 'Creative Office' Campus

9 Ritz Carlton, Whole Foods | OK'd for East Village, \$400M Highrise to Include Apartments, Condos, Offices

10 San Diego Intl Airport | Airport Board Approves Construction of \$229M Inspection Facility to Serve International Arrivals

11 Protea Waterfront Development | Protea Waterfront Development Selected to Redevelop Seaport Village

12 Walmart Labs | Walmart Labs Expands Operations in North County, hiring 110

13 SANDAG | \$1 Billion Federal Grant to Fund Mid-Coast Trolley Extension New Stations in Mission-Pacific Beaches, VA Medical Center, UCSD and Genesee Ave

14 Palomar Health & Encinitas Developer | Hospital Deal to Fuel Downtown Escondido Construction Boom

15 Amazon | Amazon to Expand San Diego Tech Hub, Create 300 More Jobs

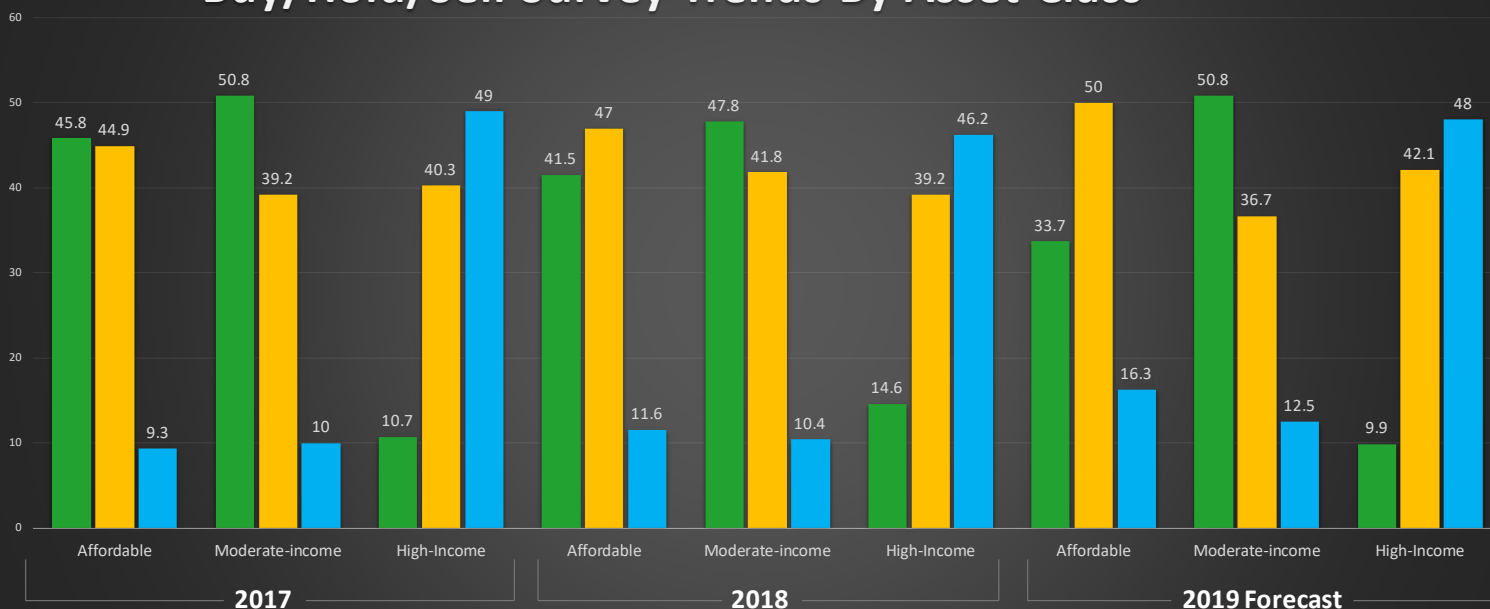
16 Teradata | Teradata to Relocate HQ to San Diego from Ohio By Year's End, Brings 300 Jobs

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

2019 FORECAST: PLUS ÇA CHANGE, PLUS C'EST LA MÊME CHOSE

Buy/Hold/Sell Survey Trends By Asset Class

■ Buy ■ Hold ■ Sell



Buy/Hold/Sell recommendations for multifamily properties for 2017, 2018, 2019. Data provided by PricewaterhouseCoopers/Urban Land Institute "Emerging Trends in Real Estate®"

In the acclaimed sci-fi novel *Time Enough* for Love, Robert A. Heinlein told us, "A fake fortuneteller can be tolerated. But an authentic soothsayer should be shot on sight." Thus, we have a pretty fair overview of the multifamily development world, at least as far as affordable assets are concerned.

Economists and market mystics across the board are pretty much all saying to expect 2019 to look a lot like 2018, with a slight cooling trend as we head into a relatively minor downturn in late 2020-early 2021.

Interestingly, in late 2017 and early 2018, many of these same crystal ball gazers were expecting the downturn to start late this year, but some foreseen events on the global and domestic economic fronts didn't happen while some unforeseen ones did.

San Diego Market Metrics:

By the Numbers

The San Diego MSA had a mixed, but

generally negative, 2018. For 5-49 unit properties, 4Q saw \$208M in transaction volume. For the entire year, volume was \$790M, a 17% Year-over-Year decrease from 2017. In the 50+ unit category, 4Q took in \$443M. Year-end totals in 50+ were \$1.24B, a 32% drop over 2017.

Average Price-Per-Unit amounts rose 7% to \$237,489 for 5-49 units, and dropped 4% to \$253,451 for 50+. These translated to an Average Price/SF of \$306.50 in 5-49 (up 4%) and \$290.46 (down 2%) in 50+.

Inventory age stayed consistent, with Average Year Built for 5-49 being 1968 and 1986 for 50+.

The MSA's occupancy rate remained high. 4Q occupancy for 5+ units was 96.4%, making for a year-end of 96.5%, a decrease of 0.1% y-o-y. 4Q average rent was \$1,969, for a year-end average of \$1,925, up \$92 from 2017.

San Diego MSA demographics continued their upward trends. The Census estimate

of total population was 3,337,685, up 0.6% y-o-y. The unemployment rate finished at 3.2%.

Median Household Income increased to \$70,588, a positive change of 6.1%. Per Capita Income nosed upward to \$34,350, an increase of 5.8%.

In the realm of new construction for 50+ unit projects, 954 were delivered in 4Q, bringing the total to 3,578 for all of 2018. As of year-end, 50+ unit construction projections show 2,583 total units in the planning stages across 15 properties. A total of 9,514 units were listed as Under Construction in 49 properties.

Pre-lease absorption across the region came in at a rate of 113 units/property/month.

Past Meets Present, Yields Future

There's a view among many classical scholars that prophecy in ancient cultures

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

was more of an allegorical way to explain current trends' near-term impacts, rather than predicting any kind of distant future. The last few years' worth of forecasts would seem to bear that view out, particularly in terms of the ongoing fears of oversupply in Class A and the market distortions of pent-up affordable and workforce that's going unaddressed.

While its spectacular rate of in-migration and job growth make Phoenix an outlier in some ways, it's from the edges we can often gain the best view of the middle. A June 2017 CoStar report pointed out 3 Star properties were gaining on top tier assets. "As of May, 4 and 5 Star multifamily properties were trading at roughly an 87% premium over 3 Star assets in Phoenix, a significant drop from the price premium observed in the years immediately following the recession when 4 and 5 properties traded at prices that were 200% higher than those for 3 Star properties."

Also, in mid-2017, the National Multifamily Housing Council and National Apartment Association released a report prepared by Hoyt Advisory Services, Dinn Focused Marketing, Inc. and Whitegate Real Estate Advisors, LLC entitled, "U.S. Apartment Demand — A Forward Look." This was the introductory salvo to the currently accepted prediction: "We need to build 4.6M units by 2030 to meet demand."

In 2017, we did pretty well nationally from a raw number standpoint, hitting in the neighborhood of 319,000 units delivered, according to RentCafé. 2018 estimates dropped, however, down an estimated 11% to a mere 283,000.

Of course, when you look past the raw numbers, a less rosy but more detailed picture emerges. According to a Sept. 2018 RentCafé analysis, there were 80,000 large multifamily projects in development around the nation. However, 80% of the projected units were on the luxury end of the spectrum. That number jumps to 88% in the Southwest.

That's a great snapshot of the "Affordability Crisis." Unfortunately,

"Crisis" is a hyperbolic term so overused as to actually diminish its impact. When everything is a crisis, nothing is a crisis, and Cassandra gets ignored.

Comparing the PricewaterhouseCoopers/Urban Land Institute "Emerging Trends in Real Estate®" reports for 2017, 2018 and 2019 Buy/Hold/Sell surveys for multifamily can justify every mindset from The Glass is Half-Full to The Glass is Half-Empty to The Glass is Unnecessarily Large.

Half-full says we've known about all these conditions for some time and nobody's panicking.

Half-empty says we've known about these conditions for some time and haven't done much to either counter or take advantage of them.

Glass unnecessarily large says investors are more focused on warehouse/fulfillment/distribution anyway.

Looking at those three years of survey results provides some context for the most common worry I hear from our brokers: "I've got buyers around the block. Find me sellers!"

What's interesting, particularly in the 2019 report, is where the classes fall on the Investment Prospects and Development Prospects rankings. Moderate income/workforce apartments rank fourth on the Investment list and fifth on Development. Affordable is #6 in Investment, #9 in development.

High income apartments are 17th on both prospect lists, out of 24 total categories. For reference, 22-24 on both are outlet centers, power centers and regional malls.

Now that it seems we're moving from warning bells to actual market impacts resulting from the over-focus on luxury properties, or, more correctly, the under-focus on anything else, we may expect to actually see some movement. Several single-family builders have started to shift part of their focus to workforce-affordable. Multifamily builders will likely follow suit to keep their appeal up and

option streams open.

On the upside, there's still a healthy volume of capital available both to build and to buy. While it's great that banks are much more disciplined now than they were 15 years ago, the downside is that financing — particularly on the development side — has gotten more complex and cumbersome. Combine that with rising materials, labor and land costs, and we see the ongoing lengthening of development timelines, with no breakthroughs in sight for the foreseeable future.

A Feb. 1 GlobeSt column by Capital One Multifamily Finance President Jeff Lee summed things up nicely, saying, "Higher interest rates — combined with excess supply in some cities and flatter rent growth — suggest that valuations will not continue their upward climb. At the same time, there is no indication that sellers are ready to lower their prices," which reflects both the predictions and the predicaments of the past few years in a pithy nutshell.

Back in 1849 when Alphonse Kerr said, "The more it changes, the more it's the same thing," (sounding much cooler and more profound in the original French...) it wouldn't have taken Cassandra to see he had hit on something universal.

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ABI COMPARATIVE MARKET REVIEW: YE 2018



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SACRAMENTO

DEMOGRAPHICS

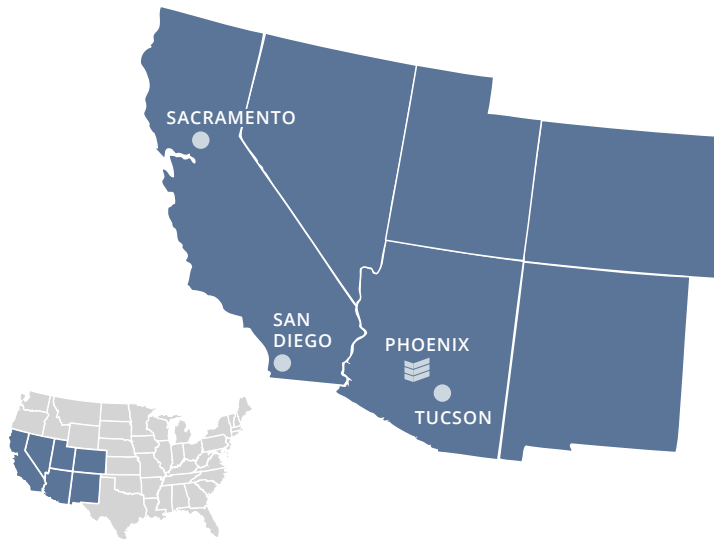
RENT/OCC/CONST (50+)

SALES (50+)

Total Population	3,317,749	4,737,270	1,026,099	2,296,418
Unemployment Rate (as of Sept '18)	3.2%	3.9%	4.2%	3.5%
Employment Growth (y-o-y)	1.9%	4.2%	3.1%	1.5%
Median HH Income	\$66,529	\$55,547	\$46,764	\$62,813
Per Capita Income	\$34,350	\$43,249	\$39,541	\$51,370
Rent (YE 2018)	\$1,925	\$1,072	\$839	\$1,437
% Increase / Decrease	+5%	+6.3%	+4.2%	+5.5%
Occupancy (YE 2018)	96.5%	95.2%	94.4%	96.3%
% Increase / Decrease	-0.1%	+0.3%	+0.3%	-0.6%
Total Inventory (50+)	191,375	312,565	68,754	129,486
Total Under Construction (50+)	9,514	14,451	803	2,725
Units Delivered (50+, YE 2018)	3,497	8,118	50	1,367
Total Sales Volume (YE 2018)	\$1.24B	\$6.16B	\$897M	\$1.25B
y-o-y % Increase / Decrease	-32%	+36%	+47%	+44%
Average P/U (YE 2018)	\$253,451	\$149,097	\$91,993	\$157,871
y-o-y % Increase / Decrease	-4%	+26%	+40%	-4%

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