



SAN DIEGO MSA | MULTIFAMILY | Q1 2019 REPORT

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5+ UNIT PROPERTIES	Q1 2019	INCREASE/DECREASE	Q1 2018
Total Sales Volume	\$650M	+184.4%	\$229M
AVERAGE Price/Unit	\$271,595	+18.8%	\$228,589
Price/SF	\$338.66	+22.3%	\$276.96
Year Built	1980	+11 yrs	1969
Average Rent	\$1,940	+4.1%	\$1,863
Occupancy Rate	95.9%	-0.5%	96.4%
Units Delivered	595	-63.6%	1,633

ABI GEONEWS - SAN DIEGO MSA SELECT NEWS

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San Diego Multifamily Sales Double



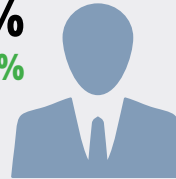
Proposal for Dense Housing near Stations



San Diegans Could Face Two Tax Hikes

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

3.7%
+0.3%



UNEMPLOYMENT
Q-Q AS OF MARCH 2019

+1.4%



EMPLOYMENT GROWTH
Y-O-Y AS OF MARCH 2019

\$70,588



MEDIAN HH INCOME
CENSUS

\$34,350



PER CAPITA INCOME
CENSUS

8,714
Units (50+)









UNDER CONSTRUCTION
YARDI

341,350
Units (5+)



TOTAL INVENTORY
COSTAR

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	3.5%	\$70,588	\$34,350	226,901	8,714
 North County Coastal	2.7%	\$98,954	\$64,210	17,730	601
 North County Inland	4.5%	\$69,396	\$29,611	29,924	292
 East County	5.2%	\$67,714	\$29,093	25,032	70
 South Bay	4.3%	\$54,438	\$23,107	28,870	908
 Metro San Diego	3.8%	\$68,117	\$35,199	90,555	5,852

* 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 (Q1 2019)	\$2,127	\$1,742	\$1,602	\$1,695	\$2,164
% Change (y-o-y)	+4.2%	+3.4%	+4.0%	+4.7%	+3.9%
Occupancy Rate (Q1 2019)	95.6%	95.8%	96.6%	96.3%	95.5%
% Change (y-o-y)	-0.6%	-0.4%	-0.3%	-0.5%	-0.6%
Units Delivered (50+)	110	--	--	--	485

SALES DATA (50+)

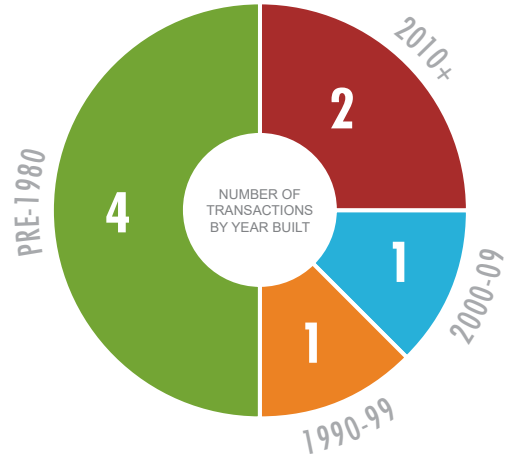
Total Sales Volume (Q1 2019, 50+)	\$57,100,000	\$19,500,000	\$0	\$17,750,000	\$434,085,500
Total Sales Volume (Q1 2018, 50+)	\$15,800,000	\$11,000,000	\$30,777,000	\$0	\$7,200,000
% Change (y-o-y)	+261.4%	+77.3%	--	--	+5,929%
Avg P/U (Q1 2019, 50+)	\$274,519	\$198,980	\$0	\$140,873	\$289,390
Avg P/U (Q1 2018, 50+)	\$254,839	\$177,419	\$216,739	\$0	\$120,000
% Change (y-o-y)	+7.7%	+12.2%	--	--	+141.2%

SALES DATA (5-49)

Total Sales Volume (Q1 2019, 5-49)	\$32,175,000	\$25,925,000	\$9,790,000	\$10,900,000	\$84,162,621
Total Sales Volume (Q1 2018, 5-49)	\$4,902,000	\$106,850,125	\$14,799,000	\$7,625,000	\$113,421,389
% Change (y-o-y)	+556.4%	-75.7%	-33.8%	+43%	-25.8%
Avg P/U (Q1 2019, 5-49)	\$374,128	\$192,037	\$244,750	\$222,449	\$295,307
Avg P/U (Q1 2018, 5-49)	\$288,353	\$178,978	\$184,988	\$181,548	\$269,409
% Change (y-o-y)	+29.7%	+7.3%	+32.3%	+22.5%	+9.6%

50+ UNIT PROPERTIES

	Q1 2019	INCREASE/DECREASE	Q1 2018
Total Sales Volume	\$528M	+715.8%	\$65M
AVERAGE Price/Unit	\$273,517	+37.7%	\$198,702
AVERAGE Price/SF	\$340.15	+52.2%	\$223.45
AVERAGE Year Built	1986	+8 yrs	1978



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



The Millennium Mission Valley
San Diego, 305 Units | \$140,000,000
\$459,016/Unit | \$533.83/SF | Built 2018



Regents La Jolla (333 of 574)
La Jolla, 333 of 574 Units | \$141,500,000
\$424,925/Unit | \$459.72/SF | Built 1999



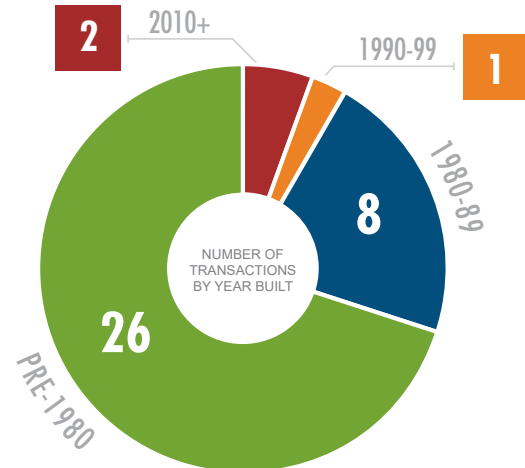
The Dylan
Oceanside, 208 Units | \$57,100,000
\$274,519/Unit | \$287.41/SF | Built 1975

Q1 2019 Transactions by Year Built

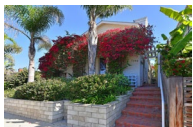
	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	2	\$311K	\$345
2000-09	1	\$271K	\$506
1990-99	1	\$425K	\$460
1980-89	--	--	--
Pre-1980	4	\$199K	\$248

5 - 49 UNIT PROPERTIES

	Q1 2019	INCREASE/DECREASE	Q1 2018
Total Sales Volume	\$163M	-0.5%	\$164M
AVERAGE Price/Unit	\$273,870	+12.7%	\$243,045
AVERAGE Price/SF	\$343.21	+12.2%	\$305.93
AVERAGE Year Built	1972	+4 yrs	1968



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



7299 - 7303 Draper Avenue
La Jolla, 5 Units | \$4,250,000
\$850,000/Unit | \$531.25/SF | Built 1986



Charlee Lofts
San Diego, 10 Units | \$5,700,000
\$570,000/Unit | \$552.33/SF | Built 2017

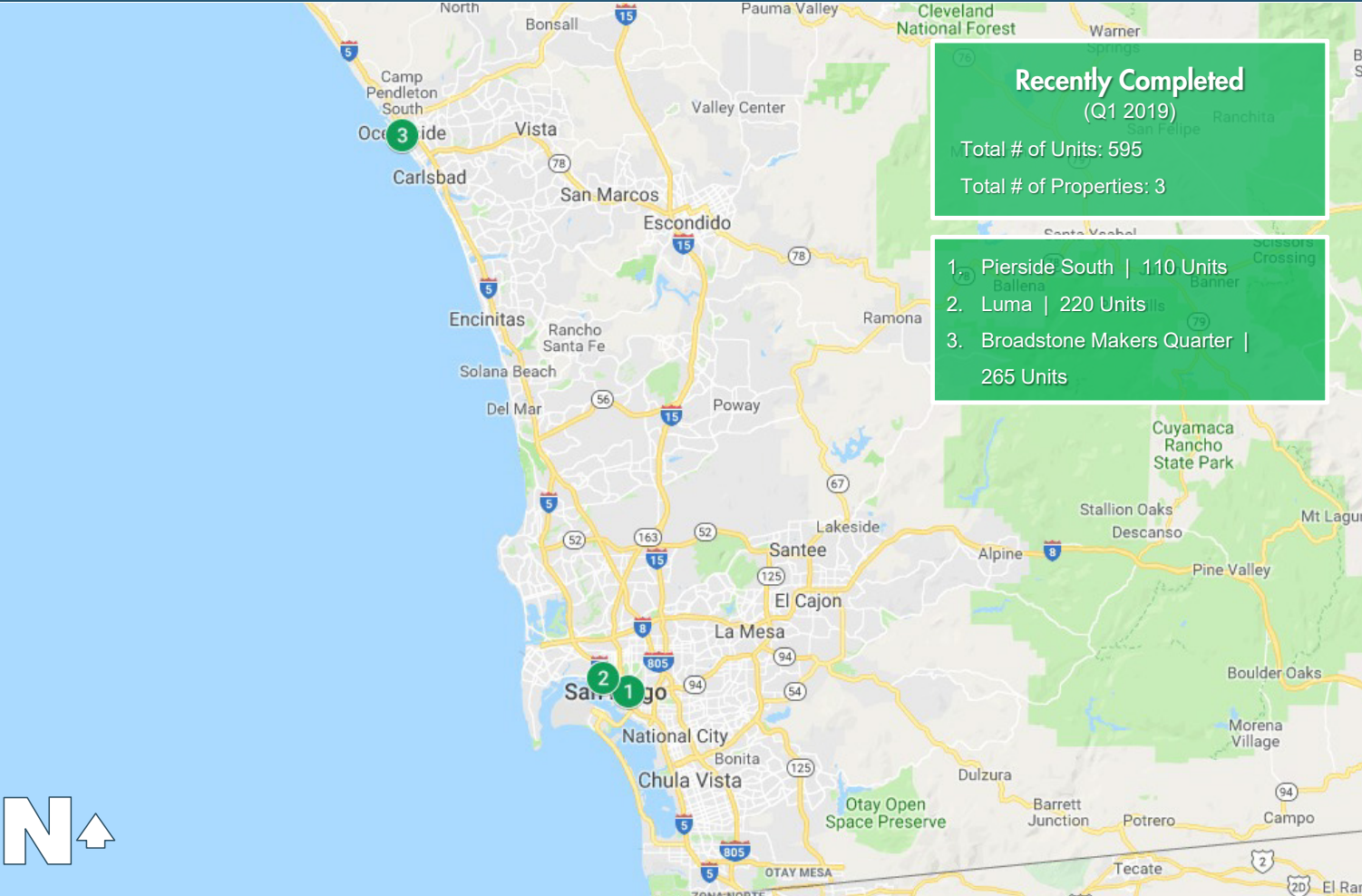


La Jolla Courtyard
La Jolla, 11 Units | \$5,665,000
\$515,000/Unit | \$693.14/SF

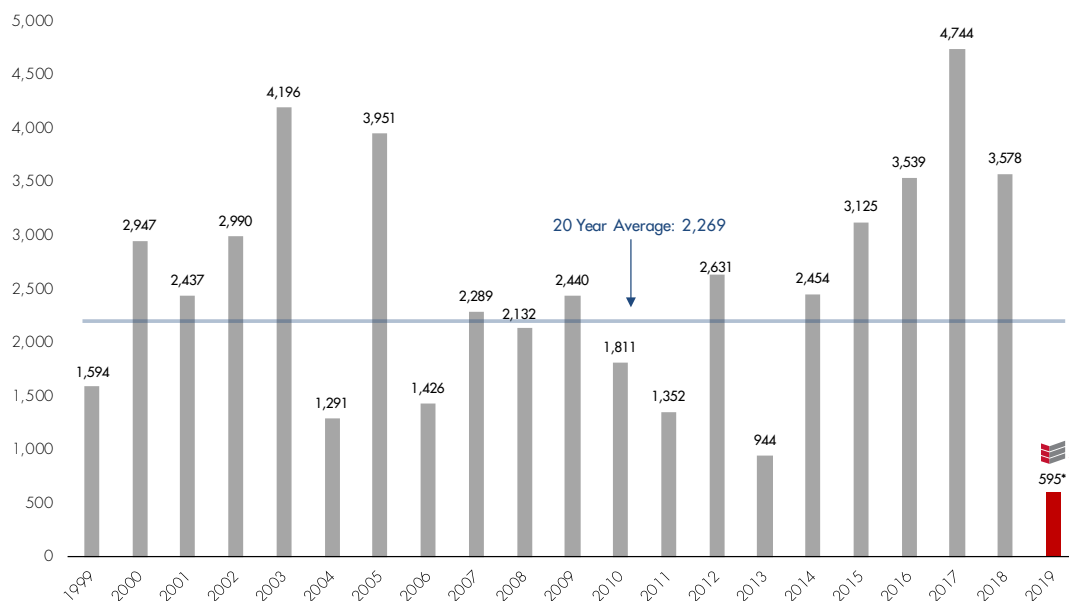
Q1 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	2	\$278K	\$283
2000-09	--	--	--
1990-99	1	\$240K	\$205
1980-89	8	\$315K	\$339
Pre-1980	26	\$248K	\$343

COMPLETED CONSTRUCTION



SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | Q1 2019



TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: 341,350

50+ UNIT PROPERTIES: 114,449

PRE-LEASE ABSORPTION RATE

12

Units/Property/Month (Q1 Avg)

Under Construction

Total # of Units: 8,714

Total # of Properties: 44

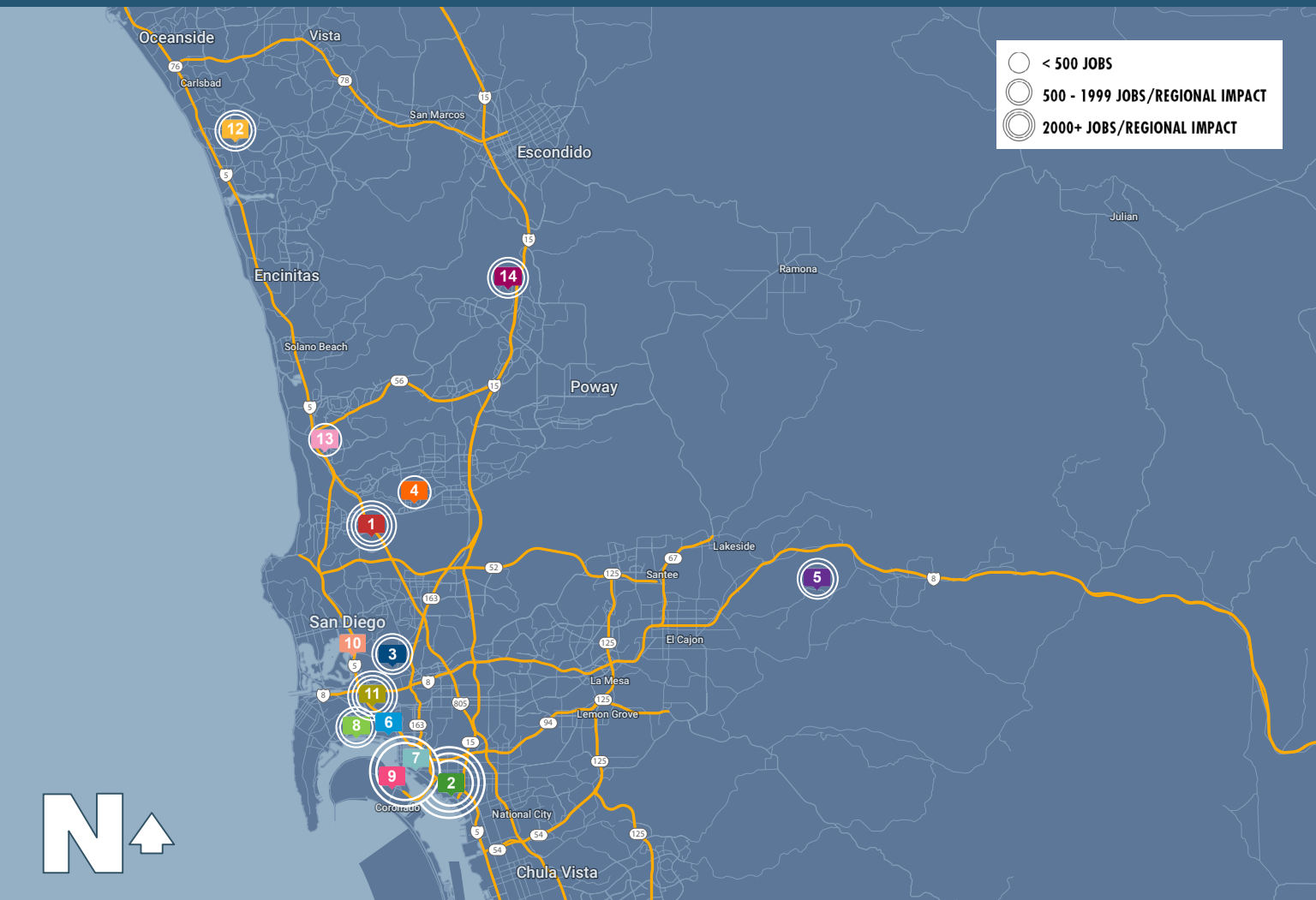
Planned

Total # of Units: 4,267

Total # of Properties: 22

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

ABI GEONEWS: SAN DIEGO MSA - SELECT NEWS



1 Illumina | Illumina Grows SD Footprint with Manufacturing Facility

2 General Dynamics NASSCO | General Dynamics NASSCO hiring up to 1000 jobs

3 Riverwalk | Mission Valley's Riverwalk: Golf Out, 80-Acre Park in Plus 4,000 Homes, Offices, Shops

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

5 Sycuan Casino | Sycuan to Hire More Than 700 Workers

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

7 Cisterra | Ritz Carlton, Whole Foods OK'd for East Village, \$400M highrise to include apartments, condos, offices

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

9 Protea | Protea Waterfront Development Selected to Redevelop Seaport Village

10 San Diego | Proposal for Dense Housing near Stations

11 SANDAG | \$1B Fed Grant to Fund Mid-Coast Trolley Extension new stations in Mission-Pacific Beaches, VAMed Center, UCSD and Genesee Ave

12 City of Escondido | Hospital Deal to Fuel Downtown Escondido Construction Boom

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

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

Regional San Diego | San Diegans Could Face Two Tax Hikes

Regional San Diego | San Diego Multifamily Sales Double

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

Market slowdowns are inevitable at some point, and many thought leaders are projecting the next one could potentially start in the next 18 months — which, coincidentally, is within the general turnaround timeframe for projects in the final planning/construction commencement phase. As a result, many multifamily developers are starting to reconsider the actual ROI of their amenities offerings.

For several years, new community developers and renovation-minded investors have been building and rebuilding multifamily assets with a frantic, frenetic and frenzied eye toward keeping up with the Joneses as far as the latest, greatest and most in-demand amenities all throughout this so-called Decade of the Renter, fueled by shifting demographic mindsets and the market power of the Renter by Choice.

As the boom cycle enters what's likely its final stages before a brief moderation, now is the time to ask: To what degree is amenitization worthwhile, and what's the right balance?

Pickleball:

Essential Offering or Waste of Space?

Full disclosure: I freely admit my contempt for pickleball is irrational. It comes from being saturation bombed as a news editor with announcements that it was/is the coming thing and a nearly essential quality of life value add. While I have no inclination to play the game, I also bear no actual ill will toward its participants, advocates or participatory bodies. (So don't message me about it.)

That said, I think in a lot of cases facility design is a lot like fashion design. Designers come up with an "innovation" because it's fun to create, then shops end up with 200 pairs of bellbottoms (or six pickleball courts) and they have to be marketed as the new "must have" so they don't just sit and languish. As essential as quality design is, left untempered by pragmatic restraint, the field can generate startling feedback loops, thinking it's an [Ouroboros](#) when in reality it's a [Null Set](#).



The most valuable amenities are the ones residents will actually use. Space-occupying, development dollar-hoovering, faddish add-ons like pickleball courts and misted running tracks may look great in the brochure, but are they worth the cost over time for construction and upkeep? In some instances, maybe. As a default, likely not.

If a feature isn't going to be regularly and fully used by a significant percentage of tenants, developers are really just paying for bullet points on the marketing page. Again picking on pickleball, which costs up to \$75,000/per court to build, is that a best use for development **or** marketing dollars?

Putting this column together I read more than three dozen articles and surveys of both owner/developers and tenants. What struck me most, as it always does in these kinds of things, was the disconnect between what's being provided and what's desired by the user.

In order to differentiate themselves, developers and designers have gone hog wild with amenitization, including everything from meditation rooms, mini-soccer fields, putting greens and sky gardens into their projects. At the same time, they have been quietly adjusting layouts and floorplans to cut the square footage of living space to save on materials and labor costs. That seems more than just a little bit backward.

San Diego Market Metrics:

By the Numbers

From the amenity-saturated to the barebones, the San Diego market had an interesting First Quarter.

For 5-49 unit properties, Q1 saw \$163M in transaction volume, a 0.5% Year-over-Year decrease from Q1 2018. In the 50+ unit category, Q1 took in \$528M, a whopping 715.8% jump from 2018.

Average Price-Per-Unit amounts were solid, rising 12.7% YoY to \$273,870 for 5-49 units, and 37.7% to \$273,517 for 50+. These translated to an Average Price/SF of \$343.21 in 5-49 (up 12.2%) and \$340.15 (up 52.2%) in 50+.

Inventory age got newer, with Average Year Built for 5-49 being 1972, compared to 1968 for Q1 last year. For 50+, the Average Year Built was 1986, or eight years newer.

The market's occupancy rate remained high. Q1 occupancy for 5+ units was 95.9%, a dip of 0.5% Y-o-Y. Average rent was \$1,940, up \$77 from Q1 2018.

San Diego MSA demographics continued to look positive. The Census estimate of total population was 3,337,685. The

unemployment rate finished at 3.7%, according to February's Bureau of Labor Statistics numbers.

Median Household Income was \$70,588, and Per Capita Income came in at \$34,350.

In the realm of new construction for 50+ unit properties, 595 units were delivered across three projects. Current projections show 4,267 total units in the Planning stages across 2 properties. A total of 8,714 units were listed as Under Construction in 44 properties.

Pre-lease absorption was solid across the region at a rate of 12 units/property/month.

Total Unit Inventory for 50+ came in at 114,449.

If You Build it They Will Come.

Build it Right and They Will Stay

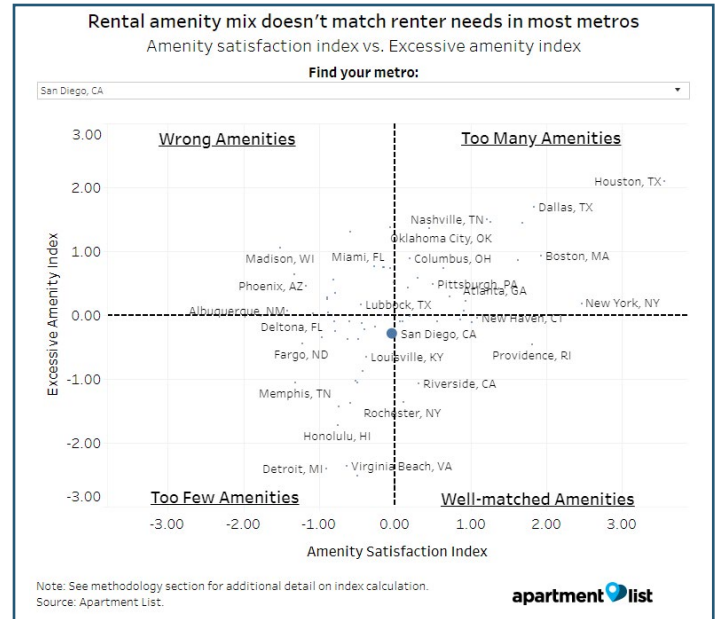
Of course there are, "Essential," "Nice-to-have," and, "What were you thinking?" classes of amenities. Not surprisingly, because they have become so standard over the past 40 years, swimming pools and fitness centers rate highly on the "essential" scale among surveys of prospective tenants, even though they have consistent usage rates of less than 10%.

Even on these default-standard offerings, I have to call shenanigans on this. When you're looking at markets where 6% describes both the maximum average vacancy and minimum average YoY rent growth, only active infestations of mutant rats hauling carts of demonically possessed cockroaches launching balls of asbestos steeped in anthrax actually warrant an 80%+ "deal killer" score.

Meanwhile, actual residents are looking for things like package delivery centers, apps that manage paying rent and scheduling maintenance/work orders, facility-wide network/cellular connectivity, customizable keyless entry, and open spaces with designated dog-friendly areas.

Some designers and developers are trying to create and deliver [Adnan Khashoggi's yacht](#), whereas residents really just want a well-appointed hybrid Honda Accord — an ultra-reliable and well, but not ridiculously well, apportioned space — to meet their daily living needs.

A recent post on Apartment List's "Rentonomics" page offered up a great example, charting whether multifamily spaces in markets across the country had too many, too few, well matched or wrong amenities for renters' needs. In Phoenix and Tucson, the amenities came up wrong. In Sacramento, they were too few. Only San Diego had an apparent Goldilocks formula, landing mostly on the line between too few and well matched.



Perhaps the greatest example centers around one obvious quality of living value-add. Nationally, 87 percent of renters want it, according to multiple surveys, but only 13 percent of communities have it as a standard feature, according to Apartment List. It's not pickleball. It's not surround-sound equipped digital theaters. It's not an onsite car wash, and it's certainly not a rooftop water park.

It's in-unit washers and dryers. The national spread between desired by tenants and offered by properties is -40%. The gap in Phoenix is a whopping -53%. In Tucson it's -48%. Sacramento comes in at -48%, and San Diego is at -44%.

Forget zipline courses, adventure rooms, performance stages and artist-in-residence programs. If you want to keep tenants happy, let them pay their rent with the push of a button, pick up their Prime packages on the way to their units, open their door without fumbling for a key, buzz in visitors from their phone, and wash their bellbottoms without leaving the comfort of their globally connected homes.

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ABI COMPARATIVE MARKET REVIEW: Q1 2019



SAN DIEGO

PHOENIX

TUCSON

SACRAMENTO

DEMOGRAPHICS

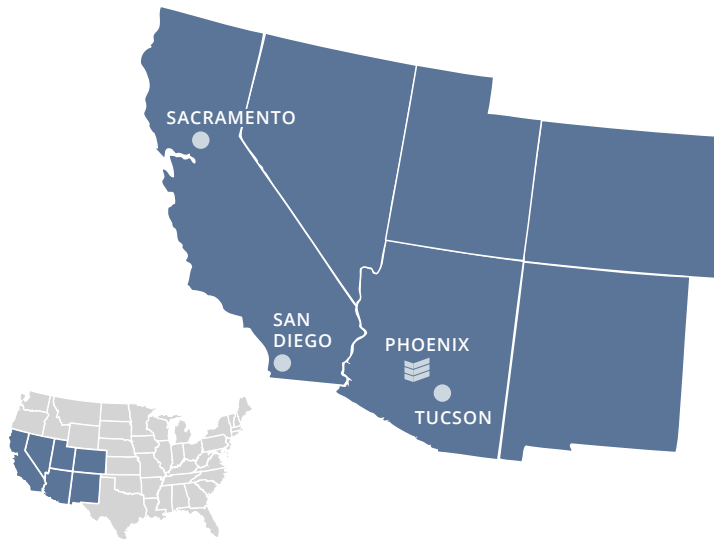
RENT/OCC/CONST (50+)

SALES (50+)

Total Population	3,337,685	4,737,270	1,026,099	2,296,418
Unemployment Rate (as of Mar '19)	3.7%	4.2%	4.4%	4.1%
Employment Growth (y-o-y)	1.4%	2.8%	1.4%	2.8%
Median HH Income	\$70,588	\$57,935	\$48,676	\$62,813
Per Capita Income	\$34,350	\$29,542	\$27,323	\$51,370
Rent (Q1 2019)	\$1,940	\$1,131	\$879	\$1,478
% Increase / Decrease	+4.1%	+8.4%	+6.9%	+5.6%
Occupancy (Q1 2019)	95.9%	95.2%	94.6%	96.3%
% Increase / Decrease	-0.5%	+0.1%	+0.4%	-0.1%
Total Inventory (50+)	226,901	314,191	69,262	146,013
Total Under Construction (50+)	8,714	14,372	939	3,646
Units Delivered (50+, Q1 2019)	595	2,521	290	126
Total Sales Volume (Q1 2019)	\$528M	\$2.04B	\$184M	\$102M
y-o-y % Increase / Decrease	+715.8%	+71.6%	+40.7%	-69.5%
Average P/U (Q1 2019)	\$273,517	\$152,659	\$125,306	\$119,606
y-o-y % Increase / Decrease	+37.7%	+7.5%	+111.7%	-11.9%

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