

SAN DIEGO MSA | MULTIFAMILY | Q2 2019 REPORT

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5+ UNIT PROPERTIES	Q2 2019	INCREASE/DECREASE	Q2 2018
Total Sales Volume	\$465M	-28.6%	\$651M
AVERAGE Price/Unit	\$288,310	+0.3%	\$287,396
AVERAGE Price/SF	\$366.85	+7.3%	\$341.81
AVERAGE Year Built	1971	+3 Yrs	1968
Average Rent	\$1,979	+3.5%	\$1,912
Occupancy Rate	96.2%	-0.4%	96.6%
Units Delivered	362	-60.2%	910

ABI GEONEWS: SAN DIEGO MSA - SELECT NEWS

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San Diego Developers Wonder When Boom Time Will End



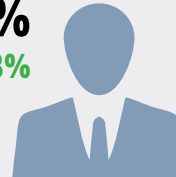
Hundreds of Homes to Replace Old Downtown Hospital in Escondido



Largest Apartment Project yet Opens in Downtown San Diego

3,337,685  **POPULATION**
CENSUS

3.3%
+0.3%



UNEMPLOYMENT
Q-Q AS OF JUNE 2019 - BLS

1.7%



EMPLOYMENT GROWTH
Y-O-Y AS OF JUNE 2019 - BLS

\$70,588



MEDIAN HH INCOME
CENSUS

\$34,350



PER CAPITA INCOME
CENSUS

8,717
Units (50+)



UNDER CONSTRUCTION
YARDI

279,668
Units (5+)



TOTAL INVENTORY
AS OF JUNE 2019 - YARDI

SAN DIEGO MSA - PER CITY ANALYSIS

SAN DIEGO MSA QUICK STATS	UNEMPLOYMENT RATE	MEDIAN HH INCOME	PER CAPITA INCOME	50+	
				TOTAL INVENTORY	UNDER CONSTRUCTION
San Diego MSA	3.3%	\$57,935	\$29,542	184,413	8,717
North County Coastal	2.7%	\$52,080	\$31,777	17,730	601
North County Inland	4.5%	\$52,155	\$26,535	29,924	292
East County	5.2%	\$80,306	\$56,794	25,032	97
South Bay	4.3%	\$51,829	\$28,602	29,179	599
Metro San Diego	3.8%	\$49,383	\$23,496	90,611	5,821

SAN DIEGO MSA - PER SUBMARKET ANALYSIS

RENT & OCCUPANCY STATS

	North County Coastal	North County Inland	East County	South Bay	Metro San Diego
Average Rent (Q2 2019)	\$2,031	\$1,797	\$1,640	\$1,810	\$2,215
% Change (y-o-y)	+5.1%	+4.2%	+3.7%	+1.5%	+3.1%
Occupancy Rate (Q2 2019)	96.9%	96.3%	96.9%	96.7%	96.0%
% Change (y-o-y)	+0.7%	0.0%	-0.3%	-0.4%	-0.4%
Units Delivered (Q2 2019, 50+)	--	--	--	309	--

SALES DATA (50+)

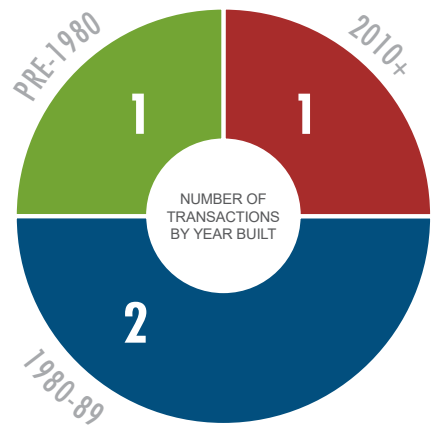
Total Sales Volume (Q2 2019, 50+)	\$0	\$0	\$40,225,666	\$14,200,000	\$149,000,000
Total Sales Volume (Q2 2018, 50+)	\$40,200,000	\$115,000,000	\$38,400,000	\$35,000,000	\$229,750,000
% Change (y-o-y)	--	--	+4.8%	-59.4%	-35.1%
Avg P/U (Q2 2019, 50+)	\$0	\$0	\$217,436	\$258,182	\$398,396
Avg P/U (Q2 2018, 50+)	\$300,000	\$366,242	\$185,507	\$360,825	\$317,773
% Change (y-o-y)	--	--	+17.2%	-28.4%	+25.4%

SALES DATA (5-49)

Total Sales Volume (Q2 2019, 5-49)	\$19,602,500	\$10,455,500	\$40,620,000	\$19,619,000	\$171,033,591
Total Sales Volume (Q2 2018, 5-49)	\$9,813,000	\$12,856,309	\$24,764,000	\$8,778,408	\$136,391,000
% Change (y-o-y)	+99.8%	-18.7%	+64.0%	+123.5%	+25.4%
Avg P/U (Q2 2019, 5-49)	\$311,151	\$213,378	\$211,563	\$198,172	\$287,451
Avg P/U (Q2 2018, 5-49)	\$265,216	\$153,051	\$206,367	\$175,568	\$273,329
% Change (y-o-y)	+17.3%	+39.4%	+2.5%	+12.9%	+5.2%

50+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q2 2019	INCREASE/DECREASE	Q2 2018
Total Sales Volume	\$203M	-55.6%	\$458M
AVERAGE Price/Unit	\$331,312	+6.6%	\$310,746
AVERAGE Price/SF	\$420.52	+19.7%	\$351.32
AVERAGE Year Built	1988	-3 Yrs	1991



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Hanover Mission Gorge
San Diego, 374 Units | \$149,000,000
\$398,396/Unit | \$477.67/SF | Built 2018



Vista Pacific Villas
Chula Vista, 55 Units | \$14,200,000
\$258,182/Unit | \$271.77/SF | Built 1981



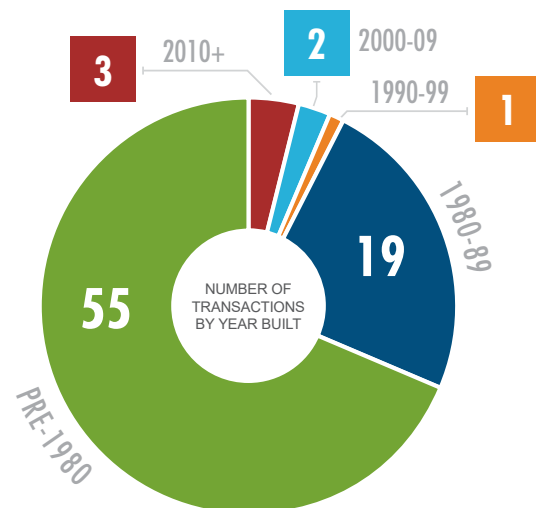
Heritage
El Cajon, 56 Units | \$12,950,000
\$231,250/Unit | \$298.66/SF | Built 1972

Q2 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$398K	\$477
2000-09	--	--	--
1990-99	--	--	--
1980-89	2	\$225K	\$323
Pre-1980	1	\$231K	\$299

5 - 49 UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q2 2019	INCREASE/DECREASE	Q2 2018
Total Sales Volume	\$261M	+35.7%	\$193M
AVERAGE Price/Unit	\$261,854	+7.4%	\$243,801
AVERAGE Price/SF	\$333.69	+3.9%	\$321.13
AVERAGE Year Built	1971	+6 Yrs	1965



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



981 Coast Blvd
La Jolla, 9 Units | \$12,600,000
\$1,400,000/Unit | \$1,939.06/SF | Built 1955



6177 El Tordo
Rancho Santa Fe, 5 Units | \$5,100,000
\$1,020,000/Unit | \$737.95/SF | Built 1989

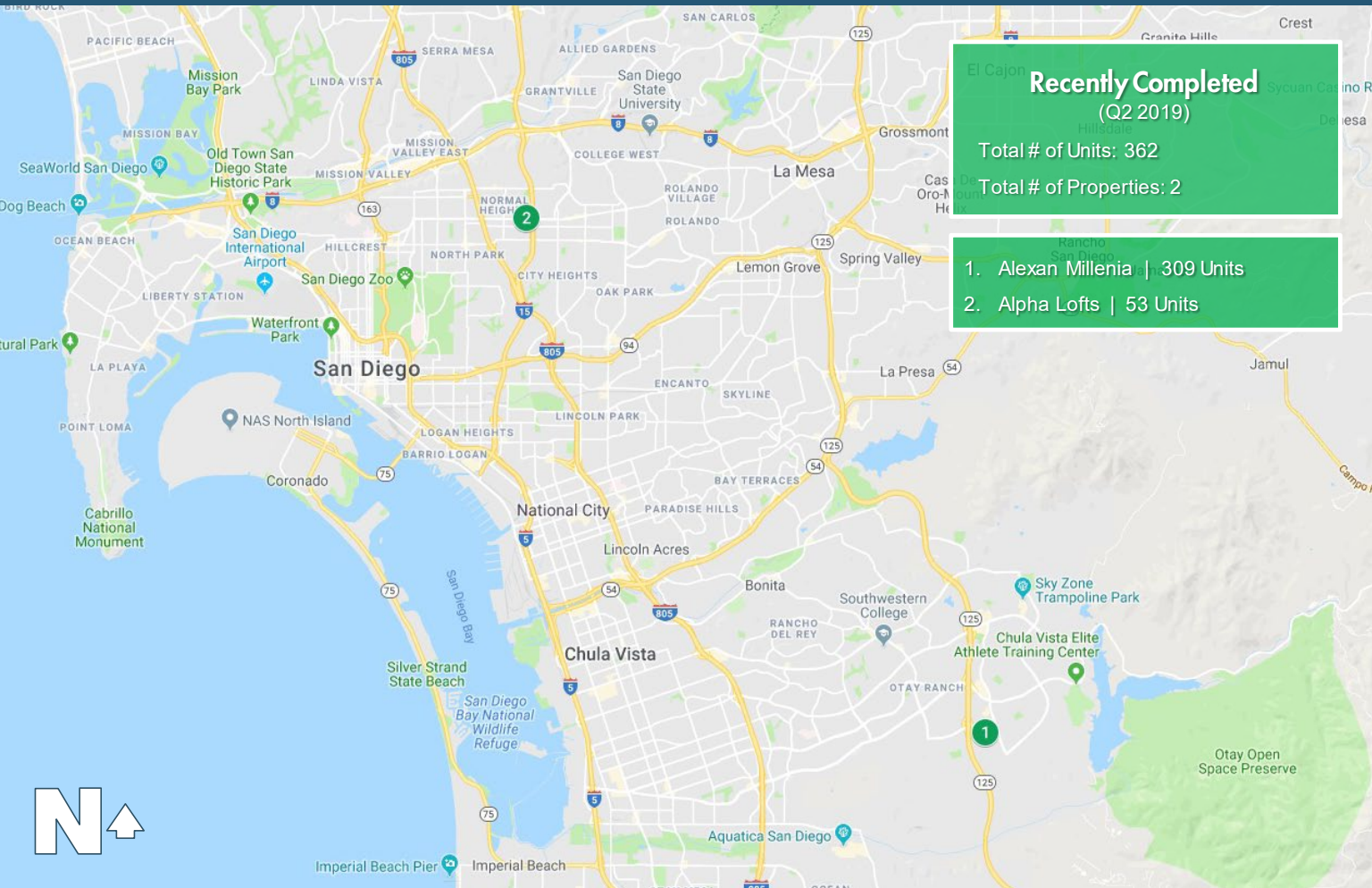


157 D Avenue
San Diego, 8 Units | \$4,100,000
\$512,000/Unit | \$756.46/SF | Built 1968

Q2 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	3	\$346K	\$314
2000-09	2	\$262K	\$307
1990-99	1	\$219K	\$278
1980-89	19	\$231K	\$302
Pre-1980	55	\$272K	\$355

COMPLETED CONSTRUCTION

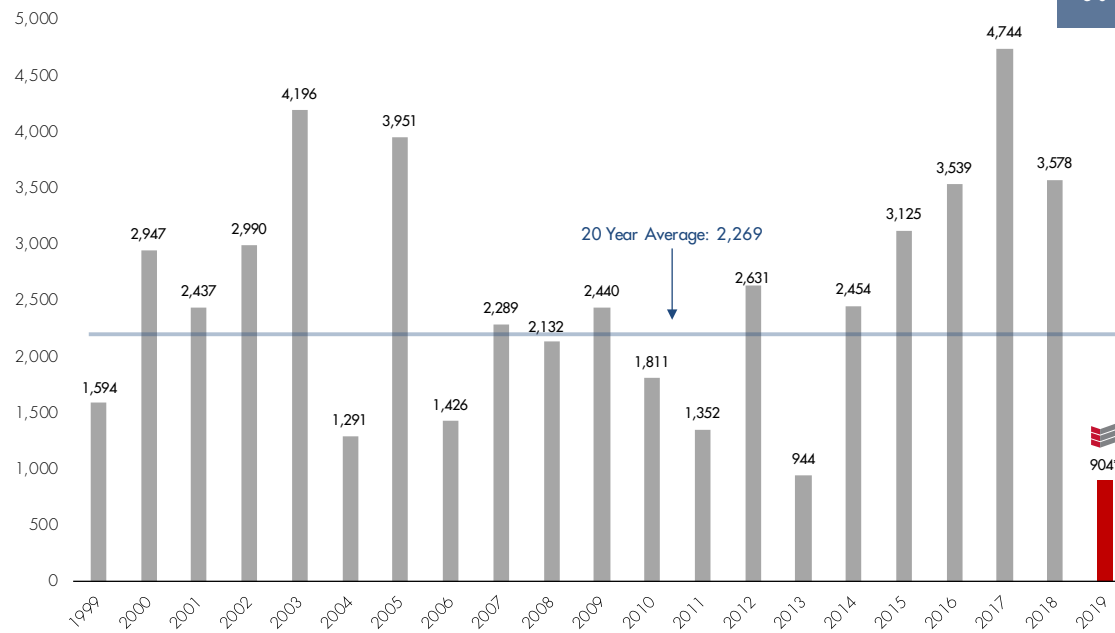


Recently Completed
(Q2 2019)
Total # of Units: 362
Total # of Properties: 2

1. Alexan Millenia | 309 Units
2. Alpha Lofts | 53 Units



SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE Q2 2019



TOTAL UNIT INVENTORY
5+ UNIT PROPERTIES: 279,668
50+ UNIT PROPERTIES: 184,413

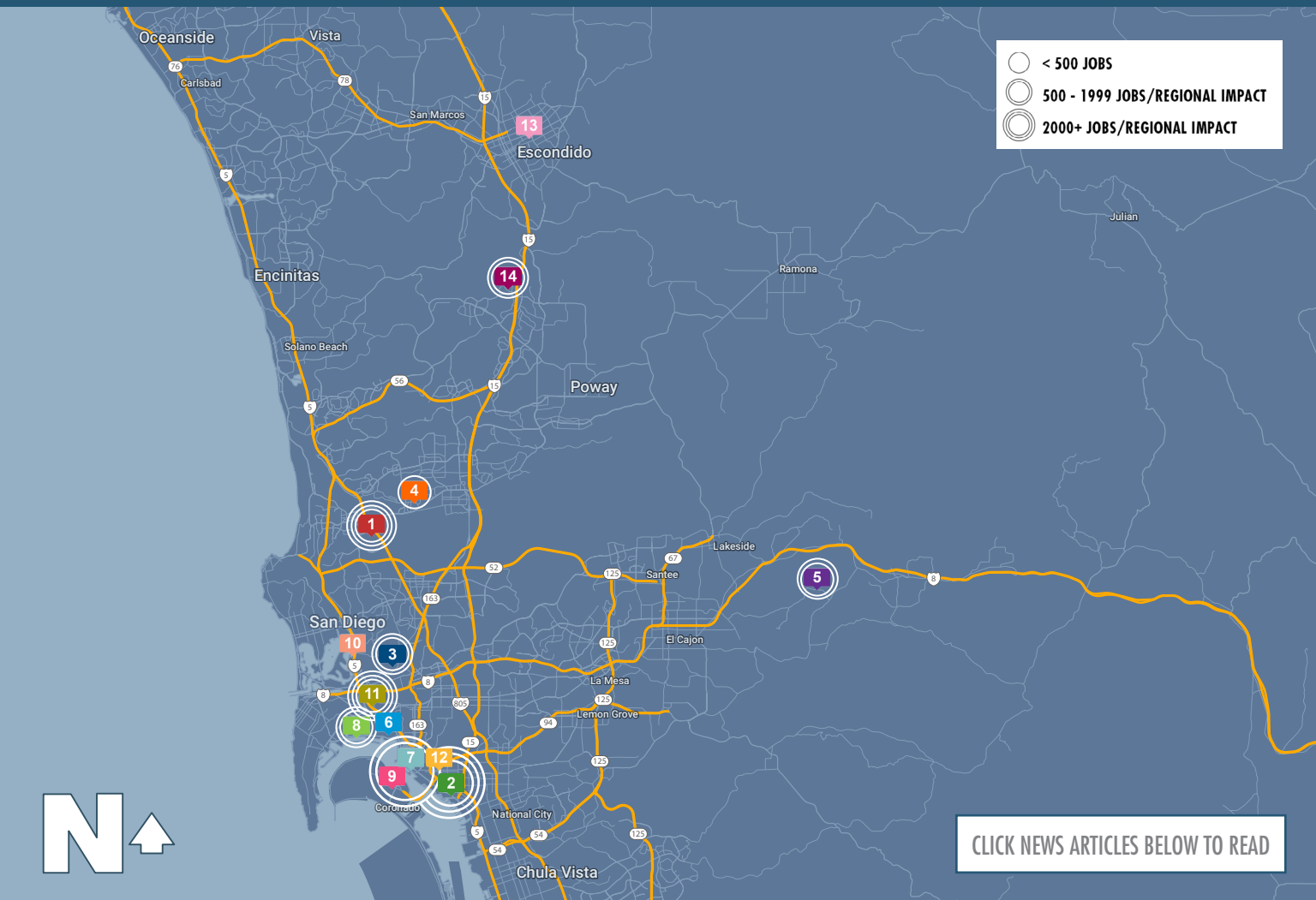
PRE-LEASE ABSORPTION RATE
18
Units/Property/Month
(Q2 2019 Avg)

Under Construction
Total # of Units: 8,717
Total # of Properties: 43

Planned
Total # of Units: 8,085
Total # of Properties: 39

* 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 **San Diego** | Largest Apartment Project yet Opens in Downtown San Diego

13 **City of Escondido** | Hundreds of Homes to Replace Old Downtown Hospital in Escondido

Regional **San Diego** | San Diego Developers Wonder When Boom Time Will End

Regional **San Diego** | San Diegans Could Face Two Tax Hikes

Regional **San Diego** | San Diego Multifamily Sales Double

BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

Going into 2019, pundits, prognosticators and trend data purveyors were cautiously hedging their bets and warning everyone to be on the lookout for a fairly boring year. “Like 2018, but more so,” was about as far as most would stick their necks out. But many warned that recessionary horrors lay just beyond the horizon.

For the first most part, they’ve been proven right. There was a little excitement when the Fed started moving on raising interest rates, but the resulting panic in the stock market disco was more extreme than when John Travolta’s polyester suit caught fire. (The movie edit that plays in my head is a lot more interesting than the one you saw on the screen.) As a result, Big Money Dance Off continues.

Here be Dragons

Legend has it that back in the old days of exploration and cartography, mapmakers, when they ran out of known coastlines and features, would throw in a fanciful drawing of a hideous beast, label the region in question with, “Here be Dragons,” and go on about their business.

With the longest recovery in history now clocking in at 120 months-plus, the economic and market analytics punditry are well into uncharted territory these days. As a result, the warnings of impending dragon attack and/or sky collapse are pinging around like happy little neutrons at Chernobyl in April of ’86.

Give them long enough, and they’ve gotta smack into something, right? And since everything has been so good for so long, that’s gotta mean disaster is looming, right?

No. Despite predictions of dragons, leviathan, kraken, various sea serpents and even Cthulhu itself, the multifamily market waters remain enchantingly navigable.



San Diego Market Metrics:

By the Numbers

Rounding the Horn of Q2 and sailing into the Second Half, the San Diego market continues to be interesting, if neither thrilling nor concerning.

For 5-49 unit properties, Q2 saw a transaction volume of more than \$261 Million, which represented an impressive nearly 36% Year-over-Year increase from Q2 2018. In the 50+ unit category, however Q2 brought in just 203.4 Million, dropping 55.6% over 2018.

Average Price-Per-Unit amounts were up in both segments. 5-49 rose 7.4% Y-o-Y to \$261,854, and 50+ increased 6.6% to 331,312. These translated to an Average Price/SF of \$333.69 in 5-49 (up 3.9%) and \$420.52 (up 19.7%) in 50+.

Inventory age shifted slightly Year-over-Year, with Average Year Built for 5-49 being 1971, versus 1965 for the same quarter last year. Average Year Built in 50+ was 1988, compared to 1991 in 2018.

The market’s occupancy rate remained high. Q2 occupancy for 5+ units was 96.2%, a slight dip of 0.4% Y-o-Y. Average rent was \$1,979, up 3.5% (\$67) from Q2 2018.

San Diego MSA demographics continued their solid trends. The Census estimate of total population was 3,337,685. The unemployment rate finished the quarter at 3.3%, according to 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, only 362 units were delivered at two projects, bringing the year-to-date count to 957 units. An estimated 8,085 units are in the Planning stages across 39 properties. A total of 8,717 units were listed as Under Construction in 43 properties.

Pre-lease absorption rates are still high across the region at a rate of 16 units/property/month.

Total Unit Inventory for 5+ properties was 279,668, and 50+ came in at 184,413.

Across the MSA, 50+ unit inventories by submarket were:

- North County Coastal: 17,730
- Inland County Coastal: 29,924
- East County: 25,032
- South Bay: 29,179
- Metro San Diego: 90,661

Portents of DOOM!

Unless you're Kevin Bacon at the end of "Animal House", you're not going to get a lot of attention by saying, "Remain calm. All is well."

As a result, a couple different things happen. Either pundits obsess about single data points or unusual deviations in order to justify their air time or column space, or outlets take the one cautionary item in a report that's mostly sunshine, lollipops and rainbows and make that their clarion call.

There are too many examples of the former to count, much less critique, so I'll use an example of the latter as a case study. A recent dire and eye-catching headline in Multi-Housing News read: "[JPMorgan Chase's Head of CRE: Prepare for a Correction.](#)"

Now, when Al Brooks is warning you to duck and cover, you pay attention. The thing is, though, Brooks' responses in the Q&A that made up the bulk of the article were almost all pretty low key and upbeat.

Asked right off the bat about the biggest challenges facing multifamily, Brooks warned one of the biggest issues at the moment is the increasing need to build a higher number of affordable units in major markets, a common theme that's been raised for years, including in multiple past editions of this report.

In all the other questions, save one (sorta), Brooks' comments paint the picture of a healthy market with low vacancy, highly available capital, excellent adoption of new tech to streamline processes and a range of other positives that generally reinforce a justifiably confident outlook for CRE in general and multifamily in particular.

The only even remotely cautionary comment he made was in response to a question concerning what risks lenders need to be aware of given current conditions.

Brooks is quoted as saying: "The multifamily segment continues to see activity in major markets. However, commercial real estate developers and investors should be prepared for a future correction. Although the multifamily segment is benefiting from lower rates and a strong economy, it's important to maintain a fortress balance sheet for the long term and be ready for anything in a changing and uncertain marketplace."

That's it. Don't put all your eggs in one basket and, remember, anything can happen.



But What About the Fed?!

As much as I don't like to talk about the Federal Reserve and monetary policy, only because such discussions tend to go down the rabbit hole of quasi-alchemistic arcania moments after the thesis statement is uttered, this time around it warrants a brief mention.

In the second half of 2018 the Fed pulled up its Big Kid underpants and moved to reduce its balance sheets and gently nudge up interest rates. Shortly thereafter, in what looked for all the world like an orchestrated tantrum, the stock market lost its metaphorical mind.

Trying to remove the flailing rugrat from the cereal aisle, where it was causing an embarrassing scene, and get it into the mini-van, Chairman Powell and Company backed off and chose to leave rates at 2.5 percent at the end of the year, even promising a cookie in the form of a new rate cut if the market behaved. Thrilled the bad behavior worked, stocks on major indices broke records and Treasury yields dropped.

One of the harbingers of doom some were forecasting due to the Fed's earlier assertive policy announcement was that commercial real estate prices were going to get pushed downward. Well, rack up another missed opportunity for correct tea leaf interpretation. Since the Fed was beaten back, CRE remains one of the few investment types to continue generating appreciable returns and cash flow.

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ABI COMPARATIVE MARKET REVIEW: Q2 2019



SAN DIEGO

PHOENIX

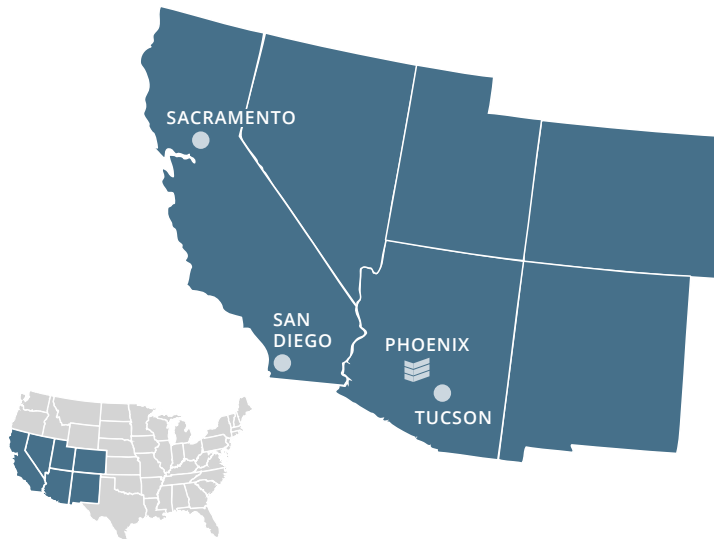
TUCSON

SACRAMENTO

	SAN DIEGO	PHOENIX	TUCSON	SACRAMENTO	
DEMOGRAPHICS	Total Population	3,337,685	4,737,270	1,026,099	2,296,418
	Unemployment Rate (as of June 2019)	3.3%	4.6%	5.0%	3.8%
	Employment Growth (y-o-y)	1.7%	3.2%	1.7%	1.8%
	Median HH Income	\$70,588	\$57,935	\$48,676	\$67,902
	Per Capita Income	\$34,350	\$29,542	\$27,323	\$33,548
RENT/OCC/CONST (50+)	Rent (Q2 2019)	\$1,979	\$1,163	\$891	\$1,517
	% Increase/Decrease	+3.5%	+8.8%	+7.2%	+6.0%
	Occupancy (Q2 2019)	96.2%	95.6%	94.7%	96.4%
	% Increase/Decrease	-0.4%	+0.4%	+0.3%	NO CHANGE
	Total Inventory (50+)	184,413	305,359	66,759	129,505
SALES (50+)	Total Under Construction (50+)	8,717	14,192	969	3,550
	Units Delivered (50+, Q2 2019)	362	1,112	0	186
	Total Sales Volume (Q2 2019)	\$203M	\$1.86B	\$87M	\$247M
	y-o-y % Increase/Decrease	-55.6%	+29.9%	-64.1%	NO CHANGE
	Average P/U (Q2 2019)	\$331,312	\$156,564	\$72,963	\$167,814
y-o-y % Increase/Decrease	+6.6%	+0.8%	-15.8%	+4.6%	

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