

## SAN DIEGO MSA | MULTIFAMILY | Q3 2019 REPORT

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5+ UNIT PROPERTIES		Q3 2019	INCREASE/DECREASE	Q3 2018
<b>Total Sales Volume</b>		<b>\$620M</b>	<b>+34.6%</b>	<b>\$460M</b>
A V E R A G E	<b>Price/Unit</b>	<b>\$239,125</b>	<b>+23.7%</b>	<b>\$193,383</b>
	<b>Price/SF</b>	<b>\$307.70</b>	<b>+35.7%</b>	<b>\$226.71</b>
	<b>Year Built</b>	<b>1968</b>	<b>+1 Yr</b>	<b>1967</b>
<b>Average Rent</b>		<b>\$1,840</b>	<b>+3.0%</b>	<b>\$1,786</b>
<b>Occupancy Rate</b>		<b>95.5%</b>	<b>No Change</b>	<b>95.5%</b>
<b>Units Delivered</b>		<b>549</b>	<b>-43.7%</b>	<b>975</b>

### ABI GEONEWS: SAN DIEGO MSA - SELECT NEWS

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San Diego Faces More Housing, Transportation and Infrastructure Problems



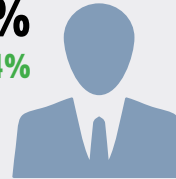
SD Home Prices Down Annually for 1st Time in Seven Years



New TOC Project Addresses San Diego's Housing Crisis

**3,370,979**  **POPULATION**  
COSTAR

**2.7%**  
**+0.4%**



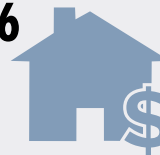
**UNEMPLOYMENT**  
Q-0-Q AS OF SEP 2019 - BLS

**2.1%**



**EMPLOYMENT GROWTH**  
Y-0-Y AS OF SEP 2019 - BLS

**\$82,786**



**MEDIAN HH INCOME**  
COSTAR

**\$34,350**



**PER CAPITA INCOME**  
CENSUS

**7,810**  
Units (50+)



**UNDER CONSTRUCTION**  
COSTAR

**346,538**  
Units (5+)



**TOTAL INVENTORY**  
AS OF JUNE 2019 - COSTAR

# 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	2.7%	\$82,786	\$34,350	231,916	7,810
North County Coastal	2.7%	\$52,080	\$31,777	27,469	0
North County Inland	4.5%	\$52,155	\$26,535	38,255	309
East County	5.2%	\$80,306	\$56,794	20,841	0
South Bay	4.3%	\$51,829	\$28,602	33,275	204
Metro San Diego	3.8%	\$49,383	\$23,496	103,961	7,297

## SAN DIEGO MSA - PER SUBMARKET ANALYSIS

### RENT & OCCUPANCY STATS

	North County Coastal	North County Inland	East County	South Bay	Metro San Diego
Average Rent (Q3 2019)	\$1,867	\$1,612	\$1,543	\$1,562	\$1,907
% Change (y-o-y)	+2.5%	+2.7%	+3.3%	+3.2%	+2.6%
Occupancy Rate (Q3 2019)	95.6%	95.8%	96.2%	96.5%	94.8%
% Change (y-o-y)	+1.7%	-0.2%	+0.1%	+0.3%	-0.1%
Units Delivered (Q3 2019, 50+)	0	993	222	211	1664

### SALES DATA (50+)

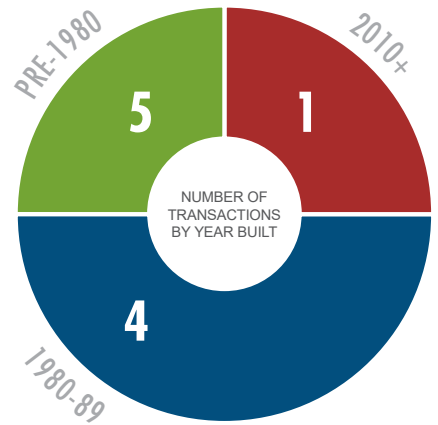
Total Sales Volume (Q3 2019, 50+)	\$66,250,000	\$46,500,000	\$176,350,000	\$12,000,000	\$12,000,000
Total Sales Volume (Q3 2018, 50+)	--	\$30,200,000	\$101,287,974	\$101,187,500	--
% Change (y-o-y)	--	+54.0%	+74.1%	-88.1%	--
Avg P/U (Q3 2019, 50+)	\$276,042	\$215,278	\$263,209	\$109,091	\$75,000
Avg P/U (Q3 2018, 50+)	--	\$187,578	\$168,252	\$160,107	--
% Change (y-o-y)	--	+14.8%	+56.4%	-31.9%	--

### SALES DATA (5-49)

Total Sales Volume (Q3 2019, 5-49)	\$19,238,500	\$37,186,148	\$44,191,999	\$20,344,000	\$185,513,445
Total Sales Volume (Q3 2018, 5-49)	\$30,225,000	\$24,252,600	\$34,504,009	\$17,536,000	\$121,057,500
% Change (y-o-y)	-36.3%	+53.3%	+28.1%	+16.0%	+53.2%
Avg P/U (Q3 2019, 5-49)	\$320,642	\$247,908	\$206,505	\$223,560	\$272,814
Avg P/U (Q3 2018, 5-49)	\$267,478	\$172,004	\$212,988	\$216,494	\$248,069
% Change (y-o-y)	+19.9%	+44.1%	-3.0%	+3.3%	+10.0%

# 50+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q3 2019	INCREASE/DECREASE	Q3 2018
<b>Total Sales Volume</b>	<b>\$313M</b>	<b>+34.6%</b>	<b>\$233M</b>
<b>AVERAGE Price/Unit</b>	<b>\$224,284</b>	<b>+34.5%</b>	<b>\$166,792</b>
<b>AVERAGE Price/SF</b>	<b>\$280.82</b>	<b>+50.2%</b>	<b>\$187.01</b>
<b>AVERAGE Year Built</b>	<b>1981</b>	<b>-6 Yrs</b>	<b>1987</b>



## TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



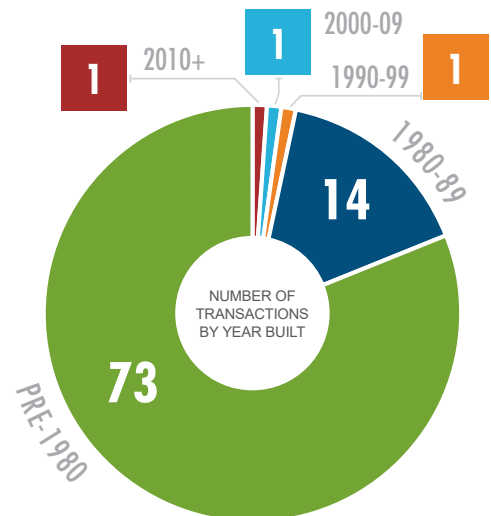
- City Plaza at Escondido**  
Escondido, 55 Units | \$19,750,000  
\$359,091/Unit | \$367.22/SF | Built 2018
- Sunterra**  
Oceanside, 240 Units | \$66,250,000  
\$276,042/Unit | \$302.59/SF | Built 1975
- Lexington Green**  
El Cajon, 144 Units | \$39,700,000  
\$275,694/Unit | \$311.73/SF | Built 1976

## Q3 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$359K	\$367
2000-09	--	--	--
1990-99	--	--	--
1980-89	4	\$216K	\$245
Pre-1980	5	\$220K	\$289

# 5 - 49 UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q3 2019	INCREASE/DECREASE	Q3 2018
<b>Total Sales Volume</b>	<b>\$306M</b>	<b>+34.7%</b>	<b>\$228M</b>
<b>AVERAGE Price/Unit</b>	<b>\$256,464</b>	<b>+11.0%</b>	<b>\$231,041</b>
<b>AVERAGE Price/SF</b>	<b>\$341.22</b>	<b>+17.8%</b>	<b>\$289.57</b>
<b>AVERAGE Year Built</b>	<b>1967</b>	<b>+2 Yrs</b>	<b>1965</b>



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



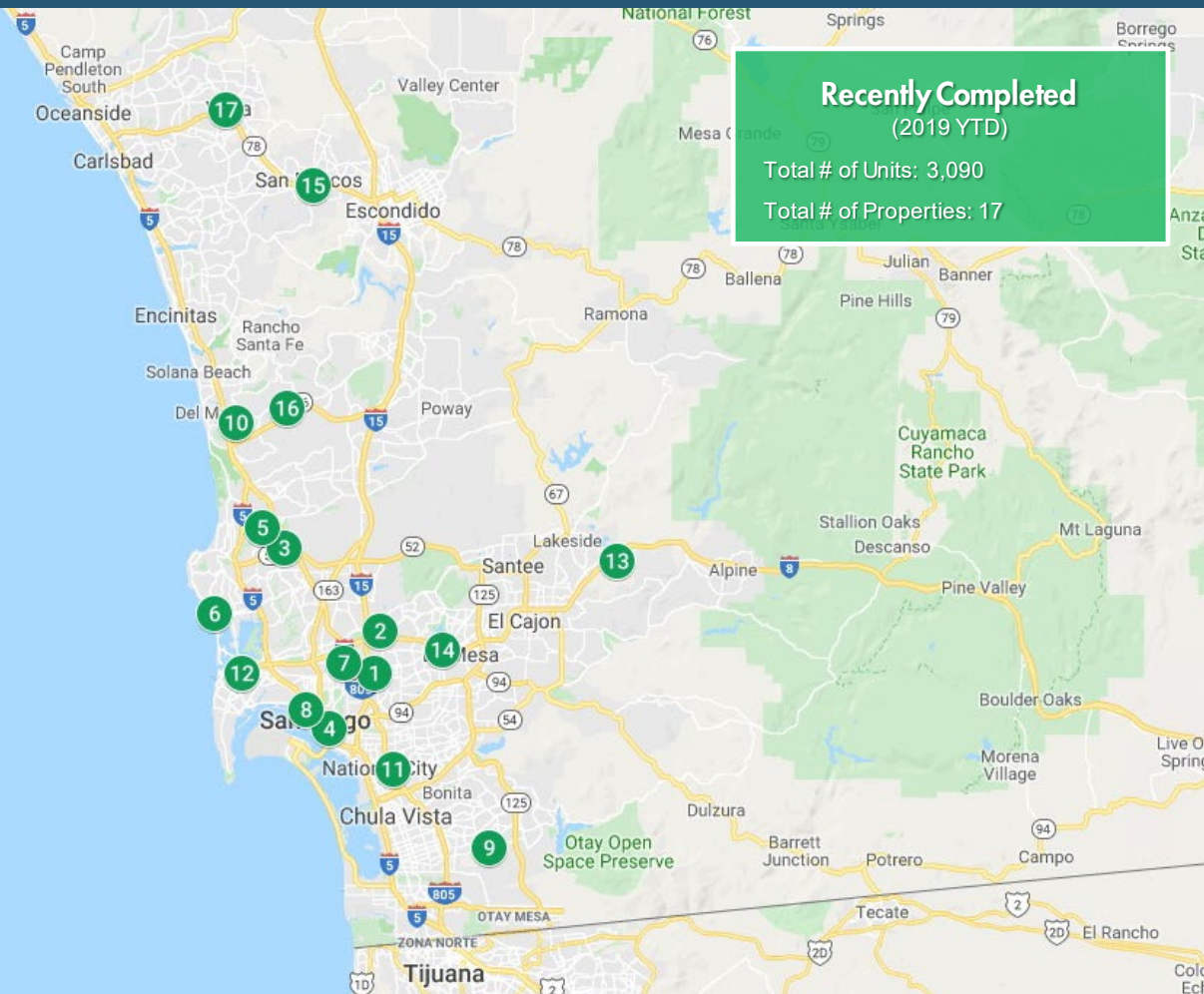
- 2308 Albatross Street**  
San Diego, 7 Units | \$4,000,000  
\$571,429/Unit | \$393.31/SF | Built 1979
- 810 G Avenue**  
Coronado, 6 Units | \$3,200,000  
\$533,333/Unit | \$361.75/SF | Built 1962
- 709 - 715 Missouri Street**  
San Diego, 5 Units | \$2,495,000  
\$499,000/Unit | \$932.71/SF | Built 1952

## Q3 2019 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$287K	\$416
2000-09	1	\$263K	\$217
1990-99	1	\$226K	\$385
1980-89	14	\$241K	\$289
Pre-1980	73	\$258K	\$362



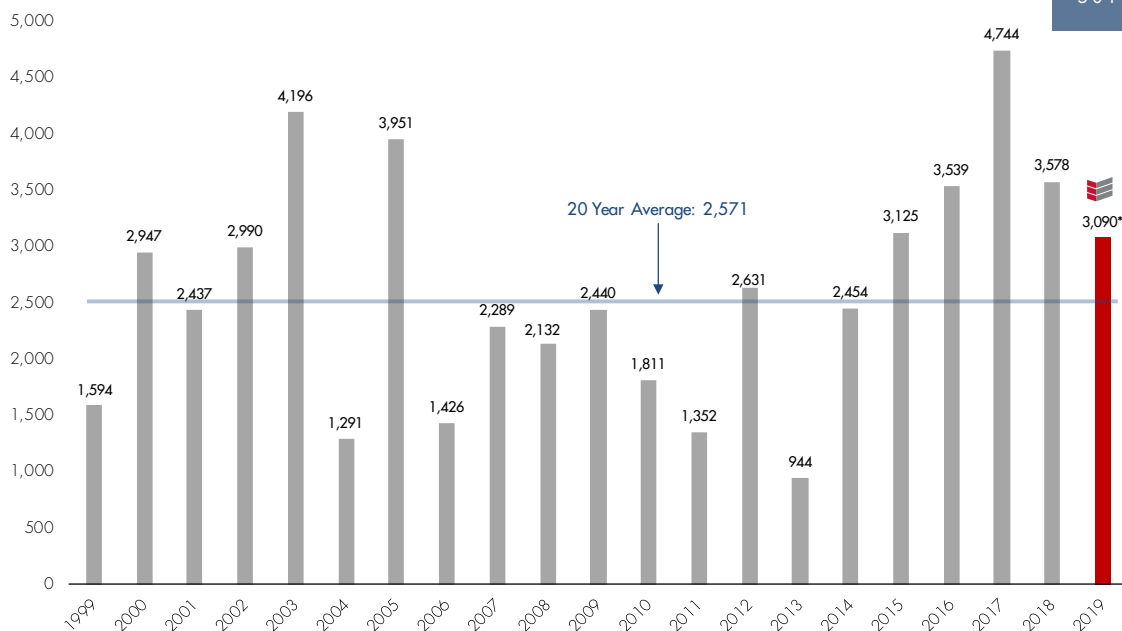
# COMPLETED CONSTRUCTION



**Recently Completed**  
(2019 YTD)  
Total # of Units: 3,090  
Total # of Properties: 17



## SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE Q3 2019



**TOTAL UNIT INVENTORY**  
5+ UNIT PROPERTIES: 346,538  
50+ UNIT PROPERTIES: 231,916

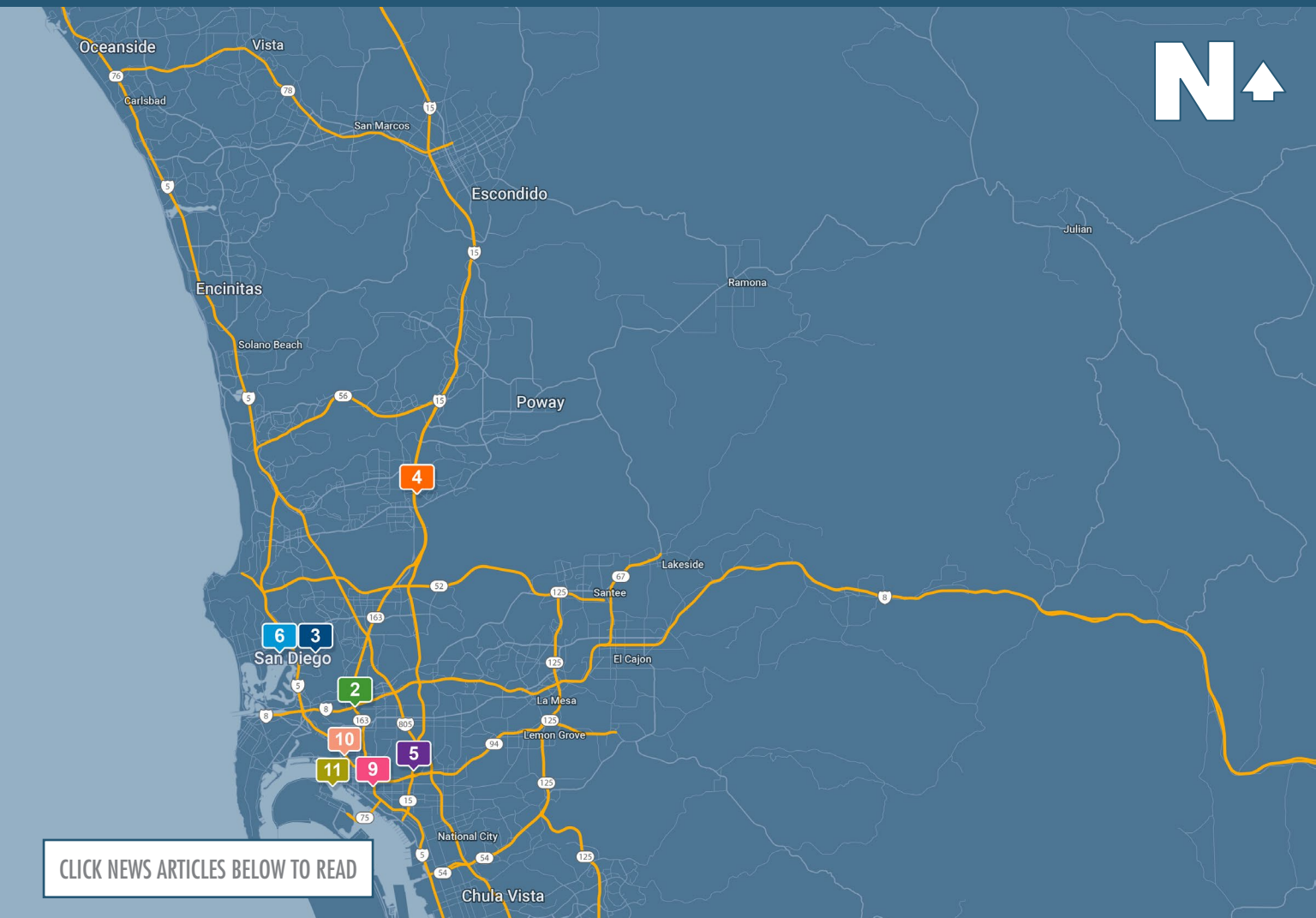
**AVERAGE ABSORPTION**  
372 Units

**Under Construction**  
Total # of Units: 7,810  
Total # of Properties: 31

**Planned**  
Total # of Units: 18,622  
Total # of Properties: 75

\* 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



CLICK NEWS ARTICLES BELOW TO READ

**Regional** **San Diego**  
SD Home Prices Down Annually for 1st Time in Seven Years

**Regional** **Various**  
San Diego Mid-year Housing: Fewer Sales, Rising Prices

**2** **City of San Diego**  
Can Mission Valley Handle 50,000 More Residents

**Regional** **City of San Diego**  
San Diego Loosens Zoning to Encourage Neighborhoods Combining Housing with Jobs

**3** **Protea Properties**  
New TOC Project Addresses San Diego's Housing Crisis

**9** **Pinnacle International**  
Apartment Complex with Separate Low-income Building Denied Approval

**4** **Sudberry Properties**  
Scripps Ranch Business Park is Toast with 260 Luxury Apartments on the Way

**10** **Bridge Housing Corp.**  
County Supervisors OK Lease for Future Affordable Housing Project

**5** **Save 30th Street Parking**  
North Park Residents File Lawsuit over SD Plan to Remove 100s of Parking Spaces

**11** **1HWY1**  
Seaport San Diego Tower is Like Nothing else on California's Coast. That's the Problem

**6** **Protea Properties**  
Is This Bay Park Apartment Complex a Model for Transit Development?

**Regional** **City of San Diego**  
San Diego Faces More Housing, Transportation and Infrastructure Problems



# Busy Times Where to Start?



BY: ROLAND MURPHY, DIRECTOR OF RESEARCH

**A**s a reporter and an analyst, you are always on the lookout for things like riots, fires and mudslides because they're riveting to report and write about.

As someone who actually cares about the areas you cover, you want things to be slow, incremental and even placid.

Q3 gave a fair amount of both and, unusually, did it in all the markets we cover. Following is a quick look at many of the happenings we've been following.

## National Rents

In major markets across the U.S., rent growth has slowed or retreated slightly. While we tend to make a point of trying to ignore analysts who look at nine weeks of data and pretend that's a broad enough set to predict a trend, it does merit discussion.

While certainly not saturating, Class A vacancies have begun to inch up over the last two years in major markets like New York, LA, Washington (D.C.) and Seattle. An interesting quote in the "Emerging Trends in Real Estate® 2020" report noted, "It has largely to do with the finite limits of that more price-elastic group that can tolerate pass-along costs in their monthly rents, versus a far-larger and much faster-growing universe of people whose household incomes set lower rent tolerance levels."

More people are moving out of their parents' basements and moving into their own place, but even people who can afford it are looking at other-than-top-tier properties. As we have noted here repeatedly, that's putting more pressure on availability in Class B and even Class C properties.

In still hot markets like Arizona in general and Phoenix in particular, that's going to have continuing impacts on affordability and continue fueling the drive toward value-add renovations, particularly in the face of labor shortages and land costs in highly desirable submarkets, compared to completing and pressing new unit deliveries into the markets.

## What's Up with California?

California is exceptionally fortunate that it has an economy larger than most developed nations to absorb the scope and breadth of its policy practices, even though it's anyone's guess how long that will remain the case if it continues its business-hostile ways from the past three-plus decades.

Most recently, the state has passed and scheduled a rent control process that has investors worried about what to do next. Short version: Rent growth is capped at 5% per year for properties older than 15 years. That's likely going to gut the renovation and value-add market.

Combined with a slew of 18 new laws intended to create tax exemptions during construction, ease permitting, simplify zoning and remove other barriers to creating new and affordable housing, rent control could, potentially, fuel new development, particularly given the rent control statute's exemption for properties newer than 15 years.

However, no amount of legislation is going to overcome the three harshest realities slowing development in California and around the country: 30 years of shunning trade skill training across the U.S. has created a horrifying lack of workers to execute projects; land prices are continuing to increase, and everything from concrete to rebar to drywall to nails is getting more expensive.

On the California upside, however, a 9/27 GlobeSt discussion with David Harrington of Matthews Real Estate Investment Services noted an interesting possibility as a result of the new state regulation: California properties, even those that haven't traditionally raised rents on a year-over-year basis, could now start implementing 5% bumps every year like clockwork. For properties with secure and stable debt, that's not the worst potential ROI outcome.

Oregon and New York also passed rent control measures this year, and many experts are concerned this could be the beginning



of a national trend that could hamper the industry across the board.

The field of Democratic Party 2020 presidential candidates is still huge, and candidates are reaching far and wide to issue proposals that will get them noticed. Toward that end, a couple of the more prominent aspirants have floated the trial balloon of federal-level rent control. Details have been scant, but the idea could be appealing to younger voters starting their careers and having trouble affording the \$1,189 national average for a two-bedroom.

Industry opinions on the idea have ranged from denial and dismissal to amusement to abject terror.

## San Diego Market Metrics:

### *By the Numbers*

While rent growth is slowing nationwide, San Diego saw healthy, if not astounding, increases, and as a result the transaction interest was exceptionally high.

For 5-49 unit properties, Q3 saw a transaction volume of more than \$306 Million, which represented a 34.7% Year-over-Year increase from Q3 2018. In the 50+ unit category, Q3 brought in \$313.1 Million, up 34.6% from the Q3 2018 volume.

Average Price-Per-Unit amounts were up in the 5-49 segment, rising 11% YoY to \$306,474,092, and up 34.5% to \$224,284 for 50+. These translated to an Average Price/SF of \$341.22 in 5-49 (up 17.8%) and \$1280.82 (up 50.2%) in 50+.

Inventory age remained relatively consistent Year-over-Year, with Average Year Built for 5-49 being 1967, versus 1965 for the same quarter last year. Average Year Built in 50+ was 1981, compared to 1987/1985 in 2018.

The market's occupancy rate remained high. Q3 occupancy for 5+ units was 95.5%, unchanged Y-o-Y. Average rent was \$1,840 up 3% (\$54) from Q3 2018.

San Diego MSA demographics continued their solid trends. The CoStar estimate of total population was 3,370,979. The unemployment rate finished the quarter at 2.7%, according to Bureau of Labor Statistics numbers.

Median Household Income was \$82,786 and Per Capita Income came in at \$34,350.

In the realm of new construction for 50+ unit properties, 3,090 units have been delivered at 17 projects so far in 2019.

An estimated 18,622 units are in the Planning stages across 75 properties. A total of 7,810 units were listed as Under Construction in 31 properties.

The average absorption rate, according to CoStar, is 372 units.

Total Unit Inventory for 5+ properties was 346,538, and 50+ came in at 231,916.

## What's in Store for California?

Most experts at a recent conference in Los Angeles said they aren't particularly worried about California's 5% cap. However, if that turns out to be the beginning of the more sweeping changes some experts anticipate, and they have the effect of driving down transaction volume, it will likely turn up the heat for investment in Arizona as more investors look for new outlets.

California is seeing a significant out-migration as both companies and their workers look for less restrictive and more hospitable environments. While California's economy remains robust, the dilution or outright loss of productive companies and the erosion of the population base are not sustainable.

At a recent business conference, Arizona Governor Doug Ducey said former California Governor Jerry Brown was the best friend he ever had, referring to the number of businesses and skilled employees who have shifted from California to Arizona. Current California Gavin Newsom is continuing many-to-most of Brown's policies, so the trend can be expected to continue.

Negatives and hindrances aside, California's cumulative wealth and commercial/industrial diversity are not going away anytime soon. While the rent control measure may be ill-advised in (nearly) every aspect, it is not as draconian as many initially feared it would be. That, combined with the 15-year asset age exemption and development-encouraging measures recently enacted, could, and likely will, serve as a bulwark against at least some of the damage the state's policies, practices and general direction could have inflicted.

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# ABI COMPARATIVE MARKET REVIEW: Q3 2019



**SAN DIEGO**

**PHOENIX**

**TUCSON**

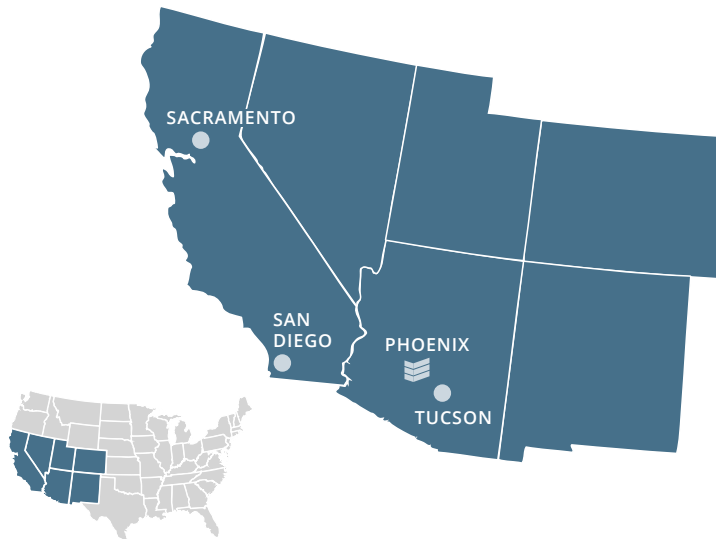
**SACRAMENTO**

	SAN DIEGO	PHOENIX	TUCSON	SACRAMENTO	
<b>DEMOGRAPHICS</b>	<b>Total Population</b>	3,370,979	4,737,270	1,026,099	2,371,109
	<b>Unemployment Rate</b> (as of Sep 2019)	2.7%	3.8%	4.1%	3.0%
	<b>Employment Growth</b> (y-o-y)	1.8%	2.4%	3.1%	1.4%
	<b>Median HH Income</b>	\$82,786	\$57,935	\$48,676	\$74,403
	<b>Per Capita Income</b>	\$34,350	\$29,542	\$27,323	\$33,548
<b>RENT/OCC/CONST (50+)</b>	<b>Rent</b> (Q3 2019)	\$1,840	\$1,176	\$918	\$1,392
	% Increase/Decrease	+3.0%	+7.2%	+8.1%	+4.0%
	<b>Occupancy</b> (Q3 2019)	95.5%	95.3%	94.5%	95.6%
	% Increase/Decrease	NO CHANGE	+0.1%	NO CHANGE	NO CHANGE
	<b>Total Inventory</b> (50+)	231,916	307,928	67,053	147,242
<b>SALES (50+)</b>	<b>Total Under Construction</b> (50+)	7,810	14,728	1,156	3,074
	<b>Units Delivered</b> (50+, Q3 2019)	549	1,895	154	0
	<b>Total Sales Volume</b> (Q3 2019)	\$313M	\$2.03B	\$193M	\$499M
y-o-y % Increase/Decrease	+34.6%	+11.1%	-37.4%	+25.2%	
<b>SALES (50+)</b>	<b>Average P/U</b> (Q3 2019)	\$224,284	\$171,381	\$111,993	\$193,833
	y-o-y % Increase/Decrease	+34.5%	+21.3%	-3.6%	+17.1%



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