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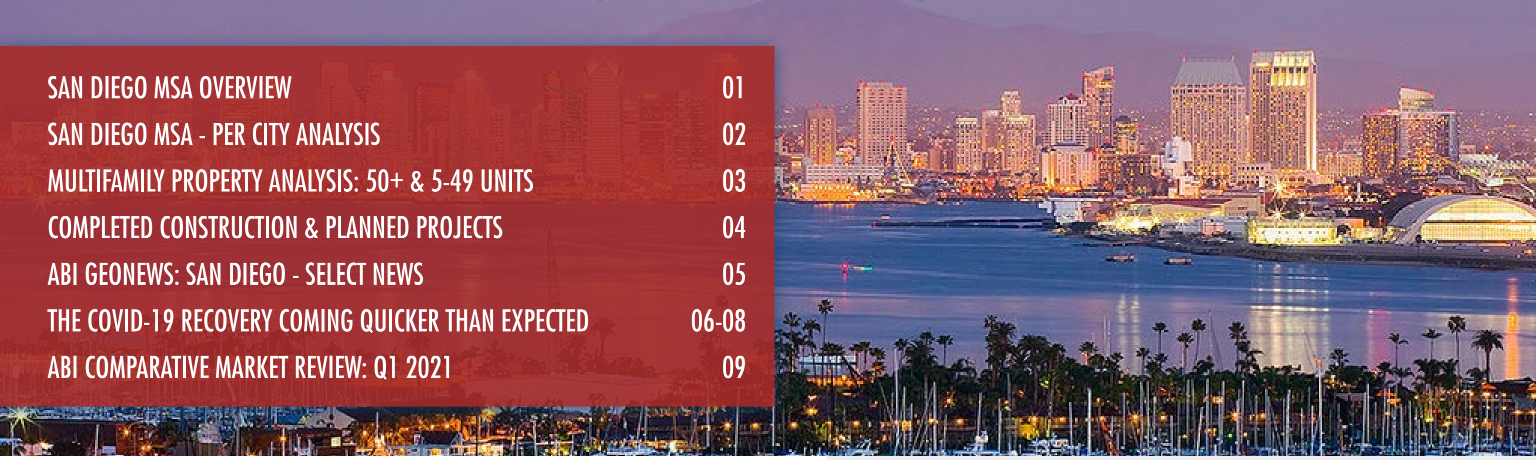
SAN DIEGO MSA | MULTIFAMILY | Q1 2021 REPORT



5+ UNIT PROPERTIES	Q1 2021	INCREASE/DECREASE	Q1 2020
Total Sales Volume	$551M	+6.5%	$518M
AVERAGE Price/Unit	$273,681	-8.8%	$300,251
AVERAGE Price/SF	$334.33	-10.7%	$374.34
AVERAGE Year Built	1966	+2 Yrs	1964
Average Rent	$1,938	+4.2%	$1,859
Occupancy Rate	96.2%	+1.4%	94.9%
Units Delivered	1,455	--	--

3,334,380
POPULATION
COSTAR

6.9%
-1.1%
UNEMPLOYMENT
Q-O-Q AS OF MAR 2021 - BLS

-7.4%
EMPLOYMENT GROWTH
Y-O-Y AS OF MAR 2021 - BLS

$93,676
MEDIAN HH INCOME
COSTAR

$34,103
PER CAPITA INCOME
2019 ACS 5-YEAR ESTIMATE

10,066
Units (5+)
UNDER CONSTRUCTION
COSTAR

350,591
Units (5+)
TOTAL INVENTORY
AS OF APR 2021 - COSTAR

ABI GEONEWS: SAN DIEGO MSA - SELECT NEWS

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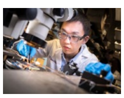
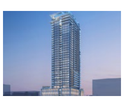


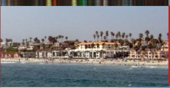
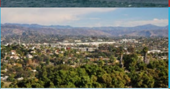
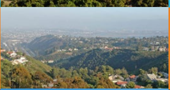
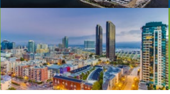
Apple's big expansion in San Diego will be a boon for the region's universities

Increase in San Diego home prices among highest in nation



TCR Breaks Ground on 36-Story Multifamily High-Rise in San Diego's Little Italy

SAN DIEGO MSA QUICK STATS

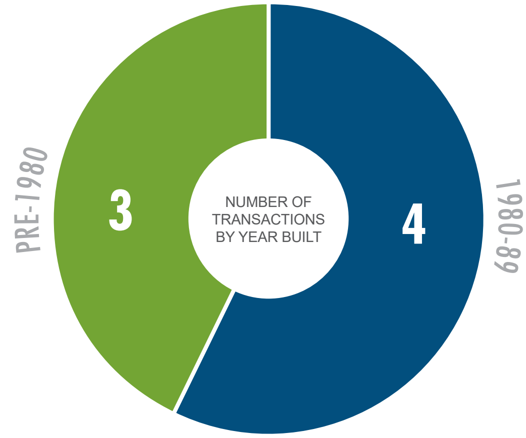
	SAN DIEGO MSA QUICK STATS	MEDIAN HH INCOME	5+ UNIT PROPERTIES: TOTAL INVENTORY	5+ UNIT PROPERTIES: UNDER CONSTRUCTION
	San Diego MSA	$93,676	350,591	10,066
	North County Coastal	$110,000	37,249	317
	North County Inland	$85,100	49,456	598
	East County	$80,900	37,246	362
	South Bay	$69,300	47,321	882
	Metro San Diego	$93,900	167,444	7,907

SAN DIEGO MSA - PER SUBMARKET ANALYSIS

	SAN DIEGO MSA - PER SUBMARKET ANALYSIS	North County Coastal	North County Inland	East County	South Bay	Metro San Diego
RENT & OCCUPANCY STATS	Average Rent (Q1 2021)	$1,995	$1,696	$1,624	$1,694	$1,986
	% Change (y-o-y)	+6.4%	+4.0%	+4.2%	+4.3%	+3.3%
	Occupancy Rate (Q1 2021)	97.5%	97.4%	97.4%	97.1%	95.4%
	% Change (y-o-y)	+2.1%	+1.5%	+1.0%	+1.5%	+1.0%
	Units Delivered (Q1 2021, 50+)	98	0	148	48	1,161
SALES DATA (50+)	Total Sales Volume (Q1 2021, 50+)	$94,100,000	$55,750,000	$13,750,000	$0	$56,661,000
	Total Sales Volume (Q1 2020, 50+)	$0	$11,250,000	$34,450,000	$42,837,500	$161,275,000
	% Change (y-o-y)	--	+395.6%	-60.1%	--	-64.9%
	Avg P/U (Q1 2021, 50+)	$480,102	$277,363	$137,500	--	$220,471
	Avg P/U (Q1 2020, 50+)	--	$208,333	$313,182	$152,991	$304,195
	% Change (y-o-y)	--	+33.1%	-56.1%	--	-27.5%
SALES DATA (5-49)	Total Sales Volume (Q1 2021, 5-49)	$26,063,160	$19,147,907	$42,888,000	$36,812,500	$206,021,210
	Total Sales Volume (Q1 2020, 5-49)	$31,280,000	$24,971,093	$10,195,000	$7,325,000	$194,049,202
	% Change (y-o-y)	-16.7%	-23.3%	+320.7%	+402.6%	+6.2%
	Avg P/U (Q1 2021, 5-49)	$434,386	$185,902	$225,726	$221,762	$278,031
	Avg P/U (Q1 2020, 5-49)	$395,949	$204,681	$199,902	$244,167	$274,857
	% Change (y-o-y)	+9.7%	-9.2%	+12.9%	-9.2%	+1.2%

50+ UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q1 2021	INCREASE/DECREASE	Q1 2020
Total Sales Volume	$220M	-11.8%	$250M
AVERAGE Price/Unit	$292,123	-13.9%	$339,419
AVERAGE Price/SF	$344.38	-13.7%	$398.83
AVERAGE Year Built	1980	-1 Yr	1981



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)

Mission Ridge
Encinitas, 196 Units | $94,100,000
$480,102/Unit | $445.07/SF | Built 1984

The Avenue at San Marcos
San Marcos, 84 Units | $25,750,000
$306,548/Unit | $382.73/SF | Built 1988

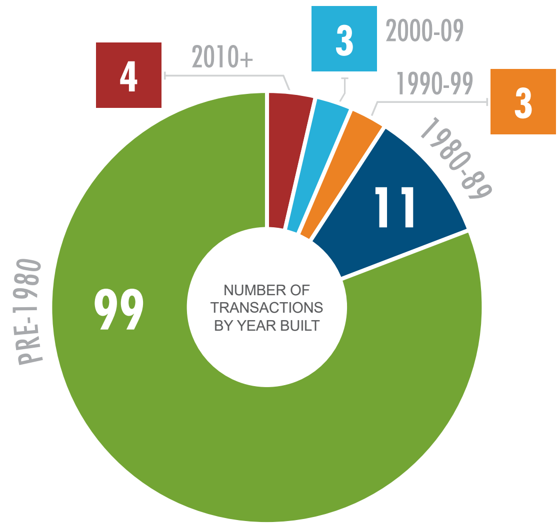
Garden View
Escondido, 56 Units | $14,450,000
$258,036/Unit | $365.64/SF | Built 1972

Q1 2021 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	--	--	--
2000-09	--	--	--
1990-99	--	--	--
1980-89	4	$325K	$352
Pre-1980	3	$248K	$332

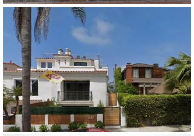
5 - 49 UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q1 2021	INCREASE/DECREASE	Q1 2020
Total Sales Volume	$331M	+23.6%	$268M
AVERAGE Price/Unit	$262,645	-3.1%	$271,073
AVERAGE Price/SF	$327.96	-7.4%	$354.06
AVERAGE Year Built	1965	+3 Yrs	1962



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

Villa La Serena
Rancho Santa Fe, 5 Units | $3,775,000
$755,000/Unit | $545.44/SF | Built 1967

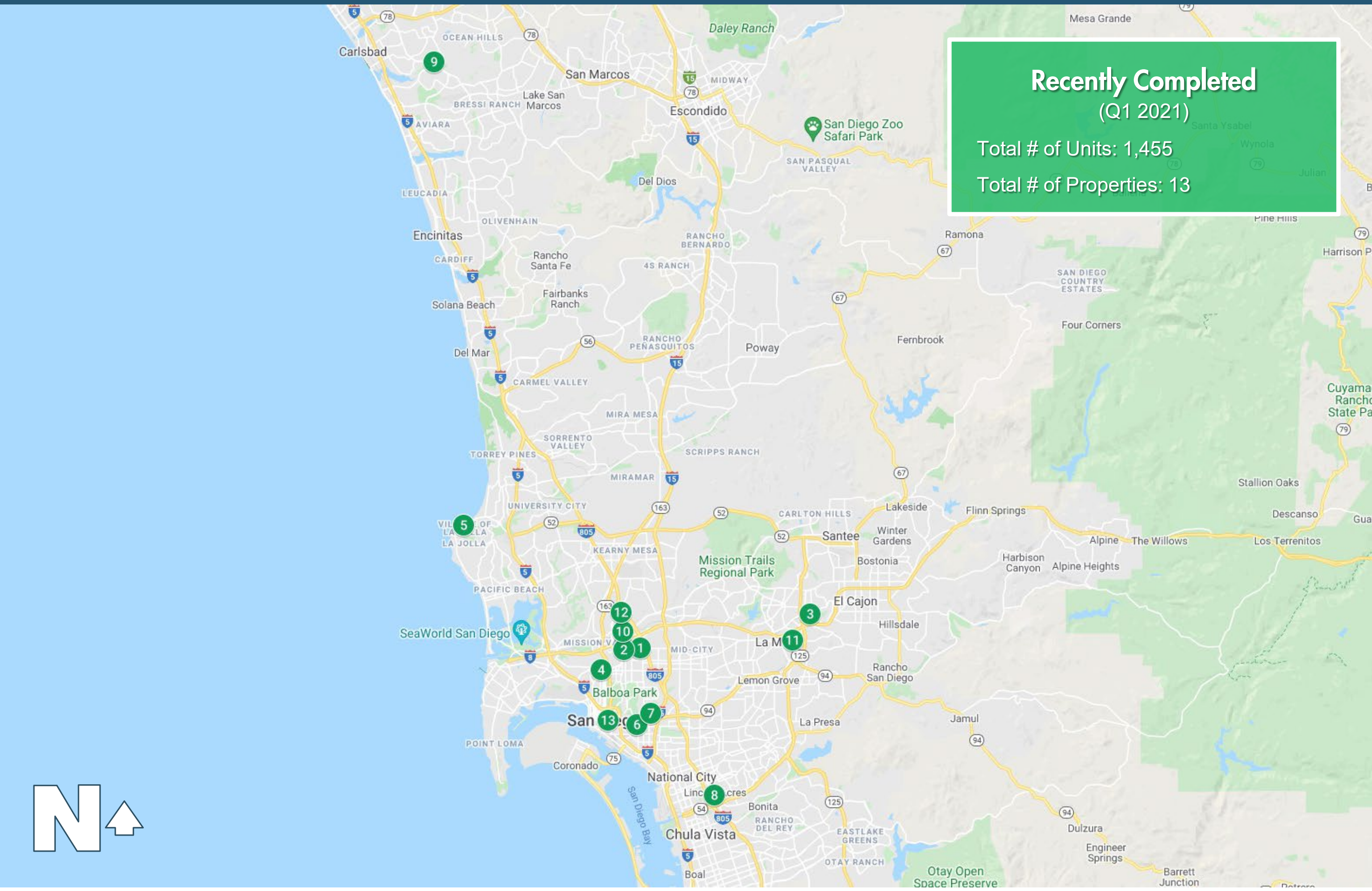


338 - 354 Gravilla Street
La Jolla, 7 Units | $4,950,000
$707,143/Unit | $528.96/SF | Built 1954

Sea Cliff Apartments
San Diego, 5 Units | $3,400,000
$680,000/Unit | $533.75/SF | Built 1950

Q1 2021 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	4	$215K	$277
2000-09	3	$196K	$153
1990-99	3	$201	$311
1980-89	11	$307K	$395
Pre-1980	90	$271K	$345

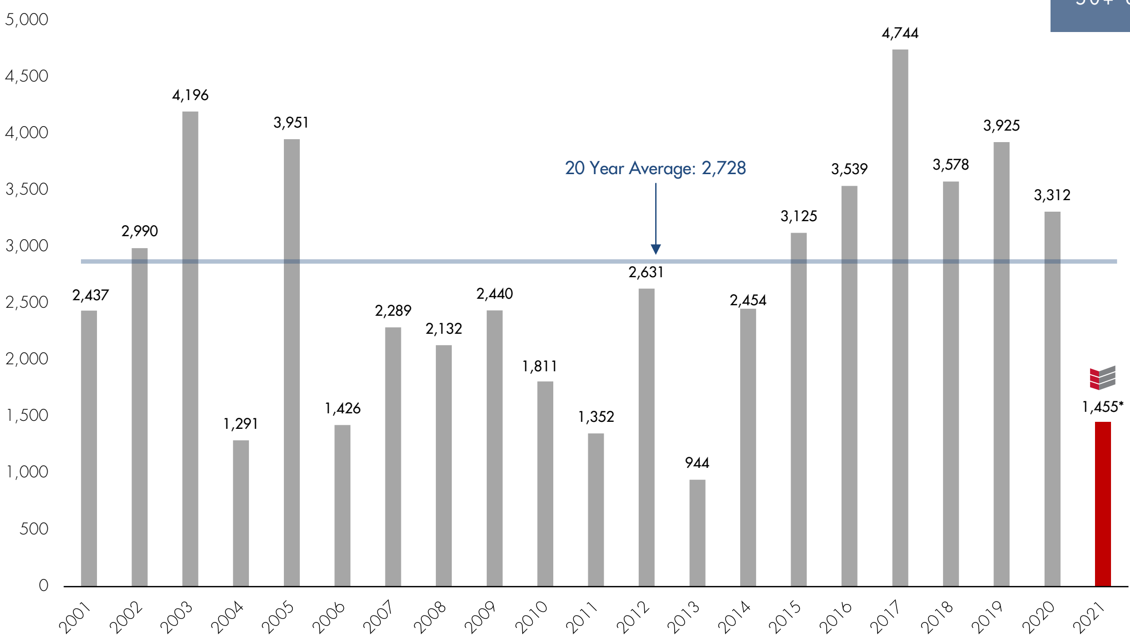


Recently Completed
(Q1 2021)

Total # of Units: 1,455

Total # of Properties: 13

SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE
Q1 2021



TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: 350,591

50+ UNIT PROPERTIES: 234,405

ABSORPTION PER MARKET (12 MONTHS)

6,274 Units

Under Construction

Total # of Units: 10,066

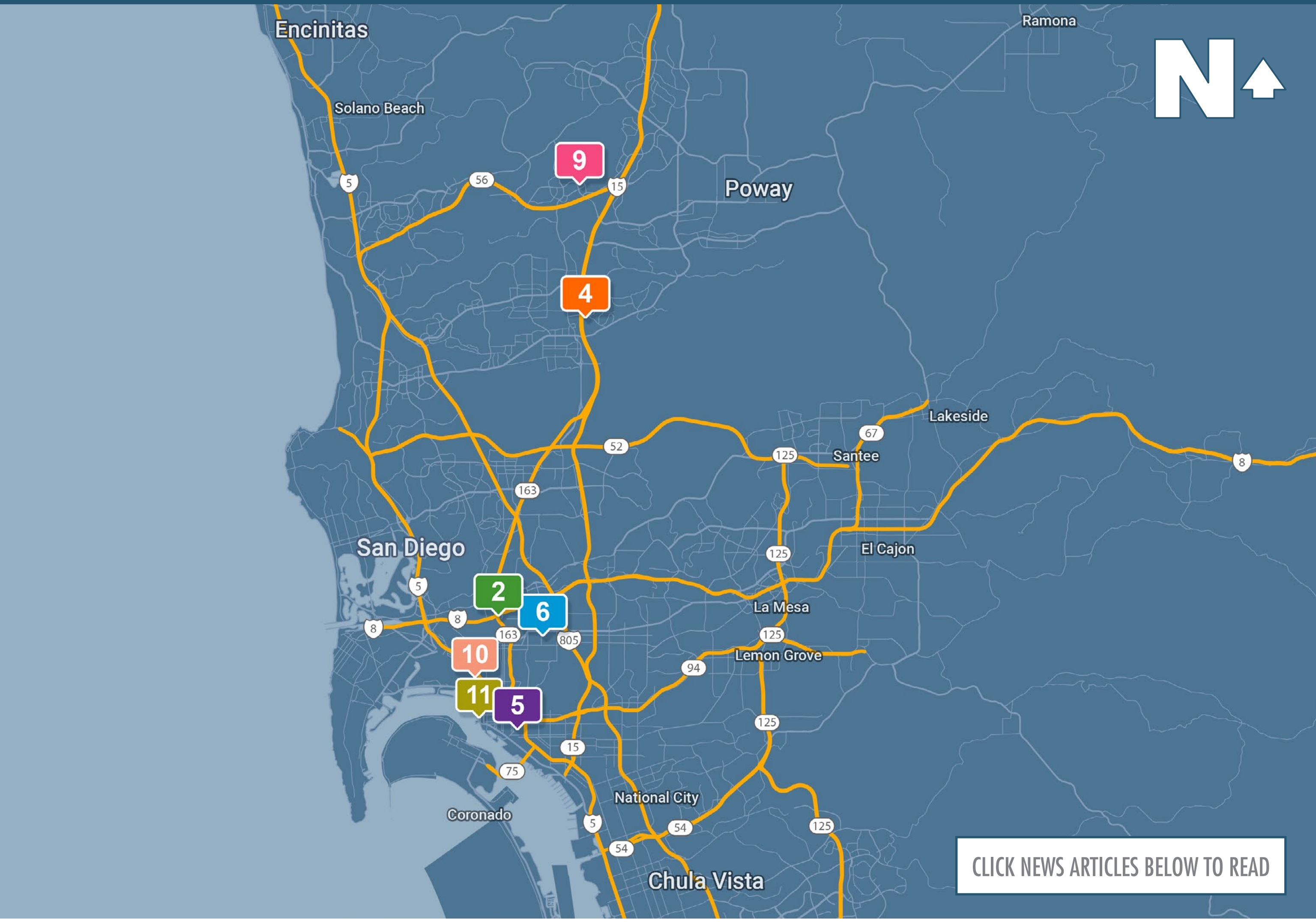
Total # of Properties: 53

Planned

Total # of Units: 17,371

Total # of Properties: 89

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



Regional — **San Diego**
San Diego Renters Making Payments More During Covid Than Other Cities

Regional — **San Diego**
San Diego Population Growth Is Slowing

2 — **Apple**
Apple's big expansion in San Diego will be a boon for the region's universities

Regional — **City of San Diego**
Increase in San Diego home prices among highest in nation

Regional — **San Diego**
SD Leaders Back Freeze on Evictions Tied to Covid Outbreak Despite Landlord Concerns

9 — **San Diego**
Rancho Peñasquitos emerging as new battleground for local housing crisis

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

10 — **San Diego**
Rents Weaken, Investors Stay Active in San Diego Multifamily Market

5 — **Trammell Crow Residential**
TCR Breaks Ground on 36-Story Multifamily High-Rise in San Diego's Little Italy

11 — **Forge Development Partners**
Forge Hammers out a Deal for Workforce Housing in San Diego

6 — **San Diego Planning Commission**
Planning Commission OKs proposed 404-unit subsidized complex in Clairemont

Regional — **San Diego**
How Measure B Will Guarantee Affordable Housing Development

ABInsight®

BY: DREW RICCIARDI, ABI RESEARCH MANAGER

The COVID-19 Recovery Coming Quicker Than Expected

The National Recovery Effort

As a miserable unforgettable year is joyously placed in the rearview mirror, previous pandemic restrictions are beginning to fade rapidly as COVID-19 vaccinations continue to cycle throughout the nation.

The economy is starting to heat up with unemployment rates dropping and significant recovery of COVID-19-related job loss persists. 916,000 jobs were added in March, and unemployment is down to 6%, according to Yardi Matrix.

Apartments are stabilizing as rent rates return to pre-pandemic levels. Most markets experienced positive net absorption and the highest recorded rent collection rates in over a year.

Urban cores and gateway markets like San Francisco, New York City, and Los Angeles, which were hit hardest by strict restrictions and an exodus of people migrating to less dense, more affordable markets, have slowly begun to recover.

Multifamily deal flow manifested strong investor interest for sunbelt markets like Phoenix, Dallas, Austin, and Atlanta. Generally, northern markets saw more of a decline in sales volume.

Overall, national multifamily sales volume witnessed a decline year-over-year but projects to show an increase next quarter.

San Diego Multifamily Outperforming Other CA Markets

Rocked by some of the most intense COVID-19 restrictions in the country, California's state economy attempts to pick up the pieces as these restrictions begin to dissolve across the board.

Extended eviction moratoriums and rent control measures have made the past year tough to be a landlord, but it is not all bad news for the San Diego Metro.

Multifamily sales volume for the first quarter beat pre-pandemic sales from a year ago in Q1 2020. In addition, this Southern California market posted a healthy rent increase year-over-year, unlike other major markets in the state that experienced a significant decline in rent growth (Los Angeles, Oakland, San Jose, and San Francisco).

These indicators help foreshadow a future rebound from the COVID-19 Recession. On the other hand, average price-per-unit and price-per-square-foot witnessed decreases from pre-pandemic levels. It is fair to suggest that these decreases could be allocated to the amount of uncertainty and job loss over the past year.

Another bright spot is the emergence of San Diego to become more of a tech hub. Companies looking to flee Silicon Valley or expand but remain in the state are eyeing San Diego as a potential destination because of its relatively cheaper real estate, strong talent pool, and quality of life.

Apple recently announced its expansion and intention to add nearly 4,000 jobs over the next few years in the San Diego Metro. A noteworthy reason for this expansion is the presence of specific talent in the region geared towards the sector.

Collectively, the area's major universities have more than 15,000 engineering and computer science students. That bodes well for the market's multifamily industry because it will help retain graduating students with a higher income potential that wish to stay in San Diego and work for a company like Apple.

With the opening of indoor retail and dining as vaccination rates climb, the resurgence of the markets tourism sector will help begin to mend the hard-hit leisure and hospitality industries.

Overall, San Diego seems poised to continue to outperform the majority of California markets in multifamily this year.

Proposed Tax Reform's Potential Effects on CRE

President Biden's American Families Plan proposal contains new tax proposals that may be frightening to some institutional investors. Here are the proposed changes:

Implement a raise to the top-tier income tax rate from 37% to 39.6%. The long-term capital gains rate would also increase exponentially from 23.8% to 39.6% for taxpayers with an income above $1 million. With the addition of Net Investment Income Tax (NIIT) of 3.8%, the final rate would be 43.4%.

The plan could put an end to the step-up in basis, which allows one to reduce or eliminate capital gains tax on inherited assets. The proposed rule would make inherited assets of $1 million or more subject to the hiked capital gains tax rate.

1031 exchanges may become a thing of the past for investors attempting to escape capital gains tax. The proposal will institute a cap of $500k on 1031 exchanges.

The 1031 exchange rule allows an owner to defer capital gains tax if the proceeds of a property sale are used to purchase another property deemed like-kind within 180 days. According to the National Association of Realtors, 1031 exchanges accounted for roughly 12% of CRE transactions between 2016 and 2019.

1031 exchanges help create economic activity by adding jobs/labor from value-add investments and supplying federal, state and local tax revenue.

Currently, the proposal is facing an uphill battle in Congress, as members from both parties are wary of the proposed tax reforms.

If the American Families Plan is successful, it may steer multifamily investors to reassess their portfolios and strategies, hindering significant economic growth.

Strained Housing Supply Forcing Buyer Patience

A large portion of the Millennial Generation is at an age where they are looking to buy their first home, but strong demand, low supply, and record low interest rates have caused home prices to rise swiftly. These key factors are forcing some to continue renting until the market cools.

Data provided by realtor.com showed the national inventory of homes was 53% lower than a year ago in March 2020. The data also indicated there were 117,000 fewer new listings compared to recent years.

Redfin reported the average home sold in the past year sold for 1% more than its asking price.

Current demand is vastly outpacing the existing supply of housing. Construction costs like lumber, steel, concrete, and labor continue to skyrocket as a result of pandemic-induced supply chain constraints and inflation.

According to the National Association of Home Builders, lumber prices have increased a whopping 250% in a single year. These cost increases may impede future home building at a time when low supply is a current issue.

It will be interesting to see if these factors delay new multifamily construction, but no data currently indicates that to be the case, as multifamily deliveries continue to perform well. But one thing is for sure it will cost more to build, and replacement costs will rise, forcing rents to increase in order to compensate.

The current situation bodes well for the influx of the new build-to-rent communities developers have been incredibly bullish on. This hybrid concept provides newly built single-family detached rental units in a community with common area luxury amenities.

San Diego Market Metrics: By the Numbers

For 5-49 unit properties, Q1 saw a transaction volume of approximately $331 Million, which represented a 23.6% Year-over-Year increase from Q1 2020. In the 50+ unit category, the quarter brought in about $220 Million, down 11.8% YoY.

Average Price-Per-Unit amounts were down slightly in the 5-49 segment, falling 3.1% YoY to $262,645, and showing another decrease of 13.9% to $292,123 for 50+. This translated to an Average Price/SF of $327.96 in 5-49 (down 7.4%) and $344.38 (down 13.7%) in 50+.

Inventory age saw an increase in 5-49 and a small decrease in 50+ unit segments Year-over-Year. Average Year Built for 5-49 reported the year 1965, versus 1962. The Average Year Built in 50+ reported the year 1980, versus 1981.

The market's occupancy rate took a big jump in the right direction. Q1 2021 occupancy averaged 96.2%, up from 94.9% in Q1 2020. Average rent took a positive bump, reporting $1,938, up $79 (4.2%) from last year.

San Diego MSA demographics reported improved employment numbers following abysmal 2020 data due to the COVID-19 Recession. The unemployment rate finished the year at 6.9%, according to Bureau of Labor Statistics numbers. The CoStar estimate of total population was 3,334,380.

Median Household Income was $93,676, and Per Capita Income came in at $34,103.

In the realm of new construction for 5+ unit properties, a high 1,455 units were delivered across 13 projects for the year. This is almost 50% of the number of units were delivered in all of 2020.

Currently, a pipeline of 17,371 units is estimated to be in the Planning stages across 89 properties. A total of 10,066 units are listed as Under Construction across 53 properties.

Pre-lease absorption per market (12 month), according to CoStar, reported 6,274 units.

Total Unit Inventory for 5+ properties ended the year at 350,591 units, and 50+ came in at 234,405 units.

		San Diego	Phoenix	Tucson	Sacramento
DEMOGRAPHICS	Total Population	3,334,380	4,948,203	1,047,279	2,365,946
	Unemployment Rate (as of Mar 2021)	6.9%	6.1%	6.7%	6.9%
	Employment Growth (y-o-y)	-7.4%	-2.4%	-2.4%	-5.3%
	Median HH Income	$93,676	$63,883	$53,379	$87,541
	Per Capita Income	$34,103	$32,522	$29,707	$35,563
RENT/OCC/CONST (50+)	Rent (Q1 2021)	$1,938	$1,320	$1,004	$1,577
	% Increase/Decrease	+4.2%	+7.1%	+8.1%	+9.2%
	Occupancy (Q1 2021)	96.2%	95.8%	96.3%	96.4%
	% Increase/Decrease	+1.4%	+0.6%	+1.5%	+1.6%
	Total Inventory (50+)	234,405	321,926	68,020	148,284
	Total Under Construction (50+)	10,066	31,533	1,765	3,820
	Units Delivered (50+, Q1 2021)	1,455	2,867	0	157
SALES (50+)	Total Sales Volume (Q1 2021)	$220M	$2.09B	$209M	$137M
	y-o-y % Increase/Decrease	-11.8%	+55.1%	-57.1%	-71.0%
	Average P/U (Q1 2021)	$292,123	$214,729	$100,036	$161,951
	y-o-y % Increase/Decrease	-13.9%	+16.8%	-31.5%	-46.3%

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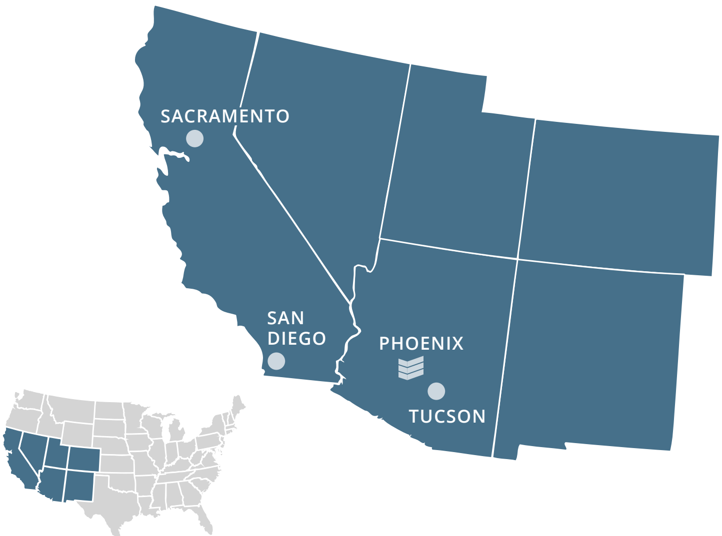

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