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SAN DIEGO MSA | MULTIFAMILY | Q3 2022 REPORT

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5+ UNIT PROPERTIES	Q3 2022	INCREASE/DECREASE	Q3 2021
Total Sales Volume	$359M	-83.4%	$2.16B
AVERAGE Price/Unit	$347,703	+28.5%	$270,553
AVERAGE Price/SF	$493.10	+54.2%	$319.73
AVERAGE Year Built	1965	-5 Yrs	1970
Average Rent	$2,416	+8.5%	$2,227
Occupancy Rate	96.9%	-0.7%	97.6%
Units Delivered (YTD)	1,540	-71.3%	5,365

3,286,069
POPULATION
2020 ACS 5-YEAR ESTIMATE

3.1%
-0.1%
UNEMPLOYMENT
AS OF SEPTEMBER 2022 - BLS

4.2%
EMPLOYMENT GROWTH
Y-O-Y AS OF SEPTEMBER 2022 - BLS

$91,003
MEDIAN HH INCOME
COSTAR

$44,377
PER CAPITA INCOME
2021 ACS 1-YEAR ESTIMATE

7,456
Units (5+)
UNDER CONSTRUCTION
COSTAR

322,608
Units (5+)
TOTAL INVENTORY
AS OF SEPTEMBER 2022 - COSTAR

ABI GEONEWS: SAN DIEGO MSA - SELECT NEWS

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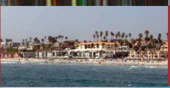
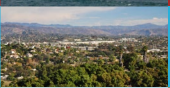
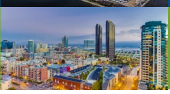
- For-Sale Housing Market Hits a Snag But Rents Rising
- Apple Increasing San Diego Footprint
- Balance Returning to San Diego Housing Market

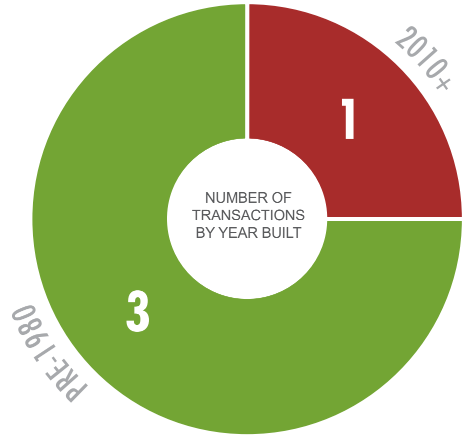
SAN DIEGO MSA - PER CITY ANALYSIS

SAN DIEGO MSA QUICK STATS		MEDIAN HH INCOME	5+ UNIT PROPERTIES TOTAL INVENTORY	5+ UNIT PROPERTIES UNDER CONSTRUCTION
	San Diego MSA	$91,003	322,608	7,456
	North County Coastal	$117,000	37,511	726
	North County Inland	$93,400	50,266	353
	East County	$87,400	49,927	156
	South Bay	$74,800	46,041	1,095
	Metro San Diego	$98,800	174,203	5,437

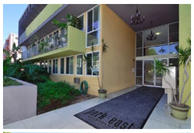
	SAN DIEGO MSA - PER SUBMARKET ANALYSIS	North County Coastal	North County Inland	East County	South Bay	Metro San Diego
RENT & OCCUPANCY STATS	Average Rent (Q3 2022)	$2,399	$2,020	$1,855	$2,065	$2,380
	% Change (y-o-y)	+9.4%	+10.6%	+8.4%	+9.8%	+5.3%
	Occupancy Rate (Q3 2022)	98.0%	98.0%	97.6%	96.3%	96.7%
	% Change (y-o-y)	+0.2%	-0.3%	-0.6%	-2.5%	-0.5%
	Units Delivered (YTD, 50+)	11	171	240	1254	2,190
SALES DATA (50+)	Total Sales Volume (Q3 2022, 50+)	--	--	$48,900,000	--	$43,650,000
	Total Sales Volume (Q3 2021, 50+)	$229,600,000	$301,531,000	$504,110,002	$224,869,500	$354,865,000
	% Change (y-o-y)	--	--	-90.3%	--	-87.7%
	Avg P/U (Q3 2022, 50+)	--	--	$300,000	--	$296,939
	Avg P/U (Q3 2021, 50+)	$380,132	$225,023	$239,824	$240,245	$319,410
	% Change (y-o-y)	--	--	+25.1%	--	-7.0%
SALES DATA (5-49)	Total Sales Volume (Q3 2022, 5-49)	$24,472,429	$4,750,000	$22,251,000	$25,763,103	$188,975,725
	Total Sales Volume (Q3 2021, 5-49)	$7,998,300	$45,090,000	$146,379,906	$59,296,500	$288,786,358
	% Change (y-o-y)	+206.0%	-89.5%	-84.8%	-56.6%	-34.6%
	Avg P/U (Q3 2022, 5-49)	$281,292	$316,667	$296,680	$280,034	$388,839
	Avg P/U (Q3 2021, 5-49)	$444,350	$278,333	$238,016	$242,027	$335,798
	% Change (y-o-y)	-36.7%	+13.8%	+24.6%	+15.7%	+15.8%

50+ UNIT MULTIFAMILY PROPERTY ANALYSIS

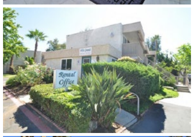
	Q3 2022	INCREASE/DECREASE	Q3 2021
Total Sales Volume	$93M	-94.3%	$1.61B
AVERAGE Price/Unit	$298,548	+12.6%	$265,054
AVERAGE Price/SF	$549.81	+83.0%	$300.42
AVERAGE Year Built	1987	+6 Yrs	1981



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Park East
San Diego, 56 Units | $23,550,000
$420,536/Unit | $647.87/SF | Built 1973



The Madison
El Cajon, 110 Units | $34,000,000
$309,091/Unit | $555.56/SF | Built 1976

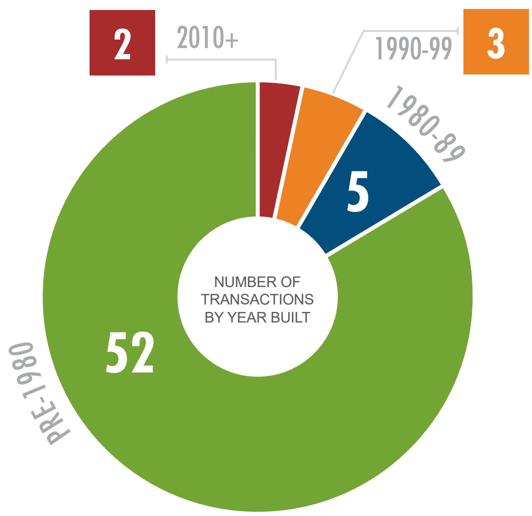
Villa Patricia
El Cajon, 53 Units | $14,900,000
$281,132/Unit | $305.58/SF | Built 1979

Q3 2022 Transactions by Year Built

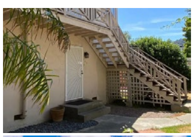
	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	$220,879	$913
2000-09	--	--	--
1990-99	--	--	--
1980-89	--	--	--
Pre-1980	3	$330,822	$495

5 - 49 UNIT MULTIFAMILY PROPERTY ANALYSIS

	Q3 2022	INCREASE/DECREASE	Q3 2021
Total Sales Volume	$266M	-51.4%	$548M
AVERAGE Price/Unit	$352,599	+22.4%	$288,185
AVERAGE Price/SF	$471.89	+25.2%	$376.89
AVERAGE Year Built	1963	-2 Yrs	1965



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



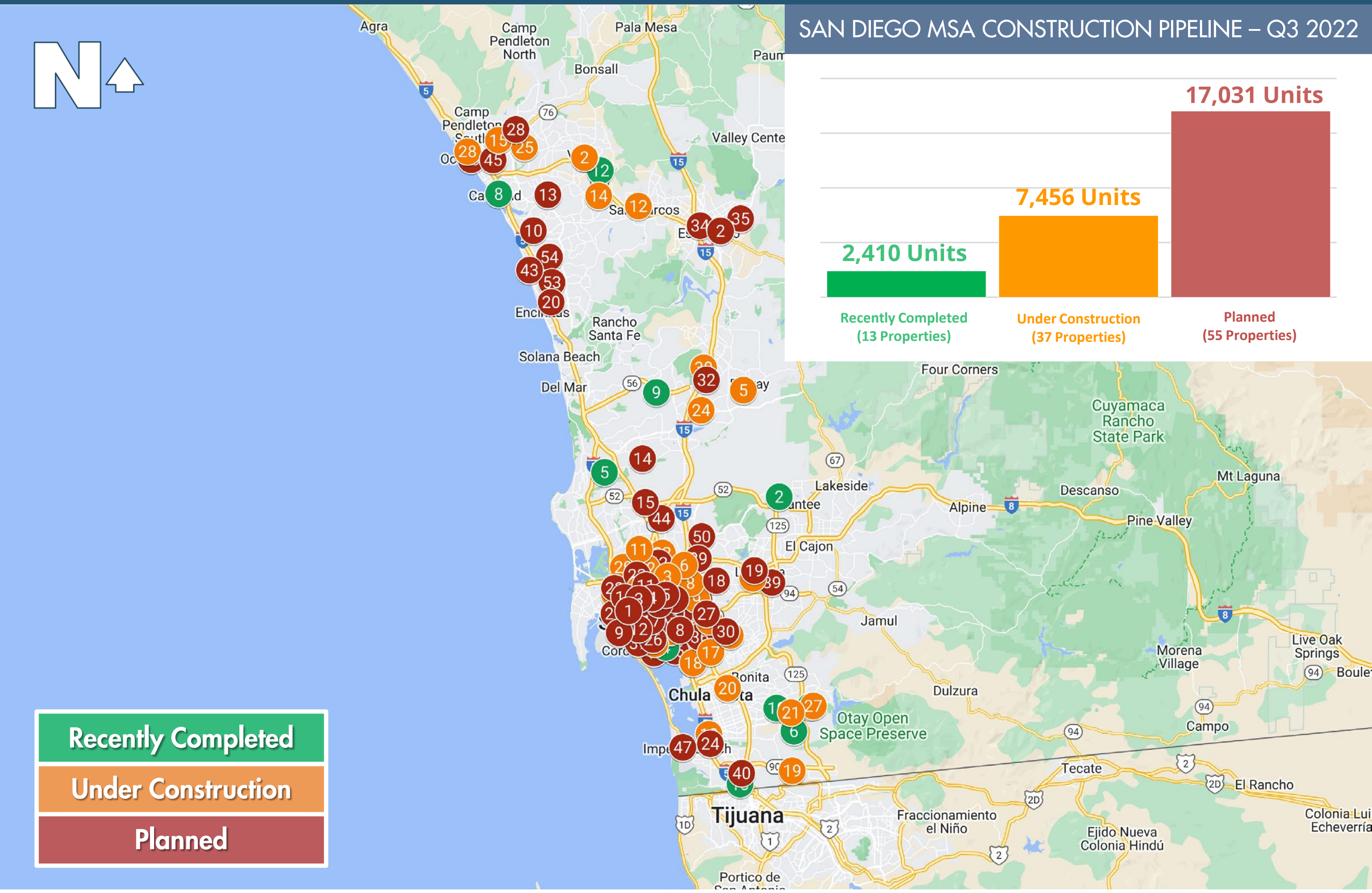
741 - 747 G Avenue
Coronado, 5 Units | $4,400,00
$880,000/Unit | $489.76/SF | Built 1945

5168 - 5176 Brighton Avenue
San Diego, 5 Units | $3,500,000
$700,000/Unit | $1,137.84/SF | Built 1955

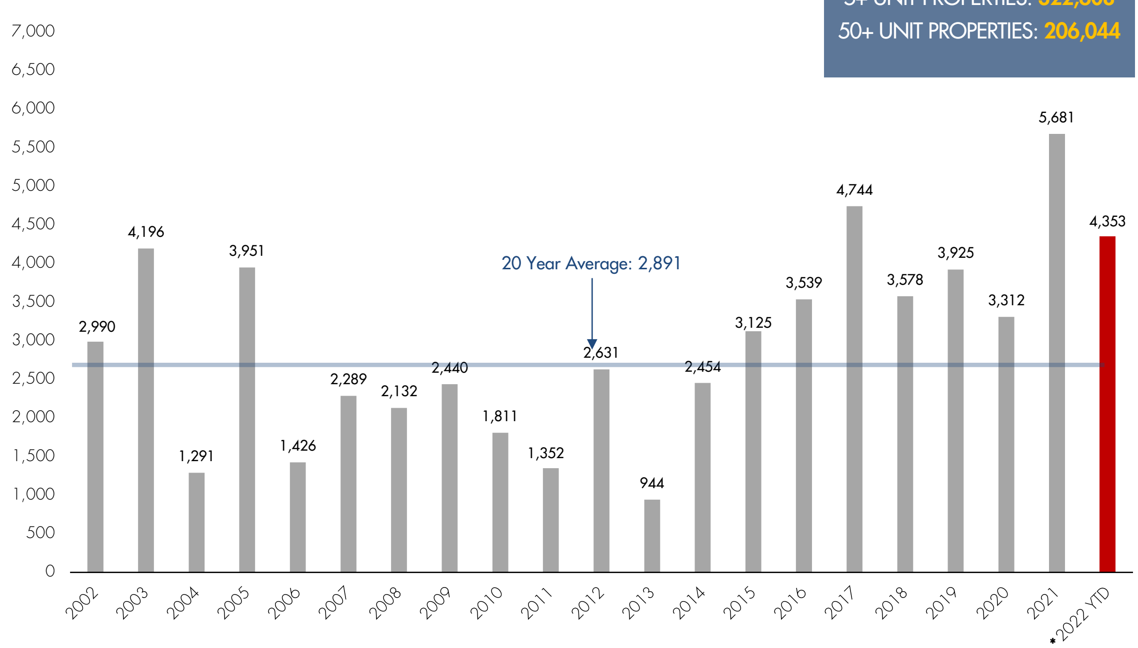
Ollie North Park Lofts
San Diego, 44 Units | $27,500,000
$625,000/Unit | $726,78/SF | Built 2022

Q3 2022 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	2	$586,538	$702
2000-09	--	--	--
1990-99	3	$194,964	$219
1980-89	5	$332,984	$338
Pre-1980	52	$354,804	$515



SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE
Q3 2022



TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: 322,608

50+ UNIT PROPERTIES: 206,044

PRE-LEASE ABSORPTION RATE

12

Units/Property/Month (Q3 2022 Avg)

RECENTLY COMPLETED

TOTAL # OF UNITS: 2,410

TOTAL # OF PROPERTIES: 13

UNDER CONSTRUCTION

TOTAL # OF UNITS: 7,456

TOTAL # OF PROPERTIES: 37

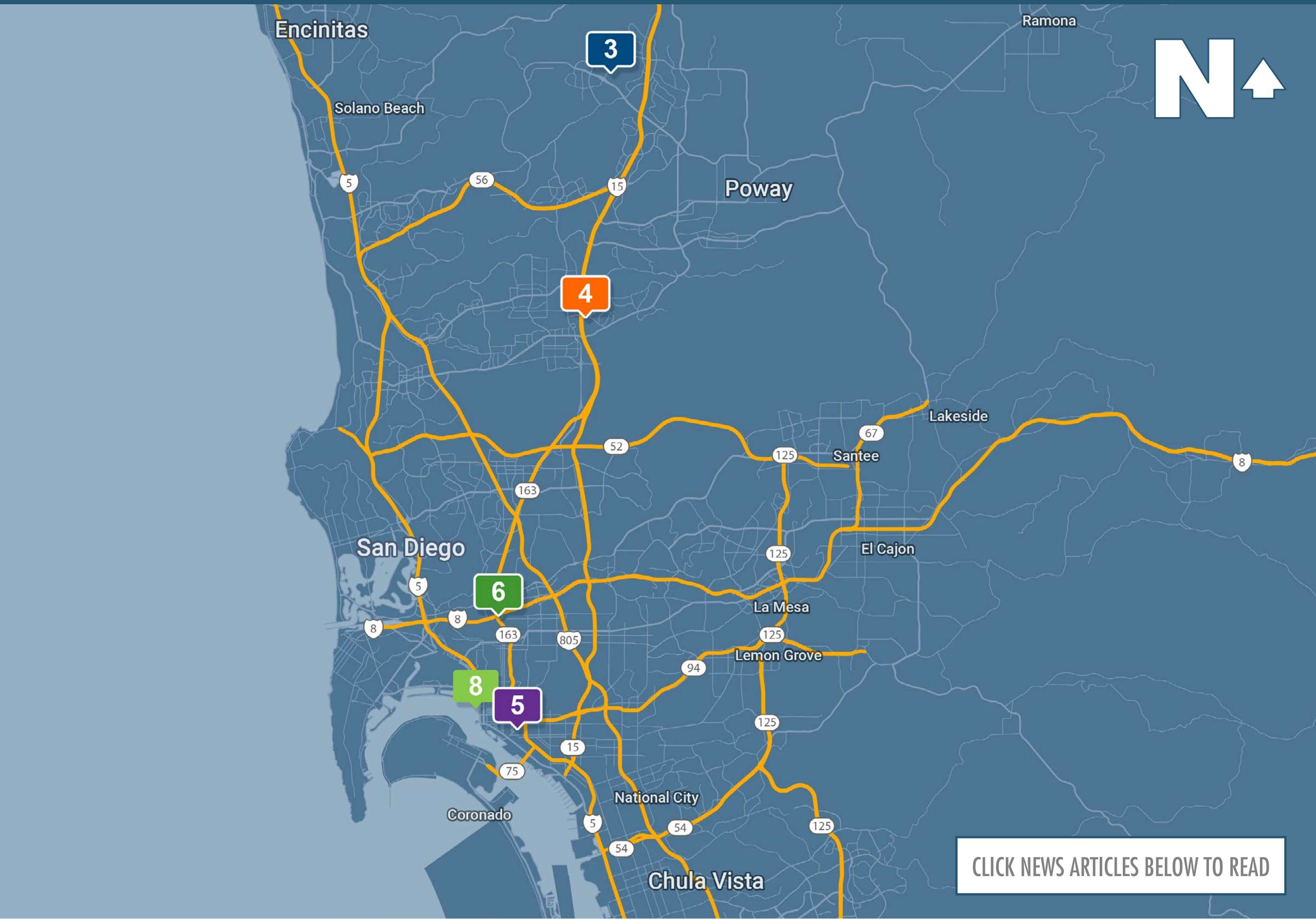
PLANNED

TOTAL # OF UNITS: 17,031

TOTAL # OF PROPERTIES: 55

*** 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



Regional **San Diego**
San Diego County tackles housing shortage with general plan changes

Regional **San Diego**
For-Sale Housing Market Hits a Snag But Rents Rising

3 **Amazon**
Amazon keeps growing in San Diego and Tijuana. Chances are it won't stop

4 **San Diego**
Court upholds density bonus law that exempts certain housing projects from local restrictions

5 **Downtown San Diego**
Residential Towers Proliferate in Downtown San Diego

6 **Apple**
Apple Increasing San Diego Footprint

Regional **Trammell Crow Residential**
Developer Looks To Boost Apartment Supply in Busy San Diego Neighborhood

8 **The Michaels Organization**
San Diego Taps The Michaels Organization to Provide Housing in Downtown Redevelopment

Regional **San Diego**
California Gov. Signs Landmark Duplex and Lot-Split Legislation into Law

Regional **San Diego**
San Diego Apartment Demand Accelerates, Bucking National Trend

Regional **San Diego**
Balance Returning to San Diego Housing Market

Regional **San Diego**
San Diego County's housing future: Building up, not out

ABInsight®

BY: JAMES HALL
ABI DIRECTOR OF RESEARCH

A TALE OF TWO STORIES: STRONG EMPLOYMENT AND MULTIFAMILY FUNDAMENTALS VS. INFLATION AND THE FED

The US economy remains resilient, despite economic uncertainty and geopolitical risk weighing heavily on investment activity. While we foresee continued short-term economic headwinds, our long-term outlook for the multifamily industry remains strong. Lackluster construction after the previous economic crisis coupled with favorable demographic growth, still provides an exceptional landscape for multifamily investment opportunities.

In this note, we examine how global economic events and uncertainty have impacted the multifamily market, and how these events will define both economic policy and investment activity. Global geopolitical risks have soared since Russia's invasion of Ukraine. Investors, market participants, and policymakers expect that the war will exert a drag on the economy, while driving inflation higher, as uncertainty, and risk, increases the probability of a protracted decline in economic output.

Central bank officials highlight geopolitical uncertainties as a salient risk to the US economy; while a report by the International Monetary Fund (IMF), and the European Central Bank (ECB) ranks geopolitical risk ahead of both political and economic uncertainty. Contrary to this, the Federal Reserve (Fed) suggests that the rise in geopolitical risks seen since the Russian invasion of Ukraine will have non-negligible macroeconomic effects in 2023. The Fed highlights pre-existing inflationary pressures as the main drag on the economy in 2022 and the key determinant for monetary policy.

There's been a seismic shift in federal macroeconomic policy over the previous 12-month period, which has substantial ramifications for the multifamily industry. Although the Fed manages all aspects of macroeconomic policy, the Fed acts independently when determining monetary policy, which addresses interest rates and the supply of money; while fiscal policy is policy enacted by the legislative branch of government (Congress), which addresses both taxation and government spending. The goal of macroeconomic policy is to provide a stable economic environment that is conducive to fostering strong and sustainable economic growth, on which the creation of jobs, wealth and improved living standards depend.

The importance of these distinct branches of the federal government cannot be understated. Although the two federal branches act independently, the management of both fiscal and monetary policy is integral to the operation of the economy.

Historically low interest rates, subdued construction, and easy money (Quantitative Easing) over the previous 15-year period, spurred investment activity across all asset classes and markets throughout the commercial real estate (CRE) industry. In the wake of the Great Recession (08-10) the Fed implemented these loose monetary policies, to combat negative inflation, which fostered a decade-long “risk-on” investment appetite that came to a head in 2020/2021.

Inflation is surging at the fastest rate in more than four decades, with the Consumer Price Index (CPI) up 8.2% over the past year, while the Personal Consumption Expenditure (PCE) price index is up 6.2% at the end of Q3 2022. The headline inflation rate broke the congressionally-mandated two-percent threshold in April 2021, and has remained above that threshold since. To combat inflation, the Fed began unwinding its balance sheet, and increasing interest rates in March 2022; while Congress passed the Infrastructure Investment and Jobs Act Bill (Infrastructure Bill), in November 2021. The bill outlines a plan to invest $1.2 trillion over the next 5 years into key infrastructure projects across the nation. It is estimated that the Bill will create 1.2 million jobs per year.

In March 2022, the Fed began unwinding its $8.9 trillion balance sheet after years of “easy money”, while increasing interest rates to combat inflation. At the end of Q3 2022 the Fed has reduced its balance sheet by roughly $140 billion since Q1 2022. During this period, the Fed also increased the ‘effective’ Federal Funds Rate (EFFR) 300-basis points, from 0.0% - 0.25% to 3.0% - 3.25%. This represents the fastest rate of interest rate hikes in the history of the Fed. Interest rate hikes are a key tool of monetary policy as the increase in rates suppresses demand by increasing borrowing costs. A wave of refinances in 2020 and 2021 should help minimize the damage these interest rate hikes have on the broader economy.

ECONOMIC OUTLOOK

The Federal Reserve (Fed) will continue to increase interest rates until the headline inflation rate is subdued. Inflation reached a 40-year high at the end of Q3 2022 despite rates increasing at the fastest pace on record. Although inflation is the key determinant of monetary policy, it is only one aspect of the economy that the Fed reviews when making decisions about rates. The Fed looks at a broad array of economic indicators to see how the market responds to rate hikes. So far, the market has been able to absorb rate hikes, but the question remains; at what point does the Fed stop rate hikes and let the market adjust?

As is the case with inflation at large, trends are moving in a favorable direction, but the pace of change is likely too slow for the Fed to take its foot off the brake. The Fed Funds Rate was 3.0% - 3.25% at the end of Q3 2022. Based upon current market conditions, we expect rates to peak at approximately 4.5% - 5.0% by Q1 2023. A rate not seen since early 2008. The Fed funds rate matters because it has a ripple effect on every aspect of consumers’ financial lives, from how much they’re charged to borrow, to how much they’ll earn in interest. Rising interest rates are meant to suppress economic growth, which while tepid, remains buoyant. Although the economy contracted in the first half of this year, it increased at an annual rate of 3.2% in Q3 2022 (BEA). Additionally, the unemployment rate also reached a 50-year low at the end of Q3, an encouraging sign for both investors, and policy makers. Investment opportunities still exist, despite a glut of new builds over the previous 12-month period. Investors need to review the long-term trajectory of markets when making investment decisions. Although interest rates may be of concern, the long-term benefit of rate hikes to subdue inflation far outweighs the short-term ramifications.

TRAJECTORY OF NATIONAL ECONOMICS AND THE FUNDAMENTALS OF THE SAN DIEGO MSA:

Inflation remained a leading concern across the nation; however, the impact of inflation varies across the nation. Nationwide, inflation increased at an annual rate of 8.2% at the end of Q3 2022. According to the Bureau of Labor Statistics, the Western region of the United States saw an increase in inflation, rising at an annual rate of 8.3% through September 2022, or by 0.3% over the previous month. Comparatively, the San Diego MSA also witnessed a similar month-over-month increase of 0.4%, while prices increased 8.2% over the previous 12-month period. The Phoenix MSA recorded the highest increase in prices over the previous year, increasing 13%. According to the Federal Bureau of Labor Statistics (BLS), the Phoenix-Mesa-Scottsdale MSA had the highest inflation rate in the nation, with prices increasing 0.7% over the previous quarter alone. The metro with the second highest inflation rate – Atlanta, reported an 11.3% increase in prices over the previous 12-month period, followed closely by Tampa, Miami, and Baltimore.

The San Diego MSA remains entrenched in inflation, though consumer prices eased both locally and nationally last month. The San Diego MSA has consistently reported strong population, and labor force growth over the past decade. This growth has helped fuel growth, and demand over the previous 12-month period, as the MSA reported a 4.2% increase in its total workforce, which represents a 60,000 increase in the metropolitan area workforce. With this additional employment, the unemployment rate of the San Diego Metropolitan area decreased from 3.2% to 3.1% in the 3rd quarter of 2022. The San Diego MSA alone accounts for 8.3% of the total jobs in California, with nearly 1,535,000 individuals currently employed in the area. The metro has also contributed 12.9% of the state's overall growth in Q3 2022, welcoming nearly 20,000 new jobs, while the rest of the state experienced a minor decrease, losing 750 jobs over the same timespan (BLS).

The San Diego MSA witnessed a 28.5% increase in the price per unit of multifamily units sold over the previous 12-month period, while simultaneously experiencing an 83.4% decrease in total transaction volume over that same time span as interest rates, and prices dampened demand across the City.

Rental rates increase 8.5% to $2,416-a month at the end of Q3 2022, compared to the same period last year. That growth has slowed over the previous quarter, as average asking rents declined 2.8% over the previous quarter to $2,350-per month. Although considerably higher than the average asking rents across the nation, this pales in comparison to the average cost of home ownership. As rates increased over the past 6-month period, the average cost of a single-family property rose to $4,857 a month. This rapid increase in standard monthly mortgages has begun pushing more residents towards renting, leaving 46% of properties in the metro area as renter-occupied (U.S. Census Reporter). California experienced the largest out migration, reporting a loss of 400,000 people since mid-2021.

The San Diego MSA reported a decline in population of -0.3%, or 11,200 people last year. The natural population growth across the metropolitan area helps offset out migration. The lack of affordable housing bodes well for the multifamily market, as would-be buyers are pushed into rental units. Limited space has been a driving factor in new developments, as in-fill opportunities decline, the broader MSA has benefited, leading to extensive new development. There were approximately 272,000 existing units at the end of Q3 2022, with just under 7,000 units under construction (CoStar), which represents a 2.6% increase. While this is a sizeable expansion, it is far lower than many major metropolitan areas across the nation.

ATTRACTIVENESS OF THE SAN DIEGO MSA:

What differentiates the San Diego Metropolitan Area and the state of California from the rest of the nation boils down to updated state legislation, a push towards affordability, and shifts in migration.

A high priority dilemma being addressed by officials in the state of California is their current housing inventory in comparison to demand from the general population. Vacancy rates in the San Diego MSA currently sit at 3.3% across the multifamily sectors (Northmarq). Due to this decrease in availability, coupled with a lack of affordability, California witnessed its first negative population change in the history of the state.

In addition to negative net migration, California witnessed an exodus of companies in 2020. Tight COVID restrictions, legislation, and a less competitive labor market caused 41 companies to relocate since 2020, with 10 of those companies leaving in 2022 alone (Build Remote). Although this would upset typical states, California is the fifth largest economy of the world, and this decline represents a tiny fraction of the greater economy. However, continued restrictive business requirements, legislation, and taxes have complicated business dynamics.

Back in the earlier parts of 2022, California legislators made a push to change the housing sector via upzoning changes, and the comprehensive bill CA SB 9. This piece of legislation allows homeowners to create additional housing units by subdividing an existing single-family lot. What this provides for the state of California is more access to rental and ownership options for working families who are otherwise priced out of the market. Through this process, homeowners must comply with all local zoning regulations and the additions cannot amass more than four total units. In providing this additional housing, California legislators are addressing their ongoing affordability crisis by making multifamily dwellings more accessible in areas of the state that call for a higher population density.

Coupled with CA SB 9, San Diego will bring the Measure C coastal height regulations to a vote, with the hope of lifting the current 30-foot building limit in the area. The initial intention of the amendment is for the development of a proposed mixed-use community in the city's sports arena property, which will help to revitalize a section of the MSA that has been neglected for decades. While this is nice, this vote could also have additional implications on the multifamily sector, allowing for additional mid-rise and high-rise developments to take place in order to address the metro's need for housing.

It is estimated that San Diego County requires 20,000 housing units annually over the next decade, yet only permits an average of 10,000 units on a yearly basis. With the institution of these key pieces of legislation, San Diego has the ability to implement much needed additional housing units through vertical building, and the utilization of pre-existing single-family lots. As these legislations are implemented and regulations loosen, investors will once again seize upon the upside and opportunity that the San Diego MSA has to offer.

ABI COMPARATIVE MARKET REVIEW: Q3 2022

		SAN DIEGO	PHOENIX	TUCSON	LAS VEGAS
DEMOGRAPHICS	Total Population	3,286,069	4,946,145	1,052,030	2,292,476
	Unemployment Rate (Q3 2022)	3.1%	3.5%	4.1%	5.3%
	Employment Growth (y-o-y)	4.2%	4.1%	1.9%	5.0%
	Median HH Income	$91,003	$75,731	$60,667	$63,677
	Per Capita Income	$44,377	$38,713	$34,323	$33,387
RENT/OCC/CONST (50+)	Rent (Q3 2022)	$2,416	$1,704	$1,263	$1,525
	y-o-y % Increase/Decrease	+8.5%	+10.7%	+11.6%	+10.6%
	Occupancy (Q3 2022)	96.9%	94.5%	94.8%	94.5%
	y-o-y % Increase/Decrease	-0.7%	-1.8%	-1.6%	-2.0%
	Total Inventory (50+)	206,044	356,658	74,560	185,870
	Total Under Construction (50+)	7,456	38,515	839	8,772
	Units Delivered (50+, Q3 2022)	4,353	9,246	592	1,173
SALES (50+)	Total Sales Volume (Q3 2022)	$93M	$3.01B	$435M	$574M
	y-o-y % Increase/Decrease	-94.3%	-29.6%	+27.2%	-28.5%
	Average P/U (Q3 2022)	$298,548	$311,358	$193,016	$309,644
	y-o-y % Increase/Decrease	+12.6%	+8.7%	+6.7%	+56.8%

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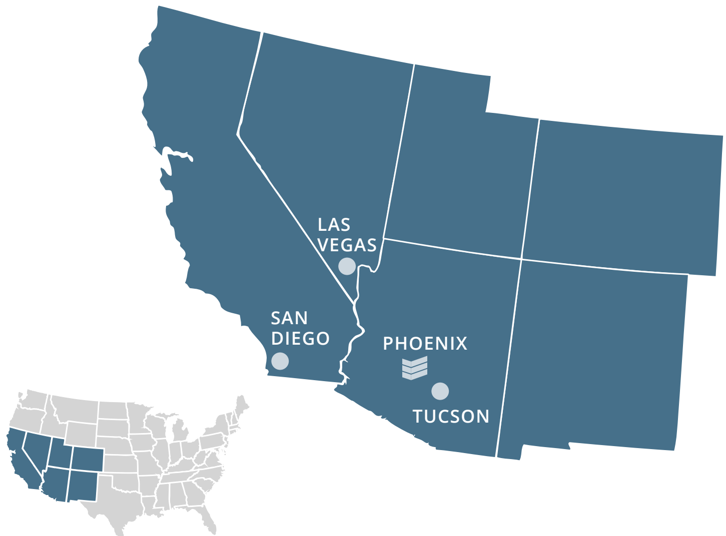

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