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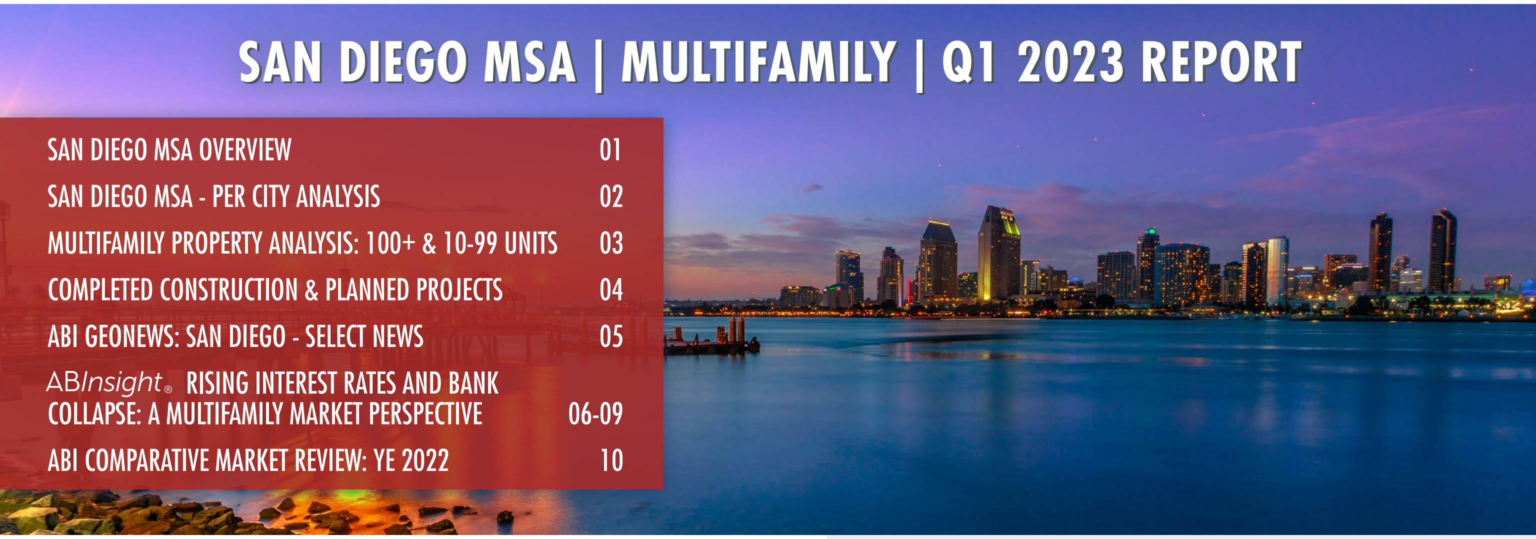


SAN DIEGO MSA | MULTIFAMILY | Q1 2023 REPORT

10+ UNIT PROPERTIES	Q1 2023	INCREASE/DECREASE	Q1 2022
Total Sales Volume	$337M	-70.1%	$1.13B
AVERAGE Price/Unit	$280,507	-33.8%	$423,891
AVERAGE Price/SF	$346.12	-33.7%	$522.31
AVERAGE Year Built	1974	+5 Yrs	1969
Average Rent	$2,686	6.7%	$2,517
Occupancy Rate	96.9%	-0.8%	97.7%
Units Delivered	333	-63.4%	911

3,291,895 POPULATION
MARCH 2023*

3.7% 0.8%
UNEMPLOYMENT
Q-O-Q AS OF MARCH 2023*

3.3%
EMPLOYMENT GROWTH
Y-O-Y AS OF MARCH 2023*

$97,919
MEDIAN HH INCOME
MARCH 2023*

$83,820
GDP PER CAPITA
MARCH 2023*

8,379 Units (50+)
UNDER CONSTRUCTION
YARDI

321,501 Units (10+)
TOTAL INVENTORY
ABI RESEARCH, COSTAR; YARDI

* Forecasted

ABI GEONEWS: SAN DIEGO MSA - SELECT NEWS

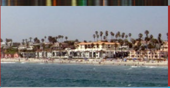
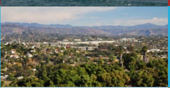
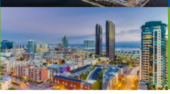
CONTINUED ON PAGE 05

Post-Pandemic Small Business Creation Booming

Measure C to Repeal Height Limit in Midway District Passes by Narrow Margin

With San Diego's Midcoast Trolley Extension Complete, Focus Turns to Economic Potential Along Route

SAN DIEGO MSA - PER CITY ANALYSIS

SAN DIEGO MSA QUICK STATS		*MEDIAN HH INCOME	50+ UNIT PROPERTIES TOTAL INVENTORY	50+ UNIT PROPERTIES UNDER CONSTRUCTION
	San Diego MSA	$97,919	246,155	14,192
	North County Coastal	$117,000	28,835	5,293
	North County Inland	$93,500	39,720	812
	East County	$87,400	32,840	1,672
	South Bay	$74,900	35,865	3,033
	Metro San Diego	$98,800	107,477	553

* Forecasted

	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 2023)	$2,524	$2,113	$2,066	$2,223	$2,669
	% Change (y-o-y)	4.1%	5.3%	6.5%	6.9%	3.7%
	Occupancy Rate (Q1 2023)	96.9%	96.7%	96.6%	95.5%	95.6%
	% Change (y-o-y)	-1.4%	-1.8%	-1.6%	-3.2%	-0.6%
	Units Delivered (Q1 2023, 100+)	- -	- -	- -	- -	333
SALES DATA (100+)	Total Sales Volume (Q1 2023, 100+)	- -	$19,500,000	- -	- -	$185,000,000
	Total Sales Volume (Q1 2022, 100+)	$293,500,000	- -	- -	- -	$574,472,000
	% Change (y-o-y)	- -	- -	- -	- -	-67.8%
	Avg P/U (Q1 2023, 100+)	- -	$145,522	- -	- -	$298,387
	Avg P/U (Q1 2022, 100+)	$455,745	- -	- -	- -	$451,984
	% Change (y-o-y)	- -	- -	- -	- -	-34.0%
SALES DATA (10-99)	Total Sales Volume (Q1 2023, 10-99)	$6,200,000	$14,750,000	$39,378,000	$23,585,000	$48,195,000
	Total Sales Volume (Q1 2022, 10-99)	$44,532,593	- -	$42,645,000	$10,250,000	$159,608,288
	% Change (y-o-y)	-86.1%	- -	-7.7%	130.1%	-69.8%
	Avg P/U (Q1 2023, 10-99)	$563,636	$283,654	$271,572	$314,467	$295,675
	Avg P/U (Q1 2022, 10-99)	$371,105	- -	$273,365	$301,471	$372,047
	% Change (y-o-y)	51.9%	- -	-0.7%	4.3%	-20.5%

100+ UNIT MULTIFAMILY PROPERTY ANALYSIS

		Q1 2023	INCREASE/DECREASE	Q1 2022
	Total Sales Volume	$205M	-76.4%	$868M
AVERAGE	Price/Unit	$271,220	-40.2%	$453,249
	Price/SF	$315.16	-41.9%	$542.24
	Year Built	1979	-24 Yrs	2003

TOP 3 TRANSACTIONS BY PRICE/UNIT (100+)

Barclay Square
San Diego, 270 Units | $91,561,784
$339,118/unit | $306.41/SF | Built 1968

Village Glen
San Diego, 250 Units | $72,438,216
$289,753/unit | $347.34/SF | Built 1973

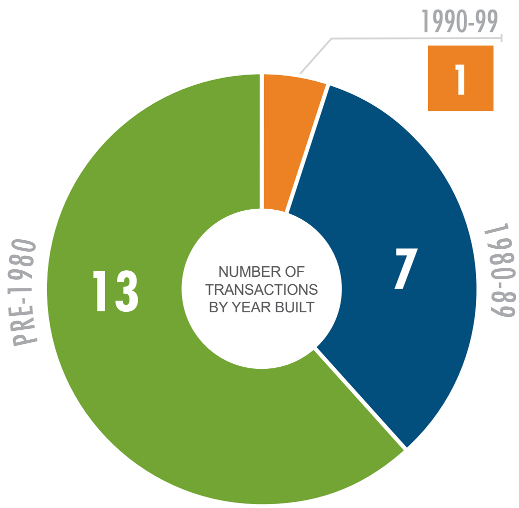
Ballpark Place
San Diego, 100 Units | $21,000,000
$210,000/unit | $437.77/SF | Built 1988

Q1 2023 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	- -	- -	- -
2000-09	- -	- -	- -
1990-99	- -	- -	- -
1980-89	2	$173K	$286
Pre-1980	2	$315K	$323

10 - 99 UNIT MULTIFAMILY PROPERTY ANALYSIS

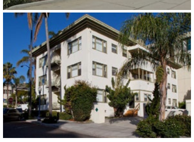
		Q1 2023	INCREASE/DECREASE	Q1 2022
	Total Sales Volume	$132M	-48.6%	$257M
AVERAGE	Price/Unit	$296,206	-14.8%	$347,816
	Price/SF	$408.18	-12.1%	$464.62
	Year Built	1973	+11 Yrs	1962



TOP 3 TRANSACTIONS BY PRICE/UNIT (10-99)

1760 Diamond Street
San Diego, 10 Units | $7,350,000
$735,000/unit | $643.61/SF | Built 1968

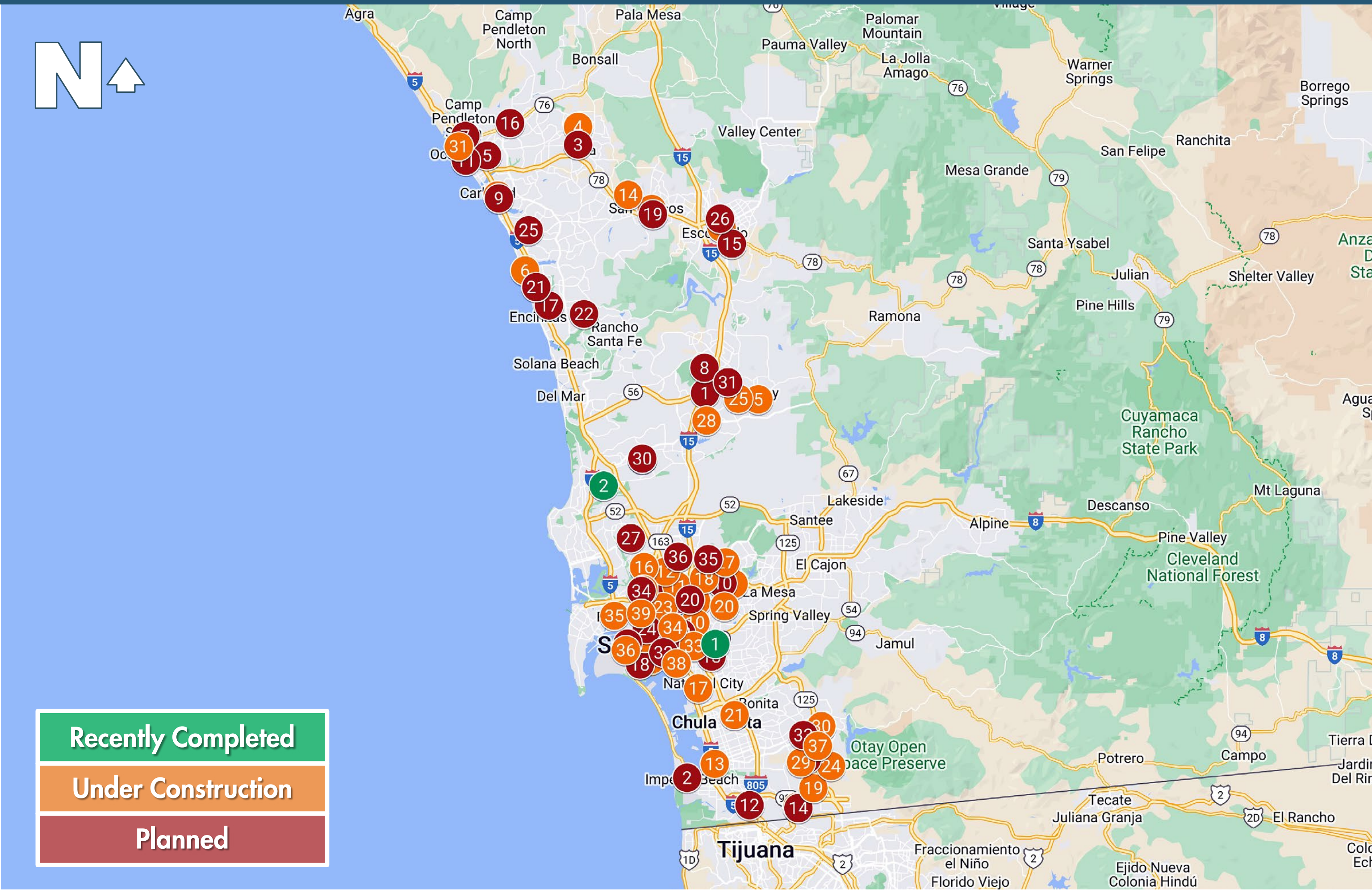
Carlsbad Village
Carlsbad, 11 Units | $6,200,000
$563,636/unit | $622.49/SF | Built 1964



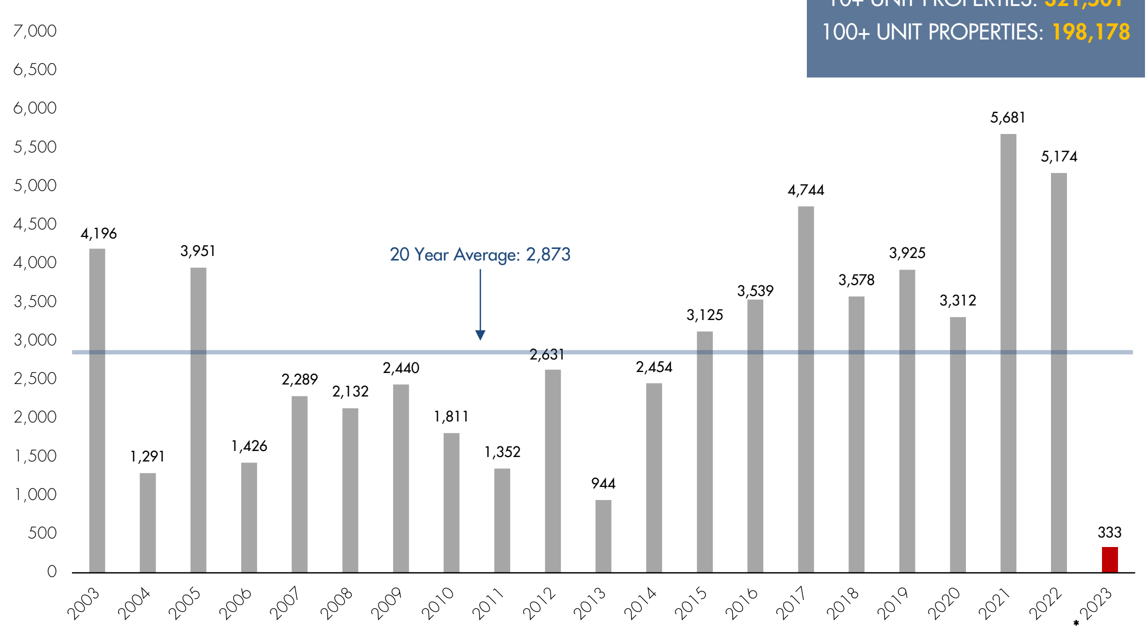
Mayfair
San Diego, 24 Units | $9,730,000
$405,417/unit | $819.02/SF | Built 1925

Q1 2023 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	- -	- -	- -
2000-09	- -	- -	- -
1990-99	1	$322K	$379
1980-89	7	$292K	$346
Pre-1980	13	$296K	$452



SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE
Q1 2023



TOTAL UNIT INVENTORY

10+ UNIT PROPERTIES: **321,501**

100+ UNIT PROPERTIES: **198,178**

PRE-LEASE ABSORPTION RATE

12

Units/Property/Month (Q1 2023 Avg)

RECENTLY COMPLETED

TOTAL # OF UNITS: **333**

TOTAL # OF PROPERTIES: **2**

UNDER CONSTRUCTION

TOTAL # OF UNITS: **8,379**

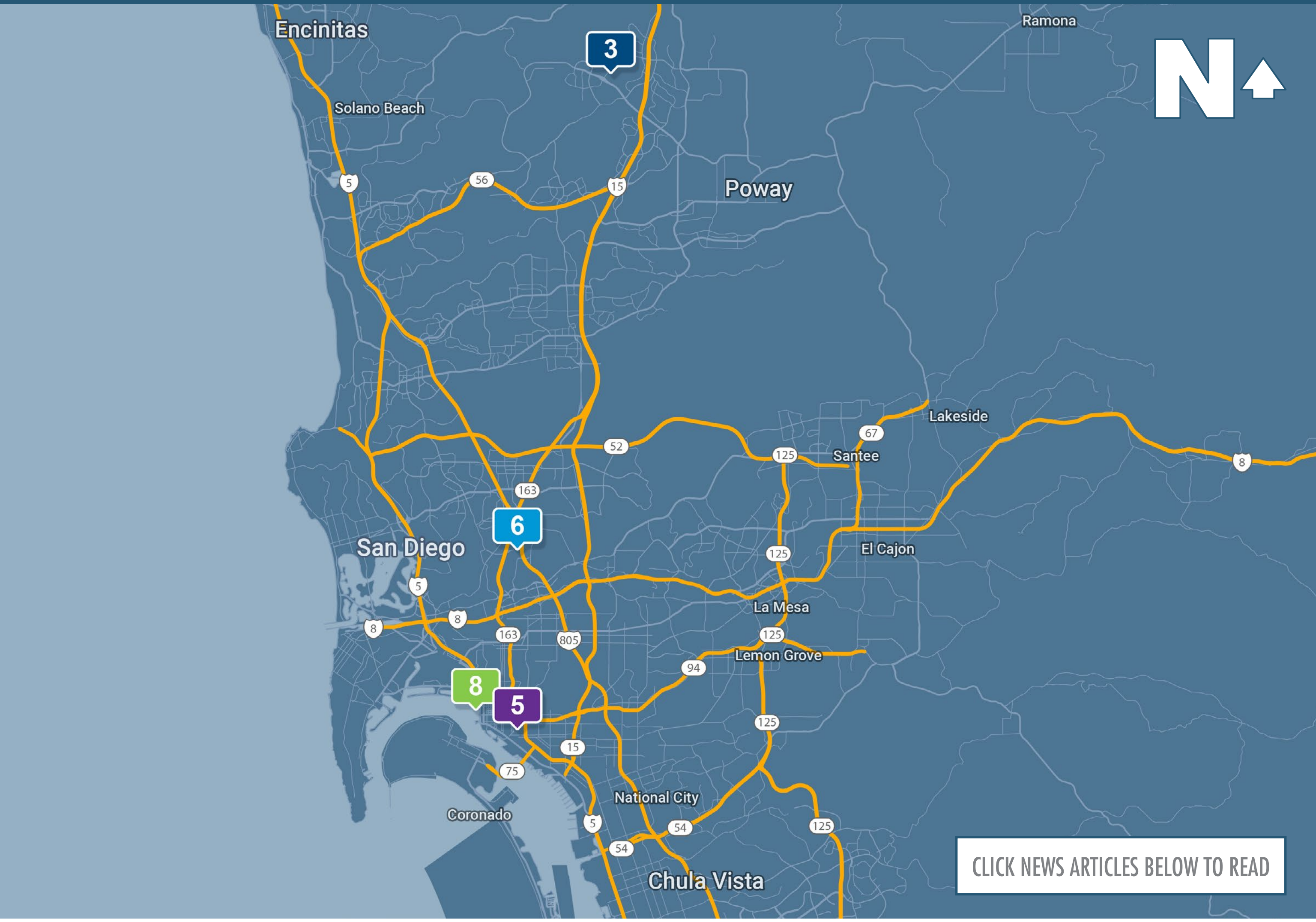
TOTAL # OF PROPERTIES: **39**

PLANNED

TOTAL # OF UNITS: **13,829**

TOTAL # OF PROPERTIES: **36**

*** 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**
Post-Pandemic Small Business Creation Booming

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

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

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

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

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

Regional **San Diego**
Measure C to Repeal Height Limit in Midway District Passes by Narrow Margin

Regional **San Diego**
With San Diego's Midcoast Trolley Extension Complete, Focus Turns to Economic Potential Along Route

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

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

6 **Apple**
Apple Increasing San Diego Footprint

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

RISING INTEREST RATES AND BANK COLLAPSE: A Multifamily Market Perspective

By: James W. Hall | **ABI DIRECTOR OF RESEARCH**

INTEREST RATES IMPACT REGIONAL BANKS, WHAT'S NEXT?

Economic uncertainty, inflationary pressures, recessionary concerns, and a plethora of conflicting and deteriorating economic data benefited financial markets last quarter. Although commercial real estate sales activity declined last quarter, investors, market participants, and policymakers reacted positively to declining economic data as the probability of further rate hikes plunged.

The failure of Silicon Valley Bank (SVB) sparks contagion fears as its collapse is a perfect example of the kinds of dislocations that are exposed when rate cycles shift. The bank's collapse was a byproduct of the Federal Reserve (the Fed) hiking interest rates by 1,700% in less than a year. It also marked the biggest bank failure since 2008, its cause quite simple; a bank run (customers withdrawing more funds than the bank had reserves). This isn't to say the bank didn't have the assets to cover withdrawals, but SVB didn't immediately have the cash available because it used deposits to buy "risk free" US treasury bonds - a standard practice among all banks.

Government stimulus aimed at small, and medium-sized businesses during the pandemic enabled the bank to increase total deposits from $62 billion at the end of 2019 to $173 billion by year-end 2022. The bank used these deposits to buy US treasuries when interest rates were near zero (0.25%). The increase in interest rates caused the face value of these bonds to decline. The face value of bonds and the associated interest rate of those bonds have an inverse relationship. More simply, as rates rise, treasury prices/values decline.

The bank was well capitalized (Tier 1 Capital Ratio 15.26%), meaning it was able to cover all deposits. However, digital banking and viral panicking based on misinformation caused depositors to withdraw $42 billion of deposits in a single day, leaving the bank with $1 billion in negative cash balance. To cover the negative cash balance, SVB sold its holding in US treasury bonds for a $1.8 billion loss. The loss accrued because of the increase in interest rates. Had the bank held the bonds to maturity, the bank wouldn't have had to sell the bonds and realize the loss. The drain on equity capital led the lender to try to raise over $2 billion in new capital. The call to raise equity sent shockwaves to SVB customers, which further exacerbated the capital drain. The bank's failure to raise the new capital led the bank to collapse, which forced the government to step in to protect the bank's stakeholders.

This won't be an isolated issue - but it is directly correlated to the rise in interest rates and the actions of the Fed. However, smaller, regional, and less diversified banks are at a greater risk of bank runs compared to your everyday bank; such as Chase, Bank of America, and Wells Fargo.

The Fed has raised interest rates nine times since last March, bringing rates to the highest level in 16 years. The moves are intended to discourage people from borrowing, slow economic activity, and ease the pressures that are pushing prices higher. Inflation in the US was 5% at the end of March 2023, the lowest level in two years. It's a strong sign that the Fed's actions are easing inflationary pressure, which peaked at 9.1% last June, the highest it has been since 1981.

One reason interest rates have risen much higher than most forecasters anticipated is that the U.S. economy has proven more resilient to the impact of higher rates than expected. Higher interest rates have meant higher borrowing costs for consumers and businesses. The 30-year mortgage reached 7% at one point in November 2022, the highest in over 20 years. Since then, mortgage rates have steadily declined, while the stock market has begun to recover strongly. Every asset class has risen this year because speculation that rate hikes will end by mid-year 2023 encourages investment activity.

Housing activity has fallen sharply, but much of the economy seems unscathed. Home listings have plunged, but this hasn't led to a continued decline in prices, in fact, the limited inventory is cushioning the housing market from continued declines in value.

GDP, which measures the rate of growth across the economy, expanded 1.1% on an annualized basis. While positive, it highlights the fact that the economy is beginning to struggle because of rising rates, as well as the increase in lending standards due to the collapse of Silicon Valley Bank.

The head of the Fed, Jerome Powell, signaled this month that officials believe they may have done enough to get inflation under control and could be ready to pause their program of rate hikes. Economists at Wells Fargo said that the latest figures could help convince policymakers to pause, but they warned that "progress remains incremental rather than rapid."

We expect the Fed to pause its rate hikes by Summer 2023 at around 5.50% - 6.0%. Tightening lending conditions will become a drag on economic growth, hiring, and retail sales in the second half of the year. We expect the Fed to begin cutting the federal-funds rate by the end of 2023 to soften the decline in economic activity. The economy will likely avoid a recession, but growth will remain anemic through 2024. To avoid a hard landing and spur economic growth, we foresee the federal-funds rate returning to normalcy by the end of 2024 at 3.0% - 3.5%.

Overall, the economy has proven far more resilient to rate hikes than previously expected. Large federal stimulus packages and legislation are helping to offset broad inflationary pressures. Although sales activity has declined over the previous quarter, we believe that that's a function of investors becoming sidelined in anticipation of lower long-term rates/rate cuts by year-end.

SHIFTING DYNAMICS AFFECTING THE MARKET

The San Diego economy continues to grow, despite negative population trends weighing heavily on market sentiment. The local government is amending legislation that has impeded business growth, development, and economic growth. The city is planning to update and simplify zoning regulations across the MSA in a bid to stimulate the economy. Local officials plan to reduce the bureaucracy and "red tape" that is currently stifling much needed development, business investment, and the construction of both affordable housing and market-rate multifamily complexes.

An article released by the Times of San Diego stated that over the past 12 months, single-family home sales decreased ~34.5% due to limited inventory, rising rates, and borrowing costs. Tightening lending standards and a lack of affordable housing are pricing many would-be buyers out of the market. The 30-year mortgage rate, which peaked in November 2022 at 7%, has since steadily decreased, provided a welcome boost to sales activity which grew 3% last quarter compared to the previous one.

Last year, California's population declined by 0.3%, or 110,000 residents, for the first year-over-year decline in the state's history. Despite the decline, California remains the most populous state in the country with over 39 million permanent residents. Comparatively, the second most populous state is Texas with 30.3 million residents, followed by Florida which has a population of 22.4 million. Of those leaving, 30% moved to Texas, Florida, and the State of Washington.

The San Diego MSA is the 15th most populous metropolitan area in the nation with 3.3 million residents. Since 2019, the total population has dropped by 1.8%, a net loss of 60,000 residents. Both state and local officials are implementing plans to stem the population decline across the state, as residents seek more favorable individual and corporate income tax, and more affordable housing. Proposed changes to building regulations and zoning requirements won't provide any immediate relief to the decline in population; however, any changes would likely be accompanied by tax benefits and incentives which may improve the investment/development landscape.

San Diego residents have a much higher propensity to rent compared to owning properties due to a variety of macro and microeconomic factors. Elevated and rising rental rates coupled with tepid wage growth and high inflation is pricing many would-be homebuyers out of the market. Currently, 12.4% of tenants who rent in the San Diego MSA make more than $150,000 annually, twice the percent of renters who made that amount in 2018. As a result of limited affordable housing, rising home prices, and high borrowing costs, San Diego has one of the lowest homeownership rates in the country - 46% of properties in the metro area reported as renter-occupied. Although a recent decline in both borrowing costs and home prices has provided some relief, demand for rental units will continue to outpace home purchases due to the comparative affordability.

Interest rate hikes have put pressure on single-family home sales across the state of California and the San Diego MSA as affordability and rising borrowing costs subdue demand.

According to data provided by the California Association of Realtors (CAR), the median sale price of an existing single-family home in the state increased 4.6% to $915,000 at the end of March 2023 compared to the previous month, however, this represents a 3.7% decrease from March 2022, when the median sale price was $950,000. Despite the decrease in median sold price, the sales in San Diego increased by 34.7% from the previous month and decreased by 29.4% from March 2022.

The average 30-year fixed-rate mortgage payment in San Diego increased to $5,775-per month, while the average 15-year fixed-rate mortgage jumped to $7,245-per month, which ranks as the second most expensive monthly mortgage in the country (National Association of Realtors).

Over the past year, rental rates have increased 6.7%, whereas despite the year-over-year decline in median single-family home price, the drastic increase in mortgage rates over the previous year has still increased the monthly cost of a 30-year fixed-rate mortgage by 12.0%, or 6.8% for a 15-year fixed rate mortgage - based on the current median home price $915,000 and the 30- and 15-year rates offered by Freddie Mac (this includes property tax and insurance).

Comparatively, the average monthly rate across all asset classes in San Diego was $2,686-per month, while up 6.7% year-over-year, rental rates were down 0.2% compared to Q4 2022. This represents a 35% increase compared to the pre-pandemic average monthly rate.The average asking rent for Class C properties at the end of March 2023 was $2,047-per month, compared to $2,678-per month for Class B properties, and $3,191 per month for Class A units.

There were roughly 321,000 multifamily units across the San Diego MSA at the end of March 2023. A lack of affordable housing, elevated mortgage rates, and tightening lending standards have pushed a greater proportion of the population to rent. This increase in demand has helped suppress vacancy rates, despite a recent glut of new units coming online. The metrowide vacancy rate was 3.1% at the end of Q1 2023, a 80bps increase compared to the same period last year. Although the increase may appear large, it follows a nationwide increase in vacancies as a glut of new inventory provided additional supply for potential tenants. This also helped subdue further increases in rental rates.

Developers completed only 333 units in the first quarter of 2023, or 2,636 units over the previous year, which represents a 0.8% expansion in total inventory. As of now, there are 8,379 units under construction, and another 13,829 units in the planned/planning phase. New legislation passed by both state and local officials over the past 5+ years, will help alleviate some long-term supply constraints.

The County of San Diego is currently working on the 2023 Housing Zoning Ordinance Update. The update will align the County's zoning regulations with new state housing laws intended to make housing more affordable and accessible. State and local officials have passed 21 new bills between 2018 and 2022 aimed to combat the legislative and legal bureaucracy limiting the construction of additional housing across the metro. The new laws will reduce regulatory barriers impeding developers, offer incentives for the development of new housing, simplify planning requirements, and rezone dozens of areas to entice further multifamily development.

Historically, high-rise housing construction has primarily occurred in the downtown/Core Business District (CBD) due to legislation that restricted development based on the "walkability", or proximity to the Transit System. Previous regulations mandated that any high-rise development be within a half-mile of the public transport system. The revised legislation was ratified in conjunction with the approved expansion of the San Diego Trolley System. These revision have already had a positive impact on inventory, with 21,000 units in the planning phases, or under construction. Additionally, there has been significant modifications to other state and local legislation, which creates further incentives for developers. This evolving legislative landscape presents a prime opportunity for developers to capitalize on changes and enter a supply-constrained market with robust rent and wage growth.

MULTIFAMILY TRANSACTION TRENDS

Amid elevated interest rates/borrowing costs, and a dearth of investment opportunities, investor appetite diminished across all asset classes last quarter. Total sales still exceeded $2.9 billion over the previous 12-month period, with less than 12% of that coming from Q1 2023.

Last year, sales exceeded $3.5 billion, which was less than the $5.2 billion in the year prior. Seemingly this is a downward trend; however, when you dig deeper into the historical data, you will find that comparatively, sales volume was $2.7 billion in 2019, and $2.4 billion in 2020. This puts last year's total sales roughly $1 billion over that of the two years prior to the real estate boom witnessed in 2021.

The Federal Reserve began increasing interest rates at the end of the first quarter of 2022, which did little to dampen investor appetite. In fact, sales volume exceeded $358 million in Q3 2022, followed by $1.25 billion in Q4 2022. These numbers were recorded after the Fed had increased interest rates from near 0% at the start of 2022, to 3.0%-3.25% by the end of Q3 2022. This was the fastest rate hike in history and yet sales continued to surpass expectations.

While the market remains both fundamentally and demographically strong, elevated rental rates have put upward pressure on metro-wide vacancy rates, which increased 80bps to 3.1% at the end of Q1 2023 compared to the same period last year. While this seems significant, other metropolitan areas nationwide have seen changes of closer to 100-200bps, indicating the demand for housing present within the San Diego MSA.

ABI MULTIFAMILY OUTLOOK

The State of California reported negative population growth last year, the first year-over-year contraction in population since records began. State and local legislation that's limited the construction of new housing has caused a supply-based housing and affordability crisis. Despite negative demographic and fundamental trends impeding the multifamily market - recently passed state and local legislation aimed at stimulating new development offers a unique investment opportunity. Leglislators have passed new housing and building regulation that reduce the current regulatory barriers impeding developers by offering incentives, simplifying planning requirements, and rezoning dovens of new areas will help spur development. This should help alleviate the supply-constrained affordability crisis. Overall, while negatively skewed demographic and fundamental trends will impede the market, we believe that these are short-term impediments that will be mitigated by the ratification of these new state and local regulations.

ABI COMPARATIVE MARKET REVIEW: Q1 2023

		San Diego	Phoenix	Tucson	Las Vegas
DEMOGRAPHICS	Total Population (March 2023*)	3,291,895	5,057,973	1,067,414	2,362,988
DEMOGRAPHICS	Unemployment Rate (March 2023*)	3.7%	2.6%	2.8%	6.1%
DEMOGRAPHICS	Employment Growth (y-o-y)	3.3%	2.8%	1.8%	5.0%
DEMOGRAPHICS	Median HH Income (March 2023*)	$97,919	$81,221	$64,347	$67,672
DEMOGRAPHICS	GDP Per Capita (March 2023*)	$83,820	$67,423	$49,906	$60,726
RENT/OCCUPANCY/CONSTRUCTION	Rent (Q1 2023)	$2,686	$1,673	$1,276	$1,483
RENT/OCCUPANCY/CONSTRUCTION	y-o-y % Increase/Decrease	6.7%	0.1%	4.2%	-0.4%
RENT/OCCUPANCY/CONSTRUCTION	Occupancy (Q1 2023)	96.9%	94.0%	93.3%	93.2%
RENT/OCCUPANCY/CONSTRUCTION	y-o-y % Increase/Decrease	-0.8%	-1.4%	-2.8%	-2.0%
RENT/OCCUPANCY/CONSTRUCTION	Total Inventory (50+)	321,501	395,452	99,972	229,146
RENT/OCCUPANCY/CONSTRUCTION	Total Under Construction (50+)	8,379	39,324	2,139	9,256
RENT/OCCUPANCY/CONSTRUCTION	Units Delivered (50+, Q1 2023)	333	3,496	0	1,093
SALES	Total Sales Volume (Q1 2023)	$337M	$796M	$32M	$137M
SALES	y-o-y % Increase/Decrease	-70.1%	-75.4%	-91.7%	-87.6%
SALES	Average P/U (Q1 2023)	$280,507	$233,236	$176,157	$193,293
SALES	y-o-y % Increase/Decrease	-33.8%	-22.1%	15.4%	-25.8%

* Forecasted

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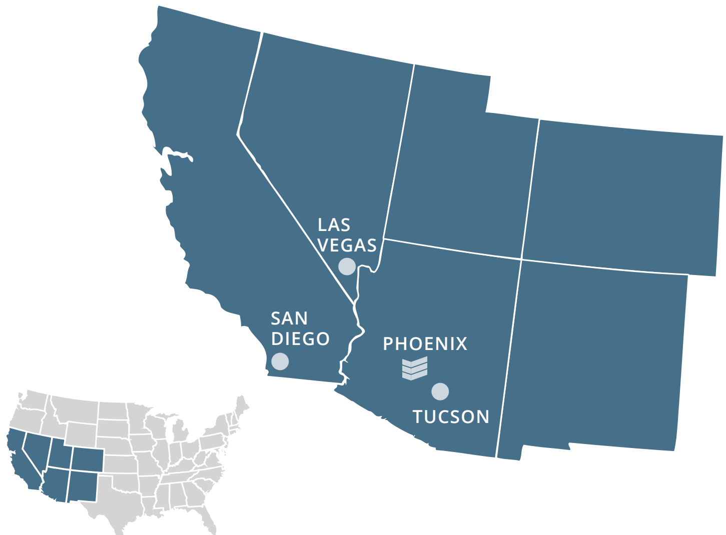
SEASONED ADVISORS WITH REGIONAL INSIGHT
COLLABORATION & COOPERATION



APARTMENT BROKERAGE & ADVISORY FIRM

ABI Multifamily is a brokerage and advisory services firm that focuses exclusively on apartment investment transactions. The experienced advisors at ABI Multifamily have completed billions of dollars in sales and thousands of individual multifamily transactions.

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