

## SAN DIEGO MSA | MULTIFAMILY | 1Q 2017 REPORT

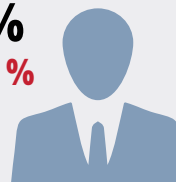
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| 5+ UNIT PROPERTIES | 1Q 2017         | INCREASE/DECREASE | 1Q 2016   |
|--------------------|-----------------|-------------------|-----------|
| Total Sales Volume | \$254M          | -59% ▼            | \$616M    |
| AVERAGE            | Price/Unit      | \$222,166 -0.3% ▼ | \$222,902 |
|                    | Price/SF        | \$285.82 3% ▲     | \$276.34  |
|                    | Year Built      | 1967 2 yrs ▲      | 1965      |
| 5+                 | Average Rent    | \$1,759 4.3% ▲    | \$1,686   |
|                    | Occupancy Rate  | 96.6% -0.3% ▼     | 96.9%     |
|                    | Units Delivered | 430 -44% ▼        | 761       |

3,299,521  **POPULATION**  
CENSUS 2015 ESTIMATE

4.2%  
▼ -0.1%



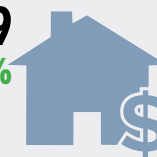
**UNEMPLOYMENT**  
AS OF MARCH 2017

+2.1%



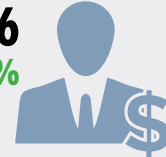
**EMPLOYMENT GROWTH**  
Y-O-Y AS OF MARCH 2017

\$64,309  
▲ +1.0%



**MEDIAN HH INCOME**  
2014-5 ACS 5-YR EST

\$31,266  
▲ +1.0%



**PER CAPITA INCOME**  
2014-5 CENSUS/BEA ESTIMATE

### ABI GEONEWS - SAN DIEGO MSA 1Q 2017 SELECT NEWS

CONTINUED ON PAGE 05



Illumina grows SD footprint with manufacturing facility



Developers planning new oceanfront resort in Del Mar



La Jolla Pharmaceutical plans \$100 million public offering

10,509  
Units (50+)









**UNDER CONSTRUCTION**  
YARDI

352,940  
Units (5+)



**TOTAL INVENTORY**  
AS OF 1Q 2017

# SAN DIEGO MSA - PER SUBMARKET ANALYSIS

| SAN DIEGO MSA QUICK STATS  | UNEMPLOYMENT RATE | MEDIAN HH INCOME | PER CAPITA INCOME | 50+               |                    |
|--|-------------------|------------------|-------------------|-------------------|--------------------|
|  |                   |                  |                   | TOTAL INVENTORY * | UNDER CONSTRUCTION |
|  San Diego MSA        | 4.2%              | \$64,309         | \$31,266          | 352,940           | 10,509             |
|  North County Coastal | 4.3%              | \$87,548         | \$54,058          | 20,372            | 144                |
|  North County Inland  | 4.0%              | \$61,807         | \$26,835          | 27,962            | 471                |
|  East County          | 5.0%              | \$62,058         | \$27,789          | 23,990            | 84                 |
|  South Bay            | 5.7%              | \$51,094         | \$21,023          | 21,697            | 823                |
|  Metro San Diego      | 3.7%              | \$84,197         | \$51,081          | 85,235            | 8,987              |

\* Total inventory numbers may vary due to zip/city overlap

## SAN DIEGO MSA - PER SUBMARKET ANALYSIS

### RENT & OCCUPANCY STATS

|                          | N County Coastal | N County Inland | East County | South Bay | Metro San Diego |
|--------------------------|------------------|-----------------|-------------|-----------|-----------------|
| Average Rent (1Q 2017)   | \$1,802          | \$1,562         | \$1,457     | \$1,517   | \$1,958         |
| % Change (y-o-y)         | +5.0%            | +5.7%           | +6.7%       | +4.4%     | +3.1%           |
| Occupancy Rate (1Q 2017) | 96.6%            | 96.8%           | 97.1%       | 97.3%     | 96.1%           |
| % Change from 2010       | -0.1%            | -0.6%           | +0.1%       | 0%        | -0.5%           |
| Units Delivered (50+)    | N/A              | N/A             | N/A         | 108       | 322             |

### SALES DATA (50+)

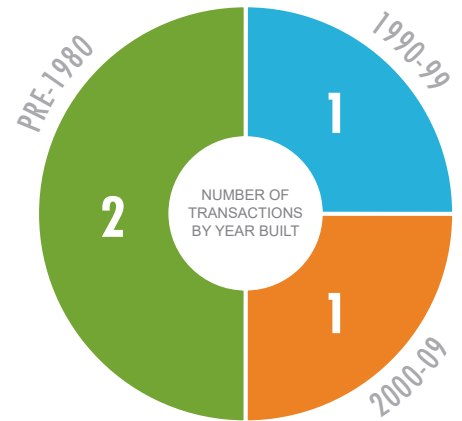
|                                   |              |              |               |              |              |
|-----------------------------------|--------------|--------------|---------------|--------------|--------------|
| Total Sales Volume (1Q 2017, 50+) | \$12,500,000 | \$44,250,000 | \$18,970,000  | N/A          | N/A          |
| Total Sales Volume (1Q 2016, 50+) | \$10,300,000 | \$17,500,000 | \$256,254,783 | \$22,000,000 | \$97,648,000 |
| % Change (y-o-y)                  | +21.4%       | +152.9%      | -92.6%        | N/A          | N/A          |
| Avg P/U (1Q 2017, 50+)            | \$148,810    | \$173,529    | \$249,605     | N/A          | N/A          |
| Avg P/U (1Q 2016, 50+)            | \$160,938    | \$180,412    | \$213,013     | \$271,605    | \$403,504    |
| % Change (y-o-y)                  | -7.5%        | -3.8%        | +17.2%        | N/A          | N/A          |

### SALES DATA (5-49)

|                                    |              |              |              |              |               |
|------------------------------------|--------------|--------------|--------------|--------------|---------------|
| Total Sales Volume (1Q 2017, 5-49) | \$10,517,500 | \$14,455,000 | \$21,297,500 | \$3,538,500  | \$128,185,125 |
| Total Sales Volume (1Q 2016, 5-49) | \$28,823,000 | \$28,000,000 | \$14,052,500 | \$20,445,100 | \$121,299,997 |
| % Change (y-o-y)                   | -63.5%       | -48.4%       | +51.6%       | -82.7%       | +5.7%         |
| Avg P/U (1Q 2017, 5-49)            | \$300,500    | \$155,430    | \$156,599    | \$208,147    | \$287,411     |
| Avg P/U (1Q 2016, 5-49)            | \$285,376    | \$161,850    | \$159,688    | \$154,895    | \$207,705     |
| % Change (y-o-y)                   | +5.3%        | -4.0%        | -1.9%        | +34.4%       | +38.4%        |

## 50+ UNIT PROPERTIES

|                           | 1Q 2017          | INCREASE/DECREASE | 1Q 2016          |
|---------------------------|------------------|-------------------|------------------|
| <b>Total Sales Volume</b> | <b>\$76M</b>     | <b>-81%</b> ▼     | <b>\$404M</b>    |
| <b>AVERAGE Price/Unit</b> | <b>\$182,458</b> | <b>-24%</b> ▼     | <b>\$239,302</b> |
| <b>AVERAGE Price/SF</b>   | <b>\$232.89</b>  | <b>-17%</b> ▼     | <b>\$281.06</b>  |
| <b>AVERAGE Year Built</b> | <b>1978</b>      | <b>10 yrs</b> ▼   | <b>1988</b>      |



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



#### La Mesa Palms

La Mesa, 76 Units | \$18,970,000  
\$249,605/Unit | \$230.88/SF | Built 1965

#### Hacienda Vallecitos

San Marcos, 104 Units | \$19,000,000  
\$182,692/Unit | \$219.05/SF | Built 2001

#### Casa Vallecitos

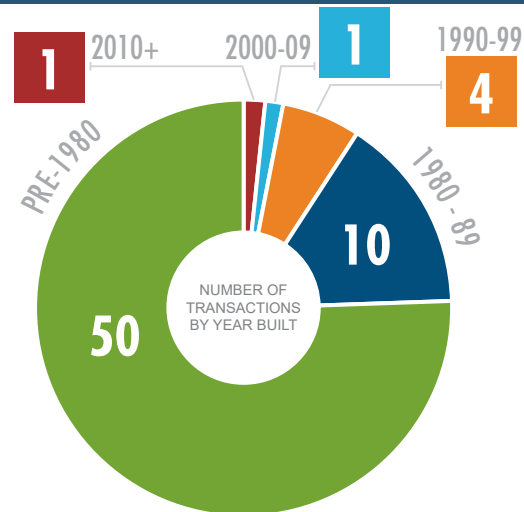
San Marcos, 151 Units | \$25,250,000  
\$167,219/Unit | \$244.20/SF | Built 1992

### 1Q 2017 Transactions by Year Built

|          | # of Transactions | Avg Price/Unit | Avg Price/SF |
|----------|-------------------|----------------|--------------|
| 2010+    | N/A               | N/A            | N/A          |
| 2000-09  | 1                 | \$183K         | \$219        |
| 1990-99  | 1                 | \$167K         | \$244        |
| 1980-89  | N/A               | N/A            | N/A          |
| Pre-1980 | 2                 | \$196K         | \$233        |

## 5 - 49 UNIT PROPERTIES

|                           | 1Q 2017          | INCREASE/DECREASE | 1Q 2016          |
|---------------------------|------------------|-------------------|------------------|
| <b>Total Sales Volume</b> | <b>\$178M</b>    | <b>-16%</b> ▼     | <b>\$213M</b>    |
| <b>AVERAGE Price/Unit</b> | <b>\$244,833</b> | <b>24%</b> ▲      | <b>\$197,237</b> |
| <b>AVERAGE Price/SF</b>   | <b>\$316.41</b>  | <b>18%</b> ▲      | <b>\$267.81</b>  |
| <b>AVERAGE Year Built</b> | <b>1967</b>      | <b>4 yrs</b> ▲    | <b>1963</b>      |



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



#### Laurretta Luxury Townhomes

San Diego, 6 Units | \$3,950,000  
\$658,333/Unit | \$434.30/SF | Built 2016

#### In Eden

La Jolla, 18 Units | \$11,050,000  
\$613,889/Unit | \$888.12/SF | Built 1960

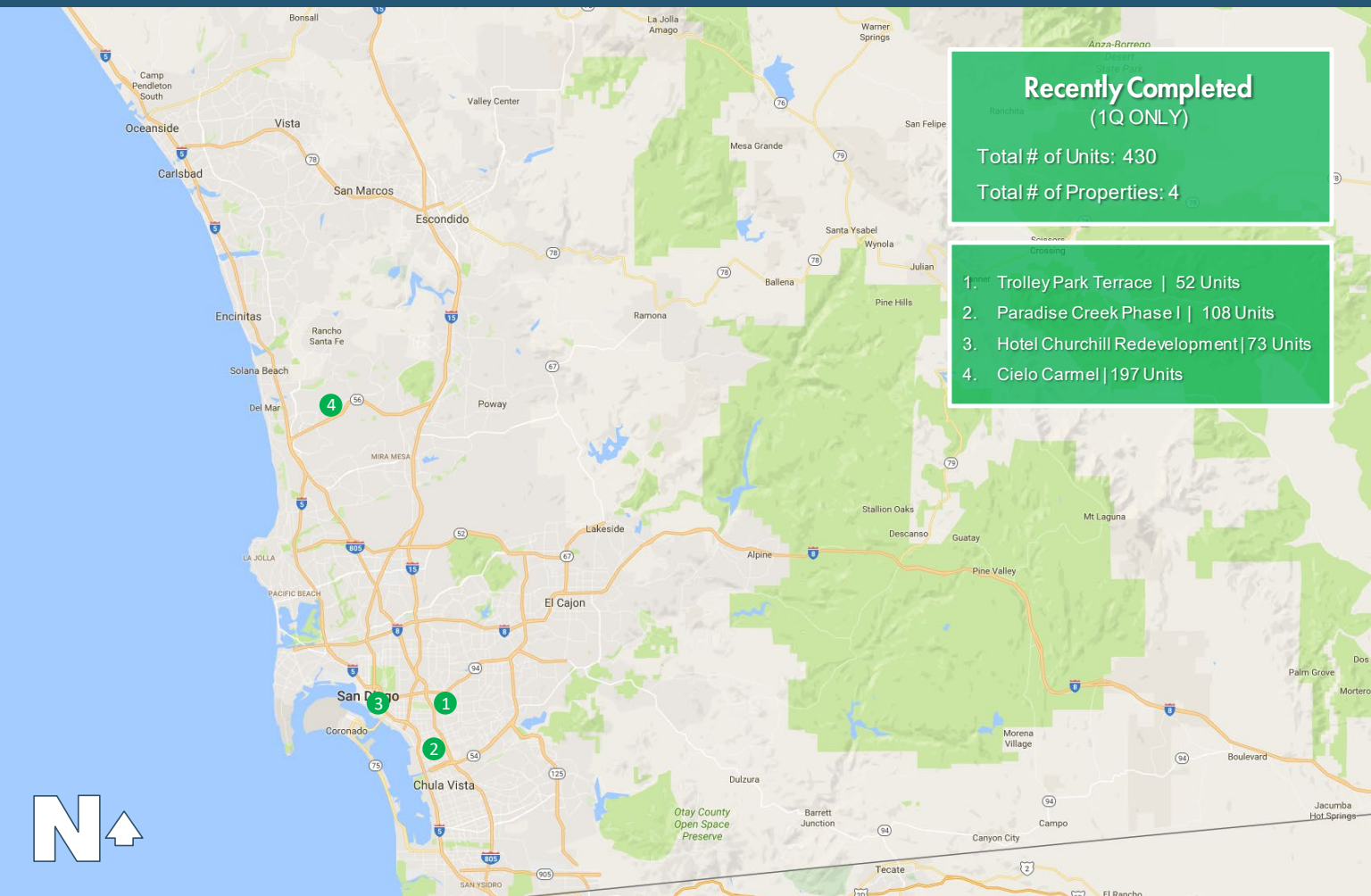
#### Structure Lofts

San Diego, 25 Units | \$14,750,000  
\$590,000/Unit | \$453.22/SF | Built 1973, 2014

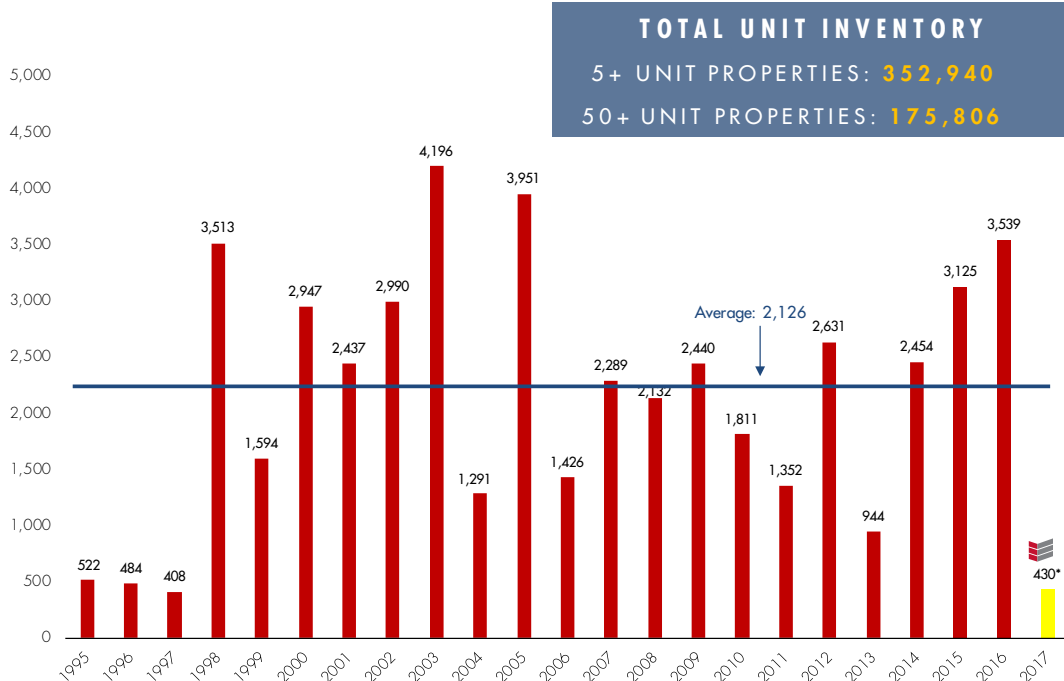
### 1Q 2017 Transactions by Year Built

|          | # of Transactions | Avg Price/Unit | Avg Price/SF |
|----------|-------------------|----------------|--------------|
| 2010+    | 1                 | \$658K         | \$434        |
| 2000-09  | 1                 | \$357K         | \$503        |
| 1990-99  | 4                 | \$225K         | \$280        |
| 1980-89  | 10                | \$174K         | \$208        |
| Pre-1980 | 50                | \$250K         | \$331        |

# COMPLETED CONSTRUCTION



## SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | 1Q 2017



### ABSORPTION RATE

**16**  
Units/Property (Avg)

### Under Construction

Total # of Units: 10,509  
Total # of Properties: 38

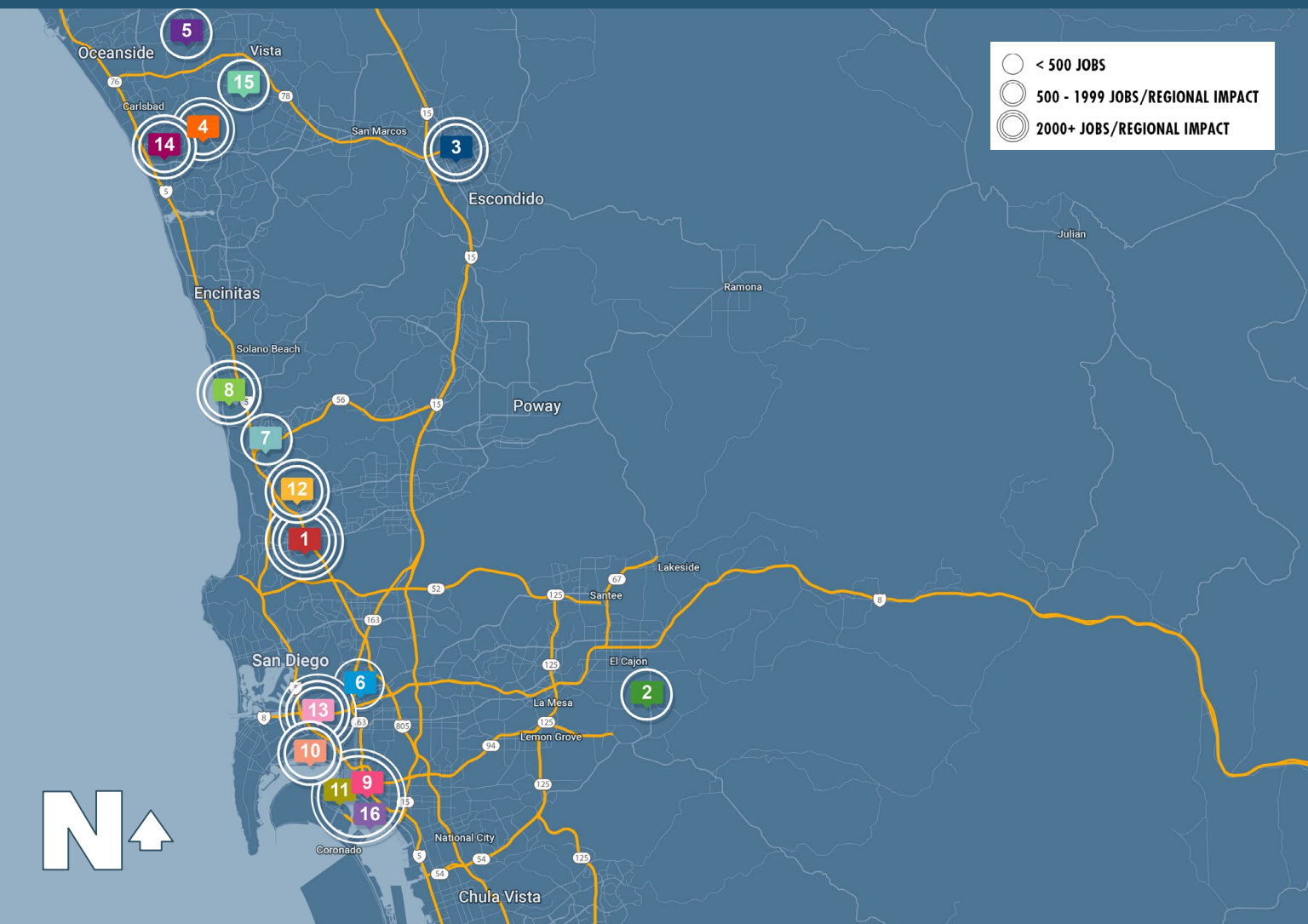
### Planned

Total # of Units: 6,929  
Total # of Properties: 38

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



# 1Q 2017 SELECT NEWS



**1** Illumina grows SD footprint with manufacturing facility

**2** Literacy First plans new El Cajon Campus after \$4.85M land purchase

**3** Palomar Health weighing proposal for Downtown Escondido campus

**4** London-based DNA Electronics chooses Carlsbad for expansion

**5** Target plans November debut for new Oceanside store

**6** Developer, Casey Brow Co., progressing on redevelopment of former Union-Tribune Campus

**7** Fabless semiconductor company, Anokiwave, moves to bigger office to accommodate growth

**8** Developers planning new oceanfront resort in Del Mar

**9** Ritz Carlton, Whole Foods OK'd for East Village, \$400M highrise to include apartments, condos, offices

**10** Airport Board Approves Construction of \$229M Inspection Facility to Serve International Arrivals

**11** Protea Waterfront Development Selected to Redevelop Seaport Village

**12** La Jolla Pharmaceutical Plans \$100 Million Public Offering

**13** \$1 Billion Federal Grant to Fund Mid-Coast Trolley Extension new stations in Mission-Pacific Beaches, VA Medical Center, UCSD and Genesee Ave

**14** Cannabis Drug Maker, Greenwich Biosciences Inc, Quadrupling Footprint in Carlsbad

**15** Homes Planned After \$2.5M Purchase of Vista Church Property

**16** BAE Systems cuts ribbon on new dry dock called Pride of CA

**By: Thomas M. Brophy, Director of Research**

The San Diego MSA multifamily market, as with much of the county, witnessed a general slowdown in y-o-y 1Q total sales volume and transactions/units transacted amounts. As has been extensively reported by various real estate news outlets, for the first time in this current cycle supply has finally caught up to demand. San Diego, despite delivering more units per year in the last 3 years than its 20-year average, 2,126 units, continues to boast one of the highest occupancy rates in the overall West/Southwest at 96.6%. Nonetheless, with deliveries expected to peak in 2018, both occupancy and average rental rates should witness mild contractions, particularly among Class A properties, as developer's vie for renters during their lease-up phases.

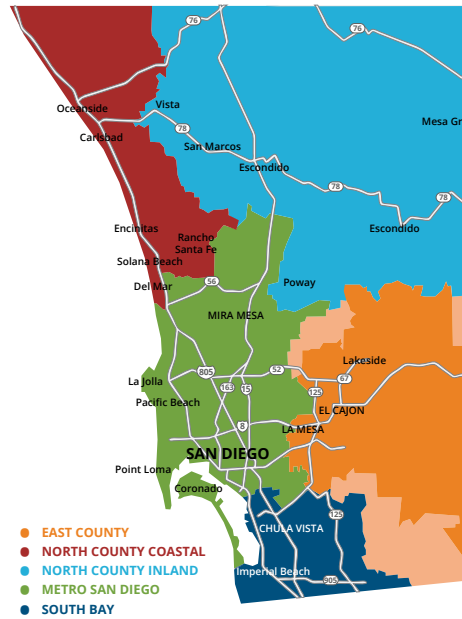
According to the San Diego Economic Development Council's April 2017 *Economic Pulse Report*, San Diego's total nonfarm employment increased by 4,300. Compared to a year ago, total nonfarm employment is up 29,600, or 2.1%, with 22,900 of those jobs coming from the private sector. Local government posted the largest month-over-month gain, adding 1,600 jobs in March, of which 1,300 can be attributed to education, leisure and hospitality added another 1,300, and healthcare and social assistance added 1,100 jobs.

Unlike other areas of California and the West more prone to the speculative fits of the boom and bust cycle, San Diego has been a consistent performer in both good and bad economic conditions. Whereas many Western markets suffered from decreased rents and occupancy during and after the 2008/9 Great Recession, the San Diego MSA, on the whole, maintained rents with relatively mild occupancy contractions. Although 1Q 2017 was less active, in terms of overall sales volume, the region continued to perform well with investors showing continued interest on the interior of the County, particular in the East County and North County Inland Submarkets.

## San Diego Market Metrics: By the Numbers

The MSA's total sales volume (5+ unit properties) decreased (59%) y-o-y to \$253.7M across 70 transactions with 1,142 units sold. 5 to 49 unit properties experienced a (16%) y-o-y contraction in sales volume, decreasing to \$177.9M. Despite a decrease in overall volume, 5 to 49 unit properties saw a significant increase in y-o-y sales price per unit amounts rising 24% to \$244,833. Much of this increase can be attributed to an increase in the number of properties purchased in late 2015/16 to undergo complete renovations and repositioned for sale during the first quarter. 50+ unit properties also saw a significant decrease in sales volume declining (81%) y-o-y to \$75.7M with average sales price per unit amounts contracting (24%) to \$182,458. It should be noted that much of this decrease can be attributed to investors purchasing more affordable units on the interior of the County.

In regards to new construction, San Diego MSA had 430 new units delivered in the 1Q which was nearly (44%) below 1Q 2016's delivery amount. Despite reduced 1Q deliveries, and as referenced at the beginning of this report, delivery amounts are set to increase substantially through 2018. Despite elevated construction delivery schedules over the last several years, average rent for the MSA continued its climb rising 4.3% y-o-y to its current \$1,759. Conversely, occupancy witnessed its first mild contraction since 1Q 2013, decreasing (0.3%) to 96.6%. The East County and North County Inland submarkets took the top two spots for highest percentage increase in average rent rising 6.7% (to \$1,457) and 5.7% (to \$1,562) respectively. In regards to occupancy, the South Bay Submarket narrowly beat East County with the highest occupancy rate for the region at 97.3% and 97.1% respectively.



| SAN DIEGO MSA<br>1Q 2017 QUICK STATS |                                | EAST COUNTY<br>1Q 2017 QUICK STATS |                                |
|--------------------------------------|--------------------------------|------------------------------------|--------------------------------|
| 5+ SALES                             | RENT / OCCUPANCY               | 5+ SALES                           | RENT / OCCUPANCY               |
| <b>\$254M</b><br>TOTAL SALES VOLUME  | <b>\$1,759</b><br>AVERAGE RENT | <b>\$40M</b><br>TOTAL SALES VOLUME | <b>\$1,457</b><br>AVERAGE RENT |
| <b>\$222K</b><br>AVERAGE PPU         | <b>96.6%</b><br>OCCUPANCY RATE | <b>\$190K</b><br>AVERAGE PPU       | <b>97.1%</b><br>OCCUPANCY RATE |

| NORTH COUNTY COASTAL<br>1Q 2017 QUICK STATS |                                | NORTH COUNTY INLAND<br>1Q 2017 QUICK STATS |                                |
|---|--------------------------------|--|--------------------------------|
| 5+ SALES                                    | RENT / OCCUPANCY               | 5+ SALES                                   | RENT / OCCUPANCY               |
| <b>\$23M</b><br>TOTAL SALES VOLUME          | <b>\$1,802</b><br>AVERAGE RENT | <b>\$59M</b><br>TOTAL SALES VOLUME         | <b>\$1,562</b><br>AVERAGE RENT |
| <b>\$193K</b><br>AVERAGE PPU                | <b>96.6%</b><br>OCCUPANCY RATE | <b>\$169K</b><br>AVERAGE PPU               | <b>96.8%</b><br>OCCUPANCY RATE |

| METRO SAN DIEGO<br>1Q 2017 QUICK STATS |                                | SOUTH BAY<br>1Q 2017 QUICK STATS  |                                |
|--|--------------------------------|-----------------------------------|--------------------------------|
| 5+ SALES                               | RENT / OCCUPANCY               | 5+ SALES                          | RENT / OCCUPANCY               |
| <b>\$128M</b><br>TOTAL SALES VOLUME    | <b>\$1,958</b><br>AVERAGE RENT | <b>\$4M</b><br>TOTAL SALES VOLUME | <b>\$1,517</b><br>AVERAGE RENT |
| <b>\$287K</b><br>AVERAGE PPU           | <b>96.1%</b><br>OCCUPANCY RATE | <b>\$208K</b><br>AVERAGE PPU      | <b>97.3%</b><br>OCCUPANCY RATE |

## Interior Submarkets Rising

The East County submarket saw the most dramatic increase in total sales volume, specifically for 5 to 49 unit properties, rising 52% to \$21.3M, while North County Inland's 50+ unit properties increased 153% to \$44.3M. In fact, North County Inland was the only submarket to witness an overall increase in total sales volume (5+ unit properties) rising 29% y-o-y to \$58.7M. Although Metro San Diego saw its sales volume contract (42%) for 5+ unit properties, it registered the highest percentage increase in sales price per unit amount at 8.4% to \$287,411.

With a trend that's playing out nationally, investors, seeking more yield and greater potential profits upon sale but who want to stay within the same overall market, are looking at secondary cities/submarkets within larger MSAs. In the San Diego MSA, investors are looking towards the suburban submarkets of North County Inland and East County where there's a dearth of new construction and less competition. The North County Inland Submarket, aided by robust economic/job developments along the Innovate 78 Corridor, is nearly \$250 cheaper in average monthly rent, currently \$1,562, than it's coastal submarket neighbor, North County Coastal, at \$1,802 and \$200 less than the MSA's overall average rent. The same holds true for East County albeit with larger average rent differences.

## The Road Ahead

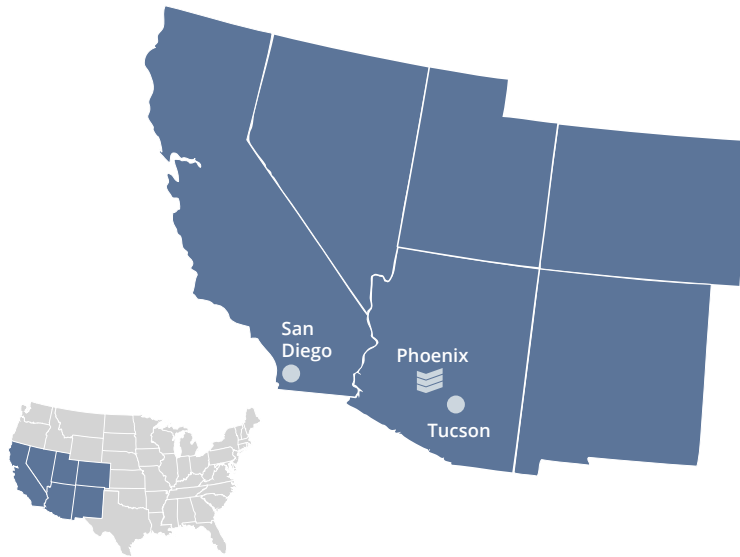
As stated in our 2017 Market Forecast, it is unlikely the Fed will continue with its gradual interest rate increase in 2017 despite many economists predicting otherwise. Basis for this sentiment is rooted in weak preliminary 1Q GDP which at 0.7% growth is the slowest in three years, significant instability in international markets, particularly Europe and Asia, and domestic policy struggles of the new Trump Administration. Despite stocks hitting all-time highs, based in large part on investors factoring in massive deregulation, markets the world over have been prone to ever increasing volatility fits.

San Diego is poised for continued economic gains, comparative to the region, as both people and businesses have headed south down the coast. As of March 2017, San Diego had the 2nd lowest unemployment rate in California at 4.2% trailing only San Francisco at 2.9%. Given the recent change in US political affairs, San Diego stands to benefit if the proposed increases to defense spending actually materialize. 2017 should see continued, albeit more muted, momentum particularly on the exterior, more suburban areas of the County. With projected completions expected to double by the end of year, particularly in the Metro San Diego Submarket, expect both occupancy and average rents to contract as developers begin their lease-ups.



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