



SAN DIEGO MSA | MULTIFAMILY | 2Q 2017 REPORT

SAN DIEGO MSA OVERVIEW	01
SAN DIEGO MSA - SUBMARKET ANALYSIS	02
MULTIFAMILY PROPERTY ANALYSIS: 50+ & 5-49 UNITS	03
COMPLETED CONSTRUCTION & PLANNED PROJECTS	04
2Q 2017 SELECT NEWS	05
ABInsight® CONSTRUCTION SHORTAGE TO INTENSIFY BY 2020	06

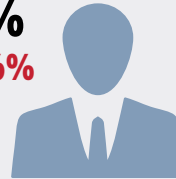


5+ UNIT PROPERTIES 2Q 2017 INCREASE/DECREASE 2Q 2016

A V E R A G E	Total Sales Volume	\$1B	21%	\$836M
	Price/Unit	\$254,120	9%	\$232,409
	Price/SF	\$277.63	-4%	\$287.71
	Year Built	1967	NO CHANGE	1967
5+	Average Rent	\$1,798	4.4%	\$1,722
	Occupancy Rate	96.8%	-0.3%	97.1%
	Units Delivered	430	-43%	761

3,299,521 POPULATION
CENSUS 2015 ESTIMATE

4.3%
-0.6%



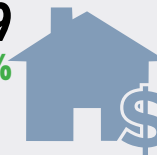
UNEMPLOYMENT
AS OF JUNE 2017

+2.0%



EMPLOYMENT GROWTH
Y-O-Y AS OF JUNE 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 2Q 2017 SELECT NEWS

CONTINUED ON PAGE 05



Eli Lilly's \$90M Expansion Doubles Co.'s Local Footprint



\$200M Pacific Street Resort Hotel Project in Oceanside set to begin construction 1Q 2018



Medical device maker, Berner USA, Buys Carlsbad Property for New Headquarters

9,675
Units (50+)









UNDER CONSTRUCTION
YARDI

353,628
Units (5+)



TOTAL INVENTORY
AS OF 2Q 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	4.3%	\$64,309	\$31,266	176,494	9,675
 North County Coastal	4.1%	\$87,548	\$54,058	20,372	144
 North County Inland	3.8%	\$61,807	\$26,835	27,962	471
 East County	4.7%	\$62,058	\$27,789	24,074	88
 South Bay	5.2%	\$51,094	\$21,023	21,697	1,123
 Metro San Diego	3.6%	\$84,197	\$51,081	85,839	7,849

* 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 (2Q 2017)	\$1,837	\$1,595	\$1,487	\$1,564	\$2,002
% Change (y-o-y)	+3.7%	+4.9%	+6.7%	+5.5%	+3.8%
Occupancy Rate (2Q 2017)	97.1%	96.8%	97.0%	97.5%	96.5%
% Change from 2010	+0.2%	-0.8%	-0.4%	+0.1%	-0.3%
Units Delivered (50+)	N/A	N/A	84	N/A	604

SALES DATA (50+)

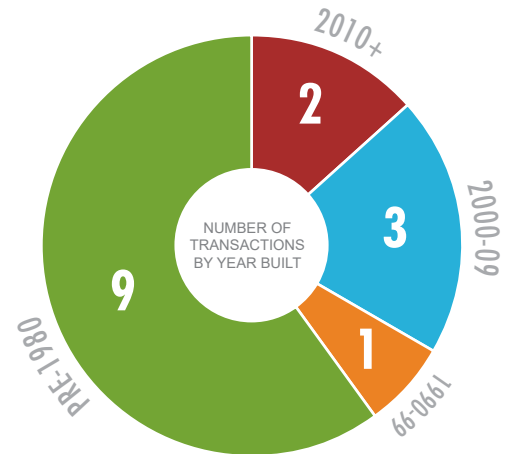
Total Sales Volume (2Q 2017, 50+)	\$30,000,000	\$192,350,000	\$119,140,000	N/A	\$408,400,000
Total Sales Volume (2Q 2016, 50+)	\$26,500,000	\$48,995,818	\$119,550,000	\$107,299,960	\$263,050,000
% Change (y-o-y)	+13%	+293%	-0.3%	N/A	+55%
Avg P/U (2Q 2017, 50+)	\$220,588	\$240,738	\$182,171	N/A	\$372,968
Avg P/U (2Q 2016, 50+)	\$232,456	\$174,985	\$255,449	\$273,028	\$274,296
% Change (y-o-y)	-5%	+38%	-29%	N/A	+36%

SALES DATA (5-49)

Total Sales Volume (2Q 2017, 5-49)	\$10,510,000	\$38,790,800	\$28,550,000	\$31,533,772	\$151,108,500
Total Sales Volume (2Q 2016, 5-49)	\$42,499,000	\$37,083,000	\$26,208,000	\$13,800,000	\$150,989,717
% Change (y-o-y)	-75%	+5%	9%	+129%	+0.1%
Avg P/U (2Q 2017, 5-49)	\$318,485	\$182,116	\$165,029	\$180,193	\$216,488
Avg P/U (2Q 2016, 5-49)	\$442,698	\$161,934	\$156,934	\$168,293	\$186,637
% Change (y-o-y)	-28%	+12%	+5%	+7%	+16%

50+ UNIT PROPERTIES

	2Q 2017	INCREASE/DECREASE	2Q 2016
Total Sales Volume	\$750M	33%	\$565M
AVERAGE Price/Unit	\$279,393	9%	\$255,373
AVERAGE Price/SF	\$285.19	-6%	\$302.06
AVERAGE Year Built	1986	6 yrs	1980



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Carmel Pacific Ridge

San Diego, 533 Units | \$232,000,000
\$435,272/Unit | \$381.47/SF | Built 2013



Compass Pointe

San Diego, 169 Units | \$73,032,143
\$432,143/Unit | \$369.20/SF | Built 2002



Westview Village

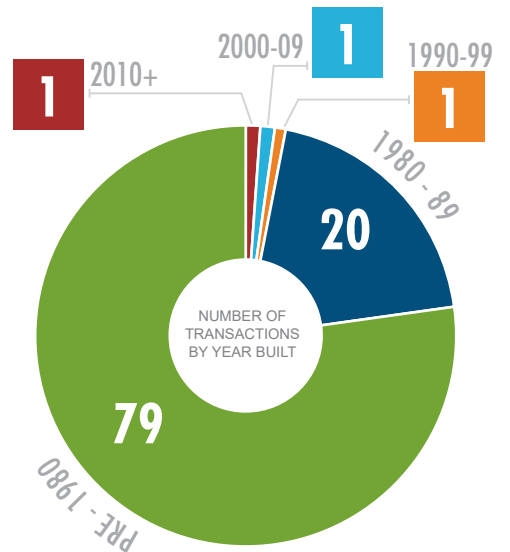
San Diego, 181 Units | \$78,217,857
\$432,143/Unit | \$375.82/SF | Built 1998

2Q 2017 Transactions by Year Built

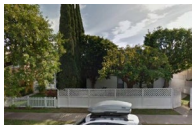
	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	2	\$388K	\$362
2000-09	3	\$258K	\$250
1990-99	1	\$432K	\$376
1980-89	N/A	N/A	N/A
Pre-1980	9	\$176K	\$204

5 - 49 UNIT PROPERTIES

	2Q 2017	INCREASE/DECREASE	2Q 2016
Total Sales Volume	\$260M	-4%	\$271M
AVERAGE Price/Unit	\$201,620	3%	\$195,647
AVERAGE Price/SF	\$257.95	-1%	\$261.73
AVERAGE Year Built	1964	-1 yr	1965



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



233 C Avenue

San Diego, 6 Units | \$2,767,500
\$461,250/Unit | \$377.56/SF | Built 1970



140 Acacia Avenue

Carlsbad, 11 Units | \$4,730,000
\$430,000/Unit | \$452.20/SF | Built 1975



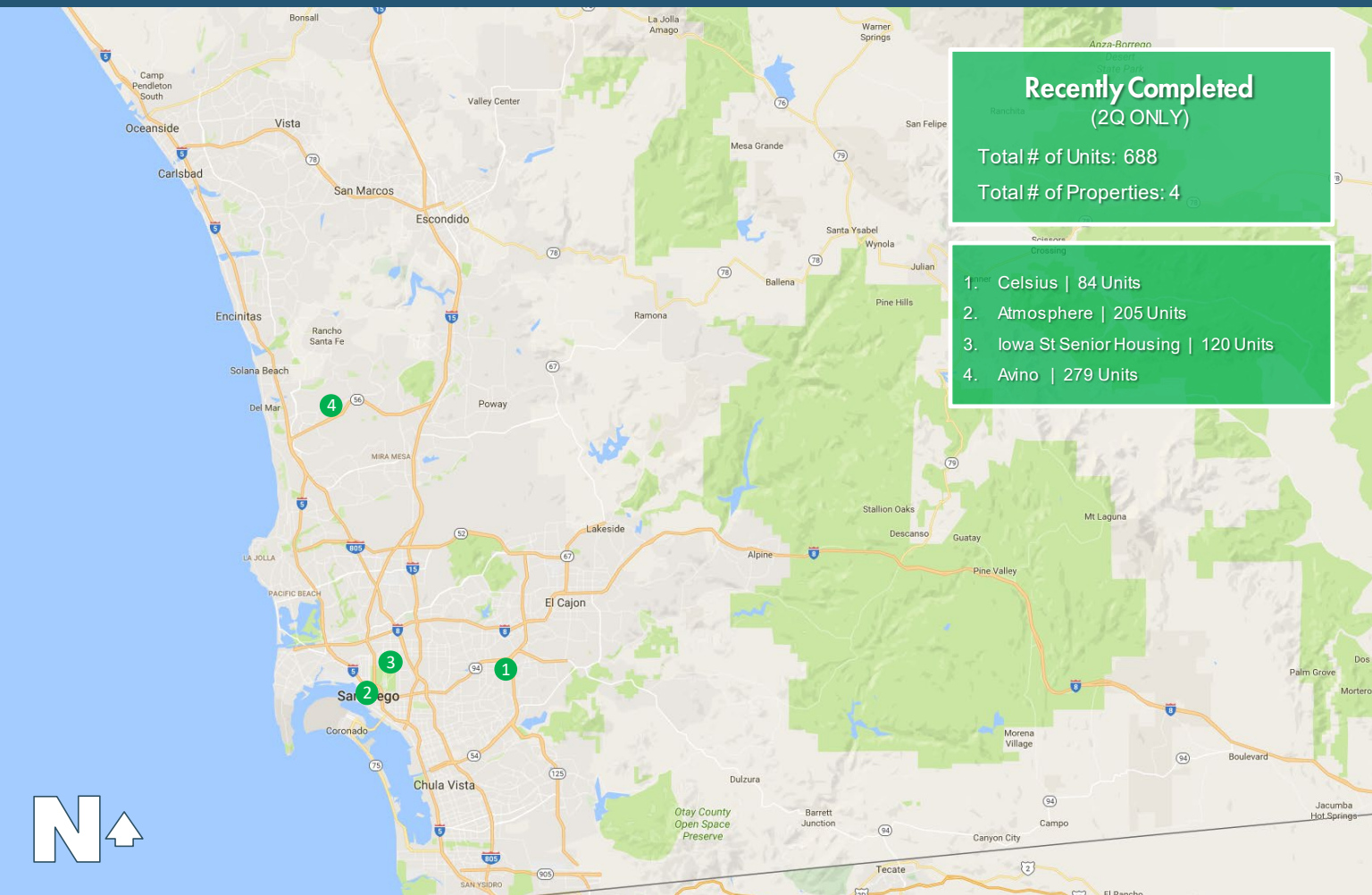
Santa Cruz Apartments

San Diego, 8 Units | \$3,300,000
\$412,500/Unit | \$467.42/SF | Built 1969

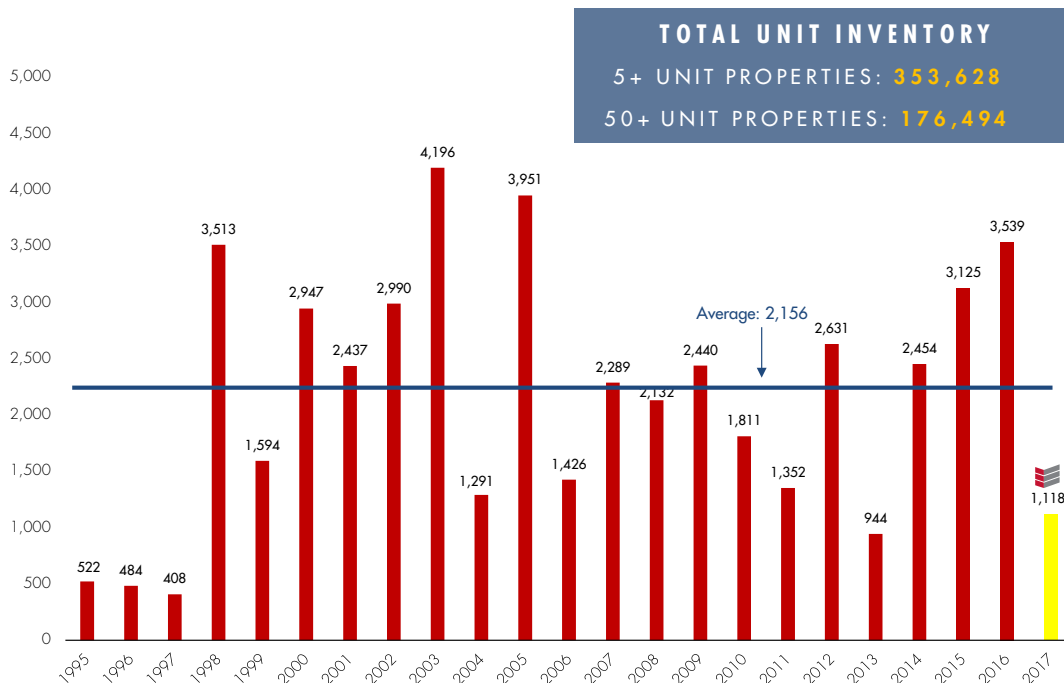
2Q 2017 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	\$244K	\$289
2000-09	1	\$281K	\$190
1990-99	1	\$225K	\$249
1980-89	20	\$210K	\$259
Pre-1980	79	\$197K	\$262

COMPLETED CONSTRUCTION



SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | 2Q 2017



ABSORPTION RATE

20
Units/Property (Avg)

Under Construction

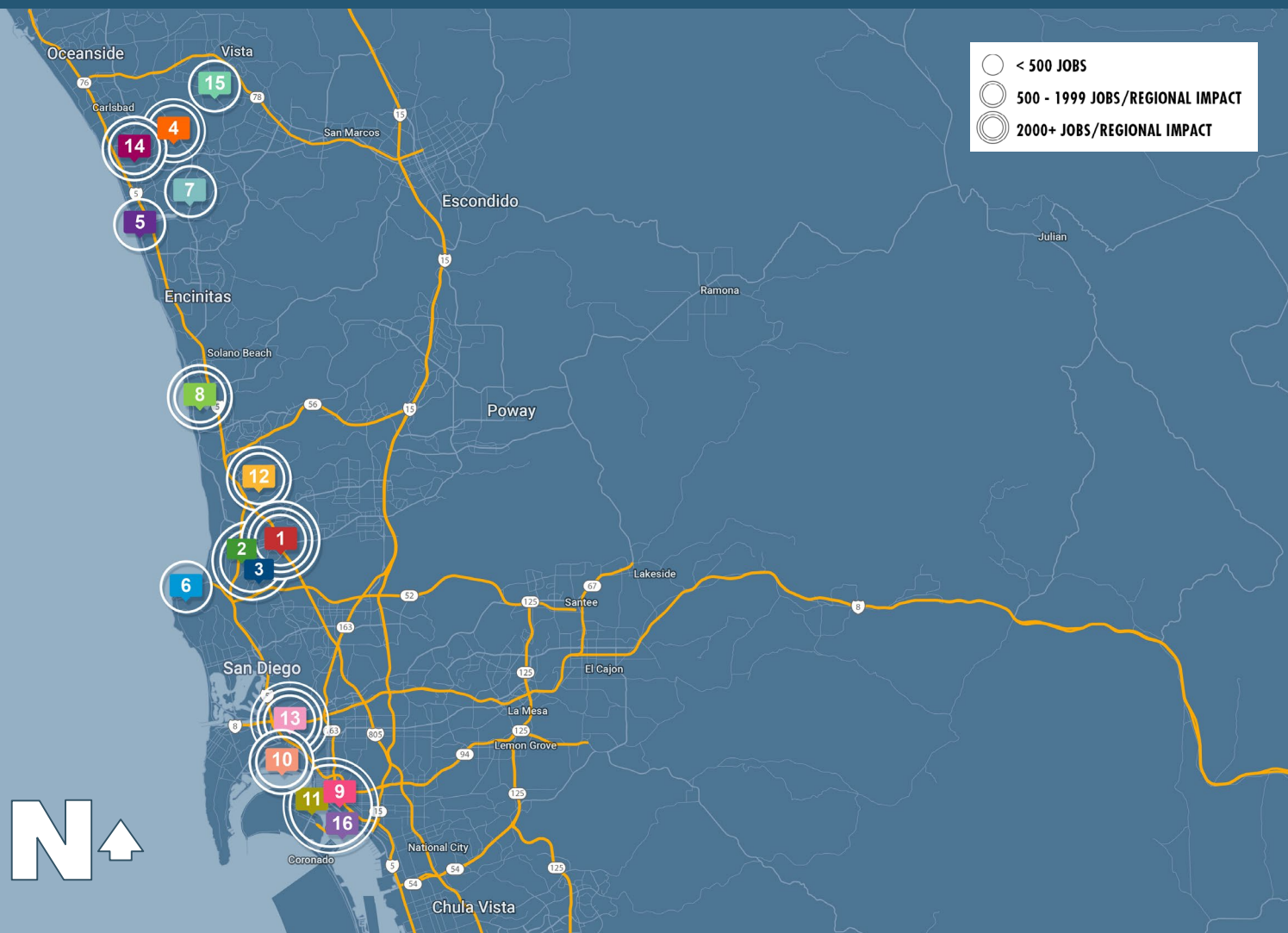
Total # of Units: 9,675
Total # of Properties: 38

Planned

Total # of Units: 6,347
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

2Q 2017 SELECT NEWS



1 Illumina Grows SD Footprint with Manufacturing Facility

2 Eli Lilly's \$90M Expansion Doubles Co.'s Local Footprint

3 Upscale Retail Will Be at Home In UTC's \$600M Expansion

4 London-based DNA Electronics Chooses Carlsbad for Expansion

5 \$200M Pacific Street Resort Hotel Project Set to Begin Construction 1Q 2018

6 Kodiak Capital, Fund Manager for Venture Investments, Opens Office in La Jolla

7 Medical Device Maker, Bemer USA, Buys Carlsbad Property for New Headquarters

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

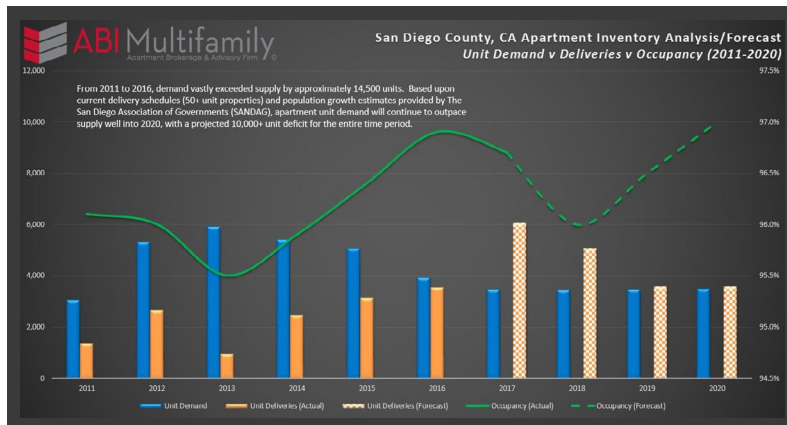
16 BAE Systems Cuts Ribbon on New Dry Dock called Pride of CA

By: Thomas M. Brophy, Director of Research

The analysis that follows is meant to provide a very top level view of apartment market demand and makes no assertions as to quality/type of build, simply focuses on the actual units that are/will be needed/delivered. In order to streamline the analysis process the following assumptions were made:

$$\text{Unit Demand} = (((\text{Pop1} - \text{Pop2}) / \text{Avg HH Size}) * \text{Renter HH \%}) * \text{Occ \%}$$

- 1. Population Data** comes from San Diego Association of Governments population estimates/projections (2011-2020) and based only on Population Growth of the 20 to 74 year old demographic segment
- 2. Average Household (HH) Size** is based off Census estimates and internal ABI projections as follows: 2010/11=2.73, 2012=2.77, 2013=2.80, 2014=2.83, 2015=2.85, 2016=2.88, 2017-2020=2.90 (est)
- 3. Renter Household (HH) Percentage** is based off Census estimates with internal ABI projections as follows: 2011=44.8%, 2012=45.5%, 2013=46.2%, 2014=46.6%, 2015=47.1%, 2016=47.5% (est), 2017=47.9% (est), 2018=48.3% (est), 2019=48.7% (est) and 2020=49.1% (est).
- 4. Units Deliveries** for 2017/18 are based on projects currently Under Construction as of 2Q 2017 (9,675 units, 50+ unit properties) with delivery expected by end of 2018. For 2019/20, projects currently Under Construction with deliveries set through 2020 + assuming that 100% of all Planned units as of 2Q 2017 (6,347) will be completed by 2020 as well.
- 5. Occupancy Rate** is based off actuals (source Yardi) and internal ABI projections as follows: 2011=96.1%, 2012=96.0%, 2013=95.5%, 2014=95.9%, 2015=96.4%, 2016=96.9%, 2017=96.7% (est), 2018=96.0% (est), 2019=96.5% (est), 2020=97.0% (est)



From 2011 to 2016, demand vastly exceeded supply by approximately 14,500 units. Based upon current delivery schedules (50+ unit properties) and population growth estimates provided by The San Diego Association of Governments (SANDAG), apartment unit demand will continue to outpace supply well into 2020, with a projected 10,000+ unit deficit for the entire time period. As a result by 2020, the Occupancy Rate for the San Diego MSA, barring any unexpected increases in current construction levels, is forecasted to reach an all-time high of approximately 97%.

San Diego Market Metrics: By the Numbers

The MSA's total sales volume (5+ unit properties) increased 21%, year-over-year, to \$1.01 billion across 118 transactions representing 3,976 total units sold. Sales of 50+ unit properties witnessed the greatest sales volume increase rising 33% y-o-y to \$749.9M. Average price-per-unit amount increased as well to \$279,393 or 9%. Whereas 50+ unit properties saw sales volume increase, 5 to 49 unit properties saw its volume decrease (4%) to \$260.5M with a moderate 3% increase in average price-per-unit amounts to \$201,620.

The San Diego MSA experienced a (44%) y-o-y decrease in 2Q 2017 unit deliveries with 430 new units delivered to the market. Nonetheless, San Diego area developers are on track to deliver 6,000+ new units by YE 2017. De-

spite elevated unit deliveries, occupancy rates for the MSA contracted slightly, (0.3%), to 96.8% while average rent increased 4.4% to \$1,798. East County Submarket claimed the top spot in the MSA for rent growth at 6.7%, followed by South Bay at 5.5%, North County Inland at 4.9%, Metro San Diego at 3.8% and North County Coastal at 3.7%. Although North County Coastal saw the lowest average rental rate percentage increase for the MSA, it still claims the top spot in actual average rent which at \$1,837 is the highest in the region.

In regards to occupancy, South Bay Submarket was #1 at 97.5%, North County Coastal came in #2 at 97.1%, East County was #3 with 97.0%, North County Inland #4 at 96.8% and Metro San Diego #5 at 96.5%. Both North County Coastal and South Bay were the only submarkets to see occupancy rate increases at 0.2% and 0.1% respectively whereas the other submarkets all experienced minor contractions averaging (0.5%).

Outlook

I firmly stick behind my 2017 Market Forecast, despite Fed chatter and three 25-50bps increases behind us, it is unlikely the Fed will continue with its gradual interest rate increase for the balance of 2017 despite many economists predicting otherwise. Basis for this sentiment is rooted in two primary areas, namely weak inflationary pressures, as stated by Yellen, and continued sub-3% GDP growth post-recession. This isn't to say that we are without headwinds; in fact, given government stasis in key legislative areas, specifically healthcare and tax reform, has resulted in loss of the 'Trump bounce' yet people remain largely optimistic. Internationally there is still significant instability in both EM (Emerging) and DM (Developed) markets, particularly across Europe and Asia. It's helpful to remember some 50%+ of the world's developed markets continue to operate at zero or below interest rates which has led to capital flight. 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.

The San Diego MSA has, on the whole, shown amazing resiliency in both up-and-down markets. Basis for this resiliency is most often correlated to perfect climate and people seeking it out. To wit I must agree but I also believe, with tangential data to support my hypothesis, that much of San Diego's success lies in the insularity of the investors who buy in the market, e.g. in 2Q approximately 70% of all unit transactions can be traced to San Diego area buyers. Although there are several opportunistic/value-add players in the market, most owners/investors can be classified as 'long term, net holds,' in effect creating its own barrier to entry in addition to price point. Given the headwinds discussed in the paragraph above and lack of new supply will continue to fuel investor demand for San Diego multifamily.

To be followed with a more expansive ABInsight post on the topic, I want to leave you with a few thoughts, questions I have posited to various economists, business executives and investors: has the Federal Reserve's, along with the other central banks, massive balance sheet run-up (QE) and zero-to-negative interest rate policy created a banker's worst nightmare, i.e. deflation? By way of example, in our current cycle massive amounts of money have been piled into the development of artificial intelligence, production automation (think automated car production, 3D printed homes, robot burger flippers etc) and other technological disruptions, the effects of which are only beginning to feel and/or understand. As a result, and my final question, are we on the precipice of a massive reduction in the cost-of-goods? If yes, *cui bono*?



ABI MULTIFAMILY MINUTE LISTEN | LEARN | SHARE

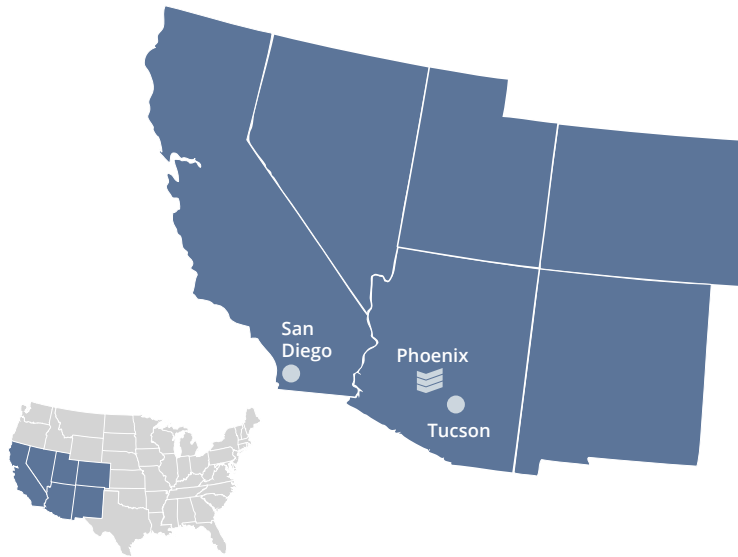
Join the conversation as we further discuss construction and the current / future apartment market demand in the San Diego MSA. Ryan Smith and Thomas Brophy discuss this and more in our San Diego MSA 2Q Review podcast.

LISTEN TO THE PODCAST: ABIMultifamily.com/ABI-Multifamily-Minute



LEADING MULTIFAMILY BROKERAGE TEAM IN THE WESTERN US

OVER 150 YEARS OF COMBINED MULTIFAMILY BROKERAGE EXPERIENCE
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.

SAN DIEGO ADVISORS

PATRICK J. DOYLE, CCIM
PARTNER

858.256.7690
patrick.doyle@abimultifamily.com
CA BRE Broker #01162107

ERIC TURNER
SENIOR VICE PRESIDENT

858.256.7691
eric.turner@abimultifamily.com
CA BRE Broker #01387179

BLAKE RODGERS
VICE PRESIDENT

858.256.5454
blake.rogers@abimultifamily.com
CA BRE Broker #02015513

JAKE RUBENDALL
VICE PRESIDENT

858.256.5880
jake.rubendall@abimultifamily.com
CA BRE Broker #02037365

PHOENIX HEADQUARTERS

4715 N. 32nd Street, Suite 105
Phoenix, AZ 85018
602.714.1400

SAN DIEGO OFFICE

1012 2nd Street, Suite 100
Encinitas, CA 92024
858.256.7690
CA Lic #02015648

TUCSON OFFICE

1650 North Kolb Road, Suite 230
Tucson, AZ 85715
520.265.1945

DISCLAIMER © 2017 ABI Multifamily | The information and details contained herein have been obtained from third-party sources believed to be reliable; however, ABI Multifamily has not independently verified its accuracy. ABI Multifamily makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to the implied warranty of suitability and fitness for a particular purpose. Interested parties should perform their own due diligence regarding the accuracy of the information. SOURCES: ABI Research / ADOA / Bureau of Labor Statistics / Census Bureau / EBRC / HUD / Yardi / US Chamber of Commerce / Vizzda / ARMLS / Sandicor / SDBJ