



## SAN DIEGO MSA | MULTIFAMILY | 3Q 2017 REPORT

|  |    |
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### 5+ UNIT PROPERTIES 3Q 2017 INCREASE/DECREASE 3Q 2016

Total Sales Volume \$671M +36% \$492M

AVERAGE Price/Unit \$253,582 +1% \$250,178

Price/SF \$302.46 +6% \$285.77

Year Built 1971 +3 YRS 1968

Average Rent \$1,817 +3.5% \$1,756

Occupancy Rate 96.3% -0.7% 97.0%

Units Delivered 983 +29% 765

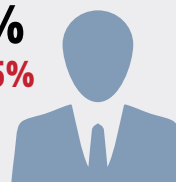
3,299,521

+1.0%

POPULATION  
CENSUS 2015 ESTIMATE

4.1%

-0.5%



UNEMPLOYMENT  
AS OF SEPTEMBER 2017

+1.1%



EMPLOYMENT GROWTH  
Y-O-Y AS OF SEPTEMBER 2017

\$64,309

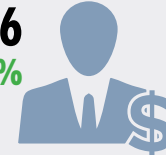
+1.0%



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 3Q 2017 SELECT NEWS

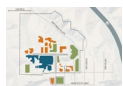
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Mission Valley's Riverwalk: Golf out, 80-acre park in plus 4,000 homes, offices, shops



Biotech Firm BioLegend Starts Construction on New \$100M Campus



UC San Diego plans to build new hospital in Hillcrest

9,562

Units (50+)



UNDER CONSTRUCTION  
YARDI







354,611

Units (5+)



TOTAL INVENTORY  
AS OF 3Q 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        | 4.1%              | \$64,309         | \$31,266          | 177,477           | 9,562              |
|  North County Coastal | 3.3%              | \$87,548         | \$54,058          | 20,426            | 353                |
|  North County Inland  | 4.0%              | \$61,807         | \$26,835          | 27,962            | 471                |
|  East County          | 4.8%              | \$62,058         | \$27,789          | 24,158            | 88                 |
|  South Bay            | 5.6%              | \$51,094         | \$21,023          | 21,805            | 1,123              |
|  Metro San Diego      | 3.7%              | \$84,197         | \$51,081          | 87,694            | 7,523              |

\* 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 (3Q 2017)   | \$1,853          | \$1,611         | \$1,502     | \$1,561   | \$2,043         |
| % Change (y-o-y)         | +3.1%            | +3.5%           | +5.0%       | +4.4%     | +3.3%           |
| Occupancy Rate (3Q 2017) | 96.0%            | 96.3%           | 96.8%       | 96.9%     | 96.1%           |
| % Change from 2010       | -0.9%            | -1.2%           | -0.8%       | -1.0%     | -0.4%           |
| Units Delivered (50+)    | 54               | N/A             | 84          | 108       | 1,855           |

### SALES DATA (50+)

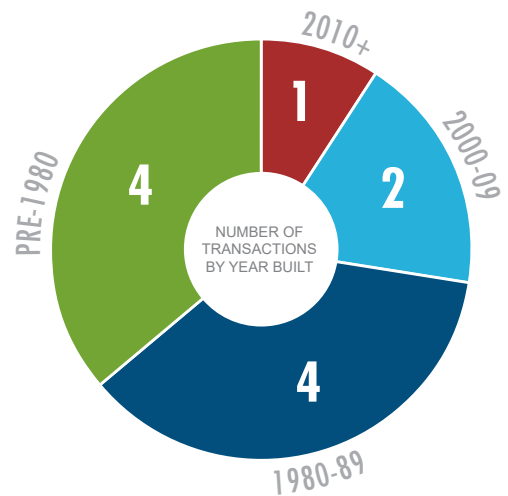
|                                   |              |               |              |              |               |
|-----------------------------------|--------------|---------------|--------------|--------------|---------------|
| Total Sales Volume (3Q 2017, 50+) | \$53,000,000 | \$140,438,000 | \$57,350,000 | N/A          | \$230,850,000 |
| Total Sales Volume (3Q 2016, 50+) | \$10,505,000 | N/A           | \$47,025,000 | \$54,712,000 | \$146,900,000 |
| % Change (y-o-y)                  | +405%        | N/A           | +22%         | N/A          | +57%          |
| Avg P/U (3Q 2017, 50+)            | \$441,667    | \$192,381     | \$219,732    | N/A          | \$349,773     |
| Avg P/U (3Q 2016, 50+)            | \$169,435    | N/A           | \$174,167    | \$196,100    | \$378,608     |
| % Change (y-o-y)                  | +161%        | N/A           | +26%         | N/A          | -8%           |

### SALES DATA (5-49)

|                                    |              |              |              |              |               |
|------------------------------------|--------------|--------------|--------------|--------------|---------------|
| Total Sales Volume (3Q 2017, 5-49) | \$11,144,000 | \$8,907,500  | \$17,882,500 | \$57,343,500 | \$93,808,409  |
| Total Sales Volume (3Q 2016, 5-49) | \$5,390,000  | \$17,283,500 | \$10,350,000 | \$25,915,000 | \$174,270,500 |
| % Change (y-o-y)                   | +107%        | -48%         | +73%         | +121%        | -46%          |
| Avg P/U (3Q 2017, 5-49)            | \$242,261    | \$150,975    | \$226,361    | \$192,428    | \$239,307     |
| Avg P/U (3Q 2016, 5-49)            | \$234,348    | \$194,197    | \$166,935    | \$186,439    | \$265,656     |
| % Change (y-o-y)                   | +3%          | -22%         | +36%         | +3%          | -10%          |

## 50+ UNIT PROPERTIES

|                           | 3Q 2017          | INCREASE/DECREASE | 3Q 2016          |
|---------------------------|------------------|-------------------|------------------|
| <b>Total Sales Volume</b> | <b>\$482M</b>    | <b>86%</b>        | <b>\$259M</b>    |
| <b>AVERAGE Price/Unit</b> | <b>\$271,958</b> | <b>+5%</b>        | <b>\$259,401</b> |
| <b>AVERAGE Price/SF</b>   | <b>\$309.72</b>  | <b>+14%</b>       | <b>\$271.87</b>  |
| <b>AVERAGE Year Built</b> | <b>1988</b>      | <b>NO CHANGE</b>  | <b>1988</b>      |



3Q 2017 Transactions by Year Built

|                 | # of Transactions | Avg Price/Unit | Avg Price/SF |
|-----------------|-------------------|----------------|--------------|
| <b>2010+</b>    | <b>1</b>          | <b>\$379K</b>  | <b>\$424</b> |
| <b>2000-09</b>  | <b>2</b>          | <b>\$387K</b>  | <b>\$352</b> |
| <b>1990-99</b>  | <b>0</b>          | <b>N/A</b>     | <b>N/A</b>   |
| <b>1980-89</b>  | <b>4</b>          | <b>\$191K</b>  | <b>\$235</b> |
| <b>Pre-1980</b> | <b>4</b>          | <b>\$240</b>   | <b>\$297</b> |

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



#### Encinitas Heights

Encinitas, 120 Units | \$53,000,000  
\$441,667/Unit | \$351.13/SF | Built 2002



#### Olympus Corsair

San Diego, 360 Units | \$136,500,000  
\$379,167/Unit | \$423.91/SF | Built 2016

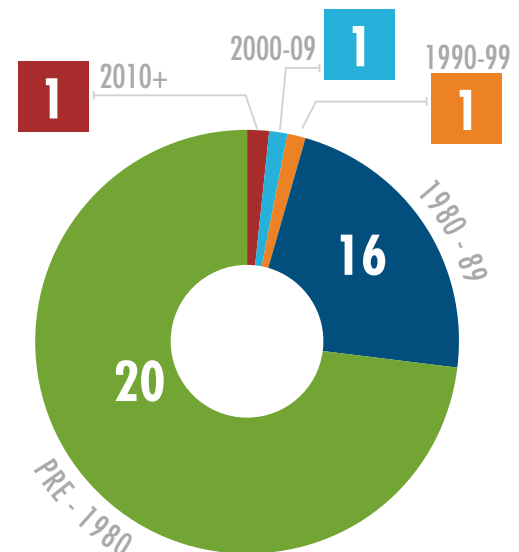


#### Arrive Mission Valley

San Diego, 185 Units | \$65,000,000  
\$351,351/Unit | \$352.07/SF | Built 2007

## 5 - 49 UNIT PROPERTIES

|                           | 3Q 2017          | INCREASE/DECREASE | 3Q 2016          |
|---------------------------|------------------|-------------------|------------------|
| <b>Total Sales Volume</b> | <b>\$189M</b>    | <b>-19%</b>       | <b>\$233M</b>    |
| <b>AVERAGE Price/Unit</b> | <b>\$216,345</b> | <b>-10%</b>       | <b>\$240,670</b> |
| <b>AVERAGE Price/SF</b>   | <b>\$285.43</b>  | <b>-6%</b>        | <b>\$302.98</b>  |
| <b>AVERAGE Year Built</b> | <b>1968</b>      | <b>+2 yrs</b>     | <b>1966</b>      |



3Q 2017 Transactions by Year Built

|                 | # of Transactions | Avg Price/Unit | Avg Price/SF |
|-----------------|-------------------|----------------|--------------|
| <b>2010+</b>    | <b>1</b>          | <b>\$456K</b>  | <b>\$283</b> |
| <b>2000-09</b>  | <b>1</b>          | <b>\$408K</b>  | <b>\$426</b> |
| <b>1990-99</b>  | <b>1</b>          | <b>\$171K</b>  | <b>\$214</b> |
| <b>1980-89</b>  | <b>16</b>         | <b>\$210K</b>  | <b>\$234</b> |
| <b>Pre-1980</b> | <b>52</b>         | <b>\$213K</b>  | <b>\$315</b> |

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



#### Mission Beach Bayfront Apartments

San Diego, 5 Units | \$2,600,000  
\$520,000/Unit | \$1,106.85/SF | Built 1959



#### 305 Bonair Street

La Jolla, 5 Units | \$2,450,000  
\$490,000/Unit | \$960.78/SF | Built 1958

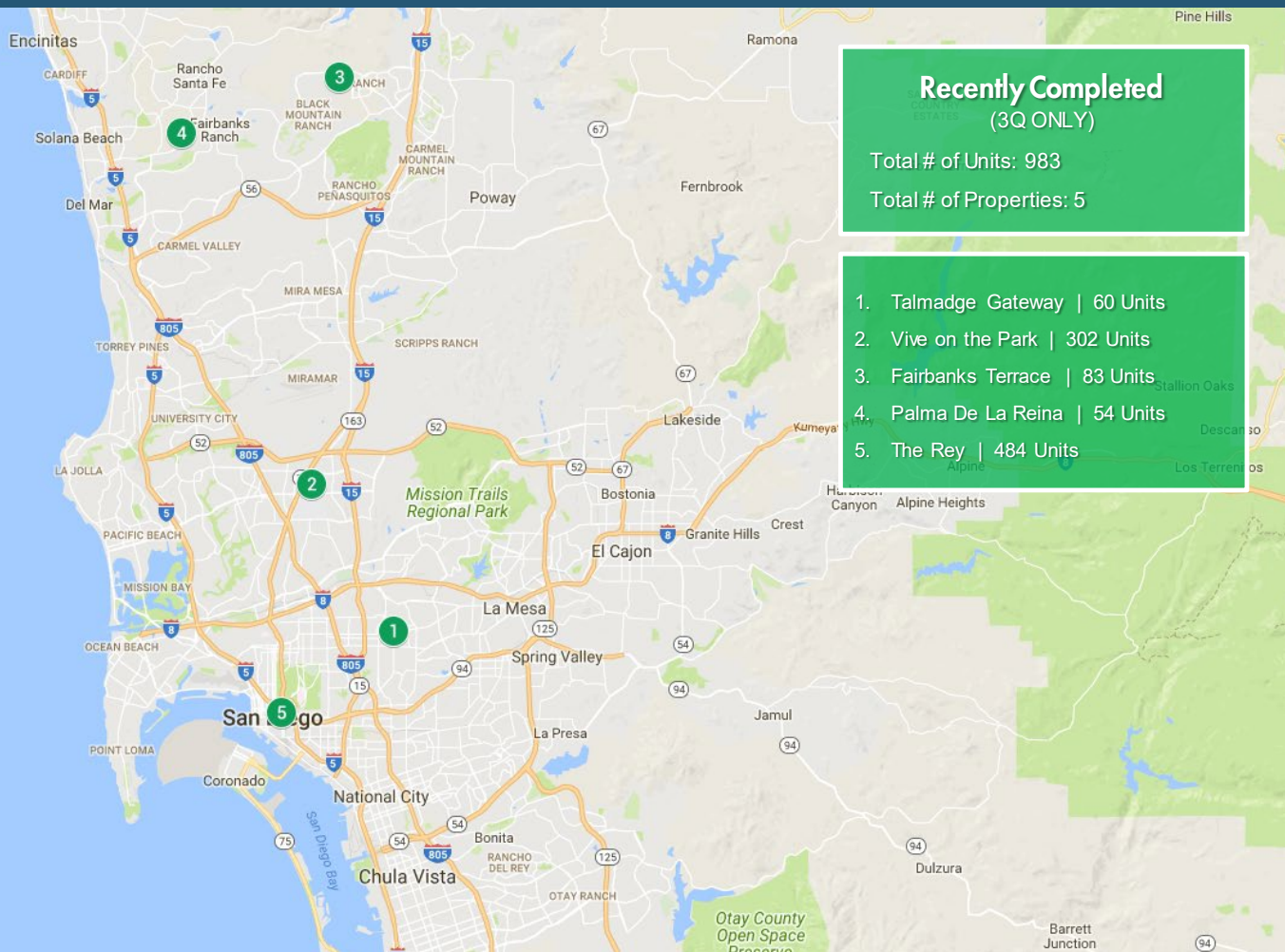


#### La Mesita Villas

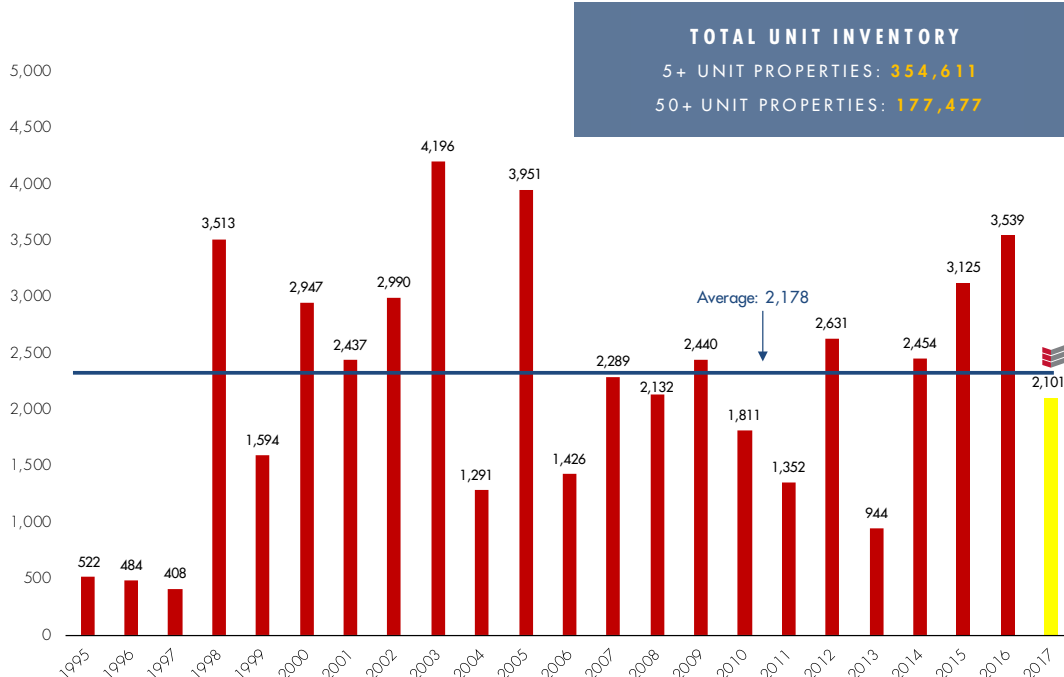
La Mesa, 13 Units | \$5,925,000  
\$455,769/Unit | \$283.44/SF | Built 2016



# COMPLETED CONSTRUCTION

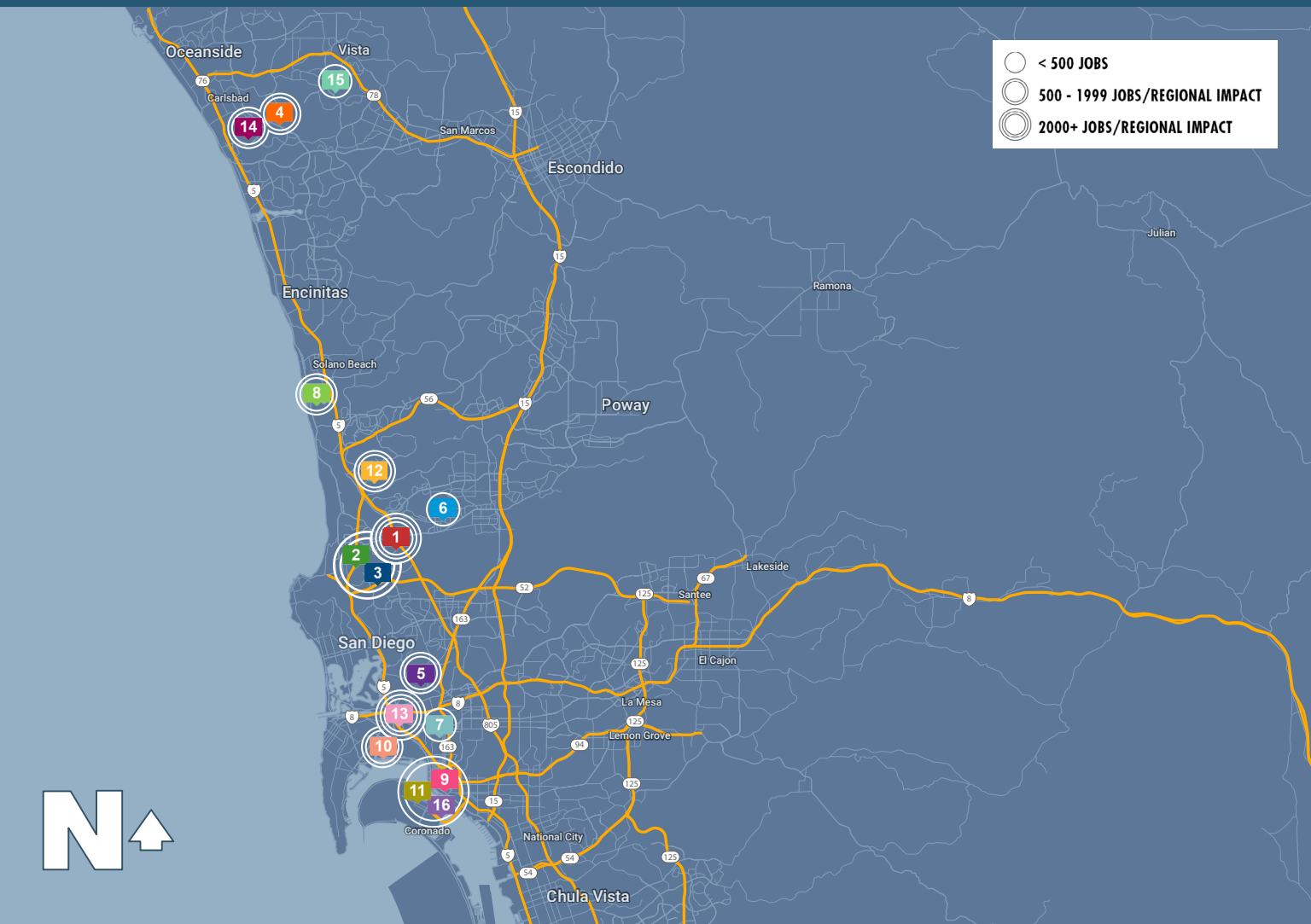


## SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | 3Q 2017



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

# 3Q 2017 SELECT NEWS



**1** Illumina Grows SD Footprint with Manufacturing Facility

**9** Ritz Carlton, Whole Foods OK'd for East Village, \$400M Highrise to Include Apartments, Condos, Offices

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

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

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

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

**4** London-based DNA Electronics Chooses Carlsbad for Expansion

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

**5** Mission Valley's Riverwalk: Golf out, 80-acre park in plus 4,000 homes, offices, shops

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

**6** Biotech Firm BioLegend Starts Construction on New \$100M Campus

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

**7** UC San Diego plans to build new hospital in Hillcrest

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

**8** Developers Planning New Oceanfront Resort in Del Mar

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

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

Before we begin, I would like to start by defining Institutional, or Investment, Grade and Small CAP multifamily investments. It should be noted that most of what you read, hear and see in the news regarding multifamily investments revolves around properties 50+ units in size, often called 'Institutional Grade.' In addition to size, most Institutional Grade investments are purchased by commercial real estate professionals/firms (REITs, Hedge Funds etc.), have set funding/acquisition amounts and are professionally managed, either by a 3rd party or internally. Small-to-Mid-Size, also called 'Small CAP,' properties are typically 5 to 49 units in size, can be, but not necessarily, 3rd party managed and typically involves an individual, couples or groups of individuals pooling money for the purchase of an asset with one, or more, designated as managers of the project. (Continued)

## SAN DIEGO MARKET METRICS: BY THE NUMBERS

The MSA's total sales volume (5+ unit properties) increased 36%, year-over-year, to \$670.7M across 82 transactions representing 2,645 total units sold. Sales of 50+ unit properties witnessed a significant volume increase rising 86% y-o-y to \$481.6M. Average price-per-unit amount increased as well to \$271,958 or 5%. Whereas 50+ unit properties saw sales volume increase, 5 to 49 unit properties saw its volume decrease (19%) to \$189.1M with a moderate (10%) contraction in average price-per-unit amounts to \$216,345.

San Diego County-based investors continue to be the dominant buyer of multifamily properties in the San Diego MSA accounting for 44% of total units transacted. In fact, the only transaction not involving California-based parties was Texas-based Olympus Property's \$136.5M acquisition of Broadstone Corsair from Alliance.

The San Diego MSA experienced a moderate, 28%, y-o-y increase in 3Q unit deliveries with 983 new units delivered to the market. Nonetheless, San Diego area developers are on track to deliver 3,250+ new units by YE 2017. Despite elevated unit deliveries, Occupancy rates for the MSA contracted marginally, (0.7%), to 96.3% while average rent increased 3.5% to \$1,817.

East County Submarket once again claimed the top spot in the MSA for rent growth at 5.0%, followed by South Bay at 4.4%, North County Inland at 3.5%, Metro San Diego at 3.3% and North County Coastal at 3.1%. The Metro San Diego Submarket overtook North County Coastal to claim the top spot in actual average rent which at \$2,043 is the highest in the region. In regards to Occupancy, South Bay remained #1 at 96.9%, East County #2 at 96.8%, North County Inland #3 at

San Diego MSA  
Small CAP Multifamily Analysis (5 to 49 Units)



96.3%, Metro San Diego #4 at 96.1% and North County Coastal #5 at 96.0%.

## SMALL CAP DEEP DIVE

As can be referenced in the chart, sales volume thru 3Q 2017 in San Diego Small CAP multifamily hit \$649M, a (10%) y-o-y decrease. Whereas most San Diego submarkets witnessed a general contraction in both number of transactions/units sold and sales volume, the South Bay Submarket continued to increase to 34 transactions/501 units or \$94.85M thru 3Q 2017. The East County Submarket, despite being down from 2015's \$107.8M sales volume high, witnessed a 34% y-o-y increase to \$67.73M thru 3Q 2017.

As I stated in 2Q Quarterly Report much of San Diego's success lies in the insularity of the investors who buy in the market. 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. Despite increasing sales price and price-per-unit amounts, all cash sales continue to remain high which for 3Q 2017 was at 41%. By eliminating all cash sales from the analysis, aggregate total debt for all Small CAP sales was a minimal \$74M which translates to an average LTV (Loan-to-Value) of approximately 60% for the Metro.

## FINAL THOUGHTS

I personally believe that the changes we are seeing in both the West and Southwestern US Small CAP and Institutional Grade multifamily market

are in many ways indicative of the greater market forces at play. Specifically, given the dramatic drop in R-star, natural rate of interest, has forced investors to hunt for yield which, whether witting or unwittingly, has led investors to take on ever increasing amounts of risk. Examples of growing investor exposure to risk include, but are not limited to, the rise of Cov-lite (covenant lite) corporate bonds, i.e. Tesla, to absurd government debt offerings, i.e. Austria's 100 year bond, 2.116% yield that's 3x oversubscribed, to central banker direct purchase of equities. The net result, investors have traded extra duration for more yield which, if you're playing in the bond market, can be catastrophic if everyone is wrong on inflation and it spikes to the upside.

Given our new investment market 'normal,' should continue to propel more investors into the apartment real estate market due, in large part, to attractive cash flows and inherent hedge against inflation. I'll end with a question I first posed in the article, "The Flight to Safety Part 2 (of 2) – Multifamily, Stability Against the Storm." Suppose real estate return rates mean revert to average historical level of 3.8%, across the board, and average rental rates soften to 2%+, contingent upon market; ceteris paribus, where else are you going to find a better return? Investors are slowly beginning to wake up to this new market reality and, my best guess without the benefit of a future indicating magical crystal ball, is that multifamily is where they will want to be.



# ABI COMPARATIVE MARKET REVIEW: 3Q 2017



**SAN DIEGO**

**PHOENIX**

**TUCSON**

DEMOGRAPHICS

RENT/OCC/CONST (50+)

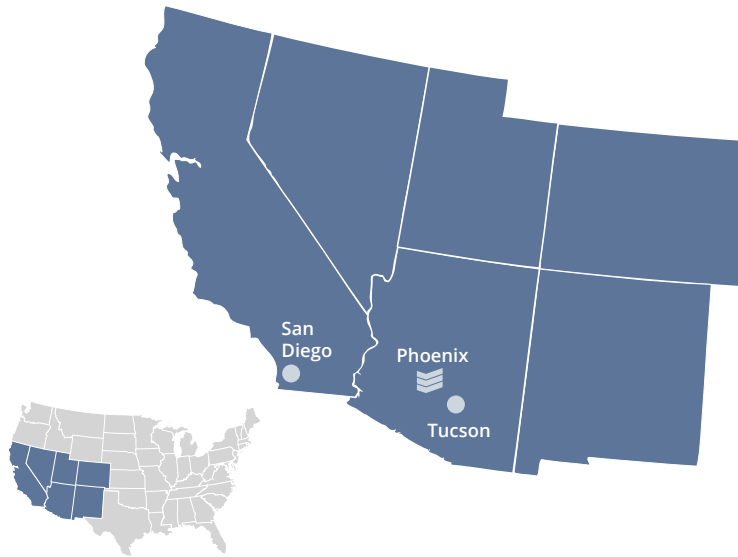
SALES (50+)

|   |           |           |           |
|---|-----------|-----------|-----------|
| <b>Total Population</b>                   | 3,299,521 | 4,550,388 | 1,015,400 |
| <b>Unemployment Rate</b> (as of Sept '17) | 4.1%      | 4.0%      | 4.2%      |
| <b>Employment Growth</b> (y-o-y)          | 1.1%      | 2.7%      | 1.8%      |
| <b>Median HH Income</b>                   | \$64,309  | \$54,229  | \$46,162  |
| <b>Per Capita Income</b>                  | \$31,266  | \$40,811  | \$38,536  |
| <b>Rent</b> (3Q 2017)                     | \$1,817   | \$996     | \$808     |
| % Increase / Decrease                     | +3.5%     | +3.4%     | +4.9%     |
| <b>Occupancy</b> (3Q 2017)                | 96.3%     | 94.8%     | 94.2%     |
| % Increase / Decrease                     | -0.7%     | -0.3%     | -0.1%     |
| <b>Total Inventory</b>                    | 177,477   | 297,621   | 67,093    |
| <b>Total Under Construction</b>           | 9,562     | 17,360    | 402       |
| <b>Units Delivered</b> (3Q 2017 Only)     | 983       | 2,598     | N/A       |
| <b>Total Sales Volume</b> (3Q 2017)       | \$482M    | \$1.4B    | \$229M    |
| y-o-y % Increase / Decrease               | +86%      | +15%      | +97%      |
| <b>Average P/U</b> (3Q 2017)              | \$259,401 | \$101,510 | \$51,656  |
| y-o-y % Increase / Decrease               | +5%       | +11%      | +32%      |



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