

SAN DIEGO MSA | MULTIFAMILY | YE 2017 REPORT

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5+ UNIT PROPERTIES	YE 2017	INCREASE/DECREASE	YE 2016
Total Sales Volume	\$2.74B	-3% ▼	\$2.82B
AVERAGE	Price/Unit	\$249,483 +5% ▲	\$237,934
	Price/SF	\$295.10 +3% ▲	\$286.38
	Year Built	1968 +1 YR ▲	1967
5+	Average Rent	\$1,833 +4.8% ▲	\$1,749
	Occupancy Rate	96.6% -0.6% ▼	97.2%
	Units Delivered	4,654 +32% ▲	3,539

ABI GEONEWS - SAN DIEGO MSA YE 2017 SELECT NEWS

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MiraCosta College Launches its Inaugural Biomanufacturing Bachelor's Program



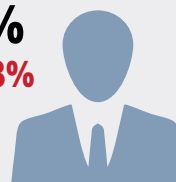
New Pro Soccer Team to Build stadium in Oceanside at SoCal Sports Complex



Spec Office-Industrial Redevelopment is Underway in Kearny Mesa

3,317,749  **POPULATION**
CENSUS 2016 ESTIMATE

3.3%
▼ -0.8%



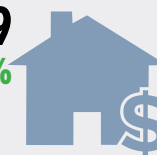
UNEMPLOYMENT
AS OF DECEMBER 2017

+1.5%



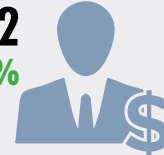
EMPLOYMENT GROWTH
Y-O-Y AS OF DECEMBER 2017

\$66,529
▲ +3.5%



MEDIAN HH INCOME
2016 ACS 5-YR EST

\$32,482
▲ +3.9%



PER CAPITA INCOME
2016 ACS 5-YR EST

8,751
Units (50+)









UNDER CONSTRUCTION
YARDI

357,164
Units (5+)



TOTAL INVENTORY
AS OF YE 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	3.3%	\$66,529	\$32,482	180,030	8,751
 North County Coastal	2.4%	\$93,140	\$59,038	17,291	491
 North County Inland	3.5%	\$65,153	\$27,923	29,451	575
 East County	4.2%	\$63,503	\$28,039	24,942	88
 South Bay	4.4%	\$52,381	\$21,622	23,586	1,127
 Metro San Diego	3.1%	\$68,117	\$35,199	91,977	6,470

* 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 (YE 2017)	\$1,858	\$1,598	\$1,517	\$1,589	\$2,047
% Change (y-o-y)	+4.4%	+6.4%	+6.8%	+5.4%	+4.2%
Occupancy Rate (YE 2017)	96%	95%	96%	97%	96%
% Change from 2010	-0.4%	-1.8%	-1.0%	-0.6%	-0.6%
Units Delivered (50+)	+54	N/A	+84	+108	+4,408

SALES DATA (50+)

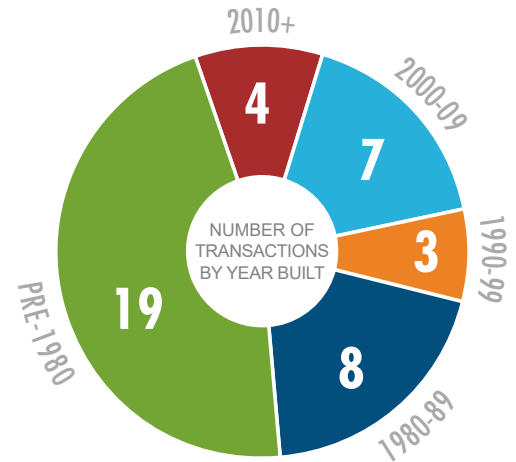
Total Sales Volume (YE 2017, 50+)	\$150,700,000	\$555,836,175	\$195,460,000	\$9,200,000	\$887,050,000
Total Sales Volume (YE 2016, 50+)	\$114,055,000	\$218,915,818	\$519,979,783	\$261,261,960	\$809,748,000
% Change (y-o-y)	+32%	+154%	-62%	-96%	+10%
Avg P/U (YE 2017, 50+)	\$293,191	\$227,989	\$197,235	\$83,636	\$326,602
Avg P/U (YE 2016, 50+)	\$226,300	\$183,808	\$219,958	\$234,106	\$335,161
% Change (y-o-y)	+30%	+24%	-10%	-64%	-3%

SALES DATA (5-49)

Total Sales Volume (YE 2017, 5-49)	\$80,560,600	\$106,850,125	\$95,664,000	\$107,269,134	\$550,730,574
Total Sales Volume (YE 2016, 5-49)	\$90,938,500	\$114,566,500	\$64,471,500	\$78,498,100	\$550,171,214
% Change (y-o-y)	-11%	-7%	+48%	+37%	+0%
Avg P/U (YE 2017, 5-49)	\$297,272	\$178,978	\$171,749	\$195,035	\$246,302
Avg P/U (YE 2016, 5-49)	\$372,699	\$174,113	\$163,633	\$173,285	\$218,062
% Change (y-o-y)	-20%	+3%	+5%	+13%	+13%

50+ UNIT PROPERTIES

	YE 2017	INCREASE/DECREASE	YE 2016
Total Sales Volume	\$1.8B	-7%	\$1.9B
AVERAGE Price/Unit	\$265,659	+5%	\$253,453
AVERAGE Price/SF	\$295.49	+1%	\$291.64
AVERAGE Year Built	1986	-1 YR	1987



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Ocean Air

San Diego, 100 Units | \$55,000,000
\$550,000/Unit | \$415.86/SF | Built 2015



Encinitas Heights

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



Carmel Pacific Ridge

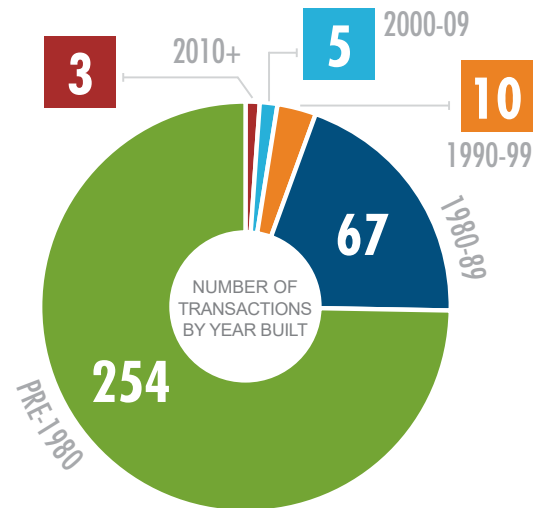
San Diego, 533 Units | \$232,000,000
\$435,272/Unit | \$381.47/SF | Built 2013

YE 2017 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	4	\$397K	\$380
2000-09	7	\$303K	\$300
1990-99	3	\$317K	\$336
1980-89	8	\$218K	\$265
Pre-1980	19	\$182K	\$232

5 - 49 UNIT PROPERTIES

	YE 2017	INCREASE/DECREASE	YE 2016
Total Sales Volume	\$941M	+5%	\$899M
AVERAGE Price/Unit	\$223,480	+6%	\$210,357
AVERAGE Price/SF	\$294.36	+7%	\$275.73
AVERAGE Year Built	1966	+1 YR	1965



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



La Jolla Seaview

La Jolla, 12 Units | \$10,700,000
\$891,667/Unit | \$1,110.19/SF | Built 1986



Laretta Luxury Townhomes

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



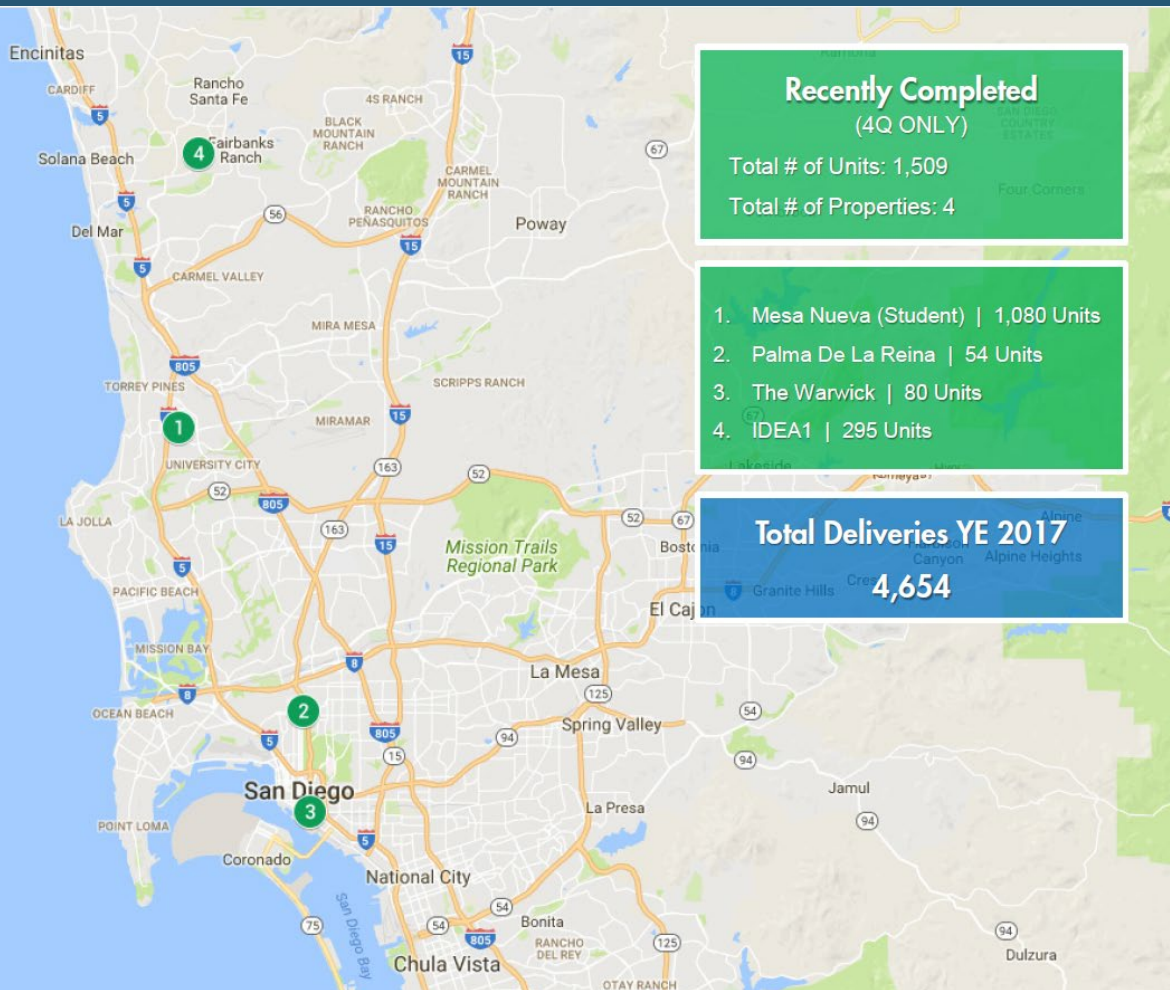
In Eden

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

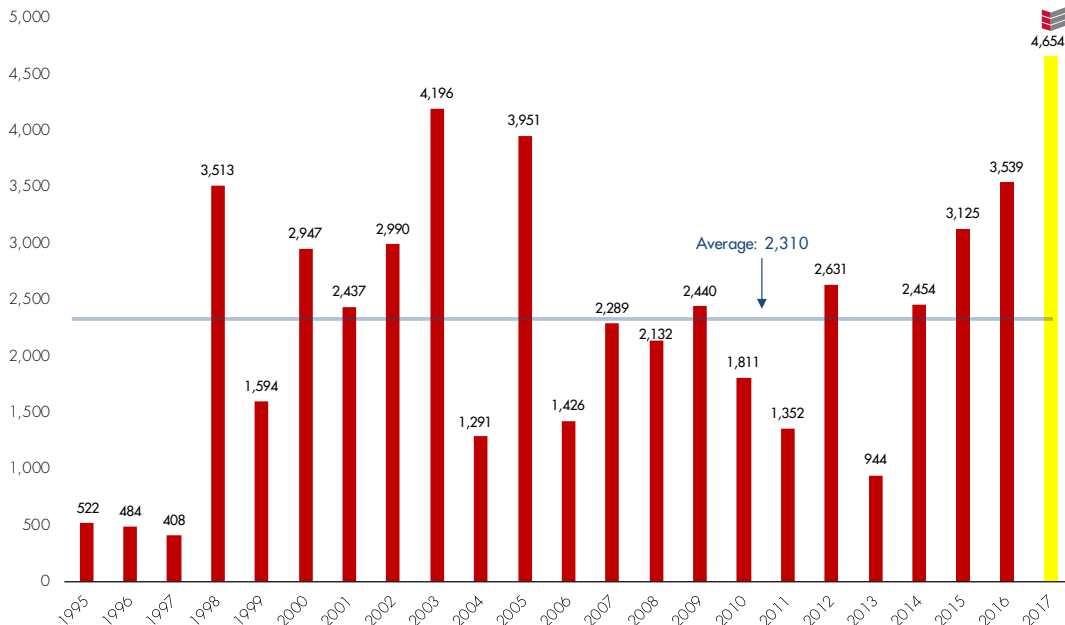
YE 2017 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	3	\$339K	\$309
2000-09	5	\$266K	\$366
1990-99	10	\$239K	\$277
1980-89	67	\$231K	\$267
Pre-1980	254	\$217K	\$306

COMPLETED CONSTRUCTION



SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | YE 2017



TOTAL UNIT INVENTORY
5+ UNIT PROPERTIES: 357,164
50+ UNIT PROPERTIES: 180,030

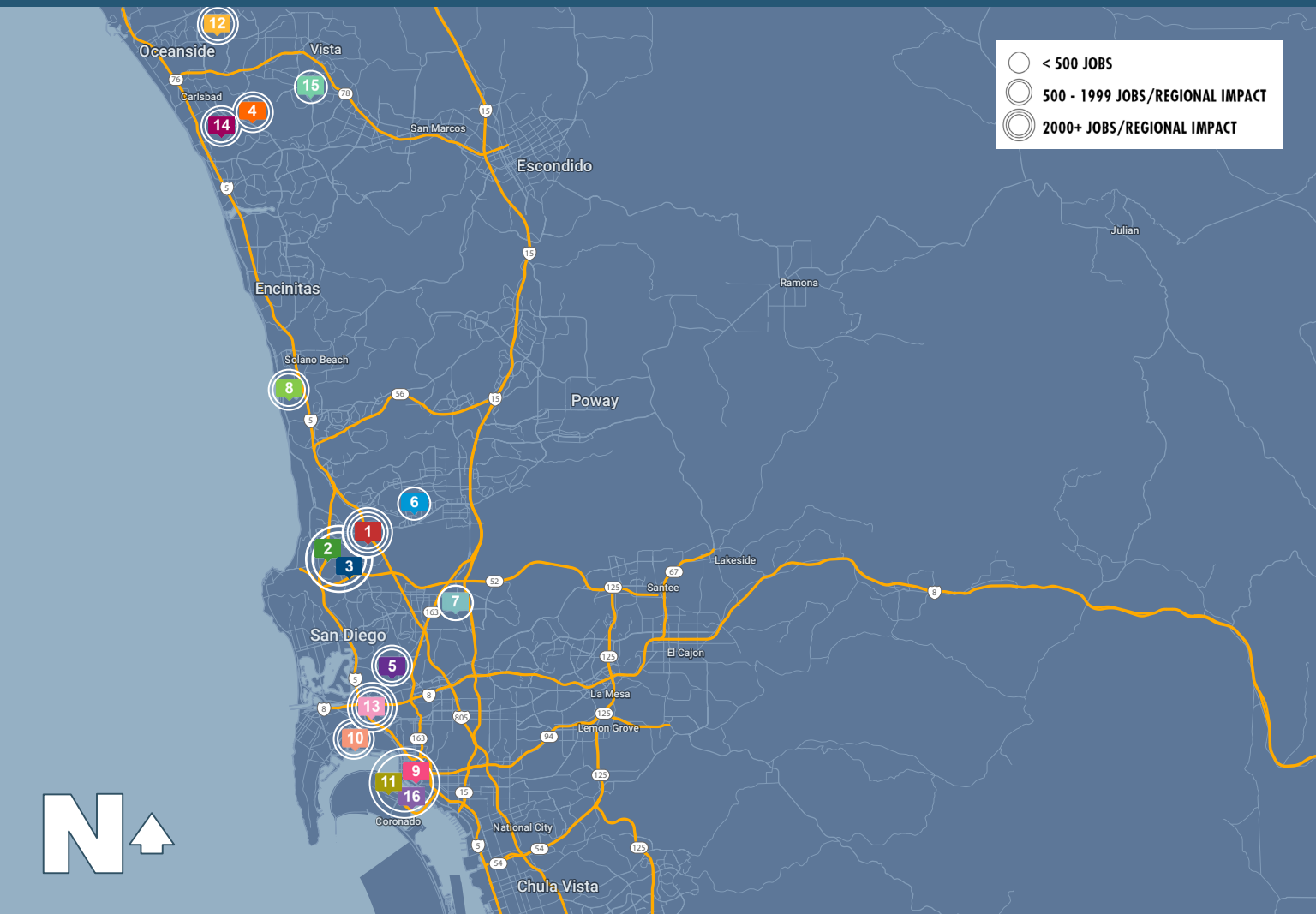
PRE-LEASE ABSORPTION RATE
16
Units/Property (2017 Avg)

Under Construction
Total # of Units: 8,751
Total # of Properties: 42

Planned
Total # of Units: 5,284
Total # of Properties: 31

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

YE 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 Mission Valley's Riverwalk: Golf out, 80-acre Park in Plus 4,000 Homes, Offices, Shops

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

7 Spec Office-Industrial Redevelopment is Underway in Kearny Mesa

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 New Pro Soccer Team to Build Stadium in Oceanside at SoCal Sports Complex

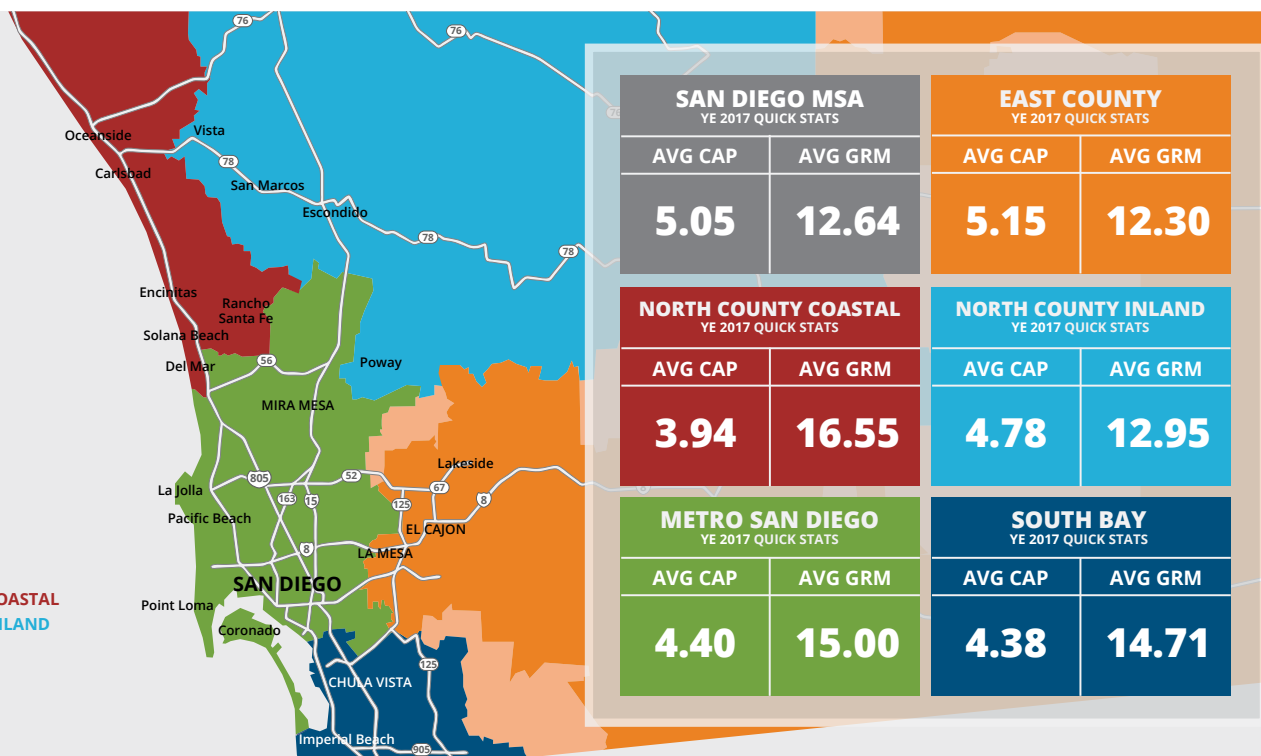
13 \$1 Billion Federal Grant to Fund Mid-Coast Trolley Extension New Stations in Mission-Pacific Beaches, VA Medical Center, UCSD and Genesee Ave

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

15 MiraCosta College Launches its Inaugural Biomanufacturing Bachelor's Program

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

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH



2017 YEAR IN REVIEW

San Diego MSA

According to the San Diego Regional EDC, the region's total nonfarm employment grew 21,100, or 1.5% as of year-end 2017. Transportation and utilities recorded the largest quarterly gain and the largest year-over-year loss. Although 9,500 jobs were added during the quarter, 2,300 jobs were lost over the year. The retail sector, on the other hand, continued to grow, adding 7,500 jobs in Q4. Other employment growth contributors include professional, scientific, and technical services and state and local government, adding a combined 13,200 jobs. Other major economic developments for the area include SANDAG's \$2.1 billion trolley expansion, Seaport San Diego's \$1.5 billion redevelopment, Westfield's \$600 million upgrade of Westfield UTC retail center and BioLegend's \$100 million campus to name a few.

San Diego's unemployment rate was 3.3%, the lowest the region has seen

in the last 17 years. In fact, when compared to the other large California metros and nationally, San Diego saw the 2nd lowest unemployment rate for California and is 7th lowest among the Nation's 25 most populous US Metros.

SAN DIEGO MARKET METRICS

By the Numbers

The MSA's total sales volume (5+ unit properties) decreased (3%), year-over-year, to \$2.74B across 385 transactions representing 10,980 total units sold. Sales of 50+ unit properties witnessed a nominal volume contraction, decreasing (7%) y-o-y to \$1.79B. Average price-per-unit amount increased to \$265,659 or 5%. Whereas 50+ unit properties saw sales volume decrease, 5 to 49 unit properties saw its volume increase 5% to \$941.1M with a 6% increase in average price-per-unit amounts to \$223,480.

The San Diego MSA experienced a 32%

y-o-y increase in 2017 unit deliveries with 4,654 new units delivered to the market. For 2018, San Diego area developers are on track to deliver 7,200+ new units, the most since the mid-1980s. Despite elevated unit deliveries, Occupancy rates for the MSA contracted marginally, (0.6%), to 96.6% while average rent increased 4.8% to \$1,833.

East County Submarket once again claimed the top spot in the MSA for rent growth at 6.8%, followed by North County Inland at 6.4%, South Bay at 5.4%, North County Coastal at 4.4% and Metro San Diego at 4.2%. The Metro San Diego Submarket continues to claim the top spot in actual average rent which at \$2,047 is the highest in the region. In regards to Occupancy, South Bay remained #1 at 97.0%, East County #2 at 96.4%, North County Coastal #3 at 96.3%, Metro San Diego #4 at 96.1% and North County Inland #5 at 95.4%.

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

YIELD-APALOOZA

As referenced in the graphic, East County Submarket's 5.15% Average CAP rate for 2017 was highest in the region; fueled, in large part, by continued high occupancy rates and sustained average rental rate increases as discussed in the previous section. Second, was North County Inland at 4.78%, #3 was Metro San Diego at 4.40%, #4 South Bay at 4.38% and #5 was North County Coastal's 3.94%.

For Institutional Investors (50+ unit properties), the San Diego MSA offered an average 5.05% CAP rate on deals closed, which is, on average, approximately 1% higher than both Los Angeles and San Francisco. Whereas much investor interest has trended toward Value Add plays, particularly in the Small CAP market (5 to 49 units), institutional players are now aggressively pursuing higher unit deal sizes in order to gain significant competitive advantage and additional yield. A perfect example of this strategy can be seen in American Assets Trust's acquisition of the 533-unit, Carmel Pacific Ridge. It should be noted that San Diego only has 30 properties, 500+ units in size, representing 21,324 total units or 12% of the total institutional investor market.

FINAL THOUGHTS

The Great Unknown

In Janet Yellen's final interview before her exit as Fed chief she noted the risk of high asset valuations while making no reference to the Fed's 460% balance sheet explosion to \$4.5 trillion and ZIRP policies, not to mention NIRP and direct equity/bond purchases by Central Banks abroad. Nonetheless, and to be discussed in greater detail in my yet-to-be released Market Forecast, Yellen's penultimate act as Fed Chair was to reacquaint markets with volatility. Markets, in the first few weeks of 2018, chalked up the largest single day point drop in Dow Jones history with 10Y UST's pushing near Bond King Jeffrey Gundlach's 2.99% bond bear market threshold. Given the ferocity of the market's current pogo stick corrections, increasing interest rates and tightening liquidity via QT we find ourselves in a new investment market 'normal.' This new normal is one marked by violent market swings which, if I had to guess, will probably sideline more retail investors as quants and active managed funds battle it out among the various asset classes.

Qui bono? For Institutional Investors, much like we saw in 2016/17, large portfolio purchases and company acquisitions should ramp up as investors look to streamline operations, via technology, and hit high unit count thresholds to gain additional yield. For Small CAP investors, as described in both the 2Q and 3Q 2017 reviews, have been, and still are, pursuing Value Add projects; as evidenced by the fact that 75% of all deals closed in 2017, 254 transactions, were for properties built pre-1980. As those Small CAP investors cash out, i.e. new generation selling and moving gains elsewhere, those investors are moving their capital to Sacramento, Phoenix and Tucson as their markets of choice; one, to see higher rent appreciation and two, for higher per unit appreciation. Ultimately, it's the Federal Reserve's market now with all eyes on the incoming chair Jerome Powell. Thus begins our collective investment journey into the unknown.

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ABI MULTIFAMILY EXPANDS CALIFORNIA FOOTPRINT, OPENS SACRAMENTO OFFICE

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We are pleased to be able to offer our clients in Sacramento the same high level of service and expertise that has made us the leading dedicated multifamily brokerage in San Diego and Arizona, and look forward to fostering new relationships in Sacramento and surrounding areas.

ABI COMPARATIVE MARKET REVIEW: YE 2017



SAN DIEGO

PHOENIX

TUCSON

DEMOGRAPHICS

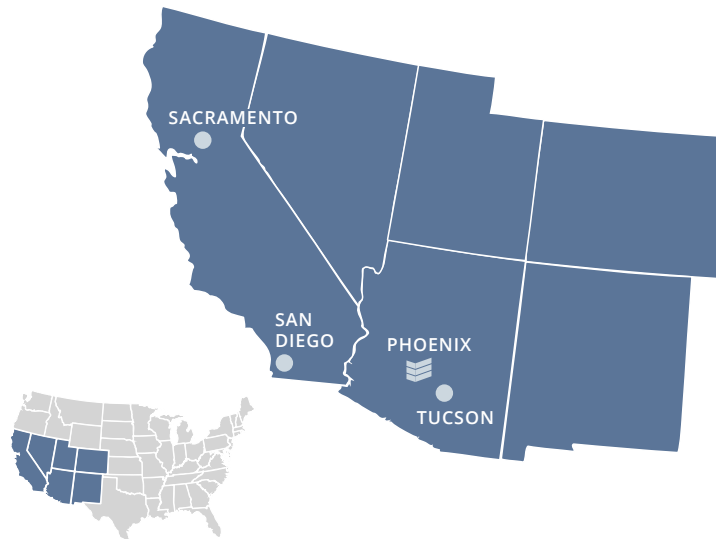
RENT/OCC/CONST (50+)

SALES (50+)

Total Population	3,317,749	4,649,287	1,026,099
Unemployment Rate (as of Sept '17)	3.3%	3.9%	4.2%
Employment Growth (y-o-y)	1.5%	2.6%	1.2%
Median HH Income	\$66,529	\$55,547	\$46,764
Per Capita Income	\$32,482	\$43,249	\$39,541
Rent (YE 2017)	\$1,833	\$1,006	\$796
% Increase / Decrease	+4.8%	+5.6%	+3.8%
Occupancy (YE 2017)	96.6%	94.9%	94.5%
% Increase / Decrease	-0.6%	-0.6%	-0.2%
Total Inventory	180,030	299,394	67,093
Total Under Construction	8,751	17,456	647
Units Delivered (YE 2017 Only)	4,654	7,785	318
Total Sales Volume (YE 2017)	\$1.8B	\$4.5B	\$598M
y-o-y % Increase / Decrease	-7%	-7%	+30%
Average P/U (YE 2017)	\$265,659	\$118,969	\$65,164
y-o-y % Increase / Decrease	+5%	+11%	+4%

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