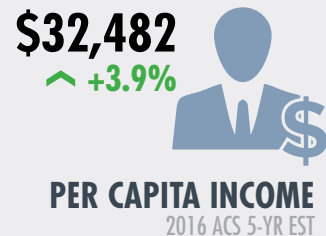
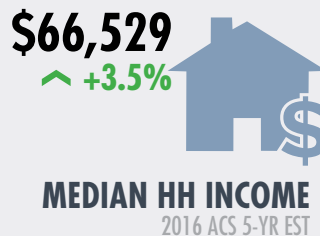
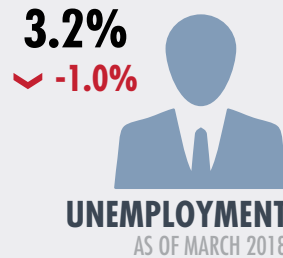


SAN DIEGO MSA | MULTIFAMILY | 1Q 2018 REPORT

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5+ UNIT PROPERTIES	1Q 2018	INCREASE/DECREASE	1Q 2017
Total Sales Volume	\$229M	-15% ▼	\$269M
AVERAGE	Price/Unit	+6% ▲	\$216,701
	Price/SF	-3% ▼	\$284.91
	Year Built	+1 YR ▲	1968
Average Rent	\$1,858	+4.7% ▲	\$1,774
Occupancy Rate	96.1%	-1.1% ▼	97.2%
Units Delivered	1,467	+241% ▲	430



ABI GEONEWS - SAN DIEGO MSA 1Q 2018 SELECT NEWS

CONTINUED ON PAGE 05



AbacusNext Leases New Building, to expand workforce by 400



Hospital Deal to Fuel Downtown Escondido Construction Boom



MedImpact is expanding its corporate headquarters campus along the Interstate 15 corridor



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	181,587	7,812
North County Coastal	2.5%	\$93,140	\$59,038	17,381	562
North County Inland	3.7%	\$65,153	\$27,923	29,922	104
East County	3.9%	\$63,503	\$28,039	24,942	158
South Bay	4.0%	\$52,381	\$21,622	24,193	520
Metro San Diego	3.1%	\$68,117	\$35,199	92,366	6,468

* 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 2018)	\$1,895	\$1,686	\$1,539	\$1,595	\$2,068
% Change (y-o-y)	+4.4%	+6.2%	+5.1%	+3.4%	+4.6%
Occupancy Rate (1Q 2018)	+96%	+96%	+96.6%	+96.8%	+96%
% Change from 2017	-1.5%	-1.2%	-0.8%	-1.0%	-1.0%
Units Delivered (50+)	N/A	471	N/A	607	389

SALES DATA (50+)

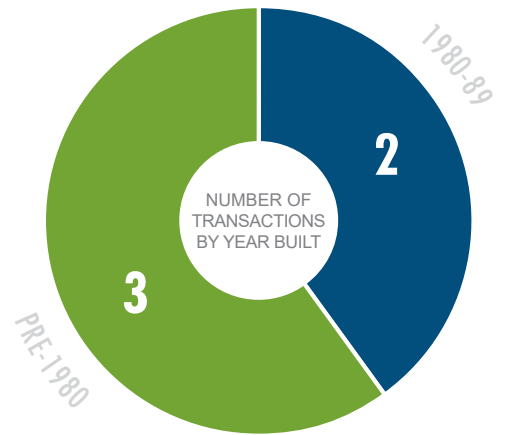
Total Sales Volume (1Q 2018, 50+)	\$15,800,000	\$11,000,000	\$30,777,000	N/A	\$7,200,000
Total Sales Volume (1Q 2017, 50+)	\$12,500,000	\$44,250,000	\$18,970,000	N/A	N/A
% Change (y-o-y)	+26%	-75%	+62%	N/A	N/A
Avg P/U (1Q 2018, 50+)	\$254,839	\$177,419	\$216,739	N/A	\$120,000
Avg P/U (1Q 2017, 50+)	\$148,810	\$173,529	\$237,125	N/A	N/A
% Change (y-o-y)	+71%	+2%	-9%	N/A	N/A

SALES DATA (5-49)

Total Sales Volume (1Q 2018, 5-49)	\$4,902,000	\$23,065,100	\$14,799,000	\$7,625,000	\$113,421,389
Total Sales Volume (1Q 2017, 5-49)	\$16,592,500	\$17,085,000	\$21,972,500	\$3,538,500	\$133,801,125
% Change (y-o-y)	-70%	+35%	-33%	+115%	-15%
Avg P/U (1Q 2018, 5-49)	\$288,353	\$204,116	\$184,988	\$181,548	\$269,409
Avg P/U (1Q 2017, 5-49)	\$215,487	\$164,279	\$147,466	\$208,147	\$282,281
% Change (y-o-y)	+34%	+24%	+25%	-13%	-5%

50+ UNIT PROPERTIES

	1Q 2018	INCREASE/DECREASE	1Q 2017
Total Sales Volume	\$65M	-14%	\$76M
AVERAGE Price/Unit	\$198,702	+10%	\$180,716
AVERAGE Price/SF	\$223.45	-3%	\$230.12
AVERAGE Year Built	1978	NO CHANGE	1978



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)



Terra Oceanside

Oceanside, 62 Units | \$15,800,000
\$254,839/Unit | \$297.59/SF | Built 1980

Rancho Azul

Spring Valley, 74 Units | \$17,900,000
\$241,892/Unit | \$275.55/SF | Built 1976

Southridge

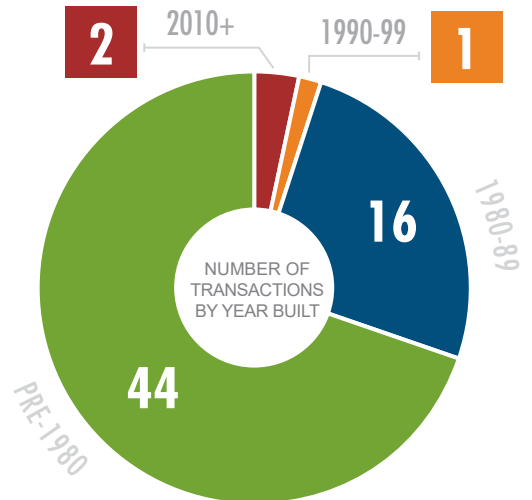
La Mesa, 68 Units | \$12,877,000
\$189,368/Unit | \$279.21/SF | Built 1973

1Q 2018 Transactions by Year Built

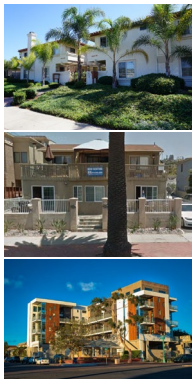
	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	0	N/A	N/A
2000-09	0	N/A	N/A
1990-99	0	N/A	N/A
1980-89	2	\$188K	\$205
Pre-1980	3	\$205K	\$235

5 - 49 UNIT PROPERTIES

	1Q 2018	INCREASE/DECREASE	1Q 2017
Total Sales Volume	\$164M	-15%	\$193M
AVERAGE Price/Unit	\$243,406	+4%	\$235,067
AVERAGE Price/SF	\$305.31	-3%	\$314.42
AVERAGE Year Built	1968	NO CHANGE	1968



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



1449 - 1463 Felspar Street

San Diego, 8 Units | \$4,500,000
\$562,500/Unit | \$426.86/SF | Built 1990

6627 - 6631 La Jolla Blvd

La Jolla, 5 Units | \$2,550,000
\$510,000/Unit | \$680.73/SF | Built 1975

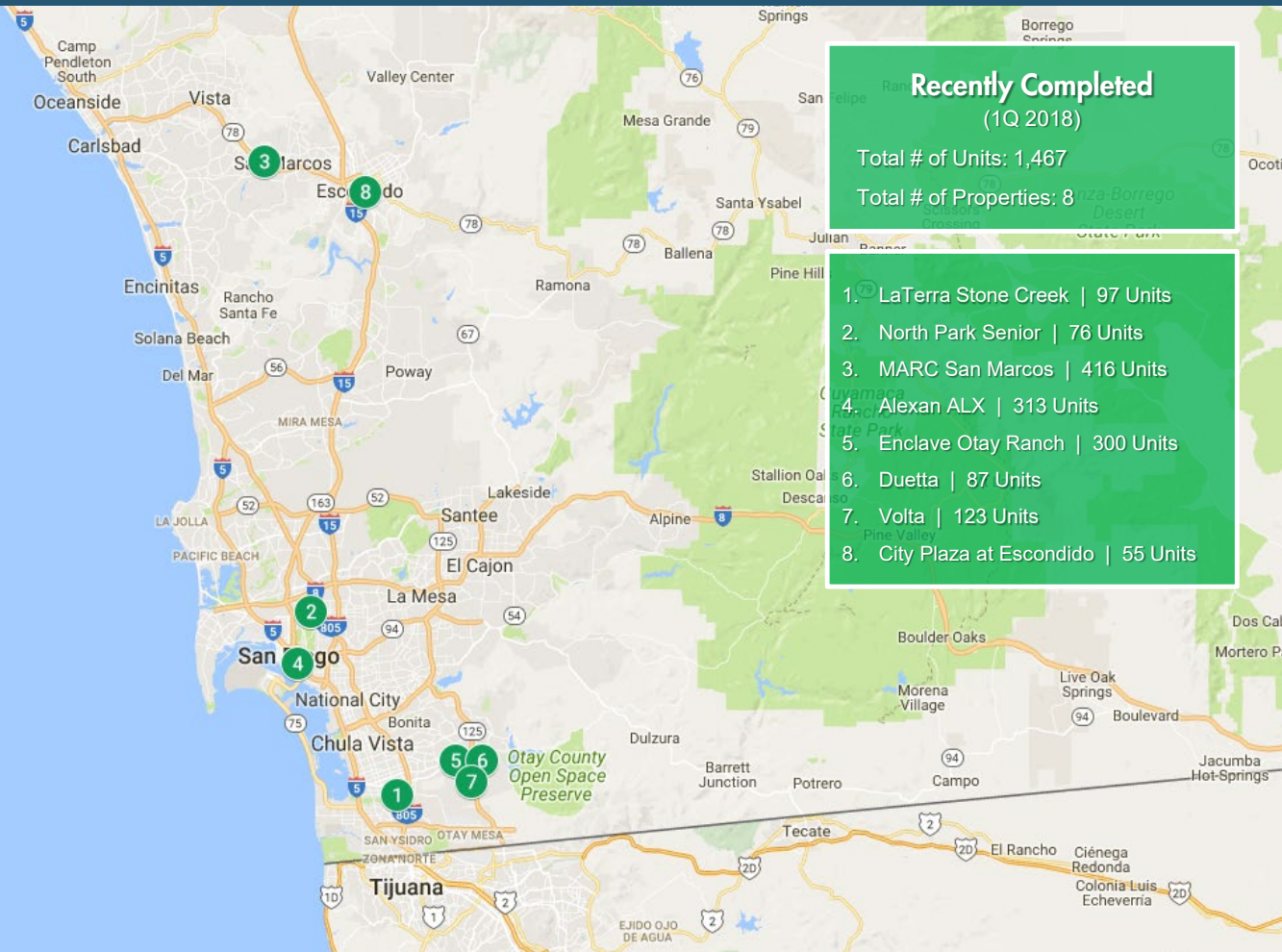
Exotic Gardens

San Diego, 21 Units | \$10,700,000
\$509,524/Unit | \$648.68/SF | Built 2017

1Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	2	\$418K	\$450
2000-09	0	N/A	N/A
1990-99	1	\$562K	\$427
1980-89	16	\$227K	\$253
Pre-1980	44	\$232K	\$327

COMPLETED CONSTRUCTION

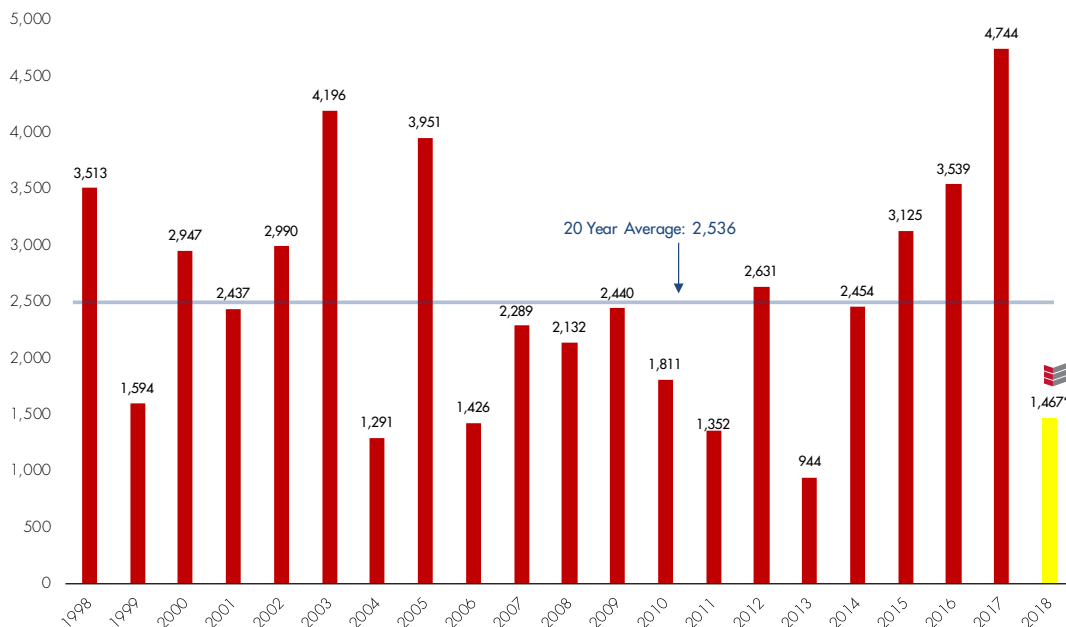


Recently Completed
(1Q 2018)

Total # of Units: 1,467
Total # of Properties: 8

1. LaTerra Stone Creek | 97 Units
2. North Park Senior | 76 Units
3. MARC San Marcos | 416 Units
4. Alexan ALX | 313 Units
5. Enclave Otay Ranch | 300 Units
6. Duetta | 87 Units
7. Volta | 123 Units
8. City Plaza at Escondido | 55 Units

SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | 1Q 2018



TOTAL UNIT INVENTORY
5+ UNIT PROPERTIES: 358,721
50+ UNIT PROPERTIES: 181,587

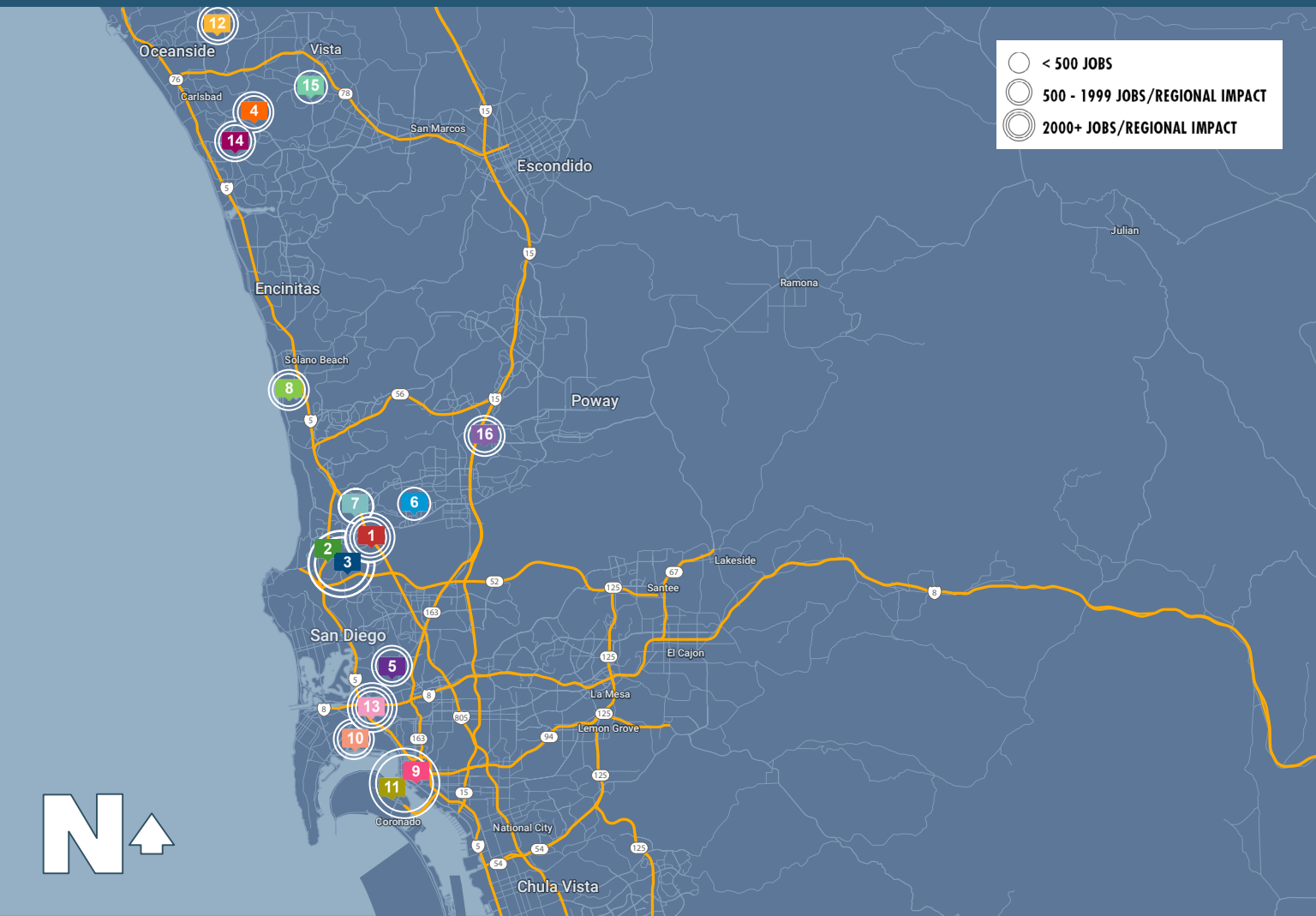
PRE-LEASE ABSORPTION RATE
14
Units/Property (1Q Avg)

Under Construction
Total # of Units: 7,812
Total # of Properties: 39

Planned
Total # of Units: 4,303
Total # of Properties: 26

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

1Q 2018 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 AbacusNext Leases New Building, to expand workforce by 400

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 Hospital Deal to Fuel Downtown Escondido Construction Boom

15 MiraCosta College Launches its Inaugural Biomanufacturing Bachelor's Program

16 MedImpact is expanding its corporate headquarters campus along the Interstate 15 corridor



Affordable Housing Crossroads

by Tom Brophy, Director of Research, ABI Multifamily

I would rather write a congenial article on the state of the multifamily market replete with an exegesis of CAP rates and price-per-unit amounts rather than the one presented. However, there are times in life which require those of good conscience to take a stand; to wit, now is that time. As most Californian's are now aware, The Affordable Housing Act (ACA) received enough signatures for inclusion on the November ballot. The main goal of the legislation, which can be read in its [entirety here](#), is as follows:

The People of the State of California hereby declare the following intent in enacting this Act:

- a) To restore authority to California's cities and counties to develop and implement local policies that ensure renters are able to find and afford decent housing in their jurisdictions.
- b) To improve the quality of life for millions of California renters and reduce the number of Californians who face critical housing challenges and homelessness.
- c) To repeal the Costa-Hawkins Rental Housing Act.

Regardless of one's political persuasion, it seems reasonable to assume that most recognize there is a dearth of affordable housing and that this problem is only getting worse, not better, particularly in more coastal regions. As in life so to in housing politics, the disagreement rests in the solution and not the problem. However, one cannot propose a solution(s) without an understanding of the history surrounding the problem. In this, the first of more polemical salvos to follow, I will lay a general understanding of Rent Control, as it pertains to California, and the Costa-Hawkins Rental Housing Act before diving into the basic arguments, both pro and con, of the rent control debate and what the ACA proposes for a solution. In subsequent articles, I will discuss the general philosophical foundations of private property which I believe get lost in the debate, various aspects of the affordable housing development process and detail both interim and long-term market-based solutions.

SAN DIEGO MARKET METRICS

By the Numbers

The MSA's total sales volume (5+ unit properties) decreased (15%), year-over-year, to \$229M across 68 transactions representing 999 total units sold. Sales of 50+ unit properties witnessed a volume contraction, decreasing (14%) y-o-y to \$65M. Average price-per-unit amount increased to \$198,702 or 10%. As with 50+ unit properties, 5 to 49 unit properties saw its volume decrease (15%) to \$164M with a 4% increase in average price-per-unit amounts to \$243,406.

The San Diego MSA experienced a 241% y-o-y increase in 1Q unit deliveries with 1,467 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, (1.1%), to 96.1% while average rent increased 4.7% to \$1,858.

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

North County Inland Submarket overtook East County Submarket to claim the top spot in the MSA for rent growth at 6.2%, followed by East County Inland at 5.1%, Metro San Diego at 4.6%, North County Coastal at 4.4% and South Bay at 3.4%. The Metro San Diego Submarket continues to claim the top spot in actual average rent which at \$2,068 is the highest in the region. In regards to Occupancy, South Bay remained #1 at 96.8%, East County #2 at 96.6% with the remaining submarkets all tied at 96%.

RENT CONTROL & COSTA-HAWKINS RENTAL HOUSING ACT

In 1995, the Costa-Hawkins Rental Housing Act was adopted to place limits on municipal rent control ordinances which were born in the high inflation, high property tax era of 1970s California. As a result of high home prices and interest rates, rentership rates dramatically increased. This combined with restrictive county and municipal land use laws such as ‘discretionary’ permitting as opposed to ‘as-of-right’ permitting has severely limited new construction, thus causing a housing

crisis. Rather than lifting building restrictions, a coterie of approximately 24 cities have enacted varying forms of rent control in California with the City of Berkley leading the charge in 1972.

From Wikipedia: *“Costa–Hawkins preempts the field in two major ways. First, it prohibits cities from establishing rent control over certain kinds of residential units, e.g., single family dwellings and condominiums, and newly constructed apartment units; these are deemed exempt. Second, it prohibits municipal “vacancy control”, also called “strict” rent control.*”

If an apartment is under “vacancy control”, the city’s ordinance works to deny or limit an owner’s ability to increase its rent to new tenant(s). It works this way even in cases where the prior tenant voluntarily vacated the apartment or was evicted for cause (such as failure to pay rent). In other words Costa–Hawkins, by now prohibiting “vacancy control” in the above circumstances, mandates that cities allow an apartment owner the right to rent it

when vacant at any price (i.e., usually the market price).

Rent control in California is largely the creation of its municipalities. This ability of city governments are limited by the federal and state constitutions, as well as federal and state laws. Costa–Hawkins is a key state statute enacted to manage the power of California cities to regulate their rental markets.”

FINAL THOUGHTS

As Richard Pipes once intimated, “In the contest between equality and liberty, the former holds the stronger hand, because the loss of liberty is felt only when it occurs, whereas the pain of inequality rankles every moment of the day.” While much of the blame for the dearth of affordable housing can be laid at the government’s doorstep, there is still much that can be done from the private sector to alleviate the problem. My hope is to lay out a way forward, preferably devoid of the big hand of government as continued interventions have only exacerbated the problem.



ABI MULTIFAMILY EXPANDS CALIFORNIA FOOTPRINT, OPENS SACRAMENTO OFFICE

ABI Multifamily, the Western US’s leading multifamily brokerage and advisory services firm, is pleased to announce its continued regional expansion with the opening of the Sacramento, CA office.

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: 1Q 2018



SAN DIEGO

PHOENIX

TUCSON

SACRAMENTO

DEMOGRAPHICS

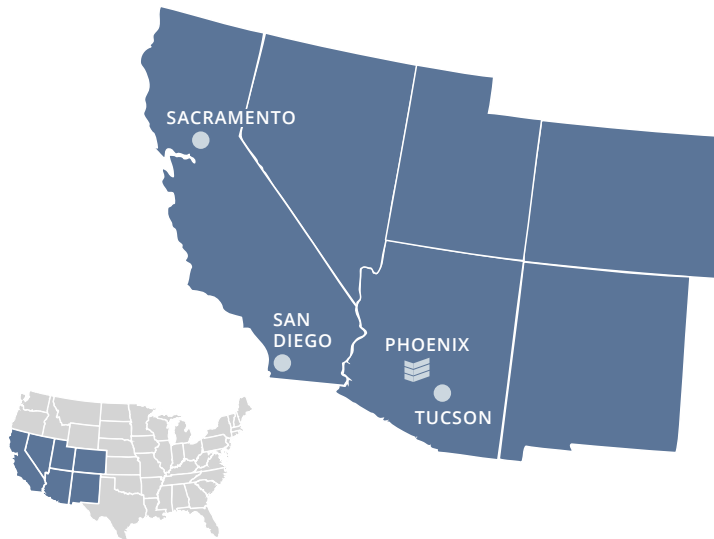
RENT/OCC/CONST (50+)

SALES (50+)

Total Population	3,317,749	4,737,270	1,026,099	2,296,418
Unemployment Rate (as of Mar '18)	3.3%	4.1%	4.3%	3.9%
Employment Growth (y-o-y)	1.5%	3.2%	0.9%	2.1%
Median HH Income	\$66,529	\$55,547	\$46,764	\$62,813
Per Capita Income	\$55,168	\$43,249	\$39,541	\$51,370
Rent (1Q 2018)	\$1,885	\$1,040	\$831	\$1,399
% Increase / Decrease	+6.3%	+5.8%	+4.8%	+7.0%
Occupancy (1Q 2018)	96.2%	94.7%	94.1%	96.3%
% Increase / Decrease	-1.0%	-0.4%	-0.2%	-0.8%
Total Inventory (50+)	181,587	301,024	67,093	126,891
Total Under Construction (50+)	7,812	17,895	796	2,913
Units Delivered (50+, 1Q 2018)	1,467	1,630	N/A	80
Total Sales Volume (1Q 2018)	\$65M	\$1.4B	\$131M	\$330M
y-o-y % Increase / Decrease	-14%	+96%	-10%	+112%
Average P/U (1Q 2018)	\$198,702	\$156,116	\$59,204	\$137,996
y-o-y % Increase / Decrease	+10%	+56%	+37%	-26%

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