ABI Multifamily
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SAN DIEGO MSA | MULTIFAMILY | 2Q 2018 REPORT

5+ UNIT PROPERTIES

	2Q 2018	INCREASE/DECREASE	2Q 2017
Total Sales Volume	$519M	-49%	$1.02B
AVERAGE Price/Unit	$275,134	+9%	$252,954
AVERAGE Price/SF	$332.70	+19%	$279.55
AVERAGE Year Built	1968	+1 YR	1967
5+ Average Rent	$1,908	+5.2	$1,814
5+ Occupancy Rate	96.5%	-0.6%	97.1%
Units Delivered	1,307	+90%	688

3,337,685 +0.6%
POPULATION
CENSUS 2017 ESTIMATE

3.7% -0.5%
UNEMPLOYMENT
AS OF JUNE 2018

+1.5%
EMPLOYMENT GROWTH
Y-O-Y AS OF JUNE 2018

$66,529 +3.5%
MEDIAN HH INCOME
2016 ACS 5-YR EST

$32,482 +3.9%
PER CAPITA INCOME
2016 ACS 5-YR EST

7,436 Units (50+)
UNDER CONSTRUCTION
YARDI

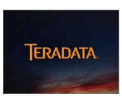
360,028 Units (5+)
TOTAL INVENTORY
AS OF 2Q 2018

ABI GEONEWS - SAN DIEGO MSA 2Q 2018 SELECT NEWS

CONTINUED ON PAGE 05

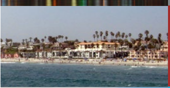
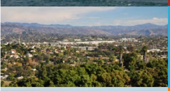
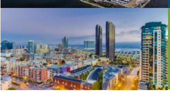
General Dynamics NASSCO Hiring Up to 1000 Jobs

Australian Biotech Company, Imagion Biosystems Ltd, to Relocate to San Diego



Teradata to Relocate HQ to San Diego from Ohio By Year's End, Brings 300 Jobs

SAN DIEGO MSA - PER SUBMARKET ANALYSIS

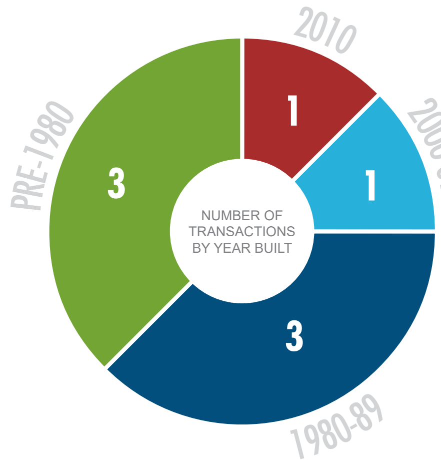
	SAN DIEGO MSA QUICK STATS	UNEMPLOYMENT RATE	MEDIAN HH INCOME	PER CAPITA INCOME	50+	
					TOTAL INVENTORY *	UNDER CONSTRUCTION
	San Diego MSA	3.7%	$66,529	$32,482	182,894	7,436
	North County Coastal	2.9%	$93,140	$59,038	17,381	672
	North County Inland	4.1%	$65,153	$27,923	29,922	104
	East County	4.2%	$63,503	$28,039	24,942	158
	South Bay	4.6%	$52,381	$21,622	24,193	520
	Metro San Diego	3.9%	$68,117	$35,199	93,673	5,847

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

	SAN DIEGO MSA - PER SUBMARKET ANALYSIS	N County Coastal	N County Inland	East County	South Bay	Metro San Diego
RENT & OCCUPANCY STATS	Average Rent (2Q 2018)	$1,930	$1,716	$1,569	$1,671	$2,130
	% Change (y-o-y)	+4.8%	+6.4%	+5.2%	+5.3%	+4.7%
	Occupancy Rate (2Q 2018)	96.6%	96.2%	96.9%	96.8%	96.4%
	% Change from 2017	-0.6%	-1.0%	-0.4%	-0.7%	-0.4%
	Units Delivered (50+)	N/A	N/A	N/A	N/A	1,307
SALES DATA (50+)	Total Sales Volume (2Q 2018, 50+)	$40,200,000	$115,000,000	$38,400,000	$35,000,000	$97,750,000
	Total Sales Volume (2Q 2017, 50+)	$30,000,000	$192,350,000	$119,140,000	$10,650,000	$397,750,000
	% Change (y-o-y)	+34%	-40%	-68%	+229%	-75%
	Avg P/U (2Q 2018, 50+)	$300,000	$366,242	$185,507	$360,825	$284,157
	Avg P/U (2Q 2017, 50+)	$220,588	$240,738	$182,171	$100,472	$402,174
	% Change (y-o-y)	+36%	+52%	+2%	+259%	-29%
SALES DATA (5-49)	Total Sales Volume (2Q 2018, 5-49)	$9,813,000	$12,856,309	$24,764,000	$8,778,408	$136,341,000
	Total Sales Volume (2Q 2017, 5-49)	$10,510,000	$39,720,800	$28,550,000	$33,963,772	$159,045,500
	% Change (y-o-y)	-7%	-68%	-13%	-74%	-14%
	Avg P/U (2Q 2018, 5-49)	$265,216	$153,051	$206,367	$175,568	$273,228
	Avg P/U (2Q 2017, 5-49)	$318,485	$178,923	$165,029	$182,601	$214,636
	% Change (y-o-y)	-17%	-14%	+25%	-4%	+27%

50+ UNIT PROPERTIES

		2Q 2018	INCREASE/DECREASE	2Q 2017
	Total Sales Volume	$326M	-56%	$750M
AVERAGE	Price/Unit	$297,765	+7%	$279,393
	Price/SF	$340.08	+19%	$285.19
	Year Built	1988	+2 yrs	1986



TOP 3 TRANSACTIONS BY PRICE/UNIT (50+)

Sofi Shadowridge
Vista, 314 Units | $115,000,000
$366,242/Unit | $378.35/SF | Built 2005

LaTerra Select Stone Creek
Chula Vista, 97 Units | $35,000,000
$360,825/Unit | $455.66/SF | Built 2018

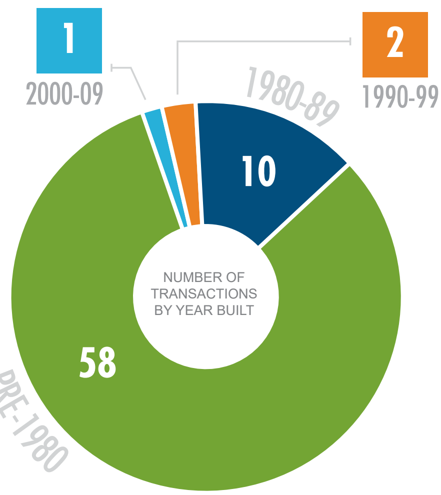
Oceanbreeze Village
Oceanside, 72 Units | $22,700,000
$315,278/Unit | $326.15/SF | Built 1989

2Q 2018 Transactions by Year Built

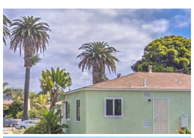
	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	1	$361K	$456
2000-09	1	$366K	$378
1990-99	0	N/A	N/A
1980-89	3	$257K	$285
Pre-1980	3	$258K	$315

5 - 49 UNIT PROPERTIES

		2Q 2018	INCREASE/DECREASE	2Q 2017
	Total Sales Volume	$193M	-29%	$272M
AVERAGE	Price/Unit	$243,738	+22%	$200,583
	Price/SF	$320.91	+21%	$264.90
	Year Built	1965	+1 yr	1964



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



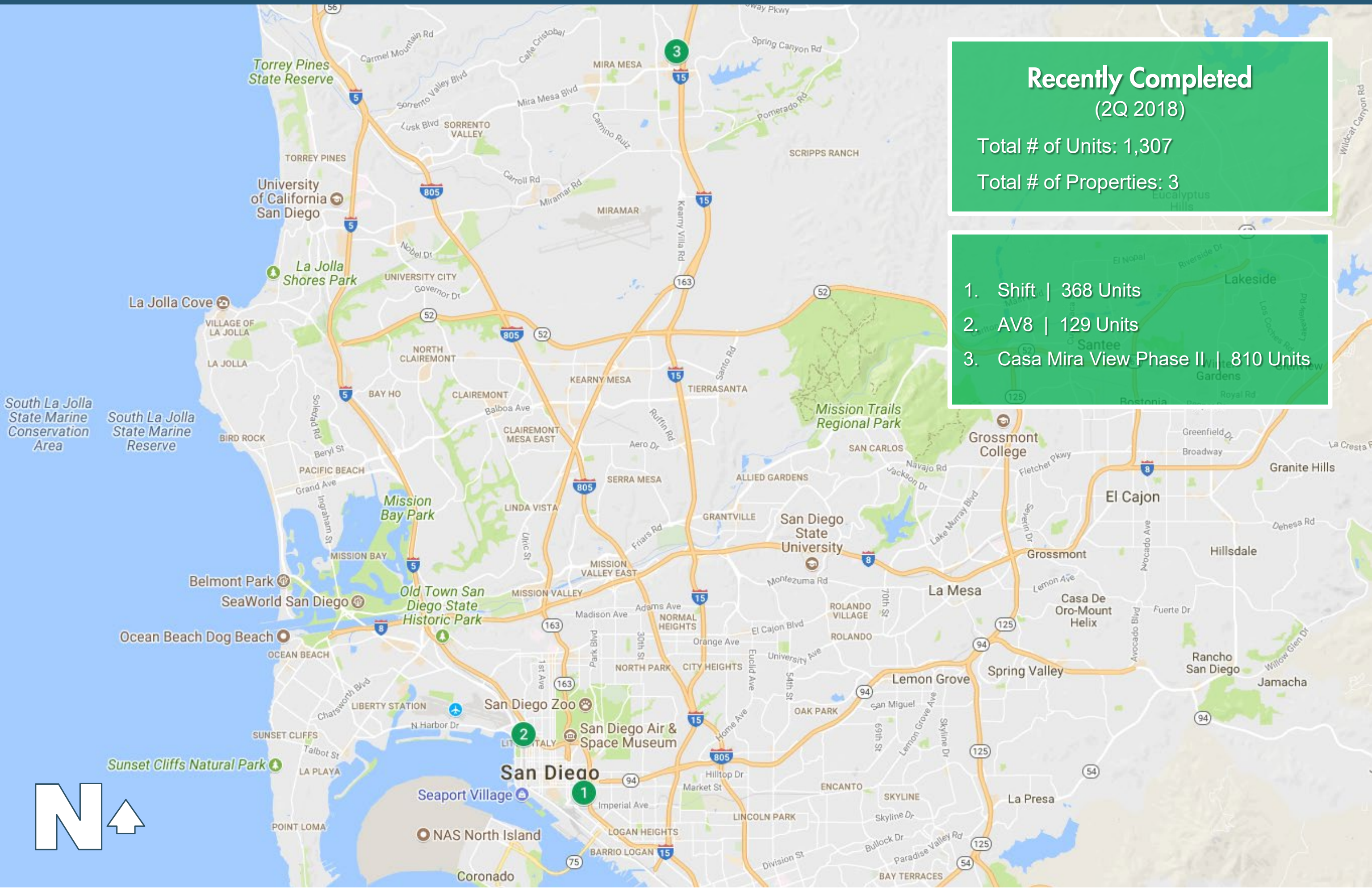
4949 - 4953 Cape May Avenue
San Diego, 5 Units | $3,000,000
$600,000/Unit | $963.70/SF | Built 1950

The 25 on Fifth
San Diego, 25 Units | $14,500,000
$580,000/Unit | $379.20/SF | Built 2008

1440 - 1448 Morena Blvd
San Diego, 6 Units | $3,050,000
$508,333/Unit | $762.50/SF | Built 1950

2Q 2018 Transactions by Year Built

	# of Transactions	Avg Price/Unit	Avg Price/SF
2010+	0	N/A	N/A
2000-09	1	$580K	$379
1990-99	2	$334K	$348
1980-89	10	$199K	$291
Pre-1980	58	$236K	$320



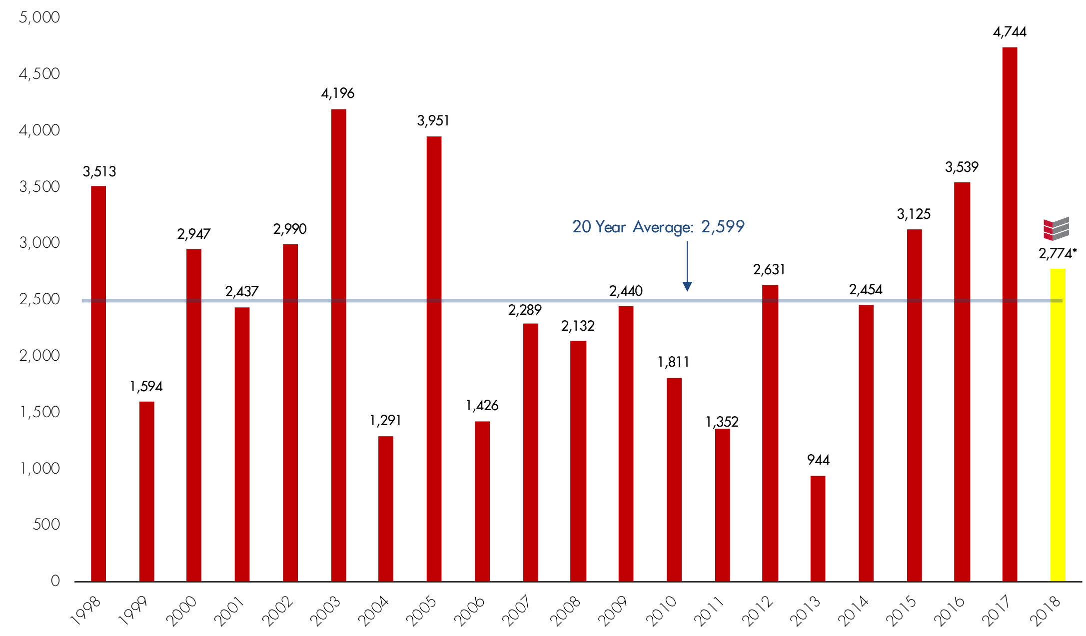
Recently Completed
(2Q 2018)

Total # of Units: 1,307

Total # of Properties: 3

1. Shift | 368 Units
2. AV8 | 129 Units
3. Casa Mira View Phase II | 810 Units

SAN DIEGO MULTIFAMILY CONSTRUCTION PIPELINE | 2Q 2018



TOTAL UNIT INVENTORY

5+ UNIT PROPERTIES: 360,028

50+ UNIT PROPERTIES: 182,894

PRE-LEASE ABSORPTION RATE

14

Units/Property (2Q Avg)

Under Construction

Total # of Units: 7,436

Total # of Properties: 44

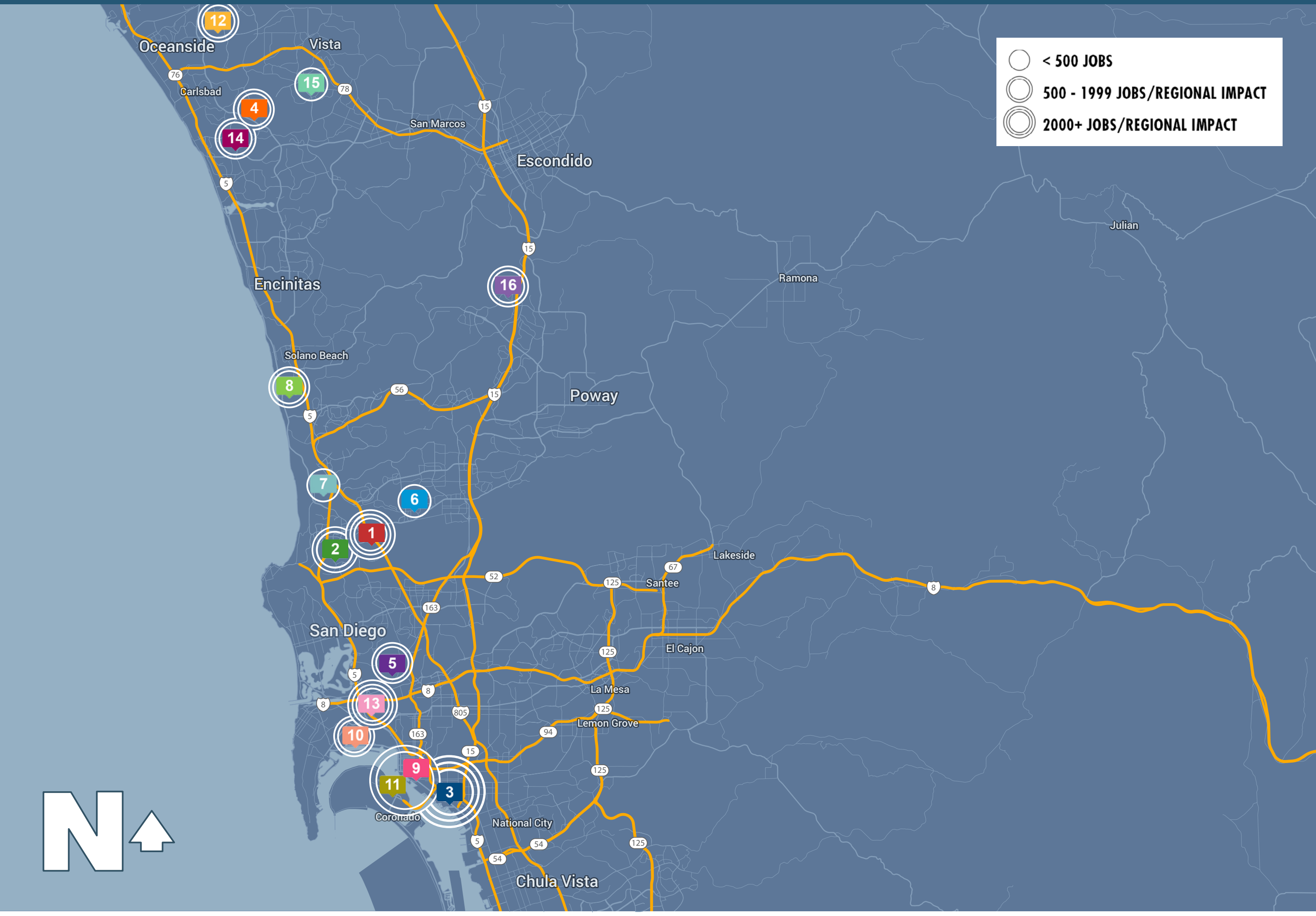
Planned

Total # of Units: 4,056

Total # of Properties: 22

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

2Q 2018 SELECT NEWS



1. Illumina Grows SD Footprint with Manufacturing Facility
2. Eli Lilly's $90M Expansion Doubles Co.'s Local Footprint
3. General Dynamics NASSCO Hiring Up to 1000 Jobs
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. Australian Biotech Company, Imagion Biosystems Ltd, to Relocate to San Diego
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. Teradata to Relocate HQ to San Diego from Ohio By Year's End, Brings 300 Jobs

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

The Market's Lateral Line

by Tom Brophy, Director of Research, ABI Multifamily

ABOVE: INSTITUTIONAL INVESTOR HUNTING FOR YIELD

The lateral line, in aquatic vertebrates such as sharks, is a system of sense organs which is used to detect movement, vibration, and pressure gradients in the surrounding water. As Discovery Channel's 'Shark Week' detailed, sharks use changes in their environment, specifically sensing electro-magnetic waves/pulses via their lateral lines, to better position themselves to strike at prey. In more laymen terms, the lateral line enables the shark to detect its prey without seeing it.

In today's data-rich, information light, central banker skewed-market environment sometimes the only thing investors can truly count on is gut instinct and inspection of the market's tea leaves. By all accounts the economy is firing on all cylinders with GDP at 4.1%, inflation just a tick over 2%, National unemployment at 4% and interest rates still hovering near historic lows. As Elliott D. Pollack opined in his July 31st *Monday Morning Quarterback* newsletter, "most economists expect GDP this year to come in at or above 3.0%. And while how sustainable this is over the long run is open to debate (there are good demographic reasons to doubt that it is), the economy is doing just fine, thank you. Enjoy the party."

San Diego Market Metrics:
By the Numbers

The MSA's total sales volume (5+ unit properties) decreased (49%), year-over-year, to $518M across 79 transactions representing 1,886 total units sold. Sales of 50+ unit properties witnessed an even larger volume contraction, decreasing (56%) y-o-y to $326M. Average price-per-unit amount increased to $297,765 or 7%. As with 50+ unit properties, 5 to 49 unit properties saw its volume decrease (29%) to $192M with a 22% increase in average price-per-unit amounts to $243,738.

The San Diego MSA experienced a 90% y-o-y increase in 2Q unit deliveries with 1,307 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 96.5% while average rent increased 5.2% to $1,908.

North County Inland Submarket claimed the top spot in the MSA for rent growth at 6.4%, followed by South Bay at 5.3%, East County at 5.2%, North County Coastal at 4.8% and Metro San Diego at 4.7%. The Metro San Diego Submarket continues to claim the top spot in actual average rent which at $2,130 is the highest in the region. In regards to occupancy, East County overtook South Bay to become #1 at 96.9%, South Bay #2 at 96.8%, North County Coastal #3 at 96.6%, Metro San Diego #4 at 96.4% and North County Inland at 96.2%.

What's Up?
Rent Control & Price-per-Unit

The single biggest issue, from a real estate perspective, facing both renters and owners in this year's California midterm elections is the fate of Prop 10. Prop 10, for those living under rocks at Seal Beach, is the initiative that would overturn California's Costa-Hawkins Rent Control Act thereby allowing local municipalities to impose rent control, on any type of rental housing, within their respective jurisdictions. If passed municipalities with rent control, and similar statutes, already on the books could immediately begin its implementation; National City, in San Diego's South Bay Submarket, being the latest municipality to take up the issue.

Despite the uncertainties of the legislation hasn't reduced investor's stated interest in the California markets we currently cover, i.e. San Diego and Sacramento MSAs. What has reduced investor interest? High price-per-unit amounts which, for San Diego Investment/Institutional Grade (IG) properties (50+ units) recently peaked at $297K/unit at the end of 2Q. As a result of higher per unit pricing, overall sales volume, and to a lesser degree active listings, have declined for the last three consecutive quarters. This trend should continue as Institutional Investors have decidedly shifted focus, taking profits from California sales and moving them into growing Secondary/Tertiary Markets to implement value add strategies in markets such as Phoenix, Las Vegas, Tucson and Salt Lake MSAs.

BY: THOMAS M. BROPHY, DIRECTOR OF RESEARCH

The Market's Lateral Line – Yield Curve Inversion?

The 2-year/10-year spread refers to the divergence between the 2-year Treasury note and the 10-year US Treasury bond. Generally speaking the yield on the 10-year should be greater than the 2-year based simply on the fact that more adverse economic events are likelier to transpire over a longer timeframe than a shorter one. Why all the noise? During the past three recessions, the 2/10 spread went negative about a year before the onset of the economic slowdown; which, as far as economic indicators go, has been as prescient an indicator as we've had over the last several decades. As of July 31st, the 2/10 spread was a mere 32 bps.

Despite the long list of notable bond trading detractors who firmly believe in the prescience of the 2/10 spread as the true market indicator, I tend to agree with traders such as John Mauldin, MauldinEconomics.com, or Kevin Muir, TheMacroTourist.com, who assert that given massive Central Bank QE (Quantitative Easing), and real negative rates, has rendered the spread less effective. I would further assert, not only has it made the spread less effective it has also distorted R-star or natural rate of interest. Given the past decade of zero-to-negative interest rates the entire developed world over, central banks have artificially thrust R-star downward causing investors, whether knowing or unknowingly, to increase risk in order to attain greater yields.

I still believe we are closer to negative rates than we are to 4%+ rates. Why do I think this? Given the length of our current recovery, second longest on record, we are probably closer to a correction than continued expansion. The *caveat emptor*, current growth has been spurred by tax cuts and deregulation which could certainly extend the bull market's rally longer than what many are predicting. Nonetheless, in previous recessions central bankers have, on average, needed to cut interest rates ~5% before normalizing policy. Given the Fed's current 1.5 to 1.75% target, with two more rate hikes expected this year moves the target to 2 to 2.25%, negative rates could certainly be on the horizon.

Final question/thought, suppose real estate return rates mean revert to average historical levels of 3.8%, across the board, and average rental rates soften to 2%+, contingent upon market, 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 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: 2Q 2018

		SAN DIEGO	PHOENIX	TUCSON	SACRAMENTO
DEMOGRAPHICS	Total Population	3,317,749	4,737,270	1,026,099	2,296,418
	Unemployment Rate (as of Mar '18)	3.7%	4.2%	4.5%	4.1%
	Employment Growth (y-o-y)	1.5%	3.1%	2.1%	1.6%
	Median HH Income	$66,529	$55,547	$46,764	$62,813
	Per Capita Income	$55,168	$43,249	$39,541	$51,370
RENT/OCC/CONST (50+)	Rent (2Q 2018)	$1,908	$1,067	$831	$1,423
	% Increase / Decrease	+5.2%	+6.4%	+4.1%	+4.9%
	Occupancy (2Q 2018)	96.50%	95.30%	94.50%	96.30%
	% Increase / Decrease	-0.6%	+0.2%	+0.1%	-0.9%
	Total Inventory (50+)	182,894	303,404	67,093	127,288
	Total Under Construction (50+)	7,436	16,766	853	3,279
	Units Delivered (50+, 2Q 2018)	1,307	2,380	N/A	397
SALES (50+)	Total Sales Volume (2Q 2018)	$326M	$1.43B	$242M	$247M
	y-o-y % Increase / Decrease	-56%	+16%	+74%	-14%
	Average P/U (2Q 2018)	$297,765	$155,266	$86,628	$160,445
	y-o-y % Increase / Decrease	+7%	+26%	-1%	+28%

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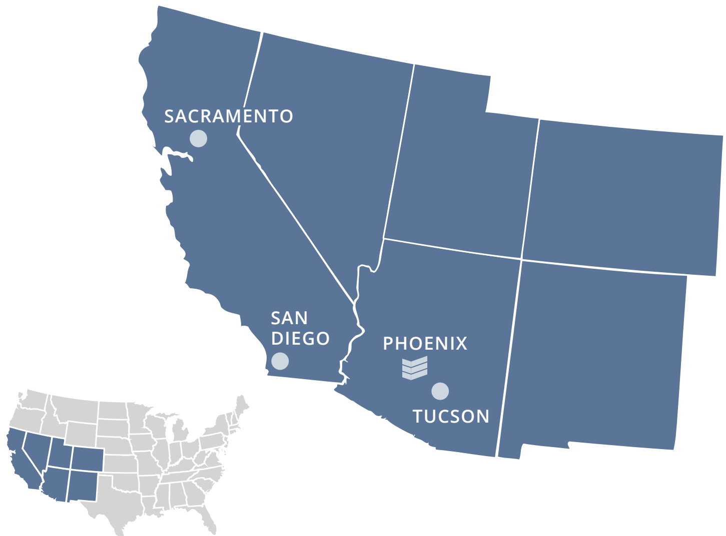

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