Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	8,209
UNITS DELIVERED	473

MARKET FUNDAMENTALS

VACANCY RATE	4.1%
YEAR-OVER-YEAR CHANGE	+60bps
ASKING RENTS	$2,355
YEAR-OVER-YEAR CHANGE	+1.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN SALES PRICE PER UNIT	$388,400

San Diego Multifamily
1Q 2024

MARKET INSIGHTS

Rents trend higher after modest 2023

HIGHLIGHTS

- Operating conditions were mostly favorable for multifamily assets in San Diego during the first quarter. Rents grew at a steady pace while vacancies posted a negligible uptick. Though the construction pipeline remains active, deliveries at the start of the year have been slow, allowing the market to absorb the new stock more efficiently.
- Area vacancy was relatively stable in the opening months of the year, posting a rise of just 10 basis points. The current vacancy rate is 4.1 percent, 60 basis points higher than the figure from one year ago.
- Rent growth was positive in the first quarter following a brief dip at the end of 2023. Current asking rents have reached $2,355 per month, up 1 percent over the past 12 months.
- Sales velocity slowed during the first quarter, following a sharp uptick in activity at the end of last year. While the number of sales declined, prices rose, with the median reaching $388,400 per unit. Cap rates remained between 4.5 percent and 5 percent across most transactions.

SAN DIEGO MULTIFAMILY MARKET OVERVIEW

Multifamily operating conditions in San Diego were mixed during the first quarter as rents resumed an upward trend even as area vacancies inched higher. First quarter deliveries in the region slowed as developers completed fewer than 500 units, allowing supply and demand to stabilize after increased inventory came online last year. Developers will remain active, however, and there are more units under construction than there were one year ago. While new rental communities continue to enter the market, vacancies are low enough and absorption is strong enough to support continued rent growth. The overall market vacancy ended the first quarter at just 4.1 percent, and outside of a few submarkets where new Class A construction is concentrated, vacancy is very low in Class B and Class C assets.

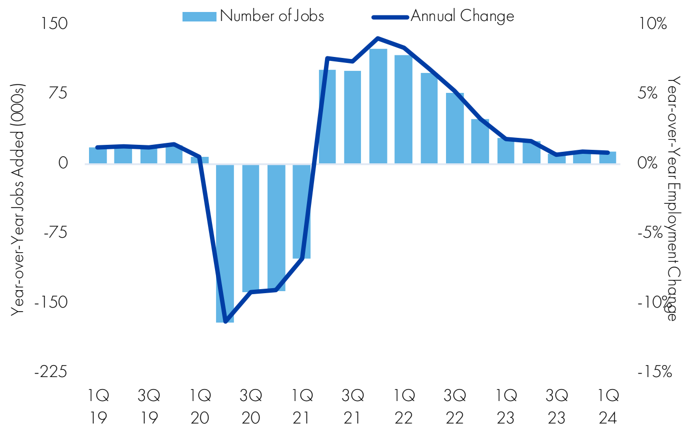
After a flurry of activity at the end of last year, the pace of multifamily sales transactions slowed significantly during the first quarter. The region generally features a fairly steady pace of sales velocity and a mix across deal sizes but there have been changes in the transaction mix in recent periods. While property sales topping $75 million have continued to close with regularity, there has been a drop-off year to date in the middle-market. Transactions of $40 million or less have historically accounted for more than half of the total activity in San Diego, but since the fourth quarter of 2023, these transactions have posted a declining share of sales volume. One result of the concentration of larger sales is the impact on per-unit pricing, which has pushed higher. The median sale price reached $388,400 per unit in the first quarter.

EMPLOYMENT

- Area employers added 12,700 workers in the past 12 months, a gain of 0.8 percent. The pace of growth has been steadying since 2022 and is now more closely aligned with the region's long-term expansion rate.
- Recent growth has been concentrated in one sector, education and health services. With the addition of 15,500 workers, total employment in this sector has expanded by 6.5 percent.
- Several large healthcare projects are under way, supporting demand for workers. Out of the 10 largest construction projects in the region, four are either healthcare or life science facilities.
- **FORECAST:** Employment growth in San Diego in 2024 is expected to closely track prior year levels, with more industries adding workers later in the year. Businesses are expected to add approximately 15,000 total jobs in 2024, expanding payrolls by 1 percent.

Area employers added 12,700 workers in the past 12 months.

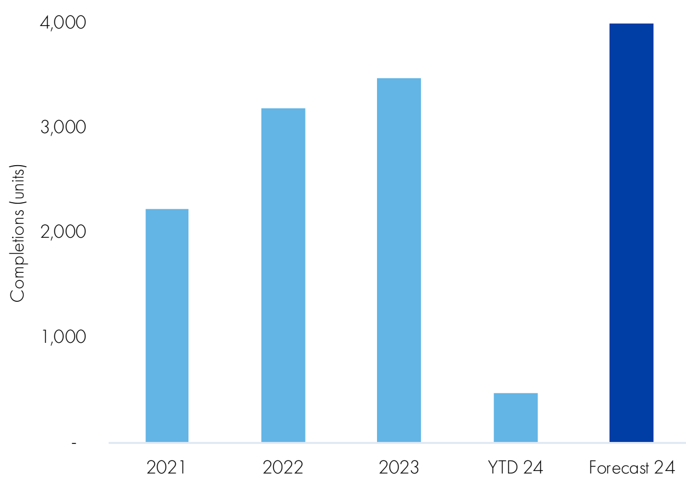
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Downtown San Diego has the highest levels of construction.

DEVELOPMENT TRENDS



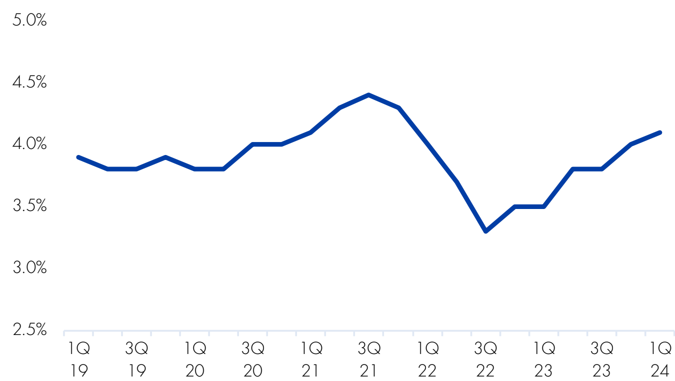
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily development in San Diego started the year at a modest pace as fewer than 500 units came online, down almost 70 percent from the previous quarter. In 2023, completions were limited in the first half before accelerating later in the year.
- Projects totaling 8,209 units were under construction in the first quarter, up 8 percent from the end of 2023. Downtown San Diego has the highest levels of construction in the region with almost 2,600 units currently being built. The Mission Valley/North Central region is experiencing significant development as well with projects totaling over 2,300 units under construction.
- As tight market conditions and renter demand continue to fuel development, a steady pace of permitting continues in San Diego. In the first quarter, permits for nearly 1,600 multifamily units were pulled, in line with the five-year quarterly average.
- **FORECAST:** Following two years of steady deliveries of nearly 3,300 units annually, developers in San Diego are expected to be more active in 2024. Projects totaling 4,500 units are forecast to come online this year.

Year over year, vacancies have risen by 60 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

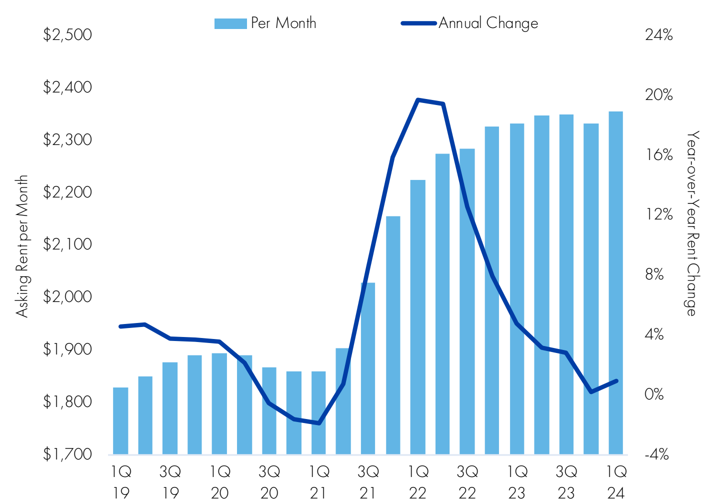
- The vacancy rate in San Diego inched higher by only 10 basis points in the first quarter, maintaining a steady upward trend that has been in place for the past few periods. Year over year, area vacancies have risen by 60 basis points to 4.1 percent.
- Changes in vacancy were minimal in most submarkets, though the La Jolla/University City area recorded the greatest vacancy improvement of all the major submarkets in the region. Year over year, the vacancy rate in the submarket fell by 40 basis points to 4 percent.
- Mid- and lower-tier properties continued to post very low vacancy rates. Even after rising 30 basis points in the past 12 months, the combined vacancy rate for Class B and Class C properties is just 2.4 percent, nearly 400 basis points lower than the Class A rate.
- **FORECAST:** With deliveries on the rise, vacancies in San Diego are expected to push higher, though renter demand for units is expected to remain consistently strong. Area vacancies are forecast to end 2024 at 4.5 percent, a rise of 50 basis points annually.

RENTS

- Following a brief dip in the previous quarter, rent growth gained momentum in San Diego, rising by 1 percent in the past three months to $2,355 per month. Rents were flat for much of 2023, and current asking rents are just 1 percent higher than levels from one year ago.
- The Clairemont/Linda Vista Mission submarket led the region's major submarkets in rent growth again in the first quarter after posting gains at the end of 2023. Asking rents in this area rose by 2.8 percent over the past 12 months to $2,647 per month.
- Rents in the Balboa Park/West of I-15 submarket are rising as new units enter the local inventory. In the past 12 months, rents in the submarket have risen by 7 percent to $1,977 per month. In the same period, new construction increased the total apartment inventory by more than 6 percent with the delivery of 500 units.
- **FORECAST:** Asking rents in San Diego are forecast to continue to tick higher throughout the year. By the end of 2024, rents in San Diego are expected to reach nearly $2,400 per month, an annual rise of 3 percent.

Rents rose 1 percent in the past three months to $2,355 per month.

RENT TRENDS



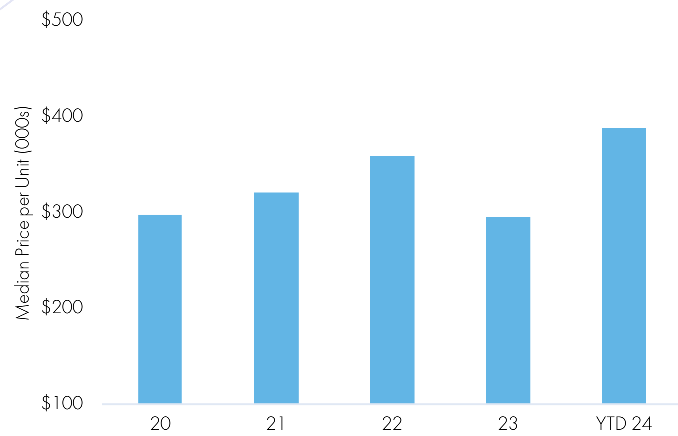
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Transaction activity in San Diego at the start of this year closely tracked levels from the first quarter of 2023. Sales velocity gained some momentum in the second half of last year, but that was not sustained in the first few months of 2024.
- While activity was limited, prices rose in the first quarter; the median price thus far in 2024 is $388,400 per unit. One factor causing higher pricing in recent trades is that all major transactions in the region were Class B assets, while in 2023 Class A and Class B apartments made up less than half of all trades.
- Cap rates were mostly stable in the first quarter, after rising in 2023. On average, cap rates in the last three months have been between 4.5 percent and 5 percent.

The median price thus far in 2024 is $388,400 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

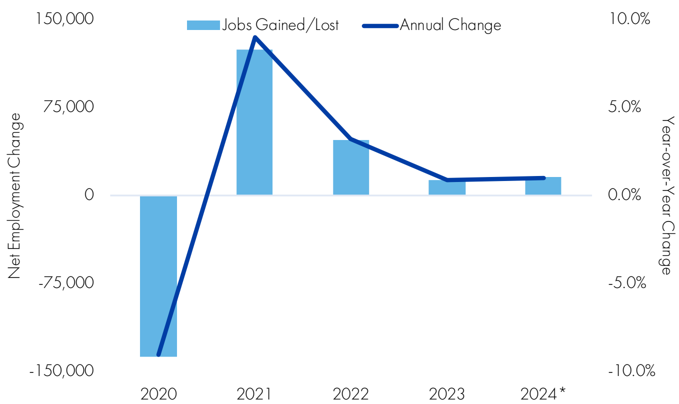
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Pulse Millenia	2043 Artisan Way, Chula Vista	273	$116,000,000	$424,908
The Emery at Terra Nova	440 E H St., Chula Vista	233	$82,000,000	$351,931

LOOKING AHEAD

Many of the prevailing trends that are impacting multifamily property performance at the national level may be present in San Diego in 2024, but their consequences will be much more limited in the local market. The delivery of new units is forecast to accelerate this year, but developers have been bringing new units online in San Diego at a fairly steady clip since 2018, and renter demand is consistently strong enough to support ongoing leasing activity in new properties. As such, vacancy rates will likely trend higher through the end of this year, but overall increases will be modest and conditions will remain tight enough—particularly in existing, stabilized properties—to support rent increases.

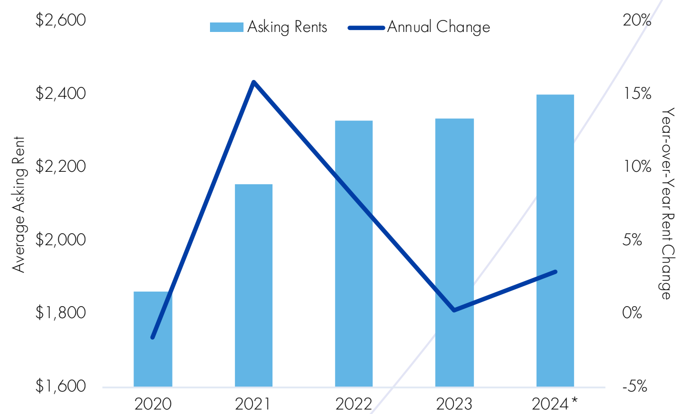
With the San Diego area likely to outperform most other parts of the country in 2024, the market is expected to continue to attract investor interest. The transaction mix will likely include a greater variety of properties, although activity may be skewed disproportionately to larger trades in the coming months. Financing costs will continue to impact investors, with cap rates likely to linger near their current levels. In many cases, current cap rates in San Diego are only slightly higher than Treasury bond yields. While this is fairly common in the local market, it makes it more difficult for acquisitions to pencil, particularly in a period of rising expenses and moderating rent growth.

EMPLOYMENT FORECAST



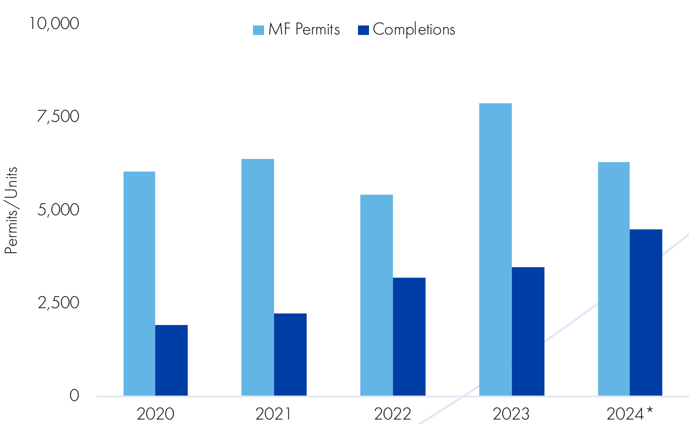
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



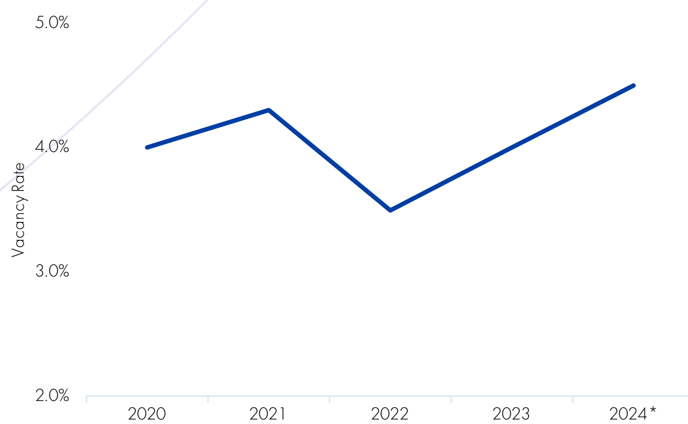
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



** Year End Forecast*
Sources: Northmarq, Census Bureau, CoStar

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, REIS

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