Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	7,805
UNITS DELIVERED (YTD)	4,172

MARKET FUNDAMENTALS

VACANCY RATE	4.5%
YEAR-OVER-YEAR CHANGE	+50bps
ASKING RENTS	$2,377
YEAR-OVER-YEAR CHANGE	+1.9%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$361,500

SAN DIEGO MULTIFAMILY
4Q 2025

MARKET INSIGHTS

Sales velocity gains momentum heading into 2025

HIGHLIGHTS

- Property performance in the San Deigo multifamily market was steady during the fourth quarter, as the vacancy rate was unchanged and asking rents inched higher. Projects totaling nearly 4,200 units were delivered in 2024, bringing total completions to a five-year high.
- The local vacancy rate remained at 4.5 percent during the fourth quarter after inching higher in previous periods. Vacancy increased by 50 basis points in 2024.
- Asking rents in San Diego inched higher in the fourth quarter, reaching $2,377 per month; rents rose 1.9 percent for the full year.
- Local transaction activity accelerated during the second half of the year, pushing annual sales volumes up 44 percent from the previous year. Prices also rose, fueled by a mix of Class A and newer Class B property sales. The median price for the full year reached $361,500 per unit.

SAN DIEGO MULTIFAMILY MARKET OVERVIEW

While there was little change in operating conditions during the closing months of the year, annual shifts in property fundamentals demonstrate a stable multifamily market in San Diego. Development has continued to accelerate since 2021, with 2024 recording the highest number of new units coming online since 2018. Despite above-trend levels of deliveries, the local vacancy rate has remained within a tight range over both the short- and the long-term, rising only 50 basis points over the past five years. While new supply has hampered performance metrics across many other major markets in recent years, steady demand in San Diego has resulted in continued rent growth. Asking rents advanced by 1.9 percent in 2024, with a similar increase likely in the coming year. The Downtown submarket is one of the few parts of the San Diego market with any significant vacancy, but conditions are improving. The vacancy rate in Downtown San Diego dropped by 60 points in 2024 to 7.6 percent while asking rents ticked higher.

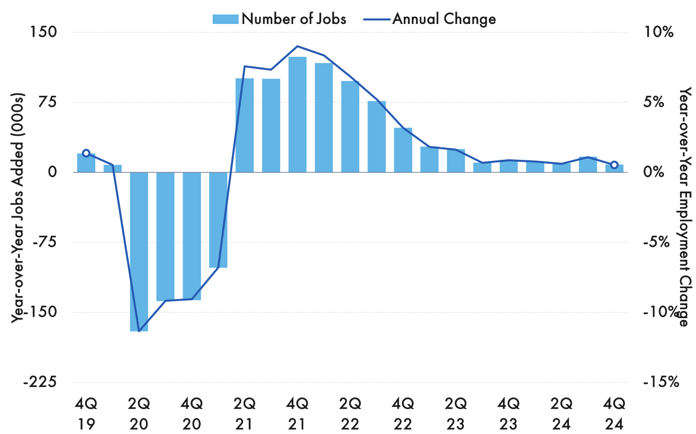
The multifamily investment sales market in San Diego posted improving conditions in the fourth quarter. While transaction volume during the first half of the year was light, activity picked up significantly to close the year. Transaction totals during the second half of 2024 closely tracked the region's historical pace, offsetting some of the limited sales volume in the first half. Pricing increased in 2024, pushed higher by healthy transaction activity involving Class A and newer Class B properties. The median price in 2024 was $361,500 per unit, up 36 percent from the 2023 figure. Properties built within the past decade sold at a median price of nearly $440,000 per unit in 2024, and a few properties built since 2020 changed hands at more than $500,000 per unit.

EMPLOYMENT

- Total employment in San Diego expanded at a modest pace following stronger growth in prior years. In 2024 area employers added 8,400 workers to payrolls, an annual increase of 0.5 percent.
- The education and health services sector led the region in employment growth during 2024. Over the past year, employers in this industry have expanded payrolls by 4.2 percent with the addition of 10,500 workers.
- The retail sector expanded at a gradual pace in 2024, continuing trends recorded in the previous three years. Retail employment ticked up 1.1 percent during the past year with the addition of 1,600 workers.
- **FORECAST:** Employment growth is forecast to remain steady in the coming quarters. The local labor market is expected to expand by 7,500 workers in 2025, an annual increase of 0.5 percent.

In 2024 area employers added 8,400 workers to payrolls.

EMPLOYMENT OVERVIEW



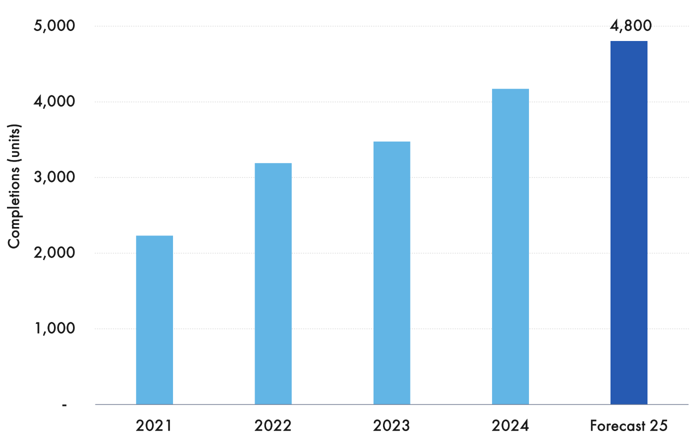
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

Approximately 7,800 units are currently under construction.

- The pace of construction in San Diego picked up during the fourth quarter with more than 1,300 units delivered to close the year. In 2024, projects totaling nearly 4,200 units came online, up 20 percent from the 2023 total.
- Approximately 7,800 units are currently under construction in San Diego, up about 50 percent from the end of 2023. The Mission Valley/North Central area contains the largest share of future supply, with 2,400 units currently under construction.
- Developers pulled permits for 7,200 multifamily units in 2024, down 9 percent from last year. Multifamily permitting totals in 2024 were up 19 percent from the market's trailing five-year average.
- **FORECAST:** Multifamily completions in San Diego are forecast to gain momentum in the year ahead. Projects totaling 4,800 units are scheduled for completion in 2025. This would mark the highest annual total of deliveries in the San Diego region since 2018.

DEVELOPMENT TRENDS

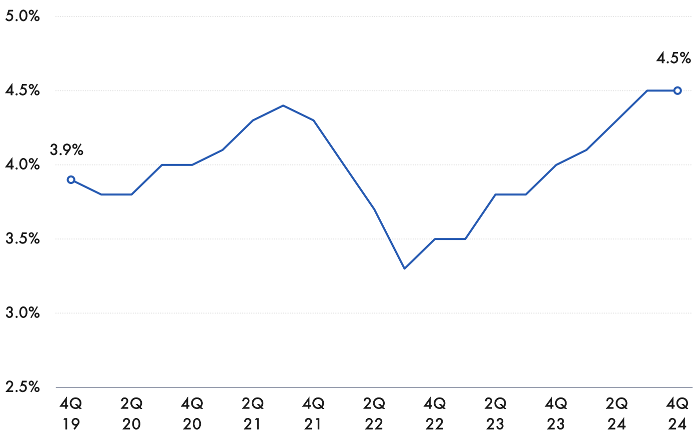


Sources: Northmarq, CoStar, Reis

VACANCY

The vacancy rate remained at 4.5 percent during the fourth quarter.

VACANCY TRENDS



Sources: Northmarq, Reis

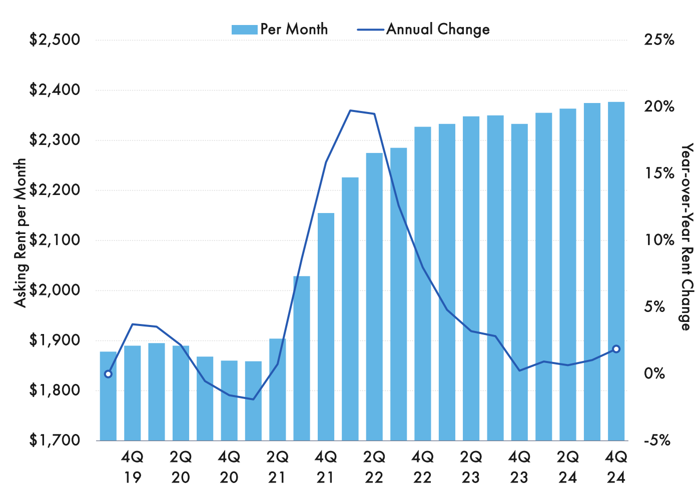
- The vacancy rate remained at 4.5 percent during the fourth quarter after inching higher in four consecutive quarters. During the past 12 months, the vacancy rate increased by 50 basis points.
- Vacancy conditions for top-tier properties tightened slightly in 2024, even as new units came online. The vacancy rate in the Class A segment dropped by 20 basis points during the past year to 6.8 percent. The current Class A rate is 120 basis points higher than the 10-year low recorded at the end of 2022.
- The Clairemont/Linda Vista Mission submarket posted the largest vacancy decrease in the region during the past year. The vacancy rate in this submarket dropped by 70 basis points annually in 2024 to 6.3 percent.
- **FORECAST:** Vacancy in San Diego has been trending higher in recent years and is expected to inch up again in 2025. The rate is forecast to rise 30 basis points and end 2025 at 4.8 percent. Vacancy in San Diego has remained below 5 percent for the past 15 years.

RENTS

- Rents in San Diego posted steady gains during the middle part of the year before recording a minimal uptick on the fourth quarter. Asking rents ended 2024 at $2,377 per month, up 1.9 percent from one year earlier.
- Tight conditions among Class B and Class C properties allowed for steadier rent increases than in the top tier. The combined asking rents for Class B and Class C units rose 2.6 percent in the past year. Class A rents gained just 0.8 percent in 2024, ending the year at $2,821 per month.
- Some of the highest annual rent increases in the San Diego area took place in Oceanside. Over the past 12 months asking rents in Oceanside increased by 4 percent to $2,110 per month.
- **FORECAST:** Asking rents are expected to continue to rise at a steady pace through 2025. Over the next year, asking rents are forecast to rise roughly 2 percent to $2,425 per month.

Asking rents ended 2024 at $2,377 per month.

RENTS TRENDS



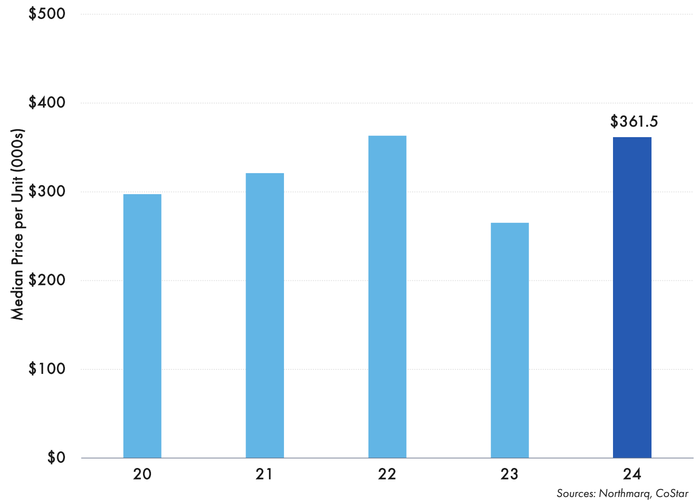
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily investment sales in San Diego accelerated in the fourth quarter after recording modest transaction volume during the first half of the year. The total number of sales that took place in 2024 was up 44 percent over 2023. Transaction counts in 2024 were down about 35 percent from the market's annual average since 2015.
- While transaction activity lagged historical norms, pricing pushed higher during the past year. The median sale price in 2024 was $361,500 per unit, up 36 percent over the previous year.
- The average cap rate in San Deigo has been consistent during the past two years, remaining between 4.5 percent and 5 percent on average.

The median sale price in 2024 was $361,500 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

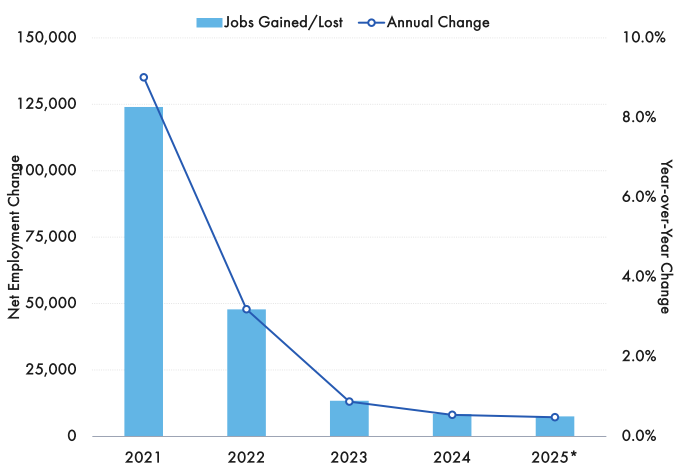
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Simone Little Italy	1401 Union Street, San Diego	395	2023	$283,000,469	$716,457
The Avalyn at Millenia	1774 Metro Avenue, Chula Vista	480	2022	$210,000,000	$437,500
Bay Ridge Apartments	3010-3020 Cowley Way, San Diego	70	1986	$25,350,000	$362,143

LOOKING AHEAD

Multifamily property performance in 2025 is expected to closely track conditions recorded in each of the past two years. Completions of new units will be higher than the region's long-term trend, applying some modest supply-side pressures on a market where renter demand is traditionally very steady. Renter demand should be healthy enough to continue to yield modest rent growth, even as the vacancy rate is forecast to inch higher for a third consecutive year. While the direction of the vacancy curve might suggest somewhat more challenging conditions for operators, the degree of recent increases has been modest and the overall vacancy rate will remain low. Quarterly vacancies have averaged just 4 percent during the past five years, and the rate has not ticked above 5 percent for more than 15 years, a trend that is expected to be extended in 2025.

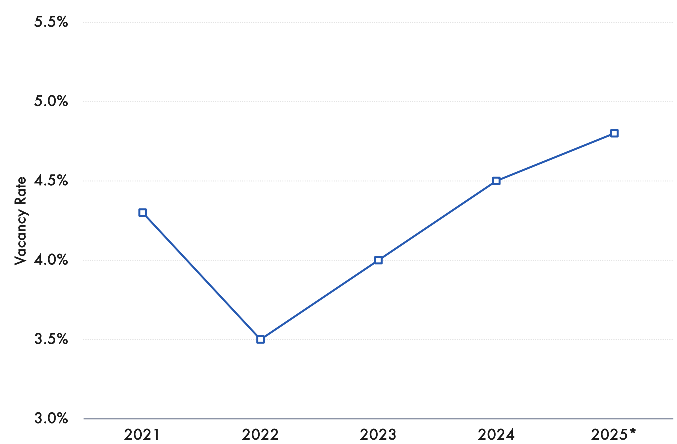
The multifamily investment market in San Diego is expected to continue to advance in the year ahead, building upon some of the momentum generated in 2024. Local properties are expected to post healthy fundamentals and continued rent growth should attract investors. Further, sales of Class B and Class C properties have traditionally fueled the investment market, accounting for more than 80 percent of transactions since 2018, and these property groups are likely to have the strongest rent gains and tightest vacancies in 2025. The healthy property performance in San Diego's core multifamily product should continue to attract investment capital. During much of 2024, Class A and Class B properties accounted for more than half of the transaction totals, as investors acquired some of the inventory that has come online in recent years.

EMPLOYMENT FORECAST



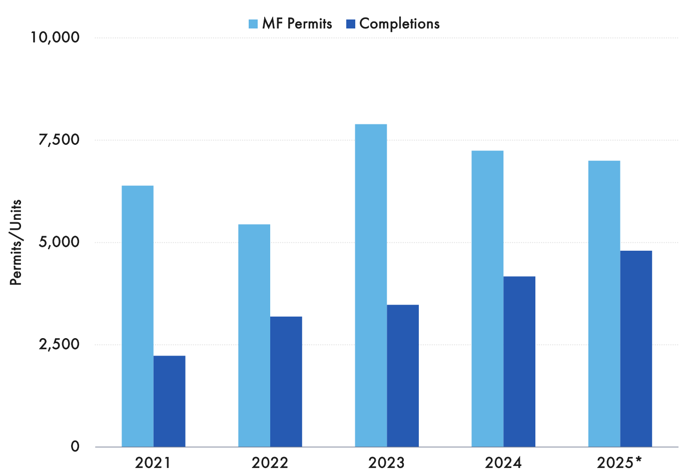
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



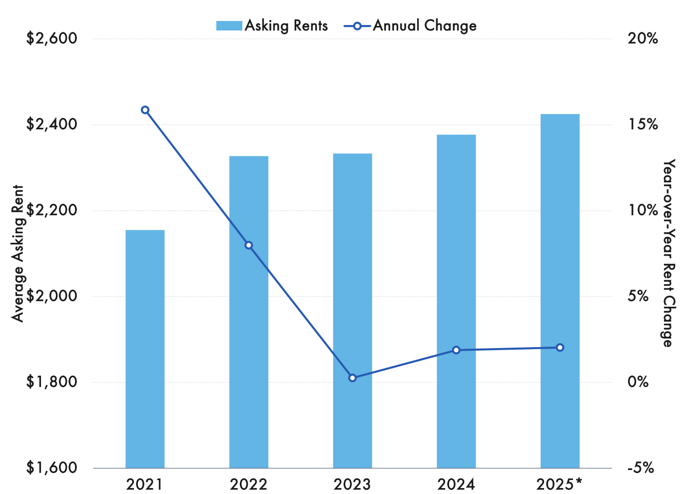
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Reis

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