

San Diego Multifamily

Sales of Larger Properties Dominate Transaction Activity

Highlights

- > Multifamily properties in San Diego performed well at the start of 2019. Vacancies tightened during the first quarter and rents rose, even as more than 1,000 new units were added to the local inventory.
- > Vacancy dipped 10 basis points in the first quarter, reaching 3.9 percent. Despite the recent drop, the rate is up 20 basis points year over year.
- > Rents are trending higher in San Diego; asking rents are up 4.6 percent from one year ago, ending the first quarter at \$1,830 per month.
- > The investment market was active at the start of the year, with several properties in excess of 200 units changing hands. The median price rose to \$270,900 per unit, while the average cap rate held steady at 4.6 percent.

San Diego Multifamily Market Overview

The San Diego multifamily market strengthened during the first quarter, fueled by consistent renter demand for apartments. Vacancy inched lower to start the year, dipping back below 4 percent after a modest rise late last year. The rate will likely remain near current ranges for most of the rest of 2019, and could dip again beginning in 2020. In several submarkets where construction has been limited, the vacancy rate is below 3 percent, reflecting a very healthy supply-demand balance for owners. The one area where there was significant new construction during the first quarter was the Downtown submarket, where three projects totaling approximately 1,000 units were delivered. Rents continued to trend higher, although gains in 2019 are expected to lag the rapid growth levels recorded last year.

Market Indicators

Quarterly Changes	1Q/2019
Vacancy	↓
Rents	↑
Transaction Activity.....	→
Price Per Unit.....	↑
Cap Rates.....	→

Summary Statistics

San Diego Market

Vacancy Rate.....	3.9%
- Change from 1Q 2018 (bps).....	+20
Asking Rents (per month).....	\$1,830
- Change from 1Q 2018.....	+4.6%
Median Sales Price (Per unit YTD).....	\$270,900
Average Cap Rate (YTD).....	4.6%

San Diego Multifamily Market Overview (cont.)

Investment activity in San Diego reflected the healthy operating conditions in the area. Sales velocity closely tracked levels from the end of last year, but dollar volume spiked as properties with more units sold. Activity was fueled by projects of more than 200 units, including a

handful of complexes that were more recent construction. This mix of assets pushed sales prices higher, with the median price rising by more than 10 percent from the 2018 median, even as cap rates remained essentially unchanged in the mid-4 percent range.

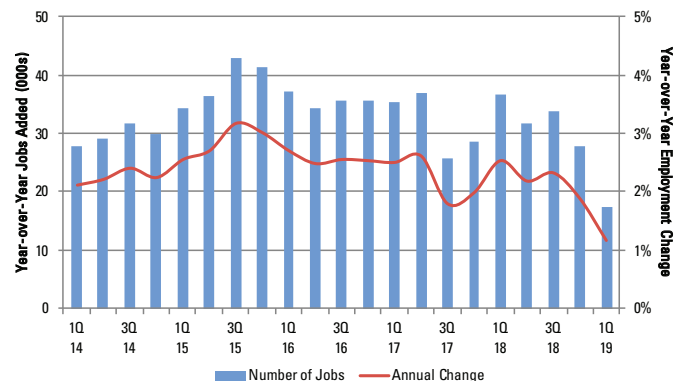
Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
Mission Bay/Pacific Beach	1.2%	2.3%	(110)	\$1,921	\$1,830
El Cajon/Santee/Lakeside	1.7%	1.8%	(10)	\$1,349	\$1,300
Escondido/San Marcos	2.0%	2.3%	(30)	\$1,538	\$1,502
San Diego/East of I-15	2.1%	2.1%	-	\$1,355	\$1,311
North Beaches	2.2%	1.6%	60	\$1,889	\$1,853
La Mesa/Spring Valley/Lemon Grove	2.6%	3.1%	(50)	\$1,722	\$1,698
Oceanside	2.6%	3.0%	(40)	\$1,717	\$1,630
National City/Chula Vista	2.7%	2.4%	30	\$1,585	\$1,531
La Jolla/University City	3.3%	3.6%	(30)	\$2,400	\$2,291
Mira Mesa/Rancho Bernardo	3.9%	2.9%	100	\$2,241	\$2,166
Balboa Park/West of I-15	4.4%	3.4%	100	\$1,434	\$1,349
Vista	4.5%	5.7%	(120)	\$1,628	\$1,554
Ocean Beach/Point Loma Blvd.	5.1%	4.4%	70	\$1,855	\$1,805
Clairemont/Linda Vista Mission	6.5%	6.3%	20	\$1,952	\$1,873
Downtown San Diego	12.1%	10.1%	200	\$2,515	\$2,269

Employment

- > Employment growth in San Diego got off to a slower start after a healthy year of expansion in 2018. During the past 12 months, the local labor market has grown 1.2 percent with the addition of 17,300 new positions.
- > The education and health services sector continued to lead the way in job growth at the start of 2019. In the 12-month period ending in the first quarter, 7,600 net new jobs have been added in the sector, a 3.6 percent pace of growth.
- > San Diego is one of the markets that is adding manufacturing jobs. In the past year, local manufacturing employment has expanded by 2.5 percent with the addition of 2,800 new workers.
- > **Forecast:** Employment growth in San Diego in 2019 is forecast to expand by approximately 1.5 percent, with the addition of 22,000 new jobs.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

The education and health services sector continued to lead the way in job growth

Vacancy

- > Vacancy in the San Diego multifamily market ticked down 10 basis points during the first quarter, reaching 3.9 percent. The rate is 20 basis points higher than one year ago.
- > The bulk of the inventory in the market consists of Class B and Class C properties and vacancies in these buildings have remained very low. The combined vacancy rate for Class B and Class apartments ended the first quarter at 2.2 percent, 10 basis points lower than one year earlier.
- > Vacancy in the northwest portion of the market has been consistently low in recent years. The combined vacancy rate in the Oceanside and the North Beaches submarkets is 2.4 percent, up just 10 basis points from one year earlier.
- > **Forecast:** While renter demand for apartments is expected to remain fairly steady, deliveries will accelerate. This is forecast to cause vacancy to tick up to approximately 4.1 percent.

Vacancy Trends



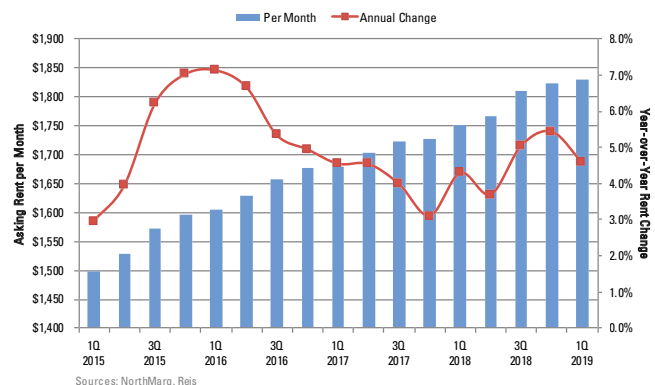
Sources: NorthMarq, Reis

The bulk of the inventory in the market consists of Class B and Class C properties

Rents

- > Rents ticked higher during the first quarter, but at a more modest pace than in recent periods. Asking rents rose 0.4 percent in the first quarter, reaching \$1,830 per month. In 2018, rents spiked 1.3 percent during the first quarter.
- > Asking rents are up 4.6 percent year over year, due in part to the strong gains recorded throughout much of last year. Annual rent growth in San Diego has averaged 4.9 percent since 2016.
- > Rents in Class A properties have risen nearly \$100 per month in the past year, reflecting a 4.6 percent annual increase. Asking rents in Class A apartment units ended the first quarter at \$2,243 per month.
- > **Forecast:** Rents are forecast to continue to trend higher in 2019, although the rate of increase is expected to slow from the 2018 rise. Asking rents are expected increase 4 percent in 2019, ending the year at approximately \$1,895 per month.

Rent Trends

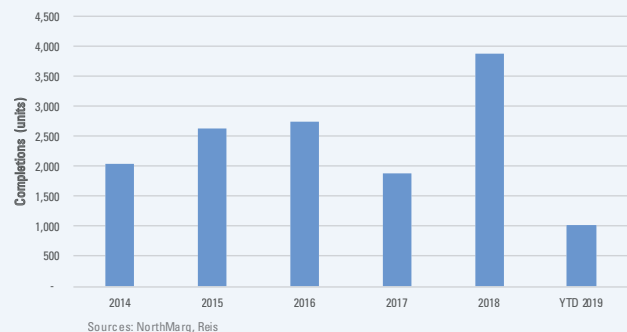


Asking rents are up 4.6 percent year over year

Development and Permitting

- > Approximately 1,000 apartment units were delivered during the first quarter, the largest total of quarterly completions since the first quarter of last year. During the past 12 months, more than 3,100 units have been delivered.
- > Developers have nearly 4,700 units currently under construction, a figure that is down approximately 7 percent from the total at year-end 2018. Projects totaling 2,500 units are under way in the Downtown San Diego submarket.
- > The Downtown submarket has been the site of much of the recent construction in the market, highlighted by high-rise projects including the 718-unit Park 12 apartments and the 220-unit Luma complex.
- > **Forecast:** Developers are forecast to complete 4,400 apartment units in San Diego in 2019, after deliveries of nearly 3,900 units in 2018.

Development Trends

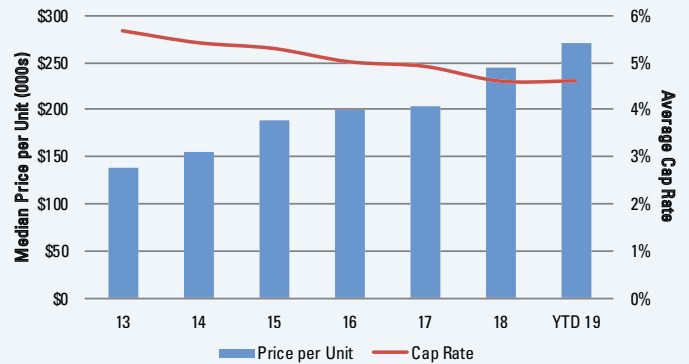


Fewer than 300 multifamily permits were pulled during the first quarter 2019

Multifamily Sales

- > Sales velocity was steady from the fourth quarter 2018 to the first quarter of this year. The number of properties that sold to start 2019 was ahead of the pace established in 2018.
- > The median price rose to start 2019, reaching \$270,900 per unit in the first quarter. This is an increase of more than 10 percent from the 2018 median price.
- > Cap rates held steady at 4.6 percent in the first quarter, matching the average from 2018. Cap rates have been at or below 5 percent since 2016.

Investment Trends



The median price rose to start 2019, reaching \$270,900 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

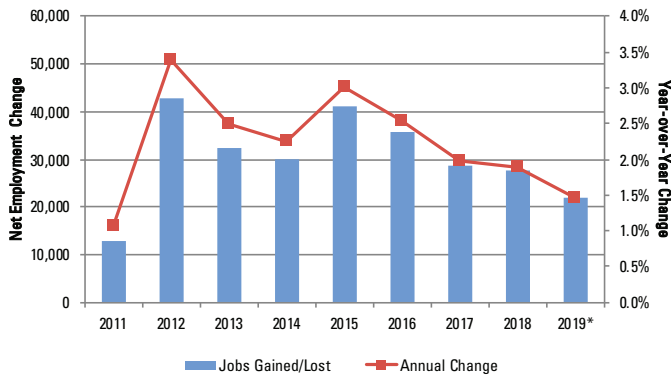
Property Name	Street Address	Units	Sales Price	Price/Unit
Regents La Jolla	9253 Regents Rd., La Jolla	333	\$141,500,000	\$424,925
Fifty Twenty-Five	5025 Collwood Blvd., San Diego	260	\$92,500,000	\$355,769
The Dylan	550 Los Arbolitos Blvd., Oceanside	208	\$57,125,000	\$274,639
Entrada	453 13th St., San Diego	172	\$46,600,000	\$270,930
Willow Glen	3635 College Ave., San Diego	97	\$17,900,000	\$184,536

Looking Ahead

The strong property performance recorded during the first quarter set the stage for what is expected to be another solid year in the San Diego multifamily market. The development pipeline for apartments includes approximately 4,700 units under construction, many of which are slated to be delivered by the end of this year. The rise in construction will likely result in a minor uptick in the local vacancy rate, but the pace of completions is expected to moderate beginning in 2020, and then vacancy will likely begin to retreat in the years ahead.

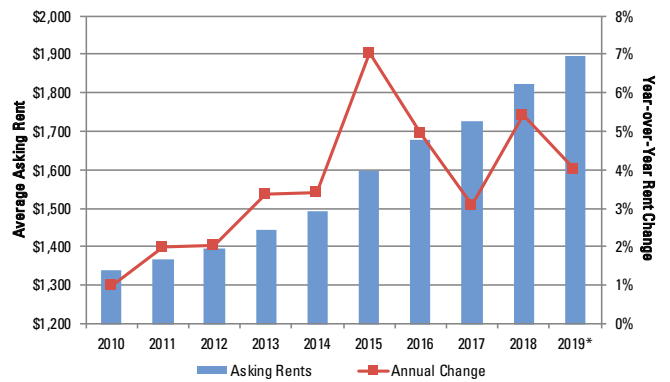
The San Diego local economy is expected to receive a boost in the coming years as Apple opens a new office in the market. The company originally announced plans to add 1,000 workers, but during the first quarter, Apple revised that figure higher. The current plan calls for the company to start adding engineering jobs at a new campus by the end of this year, ultimately bringing 1,200 net new jobs by 2021. Apple's job announcements came after Amazon released plans to add hundreds of technology workers at an existing facility in the La Jolla/University City submarket.

Employee Forecast



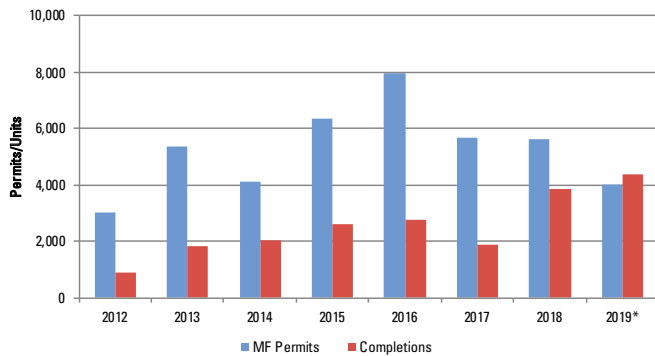
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



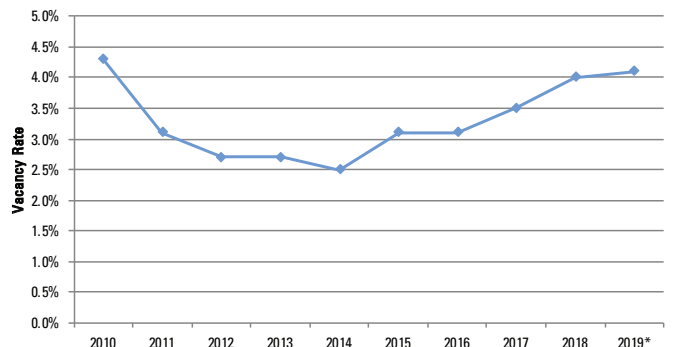
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio of more than \$55 billion and the multi-year tenure of our more than 500 people.

For more information, contact:

Kyle Pinkalla

MANAGING DIRECTOR – INVESTMENT SALES

858.675.7865

kpinkalla@northmarq.com

Eric Flyckt

SVP, MANAGING DIRECTOR – DEBT & EQUITY

858.675.7640

eflyckt@northmarq.com

Shane Shafer

SVP, MANAGING DIRECTOR – INVESTMENT SALES

949.270.3690

sshafer@northmarq.com

Trevor Koskovich

PRESIDENT – INVESTMENT SALES

T 602.952.4040

tkoskovich@northmarq.com

Pete O'Neil

DIRECTOR OF RESEARCH

602.508.2212

poneil@northmarq.com

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