

SAN DIEGO MULTI-FAMILY

Economic Indicators

	Mar-18	Mar-19	12-Month Forecast
San Diego Employment	1.47M	1.49M	▲
San Diego Unemployment	3.4%	3.7%	▼
U.S. Unemployment	4.0%	3.8%	▼

Market Indicators

	Mar-18	Mar-19	12-Month Forecast
Vacancy	4.08%	4.41%	▲
Asking Rent	\$1,887	\$1,951	▲
Units Surveyed	133,785	135,365	▲
Net Absorption	731	971	▲

Economy

The San Diego employment market continued to record job growth, adding 20,100 jobs (+1.4%) year-over-year through March 2019.¹ During the same time period, the unemployment rate increased 30 basis points (bps) to 3.7% and is currently 210 bps below the 29-year average of 5.8%. All employment sectors are expected to grow at a combined growth rate of 1.6% in 2019. San Diego's economy of \$231.8 billion² as measured by gross regional product is forecast to grow an additional 2.9% in 2019, above its 10-year average of 2.7%.³

Market Overview

Sales Activity: San Diego's multi-family sales volume for properties \$5 million and greater surpassed \$746 million in Q1 2019, five times the volume recorded in Q1 2018 (\$137M) and in Q1 2017 (\$141M). In 2018, sales volume totaled \$1.8B, a 22% decrease from \$2.3B traded in 2017. Total transaction activity has been above the 17-year long-term annual average of \$1.6 billion for the last four consecutive years. Multi-family product continues to be in high demand, although a lack of offerings is hindering sales volume from a notable annual increase. Private high net worth investors have been the leading buyers of multi-family assets for the last ten consecutive years, a trend that is expected to continue, and the leading sellers for the last five consecutive years.⁴

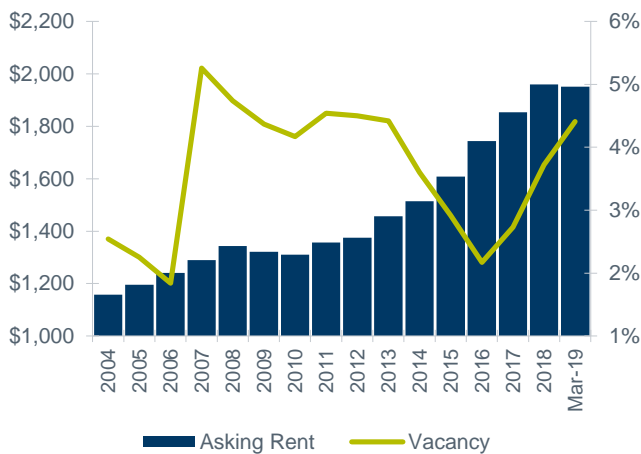
Housing Affordability: The cost of housing in most major California metros has risen so high that the median household cannot reasonably afford a median-priced house. To make ends meet on their monthly mortgage, typical California households either need to spend far more than 30% of their incomes on housing, or make a much larger down payment than the standard 20%. In San Diego and Los Angeles only 24% of households could afford to purchase the median priced home compared to 28% in California and 54% nationwide as of year-end 2018. The most expensive metros are located in the Bay Area with affordability index being the lowest at 15 in San Francisco due to a median home price of \$1.5 million compared to \$625,950 in San Diego.⁵

Rental Rates: In San Diego, the countywide average rental rate was \$1,951 per month as of March 2019, 3.4% higher than a year ago and 11.6% higher than two years ago. The average rent for units built since the 2000's was \$2,322, compared to \$1,777 for units built prior 2000. The average asking rent was the highest in North County Coastal (\$2,348), followed by San Diego Central (\$2,144), Interstate 15 Corridor (\$2,033), Highway 78 Corridor (\$1,737), South County (\$1,710) and East County (\$1,604).⁶

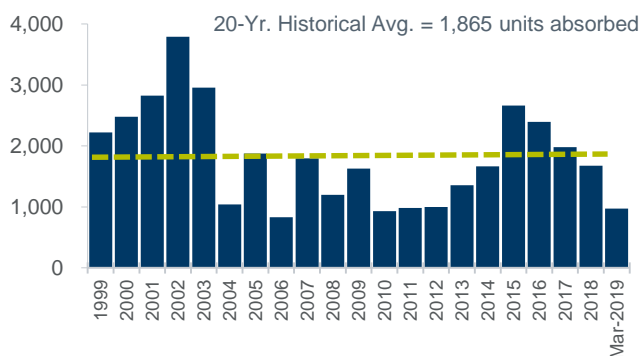
Vacancy: The countywide multi-family vacancy rate increased to 4.41% from 3.72% six months ago and is currently slightly above the 15-year annual average of 3.76%. A vacancy rate below 5% is considered to be a landlord's market. Evaluating vacancy by submarket, the East County recorded the lowest vacancy rate at 2.67% as of March 2019, followed by the Interstate 15 Corridor at 3.02%. San Diego Central recorded the highest vacancy rate at 6.82%, followed by North County Coastal at 4.53%, South County at 3.99% and the Highway 78 Corridor at 3.06%.

Net Absorption: The San Diego County multi-family market absorbed 971 units between September 2018 and March 2019, while only 892 new units were delivered of which 348 have been absorbed and 544 remain vacant. Of the 40,297 units released since mid-1998, around 92% have been absorbed. Not all of these units remain in the rental inventory as some have been converted to for-sale units. Despite the well above average rental rates among newer projects, new units continue to lease quickly.⁶

Asking Rent vs. Vacancy



Net Absorption

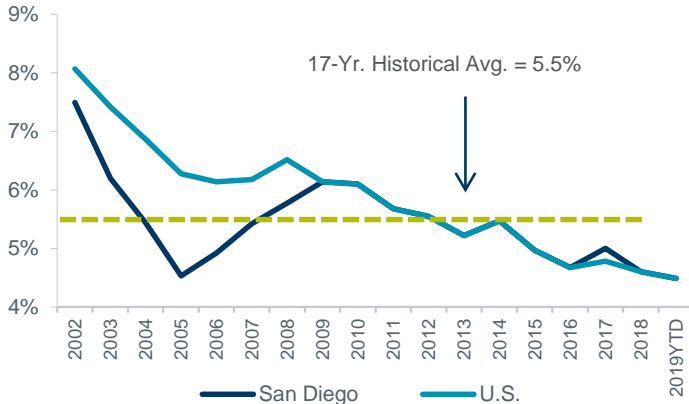


Sources: ¹www.bls.gov ²bea.gov GDP as of 2017. ³Moody's Analytics economy.com ⁴RCA, ⁵C.A.R. as of Q4 18. ⁶MarketPointe Realty as of March 2019.



Average Cap Rate in Comparison

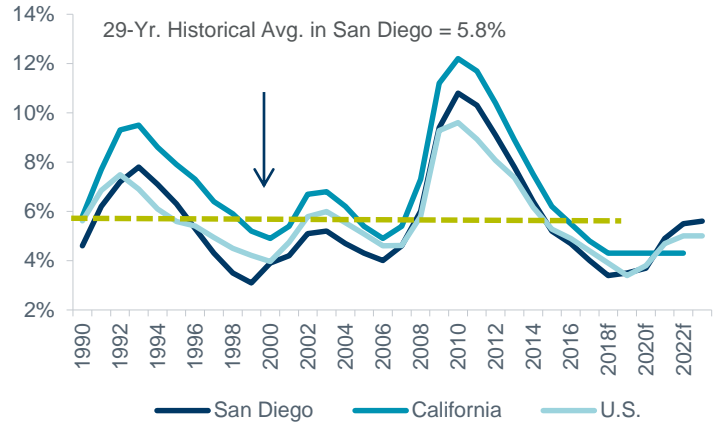
2017 SAN DIEGO CAP RATE BELOW THE 16-YR. AVERAGE OF 5.6%



Source: Real Capital Analytics (RCA), Multi-Family sales \$5M+ as of 4/30/2019.

Unemployment Rate in Comparison

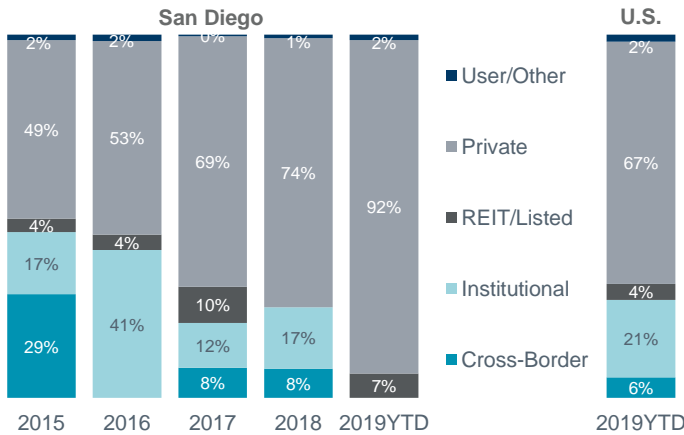
SAN DIEGO'S UNEMPLOYMENT RATE BELOW 28-YR. AVERAGE



Source: BLS, (f) by CA Department of Finance as of 11/2018. Moody's Analytics as of 11/2018.

Who is Buying Multi-Family Assets in San Diego?

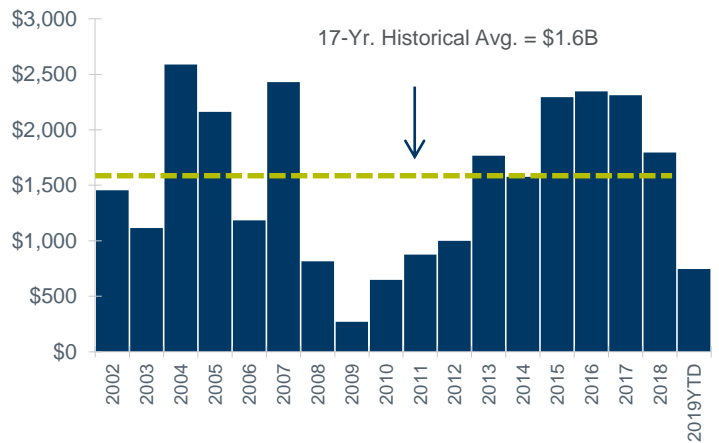
PRIVATE INVESTORS ARE THE LEADING BUYERS



Source: RCA, Sales \$5M+ as of 4/30/2019. Rounded figures may not add up to 100%.

Multi-Family Sales Transaction Volume (\$M)

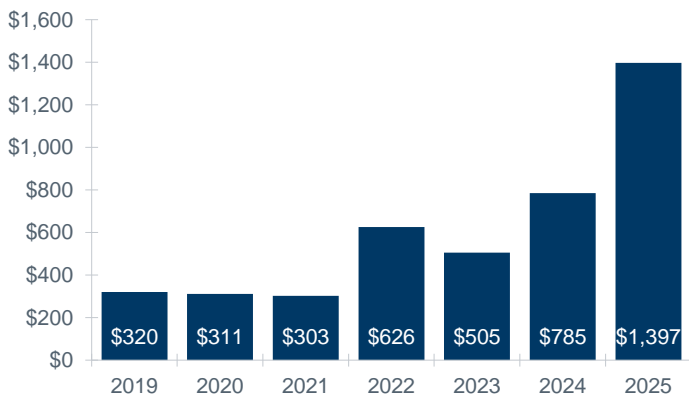
FOUR CONSECUTIVE YEARS OF ABOVE AVERAGE ANNUAL SALES



Source: Real Capital Analytics, Sales \$5M+ as of 4/30/2019.

San Diego Multi-Family Annual Loan Maturity (\$M)

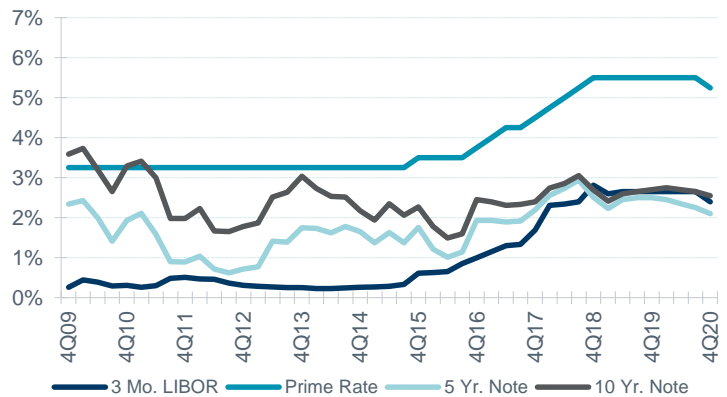
NEARLY \$1.4B IN MULTI-FAMILY LOANS WILL BE DUE IN 2025



Source: Trepp, LLC - 4/4/2019.

Interest Rates - U.S. Economic Forecast

RATES PROJECTED TO STABILIZE OVER NEXT 2 YEARS



Source: Wells Fargo U.S. Economic Forecast - 4/10/2019.

San Diego Market Multi-Family Snapshot

	TOTAL PROJECTS	TOTAL UNITS	TOTAL VACANT	AVERAGE SF PER UNIT	VACANCY RATE	AVERAGE ASKING RENT PER UNIT	AVERAGE RENT PER SF
SUBMARKET							
Highway 78 Corridor	185	26,346	807	874	3.06%	\$1,737	\$1.99
North County Coastal	92	20,153	912	956	4.53%	\$2,348	\$2.46
Interstate 15 Corridor	66	14,050	424	920	3.02%	\$2,033	\$2.21
San Diego Central	202	37,896	2,586	860	6.82%	\$2,144	\$2.49
East County	155	17,628	470	844	2.67%	\$1,604	\$1.90
South County	129	19,292	770	876	3.99%	\$1,710	\$1.95
SAN DIEGO COUNTY	829	135,365	5,969	883	4.41%	\$1,951	\$2.21

Source: MarketPointe Realty, Inc. March 2019.

San Diego Market Investment Trends: Last 12 Months

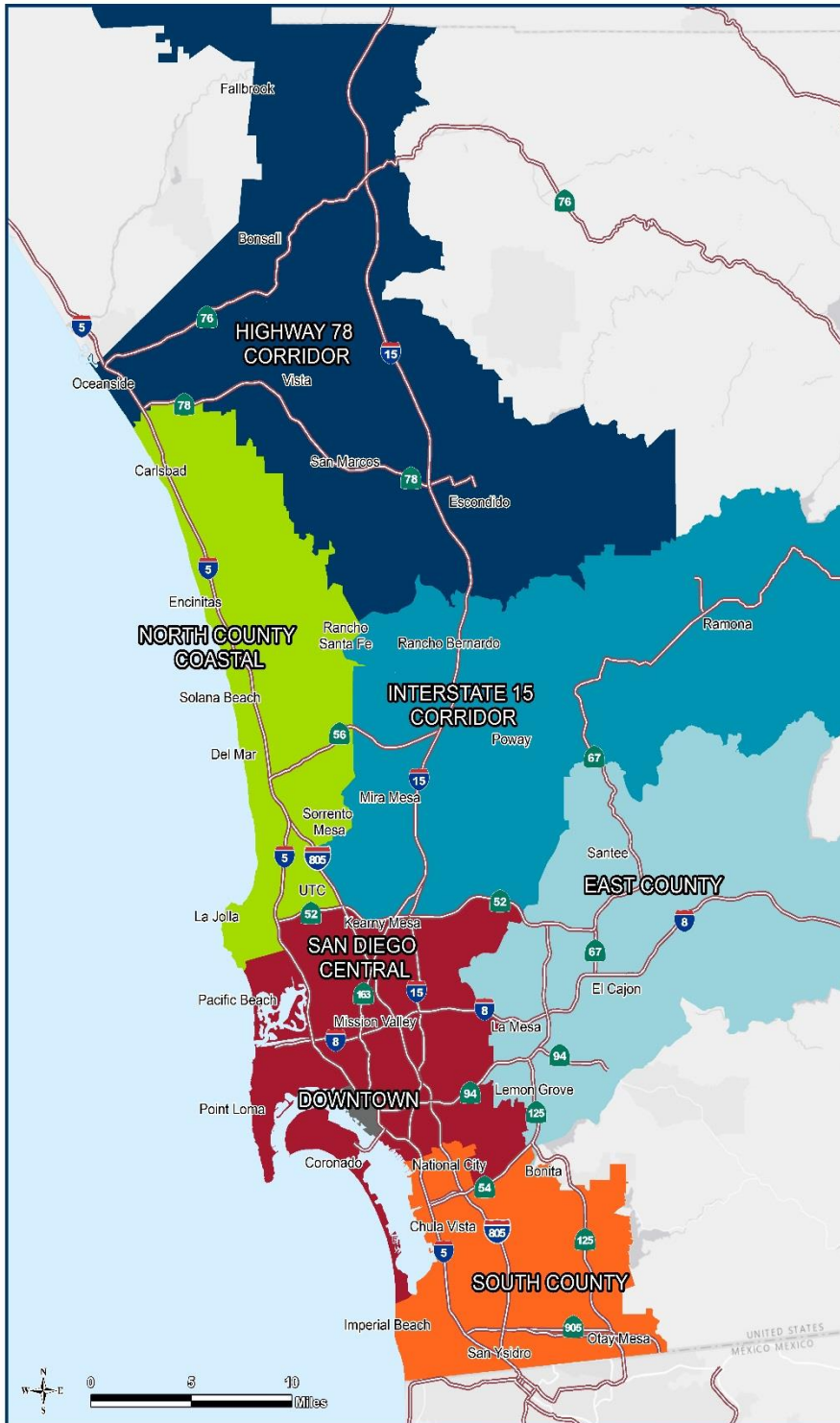
	PROPERTIES SOLD	TOTAL UNITS	TOTAL SALES VOLUME	AVERAGE PRICE PER UNIT	AVERAGE CAP RATE	AVERAGE PRICE PER SF	TOTAL LAND IN ACRES	AVERAGE DAYS ON THE MARKET
SUBMARKET								
Highway 78 Corridor	46	2,348	\$632,628,996	\$269,433	4.4%	\$308	109	148
Interstate 15 Corridor	1	332	\$2,142,000	\$157,054	-	\$206	42	137
North County Coastal	14	507	\$219,128,500	\$432,206	3.6%	\$446	15	107
San Diego Central	190	3,732	\$1,132,437,121	\$303,440	4.2%	\$372	89	101
Downtown	9	327	\$92,095,090	\$281,636	4.1%	\$462	2	144
East County	44	1,507	\$414,395,109	\$274,980	4.8%	\$257	56	121
South County	37	1,341	\$248,203,446	\$185,088	4.3%	\$240	37	83
SAN DIEGO COUNTY	341	10,094	\$2,791,030,262	\$276,504	4.3%	\$321	350	108

Source: CoStar, Inc. Multi-Family sales over \$1,000,000 between 4/1/2018 and 3/31/2019, excluding Mobile Parks.

Key Sale Transactions: Last 12 Months

PROJECT	BUYER / SELLER	# OF UNITS	SALE PRICE	PRICE PER UNIT	PRICE PER SF	CAP RATE	TRANSACTION DATE	SUBMARKET
Regents La Jolla	Raintree Partners / LaSalle Investment Management	333	\$141,500,000	\$424,924	\$428	4.6%	February 2019	North County Coastal
Marc	MG Properties Group / Intracorp Real Estate	416	\$141,500,000	\$340,144	\$337	-	October 2018	Highway 78 Corridor
Millennium Mission Valley	R&V Management Corporation / The Dinerstein Companies	305	\$140,000,000	\$459,016	\$560	-	February 2019	San Diego Central
Sofi Shadowridge	Pacific Urban Residential / Invesco	314	\$115,000,000	\$366,242	\$382	4.0%	June 2018	Highway 78 Corridor
Fifty Twenty-Five	Cardinal Group Investments / FPA Multifamily	260	\$92,500,000	\$355,769	\$369	4.5%	February 2019	San Diego Central

MULTI-FAMILY SUBMARKETS
SAN DIEGO



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