

# MARKETBEAT

## San Diego

### Multi-Family Fall 2019



#### SAN DIEGO MULTI-FAMILY

##### Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
San Diego Employment*	1.50M	1.52M	▲
San Diego Unemployment	3.5%	3.4%	▲
U.S. Unemployment	3.8%	3.7%	▲

\*August 2018/2019 used to represent Q3 for San Diego.

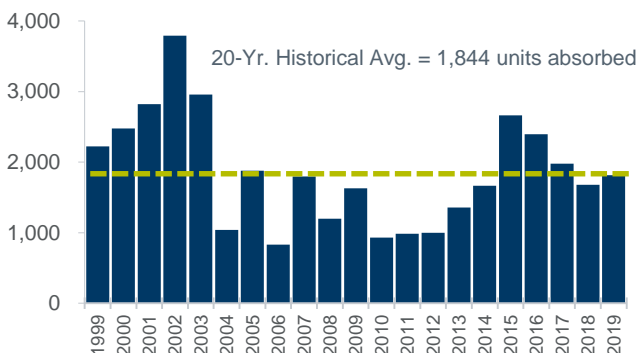
##### Market Indicators

	Sep-18	Sep-19	12-Month Forecast
Vacancy	3.72%	3.77%	▲
Asking Rent	\$1,960	\$2,020	▲
Units Surveyed	134,530	132,787	▲
Net Absorption	946	842	▲

##### Asking Rent vs. Vacancy



##### Net Absorption



## Economy

The San Diego employment market continued to record job growth, adding 27,400 jobs (+1.8%) year-over-year through August 2019.<sup>1</sup> During the same time period, the unemployment rate decreased 10 basis points (bps) to 3.4% and is currently 240 bps below the 29-year average of 5.8%. All employment sectors are forecasted to grow at a combined growth rate of 1.0% in 2020. San Diego's economy of \$231.8 billion<sup>2</sup>, as measured by gross regional product, is forecasted to grow an additional 1.7% in 2020, below its 10-year average of 2.7%.<sup>3</sup>

## Market Overview

**Sales Activity:** San Diego's multi-family sales volume for properties \$2.5 million and greater surpassed \$573M in Q3 2019, a 53% increase from Q2 2019 and a 19% increase compared to Q3 2018. Year-to-date, sales volume totaled \$1.7B, a 36% increase from \$1.3B traded during the first nine months of 2018. 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.<sup>4</sup>

**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 only 27% of households could afford to purchase a median priced home compared to 30% in California and 55% nationwide as of mid-year 2019. The most expensive metros are located in the Bay Area with affordability index being the lowest at 17 in San Francisco due to a median home price of \$1.7 million and a monthly payment of \$8,580, including taxes and insurance, compared to \$655,000 and a monthly payment of \$3,310 in San Diego.<sup>5</sup>

**Rental Rates:** In San Diego, the countywide average rental rate was \$2,020 per month as of September 2019, 3.03% higher than a year ago and 8.95% higher than two years ago. The average rent for units built since the 2000's was \$2,413, compared to \$1,838 for units built prior 2000. The average asking rent was the highest in North County Coastal (\$2,471), followed by San Diego Central, Interstate 15 Corridor, Highway 78 Corridor, South County and East County (\$1,657). Compared to six months ago rental rates are up across all bedroom categories except among four-bedroom category.<sup>6</sup>

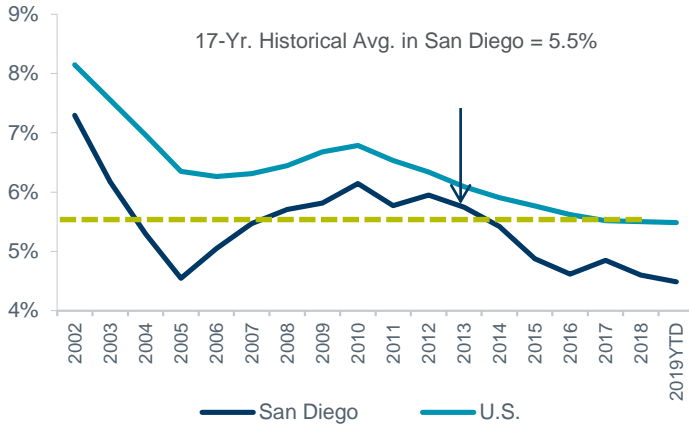
**Vacancy:** The countywide multi-family vacancy rate of 3.77% decreased from 4.41% six months ago and increased slightly from 3.72% a year ago. A vacancy rate below 5% is considered to be a landlord's market. Evaluating vacancy by submarket, the East County recorded the lowest vacancy rate at 2.72% as of September 2019, followed by the Highway 78 Corridor at 2.99%. San Diego Central recorded the highest vacancy rate at 5.45%, followed by North County Coastal at 3.61%.

**Net Absorption:** The San Diego County multi-family market absorbed 842 units between March 2019 and September 2019 compared to 971 units absorbed in prior six months. 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.<sup>6</sup>

Sources: <sup>1</sup>www.bls.gov <sup>2</sup>bea.gov GDP as of 2017. <sup>3</sup>Moody's Analytics economy.com <sup>4</sup>RCA. <sup>5</sup>C.A.R. as of Q2 2019. <sup>6</sup>MarketPointe Realty as of September 2019.

### Average Cap Rate in Comparison

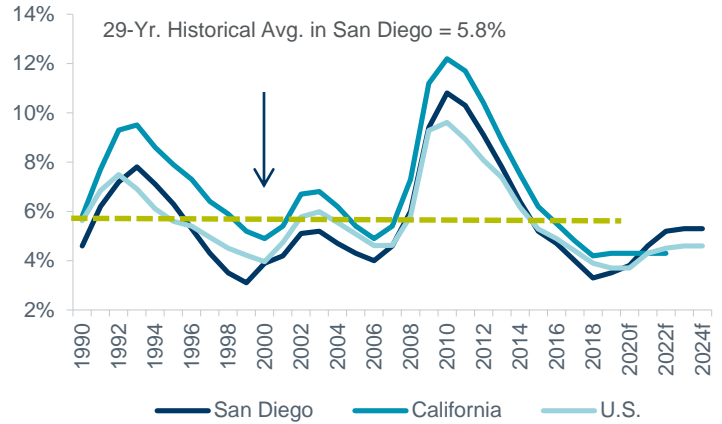
2017 SAN DIEGO CAP RATE BELOW THE 16-YR. AVERAGE OF 5.6%



Source: Real Capital Analytics (RCA), Multi-Family sales \$2.5M+ as of 10/16/2019.

### Unemployment Rate in Comparison

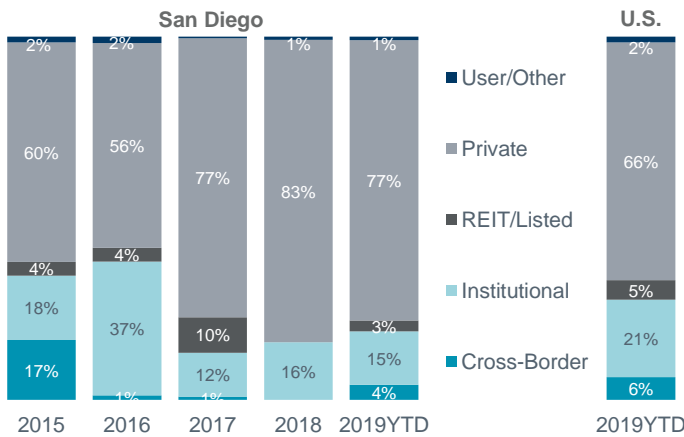
SAN DIEGO'S UNEMPLOYMENT RATE BELOW 29-YR. AVERAGE



Source: BLS, (f) by CA Department of Finance as of 4/2019. Moody's Analytics as of 8/2019.

### Who is Buying Multi-Family Assets in San Diego?

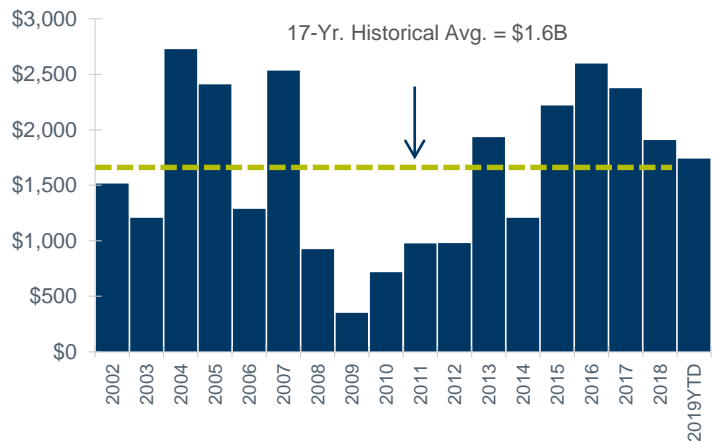
PRIVATE INVESTORS ARE THE LEADING BUYERS



Source: RCA, Sales \$2.5M+ as of 10/16/2019. Rounded figures may not add up to 100%.

### Multi-Family Sales Transaction Volume (\$M)

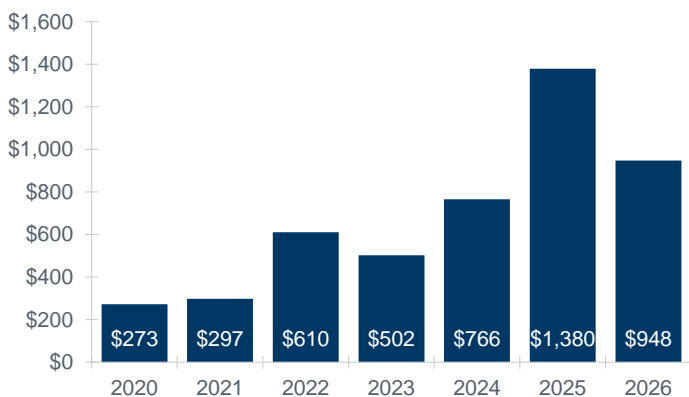
SIX CONSECUTIVE YEARS OF ABOVE AVERAGE ANNUAL SALES



Source: Real Capital Analytics, Sales \$2.5M+ as of 10/16/2019.

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

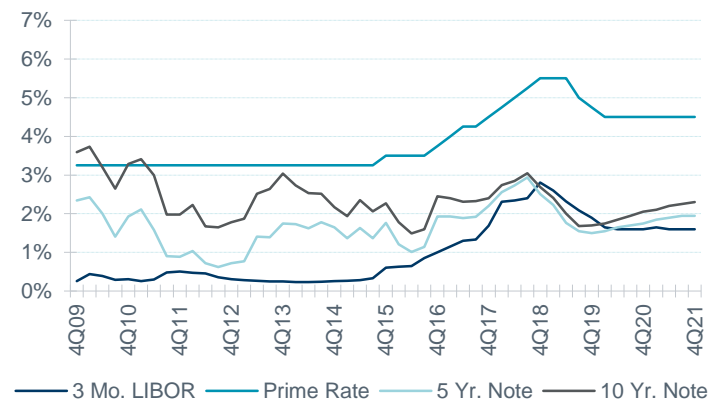
NEARLY \$1.4B IN MULTI-FAMILY LOANS WILL BE DUE IN 2025



Source: Trepp, LLC - 10/14/2019.

### Interest Rates - U.S. Economic Forecast

RATES PROJECTED TO REMAIN LOW OVER NEXT TWO YEARS



Source: Wells Fargo U.S. Economic Forecast - 10/9/2019.

## 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
<b>SUBMARKET</b>							
San Diego Central	182	36,685	2,000	859	5.45%	\$2,210	\$2.57
Highway 78 Corridor	171	25,694	767	882	2.99%	\$1,798	\$2.04
North County Coastal	91	20,129	726	956	3.61%	\$2,471	\$2.59
South County	124	19,079	579	874	3.03%	\$1,742	\$1.99
East County	149	17,182	467	844	2.72%	\$1,657	\$1.96
Interstate 15 Corridor	65	14,018	470	920	3.35%	\$2,101	\$2.28
<b>SAN DIEGO COUNTY</b>	<b>782</b>	<b>132,787</b>	<b>5,009</b>	<b>885</b>	<b>3.77%</b>	<b>\$2,020</b>	<b>\$2.28</b>

Source: MarketPointe Realty, Inc. September 2019.

## San Diego Market Investment Trends: Last 12 Months

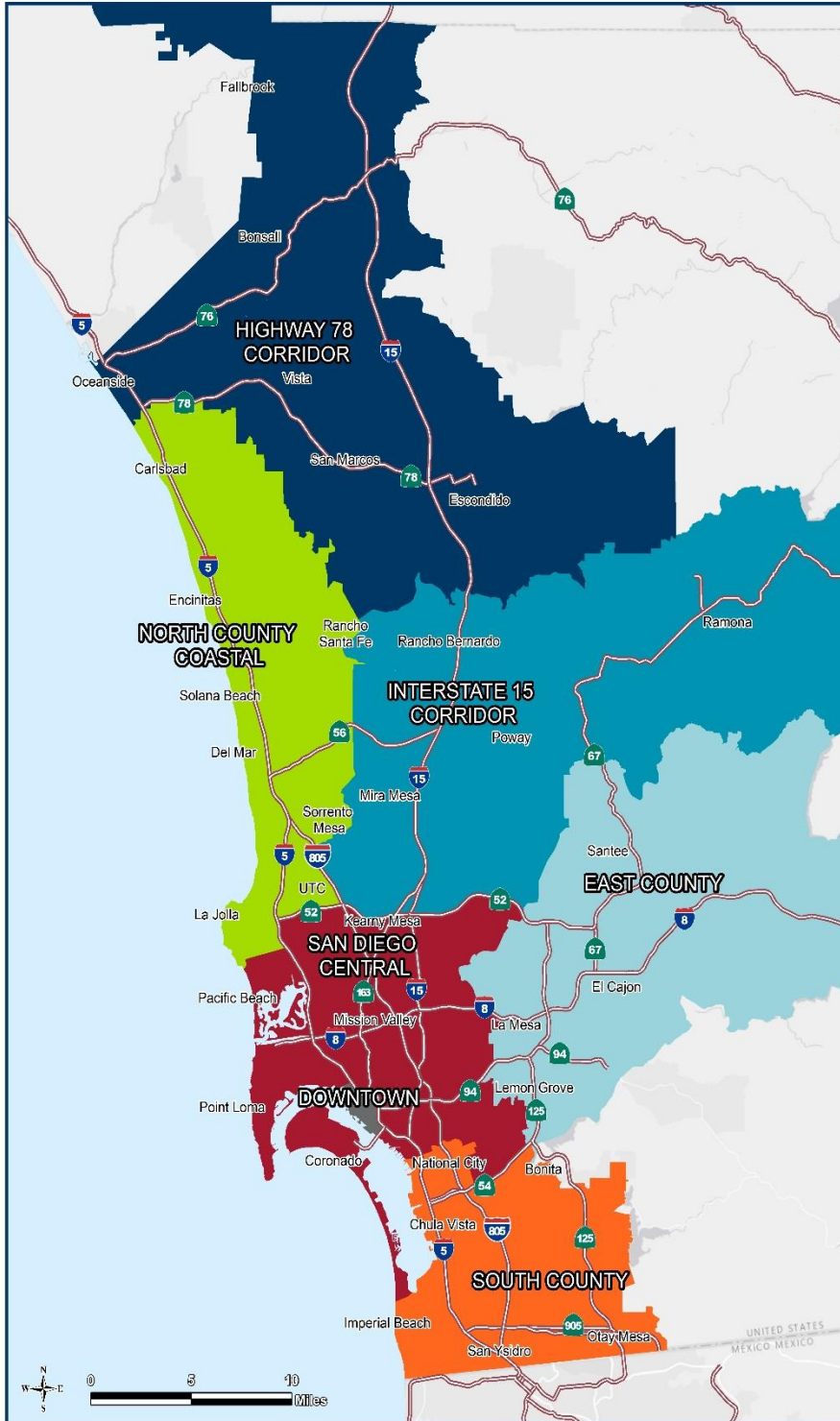
	PROPERTIES SOLD	TOTAL UNITS	TOTAL SALES VOLUME	AVERAGE PRICE PER UNIT	AVERAGE CAP RATE	AVERAGE PRICE PER SF	TOTAL LAND IN ACRES	AVERAGE DAYS ON THE MARKET
<b>SUBMARKET</b>								
San Diego Central	215	3,695	\$1,152,220,221	\$311,832	4.3%	\$387	92	112
Highway 78 Corridor	44	2,360	\$588,647,875	\$249,427	4.8%	\$274	109	166
East County	48	1,862	\$445,599,666	\$239,312	4.9%	\$286	75	160
North County Coastal	19	670	\$250,191,622	\$373,420	3.4%	\$383	23	93
South County	35	854	\$136,839,681	\$160,234	4.7%	\$208	19	89
Interstate 15 Corridor	4	402	\$69,387,000	\$172,604	3.3%	\$213	45	-
Downtown	8	258	\$68,651,590	\$266,091	4.1%	\$456	2	163
<b>SAN DIEGO COUNTY</b>	<b>373</b>	<b>10,101</b>	<b>\$2,711,537,655</b>	<b>\$268,442</b>	<b>4.4%</b>	<b>\$320</b>	<b>364</b>	<b>122</b>

Source: CoStar, Inc. Multi-Family sales over \$1,000,000 between 10/1/2018 and 9/30/2019, 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
Vora Mission Gorge	R&V Management / The Hanover Company	374	\$149,000,000	\$398,395	\$338	-	April 2019	San Diego Central
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
Veranda La Mesa	Pacific Urban Residential / The Blackstone Group	406	\$99,400,000	\$244,827	\$334	-	December 2018	East County

## MULTI-FAMILY SUBMARKETS SAN DIEGO



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