MARKET REPORT

Marcus & Millichap

MULTIFAMILY

San Diego Metro Area

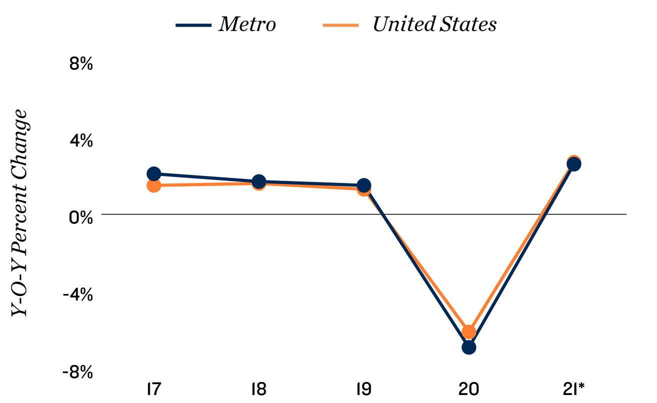
1Q/21

Catalysts for Future Economic Expansion Preserve Strong Apartment Fundamentals

High-paying job growth supports leasing. Following a strong second half of last year, San Diego ranks as one of the nation's tightest rental markets. From July to December, more than 4,300 units were absorbed in the metro, placing year-end unit availability at its lowest point since 2003. Hiring activity is to credit. Driven by the professional and business services sector, 52,500 positions were added during the six-month span, allowing San Diego to shed the fewest number of jobs among Southern California metros last year. Vaccination efforts and the county's downward-trending coronavirus case rate have the potential to restore indoor business operations and bolster tourism in the near term. These occurrences would further boost hiring in the leisure and hospitality sector, which comprises workers with a high propensity to rent.

Life science sector positioned for near-term expansion. A collection of projects will elevate the metro's number of well-paying positions and aid recent property performance issues in the urban core and La Jolla-University City. A life science complex and the redevelopment of Horton Plaza into a tech hub are ongoing in downtown San Diego. Elsewhere, Scripps Health is upgrading its La Jolla and Torrey Pines campuses and a three-building biotech property is underway nearby. While homeownership may be attainable for life science professionals, home prices exceed $1 million in these submarkets, prompting individuals to rent.

Employment Trends



** Forecast*

Sources: BLS; RealPage, Inc.; CoStar Group, Inc.

Multifamily 2021 Outlook

EMPLOYMENT:

36,400 JOBS *will be created*

Supported by higher-paying job creation, San Diego recovers more than one-third of the 104,800 positions lost last year. The 2.6 percent rate of employment growth expected in 2021 will nearly match the national increase.

CONSTRUCTION:

4,075 UNITS *will be completed*

Completions in 2021 are slated to expand the metro's rental inventory by 1.3 percent, a five-year high. Deliveries are concentrated in Mission Valley and downtown San Diego, highlighted by the 840-apartment Town & Country.

VACANCY:

0 BASIS POINT *change in vacancy*

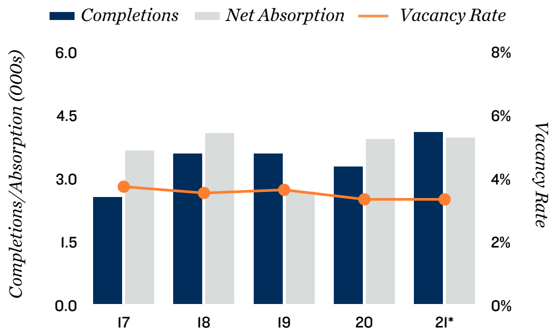
Well-paying job growth, household formations and out-of-reach home prices fuel demand for existing apartments and newly built units. San Diego will remain one of the nation's tightest markets with a year-end vacancy rate of 3.3 percent.

RENT:

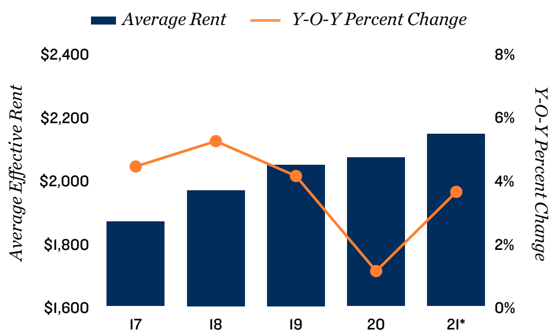
3.6% INCREASE *in effective rent*

The pace of rent growth improves on a year-over-year basis, lifting the average rate to $2,143 per month. The combination of positive job growth, new unit absorption and sparse vacancy in lower-cost submarkets will support this gain.

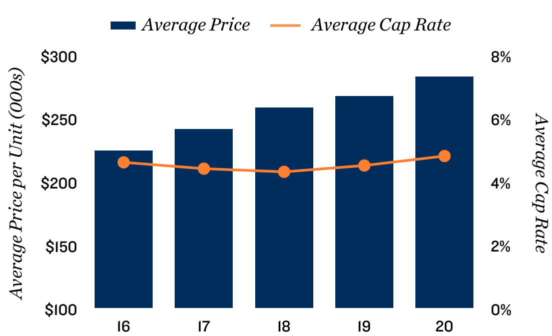
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: RealPage, Inc.; CoStar Group, Inc.; Real Capital Analytics

San Diego Office:

John Vorsheck *Senior Vice President, Division Manager*
4660 La Jolla Village Drive, Suite 900
San Diego, CA 92122
Tel: (858) 373-3100 | john.vorsheck@marcusmillichap.com

Prepared and edited by:

Erik Pisor
Research Analyst | Research Services

For information on national multifamily trends, contact:

John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: $250

2020

CONSTRUCTION

3,253 units completed

- Roughly 300 fewer units were delivered in 2020 when compared with the previous year. Still, developers grew rental inventory by 1.0 percent.
- Downtown San Diego accounted for nearly 30 percent of last year's completions. The Carlsbad-Encinitas-Del Mar and Chula Vista-Imperial Beach submarkets each added more than 400 units.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Vacancy fell to 3.3 percent last year as positive absorption was recorded across all apartment tiers.
- Eleven of San Diego's 13 submarkets had vacancy compression over the past year. The most pronounced reduction was registered in Escondido, where availability declined 130 basis points to 2.4 percent.

RENT

1.1% increase in the average effective rent Y-O-Y

- The absorption of more than 3,900 units last year allowed the metro's average effective rent to reach $2,069 per month. The 1.1 percent gain extended a streak of positive annual rate growth that began in 2010.
- Demand for low-cost rentals dropped El Cajon-Santee-Lakeside's vacancy to 1.7 percent, enabling owners to lift the average rent 7.1 percent.

Investment Highlights

- Sales activity fell by nearly 30 percent on an annual basis in 2020, yet deal flow improved in the fourth quarter as the number of closings exceeded the total from the same period in 2019. Local buyers executing 1031 tax-deferred exchanges drove the late-year uptick in transactions.
- Average pricing rose nearly 6 percent last year, reaching $282,800 per unit. Amid the increase, the metro's average cap rate rose 30 basis points to 4.8 percent as Class C trades in lower-cost submarkets accounted for a higher percentage of total sales activity.
- Since the onset of the health crisis, closings in the city of San Diego have comprised two-thirds of total deal flow. Popular among young professionals, the Balboa Park submarket has accounted for the largest portion of trades. Here, average pricing is $20,000 per unit above the metro level, with buyers obtaining mid-3 to high-4 percent returns.
- Properties in El Cajon and East San Diego neighborhoods south of Interstate 8 represent other popular investment targets. Pricing in these locales is often $60,000 per door lower than the metro average.