Northmarq

MARKET INSIGHTS

A few more properties sell as 2023 comes to a close

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	4,926
UNITS DELIVERED	3,254

MARKET FUNDAMENTALS

VACANCY RATE	4.0%
YEAR-OVER-YEAR CHANGE	+50bps
ASKING RENTS	$2,333
YEAR-OVER-YEAR CHANGE	+0.2%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT*	$296,000

San Diego Multifamily

4Q 2023

HIGHLIGHTS

- The San Diego multifamily posted a modest vacancy increase and minimal rent decline to close 2023, after mostly steady performance during the first nine months of the year. Heightened delivery totals outpaced demand in 2023, although local construction levels have peaked, and future inventory growth is on pace to slow beginning in 2024.
- Local vacancy trended higher in 2023, including a modest increase during the fourth quarter. Despite the recent rise, the current vacancy rate is only slightly higher than the market's five-year average.
- For the first time in nearly three years, asking rents in San Diego inched lower in the fourth quarter. Average rents dropped 0.7 percent during the period, ending the year at $2,333 per month. For the full year, rents rose just 0.2 percent.
- Sales velocity in the region slowed in 2023, but more transactions closed in the fourth quarter than during any other period of the year. Cap rates have trended higher, averaging approximately 5.1 percent, while the median price dipped to $296,000 per unit.

SAN DIEGO MULTIFAMILY MARKET OVERVIEW

The fourth quarter yielded some softer operating conditions in the San Diego multifamily market, somewhat offsetting an otherwise very stable year. Vacancies inched higher in 2023, rising 50 basis points to 4 percent. This included a 20-basis point uptick in the rate in the final three months of the year. Increases were driven in part by a heightened pace of new construction entering the market. During the fourth quarter, more than 1,500 units came online, and full the full year, developers completed approximately 3,250 units. Deliveries have likely peaked, however, and the volume of inventory increases is expected to slow beginning in 2024.

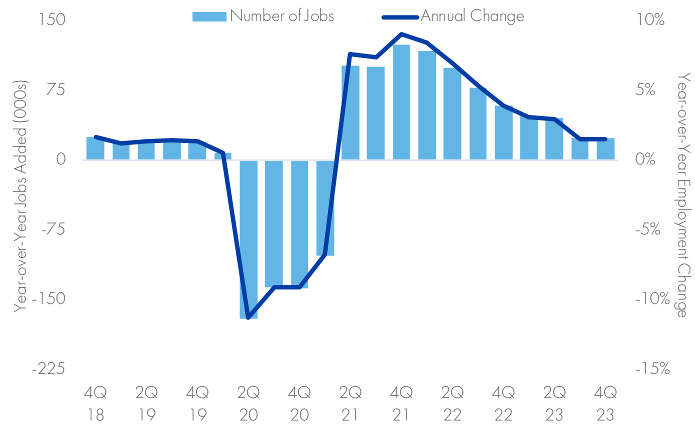
Investment activity in the multifamily market in San Diego was light in 2023, although sales quickened in the second half of the year, and more properties changed hands in the fourth quarter than during any other period of the year. Overall, the total number of closed sales in 2023 was down 28 percent from 2022 levels and about 35 percent lower than the market's long-term annual average. Pricing in the market softened as cap rates rose to the low-5 percent range. The median price was down approximately 15 percent from 2022 levels, reaching $296,000 per unit. While overall market pricing stalled, top tier properties maintained strong valuations, with a handful selling for more than $500,000 per unit.

EMPLOYMENT

- Area employers added 23,400 workers in 2023, an annual gain of 1.5 percent. The pace of growth has slowed over the past few quarters, although it is in line with the region's long-term averages.
- San Diego's large healthcare sector posted one of the highest increases in employment in the region during the past year. More than 10,000 healthcare workers were added in 2023, a 5.1 percent increase.
- Pharmaceutical company Eli Lilly is opening a new facility at University Town Center near the University of California San Diego. This facility will have office and lab space to employ 120 workers. Completion of this project is scheduled for the first half of 2024.
- **FORECAST:** Employment in San Diego is expected to grow at a steady pace, slightly below the growth recorded in 2023. Businesses are expected to add approximately 16,000 jobs in 2024, expanding area payrolls by 1 percent.

Area employers added 23,400 workers in 2023.

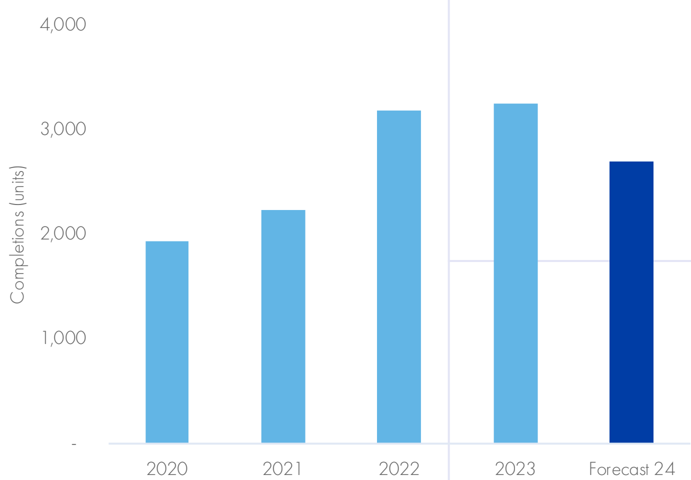
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

More than 4,900 units are under construction.

DEVELOPMENT TRENDS



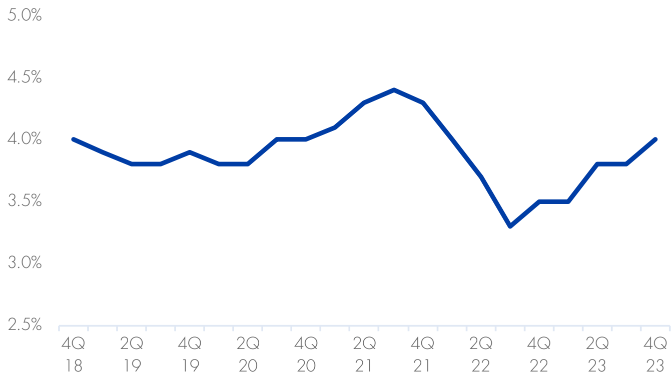
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily development in San Diego accelerated at the end of the year, as more than 1,500 units came online in the fourth quarter. This represented nearly half of all deliveries in 2023. In total, 3,254 units were delivered for the full year, nearly identical to the 2022 completions total.
- Projects totaling more than 4,900 units were under construction at the end of 2023, up 7 percent from one year ago, but slightly lower than the recent peak recorded earlier in the year. The Balboa Park and Mission Valley/North Central submarkets are recording the highest levels of construction; nearly half of the regions ongoing projects are located in one of these two submarkets.
- Multifamily developers continued to pull permits throughout 2023. Development is being fueled by tight conditions and steady demand for rental housing. In 2023, permits for more than 7,800 multifamily units were issued, about 30 percent higher than the region's long-term annual average.
- **FORECAST:** Developers are expected to bring new units online in the coming quarters but annual completions in 2024 are forecast to lag behind levels recorded in 2022 and 2023. Projects totaling 2,700 units are scheduled to come online in 2024.

The vacancy rate ended 2023 at 4 percent.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

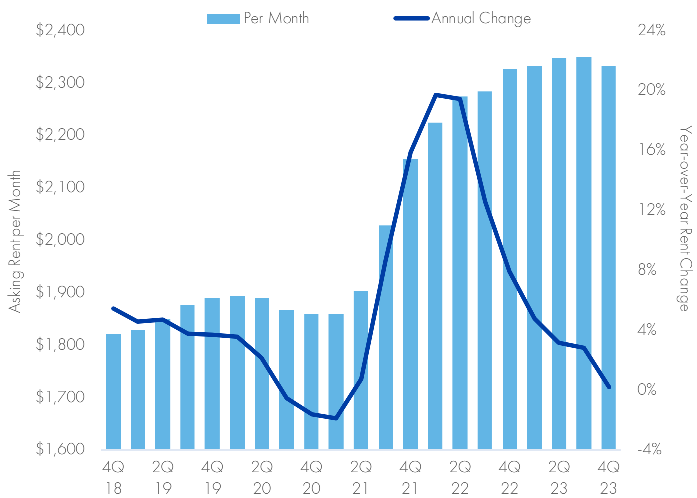
- Vacancy in San Diego inched higher in the fourth quarter by 20 basis points. The vacancy rate ended 2023 at 4 percent, up 50 basis points from one year ago. Current vacancy levels are slightly higher than the area's five-year average.
- Vacancy rates are generally the tightest in outlying areas. The El Cajon/Santee/Lakeside and Escondido/San Marcos submarkets each posted vacancy rates below 2 percent at the end of 2023.
- Downtown San Diego maintained the highest vacancy rates in the region throughout the year, but conditions are tightening compared to prior years. Vacancy in the Downtown submarket ended 2023 at 6.8 percent, but the rate has been cut in half since peaking in 2018. As recently as 2021, vacancy Downtown was still above 10 percent.
- **FORECAST:** With new development on pace to slow in 2024, vacancy should only inch higher. The rate is forecast to rise 20 basis points to 4.2 percent.

RENTS

- Rents in San Diego declined by 0.7 percent in the final three months of the year, the first quarterly reduction in nearly three years. Asking rents were essentially flat in 2023, ending the year at $2,333 per month, just 0.2 percent higher than one year earlier.
- Rent growth was mixed across the region, but the Clairemont/Linda Vista Mission submarket posted rapid gains. Asking rents in this submarket gained 2.8 percent in 2023 to $2,647 per month. Approximately 3,000 units have been delivered in the submarket since 2021, and rents have trended higher as properties have been leased-up.
- While vacancies have tightened in Downtown San Diego, operators have lowered rents to attract and retain residents. Average asking rents in the submarket dropped 3.1 percent in 2023, ending the year at $3,106 per month. Despite the decline, the Downtown submarket features the highest rents in the region.
- **FORECAST:** Rents in San Diego are forecast to inch higher this year, supported by tight vacancy conditions and steady renter demand. Asking rents are forecast to end the year at approximately $2,365 per month, up 1.4 percent for the year.

Asking rents were essentially flat in 2023.

RENT TRENDS



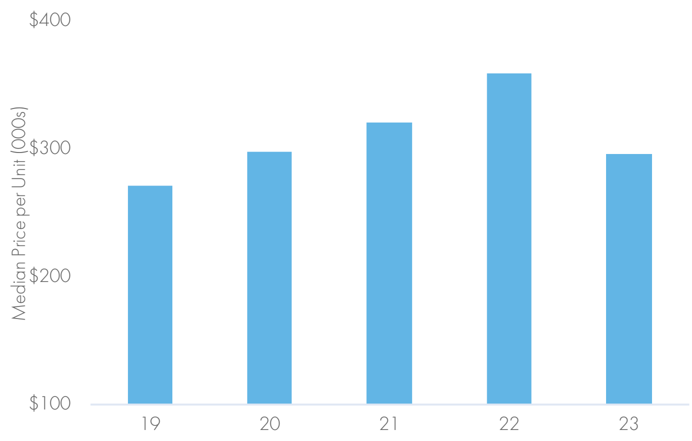
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Transaction activity in San Diego was mixed in 2023. The total number of transactions for the year was down about 28 percent from 2022 levels, but activity picked up in the second half of the year. Sales in the fourth quarter were up 25 percent from third quarter levels, and transaction counts in the second half of 2023 rose more than 50 percent from the lows of the first half.
- Prices were lower in 2023; the median price for the year was approximately $296,000 per unit, after topping $350,000 per unit in 2022. Late in the year, a handful of new, Class A properties sold, with prices ranging from $400,000 per unit to $675,000 per unit.
- Cap rates were mostly steady at the end of the year. The average cap rate during the fourth quarter was 5.1 percent, with most properties changing hands with cap rates between 4.25 percent and 5.25 percent.

The median price in 2023 was approximately $296,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

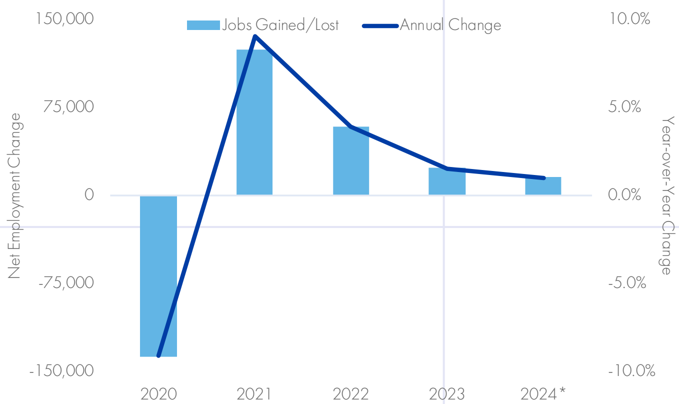
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Palisade	8800 Lombard Pl., San Diego	300	$203,000,000	$676,667
Waterleaf Apartment Homes	333 N Emerald Dr., Vista	456	$174,000,000	$381,579
Oak Manor Apartments	1575 Oak Dr., Vista	187	$43,000,000	$229,947
Vista Lane Apartments	1440-1450 2nd Ave., Chula Vista	151	$37,250,000	$246,689
Sunset Villa Apartments	1225 Broadway, Chula Vista	154	$28,000,000	$181,818

LOOKING AHEAD

San Diego is poised to be one of the top performing multifamily markets in the country in 2024. While new development activity is forecast to peak in many markets this year, deliveries in San Diego will slow after two consecutive years where developers brought an above-average total of new units online. There are several submarkets in the region where supply growth has been limited for the past several years, and vacancies remain tight. These conditions will persist in many parts of San Diego County. The only submarket that has had significant supply-side pressures in recent years is Downtown. In 2023, vacancies in the Downtown submarket continued to tighten, although operators lowered rents in the area to attract renters.

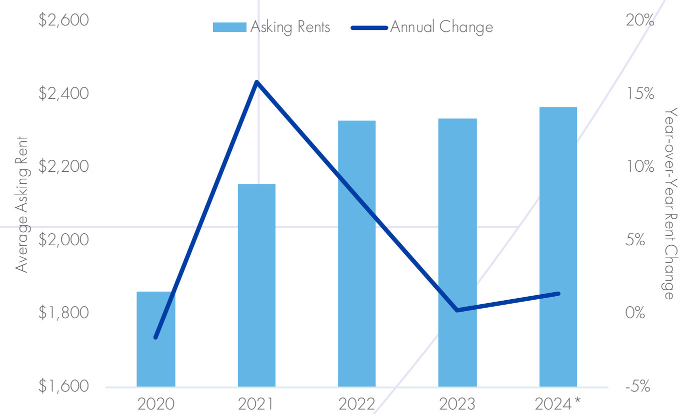
Transaction activity slowly gained traction during the second half of 2023, a trend that is expected to carry over into the year ahead. Cap rates have pushed above 5 percent in some instances, allowing for a greater number of acquisitions to pencil. Some additional investors may move off of the sidelines in response to cap rates that are at their highest point since 2014-2016 and are 150-200 basis points higher on average than recent lows. Cap rates are not expected to trend much higher than current levels, and the prospect for interest rate cuts in the second half of the year—coupled with forecasts for modest rent increases—should support investor sentiment for area properties.

EMPLOYMENT FORECAST



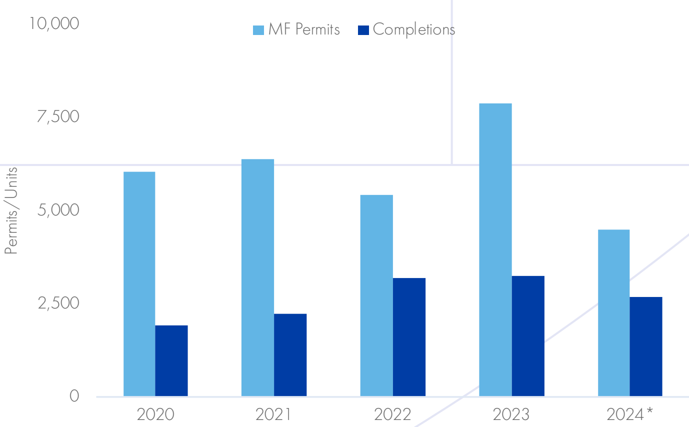
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



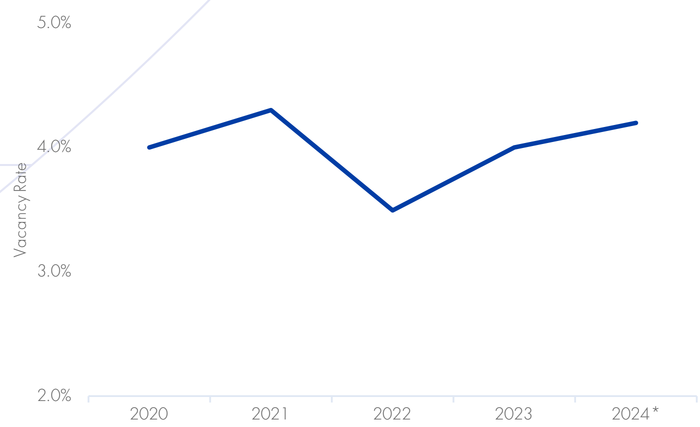
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, REIS

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