

# MARKETBEAT

## San Diego

### Multi-Family Fall 2017



#### SAN DIEGO MULTI-FAMILY

##### Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
San Diego Employment	1.50M	1.52M	▲
San Diego Unemployment	4.6%	4.1%	▼
U.S. Unemployment	4.9%	4.4%	▼

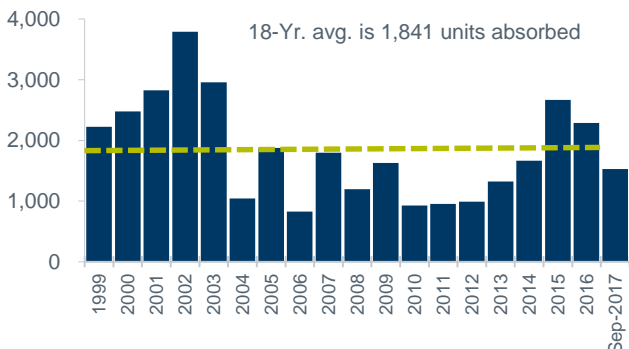
##### Market Indicators

	Sep-16	Sep-17	12-Month Forecast
Vacancy	2.33%	2.73%	▼
Asking Rent	\$1,743	\$1,875	▲
Units Surveyed	131,577	131,600	▲
Net Absorption	966	828	▲

##### Asking Rent vs. Vacancy



##### Net Absorption



## Economy

The San Diego employment market continued to record job growth, adding 16,100 jobs (+1.1%) year-over-year through September 2017. During the same time period, the unemployment rate decreased 50 basis points (bps), dropping to 4.1%. The current rate is 190 bps below the 27-year average of 6%.<sup>1</sup>

All employment sectors are expected to grow at a combined growth rate of 1.6% in 2017.<sup>2</sup> San Diego's economy of \$215.3 billion as measured by gross regional product in 2016 is forecasted to grow an additional 2.7% in 2017 and 2.7% in 2018 - consistent with its 10-year average growth rate of 2.5%.<sup>3</sup>

## Market Overview

**Housing Affordability:** San Diego ranked as the 11<sup>th</sup> least affordable metro in the U.S. to buy a home with an affordability index of 20.1 compared to 59.4 nationwide as of mid-2017. The top 15 most expensive metros are located in California, according to the National Association of Realtors, indicating that San Diego is relatively affordable compared to ten other major metro areas within California. Average rent in San Diego ranked as the 14<sup>th</sup> least affordable metro in the U.S. among 82 markets, according to Reis.<sup>4</sup> More than 40% of income is spent on rent in San Diego compared to 29% nationwide with forecasted 6% rent growth through June 2018, according to Zillow.

**Rental Rates:** The countywide multi-family average rental rate was \$1,875 per month, 7.6% higher than a year ago and 16.7% higher than two years ago. The average rent for units built since 2000's was \$2,304, compared to \$1,724 for units built before 2000. The average asking rent was the highest in North County Coastal (\$2,390) followed by San Diego Central, Interstate 15 Corridor, Highway 78 Corridor, South County and East County (\$1,523).<sup>5</sup>

**Vacancy:** The San Diego County multi-family vacancy rate has decreased 232 bps from the peak rate of 5.05% recorded five years ago to 2.73% as of September 2017. A vacancy rate below 5% is considered to be a landlord's market.

Evaluating vacancy by submarket, East County recorded the lowest vacancy rate at 2.21% in September 2017 followed by the Highway 78 Corridor at 2.27%. The Interstate 15 Corridor recorded the highest vacancy rate at 3.77% followed by San Diego Central at 2.96%, North County Coastal at 2.79% and South County at 2.59%.

Evaluating vacancy by bedroom category, the lowest vacancy was reported in four-bedroom apartments (1.13%). The vacancy rates in one-bedroom, two- and three-bedroom apartments were 2.50%, 2.72% and 3.73%, respectively in September 2017. Studio apartments recorded a 3.07% vacancy rate.<sup>5</sup>

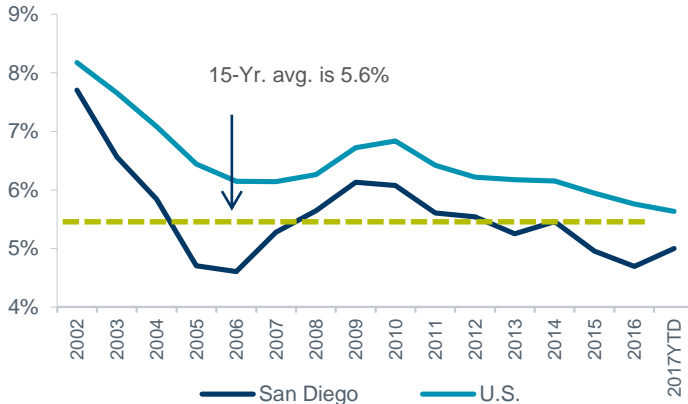
**Net Absorption:** The San Diego County multi-family market absorbed 828 units between March 2017 and September 2017. Of the 37,310 units released since mid-1998, around 95% have been absorbed. Not all of these units remain in the rental inventory as some have been converted to for-sale units. Despite the well above average rental rates among newer projects, new units continue to lease quickly.<sup>5</sup>

Sources: <sup>1</sup>[www.bls.gov](http://www.bls.gov) <sup>2</sup>Moody's Analytics forecast as of 8/17. <sup>3</sup>economy.com forecast as of 6/17. <sup>4</sup>Reis Q317 Apartment Trends. <sup>5</sup>MarketPointe Realty.



### Average Cap Rate in Comparison

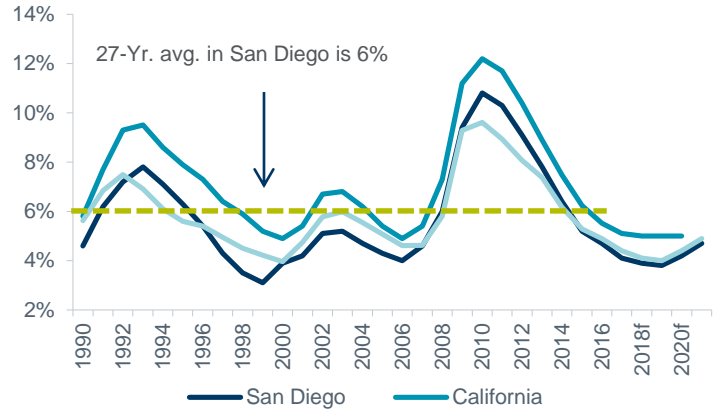
2017 SAN DIEGO CAP RATE BELOW THE 15-YR. AVERAGE OF 5.6%



Source: Real Capital Analytics (RCA), Multi-Family sales \$5M+ as of 10/9/2017.

### Unemployment Rate in Comparison

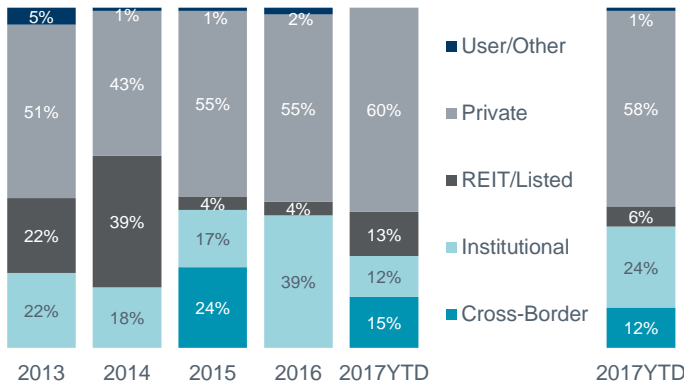
SAN DIEGO'S 27-YR. (1990 – 2016) ANNUAL AVERAGE RATE IS 6%



Source: BLS, (f) by CA Department of Finance as of 4/2017. Moody's Analytics as of 8/2017.

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

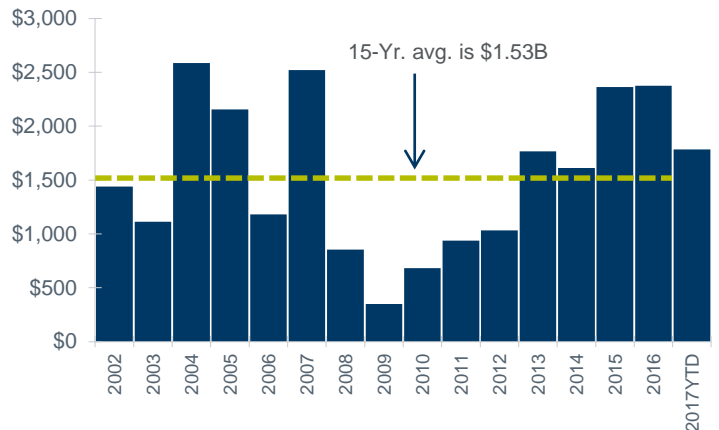
PRIVATE INVESTORS ARE THE LEADING BUYERS



Source: RCA, Sales \$5M+ as of 10/9/2017. Rounded figures may not add up to 100%.

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

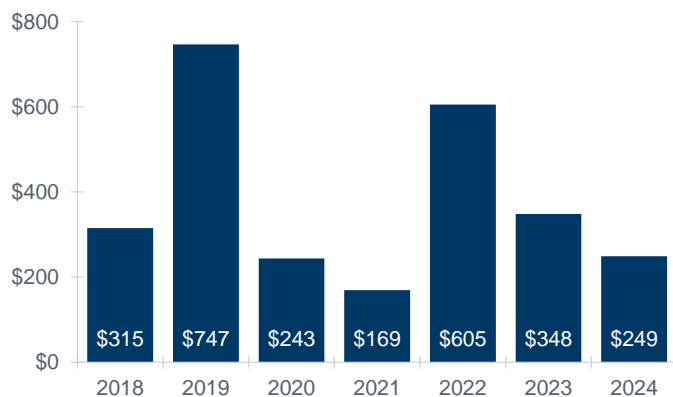
2017 VOLUME SURPASSED 15-YR. AVERAGE OF \$1.53B



Source: Real Capital Analytics, Sales \$5M+ as of 10/9/2017.

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

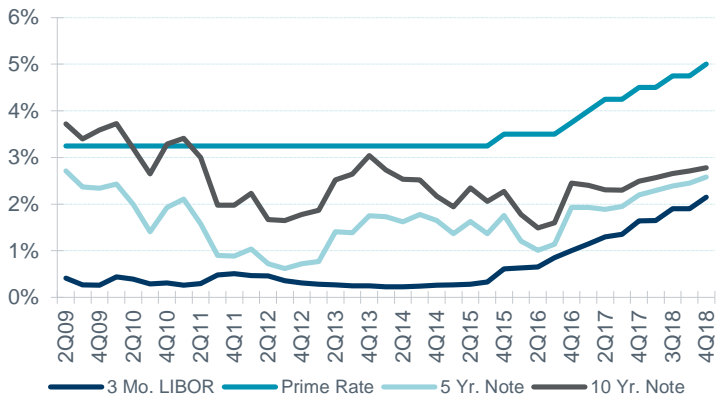
\$747M IN MULTI-FAMILY LOANS WILL BE DUE IN 2019



Source: Trepp, LLC – 10/2017

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

RATES PROJECTED TO SLOWLY INCREASE OVER NEXT 2 YEARS



Source: Wells Fargo U.S. Economic Forecast – 9/29/2017.

## San Diego Market Multi-Family Snapshot

	TOTAL PROJECTS	TOTAL UNITS	TOTAL VACANT	AVERAGE SQUARE FEET PER UNIT	VACANCY RATE	AVERAGE ASKING RENT PER UNIT	AVERAGE RENT PER SQUARE FOOT
<b>SUBMARKET</b>							
Highway 78 Corridor	188	26,329	597	877	2.27%	\$1,664	\$1.90
North County Coastal	90	19,625	548	954	2.79%	\$2,390	\$2.50
Interstate 15 Corridor	66	13,862	522	919	3.77%	\$1,927	\$2.10
San Diego Central	193	34,826	1,031	849	2.96%	\$2,033	\$2.39
East County	159	17,854	395	844	2.21%	\$1,523	\$1.80
South County	129	19,104	495	873	2.59%	\$1,643	\$1.88
<b>SAN DIEGO COUNTY</b>	<b>825</b>	<b>131,600</b>	<b>3,588</b>	<b>881</b>	<b>2.73%</b>	<b>\$1,875</b>	<b>\$2.13</b>

Source: MarketPointe Realty, Inc.

## San Diego Market Investment Trends: Last 12 Months

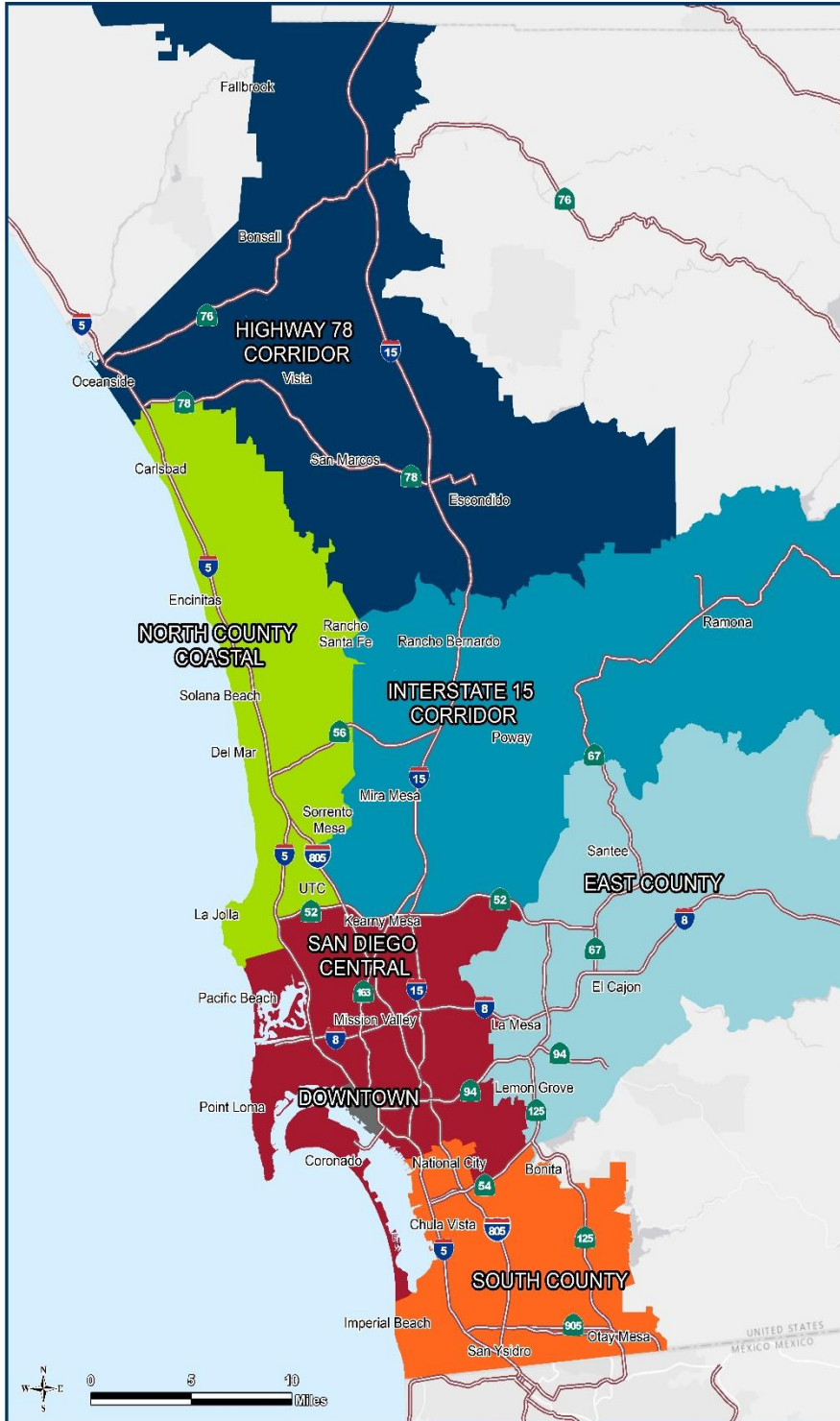
	PROPERTIES SOLD	TOTAL UNITS	TOTAL SALES VOLUME	AVERAGE PRICE PER UNIT	AVERAGE CAP RATE	AVERAGE PRICE PER SF	TOTAL LAND IN ACRES	AVERAGE DAYS ON THE MARKET
<b>SUBMARKET</b>								
Highway 78 Corridor	64	3,829	\$766,110,800	\$200,081	4.6%	\$228	191	130
Interstate 15 Corridor	6	518	\$177,744,500	\$343,136	4.8%	\$280	29	97
North County Coastal	11	203	\$92,543,000	\$455,877	3.5%	\$397	9	195
San Diego Central	204	4,774	\$1,508,024,742	\$315,883	4.4%	\$277	108	121
Downtown	10	473	\$116,989,013	\$247,334	4.2%	\$467	3	156
East County	52	2,103	\$415,676,655	\$197,659	4.8%	\$221	82	125
South County	41	1,017	\$192,981,247	\$189,755	4.6%	\$208	39	103
<b>SAN DIEGO COUNTY</b>	<b>388</b>	<b>12,917</b>	<b>\$3,270,069,957</b>	<b>\$253,160</b>	<b>4.5%</b>	<b>\$257</b>	<b>461</b>	<b>124</b>

Source: CoStar, Inc. Multi-Family sales over \$1,000,000 between 10/1/2016 and 9/30/2017, 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
Pacific Ridge	American Assets Trust / Carmel Partners	533	\$232,000,000	\$435,272	\$374	4.3%	May 2017	San Diego Central
BLVD63	TH Real Estate / Carmel Partners	332	\$156,000,000	\$469,879	\$276	4.9%	November 2016	San Diego Central
Westview Village & Compass Pointe	Pacific Urban Residential / Silicon Valley Community Foundation	350	\$151,250,000	\$432,143	\$381	-	June 2017	Interstate 15 Corridor
Broadstone Corsair	Olympus Property & Artemis Real Estate Partners / PGIM Real Estate & Alliance Residential	360	\$136,500,000	\$379,166	\$190	-	September 2017	San Diego Central
Preserve at Melrose Apartments	Trammel Crow Residential Company / MG Properties Group	410	\$134,000,000	\$326,829	\$332	4.7%	June 2017	Highway 78 Corridor

**MULTI-FAMILY SUBMARKETS**  
SAN DIEGO



DATA IS FROM SOURCES DEEMED RELIABLE BUT MAY BE SUBJECT TO ERRORS, OMISSIONS, OR MODIFICATIONS. THE INFORMATION HEREIN IS PROVIDED WITHOUT REPRESENTATION OR WARRANTY.

About Cushman & Wakefield

Cushman & Wakefield is a global leader in commercial real estate services, helping clients transform the way people work, shop and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms in the world with revenues of \$5 billion across core services of agency leasing, asset services, capital markets, facilities services (branded C&W Services), global occupier services, investment management (branded DTZ Investors), tenant representation and valuations & advisory. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @Cushwake on Twitter.

**Jolanta Campion**

Director of Research, San Diego Region  
jolanta.campion@cushwake.com

**Justin Balagtas**

Research Analyst  
justin.balagtas@cushwake.com

4747 Executive Drive, Suite 900  
San Diego, CA 92121  
Tel: 858.625.5235  
Fax: 858.630.6320  
CA License 01880493

Copyright © 2017 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources considered to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.