

SAN DIEGO MULTI-FAMILY

Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
San Diego Employment	1.43M	1.46M	▲
San Diego Unemployment	4.4%	3.5%	▼
U.S. Unemployment	4.7%	4.1%	▼

Feb 2017/2018 used to represent Q1 for San Diego

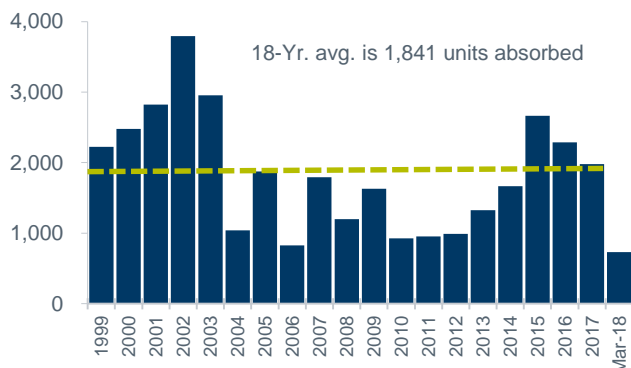
Market Indicators

	Mar-17	Mar-18	12-Month Forecast
Vacancy	2.22%	4.08%	▼
Asking Rent	\$1,748	\$1,887	▲
Units Surveyed	131,835	133,785	▲
Net Absorption	922	731	▲

Asking Rent vs. Vacancy



Net Absorption



Economy

The San Diego employment market continued to record job growth, adding 27,900 jobs (+1.9%) year-over-year through February 2018. During the same time period, the unemployment rate decreased 90 basis points (bps), dropping to 3.5%. Also worth noting, the current rate is 250 bps below the 28-year average of 6%.¹ All employment sectors are expected to grow at a combined growth rate of 1.4% in 2018.²

Market Overview

Sales Activity: San Diego's multi-family investment market sales volume for properties \$5 million and greater reached \$2.4 billion in 2017, only 0.1% decrease from 2016 and 4.2% increase from 2015. In Q1 2018, sales volume totaled \$136.8 million, a 3.1% decrease compared to Q1 2017 (\$141.0 million). Total annual transaction activity has been above the 16-year annual average of \$1.6 billion for the last three consecutive years. Multi-family product continues to be in high demand, although a lack of offerings is hindering sales volume from a notable YoY increase. Private high net worth investors have been the leading buyers of multi-family assets for the last five consecutive years, a trend that is expected to continue.

Housing Affordability: In San Diego 26% of households could afford to purchase the median priced home compared to 29% in California and 56% nationwide as of Q4 2017. The most expensive metros are located in the Bay Area with affordability index being the lowest in San Francisco at 12% due to a median home price of \$1.5 million compared to \$610,000 in San Diego.³ More than 40% of income is spent on rent in San Diego compared to 29% nationwide. Despite the high cost, San Diego ranked among the top five markets among foreign buyers from China, Europe and Latin America as foreign buyers searching for homes in the U.S. tend to focus their search on warmer and/or coastal markets.⁴

Rental Rates: The countywide multi-family average rental rate was \$1,887 per month, 8.0% higher than a year ago and 16.6% higher than two years ago. The average rent for units built since the 2000's was \$2,256, compared to \$1,730 for units built before 2000. The average asking rent was the highest in North County Coastal (\$2,261) followed by San Diego Central (\$2,072), Interstate 15 Corridor (\$1,999), Highway 78 Corridor (\$1,683), South County (\$1,651) and East County (\$1,561).⁵

Vacancy: The San Diego County multi-family vacancy rate increased to 4.08% driven by the completion of seven new projects, bringing 1,683 units to the market. 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 2.57% in March 2018 followed by the Highway 78 Corridor at 2.83%. San Diego Central recorded the highest vacancy rate at 6.38% followed by North County Coastal at 4.26%, South County at 3.54% and the Interstate 15 Corridor at 2.87%.

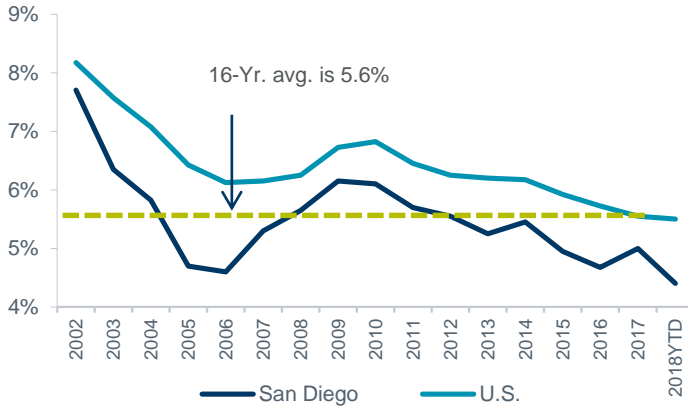
Evaluating vacancy by bedroom category, the lowest vacancy was reported in four-bedroom apartments (1.32%). The vacancy rates in one-bedroom, two- and three-bedroom apartments were 4.35%, 3.68% and 3.77%, respectively in March 2018. Studio apartments recorded a 7.98% vacancy rate.⁵

Net Absorption: The San Diego County multi-family market absorbed 731 units between September 2017 and March 2017. Of the 39,495 units released since mid-1998, around 93% 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.⁵

Sources: ¹www.bls.gov ²Moody's Analytics economy.com ³https://www.car.org/en/marketdata/data/haitraditional ⁴Zillow Q4 2017. ⁵MarketPointe Realty.

Average Cap Rate in Comparison

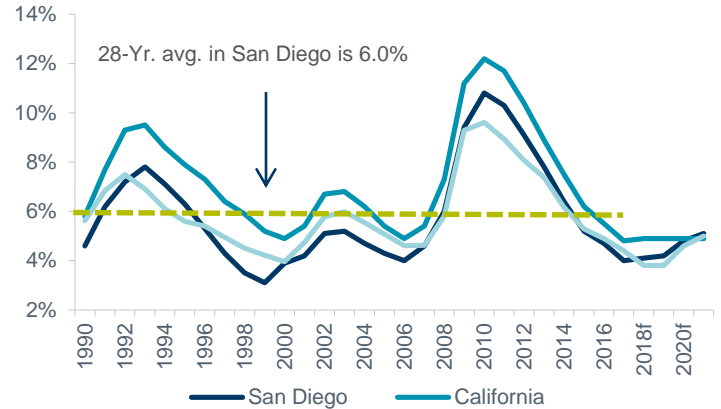
2017 SAN DIEGO CAP RATE BELOW THE 16-YR. AVERAGE OF 5.6%



Source: Real Capital Analytics (RCA), Multi-Family sales \$5M+ as of 4/11/2018.

Unemployment Rate in Comparison

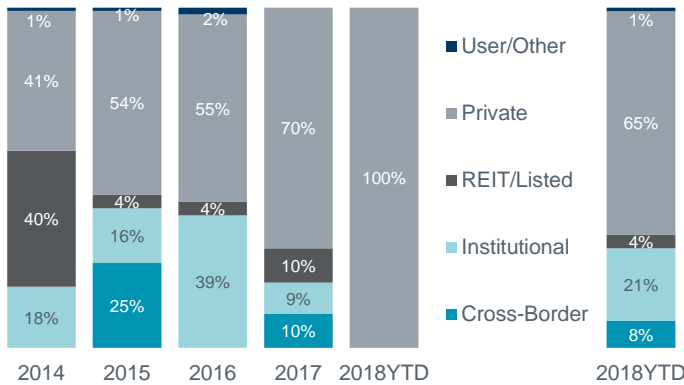
SAN DIEGO'S UNEMPLOYMENT RATE BELOW 28-YR. AVERAGE



Source: BLS, (f) by CA Department of Finance as of 11/2017. Moody's Analytics as of 1/2018.

Who is Buying Multi-Family Assets in San Diego?

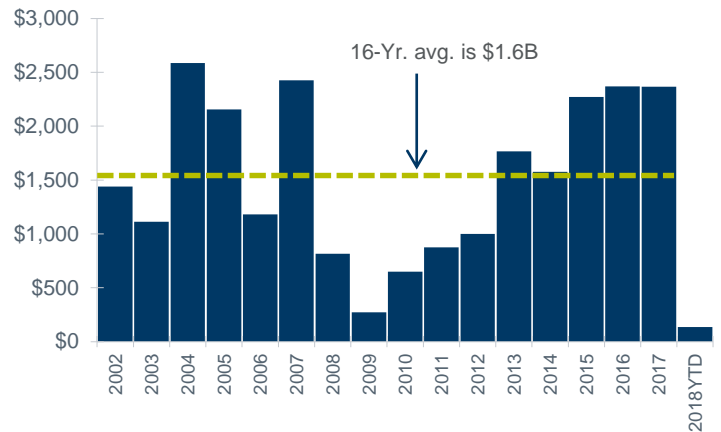
PRIVATE INVESTORS ARE THE LEADING BUYERS



Source: RCA, Sales \$5M+ as of 4/11/2018. Rounded figures may not add up to 100%.

Multi-Family Sales Transaction Volume (\$M)

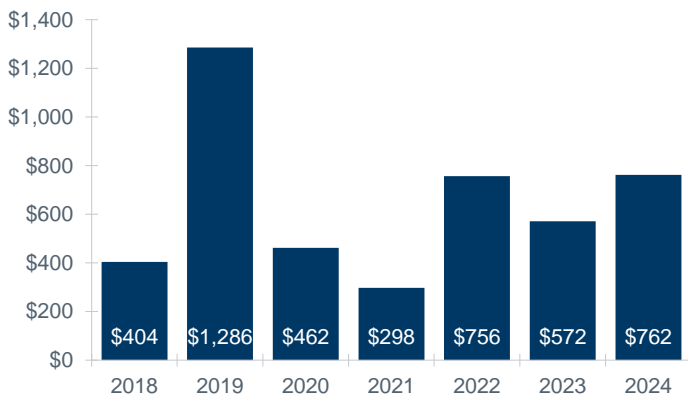
THE MULTI-FAMILY INVESTMENT MARKET STARTED SLOW IN Q1 2018



Source: Real Capital Analytics, Sales \$5M+ as of 4/11/2018.

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

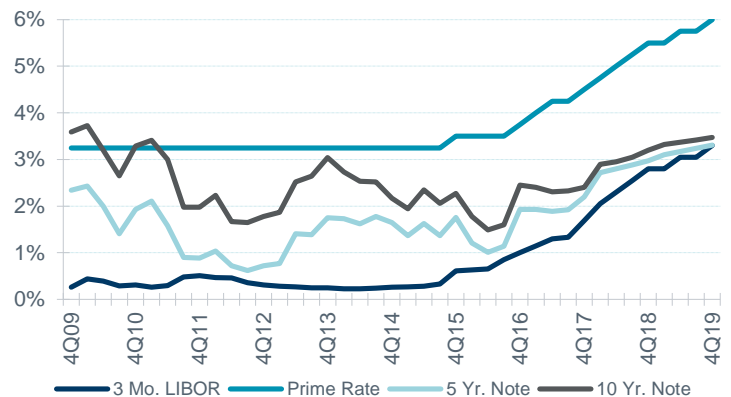
\$1.3B IN MULTI-FAMILY LOANS WILL BE DUE IN 2019



Source: Trepp, LLC - 4/2018

Interest Rates - U.S. Economic Forecast

RATES PROJECTED TO SLOWLY INCREASE OVER NEXT 2 YEARS



Source: Wells Fargo U.S. Economic Forecast - 3/30/2018.

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
SUBMARKET							
Highway 78 Corridor	187	26,400	746	844	2.57%	\$1,561	\$1.85
North County Coastal	91	19,901	848	956	4.26%	\$2,261	\$2.36
Interstate 15 Corridor	67	14,088	405	920	2.87%	\$1,999	\$2.17
San Diego Central	199	36,413	2,322	852	6.38%	\$2,072	\$2.43
East County	159	17,854	458	844	2.57%	\$1,561	\$1.85
South County	129	19,129	678	874	3.54%	\$1,651	\$1.89
SAN DIEGO COUNTY	832	133,785	5,457	881	4.08%	\$1,887	\$2.14

Source: MarketPointe Realty, Inc.

San Diego Market Investment Trends: Last 12 Months

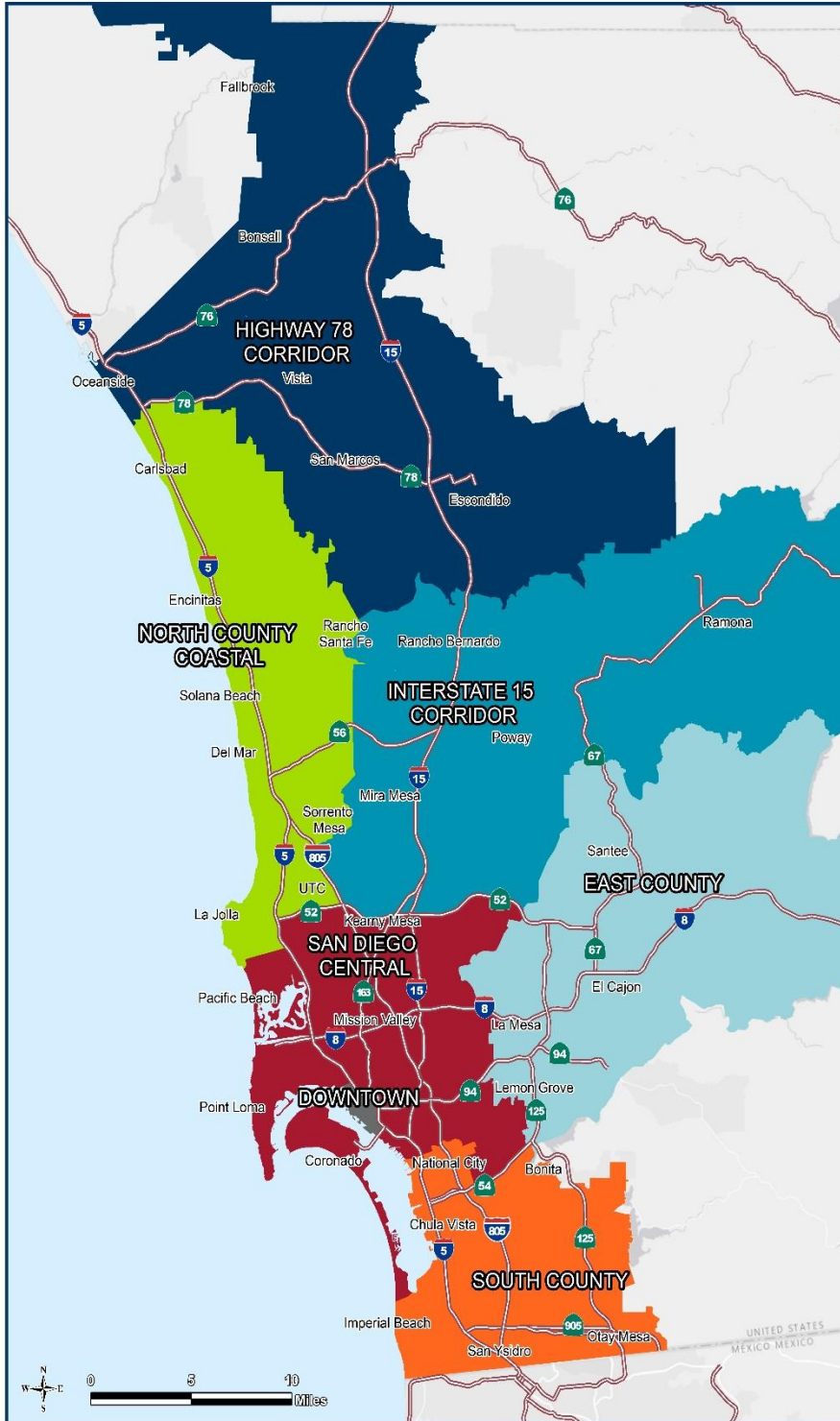
	PROPERTIES SOLD	TOTAL UNITS	TOTAL SALES VOLUME	AVERAGE PRICE PER UNIT	AVERAGE CAP RATE	AVERAGE PRICE PER SF	TOTAL LAND IN ACRES	AVERAGE DAYS ON THE MARKET
SUBMARKET								
Highway 78 Corridor	58	3,413	\$752,130,400	\$220,372	4.7%	\$252	172	136
Interstate 15 Corridor	6	589	\$226,829,500	\$385,110	5.3%	\$347	37	101
North County Coastal	13	359	\$179,442,500	\$499,840	3.7%	\$468	15	129
San Diego Central	218	4,281	\$1,196,372,197	\$279,461	4.3%	\$260	104	105
Downtown	7	466	\$113,011,596	\$242,514	4.5%	\$371	2	111
East County	44	2,088	\$580,959,144	\$278,237	4.9%	\$315	73	131
South County	45	830	\$140,640,119	\$169,446	4.5%	\$227	28	105
SAN DIEGO COUNTY	391	12,026	\$3,189,385,456	\$265,208	4.4%	\$280	431	113

Source: CoStar, Inc. Multi-Family sales over \$1,000,000 between 4/1/2017 and 3/31/2018, 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
Avion at Spectrum	Heitman, LLC / Prime Group	448	\$139,975,000	\$312,500	\$332	5.3%	October 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
Waterleaf Apartment Homes	MG Properties Group / TruAmerica & Investcorp	456	\$117,500,000	\$257,675	\$294	4.8%	November 2017	Highway 78 Corridor
Solana at Grand	The Allstate Corporation & TruAmerica / Conrad Prebys Trust	519	\$90,000,000	\$173,410	\$220	-	July 2017	Highway 78 Corridor

MULTI-FAMILY SUBMARKETS
SAN DIEGO



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