Northmarq

MARKET INSIGHTS

Sales velocity picks up to close 2022

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	4,597
UNITS DELIVERED	3,191

MARKET FUNDAMENTALS

VACANCY RATE	3.5%
YEAR-OVER-YEAR CHANGE	-80bps
ASKING RENTS	$2,327
YEAR-OVER-YEAR CHANGE	+8.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT*	$358,900

Transactions where pricing is available

San Diego Multifamily
4Q 2022

HIGHLIGHTS

- Most property performance metrics in San Diego improved in 2022, and conditions were strong in the fourth quarter. Asking rents ticked higher in the final months of the year while vacancy rose slightly.
- Local vacancy trended higher before the end of 2022, rising 20 basis points in the fourth quarter to 3.5 percent. This followed a period of four consecutive quarters where the rate declined. Year over year, the vacancy rate tightened 80 basis points.
- Apartment rents ticked higher in the final months of the year, rising 1.8 percent to $2,327 per month. In 2022, asking rents rose 8 percent.
- The multifamily investment market made some gains at the end of 2022, as deal volume accelerated, and sales prices remained above the 2021 figure. The median sales price in 2022 reached $358,900 per unit, up nearly 12 percent. Cap rates averaged around 4 percent during the fourth quarter.

SAN DIEGO MULTIFAMILY MARKET OVERVIEW

Local property fundamentals posted improving performance during much of 2022. While the local vacancy rate inched higher in the fourth quarter, the trend for the full year was for tightening conditions. Vacancy ended 2022 at just 3.5 percent, 80 basis points lower than one year earlier. The current vacancy rate is near the low-end of the market's recent range. With vacancy low, operators have implemented healthy rent increases, totaling 8 percent in 2022, with gains in the lower tiers approaching double digits. Multifamily development has maintained a steady pace of projects in recent years, with new supply growth most concentrated in the city center and the neighborhoods north of Balboa Park including University Heights and North Park.

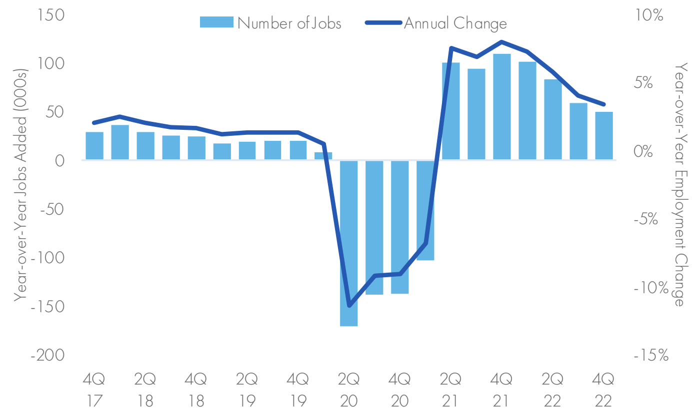
The multifamily investment market in San Diego showed signs of improvement during the fourth quarter as the pace of deals picked up. While deal volume gained some momentum in the final months of the year, total transaction volume for 2022 trailed levels recorded during 2021. Pricing remains elevated as the median sales price through the end of 2022 reached $358,900 per unit, up nearly 12 percent from the median price in 2021. One reason for the recent increase in activity may be the continued increase in cap rates; after averaging about 3.5 percent in the third quarter, cap rates ticked higher and reached approximately 4 percent at the end of the year.

EMPLOYMENT

- Employment growth picked up in the final few months of the year, as local businesses added 15,000 jobs during the fourth quarter. In 2022, total employment expanded by 3.4 percent as more than 50,000 net new jobs were created.
- San Diego's health care and social assistance industry posted healthy gains in recent quarters and finished the year on an upswing. This sector added 8,100 jobs during the past 12 months, a gain of 4.3 percent.
- The leisure and hospitality sector continued to recover in 2022, outperforming the overall employment market. This industry added 18,100 jobs in the past year, a 9.9 percent increase. Employment in the sector remains about 8,000 positions below 2019-2020 levels, which should allow for additional gains leading into the summer travel season.
- **FORECAST:** The local labor market is expected to continue to add jobs in the coming quarters, although the pace of growth will slow. Total employment is projected to grow by 1 percent in 2023 with the addition of nearly 15,000 jobs.

In 2022, total employment expanded by 3.4 percent.

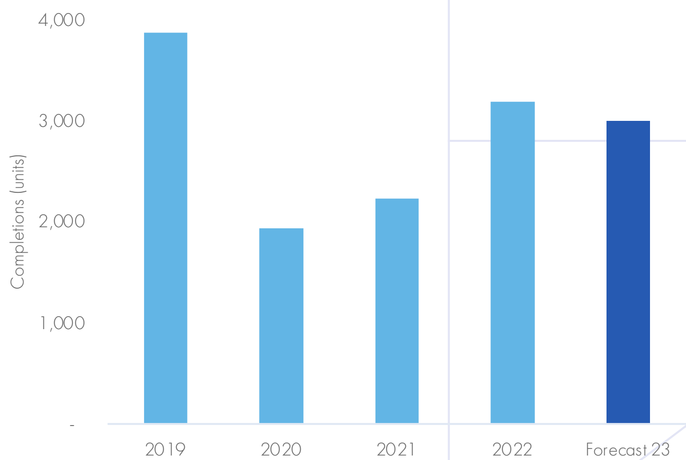
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 4,600 units are currently under construction.

DEVELOPMENT TRENDS



Sources: Northmarq, REIS

DEVELOPMENT & PERMITTING

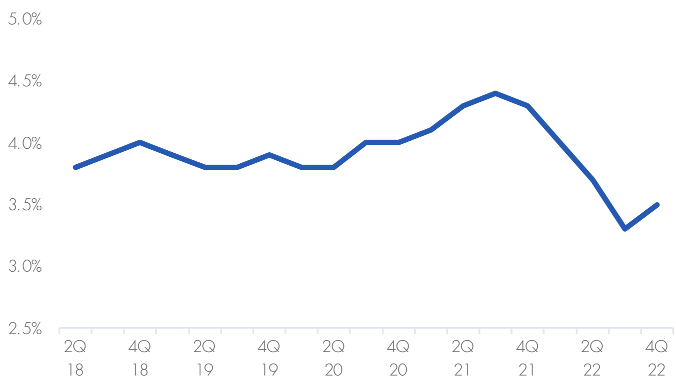
- The pace of apartment deliveries tapered off at the end of 2022 as projects totaling 320 units came online during the fourth quarter. For the full year, nearly 3,200 units were delivered, up 43 percent from the 2021 total.
- The development pipeline has been fairly stable in recent quarters. Projects totaling nearly 4,600 units are currently under construction, nearly identical to levels from one year earlier. The most active areas for new development include the Downtown San Diego and Balboa Park submarket clusters.
- Multifamily permitting continued to slow during the fourth quarter as developers pulled permits for roughly 850 units, down 36 percent from the previous period. For the full year, approximately 5,450 permits were issued, down 4 percent from the market's trailing five-year average.
- **FORECAST:** Apartment developers are expected to bring new projects online at a consistent pace in 2023. Projects totaling nearly 3,000 units are scheduled to be delivered in the next 12 months.

VACANCY

The vacancy rate fell 80 basis points for the full year.

- After reaching its lowest figure in five years, the local vacancy rate ticked higher at the end of 2022. Vacancy rose 20 basis points in the fourth quarter to 3.5 percent. This was the first quarterly vacancy increase since the third quarter of 2021.
- Despite the increase in the fourth quarter, vacancy tightened in 2022. The rate fell 80 basis points for the full year. The Downtown submarket posted the largest year-over-year vacancy improvement, dropping 130 basis points to 6.7 percent.
- The vacancy rate remains tightest in Class B and Class C properties. The combined vacancy rate in mid-tier and lower-tier properties fell 50 basis points during the past year to 1.7 percent
- **FORECAST:** Local vacancy is projected to inch slightly higher in the next 12 months as supply growth outpaces absorption levels. Vacancy is expected to rise 20 basis points in 2023, finishing the year at 3.7 percent.

VACANCY TRENDS



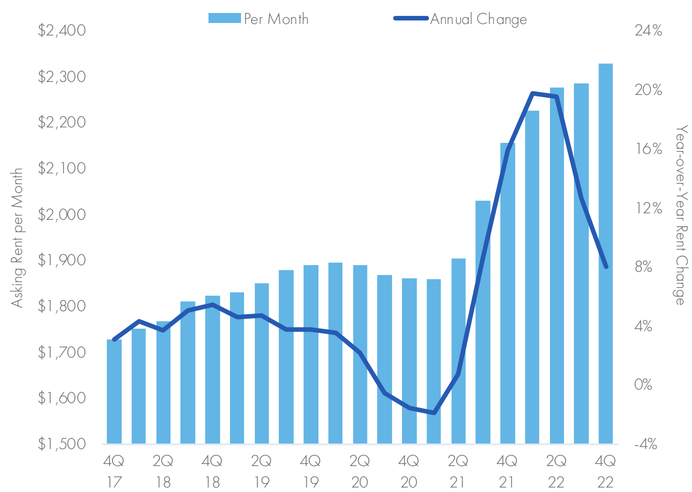
Sources: Northmarq, REIS

RENTS

- Apartment rents in San Diego pushed higher during the fourth quarter, although the pace of growth was more moderate than in the first half of the year. Asking rents rose 1.8 percent in the last three months of 2022 to $2,327 per month.
- Year over year, asking rents advanced 8 percent, well above the long-term average in the region. Annual rent growth has averaged 5.3 percent during the past decade.
- Class A rents inched higher at the beginning of 2022, before the pace of increase accelerated late in the year. The average asking rent for Class A apartments rose 6.2 percent in 2022, reaching $2,790 per month. During the fourth quarter, asking rents for Class A units spiked 3 percent.
- **FORECAST:** Local apartment rents are expected to trend higher in the next several quarters. Asking rents in San Diego are projected to rise about 3 percent in 2023, reaching approximately $2,400 per month.

Year over year, asking rents advanced 8 percent.

RENT TRENDS



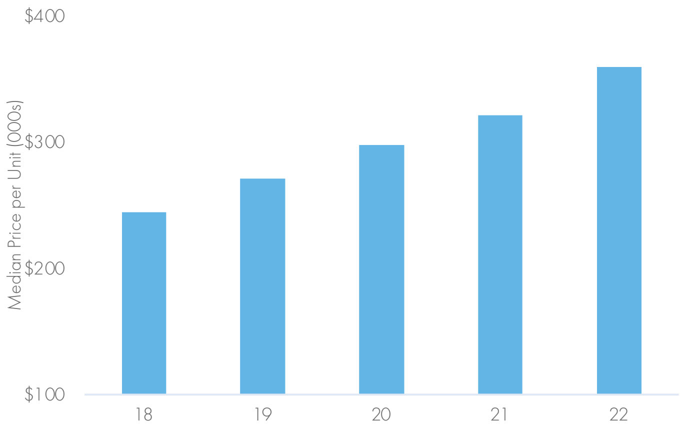
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily sales activity picked up at the end of 2022 as deal volume more than doubled from the third quarter to the fourth quarter. Despite the recent surge in activity to close out the year, total transaction volume in 2022 was down 28 percent from levels recorded during 2021.
- While total sales activity declined in 2022, transaction pricing remains elevated. The median sales price through the end of 2022 reached $358,900 per unit, up nearly 12 percent from the median price in 2021.
- Cap rates trended higher in the final months of the year. Cap rates averaged nearly 4 percent during the fourth quarter, about 50 basis points higher than during the third quarter. One year ago, cap rates had compressed into the low-3 percent range.

The median sales price reached $358,900 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

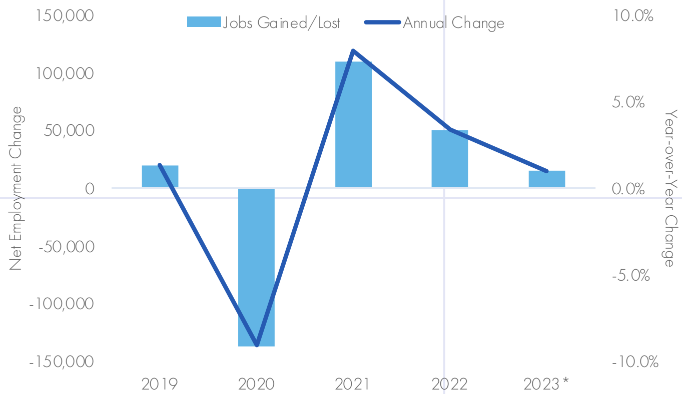
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Domain San Diego	8798 Spectrum Center Blvd., San Diego	379	$184,600,000	$487,071
Veranda La Mesa	5353 Baltimore Dr., La Mesa	406	$141,000,000	$347,291
The Residences at Escaya	1925 Avenida Escaya., Chula Vista	272	$122,500,000	$450,368
Madera Ridge	1051 W El Norte Pky., Escondido	236	$86,000,000	$364,407
The Ridge At San Diego	4641-4677 Home Ave., San Diego	87	$31,500,000	$362,069

LOOKING AHEAD

The San Diego multifamily market is expected to post one of the strongest performances of any major market in the country in 2023, building on healthy operations recorded in the preceding year. While accelerating development trends at the national level are expected to result in supply-side pressures, apartment completions in San Diego are forecast to come in below the market's five-year average, and vacancy rates are expected to remain within a tight range. Steady renter demand and a healthy local economy should allow operators to push rents higher at a moderate pace in the coming quarters. Annual rent growth is forecast to total approximately 3 percent in 2023.

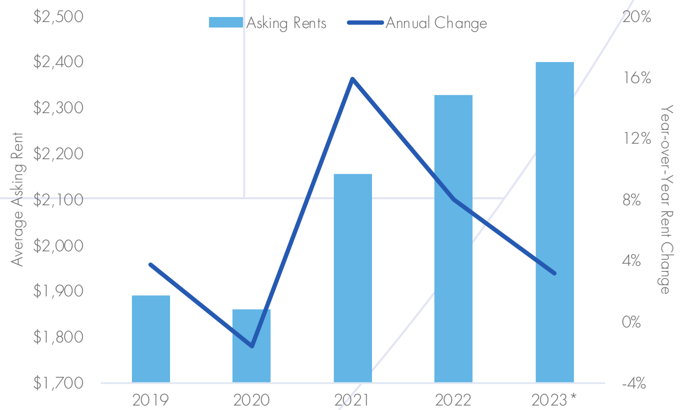
The local multifamily investment market is set for a mostly stable performance at the beginning of 2023 and should gain momentum later in the year. Historically, property fundamentals in San Diego have been less volatile than in many other regions across the county. This consistency in the market will continue to attract local and out-of-state investors. Properties have traded across the quality spectrum in recent months, ranging from brand-new developments in Downtown San Diego to older, Class C apartments in El Cajon. This diversity of investment opportunities will continue in 2023. Cap rates may inch higher in the coming quarters, ultimately landing somewhere in the low- to mid-4 percent range.

EMPLOYMENT FORECAST



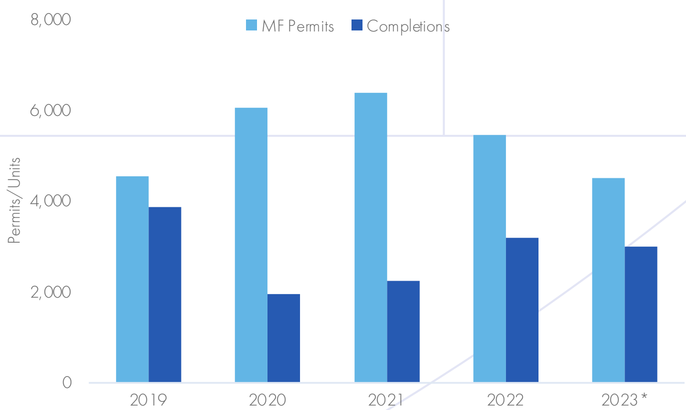
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



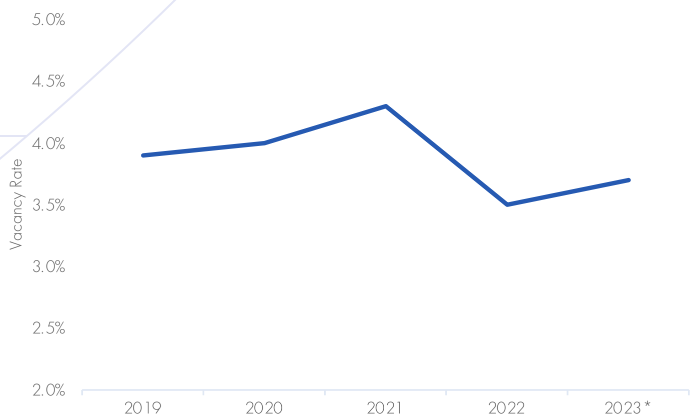
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

Northmarq

FOR MORE INFORMATION,
PLEASE CONTACT:

KYLE PINKALLA
Managing Director–Investment Sales
858.675.7865
kpinkalla@northmarq.com

BENN VOLGELSANG
Senior Vice President–Investment Sales
858.675.7869
bvogelsang@northmarq.com

ERIK ANDERSON
Vice President–Investment Sales
858.675.7641
eanderson@northmarq.com

TOBIN HECKER
Associate–Investment Sales
858.401.9335
thecker@northmarq.com

ERIC FLYCKT
SVP, Managing Director–Debt & Equity
858.675.7640
eflyckt@northmarq.com

AARON BECK
SVP, Managing Director–Debt & Equity
858.675.7862
abeck@northmarq.com

CONOR FREEMAN
Vice President–Debt & Equity
858.675.7661
cfreeman@northmarq.com

WYATT CAMPBELL
Vice President–Debt & Equity
858.675.7860
wcampbell@northmarq.com

PETE O'NEIL
Director of Research
602.508.2212
poneil@northmarq.com

ABOUT **NORTHMARQ**

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching $80 billion, and $40+ billion in transaction volume.

BUILT TO THRIVE®

northmarq.com