

MARKETBEAT

San Diego

Multi-Family Spring 2017



SAN DIEGO MULTI-FAMILY

Economic Indicators

	Mar-16	Mar-17	12-Month Forecast
San Diego Employment	1.49M	1.5M	▲
San Diego Unemployment	4.9%	4.2%	▼
U.S. Unemployment	5.0%	4.5%	▼

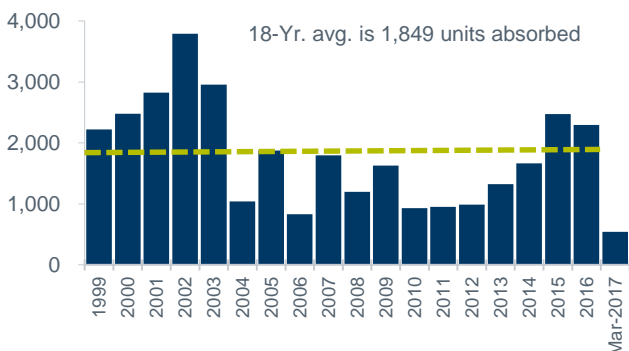
Market Indicators

	Mar-16	Mar-17	12-Month Forecast
Vacancy	2.46%	2.21%	▼
Asking Rent	\$1,618	\$1,748	▲
Units Surveyed	131,762	131,762	▲
Net Absorption	1,321	541	▲

Asking Rent vs. Vacancy



Net Absorption



Economy

Employment: The San Diego employment market added 29,600 jobs (+2.1%) year-over-year through March 2017, above the 27-year annual average growth rate of 1.6%. During the same time period, the unemployment rate decreased 70 basis points (bps), dropping to 4.2%.¹ The current rate is 180 bps below the 27-year average of 6%. All employment sectors are expected to grow at a combined growth rate of 2.1% in 2017, according to Moody's Analytics. San Diego's economy of \$220.6 billion as measured by gross regional product grew an estimated 3.2% in 2016 - consistent with its 10-year average growth rate of 3.2% - and is forecasted to grow an additional 3.2% in 2017.²

Housing Affordability: San Diego ranked as the 7th least affordable metro in the U.S. to buy a home with an affordability index of 19.6 compared to 59.9 nationwide as of December 31, 2016. The top 13 most expensive metros are located in California, according to the National Association of Realtors, indicating that San Diego is relatively affordable compared to six other major metro areas within California. San Diego ranked as the 11th least affordable metro in the U.S. to rent.

Rental Rates: The countywide multi-family average rental rate was \$1,748 per month, 8.0% higher than a year ago and 11.0% higher than two years ago. The average rent for units built between 2011 and 2016 was \$2,285, compared to \$1,580 for units built before 1998. The average asking rent was the highest in North County Coastal (\$2,126) followed by San Diego Central, Interstate 15 Corridor, Highway 78 Corridor, South County and East County (\$1,418).³

Vacancy: The San Diego County multi-family vacancy rate has decreased 284 basis points from the peak rate of 5.05% recorded five years ago to 2.21% as of March 2017. A vacancy rate below 5% is considered to be a landlord's market.

Evaluating vacancy by submarket, Highway 78 Corridor recorded the lowest vacancy rate at 1.39% in March 2017 followed by East County at 1.69%. San Diego Central recorded the highest vacancy rate at 3.09% followed by South County, North County Coastal and Interstate 15 Corridor.

Evaluating vacancy by bedroom category, the lowest vacancy was reported in two bedroom apartments (1.98%). The vacancy rates in one-bedroom, three and four-bedroom apartments were 2.31%, 2.60% and 2.08%, respectively in March 2017. The highest vacancy rate was reported in studio apartments (3.73%), according to MarketPointe Realty.

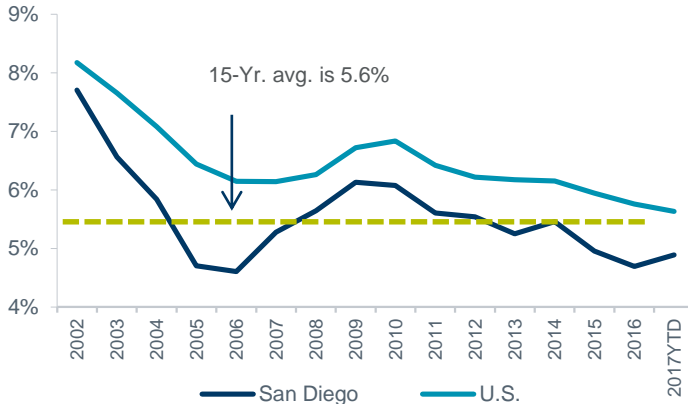
Net Absorption: The San Diego County multi-family market absorbed 541 units between September 2016 and March 2017. Of the 35,249 units released since 1998, nearly 94% have been absorbed. Not all of these units remain in the rental inventory as some have been converted to for-sale units. Despite the well above average rental rates among newer projects, new units continue to lease quickly.³

Sources: ¹www.bls.gov ²Moody's Analytics economy.com forecast as of 2/20/2016. ³ MarketPointe Realty



Average Cap Rate in Comparison

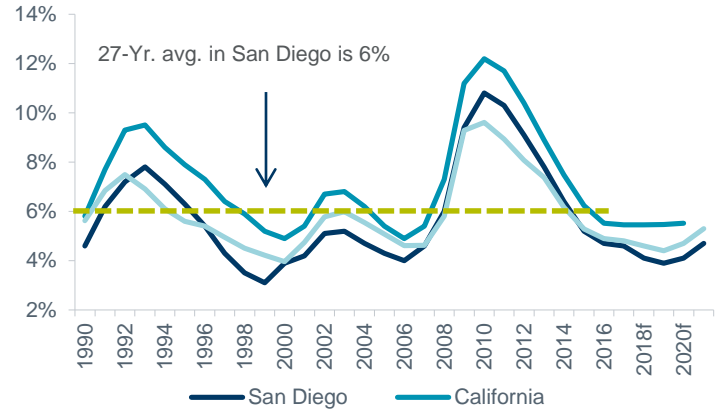
Q1 17 SAN DIEGO CAP RATE BELOW THE 15-YR. AVERAGE OF 5.6%



Source: Real Capital Analytics (RCA), Multi-Family sales \$5M+ as of 5/1/2017.

Unemployment Rate in Comparison

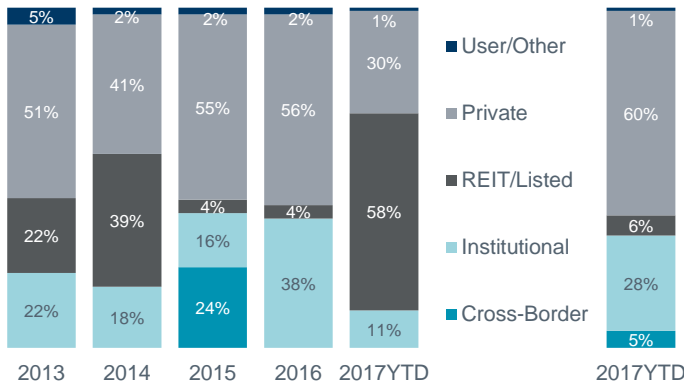
SAN DIEGO'S 27-YR. (1990 – 2016) ANNUAL AVERAGE RATE IS 6%



Source: BLS, (f) by CA Department of Finance as of 11/2016. Moody's Analytics as of 12/2016.

Who is Buying Multi-Family Assets in San Diego?

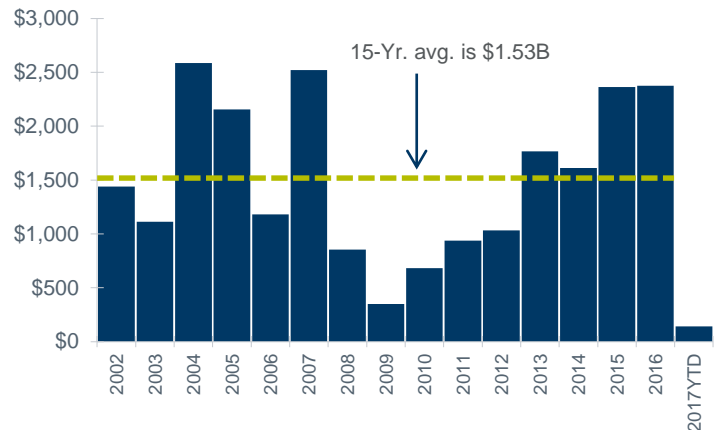
PRIVATE INVESTORS ARE THE LEADING BUYERS



Source: RCA, Sales \$5M+ as of 5/1/2017. Rounded figures may not add up to 100%.

Multi-Family Sales Transaction Volume (\$M)

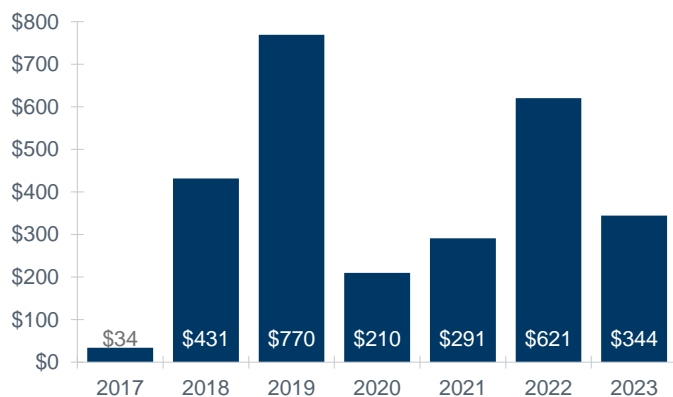
2016 VOLUME SURPASSED 15-YR. AVERAGE OF \$1.53B



Source: Real Capital Analytics, Sales \$5M+ as of 5/1/2017.

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

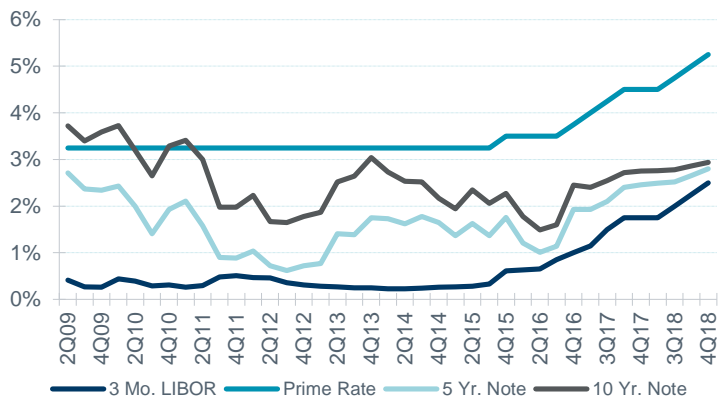
\$770M IN MULTI-FAMILY LOANS WILL BE DUE IN 2019



Source: Trepp, LLC – 4/28/2017

Interest Rates – U.S. Economic Forecast

RATES PROJECTED TO SLOWLY INCREASE OVER NEXT 2 YEARS



Source: Wells Fargo U.S. Economic Forecast – 5/1/2017.

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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	191	26,722	372	874	1.39%	\$1,551	\$1.78
North County Coastal	91	19,605	449	950	2.29%	\$2,126	\$2.24
Interstate 15 Corridor	68	13,671	280	915	2.05%	\$1,844	\$2.01
San Diego Central	192	34,180	1,055	849	3.09%	\$1,950	\$2.30
East County	162	18,622	315	841	1.69%	\$1,418	\$1.69
South County	129	19,137	450	873	2.35%	\$1,527	\$1.75
SAN DIEGO COUNTY	833	131,937	2,921	878	2.21%	\$1,748	\$1.99

Source: MarketPointe Realty, Inc.

San Diego Market Investment Trends: Last 12 Months

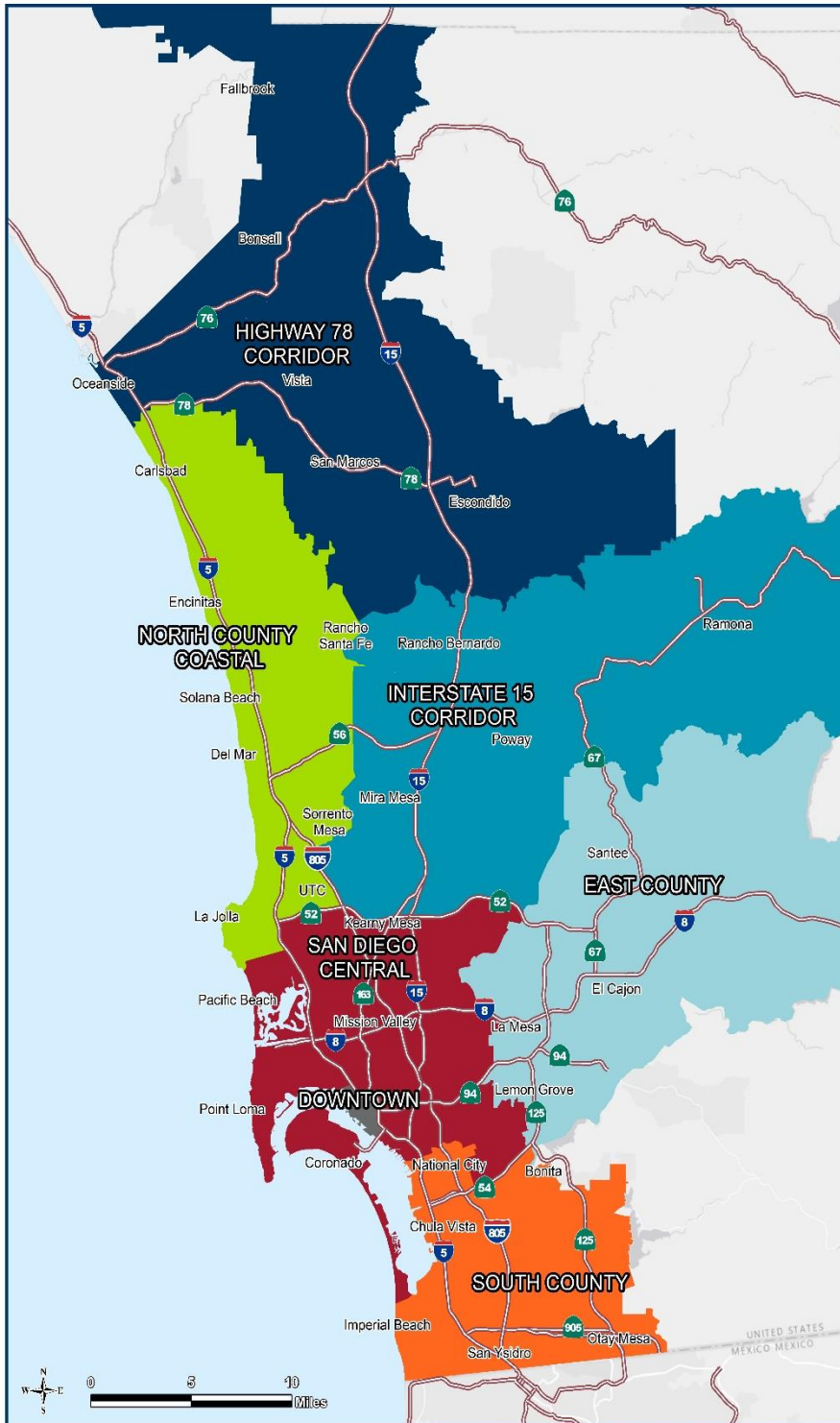
	PROPERTIES SOLD	TOTAL UNITS	TOTAL SALES VOLUME	AVERAGE PRICE PER UNIT	AVERAGE CAP RATE	AVERAGE PRICE PER SF	TOTAL LAND IN ACRES	AVERAGE DAYS ON THE MARKET
SUBMARKET								
Highway 78 Corridor	56	2,794	\$550,561,000	\$197,051	4.6%	\$215.80	148.9	175
Interstate 15 Corridor	4	802	\$223,933,000	\$279,218	4.6%	\$289.61	36.5	82
North County Coastal	8	80	\$40,934,500	\$511,681	3.8%	\$503.05	3.0	165
San Diego Central	223	3,621	\$976,167,987	\$269,585	4.5%	\$300.10	92.3	130
Downtown	15	307	\$44,210,170	\$144,007	4.9%	\$321.27	3.4	159
East County	45	1,898	\$413,929,155	\$218,087	5.1%	\$243.74	78.6	163
South County	39	1,368	\$304,175,068	\$222,350	4.7%	\$233.34	92.3	155
SAN DIEGO COUNTY	390	10,870	\$2,553,910,880	\$234,950.40	4.6%	\$260.65	455.0	142

Source: CoStar, Inc. Multi-Family sales over \$1,000,000 between 4/1/2016 and 3/31/2017, 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
11102 Caminito Alvarez	IMT Capital / Gables Residential	752	\$214,000,000	\$284,574	\$364.30	-	April 2016	Interstate 15 Corridor
BLVD63	TH Real Estate / Carmel Partners	332	\$156,000,000	\$469,879	\$276.46	-	November 2016	San Diego Central
Sterling Alvarado	Heitman & Campus Evolution / The Dinerstein Companies	321	\$98,100,000	\$305,607	\$327.36	-	December 2016	San Diego Central
Pulse Millenia	Northwestern Mutual Life Insurance / Fairfield Residential	273	\$93,800,000	\$343,589	\$350.77	-	June 2016	South County
Dylan Point Loma	JLL Income Property Trust / Monarch Group	180	\$90,000,000	\$500,000	\$381.36	-	August 2016	San Diego Central

MULTI-FAMILY SUBMARKETS
SAN DIEGO



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