

Multifamily Metro Outlook:

San Diego - Q1 2022

Overview:

- San Diego's recovery lags that of the nation but is among the strongest in the state. About 90% of jobs lost during the pandemic are back, well ahead of most large California economies. Thanks to the labor force's recovery in the second half of the year, the unemployment rate fell to 4.2% by the middle of the first quarter 2022, a decline from 6.5% in the previous quarter.
- The metro's apartment market continues to outperform the rest of the nation. Even with more than 900 units delivered to the metro during the quarter, vacancy rates remain well below the national average at 3.0%. Although this is an increase of 75 bps over the last quarter, vacancies are still at the lowest levels seen since at least 2016.
- Asking rents continued to climb, rising 1.25% over the last quarter to an average of \$2,310, even though the pace of growth is slowing. However, this could be attributable to the fact that over the last year, growth was extreme across every single asset class; all three exhibited annual increases of more than 50%.
- Demand appears to be equally robust for Class A and B properties, allowing the concession rates among both property classes to drop under 7.0% this quarter. However, concession among Class C properties have hit the highest level ever seen at 11.8%.

Market Strengths:

- High-tech job growth in San Diego will slow from its torrid pace last year, but the industry will remain a key driver, already ranking among the top 5% of metro areas nationally for its share of high-tech employment.
- San Diego is among the top recipients of Department of Defense contracts – the funding for which did not decline significantly in response to the pandemic nor the change in administration.

Market Weaknesses:

- Vacationers will continue to flock back to San Diego, but still-subdued business travel will mean a protracted recovery for the tourism-dependent industries. As a result, employment remains 18% lower than before the pandemic, which is much worse than the rest of the country.

Development:

- The new inventory added to the pipeline was not enough to overcome the surge of deliveries that occurred this quarter, and as a result, the overall pipeline declined by a few units down to around 11,500. Even with the decline, the pipeline remains at one of the highest levels ever seen. The pace of deliveries doesn't appear to be in jeopardy of slowing any further, over the past year deliveries in the metro increased more than 9.0% to a total of 4,600 units, the largest annual increase ever seen.
- There is not much of a shadow market in San Diego, only 12 units were delivered to the metro this quarter, and over the past year only 500 units have been constructed. This is not a trend likely to change soon, only 1,000 units are currently underway, but that level is double last year's pipeline inventory.

Outlook:

- San Diego's dearth of development in the multifamily market means that the extreme market tightness is expected to continue. And considering the inadequate supply of single-family inventory that has limited resident's transition into homeownership, the apartment market should continue to flourish. Further, the rise in interest rates, which effectively prices even more households out of the single-family market, should ensure the tightness in multifamily is felt even with more supply expected to come online over the next year.
- San Diego's educated workforce and strategic ocean location will not be enough to keep it from following a few steps behind the rest of the nation, despite continued job gains. A full recovery will take longer than the rest of the country due to higher costs that will deter migrants, but gains in dynamic high-skill service industries will allow San Diego to keep pace with its California peers in the long-term.

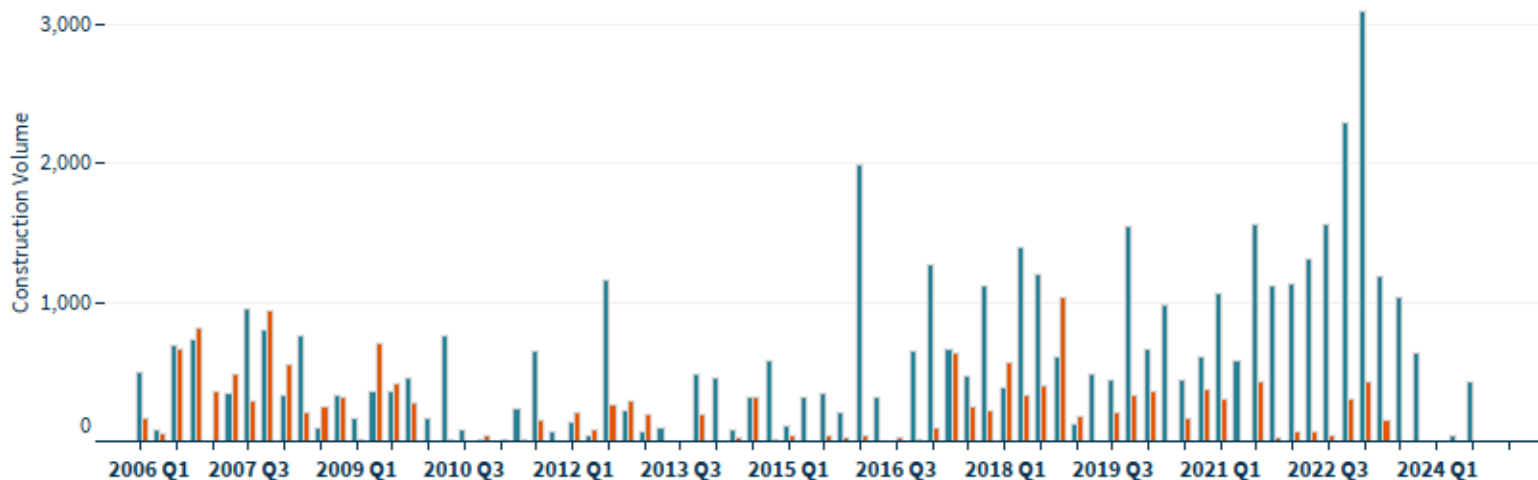
Five Year Metro Area Growth Forecast

Source: Moody's Analytics	Q4 2021	Q4 2026	San Diego (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	3,361	3,408	0.28%	0.47%
Households (000s)	1,188	1,238	0.83%	0.90%
Renting Cohort (Ages 20-34) (000s)	791	759	-0.83%	-0.30%
Total Employment (000s)	1,438	1,542	1.41%	1.08%
Median Household Income	\$84,089	\$98,949	3.31%	3.30%
Median SF Home Price	\$870,976	\$1,042,761	3.67%	1.93%
Net Migration	-5,320	-8,249		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



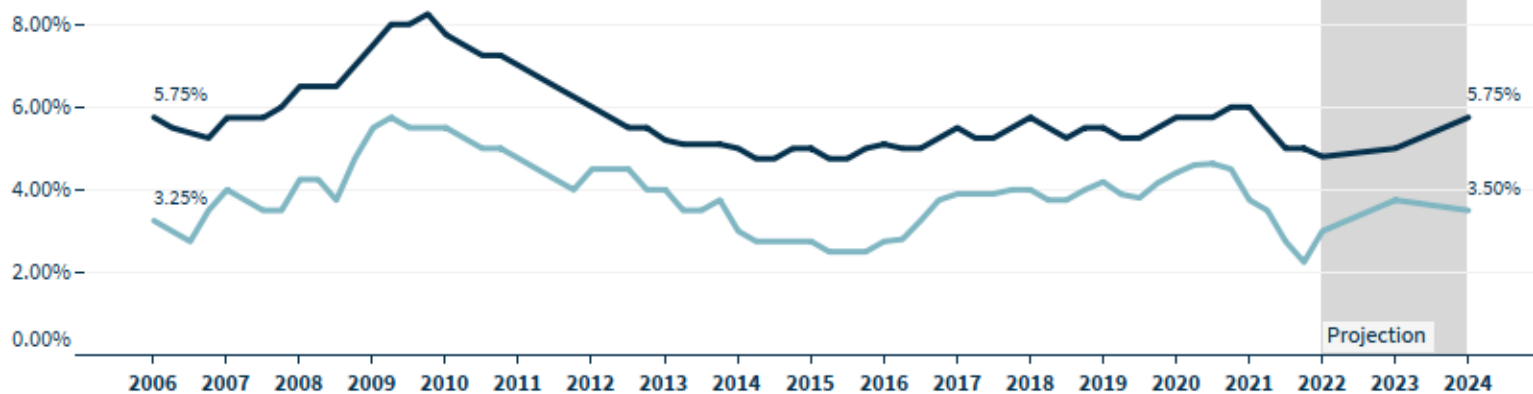
Vacancy & Rent Composite Estimates

Vacancy Rates

San Diego | National

Q1 2022 Vacancy Rate:

3.00%

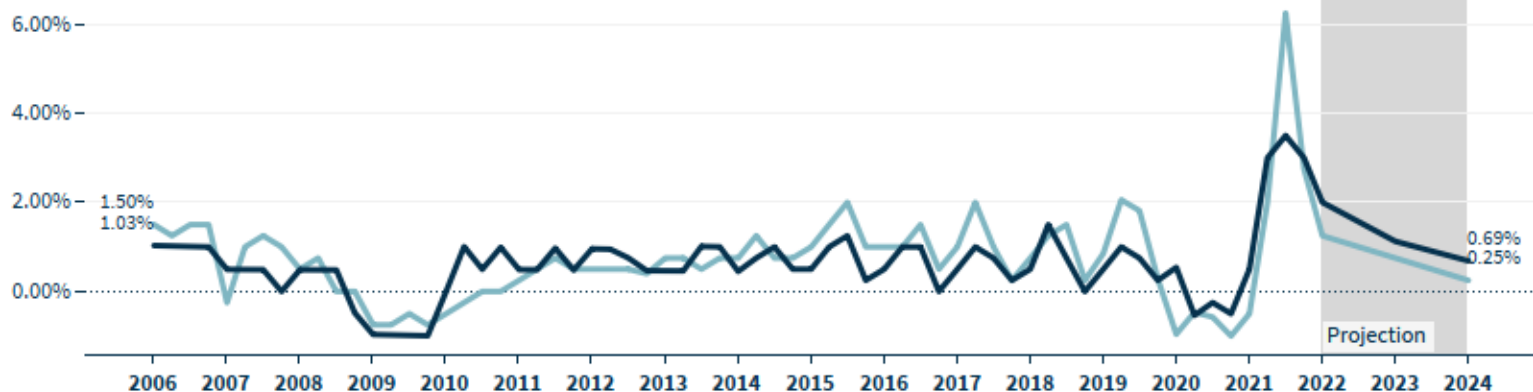


Asking Rent Growth

San Diego | National

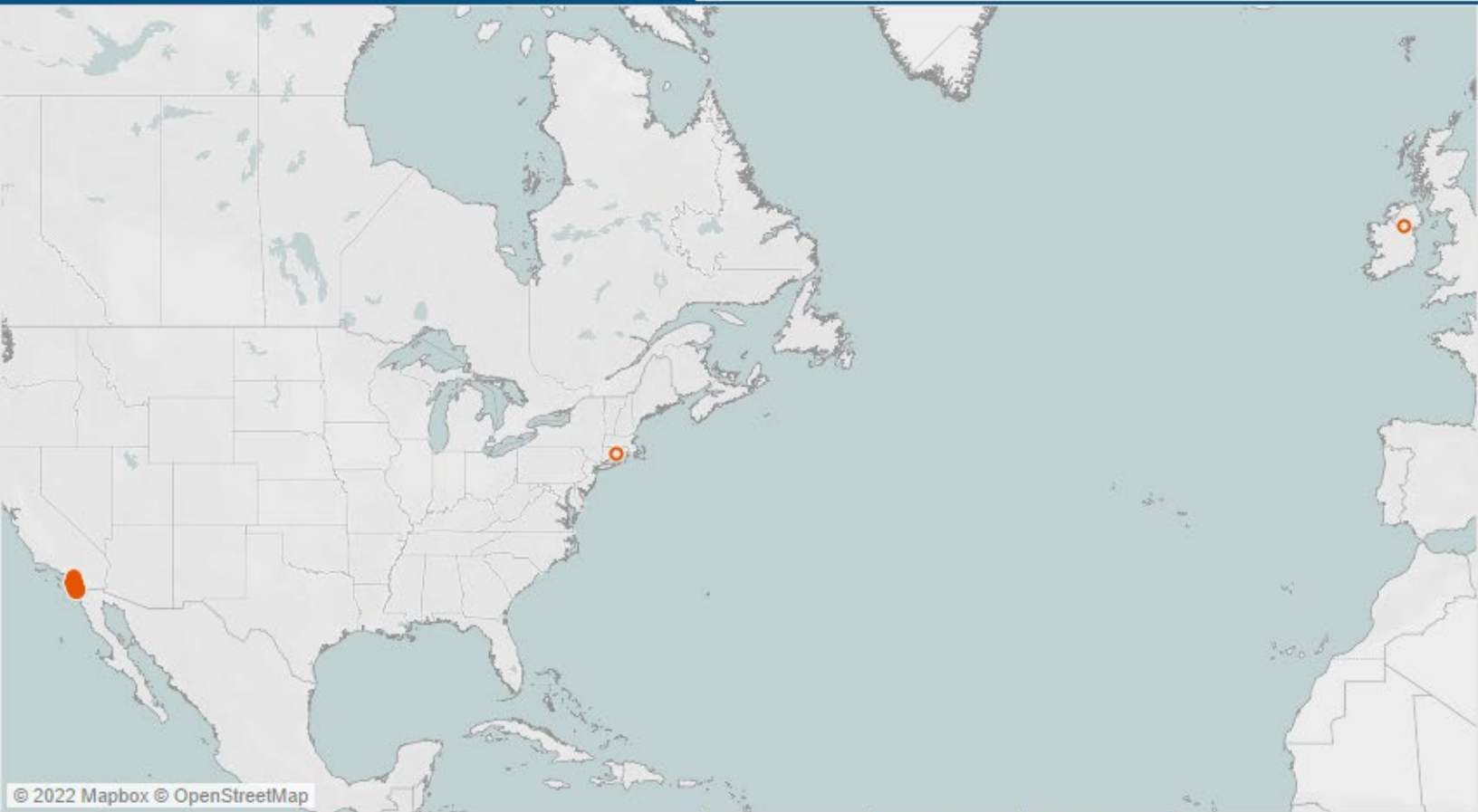
Q1 2022 Asking Rent:

\$2,310



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Carlsbad/Encinitas/Del Mar	1	250	0.41M
Chula Vista/Imperial Beach	13	1,483	1.64M
Downtown San Diego/Coronado	8	2,099	2.42M
El Cajon/Santee/Lakeside	1	145	0.18M
Far North San Diego	6	1,119	1.18M
La Jolla/University City	2	198	0.20M
Mid-City/National City	15	1,019	1.18M
n/a	2	457	0.55M
Northeast San Diego	8	2,164	2.45M
Northwest San Diego	8	1,490	1.78M
Oceanside	8	516	0.51M
Temecula/Murrieta	3	334	0.32M
Vista/San Marcos	3	248	0.26M
Grand Total	78	11,522	13.11M

Multifamily: ESR Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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