

Multifamily Metro Outlook:

San Diego - Q2 2023

Overview:

- San Diego's economy is still moving at a healthy clip, but has started to slow. Though annual employment growth managed to eke out a gain of 0.2% in second quarter ending 2023, payroll employment is down from the beginning of the year. In turn, the unemployment rate increased 29 bps over last quarter's levels to 3.97%, higher than the national average for the second consecutive quarter.
- Manufacturing and construction have been hamstrung by high borrowing costs and the tech sector is dealing with its own doldrums spurred by inflation. Thus, payroll wages fell by more than -4.1% from last year's levels, the first decline since 2021. However, even with weaker than average payroll growth, the strength of industry continues to bolster median household incomes in the metro – already well above the national average – which advanced more than 5.0% over last year's levels to just over \$100,000.
- With the median home price in the metro more than triple the price of housing across the rest of the nation, it should hardly come as a surprise that demand for apartments in the metro remains as strong as ever. Even with a decline in home prices over the past year, the estimated P&I is more than 2.5 times the price of asking rents in the metro.

Market Strengths:

- In contrast to many other parts of the country, employment in leisure/hospitality has fully recovered in San Diego, as evidenced by a 72% spike in visitation from 2021's levels. Although visits are still 20% below the pre-pandemic trend, hotel occupancy rates have surged to among the highest in the nation.
- Defense contracts historically provide stability to the San Diego economy and in the near term, the Department of Defense's focus on the Asia-Pacific region will bring a healthy boost to the economy.

Market Weaknesses:

- The outlook for the tech sector has deteriorated as weaker global growth and high borrowing costs pressure corporate margins and hiring. San Diego may not be as tech-dominant as the Bay Area, but it still ranks among the top 20 metro areas in the country for tech-related jobs.

Development:

- For the past two years, San Diego has been delivering new supply at a record clip, and this quarter was no different. More than 2,200 units were added to the inventory, the largest amount seen in any one quarter since at least 2006. Even with the surge in deliveries, the construction pipeline remains at one of the highest levels seen, with close to 11,700 units underway – double the amount of supply underway just three years ago. What's more is that multifamily development faces little competition from the shadow market, which should allow construction to ramp up unabated.
- More than 3,000 single-family units were completed this quarter, a decline of 10.1% from last year's added supply, bringing the total inventory to just 10,800 homes. Though the pace of construction is insufficient to quell demand, with friction continuing to mount between residents and city planners over zoning requirements, it is highly unlikely that production increases to meet demand any time soon.

Multifamily Outlook:

- Development in San Diego remains well short of the pent-up demand, which should allow tightness in the market to continue unabated, especially considering the dearth of available single-family inventory in the metro. Vacancies were flat at an average of 3.75%, well below the national average of 5.75%. What's more is that rent growth rebounded, rising 0.75% over last quarter's levels to an average asking price of \$2,490. Still, elevated construction costs make San Diego a less attractive play for investors, cap rates around the rest of the nation are more than two full percentage points higher, though the average unit price spread between the two is negligible.

Economy:

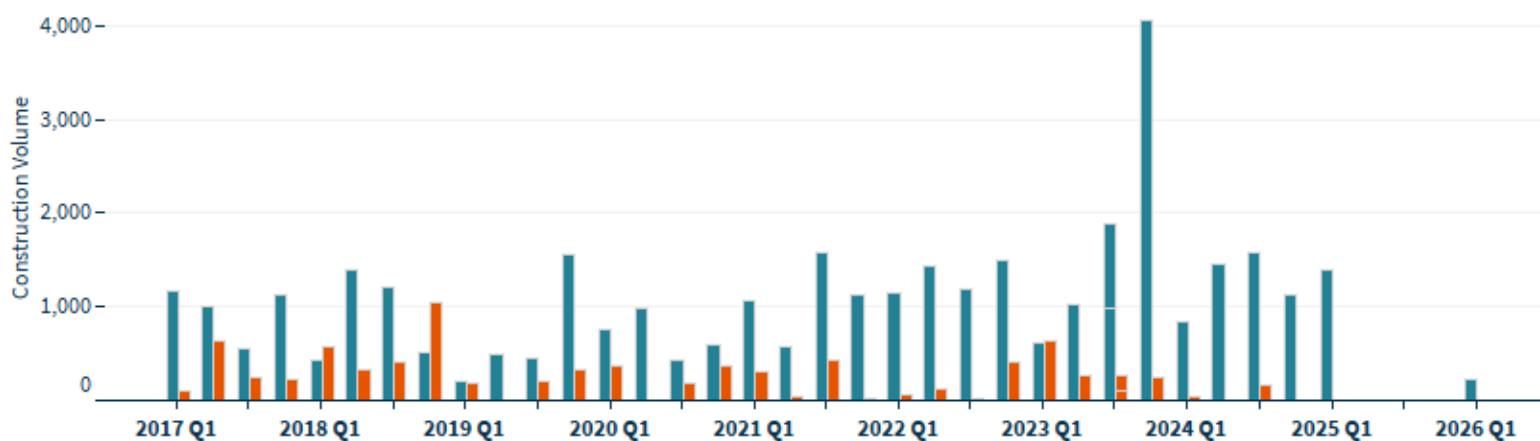
- The outlook in San Diego remains little changed, growth is expected to match the national average, led by consumer services. High tech will remain a mainstay of the economy, and the defense industry will continue to insulate the metro against runaway inflation. In the long run, San Diego's elevated costs will discourage in-migration, but progress in the skilled service sectors will enable the city to remain in sync with California's growth trajectory.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

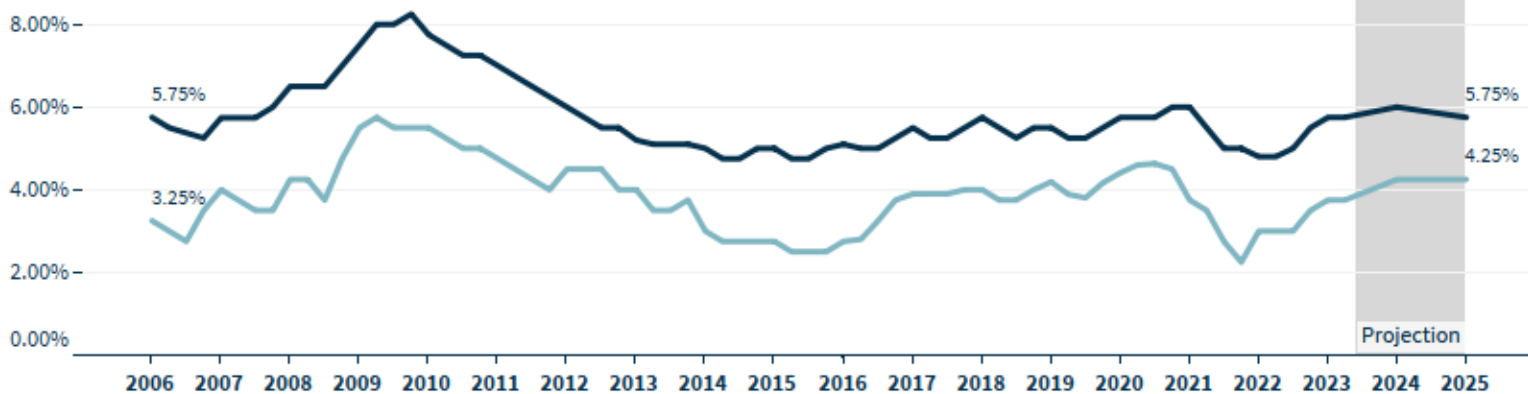
Multifamily Vacancy & Rent Estimates

Vacancy Rates

San Diego | National

Q2 2023 Vacancy Rate:

3.75%



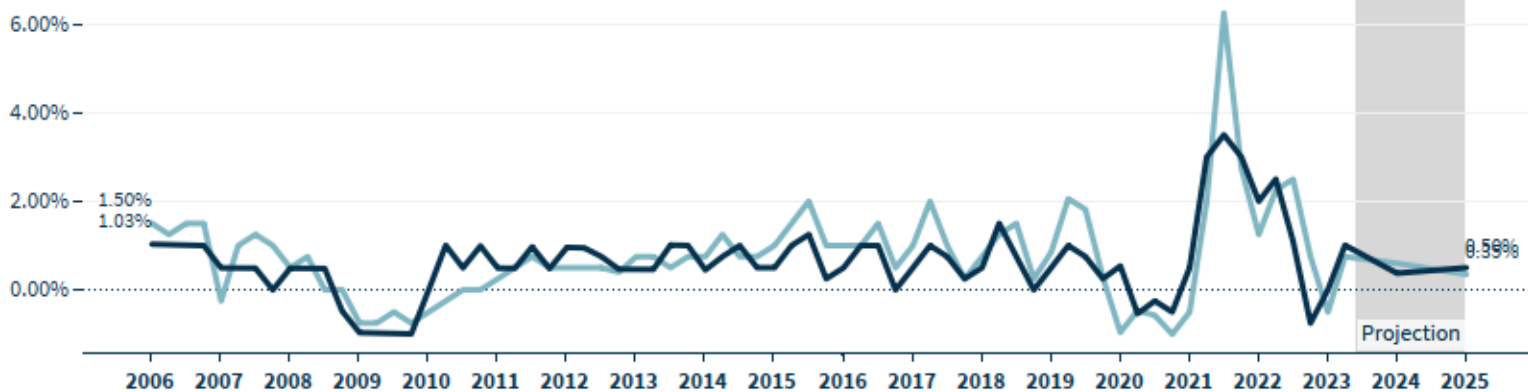
Projection

Asking Rent Growth

San Diego | National

Q2 2023 Asking Rent:

\$2,490

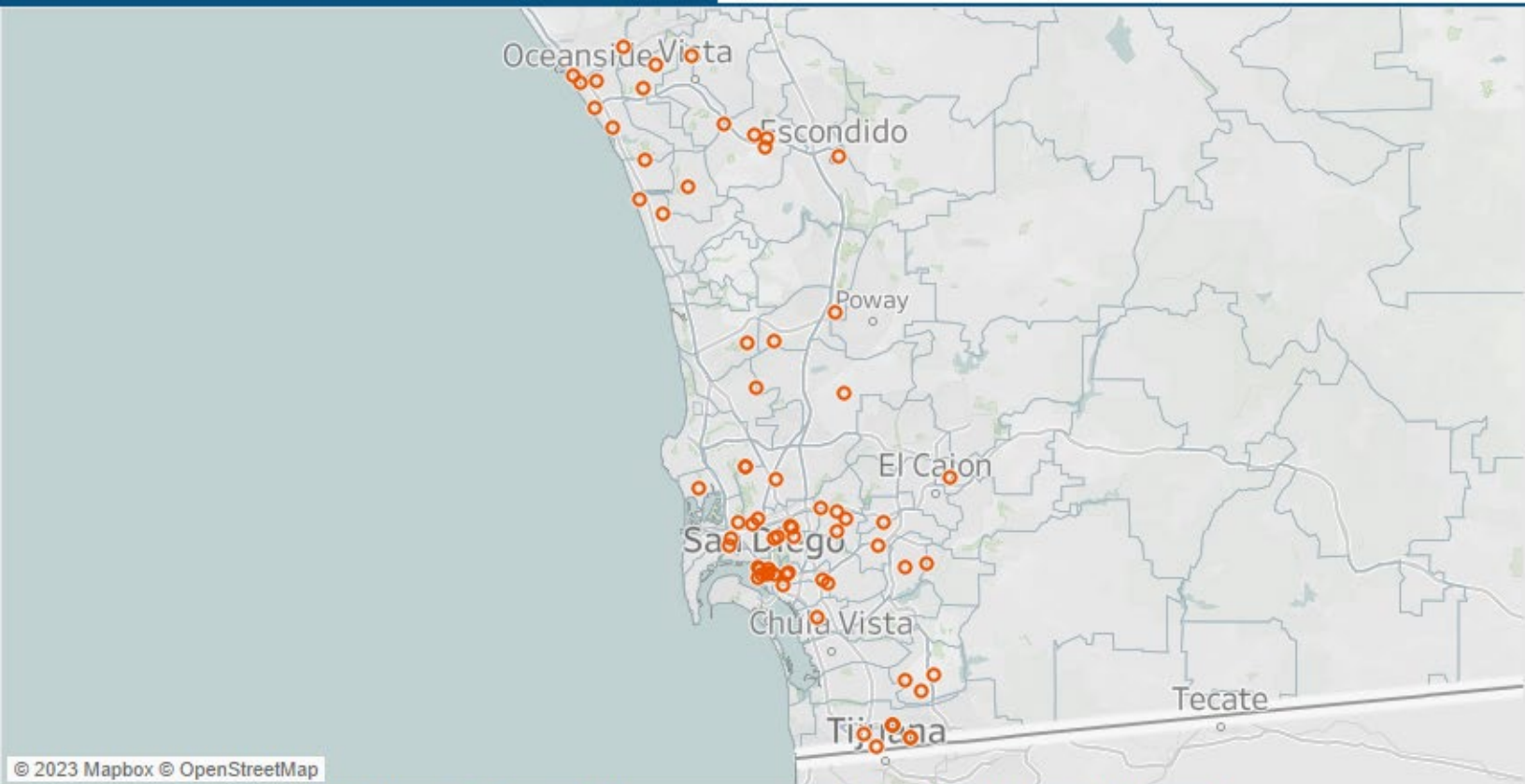


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Carlsbad/Encinitas/Del Mar	6	545
Chula Vista/Imperial Beach	10	1,248
Downtown San Diego/Coronado	8	2,490
El Cajon/Santee/Lakeside	1	19
Escondido	1	510
Far North San Diego	3	399
La Jolla/University City	1	180
La Mesa/Spring Valley	4	247
Mid-City/National City	12	1,007
Northeast San Diego	4	1,934
Northwest San Diego	8	1,545
Oceanside	7	852
Vista/San Marcos	5	691
Grand Total	70	11,667

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you'd like covered in future editions.

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Sources Used

- Axiometrics
- U.S. Bureau of Labor Statistics
- CBRE-Econometric Advisors
- CoStar
- Dodge Data and Analytics
- Fannie Mae
- Moody's Analytics
- MSCI Real Assets
- RealPage
- Redfin
- REIS
- Yardi
- Zillow

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