Overview:

• San Diego’s economy is out of its recession but job recovery remains underwhelming. Only 5,700 jobs were added according to the latest report released by the Employment Development Department of California for June, equating to an unemployment rate of 6.9%, around double pre-pandemic levels.
• The metro’s apartment market continued its overperformance in the third quarter of the year. Vacancy rates dropped an additional 75 bps over the past quarter to 2.75%, a level not seen since the first quarter of 2016. However, market tightness remains more a function of undersupply than outsized demand. In a metro that has historically dealt with a dearth of multifamily supply, the absence of apartment deliveries for the quarter hardly comes a surprise.
• Even with demand peaking higher, economic forces are still working as intended. As a result, asking rents increased 6.25% quarter-over-quarter to an average of $2,180. Even with rent growth failing to exceed the national average in three of the past four quarters, rents in the metro still exceed last year’s levels by more than 14.5%. Annual rent growth was greatest among Class A & B properties, where rents increased by 6.4% and 6.3%, respectively.

Market Strengths:

• 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. Northrup Grumman, for example, was awarded a 10-year contract worth up to $4.8 billion.
• High-tech employment is up by more than 5% compared with before the crisis, which is much better than the national average. Further, tech companies are signaling a growing appetite for skilled labor, with firms such as Apple and Google announcing plans for expansion in the metro.

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:

• Slightly under 1,100 units were added to the pipeline this quarter, bringing the total units underway to a total of roughly 11,000 units. Be that as it may, demand in San Diego warrants annual delivery of at least 15,000 new housing units – development on par with rapidly expanding, or major metros – for the next decade.
• What few multifamily units that were delivered to the metro came in the form of condos, although there were only a total of 430 units that were completed during the quarter. However, the outlook on future deliveries looks bleak considering there are less than 100 units condo units underway.

Outlook:

• Multifamily Outlook: Improving. San Diego’s dearth of development in the multifamily market has resulted in extreme tightness. Even though this demand is somewhat artificial, the apartment market should continue to flourish amid prospective homebuyers that remain priced out of the single-family market. However, should the benefit provided from historically low interest rates deteriorate, demand could potentially surge and shock market prices.
• Economic Environment: More Stable. San Diego’s educated workforce and strategic ocean location should allow the economy to outperform the rest of the state even though it will most likely lag the rest of the nation. The metro, like the rest of California comes at a high price, which is a deterrent to future population growth, but continued gains in high-skill industries should provide the engine necessary for growth to keep pace with the rest of the nation long-term.
SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Vacancy Rates

San Diego | National

Q3 2021 Vacancy Rate: 2.75%

Asking Rent Growth

San Diego | National

Q3 2021 Asking Rent: $2,180

Source: Multifamily Economics and Research
## Construction: Bidding & Underway

<table>
<thead>
<tr>
<th>Sub-Market</th>
<th>Projects</th>
<th>Units</th>
<th>Sq. Ft. (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad/Encinitas/Del Mar</td>
<td>5</td>
<td>151</td>
<td>0.34M</td>
</tr>
<tr>
<td>Chula Vista/Imperial Beach</td>
<td>5</td>
<td>777</td>
<td>0.89M</td>
</tr>
<tr>
<td>Downtown San Diego/Coronado</td>
<td>12</td>
<td>3,122</td>
<td>3.51M</td>
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<tr>
<td>Far North San Diego</td>
<td>4</td>
<td>956</td>
<td>1.10M</td>
</tr>
<tr>
<td>La Mesa/Spring Valley</td>
<td>1</td>
<td>230</td>
<td>0.30M</td>
</tr>
<tr>
<td>Mid-City/National City</td>
<td>14</td>
<td>1,200</td>
<td>1.33M</td>
</tr>
<tr>
<td>Northeast San Diego</td>
<td>6</td>
<td>2,186</td>
<td>2.31M</td>
</tr>
<tr>
<td>Northwest San Diego</td>
<td>10</td>
<td>2,062</td>
<td>2.07M</td>
</tr>
<tr>
<td>Oceanside</td>
<td>3</td>
<td>25</td>
<td>0.03M</td>
</tr>
<tr>
<td>Vista/San Marcos</td>
<td>3</td>
<td>202</td>
<td>0.25M</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>63</strong></td>
<td><strong>10,991</strong></td>
<td><strong>12.14M</strong></td>
</tr>
</tbody>
</table>

Source: Multifamily Economics & Research - Q3 2021
Contact: Stephen Gardner
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.

Multifamily Metro Outlook: San Diego Q3 2021

Multifamily Economics and Market Research Team

Stephen Gardner, Economic and Strategic Research - Economics – Senior Associate

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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