

Multifamily Metro Outlook:

San Diego - Q1 2021

Overview:

- After undergoing a second wave of COVID-19 cases in the last quarter of 2020, San Diego's economy is out of its recession; however, lower labor and cost-of-living costs were not enough to quell the pangs felt from an elevated unemployment rate – which, at 6.4%, is around double pre-pandemic levels.
- The metro's apartment market has proven to be much more resilient by contrast, as evidenced by the vacancy rate – which has trended significantly below than the national average – declining another 75 bps to end the first quarter of 2021 at 3.75%. Although much of previous performance stemmed from undersupply, which was only exacerbated by the pause in construction during the pandemic – 1,000 units were completed during the quarter.
- However, the spike in deliveries came at the expense of asking rents, which declined another 0.5% to an average of \$1,950. Rent growth has been pressured by receding employment numbers throughout most of 2020; it would appear Class A properties are feeling the most, considering the average concession increased in the quarter to 5.8%.

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.
- Further, whatever insulation the defense industry fails to provide to the metro can be accounted for by the outsize presence of the technology industry, which grew 1.5% year-over-year to comprise 9.7% of the total employment – significantly higher than the national average of 5.3%.

Market Weaknesses:

- The recovery outlook for employment in leisure & hospitality is dim. Less than half the jobs in the sector have been recouped and even with the approval of cruise operations since November, none of the major lines have restarted service – which will only prolong the recovery.
- The provision of an additional \$300 per week in unemployment benefits have allowed many individuals to change careers altogether, prompting additional employment challenges in the metro as businesses struggle to fill openings.

Development:

- Demand in San Diego warrants annual delivery of at least 15,000 new housing units – development on par with rapidly expanding or major metros such as Nashville, or Boston – for the next decade, yet there are just over 8,200 units underway in the metro.
- Lackluster condo development means that the shadow market will not present much of an alternative threat to apartments in the metro considering there are less than 500 underway.

Outlook:

- Multifamily Outlook: Improving. San Diego's multifamily market is seriously undersupplied, which has the perverse effect of pushing vacancies down even as asking rents struggle. However, considering the housing market is thriving – prompting an upswing in residential construction – the market-tightness that has historically kept prospective homebuyers renting longer will more than likely incentivize greater movement into the single-family market, especially with low mortgage rates fueling larger price gains across the entire country.
- Economic Environment: More Stable. San Diego's recovery will continue to accelerate throughout 2021 as the pandemic continues to abate. San Diego's unique economic characteristics provide considerable reliability and should continue to mask any shortcomings of its struggling tourism industry in the short-term. In the longer-term, high costs may present a deterrent to population growth, but growth in dynamic high-skill industries will allow the metro to remain in lock-step with the rest of the state and nation.

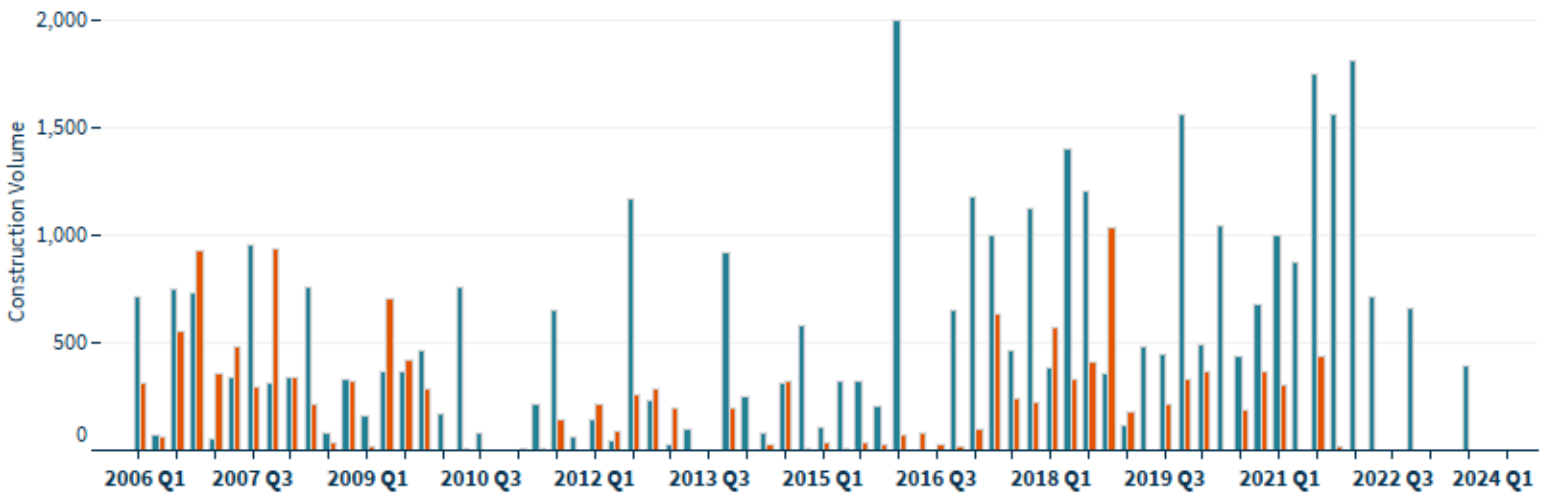
Five Year Metro Area Growth Forecast

Source: Moody's Analytics	2020	2025	San Diego (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	3,360	3,424	0.38%	0.52%
Households (000s)	1,166	1,247	1.37%	1.41%
Renting Cohort (Ages 20-34) (000s)	796	772	-0.61%	-0.26%
Total Employment (000s)	1,410	1,551	1.94%	1.71%
Median Household Income	\$80,894	\$94,147	3.08%	2.83%
Median SF Home Price	\$767,196	\$1,054,623	6.57%	4.30%
Net Migration	1,859	-6,471		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



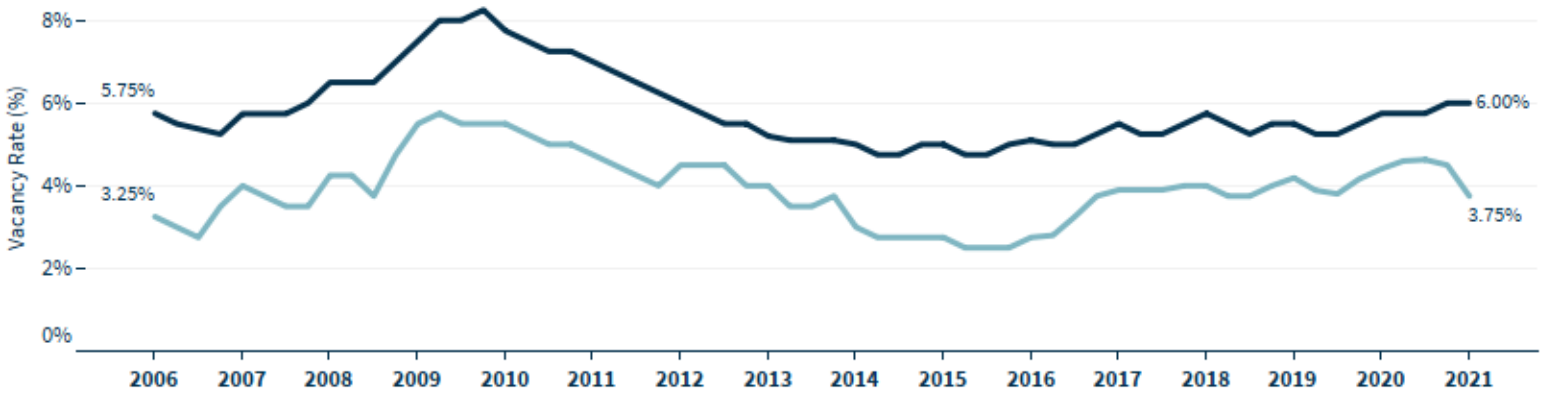
Vacancy & Rent Composite Estimates

Vacancy Rates

San Diego | National

Q1 2021 Vacancy Rate:

3.75%

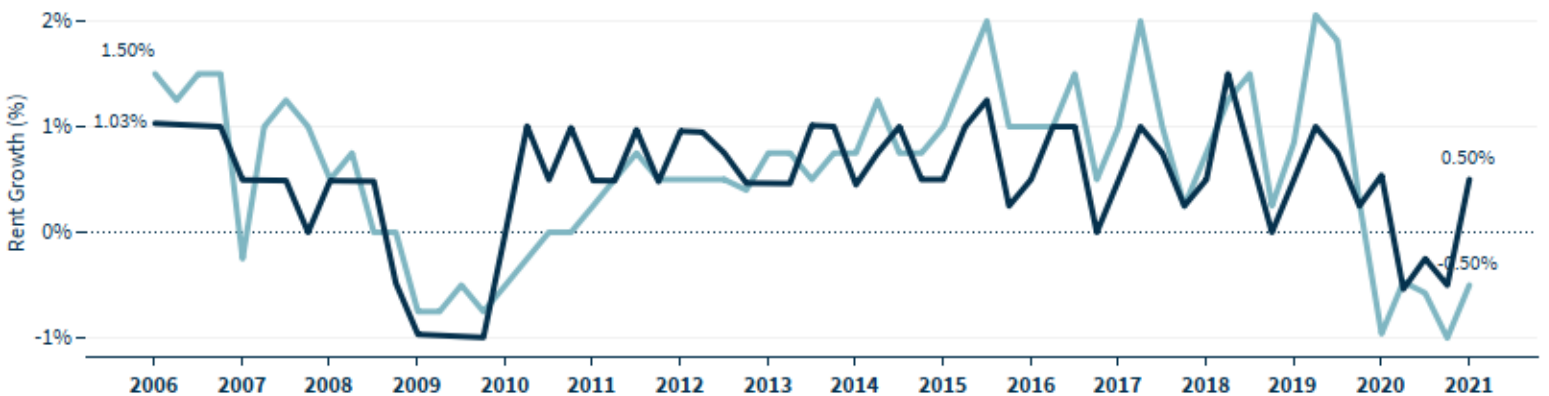


Asking Rent Growth

San Diego | National

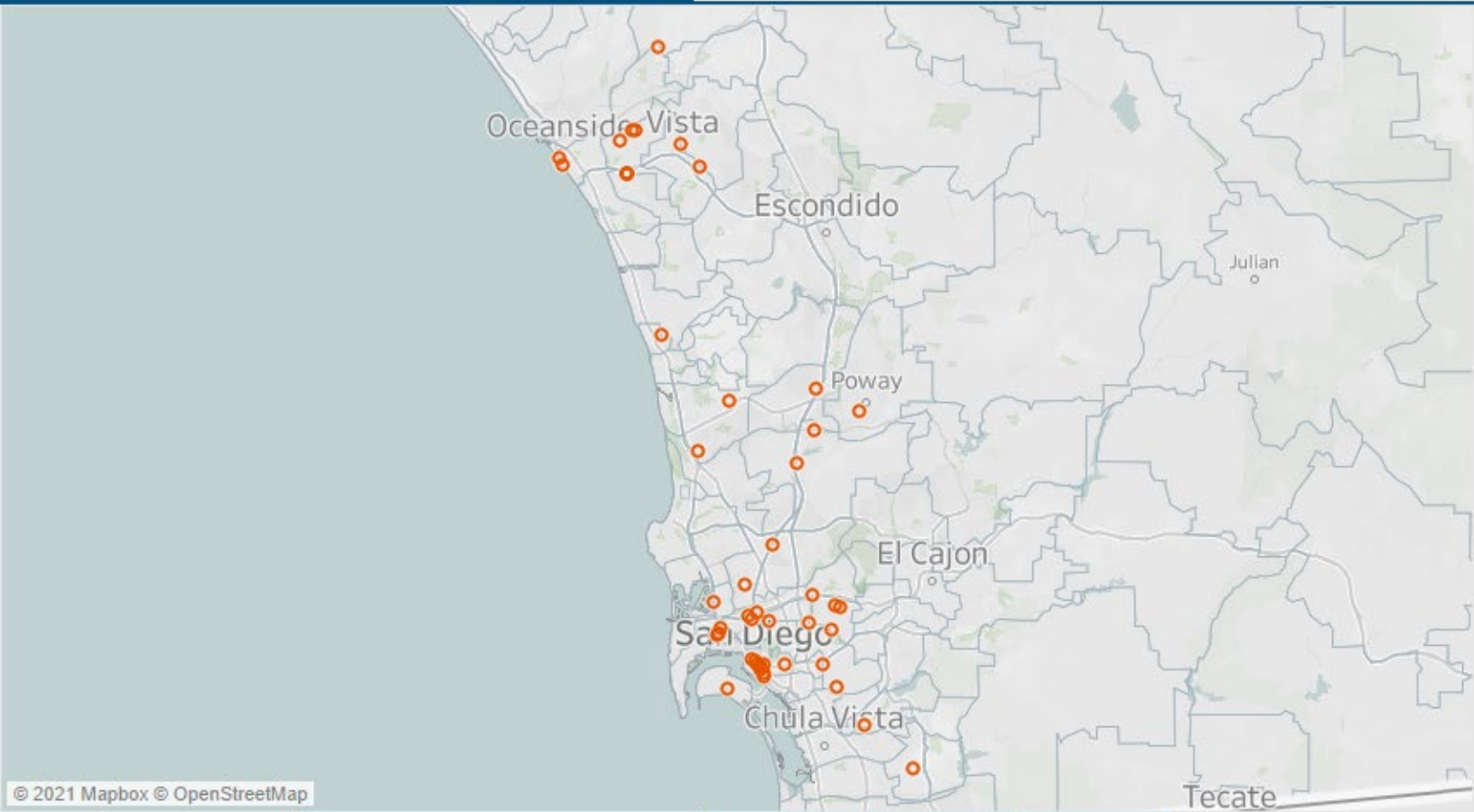
Q1 2021 Asking Rent:

\$1,950



Source: Multifamily Economics and Research

Construction: Bidding & Underway



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<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Carlsbad/Encinitas/Del Mar	8	154	0.31M
Chula Vista/Imperial Beach	2	467	0.45M
Downtown San Diego/Coronado	8	2,894	3.42M
Far North San Diego	4	1,166	2.02M
Mid-City/National City	8	951	0.92M
Northeast San Diego	4	1,085	1.27M
Northwest San Diego	7	2,107	2.22M
Oceanside	6	39	0.05M
Vista/San Marcos	2	102	0.14M
Grand Total	49	8,965	10.80M

Multifamily: ESR Team

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Multifamily Economics and Market Research 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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