

Multifamily Metro Outlook:

San Diego - Q1 2024

Overview:

- San Diego's economy continues to slow down relative to the post-pandemic rebound, yet it remains stable. The metro's current employment base is expected to grow to 85,400 jobs during the next five years. However, even with the economic slowdown, the metro is still expected to continue providing stable demand for housing through the coming few quarters.
- Median Income in the metro, which averaged \$110,000 according to Green Street, are considerably above the national average, allowing the metro to better resist inflationary pressures building around the country.
- New supply continues to be added to the market, with an additional 4,698 units delivered in the last 12 months. In addition, there are 8,300 units under construction with 3,900 of those units scheduled to be completed this year.
- San Diego's demand has been volatile with net absorption being a slim 235 this quarter according to CoStar. In first quarter 2024 the market recorded demand slightly higher than the previous quarter but fell short of the typical first quarters of the past decades. Thus, vacancy rates increased to 5.5% in first quarter 2024.

Market Strengths:

- San Diego has strong demographics with the metro's 20- to 34-year-old cohort, a critical component of the apartment market, making up 23.5% of the total population. This is notably larger than the national norm of 20.4%. In addition, 41.0% of San Diego's working age population holds a bachelor's degree or higher compared to 34.3% nationally.
- In December, the county of San Diego broke ground on a 100-unit affordable housing development. This development plans for the community to include 15 fully furnished units set aside for those at risk of homelessness. The county invested \$10.5 million from the county's innovative Housing Trust fund and is expected to be completed in 2025.
- San Diego has a highly stable base of jobs in the defense industry - The metro area is home to Marine Corps Base Camp Pendleton and three Navy bases. The Navy bases in the metro are among the most strategically important in the Pacific.

Market Weaknesses:

- Higher interest rates will slow the pace of high-tech expansion in the near term. Low interest rates in the wake of the pandemic stimulated the San Diego economy, leading to record-high venture capital funding and rapid industry hiring. But rate hikes will cause industry gains to slow over the next year as firms cut back on investment and curtail hiring plans. High-tech employers will remain an important source of job growth, especially in the less cyclical life-sciences sector, but the pace has continued to slow.

Development:

- San Diego will continue to deliver apartments for quite some time. With an increase of more than 2,000 permits added in 2024 compared to 2023. However, Moody's expects there will be a decline in number of multifamily permits in 2024-2025.

Outlook:

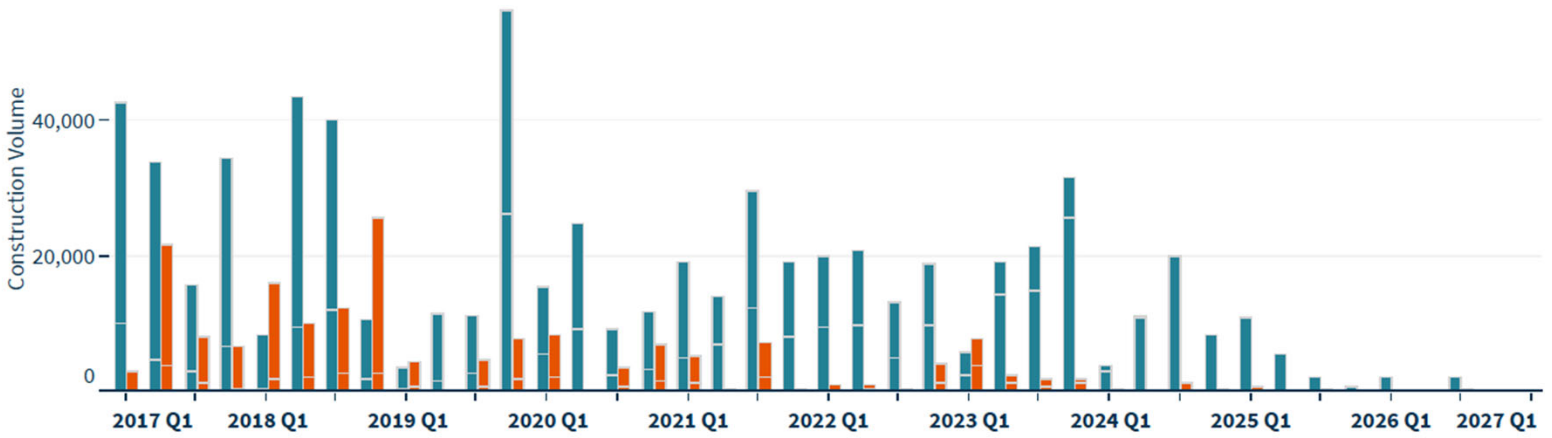
- San Diego faces near term headwinds from supply. More than 10,100 units were under construction at the end of 2023 with roughly 2/3 of those units expected to be delivered in 2024. This will be the largest level of supply San Diego has seen in more than 30 years which could potentially cool Class A performance. However, San Diego appears to be heading in a positive and is expected to eventually outperform the bulk of major U.S. markets through high tech investments, long-term robust demographics, and the military.
- San Diego's economy will likely slow this year. Concentration in the tech sector will weigh on the metro's economic growth in the near term but the recent AI frenzy might ignite some hope for chip makers and even broader tech industry. Overall, it is predicted that better days are ahead with high tech investments and long-term robust demographics continuing to drive the economy in a positive direction.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

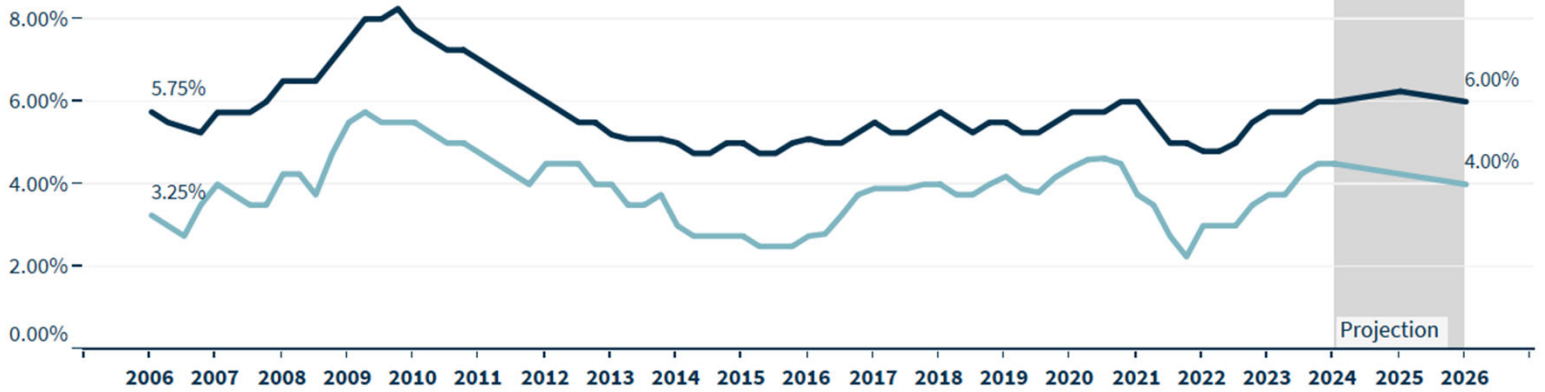
Multifamily Vacancy & Rent Estimates

Vacancy Rates

San Diego | National

Q1 2024 Vacancy Rate:

4.50%

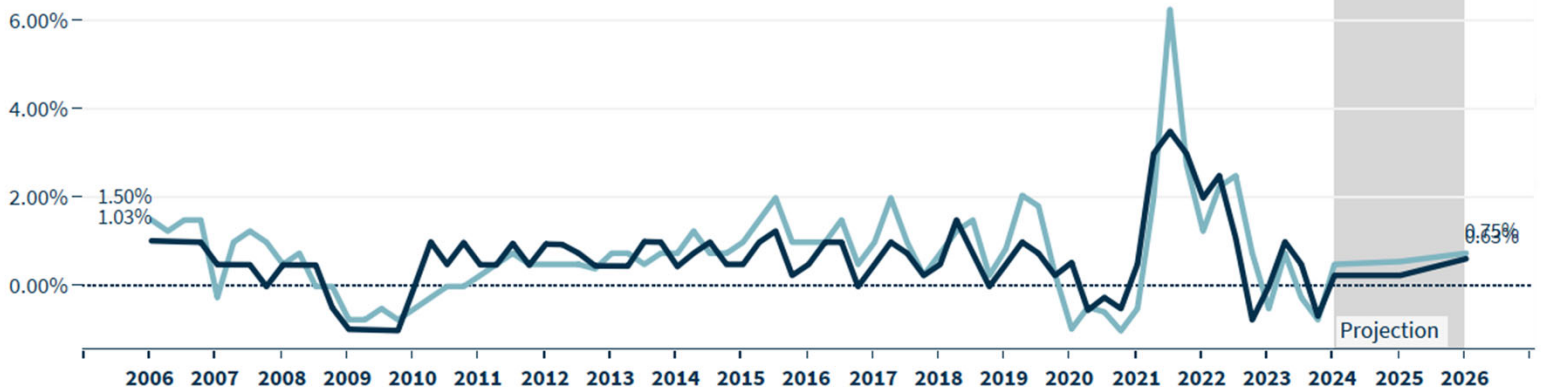


Asking Rent Growth

San Diego | National

Q1 2024 Asking Rent:

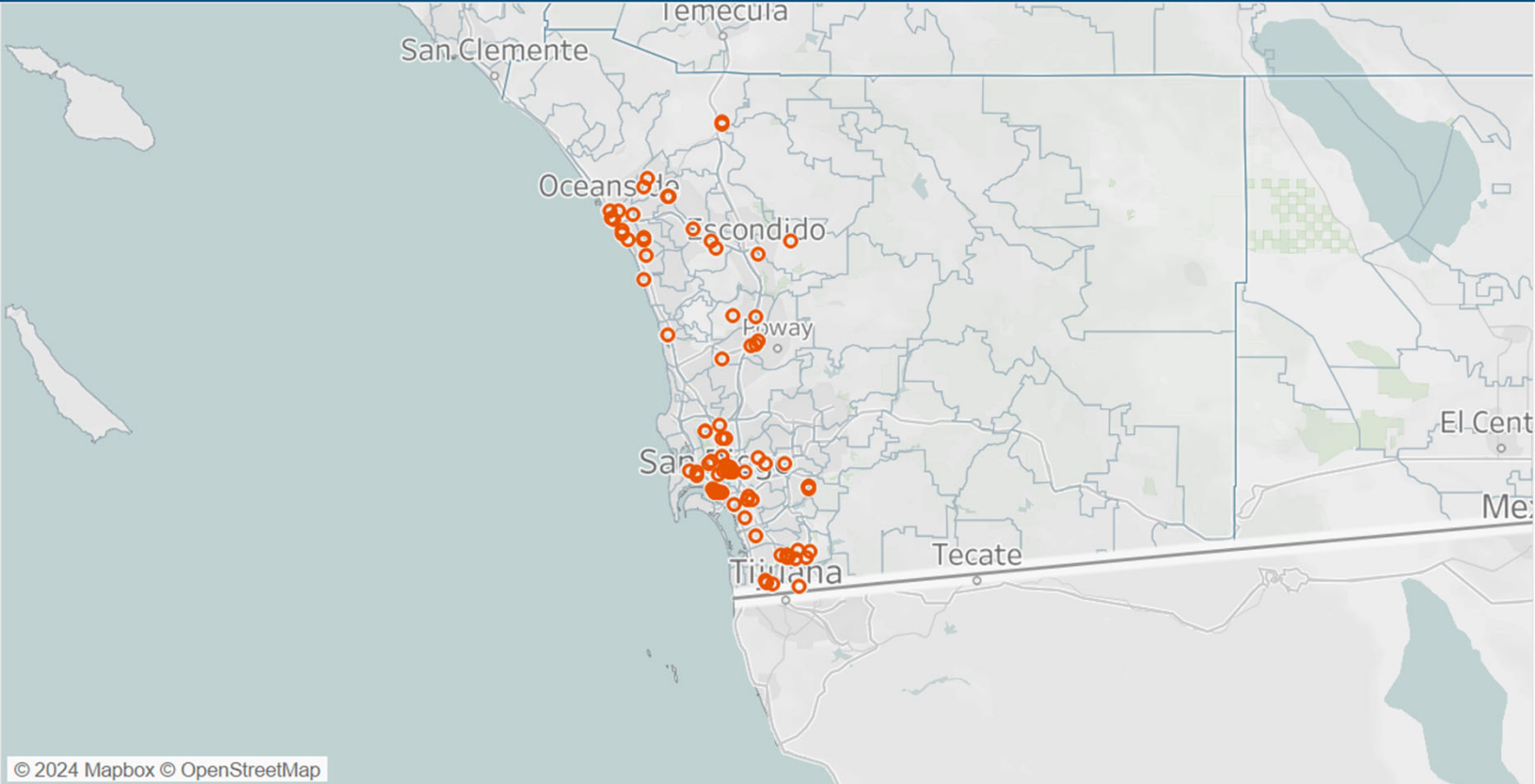
\$2,480



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



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<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Carlsbad/Encinitas/Del Mar	9	654
Chula Vista/Imperial Beach	14	2,051
Downtown San Diego/Coronado	9	2,437
Escondido	2	540
Far North San Diego	6	1,010
La Mesa/Spring Valley	6	194
Mid-City/National City	14	1,256
NA	2	454
Northeast San Diego	5	2,185
Northwest San Diego	8	2,175
Oceanside	12	360
Vista/San Marcos	3	644
Grand Total	90	13,960

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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