

# Multifamily Metro Outlook:

## San Diego - Q4 2023

### 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 now sits roughly at 76,500 jobs or about 5% above the pre pandemic level. However, even with the economic slowdown, the metro is still expected to continue providing stable demand for housing through the coming few quarters.
- Income in the metro, which averaged \$97,000 as of fourth quarter ending 2023, 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 3,433 units delivered in 2023 and an annual inventory growth of approximately 1.1%. In addition, there were 10,132 units under construction with the 6,237 of those units scheduled to be completed in the next four quarters.
- San Diego's demand has been volatile with net absorption swinging from 4,497 units all the way to 10,859 units in the last five years. In 2023 the market recorded demand for 90 units trailing concurrent supply volumes. Thus, vacancy rates increased to 4.5% in 2023.

### 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 counties 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 slowed drastically at the end of 2023.

### Development:

- San Diego will continue to deliver apartments for quite some time. With an increase of more than 2,000 permits added in 2023 compared to 2022. However, Moody's expects there will be a decline in number of multifamily permits in 2024-2025.

### Outlook:

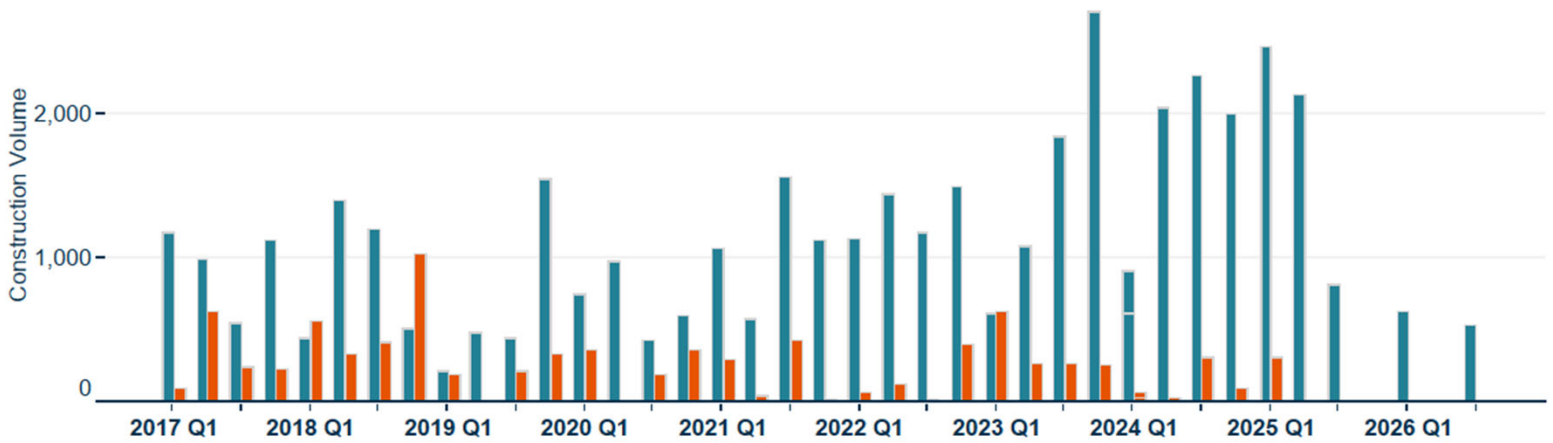
- San Diego faces near term headwinds from supply. More than 10,100 units were under construction at the end of 2023 with roughly 2/3 of those units expected to be delivered in 2024. This will be the largest level of supply San Diego has seen in more than 30 years which could potentially cool Class A 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 slow this year. Concentration in 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

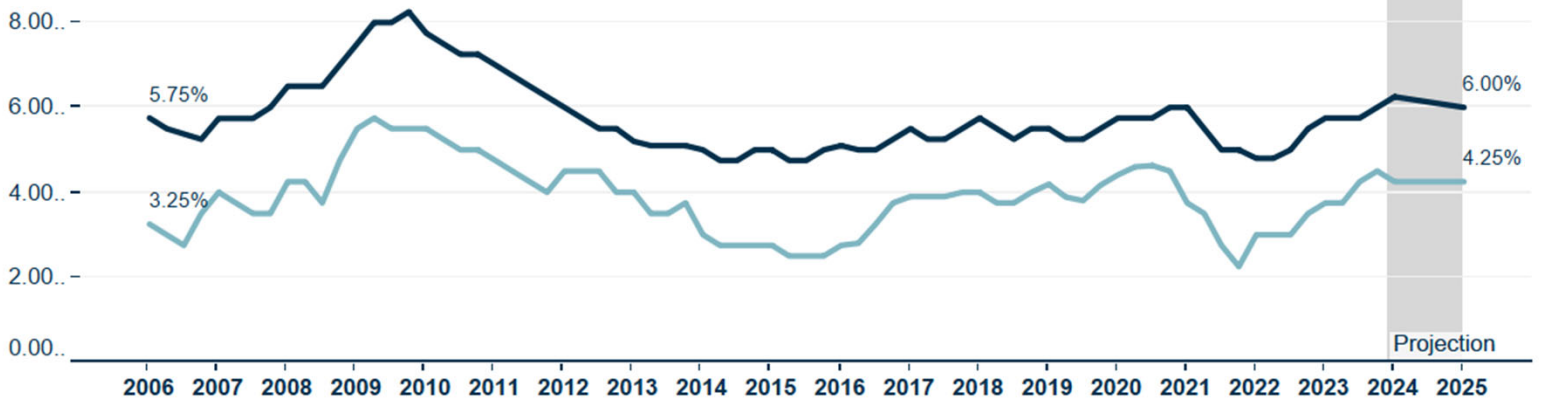
## Multifamily Vacancy & Rent Estimates

### Vacancy Rates

San Diego | National

Q4 2023 Vacancy Rate:

4.50%

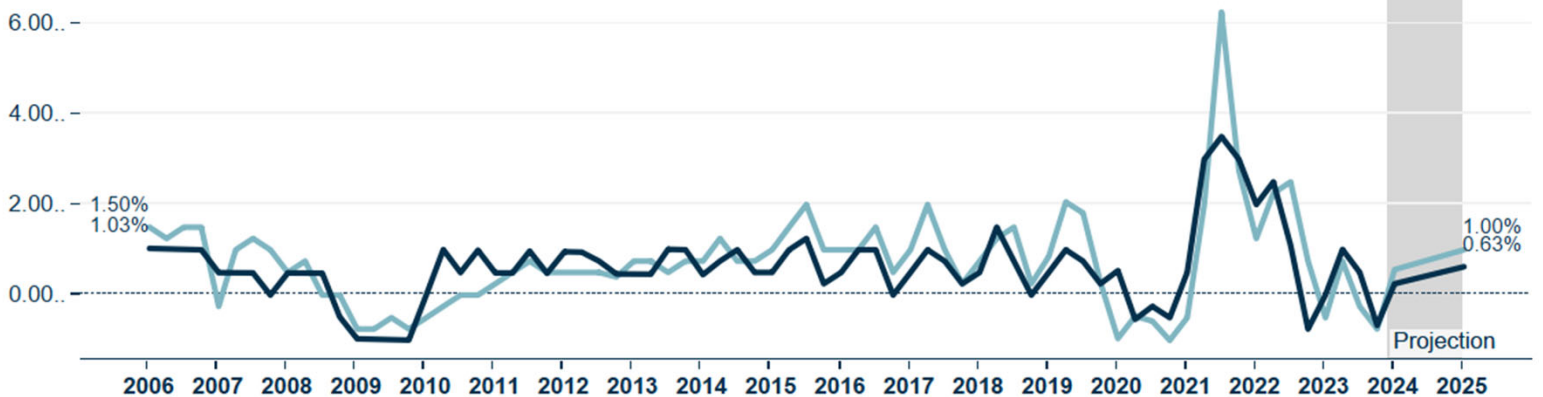


### Asking Rent Growth

San Diego | National

Q4 2023 Asking Rent:

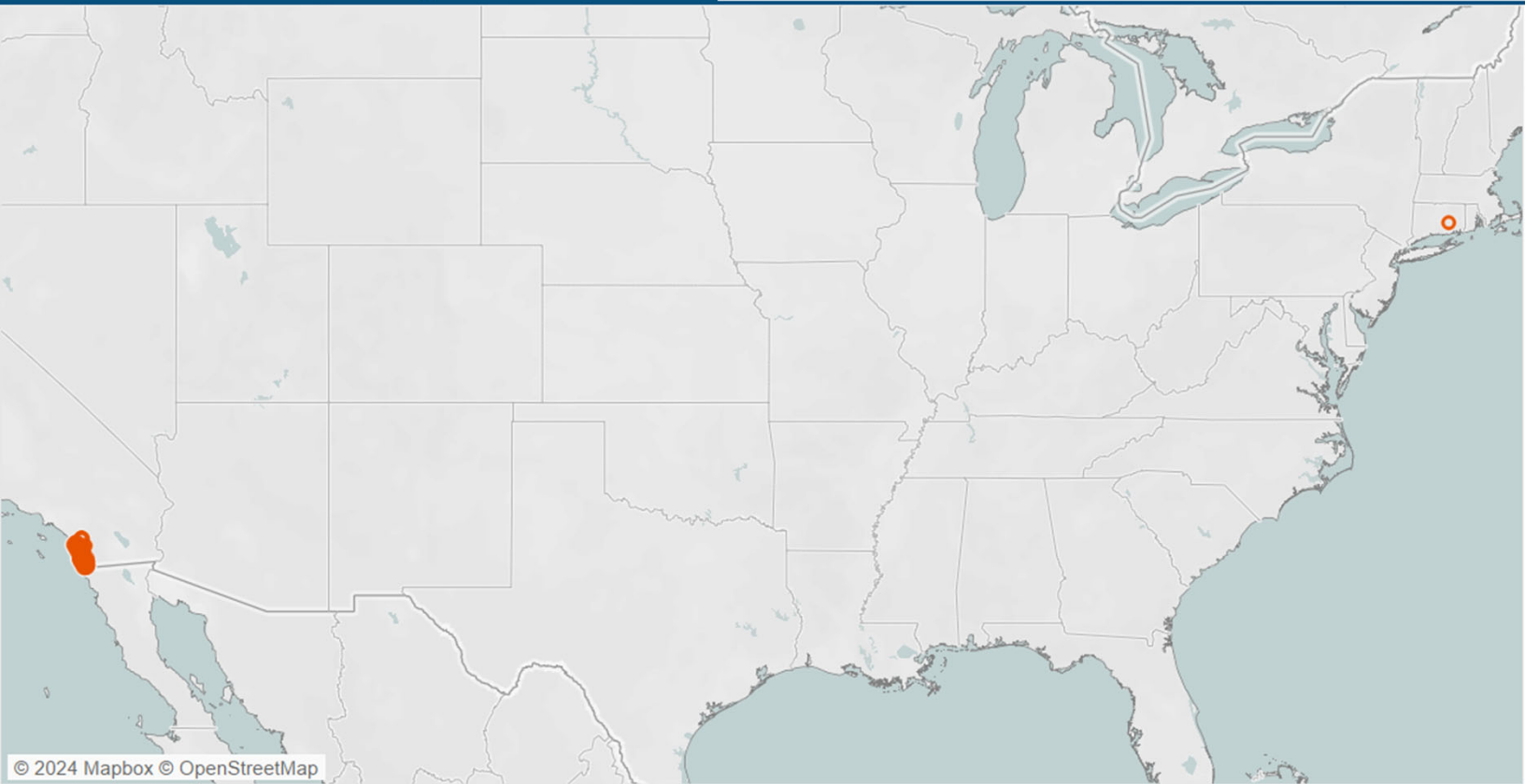
\$2,470



Source: Fannie Mae Multifamily Economics and Research



## Multifamily Construction: Bidding & Underway



<b>MultiHousingSubmarketName</b>	<b>Apartments</b>	<b>Units</b>
Carlsbad/Encinitas/Del Mar	7	817
Chula Vista/Imperial Beach	20	1,845
Downtown San Diego/Coronado	8	2,164
El Cajon/Santee/Lakeside	1	19
Escondido	2	540
Far North San Diego	6	1,010
La Mesa/Spring Valley	7	203
Mid-City/National City	13	1,342
NA	1	454
Northeast San Diego	5	2,185
Northwest San Diego	6	2,033
Oceanside	11	354
Vista/San Marcos	2	559
<b>Grand Total</b>	<b>89</b>	<b>13,525</b>

Source: Dodge Data & Analytics SupplyTrack Pipeline



## Multifamily: ESR Team

# Multifamily Metro Outlook: San Diego Q4 2023

## Multifamily Economics and Market Research Team

Caitlin Peirce, Economic and Strategic Research

### 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

*Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Economic and Strategic Research (ESR) Group included in these materials should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the ESR Group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, and other views published by the ESR Group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.*