

Multifamily Metro Outlook:

San Diego - Q2 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 by 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 household income in the metro, which averaged around \$106,000 according to Moody's, is considerably above the national average of \$80,900, allowing consumer spending to remain strong.
- New supply continues to be added to the market, with an additional 5,800 units delivered in 2023. This year, another 1,800 units have been completed, with another 3,600 units expected to be delivered by year-end.
- San Diego's demand has bounced back in a big way this quarter, with nearly 1,500 units of net absorption, per CBRE Econometric Advisors. In the prior quarter, net absorption was estimated to be -550 units. Thus, vacancy rates have decreased to 4.8% in the second quarter of 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 22.6% of the total population. This is notably larger than the national share of 20.3%. In addition, RealPage found that in 2022, 41.0% of San Diego's working-age population has a bachelor's degree or higher, compared with 34.3% nationally.
- In December, the County of San Diego broke ground on a 100-unit affordable housing development. The development plans for this community 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 the project 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, which, combined, total more than 111,000 active-duty military personnel. The Navy bases in the metro are among the most strategically important in the Pacific, ensuring continued military presence, consumer spending, and housing demand.

Market Weaknesses:

- The metro is highly exposed to the tech sector, accounting for 9.3% of total employment, compared with the national average of 5.5%, according to Moody's.
- Higher interest rates have slowed high-tech expansion and led to sustained layoffs in both the technology and biopharma industries. 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 have caused industry gains to slow over the past few quarters, as firms cut back on investment and curtail hiring plans. High-tech employers will remain an important source of job growth in the long term, however, especially in the less cyclical life sciences sector.

Development:

- Construction in San Diego as of Q2 2024 is robust, with just over 11,600 units underway. Development is concentrated in the Northwest San Diego and Downtown San Diego/Coronado submarkets, with 2,400 and 2,000 units underway, respectively.

Outlook:

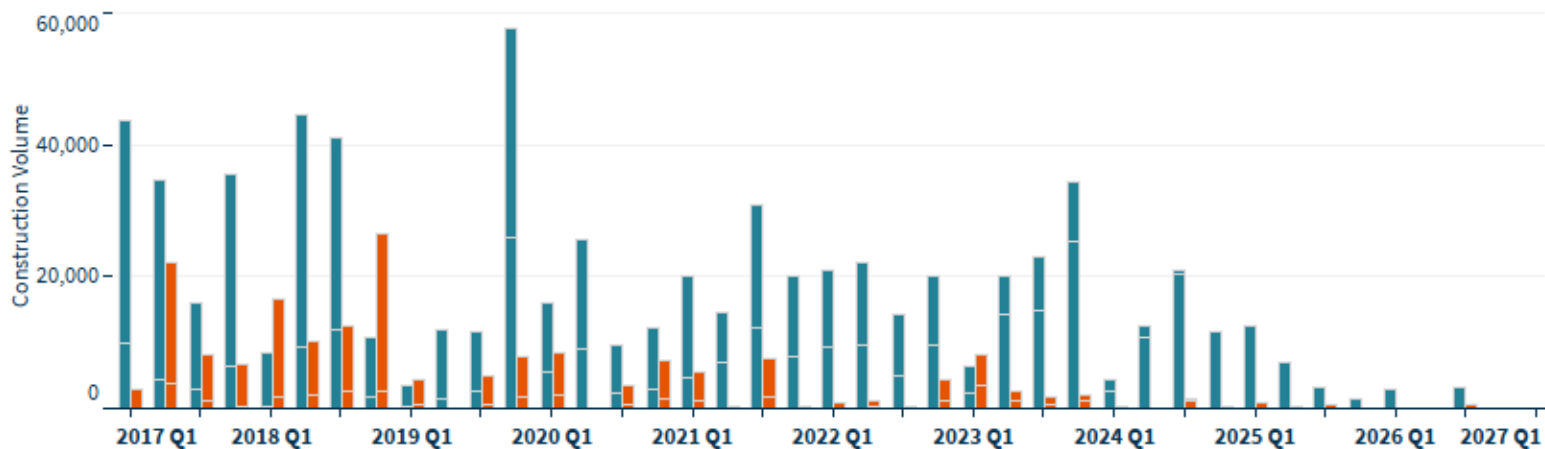
- The metro was previously thought to be facing near-term headwinds as a result of high supply underway than in previous decades. But, based on unit demand seen this quarter and expected continuation of that demand, the metro's multifamily metrics are expected will strengthen. Rent growth is around 1.0% this quarter, and with interest rates expected to drop, albeit slowly, the technology sector should be able to regain its footing. With this will come further apartment demand, as more skilled workers find gainful employment and currently-employed metro residents see wage growth associated with sector rebounds.
- San Diego's economy will likely remain slow this year as a result of relatively high interest rates, which spike the cost of external financing for tech and biopharma firms. But there is reason for the metro to be optimistic. High levels of foreign immigration have bolstered job growth and offset domestic departures. In addition, the area should stand to gain from increased tourism as a result of real wage increases across the U.S., as well as its proximity to the Mexican border. Finally, the metro can likely rely on the local military bases to provide sustained economic output.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

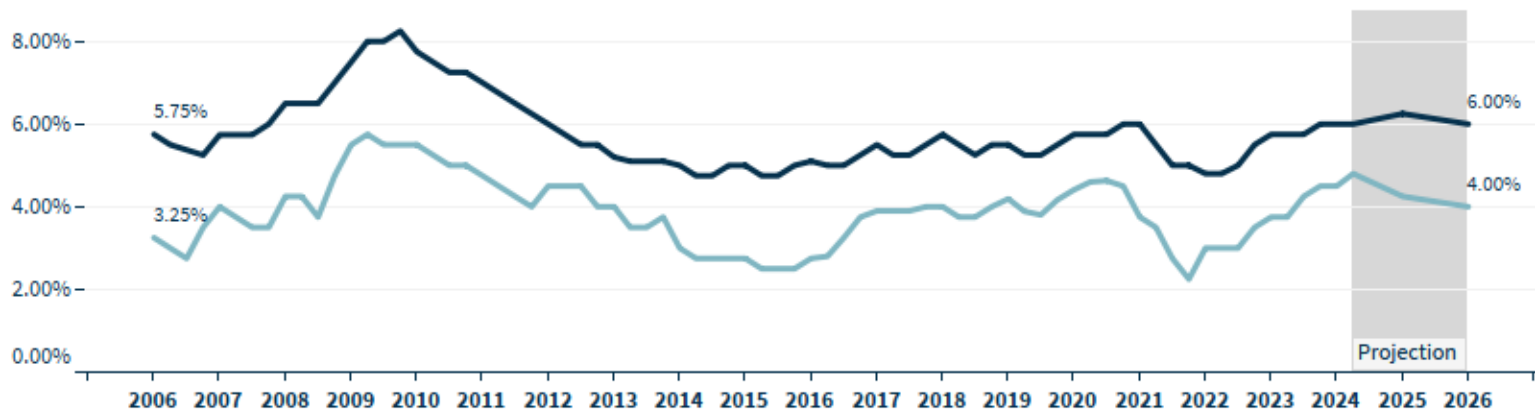
Multifamily Vacancy & Rent Estimates

Vacancy Rates

San Diego | National

Q2 2024 Vacancy Rate:

4.80%

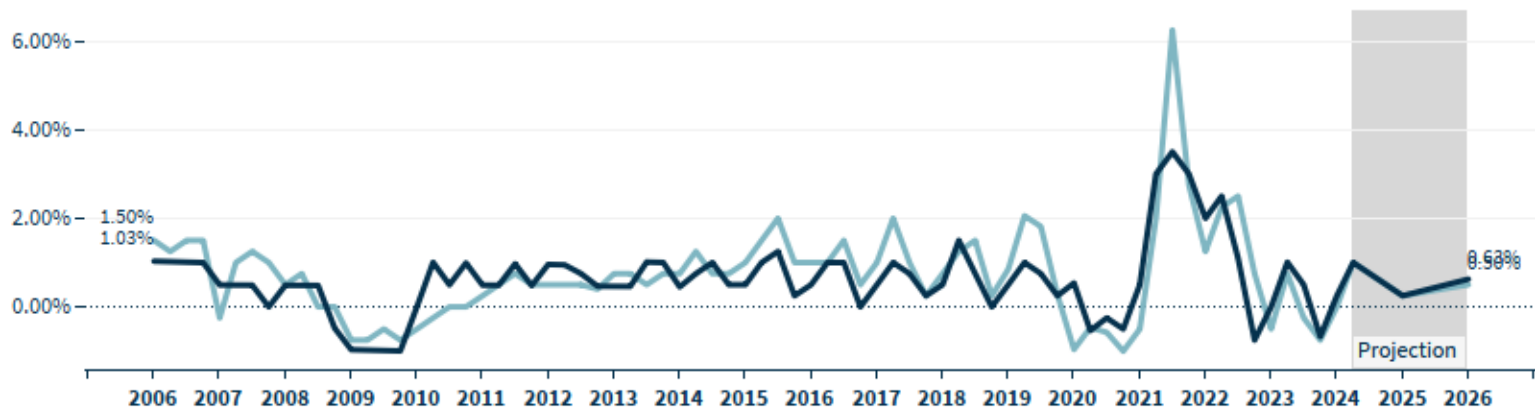


Asking Rent Growth

San Diego | National

Q2 2024 Asking Rent:

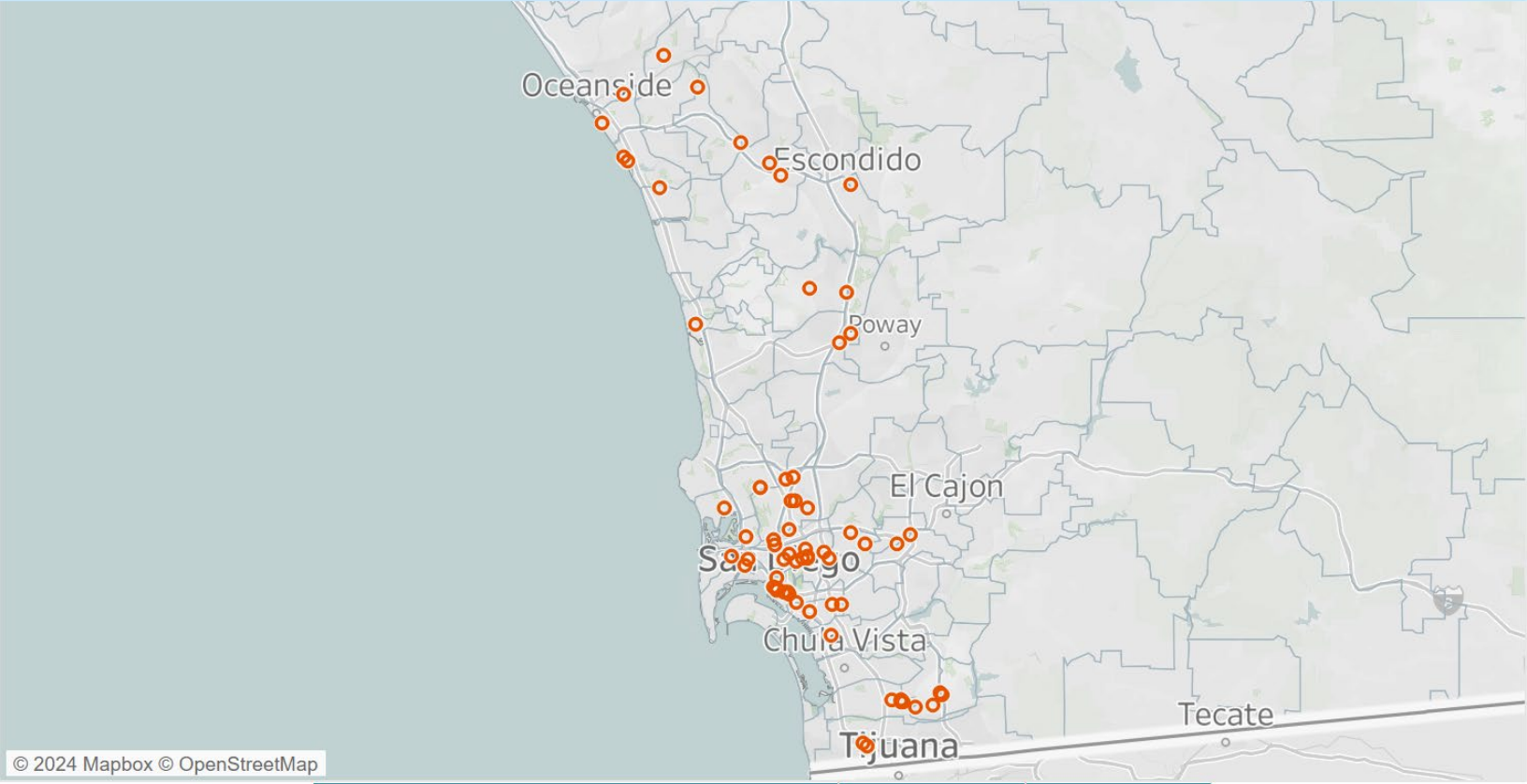
\$2,510



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



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MultiHousingSubmarketName	Apartments	Units
Carlsbad/Encinitas/Del Mar	4	519
Chula Vista/Imperial Beach	11	1,799
Downtown San Diego/Coronado	8	2,006
Escondido	1	510
Far North San Diego	4	621
La Mesa/Spring Valley	2	196
Mid-City/National City	14	1,309
NA	1	
Northeast San Diego	6	1,476
Northwest San Diego	12	2,383
Oceanside	4	169
Vista/San Marcos	3	644
Grand Total	70	11,632

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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