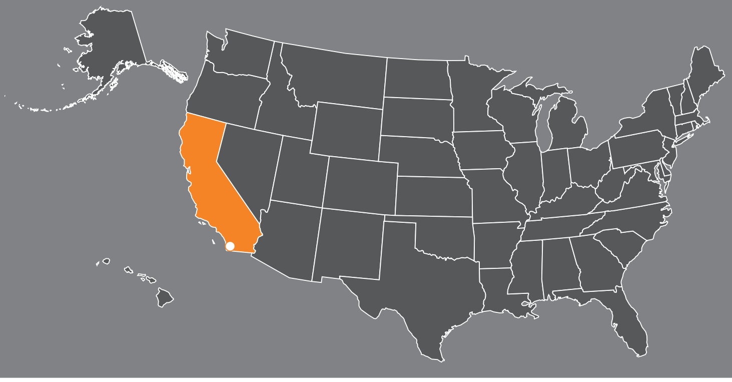
HUD PD&R **Housing Market Profiles**

San Diego, California

Quick Facts About San Diego

- **Current sales market conditions: tight**
- **Current rental market conditions: slightly tight**
- **The San Diego metropolitan area is home to one of the largest military communities in the nation; one out of four U.S. Marines and one out of six sailors in the U.S. Navy are stationed in the area (San Diego Military Advisory Council [SDMAC]). During the COVID-19 pandemic, the military was a stable source of employment in the metropolitan area economy during a period of widespread job losses. Nearly 342,500 metropolitan area jobs were supported either directly or indirectly by the military during 2020, up nearly 8 percent from 2019, and the economic impact of the military on the area rose 6 percent to $52.6 billion (SDMAC Military Economic Impact Report, 2020).**



By Wendy Ip | As of May 1, 2021

Overview

The San Diego metropolitan area is defined as San Diego County, California—the second most populous county in the state, following Los Angeles County, and the fifth most populous in the nation. As a center for the military, the metropolitan area accounts for approximately 48 percent of all military and 32 percent of all civilian defense personnel in California (Manpower Data Center, 2020). The metropolitan area has also traditionally been a popular tourist destination, typically receiving 35 million visitors each year who spend more than $1.1 billion annually (San Diego Tourism Authority; Visit California). Interventions that began in mid-March 2020 to slow the spread of COVID-19—including enforcing social distancing and discouraging nonessential travel—have greatly impacted the tourism industry, contributing to a significant contraction in the metropolitan area economy. Although the economy weakened compared with a year ago, some job recovery has occurred following the intermittent reopening of businesses that began towards the end of the second quarter of 2020. Despite the recent economic contraction, the sales market has tightened from a year ago due to a shortage of for-sale housing, whereas rental market conditions remained slightly tight, similar to a year ago.

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- As of May 1, 2021, the estimated population of the San Diego metropolitan area was nearly 3.34 million, representing an average annual increase of 6,400, or 0.2 percent, since 2016—considerably slower than the average annual increase of 35,800, or 1.2 percent, from 2006 to 2016 (Census Bureau population estimates as of July 1).
- Since 2016, an increasingly high cost of housing contributed to net out-migration from the metropolitan area —averaging 10,400 people a year, compared with an average net in-migration of 9,600 people a year from 2006 to 2016. Net in-migration during the 2006-to-2016 period was partly supported by a decline in home sales prices during the housing crisis and the subsequent improvement in economic conditions following the Great Recession.
- Prior to the housing crisis of the late 2000s, population growth in the metropolitan area was slow, averaging 11,750 people, or 0.4 percent, annually from 2003 through 2006. During that period, several military deployments and lenient lending standards—which enabled households to purchase homes in neighboring Riverside County—contributed to the highest level of net out-migration since 2000, averaging 14,200 people a year.

Economic Conditions

The San Diego metropolitan area economy contracted, following interventions taken in March 2020 to slow the spread of COVID-19. The gradual reopening of businesses, however, contributed to a partial recovery in jobs during the past 11 months. From May 2020 through April 2021, nonfarm payrolls increased by 132,200 jobs, partly offsetting some of the 248,000 jobs lost in March and April of 2020; however, payrolls remain 7.6 percent below levels before the pandemic in February 2020 (non-seasonally adjusted). The metropolitan area is currently in Tier 4 of the California phased reopening plan, allowing all nonessential travel and most indoor businesses to operate while adhering to state-mandated requirements and health safety standards. Before the pandemic, nonfarm payrolls in the metropolitan area expanded rapidly, averaging 2.2 percent annually from 2011 through 2019.

During the 3 months ending April 2021—

- Nonfarm payrolls averaged 1.39 million jobs, declining by 37,100 jobs, or 2.6 percent, compared with the same period a year ago, due to losses in 8 of the 11 payroll sectors. Although the economy contracted, losses were less than during the 3 months ending April 2020, when, year-over-year, a total of 64,800 jobs were lost, or 4.3 percent.
- The leisure and hospitality sector contributed the most to the overall decline in nonfarm payrolls, down by 23,900 jobs, or 14.7 percent, from a year ago. Despite the measured

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Nonfarm payroll job losses in the leisure and hospitality sector contributed the most to the overall decline in jobs in the San Diego metropolitan area during the 3 months ending April 2021.

	3 Months Ending		Year-Over-Year Change	
	April 2020 (Thousands)	April 2021 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	1,427.5	1,390.4	-37.1	-2.6
Goods-Producing Sectors	195.3	198.3	3.0	1.5
Mining, Logging, & Construction	79.8	84.1	4.3	5.4
Manufacturing	115.5	114.2	-1.3	-1.1
Service-Providing Sectors	1,232.2	1,192.1	-40.1	-3.3
Wholesale & Retail Trade	175.1	176.5	1.4	0.8
Transportation & Utilities	33.0	32.9	-0.1	-0.3
Information	23.1	21.7	-1.4	-6.1
Financial Activities	75.7	73.9	-1.8	-2.4
Professional & Business Services	251.9	255.0	3.1	1.2
Education & Health Services	214.7	213.3	-1.4	-0.7
Leisure & Hospitality	162.1	138.2	-23.9	-14.7
Other Services	49.3	44.5	-4.8	-9.7
Government	247.2	235.9	-11.3	-4.6
Unemployment Rate	7.5%	6.9%		

Notes: Numbers may not add to totals due to rounding. Data exclude military personnel.
Source: U.S. Bureau of Labor Statistics

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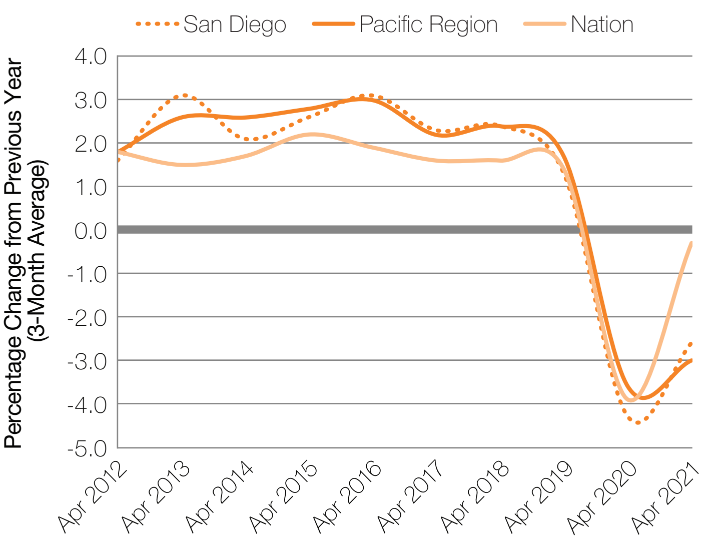
reopening of businesses since the second quarter of 2020, several establishments in the food service industry permanently closed; the industry accounted for the greatest share of sector declines, down by 8,800 jobs, or 7.9 percent.

- The government sector, which was down by 11,300 jobs, or 4.6 percent, accounted for the second largest decrease in nonfarm payrolls. The pandemic impacted both the public and private educational industries; a combined 10,200 jobs were lost in the educational services industry of the local government subsector and accounted for the largest share of job losses in the government sector overall. Those losses were partly offset by gains in the Department of Defense, where civilian jobs rose by 400, or 1.7 percent.
- Growth in the mining, logging, and construction sector partly offset job declines in other sectors, with payrolls increasing by 4,300 jobs, or 5.4 percent, from a year ago. Continued residential development, along with the construction of the $200 million U.S. Navy headquarters in downtown San Diego—which will provide administrative offices for 1,700 military and civilian employees when completed later in 2021—contributed to growth in the sector.
- Although elevated, the gradual reopening of businesses contributed to a decline in the unemployment rate to 6.9 percent, down from 7.5 percent during the same period in 2020.

The COVID-19 pandemic deeply impacted the tourism industry in the San Diego metropolitan area. The industry, which includes jobs in the leisure and hospitality sector and the transportation industry, employed 147,600 people in the metropolitan area during 2020, down 26 percent from 2019 (California Economic Development Department). Travel restrictions and social-distancing measures to keep people safe during the pandemic contributed to the contraction in the industry, with a low number of visitors and significant cuts to both hotel occupancy and visitor spending. Visitors to the San Diego metropolitan area totaled only 14.3 million during 2020, down 59 percent from the 35.1 million visitors to the area during 2019 (San Diego Tourism Authority). During the same period, visitor spending declined 56 percent to $5.2 billion, down from $11.6 billion a year ago. The low number of visitors placed downward pressure on hotel occupancy, which averaged 48 percent during 2020, down from an average of 77 percent in 2019, and contributed to the closure of five hotels, reducing total hotel rooms in the area by 3 percent. The San Diego Convention Center was also impacted. The convention center held 16 conventions and trade shows during 2020—all within the first 2 months of 2020, just prior to the pandemic—which generated approximately $127.1 million in direct spending (San Diego Convention Center). That number of conventions was down 77 percent from the 71 held during the same period in 2019. Direct spending declined 82 percent from $697 million during that same year.

Before the COVID-19 pandemic, nonfarm payroll job growth in both the San Diego metropolitan area and Pacific region had been higher than the nation each year from 2013 through early 2019.



Source: U.S. Bureau of Labor Statistics

Largest Employers in the San Diego Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
Marine Corps Base Camp Pendleton	Government	46,063
University of California, San Diego	Government	38,749
Naval Base San Diego	Government	34,534

Notes: Excludes local school districts. Data includes military personnel, who are generally not included in nonfarm payroll survey data. Marine Corps Base Camp Pendleton includes both the Marine Corps Air Station Camp Pendleton and the Naval Hospital Camp Pendleton.
Sources: City of San Diego; 2020 San Diego Military Economic Impact Study

Sales Market Conditions

The sales housing market in the San Diego metropolitan area is tight, compared with slightly tight conditions a year ago, with an estimated vacancy rate of 0.9 percent. Despite the contraction in the economy, the tightening of market conditions occurred due to an increase in homebuying during the pandemic and a low inventory of homes for sale. The inventory of homes for sale declined 15 percent to 10,100 homes during the 12 months ending April 2021 (CoreLogic, Inc.). Months of supply declined to the lowest levels since 2007—at 1.0 month in April 2021, down from 1.9 months in April 2020. As the sales housing market tightened, total home sales (including single-family homes, townhomes, and condominiums) increased due to gains in existing home sales that offset a decline in new home sales, whereas home sales prices for both existing and new homes rose at a faster rate than a year ago.

The percentage of home loans in the San Diego metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or transitioned into real estate owned (REO) status rose to 2.7 percent in March 2021 from 0.5 percent in March 2020 (CoreLogic, Inc.). The current rate is below the 3.0-percent rate for California and the 3.7-percent rate for the nation. The rise in the rate partly reflects an increase in the number of loans in forbearance, as the economic contraction during the COVID-19 pandemic made it more difficult for some homeowners to stay current on their mortgage payments. As of March 2021, approximately 18,800 home loans in the metropolitan area were in forbearance; however, that number has been consistently falling each month after reaching a peak of 23,550 in August 2020.

During the 12 months ending April 2021—

- Existing home sales totaled 40,900, a 12-percent year-over-year increase, or a gain of 4,275 homes sold; sales were up 6 percent from the average of 38,700 homes sold annually during the same 12-month periods from 2017 through 2019 (Zonda). Approximately 57 percent of the increase in existing sales during the past year resulted from a 10-percent increase in single-family and townhome sales, whereas a 17-percent increase in the number of existing condominium sales accounted for the remainder of the overall gain.
- New home sales declined 11 percent, or by 430 homes, to 3,300 homes sold compared with sales during the same period in 2020, but they were 7 percent higher than the average of 3,075 homes sold annually during the same 12-month periods from 2017 through 2019. Approximately 84 percent of the decline in new home sales during the past year resulted from a 12-percent decrease in single-family and townhome sales, whereas condominiums, down 10-percent, contributed to the remainder of that loss.
- The average sales price for existing homes was $784,800, a 13-percent gain compared with a year earlier, and was 22 percent higher than the average annual price of $642,700 during the same 12-month periods from 2017 through 2019.

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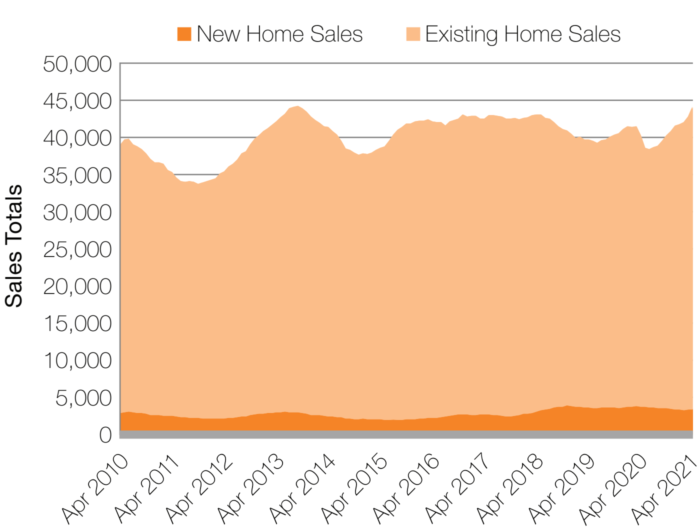
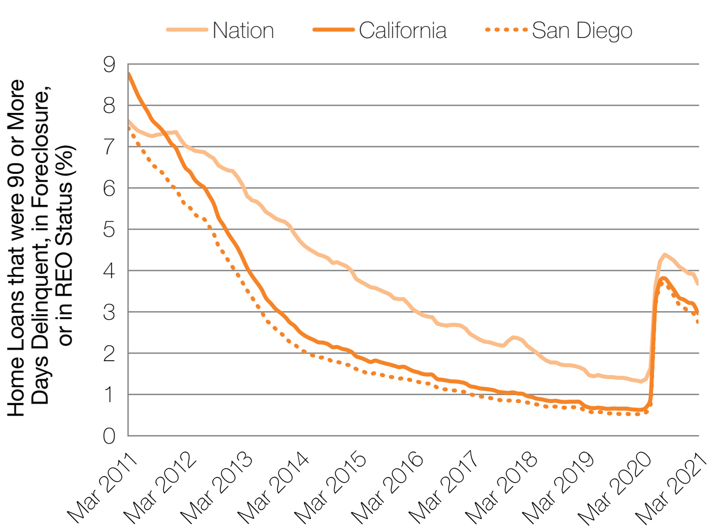
After declining in early 2020, total home sales in the San Diego metropolitan area have generally increased through April 2021, mostly due to gains in existing home sales.



Note: Sales are for single-family homes, townhomes, and condominiums.
Source: Zonda

The proportion of seriously delinquent home loans and REO properties in the San Diego metropolitan area increased substantially in early 2020, following more than 9 years of steady declines.



REO = real estate owned.
Source: CoreLogic, Inc.

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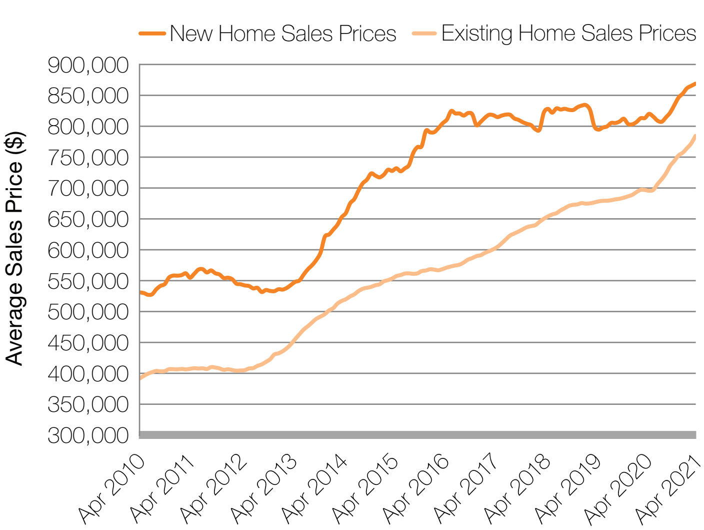
Partly contributing to the increase in the average existing home price was a decrease in REO home sales, which are priced an average of $134,300 less than regular resale homes.

- The average sales price for a new home was $869,100, up 7 percent from an average price of $813,300 during both the previous year and the same 12-month periods from 2017 through 2019. That increase was mostly the result of a greater number of luxury single-family homes.

New home sales construction activity, as measured by the number of single-family homes, townhomes, and condominiums permitted (hereafter, homes), has slowed nearly every year after reaching a peak in 2017. Recent construction levels, however, remained high relative to most periods during the early-to-mid 2010s.

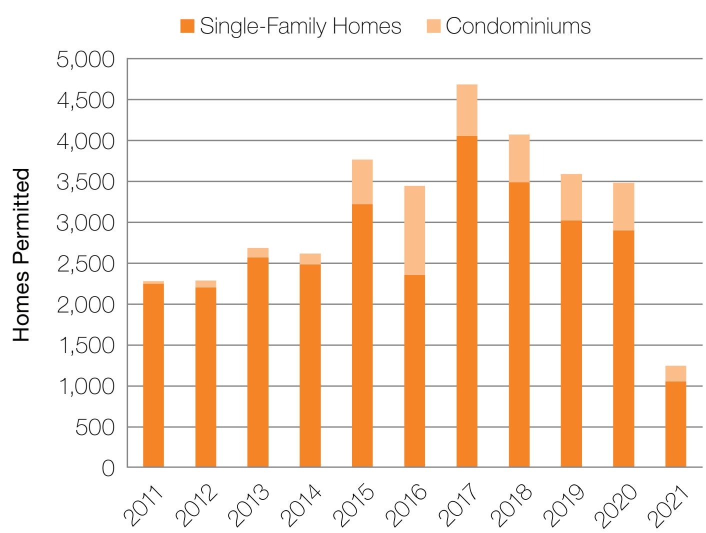
- The number of homes permitted was unchanged during the 12 months ending April 2021, at 3,550 homes, because of unchanged levels of both single-family and condominium construction (preliminary data, with adjustments by the analyst).
- After reaching a peak of 4,700 homes permitted in 2017, home sales construction activity slowed to an average of 3,825 homes permitted a year during 2018 and 2019. Despite this slowdown, construction activity remained higher than the average of 2,850 homes permitted annually from 2011 through 2016.
- Otay Ranch, adjacent to the city of Chula Vista, is among the largest master-planned communities underway in the metropolitan area, with a combined 28,000 single-family homes, townhomes, condominiums, and apartments planned at buildout. Since construction began in the 1990s, 10,700 homes have been completed. Monte Villa and Estancia are neighborhoods in Otay Ranch currently underway, with a combined 144 single-family homes planned upon completion. Construction of Monte Villa began in 2017, and a total of 80 homes have been completed, with prices for four-bedroom homes starting in the mid-$500,000s. Estancia has 12 luxury single-family homes completed and 13 underway; prices for those homes start at $1.1 million for a three-bedroom home.
- Recently completed condominium developments include two in downtown San Diego—the 215-unit Pacific Gate in the Waterfront District and the 285-unit Savina in Little Italy. Both properties are completely sold out, with prices that started at $1.1 million for a two-bedroom unit. Condominiums under construction include the 18-unit Corallina at Pacific Highlands Ranch, located north of downtown San Diego in Carmel Valley. The property began construction in 2021 and is expected to be completed by 2022. In addition to the condominium units, the development will also include 67 townhomes.

New and existing home sales prices in the San Diego metropolitan area have increased at an accelerated pace since early 2020.



Note: Prices are for single-family homes, townhomes, and condominiums.
Source: Zonda

Sales housing construction in the San Diego metropolitan area has slowed each year after reaching a peak in 2017.



Notes: Data include preliminary estimates from January 2020 through April 2021. Data for 2021 are through April 2021.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Rental Market Conditions

Rental market conditions in the San Diego metropolitan area are currently slightly tight, similar to a year ago but tighter than conditions in 2010. An increase in the number of renter households since 2010 has generally outpaced the construction of new rental units, contributing to the tightening of the rental market. Apartment market conditions are tight, also unchanged from a year ago, despite a decline in rents and a slight increase in the vacancy rate.

- The estimated vacancy rate for all rental units (including single-family homes, mobile homes, and apartments) was 4.4 percent as of May 1, 2021, a decrease from 5.6 percent in 2010 when conditions were balanced.
- The apartment market, which represents approximately 65 percent of all rental units, is also tight. The vacancy rate was 4.1 percent as of April 2021, up from 3.8 percent a year earlier (Moody's Analytics REIS), but has remained relatively low since 2011. The apartment vacancy rate increased from April 2020 because of apartment completions that added to the supply.
- The average monthly apartment asking rent was $1,878 in April 2021, a 1-percent decrease from a year ago. The decline partly reflected an increase in the number of affordable apartments added to the supply and the recent economic contraction; many apartment managers use local economic measures—such as changes in unemployment rates and job growth— to set their rents when leases come up for renewal.
- Year-over-year rent growth in the metropolitan area has fluctuated from a low of 2 percent in April 2012 to a high of 7 percent in April 2016. Periods of significant gains in rent have typically resulted from new luxury apartments being added to the inventory coupled with more favorable economic conditions.

Rental construction activity, as measured by the number of rental units permitted, has been at lower levels since 2016, partly in response to net out-migration from the area. Approximately 42 percent of all apartments, or 1,075 units, completed during 2020 were in developments that were either entirely or partially affordable, up from only 17 percent, or 530 units, during 2019.

- During the 12 months ending April 2021, approximately 5,850 rental units were permitted, up 16 percent from 5,025 units permitted during the same period a year ago (preliminary data with adjustments by the analyst).
- After reaching a peak of 7,350 units permitted in 2016, rental construction activity slowed to an average of 5,200 units permitted a year during 2018 and 2019. Despite this slowdown, construction activity remained higher than the average of 4,475 units permitted annually from 2011 through 2015.
- Apartment properties under construction include Vive Lux, with 442 units in five- to seven-story buildings in the Kearny Mesa neighborhood, northeast of downtown San Diego. A total of 23 units will be income-restricted, and the remaining

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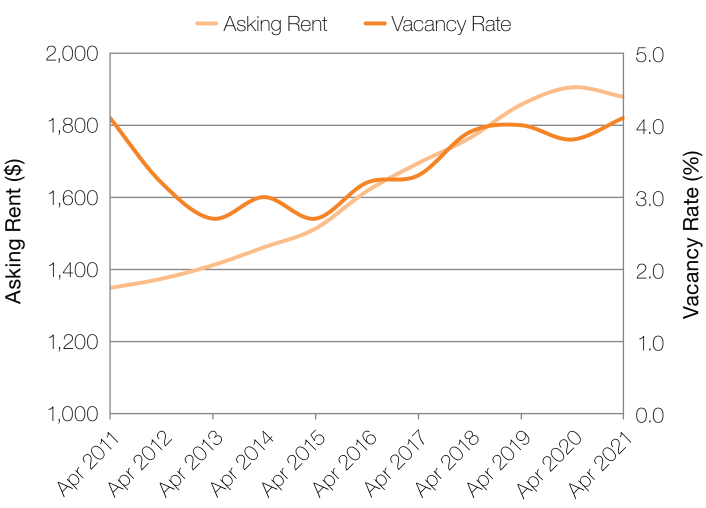
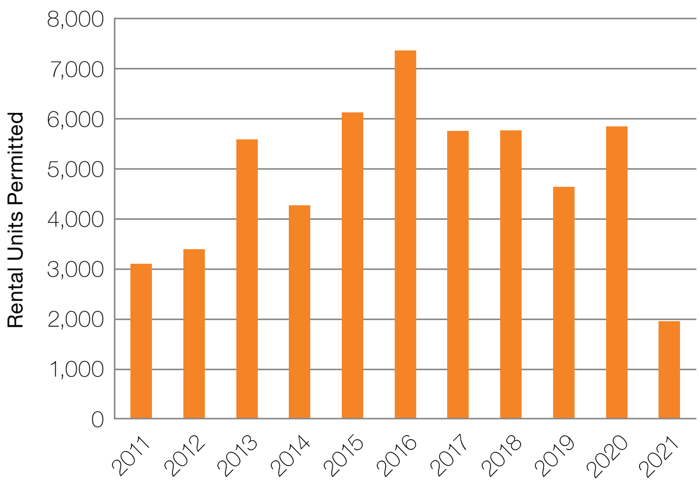
Although apartment rents declined in the San Diego metropolitan area in April 2021 compared with a year ago, apartment market conditions are slightly tight, with a low vacancy rate.



Source: Moody's Analytics REIS

Despite a slight slowdown in rental housing construction in the San Diego metropolitan area since 2016, construction levels have remained generally higher than during the early 2010s.



Notes: Data include preliminary estimates from January 2020 through April 2021. Data for 2021 are through April 2021.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

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419 units will be market-rate when it opens in early 2022. Although rents at the property have yet to be announced, market-rate rents for new units in the Kearny Mesa neighborhood typically range from $1,700 for studio units to $3,300 for three-bedroom units. The single 31-story tower, 11th and Broadway, with 618 units, is underway in the East Village neighborhood of downtown San Diego. A total of 49 units will be income-restricted, and the remaining 569 units will be market-rate when it opens in late 2022. Market-rate rents in the East Village neighborhood range from $1,900 for studio units to $4,600 for 3-bedroom units.

- Recently completed rental properties include One Paseo, a garden-style apartment community with 61 affordable units and 547 market-rate units in Carmel Valley. The last phase of the development opened in mid-2020, with rents for the market-rate studio, one-bedroom, and two-bedroom units starting at $2,350, $2,800, and $5,100, respectively. The affordable units are restricted to households with incomes at or below 65 percent of the area median income.