HUD PD&R **Housing Market Profiles**

San Diego, California

Quick Facts About San Diego

- **Current sales market conditions: slightly tight**
- **Current rental market conditions: tight**
- **One out of four U.S. marines and one out of six sailors in the U.S. Navy are stationed in the San Diego metropolitan area, making it among the largest military communities in the nation (San Diego Military Advisory Council [SDMAC]). The military supported nearly 349,100 metropolitan area jobs, both directly and indirectly, during 2021, up 2 percent from 2020, and the economic impact of the military on the metropolitan area rose 5 percent to $55.2 billion (SDMAC 2021 Military Economic Impact Report).**

By Wendy Ip | As of September 1, 2022

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 (Census Bureau population estimates, 2021). The metropolitan area accounts for approximately 40 percent of all civilian and 59 percent of all military defense personnel in California (Manpower Data Center, 2021). The metropolitan area is also 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). The impact of the COVID-19 pandemic was significant on the metropolitan area economy, and a total of 249,300 jobs were lost during March and April 2020 (not seasonally adjusted); however, the intermittent reopening of businesses since mid-2020 contributed to a full economic recovery by mid-2022. As economic conditions strengthened, interest rates rose and sales market conditions eased slightly from tight conditions a year earlier. The rental market, however, remained tight, similar to a year ago, partly due to high home sales prices.

- As of September 1, 2022, the estimated population of the San Diego metropolitan area was 3.30 million, representing

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an average annual increase of 5,925, or 0.2 percent, since 2016—slower than the average annual increase of 31,750, or 1.0 percent, from 2006 to 2016 (Census Bureau population estimates as of July 1, with adjustments by the analyst).

- Since 2016, a relatively high cost of housing that has continued to increase contributed to net out-migration from the metropolitan area—averaging 9,800 people a year, compared with average net in-migration of 6,500 people a year from 2006 to 2016. During the 2006-to-2016 period, fewer people were leaving the area at the onset of the housing crisis in late 2006 through the Great Recession, and by early 2011, economic conditions began to improve and home sales prices were relatively low, contributing to net in-migration to the area each year.
- From 2003 through 2006, population growth in the metropolitan area was slow, averaging 10,850 people, or 0.4 percent, annually. 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 15,200 people a year.

Economic Conditions

The San Diego metropolitan area economy is strong after fully recovering from the recession of early 2020 by June 2022. During the 3 months ending August 2022, nonfarm payrolls were 0.7 percent higher than during the 3 months ending August 2019, before the pandemic. As the metropolitan area economy recovered lost jobs, nonfarm payroll growth eased but was faster than the nation, continuing a prepandemic trend. From 2012 through 2019, nonfarm payrolls in the metropolitan area expanded an average of 2.3 percent annually, compared with an average annual growth of 1.7 percent in the nation.

During the 3 months ending August 2022—

- Nonfarm payrolls averaged more than 1.51 million jobs, increasing year over year by 66,600 jobs, or 4.6 percent—a faster rate than the 4.0-percent increase in the nation—due to growth in 9 of the 11 payroll sectors. As the economy reached a full recovery, payroll growth eased from the 8.0-percent gain a year earlier.
- The leisure and hospitality sector contributed the most to the overall increase in nonfarm payrolls, up by 27,900 jobs, or 16.0 percent, from a year ago. The reopening of businesses since mid-2020 contributed to widespread job gains, with the greatest gains in the food services and drinking places industry—which was up by 17,900 jobs, or 14.2 percent. Starbucks Corporation had nearly 560 job openings in July 2022 (California Employment Development

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Nonfarm payroll job gains in the leisure and hospitality sector contributed the most to the overall increase in jobs in the San Diego metropolitan area during the 3 months ending August 2022.

	3 Months Ending		Year-Over-Year Change	
	August 2021 (Thousands)	August 2022 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	1,447.0	1,513.6	66.6	4.6
Goods-Producing Sectors	199.1	201.1	2.0	1.0
Mining, Logging, & Construction	84.3	87.6	3.3	3.9
Manufacturing	114.7	113.4	-1.3	-1.1
Service-Providing Sectors	1,248.0	1,312.5	64.5	5.2
Wholesale & Retail Trade	178.6	184.3	5.7	3.2
Transportation & Utilities	36.4	36.8	0.4	1.1
Information	22.6	22.8	0.2	0.9
Financial Activities	76.3	75.0	-1.3	-1.7
Professional & Business Services	263.9	278.6	14.7	5.6
Education & Health Services	215.2	218.7	3.5	1.6
Leisure & Hospitality	174.3	202.2	27.9	16.0
Other Services	48.6	54.2	5.6	11.5
Government	232.0	239.9	7.9	3.4
Unemployment Rate	6.9%	3.2%		

Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

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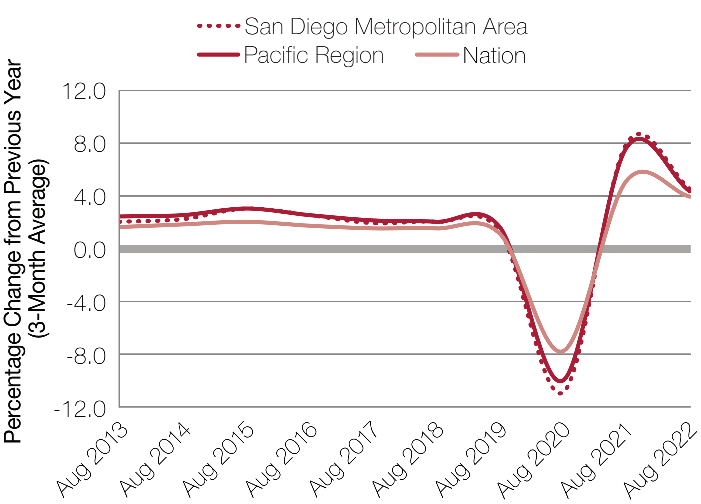
Department [EDD]); a portion of those jobs were filled and contributed to industry growth.

- The professional and business services sector, which was up by 14,700 jobs, or 5.6 percent, accounted for the second largest increase in nonfarm payrolls. The scientific research and development services industry added 3,500 jobs, or 8.6 percent, contributing to sector growth. General Atomics Aeronautical Systems, Inc., a Department of Defense contractor with jobs in the scientific research and development services industry, had nearly 620 job openings in July 2022, and those jobs that were filled contributed to recent sector gains (EDD).
- Declines in the financial activities and manufacturing sectors partly offset payroll growth; both sectors were down by 1,300 jobs, or 1.7 and 1.1 percent, respectively. The contraction in financial activities followed strong hiring at financial institutions a year earlier that was partly in response to a rise in mortgage refinancing and initial public offerings; jobs at central banks declined by 1,300, or 6.7 percent, contributing to declines in the financial activities sector. The transportation equipment manufacturing industry was down by 900 jobs, or 4.6 percent, contributing the most to losses in the manufacturing sector.
- The unemployment rate declined to 3.2 percent, down from 6.9 percent during the same period in 2021, as resident employment growth of 5.9 percent outpaced the 1.9-percent increase in the labor force.

Nonfarm payroll job growth in the San Diego metropolitan area and Pacific region was faster than the nation during the 12 months ending August 2022, continuing a prepandemic trend.



Source: U.S. Bureau of Labor Statistics

The tourism industry has contributed significantly to the recovery of the San Diego metropolitan area economy as countermeasures to slow the spread of COVID-19 were eased. The industry, which includes jobs in the leisure and hospitality sector and the transportation industry, employed 182,600 people in the metropolitan area during 2021, up nearly 24 percent from 2020 (EDD). The industry, however, has yet to fully recover, and employment is still down 8 percent from 2019. The easing of travel restrictions and social-distancing measures contributed to industry growth, with a greater number of visitors and significant gains in both hotel occupancy and visitor spending. Visitors to the San Diego metropolitan area totaled nearly 23.8 million during 2021, up 66 percent from 14.3 million visitors during 2020, but still down 32 percent from the 35.1 million visitors during 2019 (San Diego Tourism Authority). Visitor spending rose to nearly $7.5 billion, up 44 percent from $5.2 billion during 2020, but remained 35 percent below spending levels during 2019. The increase in the number of visitors contributed to a rise in hotel occupancy, which averaged 62 percent during 2021, up from 48 percent during 2020 but below the average of 77 percent during 2019 (Smith Travel Research). The San Diego Convention Center also had a rise in the number of trade shows and spending compared with 2020. The convention center held 19 conventions and trade shows during 2021—which generated approximately $210 million in direct spending—up from 16 shows with direct spending of $127 million during 2020 (San Diego Convention Center). Before the pandemic, there were 71 trade shows held at the convention center during 2019, with direct spending of $697 million.

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
Naval Base San Diego	Government	43,003
University of California San Diego	Government	35,807

Notes: 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. Excludes local school districts.

Sources: Marine Corps Base Camp Pendleton—2020 Military Economic Impact Study; Naval Base San Diego and University of California, San Diego—City of San Diego, 2021

Sales Market Conditions

The sales housing market in the San Diego metropolitan area is slightly tight, compared with tight conditions a year ago. The easing of market conditions partly resulted from an increase in interest rates and continued high home sales prices that contributed to a slowdown in homebuying; however, inventory and months of supply continue to be lower than prepandemic levels. The inventory of homes for sale rose 4 percent to 11,950 homes during July 2021 from a year earlier, but the inventory remains 15 percent lower than the prepandemic level in July 2019 (CoreLogic, Inc.). Months of supply also rose to 2.0 months in July 2022 from 1.3 months in July 2021, but that supply was lower than the 2.7 months of supply in July 2019. As market conditions eased slightly, total home sales (including single-family homes, townhomes, and condominiums) declined, mostly due to fewer existing home sales, as prices for those homes continued to rise at a fast pace.

The percentage of home loans in the San Diego metropolitan area that were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status declined to 0.6 percent in July 2022 from 2.1 percent in July 2021 (CoreLogic, Inc.). The current rate is below the 0.8-percent rate for California and the 1.4-percent rate for the nation. During the early stages of the COVID-19 pandemic, the percentage of seriously delinquent mortgages and REO properties increased significantly because weakened economic conditions made it more difficult for many homeowners to stay current on their mortgage payments, and a large number of home mortgages were placed in forbearance. By August 2020, the percentage in the metropolitan area reached a high of 3.7 percent. Improved local economic conditions contributed to the decrease in the percentage of seriously delinquent mortgages and REO properties in July 2022 compared with a year earlier.

During the 12 months ending August 2022—

- Existing home sales totaled 41,100, a 12-percent year-over-year decrease, or down by 5,675 homes sold; however, sales remained 3 percent higher than the average of 39,900 homes sold annually during the same 12-month periods from 2016 through 2019 (Zonda). Approximately 64 percent of the decline in existing sales during the past year resulted from an 11-percent decrease in single-family and townhome sales, whereas condominium sales declined 14 percent and accounted for the remainder of that loss. Condominiums accounted for 31 percent of existing home sales during the past year.
- New home sales declined 24 percent, or by 880 homes, to 2,850 homes sold compared with sales during the same period in 2021, and they were 18 percent lower than the average of 3,475 homes sold annually during the same 12-month periods from 2016 through 2019. Approximately 60 percent of the decline in new home sales during the past year resulted from a 19-percent decrease in single-family and townhome sales, whereas lower condominium sales contributed to the remainder of that decline.
- The average sales price for existing homes was almost $1,000,000, a 17-percent increase compared with a year earlier, and was 55 percent higher than the average annual

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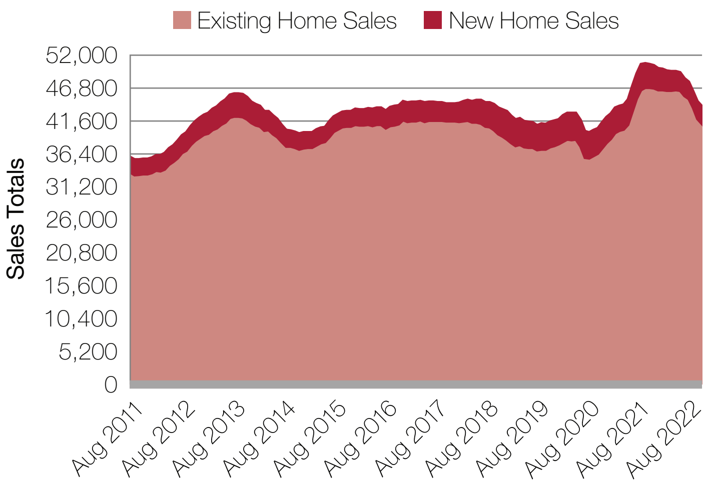
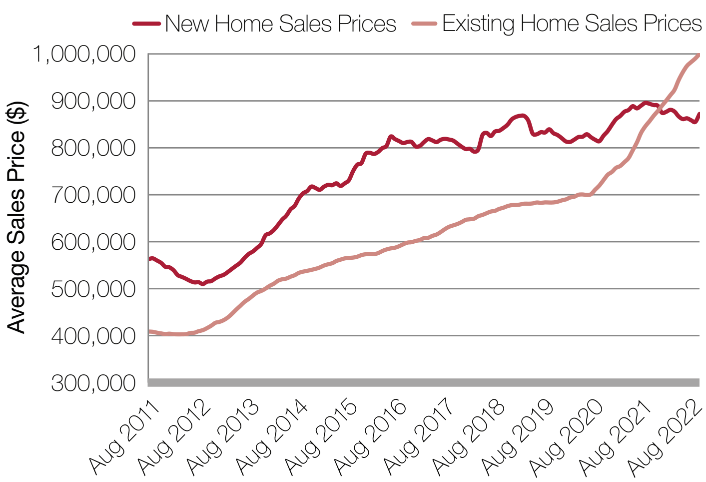
After accelerating during most of 2020 through mid-2021, total home sales in the San Diego metropolitan area has since slowed, mostly due to lower existing home sales.



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

Existing home sales prices in the San Diego metropolitan area have increased at a fast pace during the 12 months ending August 2022, whereas new home price growth has eased.



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

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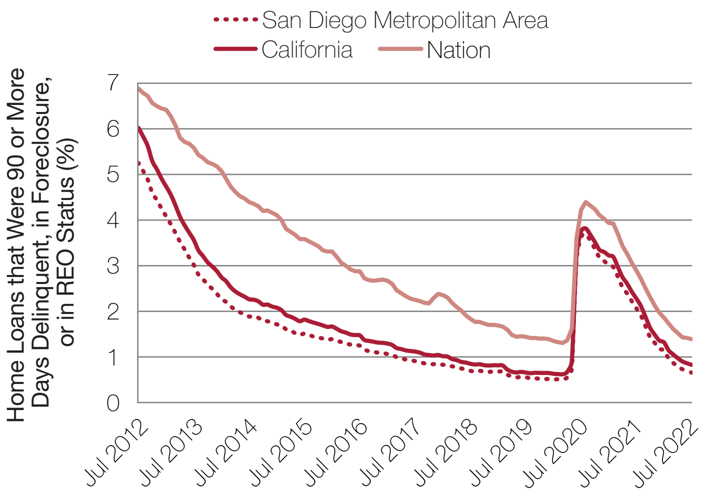
price of $644,000 during the same 12-month periods from 2016 through 2019. Partly contributing to the increase in the average existing home price was a 49-percent decrease in REO home sales, which are priced at an average of $68,800 less than regular resale homes. Existing single-family home prices rose 15 percent to $1,123,300, whereas existing condominium prices rose 20 percent to $721,200.

- The average sales price for a new home was $872,300, down 2 percent from an average price a year earlier, but up 5 percent compared with the average during the same 12-month periods from 2016 through 2019. The recent decline was partly the result of fewer luxury single-family homes sold. New single-family home prices decreased 4 percent to $913,500, whereas prices for new condominiums were down 7 percent to $696,400.

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

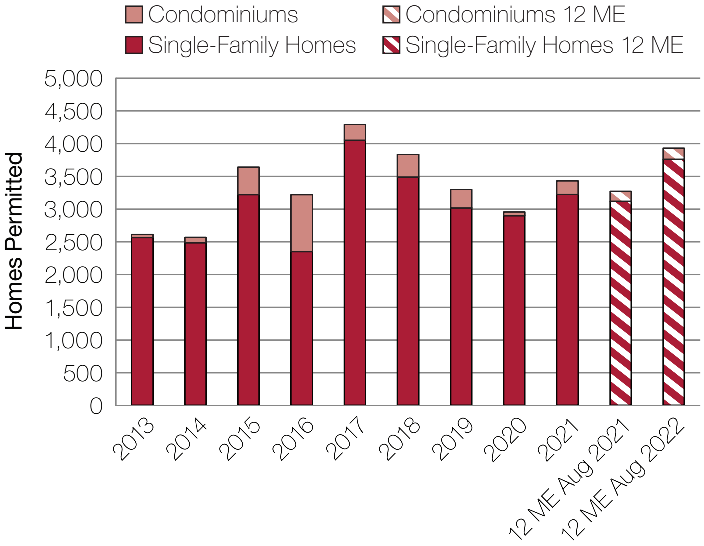
- The number of homes permitted rose 20 percent to 3,950 homes during the 12 months ending August 2022 because of greater levels of single-family home, townhome, and condominium construction (preliminary data, with adjustments by the analyst).
- After reaching a peak of 4,300 homes permitted in 2017, home sales construction activity slowed to an average of 3,350 homes permitted a year from 2018 through 2020. Despite that slowdown, construction activity was higher than the average of 3,000 homes permitted annually from 2013 through 2016.
- Among the largest master-planned communities underway in the metropolitan area is Otay Ranch, adjacent to the city of Chula Vista, with a combined 28,100 single-family homes, townhomes, condominiums, and apartments planned at buildout. Approximately 11,000 homes have been completed since construction began in the 1990s. The $1.3 billion Côta Vera neighborhood is the newest community in Otay Ranch currently underway, with a combined 2,700 single-family homes and townhomes planned in two phases upon completion. The first phase will have 2,000 homes, with completion expected during the next 4 to 5 years. Shea Homes is building 232 single-family homes, and Lennar Corporation is building 106 single-family homes and 224 townhomes in Côta Vera; prices for these homes will start in the mid-$500,000s for a three-bedroom townhome.
- Recently completed condominium developments include Corallina at Pacific Highlands Ranch that began construction in early 2021. The 18-unit property was completed earlier in 2022, with prices that started in the mid-$600,000s for a two-bedroom unit.

The proportion of seriously delinquent home loans and REO properties in the San Diego metropolitan area decreased substantially since mid-2020, following a surge during the onset of the COVID-19 pandemic.



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

Strong sales market conditions in the San Diego metropolitan area contributed to an increase in sales housing construction during the 12 months ending August 2022.



12 ME = 12 months ending.
Sources: U.S. Census Bureau, Building Permits Survey; 2013–21—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

Rental Market Conditions

Rental market conditions in the San Diego metropolitan area are currently tight, unchanged from a year ago. An increase in the number of renter households has generally outpaced the construction of new rental units, contributing to tight conditions. Apartment market conditions are very tight, similar to a year earlier, with a low vacancy rate and fast rent growth.

- The estimated vacancy rate for all rental units (including single-family homes, mobile homes, and apartments) was 4.9 percent as of September 1, 2022, a decrease from 5.6 percent in 2010 when conditions were balanced.
- The apartment market had a vacancy rate of 1.9 percent during the second quarter of 2022, down from an already low 2.1 percent a year earlier and below 4.3 percent for the nation (CoStar Group). The apartment vacancy rate declined as home sales prices rose, making it increasingly difficult for first-time homebuyers to purchase a home in the metropolitan area.
- The average monthly apartment asking rent was $2,337 during the second quarter of 2022, a 14-percent increase from a year ago. Nationally, rents rose 9 percent to $1,639.
- The tightest of the CoStar Group-defined apartment market areas was the Chula Vista-Imperial Beach market area, with a 1.3-percent vacancy rate during the second quarter of 2022. The market area attracts both professionals and military personnel because it is close to the Downtown San Diego market area, which has the highest vacancy rate in the metropolitan area, at 6.4 percent, and rents that average $2,953, or 36 percent higher than the Chula Vista-Imperial Beach market area.

Rental construction activity, as measured by the number of rental units permitted, has been at higher levels compared with the late 2010s, in response to tighter rental market conditions. Approximately 47 percent of all apartments completed during 2021, or nearly 1,150 units, were in developments that were either entirely or partially affordable, up from 42 percent in 2020 and 17 percent during 2019.

- During the 12 months ending August 2021, approximately 6,350 rental units were permitted, down 11 percent from 7,150 units permitted during the same period a year ago (preliminary data with adjustments by the analyst).
- After reaching a peak of 7,575 units permitted in 2016, rental construction activity slowed to an average of 5,700 units permitted a year from 2017 through 2019. Despite this slowdown, construction activity was higher than the average of 5,400 units permitted annually from 2013 through 2015.
- Apartment properties under construction include The Avalyn in the Millenia master-planned community in the city of Chula Vista, with 480 market-rate rental units in a mix of apartments, two-story lofts, and live-work units that began construction in 2021 and is expected to be completed later in September 2022. Rents will range from $2,475 to

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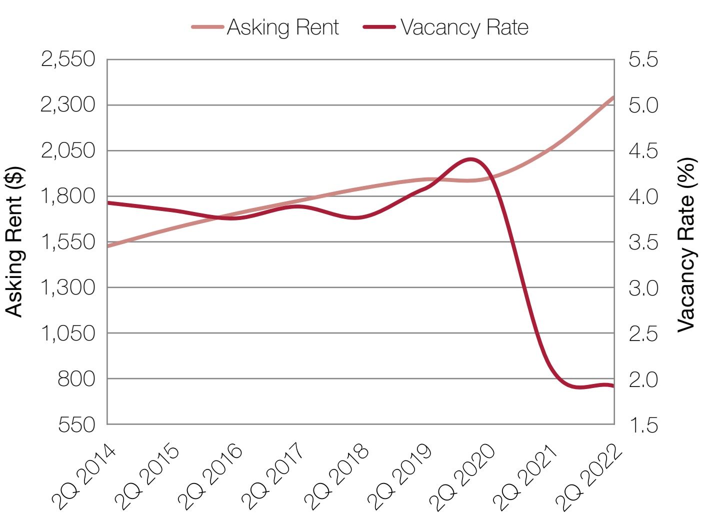
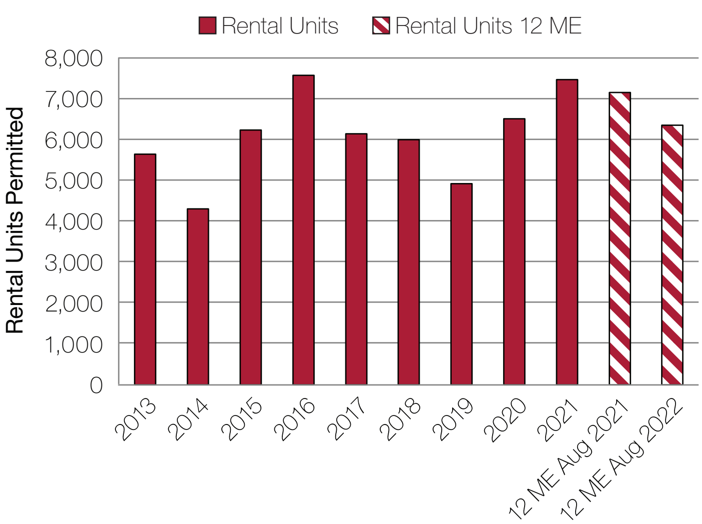
Apartment rents rose at a fast pace in the San Diego metropolitan area during the second quarter of 2022 compared with a year ago, and the vacancy rate continued to be very low.



2Q = second quarter.
Source: CoStar Group

Despite a recent slowdown in rental housing construction in the San Diego metropolitan area, construction levels have remained generally higher than during the late 2010s.



12 ME = 12 months ending.
Sources: U.S. Census Bureau, Building Permits Survey; 2013–21—final data and estimates by the analyst; past 24 months of data—preliminary data and estimates by the analyst

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$4,100. Additional construction in the Millenia community also includes the 200-unit Columba, with 198 units set aside for low-income households with incomes between 30 to 60 percent of the area median income. Construction of Columba is expected to be complete by late 2023.

- Recently completed rental properties include Apollo Apartments, a three-story apartment building in the city of Poway with 44 affordable units for seniors and veterans. Of those units, 15 have a preference to be filled by veterans. The development opened in early 2022 with one- and two-bedroom units restricted to households with incomes between 40 and 60 percent of the area median income.

Terminology Definitions and Notes

A. Definitions

Building Permits	Building permits do not necessarily reflect all residential building activity that occurs in an area. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst may make an estimate of this additional construction activity, and, where applicable, some of these estimates might be included in the discussions of sales and rental building permits.
Home Sales	Includes new and existing sales of single-family homes, townhomes, and condominiums, where existing home sales include resales, short sales, and REO sales.
Home Sales/Home Sales Prices	Includes single-family, townhome, and condominium sales.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.

B. Notes on Geography

1.	The metropolitan statistical area definitions noted in this report are based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.