

HUD PD&R Housing Market Profiles

San Diego-Carlsbad, California



Quick Facts About San Diego-Carlsbad

- **Current sales market conditions: balanced.**
- **Current apartment market conditions: slightly tight.**
- **Employment in construction increased significantly in the past year with developments that include the \$445 million Naval Hospital at Marine Corps Base Camp Pendleton; the \$700 million University of California, San Diego Jacobs Medical Center; and the \$900 million Kaiser Permanente® San Diego Central Hospital.**

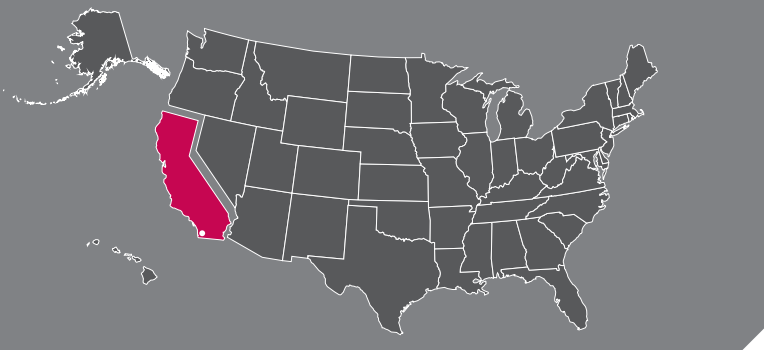
By Wendy Lynn Ip | As of July 1, 2014

Overview

The San Diego-Carlsbad, CA Metropolitan Statistical Area (hereafter, San Diego metropolitan area) is coterminous with San Diego County in Southern California. San Diego County is the second most populous county in California and the fifth most populous county in the nation. The San Diego metropolitan area is known as the birthplace of naval aviation, serving as a major employment center in the nation for defense and in the Southern California region for scientific research, health care, education, trade, and tourism. The significant military presence supports 302,000 jobs, pays \$20.9 billion in wages, and has an overall annual economic impact on the San Diego metropolitan area of \$32.4 billion (2013 Military Economic Impact Study).

- As of July 1, 2014, the estimated population of the San Diego metropolitan area was 3.21 million and has increased steadily by an average of 25,650, or 0.8 percent, annually since 2008, partly resulting from modest net in-migration that averaged 2,275 people a year.
- Population growth was the slowest from 2003 through 2006, averaging 12,950 people, or 0.4 percent, annually because of

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several military deployments and lenient lending standards that enabled households to purchase homes in neighboring counties, resulting in strong net out-migration that averaged 13,100 people a year.

- From 2006 through 2008, population growth increased to an average of 34,200 people, or 1.1 percent, annually from an increase in international immigration, which accounted for 75 percent or more of net in-migration (Internal Revenue Service).

Economic Conditions

Economic conditions have strengthened in the San Diego metropolitan area since 2011, as reflected in job growth in most nonfarm payroll sectors.

During the 3 months ending June 2014—

- Nonfarm payrolls averaged 1.34 million jobs, an increase of 31,200 jobs, or 2.4 percent, compared with the number of jobs during the same 3-month period in 2013, largely because of growth in the high technology, tourism, and construction industries.
- The most significant gains were in the professional and business services, leisure and hospitality, and mining, logging, and construction sectors, which increased by 5,800, 5,300, and 5,000 jobs, or 2.6, 3.1, and 8.2 percent, respectively, from the 3 months ending June 2013.
- The number of jobs in the professional and business services sector increased because of growth in the number of biotechnology companies in the San Diego metropolitan area. Among

these companies, the J. Craig Venter Institute completed a research building in La Jolla in February 2014, adding 125 researchers and staff. Since 2004, the number of biotechnology companies in the metropolitan area has increased from 290 to nearly 600.

- Employment in the construction subsector increased partly because of the several hospitals that were under way and the Green Build expansion at the San Diego International Airport, which added approximately 1,700 construction jobs during the past year.
- Job losses occurred only in the financial activities sector, which decreased by 300 jobs, or less than 1 percent, from the 3 months ending June 2013.
- The average unemployment rate decreased to 6.0 percent compared with the rate of 7.4 percent during the 3-month period ending June 2013.

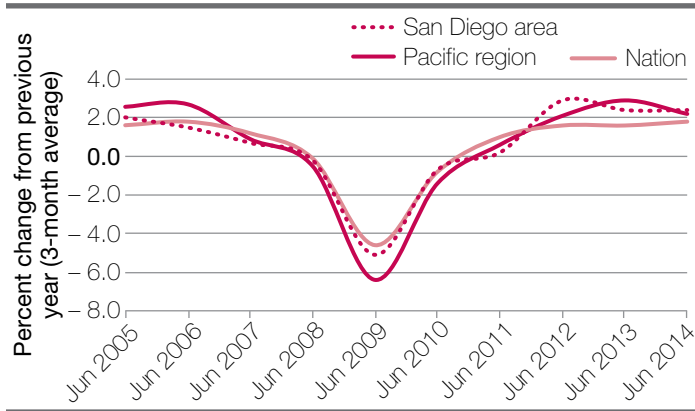
Nonfarm payrolls in the San Diego area continued a period of growth that began in 2011.

| | 3 Months Ending | | Year-Over-Year Change | |
|------------------------------------|--------------------------|--------------------------|-------------------------|---------|
| | June 2013 (thousands) | June 2014 (thousands) | Absolute (thousands) | Percent |
| Total nonfarm payrolls | 1,313.7 | 1,344.9 | 31.2 | 2.4 |
| Goods-producing sectors | 155.4 | 162.3 | 6.9 | 4.4 |
| Mining, logging, and construction | 60.9 | 65.9 | 5.0 | 8.2 |
| Manufacturing | 94.5 | 96.4 | 1.9 | 2.0 |
| Service-providing sectors | 1,158.3 | 1,182.6 | 24.3 | 2.1 |
| Wholesale and retail trade | 182.8 | 187.1 | 4.3 | 2.4 |
| Transportation and utilities | 27.2 | 27.2 | 0.0 | 0.0 |
| Information | 24.2 | 24.2 | 0.0 | 0.0 |
| Financial activities | 71.5 | 71.2 | -0.3 | -0.4 |
| Professional and business services | 221.8 | 227.6 | 5.8 | 2.6 |
| Education and health services | 179.5 | 184.3 | 4.8 | 2.7 |
| Leisure and hospitality | 169.4 | 174.7 | 5.3 | 3.1 |
| Other services | 49.2 | 51.1 | 1.9 | 3.9 |
| Government | 232.7 | 235.2 | 2.5 | 1.1 |
| | (percent) | (percent) | | |
| Unemployment rate | 7.4 | 6.0 | | |

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



Nonfarm payrolls in the San Diego area have increased since 2011; growth in high technology and research has contributed to the overall growth.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

Largest employers in the San Diego area

| Name of Employer | Nonfarm Payroll Sector | Number of Employees |
|-------------------------------------|-------------------------------|---------------------|
| Naval Base San Diego | Government | 35,000 |
| University of California, San Diego | Government | 27,850 |
| Sharp HealthCare | Education and health services | 15,950 |

Note: Excludes local school districts.
Source: San Diego Business Journal, 2014

Sales Market Conditions

The sales housing market in the San Diego metropolitan area is currently balanced, with an estimated sales vacancy rate of 1.2 percent, a decrease from 1.9 percent in 2010. During the 12 months ending June 2014, new and existing home sales declined but sales prices increased from the previous year. A decline in the number of REO (Real Estate Owned) home sales helped increase the average existing home sales price. The percentage of home loans in the San Diego metropolitan area that were 90 or more days delinquent, were in foreclosure, or transitioned into REO status declined from 3.5 percent in June 2013 to 2.1 percent in June 2014 (Black Knight Financial Services, Inc.). The current rate is lower than the 2.4-percent rate for California and the 4.9-percent rate for the nation. The number

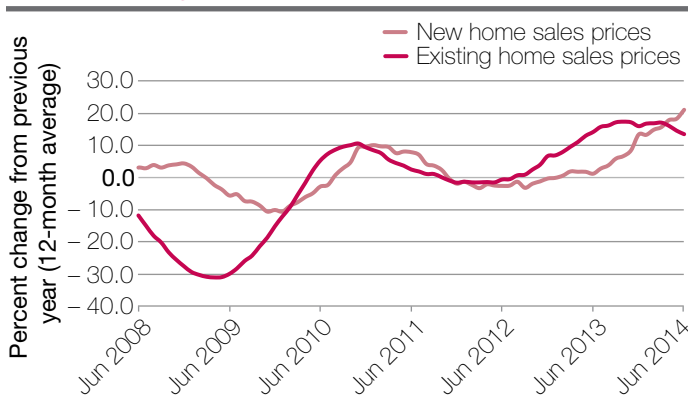
of distressed loans and REO properties was 6,800 in June 2014, a decrease of 6,050, or 47 percent, compared with the number in June 2013.

During the 12 months ending June 2014—

- Rising mortgage interest rates and an increase in new home sales prices resulted in a decline in new home sales. New home sales totaled 2,200, a decrease of 600 homes, or 24 percent, from the 2,800 homes sold during the 12 months ending June 2013 and 74 percent less than the average of 10,600 homes sold annually from 2005 through 2007 (Metrostudy, A Hanley Wood Company; adjustments by the analyst).

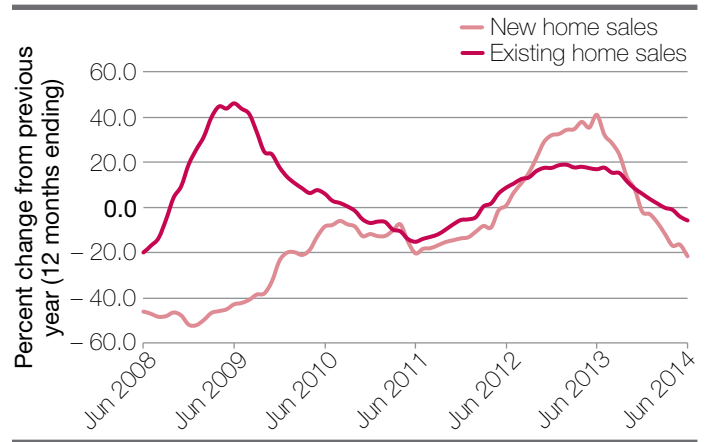
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Sales market conditions in the San Diego area improved, and sales prices continued an upward trend that began in 2013.



Note: Includes single-family homes, townhomes, and condominiums.
Sources: Metrostudy, A Hanley Wood Company; adjustments by analyst

Existing home sales in the San Diego area declined because of a decline in REO property sales.



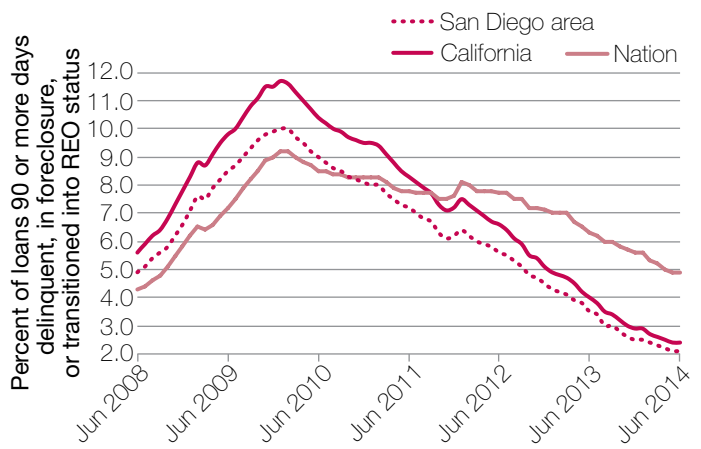
REO = Real Estate Owned.
Note: Includes single-family homes, townhomes, and condominiums.
Sources: Metrostudy, A Hanley Wood Company; adjustments by analyst



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- Existing home sales totaled 36,800, a decrease of 2,200 homes sold, or 6 percent, from the 39,000 homes sold during the 12-month period ending June 2013 but 16 percent more than the average of 33,600 homes sold annually from 2005 through 2007. The entire decline in existing home sales resulted from a decline in REO sales of 51 percent, or 3,100 homes; regular resales increased 3 percent, or by 900 homes, to 33,800.
- The average sales price for new homes was \$672,200, an increase of \$116,900, or 21 percent, compared with the average price during the same period in 2013. The average new home sales price was \$106,800, or 19 percent, higher than the average price from 2005 through 2007.
- The average sales price for existing homes was \$527,200, an increase of \$62,550, or 14 percent, compared with the average price during the 12 months ending June 2013 but a decrease of \$83,600, or 14 percent, from \$610,800 from 2005 through 2007.

The decrease in distressed loans in the San Diego area was the primary driver of the REO sales reduction.

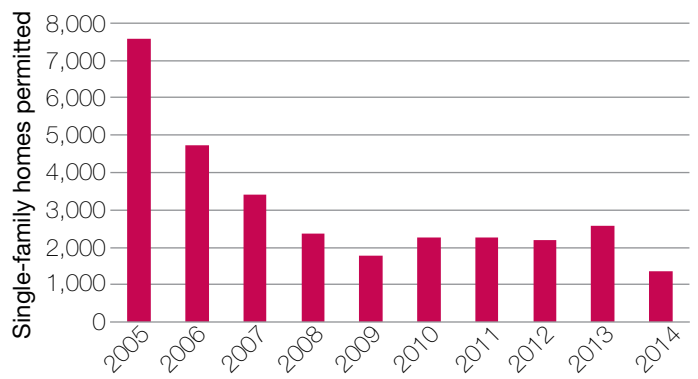


REO = Real Estate Owned.
Source: Black Knight Financial Services, Inc.

Single-family home construction activity, as measured by the number of single-family homes permitted, held steady during the 12 months ending June 2014 because developers had yet to respond to the recent decrease in new home sales.

- The number of single-family homes permitted was unchanged from a year earlier, at approximately 2,575 homes permitted (preliminary data).
- Single-family construction activity averaged 8,400 homes permitted annually from 2000 through 2006 before declining 72 percent to an average of 2,375 homes a year from 2007 through 2012.
- The notable single-family developments under construction include the Sanctuary and Bella Vista, with approximately 160 total homes at buildout. At Bella Vista, 81 homes have sold at prices starting at \$801,000 for a three-bedroom home. At Sorrento Heights, construction of 22 single-family homes is under way, with prices starting at \$723,000 for a three-bedroom home. Toll Brothers at StoneBridge has 94 homes sold and 8 available lots; prices start at \$1.2 million for a four-bedroom home.

Single-family home permitting in the San Diego area increased slightly in 2013 but remained well below the levels of the mid-2000s.



Note: Includes preliminary data from January 2014 through June 2014.
Source: U.S. Census Bureau, Building Permits Survey

Rental Market Conditions

Rental housing market conditions in the San Diego metropolitan area are currently slightly tight. The increase in the number of renter households since 2010 outpaced the construction of new rental units and the conversion of single-family homes to rental units.

- The estimated vacancy rate for all rental units (including renter-occupied single-family homes, manufactured homes, and apartment units) was 4.8 percent as of July 1, 2014, a decrease from 5.6 percent in 2010.

- The apartment market, which represents 64 percent of all rental units, is tight, with a 3.2-percent vacancy rate in the second quarter of 2014, a decrease from 3.4 percent a year earlier (MPF Research).
- The average monthly apartment asking rent was approximately \$1,500 in the second quarter of 2014, an increase of \$40, or 3 percent, from the second quarter of 2013.

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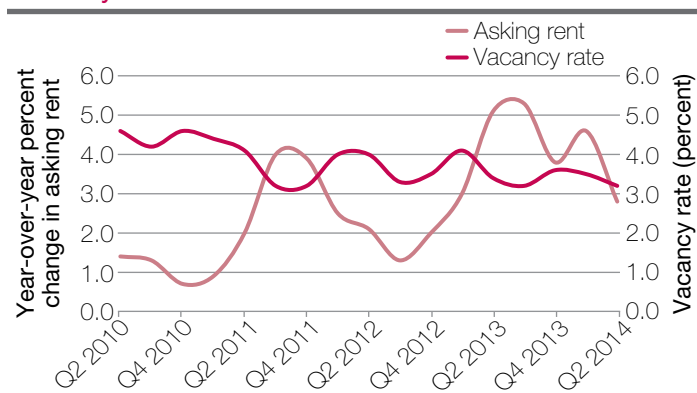


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Multifamily construction activity, as measured by the number of multifamily units permitted, increased in the past year as builders responded to tighter apartment market conditions.

- During the 12 months ending June 2014, approximately 5,900 multifamily units were permitted, an increase of 1,925 units, or 49 percent, compared with the number permitted during the same period a year ago (preliminary data).
- An average of 6,425 multifamily units were permitted annually from 2000 through 2005, with a peak of 8,275 units permitted in 2003.
- The number of multifamily units permitted decreased significantly to an average of 1,200 annually during 2009 and 2010 in response to stringent lending standards that restricted development.

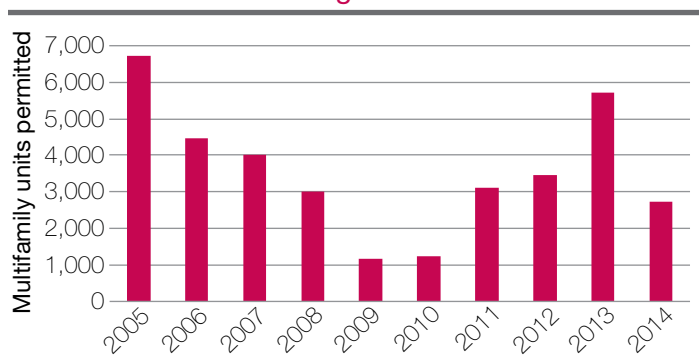
Despite increased multifamily production in the San Diego area, the vacancy rate declined and the average asking rent has increased 2 percent or more annually since 2012.



Source: MPF Research

- La Costa Bluffs, a 24-unit luxury apartment complex in the city of Carlsbad, was completed in 2013 and is among the newest rental properties in the metropolitan area, with rents that start at \$2,400 for a three-bedroom unit.
- Developments under construction that are expected to be complete in late 2014 include the 370-unit Palomar Station in San Marcos and the \$40 million, 253-unit Ariva Apartments in the city of San Diego. Several developments are expected to be complete in 2015: the 407-unit North Melrose in Vista; the \$87 million, 612-unit Civita Apartments in the city of San Diego; and the \$85 million, 480-unit Blue Sky apartments also in San Diego. Rents for newly constructed, market-rate studio, one-, two-, and three-bedroom units start at \$1,400, \$1,600, \$1,875, and \$2,300, respectively, in the metropolitan area.

Multifamily building activity has increased since 2011 as builders responded to tightening rental market conditions in the San Diego area.



Note: Includes preliminary data from January 2014 through June 2014.
Source: U.S. Census Bureau, Building Permits Survey

