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San Diego's Multifamily Sales Volume, Total Transactions Down Considerably Compared to Last Year

CoStar Market Insights: Concern Over California's Costa-Hawkins Repeal Could Explain Why Some Investors are on the Sidelines

The 379-unit Domain San Diego.

Institutional investors show sustained interest in multifamily assets in San Diego. However, the total level of investment has fallen off considerably through the first three quarters of 2018 compared with the same period last year. East San Diego, North County and Mission Valley continue to lead the way for investment, each receiving ongoing interest from institutional buyers.

Three sales have exceeded the $100 million benchmark during these first three quarters. That's only one less than last year, when four reached that level by the end of September.

Investment volume and total transactions, though, are down considerably. After three quarters, 338 deals recorded in San Diego. Last year, that number totaled 200 more. This was the lowest three-quarter stretch of deals dating to 2012.

Volume certainly reinforces that point. So far, CoStar has tracked $1.29 billion in apartment transactions through September. For comparison, $2.2 billion traded after nine months in 2017. It has been almost four years since a three-quarter run ended with lower volume.

Pricing, too, is down. Last year, apartment units sold at an average of $270,912 per unit. This year, it's down to $251,532 per unit. This was the first year-over-year price drop since 2014.

What's the reason for the slowdown? Several theories are floating around the market. On the top of the list might be concern over the repeal of The Costa-Hawkins Rental Housing Act, which was enacted in 1995 to place limits on municipal rent control ordinances. While individual cities would have the right to pass rent control measures specific to their city, the lack of specificity of where it will pass has spread caution among investors, in particular value-add investors. They have voiced concern that proformas don't pencil out at today's market price, and in fact, asking prices would have to drop substantially before a deal makes sense with rent control in place. So it might be the case that investors sit on the sidelines until after the November election. See CoStar COMP #4473349. But it's not all bad news. The year's banner deal involved a few suburban assets in August. Boston-based Intercontinental Real Estate, along with TruAmerica Multifamily, purchased the 297-unit Alterra and 230-unit Pravada at Grossmont Trolley Apartments in La Mesa for $149.5 million, or about $284,000 per unit. CalSTRS sold the leasehold interest in San Diego's largest transit-oriented development. See CoStar COMP #4457706. The deal fell closely on the heels of the sale for Domain San Diego in Kearny Mesa. Goldman, Sachs & Company and Magnolia Capital acquired the 379-unit apartment community in June from Essex Property Trust for $132.5 million at a 3.95 percent cap rate.

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