

# SAN DIEGO COUNTY

## 2003 REVIEW

With a 4% unemployment rate and continuous population growth, many segments of San Diego's economy have become very heated. Increased home values have pushed the county's median price to a point where only 16% of households could afford to buy a home in 2003; the median price for all types of homes in 2003 stood at \$379,000, up \$56,000 from 2002. As a result of escalating prices, many homebuyers are purchasing their homes in nearby Riverside and San Bernardino Counties, where sales volume experienced double-digit increases last year (*both counties combined comprised 30.8% of all home sales in Southern California*). In San Diego proper, escalating prices have led many potential homebuyers to the condominium market. To meet increased demand, developers have boosted apartment conversion activity: estimated at 4,500

units this year. While the trend in rising home prices continued to augment rent growth in San Diego in 2003, the region's suppressed (0.1%) job growth curtailed apartment demand.

- Apartment absorption totaled 99 units in the fourth quarter and 1,302 units overall for 2003, down more than 50% from last year's 2,817 units.
- Only 527 units reached lease-up in the fourth quarter compared to 725 units the same time last year. For the year, 2,171 units were delivered, a decrease of 16% from 2,612 units in 2002.
- Multifamily permits totaled 6,457 units overall, an increase of 41% from 2002, indicating that developers are anticipating increased demand.
- Average vacancy peaked at 4.6% in

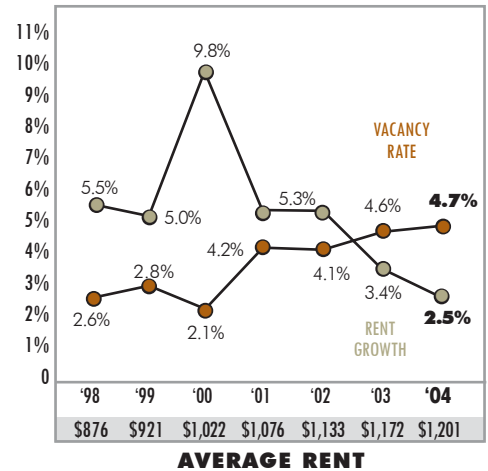
December, up from 4.1% a year before.

- Overall average rent measured \$1,172 in the fourth quarter, up 3.4% for the year.

## 2004 FORECAST

Wartime influences have shielded the county from economic woes and allowed the area to move through this recession largely intact, unlike many recession-gripped regions in the country. As a direct result of the September 11<sup>th</sup> attacks, San

**HISTORICAL VACANCY AND RENT**



## FOURTH QUARTER 2003 VACANCY AND RENT

SUBMARKETS	RENT	VACANCY	VACANCY		AVG. RENT INCREASE		AVERAGE RENT	
	2003	2003	2003	2002	2003	2002	2003	2002
Central Beach Cities	\$1,168	3.6%	2.6%	4.2%	6.9%	-6.8%	\$1,297	\$1,214
Hillcrest/Mission Valley	N/A	N/A	4.8%	3.8%	-5.0%	6.8%	\$1,267	\$1,334
East County	\$887	2.6%	3.8%	3.5%	2.9%	4.9%	\$971	\$944
Lemon Grove/La Mesa	\$1,018	3.2%	3.8%	2.4%	2.0%	3.8%	\$1,040	\$1,019
South Bay	\$988	4.0%	4.0%	4.0%	5.9%	7.1%	\$1,050	\$992
Golden Triangle	\$1,499	6.1%	4.4%	4.7%	3.8%	0.5%	\$1,344	\$1,295
North County Coastal	\$1,348	4.4%	6.5%	5.5%	1.8%	3.9%	\$1,310	\$1,287
North County/78 Corridor	\$997	2.9%	4.2%	3.9%	3.8%	4.9%	\$1,034	\$996
I-15 Corridor	\$1,238	3.9%	5.3%	4.1%	2.4%	5.0%	\$1,165	\$1,138
San Diego	\$1,120	4.9%	5.0%	4.5%	3.4%	5.5%	\$1,318	\$1,275
<b>Totals</b>	<b>\$1,111</b>	<b>4.0%</b>	<b>4.6%</b>	<b>4.1%</b>	<b>3.4%</b>	<b>5.3%</b>	<b>\$1,172</b>	<b>\$1,133</b>

All 2003 figures are through December 31, 2003. All 2004 figures are projections. Vacancy rate figures are fourth quarter. Rent growth figures reflect the last 12 months. Historical employment growth figures are annual averages, 2003 employment figures are from December 31, 2002 through December 31, 2003. \*Average mortgage payment is calculated by taking the average mortgage interest rate applied over 30 years to 95% of the market's median home price. \*\* = (mortgage - rent) / rent.

***“The San Diego fires of 2003 will propel construction and related industries with hundreds of millions of dollars in new investments.”***



Diego has seen increased defense spending, which contributed \$1.5 billion to local-based contractors last year alone. The manufacturing sector, which employs 10 percent of the local work force, has also seen an increase in demand due in large part to the Iraq War. Considering the current administration’s penchant for homeland security, defense funding remains strong for at least the next year, thus

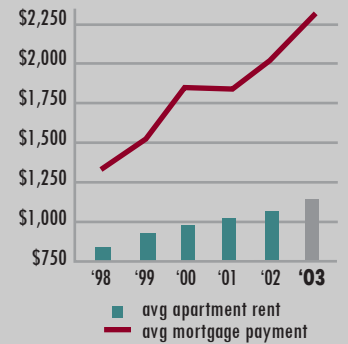
benefiting San Diego further. Local service and tourism industries are also experiencing increased consumer spending as people eschew air travel for more car accessible vacation destinations, with San Diego being one of the most traveled to cities in America.

Stunted from slowing population growth and high housing costs, overall job growth should rise moderately in

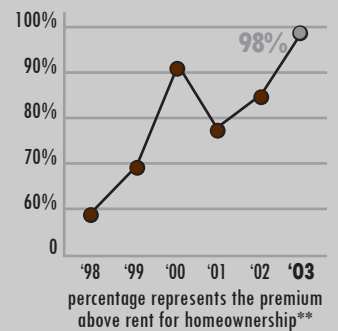
2004, to approximately 0.9% as defense and tourism related industries lead San Diego’s economic recovery, translating into 9,000 to 12,000 new jobs. An approximate 1.1% employment growth rate is expected in 2005.

Apartment absorption will remain stable at 1,400 to 1,900 units, while roughly 2,000 new units are delivered in 2004. In 2005, as interest rates push higher and more apartment deliveries are expected, absorption should increase to approximately 2,500 units. Consequently, vacancy rates should inflate slightly above 4.6% for 2004, with a potential to spike to 4.9%. In 2005, vacancy rates are expected to move downward as multifamily housing demand exceeds supply. Hence, rental rates will note a slight increase of 2.5% to \$1,201 in late 2004, accelerating by 3% to \$1,237 in 2005.

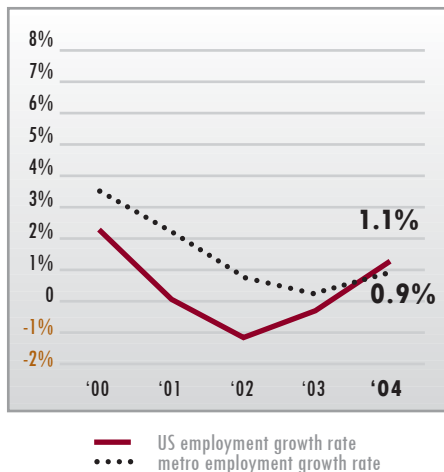
**AVERAGE MORTGAGE PAYMENT vs AVERAGE RENT\***



**SPREAD BETWEEN AVERAGE MORTGAGE AND AVERAGE RENT**



**EMPLOYMENT GROWTH RATE**



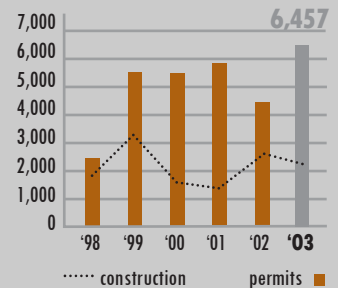
**POPULATION AND EMPLOYMENT**

	POPULATION	GROWTH	EMPLOYMENT	GROWTH
<b>2004</b>	2,937,200	1.0%	1,249,200	0.9%
2003	2,908,100	1.0%	1,238,100	0.1%
2002	2,879,328	1.1%	1,228,500	0.8%
2001	2,848,000	1.2%	1,218,400	2.1%

**2003 YEAR-END SALES**

	2003 SALES	PRICE PER UNIT	PRICE PER SF	2002 SALES	PRICE PER UNIT	PRICE PER SF
25+ UNITS						
2000+	6	\$185,948	\$190.74	7	\$158,428	\$170.32
1995-1999	0	N/A	N/A	2	\$169,028	\$156.34
1990-1994	4	\$118,996	\$172.08	6	\$149,234	\$146.19
1985-1989	26	\$129,014	\$155.59	49	\$101,642	\$123.75
1980-1984	9	\$103,867	\$117.79	14	\$116,096	\$126.65
1975-1979	17	\$99,943	\$109.85	23	\$78,364	\$90.89
1974 & Older	46	\$105,013	\$134.05	75	\$84,472	\$114.24
<b>Totals</b>	<b>108</b>	<b>\$130,771</b>	<b>\$153.09</b>	<b>176</b>	<b>\$107,033</b>	<b>\$126.58</b>

**PERMITS / CONSTRUCTION**



**ABSORPTION**

