



January 16, 2015
University of San Diego

ALEX BEATON : REAL ESTATE

619.571.9030
alex@alexbeatonrealestate.com

WHO AM I?

- Graduate of the **University of San Diego**, Class of 1997, School of Business
- **Urban condo developer** for 10 years; experienced the Great Recession
- Development consultant to large, local developers: **apartment, office, hotel**
- Active in **real estate organizations**: ULI, BIA, Lambda Alpha, Downtown Partnership
- **GOAL: Translate economic information; Apply conclusions to real estate market**



APARTMENTS

- Average asking rent up 0.2% last month to a county-wide average of \$1,447
- San Diego has the third-lowest vacancy rate in the U.S. at 2.4%, and declining
- Continued demand (absorption) is out-pacing construction and permitting
- Cap rates declined by 30 bps during the third quarter to 6.3% (inverse relationship)
- San Diego's appetite for apartments at all rates is unsatisfied; developers aggressive



OFFICE

- Average rental rate up 0.1% last month for an average of \$29.57 (\$2.46/SF/MO)
- Vacancy rate last month reduced 10 bps to 16.1%; slightly less than national average
- Only a few projects under construction; office users are consolidating space
- Cap rates increased by roughly 10 bps 6.9% (inverse relationship)
- San Diego's economy not conducive to large office uses; rather flex space desired



HOTEL

- Record number of visitors to San Diego in 2014; 16.4M visitors spending \$8.4B
- Countywide occupancy rate 71.6% (+4.4%) and ADR \$134.20 (+4.9%)
- About \$212M of TOT revenue generated in SD in 2014; up about 6%
- SD still behind by LA, SF and LV due to business visits and accessibility (direct flights)
- Encourage the construction of Convention Center 3; Funding of Marketing District



CHALLENGES TO SAN DIEGO REAL ESTATE

- Loss of Redevelopment; City needs to encourage both large and small projects
- Drought and utility costs raising the cost of construction and operations
- Over-regulation, similar to San Francisco, will hinder development; identify the process
- Need smart-growth in urban centers with walkable communities, not more freeways
- Affordability still a major issue; tax-credit apartments good, but need middle-range



OPPORTUNITIES FOR SAN DIEGO REAL ESTATE

- Empower the local community planning groups to 'manage their community'
- Construction of large projects (Convention Center & Chargers Stadium) are catalysts
- Significant investment from international buyers/investors (Mexico & China)
- Renewable Energy Incentives will help in the long-run on operating costs
- Further investment by City and County in public assets (parks, libraries, infrastructure)



OVERALL MARKET CONCLUSIONS

- San Diego to add 36,000 jobs, the best since 2012; unemployment rate down to 5.4%
- Biotech is super-hot, health care expanding, defense is strong and tourism epic
- San Diego set the standard of growth for CA, much of US; real estate is leading driver
- Housing will see stable price gains and increased demand; absorption manages growth
- Condos return with Bosa leading the pack with \$1M/Unit Pacific & Broadway project



THANK YOU



ALEX BEATON : REAL ESTATE

619.571.9030

alex@alexbeatonrealestate.com