

INVESTMENT FORECAST

Marcus & Millichap

MULTIFAMILY

San Diego Metro Area

2026

Younger Renter Pool, Out-of-Reach Home Prices Allow Apartment Sector to Remain in a Low-Vacancy State

Completions temper outside of still active Balboa Park. San Diego's vacancy rate adjusted nominally over the past three years, holding in the low-4 percent band despite the addition of 13,000 units. The size of the metro's 20- to 34-year-old demographic, who face significant homeownership barriers, is partially to credit for this steadfast demand. Entering 2026, this cohort accounted for 22 percent of the local population, the third-largest share nationally. With San Diego State University, Cal State San Marcos, and the University of California San Diego posting record enrollment, the metro's younger renter pool should remain sizable for the foreseeable future. As such, developers are most active in areas popular among recent graduates and other younger professionals, highlighted by the 1,700 units underway in Balboa Park-adjacent neighborhoods, including Bankers Hill. Elsewhere, supply pressure will be modest in 2026, with demand exceeding completions. This will counteract the effects the Balboa Park-centered supply wave has on overall fundamentals, supporting slight vacancy compression.

Broad price spectrum supports diverse pool of private investors. San Diego recorded the most multifamily transactions among U.S. secondary markets in each of the past three years, despite having the highest average entry cost among the group. Standout Class C deal flow is to credit, with these complexes accounting for 85 percent of last year's trades. Lower-tier assets should remain coveted among private investors as local Class C vacancy ranks second lowest among West Coast markets. Additionally, the \$500-per-month gap between local Class B and C effective rates will limit renter mobility, aiding property performance. Buyers targeting sub-\$300,000-per-unit pricing will find the most prospects in East County and South Bay. Those undeterred by price tags above \$500,000 per unit will be active in coastal communities and the Balboa Park area.

2026 MARKET FORECAST

+0.4%



Employment: Hiring improves modestly across San Diego, translating to an additional 6,000 roles. The traditional office-using sector, however, may continue to record job losses over the near term.

2,200
units



Construction: For the 14th straight year, developers add more than 2,000 units. The 0.7 percent stock growth projected for 2026, however, ranks as the metro's smallest annual increase since 2012.

-20 bps



Vacancy: Demand slightly outpaces supply, lowering vacancy to 4.0 percent. While this ranks San Diego among the 15 least vacant major markets, this rate also exceeds the metro's prior 10-year mean.

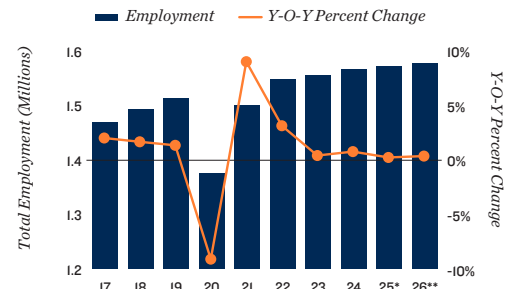
+1.2%



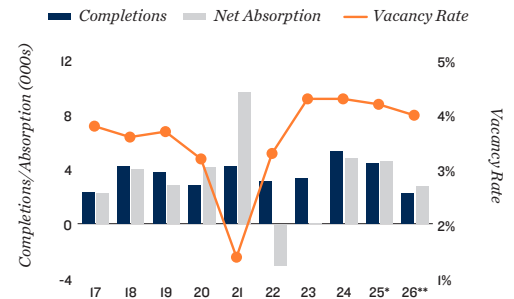
Rent: Mirroring the broader national trend, renewals are expected to drive local rent growth in 2026. At \$2,880 per month, the metro's year-end effective rate ranks as the nation's seventh-highest average.

INVESTMENT: *Nearly 2,000 affordable units were underway in San Diego to start 2026. This dynamic and stricter immigration policies may impact local Class C demand and, ultimately, private investors' decision-making.*

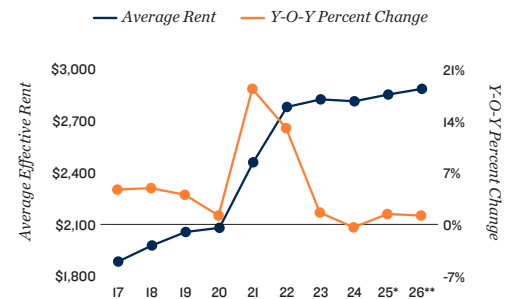
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.