

RENT

Majority of apartment construction downtown

FROM A1
bans, rent caps and high unemployment, rent throughout San Diego County has seen some of its biggest jumps in decades. Average rent in San Diego County was \$2,075 a month at the start of August, a roughly 9 percent increase in a year, according to real estate tracker CoStar. That is the highest annual increase in its records that go back to 2000.

It isn't just the price jump that is shocking — it's the 20-year low vacancy rate of 3 percent in San Diego County. Sumaray isn't just having a hard time finding a place because she's competing with other students. She's competing with everyone.

At the start of August, San Diego County was under two rent caps aimed at keeping increases down, plus a strict eviction ban that was designed to stop landlords from kicking out renters who weren't paying. A logical conclusion would be that this is a bad time for landlords to get big rent returns. But that isn't happening. CoStar is predicting even bigger annual increases upcoming: 11.8 percent year-over-year in the third quarter, 12.1 percent in the fourth quarter and 12.7 percent to start 2022.

Rental analysts point to several reasons why this is happening: Record-high home prices in San Diego County have meant homeownership is out of reach for many workers who must continue renting; wage growth is allowing renters to pay more; and COVID-19 laws aimed at keeping costs down for current renters are being passed on to anyone signing a new lease.

Joshua Ohl, a managing analyst at CoStar, said the emergency COVID-19 rent cap passed by San Diego officials this summer of 4.1 percent only affected people already in a lease, so that has motivated landlords to ask more for new leases. There is also the issue of non-paying renters who can't be evicted, again pushing landlords to target new leases as a way to increase revenue.

"Given the state of the market, and the strength of demand," he said, "landlords just have so much pricing power for available units."

Ohl said San Diego is not unique in seeing large jumps in rent. It's a trend occurring in markets across the United States. A big driver has been the historic rise in home prices, which has kept many potential homeowners as renters. National home prices were up 16.6 percent annually in May, according to the S&P CoreLogic Case-Shiller Indices, the biggest gain in its more than 30-year history.

Rent across San Diego County varies much like the housing market: Coastal areas are more expensive than in eastern and southern parts of the county. But rents are up everywhere, and even if wages have increased to make a rental affordable, many workers and students may find themselves facing much farther commutes.

'Use it or lose it' rent increases

San Diego-based FBS Property Management said it is raising rents about an average of 5 percent across its 737 units in San Diego County. Vice President Lucinda Lilley said rising prices for lumber and parts to make repairs for appliances is one of the reasons it needs to increase rents.

Other reasons include tenants not paying and her company not raising rents during much of the pandemic, resulting in a roughly 10 percent loss in revenue year-over-year.

In theory, rent relief programs are supposed to assist landlords with lost revenue, paying back and future rent for tenants who are financially struggling. However, Lilley said not all renters are willing to participate.

For example, she said a tenant she has in a city of San Diego unit has not paid a full month's rent since April 2020 and owes \$21,000. She said the tenant was hesitant to apply for rent relief but finally, at FBS' repeated urging, put in an application. Lilley found out last week the application is



BRYAN ANSELM

Sitting in her parents' home in Franklin Park, N.J., on Wednesday, Sophia Sumaray searches for an apartment in San Diego. The third-year UCSD student has been looking since March and has seen prices rise.

likely to be rejected because the renter has not responded to the city's request to turn in a W2 form.

Lilley, who is also the board president of the Southern California Rental Housing Association, said many property managers and landlords are still reacting to rent cap laws that went into effect in 2020 before the pandemic started.

The law, signed by Gov. Gavin Newsom in October 2019, says landlords cannot increase rent more than 5 percent plus inflation. San Diego County's inflation rate in March was 4.1 percent, so that would limit rent increases to 9.1 percent.

She said the rent cap means landlords are in a "use it or lose it" scenario because many did not raise rents last year, so they are attempting to make up for it by increasing rates now.

Where you live

The majority of new apartment construction in San Diego has been downtown for several years, especially in East Village and Little Italy. But, it isn't always the best solution for a worker who has a job far away — at least for now.

Vacancy rates downtown are now at their lowest levels in years at 9 percent. That is still the highest vacancy rate of any region of San Diego County but is substantially less than just a few years ago when there was a surplus of new towers opening. In the third quarter of 2018, the vacancy rate was 27.5 percent in East Village where most of the complexes were opening.

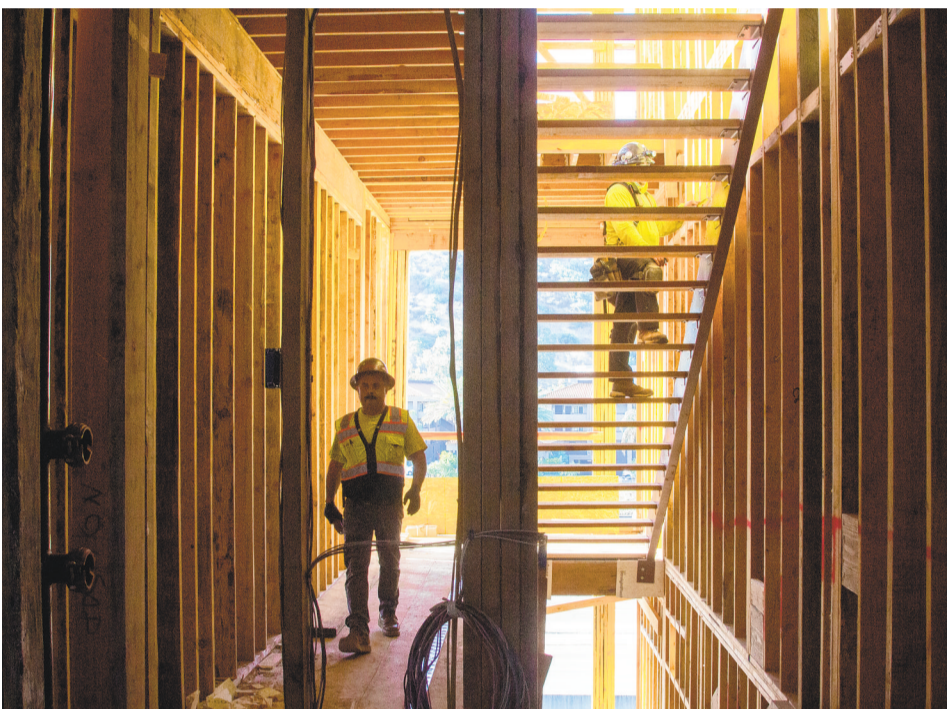
Ohl said renters are more eager now to snap up units because of rent promotion programs and the stability of having an apartment for a year or more is appealing. There are several rent deals in East Village that vary from building to building and often depend on signing at least a one-year lease: The Shift complex is offering four weeks free, Park 12 is offering up to 8 weeks free, and the recently opened Diega building is offering up to six weeks free.

A big boost for downtown could be the completion of the Blue Line extension of the San Diego Trolley, which could take workers and students to University Town Center to some of the region's highest-paying jobs and UC San Diego. Its estimated opening date is Nov. 21.

A bus commute from East Village to UTC takes roughly 1½ hours and requires three different buses. The trolley is expected to reduce that time to roughly 39 minutes, likely faster than a car because it will bypass congestion on Interstate 5, and be an easier riding experience because there would not be so many changes.

The biggest rent gains — 23.1 percent in a year — are in UTC, in part because it is the closest neighborhood for UC San Diego students. There are nearly 3,200 students on a waiting list for housing after the university decided to limit housing density on campus given virus concerns. The decision to change three-bedroom dorms to two-bedrooms wiped out nearly 2,100 beds.

UTC is also near Sorrento Valley, home to San Diego's surging life sciences industry — which has seen increased importance, and growth, during the pandemic. The average asking rent in UTC is \$2,899 a month, said CoStar, bested only by the monthly average of \$2,947 in the north shore cities of Del Mar, Encinitas and Solana Beach.

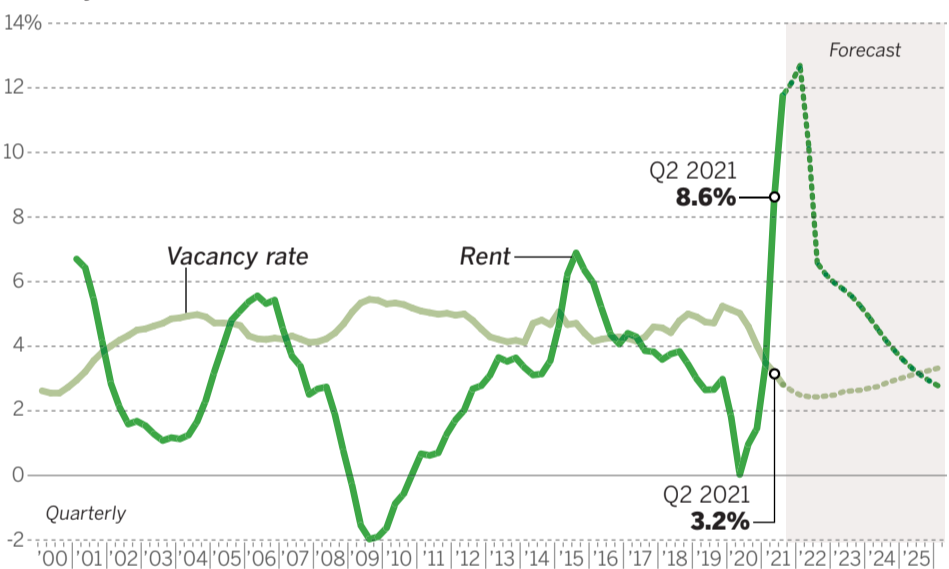


BRITTANY CRUZ-FEJERAN U-T

Construction workers make progress on the new Witt Mission Valley Apartments on Thursday. The 277-unit complex is scheduled to open in March.

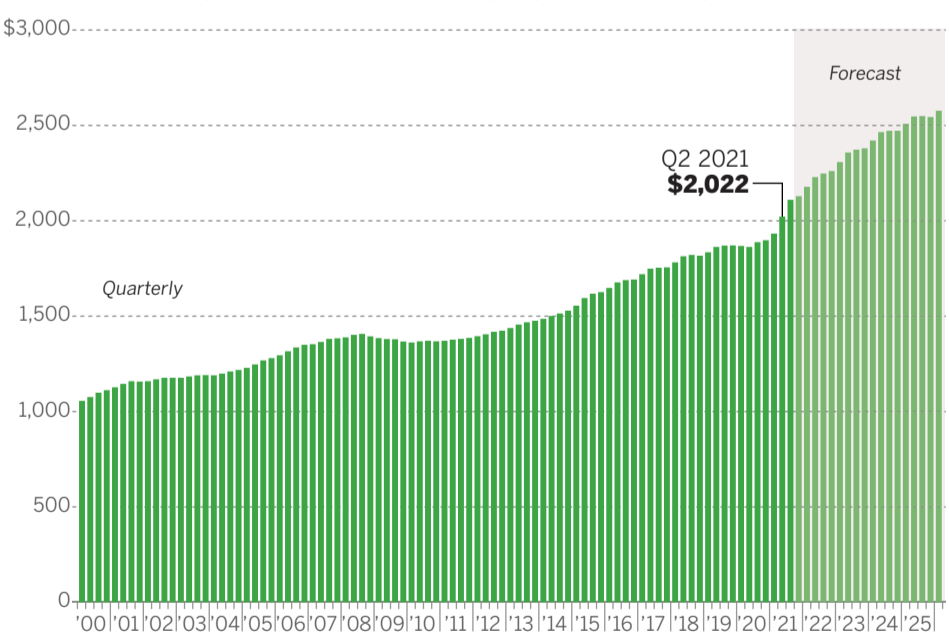
Rents rise, vacancy drops

Rent in San Diego County is up annually by nearly 9 percent while vacancy has shrunk.



San Diego average rent

Rent in the county reached an all-time high by the second quarter.



Cities with highest median rent price

Monthly rent for one-bedroom apartment during July 2021.

San Francisco	\$2,720
New York	\$2,680
Boston	\$2,300
San Jose	\$2,170
Washington, D.C.	\$2,060
Los Angeles	\$2,000
Oakland	\$2,000
San Diego	\$1,960
Miami	\$1,790
Santa Ana	\$1,790

Third quarter 2021 estimated.

Sources: CoStar; Zumper

MICHELLE GILCHRIST U-T

The lowest rents are in National City around \$1,517 a month; East San Diego and El Cajon with a monthly average of \$1,606 a month; and the Poway/Santee/Ramona region at \$1,740 a month.

A hope of many housing advocates is more apartments will be constructed and help slow demand. The

building industry kept working throughout the pandemic and was able to build 18 percent more housing in 2020 than in 2019. Construction of 6,326 multifamily homes — apartments, condos and townhouses — increased 26 percent from 2019.

Several large projects are

expected to open at the end of this year and in 2022, such as the 277-unit Witt Mission Valley complex, the 368-unit Modera in East Village and 618-unit Broadway Towers, also in East Village.

Moving out of San Diego for cheaper rents is an option, but all metro areas have seen gains over the last

year, and America's Finest City might not be as bad as other job hubs, according to data from real estate website Zumper.

Looking at the median price for one-bedrooms, Zumper said San Francisco was the most expensive in June at \$2,720 a month. It was followed by New York at \$2,680 a month and Boston at \$2,300. San Diego was the No. 8 most expensive with its estimate of \$1,960 a month (Zumper's data differs slightly from CoStar).

San Diego's economy

There are thousands of San Diegans struggling because of business closures due to COVID-19. But the overall picture of the economy isn't so bad to some analysts — which means there is more money to spend on rent.

Chris Thornberg, economist and founding partner of Beacon Economics, said income growth mixed with a low supply of available rentals will continue to push prices up.

"The economy is popping like nobody's business," he said. "GDP is up, we've gone past pre-pandemic levels of economic activity, job growth is strong, wage growth is strong and Lord knows the housing market in California is up."

Despite a lot of reasons for economic worry, such as the spread of the Delta variant, Thornberg argues the economic data is better than some might think considering we are still in a pandemic.

Data from the National Multifamily Housing Council, which tracks more than 11.7 million apartments, said 80.2 percent of renters made a full or partial rent payment in the first week in August. That's around the same rate of payment in non-pandemic times. In the first week of April 2019, 81.2 percent of renters made a payment.

San Diego County's unemployment ticked up to 7 percent in June, still much higher than usual. Although, much of the reasons experts gave for not returning to historic norms is open jobs remaining empty as workers take their time coming back. This has led some restaurants offering up to \$20 an hour for dishwashers and businesses giving bonuses to workers who will return.

Even if the economy is not in shambles, it is still tough to be a renter in San Diego County if you are on the low end of the pay scale. A new study from personal finance website Smartest Dollar said San Diego had the third-largest rent gap of the large U.S. metros. It said the wage for a one-bedroom apartment is \$33.52 an hour, but the estimated hourly wage for renters in San Diego is \$16.71.

It could still be worse, according to data Smartest Dollar used from the U.S. Census, Department of Housing and Urban Development and Bureau of Labor Statistics. It said the renter wage gap was higher in the metro areas of New York, San Jose, Boston, Los Angeles and San Francisco. The website said the biggest gap, in San Francisco, required an hourly wage of \$48.26, while the estimated hourly wage for renters was \$21.77.

While CoStar is still predicting rents will continue to rise for the rest of the year, Ohl said it's possible the end of the federal eviction moratorium in early October could increase inventory and slow rent growth. He said the end of the moratorium will likely mean some renters have no choice but to move out of the area.

"If you've been locked into an apartment where you haven't been able to pay rents," he said, "you're not going to be able to pay these rents that are 10 or 15 percent higher than they were a year ago."

Sumaray, the UC San Diego student still looking for housing, can't wait for a seismic shift in the market to get a place. She said she has contacted roughly 50 individuals and landlords about apartments and keeps being told units have been rented. In fact, she received an email that she missed out on place while being interviewed by The San Diego Union-Tribune.

She has now linked up with two other students to search for apartments to keep costs down. But her frustration with the university's lack of housing and the difficult rental situation is growing.

"I just end up applying to places every single day," Sumaray said. "I feel really crappy."

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