2023 San Diego–Tijuana Region

Real Estate Trends Report

ULI San Diego/Tijuana

Welcome to the San Diego–Tijuana Region
2023 Emerging Trends in Real Estate Report.

Justine Nielsen
Chair, ULI San Diego – Tijuana District Council
Senior Vice President of Development, IQHQ

My fellow ULI members,

The report in front of you represents months of dedicated collaboration and insight from experts in our San Diego–Tijuana Region. I am pleased to share the 2023 "Emerging Trends in Real Estate" local report--an exclusive release of the San Diego – Tijuana binational district of the Urban Land Institute.

The Urban Land Institute (ULI) is a leading voice in land use and real estate development regionally, in the US and throughout major markets globally. The "Emerging Trends in Real Estate" is a research and forecast publication now in its 44th edition, and is one of the most highly regarded reports in the real estate and land use industry. Building from this national prestige, the local trends report is the third release from our San Diego – Tijuana district.

With global market uncertainty dominating headlines in 2022 and fears of recession looming top of mind for many, the 2023 national trends report explores many topics worth of serious consideration. Similarly, this local report analyzes these topics on a micro level, generally concluding that the San Diego – Tijuana region appears to be in strong condition headed into the new year. Beyond the forecasted trends pertinent to our region, this local report also digs deeper into the projects, people and policies that are shaping the future of this unique binational community.

Thanks to the generous expert authors selected from our district membership, we believe you will find the following sections valuable in planning for the year ahead. We have taken the past few months to not only survey real estate leaders from across our district, but also to interview leading figures for their insights on key market sectors including Office, Industrial, Hotel/Hospitality, Retail, For-Sale Housing, Rental Housing and Affordable Housing.

We appreciate the strong participation from both San Diego and Tijuana members in our 2023 Trends Survey. These responses helped us to assemble a complementary analysis that provides a local reference point to our national trends survey.

I look forward to your comments and conversation on the San Diego – Tijuana district's Emerging Trends in Real Estate report. Thank you for your continued support of our work to shape the future of the built environment for transformative impact in both our local communities and communities worldwide.

Sincerely,

Justine Nielsen

District Chair 2020-2022, San Diego/Tijuana ULI
Senior Vice President of Development, IQHQ

ULI San Diego–Tijuana would like to thank and recognize the many people who contributed to this local Real Estate Trends Report.

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Notice to Readers

This report is a forecast publication produced by ULI San Diego–Tijuana with the support of industry members from throughout the region. It is inspired by the Urban Land Institute's Emerging Trends in Real Estate report and based on the best available information at the time of writing.

The San Diego–Tijuana Trends Report seeks to provide an informed outlook on real estate investment and development as understood by ULI San Diego–Tijuana and our contributing authors. The analysis, views and opinions expressed herein are those of the contributing authors and not necessarily their employers, the Urban Land Institute, or the ULI San Diego–Tijuana chapter.

The material that follows was developed from a number of sources: interviews, research by individual contributing authors, surveys, and forecasting. Contributing authors to this report are identified at the beginning of each section and are responsible for the content of their chapters.

While the information contained in this report represents informed analysis of the San Diego–Tijuana real estate market, it should not be used to make business decisions in lieu of professional consultation.

2023 **San Diego–Tijuana Region**

Real Estate Trends Report

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Executive Summary

by **Gary H. London**
Senior Principal, London Moeder Advisors

> The future of the San Diego region is shaping up to be urban as it continues to transform from horizontal to vertical.

Is This Our Year of Chaos?

This past year was characterized by a lot of "ends," including:

- The end of a pandemic
- The end of low interest rates
- The end of work as we know it
- The end of suburban housing

There are nuances to all of this. We do not know, of course, whether the post-COVID cycle of economic prosperity will come to an end as a victim of the Federal Reserve's relentless efforts to curb inflation by raising interest rates. As of this writing, things that matter are still very much in the positive: gasoline prices are below their level of one year ago, unemployment remains low, consumer confidence is up. But the stock exchange is wobbly. Food prices are way up. Interest rates have risen to untenable levels if you are building something, shopping for a mortgage, or just keeping a balance on your credit card.

There is a lot of anxiety out there. The Feds have a very spotty record of succeeding in achieving the mostly fictitious "soft landing". Perhaps the more apt analogy comes from the year's hottest cinema success – Top Gun Maverick – and envisioning Tom Cruise landing an F18 in stormy weather on a rolling aircraft carrier. That is the task of the moment, and its results during this year will likely determine whether the economy will eventually enter recession, or not.

Of more immediate concern is how the San Diego regional economy will fare amidst this uncertainty. We are likely to fare well, owed to our very diversified economic base, the foundation of which is the large military presence which is responsible for over 350,000 jobs in a 1.3 million jobs region. The point is that the government always meets it payroll. Even if there is another "tech wreck", that sector accounts for 175,000 jobs, while life sciences support another 178,000 jobs. The two sectors together are not large enough to cause regional economic slippage.

But somewhat like the plight of many working-class San Diegans, the military doesn't pay enough to sustain a very high quality of life in increasingly expensive San Diego, and that cost-of-living issue continues to fester both above and below the surface of most of our local issues.

If you are on the front line working – in a hotel, restaurant or retailer – you likely are finding it difficult to manage your rent payments, which are at their highest levels ever, although presumably peaked. And forget about owning a home.

If you are the head of a family, your housing choices are slim. Certainly, you are not going to find a new single-family home, except perhaps in South County, and even there record high prices make most housing unattainable for the many. Most will be residing in a multi-unit dwelling and enjoying a new kind of San Diego lifestyle.

IQHQ Research and Development Project once complete will be the largest urban commercial waterfront site along California's coast.

But if you are part of the emerging large, well-heeled high technology or life sciences workforce, a growing number of whom are transplants from the even more expensive Bay Area or other pricey coastal California locations, San Diego is a veritable bargain. It is that bargain that is driving a thriving and growing professional services sector.

These sectors have made certain North County locations hotspots of commercial success and high property valuation. There is a movement that hopes to transplant that success to Downtown San Diego. The year 2023 should see the opening of the 1.7 million square foot IQHQ RaDD project, most of which is office and lab space targeted by its owners for life science companies. It will be closely followed by the completion of other large commercial projects including the reincarnated Horton Plaza and the Courthouse Commons on West Broadway.

Demand for the new millions of square feet is either going to come from new tenants, particularly those representing the heretofore not-present-in-downtown technology and life science clusters, or tenants are going to be cannibalized from existing office spaces.

The new space is better. It is better located. It is newer. It has better floorplates. It has better amenities than any of its brethren along B Street or East or West Broadway. There should be no concern for the new inventory. It will fill. The concern should be for the old inventory. It could empty.

Regardless of the pressure and the outcome from this new inventory, the struggle for the coming year will be how to keep commercial occupancies up when companies are downsizing. The emulsification of "flex" working (e.g., the ability to work from anywhere) is currently positioning the office sector with high vacancy rates, lower lease rates and a general compression of office space need. The post pandemic period is also being characterized by a transition to how many of these buildings will be occupied at any level approaching normal stabilization. Some may eventually face demolition.

Downsizing would be a better outcome for the retail inventory around the region. Many retailers and restaurants have closed, or never reopened from the pandemic closures. What to do with all of this shuttered space?

Complete Communities

One answer involving older commercial inventory is along the old corridors of east San Diego, such as El Cajon Blvd., University Ave. Market St., Etc., is the City of San Diego's Complete Communities program, which is putting its stamp on the reincarnation of these areas to new residential enclaves, composed of mostly vertical multi-family projects. Simultaneously, the City of San Diego has been in a frenzy to update its community plans in Mira Mesa, University City and the College Area, to name a few, and inviting a smooth-as-possible transition to higher densities, mixed use and more urban forms. Most of the other communities throughout the San Diego region are getting in on the act, with updated plans which will almost certainly open the door to urbanization, density and verticality.

This planning activity is a piece of a puzzle to accommodate more housing, which the region needs. We are not going to achieve this housing as new communities or new suburbs. That door is effectively shut. The poster child was Newland Commnities proposed 2,100-unit master plan on 2,000 acres along the I-15 corridor north of Escondido. That project was lost to public vote a couple of years ago. Its main antagonist were the owners of the Golden Door Spa, who funded the resistance.

Ironically, the Golden Door bought the property from Newland toward the end of last year. Presumably their intentions will remain not to develop, or at least not intensely or as a land bank for future development.

While heralded as a victory for environmentalism, one can be challenged to stand on the site and watch the two way congestion along the adjacent I-15 corridor – mostly commuters traveling to and fro, from their jobs in San Diego to their homes in Temecula, and back again—and wonder how all of that carbon emission is an environmental victory.

No New Suburbs

In 2022 SANDAG dropped its new Series 14 projections, which forecasts a 2020 to 2050 reduction of 240,000 persons in San Diego from its Series 13 estimates mostly due to lower fertility rates. The total is projected to be 3.74 million, adding to our current 3.3 million population. If our future plays out that way, it supports the idea that the transition to exclusive production of multifamily inventory makes sense. But the projection is highly suspect, is likely to change in future forecasts, and shouldn't take the pressure off the need to seriously revise the current philosophy of eliminating green field development in San Diego's unincorporated areas.

The County's adoption of new Vehicle Miles Travelled (VMT) rules is likely to contribute to the pressure against development in the hinterlands. The bottom line is that there is a need for housing, the need is insatiable and the imbalance of supply vs. demand is likely to be perpetual, resulting in ever increasing pressure on the existing communities to densify and add housing. Tthere is no realistic chance to achieve lower lease rates or housing prices.

Another major end-of-the-year development in the City of San Diego was the failure of the new Short Term Rental policy to attract enough owners to hold the promised lottery which would allow a limited number to continue to operate. Apparently, there were not enough short-term rentals to matter. This was supposed to be a return- to- primary- housing initiative. So far it is a new policy initiative emblematic of policy overreaction to a problem that may never have existed sufficient to justify all of the angst over it.

Midway Rising

The City chose one of the applicants, dubbed "Midway Rising" stewarded by Zephyr, to redevelop the 48-acre Sports Arena property, the signature piece of the updated Midway community plan which may one day transform one of San Diego's most derelict and confusing neighborhoods. The previous winner, Brookfield, didn't even make this final cut, having previously lost the opportunity when a Judge overturned a citizen vote allowing the elimination of the 30-foot coastal height limit. The City corrected the environmental oversight that caused the overturn, and the matter went back to the voters to reaffirm their initial approval.

Proposed revitalization of the Midway District by Chelsea Investments, Legends and Zephyr. Architect: Safdie Rabines

Now begins the long slog to implement the plan. The winner stepped up and committed to provided low- and moderate-income housing counts which the State of California mandated to public agencies when they provide public lands for development. It remains to be seen how and if they can pull this off because it is a mandate that challenges project feasibility and will undoubtedly bid up the price of market rate housing to achieve feasibility.

On the heels of the Midway activity is the NAWAR site, a gargantuan 70+ acre property which has recently housed the U.S. Navy's technological arm. The Navy wants to horse trade: a developer would build a 1.1 million square foot building in exchange for development of the remainder piece. The NAVWAR property is the southern bookend to the greater Midway Pacific community. A deal is scheduled to be cut later in 2023 after a developer is selected through an RFP process. The result is likely to be a mixed-use project dominated by thousands of vertical housing structures.

CBD Distress

The past year also saw a crescendo of concern for the homeless, with many new local and state mandated policies enacted to combat the tents, filth, and sadness of a very complex problem.

We are not alone with this problem, of course. Homelessness is rampant, cursing such places as Downtown San Francisco, and most anywhere in L.A. In fact, its new mayor has made homeless issues her top priority, staking her political future on solving it.

Solutions have proven to be elusive. The result is that urban places like Downtown San Diego are feeling the pressure.

This is an emerging concern in the political and land use community for Downtown. San Diego's Central Business District, like others across the nation, is in an obvious transition which is likely to redefine the role of CBD's within the greater region. The Pandemic took workers away in great numbers, and they have not returned in great enough numbers. This feels like a permanent downsizing as companies and employees are in a new era of redefining work. While the residential development activity remains robust, there are serious issues for the future.

There is no apparent viable, cohesive redevelopment plan to address many of the big issues which include homelessness, empty offices, retail and restaurant closures, etc. The era of redevelopment agencies (Remember CCDC?) has long since passed by order of the State, and little to replace them programmatically, financially or for long range planning.

The downtown eco system is changing and it seems to be producing a lot of chaos.

There are ideas. The Mayor created a Task Force to find a solution for a new City Hall. It's likely that that solution lies in the redevelopment of its existing properties, with a low- and moderate-income housing add. But we have heard this story before, and it remains to be seen during this year how they intend to pull it off. Meanwhile the State is moving forward with the redevelopment of its two-block site to the west of the Civic Center by selecting The Michaels Organization as the developer, while the California Theatre building is in rigor mortis with the bankruptcy of its developer, and an obvious full block redevelopment opportunity hasn't gotten traction with the other landowners on that block. It's an important block because it is the gateway to a long moribund C Street Corridor, highly in need of redevelopment attention.

Is This the Pivotal Moment?

The past year also saw the opening of the "Blue Line" trolley corridor, connecting eastern La Jolla, UCSD and UTC with points south, culminating in Downtown, where UCSD just opened its new East Village "Urban Campus". It remains to be seen whether the billions of dollars cost is justifiable through ridership. There is also talk of a Trolley line into Tijuana. This is the San Diego–Tijuana district council of ULI, which could move from name to reality if such a transportation connection were to ever come to pass.

UC San Diego Nuevo East Graduate Student Housing, Design-Build by Hensel Phelps | Mithun, Photo by Bruce Damonte

What remains certain on the transportation front is the need to plan for multi-modal solutions. This is highlighted at the SANDAG Board as they vigorously debate how to raise transportation funding and where to spend it. If electric cars are our future, then the gas tax needs to be replaced by something else, presumably taxes attached to vehicle miles. This is proving to be a hard sell and has turned into a political hot potato.

Riverwalk will be a vibrant Mission Valley neighborhood. Hines development, Architect: Gensler (rendering by Gensler).

But the future of the San Diego region is apparently shaping up to be an urban future, as our region continues to transform from horizontal to vertical, not just Downtown, but along the coast and across its municipalities. Growing up is hard to do, particularly in this region where resistance to change has been the political rallying cry for so many decades. But this seems to be the pivotal moment.

This Executive Summary highlights the deep dive into all sectors of land use, and those policy issues affecting land use. ULI also conducted its annual Trends Survey which includes insights from both the San Diego and Tijuana Spanish surveys. Some key points:

- While the national economy is a major concern, District Council respondents expressed having high confidence in the San Diego area.
- Similar to last year, respondents view housing and homelessness as major issues, and they would like programs oriented to these and action taken. In addition, they were willing to personally commit support/be an advocate for key solutions, believing these include multiple things that might need to be prioritized. Comments voiced include frustration of these issues not being resolved.
- Costs (construction, entitlements, land, taxes, capital) and timelines (approvals, permitting, entitlements, etc.) are major local concerns that were voiced in numerous questions.
- Consensus of multiple recommendations for keeping neighborhood character and sense of place, which was voiced as being very important.

Here is a brief tour of what our Expert panel addresses in detail in this year's Trends report:

Residential For-Sale

Brookfield's Peter Dennehy surveyed the residential for-sale market. He offers up a national overview, then drills down to San Diego. While limited new projects prevent us from looking like much of the rest of the nation, the local for-sale housing market has slowed, with minimal finished inventory preventing a more substantial decline. Projects with lots and inventory homes are selling, although supported by sizeable incentives. Steady job growth supports the San Diego County housing market, particularly in high-paying industries.

Residential Rental

The San Diego apartment market remains characterized by record-low vacancies and still strong rent growth, even after a slowdown following the highest year on record in 2021. According to CoStar, annual rent growth is around twice the historical average going back to 2000. Aside from new apartment buildings offering around one month of free rent on average, concessions in the market are minimal.

Hotel

Growth should be sluggish in 2023 due to the continued rate increases by the Fed, according to hotel expert Robert Rauch. As the world adapts to "the new normal" following a period of limited international travel and national lockdowns, travelers are eager to get out and see the world. The 2022 hotel stats demonstrated that it was a great year, surpassing 2019 numbers, especially in average rates as inflation drove up costs everywhere. Strong lodging demand in 2023 will support pricing, but most occupancy gains will be in the group and corporate market, as leisure business has peaked. Short-term rentals continue to do well (Airbnb, VRBO, Marriott Apartments—newly announced on 11-9-22) and all facets of the industry continue to perform well. Today, the cost to buy a hotel is less than to build, so new development will be muted in 2023.

Mission Pacific Hotel (opened in Oceanside, May 2021), a JdV by Hyatt Hotel.

Retail

According to retail leasing expert Steve Avoyer of Flock & Avoyer, San Diego county remains a highly desirable target market for retailers, restaurants, and lifestyle uses but significant barriers to entry and supply constraints contribute to a highly competitive marketplace. Supply chain disruptions continue to reverberate, labor shortages and high inflation continues to stress retailers, restaurants and their customers. But sales volumes are gradually recovering following the pandemic. This hasn't stopped the bleeding in commercial retailing, but the situation is stabilizing. Driven in part by department store closures and a demand shift towards mixed-use environments (live work play), select regional malls are seriously evaluating strategic repositioning. The name of the game in retailing seems to be less space at higher quality

Industrial

Overall, San Diego maintains many strengths as a prime industrial market for tenants, investors, and developers, reports Bret Morriss of Cast Capital Partners. He does warn of what he terms "significant economic headwinds", combined with less pandemic-related demand, which could slow the non-stop growth the San Diego region has seen during the past several years. Even though 2023 holds a lot of uncertainty for prices, rent growth, and transactions, industrial real estate seems better equipped to weather any economic storm. As evidenced by many developments this year, one of our region's strongest assets remains a close relationship with Tijuana and our binational cooperation to strengthen commerce and increase prosperity. Industrial real estate is tied to this growth and despite short-term headwinds, will continue to grow over the long-run in fundamental value and demand for the San Diego–Tijuana region. Strong demand drivers continue to fuel fundamental value for a product type that is essentially irreplaceable, given its character of low intensity use covering large floor plates.

> As evidenced by many developments this year, one of our region's strongest assets remains a close relationship with Tijuana and our binational cooperation to strengthen commerce and increase prosperity.
>
> *Gary H. London, London Moeder Advisors*

ULI Emerging Trends in Real Estate, National Report
Insights for San Diego

Q&A *with* **Andy Warren**

Director Real Estate Research, PwC; ULI National RE Trends Report Co-Author

> The combination of supply chain shortages and the money that's flooded the economy, that is still circulating, not as fast as it used to, will result in one to two years of higher-than-normal inflation.

Q. 2022 was a tumultuous year for the economy, will there be a new normal?

The key theme of the 2022 Real Estate Trends Report was a new age of uncertainty, and we are living that right now. We don't exactly know where things are going. We're going to be in a higher inflation environment going forward, although to be clear it is not at a 40-year high, but by the time it does come down it's going to be a little higher than before. Along with higher interest rates capital is more expensive.

We have people working in the real estate industry that have never been through this type of economic environment. My opinion is that we're looking at 2024 before we get through all this, but my hope is that rather than seeing the entire economy thrown into a recession, that we see these smaller rolling recessions by industry category or segment.

The 24-7 news cycle has exacerbated the problem. There is so much coverage on every little nuance that markets seem to react to rumor rather than to actual news. This was less of an issue in past cycles. There has simply not been enough time to see if we're experiencing established trends vs. a market hiccup. There have been mixed signals, as well, because of inflation things are rough. Interest rates have slowed the economy, but the labor market still looks healthy.

Q. What surprised you the most preparing for this year's report?

I was a little surprised at how concerned people are over the speed of growth among those located in high-growth markets. For example, mature markets that have experienced growth over a long time period have governmental and physical infrastructure with more elasticity to expand and contract. Smaller cities/regions dealing with explosive growth are struggling. Firms and companies that decided to relocate to markets like Austin and Nashville are now demanding housing for employees, increased mobility infrastructure, etc. Demand has impacted housing prices – perhaps housing is not as affordable as it used to be.

With high-growth cities struggling does that at some point detract from their appeal? Do higher housing prices and traffic jams on local freeways make companies think twice about uprooting operations? Interesting repercussions for a place like California.

Q. Now that we are two years into changing work habits, what are ULI members in the office market predicting and/or experiencing?

If there is any category of real estate I would drill down on, it would be the commercial office market. Everywhere I've been the office market is different. In gateway cities that require more arduous commutes, people seem more resistant to going back to the office, at least full time. If you are located in an area where the commute isn't so bad, and you're not having to get on mass transit, employees seem more willing to return. They still want the flexibility, and most like the idea of not going in if they can work from home and be more efficient. But it's not black and white - I won't go back in, or I'm only going to be in a few days a week.

It also depends on the industry, business, and type of office locations. For example, many working in life science or labs have to be in the office. When you think about San Diego that has many office parks and people have located around those office parks – maybe going into the office isn't so bad.

There is probably about 5-30% of office space that we don't need. Space that is obsolete, will not lease and businesses are looking for the best of the best with amenities. Adaptive reuse in terms of turning office buildings into housing sounds like a great idea but is harder to execute than people think. Markets like downtown Manhattan (Wall Street) and Los Angeles went through this cycle in the 1990s, but it is challenging to do at scale.

Q. Everyone is talking about housing, what is your view?

Housing is now a national problem as opposed to just an individual market problem. And we've talked about it before, but housing is now officially expensive everywhere. To control growth the FED had housing has squarely in its sights to slow the market. If there is one topic, I get asked about the most are for examples of policies or projects or ways to approach creating more affordable housing.

In regard to community push back, its hard change the psychology of the thing when everybody is looking at it from different angles. We may have to change what we want from housing, and how we view it, and to make it more affordable to get there.

Real Estate Outlook 2023

Insights from District Council Members

by **Belinda Sward**

Founder & Chief Strategist, Strategic Solutions Alliance

> Membership wants a seat at the table to shape development of their neighborhood and their city, to address housing issues, including decreasing costs and red tape.

The 2023 San Diego–Tijuana Region Real Estate Trends Report reflects the views of individuals who completed surveys or were interviewed as part of the research process for this report. An online survey was sent to selected members of the San Diego–Tijuana District Council, and interviews conducted with key real estate professionals and public agencies.

Approximately two-thirds of selected approximately 800 active members participated in the online survey and/or were interviewed as part of the research process for this report. This included a Spanish survey completed by select members in Tijuana.

Survey participants and interviewees represented a wide range of industry experts in San Diego and Tijuana. These included real estate developers and homebuilders, architects, urban planners, brokers, government and public agencies, lenders, investors and consultants.

Our past San Diego–Tijuana Emerging Trends in Real Estate reports have proved to be good resources for the district council membership. More than two-thirds of the research respondents indicated they reviewed the 2022 report. Of these almost all (99%) found the report relevant to their business. In addition, 84% noted that they either shared all or portions of the report with their team and/or clients.

Throughout this publication, the views of the respondents to the online surveys and/or those interviewed for this report have been presented in graphics or direct quotations.

KEY THEMES FOR 2023

Strengths of San Diego, Housing Shortages, & Density by Design

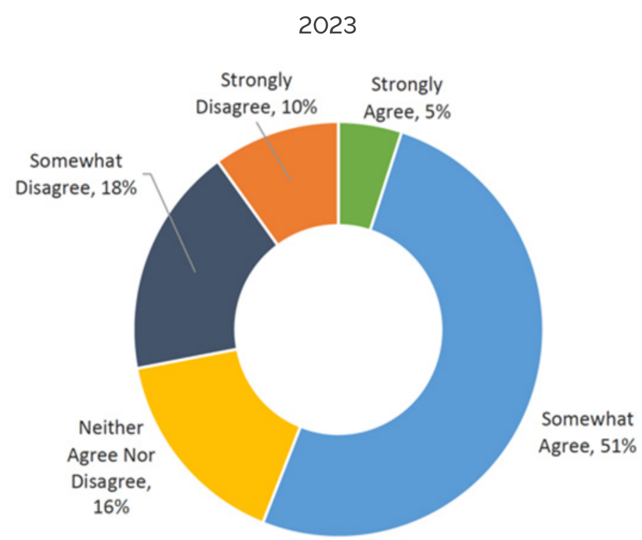
Some key themes that emerged during the research and interview process for the 2023 report included building upon strengths of San Diego, addressing housing shortages, and implementing density (as a way to provide housing) using proven design principles.

Membership wants to be an advocate. They want to have a seat at the table to shape development (building upon strengths of San Diego, addressing housing shortages and implementing density) of their neighborhood and their city. This includes decreasing costs and red tape that prohibit housing and other real estate development solutions. These are discussed below, including responses to the survey questions that revealed the insights for these key themes.

Strengths of San Diego

While respondents acknowledged they are feeling the impacts of national economic challenges and uncertainties, many expressed cautious optimism and hopefulness for the San Diego–Tijuana region in 2023 and/or beyond. As shown in the graph, over half (56%) of the respondents indicated they have confidence to make long-term strategic real estate decisions in the current environment. Only 10% strongly disagreed with having such confidence.

This percent distribution is fairly similar to responses in each of the past two years. We have weathered the impacts of COVID-19 and related disruptions. Research respondents indicated they are at least fairly confident that they can make long-term strategic real estate decisions in light of the current and projected economic challenges.

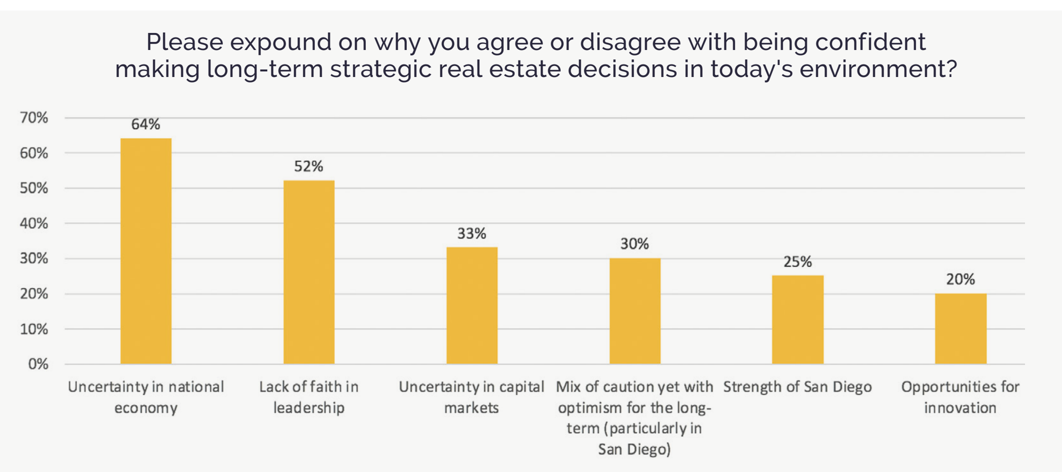


When asked in an open-ended question to expound on their answer, respondents most often voiced concerns about uncertainties in the national economy and capital markets as well as lack of faith in leadership. Even so, many pivoted to take an opportunistic and hopeful viewpoint of longer-term development and investment opportunities, especially when considering the local regional economy and real estate markets.

Most Trends, Issures, Problems, and Changes for the Region	
Total of Somewhat & Very Important	
Interest Rates & Cost of Capital	100%
Inflation	97%
Jobs & Income Growth	97%
Qualified Labor	91%
Capital Availability	91%

Having a longer-term view was particularly expressed among full members and those that have been in the industry for more than ten years. This included taking time to prepare for things ahead and taking advantage of opportunities to innovate.

Of the economic challenges we are facing, rising interest rates and cost of capital (including cap rates), inflation, and jobs and income growth were noted by survey respondents as the most concerning issues. These were voiced by near all (97-100%) of respondents, including comments regarding recessionary fears.

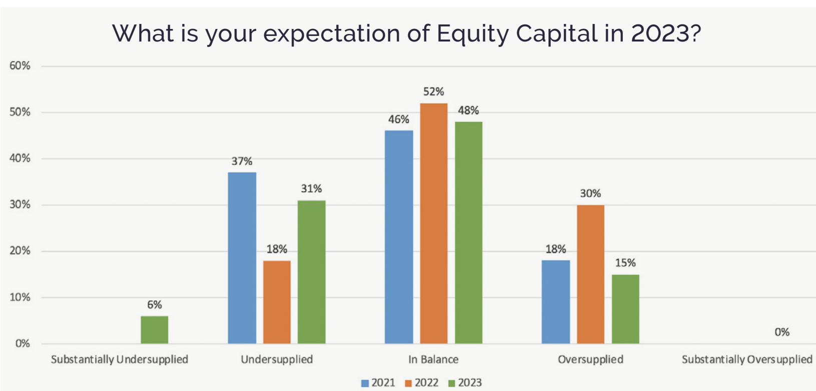


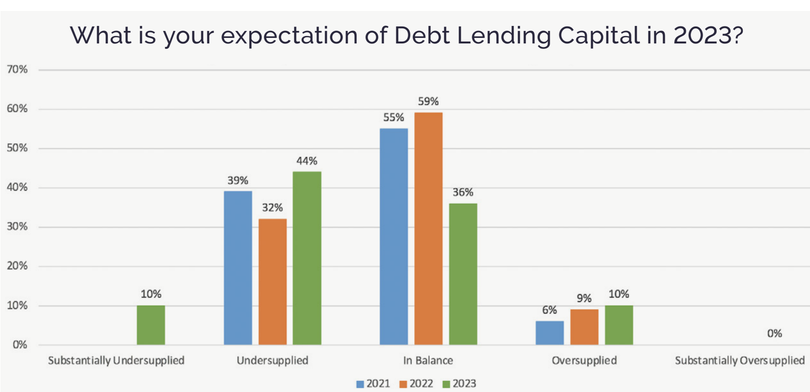
> We are confident in the strength of the San Diego market. Even when the economy is 'volatile' the local market has always pulled through historically.

These concerns were closely followed by other issues, including lack of qualified labor, available capital and the probability of higher federal taxes.

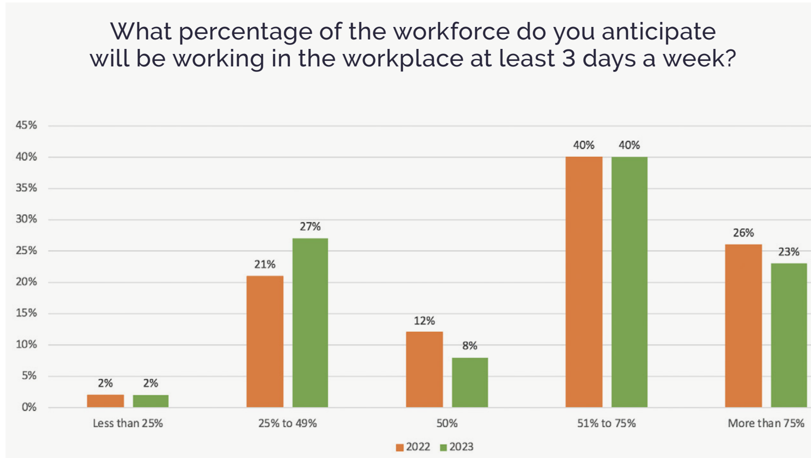
All of these concerns and economic uncertainties can increase the risk for District Council members to commit to strategic decisions about real estate investments and developments for the coming year. In a time of economic challenges, any form of raising costs (by government or financial markets) will likely result in a less than desired outcome.

In light of the economy, when asked about projected availability of equity and debt lending capital. There has been a shift to undersupply conditions for 2023 compared to 2022. As capital moves to other assets and costs of available capital increase, we can expect investments, acquisitions, developments and redevelopments to slow in the coming year. The projections below are consistent with that of the ULI national *Emerging Trends for Real Estate 2023*.





In 2022 we asked research participants their projections about the workforce returning to the workplace. This year, survey participants projected a majority of the workforce will be in the workplace at least 3 days a week in 2023.



Even so, projections have declined slightly over the past year, suggesting that a higher percentage might still be working remotely than previously expected. Approximately 71% of respondents projected that at least one-half or more of the workforce would be in the office at least 3 days a week in 2023, compared to 78% of respondents last year.

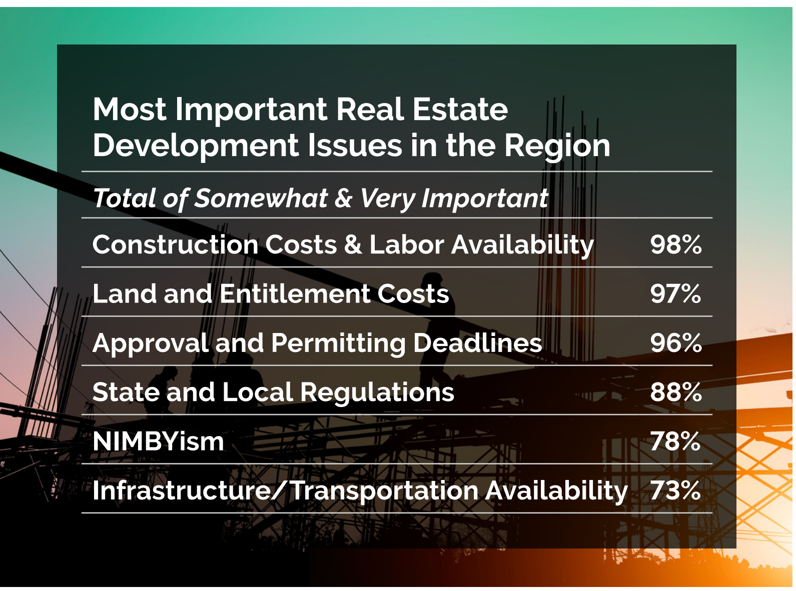
In light of the economic and market challenges, we asked survey participants to rate the real estate investment and development prospects by land use in the region in 2023. Rental multifamily housing is again rated highest for investment and development potential. This is followed by mixed-use and industrial, both of which received a high rating for investment and development. Prospects for investment in and development of hotel/entertainment and commercial retail have increased, while prospects for office space have remained unchanged since 2021. Investment and development prospects for for-sale housing have declined each year.

Prospects for hotel/entertainment, commercial retail and office investment and development nationally are rated more favorably by ULI membership compared to locally in the San Diego–Tijuana region. Conversely, prospects for housing investment and development nationally are rated less favorably. According to the national *Emerging Trends in Real Estate 2023,* ULI membership nationally expect housing to decelerate further over the next year.

Rising costs were voiced as a major issue. Regarding impacts to investment and development of the various land uses, nearly all (96% to 98%) respondents rated construction costs and labor availability, land and entitlement costs, building permit and approval timeline delays, and state and local regulations as being the biggest issues. These issues all impact costs of development and construction.

These direct cost items and timeline delays (indirect costs) impact the end price that is charged to the customer (such as rental rates, lease rates, room rates, housing prices). If the goal is to provide lower priced housing, for example, then exploring ways of lowering costs and cutting timelines need to be considered.

These issues are followed by NIMBYism ("Not in my backyard") and infrastructure/transportation availability, which can also impact costs. Responses are shown for each issue in the following graph.



Most Important Real Estate Development Issues in the Region

Total of Somewhat & Very Important	
Construction Costs & Labor Availability	98%
Land and Entitlement Costs	97%
Approval and Permitting Deadlines	96%
State and Local Regulations	88%
NIMBYism	78%
Infrastructure/Transportation Availability	73%

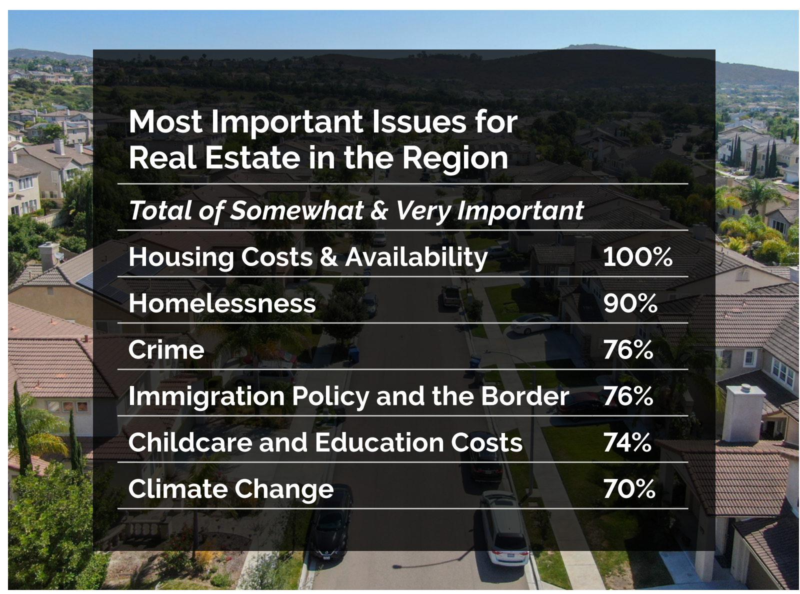
Housing Shortages

Even with a deceleration in housing regionally and nationally, survey participants believe there remains a housing shortage, particularly for middle- and lower-income households, in the San Diego–Tijuana region. Incorporating should be addressed. Membership expressed concern that the housing shortage situation has worsened and should be addressed. Similar to 2022 a key theme for 2023 included taking action to reduce housing shortages, including providing solutions for decreasing homelessness.

Over the past year addressing housing shortages and homelessness have only risen in importance. Through open-ended questions respondents have expressed a sense of urgency, advocating for less talk and more collaborative action to resolve housing-related issues in the region in 2023 and beyond. This included involving membership, stakeholders and community residents to have a voice in the decision making process, and even a seat at the table to implement solutions. With this in mind, we also asked respondents to personally commit to an action or activity to reduce housing shortages and homelessness.

While the survey included questions related to "low-income housing," respondents voiced in numerous comments that they believe an equal need and recommendation includes addressing middle-income housing. A reason for this would be to safeguard against a rise in lower-income households and homelessness. Building equity in a home can be an investment that prevents future homelessness. Given rising inflation and higher mortgage rates, providing affordable financing (through FHA, VA loans or other) as well as limiting costs (as reported above) would be important considerations to resolve the regional housing situation.

We asked ULI District Council membership to rate the importance of environmental, governance and social issues in the region. As shown below, housing costs and availability closely followed by homelessness were rated as the most important issues.



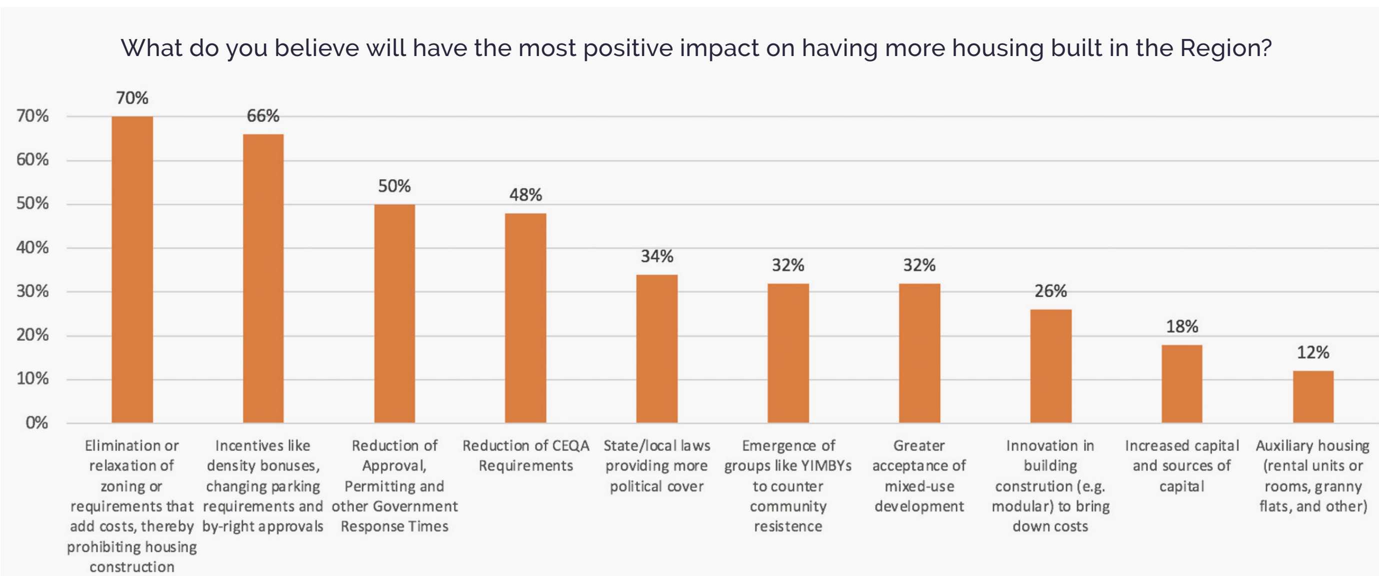
Most Important Issues for Real Estate in the Region

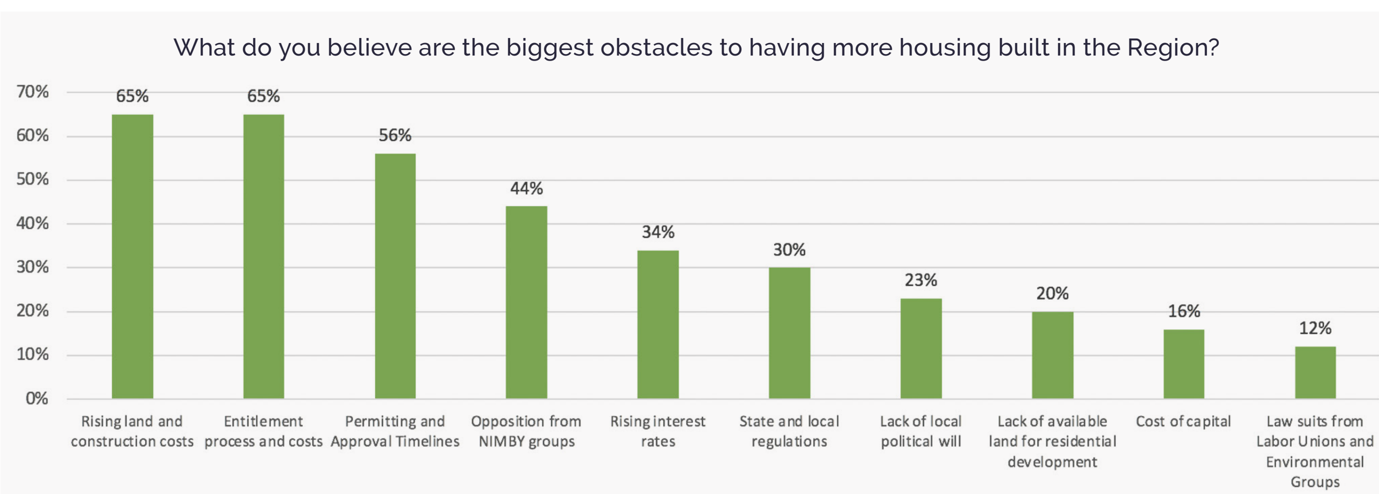
Total of Somewhat & Very Important	
Housing Costs & Availability	100%
Homelessness	90%
Crime	76%
Immigration Policy and the Border	76%
Childcare and Education Costs	74%
Climate Change	70%

Providing housing for middle- and lower-income households has been a top concern among the council as reported in the past two reports. Given housing supply concerns, we asked members to provide opinions regarding what they believe would have the most positive impact to increase housing in the San Diego region.

For the second year in a row, research participants overwhelmingly selected eliminating or relaxing zoning or other requirements that add costs as having the greatest positive impact. This is closely followed up offering incentives to developers and builders in the form of density bonuses, changes to parking requirements and by-right approvals, reducing government response times for approvals and permitting as well as reducing CEQA requirements.

In addition to actions that would have the most positive impact, we asked survey participants what they believe are the biggest obstacles or impediments to having more housing built in the region. The top two obstacles included rising land and construction costs and the entitlement process and related costs. When including cost of lawsuits from environmental groups, entitlement costs become the biggest obstacle.





Again, these obstacles result in higher costs, which can increase risk and prohibit the ability to provide attainably priced housing for middle- or lower-income households. Permitting and approval timelines, which can also impact project and financing costs, are also voiced as a concern.

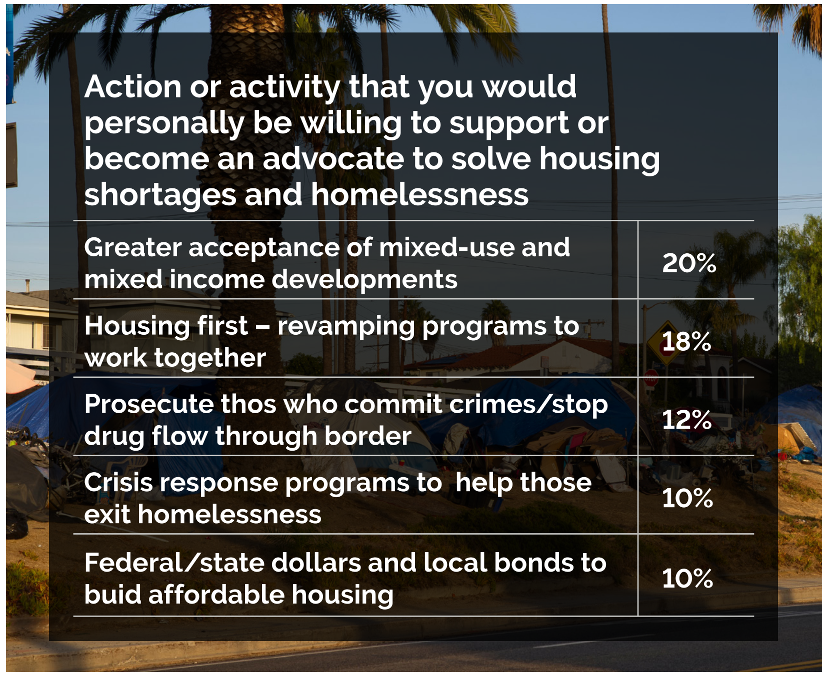
Regarding homeless specifically, we asked survey participants to rank various actions and activities that give them the most hope to solve (or reduce) housing shortages and homelessness. Many top actions and activities were ranked similarly, implying that they believe there is not one answer but multiple.

One that received the highest percentage this year and last year is a Housing First approach, where all private sector and government/non-profit programs work collaboratively to provide solutions versus government working alone. Per comments from respondents, this may involve community input.

An additional response (shown in the graph below) that was offered up by several respondents as an "other" action included the border. Specifically, this included prosecuting criminals and taking them off the streets and stopping the flow of drugs through the border. Working together can have a more positive impact.

In addition to the above, other actions or activities were selected as important yet secondary solutions. The top two included greater acceptance of mixed-use and mixed-income developments and rapid re-housing programs.

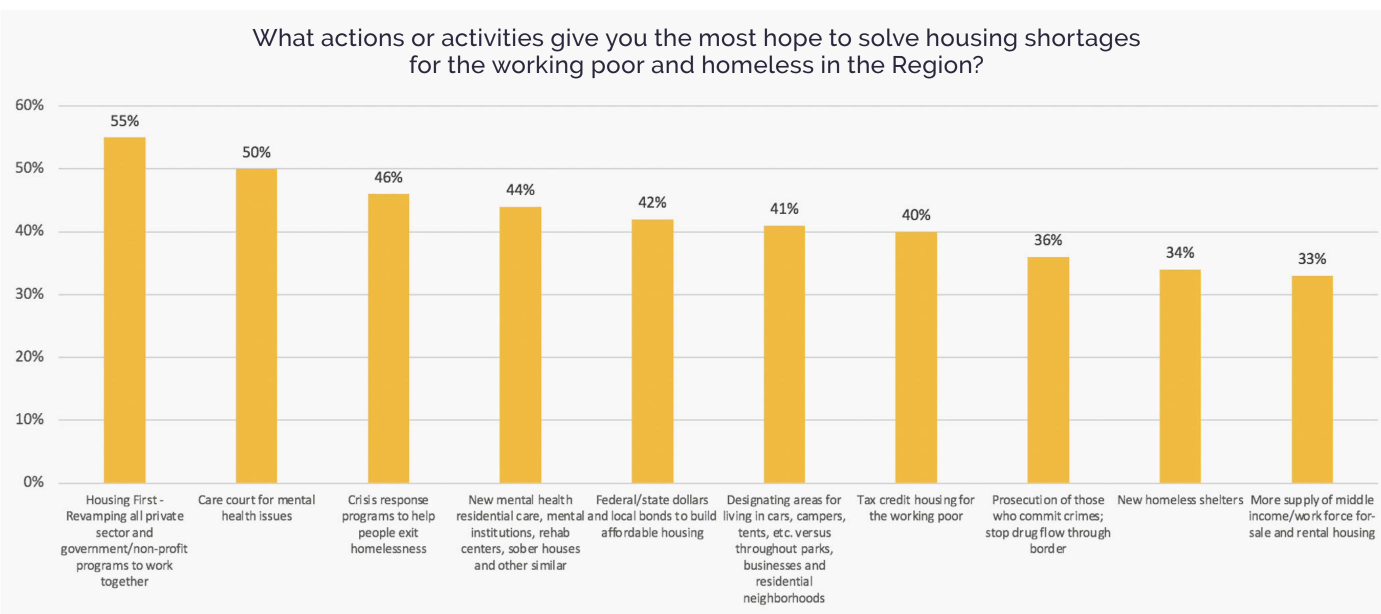
We then asked survey participants to select or offer up one action or activity that they would personally be willing to support or become an advocate to solve housing shortages and homelessness. Many of the multiple choices were selected as well as their own recommendation.



Action or activity that you would personally be willing to support or become an advocate to solve housing shortages and homelessness

Greater acceptance of mixed-use and mixed income developments	20%
Housing first – revamping programs to work together	18%
Prosecute thos who commit crimes/stop drug flow through border	12%
Crisis response programs to help those exit homelessness	10%
Federal/state dollars and local bonds to buid affordable housing	10%

Approximately one-fifth (20%) indicated they would become an advocate for greater acceptance of mixed-use and mixed-income developments. A similar amount indicated they would become an advocate for housing first private-public sector-non-profit collaboration.



Density by Design

In addition to reducing costs, increasing density is another way to address housing shortages and provide housing for middle- and lower-income households. A key theme from the research included implementing proven design principles to increase densities while preserving the character and vibe of the neighborhood and larger village.

This theme is similar and yet expressed somewhat differently to key themes reported for 2022. As we reported last year, respondents voiced the need to create areas of higher density development as solutions for housing shortages. Key themes around this included the importance of maintaining planning flexibility, innovation and/or repurposing single-use projects for mixed (or multi) use developments.

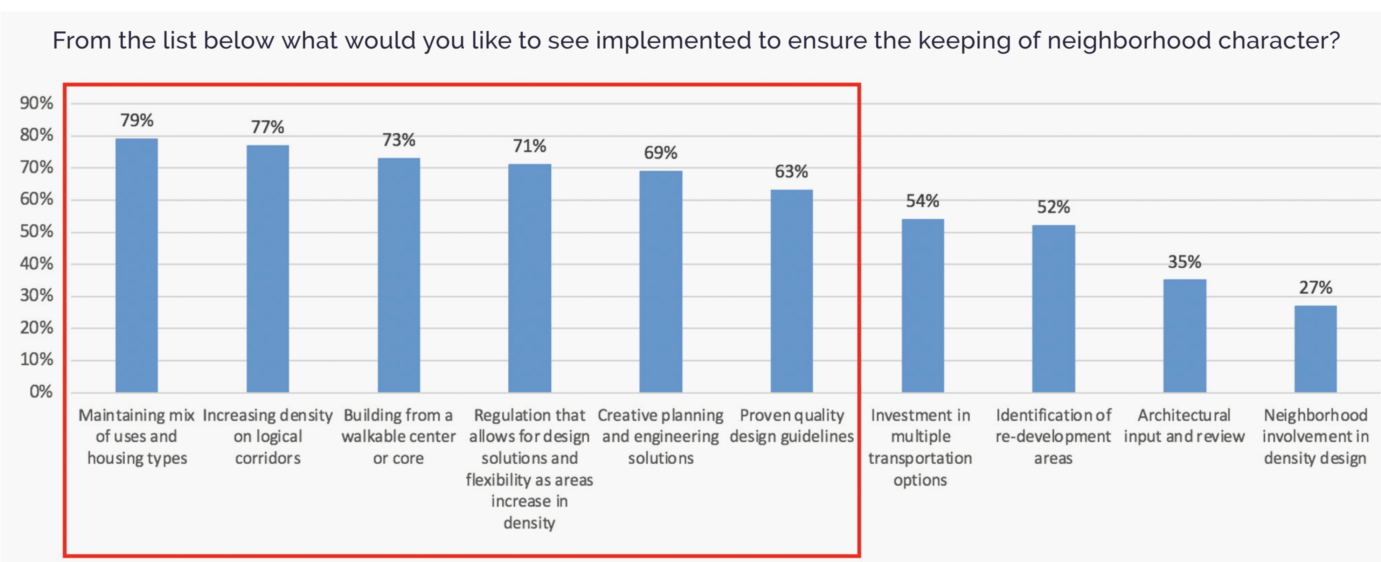
Survey respondents were asked to rate the importance of keeping the identity and sense of place of a neighborhood as that neighborhood in the region increases in density and vertical development. Approximately 89% of respondents rated maintaining neighborhood identity and sense of place as important to very important.

We then asked survey participants to select planning principles and/or regulations that they would support and recommend for implementation to ensure keeping the identity and sense of place of a neighborhood. As shown, top planning principles recommended include maintaining a mix of uses and housing types, increasing density on logical corridors and building from a walkable center or core.

Other principles include creative planning and engineering solutions and proven quality design guidelines. In addition, respondents recommended regulation that allows for design solutions and flexibility in planning and zoning as areas increase in density.

In addition to the above, respondents offered up some additional recommendations that included:

- Maintain the scale of a neighborhood in context with the greater region. "For example, if a low-density neighborhood that is next to a medium density neighborhood is to be up-zoned, then also up-zone the medium density area to a high density."
- Protect key neighborhoods from overbuilding.
- Keep lots from oversizing of homes.
- Encourage auxiliary housing and "granny flats."
- Plan for a balance of providing trails, parks and open space as the area increases in density.
- Provide faster permit processing and approval timelines.
- Provide good communications and obtain input from local community and neighborhood groups.



More About Survey Participants

Survey Respondent Qualifiers

Approximately one-third of total 700 active members (at the time of the report) participated in the online survey and/or were interviewed as part of the research process for this report. The survey respondents represented the membership types, age categories, and geographic markets of the District Council membership.

Respondents closely resemble District Council members by membership type.

Membership Respondents	
Associate	45%
Full	20%
Young Leader (Under 35)	25%
Student	6%
Not a ULI Member	4%

All age groups are well represented.

Ages of Respondents	
Under Age 35	20%
Age 35 to 44	18%
Age 45 to 54	26%
Age 55 to 64	23%
Age 65 and older	14%

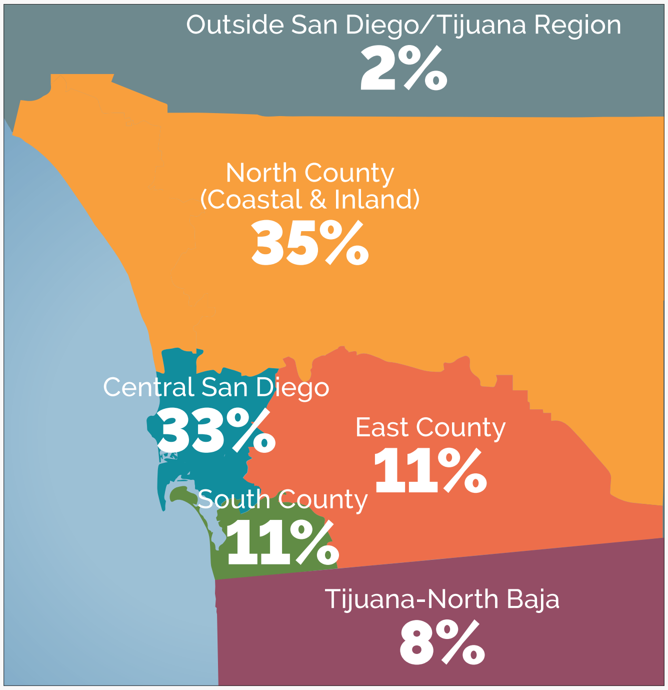
The majority have been working in the industry for more than 10 years.

Time in Industry	
Less than one year	2%
1 to 3 years	8%
4 to 10 years	16%
11 to 20 years	22%
More than 20 years	52%

Survey participants and interviewees also represent a wide range of industry experts. Company affiliations of the survey respondents are shown below by industry.

Mix of Professions Represented	
Developer (For-Profit & Non-Profit)	16%
Consulting	13%
Architect/Designer	10%
Brokerage/Realtor	10%
Property Management	9%
Urban Planner/Landscape Architect	8%
Government/Public Agency	8%
Homebuilder/Construction	7%
Lender/Capital Provider	6%
Entrepreneur/Investor	5%
Engineer/Surveyor	3%
Academia/Student	2%
Legal Services	2%
Marketing	2%

Top areas of work include Central San Diego, North County Coastal and South County as defined below.



Pacific Highlands Ranch

PROPERTY TYPE OUTLOOK

HOUSING For-Sale Housing

*by **Peter Dennehy,** Vice President, Customer & Market Research, Brookfield Properties*

U.S. Housing Market & Its Implications for San Diego

To illustrate how the market changed throughout the year, we pulled these San Diego builder quotes from the monthly builder survey conducted by John Burns Real Estate Consulting. As the year started, there was excess demand, and builders' primary focus was on when they could deliver homes in the face of supply chain challenges. As the year went on and interest rates increased sharply in late March/early April 2022, demand began to evaporate, and pricing power started to weaken.

JANUARY	"We have been forced to elongate our cycle times significantly, and even then, we are still unsure we can finish on time."
FEBRUARY	"*San Diego builder comments,* Traffic remains modest; however, the quality of traffic is very high."
MARCH	"*San Diego County builder comments,* Traffic is still strong. The quality is still good. People are concerned with rates and want to get in before they go up too far."
APRIL	"There is concern over interest rates, but that is manifesting in securing loan locks as protection. Urgency has increased, but buyers are a bit edgier."
MAY	"*First-time buyer.* A bit more headwind, but still seeing steady sales, though buyers are a bit more deliberate. Our main issue is cycle time and delivery predictability."
JUNE	"Things are the most difficult ever with material shortages occurring in different areas at different times. The production side of the business is harder than the sales rates and market side, which gets all the press."
JULY	"Best locations in San Diego county are still holding up. There may not be a lot of pricing power left, but it's not gone."
AUGUST	"We build a complicated attached product, which makes a difference [with cycle times]. It's the right product for the market but is more challenging and takes longer to build."
SEPTEMBER	"Things seem to be topped off from the worst cost environment ever."
OCTOBER	"We're still sitting on relatively healthy margins even with the current price discounts. Not in any rush to race to the bottom before the end of the year. Our local markets will have quite a bit of standing inventory come January. Builders appear to be hoping for some good luck rate-wise to generate sales early next year. Otherwise, we're in for a tough first quarter."

U.S. Housing Market Overview – Setting the Stage for San Diego

The U.S. housing industry has been on a roller coaster for the past 15 years. In that time, the industry experienced a historic housing crash, a housing crunch, a pandemic-fueled recession, and a subsequent home-buying spree despite severe supply-chain and labor headwinds. After 2007, supply outstripped demand, and housing prices and production fell for years. But, after 2020, demand far outstripped the supply that could be delivered. That pandemic-induced demand uptick led to significant home price increases nationally. A dramatic mortgage-rate spiral has sharply increased mortgage costs and put the brakes on demand. Talk about whiplash. In just under two years, the average fixed rate for a 30-year mortgage was lower than at any time on record; and in early November 2022, it's higher than in any other month this century.

With the increase in interest rates since Spring 2022, the US housing market has slowed considerably as many homebuyers cannot afford the higher monthly mortgage payments. On the one hand, long-term supply is low, and the industry has been responding to solid growth in the past few years as Millennials want to move into their own homes. Homeownership is still less common among Millennials (48.6% versus 20 to 30 percentage points higher for Gen X and Baby Boomers), people still want to relocate for lifestyle and changing household needs, and work-from-home is not going away.

On the other hand, the formerly red-hot market has led to a highly overvalued U.S. housing market. With two years of double-digit price gains, house prices now exceed their long-run fundamental values by more than 25% nationally, the highest level in more than 30 years. A record-breaking two-thirds of all metro areas are considered highly overvalued by Moody's Analytics. Most extremely overvalued markets are in the South and West, though this isn't saying much given how broad-based house price appreciation has been. With deteriorating affordability driven by rapid price growth over the past two years and higher financing costs, price appreciation is beginning to turn over in some of the most overvalued markets. Price growth peaked in Boise and Austin, Las Vegas, and Phoenix on a year-ago basis. However, other U.S. regional markets are much less affected, particularly Southeast and Florida.

Existing-home sales declined in September 2022 to an annualized 4.71 million units, marking the eighth consecutive monthly decrease in sales, dragged down by the persistent upward increase in mortgage rates and house prices. The 30-year fixed mortgage rate has spiked to over 7.0% in early November, up by 400 basis points since the start of the year and portending further weakness in home sales. An increasing number of potential homebuyers are sitting on the sidelines, waiting for a more opportune time to purchase. However, with the Federal Reserve set to keep monetary policy relatively tight amid severe inflationary pressures, the odds of elevated mortgage rates are tilted toward the upside.

U.S. new-home sales came in just above expectations in September 2022. According to the Census Bureau, 603,000 new homes were sold annually in September. This is nearly an 11% decline from August's revised rate of 677,000 annualized units and a 17.6% decline from a year ago. The inventory of new homes for sale was essentially unchanged at 462,000 units, and the months' supply of inventory at the current sales pace climbed to 9.2 months. The median sale price for a new home was $470,600. Current projections are for annualized recent single-family home sales in the U.S. to be in the 628,000 range for 2022, an 18% decline from 770,000 in 2021. In 2023, projections are for an average level of 575,000 units, a further 8% decline from 2022. Most forecasts are for the market to stabilize and improve in 2024.

On the upside, the increasingly tight labor market is helping to offset the harm to housing affordability spurred by higher house prices and mortgage rates. The number of jobless claims remains at rock-bottom levels, and the number of job openings remains at record highs. Payroll employment has surpassed its pre-pandemic level and will rise further over 2023. Consequently, income growth will remain healthy in the coming quarters. Nonetheless, U.S. home sales are still projected to be lower in 2023 than in 2022 because of lower affordability.

San Diego Housing Market Overview

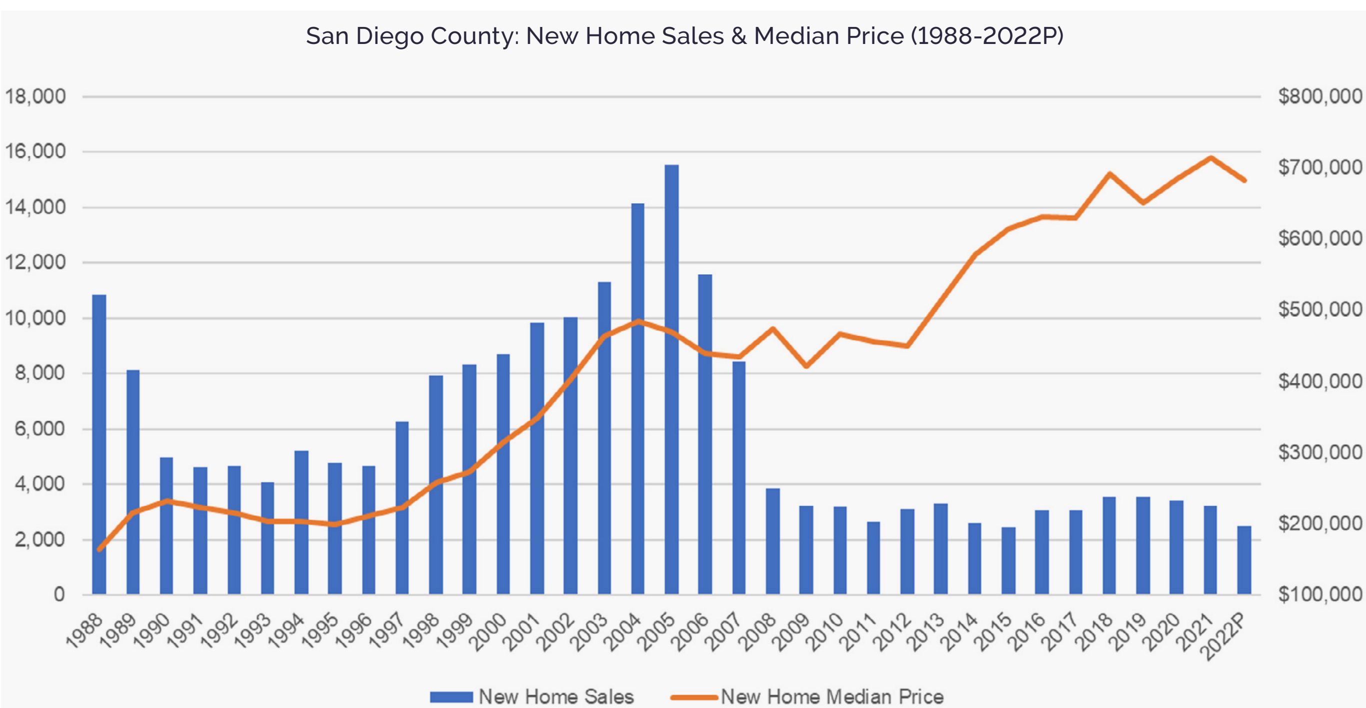
John Burn's Real Estate Consulting's recent monthly builder survey rated the San Diego County housing market as Slow in October 2022. The research firm downgraded San Diego's new home market conditions to Slow from Normal as the housing market decelerates. As one surveyed builder notes, "San Diego has joined the ranks of the great slow down." The metro's minimal finished inventory is preventing a more substantial decline. Projects with lots and inventory homes are selling, although supported by sizeable incentives. Steady job growth supports the San Diego County housing market, particularly in high-paying industries.

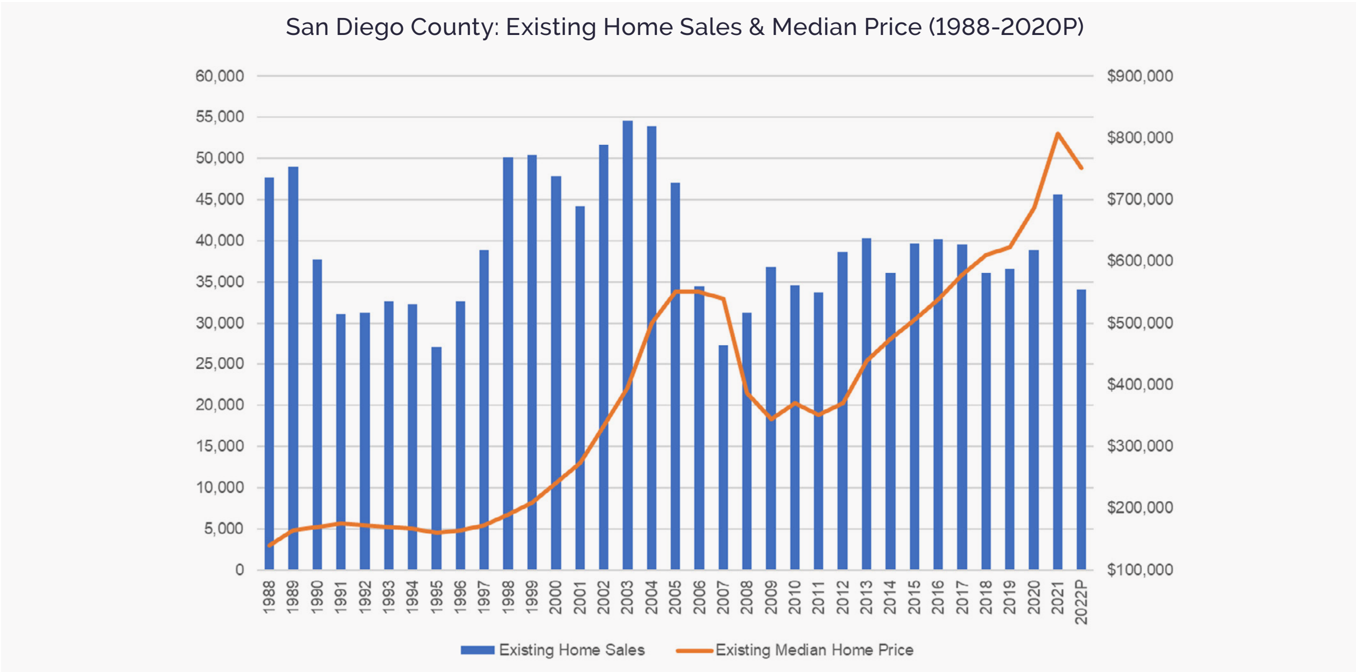
As of 3Q 2021, new home starts are at 3,388 new units per year, with closings in the region averaging an annualized 2,707 homes, with a median new single-family home closing price of $780,500. Recent new home closings have decreased, with weaker demand due to higher interest rates constraining sales. At the same time, according to John Burns, San Diego's new home community counts increased 33% YOY and increased sequentially for the third consecutive quarter in 3Q 2022 to 64 active new home projects.

Public builder projects account for 25 active communities, while private builders total 39 of the active communities. Increasing the number of communities could lead to greater competition among builders. This may add downward pressure on San Diego County's new home prices, given the slowing demand and rising mortgage rates as we enter the seasonally slower fourth quarter. Community counts are growing as previously planned communities break ground.

According to Zonda's tabulation, the top five new home builders in San Diego County are Lennar Homes (690 annual closings), TriPointe Homes, Shea Homes, California West Homes, and KB Home. Also, according to Zonda, there are 2,053 vacant developed lots (VDLs) in the San Diego County market in Q3 2025, unchanged from a year earlier and equaling just a 7.3-month supply of lots at current sales rates.

New housing projects like the 3Roots project in the Sorrento Valley area, Cota Vera in Chula Vista, and Park Circle in Fallbrook bring much-needed supply to the market. However, the total new home sales volume will remain limited due to a lack of buildable land. San Diego County, the fifth-most-populous County in the U.S., is the 70th-ranking U.S. metropolitan area in terms of annualized single-family permit issuance in the past 12 months (it was ranked #83 at the same time last year, so increasing





production in the previous year or so is helping, but the region still lags). Several large-scale projects in the County's outlying areas have faced environmental and fire safety challenges after approval, so supply challenges are unlikely to improve. There is some increase in supply from a pickup in the redevelopment of existing commercial/residential projects and golf courses, the building of mixed-use projects, and developers offering urban/"surban" infill in all areas of San Diego County.

After slowing considerably in mid-2020 as much of the San Diego economy shut down, the resale housing market in San Diego County was on a steep upward trajectory until mortgage interest rates started trending sharply in Spring 2022. As of November 2022, existing home sale closings volume for San Diego County in the past 12 months averages 36,209 homes, down 21% from last year. The median existing-home price of $885,000, up 6.6% in the past 12 months. County home prices increased at double-digit rates until early 2022, but the price acceleration has slowed. The County's existing home inventory level has risen by 53% from last year, with 5,673 listings in October 2022, representing an estimated 1.9 months of supply. The market time to sell existing homes averages just 28 days, up from 13 days at the same time last year. The median price per square foot for existing homes is $629 per square foot, up from $595 per square foot a year ago. In October 2022, 32% of home sales sold above the list price (58% at the same time last year).

San Diego County Submarket Overview

Central San Diego – South of Route 56, north of Route 54, and west of I-15: This submarket is the urbanized heart of the region and includes Downtown San Diego, Mission Valley, and the UTC/ Sorrento Valley area. New home development in this submarket is primarily infill projects. They consist of high-density single-family and townhome projects and mid to high-rise condominiums in Downtown and Banker's Hill. New home prices are generally $800,000 to over 1 million.

Some large-scale urban mixed-use projects are active or planned in this area, including Civita and Riverwalk in Mission Valley and the 1,800-unit 3Roots in Sorrento Mesa. With demand for close-in housing near tech job hubs, the 3Roots project opened for sales by appointment in the Summer of 2021 with no models and has sold over 750 homes to date with average single-family prices starting in the $1.2 million range and attached prices starting in the $800,000s. Citymark just opened the 19-unit rowhome project,

Craft in the Golden Hill neighborhood by CityMark

East San Diego – South of Route 56, north of Route 54, and east of I-15: This submarket is transitioning from semi-rural and suburban into a more densely developed area. Close-in areas like La Mesa, Santee, and El Cajon are expanding with infill townhome and single-family homes priced in the $500,000s to $900,000s, and large-lot homes in semi-rural areas like Rancho San Diego in the mid $1 million range. There are no active master-planned communities in this area, but Homefed plans the 3,000-unit Fanita Ranch project in Santee. Fanita Ranch was approved by the City of Santee in September 2022 but faced lawsuits from opponents.

South County – South of Route 54 to the international border: South County is the most affordable area in San Diego County for new homes and has relatively large amounts of developable residential land, primarily in the Otay Ranch area in eastern Chula Vista. New for-sale townhomes in this area sell in the $400,000s to $700,000s. New detached for-sale homes are typically priced from $700,000s to $900,000s. There is some infill development in older Chula Vista and National City areas. Some formerly industrial-zoned land in the Otay Mesa area is being re-entitled for residential development. Homefed's Cota Vera master plan in eastern Chula Vista opened in Fall 2021, with 2,400 for sale and 2,400 for lease apartments. Cota Vera is now the #2 top-selling project in San Diego County.

North County Coastal – North of Route 56 to Camp Pendleton and west of I-I5: This submarket is an affluent, coastal suburban area along the Interstate 5 corridor. New home development in this area is primarily in the Pacific Highlands Ranch area near Del Mar and to the north in Carlsbad and Oceanside. New attached for-sale product in this market is priced in the $500,000s to over $1 million in coastal or upscale areas like Pacific Highlands Ranch or Downtown Carlsbad, and with new detached for-sale products priced from the $700,000s to over $1 million. There is limited land in this area for large-scale development, and many projects are infill or developed on land formerly zoned for industrial or agricultural uses. Trumark's Melrose Heights project offers 301 units of townhomes and detached homes near a rail station on the border of Oceanside and Vista. The townhomes are in the $500,000s to $800,000s, and the detached homes are in the $900,000s.

North County Inland – North of Route 56 to Camp Pendleton/east of I-I5 and I-15: This area consists of suburban communities along the 78 and 15 freeway corridors and semi-rural communities north of Escondido such as Valley Center and Fallbrook/Bonsall. This submarket is one of the most active areas of the County for new home building, with 30 active projects, and is somewhat more affordable than the North Coastal area. New townhomes in this area are generally in the $300,000s to $800,000s, and detached homes are $600,000s to over 1 million. Development in more developed areas close to Highway 78 is primarily attached to townhomes and small-lot single-family.

Some small master-planned communities are located in the Valley Center and Bonsall area and on redevelopment sites in Escondido (Canopy Grove) and Carmel Mountain Ranch (Pacific Village). The County Board of Supervisors approved several large-scale residential projects and challenged environmental or traffic concerns. Touchstone's Park Circle master plan in Valley Center has townhomes in the high $300,000s and single-family homes in the $600,000s to $900,000s. In Poway, the Poway Commons project is delivering 97 market-rate townhomes and flats priced in the $600,000s to $800,000s and 44 affordable apartments for seniors being built by Chelsea Investment Corporation. The site will include 2.2 acres for future retail and is an excellent example of a "surban" infill project on a former commercial parcel.

Opportunities to Increase Housing Production

County General Plan and community plan updates in various cities focus on increasing housing production. However, this slow process requires political leadership and faces local NIMBY and environmental opposition. Despite good intentions, there has been almost no market-rate "missing middle" attached or detached for-sale housing developed in the central regions of the County that are closest to jobs and services. This jobs/housing imbalance worsens the region's traffic congestion. State and local policy is focused on housing – perhaps there will be more teeth in the Regional Housing Needs Analysis (RHNA) to increase production.

Redeveloping existing commercial/residential projects and golf courses brings new development. Some golf courses in all areas of the County are being developed for housing of all types, and numerous mixed-use infill projects are underway in the greater Mission Valley area (Sports Arena, Civita, Town & Country, Riverwalk, former Qualcomm stadium redevelopment by SDSU, etc.).

Housing Affordability

Housing affordability is worsening again in the San Diego County region. With new home values have risen by 16% from one year ago, the current housing cost-to-income ratio has increased to 63% from 46% a year ago, and the gap between purchasing rather than renting is wide. In San Diego County, the chronic challenge is that limited buildable land supply and affordability patterns are exacerbated by the economic cost of delivering new homes (construction costs, entitlement costs, land costs, timing, etc.).

According to John Burns Real Estate Consulting, less than 16% of San Diego County households can afford to buy the median-priced existing home with a 5% to 20% down payment. The market's FHA loan limit is $880k, with a current median new and existing-median home price in the $833,000 to $885,000 range.

High and increasing home prices push builders to the outer reaches of the County to provide lower-density and more affordable homes. Those areas are typically in the County land planning jurisdiction and governed by a current General Plan that directs housing density to distant regions away from jobs and services that would necessitate long commutes. Projects needing discretionary approvals in those areas face environmental/fire-safety legal challenges and referendums to overturn approvals.

Traffic congestion eased in the San Diego region due to employees working at home during COVID-19 but have returned to pre-pandemic levels. Acceptable commutes will again dictate where housing is needed. Many San Diegans opt to relocate to Riverside County and Mexico for more affordable for-sale housing options.

Mobile and talented young people choose to leave San Diego for more affordable housing, which creates a brain drain in the local community. Price-conscious retirees often relocate outside the County to less expensive parts of California or neighboring states to trade down.

According to Q3 2022 Redfin migration data, San Diego Redfin users are most often searching for home options in the Pacific Northwest (Seattle/Portland), Arizona (Phoenix), Las Vegas, Denver, and various cities in Texas (Dallas, Houston, Austin).

Capital Markets/Deals

While capital is theoretically available for housing projects, a sharp rise in mortgage interest rates and the resulting impact on possible home prices has changed market expectations. Home sales volume has declined each month in 2022, and builders expect market conditions to remain challenging through 2023, with a possible stabilization in 2024 and beyond. Much will depend on whether the economy can avoid a recession and what happens in the local economy. It would be difficult for new deals to meet underwriting standards in the context of uncertain pricing expectations. All builders look at things more conservatively now; on the other hand, land sellers aren't recognizing adjustments yet.

Parco by Malick Infill Development | Protea Properties; Architect: The Miller Hull Partnership; Photo by Chipper Hatter; Orchid Award Winner, San Diego Architectural Foundation

PROPERTY TYPE OUTLOOK

HOUSING Multi-family & For-Rent

*by **Jared Kadry,** Manager, Consumer & Market Insights, Brookfield Properties*

Decreasing Affordability Keeps People Renting

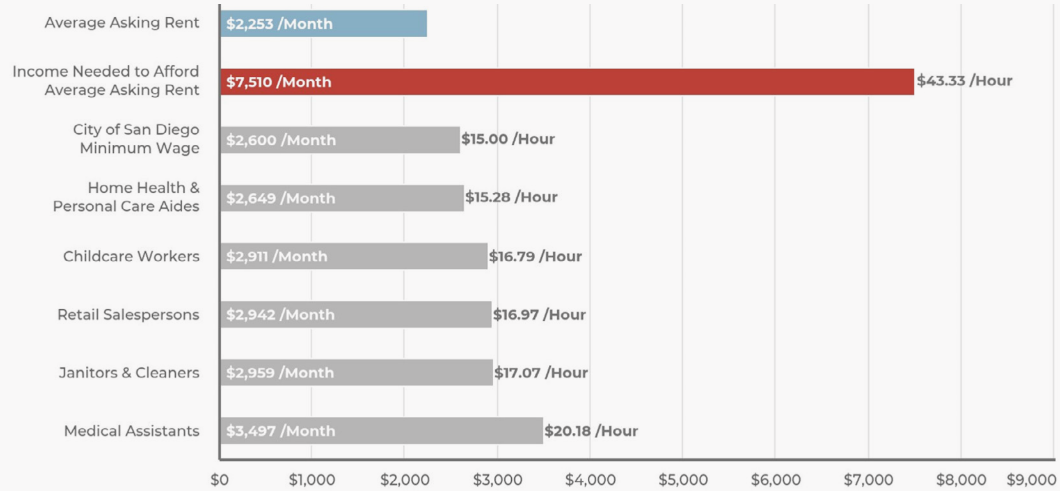
In an inflationary environment, the combination of dynamic price appreciation in recent years and rising interest rates has further widened the gap between the cost of owning and renting in America's Finest City.

Housing affordability has reached its lowest point since the days leading up to the Great Recession, causing many would-be home buyers to stay in rental apartments. According to John Burns Real Estate Consulting, the average for-sale housing cost-to-income ratio in San Diego County is 63%, up from 49% in 2021. The current housing-cost-to-income ratio has surpassed 2005 levels, before the subprime mortgage crisis.

The average home payment is now around $5,200 per month in San Diego County, or 85% higher than the average apartment rent and 60% higher than the average single-family rental in the market. With homeownership even more challenging to attain and increasing uncertainty in the market, it's safe to say that many San Diegans will rent for the foreseeable future.

Who can afford to Rent 2022

Renters need to earn 2.9 times minimum wage to afford the average asking rent in San Diego County.



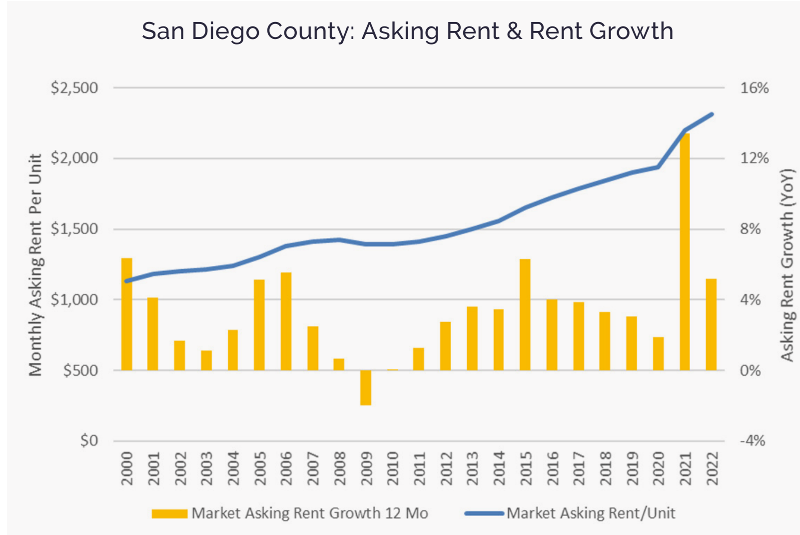
Rental Housing Overview

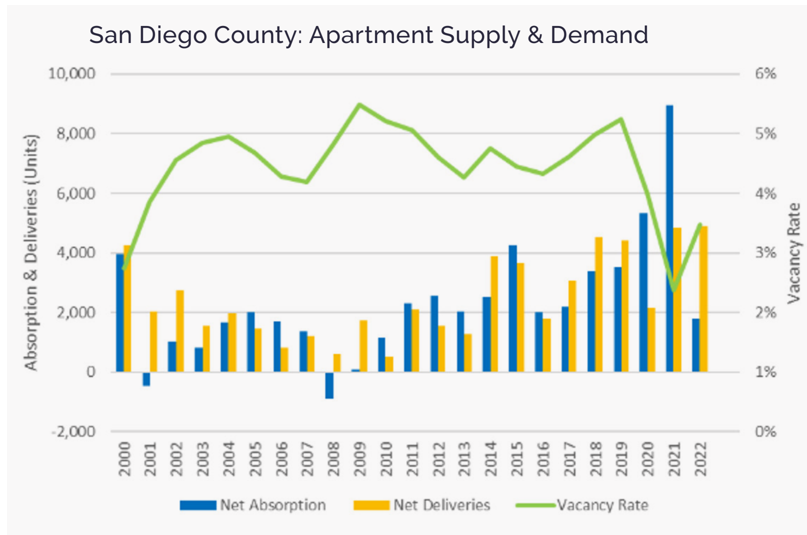
The San Diego apartment market is characterized by record-low vacancies and still strong rent growth, even after a slowdown following the highest year on record in 2021. According to CoStar, annual rent growth is around twice the historical average going back to 2000. Aside from new apartment buildings offering around one month of free rent on average, concessions in the market are minimal.

Robust rent growth is driven by high absorption concentrated in luxury units. Absorption reached a record high of nearly 9,000 units in 2021, according to CoStar, of which over 60% can be tied to Class A institutional product, much of it in the urban core. The pandemic saw strong absorption in suburban areas, but recent data points to a return to the city. After reaching 14% in mid-2020, downtown San Diego vacancies are now around 5%, including new properties in lease-up.

An improvement in the urban apartment market is a positive sign, but downtown still has the highest vacancies in San Diego County. Rampant homelessness and concerns for public safety have deterred some people from the city core, and many rent in areas closer to the coast or significant job nodes like UTC, where rents are higher. Major under-construction office campuses like Stockdale's redevelopment of Horton Plaza Mall and IQHQ's Research and Development District (RaDD) on the San Diego Waterfront are speculative, and many developers are banking on job creation in the urban core as a significant demand driver to fill the thousands of new units slated to open over the next couple of years.

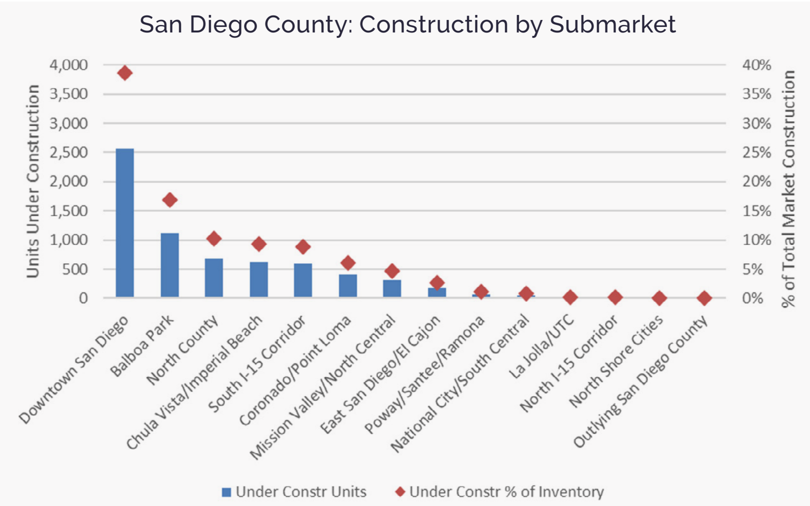
For now, though, the UTC area is the epicenter for corporate expansions, and the long-term picture is positive. Expansions by the likes of Apple and Amazon in UTC are boons for the submarket, which currently has apartment vacancies of around 4%, according to CoStar. Apple has plans to add 5,000 new jobs in San Diego by 2026, of which most will be in the UTC area, and Amazon announced plans to expand its San Diego workforce by more than 700 jobs at its new office at UTC Mall. The addition of trolley stops to the area in 2021 is also a selling point, as it becomes more accessible for workers and residents alike.





Development

Apartment developers continue to respond to solid fundamentals in the San Diego market, with nearly 7,000 units under construction countywide, according to CoStar. Over half of these units are concentrated in downtown and surrounding neighborhoods, and roughly 90% of the under-construction units market-wide are considered Class A properties.



In a fast-growing market, developers are trying to address changes in living requirements, primarily driven by the pandemic. Work changes due to COVID-19 and local trends like transit expansion are top of mind in many projects, as seen with recent developments across the county.

Holland Partners will bring the first phase of West, a 431-unit high-rise, to downtown San Diego in early 2024. The project will feature innovative workspaces on floors 2-8 with meeting and conference areas, and outdoor spaces and balconies. Additionally, the property is a few blocks away from Santa Fe Train Depot, allowing residents easy access across San Diego County and beyond via the trolley and Amtrak.

Developers are bringing these concepts to life in suburban areas where people have relocated to as well. Wood Partners will bring the 309-unit Alta Oceanside to market in 2023. According to a press release from 2021, the property represents the largest multifamily development west of I-5 in San Diego County in over two decades. The property will feature an on-site library with conference and co-working spaces and storage for bikes, kayaks, and surfboards. It is roughly a mile from the Oceanside Transit Center, which has train service to San Diego, Orange, and Los Angeles counties via Amtrak or Metrolink.

Holland Partner Group's West, a 37-story, 431-unit apartment tower that will feature 270,000 SF of office space and 19,000 SF of retail space when it opens in 2024.

Capital Markets

Given the recent rise in interest rates, institutional investment in the apartment rental space has become more challenging. The average interest rate is well above the average cap rate in the market, which stands at 3.6% for Class A properties, according to CoStar. With more rate hikes by the Fed expected in the foreseeable future, dealmaking could become more difficult, but institutional investors are likely to outperform. A slowdown in investment is already evident, but this is coming off record years in 2020 and 2021.

The Merian represents one of the most significant apartment trades in recent years in San Diego. Holland Partner Group built the luxury property in 2020, and it sold to Brookfield Properties for $236 million, or $555,000 per unit, in late 2021. The property is among the most expensive rental properties in San Diego, with average rent for market-rate units of nearly $4,000 per month, or around $4 per square-foot. The high-rise features a concierge service, a state-of-the-art fitness center, a pet exercise area, and a sky lounge with a high-end pool and 360-degree views of San Diego.

The Merian in East Village, owner Brookfield Properties.

More recently, Brookfield Properties sold The Heritage to The Green Cities Company for $118 million, or $515,000 per unit, in mid-2022. The property was built in 2002, with a significant renovation in 2014, and has an average asking rent of nearly $3,000 per month, or $3.25 per-square-foot. The complex sold at a reported 3.25% cap rate, significantly lower than the market average and well below the average mortgage rate. Low-cap rate deals like this could become less common, though, as interest rates have risen sharply since the deal was initiated.

Heritage in Cortez Hill, owner Green Cities Company. CoStar

Opportunities & Challenges for Rental Housing

With a changing landscape in the housing industry, opportunities and challenges lie ahead for the rental market. San Diego's position as a land-constrained, expensive market makes for significant challenges, but opportunities exist to bring existing properties to their highest and best use and create neighborhoods with a live/work/play focus.

Opportunities

Transit-Oriented Housing

With the UC San Diego Blue Line Trolley Expansion reaching UC San Diego and UTC in 2021 and other planned trolley expansions, opportunities exist for transit-oriented development through San Diego County. The City of San Diego was one of the first in California to pass a law allowing developments to include no parking within a half-mile of public transit in 2019, if it is in a designated Transit Priority Area (TPA). In an upcoming city council vote, there is a proposal to change the language from "Transit Priority Area" to "Sustainable Development Area" and will shift from a half-mile radius to one mile walking distance along walkable corridors. The change is being considered through the Land Development Code update process.

Similarly, a new state law will allow developers statewide to build housing without parking requirements if it is within a half-mile of transit. Projects of scale with no parking have opened in Los Angeles and the Bay Area, but San Diego has seen developments with limited parking materialize. A 37-story apartment high-rise at a former storage facility at 611 Island Avenue in East Village will feature 443 units and only 52 parking spaces, along with storage for 212 bicycles. The tower was approved in mid-2022 and is being built by San Francisco-based Cresleigh Homes.

Redevelopment

Since land scarcity is a significant issue in San Diego, adaptive reuse of properties is often necessary to create much-needed rental housing. Recent examples are a testament to how developers and the community can work together to achieve economically viable neighborhoods, and future examples will help drive San Diego's placemaking.

Recent Examples

Town and Country Hotel and Resort

The redevelopment of the Town and Country Resort in Mission Valley was completed in 2021. The declining hotel/convention center was eyed for redevelopment for decades, and developers Holland Partner Group and LOWE were able to finalize a plan that includes 840 apartment units ranging from studios to three bedrooms at a community called The Society. Rents at the complex range from $3,300-$3,700 per month on average, or $3.30-$3.70 per-square-foot.

Upcoming Projects

Riverwalk Golf Course

Hines will redevelop the golf course into a mixed-use project featuring 4,300 residential units, 1 million square feet of Class A office space, 150,000 square feet of retail, and 97 acres of open space, including a riverwalk trail. A trolley stop will also be built at the site, increasing transit accessibility in the area.

Pete Shearer, Director of Development for Hines, states that the project aims to create a sense of place by adding 935 apartment units and 75,000 square feet of retail with an experiential focus in its first phase. Future phases would include additional residential units and retail, with plans for office space further down the road. Shearer envisions the retail space creating a sense of place, with the office space not being viable until the placemaking comes into fruition. He added that the retail portion would have programming aspects to help increase foot traffic and spread the word about the development.

Riverwalk, mixed-use project with a public park and transit access. Hines Development, Architect: Gensler, rendering by Gensler

Sports Arena

The fate of the vastly underutilized sports arena has changed many times throughout recent history, but a new plan called Midway Rising is moving forward. Developer Zephyr Partners is leading the effort, along with partners Chelsea Investment Corp. and Legends Global.

The plan calls for 4,250 new homes, of which 2,250 will be targeted for low-income and middle-income residents, and 2,000 will be market-rate. A 450,000 square foot arena with a capacity for 14,500-16,500 people, a 200-room hotel, and 250,000 square feet of retail are also proposed at the site. The area will also feature more than 11 acres of park and open space along a 9.4-acre public plaza.

Midway Rising, the recently approved redevelopment of the Sports Arena. The project will feature 4,200 new homes, with about half the homes classified as affordable.

Build-to-Rent

Build-to-rent (BTR) communities are purpose-built single-family residences or townhomes for renting instead of selling. Examples of these projects in San Diego County include Anden in San Marcos, a 118-unit townhome project built by ColRich in 2019, and Salerno in Chula Vista, a 97-unit townhome project built by R&V Management in 2019. The BTR concept has taken off in recent years in light of rising for-sale home costs, and this is especially true since the sudden increase in interest rates in early- to mid-2022.

John Burns Real Estate Consulting tracks the BTR and single-family rental industries closely and has San Diego ranked 30th out of 99 markets nationwide in terms of annual rent growth and among the lowest in terms of development pipeline. San Diego ranked second in California though, behind only the Inland Empire. According to John Burns, San Diego's single-family rents have increased by about 10% over the past year, to an average rate of just over $3,250 per month.

Challenges

Bringing Jobs Downtown

Unlike many other major cities, San Diego has a reverse commute, where many residents live close to downtown and commute north to job nodes like Sorrento Valley and UTC. With more than 20% of the under-construction inventory concentrated in downtown and surrounding neighborhoods, according to CoStar data, developers are banking on company expansions downtown. As it stands now, downtown is not the primary job node in San

Diego. According to a report released by the City of San Diego in 2019, only 12% of the city's jobs were downtown, compared to 24% in the Golden Triangle/ UCSD area.

More companies are requiring employees to come into the office, and many of those workers will likely decide to rent close to where they work. Office developments, like IQHQ's RaDD project on the waterfront and Stockdale's redevelopment of Horton Plaza, seek to create more of a live/work/play environment in downtown San Diego, which could transform the area.

Stockdale's redevelopment of Horton Plaza, seek to create more of a live/work/play.

Homelessness

Increasing homelessness has shied people away from some San Diego neighborhoods, which could adversely impact housing demand in those areas in the near term. This is especially true in downtown San Diego, where a large share of the county's construction pipeline is concentrated and where many of the unhoused residents of the county live.

According to the San Diego Regional Task Force on Homelessness released in May 2022, at least 8,427 individuals are experiencing homelessness in San Diego County, a 10% increase from 2020. Over 1,600 of these individuals are estimated to be in downtown San Diego. The city has multiple initiatives to address homelessness, including the construction of new shelters citywide, but in the meantime, it is a major concern for many stakeholders including businesses and residents.

Rising Interest Rates

Rising interest rates will likely hurt both the capital markets and construction in 2023. Investment levels have slowed for Class A multifamily projects, but this is coming off record years in 2020 and 2021. Sales activity in 2023 will genuinely indicate the impact of higher interest rates on the market.

With rents slowing and interest rates projected to remain elevated, development projects could become harder to pencil. Apartment construction starts, and the number of units under construction in 2022 was slightly lower than in 2021; many of these projects were planned or started before the sudden change in interest rates. Where rates stand in 2023 will be a significant indicator for apartment starts in a city that continues to face a tight housing market.

The Link by Affirmed Housing, opened in 2020.

PROPERTY TYPE OUTLOOK

HOUSING Deed-Restricted Affordable Housing

*by **Stephen Russell,** President & CEO, San Diego Housing Federation*

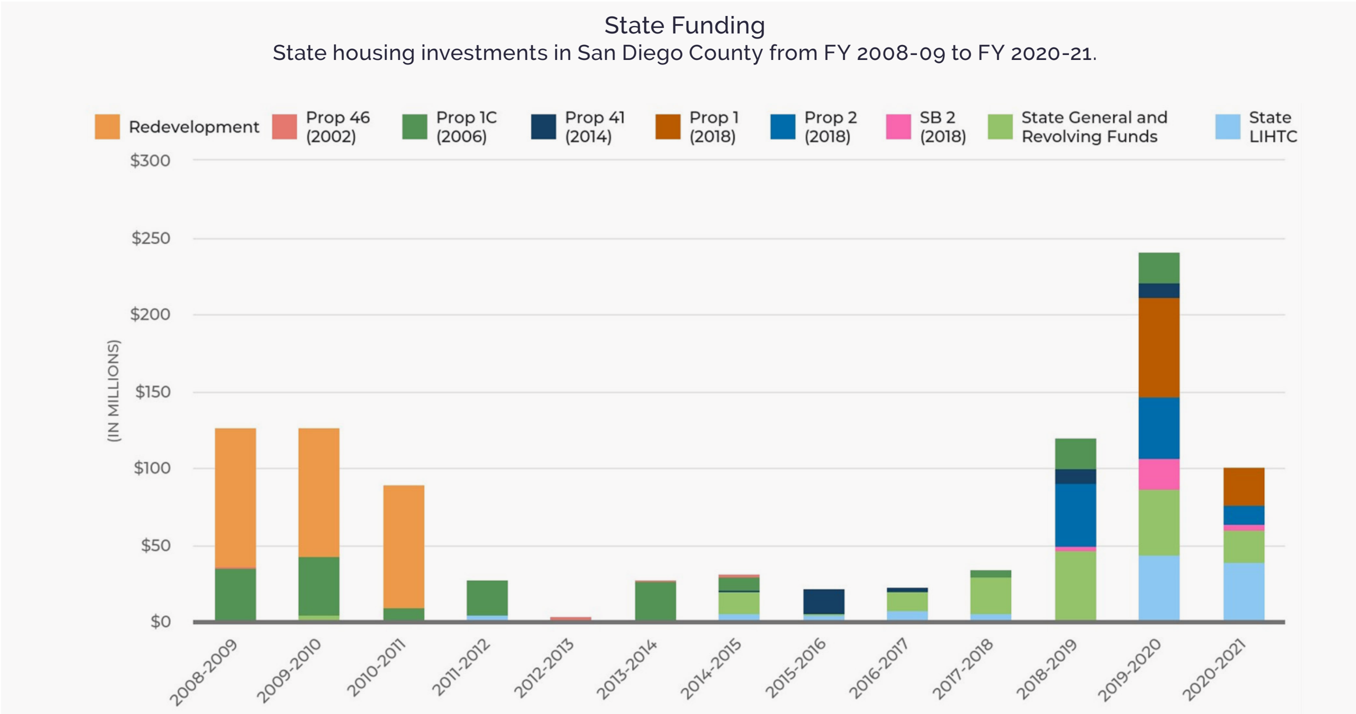
The demand for affordable housing (defined here as targeted at 80% AMI and below) continues to grow in our region. In both the city and county, the number of permitted units for very low income and low-income residents decreased substantially in 2021, with a 74% decrease in the city of San Diego and a 48% decrease in San Diego County. With a goal to add 172,000 overall units to the county by 2030, these shortcomings are significant. Rising rents are outpacing wages in lower income households, contributing to economic precarity and even homelessness. Homelessness is growing at a much faster rate than the production of affordable housing. Approximately 35,000 low-income households in San Diego County are living in affordable housing but, but the need is for an additional 130,000 affordable units.

There are two primary categories of deed-restricted affordable housing in our region: inclusionary and density bonus units (including Complete Communities in the City of San Diego) and Low Income Housing Tax Credit (LIHTC) projects, which constitute the vast majority of affordable housing produced in the region and the nation as a whole.

The production of inclusionary and density bonus units is entirely driven by the production of market-rate housing, and 2023 numbers will track the trends in multi- and single family housing.

The production of LIHTC housing is driven by a number of factors, the largest of which is the availability of State funding, the majority of which in the years 2020-2022 has been funding from the State's Proposition 1 Housing Bond of 2018. With the virtual depletion of this resource in 2021, currently funded projects will complete construction and be placed in service in 2023, but fewer new projects will be initiated, and site acquisition will continue at a slower pace as affordable housing developers struggle to finance their existing pipelines.

With the State budget facing a deficit, there is unlikely to be any general fund allocations to housing production, and the next infusion of State funding will not likely arrive until a new housing bond is passed, 2024 at the soonest. Local resources for housing at all jurisdictions will continue to be severely limited though one of the few bright spots is the ongoing flow of SB-2 dollars from Pro Tem Atkins' Permanent Local Housing Allocation funds. The new emphasis on utilizing public land contributions to affordable housing production is encouraging. However, without significant capital to build out these sites they will languish in development pipelines for an extended period of time.



Permitted Housing Units by Income Category

City of San Diego

Year	Very Low Income Housing (<50% of AMI)	Low Income Housing (<80% of AMI)	Moderate Income Housing (<120% AMI)	Above Moderate Income (120%+ AMI)	Total
2018	249	203	6	3437	**3895**
2019	602	314	24	4281	**5221**
2020	937	768	3	4774	**6482**
2021	186	265	19	4563	**5033**

San Diego County

Year	Very Low Income Housing (<50% of AMI)	Low Income Housing (<80% of AMI)	Moderate Income Housing (<120% AMI)	Above Moderate Income (120%+ AMI)	Total
2018	270	429	293	7710	**8702**
2019	788	754	200	7464	**9206**
2020	1149	1091	463	8006	**10709**
2021	380	785	780	8684	**10629**

Source: CA Dept of Housing and Community Development, Annual Progress Reports - Data Dashboard and Downloads
https://www.hcd.ca.gov/planning-and-community-development/housing-open-data-tools/housing-element-implementation-and-apr-dashboard

Campus at Horton.
Developer: Stockdale Capital

PROPERTY TYPE OUTLOOK

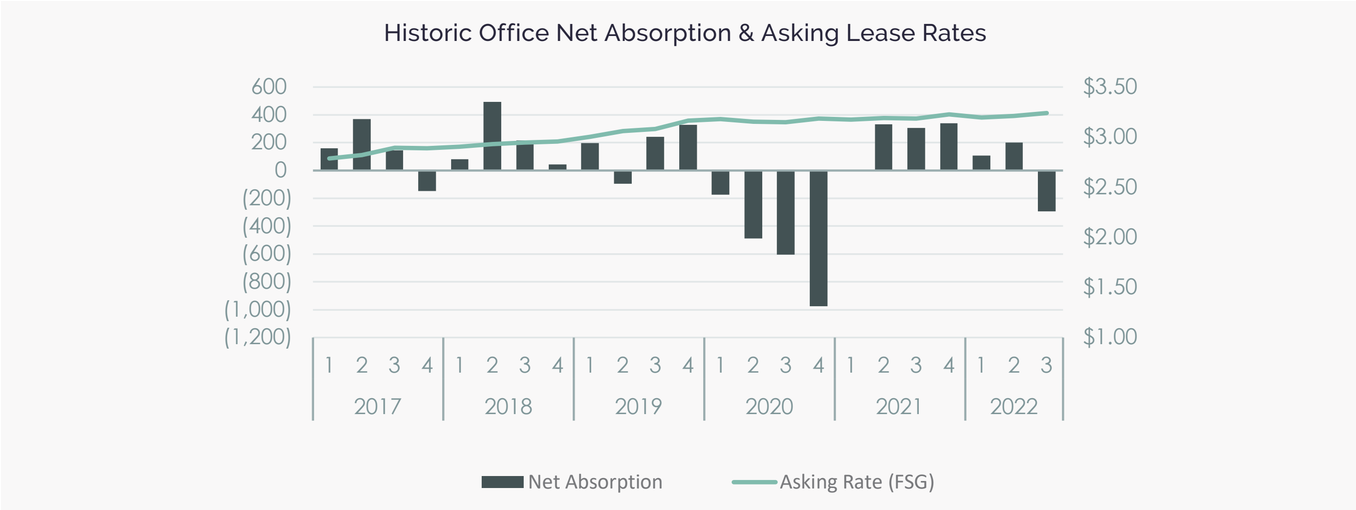
OFFICE Market Overview

*by **Zach DiSalvo,** Field Research Manager, CBRE | San Diego, Hawaii*

Market Fundamentals: A Tale of Two Halves

Even with the onset of the economic downturn beginning in February of 2022, the first half of the year was strong for the office sector in San Diego. Q2 2022 marked the first time since the onset of the pandemic that most workplaces had fully reopened; however, persistently high inflation, largely due to supply-demand imbalances and Russia's invasion of Ukraine, put the return to normal on pause once again. While macroeconomic headwinds strained much of the country, the San Diego office market propelled forward, largely due to strong activity from tech companies expanding or planting their flag in San Diego. Three Fortune 100 technology companies leased a combined 408,000 square feet this quarter, highlighting "Big Tech's" commitment to use high quality office space as a tool to recruit and retain top-end talent. Q2's 1.98 million square feet of leasing activity exceeded the 3-year average of 1.71 million square feet (1.7 million square-foot-average for 2021). 2021 saw two straight quarters of leasing activity over 2 million square feet and now the region has achieved its fifth consecutive quarter of positive net absorption.

Persistently high inflation and The Federal Reserve's hawkish response in the form of aggressive rates hikes began showing signs of the US economy slowing in Q3 2022. Despite a strong first half of the year, San Diego has not been able to shield itself from macroeconomic headwinds as leasing from tech companies slowed, record sublease availability has come to market, and tenants begin to right-size their footprints to adjust budgets as the fear of an economic downturn. Tenant interest declined as San Diego posted 293,692 square feet of negative net absorption, snapping its streak of five straight positive quarters. Leasing activity was just over 1.53 million square feet in Q3 2022, the lowest in a quarter since Q1 2021, although YTD leasing is still on pace to match total leasing from 2021. Higher corporate cost-of-capital is forcing firms to shelve expansion plans and layoff announcements and office sublease listings are beginning to mount as a result.



Lab Conversion & New Construction Trajectory Continues

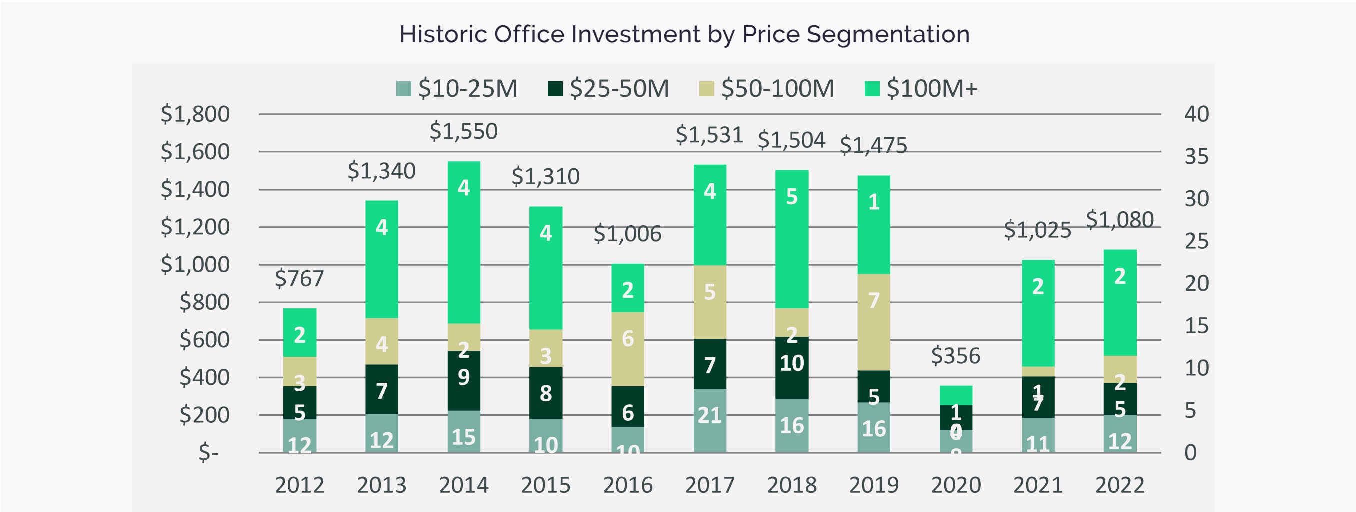
One of the most significant factors impacting the office market is the competition from lab users, whose demand for space continues to lead to the conversion of older office product into new lab space. Since 2015, roughly 6.5 million square feet of lab inventory has been added to the market, with roughly 2.8 million square feet of Office coming from office product being converted to lab and an additional 1.8 million square feet planned for future conversion. Late 2021-early 2022 produced 7 of the 10 largest Life Sciences transactions in the last 10 years within the central San Diego lab market, many of which are in future new construction projects yet to be built as developers have shifted their focus from office product to lab product

In addition to the existing office inventory being reduced, there is very little new office space being built in San Diego with just under 800,000 square feet off office space currently under construction. The majority of new product is from Holland's 37 story mixed-use development in downtown with 270,000 square feet of office space and La Jolla Commons III's 212,851 square feet being built in UTC. The 800,000 square feet under construction is nearly half the average between 2020 and 2021 (1.59 million square feet) and nearly 500,000 square feet less than the 3-yr average from 2019-2021. New construction of lab space is seeing the opposite trend, as total lab inventory under construction increased by over 800,000 square feet from Q2 to Q3 in 2022, with two large projects breaking ground in central San Diego, some of which is already spoken for. Demand for life science product, both new construction and future office to lab conversion, will continue to impact the office market in San Diego as developers shift their focus to meet the demand for lab space in the region.

Sublease Space Begins to Mount

Despite as strong first half of the year in the San Diego market for most real estate fundamentals, the significant uptick in sublease inventory in the second half of 2022 shifted the narrative. At the end of the Q4 2021, sublease availability had bottomed out at 2.0% in San Diego, the lowest since prior to the pandemic in Q1 2020 coming in at 1.6%. Since then, sublease availability has risen drastically, with sublease availability coming in at 3.1% at the end of Q3 2022, the highest figure on record. Both direct vacancy and direct availability decline each quarter from Q1 2022 through Q3 2022; however, due to the drastic increase in sublease inventory, both overall vacancy and availability increases from Q2 2022 to Q3 2022, snapping a steak of four straight quarters on the decline.

As of November 1st, there is roughly 3.13 million square feet of office sublease space available, up roughly 1.3M sf from the 1.82 million square feet available at the end of June 2022. The majority of the users listing their space for sublease are either technology or life sciences companies or professional business and service firms. While some of the sublease listings are due to the macroeconomic headwinds the country has faced this year, many are still a result of companies trying to right size their footprint to adjust to employees working from home.



Capital Markets/Economy/Deal Making

Although investment in Office product has been slowing since early 2020, the total YTD sales volume for 2022 is $1.03 billion, already above 2021's total of $1.02 Billion. Much of this was due to one of San Diego's largest tech company's $445 million purchase of Rancho Vista Corporate Center, an 800,000+ square feet office campus in Rancho Bernardo, a clear indicator that while the physical workplace is important to organizations in a strong financial position. Despite market volatility and macroeconomic headwinds, deals were still getting done into Q3 2022; however, most Institutional lenders and office investor's activity has come to a halt, although activity from private investors remains strong.

The cost of borrowing continues to rise as The Fed raised the Federal Funds rate by 75 BPS to 3.25% in September, the third consecutive BPS increase. The Fed remains vigilant about rising services costs and the prospect of embedded inflation and this should keep the Fed Funds Rate trending upward through mid-2023 and peaking at roughly 4.5%. Indeed, this outlook is predicated upon inflation decelerating to 3.5% by year-end 2023. It is entirely plausible that inflation could remain stubbornly high, which would trigger a stronger response from the Fed and a more painful recession.

The State of Downtown on Other Notable Submarkets

Downtown has largely felt the same headwinds that the rest of San Diego has experienced in the second half of the year. Tenant activity remained stable in the first half of the year but began to decline at the end of Q2 and Q3 2022. The flight to quality has been evident in downtown as highly amenitized office buildings in good locations continue to achieve high rents while the older and outdated product continues to struggle. 2100 Kettner, Kilroy's premier Class A office project delivered roughly 234,000 square feet of space to Little Italy this year but has struggled to attract large tenants, with only one lease for roughly 28,000 square feet signed in the entire project.

The majority of the new developments currently being built are located in downtown San Diego, as institutional owners are placing massive bets on downtown being one of the next life sciences hubs in the county. Between IQHQ's Research and Development District (RaDD) and Stockdale's redevelopment of the Campus at Horton Plaza, there is currently over 1.77 million square feet of lab space under construction in downtown San Diego, none of which is preleased. 2022 saw the first ever Lab deals signed in Downtown, with the Genesis complex at 1155 Island Ave inking two lab deals in the second half of 2022 totaling roughly 57,000 square feet While these leases may be small in comparison to the record breaking deals signed in central San Diego this year, it is a positive sign that lab tenants may be willing to lease space in the south-end of the county.

The revitalization of downtown will likely be dependent on the success of these major projects currently underway. Additionally, this year, the San Diego Port Commissioners agreed to move forward with the environmental review of the $3.6 billion plan to remake Seaport Village and the surrounding waterfront, concluding six years of planning on what would be one of the largest projects in port history. Projects like these will completely reshape the look and feel of downtown, making the neighborhood much more desirable to office tenants and residents of San Diego.

Central San Diego continues to be the premier location, with most centrally located submarkets outperforming locations such as downtown and North County. Despite economic conditions, submarkets like Del Mar Heights, UTC, Torrey Pines, and Sorrento Mesa continue to tighten and become more expensive. All of those locations have seen vacancy decline since the start of the year and average asking rates increase with Del Mar Heights, Torrey Pines, and UTC all posting asking rates higher than $4.00 per-square-foot per month FSG (full service gross). CBRE's 2022 Tech-30 Report, which explores the high-tech industry's impact on office space in the 30 leading tech markets in the US and Canada, had Sorrento Mesa listed as the 4th highest rent increase (14%) since Q2 2020 across all submarkets in the US and Canada, behind only University City (Philadelphia), Nashville CBD, and Lake Union (Seattle). The report listed San Diego as the #21 Ranked tech market and is considered to be one of the five most resilient markets positioned for renewed growth based on a combination of future tech demand drivers and office market fundamentals.

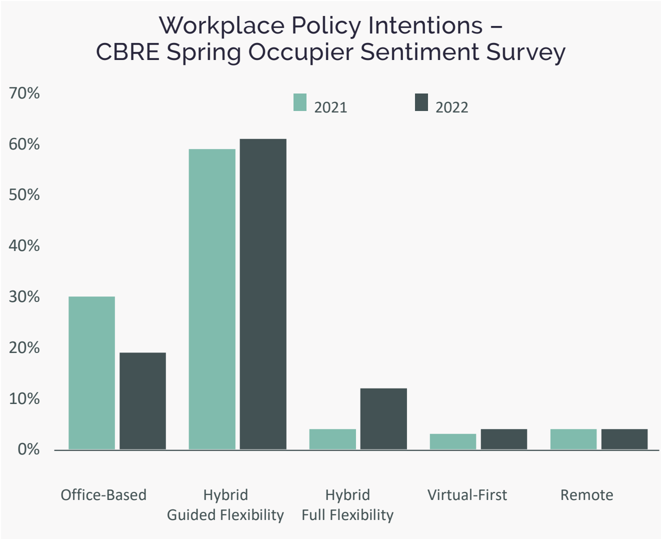
2100 Kettner by Kilroy Properties.

WFH Impacts & Flight to Quality

While the pandemic's impact on being in the workplace has largely subsided, the ability for office users to work from home appears to be around for the long haul. CBRE's Spring 2022 U.S. Office Occupier Sentiment Survey, which surveys 185 corporate real estate executives across the U.S, found that 85% of respondents want employees in the office at least half the time despite hybrid policies. Many of these companies have already had return to office plans underway throughout the second half of 2022 but office occupancy levels still remain muted across the US. The survey also found that 61% of respondents will have a "Hybrid Guided Flexibility" workplace policy going forward, while just 19% prefer an office-based policy for their companies. Even with most companies adopting hybrid work arrangements, sentiment towards expansion of their office footprints has grown year-over-year.

At a national level, CBRE's analysis of more than 2,700 lease comps from 2019 to Q2 2022 shows that effective rents for top-tier office buildings (primarily Class A+/A assets) increased by 3.8% in 2021 and by 6.7% through Q2 of this year. Conversely, effective rents for lower-tier (primarily Class B/C) buildings fell by 3.4% in 2021 and by 1.1% so far this year. San Diego has seen the same affect when comparing high quality trophy office buildings to the typical Class A office buildings. For 4 of the last 5 quarters, the vacancy rate in trophy properties has been lower than the vacancy rate in non-trophy properties. Additionally, space in trophy properties is being absorbed drastically faster with trophy properties absorbing +2% of their inventory and non-trophy class a properties absorbing -0.3% of their inventory. This largely due to nearly 19% of available space in trophy buildings being leased compared to 12% of the space in non-trophy class A assets.

Employers desire to get their people back into the office has been a significant reason for the flight to quality the office sector has been experiencing over the last few years. If employers want their people to make the drive into the office on a regular basis, they need to use their physical space as a tool to attract employees back. Occupier Sentiment Survey respondents indicated that flexible open space, shared meeting space, and space for private phone calls and web meetings were the most sought after "better building" attributes. These factors may require companies to reconfigure their office lay-outs from traditional dedicated desks or cubicles to a more open-seating or "hoteling" style space – while some companies may have less people in their office than they did prior to the pandemic, they may end up needing more space to create desirable areas for employees to utilize and collaborate with their coworkers.



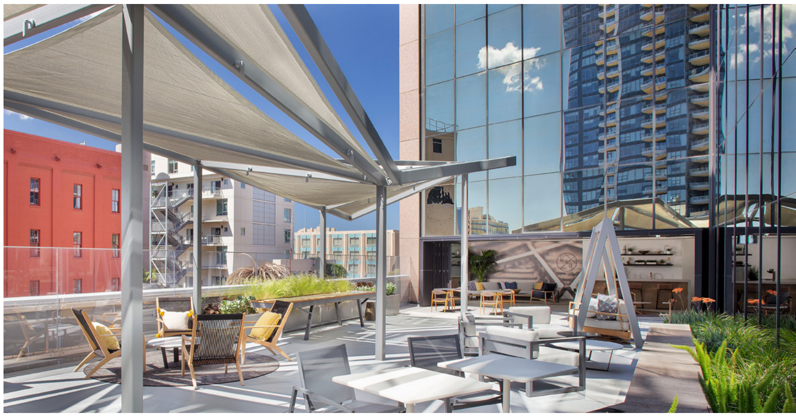
Market Outlook

The problems associated with inflation continue to run their course. Although the pace of inflation may have started to plateau, the Federal Reserve's hawkish response has been unequivocal in a way that caught markets by surprise. Aggressive rate hikes and Fed balance sheet reductions have successfully resulted in a strong dollar and higher mortgage rates, and the beginning of a slowdown in the U.S. economy. Higher rates are not just impeding household decisions; the higher corporate cost of capital is forcing firms to rethink hiring plans. Consequently, CBRE expects the economy to contract early next year, and unemployment to rise. Once inflation is tamed, both capital and real estate markets will become more predictable again.

Economic conditions are expected to continue to impact the sale of office product going into 2023. CBRE's recent Investor/Lender Intentions Survey conducted in December of 2022 found that office will likely be the least desirable preferred property type in the new year, with 0% of respondents listing office as their preferred property type. The same survey found that by December of 2022, only 15% of properties being financed at the time were office behind industrial and multifamily both accounting for 26% of financing and retail accounting for 18% of financing.

Opportunity for Office Users

Down markets typically provide the best opportunity for office users to take advantage of deals favorable to tenants as landlords looks to get spaces leased up. The uptick in sublease space could mean that landlords with direct space available will need to start competing with sublease listing in order to secure tenants, which could lead to asking rates declining in the more favorable markets that have seen growth over the last few years.



1420 Kettner & Ash, Owner: Divco West, Architect: Gensler

Many companies have spent the last three years trying to evaluate how the pandemic changed their business. Do they still need as much space as before? How has their workforce changed? Is their current space still meeting the needs of their employees and their business? Unfortunately, there is no one size fits all answer. The best solution could depend on the size of the organization, the type of business, the make-up of their employees, the culture of their company, etc. In a dynamic and changing office market like San Diego, office users need to have access to the best market intel to drive their decision making. Occupiers should be planning 2-3 years in advance and taking a variety of factors into consideration before making commitments that could impact their business. It is vital that business leaders work with trusted advisors to navigate through a dynamic, and rapidly changing market, like we have in San Diego.

Preparing for the Future – Mobility, Energy, Climate Equity & Action

Q&A *with* Shelby Rust Buso

Chief Sustainability Officer & Deputy Director, Sustainability & Mobility Department, City of San Diego

> I think people were surprised that collaborative creative work can be done remotely to a much greater extent than previously imagined.

Q: Welcome to San Diego. How does your new role fit into the City of San Diego's management structure?

I'm the Chief Sustainability Officer, but I'm also Deputy Director in our sustainability and mobility department, which is relatively new. It is a combination of our sustainability and mobility teams at the city.

This was a deliberate restructuring to create a more robust and effective department, and it is pretty unique.

We are structured around 3 core pillars. MOBILITY which focuses on - the parking district works, micro-mobility, and some of the long-range planning. For example, the master mobility plan will live within that team.

ENERGY involves municipal energy assessments – including the city's billing department and serves as a liaison to large customers like our utility providers. They also lead the charge when it comes to our footprint on municipal facilities and transitioning those to net zero. This is a really exciting initiative that just kicked-off.

Finally, my team is the CLIMATE EQUITY and CLIMATE ACTION TEAM. It is an exciting time to join this group as we are already far along in developing the new Climate Action Plan. We are also in charge of updating the Climate Equity Index, distributing our Climate Equity Funds and doing a lot of sustainability reporting on behalf of the city.

Q: What are the most impactful aspects of the Climate Action Plan as it relates to real estate land use?

In some ways, the entire plan has implications for professionals working in the built environment. To single out a few specific areas: the mobility components and the decarbonization efforts are going to be the most relevant to many land use professionals.

Decarbonization, as one action item, is the largest and most impactful and that would be through some of our work in the REACH code that's potentially coming and then also in standards for existing buildings that will roll out over the next couple of years. That decarbonization process boils down to removing natural gas from the built environment, which is really our single most impactful step for carbon reduction in San Diego.

But taking a step back, looking at the suite of policy options under the mobility header, that one as a strategy is going to be the most impactful overall.

That section will contain multiple programs and projects, not only from our mobility team, but also from the transportation department and the planning department as they roll out more community plans and assess our micro mobility and transit options.

We've got some pretty lofty goals for a mode shift of 50% of the population, which is ambitious. So, we would be looking to our industry partners to have other thoughts and ideas about what's feasible and what really gets people out of their cars, but still allows them to get to work easily and enjoy life in our city.

Q: How are changing state guidelines affecting your work?

As the second largest city in the state, I think we have a responsibility to try to push further and faster and do as much as we can for the whole state. And so far, the state is very supportive of our direction in that regard.

I came from two states where that relationship was different, and which relied primarily on local action. Personally its a different experience to be in a state that is leading the charge and setting proactive goals. Local leadership can then push those goals a little further.

I think the REACH code is a good example. We have a new state building code that goes into effect January 1, 2023. When we dig into the details of the new California standards, we have to make decisions about what makes sense locally to push a little bit further on.

We're a member of groups like the Regional Climate Collaborative where we talk with other cities in the San Diego region to make sure we are doing things in lockstep to comply not only with the state code, but to make sure we do it together.

Q: Do you imagine that we will see new regulations, codes or building standards as part of this process?

There will definitely be some changes and we want to work with ULI members and with anyone else in the community who wants to be a part of the conversation. We do want to co-create these standards with the City of San Diego, so it's not just us saying what we think needs to happen, but we need to know what's feasible as well.

Right now, we're working on our implementation plan. We wrote the climate action plan and as you know, plans can sometimes just sit on a shelf. We have started this process with our carbon footprint and how to reach decarbonization goals including passing an internal municipal building strategy to reach net zero. We want to learn from ourselves so that as we roll out something for existing buildings down the road we keep those learnings in mind. After existing buildings we will tackle new construction. These are considerations that we need to keep in mind as we roll out future plans.

We have started this process with our carbon footprint and how to reach decarbonization goals including passing an internal municipal building strategy to reach net zero. We want to learn from ourselves so that as we roll out something for existing buildings down the road we keep those learnings in mind. After existing buildings we will tackle new construction. The state code is rolling out right now will be effective January 1st and we do hope to have an all-electric REACH code for new buildings on the horizon for the spring of next year. Our goal is to get an all-electric code out there by the middle of 2023.

Following that, would be existing building standards, which is a heavy lift. We are writing the budget right now for next year - fiscal year 2024 - and we hope to include requests to pay for a road map development process for an existing buildings component. So, what that means is we'll hire a consultant at the end of 2023 to work on a suite of options for policy in the existing building space to see how we can meet our goals.

Q: How can ULI members stay engaged with your work and prepared for any changes ahead?

We are trying to make sure that there are as many avenues for transparency as possible. First of all, I want everybody to know that they can come to me anytime and I'm happy to answer any questions. We're also creating two new boards at the city, which could be great opportunities for land use professionals to support the city's work at a deeper level. In general, we need more public-private cooperation to make this plan effective.

I want to encourage ULI members to get involved now, because we're going to be rewriting the master mobility plan again in five years, and we know we're going to have to be shifting our emissions projections and our modeling here and there, and we can't do it alone.

About Shelby Rust Buso

Prior to joining the City of San Diego, Shelby was the Chief Resilience Officer for Miami. Before that she served for as the CSO for Atlanta, where she led the sustainability team. She holds a juris doctorate and master's degree in environmental law and policy from Vermont Law School and a bachelor's degree in anthropology, Spanish and environmental studies from Wake Forest University.

PROPERTY TYPE OUTLOOK

RETAIL Market Overview

*by **Stephen Avoyer,** President & Founder, and **Sullivan Roche**, Associate, Flocke & Avoyer*

Notable Trends

1. San Diego County remains a highly desirable target market for retailers, restaurants, and lifestyle uses but significant barriers to entry and supply constraints contribute to a highly competitive marketplace.
2. The impact of supply chain disruptions continues to reverberate through the marketplace affecting lead times for equipment, supplies, and raw materials. New development is especially vulnerable to volatile pricing, labor shortages, and delays in building materials.
3. Fast casual and quick service restaurants reemphasize the drive-through model as a part of post-pandemic strategy. Demand for drive-thru product continually outpaces supply due to a variety of constricting factors: increased number of players vying for sites, geographical boundaries limiting periphery growth, shortage of undeveloped land on major commercial corridors, discretionary use permits and zoning limitations, and long entitlement timelines.
4. Historically high levels of inflation threaten to erode cash flow for investors and owners. The Fed continues to bump interest rates to temper inflation. With inflation consistently exceeding 6% for the last 4 quarters, reaching as high as 9.1% in June 2022, landlords are scrambling to adjust rental increases accordingly to maintain property values.
5. Retail leasing fundamentals in the region continue to improve with vacancy rates reaching as low as 4.0% across all retail product types. (Source: CoStar Retail Market Report). Sales volumes in the sector have largely recovered, meeting or exceeding pre-pandemic levels.
6. Notable occupier commitments from the tech sector, life science, and bio tech are contributing to high demand for mixed use communities that support a live/work/play lifestyle.
7. Experiential uses like theatres, nightlife, fitness, and entertainment, those hit hardest by pandemic era closures, benefitted from pent-up consumer demand and heavy traffic in 2022.
8. Driven in part by department store closures and a demand shift towards mixed-use environments, select regional malls are seriously evaluating strategic repositioning.

Outlook by Retail Product Type

Home Improvement

Home Depot, Lowes and Ace Hardware are the predominant hardware stores in San Diego County. All three have benefitted from the pandemic. Home improvement during COVID was fostered by a desire to make the only place a family congregated – their home, a more pleasurable and functional living space. Now, with interest rates rising to historical levels, staying in your home vs buying a new one is a solid alternative to what will inevitably be a much larger mortgage payment for the foreseeable future.

Ace Hardware, Hillcrest

Department Stores

As of the end of Q3 2022, the jury is still out on the viability of the conventional department store, as we remember it. The holiday sales numbers, when they are published in Jan 2023 will shed valuable light on that verdict. Department stores are doing anything and everything they can do to entice customers into their stores. Kohl's has formed a strategic relationship with Sephora for marquee in-store placements of the Sephora brand. Go in for Sephora, and shop while you are there for other needs – that is the hope and plan. Constant sales and promotions will be prevalent all holiday season long - January will tell.

Mass Merchandisers

Walmart and Target too are struggling with fierce competition from online shoppers and cousin competitors like Costco, department stores, and other specialty big boxes like Bed Bath & Beyond (those that are still open).

Discounters/Warehouse Clubs – membership

Sam's Club and Costco seem to be thriving. Their membership is loyal and their image fits right into today's value conscious shopper. They demand and fight for a low cost of occupancy on the front end to allow them to pass along savings to their customers. They almost always buy their land, not lease – hence the savings.

Grocery

The grocery store story will be fascinating to watch in 2023. In San Diego, the conventional grocers are Ralphs (Kroger), Albertson/Vons and Stater Bros. Kroger has filed with the SEC to acquire the Albertson/Vons chain. Currently there is a Ralphs, Vons and/or Albertson on almost every strategic neighborhood corner in San Diego, so if Kroger is successful, there are likely to be a plethora out of county competitors entering the market, or depending on SEC approval, possibly a host of "big box" locations available. That is very unusual for San Diego County where, historically, the "big box" availability has been lower than most like-sized counties. The grocery store industry, both conventional and specialty (Trader Joe's, Sprouts, Grocery Outlet, Jimbo's, Valle Farms Market, Baron's) and all of the Hispanic grocers have thrived in a big way during and after COVID.

Theaters

Theaters are struggling today. They have not been able to shed themselves of the COVID debt and store closures they have had to contend with. People, while thirsting for a return to normalcy and "out of house" entertainments, are still plagued by post COVID reluctance to be inside with hundreds of other people. Here will be bankruptcies, consolidations, and closures in 2023, so more boxes on the market (not necessarily a bad thing for landlords and real estate brokers. The cost of construction and interest rates are also hindering theater expansion right now.

Food & Beverage

Family Sit Down

Applebee's, Denny's and IHOP, are doing very well in certain locations, but struggling in others. This also depends on what part of the country we are addressing. States with current or pending mask mandates are not favorable to family sit down restaurant – that is where drive-thrus seem to be crushing it.

Fast Casual & Fast-Food Drive-Thru (QSR)

In San Diego, where drive-thru concepts like In N Out, Chick-fil-a, Raising Canes, Shake Shack, Panera Bread and Taco Bell are experiencing some of their best volumes ever, the drive-thru related restaurant in general are expanding like crazy (limited only by availability of zoned land and a county-wide initiative to eliminate drive-thru's, as part of the Green New Deal initiative.

Fitness & Wellness

The health & wellness ecosystem in the San Diego region has experienced a rapid resurgence since the pandemic closures of the past years. Consumer patterns in the fitness category are trending towards direct experience, community, and innovative disciplines. At home training methods remain a convenient supplement but 2022 has signaled the pent-up demand for in-person group training. Questions remain around the long-term viability for some of the larger format traditional gyms. The recreational orientation of San Diego County serves to consistently attracts new concepts in the fitness, health, and wellness segments. Recent active tenants included F45, The Boxing Club, and Restore Hyper Wellness.

Dog Days Boarding

Pet Goods & Services

The surge in pet spending and demand for pet related services has continued a steep upward trend since 2020. According to research by Morgan Stanley "the $100 billion pet industry is poised to nearly triple to $275 billion by 2030." The spike in pet ownership during the pandemic is supported by new household formation among the Millennial and Gen Z population. Work from home and hybrid officing trends are naturally conducive to pet ownership and care. 2022 has seen significant commitments from regional and national veterinary hospitals who're expanding in response to historic levels of demand.

Retail Investment

Multi-tenant

For the last 3-4 years, multi-tenant retail as a product type, has been at the lower end of desirability for both capital and debt – and therefore most investors. In San Diego, where overall vacancy factors, particularly in anchored shopping centers (grocer, drugstore, home improvement and junior anchor) has hovered around 96% consistently, that paradigm is slightly different. Well-located and occupied shopping centers with good anchors that are thriving are in demand. Sales have been brisk in this sector in 2022. With the slowdown in transaction volume, mostly due to overall economic uncertainty, interest rate and inflation fears). Interestingly, an inflationary environment is not necessarily a death knell for retail investors and landlords. Many leases have "percentage rent" provisions that allow a for higher rental factor should the tenant's sales rise, which in an inflationary world is common.

Single Tenant Net Leased

Drive-thru Restaurants

These are still trading like hotcakes on the national NNN market. Companies like In N Out, Starbucks, Raising Canes and Chik-Fil-A (all extra premium brands) are using today's still very low cap rates as a vehicle to grow and increase net worth. Counterintuitively they are still trading at under a 4% cap rate. That may begin to change in 2023, but right now they are highly sought after. Most other fast-food drive-thrus, like Jack in the Box, Wendy's and Burger King are trading today at 5-5.25% cap rate depending on specific brand, credit and location.

Financial Institutions

This sector is shrinking from previous years. Banks and credit unions feel the need for brick and mortar facilities will diminish over the next 5-7 years. That doesn't mean they will completely disappear, but in areas that do not have substantial deposit bases, the size of the facilities will commensurately decrease. There is also an initiative for most financial institutions to ramp up their online banking platform. A broker for one of the national financial brands commented that "there is nothing a customer can't do on their phone that they currently use a branch bank for now" – that is certainly the future.

New & Ongoing Development

Campus at Horton

The transformation of the landmark mall formerly known as Horton Plaza, now known as the Campus at Horton, is nearing completion in the Gaslamp district of downtown San Diego. The redevelopment, which spans seven city blocks, includes over 300,000 square feet of retail, 700,000 square feet of Class A office, two major parking garages, and a central breezeway. The previously defunct mall site has been revitalized and reimagined as a downtown nexus and functional connection between the Convention Center, Gaslamp district, Marina, Broadway, and Core districts.

Campus at Horton. Developer: Stockdale Capital.

Costa Verde

The Bristol Farms anchored Costa Verde shopping center was acquired by Alexandria in Q1 with a vision to dramatically expand the scope of this site with up to 400,000 square feet of office and lab space in addition to 200-room hotel.

Riverwalk Mission Valley

In Q4 2022, the partnership of Hines & USAA Real Estate broke ground for the phase one development of a mixed use community that includes more than 900 apartment homes in western Mission Valley which will replace the Riverwalk golf course. The centrality of Riverwalk supports public transit integration and a live/work/play orientation. The area redevelopment along the San Diego River is planned to include 100 acres of open space and park area, along with extensive bicycle and pedestrian infrastructure.

Civita Mission Valley

The award-winning master planned community of Civita, developed by Sudberry Properties, is far from completion as phase two will include the development of a dense mixed-use civic center along Friars Road. Phase two is anticipated to include +/- 200,000 square feet of retail, +/- 135,000 square feet of office, +/- 850 residential units, and a hotel.

SDSU West (Snapdragon Stadium & campus)

The Q4 2022 opening of Snapdragon Stadium, formerly Qualcomm Stadium, is the first major component of the 169-acre SDSU Mission Valley Campus development. The ambitious master plan for this eastern Mission Valley site includes 80 acres of recreation and open space elements, a new trolley station, 1.6 million square feet of campus buildings, 4,600 multi-family homes, 95,000 square feet of retail, and the 35,000 capacity multi-use stadium.

PROPERTY TYPE OUTLOOK

INDUSTRIAL Trends & Investment Prospects

*by **Bret Morriss,** Managing Partner, CAST Capital Partners*

Introduction

Industrial real estate has proven to be a favorite for many investors and developers across the country and particularly in San Diego. But one of the strongest performing real estate asset classes is beginning to face headwinds and will have to prove its resiliency. For San Diego, strong demand drivers continue to fuel fundamental value for this irreplaceable product type. However, the red-hot industrial market has begun cooling slightly and will continue to do so well into 2023. While other product types also slow in transaction and development volume across the region, we believe industrial real estate will prove resilient in the long run, but still face challenges in the short term to its continued growth.

Macroeconomic Headwinds

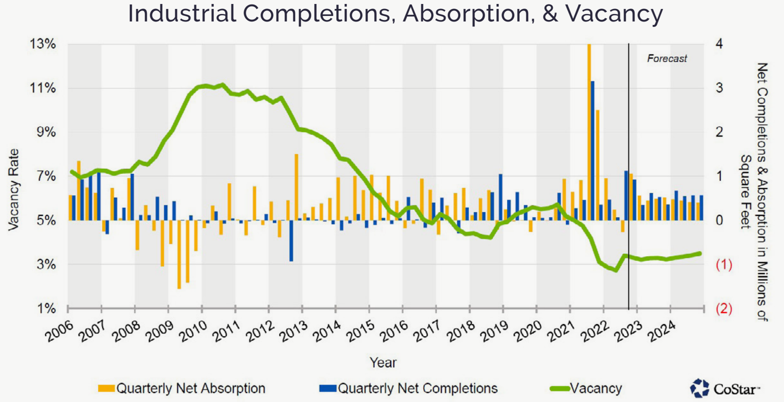
Large macroeconomic changes have characterized 2022 as a year to remember. Inflation and interest rates continue to guide the environment and shift perspectives on the economy. The Federal Reserve's interest rate hikes, which have come at the fastest rate of change in 40 years, are negatively impacting all real estate. In terms of commercial real estate, short-term loans as well as long-term cashflow projections have been dampened by the rising cost of capital, resulting in negative leverage which slows new transactions and development. The Secured Overnight Financing Rate (or SOFR index) currently sits at 4.3% (as of 1/23), up dramatically from its low point of 0.5% in February of 2022. While real estate continues to be a lagging economic indicator compared with other assets classes, the current shifts in capital markets will no doubt have far reaching effects on commercial real estate well into 2023. If there is any asset class that needs cooling from recent highs, it's the industrial real estate sector.

San Diego Market Overview

While San Diego industrial real estate generally mirrors national trends, it also cuts its own path due to unique land constraints that pressure new supply as well as a diversity of local uses which increase demand. Many of the major demand drivers for San Diego industrial real estate remain very strong, such as an ever increasing military presence, the growing life science sector, and the continued need for manufacturing and warehouse space. However, it was the logistics and distribution sector that has seen some of the largest impacts to our bi-national region from e-commerce and cross-border trade over the past year. It's this sector of industrial real estate that we believe will continue to grow in years to come, particularly around the Otay Mesa area, and serve to strengthen the economic bond between San Diego and Tijuana in 2023. Our region boasts one of the busiest land border crossings in the world, with the demand from this region continuing to fuel leasing, sales, and construction.

There is currently 2.5 million square feet of industrial space in the development pipeline across San Diego County including five new buildings under construction totaling 1 million square feet. Four of those five projects are 200k square foot warehouses located in the Otay Mesa submarket, as the unique availability of land there continues to fuel new supply. On the topic of construction, quarterly net completions and deliveries were below 1 million square feet at the start of 2022, but shot up later in the year to approximately 1.75 million square feet, as new supply attempted to meet demand. The third quarter of 2022 saw the highest number of Net Deliveries in San Diego since Q4 2019.

Industrial Completions, Absorption, & Vacancy



Despite new supply entering the market, we have seen signs of demand starting to level-off across the region. Quarterly leasing volume, a main indicator of demand, fell from over 2.8 million square feet early in the year to less than 2 million square feet by Q3 2022. New leasing activity, however, shows Otay Mesa leading the region again. Since 2021, Otay Mesa has topped all other submarkets in San Diego County with over 2 million square feet of new leases signed. Other submarkets followed respectively in the past year with Vista leasing 1.25 million square feet, Carlsbad at 775,000 square feet, Miramar/Mira Mesa at 760,000 square feet, and Kearny Mesa, Oceanside, Chula Vista, and El Cajon all below 600,000 square feet each.

Rent growth remains high throughout the region but also shows signs of slowing down. Industrial rent growth has risen to double digits since early 2021, but when adjusted for inflation shows quite a different picture. San Diego ended 2022 with annual rent growth around 12% nominally and real numbers closer to 6%. There remains serious possibility that increasing supply and inflationary pressure, coupled with decreased tenant demand, could slow the rate of rent growth moving forward across the region.

San Diego Industrial Rent Growth

Other demand indicators point to a similar pattern of slowing growth. Late in 2022 we saw industrial vacancy increase but still hover around 3% in the broader region. Furthermore, after eight consecutive quarters of positive net absorption, we saw negative net absorption in the third quarter of last year, challenging the assumption that industrial product will always be quickly and abruptly adsorbed by the market. While these changes might seem insignificant with a long-term view, economic headwinds and a cooling of demand could slow activity in industrial markets throughout 2023.

Nearshoring & Cross-Border Trade

Despite some indicators of an industrial market leveling-off, it's our close connection with Tijuana and cross-border trade which continue to push the sector forward and show the most promising signs of future growth. Recent data from the Mexican Economic Ministry states that over 400 companies have the intention or are in the process of "nearshoring" their operations from Asia to Mexico. Within the context of San Diego/Tijuana business relations, the practice of "nearshoring" involves a company moving its manufacturing facilities and distribution infrastructure to Mexico, with the goal of shipping finished products across the border and into the United States.

Nearshoring attracted more than $17 billion USD of foreign capital into Mexico in 2022, which represents a 25% YoY increase.

Most of that investment comes from automotive companies like Volkswagen, Continental, Pirelli, and Michelin, among other related manufacturing industries. We anticipate nearshoring to fuel trade across the border long-term, and act as a more permanent solution to geo-political sensitivities with China. This will no doubt increase demand for logistics space throughout border submarkets like Otay Mesa, Chula Vista, and National City as products and goods are shipped North for broader distribution into the United States. Another key development for binational commerce comes from the new "Otay Mesa East Port of Entry." This massive undertaking will produce a border crossing of the future, which broke ground in August of 2022 with anticipated delivery in late 2024. This new entry point will extend the State Route 11 highway into Mexico, representing a partnership not only between nations, but between organizations like CalTrans, SANDAG, and U.S. Department of Transportation.

The federal government contributed $150 million to the binational effort in September 2022, catapulting the project forward. It's expected that the new port of entry will support more than $1.8 billion in trade volume and 16k new jobs. The massive infrastructure investment includes separate gateways for trucks and commercial vehicles and will utilize new wait-time detection systems with the goal of reducing border crossings to an average of 20 minutes.

Transaction Volume Down

From our experience, we have seen a large disparity in seller and buyer pricing which has led to a significant drop in industrial transaction levels from previous years. Q4 of 2022 had the lowest quarterly transaction volume in 10 years aside from a small excursion in Q2 2022 due to pandemic uncertainty. With stabilized debt up around 300 basis points from market lows, investor pricing simply does not pencil on new debt levels, even with continued significant rent growth and low vacancy rates. Cap rates have moved moderately but little relative to debt movement. The current cost of capital is applying downward pressure on pricing, but most sellers remain resistant to accept a discount on value unless there is a truly urgency for them to sell. One notable point is that even though transaction volume was down significantly, sales volume is still on par with previous quarters, primarily due to the large sale leaseback transaction of Ionis -a life science/pharma build-to-suit in Carlsbad which closed at $258.4 million, (over $1,000 per square foot at a 6.0% cap rate).

Regional Outlook

Overall, San Diego maintains many strengths as a prime industrial market for tenants, investors, and developers. However, significant economic headwinds, combined with less pandemic-related demand, could slow the exceptional growth we've seen the past several years. Even though 2023 holds a lot of uncertainty in terms of price, rent growth, and transactions, industrial real estate seems better equipped than many other product types to weather the oncoming economic storm. As evidenced by many developments this year, one of our region's strongest assets remains the close relationship we share with Tijuana and our binational cooperation to strengthen commerce and increase prosperity. Industrial real estate is tied to this growth and despite short-term headwinds, will continue to grow over the long-run in fundamental value and demand for the San Diego–Tijuana region.

PROPERTY TYPE OUTLOOK

HOTEL Industry Forecast

*by **Robert Rauch,** Hotel Entrepreneur, RAR Hospitality*

Growth should be sluggish in 2023 due to the continued rate increases by the Fed. But as the world adapts to "the new normal" following a period of limited international travel and national lockdowns, travelers are eager to get out and see the world. According to a recent survey by Booking.com, 73% of people are more optimistic about travel than they were in early 2022. While we head into 2023 in the midst of global economic and political uncertainty, almost three-quarters (72%) said traveling is still worth it.

2022 was a great year, surpassing 2019 numbers, especially in average rates as inflation drove up costs everywhere. Strong lodging demand in 2023 will support pricing, but most occupancy gains will be in the group and corporate market, as leisure business has peaked. Short-term rentals continue to do well (Airbnb, VRBO, Marriott Apartments—newly announced 11-9-22) and all facets of the industry continue to perform well. We believe the war in Ukraine will end in the first half of 2023 and that is great news as well.

Today, the cost to buy a hotel is less than to build, so new development will be muted. In 2023, we expect that debt maturity and high interest rates will cause sales of hotels to heat up. Many of these hotels borrowed money via Commercial Mortgage-Backed Securities (CMBS) in 2013 and 2014 and the loans were for 10 years. Further, current hotel owners might be getting tired of operating. Today, there is continued difficulty finding good employees and operating costs remain a big challenge (labor, insurance, energy, food).

Following is an analysis of each of the 11 submarkets that comprise San Diego County's hotel markets. We are showing occupancy rate, average room rate and revenue per available room (RevPAR)—overall, revenues will be up slightly from 2022 with occupancy up two percent and average rates up 3 percent. Each San Diego County submarket will differ as to occupancy and growth in average rate based on their mix of business.

Downtown San Diego

2020 and 2021 essentially eliminated hotel demand generated by businesses and, in particular, conferences and conventions. However, leisure tourism has remained strong and has continued to prop up occupancies. With business travel returning, and meetings reconvening, all three pillars of hotel demand are forecasted to be strong. 2022 finished at 72.6% occupancy with an average rate of $203.50 and a RevPAR of $147.75. This was up markedly from 2021 but compared to 2019 where occupancy was 76.7%

we are still short some group business. Average rates on the other hand are up from $166.76, an increase of 22% from 2019! RevPAR was $127.95 in 2019, so we saw an increase of over 15%.

For the first time in 20 years there is significant new growth in the office market, as approximately 3.5 million square feet are either under construction or about to be, mostly targeted to life science and high tech occupants. These include the IQHQ project on the waterfront as well as the Horton Plaza revamp. This will generate demand for hotels.

The main downtown "negative" is the persistence of the homeless problem. Yet, most visitors have seen worse in other CBDs, and this has not yet proven to be a constraining factor. The return of group meetings has been dependent on the type of group or vertical industry and larger events are slower to recover. The Seaport San Diego project will be a massive improvement to San Diego's tourism market.

Hotel development costs remain elevated, material availability/project timelines remain uncertain, financing costs are going up, and macro-uncertainty is limiting developer appetite to restart hotel construction to the same magnitude as pre-Covid levels. This will allow demand to catch up to supply.

New hotel supply:

AC Hotel, 145u on 5th Avenue

- STR through 9/30/22: 73.4% at $237, RevPAR is $174
- Forecast 2023: 77% at $244, RevPAR at $188

Kimpton Alma, 211u room hotel, 1047 5th Ave (just opening)

Coronado

Coronado has the highest average rates fueled by a walkable downtown, beaches, great resorts, and independent boutique hotels, all close to downtown and no new plans for supply increases. This market has quality assets, especially with the newly renovated Hotel Del Coronado at average rates that surpass the overall market by a wide margin.

This new hotel is part of Hotel Del:

Beach Village at Hotel Del, 67u

- STR though 9/30/22: 72% at $464, RevPAR $334
- Forecast 2023: 74% at $475, RevPAR $351

Airport Market

The airport terminal expansion reinforces its regional destination footprint. The region continues to be a sustainably strong hotel market for the foreseeable future with Harbor Island, Shelter Island and Point Loma.

The ruling Port Authority is focused on diversification, including a soon-to-be-approved Topgolf facility on Harbor Island, a certain future tourism draw. The airport itself is undergoing a major terminal expansion, reinforcing its regional destination footprint. All are drivers to a sustainably strong hotel market for the foreseeable future. Point Loma hotels continue to outperform.

No new supply

- STR through 9/30/22: 73.9% at $175, RevPAR $129
- Forecast 2023: 75% at $180, RevPAR $135

Mission Valley

Keep an eye on Mission Valley as demand will be quick to outpace supply once the residential development projects near completion. The Town and Country Resort remains the anchor for group business, with top-of-the-market rental apartments now fronting its southern window at I-8. While this has reduced its hotel room count, it has maintained its private conference facility. Nearby, the most prominent activity is the Riverwalk master plan, now under construction in its first phase of a ten-year program featuring thousands of residential units, a commercial core hugging the trolley line, and including a new trolley stop, all replacing an existing golf course. On Mission Valley's eastern end, the development of SDSU's SnapDragon stadium, a small college football venue will be surrounded by residential, commercial and classroom space. Old Town and Kearny Mesa remain strong and are included in this geographic area.

New supply:

Woodspring Suites, 122u

- STR through 9/30/22: 76.8% at $156, RevPAR $120
- Forecast 2023: 78% at $161, RevPAR $126

Mission Bay

Mission Bay shows how independent hotels can thrive today as these hotels continue to renovate and provide a healthy mix of leisure and group demand without a brand. Pacific Beach continues to slowly evolve. Sea World has been morphing into "Roller Coaster world" as this famous San Diego tourism landmark is attempting to recapture lost business and is succeeding. Old Town remains a sustainably high-profile tourism spot, replete with history and Mexican cuisine, and several hotels that are decidedly middle market, but highly occupied.

New supply:

Fairfield Inn Mission Bay, 107u

- STR through 9/30/22: 75.5% at $276, RevPAR $209
- Forecast 2023: 76% at $280, RevPAR $213

Fairfield Inn operated by Marriott, Mission Bay/Pacific Beach Chris got this off the internet and the resolution is not high enough

La Jolla

The coastal village of La Jolla remains stubbornly complacent: it could be a future opportunity for residential and hotel redevelopment, but remains stuck in time, content to welcome visitors to its old shopping district and distinguished old hotels and boutiques (think La Valencia) many of which require some renovation, but enjoy high occupancy and rates, as demand continues to far exceed supply.

No new supply

- STR through 9/30/22: 72.9% at $341, RevPAR $249
- Forecast 2023: 75% at $346, RevPAR $259.5

UTC-Carmel Valley

This submarket may actually see a reduction in the hotel count, as the nearby life science and technology sectors at Torrey Pines and Sorrento Mesa sprawl south into UTC, buying up existing hotels which are likely to be transformed or reconstructed into offices and labs at some future date. These clusters of science have been fed by nearby UC San Diego and have caused substantial redevelopment intensity in the UTC market.

This corporate/leisure/group submarket has strong biosciences and communications technology sectors with Illumina, Qualcomm, BD and many more. It is arguably the most balanced submarket with leisure, corporate and group business.

No new supply

- STR through 9/30/22: 81.8% at $224, RevPAR $183
- Forecast 2023: 82% at $229, RevPAR $188

Rancho Bernardo

This corridor has a strong corporate base of business with Apple, HP and many more providing mid-week room demand, some group demand and access to all other submarkets to pick up leisure business. The Rancho Bernardo Inn is the meeting demand anchor.

New demand is certain to be driven along the I-15 corridor at and near Rancho Bernardo, as technology companies are now constructing or planning new office space. Poway's business park remains a healthy and large driver of business demand for areas nearby and relatively inexpensive, including San Diego's Mira Mesa and Los Penasquitos communities.

No new supply

- STR through 9/30/22: 79.3% at $175, RevPAR $139
- Forecast 2023: 78% at $175, RevPAR $137

San Diego Northeast-Escondido

This area of San Diego County had been essentially dormant and under-represented as a significant part of the region's hotel inventory. Lots of new development activity in San Marcos' North City will eventually get to Escondido as this area grows.

Escondido is now aggressively romancing hotel development, but it remains to be seen whether a market develops. The one significant tourism attractor is the Safari Park, whose owner, the Zoological Society, has long considered an in-park hotel addition, but has yet to put one forward. Also in the inland northeast is the growing wine region, which could provide a demand base for future hotels and North City which put San Marcos into Fortune's Top 25 Cities to Live.

No new supply

- STR through 9/30/22: 72.7% at $148.07, RevPAR $107.61
- Forecast 2023: 72% at $146, RevPAR $105

Del Mar-Carlsbad

Del Mar through Carlsbad remains a strong residential enclave of affluent residents, businesses and hotels, while Oceanside is enjoying a significant upgrade in all areas. This coastal area will continue to command high prices due to several recent, luxury hotels on the coast. These hotels, Alila Morea, Seabird, Mission Pacific and Cassara all opened during the pandemic. Resorts such as La Costa, Park Hyatt, Westin and Hilton's Cape Ray drive large groups to Carlsbad.

Visit Carlsbad is on the move with an increased fee for visitors that provides a budget for promotion and Legoland continues to add tourism value to the region. Oceanside has long been a sleeper, and substantially less affluent community, considered affordable, and still a repository of Camp Pendleton based Marines. But it is going through a metamorphosis, as its coastal urban core is enjoying a significant upgrade in commercial and residential development.

No new supply

- STR through 9/30/22: 71.9%% at $223.36, RevPAR $160.62
- Forecast 2023: 74% at $234, RevPAR $180

South & East

The Port of San Diego and City of Chula Vista have taken the next step toward breaking ground on the Gaylord Pacific resort, the adjacent convention center, associated public infrastructure and two parks on the Chula Vista Bayfront, scheduled to open in 2025.

The completion of multiple, massive development projects like the Chula Vista Marina Project, the Gaylord Hotel and Convention Center and more will stimulate an influx of travel demand in all segments and will stimulate other private developers to build on adjacent parcels. Rates are currently low in this submarket, but occupancy has been high, somewhat driven by the midscale and economy product that is becoming desirable to many. When bookings begin at the Gaylord in 2024, rates will rise substantially.

The other big story here is Otay Mesa, whose expanding border drives tourism and hotel demand. Amazon's largest North American distributions facility resides here, a 3.5 million square foot behemoth, employing thousands.

No new supply --- yet!

- STR through 9/30/22: 81.1% at $137.67, RevPAR $111.65
- Forecast 2023: 80% at $136, RevPAR $109

Overall Rate Trend

We see 2023 up in occupancy by two to three points with average rates (ADR) tricky due to the return of corporate and group demand at lower ADR. Some markets may see reduced ADR. Corporate negotiated business and corporate/association group are expected to show the most occupancy growth in 2023. Leisure business will likely decline and begin to fall into a more normal pattern in 2023. Weekend occupancy and rates are continuing to hold up, but with fewer mid-week leisure stays.

Each submarket will have unique year-over-year performance changes depending on their reliance on group, corporate and leisure business as well as international travel so hoteliers will have to use caution when finalizing their budgets.

> While we have a way to go yet, the light is definitely shining bright towards a clearer sense of normalcy for our industry. As attendees are more selective about how they invest their time, the style and character of meetings are changing. So, responding to these key trends and unique insights into what meeting planners need to be successful must be considered as we head into a year of greater profitability and positivity.
>
> *Jeff Bzdawka, CEO, Knowland*

Meetings & Conventions

Meeting volumes continued to rise in 2022, attendance is nearing 2019 levels, and COVID is no longer a concern for most. Costs are leveling with the return of business travel, and budget increases will support the recovery's home stretch. However, with the recovery also comes new challenges. Staff shortages and inquiry backlogs impact planners' satisfaction with hotels and venues. Meanwhile, rising costs may cause planners to change their approach, including looking at new destinations. Highlights from the survey include:

- Attendee size is no longer a major challenge, and meeting volumes continue to rise – More than 70 percent of 2022 events had attendance at, or above, 80 percent of 2019 levels. Seventy-five percent of planners don't expect the number of events and meetings to drop.
- Staff shortages and inquiry backlogs are impacting service standards; rising costs redefine goals – Less than 22 percent of planners are very or extremely satisfied with the response they get from hotels/venues. Fluctuations in the industry service levels and rising costs of up to 50 percent are causing organizers to redefine event strategies and goals, including profitability.
- Technology and diversity, equity, and inclusion key trends – Using technology to enhance the attendee experience is top of mind for planners. It remains a key trend, followed closely by a focus on diversity, equity, and inclusion and a more casual meeting atmosphere.

Final Thoughts

In 2023, we expect demand growth from individual business travelers and groups to continue to offset the softening of leisure demand. Group demand at individual properties seem to be back to near 2019 levels. Large groups that require the use of the San Diego Convention Center are not quite there yet as they are booked out years in advance. The accompanying charts show how group demand is pacing at the Convention Center as well as how far out demand spreads into the County.

International demand remains muted due to the strength of the dollar and a delayed inbound visitation based on the pandemic. Growth in both occupancy and average rates, close to three points each will result in an increase in RevPAR of 5 percent, close to 15 percent above pre-pandemic levels. Naturally, the war in Ukraine, a deep recession or an unforeseeable occurrence could impact this forecast materially. To a great 2023!

Buzz: Co-Developers Rammy Urban Infill and Hub & Spoke Communities

SPECIAL REPORT

Design & Construction Trends

*by **Matt Dunbar,** AIA, Architect; **David Santana,** Marketing Manager, SGPA Architecture & Planning*

The volatility of the economy, supply chains and changing consumer habits is leading to a shift in how owners (of all types) are investing capital on new construction and renovation projects throughout San Diego. Three big trends have emerged that are impacting most real estate sectors.

Hybrid Work Models

The universal adoption of hybrid work has directed a shift in our workspaces, whether that now means working from home for many, or returning to the office full-time.

Sustainability – From Planning through Construction

Building and design standards continue to evolve with new technology, material innovations, building code updates, and consumer awareness/demand around climate change. We've moved from "nice to have" to "have to have". There's increased attention on user health/wellbeing, operating costs, potential new ESG requirements, and providing the best value for tenants paying a high premium for commercial spaces.

New housing design and construction is impacted as state and local regulations now mandate stricter environmental compliance for new construction, as well as renovation work.

Mixed-use

From land planning to individual project design, mixed-use, especially those projects that can address the need for housing, continues to dominate new development programs.

The following sections briefly explain design and construction trends expected to prevail throughout the region in 2023 based on industry input from ULI colleagues and contributors.

Single Family Homes

In the single-family home market, affordability, and the impact COVID continue to influence design and construction trends. As homes are more unaffordable than ever to purchase, many would-be buyers are forced into rental units and residential builders toward developing multi-family projects. It also keeps current homeowners in their existing homes longer. As a result, people look to address their changing lifestyle needs and consider longer-term home improvement solutions.

Yin-Yang: Open plan home designs that create flexible living spaces continue to be preferred. That said, COVID reminded us that we all need private spaces to retreat to. Maintenance free design, such as simplified roofs, easy to fix/replace materials and natural elements such as stone and wood continue to be popular as they connect people to nature. Any and all outdoor space is now considered an extension of the available living space. There is no slow down on people's appetite for outdoor rooms, fireplaces or firepits, lounge spaces, raised vegetable beds, play areas – the great outdoors, especially in a climate like San Diego–Tijuana, is a place where owners and renters are personalizing and extending the livability of their homes.

Making Homes More Attainable

Density will arrive in new markets (like suburban master plans) due to land constraints and buyers exiting expensive markets to seek further affordability. Home designs that allow for greater privacy (e.g., window placement) will grow even more critical. Architectural designers forecast increased cost sensitivity and tighter dimensions of the home.

Designers must make smart tradeoffs to fit the same function into a smaller footprint. One increasingly common method is including an eat-in kitchen instead of having separate kitchen and dining areas. Adjustments to exterior materials, form/shape, and size of the home will be the most common ways to value-engineer homes.

In addition, renovation of existing homes is occurring as people discover that they cannot afford to move and use their resources to improve their space for long-term livability, rather than short-term "window dressing" to flip a property. Other solutions include building detached work-from-home spaces and/or planning for future ADU spaces when designing a project from scratch. People are also planning for co-living with other family members like aging relatives.

Accessory Dwelling Unit (ADU) by Backyard Homes as seen in Coast News April 5, 2021

Healthy Lifestyle/Wellness

Wearables and data-centric gyms will push the boundaries of what is expected of a health amenity. Fitness centers are not going away: nationwide gym traffic is back to 83% of January 2020 levels. At 3Roots, the master developer has partnered with a local gym operator to offer a state-of-the-art fitness amenity. Spaces are being designed to be easy to clean. Don't overlook design solutions and head straight for technology (e.g., ultraviolet light). Designers can significantly ease maintenance burdens with simple design swaps that are easier to maintain. More innovative storage calms the mind and fits peoples' lives into denser homes.

3Roots, state-of-the-art Fit & Rec Center

A state-of-the-art Fit & Rec Center at 3Roots master plan community. Tracking with an emphasis on health and wellness, it offers top-line cardio and weightlifting equipment to a desert garden social hub. In partnership with health experts Fit Athletic, is a full-service program that provides residents with exercise and nutrition plans tailored to their goals. The Center will include locker rooms, yoga and workout rooms, exercise equipment, a lap pool, a family-friendly pool, and plenty of places to enjoy walks and outdoor jogs.

Multifunctional Kitchen Design

Kitchens now host various activities, so appliances must blend seamlessly into the background instead of being the center of attention. Kitchen clutter is a more significant pain point than ever before. Plenty of storage is the number one design advice homeowners give to kitchen designers. 69% of homeowners do not want any open shelving in their kitchens.

Work From Home Solutions

When many have pivoted to working from home, homeowners cite organizational issues in workspace areas as a top reason for not enjoying remote work. Cords and digital tools need proper built-in storage. Limited storage in the workspace makes it hard for homeowners to detach from the workday (particularly for those with informal offices). In existing homes, people are looking for ways to add an office nook in home design to support work-from-home. And two-bedroom rental units have become more attractive to couples that use the extra bedroom as a work from home office.

Energy Efficiency

Energy-efficient designs move from a "bonus add" to a standard feature and a primary consideration in home design. Demand for solar has risen for retrofits and new construction due to government mandates and utility cost savings. In California, solar panels are mandatory in all new single-family and multifamily residences up to 3-stories high. Energy efficiency and sustainable building science will continue to accelerate. 58% of architectural designers report that energy-efficiency solutions are on their R+D list, the highest-ranking initiative.

Emotional Connection

Emotion is key to swaying buyers to move, as 64% of homeowners report a deep emotional connection to their current home. In response, design professionals are re-balancing merchandising and product choices to those that offer emotional appeal. "Statement" versions of home products and appliances will be in vogue at various price points, allowing consumers to choose more personalized products.

> PALO specializes in creating multifamily housing projects using ADU models, adding density and value to properties our developer clients either already own or purchase.
>
> *David Pearson | PALO*

Small-Scale Development

Providing more housing and building more density in San Diego affects nearly all building typology, from large-scale to small-scale. Small-scale projects allow an opportunity to fill in the gaps in our neighborhoods, which in turn increases density especially in the walkable and community oriented places where people want to live.

ADUs remain a popular way to add housing to existing lots and San Diego's relaxed ADU policies help by going beyond small detached single-family houses. In the City of San Diego, unlimited ADUs on a property is a good way to fill the missing middle of more affordable housing by adding density where possible. Not only does this provide housing density in places that need it, architects and developers are getting creative with how to build as much building as possible on tight or tricky sites. We see this trend continuing. These small-scale multifamily projects tend to max out at about 12 units (4 units x 3 stories) as this is the maximum you can build with a single access point with stairs.

Trends:

- We will continue to see smaller projects overall. Including small, multifamily ADUs.
- Building small, multi-family projects as ADUs.
- Taller and more narrow small-scale buildings are cropping up.
- Elevated public spaces (balconies and roof-top spaces) are desirable.
- Developers wanting to add a den or a nook for work-from-home projects. For projects still in the design phase, it is more common to take a certain unit footprint, say a two bedroom, and keep the unit size the same, but shrink the bedrooms (or closets) down and add a work-from-home nook.
- Remodels to expand existing home footprints to accommodate the work-from-home trend including remote workspaces - think out-buildings.
- Cross laminated timber or mass timber structures are gaining momentum for the aesthetic quality they provide as well as a reduction in foundation sizes needed to support a lighter structure.

> Students want a degree of variety in their on-campus environment to discover places where they can find individual privacy, small group study spaces, and social lounges that vary in size and characteristic allowing impromptu interactions and social engagement amongst fellow students on campuses.
>
> *Matt Dunbar, AIA, Architect*

Large Scale/Institutional

Large-scale, public work and educational protects continue to be a bright spot in the economy. Many are in the pipeline for 2023 and beyond. With a growing population, the educational market continues to grow at the K-12, community college, and university level and we are seeing more early design/planning opportunities arise as market cost increase and slow down projects.

UC San Diego Nuevo Campus. Architect: Mithun, Photo by Bruce Damonte

Almost every community college district in San Diego has large capital projects underway and the San Diego Unified School district has a large bond program that is bringing new projects to many architects and contractors. The major universities in San Diego also have a lot of capital projects under construction or in the planning phases to address the growing enrollments of their institutions and the increased need to house students, to live on campus.

Trends in Educational Design:

- Addressing the need for enhanced safety, but in a way that does not create the appearance of barriers or fences.
- Biophilia - connecting to nature to provide a calming and healthy space. Techniques involve harnessing daylight, careful glazing placement, creating outdoor spaces on roof and patios, and views oriented toward nature.
- After trending away from music and art programs, firms are seeing more performing arts centers returning to school projects.
- Adaptive reuse and renovation of existing facilities as a cost savings measure.
- Designing spaces that support both in person and remote interaction are something designers are still experimenting with.
- Zero Net Energy and sustainability goals are becoming a requirement more than a niche offering.
- Students and academics want to live in inclusive communities that foster equity and inclusion and gender-neutral public bathroom design is becoming the norm.
- Social lounges scattered throughout a project that vary in size and characteristic allowing impromptu interactions and social engagement amongst students on campuses.
- Mass Timber is becoming more common at academic facilities in that they allow opportunities to speed up construction with modular components, they reduce carbon by using natural resources, they save money by reducing structural foundations as wood is less heavy than steel or concrete and they are popular with students due to the attractive nature of the exposed wood structure.
- Cost effective design that balances affordability and the ability to do more with less

> The pandemic made us all lonely beings. As we've emerged from it, we are finding our tenants loving our organized community events. Mezcal Tastings, Yoga Classes on the roof deck, and bread making classes. Tenants aren't looking for an apartment, they're looking for a community to join.
>
> *Andrew Malick \ Malick Infill*

Market-Rate/Mixed Use Residential Sector

2022, saw a large volume of multi-family and mixed-use projects in San Diego, but rising interest rates created cost challenges that have slowed down, or delayed multi-family projects. This itself is a trend for the last half of 2022. Public policy, such as the Complete Communities program has a large impact on market-rate/mixed use projects by incentivizing developers to provide more housing in transit-priority areas through increased density and height of projects. Still, there is a need for more housing and projects are moving forward, albeit with cost savings found elsewhere such as in sizes of units being designed.

Malick Infill Development | Protea Properties, Architect: The Miller Hull Partnership, Photo by Chipper Hatter.

Trends:

- As the Complete Communities program allows developers more control over unit sizes, we are seeing more efficiency, studio, and one bedroom units. These are higher in demand as they are cheaper to build, and the price points are more accessible to a larger section of the population.
- To make the best use of a smaller unit, spaces can be designed to be multi-functional, such as with a murphy bed that allows a space to be both a living space and a sleeping space.
- With smaller living units, tenants are looking for more amenitized spaces within their buildings, both indoor and outdoor such as with community rooms, on-site laundry, outdoor common/kitchen areas, playgrounds and pet-friend zones
- With more people working from home some days of the week, shared spaces that can function as a remote workplace are becoming more common. In addition, the post-COVID world has reinvigorated the desire to be part of a community and people want places to support this.
- We're seeing more mixed-use projects with less and less parking provide, some with no parking provided at all.
- With the economy slowing, most projects are currently still moving forward, however, clients are taking cautionary steps along the way to address costs.
- As the California Building Code changes go into effect in 2023, more and more projects are going all electric to improve air quality and to reduce their carbon footprint. This includes efficient heat pumps for space heating, which can take up more space and providing a roof footprint that can accommodate maximum photo voltaic panels.
- The use of mass timber is increasing as buyers and tenants enjoy these space with exposed natural materials. Mass timber projects in the 8-12 story range with units in the 400-500 square foot range are common. Proponents of mass timber taut the cost savings of smaller foundations to support less heavy structures and like steel, mass produced structural components take less time to install.

Affordable Residential

As with other markets, the rising construction costs and supply chain issues brough by the Russia-Ukraine conflict have been an important consideration for developers, investors, and lenders on housing projects. The skilled labor shortage is not only prevalent in the private sector, but the public sector is increasingly falling behind with permitting and procurement. Permitting issues and modifications during construction now take significantly longer to resolve and have an impact on the construction period. Procurement of materials typically provided by city entities such as water and power agencies are being deferred to the developer/contractor, which is incurring undetermined delays as well.

It is well know that there is a gap in available housing for those projects that do not rely on government subsidies or a luxury buyer clientele, which forces architects, contractors, and developers to look at ways to save money to get a project to pencil.

Trends:

- Building transit-oriented developments which can reduce parking needs.
- Reusing existing buildings, rather than building new buildings.
- Affordable housing tenants still want the same amenity-rich accommodations in their homes such as community rooms, on-site laundry, outdoor common/kitchen areas, playgrounds and pet-friend zones.
- Costs must be addressed and as designers we are seeing a need to simply the design in a replicable manner. This does not mean watering down a projects design, but focuses on eliminating waste and cost overruns by doing things such as:
  - Reducing the number of window types and using standard colors.
  - Reduction in unit type offerings.
  - Producing modular unit components such as bathrooms to speed up construction.
  - Simplifying the number of types of cabinetries in a unit.
  - Where feasible using passive cooling to naturally ventilate a space.
- Buildings are moving towards being all-electric, which will be going into greater affect when the next California Building Code cycle goes into affect January 2023 and requires this.
- Complete Communities is successful in providing more affordable housing in market rate projects by incentivizing developers to denser and taller projects and is a welcome for helping to fill the affordable housing gap.
- Supply chain issues with some building components having very long lead times can delay a project if not anticipated which means make some decisions and procuring items earlier than usual and getting a contractor on board a project early is more common.

Office

The San Diego Office and Commercial sectors have seen a lag in return to full pre-pandemic physical occupation levels, which will most likely be the case for quite some time as the hybrid work model is very popular and shows no signs of going away. Current lease rates are not keeping pace with inflated construction costs, making pro formas very challenging to pencil. This has led to a sharp decline in client confidence as market conditions continue to stall on an average of a 7-9 month construction delay.

Deloitte San Diego offices using indoor/outdoor space. Architect: Gensler

Trends:

- The hybrid work environment is changing what an office looks like. Commercial office space is becoming more decentralized with satellite offices to reduce commute times.
- Designers are working and experimenting with office design to solve how to work collaboratively with staff in person and remote.
- Remodeling existing offices is increasing as the demand for new mixed-use office space wanes.
- The lag in demand of office space is causing landlords to be extremely cautious with needed upgrades.
- Developers and investors are evaluating what the office of the future looks like including unique amenity offerings, extensive indoor-outdoor workspace, and flexible core and shells to accommodate a variety of future uses beyond traditional office.
- With an emphasis on quality, the form of new product is causing landlords with Class B and C properties to look at possible office-to-residential conversions given the local need for more housing.
- For the few new office projects, developers are continuing to focus on niche markets like mixed-use, life science, medical, and public private partnerships with various governmental agencies.

Retail

Retail analysts largely expect consumer spending to slow for retailers who have benefited from rising prices boosting top line revenue in 2022. While bottom line net income has been challenged from higher operating costs and tighter margins, retailers have largely experienced strong same-store sales and good store traffic in recent months.

There is currently too much retail supply in the U.S., which means there continues to be a natural consolidation of markets into the best properties. As the world now seems to fully appreciate both physical and digital shopping environments, they must coexist to maximize profitability and brand potential which is why digitally-born retailers must continue to open physical shops to sell their product. Warehousing for the 'last mile' of deliveries is demanding the less desirable retail spaces or the 'left over' space from the major store reductions.

Trends:

- The outdoor street dining experience from COVID is a trend that most people want to keep. It is nice to be outside.
- The conversion and reuse of existing and underperforming retail spaces, such as Horton Plaza, will continue.
- With excessive empty/dormant retail space, developers are exploring new avenues to bring foot traffic back to their shopping centers. Ideas include developing residential units above the ground-level retail space and subdividing existing big-box anchor tenants into office or mixed-use shared space.
- Uniqueness of the shopping experience is what brings people to a store, comfort is what keeps them shopping. Providing consumer comfort such as wider spaces between displays, natural lighting where possible, and familiar materials like hardwood floors can keep people engaged to shop longer.
- With the ease of online shopping, retailers have to consider stores as destinations and give consumers what they cannot get online. People still enjoy leaving the house and creating a unique and social media worthy experiences can be a differentiator for a lot of retailers.
- For existing centers, parking is diminishing, so excess parking field can be utilized to add density or create new drop off zones for ride sharing.

Input and feedback for this piece was possible from feedback from the follow organizations:

Balfour Beatty
Community Housing Works
C.W. Driver
Gensler
John Stewart Co.
Lloyd Russell
Malick Infill Development
The Miller Hull Partnership
Mithun
PALO
Rammy Urban Infill
SGPA Architecture and Planning
Timberlab

SPECIAL REPORT

North San Diego County

*by **Erik Bruvold,** CEO San Diego North, Economic Development Corporation*

The northern tier of San Diego County remains positioned for stronger growth than the rest of the region. The sub-region's core strengths consist of an extremely educated workforce, an unparalleled quality-of-life, a critical mass in core industrial clusters, and smaller cities capable of meeting business demands. These key competitive advantages should enable North County to better weather the softening economy coming over the next 12 to 24 months.

North County's Core Strengths

North County has benefited over the past two decades from high quality schools K-12 schools, the fastest growing campus in the CSU system, 2 dynamic community college districts, and the availability of land in several business parks along the SR 78 corridor. It has remained somewhat more affordable both for commercial and residential real estate than areas further south.

The cities throughout region have invested to improve their Central Business Districts into more walkable and attractive town centers. Connecting those communities along the west-east corridor is the SPRINTER, a 22-mile hybrid rail line with 15 stations that run between Oceanside and Escondido. Completed in 2008 the annual ridership was 2.5 million people in 2015, with an average weekday ridership of 8,300 people.

Industry Clusters Continue to Grow

Companies north of SR56 employ more than 528,000 workers. Key industry growth includes life sciences, software, and manufacturing. Employment in the life science cluster in North County has increased by 26% over the past 5 years. Employment in software has grown by 20% during that same time. While manufacturing has remained flat, the cluster employs more than 37,000 workers in a wide variety of subindustries and specialties.

One of the reasons for this growth is the region's highly educated workforce. About 40% of adults aged 25 to 44 who live in the five cities along the SR78 corridor hold a bachelor's degree or higher. That number approaches 63% for the areas nearer to North County's major industrial parks. North County is also home to two major community college districts (which are closely aligned with industry needs) and the fastest growing campus in the Cal State system, CSU (California State University) San Marcos.

Such strengths give rise to the strong performance of the region's industrial real estate market. Vacancy rates for industrial property stood at 2.5% in Q3 2022 for the submarket. More than 3 million square feet were absorbed over the trailing 12 months. Investors continue to be bullish with 3.3 million square feet under construction with expected delivery to the market in 2023. That figure does not reach the high seen in 2020, but it remains well above the 10-year average for the region. Moreover, this growth is still occurring when nearly all immediately available parcels in the Vista, Rancho Del Oro, and Carlsbad Business Parks have been developed.

Housing Remains a Challenge

Like much of the rest of San Diego County, housing remains a significant challenge for North County, even after the recent softening of home prices due to higher interest rates. One root cause of this issue is that for several years North County did not produce enough housing to meet its robust job growth. The ratio of jobs at companies along the SR78 corridor compared to the number of new homes available has grown significantly worse between 2010 and 2020. While that gap has closed some during the past 2 years, the region still is between 1,500 and 2,000 homes short of its building needs to keep the jobs/housing ratio at 2012 levels.

Drilling Down to the City Level

Escondido

Escondido continues to see infill activity reflective of its built-out status. The city recently signed a new agreement that will allow COSTCO to redevelop the old Sears site at the Westfield Mall. Palomar Heights, a mixed-use project on the site of the old Palomar Hospital is under construction and should be delivered to the market in 2025. At least one additional industrial project is moving forward on the west side, with an announcement of the new occupant in the first half of 2023.

San Marcos

In 2023, Kaiser will open a 206-bed hospital adjacent to CSUSM. This facility is likely to add more than 1000 jobs to the region, serving the needs of patients throughout North County. In 2022, the San Marcos City Council approved the new SPA (Specific Planning Area) for North City (San Marcos's new downtown district) which will allow for the construction of up to 16-story residential towers. The developer is currently doing site preparation on a 12 story residential tower. Once completed, it will be the tallest building between UTC and Irvine – a cornerstone of this new emerging "downtown" for North County. Additionally, the Old California Restaurant Road in San Marcos will be redeveloped, providing more than 10,000 square feet of new commercial space and 202 residential units.

Vista

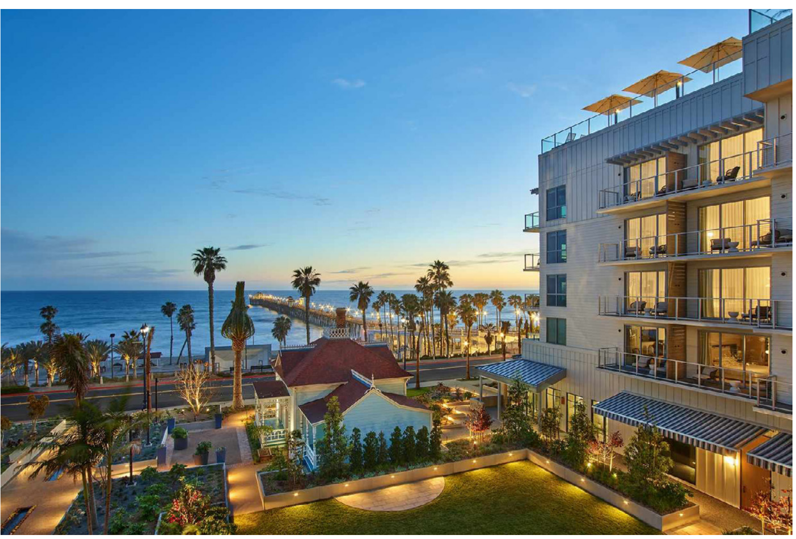
One of Southern California's Opportunity Zones is located within Downtown Vista, which the City has been revitalizing into a walkable community to attract new residential, retail, restaurants, breweries, and businesses, including a creative co-working space. After six years of construction and $30 million in spending, the city's long-awaited Paseo Santa Fe improvement project featuring enhanced walkways, public art, and multi-model solutions is finally complete. The 0.8-mile stretch of South Santa Fe Avenue between Vista Village and Civic Center is the latest piece in a downtown revitalization project that has been under way for more than 20 years.

Found Lofts, Developer: Tideline Partners, Stephen Dalton Architects, Photography: Fernando Phillipi
Orchid Award-winner/SD Architectural Foundation

The Vista Business Park continues to see historically low vacancy rates under 3%. In late 2022, ASML took on a 100,000 square foot expansion for warehousing and distribution, and ALSCO Uniforms & Commercial Laundry moved in from the city of San Diego, taking occupancy of 110,000 square feet. ShipLab subleased 86,000 square feet to operate a new distribution center at 3055 Enterprise Ct. A former office HQ building is being demolished at 1430 Decision St. to make room for a 125,000 square foot warehouse. The defense contractor Leidos continues to expand in North County by taking another 41,200 square feet in Vista and 43,000 square feet in Oceanside. The outdoor recreation industry continues to flourish in North County and Vista. A standup paddle board manufacturer, Fun Water Outdoor, Inc., moved into a 23,000 square foot facility in the Vista Business Park.

Oceanside

In early 2020, the City of Oceanside began the arduous task of completing a General Plan Update and creating a Smart and Sustainable Corridors Plan under "Onward Oceanside". The land use element was last updated in 1986, and the circulation element separately in 2012. Like many communities they expect future growth to come in the form of infill and redevelopment.



Mission Pacific Hotel (opened in Oceanside, May 2021), a JdV by Hyatt Hotel, and The Seabird Resort, destination by Hyatt is the largest oceanfront hotel development in San Diego County in more than 50 years.

Adding to the vitality created by the Mission Pacific Hotel and Seabird Resort which opened last year in Oceanside's rapidly growing downtown, the North County Transit District is partnering with Toll Bros. to redevelop an 11-acre site adjacent to the Oceanside Transit Center in the downtown area just blocks from the ocean. The city also is hopeful to see the opening of the Frontwave Arena in 2023. This 7,600-seat arena and new home for the San Diego Sockers will provide North County with a major events venue, capable of hosting significant concerts, regional athletic events, and other major events.

In the business sector, the city continues to see robust growth and expansion of the life science companies located in the Rancho Del Oro business park. In 2022, Gilead Sciences purchased 27 acres of undeveloped land adjacent to their existing campus for future expansion, and Ionis Pharmaceuticals announced the construction of a 217,000 square foot building to support increased manufacturing capabilities.

Carlsbad

Carlsbad continues to see new tenant activity and expansions. A 251,000 square-foot industrial steel building will be delivered to the market in 2023, located on the south side of Lionshead Avenue between Melrose Drive and Eagle Drive. The North County Transit District undertook an RFP process for redevelopment at the Carlsbad Village and Poinsettia stations. NCTD (North County Transit District) will announce its selected developer sometime in 2023. Marja Acres, a mixed-use project consisting of 248 townhomes, 46 affordable senior apartments, and 10,000 square feet of specialty commercial uses, is currently under construction. There are also apartment projects moving forward both in South Carlsbad near Aviara and in the La Costa Town Square.

Del Mar/Encinitas/Solano Beach

The coastal communities have seen modest job and commercial growth over the past 2 years and are likely to see that in 2023. Retail rents remain strong in most of the coastal cities, reflecting high household income and strong additional demand from leisure travelers. None of these cities have significant green field space for employment uses but they have seen some adaptive reuses to service businesses such as Flock Freight.

Rancho Bernardo/Carmel Valley

Rancho Bernardo business park continues to see robust demand, most notably Apple's purchase for more than $440 million of the old HP campus and Amazon's continued expansion in Rancho Bernardo.

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What the Development Industry Needs to Know about the California Energy Code in 2023

*By **Betsy Wilkins**, Staff Writer, EnergyCodeAce*

Introduction

One of the biggest topics that development professionals need to be aware of in 2023 are important changes taking effect for California's Energy Code. California is aiming to reduce its greenhouse gas emissions while creating an energy system that is resilient to climate risks, spurring innovation and a low-carbon transition nationally and internationally. These climate goals are among the most ambitious in the country.

What changes in 2023?

The 2022 California Title 24, Part 6 Building Energy Code updates the 2019 Energy Code and became effective January 1, 2023. Any projects that apply for a permit on or after this date must comply with the 2022 Energy Code. While there are numerous changes included in this 2022 Energy Code, they focus on four main areas for new construction of homes and businesses:

1. **Encouraging electric heat pump technology to heat and cool water and air:** Heat pumps run on electricity only, use less energy, and produce fewer emissions than traditional HVACs and water heaters.
2. **Establishing electric-ready requirements when natural gas is installed**: Electric-ready building gives owners the option to easily use cleaner electric heating, cooking, and electric vehicle (EV) charging in the future.
3. **Expanding solar photovoltaic (PV) system and battery storage standards:** Using battery storage allows onsite energy to be available when needed and reduces reliance on fossil fuel power plants.
4. **Strengthening ventilation standards to improve indoor air quality:** Improved ventilation can reduce illness from poor air quality.

Why do we need Energy Code updates?

The 2022 Energy Code is an important part of California's work to reduce carbon emissions and fight climate change. The Energy Code is updated every three years. Regularly updating the Energy Code helps ensure that builders and designers use the most energy-efficient technologies and construction practices, while being cost-effective for building owners over the lifespan of a building.

Goals of the Energy Code:

- Increases in energy efficiency and onsite generation
- Reduce utility bills
- Improve indoor comfort & air quality
- Increase market value
- Reduce greenhouse gas emissions (GHG)
- Increases on-site renewable energy generation from solar
- Increases electric load flexibility to support grid reliability
- Reduces emissions from newly constructed buildings
- Reduces air pollution for improved public health
- Encourages adoption of environmentally beneficial efficient electric technologies

The California Energy Commission (CEC) estimates that over 30 years, the 2022 Energy Code will provide $1.5 billion in consumer benefits and reduce 10 million metric tons of GHG – equivalent to taking nearly 2.2 million cars off the road for a year. The 2022 Energy Code improvements in efficiency for new nonresidential buildings and covered processes, plus the move toward all-electric design, will reduce net CO_2 emissions by

142,858 million tons per year compared to the 2019 Energy Code – equivalent to taking 32,051 gas cars off the road each year.

About our Codes & Standards Programs

The EnergyCodeAce Codes & Standards suite of programs is designed to improve compliance with the state's building and appliance energy codes and standards. The program aims to advance the adoption and effective implementation of energy efficiency measures and building practices to lock in long-term energy and GHG savings to meet California's ZNE, decarbonization and climate goals.

Partners in the development industry can access our suite of tools via these resources:

1. Our Energy Code Ace (*www.energycodeace.com*) program website has a wealth of trainings, tools, and resources for market actors to understand the new building codes and appliance standards.
2. Our Local Energy Codes (*www.localenergycodes.com*) program website has a large selection of tools and resources to understand reach code opportunities for local jurisdictions to exceed the Energy Code.
3. To follow the 2025 Energy Code (Title 24 – Part 6) development, please feel free to follow our website (*www.title24stakeholders.com*) as we support the California Energy Commission design the measures.

Learn more here: *www.energy.ca.gov/data-reports/reports/building-decarbonization-assessment*

These programs are funded by California utility customers and administered by Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E®) and Southern California Edison Company (SCE) under the auspices of the California Public Utilities Commission.

TIJUANA METROPOLITAN AREA

HOUSING Market Overview

*by **Dinorah González,** Strategic Projects Coordinator, Institute of Sustainable Mobility of Baja California*

Top Trends & Findings

- Tijuana has a population growth rate of 2.09%, Making it the sixth-largest metropolitan area in Mexico.
- The city is an attractive market for housing developers due to its high formal employment rates, which gives workers access to mortgages.
- For the most part, housing demand in Tijuana is for low-income housing. However, developers have nearly abandoned production due to reduced public incentives, increased regulation, and higher input costs.
- In the last seven years, developers have transitioned to build primarily residential high-rises predominantly directed at international buyers seeking real estate investment.
- Real estate agents argue that cross-border commuters are increasing due to the relocation of American nationals seeking affordable housing options south of the border.
- Local zoning instruments are flexible to accommodate new housing developments. However, the lack of transparency has fueled dissent from numerous community groups in high-income neighborhoods that oppose new construction.

For sale Housing Market Overview

Located at the northernmost point in Mexico, the Tijuana Metropolitan Area (TMA) consists of three municipalities: Tijuana, Playas de Rosarito, and Tecate. According to census data, the TMA had a population of around 2 million 158 thousand, with a population growth rate of 2.09%, Making it the sixth largest metropolitan area in Mexico. At the same time, with nearly two million inhabitants, Tijuana is the country's most populated municipality.

Tijuana, for decades, has fostered intensive economic growth and development, most of it to its strategic geolocation south of California. Tijuana is a hub for the maquiladora industry, where its primary exports are electronic components, televisions, medical instruments, and automobiles. Additionally, the city attracts recreational and medical tourism from its northern neighbor, which has led to the consolidation of a highly specialized medical cluster and a diverse gastronomic cluster.

According to the 2019 economic census, nearly 58% of the metropolitan area's population is economically active. One of the primary employers in the region is the maquiladora industry. The city concentrates about 31 industrial and 20 micro parks, and promoters are building more daily. In total, industrial jobs account for 46% of total employment. Furthermore, Tijuana is host to a thriving retail and service sector that employs 52% of the economically active population.

For housing developers, the city is an attractive market. First, because of the abundance of industrial jobs, Tijuana has more formal employment than most Mexican cities. As a result, workers in the formal economy have access to social benefits and a mortgage fund through which they can buy a home. In addition, salaries in the northern region of Mexico are higher, which translates to purchasing power. Nonetheless, 36.5% of the economically active population in Baja California works in the informal sector. These workers cannot access a mortgage and must seek housing solutions through informal land subdivisions or unregulated rentals.

Secondly, the city is host to binational commuters, people who either work in the United States or are retired and have their first or second residence in Mexico. Furthermore, the sum of expectations over capital gains from real estate is also increasing demand for housing. These factors set the stage for a booming housing market, with a diversified portfolio of products ranging from low-income housing to high-end residential penthouses.

In this segment, I summarize the recent trends in new housing for sale in Tijuana, starting with an overview of our relatively recent housing industry, a brief assessment of housing demand and supply, planning instruments, and some final remarks.

Overview of the Housing Industry

Speculative housing production in Mexico is a relatively new economic activity in Mexico; its importance surged from financial reforms and other institutional transformations that the federal government implemented during the late 1980s. For the first decade of the 20th century, the federal government introduced a series of incentives that guaranteed demand for low-income housing and fueled private housing production. These incentives helped private housing companies grow in scale and supported efficiencies and innovation to provide affordable homes. However, the model incentivized the overproduction of housing, ultimately contributing to the crisis of unoccupied housing that occurred after the 2008 housing bubble.

Since then, the federal government has changed public policy with more diversified mortgage products and has considerably reduced production side incentives. In addition, local governments have modified their regulation, increasing the requirement for the design and location of developments. As a result, these restrictions have disincentivized low-income housing production, and companies have restructured and focused on more stable and profitable market segments, such as Residential and Residential Plus, which are recently in high demand.

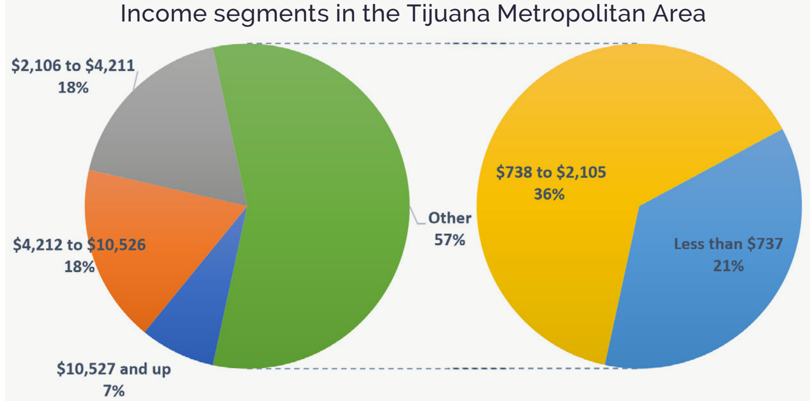
Housing Demand

Income & Housing Affordability

Income distribution within the population of Tijuana gives us a parameter to assess demand. Figure 1 shows how families are distributed according to their income and the type of housing they can afford. The data shows that 57% of families in Tijuana are in the lower income range, making below USD 2,105 a month. Families in this bracket can access a subsidized mortgage to purchase a low-income home, classified as economic and social housing. On the other hand, medium-income families make up around 18% of the total population. Their income ranges from USD 2,106 to USD 4,211, and they can afford a home that costs between USD 41,000 and USD 100,000.

Families with an income of USD 4,212 to USD 10,526 comprise 18% of the total population. They can buy residential housing, which is a home that starts at USD 124,000 and peaks at 262,000—lastly, only 7% of families whose income is above USD 10,527 afford homes that range in price from $277,000 to $944,000.

Income segments in the Tijuana Metropolitan Area



Family monthly income (USD)	Less than $737	$738 to $2,105	$2,106 to $4,211	$4,212 to $10,526	$10,527 and up
Type of housing they can afford	Social	Economic	Medium income	Residential	Residential plus

In addition to local demand, it is necessary to consider the city's cross-border population. These people regularly commute from one side of the border to the other for different reasons: work, education, or family ties. When it comes to housing, these travelers often seek the comparative advantage that lower prices in Tijuana and higher wages in the United States provide. Although there is little data available on this population, we can estimate that around 70,000 people commute daily for work or education from Tijuana to San Diego. Therefore, cross-border commuters represent approximately 3% of the total population of Tijuana.

For real estate brokers and housing developers, cross-border commuters are a significant part of the housing demand. According to official information, the average salary in San Diego is around USD 31.31, which translates to USD 6,126 a month (U.S. Bureau of Labor Statistics, 2022). Given the housing affordability crisis in California, working-class and medium-income families are finding housing alternatives in other states, such as Texas, Utah, and Arizona. It is not unlikely that Tijuana is capturing some of this population. Here, the average U.S. salary can purchase an upper-scale residential home with different amenities. Although, the lower cost of housing comes with a tradeoff, which is a longer commute to work, given that border wait times at peak hours can range between one to three hours in both directions.

Lastly, the low-interest rates that prevailed up to 2021 heightened the demand for real estate investment in cities with rapid growth and robust real estate markets because they provide attractive capitalization rates. In this case, Tijuana's cross-border commuters and temporary residents are also an attractive market segment for renters and companies who seek to stock up their portfolios with profitable real estate.

Increased demand for real estate assets is a global phenomenon raising home prices. In Tijuana, developers notably focus on high-end real estate investments. Since 2019, average housing prices have risen 39% for medium-income homes, 31% for residential, and 18% for residential plus. Price increases are related to the cost of inputs, primarily construction materials and land. For one, according to the production price index, materials have increased by 39 percentage points since January 2020 (INEGI, 2022). On the other hand, land prices have also risen due to the demand for centrally located plots where developers build high rises. In addition to higher production costs, demand for residential housing increased during the pandemic, increasing the asking price.

Average home prices by income segments

Type of housing	Average price of homes for sale		Price increase
	2019	2022	
Social	$24,917	-	-
Economic	$32,739	$33,684	3%
Medium	$80,396	$111,842	39%
Residential	$190,203	$248,547	31%
Residential Plus	$366,564	$433,728	18%

Source: Averages estimated from data obtained from SOFTEC, 2019 and 2022.

Housing Products & Their Characteristics

Each housing type has precise characteristics that address the needs and aspirations that that income segment can afford. On the lower end of the spectrum, developers adjust housing design to comply with the minimum required by local regulation to achieve a low-income price point. On the higher end, developers add an array of amenities to compete for a larger demand segment. The Table above shows the principal characteristics of what developers offered in 2022.

Average Housing characteristics for each income segment (2022 Production)					
Housing Characteristics	Social	Economic	Medium Income	Residential	Residential plus
Units Developed	-	667	182	71	70
Price of unit (USD)	-	$33,684	$111,842	$248,547	$433,728
Square foot	-	452	722	1,139	1,773
Bedrooms	2	2	2 to 3	1 to 3	1 to 4
Bathrooms	1	1 to 1.5	2 to 2.5	1 to 2.5	1 to 2.5
Parking space	1	1	1 to 2	1 to 2	1 to 2
Building height	4	2 to 4	2 to 4	2 to 25	2 to 29
Price per square foot	-	$88	$184	$259	$290

Source: Data estimated from data in fieldwork during July 2022 and complemented with information from SOFTEC, 2022.

Low Income (Social & Economic)

Low-income homes comply with the minimum standards set by local and national regulations. Mostly, they are a 452 square foot apartment with one bath, two bedrooms, and one parking space. These homes are built in suburban settings, using reusable concrete casings that help builders achieve scale economies and other efficiencies to achieve the USD 29,000 selling price. Most of these developments have basic infrastructure and services; some have recreational areas, functioning schools, and commercial activities. Examples of these developments include Natura by Ruba, which has additional public services like a fire station, a military high school, a police station, and a supermarket, and Valle del Sol by Casas ARA. In addition, these developments connect to the city through the Tijuana-Rosarito 2000 corridor.

Natura low-income apartments. Ruba (2022). Desarrollos Natura: Violeta [Render]. Ruba. https://ruba.com.mx/ciudad/tijuana/

It is important to note that developers are not building homes below the USD 29,000 selling price. Accordingly, developers claim that increases in construction inputs, tightening municipal regulations, and the retreat of federal incentives to housing production have significantly impacted production costs, making it challenging to attend lower-income markets. As a result, 21% of families are priced out of the housing market, even if they can access a mortgage. Like informal workers, these lower-income families find their housing predominantly through the informal markets.

Medium income

Medium-income families can afford a home that averages USD 111,842. They can choose from single-detached dwellings in a small lot (840 square feet) or an apartment in a four-story building. The average size of a home is 722 square feet, which holds 2 to 3 bedrooms, two bathrooms, and two parking spaces. Unlike low-income housing, these developments are in recently incorporated areas of the city, near shopping centers, schools, and other services. These developments have a walled perimeter with single controlled access and 24/7 security. Amenities sometimes include private recreation areas, a clubhouse, a pool, or a gymnasium. Examples include Lorgoño Residencial by GIG, located by the Libramiento Rosas Magallón, and Los Sauces Residencial by HIR, and Viñas del Mar in Santa Fe.

Viñas del Mar in Santa Fe. Ruba (2022). Viñas del Mar Residencial [Photograph]. Ruba. https://www.vinasdelmarresidencial.com/

Residential & Residential Plus

Residential homes have an average selling price of USD 248,547. Most units are in apartment buildings ranging from 6 to 25 floors in height, although a few developments offer single detached homes with a 1,000 square feet lot. The average dwelling is 1,139 square feet and has two or three bedrooms, two bathrooms, and two parking spaces. In addition, residential developments have plenty of amenities, including a gym, roof garden, clubhouse or playrooms, and pool, among other features. Similarly, residential plus homes have nearly the same characteristics but differ in size and location. The average residential home is 1,139 square feet and can have up to four bedrooms, which accounts for an average price of USD 433,728. Moreover, residential plus developments are located in what realtors call the golden zone, the central corridor of Tijuana where the most specialized commercial and financial services concentrate. Within the golden zone are downtown, Zona Rio Tijuana, Playas de Tijuana, and the neighborhoods surrounding the Agua Caliente Blvr.

Residential apartments on presale at the Golden Zone. Probien (2021). Apartments on presale at the Golden Zone. [Render]. Probien. https://www.probien.com.mx/propiedades/preventa-de-departamentos-en-zona-dorada

Cosmopolitan city center at Zona Rio Tijuana. Probien (2021). City Center. [Render]. Probien. https://www.probien.com.mx/proyectos/city-center

Urban Planning

From the advent of financial reform in Mexico, urban planning has taken center stage in facilitating or inhibiting housing production. Several planning instruments and regulations in Tijuana determine different aspects of new real estate development. The most prominent one is the zoning code instated in 2015, and the zoning map, renewed in 2010, are the ordinances the local government uses to regulate the city's land use, building heights, lot occupation ratio, and other building characteristics.

In Tijuana, planning instruments are flexible. Developers are expected to justify land use changes or density alterations beyond what regulation permits for each land subdivision. It is the responsibility of the Metropolitan Institute of Planning (IMPLAN) to review the request and provide a recommendation to the Urban Administration Department, the public office that gives the final result. During this process, developers must comply with neighborhood consent, although there is no clear definition of to what extent neighbors should participate in providing input and clearing new developments. Ultimately, the lack of transparency has fueled mistrust and mobilization against some high-rise developments in neighborhoods like Playas de Tijuana and Hipódromo. Existing residents claim that the higher density will stress already deficient infrastructure, induce traffic, and change the landscape. Therefore, community dissent is one of the developers' biggest hurdles when building high-rise housing in the Golden Zone.

Final remarks

Housing production in Tijuana is a thriving industry. Developers provide a wide range of products to satisfy a diverse market, although they focus on higher-income segments. Also, housing prices are rising at a high rate, pricing out a large percentage of the population that can access a mortgage. The lack of housing supply for lower and mid-income families will only increase housing prices for those at the lower end of the spectrum. On the other hand, without any land value capture, the high demand for residential housing will keep pushing up land and property values.

Altogether, Tijuana requires sound and transparent fiscal policy to help it build the infrastructure needed for sustained growth to accommodate all segments of housing production. As is, the home building industry will only provide temporary benefits to the city and not the sustained growth it needs.

EL ÁREA METROPOLITANA DE TIJUANA

VIVIENDA Resumen del Mercado

*por **Dinorah González,** Coordinadora de Proyectos Estratégicos, Instituto de Movilidad Sustentable de Baja California*

Tendencias y descubrimientos

- Tijuana tiene una tasa de crecimiento poblacional de 2.09%, lo que la convierte en la sexta área metropolitana más grande de México.
- La ciudad es un mercado atractivo para los desarrolladores de vivienda debido a sus altas tasas de empleo formal, lo que da acceso a los trabajadores a las hipotecas.
- En su mayor parte, la demanda de vivienda en Tijuana es para vivienda de interés social. Sin embargo, los desarrolladores casi han abandonado la producción debido a la reducción de los incentivos públicos, el aumento de la regulación y los altos costos de los insumos.
- En los últimos siete años, los desarrolladores han hecho la transición para construir principalmente rascacielos residenciales dirigidos predominantemente a compradores internacionales que buscan inversiones inmobiliarias.
- Los agentes de bienes raíces argumentan que los viajeros transfronterizos están aumentando debido a la reubicación de ciudadanos estadounidenses que buscan opciones de vivienda asequible al sur de la frontera.
- Los instrumentos de zonificación locales son flexibles para adaptarse a nuevos desarrollos de viviendas. Sin embargo, la falta de transparencia ha alimentado la disidencia de numerosos grupos comunitarios en vecindarios de altos ingresos que se oponen a las nuevas construcciones.

Resumen del mercado de la vivienda en venta

Ubicada en el punto más al norte de México, el Área Metropolitana de Tijuana (AMT) consta de tres municipios: Tijuana, Playas de Rosarito y Tecate. De acuerdo con datos censales, el AMT tenía una población de alrededor de 2 millones 158 mil personas, con una tasa de crecimiento poblacional de 2.09%, convirtiéndose en la sexta área metropolitana más grande de México. Al mismo tiempo, con casi dos millones de habitantes, Tijuana es el municipio más poblado del país.

Tijuana ha fomentado un crecimiento y desarrollo económico intensivo durante décadas, en su mayor parte gracias a su localización estratégica al sur de California. La ciudad es un centro para la industria maquiladora, donde sus principales exportaciones son componentes electrónicos, televisores, instrumentos médicos y automóviles. Además, la ciudad atrae el turismo recreativo y médico de su vecino del norte, lo que ha llevado a la consolidación de un clúster médico altamente especializado y un clúster gastronómico diverso.

Según el censo económico de 2019, casi el 58% de la población del área metropolitana es económicamente activa. Uno de los principales empleadores de la región es la industria maquiladora. La ciudad concentra alrededor de 31 parques industriales y 20 micro parques, y los promotores construyen cada día más. En conjunto, los empleos industriales representan el 46% del empleo total. Además, Tijuana alberga un próspero sector minorista y de servicios que emplea al 52% de la población económicamente activa.

Para los desarrolladores de vivienda, la ciudad es un mercado atractivo. Primero, debido a la abundancia de trabajos industriales, Tijuana tiene más empleo formal que la mayoría de las ciudades mexicanas. Como resultado, los trabajadores de la economía formal tienen acceso a beneficios sociales y a un fondo hipotecario a través del cual pueden comprar una vivienda. Además, los salarios en la región norte de México son más altos, lo que se traduce en poder adquisitivo. No obstante, el 36.5% de la población económicamente activa de Baja California trabaja en el sector informal. Estos trabajadores no pueden acceder a una hipoteca y deben buscar soluciones de vivienda a través de lotes informales y rentas sin regulación alguna.

En segundo lugar, la ciudad es sede de individuos binacionales, personas que trabajan en los Estados Unidos o están jubiladas y tienen su primera o segunda residencia en México. Además, la suma de expectativas sobre plusvalías inmobiliarias también está aumentando la demanda de vivienda. Estos factores prepararon el escenario para un mercado inmobiliario en auge, con una cartera diversificada de productos que van desde viviendas para personas de bajos ingresos hasta pent-houses residenciales de gran nivel.

En este segmento, resumo las tendencias recientes de vivienda nueva en venta de Tijuana, comenzando con una descripción general de nuestra industria de vivienda relativamente reciente, una breve evaluación de la demanda y oferta, instrumentos de planificación y algunos comentarios finales.

Resumen de la industria de la vivienda

La producción especulativa de vivienda en México es una actividad económica relativamente nueva; su importancia surgió de las reformas financieras y otras transformaciones institucionales que implementó el gobierno federal a finales de la década de 1980. Durante la primera década del siglo XX, el gobierno federal introdujo una serie de incentivos que garantizaron la demanda de viviendas de interés social e impulsaron la producción de viviendas privadas. Estos incentivos ayudaron a las empresas privadas de vivienda a crecer en escala y se respaldaron de la eficiencia y la innovación para proporcionar viviendas asequibles. Sin embargo, el modelo incentivó la sobreproducción de vivienda, contribuyendo en última instancia a la crisis de vivienda desocupada que se produjo después de la burbuja inmobiliaria de 2008.

Desde entonces, el gobierno federal ha cambiado la política pública con productos hipotecarios más diversificados y ha reducido considerablemente los incentivos secundarios a la producción. Además, los gobiernos locales han modificado su regulación, aumentando la exigencia para el diseño y ubicación de los desarrollos. Como resultado, estas restricciones han desincentivado la producción de viviendas de interés social y las empresas se han reestructurado y enfocado en segmentos de mercado más estables y rentables, como Residencial y Residencial Plus, que recientemente tienen una gran demanda.

Demanda de vivienda

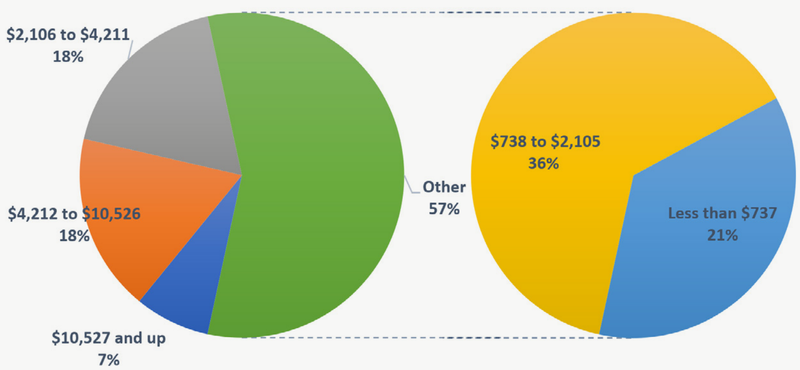
Ingresos y asequibilidad de la vivienda

La distribución del ingreso dentro de la población de Tijuana nos da un parámetro para evaluar la demanda. La Figura 1 nos muestra cómo se distribuyen las familias según sus ingresos y el tipo de vivienda a la que pueden adquirir. Los datos muestran que el 57% de las familias en Tijuana se encuentran en el rango de ingresos más bajos, ganando menos de 2,105 USD al mes. Las familias en este grupo pueden acceder a una hipoteca subsidiada para adquirir una vivienda de interés social, catalogada también como vivienda económica y social. Por otro lado, las familias de ingresos medios representan alrededor del 18% de la población total.

Sus ingresos oscilan entre los 2,106 y los 4,211 USD, por lo que pueden permitirse una vivienda que cueste entre 41,000 y 100.000 USD.

Las familias con un ingreso entre los 4,212 y los 10,526 USD comprenden el 18% de la población total. Pueden comprar vivienda residencial, que es una vivienda que comienza en 124,000 USD y alcanza un máximo de 262,000; por último, solo el 7 % de las familias cuyos ingresos superan los 10,527 USD pueden adquirir viviendas cuyo precio oscila entre los 277,000 y los 944,000 USD.

Figura 1. Segmentos de ingreso en el Área Metropolitana de Tijuana



Ingreso familiar mensual (USD)	Menor que $737	$738 a $2,105	$2,106 a $4,211	$4,212 a $10,526	Mayor que $10,527
Tipo de vivienda	Social	Económica	Media	Residencial	Residencial plus

Fuente: Estimado con datos del INEGI.

Además de la demanda local, es necesario considerar la población transfronteriza de la ciudad. Estas personas viajan regularmente de un lado a otro de la frontera por diferentes razones, trabajo, educación o vínculos familiares. Cuando se trata de alojamiento, estos viajeros a menudo buscan la ventaja comparativa que brindan los precios más bajos en Tijuana y los salarios más altos en Estados Unidos. Aunque hay pocos datos disponibles sobre esta población, podemos estimar que alrededor de 70,000 personas viajan diariamente por trabajo o educación desde Tijuana a San Diego. Por lo tanto, los viajeros transfronterizos representan aproximadamente el 3% de la población total de Tijuana.

Para los agentes de bienes raíces y los desarrolladores de viviendas, los viajeros transfronterizos son una parte importante de la demanda de viviendas. Según información oficial, el salario promedio en San Diego ronda los 31.31 USD lo que se traduce en 6.126 USD al mes (U.S. Bureau of Labor Statistics, 2022). Dada la crisis de asequibilidad de viviendas en California, las familias de clase trabajadora y de ingresos medios están encontrando alternativas de vivienda en otros estados, como Texas, Utah y Arizona. No es improbable que Tijuana está capturando parte de esta población. Aquí, el salario promedio de EE. UU. puede comprar una casa residencial de escala superior con diferentes comodidades. Sin embargo, el costo más bajo de la vivienda viene con una condición, que es un viaje más largo al trabajo, dado que los tiempos de espera en la frontera en las horas pico pueden oscilar entre una y tres horas en ambas direcciones.

Por último, las bajas tasas de interés que prevalecieron hasta 2021 aumentaron la demanda de inversión inmobiliaria en ciudades con un rápido crecimiento y mercados inmobiliarios robustos porque ofrecen tasas de capitalización atractivas. En este caso, los viajeros transfronterizos y los residentes temporales de Tijuana también son un segmento de mercado atractivo para arrendatarios y empresas que buscan abastecer sus carteras con bienes raíces rentables.

Tabla 1. Precios medios de la vivienda por segmentos de ingresos

Tipo de Vivienda	Precio promedio de las viviendas en venta		Incremento
	2019	2022	
Social	$24,917	-	-
Económica	$32,739	$33,684	3%
Media	$80,396	$111,842	39%
Residencial	$190,203	$248,547	31%
Residencial Plus	$366,564	$433,728	18%

Fuente: Promedios estimados a partir de datos obtenidos de SOFTEC, 2019 y 2022.2019 and 2022.

El aumento de la demanda de activos inmobiliarios es un fenómeno global que eleva los precios de las viviendas. En Tijuana, los desarrolladores se enfocan notablemente en inversiones inmobiliarias de alto nivel. Desde 2019, los precios promedio de la vivienda han aumentado un 39 % para los hogares de ingresos medios, un 31 % para los residenciales y un 18 % para los residenciales plus. Los incrementos de precios están relacionados con el costo de los insumos, principalmente materiales de construcción y terrenos. Por un lado, según el índice de precios de producción, los materiales han aumentado 39 puntos porcentuales desde enero de 2020 (INEGI, 2022). Por otro lado, los precios de la tierra también han aumentado debido a la demanda de parcelas ubicadas en el centro donde los desarrolladores construyen grandes edificios. Además de los mayores costos de producción, la demanda de viviendas residenciales aumentó durante la pandemia, aumentando el precio de venta.

Productos de vivienda y sus características

Cada tipo de vivienda tiene características precisas que engloban las necesidades y aspiraciones que ese segmento de ingresos puede afrontar. En el extremo inferior del espectro, los desarrolladores ajustan el diseño de la vivienda para cumplir con el mínimo requerido por la regulación local para lograr un punto de precio de bajos ingresos. En el extremo superior, los desarrolladores agregan una variedad de servicios para competir por un segmento de demanda más grande. La Tabla 2 resume las principales características de la oferta de los desarrolladores en 2022.

Bajos ingresos (Social y Económico)

Las viviendas de interés social cumplen con los estándares mínimos establecidos por las regulaciones locales y nacionales. En su mayoría, son un apartamento de 452 pies cuadrados con un baño, dos habitaciones y un espacio de estacionamiento. Estas viviendas se construyen en entornos suburbanos, utilizando revestimientos de hormigón reutilizables que ayudan a los constructores a lograr economías de escala y otras eficiencias para alcanzar el precio de venta de 29,000 USD. La mayoría de estos desarrollos cuentan con infraestructura y servicios básicos; algunos tienen áreas recreativas, escuelas en funcionamiento y actividades comerciales. Ejemplos de estos desarrollos incluyen Natura de Ruba, que cuenta con servicios públicos adicionales como una estación de bomberos, una escuela secundaria militar, una estación de policía y un supermercado, y Valle del Sol de Casas ARA. Además, estos desarrollos se conectan a la ciudad a través del corredor Tijuana-Rosarito 2000.

Tabla 2. Características de la vivienda para cada segmento de ingreso

Características de la vivienda	Social	Económica	Vivienda Media	Residencial	Residencial plus
Número de unidades	-	667	182	71	70
Precio de la unidad (USD)	-	$33,684	$111,842	$248,547	$433,728
Pies cuadrados	-	452	722	1,139	1,773
Habitaciones	2	2	2 a 3	1 a 3	1 a 4
Baños	1	1 a 1.5	2 a 2.5	1 a 2.5	1 a 2.5
Espacios de estacionamiento	1	1	1 a 2	1 a 2	1 a 2
Altura de edificio	4	2 a 4	2 a 4	2 a 25	2 a 29
Precio por pie cuadrado	-	$88	$184	$259	$290

Fuente: Datos estimados a partir de datos en trabajo de campo durante julio de 2022 y complementados con información de SOFTEC, 2022.

Apartamentos de interés social Natura. Ruba (2022). Desarrollos Natura: Violeta [Render]. Ruba. https://ruba.com.mx/ciudad/tijuana/

Es importante tener en cuenta que los desarrolladores no están construyendo casas por debajo del precio de venta de 29,000 USD. Los desarrolladores afirman que los aumentos en los insumos de construcción, el endurecimiento de las regulaciones municipales y el retiro de los incentivos federales para la producción de viviendas han afectado significativamente los costos de producción, lo que dificulta atender a los mercados de bajos ingresos. Como resultado, el 21% de las familias quedan fuera del mercado inmobiliario, incluso si pueden acceder a una hipoteca. Al igual que los trabajadores informales, estas familias de bajos ingresos resuelven su vivienda predominantemente a través de los mercados informales.

Ingreso medio

Las familias de ingresos medios pueden permitirse una vivienda que promedia los 111.842 USD. Pueden elegir entre viviendas unifamiliares en un lote pequeño (840 pies cuadrados) o un apartamento en un edificio de cuatro pisos. El tamaño promedio de una casa es de 722 pies cuadrados, que tiene de 2 a 3 dormitorios, dos baños y dos espacios de estacionamiento. A diferencia de las viviendas de interés social, estos desarrollos se encuentran en áreas de la ciudad recientemente incorporadas, cerca de centros comerciales, escuelas y otros servicios. Estos desarrollos cuentan con un perímetro amurallado con acceso único controlado y seguridad 24/7. Las comodidades a veces incluyen áreas de recreación privadas, una casa club, una piscina o un gimnasio. Los ejemplos incluyen Lorgoño Residencial de GIG, ubicado por el Libramiento Rosas Magallón, y Los Sauces Residencial de HIR, y Viñas del Mar en Santa Fe.

Viñas del Mar en Santa Fe. Ruba (2022). Viñas del Mar Residencial [Fotografía]. Ruba. https://www.vinasdelmarresidencial.com/

Residencial y residencial plus

Las viviendas residenciales tienen un precio de venta medio de 248.547 USD. La mayoría de las unidades se encuentran en edificios de apartamentos que van desde los 6 a los 25 pisos de altura, aunque algunos desarrollos ofrecen viviendas unifamiliares con un lote de 1,000 pies cuadrados. La vivienda promedio es de 1,139 pies cuadrados y tiene dos o tres dormitorios, dos baños y dos estacionamientos. Además, los desarrollos residenciales tienen muchas comodidades, que incluyen un gimnasio, un jardín en la azotea, una casa club o salas de juegos y una piscina, entre otras características. Del mismo modo, las viviendas residenciales plus tienen casi las mismas características, pero difieren en tamaño y ubicación. La casa residencial promedio mide 1,139 pies cuadrados y puede tener hasta cuatro dormitorios, lo que representa un precio promedio de 433,728 USD. Además, los desarrollos residenciales plus se ubican en lo que los agentes inmobiliarios llaman la zona dorada, el corredor central de Tijuana donde se concentran los servicios comerciales y financieros más especializados. Dentro de la zona dorada se encuentran el centro, Zona Río Tijuana, Playas de Tijuana y los barrios aledaños al Boulevard Agua Caliente.

Departamentos residenciales en preventa en la Zona Dorada. Probién (2021). Departamentos en preventa en la Zona Dorada. [Prestar]. probando https://www.probien.com.mx/propiedades/preventa-de-departamentos-en-zona-dorada

Cosmopolitan city center en Zona Rio Tijuana. Probien (2021). City Center. [Render]. Probien. https://www.probien.com.mx/proyectos/city-center

Urbanismo

Desde el advenimiento de la reforma financiera en México, la planificación urbana ha tomado un lugar central para facilitar o inhibir la producción de vivienda. Varios instrumentos de planificación y regulaciones en Tijuana determinan diferentes aspectos del nuevo desarrollo inmobiliario. Los más destacados son el código de zonificación instaurado en 2015, y el mapa de zonificación, renovado en 2010, siendo estas las ordenanzas que utiliza el gobierno local para regular el uso del suelo de la ciudad, las alturas de los edificios, la tasa de ocupación de lotes y otras características de los edificios.

En Tijuana, los instrumentos de planificación son flexibles. Se espera que los desarrolladores justifiquen los cambios en el uso del suelo o las alteraciones de la densidad más allá de lo que permite la regulación para cada subdivisión del suelo. Es responsabilidad del Instituto Metropolitano de Planeación de Tijuana (IMPLAN) revisar la solicitud y brindar una recomendación al Departamento de Administración Urbana, la oficina pública que da el resultado final. Durante este proceso, los desarrolladores deben cumplir con el consentimiento del vecindario, aunque no existe una definición clara de hasta qué punto los vecinos deben participar para proporcionar información y autorizar nuevos desarrollos. En última instancia, la falta de transparencia ha alimentado la desconfianza y la movilización contra algunos desarrollos de gran altura en barrios como Playas de Tijuana e Hipódromo. Los residentes existentes afirman que la mayor densidad estresará la infraestructura ya deficiente, inducirá el tráfico y cambiará el paisaje. Por lo tanto, la disidencia de la comunidad es uno de los mayores obstáculos de los desarrolladores al construir viviendas de gran altura en la Zona Dorada.

Observaciones finales

La producción de vivienda en Tijuana es una industria próspera. Los desarrolladores brindan una amplia gama de productos para satisfacer un mercado diverso, aunque se enfocan en los segmentos de mayores ingresos. Además, los precios de la vivienda están aumentando a un ritmo elevado, excluyendo a un gran porcentaje de la población que puede acceder a una hipoteca. La falta de oferta de vivienda para las familias de ingresos bajos y medios sólo aumentará los precios de la vivienda para quienes se encuentran en el extremo inferior del espectro. Por otro lado, sin ninguna captura de valor de la tierra, la alta demanda de viviendas residenciales seguirá elevando los valores de la tierra y las propiedades

En total, Tijuana requiere una política fiscal sólida y transparente que le ayude a construir la infraestructura necesaria para un crecimiento sostenido que acomode todos los segmentos de la producción de viviendas. Tal como está, la industria de la construcción de viviendas solo brindará beneficios temporales a la ciudad y no el crecimiento sostenido que necesita.

TIJUANA METROPOLITAN AREA

HOUSING Affordable Housing

*by **Adriana Zapien Hernandez,** Leader of the Sustainable Ruba Project, Grupo Ruba*

In the last two years, vehicular congestion in Tijuana has been on the increase and has caused that movement between any two points in the city take longer, without considering the increase in air pollution. And above all an increase in the stress levels of the inhabitants of the city. Most people have had to add half an hour to an hour of time to get to work and back home after a long day.

Everyone sees that there are more vehicles without the city's road infrastructure growing, and even if it did, the problem remains. In this era where it is intended to make more sustainable cities, we know that the solution doesn't lie in more roads for more cars, but in efficient and above all clean urban transport; as well as in communities that are complete and sustainable. That is to say, housing, work, services and leisure activities in the same place to avoid long trips in Tijuana's its first attempts are appearing in the urban densification that the city is experiencing with verticality, especially in the so-called Golden Zone.

The Golden Zone of Tijuana, which includes the Cacho, Hipódromo, Chapultepec, Zona Río, and Agua Caliente neighborhoods, that, since 2018 triggered a real estate "boom" with luxury apartments with amenities, offer private security, and above all, a strategic location near shops, restaurants, cafes, and entertainment. When doing the market study and the survey with the real estate agencies that sell these homes, they agree that the main buyer market is Mexican, both local and from other cities. It is identified that among the buyers there is a large part of investors who have a clear vision of the economic growth of the city and the growing demand for rental housing.

But where do so many people coming to Tijuana who need rental housing come from? The answer is that they come from the South and the North, each one for different reasons. Those who arrive from the South come from different cities in Mexico searching for a better paying job (which they do find because the economy is growing) and those from the North arrive from San Diego in search of affordable housing. Both types of people agree that the reason for their arrival in the city of Tijuana is accompanied by the search for a better life, but with the stamp of impermanence. All those people who arrive in Tijuana every day are the ones who have added cars to the roads that, at certain hours of the day, in specific areas, are a headache for any driver.

The real estate "boom" of vertical housing in Tijuana doubled from 2016 to 2018 because of speculative investors. In 2016, there were 30 housing projects under construction in the Golden Zone, which also contemplated the construction of hotels, shopping centers, and buildings of medical offices for rent and facilities that meet the demand of the medical services cluster to serve both the national and foreign markets. 2022 closes with a different face for Tijuana, as it accumulates 70 vertical housing projects, some of which are in process, others completed and some more ready to begin construction; suggesting a future of good income for investors but putting pressure on capital gains in development areas and provoking a displacement of people who used to rent in those areas, in the form of urban gentrification.

It is estimated that eight out of ten buyers of vertical homes in the Golden Zone are Mexican, the other two on average are Americans with dual nationality and the ease of buying with Mexican rules, avoiding the procedures of trusts for foreigners. Of these buyers with dual nationality, many do so for investment and as a second property and are generally businessmen or merchants with the economic capacity to acquire a property in Mexico, even to rent it.

At the beginning of 2020, the American architecture, engineering, and construction company VERTEX published that in 2019 San Diego County added 35,000 jobs, but only 8,000 housing units, predicting that with these numbers, the deficit that has been in place for years will continue to grow. area. Deficit puts pressure on prices as demand is higher than supply, housing supply being one of the county's weak points, and for this, it puts on the table that densification and urbanization would be one of the most practical solutions to the shortage of housing, especially vertical densification.

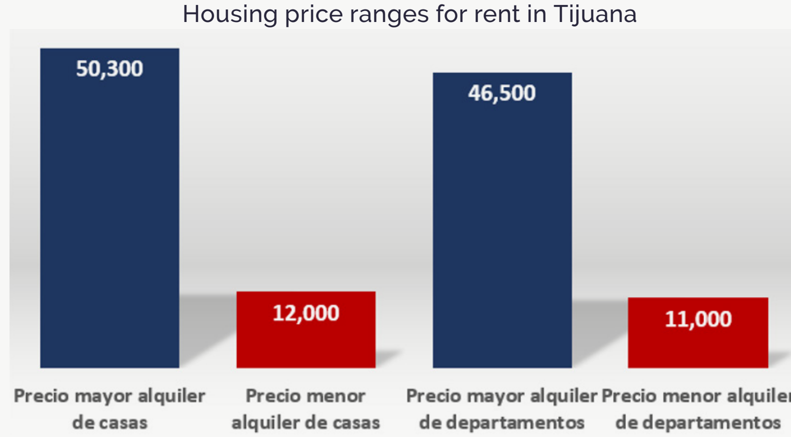
Undoubtedly, vertical densification may be more compatible with the concept of compact cities that promote the reduction of long journeys. And sticking more to the concept of sustainable cities, especially if you want to support a climate action plan; but in reality, the great challenge today is to overcome the high-cost barrier to produce it. That is the real barrier, which also requires political will to achieve the necessary incentives.

For the San Diego–Tijuana dynamic, the scarcity of affordable housing in San Diego is a competitive advantage for the rental housing market in Tijuana and hence the appetite of small investors to purchase rental properties, especially for salaried San Diegans who use much of their income to pay rent due to high costs and that prevents them from saving and building wealth.

For this reason, even when the desire to migrate from Mexico to the United States in search of a better quality of life is still present, those from the United States also seek a better quality of life by migrating temporarily to Mexico. For this reason, Tijuana benefits from this reverse migration and the stronger buying power of San Diego wage earners.

Living in Tijuana allows many Americans to save in order to fulfill the dream of buying their home in San Diego, since it is estimated that including rent, consumer prices are 62 percent cheaper in Tijuana. In San Diego, renting a two-bedroom apartment can cost up to $2,000 USD on average, while in Tijuana a three-bedroom two-story home near the Golden Zone, a short distance from the border crossing can cost between $1,200 and $1,400 USD. Resulting in a differential that goes to the tenant's savings, so this new border life dynamic of working in San Diego and living in Tijuana allows them a financial cushion.

Housing price ranges for rent in Tijuana

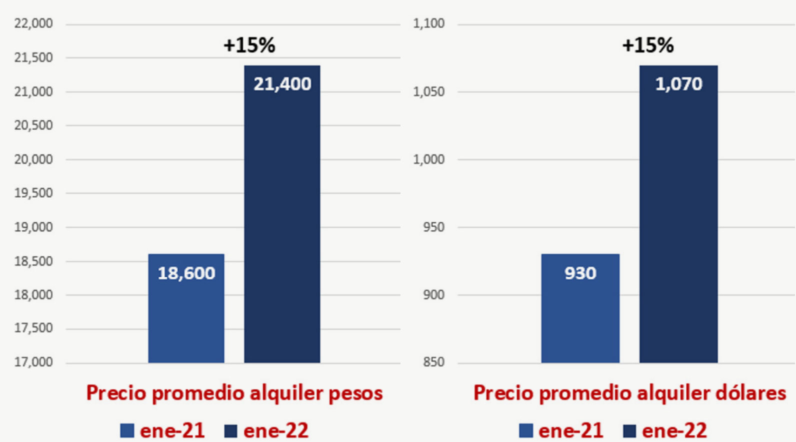


Source: benchmarking propiedades.com

For an American who earns in dollars, living in Tijuana is a temporary sacrifice since the savings it implies are for a long-term goal, such as having the down payment on the purchase of a home in San Diego and obtaining an affordable mortgage. The sacrifice of joining the 70,000 vehicles that cross each morning into San Diego for work or the 30,000 people who cross through the pedestrian gates is worth saving for a property and returning to San Diego with a home to call your own.

Tijuana real estate agents say that American clients who seek their services do so to rent a home, not to buy. The San Diego phenomenon is repeated in Tijuana with little supply and a lot of demand for rental housing and now the race is between those who earn in dollars against those who earn in pesos. The former put pressure on the market by paying less for what they pay in San Diego but paying more than locals who earn in pesos and who are part of that group of people displaced by gentrification could pay.

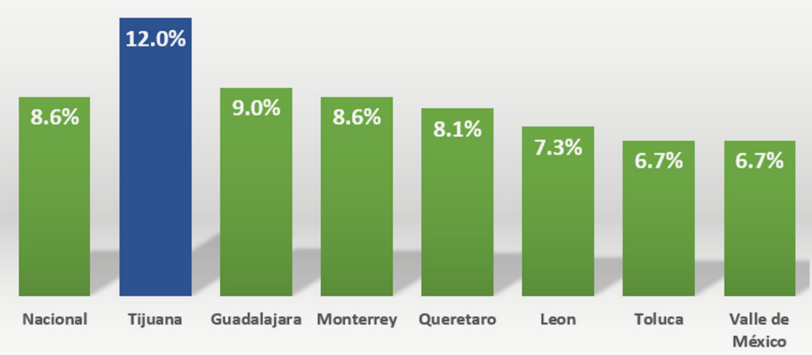
Increase in the rental price of housing in Tijuana



Source: benchmarking propiedades.com

More and more Tijuana residents can no longer access affordable housing, neither to buy nor to rent, and what they find within their budget is on the outskirts of the city, far from their jobs. Although it is true that people in Tijuana earn better than other parts of the country and the standard of living has increased due to the wealth of the area, prices rise inequitably. Undoubtedly, the economy will continue to grow in Tijuana due to the continuous generation of jobs coupled with the advantageous position of both the Free Trade Agreement (USMCA), and the trend of manufacturing relocation potentiated by COVID-19, the problems of the chain of supply and even geopolitics.

Price index for sale of homes in Mexican cities

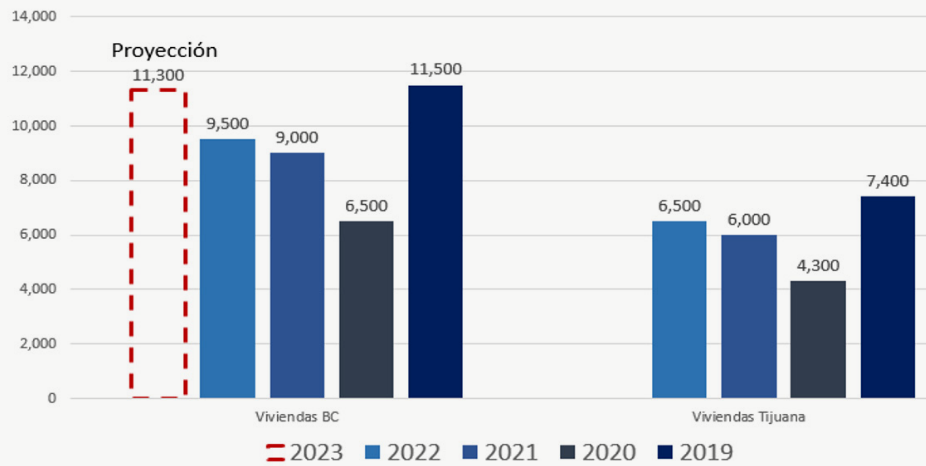


Source: Sociedad Hipotecaria Federal SHF

We must not lose sight of the fact that sooner or later gentrification brings a social reaction that will put pressure on the affected groups to regulate the use and distribution of land and the regulation of prices. In fact, claims of gentrification are part of the agenda for pro-housing social movements all over the world and several Mexican cities such as Guadalajara, Monterrey and Mexico City are already presenting social movements to pressure the authorities to regulate gentrification.

While that happens in Tijuana for 2023 the perspective of construction goals for both horizontal and vertical housing developer investors will increase even with the slight increase in the interest rate in Mexico, since the demand for housing continues to increase, and on the other hand the supply of affordable housing for low-income people is expected to grow with the launch of the project to build low-cost housing in Tijuana spearheaded by the Governor of Baja California, Marina del Pilar Ávila Olmeda, since approximately sixty percent of Tijuana families do not have their own home and due to the high cost of rentals, this sector of the population has to move to the periphery looking for more cost-effective options.

Annual housing production by CANADEVI Baja California Tijuana members



Source: National Chamber of the Housing Development and Promotion Industry (CANADEVI)

According to data from Mayra Lazcano, Director of Urban Development and Housing of the Secretariat of Infrastructure, Urban Development and Territorial Reorganization of Baja California, the state has a demand for 280 thousand houses of the so-called Social Interest housing (not subsidized), but it is not possible to increase the production of this type of affordable housing due to the high costs and the purchasing power of those seeking housing for this sector of the population.

The greatest demand is in Tijuana, where there are 21.864 square miles of territorial reserve for housing, however, 40% do not have infrastructure for development; not to mention that due to the complexity of the land, housing developers in Tijuana are unable to produce affordable housing for a market where 50% of those who have access to a loan from INFONAVIT obtain credits of less than 650,000 pesos, which is why it is expected that with the incentives for the construction of low-cost housing of the State Housing Program 2022-2027 of the Government of the State of Baja California, it is possible to cover the demand of this housing segment.

There is a lot to be done to solve and satisfy the demand for housing, but above all to satisfy affordable housing. It is a challenge of wills, regulations, public policies, innovation, and joint efforts to reduce inequalities and cover a human and vital right, since housing is considered the fourth vital value of the human being. Joining efforts will help us get closer to the goal of the United Nations 2030 Agenda, which seeks to ensure access to basic, adequate, safe, and affordable housing and services by improving slums through inclusive urbanization.

EL ÁREA METROPOLITANA DE TIJUANA

VIVIENDA Vivienda Asequible

*por **Adriana Zapien Hernandez,** Líder del Proyecto Ruba Sustentable, Grupo Ruba*

En los últimos dos años la congestión vehicular en Tijuana ha ido en aumento y provocado que los desplazamientos entre uno y otro punto de la cuidad requieran mayor tiempo sin contar con el incremento de la contaminación atmosférica. A esto se le suma un aumento en los niveles de estrés de los habitantes de la ciudad. La mayoría de las personas han tenido que agregar entre media hora a una hora de tiempo para llegar a sus trabajos y al final del turno para regresar a sus hogares después de una larga jornada.

Todo mundo observa que hay más vehículos sin que la infraestructura vial de la ciudad crezca y aunque así lo fuera, el problema seguiría. En esta era donde se pretende transitar a las ciudades sustentables sabemos que, en más vialidades para más autos, no radica la solución, sino en un transporte urbano eficiente y sobre todo limpio; pero también en que las comunidades sean integrales y sustentables. Es decir, vivienda, trabajo, servicios y actividades lúdicas en el mismo lugar para evitar los largos desplazamientos y que en Tijuana están asomando sus primeros intentos en la densificación urbana que está experimentando la ciudad con la verticalidad, sobre todo en la llamada Zona Dorada.

La Zona Dorada de Tijuana que comprende las colonias Cacho, Hipódromo, Chapultepec, Zona Río y Agua Caliente que desde 2018 detonaron un "boom" inmobiliario con departamentos de lujo con amenidades, que goza de más vigilancia, y sobre todo ubicación estratégica cerca de comercios, restaurantes, cafeterías y entretenimiento. Al hacer el estudio de mercado y el sondeo con las agencias inmobiliarias que comercializan estas viviendas coinciden que el mercado principal comprador es mexicano; tanto local, como de otras ciudades. Se identifica que entre los compradores hay una gran parte de inversionistas que tienen la visión clara del crecimiento económico de la ciudad y la creciente demanda de la vivienda en alquiler.

Pero, ¿de dónde vienen tantas personas que necesitan una vivienda de alquiler en Tijuana? La respuesta es que vienen del Sur y del Norte solo que cada una por motivos distintos. Los que llegan del Sur vienen de distintas ciudades de México en busca de un empleo mejor pagado (que sí encuentran porque la economía va en crecimiento) y los del Norte llegan de San Diego en busca de una vivienda asequible. Ambos tipos de personas coinciden en que el motivo de su llegada a vivir en la ciudad de Tijuana viene acompañado de la búsqueda de una vida mejor, pero con el sello de la temporalidad. Esa gran cantidad de personas que llegan todos los días a Tijuana son las que han sumado autos a las vialidades que a ciertas horas del día, en zonas específicas, son un dolor de cabeza para cualquier conductor.

El "boom" inmobiliario de vivienda vertical en Tijuana se duplicó de 2016 a 2018 de la mano de los inversionistas visionarios. En 2016 en la Zona Dorada había en construcción 30 proyectos de vivienda y además, se contemplaba la construcción de hoteles, centros comerciales y edificios para renta de consultorios e instalaciones médicas, atendiendo la demanda de este clúster que sirve al mercado nacional y extranjero. El 2022 cierra con una Tijuana con una cara distinta acumula 70 proyectos de vivienda vertical de los cuales algunos están en proceso, otros concluidos y algunos más por iniciar; augurando un futuro de buenos ingresos para los inversionistas, pero metiendo presión a las plusvalías de las zonas de desarrollo y provocando un desplazamiento de las personas que alquilaban en esas zonas, derivado de la transformación urbana conocida como gentrificación.

Se estima que ocho de cada diez compradores de las viviendas verticales de la Zona Dorada son mexicanos, los otros dos en promedio son estadounidenses con doble nacionalidad y la facilidad de comprar con las reglas mexicanas, evitando los trámites de los fideicomisos para extranjeros. De estos compradores con doble nacionalidad muchos lo hacen por inversión y como segunda propiedad y generalmente son empresarios o comerciantes con la capacidad económica para adquirir una propiedad en México, incluso para rentarla.

La empresa estadounidense de Arquitectura, Ingeniería y Construcción VERTEX a inicios de 2020 publicó que en 2019 el condado de San Diego agregó 35,000 empleos, pero solo 8,000 unidades de vivienda, augurando que con esos números seguirá creciendo el déficit que se ha tenido desde años en la zona. Este déficit, presiona los precios al ser más alta de la demanda que la oferta, siendo la oferta de vivienda uno de los puntos débiles del condado. Esto, pone en la mesa que la densificación y la urbanización serían una de las soluciones más prácticas ante la escasez de vivienda sobre todo la densificación vertical.

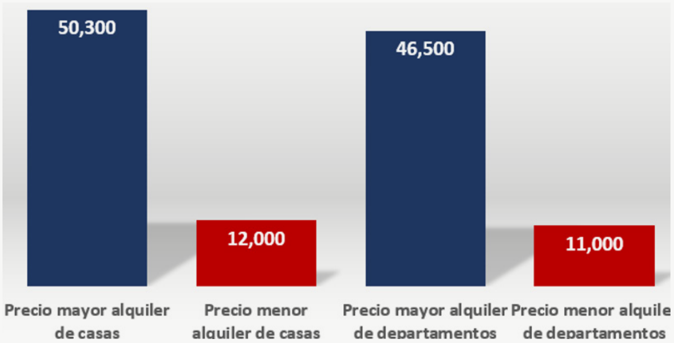
Sin duda la densificación vertical puede ser más compatible con el concepto de ciudades compactas que promuevan la disminución de largos desplazamientos. Así mismo, se apega más al concepto de ciudades sostenibles, sobre todo si se quiere apoyar algún plan de acción climática; pero en realidad el gran reto hoy es superar la barrera del alto costo para producirla. Esa es la verdadera limitante, misma que requiere de voluntad política para lograr los incentivos necesarios.

Sin duda para la dinámica San Diego- Tijuana, la escasez de vivienda asequible en San Diego es una ventaja competitiva para el mercado de viviendas de alquiler. Esta dinámica favorece a los trabajadores de San Diego, que de otra manera utilizarían gran parte de su ingreso para pagar su alquiler debido a los altos costos, misma razón que les impediría ahorrar y formar un patrimonio.

Por eso, aún cuando sigue latente el deseo de migrar de México a Estados Unidos en búsqueda de una mejor calidad de vida, también la población de Estados Unidos busca mejorar su calidad de vida migrando de manera temporal a México. Tijuana atiende de manera exitosa la migración inversa para hacer rendir los dólares que no rinden en San Diego para un sector de asalariados.

Vivir en Tijuana les permite a muchos estadounidenses ahorrar para cumplir el sueño de comprar su vivienda en San Diego ya que se estima que incluido el alquiler los precios al consumidor son 62 por ciento más baratos en Tijuana. De hecho, en San Diego el alquiler de un departamento de dos habitaciones puede costar 2,000 dólares en promedio mientras en Tijuana una vivienda de dos niveles de tres habitaciones cerca de la Zona Dorada a poca distancia del cruce fronterizo puede costar entre 1,200 a 1,400 dólares. Resultando un diferencial que se va al ahorro del arrendatario, por lo que esta nueva dinámica de vida fronteriza de trabajar en San Diego y vivir en Tijuana les permite un colchón financiero.

Gráfica 1. Rangos precios vivienda alquiler en Tijuana



Fuente: benchmarking propiedades.com

Si se es estadounidense y se gana en dólares, vivir en Tijuana es un sacrificio temporal ya que el ahorro que implica es para una meta a largo plazo como dar algún día el pago inicial de la compra de una vivienda en San Diego y conseguir una hipoteca asequible. El sacrificio de sumarse a 70,000 vehículos que cruzan todas las mañanas hacia San Diego para trabajar o a las 30,000 personas que cruzan por las puertas peatonales vale la pena por ahorrar para una vivienda y regresar a San Diego con vivienda propia.

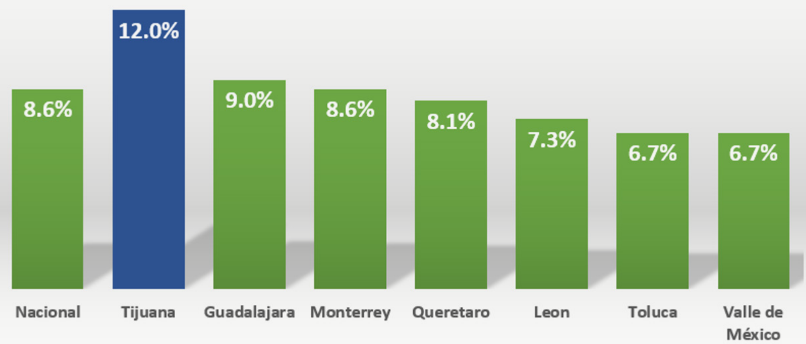
Los agentes inmobiliarios tijuanenses afirman que los clientes estadounidenses que buscan sus servicios lo hacen para alquilar una vivienda no para comprar. Entonces el fenómeno de San Diego se repite en Tijuana con poca oferta y mucha demanda de vivienda en alquiler y ahora la carrera está entre los que ganan en dólares contra los que ganan en pesos. Los primeros presionan al mercado pagando menos por lo que pagan en San Diego, pero pagando más de lo que podrían pagar los locales que ganan en pesos y que forman parte de ese grupo de desplazados por la gentrificación.

Gráfica 2. Incremento del precio alquiler de la vivienda en Tijuana.

Source: benchmarking propiedades.com

Cada vez más tijuanenses no pueden acceder a una vivienda asequible ni de compra, ni de alquiler y lo que encuentran a su alcance está en la periferia de la ciudad lejos de sus trabajos. Aunque si bien es cierto que las personas en Tijuana ganan mejor que otras partes del país y ha crecido el nivel de vida por la riqueza de la zona, los precios se elevan de manera inequitativa. Sin duda la economía seguirá creciendo en Tijuana por la continua generación de empleos aunado a la posición ventajosa tanto del Tratado de Libre Comercio (USMCA), como de la tendencia de la relocalización de manufactura potencializada por el COVID-19, los problemas de la cadena de suministro e incluso la geopolítica.

Gráfica 3. Índice de precios de venta de viviendas en ciudades de México.

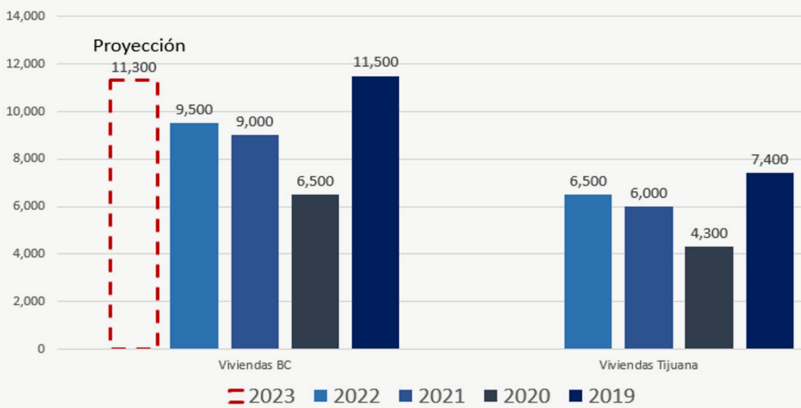


Fuente: Sociedad Hipotecaria Federal

No hay que perder de vista que la gentrificación tarde o temprano trae reacción social que presionará por los colectivos afectados para regular el uso, distribución y precio del suelo. De hecho, en todo el mundo los reclamos a la gentrificación forman parte de la agenda de movimientos sociales pro-vivienda y ya varias ciudades mexicanas como Guadalajara, Monterrey y Ciudad de México están presentando movimientos sociales para presionar a las autoridades para regular la gentrificación.

Mientras tanto, en Tijuana para 2023 la perspectiva de las metas de construcción para los inversionistas desarrolladores de vivienda tanto horizontal como vertical, aumentará aún con el ligero aumento de la tasa de interés en México ya que la demanda de vivienda sigue aumentando. Por otra parte, la oferta de vivienda asequible para personas de menores ingresos se espera crezca ante el lanzamiento del proyecto para construir vivienda de bajo costo en Tijuana encabezado por la Gobernadora del Estado de Baja California Marina del Pilar Ávila Olmeda ya que aproximadamente el sesenta por ciento de las familias tijuanenses carecen de vivienda propia y viven en la periferia de la ciudad debido al alto costo de los alquileres.

Gráfica 4. Producción anual viviendas por miembros CANADEVI Baja California Tijuana.



Fuente: CANADEVI

Según datos de Mayra Lazcano, Directora de Desarrollo Urbano y Vivienda de la Secretaría de Infraestructura, Desarrollo Urbano y Reordenamiento Territorial de Baja California (SIDURT) el estado tiene una demanda de 280 mil casas de las llamadas de Interés Social pero no se logra que se aumente la producción de este tipo de vivienda asequible por los altos costos y la capacidad de compra de los demandantes de vivienda para este sector de la población.

En Tijuana, donde está la mayor demanda se cuentan con 5,663 hectáreas de reserva territorial para vivienda sin embargo el 40% no cuentan con infraestructura para el desarrollo; sin contar que por la complejidad del terreno los desarrolladores de vivienda en Tijuana no alcanzan a producir vivienda económica para un mercado donde el 50 % de los que acceden a un crédito por INFONAVIT alcanzan créditos menores a 650 mil pesos por eso se espera que con los incentivos para la construcción de vivienda de bajo costo del Programa Estatal de Vivienda 2022-2027 del Gobierno del Estado de Baja California se logre cubrir la demanda de este segmento de vivienda.

Hay mucho por hacer para resolver y satisfacer la demanda de vivienda, pero sobre todo para satisfacer la vivienda asequible. Es un reto de voluntades, de regulaciones, de políticas públicas, de innovación y de esfuerzos conjuntos para disminuir las desigualdades y cubrir un derecho humano y vital pues la morada se considera el cuarto valor vital del ser humano. Unir esfuerzos nos ayudará a acercarnos a la meta de la Agenda 2030 de las Naciones Unidas que busca asegurar el acceso a viviendas y servicios básicos, adecuados, seguros y asequibles mejorando los barrios marginales mediante una urbanización inclusiva.

Preparing for World Design Capital 2024 Report

Arts & Culture in Tijuana

Q&A *with* **Daniela de Leon Navia**

Coordinator of Binational Liaison, Municipal Institute of Arts and Culture of Tijuana

> These past years we've seen Tijuana grow in an exponential way, in which investors from San Diego have been coming to the city to live, buy and rent properties, which brings new opportunities for the local talent to sell their artwork to our foreign neighbors, as well as to expand their business.

Q. Tijuana was recognized as a center for global creativity. What elements make the culture of Tijuana unique?

Everything about Tijuana is unique. Starting with its geographical location which makes us home to thousands of people that come all over the world, hoping to cross to the United States, or to get a decent job, most of them find the opportunity to create a proper life and decide to stay. We're the most transited border and because of that we are rich in our culture, which makes us a multicultural city.

Tijuana is a young city which means it keeps evolving every day, it gives new opportunities and for the citizens it gives new perspectives. We have great talent and hardworking people, we have the greatest gastronomy, our landscapes and infrastructure are very interesting and authentic. The way the city finds its own mechanism to adapt to new changes and obstacles is something we admire and respect from our city. At only 133 years old the city has achieved fast urban development, with a vertical living structure, including architectural dynamics of cities from our country and from our neighbor city San Diego.

Through the creativity of its people is how Tijuana has been creating its own identity. The distinctiveness of the history of how the city was born is as interesting as how it has been developing over the years and the transformation that is taking place right now.

Q. How will the 2024 World Design Capital designation impact Tijuana in 2024 and beyond?

Having the honor of being the World Design Capital in 2024 brings many opportunities to our region and city. Primarily the fact that the world would focus their attention on us and will get the chance to know what happens in our binational corner, that's something that is very powerful, and we'll take advantage of. The city of Tijuana will come closer as a big community to help each other. I'm positive of that, we know that working together we can make extraordinary things happen.

We're a city that for many years has been known as the city next to San Diego because they don't take the chance to get to know what happens in here, and this is the moment to tell the world what we have to offer, to display our culture, talent, and uniqueness.

In these first efforts of 2022 towards World Design Capital 2024 in terms of arts and culture we've been combining the vision, ideas, and sums of different cultural agents, both established and emerging ones. The idea is for all the initiatives to be strengthened, coordinated, and carried out in a constant and sustainable way.

The impact that it can have will be up to us, the city, and the community itself. To elevate tourism, economic development, industries, arts, and culture of the city will depend on the work that we create. It will be a year-long showcase of design, but the most important and valuable opportunity of being the World Design Capital would be the legacy that remains. This means initiatives and projects that will encourage new generations to include design as a tool, by creating successful programs that prevail.

Q. What will happen with the World Design process in 2024?

The process of coordinating two cities to broadcast such a big program as the World Design Capital, is not an easy task. That's why we have been working with a powerful team and principally Mayor of Tijuana Montserrat Caballero has been amazing with all the tools she has been given to us to develop this program, with the bilateral support of Mayor of San Diego Todd Gloria. As well as the binational team that has been working through these past years.

With the support of strategic partners and both cities of San Diego and Tijuana we will have a successful program throughout the year of 2024, which relies on the implementation of 2023. The program will listen to the needs of each city and design will be the lead to implement them.

We've had the extraordinary example of other cities that have had the designation of World Design Capital. Our effort will be to reconsider this dynamic of not only two cities with the designation, but also two countries whose function and reality are totally different, but what reinforces us is that the provision has always been positive.

Everyone is invited to be part of it, we need to have the voice and expertise of the citizens by annexing events, programs or initiatives that can nourish the content of WDC San Diego Tijuana. This will be something for our whole region and we'll all be benefited by it.

Q. How does the real estate market impact arts and culture and creative professionals in Tijuana? (Is the city a place where artists can thrive and work? Are there any government initiatives to support the arts?)

Tijuana is a noble city, which has a lot to offer for those who are willing to succeed. There's an opportunity for everyone if you really focus your energy on your goal. If your goal is to succeed as a recognized artist, you will succeed.

The city of Tijuana has several art venues which are from the city, state, and federal government and the private initiatives, they're all extremely welcoming in showcasing artists of the region and the city. The Municipal Institute of Arts and Culture is always open for those who approach us, and our Director Jesus Emmanuel Villalba Leon has been amazing in receiving cultural proposals and getting them done. We're always looking to enhance the arts and culture of the city and we're in continuous search to approach the community.

These past years we've seen Tijuana grow in an exponential way, in which investors from San Diego have been coming to the city to live, buy and rent properties, which brings new opportunities for the local talent to sell their artwork to our foreign neighbors, as well as to expand their business. It is challenging, yes. But as always, we need to adapt and look for the opportunities that this gives us.

Q. How are Tijuana and San Diego working together to support arts and culture initiatives?

Tijuana and San Diego have always been working together in terms of arts and culture. We're always in constant communication and we play an important role for each other. The governments of both cities have an established commitment to cooperate in terms of climate and environment, transportation, economic development, arts, culture, and more.

This happens not only because of their geographic location, but because we share much more than just that. We share history, culture, environment, and its people. There are many cultural institutions in which they are open to receive artists from San Diego and vice versa.

For instance, I can think of our next binational exhibition called PAISANOS. It is an initiative that was born in Tijuana in which 16 artists from Mexico will exhibit their artwork in Downtown San Diego at Sparks Gallery. In the past months we have had 24 American artists in our main gallery of the city.

We're always having this cultural exchange and to keep in constant search to collaborate with new galleries and to continue in touch with the art institutions we've always worked with is important, we're creating the platform for the talent of our region to transcend.

Q. What can be improved in the relationship between Tijuana and San Diego? (Related to arts or in general.)

It has been a constant work that both cities have created over the years. And to keep getting better and reinforcing the relationship with our cities is crucial. This year we celebrated the bicentenary of diplomatic relations between the United States of America and Mexico, and we have proved that our relationship is stronger than ever with all the agreements, activities and events that took place throughout the year.

As a city it will always aspire to be the best version of it, and that is not the exception for us as a region. I believe it is important that we continue working hand to hand and by implementing programs to promote and improve our relations are essential to continue growing as a binational community in every term needed.

Having platforms to facilitate entrepreneurs to have transborder experiences and opportunities will be a way to improve our economic development as a region, could be an important tool that will improve our relationship and daily basis lifestyle as a transborder region.

Tijuana has a big industry area which has been growing and expanding creating new job opportunities, this has always given us a close economic relationship with the United States and being able to continue growing and having the openness to collaborate will always be a very important and powerful tool for our cities.

Q. What should ULI members be anticipating or looking out for in Tijuana next year?

Tijuana is having major infrastructural growth; we have a fast development system. New investors are turning their eyes into our city, we have the richest corner of Mexico that has it all. Including its nearby locations, we've Guadalupes valley with the greatest wine, the beach of Rosarito where you can have the best seafood and beach life, Tecate where you can get delighted from the most delicious food and Mexicali with the greatest landscapes and of course our sister city San Diego.

Not only in infrastructure terms Tijuana is having growth, but in essence we're having this hunger of creating and innovating for the wellbeing of the city or for their own business.

We're having small businesses growing, industries that are looking for more staff, cultural and artistic events everywhere, as well as the gastronomic demand continuing to grow.

World Design Capital San Diego Tijuana 2024 is the perfect excuse for us to get together and make even more exponentially things done. This will bring a new wave of creativity for artists and entrepreneurs that will prevail and be supported by the city itself. As Tijuanenses we're always looking for a way to make our dreams become a reality and to do it together under the sight of everyone and brag about what we have to offer is something that we're looking forward to in 2023, 2024 and beyond.

About Daniela de Leon Navia

Prior to being coordinator of the Binational Link of the Municipal Institute of Art and Culture, she worked as General Coordinator at La Caja Galería promoting art in the city of Tijuana and collaborating on binational projects in San Diego. In addition, she is currently part of the Board of World Design Capital 2024, San Diego–Tijuana.

Preparándose para World Design Capital 2024
Arte & Cultura en Tijuana

Entrevista *con* **Daniela de Leon Navia**

Coordinadora de Enlace Binacional del Instituto Municipal de Arte y Cultura de Tijuana (IMAC)

> Estos últimos años hemos visto en Tijuana un crecimiento exponencial, en el que inversionistas de San Diego vienen a vivir a la ciudad, compran o rentan propiedades, lo que atrae nuevas oportunidades para el talento local de vender su trabajo artístico a nuestros vecinos visitantes, al igual que expandir sus negocios.

P. Tijuana fue reconocida como un centro para la creatividad global. ¿Qué elementos de su cultura hacen a Tijuana tan única?

Todo sobre Tijuana la hace única. Empezando con su ubicación geográfica, que nos vuelve el hogar de miles de personas que llegan de todas partes del mundo con la esperanza de cruzar a los Estados Unidos o conseguir un trabajo decente, la mayoría encuentra la oportunidad de crear una vida adecuada y deciden quedarse. Somos la frontera más transitada del mundo, recibiendo visitantes y residentes diariamente, haciéndonos ricos en términos culturales. Somos una ciudad multicultural.

Tijuana es una ciudad joven, lo que significa que está evolucionando todos los días. Les da nuevas oportunidades y perspectivas a sus ciudadanos. Tenemos gran talento y personas trabajadoras, tenemos una de las mejores gastronomías, nuestros paisajes y nuestra infraestructura son muy interesantes y auténticos. La manera en que la ciudad encuentra los mecanismos para adaptarse a los nuevos cambios, así como los obstáculos es algo que le admiramos y respetamos. Con tan solo 133 años, la ciudad ha tenido un desarrollo urbano muy rápido, con una infraestructura de vivienda vertical que incluye dinámicas arquitectónicas de ciudades tanto de nuestro país como de nuestra ciudad hermana de San Diego.

Es a través de la creatividad de su gente como Tijuana ha ido creando una identidad propia. La historia tan peculiar de cómo comenzó la ciudad es igual de interesante a como se ha ido desarrollando a lo largo de los años y la transformación que está ocurriendo ahora mismo.

P. ¿Cómo afectará a Tijuana la designación de World Design Capital 2024 en ese año y en el futuro?

Tener el honor de ser World Design Capital en 2024 trae muchas oportunidades a nuestra región y nuestra ciudad. Primero está el hecho de que el mundo concentraría su atención en nosotros y tendrán la oportunidad de saber lo que ocurre en nuestra esquina binacional, eso es muy poderoso y es algo que aprovecharemos. La ciudad de Tijuana será una gran comunidad que se acercará para ayudarse, estoy segura de ello, sabemos que trabajando juntos podemos hacer que cosas extraordinarias pasen.

Somos una ciudad que por muchos años ha sido conocida como la ciudad que está a lado de San Diego debido a que las personas no se dan la oportunidad de conocer las cosas que ocurren aquí, y este es el momento de mostrarle al mundo todo lo que tenemos que ofrecer, mostrar nuestra cultura, nuestro talento y lo que nos hace únicos.

En los primeros esfuerzos de 2022 de cara a World Design Capital 2024, en materia de artes y cultura hemos estado combinando la visión, ideas y la suma de diferentes agentes culturales, tanto establecidos como emergentes. La idea es que todas las iniciativas se vean fortalecidas, coordinadas y realizadas en una manera constante y sustentable.

El impacto que puede tener dependerá de nosotros y la comunidad. Elevar el turismo, el crecimiento económico, las artes y la cultura de la ciudad dependerá del trabajo que hagamos. Será una presentación de diseño que durará todo el año, pero lo más importante y valioso de la oportunidad de ser World Design Capital será el legado que quede. Esto se reflejará en las iniciativas y proyectos que animarán a nuevas generaciones para que incluyan el diseño como una herramienta, creando para ello programas exitosos que permanecerán.

P. ¿Qué pasará con el proceso de World Design Capital en 2024?

El proceso de coordinar dos ciudades para que transmitan un programa tan grande como World Design Capital no es cosa fácil. Es por ello que hemos estado trabajando con un equipo muy fuerte y principalmente la alcaldesa de Tijuana, Montserrat Caballero, quien ha sido increíble con todas las herramientas que nos ha dado para desarrollar este programa, con el apoyo bilateral del alcalde de San Diego Todd Gloria. Además de contar con el apoyo del equipo binacional que ha estado trabajando durante estos últimos años para lograr esta designación.

Con el apoyo de estos socios estratégicos y las ciudades de San Diego y Tijuana tendremos un programa exitoso durante todo el 2024, que depende de la implementación en 2023. El programa atenderá a las necesidades de cada ciudad y el diseño será el componente principal para la implementación.

Hemos tenido ejemplos extraordinarios de otras ciudades que han sido designadas World Design Capital. Nuestro esfuerzo estará en reconsiderar la dinámica, no solo de las dos ciudades con la designación, sino también de ambos países cuyas funciones y realidades son totalmente diferentes, pero lo que nos refuerza es que su disposición siempre ha sido positiva.

Todos están invitados a formar parte, necesitamos tener la voz y la experiencia de los ciudadanos para incluir eventos, programas o iniciativas que puedan alimentar el contenido de WDC San Diego - Tijuana. Este evento será para toda nuestra región y todos nos veremos beneficiados por ella.

P. ¿Cómo afecta el mercado de bienes raíces a las artes, la cultura y a los profesionales creativos de Tijuana? (¿Es la ciudad un lugar donde los artistas pueden crecer y trabajar? ¿El gobierno tiene iniciativas para apoyar a las artes?)

Tijuana es una ciudad noble que tiene mucho que ofrecer para aquellos que están decididos a ser exitosos. Hay una oportunidad para todos si realmente enfocas tu energía en tus propósitos. Si tu objetivo es triunfar como artista reconocido, lo vas a conseguir.

La ciudad de Tijuana tiene diferentes espacios administrados por el gobierno municipal, estatal y/o federal, así como de iniciativa privada, y todos son extremadamente abiertos a mostrar a los artistas de la región y la ciudad. El Instituto Municipal de Arte y Cultura está siempre abierto para aquellos que se nos acercan, y nuestro director Jesús Emmanuel Villalba León ha sido increíble recibiendo propuestas culturales e implementándolas. Siempre estamos buscando promover las artes y la cultura de la ciudad y estamos en una continua búsqueda por acercarnos a la comunidad.

Estos últimos años hemos visto en Tijuana un crecimiento exponencial, en el que inversionistas de San Diego vienen a vivir a la ciudad, compran o rentan propiedades, lo que atrae nuevas oportunidades para el talento local de vender su trabajo artístico a nuestros vecinos visitantes, al igual que expandir sus negocios. Es retador, eso es cierto.

P. ¿Cómo están Tijuana y San Diego trabajando en conjunto para apoyar iniciativas de arte y cultura?

Tijuana y San Diego siempre han estado trabajando en conjunto en temas de arte y cultura. Estamos en una constante comunicación, jugamos un papel importante para el otro. Los gobiernos de ambas ciudades han establecido compromisos para cooperar en temas de clima y medio ambiente, transporte, desarrollo económico, arte, cultura, entre otros.

Esto ocurre no solo por la situación geográfica, sino porque compartimos mucho más. Compartimos historias, cultura, ambiente y gente, Hay muchas instituciones culturales en las que están abiertos a recibir artistas de San Diego y viceversa.

Por ejemplo, se me ocurre nuestra exhibición binacional llamada PAISANOS. Es una iniciativa que nació en Tijuana en la cual 18 artistas de México estarán exhibiendo su trabajo en el centro de San Diego en la galería Sparks. Así mismo, en meses pasados hemos tenido a 24 artistas de Estados Unidos en la galería principal de la ciudad.

Siempre hemos tratado de tener un intercambio cultural, así como mantenernos en constante búsqueda de colaboraciones con nuevas galerías y continuar en contacto con las instituciones artísticas con las que siempre hemos trabajado es importante, estamos creando una plataforma para que el talento de nuestra región trascienda.

P. ¿Qué aspectos de la relación entre Tijuana y San Diego pueden mejorar? (En relación con las artes u otros temas generales)

Ha sido un trabajo constante que ambas ciudades han creado a través de los años. Seguir mejorando y reforzando esta relación entre nuestras ciudades es crucial. Este año celebramos el bicentenario de las relaciones diplomáticas entre Estados Unidos y México, hemos probado que nuestra relación es más fuerte que nunca con todos los acuerdos, tratados, actividades y eventos que han tomado lugar en el año.

Cualquier ciudad siempre aspira a ser su mejor versión, esta región no es la excepción. Creo que es importante que continuemos trabajando mano a mano implementando programas para promover y mejorar nuestras relaciones, esto es esencial para continuar con el crecimiento de la comunidad binacional en todos los aspectos que se necesitan.

Tener plataformas que faciliten tener experiencias y oportunidades transfronterizas a los emprendedores, será una manera de mejorar el desarrollo económico de nuestra región, esto puede ser una herramienta importante para mejorar nuestra relación y el estilo de vida de la región transfronteriza.

Tijuana tiene espacio para la industria, la cual ha estado creciendo y expandiéndose, creando nuevas oportunidades de trabajo, esto siempre nos ha dado una relación económica cercana con los Estados Unidos y ser capaces de seguir creciendo, seguir teniendo la apertura para colaborar siempre será una herramienta muy poderosa e importante para nuestras ciudades.

P. ¿Qué deberían anticipar los miembros de ULI en Tijuana el próximo año?

Tijuana está teniendo un crecimiento infraestructural importante, tenemos un sistema de crecimiento rápido. Nuevos inversionistas están volteando a ver nuestra ciudad, tenemos la esquina más rica de México que lo tiene todo, incluyendo las ciudades vecinas, tenemos a Valle de Guadalupe con el mejor vino, Rosarito donde puedes degustar los mejores mariscos y vida de playa, Tecate donde puedes disfrutar de la mejor comida y Mexicali, con los mejores paisajes y claro está, nuestra ciudad hermana de San Diego.

Tijuana no solo está creciendo en términos de infraestructura, sino también en esencia. La ciudadanía está en búsqueda de creatividad e innovación por el bienestar de la ciudad o para sus propios negocios. Estamos viendo un crecimiento en los pequeños comercios, industrias que están buscando a más personal, eventos culturales y artísticos por todos lados, al igual que hay un aumento en la demanda gastronómica.

World Design Capital San Diego - Tijuana 2024 es el motivo perfecto para reunirnos y hacer muchísimas cosas más. Esto traerá una nueva ola de creatividad para los artistas y los emprendedores que se mantendrá y será apoyado por la ciudad misma. Los tijuanenses siempre estamos buscando maneras de hacer que nuestros sueños se vuelvan realidad y hacerlo juntos bajo la mirada de todos y presumir sobre lo que tenemos que ofrecer es algo que estamos esperando poder hacer en el 2023 y el 2024 en adelante.

Sobre Daniela de León Navia

Antes de ser la coordinadora de Enlace Binacional en el Instituto Municipal de Arte y Cultura, trabajó como coordinadora general en La Caja Galería promocionando arte en la ciudad de Tijuana y colaborando en proyectos binacionales en San Diego. Actualmente también forma parte del comité de World Design Capital 2024, San Diego-Tijuana.

Photo by Autumn Murphy

2023 San Diego–Tijuana Region

Real Estate Trends Report

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