

A Deeper Look at San Diego's 2025 Rent Drop

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September 2026

Neighbors For A Better San Diego

Working Paper 2026-01

<https://www.neighborsforabettersandiego.org/research-and-analysis>

Suggested Citation: Hueter, Geoffrey, Susan Baldwin, Danna Givot, and Christine Smith, "A Deeper Look at San Diego's 2025 Rent Drop," Neighbors For A Better San Diego Working Paper 2026-01, September 2026, <https://www.neighborsforabettersandiego.org/research-and-analysis>.

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SUMMARY

Much has been made of reports claiming a year-over-year decline in San Diego rents, which Mayor Todd Gloria has credited to his land-use policies. This report looks at rental trends in the context of the longer housing cycle and what economic factors have the greatest impact on housing prices.

Contrary to the Mayor's claims, our analysis shows that incomes are the greatest driver of rental prices in the San Diego region, and because incomes are rising faster for higher-income earners, housing has become increasingly unaffordable for lower-income residents.

Simplistic supply-and-demand theories do not address these affordability challenges. Housing construction is cyclical, and developers slow building when the supply of premium rental housing outruns demand. As a result, current policies will continue to fall short of meeting the housing needs of low- and very low-income households. New policies that look beyond the current vogue of indiscriminate upzoning of our communities are needed to more effectively address this affordability challenge.

Cities across the United States are dealing with the housing affordability challenges of their middle-income and lower-income residents. Based on simplistic libertarian assumptions that deregulating land use will create an abundance of housing affordable to all incomes, lawmakers have aggressively pushed trickle-down policies that upend community planning and local zoning with massive upzoning and density bonus incentives.

Recent research shows that regulatory constraints (including zoning) do not correlate with rents.¹ Nonetheless, because upzoning policies conveniently align with the economic interests of the building and real estate industries, California has been in the forefront of adopting them. San Diego, led by its mayor, Todd Gloria, has been even more aggressive

¹ Schuyler Louie, John Mondragon, and Johannes Wieland, "Supply Constraints Do Not Explain House Price and Quantity Growth Across U.S. Cities," *Federal Reserve Bank of San Francisco Working Paper* 2025-06, <https://doi.org/10.24148/wp2025-06>.

than the State Legislature,² to the extent it has been estimated that the city has upzoned to allow the capacity to build more than 2 million new homes, *twenty times* forecasted need.³

The predictable result of massive overzoning is that new development in San Diego is concentrated in larger projects that are out-of-scale with their surrounding neighborhoods, without regard to localized impacts on public facilities, traffic, and infrastructure.

Advocates for affordable housing, including the authors of this report, have raised legitimate concerns regarding these policies and their negative impacts on communities. In response to mounting pressure to prove that these disruptive densification policies make housing more affordable, much has been made of a Zumper report⁴ showing that year-over-year rents in San Diego declined in March of 2026.

Citing this selective point of Zumper data by KPBS,⁵ San Diego Mayor Todd Gloria boasted⁶ that this was proof his housing policies are working and making San Diego more affordable.

A deeper look at the data tells a much different story.

The KPBS article highlighted that average rents for two-bedroom apartments in San Diego dropped 7.5% from March 2025 to March 2026, a greater decline than 19 of the 20 most expensive U.S. cities sampled by apartment rental site Zumper. San Diego was second only to Miami, Florida, in rent decreases. The report also noted that San Diego had an increase in rental listings.

Putting the two together, KPBS—and subsequently the Mayor—claimed that the decrease in rents was entirely attributed to an increase in supply produced by the City’s housing and rezoning programs.

If this assertion were true, then the Zumper data should show a continued downward trend as more housing is produced in subsequent months. However, later Zumper reports⁷ show

²“Housing Action Package,” *City of San Diego Official Website*, December 2023, <https://www.sandiego.gov/planning/work/housing-action-package>.

³“Sustainable Development Area Housing Capacity,” *Neighbors For A Better San Diego*, February 28, 2023, https://www.neighborsforabettersandiego.org/_files/ugd/24177d_b30df33f97784edf999f19bbf78670f7.pdf.

⁴Crystal Chen and Quentin Proctor, “March 2026 Zumper National Rent Report,” *Zumper* (blog), May 12, 2026, <https://www.zumper.com/blog/march-2026-zumper-national-rent-report/>.

⁵Jake Gotta, “San Diego Rents Declined More than 19 of Nation’s Top 20 Markets Following Surge in Supply,” March 27, 2026, KPBS, <https://www.kpbs.org/news/economy/2026/03/27/san-diego-rents-declined-more-than-19-of-nations-top-20-markets-following-surge-in-supply>.

⁶San Diego Mayor Todd Gloria, “Building More Homes Is Bringing Down Rents in San Diego,” April 6, 2026, <https://app.indigov.com/pub/outreach/6359492b-543c-4afc-b352-aa5a6f7a6ee4>.

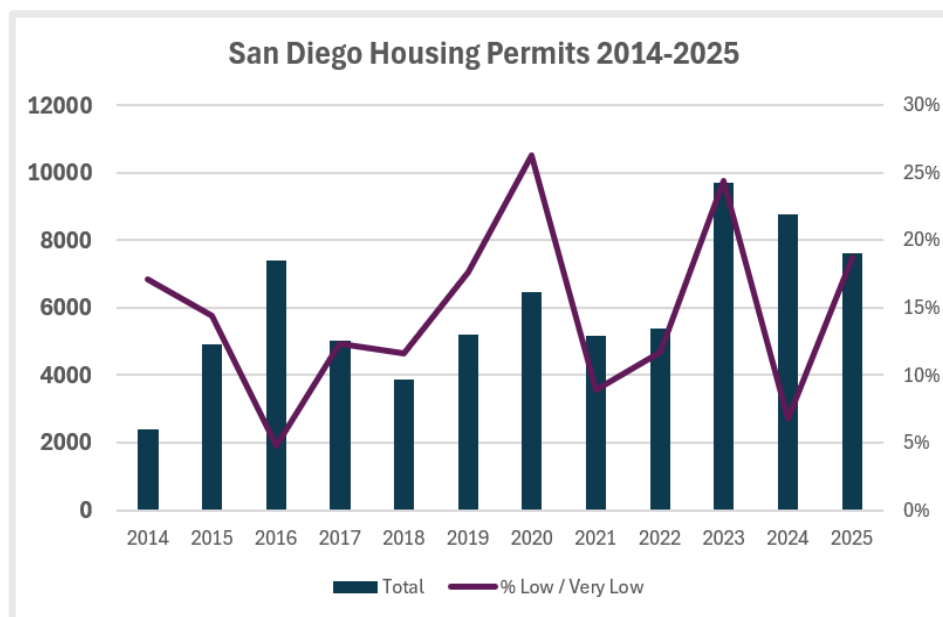
⁷Crystal Chen and Quentin Proctor, “Zumper National Rent Report,” *Zumper Inc.*, June 29, 2026, <https://www.zumper.com/rent-research/national-rent-report>.

that rents have stabilized in San Diego and are now flat or increasing on a month-to-month basis, following the pattern seen across the country. Further, with vacancy rates for San Diego County already at the highest levels this century,⁸ they would have to increase to levels far beyond what have ever been seen historically to result in rents dropping to levels affordable to lower-income San Diegans.

This will not happen. Housing markets do not function to overproduce new supply indefinitely, because developers work to maintain profit margins, not to make housing more affordable. Accordingly, when vacancies/listings rise, developers reduce housing production until supply and demand (absorption rate in housing parlance) are balanced to stabilize rent increases, at which point the market reverts to the long-term upward trend.⁹

Evidence that the drop in rents is short-term and reflects cyclical overbuilding can be seen by looking at the variation in the number of housing permits San Diego issued from 2014 to 2025 (Figure 1). As a result of incentives (“Affordable Housing Now”) that pulled some projects forward, permits peaked in 2023 and have since dropped due to softening rents.

Figure 1. San Diego housing permits issued 2014 to 2025.



Sources: 2014 – 2024 City of San Diego “2025 Annual Report on Homes,” 2025 Housing and Community Development “San Diego Annual Housing Element Progress Report for HCD - Summary”

⁸ Phillip Molnar, “San Diego County Apartment Vacancies Are Now the Highest this Century,” *San Diego Union-Tribune*, July 1, 2026, <https://www.sandiegouniontribune.com/2026/07/01/san-diego-county-apartment-vacancies-are-now-the-highest-this-century/>.

⁹ For a detailed explanation of the decisions landowners and housing developers to turn upzoned land into housing, see: Cameron Murray, “Explainer: Markets Efficiently Delay Building Feasible New Homes,” *Fresh Economic Thinking*, September 22, 2024, <https://www.fresheconomicthinking.com/p/explainer-markets-efficiently-delay>.

Though it was ignored by the KPBS article, Zumper’s reporting notes that rents for apartments stabilized in December of 2025 and have remained flat, which contradicts the Mayor’s assertion that his policies are making San Diego permanently more affordable as opposed to just creating a limited, temporary market correction.

If a simplistic model of supply and demand does not predict rents, then what does?

In a word, INCOMES.

Various economic analyses have looked at the factors that affect housing costs. Cameron Murray¹⁰ analyzed ratios of rents to incomes in Australia, Canada, Japan, the U.K., and the U.S., which shows that rent/income ratios remain relatively stable over long periods of time.

Bucholz et al.¹¹ analyzed regulatory constraints, housing supply, incomes, household sizes and other factors for U.S. markets and came to a similar conclusion. Their research showed that while supply has some marginal effect on rents, housing supply and price growth are comparable regardless of whether markets are “constrained” or “unconstrained” by land use policies. This contradicts the current dominant narrative that deregulation of land use (i.e., upzoning) will lead to an abundant supply of homes affordable to rent-burdened lower-income households.

Mark Zandi, chief economist at Moody’s Analytics, connects income and rents through his concept of “equilibrium vacancy rate.” He posits that when “house prices and rents increase at the pace of household income,” an “equilibrium vacancy rate” is achieved.¹²

This insight holds for San Diego as well. Figure 2 plots median two-bedroom rents and median incomes for San Diego from 2019 to 2025, based on rent data from Renthop¹³ and median incomes from the San Diego Housing Commission¹⁴ and the California Department

¹⁰ Cameron Murray, “Why Doesn’t the Share of Income Spent on Housing Rent Decline as We All Get Richer?” *Fresh Economic Thinking*, November 30, 2025, <https://www.fresheconomicthinking.com/p/why-doesnt-the-share-of-income-spent>,

¹¹ Maximilian Buchholz, Tom Kemeny, Gregory F Randolph, and Michael Storper, “Inequality, Not Regulation, Drives America’s Housing Affordability Crisis,” *Working Paper No. 159*. London: International Inequalities Institute, London School of Economics and Political Science, 2026, <https://researchonline.lse.ac.uk/id/eprint/131070/>.

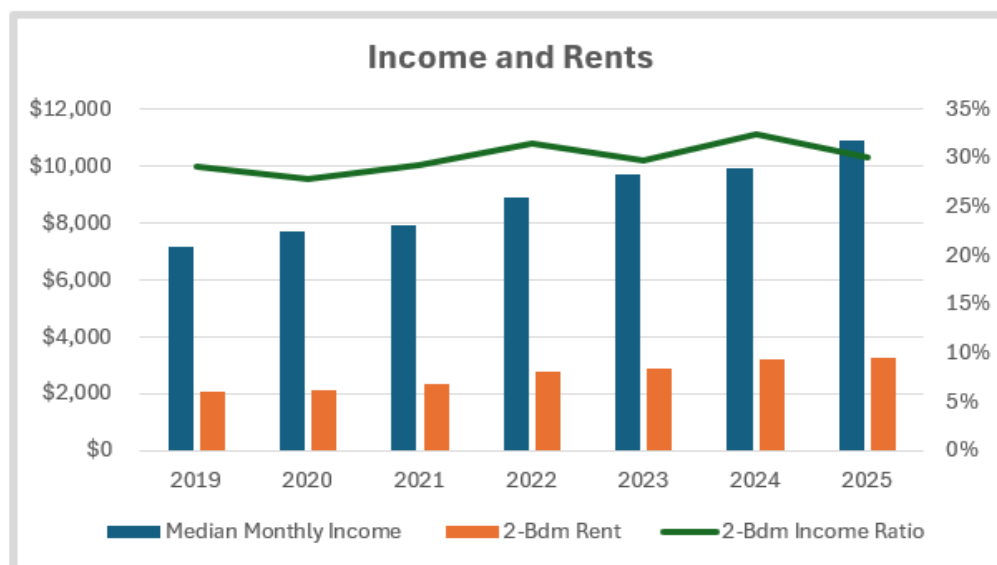
¹² David Wessel, “Where Do the Estimates of a “Housing Shortage” Come From?” *Brookings Institution*, October 21, 2024, <https://www.brookings.edu/articles/where-do-the-estimates-of-a-housing-shortage-come-from/>.

¹³ “Average Rent in San Diego, CA,” *Renthop*, <https://www.renthop.com/average-rent-in/san-diego-ca>.

¹⁴ “Income and Rent Calculations,” *San Diego Housing Commission* 2026, <https://sdhc.org/wp-content/uploads/2026/05/AMI-Income-Rent-Chart-2026.pdf>, and similar.

of Housing and Community Development.¹⁵ During this period, rents for two-bedroom apartments rose dramatically from an average of \$2,098 in 2019 to \$3,273 in 2025, an increase of 56%. However, during this same period, annual median income for a San Diego family of four increased by roughly the same amount, from \$86,300 (\$7,192 per month) to \$130,800 (\$10,900), an increase of 52%. To demonstrate how these changes are coupled, the graph also shows the ratio of rent to income, which is the common metric used to assess housing affordability. Over this period there was a peak of 32% in 2024, which reverted back towards the historical average of 30% in 2025. The short-term variations in rent ratios may be attributed to variations in housing supply, but the overall trends are driven by long present market factors. Supply and demand are never in perfect equilibrium but rather oscillate as the market underproduces or overproduces new units relative to the absorption rate.¹⁶

Figure 2. The relationship between rents and incomes (family of 4) in San Diego.



Is the market meeting the needs of lower-income residents?

Not at all.

What is obscured in the analyses of average rents are the separate trends at different income levels. This is important because although median incomes have risen sharply over

¹⁵ Department of Housing and Community Development. <https://www.hcd.ca.gov/funding/income-limits/state-federal-income-limits/state>.

¹⁶ Brad Hunter, "Excess Supply Of Apartment Deliveries Now, But Possible Shortages By 2026," *Forbes*, February 16, 2026, <https://www.forbes.com/sites/bradhunter/2024/02/16/excess-supply-of-apartment-deliveries-now-but-possible-shortages-by-2026/>.

the past decade, the rate of increase has been much less for low-income (51-80% of area median income - AMI) and very low-income (0-50% AMI) households.¹⁷ As a result, while decreases in rents for luxury units have been favorable to higher-income households, those rent decreases have not reached lower-income families. To get a complete picture of the entire housing market, CoStar¹⁸ breaks down rents, supply, and vacancy rates by property class, which can be related to household incomes and affordability. This breakdown confirms that the oversupply of luxury apartments (4 and 5 star properties) has resulted in a vacancy rate for these properties of 11.5%, requiring landlords to rely on move-in incentives to fill rising vacancies in that category. Lower property classes (1-3 star properties), however, have not seen a similar oversupply of housing, and its associated benefits to renters, with vacancy rates remaining below 5%, in line with historic averages.

It is also worth pointing out that CoStar's more comprehensive rent data contradicts the large rent drops reported by Zumper, with year-over-year growth of 0.6% versus 0.7% nationally. CoStar projects that rents will remain flat through 2027 as the market recovers to historic trends following the large increases in rents during the peak pandemic years (2021-2022).¹⁹

What HAS been the impact of the Mayor's housing policies?

Despite vigorous policymaking to incentivize for-profit developers to build deed-restricted affordable housing (Complete Communities, Density Bonus, and Bonus ADUs), the average production of units affordable to low- and very low-income families has been about 15% of total production over the current and past two housing cycles, a period spanning 2005 to the present.

Figure 3 summarizes San Diego's total housing production (from both for-profit and nonprofit/affordable developers) for different income levels relative to the city's state housing targets (Regional Housing Needs Allocation, or RHNA). This graph shows that San Diego's policy changes, such as Complete Communities, Density Bonus, and Bonus ADUs, have not closed the gap in lower-income housing during the latest RHNA cycle. As noted previously, overproduction of above moderate-income housing causes the market to pull back on new development, not lower rents to levels affordable to lower-income households. Relying on for-profit developers to satisfy San Diego's affordable housing needs is unrealistic, and nonprofit/affordable housing developers are not making up the deficit due to a lack of subsidy funding. This deficit is made worse under the City's weak

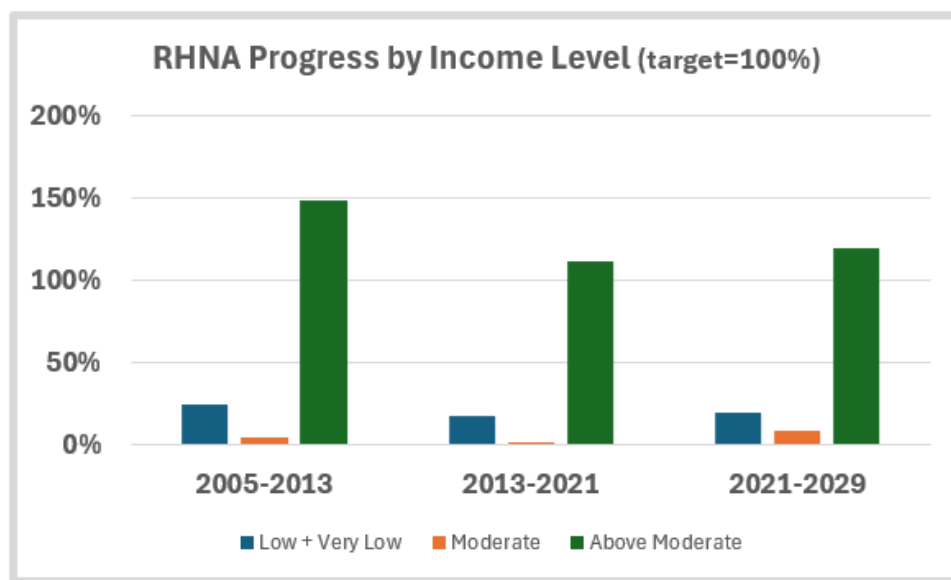
¹⁷ Buchholtz et. al., Ibid.

¹⁸ "Multi-Family Market Report: San Diego," CoStar Group, 2nd Qtr. 2026.

¹⁹ CoStar Group, Ibid.

replacement unit regulations when naturally occurring affordable housing (NOAH) units are demolished to make way for the construction of new housing.²⁰ The most extreme example is that—with the support of then Councilmember Todd Gloria—roughly 10,000 single-room occupancy units (SROs), which provided housing for the lowest-income residents, were demolished during redevelopment of San Diego’s downtown, none of which were replaced.²¹

Figure 3. Comparison of RHNA targets to new housing units permitted in San Diego by income level 2005-present.



RHNA targets for the 2021-2029 housing cycle (6th cycle) are prorated to the end of 2024, which is when the San Diego City Planning Department last updated its RHNA progress in the Annual Report on Homes.

Where policy decisions have made a difference is in allowing developers to meet their affordable housing requirements through deed-restricted moderate-income housing. This overemphasis on moderate-income housing is based on the premise that the city does not have an adequate number of existing moderate-income housing units and that we are not producing enough housing in that category. But we do not know that for a fact, because there is no analysis or reporting of the inventory of moderate-income housing units that are available through the market, either as market-rate new builds or aging housing stock.

²⁰ James Dehaven, “Affordable Housing Additions Don’t Keep Up with Subtractions,” *San Diego Union-Tribune*, November 18, 2016, <https://www.sandiegouniontribune.com/2016/11/18/affordable-housing-additions-dont-keep-up-with-subtractions/>.

²¹ David Garrick, “Disappearing Bargain-rate Hotels Worsen Homelessness,” *San Diego Union-Tribune*, February 6, 2016, <https://www.sandiegouniontribune.com/2016/02/06/disappearing-bargain-rate-hotels-worsen-homelessness/>.

Given that deed-restricted moderate-income units are essentially rented at market rates,²² developers—when given the choice—appear to be shifting from the production of low- and very low-income units to moderate-income units to satisfy their affordable housing requirements.²³

If current policies are not meeting affordable housing needs, then what is the solution?

We take San Diego’s affordability challenges seriously, and we support new housing that meets those needs at appropriate scale.²⁴ We do, however, question the simple “supply and demand” and “filtering” narratives that have been used to promote land use deregulation policies without good faith efforts to objectively evaluate whether these policies are producing their purported outcomes.

This paper has shown that the housing market is cyclical; that developers will slow down building when the supply of housing exceeds demand; that rapidly rising incomes are associated with rapidly rising rents; that an increasing population of high-income families pushes up rents; and that income inequality drives unaffordability, not market-rate housing production. It needs to be acknowledged that with the current regulations and investments, the City of San Diego will not meet the needs of lower-income families.

Nonetheless, we believe the city can do better if it recognizes the reality of how housing markets function. Incentivizing the market certainly has a role to play in housing policy, but not at the expense of creating and preserving affordable housing. A detailed discussion of various policy options is outside the scope of this report, but some options to consider include:

- Ensuring that lower-income housing demolished by new development is effectively, fairly, and fully replaced;
- Capturing the land value increase of upzoning for public benefit, including parks, affordable housing, and other infrastructure, instead of giving private landowners a financial windfall;
- Doing a better job of preserving naturally occurring affordable housing (NOAH), instead of tearing it down to build new luxury rental housing in the

²² *San Diego Housing Commission 2026*, Ibid.

²³ “2025 Annual Report on Homes,” *City of San Diego Official Website*, p. 32, https://www.sandiego.gov/sites/default/files/2025-09/final_2025-annual-report-on-homes.pdf.

²⁴ “Missing Middle Housing,” *Opticos Design*, <https://opticosdesign.com/missing-middle-housing/>.

hope that it will somehow “filter down” to units affordable to lower-income households; and

- Eliminating moderate-income deed incentives that cannibalize low- and very low-income housing development in favor of what is essentially market-rate housing.

The above list is not exhaustive, but whichever options are considered must reflect, as demonstrated in this paper, that incomes are the primary driver of housing costs, not land use regulations.

Authors

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