

SAN DIEGO CAPITAL MARKETS

Economic Indicators

	MY 17	MY 18	12-Month Forecast
San Diego Employment	1.52M	1.52M	▲
San Diego Unemployment	4.2%	3.7%	▼
U.S. Unemployment	4.3%	3.9%	▼

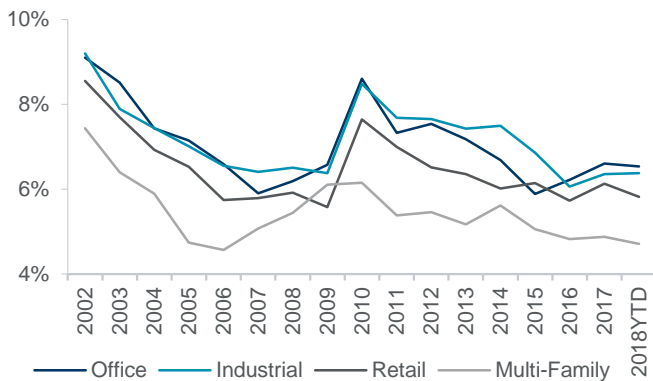
June 2017/2018 used to represent MY for San Diego & July for U.S.

Market Indicators

	MY 17	MY 18	12-Month Forecast
Office*	11.8%	10.8%	▼
Industrial*	4.2%	4.1%	▼
Retail*	3.9%	3.5%	▼
Multi-Family**	2.2%	4.1%	■

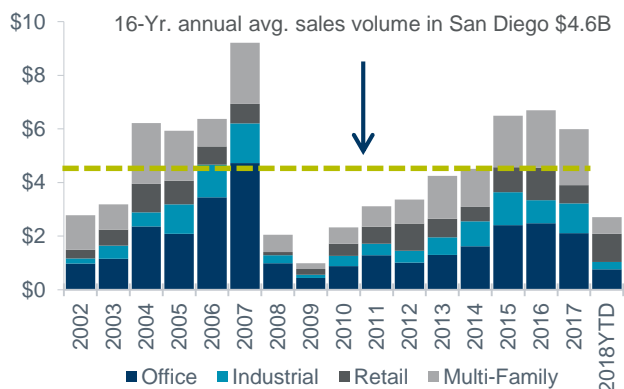
*Direct vacancy excl. sublease **MarketPointe Realty Advisors March 2018

Cap Rates in Comparison



Source: RCA, sales \$10M+.

Sales Volume in \$Billions



Source: RCA, sales \$10M+.

Economy

The San Diego employment market continued to record job growth, adding 22,500 jobs (+1.5%) year-over-year through June 2018.¹ Of the 22,500 jobs added, 9,300 or 41% were office jobs consisting of two sectors: professional and business services and financial activities. During the same time period, the unemployment rate decreased 50 basis points (bps), dropping to 3.7% and is currently 220 bps below the 28-year average of 5.9%. All employment sectors are expected to grow at a combined growth rate of 1.7% in 2018. San Diego's economy of \$215.3 billion² as measured by gross regional product is forecasted to grow an additional 4.3% in 2018, above its 10-year average of 2.3%.³

Sales Activity

San Diego's commercial real estate investment market transaction volume for office, industrial, retail and multi-family properties \$10 million and greater reached nearly \$2.7 billion in the first half of 2018. Total annual transaction activity has been above the 16-year long-term annual average of \$4.6 billion for the last three consecutive years.

The mid-year 2018 sales volume of \$2.7B was up 20% compared to the mid-year 2017 (\$2.2B) volume but was slightly behind the pace of mid-year sales of 2015 (\$3.1B) and 2016 (\$3.5B).⁴ The reduction in overall sales volume across all product types combined compared to 2015 and 2016 highs can be attributed to the cautious approach taken by investors in conjunction with a lack of quality investment offerings so far in 2018.

Institutional investors have shied away from suburban office product even as underlying fundamentals continue to improve in the vast majority of submarkets. Private high net worth investors have stepped in to acquire some of these offerings, capitalizing on the lack of competition from the larger institutions. Private investors have been the leading buyers in 2018 accounting for 42% of sales followed by cross-border (31%) and institutional (17%) buyers. Private investors were also the leading buyers (54%) in 2017. French, Chinese and Canadian investors have contributed the most to cross-border activity over the last 18 months.

Mid-year 2018 sales volume saw positive growth compared to last year for office and retail properties yet recorded a decline in volume for industrial and multi-family sales. The growth in retail sales is a bit of a false signal as it came from the Unibail acquisition of Westfield. Overall, retail investors have been cautious in light of a transitioning industry that has resulted in numerous retailers closing doors and creating tenant demand uncertainty. Industrial and multi-family product continues to be in high demand, although a lack of offerings have led to lagging sales volume.

Among notable office sales in the first half of 2018 highlighting investor willingness to pay premium for quality assets were: Gateway at Torrey Hills in Del Mar Heights at \$531 per square foot (psf) and The Campus at Villa La Jolla in La Jolla at \$490 psf. Pendulum Property Partners' \$100 million acquisition of a Kearny Mesa building traded at \$307 psf.

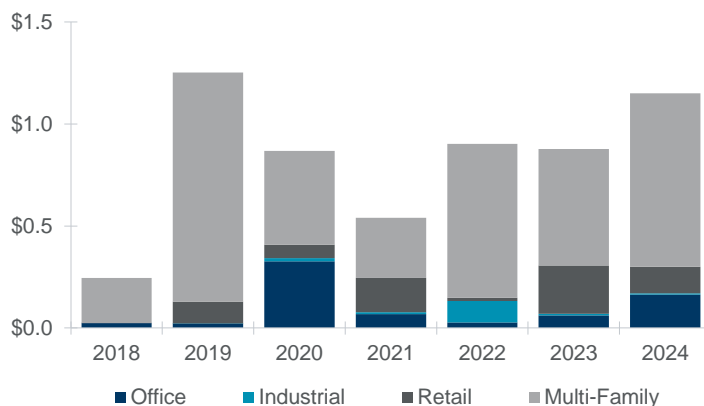
The average cap rate over the last four quarters has been the lowest for multi-family properties (4.8%), followed by retail (6.0%), industrial (6.5%) and office (6.5%). There are then some cap rate movements that are a function of changes in asset quality and not necessarily a fall in asset prices. Investment activity is expected to gain overall momentum yet growth will most likely not be uniform across all property types and deal structures as investors are more selective with their capital in the expansion cycle that might become the longest ever.

Sources: ¹www.bls.gov ²bea.gov GDP as of 2016. ³Moody's Analytics economy.com ⁴RCA, sales \$10M+.



San Diego Annual Loan Maturity by Product Type (\$B)

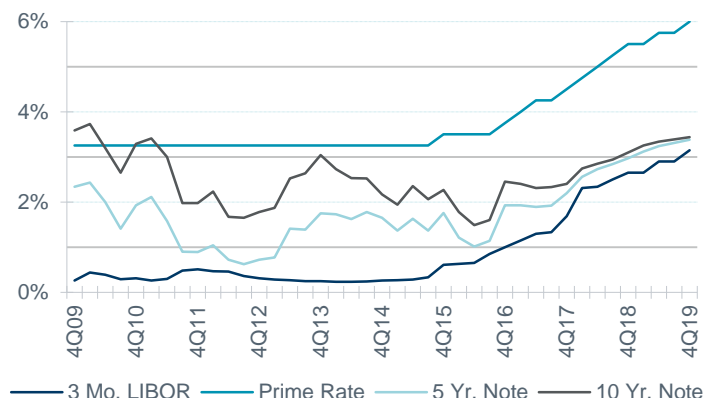
\$4.3B IN MULTI-FAMILY LOANS ARE DUE THROUGH THE END OF 2024



Source: Trepp, LLC – 7/5/2018.

Interest Rates – U.S. Economic Forecast

RATES PROJECTED TO SLOWLY INCREASE OVER NEXT 2 YEARS



Source: Wells Fargo U.S. Economic Forecast – 7/27/2018.

Key Sale Transactions January – June of 2018

PROPERTY	SF	BUYER	SELLER	SALE PRICE (PRICE PER SF)	SUBMARKET	PROPERTY TYPE
Broadway Plaza	356,335	Protea Properties	Kimco Realty Corporation	\$58,500,000 (\$164)	Chula Vista – West	Retail
Stonecrest	326,934	Pendulum Property Partners	TIAA-CREF	\$100,300,000 (\$307)	Kearny Mesa	Office
Bella Posta	308,912	Sares-Regis Group	West Star Properties	\$97,750,000 (\$316)	East County	Multi-Family
Sofi Shadowridge	300,502	Pacific Urban Residential	Invesco	\$115,000,000 (\$383)	Vista	Multi-Family
La Pacifica	226,220	First Industrial Realty Trust	RAF Pacifica Group	\$36,700,000 (\$162)	Carlsbad	Industrial
Sierra Vista Apartments	220,320	National Community Renaissance	Pine Ridge Partners	\$27,311,000 (\$124)	San Marcos	Multi-Family
The Campus on Villa La Jolla	198,000	Goldstein Planting Investments	La Jolla Village Professional Center Associates	\$97,100,000 (\$490)	La Jolla	Office
Gateway at Torrey Hills	197,832	The Irvine Company	The Prudential Insurance Company of America	\$105,000,000 (\$531)	Del Mar Heights	Office
2819 Loker Ave. E.	161,310	BLT Enterprises	Hines Global REIT	\$38,220,000 (\$237)	Carlsbad	Industrial
Activity Business Center	160,943	BKM Capital Partners	Lincoln Property Company	\$28,100,000 (\$175)	Miramar	Industrial

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