

SAN DIEGO CAPITAL MARKETS

Economic Indicators

	YE 2017	YE 2018	12-Month Forecast
San Diego Employment	1.53M	1.57M	▲
San Diego Unemployment	3.3%	3.2%	▼
U.S. Unemployment	4.1%	3.9%	▼

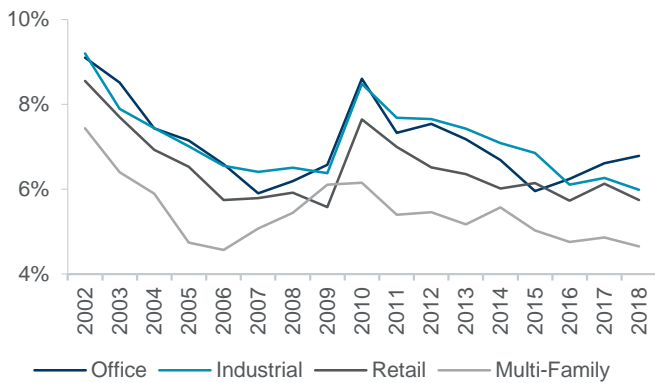
December 2017/2018 used to represent YE for San Diego.

Market Indicators

	YE 17	YE 18	12-Month Forecast
Office*	11.2%	11.4%	▼
Industrial*	3.9%	4.4%	▼
Retail*	3.6%	4.0%	▼
Multi-Family**	2.7%	3.7%	■

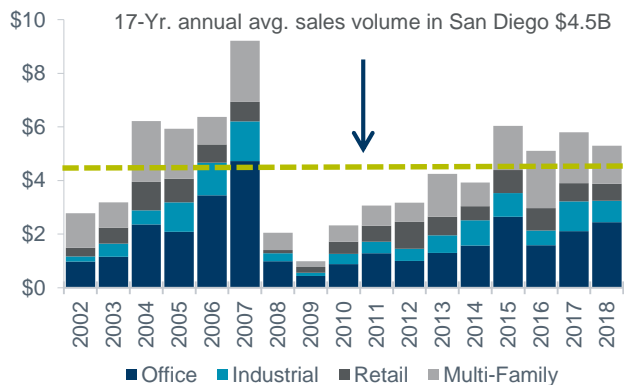
*Direct vacancy excl. sublease **MarketPointe Realty Advisors September 2018.

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 28,400 jobs (+1.9%) year-over-year through December 2018.¹ Of the 28,400 jobs added, 12,600 (or 44%) were in professional and business services sector. During the same time period, the unemployment rate decreased 10 basis points (bps), dropping to 3.2%. Also worth noting, the current rate is 270 bps below the 28-year average of 5.9%. All employment sectors are expected to grow at a combined growth rate of 1.3% in 2019. San Diego's economy of \$231.8 billion² as measured by gross regional product is forecasted to grow an additional 3.1% in 2019, above its 10-year average of 2.7%.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 over \$5.3 billion in 2018. Total annual transaction activity has been above the 17-year long-term annual average of \$4.5 billion for the last four consecutive years.

The year-end 2018 sales volume of \$5.3B was down 9% compared to the year-end 2017 (\$5.8B) volume but was 4% above the year-end volume of 2016 (\$5.1B).⁴ Office sales volume increased in 2018 (+16%) compared to the previous year, while industrial (-29%), multi-family (-25%) and retail (-6%) sales volume all decreased overall in 2018.

The increase in office sales volume can be attributed to a few aggressive investors. The Irvine company made four separate purchases of office projects in San Diego (three in Del Mar Heights and one in UTC), totaling 850,000 sf and \$524 million, over one-fifth of the total office sales volume for the year. Additionally, Singapore-based Ascendas-Singbridge entered the San Diego market buying a bulk portfolio from Starwood Capital Group with properties in San Diego, Oregon and North Carolina. The San Diego portion of the portfolio contained nearly 1.1 million square feet (msf) of office product in the Rancho Bernardo and Sorrento Mesa submarkets valued at \$356 million.

While retail real estate sales volume decreased in for the fourth year in a row, Stockdale Capital Partners purchased the Horton Plaza mall in Downtown San Diego for \$175 million. However, the new owners plan to redevelop the unique architectural project into a mixed office and retail complex. 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.

Also this year, RAF Pacifica sold one of the largest industrial portfolios ever in Southern California to the Blackstone Group for \$170 million. The one million sf portfolio consisted of industrial buildings in North County San Diego and Temecula. The largest multi-family deal was the sale of Alterra & Pravada ground lease for \$149.5 million. The combined 527 unit projects are located adjacent to Grossmont Trolley Station.

Across all property types, private investors comprised 60% of buyers compared to just 46% of sellers in 2018. The next largest group were institutional investors, comprising 24% of buyers but 32% of sellers.

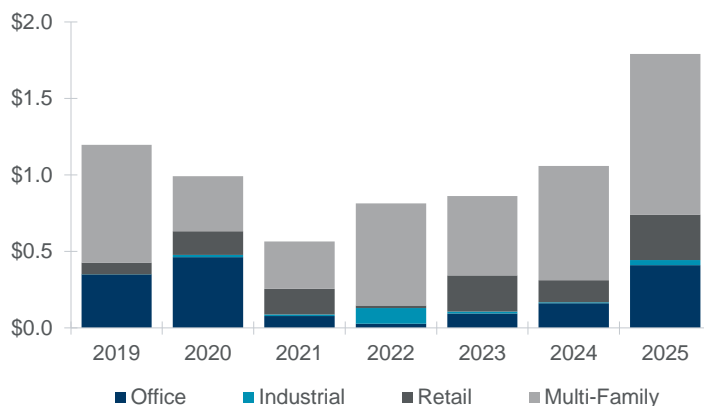
The average cap rate over the last four quarters has been the lowest for multi-family properties (4.7%), followed by retail (5.7%), industrial (6.3%) and office (7.0%). There are then some cap rate movements that are a function of changes in asset quality and not necessarily a fall in asset prices. Investment 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 2017. ³Moody's Analytics economy.com 11/2018. ⁴RCA, sales \$10M+.



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

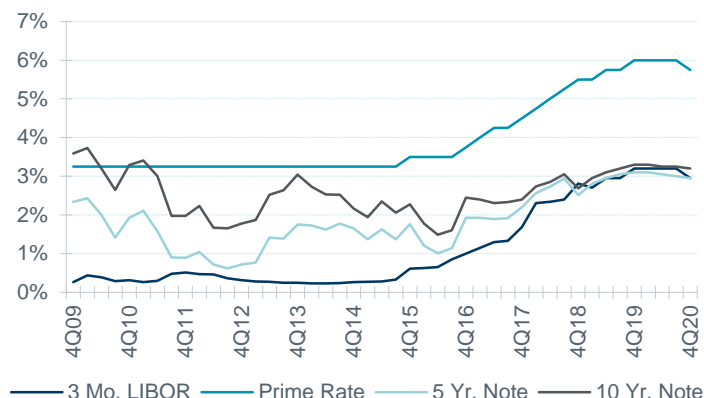
\$4.3B IN MULTI-FAMILY LOANS ARE DUE THROUGH THE END OF 2025



Source: Trepp, LLC – 1/9/2019.

Interest Rates – U.S. Economic Forecast

RATES PROJECTED TO SLOWLY INCREASE OVER NEXT 2 YEARS



Source: Wells Fargo U.S. Economic Forecast – 1/8/2019.

Key Sale Transactions July – December of 2018

PROPERTY	SF	BUYER	SELLER	SALE PRICE (PRICE PER SF)	SUBMARKET	PROPERTY TYPE
West Coast Portfolio to Ascendas	1,055,715	Starwood Capital Group	Ascendas-Singbridge Group	\$356,000,000 (\$337)	Rancho Bernardo, Sorrento Mesa	Office
RAF Portfolio	1,040,170	The Blackstone Group	RAF Pacifica	\$170,000,000 (\$163)	North County	Industrial
Horton Plaza	895,241	Stockdale Capital Partners	Westfield Group	\$175,000,000 (\$195)	Downtown	Retail
Stockbridge Otay Mesa Portfolio	703,215	BKM Capital Partners	Stockbridge Capital	\$71,555,000 (\$102)	Otay Mesa	Industrial
Alterra & Pravada	615,521	TruAmerica / Intercontinental	Fairfield Residential	\$149,500,000 (\$243)	East County	Multi-Family
The Towers – North & South	564,962	Shorenstein Realty Investors	Prudential / McCarthy Cook	\$186,000,000 (\$329)	Sorrento Mesa	Office
Sorrento Creative	318,969	Longfellow Real Estate Partners	Parallel Capital Partners	\$112,000,000 (\$351)	Sorrento Valley	Industrial
Sunroad Corporate Center	304,310	The Irvine Company	Sunroad Enterprises	\$180,000,000 (\$592)	UTC	Office
Liberty Station	302,972	Seligman Western	McMillin	\$158,980,000 (\$525)	Point Loma-Sports Arena	Retail
Paseo Del Mar	232,035	The Irvine Company	Metzler Real Estate	\$166,000,000 (\$715)	Del Mar Heights	Office

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