

MARKETBEAT San Diego

Private Capital Investment Report Year - End 2018



SAN DIEGO PRIVATE CAPITAL INVESTMENT

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%	▼

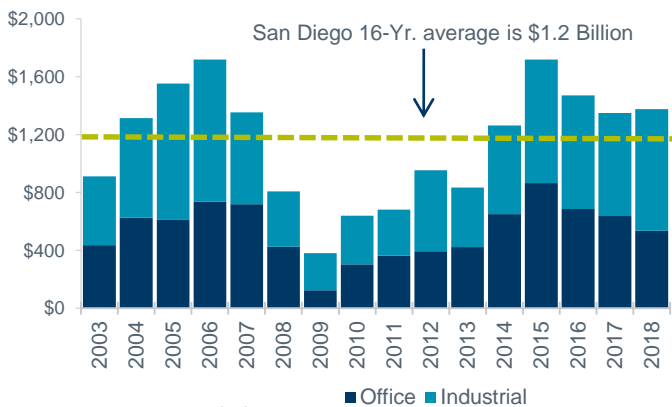
December 2017/2018 used to represent YE for San Diego.

Market Indicators

	Office	Industrial	12-Month Forecast
Sales Volume	\$535M	\$842M	▲
\$/sf	\$231	\$152	▲
Avg. Asking Rents / SF	\$3.08	\$1.11	▼
Direct Vacancy	11.4%	4.4%	▼

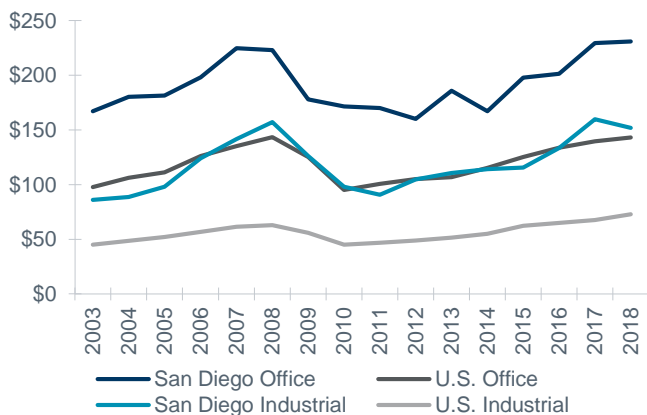
Direct vacancy excl. sublease. Office rents reported as full service. Industrial rents reported as triple net.

Sales Volume in \$Millions



Source: RCA, sales between \$1-\$20M.

Average Price Per Square Foot



Source: RCA, sales between \$1-\$20M.

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 transactions for office and industrial sales between \$1 and \$20 million reached nearly \$1.4 billion in volume in 2018, modestly outpacing 2017 with 2.0 % growth year-over-year. Industrial sales were the main driver of total sales volume in 2018, accounting for approximately 60%. The average price per square foot (\$/sf) for both office and industrial properties have remained stable at or above pre-recession highs, with office sales \$/sf finishing 2018 at \$231/sf and industrial sales at \$152/sf respectively. Total annual deal volume in San Diego has been above the 16-year long-term annual average of \$1.2 billion for the last five consecutive years, a trend that is expected to continue throughout 2019.

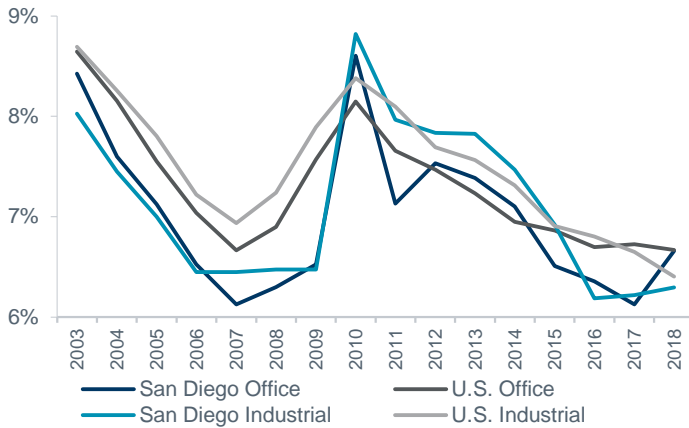
Unlike 2017, where institutional investors shied away from competing on deals in the sub \$20 million range, in 2018 institutional capital investment increased from 13% in 2017 to 19% share of the total activity in the private capital sector. Both institutional and private capital remain bullish on the San Diego market with institutions continuing to show the willingness to drop below traditional price thresholds to compete on a broader product base. With limited supply of inventory, institutional capital and private capital is expected to continue to compete for a limited supply of product through 2019. There continues to be a large contingent of exchange buyers, both inside and outside of the market that continue to target and pay premiums on quality credit and stabilized cash flow. Additionally, value-add investments will continue to garner the most interest throughout 2019.

Debt Market

Long-term interest rates decreased in late 2018, and the 10 Year U.S. Treasury continues to stay below 3.00% for the time being. Libor ended the year at 2.51% but could potentially still hit the 3.00% mark, depending on the Fed's further actions on potential rate hikes. Life company debt originations continued strong through the end of 2018 as many group allocations did not completely fill up, and others actually raised allocations through separate capital raises. Life companies still lead the demand in the fixed rate category of originations when compared to CMBS. Given the decrease of the U.S. Treasury, borrowers should be looking to lock in fixed rate long-term financing early in 2019. CMBS lenders have continued to be liquid and quote very aggressively on IO and leverage, and we expect that to maintain through early 2019. Banks continue to operate in a heavily regulated environment, keeping them still fairly conservative in their underwriting, especially with leverage. We expect this to continue through 2019; however, bank capital still remains the most attractive option for borrowers who are not focused on pushing leverage. Debt funds and private finance companies still remain very liquid and were extremely aggressive during 4Q 2018. Debt funds have raised allocations for 2019 and will be very aggressive to get capital out early in the year.

Sources: ¹www.bls.gov ²bea.gov GDP as of 2017. ³Moody's Analytics economy.com 11/2018. ⁴RCA, sales \$1-20M.

Average Cap Rate OFFICE AND FLEX COMBINED



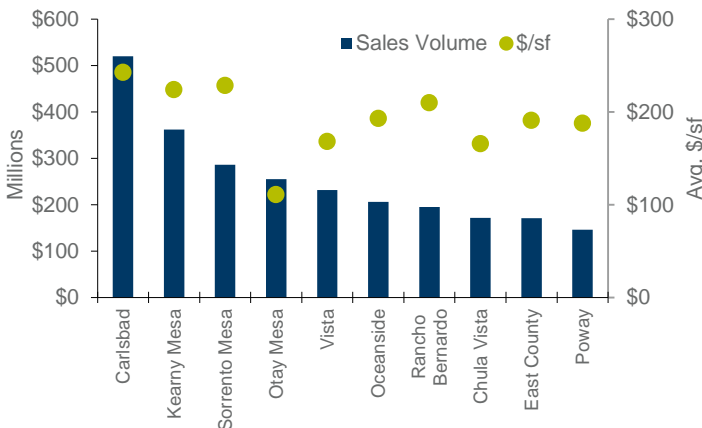
Source: RCA, all sales.

Top Buyers in San Diego (\$M)

Company	Sales Volume	# Properties
BKM Capital Partners	\$71.6	6
Rexford Industrial	\$68.4	5
Blackstone	\$67.3	9
Sorrento West Properties (General Atomics)	\$60.8	7
Roy Doumani	\$54.9	4
IDS Real Estate Group	\$36.5	3
Harbor Associates	\$33.3	2
Cush Enterprises	\$29.9	3

Source: RCA, sales between \$1-\$20M. Office & Industrial combined since January 2017.

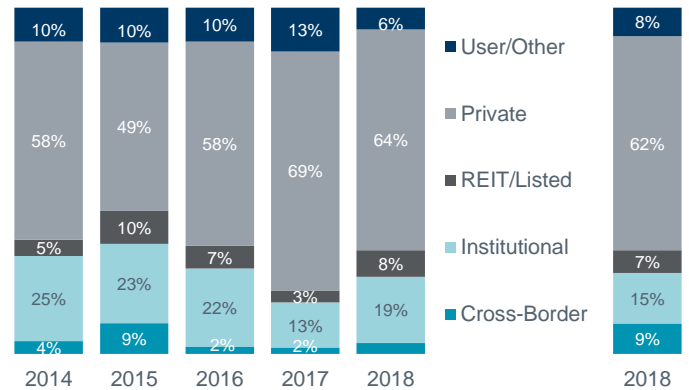
Sales Volume by Submarket in San Diego TOP TEN SUBMARKETS LAST 3 YEARS



Source: RCA, sales between \$1-\$20M. Office & Industrial combined.

Who is Buying Assets in San Diego?

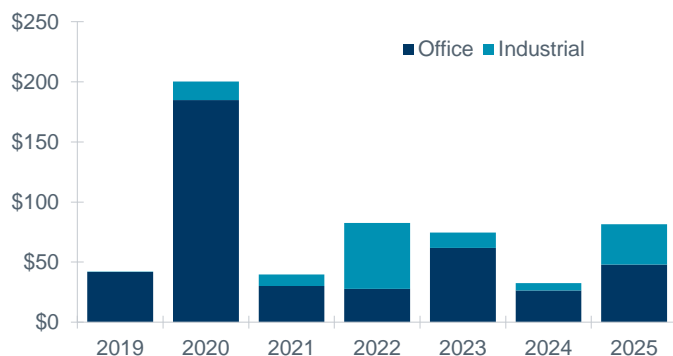
PRIVATE INVESTORS ARE A GROWING PROPORTION OF BUYERS



Source: RCA, sales \$1-\$20M. Office & Industrial combined. Due to rounding, may not add up to 100%.

San Diego Office & Industrial Annual Loan Maturity (\$M)

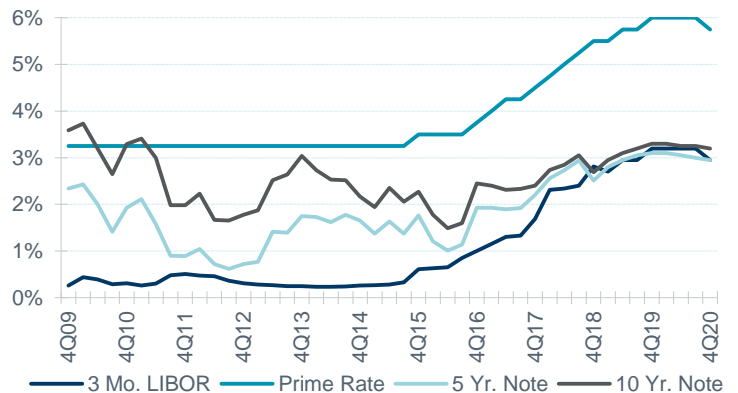
\$185M IN OFFICE LOANS WILL BE DUE IN 2020



Source: Trepp, LLC - 1/15/2019, original loan value between \$1-20M.

Interest Rates - U.S. Economic Forecast

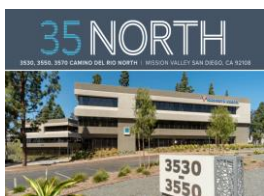
RATES PROJECTED TO SLOWLY INCREASE OVER NEXT TWO YEARS



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

Key Investment Sales Second Half 2018

35 North 3530-3570 Camino Del Rio N.



Property Type: Office
 Sale Date: September 2018
 Buyer: CIF Group
 Seller: Highbrook Investors
 Sale Amount: \$19,750,000
 \$/sf: \$209
 Cap Rate: 6.30%
 Square Feet: 94,701
 Submarket: Mission Valley

2002 Jimmy Durante Blvd.



Property Type: Office
 Sale Date: July 2018
 Buyer: Hinds Investments LP
 Seller: Westech Realty Co
 Sale Amount: \$8,238,000
 \$/sf: \$513
 Cap Rate: 4.85%
 Square Feet: 16,065
 Submarket: Del Mar

Plaza at Eastlake 2300 Boswell Rd.



Property Type: Office
 Sale Date: November 2018
 Buyer: Harbor Associates, LLC
 Seller: Iron Point Partners, LLC
 Sale Amount: \$18,000,000
 \$/sf: \$138
 Cap Rate: Value-Add
 Square Feet: 130,324
 Submarket: Chula Vista - East

9320 & 9340 Hazard Way



Property Type: Flex
 Sale Date: August 2018
 Buyer: American Sunroof Corporation
 Seller: Pajama Properties, LLC
 Sale Amount: \$7,716,000
 \$/sf: \$166
 Cap Rate: 6.70%
 Square Feet: 46,548
 Submarket: Kearny Mesa

16990 Goldentop Rd.



Property Type: Industrial
 Sale Date: October 2018
 Buyer: Navarra Properties
 Seller: Westcore Properties
 Sale Amount: \$18,000,000
 \$/sf: \$271
 Cap Rate: 5.67% *Estimated*
 Square Feet: 66,448
 Submarket: Rancho Bernardo

The Grand 785 Grand Ave.



Property Type: Office
 Sale Date: July 2018
 Buyer: Keith Harrison
 Seller: Carlsbad Grand LLC
 Sale Amount: \$6,540,000
 \$/sf: \$338
 Cap Rate: 5.20%
 Square Feet: 19,363
 Submarket: Carlsbad

One Carlsbad 2382 & 2386 Faraday Ave.



Property Type: Office
 Sale Date: July 2018
 Buyer: Coseo Properties
 Seller: Rialto Capital Management
 Sale Amount: \$17,463,000
 \$/sf: \$175
 Cap Rate: Value-Add
 Square Feet: 99,787
 Submarket: Carlsbad

9155 Brown Deer Rd.



Property Type: Industrial
 Sale Date: August 2018
 Buyer: PacVentures
 Seller: Harsch Investment Properties
 Sale Amount: \$5,513,000
 \$/sf: \$162
 Cap Rate: 5.50%
 Square Feet: 34,080
 Submarket: Miramar

3860 Calle Fortunada



Property Type: Flex
 Sale Date: August 2018
 Buyer: Hermon Fortunada, LLC
 Seller: Carleton Management, Inc.
 Sale Amount: \$11,075,000
 \$/sf: \$182
 Cap Rate: 6.98%
 Square Feet: 60,711
 Submarket: Kearny Mesa

6349 Paseo Del Lago



Property Type: Flex
 Sale Date: July 2018
 Buyer: Hedda Marosi
 Seller: Trump Card Inc.
 Sale Amount: \$5,050,000
 \$/sf: \$259
 Cap Rate: 5.88%
 Square Feet: 19,462
 Submarket: Carlsbad

10840 Thornmint Rd.



Property Type: Industrial
 Sale Date: November 2018
 Buyer: Navarra Properties
 Seller: Mcewen-otay LLC
 Sale Amount: \$8,800,000
 \$/sf: \$203
 Cap Rate: 6.40%
 Square Feet: 43,423
 Submarket: Rancho Bernardo

1235 Activity Dr.



Property Type: Industrial
 Sale Date: October 2018
 Buyer: Gildred Companies
 Seller: Song Rambolt Living Trust
 Sale Amount: \$3,750,000
 \$/sf: \$150
 Cap Rate: 5.20%
 Square Feet: 24,944
 Submarket: Vista

SUBMARKET MAP
SAN DIEGO



About Cushman & Wakefield

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