

SAN DIEGO CAPITAL MARKETS

Economic Indicators

	MY 18	MY 19	12-Month Forecast
San Diego Employment	1.49M	1.51M	▲
San Diego Unemployment	3.6%	3.3%	▼
U.S. Unemployment	3.9%	3.6%	▼

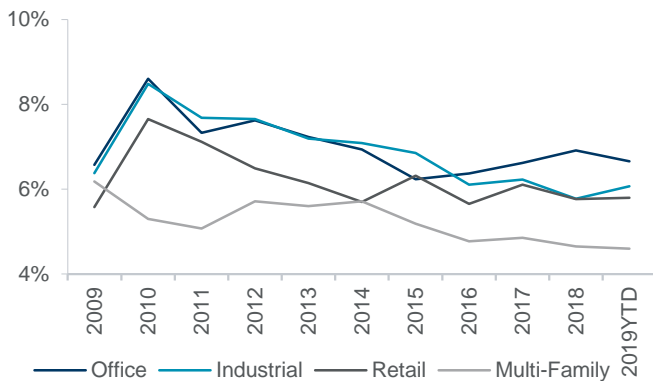
June 2018/2019 used to represent MY for San Diego.

Market Indicators

	MY 18	MY 19	12-Month Forecast
Office*	10.8%	11.4%	▲
Industrial*	4.1%	4.4%	▲
Retail*	4.0%	4.4%	■
Multi-Family**	4.1%	4.4%	▲

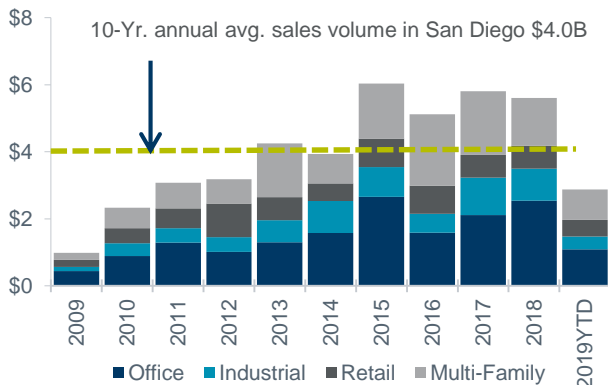
*Direct vacancy excl. sublease **MarketPointe Realty Advisors March 2019.

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 25,700 jobs (+1.7%) year-over-year (YOY) through June 2019.¹ Of the 25,700 jobs added, 8,000 (or 31%) were in the professional and business services sector. The unemployment rate was 3.3% in June, 60 bps higher than last month and 30 basis points (bps) lower than a year ago, and 250 bps below the 29-year average of 5.8%. All employment sectors are forecasted to grow at a combined growth rate of 1.3% in 2019 and 0.9% in 2020. San Diego's economy of \$231.8 billion² as measured by gross regional product is forecasted to grow an additional 1.9% in 2019 and 1.7% in 2020, below 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 nearly \$2.9 billion through the first half of 2019, the highest mid-year sales volume since 2007. Total mid-year transaction activity has been above the 10-year long-term mid-year average of \$1.8 billion for the last five consecutive years. The mid-year 2019 sales volume was up 45% compared to the mid-year 2018 (\$2.0B) volume and 28% above the mid-year volume of 2017 (\$2.2B).⁴ In the first half of 2019, sales volume increased among all property types compared to the first six months of 2018. Retail sales volume increased the most at 95%, followed by multi-family (46%), industrial (37%) and office (31%).

Although office sales volume experienced the smallest YOY increase, it comprised the largest portion (\$1.1 billion or 38%) of overall volume of \$2.9 billion, bolstered by the \$513.5 million sale of the 724,000-square foot La Jolla Commons. The next largest sale in the first half of 2019 was at the Liberty Station for \$76.8 million, consisting of four office properties.

Multi-family deals were the second largest portion (31%) of total sales volume with \$904 million traded. The first half of 2019 included three sales of at least \$140 million: Hanover Mission Gorge, Regents La Jolla and Millennium Mission Valley. Two of these three sold are new developments that completed construction in 2018. Retail sales accounted for \$499 million or 17% of the total sales in the first half of 2019. The \$150-million sale of Clairemont Town Square was the largest retail deal for this period. Another notable deal was the \$66.2 million sale of Vista Village.

Though it represented the smallest portion of total sales volume or 13%, the industrial market was very active. In South County, Murphy Development company sold two recently constructed buildings in Otay Mesa for \$33 million while KKR acquired four buildings that make up South County Distribution Center in Chula Vista in two separate deals totaling over \$50 million. In June, Lincoln Property Company acquired the Cubic Corporation campus in Kearny Mesa for \$35 million with plans to redevelop the site.

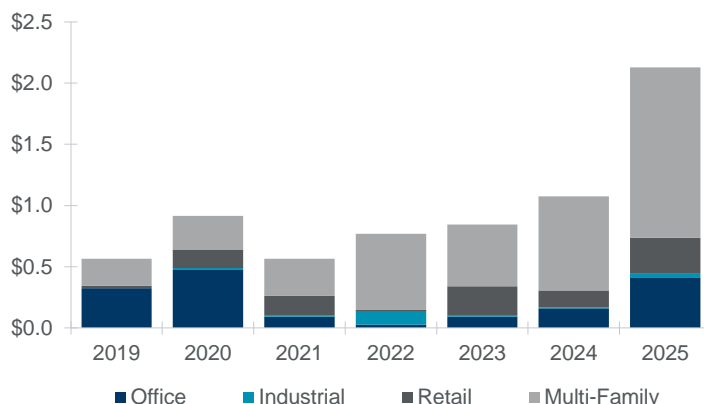
Across all property types, private investors comprised 50% of buyers in the first half of 2019 (vs. 58% in 2018), followed by REITs and listed funds (31% vs. 7% in 2018). Institutional investors accounted for the greatest share of sellers (50% vs. 34% in 2018), followed by private investors (41% vs. 45% in 2018). The average cap rate in the first half has been the lowest for multi-family properties (4.6%), followed by retail (5.8%), industrial (6.1%) and office (6.7%). 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.

Sources: ¹www.bls.gov ²bea.gov GDP as of 2017. ³Moody's Analytics economy.com 5/2019. ⁴RCA, sales \$10M+.



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

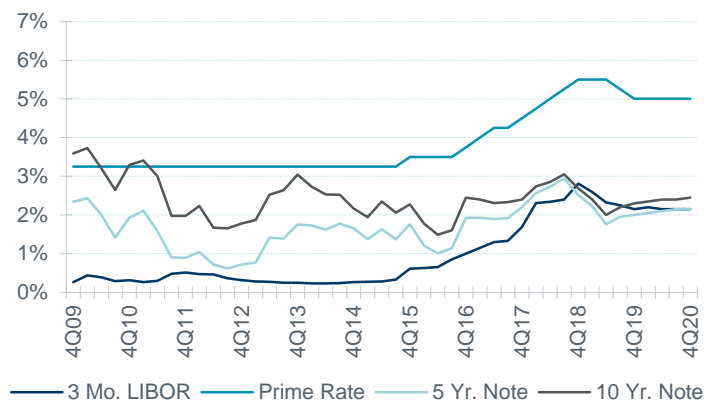
\$4.1B IN MULTI-FAMILY LOANS ARE DUE THROUGH THE END OF 2025



Source: Trepp, LLC – 7/8/2019.

Interest Rates – U.S. Economic Forecast

RATES PROJECTED TO SLOWLY INCREASE OVER NEXT 2 YEARS



Source: Wells Fargo U.S. Economic Forecast – 7/11/2019.

Key Sale Transactions January – June of 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE (PRICE PER SF)	SUBMARKET	PROPERTY TYPE
La Jolla Commons	724,000	American Assets Trust	Hines / JPMorgan Chase	\$513,500,000 (\$709)	UTC	Office
Hannover Mission Gorge	441,000	R&V Management	The Hanover Company	\$149,000,000 (\$338)	East County	Multi-Family
Clairemont Town Square	431,037	Merlone Geier Partners	State Teachers Retirement System of Ohio	\$150,000,000 (\$348)	Kearny Mesa	Retail
Regents La Jolla	330,991	Raintree Partners	LaSalle Investment Management	\$141,500,000 (\$428)	UTC	Multi-Family
South County Distribution Center*	328,943	KKR	Black Creek Group Stos Partners	\$50,100,000 (\$152)	Chula Vista	Industrial
8500 Kerns St. & 2600 Melksee St.	201,020	LaSalle Investment Management	Murphy Development Company	\$33,050,000 (\$164)	Otay Mesa	Industrial
Vista Village	195,009	CFT Bista LLC	SITE Centers	\$66,200,000 (\$339)	Vista	Retail
Liberty Station – Office	181,171	IDS Real Estate Group	The Corky McMillin Companies	\$76,800,000 (\$424)	Point Loma/Sports Arena	Office
Mesa View Plaza	111,268	Coast Income Properties / Washington Capital	Stockbridge Capital Group	\$39,100,000 (\$351)	Kearny Mesa	Office
3248 Lionshead Ave.	55,573	Street Properties, LLC	Badiee Development	\$14,450,000 (\$260)	Carlsbad	Industrial

*KKR Acquired 4 buildings in the same project in two separate sales.

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