

MARKETBEAT San Diego

Private Capital Investment Report Mid-Year 2019



SAN DIEGO PRIVATE CAPITAL INVESTMENT

Economic Indicators

	MY 2018	MY 2019	12-Month Forecast
San Diego Employment	1.49M	1.51M	▲
San Diego Unemployment	3.6%	3.3%	▼
U.S. Unemployment	3.9%	3.6%	▼

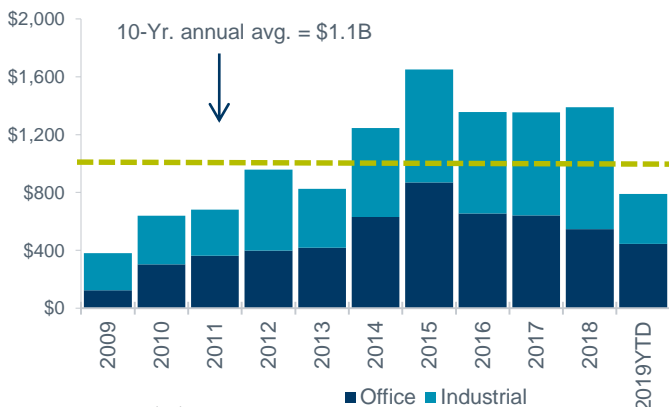
June 2018/2019 used to represent MY for San Diego.

Market Indicators

	Office	Industrial	12-Month Forecast
Sales Volume	\$444M	\$346M	▲
\$/sf	\$250	\$156	▲
Avg. Asking Rents / SF	\$3.19 (FS)	\$1.13 (NNN)	▼
Direct Vacancy	11.4%	4.4%	▼

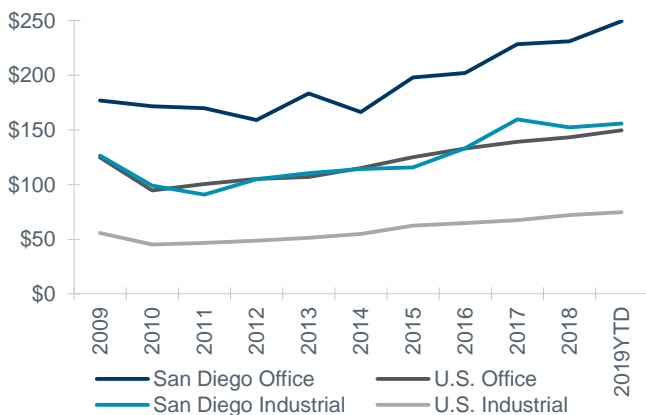
Direct vacancy excl. sublease. Office rents reported as full service. Industrial rents reported as triple net.

Sales Volume in \$Millions



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

Average Price Per Square Foot



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

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 The unemployment rate was 3.3% in June, 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 transactions for office and industrial sales between \$1 and \$20 million reached \$790 million in the first half of 2019, a 42% YOY increase compared to the first half of 2018. This overall increase was led by 73% YOY increase in office sales compared to a 15% YOY increase in industrial sales during the same time. For the first time since 2015, office sales were the main driver, accounting for 56% of the total sales volume. Total annual sales volume in San Diego has been above the 10-year long-term annual average of \$1.1 billion for the last five consecutive years, a trend that is expected to continue with a strong second half of the year in 2019.

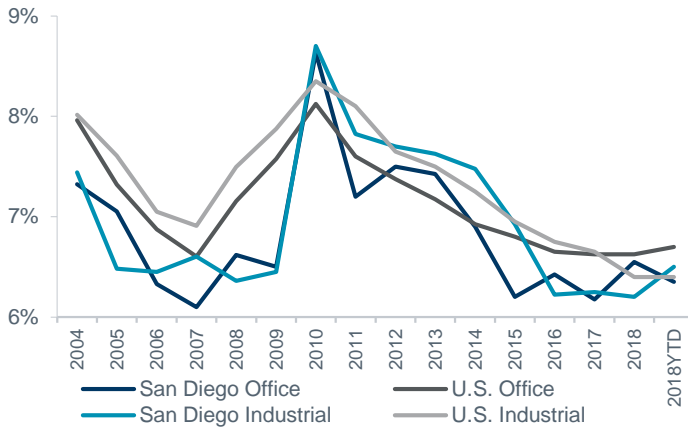
The average price per square foot (psf) for both office and industrial properties increased in the first half of 2019 compared to 2018 annual average, with office sales averaging an astounding \$250 psf (+8.2% vs. \$231 psf in 2018), and industrial sales averaging \$156 psf (+2.6% vs. \$152 psf in 2018). Similar to 2018, institutional investors showed willingness to compete on deals in the sub \$20 million range in the first half of 2019. Institutional and REIT investment market share combined increased from 28% in 2018 to 33% in the first half of 2019, with nearly all of that market share being taken directly from private capital. Private capital as well as institutional capital remain bullish on the San Diego market with institutional continuing to show the willingness to drop below traditional price thresholds to compete on a broader product base. 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.

Debt Market

The commercial real estate debt markets continue to be liquid and aggressive amongst all lender types supported by favorable commercial real estate fundamentals. Life insurance companies' yield targets have been impacted by the drop in the treasury. Spreads and floors vary by lender but total coupons are solidly in the mid 3.0%'s. CMBS investor demand has been holding up largely due to the low supply of bonds in the market. With credit spreads trending tighter and the swap/treasury down dramatically from 60-days ago, fixed rate coupons are as low as they've been in years: 3.5-4.0% at moderate leverage; and low 4.0s% at max leverage 75% loan-to-value (LTV). While the most conservative of all the lender types, banks are picking their spots and are very competitive for the right deal. Bank pricing has remained steady with spreads for low leverage still in the L+ 130-150 over range, and for best-in-class trophy assets for top sponsors as low as L+ 120-130s. At 60% LTV pricing is in the L+ 150-175 range. The liquidity in the debt fund market is keeping terms extremely competitive. Deals at 65-70% loan-to-cost (LTC) for transitional assets with limited cash flow prices in the low to mid-200's over LIBOR and assets with very low-to-no cash flow can be in the mid to high-200s. Tough assets in tough markets with extremely heavy reposition or higher leverage closer to 80% LTC prices L + 300's.

Sources: ¹www.bls.gov ²bea.gov GDP as of 2017. ³Moody's Analytics economy.com 5/2019. ⁴RCA, sales \$1-\$20M.

Average Cap Rate OFFICE AND INDUSTRIAL COMBINED



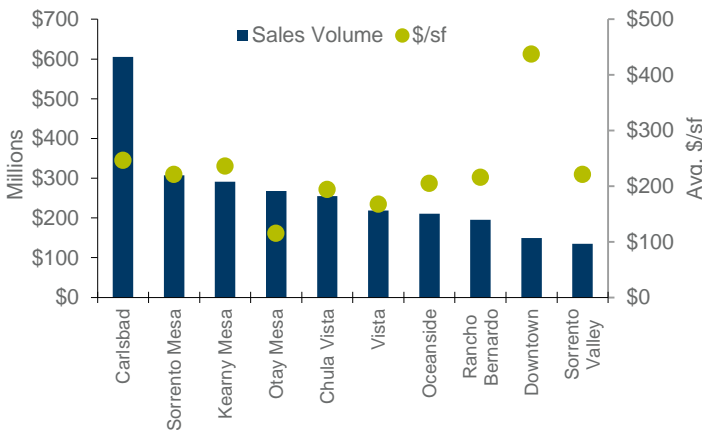
Source: RCA, sales of all sizes.

Top Buyers in San Diego (\$M)

Company	Sales Volume	# Properties
Rexford Industrial	\$99.7	8
BKM Capital Partners	\$88.1	8
IDS RE Group	\$66.8	5
Blackstone	\$62.6	8
Welltower	\$58.7	5
RAF Pacifica Group	\$41.8	5
Washington Capital Management	\$41.5	3
Sorrento West Props Inc	\$36.5	6

Source: RCA, sales \$1-\$20M. Office & Industrial combined 7/2017- 6/2019.

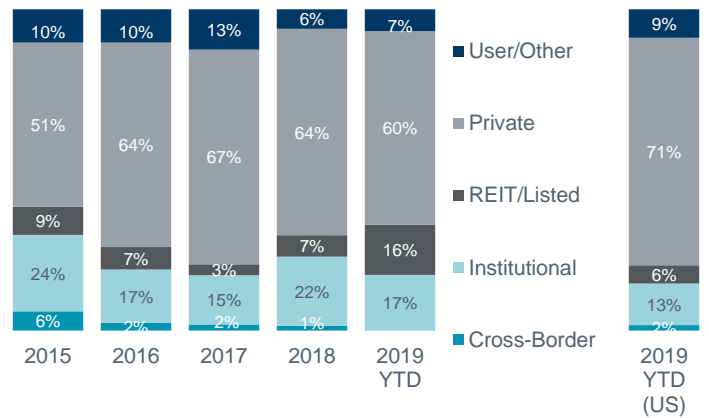
Sales Volume by Submarket in San Diego TOP TEN SUBMARKETS LAST 3 YEARS



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

Who is Buying Assets in San Diego?

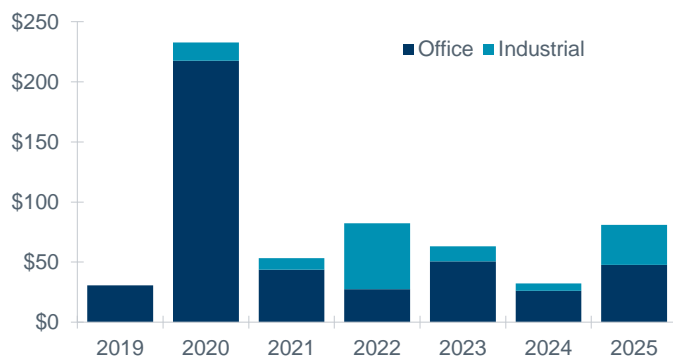
INSTITUTIONS AND REITS ARE INCREASING SPENDING IN 2019



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)

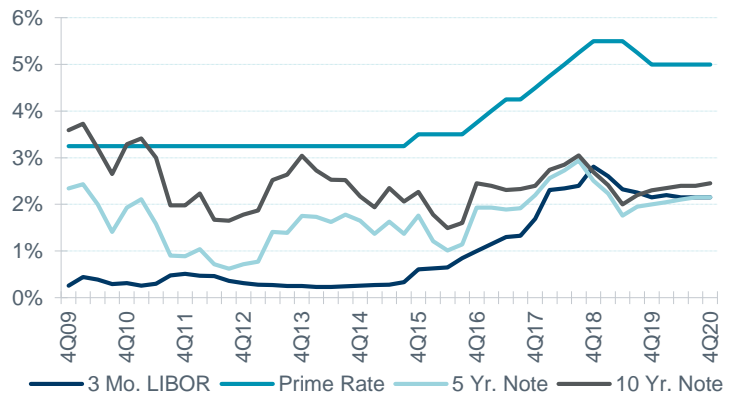
\$233M IN OFFICE LOANS WILL BE DUE IN 2020



Source: Trepp, LLC - 7/25/2019, 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 - 7/11/2019.

Key Investment Sales Mid-Year 2019

2888 Loker Ave. – The Atrium @ Bressi Ranch



Property Type: Office
 Sale Date: March 2019
 Buyer: Zaslow Family Trust
 Seller: Global CRES
 Sale Amount: \$17,600,000
 \$/sf: \$218
 Cap Rate: 6.87%
 Square Feet: 80,869
 Submarket: Carlsbad

7220 Trade St. – Sorrento Ridge



Property Type: Office
 Sale Date: June 2019
 Buyer: Tappan Corp
 Seller: Boxer Property
 Sale Amount: \$13,900,000
 \$/sf: \$135
 Cap Rate: Value-Add
 Square Feet: 103,325
 Submarket: Miramar

5580 Morehouse Dr.



Property Type: Office
 Sale Date: June 2019
 Buyer: Phase 3 RE
 Seller: Qualcomm
 Sale Amount: \$16,820,000
 \$/sf: \$255
 Cap Rate: Value-Add
 Square Feet: 65,982
 Submarket: Sorrento Mesa

9225-9285 Dowdy Dr. – Mira Este Bus. Park



Property Type: Flex
 Sale Date: June 2019
 Buyer: Pacific Mira Este SPE LLC
 Seller: 3G Properties LP
 Sale Amount: \$9,700,000
 \$/sf: \$151
 Cap Rate: 5.94%
 Square Feet: 64,301
 Submarket: Miramar

4075 Sorrento Valley Blvd.



Property Type: Office
 Sale Date: May 2019
 Buyer: Alexandria RE Equities
 Seller: LBA Realty
 Sale Amount: \$16,000,000
 \$/sf: \$400
 Cap Rate: 6.0%
 Square Feet: 40,000
 Submarket: Sorrento Valley

2011 Palomar Airport Rd. – Palomar Triad



Property Type: Office
 Sale Date: February 2019
 Buyer: PWI Palomar Triad LP
 Seller: 3G Properties LP
 Sale Amount: \$9,225,000
 \$/sf: \$198
 Cap Rate: 6.4%
 Square Feet: 46,550
 Submarket: Carlsbad

13450 Stowe Dr. - Aldila Building



Property Type: Industrial
 Sale Date: April 2019
 Buyer: Matsushita International
 Seller: SENTRE, Inc
 Sale Amount: \$15,950,000
 \$/sf: \$219
 Cap Rate: 5.5%
 Square Feet: 73,000
 Submarket: Poway

649 Benet Rd. – Sabra Dipping Co. Building



Property Type: Industrial
 Sale Date: April 2019
 Buyer: CSB Partners LP
 Seller: Pacifica Foods LLC
 Sale Amount: \$7,397,000
 \$/sf: \$189
 Cap Rate: 6.0% (estimated)
 Square Feet: 39,140
 Submarket: Oceanside

3248 Lionshead Ave. – Innovation Ridge



Property Type: Flex
 Sale Date: April 2019
 Buyer: Street Properties LLC
 Seller: Badiie Development Inc.
 Sale Amount: \$14,450,000
 \$/sf: \$260
 Cap Rate: Confidential
 Square Feet: 55,573
 Submarket: Carlsbad

12345 World Trade Dr.



Property Type: Office
 Sale Date: June 2019
 Buyer: Chinese Bible Church of SD
 Seller: Publishers Development Corp.
 Sale Amount: \$5,750,000
 \$/sf: \$344
 Cap Rate: Owner-User
 Square Feet: 16,726
 Submarket: Rancho Bernardo

1125 Joshua Way - Show Imaging Building



Property Type: Office
 Sale Date: May 2019
 Buyer: EB Capital LLC
 Seller: The Blackstone Group
 Sale Amount: \$14,000,000
 \$/sf: \$180
 Cap Rate: Owner-User
 Square Feet: 77,736
 Submarket: Vista

4153-4183 Market St.



Property Type: Industrial
 Sale Date: June 2019
 Buyer: 4153 Market LLC
 Seller: Center for Employment Training
 Sale Amount: \$5,000,000
 \$/sf: \$147
 Cap Rate: 6.48%
 Square Feet: 34,000
 Submarket: Downtown

SUBMARKET MAP
SAN DIEGO



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