

MARKET UPDATE

San Diego
Wednesday, February 26, 2020
The Guild Hotel



MULTIFAMILY & COMMERCIAL MARKET UPDATE

| DHARMENDRA SAWH
| INDUSTRY PRINCIPAL, YARDI



AGENDA

1. Macroeconomic Outlook
2. Multifamily Fundamentals
3. Office Fundamentals
4. San Diego Spotlight



KEY TAKEAWAYS



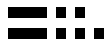
ECONOMY

The economy is experiencing slow but steady growth and headwinds bear monitoring. GDP growth in Q4 was decent (2.1%). U.S. oil production and technological advances are keeping inflation low, below 2%. The service sector labor market is extremely tight, and wages continue to rise – job growth is bolstering the economic expansion. The yield curve remains ever so slightly positive, with the Fed watching closely. Risk of a recession appears to be pushed out further than 2021.



DEMOGRAPHIC SHIFTS

Companies and people are continuing to look for lower-cost alternate cities, which drives a shift of both jobs and population – with the highest population growth and most dynamic job growth occurring in tech hub markets. When this happens, real estate will follow.



KEY TAKEAWAYS – MULTIFAMILY



MULTIFAMILY MARKET

Demand continues to be strong with jobs and population shifting to lower-cost cities and tech hubs. New supply deliveries completed at just under 300,000 units in 2019, and with the constraints of financial and labor costs, 2020 through 2024 deliveries are expected to fall.



RENT GROWTH

Rent growth has bounced back from a low point in late 2017 but has now stabilized. Rent growth remains around 3% nationally with significant variations by city, while occupancy remains stable around 95%.



VALUATIONS & TRANSACTIONS

Valuations continue to rise at a steady pace with compressed cap rates; this has shifted the focus to tech hub and tertiary markets to look for potential value-add opportunities. Transaction volume in 2019 came in right in line with 2018 volume with \$113 billion in sales. The markets where the transactions occurred reflect the shift, as most of the transactions occurred in tech hub markets and tertiary markets.



KEY TAKEAWAYS – OFFICE



COMMERCIAL MARKET

Demand is steady with job growth in office-using industries outpacing other industries, and tech hub markets have had the most dynamic job growth. Completions peaked in 2018, but a lot of markets still have room for absorption. There are secular pressures that continue to alter the office market, such as decreasing square footage per employee, coworking and a changing talent pool for office-using employment.



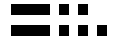
LISTING RATE GROWTH

Most Matrix markets showed moderate rate growth over the last year, but some have seen lease rates fall – Columbus, Central Valley, Chicago and Boston. Conditions are sufficient to maintain this pace of slow occupancy and lease rate growth in most markets.



TRANSACTIONS

Sales volume peaked in 2015 and has been dropping ever since. This is across all market categories. However, sales prices per sq. ft. have increased nationally since 2000, with tech hub markets having the most growth over the past ten years.



2020 OUTLOOK



- GDP growth in Q4 was decent, and slow and steady growth will likely continue.
- Supply/demand conditions in multifamily will continue to favor mild rate growth, with higher rates in the tech hub and tertiary markets.
- A decent economy coupled with the demographic shift of jobs will continue to create office demand in tech hub cities, providing a solid base for office-using sectors.
- For new investments, it's a **sharpshooter's game** to find the right deal at the right price.
- On the operational side its about **finding revenue** and **cost trimming** opportunities to grow your NOI from existing assets.

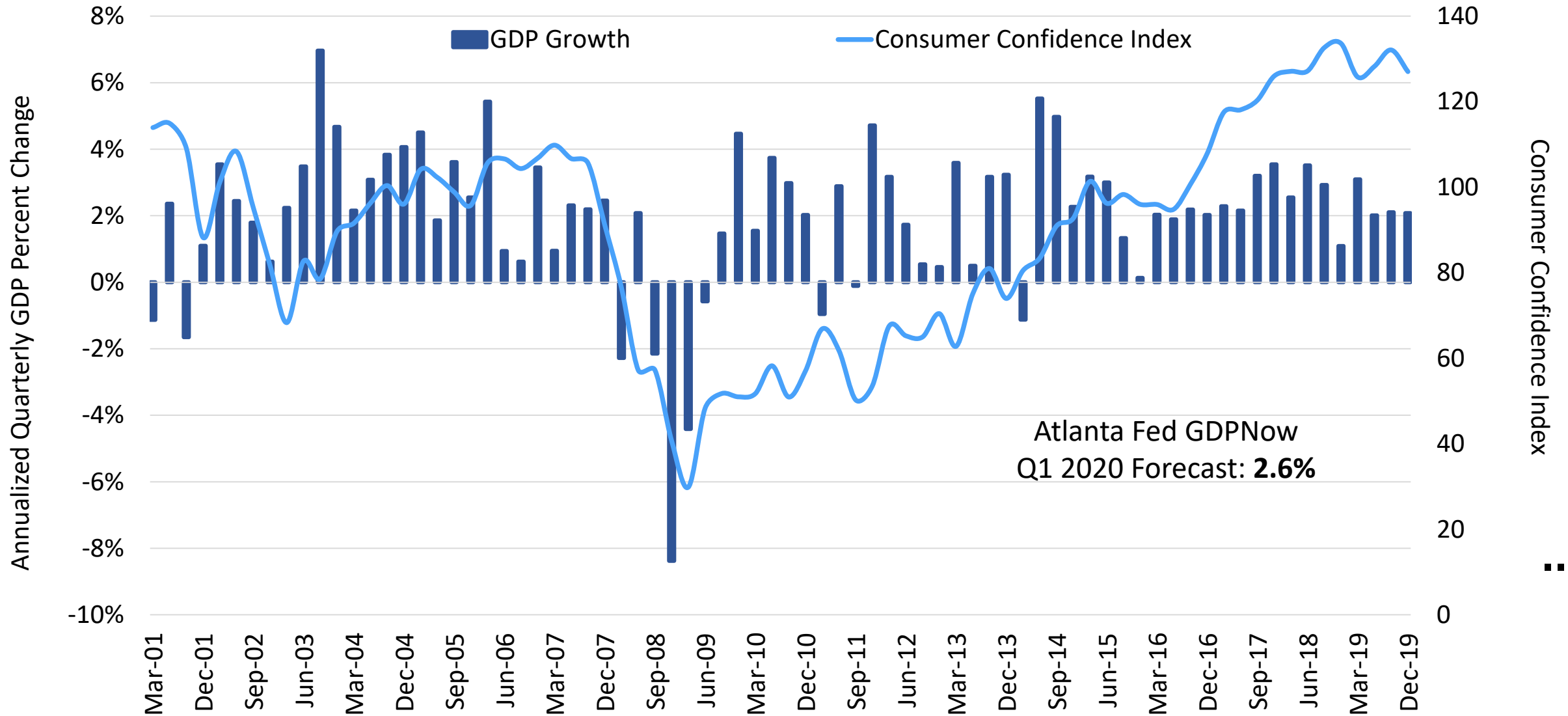




MACROECONOMIC OUTLOOK



U.S. Economic Growth Is Decent, but Slowing

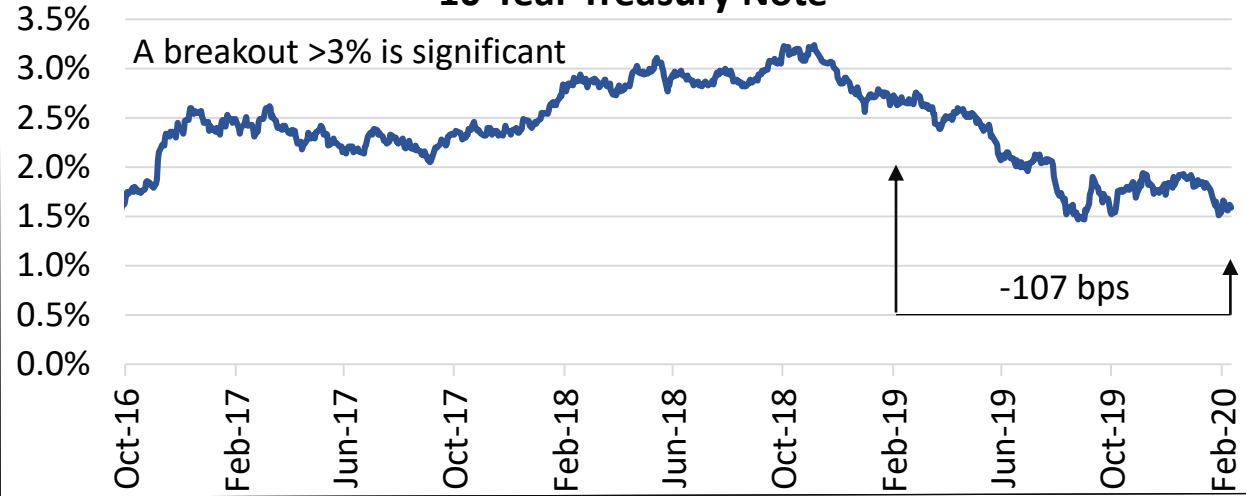


U.S. & International Financial Market

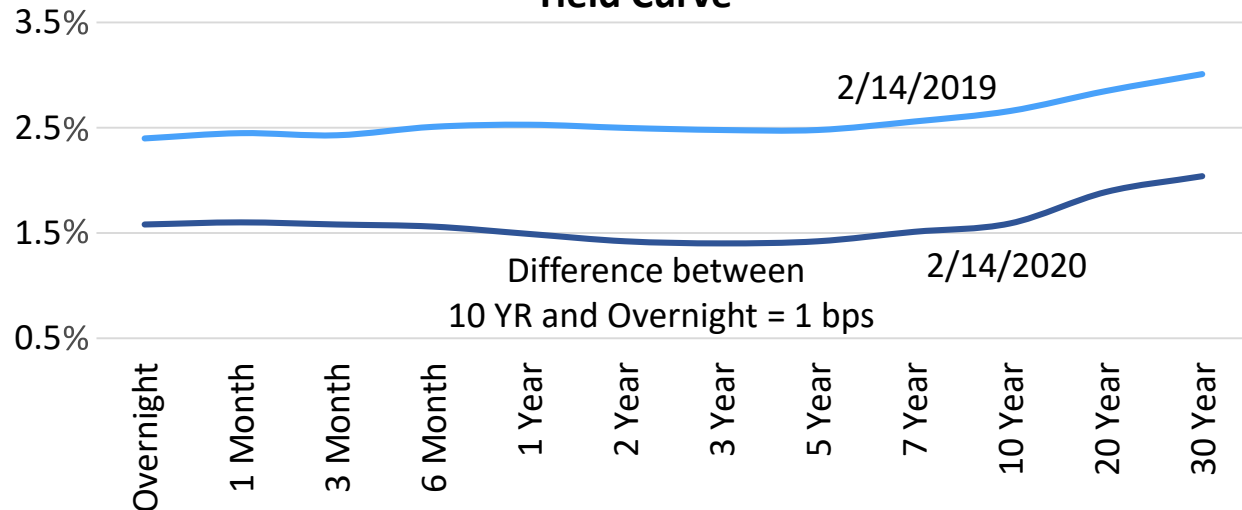
S&P 500



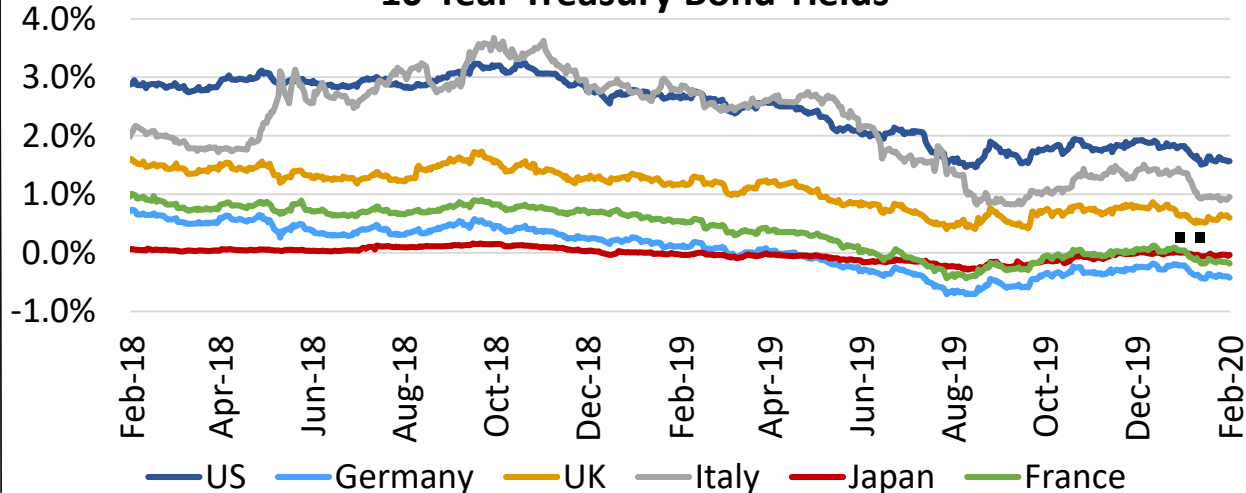
10-Year Treasury Note



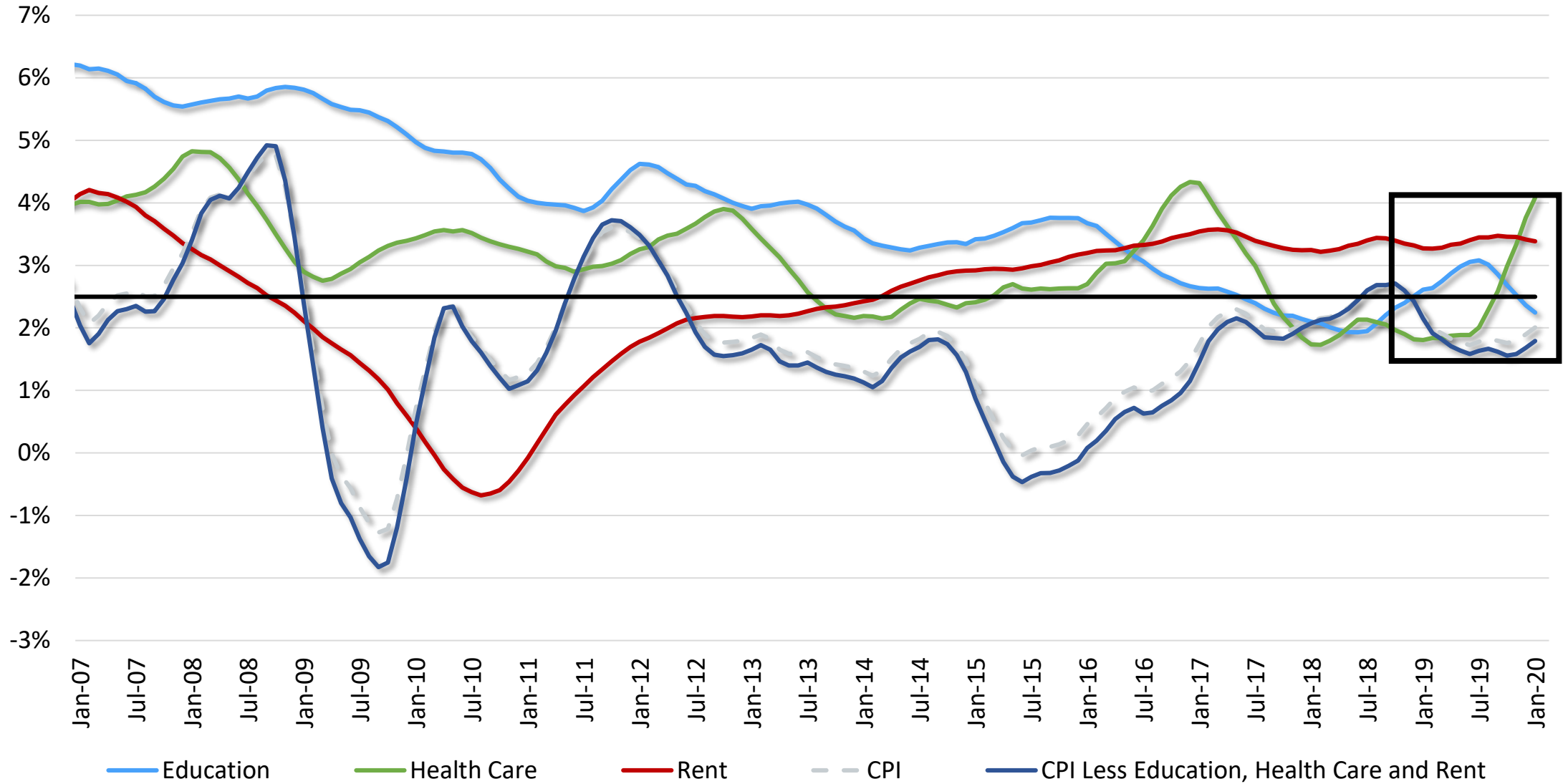
Yield Curve

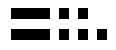


10-Year Treasury Bond Yields

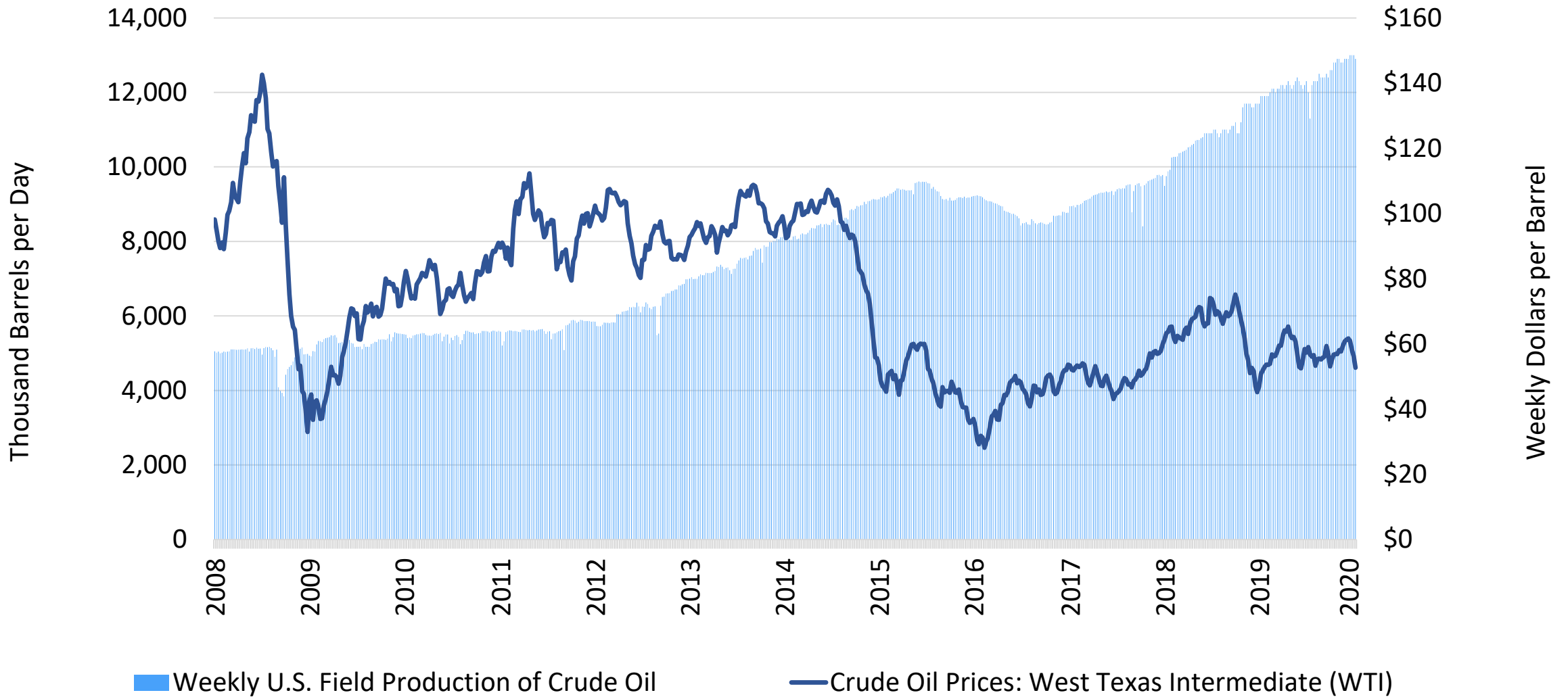


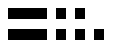
Inflation Rising, But Unlikely to Break Out >2.5%





Why Is There No Inflation? U.S. Oil Is Flooding the Market



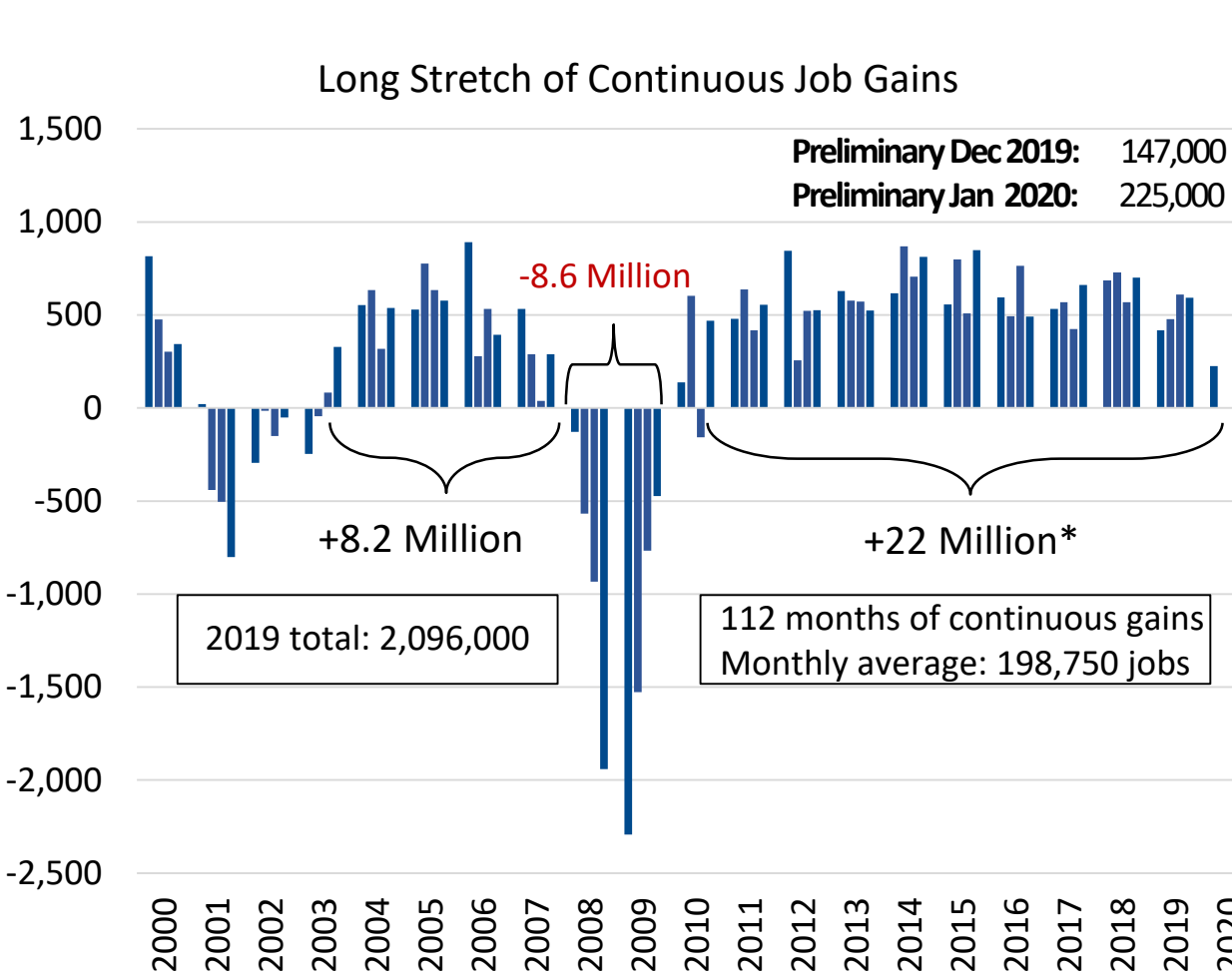


Tight Labor Market, Pulling People Off the Sidelines

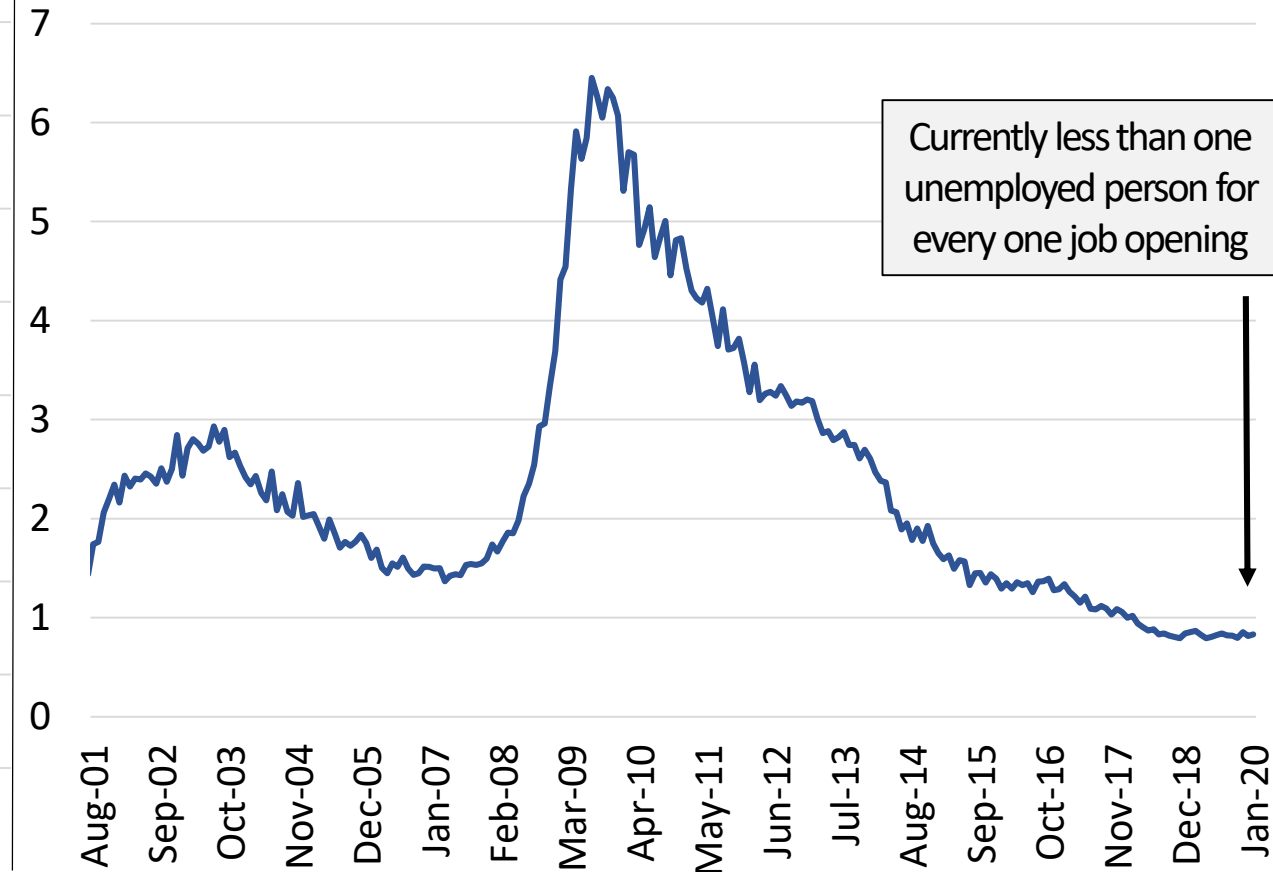


It is difficult to find labor at the right *price*, with the right *skills*, in the right *city*

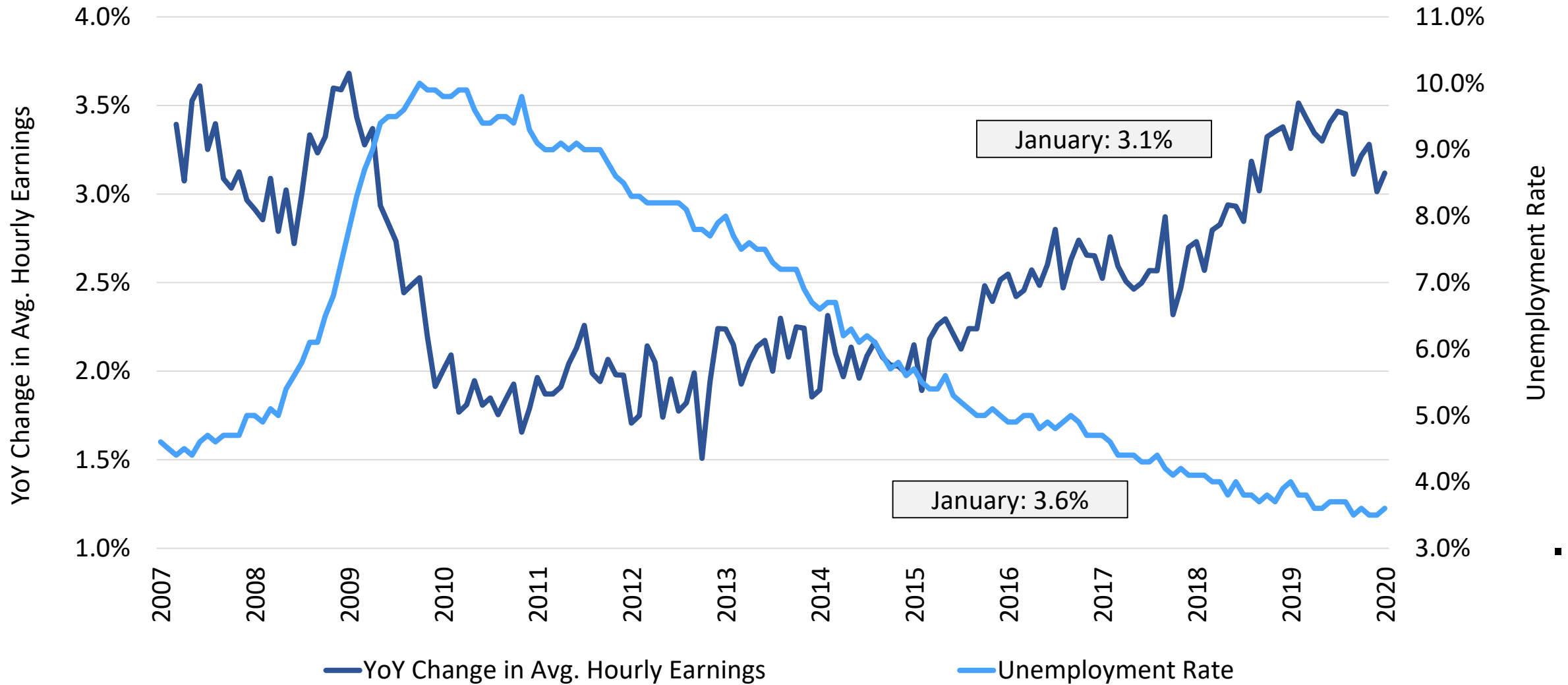
Long Stretch of Continuous Job Gains

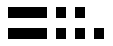


Unemployed Persons per Job Opening



Wage Growth Finally Emerging



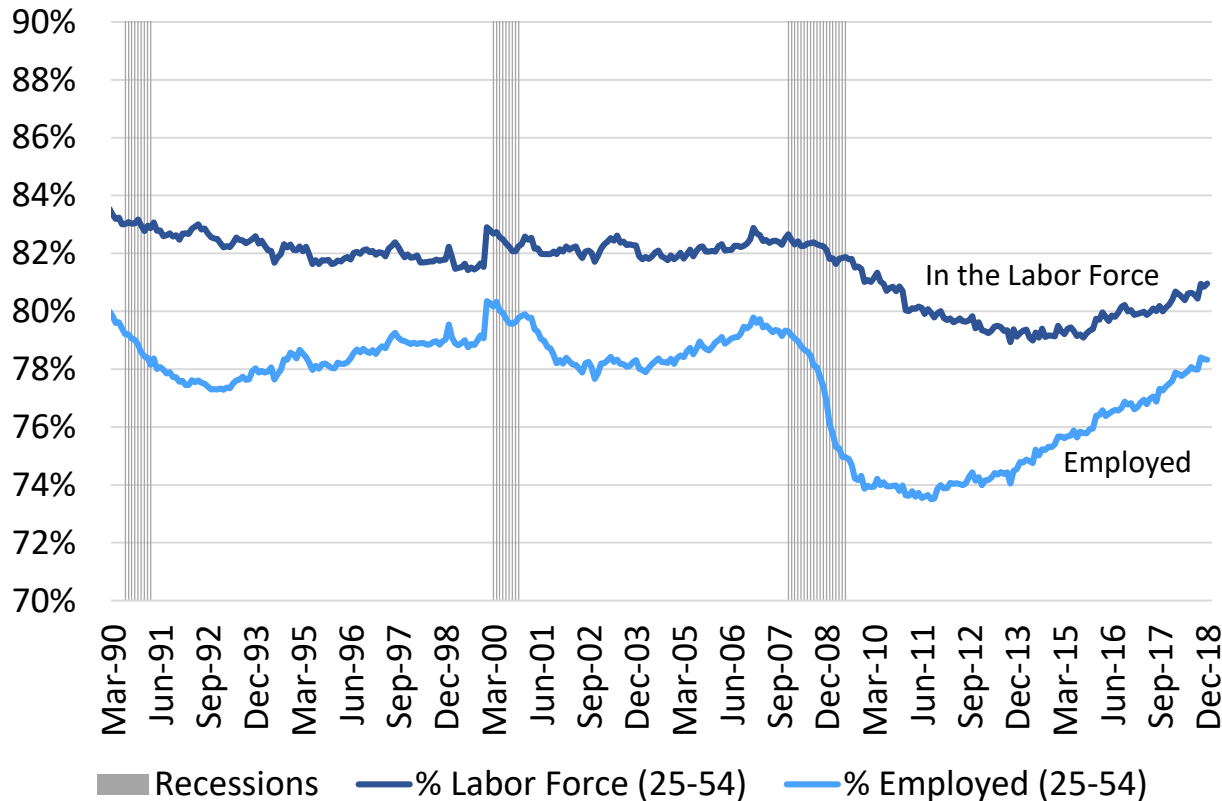


Reserve Supply of Labor

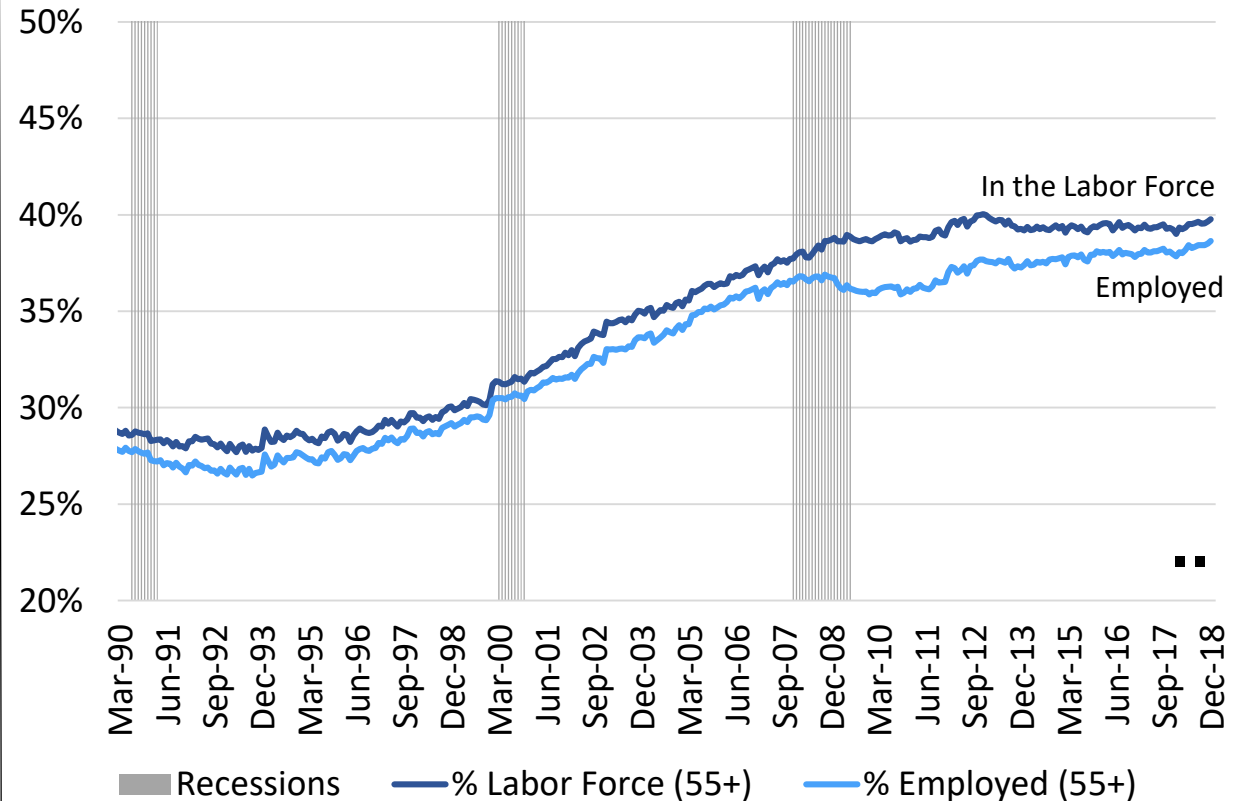


- Another 2.6% of the prime-age population could get engaged – approximately 3.4 million people
- Participation rates for people age 55+ are rising, buoying the expansion

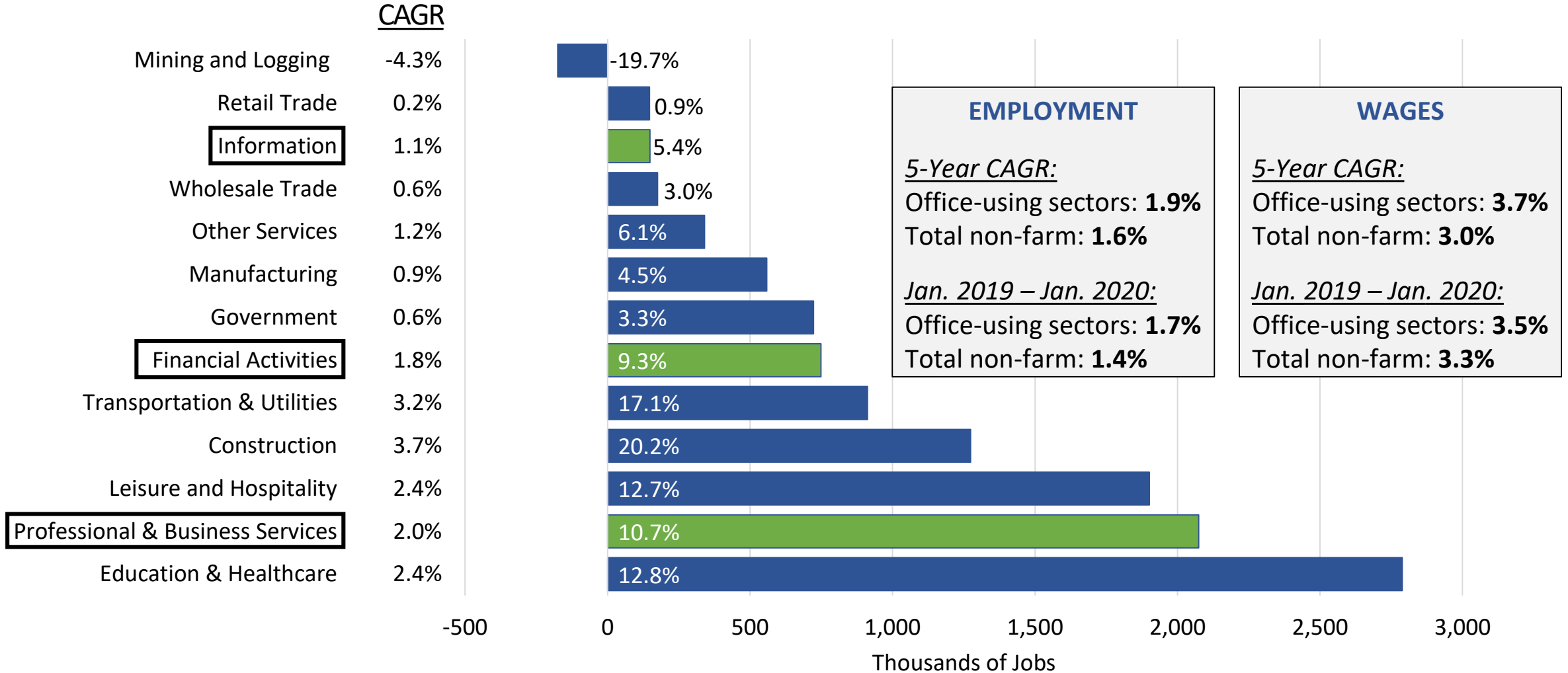
Share of Prime-Age Population (25-54) That Is...

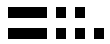


Share of Age 55+ Population That Is...



Office-Using Sectors Outpaced Overall Job Growth Over Last Five Years





SUMMARY



1

The U.S. economy is in decent shape, slow & steady growth will likely continue

2

Unemployment remains very low & wage growth is good; January job gains were strong

3

How much slack is left?

- Productivity
- Job growth

4

Inflation rising but not a lot, so the 10-yr rate is the binding constraint on the yield curve – which is currently slightly positive

5

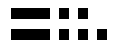
Risk of a recession appears to be pushed out further than 2021





MULTIFAMILY FUNDAMENTALS





Demographic & Lifestyle Changes

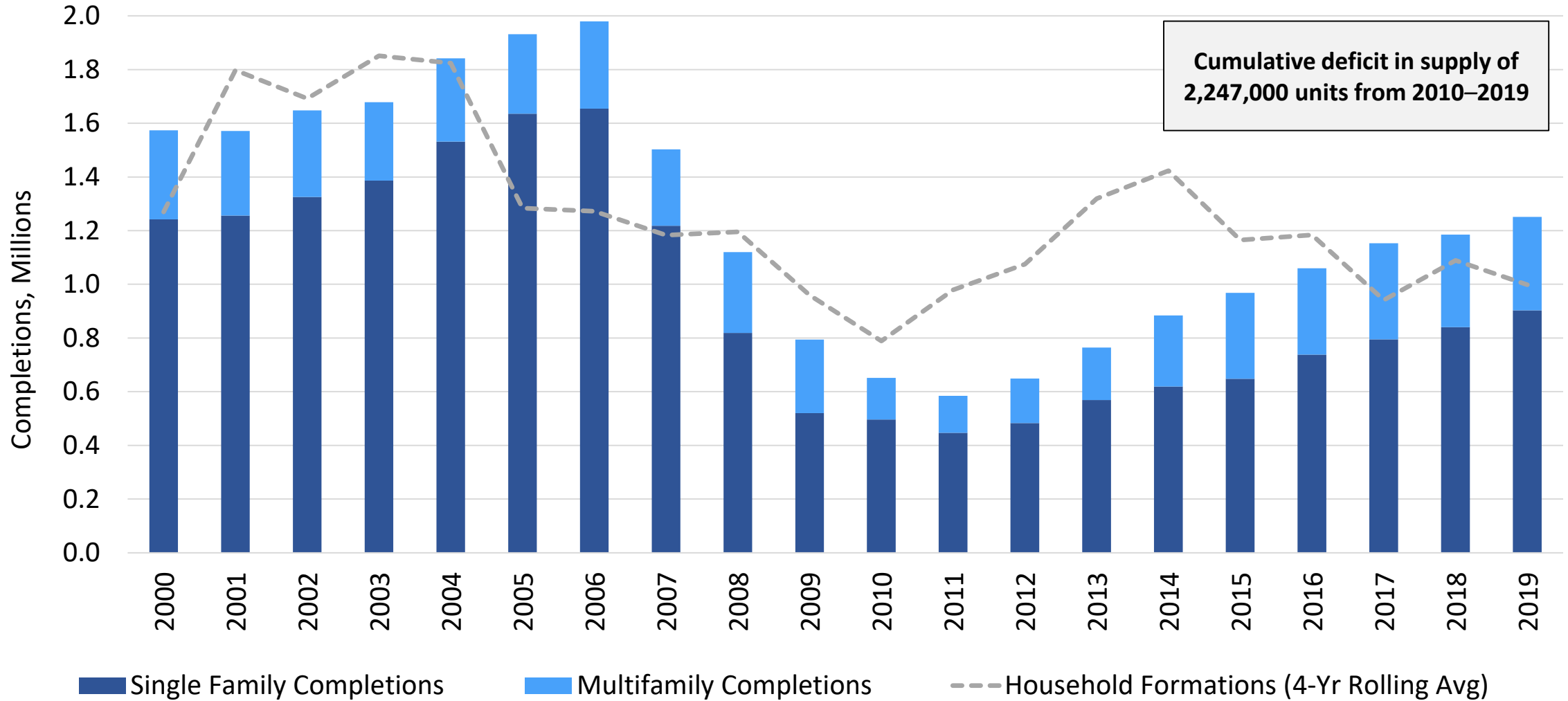


- Aging population
- Increasing divorce rates
- Young people living at home
 - Student debt burden
- Lifestyle changes
 - People getting married later in life
 - People having less kids and later in life

All of these in combination created a surge out of the recession,
but the effects seem to be durable



Multifamily Construction Catching Up to New Household Formation





Our Market Classifications



Gateway Markets	Tech Hub Markets	Tertiary Markets																														
<p>Bay Area Boston Brooklyn Chicago Long Island Los Angeles Manhattan New Jersey Queens San Francisco Washington, D.C</p>	<table border="0"><tr><td>Atlanta</td><td>Minneapolis-St. Paul</td></tr><tr><td>Austin</td><td>Nashville</td></tr><tr><td>Boise</td><td>Omaha</td></tr><tr><td>Charlotte</td><td>Orlando</td></tr><tr><td>Columbus</td><td>Philadelphia</td></tr><tr><td>Dallas</td><td>Phoenix</td></tr><tr><td>Denver</td><td>Pittsburgh</td></tr><tr><td>Detroit</td><td>Portland</td></tr><tr><td>Houston</td><td>Raleigh-Durham</td></tr><tr><td>Indianapolis</td><td>Sacramento</td></tr><tr><td>Jacksonville</td><td>Salt Lake City</td></tr><tr><td>Kansas City</td><td>San Diego</td></tr><tr><td>Las Vegas</td><td>Seattle</td></tr><tr><td>Madison</td><td>Tampa</td></tr><tr><td>Miami</td><td></td></tr></table>	Atlanta	Minneapolis-St. Paul	Austin	Nashville	Boise	Omaha	Charlotte	Orlando	Columbus	Philadelphia	Dallas	Phoenix	Denver	Pittsburgh	Detroit	Portland	Houston	Raleigh-Durham	Indianapolis	Sacramento	Jacksonville	Salt Lake City	Kansas City	San Diego	Las Vegas	Seattle	Madison	Tampa	Miami		<p>Remaining 77 Yardi Matrix markets</p>
Atlanta	Minneapolis-St. Paul																															
Austin	Nashville																															
Boise	Omaha																															
Charlotte	Orlando																															
Columbus	Philadelphia																															
Dallas	Phoenix																															
Denver	Pittsburgh																															
Detroit	Portland																															
Houston	Raleigh-Durham																															
Indianapolis	Sacramento																															
Jacksonville	Salt Lake City																															
Kansas City	San Diego																															
Las Vegas	Seattle																															
Madison	Tampa																															
Miami																																

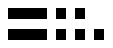


Population Growth Is in Non-Gateway Markets



Market	2016 Pop. Growth	2017 Pop. Growth	2018 Pop. Growth	Overall Trend
Austin	3.0%	2.6%	2.5%	Decelerating
Orlando	2.7%	2.4%	2.4%	Steady
Las Vegas	2.0%	2.0%	2.2%	Accelerating
Raleigh	2.6%	2.3%	2.1%	Decelerating
Phoenix	2.1%	1.8%	2.0%	Accelerating
Dallas	2.2%	2.1%	1.8%	Decelerating
Charlotte	2.1%	2.0%	1.8%	Decelerating
Tampa	2.2%	1.9%	1.7%	Decelerating
Nashville	2.1%	1.8%	1.6%	Decelerating
Salt Lake City	1.7%	1.7%	1.4%	Decelerating
Denver	1.6%	1.2%	1.4%	Accelerating
Seattle	2.0%	1.8%	1.4%	Decelerating
Houston	2.0%	1.4%	1.3%	Decelerating
Atlanta	1.8%	1.5%	1.3%	Decelerating
Columbus	1.2%	1.5%	1.2%	Decelerating

Market	2016 Pop. Growth	2017 Pop. Growth	2018 Pop. Growth	Overall Trend
Indianapolis	1.0%	1.1%	1.1%	Steady
Sacramento	1.3%	1.2%	1.1%	Decelerating
Minneapolis	1.0%	1.1%	1.0%	Steady
Portland	1.9%	1.2%	0.9%	Decelerating
Washington DC	0.9%	1.0%	0.8%	Decelerating
Boston	0.8%	0.8%	0.6%	Decelerating
Miami	1.3%	0.8%	0.6%	Decelerating
San Diego	0.8%	0.5%	0.5%	Steady
San Francisco	0.7%	0.4%	0.3%	Decelerating
Philadelphia	0.2%	0.2%	0.3%	Steady
San Jose	0.7%	0.2%	0.3%	Steady
Detroit	0.1%	0.1%	0.1%	Steady
Los Angeles	0.2%	0.0%	-0.1%	Decelerating
New York	0.1%	-0.2%	-0.2%	Steady/Negative
Chicago	-0.2%	-0.2%	-0.2%	Steady/Negative

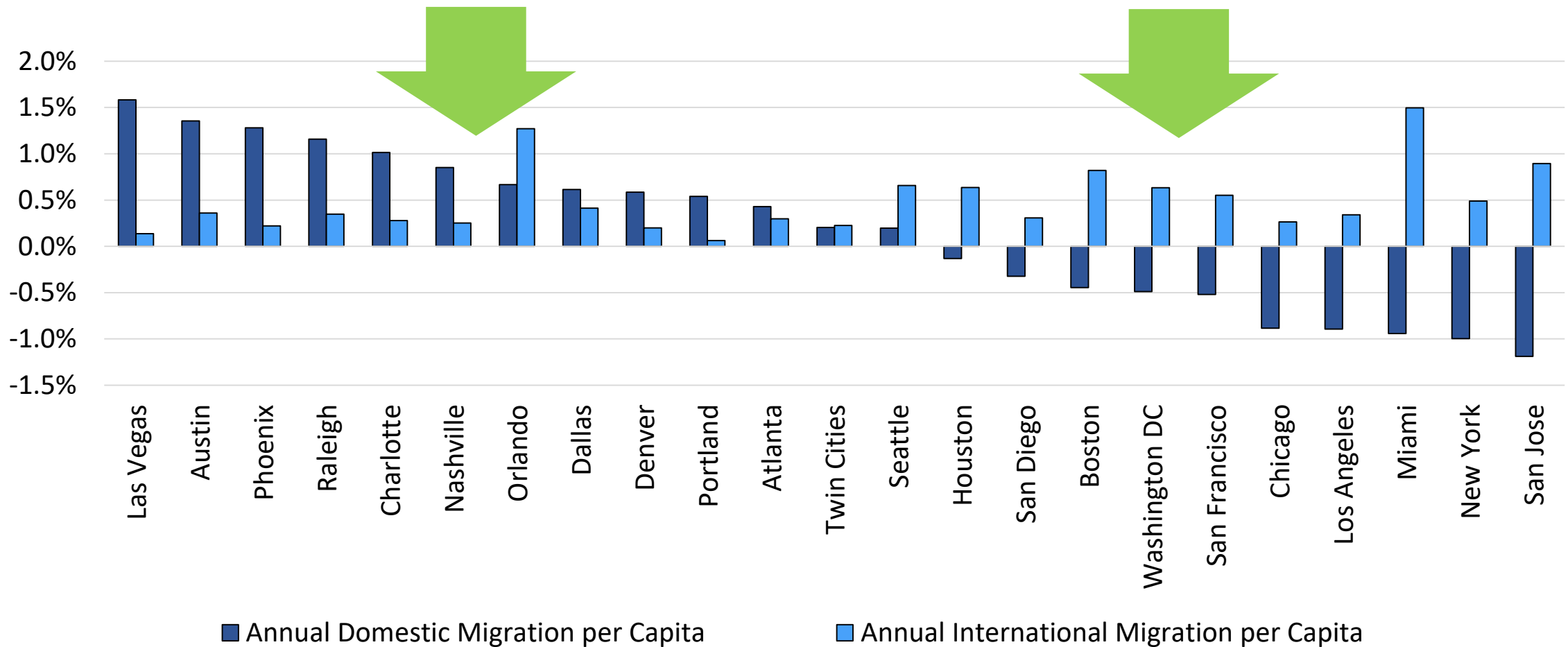


Immigration Is Key to Gateway Population Growth

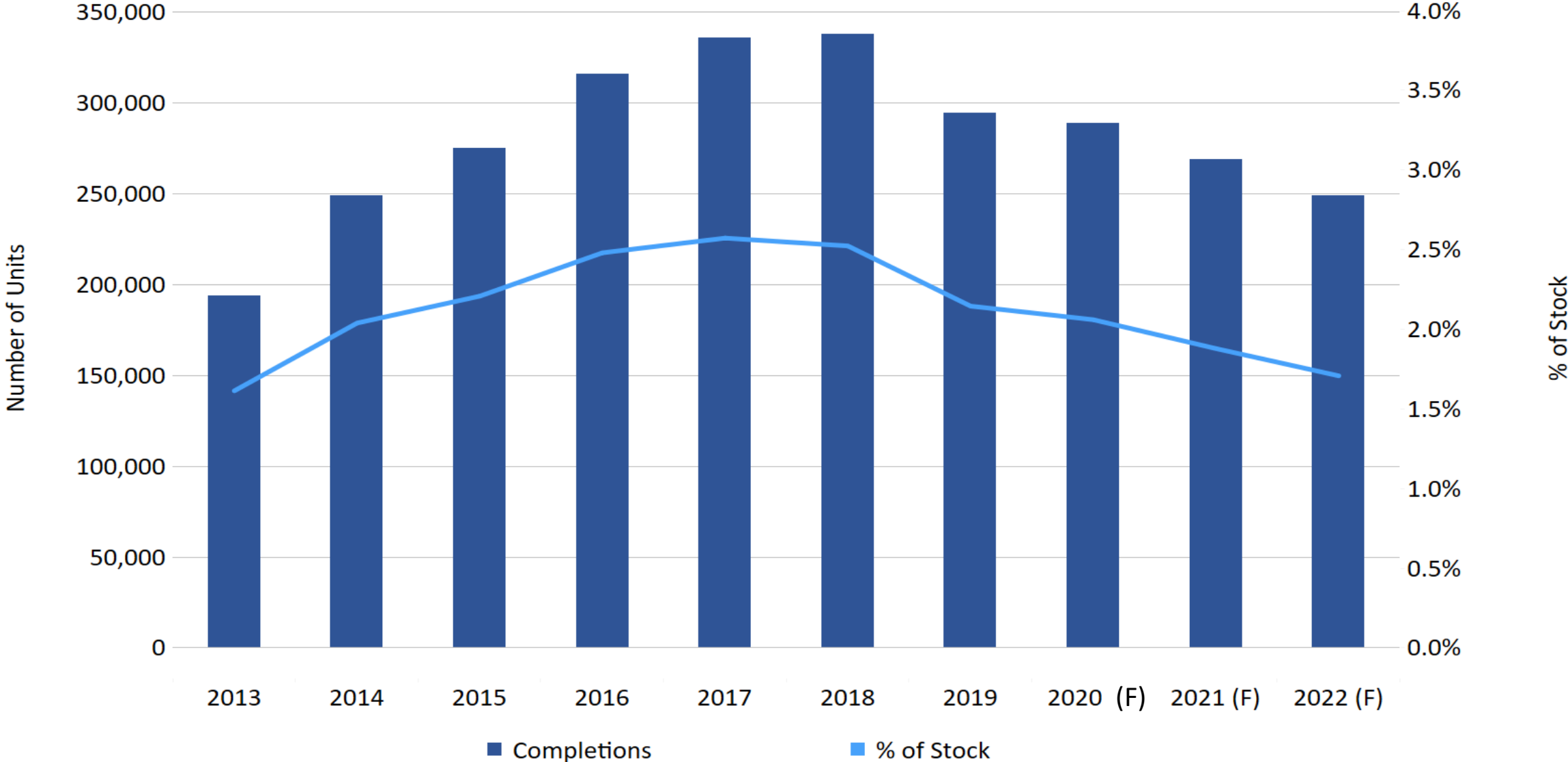


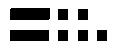
Tech Hub Markets:
High Migration, Modest Immigration

Gateway Markets:
High Immigration, Low/Negative Migration

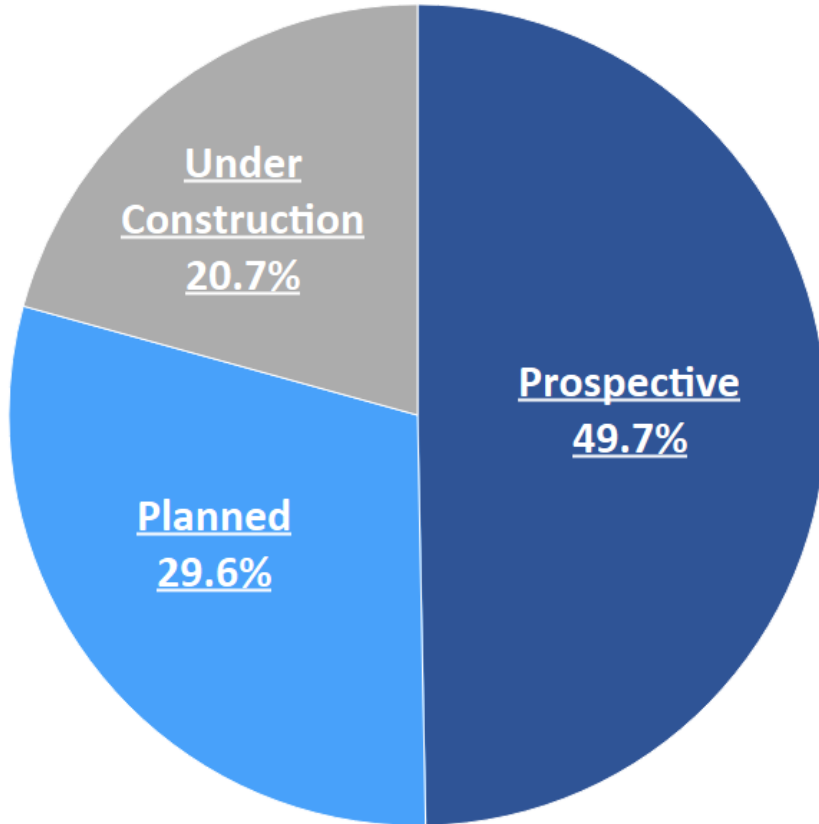


Our Current Forecast Shows New Supply Falling



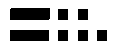


Based Upon What We See, New Multifamily Supply Will Not Break Out Above 300K a Year

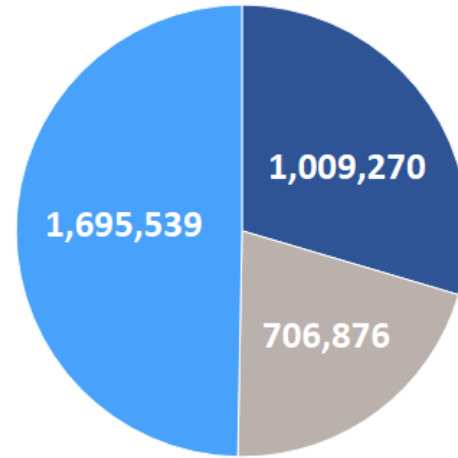


Property Status	Units	% of Total
Prospective	1,695,539	49.7%
Planned	1,009,270	29.6%
Under Construction	706,876	20.7%
TOTAL:	3,411,685	100.0%





Where Is Future Multifamily Supply Concentrated?



■ Units Under Construction

■ Units Planned

■ Prospective Units

Top 10 Markets	Units	UC as a % of Existing Stock
Boise	2,809	14.5%
Miami	17,749	13.6%
Reno	4,221	10.9%
Salt Lake City	10,964	10.8%
Wilmington	2,128	10.8%
Austin	25,456	10.6%
Boston	23,991	10.6%
Metro Los Angeles	18,716	10.3%
Queens	9,843	9.8%
Pensacola	3,104	9.8%

Top 10 Markets	Units	Planned as a % of Existing Stock
SW Florida Coast	15,992	24.4%
Wilmington	4,780	24.2%
Urban Chicago	36,462	20.8%
Asheville	3,327	19.6%
Miami	25,451	19.5%
Northern New Jersey	41,202	18.6%
Orlando	38,210	17.5%
Ft Lauderdale	16,780	16.5%
White Plains	10,512	15.3%
Long Island	7,224	14.5%

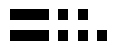
Top 10 Markets	Units	Prospective as a % of Existing Stock
Miami	88,170	67.4%
San Francisco	51,944	43.0%
Bay Area - South Bay	45,153	35.8%
SW Florida Coast	22,811	34.8%
Bay Area - East Bay	42,995	31.4%
Metro Los Angeles	55,172	30.4%
Northern Virginia	62,395	28.2%
West Palm Beach	18,079	27.0%
Washington DC	77,161	24.9%
Portland ME	3,221	24.8%

☰ Tech Hubs Are Delivering in Excess of Their 10-Year Average ☺

Top 15 Markets With the Most 2019 Deliveries	Units Delivered 2019	Ratio of 2019 Deliveries to the 10-yr Average	Avg. Annual Deliveries 2020-2024 (F)
Dallas - North	14,717	1.68x	12,067
Denver	12,464	1.77x	10,214
Seattle	11,012	1.46x	10,555
Atlanta - Urban	9,044	1.82x	5,751
Phoenix	8,874	1.73x	7,381
Charlotte	8,264	1.76x	7,497
Austin	8,252	1.07x	8,532
Miami	7,714	2.29x	5,467
Washington DC	7,680	1.23x	7,797
Houston - West	7,525	0.75x	6,469
Orlando	7,163	1.63x	5,579
Chicago - Urban	6,691	1.68x	5,429
Metro Los Angeles	6,319	1.61x	3,541
Boston	6,001	1.38x	6,289
Fort Worth	5,870	2.10x	2,814

Dallas, Denver & Seattle Absorbed a Large Amount of Deliveries, Despite Heavy Supply Pipelines

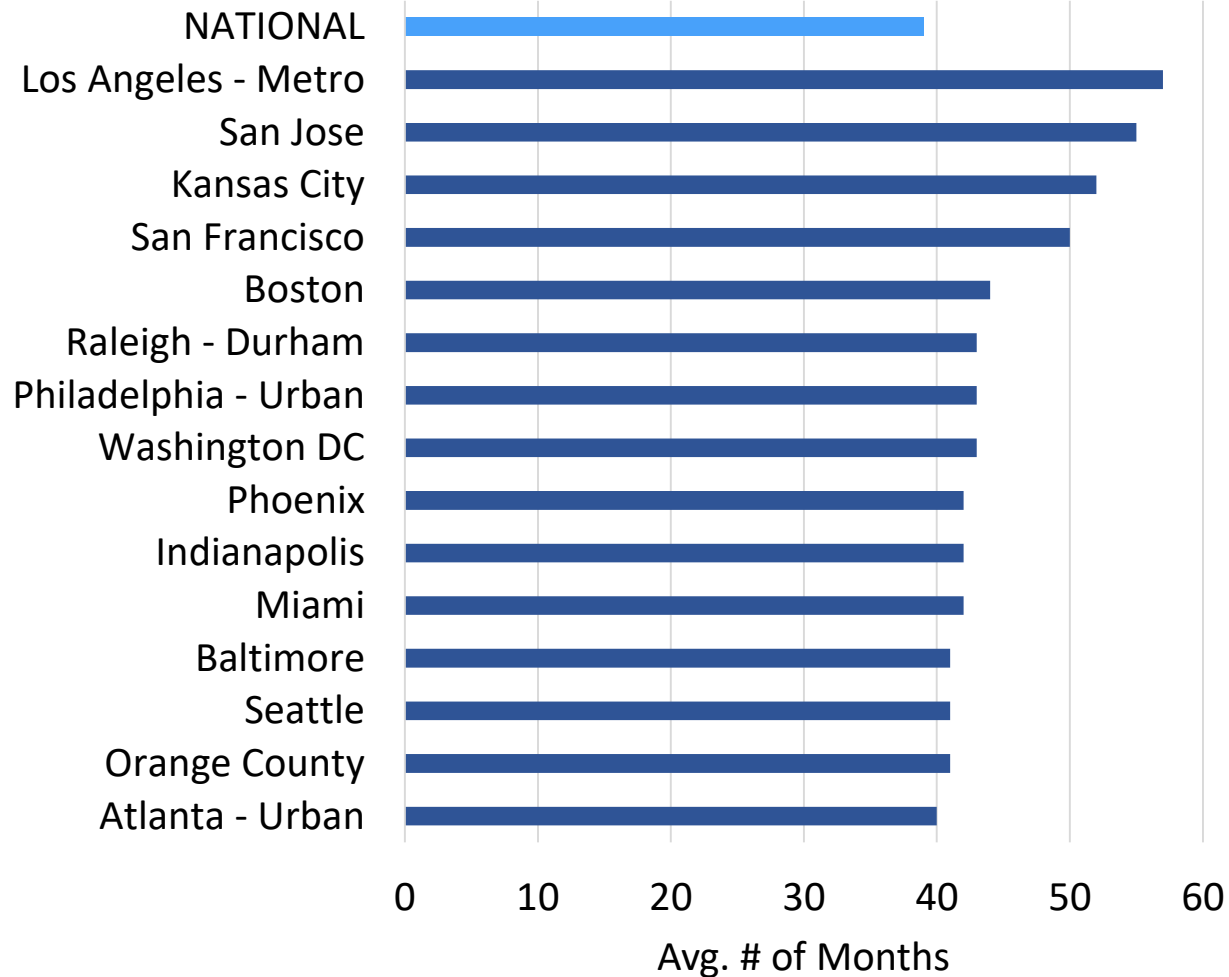
Market	Units Delivered 2019	Units Absorbed 2019	Difference	Units Absorbed as a % of Existing Stock
Dallas - North	14,717	14,621	(96)	4.1%
Denver	12,464	11,308	(1,156)	4.1%
Seattle	11,012	10,630	(382)	4.2%
Atlanta - Urban	9,044	7,482	(1,562)	3.2%
Phoenix	8,874	7,380	(1,494)	2.4%
Charlotte	8,264	7,604	(660)	4.3%
Austin	8,252	8,295	43	3.5%
Miami	7,714	7,536	(178)	5.8%
Washington DC	7,680	7,109	(571)	2.3%
Houston - West	7,525	7,602	77	1.7%
Orlando	7,163	5,723	(1,440)	2.6%
Chicago - Urban	6,691	6,353	(338)	3.6%
Metro Los Angeles	6,319	5,477	(842)	3.0%
Boston	6,001	6,064	63	2.7%
Fort Worth	5,870	4,175	(1,695)	2.0%



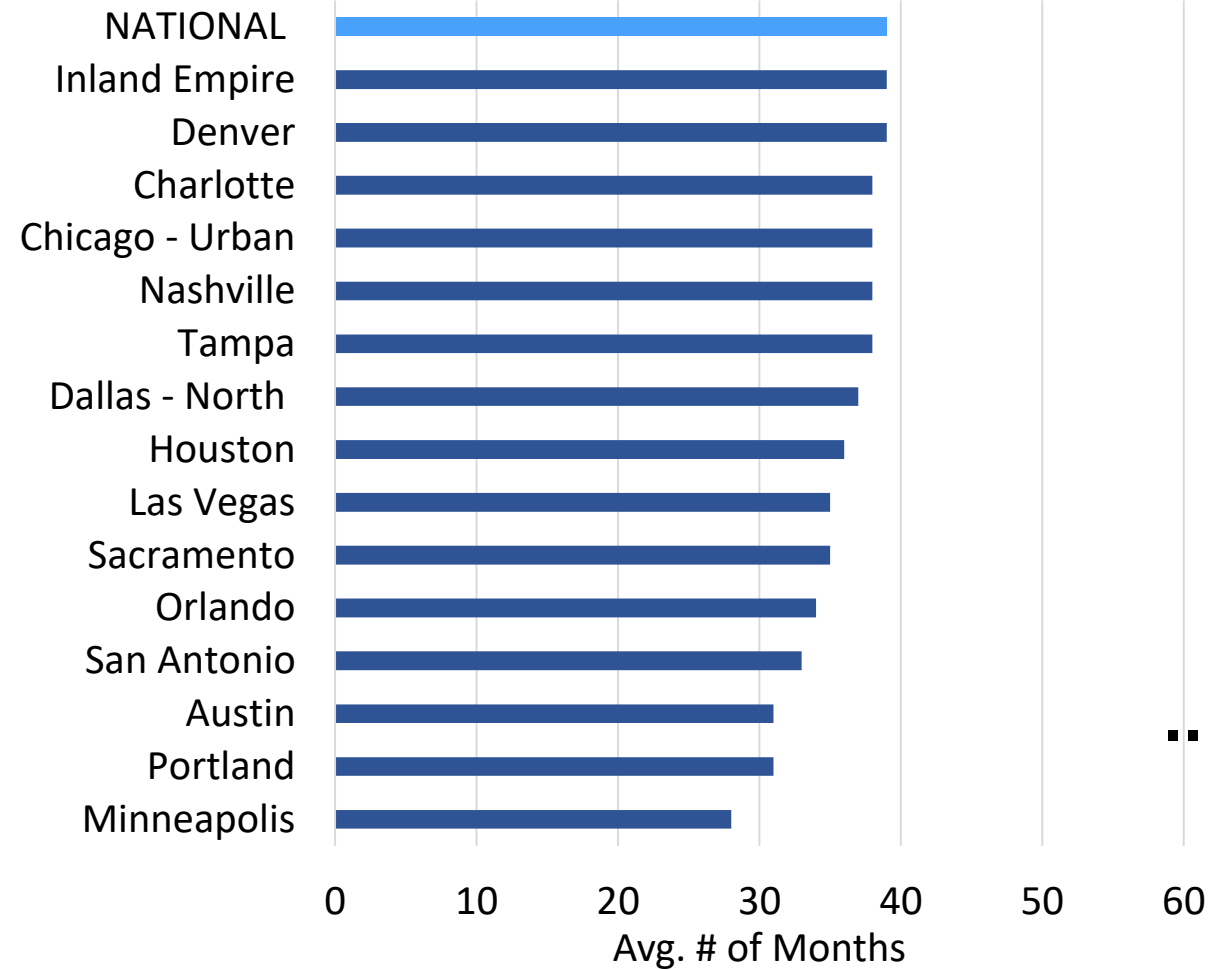
Gateway Markets Have the Longest Total Cycle Time



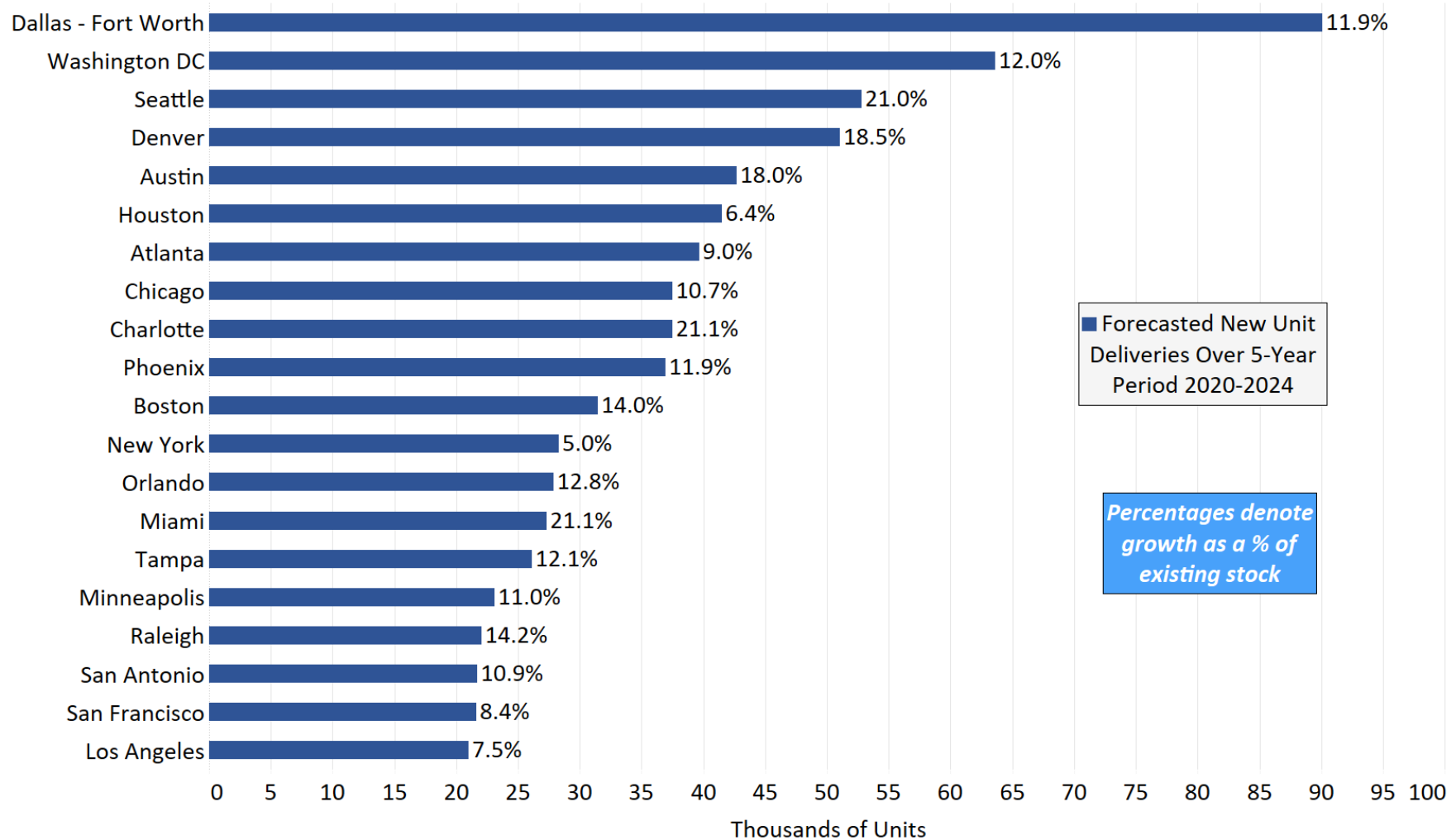
Highest Duration (Planned-to-Under Construction-to-Completed)



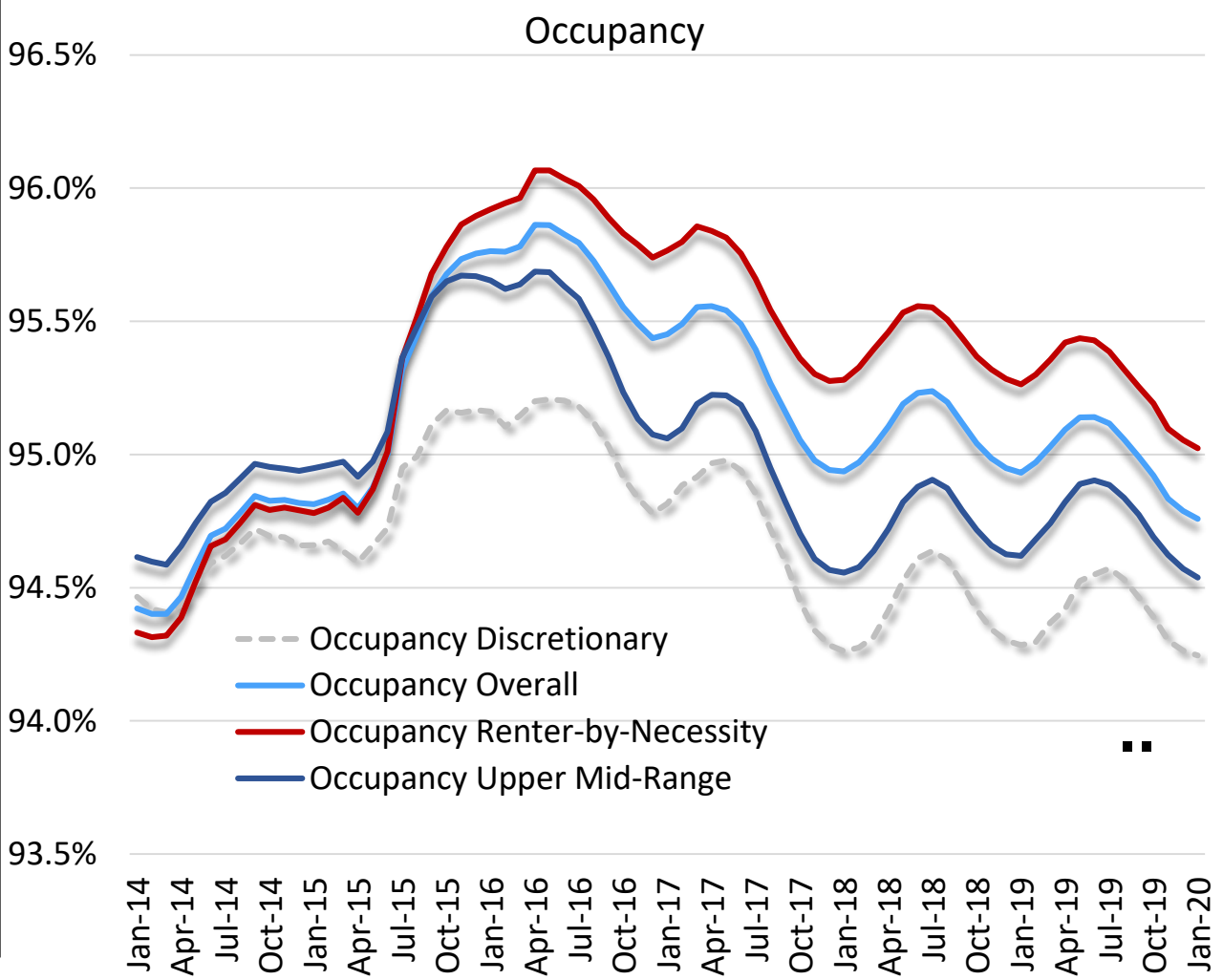
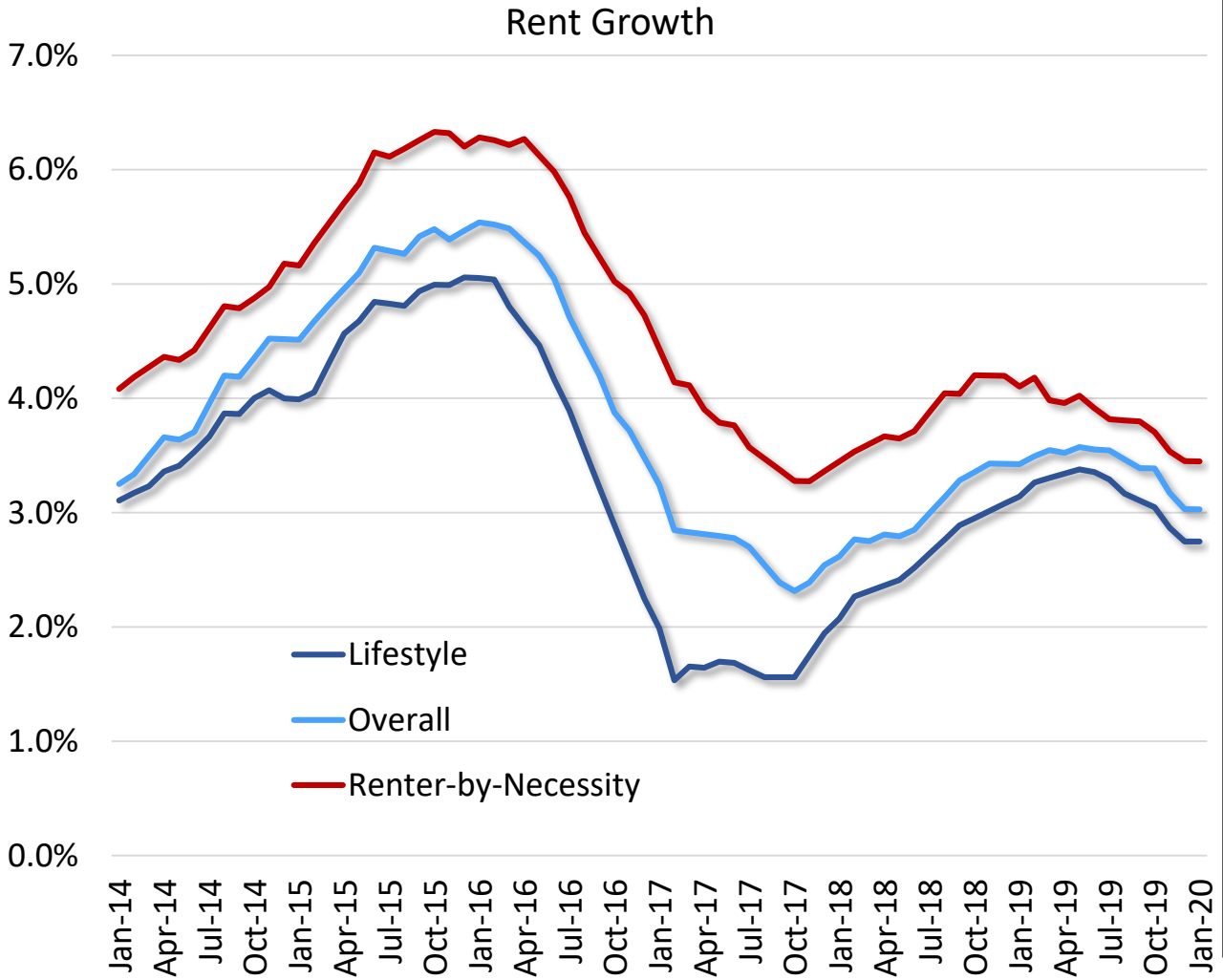
Lowest Duration (Planned-to-Under Construction-to-Completed)

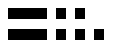


Our New Supply Forecast Shows Influx of New Supply Coming in Dallas, Washington, D.C. & Seattle

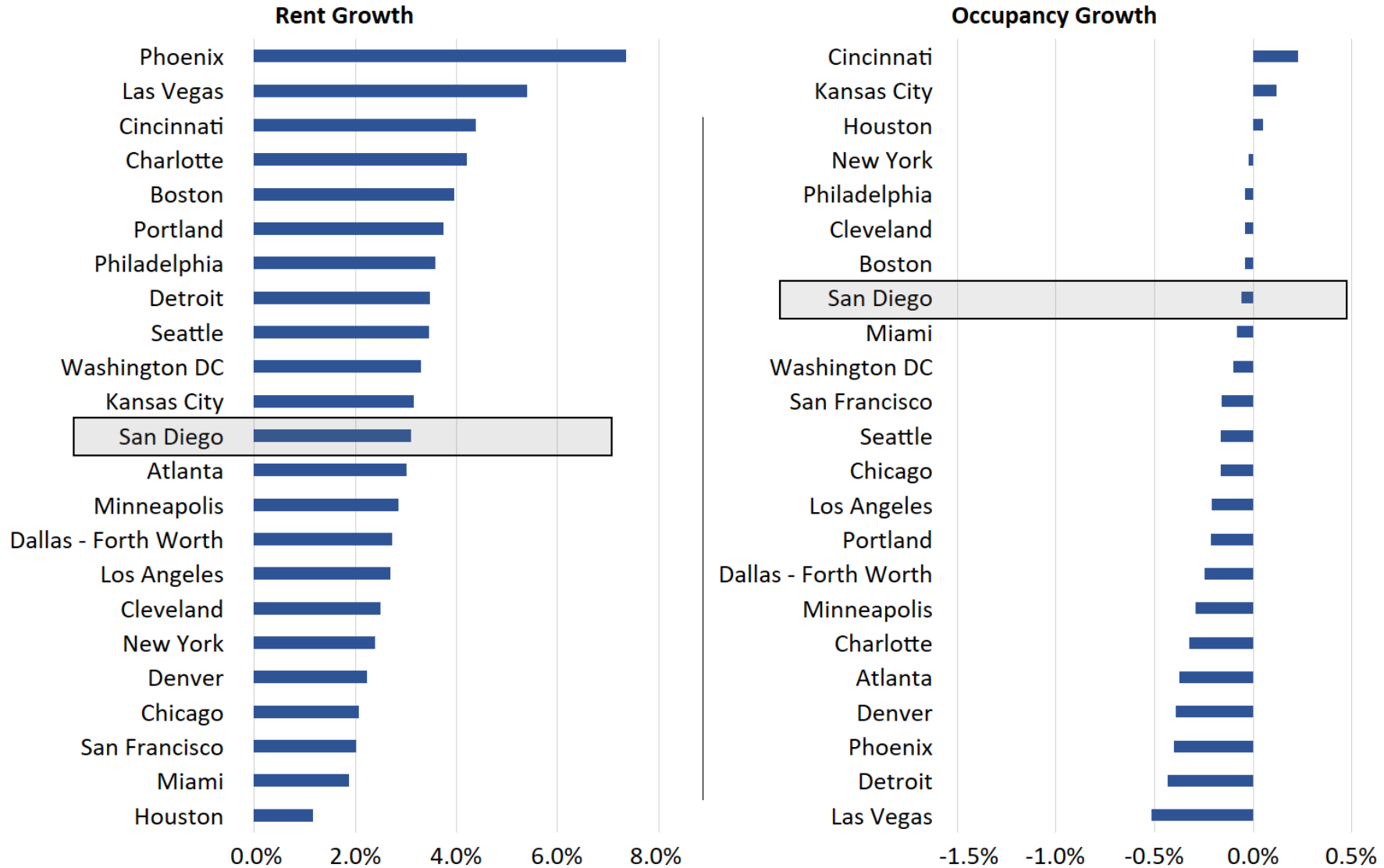


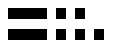
Multifamily Rent Growth Has Fallen While Occupancy Levels Off



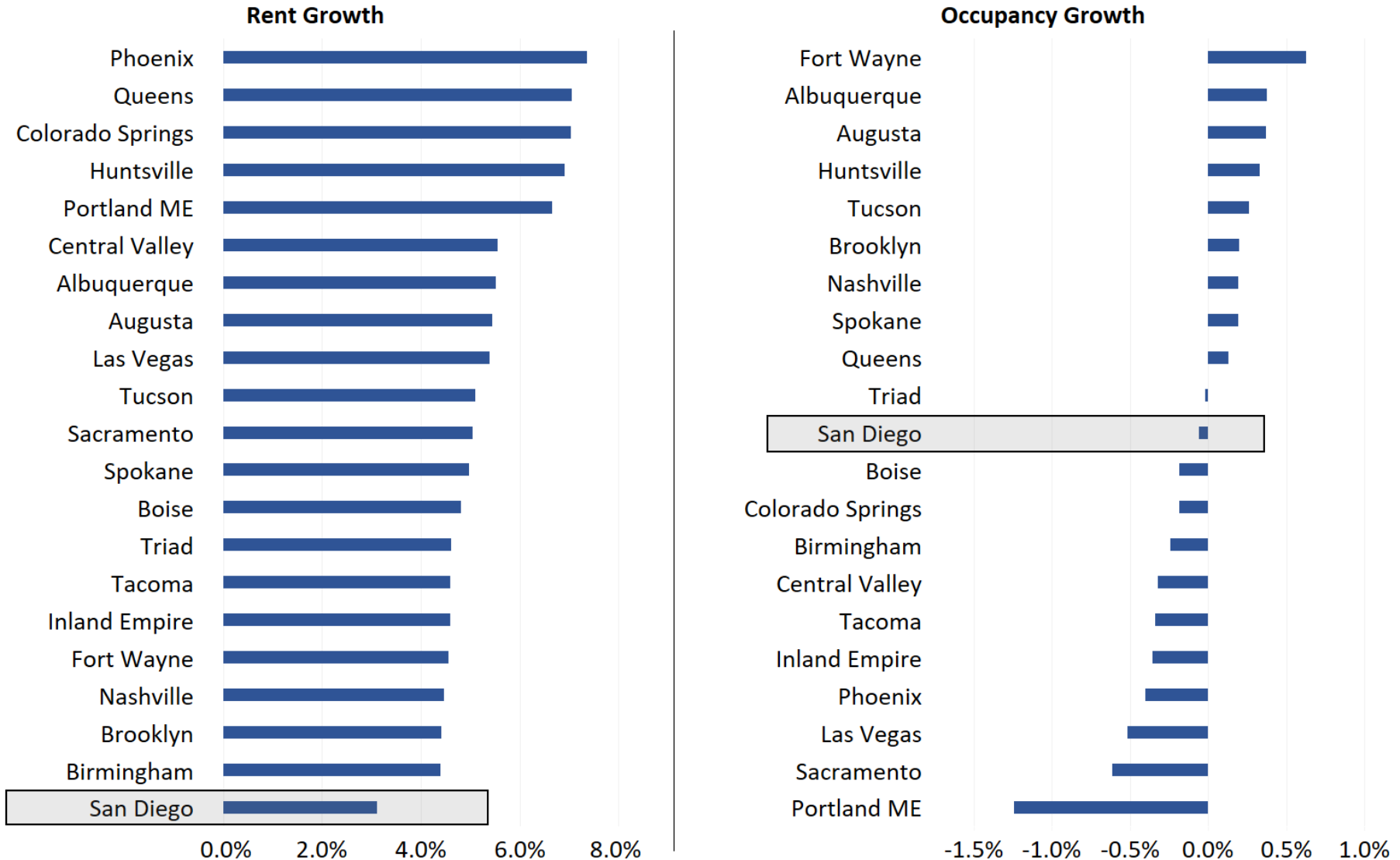


Major Market Multifamily Rent & Occupancy Growth





Ranked Multifamily Rent & Occupancy Growth

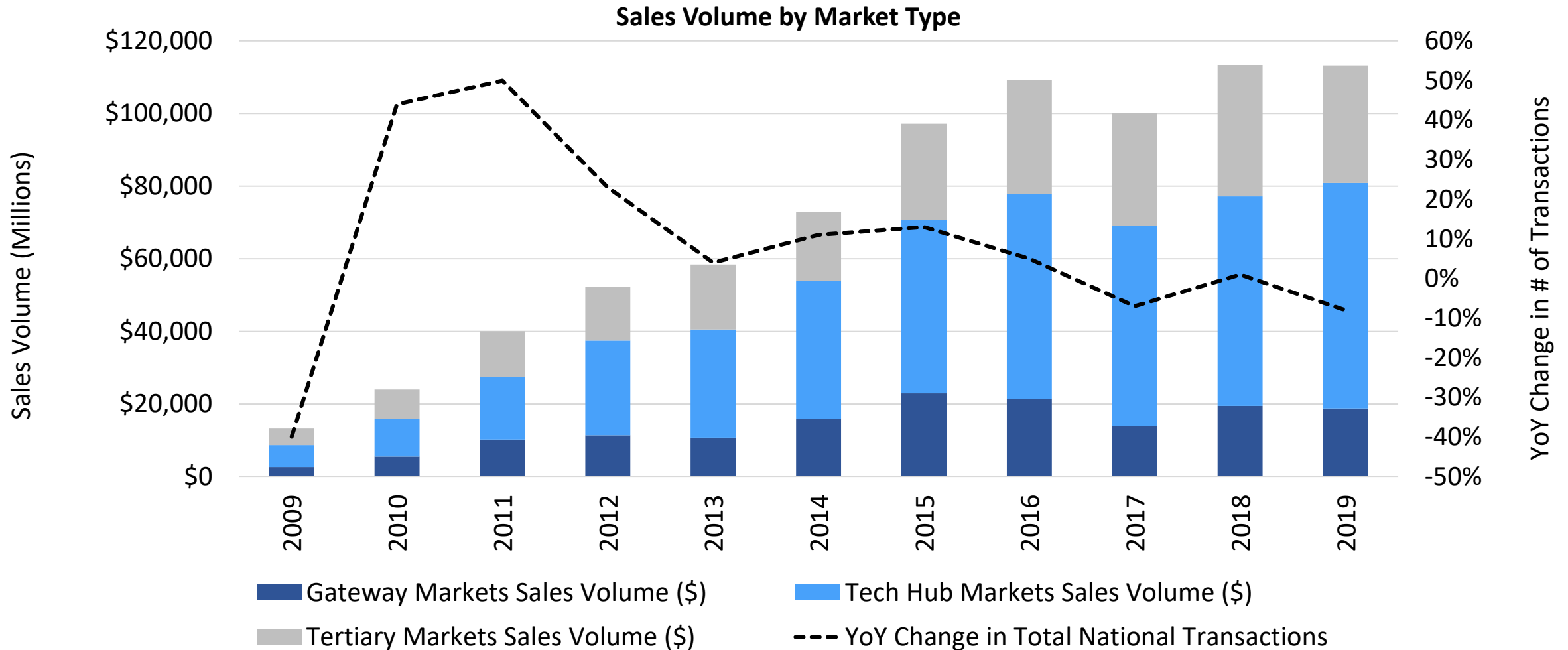


*Rent and Occupancy Growth January 2019 to January 2020

Source: Yardi Matrix; Tableau

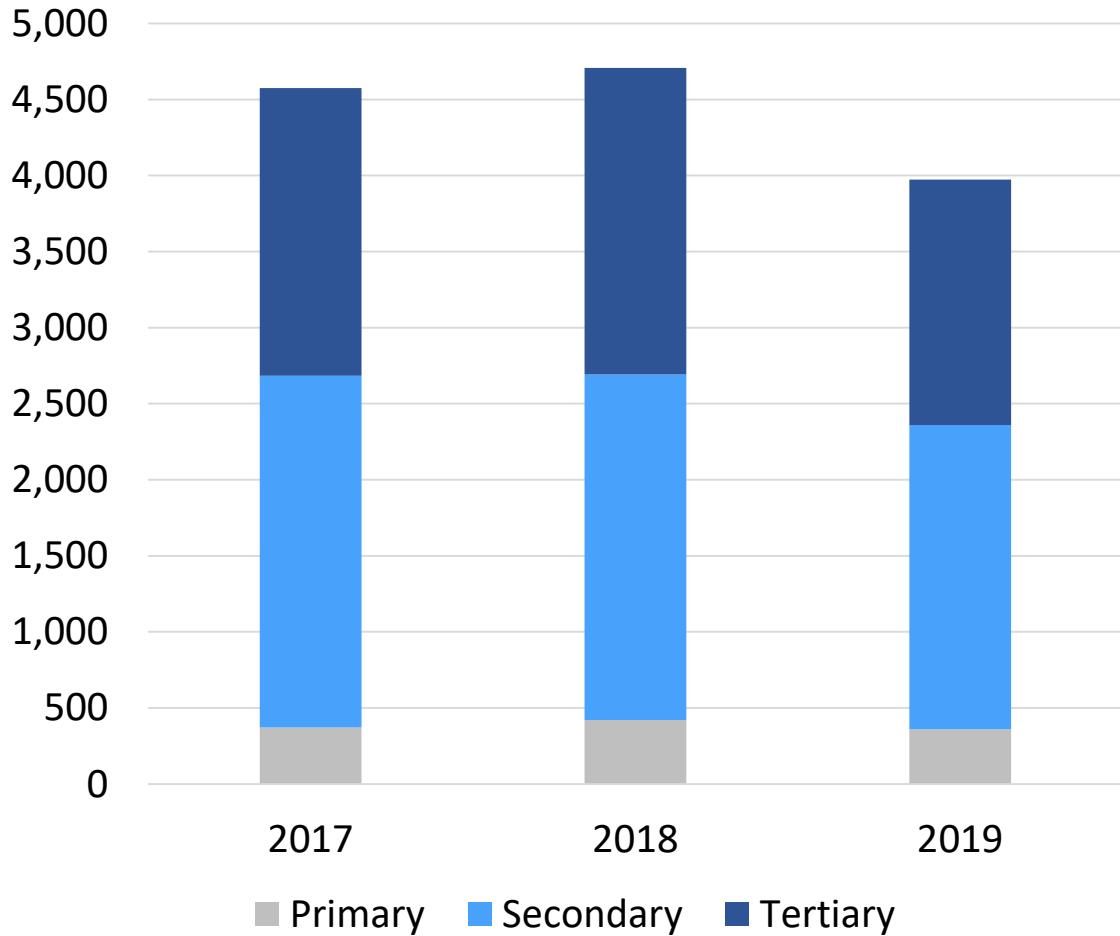


Multifamily Transactions Fairly Stable Over Past Five Years, But With Higher Dollar Amounts

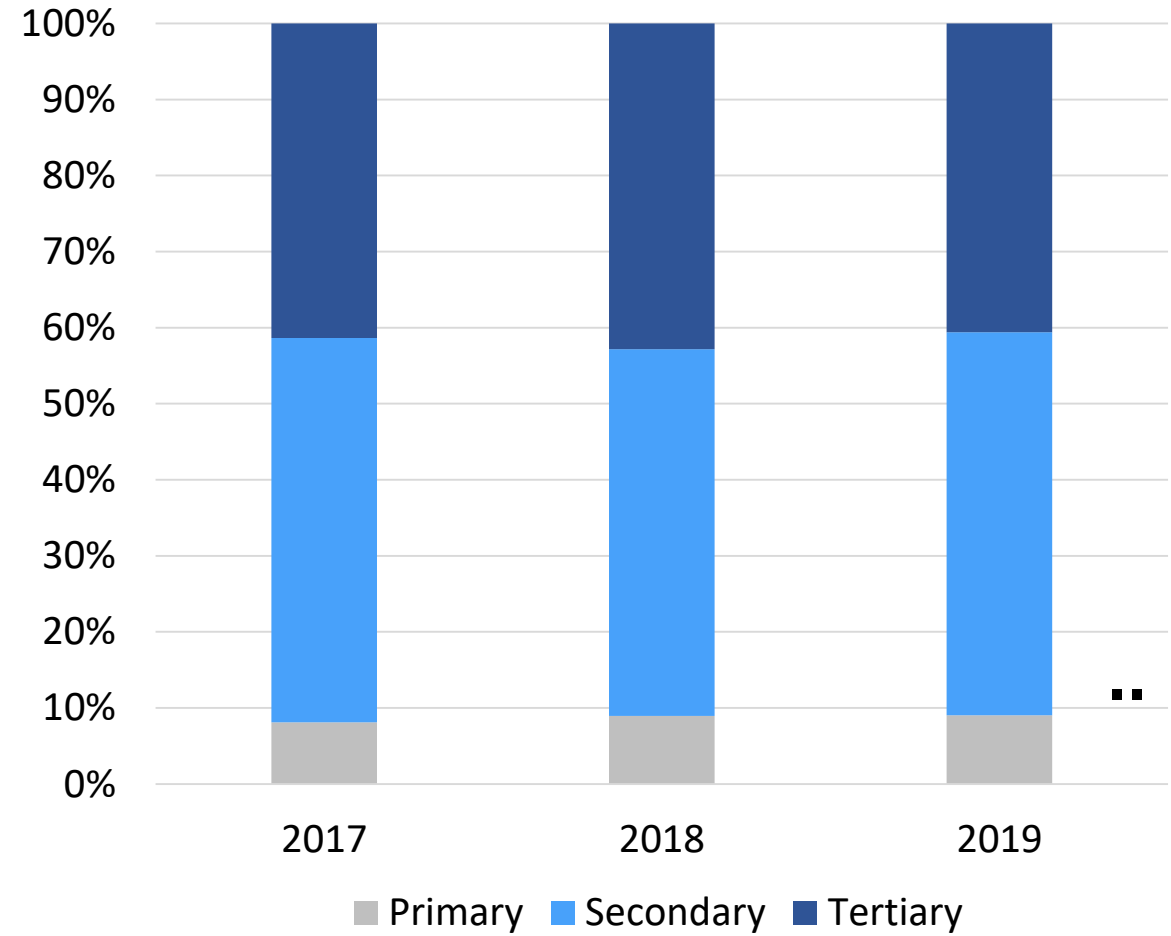


Multifamily Sales Are Concentrated in Tech Hub & Tertiary Markets

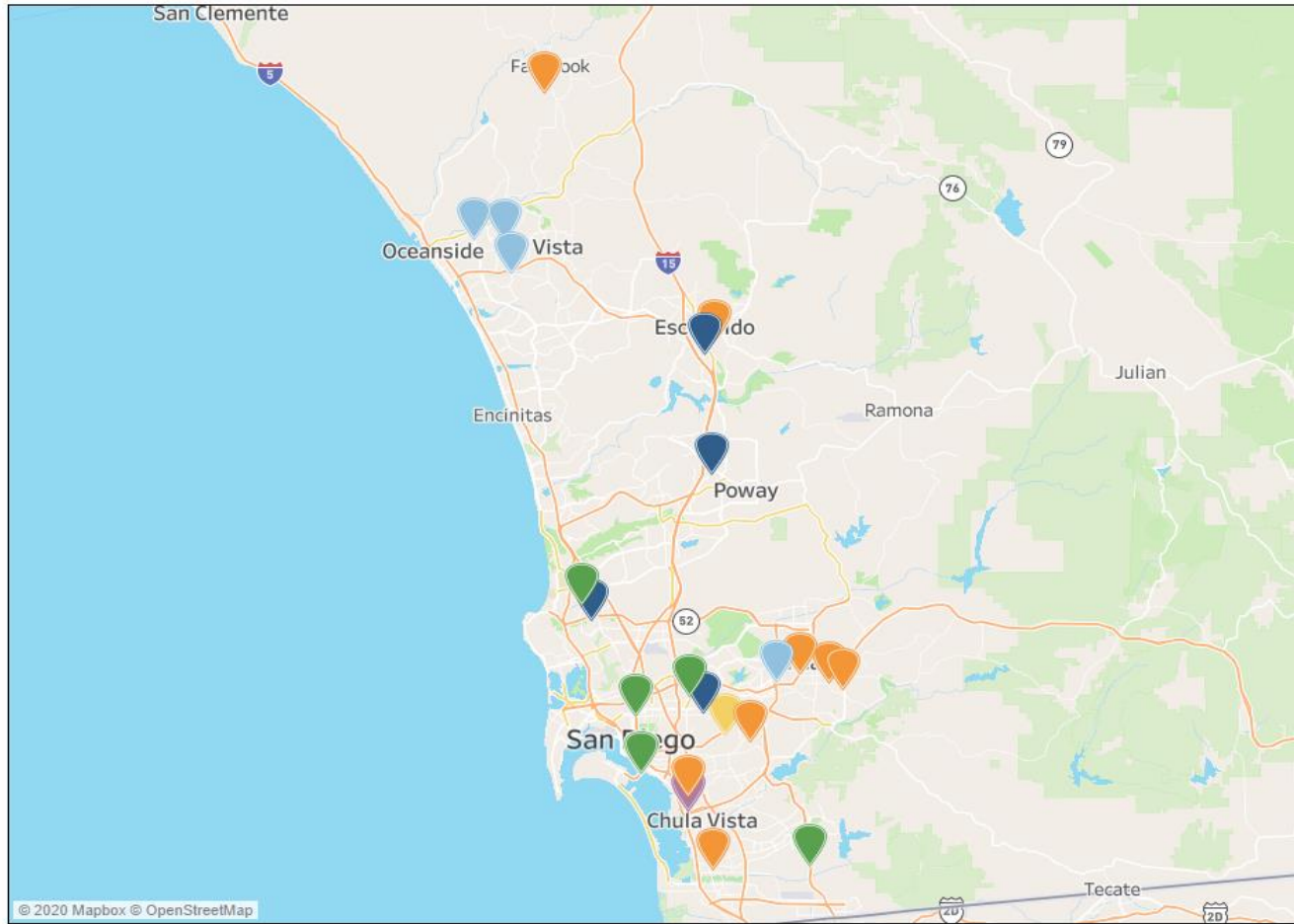
Properties Sold by Market Type



% of Properties Sold by Market Type



San Diego Multifamily Transaction Composition in 2019

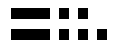


Property Asset Class

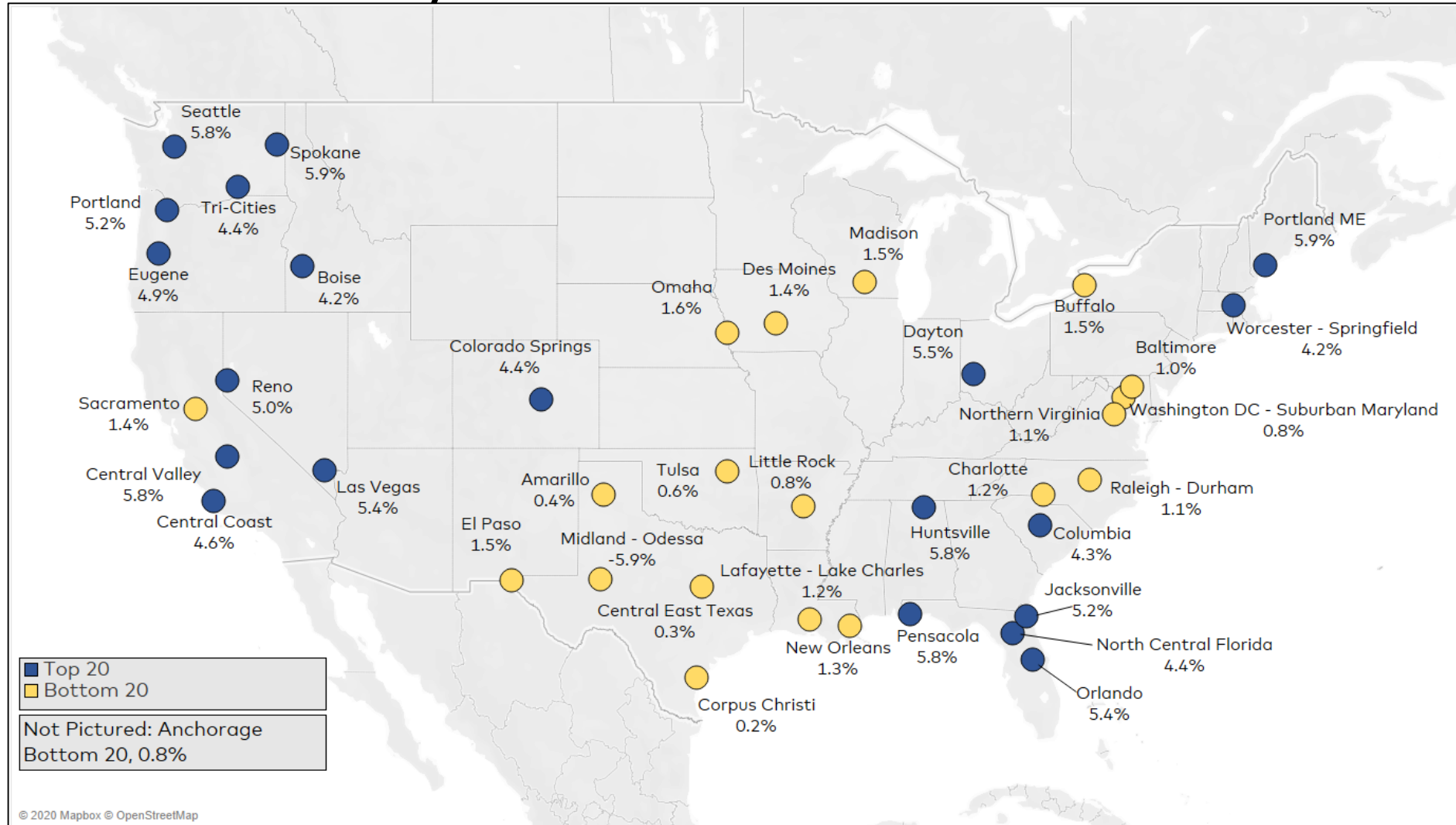
- Discretionary
- Upper Mid-Range
- Low Mid-Range
- Workforce - Upper
- Workforce - Lower
- Fully Affordable

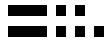
2019 Transactions		
	#	% of Stock
Properties Sold	23	1.9%
Units Sold	4,503	2.5%

2019 Sales Prices		
	San Diego	National
Avg. Sales Price per Unit	\$319,242	\$155,916
Avg. Sales Price per Unit for Low Mid-Range Assets	\$293,472	\$129,270
1-Year Sales Price Growth for Low Mid-Range Assets	3.0%	8.4%
5-Year Sales Price Growth for Low Mid-Range Assets	92.8%	50.7%



Western & Sunbelt Markets Will Have Most Multifamily Rent Growth Over the Next Year





SUMMARY



1

Demand is strong, but there are constraints on supply due to construction delays & financing – national supply growth is expected to steadily drop through 2024

2

Rent growth continues to hum along, with lower asset classes outperforming; our rent forecast for 2020 shows strong performance in the northwest & southeast regions

3

Sales prices continue to rise, & most transactions occur in tech hub & tertiary markets, where population is also growing

4

Our new supply forecast shows Dallas, Washington, D.C. & Seattle topping the list for the most deliveries expected between 2020 to 2024

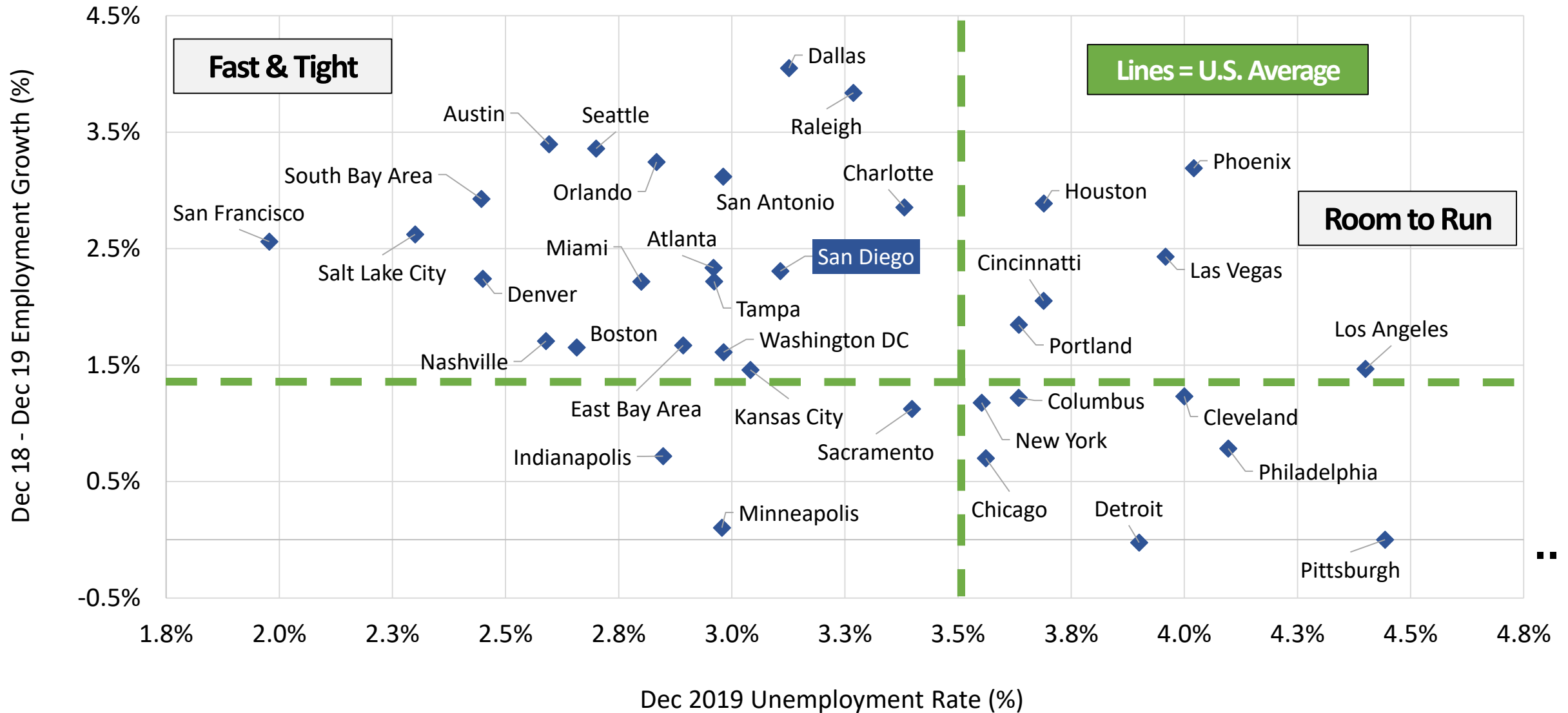


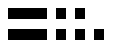


OFFICE FUNDAMENTALS



Tech Hub Markets Have Most Dynamic Job Growth

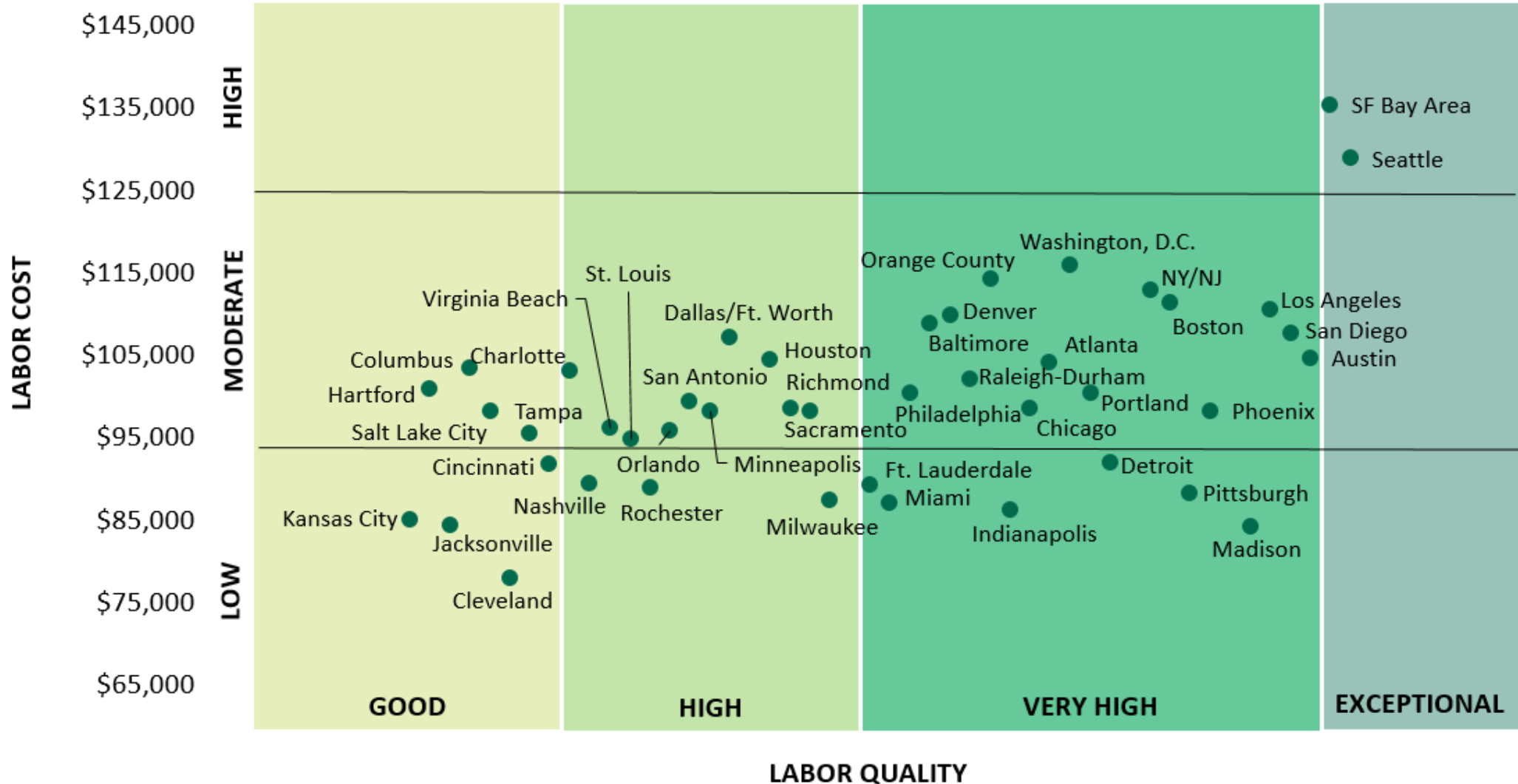


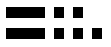


Tech Talent Quality vs. Cost Analysis



Average Annual Salary for Software Engineer (USD)

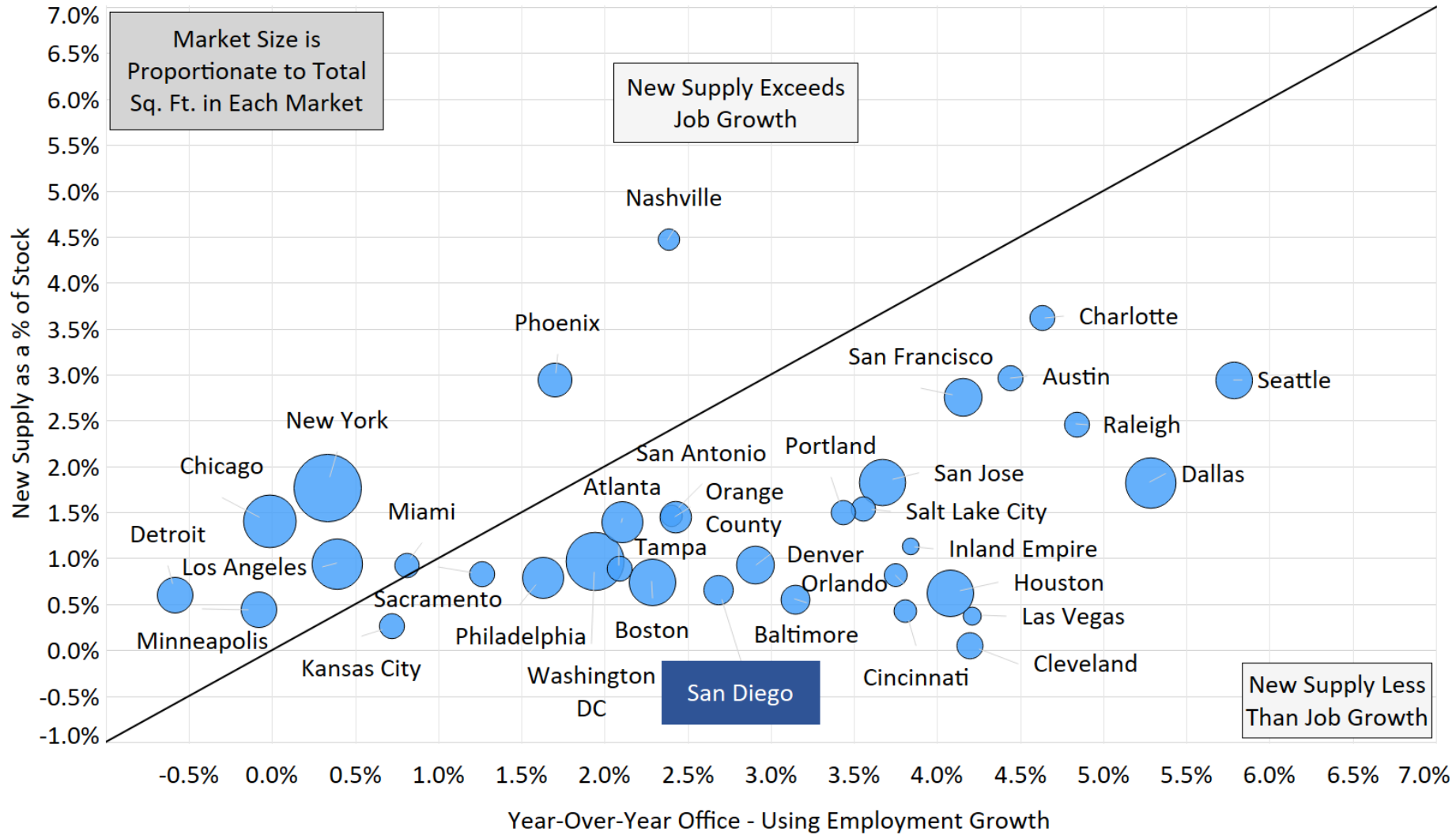


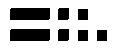


Most Markets Are Absorbing Office Space



Employment and Supply Growth: December 2018 - December 2019





Office Fundamentals Improving in Tech Hub Markets



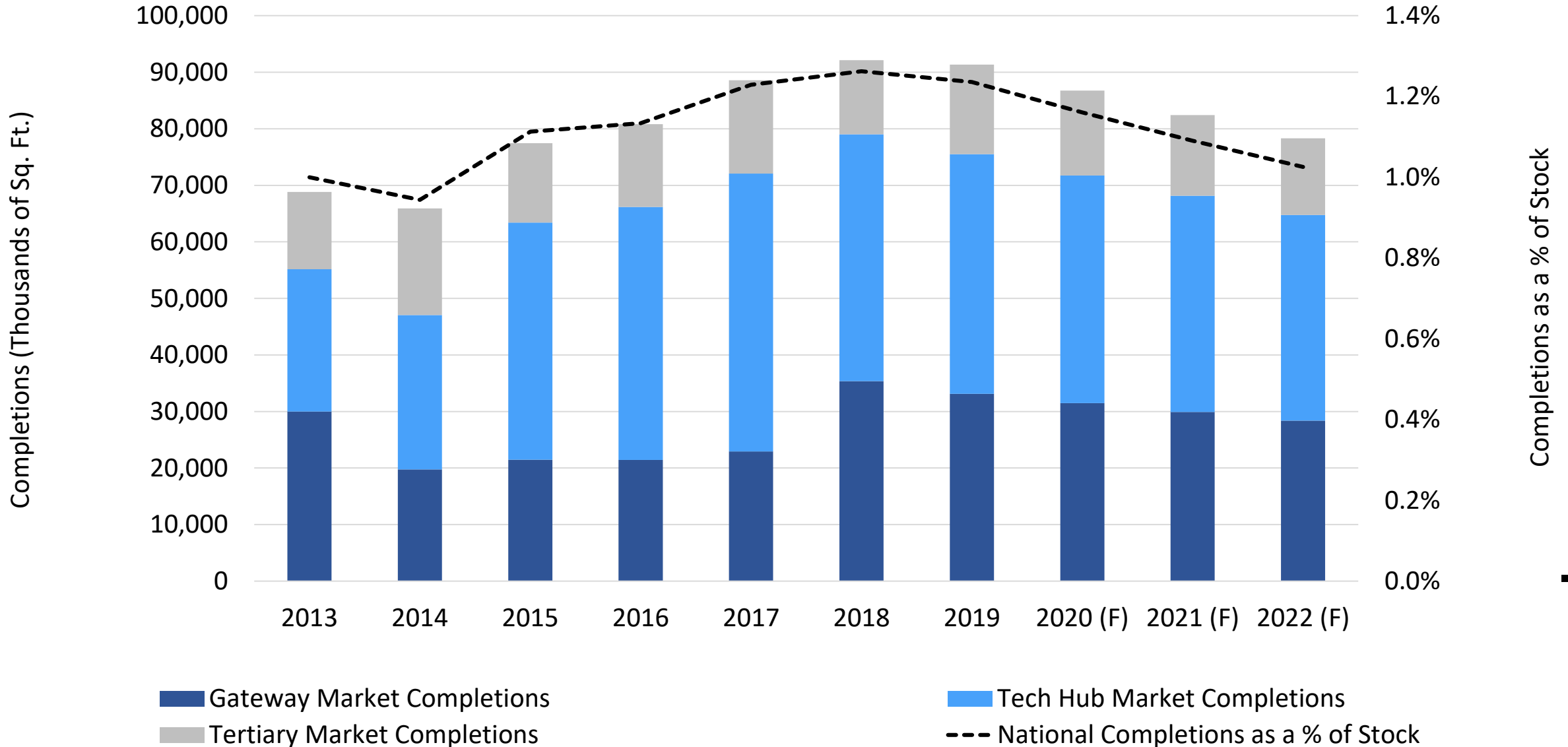
Top 10 Markets					
Market	Same Store 12-Month Change in Full-Service Equivalent Asking Rents	12-Month Change in Vacancy Rate	January Full-Service Equivalent Asking Rent	January Vacancy Rate	New Supply as a % of Stock Last 12 Months
Manhattan	13.4%	-1.4%	\$85.8	7.7%	1.2%
San Francisco	8.8%	-0.9%	\$71.0	7.5%	2.8%
Tampa - St Petersburg	6.7%	-0.3%	\$29.7	10.9%	0.9%
Atlanta	5.0%	0.0%	\$27.6	15.8%	1.6%
Charlotte	4.5%	-0.3%	\$28.4	10.3%	3.6%
West Palm Beach	3.5%	1.4%	\$34.7	13.1%	1.5%
Pittsburgh	3.4%	1.0%	\$24.5	13.9%	0.9%
Los Angeles	3.4%	-0.8%	\$39.1	12.3%	1.1%
Brooklyn	3.2%	2.4%	\$54.7	11.2%	8.0%
Austin	3.1%	-1.7%	\$41.5	8.0%	3.0%
San Diego	3.0%	-1.4%	\$37.9	11.5%	0.7%

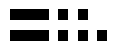
Office Fundamentals Improving in Tech Hub Markets

Bottom 10 Markets

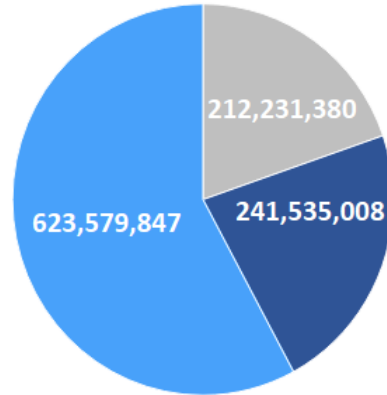
Market	Same Store 12-Month Change in Full-Service Equivalent Asking Rents	12-Month Change in Vacancy Rate	January Full-Service Equivalent Asking Rent	January Vacancy Rate	New Supply as a % of Stock Last 12 Months
Birmingham	-2.1%	1.3%	\$19.8	16.3%	1.0%
Cleveland - Akron	-2.2%	4.1%	\$19.8	16.7%	0.0%
Phoenix	-2.3%	2.3%	\$27.1	18.3%	3.0%
Minneapolis - St. Paul	-3.0%	1.2%	\$24.9	12.0%	0.4%
Las Vegas	-3.7%	-1.9%	\$25.2	13.3%	0.4%
Cincinnati	-5.0%	-1.0%	\$16.2	18.3%	0.5%
Boston	-5.9%	0.9%	\$36.8	9.5%	0.8%
Chicago	-6.1%	1.0%	\$26.1	15.0%	1.4%
Central Valley	-6.4%	2.8%	\$23.9	9.6%	0.6%
Columbus	-6.6%	-0.1%	\$17.3	14.2%	1.9%
San Diego	3.0%	-1.4%	\$37.9	11.5%	0.7%

Office Supply Additions Peaked in 2018





Where Is Future Office Supply Concentrated?



■ Under Construction Sq. Ft.

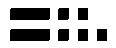
■ Planned Sq. Ft.

■ Prospective Sq. Ft.

Top 10 Markets	Sq. Ft. UC (MM)	UC as a % of Existing Stock
Austin	11.7	14.4%
Brooklyn	3.2	8.4%
Seattle	13.8	8.3%
Charlotte	5.6	7.3%
Nashville	4.0	6.7%
San Francisco	10.3	5.8%
Queens	1.2	5.3%
Miami	3.6	5.0%
Urban Boston	13.2	4.9%
Carolina Triangle	3.6	4.7%

Top 10 Markets	Sq. Ft. Planned (MM)	Planned as a % of Existing Stock
Austin	12.2	15.1%
Nashville	5.1	8.5%
Wilmington	0.3	7.9%
Phoenix	10.3	7.2%
Mobile	0.5	7.2%
Carolina Triangle	5.5	7.1%
Fort Wayne	0.6	7.0%
San Francisco	12.4	7.0%
Brooklyn	2.6	6.7%
Long Island	3.6	6.6%

Top 10 Markets	Sq. Ft. Prospective (MM)	Prospective as a % of Existing Stock
Nashville	15.3	25.4%
Bay Area	59.3	22.5%
Austin	17.2	21.2%
Brooklyn	6.4	16.7%
Jacksonville	7.0	16.6%
Atlanta	31.3	14.8%
Washington, D.C.	58.3	14.2%
Charlotte	10.7	14.0%
Orlando	8.9	13.8%
West Palm Beach	5.0	13.6%



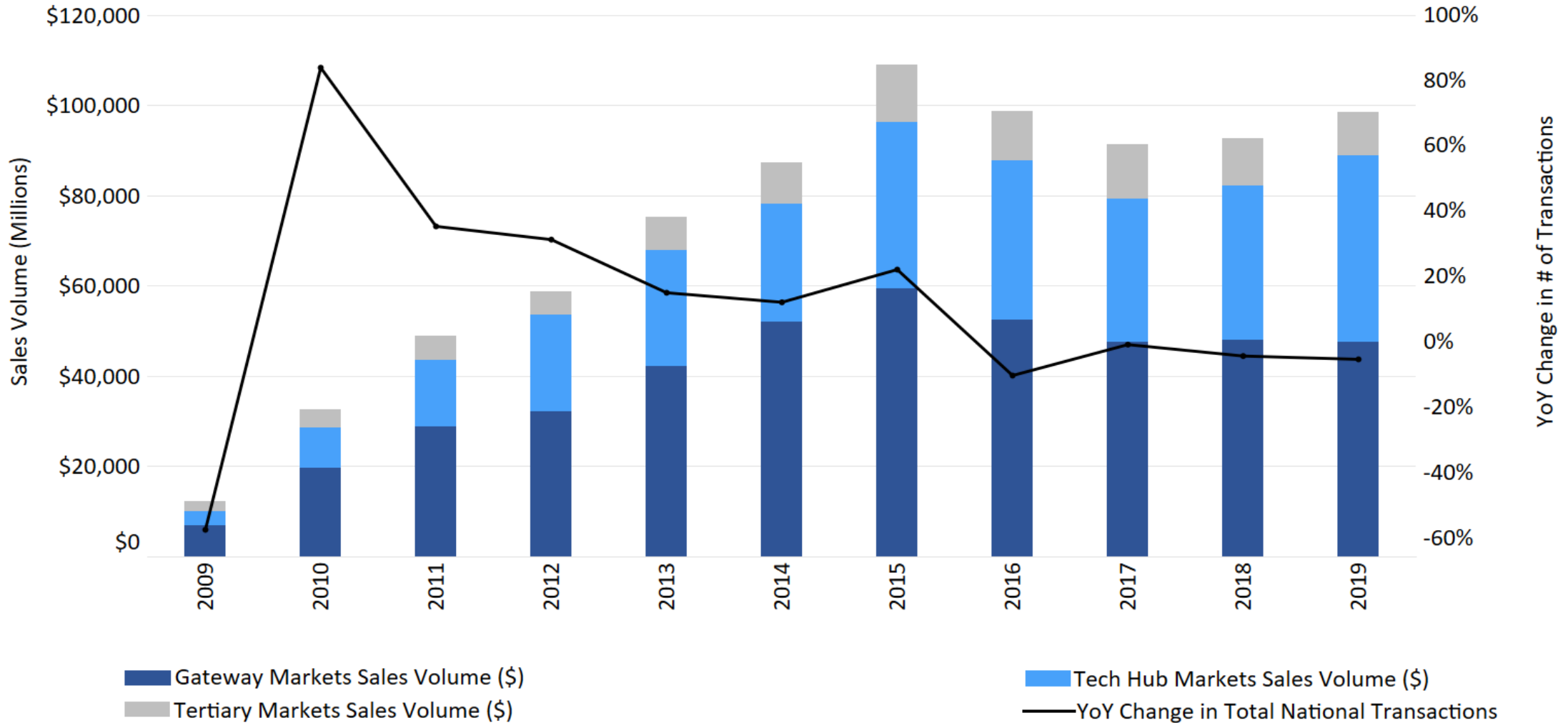
Top 20 Largest Office Projects Under Construction



Property Name	Market	Square Footage
50 Hudson Yards	Manhattan	2,900,000
The Spiral	Manhattan	2,800,000
Microsoft Redmond Main Campus - Redevelopment	Seattle	2,500,000
Apple West Parmer Lane Campus	Austin	2,000,000
Two Manhattan West	Manhattan	1,840,000
One Vanderbilt	Manhattan	1,755,814
110 North Wacker	Chicago	1,565,909
3 Hudson Blvd	Manhattan	1,538,210
BMO Tower	Chicago	1,537,076
Winthrop Center	Boston	1,511,000
First Street Tower of Oceanwide Center	San Francisco	1,491,019
Google Hudson Square - 550 Washington Street	Manhattan	1,300,000
California Market Center	Los Angeles	1,296,360
State Farm at Park Center - Phase II	Atlanta	1,160,000
Texas Tower	Houston	1,155,000
6x Guadalupe	Austin	1,149,386
South Station - Phase 1	Boston	1,039,000
Hub on Causeway - Office Building	Boston	1,036,500
Charlotte Metro Tower	Charlotte	1,025,000
Block 216 Tower	Portland	1,022,200

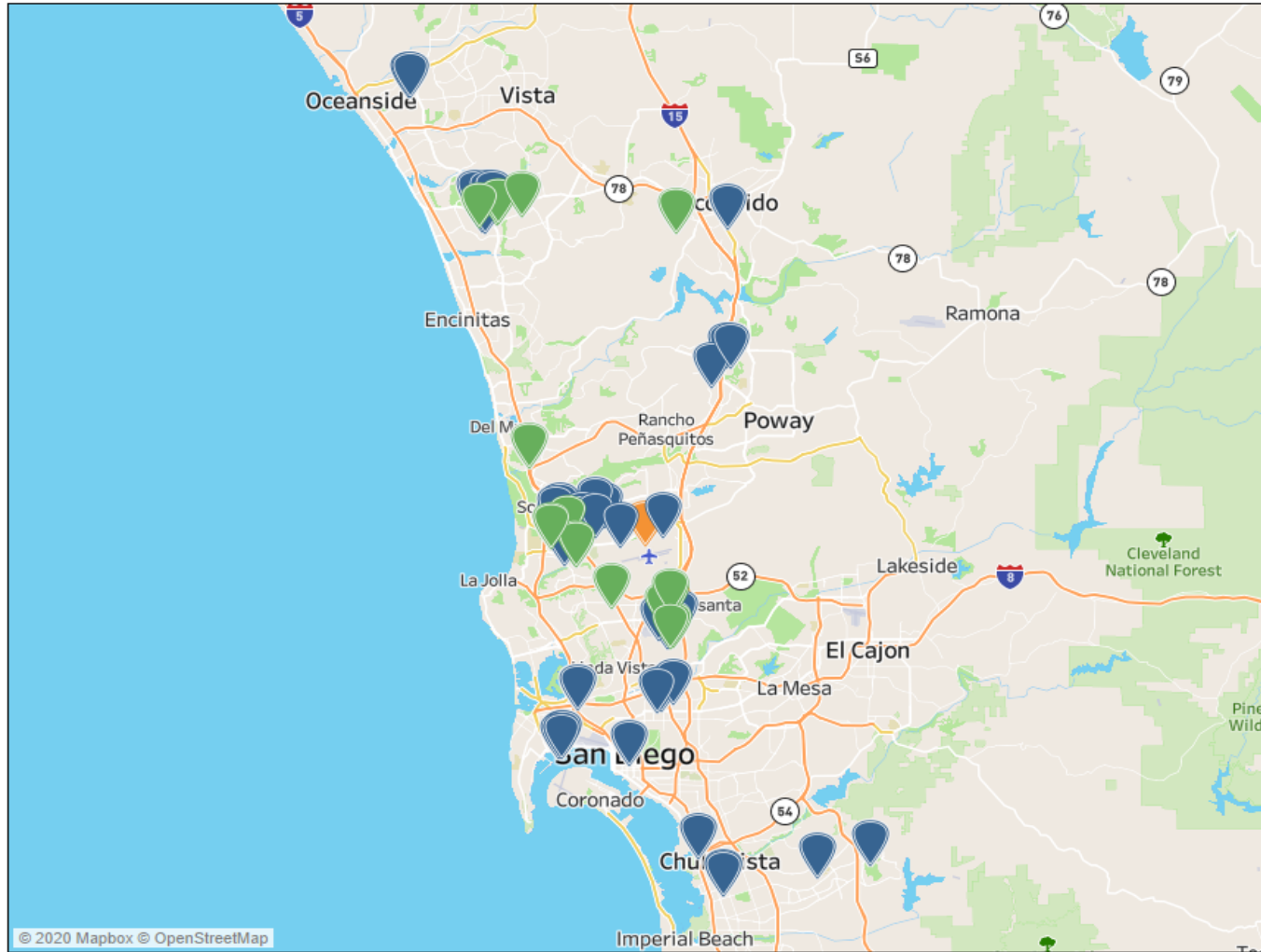


2019 Office Sales Volume In Line With Last Two Years





San Diego Office Transaction Composition in 2019



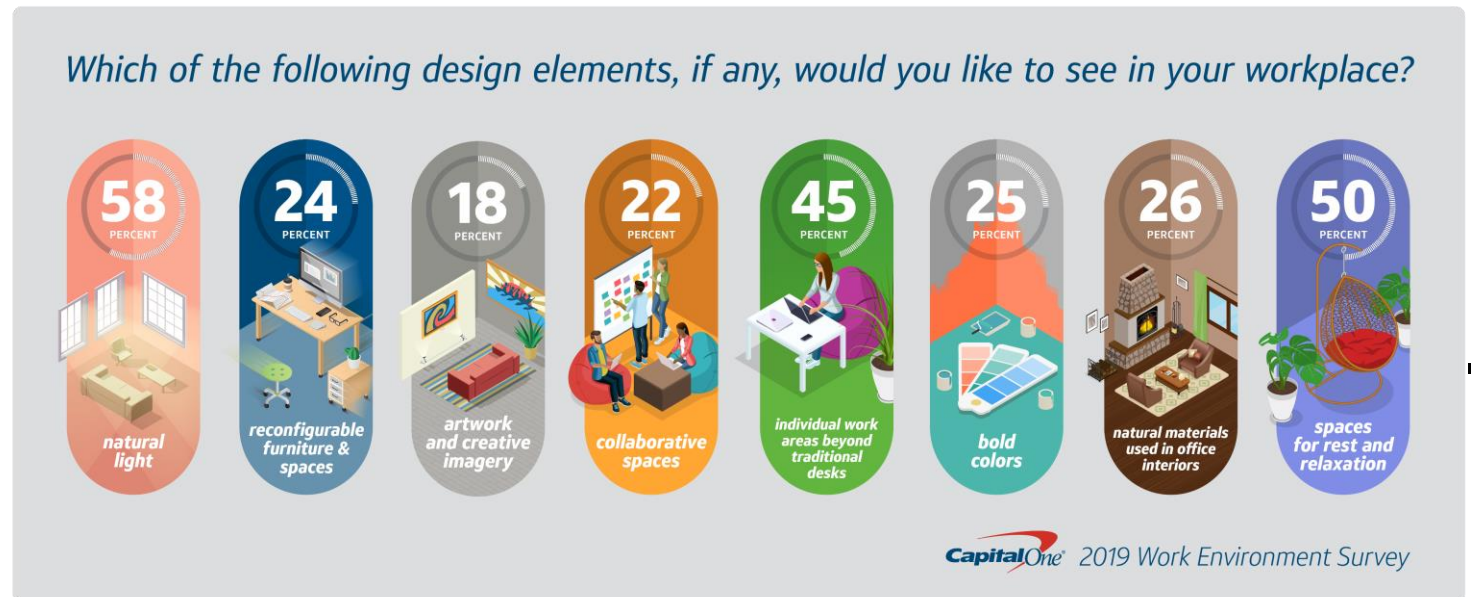
Building Class: ■ A ■ B ■ C

2019 Transactions		
	#	% of Stock
Properties Sold	66	6.0%
Sq. Ft. Sold	5,211,372	5.0%

2019 Sales Prices		
	San Diego	National
Avg. Sales Price per Sq. Ft.	\$381.68	\$275.67
Avg. Sales Price per Sq. Ft. for Class A+/A Assets	\$519.1	\$369.15
1-Year Sales Price per Sq. Ft. Growth for Class A+/A Assets	39.4%	12.3%
5-Year Sales Price per Sq. Ft. Growth for Class A+/A Assets	93%	24.5%

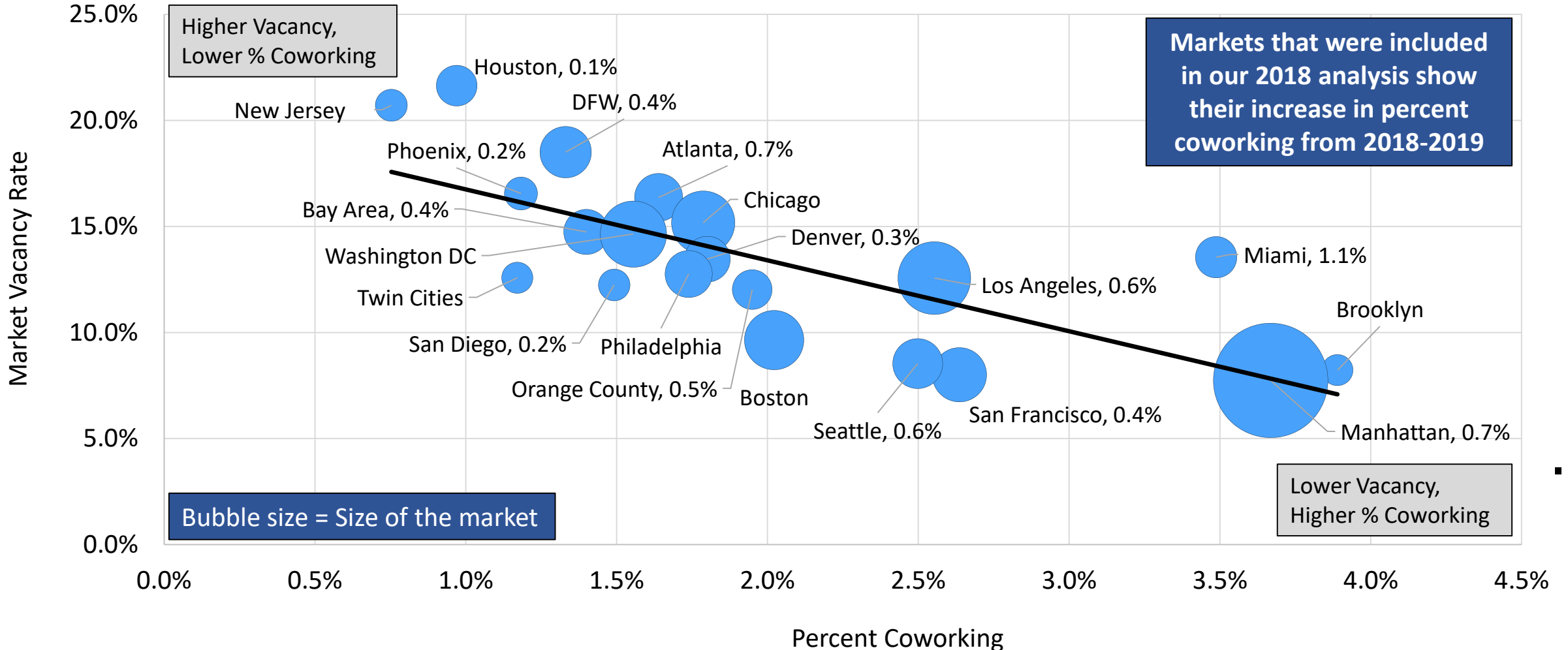
Secular Pressures Continue to Alter the Office Market

- Coworking
 - Pulls roughly 1-3% of market demand from traditional office leases
 - More highly concentrated in dense, high-cost gateway markets
 - More players have entered the market: CBRE, JLL, Tishman, Savills
- Decreasing square foot per employee
 - Specifically in CBD and high-cost metros
- Talent pool for office-using employment – office is becoming more about the *experience*
 - Diversifying and moving to lower-cost markets
 - Capital expenditures are rising in office assets as the labor market tightens and office occupiers view space as a part of HR strategy



Markets With Lower Vacancy Rates Have Higher Proportion of Coworking Space

Market Vacancy vs. Percent Coworking

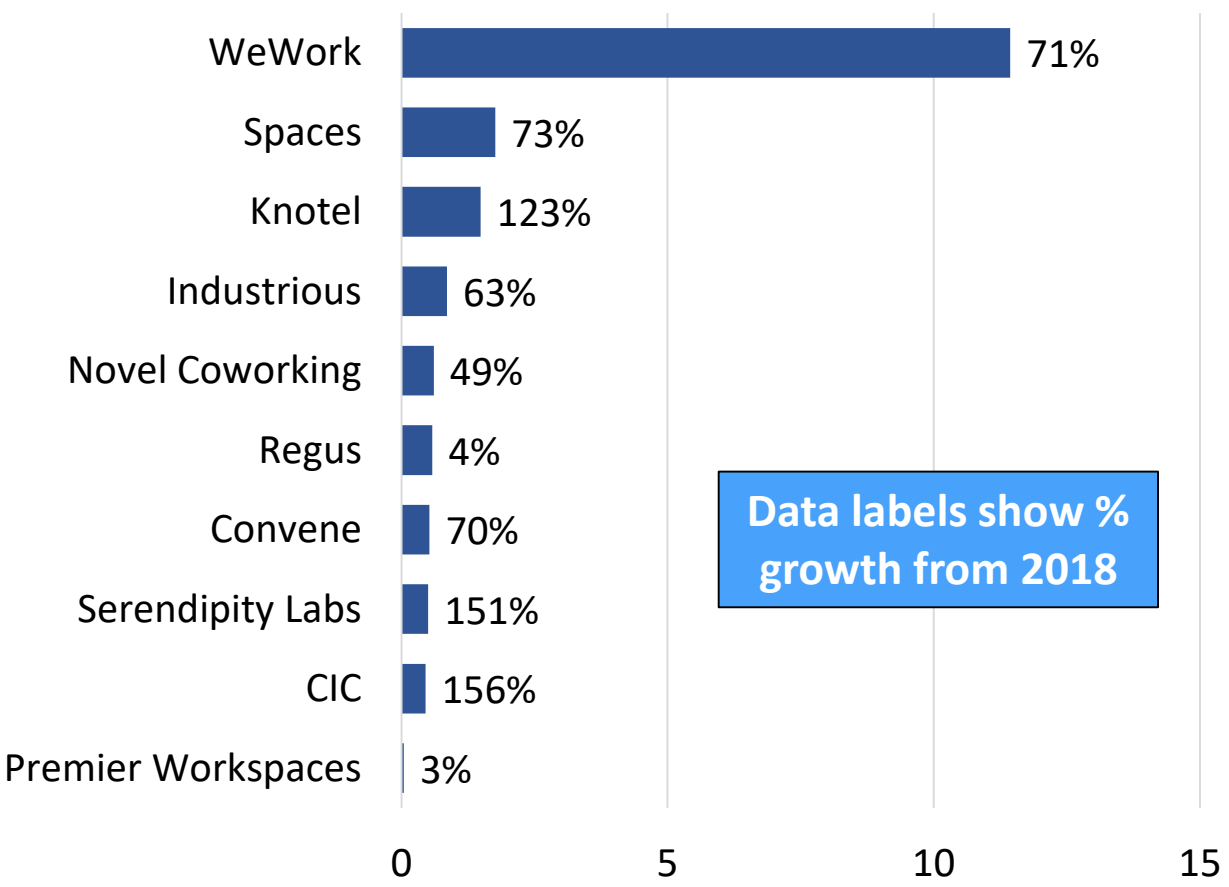




Since Our 2018 Report, WeWork's Footprint Grew by 11 Million Sq. Ft. or 71% in 20 Metros

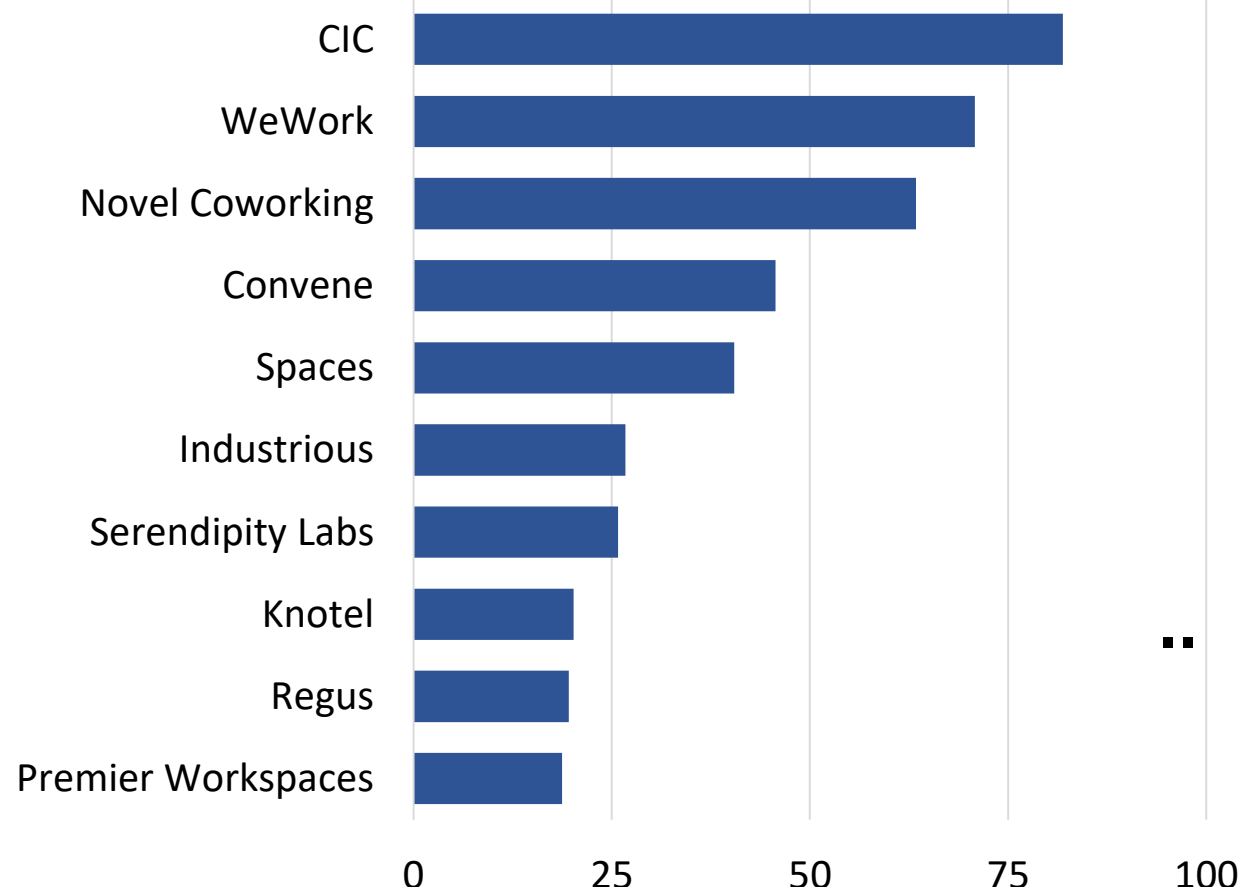


2018-2019 Growth in Total Sq. Ft. (Millions)



Data labels show % growth from 2018

Average Sq. Ft. in 2019 (Thousands)



Capital Expenditures Rising as Office Space Becomes Draw for Top Talent

MULTIFAMILY	San Diego	Atlanta	Austin	Boston	Dallas	Manhattan	Miami	San Francisco	Washington D.C.
Net Operating Income	\$14,560	\$8,685	\$7,717	\$15,161	\$7,531	\$19,951	\$11,602	\$21,200	\$11,554
CapEx	\$1,699	\$2,063	\$1,510	\$2,143	\$1,623	\$2,204	\$1,459	\$1,394	\$1,601
CapEx as a % of NOI	11.7%	23.8%	19.6%	14.1%	21.6%	11.0%	12.6%	6.6%	13.9%

OFFICE	San Diego	Atlanta	Austin	Boston	Dallas	Manhattan	Miami	San Francisco	Washington D.C.
Net Operating Income	\$18.05	\$13.57	\$19.97	\$20.36	\$10.86	\$32.08	\$18.37	\$36.92	\$20.59
CapEx	\$4.75	\$3.83	\$4.92	\$4.33	\$4.00	\$6.19	\$5.50	\$6.18	\$5.11
CapEx as a % of NOI	26.3%	28.2%	24.6%	21.3%	36.8%	19.3%	29.9%	16.7%	24.8%



SUMMARY



1

New supply peaked in 2018 & various factors are reducing demand for office space

- Coworking
- Telecommuting
- Outsourcing

2

Both gateway & tech hub markets saw rising asking rents over the past year, with the highest growth in Manhattan, San Francisco, Tampa, Atlanta & Charlotte

3

Transactions are falling nationally, but sales prices have been increasing

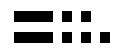
- Prices for Class A assets have increased more than B & C since the recession





CITY SPOTLIGHT





What Helps a City Reach Its Critical Point to Succeed?



ALL EXISTING TECH MARKETS HAVE THESE CHARACTERISTICS TO SOME DEGREE

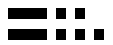
PUBLIC & PRIVATE
PARTNERSHIPS

FRIENDLY BUSINESS
ENVIRONMENT

COMMUNITY & AMENITIES THAT
RETAIN & DRAW IN TALENT

EDUCATED WORKFORCE





What's Going on in San Diego?



PUBLIC & PRIVATE PARTNERSHIPS

- \$1.5 billion Manchester Pacific Gateway development
 - Developer has identified equity sources as pension & other funds tied to major Fortune 500 companies
 - 17-story, 372,000-square-foot Navy headquarters, two hotels, retail & a museum
- Toyota Motor Sales partnership with the City of San Diego; provided San Diego lifeguards with 34 vehicles

FRIENDLY BUSINESS ENVIRONMENT

- State Rank #31
- California Competes Tax Credit provides an income tax credit for businesses choosing to come to or stay in California
- Business Incentive Program to attract small and mid-sized firms; to qualify, a business must either: create/retain 10 jobs, create/retain 3 jobs in a low-to-moderate-income area or make a \$5 million capital investment

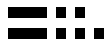
COMMUNITY & AMENITIES THAT RETAIN & DRAW IN TALENT

- New live-work-play community planned (3Roots San Diego)
 - 1,800 residential units, 120,000-square-foot retail, 20,000-square-foot office and a 23-acre park
- Revitalized Westfield UTC mall
 - 149,000-square-foot Nordstrom, 90 new stores in 251,000-square-foot, five-level parking garage
 - Additional plans include 300 residential units

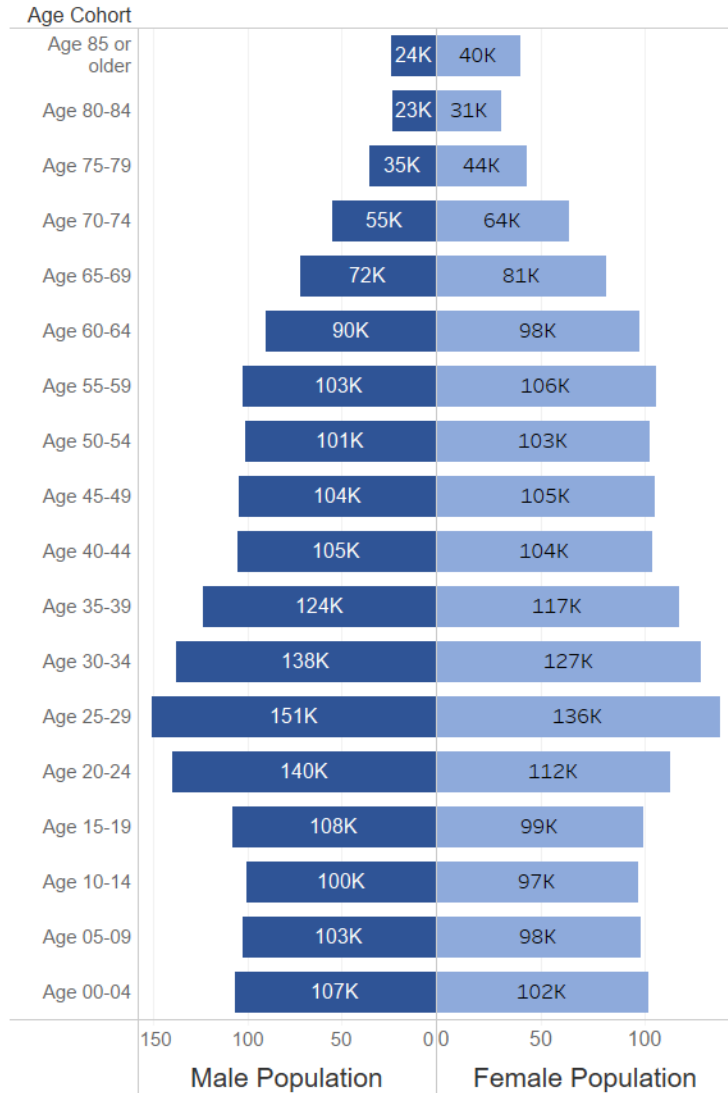
EDUCATED WORKFORCE

- 44% of adults in the City of San Diego have a bachelor's degree or higher

University	Approx. Enrollment 2018
University of California, San Diego	37,160
San Diego State University	34,828
San Diego Mesa College	24,251
San Diego City College	16,310
University of San Diego	9,073

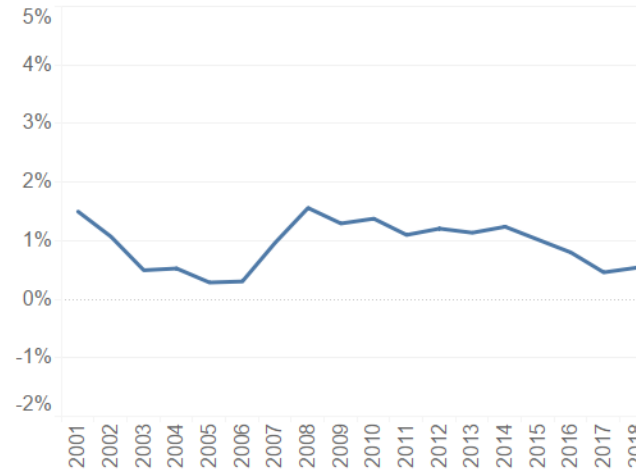


San Diego Demographics Overview



Source: U.S. Census Bureau (BOC); Moody's Analytics

YOY Population Growth



Source: U.S. Census Bureau (BOC); Moody's Analytics

IRS Migration Data (2016)

Domestic Migrants Into San Diego

Coming From	Count
California	43,857
Texas	5,205
Virginia	4,626
Arizona	4,595
Florida	4,307
Washington	3,253
Illinois	2,747
New York	2,676
Nevada	2,330
Hawaii	2,306

Total Inbound Residents

106,509

Domestic Migrants Leaving San Diego

Heading to

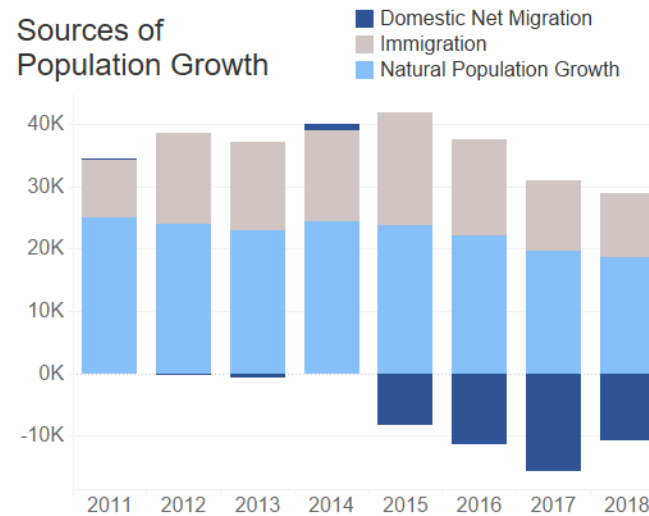
California	45,376
Texas	7,836
Arizona	6,331
Washington	5,507
Florida	4,676
Virginia	4,444
Nevada	3,519
Oregon	2,824
North Carolina	2,806
Colorado	2,656

Total Outbound Residents

107,647

Source: IRS Statistics of Income (SOI); Moody's Analytics

Sources of Population Growth



Source: U.S. Census Bureau (BOC); Moody's Analytics

San Diego Housing Overview

53.0%

homeownership rate in San Diego

279K

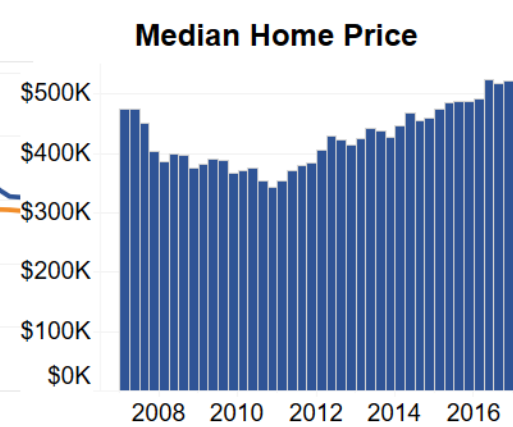
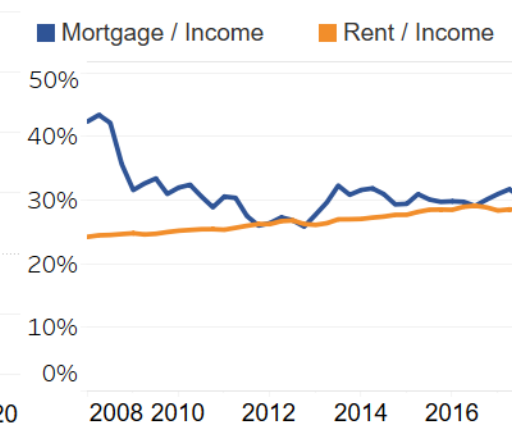
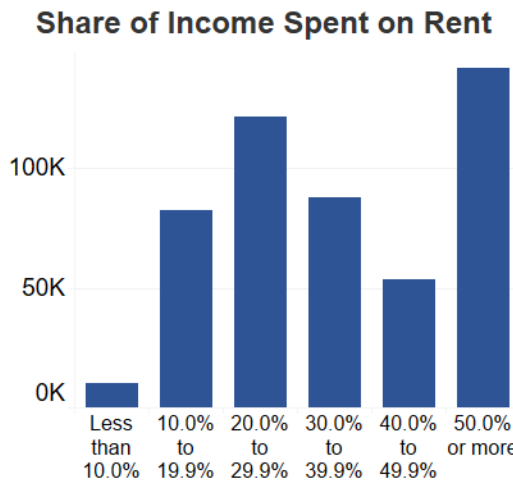
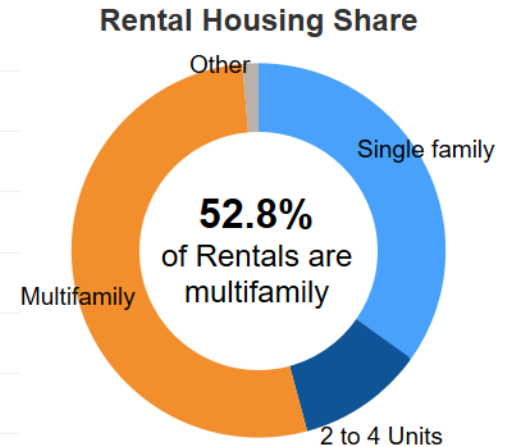
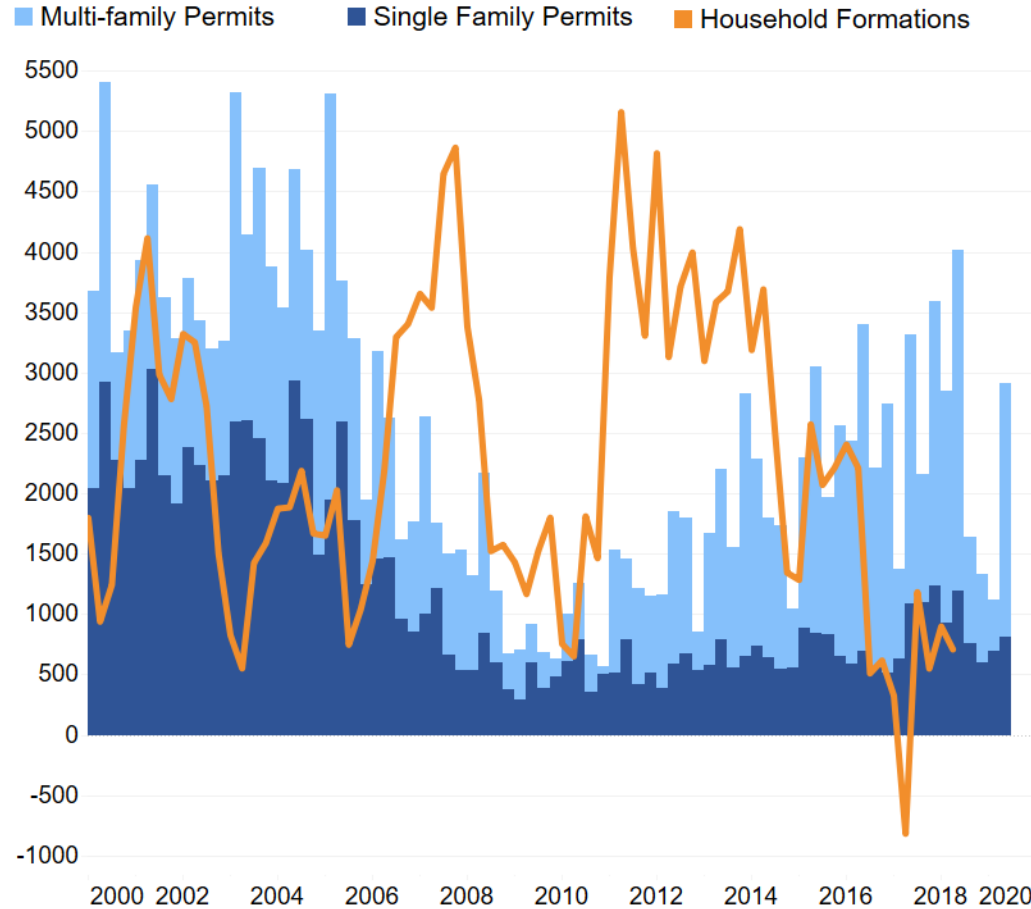
18-34 Year Olds (33.3%) live at home

44.5%

of renter households spend 35% or more of their income on rent

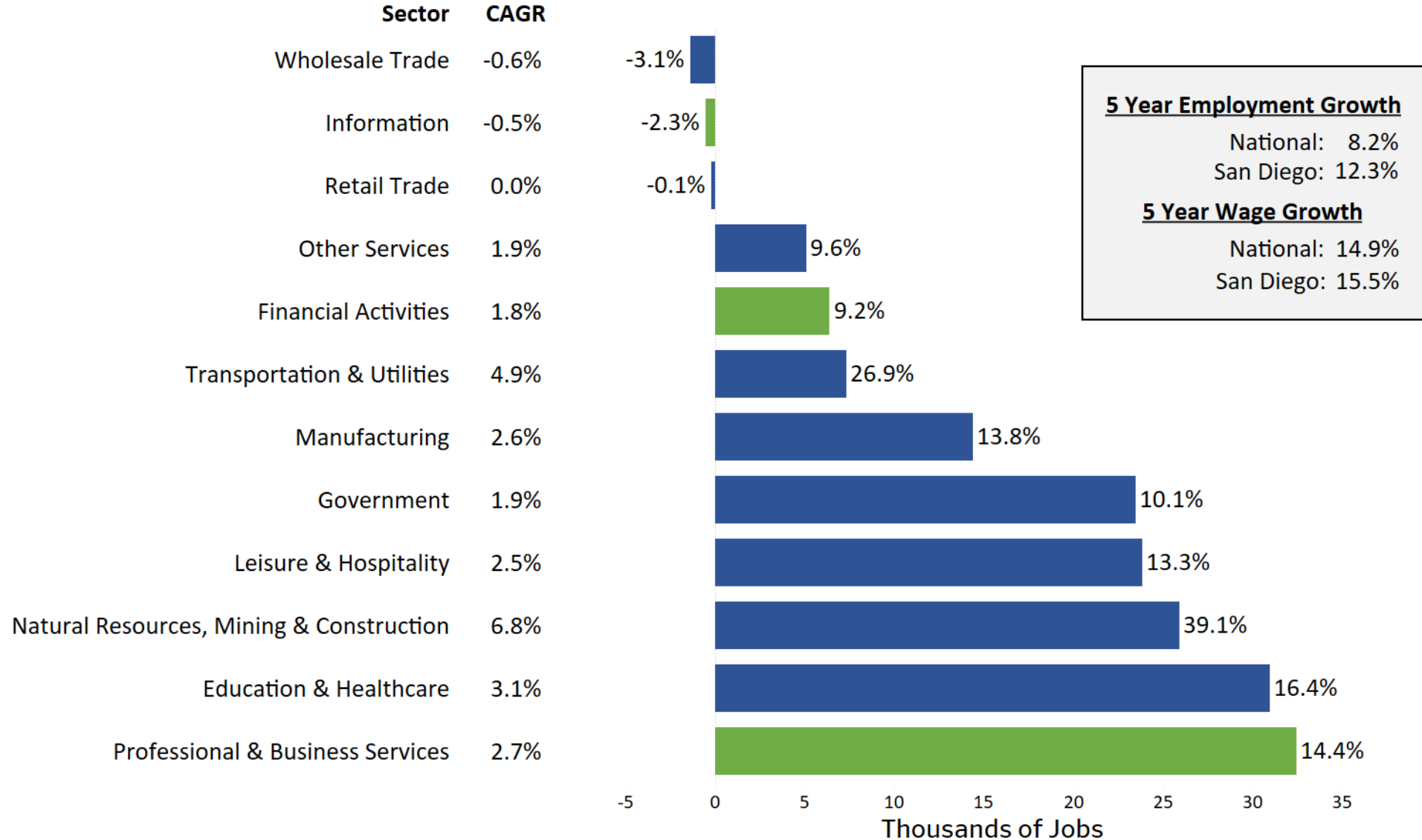
168.0

Regional Price Parity Rent Index US = 100

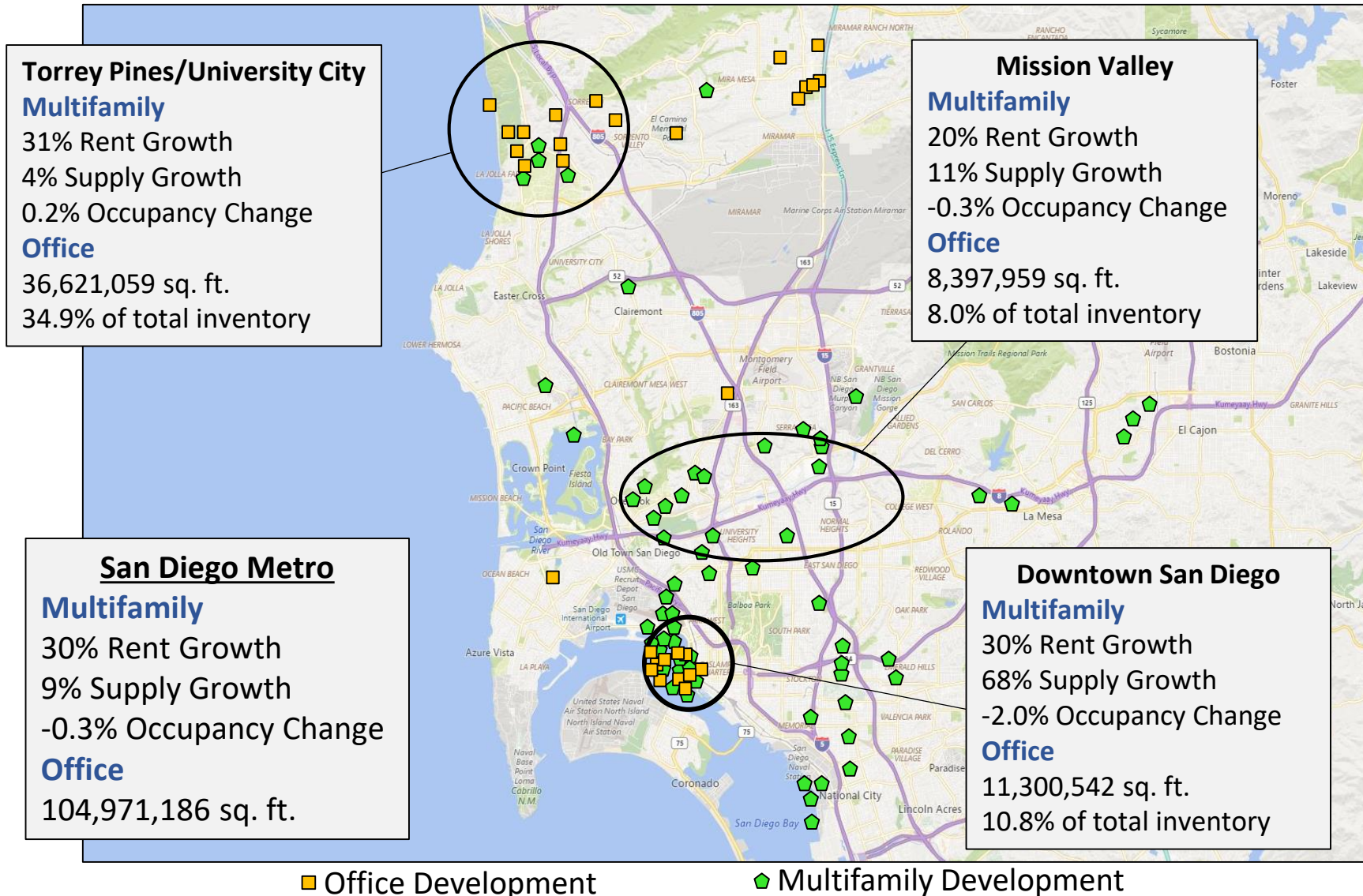




San Diego Employment Growth Dec. 2014 – Dec. 2019



San Diego Intellectual Capital Nodes

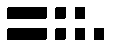




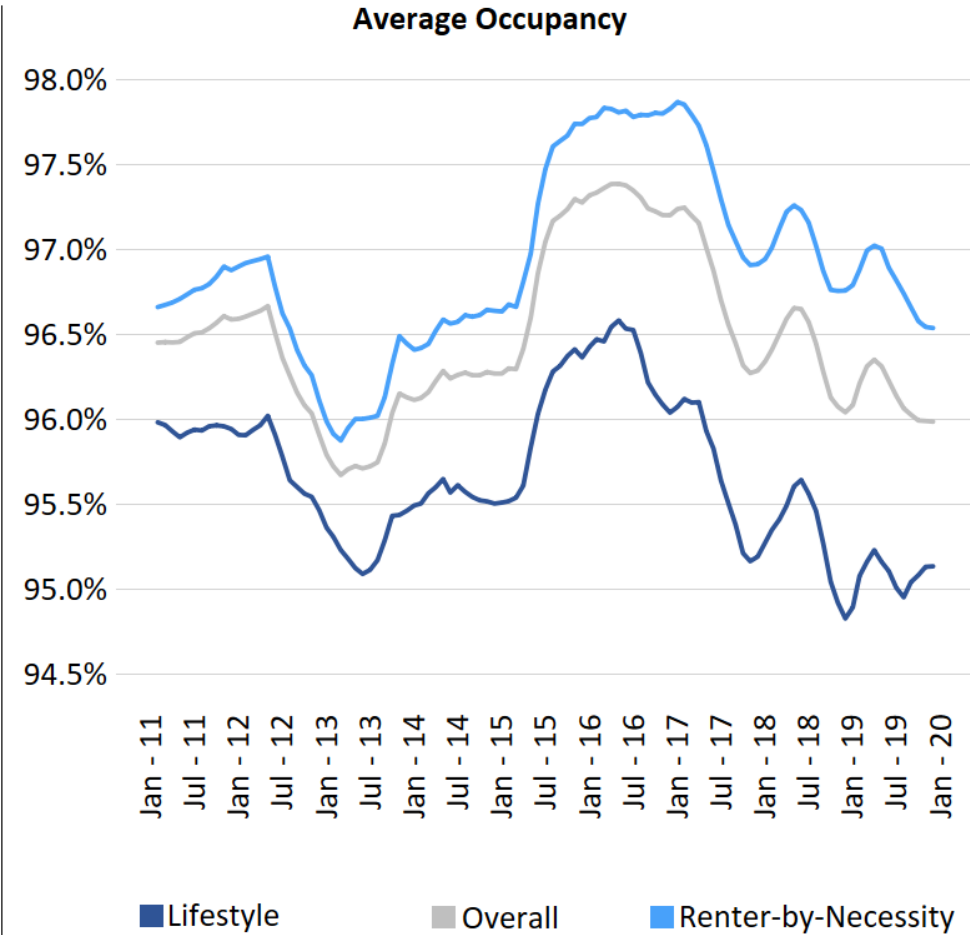
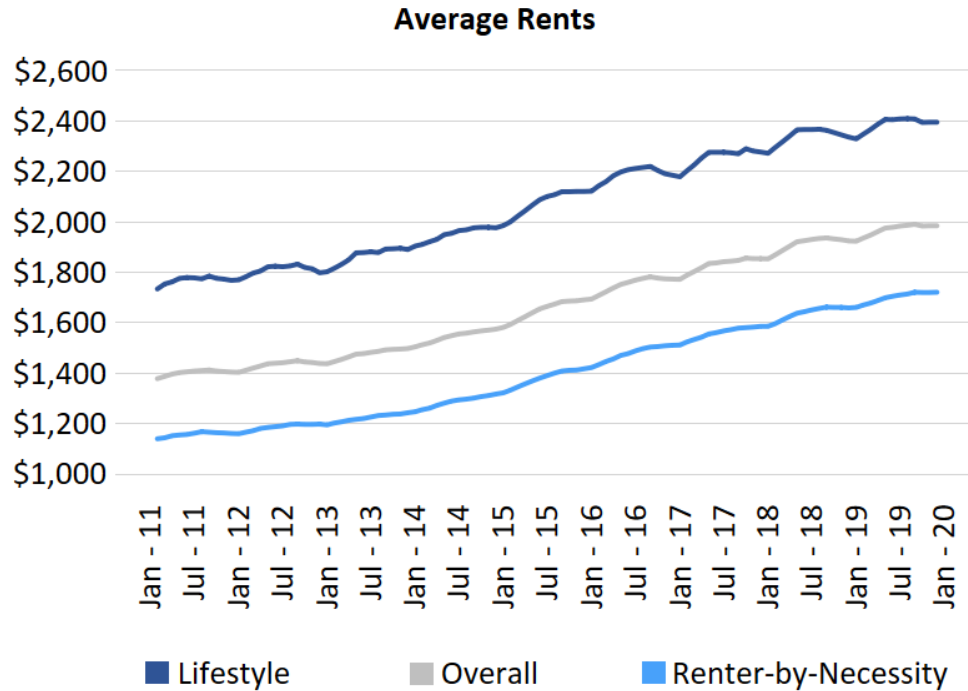
Matrix Expert Multifamily Operating Data Per Unit



12-month period Ending December 2019	San Diego	Atlanta	Austin	Boston	Chicago	Denver	Los Angeles	Manhattan
Total Income	\$23,352	\$15,821	\$15,293	\$25,497	\$23,394	\$18,259	\$28,415	\$36,470
Total Operating Expense	\$8,791	\$7,136	\$7,575	\$10,336	\$10,637	\$6,418	\$11,234	\$16,519
<i>Net Operating Income</i>	<i>\$14,560</i>	<i>\$8,685</i>	<i>\$7,717</i>	<i>\$15,161</i>	<i>\$12,756</i>	<i>\$11,841</i>	<i>\$17,180</i>	<i>\$19,951</i>
Operating Margin	62.4%	54.9%	50.5%	59.5%	54.5%	64.8%	60.5%	54.7%
Cap Rate (December 2019)	4.6%	7.0%	5.4%	4.9%	4.5%	4.9%	4.1%	3.0%



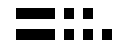
Multifamily Rents & Occupancy: San Diego



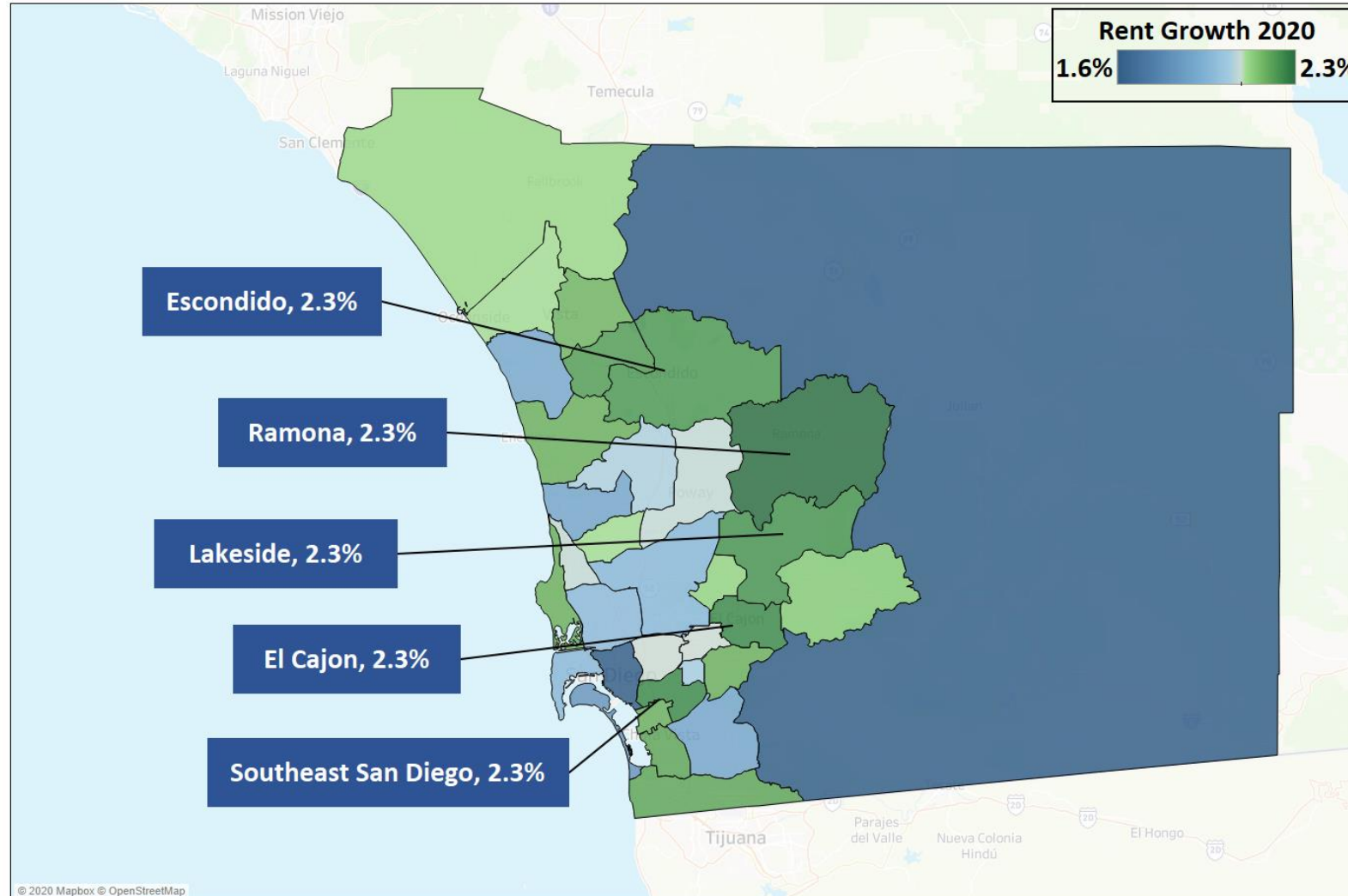
San Diego Asset Class	Rent CAGR 2011 - 2020	Rent Growth 2019 - 2020
Lifestyle	3.6%	2.5%
Renter-by-Necessity	4.7%	3.7%
Overall	4.1%	3.1%

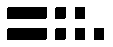
*Rent and occupancy data March 2011 – January 2020

Source: Yardi Matrix; Tableau



San Diego Top 5 Submarkets Multifamily Rent Forecasts



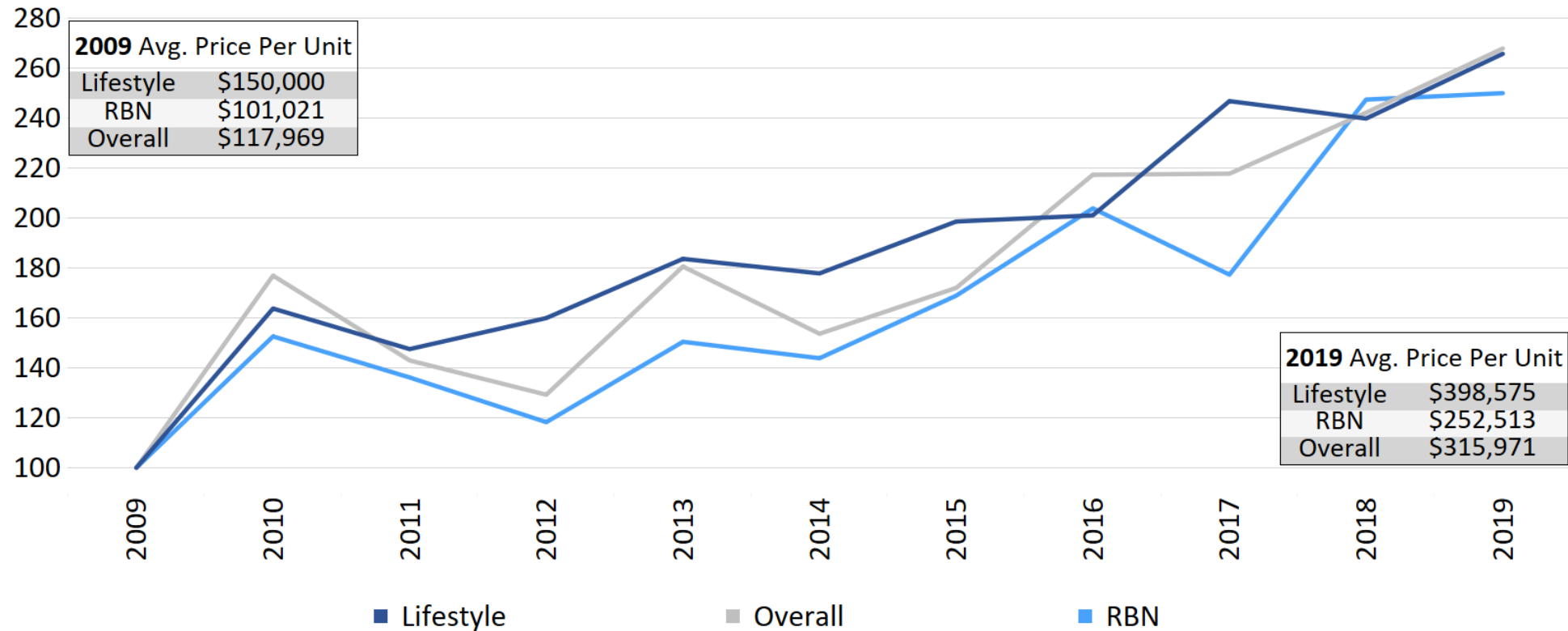


Multifamily Sales Prices: San Diego

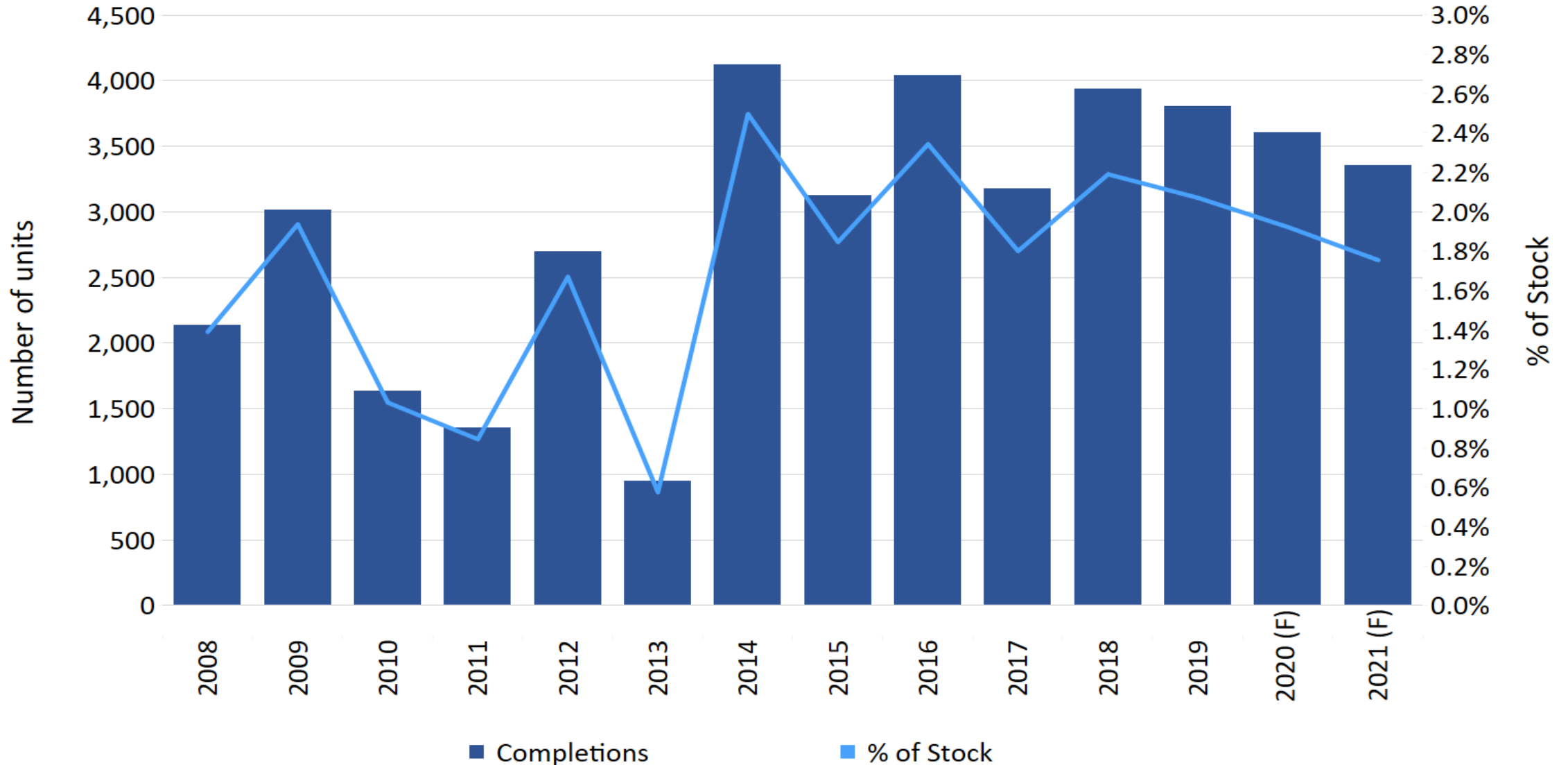


Price Per Unit Index 2009 = 100

Asset Class	10-Year Growth	10-Year CAGR
Lifestyle	165.7%	10.3%
Renter-by-Necessity	150.0%	9.6%
Overall	167.8%	10.4%

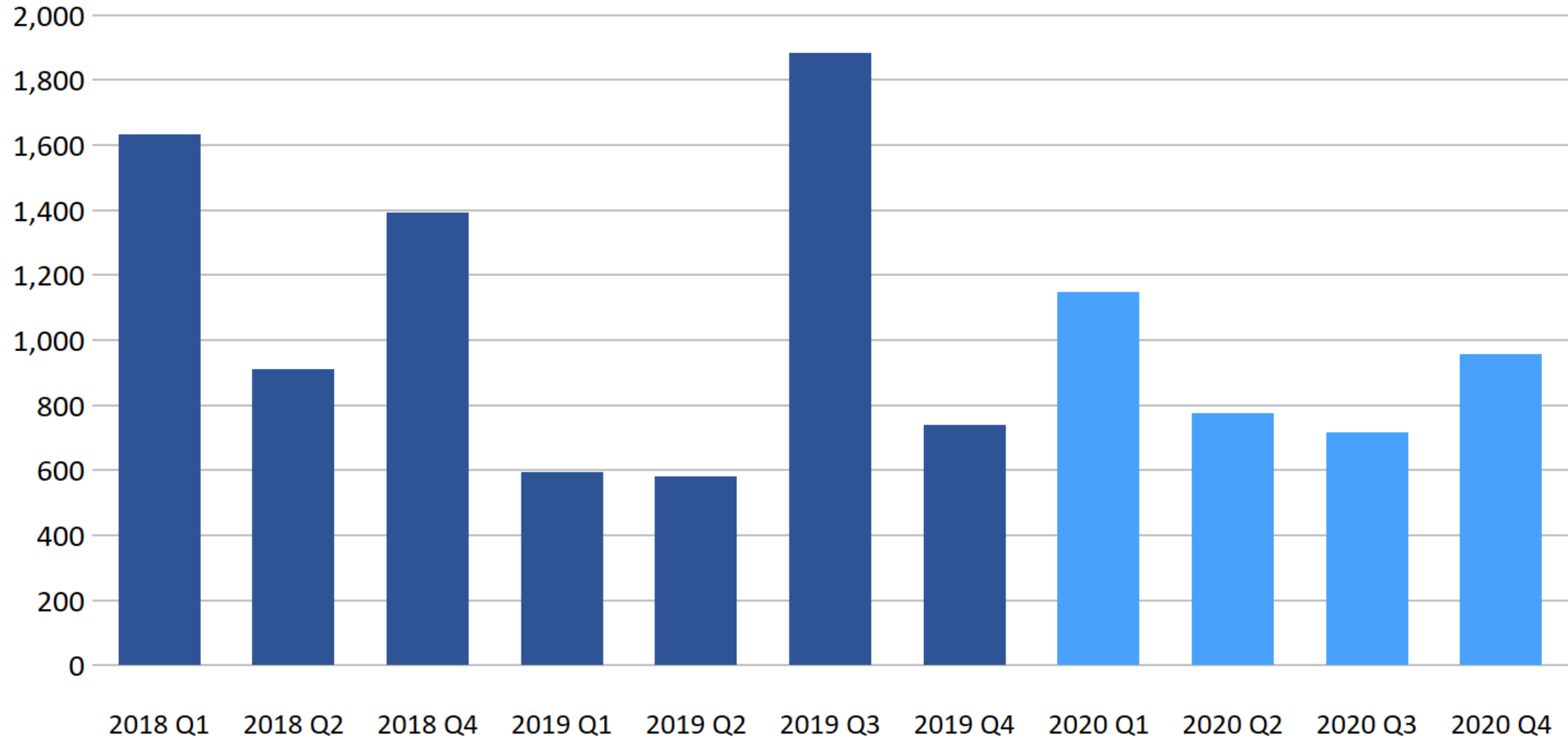


Multifamily Supply Pipeline: San Diego





Multifamily Unit Completion by Quarter: San Diego

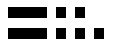


■ Completed

■ Forecast Completions

*Completions forecast is based on the current pipeline

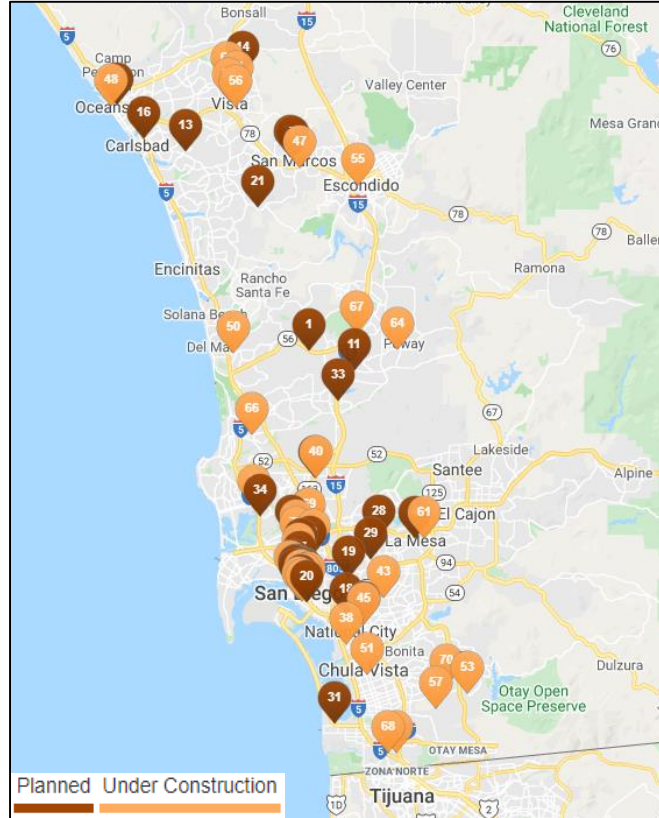
Source: Yardi Matrix; Tableau



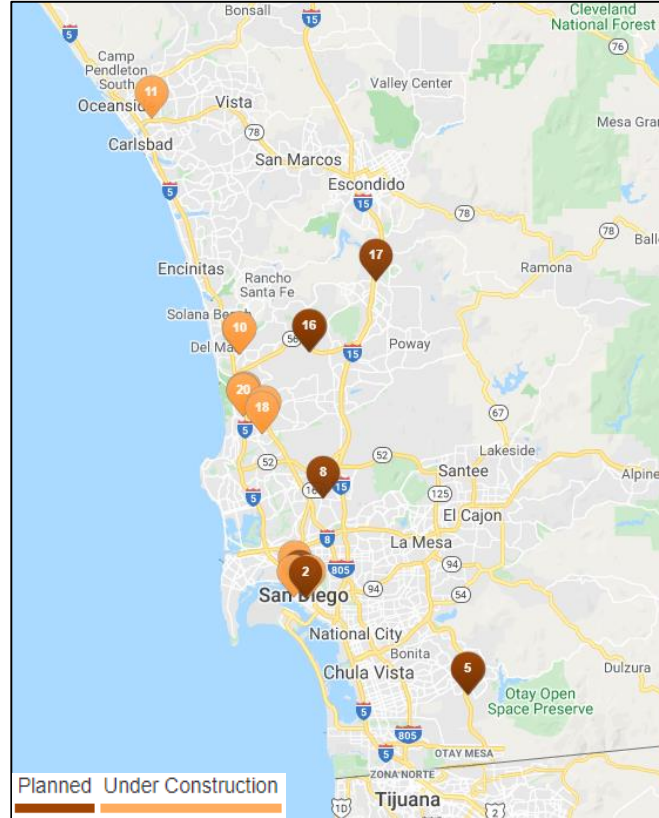
San Diego Development Pipeline



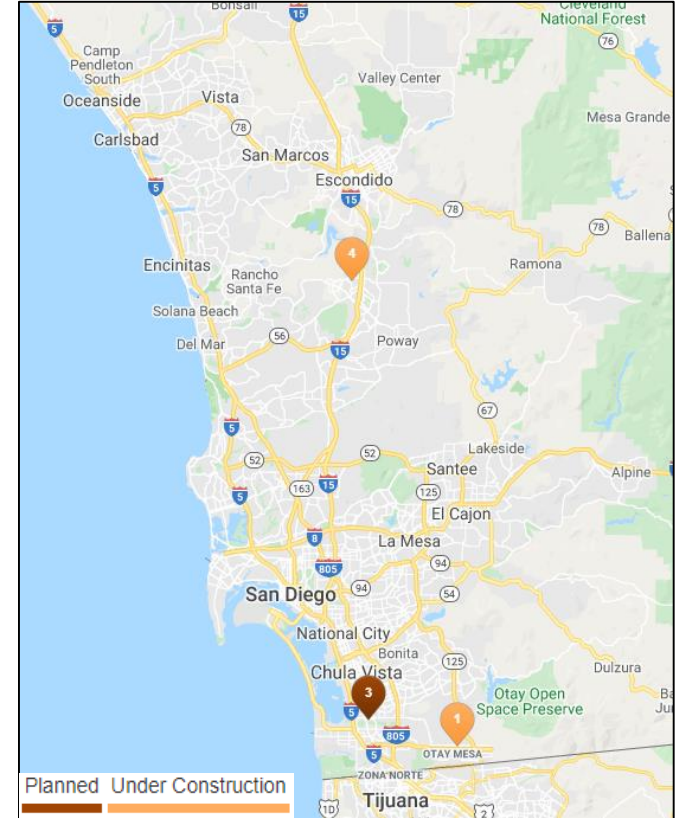
Multifamily



Office



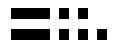
Industrial



Property Status	# of Units	% of Existing Stock
Under Construction	7,997	4.3%
Planned	8,875	4.7%

Property Status	Sq. Ft.	% of Existing Stock
Under Construction	1,617,831	1.5%
Planned	3,092,683	2.9%

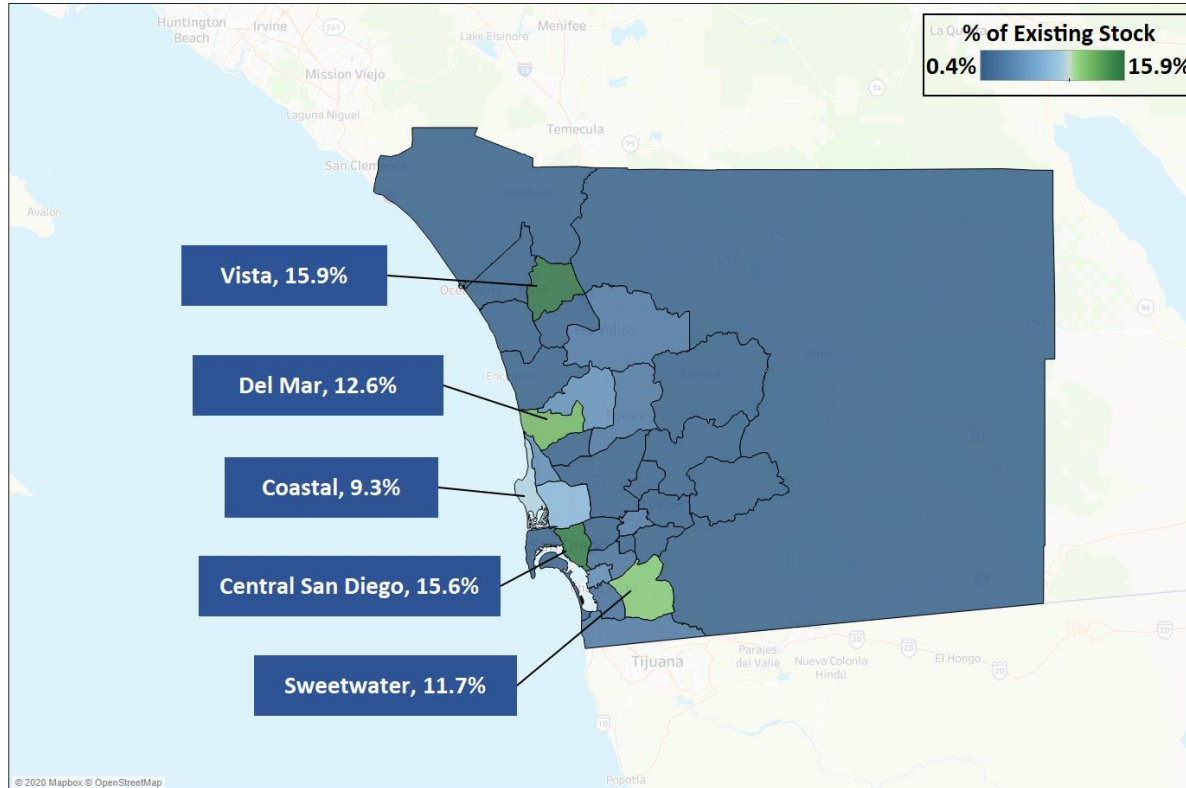
Property Status	Sq. Ft.	% of Existing Stock
Under Construction	368,295	0.7%
Planned	409,500	0.7%



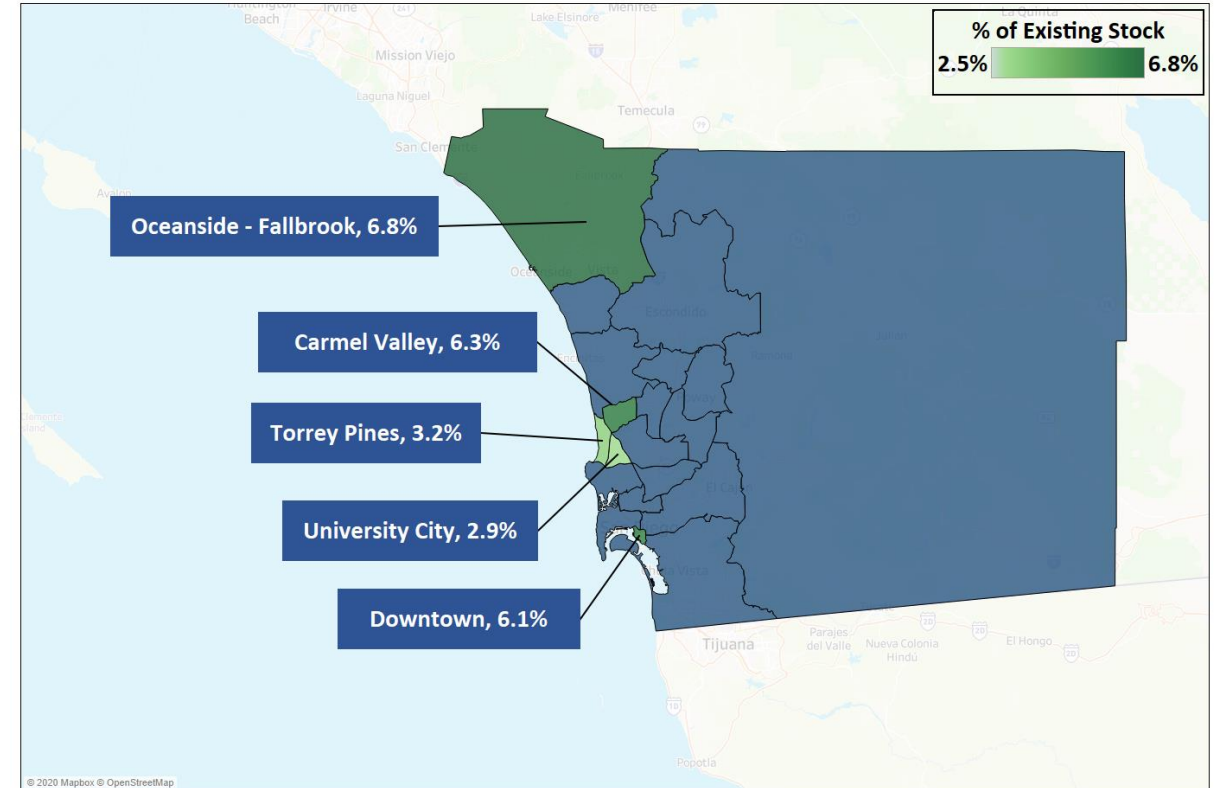
Top 5 San Diego Submarkets With Construction Activity



Multifamily



Office



San Diego Office Fundamentals

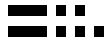
Asset Class	Count	Sq. Ft. (Thous.)	Direct Sq. Ft. Available (Thous.)	Sublease Sq. Ft. Available (Thous.)	Total Sq. Ft. Available (Thous.)	Direct Asking Rate	Market Asking Rate	Direct Vacancy	Sublease Vacancy	Overall Vacancy
A & A+	305	47,294	4,257	156	4,413	\$39.8	\$43.5	11.2%	0.4%	11.6%
B	771	55,501	4,157	328	4,486	\$30.4	\$33.8	11.0%	0.9%	11.9%
C	32	2,174	17	0	17	\$19.2	\$24.5	2.2%	0.0%	2.2%
Total - San Diego	1,108	104,971	8,431	484	8,915	\$34.9	\$38.4	11.0%	0.6%	11.6%
NATIONAL	66,255	7,523,817	636,843	45,751	682,594	\$27.4	\$31.4	12.3%	0.9%	13.2%



Matrix Expert Office Operating Data Per Sq. Ft.



12-month period Ending December 2019	San Diego	Atlanta	Austin	Boston	Chicago	Denver	Los Angeles	Manhattan
Total Income	\$28.14	\$23.30	\$34.42	\$35.77	\$25.62	\$24.11	\$34.45	\$60.55
Total Operating Expense	\$10.09	\$9.73	\$14.45	\$15.41	\$13.88	\$11.52	\$14.00	\$28.48
<i>Net Operating Income</i>	<i>\$18.05</i>	<i>\$13.57</i>	<i>\$19.97</i>	<i>\$20.36</i>	<i>\$11.74</i>	<i>\$12.59</i>	<i>\$20.45</i>	<i>\$32.08</i>
Operating Margin	64.1%	58.2%	58.0%	56.9%	45.8%	52.2%	59.4%	53.0%
Cap Rate (December 2019)	5.2%	7.7%	6.4%	5.0%	6.4%	5.6%	5.4%	3.7%



SUMMARY



1 Domestic migration into San Diego has declined over the last four years. Employment growth & wage growth in San Diego fall above the national average.

2 Multifamily rents are rising, primarily in the renter-by-necessity asset class. Occupancy for Renter-by-Necessity assets is currently outpacing Lifestyle asset class occupancy by a small margin. Overall occupancy has hovered between 96% - 97% for the last few years. Multifamily completions peaked in 2014, but there are still a number of projects in the pipeline.

3 Office fundamentals remain positive, with class A & A+ asking rates significantly higher than B & C assets. San Diego has about 1.5% of office sq. ft. under construction as a percentage of existing stock.





2020 OUTLOOK



- GDP growth in Q4 was decent, and slow and steady growth will likely continue.
- Supply/demand conditions in multifamily will continue to favor mild rate growth, with higher rates in the tech hub and tertiary markets.
- A decent economy coupled with the demographic shift of jobs will continue to create office demand in tech hub cities, providing a solid base for office-using sectors.
- For new investments, it's a **sharpshooter's game** to find the right deal at the right price.
- On the operational side its about **finding revenue** and **cost trimming** opportunities to grow your NOI from existing assets.



THANK YOU

FOR ANY QUESTIONS PLEASE FEEL FREE TO CONTACT ME


DHARMENDRA SAWH | 1.800.866.1124 x2074 | DHARMENDRA.SAWH@YARDI.COM



COPYRIGHT NOTICE

This presentation is protected by copyright, trademark and other intellectual property laws. Use of this presentation is subject to the terms and conditions of an authorized Yardi Systems, Inc. software license or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this presentation may be disclosed or reproduced in any form, by any means without the prior written authorization of Yardi Systems, Inc. This presentation contains proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This presentation is intended for utilization solely in connection with Yardi software licensees' use of Yardi software and for no other purpose.

NOTICE: Information is subject to change without notice and does not represent a commitment on the part of Yardi Systems, Inc. The following list is not all-inclusive and the absence of a product or service name or logo from this list does not imply a waiver of Yardi's trademark or other intellectual property rights concerning that name or logo. CHECKscan™, COLLECTplus™, COMMERCIALCafé™, Concierge™, CONDOCafé™, ENERGYplus™, GoodShield®, InvestorPlus™, LeasingKIOSK™, LOBOS®, Marketplace™, MILITARYCafé™, Optimus EMR®, Orion®, PAYplus™, PAYscan™, PopCard®, PowerShopping®, Pulse®, RENTCafé®, Connect™, Creative™, Reach™, TextPay™, Renter Reliability Index™, RentGrow®, RENTmaximizer™, ResidentShield®, ScreeningWorks®, SiteManager™, VENDORCafé®, Voyager®, WIPS®, Yardi Energy Solutions® and Yardi® are either registered trademarks or trademarks of Yardi Systems, Inc. in the United States and/or other countries. All other products mentioned herein may be trademarks of their respective companies.



Design and content © 2020 Yardi Systems, Inc. All Rights Reserved.



DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided “as is” and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

