



SAN DIEGO

EXECUTIVE SUMMARY

- San Diego is improving its infrastructure and advancing as a Smart City; public and private institutions are collaborating to increase energy independence, reduce greenhouse gas emissions, and spur the economy.
- Tech giants like Google, Amazon, Apple, and Walmart Labs are all growing in the city.
- As construction costs and limited available land keep new hotel development at a modest pace, innovative alternatives are emerging, such as multifamily and hotel hybrid developments.
- Live-work-play models are coming to fruition, as San Diego makes advances toward bringing density to both older submarkets and outlying submarkets, rather than expanding urban sprawl.

Steady demand has persisted in San Diego due to long-time market drivers including the U.S. military, defense contractors, high-tech manufacturing, and life sciences. Continued market resilience is also due in part to San Diego's desirable geography within Southern California, standing out as a tourist destination and a vital hub for logistics with Mexico. Employment gains are pronounced in government, professional, scientific and technical services. A highly educated work force fuels the talent for top employers, including Qualcomm, Websense, Illumina, Neurocrine Biosciences, the U.S. Navy, and advanced medical and educational institutions. Tech giants, Google, Amazon, Apple, and Walmart Labs have all expanded into the city.

The future of San Diego's urban resilience will be shaped by policy changes and programs that are already underway. Driving forward with efforts to improve infrastructure and advance San Diego as a Smart City, public and private institutions are collaborating to increase energy independence, reduce greenhouse gas emissions, and spur the economy. The city will continue to engage in programs that address climate challenges, and improve the city's technology and public services, like Envision America, MetroLab Network, Smart City Open Urban Platform, and its status as a U.S. Ignite Smart Gigabit Community. Another priority for 2020 will be addressing challenges surrounding cybersecurity and individual privacy, as unprecedented technology is introduced across the city, and new paths in surveillance and data collection are forged.

Larger cities like San Diego, with a wider variety of employment opportunities amongst diverse industries, are in a favorable position

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↓	↑
Vacant Space	↓	↑↑	↓
Construction Levels	↑	→	↑
Leasing Volume	↑	↓	↑↑
Investment Volume	↑	↑	↑↑

to grow with changing demands of population density and inevitable economic cycles. While San Diego's unemployment rate is a mere 2.7%, government officials also recognize that the county's high cost of living leaves the region vulnerable to losing talent to other cities. The coming year will bring more focus on designing public spaces in aging blighted areas, expanding rail lines and mass transit into areas with high density developments, affordable housing regulations, the homelessness epidemic, and fire prevention efforts.

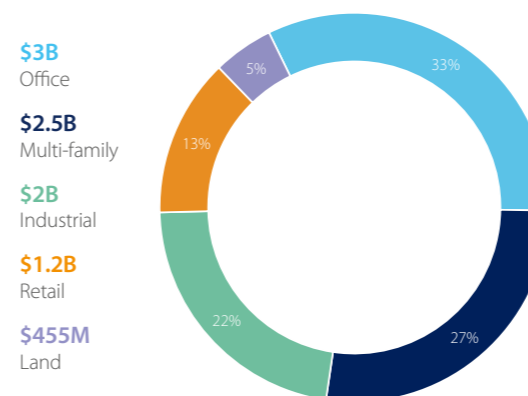
The San Diego office market is evolving as renovations outpace new construction to accommodate tenants willing to pay premium rents at record high levels. A growing percentage of LEED certified buildings and Energy Star properties with reduced operating costs continue to benefit landlords, tenants, and the city's overall economy. Landlords are spending more on trending high-end amenities to retain top tenants and encourage economically resilient companies to touch down. Larger available floorplates are more frequently being leased by tenants in the life sciences sector, continuing to drive

pricing and demand in submarkets surrounding Torrey Pines to exceed those of the Downtown central business district.

The multifamily sector holds a strong appeal for investors amid a residential trend of record high occupancy and record high rental rates. High-density affordable housing developments are ramping-up near the city's older central areas, while construction starts in the outer suburbs should scale back in the coming year in response to regulatory restrictions and increasing construction costs.

San Diego's booming tourism and hospitality industry is intertwined with demands on the housing market. As construction costs and limited available land keep new hotel development at a modest pace, innovative alternatives are emerging, such as multifamily and hotel hybrid developments. Sonder, which offers short-term rental units within multifamily complexes, chose San Diego for its largest project to-date with the addition of hospitality units in the upper portion of 10th and E, Downtown, -a 38-story tower designed to also incorporate affordable housing, co-living units operated by Common, community workspaces, and retail. Capexco, the Canadian developer behind this Downtown endeavor, is also behind Outpost – a new live-work-play development located in Poway that is aimed to boost the economy and density in the outlying suburb. There is no shortage of live-work-play models coming to fruition, as San Diego makes advances toward bringing density to both older interior submarkets and existing outlying submarkets, rather than expanding urban sprawl.

TOTAL 2019 SALES VOLUME



Source: Real Capital Analytics

Office investment volume in San Diego County increased year-over-year by the end of 2019, and has outweighed other sectors for the past six years.