

VIEWPOINT

2024 SAN DIEGO, CA

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Multi-Family

Industrial

Retail

Office

VIEWPOINT



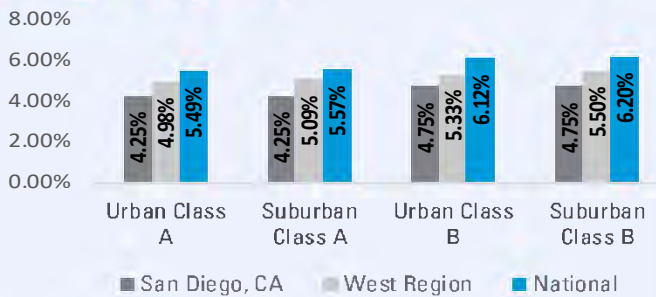
2024 SAN DIEGO, CA MULTIFAMILY ANNUAL REPORT

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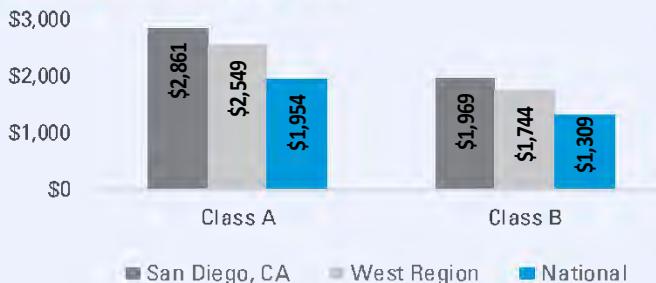
Market Rate Indicators (Y/Y)

Categories	Class A	Class B
Going In Cap Rate (%)	▼	↔
Asking Rent (\$/Unit)	▲	▲
Vacancy Rate (%)	▲	▲

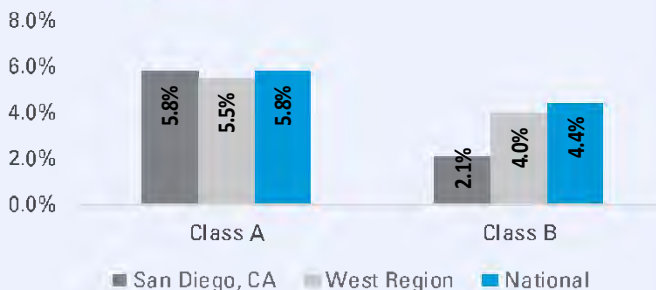
Going In Cap Rate Comparisons (%)



Asking Rents (\$/Unit)



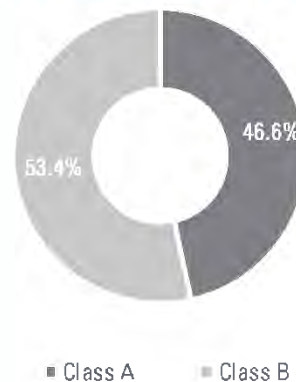
Vacancy Rates (%)



San Diego, CA Multifamily Market Overview

Despite the economic turmoil over the past 3 years created by Covid-19, rising inflation and rising interest rates, there is still a shortage of rental housing in San Diego County. Rental rate escalation has slowed down somewhat but annual increases are still anticipated due to high demand and lack of new supply. Numerous new projects are under construction and most will include some percentage of affordable units, but for the most part demand is projected to continue to outweigh supply in the rental market. 'For sale' multifamily inventory has declined over the past 12-18 months but investor demand is strong. The lack of 'for sale' inventory has created a shortage of recent sales transactions. Rising interest rates have impacted cap rates somewhat, but not to the degree initially anticipated due to the limited number of properties for sale on the market. California has statewide rent control for most multifamily properties over 15 years of age, which limits annual rental increases to 5% plus CPI, not to exceed 10% annually. With these limits, we anticipate most property owners will be able to increase rental rates to the full extent allowed by the rent control measures in the forthcoming year. Rental demand has been historically strong in San Diego due to the area's diverse employment base, desirable beaches and mild climate, and very high barrier to home ownership. Home affordability is out of reach for many first-time buyers and rising mortgage interest rates have made it significantly more difficult for buyers to qualify. These factors continue to fuel the multifamily rental market. Investor interest is fairly strong for multifamily assets due to strong tenant demand, population growth and lack of significant new supply.

Distribution of Total Inventory



213,795 Units
Multifamily Inventory

0.89% - 12 Mo. Proj.
Construction/Inventory



Change In Value Next 12 Months



+/- 0%

Urban Class A

+/- 0%

Urban Class B



+/- 0%

Suburban Class A

+/- 0%

Suburban Class B

Market Cycle: Recovery Stage 2



- Moderate Absorption
- Decreasing Vacancy Rates
- Low New Construction
- Low/Moderate Employment Growth
- Neg/Low Rental Rate Growth

Forecasts

San Diego, CA 12-Month Multifamily Forecasts

Categories	Urban Class A	Urban Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Discount Rate	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Reversion Rate	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Construction (Units)	1,894			
Market Rent Change	+3.00%	+3.00%	+3.00%	+3.00%
Expense Rate Change	+3.00%	+3.00%	+3.00%	+3.00%
Years to Balance	3			

San Diego, CA 36-Month Multifamily Forecasts

Categories	Urban Class A	Urban Class B	Suburban Class A	Suburban Class B
Market Rent Change	+11.72%			
Change in Value	Increase 2%-2.9%	Increase 2%-2.9%	Increase 2%-2.9%	Increase 2%-2.9%

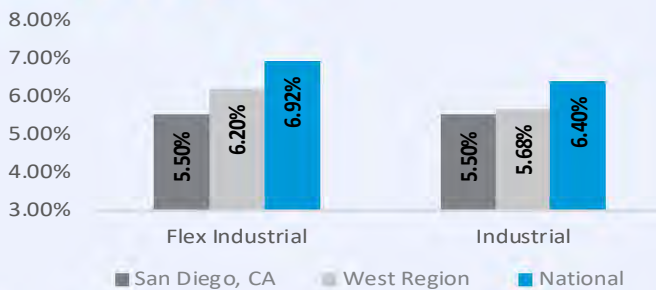
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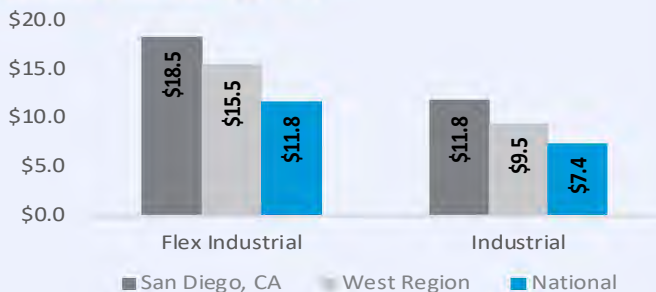
Market Rate Indicators (Y/Y)

Categories	Flex Industrial	Industrial
Going In Cap Rate (%)	▲	▲
Asking Rent (\$/SF)	▲	▲
Vacancy Rate (%)	▲	▲

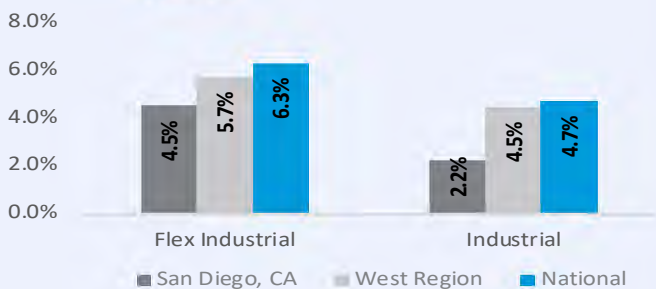
Going In Cap Rate Comparisons (%)



Asking Rents (\$/SF)



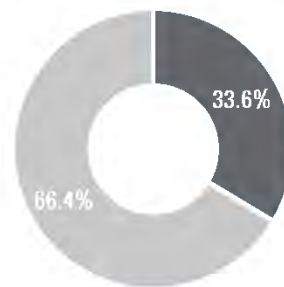
Vacancy Rates (%)



San Diego, CA Industrial Market Overview

Despite the economic turmoil in the past 3 years created by Covid-19, inflation and rising interest rates, the San Diego County industrial market has remained resilient, with record high price escalation between 2020 and 2022; and stabilization in 2023-2024. This is due to increased warehouse distribution demand as a result of e-commerce, but also due to a noted increase in small owner-user industrial warehouse and manufacturing demand. Lease rates continue to increase 2-3% annually in most markets. Despite the higher cost of financing, market values in general continue to be stable in 2023, but are expected to decline slightly in 2024. This is primarily due to more difficulty in financing. The industrial market exhibited high appreciation in 2020-2022 in the San Diego while interest rates were at historic low rates. We project stable to slightly declining values over the next 12-month period due to continued investor demand and limited 'for-sale' inventory, paired with higher interest rates. Industrial land values continue to be in demand in areas such as Otay Mesa, El Cajon, Lakeside, Carlsbad, Vista, San Marcos, Escondido and Poway. Most new development is occurring in the border area of Otay Mesa where vacant land is plentiful and international trade is strong. Amazon owns or leases 5.3 million square feet of warehouse space in San Diego County, with plans for an additional 930,000 SF facility in nearby Tijuana, Mexico. The Federal Reserve's 525 bps (thus far) interest rate hikes have made financing much more challenging for purchase and refinance lending for existing borrowers in the industrial market with loans coming due. We anticipate stable to slightly possibly declining industrial prices over the next 12 months as a result. The Federal Reserve may increase interest rates in the future to curb inflation, but most experts believe future rate hikes will occur at a much slower pace than the 2022-2023 increases. In summation, the industrial market in San Diego continues to be strong despite rising interest rates, and investors currently perceive this market to be strong and viable, but financing and debt service coverage will be much more difficult for borrowers in 2024.

Distribution of Total Inventory



■ Flex Industrial ■ Industrial

121,620,000 SF
Industrial Inventory

0.65% - 12 Mo. Proj.
Construction/Inventory



Change In Value Next 12 Months



+/- 0%

Flex Industrial



+/- 0%

Industrial

Market Cycle: Expansion Stage 2



- Moderate/High Employment Growth
- High Absorption
- Decreasing Vacancy Rates
- Moderate/High New Construction
- Med/High Rental Rate Growth

Forecasts

San Diego, CA 12-Month Industrial Forecasts

Categories	Flex Industrial	Industrial
Going-In Cap Rates	▲1-24 bps	▲1-24 bps
Discount Rate	▲1-24 bps	▲1-24 bps
Reversion Rate	▲1-24 bps	▲1-24 bps
Construction (SF)	793,000	
Years to Balance	In Balance	
Expense Rate Change	+3.00%	+3.00%

San Diego, CA 36-Month Industrial Forecasts

Categories	Flex Industrial	Industrial
Change in Value	Increase 2%-2.9%	Increase 2%-2.9%
Annual Absorption (SF)	221,333	1,304,667
Market Rent Change	+27.94%	+24.96%

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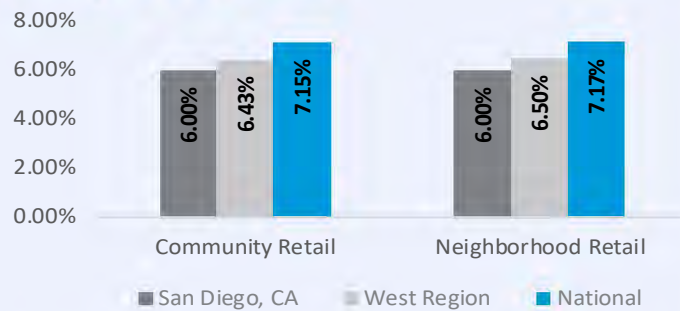
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Market Rate Indicators (Y/Y)

Categories	Community Retail	Neighborhood Retail
Going In Cap Rate (%)	▼	▼
Asking Rent (\$/SF)	▼	▼
Vacancy Rate (%)	▼	▼

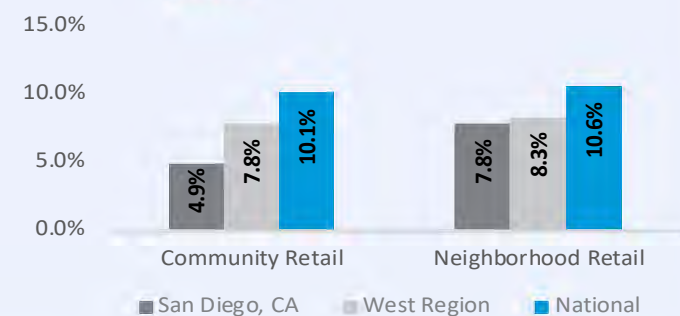
Going In Cap Rate Comparisons (%)



Asking Rents (\$/SF)



Vacancy Rates (%)



San Diego, CA Retail Market Overview

Since the Covid-19 pandemic has passed, it appears that the San Diego County retail and restaurant markets have re-stabilized in terms of occupancy, and most forms of rent abatement are no longer being offered by landlords as of late 2023/early 2024. However, several other negative economic issues have arisen in the past 12-18 months that have impacted the retail market. These include sharp inflationary issues, rising labor costs, delays in the supply chain, rising cost of goods/inventory and food, and most notably, the Federal Reserve's 525 bps rate hikes in 2022-2023. Future rate hikes are anticipated to a lesser degree if inflation cannot be curbed. While post-pandemic retail occupancy continues to recover in San Diego County, we expect retail values to remain stable to slightly declining due to the higher cost of financing for most investors. Refinance loans coming due, and new purchase loans coming due will be especially challenging on existing retail property owners because lenders will likely require borrowers to increase their equity positions in order to meet debt service coverage ratios. This may increase the number of non-performing loans and foreclosures in the near future unless work-out loans can be made. E-commerce has had a deleterious impact on retailers over the past 5 years, but thus far the impact has not been as severe as once perceived, particularly for anchored retail centers. It is difficult to forecast the health of the retail market in San Diego, but it appears that while most community and neighborhood centers have re-stabilized following the pandemic occupancy, there are new financing, inflation and labor costs that will challenge the market. Tenant demand is average to above average, but investor demand has waned due to higher interest rates. The number of retail sales transactions in San Diego has declined notably over the past 12-24 months. We expect moderate rental growth but slight property value decline, and anemic investor demand in the retail market in 2024. Again, any additional interest rate hikes by the Federal Reserve, or a downturn in the local/national economy will likely have a negative impact on the recovering retail market. Pending wars in Ukraine and Israel, labor strikes, company lay-offs and prolonged inflation will also likely contribute to weakness in the retail marketplace in 2024.

Distribution of Total Inventory



42,032,000 SF
Retail Inventory

0.01% - 12 Mo. Proj.
Construction/Inventory

- Community Retail
- Neighborhood Retail



Change In Value Next 12 Months



▲2%-2.9%

Community Retail



▲2%-2.9%

Neighborhood Retail

Market Cycle: Hypersupply Stage 2



- Increasing Vacancy Rates
- Med/Low Rental Rate Growth
- Moderate/Low Employment Growth
- Moderate/High New Construction
- Low/Negative Absorption

Forecasts

San Diego, CA 12-Month Retail Forecasts

Categories	Community Retail	Neighborhood Retail
Going-In Cap Rates	Remain Steady - no change	Remain Steady - no change
Discount Rate	Remain Steady - no change	Remain Steady - no change
Reversion Rate	Remain Steady - no change	Remain Steady - no change
Construction (SF)	5,000	
Market Rent Change	+3.00%	+3.00%
Expense Rate Change	+3.00%	+3.00%
Years to Balance	In Balance	

San Diego, CA 36-Month Retail Forecasts

Categories	Community Retail	Neighborhood Retail
Market Rent Change	+5.29%	
Change in Value	Increase 2%-2.9%	Increase 2%-2.9%

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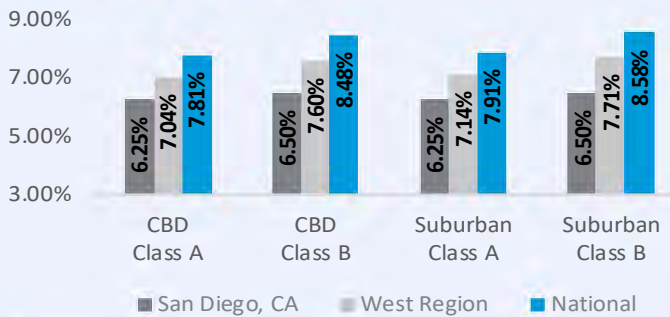
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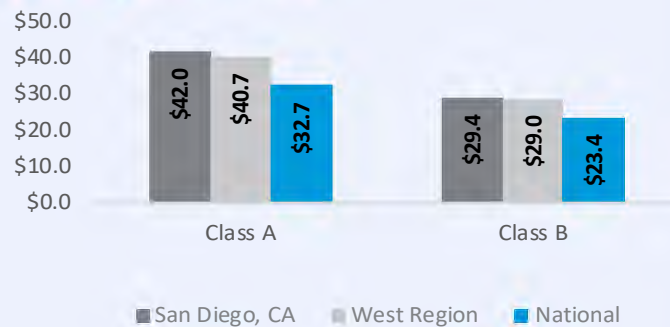
Market Rate Indicators (Y/Y)

Categories	CBD Class A	Suburban Class A
Going In Cap Rate (%)	↔	↔
Asking Rent (\$/SF)	▲	▲
Vacancy Rate (%)	▲	▲

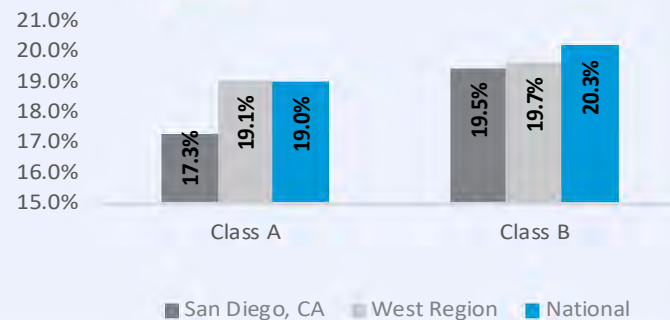
Going In Cap Rate Comparisons (%)



Asking Rents (\$/SF)



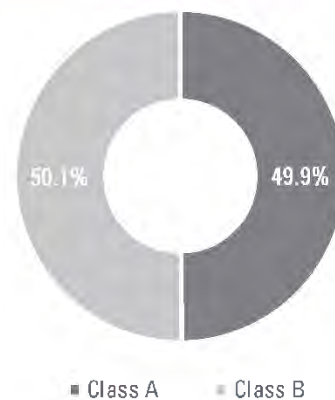
Vacancy Rates (%)



San Diego, CA Office Market Overview

The San Diego County office market has historically exhibited higher vacancy than the industrial, retail and multifamily markets, primarily due to a slight over-supply, and the market's changing demand for employee office space. This was fueled by the work-from-home trend that escalated during the Covid-19 pandemic, but has continued despite the ending of the pandemic. Many office investors and tenants have had to re-analyze conventional demand for office space. A significant percentage of employers (office tenants) may opt to lease smaller office suites when their leases expire, if employees can viably continue to work remotely in the future. We anticipate stronger demand for smaller office suites in the future, and possible division of larger suites to accommodate this change in demand. However, some larger employers are demanding that their employees come back into the office full-time, so the negative impact may not be as severe as once projected. Typically in San Diego County, general office space is in average demand and the outlook is average, at best. Medical, bio-tech, science/research, pharma and lab office space, on the other hand, continues to be in relative short supply and in higher demand due to the increasing number of bio-tech, research and medical users in the area. Some of the larger bio-tech, pharma and research companies include Thermo-Fisher Scientific, Illumina, Pfizer, IQVIA, Johnson & Johnson, Genentech, Novartis, Eli Lilly & Co. and Gilead Sciences. Qualcomm and UCSD also occupy a significant amount of office space in San Diego. Investor demand for general office space is fairly anemic in San Diego, but demand for bio-tech/medical/pharma space is above average. We anticipate stable to slightly declining values for standard office space, but superior growth/demand for bio-tech, medical and scientific space in the next 12-month period. As many commercial loans are coming due in the next 2-3 years, refinancing may prove challenging in the office segment as rising leverage payments may exceed net income. Many experts predict increased foreclosure activity in the office market due to debt coverage problems, rising vacancy and declining of investor demand. 2024 could prove to be a challenging year for the San Diego office market.

Distribution of Total Inventory



65,585,000 SF
CBD Office Inventory
0.90% - 12 Mo. Proj.
Construction/Inventory

Integra Realty Resources - San Diego

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Change In Value Next 12 Months



▼2%-2.9%

CBD Class A



▼2%-2.9%

Suburban Class A

▼2%-2.9%

CBD Class B

▼2%-2.9%

Suburban Class B

Market Cycle: Hypersupply Stage 1



- Increasing Vacancy Rates
- Low/Negative Absorption
- Med/Low Rental Rate Growth
- Moderate/Low Employment Growth
- Moderate/High New Construction

Forecasts

San Diego, CA 12-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Going-In Cap Rates	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Discount Rate	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Reversion Rate	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps	Increase 1-24 bps
Construction (SF)	589,000			
Market Rent Change	+2.00%	+2.00%	+2.00%	+2.00%
Expense Rate Change	+3.00%	+3.00%	+3.00%	+3.00%
Years to Balance	In Balance			

San Diego, CA 36-Month Office Forecasts

Categories	CBD Class A	CBD Class B	Suburban Class A	Suburban Class B
Market Rent Change	+11.15%			
Change in Value	Decrease 1%-1.9%	Decrease 1%-1.9%	Decrease 1%-1.9%	Decrease 1%-1.9%

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