INDEPENDENT MARKET RESEARCH REPORT

Office Market Overview
United States National Market
San Diego Market
Sorrento Valley (Sorrento Mesa) Submarket

Prepared on June 17, 2021

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National Overview – United States of America

Overview

The recession that began in March 2020, triggered by the COVID-19 pandemic, was short and steep. In the second quarter of 2020, real (inflation-adjusted) gross domestic product (GDP) collapsed at a record 31.4% annual pace, only to bounce back at a record 33.4% annual rate in the third quarter. In the final quarter of 2020, the pace of recovery had slowed substantially as the pandemic worsened again, and for year-end 2020 the GDP remained 2.5% below its peak in fourth quarter of 2019. Now that vaccines are being rolled out, albeit with some caveats like an increasing number of people skipping the second dose, and a robust economic stimulus passed in March, things are turning around. In fact, the GDP grew at a rate of 6.4% in the first quarter of 2021 and is expected to reach 7% for the entire year.

Employment, a key driver of demand for space, experienced a turbulent 2020 as the economy shed more than 22 million jobs in March and April, and then added 12.5 million jobs between May and November. In December 2020, however, the economy lost a net of 140,000 jobs as COVID-driven shutdowns led to a decline in employment of approximately 500,000 jobs in the leisure and hospitality sector (other sectors experienced modest gains that month). At the end of first quarter 2021, the unemployment rate fell to 6% and 916,000 jobs were added in the last month of the quarter alone. While things are certainly turning around, there are still about 8 million fewer people counted as employed than there were in February 2020, and the labor force is down by about 4 million.

As more Americans become vaccinated, job numbers continue to improve, and the economic stimulus encourages spending and raises consumer confidence, more and more parts of the country will start to open back up. Still, the impacts of the pandemic will be felt for quite some time and certain property types, such as retail and hospitality, may take longer to recover than others. On top of this, other parts of the world such as Europe are a few months behind the U.S., or, like India, are still struggling to get the virus under control and it is unclear at this point when their lockdown will end.

Further considerations include:

- U.S Consumer Confidence rose to a 14-month high in April 2021 due to increased vaccinations and the additional fiscal stimulus, which allowed more businesses and services to reopen. As consumers are seeing a light at the end of the tunnel, growth this year is expected to be the best in nearly four decades.
- U.S. retail sales jumped 9.8% in March 2021, exceeding the Dow Jones estimate of 6.1%, and on the heels of a 2.7% decline in February 2021. Driving this were the freshly issued stimulus checks and new unemployment filings dropping to 576,000, by far the best week since the beginning of the pandemic.
- Stimulus checks coupled with a vaccine rollout proved to be a lucrative combination. For first quarter 2021 the Dow Jones Industrial Average was up 6.17%; the S&P 500 sailed past 4,000 for the first time on April 1, 2021, experiencing a quarterly jump of 5.77%; and the NASDAQ was up 2.78%.
- Despite an accelerating economy, and rising inflation, the Federal Reserve is not ready to alter their easy money policy just yet. For the time being, the U.S. Central Bank decided to keep its interest rates anchored near zero and is purchasing $120 billion in bonds each month.
- For the first quarter of 2021, U.S. commercial real estate activity sank sharply, dropping 28.2% in a year-over-year comparison, according to Real Capital Analytics (RCA). With that said, commercial property sales dropped for four consecutive quarters, but increased vaccinations are expected to increase deal activity through the near term. Growth was primarily driven by the hotel sector as weaker trends for the office, industrial, and retail sectors were a drag on the index.

As of mid-June 2021, over 145 million people have been vaccinated, COVID infection rates are dropping around the country, and some areas of the country are back up and running, while others expect to be by the middle of the summer. Despite this, most people are still telecommuting, social distancing remains the norm, and conferences remain online. Most lockdowns and stay-at-home orders have been lifted, but many businesses are still taking precautions by asking customers to wear masks and checking temperatures. Considering this, it is important to take in mind that data lags, and we are still trying to accurately determine the pandemic's effects on the commercial real estate market. In other sections of the report, we will discuss these effects and impacts on the immediate market and subject property in as much detail as possible. Therefore, we ask that you consider the following points:

- Early in the COVID-19 pandemic, most non-essential businesses shut down, causing significant disruption in the economy. As we move through the winter months, many businesses that reopened over the late spring and summer may now be forced to shut down once again or drastically change the way they operate and function.
- Certain property types have been more heavily impacted than others, with some asset classes benefiting from the COVID environment. Generally, cap rates and price growth remain relatively flat across the board, but there has been compression in some property types.
- Investment activity remains muted in first quarter 2021, but it appears we have turned a corner on distressed properties as RCA reports that more distress was resolved than came on to the market. Despite this, distressed loans, primarily across the office, retail, hotel, and apartment sectors, will continue to have a negative impact.

Wide scale vaccinations started at the end of 2020, and we expect a large majority of the population to be vaccinated by mid-year with the hopes of reaching herd immunity, as everyone 16 and older is now eligible to receive a vaccine. With this, businesses will begin to fully resume normal activities, as risk and fear of infection decrease, and the economy will begin to grow more rapidly.

Economic Conditions & Current Trends

In 2020, the U.S. economy contracted for the first time since 2009, when GDP shrank by 2.5% during the height of the Great Recession. Last year was also the worst year for economic growth since 1946 when the economy shrank by 11.5% as the nation transitioned into the post-war period. While this recession's low point was unusually low, the GDP bounced back from the trough of this recession much faster than it recovered from the Great Recession and spent the second half of the year on the mend.

This year started off sprinting with real GDP growth hitting a 6.4% annualized rate for the first quarter of 2021 and a double-digit gain expected at the end of second quarter. Growth was primarily driven by consumers, but business investment and homebuilding also contributed. Another key component was the pent-up savings households amassed during the pandemic. Right now, there is an estimated $2.3 trillion in pent-up savings which amounts to over 10% of GDP. As such, Moody's has revised their GDP outlook to nearly 7% for 2021 and about 5% for 2022. The trade balance was the largest drag on the economy as the U.S. economy is well ahead of most of the rest of the world, excluding China and southeast Asia. While inflation is picking up, and nearing its 2% target, its increase is likely just consumer demand bouncing back, as inflation was essentially flat last year during the pandemic. Inflation levels are expected to moderate later this year as headwinds die down.

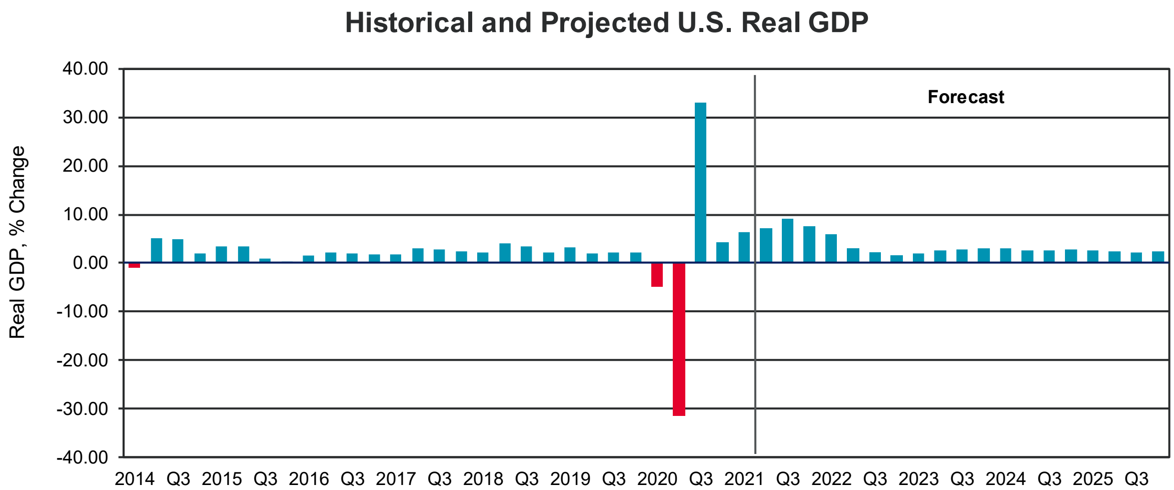
Outside the U.S., the future is starting to look brighter as well. The International Monetary Fund (IMF) is forecasting a global expansion of 6%, up from its earlier 5.5% estimate in January, which would be the fastest expansion since the early 1980s. This expansion is expected to taper a bit in 2022 to 4.4%, up from an estimated 4.2% earlier this year. The IMF warned, however, that the economic recovery will likely be uneven. Rebounds will be slower in poorer countries that can't afford massive government stimulus and for those dependent on tourism. They have also promoted equal vaccine distribution rollout to poorer countries in order to minimize further global economic damage.

Even after a year into the pandemic, CRE participants are still trying to understand market impacts, and accurately assessing risk remains difficult. Proceeding through these uncertain times, the reader is asked to consider some key events that affect the uncertainty:

- In March 2020, the Coronavirus Aid Relief and Economic Security, or CARES Act, was passed by Congress and signed by President Trump. The bill was intended to provide emergency assistance and health care for individuals, families and businesses affected by the COVID-19 pandemic. Totaling $2 trillion, the bill was unprecedented in size and scope, dwarfing the $831 billion stimulus act passed in 2009, and amounting to 10% of total 2019 US GDP.
- On Friday December 11th, the first COVID-19 vaccine, produced by Pfizer and the German company BioNTech, was granted Emergency Use Authorization (EUA) by the FDA. Then, on Monday, December 14th, another vaccine by Moderna, a Massachusetts based firm, was also granted EUA. On February 27, 2021 the Johnson & Johnson vaccine was also approved by the FDA for emergency use and is currently being used as a third vaccine to help fight the pandemic.
- The Consolidated Appropriations Act, 2021 is a $2.3 trillion spending bill that combines $900 billion in stimulus relief with a $1.4 trillion omnibus spending bill for the 2021 federal fiscal year. The bill was passed by both houses on December 21st and then signed into law by President Trump on December 27. It is one of the largest spending measures ever enacted, surpassing the CARES Act, and the first bill passed to address the pandemic since March 2020.
- On January 20, 2021, the U.S. death toll from COVID-19 surpassed the 400,000 mark, as per Johns Hopkins data. It took a little over a month for the death toll to jump by 33%, with 100,000 casualties in 36 days. A month later, on February 22, 2021 the COVID-19 death toll surpassed 500,000. While vaccine rollouts are underway, new more contagious, and possibly more deadly strains, are raising concerns.
- On March 11, 2021 President Biden signed the American Rescue Plan Act of 2021 (ARP) into law. The bill is a $1.9 trillion economic stimulus designed to speed up the recovery from the health effects and the ongoing recession. Key elements of the Act include extending expanded unemployment benefits, $1,400 direct payments to certain individuals, emergency paid leave for over 100 million Americans, extending 15% food stamp benefits as well as funding for vaccines, education and housing.
- In addition to ARP, President Biden has two other proposed parts to his Build Back Better Plan that have not yet been passed. They include, the American Jobs Plan, designed to rebuild America’s infrastructure and to create jobs; and the American Families Plan, which aims to invest in childcare and education.
- By the end of April 2021, the Biden Administration had achieved its goal of 200 million coronavirus vaccinations during the President’s first 100 days in office. More than half of all U.S. adults have now received at least one shot, and 80% of adults over 65 have been partially or fully vaccinated.
- On June 15th, California lifted all social distancing regulations to “re-open” the state. This ended capacity limits and physical distancing requirements for most businesses and lifted the mask mandate for fully vaccinated individuals. While San Diego had moved into the least restrictive “yellow tier” during the preceding week, the state eliminated the color-coded plan for safely reopening in conjunction with the June 15 “re-opening”.

The economy continues to recover despite fear of inflation and bond yields on the rise. With COVID infections trending downwards and vaccinations on the rise, the economy is expected to grow throughout the rest of 2021.

The following graph displays historical and projected U.S. real GDP percentage change (annualized on a quarterly basis) from first quarter 2014 through first quarter 2021:



Source: Historical Data Courtesy of the Bureau of Economic Analysis, Forecast Data Courtesy of Moody's Analytics

Further points regarding current economic conditions are as follows:

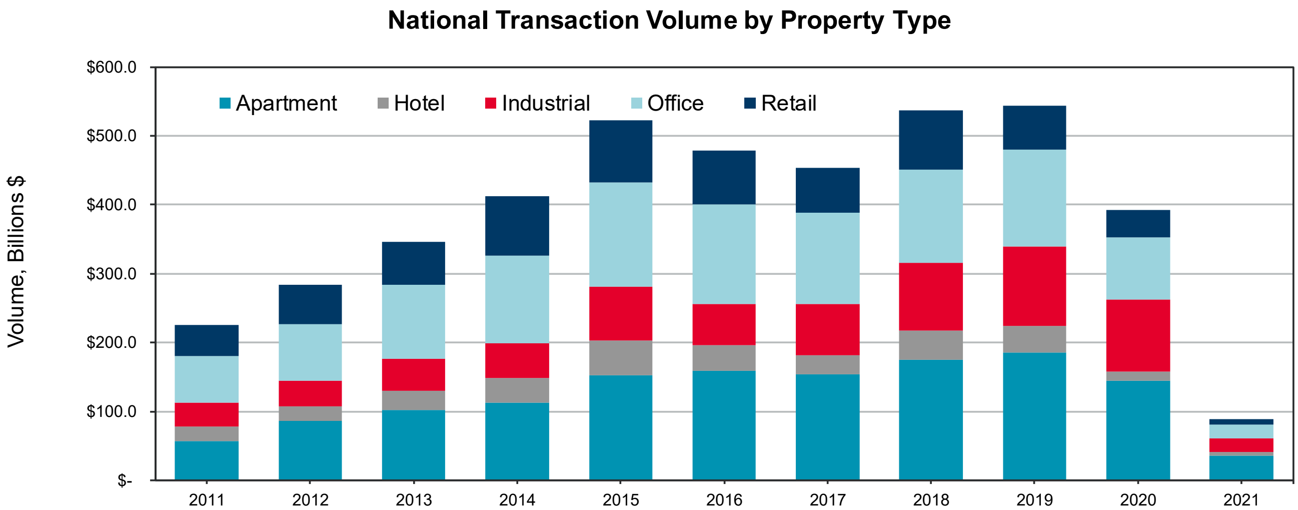
- Through first quarter 2021, GDP increased 6.4%, according to the Bureau of Economic Analysis' advanced estimate. This occurred in direct response to increases in spending on services and goods, as the national economy continued to show signs of recovery behind increased vaccinations and mass reopening of businesses and activities across the nation. Over the last three quarters, the U.S. economy has grown and the Federal Reserve plans to keep interest rates near zero to help encourage more spending by the population. As we enter second quarter 2021, states and cities will continue to ease restrictions and plan to fully reopen as the COVID-19 situation improves. Furthermore, GDP is expected to continue increasing as the nation recovers from the fiscal strain brought on by the pandemic, but the risk of inflation is a concern.
- Commercial and multifamily mortgage loan originations decreased 18% in fourth quarter 2020 (latest data available) when compared to the fourth quarter of 2019, according to the Mortgage Bankers Association's Quarterly Survey of Commercial/Multifamily Mortgage Bankers. Loan originations in the fourth quarter of 2020 were 76% higher than third quarter 2020.
- Commercial mortgage-backed securities (CMBS) have been spurred by measured investment sales activity and stable credit spreads. Commercial Mortgage Alert data indicates that U.S. CMBS issuance through April 2021 is 8% higher when compared to CMBS issuance during the same period in 2020. As of April 2021, Commercial Mortgage Alert data indicates that U.S. CMBS issuance sits at $21.6 billion.

U.S. Real Estate Market Implications

The commercial real estate markets sales volume totaled approximately $96.7 billion through first quarter 2021 and pricing for commercial real estate sat at $152 per square foot. Through first quarter 2021, deal activity fell by 28% in a year-over-year comparison and pricing for commercial real estate increased 7.8%, according to Real Capital Analytics.

Throughout the first quarter of 2021 the retail sector saw the largest decrease in transaction volume, falling by 42%. Industrial transaction activity was down 41% during the first quarter and totaled approximately $19.6 billion in transaction volume. The apartment sector saw year-over-year transaction volume fall by 12%, while the office sector dropped by 36% over the same time period. The only sector to see an increase in transaction volume in a year-over-year comparison was the hotel sector. In the hotel sector, sales volume rose by 13% from first quarter 2020 and totaled roughly $5.6 billion in transaction volume through the end of first quarter 2021.

The following graph compares national transaction volume by property type from 2011 through 2021:



Source: Real Capital Analytics

According to PricewaterhouseCoopers (PwC) Real Estate Investor Survey average cap rates for all property types increased in ten survey markets, decreased in 2020, and held steady in five through first quarter 2021 (in a quarterly comparison). For the year, 67% of the market averages are higher today than they were a year ago with 17 markets posting double-digit increases. Given current market conditions, each sector of the commercial real estate market is feeling the effects of the pandemic and the national regional mall market recorded the largest increase in their average overall cap rate, climbing 112 basis points from first quarter 2020. Additionally, for all markets, the average cap rate change is a three basis-point decline over last quarter.

The following chart displays overall cap rate analysis of six distinct property classes during first quarter 2021, and compares them to the same time last year:

Overall Cap Rate Analysis			
First Quarter 2021			
Asset Class	**Q1 2021**	**Q1 2020**	**Basis Point Change**
CBD Office	5.70%	5.45%	25
Suburban Office	6.02%	6.36%	-34
National Warehouse	4.80%	4.79%	1
National Apartment	5.04%	5.14%	-10
National Regional Mall	7.35%	6.23%	112
National Net Lease	6.16%	6.16%	0

Source: PwC Real Estate Investor Survey and Cushman & Wakefield Valuation & Advisory

Notable points for the U.S. real estate market include:

- Annual price growth in the six major metro areas fell 7.7% in the first quarter of 2020 according to RCA, while annual price growth in the non-major metros decreased by 2.4% in a year-over-year comparison.

- Approximately 50% of participants in the PwC Real Estate Investor Survey believe that current market conditions favor buyers in the national net lease market and investor demand has increased in the industrial net lease sector especially. Additionally, quick-service restaurants and sale leasebacks have benefited from the COVID-19 pandemic but investors believe headwinds will continue in the net lease sector with fewer investment opportunities available through the near term.
- The national regional mall market recorded the largest yearly cap rate shift, climbing 112 basis points to 7.4%. At 7.6%, the Chicago office market fell by 13 basis points from the previous year and is still the highest, while the Manhattan office market, at 5.1%, holds the lowest cap rate, rising 28 basis points from the first quarter 2020. Over the next six months, surveyed investors foresee overall cap rates holding steady in 24 markets but expect cap rates to increase in seven markets.

Conclusion

In the second quarter 2020, the country witnessed its worst drop in GDP on record. For second quarter this year, we expect that GDP growth may be in the double digits. Still, while the economy is in much better shape than it was at this same time last year, it is still too early to tell exactly how long some of the effects of the pandemic will last, or how deep they may run. Every property type is handling the effects of the pandemic in a unique way and are looking for ways to adapt to the post-COVID environment that is rapidly approaching.

Below are notes regarding the outlook for the U.S. national real estate market in 2021 and beyond:

- While there is light at the end of the tunnel, commercial property sales have declined year-over-year for four consecutive quarters. While there may be more declines in the near future, they are expected to taper off in the coming months and quarters.
- Early on in the pandemic, distressed properties were attracting buyers looking to take advantage of discounted sales. A year later, however, distressed properties are not as certain as they once were as new inflows of distressed properties peaked in the second quarter of 2020 and have dropped every quarter since.
- Inflation fears are on the rise, but the conditions that led to periods of high inflation in the 1970s and late 1980s/early 1990s, such as oversupply, do not exist today. Most economists are expecting that CPI will grow at a relatively low rate of 2.3% through 2023, significantly lower than the double digits experienced in the 1970s.

National Office Market

Overview

Prior to the current market disruption brought on by the COVID-19 pandemic, the U.S. economy had officially begun its eleventh consecutive year of growth in the second half of 2019; a new record for the longest economic expansion in history. Economic growth beat market expectations during the fourth quarter of 2019, and the unemployment rate hit a 50-year low as it reached 3.5%. In March 2020, circumstances changed drastically with the rapid spread of COVID-19 that caused people around the globe to start quarantining and practicing social distancing. This led to many businesses closing, either temporarily or permanently, and pushed the U.S. economy, as well as most other economies around the world, into a deep recession.

Entering 2020 on a stable, if not strong economic footing, the novel coronavirus has clearly had a severe impact on the economy. Keeping in mind that a majority of the information in this report contains the latest concrete data available (typically as of 1Q 2021), events have been changing rapidly, and the latest statistical information available has been provided, as available. The commercial real estate sector is not the stock market. It is slower moving and leasing fundamentals do not swing wildly from day to day. That said, the economy is still struggling to gain its footing, and this impacts the real property markets.

Economists expected the U.S. economy to return to growth during the second half of 2020, however, COVID-19 infections were still rising and recovery remained sluggish. While the full scope recovery remains uncertain, the nation has shown signs of progress heading into the summer of 2021. As vaccine rollout improved in early 2021, the economy appeared to followed suit. The Bureau of Economic Analysis reported at the end of May that real gross domestic product (GDP) increased at an annual rate of 6.4% in the first quarter of 2021, reflecting the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic. In the first quarter, government assistance payments, such as direct economic impact payments, expanded unemployment benefits, and Paycheck Protection Program loans were distributed to households and businesses through the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan Act. Further, employment prospects have improved, and many people unable to work throughout the pandemic are returning to the workforce.

The following summarizes key points regarding employment, according to the Bureau of Labor Statistics:

- Overall unemployment rates have risen as the global pandemic has forced, at times, over 30 million Americans into unemployment. Through May 2021, the national unemployment rate at 5.8% declined by 8.9 percentage points from the April 2020 high.
- Total nonfarm payroll employment rose by 559,000 in May 2021. The number of unemployed persons fell to 9.3 million. Despite declines over the past several months, the number of unemployed person trended downward in May but is 3.6 million higher than February 2020.
- In the office-using industries, employment in the information industry increased by 29,000 jobs in May 2021, and the professional & business services sector increased in May 2021 by 35,000 jobs. The financial activities industry changed little in May 2021.
- Job growth is a critical component of determining demand for office space. The national U.S. unemployment rate has gradually declined since 2009, and office-using employment has been one of the biggest gainers during this expansion period. The sharp decline in office employment in the first half of 2020 continues to impact the commercial office markets, but participants are encouraged by the more recent gains noted above.

National Office Market Statistics

Vacancy

In first quarter 2021, the national office market overall vacancy rate was 16.4%, rising from 13% in the first quarter of 2020. This is the highest national vacancy rate since third quarter 2014. Employment in the office-using sector changed during the global pandemic, as many employees have either been forced to work from home or given limited access to their respective offices. The U.S. economy is in an unprecedented time, and it is difficult to speculate on the demand for office space heading in 2021 due to the lingering concerns of COVID-19. However, we recap some observations as follows:

- Although the West office market registered the lowest overall vacancy rate in the first quarter, with an overall vacancy rate of 15.4%, the West has seen the largest jump in overall vacancy from first quarter 2020, rising by 470 basis points as COVID has impacted the tech-dominated office markets along the West Coast, namely those in San Francisco and the San Jose areas.
- The South office market ended 2020 with an overall vacancy rate of 17.3%, the highest out of all U.S. regions; however, the gradual population and corporate migration to the Sunbelt that has been accelerated by COVID-19 is supporting a higher level of stability in many markets here than in Coastal areas.
- The major markets with the lowest vacancy rate include Puget Sound-Eastside (9.9%), Inland Empire (9%), Sacramento (12.6%), and San Mateo County, CA (12.2%).
- Of the 87 markets tracked by Cushman & Wakefield, 78 saw vacancy increase from the fourth quarter 2020 to first quarter 2021.

Construction

In first quarter 2021, approximately 16.7 million square feet of office space was delivered, the largest amount being in the West, with over 8 million square feet. The U.S. economy cut roughly three million office-using jobs in March and April of 2020, delaying many proposed projects. Further, shutdowns of construction sites in early- to mid-2020 in many states delayed projects that resumed later in the year, many of which will deliver later in 2021. At the end of first quarter 2021, 114.6 million square feet of office space remained in the pipeline, with 40.6 million square feet in the South.

Notable construction information is as follows:

- The Midtown Manhattan has the largest amount of new office product under construction at roughly 10.2 million square feet in first quarter 2021. Boston came in second with 7.5 million square feet under construction and San Jose rounded out the top three markets in construction activity, at 6.3 million square feet. The delivery of large amounts of speculative inventory during the pandemic will not bode well for occupancy and rents in these markets; the exception is Boston, where the thriving life sciences sector is buoying the office market.
- As construction progress is completed, tightening of lending for speculative office development should result in a decreasing pipeline over the near term.

Asking Rent

Asking rents are lagging real-time market softness. After reaching a new record high at the first quarter 2020, at $33.69 per square foot, the national average asking rent has climbed to $35.40 per square foot even with a lack of demand and an increasing national overall vacancy rate. In first quarter 2021, the national weighted average asking rent increased 5.1% year-over-year and was up significantly since bottoming eight years ago in the second quarter of 2011. In addition, major markets like, San Francisco, San Mateo County, Midtown Manhattan, Midtown South Manhattan, Downtown Manhattan and Washington D.C., continue to record asking rents above $50.00 per square foot, on an annual basis. Furthermore, asking rents in 47 markets increased from fourth quarter 2020, but asking rents are expected to decline over the next few quarters with the amount of sublease space currently on the market. These statistics are somewhat misleading however, as landlords, brokers and market participants report that real-time effective rents are flat or falling in most markets. We attribute the rise in average rents to the large amounts of new construction (started pre-COVID) which were delivered during the year with top-of-market asking rents. Looking forward to later in 2021, Cushman & Wakefield expects average asking rents to begin to drop with weakened demand and rising sublease activity.

Further considerations include:

- Prior to the COVID-19 pandemic, the West region of the country experienced the fastest rent growth on an annual basis and asking rents continued to increase, rising 8.4% since the first quarter 2020. Additionally, within the CBD national office market, the New York Midtown market ended the year with the highest average asking rent in the U.S., at $76.40 per square foot. San Francisco commands the second highest average asking rent in the U.S., at $73.76 per square foot, and New York Midtown South ended the quarter with the third highest average asking rent at $70.72 per square foot. A sharp increase in sublease space and a lack of demand from office tenants will also contribute to downward pressure on rents in that market.
- The Northeast region office market was the most expensive in the United States, with overall average asking rent at $45.36 per square foot, reflecting an 8% increase from first quarter 2020. The West region office overall average asking rent, at $39.85 per square foot, is the second highest out of the four U.S. office market regions, with the South and Midwest at $30.46 per square foot and $25.90 per square foot trailing by a distinct margin.
- Compared to fourth quarter 2020, 37 of 87 markets saw a decline in rents. Given the current environment, vacancy rates will rise over the coming quarters which will lead to downward pressure on effective rents, which are a lagging indicator.

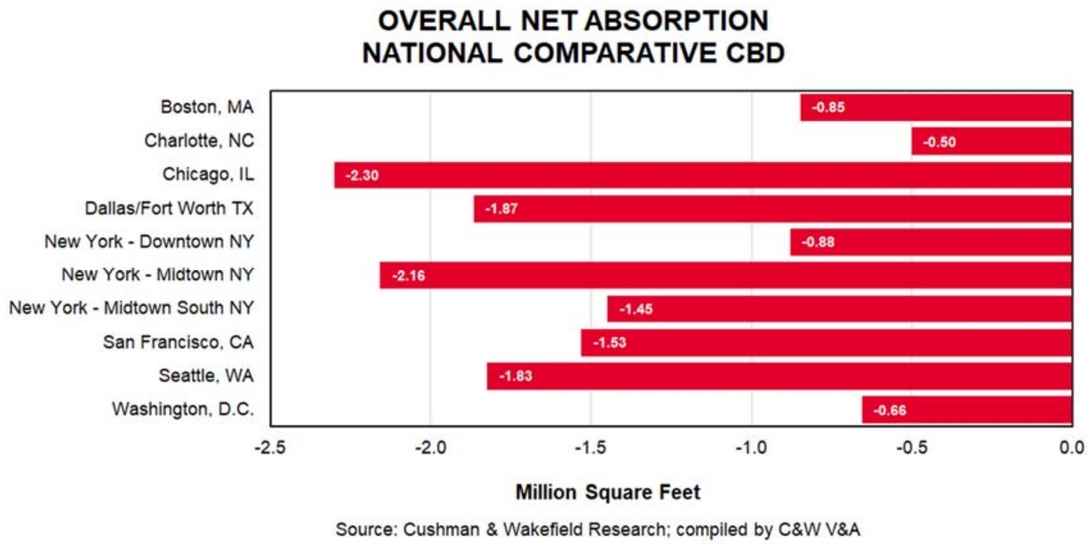
Absorption

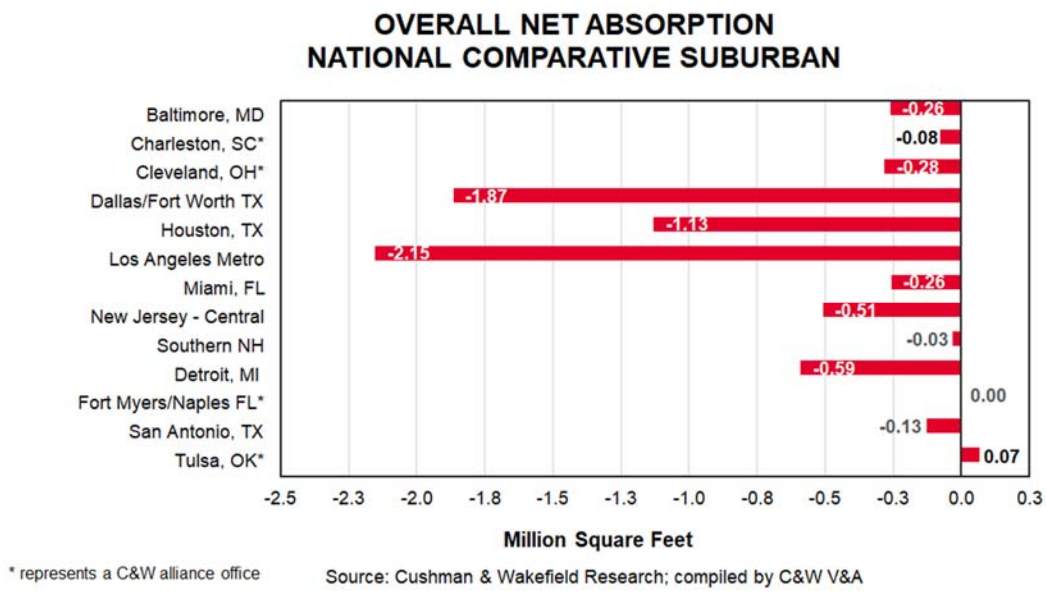
Absorption continued to trend negatively, with the market losing approximately 41.2 million square feet through the end of the quarter. This is the fourth consecutive quarter of negative absorption, attributed to the decline in employment in response to the global health crisis. The unemployment rate has trended downward over the last several months, but the work-from-home dynamic will continue to have an impact on the office sector, as employers have indicated that more employees will be working from home on at least a part-time basis post-pandemic. However, the U.S. is forecast to create 2.3 million office-using jobs over the next two years—on par with the highest levels on record, which could drive further demand, even if many of these employees do work from home several days a week.

Further considerations are as follows:

- All four U.S. office market regions recorded negative absorption first quarter 2021. The largest amount of negative absorption came out of the West. The West totaled 13.3 million square feet in negative absorption, while the Northeast, South and Midwest regions lost approximately 10.9 million square feet, 10.4 million square feet and 6.4 million square feet of occupancy, respectively, in the first quarter.
- Through first quarter 2021, 77 office markets reported negative absorption and 12 markets totaled at least one million square feet in negative absorption due to a lack of office demand during the coronavirus pandemic. Major markets such as Atlanta, Chicago, the Los Angeles Non-CBD, New York-Midtown, and San Jose witnessed considerable declines during the quarter, each returning over two million square feet of space to the market. return to market in first quarter. As a greater share of the population receives one of the three approved vaccines, economic conditions are likely to improve further as we move into 2021.

The following charts highlight the national office absorption trends for the major markets in the United States in first quarter 2021, segmented between the CBD and suburban office markets:





There are currently two opposing forces at work on office absorption;

- The first is the gain in space due to the immediate need for more square-feet per employee, reflecting physical distancing in consideration of COVID. The pendulum is swinging back after years of densification.
- The second is the loss in space due to the permanent stay-at-home workforce.

While there will be some offset; the latter definitely reflects the sentiment of the day. Companies are delaying repopulation of office space and considering alternatives that result in a reduced footprint overall.

National Office Investment Sales Market

As shown in the comparative absorption exhibits, overall net absorption impacts the selection of preferred investment markets for office building investors. Historically, investors targeted the best quality assets in core markets during a recovery phase and have gradually shown an inclination to move "down the food chain" in terms of quality and market location. This shift occurs where there is less competition and better yield potential over the near-term as capital flows to risk-adjusted opportunity. There is no doubt, however, that during the COVID-19 recession, some core markets are facing headwinds from the challenge of physical distancing, delivery of new speculative inventory, and social unrest.

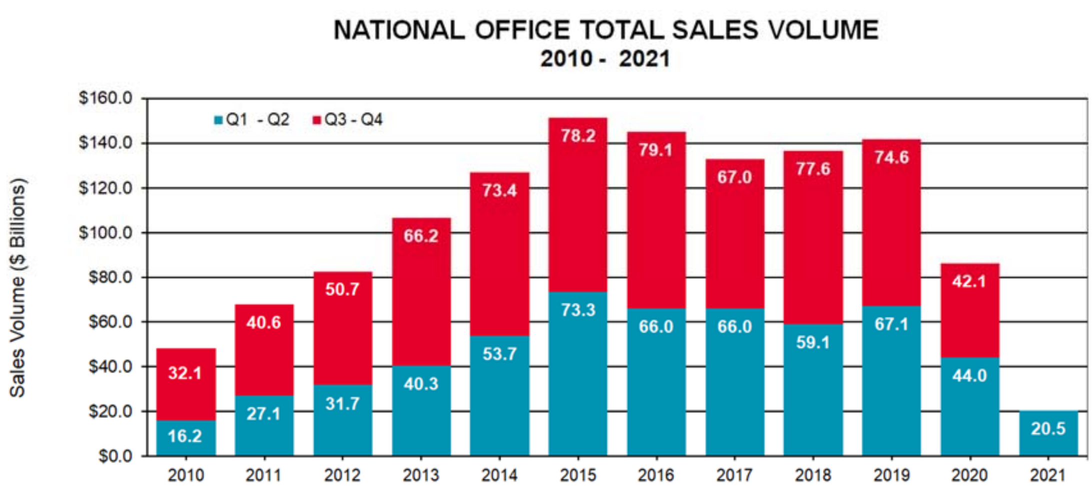
Sales Volume

Office transactions (total dollar volume) have been at healthy levels as the economy has expanded over recent years. From 2009 through 2015, investors gained confidence in the office market and sales volume experienced consistent year-over-year growth. Sales volume for office product reached its cyclical peak in 2015 due, in part, to unusual activity in the early part of year, where falling cap rates and ease of finance from the commercial mortgage-backed securities (CMBS) market helped drive sales activity. Sales volume declined on an annual basis in both 2016 and 2017, however office investment activity has been at elevated levels and investment during these years was at a higher than average pace. In first quarter 2021, office sales volume dropped by approximately $11 billion from first quarter 2020.

Further considerations are as follows:

- While office market volume has improved since the lows in second and third quarter 2020, first quarter 2021 volume is down 36% from first quarter 2020 and down 25.6% from fourth quarter 2020.
- Portfolio activity boosted sales, with eight billion—or 39% of all sales—coming from portfolio transactions. The largest of these transactions was the $3.4 billion BioMed Realty purchase of a portfolio of assets from Brookfield, which illustrates confidence in the medical office component of the sector.
- According to Real Capital Analytics, 864 properties traded during the year, falling by 37% from the previous year. The largest single-property transaction was The Exchange on 16th in San Francisco, which sold for nearly $1.1 billion, approximately $1,442 per square foot. Kilroy Realty Group was the sales broker on that transaction.
- The downturn is prompting companies to consider monetizing owner-occupied real estate to raise cash. This can be accomplished in the form of a sale lease-back. On the buyer side, a new, long-term net lease investment provides predictable, durable income that investors are seeking during this period of increased uncertainty. For those reasons, we expect sale leasebacks to make up a sizeable percentage of office sales as the recovery continues.

The following table provides an historical view of sales volume in the first and second half of the year from 2010 through first quarter 2011:



Source: Real Capital Analytics, Inc.

Overall Capitalization Rates

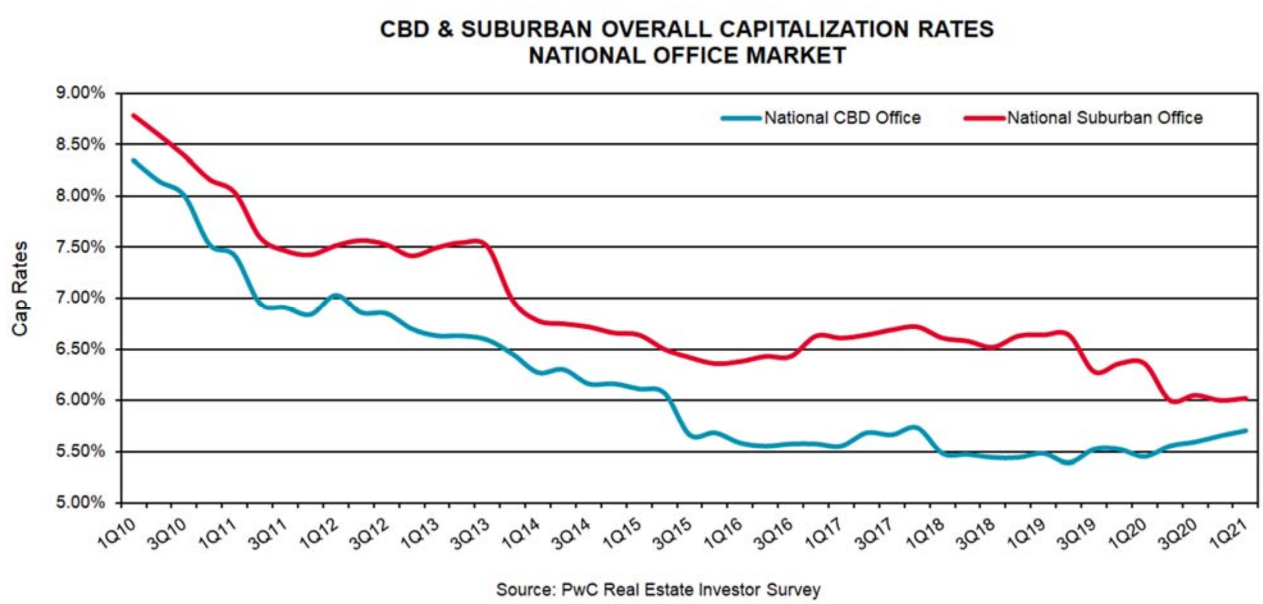
The office sector has generated and sustained investor demand over the past few years, driving down overall cap rates. Typically, CBD properties in major markets have been the primary contributor to the office sector’s momentum, although suburban office markets have also exhibited a downward trend since 2009 due to increased investor interest. The performance of an individual CBD office market can be inconsistent, top-tier CBD’s are outperforming the country while smaller downtown areas are struggling. Average overall cap rates remain lower for most CBD markets than for its suburban counterparts since higher barriers to entry and a lack of land for new development tend to keep supply and demand more balanced in a market's CBD. As a result, CBD assets typically achieve higher rental rates.

The PwC Real Estate Investor Survey and the National Council of Real Estate Investment Fiduciaries (NCREIF) methodologies offer unique perspectives on capitalization rate trends. The PwC Real Estate Investor Survey calculates its data based on a personal survey of major institutional equity real estate market participants. In contrast, NCREIF looks at data from appraisals included in their benchmark property return index. The index contains quarterly performance data for unlevered investment-grade income-producing properties that are owned by, or on behalf of, exempt institutions.

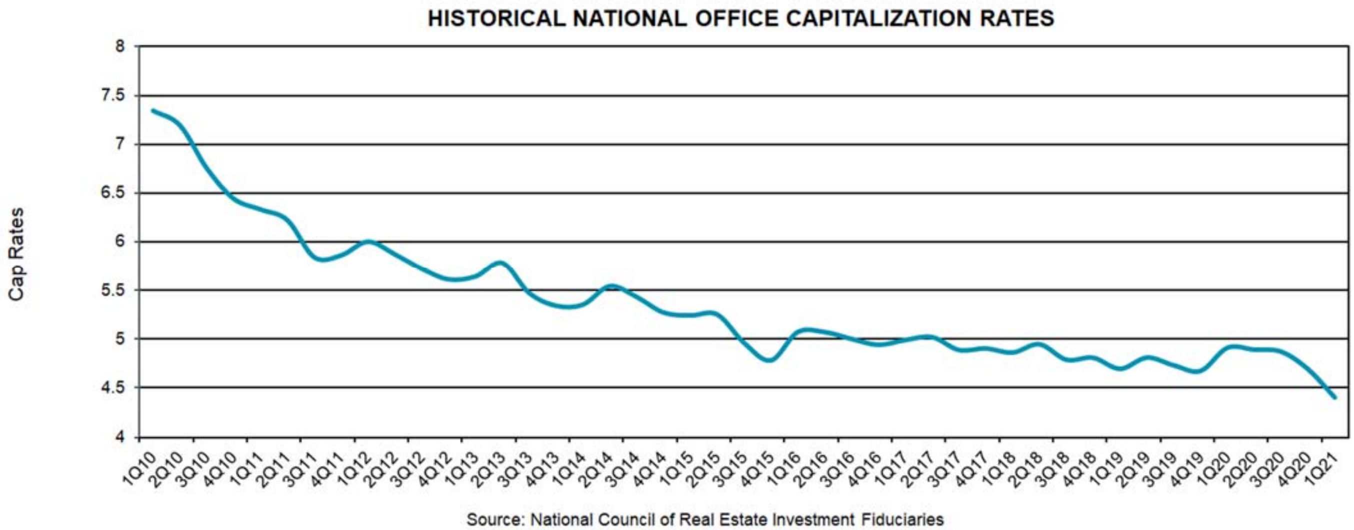
The following points detail the PwC Real Estate Investor Survey and NCREIF capitalization rate trends:

- The PwC Real Estate Investor Survey shows that as of first quarter 2021, the national CBD OAR, at 5.7%, rose 50 basis points on a quarterly basis and 25 basis points on an annual basis. The suburban OAR, at 6.02% in first quarter 2021, increased 2 basis points over previous quarter and fell 34 basis points from the previous year. The COVID-19 pandemic has prompted more interest in suburban hubs, potentially hub and spoke model with urban office location as a brand and collaboration center with suburbs hosting back office work, less dense space that is closer to home and easier to flex work.
- The NCREIF reported that cap rates fluctuated over the last 12 months in response to the general interest rate environment. At 4.4% as of first quarter 2021, the national office cap rates dropped 29 basis points over the previous quarter and declined 51 basis points on a year-over-year basis.

The following graph reflects national trends for CBD and suburban overall capitalization rates as surveyed by the PwC Real Estate Investor Survey:



The following graph reflects national historical cap rate trends as reported by NCREIF:



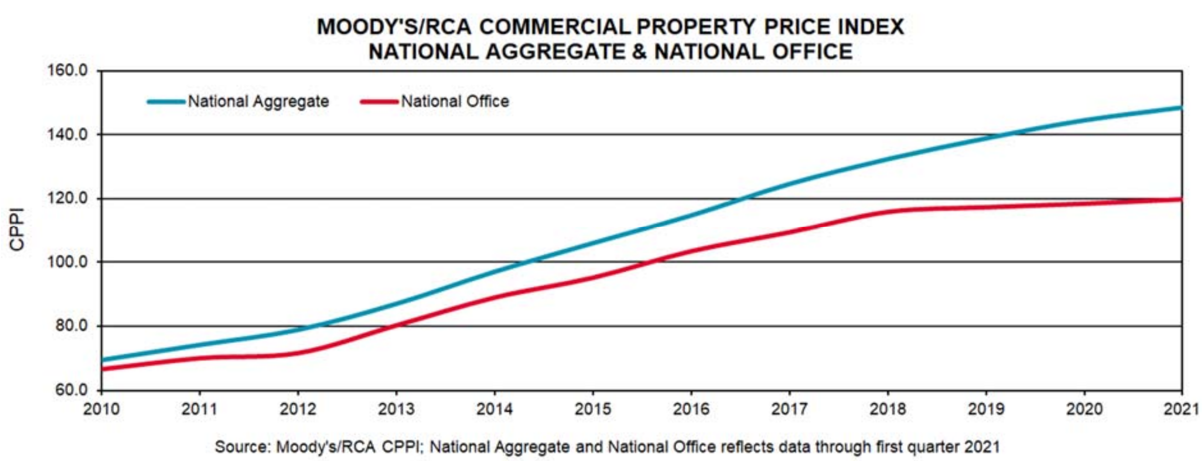
Moody's/RCA Commercial Property Price Index

The Moody's/RCA Commercial Property Price Index (CPPI) measures the change in price of commercial real estate and reflects the empirical results of direct investments over time. Developed by MIT's Center for Real Estate in conjunction with a consortium of firms including Moody's and RCA, the index tracks price changes based on closed transactions, and implements advanced repeat-sale regression (rsr) analytics to gauge performance in current and prior periods.

The following points are for consideration regarding the Moody's/RCA CPPI:

- As of March 2021, the national aggregate index was 148.5. The national aggregate index grew 2.8% from fourth quarter 2020 and increased 7.4% from first quarter 2020.
- The national office index in March 2021, at 119.7, increased 1.2% from 118.3 in December 2020. Year-over-year, the national office index increased by 2.3%.
- Both the national office index and the national aggregate index have exhibited continued growth during the last economic expansion cycle. The national office index ended the quarter 82.3% above the low recorded in May 2010, while the national aggregate index has increased 117.6% during the same period.

The graph below displays the CPPI from December 2010 to March 2021 (most recent data available):



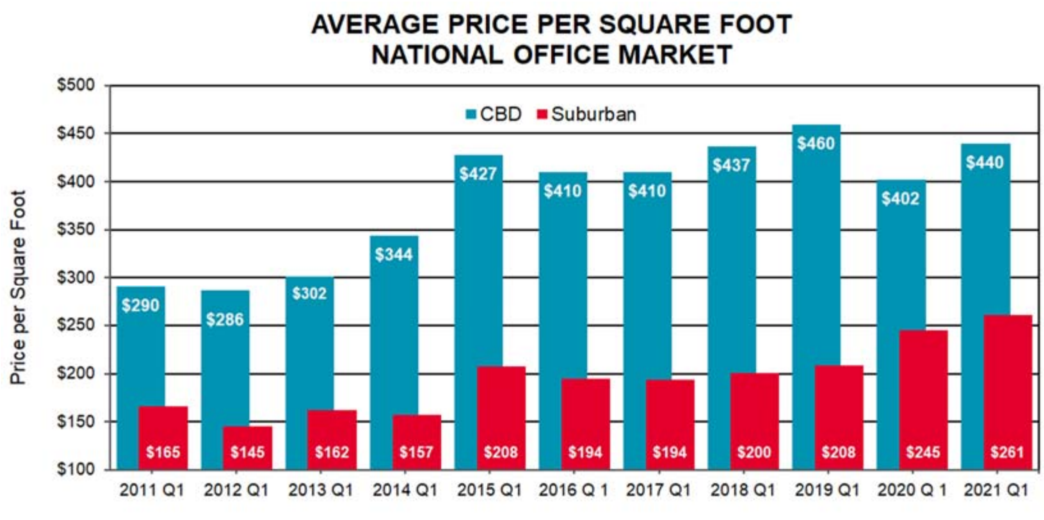
Sale Price Per Square Foot

Historically, office pricing has not experienced the same dramatic fluctuations as seen with sales volume trends. This was, in large part, due to sellers holding out and waiting for market fundamentals to improve. In the first quarter, the CBD and suburban markets grew in terms of price per square foot on an annual basis, but experienced some softening on a quarterly basis.

The following points provide details regarding sale price per square foot:

- The CBD average price per square foot, at $440 as of first quarter 2021, increased by 9.4% from the same point in 2020 ($402). On a quarterly basis, the CBD price declined 15.9%. While these metrics are somewhat skewed due to a lack of transactions, they do reflect the negative bias buyers are exhibiting to CBD assets.
- The suburban average price per square foot, at $261 as of first quarter 2021, is 6.4% higher than in first quarter 2020 ($245). On a quarterly basis, the suburban price per square foot declined 2.6%. this reflects a growing preference for suburban properties, particularly those in ‘urban suburban’ locations or corporate sale lease-backs.
- In the 10-year period, from 2011 through first quarter 2021, compound annual growth rate (CAGR) for the CBD is 2.2%, slightly above the last five-year compound annual growth rate at 1.7%. The suburban 10-year CAGR is 6.2% while the five-year CAGR is 7.9%.

The following graph reflects the national office average price per square foot from first quarter 2011 to first quarter 2021 (based on Real Capital Analytics data):



Source: Real Capital Analytics

National Office Market Summary

The U.S. economic expansion ended in response to the effects of COVID-19 causing shutdowns of non-essential businesses, mass layoffs and rising unemployment. On a positive note, the national office market was relatively well positioned going into the recession, as demand during this cycle tightened office markets across the United States (although we recognize the national market performance is “average” and does not apply to all markets across the board). As of first quarter 2021, asking rents have eclipsed from the record highs set in 2019 and capitalization rates stayed near record lows despite a drop in demand for office space. The office market has experienced high levels of construction activity over the last 12 months, continuing the trends of recent years. However, these stats are lagging real time market softness and we expect levels to deteriorate looking ahead to the later months of 2021. Demand in office markets remained soft in the first quarter, with 77 markets recording negative absorption. Moving into the summer and fall of 2021, U.S. office fundamentals are likely to get worse before getting better, and economic recovery from the COVID-19 pandemic will be a primary driver determining positive or negative performance. Most recently, enhanced rollout of the three approved COVID-19 vaccines has improved reopening prospects for many businesses. Employment in office-using industries has risen since the beginning of the global health crisis but have far to go before reaching pre-crisis levels.

Following are notes regarding the outlook for the U.S. national office market in 2020 and beyond:

- Demand for office space is facing headwinds as business struggle with uncertainty about their space needs moving forward. In order to combat these headwinds, firms have prioritized renewals or subleasing office space as employees have opted work-from-home scenarios. Sublease space has increased to a near all-time high of 123 million square feet. This total surpasses the Great Financial Crisis peak but remains below Dot-Com Recession levels. This tsunami of sublease space is likely to have a substantial negative impact on markets like San Francisco and San Jose.
- Technology-driven markets continue to represent a large presence within the national office market, and it is the tech sector is more important than ever to commercial real estate. However, what was the hottest sector in the country is quickly becoming one of the most negatively impacted due to the COVID-19 pandemic. Many tech companies have implemented mandatory or optional work-from-home plans extending into at least mid-year 2021 and beyond; there are still mixed signals about the likelihood of a permanent retreat from office space in this sector.
- Co-working and flexible office space remains a growing sector within the office market. More than five million square feet of this subtype came online in each of the past three years. Yet prior to COVID-19, there was already weakness in the sector despite very favorable economic conditions. Now, COVID-19 is accelerating an expected shakeout in the sector that will ultimately reduce the overall co-working footprint. High density, working with strangers, and inaccessible spaces are contributing factors. On a positive note, co-working may ultimately play a key role for remote workers as survivors in the sector pivot toward attracting larger, more established corporate users that need flexibility.
- A trend to watch in the national office market is a potential shift in demand away from the urban core towards less dense, suburban office space. While it is too early into the cycle to determine if this is a true shift, it may prove to be an acceleration of a trend that was already in progress.
- The office lab sector is thriving during the COVID-19 pandemic as the world focuses on developing a vaccine for COVID-19. The U.S. lab market accounts for two percent of the national office inventory and is heavily concentrated in the Boston, San Diego and San Francisco Bay area office markets. Since 2016, employment in this sector has risen faster than U.S. office employment and requires personnel to be located onsite, moving away from the developing trend of work from home.

Clearly, the national office market will face an uphill battle over the next one to two years. Yet when a devastating event occurs, there is often an initial overreaction. When we consider that the one of the greatest challenges for business is talent retention, and that the modal worker age is 26 years old, the needs of those younger workers become a priority. Young workers do not necessarily want, nor have the space, to work at home full time or even in suburban environments. Even so, an increasing number of companies are opting to let employees work remotely or allowing employees to come into the office a few days a week, but a return to a strong economy would benefit young workers and the overall office market.

Instead, we expect the future of office demand to be a shift towards of a total work ecosystem, balancing home, office, and third places. But on balance, we do not believe a permanent, fundamental evaporation of office demand is underway. The social aspects of being in an office, with a space to collaborate with peers, is important. A wide distribution of the approved vaccines will also help to alleviate broad fears of communal areas and put upward pressure on space needs. While the ultimate picture could take shape over a variety of office strategies that will vary based on the length of the U.S. economic recovery, at this point in time we do not anticipate long-term net changes in office sector demand across the real estate spectrum.

San Diego Regional Analysis

Introduction

The short- and long-term value of real estate is influenced by a variety of interacting factors. Regional analysis identifies those factors that affect property value, and the role they play within the region. The four primary forces that determine the supply and demand for real property, and consequently affect market value, are: environmental characteristics, governmental forces, social factors, and economic trends.

The subject property is located in the City of San Diego in the central portion of the San Diego-Carlsbad CBSA.

Economic & Demographic Profile

The following profile of the San Diego-Carlsbad CBSA was provided by Moody's Analytics, whose core assets of proprietary editorial and research content as well as economic and financial databases are a source of information on national and regional economies, industries, financial markets, and demographics.

Moody's Analytics approach to the analysis of the U.S. economy consists of building a large-scale, simultaneous-equation econometric model, which they simulate and adjust with local market information, creating a model of the U.S. macro economy that is both top-down and bottom-up. In this model, those variables that are national in nature are modeled nationally while those that are regional in nature are modeled regionally. Interest rates, prices, and business investment are modeled as national variables; key sectors such as labor markets (employment, labor force), demographics (population, households, and migration), and construction activity (housing starts and sales) are modeled regionally and then aggregated to national totals. This approach allows local information to influence the macroeconomic outlook. Therefore, changes in fiscal policy at the national level (changes in tax rates, for example) are translated into their corresponding effects on state economies. At the same time, the growth patterns of large states, such as California, New York, and Texas, play a major role in shaping the national outlook.

In addition, on a regional basis, the modeling system is explicitly linked to other states through migration flows and unemployment rates. Moody's Analytics model structure also takes into account migration between states.

MOODY'S ANALYTICS

SAN DIEGO-CARLSBAD CA

Data Buffet® MSA code: IUSA_MSAN

ECONOMIC DRIVERS	EMPLOYMENT GROWTH RANK		RELATIVE COSTS		VITALITY	QUALITY
HIGH TECH / DEFENSE	2019-2021	2019-2024	LIVING	BUSINESS	RELATIVE	OF LIFE
	269 4th quintile	214 3rd quintile	132%	135%	0.58 Rank: 44	9
	Best=1, Worst=410		U.S.=100%		Best=1, Worst=403	Best=1, Worst=378

BUSINESS CYCLE STATUS

STRENGTHS & WEAKNESSES

STRENGTHS

- Dynamic professional services.
- Beneficiary of buildup of Pacific naval forces and unmanned aerial vehicles.
- R&D clusters underpin healthy demand for office space.

WEAKNESSES

- High costs hurt competitiveness.
- Border-crossing bottlenecks hinder trade, business flows with neighboring Tijuana.
- Weak migration trends.

FORECAST RISKS

SHORT TERM ↓ LONG TERM ↑

COVID-19 EXPOSURE FEBRUARY 2021: **124** 2nd quintile (Most=1, Least=403)

UPSIDE

- Innovation fuels even bigger job gains in knowledge-based industries.
- The benefits from federal fiscal stimulus are greater than anticipated.

DOWNSIDE

- Shutdowns and disruptions due to COVID-19 extend through end of 2021.
- Air travel and hospitality industries recover more slowly than anticipated.

MOODY'S RATING

NR

ANALYSIS

Recent Performance. San Diego-Carlsbad's recovery slowed in the last quarter of 2020 amid a second wave of COVID-19. Though the economy is out of recession, joblessness remains stubbornly high and payrolls are much further below pre-COVID-19 levels than they are nationally. Leisure/hospitality in particular has been slow to rebound, which is unsurprising given that real-time data show the volume of seated diners is down sharply from a year earlier. Nevertheless, the housing market has thrived during the pandemic, with high demand and low mortgage rates fueling larger price gains and an upswing in residential construction.

High tech. Tech titans have weathered the pandemic in relatively good form and will remain the driving force behind the SAN economy. SAN is a hub for biotech, cybersecurity and information technology companies and is home to tech giants such as Qualcomm and Cubic Corp. Nearly 10% of local workers—double the U.S. average—are employed in high-tech industries and the increased ability to work remotely has left many firms unscathed by the pandemic. High-tech employment is up 1.5% year over year, compared with near zero for the nation, and tech firms' appetite for more workers is strong. For example, Apple leased a fourth building in SAN last year as it expands its footprint in the metro area. SAN offers lower labor and living costs than the Bay Area and is among the top recipients of venture capital funding. According to PricewaterhouseCoopers, local startups raised $5.3 billion in 2020, up from $2.6 billion in 2019. While SAN will continue to play home base to mature tech companies, venture capital inflows will also support tech hiring.

Defense. SAN's massive defense sector will provide welcome support as the metro area navigates the rest of the pandemic. So far, the defense industry has largely been immune to layoffs, helping protect a large chunk of high- and medium-paying jobs. A steady inflow of defense spending combined with a 3% boost in military pay will provide some relief against high unemployment in many private industries. SAN is among the top recipients of Department of Defense contracts and the defense contract spigot will continue to flow into fiscal 2021. Recently, defense contractor Northrop Grumman was awarded a 10-year wide-ranging contract with a $4.8 billion ceiling. Military budgets might grow more slowly under the Biden administration, but spending cuts are unlikely.

Tourists. Employment in leisure/hospitality was decimated by the pandemic, and the outlook for a strong recovery in SAN is dim. SAN has recouped less than half of the jobs lost; many of those positions have not returned, partially reflecting the closure of attractions like Sea World and cruise ships. Public health officials allowed ships to operate under rigorous new rules in November, but none of the major cruise lines have restarted U.S. service. While some domestic leisure travel has returned, more profitable business travel and international visits remain practically nonexistent. Thus, many hotels are either closed or operating at half of their typical occupancy. Though the vaccine rollout gives a more promising outlook for tourism in late 2021, leisure/hospitality net hiring will be muted in the near term.

San Diego-Carlsbad's recovery will pick up speed in 2021 as COVID-19 cases abate and the vaccine rollout ramps up. Strength in tech and defense will help make up for weakness in tourism and preserve the recovery. Longer term, high costs will deter migrants, but growth in dynamic high-skill service industries and R&D clusters will allow SAN to keep pace with California and the U.S.

Abhilasha Singh 1-866-275-3266
February 2021 help@economy.com

2014	2015	2016	2017	2018	2019	INDICATORS	2020	2021	2022	2023	2024	2025
207.4	216.0	222.6	231.7	239.7	247.6	Gross metro product (C12$ bil)	239.2	250.6	266.7	276.6	284.4	291.8
2.9	*4.1*	*3.0*	*4.1*	*3.5*	*3.3*	*% change*	*-3.4*	*4.8*	*6.4*	*3.7*	*2.8*	*2.6*
1,344.9	1,384.7	1,422.4	1,452.2	1,482.2	1,504.1	Total employment (ths)	1,403.3	1,432.9	1,486.9	1,520.5	1,537.5	1,547.8
2.2	*3.0*	*2.7*	*2.1*	*2.1*	*1.5*	*% change*	*-6.7*	*2.1*	*3.8*	*2.3*	*1.1*	*0.7*
6.4	5.2	4.7	4.0	3.4	3.2	Unemployment rate (%)	9.0	6.6	4.8	3.9	3.9	3.9
6.7	6.0	3.9	3.8	5.1	4.4	Personal income growth (%)	7.6	6.5	1.0	5.5	4.9	4.6
66.0	68.9	72.0	75.7	80.9	84.0	Median household income ($ ths)	82.9	83.4	83.8	86.9	89.9	93.0
3,248.9	3,280.9	3,306.1	3,321.2	3,333.9	3,338.3	Population (ths)	3,349.4	3,368.8	3,382.1	3,394.9	3,407.2	3,418.5
1.2	*1.0*	*0.8*	*0.5*	*0.4*	*0.1*	*% change*	*0.3*	*0.6*	*0.4*	*0.4*	*0.4*	*0.3*
15.2	8.5	3.1	-5.5	-5.2	-13.0	Net migration (ths)	-7.6	0.7	-5.3	-5.8	-5.9	-6.4
2,487	3,222	2,351	4,056	3,489	3,019	Single-family permits (#)	2,952	4,719	6,782	6,868	6,764	6,661
4,388	6,661	8,440	6,385	6,345	5,197	Multifamily permits (#)	6,233	6,219	6,510	6,842	7,112	7,288
265.0	279.8	298.3	320.4	339.9	349.4	FHFA house price (1995Q1=100)	366.0	394.8	414.2	432.3	454.7	476.1

MOODY'S ANALYTICS / Précis® U.S. Metro / February 2021

PRÉCIS® U.S. METRO • San Diego-Carlsbad CA

ECONOMIC HEALTH CHECK

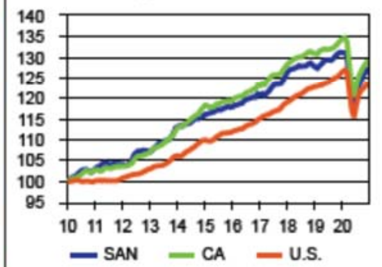
3-MO MA	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20
Employment, change, ths	-33.8	-1.1	18.4	18.2	13.9	12.3
Unemployment rate, %	13.8	11.6	10.1	8.6	7.8	7.5
Labor force participation rate, %	60.3	60.2	59.8	60.2	60.5	61.0
Average weekly hours, #	34.3	34.5	34.3	34.5	34.5	34.5
Industrial production, 2012=100	104.2	106.7	108.1	109.1	109.3	110.4
Residential permits, single-family, #	2,561	3,064	2,870	3,024	2,772	3,012
Residential permits, multifamily, #	5,893	7,148	6,447	6,115	4,902	8,031
Dec/Dec	**Dec 15**	**Dec 16**	**Dec 17**	**Dec 18**	**Dec 19**	**Dec 20**
Employment, change, ths	30.0	41.2	34.3	29.8	24.5	21.8

Better than prior 3-mo MA | Unchanged from prior 3-mo MA | Worse than prior 3-mo MA

Sources: BLS, Census Bureau, Moody's Analytics

BUSINESS CYCLE INDEX

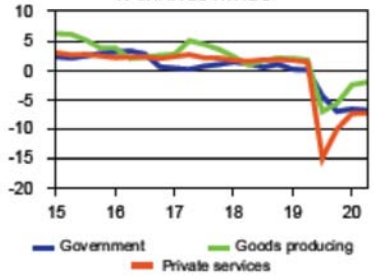
JAN 2010=100



Source: Moody's Analytics

CURRENT EMPLOYMENT TRENDS

% CHANGE YR AGO



Sources: BLS, Moody's Analytics

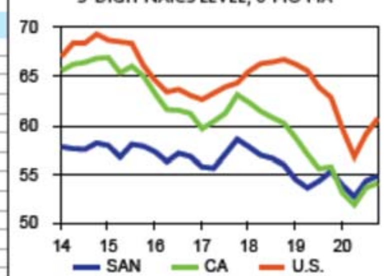
% CHANGE YR AGO, 3-MO MA

	Dec 19	Jun 20	Dec 20
Total	1.4	-12.3	-6.7
Mining	-0.0	9.5	0.1
Construction	0.8	-7.9	2.5
Manufacturing	2.8	-6.6	-6.2
Trade	-1.5	-13.8	-6.3
Trans/Utilities	3.6	-9.9	-0.6
Information	-0.1	-16.0	-14.8
Financial Activities	1.5	-4.5	-4.0
Prof & Business Svcs.	3.5	-2.1	2.8
Edu & Health Svcs.	3.4	-8.8	-4.7
Leisure & Hospitality	1.2	-40.0	-23.6
Other Services	-1.0	-29.5	-17.6
Government	0.1	-4.5	-6.7

Sources: BLS, Moody's Analytics

DIFFUSION INDEX

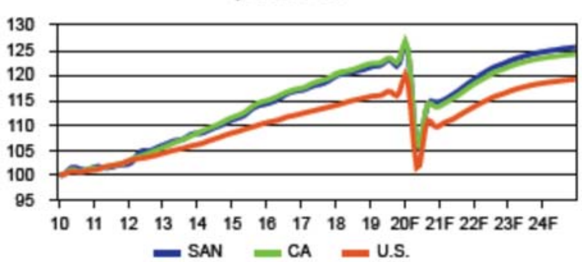
3-DIGIT NAICS LEVEL, 6-MO MA



Sources: BLS, Moody's Analytics

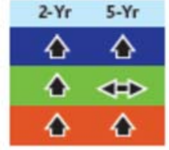
RELATIVE EMPLOYMENT PERFORMANCE

JAN 2010=100



FORECAST VS. 6 MO PRIOR

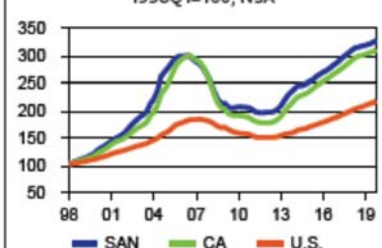
2-Yr 5-Yr



Sources: BLS, Moody's Analytics

HOUSE PRICE

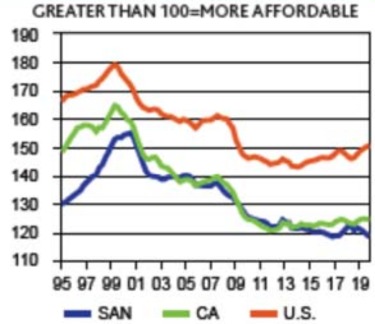
1998Q1=100, NSA



Sources: FHFA, Moody's Analytics

RENTAL AFFORDABILITY

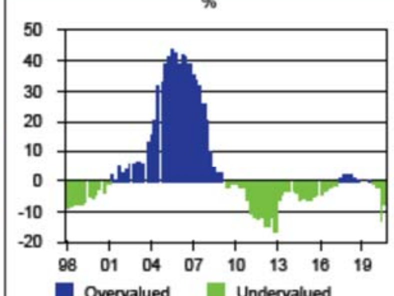
GREATER THAN 100=MORE AFFORDABLE



Sources: Census Bureau, BLS, Moody's Analytics

HOUSE PRICE TRENDS

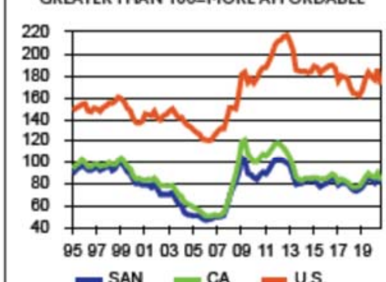
%



Sources: FHFA, Moody's Analytics

HOUSING AFFORDABILITY

GREATER THAN 100=MORE AFFORDABLE



Sources: NAR, Moody's Analytics

MOODY'S ANALYTICS / Précis® U.S. Metro / February 2021

PRÉCIS® U.S. METRO • San Diego-Carlsbad CA

EMPLOYMENT AND INDUSTRY

TOP EMPLOYERS

Marine Corps Base Camp Pendleton	41,607
University of California, San Diego	38,749
Naval Base San Diego	30,144
Naval Base Coronado (incl. North Island NAS)	23,309
Sharp HealthCare	18,736
Scripps Health	12,348
Qualcomm Inc.	10,300
Naval Base Point Loma	9,809
Marine Corps Air Station Miramar	9,577
UC San Diego Health	7,438
Marine Corps Recruit Depot	6,103
Foxconn Baja California	6,000
Souplantation & Sweet Tomatoes	5,935
San Diego Community College District	5,580
YMCA of San Diego County	5,487
General Atomics	5,480
Kaiser Permanente	5,349
Rady Children's Hospital, San Diego	5,129
San Diego State University	5,064
Space and Naval Warfare Systems Command	5,023

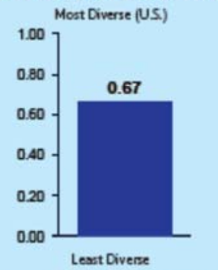
Sources: City of Carlsbad, 2016, City of San Diego, 2019, San Diego Business Journal, 2017, San Diego Military Economic Impact Study, 2016

PUBLIC

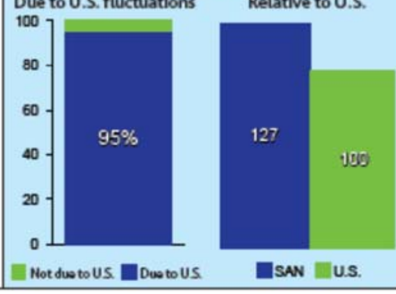
Federal	47,666
State	52,085
Local	149,927

2019

INDUSTRIAL DIVERSITY



EMPLOYMENT VOLATILITY



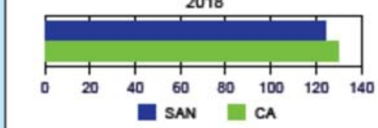
COMPARATIVE EMPLOYMENT AND INCOME

Sector	% OF TOTAL EMPLOYMENT SAN	CA	U.S.	AVERAGE ANNUAL EARNINGS SAN	CA	U.S.
Mining	0.0	0.1	0.4	$30,944	$97,297	$152,860
Construction	5.6	5.1	5.0	$74,660	$83,786	$71,226
Manufacturing	7.7	7.6	8.5	$107,593	$114,396	$87,452
Durable	*74.9*	*64.2*	*62.7*	*nd*	*$131,745*	*$90,347*
Nondurable	*25.1*	*35.8*	*37.3*	*nd*	*$84,387*	*$82,632*
Transportation/Utilities	2.3	4.0	4.1	$43,956	$68,520	$65,743
Wholesale Trade	2.9	4.0	3.9	$94,867	$93,385	$92,590
Retail Trade	9.7	9.5	10.3	$40,679	$45,845	$38,405
Information	1.6	3.2	1.9	$201,817	$205,480	$136,729
Financial Activities	5.1	4.8	5.8	$53,676	$68,797	$59,335
Prof. and Bus. Services	17.1	15.6	14.1	$84,239	$89,007	$76,266
Educ. and Health Services	14.4	16.1	16.0	$58,039	$60,877	$59,504
Leisure and Hosp. Services	13.5	11.7	11.0	$33,952	$39,308	$31,046
Other Services	3.7	3.3	3.9	$39,940	$42,749	$39,932
Government	16.6	15.0	15.0	$101,114	$104,490	$83,178

Sources: Percent of total employment — BLS, Moody's Analytics, 2019, Average annual earnings — BEA, Moody's Analytics, 2019

ENTREPRENEURSHIP

BROAD-BASED START-UP RATE U.S.=100, 4-QTR MA 2018



Sources: Census Bureau, Moody's Analytics

EXPORTS

Product	$ mil
Food and kindred products	ND
Chemicals	2,347.4
Primary metal manufacturing	ND
Fabricated metal products	ND
Machinery, except electrical	2,337.1
Computer and electronic products	3,694.4
Transportation equipment	1,662.3
Miscellaneous manufacturing	4,411.0
Other products	5,321.8
Total	19,774.1

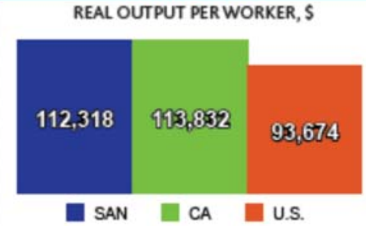
Destination	$ mil
Africa	167.0
Asia	7,801.6
European Union	2,992.7
Canada & Mexico	7,821.6
South America	259.4
Rest of world	731.8
Total	19,774.1

% of GDP	*7.0*
Rank among all metro areas	*ND*

Sources: BEA, International Trade Administration, Moody's Analytics, 2019

PRODUCTIVITY

REAL OUTPUT PER WORKER, $



Sources: BEA, Moody's Analytics, 2019

BUSINESS COSTS

U.S.=100

Source: Moody's Analytics

HIGH-TECH EMPLOYMENT

	Ths	% of total
SAN	136.6	9.7
U.S.	7,539.9	5.3

HOUSING-RELATED EMPLOYMENT

	Ths	% of total
SAN	160.8	11.5
U.S.	14,373.7	10.1

Source: Moody's Analytics, 2020

LEADING INDUSTRIES BY WAGE TIER

	NAICS	Industry	Location Quotient	Employees (ths)
HIGH	GVF	Federal Government	1.6	46.3
	5417	Scientific research & development srvcs.	4.6	31.7
	6211	Offices of physicians	1.1	28.5
	5511	Management of companies & enterprises	1.0	22.1
MID	GVL	Local Government	1.0	145.9
	ML	Total Military Personnel	5.0	99.3
	GVS	State Government	0.9	46.2
	5613	Employment services	0.8	29.2
LOW	7225	Restaurants and other eating places	1.1	118.7
	6241	Individual and family services	1.5	34.0
	7211	Traveler accommodation	1.5	28.8
	4451	Grocery stores	0.9	25.8

Source: Moody's Analytics, 2019

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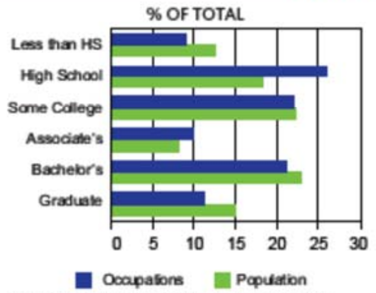
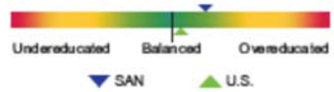
SKILLS MISMATCH



Sources: Census Bureau, ACS, Moody's Analytics, 2018



ECONOMIC DISENFRANCHISEMENT

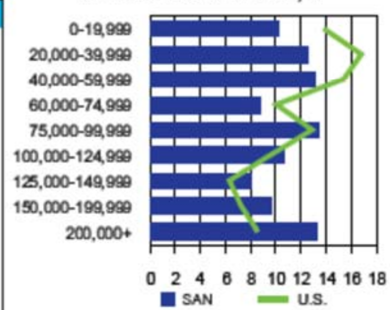
Index	2018	Rank*
Gini coefficient	0.46	175
Palma ratio	3.3	116
Poverty rate	11.4%	293

*Most unequal=1, Most equal=403

PER CAPITA INCOME

Sources: BEA, Moody's Analytics

HOUSEHOLDS BY INCOME, %



Sources: Census Bureau, ACS, Moody's Analytics, 2019

MIGRATION FLOWS

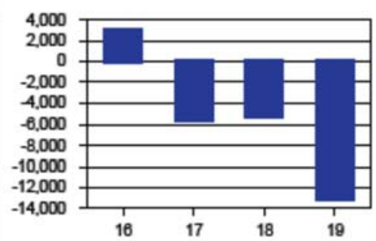
INTO SAN DIEGO CA

	Number of Migrants
Riverside CA	12,401
Los Angeles CA	9,766
Anaheim CA	6,169
Phoenix AZ	2,791
Washington DC	2,504
New York NY	2,395
Oakland CA	2,242
San Jose CA	2,161
Urban Honolulu HI	2,043
Virginia Beach VA	1,972
Total in-migration	*118,131*

FROM SAN DIEGO CA

Riverside CA	15,878
Los Angeles CA	7,535
Anaheim CA	5,217
Phoenix AZ	5,042
Las Vegas NV	3,303
Washington DC	2,396
Virginia Beach VA	2,159
Oakland CA	2,075
Seattle WA	2,068
San Jose CA	1,941
Total out-migration	*131,700*
Net migration	-13,569

NET MIGRATION,

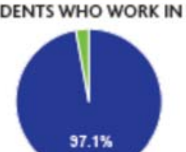


	2016	2017	2018	2019
Domestic	-11,285	-15,748	-10,815	-19,731
Foreign	14,346	10,259	5,575	6,733
Total	3,061	-5,489	-5,240	-12,998

Sources: IRS (top), 2018, Census Bureau, Moody's Analytics

COMMUTER FLOWS

RESIDENTS WHO WORK IN SAN



WORKERS WHO LIVE IN SAN

Top Five Outside Sources of Jobs

San Diego CA	Share
Anaheim CA	0.9
Riverside CA	0.5
Los Angeles CA	0.5
El Centro CA	0.1
San Francisco CA	0.0

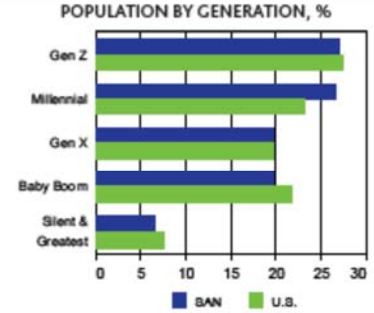
Top Five Outside Sources of Workers

San Diego CA	Share
Riverside CA	3.0
Anaheim CA	0.7
Los Angeles CA	0.4
El Centro CA	0.1
Phoenix AZ	0.0

Sources: Census Bureau, Moody's Analytics, avg 2011-2015

GENERATIONAL BREAKDOWN

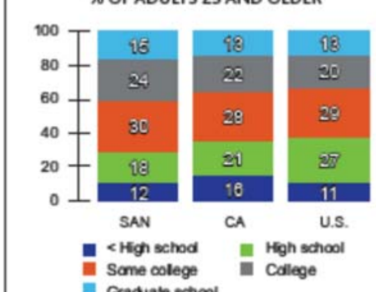
POPULATION BY GENERATION, %



Sources: Census Bureau, Moody's Analytics, 2019

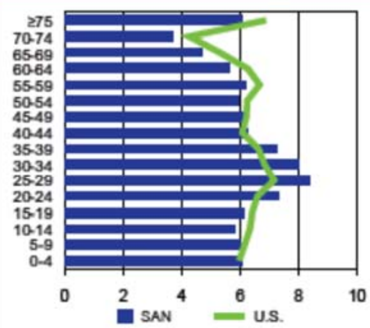
EDUCATIONAL ATTAINMENT

% OF ADULTS 25 AND OLDER



Sources: Census Bureau, ACS, Moody's Analytics, 2019

POPULATION BY AGE, %



Sources: Census Bureau, Moody's Analytics, 2019

MOODY'S ANALYTICS / Précis® U.S. Metro / February 2021

Recent Performance

San Diego-Carlsbad's recovery slowed in the last quarter of 2020 amid a second wave of COVID-19. Though the economy is out of recession, joblessness remains stubbornly high and payrolls are much further below pre-COVID-19 levels than they are nationally. Leisure/hospitality in particular has been slow to rebound, which is unsurprising given that real-time data show the volume of seated diners is down sharply from a year earlier. Nevertheless, the housing market has thrived during the pandemic, with high demand and low mortgage rates fueling larger price gains and an upswing in residential construction.

High Tech

Tech titans have weathered the pandemic in relatively good form and will remain the driving force behind the San Diego economy. San Diego is a hub for biotech, cybersecurity and information technology companies and is home to tech giants such as Qualcomm and Cubic Corp. Nearly 10% of local workers—double the U.S. average—are employed in high-tech industries and the increased ability to work remotely has left many firms unscathed by the pandemic. High-tech employment is up 1.5% year over year, compared with near zero for the nation, and tech firms' appetite for more workers is strong. For example, Apple leased a fourth building in San Diego last year as it expands its footprint in the metro area. San Diego offers lower labor and living costs than the Bay Area and is among the top recipients of venture capital funding. According to PricewaterhouseCoopers, local startups raised $5.3 billion in 2020, up from $2.6 billion in 2019. While San Diego will continue to play home base to mature tech companies, venture capital inflows will also support tech hiring.

Defense

San Diego's massive defense sector will provide welcome support as the metro area navigates the rest of the pandemic. So far, the defense industry has largely been immune to layoffs, helping protect a large chunk of high- and medium-paying jobs. A steady inflow of defense spending combined with a 3% boost in military pay will provide some relief against high unemployment in many private industries. San Diego is among the top recipients of Department of Defense contracts and the defense contract spigot will continue to flow into fiscal 2021. Recently, defense contractor Northrop Grumman was awarded a 10-year wide-ranging contract with a $4.8 billion ceiling. Military budgets might grow more slowly under the Biden administration, but spending cuts are unlikely.

Tourism

Employment in leisure/hospitality was decimated by the pandemic, and the outlook for a strong recovery in San Diego was dim. San Diego has since recouped most of the jobs lost; although many of those positions have not returned to work with help-wanted signs in many windows. Major attractions like Sea World and Legoland have reopened and the major cruise lines are expected to restart U.S. service soon. By May, domestic leisure travel had mostly returned, although the more profitable business travel and international visits remain well below pre pandemic levels. That said, many hotels are operating at near their typical occupancy for the summer months and the vaccine rollout gives a more promising outlook for tourism in late 2021.

Conclusion

San Diego-Carlsbad's recovery will pick up speed in 2021 as COVID-19 cases abate and the vaccine rollout ramps up. Strength in tech and defense will help make up for weakness in tourism and preserve the recovery. Longer term, high costs will deter migrants, but growth in dynamic high-skill service industries and R&D clusters will allow San Diego to keep pace with California and the U.S.

San Diego Office Market Analysis

Introduction

Data for the following analysis the San Diego office section and the Sorrento Valley (Sorrento Mesa) submarket is provided by Reis, Inc., a leading provider of commercial real estate market information since 1980. Reis' proprietary database includes trends, forecasts, news and analyses for approximately 200,000 commercial properties in 232 metropolitan markets (4 property types multiplied by 58 metropolitan areas) and roughly 2,500 submarkets.

Current and historical figures are compiled by highly qualified industry analysts. Surveyors, as they are called, are responsible for gathering information on property availabilities, rents and lease terms, etc. by directly contacting owners, managers and leasing agents. Projected data is calculated using a suite of economic forecasting models developed by The Economic Research Group, a team led by Ph.D. economists.

Reis' data is released on a quarterly basis, and is widely recognized as a fundamental tool for appraisers throughout the country.

San Diego Office Market

Reis, Inc. classifies the San Diego Office market into eleven submarkets, and it segregates inventory by type of space (Class A versus Class B/C). The subject lies within the Sorrento Mesa area of the Sorrento Valley submarket of San Diego (as delineated by Reis).

Submarket Snapshot

The San Diego Office market contains 65,348,000 square feet of space. Downtown is the largest submarket, comprising 16.0 percent of the area's total inventory. South Bay is the smallest submarket with 1.8 percent of total inventory. The subject submarket contains 7,003,000 square feet or 10.7 percent of the region's inventory.

The following table presents the geographic distribution of inventory, along with other statistical information.

GEOGRAPHIC DISTRIBUTION OF INVENTORY

Submarket	Class	No. of Buildings	Inventory (SF)	% Total	Vacancy Rate (%)	Net Absorption	Asking Rent ($/SF)
Central San Diego	---		0	0.0	0.0	0	$0.00
Central San Diego	B/C		1,862,000	2.8	10.3	-16,000	$2.25
Central San Diego	**A/B/C**	**94**	**2,459,000**	**3.8**	**10.1**	**-17,000**	**$2.42**
Downtown	A		7,452,000	11.4	13.9	-57,000	$3.31
Downtown	B/C		2,973,000	4.5	27.2	-15,000	$2.63
Downtown	**A/B/C**	**127**	**10,425,000**	**16.0**	**17.7**	**-72,000**	**$3.11**
East County	---		0	0.0	0.0	0	$0.00
East County	B/C		1,644,000	2.5	7.2	15,000	$1.48
East County	**A/B/C**	**105**	**2,013,000**	**3.1**	**8.1**	**5,000**	**$1.65**
Hwy. 78 Corr.	---		0	0.0	0.0	0	$0.00
Hwy. 78 Corr.	B/C		1,826,000	2.8	26.1	-1,000	$1.80
Hwy. 78 Corr.	**A/B/C**	**82**	**2,020,000**	**3.1**	**25.1**	**-9,000**	**$1.84**
I-15 Corr.	A		3,613,000	5.5	17.7	-8,000	$2.87
I-15 Corr.	B/C		3,710,000	5.7	19.5	4,000	$2.19
I-15 Corr.	**A/B/C**	**151**	**7,323,000**	**11.2**	**18.6**	**-4,000**	**$2.53**
Kearny Mesa	A		2,141,000	3.3	13.4	-11,000	$3.05
Kearny Mesa	B/C		5,377,000	8.2	21.1	-48,000	$2.18
Kearny Mesa	**A/B/C**	**191**	**7,518,000**	**11.5**	**18.9**	**-59,000**	**$2.43**
La Jolla	A		5,903,000	9.0	10.4	-18,000	$3.73
La Jolla	B/C		3,509,000	5.4	15.4	-27,000	$3.40
La Jolla	**A/B/C**	**166**	**9,412,000**	**14.4**	**12.3**	**-45,000**	**$3.61**
Mission Valley	A		2,827,000	4.3	18.5	-111,000	$3.03
Mission Valley	B/C		2,927,000	4.5	14.5	-40,000	$2.18
Mission Valley	**A/B/C**	**95**	**5,754,000**	**8.8**	**16.5**	**-151,000**	**$2.60**
N. Co. Coastal	A		5,330,000	8.2	19.6	-3,000	$3.51
N. Co. Coastal	B/C		4,922,000	7.5	21.9	10,000	$2.62
N. Co. Coastal	**A/B/C**	**236**	**10,252,000**	**15.7**	**20.7**	**7,000**	**$3.08**
Sorrento Valley (Sorrento Mesa)	A		3,500,000	5.4	16.2	-15,000	$3.57
Sorrento Valley (Sorrento Mesa)	B/C		3,503,000	5.4	22.0	40,000	$2.82
Sorrento Valley (Sorrento Mesa)	**A/B/C**	**129**	**7,003,000**	**10.7**	**19.1**	**25,000**	**$3.20**
South Bay	---		0	0.0	0.0	0	$0.00
South Bay	B/C		773,000	1.2	16.4	-2,000	$2.00
South Bay	**A/B/C**	**40**	**1,169,000**	**1.8**	**17.4**	**-4,000**	**$2.29**
Total A	A		30,766,000	47.1	15.2	-244,000	$3.33
Total B/C	B/C		33,026,000	50.5	19.3	-80,000	$2.43
Total/Average	**A/B/C**	**1416**	**65,348,000**	**100.0**	**17.3**	**-324,000**	**$2.87**

Source:

As of first quarter 2021, the overall vacancy rate for the region is 17.3 percent. Hwy. 78 Corr. has the highest overall vacancy rate of 25.1 percent, while East County has the lowest vacancy of 8.1 percent. The subject's Sorrento Valley submarket has a vacancy rate of 19.1 percent.

The average asking rental rate for all types of space within the region is $2.87 per square foot. The highest average rent of $3.61 per square foot is being achieved in La Jolla. Conversely, the lowest rent is being achieved in East County at $1.65 per square foot. The subject's Sorrento Valley submarket has an average rental rate of $3.20 per square foot.

Class A buildings constitute 47.1 percent of existing inventory and are exhibiting a lower vacancy rate (15.2 percent) than Class B/C buildings (19.3 percent) and higher average rents of $3.33 versus $2.43 per square foot.

Construction Completions

Between 2010 and 2020 a total of 3,862,000 square feet of space was completed, or an average of **351,091** square feet per year. No new construction was completed as of first quarter 2021 Over the next five years, Reis projects that an additional 2,473,000 square feet will completed the San Diego market.

In the Sorrento Valley submarket, a total of 525,000 square feet of space was completed between 2010 and 2020, or an average of 47,727 square feet per year. This equates to 13.6 percent of new construction for the region. Over the next five years, Reis projects that an additional 97,000 square feet of new space will be completed in the Sorrento Valley submarket.

The following table presents historical inventory and projected completions for the region and subject submarket:

HISTORICAL AND PROJECTED INVENTORY & COMPLETIONS (SF)

	San Diego					Sorrento Valley (Sorrento Mesa)					
Year	Class A	Completions	Class B/C	Completions	Total Completions	Class A	Completions	Class B/C	Completions	Total Completions	% of Region
2010	29,539,000	31,000	33,185,000	82,000	113,000	2,975,000	0	3,477,000	0	0	0.0%
2011	29,539,000	0	33,224,000	83,000	83,000	2,975,000	0	3,477,000	0	0	0.0%
2012	29,469,000	0	33,250,000	0	0	2,975,000	0	3,503,000	0	0	0.0%
2013	29,738,000	249,000	33,200,000	0	249,000	3,224,000	249,000	3,503,000	0	249,000	100.0%
2014	30,154,000	416,000	32,932,000	0	416,000	3,224,000	0	3,503,000	0	0	0.0%
2015	30,737,000	776,000	32,730,000	0	776,000	3,224,000	0	3,503,000	0	0	0.0%
2016	30,573,000	141,000	32,874,000	0	141,000	3,224,000	0	3,503,000	0	0	0.0%
2017	30,945,000	372,000	32,828,000	0	372,000	3,316,000	92,000	3,503,000	0	92,000	24.7%
2018	31,235,000	541,000	32,944,000	159,000	700,000	3,316,000	0	3,503,000	0	0	0.0%
2019	31,581,000	346,000	32,944,000	0	346,000	3,500,000	184,000	3,503,000	0	184,000	53.2%
2020	32,322,000	666,000	33,026,000	0	666,000	3,500,000	0	3,503,000	0	0	0.0%
1Q21	32,322,000	0	33,026,000	0	0	3,500,000	0	3,503,000	0	0	0.0%
2021	---	---	---	---	320,000	---	---	---	---	0	0.0%
2022	---	---	---	---	700,000	---	---	---	---	0	0.0%
2023	---	---	---	---	334,000	---	---	---	---	22,000	6.6%
2024	---	---	---	---	550,000	---	---	---	---	37,000	6.7%
2025	---	---	---	---	569,000	---	---	---	---	38,000	6.7%
2010-2020											
Total Completions		**3,538,000**		**324,000**	**3,862,000**		**525,000**		**0**	**525,000**	
Annual Average		**321,636**		**29,455**	**351,091**		**47,727**		**0**	**47,727**	**13.6%**

Source: Reis, Inc.

Vacancy Rates

As shown in the following chart, vacancy rates decreased from 18.6 percent in 2010 to 16.8 percent in 2020. For first quarter 2021 the vacancy rate stands at 17.3 percent. Over the near term, Reis projects a decline in vacancy levels for San Diego, with vacancy ranging from 18.0 percent in 2021 to 16.2 percent in 2025.

Between 2010 and 2020, vacancy rates decreased from 19.9 to 19.4 percent. The current vacancy rate for the submarket is 19.1 percent. Over the near term, Reis is projecting a rise in vacancy for the Sorrento Valley submarket, with vacancy levels falling from 20.8 percent in 2021 to 23.3 percent in 2025.

The following table presents historical and projected vacancy rates for the region and subject submarket.

HISTORICAL AND PROJECTED VACANCY RATES (%)						
	San Diego			Sorrento Valley (Sorrento Mesa)		
Year	Class A	Class B/C	Total	Class A	Class B/C	Total
2010	19.3	18.0	18.6	18.7	20.9	19.9
2011	17.2	18.7	18.0	13.2	18.2	15.9
2012	15.3	17.3	16.4	10.0	9.8	9.9
2013	14.8	16.8	15.8	10.6	9.2	9.9
2014	13.8	17.7	15.8	14.5	10.9	12.6
2015	11.7	16.6	14.3	15.4	10.0	12.6
2016	13.2	16.1	14.7	21.0	13.0	16.8
2017	13.8	15.8	14.8	21.9	14.0	17.8
2018	13.7	17.2	15.5	20.5	16.8	18.6
2019	13.1	18.3	15.7	18.1	20.3	19.2
2020	14.5	19.1	16.8	15.7	23.1	19.4
1Q21	15.2	19.3	17.3	16.2	22.0	19.1
2021	---	---	18.0	---	---	20.8
2022	---	---	17.9	---	---	22.0
2023	---	---	17.7	---	---	23.0
2024	---	---	16.9	---	---	23.1
2025	---	---	16.2	---	---	23.3

Source: Reis, Inc.
Note: Reis does not differentiate between space that is available directly from the landlord or as a sublease. Any space that is available immediately for leasing (i.e. within 30 days) is considered vacant by Reis' standards.

As shown, Class A buildings within the region are exhibiting a lower vacancy rate (15.2 percent) than Class B/C buildings (19.3 percent). Within the subject submarket, Class A buildings are exhibiting lower vacancies than Class B/C buildings (16.2 percent versus 22.0 percent).

Average Asking Rental Rates

As shown in the following chart, average asking rents in the San Diego region have jumped from $2.33 per square foot in 2010 to $2.87 per square in 2020, indicating a compound average growth rate (CAGR) of 2.4 percent. The average asking rent currently stands at $2.87 per square foot. In the next five years, average rents are expected to increase from $2.75 per square foot in 2021 to $2.97 per square foot in 2025.

Rental rates in the Sorrento Valley submarket increased from an average of $2.44 per square foot in 2010 to $3.15 per square foot in 2020, demonstrating a CAGR of 2.9 percent. Currently the average asking rent stands at $3.20 per square foot. Over the next five years, average rents are expected to increase from $2.94 per square foot in 2021 to $3.07 per square foot in 2025.

The following table presents historical and projected asking rental rates for the region and subject submarket.

Historical and Projected Average Asking Rental Rates ($/SF)

	San Diego					Sorrento Valley (Sorrento Mesa)				
Year	Class A	Class B/C	Total	% Change	Effective Rent	Class A	Class B/C	Total	% Change	Effective Rent
2010	$2.72	$1.98	$2.33	-2.7	$1.87	$2.83	$2.10	$2.44	-1.9	$1.99
2011	$2.72	$1.99	$2.34	0.4	$1.89	$2.83	$2.12	$2.45	0.4	$2.01
2012	$2.75	$2.01	$2.36	0.9	$1.90	$2.88	$2.19	$2.51	2.5	$2.06
2013	$2.80	$2.05	$2.40	2.1	$1.95	$2.99	$2.25	$2.60	3.9	$2.14
2014	$2.91	$2.11	$2.49	3.7	$2.02	$3.18	$2.41	$2.78	6.7	$2.27
2015	$2.98	$2.18	$2.56	2.7	$2.08	$3.19	$2.47	$2.82	1.5	$2.31
2016	$3.04	$2.22	$2.61	2.0	$2.13	$3.34	$2.55	$2.93	3.9	$2.41
2017	$3.08	$2.26	$2.66	1.7	$2.16	$3.30	$2.54	$2.91	-0.7	$2.40
2018	$3.16	$2.32	$2.73	2.8	$2.22	$3.35	$2.56	$2.94	1.1	$2.42
2019	$3.26	$2.39	$2.82	3.1	$2.29	$3.46	$2.65	$3.06	3.9	$2.51
2020	$3.32	$2.42	$2.87	1.7	$2.31	$3.52	$2.79	$3.15	3.1	$2.57
1Q21	$3.33	$2.43	$2.87	0.2	$2.31	$3.57	$2.82	$3.20	1.4	$2.62
2021	---	---	$2.75	-3.9	$2.18	---	---	$2.94	-6.6	$2.34
2022	---	---	$2.77	0.6	$2.20	---	---	$2.94	-0.3	$2.34
2023	---	---	$2.83	2.2	$2.26	---	---	$2.98	1.4	$2.38
2024	---	---	$2.90	2.3	$2.33	---	---	$3.02	1.4	$2.42
2025	---	---	$2.97	2.6	$2.40	---	---	$3.07	1.6	$2.47
2010-2020 CAGR	**2.24%**	**2.30%**	**2.35%**			**2.46%**	**3.19%**	**2.91%**		

Source: Reis, Inc.
Notes: CAGR stands for Compound Annual Growth Rate. Asking rents cited by Reis reflect the advertised rental rates for actively marketed space. Effective rents net of any rental concessions, expressed over the life of the lease term. Reis quotes Office rents on a Gross basis.

As shown, Class A buildings within the region are exhibiting higher average rents ($3.33 per square foot) than Class B/C buildings ($2.43 per square foot). Within the subject submarket, Class A buildings have higher rents than Class B/C buildings ($3.57 per square foot versus $2.82 per square foot).

New Construction Activity

According to Reis, 1,610,589 square feet of space were recently completed within the San Diego market. An additional 12,001,958 square feet of space is planned in 56 projects.

The following tables depict recently completed, current and proposed development activity for the region.

New Construction Activity - Completed

Name	Location	Submarket	Est. Completion Year	Est. Completion Month	Size (SF)
Kettner & Ash	1420 Kettner Blvd	Downtown	2020	February	123,062
9455 Tcd	9455 Towne Centre Dr	La Jolla	2020	June	160,400
Palomar Health Crisis Stabilization Unit	2185 Citracado Pkwy	Hwy. 78 Corr.	2020	June	6,000
Pacific Gateway - Navy Bldg	W Broadway & Pacific Way	Downtown	2020	October	373,000
One Paseo - Bldg 2	12860 El Camino Real	N. Co. Coastal	2020	October	91,000
One Paseo - Bldg. 2	12830 El Camino Real	N. Co. Coastal	2020	October	195,000
The Collection At Utc	4575 La Jolla Village Dr	La Jolla	2020	October	97,398
Chula Vista Va Outpatient Clinic	353 H St	South Bay	2020	October	31,000
Cubic Corporation Headquarters Bldg 1	9333 Balboa Ave	Kearny Mesa	2020	December	125,000
Cubic Corporation Headquarters Bldg 2	9333 Balboa Ave	Kearny Mesa	2020	December	125,000
2100 Kettner	2100 Kettner Blvd	Downtown	2021	February	193,729
Twenty By Six	450 B St	Downtown	2021	April	90,000
Total Complete					**1,610,589**

New Construction Activity - Planned/Proposed			Est. Completion		
Name	Location	Submarket	Year	Month	Size (SF)
Live Well Center	Market St & 51St St	East County	---	---	80,000
Solana 101 Office	S Hwy 101 & Dahlia Dr	N. Co. Coastal	---	---	45,562
Summit Rancho Bernardo Bldg 2	16550 W. Bernardo Dr	I-15 Corr.	---	---	234,000
Summit Rancho Bernardo Bldg 3	16450 W Bernardo Dr	I-15 Corr.	---	---	235,000
Summit Pointe Plaza Bldg A	9885 Towne Center Dr	La Jolla	---	---	80,500
Summit Pointe Plaza Bldg B	9885 Towne Center Dr	La Jolla	---	---	63,500
Summit Pointe Plaza Bldg C	9885 Towne Centre Dr	La Jolla	---	---	46,000
Pacific Corporate Center	5975 Pacific Mesa Ct	Sorrento Valley	---	---	180,000
North Coast Medical Plaza Ph 2	6020 Hidden Valley Rd	N. Co. Coastal	---	---	50,000
Mission West	1904 Hotel Circle N	Mission Valley	---	---	90,000
Makers Quarter Block A - Office	1500 Broadway	Downtown	---	---	231,400
Makers Quarter Block C	Swc 15Th St @ Broadway	Downtown	---	---	728,700
7Th & Market Office	Sec 7Th Ave @ Market St	Downtown	---	---	156,000
Summit Pointe Bldg 2	Scripps Summit Dr & Scripps Summit Ct	I-15 Corr.	---	---	179,250
La Jolla Commons Bldg 3	4727 Executive Dr	La Jolla	---	---	223,900
North City Office	S Twin Oaks Valley Rd And E Barham Dr	Hwy. 78 Corr.	---	---	342,000
Millenia Office - Think Campus Bldg 1	Birch Rd & South Bay Expy	South Bay	---	---	168,000
Millenia Office - Think Campus Bldg 2	Birch Rd & South Bay Expy	South Bay	---	---	150,000
Millenia Office - Discover Campus	Birch Rd & South Bay Expy	South Bay	---	---	407,100
Millenia Office - Invent Campus Bldg 1	Birch Rd & South Bay Expy	South Bay	---	---	130,000
Millenia Office - Invent Campus Bldg 2	Birch Rd & South Bay Expy	South Bay	---	---	175,000
Millenia Office - Invent Campus Bldg 3	Birch Rd & South Bay Expy	South Bay	---	---	180,000
Millenia Office - Invent Campus Bldg 4	Birch Rd & South Bay Expy	South Bay	---	---	215,000
Superblock @ Idea District Ph 1 (Warehouse)	Nec 14Th Str & F St	Downtown	---	---	100,000
Superblock @ Idea District Ph 2 (Tower)	14Th St & E St	Downtown	---	---	450,000
San Diego Library Redevelopment	820 E St	Downtown	---	---	86,000
The Meridian At Del Mar Mesa Ph 2 Bldg 3	Torrey Santa Fe Rd & Camino Del Sur	I-15 Corr.	---	---	186,000
The Meridian At Del Mar Mesa Ph 2 Bldg 4	Torrey Santa Fe Rd & Camino Del Sur	I-15 Corr.	---	---	114,000
The Watermark Bldg 3	Scripps Gateway Ct & Scripps Highland Dr	I-15 Corr.	---	---	90,000
San Dieguito Union High School District Office	155 Stevens Ave	N. Co. Coastal	---	---	25,000
8344 Clairemont Mesa Boulevard Expansion Office	8344 Clairemont Mesa Blvd	Kearny Mesa	---	---	8,100
Palomar Heights Office	Valley Blvd & E Grand Ave	Hwy. 78 Corr.	---	---	10,000
3Roots Office	Camino Santa Fe & Summers Ridge Rd	I-15 Corr.	---	---	20,000
East Village Quarter Office	K St & 14Th St	Downtown	---	---	1,400,000
Oceanside Transit Center Office	800 Mission Ave	N. Co. Coastal	---	---	40,000
Pacific Gateway Office 3A	W Broadway & Pacific Hwy	Downtown	---	---	188,012
Civita Office	Friars Rd & Qualcomm Way	Kearny Mesa	---	---	420,000
Pacific Gateway Office 1B	W Broadway & Pacific Hwy	Downtown	---	---	523,507
Pacific Gateway Office 4A	W Broadway & Pacific Hwy	Downtown	---	---	152,976
Campus Park West Office	I-15 @ Rte 76	Non-Submarketed Areas	---	---	157,000
West District At North City	Nwc S Twin Oaks Valley Rd And Shubin Ln	Hwy. 78 Corr.	---	---	400,000
The Core At North City	Nec S Twin Oaks Valley Rd And E Barham St	Hwy. 78 Corr.	---	---	150,000
Qualcomm Ba Tower	5530 Morehouse Drive	Sorrento Valley	---	---	330,000
La Terraza Point	300 La Terraza Blvd	Hwy. 78 Corr.	---	---	49,333
Corner At 2 Oaks Office	Swc San Marcos & S Twin Oaks	Hwy. 78 Corr.	---	---	14,400
Costa Azul Office	3501 Valley Centre Dr	N. Co. Coastal	---	---	91,225
The Meridian At Del Mar Mesa Ph 1 Bldg 1	Torrey Santa Fe Rd & Camino Del Sur	I-15 Corr.	---	---	180,000
Chula Vista Bayfront Office Bldg 2	I-5 & E St	South Bay	---	---	125,000
Chula Vista Bayfront Office	Walnut Ave & J St	South Bay	---	---	420,000
Preserve At Torrey Highlands Bldg 1	Camino Del Sur & Torrey Santa Fe Rd	I-15 Corr.	---	---	180,000

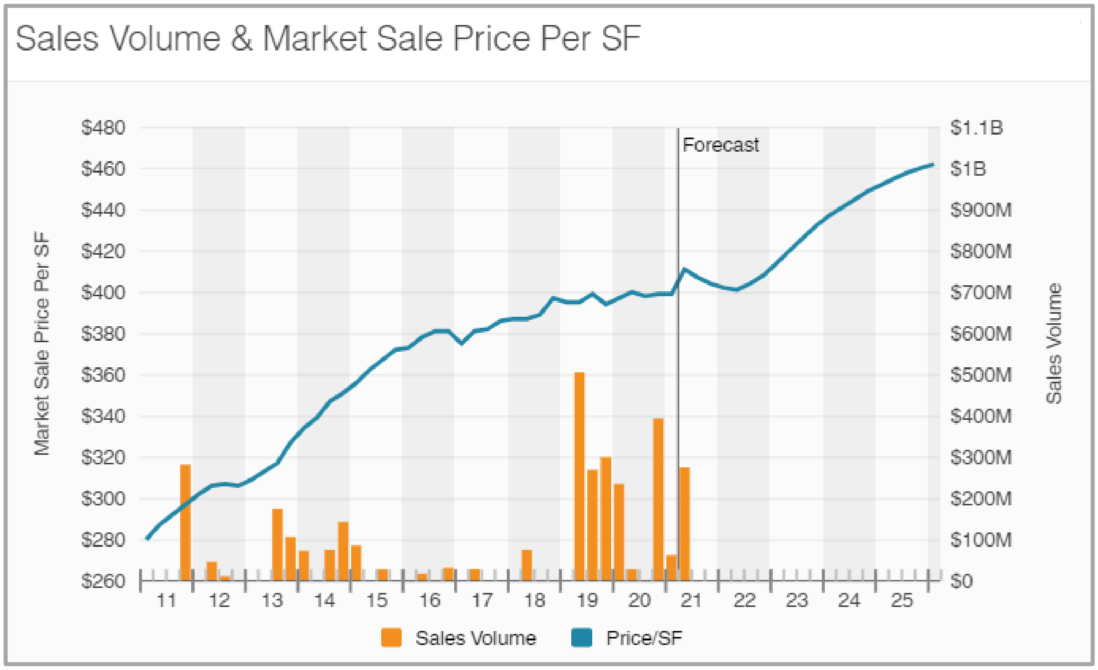
There are currently no new Class A office building under construction in Sorrento Mesa. The majority of recent and current construction represents life science/laboratory development. Proposed office projects include 6374 Sequence Drive, a 227,000 square foot office building (not included above) and Kilroy Realty's 5975 Pacific Mesa Court, a proposed 180,000 square foot, 5-story office project on a graded site along Mira Mesa Boulevard. The Qualcomm Ba Tower noted above would be an owner-user development, if constructed.

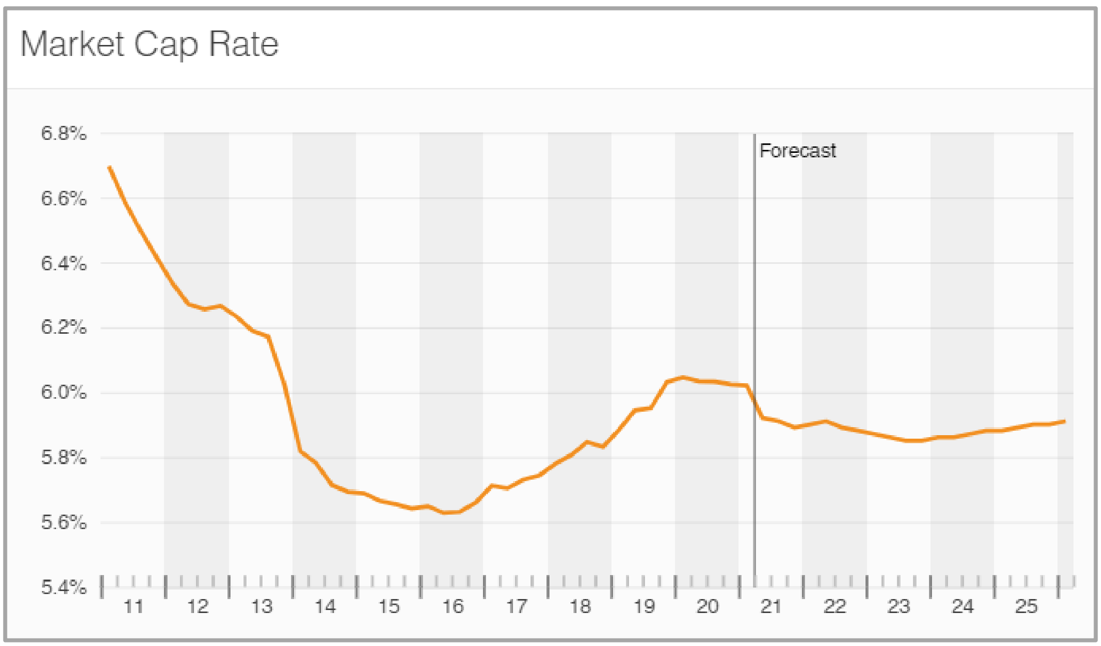
Interviews with local market participants confirmed that in order for development to commence, developers would need to secure a major tenant. However, new development is not considered likely in the near term given the significant increases in construction costs in recent years.

San Diego Office Investment Sales Market

According to CoStar Property Analytics, 37 Class A office sale transactions closed in San Diego County the 24 months ending June 2021. The following tables show sale volume, price per square foot, and capitalization rate data from CoStar Property Analytics:

Existing Class A Office Development – San Diego County





As shown above, sales volume declined significantly in 2020 due to the COVID-19 pandemic which is consistent with much of the regional and national office market. However, sales volume increased significantly in Second Quarter 2021 and CoStar projects sale prices per square foot to exhibit an upward trend after mid-2022. CoStar projects capitalization rates to remain relatively stable, with slight declines in coming quarters.

Subject Property

Location Overview

The subject property is located within San Diego's city limits, in an area known as Sorrento Mesa. Sorrento Mesa is a business community and economic "hub," and offers a combination of office, retail, research and development (R&D), industrial (warehouse/light manufacturing) and hotel land uses. Sorrento Mesa serves as the headquarters location for some of the nation's more innovative companies, including Qualcomm, Dexcom, Peregrine Semiconductor and Transcore.

The community of Sorrento Mesa is 20 miles north of the central business district and three miles east of the Pacific Ocean. Sorrento Mesa can be defined as the area west of Camino Santa Fe, east of the Inland Freeway (I-805), south of the Los Penasquitos Canyon Reserve and north of the Santa Fe Railroad tracks. Bordering submarkets include Sorrento Valley, Del Mar Heights, University Towne Centre (UTC), Miramar, Scripps Ranch, and Torrey Pines.

Transportation

Local area accessibility is generally good, relying on the following transportation arteries:

Local: The main thoroughfare through the Sorrento Mesa and Sorrento Valley areas is Mira Mesa Boulevard, which turns into Sorrento Valley Road on the west side of the I-805 Freeway. The average daily traffic count for Mira Mesa Boulevard totaled 40,000 east of Scranton Road, and 70,000 cars per day between I-805 and Scranton Road. Primary "collector" roads are Waples Street, Huennekens Street, Vista Sorrento Parkway and Lusk Boulevard. Overall movement within this area is considered average, with congestion occurring during peak hours at the access ramps to I-805.

Regional: Primary access to the subject area is from I-805, which has an average daily traffic count of approximately 140,000 cars. The Inland Freeway is a primary transportation corridor for San Diego. Just to the north on the Sorrento Mesa/Del Mar Heights border is the addition of a freeway on and off ramp for Carmel Mountain Road, which has helped alleviate traffic congestion and increased access to the newly developed office, retail and residential areas. The primary transportation arterials to the subject's neighborhood are I-5, I-805 and Mira Mesa Boulevard west from I-15.

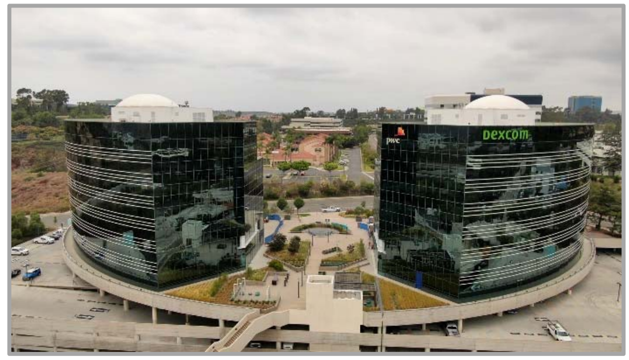
Bus service is provided by San Diego Metropolitan Transit System (MTS) which serves the large majority of the market area. There is a COASTER commuter rail service station in Sorrento Valley. The COASTER is a commuter train that runs north and south between Oceanside and Downtown San Diego. Annual ridership is approximately 1.5 million people and annual weekday ridership is approximately 4,900 people (prior to the COVID-19 pandemic). While the COASTER station is considered a positive attribute of the submarket, it is not proximate/walking distance to the subject property. There is no trolley or subway service within the submarket. Additionally, no significant changes to the public transit system are anticipated in coming periods.

Land Uses

Land use in Sorrento Mesa includes a mix of commercial, office, R&D, and industrial. Main industries include biotechnology, software, digital media, computers, electronics, and business services. Retail centers were developed in this community to service the growing labor force.

In recent years many industrial/flex properties and business parks have been substantially renovated and repositioned as creative office and/or life science campuses. These projects, which often feature exposed ceilings, open layouts, indoor/outdoor concepts, and extensive site amenities, have generally been well received as they are consistent with current demand from many technology companies (generally the most common tenant type in Sorrento Mesa).

Subject Property Description



The subject property consists of two-building Class A office project that contains 295,683 square feet of total rentable area situated on a 4.40-acre site. The subject property is located at the southwest corner of Mira Sorrento Place and Scranton Road, within the Sorrento Mesa submarket of the city of San Diego, San Diego County, California. The improvements were completed in 1989, most recently renovated in 2020, and are in good condition. There are 945 on-site subterranean garage parking spaces resulting in a parking ratio of 3.20 per 1,000 square feet of net rentable area (as-leased) and 3.72 per 1,000 square feet of usable area (as-leased). Onsite amenities include a fitness center with showers, conference center / meeting room, and outdoor seating/lounge spaces. The subject's two largest tenants are Dexcom (±50 percent) and Fairfield Residential (±20 percent).

With a westerly location in Sorrento Mesa, the subject benefits from excellent access to I-805 and the primary arterials in the submarket (Mira Mesa Boulevard, Vista Sorrento Parkway, and Sorrento Valley Road). The location also provides for strong visibility from I-805, making the subject buildings among the most recognizable in the submarket. These factors combined with direct access to the Sorrento Court shopping center (immediately south of the subject), are expected to promote desirability of the location over the long run.

Competitive Market Survey – Sorrento Mesa Micro Market

In order to gain a better understanding of the market conditions specific to the subject property, we conducted a survey of those buildings that would be considered most competitive to the subject.

Micro Market Snapshot (Sorrento Mesa Class A Office)

We have identified office buildings with the following characteristics as the being directly competitive with the subject.

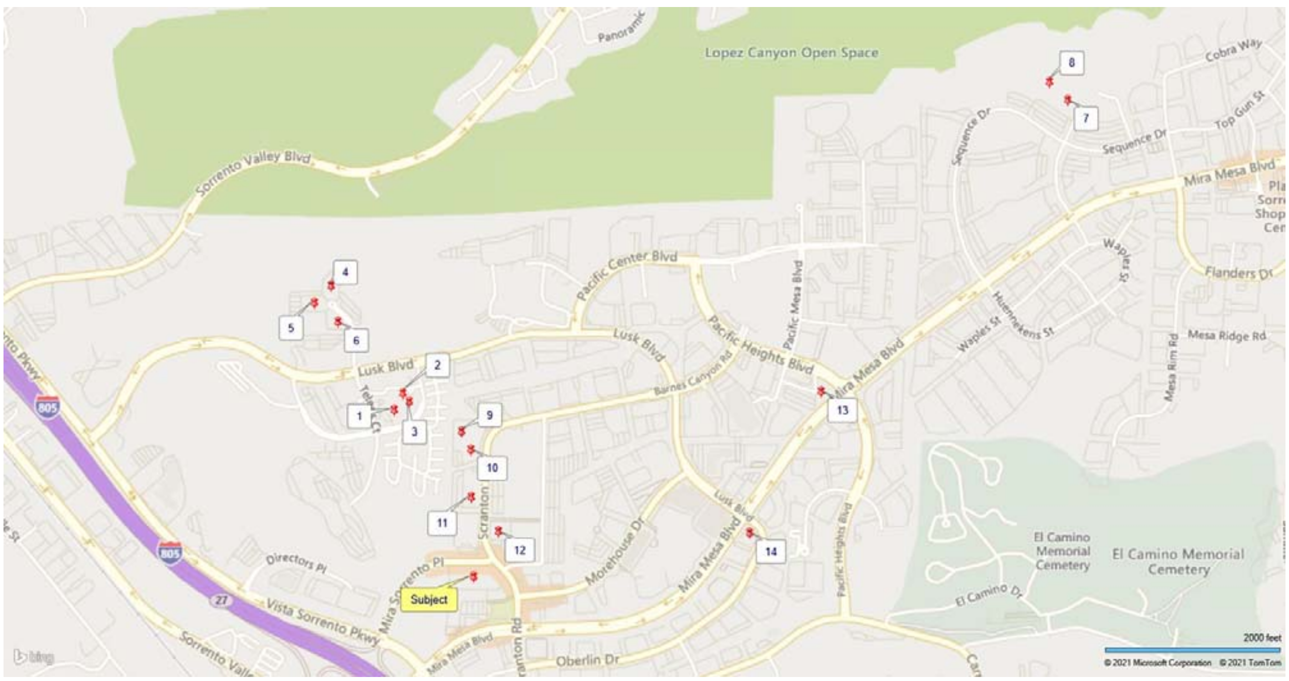
- Class A office product (excluding life science/laboratory buildings) in the Sorrento Mesa submarket

The following table contains the results of a CoStar Group and Cushman & Wakefield survey of existing competitive properties. These buildings are similar in terms of location, physical attributes, and access to amenities:

COMPETITIVE MICRO MARKET										
No.	Name	Address	Year Built	Stories	RBA (SF)	Direct Vacant SF	% Leased	Asking Rate/SF/Mo	Expenses	FS+U Equivalent
S	**Sorrento Towers**	**5355 & 5375 Mira Sorrento Place**	**1989**	**7**	**295,683**	**5,425**	**98.2**	**$3.95**	**FS+U**	
1	The Elements at Wateridge	10241 Wateridge Cir	1985	5	85,623	0	100.0	-	FS+U	-
2	The Elements at Wateridge	10221 Wateridge Cir	1985	6	104,977	0	100.0	-	FS+U	-
3	The Elements at Wateridge	10201 Wateridge Cir	1985	5	86,020	20,864	82.3	-	FS+U	-
4	Seaview Corporate Center	10188 Telesis Ct	2001	6	123,565	51,212	82.6	$3.70	FS+U	$3.70
5	Seaview Corporate Center	10182 Telesis Ct	1999	6	123,879	0	100.0	-	FS+U	-
6	Seaview Corporate Center	10180 Telesis Ct	1984	5	93,242	19,871	78.7	$3.70	FS+U	$3.70
7	Verge	6450 Sequence Dr	1998	4	211,480	0	100.0	-	FS+U	-
8	Verge	6420 Sequence Dr	1998	4	109,991	0	100.0	-	FS+U	-
9	Enclave Sorrento	9868 Scranton Rd	1986	4	129,018	22,876	82.3	$4.05	FS+U	$4.05
10	Enclave Sorrento	9808 Scranton Rd	1986	4	90,610	2,629	100.0	-	FS+U	
11	Centrewest	9710 Scranton Rd	1990	3	58,412	9,134	84.4	$2.95	FS+U	$2.95
12	Alexandria Tech Center	9605 Scranton Rd	1984	8	161,453	92,221	53.6	$4.25	FS+U	$4.25
13	99Twenty	9920 Pacific Heights Blvd	1989	5	120,986	48,071	83.5	$3.45	FSG	$3.20
14	Mira Oberlin Plaza	5880 Oberlin Dr	1990	6	77,309	0	100.0	-	FS+U	-
OVERALL STATISTICS INCLUDING SUBJECT										
Low:			1984	3	58,412	0	53.6	$2.95		$2.95
High:			2001	8	295,683	92,221	100.0	$4.25		$4.25
Average/Total:			1990	5	124,817	18,154	89.9	$3.72		$3.64

Source: CoStar Goup, Inc. and Cushman & Wakefield Western, Inc.

COMPETITION MAP



We surveyed 14 competitive office buildings within the submarket, excluding the subject property, containing approximately 1.87 million square feet. The average vacancy is approximately 10.1 percent. Rents are shown on an equivalent “full service plus utilities” basis which is the market standard and consistent with the subject’s leasing strategy. This lease structure is defined by market participants as tenants responsible for any increases in operating expenses over base year levels for all operating expenses including real estate taxes, insurance, and common area maintenance. Tenants are also responsible for a direct utilities expense (or reimbursing a pro-rata share of utilities).

The range in average asking rental rates is primarily based on the property location (as it relates to access and proximity to supporting retail development), amenities, and overall quality/desirability of the project. Lease rates typically include one month of rental abatement per year of lease term, 3.0 percent annual escalations, and a tenant improvement allowance of at least $65 per square foot on top of shell. Tenant improvement allowances can be as low as $10 per square foot for good quality second generation space, while high-end build-outs from shell can reach $80 per square foot.

Market Trends

As reflected by the following table, market trends reflect increasing rental rates and a general tightening in occupancy since Qualcomm's contractions/reorganization between 2015 and 2018.

COMPETITIVE MICRO MARKET TRENDS

Period	No. of Buildings	Inventory Square Feet	Vacant Available Sq. Ft.	Percent Vacant Direct	Net Absorption Sq. Ft.	CoStar Est. Market Rent PSF	Deliveries		Under Construction	
							No. of Bldgs.	Rentable Sq. Ft.	No. of Bldgs.	Rentable Sq. Ft.
2021 YTD	15	1,855,075	209,924	11.3%	5,427	$3.58	-	-	-	-
2020	15	1,855,075	190,578	10.3%	18,684	$3.60	-	-	-	-
2019	15	1,855,075	301,376	16.2%	161,435	$3.42	-	-	-	-
2018	15	1,855,075	511,385	27.6%	(100,358)	$3.24	-	-	-	-
2017	15	1,855,075	488,336	26.3%	(35,494)	$2.97	-	-	-	-
2016	15	1,855,075	410,069	22.1%	83,259	$3.00	-	-	-	-
2015	15	1,855,075	379,035	20.40%	(196,265)	$3.13	-	-	-	-
2014	15	1,855,075	339,836	18.30%	72,430	$3.12	-	-	-	-
2013	15	1,855,075	349,360	18.80%	(304,587)	$2.72	-	-	-	-
2012	15	1,855,075	107,679	5.80%	(46,934)	$2.65	-	-	-	-
2011	15	1,855,075	46,669	2.50%	81,102	$2.25	-	-	-	-
2010	15	1,855,075	119,804	6.50%	358,613	$2.16	-	-	-	-

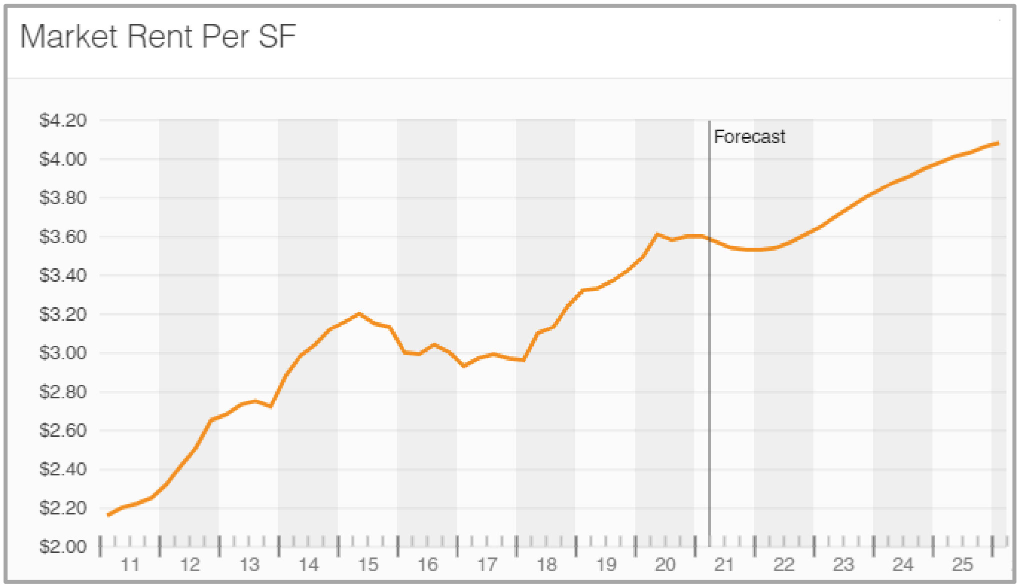
FS- 'Full Service Gross"

Source: CoStar Group, Inc. and Cushman & Wakefield Western, Inc.

Prior to the COVID-19 pandemic, there had been a *significant* increase in Sorrento Mesa office leasing velocity beginning in late 2019. This is primarily attributable to the absorption of spaces that were vacated by Qualcomm between 2015 and 2018, conversion of low-rise office buildings to life science/laboratory use (decreasing the overall supply of traditional office product), and increased confidence in the future of Qualcomm's footprint in Sorrento Mesa. While industrial/flex conversions to creative office over the past 5-10 years increased the overall supply of good quality office space in Sorrento Mesa, that trend has now reversed, and the volume of traditional office space is declining. The intensification of life science uses in the nearby Torrey Pines and UTC submarkets has translated to Sorrento Mesa in the past 4-5 years, and now many low-rise office buildings are being converted to laboratory uses. These factors, combined with the completion of renovation/modernization programs at many Class A projects in the local area between 2015 and 2019 (Alexandria Tech Center, Sorrento Towers, Enclave at Sorrento, and The Elements at Wateridge), have put discernible upward pressure on achievable rental rates. While leasing velocity slowed across the market area during the COVID-19 pandemic, brokers have noted an increase in market activity in recent months and demand is expected to remain healthy in Sorrento Mesa once COVID-19 restrictions are relaxed.

The following graph from CoStar shows historical market rent activity (CoStar's estimate for all Class A office in Sorrento Mesa) and a projection through 2025:

Class A Office Market Rental Rates – Sorrento Mesa



As shown above, CoStar projects market rent (per square foot of rentable area per month) for Class A office development in Sorrento Mesa to increase to $3.61 in 2022, $3.80 in 2023, $3.95 in 2024, and $4.06 in 2025.

Subject's Competitive Market Position

The subject is considered one of the most desirable Class A office projects in Sorrento Mesa. The recent renovation, westerly location (providing immediate access to I-805 and the Sorrento Court shopping center), and strong visibility (among the most recognizable buildings in Sorrento Mesa from I-805) are expected to continue to promote good performance over the long run. The only properties with higher asking rental rates are Alexandria Tech Center and Enclave Sorrento which both have superior amenity packages / overall physical attributes. With no new Class A office inventory anticipated in Sorrento Mesa in coming periods, the subject is expected to continue to achieve an above average capture rate and some of the highest rental rates in the submarket.

Sorrento Mesa Micro Market Outlook and Conclusions

Sorrento Mesa has historically been one of the most desirable office submarkets in San Diego due to its access to regional linkages, relative coastal proximity, and reputation for being the technology "hub" in the market area (primarily due to the presence of Qualcomm's headquarters). While vacancy spiked in 2015 and 2016 following both Qualcomm's contraction and the addition of various creative office campuses to the inventory, vacancy has declined in recent years due a reduction in office inventory (conversion to life science uses) and a general increase in demand for good quality office space in Sorrento Mesa. While rental rates will likely continue to lag behind the nearby Class-A submarkets of Del Mar Heights and UTC, the local area is expected to remain desirable for office use over the long run.

SWOT ANALYSIS

Strengths

- The subject is generally regarded as one of the most desirable Class A office development in Sorrento Mesa.
- The recent renovations to the subject's common areas increased the subject's desirability and will likely continue to promote good performance.
- The subject's proximity to I-805, strong visibility, and immediate access to supporting retail development are all desirable.
- The subject's tenant mix is desirable and Dexcom (50 percent of the property) is among the largest users in the submarket.
- There is no new speculative Class A office construction in the immediate area.
- Near-term lease expiration risk is low.

Weaknesses

- The subject's onsite parking ratio is below the current market standard of 4.00 stalls per 1,000 square feet of rentable area. While the ratio is generally consistent with other properties in the area with similar chronological ages, and it has not inhibited the property from leasing to stabilized occupancy, it may deter parking-intensive users in the future.
- I-805, the primary regional linkage serving the subject property, is often subject to traffic congestion.

Opportunities

- Considering the recent renovation and that the majority of the property is leased on a long-term basis to credit tenants, there are no notable opportunities at this time.

Threats

- None noted.

Respectfully submitted,

CUSHMAN & WAKEFIELD WESTERN, INC.

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Addenda Contents

Addendum A:
Assumptions and Limiting Conditions

Assumptions and Limiting Conditions

"Report" means the consulting report and conclusions stated therein, to which these Assumptions and Limiting Conditions are annexed.

"Property" means the subject of the Report.

"Cushman & Wakefield" means Cushman & Wakefield, Inc. or its subsidiary that issued the Report.

"Appraiser(s)" means the employee(s) of Cushman & Wakefield who prepared and signed the Report.

The Report has been made subject to the following assumptions and limiting conditions:

- No opinion is intended to be expressed and no responsibility is assumed for the legal description or for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate appraiser. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated. No survey of the Property was undertaken.
- The information contained in the Report or upon which the Report is based has been gathered from sources the Appraiser assumes to be reliable and accurate. The owner of the Property may have provided some of such information. Neither the Appraiser nor Cushman & Wakefield shall be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits and factual matters. Any authorized user of the Report is obligated to bring to the attention of Cushman & Wakefield any inaccuracies or errors that it believes are contained in the Report.
- The opinions are only as of the date stated in the Report. Changes since that date in external and market factors or in the Property itself can significantly affect the conclusions in the Report.
- The Report is to be used in whole and not in part. No part of the Report shall be used in conjunction with any other analyses. Publication of the Report or any portion thereof without the prior written consent of Cushman & Wakefield is prohibited. Reference to the Appraisal Institute or to the MAI designation is prohibited. Except as may be otherwise stated in the letter of engagement, the Report may not be used by any person(s) other than the party(ies) to whom it is addressed or for purposes other than that for which it was prepared. No part of the Report shall be conveyed to the public through advertising, or used in any sales, promotion, offering or SEC material without Cushman & Wakefield's prior written consent. Any authorized user(s) of this Report who provides a copy to, or permits reliance thereon by, any person or entity not authorized by Cushman & Wakefield in writing to use or rely thereon, hereby agrees to indemnify and hold Cushman & Wakefield, its affiliates and their respective shareholders, directors, officers and employees, harmless from and against all damages, expenses, claims and costs, including attorneys' fees, incurred in investigating and defending any claim arising from or in any way connected to the use of, or reliance upon, the Report by any such unauthorized person(s) or entity(ies).
- Except as may be otherwise stated in the letter of engagement, the Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property or the Report.
- The Report assumes (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil or structures that render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the Report; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the value opinion contained in the Report is based.
- The physical condition of the improvements considered by the Report is based on visual inspection by the Appraiser or other person identified in the Report. Cushman & Wakefield assumes no responsibility for the soundness of structural components or for the condition of mechanical equipment, plumbing or electrical components.
- The forecasted potential gross income referred to in the Report may be based on lease summaries provided by the owner or third parties. The Report assumes no responsibility for the authenticity or completeness of lease information provided by others. Cushman & Wakefield recommends that legal advice be obtained regarding the interpretation of lease provisions and the contractual rights of parties.

- The forecasts of income and expenses are not predictions of the future. Rather, they are the Appraiser's best opinions of current market thinking on future income and expenses. The Appraiser and Cushman & Wakefield make no warranty or representation that these forecasts will materialize. The real estate market is constantly fluctuating and changing. It is not the Appraiser's task to predict or in any way warrant the conditions of a future real estate market; the Appraiser can only reflect what the investment community, as of the date of the Report, envisages for the future in terms of rental rates, expenses, and supply and demand.
- Unless otherwise stated in the Report, the existence of potentially hazardous or toxic materials that may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the opinion of value. These materials (such as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may adversely affect the value of the Property. The Appraisers are not qualified to detect such substances. Cushman & Wakefield recommends that an environmental expert be employed to determine the impact of these matters on the opinion of value.
- Unless otherwise stated in the Report, compliance with the requirements of the Americans with Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value. Failure to comply with the requirements of the ADA may adversely affect the value of the Property. Cushman & Wakefield recommends that an expert in this field be employed to determine the compliance of the Property with the requirements of the ADA and the impact of these matters on the opinion of value.
- If the Report is submitted to a lender or investor with the prior approval of Cushman & Wakefield, such party should consider this Report as only one factor, together with its independent investment considerations and underwriting criteria, in its overall investment decision. Such lender or investor is specifically cautioned to understand all Extraordinary Assumptions and Hypothetical Conditions and the Assumptions and Limiting Conditions incorporated in this Report.
- Subject to applicable laws and regulations (including the Singapore Securities and Futures Act, Chapter 289 of Singapore) its sole and exclusive remedy for any and all losses or damages relating to this agreement or the report shall be limited to two millions dollars ($2.0 million). In the event that the Client, or any other party entitled to do so, makes a claim against Cushman & Wakefield or any of its affiliates or any of their respective officers or employees in connection with or in any way relating to this engagement or the report, the maximum damages recoverable from Cushman & Wakefield or any of its affiliates or their respective officers or employees shall be subject to applicable laws and regulations (including the Singapore Securities and Futures Act, Chapter 289 of Singapore) limited to two million dollars ($2.0 million) and under no circumstances shall any claim for consequential damages be made.
- If the Report is referred to or included in any offering material or prospectus, the Report shall be deemed referred to or included for informational purposes only and Cushman & Wakefield, its employees and the Appraiser have no liability to such recipients. Cushman & Wakefield disclaims any and all liability to any party other than the party that retained Cushman & Wakefield to prepare the Report.
- Unless otherwise noted, we were not given a soil report to review. However, we assume that the soil's load-bearing capacity is sufficient to support existing and/or proposed structure(s). We did not observe any evidence to the contrary during our physical inspection of the property. Drainage appears to be adequate.
- Unless otherwise noted, we were not given a title report to review. We do not know of any easements, encroachments, or restrictions that would adversely affect the site's use. However, we recommend a title search to determine whether any adverse conditions exist.
- Unless otherwise noted, we were not given a wetlands survey to review. If subsequent engineering data reveal the presence of regulated wetlands, it could materially affect property value. We recommend a wetlands survey by a professional engineer with expertise in this field.
- Unless otherwise noted, we observed no evidence of toxic or hazardous substances during our inspection of the site. However, we are not trained to perform technical environmental inspections and recommend the hiring of a professional engineer with expertise in this field.
- Unless otherwise noted, we did not inspect the roof nor did we make a detailed inspection of the mechanical systems. The appraisers are not qualified to render an opinion regarding the adequacy or condition of these components. The client is urged to retain an expert in this field if detailed information is needed.
- By use of this Report each party that uses this Report agrees to be bound by all of the Assumptions and Limiting Conditions, Hypothetical Conditions and Extraordinary Assumptions stated herein.

Addendum B:
Terms & Definitions

Terms and Definitions

Office

Existing Office inventory- In general, includes existing competitive buildings but does not include 85% or greater owner-occupied, government, retail, industrial, medical or, educational buildings. Inventory base square footage includes all competitive buildings that are classified as office. In the case of medical, note that medical tenants in an office building do not preclude the building's inclusion in statistics. The rule is that a medical building is built for the purpose of housing solely medical occupants and is often in an area dominated by medical uses such as hospitals or clinics. On average, the national minimum standard for inclusion in statistics is 20,000 square feet and while this may vary slightly by market, each market is required to incorporate a minimum threshold.

Class A- most prestigious buildings competing for premier office users with above average rents. High quality standards, well-located. Typically steel and concrete construction, built or renovated after 1980, quality tenants, excellent amenities & premium rents

Class B- buildings competing for wide range of office users with average rents. These buildings do not compete with Class A space. Typically built or renovated after 1960, with fair to good finishes & for a wide range of tenants.

Class C- buildings competing for tenants requiring functional space at below market rents.

CBD- Central Business District – typically a geographical area which includes the downtown office core of a metropolitan area or division.

Non-CBD/Suburbs- Everything in a market that is outside the CBD. Should always be referred to as suburban or suburbs.

Trophy Buildings- Building set distinguished by quality and location that merits its own rating superior to standard Class A properties. Internationally, these may also be referred to as "prime assets" and rents in such buildings may be referred to as "prime rents." In cases where trophy assets are not tracked separately, the Class A inventory in the functional CBD is the next best proxy for such trends.

General Statistical Terminology and Definitions

Asking rental rate (annual or monthly, gross or triple net, depending upon space use type) – The annual or monthly cost per square foot offered by the landlord or sub-landlord for leasing space, weighted by the amount of available space. Reported quarterly, gross, for all classes or subtypes.

Direct asking rent- rents quoted through the building landlord

Sublet asking rent- rents quoted through the master tenant

Direct vacant space- Space that is offered directly through the landlord that is free and clear of any current lease obligations. In order for inclusion in statistics, this space must be vacant or will be vacant by the end of the current reporting quarter. If the space does not meet that criteria, the space may be available, but should be out of statistics. Examples of such space include the leasing office, conference areas, or retail space that is available within the building such as sundry shops or dry cleaners.

Sublease vacant space- The same statistical rules apply to sublease space as to direct space. The difference is that sublease space is encumbered by a lease obligation. Sublease space may be offered through the tenant with the lease obligation, through the tenant's broker, or even through the landlord. It should be noted that even though space may be offered as a sublease, the space may actually be re-leased as direct space because the landlord decides to forgive the current lease obligation and draw up a new lease instead. For this reason, when sublease space is marked as "leased," one should find out if the space was actually leased as a sublease.

Available space- Space that is considered "on the market" whether vacant or not. See Availability Rate below.

Overall vacant space- The sum of direct available space and space available for sublease and new space.

Overall vacancy rate- The calculation used to determine the percent of overall space (direct + sublease + new) that is vacant:

Vacancy (%) = Overall vacant space divided by Inventory

Direct vacancy rate- The calculation used to determine the percent of direct space that is vacant:

Direct Vacancy (%) = Direct vacant space divided by Inventory

Sublet vacancy rate- The calculation used to determine the percent of sublease space that is vacant:

Sublease Vacancy (%) = Sublease vacant space divided by Inventory

Availability rate* - percent available on market regardless whether vacant or AIF (Available in the Future) - indicate timeframe available, i.e. 6 months.

Direct absorption- The net change in direct occupied space over a given period of time (excludes sublease space by definition) and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

Sublet absorption- The net change in sublease occupied space over a given period of time and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

Overall absorption- The net change in direct + sublease (overall) occupied space over a given period of time and is counted upon date of lease signing. However, for leases over a certain relevant size threshold for the market, direct absorption may be counted upon occupancy date and is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

Leasing activity- The sum of all square footage underlying any leases over a period of time. This includes pre- leasing activity as well as expansions. It does not include renewals. Like absorption, leasing activity is calculated on a calendar year for each quarter and is not revised after the current year if it was determined to be correct at the time.

Pre-Leasing activity- The sum of all square footage underlying leases over a period of time for buildings that are under construction, under renovation or that have been proposed.

Lease renewal- Occurs when a lease on space expires and the tenant decides to stay in that space and extend the term either by using a new lease document or addendum to the tenant's prior lease agreement. It is C&W's policy to exclude renewals from leasing activity and from net absorption. If a tenant remains in the building but moves to another space within the building, this is leasing activity. If the tenant chooses to remain in the space, but takes additional space (expands), the expansion portion is considered leasing activity and should be counted separately from the total renewal (which should include the original space plus the expansion).

Under construction- Industrial and office square footage that are being built and have not received certificates of occupancy (C of O). Projects which are beyond site preparation (concrete slab poured and construction is actively progressing). For C&W statistical purposes, these buildings will not be completed by the last day of the reporting quarter.

Under renovation- Office and industrial buildings that are undergoing renovation, rehabilitation or conversion and require a certificate of occupancy to be habitable.

Construction completions- Commercial properties that have received certificates of occupancy for the first time in the building's history. Tenancy may not have taken place.

Build to Suit: a method of leasing property whereby the landlord builds to suit the tenant (according to tenant's specifications). The cost of construction is figured in to the rental amount of the lease, which is usually for a long term.

Speculative: a building constructed for lease or sale but without having a tenant or buyer before construction begins

Renovation completions- Commercial properties that have received their certificates of occupancy after undergoing renovation, rehabilitation or conversion.

Proposed construction- Industrial and office square footage that is planned for development at a future date and will not begin construction by the last day of the current reporting quarter. In order for a building to qualify as being proposed, a site plan must be in place and the building must be actively marketed by the landlord or landlord's agent.

Sales activity- Includes both user and investment sales of existing buildings. In other words, user office buildings that aren't in our statistics in the first place, are not tracked. However, leased buildings that become sold to a single occupant remain in statistics until after the end of the year and are taken out at the beginning of the next year. Investment sales are sales to entities that will lease or sell the building to others and are income-producing assets. Contrary to office building user sales, industrial building user sales are considered part of the inventory.

Cap Rate- A rate used to convert income to value. The percentage used to determine the value of income property through capitalization. The rate reflects the relationship between one years' income or an annual average of several years' income and the corresponding capital value over the same timeframe.

The calculation for calculating direct capitalization rates is:

$$\frac{\text{Income}}{\text{Rate}} = \text{Value} \quad \text{or} \quad \frac{\text{Income}}{\text{Value}} = \text{Rate}$$

A low direct capitalization rate usually denotes a lower risk property, and the higher the direct capitalization rate usually denotes a higher risk property, which usually brings a higher rate of return, if managed properly. Higher capitalization rates can also lead to lower rates of return in certain circumstances. Typically, a lower quality building has a higher capitalization rate than a Class A building.