

Investment 1H 2023

	YoY Chg	12-Mo. Forecast
\$4.4B Total Volume (USD)	▼	▲
93 Total Properties Sold*	▼	▲
6.0 MSF Total SF (Excluding MF)	▼	▲
5,943 Total Units (MF)	▼	▲

* Closed transactions over \$10 million
(All Property Classes)
MF = Multi-family
Source: Real Capital Analytics

ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
3.6M Bay Area Employment	▲	▲
3.3% Bay Area Unemployment Rate	▲	▬
3.6% U.S. Unemployment Rate	▬	▲
3.52% U.S. 10-Yr Treasury Yield	▲	▬

Source: BLS, Moody's Analytics
2023Q2 data are based on latest available data.

ECONOMIC OVERVIEW: Tech Layoffs and Market Volatility Continue

Though more resilient than other markets nationally, the Bay Area has begun to show signs of an economic downturn. Mass layoffs from tech companies in the Bay Area have caused tenants and landlords to pause and reassess. Despite pessimism throughout the first half of 2023, there was an increase of 94,100 jobs year-over-year in June, led by the healthcare and leisure & hospitality sectors, for a growth rate of 2.7%. The Bay Area is still outperforming the United States nationally with a 3.3% unemployment rate compared to 3.6% nationally, though both figures are likely to increase as 2023 progresses. Market volatility caused by inflation, rising interest rates, and labor shortages has continued to shake the investment market. As a result, most investors are pausing their investments even though they have an abundance of capital for opportunities.

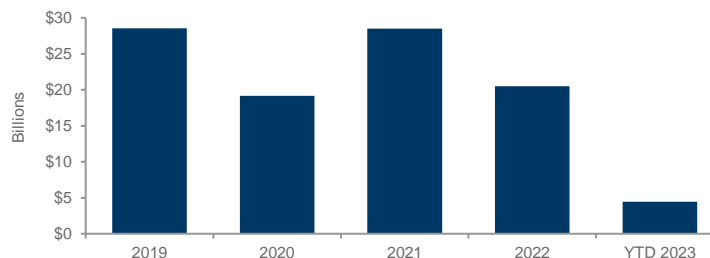
INVESTMENT OVERVIEW: Interest Rates Rise; Industrial and MF Investments Strong

The Bay Area investment market had a dramatic slowdown and recorded approximately \$4.4 billion in total sales in the first half of 2023, a 49.3% decrease from 2H 2022, and a 62.3% decrease from 1H 2022. Total sales included 93 properties traded, down from 180 in the last half of 2022. Coupled with the rising cost of capital, massive tech layoffs notably impacted investor interest with both buyers and sellers putting a pause on transactions. Year-to-date (YTD), average price per square foot (psf) excluding multi-family was \$404. This value represents a drop since 2021's historical high of \$535 psf and is primarily due to the rising cost of capital and an increase in capitalization rates. Investor interest is strongest in the industrial and multi-family sectors as demand from tenants remains stable in the San Francisco Bay Area.

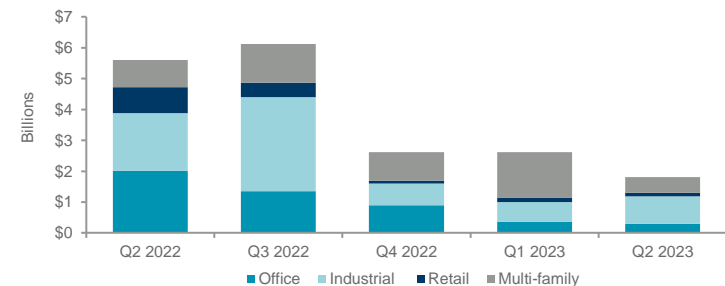
Given lower tenant demand throughout the market, it is clear that investor preference has shifted towards stabilized properties rather than pursuing riskier returns on value-add opportunities. Office product had an average sales price of \$588 psf in the first half of 2023 based on a mere 14 transactions. Of the 1.1 msf of office product sold, four out of the top five deals were 100% leased at the time of sale, including Applied Materials' corporate office at 3333 Scott Boulevard that traded for \$742 psf. Though office has seen a decline in activity from both investors and lenders as the work-from-home phenomenon in the Bay Area continues, the few deals that have transacted in 2022 have mainly been for long term, single tenant credit NNN deals.

Retail cap rates remained high throughout the pandemic and was at 6.7% in 1H 2023 and continue to be well below their pre-pandemic levels of roughly 5%. In the face of persistent inflation and unclear demand for office and retail use, multi-family and industrial assets continue to see activity. The current slowdown of investment flows was expected. As interest rates and cost of capital increased from historic lows at the end of 2021 to the recent highs starting in 2022, buyers have adjusted their underwriting returns at values that the majority of sellers are unwilling to accept at this point. There has been a pronounced decline from foreign investments, which fell from \$3.8B annually in 2021 to \$0 in 2023 so far. Debt for specifically office product is a challenge for investors and lenders, especially for vacant office or speculative construction office projects. Investment activity is projected to remain slow as additional rate increases by the Fed are anticipated in the second half of 2023, though as rates begin to stabilize investors are expected to come off the sidelines and take advantage of more opportunities across the market.

INVESTMENT SALES VOLUME



INVESTMENT SALES VOLUME BY SECTOR



INVESTMENT ACTIVITY

PROPERTY TYPE	PROPERTIES SOLD	SALES VOLUME (USD)	TOTAL SOLD	PRICE / SF, UNIT
Office	14	\$655,892,000	1,400,329 SF	\$588
Multi-family	31	\$1,993,483,500	5,943 Units	\$335,433
Industrial*	36	\$1,531,802,963	4,697,490 SF	\$373
Retail	12	\$249,081,000	810,509 SF	\$307
TOTAL	93	\$4,430,259,463	6,030,904	\$404**

*Includes R&D and Data Centers

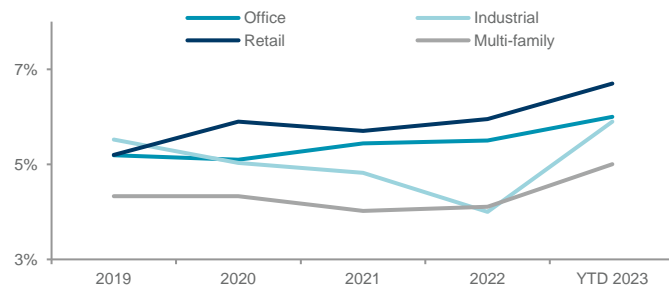
**Total Sold & Price/SF excludes Multi-family

SIGNIFICANT SALES

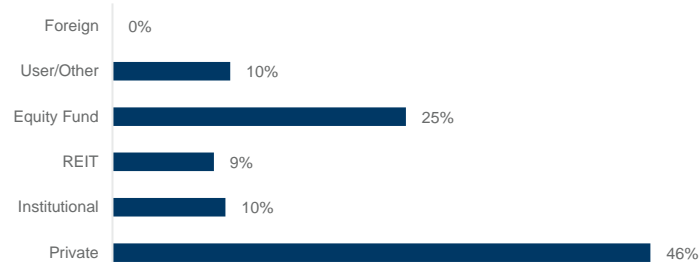
PROPERTY NAME	TYPE	BUYER	SELLER	TOTAL SF / UNITS	PURCHASE PRICE	PRICE / UNIT (\$ PSF)	MARKET
Seagate Campus	Industrial	Sixth Street/Madison Capital	Seagate Technology LLC	574,775	\$260,000,000	\$452	Fremont
Poncetta Apartments	Multi-family	Carmel Partners	Gerson Bakar & Associates	816	\$250,000,000	\$306,373	Daly City
32 Crestwood Drive	Multi-family	Carmel Partners	Gerson Bakar & Associates	598	\$192,000,000	\$321,070	Daly City
Campus @ 3333	Office	Preylock	CalSTRS/CBRE Global Investors	245,830	\$182,500,000	\$742	Santa Clara
Homestead Shopping Center	Retail	MetLife	Sobrato	202,714	\$92,500,000	\$456	Cupertino

*SF includes office, industrial and retail. Unit calculation for apartment only

CAP RATE TREND



TOTAL ACQUISITIONS BY CAPITAL SECTOR



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