

# MARKETBEAT BAY AREA

## Investment Q4 2022



YoY  
Chg

12-Mo.  
Forecast

**5.3%**

Cap Rate



**\$2.6B**

Total Volume (USD)



**64**

Total Properties Sold\*



**3.6 MSF**

Total SF (Excluding MF)



**10,007**

Total Units (MF)



\* Closed transactions over \$10 million

(All Property Classes)

MF = Multi-family

Source: Real Capital Analytics

### ECONOMIC INDICATORS

Q4 2022

YoY  
Chg

12-Mo.  
Forecast

**4.1M**

Bay Area  
Employment



**2.6%**

Bay Area  
Unemployment Rate



**3.7%**

U.S.  
Unemployment Rate



**3.94%**

U.S. 10-Yr Treasury  
Yield



Source: BLS

### ECONOMIC OVERVIEW: Recovery Underway

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. As of October 2022, the Bay Area unemployment rate measured 2.6%, a 50 basis-point (bps) decrease quarter-over-quarter (QOQ) from 3.1%, and a 250 bps drop since Q3 2021 when overall unemployment was 5.1%. 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.

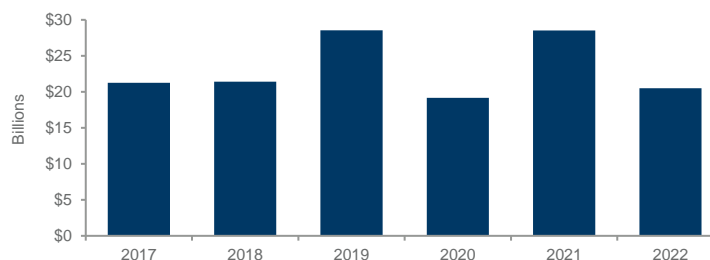
### INVESTMENT OVERVIEW: Interest Rates Rise; Industrial and MF Investments Strong

The Bay Area investment market had a dramatic slowdown and recorded approximately \$2.6 billion in total sales in the fourth quarter of 2022, a 75% decrease year-over-year (YOY). There were 64 properties traded in the fourth quarter, significantly below the 3-year average of 104 transactions. Coupled with cost of capital rising, massive tech layoffs notably impacted investor interest with many investors putting a pause on transactions. On the year, average price per square foot (psf) excluding multi-family was \$394.91 across 440 transactions. This value represents a drop since last year's historical high of \$534.53 psf and is primarily due to the fact that investor interest shifted from office to industrial product, which saw significant upside during the pandemic and remains unaffected by work from home policies.

With an average cap rate of 5.3% among all sales, a 40-basis point increase YOY, investor preference has shifted towards stabilized properties rather than pursuing riskier returns. Office product had an average sales price of \$687.95/square foot (sf) in the fourth quarter based on a mere 16 transactions. Of the fourth quarter's 1.3M sf of office product sold, the top 5 deals were 100% leased at the time of sale, including LinkedIn's corporate office at The Catalyst located at 684 W Maude Avenue that traded for \$1,141/sf. 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.

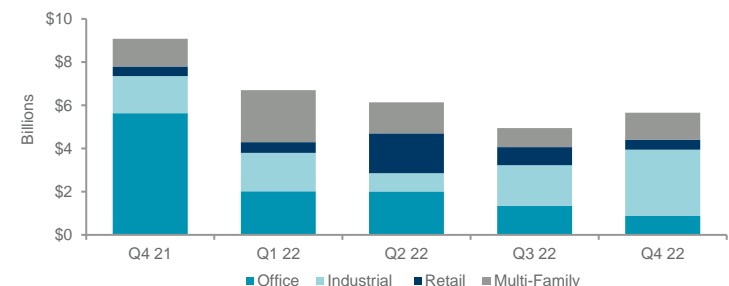
Retail cap rates remained high through the pandemic and was at 5.8% in the fourth quarter but have yet to reach their pre-pandemic levels of roughly 5%. 2022's slowdown of investment flows was expected. As interest rates and cost of capital increased from historic lows at the end of 2021 to the recent 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 \$826M in 2022. Debt for office product specifically is a challenge for investors and lenders, especially for vacant office or speculative construction office projects. Silicon Valley is expected to see little to no new office construction projects in the near term due to the cost of capital and lack of demand from tenants. Investment activity is projected to remain slow as additional rate increases by the Fed are anticipated in the first 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



Source: Real Capital Analytics

### INVESTMENT SALES VOLUME BY SECTOR



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### INVESTMENT ACTIVITY

PROPERTY TYPE	PROPERTIES SOLD	SALES VOLUME (USD)	TOTAL SOLD	PRICE / SF, UNIT	CAP RATE
Office	16	\$897,512,000	1,304,623 SF	\$688	5.2%
Multi-family	21	\$923,441,000	2,069 Units	\$446,322	3.9%
Industrial	20	\$703,787,984	1,997,578 SF	\$352	N/A
Retail	7	\$95,615,889	277,888 SF	\$344	5.8%
<b>TOTAL</b>	<b>64</b>	<b>\$2,620,356,873</b>	<b>3,580,089</b>	<b>\$474</b>	<b>5.3%</b>

Sources: Real Capital Analytics, Cushman & Wakefield Research. Closed transactions over \$10 million

### SIGNIFICANT SALES

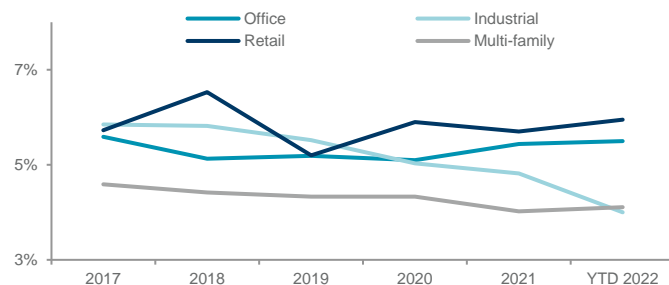
PROPERTY NAME	TYPE	BUYER	SELLER	TOTAL SF / UNITS	PURCHASE PRICE	PRICE / UNIT (\$ PSF)	MARKET
The Catalyst	Office	Metzler Real Estate, Union Investment RE	Invesco Real Estate, Harvest Properties	194,624	\$222,000,000	\$1,141	Sunnyvale
Cityline Sunnyvale	Office	KKR	JP Morgan	157,000	\$193,250,000	\$1,231	Sunnyvale
Centerra Apartments	Multi-Family	3D Investments	AFL-CIO Building Invt Trust	347	\$185,000,000	\$533,141	San Jose
Cherry Logistics Center	Industrial	BentallGreenOak	MetLife RE Investors	575,000	\$138,000,000*	\$240	Newark
Montague Crossing	Office	JJ&W Properties	Rockwood/Four Corners	209,425	94,650,000	\$452	San Jose

Sources: Real Capital Analytics, Cushman & Wakefield Research. Closed transactions over \$10 million

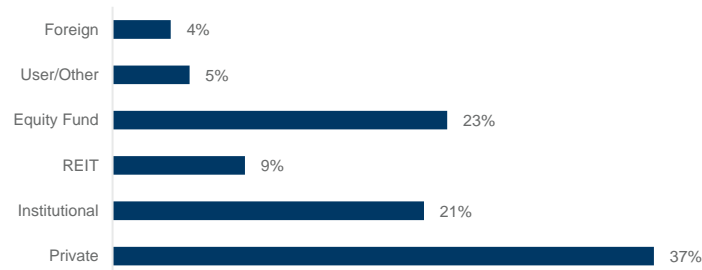
\*SF includes office, industrial and retail. Unit calculation for apartment only

\*Allocated pricing of property, which was a part of a four-building portfolio sale

### CAP RATE TREND



### TOTAL ACQUISITIONS BY CAPITAL SECTOR



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