

MARKETBEAT

Bay Area

Investment Q1 2019



BAY AREA INVESTMENT

Economic Indicators*

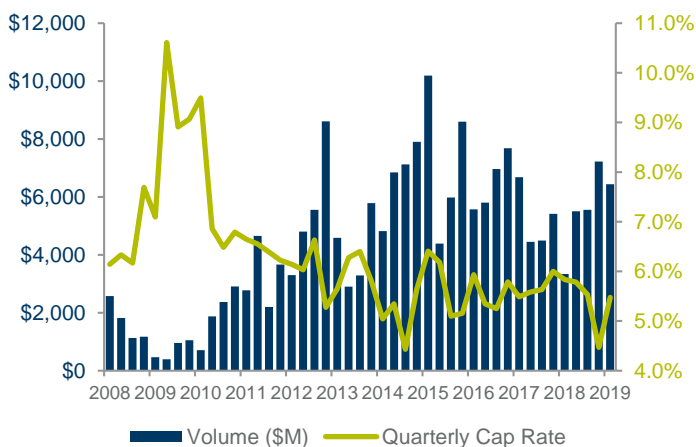
| | Q1 18 | Q1 19 | 12-Month Forecast |
|----------------------------|-------|-------|-------------------|
| Bay Area Employment | 4.06M | 4.13M | ▲ |
| Bay Area Unemployment | 2.9% | 3.1% | ▼ |
| U.S. Unemployment | 4.1% | 3.8% | ▼ |
| U.S. Real Gross Product % | 2.2% | 3.1% | ▲ |
| U.S. 10-year Treasury Rate | 2.74% | 2.41% | ▲ |

*2019 Q1 data are based on latest available data

Market Indicators

| | Q1 18 | Q1 19 | 12-Month Forecast |
|----------------------------------|---------|---------|-------------------|
| Overall Cap Rate | 5.8% | 5.5% | ▲ |
| Total Volume (USD) | \$3.34B | \$6.44B | ▲ |
| Total Properties | 97 | 102 | ▼ |
| Total SF (Excluding Multifamily) | 7.3M | 10.5M | ▲ |
| Total Units (Multifamily) | 2,661 | 2,406 | ▲ |

Total Dollar Volume and Cap Rate Trend (Dollar Volume in Millions)



Economy

The Bay Area's economy remains robust with signs of growth across all major economic sectors. There is continued job growth momentum though it has slowed somewhat over the past year as the market has reached full employment. Nevertheless, there have been 92,600 nonfarm jobs added from just one year ago and a total of 821,400 additional jobs since the recovery began in 2009.

Market Overview

The Bay Area investment market closed the first quarter of 2019 with over \$6.4 billion in total sales, well above its \$5.8 billion three-year quarterly average. Average price per square foot (excluding apartments) reached an all time high of \$569 per square foot across 74 properties; the office sector remains red hot at \$622 per square foot. The average cap rate shifted down 30 basis points year-over-year to 5.5% with Silicon Valley at the high end at 5.9% and San Francisco at the low end at 4.6% across all products.

A total of 10.5 million square feet (msf) traded during the quarter across the office, industrial and retail sectors. The apartment sector slowed down by trading 1,000 units less than the 3,400 three-year quarterly average. All product sectors are gaining further momentum with competing offers on top tier products and development sites.

Regarding volume, Silicon Valley retained the top spot in the region at \$2.6 billion for 14 straight quarters while San Francisco and East Bay finished strong at \$1.6 billion and \$1.2 billion, respectively. The largest transaction was the headquarters for Micron at 110-130 Holger Way in San Jose, an office portfolio totaling 604,000 sf with a 1,700 stall parking garage for a reported \$429 million at \$711 per square foot. In Redwood City, the Bayshore Technology Park owners PGIM transferred 49.9% interest to Longfellow Real Estate Partners at a valuation of \$650 million.

Outlook

The Bay Area's strong leasing fundamentals are attracting domestic and international investors to core downtown office and multifamily markets while value-add opportunities will remain for the suburbs. Strong buyer demand is expected to continue through 2019 with a number of pending transactions expected to close.

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| PROPERTY TYPE | PROPERTIES SOLD | SALES VOLUME (USD) | TOTAL SOLD | PRICE / SF*, UNIT | CAP RATE |
|---------------|-----------------|------------------------|----------------------|----------------------|-------------|
| Office | 42 | \$4,626,333,858 | 7,430,365 sf | \$622.63 / sf | 5.4% |
| Industrial | 21 | \$508,706,875 | 2,117,266 sf | \$240.27 / sf | 6.1% |
| Retail | 11 | \$546,395,716 | 939,713 sf | \$581.45 / sf | 5.6% |
| Multifamily | 28 | \$754,268,979 | 2,406 units | \$313,495 / unit | 4.7% |
| TOTAL | 102 | \$6,435,705,428 | 10,487,344 sf | \$569.49 / sf | 5.5% |

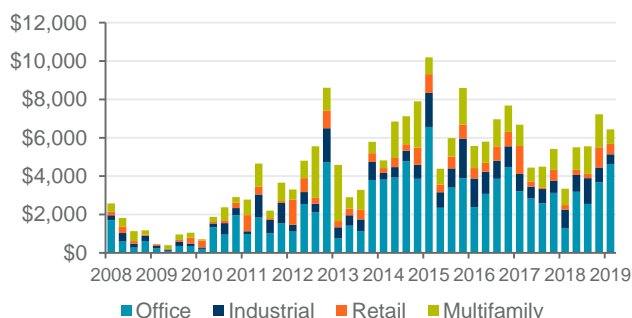
Sources: Real Capital Analytics, Cushman & Wakefield Research Services
 Closed transactions over \$10 million
 *SF includes office, industrial and retail. Unit calculation for apartment only

Significant Sales Q1 2019

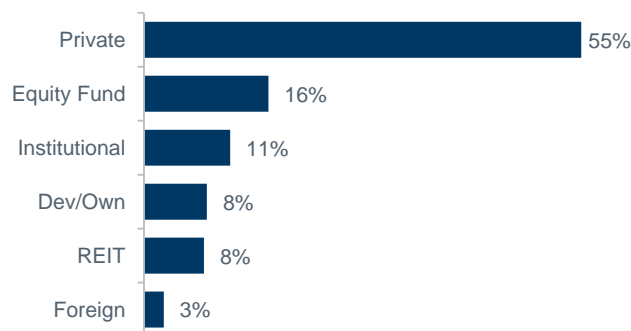
| PROPERTY NAME | TYPE | BUYER | SELLER | TOTAL SF / UNITS | PURCHASE PRICE | PRICE/UNIT (\$ PSF) | MARKET |
|-----------------------------|--------------|---------------------------|-------------------------|------------------|----------------|---------------------|----------------|
| Bayshore Technology Park* | Office | Longfellow RE Partners | Harvest Properties | 998,000 | \$650,000,000 | \$651 | South Bay |
| Center 21 | Office | Starwood Capital | CIM Group | 689,000 | \$356,000,000 | \$517 | East Bay |
| 110-130 Holger Way | Office | Mori Trust | Lane Partners | 604,000 | \$429,000,000 | \$710 | Silicon Valley |
| 25800 Clawiter Road | Industrial | Hines Global REIT | Gillig | 244,000 | \$38,000,000 | \$156 | East Bay |
| Fremont Distribution Center | Industrial | JLL Income Property Trust | E. Owen Frost | 237,000 | \$47,000,000 | \$198 | East Bay |
| El Paseo de Saratoga | Retail | Sandhill Property Company | Terramar Retail Centers | 341,000 | \$147,000,000 | \$431 | Silicon Valley |
| 24500-24688 Hesperian Blvd | Retail | Fortune LLC | Brookfield AM | 139,000 | \$35,000,000 | \$252 | East Bay |
| One South Market | Multi-Family | Essex Property Trust | Heitman | 312 | \$179,000,000 | \$573,718 | Silicon Valley |
| Metro Six55 Apartments | Multi-Family | Prime Group | Jackson Square | 188 | \$71,000,000 | \$377,660 | East Bay |

Sources: Real Capital Analytics, Cushman & Wakefield Research Services
 *Partial Interest Transfer (49.9%)

Total Dollar Volume by Property Type
 (Dollar Volume in Millions)



Total Acquisitions by Capital Sector



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