

Bay Area Apartment

Market Forecast

Trends

Vacancy	↓
Unemployment	↓
Rental Rate	↑
New Construction	↑

Notable Sales Transactions

Mode by Alta
2089 Pacific Blvd, San Mateo
111 Units, \$73,625,000 (\$663,288/unit)

Highland Gardens
222-234 Escuela Ave, Mountain View
187 units, \$86,000,000 (\$459,893/unit)

Walnut Creek Portfolio Sale
Carmel House
1756 Carmel Dr, Walnut Creek
107 units, \$26,850,000 (\$250,935/unit)

Creekside Glen
125 Near Ct, Walnut Creek
152 units, \$38,276,892 (\$251,822/unit)

Cypress Creek
1011 Ygnacio Valley Rd, Walnut Creek
98 units, \$24,723,708 (\$252,283/unit)

The San Francisco market has had a lot of activity in recent years. The population has grown substantially since the latest recession and multifamily developments are struggling to keep up. The job growth and attractiveness of being close to the burgeoning tech markets of San Francisco and Silicon Valley have helped lead to this population growth. This has been driving rental rates up in all counties in the Bay Area.

Rental Rate Trends

Over the past twelve months, the average rental rate in the region increased 10.4%. San Mateo County saw the largest change from \$2,258 to \$2,541 (12.5% increase). San Francisco still leads with the highest rents of all sub-regions. The average rent broke a new record and is currently \$3,178 per month, making it the most expensive city in the country to live. This dramatic increase can simply be attributed to the law of supply and demand, as well as the increasing number of high salaries being offered to tech company employees.

Projected Future Supply

The first quarter of 2015 saw 4,268 units completed in the Bay Area. The supply will continue to increase with 104 projects currently under construction, which will bring 20,879 units to market. Supply will continue to grow with 36,000 units in the planning stages. San Francisco alone is seeing 17,138 units in the city's future. The Bay Area has 35,000 prospective units, which brings total future supply, as of Q1 2015, to over 90,000 for units in the pipeline that will be offered at market rate, including partially affordable.

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Employment/Estimate of Future Apartment Demand

Population growth continues to be the major driver of demand for apartment units. The population growth can be attributed to the number of jobs being created in the region. There seems to be an endless opportunity for jobs within the tech sector. From February 2014 to February 2015, 107,800 nonfarm jobs have been created in the Bay Area. San Francisco and Silicon Valley have seen the largest percentage of employment growth with 4.6% and 5.3% year over year. The East Bay saw a 2.4% jump in job growth this past year.

The unemployment rate has gone down as a result of continued job growth. In California, the unemployment number is at 6.5%, down from 7.9% a year ago. San Mateo County has the lowest unemployment rate in the

state at 3.5%. The average unemployment rate for the Bay Area region is 4.4%. This is well below the national average of 5.8%.

Investment Activity

There continues to be strong activity in the multifamily market with 13 sales to institutional buyers for a combined \$483,614,448 in volume in the first quarter of 2015. The price per unit continues to climb. San Mateo County led the way with the highest sale this quarter at \$73.6 million (\$663,288 per unit). This transaction's price, in particular, was powered by overseas investment. Likewise, there is a lot of big, institutional foreign investment in multifamily space all over the Bay Area as prices outpace many individual's ability to purchase larger projects.

Source: CoStar and Pierce-Eislen

Submarket Statistics

County	Total Units	Units Planned	Units Under Construction	Quarterly Deliveries	Vacancy	Rent Growth (YOY)	Unemployment	Average Cap Rate
San Francisco	84,482	10,588	6,550	463	4.4%	11.0%	3.5%	4.2%
San Mateo	44,365	1,945	2,466	305	3.4%	12.5%	3.5%	4.3%
Santa Clara	137,977	14,041	9,728	2,314	2.8%	11.1%	4.2%	4.6%
Alameda	115,771	5,707	754	538	2.3%	13.3%	4.9%	5.4%
Contra Costa	57,318	2,646	487	300	2.3%	10.4%	4.9%	5.2%
Marin	13,119	354	180	126	2.2%	9.8%	3.5%	4.5%
Napa	5,367	0	57	0	2.5%	6.3%	4.4%	5.1%
Sonoma	22,769	720	657	0	2.1%	10.2%	4.5%	5.7%
Solano	23,158	521	0	222	1.7%	8.9%	6.1%	6.7%
Total	504,326	36,522	20,879	4,268	2.9%	11.4%	4.4%	4.9%

Contact

Reed Payne
Executive Vice President, Brokerage
Northern California
415.229.8888 | rpayne@kiddermathews.com

Designated Broker: Reed Payne | LIC #00818935

Offices

San Francisco
415.229.8888
Peninsula
650.769.3600

Silicon Valley
408.970.9400
San Diego
858.509.1200

Seattle
206.296.9600
Bellevue
425.454.7040

Tacoma
253.722.1400
Portland
503.221.9900

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