

Bay Area Apartment

Market Forecast

Trends

Vacancy	↓
Unemployment	↓
Rental Rate	↑
New Construction	↑

Notable Sales Transactions

- Etta
San Francisco, CA
\$106,000,000 (\$990,000/unit, \$1,030/s.f.)

- Sterling Cove
Concord, CA
\$35,000,000 (\$160,550/unit, \$138/s.f.)

- Willow Glen Apartments
Napa, CA
\$15,126,000 (\$90,036/unit, \$137/s.f.)

Notable Deliveries

- 2175 Market
San Francisco, CA
88 units | Forest City Enterprises

- Parc on Powell
Emeryville, CA
170 units | Equity Residential

- Venue
San Jose, CA
222 units | Fairfield Residential

The San Francisco apartment market has been very active in recent years. The second quarter continued this trend. The catalyst for this strong activity is population growth, due in large part to the job creation in the technology sector. The population has grown substantially since 2009 and multifamily developments are struggling to keep up. The Bay Area is a desirable location right now as it is seen as one of the major hubs of innovation in the world. This is attracting people from all over the world to come and work for one of the many great companies in this area. The combination of job growth and the many amenities associated with living in San Francisco Bay Area is pushing new multifamily developments in many of the submarkets and driving rental rates up as well.

Rental Rate Trends

The result of the leap in the number of new jobs created in recent years is historic highs in home prices and rental rates. Over the past twelve months, the average rental rate in the region increased 11.1%. Alameda County saw the largest change, a 15% increase year over year. Oakland is becoming a very popular destination for millennials as they look for a cheaper living alternative to San Francisco, since it allows them easy access to the city as well. Oakland, Berkeley, and Emeryville are all benefiting from San Francisco's rental prices. San Francisco still leads with the highest rents of all sub-regions. The average rent is currently \$3,198/month, up 1.2% from the end of the first quarter of 2015, 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. The supply is struggling to keep up with demand as the population growth rate outpaces the delivery rate of new units.

Projected Future Supply

In the second quarter, 4,276 units were completed in the Bay Area. The supply is trying to catch up to demand. There are 104 projects under construction, which will bring

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22,577 units to market across the Bay Area. Including projects in the planning stages with cities and counties, the projected future supply is over 50,000 units. San Francisco alone is seeing more than 15,000 units in the city's future pipeline.

Employment/Estimate of Future Apartment Demand

Population growth continues to be the major catalyst of demand for apartment units. The population growth is easily outpacing construction deliveries at a rate of 3.2% to 2.0% annually. There seems to be an endless opportunity for jobs within the tech sector. The total nonfarm job growth in the greater Bay Area has increased by more than 125,000 jobs from June 2014 to June 2015. A lot of jobs have been created by local companies who are rapidly growing. Companies like Fitbit, Arduro, Zosano Pharma, to name a few, have had their initial public offering and raised a lot of capital to fund the future growth of their companies, helping to create new jobs.

Another driver of multifamily development is the surge in home prices. Home prices have become too high for median income households. Prices are not quite to the 2008 level of median home prices before the bubble burst. Nationwide, median home prices are \$223,000 today, compared with \$230,000 in 2008. In California, the median home price is \$482,000 as of April 2015. However, the Bay Area is very unique. San Francisco has a median home price of \$1,360,000, which is up 96% from the beginning of 2012. While median salaries have increased, they have not

kept pace with home prices. Younger generations are also more interested in renting apartments in urban areas than purchasing homes in the suburbs.

As more people choose to rent than buy, multifamily developments become more important to the health of the economy. In Menlo Park and Mountain View, Facebook and Google are purchasing land and buildings around their main campuses with plans to build housing for their employees. For these kinds of companies, housing is an important factor in attracting and keeping top talent.

Investment Activity

There continues to be strong activity in the multifamily market, with 11 sales to institutional buyers for a combined \$350,142,000 in volume in the first quarter of 2015. The price per unit continues to climb. In San Francisco, the complex Etta was sold for \$105,000,000 (\$990,654/unit). We are continuing to see large investments from overseas capital groups. The Bay Area market's real estate prices continue to appreciate, making this one of the most lucrative investment arenas in the world.

Capitalization rates are moving lower as prices continue to escalate and finding a quality property for investment becomes more difficult. Investors expect the next interest rate hike to help to bring capitalization rates back up as the ability to get cheap money from loan institutions goes away. Multifamily investment is expected to remain strong as rental rates are reaching all-time highs, pushing the values of buildings upward continuously.

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	84,716	7,009	8,284	234	4.1%	7.6%	3.6%	5.2%
San Mateo	44,365	1,180	5,420	0	2.1%	11.3%	3.6%	3.9%
Santa Clara	141,291	10,394	6,078	3,314	2.5%	11.5%	4.3%	4.6%
Alameda	116,033	8,654	1,548	262	2.1%	15.0%	5.0%	5.2%
Contra Costa	57,318	2,168	554	0	2.3%	11.7%	5.0%	5.9%
Marin	13,119	275	180	0	2.3%	9.1%	3.7%	4.5%
Napa	5,367	92	41	0	2.3%	10.8%	4.6%	6.6%
Sonoma	23,013	894	472	244	2.1%	9.3%	4.6%	5.7%
Solano	23,380	521	0	222	2.2%	13.3%	6.2%	6.5%
Total	508,602	31,187	22,577	4,276	2.4%	11.1%	4.5%	5.3%

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