

Bay Area Apartment

Market Forecast

Trends

Vacancy	↓
Unemployment	↓
Rental Rate	↑
New Construction	↑

Notable Sale Transactions

- Tower Two at One Rincon Hill**
San Francisco
\$410,000,000 | \$1,375,838/unit, \$1,206/s.f.
- Hawthorne Village**
Napa
\$70,500,000 | \$288,935/unit, \$279/s.f.
- Maribelle**
Santa Rosa
\$59,000,000 | \$205,575/unit, \$279/s.f.
- Mira Vista Hills**
Antioch
\$39,150,000 | \$139,821/unit, \$219/s.f.

Notable Deliveries

- One South Market**
1 South Market Street, San Jose
312 units | Essex Property Trust
- Ilara**
1201 South Main Street, Milpitas
200 units | Shea Properties
- Domus on the Boulevard**
2650 East El Camino Real, Mountain View
193 units | SummerHill Apt Communities
- Revere**
1725 South Bascom Avenue, Campbell
168 units | Bay West Group

The Bay Area apartment market continues to reach levels of unprecedented demand. While the location is a major attraction, the growing economy has been the main driving force. Venture capital funding for the U.S. has reached its highest level since 2000 at \$65 billion. This has flooded the market with new jobs as nearly 60% of the VC funding has been injected into California companies, the majority of which are located in the Bay Area. As a result of the growing population and increased demand for housing, apartment rental rates continue to experience record highs.

Rental Rates

The average Bay Area rental growth rate has increased slightly to 11.4% over the past twelve months, with Alameda County experiencing the highest rate of growth at 14.8%, followed by San Mateo County's 14.4%. Due to lower rental rates and a growing economy, Oakland continues to be an attractive alternative. With Uber as a model, companies are increasingly moving from San Francisco to the Oakland metro area to take advantage of cheaper rental rates. However, the rising demand in Oakland is causing apartment rental rates there to experience the largest increases in the Bay Area. Alameda County's average rent is currently \$2,280, whereas Oakland's average rent is \$2,800, a 66% increase since 2012. This is still considered a bargain compared to San Francisco's average rent of \$3,624, which continues to make San Francisco the country's most expensive city. As the supply struggles to match the demand, rental rates will continue to reach record highs.

Project Future Supply

There were 2,237 units completed during the third quarter, and nearly half of them were added in Santa Clara County. Between the nine Bay Area counties there are currently 22,748 units under construction and another 55,000 units in the planning stage. Santa Clara, Alameda, and San Francisco County, the counties with the highest levels of demand, are set to receive 85% of the planned units.

Employment and Estimate of Future Demand

Over the past year, the Bay Area job market expanded at a rate of 3.7%. The San Jose metro area led the region with 59,300 new jobs, followed by San Francisco's

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47,500 new jobs, and another 20,900 in the Oakland metro area. The Bay Area's unemployment rate dropped to 3.8% during the third quarter, which most economists consider "full employment". As record amounts of VC funding continue to produce new jobs, the population capacity is being pushed to the limit. Some residents have been forced to the regions outer boundaries as a result of the metro area's low vacancy rates and increased rental rates. The amount of long-distance commuters—those traveling more than 90 minutes to work—has increased to 140,000, roughly 4.5% of the total work force.

Aside from the growing population, there are a few additional factors driving the growth of multifamily developments. Over the past three years the average home price has increased 30%, while the average wage has increased 7%. According to the California Association of Realtors, only 20% of Bay Area residents can afford to buy the median priced home of \$700,000. In particular, San Francisco's median home price is currently \$1,109,900, compared to the national median price of \$232,000. Secondly, home ownership is no longer a priority for Bay Area millennials. The percentage of millennial homeowners has dropped from 39% to 34.8% since 2009. Additionally, only 60% of Bay Area millennials plan to purchase a home, compared to the national average of 74%.

With a growing number of people choosing to rent, it will be crucial to increase the supply of multifamily developments in order to relieve vacancy rates and hinder growing rental

rates. Rising rental rates are beginning to create an obstacle for business recruitment as some businesses can't afford to pay salaries that support the Bay Area's cost of living, forcing them to miss out on young talent who prefer a more affordable market. San Francisco is currently seeing residents spend up to 55% of their income on housing in order to live near their work place, while San Jose residents are spending up to 45%. In order to remain a leader in innovation with a robust economy, it will be pivotal to increase the supply of affordable multifamily developments.

Direct Lease Space

Monetarily, the Bay Area's investment activity eclipsed the previous quarter. The third quarter experienced eight sales totaling \$603,904,752. San Francisco continues to set extreme price records with Tower Two at One Rincon Hill selling for \$410 million (\$1,375,839/unit). The price per unit is the most expensive in history for a Bay Area apartment building. Although investment activity remains strong, increasing costs have resulted in a declining capitalization rate, which dropped 0.8% to 4.5% since the previous quarter. However, investment activity will continue to remain steady due to a strong demand and increasing rental rates.

Sources: CoStar and Pierce-Eislen

Submarket Statistics

Submarket	Total Units	Units Planned	Units Under Construction	Quarterly Deliveries	Vacancy	Rent Growth (YOY)	Unemployment	Avg Cap Rate
San Francisco	87,904	12,443	6,944	437	2.7%	9.7%	3.2%	4.0%
San Mateo	46,774	3,528	2,651	444	2.9%	14.4%	3.0%	4.2%
Santa Clara	151,675	18,346	8,927	1,029	2.8%	11.3%	3.7%	2.6%
Alameda	120,200	15,833	2,491	270	1.7%	14.8%	4.2%	5.1%
Contra Costa	57,681	3,184	577	57	2.0%	11.9%	4.4%	4.7%
Marin	12,981	275	180	0	1.7%	9.3%	3.1%	4.2%
Napa	6,606	92	57	0	1.9%	10.3%	3.6%	4.5%
Sonoma	25,636	1,371	413	0	1.2%	8.5%	3.8%	6.0%
Solano	24,310	0	508	0	1.9%	12.1%	5.3%	5.6%
Total	533,767	55,072	22,748	2,237	2.1%	11.4%	3.8%	4.5%

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