Kidder Mathews

1st Quarter
2018

Real Estate Market Review

# Bay Area Multifamily

The Bay Area multifamily market continues to reach high levels of demand. Rents have risen from their current levels due to a growing population and increasing capital, primarily driven by the technology sector. With an average vacancy rate of 4.0% among all nine counties, developers push to deliver units to the fast growing Bay Area.

## Rental Rates

Over the past year, the average rental rate in the Bay Area has increased by 3.6%. San Francisco continues to lead all the counties with the highest average rental rate at $3,418, whereas Solano County posts the lowest at $1,694. Alameda County experienced a 3.2% increase over the past year, with Oakland's average rent sitting at $2,597. As demand outpaces supply in the area, rents are forecasted to climb at a modest pace in 2018.

## Projected Future Supply

There were 1,234 units completed during the first quarter in the Bay Area, with 46.8% of them added in Santa Clara County, followed by 28% in Alameda County. Between the nine Bay Area counties, there are 21,498 market rate units, including affordable components, currently under construction and 36,000 market rate units in the planning stage.

## Employment and Estimate of Future Demand

The Bay Area job market continues to surge, having added more than 17,900 jobs this quarter. The East Bay led the region with more than 7,300 new jobs, followed by the South Bay adding 5,500 jobs, while the San Francisco-San Mateo metro area added a little over 2,400 new jobs. The nine county unemployment rate stands at 3.1%, having decreased from 3.7% a year ago. The technology sector continues to be the main driver for economic growth in the Bay Area, as companies are rapidly hiring and expanding. Facebook recently leased 436,000 s.f. at 181 Fremont in San Francisco, as well as expanded into the city Fremont.

## Market Forecast Trends

| | |
|---|---|
| ↔ VACANCY | ↓ UNEMPLOYMENT |
| ↑ RENTAL RATE | ↑ NEW CONSTRUCTION |

## Notable Sale Transactions

**Villas on the Boulevard**
Santa Clara
$107,250,000 | $573,613/unit | $720/s.f.

**Kirkwood Village**
Campbell
$102,250,000 | $400,980/unit | $258/s.f.

**Bridgecourt**
**Emeryville**
$87,400,000 | $397,273/unit | $226/s.f.

## Notable Deliveries

**Lex**
5560 Lexington Avenue, San Jose
387 units | Roem Development

**Vintage**
50 Vintage Circle, Pleasanton
345 units | Carmel Partners

**The Triton**
55 Triton Park Lane, Foster City
220 units | Thompson Dorfman Partners

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## Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Los Angeles
213.880.5250

El Segundo
310.807.0880

Commerce
323.727.1144

Long Beach
562.472.0071

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

## Contact


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Google acquired multiple sites in San Jose and Mountain View, with hopes of developing residential units and its campus complex in downtown San Jose. In addition, Salesforce employees have settled in the 61-story Salesforce Tower, boosting San Francisco's tech scene. Several companies, such as Dropbox and ZScaler, have gone public and raised substantial capital, fueling their company's growth and the job market in the Bay Area.

The demand for multifamily continues to look strong due to several factors. 15% of millennials still live at home, and homeownership remains financial unattainable. According to The WSJ, two thirds of renters are planning to continue renting due to financial reasons, and 20% of renters said they have no interest in owning a home. The Bay Area home prices are a snapshot of this, as many residents are unable to afford a median price, $893,690, for a home there. Even higher, San Francisco's median home price is currently at $1,730,000, with San Mateo close behind at $1,610,000. Nationwide, the price stands at $326,800.

It will be critical for developers to increase supply in the area to accommodate the rapid growth of population in the area. Rising rental rates in major cities are affecting company recruitment, as some companies can't afford to increase salary wages to support the Bay Area's cost of living. However, the income to rent percentage is slowly adjusting, potentially leading to a more stabilized market. Several companies, such as Facebook and Google, are working to alleviate this problem by creating campuses to house their employees.

## Debt Market

The first quarter saw a slight pickup in investment activity, with 10 sales totaling $590,350,000. In Santa Clara, the complex Villas on the Boulevard sold for $107,250,000 ($573,613/unit), marking it the largest transaction of the quarter. The 10-year Treasury rate ended at 2.74% at the end of March, while the rate closed at 2.41% in December 2017, and 2.38% in October of last year. 1M Libor interest rates stood at 1.88% at the end of March, up from the lows of the year at .98%. With underwriting already tight there is continued discussion of the impact of rates on pricing, with limited impact. Also a factor at the end of the quarter, the Fed raised interest rates which ranged between 1.5% and 1.75%, and signaled its plans to raise rates two more times in 2018.

*Sources: Yardi Matrix, The Mercury News, Federal Reserve Bank of St. Louis, California Association of Realtors*

## County Statistics

| County | Total Units | Units Planned | Units Under Construction | Quarterly Deliveries | Average Asking Rents | Vacancy | Rent Growth (YOY) | Unemployment | Avg Cap Rate |
|---|---|---|---|---|---|---|---|---|---|
| San Francisco | 43,740 | 8,266 | 3,700 | 92 | $3,418 | 4.5% | 2.4% | 2.5% | N/A |
| San Mateo | 31,334 | 1,386 | 2,484 | 220 | $2,934 | 5.0% | 3.1% | 2.4% | N/A |
| Santa Clara | 107,054 | 11,733 | 7,496 | 577 | $2,752 | 4.5% | 2.8% | 2.9% | N/A |
| Alameda | 66,215 | 10,782 | 6932 | 345 | $2,383 | 4.1% | 3.2% | 3.2% | 3.8% |
| Contra Costa | 30,527 | 3,298 | 680 | 0 | $2,095 | 4.7% | 3.0% | 3.4% | 4.9% |
| Marin | 6,955 | 0 | 0 | 0 | $2,684 | 2.9% | 2.3% | 2.5% | N/A |
| Napa | 2,781 | 282 | 0 | 0 | $2,026 | 4.2% | 7.9% | 3.5% | N/A |
| Sonoma | 12,925 | 1,068 | 206 | 0 | $1,984 | 2.7% | 7.0% | 3.0% | 5.0% |
| Solano | 12,355 | 82 | 0 | 0 | $1,694 | 3.8% | 5.7% | 4.4% | 4.3% |
| Total | 313,886 | 36,897 | 21,498 | 1,234 | $2,441 | 4.0% | 4.2% | 3.1% | 2.0% |
| **Total** | **313,886** | **36,897** | **21,498** | **1,234** | **$2,441** | **4.0%** | **4.2%** | **3.1%** | **2.0%** |