

Bay Area Multifamily

Rental rates continue to rise in the Bay Area, largely driven by a booming economy. Considered one of the innovation capitals of the world, the region has welcomed thousands of people to reside among its nine counties. However, this large demand has outpaced supply in the area, as average rents stand at \$2,727. Developers strive to deliver units in urban areas, as an increased number of tenants prefer to live near amenities and transit centers.

Rental Rates

Average rental rates in the Bay Area grew 3.7% on a year over year basis, now standing at \$2,727. Following the prior quarter's trend, San Francisco continues to hold the highest rental rate at \$3,553. Alameda County experienced a modest rent growth of 2.3% year over year, making it a popular destination for millennials to reside in. In particular, Oakland's average rental rate is currently \$2,675, up 2.1% year over year. As demand continues to outpace supply in the area rents are forecasted to slightly rise by 2.8% next year (Yardi Matrix).

Projected Future Supply

Deliveries in the second quarter slowed down, with only 931 units completed in the Bay Area, compared to 1,234 units in the prior quarter. The majority of those units were in the Counties of San

Francisco and San Mateo. Construction activity declined slightly, as rising construction costs and labor shortages have impacted this market. A little over 19,000 market rate units are currently under construction and more than 25,000 units in the planned stages in the Bay Area.

Employment and Estimate of Future Demand

Fueled by a high-performing economy, the Bay Area unemployment rate sits at 2.4%, compared to the national average of 4.0%. According to the Bay Area Council Economic Institute, the Bay Area creates a yearly GDP of \$748 billion. Companies, such as DocuSign and Zuora, filed for their initial public offering this quarter and raised large amounts of capital to fund their growth, leading to an increase in job opportunities in the area. Currently, DocuSign has 68 open jobs in San Francisco while Zuora has 48 positions across the Bay Area.

Market Forecast Trends



YEAR-TO-YEAR BASIS

Notable Sale Transactions

- Vintage**
Pleasanton
\$168.6M | \$488,695/unit | \$478/s.f.
*Portfolio deal
- Domain**
Oakland
\$140M | \$530,303/unit | \$561/s.f. | 4.1% cap
- Maxwell**
Oakland
\$44.6M | \$557,500/unit | \$718/s.f. | 4.6% cap

Notable Deliveries

- 855 Brannan**
855 Brannan Street, San Francisco
449 units | Equity Residential
- Blu Harbor**
1 Blu Harbor Boulevard, Redwood City
402 units | Pauls Corporation
- Hanover Cannery Park**
415 E. Taylor Street, San Jose
403 units | The Hanover Company

According to a recent survey conducted by the Bay Area Council, 46% of Bay Area residents are considering relocating, an increase from 40% last year and 34% in 2016. One of the main drivers for this state of mind is the rising cost of home prices. As of May 2018, the median home price among all nine counties in the Bay Area is \$1,088,000. Significantly higher, San Francisco's median price is \$1,620,000, with San Mateo County following closely behind at \$1,600,000. Nationwide, median home prices are \$313,000 as of May 2018.

Nonetheless, an influx of people, spurred by a strong labor market, is expected to enter the region, driving the need for additional housing. Several companies, notably Facebook, Google, Uber and Salesforce, are creating campuses, complete with some residential units, office and retail spaces, to house their employees. Salesforce has 390

available jobs in San Francisco, while Google posts over 400 open jobs in Silicon Valley alone.

Pricing

Sales volume for the second quarter included four transactions totaling over \$350 million. The largest sale was the Vintage in Pleasanton for \$168 million (\$488,695/unit), followed by the Domain in Oakland for \$140 million (\$530,303/unit). In the second quarter of 2017, total volume reached \$587 million, and was over \$1 billion in 2Q 2016. This decline is partially attributed to rising interest rates. Looking into the rest of 2018, there are 17 rumored apartment acquisitions, signaling an optimistic investment outlook in this market.

Sources: Yardi Matrix, 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	43,078	6,693	3,251	449	\$3,553	4.4%	2.6%	2.1%	NS
San Mateo	30,590	1,198	1,975	402	\$3,067	4.6%	4.8%	1.9%	NS
Santa Clara	107,796	8,027	8,034	0	\$2,891	3.8%	4.1%	2.3%	NS
Alameda	63,956	9,602	4,946	0	\$2,456	4.0%	2.3%	2.6%	4.4%
Contra Costa	29,664	2,221	552	80	\$2,129	4.3%	1.9%	2.8%	N/A
Marin	6,957	0	0	0	\$2,742	3.2%	2.3%	2.0%	NS
Napa	2,858	282	0	0	\$2,076	5.2%	6.6%	2.5%	NS
Sonoma	12,926	978	296	0	\$2,039	3.0%	6.0%	2.4%	NS
Solano	12,438	0	82	0	\$1,728	3.9%	4.9%	3.4%	NS
Total	310,263	29,001	19,136	931	\$2,727	4.00%	3.7%	2.4%	

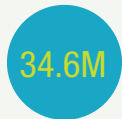
*NS = No Sale

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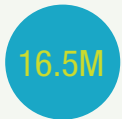
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