

MARKET TRENDS | MULTIFAMILY

BAY AREA

3RD QUARTER
2019

▼ UNEMPLOYMENT | ◀ VACANCY | ▲ RENTAL RATE | ▲ CONSTRUCTION DELIVERIES

The Bay Area economy remains strong, supported by a booming tech industry and robust job growth. Asking rates continue to climb in the region, averaging \$2,820, a 3.1% increase from the prior year. Over 28,000 units are under construction, focused on the South Bay and East Bay markets. Rising demand to live near transit-oriented areas have spurred developers to deliver units within these locations.

In the North Bay, Napa County rates climbed to \$2,167, a 4.3% YOY increase. Bay Area rents are forecasted to continue rising into 4Q 2019 at an average of 4.7% (Yardi Matrix).

PROJECTED FUTURE SUPPLY

Close to 2,800 units were delivered this quarter in the Bay Area, bringing the YTD total to nearly 7,300 units. Bay Area deliveries fell 13% YOY, partially impacted by high construction costs affecting the region.

Alameda County welcomed the most units this quarter, with 1,044 being added to this market. AvalonBay's Avalon Public Market delivered 288 units in Emeryville, while Lennar's 17th & Broadway project completed 245 units in the Lakeside submarket in Oakland. Over in Santa Clara County, 979 units were delivered in this market, the largest being Essex's Mylo Santa Clara 476 apartment complex in Santa Clara. Finally, Napa County had a strong quarter, adding 430 units to this market.

CALIFORNIA RENT CONTROL BILL

California's rent cap bill, AB 1482, was signed into effect late 3Q 2019, which caps annual rent increases to 5% plus inflation. This bill will be put into effect on January 1, 2020 and will expire in 2030. Additionally, landlords will require "just cause" before evicting tenants that have occupied a unit for at least a year.

RENTAL RATES

Bay Area apartment rents remain on the rise, averaging \$2,820 at the end of 3Q, a 3.1% year-over-year (YOY) increase. Consistent with prior quarters, San Francisco rents remain the highest in the Bay Area, averaging \$3,711 (3.1% jump YOY). Down on the Peninsula, San Mateo County rates jumped 5.3% YOY to reach \$3,215 for all unit types. Often seen as an alternative to higher-priced markets, Alameda County is experiencing higher rent growth, as current asking rates average \$2,518. Oakland rents, in particular, have jumped nearly 9% in the last year to reach an average of \$2,822.

UNITS UNDER CONSTRUCTION BY COUNTY 3Q 2019

4,232 SAN FRANCISCO	9,565 ALAMEDA	444 NAPA
1,956 SAN MATEO	1,297 CONTRA COSTA	793 SONOMA
10,379 SANTA CLARA	0 MARIN	0 SOLANO

3Q 2019 MARKET HIGHLIGHTS

VACANCY RATES stand at 4.1%, up 3% YOY

RENTAL RATES rose to \$2,820 across all 9 counties, a 3.1% increase YOY

CONSTRUCTION remains active in the Bay Area, with 28K units in development

The largest project completed was Fairfield Residential's The Braydon, a 282-unit located near downtown Napa.

Over 28,000 units are under construction in the Bay Area, with the majority concentrated in Santa Clara and Alameda Counties. In particular, Oakland has experienced a surge of development activity, with over 1,150 units set to deliver by year-end. Holland Partner Group's 1721 Webster Street project, a 250-unit high-rise in the Lakeside submarket, is anticipated to arrive by early 4Q 2019.

Looking into the next year, Related California's 1500 Mission Street development is on schedule to add 550 units in San Francisco by early 2020, while the Summer Hill Apartments, a 694-unit mid-rise complex is set to deliver in 2Q 2020 in Milpitas. Over in the North Bay, The Exchange at Bayfront project will feature 172 units in the Waterfront submarket in Hercules by mid-2020.

At the end of 3Q 2019, around 1,169 units were absorbed in the Bay Area. From a YOY standpoint, absorption decreased 45%, causing a slight increase in vacancy this quarter to 4.1%. Alameda County gained the most units this quarter at 520, followed by Santa Clara absorbing 320 units. However, Contra Costa County experienced an absorption decline of 48% YOY.

EMPLOYMENT AND ESTIMATE OF FUTURE DEMAND

The Bay Area economy remains a dominant force driven by a fast-growing

technology sector. Unemployment among all nine counties averaged 3.0% by 3Q 2019, with San Mateo reporting the lowest rate at 2.3%. During the month of August, the Bay Area added 5,100 jobs, a strong testament to the strength of the job market in this region. In addition, several tech companies have proposed major development plans to create additional campuses, adding to their dominant presence in the region. In particular, Google recently filed their development application for their downtown San Jose project, which could add 3,000-5,000 apartment units and 6.5 million square feet of office space.

2019 has been a dominant year for Bay Area companies going public, from ride-hailing companies Uber and Lyft to software company Slack. During the third quarter, cloud-based network company Cloudflare commanded an initial valuation of \$4.4 billion and since its IPO, has increased to \$5.2 billion. Meanwhile, customer experience management company Medallia went public in early 3Q 2019 and received a market valuation of over \$4.5 billion. Co-working giant WeWork was set to go public after filing its IPO paperwork in August, however after several valuation reductions and internal management rotations, decided to withdraw its IPO.

High cost of living has been a common theme in the Bay Area for the last few years. The housing market cooled among all nine counties during the third quarter, as median sale prices of a single-family home declined 3.8% YOY to \$900,000. San Francisco led all

counties with the highest median price of \$1.6 million, followed by San Mateo County at \$1.5 million. Napa County reported a 20% price decrease from the prior year to \$699,000. Nationwide, the median price stood at \$328,400.

PRICING

The third quarter saw \$1.13 billion in sales volume, with Alameda County recording the highest amount out of all nine counties at \$432 million. GID acquired Blu Harbor, a 402-unit apartment complex in Redwood City for \$325.6 million, or \$810,000/unit. This transaction was one of the largest sales in San Mateo County in the last few years, setting a very high price record for this region. In addition, Brookfield Asset Management purchased The Village Residences at Antonio Center in Mountain View for \$259 million. This three-building complex was included in a portfolio sale with three retail properties offering 43,000 s.f. of space. This site is part of The Village at San Antonio Center, a large mixed-use project in Mountain View, offering close to 180,000 s.f. of retail space between two phases.

In 3Q18, volume reached \$935 million and \$677 million in 3Q17. Towards the end of 3Q 2019, the Fed lowered the interest rate to a range of 1.75% to 2% and capital markets are unsure what rate decisions will come by the end of 2019.

Source: Yardi Matrix, CoStar, Federal Reserve Bank of St. Louis, Mercury News, California Association of Realtors, CNBC, Business Insider, Kidder Mathews Research

Major Projects Under Construction

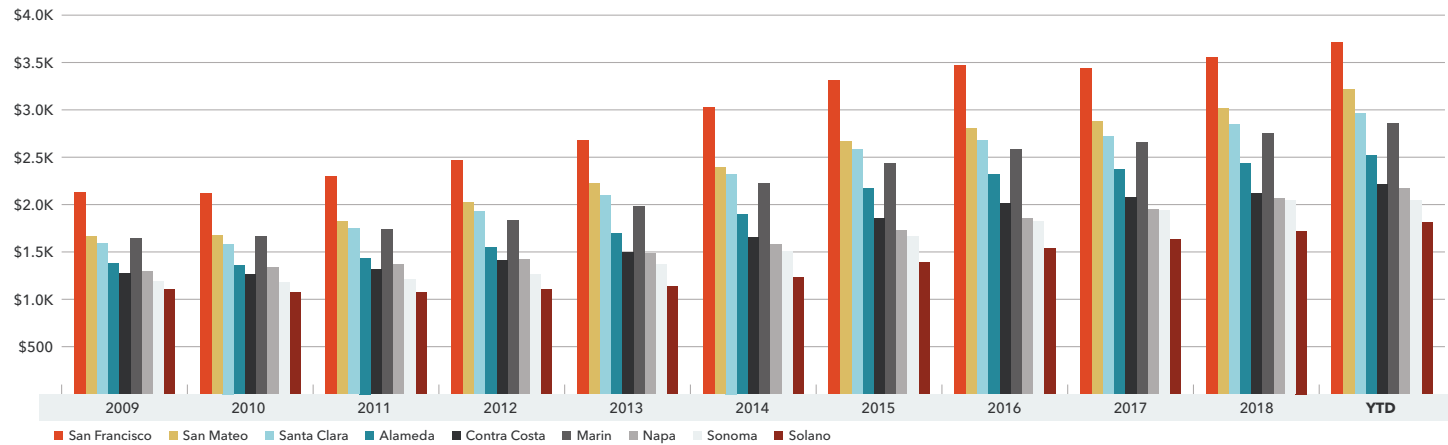
Project Name	Developer	Address	# of Units	County
Summer Hill Apartments	SummerHill Housing Group	1500-1646 Centre Point Dr	694	Santa Clara
Atlas	Carmel Partners	1314 Franklin St	633	Alameda
1500 Mission St	Related California	1500 Mission St	550	San Francisco
Station Park Green Phase II	Essex Property Trust	430 Station Park Circle	478	San Mateo
The Grand at Bayfront	Ledcor Properties	2200 John Muir Pky	231	Contra Costa
Residences at Five Creek	MW Investment Group	5870 Labath Ave	135	Sonoma

BAY AREA COUNTY STATISTICS

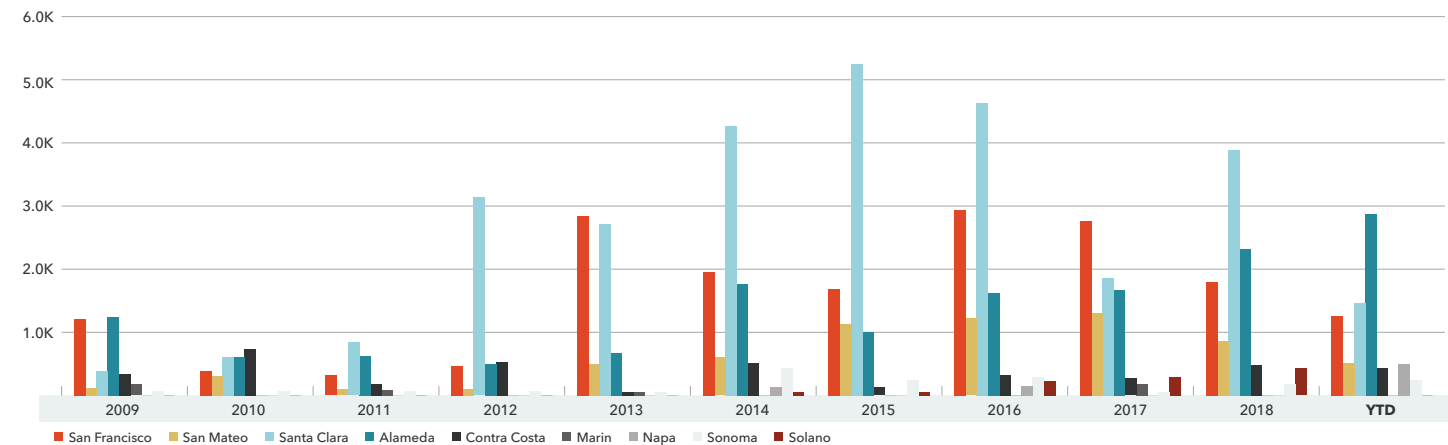
County	Total Units	Units Planned	Units Under Construction	3Q Deliveries	Avg Asking Rent*	Vacancy	Rent Growth (YOY)	Unemployment	Avg Cap Rate
San Francisco	41,703	4,343	4,232	108	\$3,711	3.9%	3.1%	2.4%	0.0%
San Mateo	32,086	1,052	1,956	0	\$3,215	4.0%	5.3%	2.3%	0.0%
Santa Clara	110,310	3,378	10,379	979	\$2,966	4.1%	2.7%	2.8%	3.9%
Alameda	66,394	6,321	9,565	1,044	\$2,518	4.3%	2.9%	3.3%	4.6%
Contra Costa	29,111	1,276	1,297	178	\$2,210	4.3%	3.7%	3.4%	0.0%
Marin	6,795	0	0	0	\$2,854	3.1%	3.0%	2.5%	0.0%
Napa	3,225	0	444	430	\$2,167	2.4%	4.3%	3.0%	0.0%
Sonoma	12,737	853	793	0	\$2,048	5.2%	-0.3%	3.0%	0.0%
Solano	12,726	0	0	0	\$1,806	4.3%	4.1%	4.2%	4.8%
Bay Area Total	315,087	17,223	28,666	2,739	\$2,820	4.1%	3.1%	3.0%	4.4%

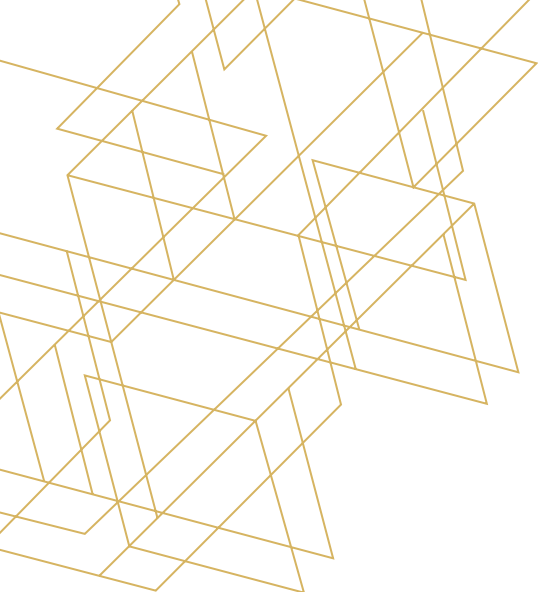
*All unit types

ASKING RATES BY COUNTY



DELIVERIES BY COUNTY





Notable Sale Transactions

BLU HARBOR Redwood City
\$325.6M | \$810,000/unit | \$804/s.f.

THE VILLAGE RESIDENCES Mountain View
\$259.5M | \$786,479/unit | \$917/s.f.

COURTYARDS AT 65TH STREET Emeryville
\$178M | \$537,764/unit | \$605/s.f.

MARBAYA Fremont
\$60M | \$352,941/unit | \$455/s.f.

Notable Deliveries

MYLO SANTA CLARA 3710 El Camino Real, Santa Clara
476 units | Essex Property Trust

AVALON PUBLIC MARKET 6301 Shellmound Street, Emeryville
288 units | AvalonBay

VAYA 1800 Lacassie Avenue, Walnut Creek
178 units | Blake Griggs Properties



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 800 real estate professionals and staff in 22 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

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COMMERCIAL BROKERAGE

20M	ANNUAL SALES SF	420+	NO. OF BROKERS
\$9B	ANNUAL TRANSACTION VOLUME	40M	ANNUAL LEASING SF

VALUATION ADVISORY

1,600+	APPRAISALS ANNUALLY	39/24	TOTAL NO. APPRAISERS/MAI'S
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PROPERTY MANAGEMENT

70M+	MANAGEMENT PORTFOLIO SF	\$9.4B	IN ASSETS UNDER MANAGEMENT
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