MARKET REPORT

MULTIFAMILY

Oakland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

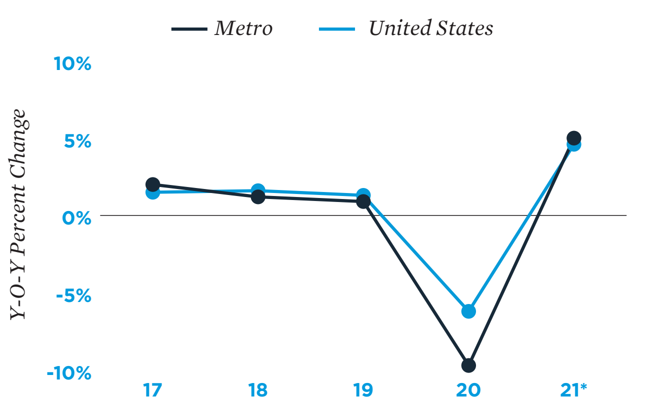
3Q/21

Suburban Demand Remains Healthy; Downtown Construction Presents Temporary Challenge

Health crisis demand proves resilient. Following the work-from-home orders at the onset of the pandemic, numerous residents in densely populated San Francisco sought larger accommodations in more sparsely populated locations. The need to learn remotely and have a home office made many of the smaller San Francisco apartments prohibitive, which drove demand into Contra Costa County. As a result, the area's vacancy rate declined from 4.0 percent in the first quarter of last year to 2.9 percent in mid-2021. The rise of the delta variant will likely keep many of those renters in place through the end of the year, and some permanently as more tech firms adopt hybrid or remote strategies. Facebook, Twitter and Salesforce are all exploring or offering these new models, which should benefit the East Bay.

Core locations grapple with construction. The Oakland-Berkeley submarket will lead the metro in new deliveries for the fifth year in a row in 2022, which is encouraging concession use among local operators. The vacancy rate in the area at midyear was 7.0 percent, compared with 3.6 percent for the rest of the East Bay. Demand for local apartments will intensify in the coming quarters, though a decline in COVID-19 cases and return to schools are the necessary catalysts to bring occupancy closer to the marketwide average. Furthermore, continued discounting in San Francisco will encourage managers to balance rents against both nearby new buildings and those across the Bay Bridge.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook

54,000 JOBS
will be created

EMPLOYMENT:

Payrolls expand by 5.0 percent this year, pulling employment to within 61,600 jobs of the peak in the fourth quarter of 2019. Approximately one-half of those spots are focused in the leisure and hospitality sector.

5,350 UNITS
will be completed

CONSTRUCTION:

The addition of new supply reaches a new cyclical high this year as stock is increased by 2.5 percent, mostly in the Oakland-Berkeley submarket. In 2020, builders completed 3,900 units, including 2,400 apartments in Oakland-Berkeley.

50 BASIS POINT
decrease in vacancy

VACANCY:

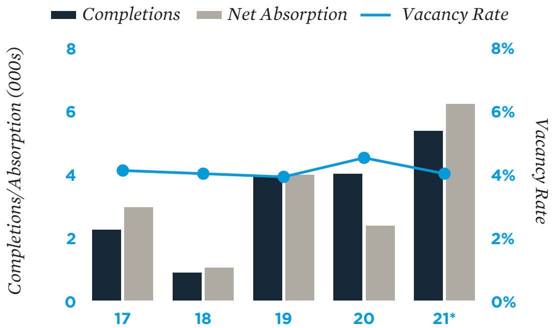
Availability tightens to 4.0 percent this year despite the spike in deliveries. During pandemic-challenged 2020, vacancy climbed 60 basis points. Suburban locations will record the lowest vacancy.

3.0% INCREASE
in effective rent

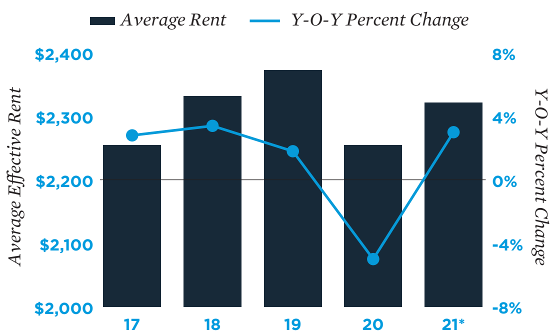
RENT:

Following a 5.0 percent decline last year, effective rent will stabilize in 2021, ticking up to an average of $2,322 per month. The rise will largely be attributed to an increase in available Class A units in the market.

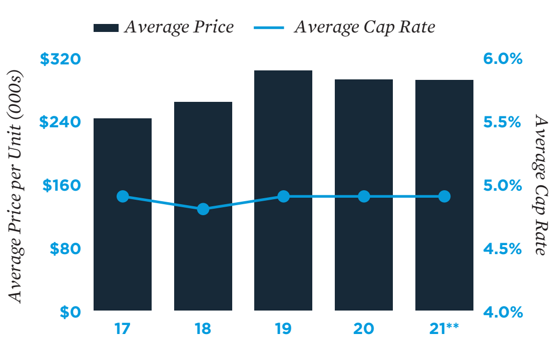
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

2Q21 — 12-Month Period

CONSTRUCTION

5,461 units completed

- Development remains robust in the East Bay as inventory expanded by 2.6 percent during the past year. Over the prior four quarters, apartment stock increased by 1.7 percent.
- The majority of new construction is in the Oakland-Berkeley submarket, where nearly 3,900 units are slated for delivery in 2021.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- After peaking in the first quarter, vacancy declined 60 basis points during the spring period to 4.2 percent. Prior to the pandemic, the average availability was 3.8 percent.
- Top-tier vacancy slipped below the 5 percent threshold for the first time since the first quarter of 2020.

RENT

2.4% decrease in the average effective rent Y-O-Y

- Although still lower year over year, the average effective rent resumed growth in the second quarter of this year, soaring 3.0 percent between April and June to $2,304 per month.
- All apartment classes recorded an increase in rent between the first and second quarters, led by a 3.3 percent rise among Class B units.

Investment Highlights

- Transaction velocity in the East Bay held up much better than across the Bay but recorded a slightly larger decline than the South Bay. Year over year, the number of apartment assets that changed hands dipped 15 percent, largely due to a decrease in the Class A and B sectors. Deal flow for Class C assets decreased 8 percent.
- The average price retreated a modest 2 percent to $290,800 per unit during the 12-month period ending in June. At least some of the decrease can be attributed to a larger percentage of Class C properties that traded relative to the prior period.
- Since 2017, the average cap rate has remained slightly below 5.0 percent. During the yearlong period ending in June, first-year returns were 4.9 percent, unchanged from the prior annual period. The gap between the average cap rate for Class B and Class C deals widened to 40 basis points year over year as the upside potential for mid-tier properties increased amid softer fundamentals. The average rent in the Class C segment remained resilient through the downturn.

IPA Multifamily

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