MARKET REPORT

Multifamily

Oakland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

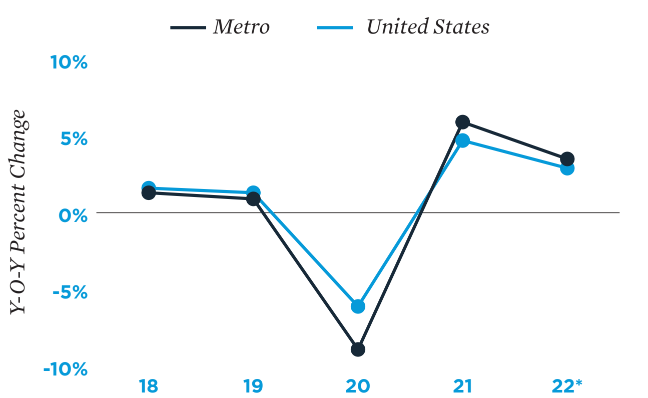
3Q/22

Berkeley and Oakland Proper Work Their Way Back From Pandemic Hurdles

Proximity to satellite offices supports East Bay living. Backed by in-migration from neighboring metros amid a shift to hybrid and remote work schedules, Oakland apartments recorded a swift increase in leasing activity last year. While some companies previously considered the market as a cost effective alternative to other Bay Area locations, the shift in employees' residences adds a new consideration. One submarket that saw significant renter demand growth was Fremont, long-time home to Tesla and recent host to new Facebook offices. Having dropped 200 basis points over the previous four quarters, vacancy in Fremont was among the lowest in the market at the onset of the second half. This has enabled effective rent growth to outpace that of all other submarkets at 17.6 percent year-over-year.

Oakland-Berkeley still recovering from record declines. Following an effective rent decline of 18 percent on average from April 2020 to March 2021, Oakland-Berkeley apartments have worked their way closer to pre-pandemic rates. Lowered CDC guideline restrictions, a return to in-person classes at University of California, Berkeley, and increased support for in-office attendance are all to credit. As of the second quarter of this year, effective rents are up 12 percent over the previous four quarters, while vacancy is down 190 basis points. Nevertheless, these metrics remain below pre-pandemic levels by margins of 4 percent and 100 basis points, respectively, signaling potential for further recovery.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

40,000 JOBS *will be created*

EMPLOYMENT:

Total employment in the Oakland metro will return to 2019 levels by the end of 2022. As unemployment nears 3.0 percent, year-over-year growth will cool to 3.5 percent by year-end. Still, this increase surpasses the national rate of job creation.

4,500 UNITS *will be completed*

CONSTRUCTION:

Developers respond to last year's demand by delivering a historic volume of completions during 2022, expanding inventory 3.9 percent. Over half of these new arrivals will be in the Oakland-Berkeley submarket.

100 BASIS POINT *increase in vacancy*

VACANCY:

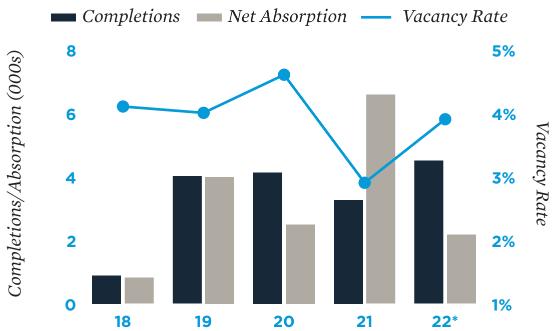
Accelerated supply growth in the market will contribute to rising availability this year. Following a 22-year low of 2.7 percent in the first quarter, vacancy in the metro will rise to 3.9 percent by the end of 2022.

8.6% INCREASE *in effective rent*

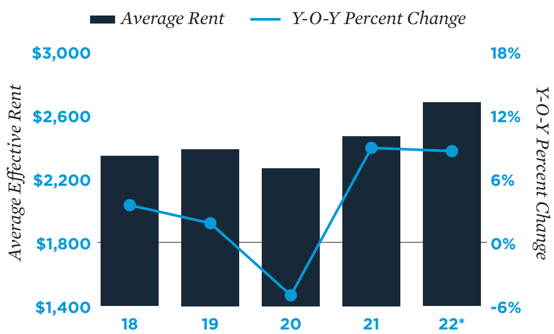
RENT:

Following double-digit year-over-year growth in June, the metro's average effective rate will increase to $2,680 per month by December. Given increased apartment supply and rising vacancy, rent growth will come closer to historical levels.

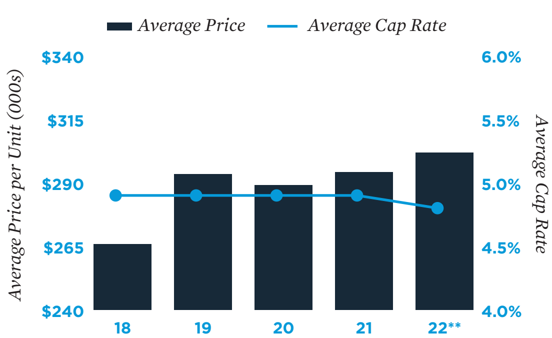
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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2Q 2022 - 12-Month Period

CONSTRUCTION

2,162 units completed

- Completions over the previous 12 months ending in June were down roughly 60 percent compared to the same period in 2021.
- Of the nine submarkets in the metro, Fremont and San Ramon-Dublin accounted for the highest year-over-year inventory growth rates averaging 2.0 percent, more than two times that of the market mean of 0.9 percent.

VACANCY

100 basis point decrease in vacancy Y-O-Y

- Lower-cost rents relative to other parts of the Bay Area have increased local demand. However, continued construction outpaced absorption during the second quarter, bringing vacancy to 3.3 percent in June.
- The Class A and B segments each recorded 100-basis-point declines, bringing segment vacancy rates to 3.9 percent and 3.3 percent, respectively.

RENT

12.3% increase in the average effective rent Y-O-Y

- Effective rents jumped substantially over the previous 12-month interval in June. Entering the second half, Oakland's average rent of $2,600 per month was within 9 percent of the San Francisco metro average.
- Six submarkets experienced double-digit rent growth over the past year, supported by positive in-migration and sub-3 percent vacancy.

Investment Highlights

- The number of trades over the previous 12 months ending in June outpaced the same period in 2021, but trailed pre-pandemic velocity. Still, transactions in the first half matched the average of the three years preceding. This indicates a bullish outlook, despite economic headwinds and rising rates.
- Transactions in the urban core accounted for over 70 percent of all trades in the Oakland market. Of these sales, the average purchase price exceeded $5 million, with nearly 10 percent surpassing the $10 million threshold. This continues to be an area of high focus for institutions active in the metro.
- Additional investor competition contributed to the average sale price per unit surpassing the $300,000 mark in the second quarter, jumping roughly 4 percent during the yearlong period ending in June. Meanwhile, the mean cap rate compressed 10 basis points to 4.8 percent during the same span.
- For the fourth consecutive annual period, out-of-state investors accounted for a larger share of dispositions than acquisitions. This may boost opportunities for institutions intent on growing their Bay Area portfolios. Locations with Class A and B vacancy rates below the market average, like San Ramon-Dublin and Walnut Creek-Lafayette, present compelling prospects.