MARKET REPORT

Multifamily

Oakland Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

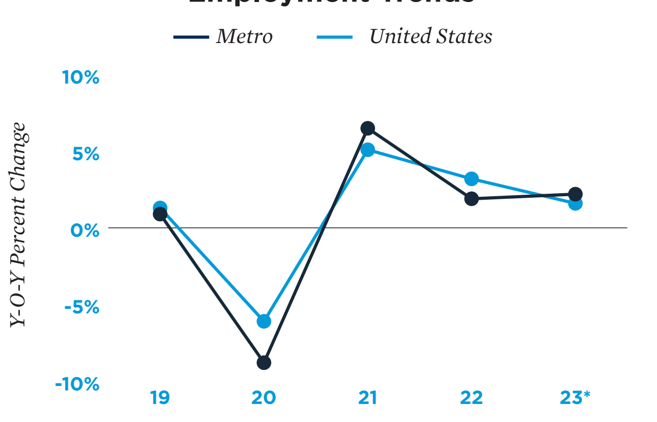
3Q/23

East Bay Multifamily Landscape Improving After Challenging 2022 as New Supply Pressure Tapers

Reset underway in central Oakland. While the metro has yet to recover from pandemic-induced net out-migration in 2020 and 2021, the area's population is climbing. This is particularly true of Berkeley, where more people were living in February of this year than in February 2020. These additional households may be contributing to the recent improvement in renter demand in the area, as well as the adjoining city of Oakland. After more apartments were relinquished than leased in the Oakland-Berkeley submarket last year, 600-plus rentals were absorbed in the first half of 2023. This positive shift bodes well for new supply coming to the area, as the submarket is set to welcome more than 1,700 completed units for the second consecutive year. Deliveries are nevertheless notably down from the 2019-2021 period when an average of 2,900 rentals opened here per year. Continued net in-migration will further support demand and operations for both existing and new residential options.

Renters gravitating to low-cost Fremont options. Despite recent choppiness in leasing trends, apartments in Fremont and the Hayward-San Leandro-Union City area continue to outperform the market. Less density, lower rents and bridge access to San Mateo County all underpin renter demand in the area. Operations have improved since the end of 2022 in Fremont, including with Class A rentals. A high-tier vacancy rate of 4.8 percent in June is among the lowest of Oakland's submarkets. Only Livermore-Pleasanton boasts a tighter Class A vacancy rate, at 4.2 percent.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

26,000 JOBS
will be created

EMPLOYMENT:

Hiring has continued along a largely positive trajectory over the first half of 2023, placing the market on track to record a 2.2 percent expansion to staff counts for the year. Local job growth is just shy of San Francisco's metric.

3,000 UNITS
will be completed

CONSTRUCTION:

In contrast to the national trend, completions in the Oakland metro for 2023 will fall to their lowest level in five years. Approximately half of all units that open this year will be in the Oakland-Berkeley submarket.

60 BASIS POINT
increase in vacancy

VACANCY:

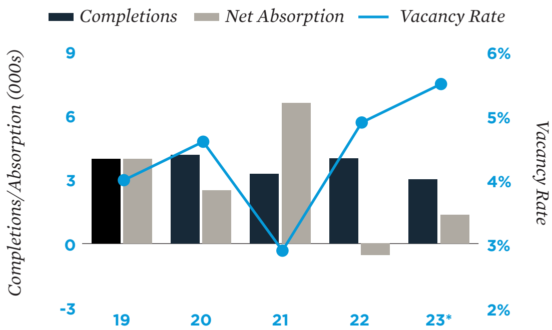
After bottoming out at 2.8 percent in March 2021, metrowide vacancy will end 2023 at 5.5 percent. The rate of ascension is slowing, however, as net absorption returns to positive territory and new supply pressure abates.

0.2% INCREASE
in effective rent

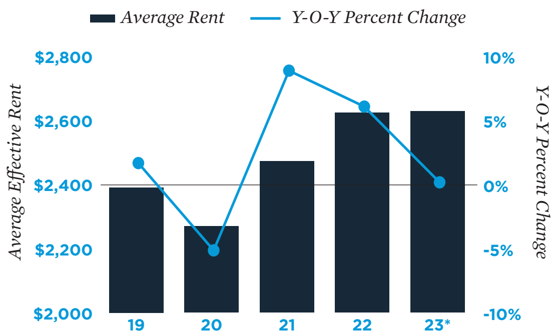
RENT:

After climbing a combined 15.6 percent since 2020, the market's average effective rent will hold essentially flat in 2023. The year-end monthly rate of $2,627 maintains a relative Bay Area cost advantage.

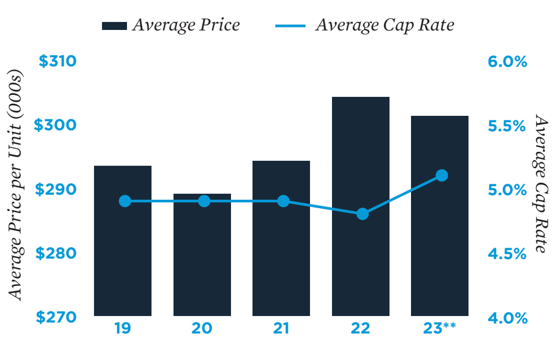
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

IPA Multifamily
John Sebree
Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

4,116 units completed

- The 1.8 percent expansion to inventory recorded over the past 12 months ended in June was front-weighed by the delivery of 2,900 units in the second half of 2022. About 1,200 rentals have opened so far in 2023.
- Arrivals in the first half of this year were heaviest in Oakland-Berkeley and Walnut Creek-Lafayette at 640 units and 275 doors, respectively.

VACANCY

180 basis point increase in vacancy Y-O-Y

- Apartment vacancy across the metro held steady at 5.2 percent from March to June, after climbing 180 basis points over the prior nine months.
- Vacancy continues to face pressure in the CBD, with a June reading of 7.0 percent, up 210 basis points from the long-term second quarter average. The suburban metric was up 80 basis points to 4.9 percent.

RENT

0.4% increase in the average effective rent Y-O-Y

- The average effective rent in the East Bay climbed a nominal amount over the past four quarters to $2,605 per month, below its Bay Area neighbors.
- Sub-5 percent vacancy in both Fremont and Hayward-San Leandro-Union City supported local year-over-year rent growth above 2 percent. In contrast, the mean rate fell 2.7 percent in Oakland-Berkeley over that span.

Investment Highlights

- Elevated capital costs and softer property performance in 2022 are weighing on sales, although more properties traded in the second quarter than in the opening three months of 2023. A dip in the market's average per-unit sale price to $301,200 for the year ended in June, paired with an uptick in the mean cap rate, may indicate more buyers and sellers are coming to agreement. Investors were most active in the first half of this year in Berkeley, Richmond-Martinez and East Oakland.
- Since the start of the year, transaction velocity has slowed more in Downtown Oakland, Alameda and Oakland Hills than in other areas. Recently revised rent controls in the city of Oakland may be prompting investors to seek opportunities in nearby Berkeley and Richmond. Allowed rent adjustments for regulated units in both areas exceed the allowance in Oakland, set at 2.5 percent for the August 2023 to July 2024 period.
- While still well below recent years, trading among local partnerships and institutions picked up in the second quarter. A portfolio sale involving a trio of mid-20th century, 100-plus-unit Class B/C complexes marked the largest transaction as most trades remained in the sub-$10 million pool.