



TRANSWESTERN

EAST BAY MULTIFAMILY MARKET

Q4 2022



WEAK DEMAND AND STRONG DELIVERIES SOFTEN RENT GROWTH IN Q4

After an exceptional start to the year, rental demand started to slow in the second quarter as inflation grew and interest rates rose, resulting in stalled household formation – the basis of all new housing demand. Net absorption finished Q4 in negative territory for the third consecutive quarter as renters favored staying put during uncertain economic times. Weak demand combined with a wave of new units being delivered to the market has pushed up the vacancy rate by 130 basis points (bps) over the quarter to 4.9%. Consequently, annual rent growth moderated to 6.1% from a blistering double-digit pace earlier in 2022, as effective rents reached a record \$3,221 per month. While demand was assuredly weak, renters’ diminished propensity to move due to recessionary fears suggests pent-up demand for apartments in 2023.

East Bay apartment sales cooled off to its weakest level since 2014, recording \$117 million in deal activity – below the five-year average of \$576 million. The rising cost of borrowing as well as weaker fundamentals have slowed deal activity. While the gap between buyer and seller expectations remains wide, buyers are still taking on deals with lower yields than they have seen over the last few years. The annual price per unit fell to \$402,425 from the previous quarter but was still up 2.3% year-over-year. Cap rates remained unchanged at 4.3% although it underestimates re-pricing on many

TRENDLINES

	Q4 2022	Q3 2022	Q4 2021	Q/Q CHANGE	Y/Y CHANGE
Nonfarm Jobs (Mil.)*	1.20	1.18	1.16	1.8%	3.3%
Unemployment Rate	3.2%	3.2%	4.3%	0 bps	-110 bps
Annual Completions (Units)	4,032	3,134	3,265	28.7%	23.5%
Annual Absorption (Units)	(417)	1,209	6,607	-134.5%	-106.3%
Annual Permits (Units)	7,046	7,222	8,941	-2.4%	-21.2%
Vacancy Rate	4.9%	4.2%	2.9%	75 bps	197 bps
Effective Rent (\$/Unit)	\$2,622	\$2,664	\$2,471	-1.6%	6.1%
Annual Investment Volume (\$ Bil.)	\$2.0	\$3.3	\$3.2	-39.7%	-39.1%
Annual Cap Rates	4.3%	4.3%	4.4%	0 bps	-10 bps

Source: Transwestern Research, CA EDD, RealPage, Real Capital Analytics, Q4 2022.
Note: Employment figures as of November 2022. Data not seasonally adjusted.



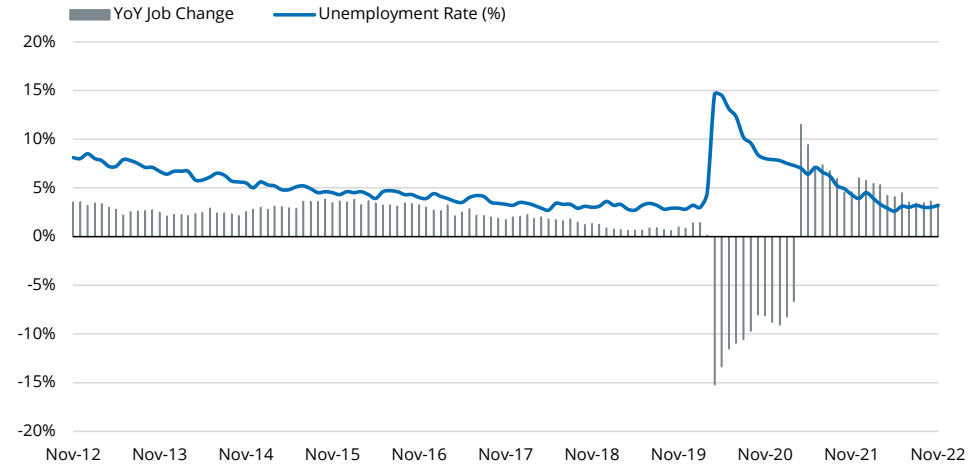
ECONOMY

Annual Job Growth Moderates to 3.3%

- The unemployment rate in the East Bay ticked up to 3.2% in November from a record low in May, but was down from 4.3% one year ago and 14.6% at the onset of the pandemic.
- The regional labor market has showed signs of strength despite cooling from a blistering pace earlier this year. Employers added 38,400 jobs annually, or 3.3% year over year, just above the national rate of 3.2%.
- Jobs gains were driven by a 9.9% increase in Leisure and Hospitality employment, the hardest hit sector during the pandemic. Professional and Business Services, one of the region’s largest sectors, rose by 1.0% from one year ago.

UNEMPLOYMENT RATE AND NONFARM EMPLOYMENT

East Bay | November 2022

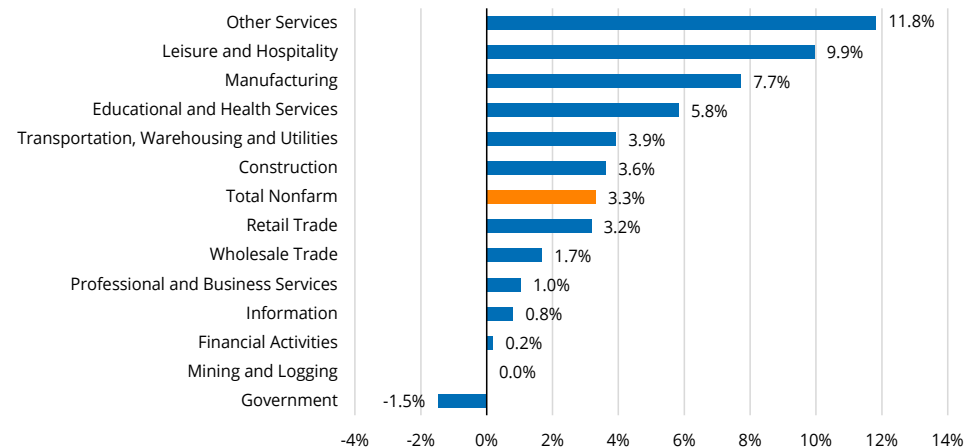


Source: Transwestern Research, CA EDD, November 2022.

Note: Data not seasonally adjusted.

EMPLOYMENT CHANGE BY INDUSTRY

East Bay | November 2022 Year-Over-Year



Source: Transwestern Research, CA EDD, November 2022.

Note: Data not seasonally adjusted.



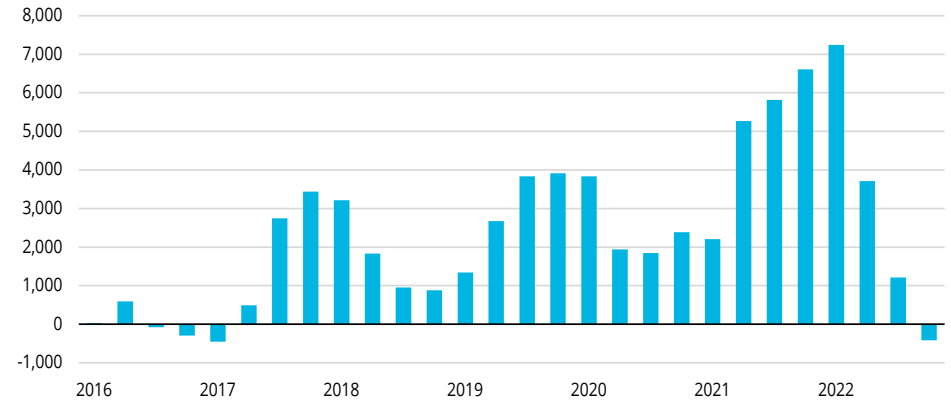
SUPPLY AND DEMAND FUNDAMENTALS

Economic Uncertainty Slows Rental Demand

- Net absorption was negative 477 units in Q4 after recording negative 99 units in the third quarter. Headwinds for the sector have included rising interest rates, high inflation and frozen household formation.
- The four-quarter total in Q4 was negative for the first time since 2017, posting a loss of 417 units and reflecting renters' diminished propensity to move due to recessionary fears, which suggests pent-up demand for apartments in 2023.
- Completions totaled 1,232 units in Q4, one of the most active quarters on record. For the year ending in Q4 2022 there were 4,032 units delivered to the market as a flurry of pandemic-era projects continued to come online.
- The number of multifamily units authorized by building permits for the year ending in Q4 2022 trended down for the fourth quarter in a row, reaching a total of 7,046 units - 21.2% lower than one year ago. Development in the East Bay has been gradually trending lower since peaking in 2018, excluding a pandemic-related surge which has receded in the backdrop of rising costs of labor, construction and capital.

NET ABSORPTION

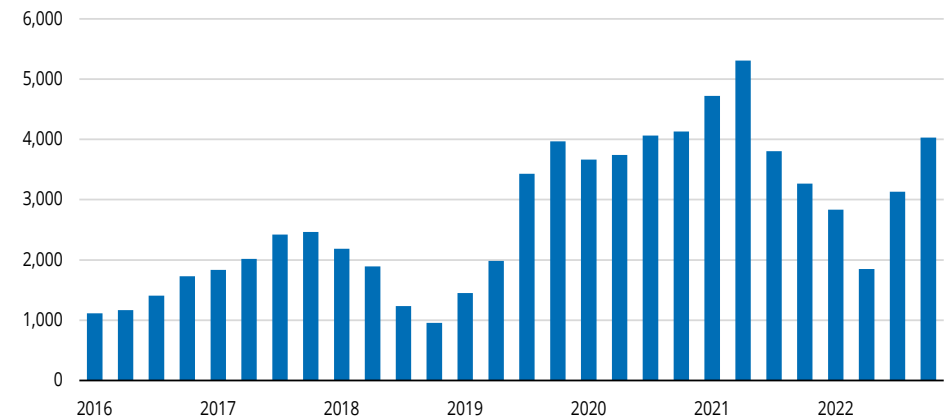
East Bay | # Units (4-Quarter Total)



Source: Transwestern Research, RealPage, Q4 2022.

COMPLETIONS

East Bay | # Units (4-Quarter Total)



Source: Transwestern Research, RealPage, Q4 2022.



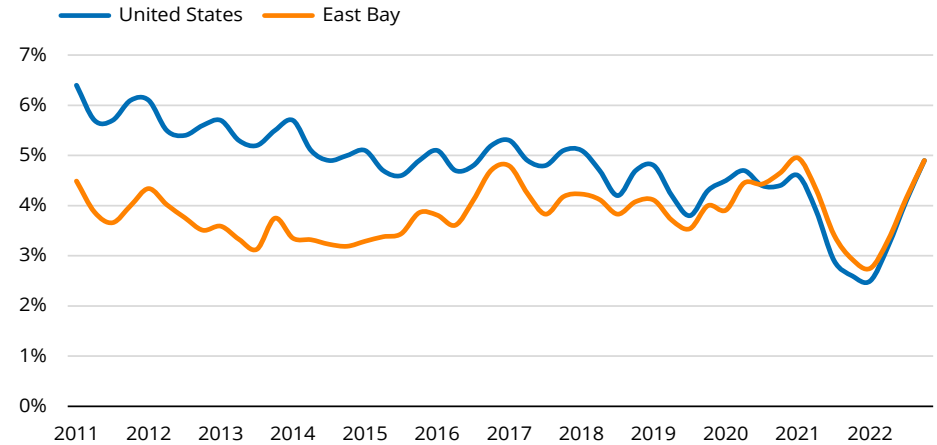
SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate Rises Third Quarter in a Row but Still Low at 4.9%

- A large amount of new supply coupled with diminished rental demand has continued to push up the vacancy rate from a record low in Q1. The vacancy was up 70 bps from Q3 but was still low at 4.9% in the fourth quarter.
- The vacancy rate widened across all class segments on a quarterly basis. Class A vacancy had the largest increase, by 130 bps to finish Q4 at 6.4%. Class B rose 60 bps to 4.6% and Class C was up 90 bps to a tighter 4.5%.
- Vacancy in the lower end of the market trended up at a slower pace as Class B and C renters, which typically pay a higher share of their income on rent, are more impacted by fast-rising costs, and have fewer available alternatives, are more likely to stay put and renew their leases.

VACANCY RATE

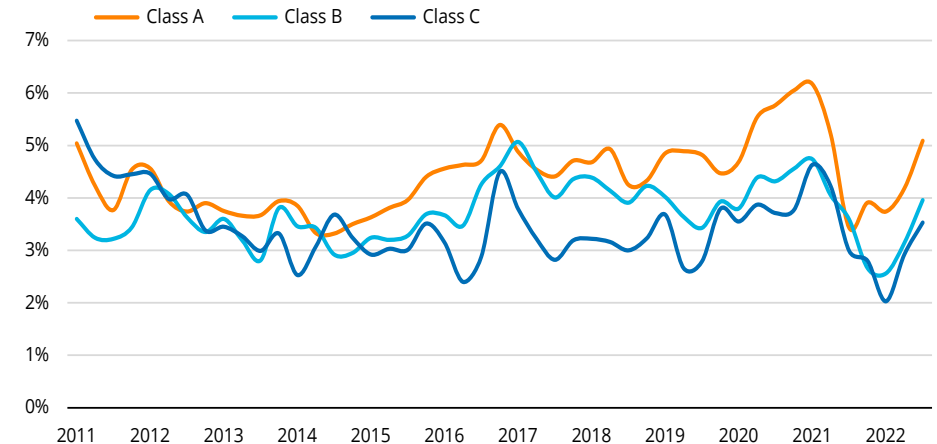
East Bay | Overall Vacancy Rate (%)



Source: Transwestern Research, RealPage, Q4 2022.

VACANCY RATE BY CLASS

East Bay | Overall Vacancy Rate (%)



Source: Transwestern Research, RealPage, Q4 2022.



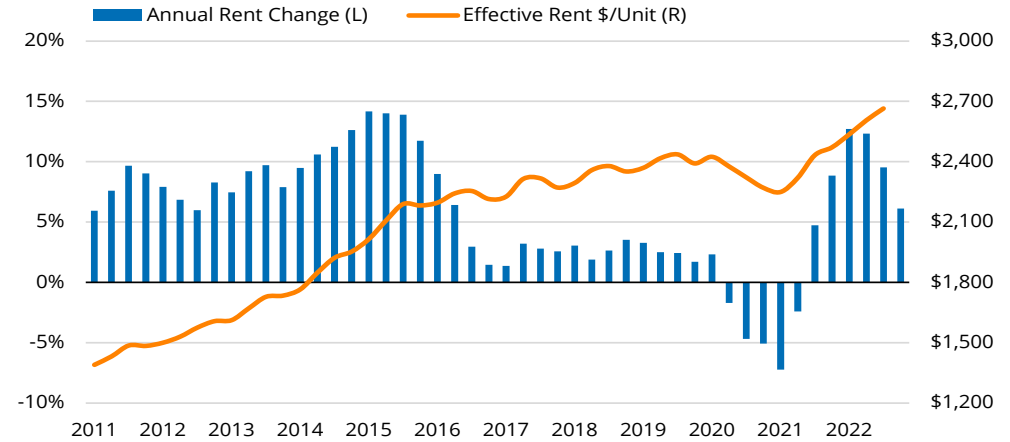
SUPPLY AND DEMAND FUNDAMENTALS

High Mortgage Rates Helping Multifamily Rent Growth

- Low vacancy rates have enabled landlords to keep raising rents. The average monthly effective rent moderated to 6.1% year-over-year and declined 1.6% on a quarterly basis to \$2,622 per unit.
- Year-over-year, Class A had the sharpest rise at 12.6%, followed by Class C (7.6%) and Class B (6.0%), reflecting still-strong but moderating demand across all class types.
- The average rate on a 30-year fixed rate mortgage was 6.4% at the end of the quarter. That is up from 3.2% at the start of the year but down from a peak of over 7% earlier in the quarter prior to lower inflation readings. The surge in mortgage rates, coupled with high home prices, is eroding affordability and discouraging select renters from buying a home, providing fuel for multifamily demand.

MULTIFAMILY RENTS

East Bay | Monthly Rent \$/Unit



Source: Transwestern Research, RealPage, Q4 2022.

30-YEAR FIXED RATE MORTGAGE



Source: Transwestern Research, St. Louis Federal Reserve Bank.



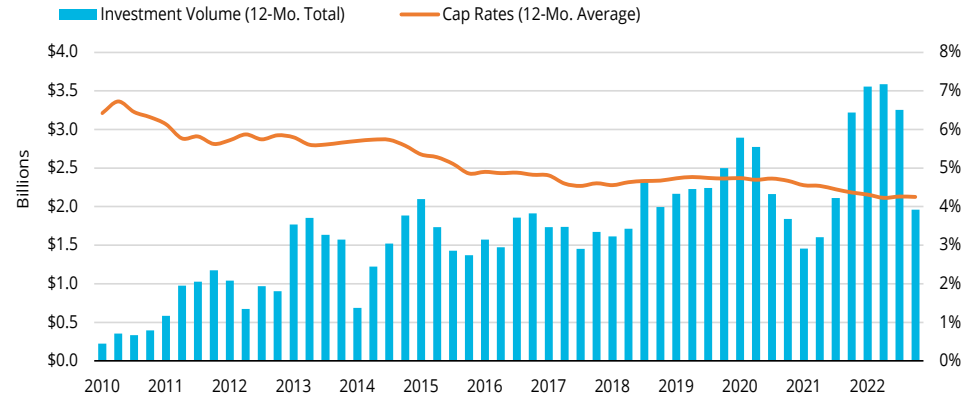
CAPITAL MARKETS

Deal Activity Slows as Cap Rates Hold Steady

- East Bay apartment sales cooled off to its weakest level since 2014, recording \$117 million in deal activity in Q4 – below the five-year average of \$576 million. The rising cost of borrowing as well as weaker fundamentals have slowed deal activity.
- For the year ending in Q4 2022 there was nearly \$2.0 billion in investment activity, a 39.1% drop year-over-year.
- Annual price growth has slowed to 2.3% with the average price per unit ending the quarter at \$402,425.
- Cap rates in Q4 remained unchanged from one year ago at 4.2%. For the year ending in Q4 2022, cap rates ended the quarter at 4.3%, a slight 10-bp decline from Q4 2021, however it underestimates re-pricing on many deals. While the gap between buyer and seller expectations remains wide, buyers are still taking on deals with lower yields than they have seen over the last few years.
- Private buyers in search of value-add deals were the most active in 2022, responsible for 55.4% of investment volume. Institutional buyers were far more active than in 2021, accounting for 38.0% of the annual total.

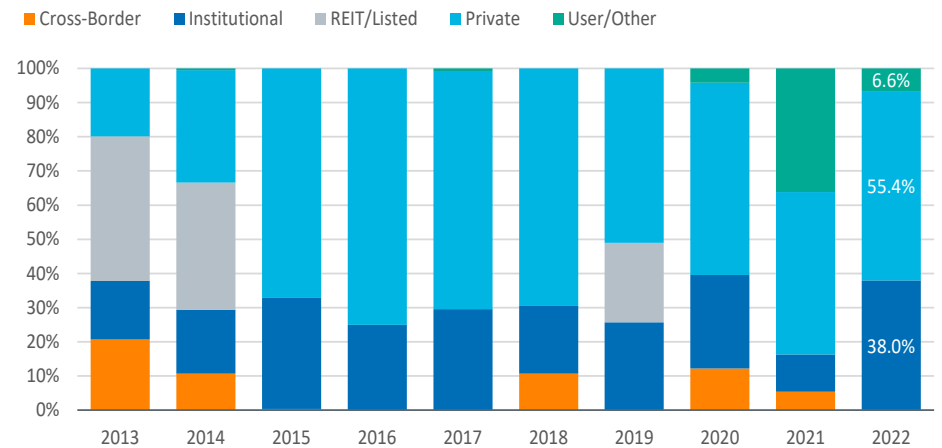
INVESTMENT VOLUME AND CAP RATES

East Bay | Q4 2022



Source: Transwestern Research, Real Capital Analytics, Q4 2022.

INVESTOR COMPOSITION



Source: Transwestern Research, Real Capital Analytics, Q4 2022.



TOP SALES BY PRICE

ADDRESS	CITY	PRICE (MIL. \$)	BUILDING SF	BUYER	SELLER
40908 INGLEWOOD COMMON	Fremont	\$27.2	50,052	SMD Ents MB Westgate Rehabilitation Facility LLC	Michael Ruder
1355 MT PISGAH RD	Walnut Creek	\$19.6	--	Estopinal Family Trust	PTLA
4250 CENTRAL AVE	Fremont	\$12.7	27,542	Dharam P Salwan; Vijay Salwan; Rajneesh Salwan	Marylucy Olverimerican
23972 2ND ST	Hayward	\$12.0	28,684	Michael Ruder	Cazador Investments LLC
2430 PROSPECT ST	Berkeley	\$11.8	19,188	2430 Prospect LP	Gai Family

Source: Transwestern Research, Real Capital Analytics, Q4 2022.

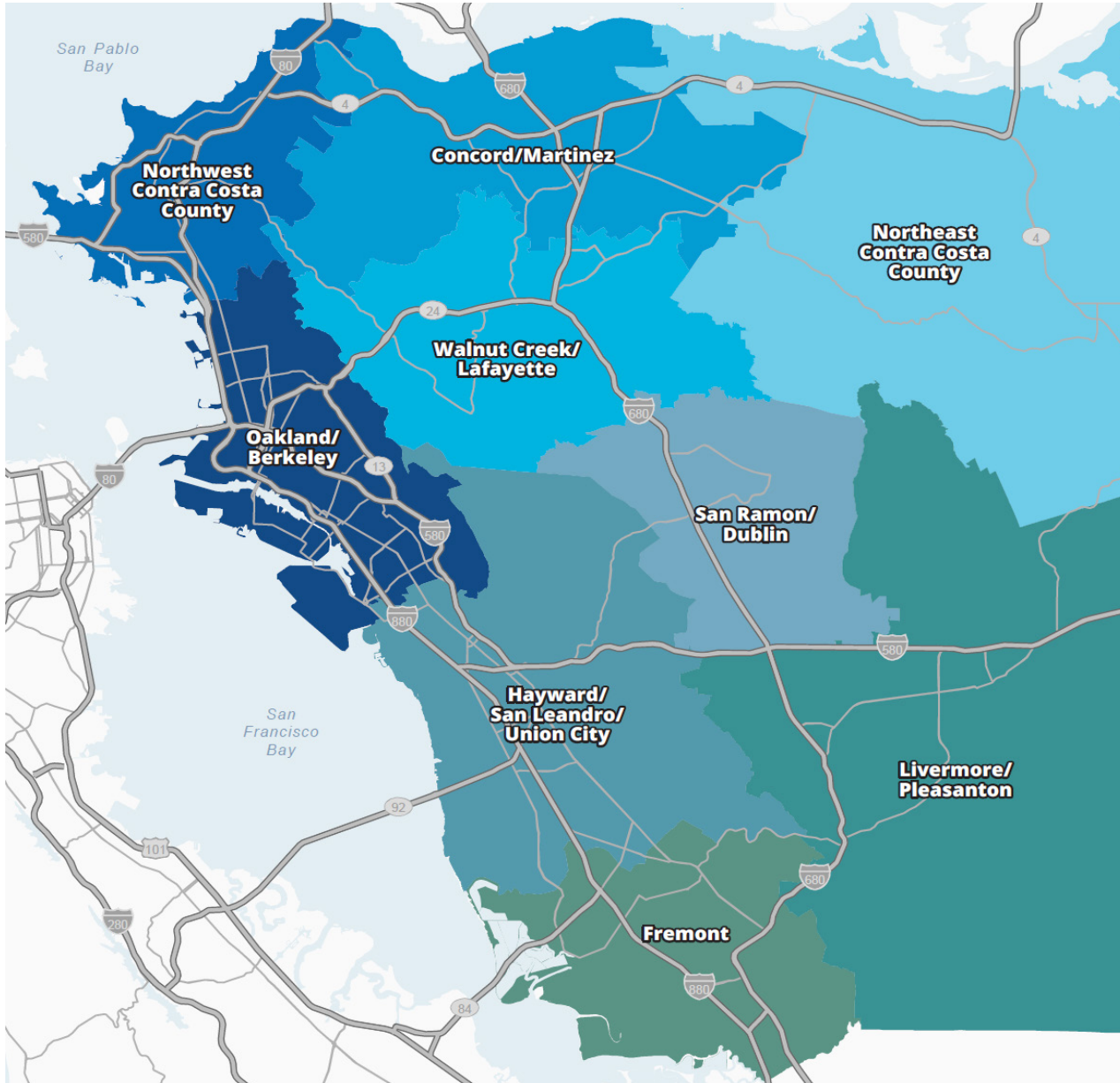
Q4 SUBMARKET FUNDAMENTALS

SUBMARKET	INVENTORY (UNITS)	EFFECTIVE RENT \$/UNIT	YOY RENT GROWTH	VACANCY RATE	ABSORPTION (4-QUARTER)	COMPLETIONS (4-QUARTER)	ANNUAL CAP RATE	ANNUAL \$/UNIT
CONCORD/MARTINEZ	15,357	\$2,343	4.4%	5.8%	-399	228	4.2%	337,165
FREMONT	19,910	\$2,696	10.9%	4.4%	52	411	3.7%	474,034
HAYWARD/SAN LEANDRO/UNION CITY	30,074	\$2,428	8.0%	3.6%	281	489	4.1%	334,356
LIVERMORE/PLEASANTON	10,108	\$2,837	6.0%	4.6%	-134	0	--	535,353
NORTHEAST CONTRA COSTA COUNTY	10,384	\$2,144	0.9%	3.9%	122	301	4.6%	296,311
NORTHWEST CONTRA COSTA COUNTY	14,941	\$2,431	2.7%	6.3%	-458	156	3.9%	554,457
OAKLAND/BERKELEY	93,913	\$2,907	4.1%	7.1%	-882	1,734	4.4%	440,277
SAN RAMON/DUBLIN	11,713	\$2,640	2.3%	3.2%	95	220	--	273,469
WALNUT CREEK/LAFAYETTE	13,412	\$2,608	4.9%	4.4%	318	493	3.2%	587,143
EAST BAY TOTAL	219,812	\$2,622	6.1%	4.9%	-415	4,032	3.2%	404,284

Source: Transwestern Research, RealPage, Q4 2022.



MULTIFAMILY SUBMARKET MAP



FOR MORE INFORMATION

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RESEARCH METHODOLOGY

The information in this report is a compilation of multifamily properties located in the Oakland-Berkeley-Hayward metropolitan division with at least five units and transactions of at least \$2 million.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with fresh ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. office, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com.