



TRANSWESTERN

EAST BAY MULTIFAMILY MARKET

Q1 2023



POSITIVE DEMAND HINTS AT RETURN TO NORMALCY; RENT GROWTH COOLS TO 2.9%

New apartment demand rebounded back into positive territory in Q1 following negative absorption in two of the last three quarters. While net absorption finished the first quarter at just 13 units, a tepid step back to pre-COVID normalcy, seasonality might be returning after being gone for a few years. The pandemic erased normal seasonal patterns, but the last six months played out closer to normal. Fourth quarter of last year brought weak leasing followed by a modest acceleration this quarter.

Soft demand combined with a wave of new units being delivered to the market has pushed up the vacancy rate by 30 basis points (bps) over the quarter to 5.2%. Consequently, annual rent growth moderated to 2.9% from a blistering double-digit pace earlier in 2022, as effective rents retreated from record levels to \$2,610 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 \$46 million in deal activity – below the five-year average of \$578 million. The higher cost of financing 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 \$380,582 from the previous quarter and was down 6.6% year-over-year. Cap rates remained unchanged at 4.3% although it underestimates re-pricing on many deals.

TRENDLINES

	Q1 2023	Q4 2022	Q1 2022	Q/Q CHANGE	Y/Y CHANGE
Nonfarm Jobs (Mil.)*	1.19	1.19	1.16	-0.5%	2.9%
Unemployment Rate	3.8%	3.3%	4.0%	50 bps	-20 bps
Annual Completions (Units)	4,111	3,987	2,840	3.1%	44.8%
Annual Absorption (Units)	(1,376)	(437)	7,253	-214.9%	-119.0%
Annual Permits (Units)	5,632	6,570	8,689	-14.3%	-35.2%
Vacancy Rate	5.2%	4.9%	2.8%	29	243 bps
Effective Rent (\$/Unit)	\$2,610	\$2,622	\$2,536	-0.5%	2.9%
Annual Investment Volume (\$ Bil.)	\$1.4	\$2.1	\$3.6	-33.5%	-60.4%
Annual Cap Rates	4.3%	4.2%	4.3%	10 bps	0 bps

Source: Transwestern, CA EDD, RealPage, Real Capital Analytics, Q1 2023.
Note: Employment figures as of March 2023. Data not seasonally adjusted.



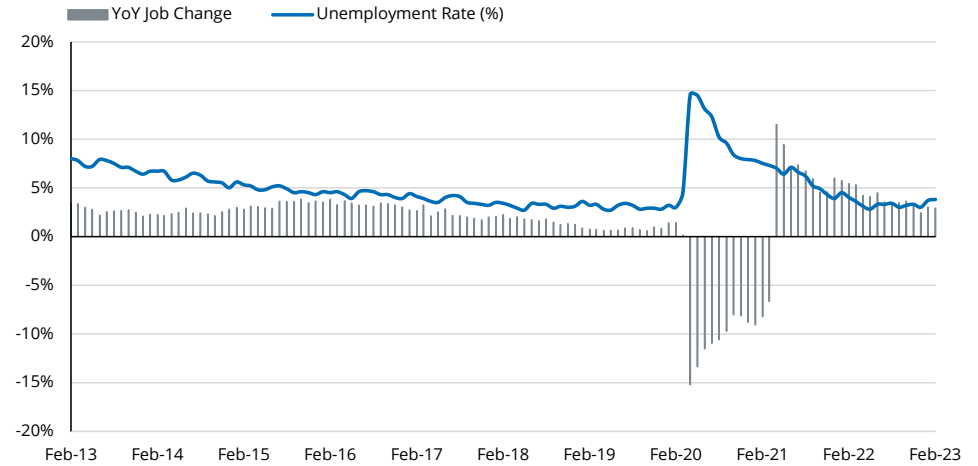
ECONOMY

Annual Job Growth Moderates to 2.9%

- The unemployment rate in the East Bay edged up to 3.8% in February from one of the lowest rates in history, but was down from 4.0% 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 over the last two years. Employers added 33,800 jobs annually, or 2.9% year over year, similar to a national rate of 2.9%.
- Jobs gains were driven by a 12.3% increase in Leisure and Hospitality employment, the hardest hit sector during the pandemic. Professional and Business Services, the region’s largest sector, ticked up 0.2% from one year ago.

UNEMPLOYMENT RATE AND NONFARM JOBS

Oakland-Hayward-Berkeley MD

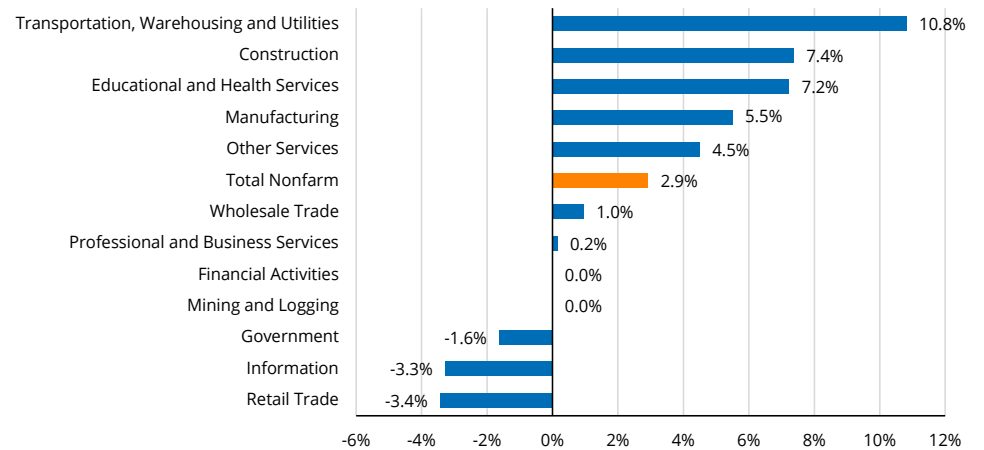


Source: Transwestern, CA EDD, March 2023.

Note: Data not seasonally adjusted.

YOY EMPLOYMENT CHANGE BY INDUSTRY

Oakland-Hayward-Berkeley MD



Source: Transwestern, CA EDD, March 2023.

Note: Data not seasonally adjusted.

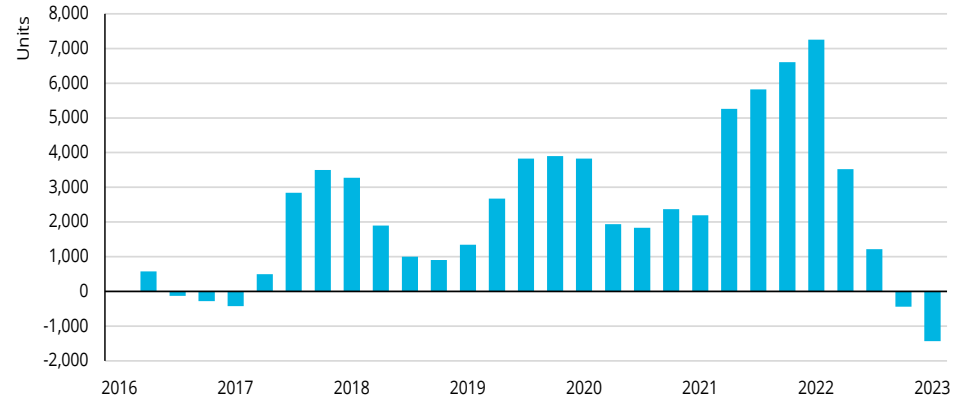


SUPPLY AND DEMAND FUNDAMENTALS

Economic Uncertainty Slows Rental Demand

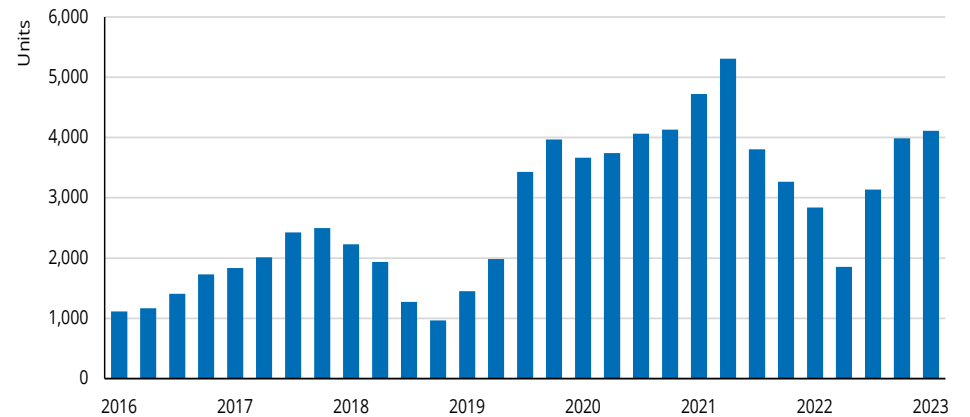
- Net absorption was a modest 13 units in Q1 following a quarter in which net absorption fell to negative 524 units. Headwinds for the sector have included rising interest rates, high inflation and weak household formation.
- The four-quarter total in Q1 was negative 1,376 units, reflecting renters' diminished propensity to move due to recessionary fears, which suggests pent-up demand for apartments later in 2023.
- Completions totaled 700 units in Q1, down from nearly 1,200 units in Q4 but still a very active quarter. For the year ending in Q1 2023 there were 4,111 units delivered to the market as a flurry of pandemic-era projects continued to come online, both in the East Bay as well as in most major markets across the nation.
- The number of multifamily units authorized by building permits for the year ending in Q1 2023 fell to 5,632, a 35.2% decline from one year ago as the capital markets environment slowed, exacerbated by the recent banking turmoil. Media sources have incorrectly suggested that the majority of commercial debt is held by banks but the true figure is closer to one-third, according to sources such as Trepp and Real Capital Analytics (banks are not the only providers of commercial debt). Investors and developers will come in off the sidelines as the dust settles, barring a major recession.

12-MONTH NET ABSORPTION



Source: Transwestern, RealPage, Q1 2023.

12-MONTH COMPLETIONS



Source: Transwestern, RealPage, Q1 2023.

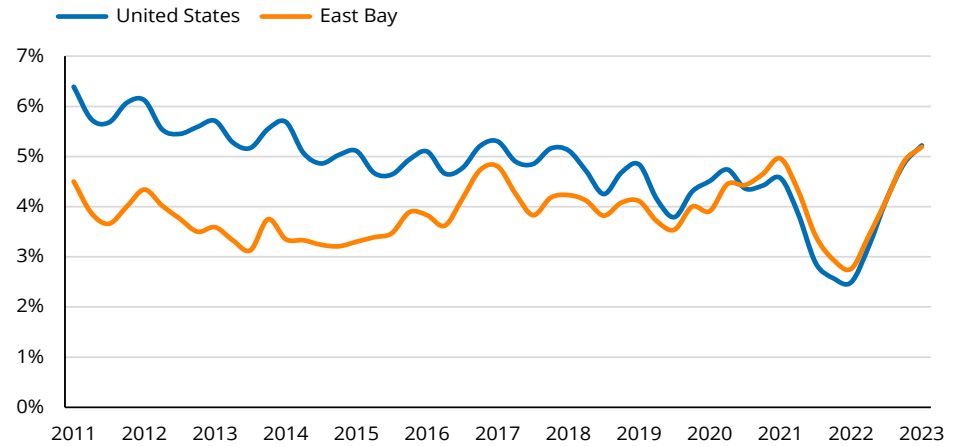


SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate Rises Fourth Quarter in a Row but Still Low at 5.2%

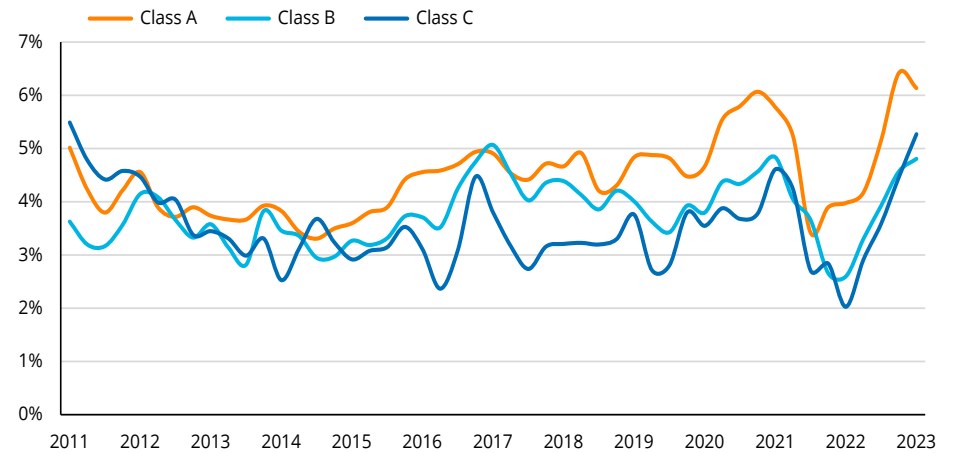
- A large amount of new supply coupled with diminished rental demand has continued to push the vacancy rate up after hitting bottom one year ago. The vacancy was up 30 bps from Q4 but was still at a healthy 5.2% in the first quarter.
- Class A was the only segment to reverse trend, tightening by 30 bps to finish Q1 at 6.1%. Class B rose 20 bps to 4.8% and Class C was up 80 bps to 5.3%.
- Vacancy in the lower end of the market trended up 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



Source: Transwestern, RealPage, Q1 2023.

VACANCY RATE BY CLASS



Source: Transwestern, RealPage, Q1 2023.

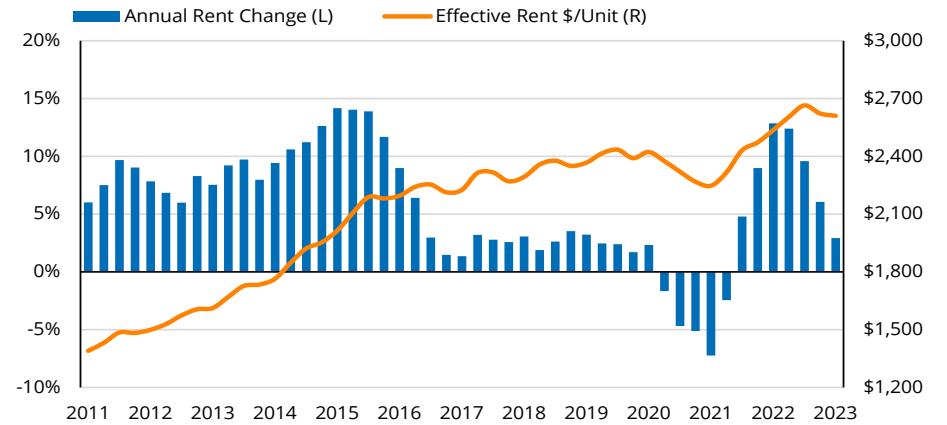


SUPPLY AND DEMAND FUNDAMENTALS

High Mortgage Rates Supporting Multifamily Rent Growth

- The average monthly effective rent declined for the second quarter in a row after reaching a record high in Q3 2022. Weak demand coupled with rising supply has caused rents to budge down 1.6% on a quarterly basis to \$2,610 per unit. Year-over-year rent growth has moderated to 2.9%, comparable to pre-pandemic levels.
- Class A had the highest effective rents at a monthly average of \$3,174 but the weakest annual rent growth (2.6%) as a deluge of new units continue to enter the market. Class B rent growth rose 3.2% (to \$2,573) and Class C had a stronger performance with 4.4% (reaching \$2,216).
- The average rate on a 30-year fixed rate mortgage was 6.3% at the end of the quarter. That is up from 3.2% at the start of last year but down from a peak of over 7% in the third quarter of last year. High mortgage rates are reducing the affordability of single-family homes and discouraging potential buyers from buying a home, and supporting multifamily demand.

MONTHLY EFFECTIVE RENT



Source: Transwestern, RealPage, Q1 2023.

30-YEAR FIXED RATE MORTGAGE



Source: Transwestern, FRED, March 2023.

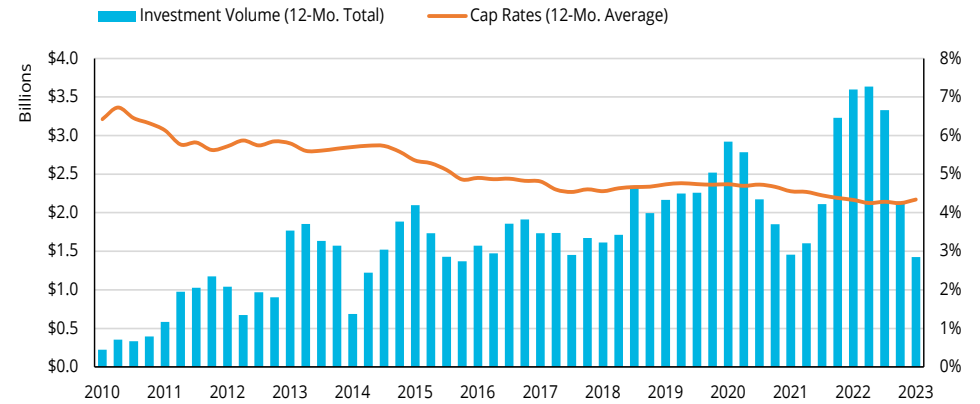


CAPITAL MARKETS

Deal Activity Slows as Cap Rates Hold Steady

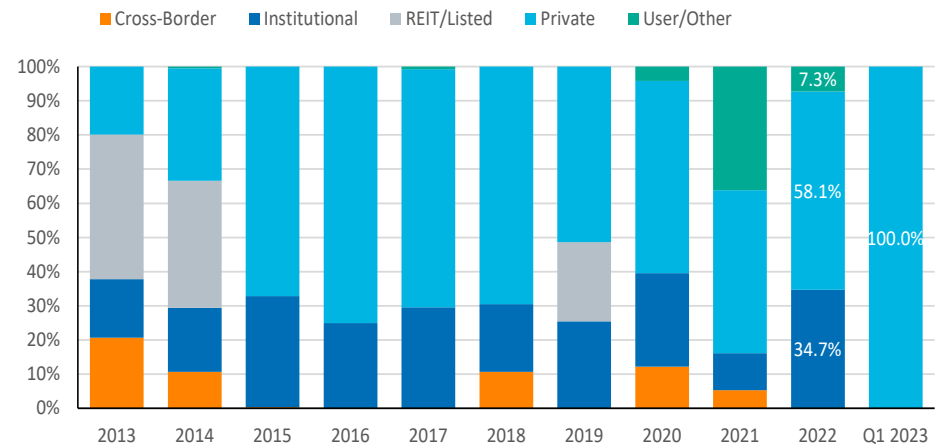
- East Bay apartment sales cooled off to its weakest level since 2014, recording \$46 million in deal activity in Q1 – below the five-year average of \$578 million. Higher financing costs as well as weaker fundamentals have slowed deal activity.
- For the year ending in Q1 2023 there was over \$1.4 billion in investment activity, a 60.4% decline from one year ago.
- Annual price growth has retreated by 6.6% with the average price per unit ending the quarter at \$380,582.
- Annual cap rates in Q1 remained unchanged from one year ago at 4.3%, 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. With capital markets on hold, few deals traded hands in Q1 2023 and the few that did were private buyers.

INVESTMENT VOLUME AND CAP RATES



Source: Transwestern, Real Capital Analytics, Q1 2023.

INVESTOR COMPOSITION



Source: Transwestern, Real Capital Analytics, Q1 2023.



TOP SALES BY PRICE

ADDRESS	CITY	PRICE (MIL. \$)	BUILDING SF	BUYER	SELLER
29371 DIXON ST	Hayward	\$11.6	35,932	Michael Ruder	Cliff Trust
241 LAFAYETTE CIR	Lafayette	\$8.0		Kasa Properties	Creekside Properties
2306 ELLSWORTH ST	Berkeley	\$7.0	4,508	Mandela LLC	Ellsworth Investment LLC
410 EVELYN AVE	Albany	\$4.5	13,560	Kasa Properties	Estopinal Family Ptshp
724 CENTRAL AVE	Alameda	\$4.1	12,239	RW Zukin Corp	Darell M Shaffer

Source: Transwestern, Real Capital Analytics, Q1 2023.

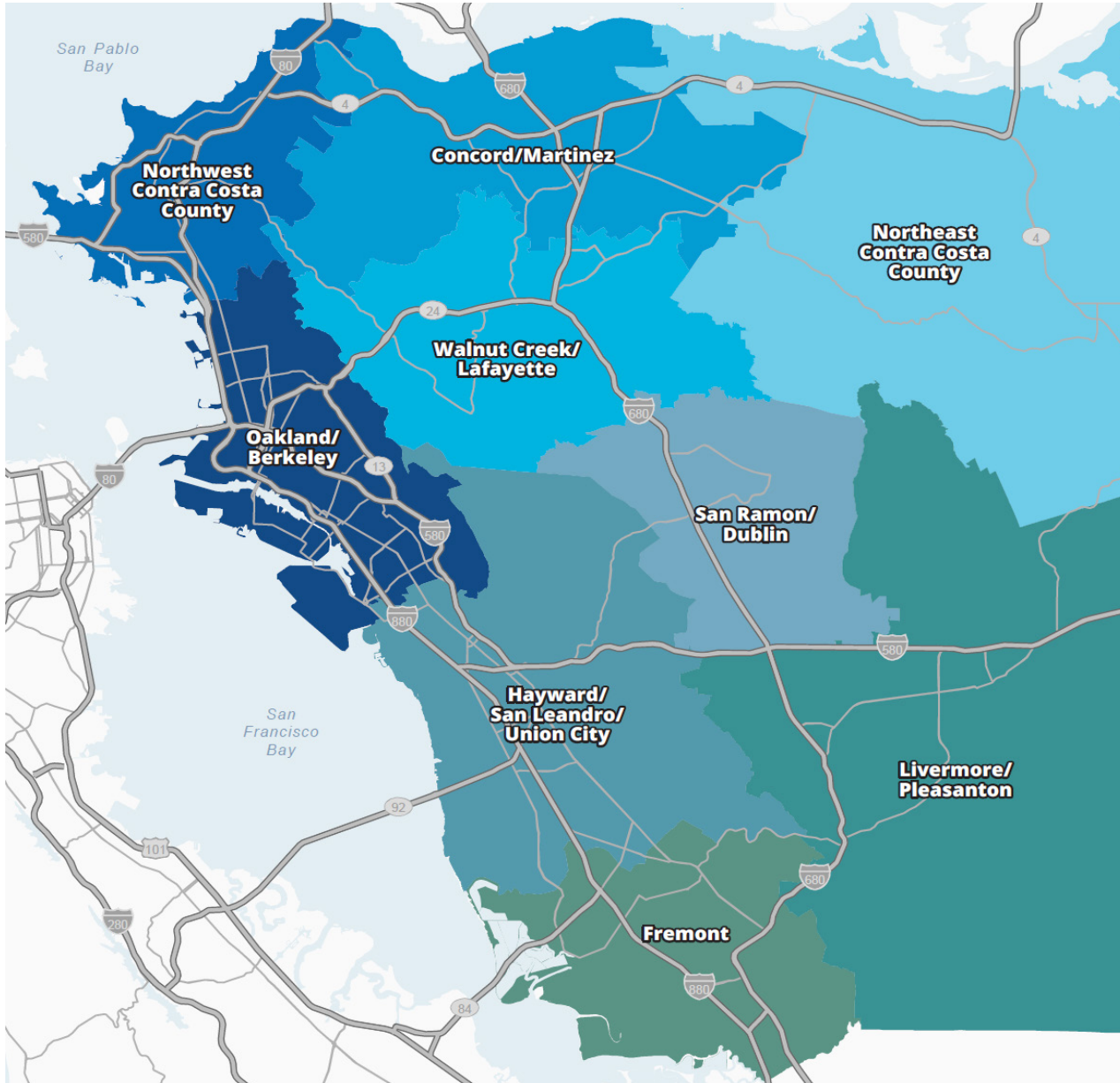
Q1 SUBMARKET FUNDAMENTALS

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	\$2,323	2.1%	6.4%	-442	228	4.2%	320,468
FREMONT	19,910	\$2,695	5.9%	4.1%	-23	275	3.7%	474,034
HAYWARD/SAN LEANDRO/UNION CITY	30,158	\$2,416	4.5%	4.1%	-6	573	4.6%	262,328
LIVERMORE/PLEASANTON	10,108	\$2,817	3.6%	5.2%	-207	0	--	535,353
NORTHEAST CONTRA COSTA COUNTY	10,483	\$2,153	2.2%	5.5%	6	400	4.6%	315,000
NORTHWEST CONTRA COSTA COUNTY	14,941	\$2,446	0.7%	6.9%	-573	156	3.9%	554,457
OAKLAND/BERKELEY	94,292	\$2,879	0.6%	7.2%	-1,282	1,632	4.4%	376,861
SAN RAMON/DUBLIN	11,713	\$2,638	-0.3%	3.2%	114	220	--	--
WALNUT CREEK/LAFAYETTE	13,546	\$2,580	1.0%	4.8%	362	627	3.4%	598,377
EAST BAY TOTAL	13,546	\$2,610	2.9%	5.2%	-1,377	4,111	4.3%	389,068

Source: Transwestern, RealPage, Q1 2023.



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.