



TRANSWESTERN

EAST BAY MULTIFAMILY MARKET

Q3 2023



DEMAND CONTINUES TO REBOUND BUT STRONG SUPPLY PRESSURES HURT RENT GROWTH

Third quarter apartment demand in the East Bay was positive for the second consecutive quarter as slowing inflation and a strong labor market strengthened consumer confidence and, in turn, household formation. Though demand is rebounding, rent growth has flattened from a wave of pandemic-era projects coming online.

The supply pipeline in Q3 continued to deliver a steady stream of new units to the market, putting downward pressure on rent growth, which fell 1.8% year over year. The vacancy rate ticked up 20 basis points (bps) from last quarter as improving demand offset some of the pressures of high supply. Though rent growth has declined, monthly effective rents still ended the quarter at \$2,618 per unit, not far behind the all-time highs recorded last year.

East Bay apartment sales recorded \$228 million in deal activity – below the five-year average of \$569 million as the higher cost of financing 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 declined to \$345,735 from Q2 (-10.5%) and was down 14.0% year over year. Cap rates expanded by 40 basis points (bps) over the quarter to 4.7% although it underestimates re-pricing on many deals.

TRENDLINES

| | Q3 2023 | Q2 2023 | Q3 2022 | Q/Q CHANGE | Y/Y CHANGE |
|------------------------------------|---------|---------|---------|------------|------------|
| Annual Completions (Units) | 3,470 | 4,213 | 3,099 | -17.6% | 12.0% |
| Annual Absorption (Units) | 301 | (249) | 1,158 | 220.9% | -74.0% |
| Vacancy Rate | 5.4% | 5.2% | 4.1% | 22 bps | 129 bps |
| Effective Rent (\$/Unit) | \$2,618 | \$2,617 | \$2,666 | 0.0% | -1.8% |
| Annual Investment Volume (\$ Bil.) | \$0.8 | \$1.1 | \$3.4 | -30.8% | -77.6% |
| Annual Cap Rates | 4.7% | 4.6% | 4.3% | 14 bps | 41 bps |

Source: Transwestern, RealPage, MSCI Real Assets, Q3 2023.

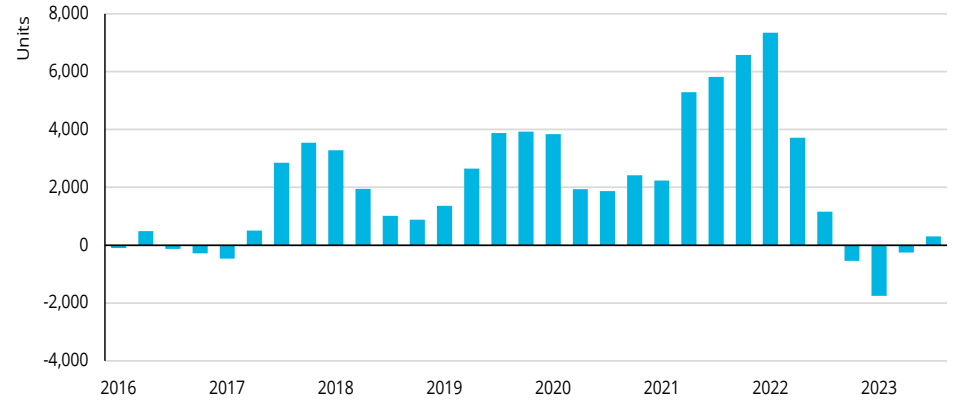


SUPPLY AND DEMAND FUNDAMENTALS

Rental Demand is Rebounding

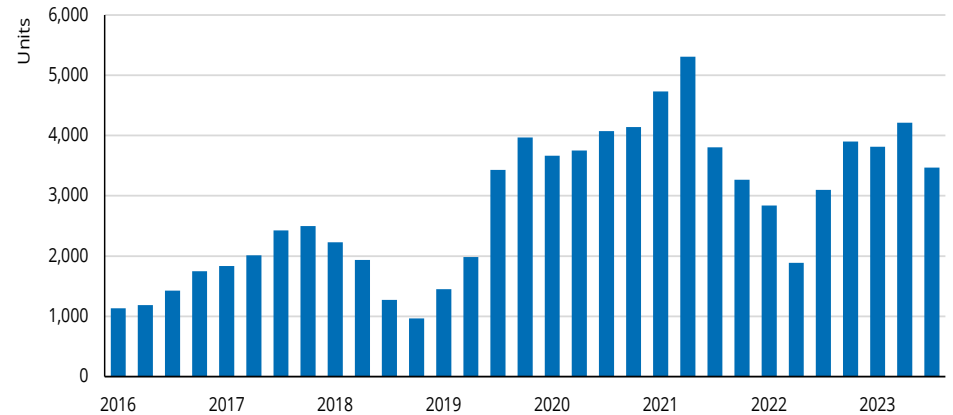
- Rental demand was positive for the second consecutive quarter with 418 units absorbed in Q3, showing signs of a rebounding market. High inflation, weak household formation and recessionary fears kept renters in place but some of that pent-up demand is now being unleashed. For the four quarters ending in Q3 2023, absorption finally turned positive with 301 units.
- Completions totaled 944 units in Q3, up from 901 units in Q2. For the year ending in Q3 2023 there were 3,470 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.

12-MONTH NET ABSORPTION



Source: Transwestern, RealPage, Q3 2023.

12-MONTH COMPLETIONS



Source: Transwestern, RealPage, Q3 2023.

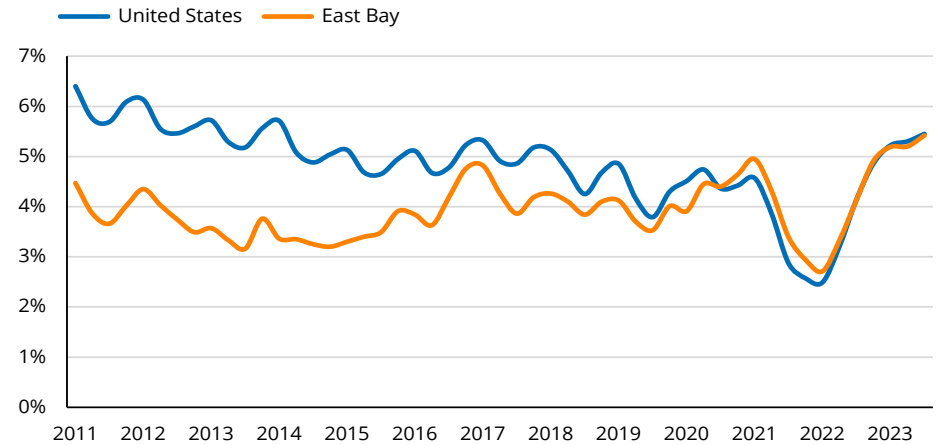


SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate Edges Up to 5.4%

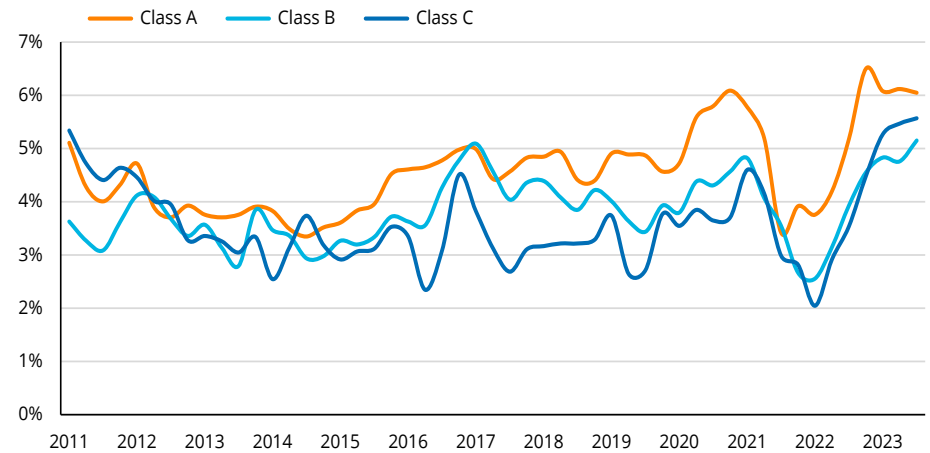
- A steady stream of new supply coming online pushed the vacancy rate up by 20 bps to end the third quarter at 5.4%, despite rebounding demand.
- Class A vacancy remained unchanged from last quarter at 6.1% while Class B properties had a 40-bp rise in vacancy to 5.2%. Class C rose 10 bps to 5.6%.

VACANCY RATE



Source: Transwestern, RealPage, Q3 2023.

VACANCY RATE BY CLASS



Source: Transwestern, RealPage, Q3 2023.

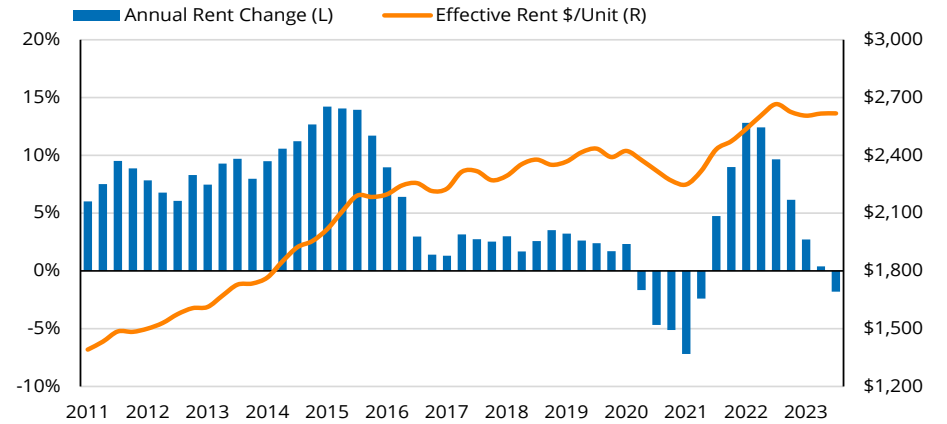


SUPPLY AND DEMAND FUNDAMENTALS

Annual Rent Growth Slows to -1.8%

- The average monthly effective rent rose for the second quarter in a row, reaching \$2,618 per unit in Q3 2023. Though demand was positive this quarter, supply levels came in twice as high, causing rent growth to remain virtually unchanged from last quarter and down 1.8% from one year ago.
- Class A had the highest effective rents at a monthly average of \$3,159 and annual rent growth of -0.8%. Class B rents fell 1.6% from one year ago (to \$2,583) and Class C rose 0.3% to \$2,213.
- The average rate on a 30-year fixed rate mortgage was 7.3% at the end of the quarter, the highest rate since 2000. High mortgage rates are reducing the affordability of single-family homes and discouraging potential buyers from buying a home, thereby supporting multifamily demand.

MONTHLY EFFECTIVE RENT



Source: Transwestern, RealPage, Q3 2023.

30-YEAR FIXED RATE MORTGAGE



Source: Transwestern, FRED, September 2023.

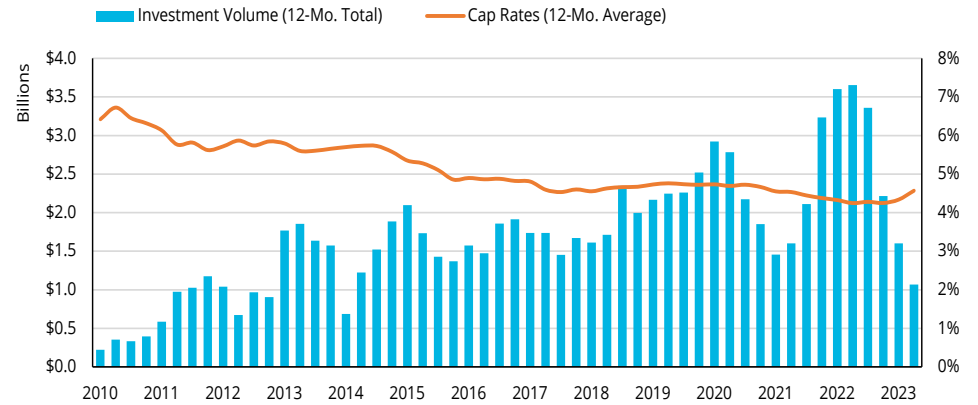


CAPITAL MARKETS

Bid-Ask Gap Narrows but Deal Activity Still Weak

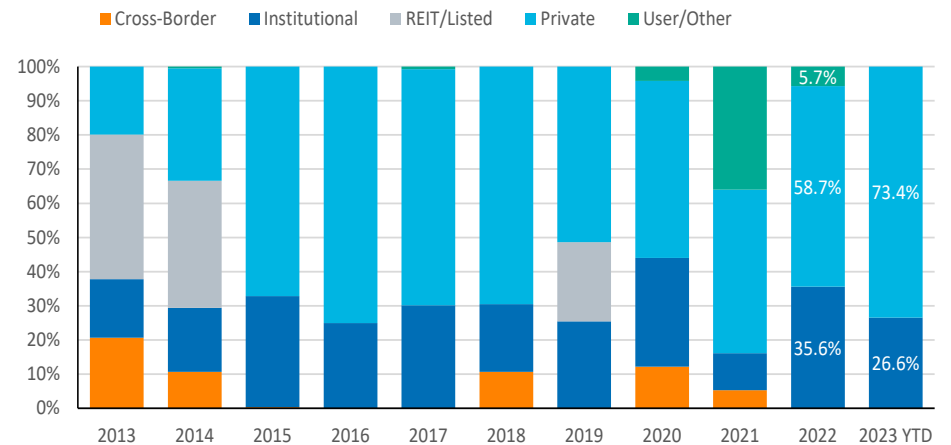
- East Bay apartment sales recorded \$228 million in deal activity -- below the five-year average of \$569 million as the higher cost of financing slowed deal activity. While the gap between buyer and seller expectations remains wide, buyers are still taking on deals with lower yields than they have seen over the last few years.
- For the year ending in Q3 2023 there was almost \$759 million in investment activity, a 77.6% decline from one year ago.
- Average price per unit ended the quarter at \$345,735, a 10.5% decrease from Q2. Over the year, price growth has retreated by 14.0%.
- Annual cap rates in Q3 ticked up by 10 bps to 4.7% but remain near historic lows and underestimates re-pricing on many deals.
- Private buyers in search of value-add deals were the most active through Q3 of 2023, responsible for 73.4% of investment volume. Institutional capital accounted for the remainder of activity with 26.6%.

INVESTMENT VOLUME AND CAP RATES



Source: Transwestern, MSCI Real Assets, Q3 2023.

INVESTOR COMPOSITION



Source: Transwestern, MSCI Real Assets, Q3 2023.



TOP SALES BY PRICE

| ADDRESS | CITY | PRICE (MIL. \$) | BUILDING SF | BUYER | SELLER |
|-------------------------|------------|-----------------|-------------|--------------------------|--|
| 3888 ARTIST WALK COMMON | Fremont | \$89.8 | 187,623 | MG Properties | Clarion Partners |
| 1770 ADELAIDE ST | Concord | \$22.2 | 43,491 | Eden Housing | Friedkin Realty Group |
| 1491 DETROIT AVE | Concord | \$15.1 | 29,181 | Eden Housing | Friedkin Realty Group |
| 434 CENTRAL AVE | Alameda | \$15.3 | 34,480 | Novin Development Corp | Lincoln Avenue Capital |
| 3900 HORNER ST | Union City | \$15.0 | 44,800 | Interstate Equities Corp | Bruce Loesch; Gary Loesch, Lisa Torres |

Source: Transwestern, MSCI Real Assets, Q3 2023.

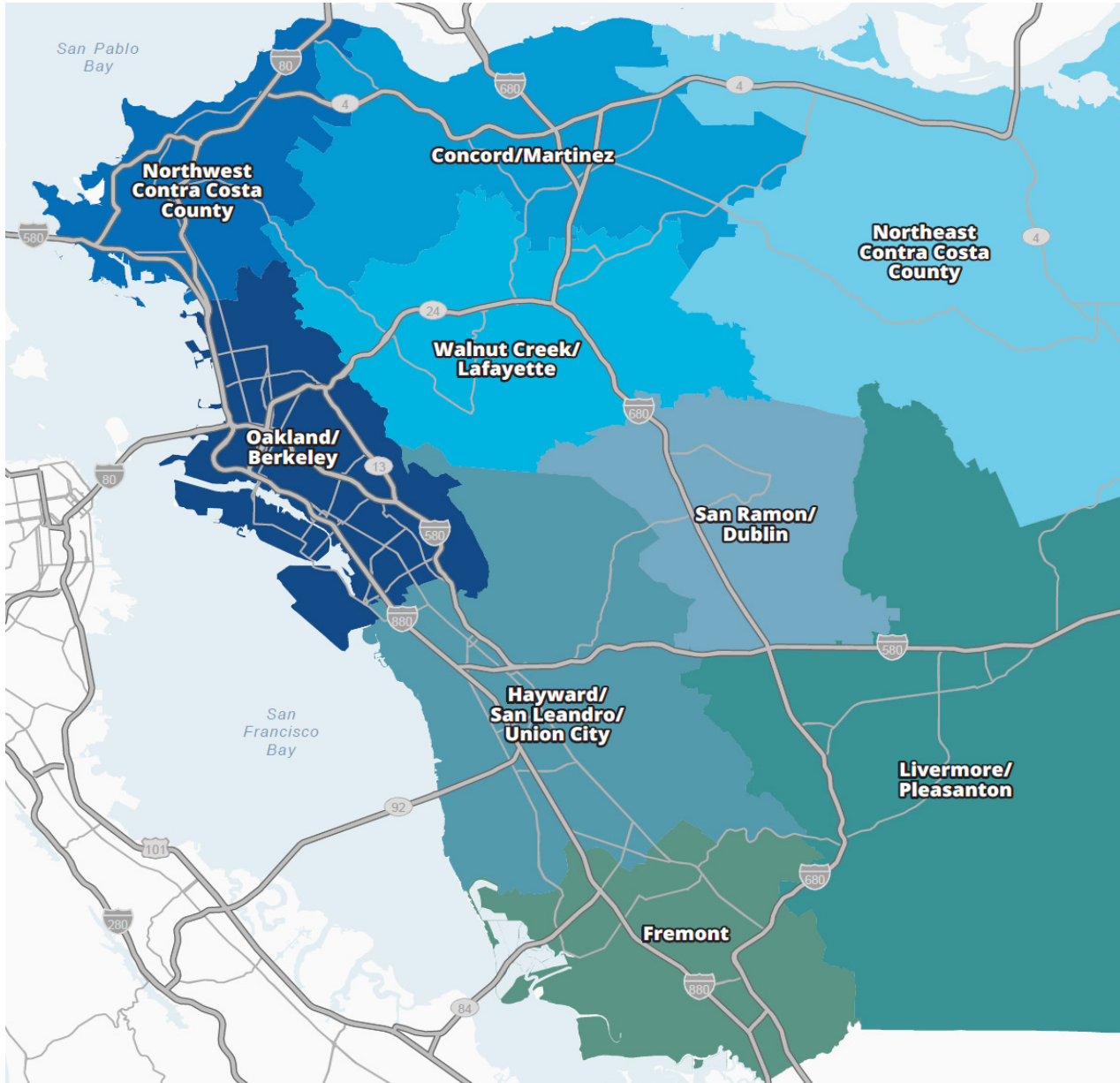
Q3 SUBMARKET FUNDAMENTALS

| 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 | \$2,314 | -2.9% | 5.6% | -69 | 99 | 4.4% | 379,857 |
| FREMONT | 19,974 | \$2,732 | -0.7% | 4.4% | -224 | 0 | 4.1% | 442,648 |
| HAYWARD/SAN LEANDRO/UNION CITY | 30,156 | \$2,428 | -0.6% | 5.1% | -394 | 207 | 5.0% | 251,314 |
| LIVERMORE/PLEASANTON | 10,285 | \$2,823 | -2.1% | 5.5% | 28 | 177 | 5.1% | -- |
| NORTHEAST CONTRA COSTA COUNTY | 10,423 | \$2,191 | -0.4% | 6.4% | 56 | 315 | -- | -- |
| NORTHWEST CONTRA COSTA COUNTY | 14,941 | \$2,477 | -1.0% | 6.2% | -213 | 156 | 4.4% | 203,830 |
| OAKLAND/BERKELEY | 95,396 | \$2,819 | -4.1% | 7.3% | 912 | 1,784 | 4.6% | 376,234 |
| SAN RAMON/DUBLIN | 11,713 | \$2,709 | -1.2% | 3.6% | 65 | 165 | -- | -- |
| WALNUT CREEK/LAFAYETTE | 13,775 | \$2,569 | -3.0% | 4.6% | 382 | 567 | 3.2% | 451,531 |
| EAST BAY TOTAL | 13,775 | \$2,618 | -1.8% | 5.4% | 300 | 3,470 | 4.4% | 350,399 |

Source: Transwestern, RealPage, Q3 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

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