



TRANSWESTERN

# EAST BAY MULTIFAMILY MARKET

Q4 2023



## DEMAND CONTINUES TO REBOUND BUT HIGH SUPPLY DAMPENS RENT GROWTH

Rental demand was positive for the fourth consecutive quarter with 750 units absorbed in Q4, 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. With inflation running lower and the labor market remaining historically tight, consumer confidence and household formation has strengthened, supporting rental demand.

The supply pipeline in Q4 continued to deliver a steady stream of new units to the market, putting downward pressure on rent growth, which ticked up only 0.4% year over year to \$1,963 per unit but effective rents remained near historically high levels. The vacancy rate, however, was unchanged from last quarter at 6.6% as improving demand offset some of the pressures of high supply.

East Bay apartment sales recorded \$614 million in deal activity over the last four quarters – the lowest since 2011 as the higher cost of financing slowed investment levels. 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 by 22.9% on a quarterly basis to \$251,716 and was down 25.5% year over year. Cap rates expanded by 70 basis points (bps) over the quarter to 6.0% although it underestimates re-pricing on many deals.

### TRENDLINES

	Q4 2023	Q3 2023	Q4 2022	Q/Q CHANGE	Y/Y CHANGE
Cap Rates	6.0%	5.3%	5.2%	70 bps	80 bps
Annual Price per Unit	\$251,716	\$326,380	\$338,048	-22.9%	-25.5%
Effective Rent (\$/Unit)	\$1,963	\$1,966	\$1,955	-0.2%	0.4%
Vacancy Rate	6.6%	6.6%	6.7%	0 bps	-10 bps
12-Mo. Investment Volume (\$ Mil.)	\$614.2	\$735.9	\$2,411.8	-16.5%	-74.5%
Annual Absorption (Units)	750	907	(106)	-17.3%	-807.5%
Annual Completions (Units)	677	931	1,174	-27.3%	-42.3%
Annual Permits (Units)	1,937	1,710	1,567	13.3%	23.6%
Unemployment Rate	4.5%	4.5%	3.3%	0 bps	120 bps
Nonfarm Jobs (Mil.)*	1.22	1.20	1.20	1.0%	1.4%

Source: Transwestern, EDD, Costar, MSCI Real Assets, Q4 2023.

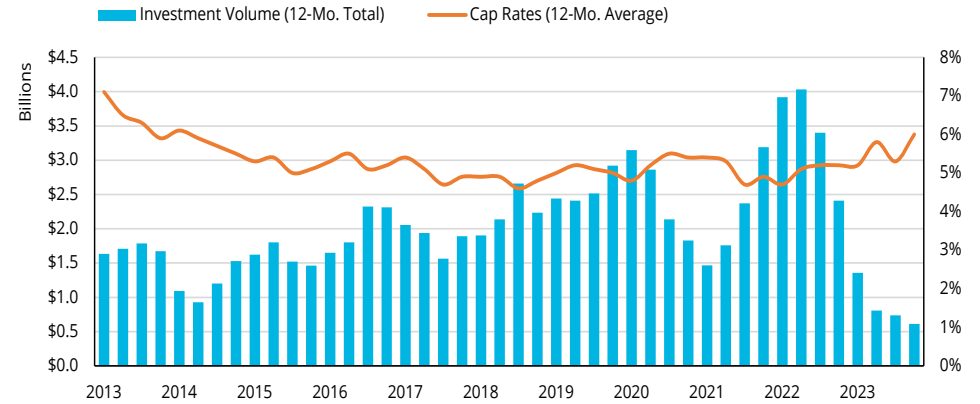


### CAPITAL MARKETS

#### Bid-Ask Gap Narrows but Deal Activity Still Weak

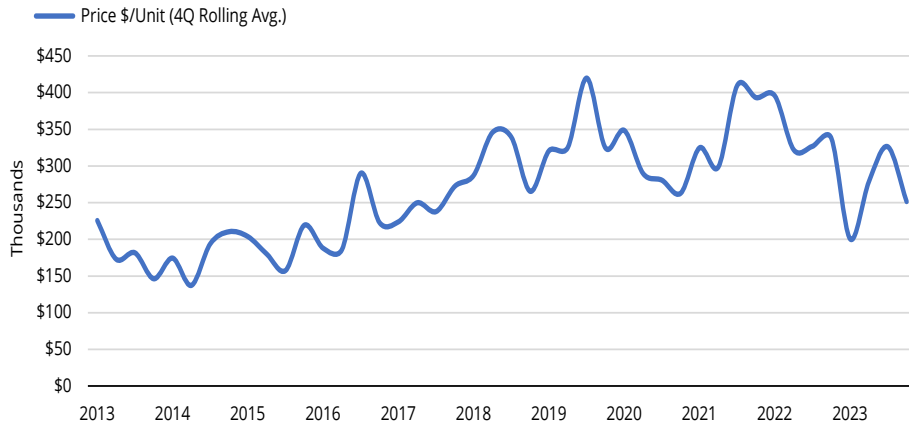
- East Bay apartment sales recorded \$167 million in deal activity -- below the five-year average of \$548 million as the higher cost of financing slowed deal activity. While the gap between buyer and seller expectations remains wide, buyers are still taking on deals with lower yields than they have seen over the last few years.
- For the year ending in Q4 2023 there was almost \$614 million in investment activity, a 74.5% decline from one year ago.
- Average annual price per unit ended the quarter at \$251,716, a 22.9% decrease from Q3. Over the year, price growth has retreated by 25.5%.
- Quarterly cap rates in Q4 ticked up by 70 bps to 6.0% but remain near historic lows and underestimates re-pricing on many deals.
- Private buyers in search of value-add deals were the most active in 2023, responsible for 77.8% of investment volume. Institutional capital accounted for the remainder of activity with 22.2%.

### INVESTMENT VOLUME AND CAP RATES



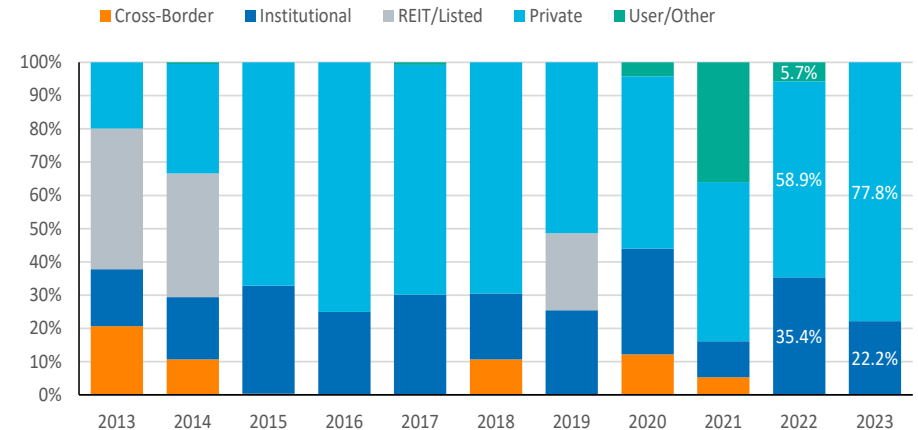
Source: Transwestern, Costar, Q4 2023.

### PRICE \$/UNIT



Source: Transwestern, Costar, Q4 2023.

### INVESTOR COMPOSITION



Source: Transwestern, MSCI Real Assets, Q4 2023.

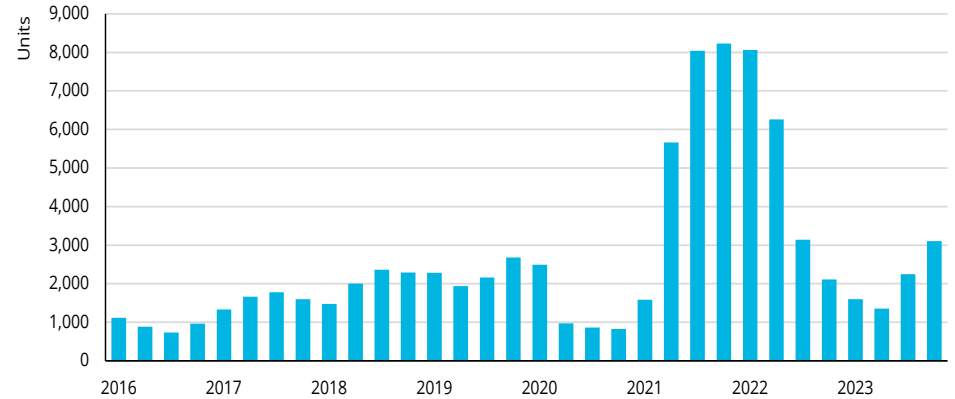


### SUPPLY AND DEMAND FUNDAMENTALS

#### Rental Demand is Rebounding

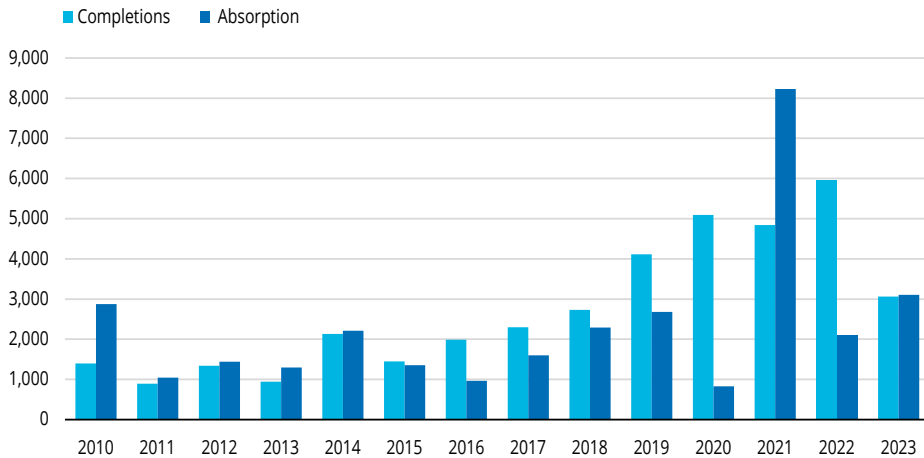
- Rental demand was positive for the fourth consecutive quarter with 750 units absorbed in Q4, showing signs of a rebounding market. High inflation, weak household formation and recessionary fears kept renters in place but some of that pent-up demand is now being unleashed. For the four quarters ending in Q4 2023, absorption was at 3,102 units.
- Completions totaled 677 units in Q4, down from 931 units in Q3. For the year ending in Q4 2023 there were 3,059 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



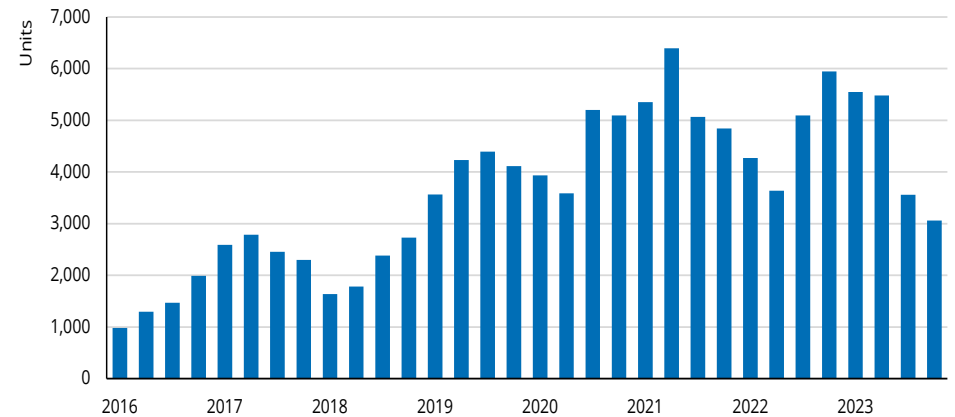
Source: Transwestern, Costar, Q4 2023.

### SUPPLY & DEMAND



Source: Transwestern, Costar, Q4 2023.

### 12-MONTH COMPLETIONS



Source: Transwestern, Costar, Q4 2023.

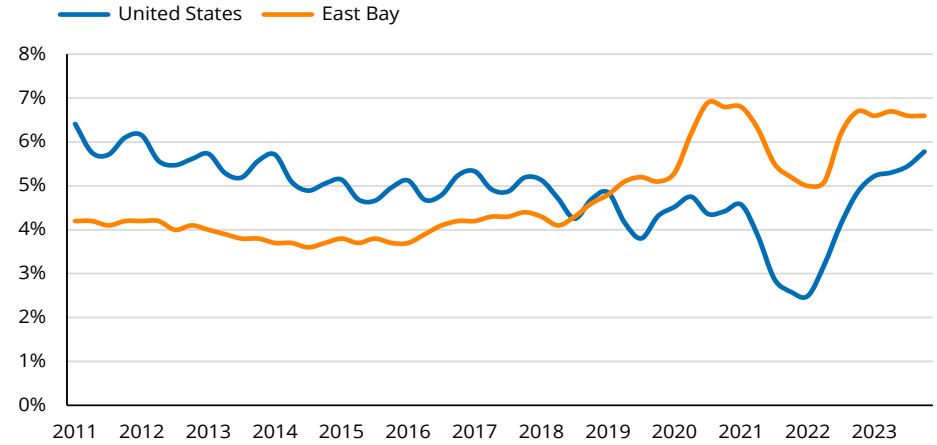


### SUPPLY AND DEMAND FUNDAMENTALS

#### Vacancy Rate Remains at 6,6%

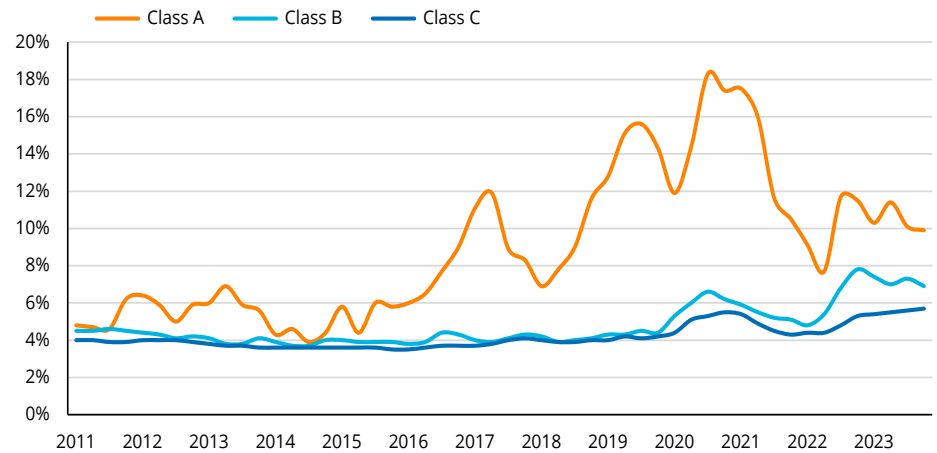
- Despite a steady stream of new supply coming online, rebounding demand helped keep the vacancy rate stable at 6.6% while the national rate ticked up 30 bps to 5.8%.
- Class A vacancy fell 20 bps from Q3 to 9.9% and Class B properties had a 40-bp decline in vacancy to 6.9%. Class C ticked up 10 bps to 5.7%.

### VACANCY RATE



Source: Transwestern, Costar, Q4 2023.

### VACANCY RATE BY CLASS



Source: Transwestern, Costar, Q4 2023.

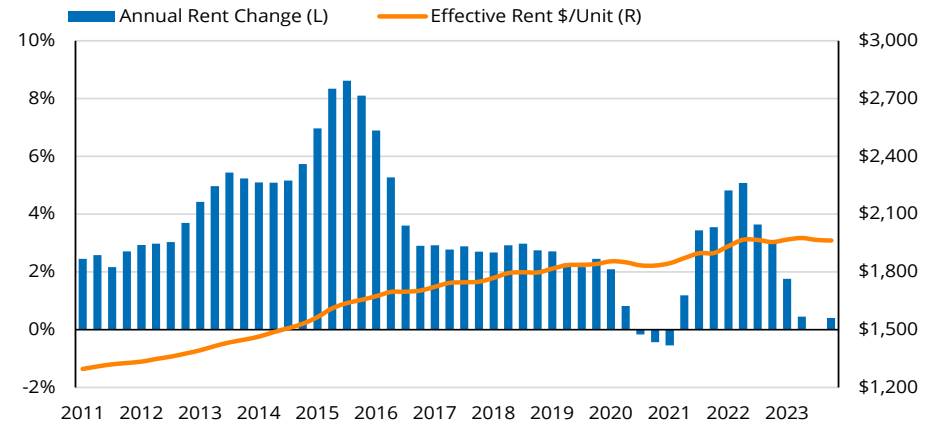


### SUPPLY AND DEMAND FUNDAMENTALS

#### Annual Rent Growth Ticks up 0.4%

- The average monthly effective rent fell 0.2% from Q3 to \$1,963 but remained near historically high levels. Though demand has been rebounding, the unusually large supply of apartments is putting pressure on rent growth. Year-over-year, rent growth was up 0.4%.
- Class A had the highest effective rents at a monthly average of \$2,852 and annual rent change of -1.8%. Class B rents grew 0.4% from one year ago (to \$1,963) and Class C fell 0.5% to \$2,232.
- The average rate on a 30-year fixed rate mortgage was 6.6% at the end of the quarter, coming down from 7.3% three months ago, the highest level 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, Costar, Q4 2023.

### 30-YEAR FIXED RATE MORTGAGE



Source: Transwestern, FRED, September 2023.



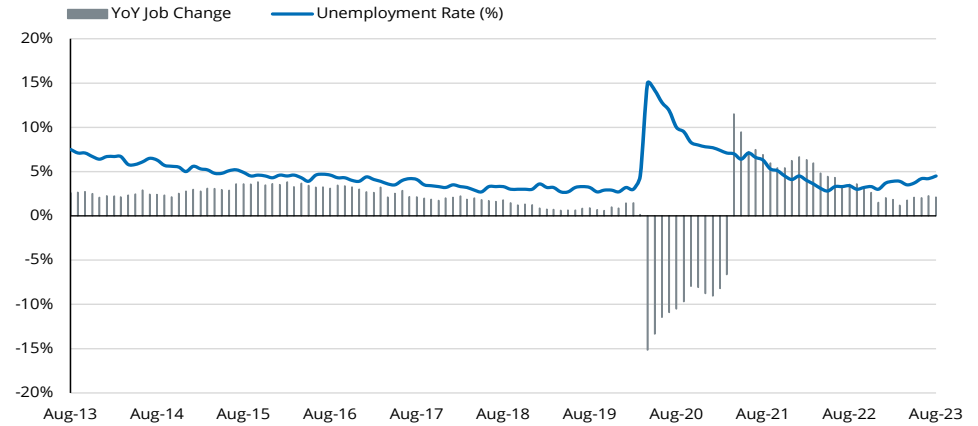
### ECONOMY

#### Job Growth Softens to 1.6% YOY

- The November unemployment rate in the East Bay metro area remained unchanged from three months ago at 4.5%. Though up from 3.3% one year ago, it has been under 5% for nearly two years. It remains a tight labor market but with softening job gains as businesses and consumers facing high borrowing costs.
- With the rise of interest rates cutting back at profits, hiring has gradually slowed over the past two years. In Q4, employers added 17,000 jobs annually, a 1.4% gain over the year.
- Jobs gains were driven by a year-over-year increase of 9.5% in Education and Health Services employment (+9,500 jobs). Construction also made a significant contribution, growing 9.4% and adding 7,100 jobs. Office-using industries lost 10,000 jobs, down 3.6% from one year ago.

### UNEMPLOYMENT RATE AND NONFARM JOBS

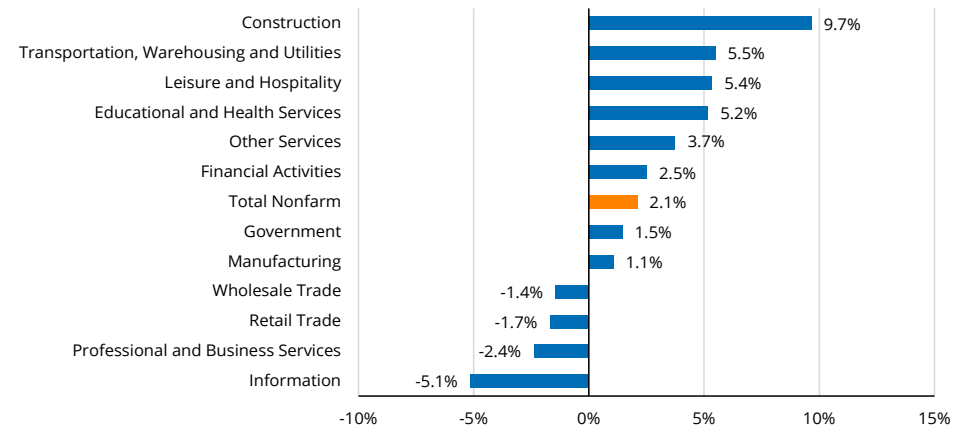
#### Oakland-Hayward-Berkeley MD



Source: Transwestern, CA EDD, August 2023.  
Note: Data not seasonally adjusted.

### YOY EMPLOYMENT CHANGE BY INDUSTRY

#### Oakland-Hayward-Berkeley MD



Source: Transwestern, CA EDD, August 2023.  
Note: Data not seasonally adjusted.



## TOP SALES BY PRICE

ADDRESS	CITY	PRICE (MIL. \$)	BUILDING SF	BUYER	SELLER
530A N CIVIC DR	Walnut Creek	\$58.0	141,272	Granite Capital Group	Prometheus RE
1552 E GATE WAY 126	Pleasanton	\$35.5	110,616	Unknown	GID
26409 GADING RD	Hayward	\$15.3	56,236	Unknown	Upside Investments Inc
2414 TELEGRAPH AVE	Berkeley	\$15.0	39,682	Nhan Nguyen Le	Giselle A Jurkanin
2309 BLAKE ST	Berkeley	\$14.5	35,220	Kelly A Moux	Howan Exempt Trust

Source: Transwestern, MSCI Real Assets, Q4 2023.

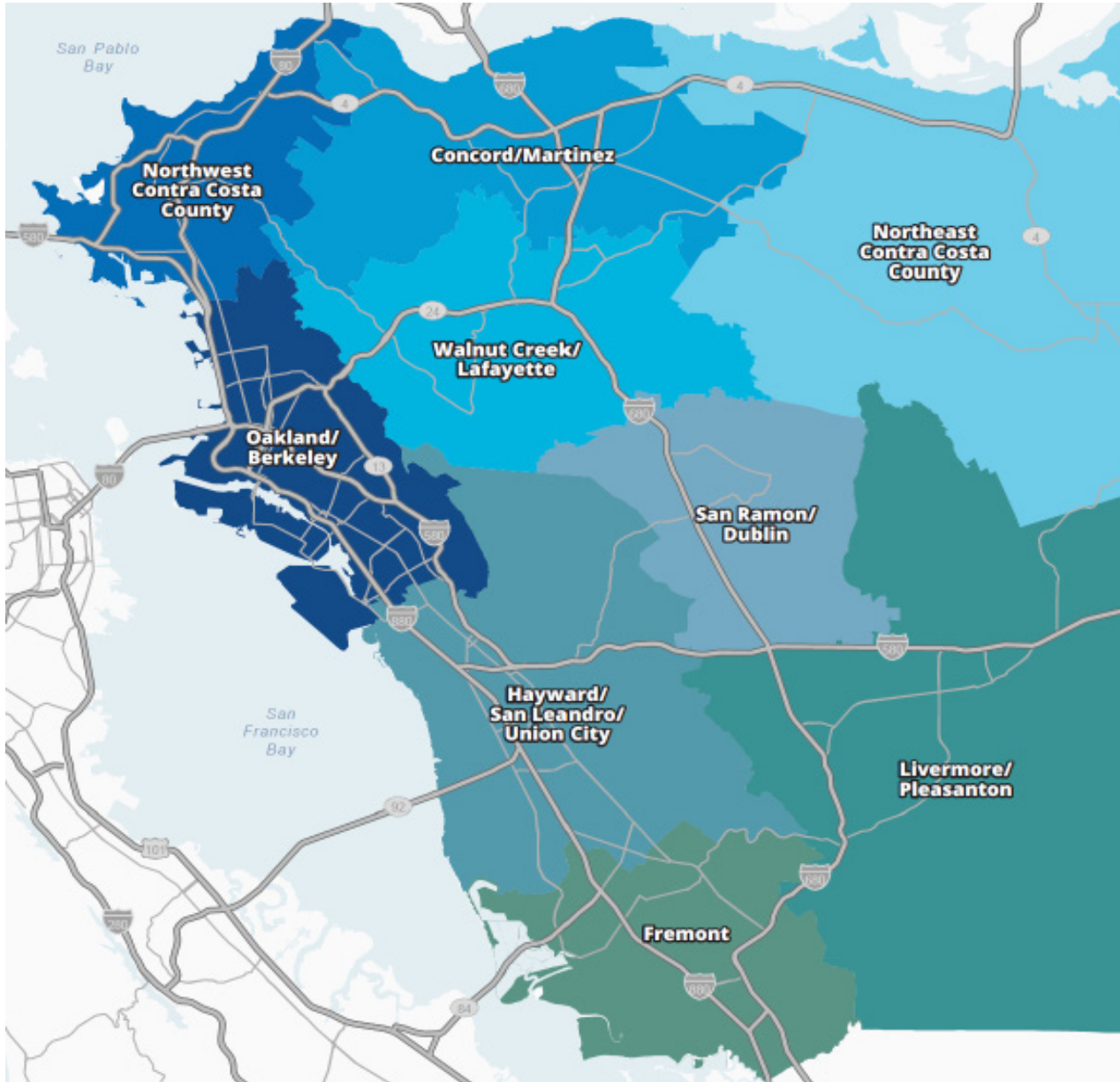
## Q3 SUBMARKET FUNDAMENTALS

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	\$2,283	-2.6%	5.4%	68	0	4.4%	358,587
FREMONT	19,974	\$2,665	-1.3%	5.0%	-109	0	4.5%	478,078
HAYWARD/SAN LEANDRO/UNION CITY	30,156	\$2,395	-1.3%	5.6%	-518	84	5.0%	243,593
LIVERMORE/PLEASANTON	10,330	\$2,767	-2.5%	5.7%	104	222	5.1%	--
NORTHEAST CONTRA COSTA COUNTY	10,423	\$2,200	2.1%	6.3%	-34	229	3.0%	--
NORTHWEST CONTRA COSTA COUNTY	14,941	\$2,449	1.1%	6.3%	0	0	4.4%	203,830
OAKLAND/BERKELEY	95,660	\$2,821	-3.6%	7.9%	884	1,928	5.0%	365,564
SAN RAMON/DUBLIN	11,899	\$2,657	0.6%	4.2%	70	186	--	--
WALNUT CREEK/LAFAYETTE	13,775	\$2,553	-2.0%	4.8%	343	414	3.2%	356,451
EAST BAY TOTAL	13,775	\$2,589	-1.4%	5.8%	722	3,063	4.5%	330,912
RICHMOND/MARTINEZ	17,934	\$1,904	0.8%	5.9%	52	0	6.7%	237,451
SAN LEANDRO/SAN LORENZO	12,445	\$1,890	0.7%	5.1%	-63	0	--	343,403
WALNUT CREEK/SAN RAMON	19,885	\$2,530	-0.3%	6.4%	182	0	4.8%	434,688

Source: Transwestern, RealPage, Q4 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.

ABOUT TRANSWESTERN

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