



TRANSWESTERN

EAST BAY MULTIFAMILY MARKET

Q2 2024



HIGH SUPPLY ALONG WITH LOW DEMAND DAMPEN RENT GROWTH, PUSHES CAP RATES HIGHER

Rental demand was flat or modestly down across different pockets in the Bay Area. A total of 1,432 units were absorbed in Q2. The rental market has continued to provide mixed signals in the East Bay, as periods of higher seasonal demand are often followed by months of slow rental activity. The most likely factors are continued delivery of new rental product, combined with layoffs in the local tech industry, along with the lasting effects of the pandemic. However, high interest rates combined with weak household formation have kept would-be homeowners in the rental market. With inflation running lower, the labor market showing signs of slack, and consumer confidence beginning to crack, relief may finally be on the way as The Federal Reserve's first rate cut comes in to focus. Treasury markets have factored in a 100% likelihood that a rate cut will be coming in September, and some economists are calling for a cut in July. As for the September rate cut, the conversation has pivoted from the likelihood of a cut to the size of the cut. Some members of Wall Street are calling for a .50% reduction in the Federal Funds rate to stave off a recession, but a .25% cut continues to be the most probable outcome.

Continued volatility in the treasury market has also frozen capital markets in place resulting in lower transaction volume, as has been the case since The Fed first began its tightening cycle. The 10-year treasury has often moved 10+ basis points in a single day, an astronomical move for a market in which historical daily movements have been in the 1 to 2 basis point range.

The supply pipeline in Q2 continued to deliver a steady stream of new units to the market, putting downward pressure on rent growth, which ticked down 0.3% year over year to \$2,226 per unit. The vacancy rate, however, was nearly unchanged from last quarter, declining -20 bps to 6.1%.

East Bay apartment sales recorded \$977 million in deal activity over the last four quarters – the third lowest since 2013 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 by historical standards. The annual price per unit had a large increase of 26.1% on a quarterly basis to \$334,275 from \$264,991. However, this high price per unit has been skewed by several high dollar value sales of properties built in the 2000s and 2010s, which trade at a higher price per unit. The increase in price per unit quarter over quarter can be attributed to this data quirk and should not be interpreted as an upward pricing movement. Cap rates also saw a decompression of 48bps over the quarter to 6.6%.

TRENDLINES

	Q2 2024	Q1 2024	Q2 2023	Q/Q CHANGE	Y/Y CHANGE
Cap Rates	6.6%	6.1%	5.7%	48 bps	89 bps
Annual Price per Unit	\$334,275	\$264,991	\$274,463	26.1%	21.8%
Effective Rent (\$/Unit)	\$2,226	\$2,215	\$2,232	0.5%	-0.3%
Vacancy Rate	6.1%	6.3%	6.6%	-20 bps	-50 bps
12-Mo. Investment Volume (\$ Mil.)	\$977	\$705	\$1,146	38.6%	-14.8%
Annual Absorption (Units)	4,110	3,796	1,539	8.3%	167.1%
Annual Completions (Units)	3,034	3,676	5,550	-17.5%	-45.3%
Annual Permits (Units)	1,307	1,540	3,406	-15.1%	-61.6%
Unemployment Rate	4.5%	5.0%	3.7%	-50 bps	80 bps
Nonfarm Jobs (Mil.)*	1.20	1.19	1.19	1.4%	0.8%

Source: Transwestern, EDD, Costar, MSCI Real Assets, Q2 2024.

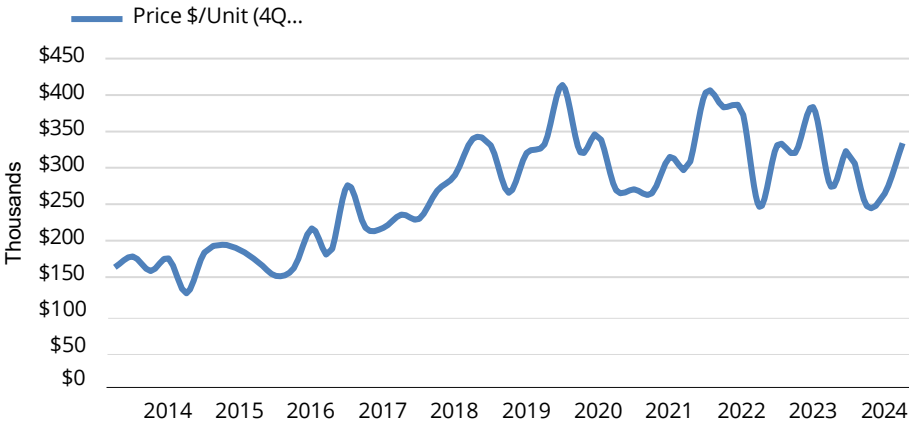


CAPITAL MARKETS

Upward Trends in all Categories

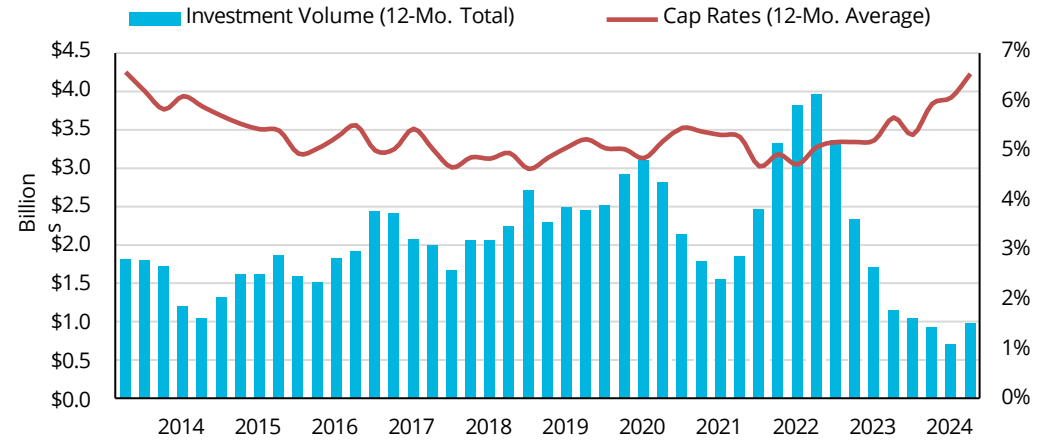
- East Bay apartment sales volume was recorded at \$455 million at the end of Q2, 2024. While this was 17.5% below the 5-year average of \$540 million, there was a quarter-over-quarter increase of 236%, from \$132 million in Q1 to \$455 million in Q2. Furthermore, the year-over-year increase was 157%, from \$173 million at the end of Q2 2023. The data suggests transaction activity may slowly be recovering from its historical lows.
- For the 12 month period ending in Q2 2024, a total investment volume of \$977 million represented a 14.8% decline from the previous year.
- Average annual price per unit ended the quarter at \$334,275, a 26.1% increase from Q1 2024. Year-over-year price per unit has also increased by 21.8%. However, the data was heavily skewed due to a number of large sales of properties built in the 2000s or after.
- Quarterly cap rates in Q2 ticked up by 48 bps to 6.6%, levels not seen since the early recovery stages after The Great Recession
- Institutional buyers in search of value-add deals were the most active in the first half of the year, responsible for 71.4% of investment volume. Private buyers accounted for the remainder of the activity at 28.6%.

PRICE \$/UNIT



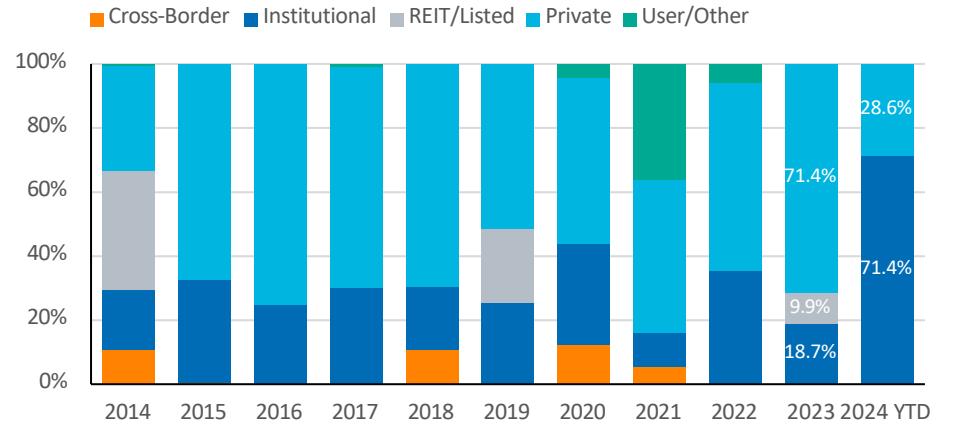
Source: Transwestern, MSCI Real Assets, Q2 2024.

INVESTMENT VOLUME AND CAP RATES



Source: Transwestern, Costar, Q2 2024.

INVESTOR COMPOSITION



Source: Transwestern, MSCI Real Assets, Q2 2024.

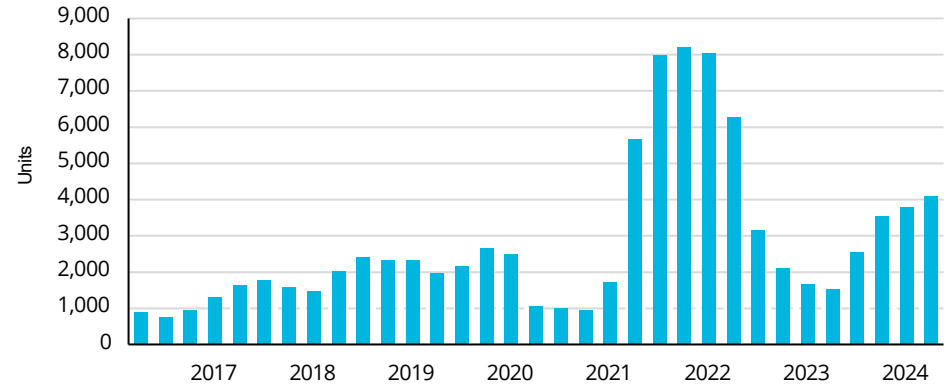


SUPPLY AND DEMAND FUNDAMENTALS

Rental Demand is Rebounding

- Trailing back to Q1 2023, rental demand was positive for the sixth consecutive quarter with 1,432 units absorbed in Q2, showing signs of a modestly improving, albeit flat market. A 28.1% increase of 314 units in year-over-year may indicate that absorption is very slowly beginning to take effect.
- Completions totaled 733 units in Q2, a slight uptick from the 713 completions in Q1. Year-over-year deliveries were down 622 units, a 45.9% decrease. A flurry of pre-pandemic-era projects that were completed in Q2 2023 (1,355) lead to the significant drop in year-over-year averages. Compared to Q3 2023 completions were only down by 198, or 21.3%, which can be viewed as a normalization.

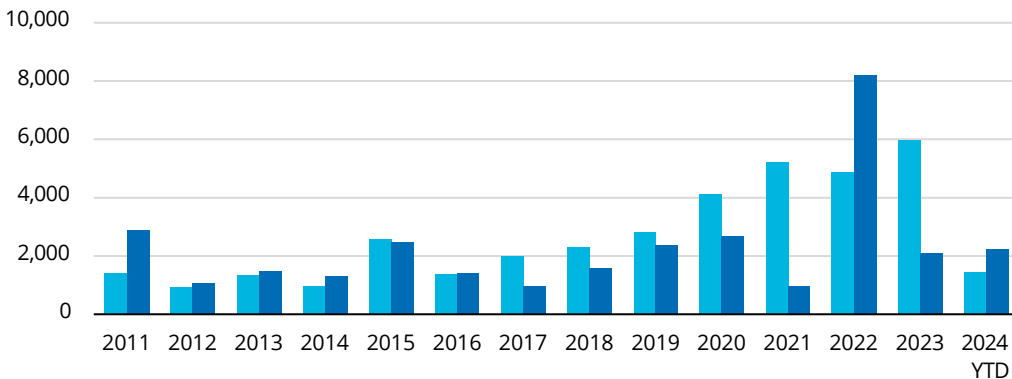
12-MONTH NET ABSORPTION



Source: Transwestern, Costar, Q2 2024.

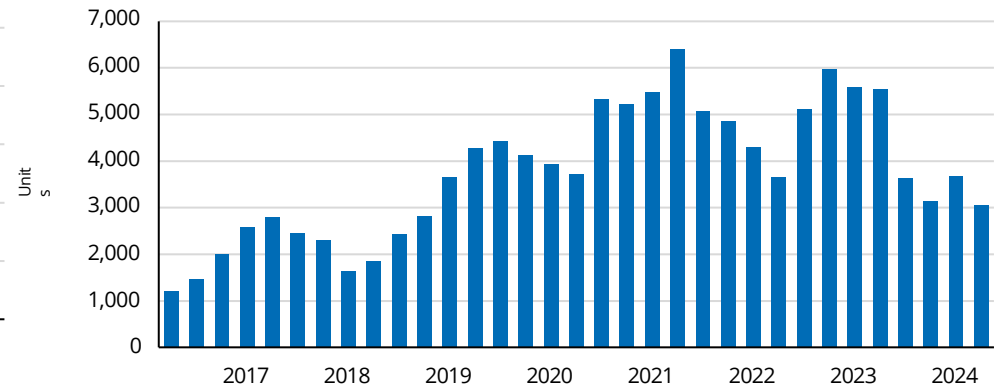
SUPPLY & DEMAND

■ Completions ■ Absorption



Source: Transwestern, Costar, Q2 2024.

12-MONTH COMPLETIONS



Source: Transwestern, Costar, Q2 2024.

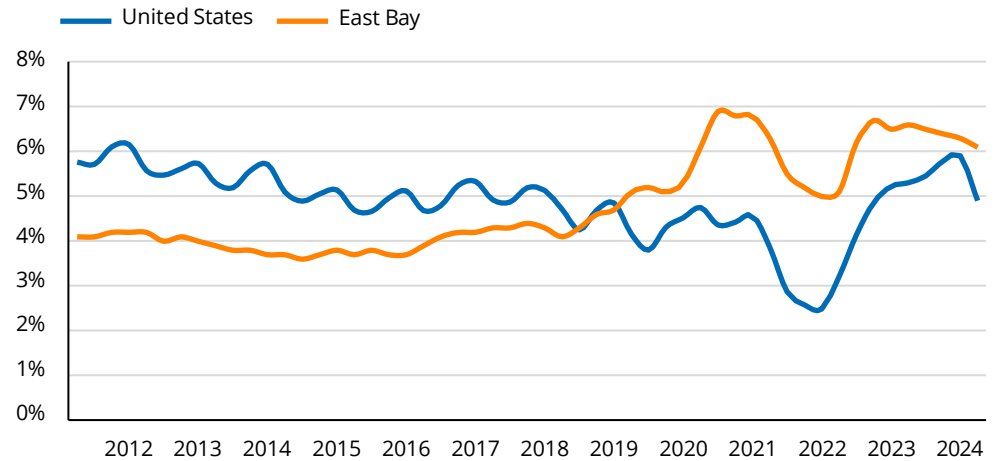


SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rate Drops to 6.1%

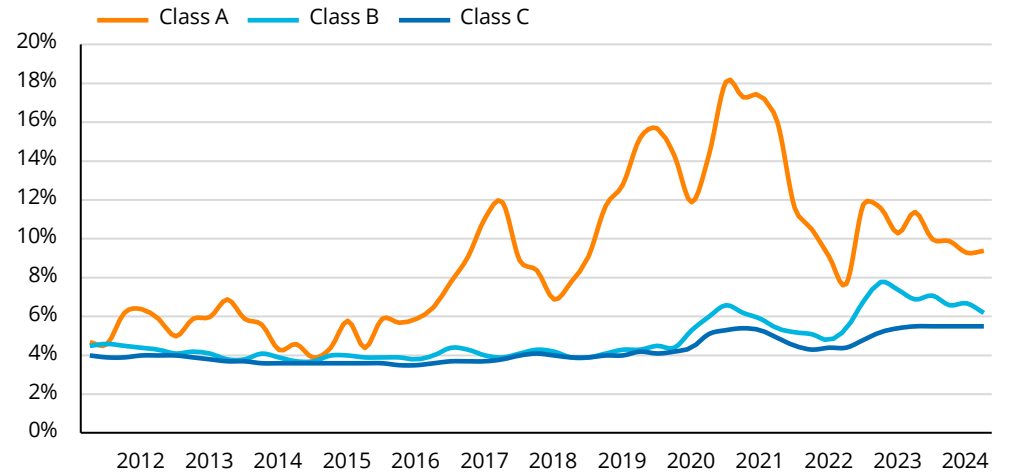
- Due to a substantial drop in new supply coming online, the vacancy rate dropped by .5% year-over-year to 6.1%. Nationally, vacancy rate dropped down to 4.9%.
- Class A vacancy had almost no change quarter over quarter with an uptick of 0.1% to 9.4%. Class B vacancies declined 0.5% to a 6.2%. Class C has remained flat for the past 5 quarters at 5.5%.

VACANCY RATE



Source: Transwestern, Costar, Q2 2024.

VACANCY RATE BY CLASS

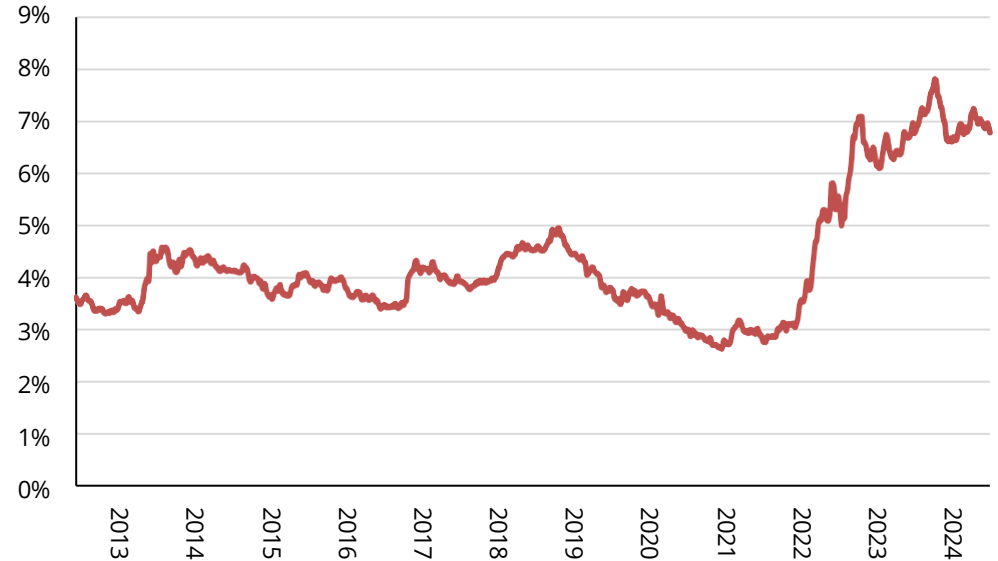
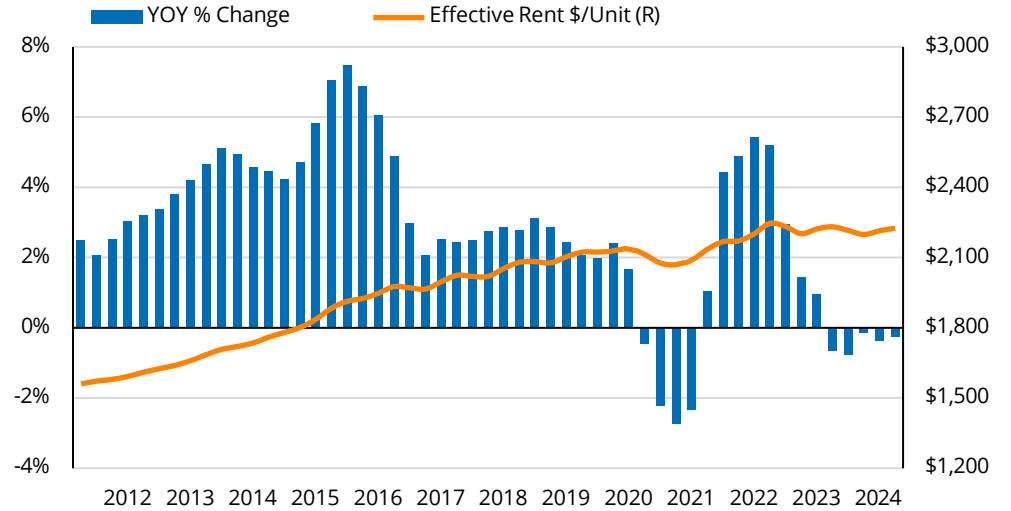




SUPPLY AND DEMAND FUNDAMENTALS

Annual Rent Growth Ticks up 0.5%

- The average monthly effective rent rose 0.5% to \$2,226. Though demand has been rebounding, the unusually large supply of apartments is putting downward pressure on rent growth. Year over year, rent growth was down 0.3%.
- Class A had the highest effective rents at a monthly average of \$2,828, with an annual decrease of -2.1%. Class B rents grew 0.3% from year over year to \$2,304, and Class C also grew 0.4% to \$1,978.
- The average rate on a 30-year fixed rate mortgage was 6.9% at the end of the quarter, down from 7.8% in October the year prior, the highest level since 2000. High mortgage rates are reducing the affordability of single-family homes and discouraging first time home buyers, thereby locking renters into place.



Source: Transwestern, Costar, FRED Q2 2024.



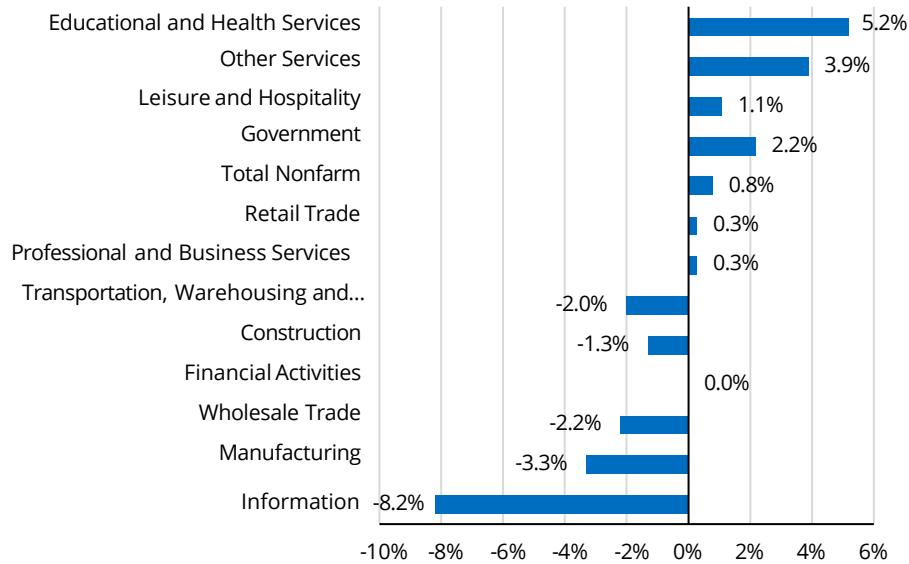
ECONOMY

Job Growth Softens to 1.6% YOY

- The unemployment rate in the East Bay metro statistical area saw a downtick over the last 3 months, dropping from 5.4% to 4.5%. Though it's up from May 2023, when it bottomed out at 3.7%. The labor market remains tight, but with job gains softening as businesses and consumers face high borrowing costs.
- Despite rising interest rates cutting into profits, hiring has modestly increased over the past year. Year over year Q2 numbers showed employers added 9,900 jobs, a 0.8% gain.
- Job gains were driven by a year-over-year increase of 5.2% in Education and Health Services employment, for a total of 11,300 jobs. Governmental jobs also increased 2.2%, or 3,600 jobs. Professional and Business Services gained 600 jobs, an increase of 0.3% year over year.

YOY EMPLOYMENT CHANGE BY INDUSTRY

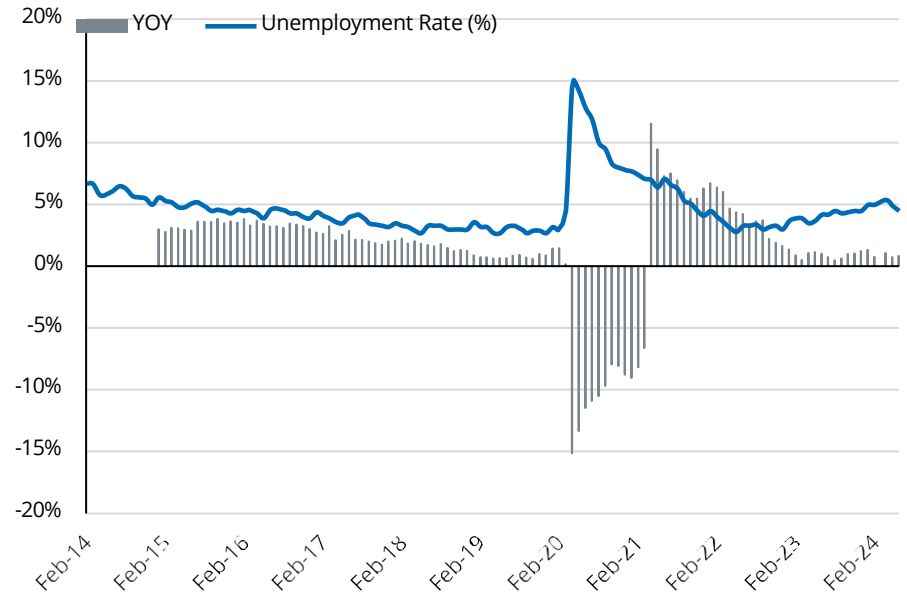
Oakland-Hayward-Berkeley MD



Source: Transwestern, CA EDD, May 2024. Note data not seasonally adjusted.

UNEMPLOYMENT RATE AND NONFARM JOBS

Oakland-Hayward-Berkeley MD



Source: Transwestern, CA EDD, May 2024. Note data not seasonally adjusted.



NOTABLE SALES

ADDRESS	City	PRICE (MIL. \$)	PRICE PER UNIT	BUYER	SELLER
3510 Beacon Ave	Fremont	\$126.0	\$458,182	Acacia Capital Corporation	Fore Property Company
81 Mayhew Way	Walnut Creek	\$98.8	\$242,703	Bridge Investment Group	WGID Enterprises, Inc
1380 N California Blvd	Walnut Creek	\$57.0	\$740,260	Hines	Encore Capital Management
6599 Dublin Blvd	Dublin	\$46.0	\$353,846	Cityview	Gabriel Chu
39867 Fremont Blvd	Fremont	\$35.8	\$293,443	Harbert Management Corporation	Priya Living

Source: Transwestern, MSCI Real Assets, Q2 2024.

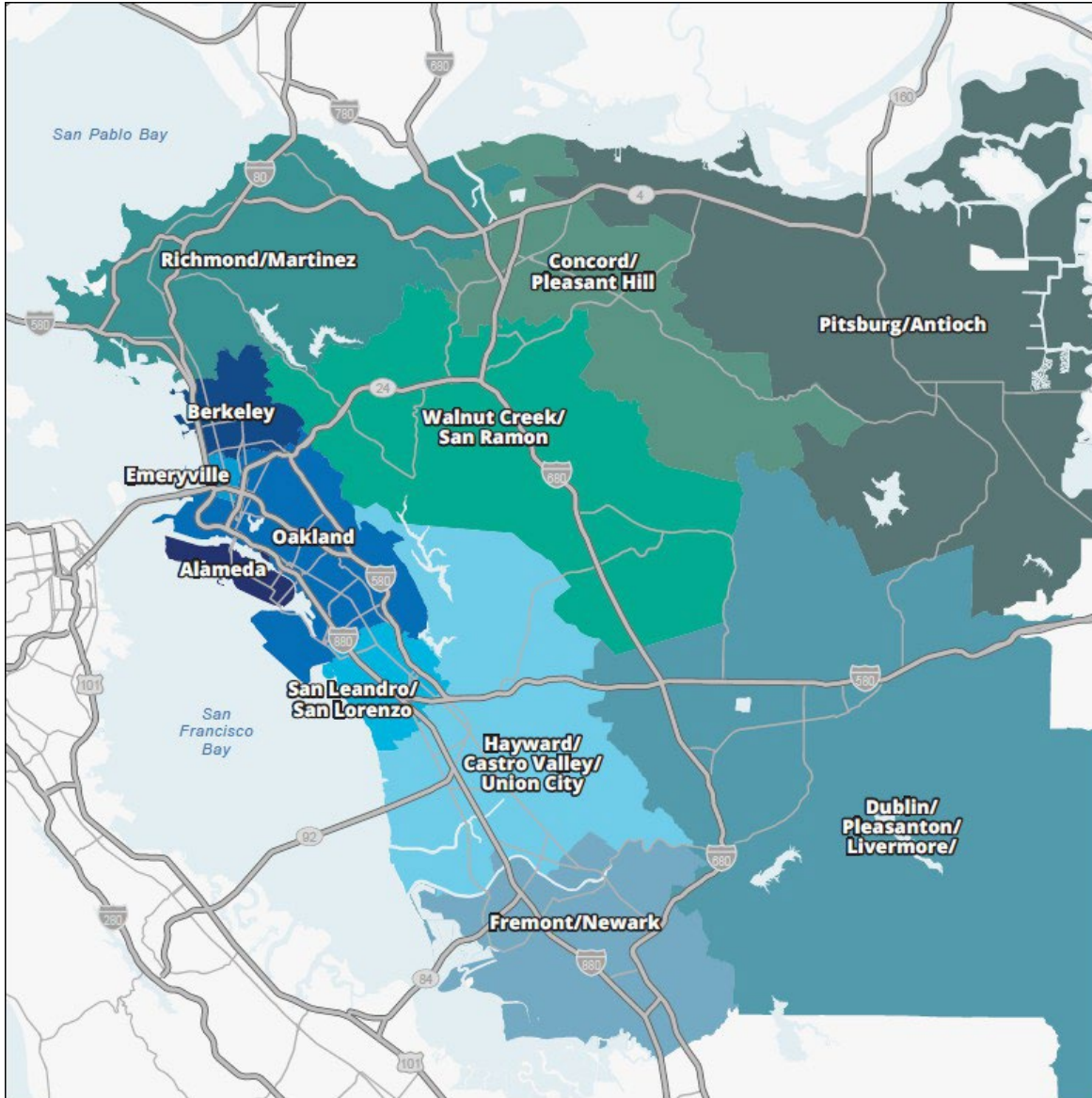
Q2 SUBMARKET FUNDAMENTALS

Submarket	Inventory (Units)	Effective Rent \$/Unit	YOY Rent Growth	Vacancy Rate	Absorption (4-Quarter)	Completions (4-Quarter)	Annual Cap Rate	Annual \$/Unit
Richmond/Martinez	18,600	\$1,896	1.0%	5.2%	159	12	6.2%	\$217,148
Berkley	20,064	\$2,572	-4.4%	8.8%	392	490	4.8%	\$308,737
Emeryville	5,367	\$2,650	-1.6%	8.3%	505	100	8.2%	\$227,273
Oakland	62,287	\$1,986	-2.7%	7.3%	766	1,306	7.8%	\$239,935
Alameda	9,604	\$2,515	0.5%	8.0%	270	7	4.5%	\$279,167
San Leandro/San Lorenzo	12,550	\$1,876	-0.9%	5.4%	(101)	0	5.8%	\$225,662
Hayward	18,945	\$2,071	1.8%	4.6%	240	126	5.6%	\$293,173
Concord/Pleasant Hill	15,020	\$2,036	1.3%	4.9%	92	0	5.8%	\$238,411
Walnutcreek/San Ramon	20,271	\$2,615	1.9%	5.2%	500	131	4.0%	\$692,455
Pittsburg/Antioch	15,797	\$1,884	1.3%	6.4%	409	224	7.4%	\$203,667
Dublin/Pleasanton/Livermore	18,061	\$2,588	0.5%	5.7%	424	523	--	\$358,205
Freemont/Newark	29,983	\$2,455	0.4%	4.0%	165	95	5.3%	\$437,495
East Bay Total	246,549	\$2,226	-0.3%	6.1%	4,110	3,054	6.6%	334,275

Source: Transwestern, RealPage, Q2 2024.



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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