

MARKET INSIGHT

MULTIFAMILY REPORT | FOURTH QUARTER 2016

The Cushman & Wakefield Multifamily Research Team provides in-depth coverage of primary, secondary, and tertiary cities across Northern California. In addition to analyzing multifamily rent and sale trends, these reports examine employment data, key economic announcements, and development pipeline news.

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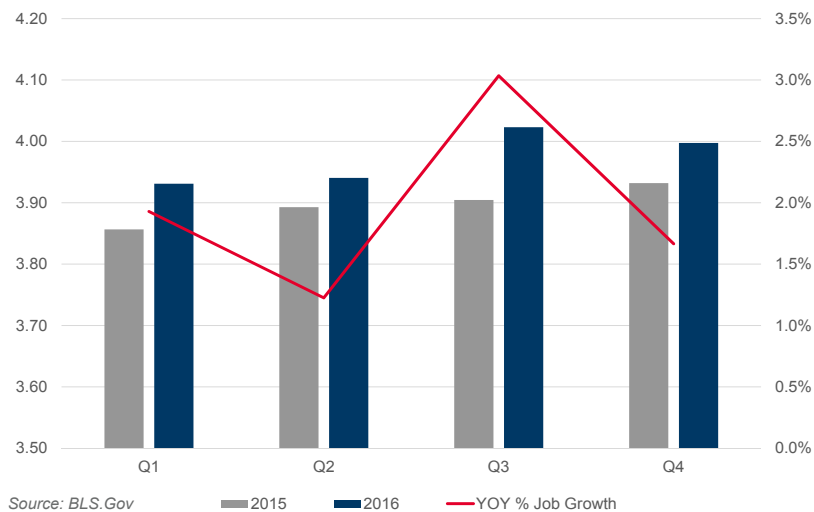
BAY AREA

EMPLOYMENT & UNEMPLOYMENT TRENDS

The unemployment rate in the Bay Area was 3.5% in December 2016, down from 3.9% in September and below the 4.0% from one year ago. With a total labor force approaching 4.2 million people, the Bay Area currently employs just under 4.0 million of its residents. The Bay Area continued its strong job growth momentum, adding 65,500 nonfarm jobs from a year ago. Since its unemployment peak of 11.4% in Q1-10, the Bay Area has created 743,100 jobs.

BAY AREA JOB GROWTH TRENDS

EMPLOYMENT IN MILLIONS & JOB GROWTH (%)



JOB GROWTH & UNEMPLOYMENT RATE

↑ 1.7%
YOY

Average Q4 employment increased by 65,500 jobs.

↓ 50
BPS YOY

Average Q4 unemployment decreased to 3.5%.

ECONOMIC EXPANSION

The following are select announcements from fourth quarter 2016:

- ✓ **Charles Schwab** will continue its major presence in San Francisco, **renewing for 435,000 square feet**.
- ✓ **Adobe** will expand into all **315,000 square feet** of office space at 100 Hooper Street in San Francisco, now under construction.
- ✓ **Announcements** may be near on two new office buildings with anchor tenants in Oakland, driving additional employees to this market.
- ✓ **Lab126**, owned by Amazon, is expanding in Sunnyvale, leasing **315,000 square feet** at Moffett Towers II, currently under construction.

	2014	2015	2016	FORECAST
Labor Force (% Change)	4.7%	2.0%	1.2%	↑
EMPLOYMENT (% Change)	6.1%	2.5%	1.7%	↑
UNEMPLOYMENT RATE (%)	4.5%	4.0%	3.5%	↓

Forecast is 12-month outlook

OUTLOOK

- There have been layoff notices among some tech firms across the region though other companies continue to hire.
- At the forefront of issues affecting the Bay Area are the high cost of living (housing), ever increasing traffic congestion and a need to increase mass transit options.
- Expect much of the new development (housing, office, retail) to be focused at or near the transit hubs of BART and Caltrain.

MULTIFAMILY TRENDS

Fourth quarter asking rent growth from 2015 to 2016 was 2.1% while vacancy has ticked up 10 basis points (BPS) to 3.9%. Asking rent and vacancy has continued to increase year over year.

↑ 2.1
% YOY

Average asking rent increased to **\$2,657**.

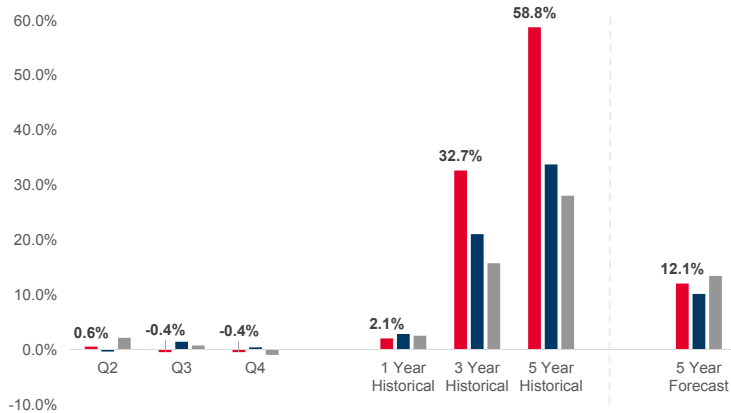
↑ 10
BPS YOY

Vacancy increased to an average of **3.9%**.

HISTORICAL & FORECASTED METRO RENT GROWTH RATES

The average one-year historical asking **rent growth rate has steadily continued at 4.4%, as of the third quarter, and 2.1%** in the fourth quarter, indicating that both new construction and value-add properties continue to break postrecession, top-end records. Five-year projections have been adjusted upward from 2.0% as of 2017 to 12.1% in 2021. This rate is widening the gap from regional and national projections.

BAY AREA RENT GROWTH RATES



Source: REIS, AXIOMetrics

■ Bay Area ■ California ■ United States

DEVELOPMENT / INVENTORY

More than 25,000 units are under construction in the Bay Area. In the past 12 months, approximately 11,000 units have delivered. Over 2,000 units were delivered in the fourth quarter and more than 1,600 units were absorbed, resulting in a construction-to-absorption rate of 90%. This indicates that while supply is robust, renter demand and demographic growth continue to outpace deliveries. Inventory has grown year over year at a rate of 1.8% and will likely grow by 3.5% by end of 2017.

DEMOGRAPHIC FUNDAMENTALS

The Bay Area is continuing to attract residents in droves. Per the Association of Bay Area Governments (ABAG), the majority of migrants are foreign born and reside in Santa Clara, San Francisco, Alameda and Contra Costa Counties.

POPULATION

2010: 7,265,000
2015: 7,722,000
2016: 7,788,000
2020: 8,071,000



PERSONAL INCOME

2010: \$105,187
2015: \$146,482
2016: \$153,551
2020: \$195,577



MEDIAN HOUSEHOLD INCOME

2010: \$74,978
2015: \$90,280
2016: \$94,255
2020: \$112,264



MULTIFAMILY FORECAST

The following are Cushman & Wakefield's projections over the near term.



RENTS



VACANCY

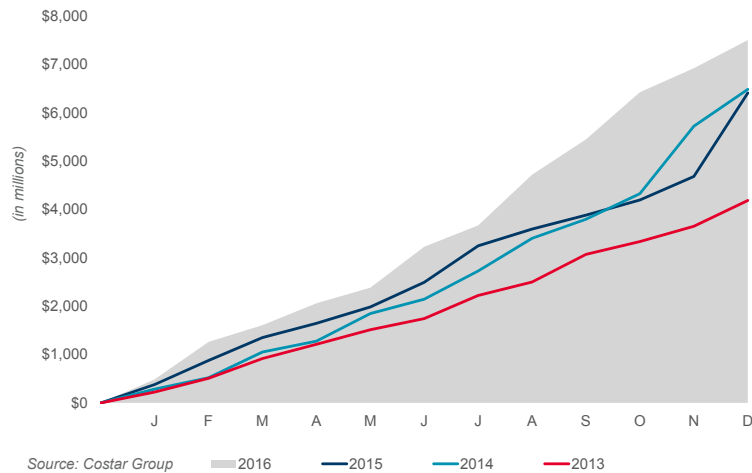


PIPELINE % GROWTH

INVESTMENT ACTIVITY

The Bay Area's cumulative sales volume as of December 2016 (\$5.0 billion) is +10.4% greater than the previous year. In the fourth quarter, private capital (56%) and institutional (31%) were among the market share leaders resulting in 87% of investment activity. Private investors accounted for 75% of all sales over \$10m, while institutional investors purchased the top products.

YTD SALES VOLUME



NOTABLE SALES

Class A - The highest price per unit sale in the fourth quarter was lower than that of the third quarter by nearly \$250,000, or 47%. Walnut Creek's newly built **Ascent** (2015, 126 Units) sold at \$532,000 per unit. Gerding Edlen acquired **Allston** (2002, 60 Units) and **Stadium Place** (2006, 74 units) in Berkeley, which garnered the second highest sales price per unit at \$399,000. Jim Joseph Foundation sold a 49% interest in three Santa Clara apartment communities - **Bella Vista** (1993, 634 Units), **Nantucket** (1998, 252 Units), **The Carlyle** (2000, 276 Units) to Acacia Capital Corporation for \$228,000 per unit.

Class B - Grosvenor Americas sold **Trailside Terrace** (1971, 195 units) to Pacific Urban Residential in October for \$375,000 per unit.

Class C - **Francis of Assisi** (1980, 110 Units) in San Francisco sold for the highest price per unit at \$422,000. Francis of Assisi Community sold it to Mercy Housing of California.

MOST ACTIVE MARKET PLAYERS

TOP FIVE BAY AREA BUYERS - FOURTH QUARTER 2016

RANK	BUYER	TOTAL VOLUME	NO. TRANSACTIONS
1	Acacia Capital Corporation	\$264,600,000	3
2	Pacific Urban Residential	\$203,150,000	3
3	Chinatown Community Development Center	\$120,280,000	2
4	TH Real Estate	\$96,000,000	1
5	Tenderloin Neighborhood Development	\$90,775,000	3

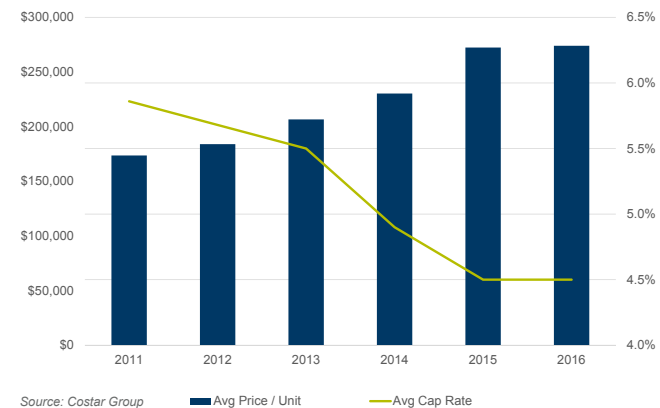
TOP FIVE BAY AREA SELLERS - FOURTH QUARTER 2016

RANK	SELLER	TOTAL VOLUME	NO. TRANSACTIONS
1	San Francisco Housing Authority	\$360,625,000	11
2	Acacia Capital Corporation	\$121,000,000	2
3	TruAmerica Multifamily LLC	\$109,000,000	2
4	Kennedy-Wilson Properties, Ltd.	\$96,000,000	1
5	LeFrak Organization	\$95,500,000	1

Source: CoStar

PRICING & CAP RATES

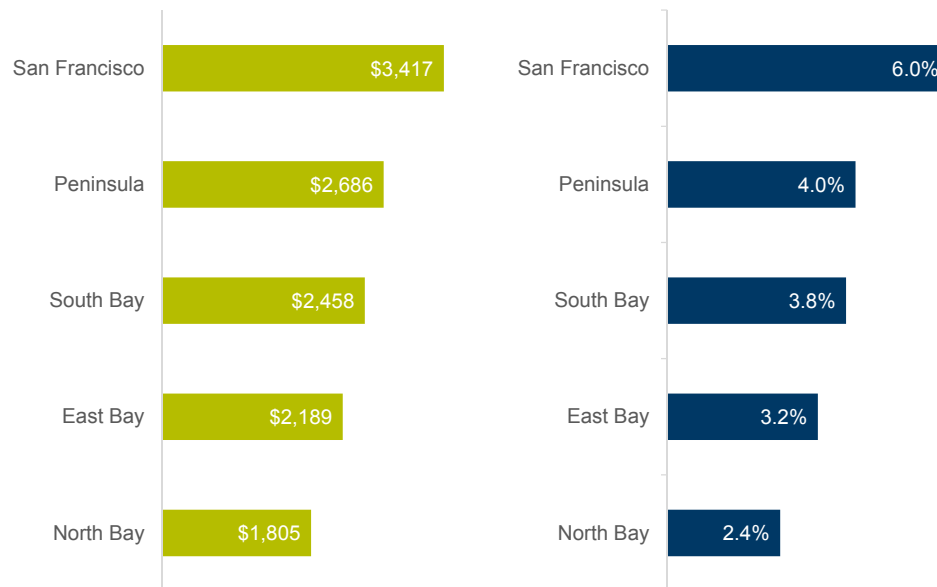
Bay Area's fourth quarter cap rates were 1.5% to 9.94% while averaging at 4.23%. Annual CAP rates increased slightly to 4.43% yet still lower than 2009's high of 6.29%.



SUBMARKET OVERVIEW

Average asking rents marginally changed from third to fourth quarter 2016 in the following counties: Sonoma (+1.3%), San Francisco (+0.4%), Santa Clara (-0.5%), San Mateo (-1.7%), Contra Costa (-2.0%). The average vacancy rates in these submarkets remained relatively stable with the exception of San Mateo, whose vacancy rate decreased by 40 BPS to 4.0%. Construction of roughly 32,000 units over the next five years will temporarily provide relief to Bay Area's housing shortage. Of these newly delivered units, over 80% are forecasted to be absorbed.

RENTS & VACANCY BY SUBMARKET



Source: REIS

SELECT SUBMARKET NEWS

East Bay

- **Signature Development Group** is planning a 65-acre, mixed-use development on the Oakland Estuary named Brooklyn Basin. Phased construction will begin on 3,100 residential units and 200,000 sf of retail and commercial space early 2017.

North Bay

- **Bisno Development** will soon break ground on **Bell Village Windsor**, one of the largest mixed-use projects in Windsor. The project consists of 387 residential units and 83,500 sf of retail.
- **Gasser Foundation** is planning a two phase 500 unit community called **Vista Tulocay** in Napa. Phase 1 will begin mid-2017, delivering 282 units along with two shopping centers and a hotel on a currently vacant 20-acre parcel. Phase 2 is planned to include between 98 and 218 units on an 8-acre site.

Peninsula

- **Anton Development Company** is planning **801 Brewster**, a 400,000-square-foot development on a 1.7-acre site. The development will include 250 residential units of which 50 affordable units at the very low income level with 320 private parking spaces. Construction will begin late 2017.

San Francisco

- **FivePoint Communities** will break ground on Treasure Island in early 2017. Owned by Wilson Meany, Stockbridge Capital Group and FivePoint Communities, this project will transform Treasure Island's former Naval Station into a proposed 8,000 unit mixed-use district.

San Jose

- **The Irvine Company** is planning phase 2 of **The Hamptons**, a 942 unit Class A apartment community in Cupertino. Construction is set to begin April 2017. Phase 1 was completed in 1998 of 342 units, combined The Hamptons will total roughly 1,300 units.

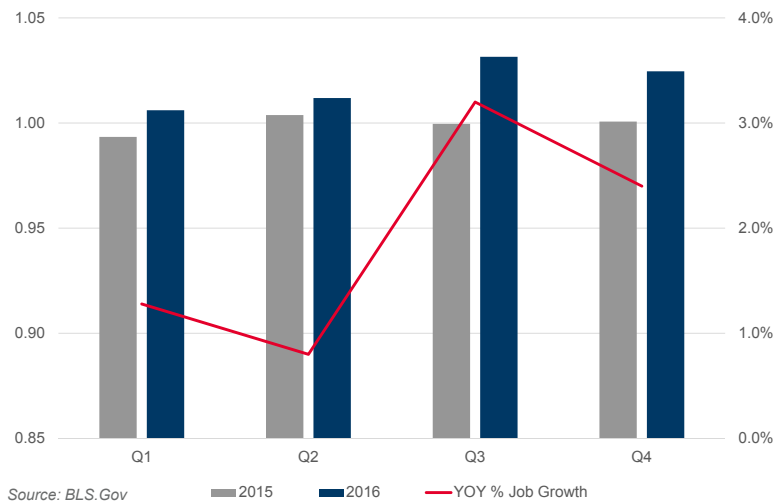
SACRAMENTO

EMPLOYMENT & UNEMPLOYMENT TRENDS

The unemployment rate in the Sacramento Region was 5.4% in December, down from 5.6% in September and a slight change from 5.6% one year ago. With a total labor force approaching 1.1 million people, the Sacramento Region currently employs just over 1.0 million of its residents. The Sacramento Region continued its strong job growth momentum, adding 29,300 nonfarm jobs from a year ago. Since its unemployment peak of 12.7% in Q1-10, the Sacramento Region has created 109,400 jobs.

SACRAMENTO JOB GROWTH TRENDS

EMPLOYMENT IN MILLIONS & JOB GROWTH (%)



JOB GROWTH & UNEMPLOYMENT RATE

↑ **2.9**
% YOY

Average Q4 employment increased by **29,300 jobs**.

↓ **40**
BPS YOY

Average Q4 unemployment decreased to 5.1%.

ECONOMIC EXPANSION

The following are select announcements from fourth quarter 2016:

- ✓ **Verizon Wireless** announced the closure of its call center in Rancho Cordova, affecting **1,070 customer service and telesales positions**.
- ✓ **California Correctional Health** signed a new **54,000 square foot** lease in the Elk Grove submarket.
- ✓ On the industrial side, **BMC Stock** signed for **24,000 square feet** in Woodland.
- ✓ **Amazon** will be ramping up expansion in the region with a new fulfillment center in North Sacramento.

	2014	2015	2016	FORECAST
Labor Force (% Change)	0.8%	0.9%	2.5%	↑
EMPLOYMENT (% Change)	2.5%	1.7%	2.9%	↑
UNEMPLOYMENT RATE (%)	6.2%	5.5%	5.1%	↓

Forecast is 12-month outlook

OUTLOOK

- Despite the announcement by Verizon Wireless, job growth has continued to trend higher.
- At the forefront of issues affecting Northern California are the high cost of living (housing) and ever increasing traffic congestion.
- Home to the NBA's Sacramento Kings, the 17,500 seat Golden 1 Center opened in late 2016. The neighboring Downtown Commons (DOCO) should fully open in 2017 with retail, hotel and residential components.

MULTIFAMILY TRENDS

Fourth quarter asking rent growth from 2015 to 2016 was 8.0% while vacancy has decreased 20 basis points (BPS) to 2.5%. Asking rent has continued to increase year over year while vacancy has steadily decreased since 2009's high of 7.3%.

↑ 8.0
% YOY

Average asking rent increased to **\$1,189**.

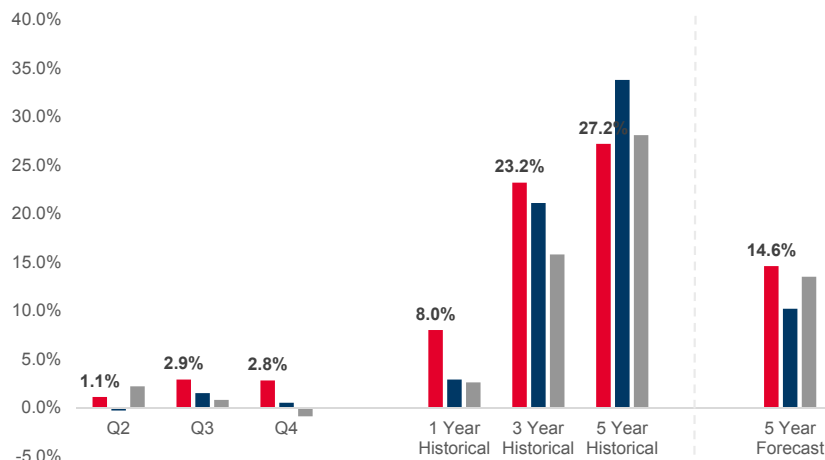
↓ 20
BPS YOY

Vacancy decreased to an average of **2.5%**.

HISTORICAL & FORECASTED METRO RENT GROWTH RATES

The average one-year historical asking **rent growth rate has steadily remained positive, +6.4% as of the third quarter and 8.0%** as in the fourth quarter, indicating that both new construction and value-add properties are breaking postrecession, top-end records. Five-year projections have been adjusted upward from 3.8% as of 2017 to 14.6% in 2021. This rate is widening the gap from regional projections.

SACRAMENTO RENT GROWTH RATES



Source: REIS, AXIOMetrics

■ Sacramento ■ California ■ United States

DEVELOPMENT / INVENTORY

The number of units under construction in the Sacramento Region is over 1,400. In the past 12 months, approximately 600 units have delivered. Nearly 200 units were built in the fourth quarter and more than 150 units were absorbed, resulting in a construction-to-absorption rate of 80%. This indicates that while supply is robust, renter demand and demographic growth continue to outpace deliveries. Inventory has grown year over year at a rate of 0.3% and will likely reach 3.0% by the end of 2021.

DEMOGRAPHIC FUNDAMENTALS

The Sacramento Region is continuing to attract high volume of residents. Per US Census, Sacramento County is the most populous market with 1.5 million residents. The median household income in 2015 dollars is \$56,000 and roughly 30% of residents hold a Bachelor degree or higher.

POPULATION

2010: 2,165,000
2015: 2,278,000
2016: 2,298,000
2020: 2,389,000



PERSONAL INCOME

2010: \$85,691
2015: \$97,698
2016: \$103,137
2020: \$114,855



MEDIAN HOUSEHOLD INCOME

2010: \$56,073
2015: \$63,189
2016: \$65,651
2020: \$74,690



MULTIFAMILY FORECAST

The following are Cushman & Wakefield's projections over the near term.



RENTS



VACANCY

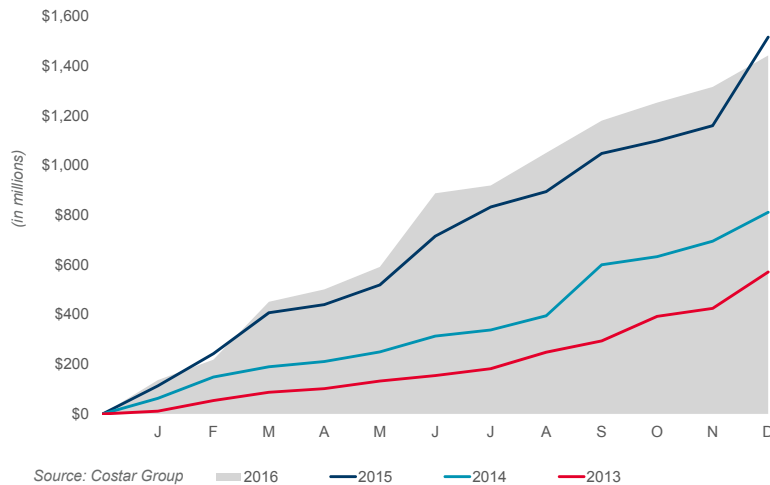


PIPELINE % GROWTH

INVESTMENT ACTIVITY

The Sacramento Region's cumulative sales volume as of December 2016 (\$1.1 billion) is -17.6% less than that of 2015's (\$1.3 billion) record high. In the fourth quarter, private capital acquired 25 properties totaling \$259 million of volume, and represented 100% of all investment activity.

YTD SALES VOLUME



NOTABLE SALES

Class A - The highest price per unit sale in the fourth quarter was greater than that of the third quarter by nearly \$45,000, or 25%. Weidner Property Management acquired **Capitol Towers & Villas** (Renovated 2006, 409 Units) in Downtown Sacramento submarket sold at \$225,000 per unit. R.K. Properties sold **Crossing at Riverlake** (1991, 163 Units) in Sacramento to Stonesfair Financial Corporation for \$179,000 per unit.

Class B - In Carmichael, K&C Investments acquired **Willow Run Apartments** (1989, 84 units) in November for \$125,000 per unit.

Class C - In Sacramento's South Natomas submarket, DTI Investments acquired **Riverglen** (1986, 168 units) in November for \$99,000 per unit.

MOST ACTIVE MARKET PLAYERS

TOP FIVE SACRAMENTO BUYERS - FOURTH QUARTER 2016

RANK	BUYER	TOTAL VOLUME	NO. TRANSACTIONS
1	Weidner Property Management LLC	\$92,000,000	1
2	Stonesfair Financial Corporation	\$29,100,000	1
3	DTI Investments, Inc.	\$16,600,000	1
4	K&C Investments, Inc.	\$10,500,000	1
5	United Development Group	\$10,250,000	1

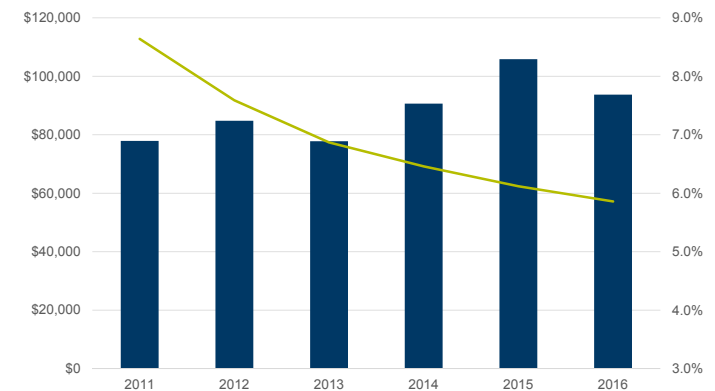
TOP FIVE SACRAMENTO SELLERS - FOURTH QUARTER 2016

RANK	SELLER	TOTAL VOLUME	NO. TRANSACTIONS
1	Kennedy-Wilson Properties, Ltd.	\$92,000,000	1
2	R.K. Properties	\$29,100,000	1
3	Gary R Edwards Inc	\$16,600,000	1
4	Ruth Bleau	\$10,500,000	1
5	Asset Management Consultants, Inc	\$10,250,000	1

Source: CoStar

PRICING & CAP RATES

Sacramento Region's fourth quarter cap rate spread is 4.6% to 7.1% while averaging at 5.58%. Annual CAP rates decreased by approximately 10 BPS to 5.77% yet still lower than 2009's high of 7.79%.

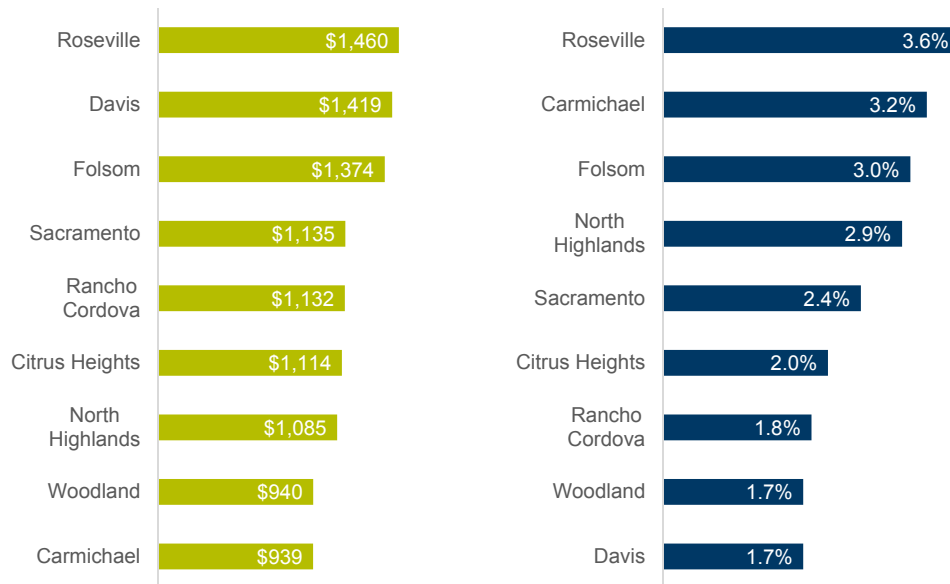


Source: Costar Group

SUBMARKET OVERVIEW

Average asking rents modestly changed from third to fourth quarter 2016 in the following counties: Placer County (+2.6%), Sacramento County (+1.6%), and Yolo County (+0.7%). The average vacancy rates in these submarkets remained stable with Placer County slightly up with nearly 200 units completed in Roseville. Construction of roughly 3,000 units over the next five years will temporarily provide relief to Sacramento Region’s strong housing demand. Of these newly delivered units, nearly 70% are forecasted to be absorbed through 2021.

RENTS & VACANCY BY SUBMARKET



Source: REIS

SELECT SUBMARKET NEWS

Downtown Sacramento

- **Weidner Apartment Homes** is planning a 10-acre, mixed-use development that will grow over 20-year period, extendable to 30 years. The project dubbed Sacramento Commons, has received entitlements to build up to 2,400 residential units, a 300-room hotel and retail.
- **USA Properties Fund** is planning 757 7th St in Downtown Sacramento. The Class A project consists of 200 affordable residential units.

Folsom

- **Elliott Homes** will soon break ground on **Pique at Iron Point**, Folsom’s largest residential project. The project consists of 327 residential units on 35-acres.
- **USA Properties Fund** plans to break ground on **Talavera Ridge** in mid-2017, a massive 293 unit Class A residential community.
- **Cresleigh Homes** plans to break ground on **Cresleigh Ravine** in mid-2017, a 230 unit Class A residential community on 10.1-acres.

South Natomas

- **Demmon Partners** is planning **Natomas Park Drive Apartments**, construction will begin early 2017. The Class A development will include 232 market rate residential units.

Roseville/Rocklin

- **Place Vineyards** is set break ground late 2017, a master planned community in Roseville encompassing 5,230 acres, 14,132 units, 107 acres of office development and 166 acres of retail development.
- **Campus Oaks Apartments** is located on 8.9-acres of land in Roseville totaling 396 units with full amenities. The project part of Hewlet.
- **Cresleigh Homes** is currently constructing **Garnet Creek Apartments** in Rocklin. Projects consists of 260 units at market rate over 13 buildings and delivering early 2017.

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