

MARKETBEAT

Bay Area Multifamily Q1 2019



BAY AREA MULTIFAMILY

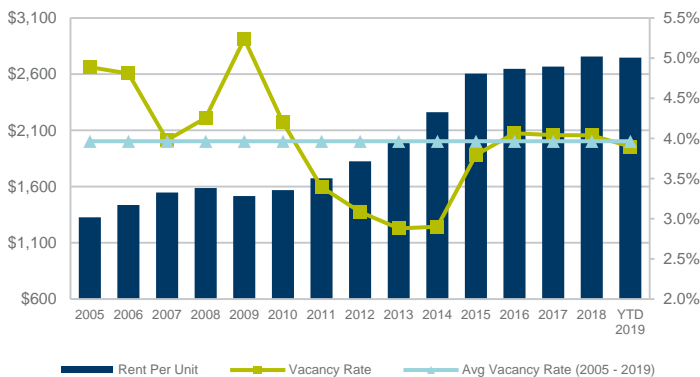
| Economic Indicators* | Q1 18 | Q1 19 | 12-Month Forecast |
|-----------------------|-------|-------|-------------------|
| Bay Area Employment | 4.06M | 4.13M | ▲ |
| Bay Area Unemployment | 2.9% | 3.1% | ▼ |
| U.S. Unemployment | 4.1% | 3.8% | ▼ |

*Q1 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm

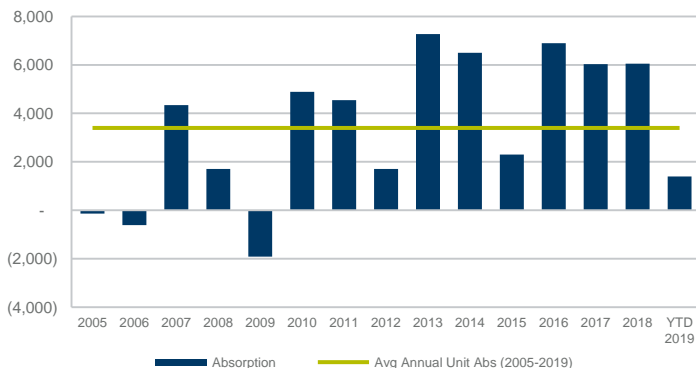
Market Indicators (Overall, All Classes)

| | Q1 18 | Q1 19 | 12-Month Forecast |
|---------------------|---------|---------|-------------------|
| Overall Vacancy | 4.0% | 3.9% | ▼ |
| Net Absorption (sf) | 2,209 | 1,397 | ▲ |
| Under Construction | 25,000 | 35,700 | ▲ |
| Average Asking Rent | \$2,691 | \$2,746 | ▲ |

Overall Asking Rent vs. Overall Vacancy ⁽¹⁾



Overall Absorption ⁽¹⁾



Economy

The Bay Area job market continues to improve, adding 92,600 jobs year-over-year through the first quarter of 2019. During the same time period, the unemployment rate climbed from 2.9% to 3.1%.

Market Overview

The Bay Area multifamily market finished the first quarter of 2019 with strong rent growth, absorption and completions. The market absorbed nearly 1,400 units during the first quarter. The Santa Clara (476 units) and East Bay (424 units) submarkets recorded the highest net gains in positive absorption.

The Bay Area vacancy remained at a low 3.9%, unchanged year-over-year (YOY). San Francisco County vacancy rate recorded the largest YOY decrease from 4.6% to 4.3%; significant move-ins to new deliveries fueled occupancy rates. Sonoma's vacancy recorded the highest increase at 3.7%, up 100 basis points (bps) YOY; new projects delivered in the first quarter of 2019 have not fully leased resulting in a spike in vacancy. Bay Area submarkets with high absorption with even higher pre-leased deliveries recorded slight decreases in vacancy.

Asking rent growth remained positive YOY, however after seven straight quarters, Bay Area asking rates dropped -0.4%. Average asking rates increased to \$2,746 per unit in the first quarter of 2019, over 2.0% higher YOY, 3.2% over three years, and a staggering 81.2% since the Great Recession in 2009. The Bay Area's recovery was most prominent in 2014-2015 when rents spiked from \$2,000 to \$2,600 due in large parts by the injection of venture capital into the technology sector and a wave of new units.

San Mateo (\$2,985 per unit) and Alameda (\$2,444 per unit) submarkets saw the largest asking rate increases of 4.8% YOY and 3.7% YOY, respectively. San Francisco continues to have the highest asking rate per unit at \$3,481.

Sales volume has slowed down from 2018's booming year with a quarterly average \$1.3 billion while Q1 2019 reached \$754 Million. Cap rates are below the 10-year average of 5.2%. The Bay Area overall figure was 4.7% at the end of the first quarter, increasing 120 bps from the fourth quarter and up 10 bps from one year ago.

Construction completions remained steady bringing the first quarter total to just over 900 units across six properties. Cushman & Wakefield is currently tracking nearly 36,000 units that are under construction and an additional 101,200 units planned for development.

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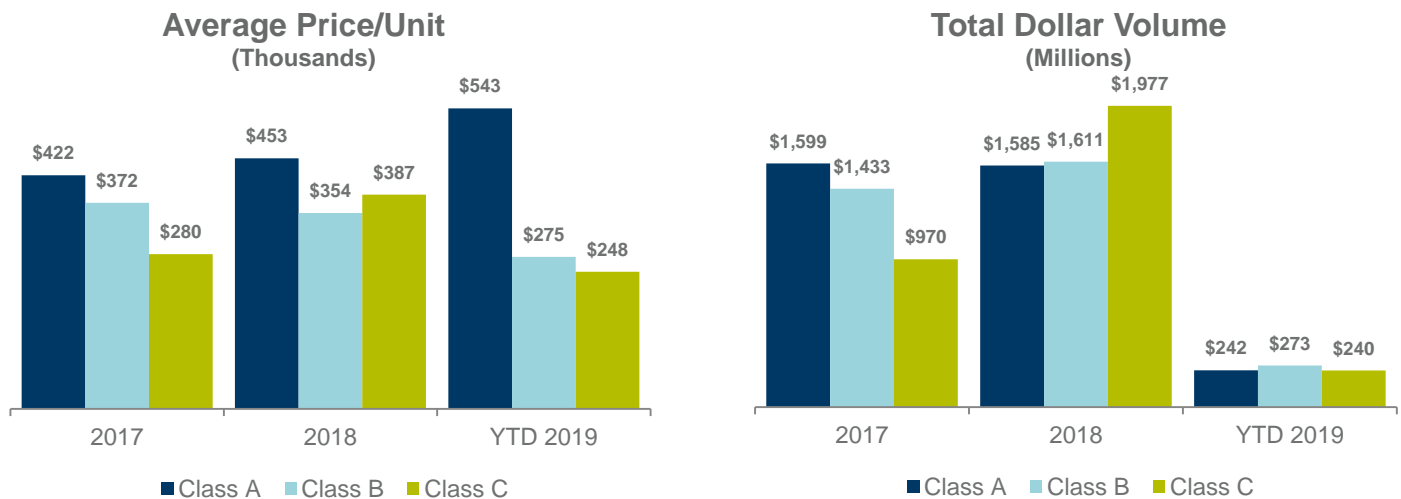
Multifamily Q1 2019



| SUBMARKET | INVENTORY UNIT | Q1 VACANCY RATE | NET ABSORPTION IN UNITS | | RENTAL RATE PER UNIT | UNITS UNDER CONSTRUCTION | UNITS PLANNED |
|----------------------|----------------|-----------------|-------------------------|--------------|----------------------|--------------------------|----------------|
| | | | Q1 | YTD 2019 | | | |
| Alameda County | 92,289 | 4.0% | 378 | 378 | \$2,444 | 10,445 | 23,528 |
| Contra Costa County | 59,901 | 2.6% | 46 | 46 | \$2,110 | 2,354 | 3,522 |
| Marin County | 15,652 | 3.2% | -3 | -3 | \$2,567 | 0 | 293 |
| Napa/Solano County | 16,276 | 2.2% | 0 | 0 | \$1,579 | 520 | 2,002 |
| San Francisco County | 91,815 | 4.3% | 291 | 291 | \$3,481 | 7,061 | 40,027 |
| San Mateo County | 43,871 | 4.3% | 209 | 209 | \$2,985 | 2,627 | 5,359 |
| Santa Clara County | 131,001 | 4.3% | 476 | 476 | \$2,705 | 11,986 | 23,311 |
| Sonoma County | 12,742 | 3.7% | 0 | 0 | \$1,715 | 667 | 3,128 |
| TOTAL MARKET | 463,547 | 3.9% | 1,397 | 1,397 | \$2,746 | 35,660 | 101,170 |

(1)

Year Over Year Sales Comparison ⁽⁵⁾



2019 Key Sales Transactions ⁽⁵⁾

| PROPERTY | CITY | UNITS | AVG SF | SALE PRICE | PRICE/UNIT | PRICE/SF | CLASS | BUYER | Seller |
|--------------------------|------------|-------|--------|--------------|------------|----------|-------|---------------------------------------|--|
| Metro Six55 Apartments | Hayward | 188 | 898 | \$70,600,000 | \$375,532 | \$418 | B | Prime Group | Jackson Square |
| Vineyard Gardens | Santa Rosa | 180 | 747 | \$49,400,000 | \$274,444 | \$366 | B | Angelo Gordon, Glencrest Realty Group | St. Regis Properties |
| Terra Martinez | Martinez | 168 | 796 | \$47,500,000 | \$282,738 | \$357 | B | Pacific Urban | Fairfield Residential |
| Marina Crossing | Petaluma | 90 | 835 | \$42,000,000 | \$466,667 | \$467 | A | Sonoma State University | Marina Office Park Associates, Basin Street Properties |
| Parkwood | Fairfield | 107 | 710 | \$24,180,000 | \$225,974 | \$332 | C | Crown Capital | JCM Partners |
| Villa Medanos | Antioch | 112 | 809 | \$22,000,000 | \$196,429 | \$243 | B | Reliant Group | American Management Group |
| The Carlton | Berkeley | 113 | 382 | \$21,750,000 | \$192,478 | \$504 | C | Rev Projects | Prado Group |
| Amador Valley | Dublin | 80 | 845 | \$21,100,000 | \$263,749 | \$351 | C | Reliant Group | American Management Group |
| Lenzen Square Apartments | San Jose | 88 | 560 | \$21,000,000 | \$238,636 | \$202 | B | WNC & Associates | AOF Pacific, CORE Companies |

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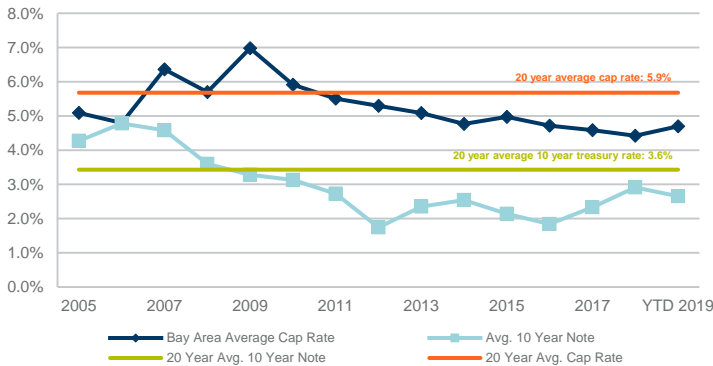
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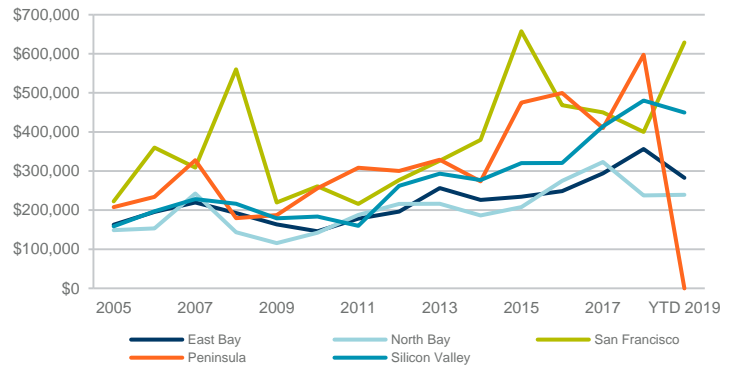
Average Cap Rate ⁽²⁾

BAY AREA'S CAP RATE AND THE 10 YEAR U.S. TREASURY RATE ARE BELOW HISTORICAL AVERAGES AND BELOW THE HISTORICAL AVERAGE CAP RATE SPREAD OF 2.3%.



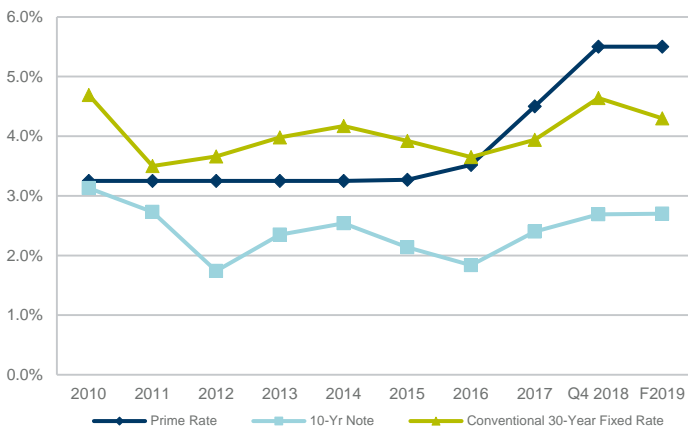
Average Price Per Unit History ⁽⁵⁾

BAY AREA'S AVERAGE PRICE PER UNIT (PPU) DECREASED 2.9% OVER THE PAST FIVE YEARS FROM \$322,838 PPU TO \$313,495 PPU. THE PENINSULA WAS QUIET WHILE EAST BAY TRADED 12 PROPERTIES AVERAGING \$282,755 PPU.



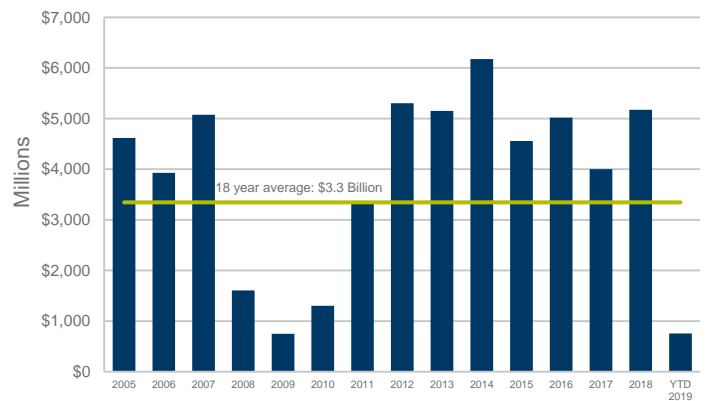
Interest Rates ⁽³⁾

FEDERAL FUNDS TARGET RATE FORECASTED TO CONTINUE TO RISE IN THE NEAR FUTURE ; CONVENTIONAL 30-YEAR FIX RATE AT 4.3%.



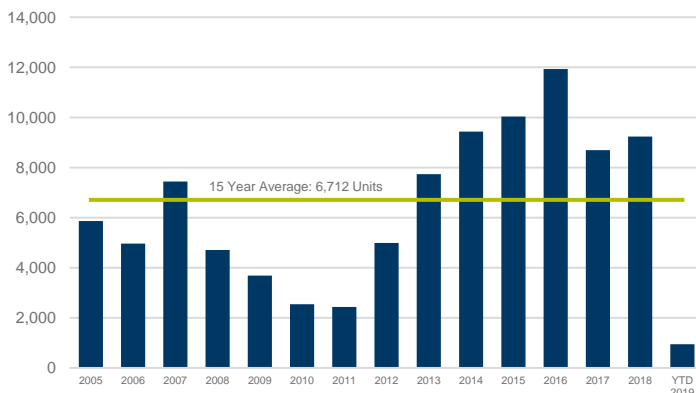
Sales Transaction Volume ⁽⁵⁾

Q1 2019 TRANSACTION VOLUME OF \$754 MILLION WAS THE LOWEST QUARTERLY TOTAL SINCE Q2 2017.



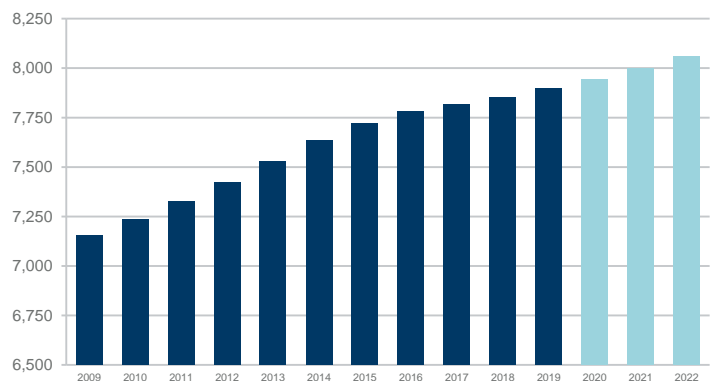
New Inventory ⁽⁴⁾

Q1 2019 TOTAL NEW INVENTORY OFF TO A SLOW START HOWEVER OVER 130 PROJECTS ARE ON COURSE TO DELIVER BY YEARS END.



Population ⁽⁶⁾

POPULATION GROWTH IS EXPECTED TO STRENGTHEN THROUGH 2022 PROJECTIONS.



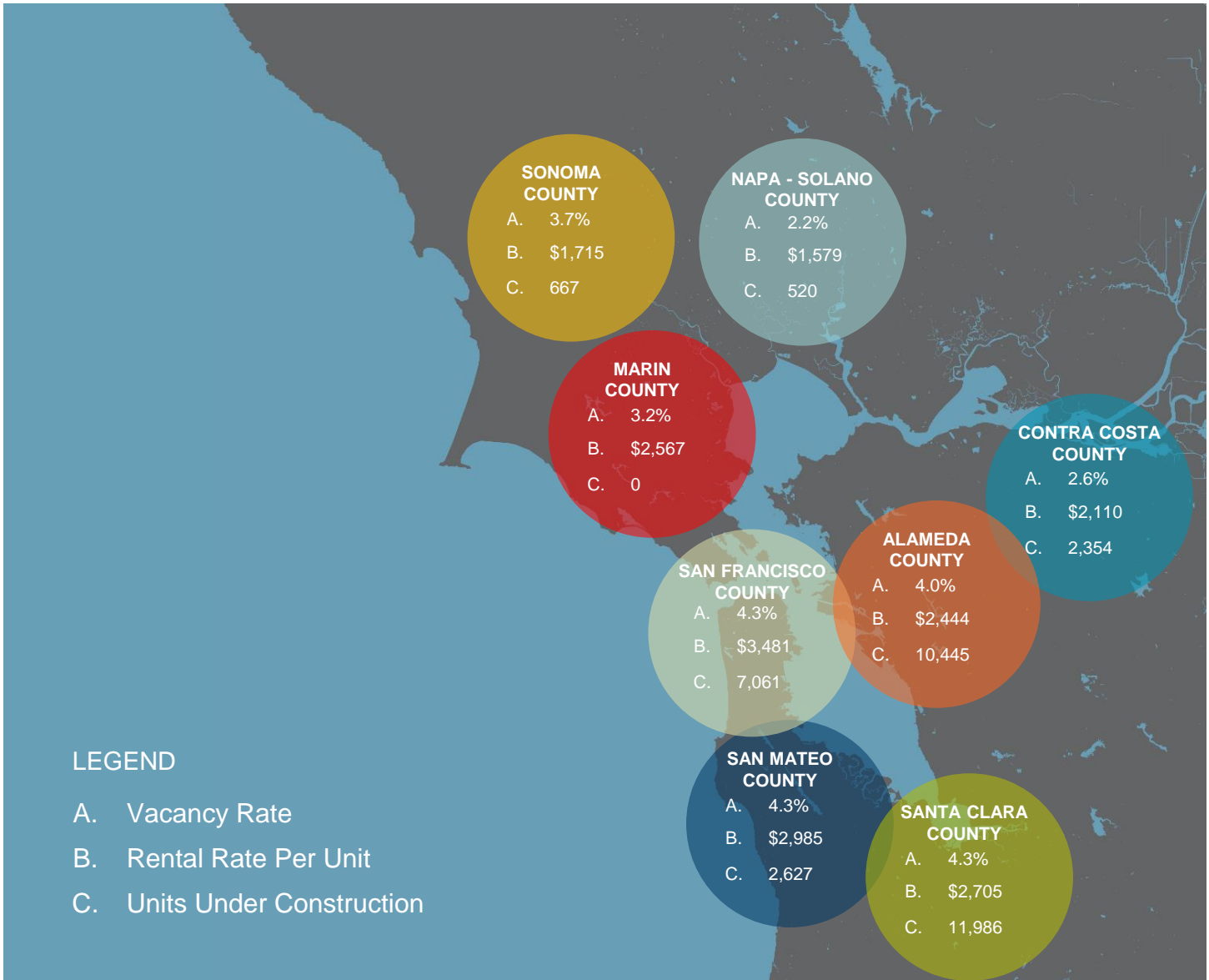
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MULTIFAMILY SUBMARKETS



- (1) REIS, Cushman & Wakefield
- (2) Federal Reserve Board
- (3) Federal Reserve Board, Wells Fargo
- (4) REIS, CoStar, Cushman & Wakefield

- (5) Real Capital Analytics, Cushman & Wakefield
- (6) Moody's & U.S. Census Bureau

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About Cushman & Wakefield

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