

MARKETBEAT

Bay Area Multifamily Q2 2019



BAY AREA MULTIFAMILY

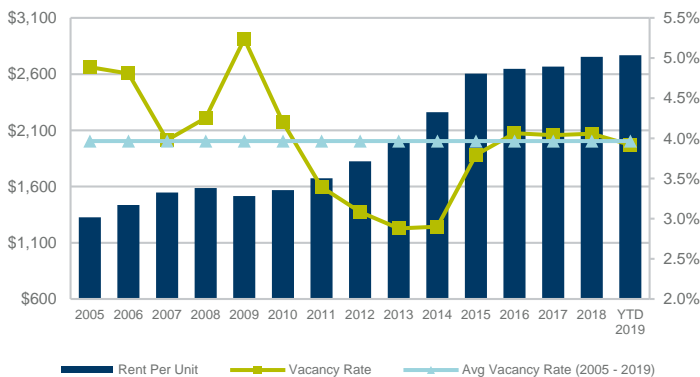
Economic Indicators*	Q2 18	Q2 19	12-Month Forecast
Bay Area Employment	3.98M	4.08M	▲
Bay Area Unemployment	2.8%	2.9%	▼
U.S. Unemployment	3.9%	3.6%	▼

*2019 Q2 data are based on latest available data.

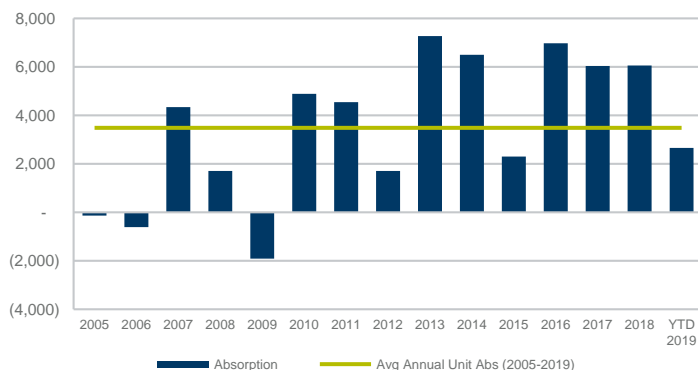
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Overall Vacancy	3.9%	3.9%	▼
Net Absorption (sf)	1,853	1,257	▲
Under Construction	25,000	33,181	▲
Average Asking Rent	\$2,721	\$2,768	▲

Overall Asking Rent vs. Overall Vacancy ⁽¹⁾



Overall Absorption ⁽¹⁾



Economy

The Bay Area's economy remains robust with signs of expansion across all major economic sectors. The momentum, however has slowed somewhat over the past year as the market has reached full employment. Nevertheless, there have been 92,400 nonfarm jobs added from just one year ago and a total of 873,000 additional jobs since the recovery began in 2009.

Market Overview

The Bay Area multifamily market finished 1H 2019 with strong rent growth, absorption and completions. The market absorbed nearly 2,700 units during the first six months of 2019. The Santa Clara (801 units) and Alameda (713 units) submarkets recorded the highest net gains in positive absorption.

The Bay Area vacancy rate remained at a low 3.9%, unchanged year-over-year (YOY). The San Mateo County figure recorded the largest YOY decrease from 4.5% to 4.0% while San Francisco hit an 18 month low at 4.1%. These neighboring business hubs are actively keeping up with demand by picking up the pace of construction deliveries or approving entitlements.

Asking rent growth remained positive increasing to \$2,768 per unit in the second quarter of 2019, 1.7% higher YOY, 3.5% over three years, and a staggering 82.7% since the Great Recession ended 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 part to the exploding technology sector in conjunction with a wave of new units often equipped with higher-cost modern features and amenities – despite such wave, supply has still seemingly fallen short of market demand.

The East Bay which consists of Alameda and Contra Costa counties saw the largest asking rate increases of 4.8% YOY and 3.3% YOY, respectively. This region has been on the upswing with demand drivers such as new apartments along transportation, growing professional workforce and exceptional retail concepts.

Sales volume has slowed from the boom of 2018's quarterly average \$1.3 billion as 1H 2019 averaged \$865 million per quarter. Cap rates are below the 10-year average of 5.1%. The Bay Area overall figure was 4.3% at the end of the second quarter, decreasing 40 basis points (bps) from the fourth quarter and down 10 bps from one year ago.

Construction completions remained steady bringing the 1H 2019 total to just over 3,900 units across 27 properties. Cushman & Wakefield is currently tracking nearly 33,000 units under construction and an additional 104,000 units planned for development.

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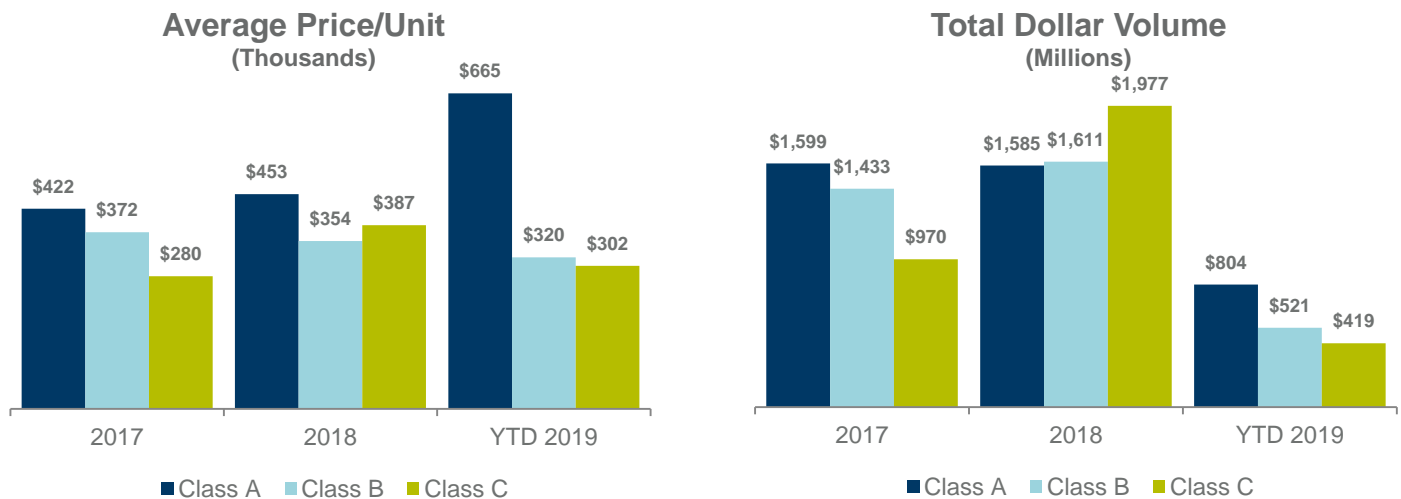
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SUBMARKET	INVENTORY UNIT	Q2 VACANCY RATE	NET ABSORPTION IN UNITS		RENTAL RATE PER UNIT	UNITS UNDER CONSTRUCTION	UNITS PLANNED
			Q2	YTD 2019			
Alameda County	92,833	4.2%	334	713	\$2,487	9,807	22,565
Contra Costa County	59,901	2.6%	14	61	\$2,150	2,331	4,556
Marin County	15,652	3.1%	20	17	\$2,582	0	293
Napa/Solano County	16,276	2.1%	0	0	\$1,591	481	2,002
San Francisco County	91,969	4.1%	137	429	\$3,489	6,215	40,524
San Mateo County	44,156	4.0%	428	637	\$3,010	2,461	6,404
Santa Clara County	131,572	4.5%	324	801	\$2,750	11,396	25,052
Sonoma County	12,959	3.8%	0	0	\$1,717	490	3,184
TOTAL MARKET	465,318	3.9%	1,257	2,658	\$2,768	33,181	104,580

(1)

Year Over Year Sales Comparison ⁽⁵⁾



Key Sales Transactions Q2 2019 ⁽⁵⁾

PROPERTY	CITY	UNITS	AVG SF	SALE PRICE	PRICE/UNIT	PRICE/SF	CLASS	BUYER	Seller
Jasper	San Francisco	319	1,067	\$306,500,000	\$960,815	\$1,009	A	Northwestern Mutual	Crescent Heights
Domain	San Jose	444	1,031	\$255,500,000	\$575,450	\$558	A	Prime Group	Equity Residential, Northwestern Mutual
Sofi Riverview Park	San Jose	271	811	\$132,417,000	\$488,622	\$602	B	Pacific Urban	Lumin Chang
926 Woodside Rd	Redwood City	76	650	\$40,000,000	\$526,316	\$599	C	Michael Kelly	WL Butler Construction
Marina Heights	Pittsburg	200	749	\$35,767,000	\$178,835	\$231	B	FFAH	Steadfast Companies
Pacific Gardens	San Mateo	38	1,390	\$25,500,000	\$671,053	\$509	B	Ruder Trust	McAker Investment USA
Atherton Green	Redwood City	51	673	\$25,400,000	\$498,039	\$739	C	Jay Paul Company	Interstate Equities Corporation
Telegraph Gardens	Berkeley	38	950	\$25,380,000	\$667,895	\$602	B	Gerding Edlen	Segula Investments
Central Valley Homes Apartments	Mill Valley	24	1,581	\$18,000,000	\$750,000	\$467	B	David Jacobson	Central Valley Homes

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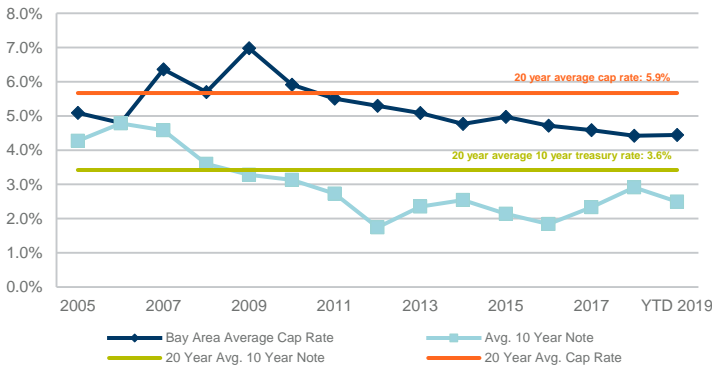
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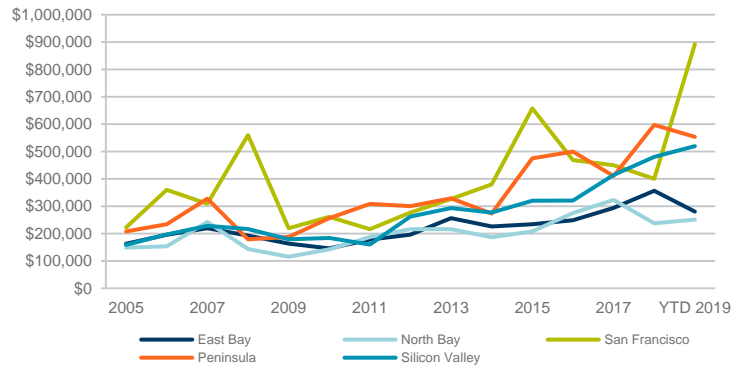
Average Cap Rate ⁽²⁾

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%.



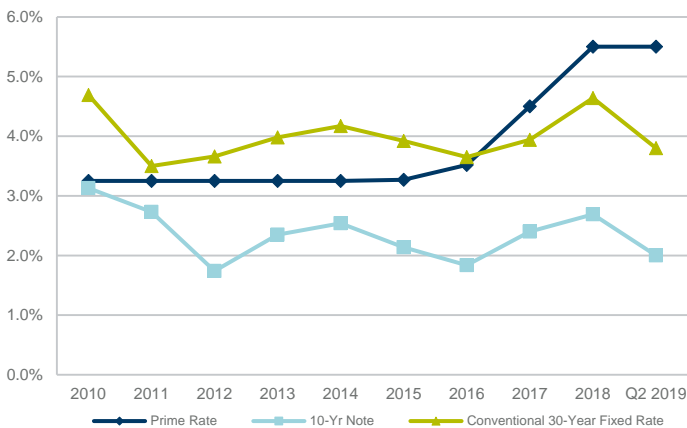
Average Price Per Unit History ⁽⁵⁾

BAY AREA'S QUARTERLY AVERAGE PRICE PER UNIT (PPU) INCREASED 166% OVER THE PAST FIVE YEARS FROM \$206,394 PPU TO \$548,931 PPU. SAN FRANCISCO'S TOP SALE OF \$960,815 PPU WAS THE MAIN DRIVER TO BAY AREA'S INCREASE.



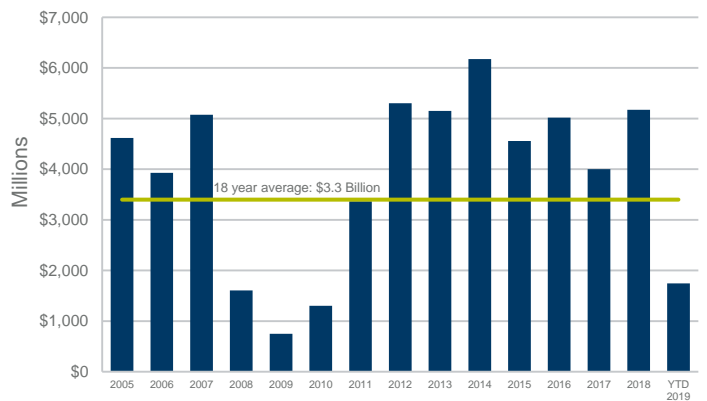
Interest Rates ⁽³⁾

FEDERAL FUNDS TARGET RATE FORECASTED TO CONTINUE TO RISE IN THE NEAR FUTURE ; CONVENTIONAL 30-YEAR FIX RATE AT 3.8%.



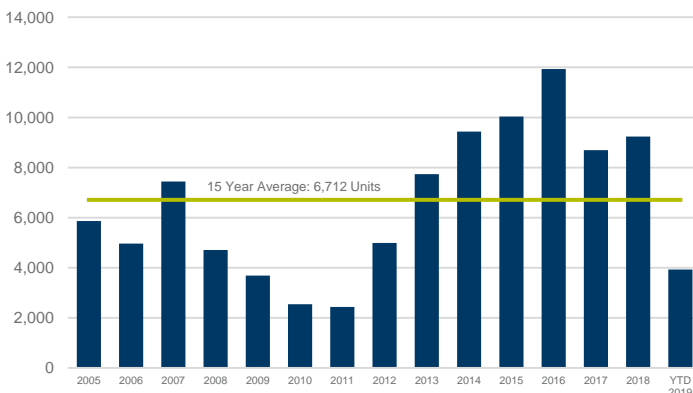
Sales Transaction Volume ⁽⁵⁾

1H 2019 TRANSACTION VOLUME OF \$1.7 BILLION IS ON TRACK TO REACH 2011 LEVELS AND INCH ABOVE THE 18 YEAR AVERAGE OF \$3.3 BILLION.



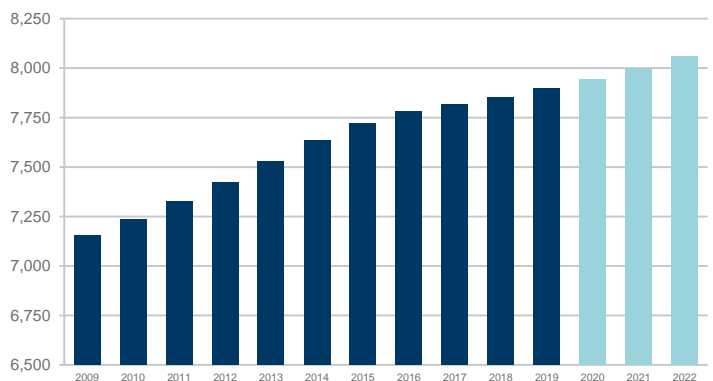
New Inventory ⁽⁴⁾

1H 2019 TOTAL NEW INVENTORY PROJECTS TOTALED 3,927 UNITS; 16,974 UNITS CAN DELIVERED BY YEARS END OR ROLL OVER TO 2020.



Population ⁽⁶⁾

POPULATION GROWTH IS EXPECTED TO STRENGTHEN THROUGH 2022



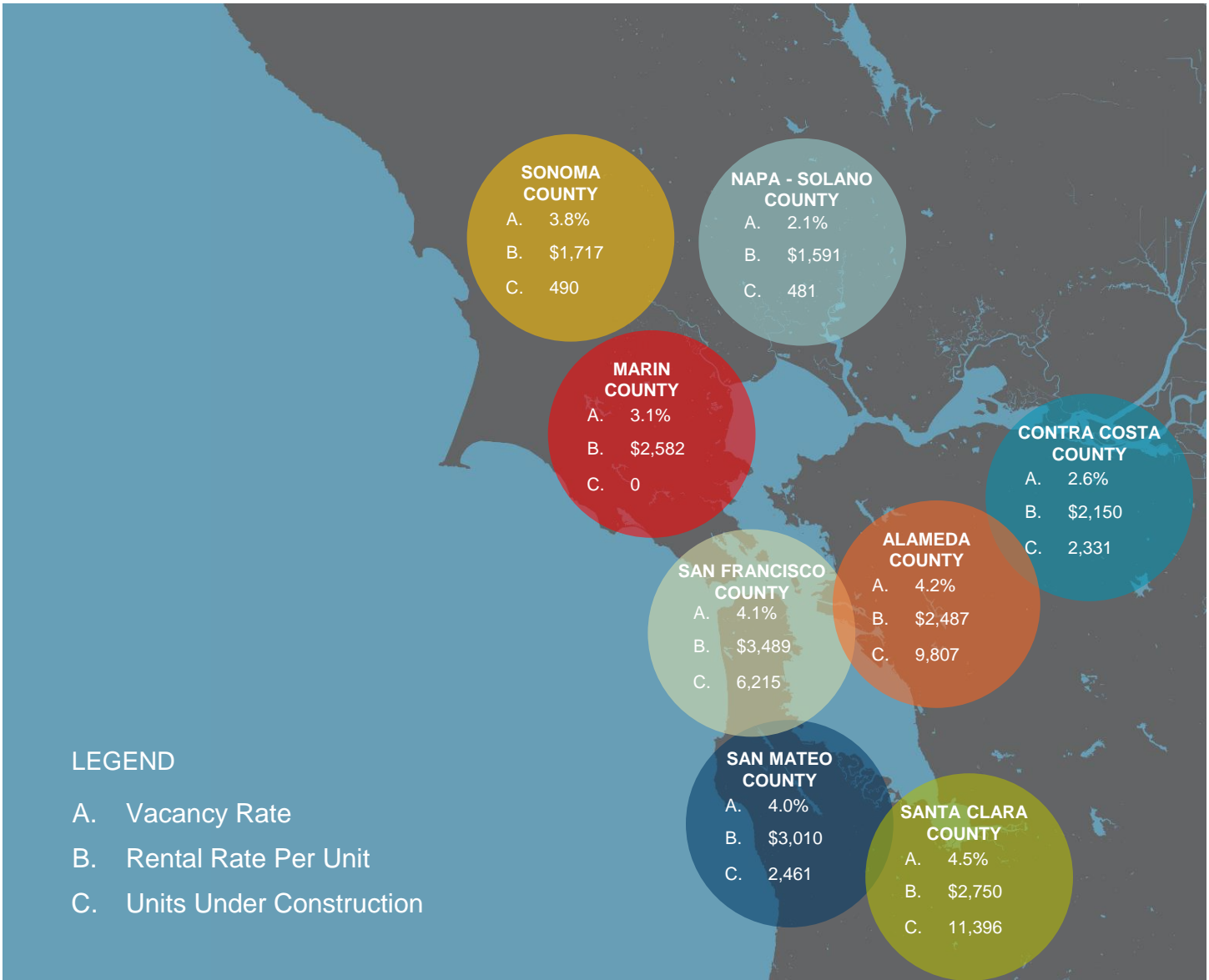
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MULTIFAMILY SUBMARKETS



- (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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