

Multifamily Q2 2023

YoY Chg 12-Mo. Forecast

5.8%
Vacancy Rate

2,394
Net Absorption, units

\$2,504
Effective Rent (per unit)

Source: CoStar
(Overall, All Property Classes, Net Absorption is Q2 2023 only)

ECONOMIC INDICATORS Q2 2023

YoY Chg 12-Mo. Forecast

4.1M
Bay Area Employment

3.3%
Bay Area Unemployment Rate

0.5%
Bay Area Household Growth Rate

Source: BLS, BOC, Moody's Analytics

ECONOMY: Unemployment Rate Rises

In the second quarter of 2023, the trend toward hybrid work and flexible office arrangements continued in the Bay Area as companies sought to meet the evolving needs of their workforce. Layoffs, especially among technology companies, have grown substantially since mid-year 2022 and will likely continue throughout the remainder of 2023. The unemployment rate for the Bay Area climbed to 3.3%, up 50 basis points (bps) from one year ago. The median household income increased 3.3% to \$127,500 over the past year, the highest of any major metro area in the country. Funding to Bay Area-based companies dropped 20.3% quarter-over-quarter to \$16.2 billion though still accounted for over 36% of all VC funding that occurred in the U.S. during the second quarter.

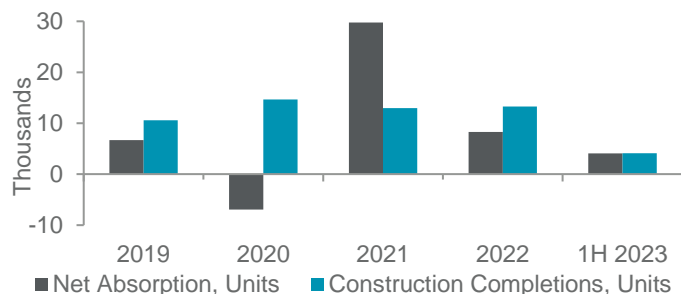
SUPPLY AND DEMAND: Vacancy Improves and Pipeline Remains Deep

The Bay Area vacancy rate eased 10 bps to 5.8% in the second quarter of 2023, the lowest reading since 5.6% in the third quarter of 2022 and well below the pandemic-era peak of 7.8% in the fourth quarter of 2020. The lowest countywide vacancy figure was Sonoma County at 4.0%, while the highest countywide figures were both in the East Bay with Alameda and Contra Costa closing the quarter at 6.8% - up from the second quarter 2022 figures of 5.3% and 4.7%, respectively. Only San Francisco County recorded a year-over-year decline in vacancy, with the figure falling 20 bps to 6.5%. There were 2,169 units delivered this quarter, outperforming the first quarter of 2023, though near the quarterly historical average of 2,019 units since 2000. A deep pipeline of 29,069 units remain under construction in the Bay Area representing 3.7% of current inventory (below the U.S. average of 5.0%), double the historical quarterly average of 15,305 units since 2000. Santa Clara County features 10,460 units under construction, which accounts for over one-third of the total units in the region.

RENTS: Pandemic-Era Growth Stalls in Many Counties

After demonstrating growth in 2021 and early 2022, effective rents for the Bay Area fell -0.6% year-over-year to \$2,504 per unit. Marin County recorded the largest decline in effective rents at -2.2% followed by San Francisco County, down -1.4%; Sonoma County recorded the most significant increase over the period at +0.5%.

DELIVERIES & ABSORPTION



AVERAGE VACANCY & EFFECTIVE RENTS



MARKET STATISTICS

COUNTY	INVENTORY (UNITS)	YTD DELIVERIES (UNITS)	YTD% INVENTORY GROWTH	UNDER CONSTRUCTION (UNITS)	YTD NET ABSORPTION (UNITS)	VACANCY RATE	YOY VACANCY RATE CHANGE	AVG EFFECTIVE RENT/UNIT	AVG EFFECTIVE RENT PSF	YOY % EFFECTIVE RENT CHANGE
Santa Clara	203,515	392	0.7%	10,460	1,280	4.6%	+0.6%	\$2,731	\$3.27	-0.5%
Alameda	183,973	983	0.8%	6,402	786	6.8%	+1.5%	\$2,262	\$2.91	-0.6%
San Francisco	159,168	982	0.9%	2,824	975	6.5%	-0.2%	\$2,875	\$4.05	-1.4%
San Mateo	75,293	451	0.6%	3,429	268	5.7%	+0.3%	\$2,825	\$3.54	0.1%
Contra Costa	70,662	361	1.6%	1,290	266	6.8%	+2.1%	\$2,094	\$2.59	-0.3%
Sonoma	35,892	696	2.5%	2,698	326	4.0%	+1.6%	\$1,889	\$2.25	0.5%
Solano	27,864	262	0.9%	727	311	5.4%	+1.0%	\$1,810	\$2.17	-0.2%
Marin	20,030	0	0.0%	119	-69	4.6%	+1.2%	\$2,588	\$3.04	-2.2%
Napa	7,989	0	0.0%	1,120	-73	5.3%	+2.1%	\$2,120	\$2.48	-1.3%
All Bay Area	784,386	4,127	0.9%	29,069	4,070	5.8%	+0.8%	\$2,504	\$3.13	-0.6%

KEY SALES TRANSACTIONS Q2 2023

PROPERTY, CITY	UNITS	SALE PRICE	PRICE / \$ UNIT	SELLER / BUYER
Eaves, Daly City	195	\$66,000,000	\$338,462	Avalonbay Communities / BRIDGE Housing Corporation
La Via Apartments, Petaluma	184	Unknown	Unknown	A.G. Spanos Companies / Sentinel Real Estate Corporation
Normandy Park Apartments, Santa Clara	140	\$49,500,000	\$353,571	Cambridge Management Company / Spieker Companies
The Villages at Cupertino, Cupertino	110	\$50,100,000	\$455,455	UBS Asset Management / Koret Foundation

KEY CONSTRUCTION COMPLETIONS Q2 2023

PROPERTY	UNITS	PROPERTY TYPE	PROPERTY MANAGER	OWNER / DEVELOPER
Hanover Winchester, San Jose	366	Mid-Rise	Hanover Company	Hanover Company / Hanover Company
The Canyon, San Francisco	283	Hi-Rise	Greystar	Tishman Speyer
Legacy at Livermore, Livermore	222	Mid-Rise	Legacy Partners	Legacy Partners / Legacy Partners
Ventana Residences, San Francisco	193	Mid-Rise	Greystar	Kristin Adrian / Presidio Bay Ventures

MARKET DRIVERS

- The Bay Area economy is expected to remain subdued for the remainder of 2023 which will likely translate to flat or declining effective rents and elevated vacancy levels above the quarterly historical average of 4.7% since 2000.
- Construction of new units is forecasted to vastly outpace the quarterly historical average since 2000, providing much-needed inventory while contributing to higher vacancy over the near-term until these new units are absorbed.

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