

Multifamily Q3 2023

YoY Chg 12-Mo. Forecast

5.6%
Vacancy Rate



2,604
Net Absorption, units



\$2,481
Effective Rent (per unit)



Source: CoStar
(Overall, All Property Classes, Net Absorption is Q3 2023 only)

ECONOMIC INDICATORS Q3 2023

YoY Chg 12-Mo. Forecast

4.1M
Bay Area Employment



3.5%
Bay Area Unemployment Rate



0.6%
Bay Area Household Growth Rate



Source: BLS, BOC, Moody's Analytics

ECONOMY: Venture Capital Remains A Primary Economic Driver

For the San Francisco Bay Area in the third quarter, the ongoing economic uncertainty persisted as companies navigated the challenges posed by hybrid work models and flexible office arrangements. With that said, employment in the region expanded by 86,800 new jobs year-over-year (YOY) for a growth rate of 2.1%. Bay Area office jobs, despite numerous announced layoffs in the tech sphere this year, remain above the pre-pandemic peak by 2.3%. Meanwhile, the unemployment rate did climb 80 basis points (bps) YOY with the most recent figure at 3.5%. Vitaly important to this tech-heavy market is venture capital funding. After a sharp increase in the first quarter, funding to Bay Area-based companies has dropped in the past two quarters. However, the region remains above every other North American market in terms of venture capital this year, almost as great as the next 10 largest markets combined. Generative AI funding is currently the dominant trend, with Bay Area-based companies securing 82% of the global AI funding year-to-date.

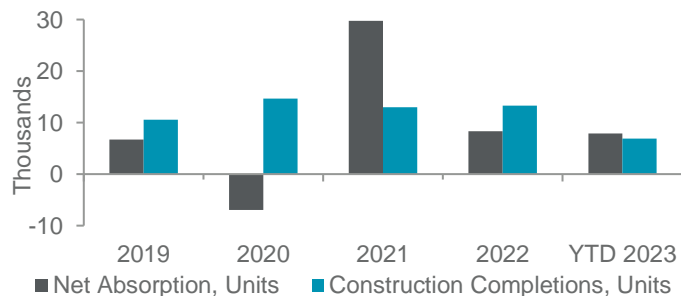
SUPPLY AND DEMAND: YOY Vacancy Decline Led By San Francisco County

The Bay Area vacancy rate closed the third quarter of 2023 at 5.6%, a drop of 10 bps from the second quarter but equal to the rate one year ago. Though still elevated from the pre-pandemic 4.0% range, it has fallen significantly from the recent high of 7.8% recorded in both the third and fourth quarters of 2020. The lowest countywide vacancy figure was Sonoma at 4.3%, while the highest countywide figures were Napa (with the smallest inventory) at 6.8% and Alameda (with the second highest inventory) at 6.7%. San Francisco County recorded the most significant year-over-year decline in vacancy, with the figure falling 70 bps to 6.1%, the lowest since the 6.0% back in the first quarter of 2020; it had reached 10.1% in the fourth quarter of 2020. The delivery of new units across the Bay Area increased to 2,675 in the third quarter from 2,271 in the second quarter and above the quarterly average of 2,034 going back to the beginning of the century. There are 26,833 under construction in the Bay Area, 75% higher than the quarterly average since 2000; the current figure represents 3.4% of inventory, well below the U.S. average of 6.9%.

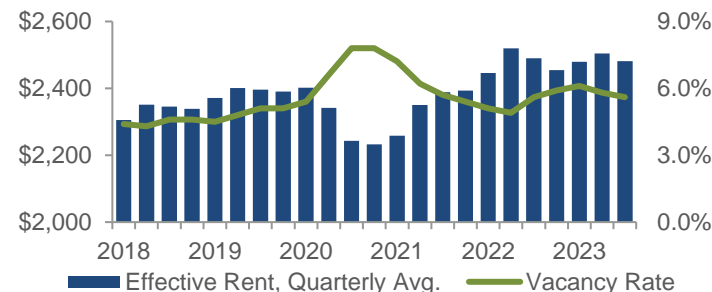
RENTS: Urban Versus Suburban – Almost

The Bay Area recorded a YOY decline of -1.5% in the average effective rent to close at \$2,481 per unit in the third quarter. Four counties were lower YOY including three of the most urban – San Francisco (-0.9%), Alameda (-0.9%) and Santa Clara (-0.8%) with Napa also falling slightly (-0.2%). But it wasn't completely urban versus suburban as rather dense San Mateo County climbed YOY by +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	204,401	1,315	0.6%	9,851	2,301	4.5%	-0.2%	\$2,688	\$3.22	-0.8%
Alameda	185,228	1,881	1.0%	5,335	1,861	6.7%	+0.2%	\$2,248	\$2.89	-0.9%
San Francisco	159,695	1,197	0.8%	2,444	1,801	6.1%	-0.7%	\$2,841	\$4.00	-0.9%
San Mateo	75,506	661	0.9%	3,268	340	5.5%	+0.2%	\$2,809	\$3.51	0.5%
Contra Costa	70,687	415	0.6%	1,178	827	6.0%	+0.4%	\$2,094	\$2.59	0.4%
Sonoma	36,419	846	2.4%	3,060	381	4.3%	+1.3%	\$1,894	\$2.27	0.7%
Solano	28,007	397	1.4%	639	455	5.1%	-0.1%	\$1,789	\$2.15	1.0%
Marin	19,777	9	0.0%	110	-38	4.6%	+0.9%	\$2,639	\$3.10	1.0%
Napa	8,405	187	2.3%	948	-23	6.8%	+3.0%	\$2,097	\$2.47	-0.2%
All Bay Area	788,125	6,908	0.9%	26,833	7,905	5.6%	+0.1%	\$2,481	\$3.13	-0.6%

KEY SALES TRANSACTIONS Q3 2023

PROPERTY, CITY	UNITS	SALE PRICE	PRICE / \$ UNIT	SELLER / BUYER
The James Apartments, San Jose	190	\$74,250,000	\$390,789	Fairfield / Archway Holdings and Virtu Investments
Artist Walk Commons, Fremont	185	\$89,750,000	\$485,135	Clarion Partners / MG Properties
Arrive Sonoma Ridge, Santa Rosa	180	\$60,000,000	\$333,333	Bridge Partners / FPA Multifamily
Vespaio, San Jose	162	\$83,500,000	\$515,432	Hudson Management Company / Rockwood Capital

KEY CONSTRUCTION COMPLETIONS Q3 2023

PROPERTY	UNITS	PROPERTY TYPE	PROPERTY MANAGER	OWNER / DEVELOPER
Sango Court, Milpitas	102	Mid-Rise	RDD - Sango Court	Pacific West Communities / Pacific West Communities
PATH Villas, San Jose	94	Mid-Rise	PATH Villas	PATH Ventures / PATH Ventures
The Artisan, Berkeley	66	Mid-Rise	Lapham	Commercial Lessors / Ruegg & Ellsworth
Brickline Flats, San Mateo	64	Mid-Rise	Prometheus	Michael Tragoutsis / Prometheus

MARKET DRIVERS

- The discussion around potential conversions from office use to residential use for some product in downtown San Francisco continues though there will likely be little activity in the near term.
- There have been and will continue to be some multi-family developments that will suffer financial stress; other projects will postpone ground-breaking until the financial markets stabilize.

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