Kidder Mathews

MARKET TRENDS | WEST COAST

MULTIFAMILY

YEAR END

2019

The majority of 2019 was seen as a moderate start in the multifamily sector, as there was a lessening in new developments entering the market.

A difficult entitlement process, administrative requirements, and an increase in development costs have ended up being problematic within the sector. In addition, the multifamily segment remains undersupplied—especially in key markets, as landlords have balanced their concentration to take into account high salary tenants.

There is still room to realize the income potential resulting from the advantages of the markets' restoration. This is genuine in West Coast markets as well as in the U.S. overall. Thus, expect to see a push to satisfy and simultaneously serve sanctions in the future as urban areas and states look to adjust these patterns through public policy, administrative and financial incentives to developers. The multifamily division is encountering a renaissance unmatched in its history. Albeit new development in 2019 eased back from the earlier year's exciting pace, there remains a solid interest for new units due to the increasing expenses of home possession. Sales volume stayed solid, cap rates have remained stable, and sales price per square feet expanded year over year.

Furthermore, developers have to a great extent dismissed single-family home development for the top of the line, urban rentals, making a wealth of supply for well-to-do tenants. In this way, it leaves middle and lower-pay income families undersupplied and with not many alternatives. These underserved markets appear to be appropriate for new and creative ventures. Perhaps developers may find a way to build on a lower cost centered approach. It is undeniable the market will have to supply both ends of the spectrum as more cities and advocates become concerned with the development in the years ahead.

Source: CoStar, Harvard Joint Center for Housing Studies as reported by Urban Land Institute

Market Breakdown

	2019	2018	2017	Annual % Change
Completed Construction Units	54,301	73,999	61,202	-26.62%
Under Construction	134,123	155,985	151,702	-14.02%
Vacancy Rate	4.7%	4.7%	4.8%	-0.96%
Avg. Asking Rate	$1,765	$1,681	$1,622	5.01%
Avg. Sales Price(Unit)	$264,967	$229,344	$211,003	15.53%
Cap Rate	4.8%	4.6%	4.6%	4.11%
Net Absorption	44,122	65,335	50,364	N/A

Seattle

▼ 25,714 SF UNDER CONSTRUCTION	▼ 5.0% VACANCY
▲ 14,310 SF NET ABSORPTION	▲ $1,629 ASKING LEASE RATE

The Seattle apartment market remains vigorous, attracting both foreign and domestic demand. Seattle job growth continues to outperform the national average with high-paying positions in sectors like tech and life sciences. Seattle maintains one of the most educated populations in the country, driving the demand for apartments upward, therefore pushing rental rates higher. Construction deliveries slowed down in 2019 with 12,339 units reaching completion, but a heavy delivery schedule is set through 2021 that may apply upward pressure on vacancies. With healthy fundamentals continuing to grow in the Seattle multifamily market, we can anticipate demand increasing in lockstep with the inflow of new supply.

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Portland

▼ 9,731 SF UNDER CONSTRUCTION	▲ 6.1% VACANCY
▲ 6,281 SF NET ABSORPTION	▲ $1,304 ASKING LEASE RATE

Portland's population growth continued to remain vigorous, as the State of Oregon has ranked in the top five nationally for in-migration moves. Portland's multifamily market delivered 7,938 units in 2019 as developers rush to aid the rising inflow of demand. Currently, there are 9,731 units under construction. As well-educated young professionals continue to transfer to the Portland metro, concerns of supply pressures should be alleviated. Rent growth remains among the strongest in the nation since 2015, and as new construction enters the market, we can foresee steady rent growth continuing. With strong demand fundamentals in place and a steady influx of new supply, expect the Portland multifamily market to remain robust.

Oakland/East Bay

▼ 9,780 SF UNDER CONSTRUCTION	▲ 4.4% VACANCY
▲ 542 SF NET ABSORPTION	▲ $2,343 ASKING LEASE RATE

Strengthened by a local economy and a rising tech presence, the East Bay continues to attract a diverse workforce. The market is in the midst of a heavy development pipeline with more than 3,400 units delivered in 2019, with an additional 9,780 units currently under construction. Oakland has emerged as a leading submarket in development activity, due to its strong access to public transportation and proximity to various amenities. The East Bay remains an attractive market for investors, with assets trading hands at $366,619/unit and average cap rates settling at 4.3%.

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San Francisco/Peninsula

▲ 6,074 SF UNDER CONSTRUCTION	▲ 4.4% SF VACANCY
▲ 472 SF NET ABSORPTION	▲ $3,415 SF ASKING LEASE RATE

San Francisco and its neighboring Peninsula market continue to experience unparalleled demand for housing. Powered by a booming tech economy, developers are striving to create additional housing to accommodate the increasing job growth and population in these areas. Rent growth rose slightly from the prior year, with average rates currently at $3,415. Over 6,000 units are under construction and may cause vacancy rates to increase with the addition of new supply. Average cap rates in San Francisco and Peninsula stand at 3.5% and 4.4% with assets currently trading hands at $491,018 and $679,199 a unit, respectively.

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Silicon Valley

▲ 11,304 SF UNDER CONSTRUCTION	▲ 4.3% VACANCY
◀▶ -55 SF NET ABSORPTION	▲ $2,855 ASKING LEASE RATE

Silicon Valley's strong labor market, due in large part to the tech industry, continues to be a main driver in the multifamily market. Over 2,400 units have been delivered in 2019, pushing vacancy rates up to 4.3%. With more than 11,300 units currently under construction, supply in Silicon Valley is poised to remain high in the coming years. Rental rates remain some of the highest in the nation, moderately rising to $2,855. This market remains a desirable region for investment activity, with cap rates standing at 4.6% and assets closing at $401,923 per unit.

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Sacramento

▼ 2,623 SF UNDER CONSTRUCTION	▲ 4.5% VACANCY
▲ 1,063 SF NET ABSORPTION	▲ $1,310 ASKING LEASE RATE

Sacramento's fundamentals continue to remain healthy as job growth proceeds to outperform the national average. Elevated demand, driven by affordable accommodations, has attracted many investors into the market. 2019 reached a peak in construction deliveries, with 1,563 units entering the market and another 2,623 units currently under construction. As a result, vacancies experienced an increase of 30 basis points YOY. Overall, rental rate growth in recent years has been amongst the highest in the nation but may experience a softening as Assembly Bill 1482 was passed in October. The new Bill limits rent growth to a more restrictive 5% plus the rate of inflation. With persistent demand from Sacramento and Bay Area residents migrating into the market, strong market growth will continue to occur.

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Reno

▲ 4,864 SF UNDER CONSTRUCTION	▼ 3.96% VACANCY
▲ 1,141 SF NET ABSORPTION	▲ $1,245 ASKING LEASE RATE

Population and employment growth continue to outpace the national average due to low cost living and business-friendly environments, setting the Reno multifamily market on firm footing. Construction projects continue to break ground with 4,867 units currently under construction. Although Reno is in the midst of a heavy development pipeline, supply has not been able to keep up with the vigorous demand. Population growth in the metro has remained steady, increasing at nearly double the national rate over the last 10 years as numerous tech giants have decided to move operations into this market. As Reno continues to grow in all fundamentals, 2020 should be another strong year for the multifamily market.

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Los Angeles

▲ 30,988 SF UNDER CONSTRUCTION	◀▶ 3.9% VACANCY
▲ 3,699 SF NET ABSORPTION	▲ $1,871 ASKING LEASE RATE

With a large and diverse economy, alongside a widespread housing shortage, the Los Angeles multifamily market has remained relatively healthy. 2019 experienced a deceleration of new construction with only 8,459 units, down 22.7% from the year prior when 10,937 units were completed. Overall, vacancy rates continue to remain tight as Los Angeles has the highest rate of renter households at 50%, due to a relatively young population. Vacancies in 2020 should experience signs of relief as we await a heavy influx of new supply scheduled to be completed throughout the year. Investors continue to target the area, with assets trading at $304,520/unit with cap rates at 4.4%. With healthy demand fundamentals in place, expect the Los Angeles market to remain steady moving forward.

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Orange County

▼ 6,816 SF UNDER CONSTRUCTION	▼ 4.5% VACANCY
▲ 3,550 SF NET ABSORPTION	▲ $2,004 ASKING LEASE RATE

Demand drivers in the Orange County multifamily market are healthy as population and employment growth remain sturdy. Additionally, many residents are forced to look at alternatives as home prices are reaching $800,000. This has caused a steady decline in the homeownership rate, dropping from 62% to 57% over the last 10 years. Orange County remains attractive for developers as they continue to bring in high-end luxury units to the market, further propelling rental rates upwards. New deliveries experienced a decrease in 2019 with 2,973 units entering the market but is projected to bounce back with over 2,000 units set to be delivered in the first half of 2020. We expect demand to keep pace into 2020 as new deliveries enter the market.

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Inland Empire

▲ 5,803 SF UNDER CONSTRUCTION	▲ 4.6% VACANCY
▲ 783 SF NET ABSORPTION	▲ $1,370 ASKING LEASE RATE

Strong employment growth and an improving economy have provided the Inland Empire's multifamily market with a firm foundation. Residents from neighboring counties like Los Angeles and Orange County proceed to drive demand upwards, as they search for more affordable housing options. Construction levels have increased this year with over 5,800 units currently under construction and we can expect further upward pressure on vacancies moving forward as developments approach completion. Rental rates in the Inland Empire remain comparatively affordable, however year-over-year rent growth continues to exceed gains from nearby markets. As market fundamentals continue to improve, expect the Inland Empire's multifamily market to remain steady.

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San Diego

▼ 7,930 SF UNDER CONSTRUCTION	▲ 4.7% VACANCY
▲ 3,423 SF NET ABSORPTION	▲ $1,752 ASKING LEASE RATE

The San Diego apartment market experienced another strong year of deliveries. As a result, vacancies increased by 20 basis points to conclude at 4.7%. Strong local demand from an emerging tech presence and low vacancies have led to impressive rent gains over the last 5 years, but we expect rental growth to cool down as the market continues to report record-high rates. California's Assembly Bill 1482, which was passed in October, may assist in dampening the current uptick in out-migration. The Bill places a rent cap on annual rent increases to 5% plus inflation, in which San Diego is expected to be at 7.2% in 2020. Anticipate the San Diego multifamily market to remain on firm footing moving forward.

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Phoenix

▲ 12,493 SF UNDER CONSTRUCTION	▲ 6.10% VACANCY
▲ 4,604 SF NET ABSORPTION	▲ $1,120 ASKING LEASE RATE

Steady population growth buoyed by durable net migration fundamentals has sustained the high demand in the Phoenix multifamily market. Numerous people and companies continue to set up roots in Phoenix due to low cost of living and healthier economic opportunities currently in place. Construction activity remains robust as 5,472 units entered the market in 2019, with 12,493 units still awaiting completion. Additionally, the Phoenix metro continues to attract many substantial investors with an overall volume of over $6.8 billion with cap rates at 5.9% for the year. Moreover, the market has been able to sustain robust rent growth as it consistently ranks amongst the top in the nation. Expect fundamentals to remain healthy throughout 2020.

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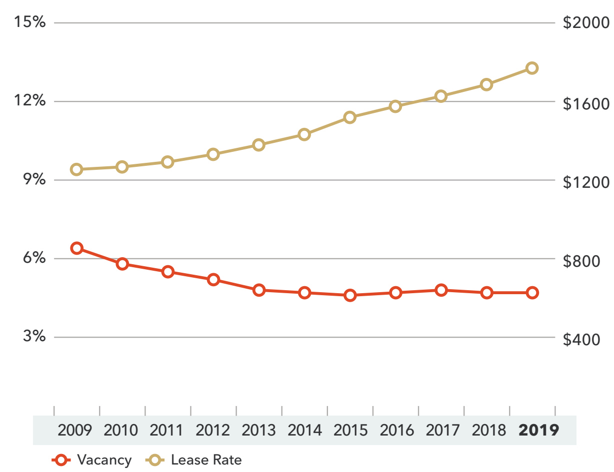
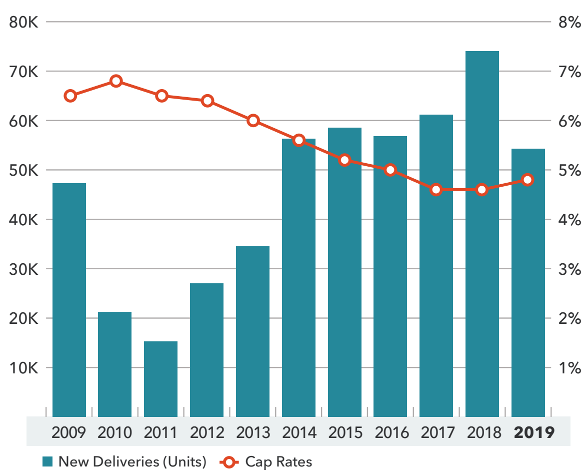
YEAR END 2019 WEST COAST MULTIFAMILY STATISTICS

Submarket	Inventory Units	Asking Rate/ Unit	Asking Rent Growth/Year	Total Vacancy Rate	2019 Net Absorption Units	Under Construction Units	2019 Delivered Units	Avg. GRM	Avg Cap Rate	Avg Sales Price / Unit
Seattle	469,573	$1,629	4.09%	5.0%	14,310	25,714	12,339	14.50	4.9%	$235,107
Portland	240,180	$1,304	2.40%	6.1%	6,281	9,731	7,938	12.90	5.5%	$200,332
Pacific North West	**709,753**	**$1,519**	**3.52%**	**5.4%**	**20,591**	**35,445**	**20,277**	**13.96**	**5.1%**	**$223,339**
Oakland/East Bay	96,498	$2,343	1.65%	4.4%	542	9,780	3,451	13.90	4.3%	$366,619
Peninsula/San Mateo	31,911	$3,136	2.60%	4.9%	161	1,579	1,166	18.10	4.4%	$679,199
San Francisco	96,876	$3,693	2.10%	3.9%	311	4,495	969	16.60	3.5%	$491,018
Silicon Valley	111,216	$2,855	-0.30%	4.3%	(55)	11,304	2,462	17.40	4.6%	$401,923
Sacramento	167,086	$1,310	3.23%	4.5%	1,063	2,623	1,563	10.27	5.5%	$153,001
Reno	23,205	$1,245	2.20%	4.0%	1,141	4,867	1,234	11.90	6.1%	$160,115
Northern California	**526,792**	**$2,371**	**1.90%**	**4.3%**	**3,163**	**34,648**	**10,845**	**14.15**	**4.7%**	**$339,033**
Los Angeles	1,096,703	$1,871	2.07%	3.9%	8,053	30,988	8,459	15.10	4.4%	$304,520
Orange County	288,830	$2,004	3.25%	4.5%	3,550	6,816	2,973	15.40	4.3%	$285,932
Inland Empire	222,944	$1,370	3.87%	4.6%	738	5,803	1,081	11.80	5.5%	$170,523
San Diego	418,890	$1,752	3.12%	4.7%	3,423	7,930	5,194	15.10	4.4%	$270,530
Phoenix	365,817	$1,120	6.60%	6.1%	4,604	12,493	5,472	10.70	5.9%	$155,127
South West	**2,393,184**	**$1,705**	**3.26%**	**4.5%**	**20,368**	**64,030**	**23,179**	**14.16**	**4.7%**	**$261,008**
West Coast Total	**3,629,729**	**$1,765**	**3.11%**	**4.7%**	**44,122**	**134,123**	**54,301**	**14.12**	**4.8%**	**$264,967**

VACANCY VS. AVG ASKING RENT



ANNUAL NEW CONSTRUCTION & CAP RATES



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COMMERCIAL BROKERAGE

400+ NO. OF BROKERS

$9B ANNUAL TRANSACTION VOLUME

20M ANNUAL SALES SF

40M ANNUAL LEASING SF

VALUATION ADVISORY

1,600+ APPRAISALS ANNUALLY

36/23 TOTAL NO. APPRAISERS/MAI'S

PROPERTY MANAGEMENT

60M+ MANAGEMENT PORTFOLIO SF

The information in this report was composed by the Kidder Mathews Research Group.

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