

Metro Housing Outlook:

Oakland - Q1 2023

Overview:

- Oakland's economy is at risk. Recent increases in interest rates along with the turmoil of Silicon Valley Bank has curbed the availability of capital for tech startups and business expansion indicating job growth will likely slow in 2023. Nevertheless, Moody's Analytics estimates that 18,000 jobs will be added this year driven primarily by healthcare and manufacturing.
- Rent growth remained negative in Q1 2023 as residents struggled with inflation and new supply continued to be added. Additional new supply also led to the vacancy rate inching upward to approximately 5.6% as of Q1 2023. An elevated level of new supply remains under construction with about 68% of new units located in the Oakland/Berkely submarket alone. While the metro has significant affordability challenges and could always use more supply, ongoing elevated supply coupled with slowing job growth could lead to additional volatility near-term.

Market Strengths:

- The world-class University of California at Berkely produces a well-educated workforce. Just over 50% of the population over age 25 has a bachelor's degree or higher which attracts a diverse group of employers with well paying STEM jobs. Major employers include federally supported Lawrence Berkeley and Livermore labs, Chevron, Bayer, bio-tech firm Grifols, and healthcare systems Kaiser Permanente, John Muir Health, and the UCSF Medical Center.
- The East Bay has ample industrial and office space for tech firms fleeing higher-cost Silicon Valley. As a result, 9.2% of jobs are in tech compared to just 5.5% nationwide. Tesla is here as well as Western Digital, which produces computer hardware and employs over 10,000. Many startups choose Oakland including biotech firms such as 10x Genomics, Amyris and Zymogen. Growth in the tech sector will slow in 2023, but it will remain a source of well-paying jobs.
- Despite supply chain issues at the Port of Oakland, there is ample infrastructure for transportation and distribution facilities.
- Oakland's per capita income of \$103,000 is over \$35,000 higher than the U.S. average boosting spending on goods and services.
- BART is extending to San Jose which will allow Oakland's residents to benefit from well-paying jobs in Silicon Valley.

Market Weaknesses:

- While several transformative projects are starting to wind down, Oakland continues to see some of the strongest growth in new supply in a decade. In fact, concessions at Class A properties which offer them, average just over one month's rent.
- A rising interest rate environment means fewer startups and less capital overall for the tech segment.
- Even with rents falling significantly during the pandemic, Oakland remains an expensive place to live. The average renter household would have to earn approximately \$100,000 per year to be able to afford an apartment based on HUD standards.
- The single-family housing market is facing one of the steepest price declines in the nation, but homes remains unaffordable.
- Rising crime may cause some outmigration, particularly among renters who are not tied to Oakland.

Multifamily Development:

- According to Dodge SupplyTrack data, about 24,200 apartments have been delivered over the past five years, consisting primarily of expensive Class A units. Most of the new supply delivered in and around downtown and many projects are located along the BART. Construction underway is starting to slow with an estimated 8,500 apartments underway as of Q1 2023 down from about 9,400 as of Q3 2019. Nevertheless, new supply still represents an estimated 3.8% increase in current inventory.

Multifamily Outlook:

- While suburban submarkets remain tight, downtown Oakland and Berkely are recovering slowly since many employees continue to telework. This puts a damper on the demand for apartments at a time of continued elevated apartment deliveries. In addition, a rising interest rate environment and a potential recession later in 2023 or early 2024 may decrease the demand for apartments. It may be some time before supply and demand to return to equilibrium.

Economic Outlook:

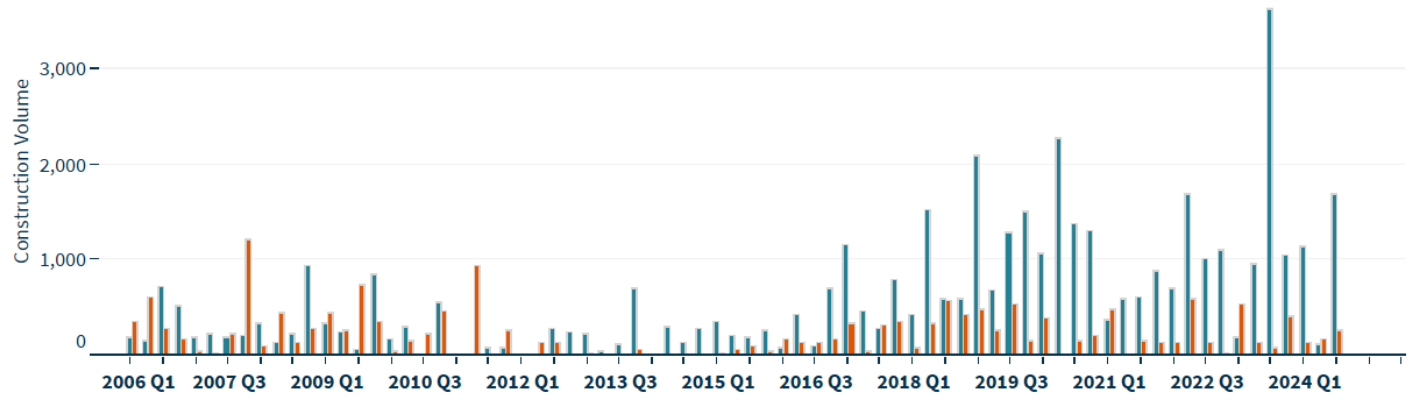
- Near-term, Oakland's economy will continue to struggle. However, the long-term outlook is much more favorable. Oakland has a diverse job base and the largest population in the Bay Area. Both population and jobs are expected to grow at approximately the same pace as the rest of the nation. In addition, a well educated and highly- skilled workforce, the lowest costs in the Bay Area and proximity to both San Francisco and Silicon Valley should keep the metro desirable for expanding companies.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

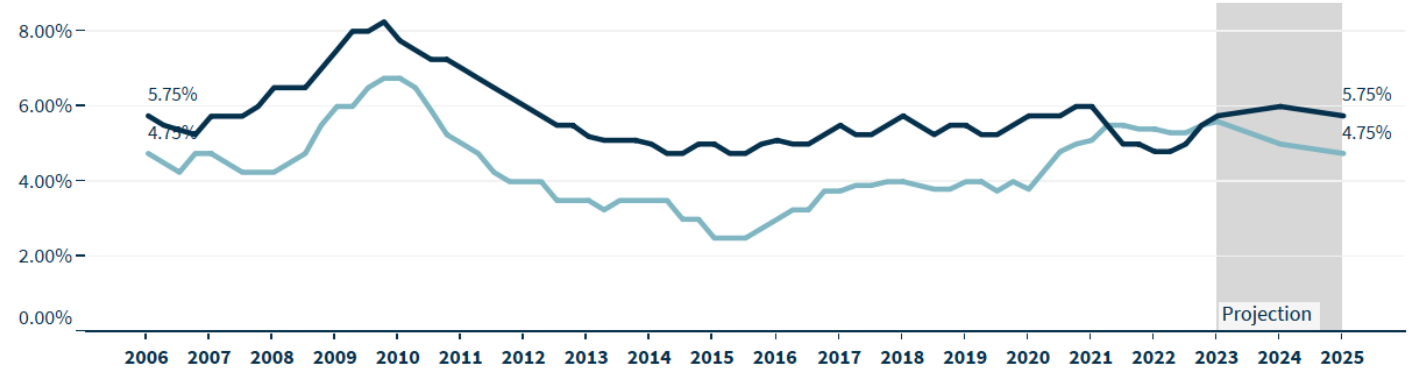
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Oakland | National

Q1 2023 Vacancy Rate:

5.60%

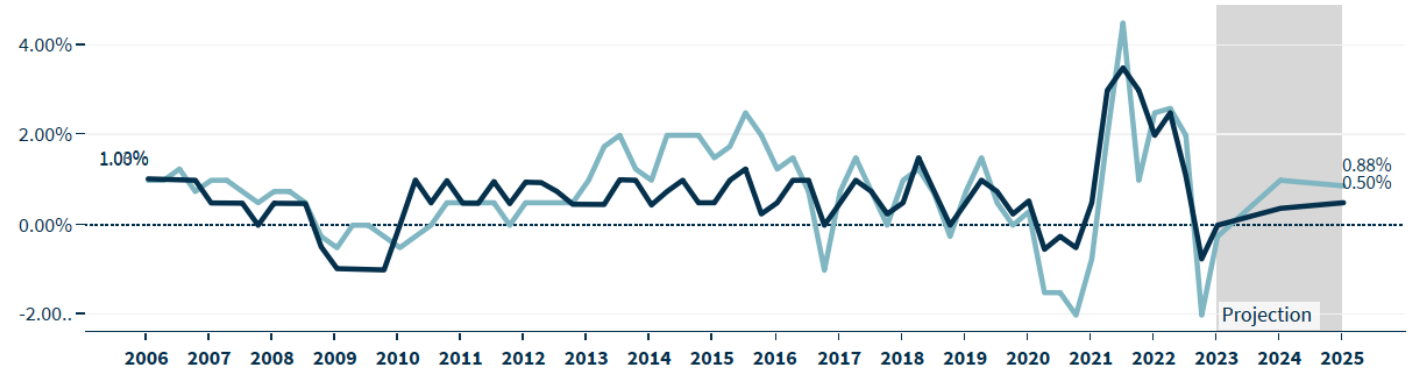


Asking Rent Growth

Oakland | National

Q1 2023 Asking Rent:

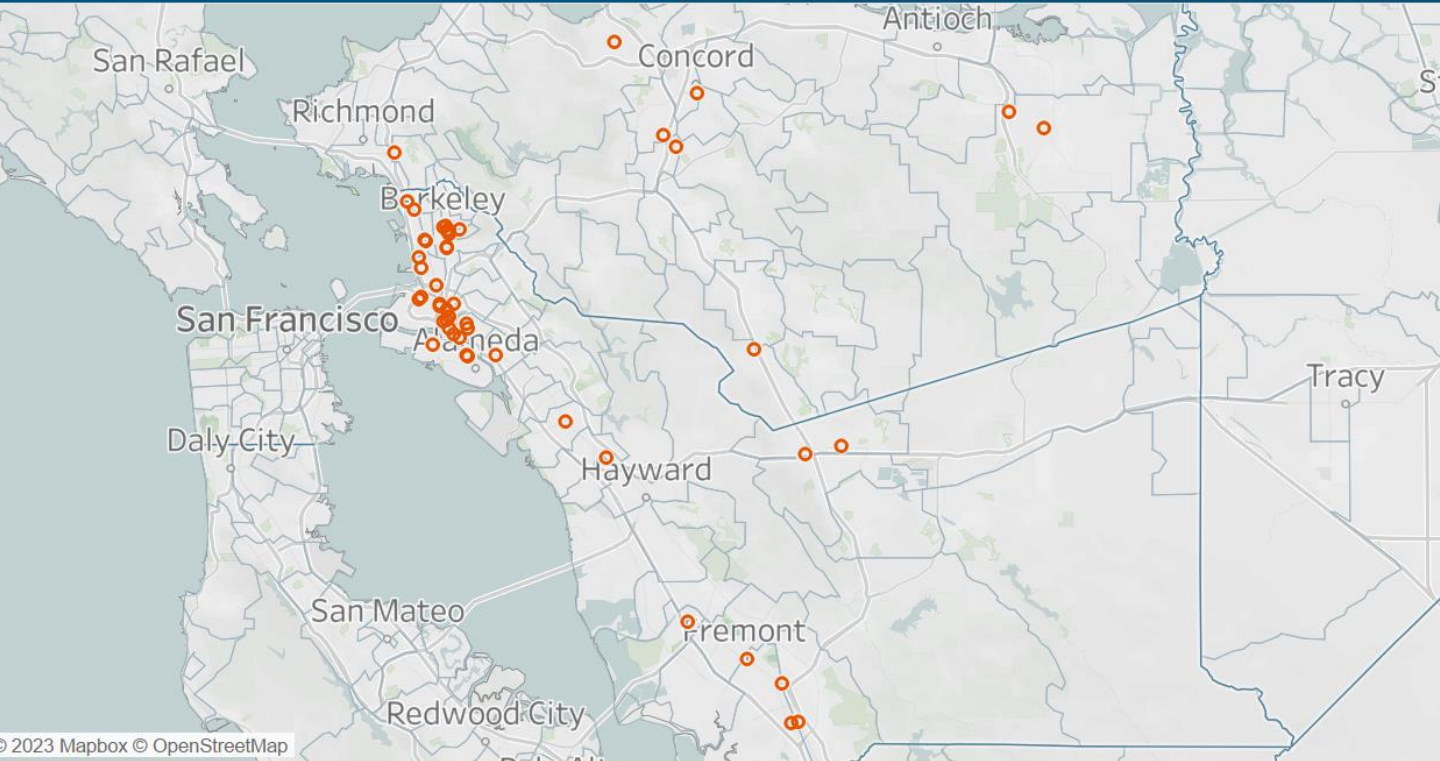
\$2,470



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



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<i>Submarket</i>	<i>Apartments</i>	<i>Building Units</i>
Concord/Martinez	3	281
Fremont	5	826
Hayward/San Leandro/Union City	2	275
Northeast Contra Costa County	2	454
Northwest Contra Costa County	1	233
Oakland/Berkeley	36	5,756
San Ramon/Dublin	3	676
Walnut Creek/Lafayette	1	42
Grand Total	53	8,543

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

Multifamily Metro Outlook: Oakland Q1 2023

Multifamily Economics and Market Research Team

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Sources Used:

- U.S. Bureau of Labor Statistics
- CBRE-Econometric Advisors
- CoStar
- Dodge Data and Analytics SupplyTrack Pipeline
- Moody's Analytics
- MSCI Real Assets (Real Capital Analytics)
- Oxford Economics
- RealPage
- Moody's Analytics CRE
- Yardi Matrix

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