Multifamily Metro Outlook: Oakland Spring 2019

Overview

Oakland is experiencing a supply wave with 11,100 units underway which represents about a 5.4 percent increase in inventory. However, job growth is slowing and will likely average 1.1 percent annually over the next two years, according to Moody's Analytics, which will produce demand for only about 5,200 units. Nevertheless, the Oakland apartment market appeared healthy as of Q4 2018 with vacancies at just 3.8 percent.

Oakland is the low-cost alternative to San Francisco. A 30-minute commute on BART enables many people to live there. In addition, Oakland does not have as many restrictions on commercial development. As a result, nearly 1.6 million feet of office space is currently under construction or renovation in Oakland, drawing companies from both San Francisco and Silicon Valley to take advantage of lower costs. For instance, Square recently relocated 2,000 employees from San Francisco and Lend Up also relocated.

Oakland is a high-tech center in its own right with 8.7 percent of jobs in tech compared to just 4.9 percent nationwide. The metro has world-class research spurring economic development led by major employers like the University of California at Berkeley and the federally supported Lawrence Berkeley and Livermore labs.

There are some drawbacks, however. The cost of doing business is rising due to Oakland's strong economy. The tight labor market is lifting wages. While this benefits consumers, it is also creating cost pressures for businesses. For example, Pandora has shifted positions from Oakland to Atlanta, and the Oakland Raiders are moving to Las Vegas, citing costs. In addition, Oakland has above average housing costs compared to the Central Valley and Nevada metro areas, which could limit growth over the long term.

Development

Oakland is undergoing a massive transformation with several big mixed-use projects that include multifamily components. Over the past five years, approximately 12,500 units have been delivered. Currently, downtown Oakland has over 70 percent of the units underway. They are well-positioned along the BART, however.

The most notable project underway is the $1.5 billion Brooklyn Basin designed to redevelop the Oakland waterfront next to Jack London Square. It will provide an estimated 3,100 residential units including apartments, condos, loft spaces, and townhouses when complete. The 22,000 acre Warm Springs Innovation Hub anchored by Tesla is transforming Fremont.

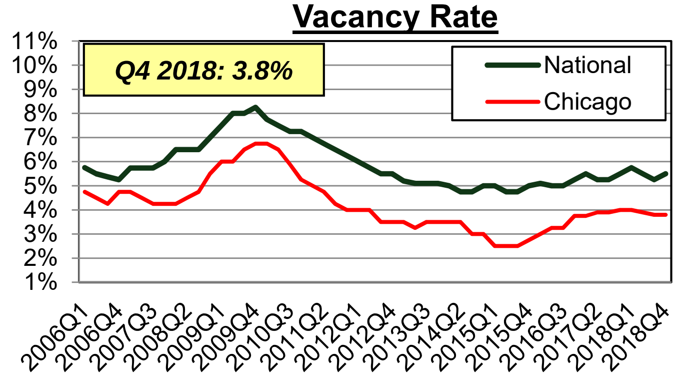
Outlook

While the vacancy rate remains below historic levels, the pickup in construction will slow rent growth to about 1.5 - 2 percent in 2019 and 2020 could see rent growth flatline. Longer-term, Oakland is becoming a hipper place to live. Crime has declined, while restaurant, bar, and entertainment options are growing. BART is improving commuting. As a result, new units should be absorbed.

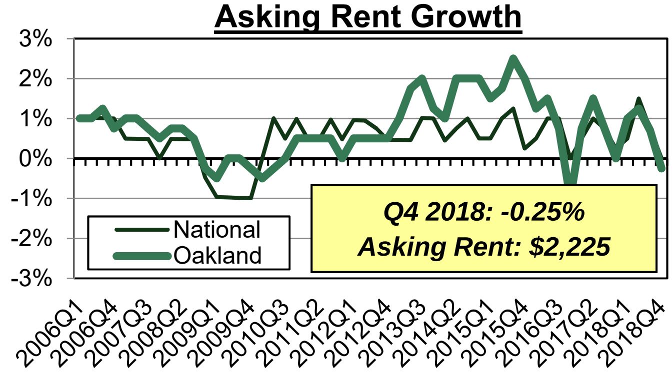
Longer-term, Oakland has the largest population in the Bay Area and both population and jobs are expected to grow at approximately the same pace as the rest of the nation. In addition, a highly- skilled workforce, the lowest costs in the Bay Area, and proximity to both San Francisco and Silicon Valley should keep the metro desirable.

Vacancy and Rent Composite Estimates

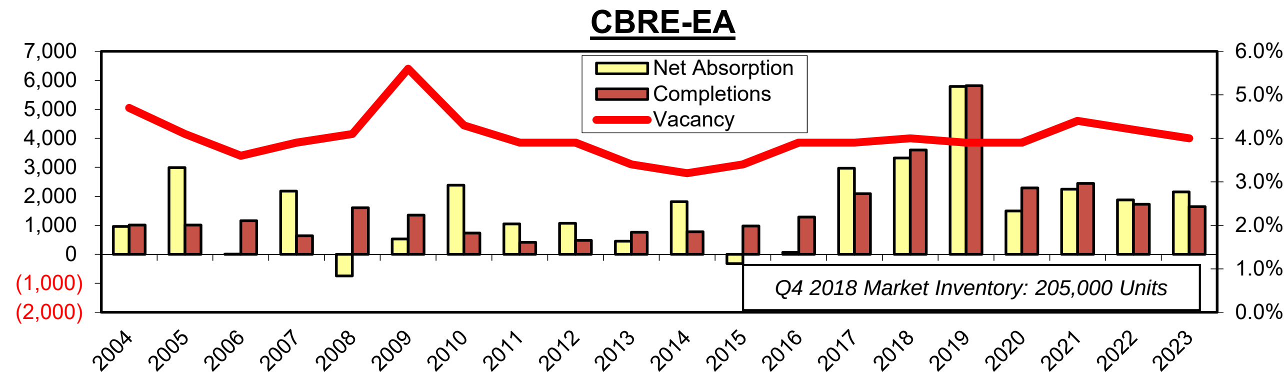
Vacancy Rate

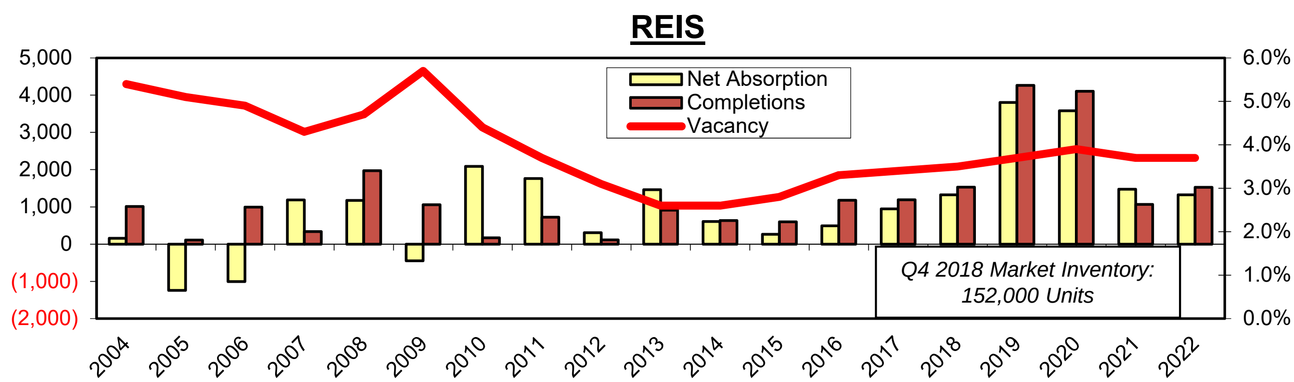


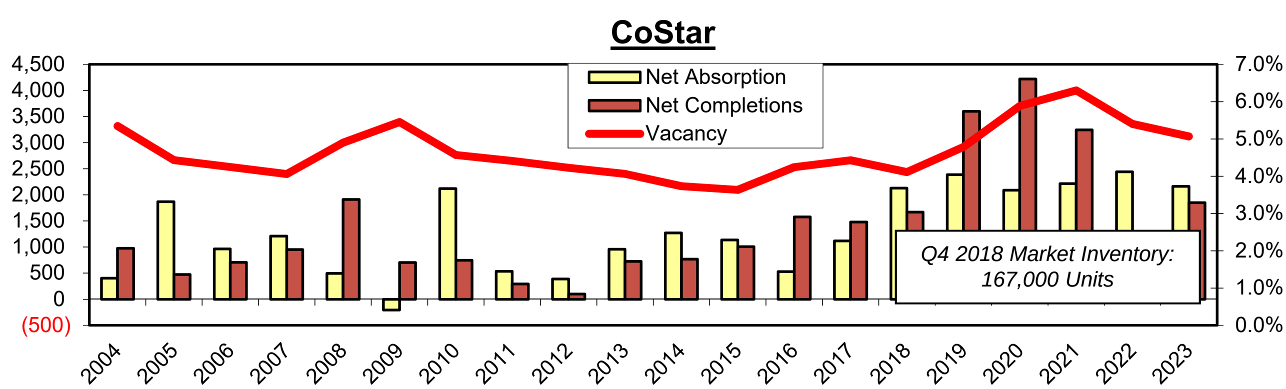
Asking Rent Growth

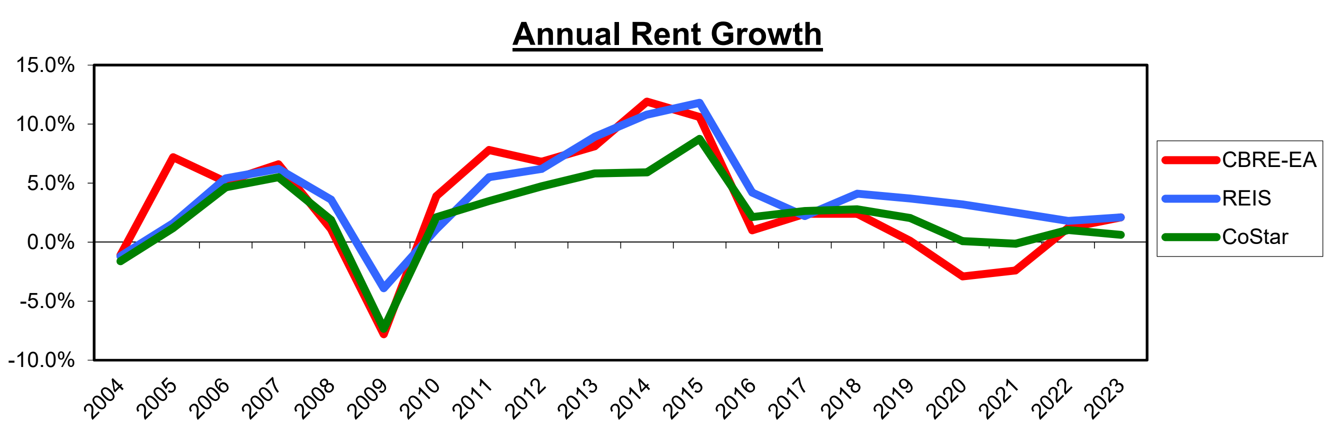


Source: Fannie Mae Multifamily and Economics Research

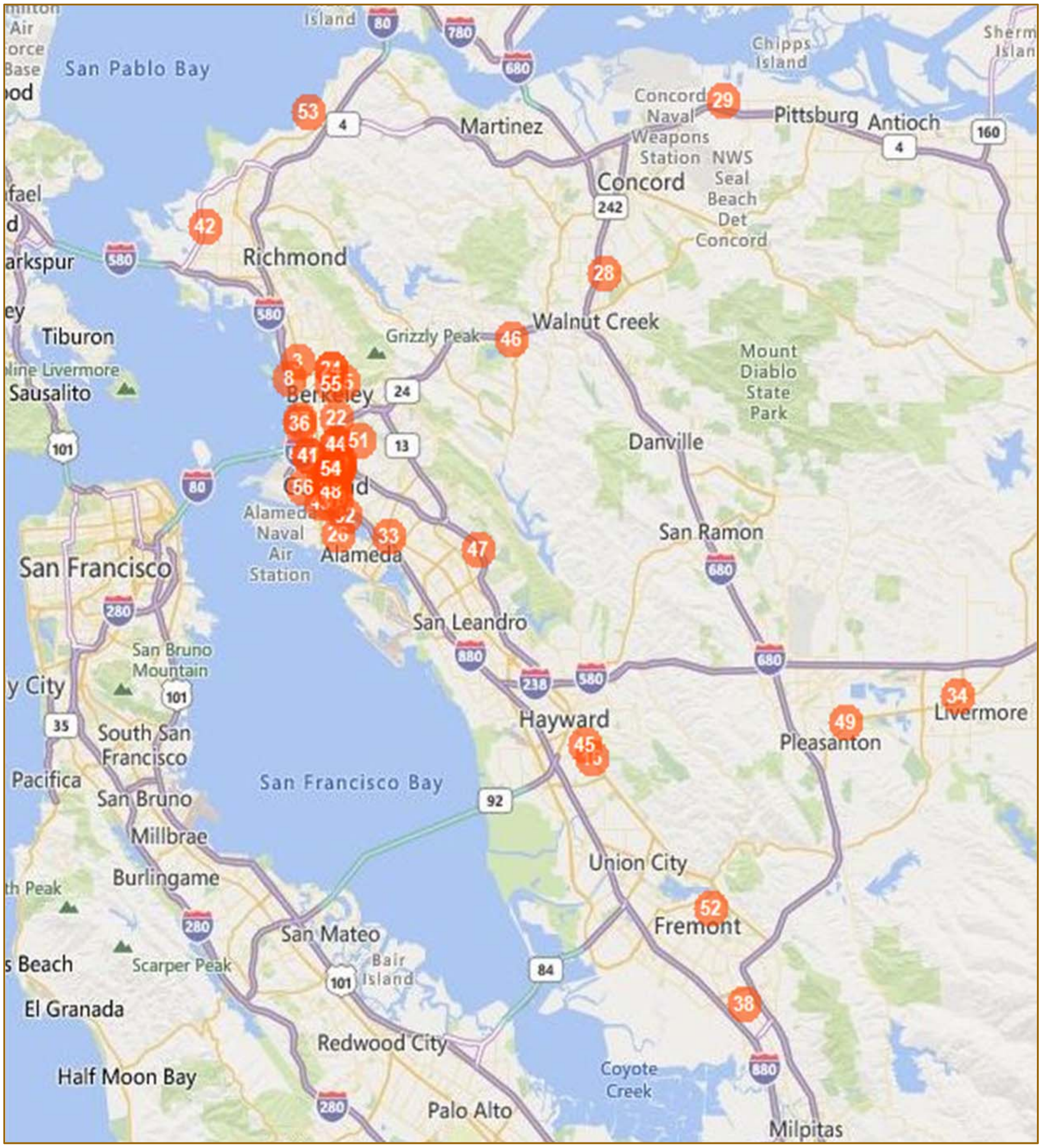

CBRE-EA
Net Absorption
Completions
Vacancy
Q4 2018 Market Inventory: 205,000 Units
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
(1,000)
(2,000)
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023


REIS
Net Absorption
Completions
Vacancy
Q4 2018 Market Inventory:
152,000 Units
5,000
4,000
3,000
2,000
1,000
0
(1,000)
(2,000)
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022


CoStar
Net Absorption
Net Completions
Vacancy
Q4 2018 Market Inventory:
167,000 Units
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
(500)
7.0%
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0.0%
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023


Annual Rent Growth
CBRE-EA
REIS
CoStar
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023

Construction Bidding/Underway
(58 projects/11,100 Units/11.8 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Downtown Oakland	36	8197	7952
West Contra Costa	11	1502	1265
Fremont/Newark/Union City	2	1090	1054
Concord/Martinez	2	429	393
San Leandro/Hayward	2	420	307
East Alameda	2	87	73
San Ramon/Walnut Creek	1	29	11

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Fannie Mae Multifamily Economics and Market Research

Tanya Zahalak, Economist

Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics SupplyTrack
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.