Kidder Mathews

Mid-Year
2018

Real Estate Market Review

West Coast Multifamily

The multifamily sector is experiencing a renaissance unparalleled in its history, with demand approaching the highest level on record. Even encumbered by a burdensome entitlement process and regulatory constraints, new development in 2018 did not slow from the previous year's frenetic pace. In fact, new construction increased by almost 13% year-over-year. By any measure, the sector is performing at the highest levels. Transaction volume remained strong, cap rates have stabilized, ranging between 4.4% and 4.6%, and average sales prices increased by nearly 30%. Currently, multifamily assets are trading above $245 per square foot.

On account of the record setting pace of new construction, concerns of oversupply are often voiced regarding the sector. However, they are belied by certain demographic facts and the character of the current construction. From 2010 to the end of 2017, 8.3 million households formed in the United States. To house them, developers built about 4.9 million new housing units - a shortfall of some 3.4 million homes. This supply-demand imbalance largely offsets the overbuilding of the 2003-06 period, and although this imbalance cannot persist indefinitely, in the near to mid-term, household formation is expected to exceed supply of new multifamily and single-family housing units.

Moreover, developers have largely neglected single-family home construction in favor of high-end, urban rentals, creating an abundance of supply for affluent renters while leaving middle- and lower-income renter households under-supplied and would-be homebuyers with few options. These underserved markets are thus ripe for enterprising developers to capitalize. Although premium, high-end, amenity-rich product face upward vacancy pressure, demand for such multifamily units is still extremely strong. All of these signs portend continued growth in the sector for the near to mid-term.

Overall Market Breakdown

	1H18	2H17	1H17	Annual % Change
Completed Construction Units	23,666	29,107	29,989	-21.08%
Under Construction Units	140,274	166,881	149,333	-6.07%
Vacancy Rate	4.3%	4.6%	4.6%	-5.87%
Average Asking Rate / Unit	$1,635	$1,585	$1,582	3.35%
Average Sales Price / Unit	$221,011	$216,060	$191,897	15.17%
Cap Rate	4.68%	4.47%	4.68%	0.00%
Net Absorption	34,834	24,332	28,923	N/A

Market Reviews

Seattle

27,729 SF	5.1%	7,788 SF	$1,553
UNDER CONSTRUCTION ▲	VACANCY ▼	NET ABSORPTION ▲	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. With a heavy delivery schedule on its way through 2020, upward pressure on vacancies could transpire a deceleration in rent growth. 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

12,008 SF	4.9%	4,676 SF	$1,200
UNDER CONSTRUCTION ▲	VACANCY ▼	NET ABSORPTION ▲	ASKING LEASE RATE ▲

Portland's population growth continued to remain robust, as the State of Oregon has ranked in the top five nationally for in-migration moves. As a result, Portland is in the midst of a massive apartment construction wave. With a strong inflow of well-educated young professionals transferring to Portland, any concerns of supply pressures should be alleviated. Rent growth was amongst the strongest in the nation in 2015, but since slowed due to the high levels of construction activity. As new product will become available in the near future, we can anticipate gradual rent growth to continue.

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Oakland / East Bay

4,946 SF	4.0%	1,457 SF	$2,456
UNDER CONSTRUCTION ▼	VACANCY ▲	NET ABSORPTION ▲	ASKING LEASE RATE ▲

The East Bay continues to attract workers looking for more affordable alternatives in the Bay Area. With close proximity to major employment centers and rents lower than high-priced San Francisco and Silicon Valley, this market has shown steady growth. Over 4,500 units are under construction, and when delivered, may cause vacancy rates to slightly rise. A majority of the units are located in the city of Oakland, as this submarket thrives with various amenities and great access to public transportation. Investment activity remains active, with average cap rates standing close to 5%.

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San Francisco / Peninsula / San Mateo

5,226 SF	4.5%	2,419 SF	$3,351
UNDER CONSTRUCTION ▼	VACANCY ▼	NET ABSORPTION ▼	ASKING LEASE RATE ▲

San Francisco and its neighboring Peninsula market continue to see rising rental rates, as strong demand outpaces supply in the market. Powered by a booming local economy, developers are striving to create additional housing to accommodate the increasing job growth and population in these areas. Rent growth has climbed at a modest pace, with average rates currently at $3,351. Vacancy rates have dropped to 4.5%, with close to 2,500 units being absorbed in the first half of the year. Average cap rates stand slightly below 4%, marking them some of the lowest in the country.

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Silicon Valley

8,034 SF	3.8%	2,415 SF	$2,891
UNDER CONSTRUCTION ▼	VACANCY ▼	NET ABSORPTION ▼	ASKING LEASE RATE ▲

Silicon Valley's strong labor market, due in large part from the tech industry, has provided upward growth in the multifamily market. More than 2,400 units have been absorbed in the first half of the year, with over 8,000 units currently under construction. Vacancy rates hover close to 3.8%, but may rise with the addition of new supply in the region. Rental rates remain some of the highest in the nation, currently standing at $2,891. This market remains a desirable region for investment activity, with cap rates among the lowest in the country.

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Sacramento

3,038 SF	4.5%	-113 SF	$1,264
UNDER CONSTRUCTION ▲	VACANCY ▼	NET ABSORPTION ▼	ASKING LEASE RATE ▲

Sacramento's fundamentals continue to remain healthy as job growth proceeds to outperform the national average since 2012. Elevated demand, enhanced by Bay Area residents searching for affordable accommodations, has outpaced the limited amount of deliveries this cycle. These factors have contributed to landlords aggressively increasing rental rates in recent years. With a number of new construction projects breaking ground to compensate for strong demand in the market, rental rates may revert back to marginal increases. 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

2,205 SF	3.6%	50 SF	$1,080
UNDER CONSTRUCTION	VACANCY	NET ABSORPTION	ASKING LEASE RATE

Reno's outstanding economic fundamentals have provided consistent growth in the multifamily market. Population and employment growth continues to outpace the national average due to low cost living and business-friendly environments. Construction projects continue to break ground with 2,205 units under construction and Park Lane in Sierra Meadows scheduled to deliver over 1,200 of those units by 2020. This represents two straight years of substantial development in the market. With the first sections of Tesla's Gigafactory open and expected employment of 6,500 workers, we can anticipate demand to remain robust. As Reno continues to grow in all fundamentals we anticipate another strong year for the multifamily market.

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Los Angeles

30,642 SF	3.6%	5,079 SF	$1,752
UNDER CONSTRUCTION	VACANCY	NET ABSORPTION	ASKING LEASE RATE

Los Angeles remains appealing to many multifamily investors and developers. With a large and diverse economy, alongside a widespread housing shortage, market fundamentals in Los Angeles will remain strong. Vacancy rates continue to remain tight as Los Angeles has the highest rate of renter households at 50%, due to the relatively young population. 2018 and 2019 are expected to be the heaviest years for new deliveries, assisted by the consistent strong demand in the market. An overall housing shortage in LA County should keep demand robust as the cost of buying a home pushes more residents into the bountiful pool of renters. With the recent selection to host the 2028 Summer Olympics expect substantial increases in infrastructure spending and development across the area.

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Orange County

10,702 SF	4.8%	1,767 SF	$1,880
UNDER CONSTRUCTION	VACANCY	NET ABSORPTION	ASKING LEASE RATE

Demand drivers in the Orange County multifamily market are durable as population and employment growth continue to remain healthy. Average home prices are reaching $800,000, forcing many residents to look towards other alternatives, causing a decline in the homeownership rate 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, propelling rental rates upwards with no signs of slowing down. Significant deliveries are set through 2021 with nearly 2,000 units at Los Olivos in Irvine and more than 1,200 units at Heritage Village scheduled to be delivered during that time. Irvine remains to be the economic driver in the market with a steady 2% population growth annually and attracting over 200 Fortune 500 companies that have rooted their headquarters in the city's office submarkets. With population and employment opportunities continuing to increase, expect demand to keep pace with new deliveries that enter the market.

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Inland Empire

4,925 SF	3.8%	975 SF	$1,275
UNDER CONSTRUCTION	VACANCY	NET ABSORPTION	ASKING LEASE RATE

Strong employment growth and an improving economy has provided the Inland Empire's multifamily market with a firm foundation. The Inland Empire's strengthening performance has further compressed the vacancy rate below historical averages. An influx of residents from neighboring counties like Los Angeles and Orange County proceed to drive demand upwards. Construction levels have increased with just under 5,000 units currently under construction of which over 2,000 units are scheduled to be completed later this year. This heavy influx of new supply in a short period of time may apply upward pressure on vacancies. Rental rates in the Inland Empire is comparatively affordable, however year-over-year rent growth exceeds gains from nearby markets. As market fundamentals continue to improve, expect the Inland Empire's multifamily market to remain vigorous.

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San Diego

11,868 SF	3.9%	2,169 SF	$1,666
UNDER CONSTRUCTION	VACANCY	NET ABSORPTION	ASKING LEASE RATE

The San Diego apartment market remains lucrative for landlords as rents continue to surge and despite the continuous inflow of new supply. Low vacancies have led to impressive rent gains over the last five years, leading to a sustained development wave that is predicted to last for the next couple of years. Projects continue to break ground in nearly every submarket across the metro, but these have put minimal downward pressure on rents as developers have largely focused their attention on high-end luxury units. Investors remain active in San Diego, trading assets at $281,753 per unit and cap rates holding steady at 4.14%. With San Diego having a strong economic base buoyed by innovation, tourism, the military, and some of the most desirable weather in the U.S., the multifamily market remains on firm footing.

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Phoenix

18,951 SF	5.7%	6,152 SF	$995
UNDER CONSTRUCTION	VACANCY	NET ABSORPTION	ASKING LEASE RATE

Healthy 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 its low cost of living, housing affordability, and healthier economic opportunities that are in place. These demand drivers have applied downward pressure on vacancies despite the vigorous increases in construction projects breaking ground. Just under 19,000 units are currently under construction in the Phoenix market, with delivery dates expected to hit its peak early next year. Additionally, the Phoenix market has experienced year-over-year rent growth that was amongst the top six major U.S. metros, demonstrating a market that is able to sustain robust growth despite the heavy influx of new supply. Phoenix continues to attract substantial investors exceeding $2.4 billion this year, the best first half numbers since 2007. Expect fundamentals to remain healthy towards the end of 2018.

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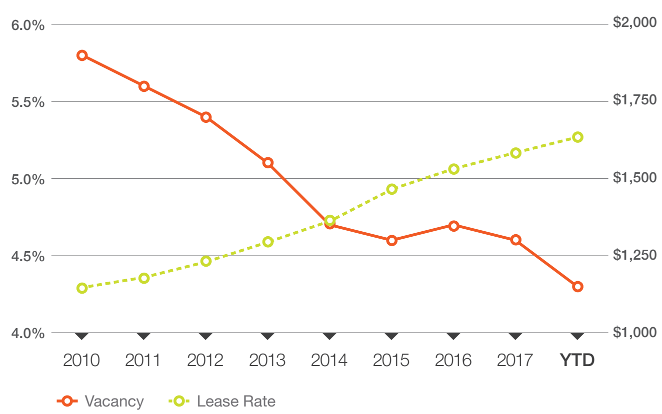
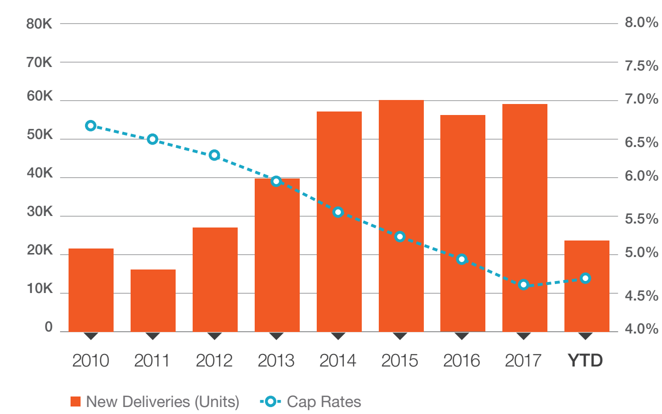
Mid-Year 2018 West Coast Multifamily Statistics

Submarket	Unit Inventory	Asking Rate/Unit	Asking Rent Growth/Year	Total Vacancy	YTD Net Absorption	Units Under Construction	YTD Delivered Units	Avg GRM	Avg Cap Rate	Avg Sales Price/Unit
Seattle	444,419	$1,553	2.90%	5.10%	7,788	27,729	6,487	13.68	4.84%	$186,461
Portland	294,672	$1,200	3.20%	4.90%	4,676	12,008	3,264	12.49	5.54%	$161,650
Pacific Northwest	**739,091**	**$1,412**	**3.02%**	**5.02%**	**12,464**	**39,737**	**9,751**	**13.21**	**5.12%**	**$176,569**
Oakland / East Bay	63,956	$2,456	2.30%	4.00%	1,457	4,946	345	13.22	4.89%	$296,426
Peninsula / San Mateo	30,590	$3,067	4.80%	4.60%	698	1,975	622	18.00	3.51%	$383,261
San Francisco	43,078	$3,553	2.60%	4.40%	1,721	3,251	541	16.99	3.90%	$405,894
Silicon Valley	107,796	$2,891	4.10%	3.80%	2,415	8,034	577	16.46	3.54%	$365,857
Sacramento	108,993	$1,264	2.90%	4.50%	(113)	3,038	407	10.57	5.17%	$127,838
Reno	17,480	$1,080	7.30%	3.60%	50	2,205	11	9.47	6.08%	$93,337
Northern CA / NV	**371,893**	**$2,345**	**3.47%**	**4.17%**	**6,228**	**23,449**	**2,503**	**14.04**	**4.41%**	**$277,419**
Los Angeles	1,060,894	$1,752	3.30%	3.60%	5,079	30,642	3,915	14.93	4.16%	$255,766
Orange County	282,080	$1,880	1.50%	4.80%	1,767	10,702	2,767	15.97	4.14%	$271,525
Inland Empire	219,464	$1,275	3.10%	3.80%	975	4,925	97	10.76	5.71%	$126,139
San Diego	405,397	$1,666	3.70%	3.90%	2,169	11,868	2,318	14.50	4.29%	$246,004
Phoenix	355,190	$995	4.10%	5.70%	6,152	18,951	2,315	11.43	5.86%	$140,599
Southwest	**2,323,025**	**$1,592**	**3.25%**	**4.14%**	**16,142**	**77,088**	**11,412**	**14.05**	**4.59%**	**$226,121**
West Coast Total	**3,434,009**	**$1,635**	**3.23%**	**4.33%**	**34,834**	**140,274**	**23,666**	**13.87**	**4.68%**	**$221,011**

VACANCY VS. ASKING LEASE RATE



HISTORICAL NEW CONSTRUCTION & CAP RATES



Data Source: CoStar

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with more than 700 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

COMMERCIAL BROKERAGE

$7B — ANNUAL TRANSACTION VOLUME

360+ — # BROKERS

PROPERTY MANAGEMENT

50M+ — MANAGEMENT PORTFOLIO

VALUATION ADVISORY

1,500 — ASSIGNMENTS ANNUALLY

36/21 — TOTAL # APPRAISERS / MAI'S

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