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RECORD-SETTING EMPLOYMENT FIGURES FUEL NORCAL'S STRONG MULTIFAMILY MARKET


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Fueled by record-setting employment, the San Francisco Bay Area multifamily market is performing at its highest level in recent years in terms of low vacancy rates, strong rental growth, and new apartment communities coming online, under construction and planned.

The San Francisco metropolitan area — which accounts for half of the San Francisco Peninsula, San Francisco, Marin and Oakland — added about 4,100 jobs during September, according to Beacon Economics. This number is on par for most of the year. Sources from the City of San Jose reported the Bay Area added more than 40,000 new jobs during the 12-month period from October 2014 through September 2015.

A further report from the Association of Bay Area Governments stated that "by spring of 2013, the region had regained all of the jobs lost in the 2007 to 2009 recession, while estimates indicate that the jobs lost since the higher peak in 2000 were finally regained by the end of 2014. This rebound has spread unevenly throughout the region, with counties as diverse as San Francisco and Napa each having passed the two previous peaks in employment."

Unemployment is running as low as 3.7 percent in the San Jose/Sunnyvale-Santa Clara MSA. It is under 5 percent for the entire Bay Area and Sacramento metro area.

Apartment vacancy rates by major submarkets are:

- San Mateo/Santa Clara County: 2.5 percent; down from 3 percent in 2014
- San Francisco: 3.4 percent; steady from prior year
- East Bay: 3 percent; down from 3.5 percent in 2014
- North Bay: 2 percent; lower than a year ago
- Sacramento: 4 percent; with some submarkets such as Roseville even lower

San Francisco still leads the region in terms of average asking rent of $3,623 at the close of the third quarter (for buildings with more than 50 units), according to RealFacts. San Francisco rental rates have increased 9.9 percent over the past year. This number was 12.5 percent in San Mateo/Santa Clara, 10 percent in the East Bay, 9 percent in the North Bay and 7.5 percent in Sacramento.

With vacancy rates low and steady rent growth in recent years, investors have competed aggressively to buy multifamily communities, especially apartments in good-to-great locations.

Woodmont recently advised a seller on a 150-unit East Bay apartment community that was built in 1983. The community was designed well and enjoyed a good location, making it a value-add opportunity. It garnered 22 offers, all from capable buyers, and the sale went to a best-and-final offer round that resulted in the seller attracting a price that was well over the initial expectations.

Cap rates on apartment sales of more than 100 units are running as low as 4 percent in San Mateo/Santa Clara, and as "high" as 5.2 percent in Sacramento.

Absorption rates for new multifamily projects have also been very positive. While variation exists depending on pricing strategy, it is safe to say that all of the newly built product is performing ahead of initial pro-forma in leasing and rents achieved. A new community in the Japantown area of San Jose is averaging five to six new leases per week, for example.

The prevailing trend in the Northern California multifamily sector is the volume of renovation and retrofitting projects that have been completed or are underway.

The reasons for this trend are threefold: there is a lot of older housing stock in the region, all of the new apartments coming online are putting pressure on owners to renovate and lastly, with four or five consecutive years of rental growth, owners are more willing to take on major renovation expenses. And if they don't renovate now, the quality of their rental housing will decline.

The San Francisco Bay Area has historically been a supply constrained environment for housing due to geography and societal pressures to limit growth.

About 4,276 apartment units were delivered in the first quarter this year in the nine-county Bay Area (San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Marin, Napa, Sonoma and Solano), according to Kidder Mathews. There are also 22,577 units in various stages of construction and 31,187 units planned. San Francisco alone accounts for about 15,000 of the planned apartment homes in the region.

It is hard to forecast how long this cycle will last, though it does seem like the venture capital industry is slowing, and there have been fewer IPOs this year compared to 2014. While everyone hedges their bets, the general consensus at the moment is that we are probably in the seventh inning but the game may go into extra innings.