Multifamily Metro Outlook: Oakland Summer 2017

Overview

Oakland's supply pipeline picked up significantly in the first half of 2017. In fact, 3,600 units are likely to be delivered in 2017, which is almost twice as many units as were delivered in 2016. However, job growth is slowing and will likely grow an average of 1.4 percent annually over the next two years, according to Moody's Analytics, which will produce demand for only 3,200 units in 2017. Supply will likely outstrip demand slightly in 2017 and into 2018.

While concessions of -0.6 percent remain well below the national rate, they have tripled since Q3 2016 as properties with existing units seek to compete with new units. Fortunately, rent growth returned to positive territory as of Q1 2017, growing by 0.75 percent after declining by 1.0 percent in Q4 2016 due to seasonality.

Oakland has a few advantages over its neighbors. Though the cost of living is 38 percent above the national average, the cost of doing business in the East Bay is just 108 percent – a bargain compared with San Francisco's eye-popping 124 percent. In addition, the University of California at Berkeley is the second largest employer and produces many well-educated grads supporting growth in software, tech equipment, and bio-tech companies. Auto maker Tesla will also be a key driver in Fremont as it pushes to increase production of electric cars from 50,000 to 500,000, bring 3,000 new jobs, a new BART station, and 1.3 million square feet of office space with it. Finally, Oakland is an important center of wholesale trade and distribution activities. The Port of Oakland is the fifth-busiest port in the U.S., serving more than 13.5 million passengers and 2.4 million shipping containers annually.

However, most of Oakland's growth has been fueled by San Francisco businesses relocating to lower-cost real estate and a commercial and residential construction boom. That phenomenon may be on the wane. For example, Uber is planning a move to Oakland but will create only between 200 to 300 jobs rather than the 3,000 originally planned. Also, the loss of the NFL's Oakland Raiders to Las Vegas doesn't help matters, especially since many of the stadium workers are based locally. (However, the Mayor stated that the city will save about $1.5 million per year if the Raiders don't play there due to the city subsidizing home game expenses, such as providing police services.) Finally, Oakland is becoming less affordable and has above average housing costs compared with the Central Valley and Nevada metro areas, which could limit long term growth.

Development

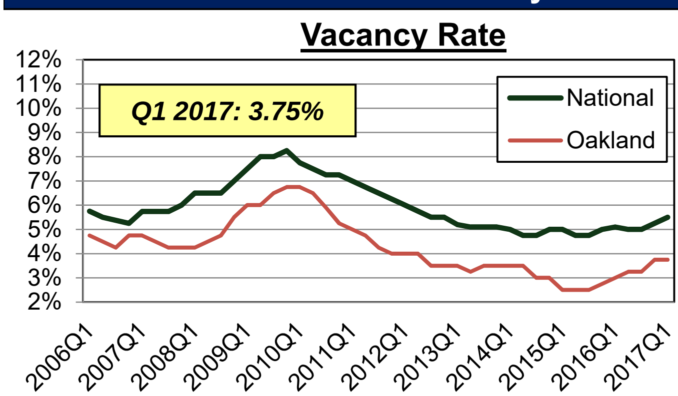
New supply is on the rise with almost 6,800 units underway. There are also several massive commercial mixed use projects with a multifamily component. The most notable project underway is the $1.5 billion Brooklyn Basin designed to redevelop the Oakland waterfront next to Jack London Square. It is likely to provide 10,000 jobs during the construction phase and an estimated 3,100 residential units including apartments, condos, loft spaces and townhouses when complete.

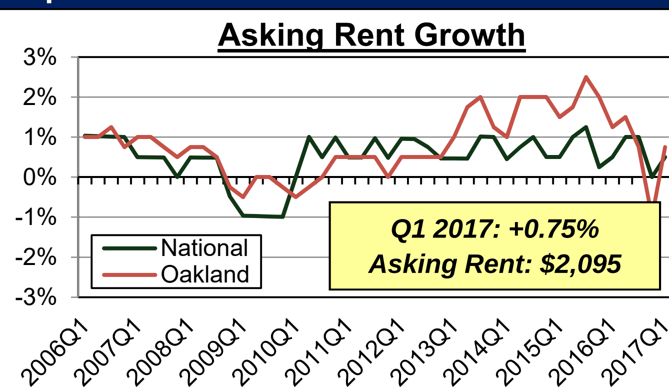
In addition, downtown Fremont is being redeveloped spurred by the Warm Springs Innovation Hub anchored by Tesla. The $100 million State Street project will include 157 condos and 21,000 square feet of retail when complete.

Outlook

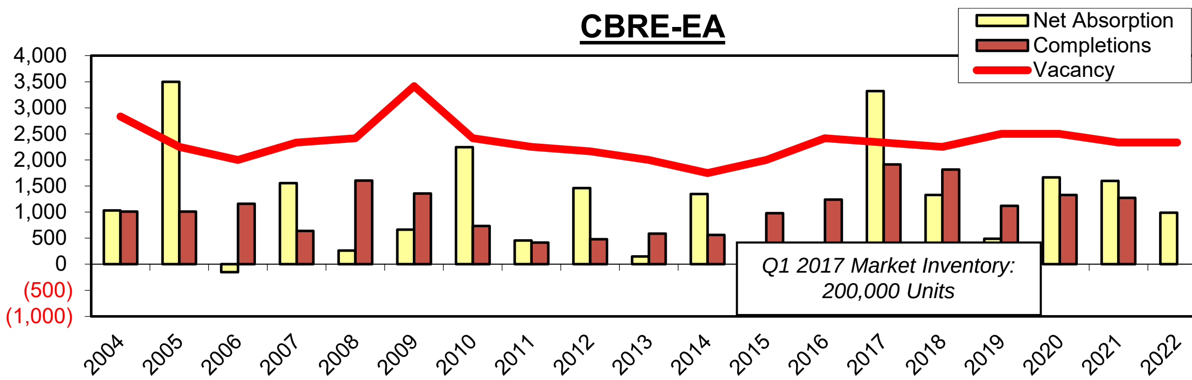
Rent growth is expected to slow this year as the construction pipeline remains busy. However, barring an unforeseen spike in construction, rents should remain in 2 percent territory. Longer-term, Oakland has the largest population in the Bay Area and both population and jobs are expected to grow at approximately the same pace as the rest of the nation. Barring an unforeseen slowdown in the demand for technology, new supply should be absorbed over the long-term.

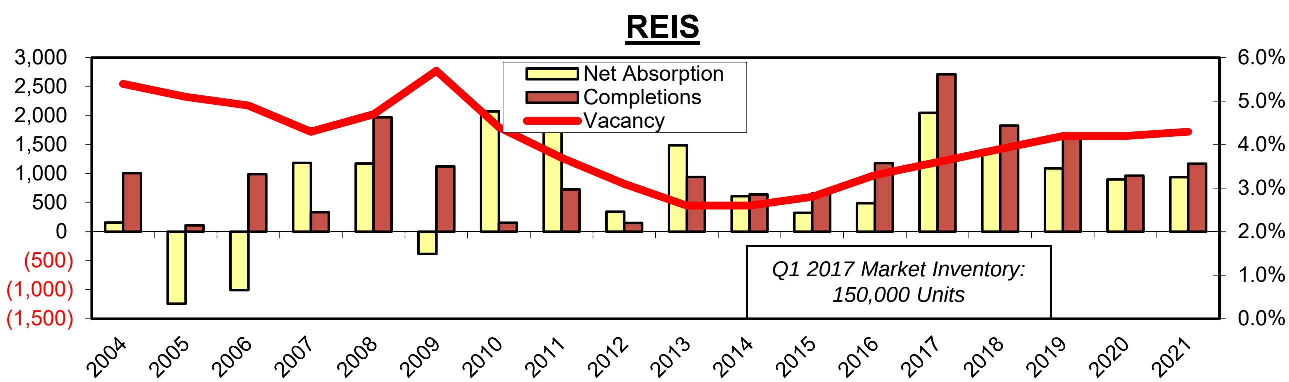
Vacancy and Rent Composite Estimates

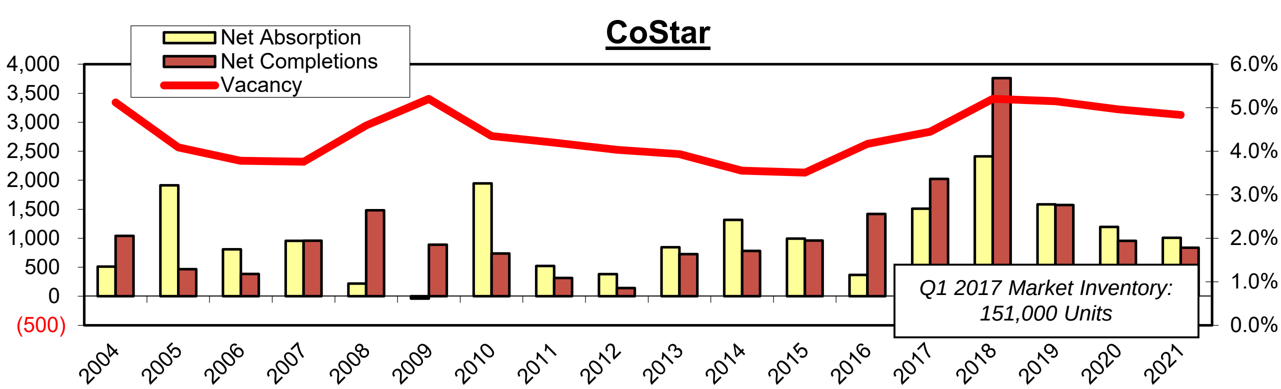


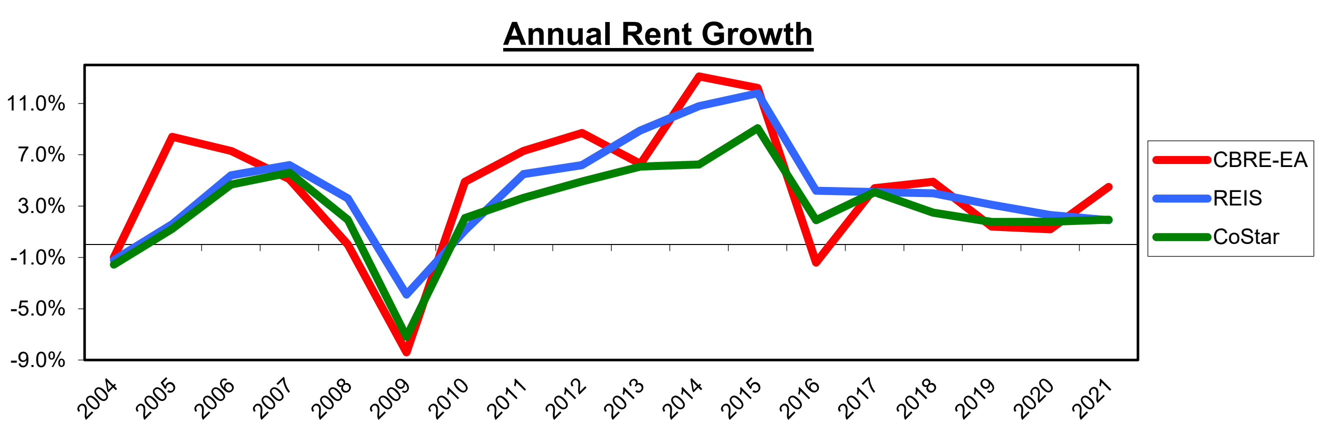


Source: Fannie Mae Multifamily and Economics Research

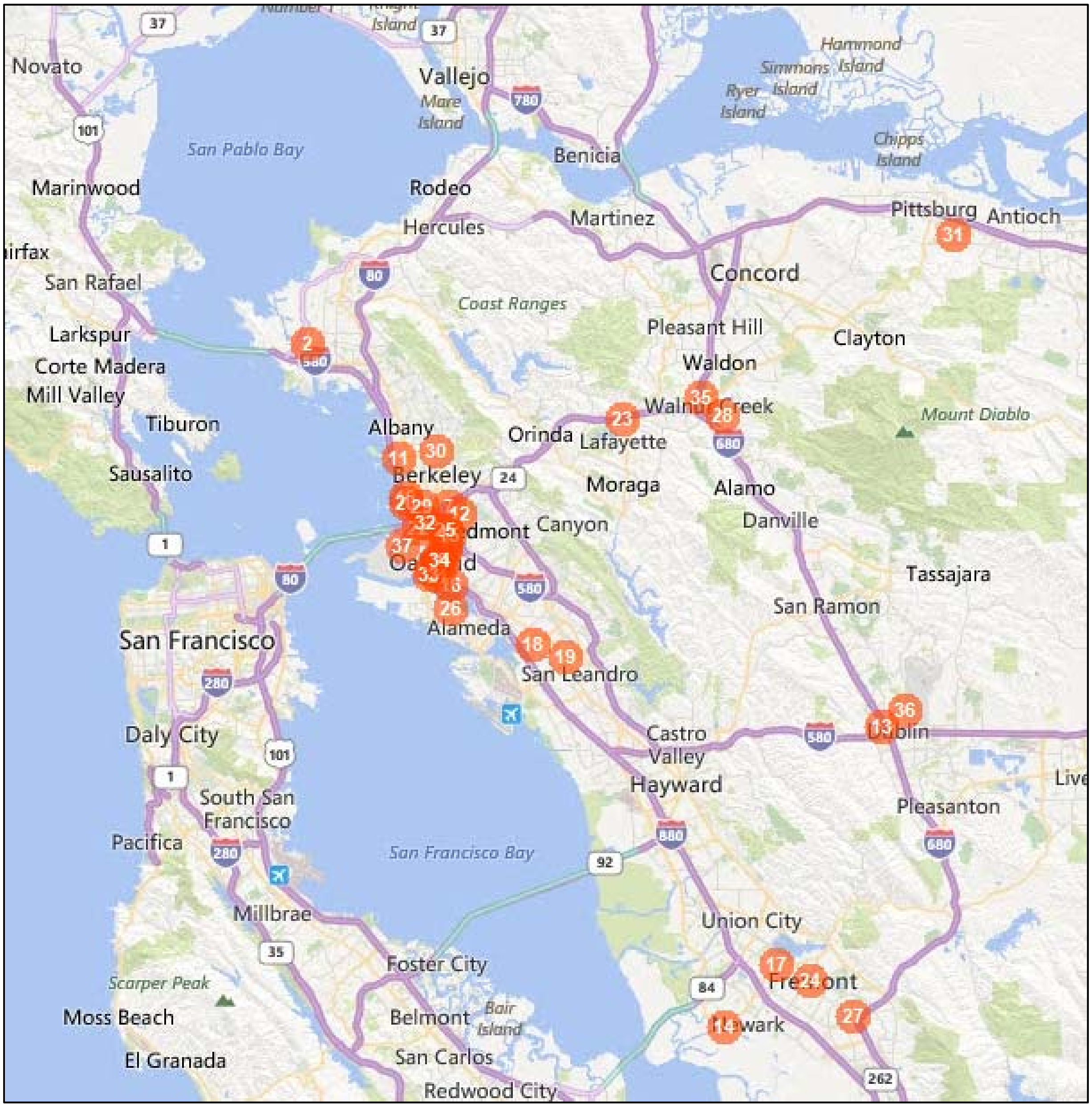

CBRE-EA
Net Absorption
Completions
Vacancy
Q1 2017 Market Inventory:
200,000 Units


REIS
Net Absorption
Completions
Vacancy
Q1 2017 Market Inventory:
150,000 Units


CoStar
Net Absorption
Net Completions
Vacancy
Q1 2017 Market Inventory:
151,000 Units


Annual Rent Growth
CBRE-EA
REIS
CoStar

Construction Bidding/Underway
(37 projects/6,800 Units/8.2 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
North Alameda	19	4045	3636
West Contra Costa	8	1430	1208
Fremont/Newark/Union City	4	1513	974
East Alameda	2	570	429
San Ramon/Walnut Creek	3	432	274
East Contra Costa	1	255	230

Multifamily Metro Outlook: Oakland Summer 2017

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
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.

Opinions, analyses, estimates, forecasts, and other views of Fannie Mae's Multifamily Economics and Market Research (EMR) group included in this commentary should not be construed as indicating Fannie Mae's business prospects or expected results, are based on a number of assumptions, and are subject to change without notice. How this information affects Fannie Mae will depend on many factors. Although the EMR group bases its opinions, analyses, estimates, forecasts, and other views on information it considers reliable, it does not guarantee that the information provided in these materials is accurate, current, or suitable for any particular purpose. Changes in the assumptions or the information underlying these views could produce materially different results. The analyses, opinions, estimates, forecasts, and other views published by the EMR group represent the views of that group as of the date indicated and do not necessarily represent the views of Fannie Mae or its management.

