

# Market Research

MULTI-FAMILY | FIRST QUARTER | 2010



## MARKET INDICATORS

	1Q 2010	2Q 2010*
APARTMENT VACANCY	↑	↑
APARTMENT RENTS	↓	↓
INVESTMENT CAP RATES	↑	↑
POPULATION GROWTH	↑	↑
JOB GROWTH	↓	↓

\* PROJECTED

## East Bay Apartment Market

### ECONOMIC CONDITIONS

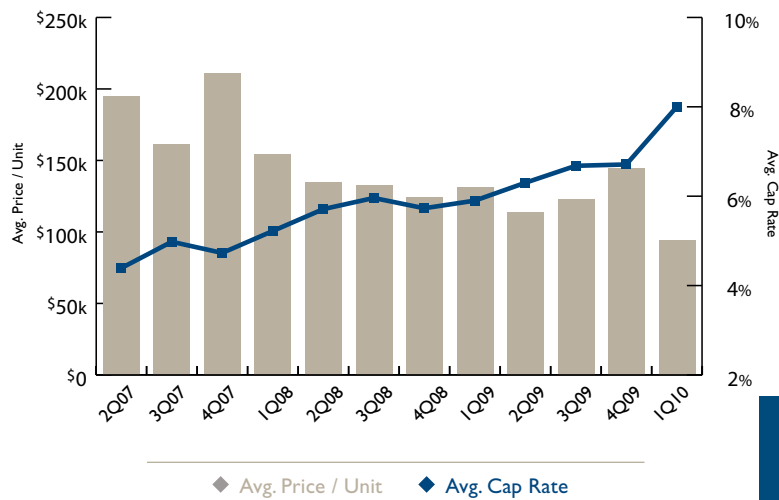
After going through a year that can best be described as brutal, the multi-family market is seen by many as the sector that will be the first to emerge from the recession. The East Bay multi-family market remains bogged down by negative economic conditions in the broader economy. As of February, the unemployment rate in the East Bay was 11.6%, a 2.2 percentage point rise over the past twelve months, and a 6.5 percentage point increase over the past twenty four months. During the past year, 1 in 261 single family homes in Alameda County entered foreclosure, and in Contra Costa County the rate was 1 in 146.

High foreclosure rates create opportunity for multi-family properties as more people tend to move back to rentals. However, an increasing rental pool may not be enough to stem continued declines in rents and property values. The average price per unit in the East Bay is down by more than 59% from its peak in the fourth quarter of 2007. Many buyers that purchased properties during the run up in values will have notes coming due in 2010, 2011, and 2012. Distressed sales and properties will become an increasingly common sight. Even though there are signs of optimism in the market, the outlook remains murky at best.

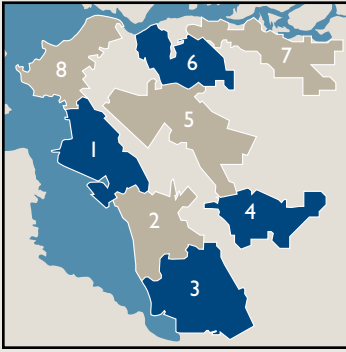
### SALES / RENTAL TRENDS

Market conditions continued to deteriorate across the East Bay during the first quarter of 2010. Asking rents continued to decline in every East Bay submarket. Across the region, average asking

EAST BAY MULTI-FAMILY • AVG. PRICE / UNIT VS. AVG. CAP RATE



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## SUBMARKET MAP

1. OAKLAND, BERKELEY, EMERYVILLE & ALAMEDA
2. SAN LEANDRO, HAYWARD & CASTRO VALLEY
3. FREMONT & NEWARK
4. TRI VALLEY
5. WALNUT CREEK, LAMORINDA, DANVILLE & SAN RAMON
6. CONCORD, MARTINEZ, & PLEASANT HILL
7. E. CONTRA COSTA COUNTY
8. W. CONTRA COSTA COUNTY

rent fell 2.1% to \$1,281 per unit. On top of that, landlords continued to offer larger concessions to tenants in the region. During the first quarter of this year, landlords gave back 8.0% of average annual rent collected, equalling approximately one free month of rent. Cap rates rose by more than 110 basis points during the first quarter to an average of 8.0%. Fueled by rising cap rates, the average price per unit dropped to \$94,255, down from \$134,524 in the previous quarter. In addition, after a relatively robust fourth quarter, the transaction velocity dipped during the first quarter as well. Only fifteen multi-residential, transactions with ten or more units, were completed in the first quarter, compared to the forty-nine transactions that occurred in the fourth quarter of 2009. The major socio-economic differences from one East Bay sub-market to the next tends to lead to wide swings in key property economic indicators such as cap rate, gross rent multiplier and price per unit.

## ALAMEDA COUNTY

The majority of the transactions that did occur were in Alameda County, and was largely the result of the high number of bank-owned properties that sold in the quarter. Of the fifteen transactions that did occur, twelve were in Alameda County. Apartment cap rates in the county climbed to 7.4%, a 70 basis point jump in the first quarter. During the same period, the average price per unit fell from \$149,438 during the fourth quarter to \$98,299 during the first quarter. Rents continued to decline as well. Average asking rents declined by 2.0% from the previous quarter to an average asking rent per unit of \$1,341. Oakland and Berkeley continued to have the highest average asking rents at \$1,508 per unit, while San Leandro and Hayward had the lowest average asking rent

at \$1,140 per unit. Even with declining rents, landlords have continued to offer tenant rent concessions in order to keep vacancies low. On average, landlords gave back 8.0% of the average annual rent to attract tenants in Alameda County, reflecting an 0.8% jump from the previous quarter.

## CONTRA COSTA COUNTY

Transaction volume for multifamily properties of ten or more units in Contra Costa County was relatively stagnant during the first quarter of 2010. As with the rest of the region, transaction velocity was down more than 50% during the first quarter. The total number of transactions fell from seven to only three during the period. Contra Costa County was unique however in that the average price per unit increased, while cap rates actually decreased. The average price per unit managed to climb to \$90,210 per unit, up from \$52,273 per unit in the previous quarter. This increase in the price per unit is most likely the result of more transaction volume coming from the central part of the county, ie, Walnut Creek, Concord, Martinez, etc., rather than the eastern and western parts of Contra Costa. Cap rates declined by 20 basis points falling to 8.0% in the first quarter. Average asking rents continued to decline, falling 2.2% to an average of \$1,220 per unit. Rents in Walnut Creek, Lafayette and Moraga continued to be the highest in the market at \$1,352 per unit on average, while rental rates in the Pittsburg and Antioch area remained the lowest, at an average of \$1,106 per unit. Landlords in Contra Costa County also continued to increase the amount of rent concessions

## MARKET ACTIVITY

## SIGNIFICANT FIRST QUARTER TRANSACTIONS

## SIGNIFICANT SALES

PROPERTY NAME / PROPERTY ADDRESS	DATE	UNITS	BUYER / SELLER	CITY
2265 Marina Blvd	Feb-10	24	Lam & Brown GP/Standard Trust Deed	San Leandro
6301-6329 Foothill Blvd	Feb-10	54	Foothill Plaza Partners LLC/First American Title	Oakland
141 Montecito Ave	Jan-10	19	RTZ Associates/Delbert Hamilton	Oakland
1963 Powell St	Jan-10	13	Yoram & Barbara/Peleg/CRP Properties	San Pablo

**MULTI-FAMILY MARKET STATISTICS**  
 FIRST QUARTER 2010

EXISTING PROPERTIES		DEMOGRAPHICS				RENT TRENDS			SALES		
CLASS	BLDGS	TOTAL INVENT. SQ FT	TOTAL INVENT. # UNITS	TOTAL POPULATION	% OF H.H.WHO RENT	AVERAGE ASKING RENTS	% CHANGE FROM PREV. QUARTER	AVG. CON. ON 12 MO. LEASE	CON. % OF AVG. RENT	AVERAGE CAP RATE IQ10	AVERAGE PRICE PER UNIT IQ10
<b>SUB MARKETS</b>											
<b>OAKLAND, BERKELEY, EMERYVILLE &amp; ALAMEDA</b>											
TOTAL	1,733	31,053,222	41,725	607,129	57.2%	\$1,508	-3.5%	\$1,811	9.5%	7.4%	\$82,150
<b>SAN LEANDRO, HAYWARD, &amp; CASTRO VALLEY</b>											
TOTAL	618	18,718,252	23,446	297,756	39.7%	\$1,140	-1.0%	\$948	7.2%	-	\$134,635
<b>TRI-VALLEY</b>											
TOTAL	97	6,984,671	8,144	197,464	29.4%	\$1,415	-0.6%	\$1,039	6.2%	5.6%	\$121,429
<b>FREMONT &amp; NEWARK</b>											
TOTAL	213	13,572,659	16,871	319,168	34.2%	\$1,302	-2.7%	\$1,393	9.1%	-	\$0
<b>CONCORD, MARTINEZ, &amp; PLEASANT HILL</b>											
TOTAL	298	15,215,230	19,873	194,453	36.7%	\$1,173	-0.2%	\$994	7.2%	6.2%	\$162,510
<b>WALNUT CREEK, LAMORINDA, DANVILLE, &amp; SAN RAMON</b>											
TOTAL	209	11,761,927	12,189	249,170	21.9%	\$1,352	-2.2%	\$993	6.0%	-	\$0
<b>EASTERN CONTRA COSTA COUNTY</b>											
TOTAL	158	10,856,030	13,112	271,891	27.6%	\$1,106	-3.9%	\$1,648	12.2%	11.5%	\$55,938
<b>WESTERN CONTRA COSTA COUNTY</b>											
TOTAL	259	12,925,477	12,897	229,333	40.0%	\$1,250	-2.5%	\$1,100	6.8%	-	\$70,769
<b>MARKET TOTAL</b>											
ALA	2,661	70,328,804	90,186	1,421,517	45.5%	\$1,341	-2.0%	\$1,298	8.0%	7.4%	\$98,299
CC	924	50,758,664	58,071	944,847	30.5%	\$1,220	-2.2%	\$1,184	8.1%	8.6%	\$90,210
TOTAL	3,585	121,087,468	148,257	2,366,364	39.3%	\$1,281	-2.1%	\$1,241	8.0%	8.0%	\$94,255
<b>QUARTERLY COMPARISON AND TOTALS</b>											
Q1-10	3,585	121,087,468	148,257	2,366,364	39.3%	\$1,281	-2.1%	\$1,241	8.0%	8.0%	\$94,255
Q4-09	3,585	121,087,468	148,257	2,366,364	39.3%	\$1,308	-2.1%	\$1,241	8.0%	6.9%	\$144,524
Q3-09	3,585	121,087,468	148,257	2,348,516	39.3%	\$1,312	-	\$1,191	7.7%	6.7%	\$117,546

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offered to tenants. On average, landlords gave back 8.1% of the total average annual rent equating \$1,184 over a twelve month period.

## CAPITAL MARKETS

BY MATT CHEESEMAN, COLLIERS FINANCIAL GROUP

Lenders and brokers returned from The Mortgage Banking Association Conference in Las Vegas with surprising enthusiasm, but the hype seems to have quickly dissipated. The optimism hangover from commercial real estate's largest lending conference may have distracted people from the actual positive signs. Some of the first lenders to the sidelines have been testing the market. CMBS has a faint heartbeat. CTL financing programs are expanding, and, as they do every year, insurance companies are flaunting their budgets and appetites. Alas, decreased property values and increased underwriting standards fuel a vicious cycle in the worst lending environment in decades.

The multi-family market, locally, seems to be relatively healthy. Buyer and seller expectations are closer aligned than in recent months. Multi-family financing continues to be the most readily available CRE products. Fannie Mae and Freddie Mac are still lending with outstanding

terms. Rates start in the mid 4's and 10-year fixed rate loans are still under 6%.

## LOOKING FORWARD

Though many believe that multi-family will be the first commercial real estate sector to stabilize and improve once the regions employment picture begins to improve, multi-family property owners will continue to face a litany of challenges in the coming quarter or two. Declining rents will continue to lower overall gross scheduled, and net operating incomes resulting in declining property values that will leave more owners under water and facing possible foreclosure. Banks continue to struggle with delinquent borrowers, as more properties of all sizes enter a notice of default period. The expectation going forward is for an increase in bank-owned apartment properties to come to market over the next couple of quarters, leading to an excellent buying opportunity for investors. For non-bank owned properties in good locations, there is still a fairly wide gap between the ask and bid price negotiated between sellers and buyers. This has resulted in increased on-market periods with property price reductions in order to complete transactions.

294 OFFICES IN 61 COUNTRIES  
ON 6 CONTINENTS

USA 94  
Canada 22  
Latin America 17  
Asia Pacific 64  
EMEA 97

\$48.1 billion in annual  
transaction volume  
1.1 billion square feet  
under management  
12,729 Professionals

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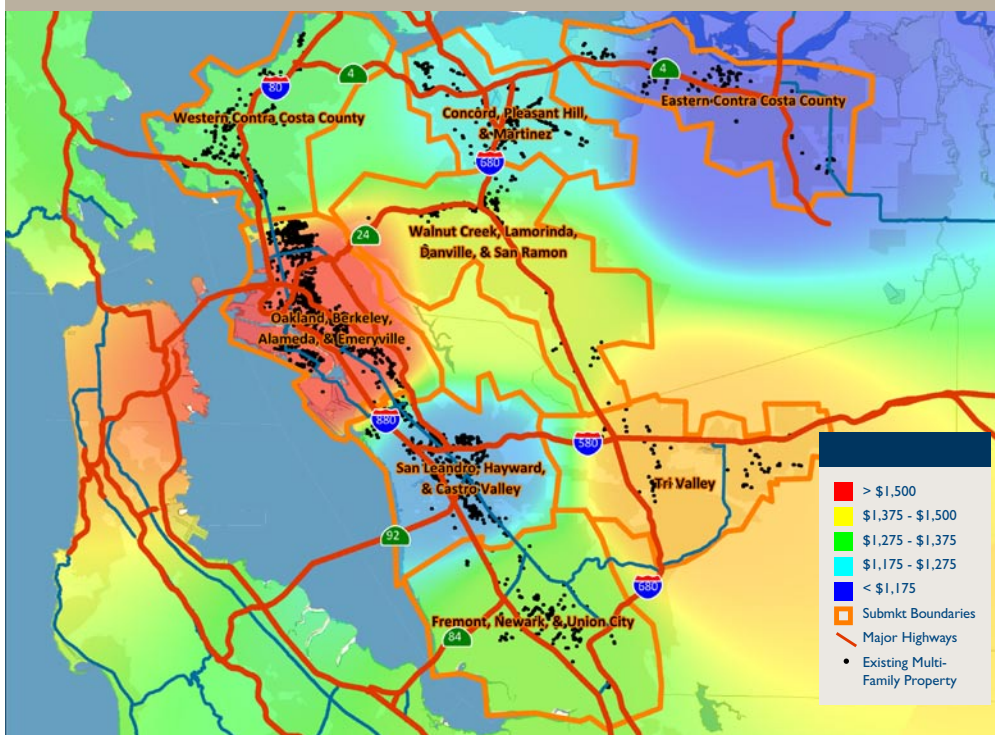
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EAST BAY MULTI-FAMILY - ASKING RENTAL RATE PER UNIT (MONTHLY)



INFORMATION SOURCES: REALQUEST, COSTAR, PIERCE-EISELEN, NIELSEN CLARITAS