EAST BAY AREA | CALIFORNIA

RESEARCH & FORECAST REPORT

MARKET INDICATORS

	Q1	PROJECTED Q2
OCCUPANCY	↔	↔
APARTMENT RENTS	↑	↑
INVESTMENT CAP RATES	↓	↓
EMPLOYMENT	↑	↑

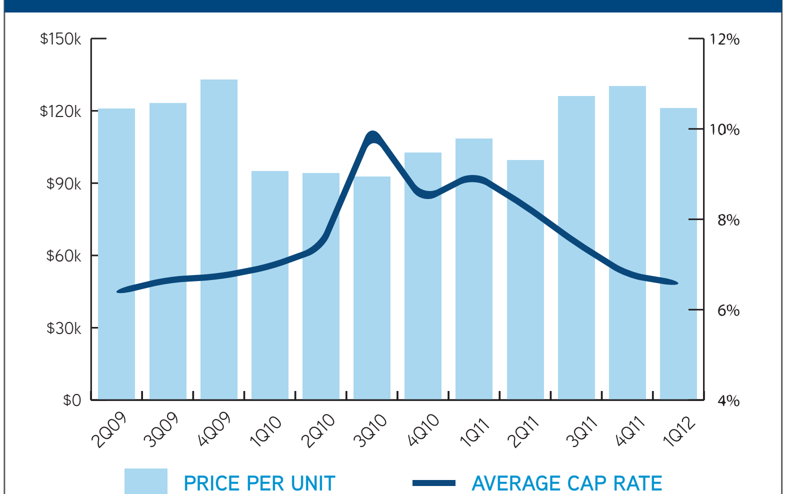
East Bay Multi-Family Market

INTRODUCTION

The East Bay Multi-Family market continues to look healthy and several factors point towards growth in 2012 as the economy continues to improve albeit at a slow pace. Some of these factors include; an improving jobs outlook with growth across several industries, overall population growth in the region, a continued slide in home ownership rates, and rent growth across most East Bay submarkets. Although the East Bay has not experienced the robust tech and social media boom of the Silicon Valley and the SOMA district of San Francisco, conditions are improving. According to the California Employment Development Department, the overall unemployment rate in California was 11.5 percent during the first quarter. Alameda and Contra Costa counties added 6,200 jobs during the February 2012 – March 2012 period resulting in a blended unemployment rate of 9.8 percent. East Bay unemployment inched up 20 basis points during the first quarter, however the labor force grew by 6.6 percent during that same period, with the majority of hiring coming from the health care and leisure and hospitality services industries.

According to The McGraw Hill Companies, after five years of shrinking multi-family construction starts in the San Francisco metropolitan area, permits to build new apartment inventory as well as new multi-residential project construction is on the upswing. Contributing to this uptick in construction starts, is that there has been virtually no new multi-family deliveries over the past several years; resulting in increased occupancy levels throughout the East Bay. That coupled with a distressed single family market and East Bay population growth, has led to overall increases in rents throughout the region. New multi-family development projects are going through the various stages of the approval process in many East Bay cities, including Walnut Creek, Dublin, Lafayette, Pleasanton and Oakland.

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



Average Cap Rates continued to decline while average price per unit inched upward

Trends & Topics

ECONOMY

- Jobs outlook improving with growth across several industries.
- Overall population growth in The East Bay.
- Contra Costa and Alameda Counties added 6,200 jobs during the Febrary-March 2012 period resulting in an unemployment rate of 9.8%.
- Permits to build new apartment inventory as well as new multi-residential projects that are soon to start construction are on the upswing.

SALES

- Nationally, cap rates continued their steady decent with the downward pace accelerating slightly during the first quarter.
- Fewer sales in the first quarter following the typical upsurge in sales at year end.
- The majority of deals were transacted off market without the benefit of a conventional marketing period.
- Very little on-market multi-family inventory

RENT

- Alameda County outpaced Contra Costa County in both rent growth and occupancy.
- Tight San Francisco and Silicon Valley rental markets have caused tenants to seek alternatives in the East Bay.

The continued growth in the technology sector has been a major driving force behind the recent increases in occupancy and rents in the South Bay and San Francisco. The tight rental market in those areas should drive tenants to other areas including the East Bay. This seems to be occurring now, especially in the Lake Merritt, Adams Point and Rockridge areas of Oakland, where tenants frustrated with a tight San Francisco rental market are now making a decision to come to the East Bay.

SALES/MARKET TRENDS

According to data provided by Real Capital Analytics, national sales volume has slowed down from the previous quarter as well as year-over-year. There were two-thirds as many transactions in the first quarter compared to the fourth quarter 2011, which is fairly typical as closings tend to spike towards the end of the year. Nationally, cap rates continued their steady decent with the downward pace accelerating slightly last quarter. The national average cap rate for apartments was 6.3 pecent in the first quarter. In the San Francisco Metro, cap rates are trending lower in all parts of the region, however the repricing of San Jose properties compared to San Francisco is apparent over the past three years. San Jose is now second to Manhattan for the lowest cap rates in the apartment sector.

In the East Bay, there were only 18 transactions of 10 units or greater. Of those 18, ten were transacted off-market without the benefit of a conventional marketing period. For the first time in several quarters, there were no institutional deals in either East Bay county. This is likely to change however given the strong improvement in the first quarter 2012 of rental rates and occupancy levels.

Looking at the East Bay, average cap rates compressed 18 basis points to 6.58 percent. Total average price per unit fell 6.9 percent to $121,198 due to a higher instance of off-market deals in the first quarter. Overall, the first quarter saw transaction frequency drop by one-third. Approximately half the sales in Alameda County were off-market with the majority of them less than 20 units. The average cap rate in Alameda County was 6.63 percent, with an average price per unit of $108,403 leading to a 15 basis point drop. Contra Costa County transaction activity during the quarter saw a near even ratio of conventional to off-market closings. Cap rates remained relatively unchanged however from the fourth quarter 2011, with increases of only 3 basis points to 6.77 percent. The average price per unit dropped slightly by $739 to $137,501.

RENTAL TRENDS

The East Bay rental market has picked up right where it left off prior to the holiday season with significant gains in average asking rents in almost all submarkets during the first quarter of 2012. In both Contra Costa and Alameda Counties, occupancy remained at an impressive 95 percent, despite the strong rent growth which occurred over the quarter. Alameda County continues to outpace Contra Costa County with increases in both average asking rents and occupancy levels of 1.8 percent and 96.4 percent respectively. Contra Costa County saw increases in average asking rents of 1.3 percent and average occupancy of 95.2 percent during the first quarter of 2012.

The Tri-Valley submarket (Pleasanton/Dublin/Livermore/San Ramon) led the entire East Bay with 7 percent growth in average asking rents (to an average of $1,659/unit), with the next closest submarket, Berkeley/Emeryville/Alameda showing a 3 percent growth in rents during the quarter. There were four submarkets with rental rate growth over 2 percent, including: East & West Contra Costa County, San Leandro/Hayward/Castro Valley and Concord/Martinez/Pleasant Hill. Oakland and Fremont/Newark/Union City continue their steady increases around 1.5 percent while Walnut Creek/Lamorinda/Danville saw the slowest growth of any of the East Bay submarkets at .5 percent.

RECENT MARKET ACTIVITY

SALES COMPARABLES

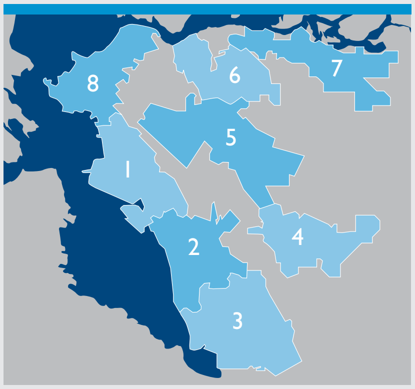
PROPERTY ADDRESS/NAME	CITY	UNITS	PRICE	PRICE/UNIT	CAP RATE	GROSS INCOME MULTIPLIER	PRICE/RSF	SALE DATE
39-57 N Broadway Avenue	Bay Point	63	$2,550,000	$40,476	10.48	4.73	$70	3/15/12
323 Alcatraz Avenue	Oakland	14	$1,750,000	$125,000	6.19	9.51	$275	2/15/12
1650 159th Avenue	San Leandro	15	$1,600,000	$106,667	8.09	7.84	$114	1/20/12
1149 Meadow Lane	Concord	8	$1,260,000	$157,500			$247	1/31/12
1413 Portola Avenue	Livermore	13	$1,250,000	$96,154	5.62	9.09	$183	1/12/12
414 Fairmount Avenue	Oakland	11	$995,000	$90,455	7.21	8.52	$129	3/9/12
2530 Fruitvale Avenue	Oakland	10	$400,000	$40,000	11.61	4.76	$105	1/6/12

MULTI-FAMILY MARKET | Q1 2012

MARKET		BLDGS (5+)	TOTAL INVENTORY # OF UNITS (5+)	TOTAL POPULATION	PERCENT HOUSEHOLDS WHO RENT	AVERAGE ASKING RENTS CURRENT QTR	% CHANGE FROM PREVIOUS QUARTER*	OCCUPANCY	% CHANGE FROM PREVIOUS QUARTER	AVERAGE CAP CURRENT QTR (10+)	AVERAGE PRICE PER UNIT CURRENT QTR (10+)
OAKLAND											
	Total	2,671	3,588	390,764	58.5%	$1,698	1.3%	95.50%	2.2%	7.69%	$84,864
BERKELEY, EMERYVILLE, & ALAMEDA											
	Total	1,872	24,835	197,432	56.8%	$1,773	3.0%	96.80%	0.1%	5.25%	$153,944
SAN LEANDRO, HAYWARD, & CASTRO VALLEY											
	Total	1,207	26,375	287,282	41.0%	$1,228	2.0%	97.60%	0.4%	7.27%	$94,063
PLEASANTON, DUBLIN, LIVERMORE, SAN RAMON											
	Total	251	12,538	241,745	29.7%	$1,659	7.0%	94.70%	-1.2%	5.62%	$96,154
FREMONT, NEWARK, UNION CITY											
	Total	303	17,891	328,423	33.0%	$1,520	1.8%	96.70%	-	-	-
CONCORD, MARTINEZ, & PLEASANT HILL											
	Total	498	21,073	190,916	38.0%	$1,303	2.2%	95.40%	-0.5%	-	$157,500
WALNUT CREEK, LAMORINDA, DANVILLE											
	Total	324	13,534	164,192	24.4%	$1,590	0.5%	95.10%	-0.1%	5.53%	$163,177
EASTERN CONTRA COSTA COUNTY											
	Total	263	13,950	292,109	29.0%	$1,121	2.8%	94.40%	0.6%	4.73%	$40,476
WESTERN CONTRA COSTA COUNTY											
	Total	691	15,676	256,678	36.4%	$1,197	2.1%	95.70%	-	-	-
MARKET TOTAL											
	ALA	6,304	85,227	1,519,508	45.5%	$1,519	1.80%	96.40%	0.10%	6.63%	$108,403
	CC	1,776	64,233	1,062,782	31.4%	$1,357	1.30%	95.20%	-0.20%	6.77%	$137,501
	Total	8,080	149,460	2,582,290	39.1%	$1,456	1.60%	95.90%	-	6.58%	$121,198
QUARTERLY COMPARISON AND TOTALS											
Q1-12	Total	8,080	149,460	2,582,290	39.1%	$1,456	1.60%	95.90%	-	6.58%	$121,198
Q4-11	Total	8,080	149,460	2,324,191	39.1%	$1,433	0.00%	95.90%	-0.80%	6.77%	$130,176
Q3-11	Total	---	---	---	39.1%	$1,432	2.10%	96.70%	0.50%	7.48%	$126,173
Q2-11	Total	---	---	---	39.1%	$1,403	2.78%	96.20%	0.60%	8.30%	$99,622
Q1-11	Total	---	---	---	39.1%	$1,365	2.2%	95.6%	0.0%	9.00%	$108,345

* Rent statistics are calculated from 50+ unit buildings

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.



EAST BAY SUBMARKET MAP

1. Oakland, Berkeley, Emeryville & Alameda
2. San Leandro, Hayward & Castro Valley
3. Fremont, Newark & Union City
4. Pleasanton, Dublin, Livermore & San Ramon
5. Walnut Creek, Lamorinda & Danville
6. Concord, Martinez & Pleasant Hill
7. Eastern Contra Costa County
8. Western Contra Costa County

Oakland has been increasing rents and occupancy levels steadily over the past twelve months, making it one of the hottest rental markets in the Bay Area. During the first quarter of 2012, Oakland showed a modest 1.3 percent growth in rents, but managed to increase occupancy by an impressive 2.2 percent to reach 95.5 percent. San Leandro/Hayward/Castro Valley and Eastern Contra Costa County saw modest occupancy increases of roughly 0.5 percent while the rest of the East Bay market saw little change in overall occupancy. The East Bay region as a whole maintains an average occupancy of 95.9 percent.

CAPITAL MARKETS

The government sponsored agencies (GSE), Fannie Mae and Freddie Mac continue to be aggressive lenders in the multi-family sector. Unlike their single-family credit guarantee business, the GSEs' multi-family businesses have performed quite well, generating positive cash flow. Last year, the GSEs multi-family business produced $1.9 billion in net income, with Freddie Mac accounting for 70 percent of this gain, as investors poured into the multi-family sector. This trend continued into the first quarter of 2012, with Freddie Mac alone producing $624 million in multi-family net income.

Bay Area lenders continue to be very busy making multi-family loans, with the majority of activity during the first quarter of 2012 coming from refinancing, rather than new loan originations. Typical timelines from loan application, to final approval are averaging around sixty days, largely due to the current low interest rate environment. In the East Bay submarkets, overbuilding is not a concern for lenders, and they continue to compete aggressively for good deals. The banks still dominate the smaller deals (under $5,000,000) although some life insurance companies and small loan Fannie/Freddie programs are taking the best quality deals. Above $5,000,000, Fannie and Freddie still dominate, with 10-year fixed rate, non-recourse debt pricing in the 3.6 -3.9 percent range. Interest rates from traditional bank lenders have dropped slightly in the first quarter, with some lenders quoting 5-year fixed financing in the mid 3 percent range. The life insurance companies, not finding yield in other investment opportunities, are trying to compete with Fannie and Freddie, and have actually been winning some of the larger "trophy" properties. Some conduits have actually been successful at securitizing a few "broken condo" deals, offering a non-recourse alternative to the banks. It is still a great time to find a loan on multi-family deals, and it appears that will be the case for some time.

CONCLUSION

The East Bay apartment market continues to experience strong rent growth at the beginning of 2012, as the tight rental market and escalating rents in San Francisco and the Silicon Valley have caused residents to seek rental housing options in the East Bay. Economic growth in the region should continue, albeit slowly as the East Bay finds its own recovery, due in part to overall job growth in certain sectors, as well as a slowly recovering housing market. With very little available multi-family inventory, coupled with the current low interest rate environment, demand amongst investors for apartment properties of all types in most East Bay submarkets is extremely high. It is not uncommon for smaller, well located and priced deals to receive multiple offers, as investors clamor to take advantage of excellent buying fundamentals.

Rising rents and stable occupancies should continue to drive demand in the region. The increase in off-market transactions during the first quarter will likely continue as the year unfolds, and should do so until such time that the market returns to a reasonable transaction velocity. With on-market multi-family inventory constrained, it is an excellent time for owners to consider testing the market. It also is a good time to take a hard look at property operations in order to ensure rental income is maximized, and property expenses are reduced in order to increase net operating income. This will pay dividends by ensuring the value of the property is maximized once the decision to sell is made.

522 offices in 62 countries on 6 continents

United States: 147
Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

- $1.8 billion in annual revenue
- 1.25 billion square feet under management
- Over 12,300 professionals

COLLIERS INTERNATIONAL | WALNUT CREEK

1850 Mt. Diablo Blvd. Suite 200
Walnut Creek, CA 94596
TEL +1 925 279 0120
FAX +1 925 279 0450

MANAGING PARTNER:
Brooks Pedder
Managing Partner
TEL +1 925 279 5581
CA License No. 00902154

RESEARCHER:
Derek Daniels
Research Analyst
TEL +1 925 279 4620

CONTRIBUTING AUTHORS:
Joe Owens
Multi-Family Investments
TEL +1 925 279 4605
CA License No. 01707768

Rich Martini
Multi-Family Investments
TEL +1 925 279 4614
CA License No. 01505297