

MARKET FUNDAMENTALS

	YOY Chg	Outlook
5.7% Vacancy Rate	▲	▼
12,542 Net Absorption, units	▲	▲
\$3.23 Effective Rent, PSF <small>(Overall, All Property Classes)</small>	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
4.1M Bay Area Employment	▲	▲
4.3% Bay Area Unemployment Rate	▲	▼
0.6% Bay Area Household Growth Rate	▲	▲

Source: BLS

ECONOMY: OUTLOOK BRIGHTENS

Layoffs slow among Big Tech and start-up firms in the Bay Area during the fourth quarter of 2024, with signs pointing to further stabilization in early 2025. The unemployment rate did climb higher year-over-year (YOY), up 20 basis points (bps) to 4.3%. And though, YOY, total nonfarm employment climbed by 0.4%, office employment fell by 1.0%. The highlight of the Bay Area economy continued to be venture capital funding into locally based companies with the figure hitting \$97.1 billion for 2024, almost as high as the next top 20 markets in the Americas combined (not including San Francisco which is rolled into the Bay Area figure).

SUPPLY and DEMAND: UNITS UNDER CONSTRUCTION PLUMMETS

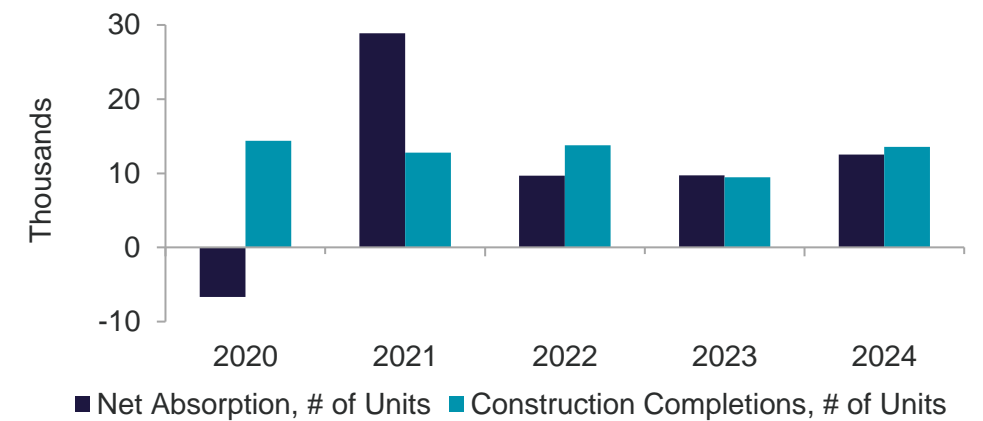
Units under construction in the Bay Area fell sharply in the fourth quarter of 2024, down 20.4% to 15,921. That is the lowest figure since the first quarter of 2023 and just 1.9% of total Bay Area inventory versus 4.4% for same metric at the U.S. level. Deliveries, meanwhile, rocketed to 4,379 units, the highest since the 5,678 units in the third quarter of 2022.

The vacancy rate for the Bay Area has held within a 20-bps range for the past two years. It closed the fourth quarter at 5.7%, up 10 bps from the third quarter but equal to the figure from both one and two years ago. Absorption for the full year was positive in each of the nine counties in the region.

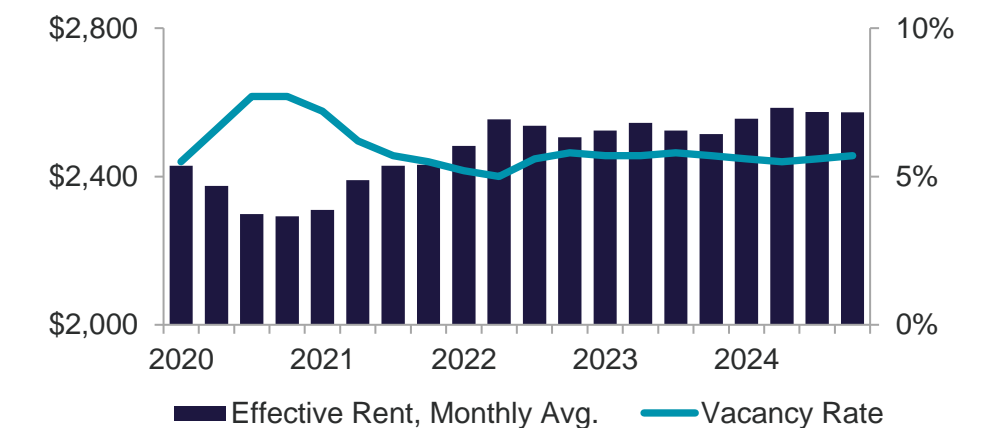
PRICING: RENT SLIGHTLY LOWER IN FOURTH QUARTER

After climbing through the second quarter of 2024, effective rents pulled back slightly in each of the last two quarters of the year. Recording increases in the fourth quarter were the counties of Marin, Napa, San Francisco and San Mateo. Though the other five counties were lower for the quarter, they were all minimal declines. For the full year, the largest increases were in San Mateo County (+3.7%) and Santa Clara County (+3.5%) though no counties recorded a YOY decline.

DEMAND / DELIVERIES



OVERALL VACANCY & EFFECTIVE RENT



Source: CoStar

MARKET STATISTICS

SUBMARKET	INVENTORY (UNITS)	YTD DELIVERIES (UNITS)	YTD % INVENTORY GROWTH	UNDER CNSTR (UNITS)	YTD NET ABSORPTION (UNITS)	VACANCY RATE	YOY VACANCY RATE CHANGE (BPS)	AVG EFFECTIVE RENT / UNIT	AVG EFFECTIVE RENT PSF	YOY % EFFECTIVE RENT GROWTH
Santa Clara County	211,612	4,997	2.2%	5,651	2,615	5.5%	+1.1%	\$2,824	\$3.38	3.5%
Alameda County	191,520	3,274	1.4%	2,629	3,305	6.6%	-0.1%	\$2,275	\$2.94	0.8%
San Francisco County	166,017	1,070	0.6%	2,342	1,574	5.7%	-0.3%	\$2,930	\$4.17	2.0%
San Mateo County	79,590	2,283	2.6%	1,606	1,907	5.8%	+0.3%	\$2,958	\$3.71	3.6%
Contra Costa County	72,801	516	0.5%	923	913	5.3%	-0.6%	\$2,186	\$2.68	1.6%
Sonoma County	38,480	943	1.6%	1,816	1,191	4.6%	-0.7%	\$1,933	\$2.32	0.5%
Solano County	28,091	72	0.3%	462	291	5.3%	-0.9%	\$1,873	\$2.25	1.8%
Marin County	20,478	67	0.0%	74	15	4.7%	+0.3%	\$2,723	\$3.19	2.2%
Napa County	9,016	342	3.9%	418	731	6.4%	-4.7%	\$2,217	\$2.60	2.7%
MARKET	817,605	13,564	1.5%	15,921	12,542	5.7%	+0.0%	\$2,573	\$3.23	2.3%

Source: CoStar

KEY SALES TRANSACTIONS Q4 2024

PROPERTY	CITY	SELLER / BUYER	UNITS	PRICE / \$ UNIT
444 Saratoga Avenue	Santa Clara	DWS Group / Interstate Equities Corporation	468	\$203.2M / \$434,188
1072-1094 Tanland Drive	Palo Alto	Prometheus Real Estate Group / Spieker Companies	271	\$138.9M / \$512,546
1395 22 nd Street	San Francisco	Align Residential / J.P. Morgan Asset Management	263	\$148.5M / \$564,639

KEY CONSTRUCTION COMPLETIONS Q4 2024

PROPERTY	CITY	PROPERTY TYPE	UNITS	OWNER / DEVELOPER
1350 S Bascom Avenue	San Jose	Mid-Rise	590	Bay West Group / Bay West Development
10 East Reed Street	San Jose	High-Rise	336	Salata 2005 Trust / Scape North America

MARKET DRIVERS

- With almost every municipality under a state mandate to building significantly more housing over the next few years, it is disconcerting to note that units under construction across the Bay Area have fallen to the lowest level since the first quarter of 2013. Much more work will have to be done to turn this number around.
- Expect at least a few more office to residential conversion announcements to be announced in 2025, in San Francisco, San Jose and Oakland. Some incentives and lower financing costs will help push this forward though still not at the level needed to transform central business districts into mixed-use neighborhoods anytime soon.

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