

# MARKET REPORT

## MULTIFAMILY RESEARCH

### North Bay Market

Marcus & Millichap

4Q 2020

## Market Highlights

**Health crisis attracts renters from San Francisco.** Outlying communities in the Bay Area have fared better during the pandemic than San Francisco and San Jose as renters move away from densely populated neighborhoods and into locations with less-stringent restrictions. The North Bay has welcomed many of these residents in recent months, tightening vacancy since initial stay-at-home orders. However, many companies in core locations in the Bay Area have only committed to letting employees stay away from the office until the summer of 2021. A more formalized long-term plan by large tech companies should provide greater clarity on the durability of demand as the health crisis comes to an end with the wide distribution of vaccines.

**Investors keen on North Bay.** Apartment transaction velocity is largely dictated by supply rather than demand. The relatively elevated cap rates in the area prior to the health crisis attracted many Bay Area investors seeking to balance their portfolios or deploy equity accumulated during recent years. Although cap rates in San Francisco have climbed as vacancy has soared, investor interest in the North Bay is not anticipated to waiver. The long-term stability of the area provides a hedge against volatility in areas closer to the business districts.

## County Vacancy Ranking

Metric	Vacancy Rate	Y-O-Y bps Change	Effective Rent	Y-O-Y % Change
Marin County	4.5%	80	\$2,387	0.3%
Sonoma County	5.3%	80	\$1,695	0.8%
Napa County	6.7%	-270	\$1,836	2.6%

## Market Facts

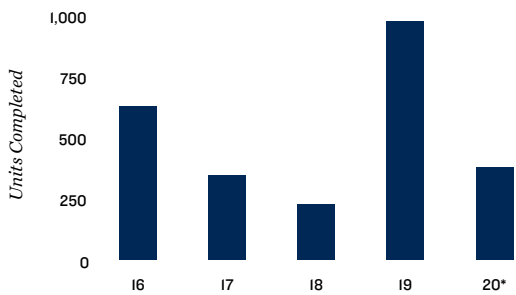
Metric	Market	U.S.
Population	896,332	330,567,827
Avg. Annual Five-Year Chg.*	2.3%	0.7%
Total Households	350,285	125,797,945
Avg. Annual Five-Year HH Chg.*	2.8%	0.8%
Median Household Income	\$95,195	\$62,990
Median Age	43.8	38.2
Employment	527,375	141,720,000
Vacancy Rate (3Q20)	5.2%	4.3%
Avg. Effective Rent (3Q20)	\$1,931	\$1,417
Completions (Year-to-Date)	377	250,656

\* 2020-2025 Forecast

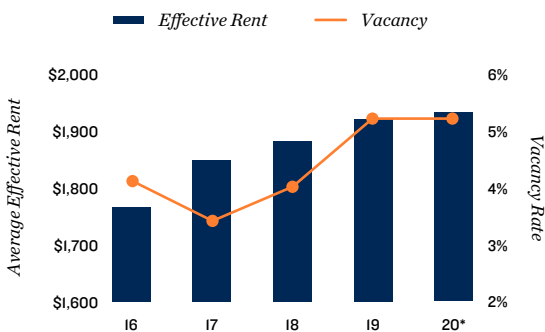
## Market Map



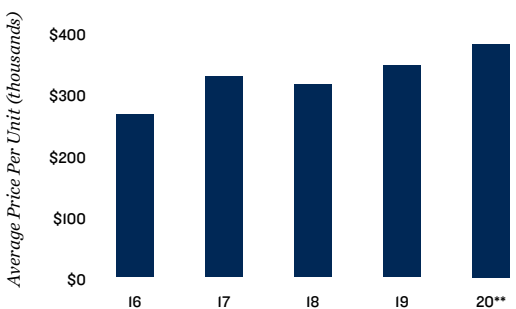
Construction Trends



Effective Rent and Vacancy Trends



Sales Trends



Vacancy Trends

- During the first nine months of 2020, developers added approximately 380 new apartments in the North Bay. Nearly 740 units were completed in the corresponding period last year. One of the few projects underway is a 41-unit project in San Rafael in Marin County.
- Contrary to nearby San Francisco, the North Bay’s apartment vacancy has shown durability during the health crisis. In the summer quarter, the rate contracted 10 basis points to 5.2 percent. Nonetheless, the rate is 30 basis points above the year-ago level.
- Vacancy in Sonoma and Marin counties was relatively flat during the third quarter. In Napa County, the rate improved 110 basis points between July and September. Further restrictions in the Bay Area could encourage more renters to move to the area.

Rent Trends

- Although vacancy has been healthy through the pandemic, rent gains remain modest. Annually, the average effective rent ticked up 0.7 percent to \$1,931 per month in September. In the third quarter, rent advanced 0.4 percent.
- Class C rent gained 1.5 percent to \$1,773 per month during the 12-month period ending in September. At the other end of the spectrum, Class A rent dipped 1.2 percent over the same time to \$2,461 per month. Effective rent at Class B buildings ticked up 0.2 percent over year past year to \$1,983 per month.
- Rents are not expected to retreat over the next several months despite the health crisis. Competition from San Francisco apartments remains a hurdle for local operators due to deep discounting within the city while a widely distributed vaccine could siphon demand back into the city.

Sales Trends

- Sales velocity declined 40 percent year over year during the 12-month period ending in the third quarter. The decrease among Class C properties was nearly 50 percent due to complications closing deals during the health crisis and lack of listings.
- The average price jumped 18 percent in the yearlong period ending in September to \$381,000 per unit. Marin County recorded the highest price at \$485,500 per door, while apartments in Sonoma County traded at \$244,800 per unit.
- During the 12-month period ending in September, the average cap rate was 4.9 percent, up 40 basis points from the previous year. The average first-year return in Marin County was in the mid-4 percent area, while Sonoma and Napa assets traded at an average cap rate in the low-5 percent range.

\* Through 3Q  
 \*\*Trailing 12-month period through 3Q  
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.

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Price: \$250

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