

INVESTMENT FORECAST

Marcus & Millichap

SELF-STORAGE

Bay Area

2020

Wave of Construction Puts Strain on Tight Market

Economic Overview

Hiring has slowed over the past few years, as sub-3 percent unemployment has tightened the labor market considerably. Amid this labor shortage, the employment base will grow by 1.8 percent in 2020, a tick down from the 2.6 percent increase posted in 2019. The city of San Francisco will lead the region in job creation, adding 30,000 workers in 2020.

Demographic Overview

Roughly 318,000 people have migrated to the Bay Area over the past decade, elevating the demand for housing and ultimately causing apartment rental costs to skyrocket. As residents are priced into smaller spaces, the use-case for self-storage may evolve into functioning more as a spare room and less as a rarely visited depository for seasonal items.

Construction Overview

Development in the region dramatically increased in 2019 as completions almost equaled the previous two years combined. In 2020, deliveries will tick up again, posting the highest amount of square footage added to the metro since 2002. Projects are located throughout the region, with a large cluster in South-east San Jose and the East Bay.

Vacancy/Rent Overview

The Bay Area's vacancy rate moved up 220 basis points over the past six years, ending 2019 at 7.5 percent amid heightened deliveries. Metrowide, the average asking rent has held relatively steady over the past four years, near \$1.88 per square foot. The fastest growing and highest rental costs are in the city of San Francisco, jumping 4.2 percent over the past four years, and expected to reach \$2.22 per square foot on average in 2020.

2020 Market Forecast

- Employment
up 1.8%

 The region will gain 63,300 jobs in 2020, a decline from the 89,000 workers added in 2019.
- Population
up 0.6%

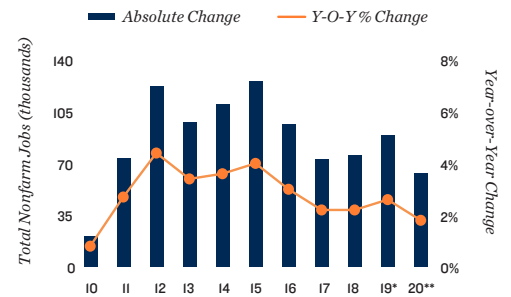
 The three metros combined will grow by 40,000 people this year, a slight increase from 37,000 in 2019. Oakland will expand the most, with 16,700 residents gained.
- Construction
1.5 million sq. ft.

 About 8 percent more square feet will be delivered this year than in 2019. The majority of construction is focused in the eastern portion of the Bay Area.
- Vacancy
up 70 bps

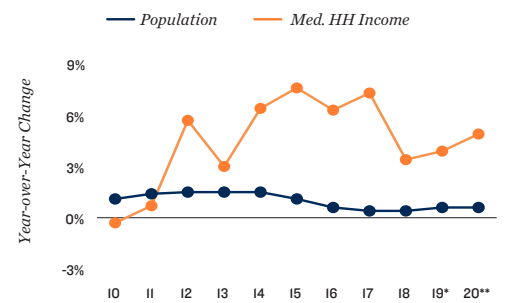
 Availability in the metro will jump up to 8.2 percent in 2020, building upon the 60-basis-point increase recorded a year earlier.
- Rent
no change

 Elevated deliveries over the past three years have pushed the average asking rent down 1.5 percent since 2017 to \$1.88 in 2019, which will hold firm in 2020.

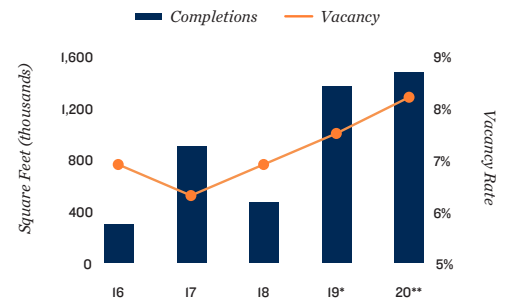
Employment Trends



Demographic Trends



Supply and Demand Trends



* Estimate; ** Forecast
Sources: BLS; U.S. Census Bureau; Yardi Matrix; Union Realtime, LLC
The Bay Area region encompasses San Francisco, San Jose, and Oakland.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 2020. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and self-storage data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.