Yardi® Matrix

MULTIFAMILY REPORT

The Bay Area's Tech Cushion

Spring 2020

Deal Flow Comes to a Halt

Rent Growth Turns Negative

Service Industry Marks Job Losses

SAN FRANCISCO MULTIFAMILY

Yardi® Matrix

An Economic Balancing Act Develops

The multifamily market in the Bay Area has gone through a series of challenges in recent years. While the impacts of rent and eviction control have yet to be determined, the COVID-19 outbreak has thrown a new complication into the mix. Already on a moderating trend throughout 2019, rents took a downward turn in the first third of 2020. The average rent in the metro contracted 0.2% on a trailing three-month basis through April—20 basis points below the national rate. Even so, at $2,694, the metro's average is nearly double the $1,465 U.S. figure.

The market's largest employment sectors—education and health services and professional and business services—are better prepared to withstand the impact of the ongoing crisis, especially as the possibility of working from home is higher. Four sectors had already seen contraction on a year-over-year basis through March, with most job losses registered in the leisure and hospitality and trade, transportation and utilities sectors. Meanwhile, tech giants Facebook, Google and Salesforce announced new job openings.

After 2019's $3.7 billion cycle peak in multifamily deals, sales in 2020's first third totaled $702 million, with a per-unit price of $436,142—almost triple the U.S. average. Meanwhile, developers delivered 629 units and had another 21,985 underway.

Market Analysis | Spring 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 303-615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Anca Gagiuc
Associate Editor

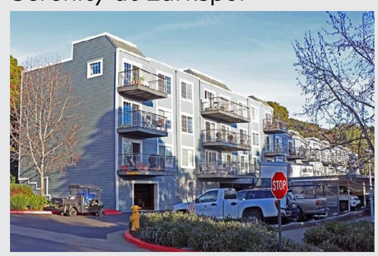
On the cover: Photo by Valentin Tellier/iStockphoto.com

Recent San Francisco Transactions

Park Hacienda

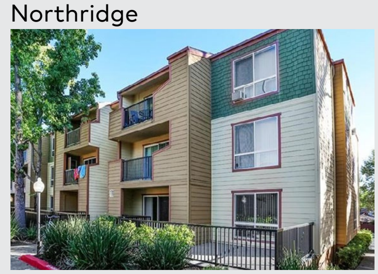
City: Pleasanton, Calif.
Buyer: Acacia Capital
Purchase Price: $248 MM
Price per Unit: $459,259

Serenity at Larkspur



City: Larkspur, Calif.
Buyer: Catalyst Housing Group
Purchase Price: $223 MM
Price per Unit: $650,585

Northridge



City: Pleasant Hill, Calif.
Buyer: Vista Investment Group
Purchase Price: $91 MM
Price per Unit: $411,765

Hilltop Commons

City: San Pablo, Calif.
Buyer: Fairfield Residential
Purchase Price: $90 MM
Price per Unit: $277,076

RENT TRENDS

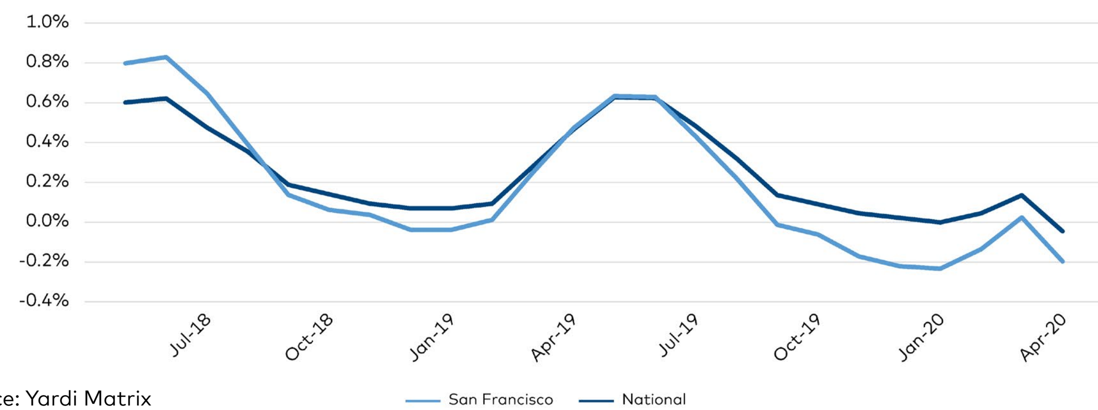
- Throughout 2019, rent growth in the Bay Area was moderate. The first third of 2020 saw negative growth for the first time since August 2010. The average rate contracted 0.2% on a trailing three-month basis through April to an overall average of $2,694, 20 basis points below the U.S. figure. This is a sign that even though the multifamily market is resilient, it is not immune to the health crisis, especially considering the negative growth that follows the winter season, when rents typically begin a steeper rise.

- The drop was more accentuated for rents in the Lifestyle segment, which slid 0.3% to $3,195, while rates in the working-class Renter-by-Necessity segment contracted 0.1% to $2,436 during the same period.

- Still, despite the decline in the average rent, demographic trends favor multifamily demand, as many businesses operate remotely, thus keeping renting a viable option. Additionally, to offset some of the impact that the COVID-19 pandemic has had on the local economy, officials imposed an eviction moratorium with expiration set for June 30.

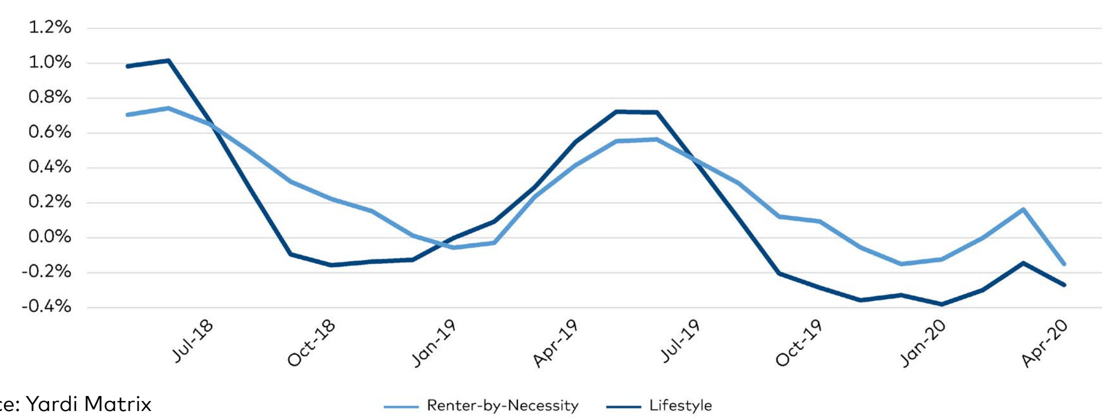
- The most expensive rental submarket in San Francisco, Atherton/Portola, saw the steepest drop; rents were down by 6.1% year-over-year to an average of $5,029.

San Francisco vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

San Francisco Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Employment had actually grown 1.5% year-over-year through March, 10 basis points above the national average. In the 12 months ending in March, the Bay Area gained 21,500 positions, half of which were in the education and health services and professional and business services sectors, the metro's largest employment sectors.

- Considering the 4.7 million unemployment claims processed in California since the start of the outbreak, pressure is mounting. San Francisco faced the same concern as four sectors contracted, with leisure and hospitality and trade, transportation and utilities bearing the brunt with 7,600 and 3,700 jobs lost, respectively. Uber laid off 14% of its staff, or 3,700 jobs, Yelp laid off or furloughed one-third of its employees, Lyft cut 17% of its personnel—982 jobs—and will implement furloughs and pay cuts for hundreds more, and Airbnb announced it will shrink its workforce by 25%, or 1,900 jobs.

- Despite the crisis, some companies are still actively hiring—Facebook announced plans to employ 10,000 people in 2020, Salesforce had 2,200 open positions and Google posted more than 600 openings.

San Francisco Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	543	18.7%
65	Education and Health Services	449	15.5%
50	Information	134	4.6%
55	Financial Activities	165	5.7%
90	Government	393	13.5%
15	Mining, Logging and Construction	159	5.5%
30	Manufacturing	193	6.7%
80	Other Services	101	3.5%
40	Trade, Transportation and Utilities	439	15.1%
70	Leisure and Hospitality	327	11.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Francisco gained 18,791 residents in 2018, up 0.4% and 20 basis below the national rate. Demographic growth in the metro is limited by its high cost of living.

- Between 2015 and 2018, 79,945 residents moved to San Francisco—up 1.7% and below the 2.0% U.S. rate.

San Francisco vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
San Francisco Metro	4,649,539	4,689,132	4,710,693	4,729,484

Sources: U.S. Census, Moody's Analytics

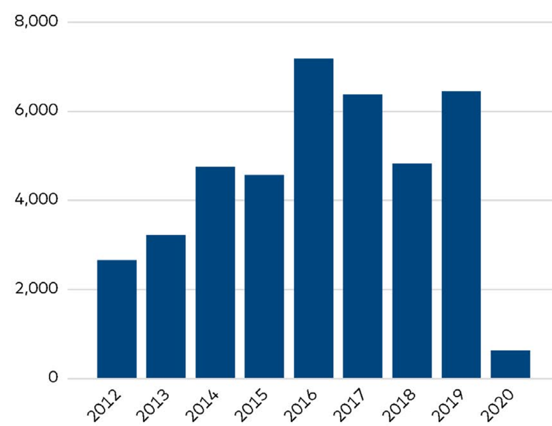
SUPPLY

- The Bay Area had 21,985 units under construction as of April, following the third-best year of the cycle for deliveries. Another 113,000 units were in the planning and permitting stages. Since 2016, the rental inventory has expanded by more than 25,000 units.

- Developers added 629 units to the metro's stock in the first third of 2020—0.2% of total stock and 30 basis points below the nation. Although the metro showcased robust construction activity at the beginning of 2020, with more than 16,000 units slated for completion by year's end, the COVID-19 pandemic has seriously impacted the industry and will likely curb incoming inventory. Local officials initially deemed construction a nonessential industry, a decision which halted work on all multifamily projects in the metro that were not affordable or didn't include income-restricted units. Officials later revoked the order and permitted construction to resume under strict preventive measures.

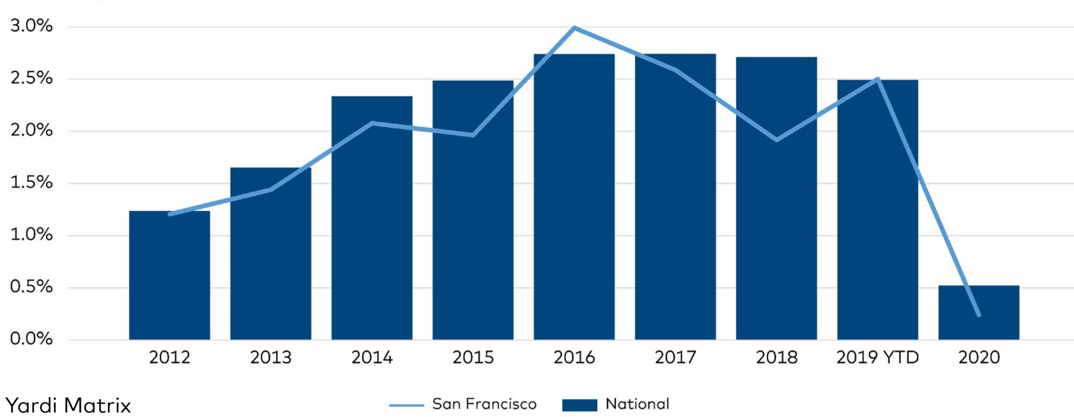
- The assets delivered this year through April consist of three fully affordable communities and two Lifestyle properties, and the upcoming stock was mostly geared at high-income renters. While the health crisis' impact on the service industry, which has suffered layoffs and furloughs, will increase demand for RBN apartments, the metro's large share of renters working in growth-oriented industries might sustain demand for Lifestyle units. Construction activity was highest in Eastern San Francisco (4,032 units) and Downtown Oakland (3,352 units).

San Francisco Completions (as of April 2020)



Source: Yardi Matrix

San Francisco vs. National Completions as a Percentage of Total Stock (as of April 2020)



Source: Yardi Matrix

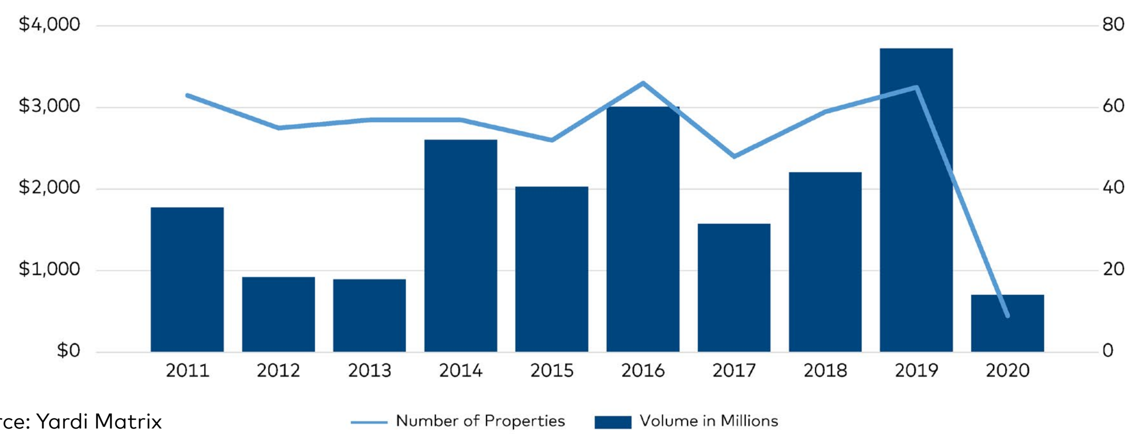
TRANSACTIONS

- San Francisco's investment market had a solid 2019, when more than $3.7 billion in multifamily assets changed hands. That momentum continued into 2020, with $702 million in multifamily assets trading through the year's first third.

- Although seven of the nine properties that were traded by the end of April were RBN assets, the price per unit remained almost unchanged at $436,142, nearly triple the $162,169 U.S. average. The per-unit price in the Bay Area had a remarkable evolution throughout the cycle, having grown by 160% since 2010.

- The ongoing health crisis will likely limit transaction activity but will not deter investors, as tenant turnover is likely to decrease considerably. Moreover, as teleworking persists in a post-coronavirus world, demand for apartments could increase, especially in the Bay Area where the tech sector supports growth.

San Francisco Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Redwood City	720
Eastern San Francisco	427
China Basin	307
Pleasanton	248
Tiburon/Sausalito	223
Walnut Creek/Lafayette	185
Fairfield	179

Source: Yardi Matrix
[1] From May 2019 to April 2020

San Francisco vs. National Sales Price per Unit

Source: Yardi Matrix

TOP 5 SAN FRANCISCO SUBMARKETS FOR CONSTRUCTION ACTIVITY

By Razvan Cimpean

MULTI-HOUSING NEWS

data by Yardi® Matrix

Multifamily deliveries in San Francisco reached a cycle peak of almost 5,300 units in 2016, but later started to cool off, according to Yardi Matrix data. However, 2020 was supposed to surpass the completion levels of any individual year over the past decade, with more than 6,000 units projected to come online. But as the coronavirus outbreak reached the U.S., California was one of the first states to take measures meant to prevent the spread of the virus.

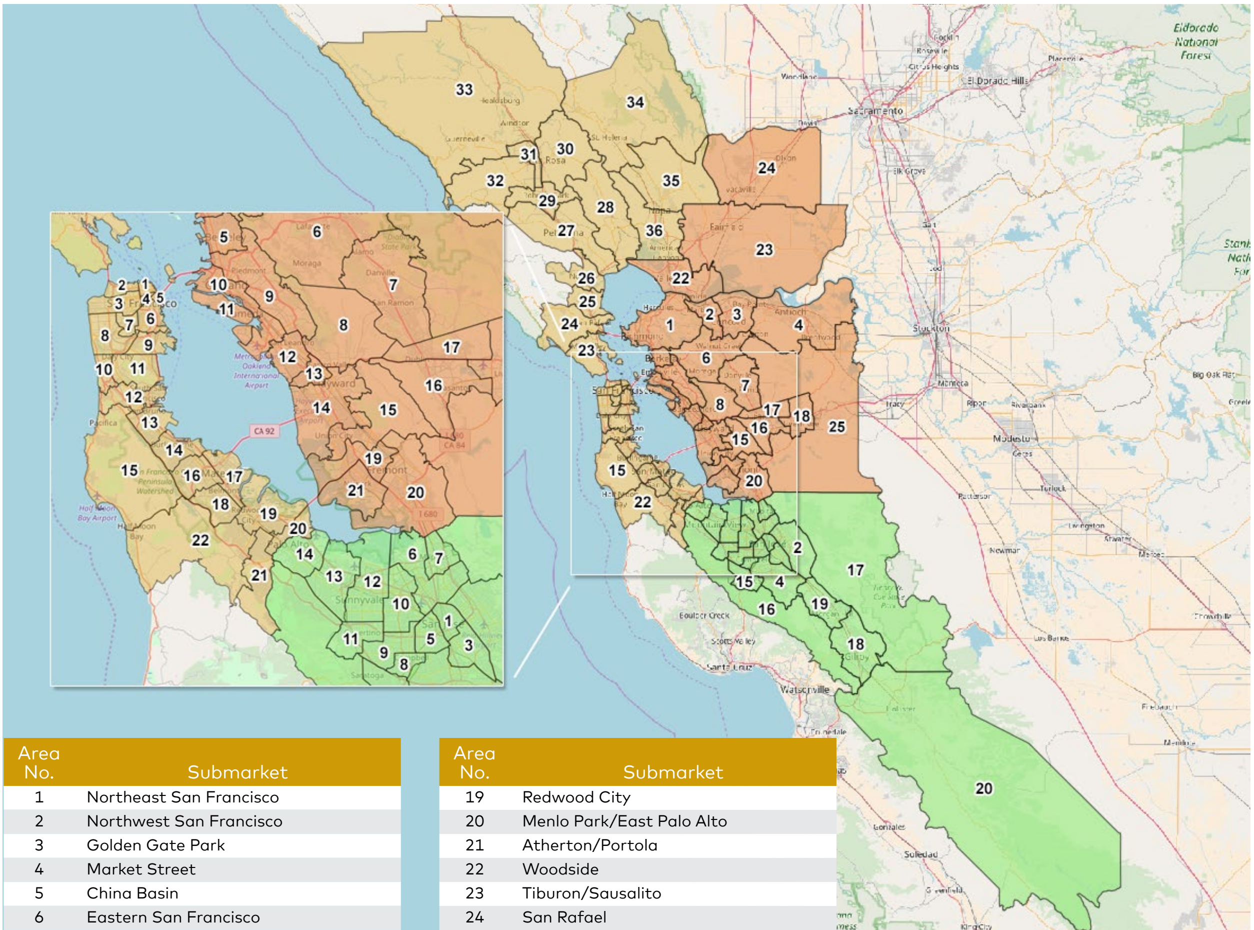
Rank	Submarket	Projects Underway	Units Underway	Percentage of Stock
1	Eastern San Francisco	18	4,032	27.1%
2	China Basin	5	1,147	20.1%
3	Redwood City	3	534	10.7%
4	San Mateo	1	492	12.0%
5	Market Street	4	467	4.0%

EASTERN SAN FRANCISCO

The metro's largest multifamily submarket, Eastern San Francisco, has added more than 9,000 units over the past decade, equal to more than 60 percent of its current inventory. In 2017, 2,081 units came online, including the third-largest community in the submarket, Trinity Properties' 540-unit 33 8th Street at Trinity Place. As a result of high demand, development activity remains fast-paced in Eastern San Francisco, with 18 projects underway, totaling more than 4,000 units, or 27.1 percent of existing stock.

Image by Frank Schulenburg via Wikimedia Commons

SAN FRANCISCO SUBMARKETS



Area No.	Submarket
1	Northeast San Francisco
2	Northwest San Francisco
3	Golden Gate Park
4	Market Street
5	China Basin
6	Eastern San Francisco
7	Central San Francisco
8	Southwest San Francisco
9	Southeast San Francisco
10	Broadmoor/Daly City
11	Colma/Brisbane
12	South San Francisco
13	Millbrae/Airport
14	Burlingame
15	Moss Beach
16	San Mateo
17	Foster City
18	Belmont/San Carlos

Area No.	Submarket
19	Redwood City
20	Menlo Park/East Palo Alto
21	Atherton/Portola
22	Woodside
23	Tiburon/Sausalito
24	San Rafael
25	Lucas Valley
26	Novato
27	Petaluma
28	Sonoma
29	Rohnert Park
30	Santa Rosa
31	Roseland
32	Sebastapol
33	Northern Sonoma County
34	Deer Park/St. Helena
35	Napa North
36	Napa South

Area No.	Submarket
1	Richmond
2	Pleasant Hill/Martinez
3	Concord
4	Antioch/Oakley
5	Berkeley
6	Walnut Creek/Lafayette
7	San Ramon–West/Danville
8	Castro Valley
9	East Oakland/Oakland Hills
10	Downtown Oakland
11	Alameda
12	San Leandro
13	San Lorenzo

Area No.	Submarket
14	Hayward
15	Union City
16	Pleasanton
17	Dublin
18	Livermore
19	West Fremont
20	East Fremont
21	South Buckhead
22	Midtown
23	Lindbergh
24	North Druid Hills
25	North Decatur/Clarkston/Scottdale

Area No.	Submarket
1	Central San Jose
2	East San Jose
3	South San Jose
4	Far South San Jose
5	Central San Jose West
6	North San Jose
7	Milpitas
8	Campbell
9	West San Jose
10	Santa Clara
11	Cupertino
12	Sunnyvale
13	Mountain View–Los Altos
14	Palo Alto–Stanford
15	Los Gatos–Saratoga
16	West Santa Clara County
17	East Santa Clara County
18	Gilroy
19	Morgan Hill
20	San Benito County

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.