



MULTIFAMILY REPORT

San Francisco Pays the Density Cost

Summer 2020

Employment Market Lags Nation

Rent Expansion Posts Severe Decrease

Transaction, Investment Activity Dwindles

SAN FRANCISCO MULTIFAMILY



A Reset in the Bay Area's Multifamily Market

The Bay Area's multifamily market, although underpinned by one of the nation's strongest economies, is experiencing a historic moment. The pandemic has changed work patterns by stimulating a switch to remote work, which, combined with an influx of supply, caused a 0.7% slide in average rents to \$2,588 on a trailing three-month basis through August, while the U.S. average stayed flat at \$1,463. The occupancy rate in stabilized properties also contracted, down 90 basis points year-over-year to 94.9% as of July.

The economy reopened gradually from May to June, but the spike in cases from June to July, prompted Gov. Gavin Newsom to revert to lockdown measures. The unemployment rate declined from 13.2% in April to 12.6% in June, with preliminary July data pointing to 11.1%. Unemployment claims filed across California surpassed 8.1 million between mid-March and the end of August, and all sectors registered contractions. The metro recorded a less drastic change for professional and business services, which shrunk by only 4.8% year-over-year through June, aided by work-from-home potential.

San Francisco, notorious for its limited housing supply, had 23,158 units underway and 1,549 delivered in 2020 as of August. Meanwhile, transaction activity totaled \$1.1 billion, with capital targeting RBN assets in the East Bay, which pushed the per-unit price down 11.4% to \$387,519.

Market Analysis | Summer 2020

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Recent San Francisco Transactions Skyline Terrace



City: Burlingame, Calif.
Buyer: Pacific Urban Residential
Purchase Price: \$108 MM
Price per Unit: \$782,609

Rancho Luna Sol



City: Fremont, Calif.
Buyer: Decron Properties
Purchase Price: \$72 MM
Price per Unit: \$380,319

Creekside



City: San Leandro, Calif.
Buyer: Trion Properties
Purchase Price: \$21 MM
Price per Unit: \$256,250

Dover Park

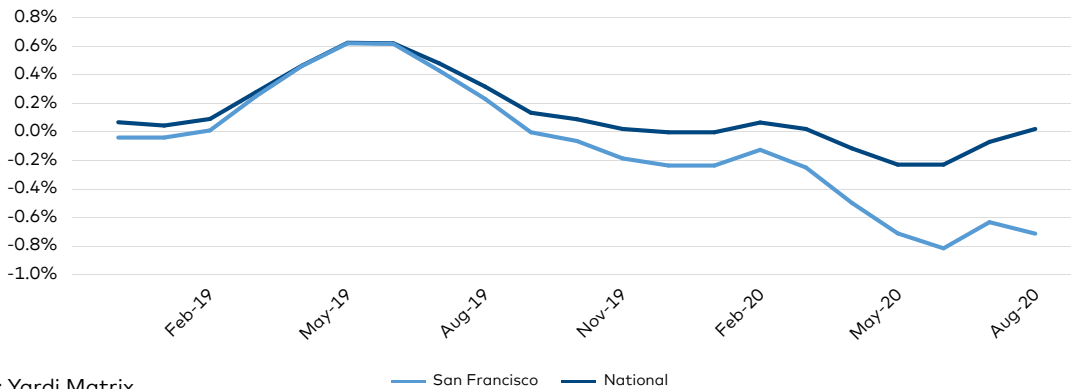


City: Fairfield, Calif.
Buyer: Beacon Property
Management
Purchase Price: \$10 MM
Price per Unit: \$42,194

RENT TRENDS

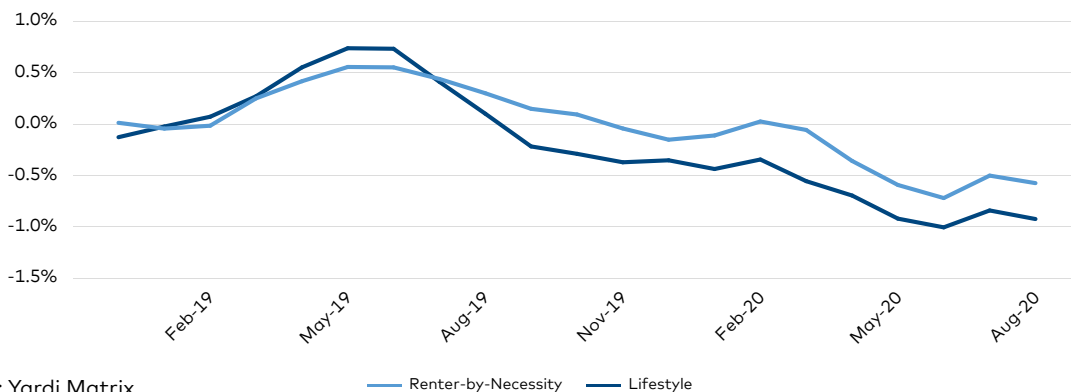
- ▶ Rents in the Bay Area dropped by 0.7% on a trailing three-month (T3) basis through August to \$2,588, while the U.S. average remained flat at \$1,463. The average rent in San Francisco had been on a slightly downward trend since October 2019 due to pricing and incoming supply, but started deteriorating more abruptly in April. Lifestyle prices led contractions, declining by 0.9% on a T3 basis through August to \$3,015, while Renter-by-Necessity units saw a 0.6% drop during the same period.
- ▶ Several factors contributed to the decline in the average rent, including the COVID-19 outbreak and robust inventory growth, as well as the proximity to the workplace—which is now a less important aspect as working from home is encouraged by major tech companies. This slump also affected the occupancy rate in stabilized properties, which was down 90 basis points year-over-year through July to 94.9%.
- ▶ In line with U.S. trends, the most expensive submarkets posted declines in average rents year-over-year. San Francisco's 13 most expensive submarkets, which are in the Peninsula, all registered declines, led by Atherton/Portola (-5.0% to \$5,471). Berkeley held the East Bay's highest average rent at \$3,180, following a 2.5% decline. Downtown Oakland held the second rank (-7.4% to \$2,889) and also posted the largest drop in the East Bay. The sharpest decrease occurred in Central San Francisco (-13.4% to \$3,823) and China Basin (-11.4% to \$4,426) in the Peninsula.

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

- ▶ The unemployment rate in the Bay Area had been on a streak, having remained below the 3.0% mark for 13 consecutive months as of March. By April, the rate had jumped to 13.2%—its highest value ever. Signs of improvement appeared in the following months, but the process was very slow—in May the rate dropped to 12.9%, in June to 12.6%, and preliminary July data pointed to 11.1%. The last record of a double-digit unemployment rate was registered in August 2010, when the figure stood at 10.1%.
- ▶ San Francisco was among the more distressed metros, from an economic performance standpoint. Employment growth contracted by 6.0% in the year ending in June, 100 basis points higher than the U.S. average. As a result, the number of unemployment claims filed across California exceeded 8.1 million at the end of August.
- ▶ In the 12 months ending in June, all sectors contracted. Leisure and hospitality led with 34.8%, followed by trade, transportation and utilities—the Bay Area’s second-largest economic driver—which shrunk by 11.5%. Professional and business services, the metro’s main economic engine, has better prospects due to its tech component that allows for working from home. As such, the impact was less dramatic, and the sector shrunk by 4.8% during the time frame.

San Francisco Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	162	6.3%
50	Information	121	4.7%
15	Mining, Logging and Construction	151	5.8%
30	Manufacturing	174	6.7%
65	Education and Health Services	413	16.0%
60	Professional and Business Services	516	19.9%
80	Other Services	78	3.0%
90	Government	357	13.8%
40	Trade, Transportation and Utilities	392	15.1%
70	Leisure and Hospitality	225	8.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ San Francisco gained just 2,319 residents in 2019, accounting for a 0.05% increase, trailing the 0.3% national rate. The metro experienced higher domestic out-migration, lower immigration and natural growth.
- ▶ Between 2016 and 2019, the Bay Area’s population expanded by 0.9%.

San Francisco vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
San Francisco Metro	4,689,132	4,710,693	4,729,484	4,731,803

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

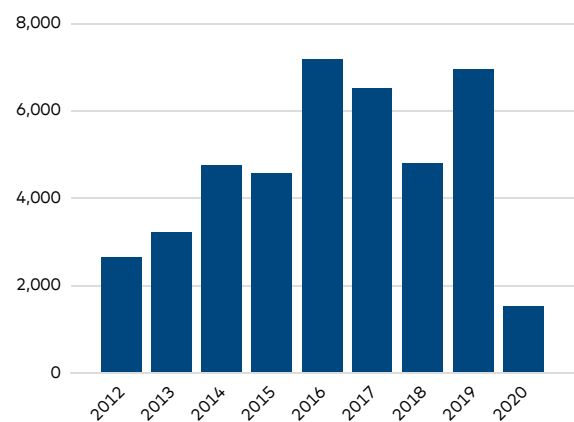
SUPPLY

- ▶ San Francisco had 1,549 units delivered in 2020 through August, 0.6% of total stock and less than half the 1.3% national rate. Developers remained focused on the Bay Area, hoping to capitalize on its limited inventory. There were 23,158 units underway, but most of these were underway before the pandemic.
- ▶ Construction began on 2,880 units in the East Bay; work on 1,168 units started in April or later. In the Peninsula, 1,167 units completed groundbreaking this year, all during the second quarter. Overall, 50 projects totaling 9,340 units were underway in the Peninsula, and 73 projects comprising 12,443 units in the East Bay.
- ▶ While the bulk of underway properties was geared toward upscale communities, 35 fully affordable properties were under construction throughout San Francisco: 18 projects totaling 2,177 units in the East Bay area and 17 communities with a total of 1,987 units in the Peninsula. Another 120,095 units were in the planning and permitting stages.
- ▶ The development pipeline comprises projects that received financing before the health crisis, with almost all new projects, except for

affordable housing, placed on hold. Taking these factors under consideration, by the end of the year 6,483 units are expected to reach completion, representing 2.5% of stock.

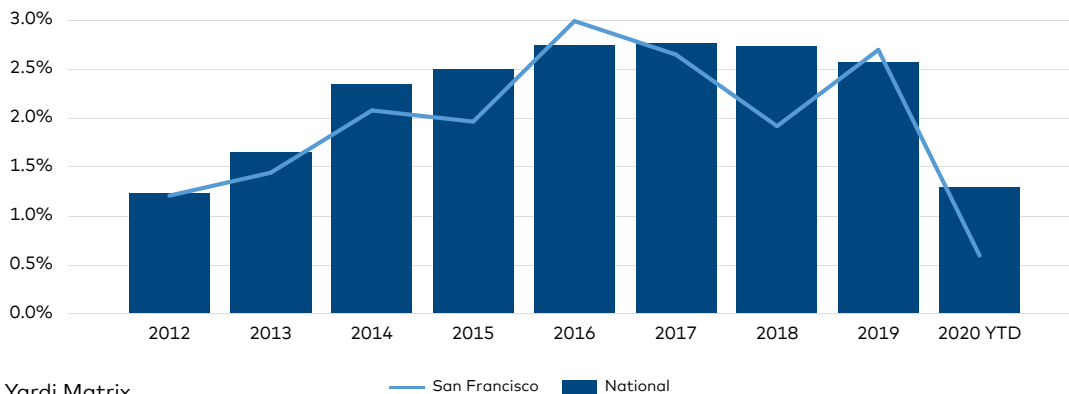
- ▶ Development was most active in Eastern San Francisco and Downtown Oakland, with 3,691 and 3,349 units underway, respectively.

San Francisco Completions (as of August 2020)



Source: Yardi Matrix

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

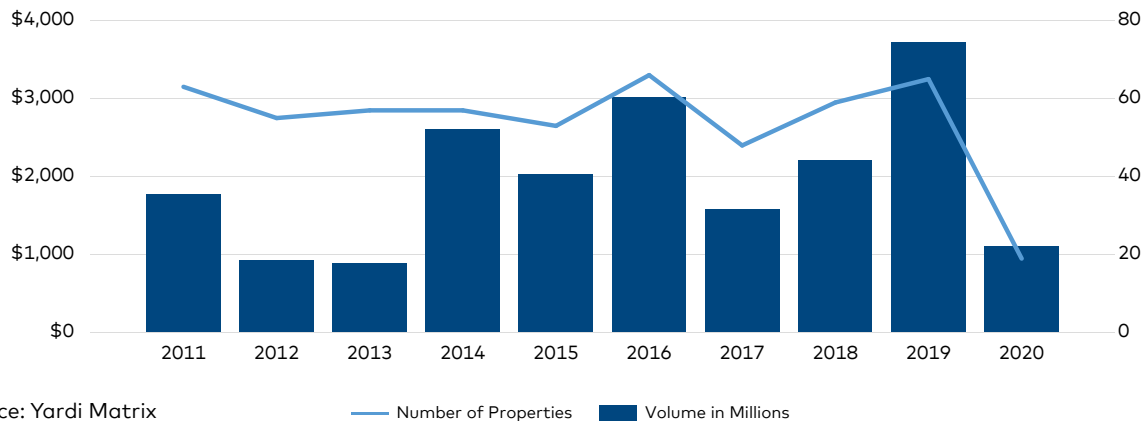


Source: Yardi Matrix

TRANSACTIONS

- ▶ In 2020 through August, \$1.1 billion in 19 multi-family assets traded in the Bay Area. Of those, 15 were in the RBN segment, which impacted the per-unit price—down 11.4% to \$387,519. The U.S. average decreased 2.7% to \$163,833.
- ▶ Transaction activity dwindled in the second quarter of 2020. The drop followed a first quarter that continued 2019's rate of investment—and a year that marked the cycle peak with more than \$3.7 billion in multifamily deals.
- ▶ In the Peninsula, only three properties changed hands for a total \$349 million; two of these traded in the second quarter for \$126 million. The East Bay saw the most investment activity, which totaled \$759 million, but only \$181 million traded amid the pandemic. The largest deal of the year through August—which also marked the highest price per unit—was Pacific Urban Residential's \$108 million acquisition of the 138-unit Skyline Terrace from Equity Residential for \$782,609 per unit.

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



Source: Yardi Matrix

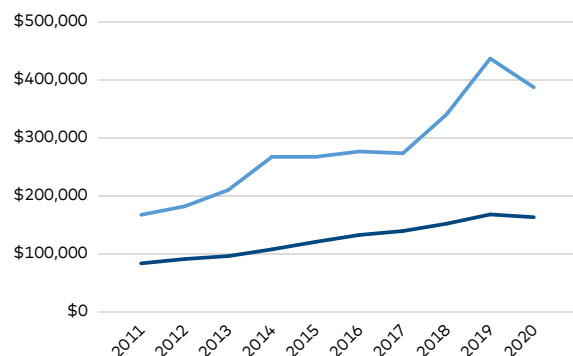
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Eastern San Francisco	427
Pleasanton	248
Tiburon/Sausalito	223
Redwood City	197
Berkeley	175
Pleasant Hill/Martinez	169
Richmond	153

Source: Yardi Matrix

¹ From September 2019 to August 2020

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

Top 10 Multifamily Projects Under Construction in the Bay Area

By Lucia Morosanu

California was one of the first states to impose stay-at-home orders and social distancing rules on construction sites, forcing developers to push back completion dates. San Francisco's year-to-date deliveries accounted for 0.6 percent of existing stock, less than half of the 1.3 percent national average, according to Yardi Matrix data. Despite that, the metro has delivered 11 properties, totaling roughly 1,550 units.

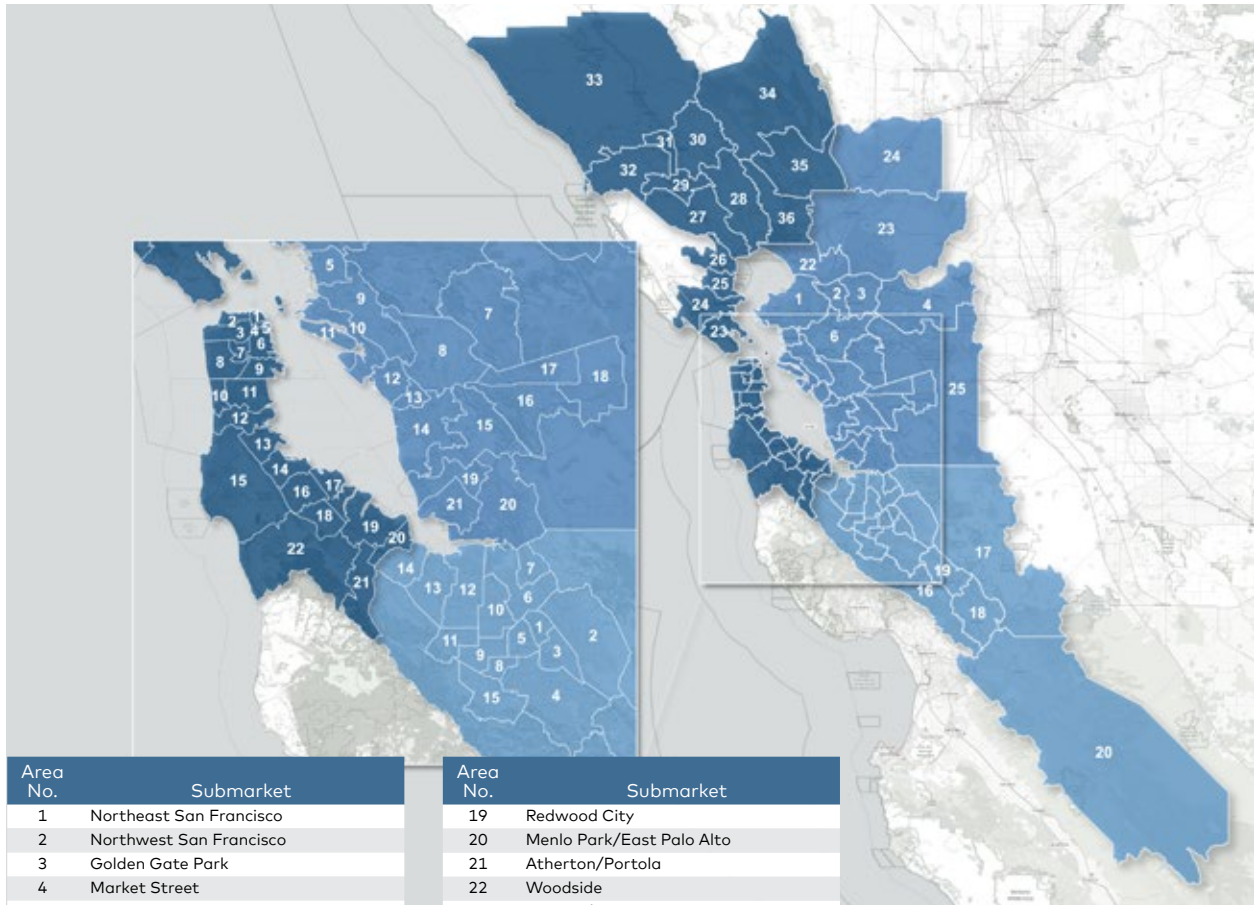
Rank	Property Name	Owner	Submarket	Units
1	Atlas	Carmel Partners	Downtown Oakland	633
2	The Asher	Carmel Partners	East Fremont	632
3	500 Folsom	Essex Property Trust/ Bridge Housing	China Basin	537
4	1188 Mission at Trinity Place Phase IV	Trinity Partners	Market Street	501
5	Station Park Green	Essex Property Trust	San Mateo	492
6	Lincoln Landing	Dollinger Properties	Hayward	474
7	Embark	Fairfield Residential	East Fremont	422
8	Vespr	Holland Partner Group	East Oakland/Oakland Hills	419
9	The Skylyne at Temescal	Boston Properties	East Oakland/Oakland Hills	402
10	Alta Buena Vista	Wood Partners	Alameda	372

ATLAS

The metro's largest project currently underway is another Carmel Partners project—the 633-unit Atlas. Once completed, the development will be the tallest residential building in downtown Oakland. The 40-story tower received \$245 million in construction financing from Wells Fargo Bank in 2018, and, with leasing currently underway, is slated for completion by the end of the year.



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	Sebastopol
33	Northern Sonoma County
34	Deer Park/St. Helena
35	Napa North
36	Napa South

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

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

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 August 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 August 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, August 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.

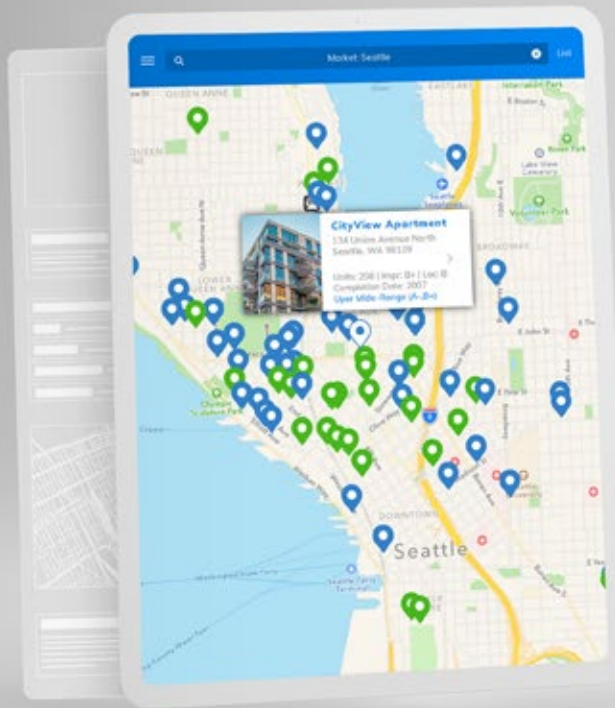
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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