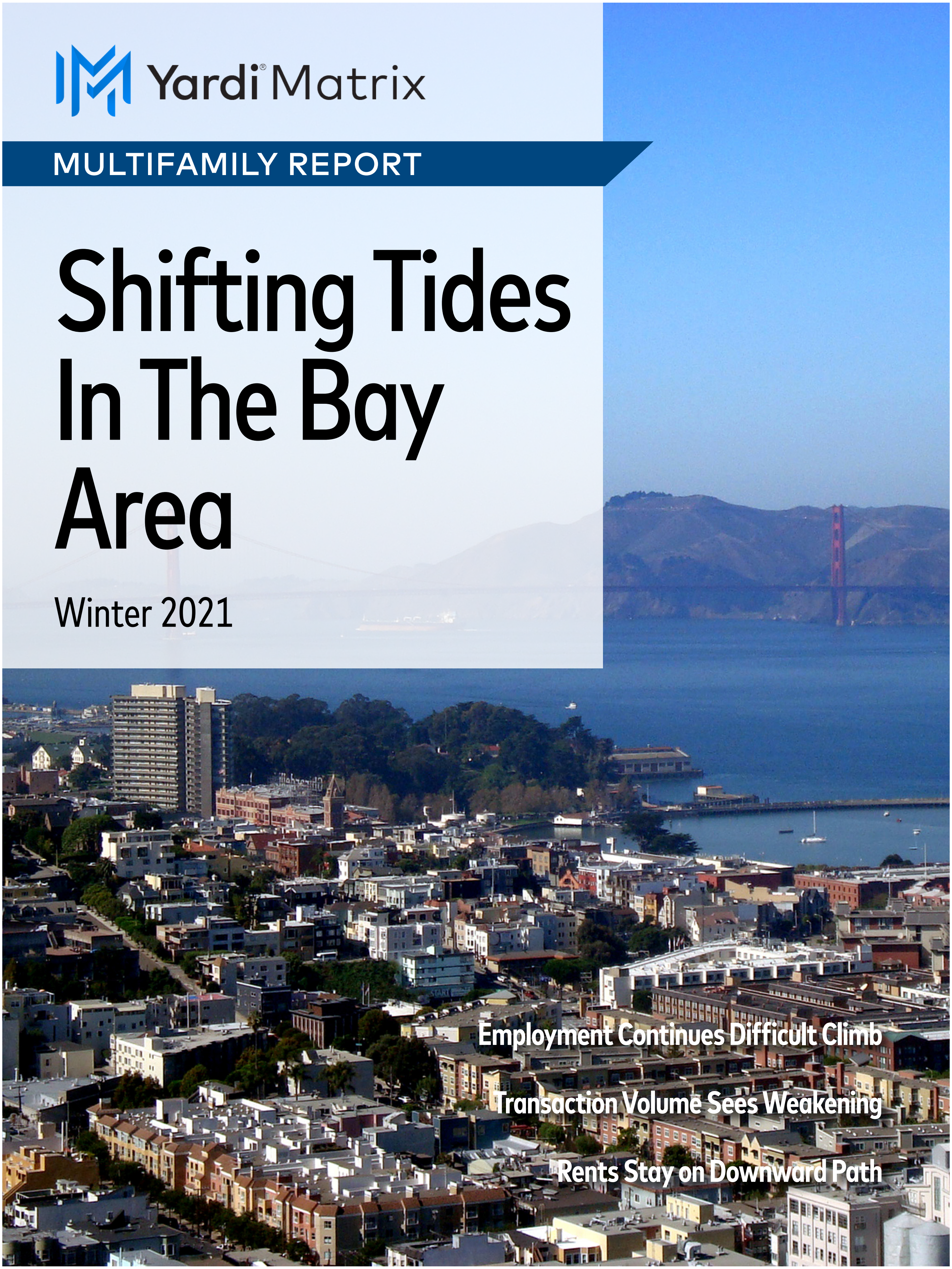
Yardi® Matrix

MULTIFAMILY REPORT

Shifting Tides In The Bay Area

Winter 2021



Employment Continues Difficult Climb

Transaction Volume Sees Weakening

Rents Stay on Downward Path

Yardi Matrix

Rent Drops Linger, Market Seeks Balance

San Francisco's rental market took quite a hit in 2020 amid the ongoing health crisis, with the average rent down 1.1% on a trailing three-month basis, and 9.4% for the whole year. With residents moving away from high-density metros such as San Francisco, New York and LA, rent growth is overperforming in smaller nearby markets including Sacramento and the Inland Empire.

It's not all doom and gloom for the Bay Area, though. California's economy continued to dig itself out of the hole that the health crisis dug in March and April, with unemployment dropping to 8.1% as of November. Meanwhile, San Francisco's financial activities sector recorded gains, adding 1,900 positions in the 12 months ending in November. Although severely hit, trade transportation and utilities and construction may have better days in sight, with the new administration's plan to inject capital into infrastructure projects likely to yield a rebound for these sectors.

Multifamily sales slowed considerably in 2020, totaling less than half the volume recorded in 2019, as uncertainty put investors off for most of the year's first half. Meanwhile, development powered through, and 23,247 rental units were underway at the end of last year, with deliveries likely to continue at a steady pace. We expect rent loss to be curbed this year, at -1.7% for all of 2021.

Market Analysis | Winter 2021

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Recent San Francisco Transactions

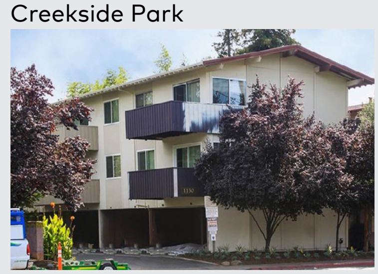
The Arbors

City: Livermore, Calif.
Buyer: Catalyst Housing Group
Purchase Price: $49 MM
Price per Unit: $302,469

Napa Green

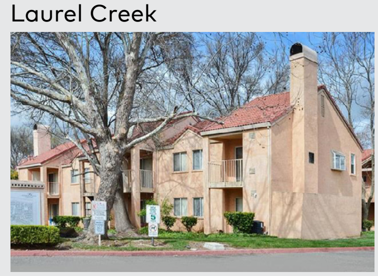
City: Napa, Calif.
Buyer: Interstate Equities Corp.
Purchase Price: $40 MM
Price per Unit: $235,119

Creekside Park



City: Santa Rosa, Calif.
Buyer: Prime Group
Purchase Price: $33 MM
Price per Unit: $236,170

Laurel Creek

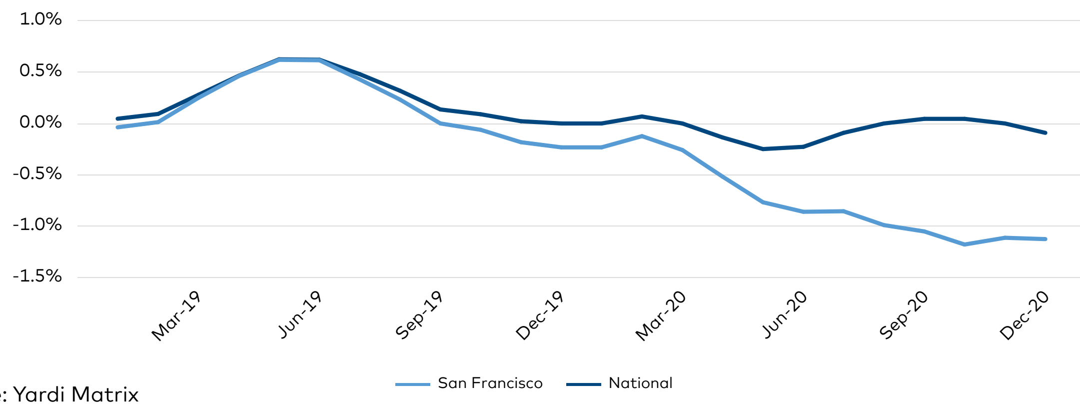


City: Fairfield, Calif.
Buyer: Glencrest Group
Purchase Price: $27 MM
Price per Unit: $257,547

RENT TRENDS

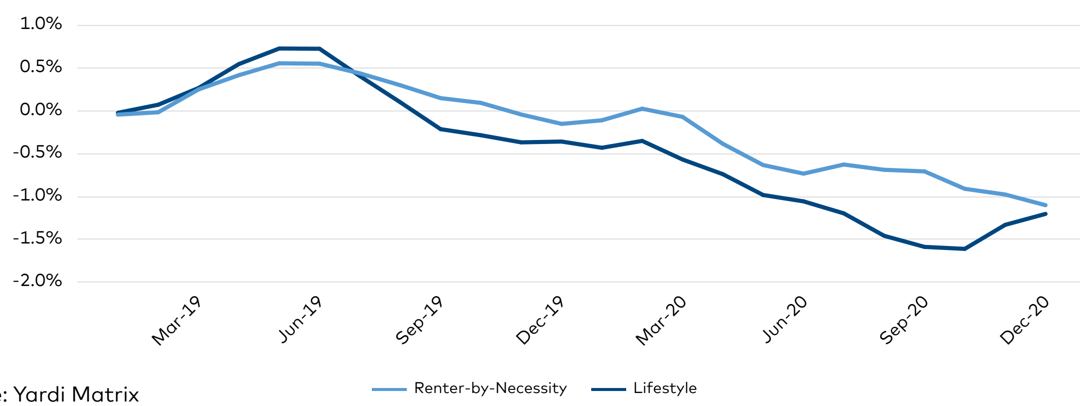
- San Francisco rents were down 1.1% on a trailing three-month (T3) basis as of December, as the metro's rent woes continued through the end of the year. That put the overall average rent at $2,463, still $1,000 above the U.S. average.
- The metro's two main quality segments were affected similarly, with the working-class Renter-by-Necessity and the upscale Lifestyle segment decreasing by 1.1% and 1.2%, respectively, on a T3 basis.
- On a year-over-year basis, San Francisco—at -9.4%—was third to only New York City (-11.7%) and San Jose (-13.7%) for negative rent movement in 2020. Lockdowns and stay-at-home orders have driven some residents to less expensive markets, pushing declines in the market as work-from-home measures have eased mobility. Meanwhile, these shifts have resulted in growth in nearby Sacramento at some of the highest levels in the nation—6.1% year-over-year as of December.
- Of the 59 submarkets tracked by Yardi Matrix, only five recorded rent improvement in 2020. Four of these are on the East Bay side: Vallejo/Benicia (3.2%), Vacaville (1.9%), Fairfield (1.9%) and Antioch/Oakley (0.5%).
- Rent losses will likely continue amid ongoing economic volatility in the Bay Area, albeit at a significantly more moderate rate. We expect the average rate to contract 1.7% in 2021.

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

- While the employment market took a significant hit in 2020, California's unemployment rate has slowly rebounded to healthier levels. With the rate at 8.1% as of November, the state gained back about half of the jobs lost during the first wave of the COVID-19 crisis in March and April last year.

- In the 12 months ending in November, the San Francisco employment market lost 274,400 jobs, down 10.5% year-over-year and trailing the U.S. rate, which stood at -7.3%.

- All employment sectors but financial services saw declines through the same interval. Smaller losses were recorded in professional and business services (-3.1%), where work-from-home policies curbed the impact on businesses, while the heavily pressured education and health services sector also fared relatively well (-5.4%), at least when compared to most other segments of the economy.

- With the new administration heavily targeting infrastructure projects, trade, transportation and utilities, as well as construction, have a good chance of getting a boost from high-profile developments moving forward.

San Francisco Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	166	6.2%
50	Information	122	4.6%
15	Mining, Logging and Construction	151	5.6%
60	Professional and Business Services	534	20.0%
80	Other Services	84	3.1%
30	Manufacturing	175	6.5%
65	Education and Health Services	420	15.7%
40	Trade, Transportation and Utilities	424	15.9%
90	Government	355	13.3%
70	Leisure and Hospitality	241	9.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro's attractive tech sector has helped it buck the demographic trend of most gateway markets, keeping some level of steady growth since 2019.

- The health crisis may reverse the dynamic, with many residents shifting toward lower-priced markets.

San Francisco vs. National Population

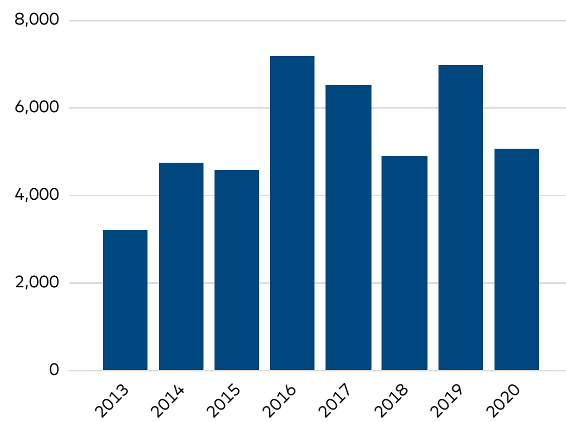
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
San Francisco Metro	4,689,132	4,710,693	4,729,484	4,731,803

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

SUPPLY

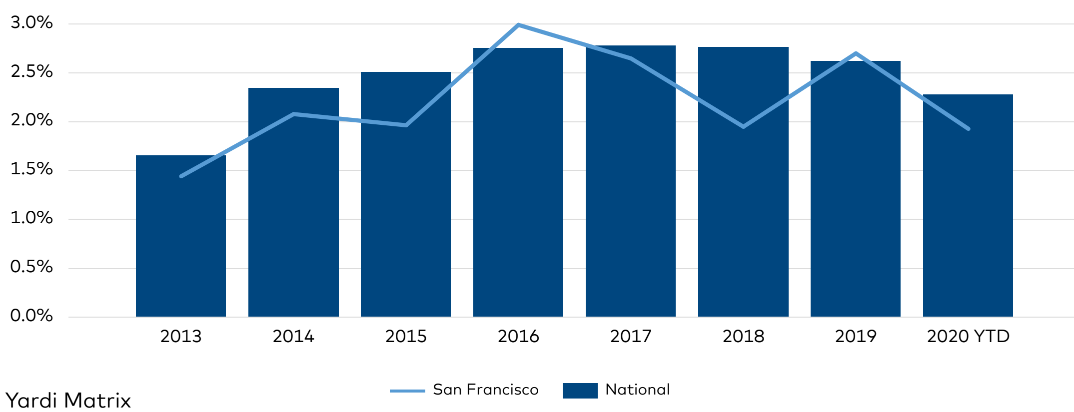
- The San Francisco metro had 23,247 units underway as of December 2020, showing enduring development activity in the area despite notoriously high development costs. Another 117,000 units were in the planning and permitting stages, although it is likely that current market conditions will dent that number.
- Developers added 5,085 units in 2020, or 1.9% of existing rental stock. The rate is 50 basis points below the metro's five-year average and 40 basis points lower than the U.S. rate of delivery.
- The overall average occupancy rate in stabilized properties slid to 92.7% as of November. That's a 230-basis-point drop since the onset of the pandemic and corresponding lockdown measures in March 2020. The area's strong tech sector allowed a number of residents to work from home, and that led to some out-migration toward less expensive markets.
- The list of submarkets with the largest rental pipelines at the end of 2020 included Downtown Oakland (3,868 units under construction), Eastern San Francisco (3,705 units), East Oakland/Oakland Hills (2,523 units) and East Fremont (2,182 units).
- Developers focused heavily on the East Bay: of the 23,247 units under construction as of December, 13,985 were being built near the Bay Bridge.

San Francisco Completions (as of December 2020)



Source: Yardi Matrix

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

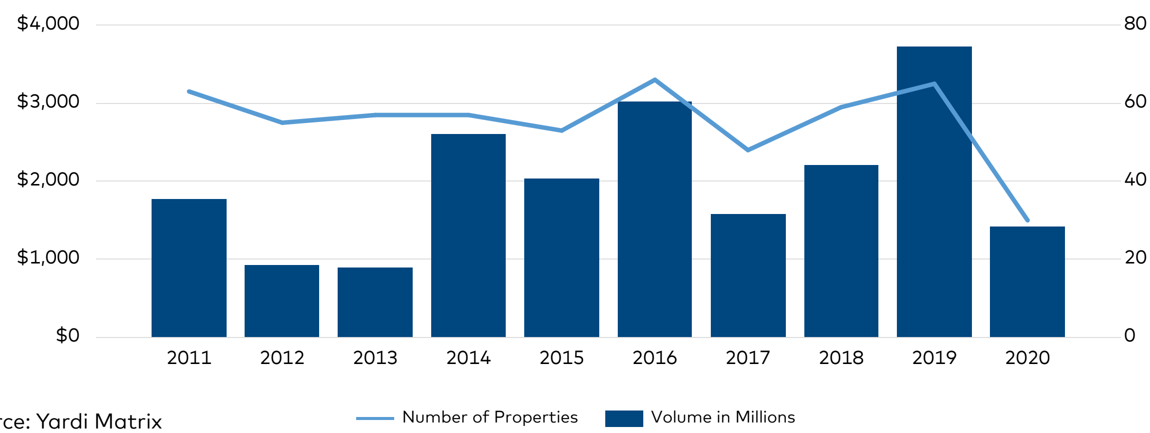


Source: Yardi Matrix

TRANSACTIONS

- Investment sales took a significant step back in 2020, coming in at $1.4 billion. That's less than half the $3.7 billion recorded in 2019.
- Continued economic volatility has affected investor appetite, especially in gateway markets where high prices translated into elevated risks. This also led to the strengthening of an ongoing trend—of 30 multifamily deals, 25 were for assets in the working-class Renter-by-Necessity segment.
- Per-unit prices mirrored the trend of shifting toward more affordable, value-add assets: The average 2020 price stood at $346,553, down 21% from one year prior. Despite the change, the value is still more than double the U.S. average.
- Of the $1.4 billion that traded in the market, just under $1 billion was invested in submarkets in the East Bay, where property values are traditionally lower.

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



Source: Yardi Matrix

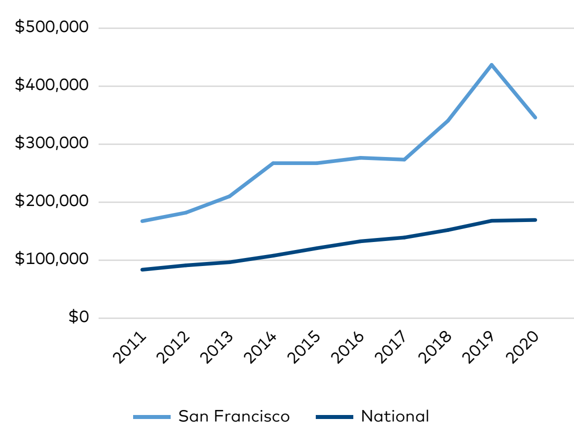
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Pleasanton	248
Tiburon/Sausalito	223
Vacaville	148
Pleasant Hill/Martinez	139
Burlingame	108
East Oakland/Oakland Hills	102
East Fremont	91

Source: Yardi Matrix

[1] From January 2020 to December 2020

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

How the Quest for Low Population Density Is Benefiting the Sun Belt

By Laura Calugar

The high quality of life had been fueling migration to the Sun Belt region well before the pandemic, according to Cushman & Wakefield's Tai Cohen and Robert Stickel. "By far, the suburban markets of high-growth core cities have benefited most from the relocation trends," Cohen said. The two experts reveal which markets in the Sun Belt region are the most sought after, especially for those coming from high tax states in the Northeast and Midwest.

How have Sun Belt multifamily investors responded to the COVID-19 crisis?

Cohen: There was certainly a pause in transactions between March and May while owners assessed their current portfolios and COVID-19's impact on resident job loss and bad debt. Once they felt comfortable again, everyone flooded back in, especially into the Sun Belt. Now investors are underwriting the same as they were before COVID-19.

How has the pandemic impacted the region's multifamily industry?

Cohen: Multifamily has come out as the winner relative to other asset types because it's proven to be fairly recession-proof. There are still hurdles with bad debt, but people will always need a place to live. A big difference in multifamily capital markets is that we have two government agencies that lend, Freddie Mac and Fannie Mae.

Right now, debt is extremely cheap, trading around 3 percent, and you can lock in good long-term debt relative to other asset types, which is driving capital toward multifamily. Investors are drawn to the Sun Belt because of the lower cost of living. The warmer weather and open cities are driving people to relocate and driving investor confidence.

Tai Cohen *(left)* and Robert Stickel *(right)*

What are some of your biggest concerns, almost a year into the pandemic?

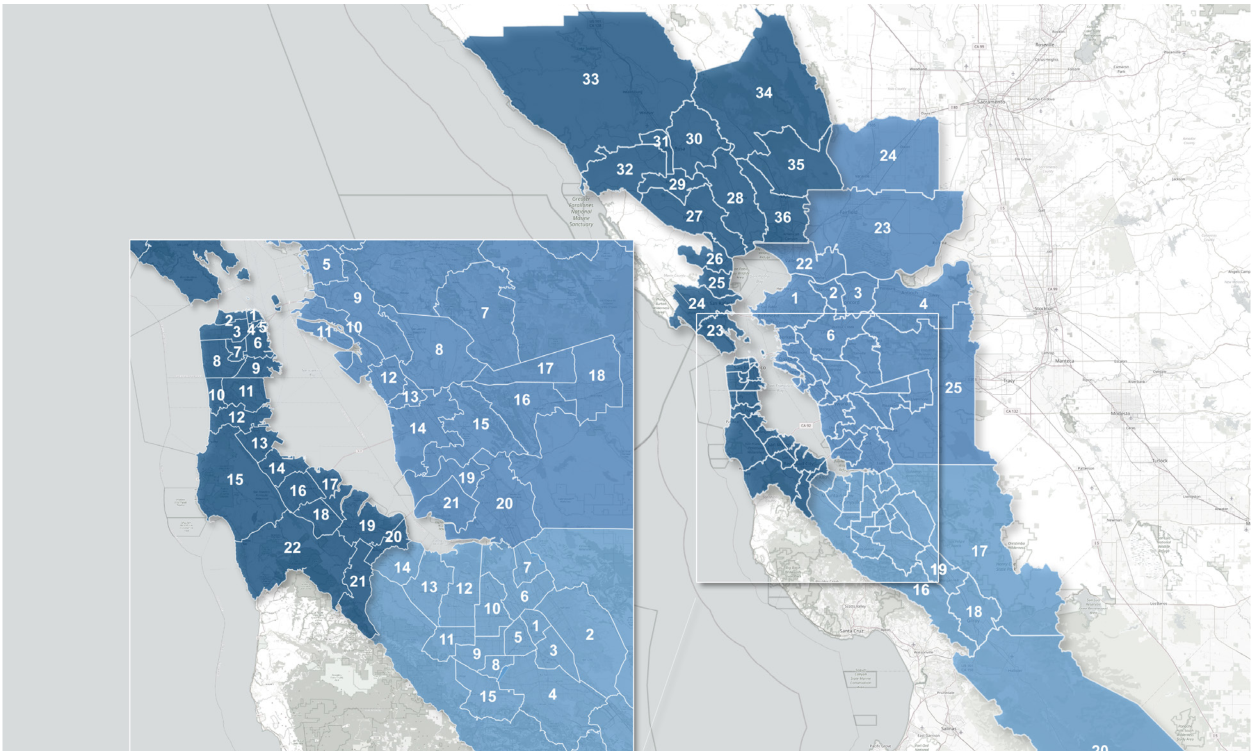
Stickel: While the pandemic has certainly been challenging for everyone in different ways, it has also created a lot of opportunities, specifically for multifamily investments in the Sun Belt region. Aside from everyone's health and safety, one concern is the ability for people to conduct business in a relational way—i.e. touring properties, market overview meetings, etc. Some clients have expressed concerns about 1031 exchanges being eliminated as these are meaningful transactions in our industry.

How do you expect the region's multifamily market to perform this year?

Stickel: Aside from biased optimism, I believe there are several good reasons the region will perform very favorably this year. We anticipate seeing increased capital flow from other regions of the country, while also other sectors within real estate. Transaction volume was down from 2019 to 2020, but, for our group specifically, 2020 was still better than 2017 and 2018. We believe 2021 could be onward and upward with record-setting stats.

(Read the complete interview on multihousingnews.com.)

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	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 December 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 December 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, December 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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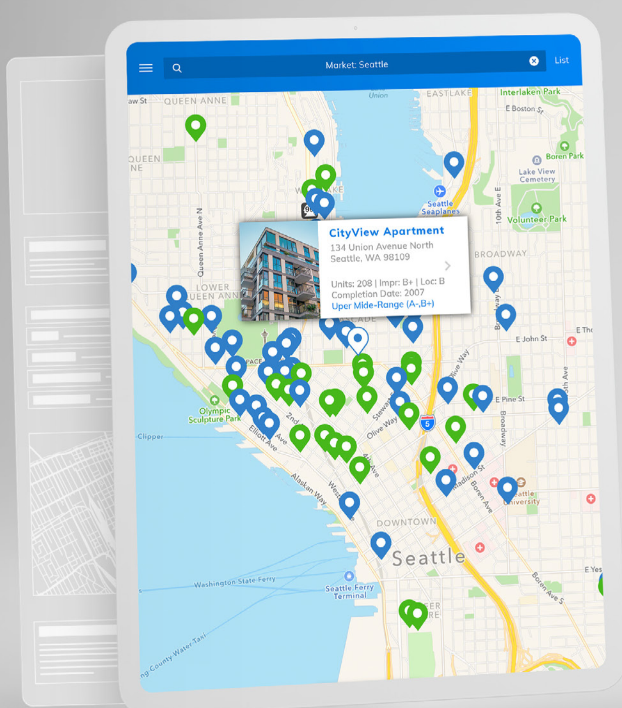

Yardi Matrix Multifamily provides accurate data on **18+ million units**, covering over **90% of the U.S. population**.

Key features

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- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
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