



MULTIFAMILY REPORT

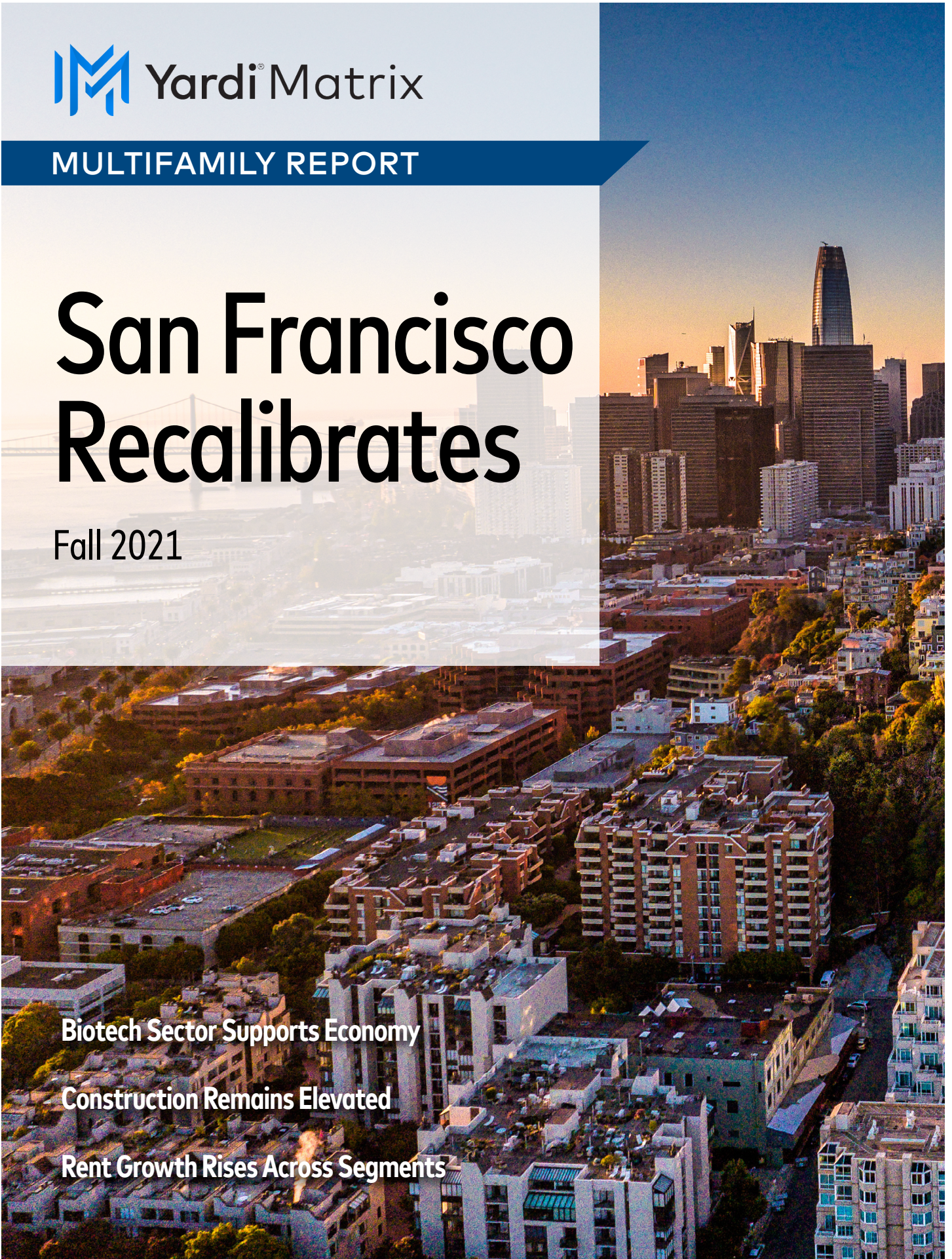
San Francisco Recalibrates

Fall 2021

Biotech Sector Supports Economy

Construction Remains Elevated

Rent Growth Rises Across Segments



SAN FRANCISCO MULTIFAMILY



Volatility Persists, Demand Improves

While not out of the woods yet, the Bay Area's multifamily market is slowly rebounding, in part supported by early returners to the metro. Rents rose 1.2% on a trailing three-month basis through September to \$2,640, with the occupancy rate in stabilized properties especially boosted in the Lifestyle segment, at 94.9%.

The employment market still lags the nation (+2.5%), up less than 0.1% in the 12 months ending in July. Similarly, the unemployment rate—at 5.6% in August—was behind the 5.2% U.S. average, yet it outperformed the 7.5% state figure. Leisure and hospitality led gains, adding 54,700 jobs, or 27.8%, with leisure traffic reaching pre-pandemic levels. Consequently, United Airlines announced the addition of 4,000 jobs in the Bay Area. Professional and business services added 27,200 jobs, but the tech sector is still struggling, as a new spike in virus cases delayed the return to office for many employers. In addition, Tesla's relocation of its headquarters to Austin has been a blow. The biotech sector is thriving, thanks to life science companies' access to key fundamentals for this industry: talent, strong research partnerships and proximity to capital.

Developers delivered 6,396 units in 2021 through September and had another 23,835 underway. Meanwhile, \$1.7 billion in multifamily assets traded, with the per-unit price reaching \$400,077.

Market Analysis | Fall 2021

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Recent San Francisco Transactions

Fountains at Emerald Park



City: Dublin, Calif.
Buyer: Catalyst Housing Group
Purchase Price: \$190 MM
Price per Unit: \$586,420

Summit at Sausalito



City: Sausalito, Calif.
Buyer: Catalyst Housing Group
Purchase Price: \$122 MM
Price per Unit: \$616,162

The Exchange at Bayfront



City: Hercules, Calif.
Buyer: Catalyst Housing Group
Purchase Price: \$114 MM
Price per Unit: \$659,884

Diablo Vista

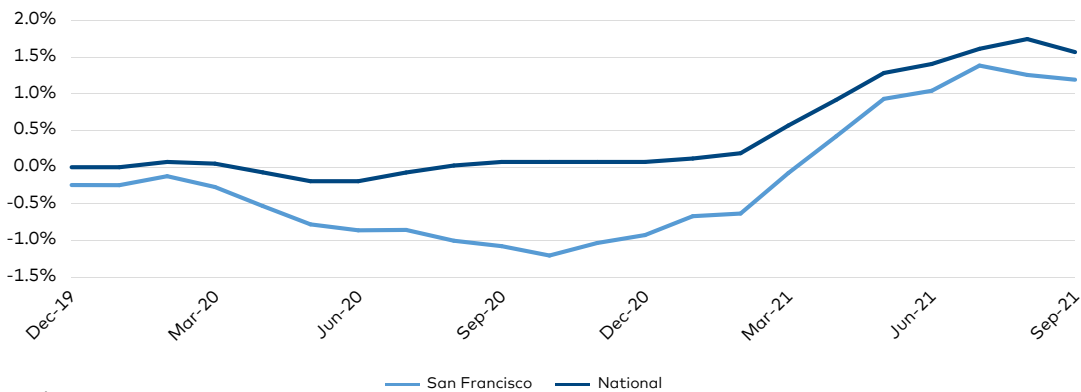


City: Livermore, Calif.
Buyer: Interstate Equities Corp.
Purchase Price: \$49 MM
Price per Unit: \$362,963

RENT TRENDS

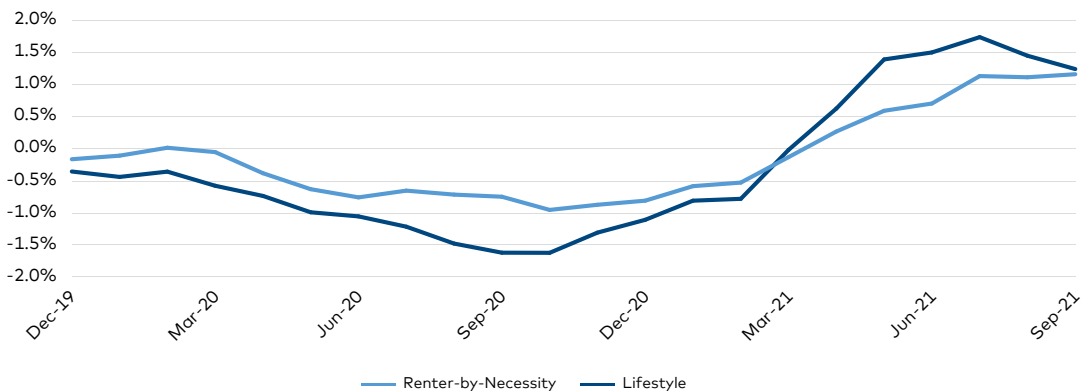
- ▶ Bay Area rents rose 1.2% on a trailing three-month (T3) basis through September to \$2,640, lagging the national rate by 40 basis points but still well above the \$1,558 U.S. figure. On a year-over-year basis growth was at 3.7%.
- ▶ Rent growth was even across segments, with both Lifestyle and Renter-by-Necessity units rising 1.2% on a T3 basis through September, to \$3,092 and \$2,389. Even though the summer spike in COVID-19 cases further delayed the return to the office for many major employers, young professionals have started returning to the metro, and some took advantage of lower rents.
- ▶ This dynamic is reflected by the occupancy rate in stabilized properties, which for the Lifestyle segment rose by 180 basis points in the 12 months ending in August, to 94.9%. The rate was up just 60 basis points in the RBN sector, to 93.5%, and overall the rate increased by 100 basis points to 94.0%.
- ▶ Of the 59 submarkets tracked by Yardi Matrix, 16 recorded rent declines, all located in San Francisco-Peninsula. The steepest drop was in Atherton/Portola, where the average rent contracted by 7.8% to \$4,652, followed by NE San Francisco (-4.8% to \$3,121). At the other end of the spectrum, Livermore posted the best performance, with the average rent up 13.5% to \$2,450, followed by Antioch/Oakley (+13.2% to \$2,157).

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 San Francisco stood at 5.6% in August, according to data from the Bureau of Labor Statistics, following several months of fluctuations. The metro's performance surpassed the state figure (7.5%) but trailed the nation (5.2%).
- ▶ The job market still has a long road ahead: While the Bay Area has stopped its slide in jobs, posting the first signs of growth in the 12 months ending in July, the rate was up nearly 0.1%. This is well behind the 2.5% U.S. rate.
- ▶ Leisure and hospitality led job gains, up 27.8% or 54,700 jobs. Next in line were the market's largest sectors—professional and business services and education and health services—which added a combined 44,000 jobs. While the tech sector is still struggling—Tesla joined the ranks of firms moving out of the state with its selection of Austin, Texas—the biotech sector is booming. COVID-19 heightened the importance of innovation in life sciences, and this has fueled growth in funding and investment.
- ▶ Leisure traffic has rebounded, but business travel lags. Even so, United Airlines will add up to 4,000 jobs in the Bay Area as part of a 270-plane expansion of its domestic fleet.

San Francisco Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	251	9.3%
60	Professional and Business Services	539	20.0%
65	Education and Health Services	428	15.9%
80	Other Services	87	3.2%
40	Trade, Transportation and Utilities	406	15.1%
50	Information	143	5.3%
15	Mining, Logging and Construction	158	5.9%
30	Manufacturing	189	7.0%
55	Financial Activities	155	5.8%
90	Government	336	12.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ San Francisco's population recorded the first dip during the decade in 2020, shrinking by 0.7%, or 34,901 residents, while the national rate rose 0.4%.
- ▶ The pandemic has accelerated an exodus of companies, with remote work exacerbating the trend.

San Francisco vs. National Population

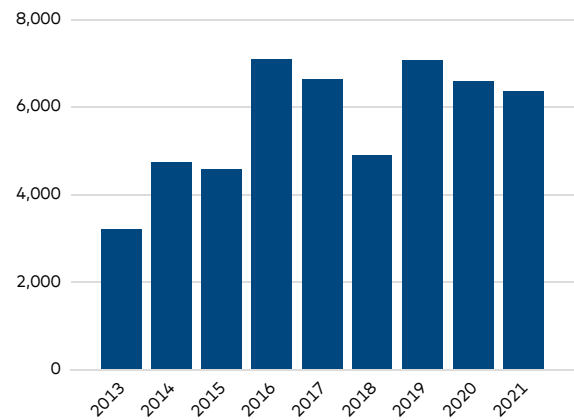
	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
San Francisco Metro	4,710,693	4,729,484	4,731,803	4,696,902

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

SUPPLY

- ▶ San Francisco had 23,835 units under construction as of September, nearly equally divided between the East Bay and the Peninsula. Another 122,640 units were in the planning and permitting stages.
- ▶ Developers brought online 6,396 units through September, almost matching deliveries for the entire prior year. The units delivered during the first nine months of the year represent 2.4% of total stock, outperforming the 1.6% national rate.
- ▶ Unlike the construction pipeline, most of the units completed were added to the East Bay's inventory (4,967 units), while the Peninsula's inventory expanded by 1,429 units.
- ▶ Despite elevated housing prices and massive outmigration, both projects underway and recent deliveries targeted the high-income renter: 4,930 units in the Lifestyle segment and just 2,367 units in the RBN segment. The latter comprised 1,278 units in fully affordable communities—860 units in East Bay and 418 units on the Peninsula—and 198 market-rate units.
- ▶ Eastern San Francisco led construction activity with 4,060 units underway. The largest project delivered in 2021 through September was the 633-unit Atlas in Downtown Oakland. Carmel Partners built it with aid from a \$245 million loan issued by Wells Fargo Bank in 2018. The development includes 27 affordable units and 17,350 square feet of retail space.

San Francisco Completions (as of September 2021)



Source: Yardi Matrix

San Francisco vs. National Completions as a Percentage of Total Stock (as of September 2021)

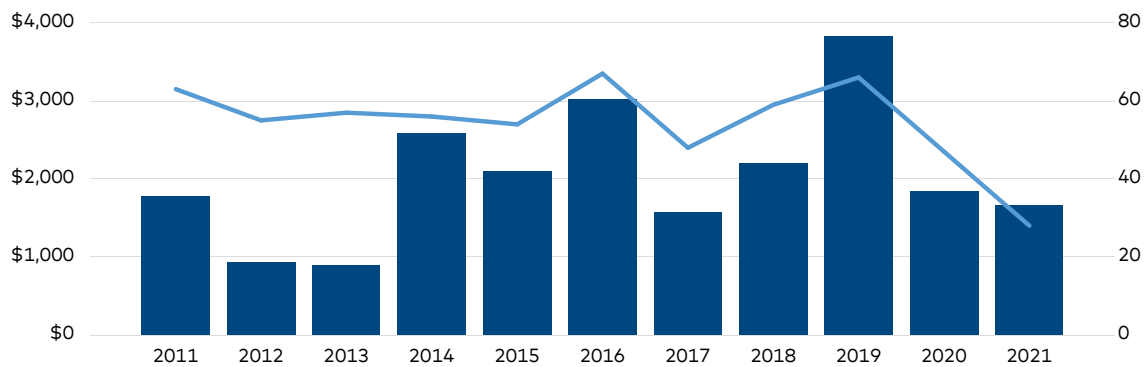


Source: Yardi Matrix

TRANSACTIONS

- ▶ Multifamily deals totaled \$1.7 billion in 2021 through September in the Bay Area, surpassing the \$1.3 billion that traded in 2020 during the same period. The bulk of this year's deals—\$1.2 billion—were completed for multifamily assets located in East Bay submarkets.
- ▶ Investors remained interested in value-add plays, with the bulk of properties traded in the Renter-by-Necessity class (79%). Even so, property value increased, with the average price per unit in the Bay Area rising 11.7% year-over-year to \$400,077 in September, more than double the \$179,959 national average.
- ▶ Dublin had the highest transaction volume—\$353 million in the 12 months ending in September. This was in part thanks to Catalyst Housing Group's acquisition of the 324-unit Fountains at Emerald Park from Equity Residential. The new owner paid \$190 million, or \$586,420 per unit.

San Francisco Sales Volume and Number of Properties Sold (as of September 2021)



Source: Yardi Matrix

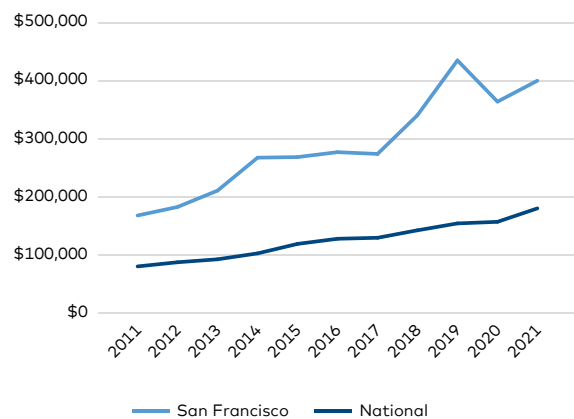
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Dublin	353
San Mateo	193
Hayward	129
Tiburon/Sausalito	122
Richmond	114
Lucas Valley	106
West Fremont	100

Source: Yardi Matrix

¹ From October 2020 to September 2021

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

Top California Markets for Multifamily Transactions

By Evelyn Jozsa

Thanks to solid performance in the multifamily sector, investors continue to forge ahead with notable ventures across the country. Year-to-date through August, California markets saw substantial investment activity, with \$7.4 billion in multifamily deals closed in the first eight months of the year, according to Yardi Matrix data. Deal velocity has significantly improved compared to the same period in 2020, when total sales volume amounted to \$3.9 billion.

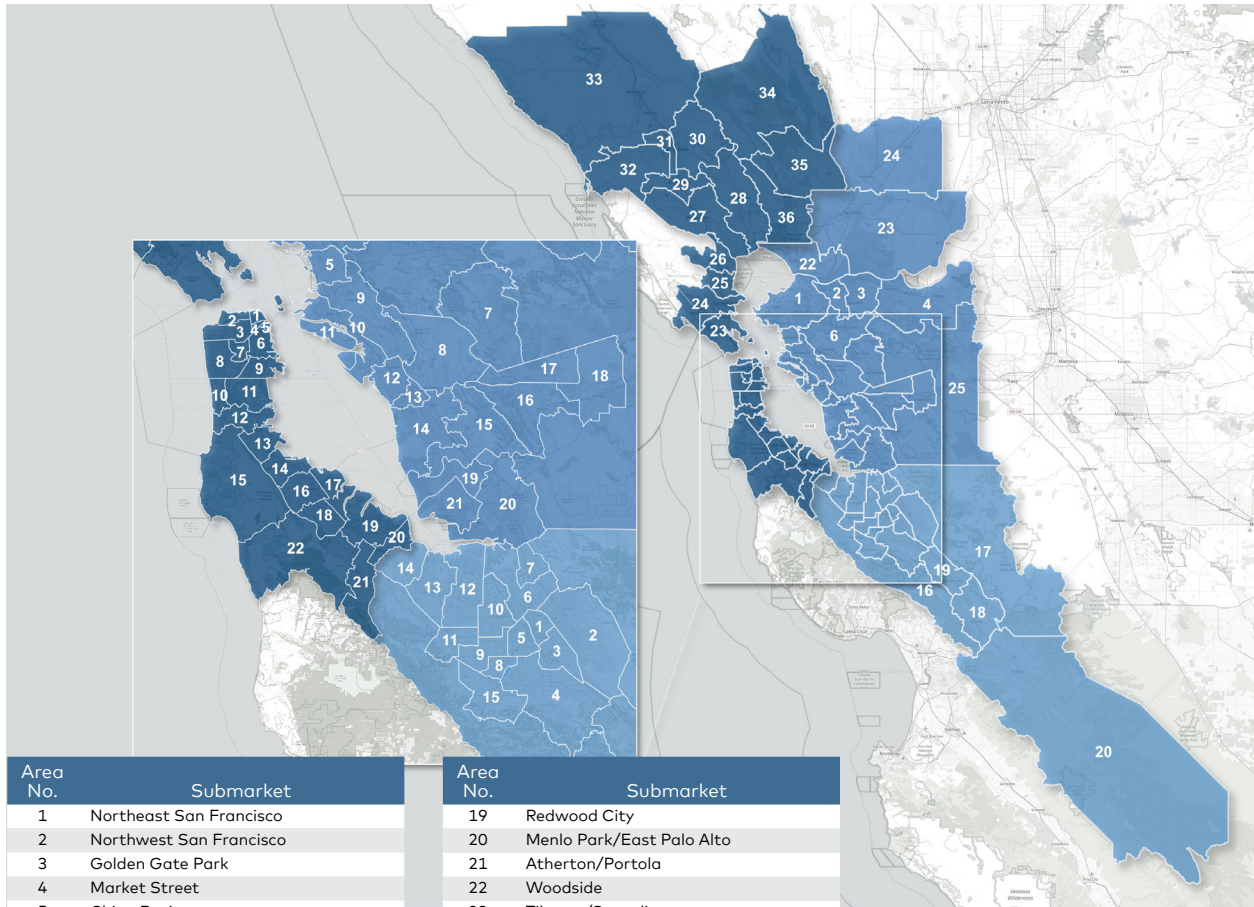
Rank	Market	Units	Transaction Volume (MM)	Price Per Unit
1	Los Angeles	6,858	\$2,543.2	\$370,834
2	San Francisco	3,653	\$1,418.7	\$388,365
3	Orange County	2,338	\$957.3	\$409,454
4	San Diego	2,541	\$934.8	\$367,893
5	Inland Empire	2,809	\$650.3	\$231,518

SAN FRANCISCO

San Francisco saw more than \$1.4 billion in closed multifamily deals year-to-date through August. This represents a 21% uptick from the \$1.1 billion recorded during the same period last year. A total of 3,653 units were sold for an average price per unit of \$388,365 between January and August 2021. Buyer interest revolved around Class B and C assets, with five of the properties sold fully affordable.



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

OTHER PROPERTY SECTORS

Office

- ▶ In July, the office markets in the Bay Area had [11.8 million square feet under construction](#), up by 8.3% on a month-over-month basis, according to CommercialEdge data. On an annual basis, the pipeline contracted by 15.1%.
- ▶ By the end of the year, some 3.8 million square feet were slated for completion in the San Francisco-Peninsula and another 4.8 million square feet in the East and South Bay markets. Of the total under-construction pipeline, 3.1 million square feet of office space comprised projects that broke ground this year. Construction activity was most intense in South San Francisco, with 2.6 million square feet underway, mostly in [life sciences projects](#).
- ▶ Although the [exodus of tech workers](#) pressures the local economy, the life sciences sector continued to attract investors—in July, office sales in the San Francisco-Peninsula and Bay Area markets amounted to more than \$1.7 billion, up 157.2% month-over-month. In 2021 through July, [office sales amounted to \\$6.9 billion](#), a 97.8% increase over the same period in 2020.
- ▶ With new product coming online but leasing activity remaining low, office vacancy reached its highest point of the year in August, [clocking in at 15.4%](#), on par with the national average. Among gateway cities, San Francisco's office market is struggling—only Chicago had a higher vacancy rate, at 16.9%.

Industrial

- ▶ With investors eager to purchase assets in port markets, an average of [\\$202 per square foot](#) placed the Bay Area among markets with the highest average sale prices, behind only Los Angeles and Orange County.
- ▶ Similarly, rents ranked third among major metros, after a 5.2% year-over-year increase to \$10.90 per square foot.
- ▶ Through September, more than 5.5 million square feet of industrial space were under construction, the equivalent of 2.0% of total stock.

Self Storage

- ▶ The metro is largely underserved from a self storage standpoint, with available self storage space per person well below the national average of 7 square feet per capita.
- ▶ Street rates for standard-size 10x10 NON CC units in San Francisco's markets [rose 7.0% year-over-year through August, to \\$211](#), occupying the highest rank among major metros.

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.

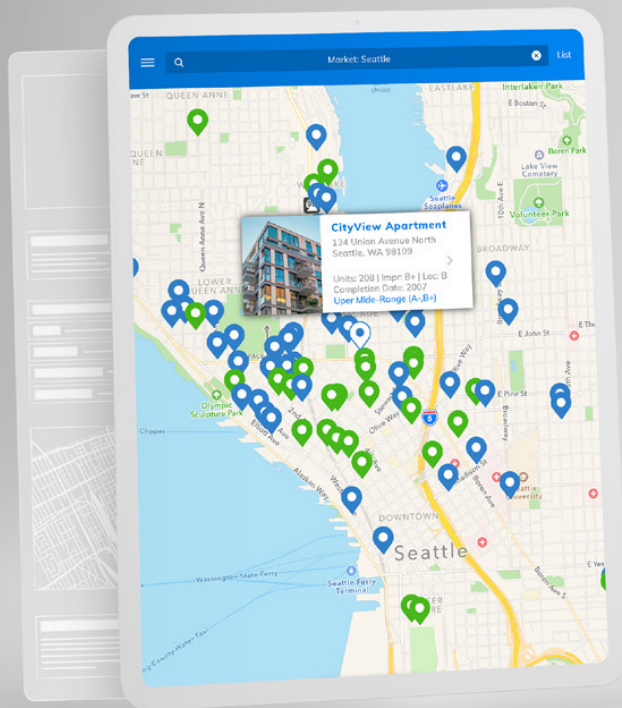
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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