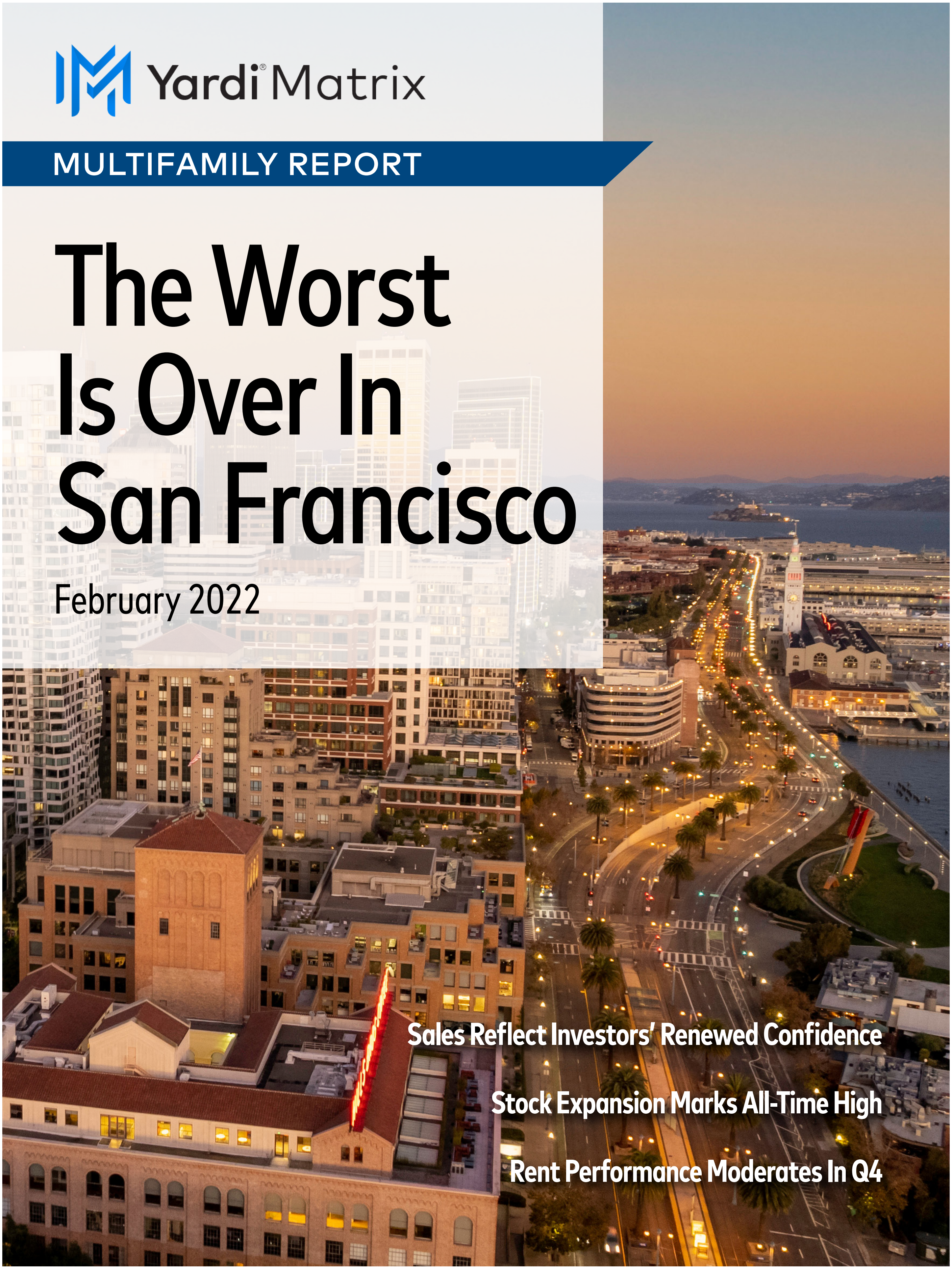
Yardi Matrix

MULTIFAMILY REPORT

The Worst Is Over In San Francisco

February 2022



Sales Reflect Investors' Renewed Confidence

Stock Expansion Marks All-Time High

Rent Performance Moderates In Q4

SAN FRANCISCO MULTIFAMILY

Yardi Matrix

Demand Boosts Occupancy

San Francisco's multifamily market made great strides in 2021, although there are still hurdles to overcome. Rents rose by just 0.1% on a trailing three-month basis through December, to $2,647, but the softening mirrors the national trend during winter. The occupancy rate in stabilized properties paints the picture of a market with an improving demand for rentals, rising by 200 basis points in the 12 months ending in November, to 94.6%.

The unemployment rate gained 240 basis points in 2021 through November when it dropped to 3.8%, faring better than both the state (6.9%) and national (4.2%) rates, according to data from the Bureau of Labor Statistics. The job market expanded by 5.0% in the 12 months ending in October, trailing the nation by 30 basis points. Of the 122,000 positions gained during the period, leisure and hospitality accounted for nearly half (53,100 jobs), but uncertainty persists. Professional and business services added 41,900 jobs and continues to sustain the economy as large employers are adjusting to current conditions.

Developers delivered an all-time high of 8,425 units in 2021 and had another 22,175 units under construction. Transaction activity also picked up, surpassing $2.6 billion for the year, and the per-unit price rose 13.7%, to $413,709.

Market Analysis | February 2022

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(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

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Anca Gagiuc
Senior Associate Editor

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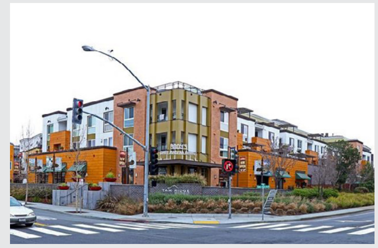
Recent San Francisco Transactions

Bell Mt. Tam

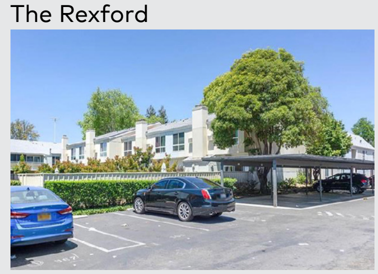


City: Corte Madera, Calif.
Buyer: Bell Partners
Purchase Price: $156 MM
Price per Unit: $866,667

Acacia on Santa Rosa Creek

City: Santa Rosa, Calif.
Buyer: Opportunity Housing Group
Purchase Price: $118 MM
Price per Unit: $424,188

The Rexford



City: Fremont, Calif.
Buyer: Essex Property Trust
Purchase Price: $113 MM
Price per Unit: $551,471

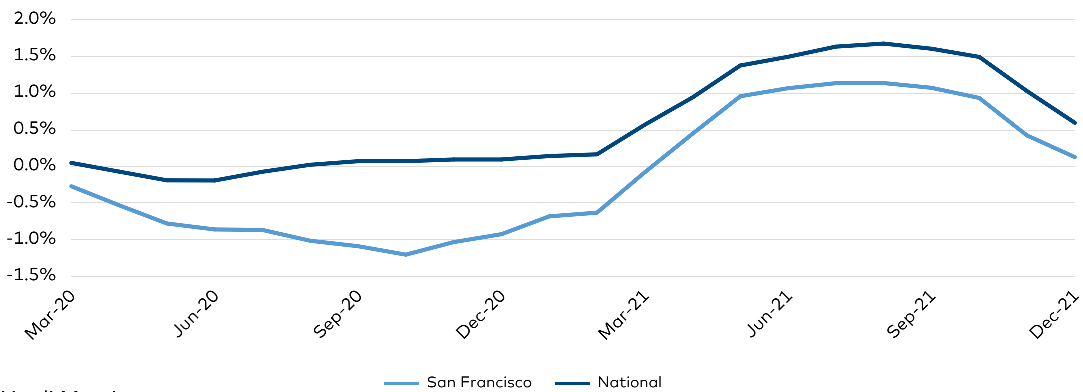
Maris at Martinez

City: Martinez, Calif.
Buyer: MG Properties Group
Purchase Price: $67 MM
Price per Unit: $400,298

RENT TRENDS

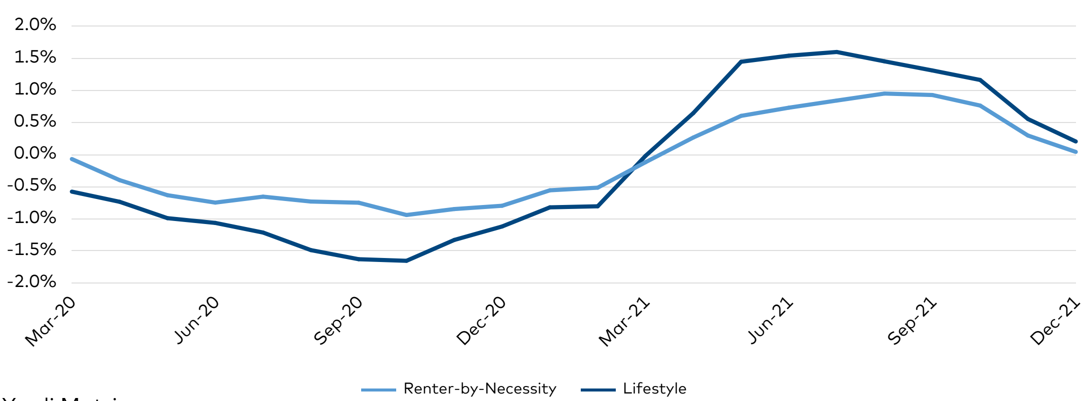
- Rents in the Bay Area inched up 0.1% on a trailing three-month (T3) basis through December, to $2,647, trailing the national average by 50 basis points and still well above the $1,594 U.S. figure. On a year-over-year basis, rent growth was 6.7%.
- Lifestyle figures led growth, up 0.2% on a T3 basis through December, to $3,125, while the average price for Renter-by-Necessity units remained flat at $2,379. RBN properties surpassed Lifestyle units in rate growth before the pandemic, but in the second quarter of 2021, the dynamic shifted, due to out-migration generated by the health crisis combined with robust stock expansion.
- The occupancy rate in stabilized properties signaled strong demand for both quality segments: In the 12 months ending in November, the rate was up 2.0% to 94.8% for Lifestyle units, and 2.1% to 94.4% for RBN apartments. Overall, the rate clocked in at 94.6% in November.
- Of the 59 submarkets tracked by Yardi Matrix, two posted contractions in average rents, and 10 marked double-digit increases. Among the best performers was China Basin, one of the most expensive areas in the metro, up 15.1% year-over-year through December to $3,862. Atherton/Portola (up 0.8% to $4,885) and NW San Francisco (up 3.4% to $4,636) remained on top of the most expensive submarkets list. In December, 14 submarkets had an average rent above the $3,000 mark, up from nine the year prior.

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

- San Francisco's unemployment rate improved by 240 basis points in 2021 through November, when it dropped to 3.8%, outperforming both the state (6.9%) and national (4.2%) averages, according to data from the Bureau of Labor Statistics. The employment market posted a 5.0% expansion in the 12 months ending in October, lagging the nation by 30 basis points. One sector still lost jobs—government—down by 2.2%, or 8,200 jobs.

- Leisure and hospitality led gains, up 53,100 jobs, yet uncertainty persists due to the ongoing pandemic. Moreover, while the number of domestic passengers increased by 41.8% year-over-year in October, that of international passengers was down 20%, according to San Francisco International Airport data.

- The Bay Area's main economic driver—professional and business services—added 41,900 jobs. Many tech companies have adapted to working remotely, leading San Francisco's work environment to undergo a substantial revamp. These large employers are working closely with the city to revitalize downtown areas and bring employees back in a hybrid work structure.

- San Francisco's life sciences industry is flourishing, ranking second globally, sustained by a generous talent pool and a strong health-care infrastructure and business environment.

San Francisco Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	256	9.3%
60	Professional and Business Services	559	20.3%
65	Education and Health Services	436	15.9%
50	Information	143	5.2%
80	Other Services	84	3.1%
40	Trade, Transportation and Utilities	409	14.9%
15	Mining, Logging and Construction	160	5.8%
55	Financial Activities	155	5.6%
30	Manufacturing	189	6.9%
90	Government	357	13.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- For the first time during the decade, San Francisco's population decreased in 2020, losing 34,901 residents, a 0.7% drop. Meanwhile, the U.S. rate rose 0.4%.

- Between 2010 and 2020, San Francisco's population expanded by 8.1%, above the 6.5% U.S. average.

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

- Developers brought 8,425 units online in 2021, 3.0% of total stock or 70 basis points above the U.S. average. That made 2021 the best year for deliveries in the past decade.

- Two-thirds of the units completed last year were delivered in East Bay submarkets, with the bulk in Lifestyle properties. The Renter-by-Necessity segment accounted for just 21.4% of East Bay deliveries. More than 90% of those were in fully affordable communities. In the Peninsula, two-thirds of the recent supply additions were in upscale properties; more than half of the RBN projects are market-rate properties.

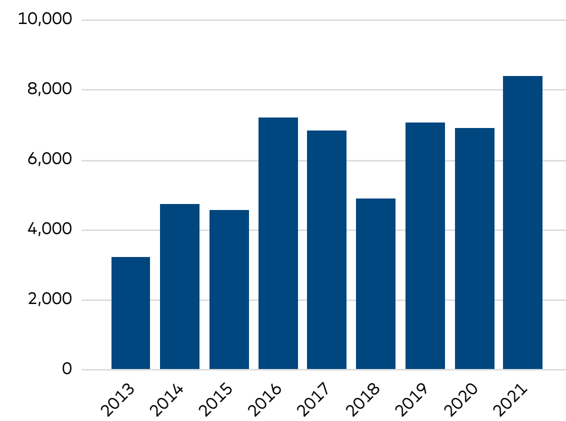
- Developers had 22,175 units underway in December, nearly equally split between the East Bay and the Peninsula. Another 124,975 units were in the planning and permitting stages.

- Similar to recent deliveries, the construction pipeline targets the high-income renter with two-thirds of units underway in Lifestyle projects. The RBN properties under construction consist of mostly fully affordable communities.

- The top five submarkets accounted for nearly half of the construction pipeline, with Eastern San Francisco still in the lead (2,929 units). Downtown Oakland and East Fremont followed with a respective 2,762 and 1,244 units.

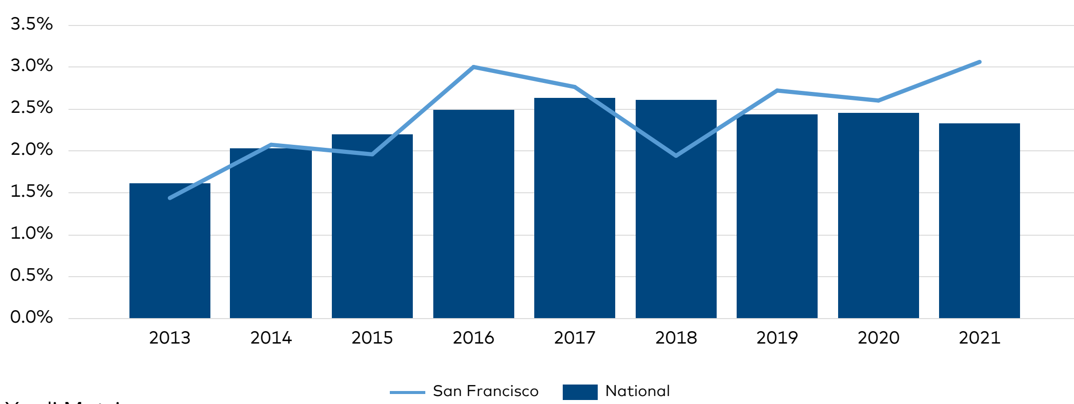
- The largest project underway as of December was Station Park Green, a 599-unit property in San Mateo, owned by Essex Property Trust. The LEED-seeking asset is slated for completion in the first quarter of 2022.

San Francisco Completions (as of December 2021)



Source: Yardi Matrix

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

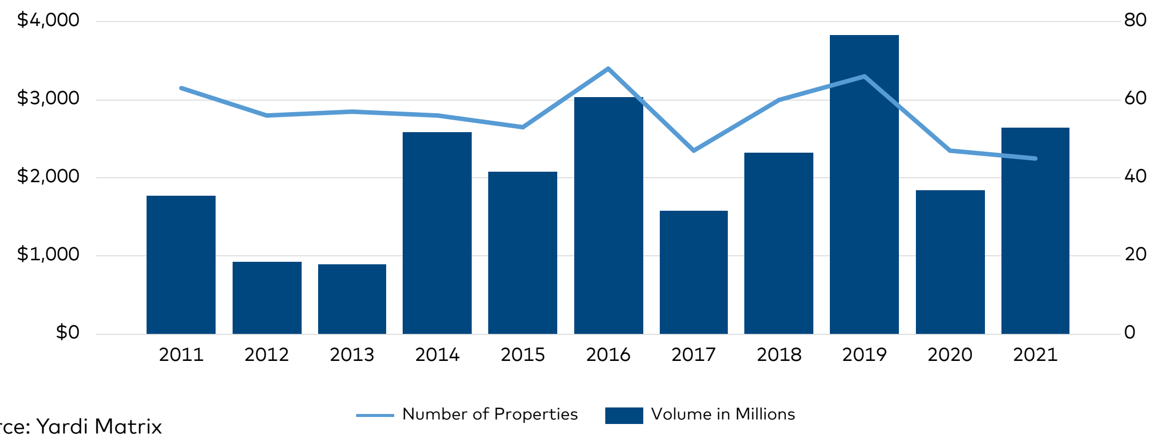


Source: Yardi Matrix

TRANSACTIONS

- Following a slower 2020, when transaction volume in San Francisco totaled $1.8 billion, investors regained confidence and 2021 closed with more than $2.6 billion in multifamily sales: $1.9 billion in East Bay submarkets and $789 million in the Peninsula. Although the figure marks a substantial 44% year-over-year increase, it places 2021 third over the past decade, still trailing 2019's volume, when more than $3.8 billion in multifamily assets traded in the metro.
- Investor interest remained focused on value-add plays, with 73% of sales involving RBN assets. Even so, the average price per unit rose 13.7% to $413,709, more than double the $188,338 U.S. average.
- Bell Mt. Tam, rebranded from Tam Ridge Residences, sold for the highest per-unit price. Bell Partners paid $866,667 per unit ($156 million) to MacFarlane Partners with aid from a $80 million loan originated by Prudential Financial.

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



Source: Yardi Matrix

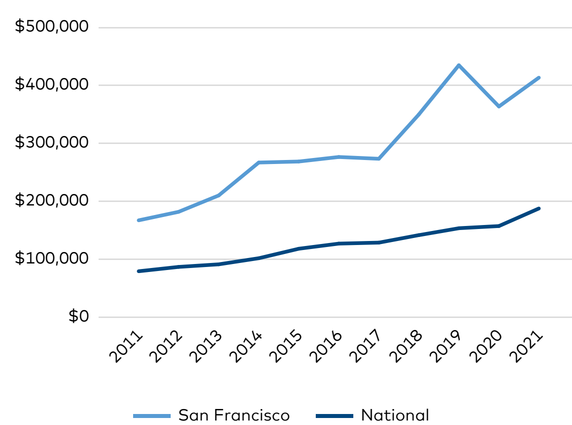
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Dublin	353
Tiburon/Sausalito	278
Walnut Creek/Lafayette	194
Santa Rosa	183
Antioch/Oakley	178
Berkeley	163
East Fremont	143

Source: Yardi Matrix

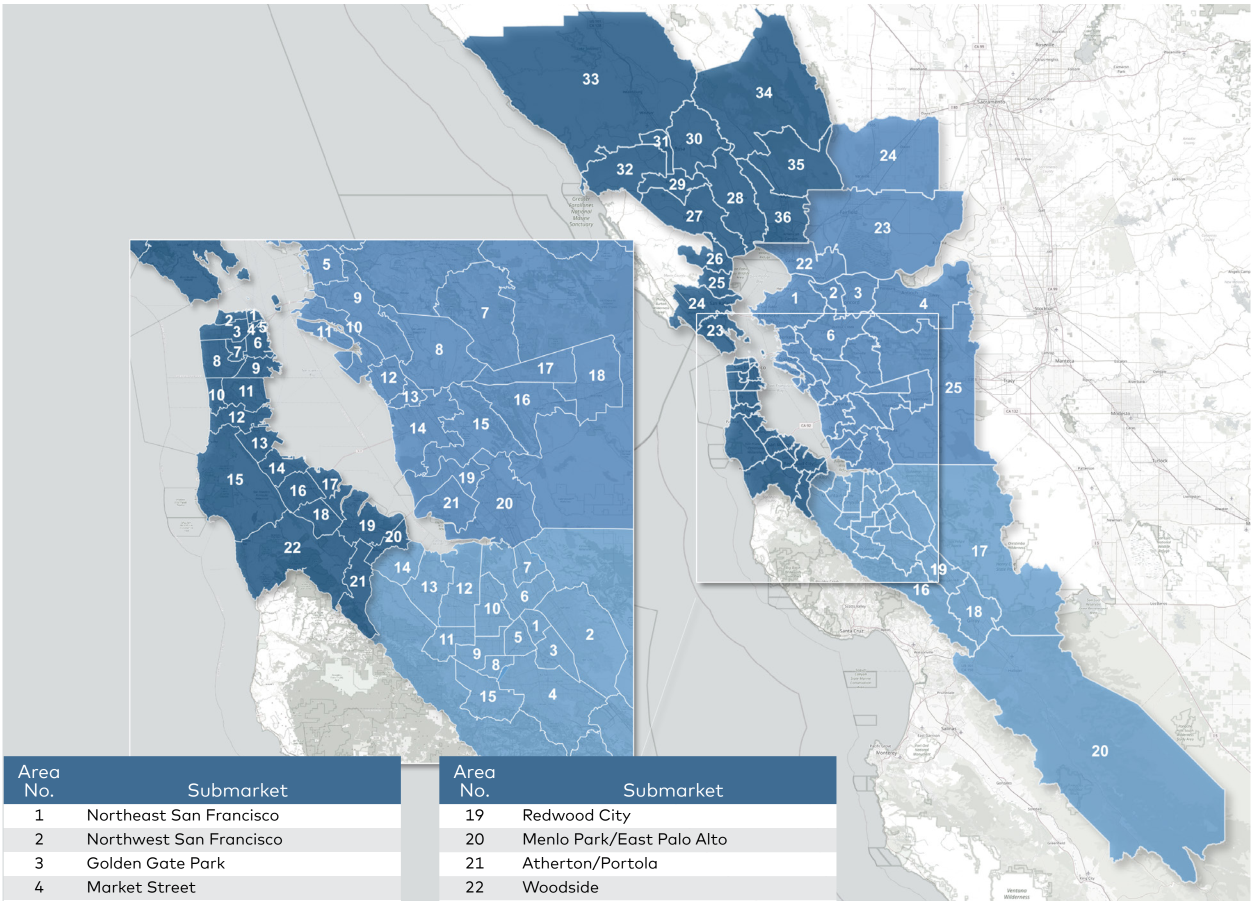
[1] From January 2021 to December 2021

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

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

- The San Francisco-Peninsula market had 6.2 million square feet under construction as of December, the equivalent of 3.9% of total stock, according to CommercialEdge data. Roughly 3.8 million square feet started construction in 2021. In the Bay Area, developers had more than 7 million square feet underway, or 3.4% of total stock. The vacancy rate in San Francisco stood at 15.1%, up 420 basis points year-over-year through December; the Bay Area posted a 16.1% vacancy rate.

- Notable leasing activity features Sephora's 286,000-square-foot sublease at 350 Mission St. and Meta's 719,037-square-foot lease across four buildings at Crossman Ave.

- San Francisco's 2021 office transaction volume totaled $3.9 billion in December, with the average price at $656 per square foot, second only to Manhattan ($1,253 per square foot). However, the metro might not be able to retain this position for much longer as rates remained on a downward trend. The Bay Area's price per unit stood at $516, while sales volume surpassed $8 billion. Investors kept their focus on life science hubs.

- Notable transactions include KKR's acquisition of The Exchange on 16th, a 750,000-square-foot office property in San Francisco's Mission Bay neighborhood, for $1.08 billion, or about $1,440 per square foot, and Hines' acquisition of PG&E's headquarters in San Francisco's Financial District, for $800 million.

Industrial

- The Bay Area had more than 4.3 million square feet of industrial space under construction as of November 2021, 1.6% of total stock, according to CommercialEdge data. The average rent in the sector rose 5.3% year-over-year, to $10.93 per square foot.

- Industrial sales in the Bay Area surpassed $1.8 billion in November, for an average price of $229 per square foot, more than double the national rate. The figure makes the metro the third most expensive market, behind Los Angeles ($301PSF) and Orange County ($292PSF).

Self Storage

- Self storage rent growth moderated in San Francisco, rising just 3% year-over-year through October, to $208 for both 10×10 non-climate- and climate-controlled units, lagging the national average, according to Yardi Matrix data.

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.

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