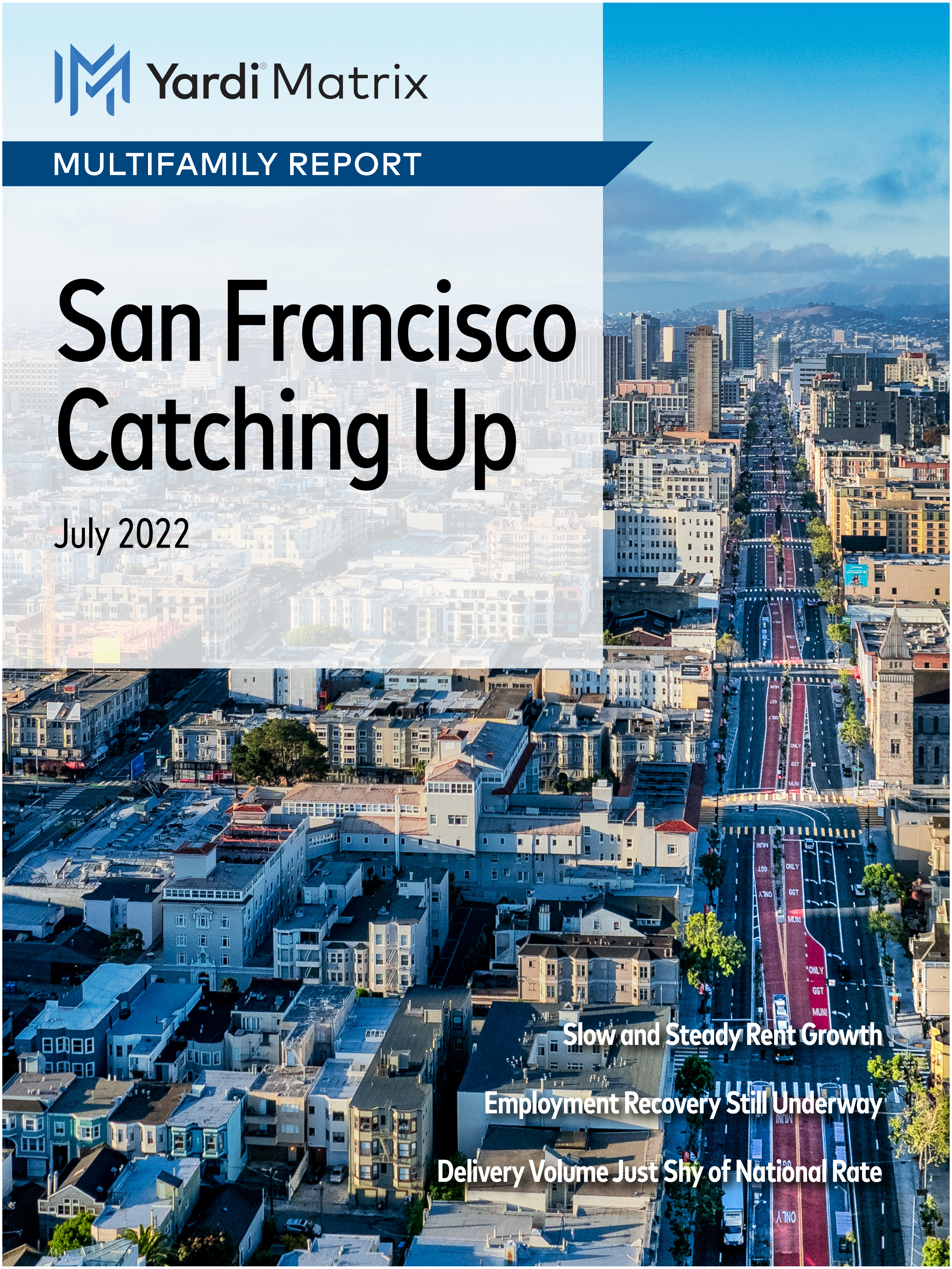
Yardi Matrix

MULTIFAMILY REPORT

San Francisco Catching Up

July 2022



Slow and Steady Rent Growth

Employment Recovery Still Underway

Delivery Volume Just Shy of National Rate

SAN FRANCISCO MULTIFAMILY

Yardi Matrix

Performance Still a Mixed Bag for the Bay

The San Francisco multifamily market moved at a slow pace during the first five months of the year, with the metro falling behind most gateway markets in key metrics. Overall rates grew 0.8% on a trailing three-month (T3) basis through May—slower than the nation's 1.0% rate—to $2,750. On a year-over-year basis, rents were up 8.7%, with San Francisco placing 29th among the largest 30 markets in the U.S. Still, demand for multifamily product is high, as occupancy rates rebounded to pre-pandemic levels—up 150 basis points year-over-year, to 95.2% as of April.

As of May, California had regained 93% of the jobs lost during March and April of 2020 due to the pandemic, according to the California Employment Development Department. Following national trends, the job market started rebounding in the second half of 2021. Growth clocked in at 6.4% in March, exceeding the 4.7% national rate. Over the 12 months ending in March, the metro regained 175,400 jobs, with no sectors recording contractions.

Multifamily investment activity stayed strong, as sales topped $1.2 billion during the first five months of the year. The average price per unit grew 3.3% since the start of the year, to $430,675. Meanwhile, construction activity is likely to cool off after a record-breaking 2021, when over 10,000 units were delivered. As of May, the metro had 20,304 units underway, with roughly two-thirds of incoming stock targeting the Lifestyle segment.

Market Analysis | July 2022

Contacts

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

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
Tudor Scolca
Associate Editor

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Recent San Francisco Transactions

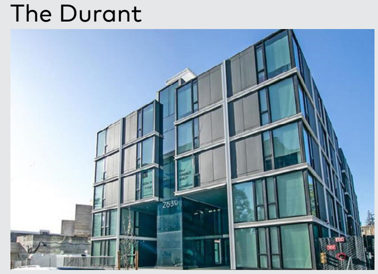
Bidwell Park Fremont

City: Fremont, Calif.
Buyer: Pacific Urban Investors
Purchase Price: $127 MM
Price per Unit: $516,260

Crescent Cove

City: San Francisco
Buyer: Avanath Capital Management
Purchase Price: $76.8 MM
Price per Unit: $325,423

The Durant



City: Berkeley, Calif.
Buyer: Regents of the University of California
Purchase Price: $52.5 MM
Price per Unit: $937,500

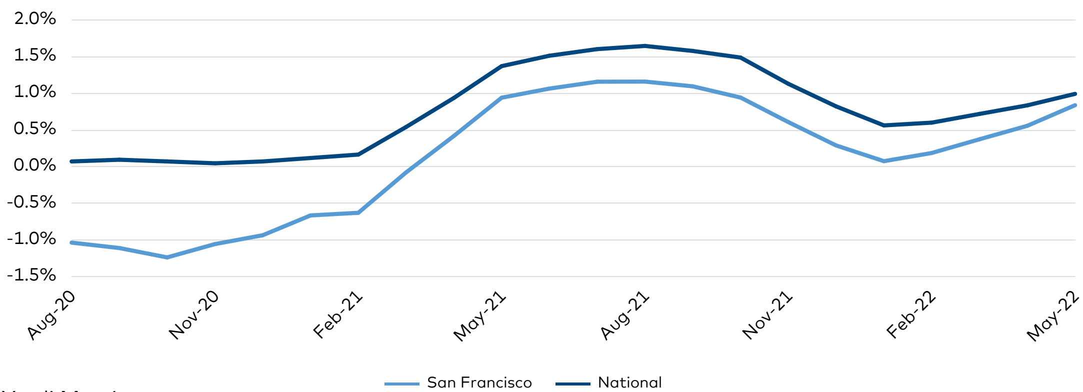
Hayden Martinez

City: Martinez, Calif.
Buyer: Benedict Canyon Equities
Purchase Price: $41.5 MM
Price per Unit: $384,259

RENT TRENDS

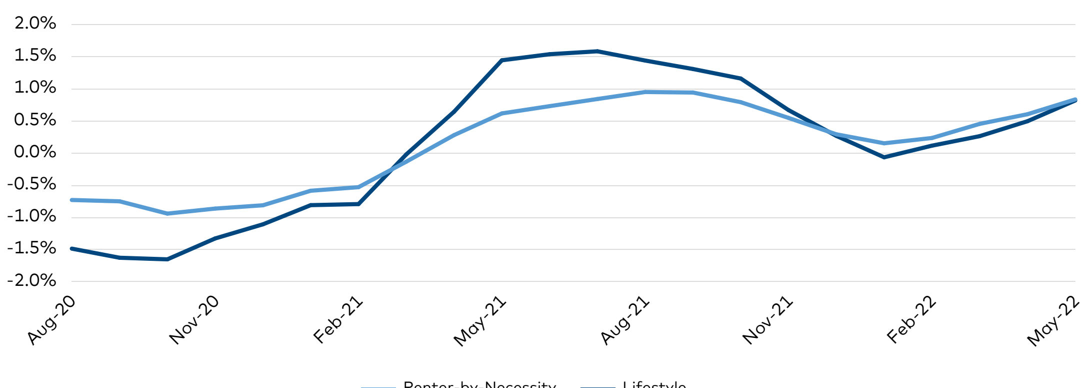
- San Francisco multifamily rents grew 0.8% on a trailing three-month (T3) basis through May, to $2,750, 20 basis points below the national growth rate, and well above the $1,680 national average. Although much slower than most major U.S. metros, rent development in the Bay improved compared to its pace earlier in the year, following a tough start to 2021. Year-over-year, rents were up 8.7%, still well below the 13.9% U.S. rate.
- Rates for both Lifestyle and Renter-by-Necessity segments were up 0.8% on a T3 basis through May, to a respective $3,224 and $2,473. Lifestyle figures recovered after experiencing a contraction during the first quarter, while RBN rates remained positive through the slower season. It is likely that rents will not experience the same growth as last year, as Yardi Matrix expects overall San Francisco rates to climb an additional 7.8% by the end of 2022.
- Demand across quality segments was reflected in occupancy, as the average rate in stabilized properties grew by 150 basis points year-over-year, to 95.2% as of April. RBN assets recorded significant growth, up 210 basis points, to 95.4%, while occupancy for Lifestyle assets was up only 60 basis points, to 95.0%.
- Peninsula submarkets recorded the highest rent gains, led by Atherton/Portola (up 20.8% year-over-year, to $5,562), South Napa (up 17.1%, to $2,713) and Lucas Valley (up 15.3%, to $3,041). East Bay submarkets were led by Vacaville (11.1%, to $2,233) and West San Ramon/ Danville (10.8%, to $2,729).

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 growth in San Francisco continued an upward path, clocking in at 6.4% as of March, exceeding the national rate by 170 basis points. The job market started rebounding in the second half of last year. Over the 12 months ending in March, San Francisco gained 175,400 net jobs, with positive gains across all sectors.

- Meanwhile, the unemployment rate reached 2.5% in April, representing a drop of 90 basis points since December, according to preliminary data from the Bureau of Labor Statistics. San Francisco exceeded California's 4.6% unemployment rate.

- The leisure and hospitality sector, largely the most affected during the past two years, led gains once more as it fights to recover, with 63,800 jobs added in the 12 months ending in March, a 31.0% expansion. Professional and business services—the region's largest sector—also recorded significant gains, adding 33,300 jobs (6.4%).

- Employers in the tech and life sciences industries continue to express confidence in the area's economy, rebounding fully. YouTube, for example, is currently working on expanding its office footprint in San Bruno, where it plans to build 2.4 million square feet of space over the coming years.

San Francisco Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	270	9.6%
60	Professional and Business Services	553	19.6%
40	Trade, Transportation and Utilities	430	15.2%
65	Education and Health Services	444	15.7%
80	Other Services	94	3.3%
90	Government	374	13.2%
30	Manufacturing	200	7.1%
50	Information	147	5.2%
15	Mining, Logging and Construction	158	5.6%
55	Financial Activities	156	5.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Francisco's population dropped by 2.5% between 2020 and 2021, largely attributable to domestic out-migration. The metro lost 116,385 residents, marking one of the largest declines among major U.S. cities.

- Nationally, population grew by 0.1% in 2021, or 392,665 residents.

San Francisco vs. National Population

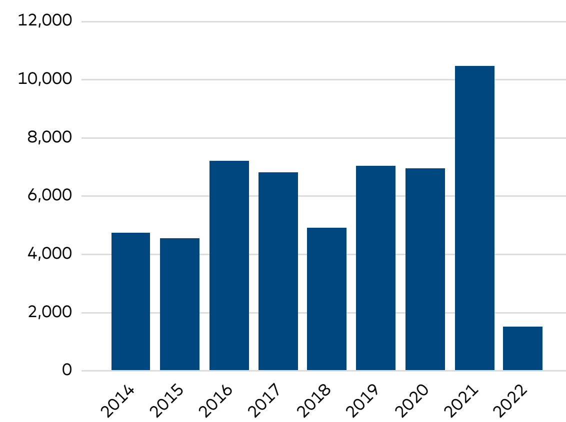
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Francisco	4,725,613	4,724,016	4,739,649	4,623,264

Source: U.S. Census

SUPPLY

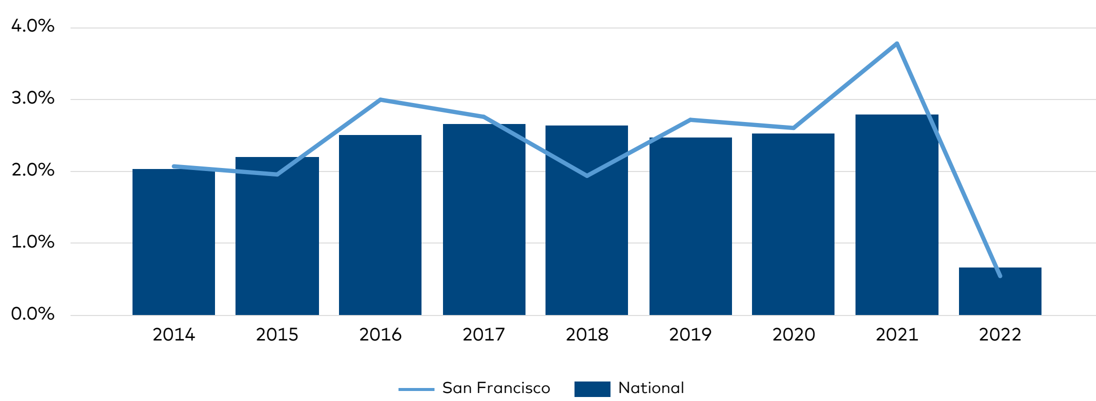
- As of May, San Francisco had 20,304 units under construction across 113 properties. In line with national trends, 60.2% of units were in Lifestyle properties, while 32.2% were fully affordable. The pipeline remained relatively equally split between the Peninsula and the East Bay markets. Another 124,000 units were in the planning and permitting stages, with activity poised to remain strong.
- Year-to-date through May, 1,522 units were delivered, representing 0.6% of total stock, 10 basis points below the national rate (0.7%). That's 65% less than the volume during the same period last year, but it is worth noting that 2021 was an outstanding year—a total of 10,483 units were completed (or 3.8% of stock), marking the best year for inventory growth in a decade. On average, developers added 7,252 units annually over the past five years.
- Several East Bay submarkets had more than 1,000 units underway, led by Downtown Oakland (2,550 units), East Oakland/Oakland Hills (1,105), Walnut Creek/Lafayette (1,092) and Antioch/Oakley (1,064). Among Peninsula submarkets, Eastern San Francisco—also among the leading submarkets for rent growth—recorded the most units underway (2,027), followed by San Mateo (888 units) and Santa Rosa (761 units).
- Over the first five months of the year, more than 3,500 units broke ground in the Bay Area. One of the largest is AvalonBay Communities' 499-unit development in the East Bay submarket of Dublin, rising on the site of a former warehouse. Avalon West is expected to come online in 2024's first quarter.

San Francisco Completions (as of May 2022)



Source: Yardi Matrix

San Francisco vs. National Completions as a Percentage of Total Stock (as of May 2022)

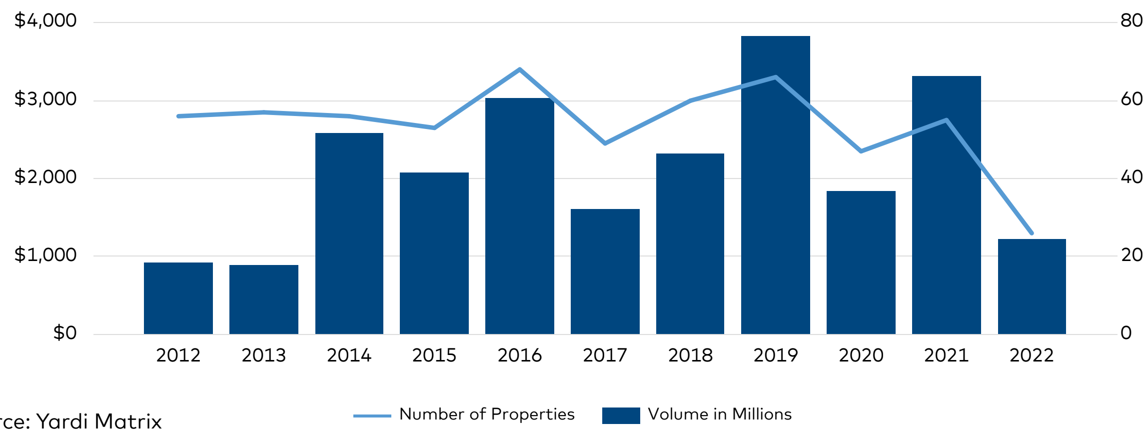


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through May, San Francisco multifamily sales amounted to $1.2 billion—a 30.2% increase from what was recorded over the same period last year. The average price per unit was $430,675 as of May, up 3.3% since the end of last year, and more than double the national average of $213,724.
- Of the 26 properties that changed hands over the first five months, 24 were in the Renter-by-Necessity segment. This is largely in line with the transaction activity of previous years and pre-pandemic trends. Of the total number of units traded, 66% were in the East Bay submarket (2,863 units), while 34% were in the Peninsula (1,453).
- The largest transaction recorded this year through May was the $127 million acquisition of Bidwell Park in Fremont, by Pacific Urban Investors. The 1973-built property traded well above the market average, at $516,260 per unit.

San Francisco Sales Volume and Number of Properties Sold (as of May 2022)



Source: Yardi Matrix

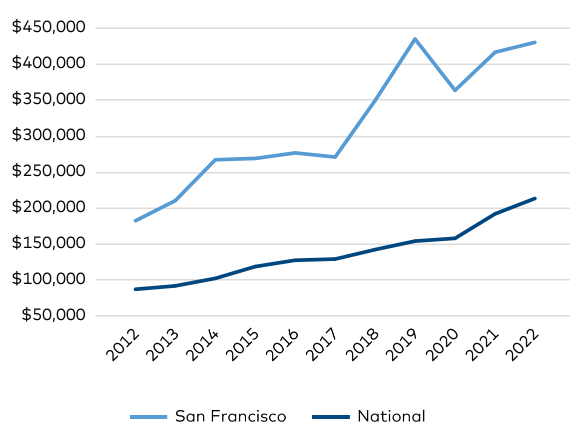
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Tiburon/Sausalito	578
Pleasant Hill/Martinez	413
East Fremont	300
Berkeley	281
Fairfield	254
Dublin	190
Santa Rosa	183

Source: Yardi Matrix

[1] From June 2021 to May 2022

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top States for LEED-Certified Multifamily Properties in 2021

By Lucia Morosanu

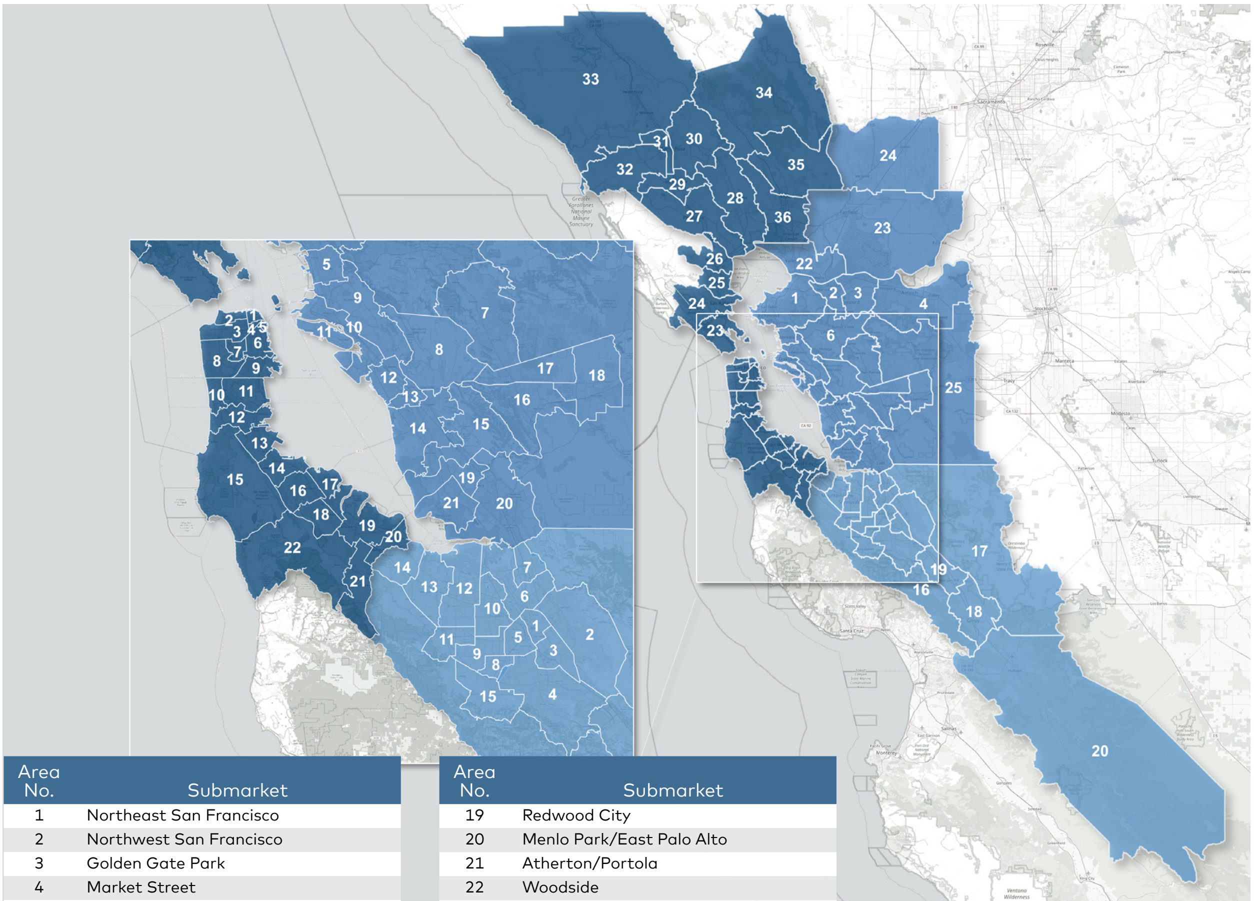
The multifamily sector has experienced significant growth in the past year, as constant demand for space pushed new supply. The health crisis reinforced the need for clean air within both apartments and communal areas at multifamily properties, while the prevalence of remote work made residents more mindful of their energy consumption. Sustainable multifamily communities are treated more and more as a requirement rather than an exception.

Rank	State	Number of Communities
1	California	47
2	Washington, D.C.	20
3	New York	18
4	Massachusetts	12
5	Maryland	10

California

The Golden State topped the list with twice as many certified communities than any other entry on the list. From the total 47 communities to be certified in 2021, one earned basic LEED certification, 11 communities became LEED-Silver certified, 20 became LEED-Gold certified and 15 received LEED Platinum certification.

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

- As of May, the San Francisco-Peninsula market had 5.3 million square feet under construction (3.3% of stock, above the national 2.2% rate), while the East and South Bay markets recorded 7.8 million square feet (3.8%) underway, according to CommercialEdge data. Although far from inactive, the region's construction rate was below other metros, such as Austin (10.0% of stock underway), Nashville (8.8%), or Miami (7.4%). Uncertainty still looms for the office sector across major U.S. markets, as employers postpone or cancel return-to-office plans. The San Francisco Bay Area was one of the most impacted by the pandemic two years ago, and it has not yet fully recovered. Tech and life science users continue to comprise a large portion of demand for new office space.

- Leasing activity remained tepid, as more and more companies opt for a hybrid or work-from-home arrangement, leaving much of the office space in urban markets empty. San Francisco's office vacancy was 17.2% as of May, up 330 basis points year-over-year (and higher than the national 15.4%). The East and South Bay markets fared better however, with vacancy dropping by 210 basis points, to 15.3%. Large life science campuses are in great demand, and space is usually leased before development is complete. A recent example is Eikon Therapeutics' 285,000-square-foot lease in Millbrae, at an upcoming office park developed by Alexandria Real Estate Equities.

- Office sales in the market also slowed down compared to 2021. Year-to-date through May, San Francisco sales generated $1 billion, $700 million less than what was recorded over the same period last year. Meanwhile, sales in the East and South Bay totaled $1.5 billion—55.9% less year-over-year. A record-breaking deal in Sunnyvale highlights how new space and tech continue to generate value: Tishman Speyer sold its Moffett Park campus (occupied by Meta) for $707 million to CommonWealth Partners.

Industrial

- Industrial properties continue to outperform other asset types nationwide. Year-to-date through April, U.S. industrial sales generated $19 billion, according to CommercialEdge, clocking an average of $134 per square foot. Port markets are in especially high demand, amid persisting global supply chain issues. The Bay Area logged $391 million in sales over this period, at an average of $226 per square foot. R&D properties are among the most sought-after in the Bay.

- Development activity was slow in the supply-constrained Bay Area market, with 4.4 million square feet under construction as of April. The number represented 1.6% of total stock, 210 basis points below the national rate.

- In-place rents for industrial space were up 4.2% year-over-year, to $11.07 per square foot as of April. The Bay Area clocked in second place nationwide, behind Orange County ($11.81), and ahead of Los Angeles ($10.47). The U.S. average was $6.47.

Self Storage

- Self storage activity gradually increased across the U.S. in recent months, Yardi Matrix data shows. As of April, street rates for 10x10 NON CC units were up 4.8% year-over-year, while 10x10 CC units saw an increase of 4.2%.

- San Francisco remains an underserved market, as a result driving street rates to some of the highest in the nation. Average street rates for 10x10 (CC and NON CC) units were up 0.5% month-over-month in April, to $214, significantly above the national $136.

- Construction activity ticked up in April, equal to 9.6% of existing stock nationwide. In San Francisco, planned and under construction units equaled 7.2% of stock, with concerns about rising costs and labor shortages looming ahead.

- StoragePRO Management Inc. recently completed a 131,000-square-foot facility in Fairfield, comprising 930 units ranging from 10 to 800 square feet. The property offers residents roughly 4 net rentable square feet per capita, as it is one of three facilities within a 5-mile radius.

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 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 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, 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.

Yardi Matrix

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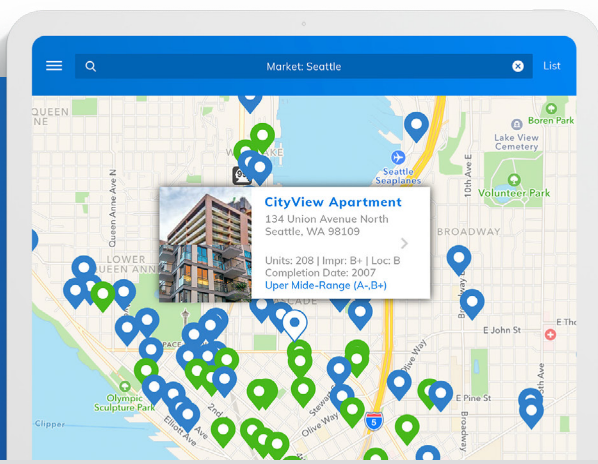
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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