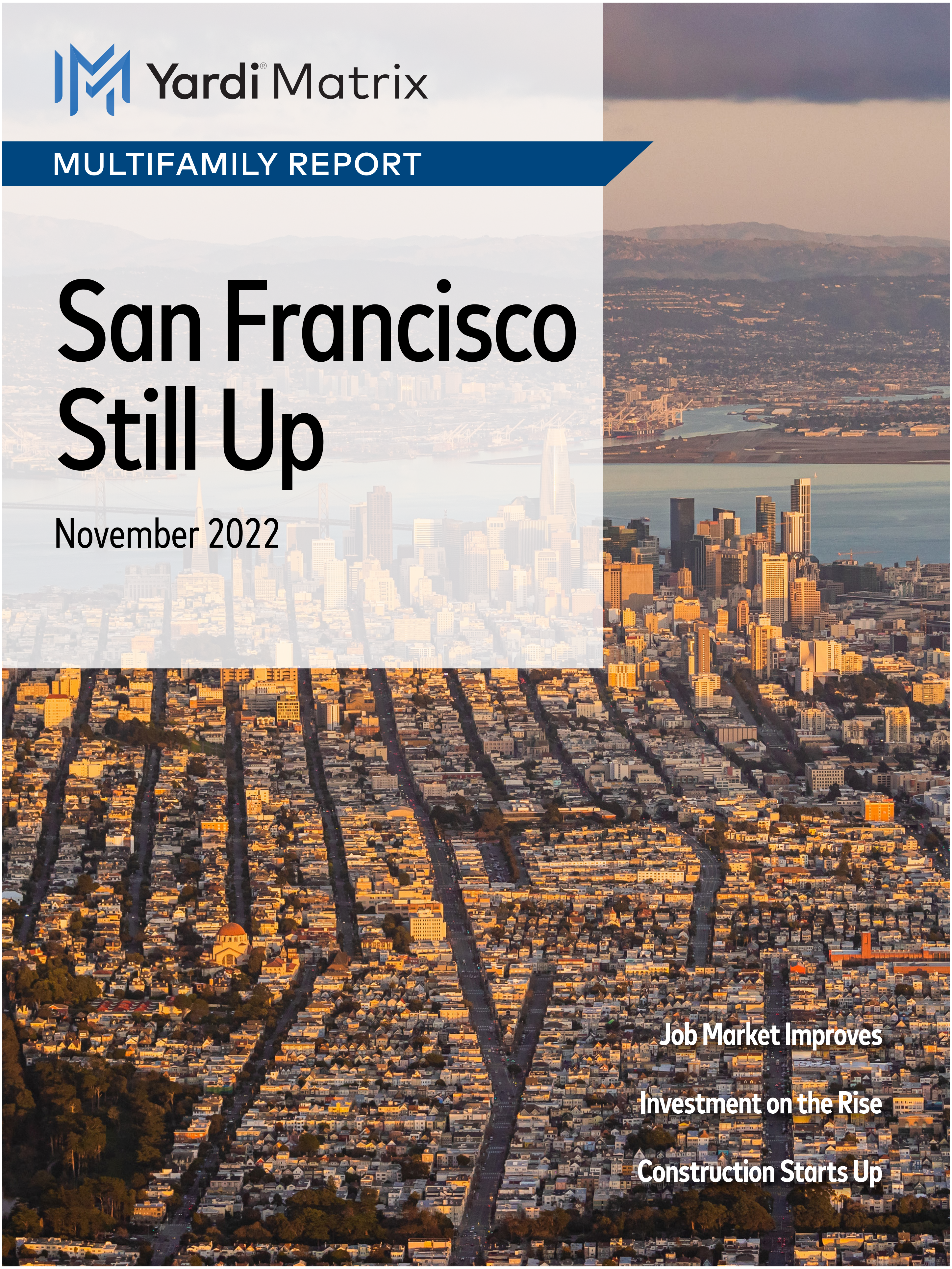
Yardi Matrix

MULTIFAMILY REPORT

San Francisco Still Up

November 2022



Job Market Improves

Investment on the Rise

Construction Starts Up

SAN FRANCISCO MULTIFAMILY

Yardi Matrix

Employment Rates Climb, Development Strong

San Francisco's multifamily market continued to show signs of strength toward the end of the third quarter, despite rent growth slowing down. On a trailing three-month (T3) basis through September, rates were up 0.3%—10 basis points above the national rate—to $2,854. Concerns over a potential recession have brought rent development down across most U.S. metros, but San Francisco multifamily remains in high demand. Occupancy across stabilized properties was up 60 basis points year-over-year, to 95.5% as of August.

The economic recovery continued, as San Francisco's unemployment rate exceeded 2019 levels, at 2.8% in August, 90 basis points below the nation's average. Over a 12-month period ending in July, San Francisco added 133,700 jobs, a 5.9% expansion and 140 basis points higher than the national rate. Growth was led by professional and business services, which gained 34,900 jobs over this period, followed by the leisure and hospitality sector, which was up by 33,800 jobs.

Development activity was very strong across both sides of the bay. Year-to-date through September, 4,102 units were brought online, representing 1.5% of existing stock and matching the national rate, but down by 54.1% year-over-year. In September, the metro had 20,914 units under construction, with an additional 125,341 units in the planning and permitting stages.

Market Analysis | November 2022

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Recent San Francisco Transactions

Crystal Springs Terrace

City: San Bruno
Buyer: Prometheus Real Estate Group
Purchase Price: $188 MM
Price per Unit: $429,062

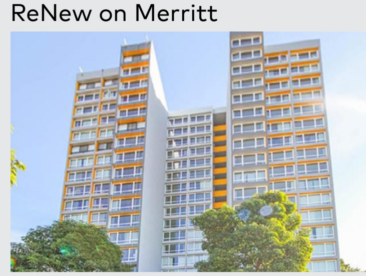
Twin Creeks

City: Antioch
Buyer: California Community Housing Agency
Purchase Price: $76 MM
Price per Unit: $315,000

The Arroyo Residences

City: Walnut Creek
Buyer: Rockwood Capital
Purchase Price: $66 MM
Price per Unit: $660,000

ReNew on Merritt

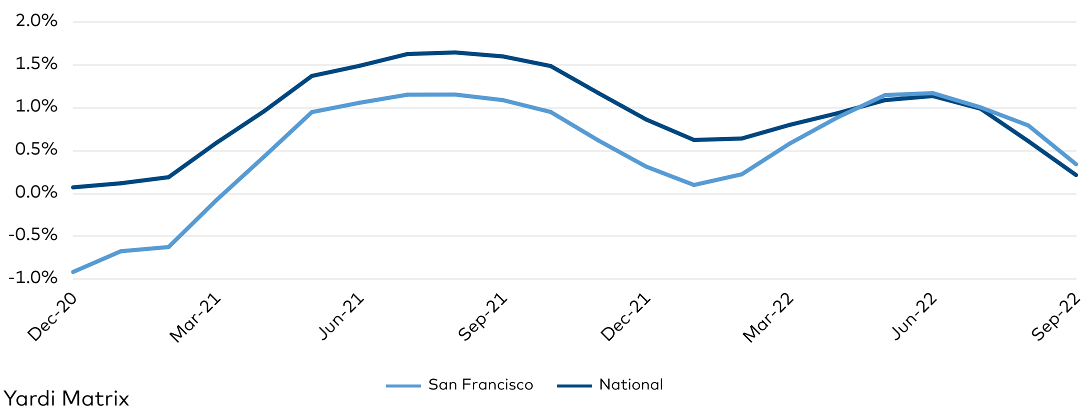


City: Oakland
Buyer: FPA Multifamily
Purchase Price: $56 MM
Price per Unit: $311,798

RENT TRENDS

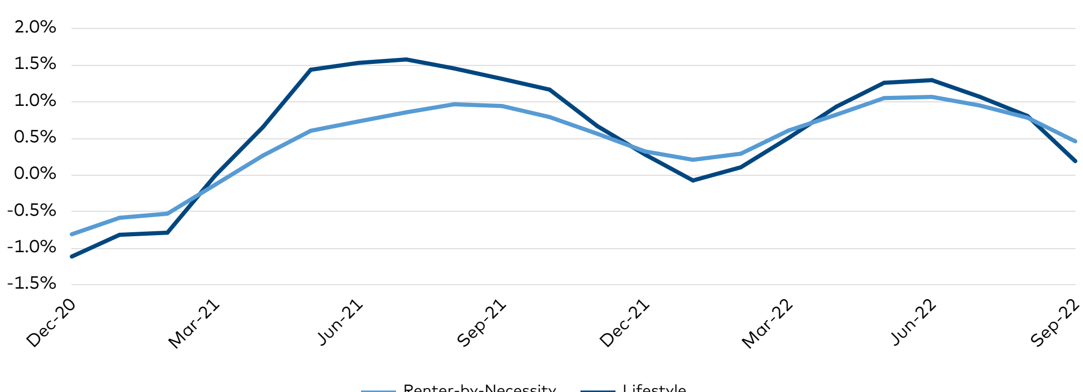
- San Francisco rents were up 0.3% on a trailing three-month (T3) basis through September, 10 basis points above the national figure. After peaking in June at 1.2%, growth started tapering off, remaining mostly on par with national T3 rates throughout the year. On a year-over-year basis, San Francisco rents were up 7.5%, behind the national 9.4% rate.
- At $2,854, the average rent in San Francisco held well above the $1,718 U.S. figure. Renter-by-Necessity rates were up 0.5% on a T3 basis through September, to $2,559. After staying ahead of RBN for most of the year, Lifestyle rent gains fell to 0.2% in September—to $3,346.
- Demand has not slowed down in the metro, as overall occupancy for stabilized assets reached 95.5% as of August, up 60 basis points year-over-year. RBN properties were more sought after, with occupancy for this segment increasing 120 basis points year-over-year, to 95.8%, comparable to pre-pandemic levels. Meanwhile, the Lifestyle segment recorded a 20-basis-point drop in occupancy, to 95.1%.
- Rent growth was highest in the tech and life sciences submarkets, both in the Peninsula and the East Bay. Atherton/Portola had the highest growth, up 15.8% year-over-year, to $5,498. It was followed by Burlingame (up 14.5%, to $3,229), East Fremont (up 13.4%, to $2,820) and San Mateo (up 13.3%, $3,482). San Ramon-East was the only submarket that saw rates decrease—down 9.3%, to $2,123.

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 stood at 2.8% as of August, according to preliminary data from the Bureau of Labor Statistics, 90 basis points lower than the nation's average and 130 basis points lower than California's rate. The situation improved considerably compared to February, when the rate was 110 basis points higher.
- Over the 12 months ending in July, San Francisco added 133,700 jobs across all economic sectors, a 5.9% expansion and 140 basis points higher than the national rate. The rate of job growth slightly decreased from the previous month, but the metro maintained a strong pace throughout the year, peaking at 6.5% expansion in May.
- Professional and business services led gains, with 34,900 jobs added, or a 6.5% expansion, over the 12 months through July. Growth was bolstered by the metro's continuously growing life sciences market. The leisure and hospitality sector came in second with 33,800 jobs (12.9%), followed by trade, transportation and utilities (15,500 jobs, 3.7%) and construction (10,000 jobs, 6.3%).
- San Francisco continued to make improvements for return-to-work initiatives. Earlier this year, the mayor's office announced $47.9 million in new funding to support the economic recovery of the city's core. The funds will be used to support small-business growth, activations and public-space improvements.

San Francisco Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	571	19.8%
70	Leisure and Hospitality	296	10.3%
40	Trade, Transportation and Utilities	434	15.1%
15	Mining, Logging and Construction	168	5.8%
80	Other Services	99	3.4%
50	Information	154	5.4%
30	Manufacturing	204	7.1%
65	Education and Health Services	441	15.3%
90	Government	354	12.3%
55	Financial Activities	158	5.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- In 2021, San Francisco lost residents, as the rise of remote work allowed workers to move to more affordable cities with ease. The metro's population declined by 2.5%, or 116,385 residents, in this period. Meanwhile, the U.S. population grew by 0.1%, 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

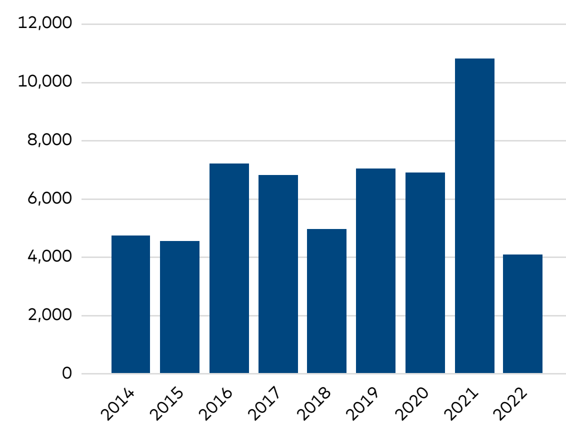
- Developers brought 4,102 units online in San Francisco this year through September, representing 1.5% of existing inventory—on par with the national rate of construction. Development activity cooled off, as deliveries were down 54.1% from what was recorded in 2021 over the same period. However, the previous year was a peak for deliveries, with 10,820 units, accounting for 3.9% of stock. It was the best year for deliveries, which also exceeded the five-year annual average of 7,325 units.

- In September, San Francisco had 20,914 units under construction. Developers remained focused on the Lifestyle segment, which comprised 62.8% of the pipeline across the metro's two markets. Meanwhile, 28.3% of units were fully affordable. Construction activity was slightly stronger in the East Bay, which had 11,283 units underway, with the remaining 9,631 situated in the Peninsula submarket. An additional 125,300 units were in the planning and permitting stages.

- Development activity was led by Downtown Oakland, which had 2,170 units underway. Three other submarkets had more than 1,000 units under construction—Eastern San Francisco (1,808 units), Santa Rosa (1,421 units) and Antioch/Oakley (1,230 units).

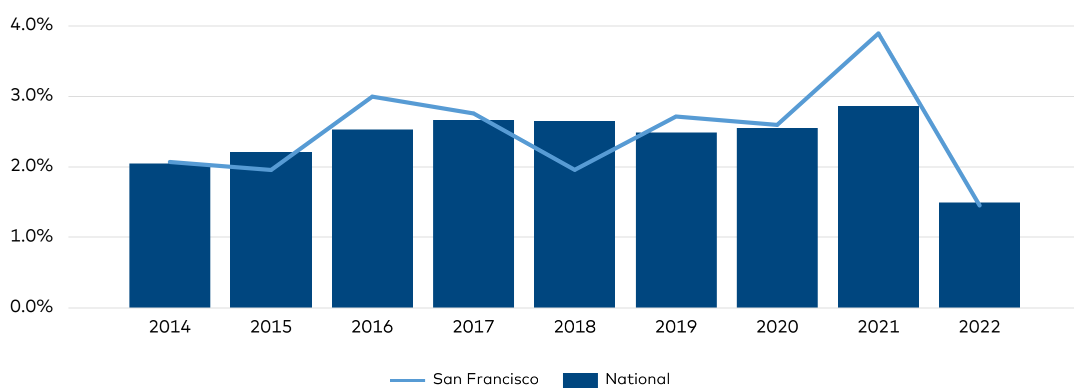
- Construction activity intensified in the market, as 6,381 units broke ground year-to-date through September, up 17.4% from last year. The largest property to come online was the 419-unit Vespr in the East Oakland/Oakland Hills submarket. Holland Partners developed the luxury residential property with 65,000 square feet of retail.

San Francisco Completions (as of September2022)



Source: Yardi Matrix

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

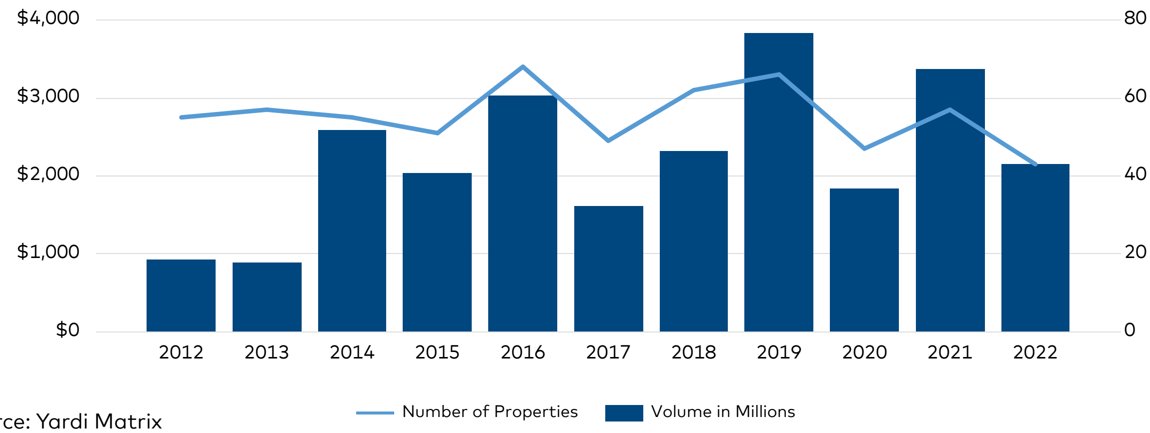


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through September, the total multifamily investment volume in San Francisco was $2.1 billion, 24.4% more than the figure recorded over the same period in 2021. Of the total 43 sales, 36 were RBN assets, while only seven Lifestyle property sales were recorded. The geographic distribution of sales followed established patterns, with the East Bay recording $1.1 billion and the Peninsula market registering $1 billion.
- The average price per unit was $415,483, down by about $1,200 from 2021's figure, but remaining well above the U.S. average of $216,578. With investors targeting value-add plays, RBN prices were up 11.7% since last year, to $391,913. Meanwhile, the price for Lifestyle properties decreased 9.9%, to $559,504.
- The largest sale of the year occurred in February, when Prime Group acquired the 456-unit Skylark in the Tiburon/Sausalito submarket. The asset traded for $300 million, or $657,894 per unit.

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



Source: Yardi Matrix

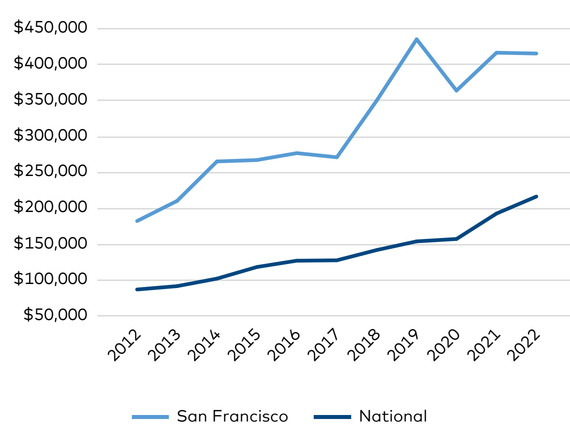
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Tiburon/Sausalito	$456
Pleasant Hill/Martinez	$436
East Fremont	$304
Berkeley	$256
South San Francisco	$245
Walnut Creek/Lafayette	$206

Source: Yardi Matrix

[1] From October 2021 to September 2022

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

Wakeland's New CEO on California's Affordable Housing Crisis

By Anda Rosu

California's housing crisis is notorious. Demand for affordable housing in the state's biggest urban centers is sky-high, and developers are struggling to strike the right balance between catering to residents' need for affordable housing and the increasing cost of building. Rebecca Louie, president & CEO of Wakeland Housing and Development Corp., discusses what is hindering construction in the state and how she plans to boost affordable housing production.

In your view, what are the top three reasons why it is so difficult to build affordable housing projects in the state today?

The top reason is the lack of resources for affordable housing development, including subordinate financing, project-based Section 8 vouchers, limitations on bond volume cap and 9 percent tax credit equity. The second is high construction and other development costs, many of which have been exacerbated by the pandemic.

The third reason is a lack of political will, which often allows a vocal minority to block affordable housing projects before they are developed.

How do the recent interest rate hikes and the rising inflation impact California's affordable housing sector?

Inflation and interest rate hikes are slowing the production of affordable housing. Projects that were feasible six months ago have been delayed or shelved entirely. Developers have to spend

longer securing additional funding to make projects feasible, and state, as well as local subordinate lenders, have to increase subsidies on a per-unit basis.

What are your plans as Wakeland CEO & President? What are your priorities?

My top priority is always to build as many affordable homes as we can, at every level, from family housing to senior housing, to housing for people experiencing homelessness.

I also plan to be a strong advocate for improving our local, state and federal policies to encourage the production of more affordable housing. We are in the midst of a severe housing crisis, with the supply being low, rents being high, and the effects, dramatic.

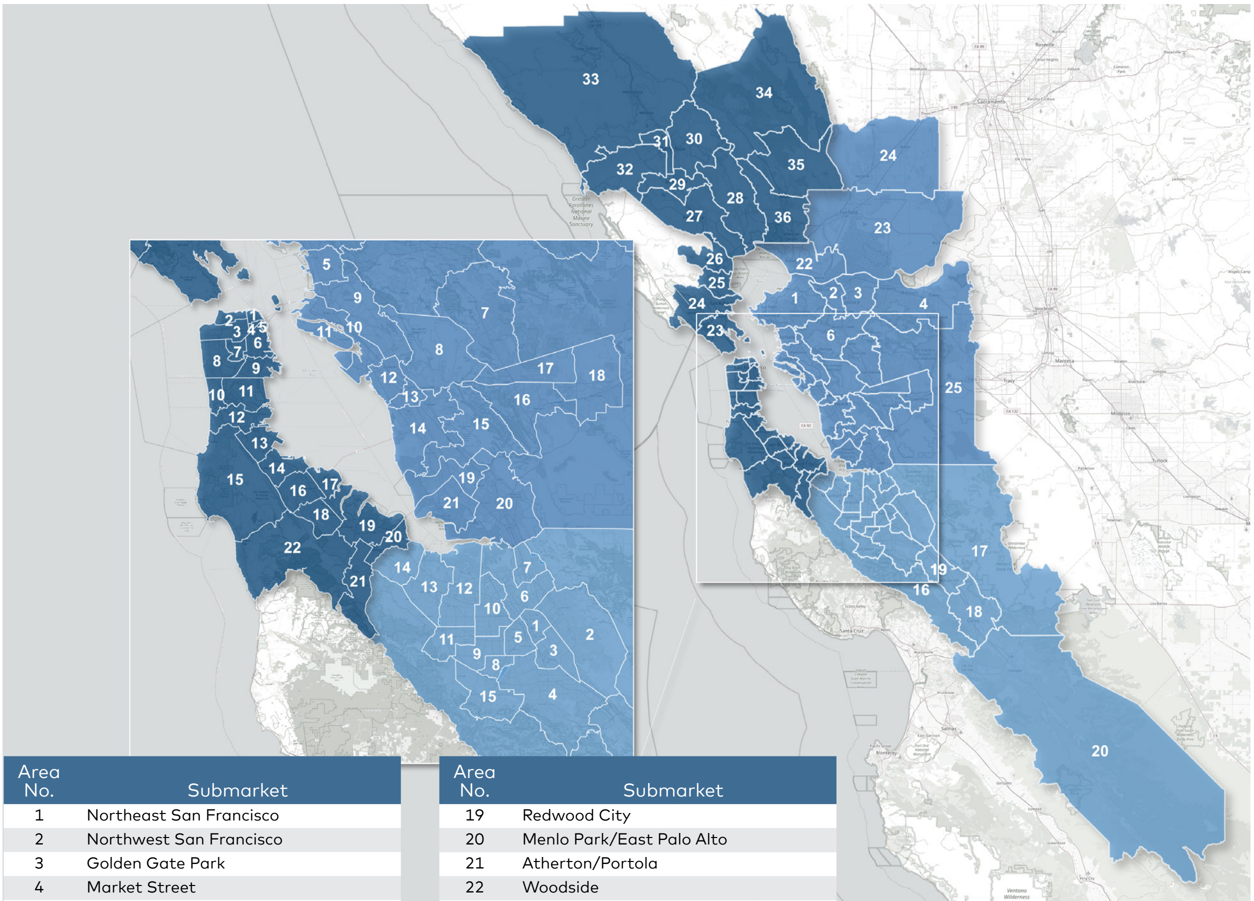
I plan on working with our policy makers to increase available resources for affordable development and reduce the barriers that are keeping us from getting it built.

How is the current economic landscape going to impact California's affordable housing market?

The impacts of inflation and rate increases will diminish project completions in 2024 and beyond. However, California policymakers must continue to invest in affordable housing production to solve our current housing and homelessness crisis. They also need to continue prioritizing strategies to reduce costs and development timelines.

(Read the complete interview on www.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 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.

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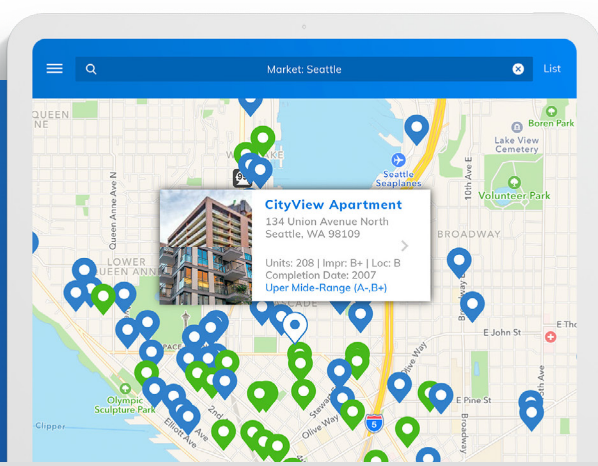
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue 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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