



Yardi® Matrix

San Francisco Cools Down

Multifamily Report Fall 2017

**Affordability Hangs
In the Balance**

**New Development
Targets Oakland**

**Sales Volume
Drops as Prices Surge**

Market Analysis

Fall 2017

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Rent Deceleration Continues

After several years of consistent rent hikes, San Francisco's housing market has cooled to some degree. Rents rose 1.8% year-over-year through September, trailing the national average for the 14th consecutive month. However, the average rent of \$2,553 was nearly double the \$1,354 U.S. rate, proving too high even for many highly skilled workers. This critical issue has pushed some large tech companies to enter the housing market, with plans to invest in affordable housing for their employees.

The metro's economy is strong and market indicators reflect continued growth, albeit at a slower pace than a couple of years ago. The biotech industry is thriving, with Zymergen and Exellix expanding their footprint by more than 100,000 square feet each. In October, infrastructure work began for the Landing at Oyster Point, a 42-acre research and development center. Construction on the project's five- to seven-story buildings is scheduled to begin in the summer of 2018.

Investor activity has slowed down, with only \$600 million in multifamily assets trading in 2017 through August. This follows a strong 2016, when transactions reached a cycle high of \$3 billion. Development is robust, with more than 4,000 apartments delivered in the first three quarters and another 12,400 units under construction. As supply continues to catch up with demand, Yardi Matrix expects rents to rise 0.8% in 2017.

Recent San Francisco Transactions

The Marston by Windsor



City: Redwood City, Calif.
Buyer: GID
Purchase Price: \$153 MM
Price per Unit: \$780,612

Creekwood



City: Hayward, Calif.
Buyer: Bridge Investment Group Partners
Purchase Price: \$97 MM
Price per Unit: \$315,210

Sofi Fremont



City: Fremont, Calif.
Buyer: Pacific Urban Residential
Purchase Price: \$75 MM
Price per Unit: \$365,196

Ivy Hill



City: Walnut Creek, Calif.
Buyer: TIAA
Purchase Price: 48 MM
Price per Unit: \$414,655

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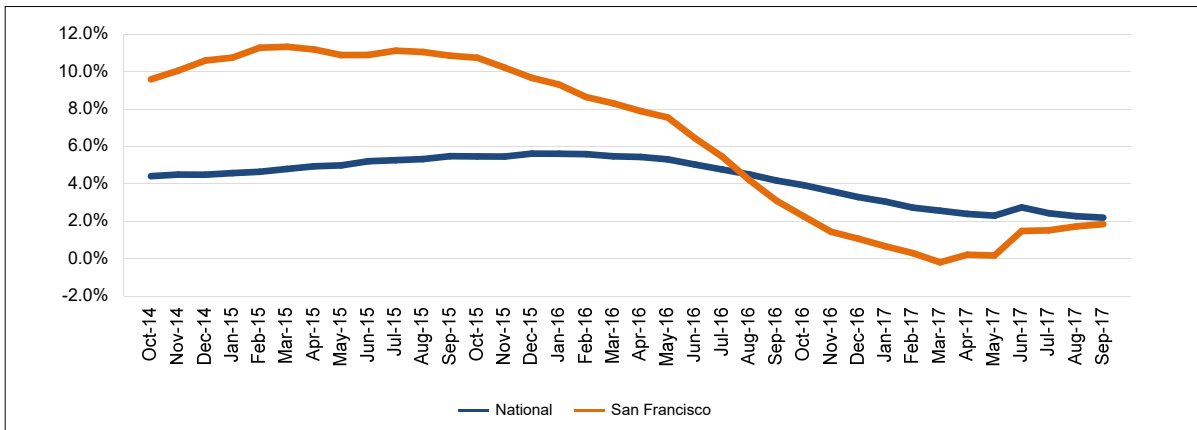
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Rent Trends

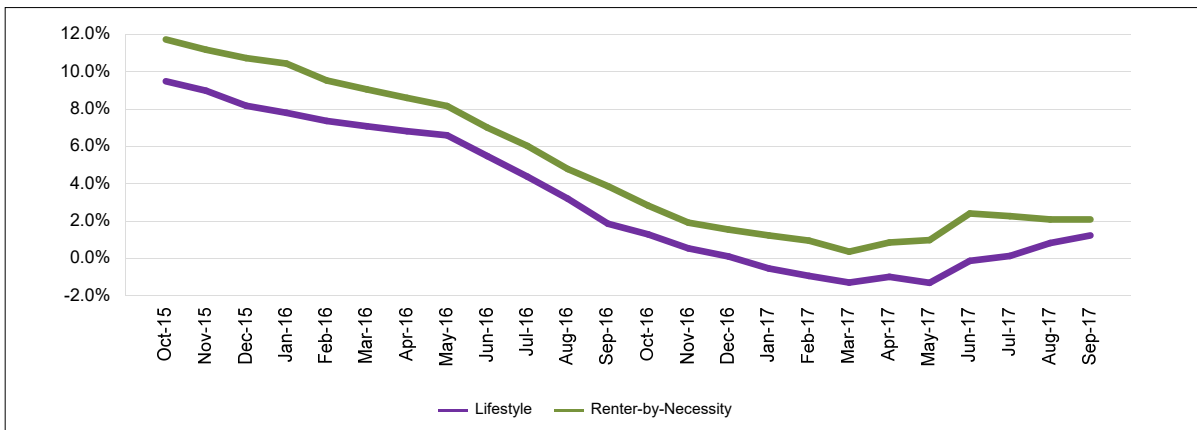
- After leveling off in the first half of 2017, rents in San Francisco rose 1.8% year-over-year through September, trailing the 2.2% U.S. average. Housing costs in the metro remain among the highest in the country, with the average rent clocking in at \$2,553, nearly double the \$1,354 national rate.
- The working-class Renter-by-Necessity segment led growth, up 2.1% year-over-year, to \$2,303. At the same time, Lifestyle rents climbed 1.2%, reaching \$3,048. Demand remains strong due to the area's consistent pace of growth in technology and startups, which also generates service jobs and attracts a steady flow of renters.
- Rent growth is spotty, about one-third of San Francisco continuing to taper off in the past year, with Moss Beach registering the steepest drop (-6.3% to \$2,535). Rents also contracted in NW San Francisco, the city's most expensive submarket (-1.6% to \$4,516). In Fairfield, Bay City's least pricy area, rent growth was among the highest across the metro (6.7% to \$1,620).
- The occupancy rate for stabilized properties was 96.3% as of August, down just 10 basis points in 12 months, signaling that the major injection of new supply is being absorbed at a rapid pace. We expect rents to rise 0.8% in 2017.

San Francisco vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

San Francisco Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

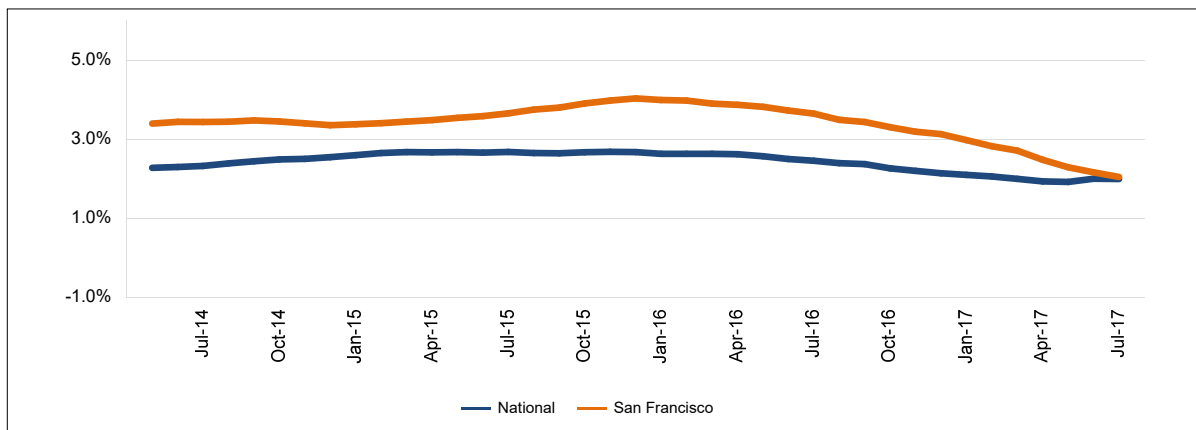


Source: YardiMatrix

Economic Snapshot

- The metro added 48,400 jobs year-over-year through July, a 2.0% increase, roughly on par with the U.S. average. In line with nationwide trends, San Francisco's job growth slowly but steadily decelerated after a late-2015 peak.
- Education and health services led growth, generating 13,700 positions. Biotech is hot in East Bay—Zymergen expanded by 303,000 square feet in Emeryville and Exellix added 111,000 square feet in Southern Alameda. Nearing completion is the 320,000-square-foot Berkeley Way West, the eight-story mixed-use development to house some of UC Berkeley's departments. In October, developers broke ground on the \$1 billion Oyster Point in South San Francisco—over the next two years, the 42-acre property will be transformed into a research and development complex catering to life sciences firms. The leisure and hospitality sector expanded by 10,300 jobs and is expected to remain strong—Marriott has 12 properties in the pipeline, while Virgin Hotels is close to opening its first Bay Area hotel.
- Office leasing activity has surged, with more than 2 million square feet signed in the second quarter. The list of notable transactions included First Republic Bank's 200,000-square-foot expansion at 1 Front St., Facebook's agreement for 436,000 square feet in the 70-story office project currently underway at 181 Fremont, and Salesforce's 478,910-square-foot lease in the 1.4 million-square-foot Salesforce Tower, the city's tallest building, due to open in early 2018.

San Francisco vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

San Francisco Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	417	14.9%	13,700	3.4%
70	Leisure and Hospitality	336	12.0%	10,300	3.2%
15	Mining, Logging and Construction	155	5.5%	10,100	7.0%
90	Government	377	13.4%	7,200	1.9%
55	Financial Activities	164	5.9%	4,900	3.1%
80	Other Services	103	3.7%	2,700	2.7%
40	Trade, Transportation and Utilities	453	16.2%	2,000	0.4%
50	Information	108	3.9%	2,000	1.9%
30	Manufacturing	178	6.4%	-2,200	-1.2%
60	Professional and Business Services	512	18.3%	-2,300	-0.4%

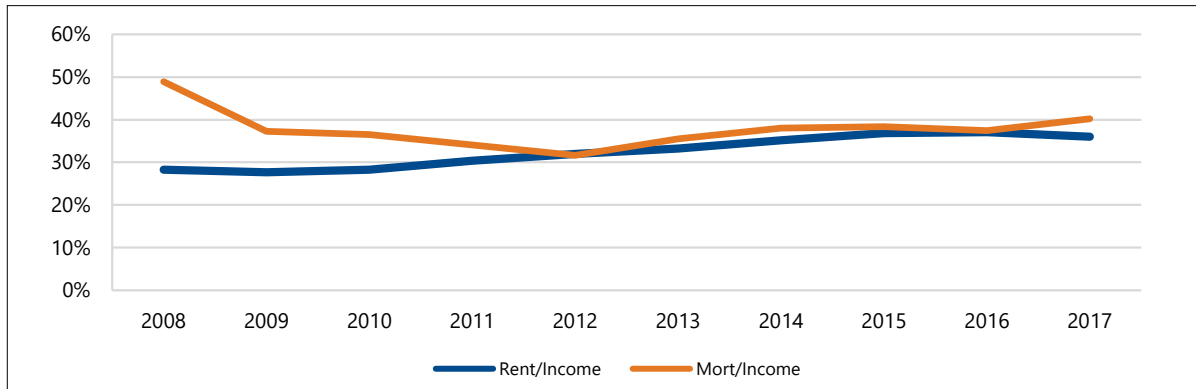
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

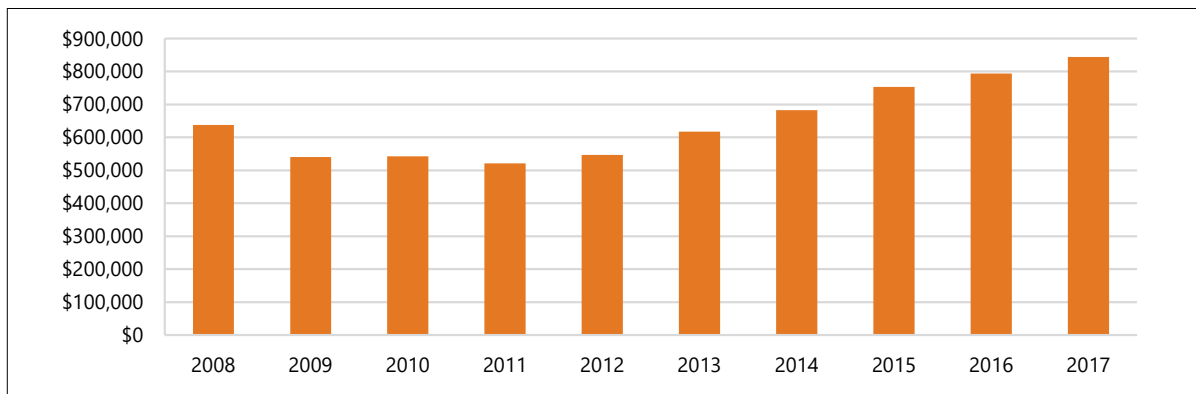
- The median home value continues to surge, up 62% since the 2011 trough and reaching \$844,147 in the first half of 2017. The lack of inventory is pushing up prices as active listings dropped 11.9% from one year ago. The average rent rose to \$2,553, comprising 36% of the metro's median income. Owning a home in San Francisco is yet more expensive, the average mortgage payment accounting for 40% of the median income.
- As the San Francisco median home price remains the highest in the country, tech companies are entering the housing game. Both Facebook and Google intend to build affordable housing within or near their Silicon Valley campuses.

San Francisco Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

San Francisco Median Home Price



Source: Moody's Analytics

Population

- San Francisco grew by 40,000 residents in 2016, a 0.8% increase, on par with the national rate.
- Around 400,000 people have moved to the metro since 2010.

San Francisco vs. National Population

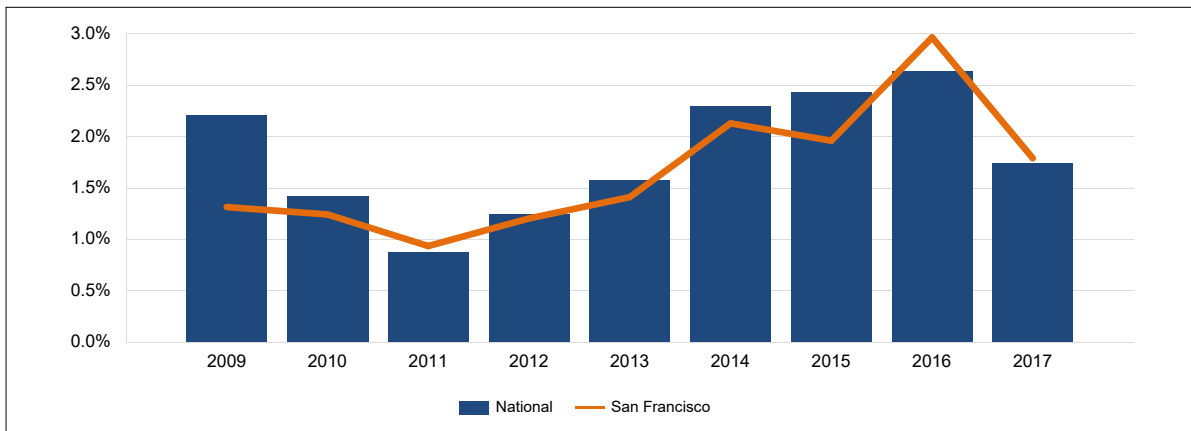
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
San Francisco Metro	4,458,646	4,521,994	4,585,623	4,642,227	4,679,166

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

Supply

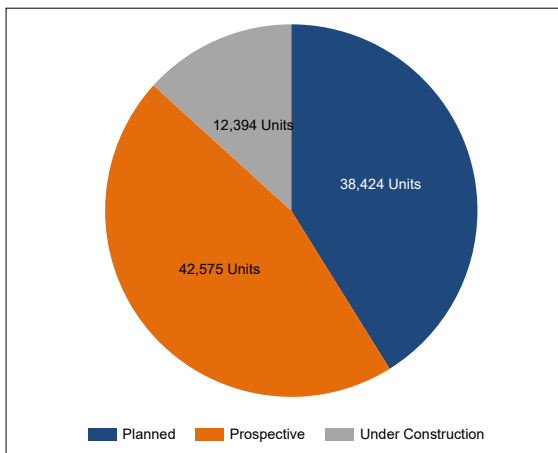
- Some 4,000 units were delivered in 2017 through September. This follows last year's cycle peak of more than 7,000 units. Almost 30,000 units came online in the metro since 2011, roughly 7,000 of which are in fully affordable communities. Even so, employment and demographic growth continue to push up demand, feeding the pipeline and deepening affordability issues.
- There were nearly 13,000 units under construction in San Francisco as of September, mostly concentrated in East Oakland–Oakland Hills (1,790 units), China Basin (1,586 units), Eastern San Francisco (1,540 units) and Redwood City (1,270 units). San Francisco's development pipeline consisted of more than 93,000 units in various stages of development, more than 38,000 of which were in planned communities. The fewest new apartments under construction were in Golden Gate Park, where 50 units of affordable housing for transitional-age youth were underway.
- The largest delivery this year was Trinity Properties' partially affordable 33 8th Street at Trinity Place, located in Eastern San Francisco and comprising 540 units. The largest development underway—the 599-unit Station Park Green—is scheduled for completion in late 2018.

San Francisco vs. National Completions as a Percentage of Total Stock (as of September 2017)



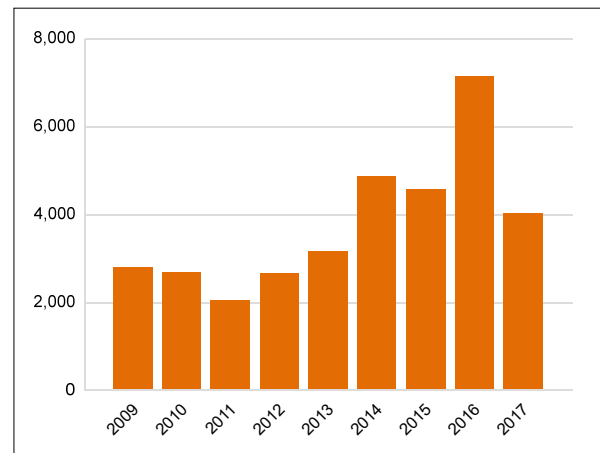
Source: YardiMatrix

Development Pipeline (as of September 2017)



Source: YardiMatrix

San Francisco Completions (as of September 2017)

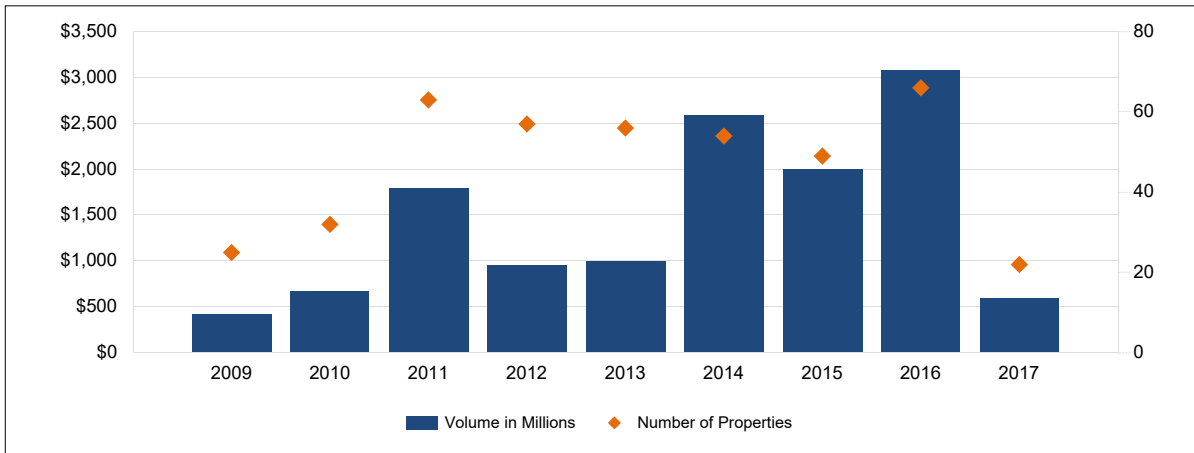


Source: YardiMatrix

Transactions

- Transaction activity has slowed down, only \$600 million in properties having traded in 2017 through August. With renters looking for more affordable options, investors are focusing on value-add assets: More than two-thirds of the investment volume consists of properties in the Renter-by-Necessity segment.
- Despite the transaction slowdown, San Francisco per-unit prices remained steady, up 9.4% in the first eight months of 2017. At \$302,069, the average unit traded for more than double the national rate.
- With nearly \$190 million in total transactions, Redwood City led investor interest year-over-year through August. The submarket also tops the list of the metro's largest transactions for the same period: The 196-unit Marston by Windsor, acquired by GID from Lennar for \$153 million, traded for \$780,612 per unit. Completed last year, the upscale property was 98% occupied as of September.

San Francisco Sales Volume and Number of Properties Sold (as of August 2017)



Source: YardiMatrix

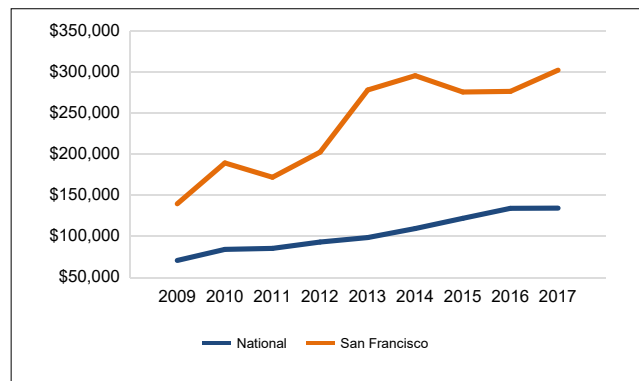
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Redwood City	189
Hayward	162
Richmond	97
Berkeley	89
Eastern San Francisco	86
Walnut Creek-Lafayette	86
Fairfield	84
East Fremont	75

Source: YardiMatrix

¹ From September 2016 to August 2017

San Francisco vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Dropbox Inks Largest
Single Office Lease
In San Francisco



Trion Properties Expands
Footprint in Fremont



Terreno Arranges 100 KSF
San Leandro Lease

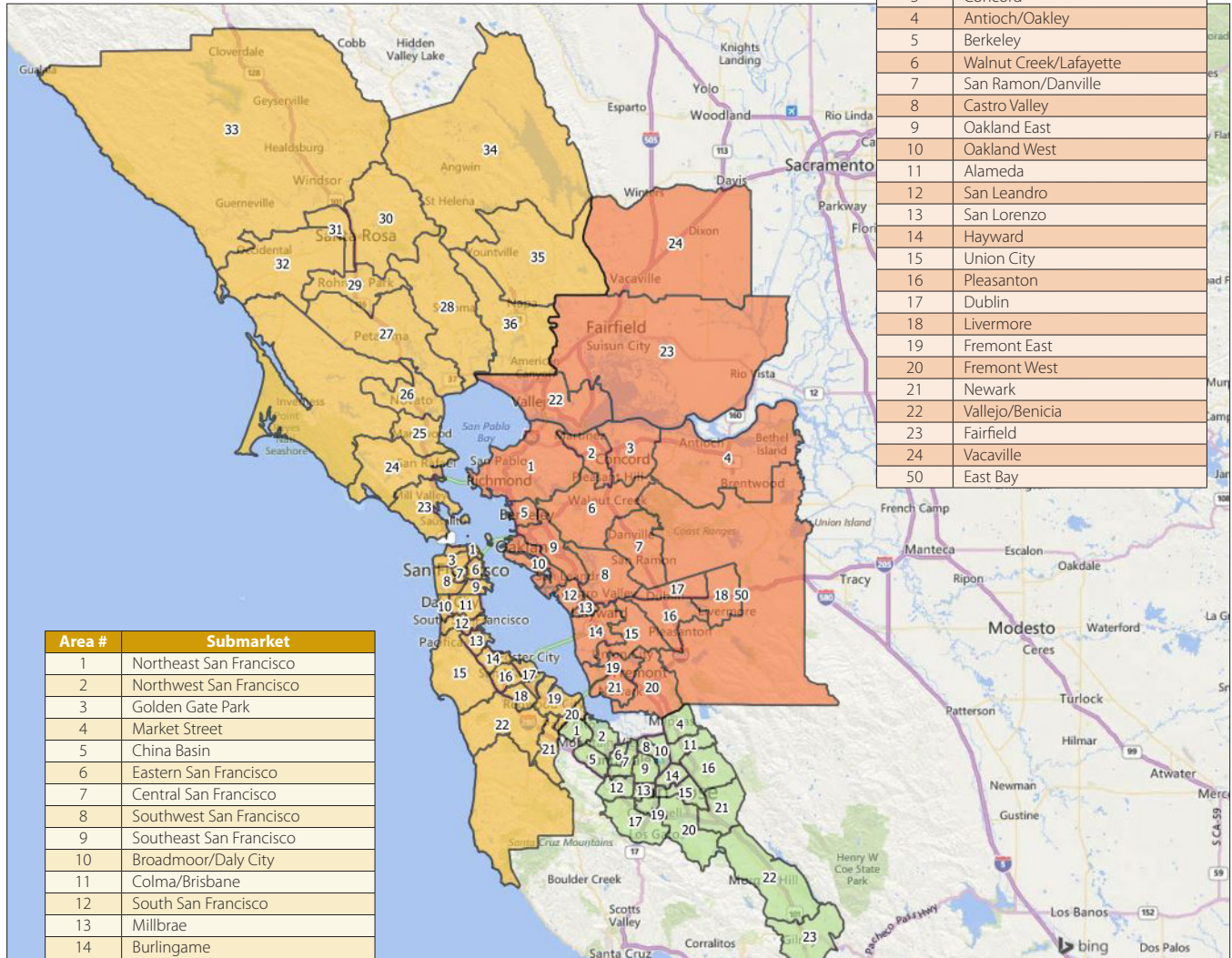


KTGY-Designed
Fremont Senior Community
Breaks Ground

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San Francisco Submarkets



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Area #	Submarket
1	Palo Alto/Stanford
2	Mountain View
4	Milpitas
5	Los Altos (Hills)
6	Sunnyvale East
7	Sunnyvale West
8	Santa Clara North
9	Santa Clara South
10	San Jose North
11	San Jose Northwest
12	Cupertino

Area #	Submarket
13	San Jose West
14	Central San Jose North
15	Central San Jose
16	East Foothills
17	Saratoga/Los Gatos
18	Campbell
19	Cambrian Park
20	Central San Jose South
21	Far South San Jose
22	Morgan Hill
23	Gilroy

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 may 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 may 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, may 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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