



MULTIFAMILY REPORT

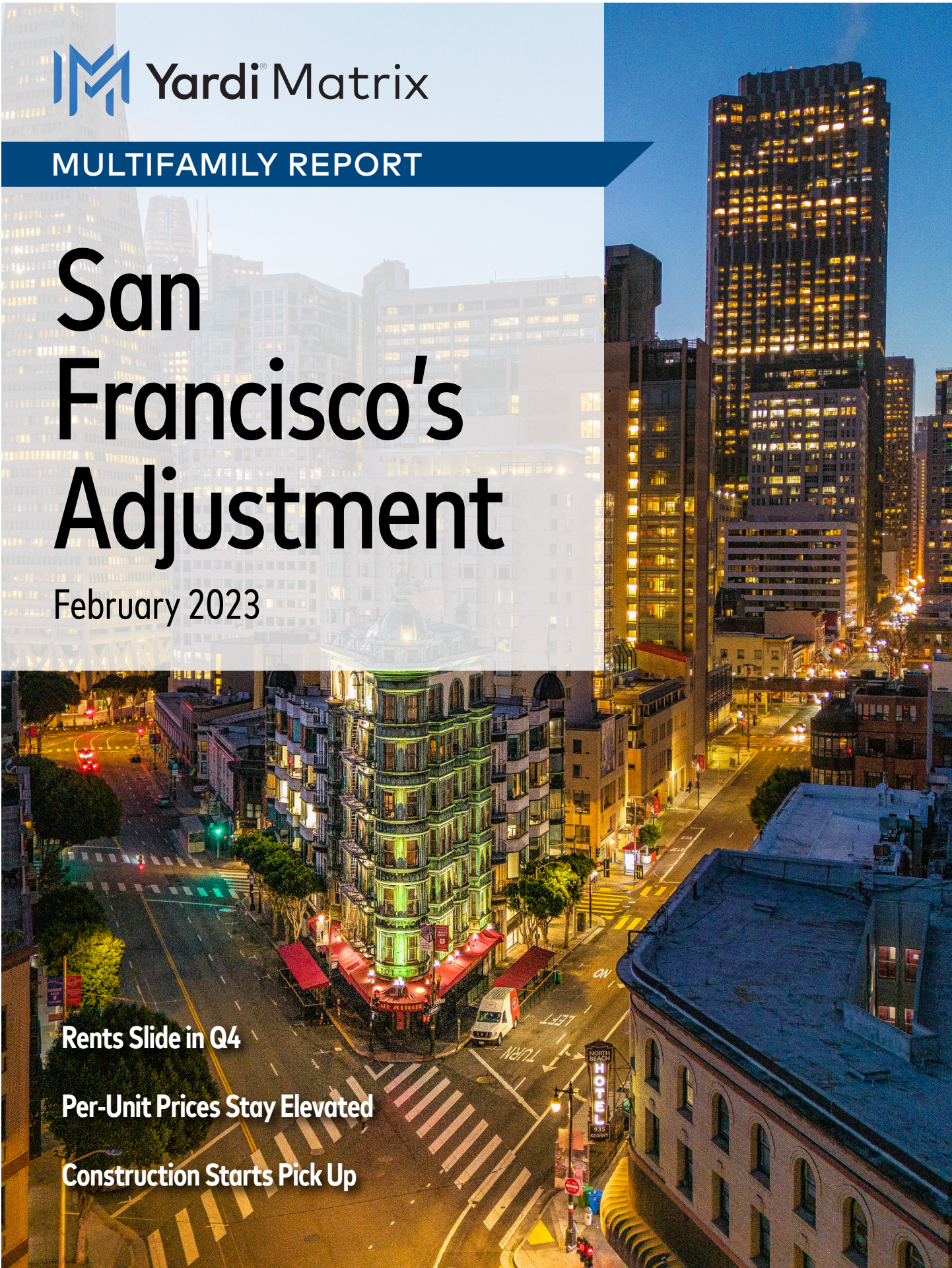
San Francisco's Adjustment

February 2023

Rents Slide in Q4

Per-Unit Prices Stay Elevated

Construction Starts Pick Up



SAN FRANCISCO MULTIFAMILY



Rate Drop-Off Overshadows Solid Fundamentals

San Francisco's multifamily market posted a steady recovery for most of 2022, slowly moderating during the second half of the year. Rents decreased 0.4% on a trailing three-month basis through December, to \$2,787. Year-over-year, rates were up 3.8%, 240 basis points lower than the U.S. figure. The metro is one of the few in the nation where occupancy rose, up 20 basis points year-over-year, to 95.4% as of November.

San Francisco unemployment stood at 2.8% in November, according to preliminary data from the Bureau of Labor Statistics, leading the state (4.1%), the U.S. (3.6%) and all major California metros except San Jose (2.4%). The job market expanded 4.9% in the 12 months ending in October, outperforming the 4.1% U.S. figure, but the metro still has a long way to go to recover the residents and jobs lost during the pandemic. In addition to the projected recession, the local economy has to overcome a pullback in venture capital investments and staff reductions and hiring freezes in the tech sector.

Developers delivered 6,860 units in 2022, below the 7,300 annual average of the past five years. The construction pipeline had 19,500 units underway, posting an increase in the number of construction starts. Meanwhile, multifamily investment volume surpassed \$2.2 billion in 2022, mainly during the first half of the year. The average price per unit stayed high, at \$410,446.

Market Analysis | February 2023

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Recent San Francisco Transactions

Crystal Springs Terrace



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

The Arroyo Residences



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

One55 Lofts



City: San Rafael, Calif.
Buyer: Sack Properties
Purchase Price: \$59 MM
Price per Unit: \$465,079

ReNew on Merritt



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

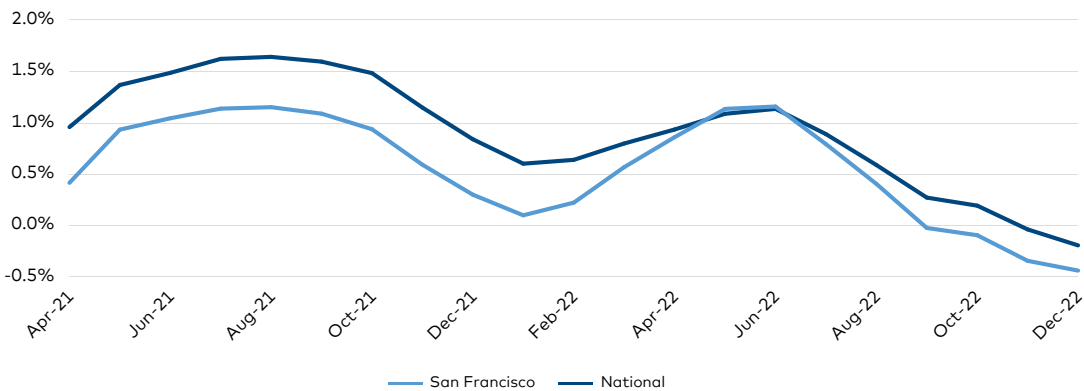
RENT TRENDS

- ▶ San Francisco rents decreased 0.4% on a trailing three-month (T3) basis through December, trailing the U.S. rate by 20 basis points. Furthermore, on a year-over-year basis, Bay Area rents rose 3.8%, trailing the 6.2% national rate. Still, at \$2,787, the average asking rate in the metro remains among the highest in the country and well above the \$1,715 national figure.
- ▶ Mirroring the national trend, upscale Lifestyle rents posted a steeper decline—down 0.6% on a T3 basis, to \$3,236, while working-class Renter-by-Necessity figures contracted 0.3% to \$2,516. A similar dynamic was observed in the occupancy rate in stabilized properties—in the RBN segment, occupancy rose 40 basis points in the 12 months ending in November, to 95.6%, while for Lifestyle apartments it decreased 20

basis points, to 95.0%. Overall, occupancy in the Bay Area rose 20 basis points year-over-year, to 95.4% in November.

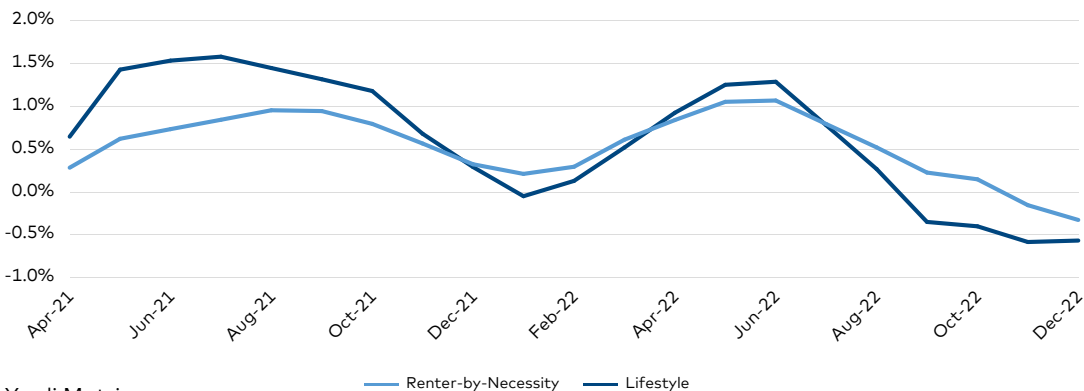
- ▶ Annual rent growth was highly uneven across the map, ranging from decreases to double-digit increases. Of the 59 submarkets tracked by Yardi Matrix, two saw rent declines on a year-over-year basis. Four submarkets recorded double-digit rate increases through the interval. Areas with the highest rents were: Atherton/Portola (up 7.3% to \$5,489), Northwest San Francisco (down 2.8% to \$4,437) and China Basin (up 7.3% to \$4,042).
- ▶ The SFR segment saw annual rents decline 1.7% in December and a 1.3% occupancy slide year-over-year.

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 almost returned to pre-pandemic levels, clocking in at 2.8% as of November, according to BLS data. The rate places the Bay Area ahead of both the state (4.1%) and the U.S. (3.6%), as well as all major California metros, with the only exception being San Jose (2.4%). Despite the low unemployment rate, San Francisco lost a significant number of residents, so it still has a long way to go to recover all the jobs lost during the pandemic.
- ▶ The job market expanded 4.9%, having added 122,000 positions, in the 12 months ending in October, leading the U.S. rate by 80 basis points. Government was the only sector to lose jobs, down 1,800 positions. Professional and business services led gains, with 32,300 new positions during the period, fueled by companies requiring a return to office, as well as by the life sciences industry, which continued to evolve in the metro.
- ▶ Despite the sustained recovery, San Francisco's economy is still facing obstacles, as tech companies including Microsoft and Alphabet have announced staff reductions and hiring freezes amid uncertain economic conditions. In addition, the metro's leading position in the venture capital market is at risk, as VC investments have softened massively following economic woes. Even during volatile conditions, Adobe paid \$20 billion to acquire Figma, solidifying the market leader position it has held for a long time.

San Francisco Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	575	19.7%
70	Leisure and Hospitality	298	10.2%
40	Trade, Transportation and Utilities	437	15.0%
65	Education and Health Services	453	15.6%
30	Manufacturing	206	7.1%
80	Other Services	99	3.4%
15	Mining, Logging and Construction	165	5.7%
50	Information	152	5.2%
55	Financial Activities	157	5.4%
90	Government	370	12.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ For the second time in the past decade, San Francisco's population shrunk, by 116,385 in 2021, for a substantial 2.5% contraction. The U.S. population expanded 0.1% in 2021.
- ▶ Since the 2010 Census, San Francisco's demographic has risen 6.3%, trailing the 7.3% U.S. rate.

San Francisco vs. National Population

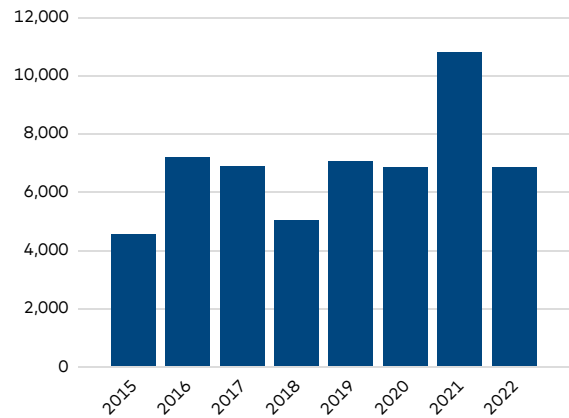
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Francisco	4,725,613	4,724,016	4,739,649	4,623,264

Source: U.S. Census

SUPPLY

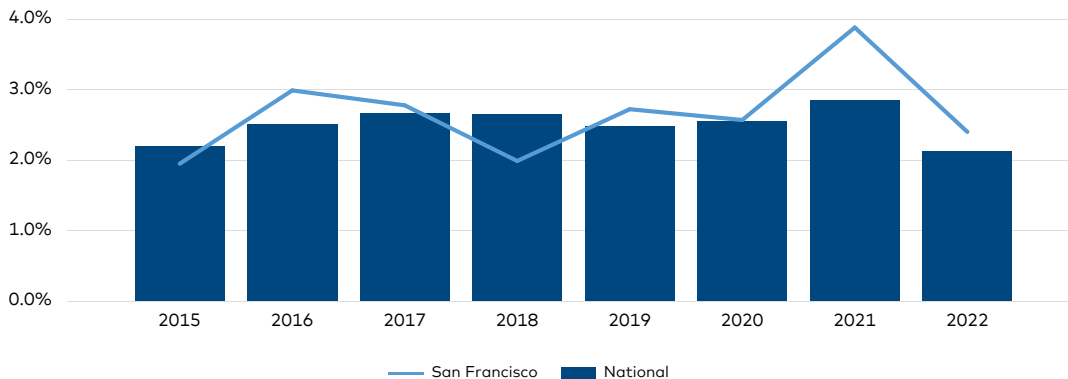
- ▶ Developers delivered just 6,860 units in 2022, accounting for 2.4% of existing rental stock, 30 basis points above the U.S. rate, but below the five-year 2.8% average. The composition of the recent stock comprised 69% Lifestyle properties and 30% fully affordable communities. Deliveries were evenly distributed across the East Bay and Peninsula regions.
- ▶ The construction pipeline consisted of 19,507 units underway as of December and 121,000 units in the planning and permitting stages. Construction activity was slightly stronger in the East Bay, with 10,186 units underway, while the Peninsula had 9,321 units under construction. Overall, two-thirds of the pipeline consisted of Lifestyle projects.
- ▶ Looking at construction starts, 7,461 units broke ground in 2022, slightly more than the 6,986 units that developers started construction on in 2021. This increase could be a sign of market confidence that housing demand is expanding—sustained by a gradual return to the office—and immigration, which reached 1 million in the year ending in July, according to the U.S. Census Bureau, with immigrants preferring big metros like San Francisco.
- ▶ Construction activity was present in 40 of the 59 submarkets tracked by Yardi Matrix, five of which had more than 1,000 units underway. Downtown Oakland (1,930 units) and Santa Rosa (1,592 units) led by pipeline volume.
- ▶ The largest project delivered in 2022 was Station Park Green, a 599-unit property in San Mateo. Essex Property Trust's asset includes 49 affordable units, 10,000 square feet of office space and 25,000 square feet of retail space.

San Francisco Completions (as of December 2022)



Source: Yardi Matrix

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



Source: Yardi Matrix

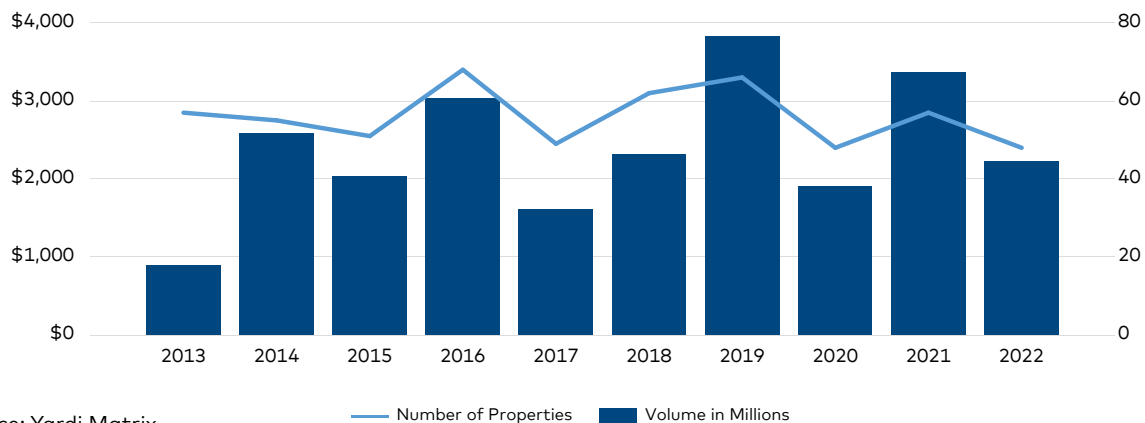
TRANSACTIONS

- ▶ Investors traded \$2.2 billion in multifamily assets in 2022, with most deals occurring during the first half of the year. In the fourth quarter, transactions nearly came to a halt in San Francisco. Investors were slightly more drawn to assets in the East Bay (\$1.2 billion), but Peninsula transactions were also substantial (\$1 billion).
- ▶ The price per unit decreased 1.5% on a year-over-year basis through December, in part

due to the sales composition, as 83% of deals involved Renter-by-Necessity properties. Even so, at \$410,446, San Francisco's per-unit price remained nearly double the \$215,719 U.S. figure.

- ▶ The Durant, a student housing community featuring 56 units and 72 beds, recorded the highest per-unit price among properties that traded in the metro in 2022. Regents of the University of California paid \$52.5 million, or \$937,500 per unit, to The Martin Group.

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



Source: Yardi Matrix

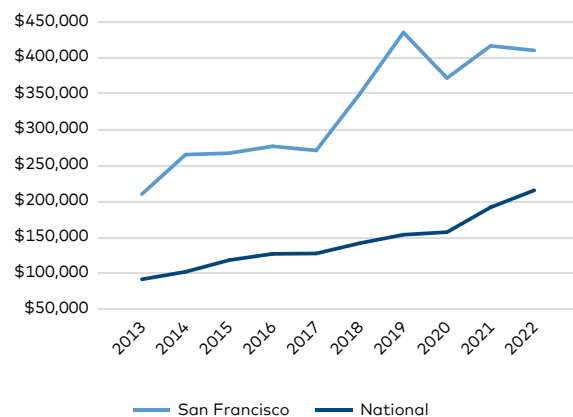
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Tiburon/Sausalito	300
South San Francisco	245
Berkeley	190
Millbrae/Airport	188
East Fremont	184
Hayward	144
San Leandro	137

Source: Yardi Matrix

¹ From January 2022 to December 2022

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

Top California Markets for Multifamily Construction Activity

By Anda Rosu

While metros such as Dallas, Austin and Phoenix have seen rental market performance increase significantly since the onset of the health crisis, most California markets are still in a housing crisis. California is recovering at a slower pace, with developers struggling to meet the demand for housing, especially in the affordable segment.

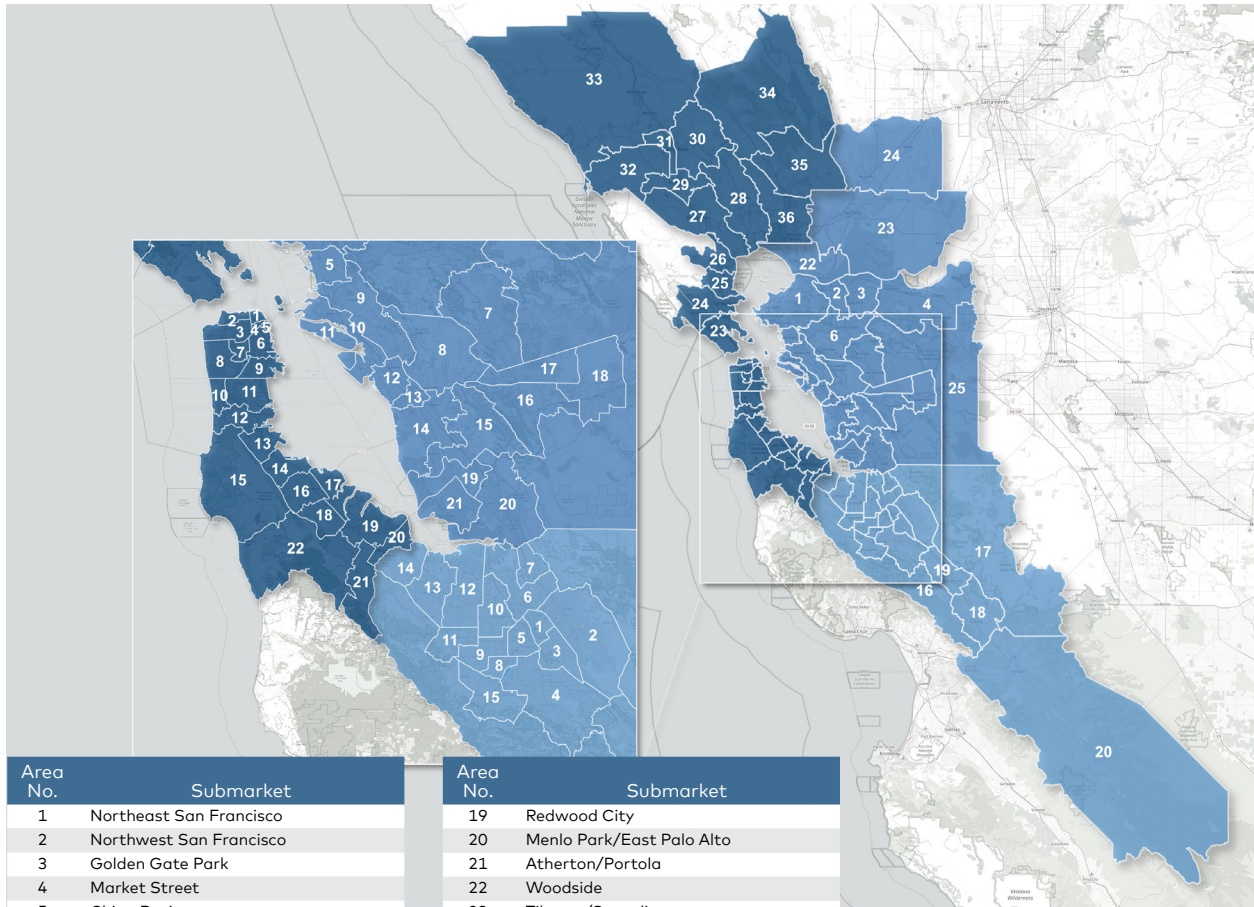
Rank	Metro	Units Under Construction	Units Delivered 2022 YTD	Units Delivered 2021
1	Los Angeles	33,114	6,487	13,037
2	San Francisco	20,244	5,740	10,820
3	Bay Area	8,908	1,124	7,230
4	Orange County	8,407	1,497	2,616
5	San Diego	7,138	2,862	3,417
6	Sacramento	7,104	1,588	2,120
7	Inland Empire	4,737	404	2,136
8	Central Valley	3,851	1,071	2,780
9	Central Coast	1,467	254	728

San Francisco

With 5,740 units delivered as of October 2022, the San Francisco metro delivered roughly half the number of units it did in 2021, with construction lagging last year's pace. However, San Francisco's robust tech sector continues to contribute to the job market, with well-paying positions in the metro helping it rank high on our list. Moreover, when it comes to new projects, in 2022 construction was started on 6,635 units by October, while in 2021 the number was not that much higher, at 7,363 units.



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.



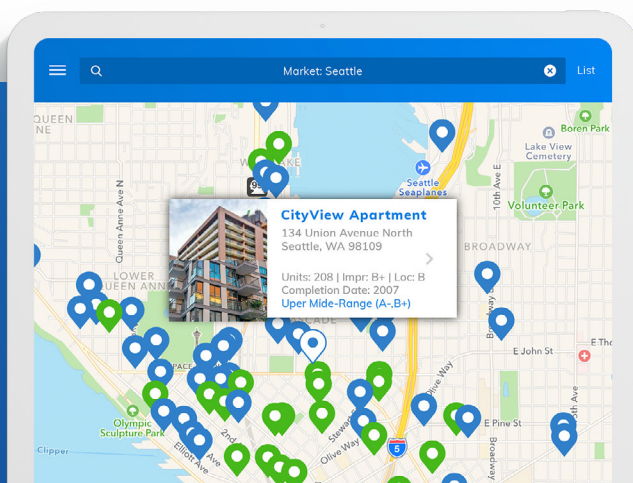
Yardi® Matrix

Power your business
with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- 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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