Yardi® Matrix

The Bay Comes At A Premium

Multifamily Report Winter 2018

Health Services, Education Lead Job Gains

Sliding Supply Powers Rent Growth

Transaction Volume Tapers

Market Analysis

Winter 2018

Contacts

Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Anca Gagiuc
Associate Editor

High Rents Drive Move to Fringes

San Francisco's booming economy, driven by its education and health services sector, is upholding a healthy housing demand. The tight multifamily market has spurred constant rent gains, pushing a 2.6% year-over-year growth in January, 20 basis points below the national rate.

Employment gains occurred across all sectors, except for professional and business services, which contracted by 1,200 jobs. The metro added 45,900 jobs through November, up 1.6% year-over-year and roughly on par with the 1.8% national average. The unemployment rate hit a record low, clocking in at 2.3% at the end of the year. The metro's prosperous education and health services sector will likely support the trend, with a pipeline of 6 million square feet of research and development space. HCP, Alexandria Real Estate, BioMed Realty and Phase 3 Real Estate Partners are all currently working on life science facilities.

San Francisco's healthy fundamentals and its continued economic expansion remain alluring to both investors and developers. More than $1.4 billion in multifamily assets traded in 2017. The metro's average per-unit price rose 2.5% year-over-year to $285,624, more than double the national average. Apartment construction has been robust, with more than 5,500 units delivered in 2017 and nearly 16,000 underway. Yardi Matrix expects rents to rise 2.8% in 2018.

Recent San Francisco Transactions

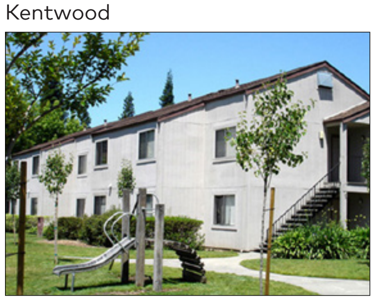
Summer House

City: Alameda, Calif.
Buyer: LivCor
Purchase Price: $231 MM
Price per Unit: $375,610

Concord 1441

City: Concord, Calif.
Buyer: Prime Group
Purchase Price: $60 MM
Price per Unit: $272,936

Kentwood



City: Napa, Calif.
Buyer: Prime Group
Purchase Price: $57 MM
Price per Unit: $254,464

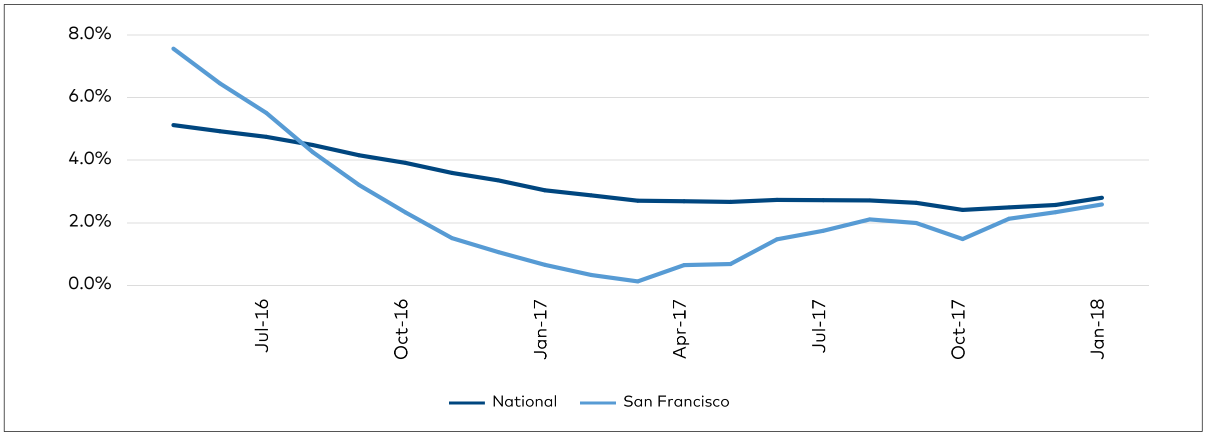
Tralee Village

City: Dublin, Calif.
Buyer: JB Matteson
Purchase Price: $55 MM
Price per Unit: $423,077

Rent Trends

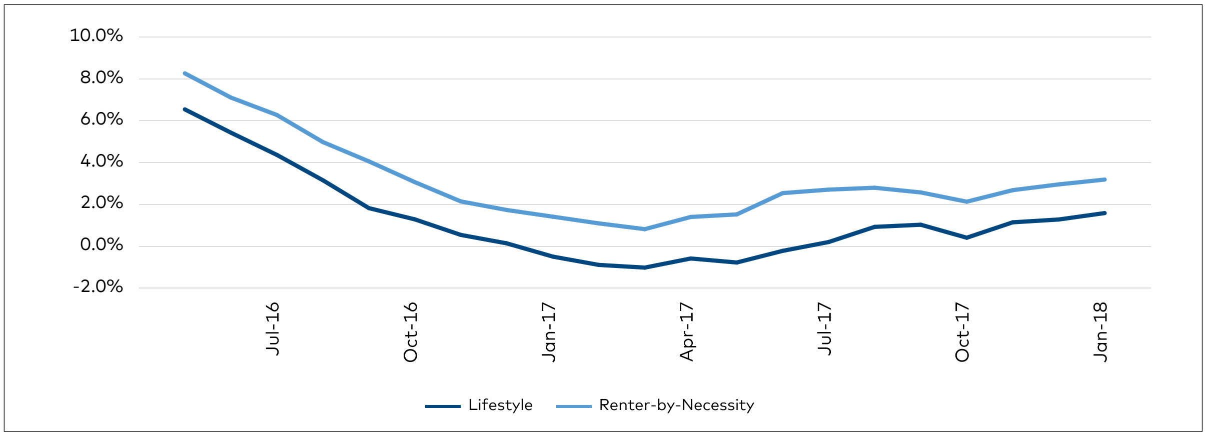
- San Francisco rents rose 2.6% year-over-year through January, trailing the national growth rate by 20 basis points. The city's tight housing market has prompted constant rent growth, although affordability issues have dampened the possibility for sustained improvement in recent years. The shortage of available housing pushed the average rent to $2,545, nearly double the $1,362 national average.
- The area's booming economy continues to generate strong household creation. Rents in the working-class Renter-by-Necessity segment led growth, up 3.2% year-over-year through January to $2,302. With the bulk of new inventory in Lifestyle assets, rent growth was significantly lower, at 1.6% as of January.
- The Bay Area's high rents have pushed renters away from San Francisco's prohibitive prices, which led to rent slides in some areas. The largest drop was registered in Atherton/Portola (-7.4% to $3,869), the metro's third most expensive submarket. At the other end of the spectrum was Vacaville, where rents rose 3.8% to $1,623, boosted by rising relocations in search of more affordable rates.
- The occupancy rate in stabilized properties was 95.8% as of December, down 80 basis points year-over-year, reflecting a rapid absorption of recent supply. We expect rents to rise by 2.8% in 2018.

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)

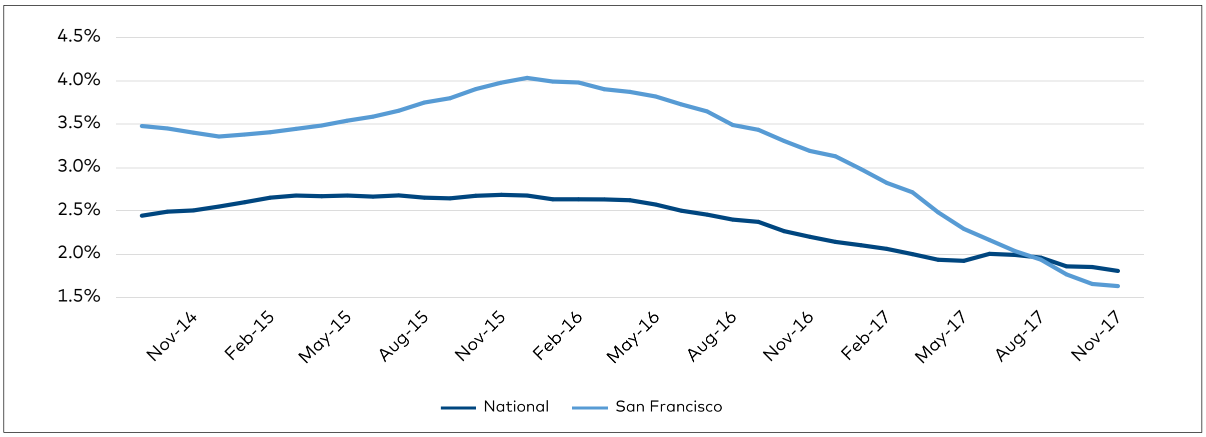


Source: YardiMatrix

Economic Snapshot

- The metro added 45,900 jobs year-over-year through November, a 1.6% rate of employment growth and 20 basis points below the U.S. average. The unemployment rate in San Francisco dropped to 2.3% at the end of the year, the lowest figure since December 1999.
- Education and health services led growth, adding 17,300 jobs. The San Francisco Bay Area—one of the top life science markets in the U.S.—received more than $3 billion in funding in the year ending in June 2017 from the National Institute of Health, states CBRE, more than $1 billion of which is reserved for the University of California at San Francisco and Stanford University. Strong demand for lab space in the Bay Area has created one of the tightest markets in the country, and developers are moving forward with new projects: HCP is working on the third phase of its Cove project in South San Francisco, consisting of two buildings that will total more than 335,000 square feet of space when completed. Moreover, Phase 3 Real Estate Partners is developing its 21-story, 400,000-square-foot North Tower at Genesis.
- Office prices have increased through the cycle, with per-square-foot rates for Urban-Primary space as high as $910 in 2017. Leasing activity was also robust: Dropbox signed the largest agreement in recent memory when it preleased 736,000 square feet in the Exchange at 1800 Owens Street in October.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	431	15.1%	17,300	4.2%
15	Mining, Logging and Construction	156	5.5%	9,500	6.5%
70	Leisure and Hospitality	328	11.5%	9,400	2.9%
90	Government	398	14.0%	2,400	0.6%
30	Manufacturing	180	6.3%	2,400	1.4%
50	Information	108	3.8%	2,400	2.3%
80	Other Services	102	3.6%	2,100	2.1%
40	Trade, Transportation and Utilities	466	16.4%	1,300	0.3%
55	Financial Activities	161	5.7%	300	0.2%
60	Professional and Business Services	516	18.1%	-1,200	-0.2%

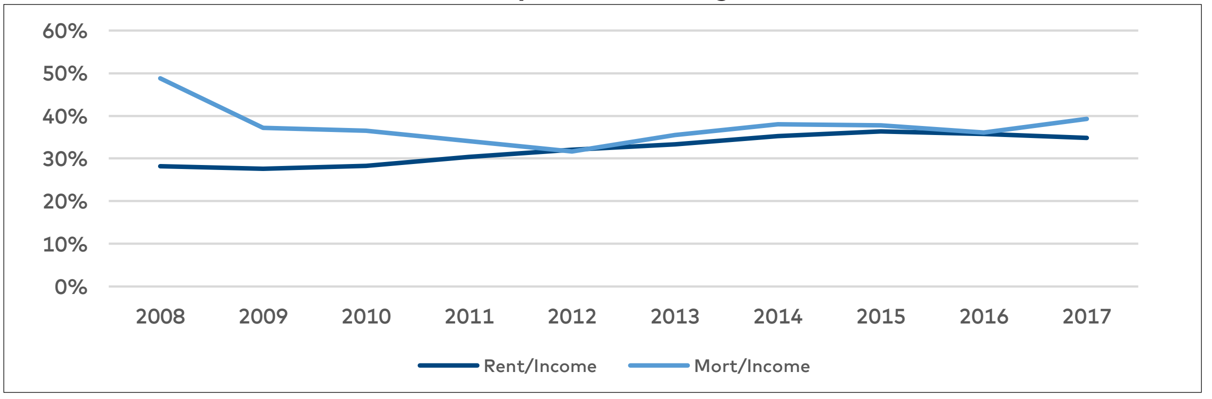
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

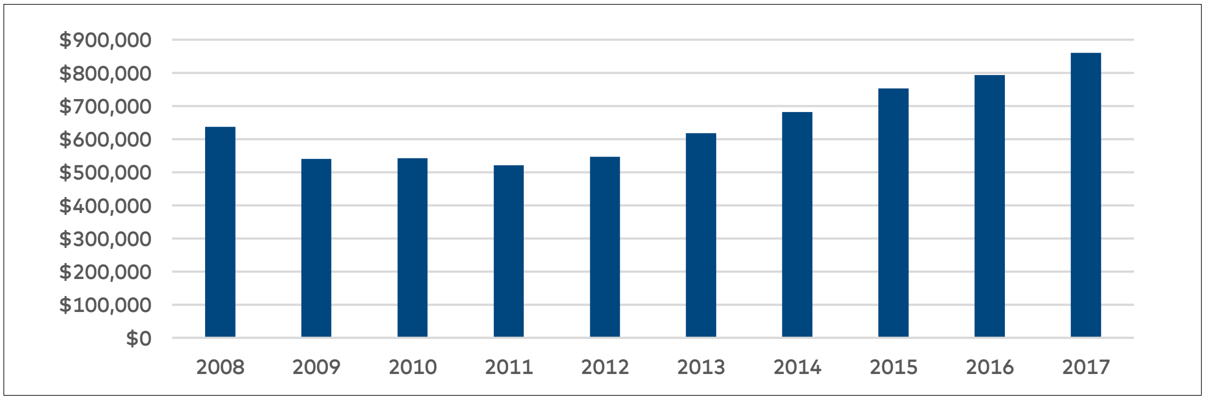
- The median home value continued to surge, up 65% since the 2011 trough, hitting $860,327 in 2017. Owning is the costlier option in San Francisco, with the average mortgage representing 39% of the area's median income. Rents rose to $2,545 in January 2018, accounting for 35% of median income.
- To encourage the addition of affordable housing, the metro has several projects underway, including Home SF, which is aimed at developers building mixed-income projects in certain areas of San Francisco. The program is designed to serve as an incentive to builders—those who allocate 30% of the units in a new housing project to low-, middle- and moderate-income families, can receive a density bonus.

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 added about 400,000 people since 2010, a 0.8% increase, trailing the 4.5% national rate during the same interval.
- In 2016, the metro added roughly 40,000 residents.

San Francisco vs. National Population

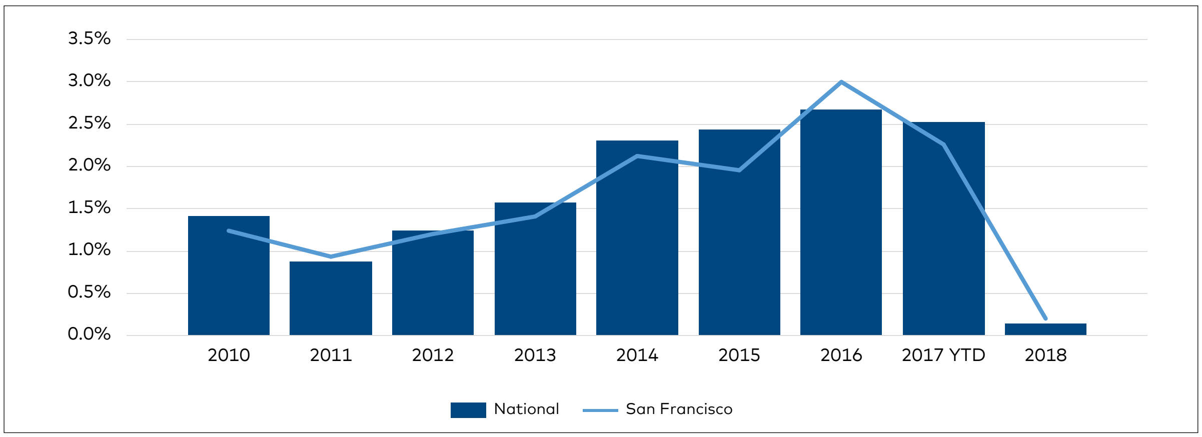
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
San Francisco Metro	4,458,646	4,521,994	4,585,623	4,642,227	4,679,166

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

Supply

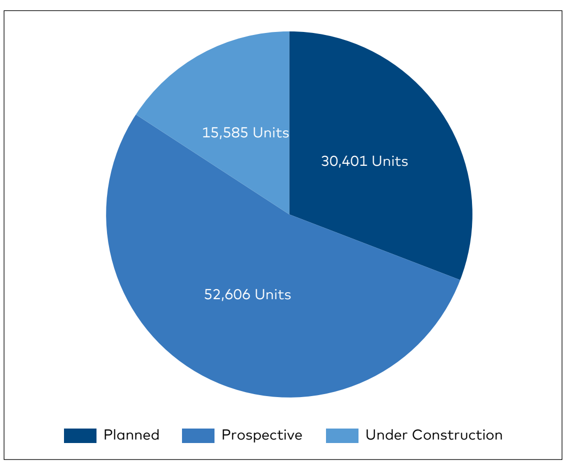
- Deliveries slid from the cycle high registered in 2016, to 5,583 units in 2017. In January 2018, some 500 units came online. Construction costs contribute directly to San Francisco's affordability crisis and increase the amount of subsidy needed to make affordable housing feasible.
- The development pipeline had more than 15,500 units under construction as of January, and more than 80,000 units in the planning and permitting stages. Most of the construction is concentrated in downtown Oakland, where more than 4,000 units were under development, including the 3,100-unit Brooklyn Basin Waterfront. Between the three submarkets of East Oakland/Oakland Hills, China Basin and Redwood City, there were more than 5,000 units underway. The fewest units under construction were in SW San Francisco, where the 61-unit 5050 Mission is scheduled to come online by the end of March 2018.
- The largest multifamily development under way in San Francisco is Signature Development Group's Brooklyn Basin Waterfront. The mixed-use project, slated for delivery by year's end, will bring online 3,100 units, 165 of which are below market-rate.

San Francisco vs. National Completions as a Percentage of Total Stock (as of January 2018)



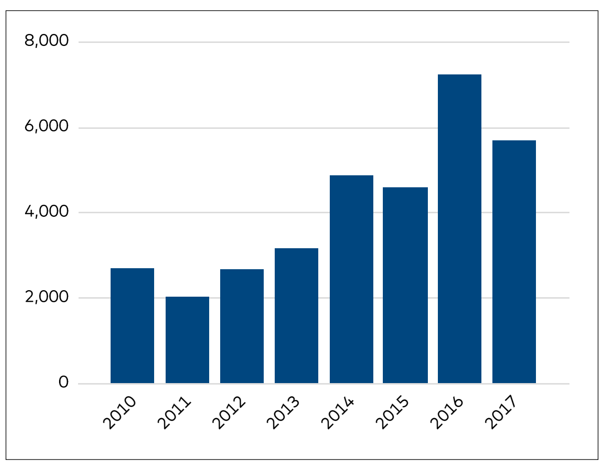
Source: YardiMatrix

Development Pipeline (as of January 2018)



Source: YardiMatrix

San Francisco Completions (as of January 2018)

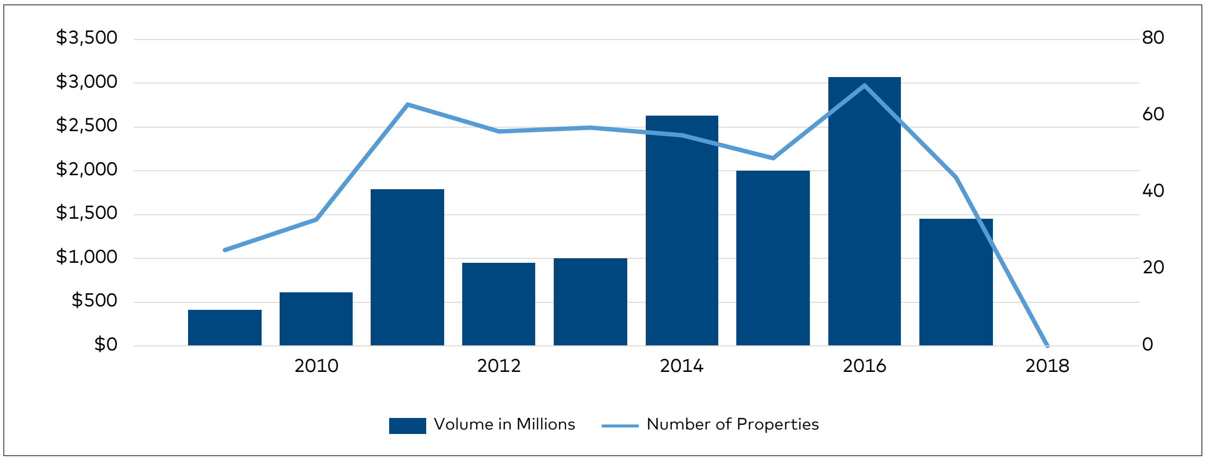


Source: YardiMatrix

Transactions

- Transaction activity softened, with about $1.4 billion in multifamily assets trading in 2017. That's less than half the $3 billion cycle high the market hit in 2016.
- Property values continued their ascent, as San Francisco's price per unit rose 2.5% year-over-year through December and 71% from the 2010 trough. At $285,52, the per-unit price continues to be more than double the national average.
- With roughly $334 million in sales, Alameda led investment activity in 2017. The submarket also tops the list of the metro's largest sales for the same period—the 615-unit Summer House was acquired by LivCor and Equity Office Properties Trust in November. The joint venture paid Kennedy Wilson $231 million or $375,620 per unit. Built in 1966, the 20-building value-add property was 95.4% occupied as of January.

San Francisco Sales Volume and Number of Properties Sold (as of January 2018)



Source: YardiMatrix

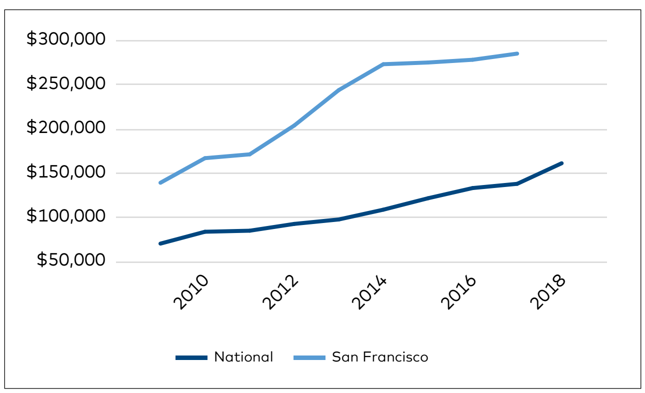
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Alameda	334
Fairfield	145
Pleasanton	100
Hayward	89
Eastern San Francisco	86
Concord	81
Antioch / Oakley	64
Richmond	59

Source: YardiMatrix

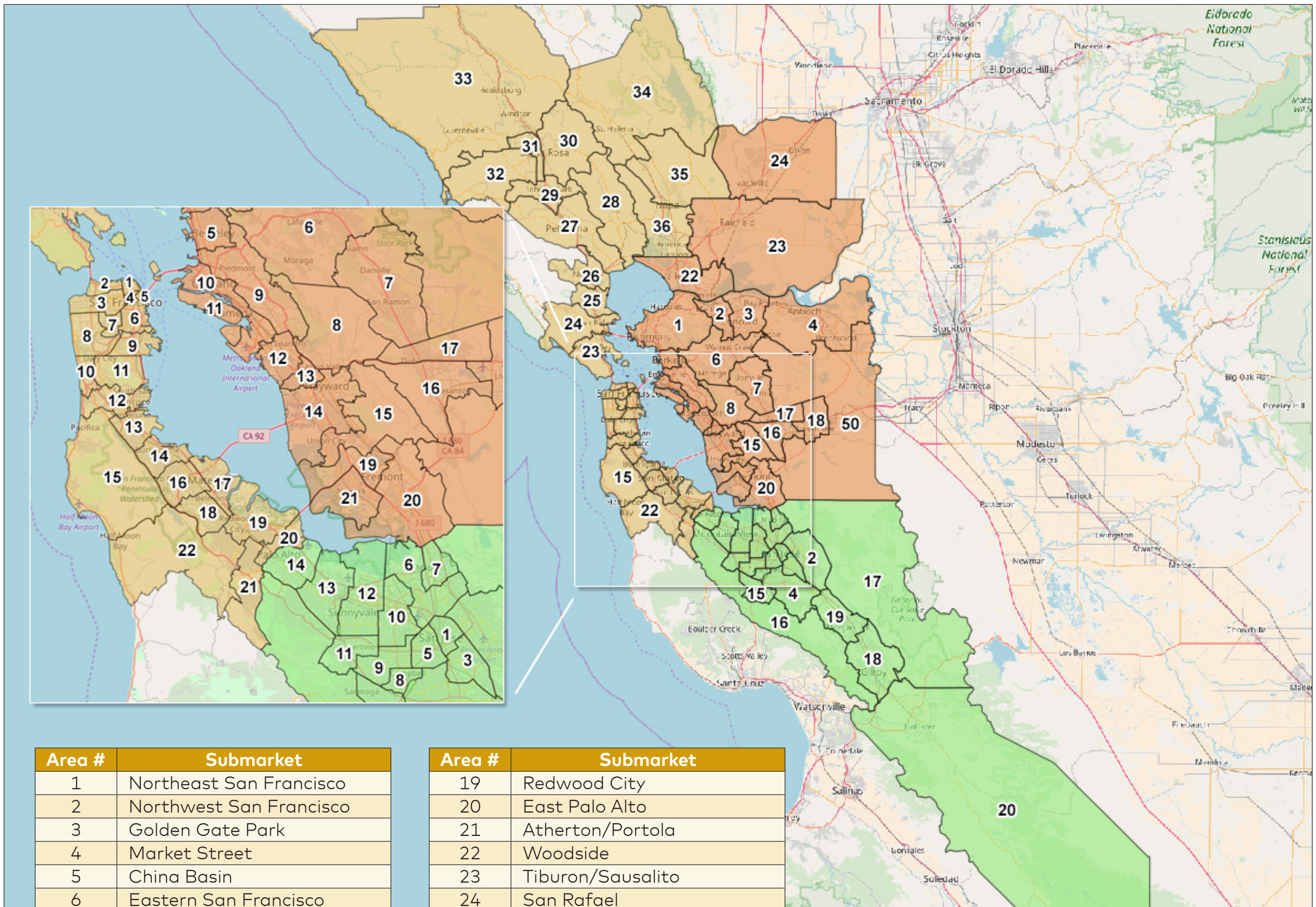
[1] From January 2017 to December 2017

San Francisco vs. National Sales Price per Unit



Source: YardiMatrix

San Francisco Submarkets



Area #	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
14	Burlingame
15	Moss Beach
16	San Mateo
17	Foster City
18	Belmont/San Carlos

Area #	Submarket
19	Redwood City
20	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 Marin County
34	Deer Park/St. Helena
35	Napa North
36	Napa South

Area #	Submarket
1	NW Contra Costa (Richmond)
2	Pleasant Hill/Martinez
3	Concord
4	Antioch/Oakley
5	Berkeley
6	Walnut Creek/Lafayette
7	San Ramon/Danville
8	Castro Valley
9	Oakland East
10	Oakland West
11	Alameda
12	San Leandro
13	San Lorenzo

Area #	Submarket
14	Hayward
15	Union City
16	Pleasanton
17	Dublin
18	Livermore
19	Fremont East
20	Fremont West
21	Newark
22	Vallejo/Benicia
23	Fairfield
24	Vacaville
25	East Livermore/East Dublin

Learn the latest about the state of these markets. Download our San Jose Report.

Area #	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

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.

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