Yardi Matrix

MULTIFAMILY REPORT

San Francisco: Room for Growth

July 2023

Rents Still Contracting

Job Gains on Par With US Rate

Development, Investment Activity Slow

SAN FRANCISCO MULTIFAMILY

Yardi Matrix

Occupancy Declines, Rents Fare Better

The San Francisco multifamily market slowed down, following a modest 2022 that closed at 4.2%. Rents slid 0.1% on a trailing three-month basis through May, to an average of $2,784, while the U.S. figure climbed. On a year-over-year basis, San Francisco rents were down 0.4%, making it one of eight major U.S. markets that saw rates decline over the 12 months ending in April. Meanwhile, occupancy highlighted the metro's ongoing need for more housing. Despite depreciating, the rate was down just 20 basis points in one year, hitting 95.3% in April, above the U.S. average.

Unemployment in the metro was 3.1% as of April, according to preliminary data from the Bureau of Labor Statistics. Although it remained below both the U.S. rate of 3.4% and California's 4.5%, it still increased from the end of last year, as tech layoffs and stifled economic expansions impact the Bay Area. In the 12-month period through March, employment expanded by 3.1%, with 61,100 jobs added. Leisure and hospitality remained the top performer, expanding by 9.0%, or 24,700 positions.

Year-to-date through May, developers added 1,420 units to the market, representing a 0.5% expansion of stock—less than half the figure recorded during the same period last year. Meanwhile, investment activity declined, as well, with $770 million registered during the first five months of 2023.

Market Analysis | July 2023

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-Seușan
Associate Editor

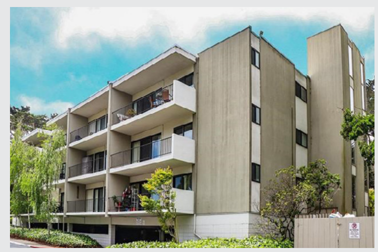
On the cover: Photo by Patrick Jahns/iStockphoto.com

Recent San Francisco Transactions

Westlake Village

City: Daly City, Calif.
Buyer: Carmel Partners
Purchase Price: $664 MM
Price per Unit: $222,705

Clubview

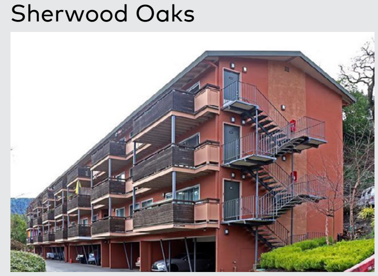


City: South San Francisco, Calif.
Buyer: Spieker Cos.
Purchase Price: $48 MM
Price per Unit: $470,588

Atherton Green

City: Redwood City, Calif.
Buyer: St. Francis Center Redwood City
Purchase Price: $24 MM
Price per Unit: $480,710

Sherwood Oaks

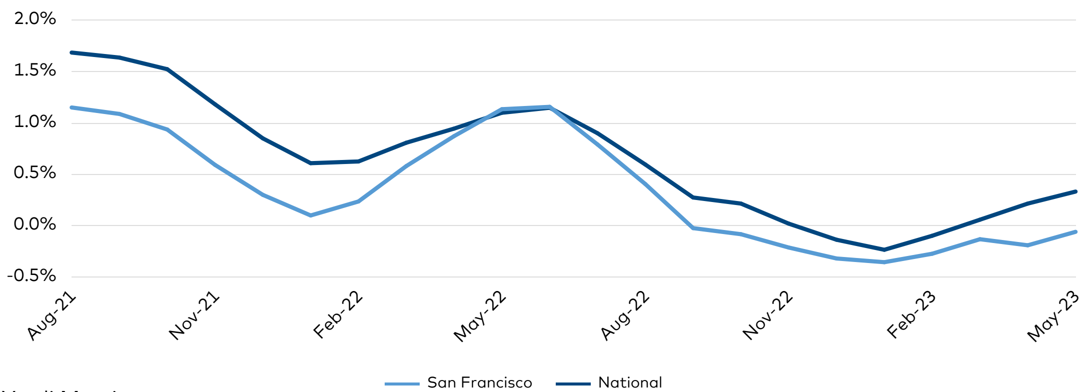


City: Fairfax, Calif.
Buyer: MidPen Housing
Purchase Price: $23 MM
Price per Unit: $285,938

RENT TRENDS

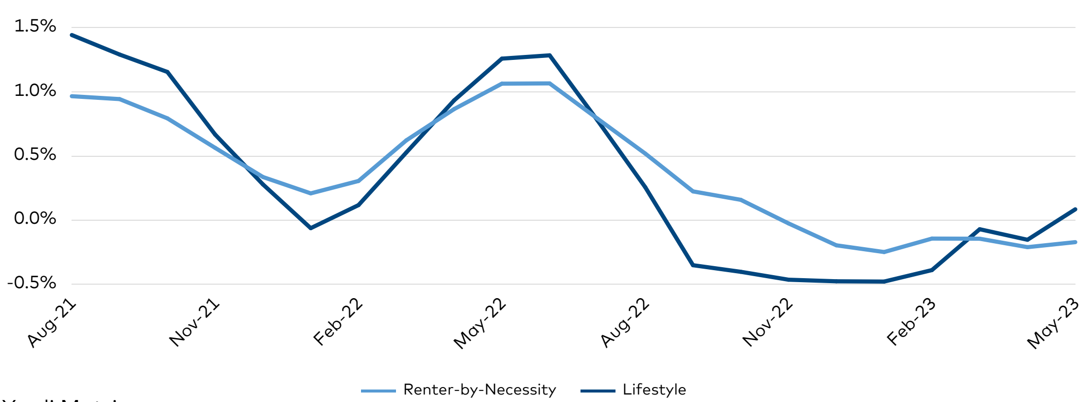
- San Francisco rents were down 0.1% on a trailing three-month (T3) basis through May, behind the U.S. rate by 40 basis points. Year-over-year, rents were down 0.4% in the metro, while the national figure advanced 2.6%. Overall, Yardi Matrix expects San Francisco rent growth to turn positive, at 2.4% for 2023.
- The average rent was $2,784 in May, remaining far above the $1,716 U.S. figure. Lifestyle rates were up 0.1% on a T3 basis, to $3,234, recording a faster recovery than the RBN segment, where rents decreased 0.2%, to $2,510. Although RBN growth was still negative, this quality segment had a softer and shorter period of contraction.
- The average occupancy rate in stabilized assets was down just 20 basis points year-over-year, to 95.3% as of April—30 basis points above the U.S. figure. Demand for Lifestyle assets remained stronger, with occupancy for the segment growing 40 basis points, to 95.6%, while RBN occupancy fell 50 basis points, to 95.1%.
- Of the 60 submarkets tracked by Yardi Matrix, 25 recorded no change or negative year-over-year rent movement. On the positive side, gains were led by Northern Sonoma County, where the average rate grew by 9.3%, to $2,202, followed by San Ramon-East (up 7.6% to $2,230) and N.E. San Francisco (up 7.3% to $3,452). S.W. San Francisco recorded the sharpest decline, with rents down 9.3%, to $2,978.

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 was 3.1% as of April, 30 basis points below the U.S. figure, according to preliminary BLS data. The rate increased 50 basis points since the start of the year. Still, the metro fared better than the state, which had a jobless rate of 4.5%.
- Over the 12-month period ending in March, San Francisco added 61,100 jobs, representing a 3.1% expansion of the labor pool—on par with the U.S. figure. Expansion remained above the national average throughout 2022, but dropped once economic headwinds and tech layoffs gained more steam.
- Leisure and hospitality led gains, with 24,700 jobs added, or a 9.0% expansion, followed by education and health services, which added 18,500 positions, for a 4.1% expansion. Modest gains were also recorded in manufacturing (up 4,900 jobs, 2.4%) and professional and business services (4,900 jobs, 0.9%).
- San Francisco's downtown office landscape continues to be less than ideal for owners and investors, with vacancy at 20.0% as of May, according to CommercialEdge data. As part of a larger effort to rekindle economic growth, city planners are working on a set of revised zoning amendments meant to facilitate the conversion of underutilized office buildings to other uses.

San Francisco Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	300	10.3%
65	Education and Health Services	472	16.2%
60	Professional and Business Services	565	19.4%
30	Manufacturing	207	7.1%
90	Government	378	13.0%
40	Trade, Transportation and Utilities	426	14.6%
50	Information	154	5.3%
55	Financial Activities	160	5.5%
80	Other Services	95	3.3%
15	Mining, Logging and Construction	157	5.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Metro San Francisco contracted by 2.5% in 2021, losing 116,385 residents.
- However, the city of San Francisco itself has experienced a milder population loss, down only 0.3% between mid-2021 and mid-2022, following a 6.8% fall during the previous 12 months.

San Francisco vs. National Population

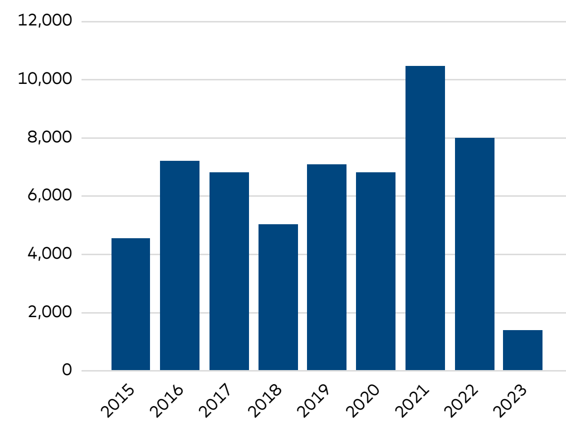
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Francisco	4,725,613	4,724,016	4,739,649	4,623,264

Source: U.S. Census

SUPPLY

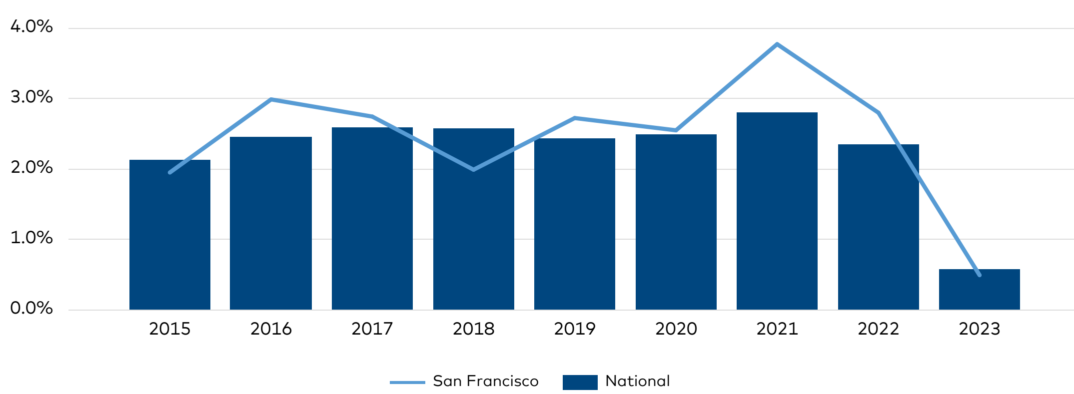
- Year-to-date through May, developers brought 1,420 units online, down almost 60% from the figure recorded during the same period last year. Completions represented 0.5% of existing stock, and the figure was 10 basis points below the national rate. Deliveries slowed down significantly from 2021's cycle-high of 10,501 units. Yardi Matrix expects deliveries to amount to 6,684 units for 2023, which would be about 1,000 units below the metro's current five-year average.
- A total of 18,638 units were under construction as of May. The pipeline remained heavily geared toward Lifestyle renters, with some two-thirds of units in the segment, while 28.9% were in fully affordable properties. The remaining 5.5% of units were in Renter-by-Necessity assets. An additional 125,000 apartments were in the planning and permitting stages in May.
- Construction starts also slowed down, with only 1,311 units breaking ground in the first five months of the year—less than half the 3,560 units recorded during the same period last year.
- The peninsula had slightly more units underway (9,662 units) than the East Bay (8,976). The top five submarkets for development were Downtown Oakland (1,881 units), Eastern San Francisco (1,558), Santa Rosa (1,123), Redwood City (1,091) and East Oakland/Oakland Hills (1,071).
- The largest property under construction was in the East Oakland submarket. Quarterra Multifamily is developing a 500-unit property that is expected to wrap up in August. The developer was aided by a $168 million construction loan from Wells Fargo Bank.

San Francisco Completions (as of May 2023)



Source: Yardi Matrix

San Francisco vs. National Completions as a Percentage of Total Stock (as of May 2023)

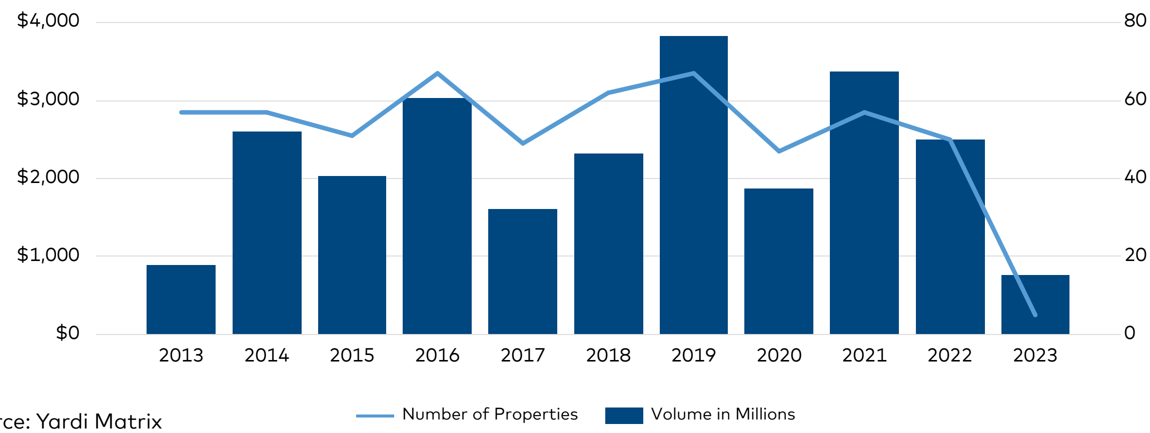


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through May, investment volume totaled $770 million across five sales comprising properties of 50 units or more. Volume dropped to less than half of the $1.6 billion recorded during the same period last year. All five sales were in the peninsula component of the market.
- The average price per unit for these sales was $230,770—almost one-third higher than the U.S. figure. All five sales involved RBN assets, with the per-unit average for this segment decreasing by 40% since the end of last year.
- The largest transaction was part of a $1.3 billion deal completed by Carmel Partners in Daly City, Calif. The company acquired the 2,983-unit, 165-building Westlake Village property for $664.3 million from Gerson Bakar and Associates. The buyer also assumed three loans with a combined value of $250 million, along with a new loan from Wells Fargo, valued at $349 million. The asset traded at roughly $222,705 per unit.

San Francisco Sales Volume and Number of Properties Sold (as of May 2023)



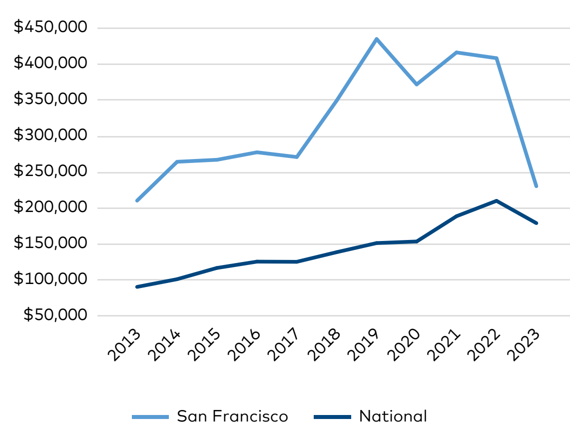
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Broadmoor/Daly City	$675
Millbrae/Airport	$188
Lucas Valley	$162
Fairfield	$147
San Rafael	$114
Antioch/Oakley	$76
Walnut Creek/Lafayette	$66

Source: Yardi Matrix
[1] From June 2022 to May 2023

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

Brought to you by:

MULTI-HOUSING NEWS

Building Affordable in California, Hawaii: High Demand, High Hurdles

By Anda Rosu

The cost of housing in Hawaii is among the highest in the U.S. and California is also among the most expensive housing markets in the country, with a high concentration of cost-burdened renters. EAH Housing Chief Real Estate Development Officer Welton Jordan talks about the nonprofit's plans to cater to the ever-growing need for low-income housing in both California and Hawaii, highlighting the differences and similarities in these states' housing markets.

What are the top challenges in developing affordable housing communities across California and Hawaii today?

We are faced with several immediate challenges. In Hawaii, these include the availability of land and infrastructure, limited funding resources and legislative concerns, such as the permitting processes and zoning restrictions, which all create obstacles to timely and cost-effective development. Similarly, in California, the key challenges revolve around highly competitive funding, competing political priorities, and the rising costs of labor and materials.

In what ways are Hawaii and California's markets similar, and what sets them apart?

Hawaii and California's housing markets share several similarities, primarily in terms of the high cost of living and the overall shortage of homes. Both states face significant challenges in meeting the demand for affordable housing, and this shortage is particularly concerning in the low- and very

low-income sectors. There are also notable differences between the two states. In California, there is currently a firm commitment from the government to address the housing crisis by taking steps to fund housing and holding localities responsible for the lack of housing in their areas. In Hawaii, with a new governor in place, there is an emerging focus on housing.

How do you plan to develop more affordable properties over the next five years than you did over the past 25?

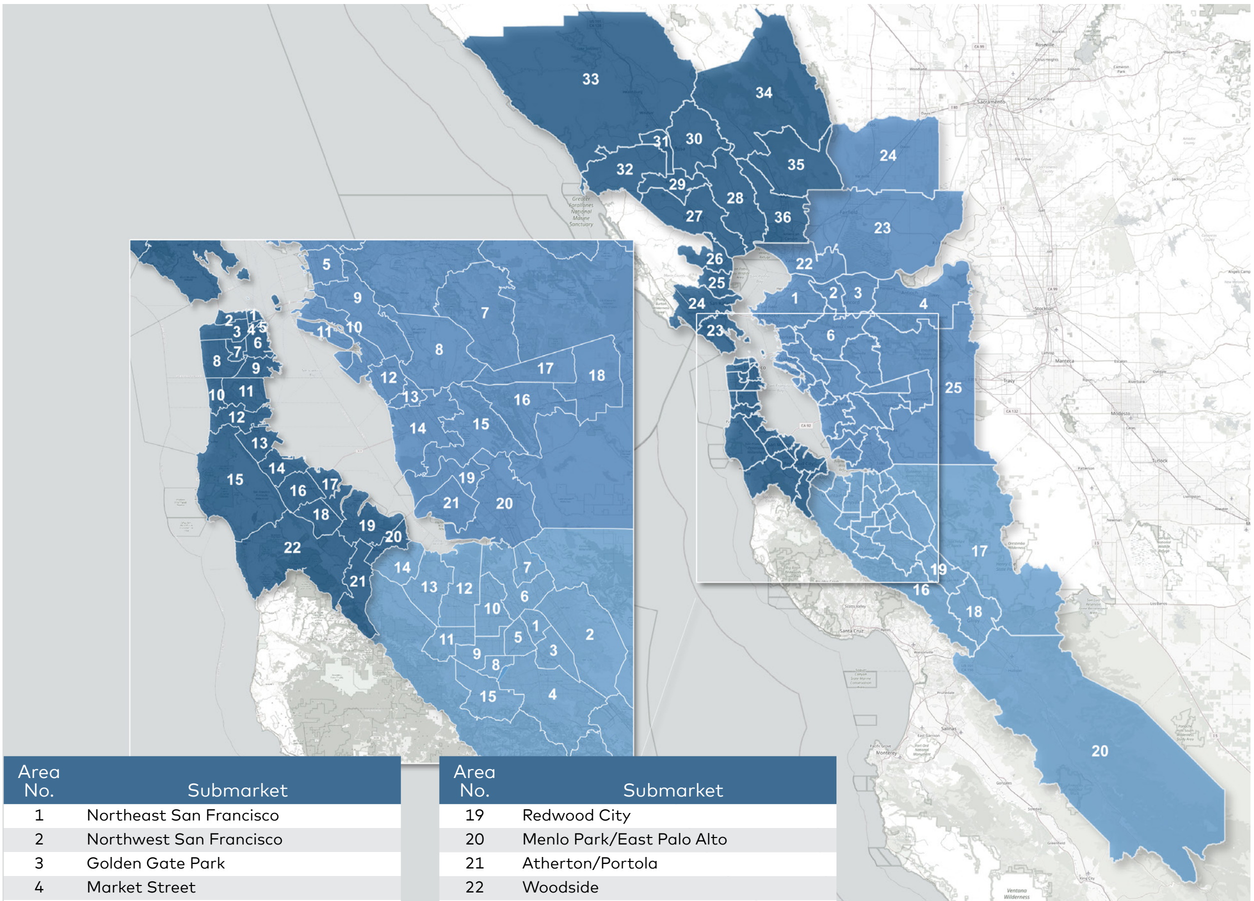
Sed ut perspiciatis unde omnis iste First, we prioritized building a strong team of professionals with both expertise and a shared commitment to our mission. With this team in place, we have been able to dramatically increase our geographic footprint and overall pipeline. While we recognize the importance of preserving existing properties, we've found we can drive greater impact when focused on new construction, as we can create greater density, at a much faster pace.

Tell us more about the projects you have in the works in California.

Nevin Plaza in Richmond is a two-phase project. Phase I will completely rehab the existing 138-unit building, which was formerly public housing. Phase II will be on the vacant lot adjacent to the existing building, where 92 new units will be built. Another project we have in California is Mission Paradise, an affordable housing community for low-income seniors in Hayward. The apartment community will provide 76 units, including 11 'No Place Like Home' units reserved for special needs households.

(Read the complete interview at 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	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

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

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.

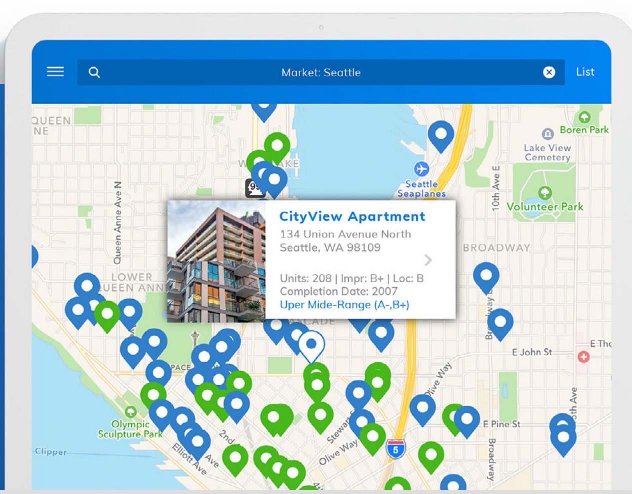
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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.**

YARDI

(800) 866-1144

Learn more at yardimatrix.com/**multifamily**

Contact us

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.