Yardi® Matrix

San Francisco's Endurance Race

Multifamily Report Summer 2018

Professional, Business Services Lead Job Gains

Housing Crisis Remains Pressing Issue

Property Values Surge Despite Lower Volume

Market Analysis
Summer 2018

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Rent Growth Rebounds

A surge in the Bay Area's technology and health-care sectors has powered the region's economic output past that of top-performing nations. This has echoed once again in the multifamily market, where rents went up 2.7% year-over-year through June, to $2,645. Housing affordability is at its lowest level since 2008, while home price appreciation continues to outpace wage growth.

Employment gains span sectors, with San Francisco adding 50,600 jobs in the 12 months ending in April, up 1.9% and 20 basis points above the U.S. rate. Professional and business services led growth, having generated 13,000 positions, as tech behemoths continue their expansion in the metro, either by leasing or by acquiring large office buildings. Meanwhile, venture capital firms invest massively into a wide range of startups. The construction sector is thriving, as the city has multiple large projects underway, including Oceanwide Center, 400 Folsom and Folsom Bay Tower.

Almost 2,200 units came online in the first half of 2018 and another 4,900 are slated for completion by year-end. Some $728 million in assets traded this year through June, many of them in the Oakland area, with per-unit prices rising to $338,360, more than double the U.S. average. Yardi Matrix expects rents to rise 3.0% in 2018.

Recent San Francisco Transactions

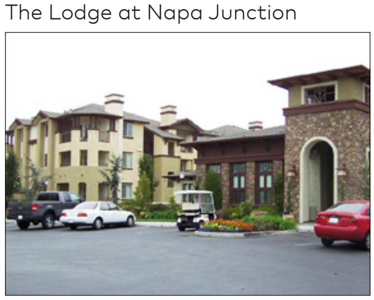
Domain Oakland

City: Oakland, Calif.
Buyer: Magnolia Capital
Purchase Price: $140 MM
Price per Unit: $530,303

North Pointe

City: Vacaville, Calif.
Buyer: MG Properties Group
Purchase Price: $86 MM
Price per Unit: $274,038

The Lodge at Napa Junction



City: American Canyon, Calif.
Buyer: Taube Investments
Purchase Price: $67 MM
Price per Unit: $311,343

Bell Uptown District

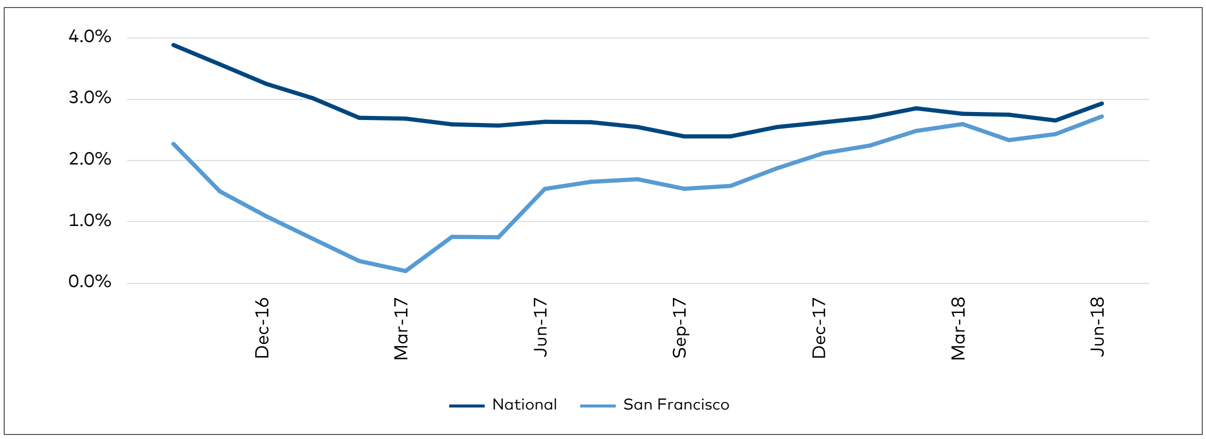
City: Oakland, Calif.
Buyer: Bell Partners
Purchase Price: $45 MM
Price per Unit: $557,500

On the cover: Photo by canbalci/iStockphoto.com

Rent Trends

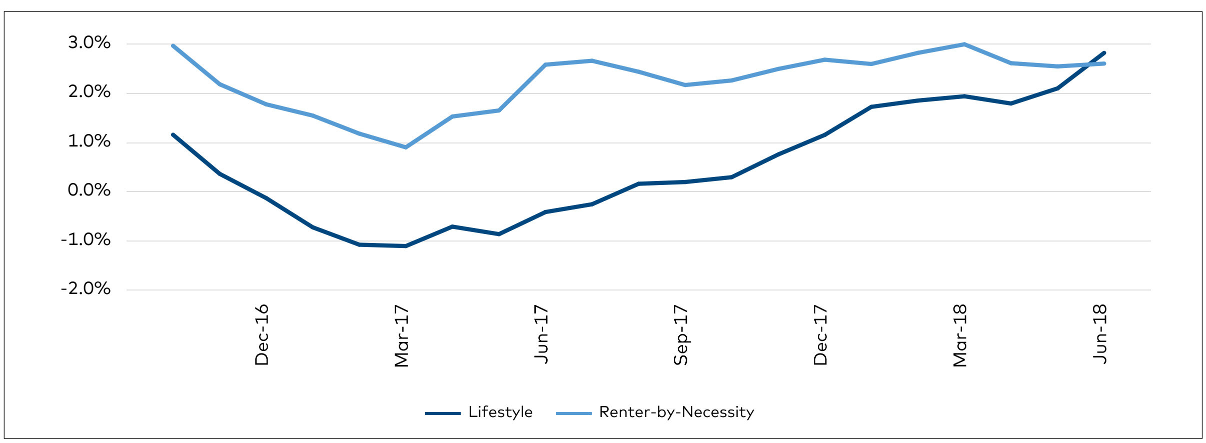
- San Francisco's housing shortage is pushing rents up once again, by 2.7% year-over-year through June and roughly 20 basis points below the national rate. The average rent in the metro climbed to $2,645, a solid $1,240 above the U.S. average.
- Rent gains were consistent across segments, with Lifestyle assets leading growth by 20 basis points over the working-class Renter-by-Necessity, which climbed 2.6% year-over-year through June. The average rent in the Lifestyle segment rose to $3,207, while RBN rents reached $2,365.
- Growth has been spotty, with average rents in five submarkets contracting in the 12 months ending in June. The greatest drop was on the Peninsula side, in Atherton/Portola (-4.8% to $4,151), the metro's third most expensive submarket. On the Bay Area side, rents in East Livermore/East Dublin were down 2.4%, to $1,958. At the opposite end was Sebastopol (up 9.1%, to $2,176) in the Peninsula and Fairfield (5.4% to $1,704) in the Bay Area. The least expensive submarket remained Vacaville (up 4.2%, to $1,691).
- Occupancy in stabilized properties was 95.9% as of April, down 60 basis points year-over-year. As deliveries have decelerated and affordability remains a top issue, we expect rents to rise 3.0% 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

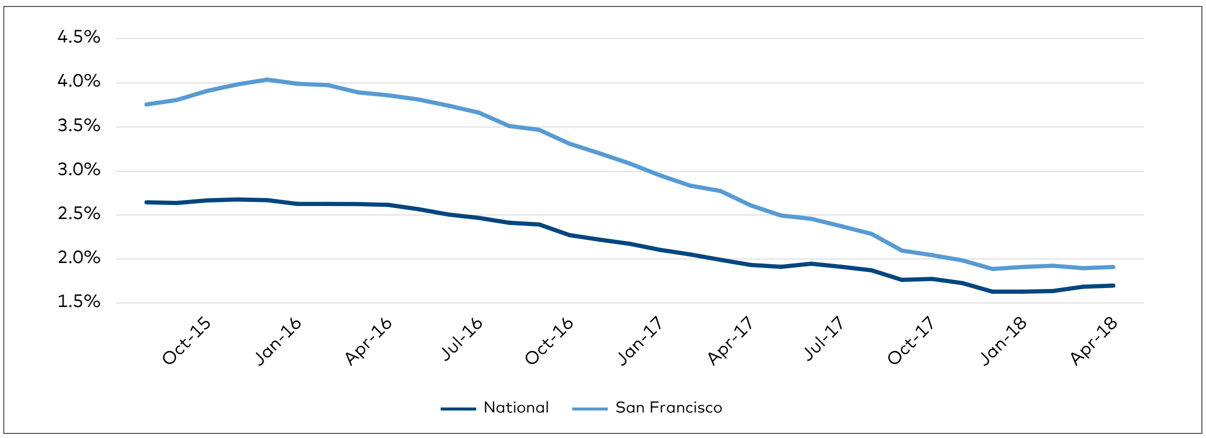
Economic Snapshot

- The metro's economy is still on the upswing. Were it a nation, the Bay Area would command the 19th-largest economy in the world, according to the Bay Area Council's Economic Institute. Despite a slight softening, the job market continues to soar with the addition of 50,600 jobs year-over-year through April, a 1.9% increase, 20 basis points above the U.S. average.

- With 13,000 new jobs, professional and business services led growth. Technology companies continue to undertake major expansions, both through leases and office acquisitions. Moreover, Softbank's $100 billion Vision Fund, initiated in 2017, has already injected about 40% of its pool of cash in a variety of startups in the area, prompting traditional venture capital firms to step up their game. The construction sector grew by 9,000 jobs and will most likely continue to expand due to a good number of large projects underway, with the San Francisco pipeline including skyscrapers such as Park Tower, Oceanwide Center, 400 Folsom, 500 Folsom, Folsom Bay Tower and 706 Mission.

- Demand for office space remains strong: According to CBRE, rents were up 2.7% to $75.50 per square foot in the second quarter, when the market posted its strongest net absorption since 2000. According to Yardi Matrix data as of August, there were 13 office properties under construction within the San Francisco city limits, adding as much as 5.9 million square feet of space.

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	%
60	Professional and Business Services	526	18.5%	13,000	2.5%
15	Mining, Logging and Construction	151	5.3%	9,000	6.4%
65	Education and Health Services	428	15.0%	8,000	1.9%
30	Manufacturing	190	6.7%	6,000	3.3%
50	Information	110	3.9%	5,600	5.4%
40	Trade, Transportation and Utilities	457	16.1%	3,600	0.8%
55	Financial Activities	160	5.6%	2,800	1.8%
90	Government	396	13.9%	2,800	0.7%
70	Leisure and Hospitality	328	11.5%	2,400	0.7%
80	Other Services	98	3.4%	-2,600	-2.6%

Sources: YardiMatrix, Bureau of Labor Statistics

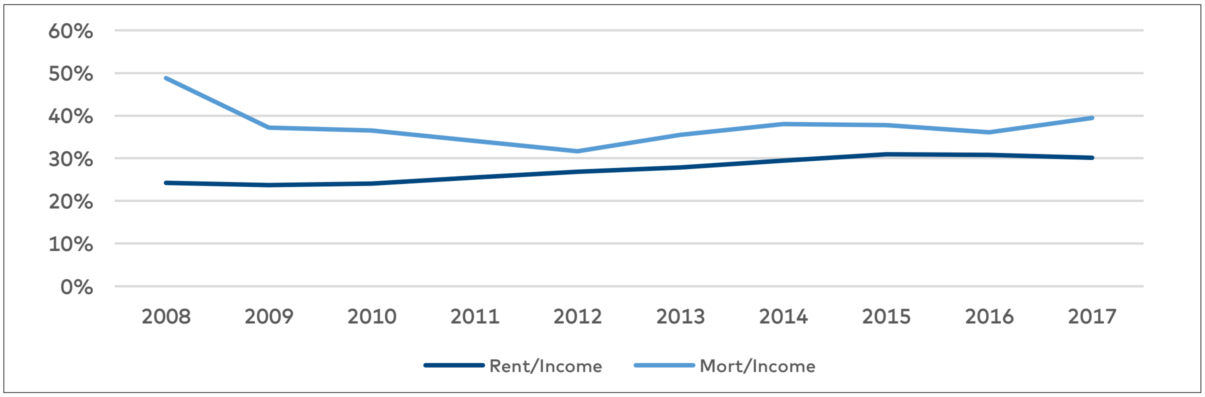
Demographics

Affordability

- Home affordability is at its lowest level since 2008 in the U.S. and San Francisco remains a flagship case. The appreciation of home values in the metro—up 9.0% in 2017 to $863,739—continued to outpace wage growth. Owning remains a distant dream for workforce households, the average mortgage accounting for 39% of the area's median income, while rents equated to 30%.

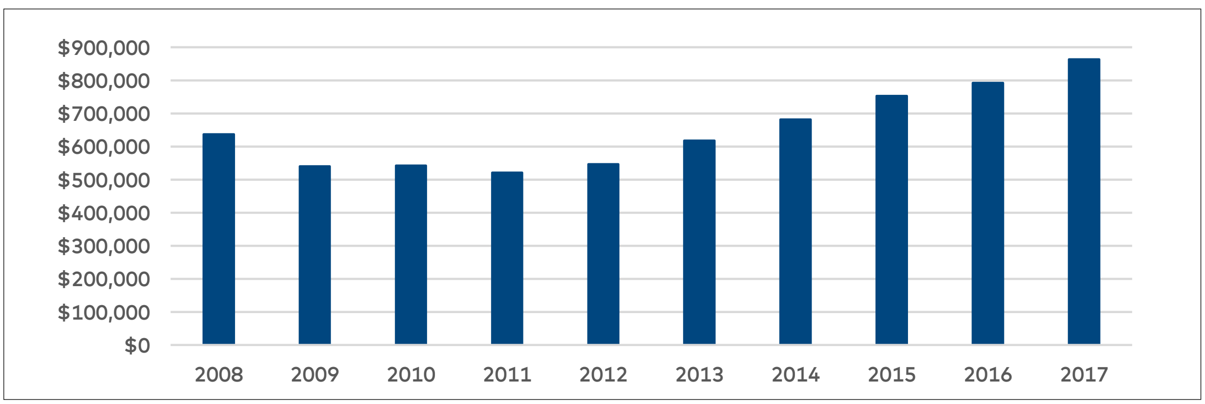
- Set in 2014, Mayor Lee's goal to bring or preserve 10,000 affordable homes by 2020 is on track. Even if all these units were to be delivered this year, it would satisfy less than one-eighth of demand: In 2017, 104 housing lotteries were held with 85,000 households applying for 1,210 affordable units.

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

- In 2017, the metro added 28,280 residents, a 0.6% increase, slightly below the 0.7% national figure.
- San Francisco added roughly 198,000 residents since 2013, for a 4.3% expansion, exceeding the 3.0% U.S. rate.

San Francisco vs. National Population

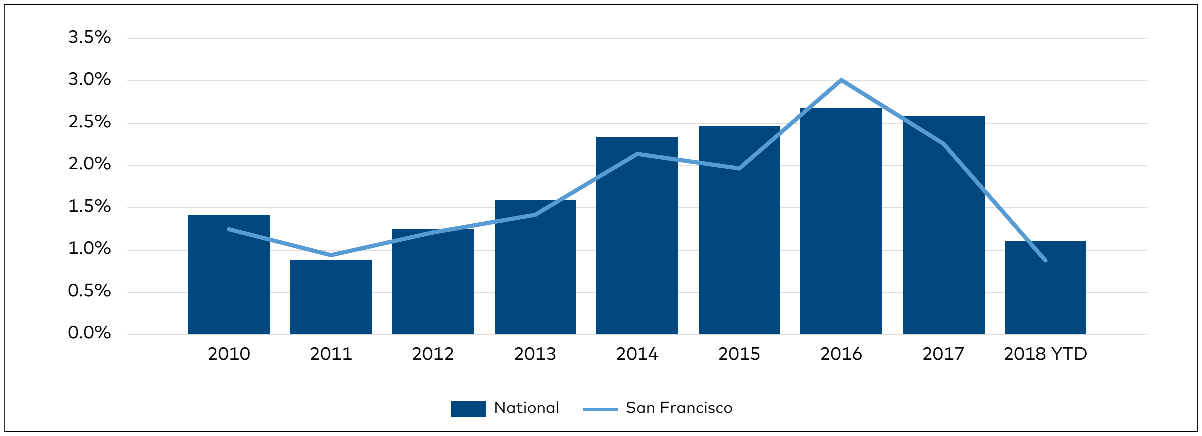
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Francisco Metro	4,528,717	4,595,964	4,657,985	4,699,077	4,727,357

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

Supply

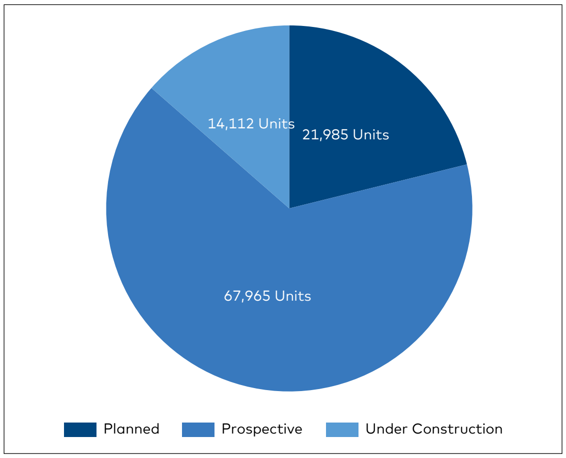
- The metro's booming economy is keeping demand elevated, but the area's construction costs and its building restrictions have hit the brakes on multifamily development. Almost 2,200 units came online in San Francisco in the first half of 2018, the majority of which are in upscale properties. Nonetheless, nearly 3,000 of the units underway are in fully affordable communities.
- The metro had more than 14,100 units under construction as of June, including roughly 4,900 apartments slated for delivery by the end of 2018. San Francisco also had 90,000 units in the planning and permitting stages.
- The lion's share of construction is concentrated in a handful of submarkets: East Oakland/Oakland Hills (2,800 units), Downtown Oakland (1,865), China Basin (1,763) and Eastern San Francisco (1,011).
- The largest multifamily development underway in San Francisco as of June was 500 Folsom, located in the China Basin submarket. The 545-unit property owned by Essex Property Trust is pursuing LEED Gold certification. The asset includes 109 affordable units and has an estimated delivery by April 2019.

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



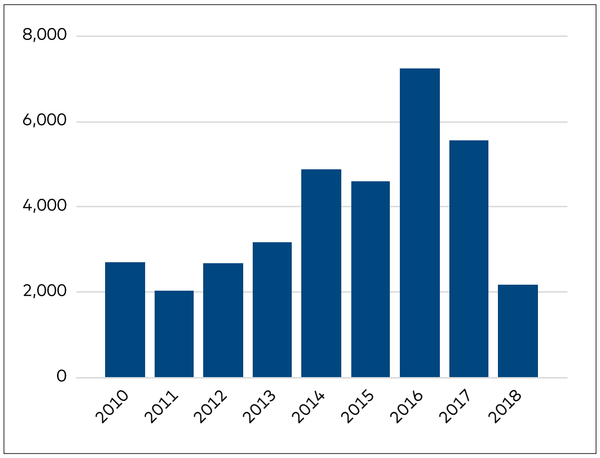
Source: YardiMatrix

Development Pipeline (as of June 2018)



Source: YardiMatrix

San Francisco Completions (as of June 2018)

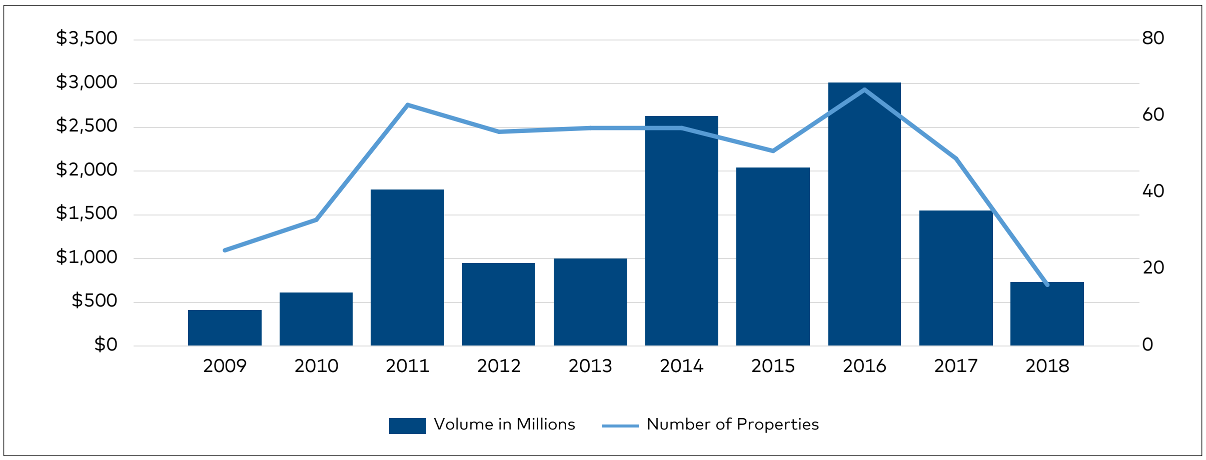


Source: YardiMatrix

Transactions

- Transaction activity remained moderate, as $728 million in multifamily properties changed hands in San Francisco in the first half of 2018, almost half of last year's total volume. Of the 16 properties that traded in the first six months, two-thirds were in the Renter-by-Necessity segment.
- Although volume dropped since the 2016 cycle high, San Francisco property values once again surged during this year's first two quarters: The average unit traded for $338,360 as of June, up 23% over the 2017 level and more than double the $150,760 U.S. average.
- The largest deal in the first two quarters was Brookfield's acquisition of the recently built 345-unit Vintage in Pleasanton from Carmel Partners. The asset traded for roughly $169 million, as part of a $1.9 billion portfolio deal encompassing almost 4,000 units in seven assets across three states.

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



Source: YardiMatrix

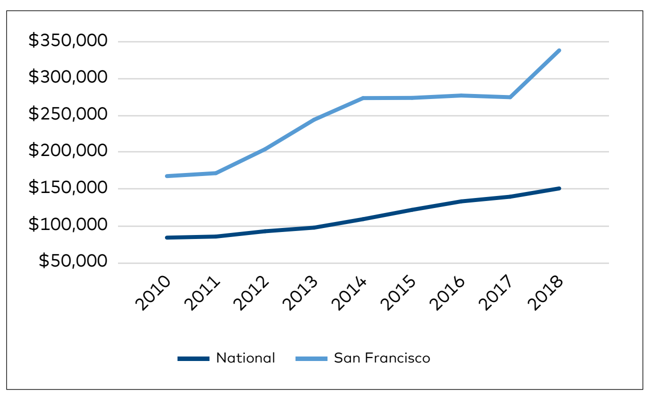
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Alameda	323
Pleasanton	268
Downtown Oakland	194
Fairfield	139
Antioch/Oakley	110
Vacaville	109
Concord	109
East Freemont	97

Source: YardiMatrix

[1] From July 2017 to June 2018

San Francisco vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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Carmel Partners Trades Luxury Asset

Pacific Urban Residential paid more than $40 million for the 69-unit property, with Berkeley Point Capital providing acquisition financing for the transaction.

Related Breaks Ground on SF Property

The 299-unit project, known as 1601 Mariposa, will include 60 affordable apartments and more than 9,400 square feet of street-level retail.

HFF Arranges $133M Financing for 3 Bay Area Communities

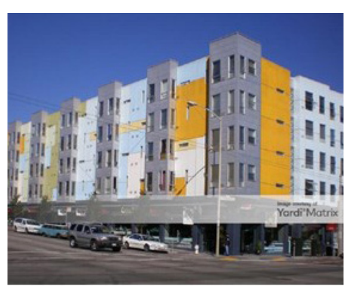
The portfolio consists of the 158-unit Russell, the 70-unit Quimby and the 108-unit Field House, all in San Mateo.

East Bay Community Secures $13M Refi

Walker & Dunlop arranged the loan to retire the previous 10-year, $8.7 million Fannie Mae mortgage for Regency Plaza in Martinez.

HFF Hires Multi-Housing Debt, Equity Director

Rick Salinas brings more than 15 years of experience to the company's San Francisco office, following previous roles with Berkadia and Wells Fargo.



SF Affordable Property Lands Refi

The new loan, provided by JPMorgan Chase, pays down $11.3 million in construction financing provided by the city in 2001.

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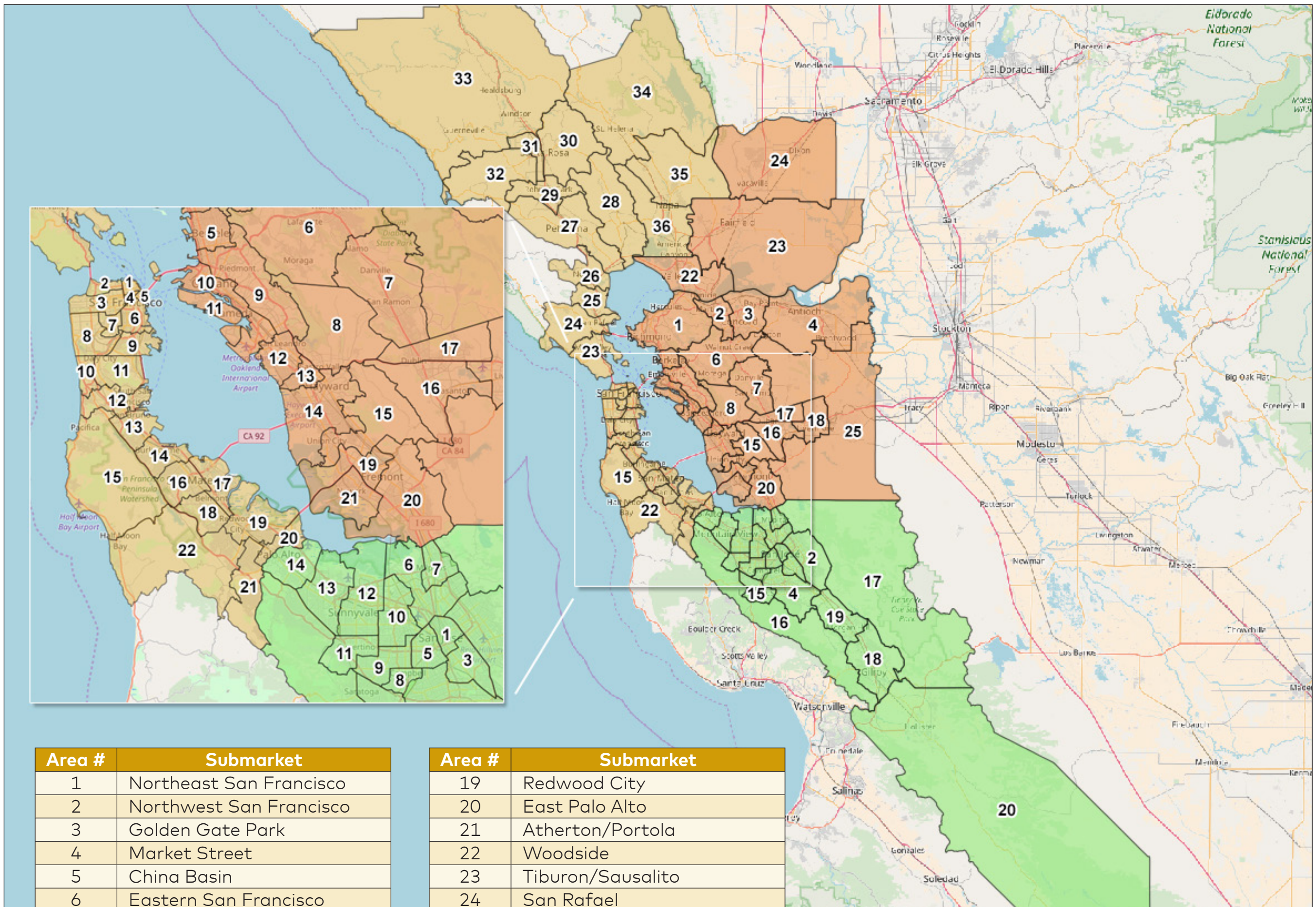
San Francisco Submarkets



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.

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