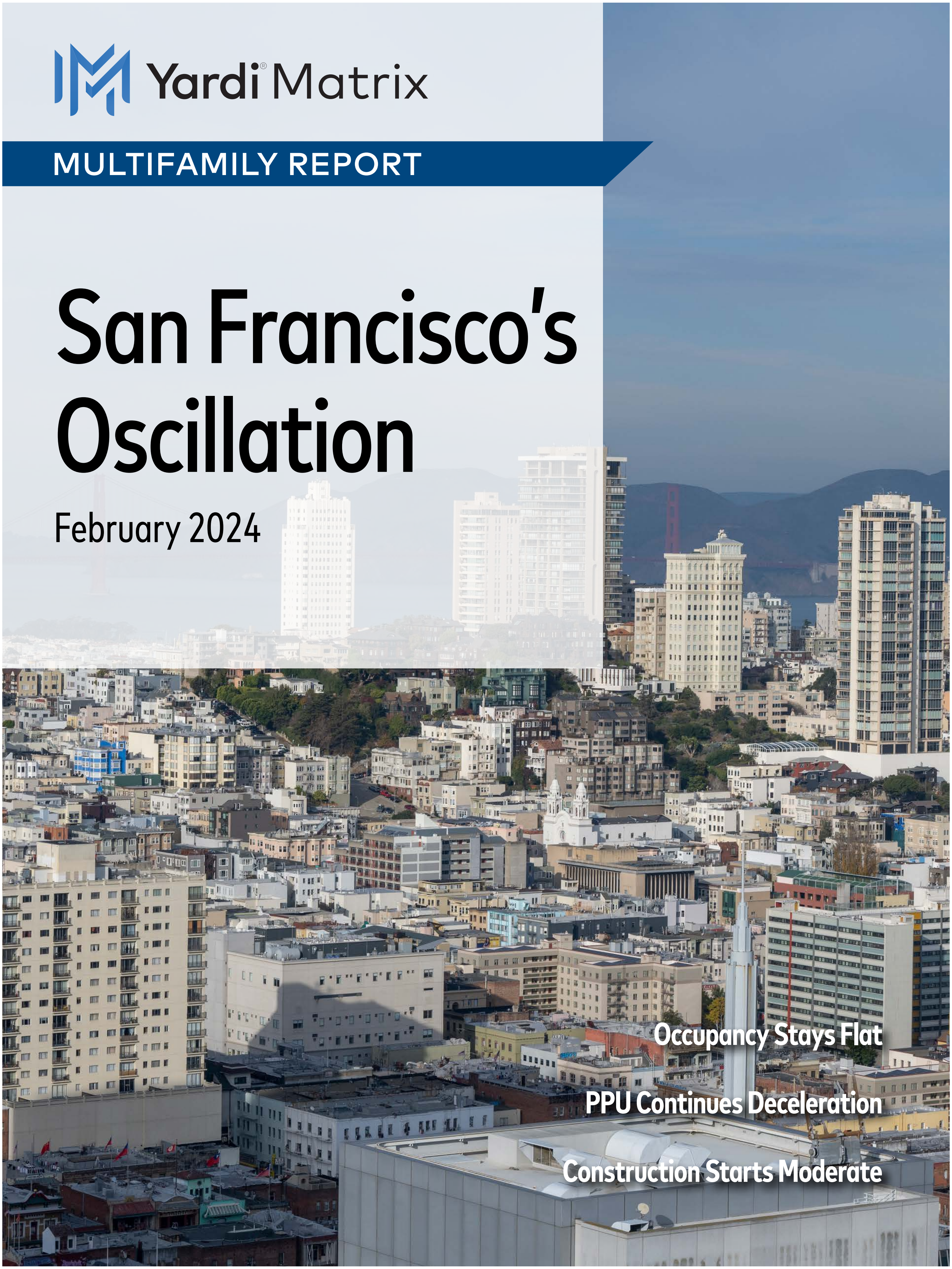
Yardi Matrix

MULTIFAMILY REPORT

San Francisco's Oscillation

February 2024



Occupancy Stays Flat

PPU Continues Deceleration

Construction Starts Moderate

SAN FRANCISCO MULTIFAMILY

Yardi Matrix

Occupancy Plateau Bucks Trend

Despite some San Francisco officials bracing for a potential "doom loop," optimism persists for a rebound to pre-pandemic performance. Rents declined 0.4% on a trailing three-month basis through December, to $2,753, but last year developers also delivered the third-largest annual volume since 2016. Meanwhile, demand kept occupancy flat at a still healthy 95.3% in December.

San Francisco's employment market expanded 2.1%, or 42,000 net jobs, on a year-over-year basis, trailing the 2.3% U.S. rate. During this time, three sectors lost 14,200 jobs combined, and the hardest hit remained professional and business services (-9,500 jobs). Unemployment in the metro rose from 3.3% in January to 4.0% in November, but still outperformed the state (4.9%), Los Angeles (4.7%), San Diego (4.2%) and Sacramento (4.5%), and trailed the national (3.7%) and San Jose (3.9%) figures. Education and health services and leisure and hospitality led job gains, adding 39,200 jobs combined.

Developers delivered 7,737 units in 2023, and in December had 16,573 units underway and 126,500 in the planning and permitting stages. Meanwhile, transaction activity dropped to the lowest level recorded this past decade, at $1.1 billion in sales, for a price per unit that plummeted 38% year-over-year, to $215,575 in December.

Market Analysis | February 2024

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Recent San Francisco Transactions

Artist Walk

City: Fremont, Calif.
Buyer: MG Properties
Purchase Price: $90 MM
Price per Unit: $484,865

Arrive Sonoma Ridge

City: Santa Rosa, Clif.
Buyer: FPA Multifamily
Purchase Price: $60 MM
Price per Unit: $$333,333

The Boulders

City: Walnut Creek, Calif.
Buyer: Granite Capital Group
Purchase Price: $58 MM
Price per Unit: $353,393

ReNew Avery Park

City: Fairfield, Calif.
Buyer: FPA Multifamily
Purchase Price: $27 MM
Price per Unit: $196,691

RENT TRENDS

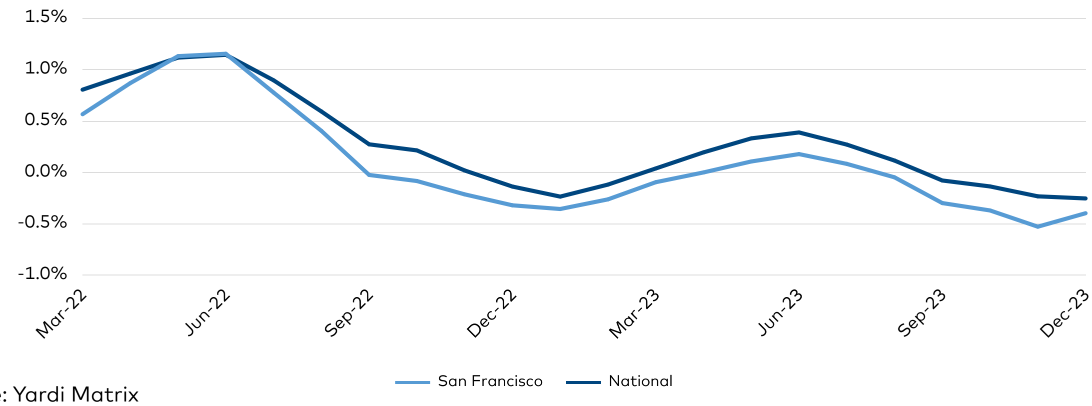
- San Francisco rents contracted 0.4% on a trailing three-month (T3) basis through December, to $2,753, while the U.S. average was down 0.3%, to $1,709. Rent movement in the metro was negative for most of 2023, except between May and July, when it inched up 0.1% each month during that period. On a year-over-year basis, the average asking rent in San Francisco posted a 1.8% decrease in December, while the national rate saw a 0.3% improvement.

- December 2023 was the 17th consecutive month that Lifestyle rents trailed Renter-by-Necessity figures, contracting 0.5% on a T3 basis in December, to $3,160. RBN rents had a slightly better run, down 0.3%, to $2,500. Despite declines and robust supply expansion, the occupancy rate in stabilized properties remained flat in the 12 months ending in November, at a healthy 95.3%. Occupancy rose 10 basis points in the Lifestyle segment, to 95.3%, and declined by 20 basis points in the RBN segment, to 95.2%.

- Rent growth was spotty across the map. Rates decreased in the most expensive and the third most expensive submarkets in the metro: Atherton/Portola (down 7.2% year-over-year through December to $5,255 and the second steepest rent decline) and China Basin (down 2.5% to $3,938). Meanwhile, NW San Francisco, the submarket with the second highest average rent, posted a 1.7% increase, to $4,597.

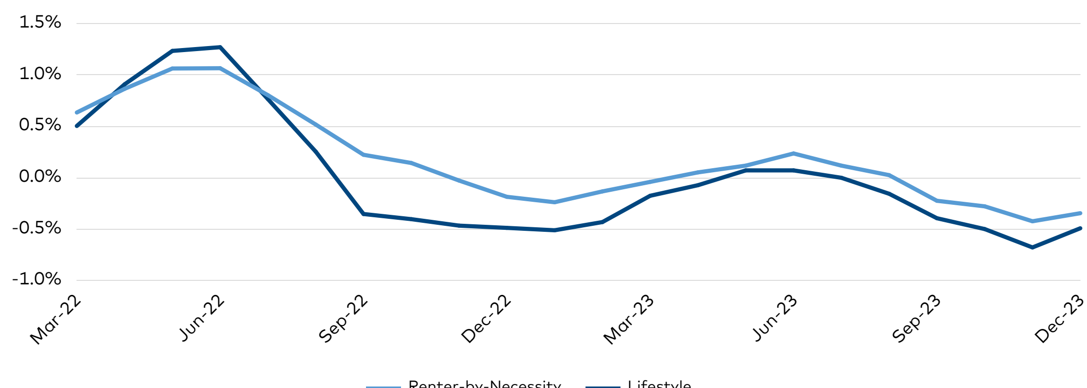
- Rents in the single-family rental segment decreased of 0.5% year-over-year as of December. Occupancy was up 20 basis points as of November.

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 job market expanded 2.1% year-over-year as of October, adding 42,000 jobs. Employment growth was 20 basis points lower than the U.S. rate. Three sectors lost jobs during the period, down 14,200 positions, with the largest losses registered in professional and business services (-9,500 jobs).

- The metro's unemployment rate rose to 4.0% in November, from 3.3% in January. Despite the regression, San Francisco's jobless rate still outperformed the state's 4.9% and also surpassed Los Angeles (4.7%), San Diego (4.2%) and Sacramento (4.5%), but trailed the national rate (3.7%) and San Jose (3.9%).

- Remote work turned San Francisco from one of the nation's most expensive office markets into one that struggles with high vacancy, at 22.6% as of October. In less promising news for the sector, four Bay Area master-planned districts valued at $15 billion were canceled by Google and Lendlease in November 2023. Even so, some level of confidence in the office sector's recovery remains, as the metro had some 6 million square feet of office space underway.

- Education and health services (23,000 jobs) and leisure and hospitality (16,200 jobs) were the two main pillars supporting the economy, accounting for 93% of all jobs added during the period.

San Francisco Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	486	16.3%
70	Leisure and Hospitality	320	10.8%
15	Mining, Logging and Construction	167	5.6%
90	Government	377	12.7%
80	Other Services	101	3.4%
55	Financial Activities	162	5.4%
40	Trade, Transportation and Utilities	434	14.6%
30	Manufacturing	207	7.0%
50	Information	155	5.2%
60	Professional and Business Services	564	19.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Francisco's pandemic-induced exodus was significant, with the metro losing 116,385 residents in 2021, or 2.5% of its population. This was the second population decline recorded in the decade, but considerably higher than the 2019 contraction, when the city lost just 1,597 residents.

San Francisco vs. National Population

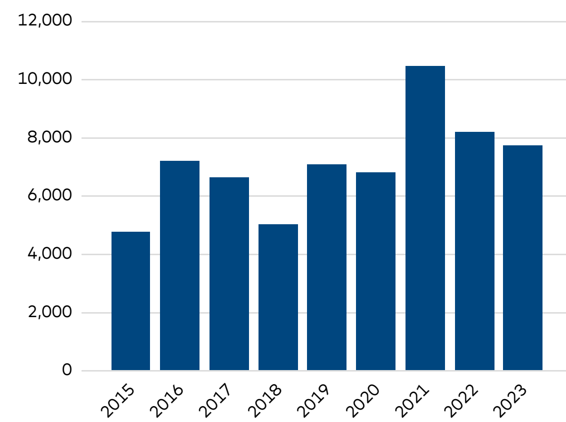
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Francisco	4,725,613	4,724,016	4,739,649	4,623,264

Source: U.S. Census

SUPPLY

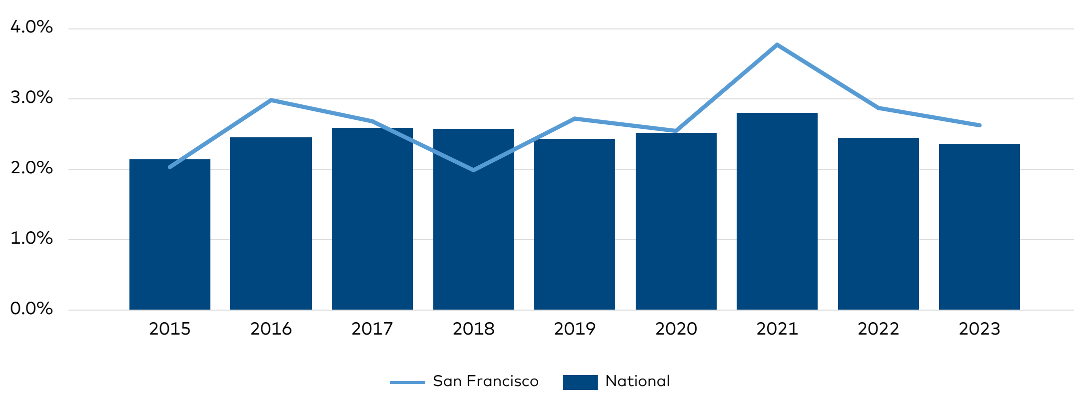
- San Francisco added 7,737 units in 2023, the third largest annual delivery total since 2016. These units accounted for 2.6% of existing stock, 20 basis points higher than the national rate. Completions consisted of 67.2% Lifestyle units, while 27.4% were projects designated as fully affordable. The remaining units were in the Renter-by-Necessity segment. This volume is likely to grow, as the state has directed that between 2023 and 2031, the city must build more low-income housing than it has over the past two decades.
- Developers had 16,573 units under construction in December and 126,500 in the planning and permitting phases. The fully affordable component has already increased, accounting for 37.8% of units underway, while Lifestyle properties accounted for 52.8% of the pipeline.
- The stock on the East Bay side expanded in 2023 by 4,567 units, while the Peninsula grew by 3,170 units. The share of units under construction painted a reversed picture in December, with the pipeline comprising 7,633 units on the East Bay side and 8,940 units on the Peninsula.
- By volume of construction starts, developers softened their activity, with 5,637 units across 42 properties breaking ground in 2023, from 7,397 units in 44 properties in 2022.
- Downtown Oakland led construction activity with 2.61 units underway as of December, followed by three Peninsula submarkets, each with more than 1,000 units underway: Santa Rosa (1,443 units), Eastern San Francisco (1,166 units) and Redwood City (1,041 units).

San Francisco Completions (as of December 2023)



Source: Yardi Matrix

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

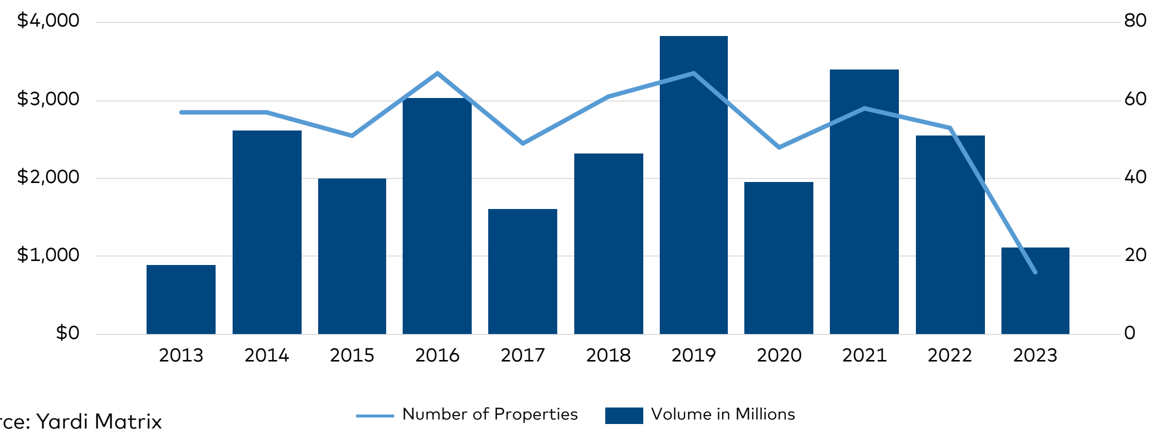


Source: Yardi Matrix

TRANSCTIONS

- Investment volume dropped to the lowest figure of the past decade, with $1.1 billion in multifamily assets changing hands in San Francisco in 2023. More than two-thirds of this volume—some $644 million out of $900 million—was from a single 2,983-unit property purchased by Carmel Partners. The sales composition reflected substantial investor demand for value-add opportunities, with 13 of the 16 assets that changed ownership in 2023 being RBN assets. This contributed to a 38% decline in the per-unit price year-over-year, to $215,575. Meanwhile, the U.S. average declined 11.3%, to $185,172.
- The 185-unit Artist Walk sold in 2023 for the highest price per unit—$484,865. MG Properties acquired it from Clarion Partners for $90 million, with aid from a $58 million loan originated by CBRE Capital Markets. The community was previously sold in 2019, when Blake Hunt Ventures received $110 million, or $595,946 per unit.

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



Source: Yardi Matrix

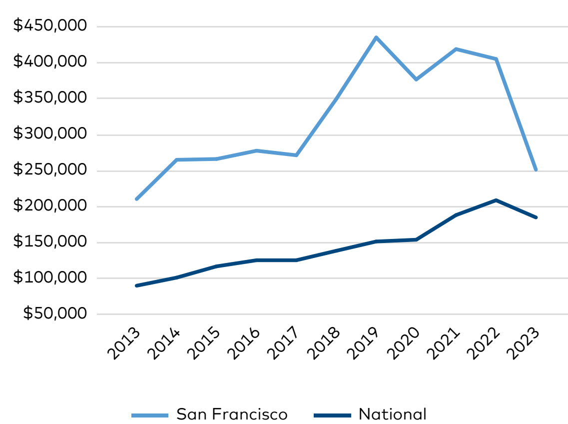
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Broadmoor/Daly City	675
South San Francisco	114
West Fremont	90
Santa Rosa	60
Walnut Creek/Lafayette	58
Fairfield	27
Redwood City	24

Source: Yardi Matrix

[1] From January 2023 to December 2023

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

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EXECUTIVE INSIGHTS

It Will Get Worse Before It Gets Better, a California Property Manager Warns

By Diana Firtea

As California continues to battle high living costs, stubborn inflation and rising insurance expenses, providing sustainable and affordable housing solutions is proving very challenging. Kevin Grani, president of Sterling Asset Management Co., the property management arm of Community Housing Opportunities Corp., talks about overcoming difficulties in one of the most supply-constrained affordable housing markets in the country.

What are the top challenges California affordable housing operators need to deal with?

Property management in general comes with a unique set of challenges, and in affordable housing properties these challenges are not entirely new or unique. In fact, the challenge today is simply the lack of attainable affordable housing, given how long it takes to build.

We also often face the challenge when trying to find people to manage sites—due to budget restrictions—which are all driven by the rents that are controlled by California state agencies.

What can be done to alleviate the housing crisis?

There are so many different components to resolving this crisis but what it comes down to is supply and demand, and simply building more.

It's less of a management question and more about the

development of housing and providing supportive services to residents, which is where management can help. Things like financial literacy, guidance with finding food and rental assistance. You start with basic needs and then move to financial literacy and, eventually, self-sufficiency.

How can organizations such as yours maintain affordable rental rates when costs rise?

Frankly, it's incredibly difficult. Many in our industry are of the mind that it's not possible to keep rental rates lower as costs rise. As a property manager, CHOC does not set rental rates. The rates are set by state and federal agencies.

Despite that, our hope is that we can develop more affordable housing to counteract this issue and, ideally, house as many people as we possibly can.

What are your goals at Sterling?

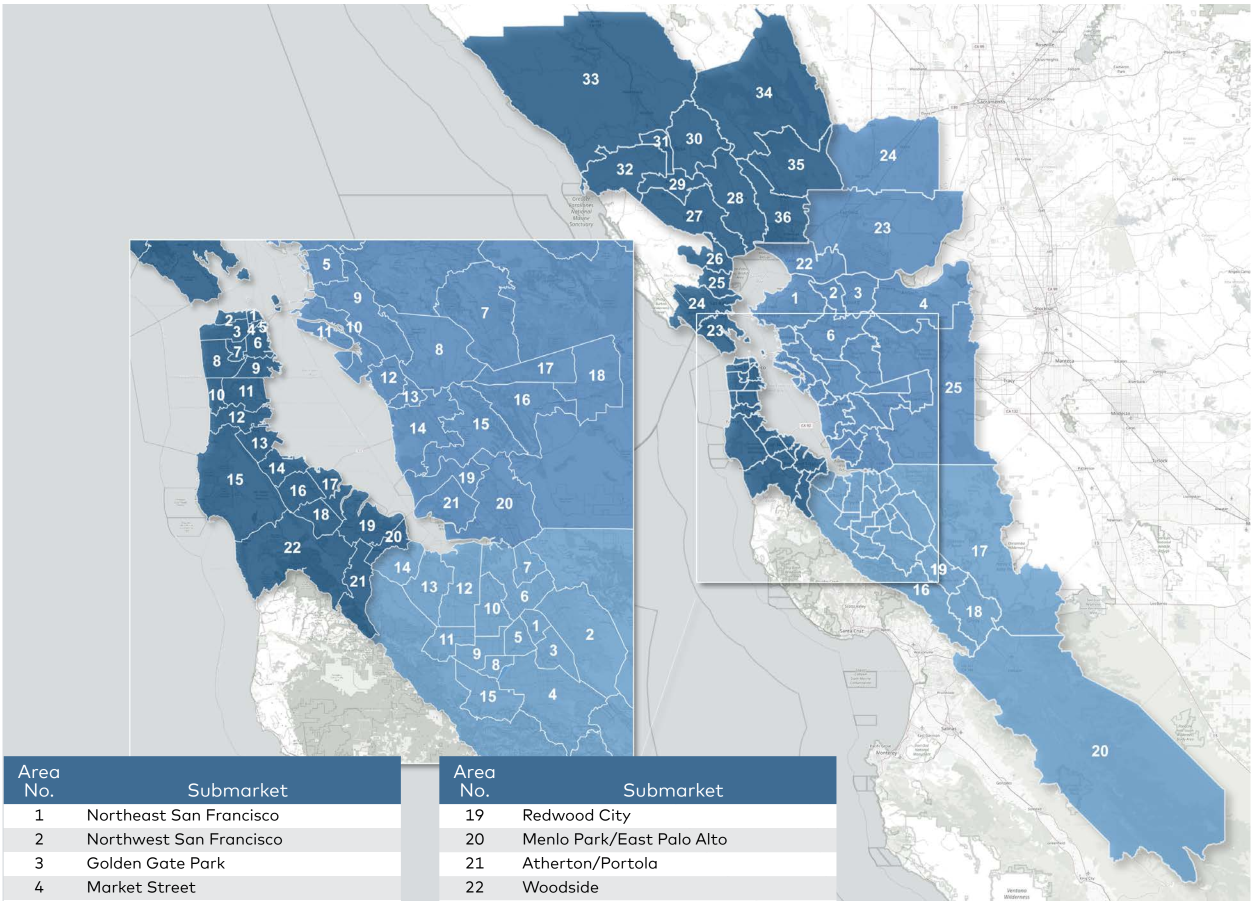
Our short-term goals include the ongoing development and investment in our property management team, across our portfolio, maximizing efficiencies wherever possible. However, that's only half the equation. Longer term, the resident experience is primary.

How do you expect the state's affordable housing crisis to evolve?

Unfortunately, as things stand, it will get worse before it gets better. It's essential that the state develops permanent sources of funding, in order to help organizations like ours develop and sustain multifamily affordable housing for as many people as possible.

(Read the complete interview on 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	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:

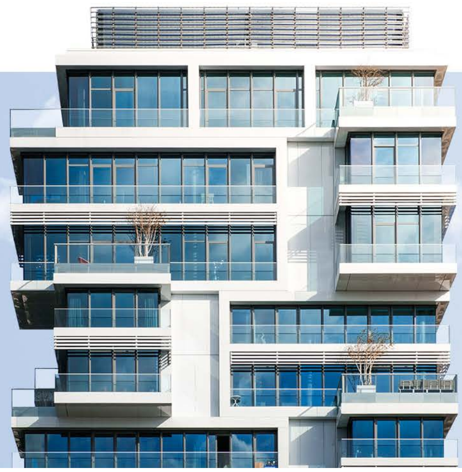
Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

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



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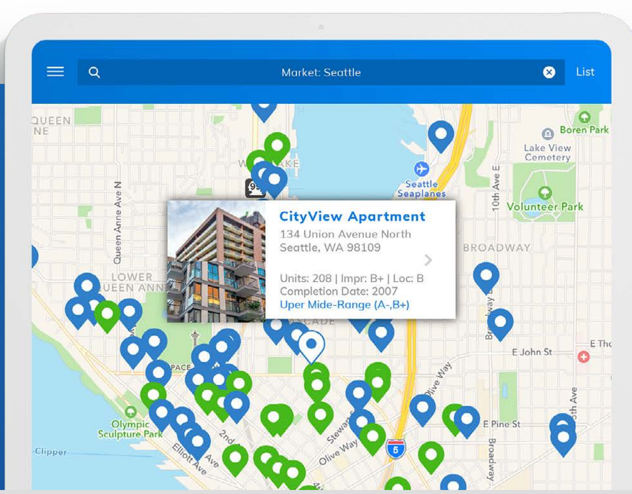
MULTIFAMILY KEY FEATURES

- 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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