Yardi® Matrix

Demand-Driven San Francisco

Multifamily Report Winter 2019

Professional, Business Services Top Job Gains

Development Activity Remains Elevated

Rent Growth Rebound Continues

Market Analysis
Winter 2019

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

Rebounding Market Pushes Rents Further

Fueled primarily by technology and health care, the Bay Area economy continues to expand, boosting rental demand along the way. The tepid construction activity and softening deliveries have pushed rents up 3.9% year-over-year through October to $2,662, nearly double the $1,420 national average.

Employment growth is accelerating, with the metro adding 56,700 jobs in the 12 months ending in September for a 1.7% uptick. It's a stronghold for tech, but the professional and business services sector led growth with the addition of 17,800 positions, while education and health services gained 13,200 jobs. A notable development in the works is Mission Rock, led by Tishman Speyer and the Giants baseball team. The public-private collaboration includes the port, city and county of San Francisco, and is set to transform a 28-acre waterfront parcel into a mixed-use neighborhood with some 1,400 residential units and 1.4 million square feet of office space.

Roughly 2,700 units came online in the first 10 months of 2018, but an additional 19,647 apartments were underway as of October. Following rent growth, investor interest is also on the upswing: Transaction volume in the first 10 months of the year totaled $1.8 billion, already surpassing the 2017 annual increase.

Recent San Francisco Transactions

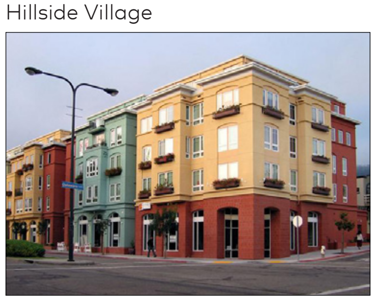
IMT Pleasant Hill

City: Pleasant Hill, Calif.
Buyer: IMT Capital
Purchase Price: $91 MM
Price per Unit: $361,111

IMT Pleasanton

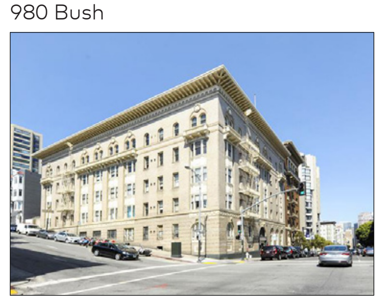
City: Pleasanton, Calif.
Buyer: IMT Capital
Purchase Price: $83 MM
Price per Unit: $413,500

Hillside Village



City: Berkeley, Calif.
Buyer: Clarion Partners
Purchase Price: $58 MM
Price per Unit: $614,362

980 Bush

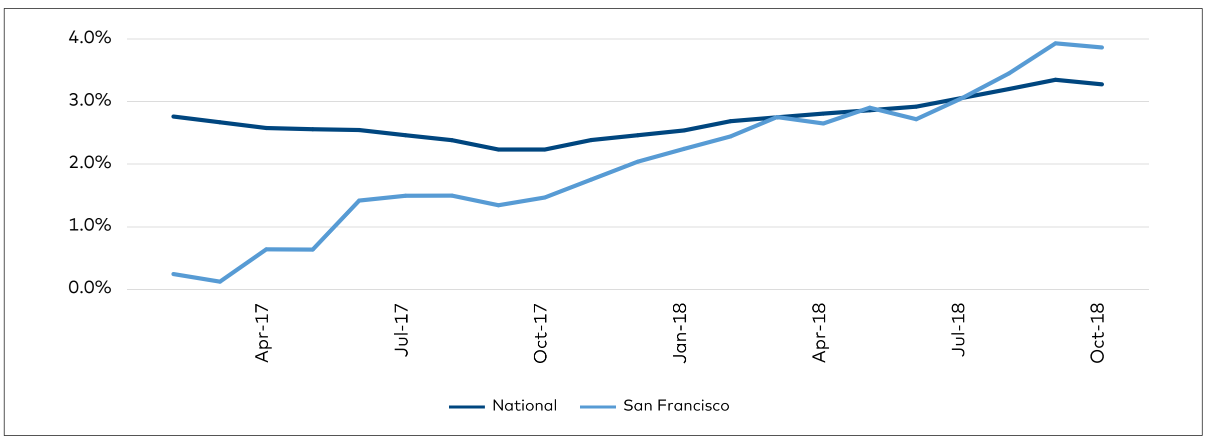


City: San Francisco
Buyer: Ballast Investments
Purchase Price: $38 MM
Price per Unit: $524,377

Rent Trends

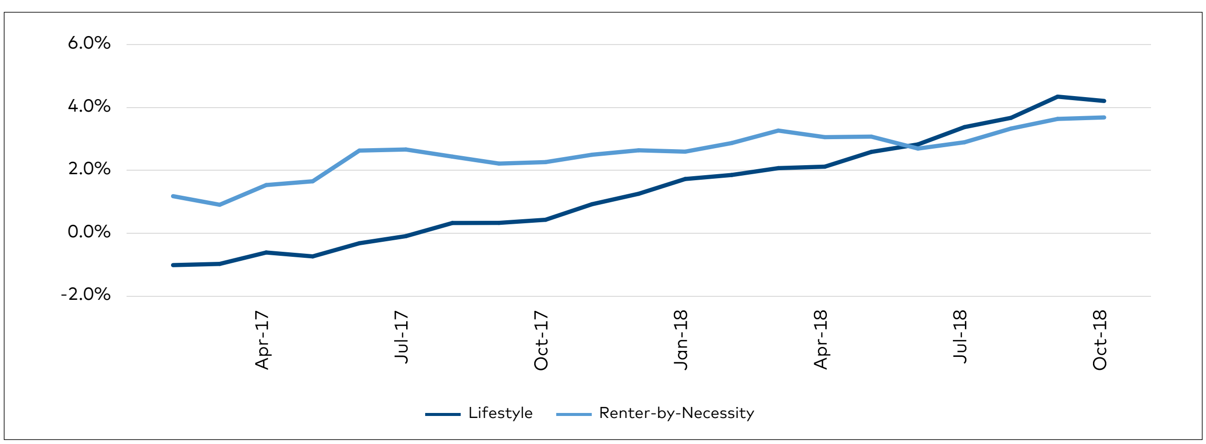
- Despite strong multifamily demand, a sharp contraction in completions emphasized San Francisco's housing shortage once again in 2018, pushing rates further. The average rent in the metro climbed another 3.9% year-over-year through October, 60 basis points above the national average. At $2,662, the average rent in the metro was nearly double the $1,420 U.S. figure.
- San Francisco's rent growth rebound lingers on, with rates in the Lifestyle segment surpassing the pace of the working-class Renter-by-Necessity sector in June. Lifestyle rents were up 4.2% year-over-year in October, reaching $3,192. Meanwhile, RBN rates rose 3.7%, to $2,391. With new inventory including assets across the quality spectrum, the market is likely to maintain this momentum, as the economy is adding high-paying jobs at a fast clip.
- Growth was uneven across the map, with average rents in four submarkets slightly contracting in the 12 months ending in October. East Livermore/East Dublin in the East Bay registered the biggest drop (down 0.5% to $1,966), likely due to the area's inventory consisting mostly of fully affordable properties. The greatest increase was registered in the Peninsula, in the Sonoma submarket (with the average rent up 9.1% to $1,897), followed by Broadmoor/Daly City (up 8.2% to $2,548). In the East Bay area, Newark led growth (up 5.9% to $2,554), followed by Pleasanton (up 5.2% to $2,615).

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)

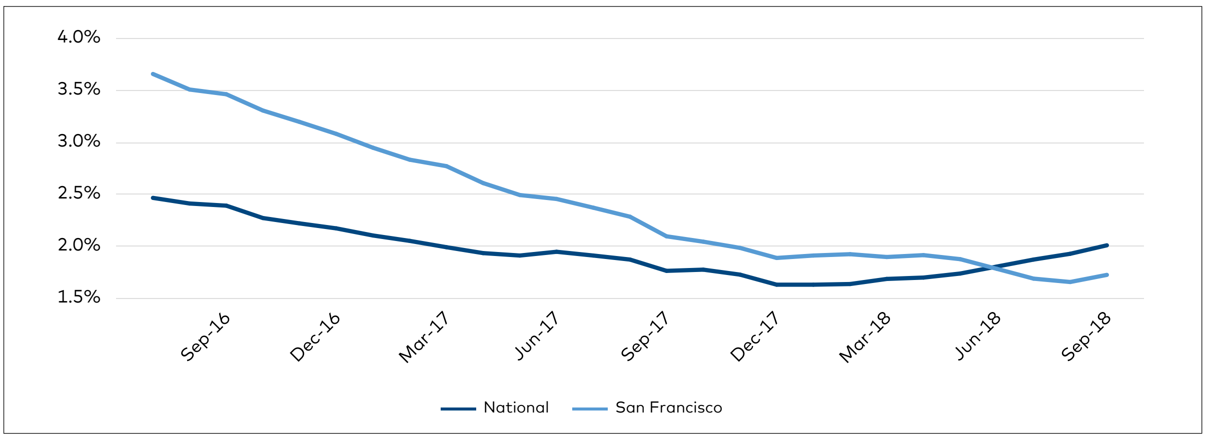


Source: YardiMatrix

Economic Snapshot

- The metro added 56,700 jobs year-over-year through September, a 1.7% increase and 30 basis points below the U.S. average. The unemployment rate dropped to 2.8% in August.
- The Bay Area remains a stronghold for technology, even though the region's employers are branching out to growing tech hubs such as Austin, Seattle and Phoenix. Professional and business services led growth, adding 17,800 jobs, swapping places with last year's top-performing sector, education and health services, which expanded by 13,200 positions through September. Considering the robust development and leasing activity across the metro, both are likely to maintain this trend: Cruise Automation leased 375,000 square feet in three buildings on Brannan Street; work is underway on the final phase of The Cove at Oyster Bay, which will bring more than 400,000 square feet by 2020.
- Tishman Speyer and the Giants baseball team—in a public-private partnership with the port, city and county of San Francisco—are collaborating to develop the waterfront Mission Rock mixed-use neighborhood. The project, expected to bring thousands of construction and permanent jobs, is set to include 1,400 residential units, 40% of which will be dedicated to affordable housing; 1.4 million square feet of office space; and 250,000 square feet of retail, as well as parking and eight acres of open 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	536	18.6%	17,800	3.4%
65	Education and Health Services	432	15.0%	13,200	3.2%
70	Leisure and Hospitality	336	11.7%	7,200	2.2%
15	Mining, Logging and Construction	157	5.5%	5,600	3.7%
40	Trade, Transportation and Utilities	462	16.1%	5,600	1.2%
50	Information	116	4.0%	4,600	4.1%
30	Manufacturing	195	6.8%	2,600	1.4%
90	Government	386	13.4%	1,700	0.4%
55	Financial Activities	159	5.5%	500	0.3%
80	Other Services	98	3.4%	-2,100	-2.1%

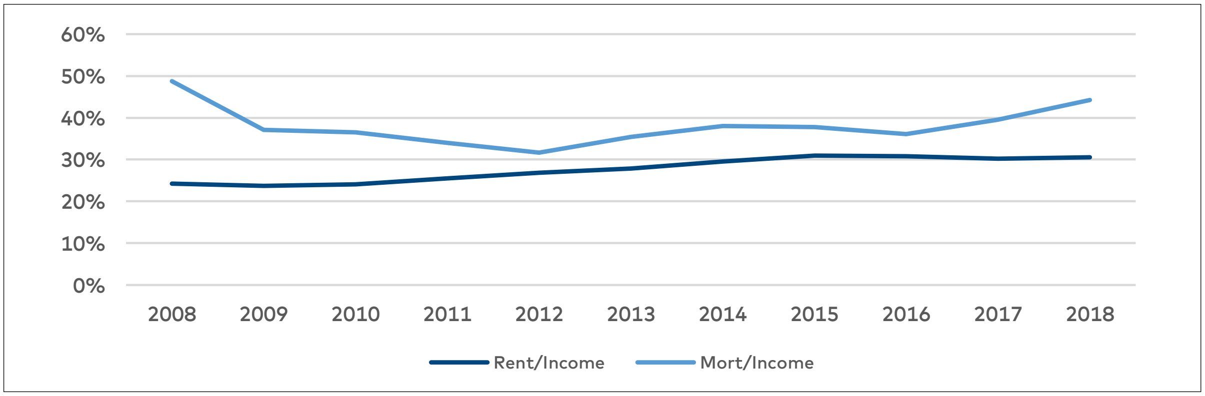
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

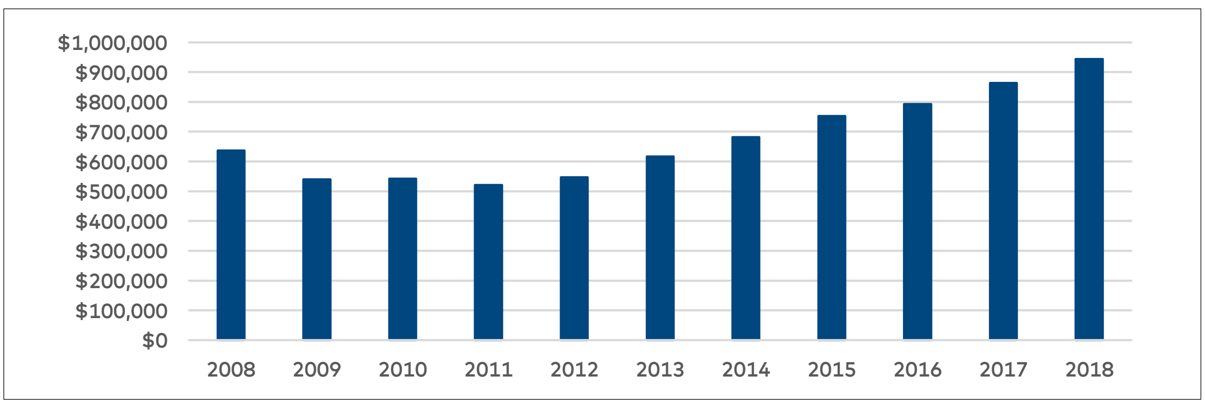
- San Francisco has been struggling with an acute affordability crisis in recent decades. About 65% of units in the metro are renter-occupied and more than 60% of all rental units are in rent-controlled buildings, but even these are becoming less affordable. In the first half of 2018, the average rent accounted for 31% of the area median income. The median home value rose 9.3% in the first half of 2018 to $944,212, with the average mortgage payment equating to 44% of the area median income.
- The Board of Supervisors has voted to create tiered rates within the scope of the Home SF program, which is estimated to bring 5,000 new affordable units over the next 20 years.

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 grew by more than 28,000 residents in 2017, up 0.6% and almost on par with the 0.7% national figure.
- Between 2013 and 2017, the metro added more than 198,000 residents, a 4.4% expansion.

San Francisco vs. National Population

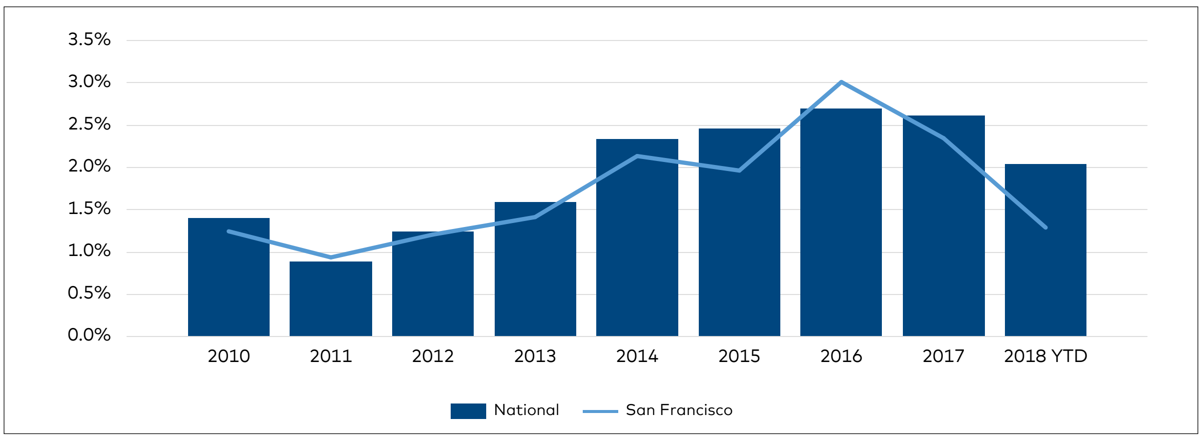
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Francisco Metro	4,528,717	4,595,964	4,657,985	4,699,077	4,727,357

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

Supply

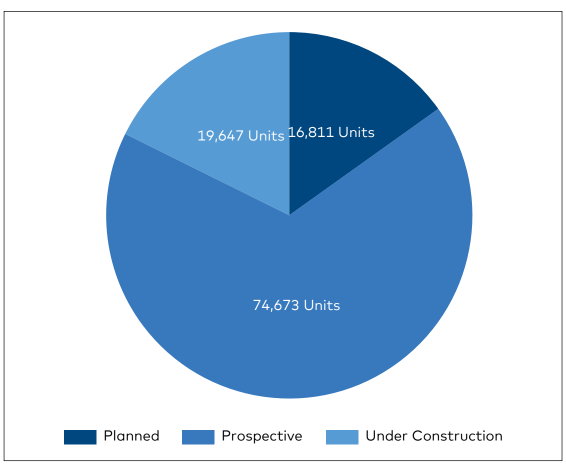
- Deliveries were on a downward trajectory in 2018, with completions totaling about 2,700 multifamily units through October, less than half of last year's volume. Deliveries were nearly equally split between segments.
- San Francisco had more than 19,000 units under construction as of October: more than 10,000 units in 56 properties in the East Bay area, with 15 of them fully affordable communities, and nearly 9,000 apartments in 47 assets on the Peninsula side, with 17 properties fully affordable. More than 91,000 units were in the planning and permitting stages. The occupancy rate in stabilized properties was 96.2%, up 10 basis points year-over-year, reflecting the metro's still strong rental demand.
- Construction activity was intense, with more than 12,000 units underway in the top five submarkets as of October. In the East Bay, Downtown Oakland led construction with 3,645 units, while on the peninsula side Eastern San Francisco had 2,927 apartments under construction. The largest community underway on the East Bay side was Carmel Partners' 634-unit Atlas in Oakland, while the largest project on the peninsula was Essex Property Trust's 545-unit, LEED-seeking 500 Folsom.

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



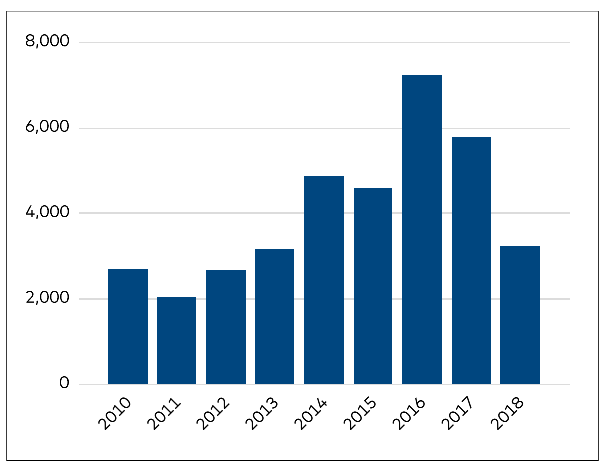
Source: YardiMatrix

Development Pipeline (as of October 2018)



Source: YardiMatrix

San Francisco Completions (as of October 2018)



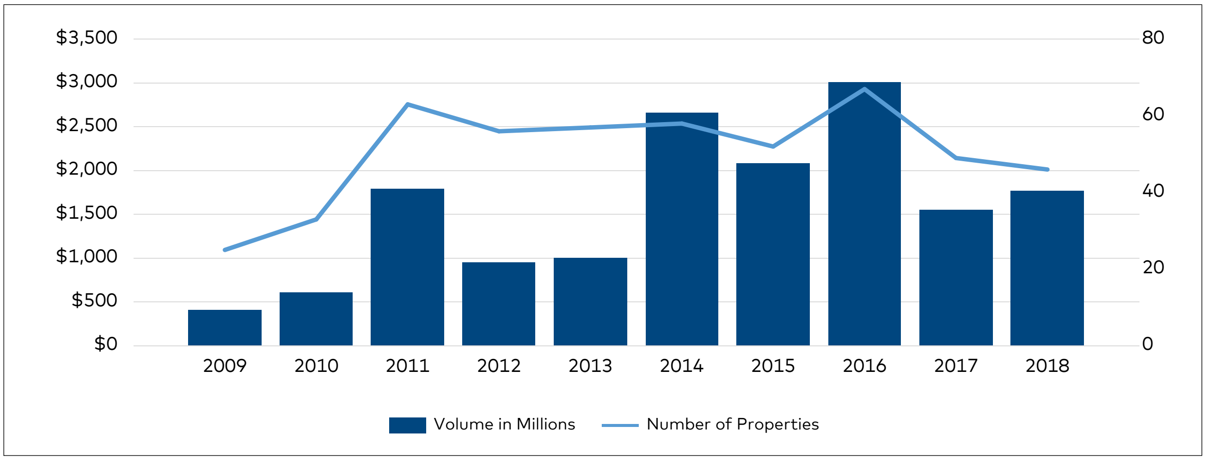
Source: YardiMatrix

Transactions

- Transaction activity maintained a moderate pace in 2018, with the multifamily sales volume totaling $1.8 billion for the first 10 months, surpassing 2017's level of roughly $1.6 billion. Of the 46 properties that changed ownership in 2018 through October, only eight were in the Lifestyle segment. Going forward, the rejection of Proposition 10 might encourage investors to pursue listings more aggressively.

- Despite a decrease in volume against the 2014-to-2016 period, the average per-unit value in San Francisco was up a healthy 28.5% year-over-year through October, boosted in part by the sharp slowdown in deliveries. At $352,958, the average price per unit in the metro was $200,000 above the U.S. figure. The East Bay attracted the most capital in the 12 months ending in October, with Alameda ($424 million) and Concord ($261 million) leading the pack. On the Peninsula side, the Market Street submarket ($126 million) topped the list.

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



Source: YardiMatrix

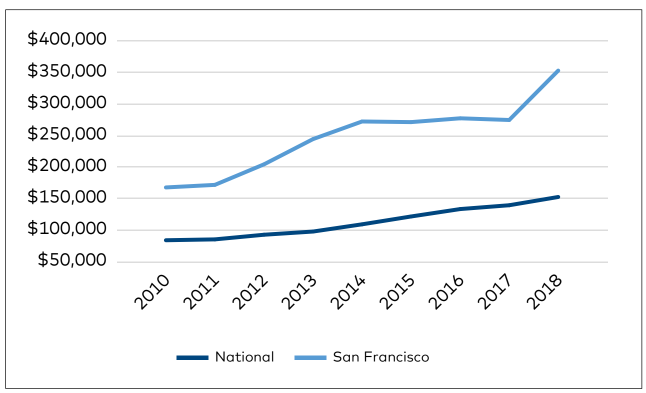
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Alameda	424
Concord	261
Pleasanton	251
Downtown Oakland	205
Vacaville	153
Market Street	126
Pleasant Hill/Martinez	120
Antioch/Oakley	110

Source: YardiMatrix

[1] From November 2017 to October 2018

San Francisco vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:

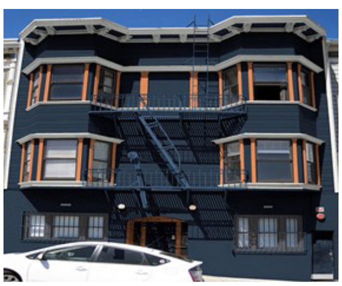
Get the latest in local real estate news by going to Multi-HousingNews.com

LMC Tops Out First Oakland Apartment Community

The 34-story mixed-use development, known as 17th and Broadway, has 254 luxury units loaded with smart home features and a variety of amenities.

Trinity Properties Lands $300M Refi In San Francisco

PGIM Real Estate Finance provided the refinancing package on eight of the owner's communities in the market, which total 1,154 units.

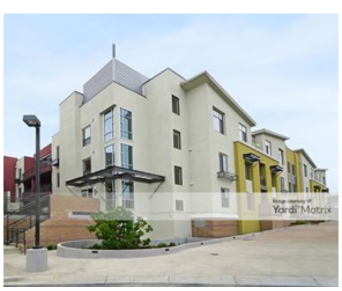


San Francisco Portfolio Sells For $260M

Hunton Andrews Kurth represented the seller, Nahla Capital, in its disposition of 30 assets totaling 400 units.

Related, Atria To Target $3B In Senior Housing Pipeline

The two companies are planning luxury high-rise properties in major U.S. markets, starting with New York City and San Francisco.



Suburban SF Community Refinances

Ravello Holdings completed work on the 128-unit luxury property in June. The new, $42 million financing package retires a nearly $30 million construction loan.

HFF Supplies $114M For SF Properties

Mosser Capital's portfolio includes 455 units and 13 ground-floor retail suites. The properties are located near mass transit and employment centers.

Executive Insight

Brought to you by:

MULTI-HOUSING NEWS

TruAmerica Still Bullish on Value-Add Buys

By Alexandra Pacurar

TruAmerica Multifamily is proving that value-add is not a niche play but a preferred investment strategy that offers higher returns and more opportunities. The company, a joint venture between Robert Hart and The Guardian Life Insurance Co. of America, owns about 37,000 units, with a total worth of $7.9 billion, according to a recent statement from the firm. More than 800 are located in the San Francisco area. Hart, TruAmerica's president & CEO, offers investment insights.

TruAmerica is a top multifamily investor in all major West Coast markets. What are the current investment trends in the region?

Investor demand for multifamily properties is as strong as it's ever been, due to large amounts of aggregated public and private capital seeking durable cash-on-cash returns and long-term, risk-adjusted returns. There has been some erosion of Class A rents in a few markets, such as Seattle, Portland and San Francisco, which have seen the highest level of new construction in more than a decade.

The demand for Class B and workforce housing, which targets renters by necessity, continues unabated, as the increase in Class A supply does not directly affect those sectors of the market. Spreads have narrowed as interest rates have risen. They are still positive, but not by nearly the same margins of 200 to 300 basis points from two years ago.

Any new markets worth looking into?

Another market that has extremely steady growth and rental demand

is Salt Lake City. Utah, in general, has experienced several consecutive years of strong job growth and low unemployment. However, supply has not kept up with the demand. Other than recent development in Salt Lake City's southern suburbs, there has been very little multifamily development added to the inventory.

Some industry players say that competition in value-add investing has increased and buying new is becoming more appealing. What are your views on this?

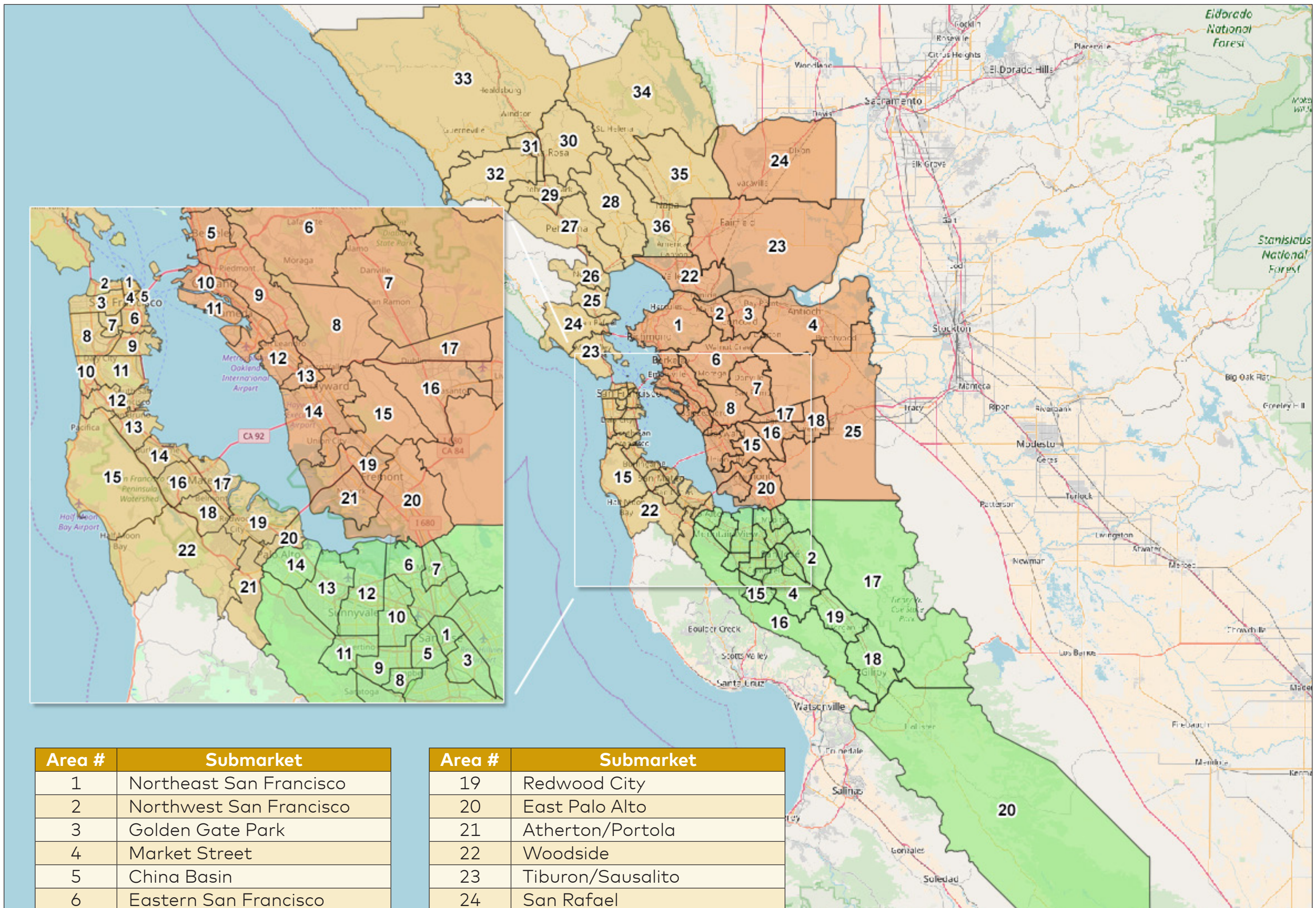
A one-size strategy doesn't fit all. Our business model has been to buy well-located properties in high-growth submarkets at below replacement cost. We also create a positive spread between the going-in cap rate and the stabilized cap rate. We do this by creating same-store growth through the renovation of vacant units and then bringing them to market.

The advantage of buying new product, even at low cap rates, is that it offers cash flow–driven buyers the possibility to stabilize sooner and mark to market.

How is technology changing multifamily investment?

Technology is making us better operators and market makers. The advent of optimization pricing models (and) rental and investment analytic tools gives us a strategic advantage over competitors that do not use this technology. We can increase leasing velocity and stabilize cash flow quicker by using these tools to price apartments more accurately, based on competitive levels and seasonality.

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

Area #	Submarket
13	San Lorenzo
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.

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.