



MULTIFAMILY REPORT

San Francisco Reemerges

July 2024

Advertised Rents Begin Recovery

Supply Volume Stabilizes

Unemployment Ticks Up

SAN FRANCISCO MULTIFAMILY



Job Growth, Occupancy Steady

San Francisco started 2024 with a modest recovery following several months of contractions. Advertised asking rents were up 0.5% on a trailing three-month basis through May, to \$2,799, outpacing the nation's 0.3%. The metro's average outpaced the U.S. for the first time in more than a year. Occupancy remained steady, at 95.3% in stabilized properties as of April, unchanged from last year, unlike several other major markets where rates have been declining. Meanwhile, the national average was down 60 basis points, to 94.5%.

Unemployment increased 90 basis points year-over-year, to 3.9% as of April, according to preliminary data from the Bureau of Labor Statistics. This was on par with the nation, but significantly below California's 5.3%. The metro added 14,800 jobs over the 12-month period ending in March, accounting for a 0.3% expansion, 110 basis points below the U.S. rate of growth. Education and health services gained the most jobs (26,000), while the information sector recorded the most significant losses (-14,700). The metro's second-largest sector is sustained by ongoing major projects, such as the \$4.3 billion expansion of UCSF Parnassus Heights Hospital.

San Francisco's existing multifamily stock expanded 1.0% in the first five months of the year, slightly above the U.S. by 10 basis points. However, the 77.7% decline in construction starts indicates that development is slowing down.

Market Analysis | July 2024

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Recent San Francisco Transactions

The Rise at Walnut Creek



City: Walnut Creek, Calif.
Buyer: Hines Interests
Purchase Price: \$57 MM
Price per Unit: \$740,259

Creekside Park

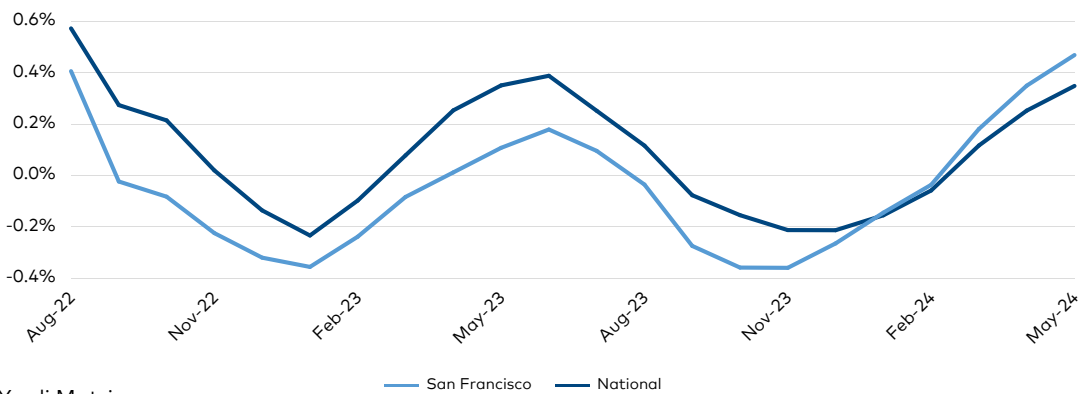


City: Napa, Calif.
Buyer: Browman Development Co.
Purchase Price: \$47 MM
Price per Unit: \$249,734

RENT TRENDS

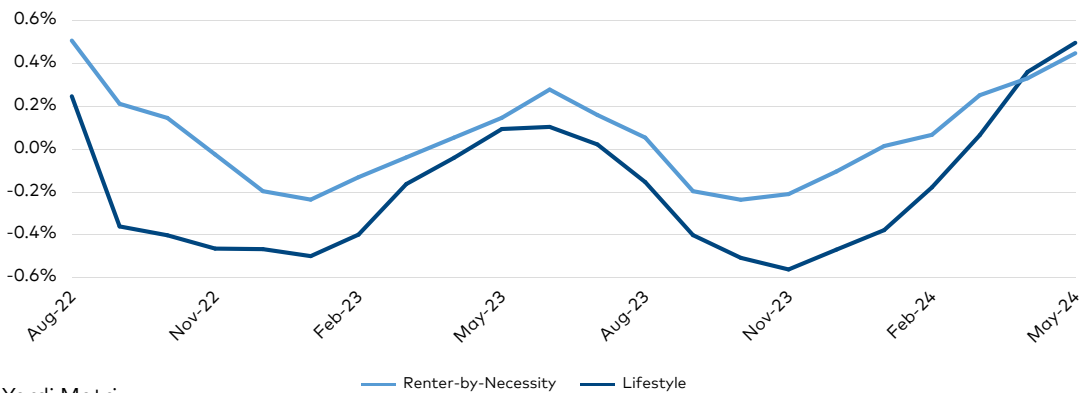
- ▶ San Francisco's advertised asking rents rebounded, up 0.5% on a trailing three-month (T3) basis through May, surpassing the national average by 20 basis points for the first time in over a year. The figure started to recover in February, following five months of contractions. Meanwhile, year-over-year improvement was 0.1%, trailing the 0.6% U.S. figure.
- ▶ The average advertised asking rate in the metro was \$2,799 as of May, roughly \$1,000 more than the U.S. figure. In the working-class Renter-by-Necessity segment, advertised asking rents were up 0.4%, to \$2,557, while the Lifestyle segment saw 0.5% growth, to \$3,192. The RBN segment recorded a softer contraction, down just 0.2% in November.
- ▶ Overall occupancy remained unchanged, at 95.3% as of April. Meanwhile, the national figure decreased 60 basis points year-over-year, to 94.5%. Both segments recorded slight changes in occupancy—RBN was up 10 basis points, to 95.3%, while Lifestyle declined 30 basis points, to 95.2%.
- ▶ Of the 61 submarkets across the metro, 35 recorded average or above-average year-over-year growth for advertised rents. The Peninsula region recorded some of the highest gains. Notable examples included Broadmoor/Daly City (up 10.0% to \$2,619), SW San Francisco (up 8.0% to \$3,478) and NE San Francisco (up 4.9% to \$3,582).

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 stood at 3.9% as of April, which was on par with the national figure, according to preliminary data from the BLS. Unemployment increased 90 basis points year-over-year, as a few sectors lost jobs during this period and employers looked to cut costs through layoffs. Meanwhile, California's jobless figure was 5.3%.
- San Francisco gained 14,800 net jobs over a 12-month period ending in March. The metro's employment growth rate improved to 0.3%, 110 basis points below the U.S. figure. This followed a significant decline in gains recorded in 2023's second half. The rate declined 160 basis points year-over-year, with job development recording contractions from September 2023 to January 2024.
- Education and health services led growth with 26,000 jobs, up 5.6%, followed by government (10,500 jobs) and leisure and hospitality (8,000 jobs). The information sector lost 14,700 jobs (-9.7%), while professional and business services was down 9,700 positions (-1.8%).
- The education and health services sector will experience further growth. Construction started on a \$4.3 billion expansion of UCSF Parnassus Heights Hospital. The 15-story facility, scheduled to open in 2030, will increase bed capacity by 37% and emergency care beds by 71%.

San Francisco Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	491	17.0%
90	Government	392	13.6%
70	Leisure and Hospitality	307	10.6%
80	Other Services	102	3.5%
15	Mining, Logging and Construction	153	5.3%
40	Trade, Transportation and Utilities	417	14.4%
30	Manufacturing	198	6.9%
55	Financial Activities	149	5.2%
60	Professional and Business Services	541	18.7%
50	Information	137	4.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- San Francisco's population declined 0.7% between 2021 and 2022. The change was similar to other major metros after the pandemic and amid rising housing costs. Still, the metro's population was 7.9% higher than in 2012.

San Francisco vs. National Population

	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
San Francisco	4,701,332	4,709,220	4,725,584	4,692,242

Source: U.S. Census

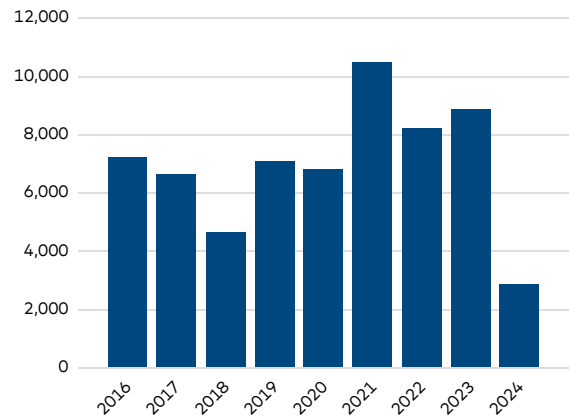
SUPPLY

- ▶ San Francisco developers completed 2,886 units year-to-date through May. This represented a nearly 1.0% expansion of existing stock and outpaced the U.S. figure by 10 basis points. Completions slightly increased from the 2,648 units delivered during the same period last year. Between 2016 and 2023, developers averaged 7,514 units annually, with a peak of 10,501 units in 2021.
- ▶ The metro had 16,507 units under construction in May, with an additional 130,000 units in the planning and permitting stages. The Lifestyle segment comprised most of the under-construction pipeline (50.8%), in line with national trends. Fully affordable development has increased in the metro since last year, with 42.3% of all units currently under construction falling into this segment. The remaining 6.9% of units were in RBN assets.
- ▶ Four properties, encompassing 699 units, broke ground in the first five months of the year across San Francisco. This was a 77.7% decrease from the 3,132 units that broke ground during the same period last year.
- ▶ The San Francisco-Peninsula area had 10,010 units under construction, while the East Bay

had 6,497 units. Development was concentrated in high-income markets, such as Redwood City (1,747 units underway), Downtown Oakland (1,554), Santa Rosa (1,173) and East Fremont (1,153).

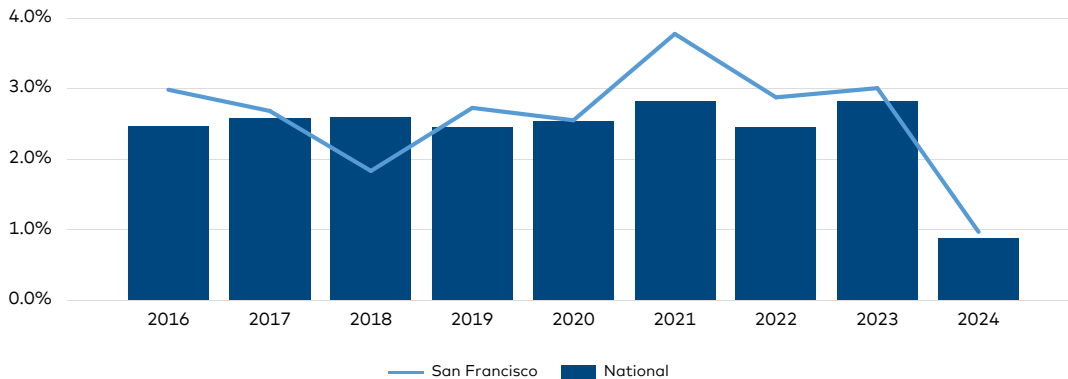
- ▶ Strada Investment Group's 555 Bryant St. in Eastern San Francisco was the largest project underway, slated to add 500 units, 71 of which will be fully affordable. The 16-story building is expected to come online in 2026.

San Francisco Completions (as of May 2024)



Source: Yardi Matrix

San Francisco vs. National Completions as a Percentage of Total Stock (as of May 2024)



Source: Yardi Matrix

TRANSACTIONS

- ▶ San Francisco investors traded 11 properties for \$160 million through the first five months of 2024. That was 81.4% less than the total recorded in the same interval of last year. Of the properties that changed hands, 10 were RBN assets and only one was Lifestyle. Last year, investment volume dropped to its lowest level this decade, with \$1.2 billion in assets trading. Activity has been on a downward trend since 2021, when volumes reached \$3.4 billion. On average, investors traded \$2.4 billion in assets annually in the past decade.
- ▶ The metro's average price per unit reached \$274,118 as of May, nearly \$100,000 more than the U.S. figure. Average prices declined nationwide, but San Francisco saw a significant downturn from \$400,528 in 2022, to \$255,766 in 2023, mostly due to a pivot to value-add deals during this period.
- ▶ Investors were focused on the East Bay market, which accounted for \$113 million of the total volume this year through May, while only a single, \$47 million sale closed in the Peninsula.

San Francisco Sales Volume and Number of Properties Sold (as of May 2024)



Source: Yardi Matrix

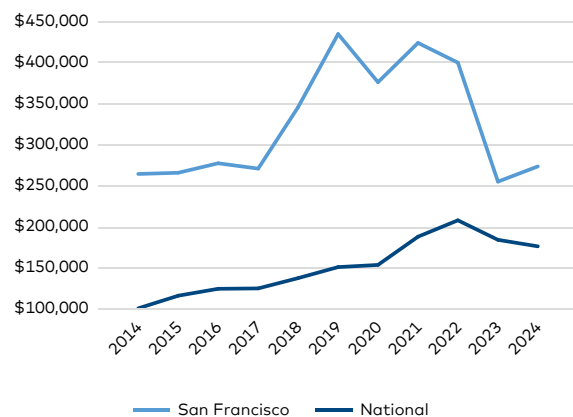
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Walnut Creek/Lafayette	\$115
West Fremont	\$90
Santa Rosa	\$60
Redwood City	\$54
Napa North	\$47
East Fremont	\$36
Pleasanton	\$36

Source: Yardi Matrix

¹ From June 2023 to May 2024

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

Top Western Markets for Multifamily Development

By Tudor Scolca

Multifamily development across the U.S. stalled at the beginning of the year, with major Western markets also recording a slowdown in new construction starts. Developers nationwide have slowed or halted activity due to economic headwinds and high interest rates. Still, a few metros stood out with significant construction pipelines, according to the latest Yardi Matrix data.

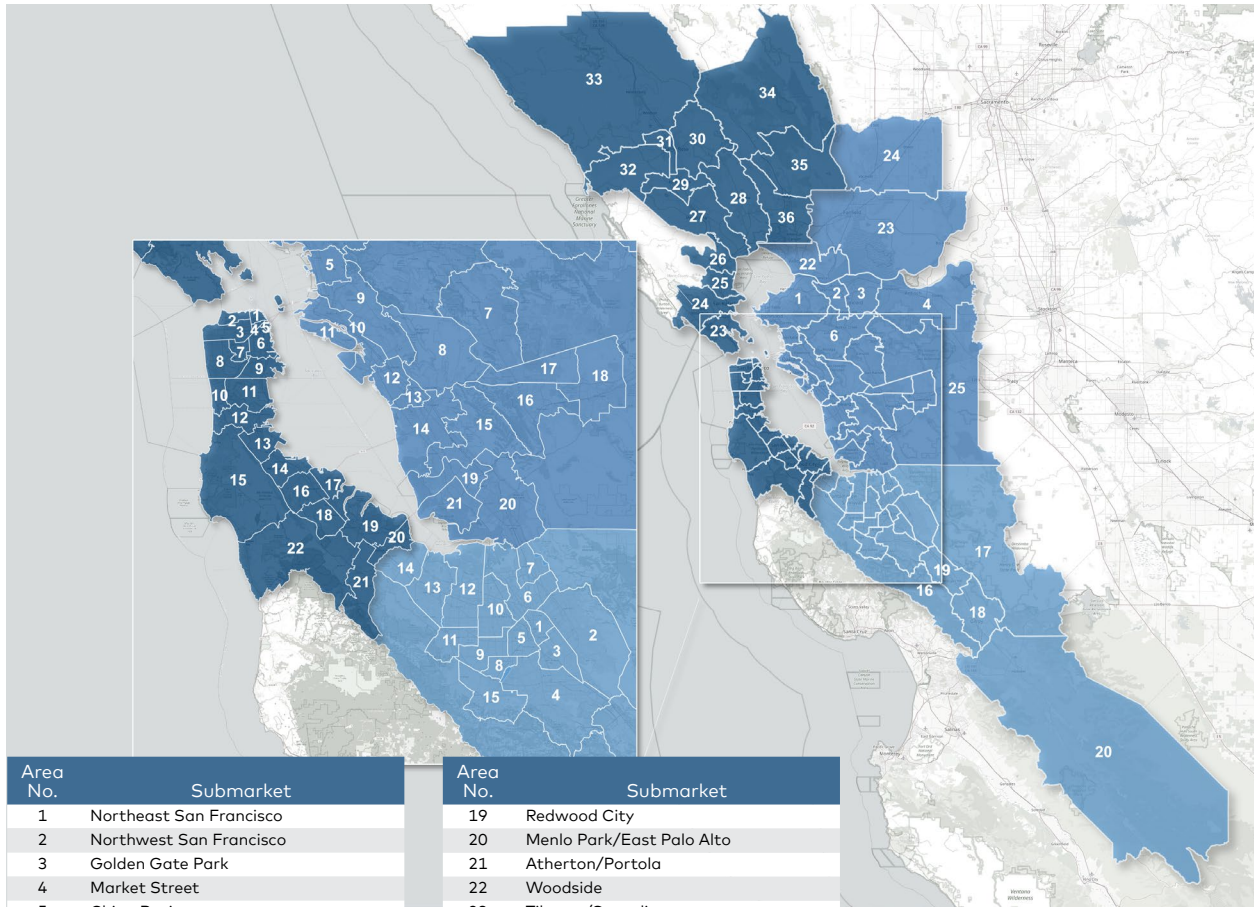
Metro	Price Per Unit	Properties Traded	Units Traded	Sales Volume
National	\$187,744.92	2,451	439	\$69,388,075,254
Dallas	\$151,108.78	183	40	\$4,174,529,639
Atlanta	\$196,139.81	100	20	\$3,731,255,605
Phoenix	\$289,302.52	51	11	\$3,217,333,332
Chicago	\$207,465.22	73	14	\$2,646,076,052
Denver	\$320,997.13	45	7	\$2,532,618,716
Boston	\$429,169.79	28	5	\$2,513,541,750
Miami Metro	\$266,828.36	48	10	\$2,477,684,737
Washington, D.C.	\$261,684.55	44	10	\$2,236,427,318
Charlotte	\$223,421.00	50	10	\$1,981,747,182
Tampa	\$197,224.27	50	11	\$1,963,452,980

San Francisco

Rounding out the top five Western markets for multifamily development was San Francisco. The metro had 16,519 units under construction in May, of which 9,557 were in the San Francisco Peninsula market and 6,962 in the East Bay Area. San Francisco had an additional 130,000 units in the planning and permitting stages. Developers broke ground on just 699 units across San Francisco year-to-date through May, yet another dramatic decline from the 3,876 units that started construction in the same period last year.



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	Sebastopol
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.

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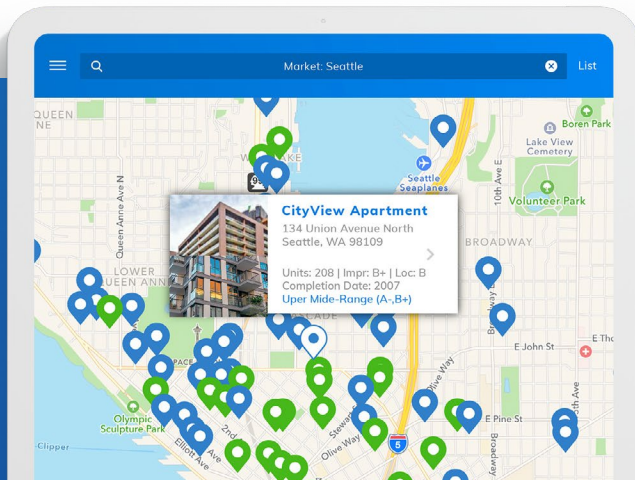
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