Yardi® Matrix

No Slowing Down San Francisco

Multifamily Report Spring 2019

Rent Growth Picks Up

Development Slated for Cycle Peak

Transaction Activity Remains Strong

Market Analysis
Spring 2019

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Bay Area Braces for Development Surge

With rent growth steadily accelerating and development picking up, San Francisco's multifamily market finished 2018 on a strong note. The average rent was up 4.0% year-over-year through February, reaching $2,660.

Employment growth was consistent, with the metro adding 59,200 jobs in 2018 for a 1.8% uptick. Professional and business services led growth with 20,500 positions, followed by education and health services (12,400). Both sectors are poised for further expansion, mirrored by strong office leasing activity and a large development pipeline, including the newly opened $2.1 billion California Pacific Medical Center Van Ness Campus and the 824,000-square-foot Stanford hospital slated to open this fall in Palo Alto. Moreover, several large Bay Area tech players—including Uber, Lyft, Airbnb, Pinterest, Slack and Palantir—either have gone or are planning to go public in 2019, injecting a significant amount of wealth into the regional economy. This could, in turn, further boost the housing market.

More than 4,300 units were delivered last year, with an additional 19,683 units underway as of February. Meanwhile, rebounding rent growth boosted investor appetite, with $2.2 billion in multifamily assets trading in 2018. With development slated to hit a new cycle peak this year and absorption keeping up, Yardi Matrix expects rents to rise 2.7% in 2019.

Recent San Francisco Transactions

Sofi Union City

City: Union City, Calif.
Buyer: Pacific Urban Residential
Purchase Price: $92 MM
Price per Unit: $366,000

Skyline Heights

City: Daly City, Calif.
Buyer: Interstate Equities Corp.
Purchase Price: $92 MM
Price per Unit: $359,375

The Mark

City: Hayward, Calif.
Buyer: New Standard Equities
Purchase Price: $44 MM
Price per Unit: $293,333

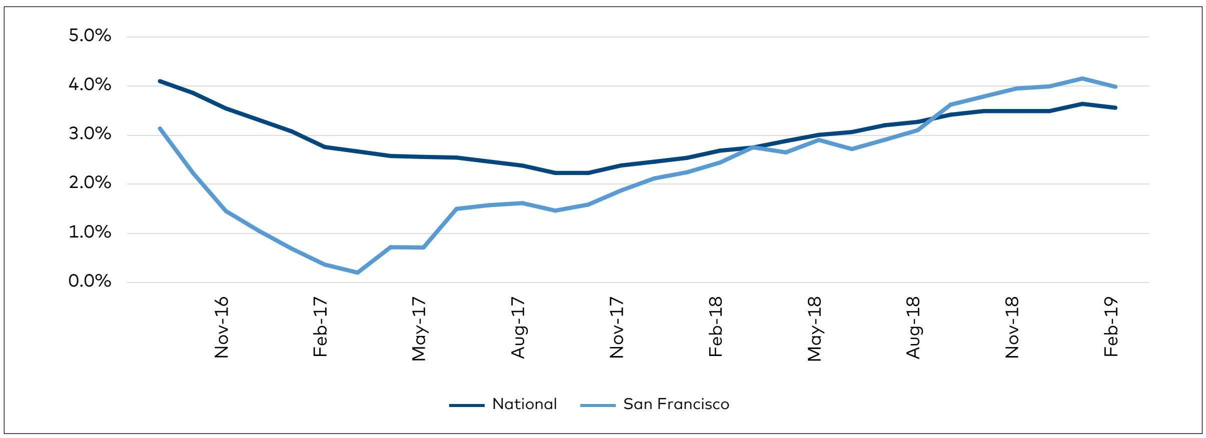
Bay Village

City: Vallejo, Calif.
Buyer: Waterton
Purchase Price: $65 MM
Price per Unit: $248,077

Rent Trends

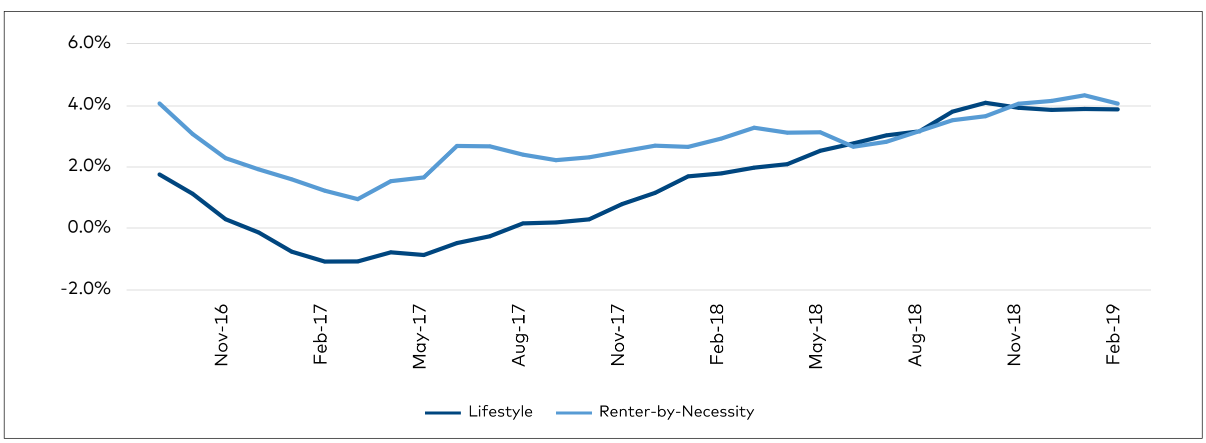
- San Francisco rent growth is on the rebound, having steadily accelerated in 2018. It clocked in at 4.0% year-over-year for the first two months of 2019, 40 basis points above the U.S. rate. The average rent rose to $2,660, a hefty $1,234 above the national figure.
- Rent gains were consistent across asset classes. Working-class Renter-by-Necessity rates were up 4.1% to $2,385. Meanwhile, Lifestyle rents improved 3.9%, reaching $3,194.
- Growth was uneven, with rents contracting in two submarkets: Roseland (-2.3% to $1,794) and Rohnert Park (-0.8% to $1,968). Meanwhile, three submarkets registered flat growth over 12 months: Central San Francisco ($3,565), Pentaluma ($2,362) and Santa Rosa ($2,041). NW San Francisco rents were up 2.2% to $4,443, remaining some of the priciest in the metro. In the East Bay area, the most expensive rents were registered in Berkeley (up 1.1% to $3,150).
- While completions in the area are slated to reach a new cycle peak this year, rental demand remains strong, boosted by a still-expanding economy. Although San Francisco's housing crisis is not getting any easier, absorption should keep up the pace. Yardi Matrix expects rents in the metro to advance 2.7% in 2019.

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)

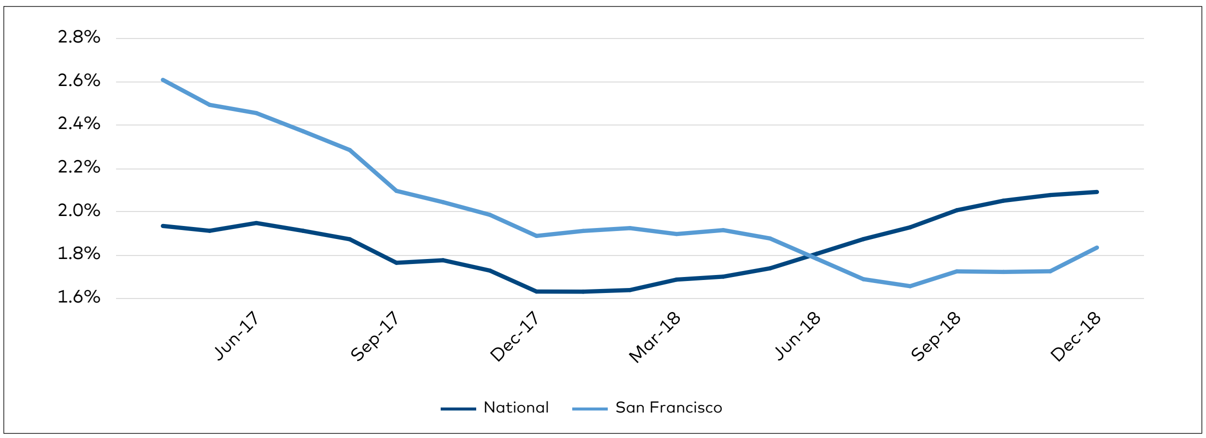


Source: YardiMatrix

Economic Snapshot

- San Francisco added 59,200 jobs in 2018 for a 1.8% uptick, 30 basis points below the U.S. figure. After trailing San Francisco's rate for several years, the national figure slowly but steadily rebounded during 2018, with the two intersecting mid-year. The metro's already tight unemployment rate dipped to 2.5% as of November.
- Adding 20,500 jobs, professional and business services expanded 3.9%, leading growth. Dropbox is slowly filling up the 750,000 square feet it leased at the Exchange on Sixteenth, while Facebook pre-leased Kylli Inc.'s 803,000-square-foot Burlingame Point, an office campus slated for completion in 2020. With the S&P reaching new heights, several large Bay Area tech players—including Uber, Lyft, Airbnb, Pinterest and Palantir—have recently undergone or are planning initial public offerings. This translates into a significant injection of wealth into the regional economy, bringing cash flow to be spent locally, with precedents showing that IPOs can generate significant spikes in the housing market.
- Education and health services added 12,400 positions and is poised for another banner year, as several projects opened or are underway: The $2.1 billion California Pacific Medical Center Van Ness Campus finally opened, a new 824,000-square-foot Stanford hospital is slated to open this fall in Palo Alto, while California Northstate University intends to build a 250-bed teaching hospital, set to open in 2022.

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	545	18.7%	20,500	3.9%
65	Education and Health Services	441	15.1%	12,400	2.9%
70	Leisure and Hospitality	334	11.5%	7,600	2.3%
15	Mining, Logging and Construction	156	5.3%	6,200	4.2%
50	Information	117	4.0%	4,600	4.1%
40	Trade, Transportation and Utilities	480	16.5%	3,600	0.8%
30	Manufacturing	192	6.6%	2,100	1.1%
90	Government	395	13.5%	1,300	0.3%
55	Financial Activities	160	5.5%	800	0.5%
80	Other Services	98	3.4%	100	0.1%

Sources: YardiMatrix, Bureau of Labor Statistics

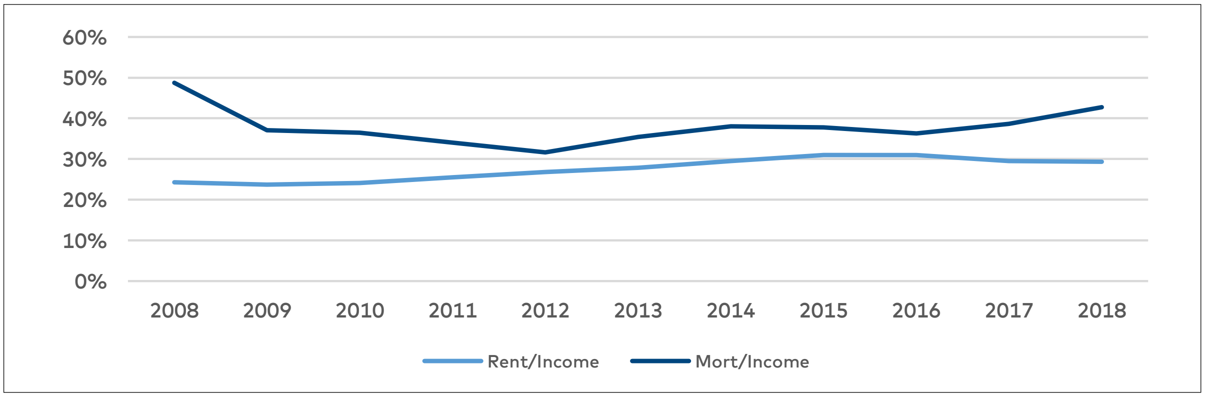
Demographics

Affordability

- Home values in San Francisco continued their hike, with the median price increasing 10% last year to $950,819, a new cycle high and up 83% since the 2011 trough. This prolonged appreciation continues to further push residents toward renting, with the average rent accounting for 29% of the area median income. Meanwhile, the average mortgage payment equates to as much as 43%.

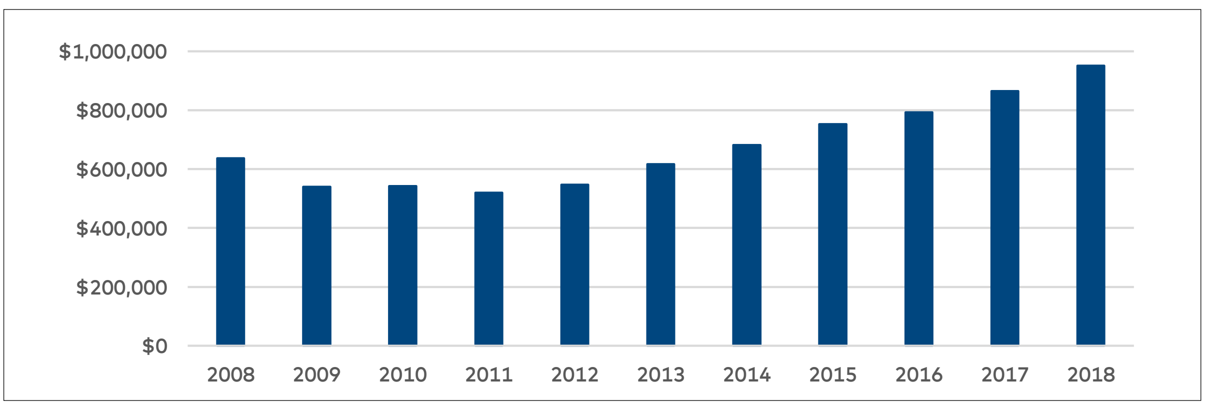
- There are various efforts underway to address the area's deep housing crisis, including the approval of Propositions 1 and 2, two initiatives that together provide a record-breaking $6 billion statewide in housing for low-income families, veterans and homeless people with severe mental illness.

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's population rose 0.6% in 2017, 10 basis points below the U.S. figure.
- Between 2013 and 2017, population growth in the metro outpaced the national figure by 130 basis points.

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

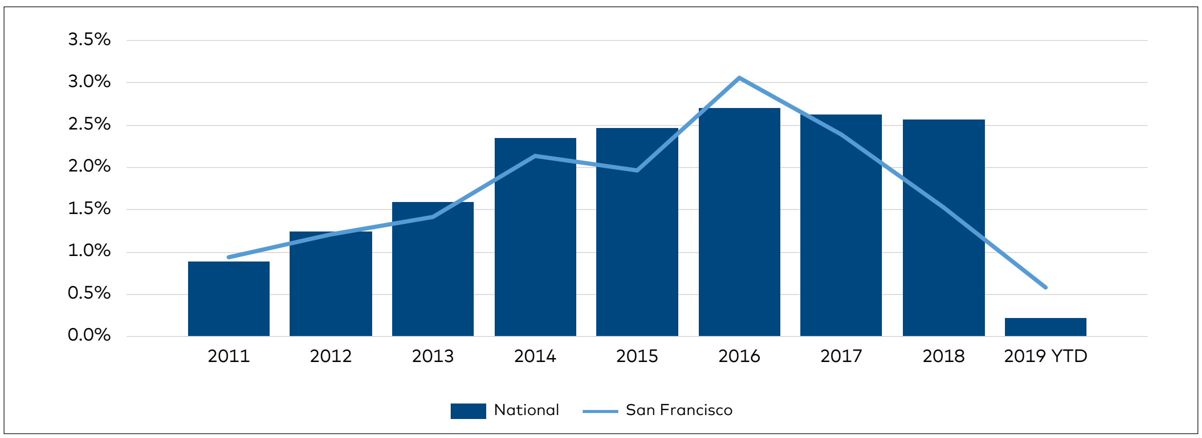
Supply

- Deliveries picked up pace in the final months of the year, with completions totaling 4,304 units in 2018: 1,345 units on the East Bay side and 2,959 units on the Peninsula side. The total represents 1.5% of stock, 90 basis points below the national rate. Yardi Matrix estimates 8,280 units will be delivered in 2019, nearly double last year's total and marking a strong cycle peak.

- San Francisco had more than 19,683 units under construction as of February: nearly 12,000 units on the East Bay side, of which 1,484 are in fully affordable communities, and almost 8,000 units on the Peninsula side, with 1,888 units in fully affordable communities. More than 97,000 units were in the planning and permitting stages. Despite a steady pipeline over the past five years, the occupancy rate in stabilized properties remained flat over 12 months, at 95.8% as of January.

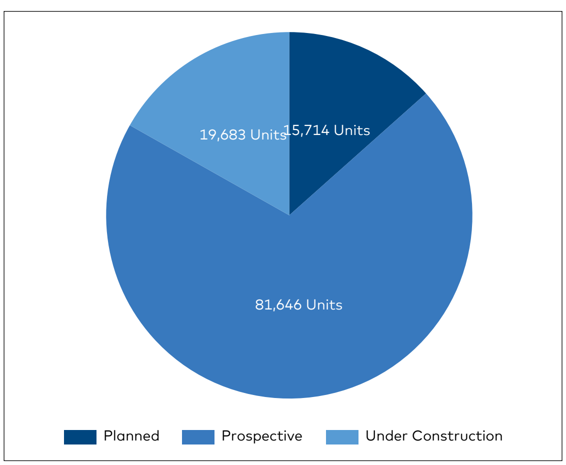
- Construction was most intense in Downtown Oakland (4,349 units underway) and East Oakland/Oakland Hills (3,905 units). On the Peninsula side, Eastern San Francisco leads the pipeline, with 2,222 units under construction, followed by China Basin (1,240 units). Carmel Partners' 634-unit Atlas in downtown Oakland is the largest development underway, scheduled to come online in early 2020.

San Francisco vs. National Completions as a Percentage of Total Stock (as of February 2019)



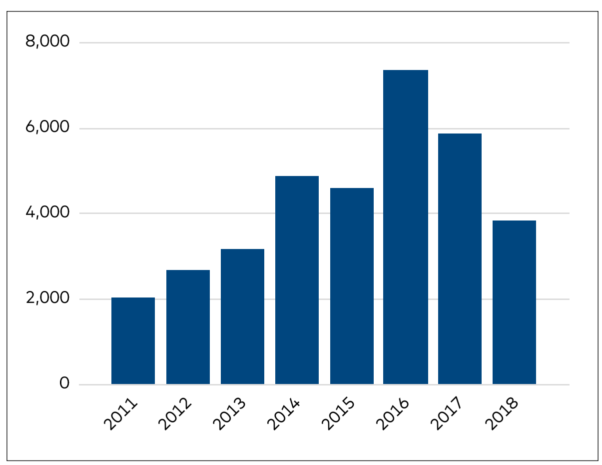
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

San Francisco Completions (as of February 2019)

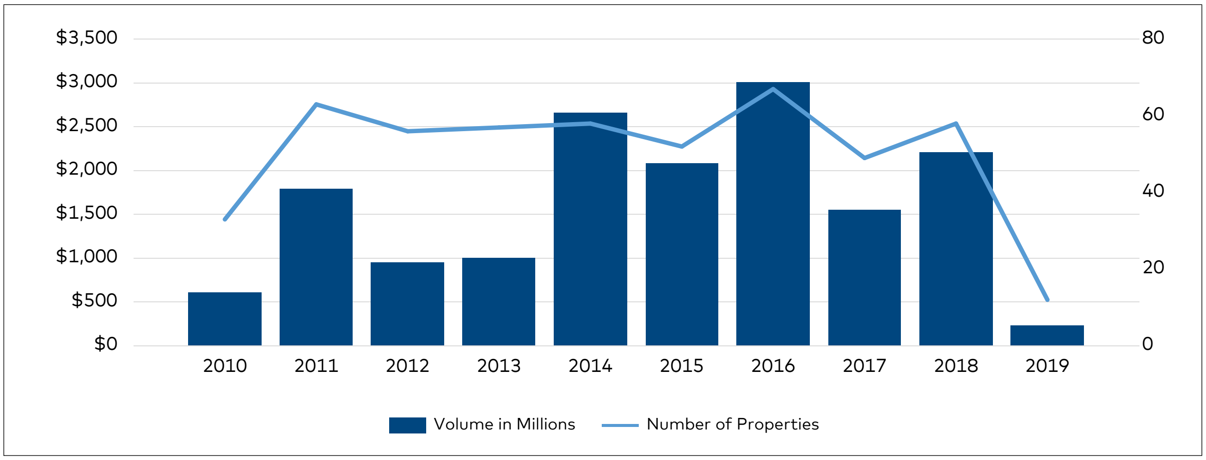


Source: YardiMatrix

Transactions

- Transaction volume in San Francisco reached $2.2 billion in 2018, a 42% boost over 2018 but below the 2016 cycle peak ($3 billion). Last year, most deals closed for assets on the East Bay side ($1.9 billion). In the first two months of 2019, $234 million in multifamily communities traded across the metro.
- The bulk of properties trading last year were RBN assets, but the average per-unit price rose a solid 24.1% to $341,028, more than double the $154,305 U.S. average. Limited listings and elevated demand have pushed up prices, with the average RBN unit trading for $313,922, up 29.7% year-over-year.
- Last year's largest transaction was Maximus Real Estate Partners' acquisition of the 444-unit South Shore Beach & Tennis Club from Prometheus Real Estate Group for $193 million, or $435,135 per unit. Constructed in 1974, the six-building Alameda property was 93.9% occupied as of February.

San Francisco Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

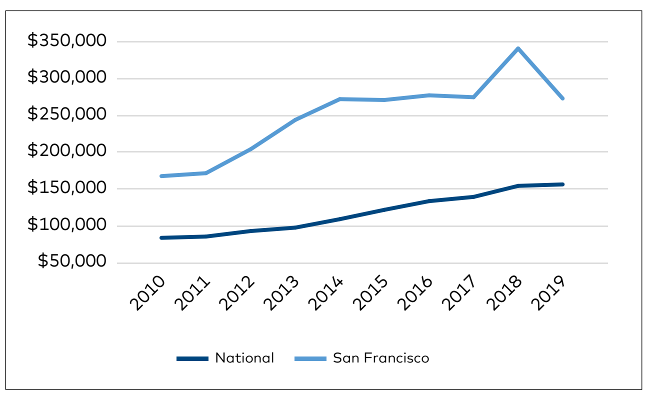
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Pleasanton	276
Downtown Oakland	205
Concord	200
Alameda	193
Pleasant Hill/Martinez	168
Union City	162
Vacaville	129
Market Street	126

Source: YardiMatrix

[1] From March 2018 to February 2019

San Francisco vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Reliant Group Pays $116M for Bay Area Portfolio

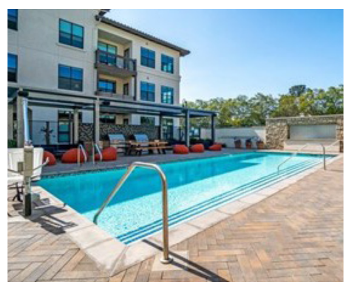
The deal includes more than 600 workforce housing units spread across seven properties. The new owner plans to convert four of the assets into affordable housing communities.

$500M Fund Targets Bay Area Affordable Housing Shortage

A consortium of leading Bay Area philanthropy, business and community advocates—including the organization co-founded by Facebook's CEO—is launching one of the largest housing investment funds in the U.S.

Gadsden Growth Acquires Bay-Area Asset for $240M

Mission Hills Square in Fremont, Calif., has 158 residential units and 53,900 square feet of retail space. The mixed-use development is expected to be completed in October.



San Francisco-Area Project Gets $104M In Financing

A joint venture of Prometheus and Legacy Partners secured construction financing for Trestle Apartments, a mixed-use development under construction in San Carlos, Calif.

2 Bay Area Properties Trade for $20M

The assets add up to 58 units and are both located close to several large tech employers. Levin Johnston brokered the transactions.

NorCal Apartments Change Hands

Burbank Housing Development purchased the 56-unit Class C community for $15 million. Two lenders facilitated the transaction with acquisition and development financing.

Executive Insight

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Inside the Bay Area's Dynamic Investment Market

By Alexandra Pacurar

There has been some cooling of price and income expectations, but buyers are still enthusiastically grabbing up San Francisco and Silicon Valley multifamily. Levin Johnston Senior Managing Directors Robert Johnson and Adam Levin shed light on this trend and share the strategies of investors looking for higher yields in this West Coast region.

The two also reveal what type of properties are most attractive and how the Opportunity Zones program changed the conversation around investment in the area.

How has the multifamily investment environment changed over the past several years in the Bay Area? What are the main trends?

Levin: Investors are still quite confident in the multifamily market here, and investment levels remain strong. That said, buyers recognize that this expansion has been extremely long, and they are more realistic about the pace of price growth now than they were a few years ago.

We've seen a sharp slowdown in multifamily construction in the Bay Area, which has caused prices to appreciate significantly, and this has prompted investors to reposition their portfolios toward areas showing significant tenant and rent growth. We believe that as the development pipeline builds back up in 2019, we will see opportunities for new construction, creating some market dislocations. This shift encouraged many investors to complete their leasing and portfolio transactions before year-end 2018.

Adam Levin *(left)* and Robert Johnson *(right)*

What type of multifamily properties are investors looking for in the Bay Area?

Johnson: With valuations of Class A multifamily properties in this market run up so high, investors are seeking the best path to higher yields. For a great majority of investors, this path has been through value-add plays. There are many great opportunities to purchase properties that have some age on them, reposition them, and sell them to eager buyers.

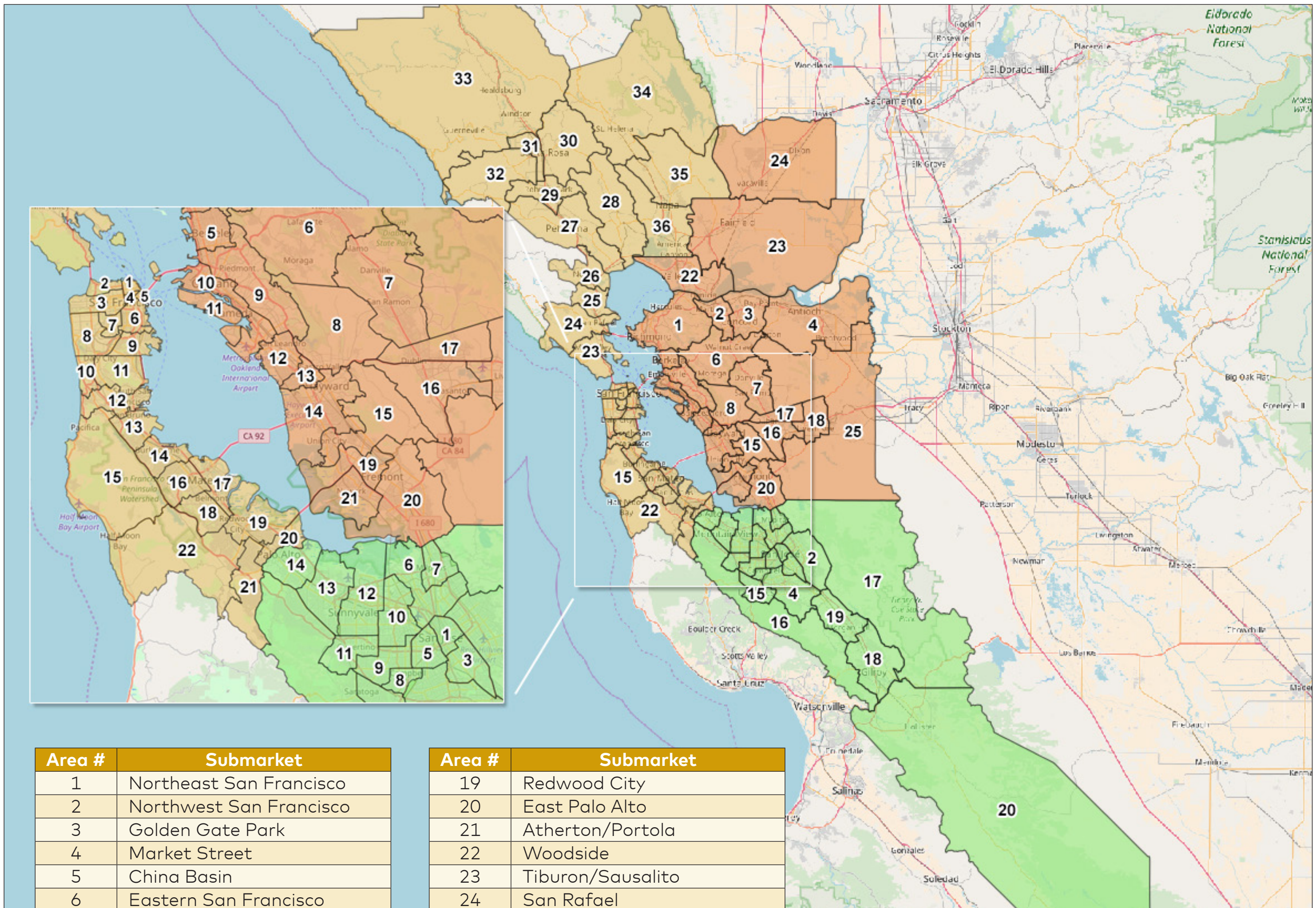
How did Opportunity Zones change the discussion around multifamily investment in the Bay Area?

Levin: Opportunity Zone legislation has sparked the creation of new funds in which people can invest to help economically disadvantaged areas. The Bay Area still tends to attract mostly seasoned long-term investors, so many of our clients are interested in 1031 exchanges, and they don't need Opportunity Zones to take advantage of that tax code. Our clients would need to see strong stock gains at cash-out to make that type of investment worth their while.

Tell us about your expectations for the year ahead. How do you expect the market to change this year?

Johnson: Multifamily fundamentals will remain strong in 2019. There's a good amount of velocity, and there continues to be a lot of capital that needs to go to work in the Silicon Valley and Bay Area as a whole. Multifamily is the best place to invest capital: The stock market is too volatile, people will always need a place to live, and multifamily fulfills that need. We're bullish for a successful 2019.

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.