



Yardi® Matrix

# High-Tech San Francisco

Multifamily Report Summer 2019

Rent Growth Moderates

Construction Stays Elevated

Investment Activity Remains High

## Market Analysis

Summer 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

## Job Growth Powers the Bay

San Francisco's housing shortage is putting a lot of pressure on residents and policymakers alike, with local authorities revisiting rent control legislation. In the meantime, rents continued their rise, up 3.2% year-over-year to \$2,735 as of June. The amount is nearly twice the \$1,465 U.S. figure.

San Francisco gained 69,200 jobs in the 12 months ending in April. Professional and business services (20,200 jobs), education and health services (14,400 jobs) and mining, logging and construction (12,400 jobs) led growth and are poised to continue on an upward trend. In the past year, Google expanded its local office footprint to 1.5 million square feet, making it the metro's third-largest tenant. Additionally, its \$15 billion partnership with Lendlease to develop three new neighborhoods in the Bay Area will incorporate forces from all sectors. The project's design encompasses 15.1 million square feet of mixed-use developments as well as 15,000 units spanning all income levels, including low-income housing.

By mid-year, nearly \$908 million in apartments had traded in the metro. With 21,687 units underway as of June and 5,771 units slated for delivery by the end of 2019, supply will likely affect rent growth. We expect the average rent in San Francisco to advance 2.8% this year.

## Recent San Francisco Transactions

### Jasper



City: San Francisco  
Buyer: Northwestern Mutual Real Estate Investors  
Purchase Price: \$307 MM  
Price per Unit: \$957,813

### Cotton Wood



City: Dublin, Calif.  
Buyer: Acacia Capital  
Purchase Price: \$102 MM  
Price per Unit: \$409,274

### Sofi Redwood Park



City: Redwood City, Calif.  
Buyer: Pacific Urban Residential  
Purchase Price: \$50 MM  
Price per Unit: \$447,321

### Marina Heights

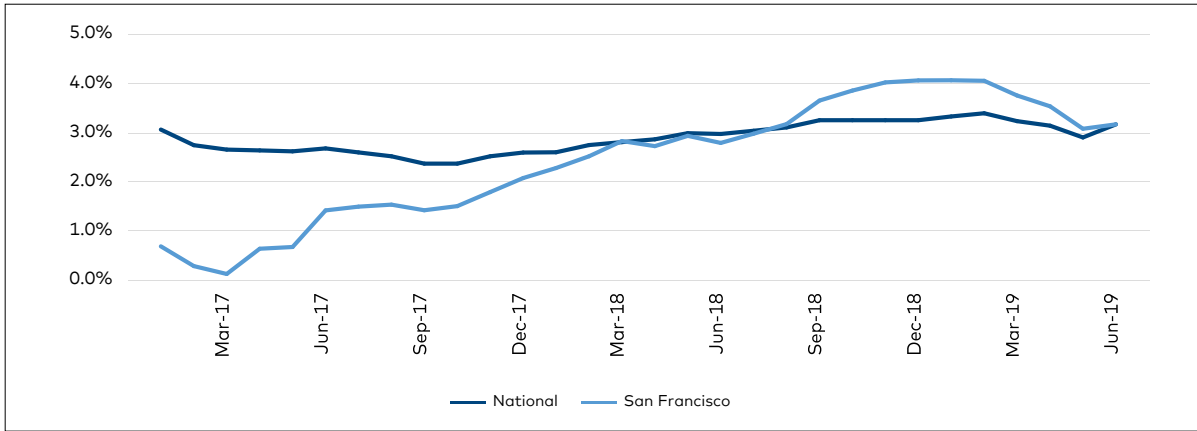


City: Pittsburg, Calif.  
Buyer: Foundation for Affordable Housing  
Purchase Price: \$36 MM  
Price per Unit: \$178,835

## Rent Trends

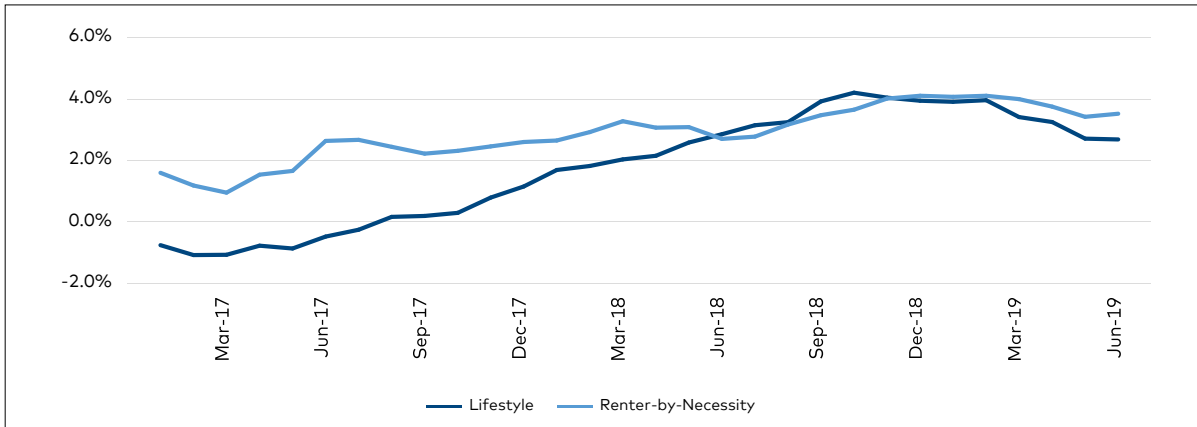
- San Francisco rents saw a 3.2% uptick year-over-year through June, almost on par with the 3.3% national rate. The metro's average rent stood at \$2,735, nearly double the \$1,465 U.S. figure.
- Working-class Renter-by-Necessity assets led growth, up 3.5% to \$2,444, reflecting the chronic affordability issues and stringent need for workforce housing. The booming tech sector also keeps Lifestyle rents in high demand, up 2.7% year-over-year to \$3,296.
- Growth was spotty across the map. The average rent in Atherton/Portola surpassed the \$5,000-mark, while rents in eight of the metro's submarkets contracted, with the steepest drop in the Peninsula taking place in Sonoma (-3.7% to \$1,813).
- In the East Bay, rents contracted in Newark by 1.0% to \$2,517. In June, San Francisco rents were below the \$2,000 mark in nine submarkets: The metro's most affordable rates were in Fairfield (+5.3% to \$1,795) and Vacaville (+5.7% to \$1,799).
- While deliveries have been decelerating since the 2016 cycle peak, we expect more than 5,700 units to come online in 2019. With rents at prohibitively high values, we expect growth to reach 2.8% 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)

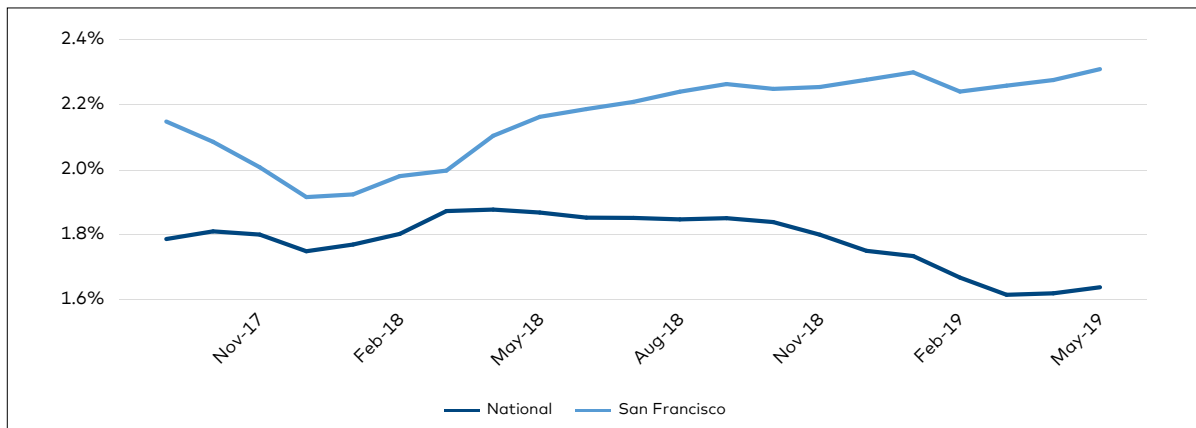


Source: YardiMatrix

## Economic Snapshot

- San Francisco gained 69,200 jobs in the 12 months ending in May, up 2.3% year-over-year, above the 1.6% national rate. The unemployment rate slid further to 2.4% year-over-year through April, leading the U.S. rate by 130 basis points.
- Although not all sectors expanded (manufacturing lost 500 positions and other services contracted by 800 jobs), California remains the largest economy in the U.S., and the Bay Area is one of its main engines. The metro boasts a strong academic network and robust health-care systems, as well as impressive growth in tech-related jobs: Professional and business services (20,200 jobs) and education and health services (14,400 jobs) accounted for nearly half of San Francisco's job gains. In the past year, Google's expansion has boosted its San Francisco offices to 1.5 million square feet, becoming the third largest tech tenant after Salesforce and Uber.
- A partnership between Google and Lendlease will establish three new neighborhoods in the Bay Area: Come 2021, the companies will begin work on the development of 15.1 million square feet of mixed-use projects on land currently owned by the tech company. The \$15 billion project will include office, retail and hospitality space, as well as 15,000 units spanning all income levels, including low-income.

### 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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	551	18.8%	20,200	3.8%
65	Education and Health Services	444	15.1%	14,400	3.4%
15	Mining, Logging and Construction	169	5.8%	12,400	7.9%
70	Leisure and Hospitality	341	11.6%	9,700	2.9%
50	Information	125	4.3%	6,900	5.8%
55	Financial Activities	161	5.5%	3,400	2.2%
90	Government	398	13.6%	2,100	0.5%
40	Trade, Transportation and Utilities	450	15.3%	1,400	0.3%
30	Manufacturing	192	6.5%	-500	-0.3%
80	Other Services	101	3.4%	-800	-0.8%

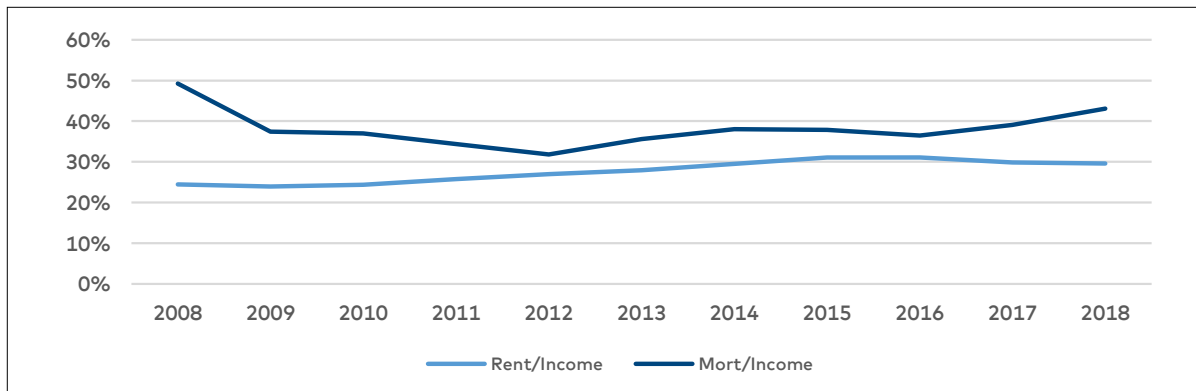
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

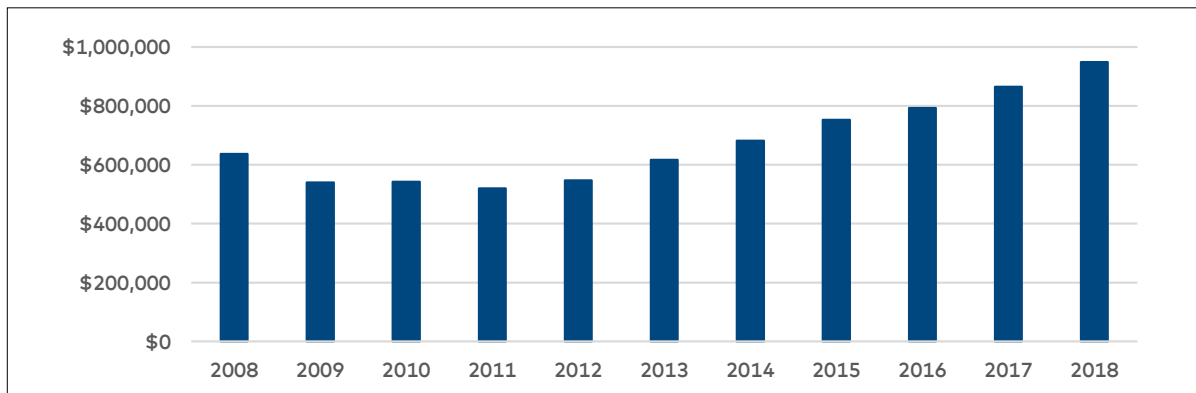
- The median home price in San Francisco rose 9.7% in 2018 to \$949,171, with the average mortgage payment encompassing 43% of the area's median income. Average rents accounted for 30%. Affordability threatens the metro's well-being, as potential long-term effects include a shortage in service industry workers, barriers in attracting residents to live and work in the area, ultimately leading to companies being reluctant to relocate or expand in the region.
- As part of a \$1 billion investment in Bay Area housing, Google will launch a \$250 million fund to incentivize developers to build more than 5,000 affordable housing 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, San Francisco added 28,280 residents, a 0.6% increase, 10 basis-points below the national figure.
- The metro added more than 198,000 residents between 2013 and 2017, a 4.4% expansion.

### San Francisco vs. National Population

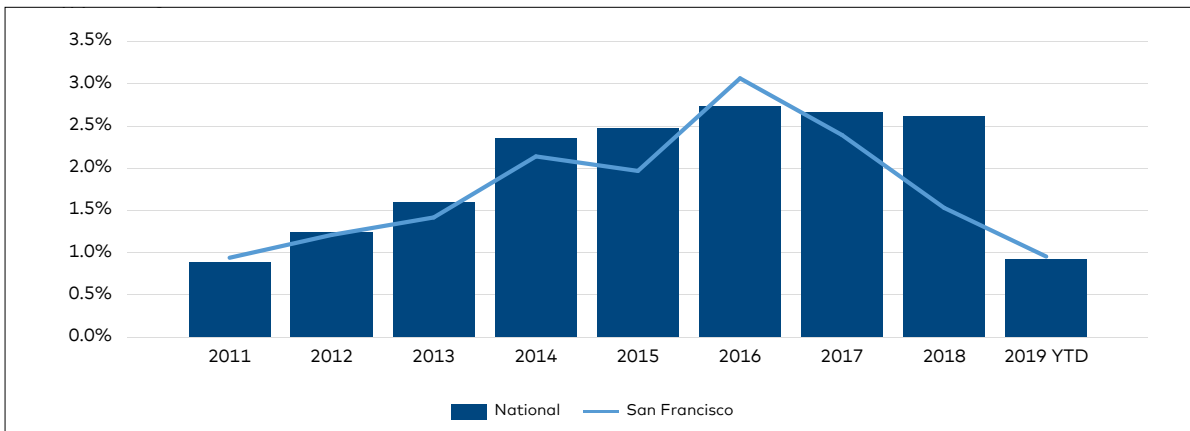
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
San Francisco Metro	4,528,717	4,595,964	4,657,985	4,699,077	4,727,357

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

## Supply

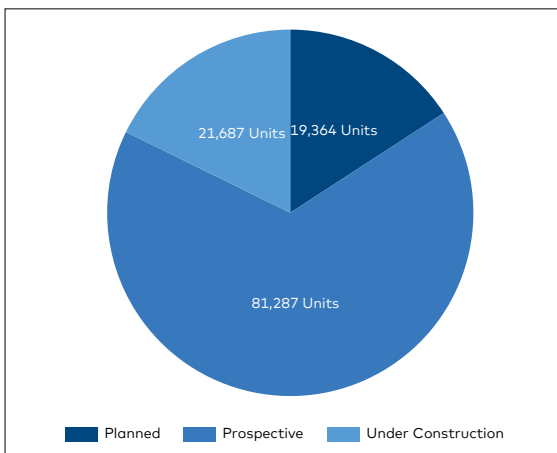
- Developers added 1,051 units to the market's rental inventory during the first half of 2019, accounting for 1.0% of total stock, 10 basis points above the national rate. Of these, 220 units were delivered in the East Bay, while 831 units were completed in the Peninsula. In line with national trends, the bulk of the delivered properties cater to Lifestyle renters. As housing demand holds strong, an estimated 5,771 units are scheduled for completion in 2019, representing 2.3% of total stock.
- Some 21,687 units were underway as of June—12,193 units in 15 properties in the East Bay and 8,494 units in 20 communities in the Peninsula. Another 100,000 units were in the planning and permitting stages. The occupancy rate in stabilized properties slid 30 basis-points year-over-year through May to 95.8%.
- Construction was most intense in Downtown Oakland with 4,415 units underway and East Oakland/Oakland Hills (3,979 units), followed by Eastern San Francisco (2,463 units) and China Basin (1,420 units). The largest delivery in San Francisco by mid-year was St. Anton and Hurley's 394-unit Anton Menlo. Carmel Properties' 632-unit The Asher is the largest property slated for completion in 2019.

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



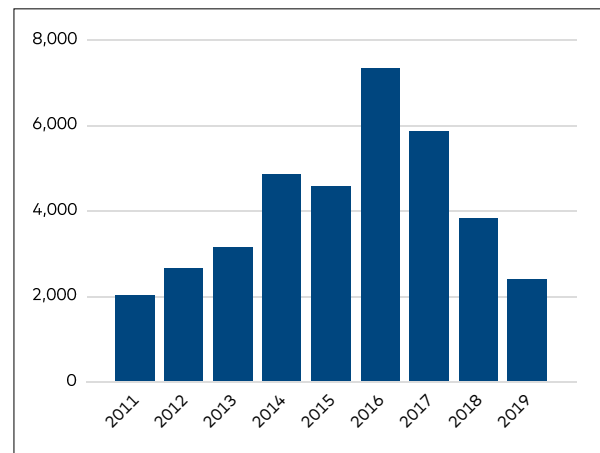
Source: YardiMatrix

**Development Pipeline** (as of June 2019)



Source: YardiMatrix

**San Francisco Completions** (as of June 2019)

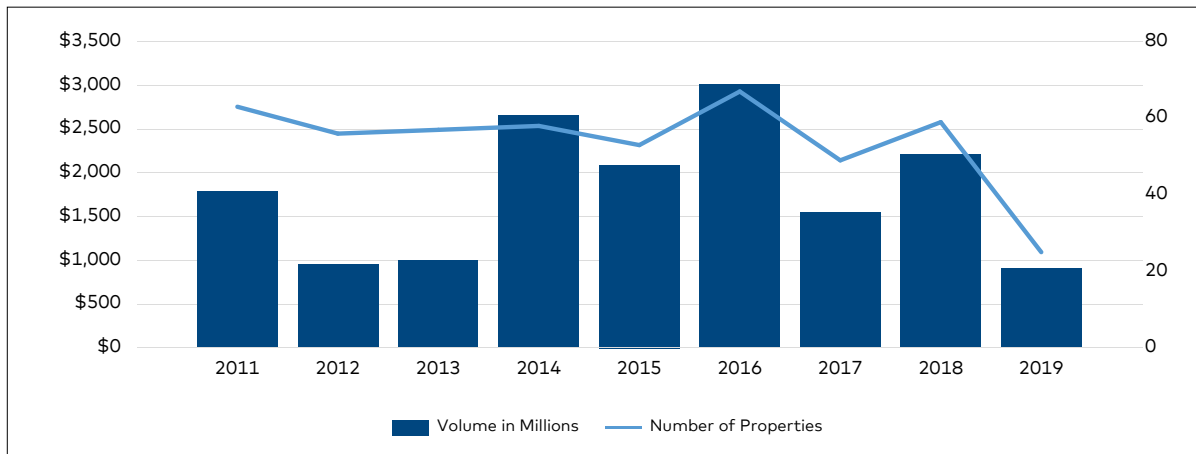


Source: YardiMatrix

## Transactions

- Transaction volume in the first half of 2019 reached \$908 million, with investors largely targeting Renter-by-Necessity assets. This has influenced the overall per-unit price increase, up by only 4.7% in 2019 over 2018's average value, to \$356,887, nearly \$200,000 above the \$157,028 U.S. amount.
- The average price per unit for Lifestyle assets rose 55% in 2019 to \$632,352, while the average per-unit price for RBN properties contracted by 18% to \$256,394.
- The East Bay attracted the most capital in the 12 months ending in June—\$1.6 billion in apartments traded there, with Alameda (\$193 million), Union City (\$181 million) and Concord (\$172 million) leading the pack. The largest deal occurred in China Basin on the Peninsula side—Northwestern Mutual Real Estate Investors acquired the 320-unit Jasper for \$307 million, or \$957,813 per unit.

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



Source: YardiMatrix

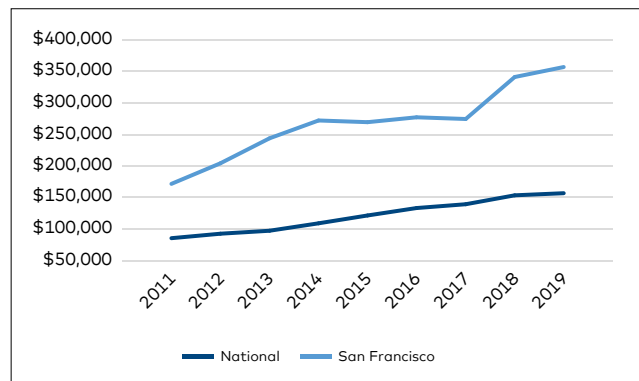
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
China Basin	307
Alameda	193
Union City	181
Concord	172
Pleasant Hill/Martinez	168
Market Street	145
Dublin	123
Pleasanton	107

Source: YardiMatrix

<sup>1</sup> From July 2018 to June 2019

### San Francisco vs. National Sales Price per Unit



Source: YardiMatrix

## News in the Metro

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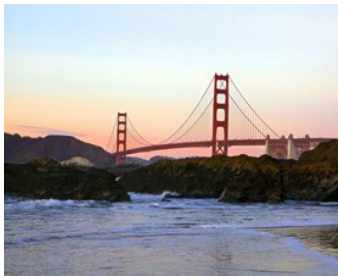
### China Basin Luxury Tower Changes Ownership

Developed by Crescent Heights in 2016, Jasper is a LEED Silver-certified high-rise property close to the city's Financial District.



### Bridge Housing, John Stewart Co. Kick Off Affordable Housing Project

Through a public-private partnership, the companies began construction on two projects for low-income residents, to be located on the sites of former parking lots.



### Google to Invest \$1B In Bay Area Housing

The company is the latest tech giant to pledge big bucks toward the housing crisis. The firm wants to build 15,000 units, a quarter of which would be affordable.



### Bay Area Senior Housing Community Breaks Ground

Developed by Eden Housing, Alameda Point Senior Apartments is part of the \$1 billion project at the former Navy base in Alameda in the San Francisco Bay.



### Oakland Community Trades In All-Cash Sale

NAI Northern California represented the seller and secured the buyer in the 1031 transaction for the 44-unit Vermont Apartments, located near Interstate 580.



### Condo Project Lands \$77M Construction Loan

The 109-unit development at 1554 Market St. is scheduled for completion in 2021 and will have two 12-story buildings that will also feature 5,010 square feet of retail space.



# 5 LEED-ing Multifamily Projects in CA



data by  
**Yardi® Matrix**

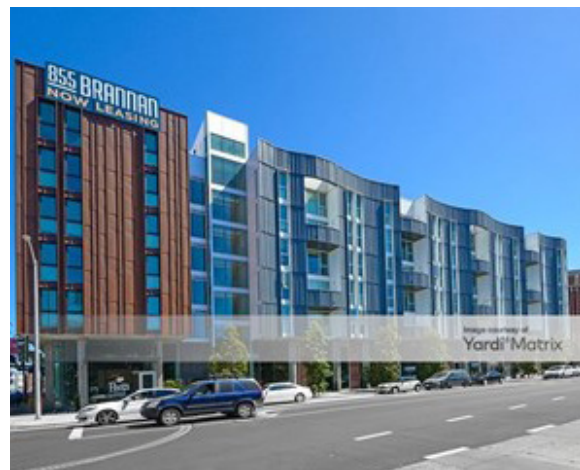
By Anca Gagiuc

Green building is no longer a novelty. The U.S. Green Building Council’s Leadership in Energy and Environmental Design rating system has been around for more than two decades and is globally recognized as a symbol of sustainability achievement. While LEED certification positively impacts the health and well-being of people as well as the planet, it’s a valuable feature for investors, as it translates to faster lease-up rates and higher resale value.

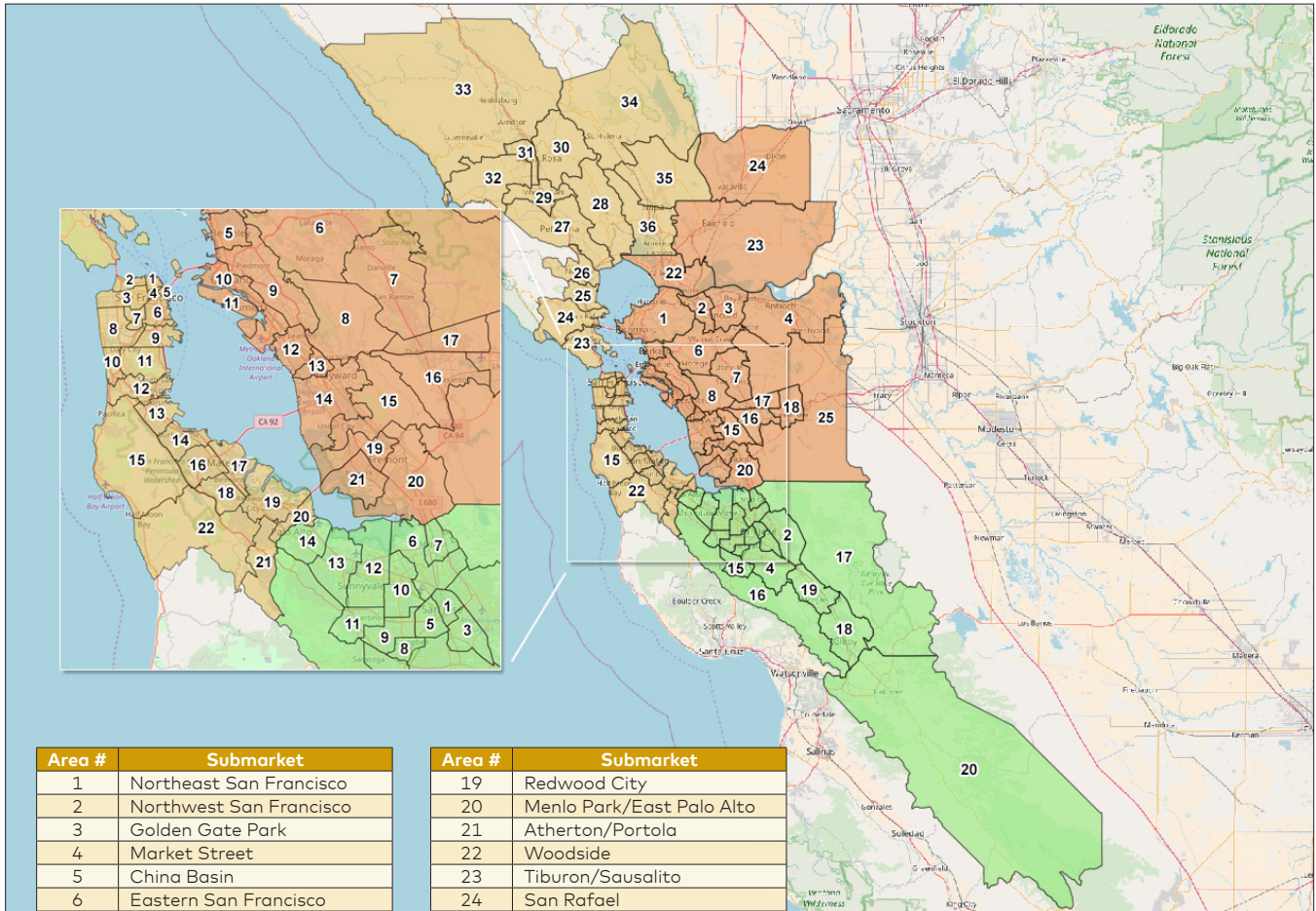
Property Name	City	No. of Units	Completion Date	LEED Status
Coronel	Los Angeles	54	6/18/2019	LEED Platinum Proposed
Oakcrest Heights	Yorba Linda	54	1/31/2019	LEED Platinum Certified
Springville Senior	Camarillo	104	1/30/2019	LEED Gold Certified
Hana Gardens	El Cerrito	63	12/31/2018	LEED Certification in Progress
855 Brannan	San Francisco	449	12/31/2018	LEED Platinum Certified

## 855 Brannan—LEED Platinum Certified

Equity Residential’s 449 units at 855 Brannan St. in San Francisco hold a LEED Platinum certification with a score of 92.5 points. Designed by David Baker Architects, the property is centered on a large courtyard with a redwood grove in its center. Two landscaped public mid-block passages break up the large scale and create connections, while the frontage offers access to 16,000 square feet of neighborhood-serving retail. The architect used facades with weathering and galvanized steel to reference the industrial history of the area. Wood was salvaged and restored from the site’s previous use as a train depot.



# 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/Airport
14	Burlingame
15	Moss Beach
16	San Mateo
17	Foster City
18	Belmont/San Carlos

Area #	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 #	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 #	Submarket
14	Hayward
15	Union City
16	Pleasanton
17	Dublin
18	Livermore
19	West Fremont
20	East Fremont
21	Newark
22	Vallejo/Benicia
23	Fairfield
24	Vacaville
25	San Ramon-East

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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

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## 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.

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