

Yardi® Matrix

# The Bay Cruises On

Multifamily Report Fall 2019

Rent Growth Stays Above US Average

Investment Surpasses Last Year's Volume

Tech Titans Alleviate Affordability Woes

## Market Analysis

Fall 2019

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## Employment Growth Sustains Demand

San Francisco's formidable economy is attracting and retaining talent despite the limited housing supply and a shortage of affordable properties. While rent growth moderated throughout the year, it rose 2.4% year-over-year through October, 80 basis points below the national average. Standing at \$2,738, the average rent was nearly double the national figure. California's new rent control bill will take effect in January 2020.

San Francisco gained 67,400 jobs in the 12 months ending in September, pushing the unemployment rate down to 2.2% as of September, 90 basis points below January's figure. Professional and business services (21,700 jobs) and education and health services (16,100 jobs), the metro's main economic pillars, continued to lead growth. Despite a shortage of workers for these sectors due to high housing costs, technology companies have continued to scout for new hires and even pledged more than \$4.5 billion toward affordable housing in the Bay City. While many operators in the financial activities sector (4,700 jobs) have reduced their local workforces, Visa is expanding with a 13-story office tower planned at the Giants' Mission Rock waterfront project.

In 2019 through October, more than \$2.8 billion in multifamily apartments traded at an average price per unit of \$452,344. During the same period, 3,932 units came online, already surpassing last year's total deliveries.

### Recent San Francisco Transactions

Blu Harbor



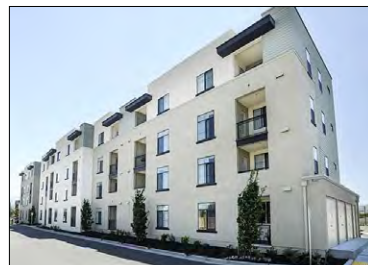
City: Redwood City, Calif.  
Buyer: GID  
Purchase Price: \$326 MM  
Price per Unit: \$810,000

The Courtyards at 65th Street



City: Emeryville, Calif.  
Buyer: Essex Property Trust  
Purchase Price: \$178 MM  
Price per Unit: \$537,764

Brio



City: Walnut Creek, Calif.  
Buyer: Essex Property Trust  
Purchase Price: \$165 MM  
Price per Unit: \$549,667

777 Hamilton

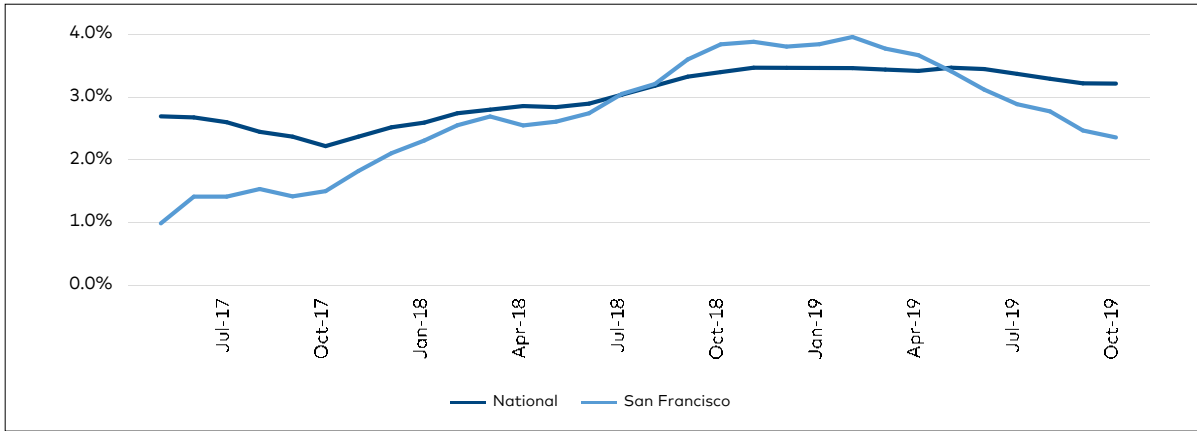


City: Menlo Park, Calif.  
Buyer: Essex Property Trust  
Purchase Price: \$148 MM  
Price per Unit: \$758,974

## Rent Trends

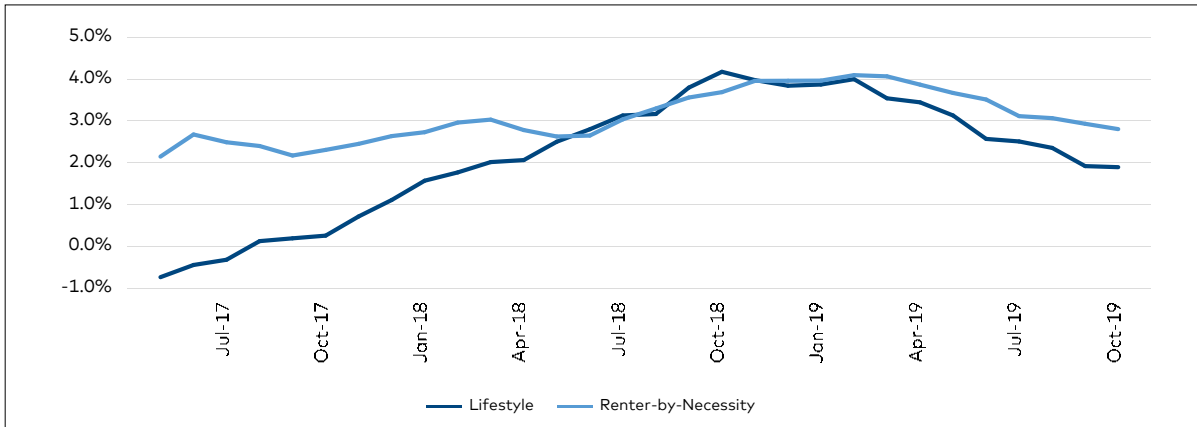
- The bay's rent growth moderated throughout 2019, reaching 2.4% year-over-year as of October and an average overall rent of \$2,738. The rate was 80 basis points below the national figure, but the average rent was nearly double the \$1,476 national amount. Despite high housing costs, the occupancy rate in stabilized properties slid only 30 basis points year-over-year as of September, clocking in at 95.8%. New rent regulations passed in the metro, through Assembly Bill 1482, will start making an impact in 2020.
- Rents in the working-class Renter-by-Necessity segment led growth, up 2.8% to \$2,456. Meanwhile, high-earning tech workers sustained demand for Lifestyle apartments and helped push the average rent by 1.9% to \$3,278.
- Rent evolution was uneven across the map, with a quarter of submarkets registering slight rent contractions. Only seven submarkets had average rents below the \$2,000 threshold; the most affordable were Fairfield in the East Bay (up 3.7% to \$1,816) and Sonoma in the Peninsula (down 5.3% to \$1,824). The most expensive submarket in San Francisco was Atherton/Portola, also the only submarket above the \$5,000 mark. Two submarkets near the Financial District, Northwest San Francisco (4,624) and China Basin (4,466), rounded out the top three. In the East Bay, the most sought-after submarkets were Berkeley (down 0.4% to \$3,165) and Downtown Oakland (\$3,017).

### 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)

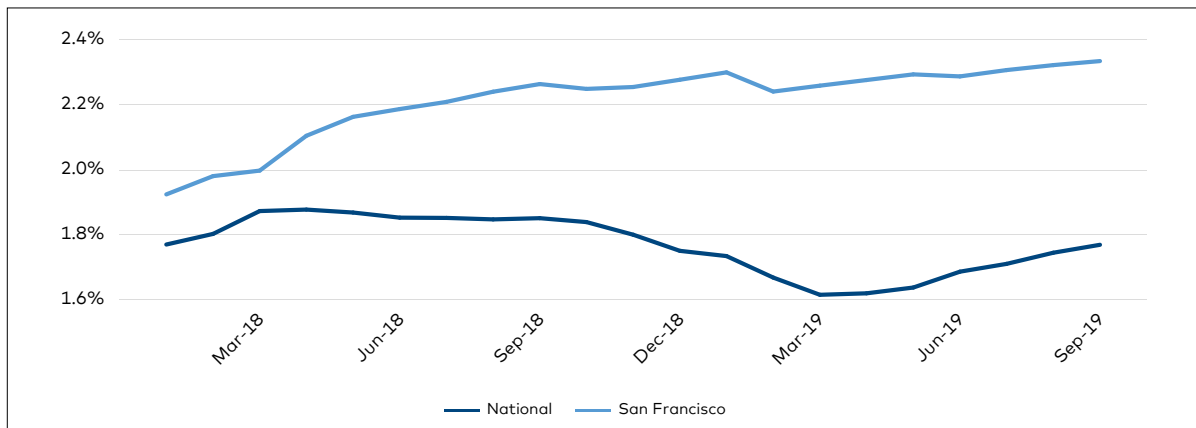


Source: YardiMatrix

## Economic Snapshot

- San Francisco gained 67,400 jobs in the 12 months ending in September, up 2.3% year-over-year and 50 basis points above the national rate. The metro remains a formidable economic engine for California and the entire West Coast. Combined with the prolonged economic cycle, this has led to a very tight labor market, with the unemployment rate at 2.7% as of August, down from 3.1% in January.
- Office-using jobs accounted for nearly half of all employment, with professional and business services (21,700 jobs) leading growth. Amid a shortage of labor, technology companies continue to look for younger talent. Adding to the sector's growth was the metro's largest employer, Salesforce, which has expanded its workforce to more than 8,000 employees in its 20-year history in San Francisco. In addition, the 803,700-square-foot Park Tower at Transbay was completed; Facebook preleased the entire office component for its staff. Education and health services gained 16,100 jobs. Adding to the sector is Zymogen, a molecular manufacturing technology firm that will relocate its headquarters to the 300,000-square-foot life sciences Emeryville Center for Innovation.
- In the financial activities sector, Visa has leased a 13-story, 300,000-square-foot tower in Mission Rock near the San Francisco Giants' ballpark. The company plans to move in 2024 and the building will house 1,500 employees.

### 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  | 561                | 19.1%   | 21,700      | 4.0%  |
| 65   | Education and Health Services       | 443                | 15.1%   | 16,100      | 3.8%  |
| 15   | Mining, Logging and Construction    | 172                | 5.8%    | 10,800      | 6.7%  |
| 70   | Leisure and Hospitality             | 340                | 11.6%   | 7,400       | 2.2%  |
| 90   | Government                          | 390                | 13.3%   | 4,700       | 1.2%  |
| 55   | Financial Activities                | 162                | 5.5%    | 4,700       | 3.0%  |
| 50   | Information                         | 127                | 4.3%    | 4,600       | 3.8%  |
| 40   | Trade, Transportation and Utilities | 453                | 15.4%   | 500         | 0.1%  |
| 30   | Manufacturing                       | 197                | 6.7%    | -200        | -0.1% |
| 80   | Other Services                      | 99                 | 3.4%    | -2,900      | -2.9% |

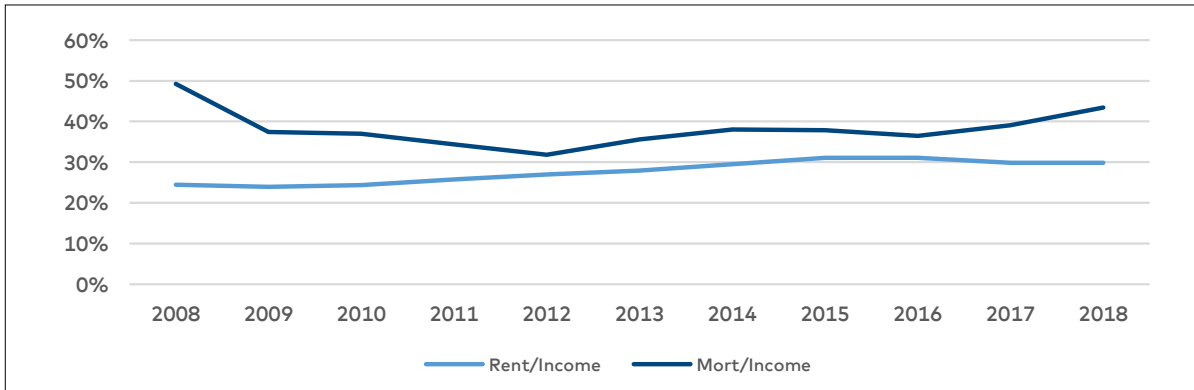
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

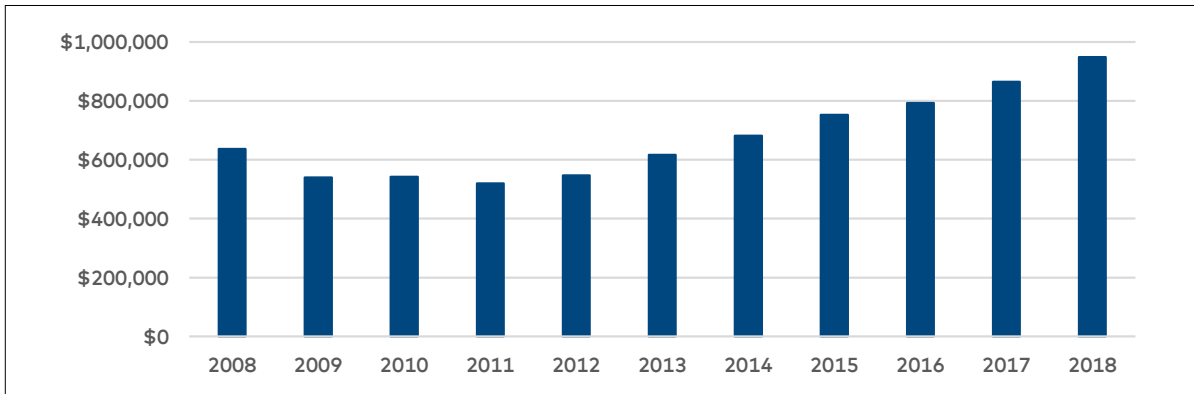
- The median home price rose 10% in 2018 to \$948,919, which represents a 49% hike compared to 2008. Last year, the average rent accounted for 30% of the area median income, while the average mortgage payment encompassed 43%. With a very limited housing supply, the metro has been struggling with affordability and homelessness throughout the current cycle.
- Tech employers have announced multibillion-dollar investments to curb the affordability issue: Google has pledged \$1 billion to aid the Bay Area's housing, Facebook has committed \$1 billion toward affordable housing efforts in the state, and Apple has rolled out its own \$2.5 billion five-piece plan.

### 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

- As a result of elevated housing costs, San Francisco's demographic growth has moderated.
- The metro gained 18,791 residents in 2018, up 0.4% and below the 0.6% national rate.

### San Francisco vs. National Population

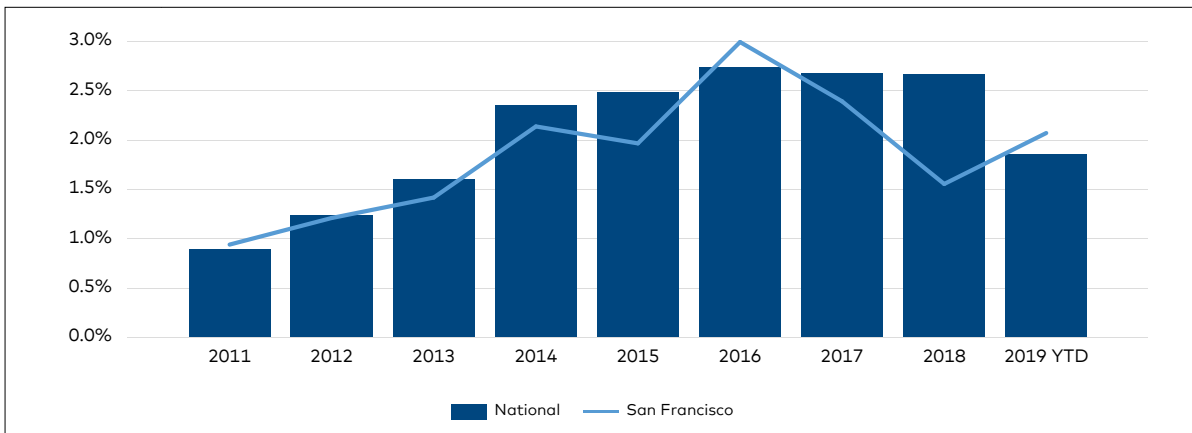
|                     | 2014        | 2015        | 2016        | 2017        | 2018        |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| National            | 318,386,421 | 320,742,673 | 323,071,342 | 325,147,121 | 327,167,434 |
| San Francisco Metro | 4,587,253   | 4,649,539   | 4,689,132   | 4,710,693   | 4,729,484   |

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

## Supply

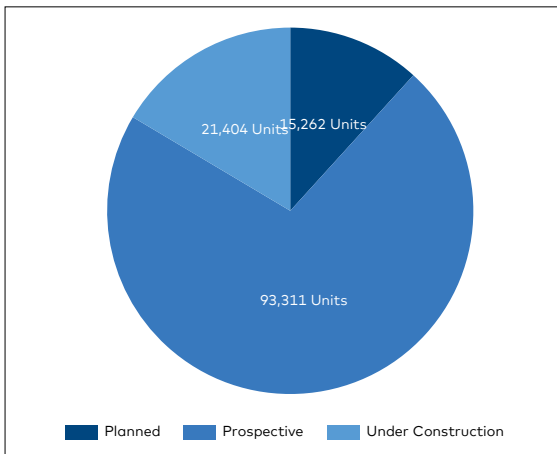
- Developers added 3,932 units in 2019 through October, already outpacing last year's completions. This figure represents 2.1% of total stock, outperforming the national average by 25 basis points. The East Bay gained 2,200 units, while San Francisco-Peninsula gained 1,732 units. The recent additions cater to the Lifestyle segment.
- Some 21,404 units were underway as of October. Rising construction costs have played a major role in the metro's limited inventory. One main submarket, the East Bay, posted lower construction fees and had 12,249 units in 69 properties underway. Another main area, the Peninsula, had 9,327 units in 54 properties under construction. Another 108,000 units were in the planning and permitting stages.
- Construction activity was highest in downtown Oakland, with 4,217 units underway, and Eastern San Francisco (3,532 units), followed by East Oakland/Oakland Hills (2,794 units). LivCor and CityView's 423-unit The Broadway in East Bay was the largest delivery in 2019 through October, while Carmel Partners has the largest properties underway, both slated for completion in 2020: the 633-unit Atlas in downtown Oakland and the 632-unit The Asher in East Fremont.

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



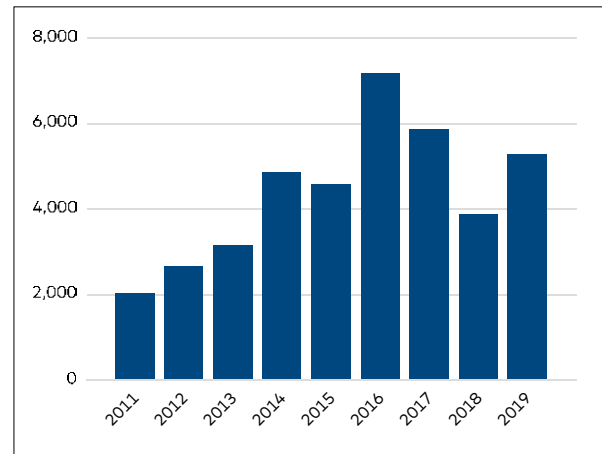
Source: YardiMatrix

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



Source: YardiMatrix

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

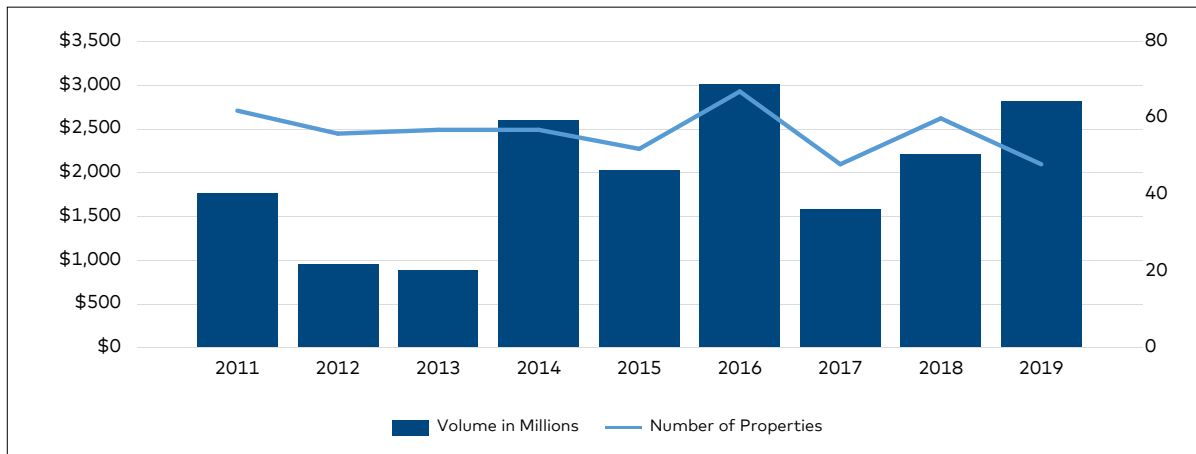


Source: YardiMatrix

## Transactions

- Transaction volume in San Francisco surpassed \$2.8 billion year-to-date through October, already making 2019 the second-strongest year this cycle. Nearly two-thirds of the assets were in the Renter-by-Necessity segment, where the per-unit price decreased 10% year-over-year to \$282,679. However, the overall average price per unit rose a consistent 32.6% to \$452,344, nearly \$290,000 above the \$162,889 U.S. amount. The average per-unit price for Lifestyle assets rose 46.9% to \$598,754.
- Through the first 10 months of 2019, investor interest was elevated in both the East Bay (\$1.3 billion) and San Francisco-Peninsula (\$1.5 billion). Essex Property Trust invested \$343 million in two assets this summer: \$178 million, or \$537,764 per unit, for The Courtyards at 65th Street, a 331-unit community in Emeryville with 61 affordable units and 2,415 square feet of retail; and \$165 million, or \$549,667 per unit, for Brio, a 300-unit property in Walnut Creek.

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



Source: YardiMatrix

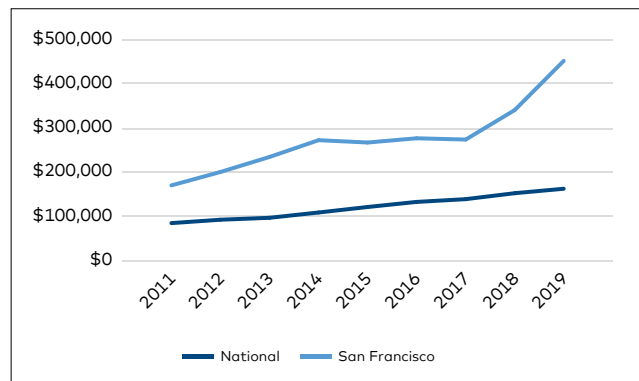
### Top Submarkets for Transaction Volume<sup>1</sup>

| Submarket                  | Volume (\$MM) |
|----------------------------|---------------|
| Redwood City               | 746           |
| China Basin                | 307           |
| Dublin                     | 206           |
| Union City                 | 181           |
| East Oakland/Oakland Hills | 178           |
| Berkeley                   | 174           |
| Roseland                   | 174           |
| West Fremont               | 170           |

Source: YardiMatrix

<sup>1</sup> From November 2018 to October 2019

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



Source: YardiMatrix

## News in the Metro

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### Luxury Condo Project Tops Off

The Four Seasons Private Residences at 706 Mission St. is scheduled for completion by spring 2020.



### Waterton Pays \$63M For Luxury Asset

The firm has expanded its footprint with the acquisition of a 147-unit community in Hercules.



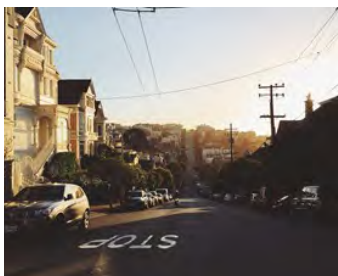
### Apple Commits \$2.5B To Housing Crisis

The comprehensive plan, which will focus on the Bay Area, is the latest pledge in a year of big tech committing big bucks toward housing issues.



### Luxury Community Commands \$89M

Essex Property Trust acquired the 132-unit asset in Redwood City. An Institutional Property Advisors team assisted the seller in the deal.



### Facebook Pledges \$1B to Affordable Housing Efforts

The move comes on the heels of Microsoft and Google pledging big money to affordable housing solutions in recent months.

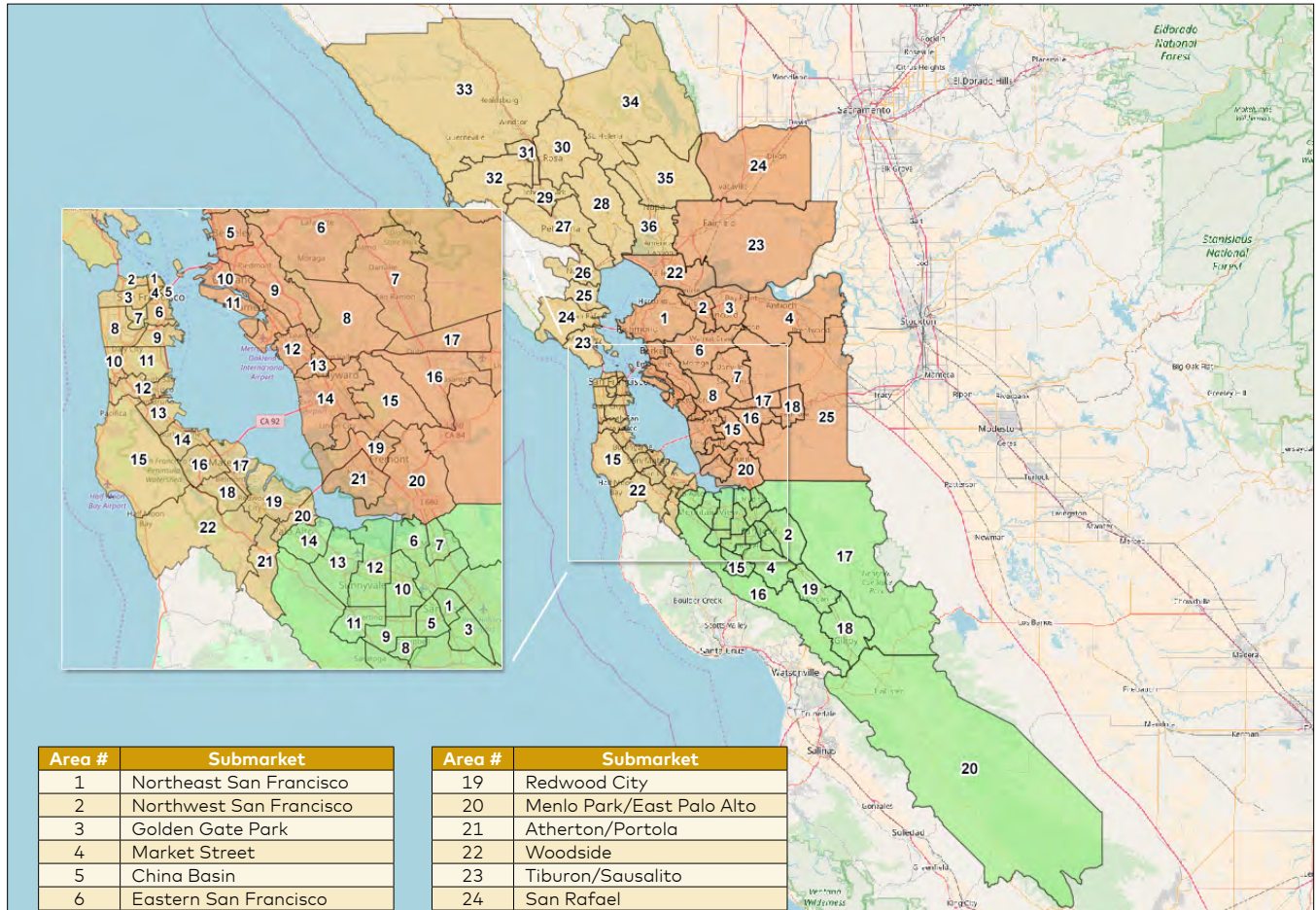


### Bay Area Asset Changes Ownership

New Standard Equities paid \$60 million for the 170-unit garden-style community located in Fremont.



# 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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