

YARDI® Matrix

An End to San Francisco's Bull Run?

Multifamily Fall Report 2016

Rent Growth Deceleration Reaches 1.6%

Investment Volume Slows, as Price Level Tops Cycle

Building Boom Endures, Promising to Boost Supply

SAN FRANCISCO MULTIFAMILY

YARDI® Matrix

Market Analysis

Fall 2016

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

Ioana Neamt

Senior Associate Editor

Rent Growth Chills Fog City

A Millennial hotspot and an economic juggernaut, home to more than 30 international financial institutions and a plethora of iconic tech brands, San Francisco continues to be a key city for multifamily investors. However, rent growth has finally ended its bull run after years of double-digit increases, as properties are bumping up against the limits of affordability.

Broad-based job growth and an influx of skilled young professionals have propelled rental rates to extreme highs, reaching a record average of \$2,216 in 2015. Homeownership is out of reach for most San Franciscans, and the lack of affordable housing options is pushing workers toward commuter towns in the East Bay, where home prices are slightly lower. Future supply is robust, with more than 15,000 units underway and over 66,000 in the planning stages. Major projects, such as the \$4.5 billion Transbay Transit Center, which will accommodate more than 100,000 passengers each weekday and as many as 45 million people per year, are likely to spur on further investment and attract renters looking for transit-friendly apartments.

Job growth remains strong, and supply is increasing—though not more than demand. But the drop-off in rents is primarily a function of their surpassing what tenants can bear to pay. That's not a short-term issue, and we see rents moderating for the rest of the year and even beyond.

Recent San Francisco Transactions

Woodland Park



City: East Palo Alto
Buyer: Sand Hill Property Co.
Purchase Price: \$413 MM
Price per Unit: \$228,026

Indigo



City: Redwood City
Buyer: Aimco
Purchase Price: \$320 MM
Price per Unit: \$691,144

Sharon Green



City: Menlo Park
Buyer: Maximus Real Estate Partners
Purchase Price: \$245 MM
Price per Unit: \$827,702

Franklin 299



City: Redwood City
Buyer: TIAA
Purchase Price: \$213 MM
Price per Unit: \$699,506