



MULTIFAMILY REPORT

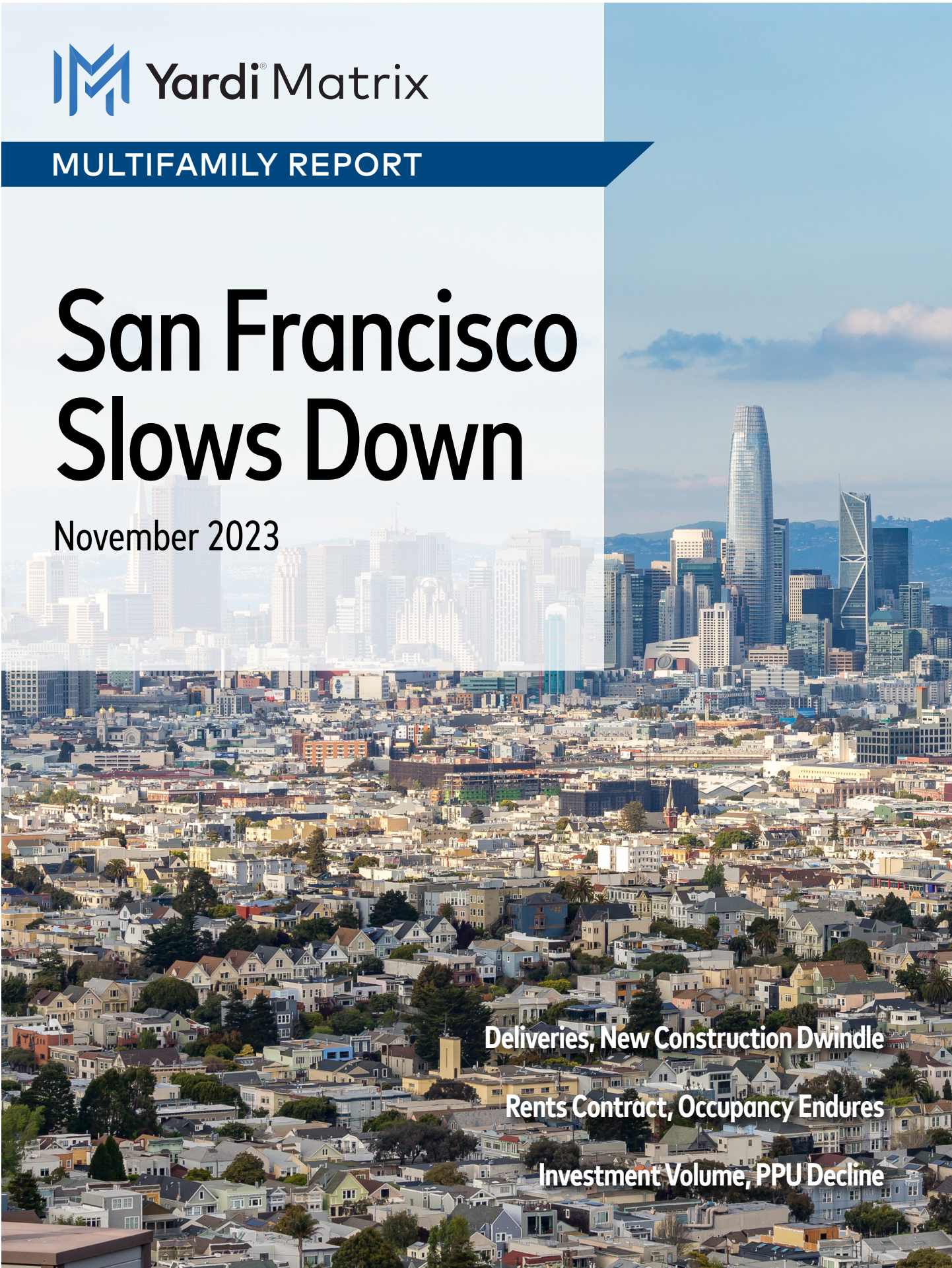
San Francisco Slows Down

November 2023

Deliveries, New Construction Dwindle

Rents Contract, Occupancy Endures

Investment Volume, PPU Decline



SAN FRANCISCO MULTIFAMILY



Fundamentals Moderate Across the Board

While the pandemic changed San Francisco's paradigm, with residents leaving in pursuit of more affordable markets and housing options, the metro is slowly stabilizing again. Although rent growth was negative again, down 0.3% on a trailing three-month basis through September to \$2,783, the period overlapped the start of the season, when gains typically slow down. This, in turn, helped occupancy remain nearly flat, declining 10 basis points year-over-year in August, to 95.3%. Meanwhile, the average U.S. asking rent also slid into negative territory, down 0.1% to \$1,722.

In the 12 months ending in July, San Francisco's employment market expanded 2.4%, or 71,500 jobs. Unemployment steadily increased from 3.3% in January to 4.0% in August, marking the highest rate in nearly two years, according to preliminary data from the Bureau of Labor Statistics. Still, the metro outperformed the state (4.6%), Sacramento (4.5%) and Los Angeles (5.4%), and trailed the U.S. figure by just 20 basis points. Two sectors lost jobs year-over-year through July—professional and business services and information, for 2,700 positions combined.

Developers delivered 4,241 units by the end of the third quarter and had 18,295 units under construction, but new construction volume tapered. Meanwhile, investment volume more than halved from the same period last year, at \$966 million in September, for a price per unit that decreased 39.4%, to \$245,510.

Market Analysis | November 2023

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler

Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Anca Gagiuc

Senior Associate Editor

Recent San Francisco Transactions

Westlake Village



City: Daly City, Calif.
Buyer: Carmel Partners
Purchase Price: \$664 MM
Price per Unit: \$222,705

Artist Walk



City: Fremont, Calif.
Buyer: MG Properties
Purchase Price: \$90 MM
Price per Unit: \$484,865

Eaves Daly City



City: Daly City, Calif.
Buyer: BRIDGE Housing
Purchase Price: \$66 MM
Price per Unit: \$337,913

Clubview

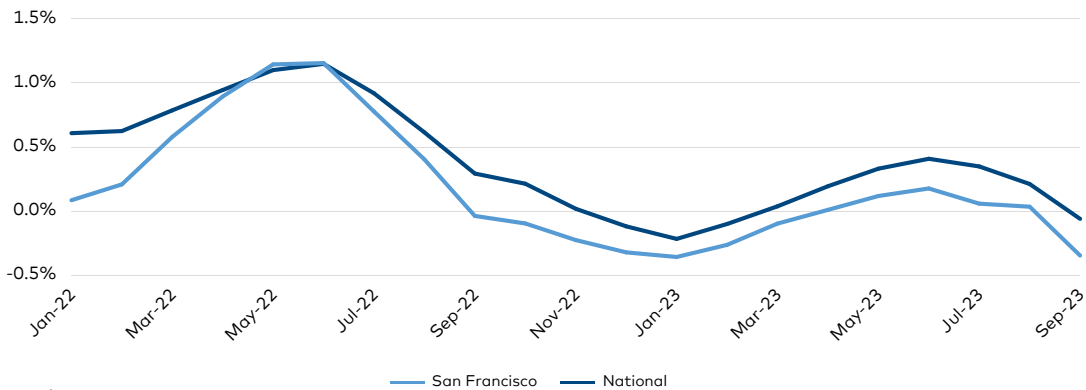


City: South San Francisco, Calif.
Buyer: Spieker Cos.
Purchase Price: \$48 MM
Price per Unit: \$470,588

RENT TRENDS

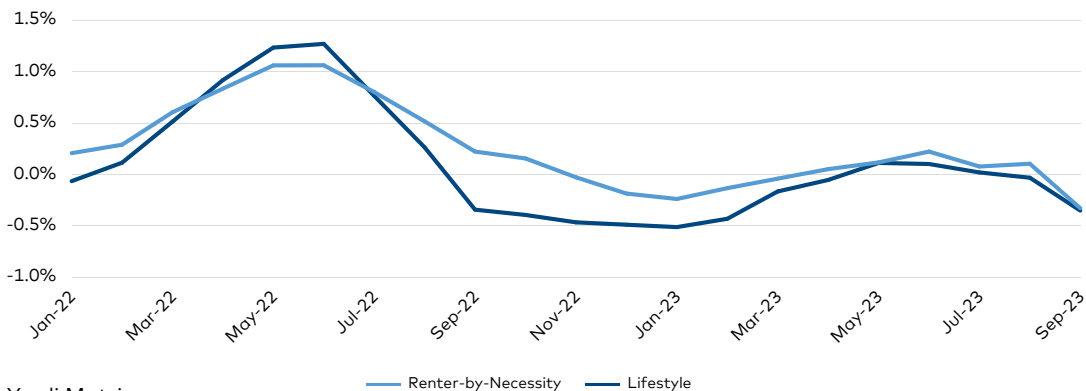
- ▶ San Francisco rents slid 0.3% on a trailing three-month (T3) basis as of September, as performance has maintained a 20-basis-point gap relative to national rates. This comes after five consecutive months of rents remaining flat or posting minor increases.
- ▶ On a year-over-year basis, Bay Area rates posted a 1.7% contraction, while the national figure decelerated to a 0.8% increase. Despite weak performance, rents in San Francisco remained among the highest in the country, at \$2,783, well ahead of the \$1,722 U.S. average.
- ▶ Rents decreased in both sectors—Renter-by-Necessity figures declined 0.3% on a T3 basis through September, to \$2,519, and Lifestyle rates contracted by 0.4%, to \$3,210. The occupancy rate in stabilized properties held on, declining 10 basis points year-over-year as of August, to 95.3%. Surprisingly, occupancy decreased in the RBN segment by 50 basis points, to 95.0%, and rose by 50 basis points in the Lifestyle component, to 95.6%.
- ▶ More than half of San Francisco's submarkets posted declines in annual rents, including in some of the most expensive areas in the metro such as Northwest San Francisco (-2.8% to \$4,452), China Basin (-3.8% to \$3,940) and Tiburon/Sausalito (-0.8% to \$3,808). However, Atherton/Portola remained the most expensive submarket, with rents climbing 1.3%, to \$5,631.
- ▶ Single-family rentals saw annual rates increase 0.8% in September and occupancy decline 0.6% in August.

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 has been steadily rising throughout the year, from 3.3% in January up to 4.0% in August, the highest rate in 19 months according to BLS data. While the rate trailed the 3.8% U.S. average, it outperformed the state (4.6%), Sacramento (4.5%) and Los Angeles (5.4%).
- ▶ In the 12 months ending in July, San Francisco gained 71,500 jobs, for a 2.4% expansion, 20 basis points behind the national rate. Two sectors contracted—professional and business services (1,300 jobs) and information (1,400 jobs). There is still optimism in the metro as, although office vacancy increased to 23.2% in August, the metro had 6.7 million square feet of office space under way. Supporting this growth are companies such as SAP, which opened a new office that will be the primary hub for around 500 employees.
- ▶ Education and health services (28,100 jobs) and leisure and hospitality (26,100 jobs) led gains. San Francisco biotechnology company Moderna announced that it is establishing a corporate presence on the West coast, including an office in South San Francisco. Meanwhile, although slower to recover, tourism is slowly bouncing back, with visitor volume projected to increase 6.2%, to 23.3 million people in 2023, compared to last year, according to San Francisco Travel. Still, the sector's full recovery is not expected until 2026 or later.

San Francisco Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	474	16.0%
70	Leisure and Hospitality	327	11.0%
15	Mining, Logging and Construction	166	5.6%
80	Other Services	103	3.5%
90	Government	362	12.2%
30	Manufacturing	208	7.0%
55	Financial Activities	163	5.5%
40	Trade, Transportation and Utilities	429	14.5%
60	Professional and Business Services	569	19.2%
50	Information	160	5.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ 2021 was the second year in the past decade that San Francisco's population decreased. While in 2019 it only lost 1,597 residents, in 2021 the contraction was quite substantial—116,385 residents, for a 2.5% drop. Meanwhile, the U.S. demographic inched up 0.1% in 2021.

San Francisco vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
San Francisco	4,725,613	4,724,016	4,739,649	4,623,264

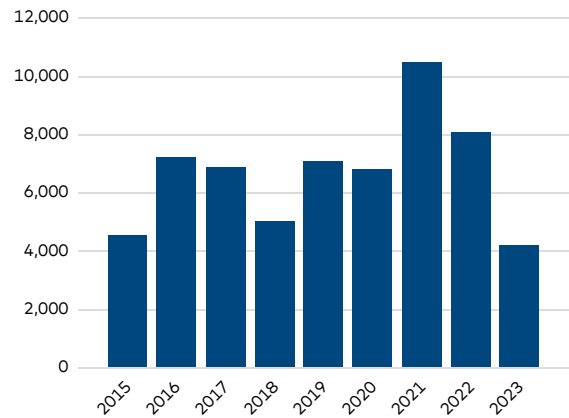
Source: U.S. Census

SUPPLY

- ▶ Developers delivered 4,241 units during the first nine months of 2023, accounting for 1.5% of existing rental stock and on par with the national average. The composition of the newly added supply in San Francisco was 70% Lifestyle and 23.5% in fully affordable communities (1,158 units). The East Bay saw 2,554 units added to the inventory, while the Peninsula trailed with 1,687 units.
- ▶ The construction pipeline had 18,295 units underway in September and more than 125,000 units in the planning and permitting stages. Unlike deliveries, the Peninsula had slightly more units underway (9,558 units), while in the East Bay, there were 8,737 units under construction. The affordable component is strengthening, as 37.1% of all units underway were part of fully affordable communities, while Lifestyle properties accounted for 56.3% of the pipeline. Yardi Matrix anticipates that the Bay Area's supply expansion will total 8,812 units by the end of the year.
- ▶ The number of construction starts decreased in San Francisco, to 4,081 units across 31 properties during the first three quarters of 2023, from 6,155 units across 37 properties during the corresponding period last year.

- ▶ Downtown Oakland (2,272 units) and Eastern San Francisco (1,512 units) led in construction volume. The largest project delivered in 2023 through September was Alta Star Harbor in Alameda. The 372-unit property is an adaptive reuse of the historic Del Monte Warehouse built in 1927. The project is owned by Wood Partners in a joint venture with Principal Real Estate Investors. It is being built with aid from a \$122 million construction loan originated by Helaba Bank.

San Francisco Completions (as of September 2023)



Source: Yardi Matrix

San Francisco vs. National Completions as a Percentage of Total Stock (as of September 2023)



Source: Yardi Matrix

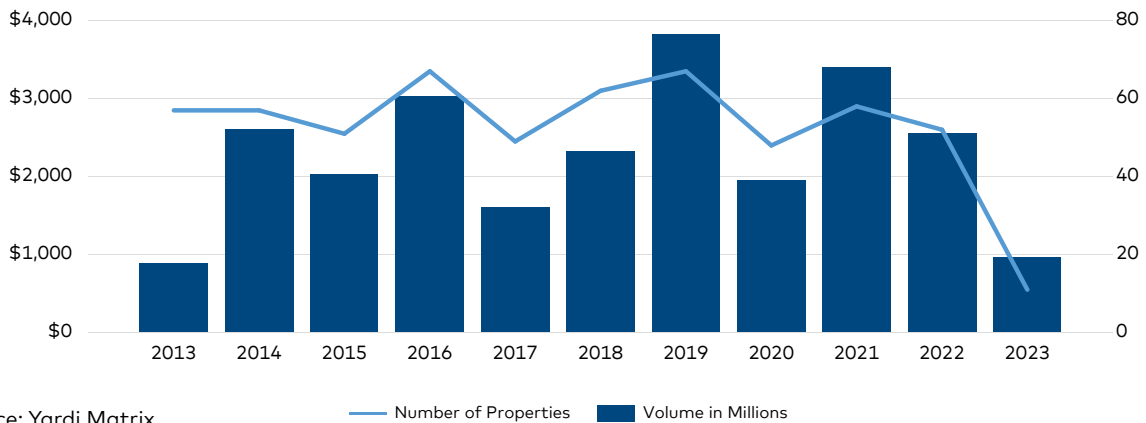
TRANSACTIONS

- ▶ Multifamily sales in San Francisco totaled \$966 million at the end of the year's third quarter. Mounting financial woes and the metro's worsening economy over the past few years have left a big mark on the investment scene, with 2023's volume dropping substantially from the \$2.2 billion recorded during the same period last year.
- ▶ The number of deals (52 for the entire 2022 to just 11 deals in 2023 YTD), as well as average per-unit prices contributed to the decline

in transaction volume. The average price in the Bay Area dropped by nearly 40% year-over-year through September, to \$245,510, slightly below the figure posted a decade ago.

- ▶ More than \$841 million of the sales total traded on the Peninsula, and \$664 million came from a single sale—the 2,983-unit Westlake Village in Daly City, acquired by Carmel Properties with aid from two CMBS loans and a line of credit totaling \$599 million.

San Francisco Sales Volume and Number of Properties Sold (as of September 2023)



Source: Yardi Matrix

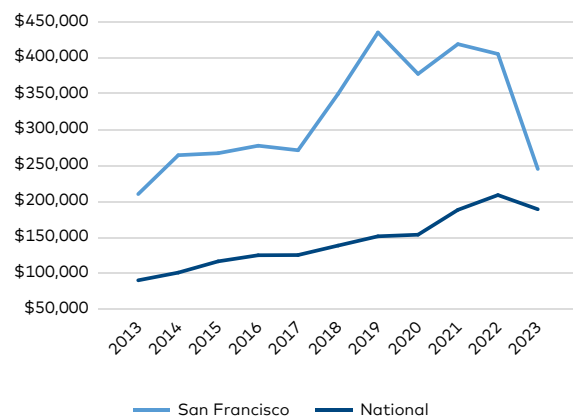
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Broadmoor/Daly City	698
Lucas Valley	162
Fairfield	147
South San Francisco	114
West Fremont	90
East Oakland/Oakland Hills	47
East Fremont	27

Source: Yardi Matrix

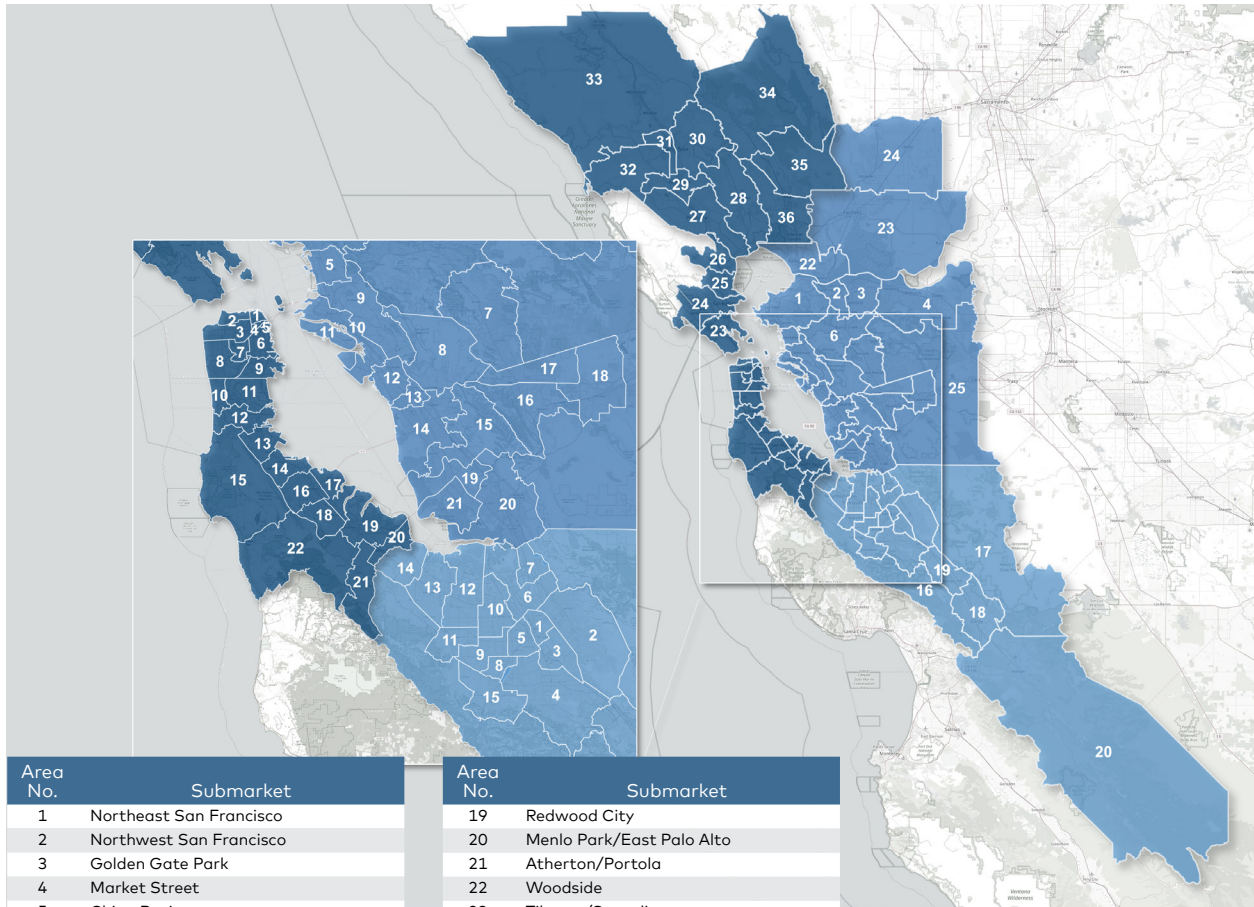
¹ From October 2022 to September 2023

San Francisco vs. National Sales Price per Unit



Source: Yardi Matrix

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	Sebastapol
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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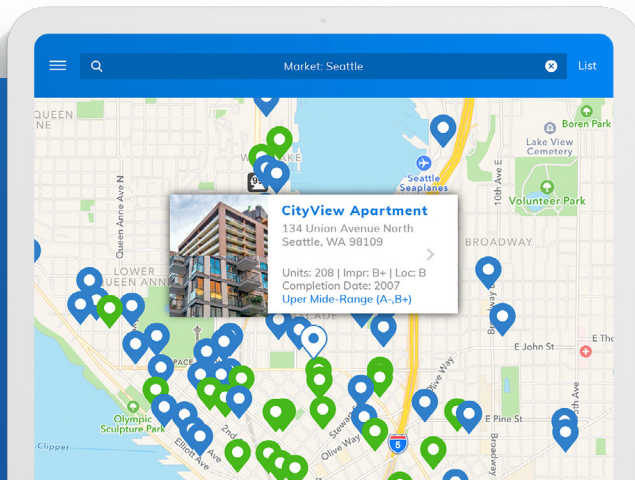
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with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily
provides accurate data on
19.7+ million units, covering over
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