

INVESTMENT FORECAST

Multifamily
San Francisco

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2020

Household Income Growth Powering Class A Segment

Builders stay active, keeping pace of development far above last cycle's.

Apartment construction in San Francisco will remain historically elevated in 2020 as 3,600 units are set for delivery, with developers focusing heavily on the Mission District and SoMa areas. This cycle's annual average completions are nearly 4,000 units, more than double that of the previous cycle as builders capitalize on the area's growing renter pool and exceptional economic growth. San Francisco will lead the nation in household income growth this year, rising 5.4 percent to \$132,300, fueled by the unwavering creation of high-wage jobs. Residents taking these jobs will continue to help fill the influx of new luxury apartments, where the average effective rent hovers around \$4,000 per month. Over the past five years, Class A assets have led the market in rent growth, climbing 21 percent, while the Class B and C segments posted 14 percent and 18 percent gains, respectively.

Rent-control measures could create valuation upside for new assets.

The rise in transaction activity witnessed in the second half of 2019 has a good chance of continuing during the coming year due to an exemption in the recently passed statewide rent-control legislation. Properties 15 years or newer are not included in the rent cap of 5 percent plus CPI. Empirical economic research has found that in rent control markets, properties not covered by the rent controls see their rents rise faster than if there was no rent control implemented. Therefore, newly built Class A assets have the potential to see rent increases at higher levels than had been previously forecasted, raising the potential valuations for those owners. In addition, given that the clock is ticking on how long these properties could see inflated rent growth before coming under the controls, the sooner they sell, the higher the potential proceeds and returns could be. In addition, institutional capital and REITs have signaled their willingness to make Class A purchases after the rent-control measures were passed as these would be key potential buyers of these core assets. Thus, if owners of newly built assets decided to sell, there appears to be a deep pool of buyers readily available to purchase.

24.9%



2019 share of local population between 20 and 34 years old

51.9%



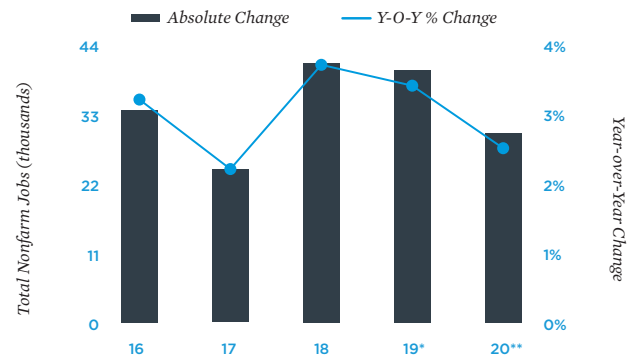
of local population hold bachelor's degree or higher*

\$1,619,036

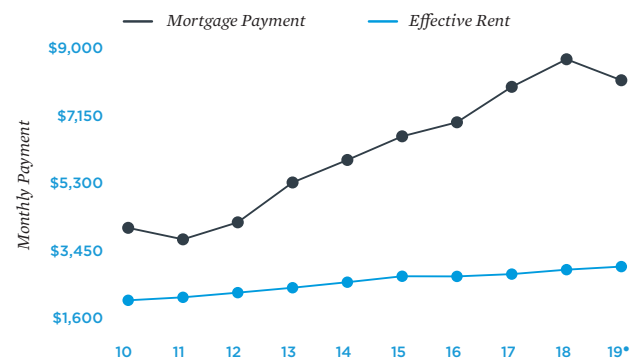


2019 median home price

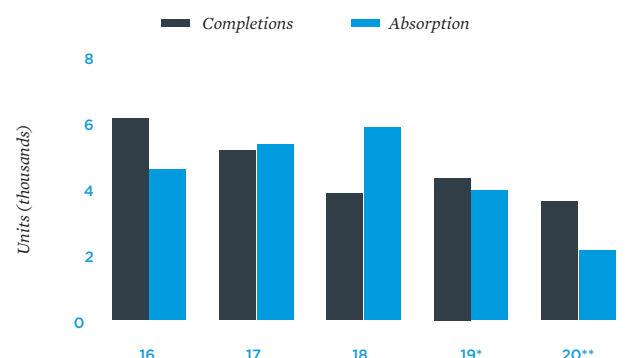
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast * Through 3Q

* 2019: 25+ years old

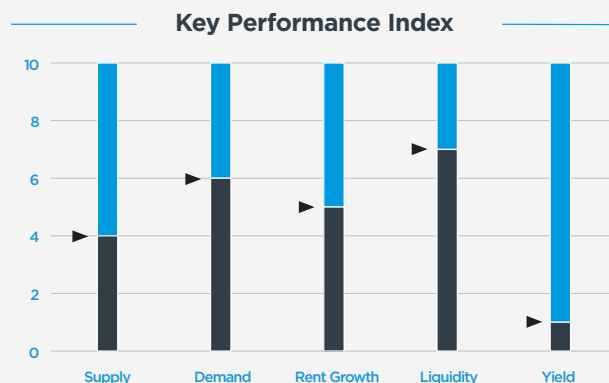
Sources: Marcus & Millichap Research Services; RealPage, Inc.

2020 Investment Outlook

An improving rent growth index, up one point in the second half of 2019, underscores the potential for rents further expanding and sturdy fundamentals underpinning the San Francisco multifamily market this year. Especially helpful will also be moderating supply, which held that index at 4.

Liquidity held steady at 7 emphasizing the long-term holding nature of most owners, which acts as a governor on the transaction market but doesn't hold back the robust investor interest to deploy capital into the market. The yield index strongly reflects the high investor demand for assets and competitive pricing that ensues for disposition assets.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2020 Market Forecast

Employment
30,000 jobs



Metro **2.5%**
U.S. **1.0%**

Construction
as % of inventory*



Metro **1.6%**
U.S. **1.7%**

Class A Vacancy
Up 10 bps



Metro **6.5%**
U.S. **5.3%**

Class A Rent
\$4,208 per month

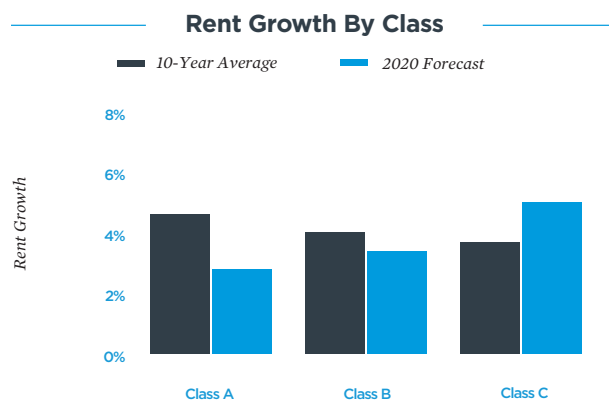
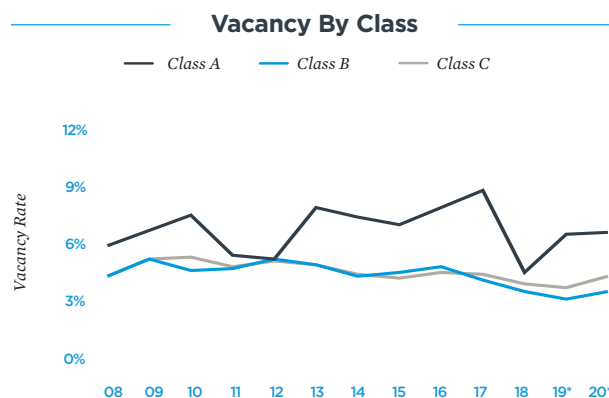


Metro **2.8%**
U.S. **3.3%**

Investment
3-yr. avg. activity
\$20+ million



Deals: **17**
Volume: **\$1.2 billion**



Jeffery J. Daniels

Senior Vice President

National Director IPA Multifamily

(212) 430-6127 | jdaniels@ipausa.com

* Estimate ** Forecast

† Arrow reflects completions trend compared with 2019
Sources: Marcus & Millichap Research Services;
CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics