



The San Francisco Apartment Building Market

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**Market Report for Residential
5+ Unit Buildings**

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The San Francisco 5+ Unit Apartment Building Market

June 2020 Report

It had already been a challenging couple of years for San Francisco landlords, with political developments regarding sales, evictions and rent control coming into effect, seemingly one after another - but COVID-19 is a health and economic crisis of another magnitude. Mass unemployment hits the city's rental market extremely hard: Tenants paying the highest rents in the country often move quickly if their jobs are lost. The crisis has left many existing tenants unable to pay their rent, and new rules have severely limited landlords' legal options, though some of those are now being challenged in court. Market rent rates have been dropping and vacancy rates increasing, in a manner reminiscent of the period after the dotcom collapse, another time of sudden, high unemployment. Larger buildings, in particular, are offering longer periods of free rent as they compete for new tenants.

With all this occurring, it is not surprising that sales activity for multi-family income properties has plunged in the last quarter, and to a large degree, we have little choice but to wait for the situation to settle and clarify. Shelter in place rules make it virtually impossible to show occupied units. With reduced sales volume, it becomes more difficult to assess market values, but so far, according to standard indicators illustrated below, there has been no precipitous drop.

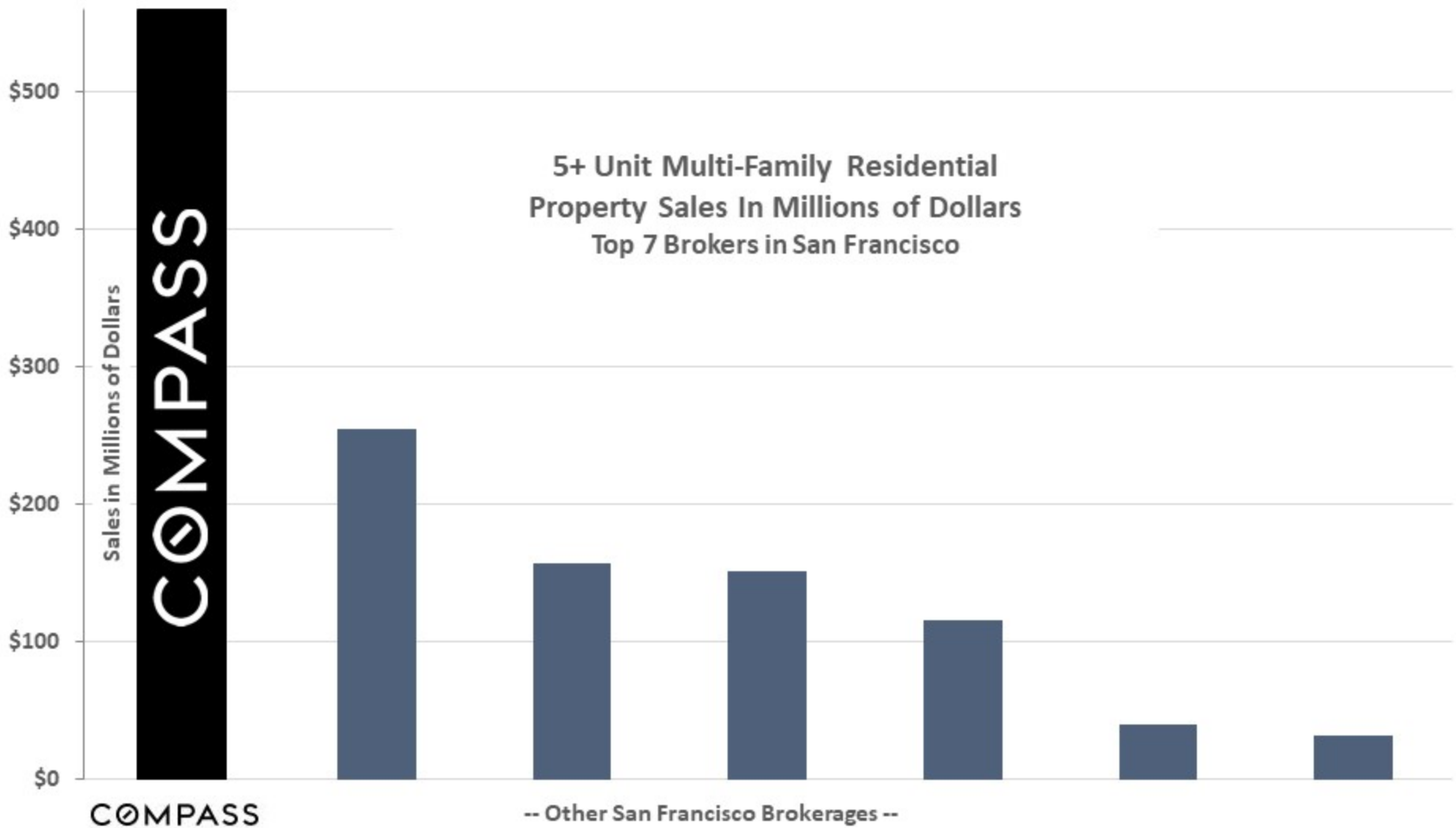
Even with rent declines, occupied apartments generate high income streams, and interest rates have hit all-time lows. Though COVID-19 has temporarily affected many of the things that residents love so much about the city, San Francisco remains a financial, technology and cultural capital. Long-term investors who have avoided over-leveraging their properties have ridden out several economic crises over the last 30 years and will do so again. There will almost certainly be opportunities for savvy buyers.

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San Francisco Apartment Building Sales

Top 7 Brokers, 5+ Unit Residential Sales*, 2019-2020 YTD

MLS sales of 5+ unit buildings,
per Broker Metrics*



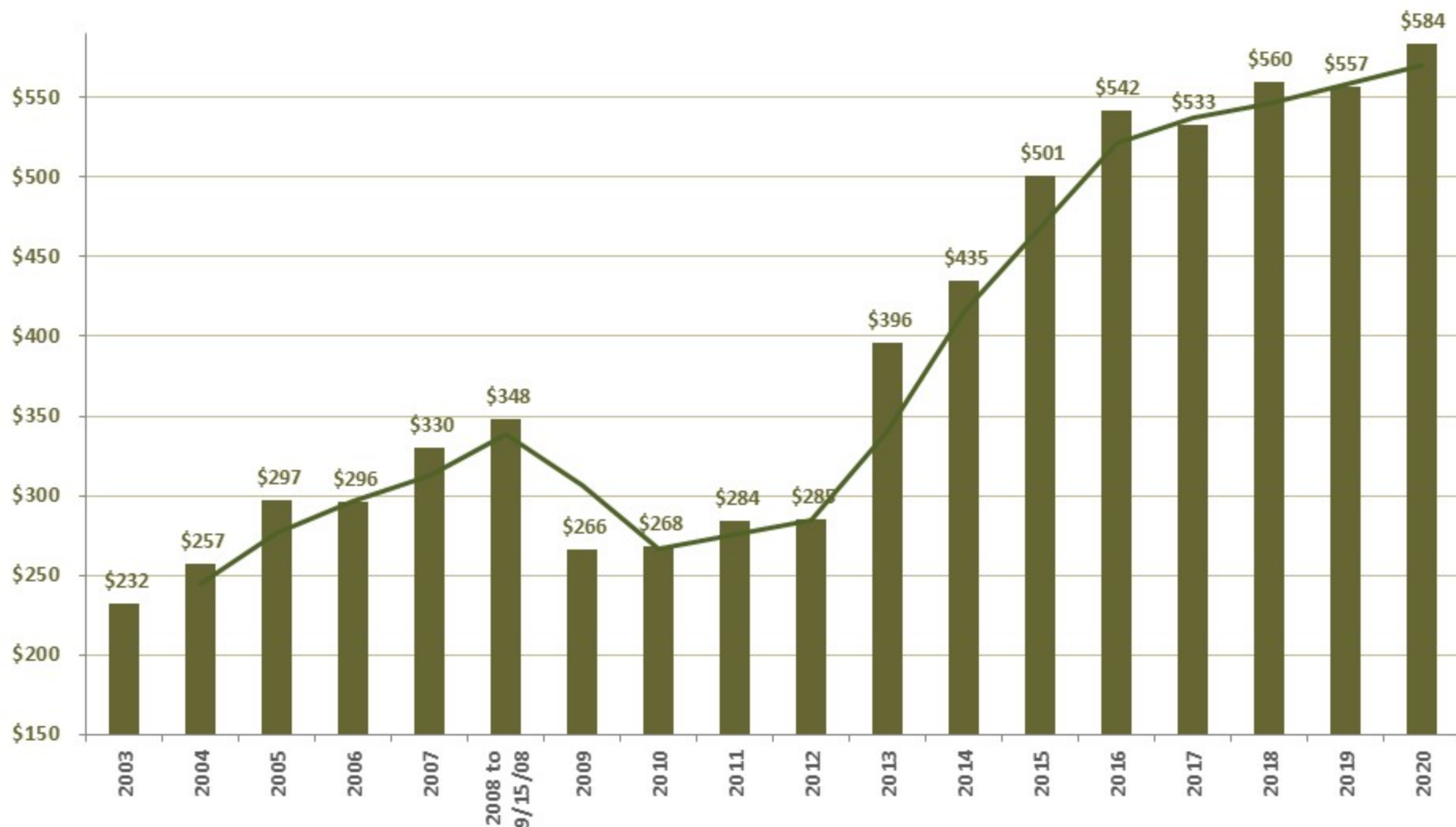
* Dollar volume, transaction-side sales reported to MLS, 1/1/19 – 6/15/20, per Broker Metrics.

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San Francisco 5+ Unit Apartment Building Sales

Average Dollar per Square Foot Values

2020 data through June 30, 2020



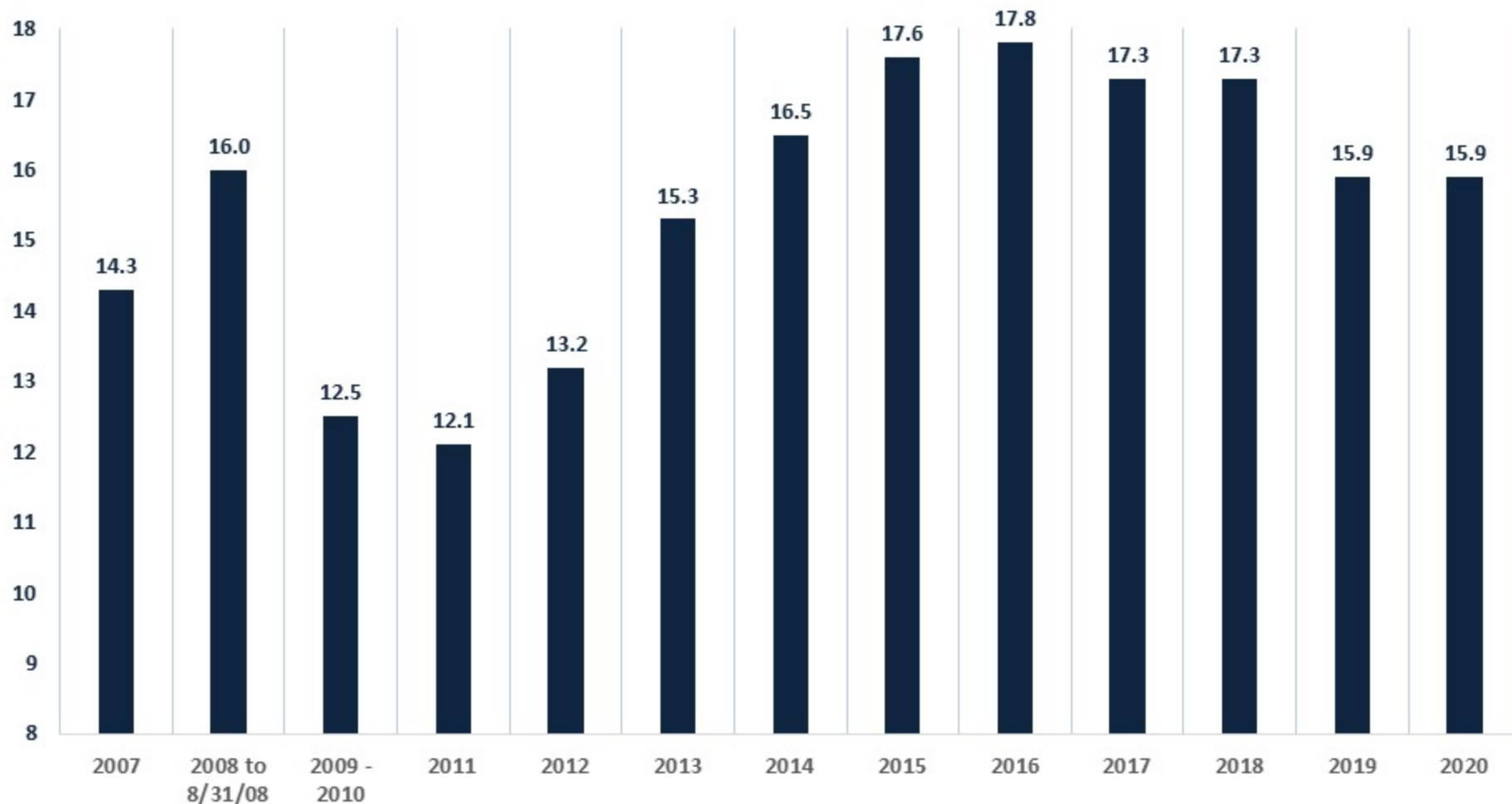
Because of the relatively small number of sales and the huge variety in buildings sold, average dollar per square foot is a very general statistic when applied to investment property sales. Data is from sources deemed reliable, but may contain errors and subject to revision. All numbers are approximate.

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Average Gross Rent Multiples

San Francisco 5+ Unit Apartment Building Sales

2020 data through June 30, 2020



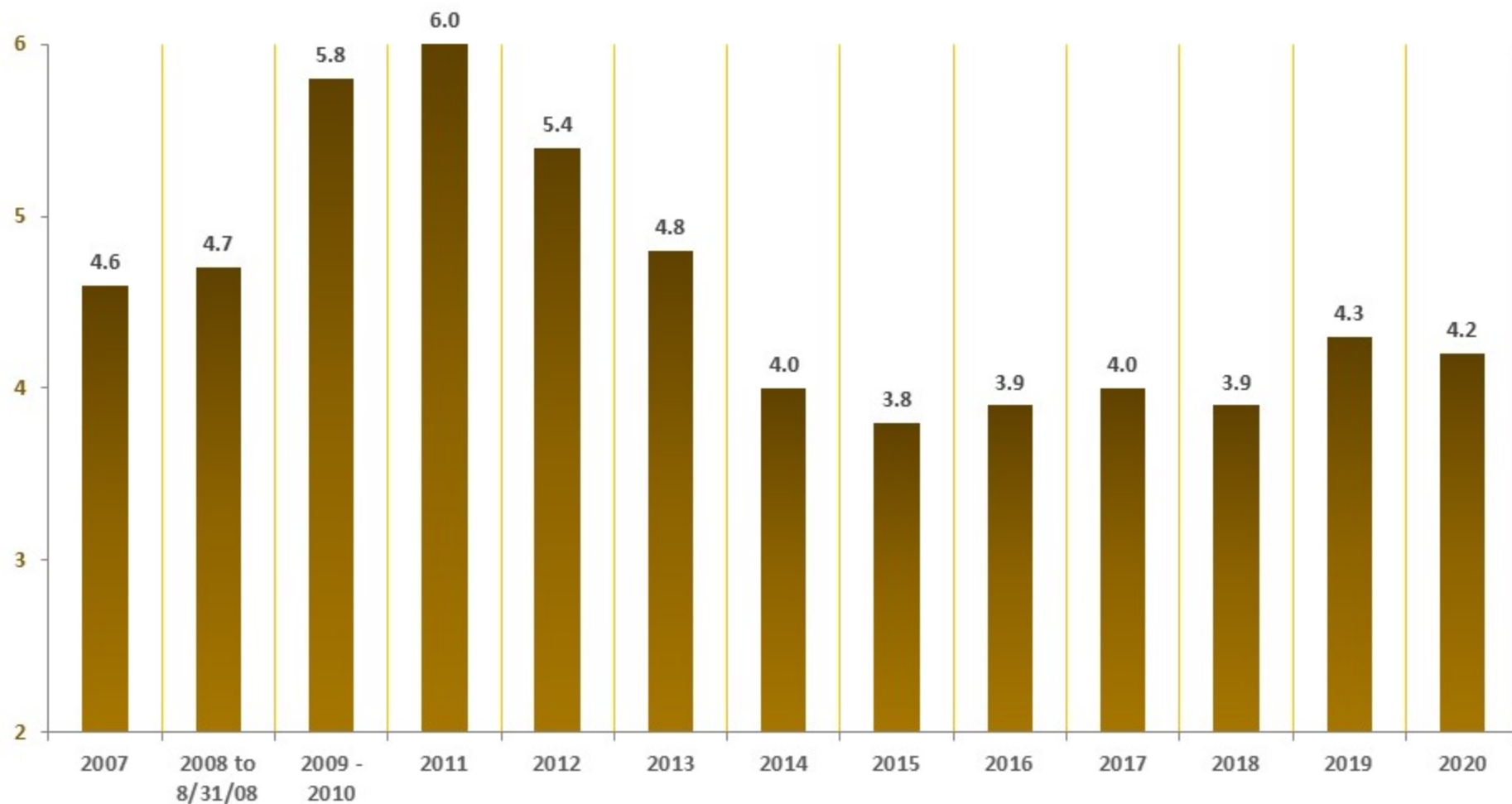
GRM is calculated by dividing the sales price by the annual gross rents. It is a very general statistic and all numbers should be considered approximate. This data is from sources deemed reliable, but may contain errors and subject to revision. Outlier sales that would distort the statistic were deleted from the analysis when identified. Based on data provided by listing agents.

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Average Cap Rates

San Francisco 5+ Unit Apartment Building Sales

2020 data through June 30, 2020



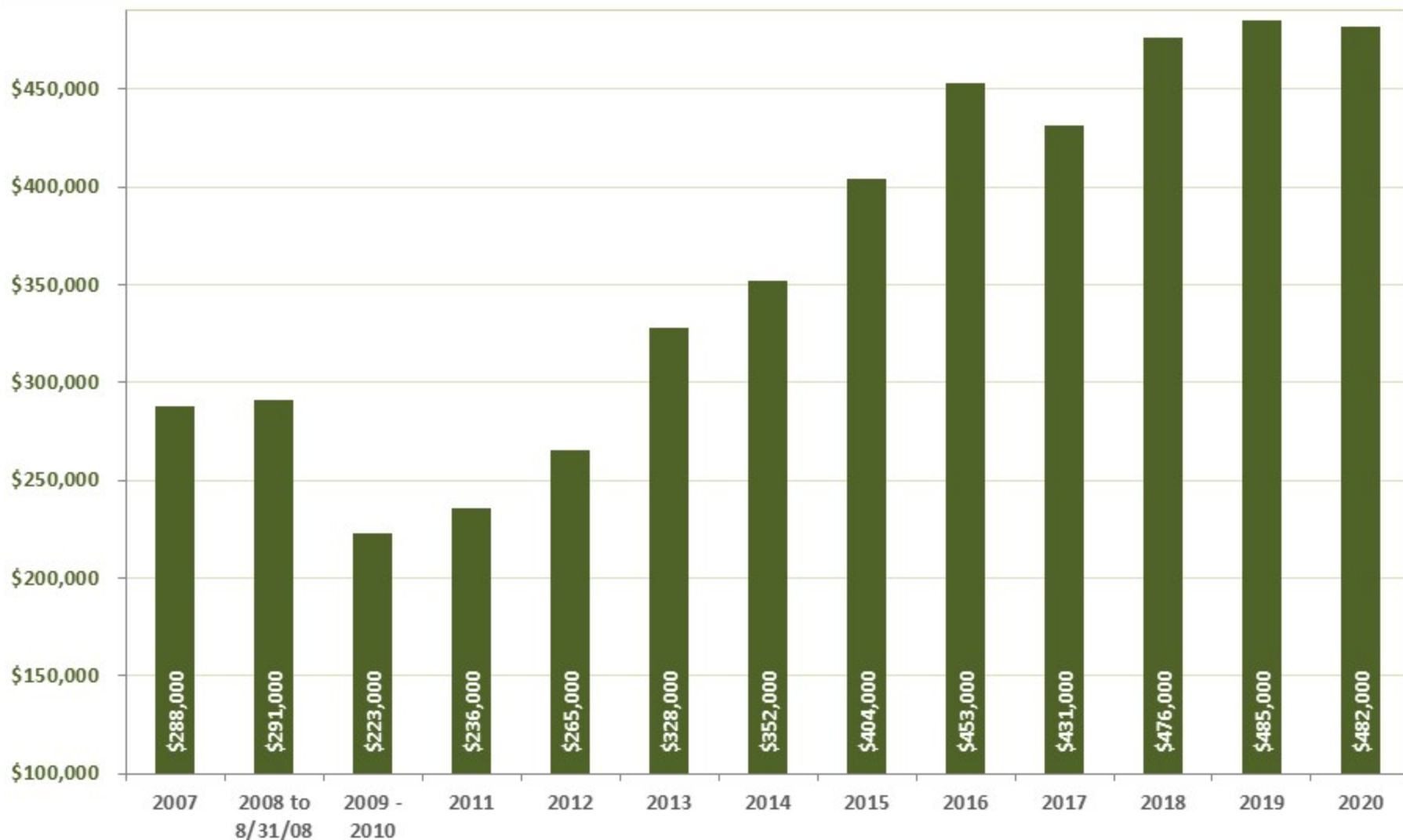
Capitalization rate calculations – sales price divided by net income (excluding mortgage costs), or return on investment as if the property had been purchased all cash – are only as good as the income and expense data provided by listing agents, and should be considered general approximations. Data from sources deemed reliable, but may contain errors and is subject to revision. Outlier sales that would distort the statistic were deleted from analysis when identified.

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Average Price per Unit

San Francisco 5+ Unit Apartment Building Sales

2020 data through June 30, 2020



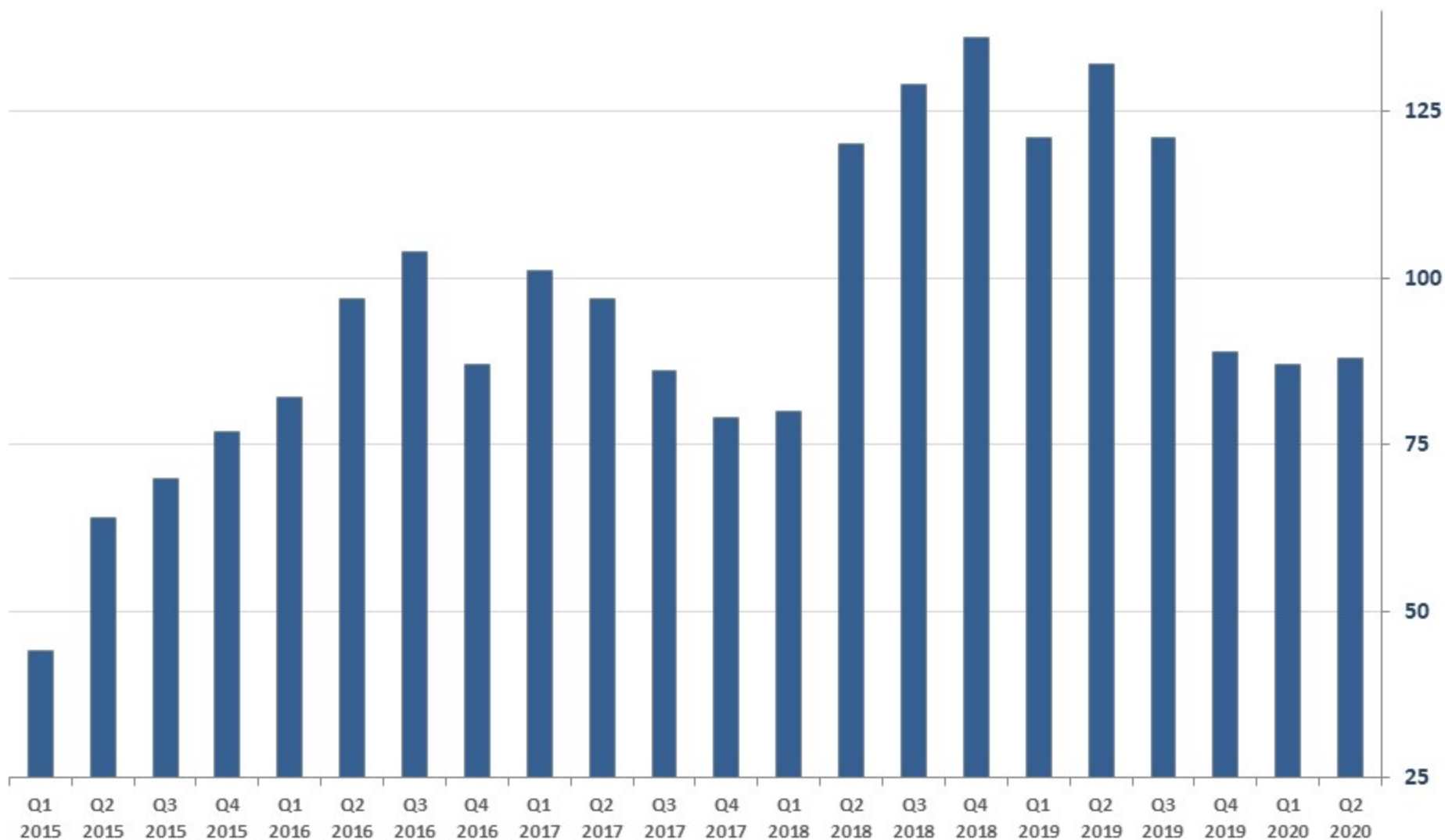
Because of the huge variety in buildings sold, this is a very general statistic when applied to SF investment property sales. This data is from sources deemed reliable, but may contain errors and subject to revision. Outlier sales deleted when identified. All numbers should be considered approximate.

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San Francisco Apartment Building Market – 5+ Units

Active Listings: Units Listed for Sale in Quarter

5+ unit buildings, MLS listing activity, per Broker Metrics

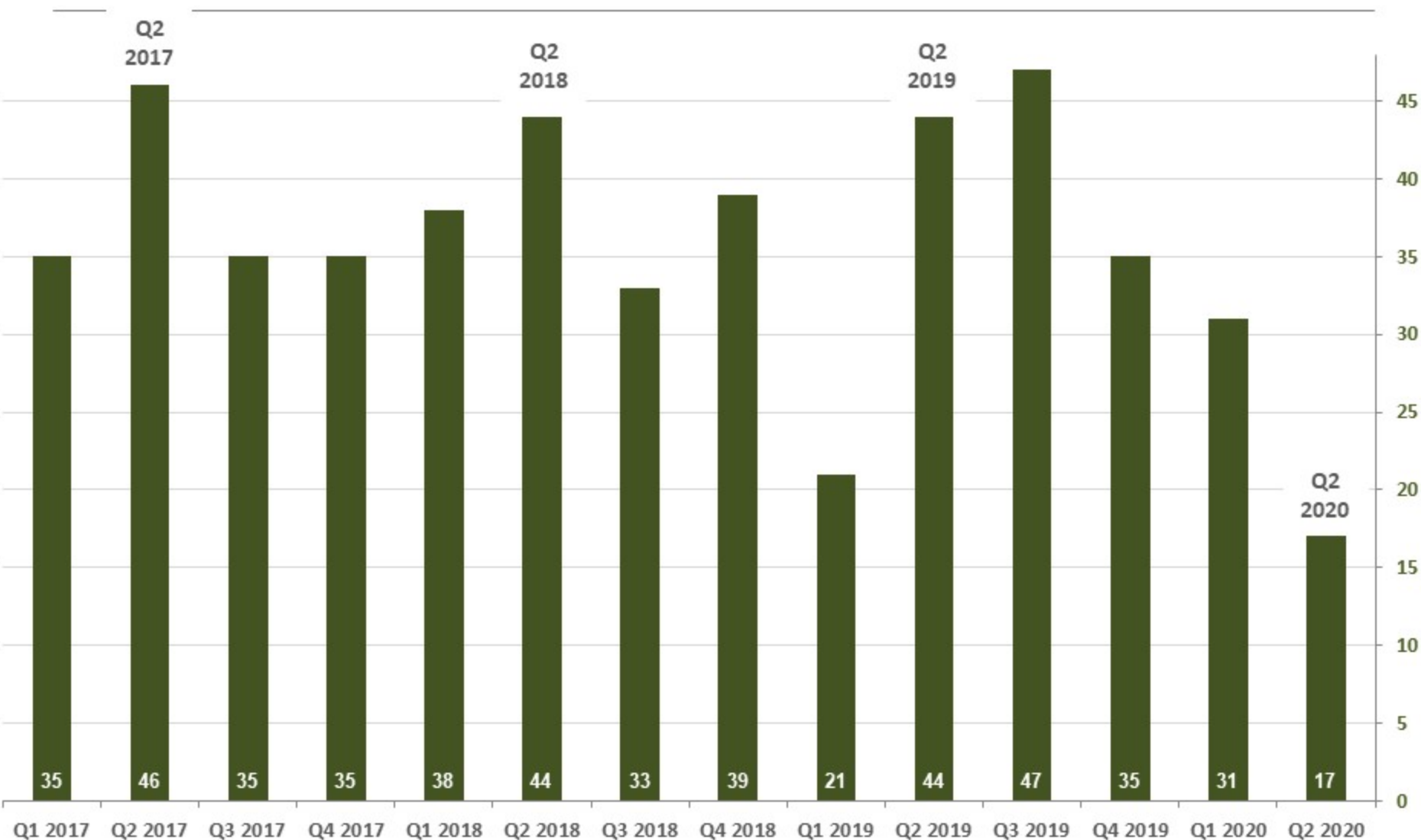


Data from sources deemed reliable, but may contain errors and subject to revision. Based upon MLS activity: Not all for-sale properties are posted to MLS. All numbers approximate and subject to revision.

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San Francisco Apartment Building Market – 5+ Units

Listings Closing Sale in Quarter since 2017



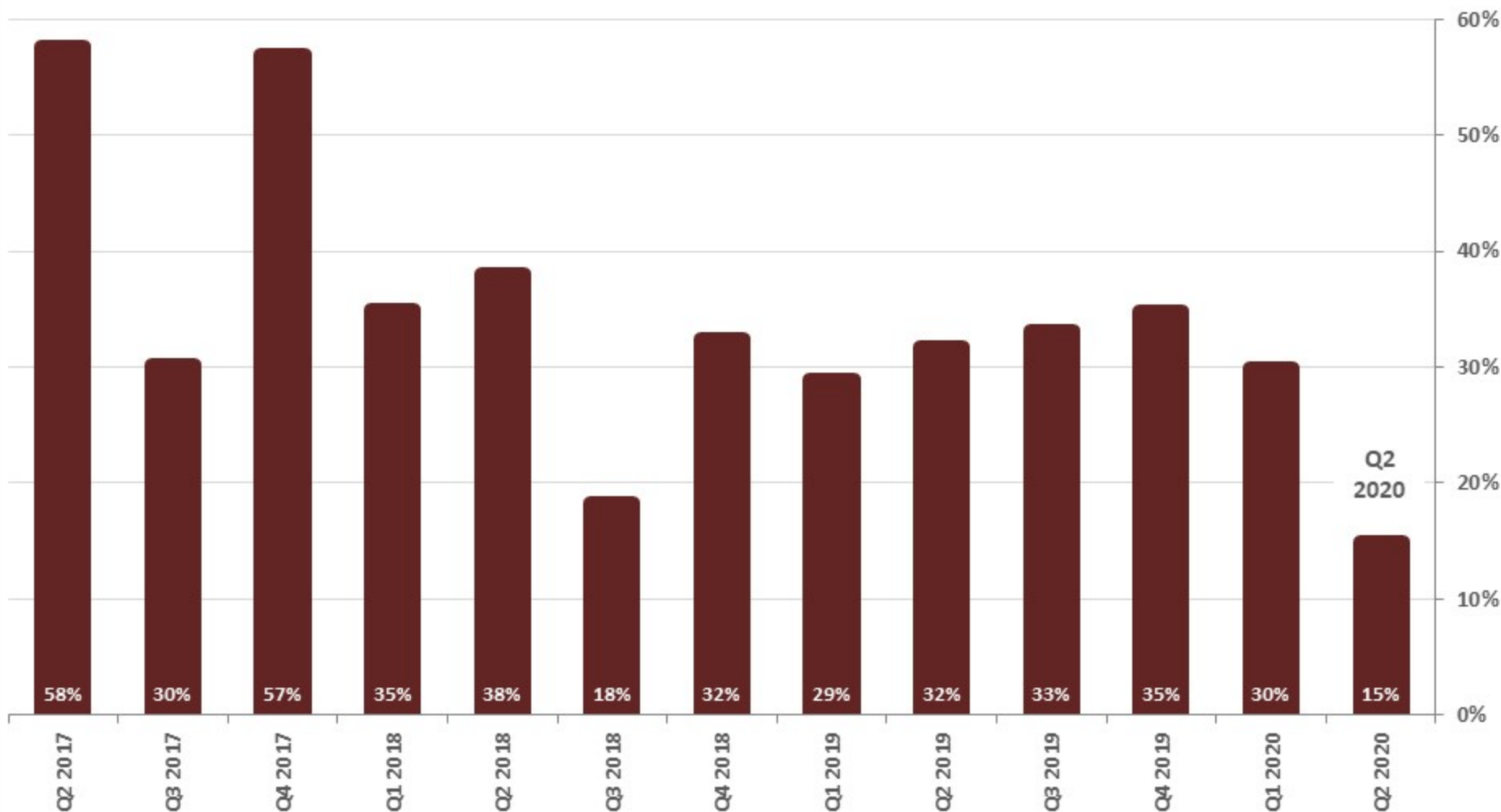
Data from sources deemed reliable, but may contain errors and subject to revision. All numbers approximate.

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Percentage of Listings Accepting Offers in Quarter

San Francisco 5+ Unit Building Market Dynamics

Per MLS sales data

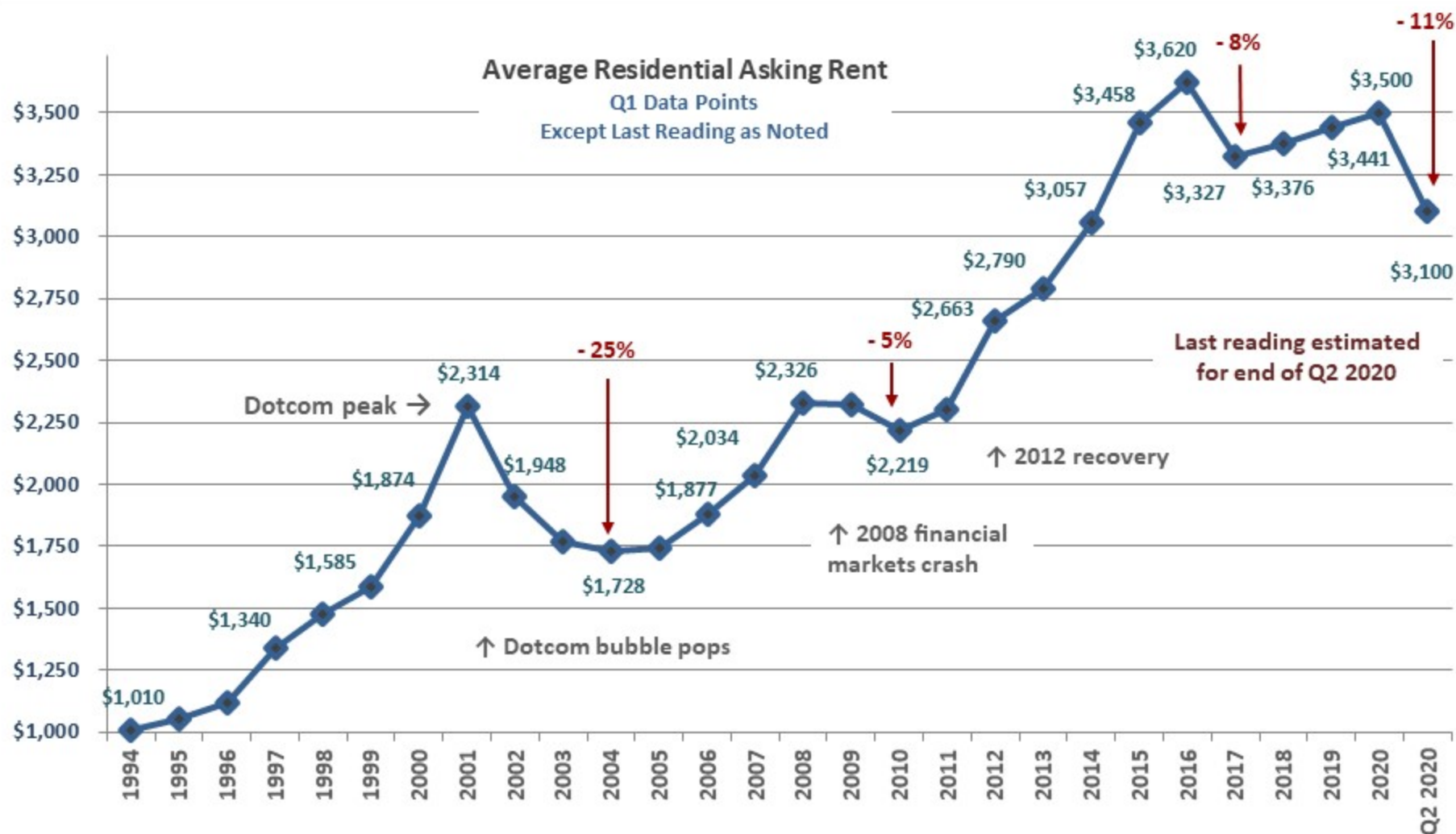


These analyses were performed in good faith with data derived from sources deemed reliable, but may contain errors and are subject to revision. All numbers to be considered approximate.

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San Francisco Residential Rents – Estimated & Approximate

Weighted Average Asking Rent, Q1 Data Points, 1994 - Present



1st quarter data points except, as noted for last reading - per RealFacts LLC, for buildings with at least 50 units. 2017-onward estimated using Zillow Rent Index data (<https://www.zillow.com/research/data/#rental-data>) and Zumper data in 2020. Data from sources deemed reliable but may contain errors and subject to revision. All numbers are approximate estimates.

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San Francisco 5+ Unit Apartment Building Sales

2020 YTD Sales by Price Segment

6 months sales reported to
MLS through 6/30/20

■ 5-8 Unit Buildings

■ 9-15 Unit Buildings

■ 16+ Unit Buildings

The first half of 2020 had
a low number of sales.



Sales reported to MLS. "M" signifies millions of dollars. Data from sources deemed reliable, but subject to error and revision. All numbers to be considered approximate.

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Multi-Unit Residential Property Sales, 5+ Units

2020 YTD Sales by San Francisco District

6 months sales reported to
MLS through 6/30/20



The city's 5+ unit apartment market is dominated by buildings of 5-8 units.

The great majority of SF apartment buildings were constructed prior to 1940: Victorian, Edwardian, Spanish Mediterranean & Marina-Style architecture.

Almost all buildings sold in 2020 YTD were of wood-frame construction.

Data from sources deemed reliable, but may contain errors and subject to revision. All numbers are approximate. May not include all mixed-use building sales.

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Note that the quantity of sales in any given local submarket is usually relatively small and/or the number of sales that report the necessary financial information can be limited. Buildings of different ages, qualities and sizes selling in different periods can cause these average and median figures to fluctuate significantly. Furthermore, the reliability of some of these calculations depends upon the quality of the income and expense figures provided by the listing agents, and sometimes instead of actual numbers, much less meaningful projected or scheduled figures are used. Therefore, the above statistics should be considered very general indicators, and how they apply to any particular property without a specific comparative market analysis is unknown. If you would like such a specific analysis, please contact me.

These analyses were made in good faith with data from sources deemed reliable, but they may contain errors and are subject to revision. Statistics are generalities and all numbers should be considered approximate.

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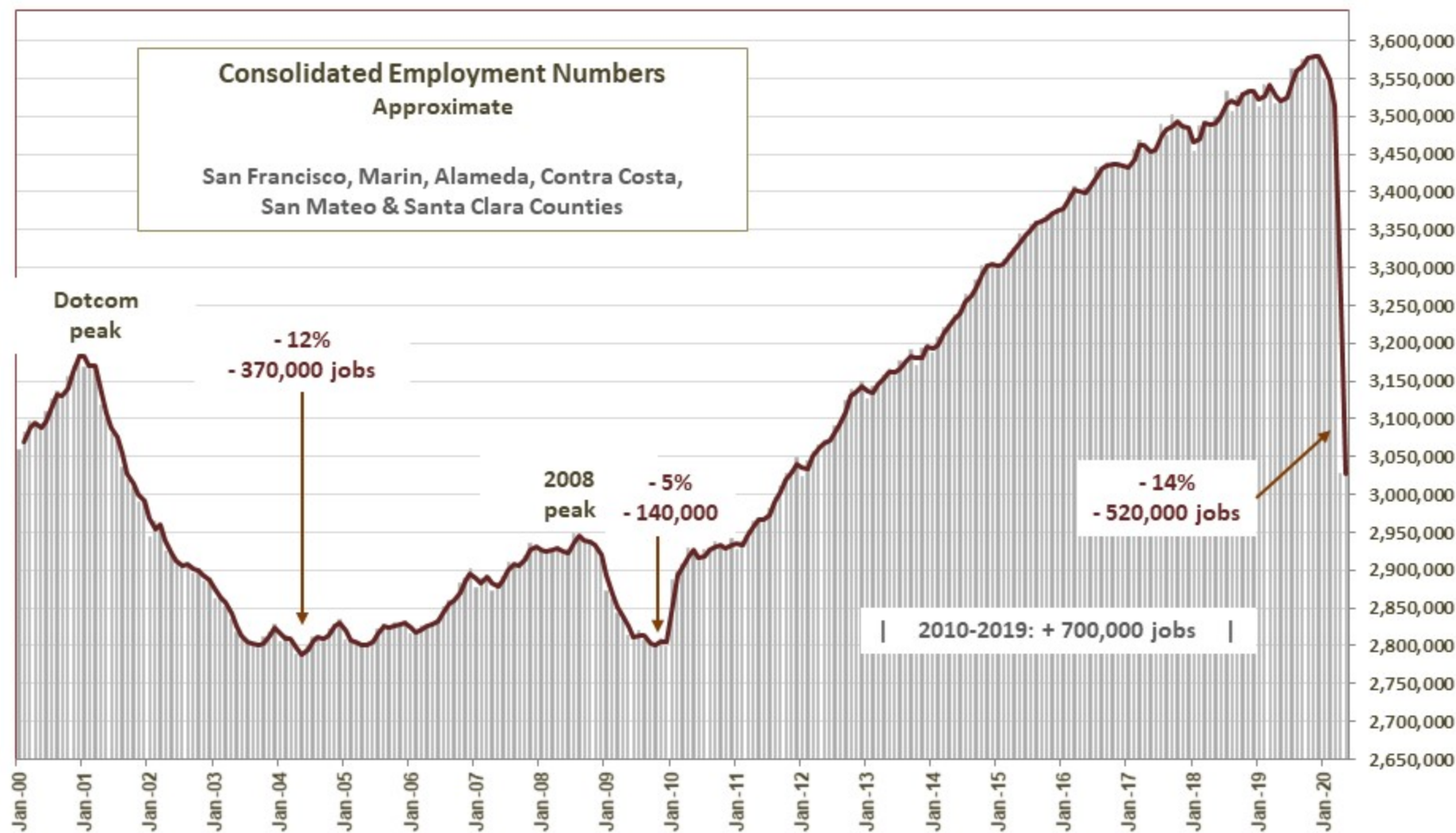
San Francisco Bay Area Employment Trends

Number of Employed Residents, 2000 – May 2020

Estimates of California Employment
Development Department (EDD)

Consolidated Employment Numbers Approximate

San Francisco, Marin, Alameda, Contra Costa,
San Mateo & Santa Clara Counties



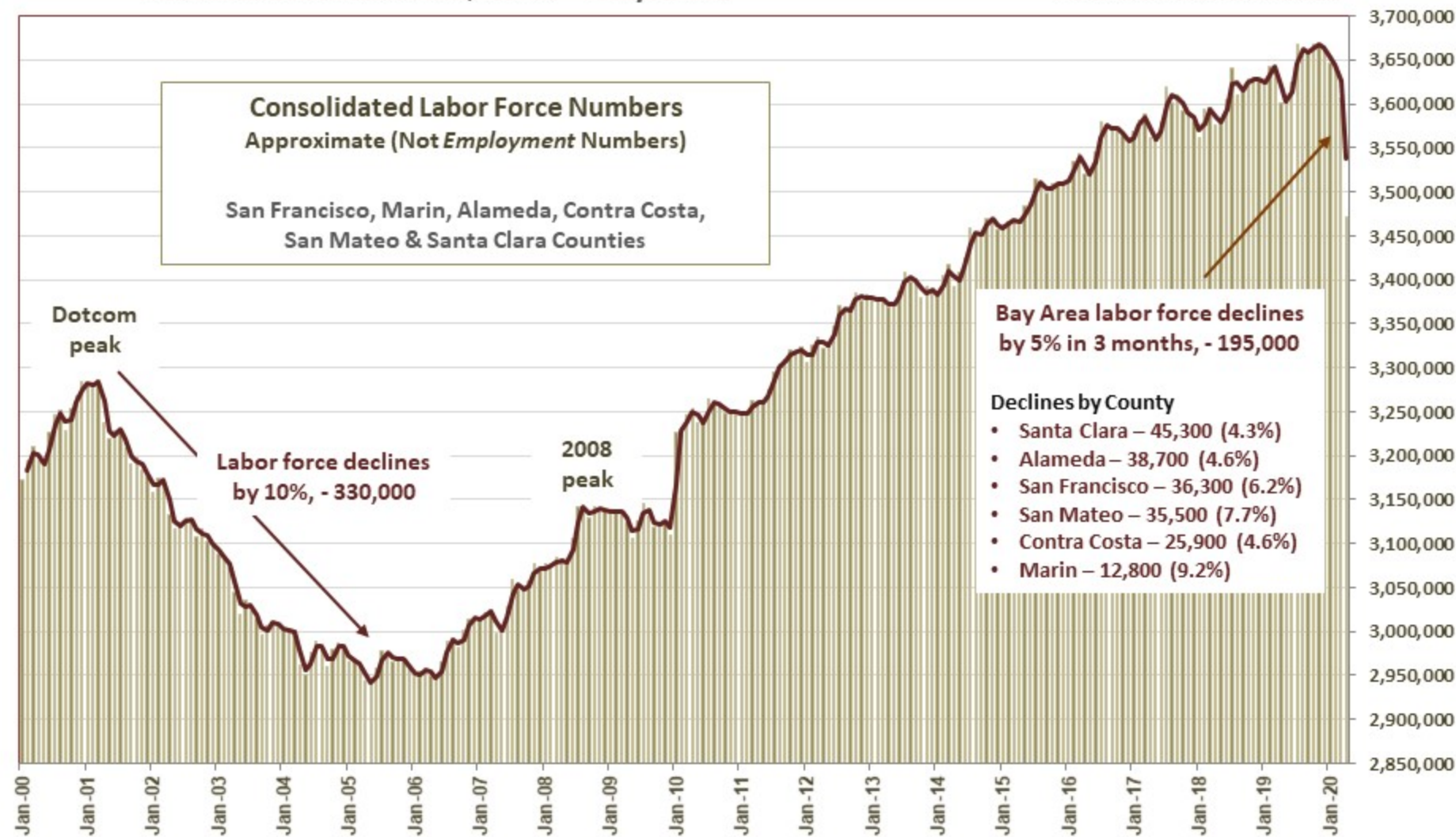
EDD data 6 inner Bay Area Counties. Last month's data is labeled "preliminary" by EDD. EDD often goes back to revise past data releases. Data from sources deemed reliable but may contain errors and subject to revision.

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San Francisco Bay Area Civilian Labor Force

Residents Able to Work, 2000 – May 2020

Estimates of California Employment
Development Department (EDD)



This chart measures the # of residents *able to work*, not the # *employed*. Last month's data is labeled "preliminary" by EDD. EDD often goes back to revise past data releases. Data from sources deemed reliable but may contain errors and subject to revision. All numbers should be considered approximate with reasonable margins of error.

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