RIAZ

Demand for Multifamily Housing in the Bay Area

November 2021

Introduction

Demand for housing in the Bay Area remains in a steady recovery, and recent indicators demonstrate that it is likely to only grow over time. Stabilized occupancy rates in our own portfolio are on the rise, having already recovered 31% to our previous peak rate and still rising as demand increases. Pressure on both the supply and demand sides of the Bay Area housing market are likely to push rents up as people return to in-person employment, events, engagements, and experiences. Without having to be tied to Zoom for every interaction, proximity to urban opportunity will once again come at a premium. Rents are already on the rise to meet these new conditions.

We pulled together some materials to address recent concerns regarding demand for multifamily housing in the Bay Area. Our projections and market research demonstrate that the region remains a strong market and high demand combined with limited supply will retain the integrity of the San Francisco Bay Area.

Several factors are contributing to this demand:

1. **$100 billion in VC funding is expected to be invested into the Bay Area in 2021,** with a record-breaking $88 billion in VC investments in 2021 to date. This is expected to drive job growth.
2. **Over 78,000 employees are expected to return to Bay Area offices in 2022**. The region will see an influx of new employees hired by major employers during the pandemic that will be expected to return to the office next year.
3. **8,131 households and businesses moved to Alameda County** during the pandemic. Migration within the Bay Area has made Alameda County the leading location for San Franciscans.
4. **Over 234,000** enrolled university students go to school in the Bay Area, and they are returning to in-person instruction across the region. This further pushes up demand for housing in the region.
5. **A 75% drop in unit deliveries is expected** in the Oakland/Berkeley market from 2021 to 2022, pointing to a potential spike in market rents sometime in the next 18 months.

In this promising market, we are confident that now is the right time to invest in housing. Below, we will outline these points in detail.

Venture Capital Investment in the Bay Area

The Silicon Valley Business Journal reported last month on a study from Pitchbook Data and the National Venture Capital Association that found that the Bay Area remains the leading region for venture capital funding in the nation. $30 billion has been raised in the region in the third quarter of 2021 alone (over 200% annual increase). The Bay Area has seen $88 billion in investment so far this year and is on track to hit $100 billion in venture investment in 2021: the most money the region has ever raised in a single year. To put that in perspective, this projection is higher than the last peak in 2018 by over $33 billion.

By comparison, according to the same report from the Business Journal New York City startups secured only $14.5 billion in VC funding in Q3 2021: less than half of the Bay Area in the same period.

Bay Area VC Funding over Time

	2016	2017	2018	2019	2020	2021*
Deal Count	2,432	2,539	2,758	2,888	2,503	2,470
Deal Value (in billions)	$33.0	$33.9	$66.9	$51.7	$61.5	$100.0

Source: Pitchbook and Silicon Valley Business Times (for 2021 data)
*Full year forecast, $88 billion as of Q3 2021

Why the record-breaking investment? The Bay Area has long been the place to start or scale a business in many industries, such as electronics, software and biotech. A recent Stanford graduate will have a much harder time starting a robotics company in Bozeman, Montana than Santa Clara, California: there are simply more resources, capital, and talented industry players here. The Bay Area is likely to keep attracting talent and concentrating economic vitality for years. In the last 20 years alone, we have seen the founding of industry juggernauts including Airbnb, Uber, Lyft, Twitter, LinkedIn, Impossible Foods, and Tesla. This region is, and should long continue to be, an innovation and economic hotbed.

The numbers don't lie. From 2016 through the pandemic year of 2020, the Bay Area raised over $150 billion in VC capital. In this time, the Bay Area made up more than all VC investment in the rest of the United States combined.

VC fundraising activity (deal count, $B) by CSA from 2016-2020

		Deal Value	Deal Value %	Total US Deal Value
San Jose-San Francisco-Oakland, CA	Bay Area	$151.1	52.6%	52.6%
Boston-Worcester-Providence, MA-RI-NH-CT	Boston	$43.4	15.1%	47.4%
New York-Newark, NY-NJ-CT-PA	New York	$39.2	13.7%	
Los Angeles-Long Beach, CA	Los Angeles	$10.9	3.8%	
Seattle-Tacoma, WA	Seattle	$7.6	2.6%	
Washington-Baltimore-Arlington, DC-MD-VA-WV-PA	Washington D.C.	$8.0	2.8%	
Chicago-Naperville, IL-IN-WI	Chicago	$6.6	2.3%	
Miami-Port St. Lucie-Fort Lauderdale, FL	Miami	$1.7	0.6%	
Salt Lake City-Provo-Orem, UT	Salt Lake City	$1.2	0.4%	
Nashville-Davidson--Murfreesboro, TN	Nashville	$1.0	0.3%	
Other	Other	$16.2	5.6%	

As of 12/31/2020
Source: Pitchbook

There is a lot of talk of the "New South", with highly publicized Bay Area headquarter moves to Austin and other cities in 2020. Despite this, one should note that in terms of investor interest and capital contributed, Austin does not even make the top ten cities in the list above. In fact, the only Southern city on the list is Nashville, coming in dead last on the bottom of the list.

The consistent, high level of investment in the Bay Area economy even through the pandemic demonstrates both investor confidence in the region and a tremendous amount of capital in the local economy. There is simply no way that this much capital will not lead to continued and rapid job growth in the region, and demand for housing should follow.

An Influx of New Employees

The influx of investment has led to a hiring frenzy in the tech sector: an early November 2021 search for IT jobs in the Bay Area on Indeed.com yielded over 51,000 openings within 50 miles of Downtown San Francisco. While a significant number of these new employees are remote today, many major employers in the region are expected to require employees to return to work come January 2022 (see here for details), including Amazon, Apple, and Salesforce. One will notice that the document linked lists Twitter as a "remote first" company, which is ironic considering the company's major expansion into Oakland (and indicative of Twitter's confidence in workers opting to work in the office). In total, we are expecting to see over 78,000 employees return to the offices of major Bay Area employers alone in 2022.

Bay Area Companies Reopening Offices in 2022

		Market cap	1 year Growth	Total employees	Bay Area Employees
January 2022	Amazon	$1.766 T	10.8%	1,468,000	1,800
	Apple	$2.427 T	27.2%	154,000	25,000
	Charles Schwab	$153 B	79.6%	32,400	1,117
	Facebook	$920 B	17.5%	68,177	15,407
	NetApp	$20 B	84.1%	11,000	N/A
	Salesforce	$293 B	15.6%	65,595	9,450
	Uber	$84 B	-10.0%	22,800	5,500
	Wells Fargo	$201 B	107.9%	253,871	12,035
February 2022	Asana	$24 B	465.0%	1,080	N/A
	Lyft	$18 B	44.9%	4,369	1,500
September 2022	Airbnb	$120 B	32.8%	5,400	2,300
TBD	Intel	$206.441 B	11.3%	117,200	N/A
	LinkedIn	Microsoft Sub			2,300
	Microsoft	$2.491 T	51.5%	181,000	N/A
	Twitter	$42 B	21.2%	5,500	2,500
	Zoom	$75 B	-39.2%	5,725	N/A

Source: CBRE, Yahoo Finance, San Francisco Business Times

These firms hired aggressively during the pandemic, and at the same time expanded their real estate footprints in the Bay Area (Google is a prominent example of this). We will likely see many new employees needing housing coming to the region next year as these offices open. It goes without saying that employment drives demand for housing, which in turn drives market rents. Demand from newcomers to the region will once again be a major driver in the market.

In recent years, we have seen not only jobs coming to San Francisco, but also incredible job growth in Oakland, with Square, Credit Karma, and Chime all gaining a foothold in the city. Recently, FiveTran, PG&E, and Blue Shield moved their headquarters to Oakland. Add to that the aforementioned Twitter expansion into downtown Oakland, and there is a lot of evidence for the continued vitality of this market and its capacity to attract employees and employers. Oakland is home to many prominent companies already and should continue to attract ambitious new firms as well.

Major Oakland Employers

	Tech		Healthcare and Education		Services and Other	
	Company	**Oakland Staff**	**Company**	**Oakland Staff**	**Company**	**Oakland Staff**
Historic Employers	Marqeta Inc.*	364	Kaiser Permanente*	11,874	Southwest Airlines	2,619
			Sutter Health	3,651	Allied Universal	1,169
			La Clinica De La Raza*	780	Safeway N. Cal. Division	655
			Manos Home Care*	742	Seneca Family of Agencies	540
			Telecare Corp.*	475	Clorox Co.*	522
			Delta Dental of Cal.	446	Waste Management Inc.	461
			Mills College*	446	Wells Fargo & Co.	381
					AECOM	360
					The Save Mart Cos.	300
					Pet Food Express*	270
					Fred Finch Youth & Family*	238
					Hodo*	200
					Center for Social Dynamic*	200
					Bank of America	196
New Employers	Square	2,000	Blue Shield of Cal.*	1,066	PG&E Corp.*	390
	Credit Karma	1,100				
	Fivetran*	500				
	Chime	379				
	Twitter	330				
	Total	**4,673**	**Total**	**19,480**	**Total**	**8,501**

* Headquartered in Alameda County

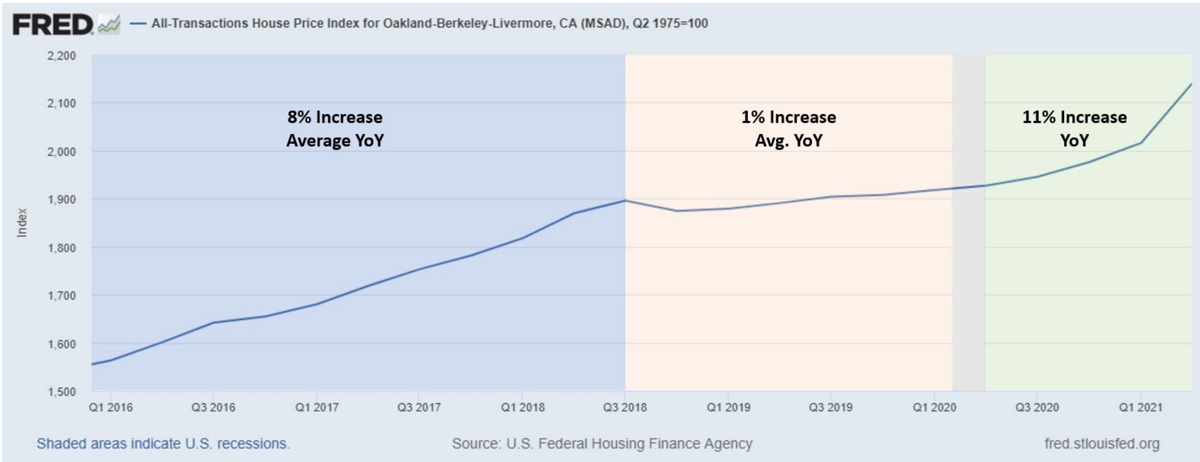
Source: Various news media estimates, San Francisco Business Times

A Migration, Not an Exodus

Recent reports have created the impression that there is a great exodus from the Bay Area. This is simply not the case. A recent San Francisco Chronicle article reports that 72% of Bay Area household and business moves from March to November 2020 were within the Bay Area. In fact, Alameda County (the county Oakland is in) was the most popular destination for out-migrating San Franciscans with 8,131 reported moves from March to November 2020.

Part of this migration is due to households moving from renting to buying homes. The market for for-sale housing has been on fire in the Bay Area during the pandemic, with East Bay for-sale housing prices rising at an average of 1% year over year from Q3 2018 to Q1 2020. From Q3 2020 through Q1 2021, the index jumped a whopping 11%. The recent rapid increase in home prices is indicative of the massive underlying demand for housing in the Bay Area.

Freddie Mac House Price Index for Oakland-Berkeley-Livermore



Students Return to Campus

There are over 234,000 college and university students in the Bay Area, many of them not living at home. The demand for urban housing is increasing now as we see a return of students to universities (such as at UC Berkeley, one of the Bay Area's largest schools). With a student body of over 42,000 at the one school, the university has a significant impact on the entire East Bay housing market.

Berkeley is not the only school returning to in-person instruction this year. State schools, community colleges, and other higher education institutions are returning to in-person instruction after a long hiatus. The on-campus population is expected to continue to grow as international students return to US schools and general confidence in attending in-person events increases.

Five Largest Universities in the Bay Area by Student Body

University	City	Bay Area Housing Submarket	Students
University of California Berkeley	Berkeley	Northern Bay Area	42,347
San Francisco State University	San Francisco	Northern Bay Area	27,060
Stanford University	Palo Alto	Southern Bay Area	18,623
California State University, East Bay	Hayward	Northern Bay Area	14,641
University of San Francisco	San Francisco	Northern Bay Area	10,035

Source: San Francisco Business Times, Stanford University

Supply Constrained: Multifamily Deliveries Down for Years

The Bay Area has an estimated housing shortfall of 408,000 units, which will cost an estimated investment of $232 billion to build. This is a massive sum and is unlikely to be invested in the foreseeable future.

As a moderate-income focused housing developer, we see a large unmet demand in the Oakland/ Berkeley market. Oakland had a goal to permit 2,815 moderate-income accessible units between 2015 and 2023. By 2020, the city permitted only 3% of that goal, and accomplishing even half of that is not possible by 2023. This constrained housing supply is only exacerbated by the growing job market.

In addition to the existing shortfall, multifamily deliveries fell off a cliff in 2020-2021 as building material shortages constrained supply (Oakland/Berkeley is forecasted to see a 75% drop in deliveries from 2021 to 2022).

Oakland/Berkeley Unit Deliveries by Year

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Oakland/Berkeley Unit Deliveries	315	158	38	201	412	394	337	1,606	2,743	2,301	2,751	726	766	257

Source: CBRE 2021 Bay Area Multifamily Market Report

Record High Unit Deliveries in 2018 - 2021

75% Drop in Deliveries Between 2021 and 2022

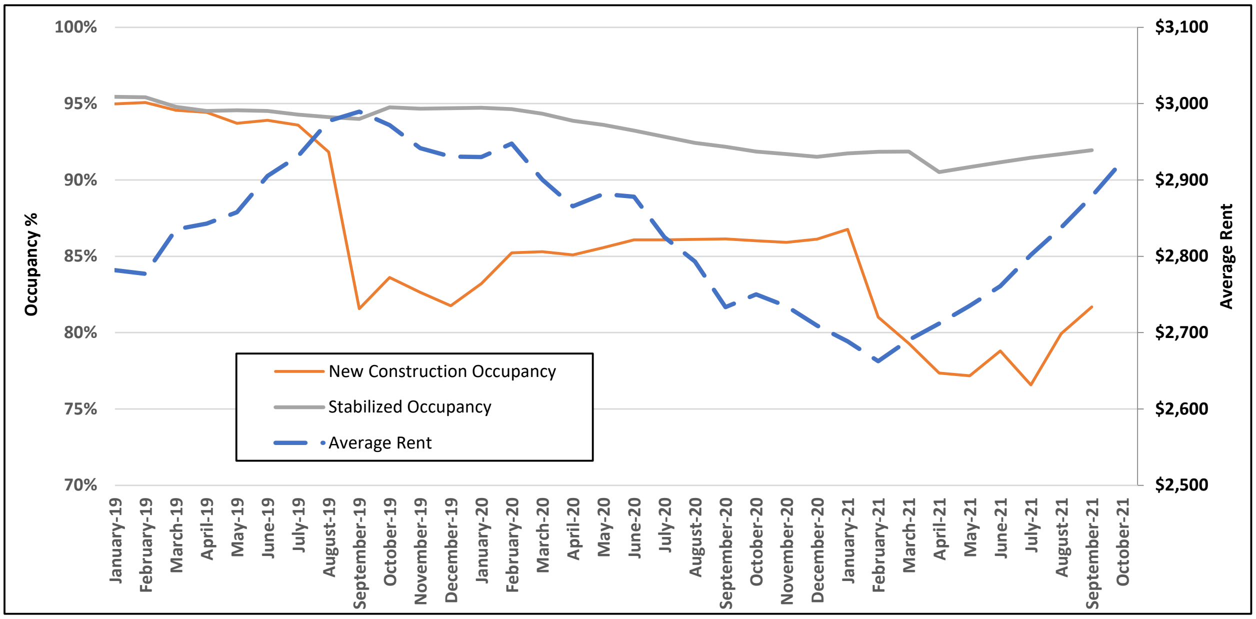
91% drop in Deliveries Compared to 2021

With the economics of the market turned against the provision of multifamily housing for the last year, very few new projects achieved completion in 2020 and 2021. When demand increases it will encounter an unusually scarce supply of multifamily product.

Demand is demonstrably on the rise and is closely linked to the anticipation of office and economic reopening. Occupancy in our own portfolio decreased during the pandemic year of 2020 and began to rise again when vaccines became available near the end of the year. This rise was in anticipation of the area’s economic reopening, and dipped again from March to April 2021 when the Delta variant caused uncertainty in the economic reopening. Since April, however, confidence in the economic reopening has led occupancy to steadily increase, with current stabilized occupancy figures already having already recovered 31% when compared to the 2019 peak.

Riaz Capital Portfolio Occupancy Trends

	Peak (2019 to present)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Peak to Trough	Trough to Current	% Recovered
Stabilized Occupancy	95.1%	91.7%	91.9%	91.9%	90.5%	90.9%	91.2%	91.5%	91.7%	92.0%	N/A	-4.6%	1.4%	31%
New Construction	95.5%	86.8%	81.0%	79.3%	77.4%	77.2%	78.8%	76.6%	79.9%	81.7%	N/A	-18.9%	5.1%	27%
Stabilized Rents	2,989	2,689	2,662	2,690	2,712	2,735	2,761	2,802	2,838	2,878	2,925	(327)	263	80%
New Construction Rents	3,695	3,177	3,146	3,167	3,177	3,184	3,190	3,244	3,236	3,286	3,354	(550)	208	38%



When occupancy reaches 96-97%, we anticipate that net effective rent will begin to increase.

Rents have been low in recent quarters because of record unit deliveries combined with depressed occupancy rates. However, as employees return to the office and students return to classrooms, we will see occupancy rates continue to increase. At the same time, the significantly fewer unit deliveries in the Bay Area in the coming years will constrain supply. The trend of depressed rents will likely flip to become a market rent spike. We are already seeing the recovery now and have every reason to believe that it will only get stronger.

Conclusion

In summary, record-setting VC investment, a coming influx of new employees to the region, a reshuffling of the Bay Area population distribution and the return of students to the classroom are all expected to drive demand in the Bay Area. At the same time, limited multifamily deliveries over the next several years will ensure that supply remains constrained, pushing up market rents in the next 18 months.

We have confidence that the Bay Area will continue to be both an economic center and supply constrained region into the foreseeable future, and we believe that sustained, strong demand makes this market a sound place to invest in.