

Multifamily Metro Outlook:

San Francisco - Q1 2021

Overview:

- Historically, San Francisco's market exhibits significant underperformance during recessions, and the metro's high concentration of tech jobs that lend themselves to remote work failed to be the demand anchor that technology industries are in other areas for the apartment market, as seen by a further 1% decline in asking rents to an average of \$2,750. Using the first quarter of last year as a barometer shows that the pandemic has depressed rents by more than 16.0% - in fact, rents in the metro haven't been at levels this low since Q2 2014.
- Nonetheless, the severity of rent declines has not necessarily produced more affordability in the metro - the average price remains more than double the national average. In turn, vacancy rates continued to increase throughout the year, rising 25 bps to 7.25%.
- Therefore, it is no surprise that rising concessions to put downward pressure on rent growth, with the highest average concession of 11.7% offered among Class A properties. Rent growth in both Class A and Class B properties declined by more than 16.0%.
- Much of this reflects the laggard recovery taking place in the metro; barely a quarter of the lost jobs have been recovered, well below the state average. The labor force has contracted by 7% since the pandemic, driven in part by outmigration.

Market Strengths:

- San Francisco's technology industry - which boasts an outsized presence of the labor force, comprising 22.6% of the metro's total employment - has weathered the past year relatively well and will remain the economy's driving force. The expanding cluster of internet and other tech-service companies has already led to high-tech employment expanding beyond its old peak.
- The city is finally starting to reopen after a year of strict lockdowns; the return of indoor restaurant dining, offices reopening, and school planning for a full return in the fall means that renters are considering returning to the market.

Market Weaknesses:

- However, San Francisco is only in its third stage of a four-tier reopening process that will only prolong the employment recovery. And considering pandemic business closures in San Francisco elevated well above other metros, the trajectory of the apartment market will largely depend on how quickly city life resumes in the post-pandemic era.
- Affordability is a growing concern among renters that has only been exacerbated since the pandemic. The metro still ranks as the most expensive in the country despite a substantial drop in asking rents during the pandemic, and high housing costs have been the primary driver behind domestic migration outflow.

Development:

- It's hardly surprising that premiums on available space have resulted in a dearth of condo development. But be that as it may, multifamily development hardly exists in any meaningful capacity for apartments either. The metro only 7,300 units underway, lagging the national average by close to 150 units, and trailing the rest of the six major metros by a significant margin.
- An encouraging sign is that developers do seem to be placing an outsized emphasis on apartments as opposed to the shadow market; condo development in the metro comprises less than 5.0% of the total multifamily construction pipeline.

Outlook:

- Multifamily Outlook: Lagging. Telecommuting has been the poison pill for San Francisco's population, and therefore it comes as no surprise that the apartment market continues to ease. Prices have not seemed to dip to levels low enough to entice individuals to stay, and rents have depressed so low in the metro that a significant period of time is required a recovery to pre-pandemic levels.
- Economic Environment: More Stable. Economic activity in San Francisco remains stagnant for the most part as reduced business travel continues to pull back a reopening that barely begun. However, the outlook in the second-half of the year is considerably brighter, and the agglomeration of tech industry in the metro should begin to provide the spark necessary for the metro to have a bright future over the long-term.

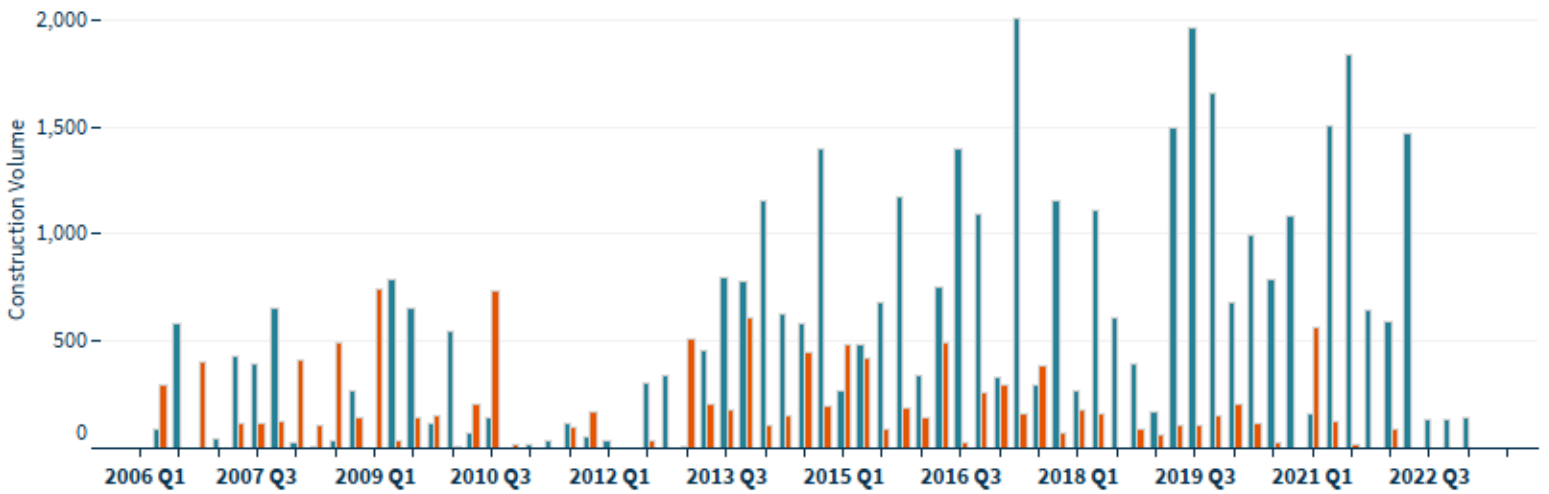
Five Year Metro Area Growth Forecast

	2020	2025	San Francisco (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	1,663	1,717	0.64%	0.52%
Households (000s)	643	695	1.58%	1.41%
Renting Cohort (Ages 20-34) (000s)	412	404	-0.42%	-0.26%
Total Employment (000s)	1,077	1,212	2.38%	1.71%
Median Household Income	\$130,924	\$162,116	4.37%	2.83%
Median SF Home Price	\$1,808,081	\$2,797,145	9.12%	4.30%
Net Migration	5,447	4,904		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



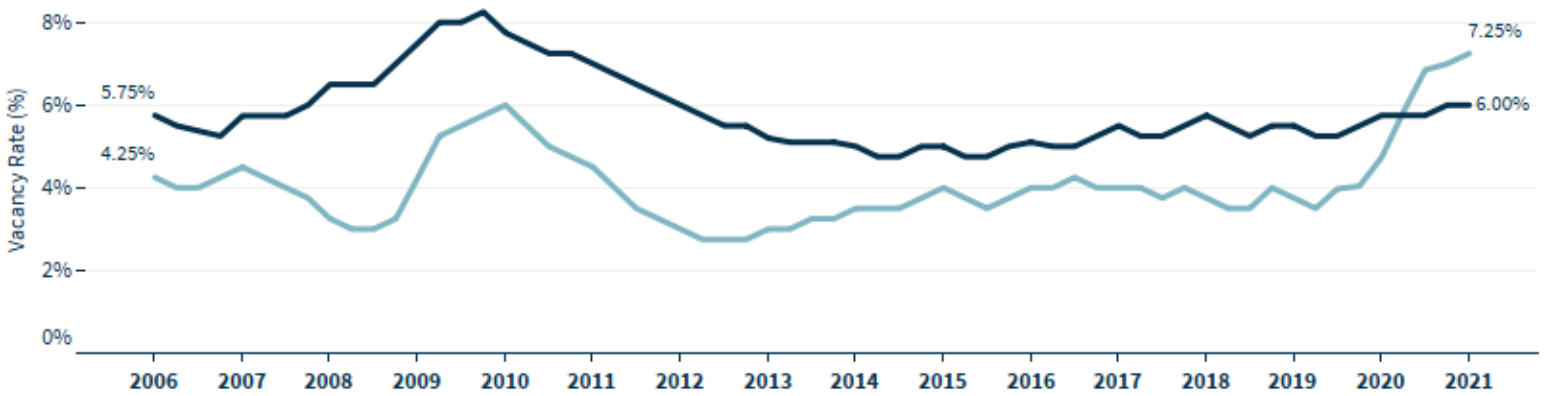
Vacancy & Rent Composite Estimates

Vacancy Rates

San Francisco | National

Q1 2021 Vacancy Rate:

7.25%

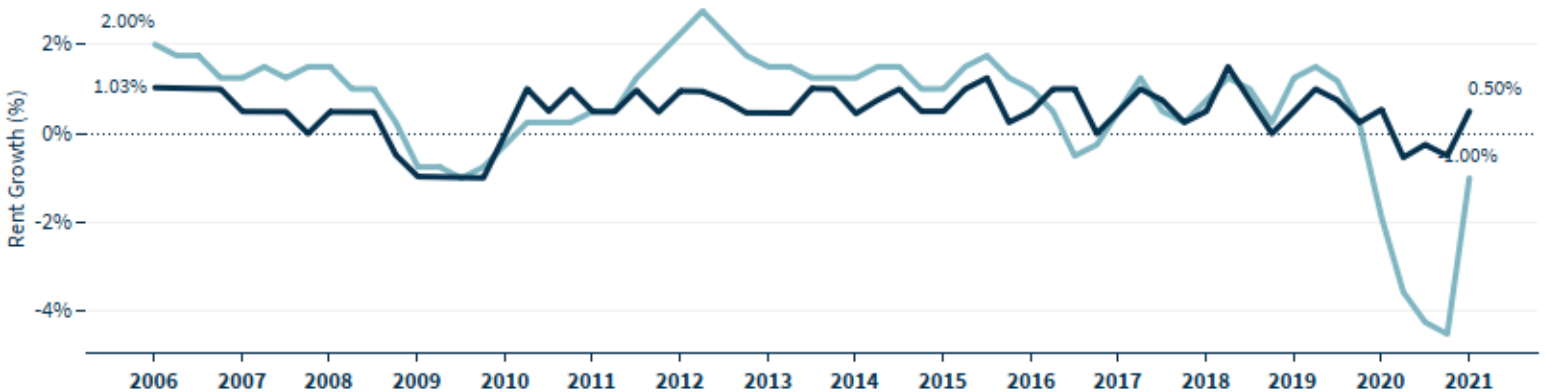


Asking Rent Growth

San Francisco | National

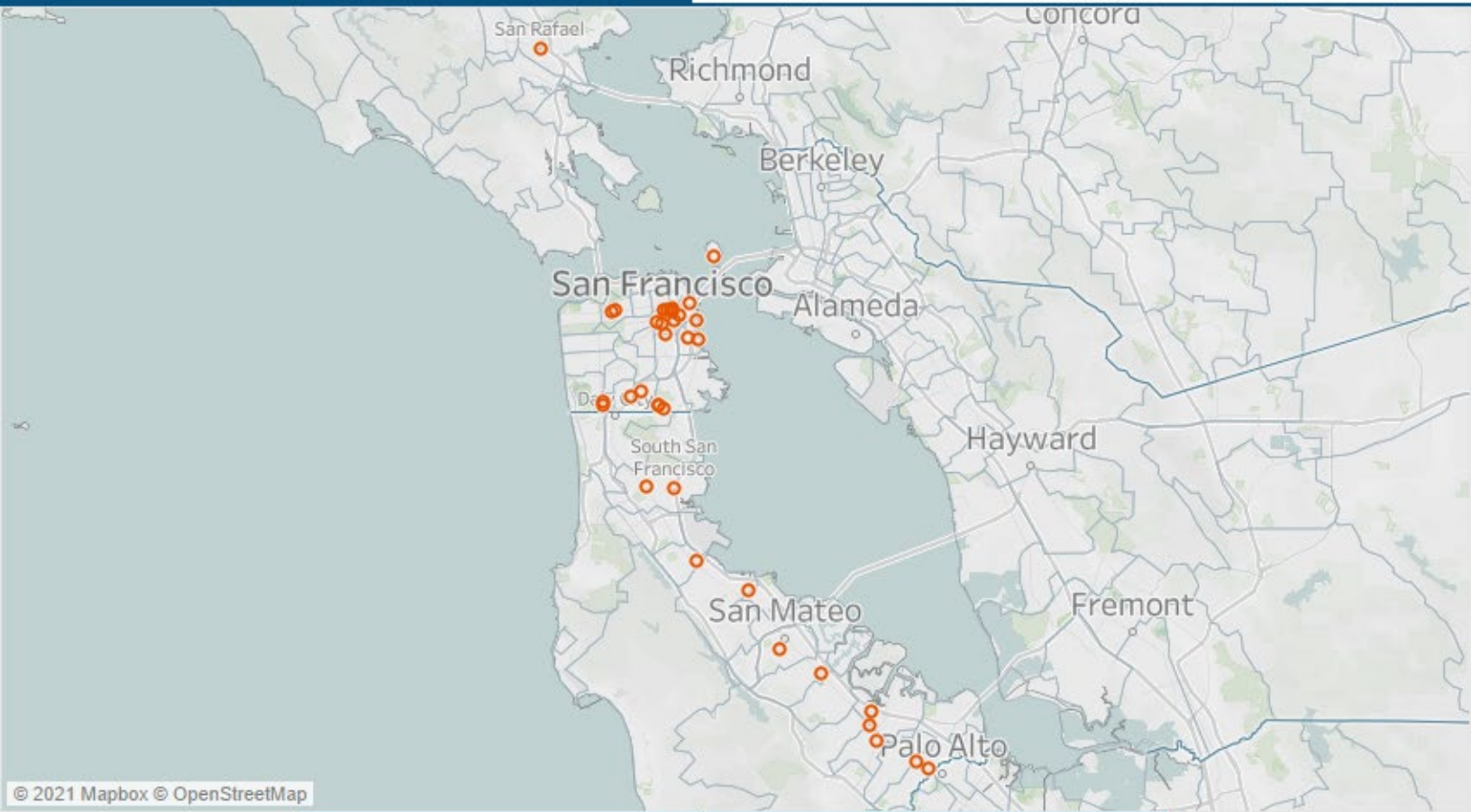
Q1 2021 Asking Rent:

\$2,750



Source: Multifamily Economics and Research

Construction: Bidding & Underway



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<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Central San Mateo County	2	210	0.40M
Downtown San Francisco	6	1,086	0.91M
Marin County	1	41	0.07M
North San Mateo County	3	590	0.72M
SoMa	12	2,372	2.26M
South San Mateo County	6	1,011	1.56M
West San Francisco	6	1,037	1.14M
Grand Total	36	6,347	7.06M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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