

Multifamily Metro Outlook:

San Francisco - Q2 2023

Overview:

- San Francisco's economy is slowing, but still maintains a sizeable lead over California and the rest of the nation. Employment in the tech sector has been subdued – leading to employment growth falling for the fifth consecutive quarter and turning negative for the first time in at least two years, but has not yet stalled – as evidenced by an employment rate of just 3.15% in second quarter ending 2023, significantly below the national average despite increasing for the third consecutive quarter.
- High interest rates continue to stagnate growth in the tech sector; thus, it should hardly come as surprise that payroll wages declined by 2.1% relative to last year. Yet, household incomes remain higher in San Francisco than any other metro and continue to grow, rising nearly 7.5% over the past year to just over \$143,000 – nearly double the median household income seen across the rest of the nation.
- Nonetheless, despite boasting some of the highest incomes in the nation, exorbitant housing costs across the metro have made homeownership all but unattainable to the wealthiest individuals. Single-family housing costs have always commanded a significant premium over rents, but even with home price in the metro tumbling over the last year, the estimated P&I is more than triple the price of asking rents in the metro.

Market Strengths:

- The lasting appeal of coastal and urban life has helped to stem the flow of outmigration in San Francisco, particularly for young and educated workers. International arrivals are also rebounding. While immigration will not reach the heady levels of prior decades amid shifting policy, the current rebound will nonetheless provide vital support as the metro loses residents to less costly peers

Market Weaknesses:

- Many of the metro division's top employers have downsized significantly as high interest rates and bloated payrolls hurt their near-term performance. Twitter, Meta and Salesforce have been especially aggressive, but the list of firms that are cutting workers keeps growing. Further, with interest rate expected to remain elevated through at least 2025, it is expected that startups will struggle to raise capital and investors may start to channel funds elsewhere.

New Development:

- Given the dearth of affordable housing throughout wide swaths of the metro, demand for apartments in San Francisco is beginning to ramp up. Even after delivering more than 1,300 units to the metro – the highest amount of supply seen in years, the construction pipeline remains at levels closer to those seen during the construction disruptions of the pandemic. However, it should be mentioned that over the past year, less than 3,000 units have been delivered, several hundred units short of the historical average seen since 2017.
- Zoning constraints mean that single-family development is practically non-existent in the metro. During second quarter ending 2023, slightly more than 400 single-family homes were completed, and only a few hundred construction permits were issued. Although the rarity of single-family home sales transactions allowed the inventory to increase by more than 1,500 units over the past quarter to around 7,700 homes, active listings are still down by close to 20% from last year's inventory levels. With inventory levels akin to metros such as Asheville, NC or Little Rock, AR – the inventory is insufficient to meet the overwhelming demand in the metro.

Multifamily Outlook:

- Housing is so unattainable that San Francisco is just as unlikely to slip into a period of easing as it is to outperform. Vacancies in the metro declined 50 bps to 5.0% and remain below the national average of 5.75%. However, prices are so exorbitant that tightening supply did little to translate into asking rent growth, which declined -0.75% from last quarter's levels to an average asking price of \$3,140. As it stands, San Francisco offers neither considerable yield nor stability, the average unit price has been slashed to less than half the levels seen last year, lifting cap rates on par with the rest of the nation; though given the exponentially high cost of housing combined with the lack of development, it is highly unlikely the metro will significantly underperform the rest of the nation.

Economy:

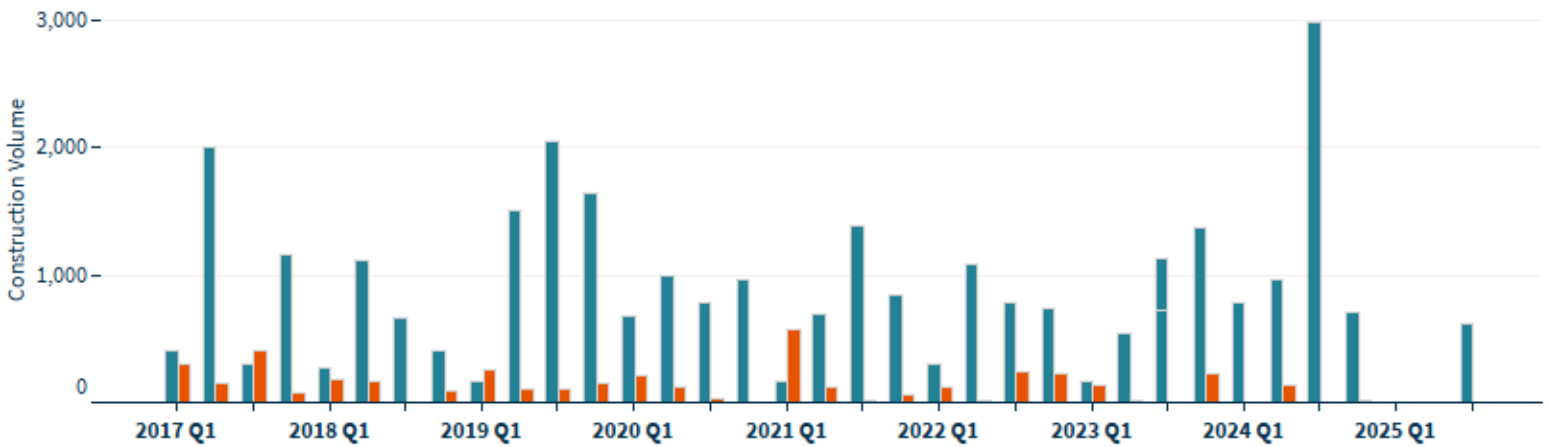
- Hiring freezes continue to present employment challenges for Silicon Valley, and as such it is expected that San Francisco's economy will cool in lockstep with the rest of the nation throughout the year. Nonetheless, despite the woes the tech industry faces, incomes in San Francisco remain among the highest in the nation. When combined with key advantages such as the educated workforce and urban appeal, the metro's pole position as one of the leading economies is hardly in jeopardy.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

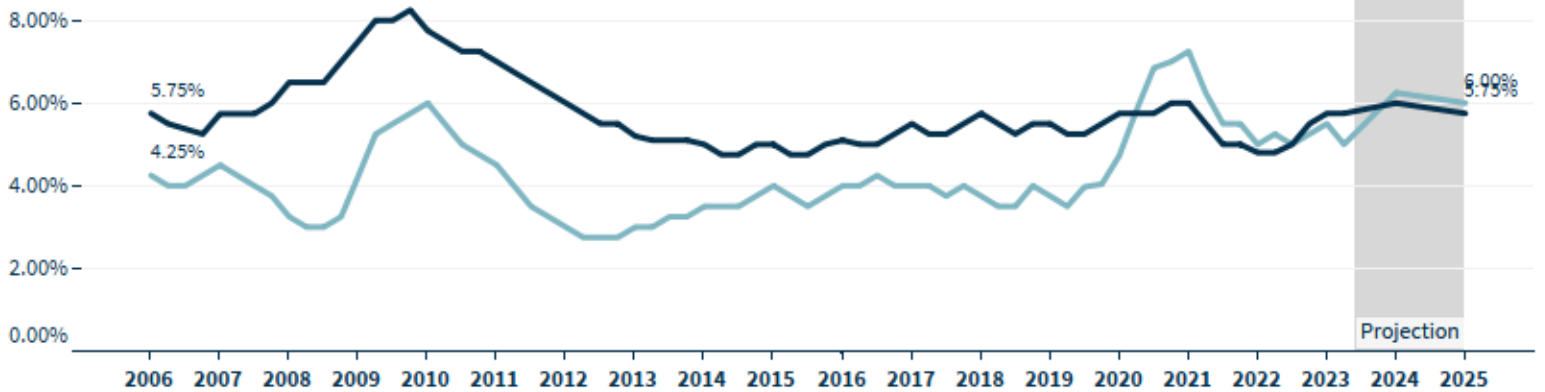
Multifamily Vacancy & Rent Estimates

Vacancy Rates

San Francisco | National

Q2 2023 Vacancy Rate:

5.00%



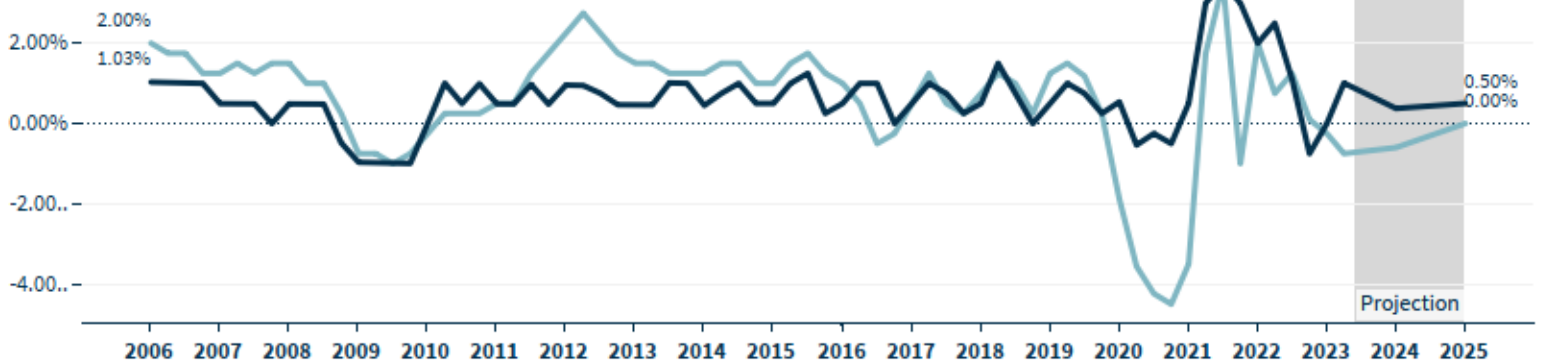
Projection

Asking Rent Growth

San Francisco | National

Q2 2023 Asking Rent:

\$3,140

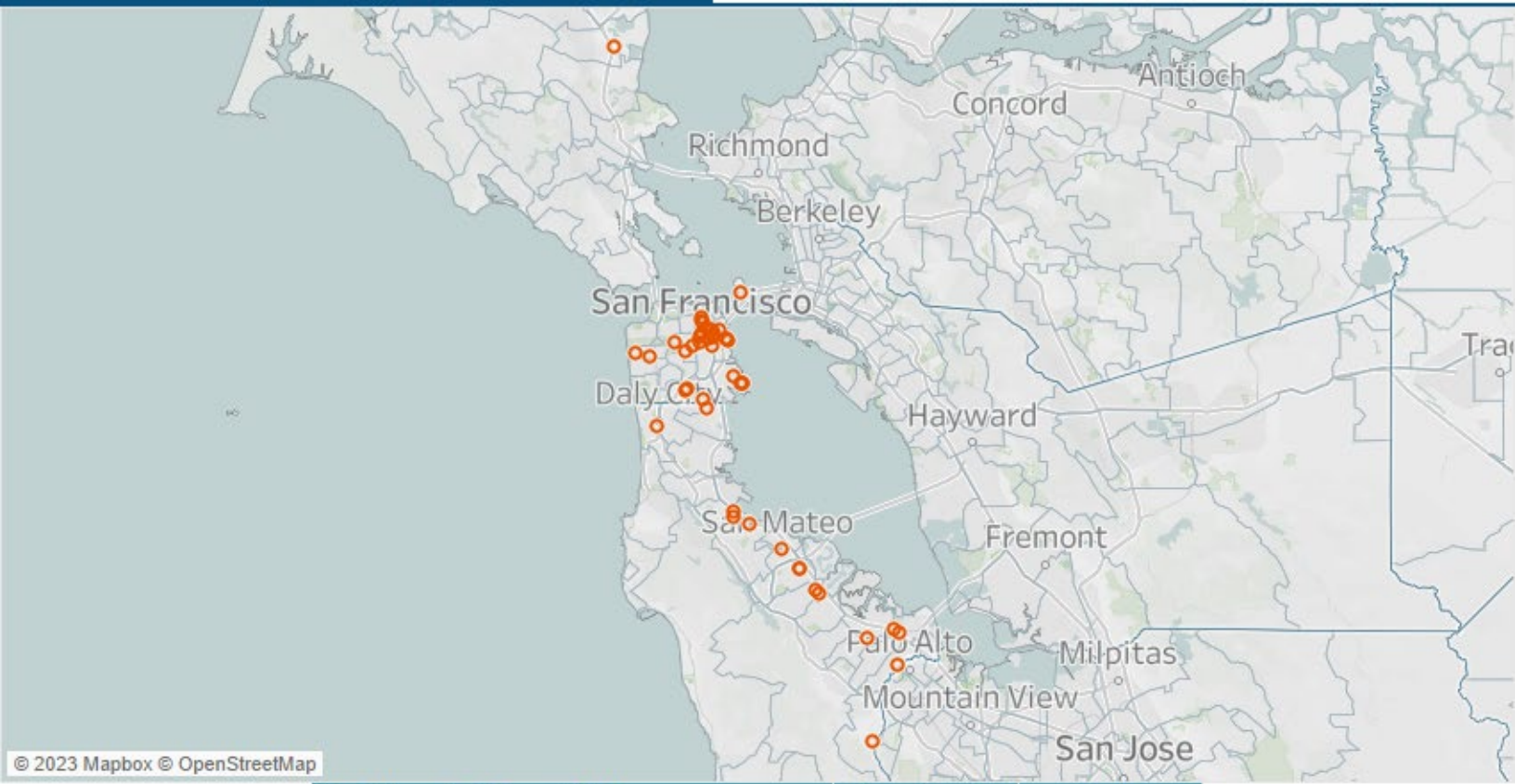


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Central San Mateo County	6	1,068
Downtown San Francisco	7	1,097
Marin County	1	75
North San Mateo County	2	203
SoMa	16	3,402
South San Mateo County	7	1,650
West San Francisco	7	643
Grand Total	46	8,138

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you'd like covered in future editions.

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Sources Used

- Axiometrics
- U.S. Bureau of Labor Statistics
- CBRE-Econometric Advisors
- CoStar
- Dodge Data and Analytics
- Fannie Mae
- Moody's Analytics
- MSCI Real Assets
- RealPage
- Redfin
- REIS
- Yardi
- Zillow

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