Multifamily Metro Outlook:  
San Francisco – Q3 2021

Overview:
• Although the pandemic has persisted for more than a year, San Francisco’s recovery is still in its nascency. Less than half the jobs that were lost due to coronavirus have returned to the metro. As such, the unemployment rate began Q3 2021 more than twice higher than the pre-pandemic rate at 4.7%.
• Vacancy rates continued to descend, dropping 75 bps over the last quarter to 5.50%. However, consistent with the trend last quarter, the compression is driven more so by a drop-off in deliveries than a pick-up in demand. Around 450 units were delivered in the quarter, a decline of 35.7% compared to last quarter.
• With fewer units delivered to the metro, affordability remains a significant challenge for residents in the metro, and as a result rents have not had much room to increase. Even with a 3.5% elevation in asking rents – on par with the national average – over the last quarter to $2,990, prices have essentially climbed back to levels seen a year ago.
• Rent growth for the period appears to be driven more by a scale back in concessions than a ramp up in demand. Despite lackluster annual rent growth, concessions still declined across all property classes. Concessions among Class A properties – which at 5.9% were pretty much cut in half from 11.7% just a quarter ago – exhibited the largest decline.

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.

Market Weaknesses:
• The shift toward remote working will make for a precarious recovery beyond the tech sector. While tech employment is on the rise, the vast proliferation of teleworking residents that have moved out of the area has resulted in downstream industries struggling more than their national counterparts.
• San Francisco has the highest concentration of office-using employment in the nation, but many companies are adopting hybrid approaches that will likely reduce if not eliminate their office footprint.

Development:
• Premiums on available land have significantly hindered multifamily development in the metro, and as a result the metro was only able to add around 950 units to the development pipeline. As it stands, there are currently 7,800 units underway, which is about a quarter of the average volume of the six major metros.
• One of the unintended benefits of land constraints is that the shadow market does not have much opportunity to usurp apartment demand. The absence of condo deliveries this quarter can be attributed to the fact that just 15 units were added to the pipeline with around just 500 units underway.

Outlook:
• Multifamily Outlook: Lagging. San Francisco’s recovery still has some ways to go. Even though job growth is beginning to rebound, telecommuting has been the poison pill for San Francisco’s population that continues to kill it softly. Adding insult to injury is the fact that many of the residents that left with the proliferation of telecommuting simply relocated to cheaper areas nearby, and are still tangential to the metro, just further away from the city center.
• Economic Environment: More Stable. Economic progress in San Francisco will lag that in the state and the rest of the nation. The Bay Area will remain the country’s tech capital, but job growth will moderate as lower-cost locales further inland gain prominence. Out-migration will prove a weight, but a legacy of entrepreneurship and tech agglomeration will support at least average long-term growth.

Five Year Metro Area Growth Forecast

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

Source: Multifamily Economics & Research – Q3 2021  •  Contact: Stephen Gardner
Confidential - Internal Distribution
SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Vacancy & Rent Composite Estimates

Vacancy Rates

San Francisco | National

Q3 2021 Vacancy Rate:

5.50%

Asking Rent Growth

San Francisco | National

Q3 2021 Asking Rent:

$2,990

Source: Multifamily Economics and Research
## Construction: Bidding & Underway

<table>
<thead>
<tr>
<th>Sub-Market</th>
<th>Projects</th>
<th>Units</th>
<th>Sq. Ft. (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central San Mateo County</td>
<td>1</td>
<td>128</td>
<td>0.25M</td>
</tr>
<tr>
<td>Downtown San Francisco</td>
<td>8</td>
<td>800</td>
<td>0.73M</td>
</tr>
<tr>
<td>Marin County</td>
<td>1</td>
<td>73</td>
<td>0.08M</td>
</tr>
<tr>
<td>North San Mateo County</td>
<td>5</td>
<td>865</td>
<td>1.00M</td>
</tr>
<tr>
<td>SoMa</td>
<td>23</td>
<td>3,959</td>
<td>4.63M</td>
</tr>
<tr>
<td>South San Mateo County</td>
<td>6</td>
<td>1,079</td>
<td>1.63M</td>
</tr>
<tr>
<td>West San Francisco</td>
<td>5</td>
<td>859</td>
<td>1.02M</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>49</strong></td>
<td><strong>7,785</strong></td>
<td><strong>9.46M</strong></td>
</tr>
</tbody>
</table>
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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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