

Multifamily Metro Outlook:

San Francisco - Q4 2022

Overview:

- San Francisco's recovery is plugging along despite all odds. Even with the torrent of layoffs in the tech industry, rebounding employment gains in the final months of fourth quarter ending 2022 allowed the unemployment rate to remain at 2.1%, significantly below the national average of 3.5%, and one of the lowest in the country. Although wage growth did continue its downward slide, San Francisco still boasts some of the highest average wages in the country.
- Demand for apartments in San Francisco has never been strong compared to other California metros. With just 600 units completed, well short of the quarterly average of 875, volume in fourth quarter ending 2022 seems to affirm the lack of demand. Further underscoring the struggles in the metro is the fact that the 2,400 units delivered throughout the year represents the lowest annual volume of supply that has come online since at least 2016.
- Even with residents moving further out thanks to the proliferation of telework, the dearth of available housing across the entire metro resulted in the vacancy rate increasing just 25 bps over the last quarter, half the increase seen across the rest of the nation. In turn, vacancy rates moved below the national average for the first time since first quarter ending 2022.
- In turn, rent growth managed to eke above last quarter's levels to an average of \$3,170. Nonetheless, relative to last year, rents declined across all three property classes. What's interesting is that in contrast to much of the country, rent growth across Class C properties not only lagged all Classes, but also offered the highest concessions.

Market Strengths:

- While San Francisco is a costly metro for both consumers and business alike, it has a highly skilled and high earning workforce. High earning residents will weather rising costs better as they typically have larger savings.

Market Weaknesses:

- Since the summer, 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. By some estimates, San Francisco has experienced the nation's highest tech layoff rate.

Development:

- Premiums on available land have significantly hindered multifamily development in the metro. Thus, the construction pipeline was little changed from last quarter, remaining at 7,400 units. Although more than 1,000 units have been added to the pipeline over the past year, the volume of units underway still lags the pre-pandemic average by close to 100 units.
- San Francisco's shadow market can hardly be considered existent, let alone a threat to multifamily development. After consistently declining through the course of the entire year, only about 500 units are currently underway, with just as many having been delivered during 2022.

Outlook:

- San Francisco's apartment market is finally beginning to recover from the reeling effects of telework that led to population exodus during the pandemic, yet high construction costs combined with lackluster demand leave little incentive for developers to increase their footprint in the metro. It is expected that this should have the net effect of keeping fundamentals contained for now but leaves little room for continued improvement in the future.
- Hiring freezes across many of the firms concentrated within silicon valley, combined with rapid inflation that have seen costs skyrocket, present new headwinds for the metro. Considering incomes in the metro are among the highest in the nation, San Francisco's pole position as one of the leading economy's is hardly jeopardized. Thus, it is expected the economy should continue to make steady gains throughout next year, even amidst the mass layoffs and recession concerns looming in the horizon.

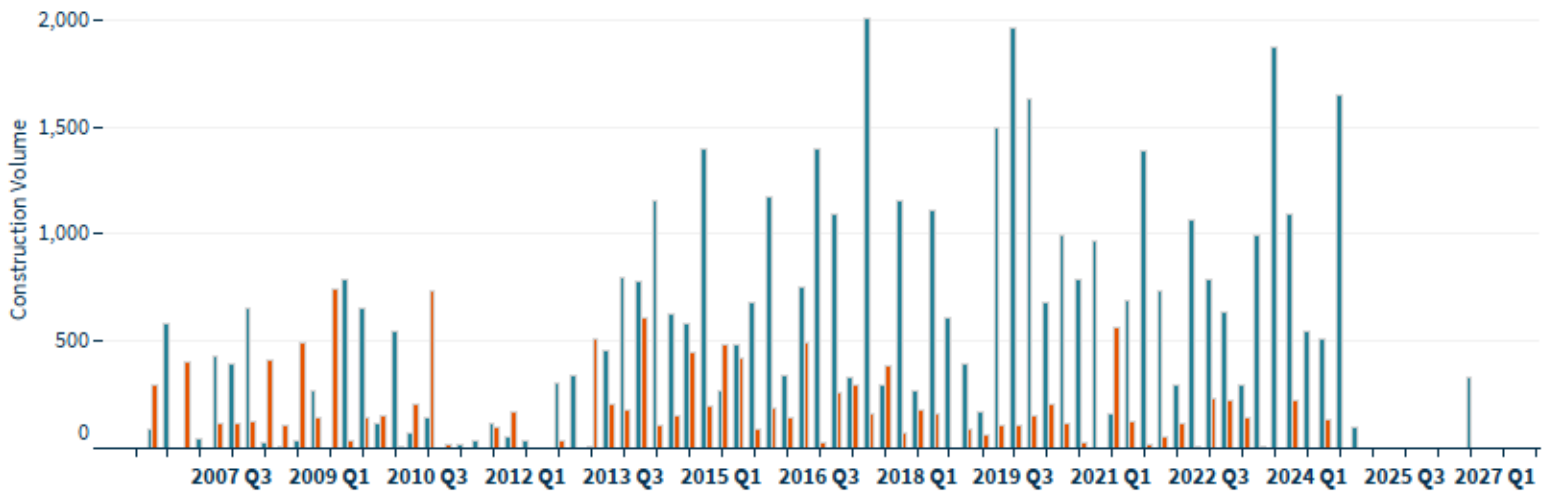
Five Year Metro Area Growth Forecast

	Q4 2022	Q4 2027	San Francisco (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population	1,674	1,722	0.56%	0.41%
Households	666	698	0.95%	0.75%
Renting Cohort (Ages 20-34)	409	393	-0.79%	-0.40%
Total Employment	1,190	1,254	1.07%	0.52%
Median Household Income	\$136,605	\$181,928	5.90%	3.45%
Median SF Home Price	\$1,766,362	\$2,135,617	3.87%	-0.04%
Net Migration	5,199	4,359		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



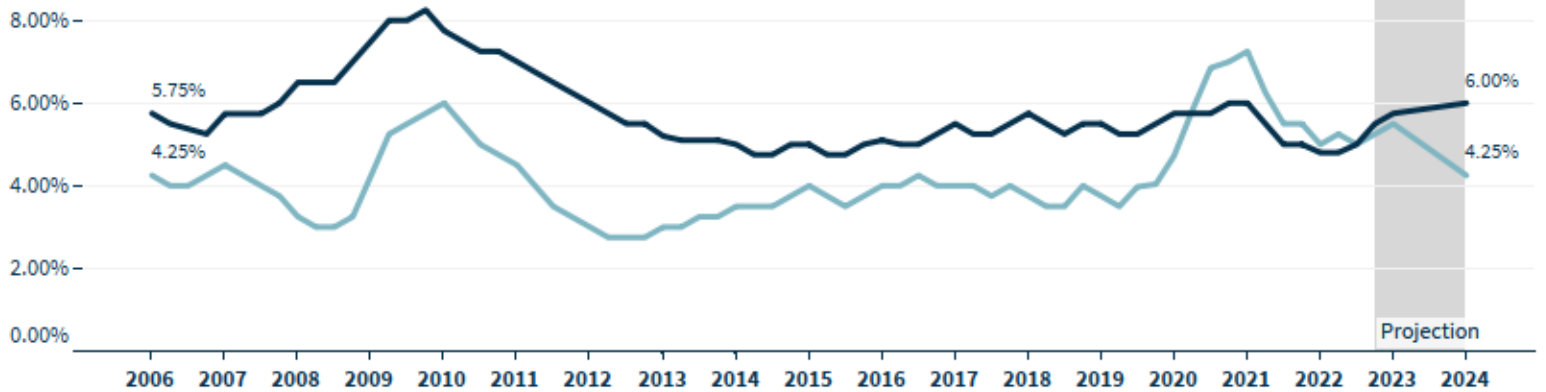
Vacancy & Rent Composite Estimates

Vacancy Rates

San Francisco | National

Q4 2022 Vacancy Rate:

5.25%

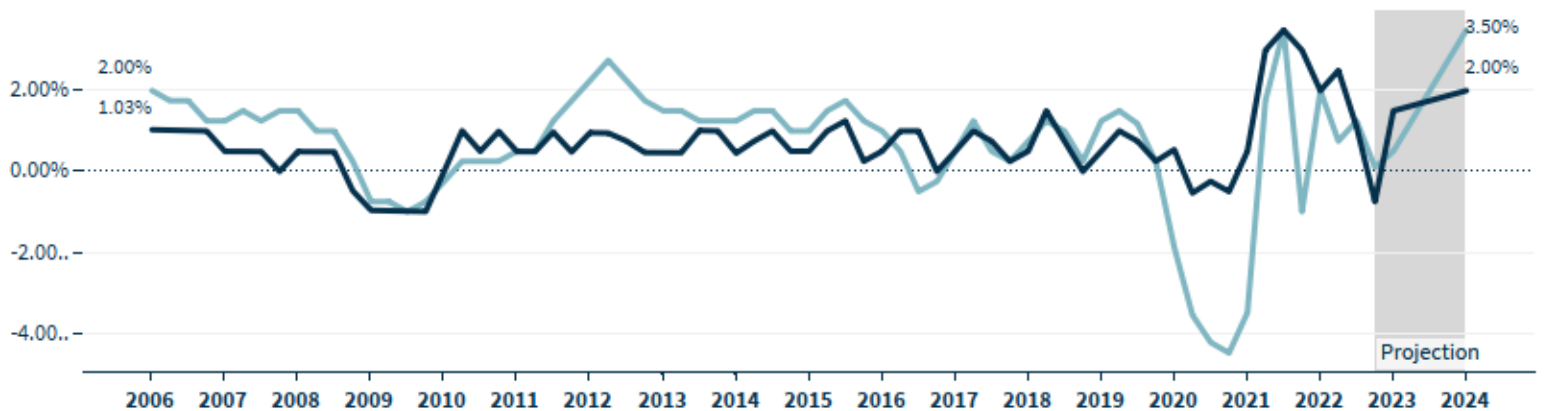


Asking Rent Growth

San Francisco | National

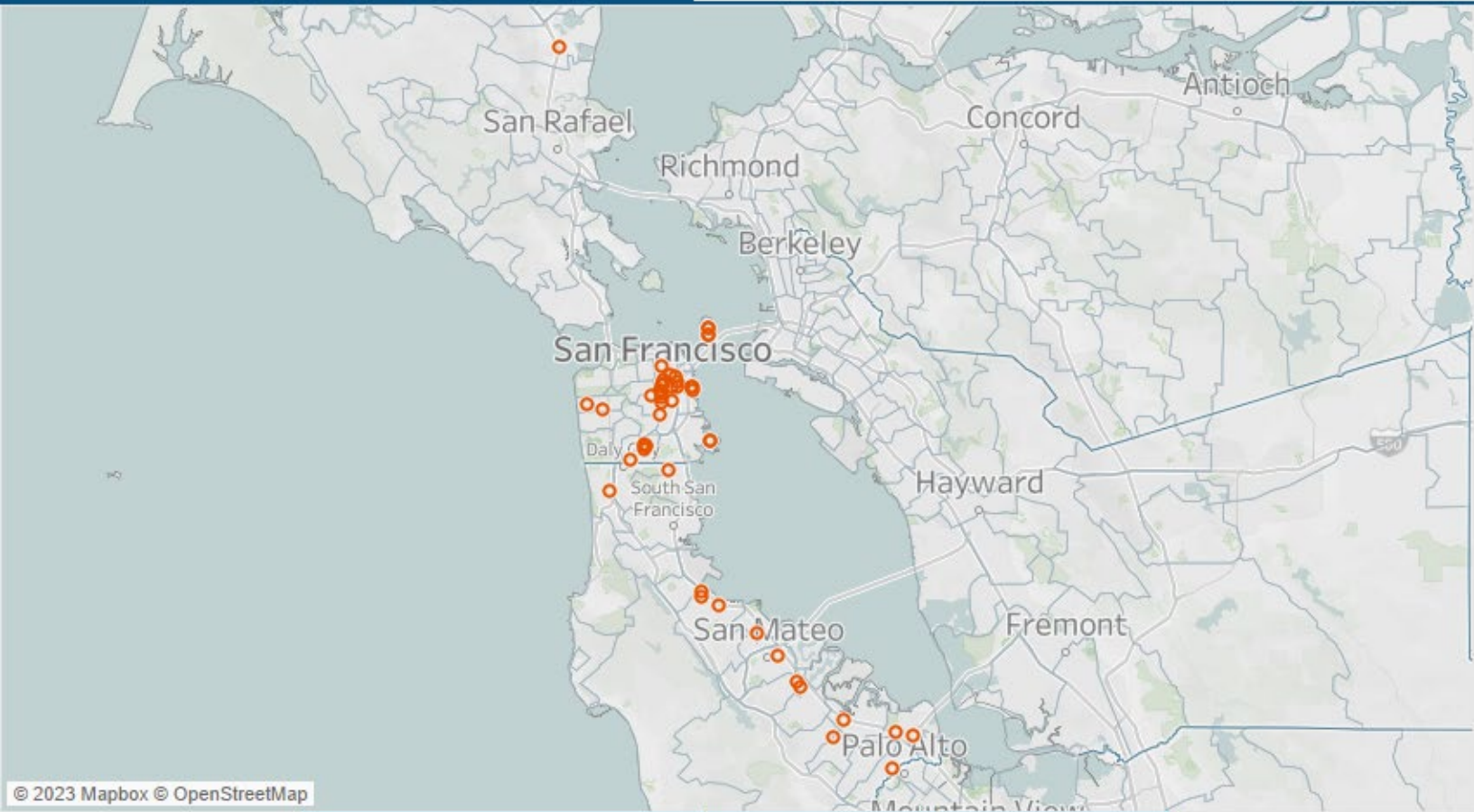
Q4 2022 Asking Rent:

\$3,170



Source: Multifamily Economics and Research

Construction: Bidding & Underway



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<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>
Central San Mateo County	5	992
Downtown San Francisco	8	987
Marin County	1	75
North San Mateo County	2	203
SoMa	17	2,656
South San Mateo County	7	1,390
West San Francisco	9	1,097
Grand Total	49	7,400

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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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