Fannie Mae

Multifamily Metro Outlook:

San Francisco – Q1 2022

Overview:

- Although the pandemic has persisted for more than a year, San Francisco's recovery is still in its nascency. The share of jobs recouped pales compared with the U.S. average and most other large urban economies. Even so, the employment rate remains significantly lower than the national average, dropping as low as 2.7% by the middle of the first quarter.
- The apartment market is tightening, in part, because only 500 units were added to the metro this quarter, which is about a third of the volume delivered over each of the previous two quarters. So, it's no surprise that the vacancy rate continued to decline, falling an additional 50 bps to 5.0%, on par with the national average.
- The decline in vacancies allowed rents to increase slightly over the last quarter by 2.0% to an average price of $3,060. Relative to last year rent are elevated by just over 7.0% for Class A & B properties, but the rent growth among Class C properties was around half that. This could be due in large part to the concessions that landlords are offering. At 11.4% for the quarter, concessions among Class C properties were the highest of all property classes.

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:

- San Francisco has the highest concentration of office-using employment in the nation. While some firms are relocating entirely, others are merely downsizing their office space and allowing flexible working arrangements. Many employees taking advantage of this option are staying in the Bay Area—just not in San Francisco's urban core.
- The shift toward remote working will make for a precarious recovery beyond the tech sector. Although leading employers including Salesforce, Facebook and Visa are bringing workers back to the office, with interest rates rising - many tech firms in the area are projected to lay-off staff in the upcoming months.

Development:

- Premiums on available land have significantly hindered multifamily development in the metro. Even with an additional 600 units in the construction pipeline, there are still just slightly more than 7,000 units underway, levels akin to metros such as Kansas City and Columbus.
- One of the unintended benefits of land constraints is that the shadow market does not have much opportunity to usurp apartment demand. Just 15 units were delivered to the metro this quarter, but more than 300 units were added to the pipeline, which is currently around a tenth of the apartment construction pipeline.

Outlook:

- San Francisco's apartment market recovery has been outpacing the economic recovery. 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. Despite this, vacancies have still converged towards the national average and rent growth has exceed pre-pandemic levels
- As long as the leisure and hospitality industry lags in its recovery, San Francisco's economy will continue to struggle. Growth in tech is expected to slow this year, and the industry has already fully recovered, so there is little for the industry to add. The proliferation of lower cost tech hubs and stagnating population growth will prove ostentatious in the short-term, but incomes here are still among the highest in the nation, thus, long-term the metro is still expected to outperform.

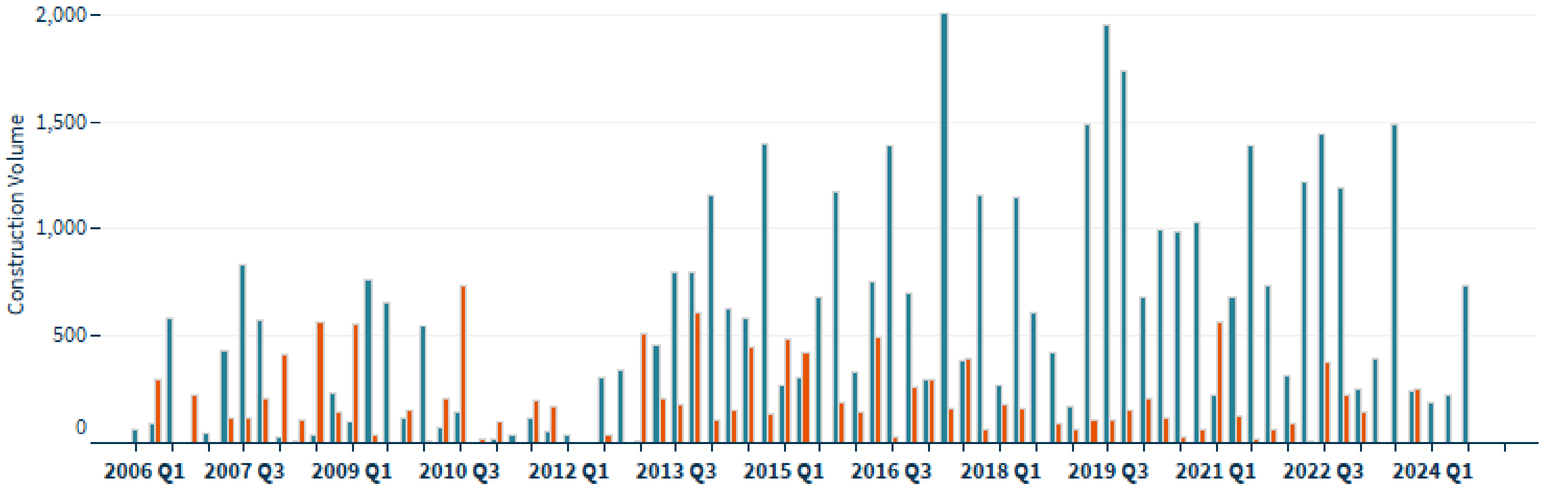
Five Year Metro Area Growth Forecast

	Q4 2021	Q4 2026	San Francisco (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population	1,672	1,723	0.61%	0.47%
Households	658	695	1.10%	0.90%
Renting Cohort (Ages 20-34)	412	399	-0.65%	-0.30%
Total Employment	1,115	1,220	1.82%	1.08%
Median Household Income	$133,884	$161,577	3.83%	3.30%
Median SF Home Price	$1,931,226	$2,687,764	6.83%	1.93%
Net Migration	5,403	5,287		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | *Condos*



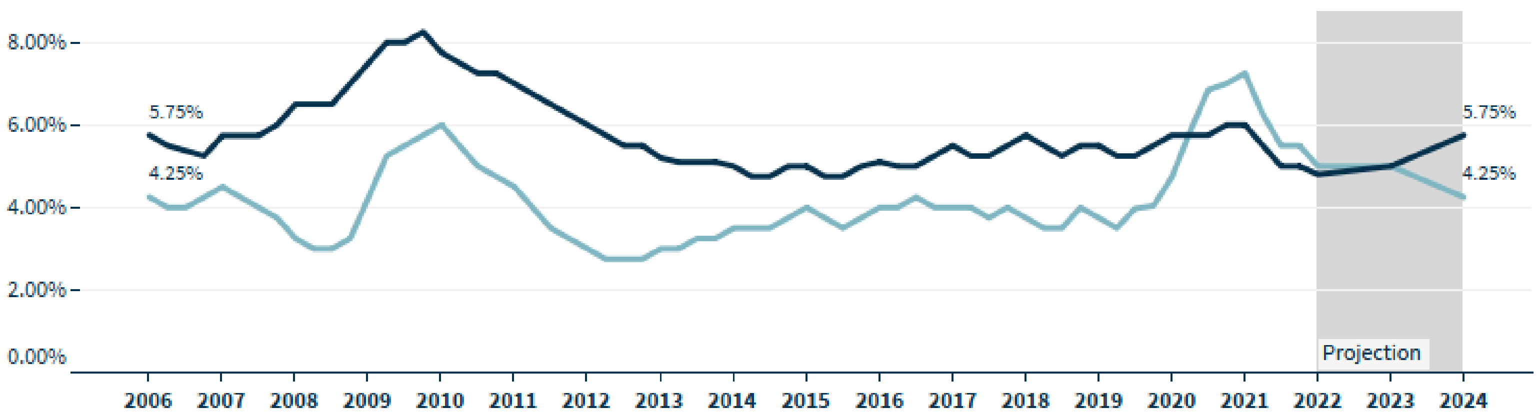
Vacancy & Rent Composite Estimates

Vacancy Rates

San Francisco | *National*

Q1 2022 Vacancy Rate:

5.00%

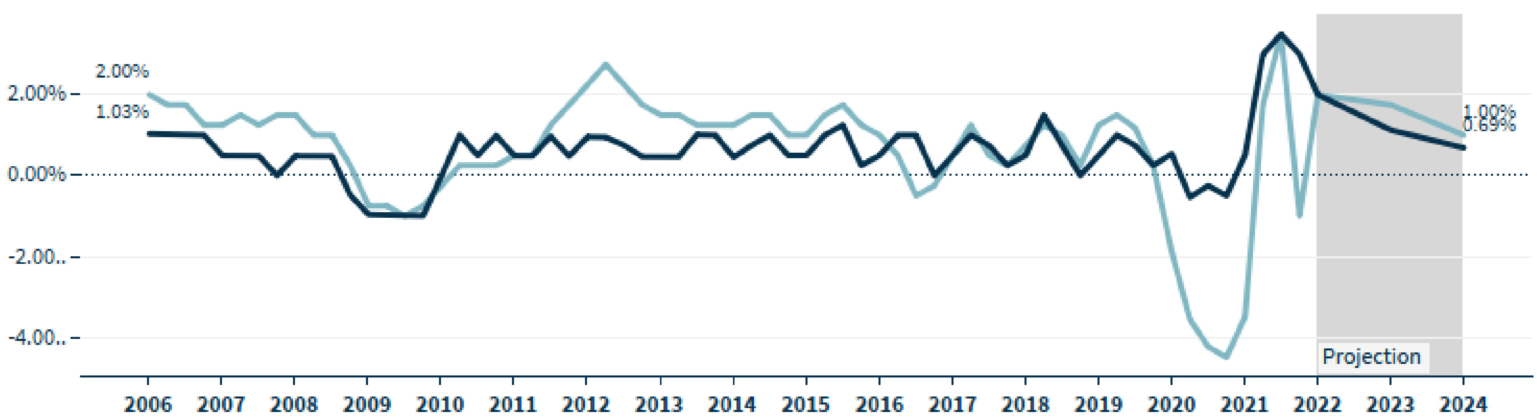


Asking Rent Growth

San Francisco | *National*

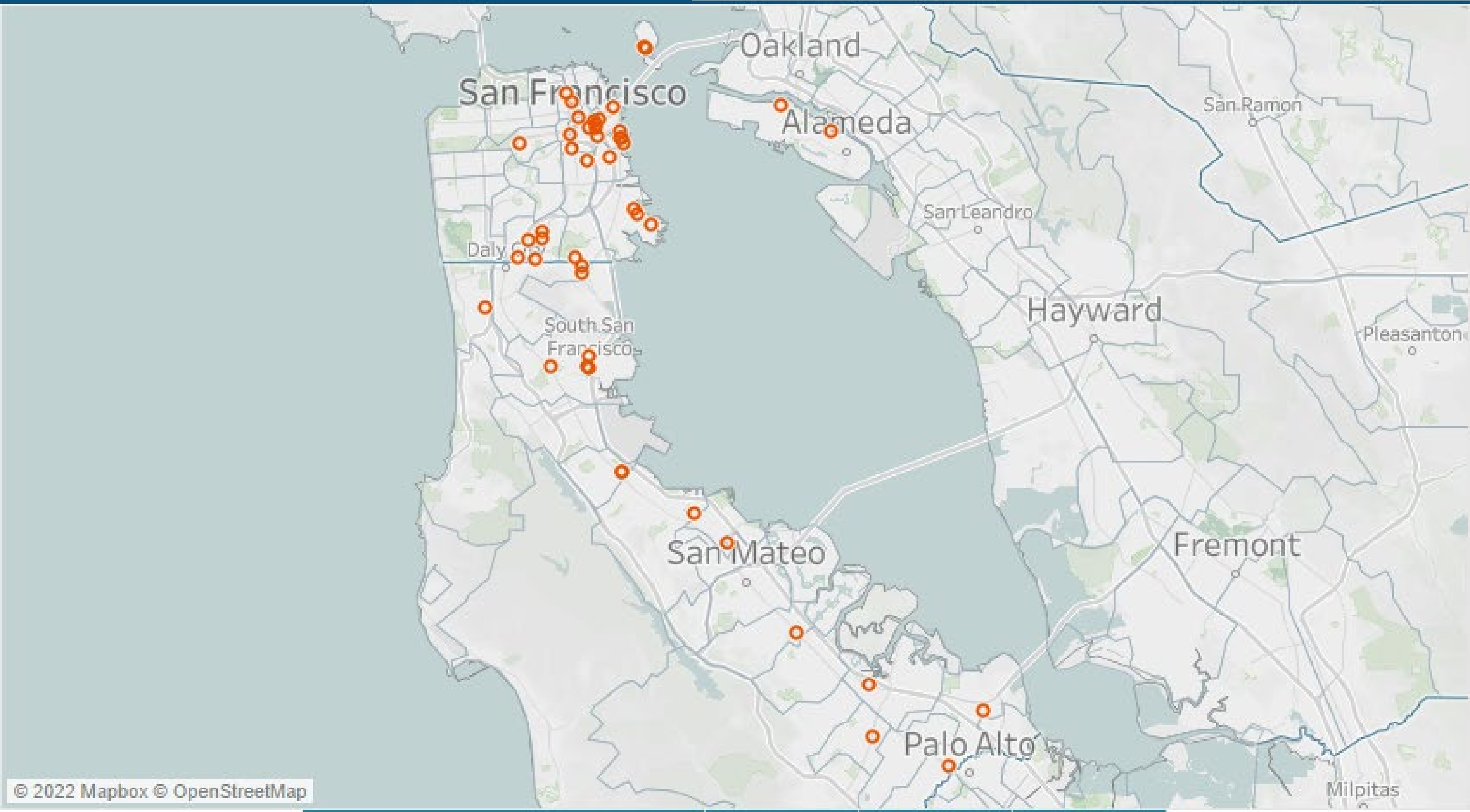
Q1 2022 Asking Rent:

$3,060



Source: Multifamily Economics and Research

Construction: Bidding & Underway



TWR Submarket Name	*Apartments*	*Building Units*	*Building Area SF*
Central San Mateo County	2	353	0.46M
Downtown San Francisco	5	668	0.82M
North San Mateo County	9	1,031	1.22M
Oakland/Berkeley	2	523	0.49M
SoMa	19	3,192	3.98M
South San Mateo County	5	556	0.92M
West San Francisco	6	823	0.90M
Grand Total	**48**	**7,146**	**8.80M**

Multifamily: ESR 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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