

Multifamily Metro Outlook:

San Francisco - Q2 2024

Overview:

- After a net loss of jobs in 2023, the metro has started to slowly gain them back, but the economy remains troubled. Still, high-income residents coupled with extremely high for-sale prices and extremely tight housing supply provide a floor for vacancies and rents. Multifamily vacancy rates fell and rent growth became positive in Q1 and continued to do so in Q2 2024.
- The metro's economy is volatile due to its reliance on the tech sector. Tech is currently in a downturn, which could impair the multifamily market. However, layoffs in tech are tempered by income growth and newly positive net migration that indicates a continued recovery from the pandemic. Though average rents have slipped behind other high-cost metros, San Francisco still commands some of the highest average rents in the nation. The unemployment rate rose slightly from 2022 but remains below the national average of 3.3%. While the downtown neighborhood continues to see very high office vacancies, empty street front retail, and increased social disorder, other neighborhoods appear to have fully rebounded. The market overall is anticipated to continue stabilizing in the coming years.
- Like much of the nation, there was limited multifamily deal volume in the metro in early 2024, though transactions have not fallen as much as in many other markets. Cap rates in early 2024 were up about 1.3 percentage points relative to 2020-2022 deals. While demand remains high, higher interest rates and overly optimistic rent increase expectations have led to some turmoil in multifamily financing. In early 2024, 2,000 units were acquired because of a distressed sale due to the sharp rise in interest rates leading to default and foreclosure.

Market Strengths:

- The metro multifamily market remains very supply constrained, with a limited pipeline, relatively high absorption rates, and very high rents. This is driven by a lack of available land, a very tight regulatory environment, and high development costs.
- While rents remain exceptionally high, many middle- and higher-income households cannot afford to become homeowners due to an even faster run-up in for-sale prices. Currently the monthly payment for buying a unit is over 2.5 times the cost of renting an equivalent unit. This is exacerbated by high interest rates that are expected to only somewhat moderate in the short term.
- The metro's workforce is highly-educated and high-income, and the region has several large and prestigious higher education institutions.

Market Weaknesses:

- Some neighborhoods in the metro are still undesirable for renters because of the lingering effects of the pandemic, including a lack of office workers, crime, drug activity, and encampments of people experiencing homelessness.
- The tech sector is currently in a downturn, with over 10,000 jobs lost. In early 2024, the tech sector continued to see additional layoffs. While generative artificial intelligence is attracting increased attention and capital, it is unclear whether this innovation will lead to a boost in multifamily demand in the metro, as it may result in a net reduction in tech jobs.

New Development:

- Multifamily development over the past 12 months was weak even by the constrained standards of the metro, at less than 1% of total supply. The pipeline of units under construction is also a relative trickle, at about 1.4%. This is well below the nationwide average of 3.6%.
- However, there are several large multifamily projects in the pipeline, many of which are ready to break ground when economic conditions improve. While most of the planning and under-construction development is south of San Francisco, some is in the city, including 5,000 units in the South of Market neighborhood alone.

Outlook:

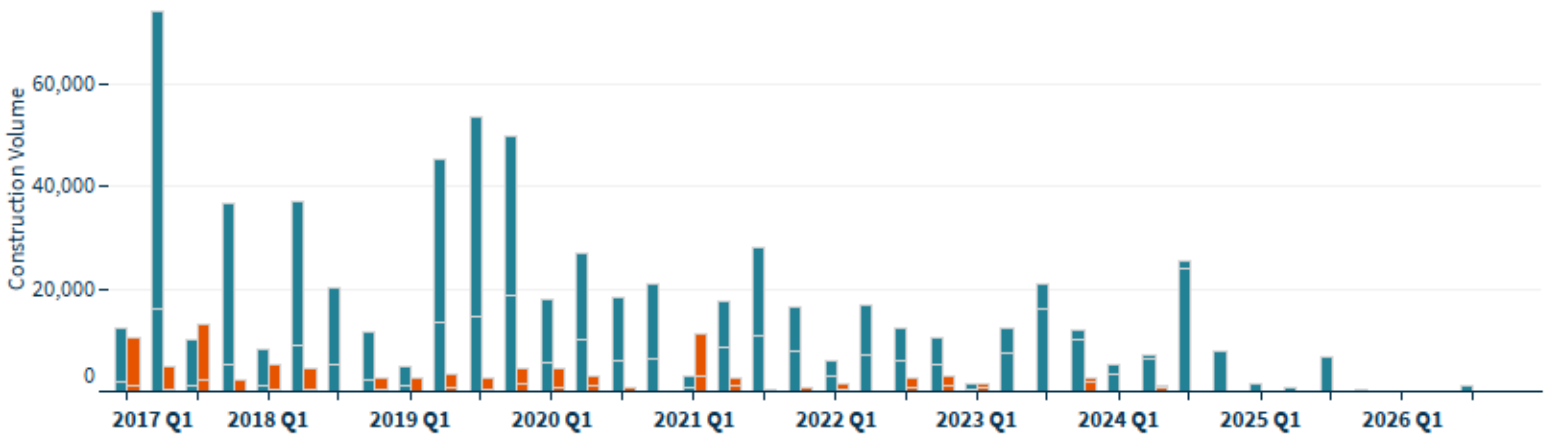
- Multifamily Outlook: The metro multifamily market is continuing its post-2021 recovery, as net absorption is positive and is expected to remain so through 2025. Vacancies have dropped nearly to their pre-pandemic levels and are expected to remain well below nationwide levels over the next two years. After lagging the nation in rent growth for three years, rents were flat in the metro in 2023 but have been growing in 2024 and are expected to exceed their historical peak by the end of the year. Rent growth in the next two years is expected to be comparable to or exceed growth nationwide. The metro began slowly regaining population starting in 2022 after a surge in out-migration during the pandemic (the metro lost 90,000 residents from 2018 to 2022).
- Economic Environment: The metro remains a global leader in tech, though the sector is currently in a downturn. Several of the largest tech companies in the world — such as Apple, Alphabet, NVIDIA, and Meta — are based in the metro or in neighboring San Jose. Tech is a volatile industry, which can amplify boom-bust cycles in the much slower-moving real estate market. The latest bust began in 2020 with the pandemic, and it was worsened by the tightening of monetary policy starting in 2022. Job growth substantially lagged nationwide averages and population declined. A rise in remote work has also dulled the rebound that would otherwise be expected from the easing of pandemic pressures. Recent bank failures also continue to be a drag on the local economy. Future job growth and household income growth are likely to be positive but below nationwide averages.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

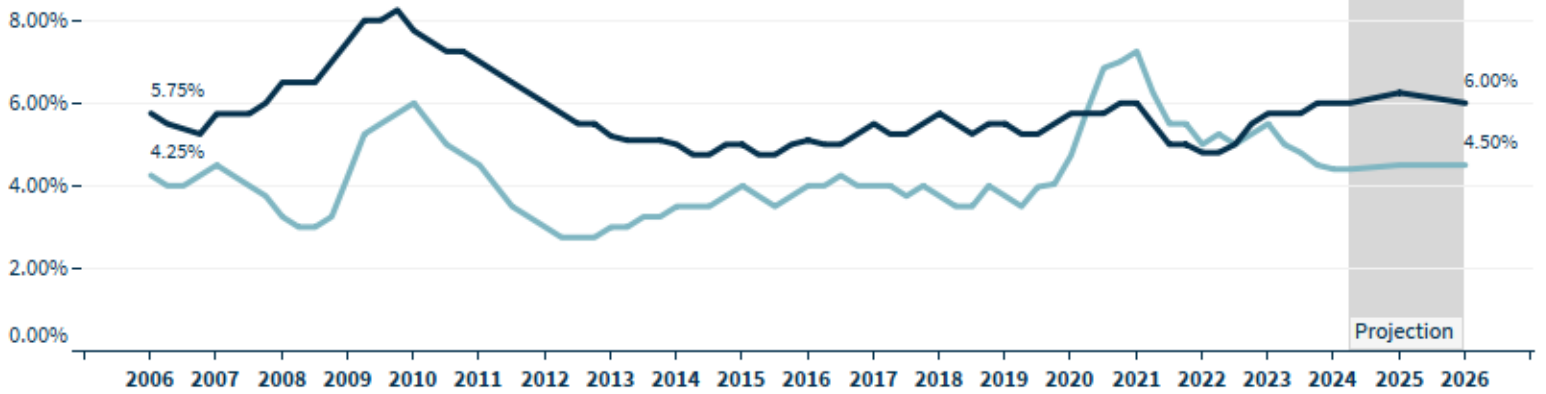
Multifamily Vacancy & Rent Estimates

Vacancy Rates

San Francisco | National

Q2 2024 Vacancy Rate:

4.40%

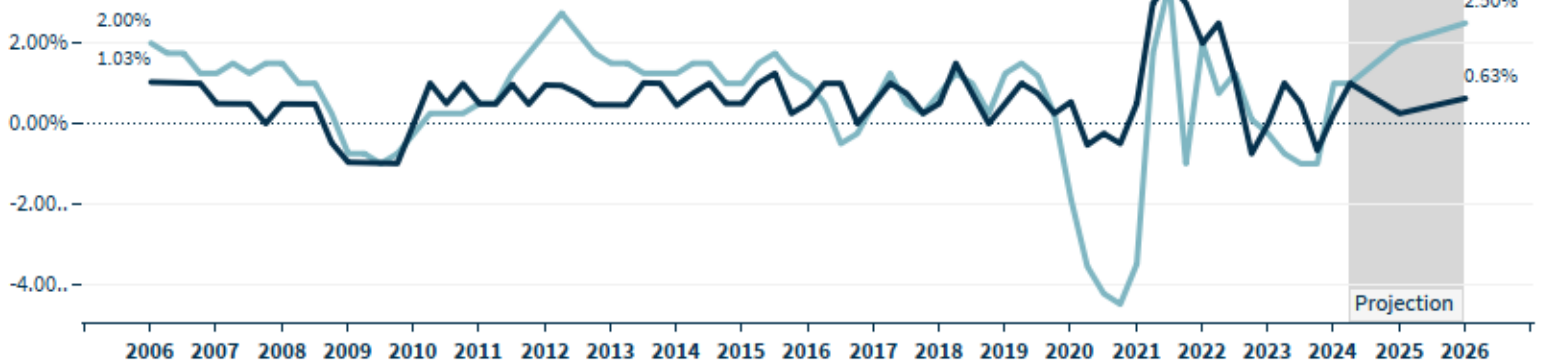


Asking Rent Growth

San Francisco | National

Q2 2024 Asking Rent:

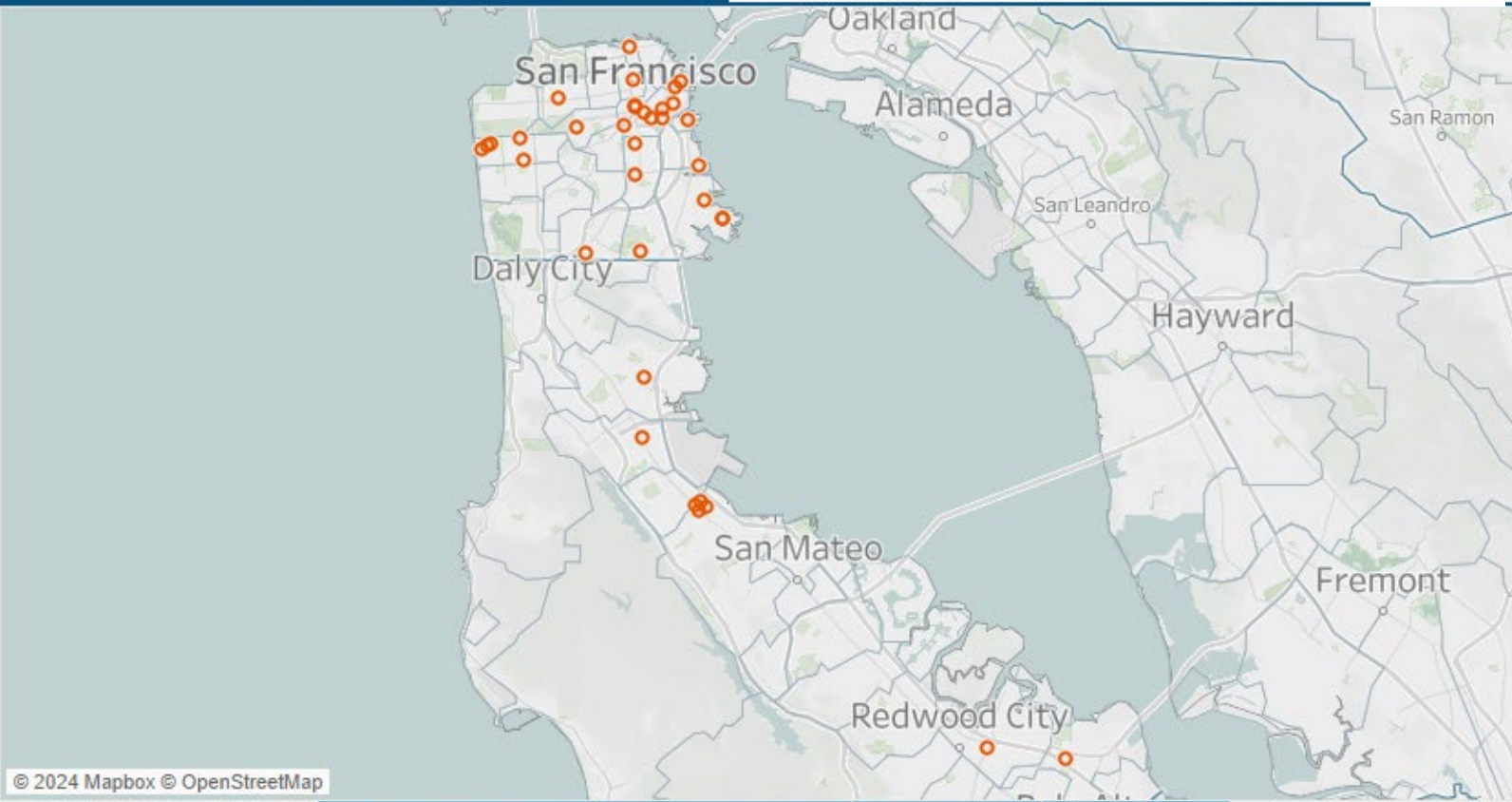
\$3,180



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Central San Mateo County	4	1,098
Downtown San Francisco	4	351
North San Mateo County	2	170
SoMa	16	2,881
South San Mateo County	2	883
West San Francisco	8	593
Grand Total	36	5,976

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

Multifamily Metro Outlook: San Francisco Q2 2024

Multifamily Economics and Market Research Team

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Sources Used

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

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