

Multifamily Metro Outlook:

San Francisco - Q3 2024

Overview:

- The metro's economy is volatile due to its reliance on the tech sector. Currently tech is in a downturn, which could impair the multifamily market. However, layoffs in tech are tempered by income growth and newly positive net migration that indicate 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, at 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.
- The metro has slowly begun to regain jobs after seeing net losses in 2023. However, the economy remains troubled. Still, the large numbers of high-income residents, coupled with extremely high for-sale prices and extremely tight supply, provide a floor for vacancies and rents. Multifamily vacancy rates fell and rent growth became positive in early 2024 and continued to do so in Q3.
- Like much of the nation, there was limited multifamily deal volume in the metro in 2024 relative to its historical average, though transactions have not fallen as much as in many other markets. Sales volumes were up year over year by Q3. While demand remains high, higher interest rates and overly optimistic rent increase expectations have led to some turmoil in multifamily financing.

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 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 with additional layoffs. While growth in generative artificial intelligence is attracting capital and leading to new offices leases, 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 3.4%.
- 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 the city of San Francisco, some is in the city, including 5,000 units in the South of Market neighborhood alone.

Multifamily Outlook:

- The metro multifamily market is currently 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 in Q4 2019 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 coming two years is expected to be comparable to or exceed rent 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) and is expected to post slight total population increases for calendar year 2024, though out-migration remains high.

Economy:

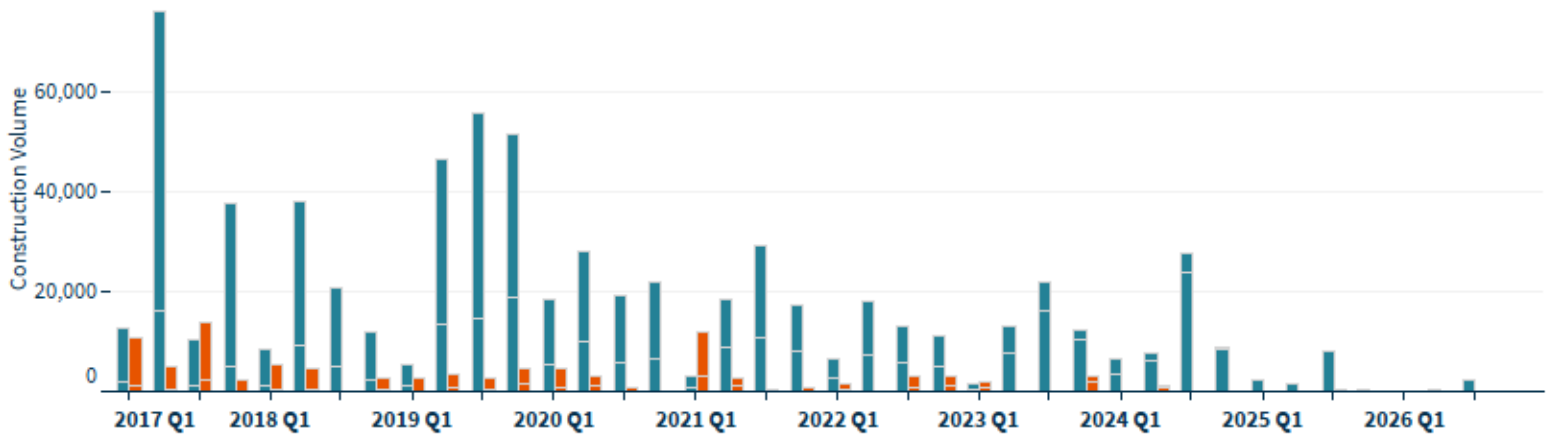
- The metro remains a global leader in tech, though the sector is currently in a downturn. Several of the largest tech companies in the world, such as Apple, Alphabet, NVIDIA, and Meta are based in the metro or are in neighboring San Jose. Tech is a volatile industry, which can amplify boom-bust cycles in the much slower-moving real estate market. The latest bust began in 2020 with the pandemic, coupled with chronically severe affordability problems, and was worsened by tightening monetary policy starting in 2022. Job growth substantially lagged nationwide averages and population declined. A rise in remote work in the sector has also dulled the rebound that would otherwise be expected from the easing of pandemic pressures. Recent local bank failures also continue to be a drag on the local economy. Future job growth and household income growth are likely to be below nationwide averages but still positive.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

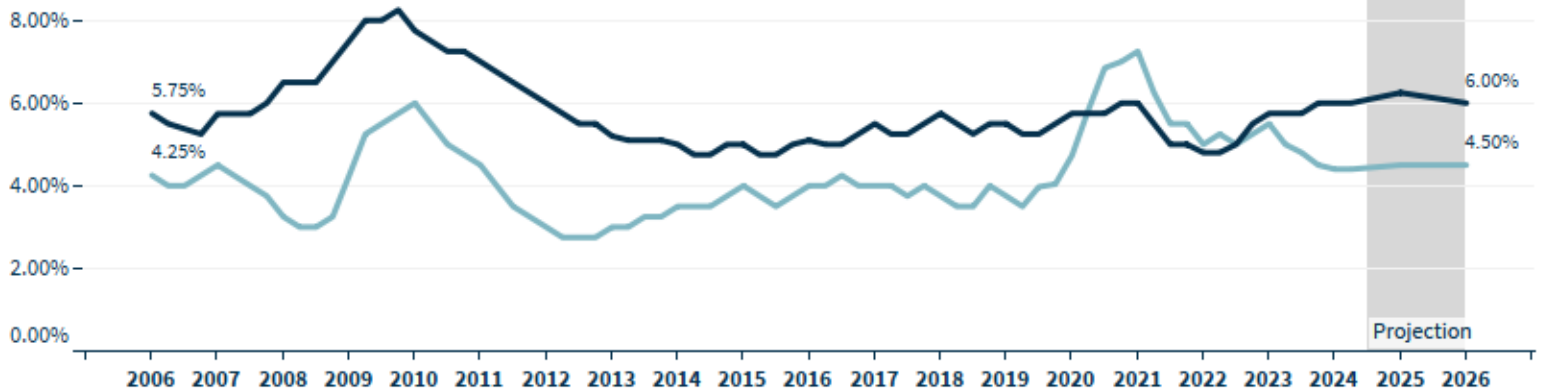
Multifamily Vacancy & Rent Estimates

Vacancy Rates

San Francisco | National

Q3 2024 Vacancy Rate:

4.20%

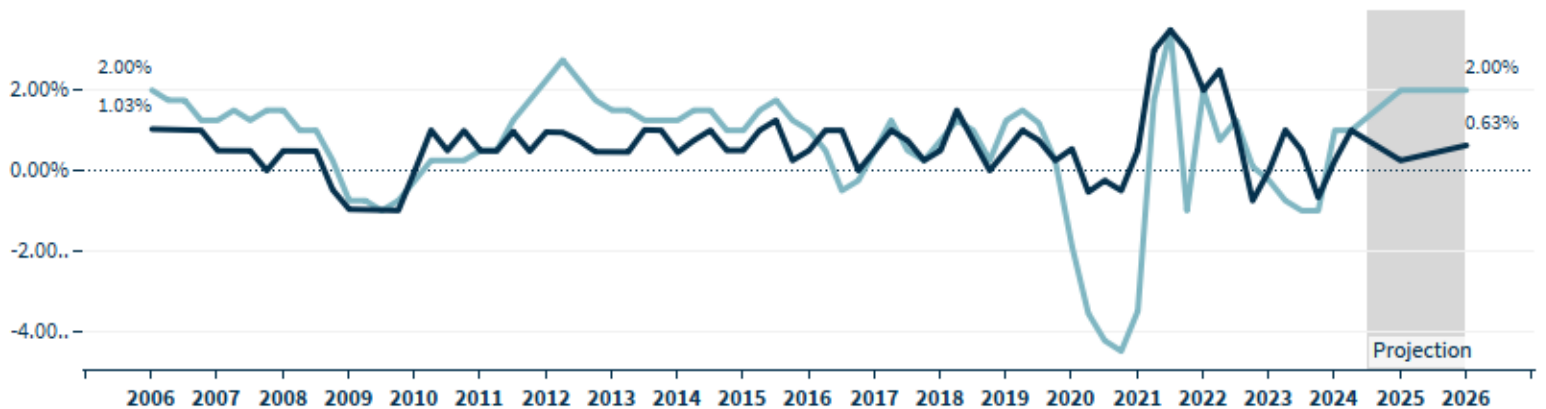


Asking Rent Growth

San Francisco | National

Q3 2024 Asking Rent:

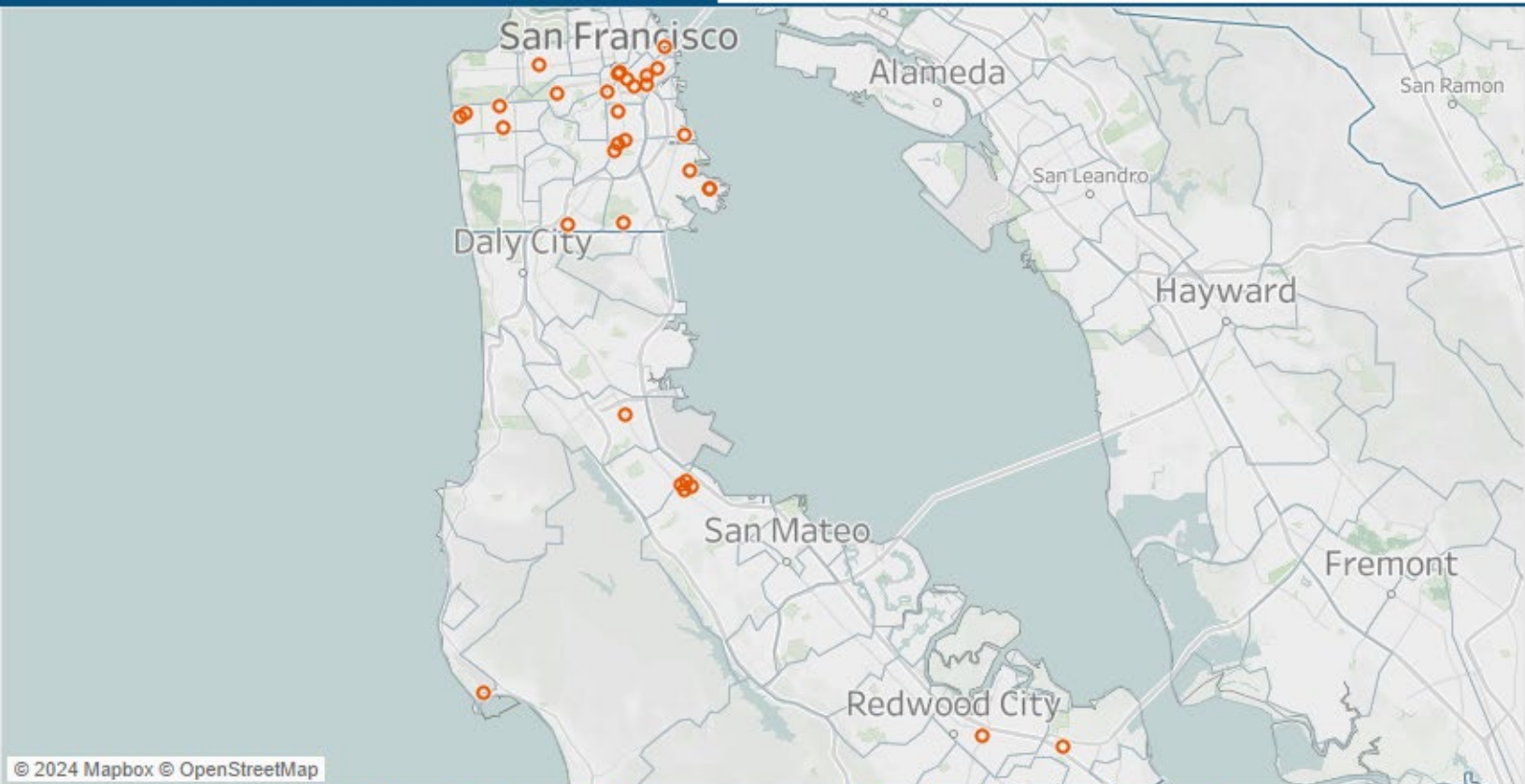
\$3,200



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



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<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Central San Mateo County	4	1,098
Downtown San Francisco	2	217
North San Mateo County	1	134
SoMa	16	2,533
South San Mateo County	3	919
West San Francisco	7	458
Grand Total	33	5,359

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

Multifamily Metro Outlook: San Francisco Q3 2024

Multifamily Economics and Market Research Team

Nat Decker, Economic and Strategic Research – Economics – Lead Associate

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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