

# INVESTMENT FORECAST

Multifamily  
San Francisco


IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS


2022

## San Francisco Moves Forward After Worst Downturn Since Dot-Com Recession

**Apartment market continues long climb back from health crisis.** San Francisco was the hardest-hit metro in the country following the onset of COVID-19. A combination of strict prevention measures, a high concentration of jobs that could be transitioned to remote work, and traditionally smaller apartments encouraged many of the area's tech employees to seek larger accommodations elsewhere. Some major tech firms in both San Francisco and the South Bay were initially slated to recall workers to offices late last year, though a rise in virus cases pushed those target dates into early 2022. Once these companies require more employees to visit offices at least part time, the overhang of empty Class A apartments will begin to diminish more quickly. Already tight conditions in Silicon Valley will also benefit the city and peninsula as spillover demand increases. Nonetheless, some headwinds will persist. San Francisco tech companies like Salesforce, Pinterest and Twitter have more readily adopted permanent remote work, so the percentage of returning staff will likely be lower than in San Jose. Additionally, the area's cautious approach to the health crisis could slow a reintroduction to tourism, which is vital to the local economy.

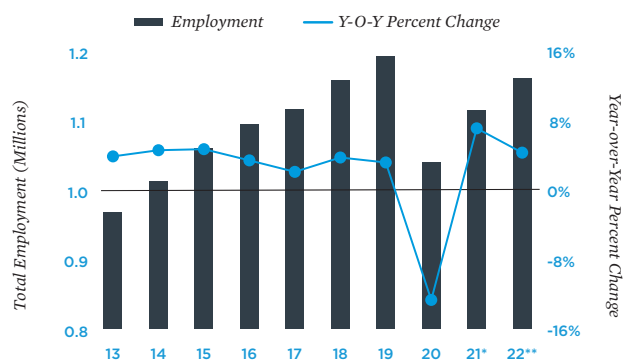
**Investor interest slowly shifting back to the city.** Through the downturn, buyers focused on some of the less dense submarkets on the peninsula, where units tend to be larger and demand remained more resilient. As fundamentals solidify in core locations in 2022, investors are anticipated to shift back to a more urban focus. Institutions and REITs that are awash with inexpensive capital are poised to take advantage of low interest rates before the Fed is encouraged to act in the face of steep inflation. Private buyers able to navigate San Francisco's strict rent control laws may also act, taking advantage of the modest price correction that occurred during the downturn. Entering the year, the average cap rate was in the low-4 percent range, with top-tier returns dipping into the mid-3 percent area. While more attention will be focused on properties in the city, particularly in SoMa, some opportunities are available on the peninsula. South San Mateo County, which offers renters manageable commutes to several major corporate campuses, should see healthy tenant demand and buyer interest.

**24.9%**  2021 share of local population between 20 and 34 years old

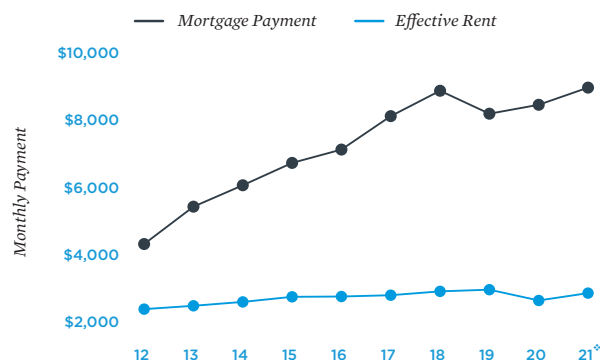
**49.3%**  of local population hold bachelor's degree or higher\*

**\$1,876,900**  2021 median home price

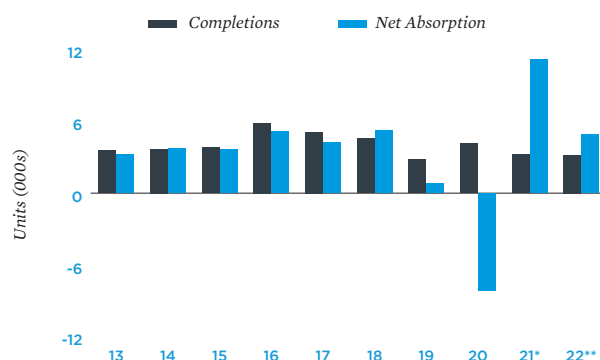
### Employment Trends



### Housing Affordability Gap



### Supply and Demand



\* Estimate \*\* Forecast \* Through 3Q

\*\*2021: 25+ years old

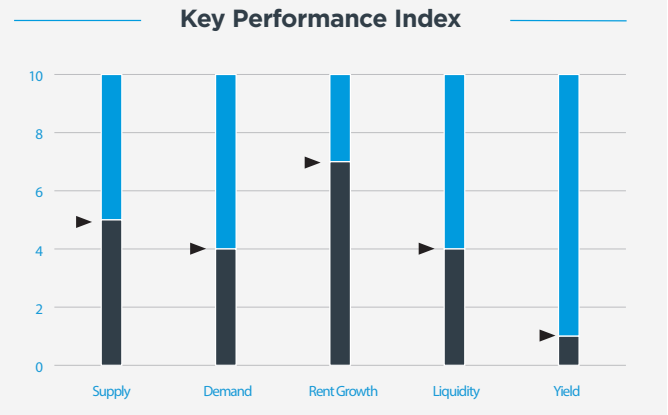
Sources: Marcus & Millichap Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

## 2022 Investment Outlook

San Francisco was among the most impacted markets during the health crisis, and there is still significant ground to make up. As a result, the metro gets a 4 on the demand section of the Index. However, rents are expected to rebound, supporting a 7 on that portion in 2022.

Some investors are taking a wait-and-see approach as technology firms delay return-to-office timelines and the overall job total holds below the pre-pandemic level. Therefore, liquidity is relatively muted at 4 this year, while the average cap rate is still one of the lowest in the country.

*Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.*



## 2022 Market Forecast

### Employment

47,000 jobs



Metro **4.2%**

U.S. **2.5%**

### Construction

as % of inventory\*



Metro **1.4%**

U.S. **2.2%**

### Class A Vacancy

Down 80 bps



Metro **10.6%**

U.S. **3.6%**

### Class A Rent

\$3,828  
per month



Metro **10.0%**

U.S. **7.5%**

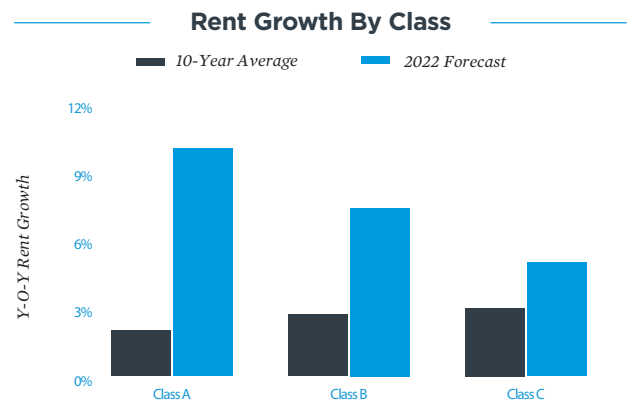
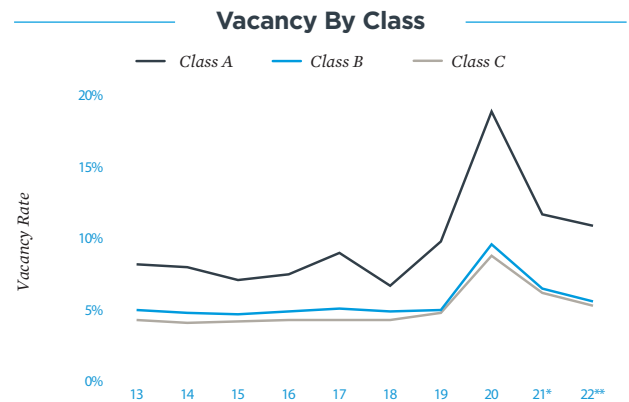
### Investment

3-yr. avg. activity  
\$20+ million



Deals: **12**

Volume: **\$796 Million**



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\* Estimate \*\* Forecast  
 \* Arrow reflects completions trend compared with 2021  
 Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics