

# MARKET REPORT

Multifamily

San Francisco Metro Area

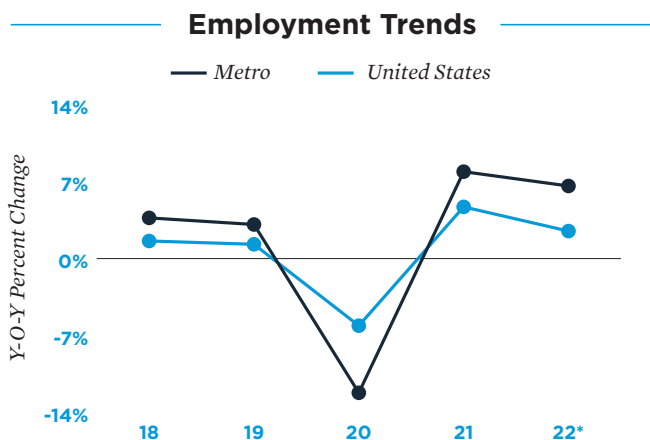
IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2Q/22

## Initial Hurdles Surpassed, Catalysts for a Broader Recovery Take Hold

**Returning professionals stoke demand.** Immediately preceding the second quarter, two dozen of San Francisco's largest employers returned to full or partial in-office operations. Additionally, Facebook and Google anticipated requiring employees to begin in-person work on a part-time basis starting in April. The return of these employees to offices, even via hybrid schedules, bodes well for the overhang of empty apartments in urban San Francisco. Entering April, vacancy in the CBD sat at 7 percent, despite a 320-basis-point reduction in unit availability during the past 12 months. The core's mild construction pipeline represents another positive for upper- and mid-tier complexes with notable vacancies, as delivery volume in the CBD during 2022 is expected to trail the prior five-year average by more than 1,100 units.

**Peninsula poised to achieve pre-pandemic level of vacancy.** San Mateo County stands to benefit from spillover demand in the near term, as already-tight conditions in Silicon Valley influence renters to seek units on the peninsula. Entering this year, the average monthly rent in San Mateo County was \$150 to \$500 below that of Silicon Valley submarkets, a gap that should enhance the appeal of peninsula-area apartments at a time when vacancy is above 5 percent. An additional boon for county fundamentals, the volume of rentals slated for delivery in the next three quarters will lift local rental stock by a moderate 1.3 percent, with only the city of Millbrae adding more than 300 units.



\* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

## Multifamily 2022 Outlook



**75,000  
JOBS**

*will be created*

### EMPLOYMENT:

Metro employers added 14,100 positions during the first two months of this year and are expected to bolster San Francisco's job count by 6.6 percent in 2022. This rate of employment growth ranks as the second-largest increase among major U.S. markets.



**3,200  
UNITS**

*will be completed*

### CONSTRUCTION:

Annual completions trail the prior five-year average by roughly 900 units, with developers expanding the metro's rental inventory by 1.4 percent. Supply additions in the city of San Francisco account for nearly 40 percent of this year's delivery volume.



**60  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

After a 520-basis-point rise in 2020, the metro records a second straight year of vacancy compression, as renters absorb more than 4,400 units. This level of demand compresses vacancy to 6.5 percent, a rate 120 basis points above the year-end 2019 mark.



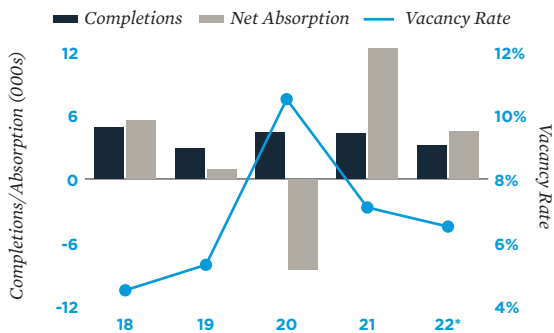
**9.5%  
INCREASE**

*in effective rent*

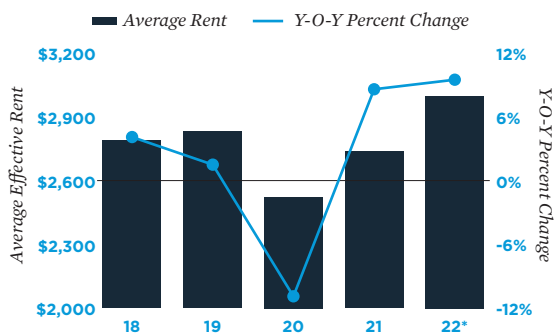
### RENT:

Tightening conditions allow the pace of rent growth to exceed the 8.6 percent boost logged during 2021. Two consecutive years of historically strong rate gains push the metro's average monthly rent to roughly \$3,000.

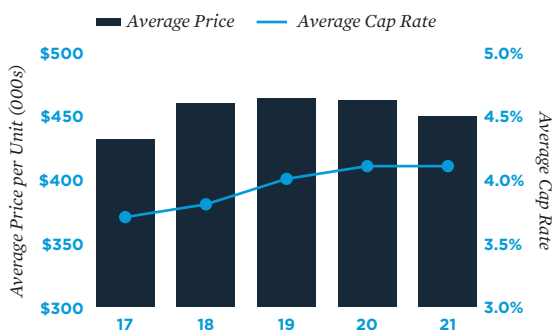
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

## 1Q 2022 - 12-Month Period

### CONSTRUCTION

**4,323 units completed**

- Inventory grew by 1.8 percent over the past year ending in March, highlighted by the completion of 2,200 units in the third quarter.
- Nearly one-third of the 3,300 units underway at the onset of April were split between projects in SoMa. Overall, developments in the metro's active pipeline contain an average of 165 units.

### VACANCY

**240 basis point decrease in vacancy Y-O-Y**

- Renters absorbed nearly 9,900 units during the past four quarters, reducing vacancy to 6.8 percent, the lowest rate since early 2020.
- All submarkets with inventories larger than 10,000 units registered vacancy compression during 2021, led by Mission Bay-China Basin-Potrero Hill, where a 510-basis-point drop lowered availability to 5.2 percent.

### RENT

**8.3% increase in the average effective rent Y-O-Y**

- Positive rent growth returned during the past 12 months, nearly offsetting the 8.6 percent decrease notched during the prior yearlong span. This gain lifted the average effective rate to \$2,792 per month.
- Recently strong absorption in SoMa supported a 13.2 percent rent surge, the largest increase among submarkets.

## Investment Highlights

- As apartment fundamentals improve and major employers commit to office returns, more investors are shifting their attention back to San Francisco. Sales activity from last year reflects this, as annual deal flow more than doubled, supported by trading in the \$1 million to \$10 million tranche. Still, room for improvement remains, as the number of transactions closed during 2021 trailed the 2019 volume by more than 40 percent and institutions have yet to return in force. Additionally, modest price correction continued last year, lowering the metro's average price point 3 percent to roughly \$449,000 per unit. In contrast, the average cap rate was unchanged at 4.1 percent.
- Competition among private buyers is heating for sub-25-unit Class B and C properties. Urban activity is most pronounced in Downtown San Francisco and neighborhoods west of the core, including Pacific Heights, Haight-Ashbury and Richmond District, where first-year returns span the high-3 to high-4 percent range.
- Similar properties are also trading in less dense submarkets along the peninsula. Redwood City's proximity to the Silicon Valley and San Mateo's tight vacancy make these locales preferred areas for investment.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.