MARKET REPORT

Multifamily

San Francisco Metro Area

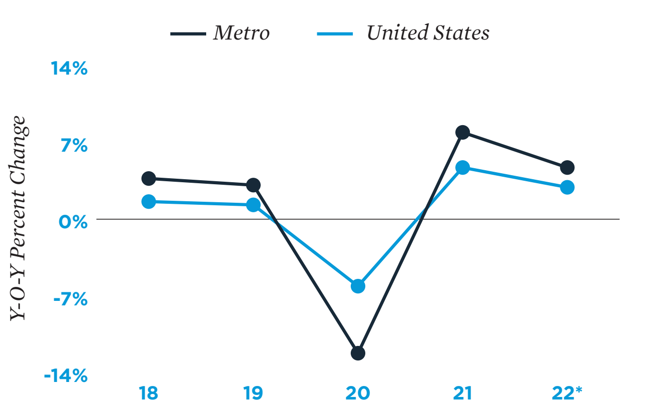
3Q/22

Recovery Signals Light Up Across the Market as Core San Francisco Takes Forward Strides

Employment recovery lifting up multifamily sector. The metro's labor market continues to steadily improve, with multiple sectors having already expanded headcounts beyond pre-COVID-19 benchmarks. This includes highly-specialized roles in professional and technical services, which support higher incomes and benefit demand for housing. Given a median home price 13 times greater than the metro's median income, more than double the U.S. ratio, much of this demand will be for higher-class apartments, including in and around the core. While office visitation remains below half of what it was pre-pandemic, renters are still leasing apartments in these areas to take advantage of other lifestyle amenities. Vacancy declined notably year-over-year in both Mission Bay and Downtown.

Suburban locations continue on positive trajectory. As the core of San Francisco welcomes new households, demand is also holding strong in surrounding areas. Vacancy in Bayview-Visitacion Valley, which shifted minimally during the pandemic, dropped to a marketwide low of 2.1 percent in June, supporting rent growth of 5.3 percent since the end of 2019. Operations were more impacted in Richmond-Western Addition, but demand is returning this year with availability and rents nearing pre-pandemic levels. Several of the smaller cities in San Mateo County are also performing well. Daly City-Brisbane and Foster City-Redwood Shores, a local employment hub, recorded some of the lowest Class A vacancy rates in the market as of June 2022.

Employment Trends



** Forecast*

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

Multifamily 2022 Outlook

54,000 JOBS
will be created

EMPLOYMENT:

The creation of over 34,000 jobs through the first half of the year places metro employers on pace to expand staffs by 4.7 percent this year. Tight unemployment, at 2.3 percent in June, will place an emphasis on bringing workers to the metro.

1,900 UNITS
will be completed

CONSTRUCTION:

Inventory will expand at a decade-low pace of 0.7 percent in 2022. A prodigious schedule of proposals extending out to 2030, however, indicates ample potential development activity on the longer-term horizon.

60 BASIS POINT
decrease in vacancy

VACANCY:

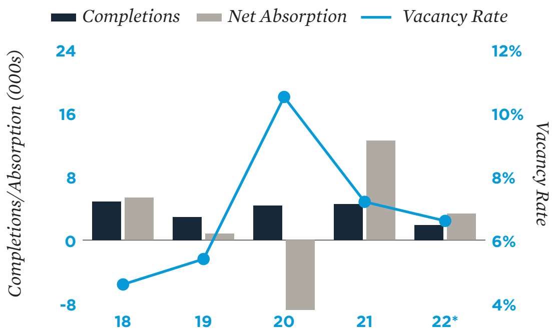
Availability continues to decline, following the 510-basis-point spike posted in 2020. Absorption is slowing, however, with the overall vacancy rate set to hit 6.6 percent this year, 60 basis points above the March 2020 rate.

7.5% INCREASE
in effective rent

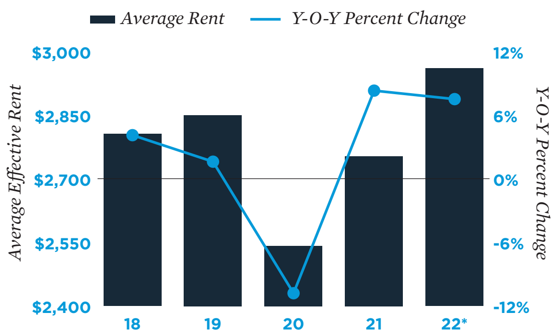
RENT:

After advancing 8.3 percent last year, effective rent growth will come close to achieving that pace again this year. The metro average will climb to $2,960 per month by year-end, 3.3 percent above the previous 2019 high.

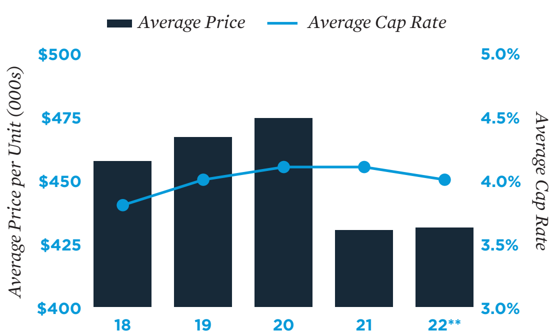
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

4,280 units completed

- Inventory growth slowed to 1.7 percent year-over-year in June as only 990 units were delivered in the first six months of 2022, the smallest amount for an opening half since 2012.
- Completions over the past year were heaviest in the South of Market neighborhood with 1,093 new doors, a 4.5 percent expansion to supply.

VACANCY

90 basis point decrease in vacancy Y-O-Y

- While apartment absorption slowed by about half from the second half of 2021 to the first half of 2022, availability continues to fall. The June vacancy rate of 6.7 percent is 70 basis points above the March 2020 level.
- Vacancy in San Mateo County has fallen to just 40 basis points above the pre-pandemic rate, while the city of San Francisco lags by 80 basis points.

RENT

4.7% increase in the average effective rent Y-O-Y

- Declining vacancy helped advance the average effective rate to $2,858 per month, which stops just short of the 2019 peak rate of $2,866.
- Effective rates across San Mateo County improved to a new average high of $2,799 per month, driven by above-6 percent year-over-year growth in the Redwood City-Menlo Park and San Mateo-Burlingame submarkets.

Investment Highlights

- Encouraged by improving property fundamentals, transaction velocity has notably accelerated from the lows recorded in the second half of 2020. Roughly 70 percent more properties changed hands over the four-quarter period ended in June compared to the previous 12-month span. The overall trade count is now within about 90 percent of pre-pandemic levels.
- Given the more substantial impact to operations at mid- and high-tier properties, institutional investors have been slower to return to the market, thus an elevated share of trades involved Class C assets relative to before the health crisis. This shift impacted the average sale price recorded during the 12-month period, which fell 5 percent year-over-year to $431,200 per unit in June. There are some bright spots for institutions concentrating on the Class A segment, however, with luxury-tier availability dropping by at least 200 basis points in Daly City-Brisbane, Mission Bay-China Basin-Pontero Hill and San Mateo-Burlingame during the past year.
- Investors seeking assets within the city of San Francisco were most active in the Haight area over the past year. Deal velocity also climbed downtown as the Class A vacancy rate here held stable, while Class B availability fell by almost 200 basis points across the past four quarters.