

MARKET REPORT

Multifamily
San Francisco Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

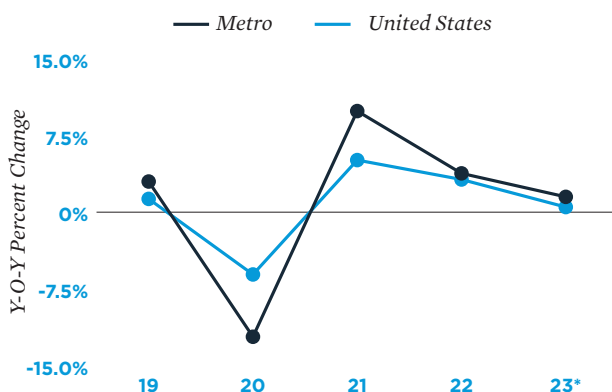
2Q/23

Economic Growth and Limited Supply Pressure Promote Vacancy Compression

Job growth spurs absorption. The local economy has remained resilient, despite recent headlines of layoffs and hiring freezes from notable tech firms headquartered in the Bay Area. This fortitude is driving the recovery of San Francisco's apartment sector. The addition of nearly 40,000 new positions over the past year ending in March lowered unemployment to 2.7 percent, 80 basis points below the national average. This steady rate of job creation is underpinning renter demand. Entering April, trailing 12-month absorption outpaced the long-term average, contributing to declining vacancy. Life sciences and industrial employment opportunities are stimulating leasing activity in locales like South San Francisco-San Bruno-Millbrae, San Mateo-Burlingame and Foster City-Redwood Shores. Meanwhile, the presence of notable tech firms, including Google and Meta, is stoking renter demand in Redwood City-Menlo Park.

Slowing development aids properties with available units. The amount of units added in San Francisco this year will expand inventory by less than 1 percent for the first time since 2012. Limited competition from new development will steer more renters to older, existing rentals, allowing vacancy to decline for the third straight year. Near-term deliveries are concentrated in locales like Redwood City, Menlo Park and Burlingame. Construction is also strong in SoMa, as more than 2,000 units are expected to come online in the area over the next two years. Meanwhile, submarkets like Richmond-Western Addition and Civic Center-Tenderloin face minimal supply pressure.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**18,000
JOBS**

will be created

EMPLOYMENT:

Although job creation slows from last year's pace, employers will still expand headcounts by a net of roughly 1.5 percent in 2023. By year-end, total employment will eclipse the pre-pandemic peak by nearly 13,000 positions.



**2,400
UNITS**

will be completed

CONSTRUCTION:

Supply additions will fall to an 11-year low in 2023, as developers expand local stock by just 0.9 percent. The Treasure Island redevelopment is one of the most notable ongoing projects in the Bay Area, and is expected to begin delivering units in 2024.



**10
BASIS POINT**

decrease in vacancy

VACANCY:

Despite economic headwinds slowing near-term renter demand, net absorption exceeds supply additions in 2023, supporting vacancy compression. Still, at 6.3 percent, year-end availability is 150 basis points above the metro's long-term average.



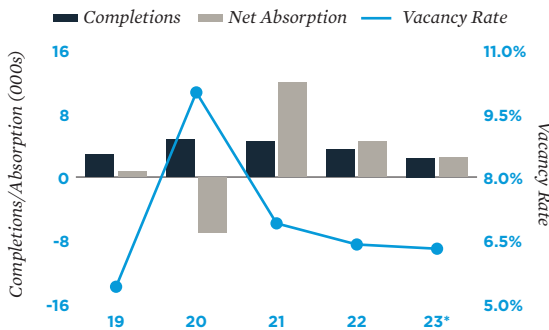
**1.8%
INCREASE**

in effective rent

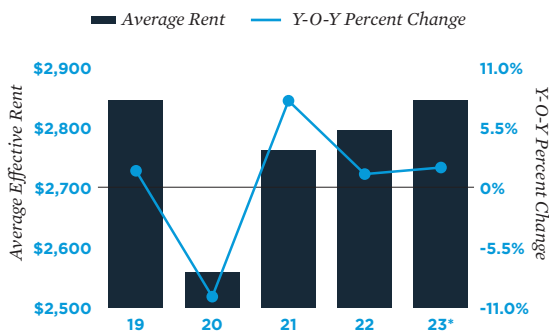
RENT:

Declining vacancy promotes annual rent growth for the third consecutive year. At \$2,840 per month, San Francisco's average effective rate will eclipse the 2019 peak for the first time since the onset of the health crisis.

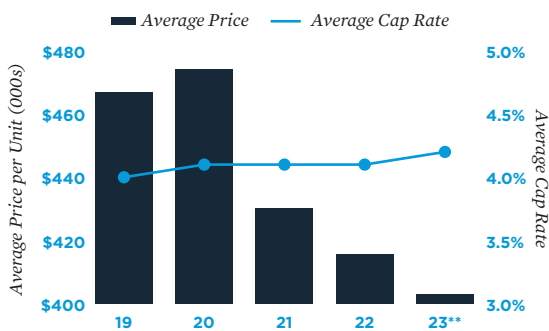
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

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

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Price: \$250

1Q 2023 - 12-Month Period

CONSTRUCTION 3,233 units completed

- The pace of construction declined by nearly 2,000 units over the past four quarters ending in March relative to the previous yearlong span, as developers increased local inventory by 1.3 percent.
- Roughly 900 units delivered in the Haight-Ashbury-Castro-Noe Viy-Mission submarket during the trailing 12-month period ending in March.

VACANCY 20 basis point decrease in vacancy Y-O-Y

- Approximately 3,500 units were absorbed on a net basis year-over-year ending in March, helping lower availability to 6.5 percent.
- The South San Francisco-San Bruno-Millbrae and SoMa submarkets each recorded local availability declines of at least 150 basis points during this span, lowering vacancy to 4.8 and 5.5 percent, respectively.

RENT 0.3% increase in the average effective rent Y-O-Y

- The mean effective rate remained relatively flat over the past year ending in March. Still, at \$2,811 per month, San Francisco's average rent is the third highest among all major U.S. markets.
- During this span, average Class A rents declined by 1.0 percent, while Class B properties recorded gains of 0.8 percent.

Investment Highlights

- Transaction velocity in the metro's \$20 million-plus marketplace remained steady in 2022 relative to the previous year; however, deal flow held below previous peaks as rising interest rates and recent bank failures created financing obstacles. Fortunately, some clarity is emerging as the Federal Reserve appears to be closing in on their terminal rate, which could help lessen hurdles over the second half of this year. Nonetheless, limited opportunities for multifamily development and the nation's highest single-family home prices provide long-term value for apartment investors.
- Buyers who are confident in the long-term viability of local offices are acquiring rental properties in Downtown San Francisco. Here, entry costs for Class A and B apartments often rise above \$430,000 per unit, with cap rates trending in the high-3 percent range in recent trades. Deal flow has also been strong in Haight-Ashbury-Castro-Noe Viy-Mission, as the submarket's central location provides renters with easy access to other Bay Area locales.
- Buyers seeking Class A and B assets are also targeting Richmond-Western Addition and Sunset-Lakeshore. Proximity to outdoor amenities like Golden Gate Park and Ocean Beach, coupled with the presence of major medical and educational institutions, are drivers of rental demand in these locales.

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.

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