INVESTMENT FORECAST

Multifamily

San Francisco

IPA | INSTITUTIONAL PROPERTY ADVISORS

2025

Return-to-Office Trends Aid Demand; Focused Deliveries Present Opportunities

Corporate policies extend post-pandemic multifamily recovery. San Francisco's employment base will expand this year on net for the first time since 2022. In-person work policies, such as Salesforce's four-day mandate, and tech firm developments, like OpenAI's 315,000-square-foot office expansion, are contributing to headcounts and aiding migration back into the metro. This dynamic bodes well for apartment fundamentals citywide in the near future. Downward vacancy momentum should continue, following declines across nearly all submarkets last year. The stretch from Visitacion Valley to Downtown is likely to again be a focal point for renters, after accounting for over 50 percent of the city's net absorption last year. As household formation returns to pre-pandemic levels — exceeding 1 percent in 2025 — suburbs from the city of South San Francisco to San Mateo are seeing similar positive trends. These areas, with flexible access to both San Francisco and Palo Alto, saw vacancy fall last year and over 70 percent of San Mateo County's net absorption. Under a lighter 2025 delivery slate, vacancy compression may continue over the near term.

Pockets of construction unlock prospects for investors. Improving property fundamentals, augmented by interest rate cuts, have lifted investor confidence, as evidenced by a bump in trade counts over the course of last year. With new arrivals focused in the Mission Bay-China Basin-Potrero Hill area, non-luxury assets that evade this supply pressure near downtown are positioned to garner greater appeal. Renter demand, aided by labor market growth, may backstop ongoing Class B and C vacancy compressions. Investors bullish on this dynamic may comb mid- and low-tier listings near Nob Hill, where several assets traded in the last half of 2024. Less populated and more affluent areas west of Interstate 101 that are insulated from supply-side risk may attract investors with long-term hold strategies. Since September 2024, deal flow picked up for all asset classes from Mission District to Haight-Ashbury and in the Richmond District, with holding periods roughly between four and eight years. Buyers seeking stable Class C assets outside San Francisco proper may look to San Mateo City, where entry costs have been in the $300,000 to $400,000 per unit band. Mild 2025 development here should aid vacancy and bolster rent momentum.

22.8%

2024 share of local population between 20 and 34 years old

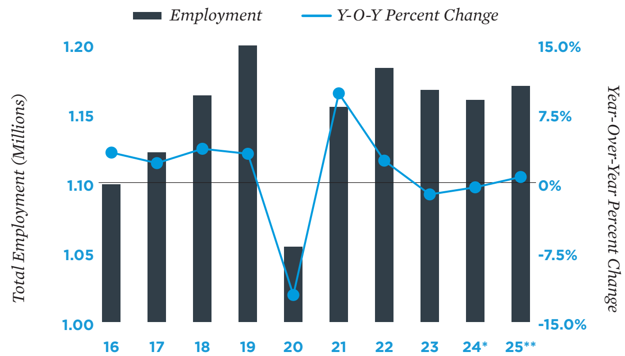
52.6%

of local population hold bachelor's degree or higher ⌘

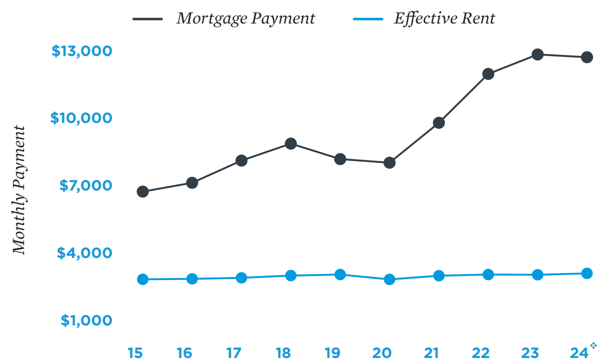
$1,890,500

2024 median home price ❖

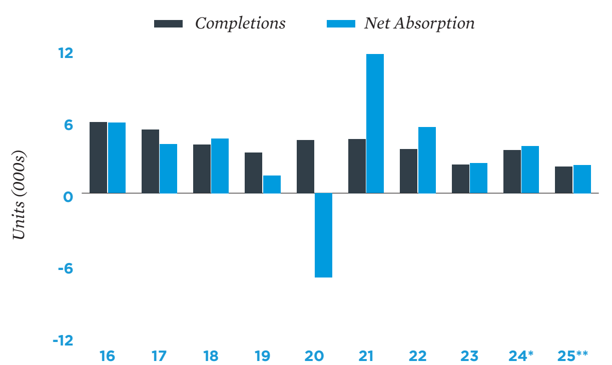
Employment Trends



Housing Affordability Gap



Supply and Demand



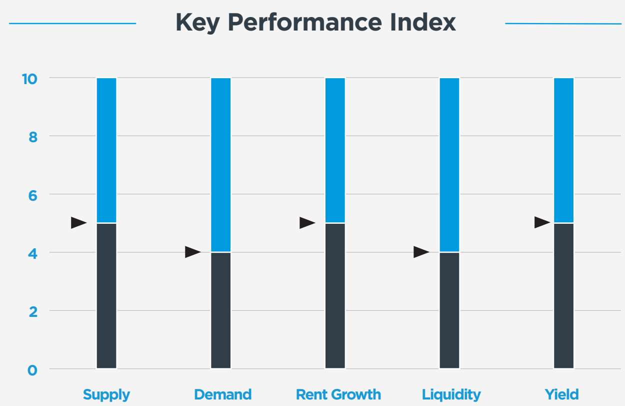
* Estimate ** Forecast ❖ Through 3Q
⌘ 2024: 25+ years old
Sources: IPA Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

Investment Outlook

San Francisco's multifamily sector recovery extends into its fifth year in 2025 as overall vacancy nears the 2019 mark. This is reflected in demand and rent growth scores that are consistent with the year before, even though the supply KPI drops to a 5. This is nevertheless one of the better scores for California markets.

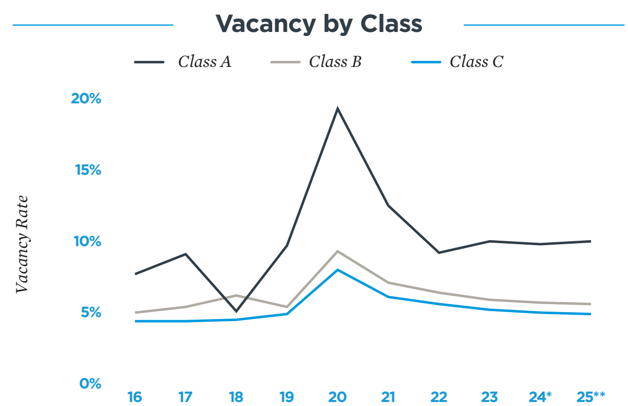
Both San Francisco's liquidity and yield scores improve from 2024 as recovering renter demand in both the suburbs and CBD assuage some concerns from the peak of the pandemic. The liquidity score, in particular, doubles to a rating of 4.

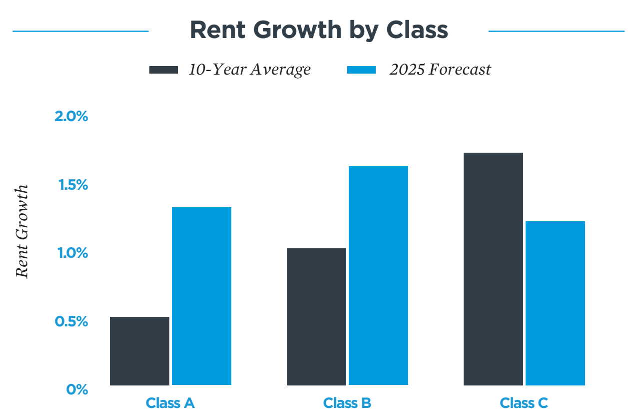
Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.



2025 MARKET FORECAST

	Metro	U.S.
Employment 7,000 *jobs*	0.6%	1.1%
Construction *% of inventory*❖	0.8%	2.1%
Class A Vacancy Up 20 bps	9.7%	6.1%
Class A Rent $3,773 *per month*	1.3%	2.8%





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** Estimate ** Forecast*
❖ Arrow reflects completions trend compared with 2024
Sources: IPA Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics