Market Report

MULTIFAMILY 2Q/26

San Francisco Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2026 FORECAST

EMPLOYMENT
4,000 — Jobs will be created
0.4% — Increase Y-O-Y

CONSTRUCTION
1,400 — Units will be added
0.5% — Inventory increase Y-O-Y

VACANCY
3.5% — Vacancy rate
30 — BPS decrease Y-O-Y

RENT
$3,270 — Average effective rent by year-end
5.2% — Increase Y-O-Y

Limited Supply Growth, Solid Renter Demand Continue to Boost Income Prospects

Rent growth strongest in the City of San Francisco. Compared with the broader U.S. apartment market, San Francisco is outperforming on almost all metrics. The metro did not experience a post-pandemic supply expansion; with demand steadily outpacing openings each year, metrowide vacancy now sits at historically low levels. The CBD, which struggled during the pandemic years, is now seeing vacancy rates in the 3-percent range following a 160-basis-point decline in 2025, as tech-sector tailwinds continue to bring high-paying roles to the city. Class A rent growth exceeded 13 percent year-over-year in SoMa, Mission Bay, Richmond-Western Addition, and Downtown San Francisco.

Property performance more stable in San Mateo County. Compared to the City, the average rent growth was more moderate in southern submarkets with more established tech sector presence. San Mateo-Burlingame, Redwood City-Menlo Park, and Foster City all recorded growth around 4 percent year-over-year in the 12 months ended in March. Still, Class B and C properties across most San Mateo County submarkets continue to post vacancy rates around or below 3 percent, and select areas such as South San Francisco-San Bruno-Millbrae recorded stronger rent growth, exceeding 6 percent year-over-year.

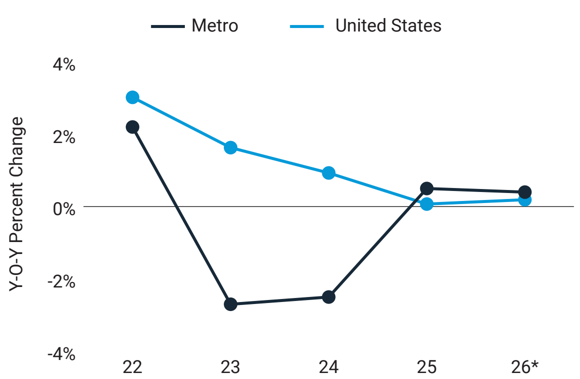
EMPLOYMENT

After shedding more than 60,000 roles in total in 2023 and 2024, San Francisco's job market stabilized last year and is expected to post modest gains again in 2026. This recovery is driven by steady increases in employment in education and health services and slower losses in professional and business services roles. Still, the unemployment rate reached 4.0 percent in March, marking the metro's highest level since 2013, excluding the pandemic period, indicating that some headwinds still linger in the job market locally.

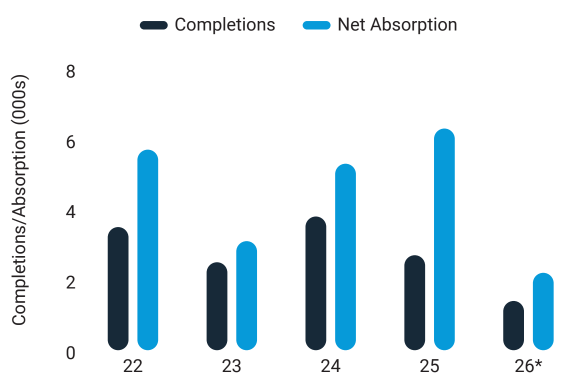
CONSTRUCTION

The construction pipeline in San Francisco remains limited despite increasing calls from policymakers for more housing. This year's delivery slate will be the smallest in the metro since 2012, and the 0.5 percent expansion in total inventory ranks among the lowest nationwide. New supply is also largely concentrated in San Mateo County, while San Francisco County will see minimal meaningful additions to stock. The delivery pipeline could pick up modestly over the next two years, particularly in San Mateo County.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS

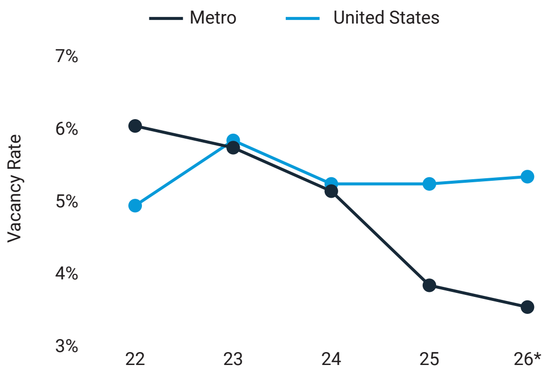


* Forecast
Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

VACANCY

Dwindling new supply will again be outpaced by net absorption this year, continuing a trend that has held since 2021 and placing downward pressure on vacancy. As of March, vacancy in San Francisco County stood at 3.4 percent, down 100 basis points year-over-year, while the rate in San Mateo County fell 50 basis points to 3.8 percent. Net absorption was stronger in San Mateo County in the first quarter, suggesting the gap between the two counties could narrow modestly as 2026 progresses.

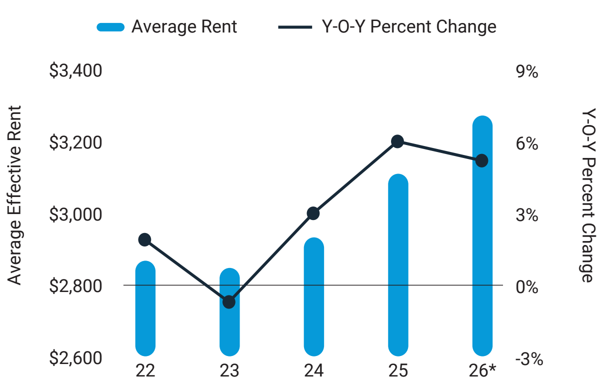
VACANCY TRENDS



RENT

Ongoing vacancy compression, with the metric already in the 3-percent range, should continue to support elevated rent growth. The average rent has increased by just 1.7 percent annually over the past decade, but strong momentum from last year is expected to carry through the end of 2026. Rent growth is forecast to reach 5.2 percent this year, the second-highest rate among major U.S. markets, driven by gains of roughly 6 percent in San Francisco County and 4 percent in San Mateo County.

RENT TRENDS



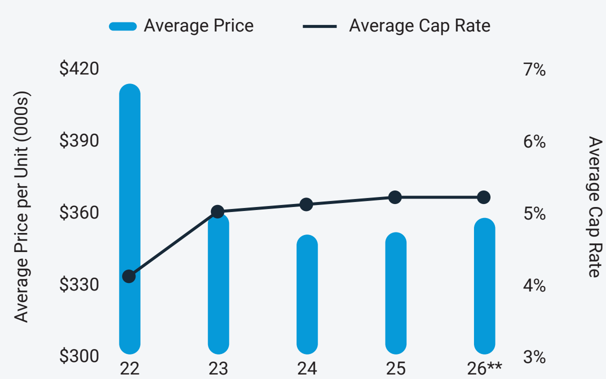
INVESTMENT HIGHLIGHTS

- Transaction activity in San Francisco increased by about 40 percent in the 12 months ended in March, outpacing most U.S. metros. Trading even surpassed levels seen in 2022, when lower borrowing costs supported deal activity nationwide. As a result of limited development in recent years, San Francisco's apartment stock continues to be dominated by older, smaller properties trading below $10 million. In fact, transactions above $10 million remained largely flat, indicating that the market is primarily driven by private capital activity, despite a gradual return of institutional participation.

- Sales activity nearly doubled in the 12 months ended in March in core San Francisco submarkets such as Downtown San Francisco, Haight-Ashbury, Richmond-Western Addition, and Marina-Pacific Heights. Investors are concentrating in these higher-income, established neighborhoods where land availability is most constrained, and benefiting from the return of higher-income renters to the city. While San Mateo County saw slightly fewer transactions than the prior year, properties in transit-oriented corridors continue to trade actively, supported by spillover demand from core employment hubs throughout the Bay Area.

- After four consecutive years of declines in average price per unit from 2021 to 2024, the trend reversed last year and is expected to post meaningful growth in 2026. The average cap rate also continued to rise, reaching 5.2 percent in the yearlong period ended in March, the highest level since 2011, indicating more durable income yields for many properties.

SALES TRENDS



* Forecast ** Through 1Q

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

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