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Demand Continues to Pressure San Francisco Apartment Market

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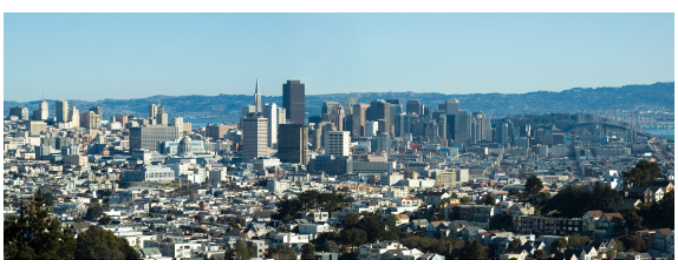

By Joe Gose

San Francisco has the reputation as the most bulletproof apartment market in the country, but a torrent of new construction promises to test its armor, as does reinvigorated condominium building.

The city's apartment supply will increase by roughly 3,000 units

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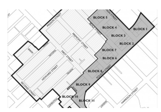
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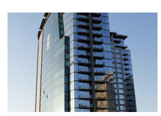
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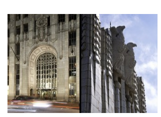
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this year, more than four times the number of units that came online in 2012, according to a recent report from Marcus & Millichap Real Estate Investment Services.

That will boost vacancy by 50 basis points to 3.7 percent by year's end, following a 70-basis point uptick in 2012, the brokerage said. The expected average San Francisco rental rate of $2,515 a month by the end of the year would reflect a 5.7 percent increase in 2013, about 40 percent below the rate of rent growth in 2012, Marcus & Millichap said.

To date the limited number of new units added to the market and the continued creation of well-paying jobs that make higher rents affordable have blunted any adverse affect to fundamentals, said Jeff Mishkin, first vice president and regional manager for Marcus & Millichap. Beyond that, how much impact an additional 5,000 units or so in the planning pipeline through 2016 will have on the market will depend on the economy and whether in fact all are built, he added.

In September Beverly Hills, Calif.-based housing research and consulting firm Meyers Research ranked San Francisco as the top apartment market in the country, despite the imminent onslaught of new units. The firm based the ranking on its RealFacts Meyers Research Multi-Family Index that assesses 11 indicators such as rent increases, occupancy and job growth, and then measures them against historical averages.

San Francisco's 7.6 rating was slightly better than Oakland and San Jose, which each earned a rating of 7.4, and Denver's 7.2 rating. Meyers Research assigned the U.S. an overall rating of 5.2.

Stephen Smiley, a senior vice president with Meyers Research who oversees Northern California, echoed the sentiment that the market would be able to absorb the new supply for a time without a dramatic influence on rent growth.

"It may affect vacancies at first and some rent growth may soften," he said. "But I think it's going to be temporary because the units will fill up very quickly."

Indeed, so far landlords have displayed considerable pricing power. The vacancy rate in the SoMa and Mission submarket, for example, ticked up 40 basis points to an average of 3.4 percent in the second quarter from a year earlier, yet the monthly rental rate shot up 10.3 percent to an average of $3,305, Marcus & Millichap said.

Ultimately, however, rent ascension could turn would-be renters into condo buyers and eat into apartment demand, Smiley said. And hundreds of new units coming to market soon will provide buyers with more options.

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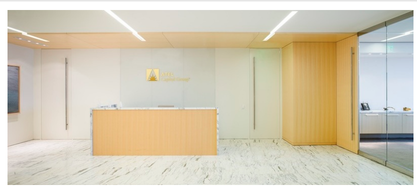

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"Yes condos are expensive," he added. "But in some cases the mortgage payment isn't going to be that much higher than the rent payment."

In the first eight months of this year, 2,242 condo units sold, a year-over-year decrease of about 200 units, according to Seattle-based Zillow. Still, the median sales price in August of nearly $833,000 a unit marked an increase of 11.4 percent from the prior year.

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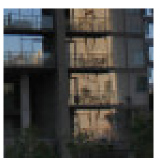
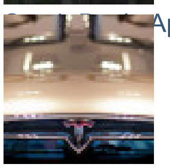
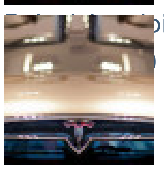
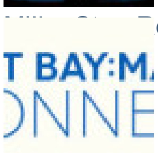


-  Apartment and Condo Tsunami
-  in GSA in celebrating newly UNP Federal Building 19 hours ago
-  egalia Opens San Francisco Office; Joins as Shareholder 18 hours ago
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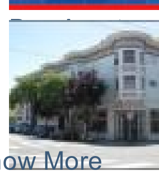
-  nt Advisors Brokers the Sale of 9 Units nt Near Lake Merritt 4 months ago

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