HUD PD&R **Housing Market Profiles**

San Francisco-Redwood City-South San Francisco, California

Quick Facts About San Francisco-Redwood City-South San Francisco

- **Current sales market conditions: tight.**
- **Current apartment market conditions: tight.**
- **The metropolitan division is known for the high-technology industry, which was supported by $3.2 billion in venture capital invested in local businesses during the second quarter of 2014, the latest data available (Jones Lang LaSalle, Inc.).**

By Ikuo J. Nakano | As of July 1, 2015

Overview

The San Francisco-Redwood City-South San Francisco, CA Metropolitan Division (hereafter, San Francisco metropolitan division) is coterminous with San Francisco and San Mateo Counties. The San Francisco metropolitan division is home to a number of high-technology businesses, many of which are startups that have supported growth in the professional and business services sector, the largest sector of the local economy. During the 3 months ending June 2015, the metropolitan division had an average of 262,500 nonfarm payroll jobs in the professional and business services sector. Since 2010, population growth has been greater in the San Francisco metropolitan division than in California as a whole because of a high level of job growth from expansions in high technology and from increased tourism activity. Tourism expenditures increased 27.9 percent, from $8.34 billion in 2010 to $10.67 billion in 2014, the latest data available (San Francisco Center for Economic Development).

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- As of July 2015, the population of the San Francisco metropolitan division was estimated at 1.63 million, an average annual increase of 20,250, or 1.3 percent, since April 2010 because nonfarm payrolls began to increase.
- The current rate of population growth is higher than the average rate of 0.2 percent annually in 2005 and 2006. In 2005 and 2006, the metropolitan division was not fully recovered from the dot-com business failures that started in the late 1990s and continued into the early 2000s. From 2000 to 2004, the population declined at an average rate of 0.6 annually because of the dot-com business failures.
- Net natural increase (resident births minus resident deaths) and net international in-migration have accounted for 34 and 52 percent, respectively, of the population growth since 2010. After being positive from 2011 to 2013, net domestic migration turned negative starting in 2014, a situation that continues.
- Home sales prices and rents have been increasing more than 10 percent annually since the fourth quarter of 2014.

Economic Conditions

The most recent national recession did not affect economic conditions in the San Francisco metropolitan division until 2009, when the metropolitan division lost 4.8 percent of nonfarm payroll jobs in only 12 months. During the same time period, the Pacific region lost 6.1 percent of nonfarm payroll jobs. From 2010 to the current date, nonfarm payroll growth averaged 46,100 jobs, or 5.0 percent, annually to 1.05 million in the 3 months ending June 2015, an all-time high. During this time, the greatest percentage gains in nonfarm payrolls occurred in the information, the professional and business services, and the leisure and hospitality sectors, at average annual rates of 10.6, 9.2, and 6.3 percent, respectively. Improvements in the high-technology and tourism industries helped to lead the growth in most of these sectors starting in 2010. The average unemployment rate for the 3 months ending June 2015 was 3.4 percent, down from the rate of 4.1 percent during the previous 3 months and down from 5.1 percent in 2008. By 2009, the unemployment rate had increased to 8.5 percent but remained less than the 10.2-percent rate for the nation.

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Nonfarm payrolls increased in every sector in the San Francisco metropolitan division during the 3 months ending June 2015.

	3 Months Ending		Year-Over-Year Change	
	June 2014 (thousands)	June 2015 (thousands)	Absolute (thousands)	Percent
Total nonfarm payrolls	1,002.7	1,046.6	43.9	4.4
Goods-producing sectors	71.4	72.8	1.4	2.0
Mining, logging, and construction	36.0	36.5	0.5	1.4
Manufacturing	35.4	36.4	1.0	2.8
Service-providing sectors	931.3	973.8	42.5	4.6
Wholesale and retail trade	104.6	107.1	2.5	2.4
Transportation and utilities	39.5	40.3	0.8	2.0
Information	53.4	57.3	3.9	7.3
Financial activities	71.2	72.8	1.6	2.2
Professional and business services	240.7	262.5	21.8	9.1
Education and health services	130.2	131.6	1.4	1.1
Leisure and hospitality	131.2	135.9	4.7	3.6
Other services	39.9	42.5	2.6	6.5
Government	120.6	123.9	3.3	2.7
	(percent)	(percent)		
Unemployment rate	4.1	3.4		

Note: Numbers may not add to totals because of rounding.
Source: U.S. Bureau of Labor Statistics

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During the 3 months ending June 2015—

- Nonfarm payrolls increased to an average of 1.05 million jobs, up 43,900 jobs, or 4.4 percent, after an increase of 42,400 jobs, or 4.4 percent, during the same period a year earlier.
- The most significant gain was in the professional and business services sector, which added 21,800 jobs, a 9.1-percent increase to 262,500 jobs from the 3 months ending June 2014. Three high-technology startups—Gogoro Inc., Slack, and Juicero, with venture capital funding of $300 million, $180 million, and $120 million (Business Insight Inc.), respectively—helped the high-technology industry contribute to the growth in the professional and business services sector in the past 3 months.
- Increased tourism supported growth in the leisure and hospitality sector, which added 4,700 jobs, an increase of 3.6 percent.

Largest employers in the San Francisco metropolitan division

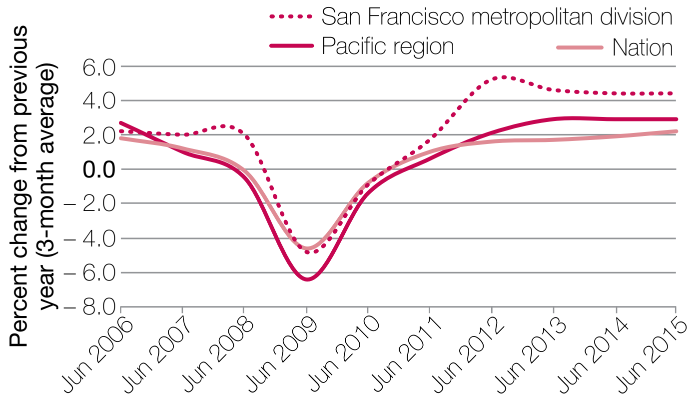
Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of California, San Francisco	Government	22,664
University of San Francisco	Education and heath services	9,784
Genentech, Inc.	Manufacturing	8,800

Note: Excludes local school districts.
Source: Moody's economy.com

Tourism increased from 15 million visitors in 2010 to 18 million visitors in 2014, the latest data available (San Francisco Center for Economic Development).

- Tourist spending also contributed to job growth in the wholesale and retail trade sector, which gained 2,500 jobs, or 2.4 percent, compared with employment in the sector during the 3 months ending June 2014.

Nonfarm payrolls have been growing at a higher rate in the San Francisco metropolitan division than in the Pacific region and the nation since 2011.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

Sales Market Conditions

Sales housing market conditions in the San Francisco metropolitan division are currently tight because a lack of available land led to increased home sales prices. Some brokers estimate that the inventory of new homes (including single-family homes, townhomes, and condominiums) is less than one-half what it was in 2008. Nearly all the new home construction in the city of San Francisco is infill development of land made available by demolishing existing buildings or the conversion of nonresidential structures to residential use.

Existing home sales prices have continued to increase since 2013 after home prices declined in 2009 by $135,100, or 14 percent, to $801,600. Existing home prices gained 13 percent, to an average of $1.29 million, during the 12 months ending June 2015, up from $1.14 million during the 12 months ending June 2014 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). Rising prices resulted in existing home sales decreasing by 1,225, or more than 11 percent, from the previous 12 months to 11,450 sales during the 12 months ending June 2015.

During the 12 months ending June 2015—

- New single-family home sales represented 5 percent of total home sales, or 590 homes, up from 4 percent, or 500 homes, during the 12 months ending June 2014.
- The average sales price of a new single-family home was $1.14 million, an 18-percent increase from $962,900 during the previous 12 months. The average new home price is 41 percent more than the prerecession peak average of $811,600 for the 12-month period ending June 2006.
- The average sales price for a new condominium was $1.08 million, which is $147,800, or 16 percent, more than during the previous 12 months and 33 percent more than the $809,900 recorded for the 12 months ending June 2006. New condominium sales totaled 510 compared with 440 units sold during the previous 12 months. Sales were down 43 percent from the 890 units sold during the 12 months ending June 2006.
- New and existing condominium sales represented 37 percent of total home sales, down from 39 percent during the 12-month period ending June 2014 but the same as from 2005 through 2013.
- In June 2015, only 0.7 percent of mortgage loans were 90 or more days delinquent, were in foreclosure, or had transitioned into real estate owned (REO) status compared with 1.9 percent for the state of California (Black Knight Financial Services, Inc.).

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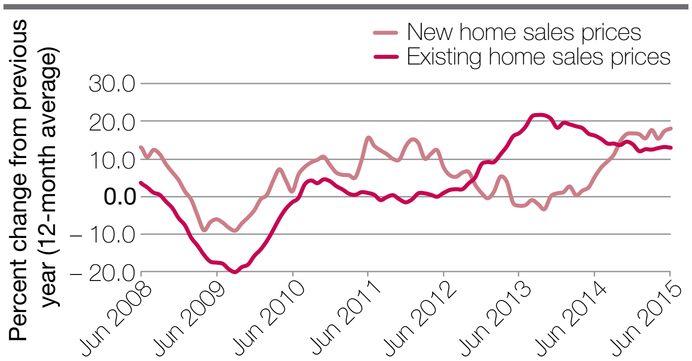
Single-family home construction activity, as measured by the number of single-family homes permitted, increased during the 12 months ending June 2015, and the current level is 1 percent higher than in the prerecession peak years from 2004 through 2006.

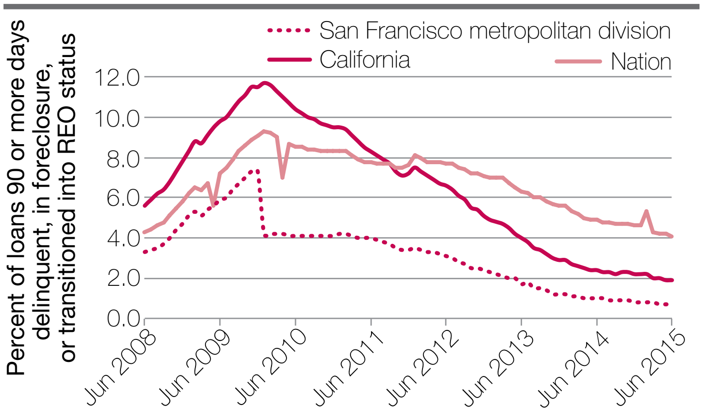
- During the 12 months ending June 2015, 590 single-family homes were permitted, up 18 percent from the 500 homes permitted during the 12 months ending June 2014 (preliminary data).
- From 2008 through 2013, the number of single-family homes permitted averaged 450 annually, down 38 percent from the average of 720 homes a year from 2001 through 2007.

New home sales prices have increased more than existing home sales prices in the San Francisco metropolitan division since late 2014.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

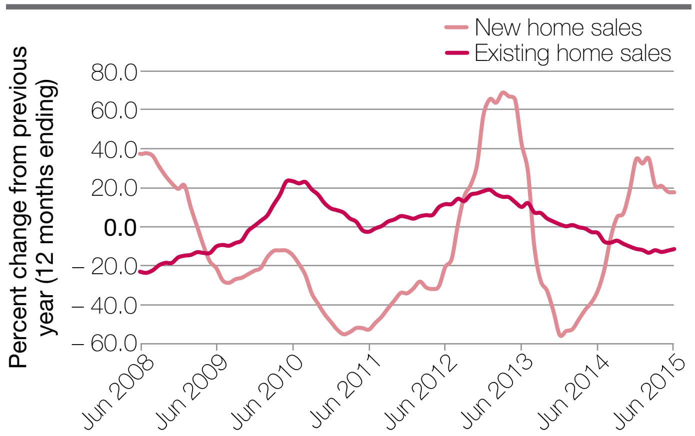
The percentage of seriously delinquent loans and REO properties in the San Francisco metropolitan division has been below the California and national rates since 2008.



REO = real estate owned.
Source: Black Knight Financial Services, Inc.

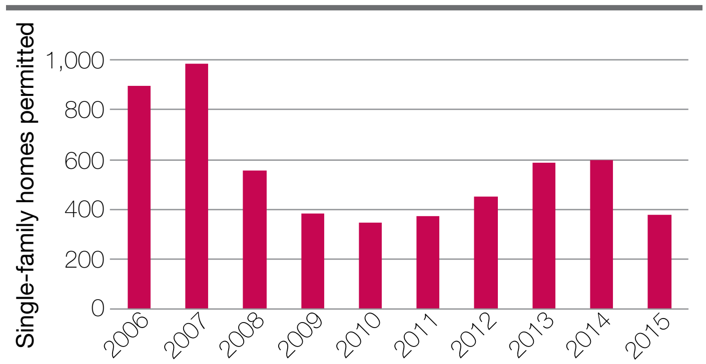
- Because of the lack of available land, new housing construction mostly comprises condominium and townhome developments. Fulton 555, a 76-unit condominium development under construction in the city of San Francisco, is expected to be complete by the end of 2015. Prices start from the mid-$500,000s for a junior one-bedroom unit to the mid-$1,000,000s for a two-bedroom unit. In addition, Lumina, a 655-unit condominium development, is being built in several phases. Phases one and two are currently under construction, and both phases are expected to be complete in 2016. It will be the largest condominium project in the city of San Francisco. Prices for a one-bedroom unit start at $900,000.

New home sales have fluctuated more than existing home sales since the end of 2010 in the San Francisco metropolitan division.



Note: Includes single-family homes, townhomes, and condominiums.
Source: Metrostudy, A Hanley Wood Company, with adjustments by the analyst

Single-family permitting in the San Francisco metropolitan division has increased slightly since 2010 but remained below permitting levels in 2006 and 2007.



Note: Includes preliminary data from January 2015 through January 2015.
Source: U.S. Census Bureau, Building Permits Survey

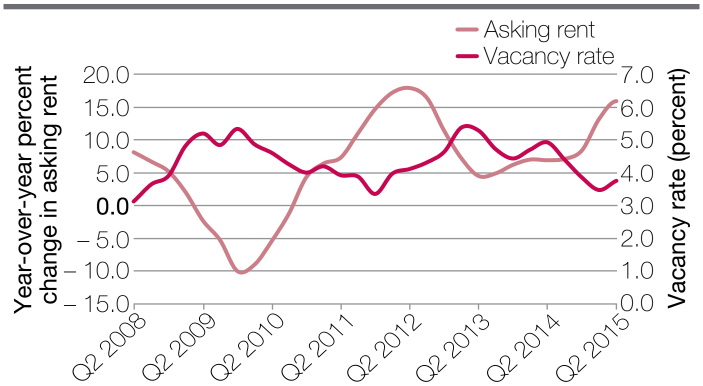
Apartment Market Conditions

The apartment market in the San Francisco metropolitan division is currently tight, with apartment vacancy rates remaining less than 5 percent for the past 2 years. Rental vacancy rates are also low for single-family homes and condominiums, which represent approximately 29 percent of the overall rental housing market and generally have higher rents than comparably sized apartments.

During the second quarter of 2015—

- The apartment vacancy rate was 3.9 percent, down from 4.4 percent during the second quarter of 2014 (Axiometrics Inc.).
- The average asking apartment rent increased 13 percent, to $3,180, from $2,804 in the second quarter of 2014.
- The average asking rent has been increasing since the third quarter of 2010, when the rent was $1,981. Average rents in the metropolitan division have been increasing by double digits despite the rent-control law that covers more than 50 percent of the rental units in San Francisco County. The law currently limits rent increases to 1.9 percent a year. Rents in the non-rent-controlled units have been increasing significantly more than the overall average increase.

Since mid-2013, vacancy rates have been below 5 percent and rents have increased 5 percent or more a year as apartment market conditions in the San Francisco metropolitan division tightened.

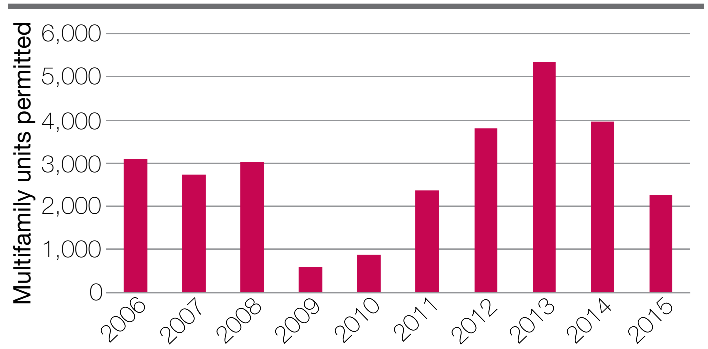


Source: Axiometrics Inc.

Multifamily construction activity, as measured by the number of units permitted, has fluctuated during the past 7 years. Builders responded to the current tight apartment market conditions by increasing multifamily construction in the past 12 months.

- During the 12 months ending June 2015, multifamily construction totaled 1,725 units, up from 980 units during the previous 12-month period (preliminary data).
- The current level of multifamily permitting activity is lower than the average of 3,850 units permitted annually from 2011 through 2013. Before this period of increased building activity, the number of multifamily units permitted was 870 in 2010 and at a 10-year low of 600 in 2009.
- Developers favored apartment construction to condominium construction even more in 2014 than in 2013. Approximately 82 percent of multifamily units permitted from 2014 to the current date were for apartments compared with 77 percent in 2013.
- The 329-unit Jasper in the city of San Francisco is scheduled to open in late 2015. Rents for studio, one-bedroom, two-bedroom, and three-bedroom units start at $2,970, $3,835, $5,552, and $6,209, respectively. Despite the strong job growth, high rents are among the main reasons for the recent domestic out-migration.
- The 182-unit, five-story Avalon Hayes Valley in the city of San Francisco was completed in early 2015. Rents start at $3,140 for a studio unit and at $4,860 for a two-bedroom unit.

Beginning in 2012, multifamily permitting levels showed builders' response to tightening apartment market conditions in the San Francisco metropolitan division.



Note: Includes preliminary data from January 2015 through January 2015.
Source: U.S. Census Bureau, Building Permits Survey