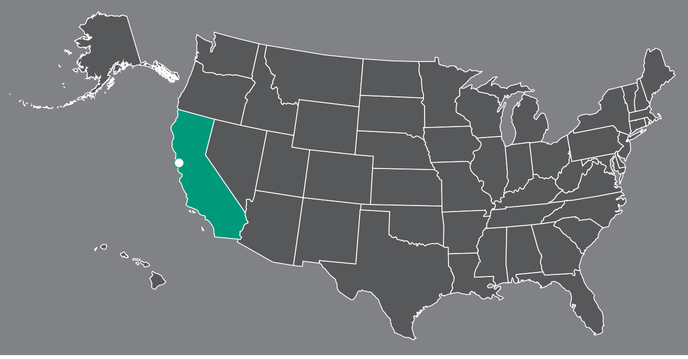
HUD PD&R **Housing Market Profiles**

San Francisco-San Mateo-Redwood City, California

San Francisco, California

Quick Facts About San Francisco-San Mateo-Redwood City

- **Current sales market conditions: tight**
- **Current apartment market conditions: tight**
- **The economy of the San Francisco-San Mateo-Redwood City metropolitan division relies heavily on investment capital because of the prevalence of privately held startup firms. In early 2019, a number of the largest startup tech firms in the metropolitan division underwent an Initial Public Offering (IPO), transitioning to becoming publicly traded; those firms included Uber, Inc., Lyft, Inc., and Slack. This transition prompted concern that housing affordability in the metropolitan division, already the lowest among the nation, would be further strained by the increased number of households exchanging equity for cash. Stock prices for the tech companies fell below expectations, however, and while the sales market remains tight, sales housing prices did not increase substantially.**



By Elaine Ng | As of April 1, 2020

Overview

The San Francisco-San Mateo-Redwood City, CA Metropolitan Division (hereafter, the San Francisco metropolitan division) includes both the city and county of San Francisco and San Mateo County on the San Francisco Peninsula in northern California. The metropolitan division is recognized as a global center for high-tech industries, including software and web development, computer systems and design, and database management. The rapid growth of technology companies, including Uber, Inc., Airbnb, Inc., and Twitter, Inc., has driven economic growth throughout the metropolitan division during the past decade. From 2012 through 2018, job growth averaged 3.8 percent annually, higher than the 1.9 percent average annual job growth nationwide during the same period; the difference is partly a result of the expansion of startup firms in the metropolitan division. During the early part of the decade, net in-migration expanded, causing home prices to swiftly rise.

- As of April 1, 2020, the population of the San Francisco metropolitan division is estimated at 1.65 million, reflecting an average annual increase of 3,700, or 0.2 percent, a year since July 2015. Population growth has slowed significantly from the earlier part of the decade as rising housing costs have resulted in average annual net

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out-migration of 1,675 residents, with many relocating to relatively more affordable housing markets near the metropolitan division.

- Following the Great Recession, a strong economic recovery coupled with a significant inventory of relatively affordable sales housing contributed to stronger population growth, averaging 20,700 people, or 1.3 percent, a year from July 2010 to July 2014. During this period, net-in migration of 13,000 people a year accounted for 63 percent of total population growth.
- The only other period since 2000 to experience higher population growth was July 2007 through July 2009, and growth was only slightly higher at 21,500 people, or 1.5 percent. Despite job losses from the Great Recession during this period, average net in-migration of 13,700 people also accounted for 63 percent of total population growth. A decline in the average home sales price lessened the price differential with housing in the outlying areas of the Bay Area, fueling net in-migration into the job center of San Francisco.

Economy

The economy of the San Francisco metropolitan division has been expanding since 2011, but recent job growth slowed from the earlier part of the decade. From 2011 through 2016, nonfarm payroll growth averaged 4.3 percent annually, but growth has slowed to 3.1 percent a year since 2017. By comparison, payrolls fell an average of 2.8 percent annually from 2008 through 2010, a period which included the Great Recession. Despite the slower rate of growth since 2017, the current nonfarm payroll total of 1.19 million jobs surpasses the prerecession peak of 901,000 jobs in 2008 by 32 percent.

During the first quarter of 2020—

- Nonfarm payrolls increased by 29,900 jobs, or 2.6 percent, from the first quarter of 2019 due to growth in 8 of the 11 sectors. Growth has slowed, however, from the gain of 40,300 jobs, or 3.6 percent, a year earlier.
- Job additions in the professional and business services sector accounted for 43 percent of the total job growth during the period. The addition of 7,875 jobs in the computer systems design and related services industry accounted for 60 percent of total job growth in the sector, as employment in high-tech firms continued to expand.
- Job growth was also significant in the education and health services and the information sectors, with additions of 7,100 and 7,000 jobs, or 5.0 and 7.6 percent, respectively, from the first quarter of 2019. When the Salesforce Tower, the headquarters for Salesforce.com, Inc., was completed in 2018, it became the tallest skyscraper in the city at a height of 1,070 feet. The cloud-based software company has continued to add jobs, primarily in high-paying fields such as software engineering and development, and is currently the second largest employer in the metropolitan division with 9,100 employees.
- Declines in the wholesale and retail trade, mining, logging, and construction, and manufacturing sectors, down by

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Total nonfarm payrolls continued to grow during the first quarter of 2020 in the San Francisco metropolitan division, but losses were recorded in 3 of the 11 sectors.

	3 Months Ending		Year-Over-Year Change	
	March 2019 (Thousands)	March 2020 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	1,155.3	1,185.2	29.9	2.6
Goods-Producing Sectors	81.6	80.9	-0.7	-0.9
Mining, Logging, & Construction	42.6	42.2	-0.4	-0.9
Manufacturing	39.0	38.7	-0.3	-0.8
Service-Providing Sectors	1,073.7	1,104.3	30.6	2.8
Wholesale & Retail Trade	104.0	102.6	-1.4	-1.3
Transportation & Utilities	49.3	50.0	0.7	1.4
Information	92.6	99.6	7.0	7.6
Financial Activities	84.6	87.0	2.4	2.8
Professional & Business Services	283.8	296.9	13.1	4.6
Education & Health Services	142.1	149.2	7.1	5.0
Leisure & Hospitality	144.2	145.2	1.0	0.7
Other Services	41.1	41.2	0.1	0.2
Government	132.1	132.6	0.5	0.4
Unemployment Rate	2.4	2.4		

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

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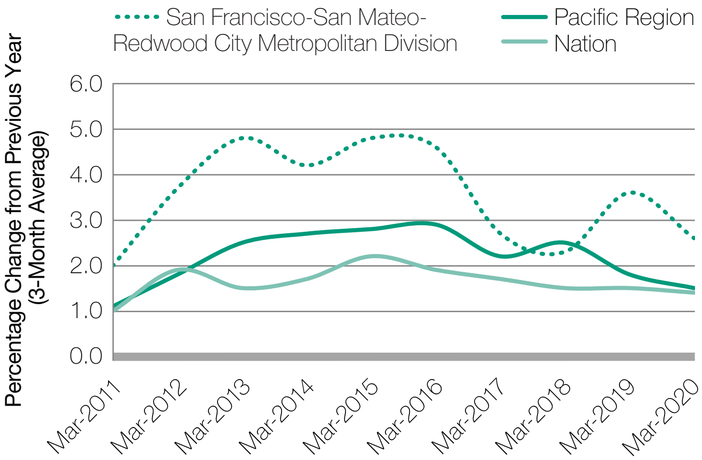
Job growth in the San Francisco metropolitan division has generally exceeded growth in California and the nation for much of the past decade.



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

1,400, 400, and 300 jobs, or 1.3, 0.9, and 0.8 percent, respectively, from the first quarter of 2019, moderated job growth. Prior to the current quarter, the wholesale and retail trade sector was the only sector to lose jobs since 2016, which is at least partly due to greater preferences for online shopping.

- The average unemployment rate remained unchanged at 2.4 percent, lower than the national unemployment rate of 4.1 percent, which was also unchanged from a year earlier.

Largest Employers in the San Francisco Metropolitan Division

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of California, San Francisco	Government	34,700
Salesforce.com, Inc.	Information	9,100
Wells Fargo & Company	Financial Activities	7,300

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

Post-Analysis Update

As of May 2020, 415 companies have laid off approximately 49,350 employees within the San Francisco metropolitan division (*San Francisco Chronicle*). Among the largest layoffs from a single employer was the layoff of 1,725 part-time event staff at the newly-constructed Chase Center, the stadium for the Golden State Warriors basketball team. While additional job declines stemming from the COVID-19 outbreak are likely to occur in the service-providing industries that rely on face-to-face interaction—such as travel, transportation, or dining—job gains are likely in industries supporting remote health access, education, remote work, and robotics. Startup firms within the San Francisco metropolitan division likely to add jobs include Carbon Health Technologies, Inc., which has raised $75 million in funding and has developed a mobile connected health care network, and Zipline International, Inc., which raised $300 million in funding and focuses on delivering medications to remote locations by drone (Woodside Capital Partners).

Sales Market Conditions

Sales housing market conditions in the San Francisco metropolitan division are currently tight, with an estimated sales vacancy rate of 0.7 percent, down from 1.8 percent in 2010. Strong job growth, particularly in highly paid fields relating to technology, and historical underproduction of housing units have kept the market tight despite recent net out-migration. As of March 2020, a 1.5-month supply of homes was available for sale, relatively unchanged from the 1.6-month supply a year ago (Redfin). From 2011 to 2017, the overall San Francisco Bay Area has added only one housing unit for every four jobs created, significantly higher than the ratio of one-and-a-half jobs per housing unit that is considered a healthy balance (Building Industry Association Bay Area, latest data available). As a result of the tight market, the average sales price of $1.60 million for new and existing homes during the 12 months ending March 2020 is more than double the average sales price of $712,500 in California and more than four times higher the average sales price of $346,200 nationwide.

- During the 12 months ending March 2020, existing home sales (which include regular resale and REO home sales) totaled 11,100, reflecting a 1-percent increase from a year ago, while the average price of an existing home remained unchanged from a year ago at $1.60 million (Metrostudy, A Hanley Wood Company, with adjustments by the analyst).
- By comparison, from 2014 through 2017, existing home sales decreased by an average of 4 percent annually, while the average price of an existing home increased 9 percent annually. During this period, real estate owned (REO) sales accounted for 4 percent of total existing sales, higher than the 1 percent contribution during the 12 months ending March 2020, but lower than an average contribution of 12 percent from 2007 through 2013.

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- In February 2020, 0.2 percent of home loans in the metropolitan division were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status, and the rate has declined every year since reaching a high of 4.2 percent in May 2010. The current rate is lower than the 0.6-percent rate for California and the 1.3-percent rate for the nation.
- During the 12 months ending March 2020, new home sales declined 42 percent to 560 sales compared with a year ago. New home sales have contributed minimally to total overall sales, primarily as a result of limited new home construction, and the recent level represents only 5 percent of total sales during the same period. From 2010 through 2019, new home sales averaged 920, annually, or 7 percent of total sales.
- During the 12 months ending March 2020, the average sales price of a new home was $1.51 million, up 4 percent from the previous 12 months. From 2010 through 2019, average new home prices rose at an annual rate of 8 percent, as the supply of new homes, which are constrained by high development costs and a shortage of skilled labor, was not able to meet demand. Average existing home sales prices tend to be higher than the average new home sales price because existing homes are generally larger and located in more established neighborhoods.
- During the 12 months ending March 2020, 4,350 condominiums were sold in the metropolitan division, accounting for 37 percent of all new and existing homes, down slightly from the 38-percent contribution during the prior year. Residential development in San Francisco County is further constrained by its small size at around 47 square miles and the Pacific Ocean and San Francisco Bay as its boundaries. Therefore, condominium sales have an even greater prevalence in the county, with nearly one-half of all sales in the county being condominiums during the 12 months ending March 2020.

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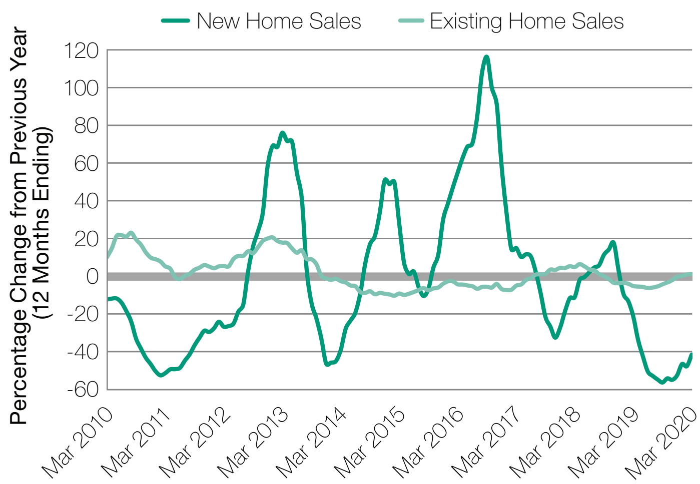
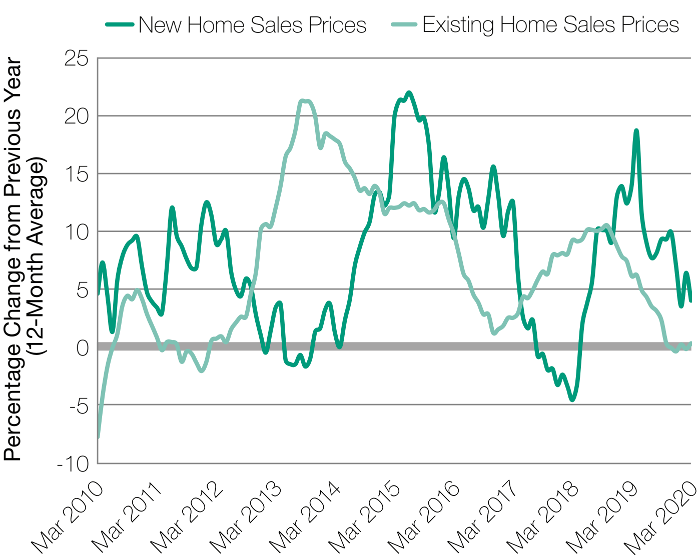
Since the first quarter of 2019, both new and existing home sales have declined or remained essentially unchanged in the San Francisco metropolitan division due to a limited for-sale inventory.



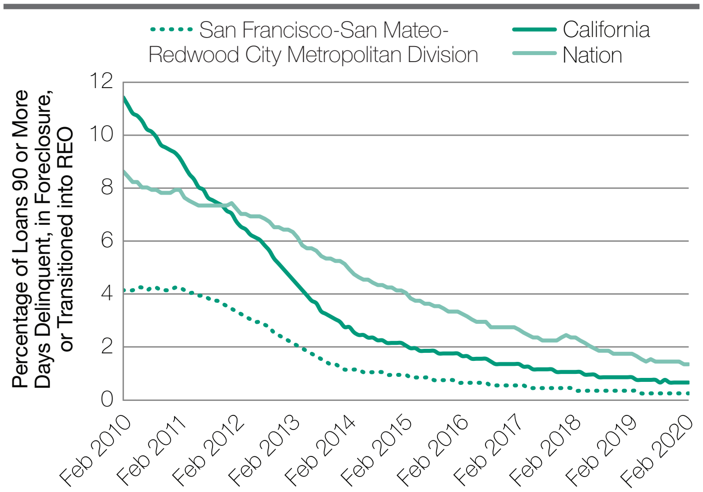
Note: Data are for single-family homes, condominiums, and townhomes.
Source: Metrostudy, A Hanley Wood Company and adjustments by the analyst

Since early 2019, prices for new homes have risen faster than existing homes in the San Francisco metropolitan division.



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

The rate of seriously delinquent mortgages and REO properties has declined significantly in the San Francisco metropolitan division since the early 2010s and continues to be lower than the rate for California and the nation.



REO = real estate owned.
Source: CoreLogic, Inc.

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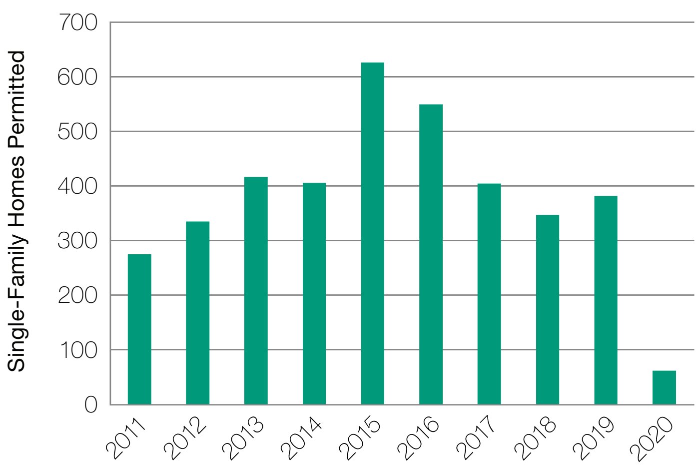
Single-family homebuilding activity, as measured by the number of single-family homes permitted, has generally declined since reaching a decade-high during 2015 and 2016, after a steady increase during the recovery from the Great Recession.

- During the 12 months ending March 2020, permits were issued for 370 single-family homes, up 16 percent from the 320 permits issued during the 12 months ending March 2019 (preliminary data). Approximately 93 percent of the single-family permits issued during the past 12 months were for homes to be built in San Mateo County, where land availability is greater, similar to the contribution during the prior year.
- Single-family construction activity increased by an average of 80 homes permitted a year, from a low of 230 homes in 2010 to a recent high of 630 homes by 2015. Single-family permitting activity has remained lower than the average of 600 homes permitted during 2015 and 2016 since then.
- The 5M mixed-use project is one of the largest developments currently underway in the metropolitan division. The project will have 400 condominium units, a 640,000-square-foot office tower, and 302 apartment units, including 91 income-restricted units, in the South of Market (SoMA) neighborhood of San Francisco. The $1 billion project broke ground in June 2019, and construction of the condo tower will occur during the second phase of development, which is expected to begin after the first phase of construction is complete in late 2021. The expected build-out date for the second phase has not yet been determined.
- In the nearby Embarcadero neighborhood of San Francisco, the 20-story One Steuart Lane tower is currently underway and expected to contain 120 condominium units when construction is complete in early 2021. The luxury residential high-rise development will include one- to three-bedroom floorplans starting at $1.6 million.
- Affordable housing development typically occurs for rental housing, but 20 for-sale homes are currently being built in Redwood City (San Mateo County) by Habitat for Humanity for low-income residents earning between 60 and 80 percent of area median income (AMI). The homes at 612 Jefferson Avenue are expected to be completed by late 2020 or early 2021. Habitat for Humanity will provide selected applicants with zero interest, zero downpayment mortgages so that homebuyers will not pay more than 30 percent of their income toward housing costs.

Single-family homebuilding activity in the San Francisco metropolitan division has declined since 2015.



Note: Includes preliminary data from January 2019 through March 2020.
Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

Apartment Market Conditions

Apartment market conditions in the San Francisco metropolitan division are currently tight but are improving. Conditions were very tight earlier in the decade because of strong economic growth and significant net in-migration. Increased apartment construction activity since 2011 has contributed to an easing of market conditions, but apartment vacancy rates only increased slightly and have remained around 4 percent since early 2017. As economic growth moderated and population growth slowed, the growth in apartment rents has also slowed. From 2012 to 2016, apartment rent growth ranged from 7.5 percent to more than 12.5 percent and, while rent growth has slowed to between 3 to 5 percent since 2017, apartment rents are still among the highest in the state and nation.

During the first quarter of 2020—

- The apartment vacancy rate in the metropolitan area averaged 4.1 percent, up slightly from the 3.9-percent rate a year earlier (Reis, Inc.). Apartment absorption has been strong as high home sales prices have prevented many renter households from pursuing homeownership, leading to relatively unchanged apartment vacancy rates despite increasing levels of apartment construction activity.
- Apartment rents in the metropolitan division averaged $3,000, a 3-percent increase from a year earlier. By comparison, year-over-year rent growth averaged almost 10 percent from 2012 through 2016.

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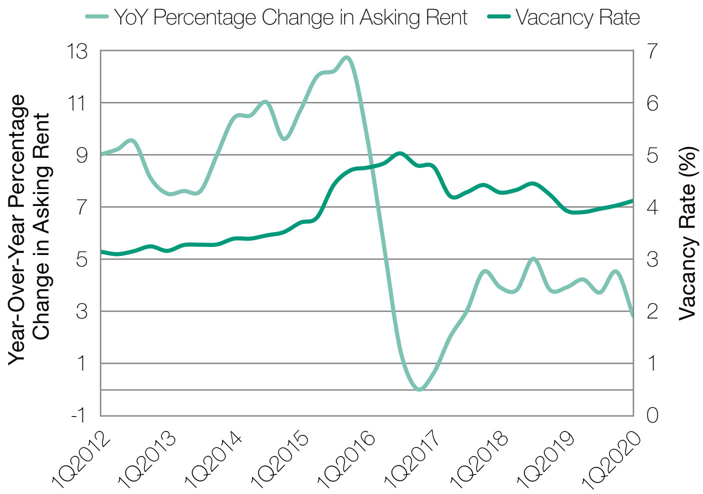
The San Francisco metropolitan division has among the highest apartment rents in the nation; rent growth declined significantly in 2017 while the apartment vacancy rate has remained steady at around 4 percent.



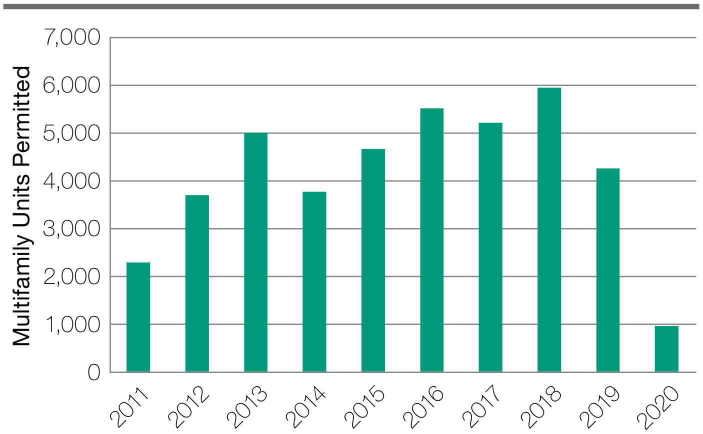
1Q = first quarter. YoY = year-over-year.
Source: Reis, Inc., with adjustments by the analyst

- Of the nine Reis, Inc.-defined market areas (hereafter, market areas) that make up the San Francisco metropolitan division, the apartment vacancy rates were the lowest in the most affordable market areas. The apartment vacancy rate was the lowest in the West San Francisco and North San Mateo market areas at 1.7 and 2.8 percent, where apartment rents were among the lowest at $3,125 and $2,675, respectively.
- Apartment rents increased in seven of the market areas, with the largest increases in rents in the relatively more affordable market areas: rents increased by less than 2 percent in the SoMa market area, to $4,425, but increased by 8 percent in the North San Mateo market area, to $3,275. Apartment rents declined by 1 and 3 percent in the Central San Mateo and Russian Hill/Embarcadero market areas, to $3,250 and $3,175, respectively.

Multifamily construction activity in the metropolitan division, as measured by the number of units permitted, slowed significantly during the most recent 12 months; however, because of strong growth since 2011, multifamily permitting activity is still higher than during the preceding two decades. Because of the greater demand for renting, condominium construction activity has represented approximately 14 percent of multifamily construction activity from 2016 through 2019, down from 39 percent from 2012 through 2015.

- During the 12 months ending March 2020, 3,900 multifamily units were permitted, down 40 percent from the 6,500 units permitted during the previous 12-month period (preliminary data).
- After reaching a low from 2009 through 2010, when an average of 640 multifamily units were permitted, multifamily permitting activity averaged 4,500 units annually from 2011 through 2018, a period when permitting totals increased almost every year. While permitting activity declined significantly during the most recent 12-month period, the recent level of permitting is still 53 percent higher than the average of 2,550 units permitted annually from 2000 through 2008.
- Notable developments currently underway include the 304-unit apartment complex at 1066 Market Street in San Francisco, with 268 market-rate units and 36 below-market units to satisfy the inclusionary housing ordinance of the city; completion is expected by mid-2020.
- Nearby, the fourth phase of the Trinity Place development is also underway and will add 501 units (61 one-bedroom units and 440 two-bedroom units) to the existing 1,402 units in three buildings. Completion is expected by 2021. Rents start at $2,200 for one-bedroom units and $3,300 for two-bedroom units for the existing buildings in the Trinity Place development and will likely be similar for the units underway.
- While the vast majority of new construction has been in luxury rental units due to the high cost of development, some workforce and affordable housing construction is occurring. In Daly City (San Mateo County), construction is underway for 122 below-market units that are reserved for teachers and staff at the local Jefferson Union High School District after the school district became the first of its kind to pass a $33 million general obligation bond measure supporting housing for faculty and staff in June 2018. The $61 million Serramonte Faculty and Staff Housing project will consist of 59 one-bedroom units, 55 two-bedroom units, and 8 three-bedroom units, with completion of the first units expected by the spring of 2022. Monthly rents will target 50 percent of the average market rent at the time of initial occupancy.

Multifamily construction activity in the San Francisco metropolitan division has slowed since 2018.



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