COMPREHENSIVE HOUSING MARKET ANALYSIS

San Francisco-San Mateo-San Rafael, California

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of January 1, 2016

Housing Market Area

The San Francisco-San Mateo-San Rafael Housing Market Area (hereafter, the San Francisco HMA) consists of two metropolitan divisions: (1) the San Francisco-Redwood City-South San Francisco, CA Metropolitan Division, which consists of San Francisco and San Mateo Counties, and (2) the San Rafael, CA Metropolitan Division, which is coterminous with Marin County. The HMA is a center for the high-technology industry and tourism and is a regional center for government. For purposes of this analysis, the HMA is divided into three submarkets: (1) the San Francisco County submarket, which is coterminous with the city and county of San Francisco; (2) the San Mateo County submarket; and (3) the Marin County submarket.

Summary

Economy

After losing jobs from 2009 through 2010, the economy in the San Francisco HMA has expanded every year since 2011. Job growth has been led by the professional and business services and the leisure and hospitality sectors. During 2015, nonfarm payrolls increased by 48,500 jobs, or 4.3 percent, after an increase of 47,000 jobs, or 4.4 percent, during 2014. Nonfarm payrolls are projected to increase by an average of 4.1 percent annually during the 3-year forecast period.

Sales Market

Sales housing market conditions in the HMA are very tight, with an estimated vacancy rate of 0.8 percent, down from 1.7 percent in 2010. Total home sales decreased 5 percent, to 15,800 homes sold, during 2015, and the average sales price increased 11 percent, to $1,296,000. During the forecast period, demand is expected for 9,900 new homes (Table 1). The 1,890 homes currently under construction and a portion of the 19,850 other vacant units in the HMA that may return to the market will satisfy some of the forecast demand.

Rental Market

The rental housing market in the HMA is tight, with an estimated overall vacancy rate of 3.1 percent, down from 5.2 percent in 2010 (Table DP-1). The average market rent in the HMA was $2,550 during the fourth quarter of 2015, an 11-percent increase from the average rent of $2,300 a year earlier. During the forecast period, demand is expected for 18,625 new market-rate rental units (Table 1). The 7,815 units currently under construction will satisfy a portion of that demand.

Market Details

Table 1. Housing Demand in the San Francisco HMA* During the Forecast Period

	San Francisco HMA*		San Francisco County Submarket		San Mateo County Submarket		Marin County Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	9,900	18,625	5,200	13,850	4,050	3,700	650	1,075
Under construction	1,890	7,815	1,550	5,800	240	1,775	100	240

** San Francisco-San Mateo-San Rafael HMA.*

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2016. A portion of the estimated 19,850 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is January 1, 2016, to January 1, 2019.

Source: Estimates by analyst

Economic Conditions

The economy of the San Francisco HMA experienced two separate periods of substantial job losses during the 2000s, but payrolls have expanded at a rate more than twice the national average since 2010. Nonfarm payrolls in the HMA declined from 1,091,800 jobs in 2000 to 951,900 jobs in 2004, indicating an average annual decrease of 35,000 jobs, or 3.4 percent, as a result of the bursting of the dot.com bubble. The economy of the HMA relies heavily on investment in high-technology industries. The amount of venture capital (funding provided to startup companies in exchange for equity) invested in Silicon Valley (which comprises San Francisco and San Mateo Counties and the adjacent San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area [MSA]) decreased from $33.4 billion in 2000 to $8.0 billion in 2004, a 76-percent cumulative decline (National Venture Capital Association). Thousands of Internet-related businesses were forced to close during this period, including Pets.com, which laid off 320 employees in late 2000, and Webvan, which laid off 2,000 employees in 2001. The greatest job losses occurred in the professional and business services sector, which includes the computer design and related services industry; the sector declined by an average of 12,100 jobs annually, or 5.8 percent, from 2001 through 2004. At the same time, the information sector lost an average of 6,100 jobs, or 10.6 percent, a year.

From 2005 through 2008, venture capital investments in Silicon Valley increased 43 percent and nonfarm payrolls increased by an average of 15,500 jobs, or 1.6 percent, annually. The professional and business services sector led job gains, expanding by an average of 8,700 jobs, or 4.5 percent, annually, and accounted for 56 percent of nonfarm payroll growth. Within the sector, the computer design and related services industry expanded by an average of 2,400 jobs, or 11.5 percent, a year, as technology companies such as Twitter, Inc. (founded in 2006), and Zynga Inc. (founded in 2007) began operations in the HMA. During this period, job growth was also significant in the education and health services sector, which added an average of 3,300 jobs, an increase of 2.8 percent, annually. The leisure and hospitality sector expanded by an average of 3,200 jobs, or 2.7 percent, annually, with visitors' spending in the HMA increasing from $9.6 billion in 2005 to $12.7 billion in 2008 (Visit California).

Nonfarm payrolls in the HMA declined by an average of 29,300 jobs, or 2.9 percent, annually during 2009 and 2010 as a result of the nationwide economic recession. Job losses were greatest in the professional and business services, financial activities, and wholesale and retail trade sectors, which declined by averages of 5,900, 5,300, and 5,000 jobs, or 2.8, 6.4, and 4.2 percent, respectively. During this period, an 18-percent decline in venture capital investment slowed the creation and expansion of startup companies.

Since 2011, the HMA has experienced a strong economic recovery due primarily to growth in the high-technology industry. Nonfarm payrolls have expanded by an average of 42,900 jobs, or 4.1 percent, or more than double the national rate of 1.5 percent during this same period. The professional and business services sector, which expanded by an average of 17,100 jobs, or 7.4 percent, a year has led job growth. The computer systems design and related services industry accounted for 41 percent of job gains in the sector during the period, as venture capital investment increased by an average of 38 percent annually from 2011 through 2015, to $27.3 billion (National Venture Capital Association). The increase in venture capital funding and tax incentives offered by the City of San Francisco created significant employment opportunities in the high-technology industry. The largest 75 high-technology employers in the City of San Francisco hired more than 7,000 new employees during 2014 and 2015 (*San Francisco Business Times*). In addition, new startup companies commenced operations in the HMA, and several technology-oriented employers expanded or relocated their operations to the HMA, including Twitter, which added approximately 500 jobs in 2012, and salesforce.com, inc., which added 1,100 jobs in 2014. Job gains were also significant in the leisure and hospitality sector, which increased by an average of 5,700 jobs, or 4.2 percent, annually, and revenue generated by tourism in the San Francisco Bay Area (hereafter, Bay Area) reached a record $26 billion in 2014, a 30-percent increase from $20 billion in 2010 (Visit California).

Job growth continued at a strong pace during 2015, when nonfarm payrolls expanded by 48,500 jobs, or 4.3 percent, with growth occurring in every sector (Table 2). The

Table 2. 12-Month Average Nonfarm Payroll Jobs in the San Francisco HMA,* by Sector

	12 Months Ending		Absolute Change	Percent Change
	December 2014	December 2015		
Total nonfarm payroll jobs	1,121,300	1,169,800	48,500	4.3
Goods-producing sectors	81,100	84,200	3,100	3.8
Mining, logging, & construction	41,900	43,800	1,900	4.5
Manufacturing	39,200	40,400	1,200	3.1
Service-providing sectors	1,040,200	1,085,600	45,400	4.4
Wholesale & retail trade	123,400	127,400	4,000	3.2
Transportation & utilities	41,000	41,800	800	2.0
Information	56,700	60,200	3,500	6.2
Financial activities	78,500	79,800	1,300	1.7
Professional & business services	263,500	285,900	22,400	8.5
Education & health services	149,800	153,200	3,400	2.3
Leisure & hospitality	146,600	151,200	4,600	3.1
Other services	45,200	47,700	2,500	5.5
Government	135,600	138,500	2,900	2.1

** San Francisco-San Mateo-San Rafael HMA.*

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through December 2014 and December 2015.

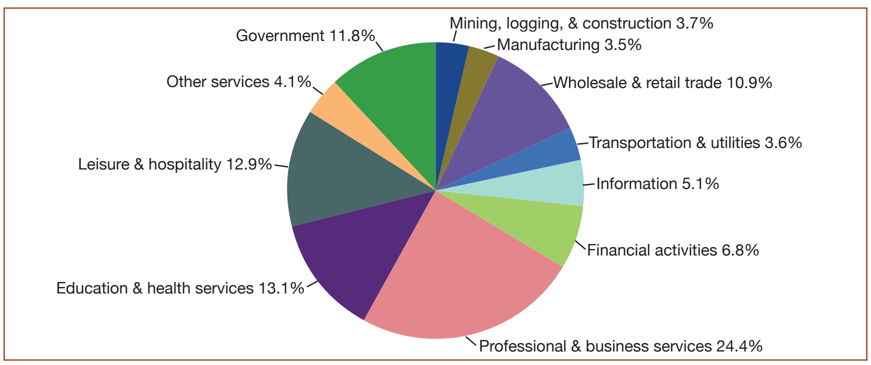
Source: U.S. Bureau of Labor Statistics

professional and business services sector, which is the largest employment sector in the HMA (Figure 1), added the most jobs, increasing by 22,400 jobs, or 8.5 percent. The computer systems design and related services industry increased by 10,800 jobs, or 19 percent, accounting for 48 percent of job growth in the sector during 2015. The leisure and hospitality sector also expanded, adding 4,600 jobs, a 3.1-percent increase. The mining, logging, and construction sector added 1,900 jobs, a 4.5-percent increase, because both residential and commercial construction activity in the HMA, particularly in downtown San Francisco, accelerated. Investment in high-technology industries also generated the growth of 3,500 jobs, a 6.2-percent increase, in the information sector, primarily in the software and Internet publishing industry.

The unemployment rate in the HMA averaged 3.4 percent during 2015, down from 4.3 percent during 2014 and down from a peak of 8.6 percent in 2010. During 2015, the average unemployment rate was 3.4 percent in the Marin County submarket, 3.5 percent in the San Francisco County submarket, and 3.3 percent in the San Mateo County submarket, the lowest unemployment rate of any county in the state. By comparison, the statewide unemployment rate averaged 6.2 percent during 2015. Figure 2 shows trends in the labor force, resident employment, and the unemployment rate in the HMA from 2000 through 2015.

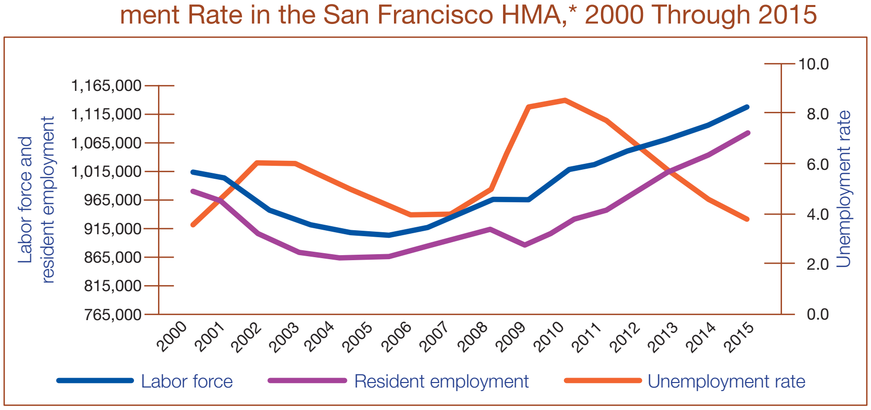
Nonfarm payrolls in the HMA are expected to expand by an average of 4.1 percent annually during the 3-year forecast period, but by a declining rate during the second and third years of the forecast period. The professional and business services sector is projected to continue to lead job gains. Two significant expansions of technology firms are currently under way in the HMA: salesforce.com is expected to hire nearly 1,000 employees in 2017 when it opens the 61-story Salesforce Tower, located near The Transbay Terminal. Uber, a ridesharing service, announced that it will be moving into its 423,000-square-foot office in San Francisco's Mission Bay in late 2017 to early 2018, with space for 3,000 to 4,000 employees, potentially doubling its current 2,000-employee workforce in the HMA. Job growth is also forecast to continue in the education and health

Figure 1. Current Nonfarm Payroll Jobs in the San Francisco HMA,* by Sector



** San Francisco-San Mateo-San Rafael HMA.*
Note: Based on 12-month averages through December 2015.
Source: U.S. Bureau of Labor Statistics

Figure 2. Trends in Labor Force, Resident Employment, and Unemployment Rate in the San Francisco HMA,* 2000 Through 2015

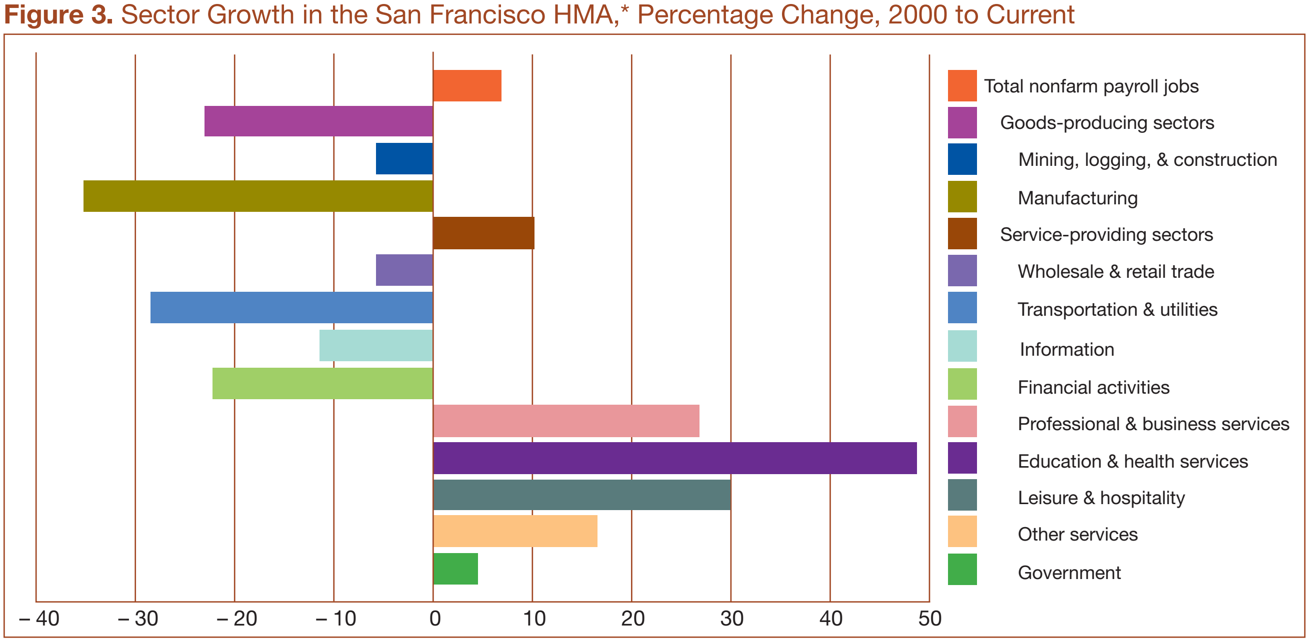


** San Francisco-San Mateo-San Rafael HMA.*
Source: U.S. Bureau of Labor Statistics

services sector, the fastest growing sector in the HMA, in percentage terms, since 2000 (Figure 3). The development of two new California Pacific Medical Center facilities—a 12-story, 274-bed hospital and a 19-story medical office building—is expected to add as many as 1,500 construction jobs from 2013 through 2019. The facilities are expected to add 650 full-time equivalent (FTE) permanent positions to the facilities at the time of completion. In early 2015, the University of California San Francisco (UCSF) opened its biomedical research campus, the UCSF Medical Center at Mission Bay, which includes the UCSF Benioff Children's Hospital San Francisco, UCSF Betty Irene Moore Women's Hospital, UCSF Bakar Cancer Hospital, and UCSF Ron Conway Family Gateway Medical Building. As part of the new campus expansion, The Regents of the University of California approved an increase of approximately 4,970 FTE positions to be added to the medical center during the forecast period. UCSF is currently the HMA's largest employer, with 22,700 employees (Table 3).

Economic growth is expected to moderate from its most recent peak of 4.4 percent in 2015 to 3.9 percent during the third year of the forecast period. In October 2015, Twitter abandoned previous plans for a 100,000-square-foot San Francisco headquarters expansion because user growth lagged behind that of competitors Facebook and Instagram (*San Francisco Business Times*). During the same month, Twitter laid off approximately 250 employees in the HMA, out of 336 layoffs nationwide, with most cuts in engineering and product divisions. During the fourth quarter of 2015, office rents in the City of San Francisco are the highest in the nation, leading some high-technology firms to relocate outside the HMA to Oakland, where office rents are one-half the cost (CBRE Group, Inc.). In addition to

Figure 3. Sector Growth in the San Francisco HMA,* Percentage Change, 2000 to Current



* San Francisco-San Mateo-San Rafael HMA.
Note: Current is based on 12-month averages through December 2015.
Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the San Francisco HMA*

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of California San Francisco	Government	22,700
University of San Francisco	Education & health services	9,800
Genentech, Inc.	Education & health services	8,800
California Pacific Medical Center	Education & health services	8,550
Pacific Gas and Electric Corporation	Transportation & utilities	8,325
Wells Fargo & Company	Financial activities	8,325
Kaiser Permanente®	Education & health services	7,400
Oracle Corporation	Professional & business services	7,000
Gap, Inc.	Wholesale & retail trade	6,000
Dignity Health	Professional & business services	5,400

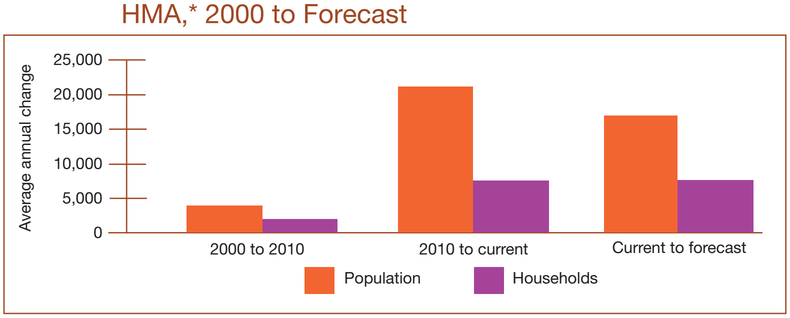
** San Francisco-San Mateo-San Rafael HMA.*
Note: Excludes local school districts.
Sources: San Francisco Business Times, Book of Lists 2014; North Bay Business Journal, Book of Lists, 2014

purchasing its San Francisco building, Uber also recently purchased a 330,000-square-foot building in downtown Oakland, which it will occupy starting in 2017. The Oakland location will have room for 2,000 to 3,000 full-time employees. Although the company plans to continue to expand its workforce in both its San Francisco and Oakland locations, the move across the San Francisco Bay is likely to attract other startup firms to Oakland. Three relocations from San Francisco have already occurred: the Worker's Compensation Insurance Rating Bureau of California, 99designs (an online graphic design marketplace), and Lennar Multifamily Communities. At least six other high-technology companies are expected to move to, or expand in, Oakland during the next year.

Population and Households

As of January 1, 2016, the estimated population of the San Francisco HMA is 1,896,000, reflecting an average annual gain of 20,850, or 1.1 percent, since April 1, 2010, significantly greater than the average annual gain of 4,500, or 0.3 percent, from 2000 to 2010 (Figure 4). During the same period, growth in the high-technology industry fueled increased net in-migration of 12,300 people annually, accounting for 59 percent of population growth. From July 2000 to July 2006, job declines as a result of the dot.com bust resulted in stagnant population growth and the HMA lost an average of 260 people a year because of net out-migration that averaged 8,975 people annually

Figure 4. Population and Household Growth in the San Francisco HMA,* 2000 to Forecast

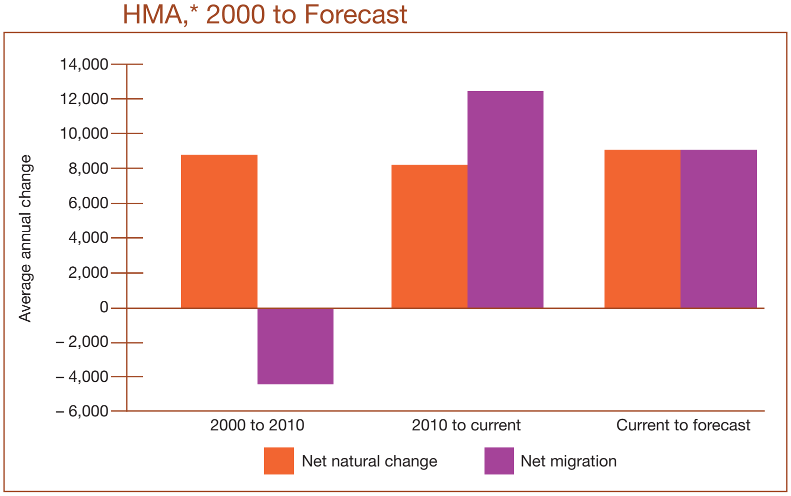


** San Francisco-San Mateo-San Rafael HMA.*
Notes: The current date is January 1, 2016. The forecast date is January 1, 2019.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

(State of California, Department of Finance). During this period, about 65 percent of residents who migrated out of the HMA primarily moved to other California metropolitan areas such as San Diego, Riverside-San Bernardino, and Fresno, where job growth was stronger (Internal Revenue Service). Population growth resumed from 2006 to 2009, averaging 13,250 people, or 0.8 percent, annually but slowed from 2009 to 2010, to 9,075 people, or 0.5 percent, because of the lingering effects of the national recession.

Since 2010, improving economic conditions have led to an increase in net in-migration, with a growing number from abroad and an increase in overall population growth. From 2010 to 2013 (the latest data available), foreign in-migration has increased by an average of 46 percent per year but still accounts for only slightly more than 1 percent of all in-migration to the HMA. In Silicon Valley, foreign-born entrepreneurs led 44 percent of all high-technology company startups (Kauffman Foundation, 2012 study—latest data available). Figure 5 shows the components of population change in the HMA from 2000 to the forecast date.

Figure 5. Components of Population Change in the San Francisco HMA,* 2000 to Forecast



** San Francisco-San Mateo-San Rafael HMA.*

Notes: The current date is January 1, 2016. The forecast date is January 1, 2019.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

The San Francisco County submarket is the most populous of the three submarkets in the HMA, with a current estimated population of 867,800, reflecting an average increase of 10,900 people, or 1.3 percent, annually since 2010. Similar to overall trends in the HMA, population growth in the submarket was essentially flat from 2000 to 2006 after the dot.com bust, with an average increase of 990 people, or 0.1 percent, annually. From 2006 to 2010, population growth increased to an average of 5,950 people, or 0.8 percent, annually when the local economy began to recover. Since 2010, job growth in the technology industry has fueled further economic growth throughout all sectors of the local economy, and population growth has increased, primarily because of net in-migration, which averaged 7,350 people, accounting for 67 percent of population growth in the submarket. As the center for high-technology industries, the San Francisco County submarket is the most attractive to young professionals; as of 2014, the submarket has the largest concentration of young professionals, with the youngest median age of 38 and the smallest average household size among the three submarkets in the HMA (2014 American Community Survey [ACS] 1-year data).

The San Mateo County submarket has a current estimated population of 766,300, reflecting a gain of 8,325 people, or 1.1 percent, annually since 2010. The effects of the dot.com bust were particularly pronounced in this submarket because it serves as a bedroom community for the high-technology job centers in the cities of San Francisco and San Jose and also has a strong technology industry. Population growth in the submarket during the decade has been primarily a result of in-migration and has generally followed the economic cycles in the HMA. From 2000 to 2006, during the dot.com boom and resulting bust, population growth declined by an average of 1,250 people, or 0.2 percent, while net out-migration averaged 6,675 people annually, representing 74 percent of total net out-migration from the HMA. The trend of net out-migration reversed from 2006 to 2008 and net in-migration to the submarket averaged 650 people annually as job growth rebounded. During this period, population growth averaged 6,000 people, or 0.9 percent, per year. Population growth slowed from 2008 to 2010, to an average of 4,050 people, or 0.6 percent, annually, when net out-migration averaged 1,000 people annually due to lingering effects of the national recession. Since 2010, out-migration has reversed and an average of 3,800 people annually have moved into the submarket, accounting for 46 percent of population growth. With a predominance of young families, the San Mateo County submarket has the largest average household size of the three submarkets and a median age of 39 (2014 ACS 1-year data).

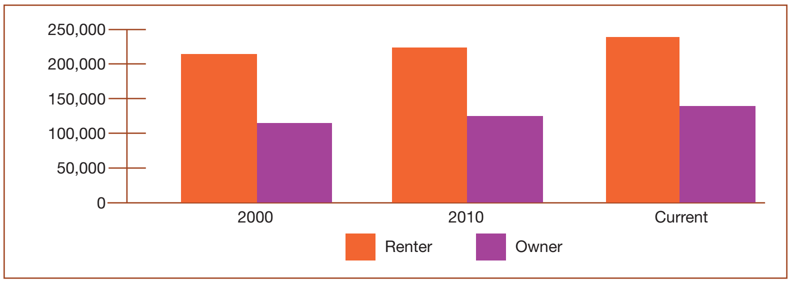
The current estimated population of the Marin County submarket is 262,200, reflecting an average annual increase of 1,700, or 0.7 percent, since April 1, 2010. By comparison, from 2000 to 2006, population growth was stagnant because the average net natural change (resident births minus resident deaths) of 990 people annually offset the average net out-migration of 1,000 people annually. From 2006 to 2010, population growth has averaged 1,375 people, or 0.6 percent, annually and net in-migration has averaged 480 people a year in the submarket. Of the submarkets in the HMA, the Marin County submarket is relatively most attractive to retirees because of restrictions that limit the development of high-density housing. As of 2014, the median age was 45, the oldest in the HMA (2014 ACS 1-year data).

During the next 3 years, population growth in the HMA and in each of the submarkets is expected to slow compared with growth during the 2010-to-current period because of moderating economic conditions. Population growth in the HMA is forecast to average 18,000 people, or 0.9 percent, annually. Growth is forecast to slow the least in the San Mateo County submarket, which is expected to grow by an average of 7,425 people, or 1.0 percent, annually, because it has relatively more affordable housing options compared with the other two submarkets. The San Francisco County submarket is forecast to add an average of 9,625 people, a 1.1-percent increase, annually, while population growth in the Marin County submarket is expected to average 830 people, or 0.3 percent, annually.

The number of households in the San Francisco HMA is growing much faster than in the previous decade due to significant population growth during the same period. Since 2010, the number of households in the HMA has increased by 7,300, or 1.0 percent, a year compared with an average increase of 2,250 households, or 0.3 percent, a year from 2000 to 2010. Similar to trends in population growth, household growth was fastest in the San Francisco County submarket because it serves as the center of the high-technology industry, with a prevalence of young professionals in smaller households. Larger households tend to live elsewhere in the HMA or in the Bay Area because of the high housing costs and smaller units in the submarket. In the San Francisco County submarket, household growth was three times greater in the 2010-to-current period, at an average addition of 5,250 households, or a 1.5-percent increase, annually, compared with average annual growth of 1,600 households, or 0.5 percent, during the previous decade. In the San Mateo County submarket, the number of households has increased by an average of 1,425, or 0.6 percent, annually since 2010, an almost fourfold increase compared with an average increase of 370 households, or 0.1 percent, annually from 2000 to 2010. In the Marin County submarket, household growth more than doubled, from an average increase of 260 households, or 0.3 percent, annually from 2000 to 2010 to an average increase of 600 households, or 0.6 percent, annually since 2010. An estimated 748,800 households currently reside in the HMA, with 376,000 households in the San Francisco County submarket, 266,100 in the San Mateo County submarket, and 106,650 in the Marin County submarket.

During the 3-year forecast period, household growth is expected to slow as both economic conditions and population growth moderate, to an average of 6,900 households, or 0.9 percent, annually in the HMA. This growth is expected to average 5,025 households, or 1.3 percent, in the San Francisco County submarket; 1,475 households, or 0.5 percent, in the San Mateo County submarket; and 420 households, or 0.4 percent, in the Marin County submarket. Figures 6, 7, and 8 illustrate the number of households by tenure in each submarket from 2000 to the current date.

Figure 6. Number of Households by Tenure in the San Francisco County Submarket, 2000 to Current

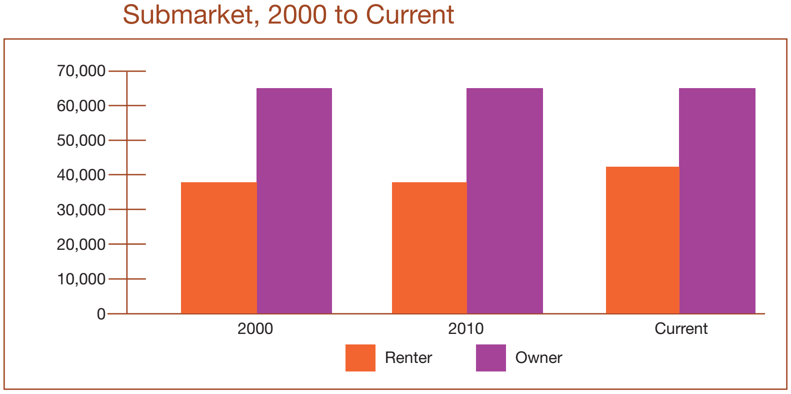


Note: The current date is January 1, 2016.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 7. Number of Households by Tenure in the San Mateo County Submarket, 2000 to Current

Note: The current date is January 1, 2016.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 8. Number of Households by Tenure in the Marin County Submarket, 2000 to Current



Note: The current date is January 1, 2016.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Sales Market—San Francisco County Submarket

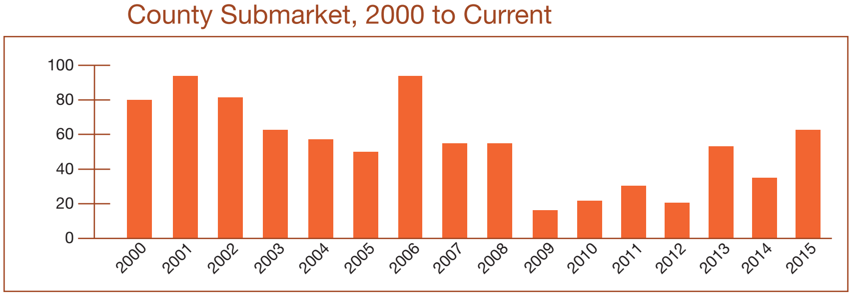
Sales housing market conditions in the San Francisco County submarket are tight, with an estimated 1.0-percent sales vacancy rate, down from 2.4 percent in 2010 (Table DP-2 at the end of this report). Total new and existing home sales (including single-family homes, townhomes, and condominiums) declined to 5,650 homes sold during 2015, down 5 percent compared with the number sold in 2014 but still 5 percent higher than the previous low near the height of the housing crisis during 2009 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). The recent decline in sales is reflective of low inventory rather than decreased demand. During December 2015, the unsold inventory index was 0.9 months in the submarket compared with 1.7 months during December 2014 and with 2.8 months statewide (California Association of Realtors®).

The limited inventory of existing homes has led to increased new home sales since 2013, mainly new condominiums, which have constituted the bulk of new homes for sale. During 2015, total new sales increased 32 percent to 580 homes, with condominiums accounting for 83 percent of new sales. Condominium sales comprise a significant share of total home sales because of the limited amount of developable land in the submarket. Since 2005 (the earliest data available), an average of 93 percent of all new sales have been of condominiums. During 2015, the average sales price of a new home was $1,134,800, 9 percent higher than the average new sales price of $1,040,300 during 2014 and 54 percent higher than the low of $734,600 during 2008.

The recent increase in both new home sales and average sales prices for new homes has been fueled by strong economic growth in the technology sector and high-income growth. New home sales, however, historically have been more responsive to changes in the new home average sales price in the submarket. As the primary job center for the nine-county Bay Area, a significant number of commuters would prefer to live in the San Francisco County submarket. As new home sales prices in the submarket declined from 2006 through 2008, the price differential between housing in the outlying areas of the Bay Area and the job center of San Francisco lessened, increasing the demand for housing in the San Francisco submarket and its relative affordability. In the San Francisco-Oakland-Hayward, CA MSA, which includes the HMA and also Alameda and Contra Costa Counties, the average new home sales price was 14 percent lower in the MSA than in the submarket. As new home sales prices in the submarket increased from 2009 through 2013, the average new home sales price in the MSA was about 31 percent lower in the MSA than in the submarket. New home sales increased every year from 2006 through 2008 an average of 19 percent annually, but the average new sales price declined from $772,400 in 2006 to $756,500 in 2008. As the average new sales price increased by an average of 8 percent per year from $775,200 in 2009 to $1,047,200 in 2013, new home sales fell from 1,250 sales in 2009 to only 180 sales in 2013, an average annual decline of 38 percent. The only break in trend during the 2009-through-2013 period was in 2012, when a 4-percent decline in the average new sales price was met with a doubling in new sales. In a similar way, in 2014, when the average sales price declined more than 2 percent, new home sales almost doubled to 440 homes sold.

Sales of existing homes declined an average of 13 percent a year every year from 2005 through 2009, when economic conditions began to weaken, but increased an average of 19 percent a year from 2010 through 2012, a period when job growth accelerated. Despite recently high gains in employment, existing home sales have declined an average of 7 percent every year since 2013 as a result of inventory shortages. From 2013 through 2015, the average unsold inventory index in the submarket was 1.5 months compared with 5.1 months from 2010 through 2012 and 3.1 months from 2008 through 2010 (the earliest data available). Lower inventory levels, particularly of distressed properties offered at a discount, including real estate owned (REO) sales, have led to an overall decline in existing sales since 2013. REO sales decreased an average of 22 percent a year from 2013 through 2015, representing 7 percent of all existing sales in 2013, then falling to only 3 percent of all existing sales in 2015. In December 2015, 0.8 percent of all mortgage loans in the submarket were 90 or more days delinquent, were in foreclosure, or had transitioned into REO status, slightly higher than the 0.7-percent rate in December 2014 but well below the statewide average of 2.0 percent (Black Knight Financial Services, Inc.). During 2015, the average sales price for an existing home in the submarket was $1,384,500, up 11 percent from the average of $1,245,000 in 2014. The average sales price of an REO sale was $1,140,000 during 2015, almost 19 percent lower than the average sales price of a regular resale of $1,399,400. Although average price changes for existing homes have fluctuated since 2005 (the earliest data available), average existing home prices have reported double-digit gains every year since 2012.

Figure 9. Single-Family Homes Permitted in the San Francisco County Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Single-family home construction is limited in the San Francisco County submarket because of the limited amount of developable land. Condominium development, on the other hand, has been the primary source of new sales housing units. Single-family home construction, as measured by the number of single-family homes permitted, averaged approximately 75 homes annually from 2000 through 2006. The average number of single-family homes permitted declined to an average of 45 homes each year from 2007 through 2009 because economic and housing market conditions weakened (Figure 9). Despite improving economic conditions, single-family home construction in the submarket remained low, averaging only 30 homes each year from 2010 through 2013. During 2015, 65 single-family homes were permitted (preliminary data), up from the 35 units permitted during 2014.

Job growth and increased demand have resulted in increased condominium development since 2013. An average of 2,175 condominium units were permitted annually in 2013 and 2014, a record high since 2000. Developers scaled back the construction of condominium units in 2015, to 250 units permitted, because of significant building recently. New condominium construction in the submarket declined from 740 units permitted in 2000 to an average of 450 units permitted each year from 2001 through 2004, as a result of the dot.com bust. From 2005 through 2007, improved economic conditions resulted in increased condominium development, with an average of 1,075 units permitted each year. Condominium development declined sharply, to an average of 200 units permitted, from 2008 through 2012 because of job losses and weakening demand for sales housing.

Recently completed condominium developments in the submarket include Lumina, the four-tower, 655-unit condominium project located in the Financial District and the largest condominium development in the submarket. Prices for studio, one-bedroom, and two-bedroom units range between $1.1 and $2.5 million, and the penthouse of Tower B, the tallest of the four towers, was recently listed for $49 million. The construction of several other large condominium projects is also currently under way in the submarket, including the Rockwell condominiums in the Lower Pacific Heights neighborhood, with the first of two 13-story towers and 260 units expected to be complete by August 2016. Prices for one-bedroom units range in the mid-$700,000s to high $700,000s and two-bedroom units start at $1.2 million. During the first 2 months of sales for the units under construction, 107 units, or nearly one-half of all units were sold. Fulton 555, a 139-unit condominium complex in the Hayes Valley neighborhood, is also under way. Sales prices for junior one-bedroom units will start in the mid-$500,000s, one-bedroom units will range from the low $600,00s to the high $800,00s, and two-bedroom units will start around $1 million.

Despite a relatively tight sales market and a preference by commuters to live in the submarket, rising housing costs since 2010 have increased the number of people commuting into the HMA by car, public transportation, or private shuttle services offered for employees of local technology and biotechnology companies (including Google and Genentech). Of the approximately 584,000 jobs in the submarket during 2013, 355,900, or 61 percent, were held by workers who live outside the submarket and 258,000, or 44 percent, were held by workers who live outside the HMA (Census Bureau, 2015, "OnTheMap" Application, Longitudinal Employer-Household Dynamics program). Approximately 14 percent of the workers live in Alameda County, 9 percent in Contra Costa County, and 5 percent in Santa Clara County, a part of the San Jose-Sunnyvale-Santa Clara MSA. From 2010 to 2013, the number of workers employed in the submarket who live outside the submarket increased by an average of 16,600 people, or 5.1 percent, a year, and the number of workers who live outside the HMA increased by an average of 13,600 people, or 5.9 percent, a year. Housing affordability declined as sales market conditions continued to tighten. Sales housing affordability (defined by the California Association of Realtors® as the percent of households that can afford to purchase a median-priced existing home in the submarket) declined from 12 percent in the third quarter of 2014 to 10 percent in the third quarter of 2015, the lowest rate statewide (latest data available, California Association of Realtors®). The minimum qualifying income needed to afford a median-priced home in the submarket was $251,980.

During the 3-year forecast period, demand is expected for 5,200 new homes in the submarket (Table 1). The 1,550 homes currently under construction and a portion of the 10,000 other vacant units that may return to the market will satisfy some of the forecast demand. Table 4 illustrates the estimated demand for new sales housing in the submarket by price range. Demand is expected to be greatest in the first year of the forecast period and to moderate during the second and third years, when job growth and net in-migration are expected to slow.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the San Francisco County Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
550,000	749,999	1,050	20.0
750,000	949,999	1,050	20.0
950,000	1,124,999	1,300	25.0
1,125,000	1,349,999	520	10.0
1,350,000	1,699,999	780	15.0
1,700,000	1,999,999	260	5.0
2,000,000	and higher	260	5.0

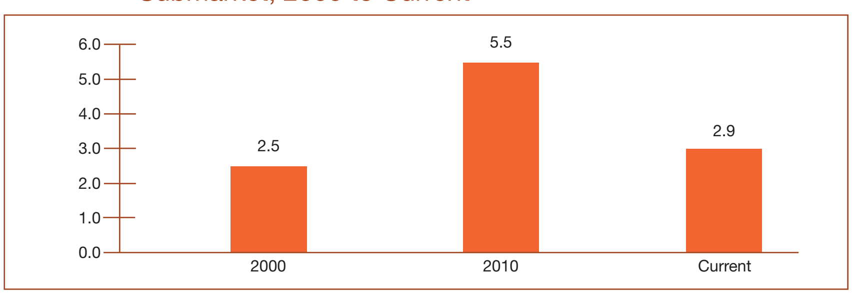
Notes: The 1,550 homes currently under construction and a portion of the estimated 10,000 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is January 1, 2016, to January 1, 2019.

Source: Estimates by analyst

Rental Market—San Francisco County Submarket

Rental housing market conditions in the San Francisco County submarket are currently tight, with an estimated vacancy rate of 2.9 percent, down from 5.5 percent in April 2010 (Figure 10). Along with increasingly high sales prices, strong economic growth and net in-migration to the submarket since 2010 have increased demand for rental housing. The apartment vacancy rate was 4.8 percent during the fourth quarter of 2015, higher than the 4.3-percent rate during the fourth quarter of 2014, but the higher rate is likely due to the opening of several large-scale apartment projects that are currently in lease up (Reis, Inc.). Of the six Reis-defined market areas (hereafter, areas) that comprise the submarket, apartment vacancy rates in the fourth quarter of 2015 were lowest in the Marina/Pacific Heights, Russian Hill/Embarcadero, and West San Francisco areas, at 1.3, 1.8, and 2.9 percent, respectively. During the same period, the average market rent in the submarket increased 10 percent, to $2,450, from the same quarter a year ago, and 37 percent from $1,900 during 2010. Average rents increased 5 percent or more in all six areas of the submarket and 10 percent or more in four of the areas. Average rents increased 10 percent, to $2,075, in the Civic Center/Downtown area; 12 percent, to $2,725, in the Haight Ashbury/Western Addition area; 14 percent, to

Figure 10. Rental Vacancy Rates in the San Francisco County Submarket, 2000 to Current



Note: The current date is January 1, 2016.

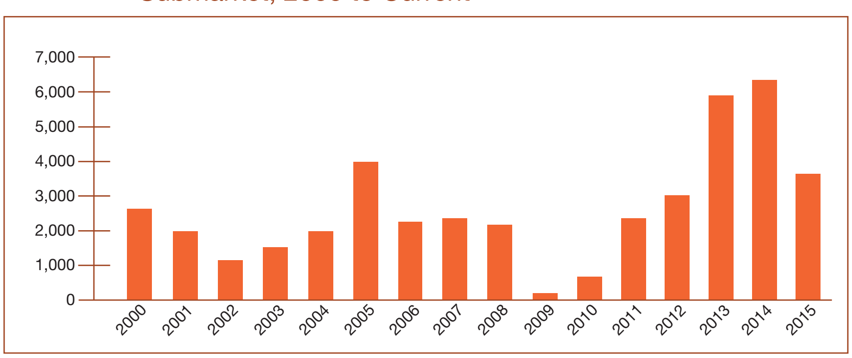
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

$3,225, in the South of Market area; and 16 percent, to $2,600, in the West San Francisco area. Rent growth was highest in the areas that were concentrated with recent development and new projects not yet at stabilized occupancy. Thus, with the exception of the West San Francisco area that has a 2.9-percent vacancy rate, these other three areas were also the ones with the highest vacancy rates, at 4.6, 5.8, and 9.5 percent, respectively. Since 2014, roughly 97 percent of all newly constructed rental units have been located in one of the four areas. Average rents in the Marina/Pacific Heights area and Russian Hill/Embarcadero areas increased by 6 and 7 percent, to $2,875 and $3,325, respectively.

Since 2011, approximately three-fourths of all multifamily units permitted in the submarket have been apartments. Because of job losses and reduced rental demand, apartment construction slowed to an average of 330 units permitted annually from 2009 through 2010 compared with an average of 1,800 units permitted annually from 2004 through 2008, during a peak of apartment construction (Figure 11). Apartment construction during 2015 declined 30 percent, to 3,350 units, as developers scaled back production in 2014 from permitting levels of 4,775 units, which had been a record high since 2000 (preliminary data; analyst's estimates). The largest residential project currently under construction is Trinity Place, which is in its third phase of construction. The project eventually will include four apartment towers with 1,900 studio and one-bedroom units, 60,000 square feet of commercial space, a 42,000-square-foot open plaza, and 1,450 off-street parking spaces. The second phase of construction, completed in June 2013, added 418 units to the project. Two completed apartment buildings with 858 units are currently fully occupied. The third phase of construction will consist of 545 units, with completion expected in early 2017. Construction of the remaining 497 units of the project is currently in the early stages of planning. Rents start at $2,314 for studio units and $2,574 for one-bedroom units.

The construction of the new Transbay Terminal, a multitransit terminal to connect other Bay Area cities to San Francisco, and of the Salesforce Tower has made the South of Market area attractive for new residential construction. Of the apartment units currently under construction in the San Francisco County submarket, 69 percent are in the South of Market area. The area has experienced significantly increased levels of construction recently and has accounted for 2,100 new apartment units, or 45 percent of newly constructed rental units in the submarket since 2014. Recently completed projects in the South of Market area include Potrero 1010, a 453-unit apartment complex with 26,000 square feet of ground-floor retail space. Average monthly rents are $2,650 for studio

Figure 11. Multifamily Units Permitted in the San Francisco County Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

units, $3,350 for one-bedroom units, and $4,700 for two-bedroom units. Several other large construction projects are also currently under way in the South of Market area, including 399 Fremont, a 42-story, 447-unit apartment project. Completion of the project is expected in the spring of 2016. Monthly rents and sizes start at $3,200 and 420 square feet for studio units, $4,300 and 739 square feet for one-bedroom units, $5,475 and 1,008 square feet for two-bedroom units, and $12,950 and 1,824 square feet for three-bedroom units.

Although the construction of market-rate rental units has been significant in the submarket since 2011, newly added units have not been able to slow rapid rent growth. As of December 2015, of all cities in the nation, median one- and two-bedroom rents were highest in the City of San Francisco (coterminous with the San Francisco County submarket), surpassing rents in New York City (Zumper). With median rents for one- and two-bedroom units at $3,500 and $4,830, respectively, rental affordability in the HMA is among the lowest in the nation. Approximately 45.6 percent of median household income goes toward rent in San Francisco, the second-highest metrowide percentage in the nation (Zillow). Although significant income growth for some households has supported higher rents, the income gap is wide and increasing. Incomes above the top 95th percentile were 17 times higher than those below the 20th percentile, and the gap between the two groups was the second largest of any city in the nation from 2012 to 2013 (The Brookings Institute). By comparison, in the nation, incomes above the top 95th percentile were about nine times higher than those below the 20th percentile during the same period.

Efforts to add affordable housing in the submarket have been ongoing, and a significant portion of low-income rental units developed in the submarket have been financed through the federal Low-Income Housing Tax Credit Program and the State of California Tax Credit Allocation Committee (CTAC). Since 2010, an average of 300 low-income rental units were completed annually, down from the 770 units developed each year from 2000 through 2009 (CTAC). Some of the decline in affordable developments between the two periods may be because applications for funding between 2013 through 2015 may not have completed construction or be available for tenant rental (CTAC). Applications for tax credit funding averaged 630 units annually from 2010 through July 2015, down from an average 775 units annually during the 2000-through-2009 period.

During the 3-year forecast period, demand is expected for 13,850 rental units (Table 1). Demand is expected to decline during the second and third years of the forecast period as economic growth moderates. The 5,800 apartment units currently under construction will meet more than 40 percent of the forecast demand. Table 5 shows the estimated demand by rent level and number of bedrooms for new market-rate rental housing in the submarket during the forecast period.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the San Francisco County Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
1,950 to 2,149	1,100	2,500 to 2,699	4,850	3,200 to 3,399	3,400	3,500 to 3,699	550
2,150 or more	280	2,700 to 2,899	690	3,400 to 3,599	970	3,700 or more	140
		2,900 to 3,099	690	3,600 or more	480		
		3,100 or more	690				
Total	1,375	Total	6,925	Total	4,850	Total	690

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 5,800 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2016, to January 1, 2019.

Source: Estimates by analysts

Sales Market—San Mateo County Submarket

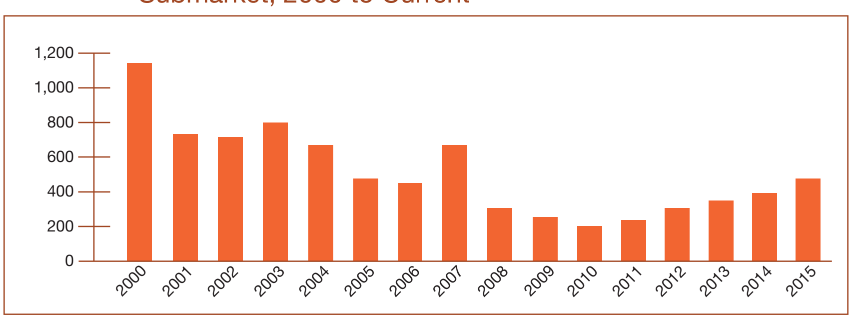
The sales housing market in the San Mateo County submarket is extremely tight, with a current estimated vacancy rate of 0.5 percent, down from 1.3 percent in 2010 (Table DP-3 at the end of this report). During 2015, the number of existing homes sold (including single-family homes, townhomes, and condominiums) decreased by 6 percent, to 6,525 homes, but the average sales price of an existing home increased 14 percent, to $1,304,400 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). Existing condominium sales accounted for 20 percent of all existing sales during 2015, a percentage that has remained relatively steady. As in the San Francisco County submarket, the recent decline in sales is likely driven by low inventory rather than by demand. During December 2015, the California Association of Realtors® unsold inventory index was 1.1 months in the San Mateo County submarket, unchanged from December 2014 (California Association of Realtors®). Strong job and wage growth has increased competition for sales units on the market since 2013, leading to rising sales prices without resulting in a rise in home sales. Existing home sales have declined steadily since 2013, with an average decline of 4 percent per year, as the unsold inventory index averaged 1.2 months and the existing sales price increased by an average of nearly 17 percent per year. With a high average sales price, housing affordability in the submarket has declined from 15 percent of buyers who could afford to purchase a median-price, existing single-family home during the third quarter of 2014 to 13 percent during the third quarter of 2015, with a minimum qualifying income of $252,230 needed (latest data available; California Association of Realtors®).

By comparison, existing home sales increased every year from 2009 through 2012 during the beginning of the economic and housing market recovery, from 5,875 homes sold in 2009 to 7,425 sold in 2013, while the unsold inventory index averaged 2.3 months. Sales price appreciation fluctuated during this period, primarily because of changes in REO sales. In 2009, when the sales market conditions were weaker, the average sales price reached a decade low of $761,500, a 21-percent decline in the average sales price compared with the price in 2008, because of a 36-percent increase in REO sales, which were one-half the price of regular resales. After a cumulative 25-percent decline in REO sales from 2009 through 2012, the average existing sales price increased to $869,500 in 2012, reflecting a greater proportion of regular resales as the market improved. During 2005 and 2006, before the housing market downturn, REO sales accounted for less than 1 percent of all existing home sales in the submarket; the share increased to 3 percent during 2007 and peaked at 25 percent during 2009. Since then, REO sales have declined and were down to 4 percent during 2015. During 2015, the average sales price of an REO home was $1,052,000, 20 percent less than the $1,319,400 average sales price of a non-REO existing home. In December 2015, 1.0 percent of all mortgage loans in the submarket were 90 or more days delinquent, were in foreclosure, or had transitioned into REO status, slightly higher than the 0.9-percent rate in December 2014 (Black Knight Financial Services, Inc.).

The number of new homes sold in the submarket declined to 250 during 2015, down 8 percent from 2014. By comparison, the number of new homes sold increased 20 percent in 2014, to 275 homes. The number of new homes sold peaked at 530 in 2007 and then declined to 350 in 2008. The number of new homes sold averaged only 250 annually from 2009 through 2012 because relatively high foreclosure rates limited demand for new sales housing. The average sales price of a new home in the submarket was $1,207,000 during 2015, up 19 percent from the average sales price of $1,019,000 in 2014. The average sales price of a new home in the submarket is less than that of an existing home because the average lot size of a new single-family home sold during 2015 was 67 percent smaller than that of an existing single-family home sold during the same period.

Since 2011, job growth and net in-migration in the San Mateo County submarket have resulted in increased single-family homebuilding activity, as measured by the number of single-family homes permitted, but building activity remains below historic averages. During 2015, 470 homes were permitted, a 24-percent increase from the 380 homes permitted during 2014 (preliminary data). From 2000 through 2007, an average of 710 homes were permitted annually, but the number of permits declined each year from 2008 through 2010, to an average of 260 homes a year, as a result of job losses in the San Francisco HMA (Figure 12). Since 2011, single-family permitting has increased to an average of 360 homes permitted annually. Also contributing to homebuilding activity, condominium units accounted for approximately 17 percent of all multifamily units permitted during the same period, unchanged compared with the units permitted in the 2000-through-2010 period. Home developments currently under construction are primarily composed of condominium units and townhomes, given developable land

Figure 12. Single-Family Homes Permitted in the San Mateo County Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

constraints in the submarket. The Tidelands, a 76-unit condominium development began construction in the fall of 2015, with units ranging from 784 to 1,645 square feet and prices starting in the mid $800,000s. The entire development is expected to be complete in the summer of 2016.

During the next 3 years, demand is expected for 4,050 new homes in the submarket (Table 1). The 240 homes currently under construction and some of the estimated 5,200 other vacant units that will likely reenter the market will satisfy part of the forecast demand. Prices for new units currently start at $350,000. Homes on the lower end of the price spectrum are condominiums and smaller town-home units. Table 6 presents detailed information on the estimated demand for new market-rate sales housing, by price range, in the submarket during the 3-year forecast period.

Table 6. Estimated Demand for New Market-Rate Sales Housing in the San Mateo County Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
350,000	499,999	200	5.0
500,000	699,999	200	5.0
700,000	799,999	410	10.0
800,000	899,999	610	15.0
900,000	999,999	610	15.0
1,000,000	1,099,999	410	10.0
1,100,000	1,199,999	410	10.0
1,200,000	and higher	1,225	30.0

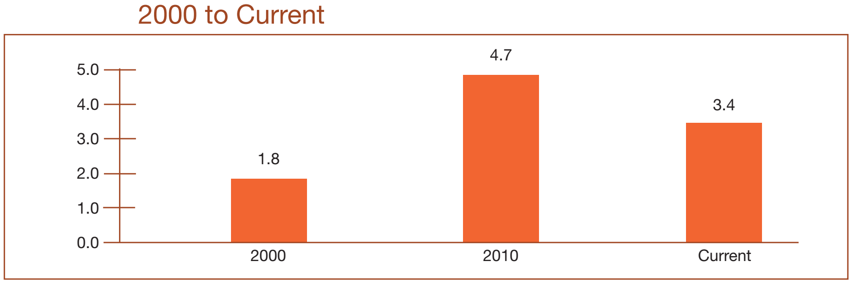
Notes: The 240 homes currently under construction and a portion of the estimated 5,200 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is January 1, 2016, to January 1, 2019.

Source: Estimates by analyst

Rental Market—San Mateo County Submarket

As a result of increased population growth since 2010, the rental housing market in the San Mateo County submarket remains tight, with an estimated overall rental vacancy rate of 3.4 percent, down from 4.7 percent in April 2010 (Figure 13). Despite an uptick in multifamily rental construction in 2012 and 2014, the apartment vacancy rate during the fourth quarter of 2015 was 3.3 percent, down from 3.5 percent during the fourth quarter of 2014 (Reis, Inc.). The average market-rate apartment rent in the submarket was $2,250 during the fourth quarter of 2015, up 8 percent from $2,075 during the fourth quarter of 2014 and up 40 percent from $1,600 during 2010. The three Reis-defined areas that comprise the submarket all have tight apartment market conditions. During the fourth quarter of 2015, the apartment vacancy rate in the North San Mateo area was 3.6 percent, down from 4.3 percent during the fourth quarter of 2014. The average rent in the area increased by 6 percent, to $2,225. Apartment conditions were the tightest in the Central San Mateo area, where the apartment vacancy rate was 2.1 percent, down from 2.9 percent during the fourth quarter of 2014, and the average rent increased 13 percent, to $2,550 compared with $2,250 during the fourth quarter of 2014. In the South San Mateo area, the apartment vacancy rate was 4.4 percent during the fourth quarter of 2015, up from

Figure 13. Rental Vacancy Rates in the San Mateo County Submarket, 2000 to Current



Note: The current date is January 1, 2016.

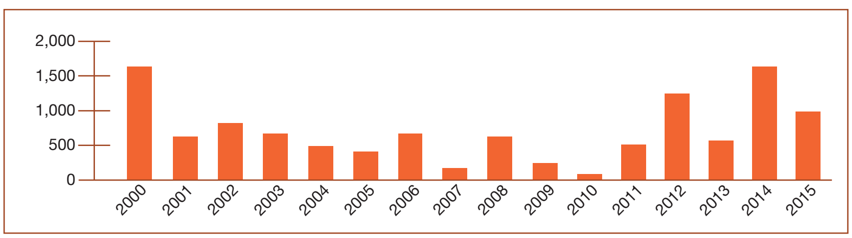
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

3.3 percent in the previous year. The average rent in the area increased 4 percent, to $2,125. Single-family homes made up 29 percent of the rental inventory in the submarket in 2014 (2014 ACS 1-year data).

Because of previously high levels of multifamily construction activity, as measured by the number of multifamily units permitted, from 2010 to 2014, multifamily construction levels in the San Mateo County submarket have declined recently as builders wait for newly constructed units to be absorbed. During 2015, 970 units were permitted, a 32-percent decline from the 1,675 units permitted during 2014 (Figure 14). By comparison, an average of only 160 multifamily units were permitted annually from 2009 through 2010, when the HMA lost jobs and the submarket experienced net out-migration. The construction of several large apartment developments is currently under way, including the 402-unit Pete's Harbor apartment community. The development is a part of the Blu Harbor project, which will include a recreation building, an inner marina, and public access areas for pedestrian and bike paths connected to the 343-mile Bay Trail. Completion of the project is expected by 2017 and rents have not yet been determined. Also under construction is the 471-unit Indigo Apartment Homes that will be composed of three residential towers, each 10 stories high. Monthly rents are expected to range from $2,900 to $4,355 for one-bedroom units ranging in size from 662 to 952 square feet, from $3,970 to $8,304 for two-bedroom units ranging in size from 942 to 1,778 square feet, from $6,406 to $6,822 for three-bedroom units ranging in size from 1,481 to 1,505 square feet, and from $7,516 to $8,304 for the three two-bedroom penthouse units that range in size from 1,635 to 1,778 square feet. Completion of the project is expected in the summer of 2016.

Demand is expected for 3,700 new rental units during the next 3 years. Demand is expected to be strongest during the first and second years of the 3-year forecast period as young families, responding to the growth in high-technology industries, migrate to the submarket. Economic growth is expected to moderate during the forecast period and rental demand is anticipated to decline as well. The 1,775 units currently under construction will meet nearly 60 percent of the forecast demand (Table 1). Table 7 highlights the estimated demand for new market-rate rental housing, by rent level, during the forecast period.

Figure 14. Multifamily Units Permitted in the San Mateo County Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 7. Estimated Demand for New Market-Rate Rental Housing in the San Mateo County Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
1,250 to 1,449	80	2,100 to 2,299	1,225	2,800 to 2,999	980	3,300 to 3,499	90
1,450 or more	35	2,300 to 2,499	410	3,000 to 3,199	140	3,500 to 3,699	30
		2,500 to 2,699	200	3,200 to 3,399	140	3,700 to 3,899	15
		2,700 or more	200	3,400 or more	140	3,900 or more	15
Total	110	Total	2,025	Total	1,400	Total	150

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 1,775 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2016, to January 1, 2019.

Source: Estimates by analysts

Sales Market—Marin County Submarket

The sales housing market in the Marin County submarket remains tight, with a current estimated vacancy rate of 1.0 percent, down from 1.3 percent in 2010 (Table DP-4 at the end of this report). During 2015, the number of existing home sales declined 3 percent, to 3,250 homes sold, compared with the number sold in 2014 (Metrostudy, A Hanley Wood Company, with adjustments by the analyst). Since 2013, existing home sales have declined steadily, due to significant declines in REO sales when sales market conditions improved and average sales prices increased. From 2013 through 2015, REO sales accounted for an average of 4 percent of all existing home sales. By comparison, REO sales accounted for an average of 17 percent of all existing home sales from 2008 through 2012. In December 2015, 0.9 percent of all mortgage loans in the submarket were 90 or more days delinquent, were in foreclosure, or had transitioned into REO status, slightly higher than the 0.8-percent rate in December 2014 but well below the statewide average of 2.0 percent (Black Knight Financial Services, Inc.).

Despite the recent decline, existing home sales increased from their previous lows during the middle of the decade, when conditions were weaker. From 2008 through 2011, existing home sales averaged 2,375 homes sold annually, about 29 percent fewer homes than the average of 3,350 homes sold during the 2005-through-2007 period. As economic conditions in the HMA strengthened, existing homes sales increased to an average of 3,425 homes sold since 2012, exceeding the previous peak's average. The average sales price of an existing home increased 5 percent, to $1,177,000, during 2015. The current average sales price is 8 percent higher than the previous peak of $1,091,000 in 2007. Existing home sales prices declined every year from 2008 through 2012, except for a 1-year increase in 2010. In 2013 and 2014, existing home sales price appreciation was in the double digits, increasing by 20 percent in 2013 and 15 percent in 2014.

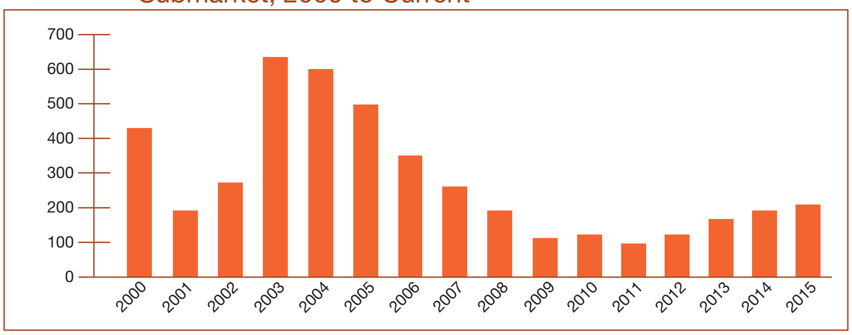
During 2015, 80 new homes sold in the submarket compared with 75 new homes sold in 2014. New home sales have remained low since declining from an average of 400 homes sold in

2005 and 2006, down to an average of 20 homes sold annually from 2007 through 2013. Although new home sales increased in the past 2 years, sales continue to remain significantly below historical peaks. During 2015, the average new home sales price increased 11 percent, to $1,482,000, compared with a 15-percent increase in 2014 and a 52-percent increase in 2013. Despite the recent increase in sales prices, the new home price remains 6 percent below the peak of $1,578,000 in 2007. Condominiums are not a significant part of the new home sales market in the submarket, accounting for none of the new homes sold since 2009.

Stringent regulations limiting large-scale development in the southern portion of the submarket have pushed much of the new home construction to the northern portion. During 2015, 210 single-family homes were permitted in the Marin County submarket, relatively unchanged from the 200 homes permitted in 2014. During 2015, 105 homes, or one-half of all single-family homes permitted in the county were located in the northern city of Novato. The most recently completed project in the submarket is The Landing at Hamilton, in the city of Novato, a 27-home single-family development with prices starting at $700,000 and homes ranging from 2,432 to 3,000 square feet. Current single-family permitting is up from the average of 160 homes permitted annually from 2007 to 2014 but is 53 percent below the average of 430 homes permitted annually from 2000 to 2006 (Figure 15).

During the next 3 years, demand is expected for 650 new homes (Table 1). Demand is expected to decline each year during the 3-year forecast period as a result of moderating economic conditions in the HMA. The 100 homes currently under construction and a portion of the estimated 4,650 other vacant units that will likely reenter the sales market will satisfy part of the forecast demand. Sales prices for new homes start at $650,000 (Table 8).

Figure 15. Single-Family Homes Permitted in the Marin County Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 8. Estimated Demand for New Market-Rate Sales Housing in the Marin County Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
650,000	799,999	65	10.0
800,000	899,999	65	10.0
900,000	999,999	100	15.0
1,000,000	1,099,999	100	15.0
1,100,000	1,999,999	100	15.0
2,000,000	and higher	230	35.0

Notes: The 100 homes currently under construction and a portion of the estimated 4,650 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is January 1, 2016, to January 1, 2019.
Source: Estimates by analyst

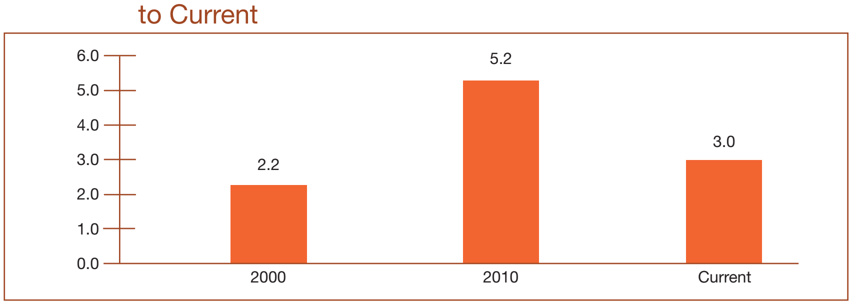
Rental Market—Marin County Submarket

Rental housing market conditions in the Marin County submarket are tight, with an estimated overall rental vacancy rate of 3.0 percent, down from 5.2 percent in April 2010 (Figure 16). Limited land availability and restrictions against high-density projects have restricted multifamily development in the submarket, resulting in an apartment market that is tighter than the overall rental market. As of December 2015, 49 percent of the land in the submarket was under local, state, or federal protection. By comparison, 19 percent of the land in the San Francisco County submarket and 39 percent of the land in the San Mateo County submarket were under local, state, or federal protection (California's Protected Area Database; 2010 Census).

During the fourth quarter of 2015, the apartment vacancy rate was 2.6 percent, up from the 1.4-percent rate during the fourth quarter of 2014 but still considered very low (Reis, Inc.). The average market rent increased 8 percent, to $2,025, during the fourth quarter of 2015 compared with the average market rent of $1,875 during the fourth quarter of 2014. Two Reis-defined areas comprise the Marin County submarket. Despite a concentration of new apartment development in the North Marin area since 2014, apartment market conditions in the area are very tight, with an apartment vacancy rate of 1.2 percent during the fourth quarter of 2015, down from the 1.3-percent rate a year earlier. The average rent in the North Marin area was $1,975, representing a 10-percent increase from the fourth quarter of 2014. In the South Marin area, which is a shorter distance to San Francisco, the apartment vacancy rate was 4.1 percent during the fourth quarter of 2015, up from 1.6 percent during the previous year. The jump in the vacancy rate resulted from the addition of 198 newly completed units, likely in the lease-up phase. Average rents, which are significantly higher in the South Marin area than in the North Marin area, were $2,225 during the fourth quarter of 2015, representing an 11-percent increase from a year earlier. Single-family homes made up 36 percent of the rental inventory in the Marin County submarket in 2014 (2014 ACS 1-year data).

Despite very tight rental market conditions in the Marin County submarket, multifamily building activity, as measured by the number of units permitted, declined recently. During 2015, 190 units were permitted, down slightly from the 200 units permitted in 2014. From 2004 through 2006, multifamily construction peaked when an average of 320 units were permitted annually (Figure 17). Similar to single-family home construction, restrictions on high-density building have resulted in new apartment construction primarily in the northern parts of the county. During 2015, 98 percent of all multifamily units permitted were

Figure 16. Rental Vacancy Rates in the Marin County Submarket, 2000 to Current



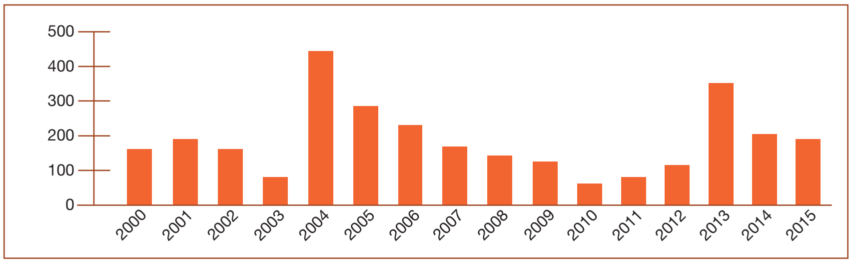
Note: The current date is January 1, 2016.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

in the city of Novato compared with 84 percent during 2014. Construction projects currently under way include the 180-unit Tam Ridge Residences in the city of Corte Madera, located within walking distance of a transit site with bus service to the city of San Francisco. Monthly rents start at $3,000 for one-bedroom units, $3,850 for two-bedroom units, and $4,550 for three-bedroom townhouse-style units. The development includes 18 affordable units restricted to qualifying low- to moderate-income households, with rents based on income. The development is expected to be available for occupancy in the spring or summer of 2016.

Demand is expected for 1,075 rental units in the submarket during the 3-year forecast period. The 240 units currently under construction will satisfy a portion of the demand (Table 1). Table 9 shows the estimated demand, by rent level and number of bedrooms, for new market-rate rental housing in the submarket during the forecast period.

Figure 17. Multifamily Units Permitted in the Marin County Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2015.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 9. Estimated Demand for New Market-Rate Rental Housing in the Marin County Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand	Monthly Gross Rent ($)	Units of Demand
1,000 or more	35	1,450 to 1,649	350	1,750 to 1,949	380	2,200 to 2,399	60
		1,650 to 1,849	45	1,950 to 2,149	110	2,400 or more	15
		1,850 or more	45	2,150 or more	55		
Total	35	Total	430	Total	540	Total	75

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 240 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2016, to January 1, 2019.

Source: Estimates by analysts

Data Profiles

Table DP-1. San Francisco HMA* Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total resident employment	981,892	925,067	1,095,000	– 0.6	3.4
Unemployment rate	3.1%	8.6%	3.4%		
Nonfarm payroll jobs	1,091,800	955,300	1,170,000	– 1.3	4.1
Total population	1,731,183	1,776,095	1,896,000	0.3	1.1
Total households	684,453	706,858	748,800	0.3	1.0
Owner households	335,548	341,393	358,500	0.2	0.9
Percent owner	49.0%	48.3%	47.9%		
Renter households	348,905	365,465	390,300	0.5	1.1
Percent renter	51.0%	51.7%	52.1%		
Total housing units	712,093	759,187	783,800	0.6	0.6
Owner vacancy rate	0.6%	1.7%	0.8%		
Rental vacancy rate	2.3%	5.2%	3.1%		
Median Family Income	$75,219	$96,800	$97,100	2.6	0.1

** San Francisco-San Mateo-San Rafael HMA.*

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through December 2015. Median Family Incomes are for 1999, 2009, and 2014. The current date is January 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. San Francisco County Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	776,733	805,235	867,800	0.4	1.3
Total households	329,700	345,811	376,000	0.5	1.5
Owner households	115,391	123,646	138,900	0.7	2.0
Percent owner	35.0%	35.8%	36.9%		
Rental households	214,309	222,165	237,100	0.4	1.1
Percent renter	65.0%	64.2%	63.1%		
Total housing units	346,527	376,942	394,500	0.8	0.8
Owner vacancy rate	0.8%	2.4%	1.0%		
Rental vacancy rate	2.5%	5.5%	2.9%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-3. San Mateo County Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	707,161	718,451	766,300	0.2	1.1
Total households	254,103	257,837	266,100	0.1	0.6
Owner households	156,133	153,110	154,700	– 0.2	0.2
Percent owner	61.4%	59.4%	58.1%		
Rental households	97,970	104,727	111,400	0.7	1.1
Percent renter	38.6%	40.6%	41.9%		
Total housing units	260,576	271,031	276,000	0.4	0.3
Owner vacancy rate	0.5%	1.3%	0.5%		
Rental vacancy rate	1.8%	4.7%	3.4%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2016.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-4. Marin County Submarket Data Profile, 2000 to Current

				Average Annual Change (%)	
	2000	2010	Current	2000 to 2010	2010 to Current
Total population	247,289	252,409	262,200	0.2	0.7
Total households	100,650	103,210	106,650	0.3	0.6
Owner households	64,024	64,637	64,850	0.1	0.1
Percent owner	63.6%	62.6%	60.8%		
Rental households	36,626	38,573	41,800	0.5	1.4
Percent renter	36.4%	37.4%	39.2%		
Total housing units	104,990	111,214	113,200	0.6	0.3
Owner vacancy rate	0.7%	1.3%	1.0%		
Rental vacancy rate	2.2%	5.2%	3.0%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2016.
Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 1/1/2016—Analyst's estimates
Forecast period: 1/1/2016–1/1/2019—Analyst's estimates

Definitions for the metropolitan statistical areas and metropolitan divisions in this report are based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In the U.S. Department of Housing and Urban Development's (HUD's) analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_SanFrancisco_SanMateo_SanRafaelCA_16.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.