The COVID-19 pandemic has resulted in unprecedented large and rapid changes in many data series, and similarly unprecedented large policy responses, making analysis of, and longer run predictions for, the economy and housing markets exceptionally difficult and uncertain. HUD will continue to monitor market conditions in the HMA and provide an updated report/addendum in the future.

COMPREHENSIVE HOUSING MARKET ANALYSIS

San Francisco-San Mateo-Redwood City, California

U.S. Department of Housing and Urban Development,
Office of Policy Development and Research

As of December 1, 2020

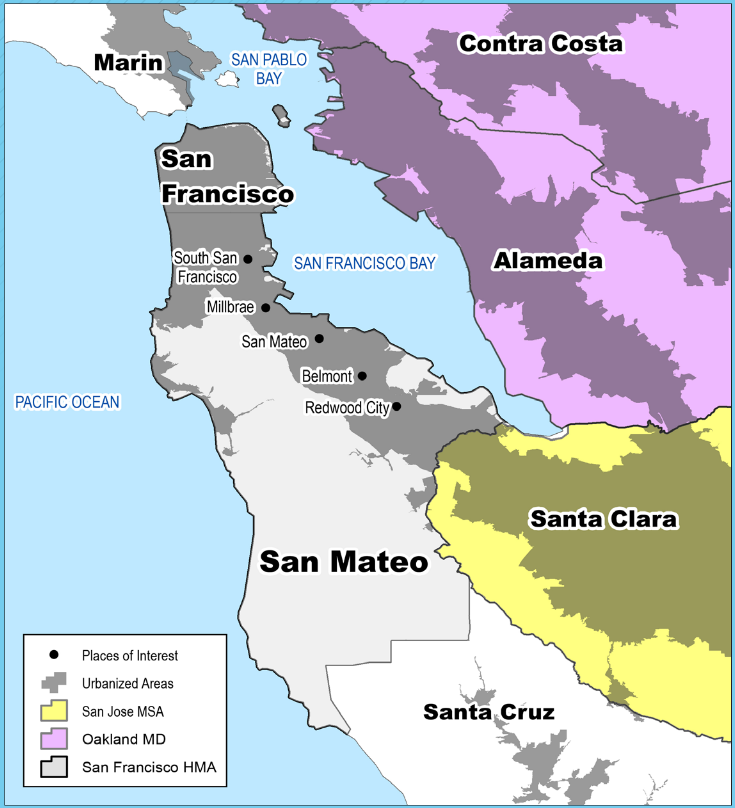
Executive Summary

Housing Market Area Description

The San Francisco-San Mateo-Redwood City Housing Market Area (hereafter, San Francisco HMA) is coterminous with the metropolitan division of the same name and includes San Francisco and San Mateo Counties. For this analysis, the HMA is divided into two submarkets: the San Francisco County submarket, which is coterminous with the city and county of San Francisco, and the San Mateo County submarket.

The current HMA population is estimated at 1.67 million.

The economy of the HMA relies heavily on investment capital because of the prevalence of privately held startup tech firms. In 2019, several notable technology firms—including Uber Technologies, Inc.; Lyft, Inc.; and Pinterest, Inc.—underwent an initial public offering (IPO), transitioning to becoming publicly traded. This transition prompted concern that housing affordability in the HMA, already the lowest in the nation, would be further strained by the increased number of households exchanging equity for cash. Stock prices for tech companies fell below expectations, however, and the COVID-19 pandemic resulted in fewer IPOs and weakened housing market conditions.



Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R's Market-at-a-Glance tool.
Additional data for the HMA can be found in the supplemental tables of this report.
For information on HUD-supported activity in this area, see the Community Assessment Reporting Tool.

Market Qualifiers

Economy

Weak: Nonfarm payrolls declined during the 12 months ending November 2020, primarily because of the impact of efforts to mitigate the COVID-19 virus.

Following 9 years of consecutive job growth, nonfarm payrolls declined 6.6 percent, to 1.10 million jobs, during the 12 months ending November 2020. For comparison, the HMA added 41,200 jobs—a 3.6-percent gain—during the same period the previous year. Job losses in the recent period were greatest in the leisure and hospitality sector, declining by 40,100 jobs, or 27.2 percent. Declines in nonessential travel and retail and bans on entertainment events during the stay-at-home order to mitigate the effects of COVID-19 accounted for much of the decline. During the 3-year forecast period, nonfarm payrolls are expected to increase an average of 3.0 percent annually as the economy recovers from pandemic-induced job losses.

Sales Market

Balanced: Total new and existing home sales decreased 8 percent in the HMA, whereas the average home sales price rose 4 percent during the 12 months ending November 2020.

Home sales declined in the HMA during the past year as out-migration to more affordable areas accelerated with the COVID-19 pandemic. The number of homes sold decreased 8 percent during the 12 months ending November 2020, to 10,650 homes sold; however, the average home sales price increased 4 percent, to $1.66 million (Zonda). The sales market is extremely expensive—particularly for younger households; the income needed to afford a modestly priced home exceeds the median income. Demand is estimated for 1,110 homes during the next 3 years; the 165 homes underway will satisfy a portion of the demand.

Rental Market

Balanced: The apartment vacancy rate in the HMA during the third quarter of 2020 was 4.7 percent, up from the 4.0-percent rate during the third quarter of 2019.

The overall rental market is balanced in the HMA, with a current rental vacancy rate estimated at 4.6 percent, compared with 5.2 percent in 2010. During the third quarter of 2020, the apartment market eased, compared with tight conditions a year ago. Average apartment rents fell 10 percent during the third quarter of 2020 compared with a year ago, whereas the apartment vacancy rate increased 0.7 percentage point. During the next 3 years, demand is expected for 6,800 new rental units; the 3,500 units currently under construction will meet a significant portion of the demand during the first 2 years of the forecast period.

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3-Year Housing Demand Forecast

	Sales Units			Rental Units		
	HMA Total	San Francisco	San Mateo County	HMA Total	San Francisco	San Mateo County
Total Demand	1,100	520	590	6,800	4,675	2,125
Under Construction	165	15	150	3,500	2,475	1,025

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of December 1, 2020. The forecast period is December 1, 2020, to December 1, 2023.
Source: Estimates by the analyst

Economic Conditions

Largest Sector: Professional and Business Services

> Employment in high-tech firms has contributed to significant growth in the professional and business services sector, with the computer systems design and related services industry accounting for 42 percent of total job growth in the sector from 2010 through 2019.

Primary Local Economic Factors—Startups and IPOs

The economy of the San Francisco HMA relies heavily on investment in high-tech industries and has a prevalence of startup tech firms. The number of venture capital deals (funding provided to startup companies in exchange for equity) invested in Silicon Valley (which includes the HMA and the adjacent San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area [hereafter, San Jose MSA]) increased from roughly 1,325 in 2010 to 2,900 in 2019, a 9-percent average annual increase (National Venture Capital Association). From 2011 through 2019, economic growth in the HMA was strong, due primarily to growth in the high-tech industry. Nonfarm payrolls expanded by an average of 36,300 jobs, or 3.7 percent, annually—more than double the national growth rate of 1.6 percent from 2011 through 2019. The professional and business services and the information sectors—which expanded by an average of 12,700 and 6,600 jobs, or 5.7 and 11.2 percent, a year, respectively—led job growth. The computer systems design and related services industry added an average of 5,350 jobs, or 10.6 percent, annually and contributed to 42 percent of all job gains in the professional and business services sector. Many of the largest IPOs in 2019 were of San Francisco-based startup firms and included Uber Technologies, Inc.; Lyft, Inc.; and Pinterest, Inc. (the social media platform), which raised $8.1 billion, $2.2 billion, and $1.43 billion, respectively (*San Francisco Business Times*).

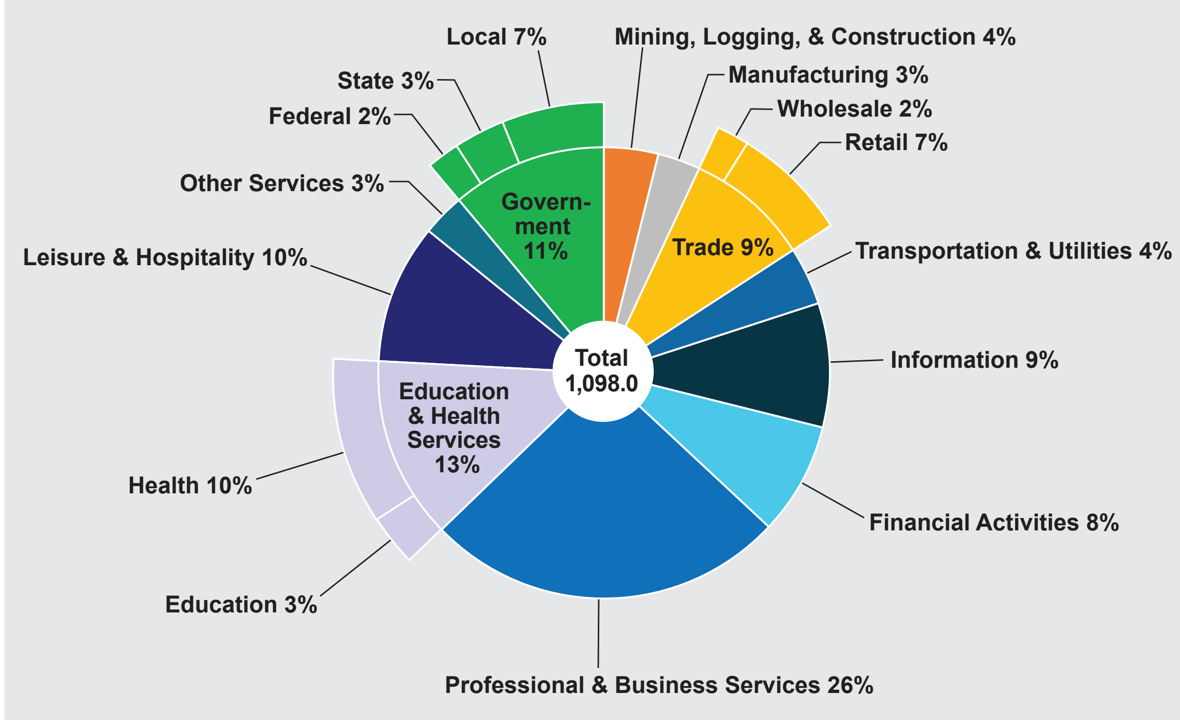
Due to the pandemic and the ensuing economic uncertainty, IPOs of private startup firms were limited during the first half of 2020, with only 6 IPOs by the summer of 2020 in the greater Silicon Valley—compared with 22 during the same time in 2019 (Silicon Valley Institute for Regional Studies). By the end of November 2020, however, DoorDash, Inc., a food delivery service application; Airbnb, Inc., a short-term rental listing site; and Snowflake Inc., a software vendor, went public, constituting 3 of the 10 largest IPOs in history (FactSet). Each of those three companies raised more than $3 billion in funding and have market values between $55 and $100 billion, making them among the 30 most valuable U.S. technology companies. As a result, during the 12 months ending November 2020, the professional and business services sector remained the largest payroll sector in the HMA and accounted for 26 percent of all nonfarm payrolls (Figure 1). Although the number of venture capital deals in Silicon Valley fell 14 percent—from approximately 640 during the fourth quarter of 2019 to 550 during the fourth quarter of 2020—venture capital deals declined by the same 14 percent nationwide as well, from 2,925 to 2,525. The share of venture capital deals in Silicon Valley therefore remained essentially unchanged at 21.6 percent during the fourth quarter of 2020, compared with a 21.8-percent share during the fourth quarter of 2019 (Figure 2).

Current Nonfarm Payroll Trends—12 Months Ending November 2020

Economic conditions in the San Francisco HMA have weakened considerably in the past year, with most job losses occurring in March and April of 2020 because nonessential economic activities were curtailed in the HMA to slow the spread of COVID-19. During the 12 months ending November 2020, payrolls totaled 1.10 million, reflecting a decrease of 77,100 jobs, or 6.6 percent (Table 1), compared with the same 12-month period a year ago. By November 2020, the HMA recovered about 42 percent of jobs lost during March and April of 2020. For context, during the 12 months ending November 2019, payrolls increased by 41,200 jobs, or 3.6 percent. Before the pandemic, economic conditions were very strong, with 9 consecutive years of job growth, although the rate of growth moderated during the past 4 years. Nonfarm payroll growth averaged 3.8 percent annually from 2011 through 2017 and slowed to an average annual rate of 3.3 percent from 2018 through 2019. Figure 3 shows the 12-month average nonfarm payrolls since 2000.

The economic impact of the COVID-19-related shutdowns has been uneven, with job losses being the greatest in sectors where workers cannot easily transition to remote work—typically in occupations with relatively lower wages. The largest decline was in the leisure and hospitality sector, which lost 40,100 jobs during the 12 months ending November 2020, a 27.2-percent decline. More than one-half of all nonfarm job losses occurred in the sector because most of those jobs rely on face-to-face interactions or simple physical presence to perform—layoffs occurred particularly in restaurants, hotels, and airlines. Some of the largest layoffs included 925 employees at the Hilton San Francisco Union Square, 800 employees at the San Francisco Marriot Marquis hotel, and 600 employees at Alaska Airlines in San Francisco International Airport (*San Francisco Chronicle*). Meanwhile, sectors in which a large percentage of the workforce was able to work remotely were less affected by shutdowns. The professional and business services and the information sectors were only minimally affected, with respective declines of 300 and 2,500 jobs, or 0.1 and 2.6 percent. The financial activities sector was the only sector to add jobs, with a gain of 1,200 jobs, or 1.4 percent; the pandemic accelerated the shift toward online banking—away from brick-and-mortar bank branches—and an increasing number of fintech startup companies filled the void by serving retail customers directly.

Figure 1. Share of Nonfarm Payroll Jobs in the San Francisco HMA, by Sector

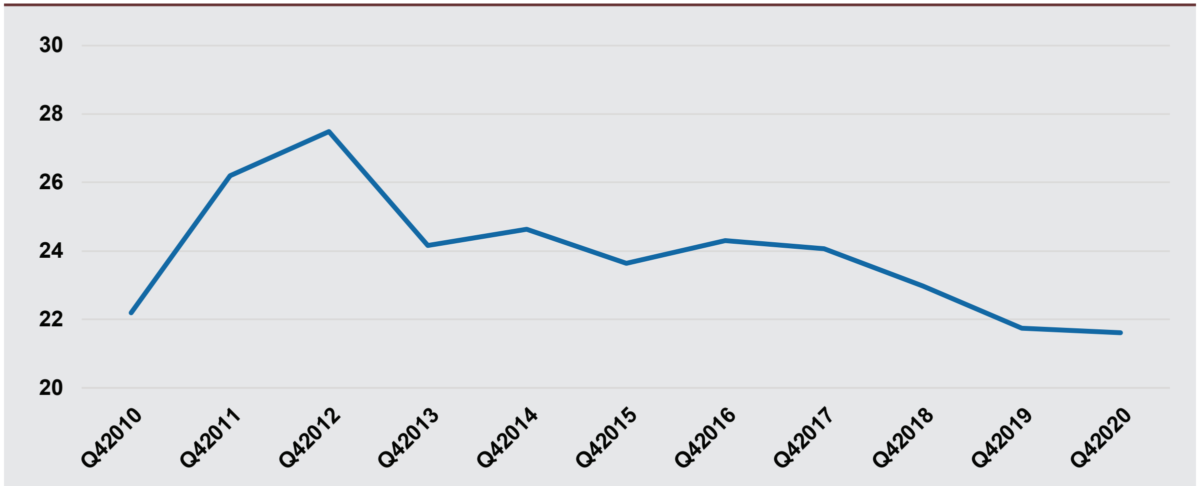


Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Based on 12-month averages through November 2020.
Source: U.S. Bureau of Labor Statistics

Current Conditions—Unemployment

The unemployment rate in the HMA, which peaked at 8.7 percent in 2010 because of the Great Recession, averaged 6.8 percent during the 12 months ending November 2020, up significantly from the 2.2-percent rate a year ago (Figure 4). By comparison, during the 12 months ending November 2020, the national rate was 7.8 percent, up from 3.7 percent a year prior. The significant increase in the unemployment rate during the past year is primarily the result of job declines due to efforts employed to contain the spread of COVID-19. Much of the loss of jobs occurred during the second quarter of 2020, as the nine-county Bay Area (which includes both counties in the HMA) became the first in the nation to announce a regional stay-at-home order. During the second quarter of 2020, the unemployment rate averaged 12.0 percent—significantly higher than the 2.0-percent rate during the second quarter of 2019, when unemployment rates reached historical lows. The unemployment rate is expected to decline during the 3-year forecast period but will likely remain elevated as the economy gradually recovers from the pandemic-related economic disruption.

Figure 2. Silicon Valley Share of Venture Capital Deals



Q4 = fourth quarter.
Source: National Venture Capital Association

2001 Through 2008: The Dot-Com Bust and Housing Boom

Nonfarm payrolls in the HMA declined by an average of 33,100 jobs, or 3.6 percent, annually, from 2001 through 2004 in the aftermath of the dot-com bubble. Venture capital funding in Silicon Valley declined from $33.4 billion in 2000 to $8.0 billion in 2004, a 76-percent decline (National Venture Capital Association). Thousands of Internet-related businesses closed during this period, including Webvan Group, Inc., which laid off 2,000 employees in 2001. The greatest job loss occurred in the professional and business services sector, which declined by 12,100 jobs annually, or 6.6 percent, from 2001 through 2004.

Table 1. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the San Francisco HMA, by Sector

	12 Months Ending November 2019	12 Months Ending November 2020	Absolute Change	Percentage Change
Total Nonfarm Payroll Jobs	**1,175.1**	**1,098.0**	**-77.1**	**-6.6**
Goods-Producing Sectors	83.0	77.1	-5.9	-7.1
Mining, Logging, & Construction	43.8	40.3	-3.5	-8.0
Manufacturing	39.2	36.8	-2.4	-6.1
Service-Providing Sectors	1,092.0	1,021.0	-71.0	-6.5
Wholesale & Retail Trade	104.2	96.2	-8.0	-7.7
Transportation & Utilities	50.3	45.5	-4.8	-9.5
Information	96.3	93.8	-2.5	-2.6
Financial Activities	86.0	87.2	1.2	1.4
Professional & Business Services	290.0	289.7	-0.3	-0.1
Education & Health Services	144.5	140.2	-4.3	-3.0
Leisure & Hospitality	147.3	107.2	-40.1	-27.2
Other Services	41.5	35.7	-5.8	-14.0
Government	132.0	125.5	-6.5	-4.9

Notes: Based on 12-month averages through November 2019 and November 2020. Numbers may not add to totals due to rounding. Data are in thousands.
Source: U.S. Bureau of Labor Statistics

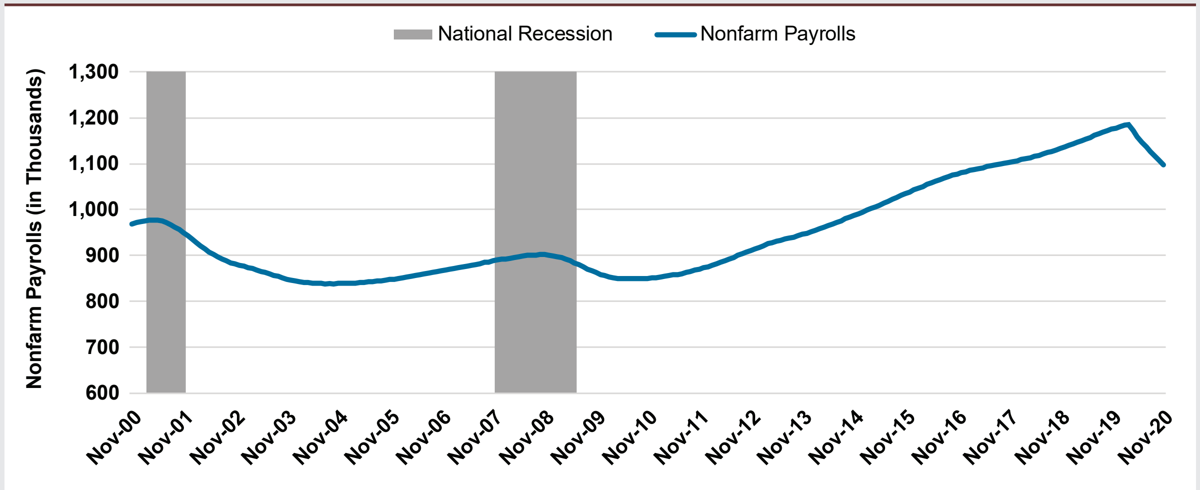
At the same time, the information sector lost an average of 5,700 jobs, or 10.5 percent, a year.

During the following 4 years, the HMA recovered from the economic downturn of the early 2000s, with venture capital investments in Silicon Valley increasing 43 percent from 2005 through 2008. During this same period, nonfarm payrolls increased by an average of 15,400 jobs, or 1.8 percent. The professional and business services sector led job gains, expanding by an average of 8,000 jobs, or 4.8 percent, annually and accounted for 52 percent of nonfarm payroll growth. Within the sector, the computer systems design and related services industry expanded by an average of 2,400 jobs, or 9.9 percent, a year, as technology companies such as Twitter, Inc. and Zynga Inc. were founded. During this period, job growth was also significant in the education and health services sector, which added an average of 3,400 jobs, or 3.3 percent, annually, and the leisure and hospitality sector, which added an average of 2,800 jobs, or 2.6 percent, annually. Visitor spending in the HMA increased from $9.9 billion in 2005 to $11.5 billion in 2007 (Visit California).

2009 Through 2010: The Great Recession

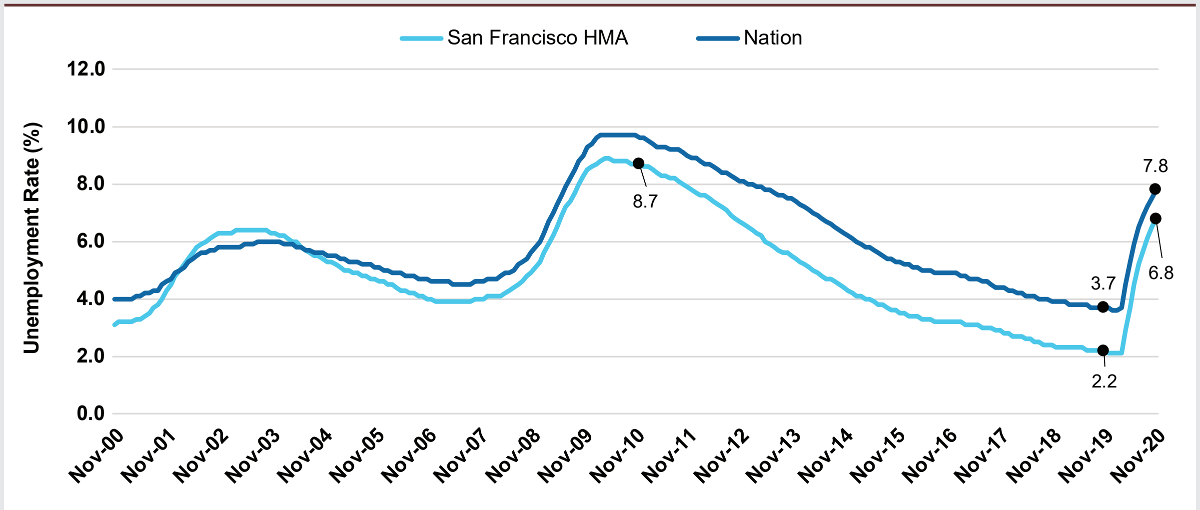
The next downturn to affect job growth in the HMA was the Great Recession, which affected the HMA later than the rest of the nation. Nonfarm payrolls in the HMA declined by an average of 25,000 jobs, or 2.8 percent, annually during

Figure 3. 12-Month Average Nonfarm Payrolls in the San Francisco HMA



Note: 12-month moving average.
Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

Figure 4. 12-Month Average Unemployment Rate in the San Francisco HMA and the Nation



Note: Based on the 12-month moving average.
Source: U.S. Bureau of Labor Statistics

2009 and 2010. By comparison, nonfarm payrolls fell by an average of 1.7 percent nationwide during this period, when much of the country was already starting to recover. Job losses in the HMA were greatest in the mining, logging, and construction; the professional and business services; the financial activities; and the wholesale and retail trade sectors, with average annual declines of 5,200, 5,200, 4,500, and 4,300 jobs, or 15.0, 2.8, 6.0, and 4.3 percent, respectively. During this period, an 18-percent decline in venture capital investment slowed the creation and expansion of startup companies. Despite the decline, annual average job losses during this second contraction were a fraction of the losses that occurred during the dot-com bust. Because the economic decline was not concentrated in the high-tech industry, this recessionary period was significantly shorter, and the local economy recovered quickly.

2011 Through 2019: The Tech Boom

From 2011 through 2019, the local economy recovered strongly due to the technology boom, although growth started to slow in 2018. Nonfarm payrolls expanded by an average of 36,200 jobs, or 3.8 percent, annually from 2011 through 2017. The professional and business services and the information sectors—which expanded by averages of 13,000 and 5,600 jobs, or 6.1 and 10.8 percent, a year, respectively—led job growth. The computer systems design and related services industry accounted for 34 percent of job gains in the professional and business services sector during the period, as venture capital investment in Silicon Valley increased by an average of 22 percent annually from 2011 through 2017, to $25.2 billion; the investment in this area represented one-third of all venture capital investment nationwide (National Venture Capital Association). The increase in venture capital funding and tax incentives offered by the city of San Francisco for companies locating to certain rehabilitated areas created significant employment opportunities in the high-tech industry. New startup companies commencing operations in the HMA or expanding or relocating their operations to the HMA during this time included Twitter, Inc., which added approximately 500 jobs in 2012, and Salesforce.com, Inc., which added 1,100 jobs in 2014. During the 7-year period, approximately 3,275 startup companies were founded in the Greater San Francisco Bay Area, with $48.7 billion in funding (Crunchbase). Job gains during the 2011-through-2017 period were also significant in the leisure and hospitality sector, which added an average of 4,500 jobs, or 3.7 percent, annually. Travel-related spending in the HMA was $17 billion in 2017, a 31-percent increase from $13 billion in 2010 (Visit California).

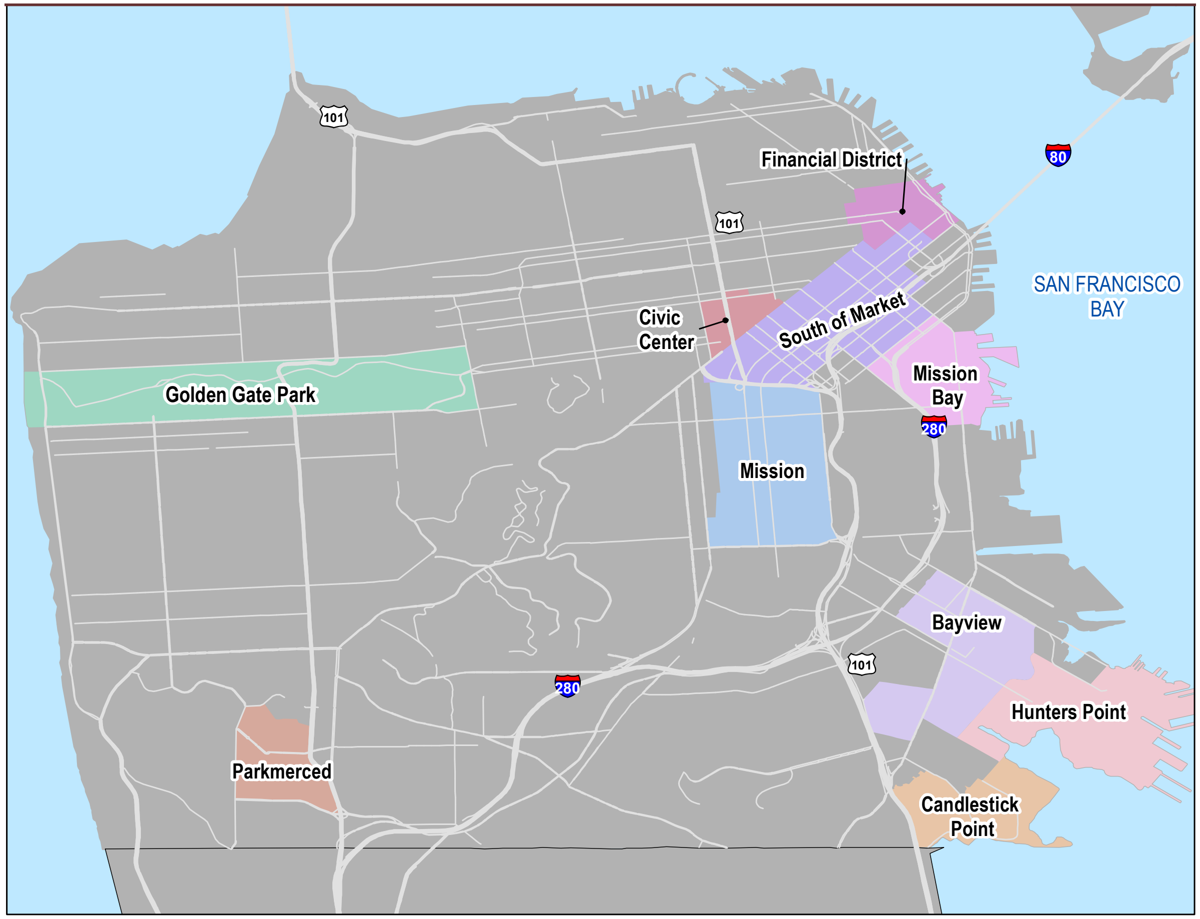
Although job growth continued up to the start of the pandemic, the rate of job growth slowed starting in 2018. During 2018 and 2019, the HMA added an average of 36,800 jobs, or 3.3 percent, annually. The professional and business services and the information sectors continued to lead overall job growth, with the average addition of 12,000 and 10,300 jobs, or 4.4 and 12.6 percent, respectively. The rate of job growth slowed as a result of a tight labor market and declining net in-migration, caused in part by the increasingly high cost of living in the HMA. For the first time since 2011, not all nonfarm sectors recorded job gains; during 2018 and 2019, the wholesale and retail trade and the manufacturing sectors recorded job declines of 1,600 and 100 jobs, or 1.5 and 0.3 percent, respectively.

Employment Forecast

Before the onset of the COVID-19 pandemic, expansions of high-tech firms were continuing to occur, and several large office leases in the city of San Francisco were signed. Although the new leases were generally for consolidated campuses and would not have added the same magnitude of new employees as had occurred in previous years, tech firms continued to invest in the HMA for long-term growth. Facebook, Inc. (headquartered in San Mateo County) signed a historically large office lease deal in the city of San Francisco for the 755,900-square-foot Park Tower, with capacity for up to 8,000 Facebook employees (including employees at Instagram, which is owned by Facebook, Inc.). Across the street from Park Tower is the newly completed Salesforce Towers, where 7,500 employees work. Before the Facebook Park Tower lease, the 736,000-square-foot lease of 1800 Owens Street in the Mission Bay neighborhood (Map 1) by Dropbox, Inc.—a file hosting service company—was the largest office lease signed in recent years and was the main campus for their 1,500 employees. Also located in Mission Bay is the new consolidated corporate headquarters campus of Uber Technologies, Inc., one of the largest employers in the HMA (Table 2), with room for up to 7,000 employees. The project was completed in 2020 but never occupied as a result of the COVID-19 pandemic.

The stay-at-home orders that forced companies to implement remote work for most of their employees who were able to do so have altered many corporate decisions to continue investing in the HMA. Pinterest, Inc. announced in August 2020 that it was terminating a 490,000-square-foot lease for its new headquarters campus in downtown San Francisco that would have opened in 2022 and provided space for more than 3,000 employees. The company noted that the lease termination was aimed at supporting a diverse and geographically distributed workforce in light of the pandemic and the increase in remote work. In addition, Twitter, Inc.—one of the first tech companies to implement a mandatory work-from-home policy prior to the official county stay-at-home orders—announced in May 2020 that its employees could permanently work from home. The company noted that the policy change would support a distributed workforce capable of working from anywhere. The company headquarters office, however, remains in San Francisco as of the current date. Although other tech firms such as Google LLC and Facebook, Inc. have simply extended their work-from-home policies into the latter half of 2021, the companies have also laid out detailed plans for expanding remote work policies even after the pandemic.

Map 1. Neighborhoods in the City and County of San Francisco



Source: DataSF.org

This shift to remote work may limit future job growth in the HMA as tech firms seek a diversity of talent outside the immediate Bay Area. In the most recent annual report of the best-performing cities—which uses an index that emphasizes jobs, wages, high-tech growth, housing affordability, and household broadband access—San Francisco was ranked 24, down significantly from its number 1 spot a year earlier (The Milken Institute). The significant decline was due to the high cost of housing and a strong negative shift in short-term job growth.

During the 3-year forecast period, nonfarm payrolls in the HMA are expected to increase by an average of 34,900 jobs, or 3.0 percent, annually. Although many tech firms continue to remain in the HMA and a return of at least some workers back to offices in the HMA is likely to occur during the forecast period, much of the job growth will be from businesses rehiring employees as more office workers commute into the city, buy lunches, and shop downtown. By the end of the 3-year forecast, the level of nonfarm payrolls is expected to be slightly lower than the level in February 2020, prior to the onset of the pandemic.

Table 2. Major Employers in the San Francisco HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
University of California, San Francisco	Government	34,690
Salesforce.com, Inc.	Professional & Business Services	9,100
Wells Fargo & Company	Financial Activities	7,296
Kaiser Permanente	Education & Health Services	6,659
United Airlines, Inc.	Transportation & Utilities	6,153
Sutter Health	Education & Health Services	6,134
Uber Technologies, Inc.	Professional & Business Services	5,500
Oracle Corporation	Professional & Business Services	5,000-9,999
The Gap, Inc.	Wholesale & Retail Trade	4,000
Pacific Gas and Electric Company	Transportation & Utilities	3,800

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

Population and Households

Current Population: 1.67 million

Population growth was strong during the early part of the 2010 decade but has slowed since 2015 as domestic net out-migration outpaced international net in-migration.

Population and Migration Trends

As of December 1, 2020, the population of the San Francisco HMA is estimated at 1.67 million (Table 3). Population growth since the 2000s has been responsive to both economic conditions and housing affordability in the HMA. From 2010 to 2015, population growth averaged 20,050 people, or 1.3 percent, annually. Net in-migration accounted for the addition of 12,250 people a year, or 61 percent of the increase, partly reflecting the strong job growth in the HMA compared with other areas in the nation. During this period, domestic net in-migration averaged 2,525 people, but much of the population growth during this period was due to international net in-migration of 9,725 people (primarily of residents from Asia and Latin America). The average net natural change of 7,800 people a year accounted for the remaining 40 percent of total population growth during this period. Figure 5 shows the components of population change for periods of significance between 2000 and the forecast date. The HMA attracts a younger demographic than the nation overall; during 2019, the percentage of residents aged 20 to 59 was 59 percent in the San Francisco HMA, compared with 52 percent nationwide (Figure 6).

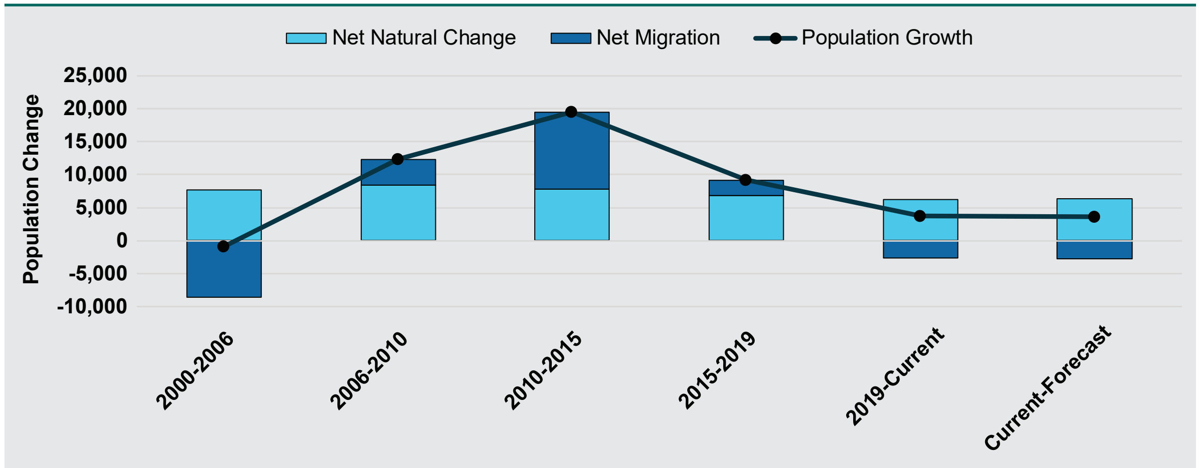
Table 3. San Francisco HMA Population and Household Quick Facts

Population Quick Facts		2010	Current	Forecast
	Population	1,523,686	1,671,000	1,682,000
	Average Annual Change	3,975	13,800	3,600
	Percentage Change	0.3	0.9	0.2

Household Quick Facts		2010	Current	Forecast
	Households	603,648	656,100	661,900
	Average Annual Change	1,975	4,925	1,975
	Percentage Change	0.3	0.8	0.3

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (December 1, 2020) to December 1, 2023.
Sources: 2010—2010 Census; current and forecast—estimates by the analyst

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

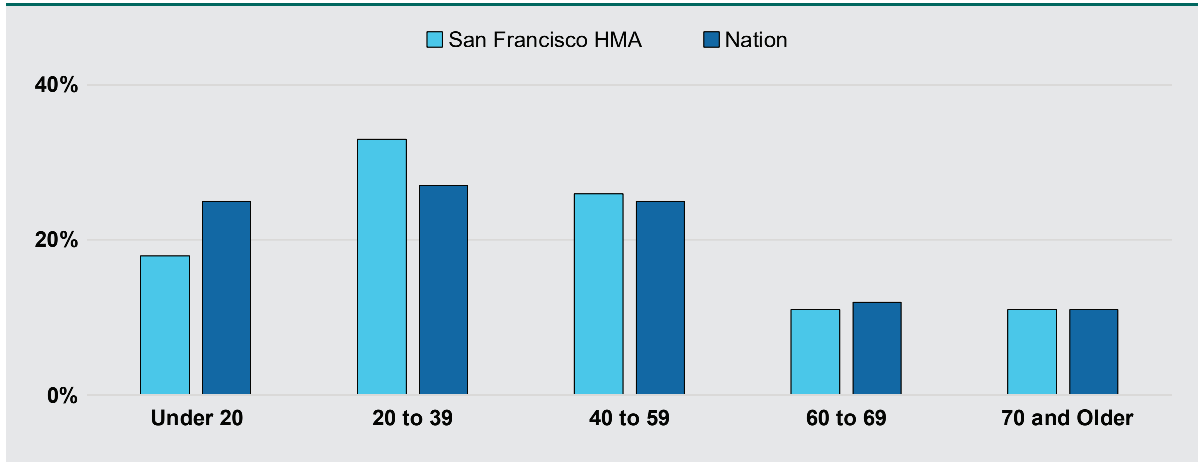


Notes: Net natural change and net migration totals are average annual totals over the time period. The forecast period is from the current date (December 1, 2020) to December 1, 2023.
Sources: California Department of Finance population estimates; current to forecast—estimates by the analyst

Despite strong economic conditions, population growth has slowed significantly since the mid-2010s as rising housing costs have resulted in increased numbers of domestic residents relocating to relatively affordable housing markets near the HMA, such as the Oakland metropolitan division. From 2015 to 2019, the population of the HMA grew by an average of 9,150 people annually, or 0.6 percent; average domestic net out-migration rose to 8,825 people a year, and average international net in-migration averaged 11,100 people a year, resulting in overall average net in-migration of 2,275 people. The rate of net natural change also declined from the 2010-to-2015 period, to an average of 6,875 people a year, as births declined.

From 2000 to 2010, the population of the HMA increased by an average of 3,975, or 0.3 percent, annually, with significant growth during the latter part of the decade offsetting stagnant population change in the first part of the decade. During and after the recession in the early 2000s, net out-migration averaged about 7,975 people a year from 2000 to 2006, mainly due to job losses following the bursting of the dot-com bubble. Domestic net out-migration during this period was significant, averaging 26,300 people, while international net in-migration averaged 18,225 people. During the period, the population declined by an average of 250 people a year, annually. Population growth increased significantly, to an average of 11,050, or 0.7 percent, annually, during the 2006-to-2010 period, which included both the height of the housing bubble and the Great Recession that followed. Although job losses during this period resulted in average annual domestic net out-migration of 14,750 people, the foreclosure crisis created a significant inventory of housing units to be sold at a discount that at least partially incentivized international net in-migration of 17,350 people.

Figure 6. Population by Age Range in the San Francisco HMA



Source: U.S. Census Bureau; 2019 American Community Survey 1-year data

San Francisco County Submarket

Population trends in the San Francisco County submarket closely reflect those of the HMA, although the submarket generally benefited from strong population growth for much of the 2010 decade because the submarket is where most jobs were added. From 2000 to 2006, population growth averaged 990, or 0.1 percent, annually. During this period, a net natural change of 2,300 people offset the net out-migration of 1,300 people. From 2006 to 2010, the rate of population growth increased, with an average addition of 5,950 people, annually, and 45 percent of the growth was due to net in-migration. Population growth was fastest during the 2010-to-2015 period—when economic growth in the HMA was strongest as a result of the tech boom—averaging 11,250, or 1.4 percent, annually. During this period, average annual net in-migration of 7,925 people accounted for 70 percent of population growth. Increasingly high housing costs began to cause residents and businesses to relocate to more affordable locations—dampening population growth since 2015, to an average of 5,200, or 0.6 percent. Domestic net out-migration of 3,900 people was offset by international net in-migration of 6,125 people during this period, resulting in a total net in-migration of 2,225 people.

San Mateo County Submarket

In all periods, the rate of population growth was lower in the more suburban San Mateo County submarket. From 2000 to 2006, the overall decline in population in the HMA was due to an average annual loss of 1,250 people in the San Mateo County submarket, all of which was due to the net out-migration of 6,675 people. From 2006 to 2010, population growth in the San Mateo County submarket accelerated to an average of 5,075, or 0.7 percent, annually, but a net natural change of 5,225 offset the net out-migration of 150 people during this period. The submarket benefited from the local tech expansion because of its location between both the city of San Francisco to the north and the San Jose MSA to the south. During the 2010-to-2015 period, population growth averaged 8,775, or 1.2 percent, and net in-migration of 4,300 people accounted for almost one-half of growth. Like trends in the HMA and the San Francisco County submarket, population growth in the San Mateo County submarket has declined—averaging 2,925, or 0.4 percent—along with housing affordability since 2015. During this period, the domestic net out-migration of 5,925 people offset international net in-migration, leading to a total net out-migration of 930 people.

Population Forecast

Population growth is expected to continue during the 3-year forecast period but at a significantly slower rate given weak economic conditions and continued net out-migration due to continued high housing costs. The population is expected to reach 1.68 million by December 1, 2023, reflecting an average annual growth of 3,600, or 0.2 percent. Net natural change will continue to account for all the population growth, as net out-migration continues due to the prevalence of remote work and high housing costs. Initial data suggest that migrants from the HMA are moving to more affordable cities in the United States, including Austin, Chicago, Denver, Portland, and Seattle (move-Buddha). Most out-migrants, however, are staying within the Greater Bay Area, suggesting that many office workers intend to return, at least part time, to their physical office locations. An analysis of U.S. Postal Service records found that the most common destination of migrants leaving the city and county of San Francisco were the counties of Alameda, Contra Costa, Marin, Napa, Santa Clara, San Mateo, and Sonoma (*San Francisco Chronicle*). These trends are likely to continue during the forecast period.

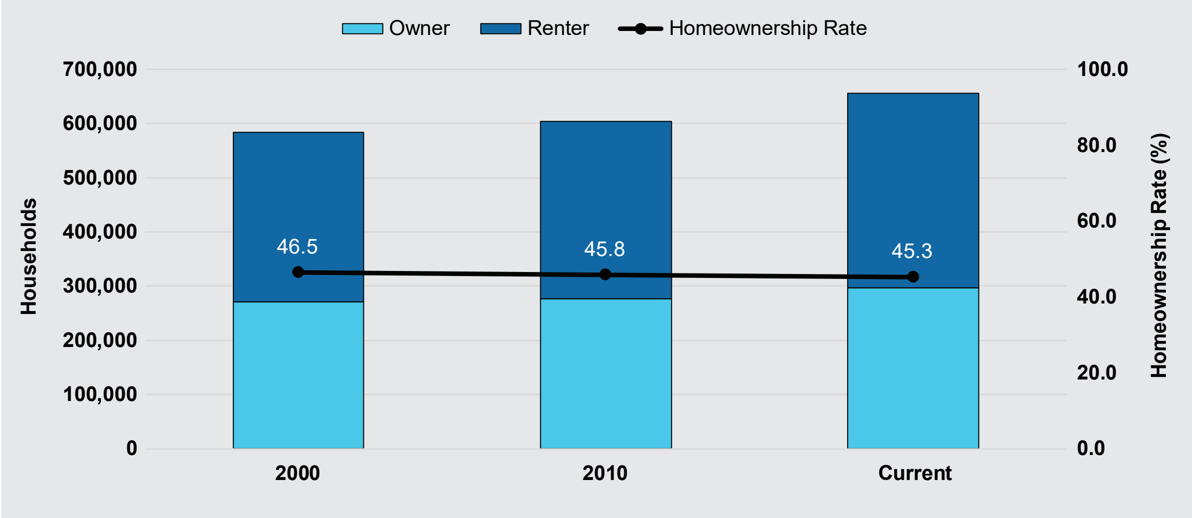
Household Trends

Household growth in the HMA has generally reflected population growth trends since 2000. As of December 2020, the number of households is estimated at 656,000, including an estimated 297,100 owner and 358,900 renter households. From 2000 to 2010, the number of households increased by an average of approximately 1,975 households, or 0.3 percent, a year—the same rate as the 0.3-percent population growth. Since 2010, the number of households has increased by an average of 4,925, or 0.8 percent, a year, or slightly below the 0.9-percent rate of population growth. The slowdown in household formation relative to population growth since 2010 partly reflects rising housing costs in the HMA. An estimated 45.3 percent of households in the HMA are currently homeowners, down from a homeownership rate of 45.8 percent in 2010 (Figure 7). Renter household formation, on the other hand, has accelerated since 2010, increasing at an average annual rate of 0.9 percent, or 3,000 households, compared with an average annual increase of 0.5 percent, or 1,450 households, during the 2000-to-2010 period.

San Francisco County Submarket

In line with the trend of higher population growth in the San Francisco County submarket, household growth has also generally been higher in the submarket. As of December 2020, an estimated 386,900 households reside in the San Francisco County submarket, with an estimated 138,400 owner and 248,500 renter households. From 2000 to 2010, household growth averaged 1,600, or 0.5 percent, slightly higher than the 0.4-percent rate of population growth during this time. Household growth tends to be higher than population growth because of the prevalence of smaller households of young professionals. Since 2010, an average of 3,850 new households were formed—a 1.1-percent rate of growth, compared with the 1.0-percent rate of population growth. An estimated 35.8 percent of households in the submarket are homeowners—a significantly smaller percentage than the overall HMA but unchanged from the rate in 2010. Since 2010, renter household growth in the submarket has largely contributed to trends in the overall HMA and has increased by an average of 2,475 households, or 1.1 percent, compared with an average annual increase of 790 households, or 0.4 percent, during the 2000-to-2010 period.

Figure 7. Households by Tenure and Homeownership Rate in the San Francisco HMA



Note: The current date is December 1, 2020.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

San Mateo County Submarket

As of December 2020, an estimated 269,100 households reside in the San Mateo County submarket, with an estimated 158,700 owner and 110,400 renter households. From 2000 to 2010, household growth averaged 370, or 0.1 percent, slightly higher than the 0.2-percent rate of population growth during this time. High housing costs and a trend toward intergenerational living in the submarket since 2010 have resulted in significantly larger household sizes. Since 2010, an average of 1,050 new households have been formed annually—a 0.4-percent rate of growth, which is one-half the 0.8-percent rate of population growth. An estimated 59.0 percent of households in the submarket are homeowners, down slightly from a homeownership rate of 59.4 percent in 2010. Unlike trends in the San Francisco County submarket and the HMA overall, renter household formation has declined since 2010, to an average of 540 households, or 0.5 percent—compared with an average annual increase of 680 households, or 0.7 percent, during the 2000-to-2010 period.

Household Forecast

Because of continued weak economic conditions and net out-migration, household growth in the HMA is expected to slow to an average of 1,975, or 0.3 percent, annually during the next 3 years. Both submarkets are expected to have slower household formation. In the San Francisco County submarket, household growth is expected to average 1,600, or 0.4 percent, whereas in the San Mateo County submarket, household growth is expected to average 360, or 0.1 percent. Roughly 45.4 percent of the additional households in the HMA are expected to be homeowners, up slightly from the current homeownership rate of 45.3 percent. Although housing costs remain high, the prevalence of remote work has shifted the focus on the home, and more financially able residents are expected to transition into homeownership and spend a larger portion of their incomes on housing costs.

Home Sales Market HMA

Market Conditions: Balanced

For the first time since the tech boom in the early 2010s, the home sales market is balanced, compared with tight conditions prior to the COVID-19 pandemic. The recent easing results from significant net out-migration to more affordable areas, spurred by an increase in remote working arrangements.

Current Conditions

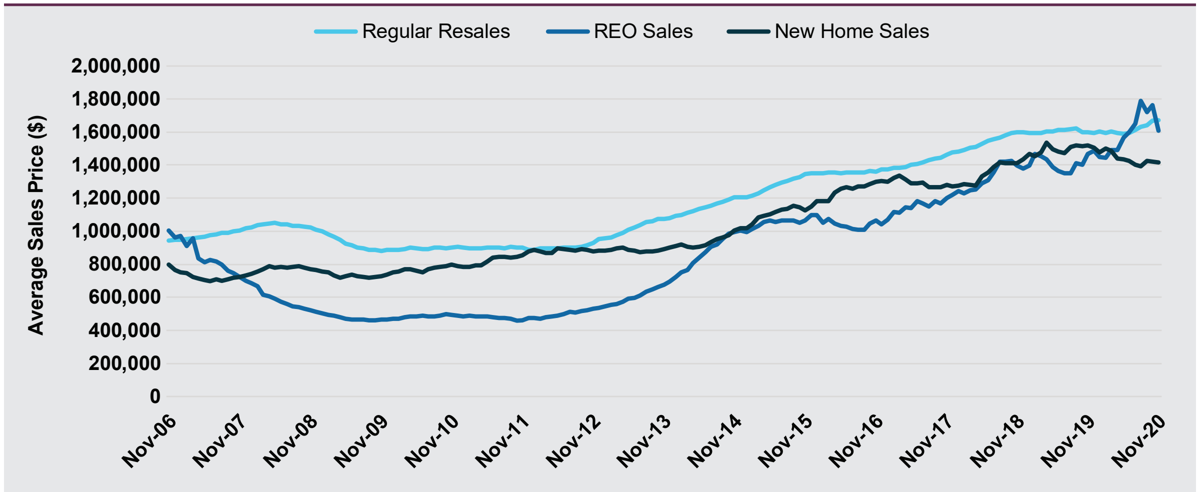
The home sales market in the San Francisco HMA is balanced, with an estimated 1.3-percent vacancy rate, down from 1.8 percent in April 2010, when conditions were also balanced. The HMA has had a historical shortage of housing development—limited by regulatory barriers and high costs of construction—which has kept the sales market vacancy rates fairly low even during recessionary periods. Approximately 3,125 existing single-family homes, condominiums, and townhomes were available for sale in November 2020, representing a 3.8-month supply at the current sales rate—up from 1,350 homes for sale, or a 1.7-month supply, a year ago (Table 4; CoreLogic, Inc.). The pandemic and the subsequent rise in remote work—particularly among tech workers—have accelerated trends in net out-migration and weakened the sales market from previously tight conditions. Although the average sales price for both new and existing homes continued to increase—by 4 percent, to $1.66 million, during the 12 months ending November 2020—the rate of growth was significantly slower than the average 8-percent rate recorded annually from 2013 through 2019 (Figure 8). The average home sales price in the

Table 4. Home Sales Quick Facts in the San Francisco HMA

		San Francisco HMA	Nation
Home Sales Quick Facts	Vacancy Rate	1.3%	NA
	Months of Inventory	3.8	1.9
	Total Home Sales	10,650	5,217,000
	1-Year Change	-8%	-4%
	New Home Sales Average Price	$1,414,000	$408,400
	1-Year Change	-7%	-1%
	Existing Home Sales Average Price	$1,670,000	$341,900
	1-Year Change	4%	9%
	Mortgage Delinquency Rate	2.1%	4.1%

NA = data not available.
Notes: The vacancy rate is as of the current date; home sales and prices are for the 12 months ending November 2020; and months of inventory and mortgage delinquency data are as of November 2020. The current date is December 1, 2020.
Sources: CoreLogic, Inc.; Zonda

Figure 8. 12-Month Average Sales Price by Type of Sale in the San Francisco HMA



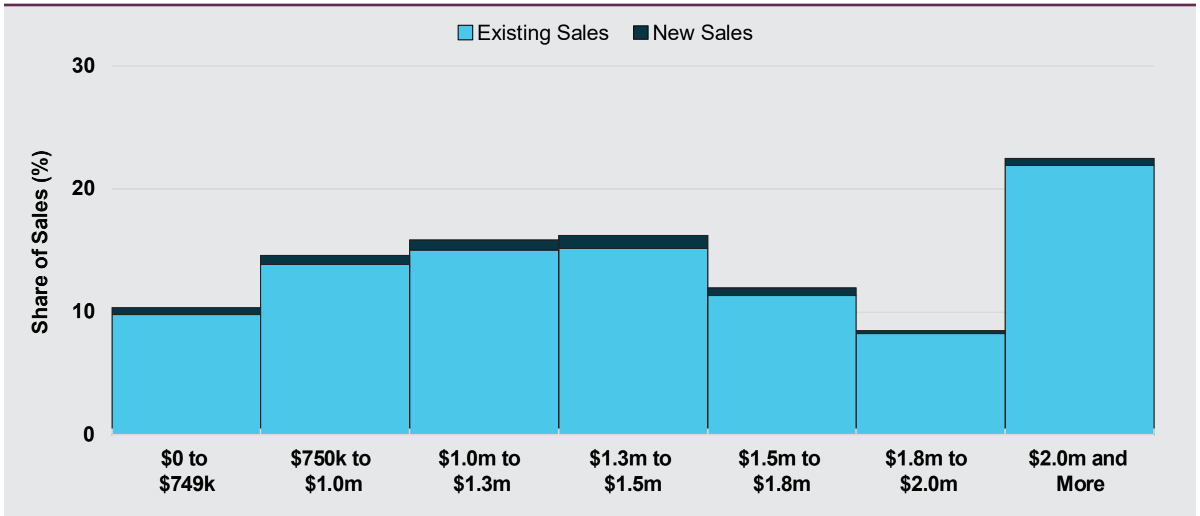
REO = real estate owned.
Source: Zonda

HMA, however, remained more than four times the average for the nation. A significant share of homes sold in the HMA during the 12 months ending November 2020 were homes priced at $2 million or more (Figure 9). Approximately 10,650 new and existing homes sold during the 12 months ending November 2020—a decline of 8 percent from the 11,550 homes sold during the previous year (Figure 10; Zonda).

Housing Affordability

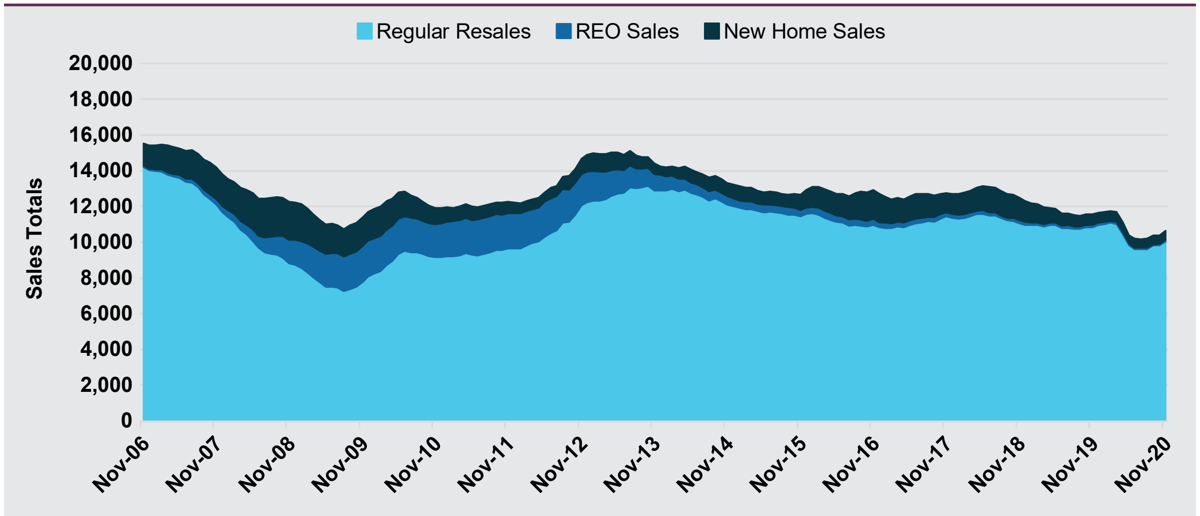
Despite weakening sales market conditions, homeownership in the San Francisco HMA is extremely expensive, and the affordability of buying a home in the HMA has declined since 2012, around the time of significant economic growth and migration into the HMA from the tech boom. The four-quarter moving average National Association of Home Builders (NAHB)/ Wells Fargo Housing Opportunity Index (HOI) for the San Francisco HMA—which represents the share of homes that would have been affordable to a family earning the median income—was 9.7 during the third quarter of 2020, down from a third-quarter peak of 23.0 during the third quarter of 2013 (Figure 11). Although the long-term trend is toward declining affordability, the HOI has increased after reaching a low in 2018, from 6.7 during the third quarter of 2018 to 7.3 during the third quarter of 2019. The recent increase in affordability results from a 9-percent increase in median incomes and only a 2-percent increase in the median sales price. The HMA was the least

Figure 9. Share of Overall Sales by Price Range During the 12 Months Ending November 2020 in the San Francisco HMA



Note: New and existing sales include single-family homes, townhomes, and condominium units.
Source: Zonda

Figure 10. 12-Month Sales Totals by Type in the San Francisco HMA



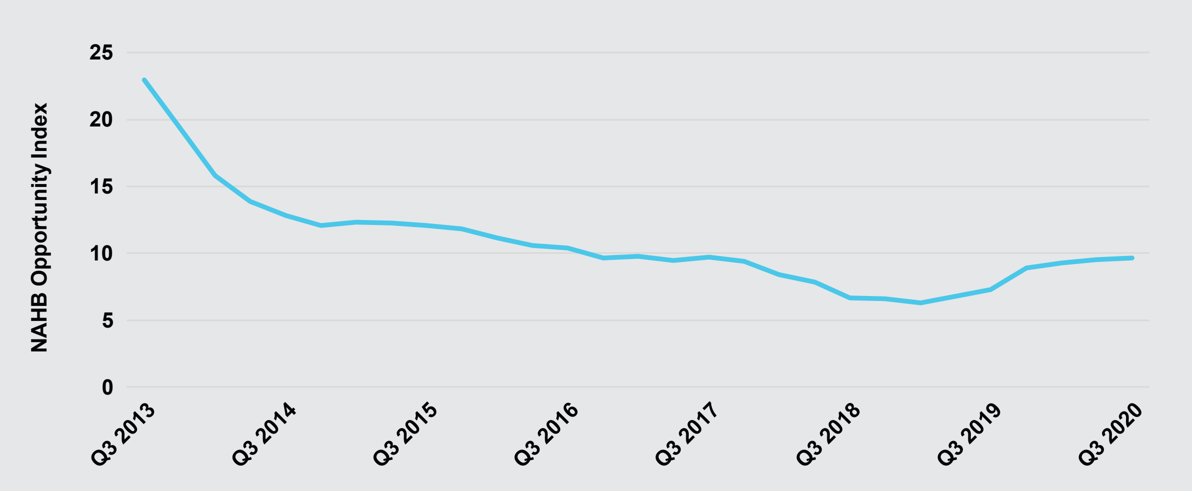
REO = real estate owned.
Source: Zonda

affordable area among metropolitan areas in the nation during the third quarter of 2020.

Low housing affordability in the HMA has made it difficult for first-time homebuyers to enter homeownership. The HUD First Time Homebuyer Affordability Index is a measure of the median household income for householders aged 25 to 44 years old relative to the income needed to purchase the 25th-percentile-priced home. Except for modest upticks in 2016 and 2019, the index has declined every year since 2013 (Figure 12). Although the median income for householders aged 25 to 44 years old has been the highest out of all age cohorts in the HMA since 2013, the index has never been above 1.00. This index means that the median income for householders aged 25 to 44 years old has not been high enough to afford a 25th-percentile-priced home since 2013, despite average annual income growth for this age cohort of roughly 6 percent from 2013 to 2018. During 2019, the index was 0.76, up from 0.67 in 2018. The recent increase in affordability reflects a 1-percent year-over-year increase in the 25th-percentile-priced home, to $972,000, but a 9-percent gain in the median income of householders aged 25 to 44 years. Nationwide, the index also increased, from 1.81 in 2018 to 1.88 in 2019, but the national index has remained above 1.00 every year during the past decade.

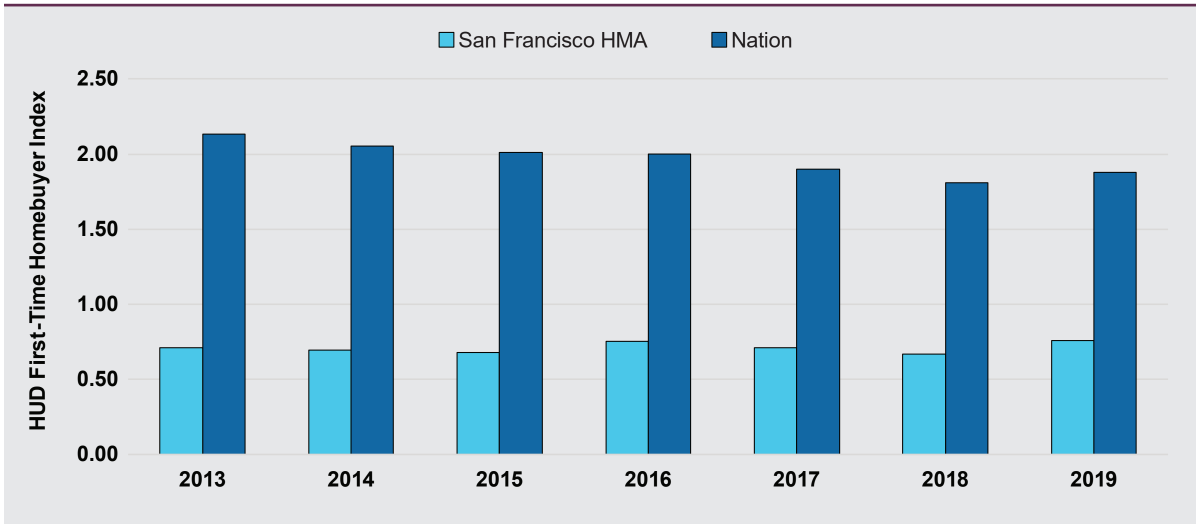
Rising sales prices—which averaged $1.66 million during the 12 months ending November 2020—have acted as a barrier to entry into homeownership, particularly for heads of household aged 35 to 44

Figure 11. San Francisco HMA Housing Opportunity Index



NAHB = National Association of Home Builders. Q3 = third quarter.
Sources: NAHB; Wells Fargo

Figure 12. San Francisco HMA HUD First-Time Homebuyer Index



Sources: American Community Survey, 1-year data; Federal Housing Finance Agency; Zonda years—a prime age cohort for first-time homebuyers. From 2000 to 2010, the homeownership rate in the HMA rose by 1.8 percentage points because the dot-com recession at the beginning of the decade and the Great Recession at the end of the decade reduced housing prices to a relatively more affordable level for homebuyers. As economic conditions improved, however, the homeownership rate in the HMA declined 1.9 percentage points from 2010 to 2019 as an influx of high-wage tech workers was not accompanied by a commensurate surge in new home construction, which exacerbated existing affordability issues. The homeownership rate for heads of household aged 35 to 44 years declined at a significantly faster rate than for households overall during the period. From 2010 to 2019, the homeownership rate in the 35-to-44 age group declined by 6.0 percentage points, compared with a decline of 1.4 percentage points from 2000 to 2010 (Table 5). Nationwide, homeownership in all households declined by 1.1 percentage points during the 2000-to-2010 period, compared with a 1.0-percentage-point decline during the 2010-to-2019 period. For heads of household aged 35 to 44, the national homeownership rate declined by 3.9 percentage points in the 2000-to-2010 period and by 4.0 percentage points during the 2010-to-2019 period.

Forecast

During the 3-year forecast period, demand is estimated for 1,110 new single-family homes, townhomes, and condominiums in the HMA (Table 6). The 165 homes under construction will satisfy some of this demand. Demand is expected to slightly increase each year as the economy recovers from the pandemic-related disruption and is estimated to be slightly stronger in the San Mateo County submarket, where the homeownership rate is higher.

Table 5. Homeownership Rates by Age of Householder in the San Francisco HMA

	San Francisco HMA			Nation		
	2000	2010	2019	2000	2010	2019
Householder Aged 25 to 34 Years	20.0	17.8	17.6	45.6	42.0	38.5
Householder Aged 35 to 44 Years	44.1	42.7	36.7	66.2	62.3	58.3
Total Households	46.5	48.3	46.4	66.2	65.1	64.1

Sources: 2000 and 2010 Decennial Census; 2019 American Community Survey, 1-year estimates

Table 6. Demand for New Sales Units in the San Francisco HMA During the Forecast Period

	Sales Units
Demand	1,100 Units
Under Construction	165 Units

Note: The forecast period is from December 1, 2020, to December 1, 2023.
Source: Estimates by the analyst

San Francisco County Submarket

Market Conditions: Balanced

New and existing home sales declined at a faster rate in the San Francisco County submarket than the HMA during the 12 months ending November 2020, as the desire for urban living has waned since the start of the pandemic.

Current Conditions

Sales housing market conditions in the San Francisco County submarket are balanced, with an estimated vacancy rate of 1.5 percent, down from 2.4 percent in April 2010 (Table 7). The 0.9-percentage-point decline in the sales vacancy rate since 2010 is almost twice the 0.5-percentage-point decline for the entire HMA, reflecting the preference for urban living for much of the decade, prior to the pandemic. Approximately 1,725 existing single-family homes, condominiums, and townhomes were available for sale in November 2020, representing a 4.2-month supply at the current sales rate—almost double the 900 homes for sale, or a 2.2-month supply, a year ago (CoreLogic, Inc.).

As a result of the pandemic and the rise of remote work, total new and existing home sales have declined significantly in recent months. During the 12 months ending November 2020, approximately

4,825 homes were sold in the submarket, down 13 percent from a year earlier. Despite lower demand, the average home sales price rose 1 percent, to $1.59 million (Figure 13). A historical shortage of housing development because of an expensive regulatory process and limited land availability in the 49 square miles that constitute the submarket have kept sales prices high. In addition, during the 12 months ending November 2020, 60 percent of home sales in the submarket were of condominium and townhome units, down slightly from a 63-percent share during the previous 12-month period. Condominium and townhome sales have generally constituted about 60 percent of all home sales since 2007.

Trends in Home Sales: 2012 through 2019

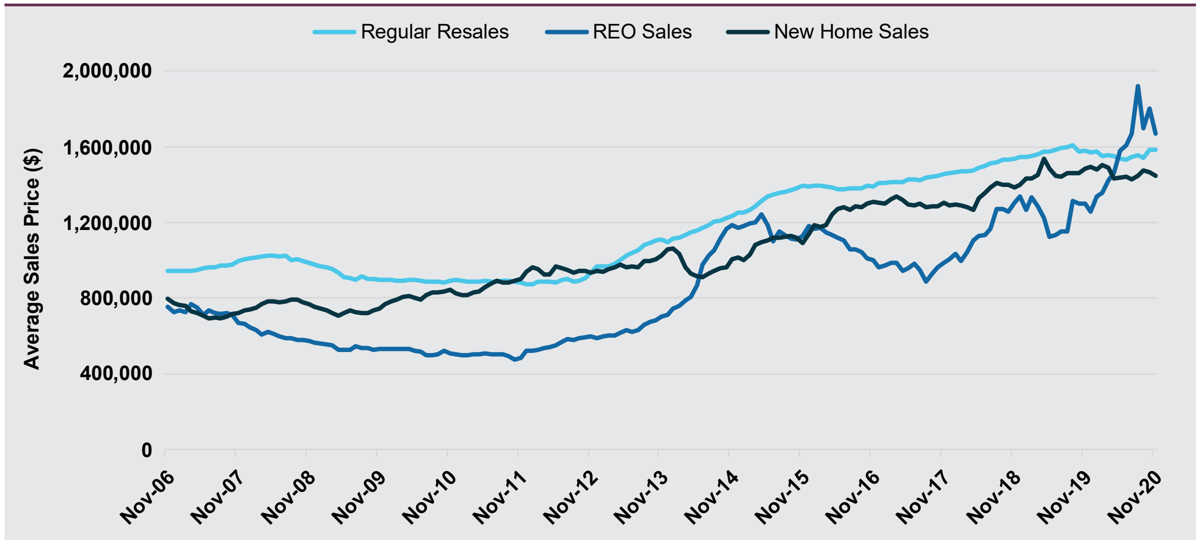
The COVID-19 pandemic accelerated the trend in slowing sales. From 2014 through 2019, total home sales averaged 5,950, annually, 15 percent lower than the average of 6,675 annual sales from 2011 through 2014 (Figure 14). Despite strong economic growth during much of the 2010s, the limited inventory of available housing for sale and home construction did not keep pace with demand, pushing average sales prices beyond the reach of highly paid tech workers. For every 4.5 jobs created in the Greater Bay Area from 2010 to 2017, only one new home entered the development pipeline—well in excess of the 1.5-jobs-per-housing-unit ratio that the Building

Table 7. Home Sales Quick Facts in the San Francisco County Submarket

		San Francisco County	San Francisco HMA
Home Sales Quick Facts	**Vacancy Rate**	1.5%	1.3%
	Months of Inventory	4.2	3.8
	Total Home Sales	4,825	10,650
	1-Year Change	-13%	-8%
	New Home Sales Average Price	$1,446,000	$1,414,000
	1-Year Change	-3%	-7%
	Existing Home Sales Average Price	$1,586,000	$1,670,000
	1-Year Change	1%	4%
	Mortgage Delinquency Rate	2.3%	2.1%

Notes: The vacancy rate is as of the current date; home sales and prices are for the 12 months ending November 2020; and months of inventory and mortgage delinquency data are as of November 2020. The current date is December 1, 2020.
Sources: CoreLogic, Inc.; Zonda

Figure 13. 12-Month Average Sales Price by Type of Sale in the San Francisco County Submarket



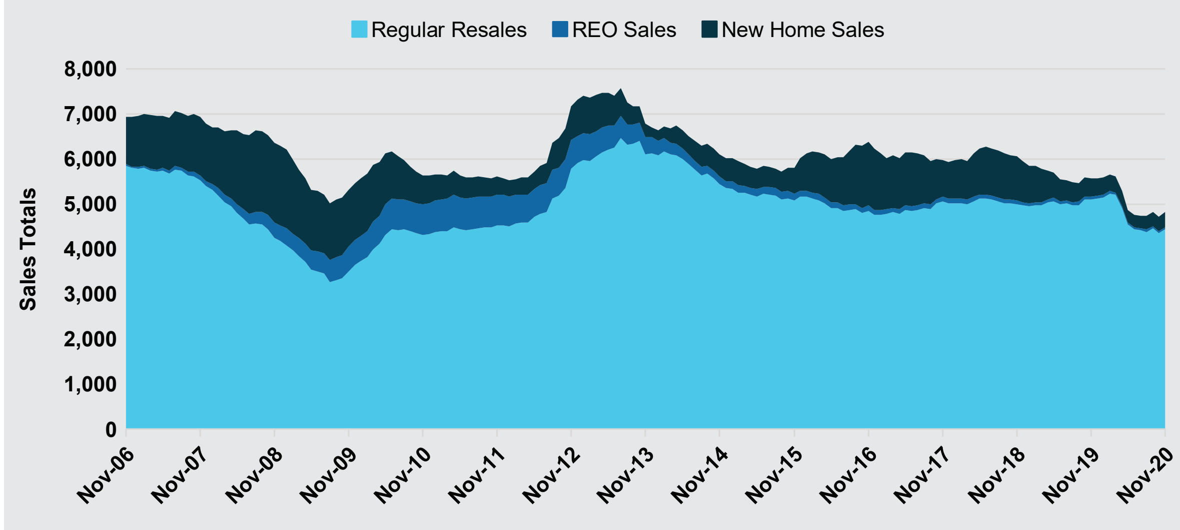
REO = real estate owned.
Source: Zonda

Industry Association of the Bay Area deems "healthy." As a result, the rate of average sales price growth was significant during 2013 and 2014, averaging a gain of 15 percent, annually, to $1.23 million. The average sales price surpassed the $1.0 million mark in 2013, and growth in the number of home sales subsequently declined despite a lower rate of price growth. From 2015 through 2019, the average sales price increased by an average of 5 percent, annually, to $1.56 million.

During the 2012-through-2014 period, a significant share of real estate owned (REO) sales continued to account for some of the growth in sales, as these properties had lower listing prices. The average of 370 REO home sales a year accounted for almost 6 percent of total existing home sales during this period, only slightly down from the proportion during the foreclosure crisis. The economic recovery and improvement in sales housing market conditions that occurred from the local technology boom, however, led to a decline in the availability of REO sales. From 2014 through 2019, REO sales were cut by three-fourths, to an average of 110 homes annually. During this period, REO sales accounted for only 2 percent of all existing sales.

Condominium sales are 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 61 percent of all new and existing home sales have been condominiums. During the 12 months ending November 2020, the average sales price of a condominium or townhome unit was $1.41 million, 11 percent below the $1.58 million average sales price of all homes.

Figure 14. 12-Month Sales Totals by Type in the San Francisco County Submarket



REO = real estate owned.
Source: Zonda

Trends in Home Sales: The Great Recession

Historically, home sales have been responsive to average price changes in the submarket, increasing as sales prices decline and decreasing as sales prices increase, sometimes despite economic conditions. A significant number of commuters would prefer to live in the San Francisco County submarket because it is the primary job center for the Greater Bay Area and has more urban amenities. As home sales prices remained flat from 2007 through 2012, the price differential between housing in the outlying areas of the Bay Area and the job center of San Francisco lessened, increasing home sales in the submarket by an average of 1 percent annually. In the San Francisco-Oakland-Hayward, CA MSA—which includes the HMA and Alameda, Contra Costa, and Marin Counties—the average new home sales price of $1.15 million was 27 percent lower than that in the San Francisco County submarket during the 12 months ending November 2020.

From 2006 through 2012, an average of 6,275 homes were sold annually, and an increasing number of sales were for REO properties. During this period, an average of 430 REO home sales accounted for 8 percent of total existing sales as investors and homebuyers took advantage of lower home prices. The average REO sales price ranged from $217,000 to $590,700, or 23 to 44 percent, lower than the average price of an existing home.

Seriously Delinquent Mortgages and REO Properties

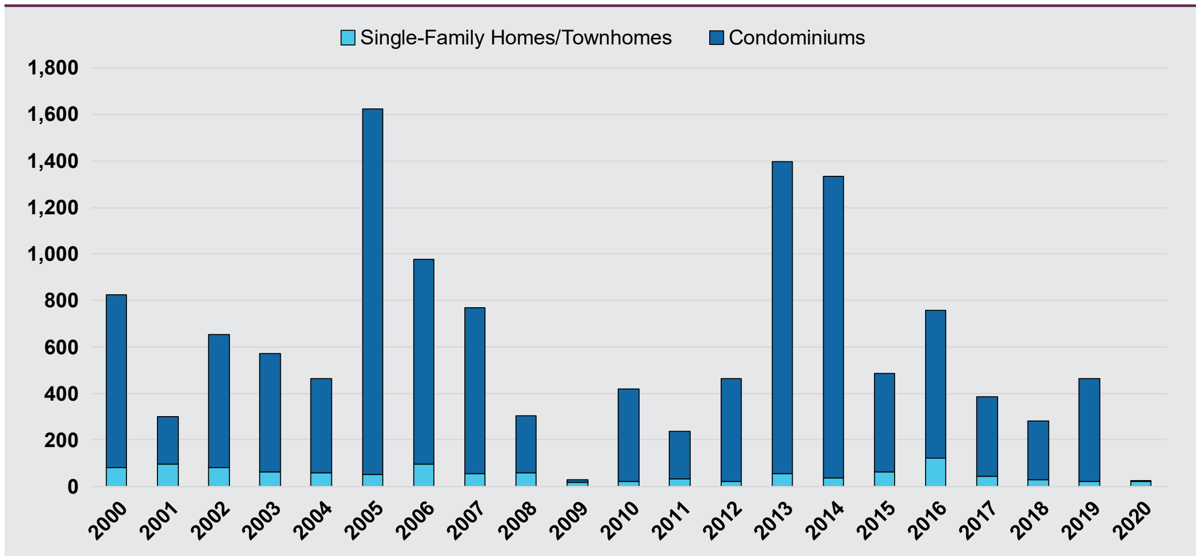
Since 2000, the rate of seriously delinquent mortgages and REO properties in the San Francisco County submarket has remained well below the national rate. The impact of the pandemic on net out-migration, job losses, and a weakening of sales housing market conditions, however, have led to a significant increase in the rate recently. In November 2020, 2.3 percent of mortgages in the HMA were seriously delinquent or had transitioned into REO status, up significantly from 0.2 percent a year earlier. The rise in delinquencies partly reflects an increased reliance on mortgage forbearance, which was provided for most mortgage borrowers under the $2.2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act. Approximately 1,725 mortgages in the submarket were 90 or more days past due in November 2020—almost a 10-fold increase from November 2019; however, the number of foreclosures declined 19 percent. For context, the national rate increased from 1.4 percent to 4.1 percent during the same period.

With the bursting of the housing bubble in the late 2000s, the initial effect of the foreclosure crisis on the HMA was less severe than in other parts of the country, and the recovery was relatively rapid due to the start of the tech boom in the early part of the decade. In January 2011, the rate of seriously delinquent mortgages and REO properties in the submarket peaked at 3.4 percent, remaining below the national rate, which peaked at 8.6 percent in January 2010.

Sales Construction Activity

Beginning in 2012, builders responded to tightening sales market conditions by expanding for-sale home construction activity, as measured by the number of single-family homes, townhomes, and condominiums permitted. Building activity peaked from 2013 through 2014, when an average of 1,375 sales units were permitted annually, as the local economy and sales market recovered from the Great Recession (Figure 15).

Figure 15. Average Annual Sales Permitting Activity in the San Francisco County Submarket



Notes: Includes single-family homes, townhomes, and condominiums. Data for 2020 are through November 2020.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

Most of these units were of luxury high-rise condominiums with starting prices at more than $1 million. High sales prices, increasing net out-migration, and a gradually weakening sales market, however, slowed construction activity beginning in 2015. From 2015 through 2019, sales permitting declined by 66 percent, to an average of 470 homes annually. During the 12 months ending November 2020, construction activity slowed even further because of the pandemic, as 30 for-sale homes were permitted, down 94 percent from the same period a year prior (preliminary data).

For context, an average of 770 homes were permitted annually from 2000 through 2007, during the housing boom, and construction activity fell significantly from the subsequent Great Recession, to an average of only 290 homes permitted annually from 2009 through 2012.

Given increasing construction and labor costs, most of the new sales construction in the submarket is of smaller units, particularly condominiums. Developments currently underway include the 124-unit The Bristol, located at Yerba Buena Island. Prices will start at $800,000 for studios, $1 million for one-bedroom units, $1.7 million for two-bedroom units, and $3 million for three-bedroom units. As of the current date, much of the development has already been completed, with full completion expected by the spring of 2021.

Forecast

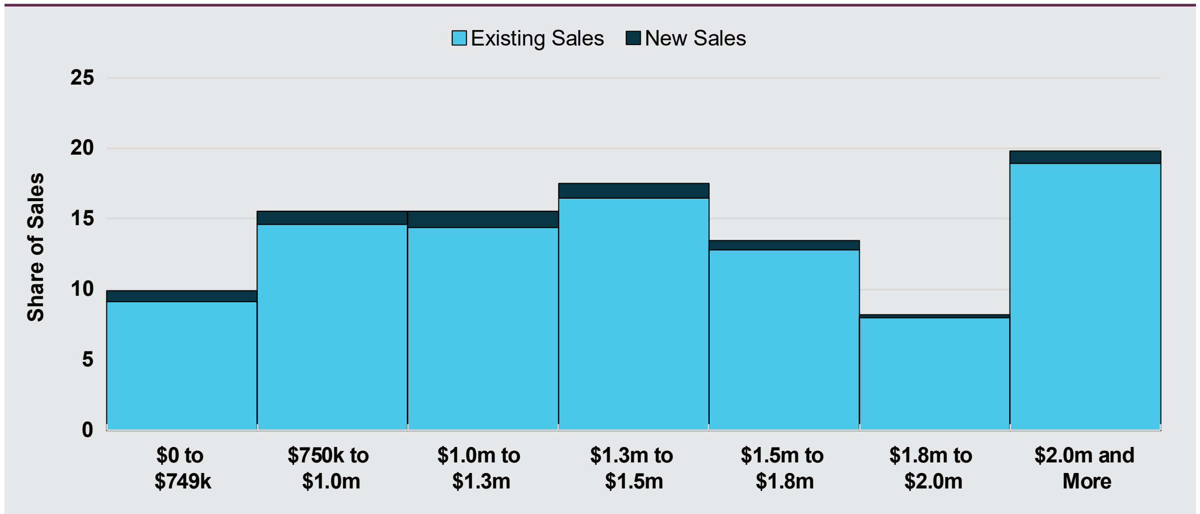
During the next 3 years, demand is expected for 520 new sales units in the submarket, with demand rising slightly in each successive year of the forecast (Table 8). The 15 homes currently under construction will meet a small portion of the demand. Although smaller attached units—such as condominiums and townhomes—will meet much of the demand in the lower price ranges—between $750,000 and $1.8 million—homes priced higher than $2.0 million are still expected to account for a significant portion of demand (Figure 16).

Table 8. Demand for New Sales Units in the San Francisco County Submarket During the Forecast Period

	Sales Units
Demand	520 Units
Under Construction	15 Units

Note: The forecast period is from December 1, 2020, to December 1, 2023.
Source: Estimates by the analyst

Figure 16. Share of Overall Sales by Price Range During the 12 Months Ending November 2020 in the San Francisco County Submarket



Source: Zonda

San Mateo County Submarket

Market Conditions: Balanced

The San Mateo County submarket is more suburban compared with the San Francisco County submarket, which has resulted in a slower rate of decline in home sales since the COVID-19 pandemic shifted households to homeownership.

Current Conditions

Sales housing market conditions in San Mateo County are balanced, with an estimated vacancy rate of 1.1 percent, down slightly from the 1.3-percent rate in April 2010 (Table 9). The 0.2-percentage-point decline in the sales vacancy rate since 2010 is lower than the 0.5-percentage-point decline for the entire HMA. This trend reflects the preference away from suburban living during much of the decade, prior to the pandemic. Approximately 820 existing single-family homes, condominiums, and townhomes were available for sale in November 2020, representing a 2.2-month supply at the current sales rate—compared with 500 homes for sale, or a 1.4-month supply, a year ago (CoreLogic, Inc.).

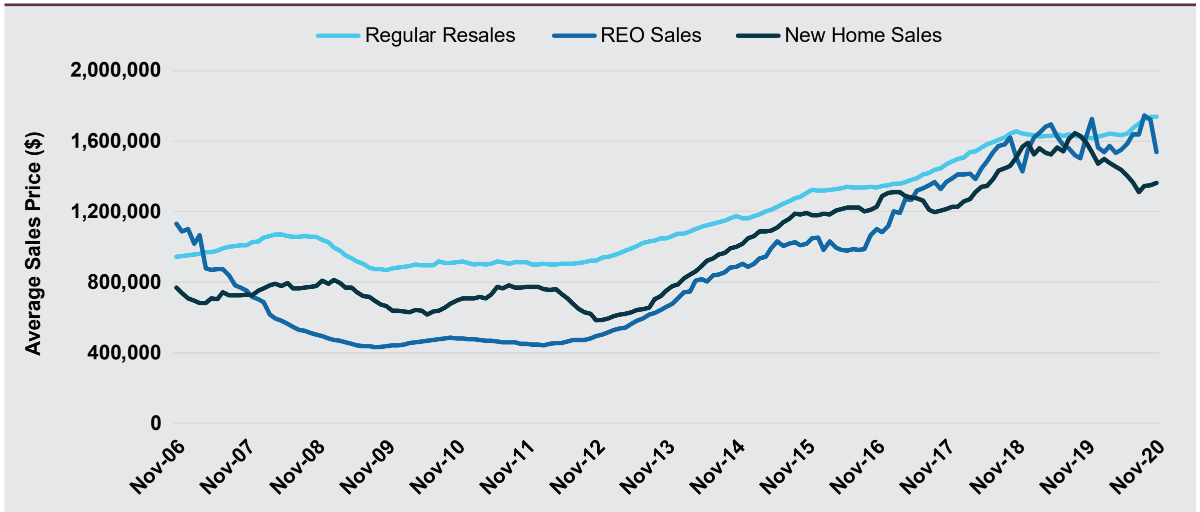
Extremely expensive sales housing prices have resulted in declining home sales since 2013, although sales rose for a single year in 2017. During the 12 months ending November 2020, approximately 5,850 homes were sold in the HMA, down 3 percent from a year earlier. Despite lowered demand, the average home sales price rose 6 percent, to $1.72 million (Figure 17). The regulatory environment in the San Mateo County submarket is

Table 9. Home Sales Quick Facts in the San Mateo County Submarket

		San Mateo County	San Francisco HMA
Home Sales Quick Facts	**Vacancy Rate**	1.1%	1.3%
	Months of Inventory	2.2	3.8
	Total Home Sales	5,850	10,650
	1-Year Change	-3%	-8%
	New Home Sales Average Price	$1,363,000	$1,414,000
	1-Year Change	-14%	-7%
	Existing Home Sales Average Price	$1,737,000	$1,670,000
	1-Year Change	7%	4%
	Mortgage Delinquency Rate	1.9%	2.1%

Notes: The vacancy rate is as of the current date; home sales and prices are for the 12 months ending November 2020; and months of inventory and mortgage delinquency data are as of November 2020. The current date is December 1, 2020.
Sources: CoreLogic, Inc.; Zonda

Figure 17. 12-Month Average Sales Price by Type of Sale in the San Mateo County Submarket



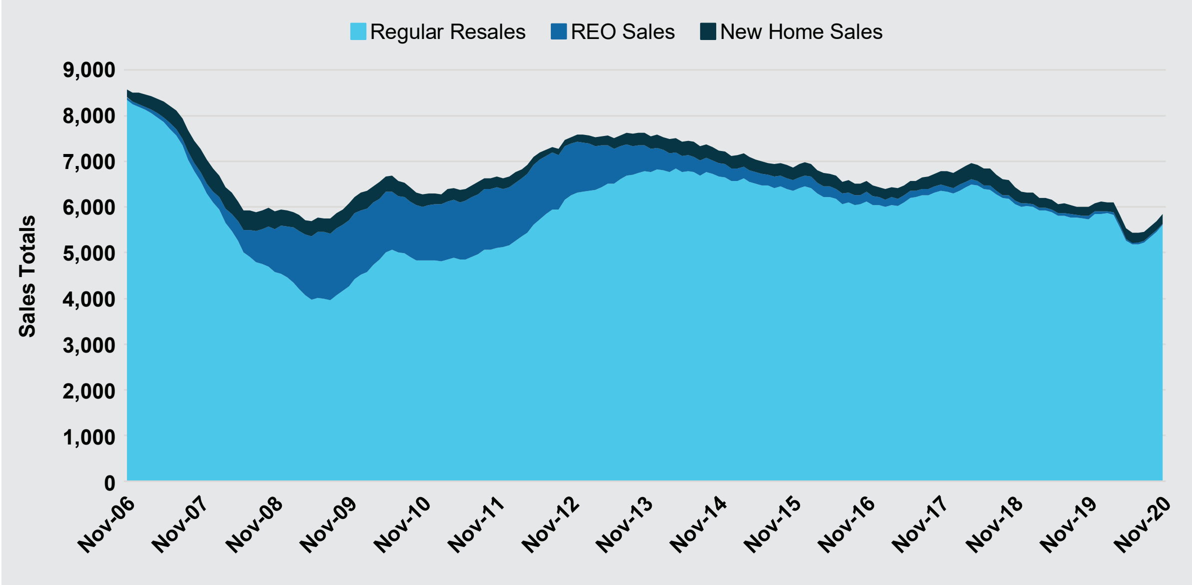
REO = real estate owned.
Source: Zonda

like that of the San Francisco County submarket and has created a historical shortage of housing development that has kept sales prices high. Given relatively greater land availability in the submarket, condominium and townhome sales constitute a smaller percentage of the sales inventory. During the 12 months ending November 2020, 24 percent of new and existing sales were of condominium and townhome units, down from the 26 percent a year ago (Zonda).

Historical Trends in Home Sales: 2005 to 2019

Total home sales in the San Mateo County submarket increased every year during the beginning of the economic and housing market recovery, from 5,625 homes in 2010 to 7,300 homes in 2012, or by an average of 450 homes, or 7 percent, annually (Figure 18). Sales price appreciation fluctuated during this period, primarily because of changes in REO sales. In 2009, when sales market conditions were weaker, the average sales price reached a decade low of $763,000—an 18-percent decline from 2008—because of a 36-percent increase in REO sales. During 2009, the average sales price of an REO property was $532,900, 40 percent lower than the price of a regular resale at $895,200. After an average decline of 8 percent in REO sales from 2010 through 2012, the overall average 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 in 2009.

Figure 18. 12-Month Sales Totals by Type in the San Mateo County Submarket



REO = real estate owned.
Source: Zonda

Strong job and wage growth, along with a shortage of housing units for sale, increased competition for sales units on the market. Starting in 2014, the increasingly competitive sales market led to rising sales prices and declining home sales. Total home sales fell steadily, with an average decline of 4 percent per year from 2014—when sales totaled 6,000—to 2019—when sales totaled 5,575. During this period, the average sales price increased by an average of $98,500, or nearly 8 percent, per year, from $1.23 million to $1.56 million.

Seriously Delinquent Mortgages and REO Properties

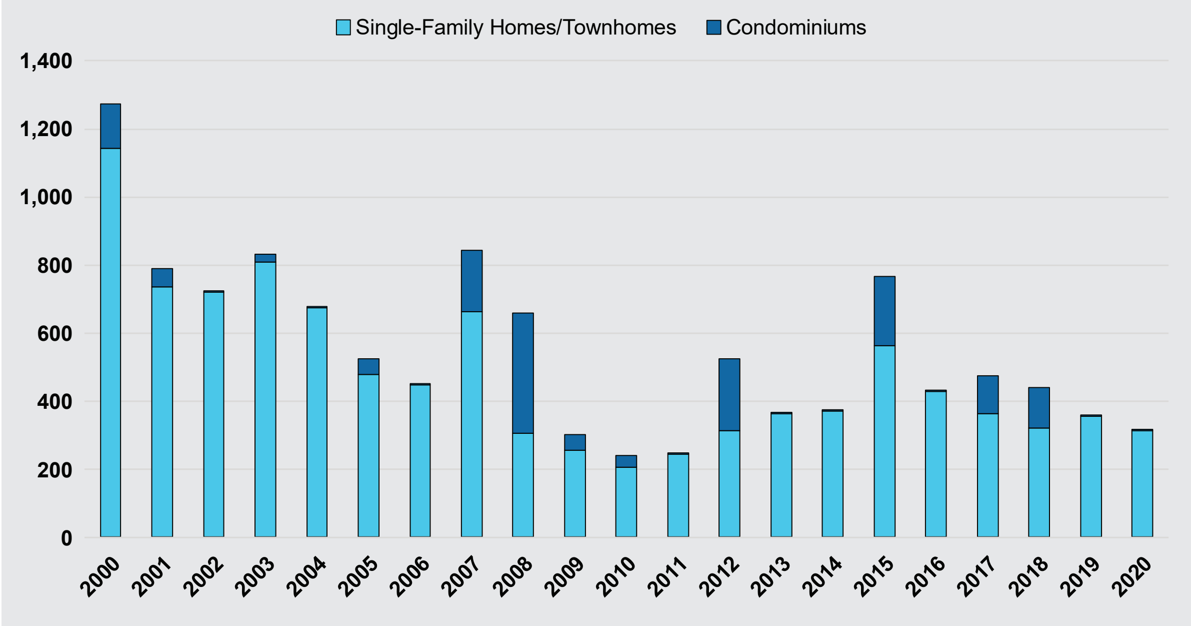
In November 2020, 1.9 percent of mortgages in the submarket were seriously delinquent or had transitioned into REO status, up from 0.2 percent a year earlier. This recent increase is significantly lower than the uptick in the rate of seriously delinquent mortgages in both the nation and the San Francisco County submarket. The suburban nature of the submarket has lessened the impact of the pandemic and net out-migration on the rate of seriously delinquent mortgages. Approximately 1,750 mortgages in the submarket were 90 or more days past due in November 2020, more than nine times the number in November 2019; however, the number of foreclosures declined 38 percent.

Similar to the effect of the foreclosure crisis of the late 2000s on the San Francisco County submarket, the initial effect on the San Mateo County submarket was less severe, and the recovery was relatively rapid when compared with that of the nation. In early 2010, the rate of seriously delinquent mortgages and REO properties in the San Mateo County submarket peaked at 4.9 percent in May 2010, lower than the nationwide peak rate of 8.6 percent in early 2010.

Sales Construction Activity

Beginning in 2012, builders began responding to tightening sales market conditions by expanding for-sale home construction activity. During the 12 months ending November 2020, approximately 370 for-sale homes were permitted, up 13 percent from the same period a year prior (Figure 19; preliminary data). Despite the recent increase in new home construction activity, building is below the peak levels from 2000 through 2008, when an average of 750 sales units were permitted annually. Because of the recession and the bursting of the housing bubble, the number of

Figure 19. Average Annual Sales Permitting Activity in the San Mateo County Submarket



Notes: Includes single-family homes, townhomes, and condominiums. Data for 2020 are through November 2020.
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

homes permitted declined an average of 9 percent annually during 2010 and 2011. From 2009 through 2011, construction activity remained low, at an average of 260 homes permitted annually. As economic conditions continued to improve in 2012 with the technology boom, the sales market began to tighten significantly. From 2012 through 2015, permitting of for-sale units expanded to an average of 510 homes permitted annually. Increasing net out-migration from households priced out of the sales market began to gradually weaken sales market conditions in 2016, and the number of homes permitted declined to an average of 430 homes from 2016 through 2019.

Given increasing construction and labor costs, most of the new sales construction in the HMA was of smaller units or smaller subdivisions. The 15-townhome Firehouse Square development in the city of Belmont broke ground in October 2020. Although information on bedroom configurations and sales prices is not yet available, the most recently completed townhome project by the developer—The Ashton in Belmont, completed in 2019—listed townhomes for $1.38 million. The Ashton in Belmont was the first new condominium and townhome development in the city of Belmont in more than a decade. As part of the mixed-use Firehouse Square development, a separate four-story building with 65 affordable rental apartment units and retail and commercial space will also be constructed.

Forecast

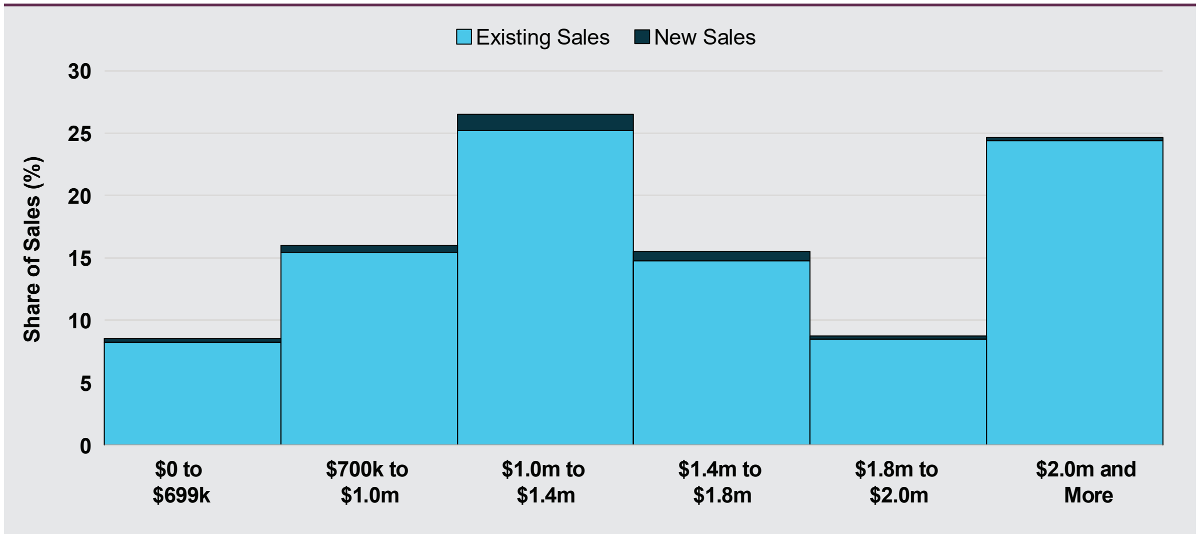
During the next 3 years, demand is expected for 590 new sales units in the submarket, with demand highest in the second and third year of the forecast (Table 10). The 150 homes currently under construction will meet a small portion of the demand. Demand is expected to be greatest for homes priced in two ranges: $1.0 to $1.4 million and $2.0 million and above, primarily reflecting the availability of units in these two price ranges (Figure 20).

Table 10. Demand for New Sales Units in the San Mateo County Submarket During the Forecast Period

	Sales Units
Demand	520 Units
Under Construction	150 Units

Note: The forecast period is from December 1, 2020, to December 1, 2023.
Source: Estimates by the analyst

Figure 20. Share of Sales by Price Range During the 12 Months Ending November 2020 in the San Mateo County Submarket



Source: Zonda

Rental Market HMA

Market Conditions: Balanced

Apartment market conditions in the HMA have been balanced since the start of the COVID-19 pandemic and the subsequent shift to widescale remote work, resulting in a rise in vacancy rates and a decline in rents.

Current Conditions and Recent Trends

Rental housing market conditions in the San Francisco HMA are balanced, with an estimated overall rental vacancy rate of 4.6 percent, down from the 5.2-percent rate in April 2010 (Table 11). Given the limited availability of land and the high cost of construction, much of the rental inventory consists of high-density apartment complexes with more than five units per building, and that share has grown since 2010. In 2019, approximately 62 percent of all renter households resided in buildings with five or more units, up from 59 percent in 2010. An estimated 17 percent of all renter households lived in single-family homes, down from 19 percent in 2010, and 20 percent in buildings with two to four units, down from 22 percent in 2010 (2010 and 2019 American Community Survey 1-year estimates).

Apartment Market Trends

Apartment market conditions are also balanced, with a vacancy rate of 4.7 percent during the third quarter of 2020, up from 4.0 percent a year ago (Moody's Analytics REIS). Although the apartment vacancy rate has only increased slightly, apartment rents have declined significantly; during the third quarter of 2020, the apartment rent averaged $2,877—a 10-percent decline from the average apartment rent of $3,212 during the prior year. The recent COVID-19-related economic contraction has led many renters to search for more affordable rental housing or, for those with the means and expected long-term work-from-home options, to transition into homeownership both in and outside the HMA. As a result, the apartment market has eased from previously tight conditions a year ago.

Table 11. Rental and Apartment Market Quick Facts in the San Francisco HMA

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	5.2	4.6
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	19.2	16.8
	Multifamily (2–4 Units)	21.6	20.5
	Multifamily (5+ Units)	58.9	62.4
	Other (Including Mobile Homes)	0.3	0.4
		Current	**YoY Change**
	Apartment Vacancy Rate	4.7	0.7
	Average Rent	$2,877	-10.0%

YoY = year-over-year.
Notes: The current date is December 1, 2020. Percentages may not add to 100 due to rounding.
Sources: 2010 and 2019 American Community Survey, 1-year data; Moody's Analytics REIS

As the dot-com bubble burst in the early 2000s, apartment vacancy rates rose significantly from a low of 1.0 percent in 2000 to a high of 5.3 percent during 2004 (Moody's Analytics REIS). Strong economic conditions during the housing boom benefited both sales and rental housing demand, and the apartment vacancy rate declined to 3.8 percent by 2008 (Figure 21). During the Great Recession, the apartment vacancy rate rose to 4.9 percent by 2010, but apartment rents remained stable, at around $1,800, for the entire decade. As the local economy recovered and thrived during the local tech boom, the apartment vacancy rate declined to 3.3 percent by 2012. Much of the increased multifamily home construction since 2011 had been concentrated in luxury units with rents at the top of the market; thus, the average apartment rent rose every year, to $2,839 by 2016, even as the apartment vacancy rate rose to 5.4 percent. Apartment rents continued to rise to $3,212 by 2019, whereas the apartment vacancy rate fell to 4.1 percent.

Housing Affordability: Rental

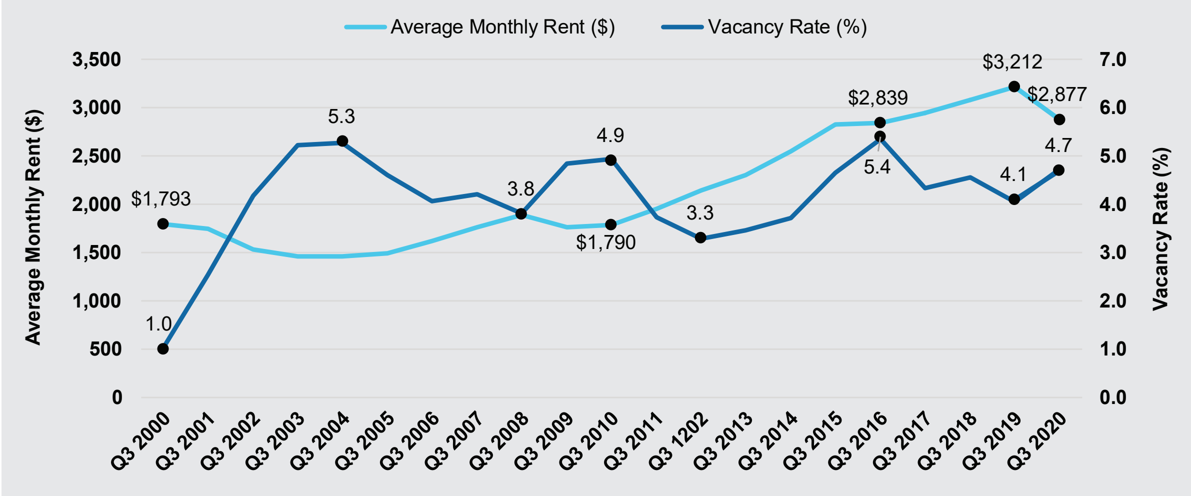
Overall Affordability Issues

Rental housing is extremely expensive in the San Francisco HMA, but rental affordability, especially for high-income earners, has improved since 2014. Although renter household incomes have grown quickly due to increased employment of highly skilled and highly paid tech workers, median rent growth has slowed as more multifamily development has occurred. The median monthly gross rent in the HMA rose 31 percent, from $1,674 in 2014 to $2,199 in 2019. During the same period, the median household income for renter households increased 53 percent, from $67,402 to $103,277. As a result, the HUD Gross Rent Affordability Index, a measure of median renter household income relative to qualifying income for the median-priced rental unit, has trended upward since 2014. The index was 117.4 during 2019 (using the latest data available), up from 114.2 in 2018 (Figure 22).

Renter Cost Burdens

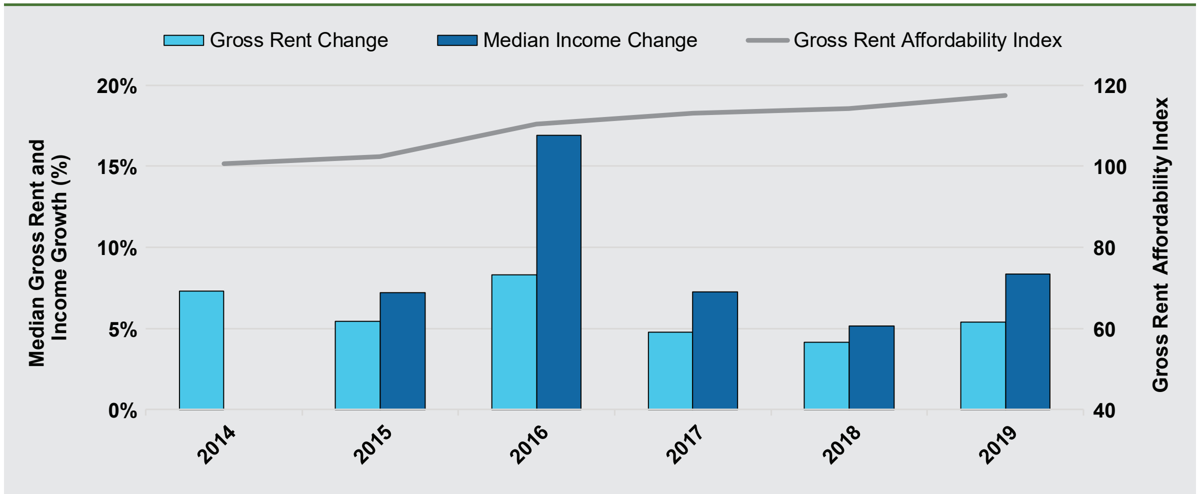
During the 2013-through-2017 period, an estimated 20.0 percent of all renter households in the HMA were cost burdened, spending between 30 and 49 percent of their income on rent, and a slightly lower 19.9 percent were severely cost burdened, spending more than 50 percent of income on rent (Table 12). Nationwide, a greater proportion of renter households were cost burdened and severely

Figure 21. Apartment Rents and Vacancy Rates in the San Francisco HMA



Q3 = third quarter.
Source: Moody's Analytics REIS

Figure 22. San Francisco HMA Gross Rent Affordability Index



MD = Metropolitan Division.
Notes: Rental affordability is for the larger San Francisco-San Mateo-Redwood City MD. The Gross Rent Affordability Index differs from the HUD Rental Affordability Index published on the U.S. Housing Market Conditions website in that it is based on combined rent and utilities expenditure.
Source: American Community Survey 1-year data

cost burdened, at 21.8 and 22.9 percent, respectively. Cost burdens are particularly notable, however, for lower income renter households in the HMA. For renter households in the HMA with incomes less than 50 percent of the area median family income (AMFI), a higher proportion—25.8 percent—paid between 30 and 49 percent of their incomes toward rent, and a significantly higher proportion of households at these income levels, or 48.0 percent, were severely cost burdened. By comparison, nationwide, 25.6 percent of lower income renter households spent 30 to 49 percent of their income toward rent, and 50.1 percent spent more than 50 percent of their income on rent.

Policy Initiatives

Several local and statewide policy initiatives have been introduced to address the severe housing affordability issues in the San Francisco HMA. In recent years, the city of San Francisco approved four major developments to increase the supply of affordable rental housing: the Hunters Point Shipyard development, which will create 10,500 units; the Treasure Island development, with 7,637 units; Parkmerced, with 5,679 units; and Mission Rock, with 1,500 units—all of which are still in the planning or early construction phases. Each of these four developments will include a percentage of below-market-rate rental units—32 percent at Hunters Point Shipyard, 25 percent at Treasure Island, 15 percent at Parkmerced, and 40 percent at Mission Rock—which will enable an additional 6,721 low- to moderate-income households to move into the HMA (Bay Area Council Economic Institute).

Table 12. Percentage of Cost-Burdened Renter Households by Income in the San Francisco HMA, 2013–2017

	Cost Burdened: 30–49 Percent of Income Toward Rent		Severely Cost Burdened: More than 50 Percent of Income Toward Rent	
	San Francisco HMA	Nation	San Francisco HMA	Nation
Renter Households with Income <50% HAMFI	25.8	25.6	48.0	50.1
Total Renter Households	20.0	21.8	19.9	22.9

HAMFI = HUD area median family income.
Sources: Consolidated Planning/CHAS data; 2013–2017 American Community Survey 5-year estimates (huduser.gov)

In 2017, the California legislature enacted SB-35, which requires some local entities to streamline the approval of certain housing projects. Affordable housing developers have already invoked SB-35 for expedited approval of 100-percent affordable developments, such as the 130-unit 681 Florida Street development in the city of San Francisco. In coastal metropolitan areas such as the San Francisco HMA, the time to issue a building permit after the entitlement process begins is 2.5 months longer than in a typical California inland community or a typical U.S. metropolitan area (California Legislative Analyst's Office). The Bay Area Council Economic Institute estimated that during the next 20 years, SB-35 could create 16,600 new market-rate units and decrease average rents for all units by almost 6 percent while creating an additional 4,150 below-market-rate units.

In addition, in November 2012, San Francisco voters passed Proposition C, which authorized the creation of a Housing Trust Fund; the fund sets aside general fund revenue for the creation and preservation of affordable housing. The City of San Francisco estimated that the fund would develop more than 9,000 units of permanently affordable housing for residents with incomes at or below 60 percent of AMFI (assuming that developers would also leverage Low Income Housing Tax Credits (LIHTCs) and other state and federal subsidies).

Current Affordable Housing Options: LIHTC, PBRA, HCV

LIHTC is the primary source of funding for new affordable rental housing in the nation. From 2010 to 2018, 6,250 LIHTC units were placed in service in the HMA, with less than 1 percent of those units reserved for households with incomes at or below 50 percent of the median family income (MFI) ($87,000 for a family of four in 2020) and the remaining reserved for households with incomes at or below 60 percent of MFI ($104,400 for a family of four in 2020). Of these, 31 percent were reserved for seniors. By comparison, from 2000 through 2009, 7,675 LIHTC units were placed in service in the HMA; 7 percent of those units were reserved for households with incomes at or below 50 percent of MFI, and the remaining 93 percent were reserved for households with incomes at or below 60 percent of MFI. During this period, 25 percent of all units were reserved for seniors. Approximately 4,925, or 79 percent, of all LIHTC units placed in service in the HMA since 2010 have been in the city of San Francisco. The Alice Griffith Housing Development recently completed the replacement of a 256-unit public housing development that was in disrepair but is now part of the larger Hunters Point Shipyard and Candlestick Point public-private development plan. The larger development will eventually offer 10,500 new homes at the former ballpark. The new development will have 256 replacement public housing units and 248 affordable units (some of which are LIHTC units); the first two phases of construction on the affordable units, completed in 2017, added 184 new units.

In addition to LIHTC, income-eligible residents may qualify for project-based rental assistance (PBRA) or housing choice vouchers (HCV) through the local public housing authority (PHA). The PHAs in the HMA administered approximately 17,380 HCVs in 2020 (Picture of Subsidized Households). Some HCV holders report difficulty in obtaining a suitable unit at an affordable rent. The waitlist for HCV is currently closed, with wait times of more than 7 years for a voucher (The Housing Authority of San Francisco). Within the San Francisco HMA, nearly 29,100 subsidized units are available through PBRA and other programs (Picture of Subsidized Housing). The number of households receiving federal rental assistance and the number of households that have an HCV in the HMA has increased by 11.9 and 77.3 percent, respectively, since 2010 due to rising household costs (Table 13). To address the growing number of assisted households with rising costs, the (inflation-adjusted) rent subsidy from HUD has increased almost 23 percent since 2010 in the HMA; during the same time, the (inflation-adjusted) tenant contribution for HCV has decreased more than 22 percent. By comparison, the total number of assisted and voucher households has expanded by respective averages of 3.9 and 13.4 percent nationwide, whereas the inflation-adjusted HUD subsidy has increased slightly, by 0.1 percent, and the inflation-adjusted tenant contribution has decreased 0.5 percent since 2010.

Homelessness

In the San Francisco HMA, approximately 9,550 people were homeless in 2019, and 64 percent were unsheltered homeless (2019 Point-in-Time Count). By comparison, about 72 percent of homeless persons in California were unsheltered.

Forecast

During the 3-year forecast period, demand is expected for 6,800 new rental units (Table 14). The 3,500 units currently under construction are expected to meet a portion of demand. Rental demand is expected to increase slightly in the second and third years of the forecast period as economic growth recovers from the COVID-19-related disruption.

Table 13. Picture of Subsidized Households, 2020, in the San Francisco HMA

	San Francisco HMA	HMA Change Since 2010	National Total	National Change Since 2010
Total Assisted Households (2020)	29,081	11.9%	4,599,832	3.9%
Total Housing Choice Voucher Households (2020)	17,380	77.3%	2,313,166	13.4%
Average HCV Tenant Monthly Contribution	$492	-22.4%	$386	-0.5%
Average Monthly HUD Subsidy	$2,014	23.1%	$834	0.1%

HCV = housing choice voucher.
Note: Dollar changes are inflation adjusted using the Consumer Price Index for All Urban Consumers (CPI-U).
Source: HUD Picture of Subsidized Households

Table 14. Demand for New Rental Units in the San Francisco HMA During the Forecast Period

Rental Units	
Demand	6,800 Units
Under Construction	3,500 Units

Note: The forecast period is December 1, 2020, to December 1, 2023.
Source: Estimates by the analyst

San Francisco County Submarket

Market Conditions: Balanced

Apartment rents in the submarket are still among the highest in the nation but have also declined the fastest, as many tech workers have shifted to remote work in other markets since the COVID-19 pandemic.

Current Conditions and Recent Trends

Rental housing market conditions in the San Francisco County submarket are balanced, with an estimated overall rental vacancy rate of 4.7 percent, down from the 5.5-percent rate in April 2010 (Table 15). The inventory of occupied rental housing has increasingly shifted to large apartment complexes since 2010, given the increase in rental demand and limited developable land in the submarket. In 2019, approximately 65 percent of all renter households resided in buildings with five or more units, up from 61 percent during 2010. An estimated 12 percent of all renter households lived in single-family homes, down from 13 percent in 2010, and 22 percent of renter households resided in buildings with two or four units, down from 26 percent in 2010.

The apartment market is also balanced, with a vacancy rate of 4.8 percent during the third quarter of 2020, up from 4.0 percent a year ago (Moody's Analytics REIS.). The current apartment vacancy rate in the submarket is down from a third quarter high of 5.8 percent in 2016 (Figure 23), as rent growth reached double digits in the years prior and rental housing became increasingly unaffordable. The average apartment rent during the third quarter of 2020 averaged $3,008, an 11-percent decline from the average rent of $3,368 during the third quarter of 2019. The most recent decline is the fastest since 2000 and represents a break in the trend from year-over-year growth since 2009, when the submarket was reeling from the impact of the Great Recession.

Table 15. Rental and Apartment Market Quick Facts in the San Francisco County Submarket

		2010 (%)	Current (%)
Rental Market Quick Facts	**Rental Vacancy Rate**	5.5	4.7
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	13.0	12.0
	Multifamily (2–4 Units)	25.8	22.4
	Multifamily (5+ Units)	61.1	65.4
	Other (Including Mobile Homes)	0.2	0.3
		Current	**YoY Change**
	Apartment Vacancy Rate	4.8	0.8
	Average Rent	$3,008	-11.0%

YoY = year-over-year.
Notes: The current date is December 1, 2020. Percentages may not add to 100 due to rounding.
Sources: 2010 and 2019 American Community Survey, 1-year data; Moody's Analytics REIS

The apartment vacancy rate steadily rose from a low of 0.9 percent during 2000 at the height of the dot-com bubble to a high of 5.0 percent during 2003. The economic expansion during the housing bubble helped tighten the apartment market, as increasing home prices left many potential homebuyers priced out of the sales market. The apartment vacancy rate declined to 3.6 percent in 2007, but the subsequent Great Recession led to an increase in the rate to 5.2 percent by 2010. Apartment vacancy rates fell as the local economy recovered, reaching an apartment vacancy rate of 3.4 percent in 2013. Significant multifamily construction activity starting in 2011—particularly of luxury units with rents at the top of the market—led to an increase in the apartment vacancy rate and average rents. By 2016, the apartment vacancy rate peaked at 5.8 percent. Despite continued multifamily development since 2016, apartment conditions tightened, and the apartment vacancy rate fell to 4.0 percent by the third quarter of 2019.

Despite fluctuations in the vacancy rate since the mid-2010s, average apartment rents in the HMA increased every year since 2009 before the most recent quarter. Apartment rents rose by an average of 7 percent annually from 2010 to 2019, compared with minimal growth from 2000 to 2009.

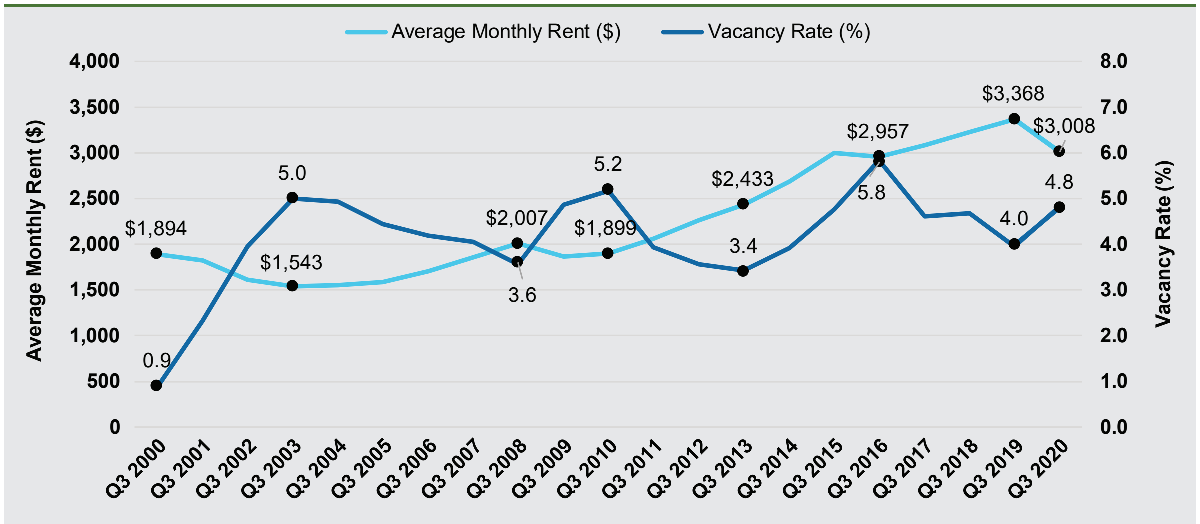
Market Conditions by Geography

During the third quarter of 2020, apartment market conditions weakened in all five of the Moody's Analytics REIS-defined market areas (hereafter, market areas) that compose the submarket, with declines in asking rents and increases in apartment vacancy rates. Those changes were most significant in the Civic Center/Downtown market area—where the apartment vacancy rate rose 2.0 percentage points, to 6.3 percent, and rents declined 12 percent, to $2,500—and in the South of Market area, where the apartment vacancy rate rose from 4.5 to 5.9 percent and rents declined 16 percent, to $3,746. In all other market areas, the apartment vacancy rate rose by less than 1.0 percentage point and the asking rents declined by less than 6 percent.

Rental Construction Activity

Builders have significantly scaled back the magnitude of multifamily construction—as measured by the number of units permitted—as market conditions have weakened from the COVID-19 pandemic. During the 12 months ending November 2020, 1,825 rental units were permitted, down 62 percent from the 4,800 units permitted during the same period a year prior (preliminary data). More than 40 percent of units permitted during the 12 months ending November 2019, however, were permitted in a single month: December 2018. From 2012 through 2018, multifamily building permitting increased by an average of 14 percent annually, to a peak of 4,900 units in 2018. By comparison, an average of 1,400 units were permitted annually from 2000 through 2007 (Figure 24). New multifamily construction reached an average low of 360 units a year in 2009 and 2010 in response to the housing market collapse.

Figure 23. Apartment Rents and Vacancy Rates in the San Francisco County Submarket



Q3 = third quarter.
Source: Moody's Analytics REIS

One of the largest developments underway is the 152-acre Parkmerced development in San Francisco, a planned carbon-neutral, pedestrian-friendly community with approximately 5,675 apartments and rental townhomes, a retail corridor, and parks. A total of 3,221 apartment and rental townhome units have been completed so far, and 1,538 existing rent-controlled units will eventually be replaced on a one-to-one basis with new units at the same monthly rents for existing tenants (and will continue to be rent controlled). Market-rate rents at completed apartment units within Parkmerced start at $2,375. Currently, the 313-unit Block 22 is underway, with completion on the two 14-story apartment towers expected by summer 2021.

Forecast

During the 3-year forecast period, demand is expected for 4,675 new rental units in the submarket (Table 16). The 2,475 units currently under construction are expected to meet a portion of demand. Rental demand is expected to be greater in the second and third years of the forecast, as economic conditions recover.

San Mateo Submarket

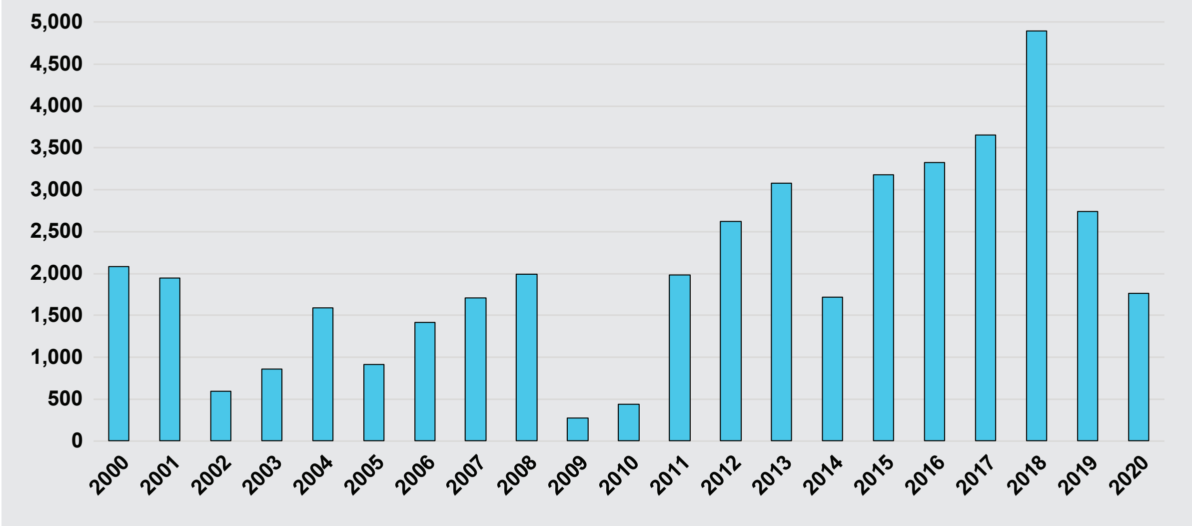
Market Conditions: Balanced

> Apartment market conditions in the San Mateo County submarket are balanced, with an increase in the apartment vacancy rate and a decline in rents during the third quarter of 2020.

Current Conditions and Recent Trends

Rental housing market conditions in the San Mateo County submarket are balanced, with an estimated overall rental vacancy rate of 4.5 percent, down slightly from the 4.7-percent rate in April 2010 (Table 17). The inventory of occupied rental housing has increasingly shifted to apartment complexes with two or more units since 2010, given the very tight conditions in both the sales and rental markets throughout much of the decade. As of July 2019, approximately 56 percent of all renter households resided in buildings with five or more units—up from

Figure 24. Average Annual Rental Permitting Activity in the San Francisco County Submarket



Notes: Includes apartments and units intended for rental occupancy. Data for 2020 are through November 2020.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

Table 16. Demand for New Rental Units in the San Francisco County Submarket During the Forecast Period

	Rental Units
Demand	4,675 Units
Under Construction	2,475 Units

Note: The forecast period is December 1, 2020, to December 1, 2023.
Source: Estimates by the analyst

55 percent during 2010—and roughly 16 percent of renter households lived in buildings with two to four units, up from 13 percent in 2010. An estimated 27 percent of all renter households lived in single-family homes, down from 32 percent in 2010.

The apartment market is also balanced, with a vacancy rate of 4.5 percent during the third quarter of 2020, up from 4.2 percent a year ago (Moody's Analytics REIS). The recent increase in the apartment vacancy rate is smaller than in the San Francisco County submarket because the San Mateo County submarket is more suburban. As the COVID-19 pandemic put a renewed focus on home, many residents moved from urban San Francisco out of the state but also to more suburban areas in the Greater Bay Area, including the San Mateo County submarket. Nevertheless, apartment rents declined significantly in the submarket. During the third quarter of 2020, the average apartment rent was $2,600, a 10-percent decline from the average of $2,888 during the third quarter of 2019. Prior to the recent decline, year-over-year rent growth had been positive since 2009, when conditions were weak due to the Great Recession.

The apartment vacancy rate steadily rose from a low of 1.4 percent during 2000 at the height of the dot-com bubble to a high of 6.0 percent during 2004 (Figure 25). As job growth expanded during the early part of the 2010s, when the local economy was recovering from the Great Recession and the HMA was experiencing a tech boom, the apartment vacancy rate declined to 2.7 percent by 2012. Rent growth from 2004 through 2012 averaged 5 percent annually. Average rent growth continued to climb, by an average of 6 percent annually, from 2012 to 2019; the apartment vacancy rate trended upward to 4.3 percent by the third quarter of 2019.

Market Conditions by Geography

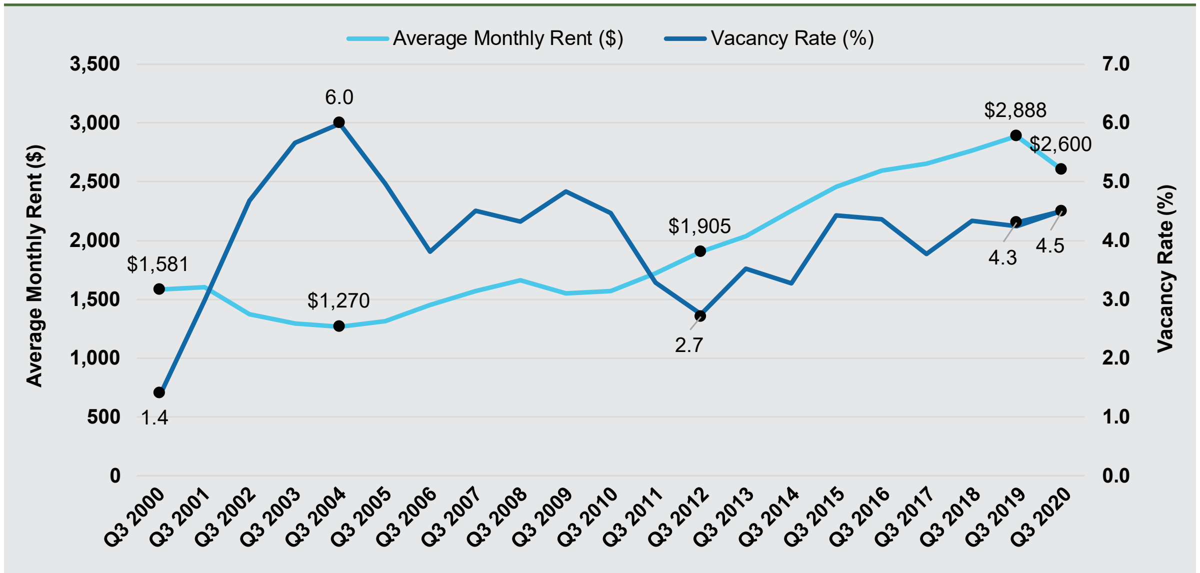
During the third quarter of 2020, the apartment vacancy rate rose in two of the three market

Table 17. Rental and Apartment Market Quick Facts in the San Mateo County Submarket

		2010 (%)	Current (%)
Rental Market Quick Facts	Rental Vacancy Rate	4.7	4.5
	Occupied Rental Units by Structure		
	Single-Family Attached & Detached	31.7	27.0
	Multifamily (2–4 Units)	13.2	16.3
	Multifamily (5+ Units)	54.6	56.1
	Other (Including Mobile Homes)	0.4	0.0
		Current	YoY Change
	Apartment Vacancy Rate	4.5	0.3
	Average Rent	$2,600	10.0%

YoY = year-over-year.
Notes: The current date is December 1, 2020. Percentages may not add to 100 due to rounding.
Sources: 2010 and 2019 American Community Survey, 1-year data; Moody's Analytics REIS

Figure 25. Apartment Rents and Vacancy Rates in the San Mateo County Submarket



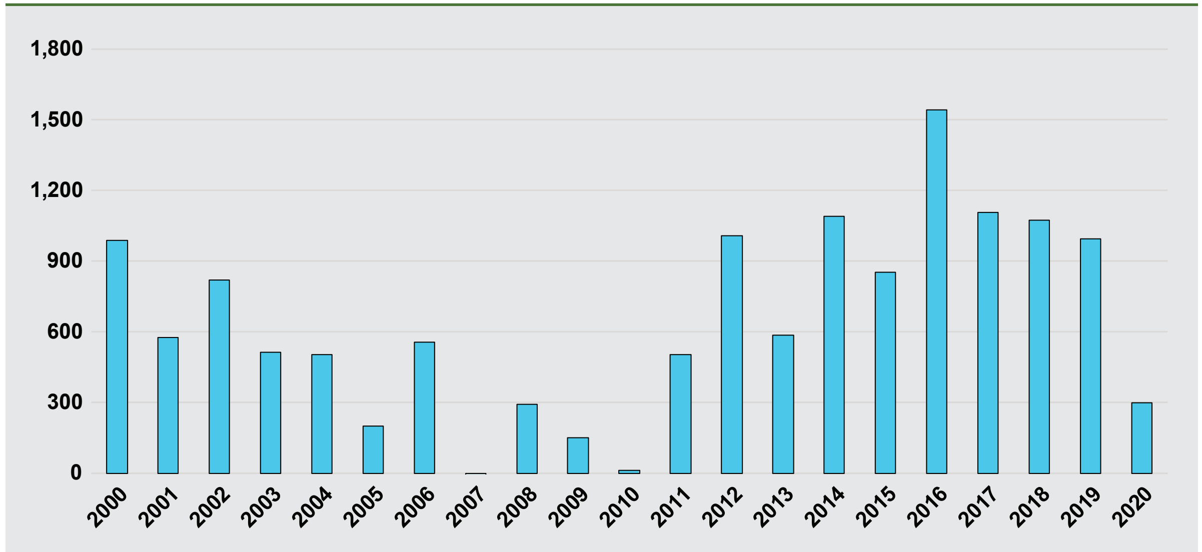
Q3 = third quarter.
Source: Moody's Analytics REIS

areas that make up the submarket, but asking rents declined significantly in all three market areas. The apartment vacancy rate rose the fastest, from 4.5 to 5.2 percent during the third quarter of 2020 in the Central San Mateo market area; in this market area, rent declines were also the steepest, at almost 12 percent, to $2,962. In the North San Mateo market area, the apartment vacancy rate rose slightly, from 3.2 to 3.3 percent, and asking rents declined more than 9 percent, to $2,369. The only market area that did not report an increase in the apartment vacancy rate was the South San Mateo market area, where the rate remained at 5.1 percent while asking rents declined the least—almost 8 percent—to $2,843.

Rental Construction Activity

Recent rental construction activity has been cut by more than one-half because of weakened apartment market conditions. During the 12 months ending November 2020, approximately 430 rental units were permitted, down 57 percent from the 1,000 units permitted during the previous 12-month period (preliminary data). Unlike apartment market conditions in the San Francisco County submarket, significant rent growth since the mid-2010s did not lead to the same degree of vacancy rate increases. Multifamily permits averaged 1,125 units annually from 2015 through 2019, 41 percent higher than the average of 800 units permitted annually from 2011 through 2014 (Figure 26). By comparison,

Figure 26. Average Annual Rental Permitting Activity in the San Mateo County Submarket



Notes: Includes apartments and units intended for rental occupancy. Data for 2020 are through November 2020.
Sources: U.S. Census Bureau, Building Permits Survey; 2000–2019—final data and estimates by the analyst; 2020—preliminary data and estimates by the analyst

an average of 110 units were permitted annually from 2007 through 2010, during the Great Recession, lower than the 590 units permitted annually from 2000 through 2006.

One of the largest developments currently underway is the 17-acre Gateway at Millbrae Station development, which will include 157,000 square feet of office space, 320 market-rate apartment units, 80 veteran-preference affordable housing units, and 44,000 square feet of mixed-use retail space. The development is close to the Millbrae Bay Area Rapid Transit (BART) and Caltrain station, both of which will connect commuters to the city of San Francisco to the north and the San Jose MSA to the south. Completion of the 320-unit apartment complex is expected by early 2022, with a mix of studios and one-, two-, and three-bedroom units.

Forecast

During the 3-year forecast period, demand is expected for 2,125 new rental units in the submarket (Table 18). The 1,025 units currently under construction are expected to meet a portion of demand.

Rental demand is expected to be higher in the second and third years of the forecast period as the local economy recovers from the pandemic-induced downturn.

Table 18. Demand for New Rental Units in the San Mateo County Submarket During the Forecast Period

	Rental Units
Demand	2,125 Units
Under Construction	1,025 Units

Note: The forecast period is December 1, 2020, to December 1, 2023.
Source: Estimates by the analyst

Terminology Definitions and Notes

A. Definitions

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.**
Cost Burdened	**Spending more than 30 percent of household income on housing costs.**
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.**
Greater Bay Area	**The nine counties of Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano, Sonoma, and San Francisco.**
Forecast Period	**12/1/2020–12/1/2023—Estimates by the analyst.**
Home Sales/ Home Sales Prices	**Includes single-family home, townhome, and condominium sales.**
Other Vacant Units	**In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), 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.**

Regulatory Barriers	The state and local laws, regulations, and policies adversely affecting the development, maintenance, improvement, availability, and/or cost of affordable housing.
Rental Market/ Rental Vacancy Rate	Includes apartments and other rental units such as single-family, multifamily, and mobile homes.
Seriously Delinquent Mortgages	Mortgages 90+ days delinquent or in foreclosure.
Net Natural Change	Resident births minus resident deaths.

B. Notes on Geography

1.	The metropolitan division definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated April 10, 2018.
2.	Urbanized areas are defined using the U.S. Census Bureau 2010 Census Urban and Rural Classification and the Urban Area Criteria.
3.	The census tracts referenced in this report are from the 2010 Census.

C. Additional Notes

1.	The national HUD First-Time Homebuyer Index is a weighted average of the index for each metropolitan area, weighted by the total number of sales.
2.	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.

3.	**The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. 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.**

D. Photo/Map Credits

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