

White Paper

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# San Francisco County Housing and Economic Outlook

A surging tech employment base and a flood of activity from overseas continue to drive San Francisco's home prices higher. While San Francisco emerges as one of the most expensive places to live in the world, and for good reason, the recent surge in prices concerns us that a slowdown in tech could indeed result in a slowdown in home prices.

### The Economy

- **Great Job Growth:** San Francisco County is the financial center of Northern California and increasingly a tech/software hub. It is the most concentrated jobs node in the Bay Area, with over 620,000 employed and over 55,000 net new jobs added over the last two years (2012-2013). We project continued solid job increases ahead, albeit at slower rates of growth.
- **High Pay Growth:** For the San Francisco MSA as a whole (San Mateo, San Francisco, and Marin Counties), the higher-paying sectors – finance, information, and professional and business services – added over 44,000 jobs MSA-wide from 2011 to 2013. San Francisco specifically has become a favorite place for new software and tech companies with unparalleled urban amenities.
- **Highly Employed Population:** Only 4.5 percent of the labor pool cannot find a suitable job.
- **Affluence:** San Francisco County is very affluent, evidenced by its 2014 median household income of \$78,100, though wealth disparities remain. Wage growth has been solid for the last two years and is projected to remain solid to strong going forward.

Jobs and Median Income Trends and Projections - San Francisco County										
	2009	2010	2011	2012	2013	2014P	2015P	2016P	2017P	2018P
Jobs Total	539,800	538,200	552,000	581,600	608,500	622,700	634,100	644,300	652,800	658,500
Change	-24,600	-1,600	13,800	29,600	26,900	14,200	11,400	10,200	8,500	5,700
Change Rate	-4.4%	-0.3%	2.6%	5.4%	4.6%	2.3%	1.8%	1.6%	1.3%	0.9%
Median Income	\$69,600	\$69,900	\$71,000	\$74,000	\$76,100	\$78,100	\$81,300	\$84,900	\$88,200	\$91,000
Change Rate	-2.0%	0.4%	1.6%	4.2%	2.8%	2.6%	4.1%	4.4%	3.9%	3.2%

Source: Moody Analytics

### Demographics

- **Steady Growth Ahead:** San Francisco County is approaching a population of 850,000 and has over 360,000 households. Recent growth has been fairly strong for such a built-out, physically small locale, and is expected to grow steadily over the next few years.
- **By the Numbers:** Growth projections translate into about 8,000 to 9,000 new residents annually in San Francisco County or about 4,000 to 5,000 new households each year. Household sizes are typically smaller than the norm in more suburban areas.

Population and Households Trends and Projections - San Francisco County											
	2009	2010	2011	2012	2013	Current	2014P	2015P	2016P	2017P	2018P
Population Total	801,900	805,700	815,000	827,400	838,200	848,300	846,700	855,000	863,600	872,300	881,500
Change	10,800	3,800	9,300	12,400	10,800	8,200	8,500	8,300	8,600	8,800	9,200
Change Rate	1.4%	0.5%	1.2%	1.5%	1.3%	1.0%	1.0%	1.0%	1.0%	1.0%	1.1%
Household Total	345,600	346,000	348,700	352,500	356,200	361,200	360,200	365,100	370,300	375,400	380,400
Change	3,000	400	2,700	3,800	3,700	4,200	4,100	4,800	5,200	5,100	5,000
Change Rate	0.9%	0.1%	0.8%	1.1%	1.0%	1.2%	1.1%	1.3%	1.4%	1.4%	1.3%

Source: Moody Analytics

## The Housing Market

- **Prices Strong Then Slower:** Our Burns Home Value Index (BHVI) estimates price appreciation for the entire resale market. Currently, the BHVI for the San Francisco MSA shows prices up 7.8 percent over the last year, and we expect 7 percent appreciation over the next four years.
- **Consistent Resale Volumes:** There have been over 5,800 resales in San Francisco County over the last 12 months. At the MSA level, we forecast sales growth of about 3 to 5 percent for the next two years, but dipping to slight decreases in 2017-2018.
- **Investors Still Here:** San Francisco MSA investor activity has slowly diminished, but remains at about 22 percent, down from a high of over 24 percent in early 2013. While never as high a market share as in more outlying parts of the region, investors still represent a healthy part of the market. Much of this is in the form of overseas money, most often from China.
- **Affordability Decreasing:** Though mortgage rates remain historically low, the San Francisco MSA's current affordability level is worse than its long-term norm. Within San Francisco County, a household earning the median income would need to pay 71 percent of their income to buy the median-priced resale home and 66 percent for the median-priced new home (the discrepancy due to far higher densities in the new home environment). Thus thousands of people working in San Francisco live elsewhere or rent.
- **New Homes Difficult to Find:** San Francisco County has a tremendous amount of potential supply, but actual supply is typically constrained. Supply conditions and local incomes mean new home prices are always high despite small home sizes and high densities. Over the past year and a half, new home prices have fluctuated wildly depending on what sold in any given month but have centered in the high-\$800,000s. This compares to a new home median for all of 2013 of \$738,637.

Burns Home Value Index Trends and Projections - San Francisco MSA											
	2009	2010	2011	2012	2013	Current	2014P	2015P	2016P	2017P	2018P
Burns Home Value Index	130.71	125.49	122.68	141.35	163.68	171.69	171.86	180.28	181.54	182.81	183.55
Change Rate	-1.0%	-4.0%	-2.2%	15.2%	15.8%	7.8%	5.0%	4.9%	0.7%	0.4%	0.4%
Affordability Index	4.3	4.1	3.2	3.0	5.0	6.1	6.1	6.7	7.0	7.1	7.2

Source: John Burns Real Estate Consulting

Note: The Burns Affordability Index is scaled from 1 to 10, with 5 set to the long-term norm for a given market, 0 indicating excellent affordability and 10 indicating excellent affordability poor affordability compared to that market's norm.

## Market Color

- **Urban Publics:** Some traditionally suburban-oriented big public builders like KB Home and Lennar are making inroads into the urban heart of San Francisco. KB Home will build a 74-unit midrise in the South Beach district and is looking for more sites in the city. Lennar recently opened its much anticipated 750-acre Hunter's Point - Candlestick Point redevelopment in the southeastern part of the city. Lennar also has a major stake in the potential Treasure Island redevelopment. Trumark, a private builder also typically in more suburban locales, has multiple San Francisco sites lined up for building. The proposed Parkmerced redevelopment could add another 8,000 units as well.
- **Lowdown on the Waterfront:** In June 2014, San Franciscans approved Proposition B, which gives them a greater say in the development of any future housing units along a 7.5-mile stretch of San Francisco's waterfront. The measure requires voter approval for any new building on Port of San Francisco property that exceeds existing height limits of 105 feet. This is likely to lead to diminished development in the area. The most immediate result was that the Golden State Warriors terminated a plan to build an arena on Piers 30-32 and a mixed-used project at Pier 70 was reworked to lower the maximum height from 230 feet to 90 feet.