



San Francisco Regional Outlook Spring 2019

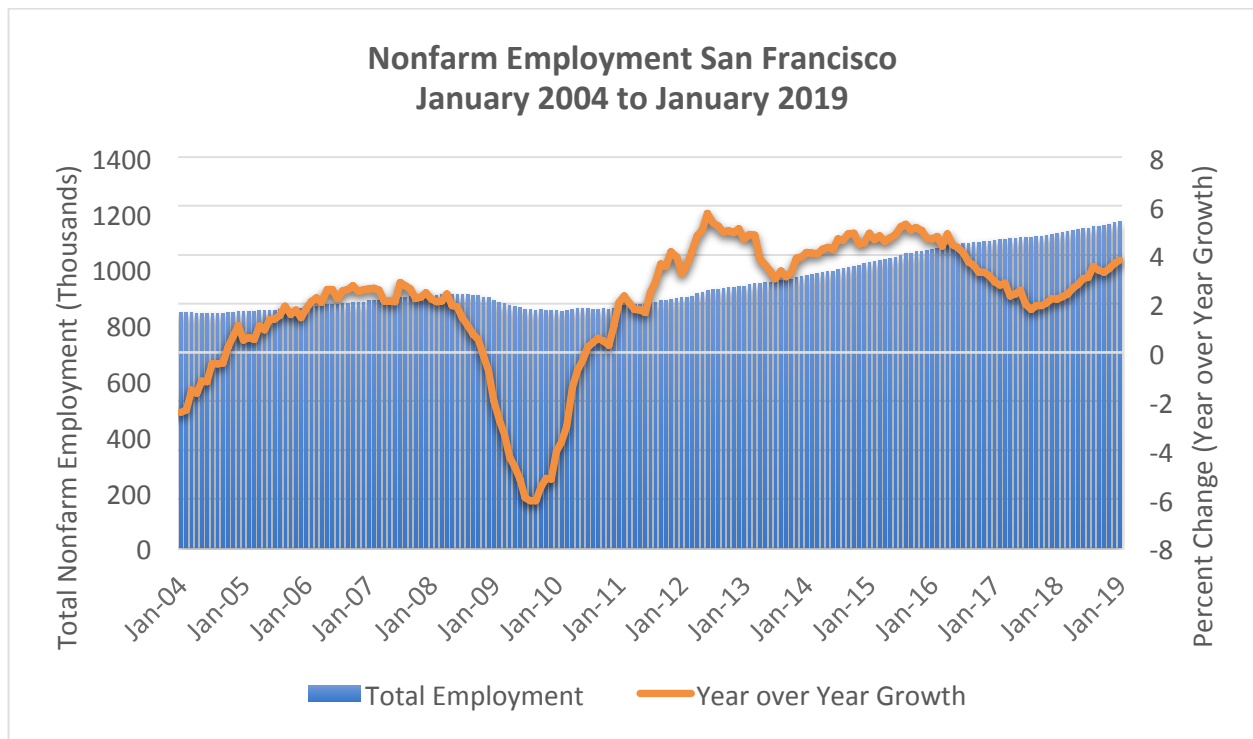
In a year that expects the NBA's Golden State Warriors to take up their new residency in San Francisco, the region's economy is certainly performing like 3-time champion and 2-time MVP point guard, Stephen Curry. After an historic 2018, the San Francisco Metropolitan Division (MD) still has room to push. The region's technology sector continues to drive not only the local economy, but the California economy as a whole. From venture capital to median home prices to almost everything in between, the region is an all-star player.

San Francisco is the Stephen Curry of Labor Markets

From January 2018 to January 2019, total nonfarm employment in the San Francisco MD increased 3.8% to reach 1.2 million jobs, outpacing every major metro area in California, including its neighbors in the East Bay (1.3%) and the South Bay (2.4%). The 42,600 absolute expansion in payroll jobs helped keep the region's unemployment rate among the lowest in the nation, although the rate has trended up from its May 2018 trough of 2.15% in response to large increases in the local labor force (up 4.2% year-over-year in January 2019).

San Francisco's Construction sector experienced the most growth at 9.1%, adding 3,700 jobs from January 2018 to January 2019. The Professional, Scientific, and Technical Services sector experienced the largest absolute job gain, expanding by 13,200 positions (+7.1%) over the same period. This sector is on the cusp of reaching total sector employment of 200,000. The region's Information sector continued to post outstanding gains as it grew by 8.8%, or 7,200 jobs, to reach 89,100 total jobs. Federal Government employment experienced the greatest year-over-year loss in San Francisco over this annual period, shedding 6.0% of its employment, or 1,000 jobs.

As the real estate market enters its busy season, it is not surprising to see an uptick in Construction sector employment. Notably, this is a welcome development in the region because a tight construction labor market has been contributing to rising construction costs in recent months.



Beacon Economics is forecasting the unemployment rate in the San Francisco MD to remain in a narrow range around its current reading through 2019. Total nonfarm employment in the region is expected to expand in percentage terms by 2.8% over the year.

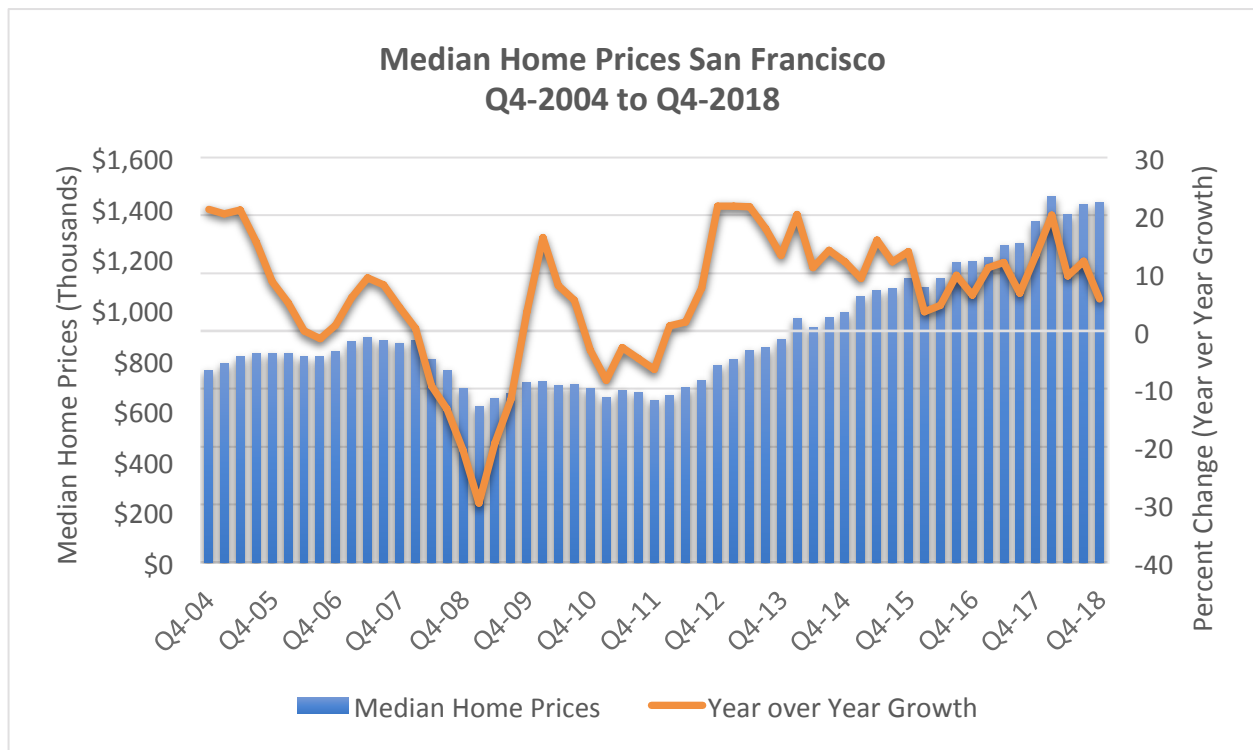
San Francisco is Also the Stephen Curry of Housing Markets

From the third to the fourth quarter of 2018, the median price of an existing single-family home in San Francisco increased to \$1.42 million from \$1.41 million. At the same time, home prices in neighboring Bay Area regions actually decreased slightly, despite an ongoing statewide housing shortage. On a year-over-year basis, from the fourth quarter of 2017 to the fourth quarter of 2018, San Francisco home prices increased by 5.6% percent, outpacing growth in the East Bay (4.5%) and South Bay (0.5%) over the same period.

Home sales of existing single-family residences in San Francisco declined 9.6% from the fourth quarter of 2017 to the fourth quarter of 2018, although sales fell by less than they did in either the East Bay (-14.2%) or South Bay (-15.0%). Since existing home sales are tracked by closed contracts, they reflect market and mortgage rate conditions one to two months earlier than when sales open escrow. The 30-year mortgage rate peaked in November 2018 and likely caused the decline in January 2019 sales (the most recent available sales' numbers). However,

mortgage rates have since decreased and home sales are expected to stabilize or improve in the next few months as the market ramps up during peak season.

Beacon Economics expects that the median price for an existing single-family home in San Francisco to increase in 2019, but at a slower pace compared to the last few years.



From the fourth quarter of 2017 to the fourth quarter of 2018, average apartment rent increased 2.6% in San Francisco, hitting \$3,128/month. Although this lags rent price growth in the East Bay (4.1%) and the South Bay (4.8%), the higher year-over-year growth rates in neighboring regions shouldn't detract from the gravity of the rental situation in San Francisco. Specifically, a household in the region would have to earn greater than or equal to \$125,120 net annual, pre-tax income to not be rent burdened, on average¹.

¹ Rent Burden is defined as spending 30% or more of monthly, pre-tax income on rent.