

EXHIBIT R



NON-PRIMARY RESIDENCES AND SAN FRANCISCO'S HOUSING MARKET

SPUR WHITE PAPER

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How many housing units in San Francisco are not occupied by a permanent resident? And do such units further constrain the city's tight housing market and drive up housing prices? In early 2014, SPUR assembled a task force to answer these questions. We reviewed all available data and compared San Francisco to other cities. We found that it was very difficult to exactly quantify the number of non-primary residences in San Francisco. Nevertheless it is possible to provide a rough picture of how many there are and how San Francisco compares to other cities on this issue.

Defining “Non-Primary Residences”

Non-primary residences (NPRs) are units that are not occupied permanently for a variety of different reasons. These include:

- Second homes or *pieds-à-terre*, where the owner occupies the unit for only select periods of time; the U.S. Census refers to this as “seasonal, recreational or occasional use”
- Units held as real estate investments, with no short- or long-term residents inhabiting them
- Properties used exclusively as permanent short-term rentals, with no long-term tenant
- Units that the owner chooses to keep vacant to avoid housing regulations such as rent control

Some of these categories could overlap, particularly over time. For example, a property could be initially purchased as a second home and ultimately become an investment property, or vice versa.

The NPR category does not include units that are part of the “natural” vacancy associated with the typical turnover of the real estate market, i.e. units that are in the process of being rented or sold, or units that are vacant while being built or renovated.

How Many Units Are Considered Non-Primary Residence Units in San Francisco?

The most reliable sources for information regarding non-primary residences are the United States Census, conducted every 10 years, and the American Community Survey (ACS), an ongoing national survey that samples households randomly every month. ACS data from these monthly surveys is accumulated and pooled over 12, 36 and 60 months. SPUR used the 2012 ACS data¹ to understand how many San Francisco units are NPRs. Although the ACS is based on survey data and therefore subject to sampling error, it provides the most complete and up-to-date picture of NPRs in San Francisco. The ACS also allows for clear comparisons between San Francisco and other U.S. cities, since it uses the same methodology across the country.

The 2012 ACS reports a total vacancy number in San Francisco of roughly 30,000 units which consists of four basic categories of vacant units:

1. Rental units that are in the process of being rented (“for rent”) or units that have been rented, but are not yet occupied (“rented, not occupied”) — about 8,900 units
2. Ownership units that are in the process of being sold (“for sale”) or units that have been sold but are not yet occupied (“sold, not occupied”) — about 2,400 units
3. Units used for seasonal, recreational or occasional use — about 9,100 units
4. Other vacant units not in any of the categories above — about 9,700

¹ The ACS released its 2013 data on September 18, 2014, after this study was substantially completed. At the time this study was underway, the 2012 data was the most recent available data.

Figure 1: 2012 Distribution of Housing Units in San Francisco by Type of Vacancy

Type of Vacant Unit	Estimate	Margin of Error ²
For rent	6,438	+/-1,748
Rented, not occupied	2,433	+/-961
For sale only	1,525	+/-713
Sold, not occupied	897	+/-581
For seasonal, recreational or occasional use	9,075	+/-2,114
For migrant workers	0	+/-197
Other vacant	9,689	+/-2,400
Total Vacant	30,057	+/-3,407
Occupied Units		
Owner-occupied	124,739	+/-4,592
Renter-occupied	222,103	+/-4,887
Total Occupied	346,842	+/-3,718
Total Housing Units	376,899	+/-1,449
Seasonal, recreational or occasional use as a percentage of total units	2.4%	
Rental vacancy as a percentage of total rental units³	2.8%	
Other vacant as a percentage of total units	2.6%	

Source: The 2012 American Community Survey. Data analysis courtesy of The Concord Group.

² The sample size for the ACS is relatively small compared to the 10-year census, which can contribute to high margins of error. Of particular note, data on vacant units is typically collected during an interview process by an ACS Field Representative. If there is nobody available, willing or able to be interviewed by the Field Representative, this can create errors in the data. Interviewees are asked to self-report their occupancy status (renter, owner or if a unit is a vacation or seasonal home), and some interviewees may choose not to answer.

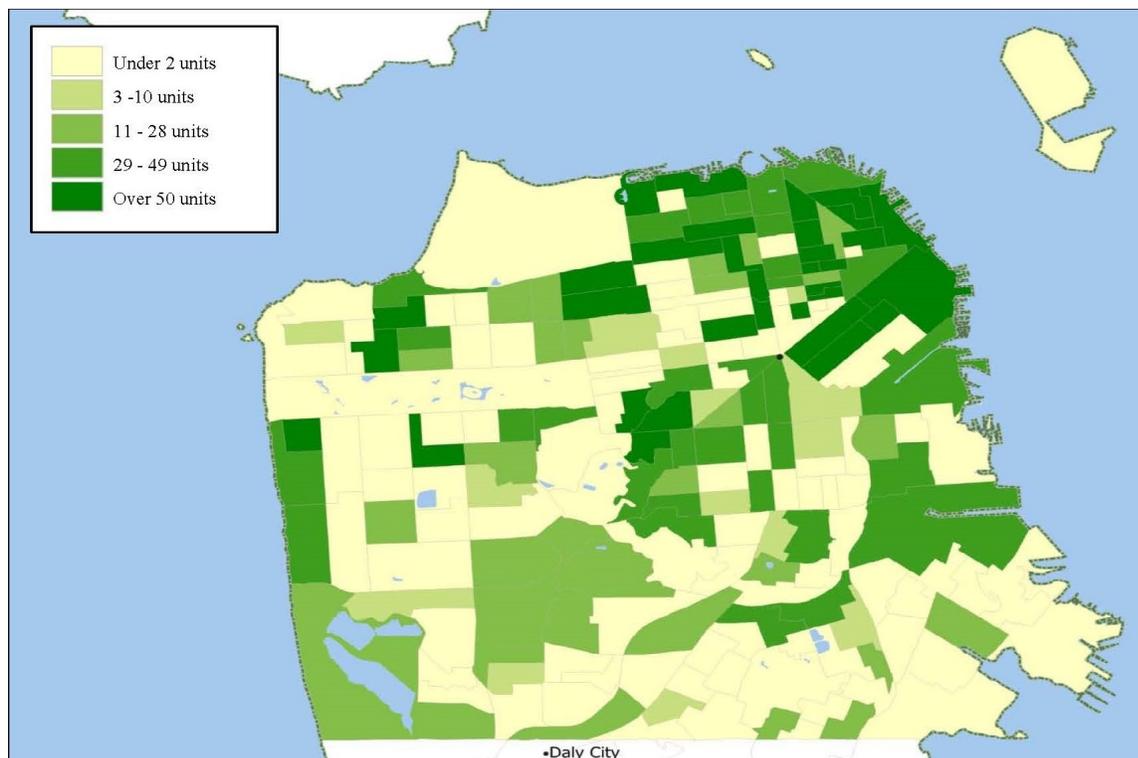
³ Rental Vacancy is calculated by the ACS as the percentage of units for rent divided by the total number of rental units. Units in the "rented, not occupied" category are not included in the numerator of the calculation. "Rented, not occupied" units are defined as those units that are rented (i.e. a rental deposit has been paid) but the renter has not yet moved in.

We focused on “seasonal, recreational and occasional use” as the best proxy for non-primary residence. ACS also includes a category called “other vacant,” a catchall for everything that could not be otherwise classified, including units that are under construction, foreclosed units or those where the occupant has moved to a care facility.⁴ The number of “other vacant” units in San Francisco in 2012 is 9,689 — roughly the same number of units as in the “seasonal, recreational and occasional use.”

The 2012 ACS shows that the number of units used for “seasonal, recreational or occasional use” (i.e., *pieds-à-terre* where the owner occupies the unit part time) is 9,075, or roughly 2.4 percent of the total number of units in San Francisco.⁵

Figure 2: Distribution of Units Vacant Due to “Seasonal, Recreational or Occasional Use”– Number of Units by Census Tract

Vacancies due to “seasonal, recreational or occasional use” are most concentrated in downtown, portions of SOMA, portions of the Marina, Pacific Heights and areas near Sea Cliff. While the concentration differs by neighborhood, the total number of these units in any one census tract is quite low.



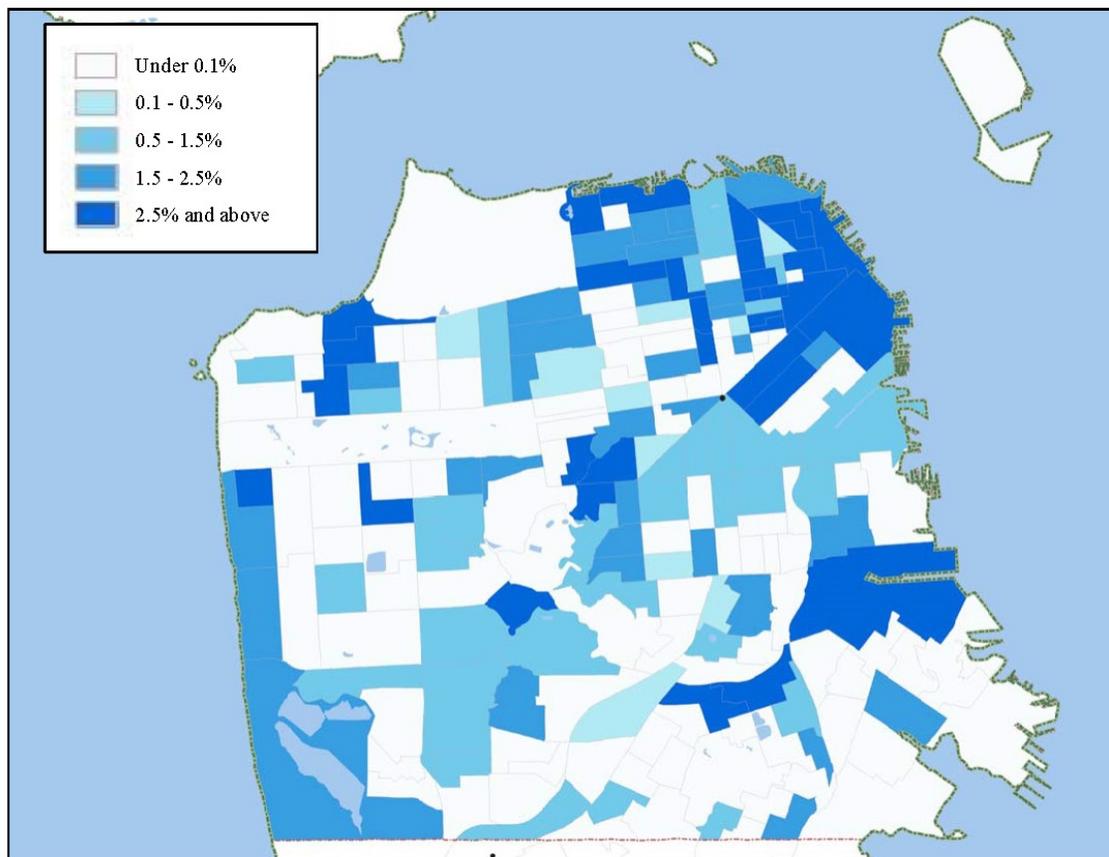
Source: The 2012 American Community Survey. Data analysis courtesy of The Concord Group.

⁴ See “Understanding Differences in ACS and 2010 Census Information on Occupancy Status –Data Collection Methods,” Memorandum for ACS Research and Evaluation Steering Committee, May 23, 2012: “Other examples given for the ‘Other Vacant’ category were: vacant units not ready to be sold or rented, estates that had not been settled, units where the occupant has either permanently or temporarily moved to a care facility or somewhere else, and units currently being remodeled.” page 14-15.
http://www.census.gov/acs/www/Downloads/library/2012/2012_Clark_01.pdf accessed on August 28, 2014.

⁵ The 2013 ACS data shows the percent of units that are vacant due to “seasonal, recreational or occasional use” as being 1.6 percent

Figure 3: Distribution of Units Vacant Due to “Seasonal, Recreational or Occasional use” – Percentage of Units by Census Tract

In most areas within San Francisco, less than 1.5 percent of units within a census tract are used for “seasonal, recreational or occasional use.”



Source: The 2012 American Community Survey. Data analysis courtesy of The Concord Group.

Other Methodologies to Determine the Number of NPRs

In addition to reviewing ACS data, we analyzed data from the San Francisco City Assessor to see if it could be used to determine the number of NPRs in the city. We ultimately decided that assessor data did not provide a detailed enough picture to accurately determine whether or not a unit was an NPR. Here are some of the data points we looked at and why they don't capture the full picture:

- **The homeownership tax exemption does not include all owner-occupied homes.** The assessor collects information on property owners who use their home for their primary residence by tracking who has filed for the homeowner property tax exemption. According to state law, homeowners can claim a \$7,000 reduction in the taxable value of their home if they occupy a home as their principal residence. Homeowners must file paperwork in order to qualify, and the exemption only results in about a \$70 annual savings in an owner's property tax bill. Since this amount is so low, there is not a big incentive for homeowners to file the necessary paperwork. A review of citywide assessor data revealed that this data field did not accurately depict who was occupying homes as their primary residence.
- **A mismatch between address of residence and mailing address for property tax bills does not always indicate vacancy.** The assessor also collects information on a property address and the mailing address the property tax bill is sent to. A review of citywide assessor data also revealed that many residential property owners may use a different address for billing information. For example, some homeowners may use a post office box to receive their bills, and some homeowner associations receive and pay property tax bills on behalf of the owner. In addition, some homeowners may hold property in the name of a trust rather than in their own name, as this facilitates inheritance, and the trustee's mailing address may be different. Additionally, when an owner rents out a unit to a full-time tenant, he or she would likely receive the property tax bill at another address.
- **The assessor's records may not be up to date, as there is a delay in how data is reported and then recorded each fiscal year.** Thus, some units that have been sold and are occupied by homeowners may for a time continue to appear on the assessor rolls as new homes owned by the development partnership that built them.

We also considered using voter registration data to determine how many units in San Francisco are occupied by primary residences. However this methodology was rejected for several reasons. A resident needs to be a citizen to vote, but not to own or rent property, and only 61 percent of those 18 and older in San Francisco are registered to vote.⁶

NPRs as Investment Properties

There has been some public discussion as to whether housing units in San Francisco are being held off the market as investment properties and/or being used exclusively as *pieds-à-terre*. To test this hypothesis we conducted an informal, non-statistically significant survey of eight recently completed condominium projects in downtown and SOMA. For each project we asked the following:

⁶ Analysis courtesy of David Latterman, Fall Line Analytics, using 2012 American Community Survey data.

- What percentage of units in this property are the owner’s primary residence (i.e., the owner lives there and pays homeowner expenses from there)?
- What percentage of units are the owner’s secondary residence (i.e., a *pied-a-terre* that the owner actively uses on at least a monthly basis)?
- What percentage of units are renter-occupied?
- What percentage of units are unoccupied (i.e., purchased and left vacant)?

We made a distinction between two types of properties: those that are essentially high-end hotels with concierge services and those that do not have such services.

Figure 4: Survey of New Condominium Projects in Downtown San Francisco

Hotel/concierge service buildings surveyed include two properties comprising a total of 244 units. Buildings without such services include six properties comprising a total of 1,710 units.

	Condominiums with hotel/concierge services (“condo-tels”)	Condominiums without hotel/concierge services
Owner’s primary residence	47%	61%
Renter occupied	17%	26%
<i>Pied-a-terre</i> used on a monthly basis or more	36%	13%
Unoccupied – purchased and left vacant as an investment property	0%	0.2%

Source: Interviews with property managers. This was an informal poll and should not be considered statistically significant.

We found that virtually no units in either type of buildings were left completely vacant. The percentage of units used as *pieds-à-terre* was significantly higher for hotel/concierge service buildings than for regular condos. Since *pieds-à-terre* were used on a minimum monthly basis, it is possible that some of these owners have a permanent residence elsewhere in the Bay Area.⁷ It should be noted that the percentage of *pieds-à-terre* for the buildings we surveyed is higher than the percentage of NPRs cited in the ACS for the city as a whole. Our research indicates that in wealthier San Francisco neighborhoods, such as downtown, parts of SOMA, the Marina and Pacific Heights, the percentage of *pieds-à-terre* is likely to be higher than in other neighborhoods. This trend can be seen in the distribution of “seasonal, recreational and occasional use” units across the city (see Figures 2 and 3).

Another comment frequently heard in housing policy discussions is that many units are being purchased by international investors from China or Russia. We obtained search data from the real estate website Trulia showing the countries that most frequently viewed San Francisco homes on that website. Although China was in the top 10, it was not one of the top five countries. Only 12.4 percent of views of San Francisco homes are international. The remaining 87.6 percent are domestic.⁸

⁷ Anecdotally we have heard that many *pieds-à-terre* are owned by individuals with permanent residences elsewhere in the Bay Area, such as Marin County, Napa County and the Peninsula.

⁸ Courtesy of Jed Kolko, Trulia. Correspondence on September 19, 2014.

Figure 5: Top 15 Foreign Countries/Regions Viewing San Francisco Homes on Trulia

Rows highlighted in bold indicate that searches for that country are disproportionately high for San Francisco relative to the rest of the United States.

Ranking	Foreign Country or Region
1	United Kingdom
2	Canada
3	Australia
4	Germany
5	France
6	Brazil
7	Hong Kong
8	China
9	India
10	Italy
11	Russian Federation
12	Japan
13	Mexico
14	Taiwan
15	Singapore

Source: Courtesy of Jed Kolko, Trulia. Correspondence on August 5th, 2014.

NPRs used as permanent vacation rentals

There has been public concern over the past two years that existing housing units are being converted into permanent short-term rentals. While there is no concrete data about the exclusive use of housing units as permanent vacation rentals, estimates range from 160 to 5,000 units, or 0.04 percent to 1.3 percent of the housing market.

On the upper end of the range, the San Francisco Planning Department estimates that between 4,000 and 5,000⁹ entire units are being used for short-term rental use at any one time. This number may include units that are occupied by primary residents and rented out only occasionally (for example, if residents go on vacation and rent out their unit on VRBO or Airbnb). Currently, renting out a residential unit for less than 30 days is not allowed under the Planning Code.¹⁰ Roughly 90 to 95 percent of the short-term vacation rental enforcement cases reported to the San Francisco Planning Department are found to be units that are rented in their entirety and have no long-term tenant.¹¹ The number of short-term rental cases filed between June 2013 and June 2014 was 124.¹²

⁹ San Francisco Planning Department, Case Number 2014.0707T, "Amendments Relating to Short-Term Rentals," July 31, 2014, page 4. Footnote 7 states: "This number represents the Department's best estimate of how many entire dwelling units are being listed on all five major short-term rental platforms in San Francisco. It does not include hosted rentals, where a room or a shared room is being offered while the permanent resident is present."

¹⁰ Ibid, page 1. In addition, the case report notes that San Francisco's Administrative Code prohibits the renting of residential units for less than 30 days in buildings of four units or more.

¹¹ Correspondence with the San Francisco Planning Department, September 18, 2014. This represents a rough estimate based on staff experience.

¹² Correspondence with the San Francisco Planning Department, September 18, 2014. The number of enforcement complaints filed with the Department between September 18, 2013 and September 18, 2014 was 223. However, the Department experienced an influx of complaints regarding short-term rentals for a portion of a unit starting in June of 2014, likely due to an increased awareness by the public that renting even a portion of one's unit for a short-term stay is also illegal.

An independent analysis by the *San Francisco Chronicle* reports that of the 2,984 entire homes or units rented on Airbnb, only 160 units seem to be rented as short-term rentals full time.¹³

Data from Airbnb suggests that the vast majority of properties listed in San Francisco are not being removed from the long-term residential market. According to an Airbnb survey in San Francisco, 90 percent of all hosts “rent the homes they live in on an occasional basis.”¹⁴ If the remaining 10 percent were units with no primary resident, and that figure was applied to the 4,000 to 5,000 units that the Planning Department has found to be used for short-term rentals where the total unit is being rented, then the estimated number of units being held off the market as short-term rentals would be between 400 and 500 units.¹⁵

According to San Francisco Planning Department counts, the number of short-term rentals has increased significantly over time, with an estimated 63 percent annual growth rate since 2011.¹⁶ Based on data from 2013-2014, some have speculated that the number of short-term rentals may be plateauing.¹⁷ However, since short-term rentals have not been required to be reported until now, the data are incomplete, making it difficult to draw accurate conclusions on trends over time.

The Board of Supervisors recently approved legislation sponsored by Supervisor David Chiu to better regulate short-term rentals. This legislation will require that in order to legally participate in the short-term rental program, the permanent resident of a unit will need to register their property with the city, maintain residency in the unit for a minimum of 275 days a year, and pay the required transient occupancy tax. In addition, the permanent resident will need to maintain a minimum amount of insurance and also comply with rent control law. One impact of this legislation will be better data for policymakers to use in analyzing short-term rentals’ significance in San Francisco’ housing market. Data the planning department should gather includes: the number of units being used as short-term rentals; the number of nights they are being rented out; where the units are located; what building types they’re in and trends over time.

NPRs that result from units held off the market due to rent control

In 2000, SPUR commissioned Kent Sims to write “San Francisco Economy: Implications for Public Policy,” a study on San Francisco’s economy. The report showed that the number of all vacant units in San Francisco was roughly 25,400, or 7.5 percent of the total housing inventory. His report indicated that San Francisco’s vacancy rate for all units was roughly 60 percent higher¹⁸ than the vacancy rate for all units for counties outside of San Francisco. The report speculates that the vacancy rate was higher in San Francisco than the rest of the Bay Area due to “housing regulations that make holding rental units vacant about the only way owners can regain control of their property.”¹⁹

¹³ <http://www.sfchronicle.com/business/item/window-into-airbnb-s-hidden-impact-on-s-f-30110.php>, accessed on September 5, 2014.

¹⁴ “Airbnb: Economic Impacts in San Francisco and its Neighborhoods.” HR&A, November 2012.

¹⁵ Inclusion of potential commercial hosts may change this ratio, but to date Airbnb has not provided data on the breakdown of individual and commercial hosts.

¹⁶ The Planning Department counted 1,595 rental listings in 2011 on one short-term rental site. In 2012, that number increased to 2,533 and in January of 2014, that number was 6,900. Planning Department, Case NO 2014.0707T, page 6.

¹⁷ <http://tomslee.net/2014/06/the-shape-of-airbnbs-business-ii.html>, accessed on September 5, 2014.

¹⁸ Sims, Kent, “San Francisco Economy: Implications for Public Policy”, 2000. The report shows a vacancy rate of 7.47 percent for San Francisco as opposed to 4.69 percent for the Bay Area as a whole. Page 5-4.

¹⁹ *Ibid*, page 1-12

Some opponents of housing regulations such as rent control have cited this study to support a claim that all 25,400 vacant units were being held off the market due to rent control. While we do acknowledge that there can be a financial incentive to hold rent controlled units off the market because the value of a vacant unit will be higher than the value of an occupied unit upon sale, the 2000 SPUR report does not indicate how many of the vacant units are being held off the market due to rent control. In fact, after reviewing all available data, SPUR believes that it is not possible to determine what percentage of vacancy is attributable to owners holding their units off the market due to housing regulation.

As described earlier, total vacancy includes many different categories, including rental units that are in the process of being rented and ownership units that are in the process of being sold. The vacant units in these categories could not be attributed to housing regulation.

We also reviewed recent vacancy data for the nine-county Bay Area and found that while San Francisco's total vacancy rate was higher than its adjacent counties, San Francisco's rental vacancy rate was one of the lowest in the Bay Area. San Francisco's overall vacancy rate is largely attributable to the proportionately high number of "other vacant units," which represents about 33 percent of all vacant units. As San Francisco's housing market has recovered and a large number of housing units are in construction or being renovated, this could have significantly contributed to the city's total vacancy.

Figure 6: Vacancy by County for the Bay Area

	Total Vacancy Rate (as a Percent of Total Units)	Rental Vacancy (as a Percent of Rental Units)	Units Used for Seasonal, Recreational or Occasional Use (as a Percent of Total Units)	Other Vacant Units (as a Percent of Total Units)
San Francisco	8.0%	2.8%	2.4%	2.6%
Alameda	6.1%	3.8%	0.7%	1.9%
Contra Costa	5.2%	4.6%	0.4%	1.9%
Marin	7.8%	3.9%	2.6%	2.5%
Napa	11.9%	10%	4.4%	1.0%
San Mateo	4.4%	1.3%	1.3%	1.6%
Santa Clara	3.5%	2.9%	.5%	0.8%
Solano	7.8%	5.7%	.5%	2.9%
Sonoma	10%	5.8%	4.6%	1.8%

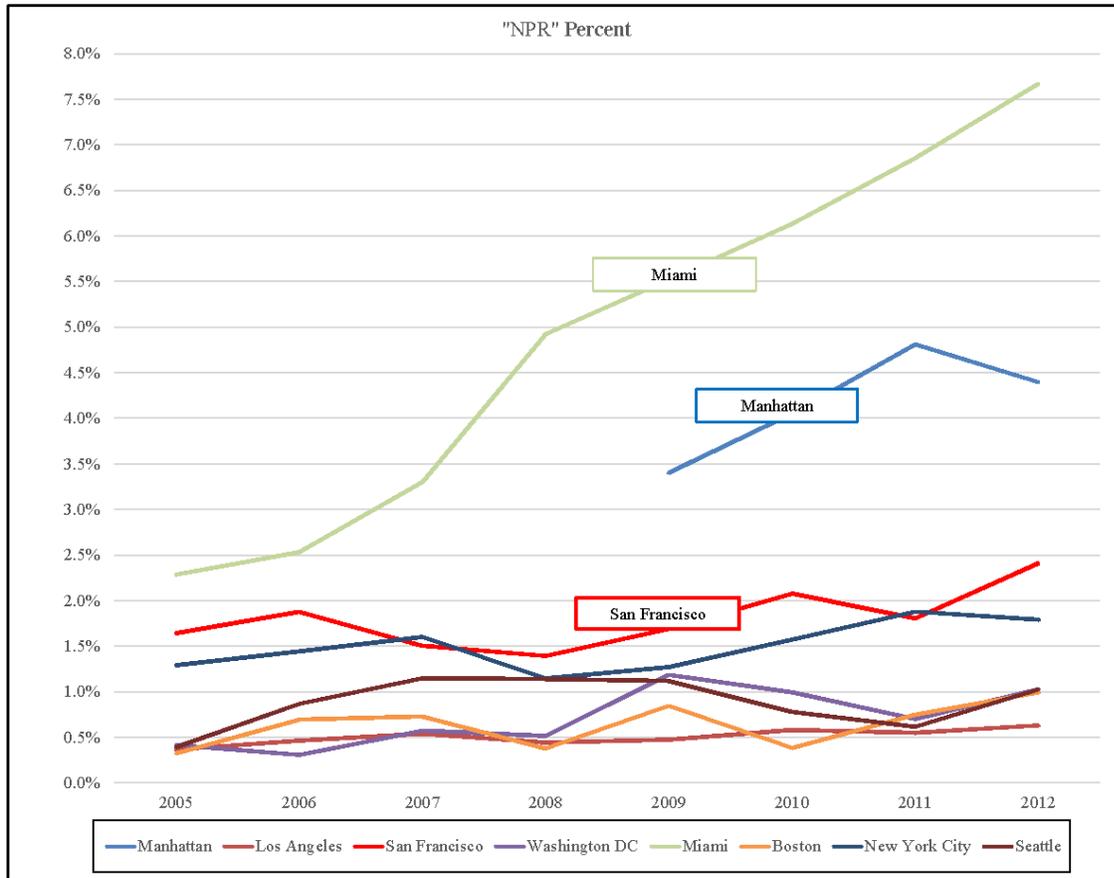
Source: American Community Survey, Analysis by the Concord Group and SPUR.

NPRs in San Francisco Relative to Other Cities

Relative to other high-cost markets such as Miami, Honolulu and Manhattan, San Francisco’s percentage of NPRs is relatively low.

Figure 7: Seasonal, Recreational and Occasional Use in Hot Real Estate Markets, 2005 to 2012

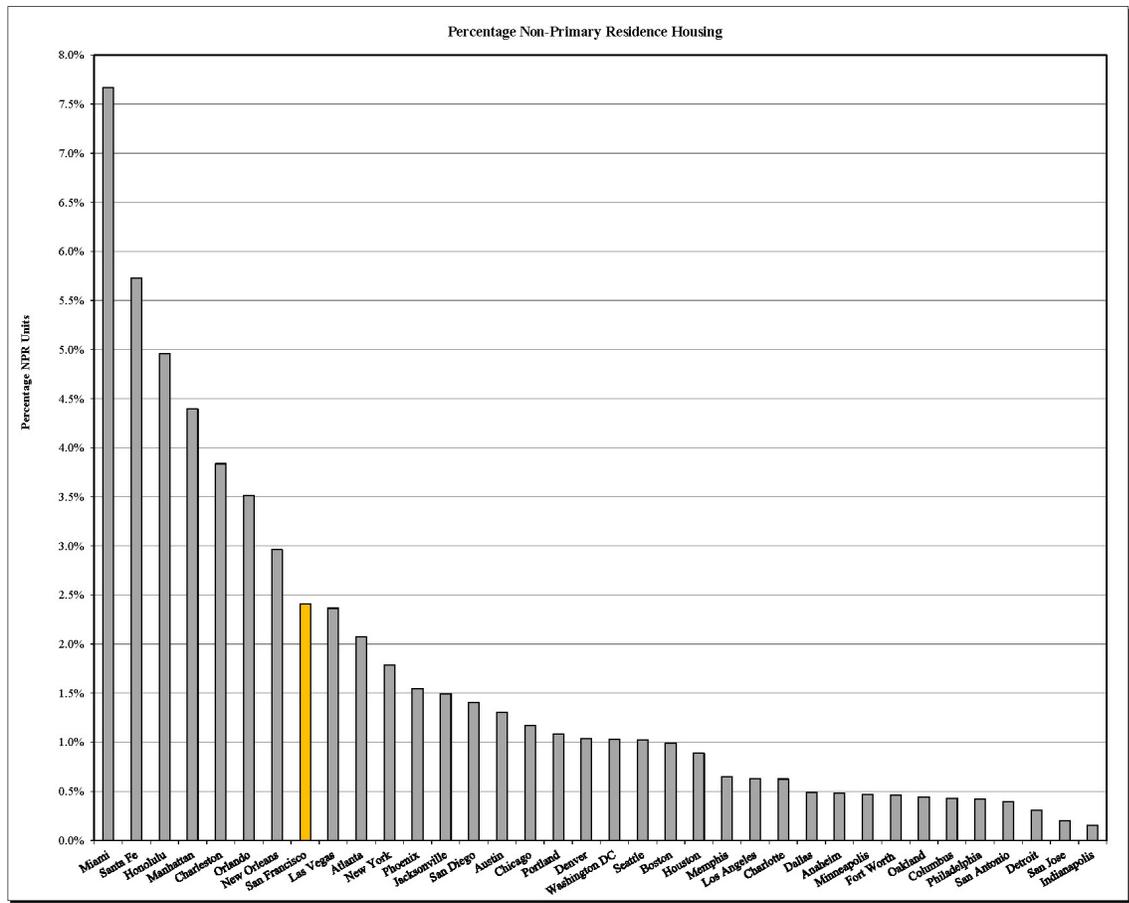
Over the last seven years, San Francisco’s percentage of NPRs has been on par with or slightly higher than other “hot market” cities such as Boston, Seattle and Washington, D.C., but it remains significantly lower than Manhattan or Miami.



Source: 2012 American Community Survey, analysis by The Concord Group

Figure 8: Seasonal, Recreational and Occasional Use in Large American Cities, 2012

Compared to a broader range of housing markets, San Francisco's percentage of NPRs remains relatively low.



Source: 2012 American Community Survey, Analysis by The Concord Group

Findings

1. NPRs do not appear to be a large portion of San Francisco's housing stock, especially when compared to other cities.

In 2012, seasonal, recreational occasional use units comprised roughly 2.4 percent of San Francisco's housing stock. This share was 1.6 percent in 2005 and 2.1 percent in 2010. The recently released 2013 ACS data show the percentage of seasonal, recreational or occasional use falling to 1.6 percent.²⁰ The percentage of NPRs in San Francisco does not appear to be in danger of approaching the level reached by other hot markets, such as Miami, Honolulu or Manhattan.

2. The percentage of pied-à-terre NPRs is higher in wealthier neighborhoods (such as downtown, Pacific Heights and Sea Cliff).

This can be seen in both of the maps showing the distribution of seasonal, recreational and occasional use units across the city (see Figures 2 and 3) as well as in our analysis of recently completed projects in San Francisco's downtown (Figure 6).

3. Buildings with hotel-level concierge services are likely to have higher percentages of pied-a-terre NPRs than other buildings.

In new condominiums without hotel services, our study found the average share of pied-à-terre units was roughly 13 percent. For "condo-tels" *with* hotel services, the share was an estimated 36 percent. Although we only received data for two "condo-tels," similar buildings will likely have comparable percentages of pied-à-terre units. Overall, about 50 to 60 percent of condominium units are estimated to be owner occupied, while about 15 to 25 percent of condominium units are renter occupied.

4. It does not appear that owners are purchasing units as investment properties and leaving them vacant.

Of the 1,954 condo units we surveyed, only 4 were not occupied in some form by an owner or renter.

Conclusion

Units that are nobody's primary residence continue to be a hot topic in the current discussion of San Francisco's housing market. Opponents of new market rate housing sometimes claim that the percentage of unoccupied units in newly built buildings is so high that it does not alleviate pressure on the market to continue building new housing. Meanwhile opponents of rent control sometimes argue that San Francisco's total vacancy numbers can be attributed to owners seeking to avoid housing regulations. Our analysis finds that the number of non-primary residences in San Francisco is relatively low, even for new construction in wealthier neighborhoods. We also find that it is not possible to determine what percentage of vacancy can be attributed to San Francisco's housing regulations.

While the data available to understand how many NPRs exist in San Francisco is imperfect, by using the same data and comparing San Francisco to other cities, particularly those with hot markets, we can see that the percentage of NPRs in San Francisco is not terribly high. However, it will be important to continue to track NPRs in the future to determine whether they will comprise a growing percentage of San Francisco's housing market.

²⁰ *The American Community Survey, 2005, 2010, 2012 and 2013. Analysis courtesy of The Concord Group.*