

Here's why new apartments in San Francisco are not driving up rents

Oct 17, 2016

By: Blanca Torres

San Francisco's apartment market will add the most new homes in 2016 than it has during the last two decades — a phenomenon that is helping “soften” the market and bring down or flatten rents that have skyrocketed in recent years.

Yes, San Francisco, supply and demand does work here and no, new apartments, even the pricey ones, are not driving up rents, as the [Business Times explored in a cover story last week.](#)

Economists hate it when they hear the arguments that supply and demand don't apply to housing markets or that new supply won't help housing affordability — two beliefs espoused by some San Franciscans and city supervisors.

“Supply and demand doesn't apply to San Francisco? That's like saying gravity doesn't apply,” said economist [Chris Thornberg](#) of [Beacon Economics](#), an expert in California housing markets who famously predicted the 2008 mortgage crisis.

Even more infuriating, he said, is when people who oppose any new housing supply then complain about the high cost of housing.

Concerns about a housing crisis stem from the fact that no one is adding lower-priced units and older apartments are now more expensive in neighborhoods across the city, Thornberg said.

It's not the new apartments that are driving up rents in San Francisco, he said, but just overall demand that makes all the housing more expensive.

“We have a shortage of housing at every level,” said [Gabe Metcalf](#), executive director of SPUR, an urban planning and land use think tank. “You have neighborhoods like the Mission that have seen very little new housing over the

past few decades became one of the most expensive neighborhoods in America because rich people bought up the old housing.”

Rents for Bay Area apartments priced in the bottom third grew to an average of \$2,456 per month, a 24.6 percent bump from July 2015 to July 2016, according to real estate information company [Zillow](#).

"Very high demand at the low end of the market is being met with more supply at the high end, an imbalance that will only contribute to growing affordability concerns for all renters," said Svenja Gudell, [Zillow's](#) chief economist. "We're simply not building enough at the bottom and middle of the rental market to keep up with demand."

In 2016, experts estimate that San Francisco will add up to 5,000 new units, which is significant considering that the city on average usually adds less than 2,000 units per year. San Francisco has never added more 3,500 units in any one year during the last two decades.

"Is it enough new supply to start catching up with demand? The answer is no," Thornberg said.

Most of the new apartments coming on the market are in luxury buildings target high-earning residents who can pay \$3,000 and up for a studio. New apartment complexes also come with features such as onsite gym, rooftop decks, chef's kitchens and party rooms.

"Right now the trend is amenities — offering a robust package," said Carol Enoch, community manager of 399 Fremont St., a 447-unit apartment tower that is 42-stories tall. Residents have already leased 75 percent of the units, which came on the market in January.

Some people argue that when new units enter the market at high prices, then landlords of older units also raise prices.

That only works, Thornberg said, if there is so much demand in the market that renters are willing to pay higher prices for older units.

As the economy recovered in the past few years, developers started building apartments with more than 12,000 new units coming on the market since 2013.

"Any increase in rental housing stock is good for the city, and combined with a cooling in the local economy in the past year, it is clearly starting to reduce

rents, at least in the new buildings,” said Patrick Carlisle, chief market analyst for [Paragon Real Estate Group](#).

“For the time being, this boom in new construction is of little help to our grievous lack of affordable housing, probably the biggest social issue in the Bay Area now.”