

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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Policy Analysis Report

To: Supervisor Peskin
From: Budget and Legislative Analyst's Office
Re: Intermediate length occupancy housing in San Francisco
Date: February 24, 2020



SUMMARY OF REQUESTED ACTION

Your office requested that the Budget and Legislative Analyst conduct an analysis of the intermediate length occupancy housing industry in San Francisco. The analysis was to include identification of the size and other characteristics of the industry, including rents charged, locations, type of units used, purposes and customers, growth, and business models employed.

For further information about this report, contact Fred Brousseau, Director of Policy Analysis, at the Budget and Legislative Analyst's Office.

Executive Summary

- Intermediate length occupancy housing is defined by individuals in the industry as furnished and serviced housing units that are available to rent on a temporary basis with rental contracts that are typically for more than 30 days and less than a year. The national average length of stay in such housing was 78 nights in 2017, according to the Corporate Housing Providers Association, a trade organization.
- Often referred to as corporate housing, national industry data shows that this type of housing is used for:
 - companies relocating employees,
 - consultants, attorneys, and project teams that need to be in another city to perform their work for an extended period,
 - performers appearing in extended length performances in another city,
 - professional athletes that are temporarily relocated from their home city for an extended period,
 - insurance company temporary relocations of customers such as after a disaster (fire, flood, etc.)
 - patients from other cities undergoing medical treatment and their families,
 - individuals experiencing a life transition such as a divorce,
 - vacationers, and
 - others.

- Of all these uses, corporate relocations accounted for an estimated 33 percent of all intermediate length occupancy stays in 2017.
- Top industries using intermediate length occupancy housing nationally in 2017, as a percentage of all stays were:
 1. Technology (17%)
 2. Other/Individual (16%)
 3. Professional Services (12%)
 4. Government/military (9%)
- No City and County of San Francisco department or other government agency tracks or keeps count of the number of housing units dedicated to intermediate length occupancy housing in San Francisco as it is not classified as a separate land use in City codes. Instead, these units are simply part of the City's count of its residential units.
- Based on input from industry providers and analysts, press coverage, a review of intermediate length occupancy housing unit websites, and estimates from the San Francisco Apartment Association, we have made a preliminary estimate of between at least 2,000 and 2,705 housing units in San Francisco being used for intermediate length occupancy housing. Further research on this topic and direct reporting from more providers is needed to determine a more exact number. These estimates should only be considered as measures of the potential magnitude of the industry in San Francisco for discussion purposes and not a number to be used for regulatory purposes.
- The intermediate length occupancy housing market in San Francisco mirrors the national industry in many respects, as follows.
 - Many providers in the City have been in the business for decades; the Corporate Housing Providers Association reports that its San Francisco members have been in business for an average of 25 years and have been operating in San Francisco for 13 years. These providers have been very stable and continue to operate in San Francisco today.
 - There are also a number of newer companies that have entered the marketplace, including San Francisco, such as Zeus, Sonder, and Blueground, each starting in 2010 or after, when they were founded. Many of these companies are distinguished from the older companies by master leasing an inventory of housing units from a building owner, furnishing them, and managing all aspects of marketing, leasing, and servicing them when they are occupied by tenants.
 - The newer entrants are also distinguished by making greater use of information technology for marketing, leasing, and for the provision of tenant services.
- A review of 13 intermediate length occupancy company websites provided the following profile of units available in March 2020. As can be seen, rents charged for these housing

National industry Data (2017)

Number of housing units: 71,201

Average Daily Rate: \$161
(\$4,154/mo. @ 86% occupancy)

Average occupancy rate 86.4%

Average length of stay: 78 nights

Most common use: corporate relocations

units is higher than market rate rents. Tenants will pay these premiums on a temporary basis as they are generally less than hotel rates and they provide more space and amenities such as a kitchen that can be a welcome feature for a tenant staying in the City for several weeks or months. Further, the rents on intermediate length occupancy housing is typically paid for a third party such as an employer paying for a relocated employee.

Exhibit A: Average Daily and Monthly Rents for Intermediate Length Occupancy Housing in San Francisco Advertised on Selected Websites as Available in March 2020

| Bedroom Type | Number of Units | Average Daily Rent | Average Monthly ILO Rent | Zillow Index Market Rent Dec. 2019 | Difference |
|---------------------|------------------------|---------------------------|---------------------------------|---|-------------------|
| Studio | 38 | \$150 | \$4,650 | n.a. | n.a. |
| 1 bedroom | 215 | 159 | \$4,929 | \$3,580 | \$1,349 |
| 2 bedroom | 119 | 200 | \$6,200 | \$4,530 | \$1,670 |
| 3 bedroom | 28 | 281 | \$8,711 | \$5,960 | \$2,751 |
| 4 bedroom | 10 | 334 | \$10,354 | \$6,170 | \$4,184 |
| Unknown | 88 | | Unknown | | |
| Total | 498 | | | | |

Source: BLA review of selected intermediate length occupancy housing company websites for available units in March 2020.

- Our website review showed that most intermediate length occupancy housing for lease in March is primarily located in SoMa, Rincon Hill, the Mission, North Beach, and Hayes Valley.
- For a landlord, the economics of the intermediate length occupancy housing market can be very favorable. Exhibit B presents the difference in market rent and rent that can be earned with 86 percent occupancy.
- Landlords that convert vacated units that had been subject to rent control to intermediate length occupancy housing will experience a larger increase in their earnings than shown in Exhibit B assuming the rent was under market rate prior to being vacated. Further, intermediate length occupancy rents can continue to keep pace with market rates since there will no longer be long-term tenants whose rent increases would be limited by the City’s rent stabilization and arbitration ordinance.

Exhibit B: Economics of Renting an Intermediate Length Occupancy Unit in San Francisco

| | Zillow Index SF market rents | Zillow market daily rate | Sample average per night | Difference per night | Sample average monthly rent (at 86% occupancy) | Difference per month | Difference per year |
|------|------------------------------|--------------------------|--------------------------|----------------------|--|----------------------|---------------------|
| 1 BR | \$3,580 | \$115 | \$159 | \$44 | \$4,239 | \$659 | \$7,907 |
| 2 BR | \$4,530 | \$146 | \$200 | \$54 | \$5,332 | \$802 | \$9,624 |

Sources: Zillow.com and BLA review of selected intermediate length occupancy housing providers of listings available in March 2020.

- Landlords that choose to master lease their units with a service company such as one of the industry’s new entrants would not incur the costs of furnishings, etc. since those costs would be covered by the master leasing company. In those situations, the landlords could earn market rent (or whatever is negotiated with the company) without any of the costs associated with leasing properties.
- The impact of the intermediate length occupancy industry on San Francisco’s housing supply cannot be precisely measured due to the absence of reliable data about the number of housing units that are in use by the industry in San Francisco. However, the industry growth rate nationwide is reported by the Corporate Housing Providers Association to have been 22.2 percent between 2010 and 2017. Comparing that with the growth in San Francisco’s housing stock of 7.8 percent provides a perspective on the industry’s impact, as follows.
 - Assuming the number of intermediate length occupancy housing units in San Francisco was one percent of the housing stock in 2010 and increased at the same rate as the national industry, or by 22.2 percent between 2010 and 2017, the number of units would be 3,038 in 2017. This would result in 358 more units dedicated to intermediate length occupancy housing than if the industry had grown by 7.8 percent, the rate of increase in the multi-family housing stock between those years, or a disproportionate share of the housing stock growth.

- Given growth rates in the number of high-wage jobs and the industries that make most use of intermediate length occupancy housing, it does not seem unreasonable to assume that the growth rate of the industry may have exceeded the growth rate of San Francisco’s multi-family housing stock between 2010 and 2017.

Exhibit C: Estimated Growth in San Francisco’s Intermediate Length Occupancy Housing Units Compared to Growth in total Multi-family Housing Stock

| | 2010 Base | + 7.8% actual SF multi-family growth rate | + 22.2% national ILO growth rate | Difference |
|--------------------------|------------------|--|---|-------------------|
| Total multi-family units | 248,609 | 267,908 | 303,800 | 35,892 |
| ILO units | 2,486 | 2,680 | 3,038 | 358 |

Sources: *San Francisco Housing Inventory, 2017* San Francisco Planning Department. BLA estimate of total 2010 based of ILO units.

Project Staff: Karl Beitel, Izzy Brousseau, Fred Brousseau

I. Overview of Intermediate Length Occupancy Housing Industry

Intermediate length occupancy housing is defined by individuals in the industry as furnished and serviced housing units that are available to rent on a temporary basis with rental contracts that are typically for more than 30 days and less than a year. Often referred to as corporate housing, these units do in fact serve corporations and employers that regularly need temporary housing for relocating employees and employees on a temporary assignment in another city lasting more than a few days. In addition to corporate and employer clients, intermediate length occupancy housing is also used by individuals that temporarily relocate to another city for purposes such as performing in a theatrical or musical production, making a movie, obtaining or assisting someone receiving medical treatment, transitioning out of a living situation due to a divorce or other change, insurance relocations, and even taking an extended vacation.

Intermediate length occupancy housing units are distinguished from hotels because their average length of stay is longer, they are larger sized full apartments rather than hotel rooms, they are fully furnished and generally come with fully stocked kitchens and items such as linens. Services such as laundry facilities, housekeeping, and parking may or may not be included with the rent or may be available for an extra fee.

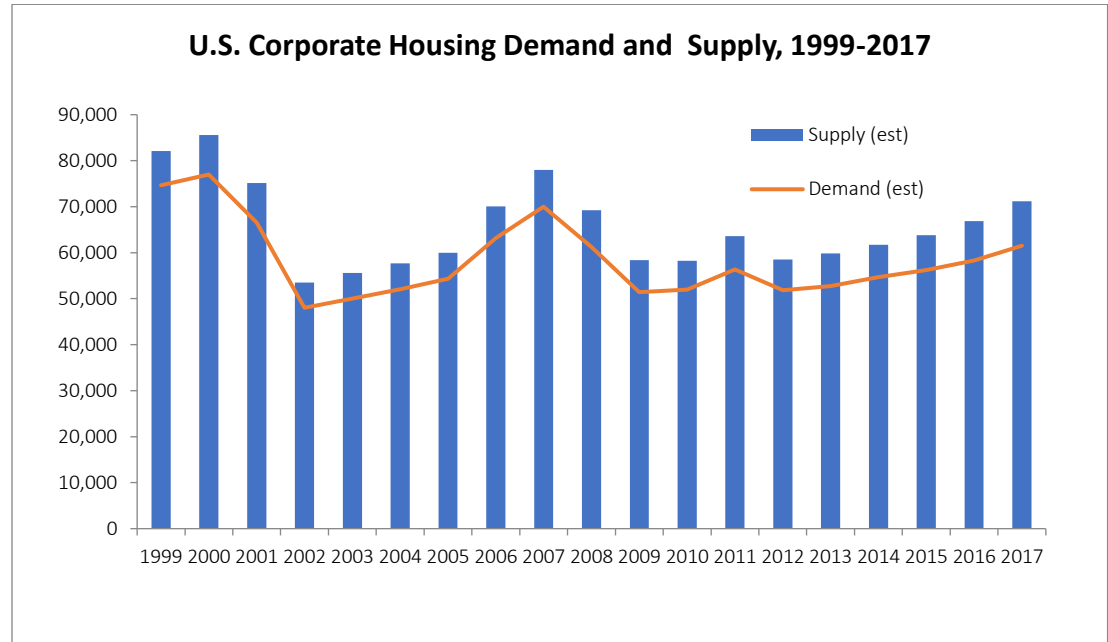
Intermediate length occupancy housing is distinguished from what is classified as short-term rentals in San Francisco which are units that cannot be rented for over 30 days and, if unhosted, cannot be rented for more than 90 nights per year. Finally, intermediate length occupancy housing is distinguished from long term rental housing which, in San Francisco at least, is generally leased out for a year or more, but such leases cannot be terminated in buildings that are subject to the City's rent stabilization laws which also prohibits evictions without just cause. Recent legislation adopted by the Board of Supervisors has extended eviction protections to housing units that are not otherwise subject to rental price controls under the City's Residential Stabilization and Arbitration Ordinance.¹

The Corporate Housing Providers Association, a trade association, reports an estimated 71,201 housing units nationally available for intermediate length occupancy in 2017, generating \$3.67 billion in revenue in the U.S. Nationally, demand and supply for intermediate length occupancy housing has been growing since at least 2010, as shown in Exhibit 1, though both have undergone periods of growth and retraction over the years since 1999, generally following economic cycles. The increase in estimated supply of these units grew from 58,259 in 2010 to 71,201 in 2017, an increase of 22.2 percent, according to estimates by the CHPA.²

¹ The City's Rent Stabilization and Arbitration Ordinance only applies to buildings constructed on June 13, 1979 or before, consistent with provisions of State law known as the Costa-Hawkins Act.

² 2018 Annual Report. Corporate Housing Providers Association

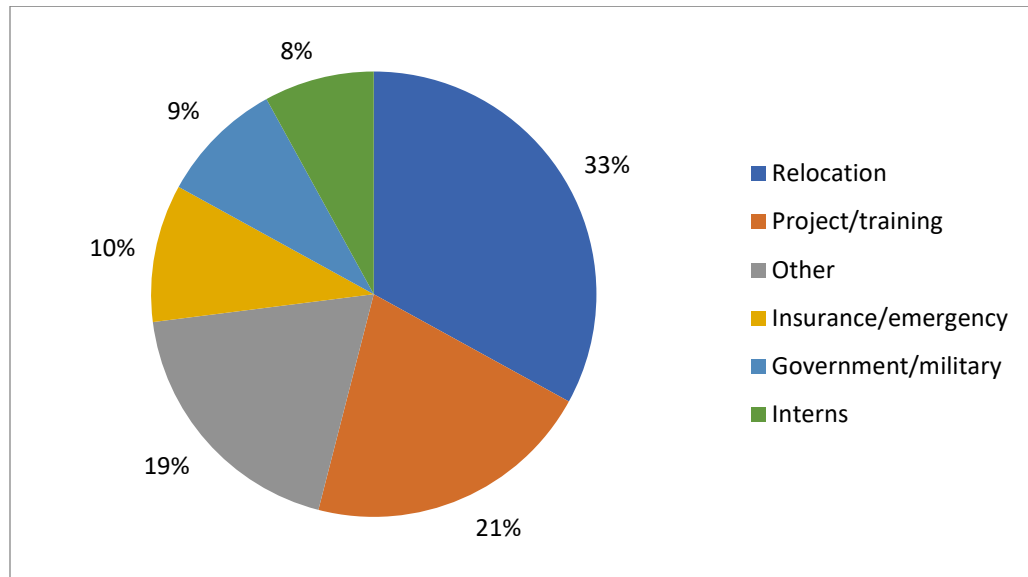
Exhibit 1: Supply and demand for intermediate length occupancy housing in the U.S., 1999 - 2017



Source: 2018 Annual Report. Corporate Housing Providers Association

According to CHPA’s 2018 Corporate Housing Industry Report, the national average length of stay in intermediate length occupancy housing in 2017 was 78 nights. The same CHPA survey reports that the most common purposes for intermediate length occupancy housing in 2017 was employee relocation, at 33 percent of all guest nights, and projects/training was the second most used cited use at 21 percent of all guest nights. The third most common purpose was “Other” at 19 percent, a category that encompasses unspecified purposes but could include use while: receiving medical treatments, performing in a long running play or other production, and while in transition after a life milestone event such as a divorce.

Exhibit 2: Uses of Intermediate Length Occupancy Housing Nationally, 2017



Source: 2017 Corporate Housing Industry Report, Corporate Housing Providers Association

According to the 2018 CHPA survey and report, industries and others that utilized intermediate length occupancy housing in the highest percentages nationally were:

1. Technology (17%)
2. Other/Individual (16%)
3. Professional Services (12%)
4. Government/military (9%)

The national average daily rate for all types of corporate housing, or intermediate length occupancy units was \$161 in 2017, representing an increase every year since 1999. Occupancy rates for these housing units nationally is reported by CHPA to have declined since at least 2014. This does not necessarily reflect a decline in demand or profitability of the industry, however, but may reflect the increased competition from new entrants in the market. Though less than in previous years, the occupancy rate for 2017 nationally was still a healthy 86.4 percent, according to the CHPA.

The Corporate Housing Providers Association (CHPA) defines four types of businesses in this industry:

1. Service companies: These companies rent apartments through a master lease, furnish, and equip them, then rent them out to individual tenants, or likely to multiple tenants, over the period of their master lease.
2. Apartment companies: These are generally large apartment complexes that rent out a portion of their inventory as furnished intermediate length occupancy

units, often with their own staff serving as in-house property managers, arranging for furnishings, handling lease arrangements,, and performing other related tasks.

3. Property management companies: These are real estate property management companies that manage properties owned and furnished by building owners, including leasing and tenant services.
4. Owner properties: These are individual owners who lease their properties as intermediate length occupancy housing directly to companies and individuals.

The business models of established intermediate length occupancy housing providers have traditionally been highly relational and generally conducted offline. Providers have developed and maintained a network of corporate clientele in a variety of ways such as seeking direct contacts with Human Resources or other personnel at major regional and national corporations, hospitals, and universities, forming relationships with members of the Employee Relocation Council or relocation management companies that handle multiple businesses referrals, and otherwise maintaining an active client list of intermediate length occupancy housing clients.

While many providers now advertise their units online, leasing arrangements for many units may also be made personally, offline. Many owners, service companies, and property managers also advertise their intermediate length occupancy units on Airbnb and other platform companies who are now participants in this market. Airbnb has formed a business segment of its platform in addition to its primary short-term rental business.

Examples of large-scale traditional providers are Oakwood Corporate Housing and National Corporate Housing. These companies were among the first large companies to specialize and bring to scale intermediate length occupancy housing, Oakwood in the 1960s and 1970s, and National Corporate Housing Company since its founding in 1999. These companies not only master lease apartments in existing buildings and re-lease them to corporate and individual intermediate length occupancy tenants, they also were among the first to purchase or construct entire buildings themselves for the purpose of intermediate length occupancy housing.

Locally, Oakwood has purchased apartment buildings in Mountain View, Redwood City and other Bay Area cities primarily aimed at providing intermediate length occupancy housing to technology companies in the area such as Facebook and Google. Oakwood does not have any of its own stand-alone properties in San Francisco, but it has leased and re-leases units in buildings owned by others such as at 1 Pine Street and 845 California Street that it markets under its company name.

Oakwood also has a partnership with Marriot to provide corporate housing rentals and appears to do extensive third party contracting as well by providing referrals to property

owners and/or other parties as a conduit and referral service linking corporate clients to property owners/managers. The company presents a more variegated product mix, and the interface has multiple links to various property categories, distinguished by price, level of luxury and service, and targeted by sector such as government, consulting and entertainment.

New “disruptor” intermediate length occupancy housing providers

While the traditional arrangements and actors remain in the intermediate length occupancy housing marketplace nationally and locally, a number of new companies have entered the intermediate length occupancy marketplace in recent years and are contributing to its growth. Mostly founded between 2010 and the present, these newer providers generally are not owners or developers but companies that lease some or all units in existing buildings for a set period such as several years, and then re-lease the units to tenants at a higher rate than they have paid (known as an arbitrage model).

Most of these newer companies have or are receiving financial support from venture capital as they get started. As described in a profile of Sonder, one of the newer entrants to the intermediate length occupancy housing market:

“The arrival of VC backing as a permanent fixture in the alternative accommodation capital stack speaks volumes as to the future of the space,” said Sean Worker, CEO of BridgeStreet”³

The newer companies founded in the last nine years generally operate in multiple cities throughout the world, including San Francisco for many of the companies. Some of the main companies that have been formed and entered the intermediate length occupancy market since 2010 include:

- Sonder*
- Zeus Living*
- Blueground*
- NestApart*
- 2nd Address*
- Stay Alfred
- Locale
- Lyric Housing
- Domio
- The Guild
- WhyHotel

*operating in San Francisco and other cities

³ A Closer Look at Sonder’s Tech-Focused Bet on Next Gen Rentals, Skift, March 18, 2019

As shown above, new companies such as Sonder, Zeus Living, NestApart, Blueground, and 2nd Address are operating in San Francisco and elsewhere, whereas Locale, Stay Alfred, Lyric, The Guild, and WhyHotel are operating in other cities only at this time. In press coverage, most of the new entrant companies report growth in the number of units and/or cities in which they operate and/or in the number of their employees. They generally characterize the national and international market for intermediate length occupancy housing and furnished serviced apartments as an alternative to hotels and short-term rentals for businesses as a growth market. This is consistent with the Corporate Housing Providers Association 2018 annual report's conclusions discussed above that shows growth in demand and supply for intermediate length occupancy housing nationally since 2010.

The business model for many of these newer companies is similar to hotels but they offer apartments for short term or intermediate length occupancy, often referred to as aparthotels, instead of hotel rooms or short-term rentals offered by platform companies such as Airbnb and VRBO. They generally claim to offer a more predictable experience than short-term rentals, with certain standards in place for furnishings and household items. They offer more space than hotels, often at lower cost, which can be particularly appealing to a traveler staying more than a few nights.

Due to San Francisco's short-term rental laws, the companies cannot rent out their apartments for less than 30 days, like a hotel, but in other cities, apartments not occupied by a natural person can be rented out for just a few days, or longer. So unlike in other cities, the new companies can only offer their units for intermediate length occupancy of 30 days or more in San Francisco.

While many of the functions performed by the new companies are not different from those provided by older long standing companies – furnishing and marketing their units, managing tenant credit checks and leasing processes, and arranging maintenance and other services for tenants – one key difference is the greater use of technology to operate their businesses. With the newer companies, potential tenants can search for apartments, submit applications, and make arrangements to access their apartments online. Some of the newer companies also enable their tenants to arrange for cleaning and other maintenance services during their tenancy through the companies' apps. Some of the companies also report making greater use of information technology to assess demand and determine pricing.

Arbitrage model used by many of the new entrants to the industry

Many of the newer companies employ an arbitrage model, master leasing units at market rate for an extended period such as multiple years, furnishing and stocking them, and then re-leasing them to multiple tenants for intermediate length occupancy at above-market rates over the master lease term. For these companies, economies of

scale can be achieved if they master lease multiple units in the same building. At least one company, Sonder, master leased all units in a single building in San Francisco but this is not typical of the newer entrant companies. A more typical arrangement in San Francisco, according to CHPA's survey of San Francisco based providers and media coverage of these companies, is to master lease between five and 20 percent of units in a building. The companies often seek out newly constructed multi-family buildings to set up this type of arrangements. Some companies require small rent abatements included in these contracts to provide some protection in the event of a market downturn.

Some newer entrant companies prefer to operate according to a "lease up" model, in which the contract between the property owner and the management company is a shorter-term duration executed when the building is first available for tenants, and is wound down as the building transitions to 'permanent' residents. For the building owner, this approach ensures more rapid occupancy of their units until they secure permanent tenants. Some companies only want to rent in lease-up properties, while others desire space in existing communities as well as lease-ups.

These newer companies relieve the landlords of their typical duties by taking care of the logistics of preparing furnished units for lease, marketing the properties, making arrangements with the tenants to assist them in moving in, providing or arranging for maintenance services, and dealing with utilities and other matters typically the responsibility of landlords.

As with traditional intermediate length occupancy housing rentals, nightly rates charged by the newer entrant companies are almost always higher than market rates for a long-term lease in comparable unfurnished units, but generally lower than nightly hotel rates.

II. Intermediate Length Occupancy Housing in San Francisco

Intermediate length occupancy housing in San Francisco has been provided for decades for corporate and other purposes. Consistent with national trends for the industry, demand is likely to continue and grow given the forecast growth of the economy in coming years. This should mean continued demand for temporary housing for relocating employees, consultants, attorneys, and other workers temporarily assigned to San Francisco, performing artists, medical providers, patients and their families, those needing temporary housing while undergoing a change in their lives, tourists, and others. Many intermediate length occupancy housing industry representatives state that the nature of work has become more global and mobile and is thus partly fueling an increase in demand for intermediate length occupancy housing in addition to growth in the economy and jobs in San Francisco in recent years.

Historically, some building owners in San Francisco have set aside a certain portion of their housing units to be used for intermediate length occupancy tenants in San Francisco. These owners may make leasing arrangements with corporate clients or individual tenants directly, with service companies, or may use the services of a property manager to lease their units for intermediate length occupancy.

Many of the same trends and the changing industry structure described above for the intermediate length occupancy housing industry nationally are also found in San Francisco. There are both a number of long-term providers in San Francisco, many of whom have been serving the market for decades, and new “disruptor” companies started in 2010 or after that have entered or plan to enter the local marketplace.

As discussed above, many of these newer companies have a presence in other cities where they provide serviced apartments as an alternative to hotels and apartments available through short-term rental platforms such as Airbnb and VRBO. Unlike San Francisco, unoccupied apartments can be rented out in many cities on a short-term basis such as three or four nights without any cap on the total number of nights per year, or for intermediate length occupancy, defined as 30 nights or more. In San Francisco, housing units rented out for less than 30 days are subject to the City’s short-term rental laws which require that such housing units be occupied by a natural person and can only be rented out “unhosted” for up to 90 nights per year. Because of these requirements, some of the newer companies’ business models have been modified for San Francisco since they are only legally allowed to rent out their furnished serviced apartments for 30 days or more.

As with national statistics, the patterns in San Francisco indicate growth in the industry overall since there is no sign that existing longer-term providers are abandoning the market, according to the San Francisco Apartment Association, and the new wave of providers have also established or are planning to establish and grow their businesses.

Further, the San Francisco economy has been growing in recent years and is projected to continue to grow in the next six years. We conclude that past and projected future growth in the number of jobs in San Francisco is correlated with increased demand for intermediate length occupancy housing.

Factors influencing growth in demand for intermediate length occupancy housing in San Francisco

A high percentage of San Francisco jobs are in sectors that are likely users of corporate housing services – i.e. professional services, information technology, management, and health care. Jobs in these high wage occupation groups grew substantially between 2010 and 2016 in San Francisco and the surrounding area and are projected to continue increasing through 2026.

As national data presented above showed, these growing industries in San Francisco are most likely to use corporate housing for relocating employees or require that employees temporarily relocate to San Francisco and other cities for the duration of projects, trials, or other intermediate length endeavors. The combination of job growth and an increasingly mobile, global workforce for these industries can be viewed as another indicator of growth in the intermediate length occupancy housing market in San Francisco. Exhibit 3 shows that 210,000 jobs were created between 2010 and 2018 in San Francisco.

Exhibit 3: Total Job Growth in San Francisco, 2010- 2018

| | 2010 | 2018 | 2010-2018 |
|------|-------------|-------------|------------------|
| Jobs | 550,300 | 760,300 | 210,000 |

Source: California Employment Development Department, Current Employment Statistics – San Francisco County, December 2010 and December 2018

Exhibit 4 shows that in just the years 2016-2018, 53,320 high wage jobs were added in San Francisco and San Mateo Counties.⁴ The top high wage jobs reported by the State for 2016-2018 were in the following industry categories:

1. Business and Financial Operations
2. Computer and Mathematical
3. Management
4. Healthcare Practitioners and Technical

As discussed above in our profile of the national industry, these fast growing industries are among the highest users of intermediate length occupancy housing. The recent and projected growth of jobs in these fields supports the premise of growth in the intermediate length occupancy housing industry in San Francisco.

⁴ This data from the California Employment Development Department combines San Francisco and San Mateo counties. We estimate that San Francisco County's share of these jobs is approximately 64 percent.

Exhibit 4: Job Growth in San Francisco & San Mateo County by Wage Level, 2016-2018

| Wage Level | 2016 | % Total Jobs | 2018 | % Total Jobs | Change | % Change |
|---|------------------|---------------|------------------|---------------|---------------|-----------|
| Low-wage (< 80% of AMI) ¹ | 379,940 | 37.2% | 423,330 | 37.9% | 43,390 | 11% |
| Moderate-wage (80-120% of AMI) ¹ | 268,100 | 26.3% | 267,750 | 24.0% | -350 | -0.1% |
| High-wage (> 120% of AMI) ¹ | 371,990 | 36.5% | 425,310 | 38.1% | 53,320 | 14% |
| Total Jobs | 1,020,300 | 100.0% | 1,116,390 | 100.0% | 96,360 | 9% |

Source: California Employment Development Department, 2016-2026 Employment Projections

¹ AMI= Area Median Income

Finally, California Employment Development Department job projections through 2026 for San Francisco only, presented in Exhibit 5, show an additional 40,377 high wage jobs, or a growth rate of 13.9 percent.

Exhibit 5: Projected Job Growth in San Francisco, 2016 – 2026, by Wage Level

| Wage Level | 2016 Employment | 2026 Employment | Change | % Change |
|---------------|-----------------|-----------------|---------------|--------------|
| Low-wage | 275,868 | 307,586 | 31,718 | 11.5% |
| Moderate-wage | 190,750 | 200,018 | 9,267 | 4.9% |
| High-wage | 291,089 | 331,466 | 40,377 | 13.9% |
| Total | 757,707 | 839,069 | 81,362 | 10.7% |

Source: California Employment Development Department, 2016-2026 Employment Projections, adjusted by Budget and Legislative Analyst to show San Francisco's assumed 64 percent share of projected growth in San Francisco and San Mateo counties.

Performing arts

Besides corporate, insurance, government, and individual users, many providers and industry representatives have cited the need for intermediate length occupancy housing for performing artists who have extended engagements in San Francisco. For example, the San Francisco Opera reports that it has 50-60 singers, designers, directors and conductors each year that come to San Francisco for production runs of seven to nine weeks each and thus need some type of intermediate length occupancy housing for those periods. Similarly, ACT reports that it has an estimated 45-50 actors, directors, and designers who need intermediate length housing each year for five to nine weeks.

Medical needs

Patients from other cities seeking extended duration medical treatment from one of San Francisco's medical facilities and their families and friends are potential users of

intermediate length occupancy housing. Though numbers are not readily available on the number of units used for this purpose, UCSF Medical Center reports that as a regional medical facility, it serves patients that come from throughout the west needing extended duration treatment. The medical center maintains its own Family House at its Mission Bay facility and uses Ronald McDonald House to house families of children who are receiving extended duration medical treatment at one of their facilities. When these two housing options are full, arrangements are made for private market intermediate length occupancy housing.

Profile of industry in San Francisco: website research on units available for intermediate length occupancy

There are primarily three types of website listings for intermediate length occupancy housing in San Francisco: 1) companies that advertise their own inventory of housing units that they have master-leased for multiple months or years and make available for intermediate length occupancy leases, 2) owners marketing their own properties directly, and 3) listing platforms that advertise other companies' inventory.

For our review of websites for companies leasing their own master leased inventory of apartments for intermediate length occupancy, we searched for apartments available for 31 days in March 2020. The companies we selected for review mostly included sufficient detail in their listings that we could identify the specific address of their buildings, or at least their neighborhood, the daily rate, number of bedrooms, and other features such as amenities or services offered.

We attempted to eliminate duplicate listings by excluding listings on platform sites that only list other companies' units as they don't have their own inventory, with two exceptions. We included data from the Corporate Housing by Owner website since this listing platform includes many individual or small property owners most of whom we do not believe would be otherwise captured in the provider company websites, and Churchill Living, which has been in business for decades but controls its own inventory.⁵ The results of our website reviews are summarized in Exhibit 6.

The results shown in Exhibit 6 are not meant to represent all intermediate length occupancy housing units for the companies shown or in San Francisco as a whole since the listings are only for units available during March 2020 and therefore do not include units already booked during that time as well as units currently occupied for which the leasing service company does not know if the tenant will choose to stay for a longer duration when their current tenancy ends. Also, some websites do not allow for filtering their listings by dates available so the numbers reported below exclude an unknown number of listings on such websites. Finally, our review did not include intermediate length occupancy units that are marketed online and/or elsewhere by apartment

⁵ We did find some exceptions to this with some service company inventory listed on Corporate Housing by Owner.

owners themselves (e.g., Trinity Apartments, Golden Gateway, Parkmerced) or that are leased to companies or tenants through existing agreements or direct offline contact and do not have a website presence.

As shown in Exhibit 6, our website searches identified 461 listings available from selected companies for the month of March 2020. Most of the units were advertised by Corporate Housing by Owner, which allows building owners to market their properties without an intermediary company. The next three companies with the most listings were Sonder, Churchill Living, and Blueground.

**Exhibit 6: Selected Intermediate Length Occupancy Companies with Listings
Advertised as Available in March 2020**

| Company | Total |
|----------------------------|--------------|
| 2nd Address | 18 |
| Avenue West | 30 |
| Blueground | 44 |
| Churchill Living Homes | 60 |
| Corporate Housing by Owner | 127 |
| Express Corporate Housing | 17 |
| Furnished Quarters | 14 |
| Key Housing | 24 |
| National Corporate Housing | 13 |
| Sonder | 73 |
| SuiteAmerica | 2 |
| Synergy | 4 |
| Zeus | 35 |
| Total | 461 |

Source: Company websites

Average rents for the units listed in Exhibit 6 are presented in Exhibit 7. As can be seen, average monthly rents for intermediate length occupancy units exceed market rents as of December 2019.

Exhibit 7: Average Daily and Monthly Rents for Intermediate Length Occupancy Housing Advertised on Selected Websites Available in March 2020

| Bedroom Type | Number of Units | Average Daily Rent | Average Monthly ILO Rent | Zillow Index Market Rent Dec. 2019 | Difference |
|---------------------|------------------------|---------------------------|---------------------------------|---|-------------------|
| Studio | 38 | \$150 | \$4,650 | n.a. | n.a. |
| 1 bedroom | 215 | 159 | \$4,929 | \$3,580 | \$1,349 |
| 2 bedroom | 119 | 200 | \$6,200 | \$4,530 | \$1,670 |
| 3 bedroom | 28 | 281 | \$8,711 | \$5,960 | \$2,751 |
| 4 bedroom | 10 | 334 | \$10,354 | \$6,170 | \$4,184 |
| Unknown | 88 | | Unknown | | |
| Total | 498 | | | | |

Source: BLA review of selected intermediate length occupancy housing company websites for available units in March 2020.

Intermediate length occupancy housing vs. hotels in San Francisco

The average daily rate for hotels in San Francisco for the eleven months ending in November 2019 was \$315, according to CBRE Hotels.⁶ As can be seen in Exhibit 7, the average daily rates for intermediate length occupancy housing in San Francisco for all accommodations of 3 bedrooms or less was lower than the average hotel rate. This is consistent with representations made by a number of intermediate length occupancy housing industry providers and analysts that rates for their units, though more than market rents, are a better value than hotels.

CBRE Hotels also reported an average occupancy rate of 87.1 percent for San Francisco hotels for the eleven month period ending November 2019. The occupancy rate for intermediate length occupancy housing in the San Francisco metropolitan area in 2017 was 86 percent, according to the Corporate Housing Providers Association. This indicates that both industries are faring well and appear to be coexisting without one eroding the other. In fact, the Hotel Council of San Francisco reports that most hotels in San Francisco do not rent rooms for more than 28 days in a row, which would be insufficient for many intermediate length occupancy housing renters since their average stay in 2017 was 78 days, according to the Corporate Housing Providers Association.

⁶ *Trends in the Hotel Industry* CBRE Hotels, November 2019

Exhibit 8 presents the neighborhood distribution of the 461 intermediate length occupancy listings identified in our website searches as available for leasing for the month of March 2020. As can be seen, intermediate length occupancy housing units are concentrated in SoMa, the Mission, Nob Hill, Rincon Hill, Hayes Valley, and North Beach.

Exhibit 8 Neighborhood Distribution of Intermediate Length Occupancy Units Advertised as Available in March 2020 on Selected Websites

| Neighborhood | Total | Neighborhood | Total |
|--------------------|-------|--------------------|------------|
| Ashbury Heights | 1 | Mission Bay | 22 |
| Balboa Park | 1 | Mission District | 40 |
| Bayview | 1 | Nob Hill | 41 |
| Bernal Heights | 6 | Noe Valley | 14 |
| Castro | 7 | North Beach | 24 |
| Chinatown | 1 | Outer Richmond | 3 |
| Civic Center | 5 | Outer Sunset | 2 |
| Cow Hollow | 2 | Pacific Heights | 20 |
| Crocker-Amazon | 1 | Parkmerced | 2 |
| Daly City | 1 | Polk Gulch | 3 |
| Dogpatch | 5 | Potrero Hill | 9 |
| Dolores Heights | 2 | Presidio | 2 |
| East Cut | 1 | Rincon Hill | 26 |
| Eureka Valley | 1 | Russian Hill | 17 |
| Fillmore | 2 | Sea Cliff | 1 |
| Financial District | 18 | SoMa | 85 |
| Haight Ashbury | 2 | South Beach | 17 |
| Hayes Valley | 24 | South Park | 5 |
| Ingleside Terraces | 2 | Telegraph Hill | 4 |
| Inner Richmond | 8 | Tenderloin | 2 |
| Inner Sunset | 4 | The East Cut | 1 |
| Laguna Heights | 1 | West Portal | 1 |
| Lower Haight | 4 | Western Addition | 5 |
| Marina | 12 | Westwood Park | 2 |
| Merced Heights | 1 | Grand Total | 461 |

Source: BLA review of selected intermediate length occupancy housing company websites for available units in March 2020.

The economics of intermediate length occupancy housing in San Francisco

Assuming an 86 percent occupancy level, Exhibit 9 shows the potential monthly revenue for a landlord renting out units for intermediate length occupancy as compared to renting their units at market rate rents.

Using the average daily rates we derived from our review of a sample of intermediate length occupancy housing company websites, the margin on a 1 bedroom unit is \$659 per month, or \$7,907 per year while a 2 bedroom would be \$802 per month, or \$9,624 per year, assuming an 86 percent occupancy rate. The 86 percent occupancy rate is the 2017 average for the San Francisco metropolitan area, according to the Corporate Housing Providers Association 2018 annual survey and report.

Of course, any additional revenues for an owner leasing their units on the intermediate length occupancy housing market would be offset by the costs of furnishing, marketing and leasing the unit and providing maintenance services and customer support to tenants once leased. Further, landlords could earn less than market rent if they are unable to achieve an occupancy rate of 70 percent or more. But, assuming an occupancy rate closer to the average 86 percent, landlords and service companies entering this industry should be able to make their initial investments back and achieve a certain scale of operations, making their operations more profitable.

Exhibit 9: Economics of Renting an Intermediate Length Occupancy Unit in San Francisco at 86 percent occupancy

| | Zillow Index SF market rents | Zillow market daily rate | Sample average per night | Difference per night | Sample average monthly rent ¹ | Difference per month | Difference per year |
|------|------------------------------|--------------------------|--------------------------|----------------------|--|----------------------|---------------------|
| 1 BR | \$3,580 | \$115 | \$159 | \$44 | \$4,239 | \$659 | \$7,907 |
| 2 BR | \$4,530 | \$146 | \$200 | \$54 | \$5,332 | \$802 | \$9,624 |

Sources: Zillow.com and BLA review of selected intermediate length occupancy housing providers of listings available in March 2020.

¹ Assumes an 86 percent occupancy rate, the 2017 average for the San Francisco metropolitan area according to the Corporate Housing Providers Association 2018 Annual Report.

Rent stabilized units and the intermediate length occupancy housing market

The comparisons above in Exhibit 9 are between current intermediate length occupancy housing daily rates and market rents. The difference would be even greater if a landlord converted a rent-controlled unit upon termination of a tenancy to intermediate length occupancy housing. This would not only allow the landlord to increase the rent from whatever was being paid under the City’s rent price control system to above market rates and then to keep increasing it consistent with market rate increases since there would never be a long term tenant in the unit with rent stabilization protections afforded by the City’s rent stabilization laws.

We did find units available in our website search in buildings constructed before 1979 that would be subject to the City’s rent price controls. Such units are thus no longer part of the stock of San Francisco’s rent stabilized market.

Memo to Supervisor Peskin
February 24, 2020

One San Francisco tenant interviewed as part of our research for this report indicated that 24 of the 70 units in their pre-1979 rent-controlled building downtown are being used for intermediate length occupancy housing. The tenant described how the 24 units have been converted each time a long-term tenant vacated a unit, reducing the City's stock of rent-controlled apartments.

III. Estimated Scale of Intermediate Length Occupancy Housing Industry in San Francisco

To assess the size of the intermediate length occupancy housing industry in San Francisco, we surveyed City departments and collected industry data from relevant national and local trade associations, community organizations, and some tenants. None of these sources were able to provide a precise count of the number of housing units being used for intermediate length occupancy leasing in San Francisco, though information collected from industry sources and provider websites enabled us to develop a range of estimates.

City does not track the number or uses of intermediate length occupancy housing

The City does not regulate the intermediate occupancy length housing industry, nor does it have data on the number of housing units being used for this purpose. The following agencies that could potentially have access to such information provided the following responses to inquiries on this topic.

Exhibit 10: How City Departments Treat Intermediate Length Occupancy Housing

| City Agency | Information Available |
|--|--|
| Department of Building Inspection (DBI) | Though building permits record use of buildings, intermediate length occupancy housing is not singled out; if that is the intended purpose of a new building, it would most likely be recorded as multi-unit or single family residential. Further, developers may not know at the time of obtaining a building permit if they will be leasing some their units for intermediate length occupancy housing. |
| Planning Department | Intermediate length occupancy housing, or corporate housing, is not a "land use" and is therefore not tracked as part of the land use entitlement process. Like DBI, the Planning Department would have a record of a building being "residential" and multi-unit or single family, but not details about how units in a new building would be used when leased. |
| Assessor | The Assessor tracks land use for all parcels in the City, does not have details on how residential units are leased. The land use for a building with intermediate length occupancy housing would likely be listed as single family residential or multi-unit if an apartment building. |

| | |
|---------------------------------------|---|
| <p>Treasurer-Tax collector</p> | <p>The Treasurer-Tax Collector does track all businesses that pay business taxes in the City by business type, using standardized North American Industry Classification System (NAICS) codes. However, a review of the Office’s business database shows that corporate housing companies are not consistently classified, with some providers classified in the “Accommodations for Travelers” industry, some in the separate “Real Estate Lessors” industry, and some in “Residential Property Manager” industry. All of these industries also include businesses that do not provide intermediate occupancy length rentals and they cannot be distinguished from those that do.</p> |
| <p>Rent Board</p> | <p>The Rent Board does not have records of the number of rental units used for intermediate length occupancy rentals but does report that tenants that stay in such units would be subject to rent stabilization protections if they are in buildings constructed before June 1979 that are subject to the City’s rent stabilization laws. Some intermediate length occupancy units are in buildings subject to the City’s rent stabilization laws, but it is not known if leases for those buildings make clear the tenants’ rights pursuant to the City’s laws. However, since most tenants are using the units for intermediate length occupancy, the issue of allowable annual increases in rent may not come up too frequently. Rent Board representatives report that they are unaware of any complaints filed for intermediate length occupancy units.</p> |

Source: BLA interviews with representatives of each department listed.

Due to the absence of the City tracking and maintaining an official inventory of housing used for intermediate length occupancy in San Francisco, it is difficult to provide an assessment of the extent of housing used for this purpose, to assess its growth, or to conduct an assessment of the impact of newer market entrants on overall supply, rental rates, and how this type of housing compares to growth in housing used for permanent residents. Without knowledge of the location of all of these units, it is not possible to determine if they are reducing the amount of rent-stabilized housing in the City in instances when a landlord converts a previously rent controlled unit to an intermediate length occupancy unit. However, we have gathered estimates of the inventory of intermediate length occupancy units in San Francisco from various organizations and provider websites, as follows, and have prepared an assessment of likely growth of the industry in recent years.

Industry sources do not have precise inventories of the number of intermediate length occupancy housing units in San Francisco

The Corporate Housing Providers Association (CHPA), a national trade organization, and the San Francisco Apartment Association, a local organization representing apartment owners in San Francisco, provided profiles of their members in San Francisco. Neither group could provide a total inventory of housing units being used for intermediate length occupancy in the City.

The CHPA reports it has 300 members nationwide and 27 in San Francisco. CHPA members are classified as: 1) Providers, or professionally managed businesses that provide and manage residential style housing in a style that establishes a tenancy relationship and provides ancillary services such as housekeeping, duty of care compliance, utilities, invoicing, response to service failures, etc., 2) Agency, or professionally managed business entities that primarily provide access to residential style housing through an online platform, partnership arrangement or referral basis that typically does not establish a direct tenancy relationship, and 3) Associate Partners, or professionally managed business entities whose business is supplying goods and services to corporate housing businesses.

For its 2017 nationwide membership survey, seven of the 27 members operating in San Francisco responded, representing 577 housing units. CHPA reports that its members at the time of the survey did not include all providers in San Francisco, including some of the newer companies that have entered the market since 2010, such as Zeus. CHPA members in San Francisco are reported to have been in business for an average of 25 years and to have been operating in San Francisco for an average of 13 years.

For 2017, the CHPA reports a 71 day, or 2.4 month, average length of stay for the intermediate length occupancy units rented out by its members in San Francisco and Marin County, and an average daily rate of \$216 for one-bedroom units and \$259 for two bedroom units.⁷ These rates translate in to approximately \$5,573 per month for one-bedroom units and \$6,682 per month based on their reported 86 percent occupancy rate for 2017.

CHPA reports that the percentage of units rented by their member providers in San Francisco typically represent approximately 10 percent of the total units in multi-unit residential buildings or complexes. The established firms operating in the sector for two decades or more have been fairly stable over the last several decades, and the sector has not historically been characterized by a high rate of turnover, the CHPA reports.

⁷ These are higher rates than we found in our review of a sample of units available for lease in March 2020 according to listings of a number of providers' websites.

Typical master leases entered in to by CHPA members for intermediate length occupancy units in San Francisco are one year in length on average, though many property owners are reported to be requesting or offering longer lease terms (15-24 months). All but one of the 27 CHPA members reported that the buildings they work with have a cap on the number of corporate housing units in their buildings. The responses indicate the percentage cap varies widely but ten percent is fairly typical.

The San Francisco Apartment Association (SFAA) is a trade association that represents apartment owners, property managers, and related vendors and aims to 'educate, advocate, and support the Rental Housing Community' in San Francisco. They offer three levels of membership, the first of which are 'Regular Members,' who are rental property owners that rent single family homes, flats, condos, or apartments. The SFAA states that over half of their Regular Members own single family homes or buildings with 1-4 units. The second membership category is Property Managers, for those who professionally manage rental housing buildings, and the third is for Associate Members (vendors/ suppliers), who are companies providing products and services to the rental housing industry.

Number of intermediate length occupancy housing units using SFAA estimates

The SFAA reports that while intermediate length occupancy housing units are spread all over the City, they may be found in higher concentrations in Supervisorial Districts 3 or 6 (North Beach, SoMa, Rincon Hill), and close to institutions such as hospitals and colleges.

The SFAA has approximately 4,400 members, representing approximately 90,000 rental units in San Francisco. Though the organization does not have an inventory of how many of the units it represents are used for intermediate length occupancy housing, it estimates that between one and three percent of all units represented, or between 900 and 2,700 units, are being used for intermediate length occupancy purposes. This estimate is based on a limited SFAA survey of some of the larger properties it represents.

Applying the SFAA estimates of between one and three percent of their members' rental units being used for intermediate length occupancy housing to all possible multi-family rental housing in San Francisco (including units whose owners are not members of SFAA), results in an estimate of between 2,705 and 11,150 units Citywide, based on 270,504 multi-family housing units in San Francisco in 2018, and as shown in Exhibit 11.⁸

⁸ *San Francisco Housing Inventory, 2018*. San Francisco Planning Department

Exhibit 11: Number of intermediate length occupancy housing units in San Francisco based on SFAA range of estimates

| | |
|----------------------------------|---------|
| Multi-family housing units, 2018 | 270,504 |
| 1% of units | 2,705 |
| 3% of units | 8,115 |

Source: *San Francisco Housing Inventory, 2018* San Francisco Planning Department

BLA range of estimates based on SFAA assumptions and limited industry data

From our review of a sample of intermediate length occupancy housing provider websites, business press coverage of the industry, discussions with providers, housing advocates and tenants, industry representatives and analysts, we have identified approximately 1,300 units used for this business in San Francisco. Knowing this does not represent all units because only a small number of providers have made their inventory available to us and many units are already leased out and thus not advertised online or are only made available through personal connections rather than online, we conclude that there could easily be 2,000 units, if not more, dedicated to intermediate length occupancy in San Francisco. Thus, we establish a lower end estimate of 2,000 units, and a higher end estimate of 2,705, using the more conservative one percent of multi-family housing stock estimate provided by the SFAA for this analysis.

Estimated growth in intermediate length occupancy housing industry in San Francisco, 2010 through 2017

Regarding growth of the industry in San Francisco, a comparison of growth in the industry nationally with growth in the housing stock in San Francisco between 2010 and 2017 indicates that the industry has likely been growing faster than new housing stock and, if so, would have absorbed a disproportionate share of the new housing units added to San Francisco's housing stock during those years.

As discussed above, a number of new companies have been formed since 2010 that are serving the intermediate length occupancy market throughout the world, the U.S., and in San Francisco. From available information and industry representations, these newer companies appear to be providing their services *in addition* to the traditional companies and property owners in San Francisco, which both CHPA and SFAA reports have been stable in recent years, indicating growth in the intermediate length occupancy market in San Francisco.

Because there are no baseline numbers available from known credible sources to compare the estimate of the current number of intermediate length occupancy housing units in San Francisco against, it cannot be categorically determined if a greater share of San Francisco's housing stock is being used for this purpose or not. Between 2010 and

2017, the multi-family housing stock in San Francisco increased by 19,299 units, or 7.8 percent, according to the San Francisco Planning Department.⁹ During the same period, the number of intermediate length occupancy housing units are estimated to have increased nationally by 22.2 percent, according to the Corporate Housing Providers Association. To the extent San Francisco's growth in intermediate length occupancy during that time mirrored national industry growth, it would have exceeded the 7.8 percent growth in multi-family housing units in San Francisco, with the growth in excess of the City's multi-family housing growth rate absorbed by the industry rather than the long term rental market.

Estimating the number of intermediate length occupancy housing units as one percent of the City's multi-family housing stock in 2010 (based on the lower end estimate by the San Francisco Apartment Association) and then assuming the number of such units grew at the same 22.2 percent rate of increase as the national supply would mean an increase of 552 units, from 2,486 units in 2010 (1 percent of the multi-family housing stock of 248,609 units¹⁰) to 3,038 units in 2017. If the industry in San Francisco grew at the same rate as multi-family housing units between 2010 and 2017, or 7.8 percent, there would only have been an addition of 194 units used for intermediate length occupancy housing, or 358 units less, and the industry's share of the housing stock would have remained the same.

With a higher growth rate in industry inventory than in the City's multi-family housing stock, the share of new housing devoted to intermediate length occupancy housing would have increased, with 358 units being added to the industry inventory that would have otherwise remained in the housing stock available for traditional long term tenancies (552 units added less 194 at the City's multi-family housing growth rate = 358

⁹ *San Francisco Housing Inventory 2017* San Francisco Planning Department

¹⁰ *Ibid.*

units in excess of the growth rate for multi-family housing units). Thus, to the extent the intermediate length occupancy housing industry growth rate in San Francisco exceeded the national rate, it would have consumed a disproportionate share of San Francisco's increased housing stock. Exhibit 12 presents these comparisons.

Exhibit 12: Estimated Growth in San Francisco's Intermediate Length Occupancy Housing Units Compared to Growth in total Multi-family Housing Stock

| | 2010 Base | + 7.8% actual SF multi-family growth rate | + 22.2% national ILO growth rate | Difference |
|--------------------------|------------------|--|---|-------------------|
| Total multi-family units | 248,609 | 267,908 | 303,800 | 35,892 |
| ILO units | 2,486 | 2,680 | 3,038 | 358 |

Sources: *San Francisco Housing Inventory, 2017* San Francisco Planning Department. BLA estimate of total 2010 based of ILO units.