

HOUSING AFFORDABILITY HAS BEEN DESTROYED BY CURRENT POLICIES

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How San Francisco Makes It Insanely Hard to Build Housing

Written by [Sarah Wright](#)

The TransAmerica Pyramid peeks out behind wooden walls as workers continue construction on two affordable housing developments. | Jessica Christian/SF Chronicle via Getty Images

Bob Tillman owned a laundromat in San Francisco's Mission District and wanted to replace it with apartments. In a city desperate for new housing, it seemed logical enough.

But eight years later and after countless community meetings, hearings, appeals, studies, a legal challenge and a court settlement—the site of the former laundromat at 2918 Mission St. still sits empty.

Tillman, who owned 10 laundromat businesses in the Bay Area, made out just fine: He bought the laundromat property in 2005 and 2006 for a total of \$1.75 million, and after finally obtaining initial permits, he sold it in 2019 for \$13.5 million to Lawrence Lui of Cresleigh Homes.

But his story, and the continued absence of housing at the site, reveals the massive hurdles developers face in the city and helps to explain why new housing permits this year cratered to about [half of the 10-year average](#).



Bob Tillman stands outside the site of the former laundromat he owned at 2918 Mission St. in San Francisco on Monday, Sept. 12, 2022. | Paul Kuroda for The Standard

San Francisco is on pace to build an anemic 3,000 new units this year, and the lull in construction couldn't come at a worse time. State law demands the city have a plan to build 82,000 new units over the next decade, and state officials led by Attorney General Rob Bonta are now investigating the city's land-use practices and holding up the city as a poster child for housing dysfunction.

Indeed, the city represents an extreme version of a national housing crisis that is especially severe in big coastal cities. Costs are spinning out of control as builders face soaring pricing for materials and labor and a gauntlet of not-in-my-backyard activism, bureaucracy and outthroat politics.

"It's basically mafia government," Tillman said. "People doing shakedowns of various sorts."

"Nineteen times out of 20, they get away with it," Tillman added. "And the 20th example, which is me, they cut a deal quietly, sweep it under the rug, and keep on doing what they're doing."

Higher Costs, Lower Rents

From the beginning, Tillman realized he would have trouble financing a big housing project. When he first applied for permits in 2014, the estimated average cost of \$700,000 for each of the 75 planned units seemed exorbitant. Today, the per-door cost of housing, a common metric for developers, is closer to \$1 million in the city.

Even in the best of times, San Francisco is an extremely expensive place to build. Space is limited, the land itself is expensive, and the city's high cost of living means higher cost labor, too.

Type of Project Cost by Percent Share

Construction comprises the largest share of project costs in an average multi-floor apartment complex in SF.

CHART: LIZ LINDQVIST • SOURCE: ESTIMATES PROVIDED BY DEVELOPER SOURCE



That makes San Francisco's average building cost—at about \$440 per square foot—the highest in the world, according to [data research group CBRE](#). A combination of rising materials costs, a labor shortage and supply chain disruptions are pushing costs even higher: In the Bay Area, construction bids have [surged 17% over the past year](#), according to consulting group TBD Consultants.

Costs are rising in tandem with an unusual market pullback in the city, with rents still below pre-pandemic levels, [home prices receding](#) and low demand for office space.

"It's really hard to make a project work in San Francisco right now," said Brynn McKiernan, an associate at Emerald Fund, a local developer. "The type 1 construction, the towers, just aren't financially feasible."

But market conditions aren't what's driving many developers away. Instead, it's the city's political climate, which poses a host of challenges that don't exist in friendlier pastures like Oakland and San Jose.



Developer Eric Tao shows a corner condo construction taking place on the sixth floor of 950 Market St., a hotel/condo development, seen on Friday, March 13, 2020, in San Francisco, Calif. | Liz Hafalia/The San Francisco Chronicle via Getty Images

Three trends, in fact, worry local builders the most: The city's multitude of fees that layer dollar after dollar onto every new project, its costly labor mandates—both tacit and explicit—and its tortuously slow permitting process. The caper is that even if the years-long permitting process goes well, there is the threat of arbitrary project denial at the [Board of Supervisors](#).

Death by a Thousand Fees

The city's ["inclusionary housing" fee](#) is where Tillman began his long odyssey to try and get permission to build. Unlike many other cities, where new development is allowed without a special process if a project fits zoning and other rules, San Francisco gives much greater power to commissions and politicians to decide on individual projects.

When he began the process in 2013, Tillman sought to build as many housing units on the site as he could, 14.5% of which were required to be below market-rate under the city's so-called inclusionary housing rules. But after doing some legal research, Tillman discovered a loophole: If he used the state's "density bonus" law, he could increase his planned 55 units to 75 without adding additional below market-rate units.

And if his project was fully up to code but still denied—which would likely be illegal under another state law that bars arbitrary housing denials—he could sue all the way to a state judge and set a precedent.

Adopted in 2002 and twice amended since then, the city's inclusionary housing fee now requires developments larger than 10 units to include anywhere from 20% to 33% below market-rate units or pay a hefty fee equivalent to about \$230 per square foot of the building's residential area.

Affordable housing activists say the fee is a lynchpin of efforts to prevent displacement and assure that the city remains a place for everyone. Bad-mouthing by developers, they say, is just that, and affordability requirements remain a point of heated debate.

Jeremy Lu, a development manager at Cresleigh, described the fees as an example of good intentions with unintended consequences. The current inclusionary housing framework can kill projects, he said, because requiring a high percentage of low-rent units can outstrip any profitability.

"If I were a policymaker, it's like saying 'I only get 4 out of 5 votes sent in the mail,'" Lu said. "At some point, it just doesn't make sense."

The inclusionary housing fee is the 800-pound gorilla of San Francisco development fees, but is one of dozens of fees currently on the books. The city charges a [boatload of neighborhood-specific impact fees](#), imposed in areas like [Balboa Park](#) and [the Mission District](#), purportedly to help to offset the strain of new developments on existing neighborhoods.

SF Annual Impact Fees for 2022

The city's Development Impact Fees are adjusted annually, effective on January 1st of each year.

GIS INDICATES "GROSS SQUARE FEET" OF PROPERTY.
TABLE 1.12 LINDOWSTER • SOURCE: SAN FRANCISCO
PLANNING DEPARTMENT



Other fees are imposed citywide, like the \$600 the city charges per bicycle parking space eliminated for new housing and the \$2,302 per tree that cannot be planted. When piled onto a project, the [city's fees](#) can amount to as much as a quarter of a project's total "soft costs"—a term for the costs of architects, consulting, insurance, permit fees and other non-construction costs.

The Controller's Office raises development impact fees every year alongside inflation. And 10 new fees have been added since 2014.

Other rules, like the city's definition of a "high rise" and its building code requirements have evolved over the years to the point where Tillman says his project, if proposed today and therefore beholden to higher fees, would no longer be feasible.

"If someone ... just gave me that lot [today], I don't know that I could afford to build and design a project that would be economically viable," Tillman said. "The city has done everything possible to increase the costs."

Unfriendly Neighbors

Tillman's development plan met stiff resistance from the Mission District group Calle 24, which set in motion multiple appeals that wound up stalling the project for years.

Calle 24 wanted the site to be converted to 100% affordable housing and objected that the laundromat had been a site of activism in the 1970s, sending it to the Historic Preservation Commission for a study. Four months and \$23,000 later, that commission did not find that the site had historic value.

Tensions boiled over at a January 2016 community meeting, when an irascible crowd hurled insults and homophobic remarks over concerns that the housing would displace existing residents. One attendee [reportedly told Tillman](#) that he wished his daughter, who lived in Boston, had been blown up in the recent marathon bombing.

At this point, Tillman says he saw the writing on the wall: There was little chance he'd get his project approved over neighborhood opposition. So he set out to get the project denied at the Board of Supervisors so he could settle out his building rights in court, allowing him to sell the site with entitlements, at a tidy profit, in a neighborhood where few new properties were getting the go-ahead to build new units.

Tillman's housing plan—a 75-unit, eight-story housing project with 14.5% below market-rate units—eventually obtained a [conditional use permit](#) from the [Planning Commission](#) in 2017, three years after it was introduced.

That timeline is far from unusual in San Francisco, where it takes more than two years on average to permit housing projects—an unusually slow pace compared to peer cities, according to a [draft study](#) published last year.

CA Housing Development Average Permitting Timeline

San Francisco reports the highest average number of days to submit, entitle and then permit a housing project in California.

AVERAGES MEASURED FROM JULY 2020 TO DECEMBER 2021.
CHART 1.13 LINDOWSTER • SOURCE: CA DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT



The longer a project languishes in the city's byzantine permitting process, the more expensive it gets for the eventual builder. Joe Ollá, vice president of business development and marketing at Nibbi Brothers General Contractors, estimated that for every six months of permitting purgatory, overall costs tick up by around 3 to 4%.

"If it gets delayed two years, that can destroy a job," Ollá said. "It's just this kind of never-ending battle to try to catch up to the dollars."

Knowing he was likely headed to court, Tillman refused to jump through the hoops normally required for getting a housing project off the ground in San Francisco. He didn't cater his plans to the neighborhood and political groups and didn't sign a voluntary agreement promising to use union labor.

That's one of the unwritten rules for local builders, and it's a double-edged sword: Those labor agreements tend to yield higher quality work, say builders, but also ratchet up costs.

Perhaps most importantly, not signing a labor agreement can make your project a political non-starter.

By the time he got that far, Tillman knew he was selling and didn't want to tie a buyer up in a labor agreement. It wouldn't have done any good anyway; The so-called "historic laundromat" had become a cause célèbre on both sides of the city's housing debate, with Mission District activists saying it would further gentrify the neighborhood and pro-housing groups countering that building housing at an old laundromat couldn't possibly displace anybody.

"I was going to get opposed by Mission activists whether I had the unions or not," Tillman said.

Sure enough, Calle 24 appealed Tillman's conditional use permit, sending the matter to the Board of Supervisors.

Chilling Effect

San Francisco's system of housing review, which gives both the Planning Commission and the Board of Supervisors discretion over housing approvals, is ripe for abuse.

In San Francisco, anyone—even non-residents—can ask the commission to take a second look at a development. It takes just a few hundred dollars and a claim of historical significance or environmental impact to stall a project.

There are opportunities for public input and appeals at almost every stage of the process. Within two weeks of filing a pre-application for permits, applicants on bigger housing projects must notify everyone who owns property within 300 feet of the project of their initial plans and then hold a community meeting. Some buildings, like Tillman's, require additional notifications before a hearing and can be subject to "postponement" to give the opposition time to organize.

Even once permits are approved, project opponents then have 30 days to appeal the permit to the Board of Supervisors. And that's all just for the entitlement process—opponents have additional opportunities during the building permit phase to send projects to the city's Board of Appeals.

An archival photo of the former laundromat at 2318 Mission St. in January 2016 (top) and a drone photo of the same lot (bottom) which remains empty on Monday, September 12, 2022. A housing development at the site has been delayed. | Michael Macor/The San Francisco Chronicle via Getty Images; Paul Kurda for The Standard

The most common weapon of choice for anyone trying to stop a project is the [California Environmental Quality Act \(CEQA\)](#), a state law that requires most housing projects to undergo an environmental review. "Environmental impacts" can be interpreted broadly, and the Board of Supervisors [has been accused of using CEQA as cover to tank projects for political reasons](#). That was the case in the much-publicized delay of 469 Stevenson, a proposed 500-unit development on a downtown parking lot, which led to a state investigation of SF's housing policies.

"That just has a chilling effect," said Jonathan Fearn, a builder with Greystar who sits on the Oakland Planning Commission, of the denial of projects like 469 Stevenson. "Why would I move forward?"

Likewise, the board cited CEQA in denying Tillman's project in 2018, saying it could cast shadows over a nearby playground. Tillman sued, spurring the [planning department](#) to launch an independent "shadow study" and ultimately re-approve his project. That was five years after he first proposed it.

"If you're on the political playing field, they can do anything to you," Tillman said. "But once they turn you down...then you can go into the courts and that's a different playing field. They don't have control over it."



A drone photo of the lot at 2918 Mission St., formerly the site of a laundromat (left) and the former owner of the property Bob Tillman (right) outside the location on Monday September 12, 2022. | Paul Kuroda for The Standard

Greystar, which manages more than two dozen apartment buildings in San Francisco, cleared planning hurdles on its last construction project in the city in 2014 and hasn't done one since, said Feam.

The pullback wasn't calculated, but the South Bay, with its ample tech jobs to support rents—and more importantly, its simplified approach to approving housing compared to San Francisco—has proved a much more reliable market.

Cresleigh Homes, which purchased the 2918 Mission St. site from Tillman in 2019, demolished the old laundromat but still hasn't secured final approval from the city's building department to build beyond a foundation. Lui said it's no surprise that builders decide that San Francisco is not worth the hassle.

"There's a whole ecosystem of would-be builders that go elsewhere," said Lui.

'We Go to Oakland'

Pro-housing groups say the city's "solutions" to the housing crisis are only making matters worse.

Local politicians are [launching a yearlong process](#) to redesign an existing state law to avoid relinquishing their role in project approvals. The Board of Supervisors approved a ["streamlining" ballot measure](#) with affordability and labor requirements so strict it's unlikely to be utilized by developers at all.

Efforts at the state level to tear down barriers to housing may force San Francisco to change its ways, or set the stage for a legal showdown with local policymakers unwilling to cede local control of housing.

But for many of the city's top builders, it's too little, too late. They're already spooked by projects like Tillman's and 469 Stevenson that leave hundreds of units dead in the water for reasons they call arbitrary.

When asked what keeps builders in the city, McKiernan had a simple answer: "We go to Oakland."

[Los Angeles County Off-Site HOUSING](#)





