Ad-Hoc Committee for San Francisco's Housing

February 18, 2016

Supervisor Eric Mar, District 1
Supervisor Mark Farrell, District 2
Supervisor Aaron Peskin, District 3
Supervisor Katy Tang, District 4
Supervisor London Breed, District 5
Supervisor Jane Kim, District 6
Supervisor Norman Yee, District 7
Supervisor Scott Wiener, District 8
Supervisor David Campos, District 9
Supervisor Malia Cohen, District 10
Supervisor John Avalos, District 11
1 Dr Carlton B Goodlett Place, Room 244
San Francisco, CA 94102

Re: Proposed Affordable Housing Ordinance increasing BMR

Dear Supervisors,

As drafted, the proposed ordinance to increase required affordable housing requirements for market-rate developments from 12% to 25% will not work. Quite the contrary, the Ordinance will devastate the industry, engender the lay-offs of thousands of union construction workers, and shut down whole sections of the construction, engineering, architectural and development businesses. Far from increasing affordable housing and reducing city-wide rents, the Ordinance will dramatically reduce the number of future affordable housing units to be built and, with future housing supply constricted, could significantly cause rental increases for non-rent-controlled units.

Very simply, given current costs, it is impossible to build housing with a 25% BMR requirement absent significant up-zonings or subsidies. Prudent lenders and equity investors require at least a 5.5% Return on Costs (ROC simply takes a project's annual net operating income and divides it by the total costs). The Ordinance's proposed almost doubling of affordable housing costs reduces the ROC to below financeable possibilities and long-term would drive down land values to impossibly low numbers that could stop housing construction for many years (see attached analysis). Stopping housing development in turn means that the City will neither receive the fees to build off-site affordable housing nor the affordable on-site units (12% at 55% of AMI) that would have been received under the current program.

Right now the Ordinance does not permit the grandfathering of over 8,000 units in the pipeline, many of which are affordable. The Ordinance, designed with little economic feasibility analysis, thus jeopardizes some $7.5 billion of new housing inventory: Housing that provides over $1.5 billion of construction union wages plus thousands of new affordable homes.

Supervisors, as designed your Ordinance will cripple the housing industry, cause massive union worker lay-offs, likely raise rents and lower the number of affordable units delivered in San Francisco. At the very minimum, we would ask you to change the Ordinance and insert language that permits: 1) grandfathering and 2) subordinates the 25% BMR objective to reasonable economic feasibility (to be determined by the Controller's office but similar to a basic ROC analysis). These changes should be put into the Ordinance and not dealt with in some trailing legislation. The goal of 25% affordable housing is a good one, but it must be subordinated to economic feasibility. 25% of nothing is nothing.

The undersigned actually design, engineer, build, and develop the vast majority of the housing built in San Francisco. We would urge you as prudent leaders to reflect carefully on our words and tailor your Ordinance into a program that will improve affordable housing life in San Francisco as opposed to devastate it.

Sincerely yours,

Oz Erickson
Emerald Fund, Inc.

Jeff Hoopes
Swinerton Incorporated

Ross Edwards
Build Group

Chris Pemberton
Solomon Cordwell Buenz

Larry Smith
Roberts Obayashi

Eric Tao
AGI Capital

John Clawson
Equity Community Builders

Brian Spiers
Brian Spiers Development

Charles Salter
Charles M. Salter Associates, Inc.

Matt Lituchy
Jay Paul Company

Marc Babsin
Emerald Fund, Inc.

Craig Allison
Plant Builders

Andy Ball
Suffolk Construction Company

Patrick Kennedy
Panoramic Interests

Marta Fry
Marta Fry Landscape Architects

Kennard Perry
Swig Company

Alan P. Mark
The Mark Company

Steve Vettel
Farella Braun Martel

Jeff Heller
Heller Manus Architects

Larry Nibbi
Nibbi Brothers, Inc.

Bob Nibbi
Nibbi Brothers, Inc.

John McNulty
MBH Architects

Michael Covarrubias
TMG Partners

Matt Field
TMG Partners

Dan Kingsley
SKS Partners

Rick Christiani
Christiani Johnson Architects

Levon Nishkian
Nishkian Menninger Consulting and Structural Engineers

Jes Pedersen
Webcor Builders

Adam Tartakovsky
Crescent Heights

Lou Vasquez
Build, Inc.

Michael Yarne
Build, Inc.

Kofi Bonner
Lennar Properties

Dean Givas
Oyster Development

Dan Safier
Prado Development

Chris Meany
Wilson Meany

Craig Hamburg
DDG Partners

Gerry Tierney
Perkins and Will

David Prowler
David Prowler, Inc.

Ze Figuririnhas
Jones Lang LaSalle

Stanley Saitowitz
Natoma Architects

Brent Gaulke
GerdingEdlen

Riaz Taplin
Riaz Inc.

Joy Ou
Group One

Mark MacDonald
DM Development

Steve Oliver
Oliver and Company

Gary Arabian
CBRE

Chris Foley
Polaris Pacific

Jeff Saarman
Saarman Construction Ltd.

Jennifer Hernandez
HK Law

Margaret Liu
CBRE

Steven Koch
Steve Koch Associates

Mark Macy
Macy Architecture

Benjamin Pollock
Kidder Matthews

Laura Sagues
CBRE

James Nunemacher
Vanguard Properties

The attached pro forma presents a proposed 400-unit development with 16 floors. The building would be Type 1 (reinforced concrete), life-safety with an average, net rentable unit square footage of 768.

Realistically, current construction costs are around $450,000 per unit for Type 1 high rises. Depending on the actual final design of this building, the range of costs could be anywhere from $430,000 to $480,000. Average rents are presumed to be around $5.67 per foot or $4,355 per unit for this project that consists of 10% studios, 40% one-bedrooms, 40% two-bedrooms, and 10% three-bedrooms. This is a VERY HIGH RENT which virtually no one is achieving. Using reasonable rents would drive the land below zero. No escalation is factored into either rents or expenses.

As presented, the project yields a 5.3% Return on Costs with **no land value**. Clearly, no property owner is going to give their land away for free. Thus, this development is a totally infeasible project.

One can certainly argue about costs. San Francisco is clearly in a spike in the construction cycle. In a recession prices should go down, but how much? In 2007, at the peak of high construction prices, a 7-story, Type 1, 300+ unit project, was bid at $230k per door. It was built in the middle of the Great Recession, 2010-11, for around $208k, representing a 10% decline in construction prices. A 10% decline in our construction model would add $45,000 to the land values, but who knows what rents would be like during a recession?

This model has been vetted by numerous construction and development experts. As far as it goes and subject to detailed plans, it is accurate. It clearly shows that with a 25% affordable requirement, it is impossible today to build a Type 1 highrise apartment project in San Francisco.

			25% Affordable	
			Per Unit	Total
Building Profile				
	Lot Area			30,000
	x Lot Coverage			80%
	Building Footprint			**24,000**
	x Stories			16
	Gross Square Feet			**384,000**
	x Building Efficiency			80%
	Net Rentable Area			**307,200**
	Studios	40	475	19,000
	1BRs	160	625	100,000
	2BRs	160	900	144,000
	3BRs	40	1,100	44,000
	Total Units	**400**	**768**	**307,000**
Land				
	Land		-	-
	Total Land		**-**	**-**
Hard Costs				
	New Construction		450,000	180,000,000
	Total Hard Costs		**450,000**	**180,000,000**
Soft Costs		% of HC		
	A&E	3.0%	13,500	5,400,000
	Insurance	2.5%	11,250	4,500,000
	Construction Interest	5.0%	22,500	9,000,000
	Government Fees	11.0%	49,500	19,800,000
	Soft Costs - Other	7.0%	31,500	12,600,000
	Total Soft Costs		**128,250**	**51,300,000**
Total Development Costs			**578,250**	**231,300,000**
NOI				
	Market Rent		52,260	15,678,000
	55% AMI		14,292	857,520
	100% AMI		25,987	1,039,488
	150% AMI		-	-
	Parking		1,500	600,000
	Vacancy	4.00%	(1,818)	(727,000)
	Total Rent		**43,620**	**17,448,008**
	MGMT Fee	3.00%	1,309	523,440
	Other Operating	$ 5,000	5,000	2,000,000
	Property Tax	1.19%	6,637	2,654,744
	Total Operating		**12,945**	**5,178,184**
	NOI		**30,675**	**12,269,824**
Return on Cost			5.30%	