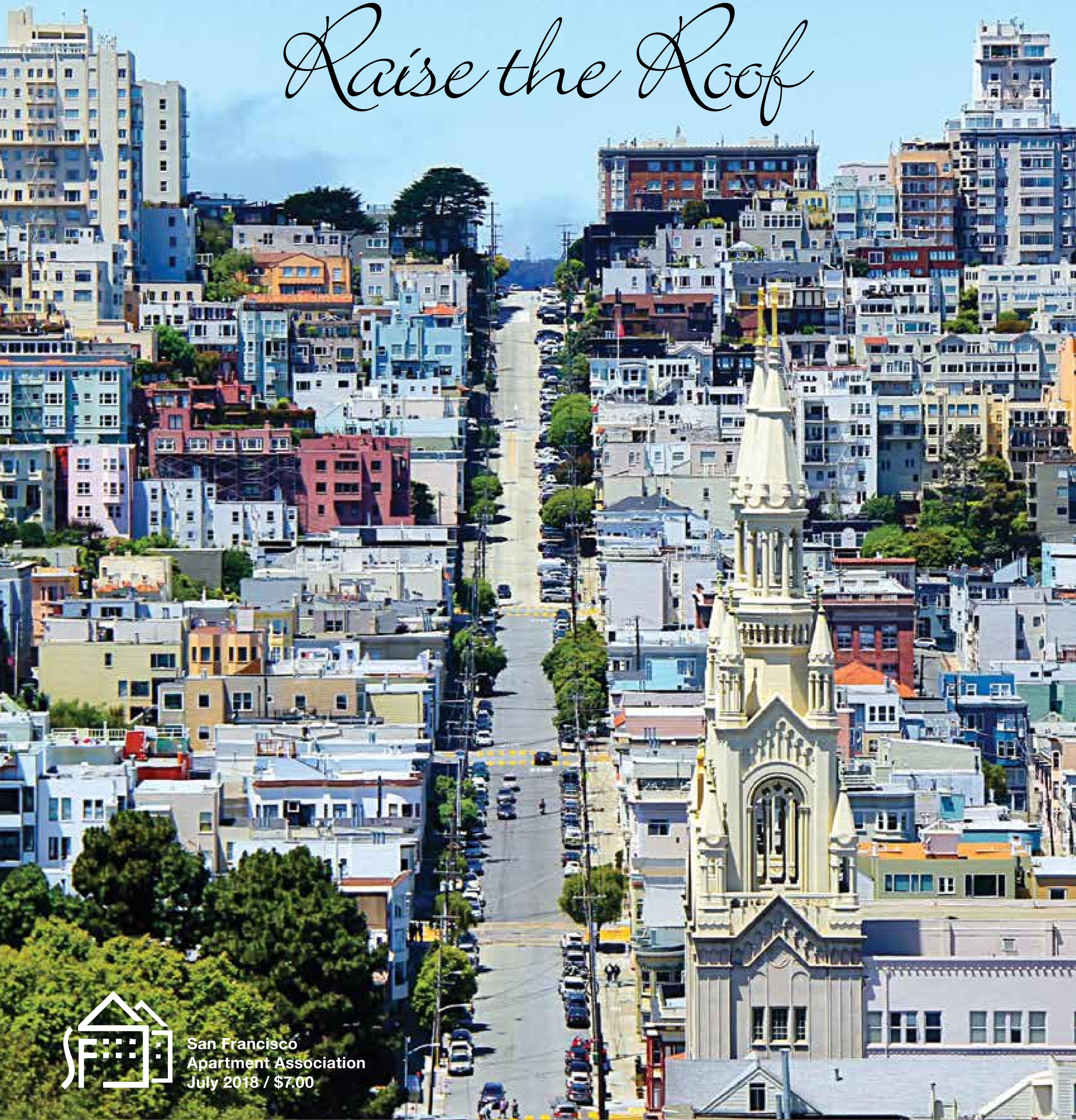
magazine

SF APARTMENT

Raise the Roof



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A unit in the Alexandria, a 43-condominium unit project in the Inner Richmond by Polaris and developer TimeSpace Group.

Creative Construction

written by
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Local, innovative developers are working to ease the housing crisis.

The San Francisco residential market, like last year, remains in a mature position with modest price and rent growth. While employment remains strong and large technology firms continue to gobble up new office space, the city is still plagued with an unprecedented housing affordability crisis and continually mounting constraints prohibiting new supply to alleviate the crisis. Fortunately, new housing legislation, small-scale projects in either conventional or co-living arrangements, and improvements in construction technology provide hope that the city's affordability crisis will improve.

Upzoning and Density Requirements Shift

Many developers have submitted refreshed proposals for projects featuring additional units in hope of utilizing the city's density bonus program. The HOME-SF program, formerly known as the Affordable Housing Bonus Program (AHBP), signed into law by the late Mayor Ed Lee in 2016, allows for market-rate developers to build up to two stories higher than current zoning allows in exchange for providing 30 percent of the project's total units as on-site affordable housing. HOME-SF also stipulates that 40 percent of the total units in the building must have two or more bedrooms. Another legislative route, known as the State AHBP, provides a more flexible approach to encouraging density. Market-rate developers can increase the residential density of their projects by up to 35 percent if they provide 12 percent on-site affordable units with an additional one to eight percent of units reserved for low, very low, or moderate-income residents.

Developer LF George Properties was approved to build 27 condominium units at Van Ness and Filbert in 2014. Using the Hope SF program, he submitted a new proposal for the site that would add an additional two stories to the project. As redesigned by Costa Brown Architecture, the new project would yield 60 condos with 18 homes offered below market rate.

Market-rate developers aren't the only ones taking advantage of HOME-SF. Mission Economic Development Agency (MEDA) and Tenderloin Neighborhood Development Corp. (TNDC) plan to utilize the law to up-zone their proposed affordable Mission development located at 681 Florida Street. Originally planned for 86 units, the developers recently submitted an application to the city that would utilize HOME-SF to build 130 permanently affordable units. Additionally, market-rate developer Nick Podell donated the parcel to satisfy affordability requirements on his 194-unit apartment complex at 2000 Bryant Street.

Small-Scale Urban Infill in the Traditional Neighborhoods

While large-scale mixed-use developments in Soma tend to dominate headlines, a number of smaller condominium projects have quietly popped up in San Francisco neighborhoods that don't usually experience new development. While bringing urban infill projects to fruition is not without its own set of challenges, these projects typically avoid obstacles inherent in building larger developments such as convoluted parcel assembly, time-consuming zoning changes, and extensive community benefits agreement negotiations.

In the Inner Richmond, a 43-condominium unit project, The Alexandria, by developer TimeSpace Group is now selling (see page 26). Sutter North by Celtic Development, a 37-condominium unit development in Polk Gulch, is currently pre-selling. 1598 Bay Street by Presidio Development Partners, a 28-condominium building in the Marina, is scheduled for completion this summer. The Palace at Washington Square by Joel Campos is currently selling 19 condominium units in Russian Hill.

Though larger in scale than the aforementioned projects, a number of developments in the Tenderloin, a neighborhood with a long history of disinvestment, have also broken ground. Examples include Shorenstein's 304 market-rate apartments at 1066 Market and TNDC's 113 affordable apartments at Eddy and Taylor Streets. Other projects that have been recently approved include 186 market-rate apartments at 1028 Market (Tidewater Capital); 85 affordable units at 101 Hyde (Shorenstein); 242 condominium units and a 232-room hotel at 974 Market (Group I); and 592 units of student housing at 333 Golden Gate Avenue.

Micro Units Move In

Square footage is undeniably sold at a premium in San Francisco. While opinions vary widely on how to best meet the housing needs of the city's ever-growing population, San Francisco has recently seen an influx of new approaches to communal living.

Starcity, a business supported by venture capital, provides low-income residents with rooms that range from 130 to 220 square feet. While utilities and WiFi are included in the rent, residents share bathrooms and kitchens by floor. The developer, who has thus far focused on adaptive reuse of existing buildings, operates 36 units across three buildings in San Francisco and is currently in the process of developing nine additional projects across the Bay Area.

Brooklyn-based startup Common entered the Bay Area scene in 2016, collaborating with local developers to provide furnished "co-living" spaces to renters. Now operating three communities in Soma and West Oakland, the group offers residents homes with shared bathrooms and kitchenettes, as well as amenities such as Nest thermostats, weekly housekeeping, WiFi, and laundry services.

Construction Costs and Barriers to Building

While many consider San Francisco a notoriously difficult city for new construction, industry professionals have been especially candid about the laborious process of bringing a project to market over the past year, citing a multitude of reasons.

Construction costs are a major obstacle to building. According to a 2017 study by consulting firm Turner and Townsend, construction costs are second only to New York. Material and labor shortages in the industry, compounded with the cost of living in the Bay Area, have also contributed to escalating construction budgets.

According to a recent report on rising development costs and their impacts throughout the Bay Area (Terner Center for Housing Innovation at UC Berkeley), various additional components have converged to impede building aside from construction costs and labor shortages. Rising land values and development fees, including development impact and public benefits fees, have played an impactful role in limiting new construction. In addition, bureaucratic elements, including regulatory requirements, lengthy permitting and entitlement processes, as well as a lack of oversight and continuity between planning departments have also proven to deter progress on building.

Even as these operating conditions deter new development, many sources of funding for subsidized housing development have deteriorated following new federal legislation. As a result, future housing production is expected to slow for all income levels. However, continual technological improvements in the construction industry, especially in modular pre-fab building techniques and more efficient Building Information Modeling (BIM) systems, should alleviate some of the cost burden, and potentially allow certain projects to proceed with construction that would otherwise prove infeasible.

San Francisco has been, and will continue to be, at the forefront of innovation with solutions to some of the most vexing urban problems. Walk down any street in the city and you will likely find a brand new electronic ridesharing scooter or bike, an Uber or Lyft driver dropping off a passenger, or a driver testing out a partially autonomous vehicle. These are innovations responding to the Bay Area's notorious traffic problems. Taken together, with a host of new innovations yet to be created, they should drastically reduce traffic in the city—before going on to tackle congestion issues in cities all over the globe. In the same vein, some of the solutions presented in this article—from coliving models to modular construction to better BIM systems—will first help alleviate the city's housing crisis and then go on to serve as models for cities throughout the world.

Miles Garber is the vice president of research at Polaris Pacific, the largest brokerage firm of new condominiums on the West Coast. At Polaris Pacific, he runs the research consulting division and oversees the Polaris Pacific Report, a monthly market intelligence report that tracks sales prices and absorption rates of new residential condominiums in San Francisco, Seattle, San Diego, Silicon Valley, Oakland/Emeryville and Los Angeles.