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BY HAND

July 11, 2016

San Francisco Board of Supervisors
c/o Land Use and Transportation Committee
The Honorable Malia Cohen
The Honorable Aaron Peskin
The Honorable Scott Wiener
Room 250, City Hall
San Francisco, CA 94102

Re: Case Number 160252
Construction of Accessory Dwelling Units
Hearing Date: July 11, 2016/Agenda Item 8

The 2014 Housing Element of the General Plan does not support the proposed ordinance because it would have citywide application and the extensive community planning process required by the Housing Element has not occurred. Also, environmental review under CEQA has not occurred, and the EIR prepared for the 2009 Housing Element did not evaluate impacts of citywide zoning changes enacted without an extensive community planning process.

The City would act at its own risk if it were to approve the proposed ordinance relating to Accessory Dwelling Units because environmental review of the proposal under CEQA relies primarily on the adequacy of the Final Environmental Impact Report for the 2009 Housing Element (FEIR), and the legal sufficiency of that FEIR is now being considered by the California Court of Appeal and has not been finally decided. Addendum 4 to this FEIR purports to substantiate a determination of the Planning Department that no supplemental or subsequent environmental review is needed because the proposal was analyzed in that FEIR.

However, the 2004 Housing Element, which sought to apply various increased density policies citywide, was repealed after the Court of Appeal held that an environmental impact report was required before the City could adopt the general plan changes embodied in the 2004 Housing Element, and the Superior Court set aside the City's approval of the 2004 Housing Element policy changes. When the City later approved the 2009 Housing Element, the City repealed the 2004 Housing Element, so the 2004 Housing Element policy changes never passed environmental review. (See Ex. A, attached Ordinance No. 97-14, repealing 2004 Housing Element, p. 4, lines 9-10.) Page 3 of the Addendum 4 to the FEIR inaccurately refers to Policy 1.8 of the 2004 Housing Element, which was repealed and never passed environmental review. (Ex. B)

Policy 1.5 of the 2009 Housing Element, which was continued in the 2014 Housing Element, did not encourage secondary units on a citywide basis. 2009 Housing Element Policy 1.5 is to “Consider secondary units *in community plans* where there is neighborhood support and when other neighborhood goals can be achieved, especially if that housing is made permanently affordable to lower-income households....Within a community planning process, the City may explore where secondary units can occur without adversely affecting the exterior appearance of the building, or in the case of new construction, where they can be accommodated within the permitted building envelope” (Ex. C, p. 10, emphasis added)

2014 Implementation Measure 10 provides as follows that:

“At the initiation of any community planning process, the Planning Department shall notify all neighborhood organizations who have registered with the Planning Department on its neighborhood Organizations List and make continued outreach efforts will [sic] all established neighborhood and interest groups in that area of the city.” (Ex. C, p. C-3)

2014 Implementation Measure 11 provides as follows that:

“At the conclusion of any community planning process, the Planning Commission shall ensure that the community project’s planning process has entailed substantial public involvement before approving any changes to land use policies and controls.” (Ex. C, p. C-3)

With respect to the proposed ordinance, at page 4 of the Planning Commission Resolution No. 19663, the City admits that “This change in land use controls is not part of a traditional ‘community planning effort’ as the Planning Department would typically pursue.” (See Ex. D, excerpt attached) Therefore, the City cannot lawfully rely upon the FEIR for the 2009 Housing Element as environmental review under CEQA for the proposed citywide ordinance, as that EIR did not analyze impacts of citywide implementation of secondary units, and a community planning process relating to citywide implementation of secondary units has not occurred.

The proposed ordinance would have potentially significant impacts on land use character, zoning plans, density and neighborhood character that must be analyzed and mitigated in an environmental impact report pursuant to CEQA before this ordinance may lawfully be adopted.

In view of the attached July 5, 2016 *Business Insider* article discussing the end of the San Francisco housing boom, prudence dictates careful study of impacts of the “condo glut” before considering any measures designed to accelerate production of additional housing units. (Ex. E)

Thank you for your consideration of these matters.

Land Use and Transportation Committee
July 11, 2016
Page 3

Very truly yours,



Kathryn R. Devincenzi

Attachments:

- Ex. A - Ordinance No. 97-14, repealing 2004 Housing Element, p. 4, lines 9-10
- Ex. B - Page 3 of Addendum 4 to Environmental Impact Report
- Ex. C - 2014 Housing Element, excerpts
- Ex. D - Page 4 of Planning Commission Resolution No. 19663
- Ex. D - *Business Insider*, San Francisco's housing bust is becoming 'legendary,' July 5, 2016.

EXHIBIT A

1 [General Plan - Repealing Ordinance No. 108-11 - Adoption of 2009 Housing Element]

2 **Ordinance amending the General Plan by repealing Ordinance No. 108-11 and adopting**
3 **the 2009 Housing Element; and making findings, including environmental findings,**
4 **Planning Code, Section 340, findings, and findings of consistency with the General**
5 **Plan, and the eight priority policies of Planning Code, Section 101.1.**

7
8 NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
9 **Additions to Codes** are in *single-underline italics Times New Roman font*.
10 **Deletions to Codes** are in ~~*strikethrough italics Times New Roman font*~~.
11 **Board amendment additions** are in double-underlined Arial font.
12 **Board amendment deletions** are in ~~Arial font~~.
13 **Asterisks (* * * *)** indicate the omission of unchanged Code
14 subsections or parts of tables.

15 Be it ordained by the People of the City and County of San Francisco:

16 Section 1. Introduction. On March 31, 2011, pursuant to San Francisco Charter
17 section 4.105 and Planning Code section 340, the San Francisco Planning Commission
18 recommended to the San Francisco Board of Supervisors the adoption of the 2009 Housing
19 Element, an amendment to the San Francisco General Plan. On March 24, 2011, the
20 Planning Commission had certified the San Francisco 2004 and 2009 Housing Element
21 Environmental Impact Report (EIR) pursuant to the California Environmental Quality Act
22 ("CEQA") (Public Resources Code section 21000 et seq.) in Planning Commission Motion
23 18307, adopted findings pursuant to CEQA in Motion 18308, and adopted the 2009 Housing
24 Element as an amendment to the General Plan in Resolution 18309. A copy of said
25 resolutions and motion are on file with the Clerk of the Board of Supervisors in File No.
140414.

1 In June 2011, in Ordinance 108-11, the Board of Supervisors adopted the 2009
2 Housing Element as the Housing Element of the San Francisco General Plan and adopted
3 findings pursuant to CEQA. A copy of said Ordinance is on file with the Clerk of the Board of
4 Supervisors in File No. 140414.

5 After the adoption of the 2009 Housing Element by the Board of Supervisors, an
6 association of neighborhood groups challenged in San Francisco Superior Court, among other
7 things, the adequacy of the final environmental impact report (FEIR) prepared for the 2009
8 Housing Element and the adequacy of the Board's findings under CEQA. On December 19,
9 2013, the Superior Court upheld the City's compliance with CEQA in all respects, except for
10 the FEIR's analysis of the alternatives required by CEQA and the CEQA Guidelines, and the
11 City's adoption of CEQA Findings. On January 15, 2014, the Superior Court ordered the City
12 to set aside its certification of the FEIR and the approval of the 2009 Housing Element and
13 related CEQA findings, revise the FEIR's alternatives analysis, and reconsider its previous
14 approvals.

15 Pursuant to the Court's order, the Planning Department prepared a revised alternatives
16 analysis and recirculated it for public review and comment. On April 24, 2014, the Planning
17 Commission rescinded Motion 18307, and certified the Final EIR including the revised
18 alternatives analysis in Motion 19121. A copy of said motion is on file with the Clerk of the
19 Board of Supervisors in File No. 140414. On April 24, 2014, the Planning Commission also
20 rescinded Resolution 18309 and Motion 18308, and reconsidered its approval of the 2009
21 Housing Element and adoption of CEQA Findings in light of the revised certified FEIR. As set
22 forth below, the Planning Commission continues to recommend the adoption of the 2009
23 Housing Element as the Housing Element of the San Francisco General Plan.

24 Section 2. Findings. The Board of Supervisors of the City and County of San
25 Francisco hereby finds and determines that:

1 (a) Pursuant to San Francisco Charter 4.105 and San Francisco Planning Code
2 Section 340, any amendments to the General Plan shall first be considered by the Planning
3 Commission and thereafter recommended for approval or rejection by the Board of
4 Supervisors. On April 24, 2014, by Resolution 19123, the Planning Commission conducted a
5 duly noticed public hearing on the General Plan amendment adopting the 2009 Housing
6 Element as the Housing Element of the San Francisco General Plan ("2009 Housing
7 Element"). A copy of the 2009 Housing Element is on file with the Clerk of the Board of
8 Supervisors in File No. 140414. Pursuant to Planning Code Section 340, the Planning
9 Commission found that the public necessity, convenience and general welfare required the
10 General Plan amendment, adopted the General Plan amendment and recommended it for
11 approval to the Board of Supervisors. A copy of Planning Commission Resolution No. 19123
12 is on file with the Clerk of the Board of Supervisors in File No. 140414.

13 (b) The Board finds that this ordinance adopting the 2009 Housing Element is, on
14 balance, in conformity with the priority policies of Planning Code Section 101.1 and consistent
15 with the General Plan as it is proposed for amendment herein, for the reasons set forth in
16 Planning Commission Motion No. 19122, and the Board hereby incorporates these findings
17 herein by reference.

18 (c) On April 24, 2014, by Motion No. 19121, the Planning Commission certified as
19 adequate, accurate and complete the 2004 and 2009 Housing Element Final Environmental
20 Impact Report, including the revised alternatives analysis ("Final EIR"), finding that the Final
21 EIR reflected the independent judgment and analysis of the City and County of San
22 Francisco, is adequate, accurate and objective, and that the content of the report and the
23 procedures through which the Final EIR was prepared, publicized and reviewed comply with
24 the provisions of CEQA, the CEQA Guidelines (14 Cal. Code Regs. Section 15000 et seq.)
25 and Chapter 31 of the San Francisco Administrative Code. A copy of the Final EIR and

1 Planning Commission Motion No. 19121 are on file with the Clerk of the Board in File No.
2 140414.

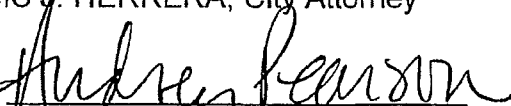
3 (d) In accordance with the actions contemplated herein, the Board has reviewed the
4 Final EIR, and adopts and incorporates by reference, as though fully set forth herein, the
5 findings required by CEQA, including a statement of overriding considerations and the
6 mitigation monitoring and reporting program, adopted by the Planning Commission on April
7 24, 2014, in Motion No. 19122. A copy of said Motion No. 19122 is on file with the Clerk of
8 the Board of Supervisors in File No. 140414.

9 Section 3. The Board of Supervisors hereby rescinds Ordinance 108-11, repeals the
10 2004 Housing Element, and adopts the 2009 Housing Element as the Housing Element to the
11 San Francisco General Plan.

12 Section 4. Effective Date. This ordinance shall become effective 30 days after
13 enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the
14 ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board
15 of Supervisors overrides the Mayor's veto of the ordinance.

16
17
18 APPROVED AS TO FORM:
19 DENNIS J. HERRERA, City Attorney

20 By:


21 Audrey Pearson
22 Deputy City Attorney

23 n:\land\12014\120178\00913186.doc
24
25

EXHIBIT B

As discussed in the City’s Housing Element, housing density standards in San Francisco have been traditionally set in terms of numbers of dwelling units in proportion to the size of the building lot. For the various zoning districts throughout the City, the San Francisco Planning Code (“Planning Code”) limits the number of dwelling units permitted on a given lot. For example, in an RH-2 (Residential, House, Two-Family) District, two dwelling units are principally permitted per lot, and one dwelling unit is permitted for every 1,500 square feet of lot area with conditional use authorization. The 2004 and 2009 Housing Elements discussed the need to increase housing stock through policies that promote intensification of dwelling unit density on developed lots. As shown in Table 1: Housing Element Policies and Implementation Measures Related to ADUs, the following policies and associated implementation measures call for the creation of ADUs and were analyzed in the Final EIR:

Table 1: Housing Element Policies and Implementation Measures Related to ADUs

| Policies and Implementation Measures | 2004 Housing Element | 2009 Housing Element | 2014 Housing Element |
|--------------------------------------|--|---|--|
| Policies | <p>Policy 1.8: Allow secondary units in areas where their effects can be dealt with and there is neighborhood support, especially if that housing is made permanently affordable to lower income households.</p> | <p>Policy 1.5: Consider secondary units in community plans where there is neighborhood support and when other neighborhood goals can be achieved, especially if that housing is made permanently affordable to lower-income households.</p> <p>Policy 1.6: Consider greater flexibility in the number and size of units within established building envelopes in community plan areas, especially if it can increase the number of affordable units in multi-family structures.</p> | <p>Policy 1.5: Consider secondary units in community planning processes where there is neighborhood support and when other neighborhood goals can be achieved, especially if that housing is made permanently affordable to lower-income households.</p> |
| Implementation Measures | <p>Implementation Measure 1.8.1: The Board has introduced Planning Code amendments to allow secondary units in new buildings that are in close proximity to neighborhood commercial districts and public transit.</p> <p>Implementation Measure 1.8.3 – Ongoing planning will propose Planning Code amendments to encourage secondary units where appropriate.</p> | <p>Implementation Measure 13: When considering legalization of secondary units within a community planning process, Planning should develop design controls that illustrate how secondary units can be developed to be sensitive to the surrounding neighborhood, to ensure neighborhood character is maintained.</p> | <p>Implementation Measure 13: When considering legalization of secondary units within a community planning process, Planning should develop design controls that illustrate how secondary units can be developed to be sensitive to the surrounding neighborhood, to ensure neighborhood character is maintained.</p> |

EXHIBIT C

2014 HOUSING ELEMENT



APRIL 2015 | ADOPTED APRIL 27, 2015

Lead Agency: Planning Department
Supporting Agencies: Office of Community Investment and Infrastructure, Office of Economic and Workforce Development, San Francisco Housing Authority
Funding Source: Maintain in annual Work Program
Schedule: Implement long range planning processes for:
 Cnadlestick/Hunters Point Shipyard
 Japantown
 Glen Park
 Parkmerced
 Transbay

9. Planning shall publish its work program annually, citing all community planning processes that are to be initiated or are underway. This annual work program shall be located on the Department's website after it is adopted by the Board of Supervisors.

Lead Agency: Planning Department
Funding Source: Annual Work Program
Schedule: Ongoing

10. At the initiation of any community planning process, the Planning Department shall notify all neighborhood organizations who have registered with the Planning Department on its Neighborhood Organization List and make continued outreach efforts will all established neighborhood and interest groups in that area of the city.

Lead Agency: Planning Department
Funding Source: Annual Work Program (part of outreach for community planning process budget)
Schedule: Implement at the beginning of every community planning process.

11. At the conclusion of any community planning process, the Planning Commission shall ensure that the community project's planning process has entailed substantial public involvement before approving any changes to land use policies and controls.

Lead Agency: Planning Commission
Funding Source: Annual Work Program (part of outreach for community planning process budget)
Schedule: Implement at the beginning of every community planning process.

12. Planning shall continue to require integration of new technologies that reduce space required for non-housing functions, such as parking lifts, tandem or valet parking, into new zoning districts, and shall also incorporate these standards as appropriate when revising existing zoning districts.

Lead Agency: Planning Department
Funding Source: Annual Work Program

| Plan Area / Major Project | Estimated New Housing Construction Potential* |
|---|---|
| Balboa Park Area Plan | 1,800 |
| Market/Octavia Area Plan | 6,000 |
| Central Waterfront Area Plan | 2,000 |
| Mission Area Plan | 1,700 |
| East SOMA Area Plan | 2,900 |
| Showplace Square/Potrero Hill Area Plan | 3,200 |
| Rincon Hill Area Plan | 4,100 |
| Visitation Valley Redevelopment Plan | 1,680 |
| Transbay Redevelopment Plan | 1,350 |
| Mission Bay Redevelopment Plan | 6,090 |
| Hunters Point Shipyard/ Candlestick Point | 10,500 |
| Total Adopted Plans & Projects: | 41,320 |
| Executive Park | 1,600 |
| Glen Park | 100 |
| Parkmerced | 5,600 |
| Transit Center District | 1,200 |
| West SOMA | 2,700 |
| Treasure Island | 8,000 |
| Total Plans & Projects Underway: | 28,844 |
| TOTAL | 70,164 |

* From individual NOP and EIR, rounded

POLICY 1.3

Work proactively to identify and secure opportunity sites for permanently affordable housing.

The City should aggressively pursue opportunity sites for permanently affordable housing development.

Publicly-owned land offers unique opportunity for development of affordable housing. The City should regularly review its inventory of surplus, vacant or underused public property, through an annual reporting process that provides such information to the Mayor’s Office of Housing. Public property no longer needed for current or foreseeable future public operations, such as public offices, schools or utilities should be considered for sale or lease for development of permanently affordable housing. The City should ensure that future land needs for transit, schools and other services will be considered before public land is repurposed

to support affordable housing. Where sites are not appropriate for affordable housing, revenue generated from sale of surplus lands should continue to be channeled into the City’s Affordable Housing Fund under the San Francisco Administrative Code Sections 23A.9 - 11.

The City’s land-holding agencies should also look for creative opportunities to partner with affordable housing developers. This may include identifying buildings where air rights may be made available for housing without interfering with their current public use; sites where housing could be located over public parking, transit facilities or water storage facilities; or reconstruction opportunities where public uses could be rebuilt as part of a joint-use affordable housing project. Agencies should also look for opportunities where public facilities could be relocated to other, more appropriate sites, thereby making such sites available for housing development. For example, certain Muni fleet storage sites located in dense mixed-use or residential areas could be relocated, thereby allowing in-fill mixed use or residential development. The City should proactively seek sites for affordable housing development by buying developments that are no longer moving towards completion. This may include properties that have received some or all City land use entitlements, properties that have begun construction but cannot continue, or properties that have completed construction, but whose owners must sell.

POLICY 1.4

Ensure community based planning processes are used to generate changes to land use controls.

Community plans are an opportunity for neighborhoods to work with the City to develop a strategic plan for their future, including housing, services and amenities. Such plans can be used to target growth strategically to increase infill development in locations close to transit and other needed services, as appropriate. Community plans also develop or update neighborhood specific design guidelines, infrastructure plans, and historic resources surveys, as appropriate. As noted above, in recent years the City has undertaken significant community based planning efforts to accommodate projected growth. Zoning changes that involve several parcels or blocks should always involve significant community outreach. Additionally zoning changes that involve several blocks should always be made as part of a community based planning process.

Any new community based planning processes should be initiated in partnership with the neighborhood, and involve the full range of City stakeholders. The process should be initiated by the Board of Supervisors, with the support of the District Supervisor, through their adoption of the Planning Department's or other overseeing agency's work program; and the scope of the process should be approved by the Planning Commission. To assure that the Planning Department, and other agencies involved in land use approvals conduct adequate community outreach, any changes to land use policies and controls that result from the community planning process may be proposed only after an open and publicly noticed process, after review of a draft plan and environmental review, and with comprehensive opportunity for community input. Proposed changes must be approved by the Planning Commission and Board of Supervisors at a duly noticed public hearing. Additionally, the Department's Work Program allows citizens to know what areas are proposed for community planning. The Planning Department should use the Work Program as a vehicle to inform the public about all of its activities, and should publish and post the Work Program to its webpage, and make it available for review at the Department.

POLICY 1.5

Consider secondary units in community planning processes where there is neighborhood support and when other neighborhood goals can be achieved, especially if that housing is made permanently affordable to lower-income households.

Secondary units (in-law" or "granny units") are smaller dwelling units within a structure containing another much larger unit(s), frequently in basements, using space that is surplus to the primary dwelling. Secondary units represent a simple and cost-effective method of expanding the housing supply. Such units could be developed to meet the needs of seniors, people with disabilities and others who, because of modest incomes or lifestyles, prefer or need small units at relatively low rents.

Within a community planning process, the City may explore where secondary units can occur without adversely affecting the exterior appearance of the building, or in the case of new construction, where they can be accommodated within the permitted building envelope. The process may also examine further enhancing the existing amnesty program where existing secondary units can be legalized.

Such enhancements would allow building owners to increase their safety and habitability of their units. Secondary units should be limited in size to control their impact.

POLICY 1.6

Consider greater flexibility in number and size of units within established building envelopes in community based planning processes, especially if it can increase the number of affordable units in multi-family structures.

In San Francisco, housing density standards have traditionally been set in terms of numbers of dwelling units in proportion to the size of the building lot. For example, in an RM-1 district, one dwelling unit is permitted for each 800 square feet of lot area. This limitation generally applies regardless of the size of the unit and the number of people likely to occupy it. Thus a small studio and a large four-bedroom apartment both count as a single unit. Setting density standards encourages larger units and is particularly tailored for lower density neighborhoods consisting primarily of one- or two-family dwellings. However, in some areas which consist mostly of taller apartments and which are well served by transit, the volume of the building rather than number of units might more appropriately control the density.

Within a community based planning process, the City may consider using the building envelope, as established by height, bulk, set back, parking and other Code requirements, to regulate the maximum residential square footage, rather than density controls that are not consistent with existing patterns. In setting allowable residential densities in established neighborhoods, consideration should be given to the prevailing building type in the surrounding area so that new development does not detract from existing character. In some areas, such as RH-1 and RH-2, existing height and bulk patterns should be maintained to protect neighborhood character.

POLICY 1.7

Consider public health objectives when designating and promoting housing development sites.

A healthy neighborhood has a balance of housing and the amenities needed by residents at a neighborhood level, such as neighborhood serving retail, particularly stores offering

EXHIBIT D

The proposed Ordinance would allow Accessory Dwelling units citywide in pursuit of goals to increase housing opportunities. San Francisco is in dire need for more housing due to high demand. Allowing ADUs in residential properties is an infill housing strategy and would provide one housing option among many options needed for San Francisco. This change in land use controls is not part of a traditional "community planning effort" as the Planning Department would typically pursue. However, the proposal emanates from an elected official who has done their own outreach. The Commission listened to the public comment and considered the outreach completed by the Board Member and finds that there is sufficient community support and compelling public goals in the interest of the neighborhoods and City, to warrant the undertaking of this change.

OBJECTIVE 7

**SECURE FUNDING AND RESOURCES FOR PERMANENTLY AFFORDABLE HOUSING,
INCLUDING INNOVATIVE PROGRAMS THAT ARE NOT SOLELY RELIANT ON
TRADITIONAL MECHANISMS OR CAPITAL.**

POLICY 7.7

Support housing for middle income households, especially through programs that do not require a direct public subsidy.

ADUs are subordinate to the original unit due to their size, location of the entrance, lower ceiling heights, etc. ADUs are anticipated to provide a lower rent compared to the residential units developed in newly constructed buildings and therefore the proposed Ordinance would support housing for middle income households.

1. **Planning Code Section 101 Findings.** The proposed amendments to the Planning Code are consistent with the eight Priority Policies set forth in Section 101.1(b) of the Planning Code in that:

1. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced;

The proposed Ordinance would not have a negative impact on neighborhood serving retail uses and will not impact opportunities for resident employment in and ownership of neighborhood-serving retail.

2. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods;

The proposed Ordinance would not have a negative effect on housing or neighborhood character. The new units would be built within the existing building envelope and therefore would impose minimal impact on the existing housing and neighborhood character.

3. That the City's supply of affordable housing be preserved and enhanced;

The proposed Ordinance would not have an adverse effect on the City's supply of affordable housing and aims to create units affordable to middle income households. The ordinance would, if adopted, increase the number of rent-controlled units in San Francisco.

EXHIBIT E

BUSINESS INSIDER

San Francisco's housing bust is becoming 'legendary'



WOLF RICHTER, WOLF STREET
22H

The San Francisco housing bubble – locally called “Housing Crisis” – needs a few things to be sustained forever, and that has been the plan, according to industry soothsayers: an endless influx of money from around the world via the startup boom that recycles that money into the local economy; endless and rapid growth of highly-paid jobs; and an endless influx of people to fill those jobs. That’s how the booms in the past have worked. And the subsequent busts have become legendary.

The current boom has worked that way too. And what a boom it was. *Was* – past tense because it’s over. And now jobs and the labor force itself are in decline.

Until recently, jobs and the labor force (the employed plus the unemployed who’re deemed by the quirks of statistics to be looking for a job) in San Francisco have been on a mind-bending surge. According to the California Employment Development Department (EDD):

- The labor force soared 15% in six years, from 482,000 in January 2010 to its peak of 553,700 in March 2016.
- Employment skyrocketed 23%, from 436,700 in January 2010 to its peak of 536,400 in December 2015. That’s nearly 100,000 additional jobs.

This increase in employment put a lot of demand on housing. Low mortgage rates enabled the scheme. Investors from around the world piled into the market. And vacation rentals have taken off. As money was sloshing knee-deep through the streets, and many of the new jobs paid high salaries, the housing market went, to put it mildly, insane.

But the employment boom has peaked. Stories abound of startups that are laying off people or shutting down entirely. Some are going bankrupt. Others are redoing their business model to survive a little longer, and they’re not hiring. Old tech in the area has been laying off for months or years, such as HP or Yahoo in Silicon Valley, where many folks who live in San Francisco commute to.

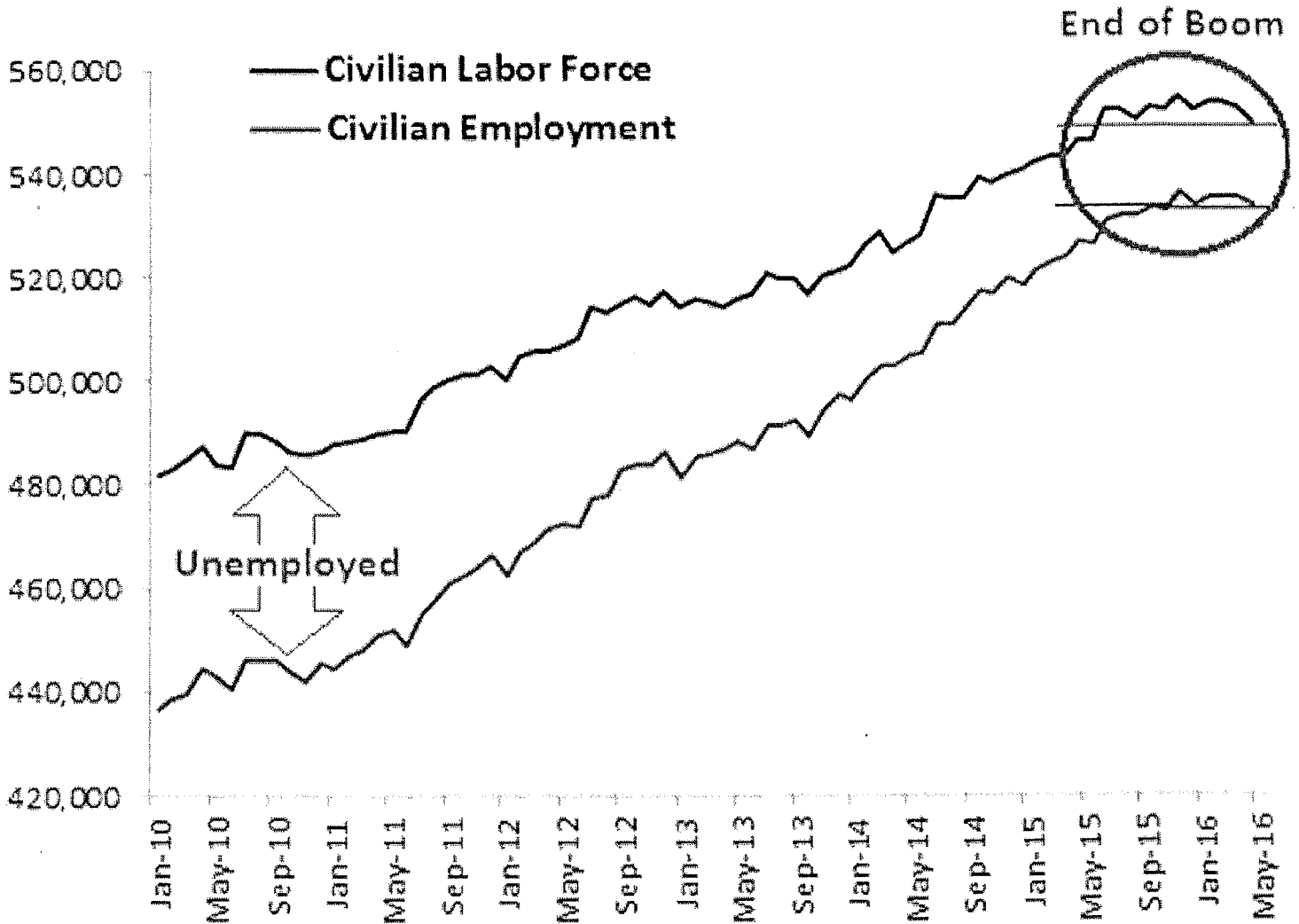
So civilian employment in May in SF, at 533,900, was below where it had been in December. The labor force in May, at 549,800, was below where it had been in July 2015. Some people are already leaving!



Shutterstock

The chart shows how the Civilian Labor Force (black line) and Civilian Employment (red line) soared from January 2010. As employment soared faster than the labor force, the gap between them – a measure of unemployment – narrowed sharply. But now both have run out of juice:

San Francisco Labor Force & Employment Begin to Shrink



Source: California Employment Development Department

WOLFSTREET.com

wolfstreet

During the dotcom bust, the labor force and employment both peaked in December 2000 at 481,700 and 467,100 respectively. Employment bottomed out at 390,900 in May 2004, a decline of over 16%!

The workforce continued falling long past the bottom of employment. SF is too expensive for people without jobs to hang on for long. Eventually, they bailed out and went home or joined the Peace Corp or did something else. And this crushed the SF housing market.

But by the time the labor force bottomed out in May 2006 at 411,000, down 15% from its peak, the new housing boom was already well underway, powered by the pan-US housing bubble. In SF, this housing bubble peaked in November 2007 and then imploded spectacularly.

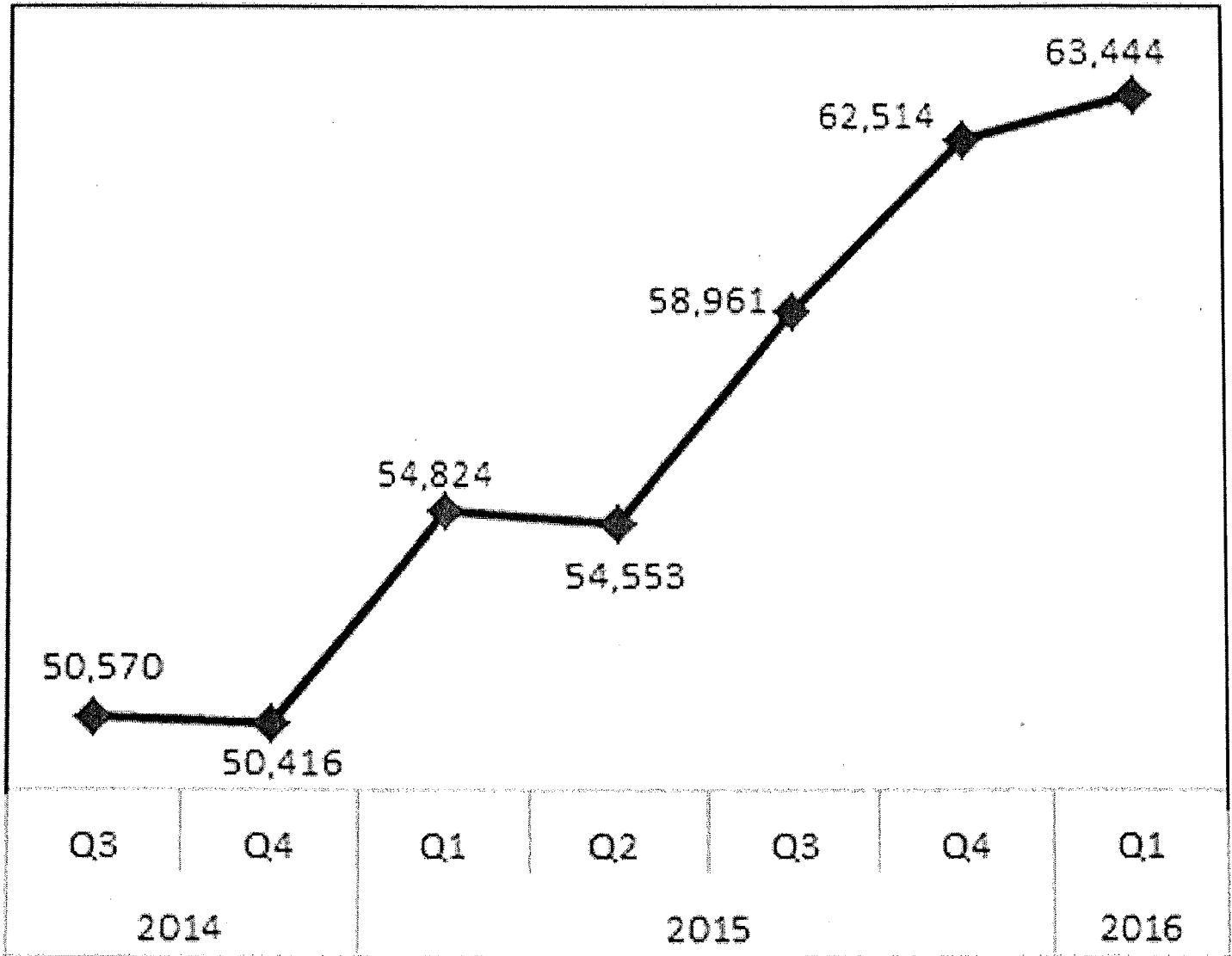
So now, even if employment in San Francisco doesn't drop off as sharply as it did during the dotcom bust, in fact, *even if employment and the labor force just languish in place*, they will take down the insane housing bubble for a simple reason: with impeccable timing, a historic surge in new housing units is coming on the market.

According to the SF Planning Department, at the end of Q1, there were 63,444 housing units at various stages in the development pipeline, from “building permit filed” to “under construction.” Practically all of them are apartments or condos.

This chart shows that the development boom is not exhibiting any signs of tapering off. Planned units are entering the pipeline at a faster rate than completed units are leaving it; and the total number of units in the pipeline is still growing:

Housing Construction Boom in San Francisco

Housing units in the development pipeline



Source: SF Planning Department

WOLFSTREET.com

wolfstreet

Many units will come on the market this year, on top of the thousands of units that have hit the market over the last two years. Once these 63,444 units are completed – if they ever get completed – they’ll increase the city’s existing housing stock of 382,000 units by over 16%.

If each unit is occupied by an average of 2.3 people, these new units would amount to housing for 145,000 people. This is in addition to the thousands of units that have recently been completed as a result of the current

construction boom, many of which are now on the market, either as rentals or for sale.

This surge in new, mostly high-end units has created an epic condo glut that is pressuring the condo market, and rents too, to where mega-landlord Equity Residential issued an earnings warning in June, specifically blaming the pressures on rents in San Francisco (and in Manhattan).

Manhattan's condo glut also has taken on epic proportions. Sales of apartments in the second quarter dropped 10% year-over-year, to the lowest since 2009. And condo prices plummeted 14.5% in 3 months. Ugly!

Read the original article on Wolf Street. Copyright 2016. Follow Wolf Street on Twitter.

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