

Mayor's Office of Housing and Community Development
City and County of San Francisco



London N. Breed
Mayor

Eric D. Shaw
Director

May 1, 2023

To: San Francisco Board of Supervisors

From: Eric Shaw, Director, MOHCD

CC: Clerk of the Board of Supervisors

Re: Resolution 525-22 (File No. 221172) – Follow-Up Report

Dear Members of the Board of Supervisors,

This report is intended to satisfy the requirement outlined in Resolution 525-22, on page 5, lines 22-25, quoted below for reference:

FURTHER RESOLVED, That MOHCD will provide a report to the Board of Supervisors by May 1, 2023 regarding the final loan amount and any actions that the Department has taken to mitigate development risks identified in this project for other City-funded affordable housing projects.

Background

In December 2022, the Board of Supervisors passed a resolution approving an amendment increasing the loan amount for the 100% affordable housing project at Maceo May Apartments on Treasure Island.

As stated in the presentation at Budget and Finance Committee on November 30, 2022, as well as in the Resolution, in October 2021, an atmospheric river storm severely damaged the Maceo May project while under construction. The additional repair work to ensure the units were restored to the high standard of quality they were at prior to the storm resulted in a six-and-a-half-month construction delay, increased construction costs, and a decrease in senior permanent loan and tax credit equity financing.

Final Loan Amount

This resolution authorized a new total loan amount not to exceed \$39,238,000. The permanent loan must be converted no later than January 31, 2024; at that time, the final City loan amount will be determined.

Mitigating Development Risks in City-Funded Affordable Housing Projects

For all housing development projects, sponsors and contractors are required to install certain temporary protective measures for safeguarding construction operations. These measures cover a wide range of potential risks that any construction project may face, including but not limited to fire, inclement weather, water damage, theft or vandalism, or unauthorized entry. The Department of Building Inspection will not issue a construction permit for a project that does not include these temporary protective measures.

These temporary protective measures provide an industry-standard minimum mitigation strategy, and MOHCD works with project sponsors on each affordable housing project to determine a construction approach during the pre-development process. Pre-development planning can take anywhere from one to two years and involves design, applying for permits, determining funding programs to apply for, and initial community outreach and engagement.

To further mitigate development risks for modular construction, MOHCD is currently evaluating potential mitigation strategies for modular that would augment the industry standards for stick built and concrete steel buildings. These additional mitigation strategies will likely result in an increase in construction costs due to needs for additional temporary structures, shelters, and other materials.

Modular Pilot Program

At Maceo May, the extent of the repair work that was needed to ensure the units were restored to the high standard of quality they were at prior to the storm was influenced in part by the project's utilization of a modular construction process. The Maceo May project is one of three projects that are part of a homeless housing modular pilot program, the other two being 1064-68 Mission and Mission Bay South Block 9.

Modular construction continues to evolve. In recent decades, advances in technology and manufacturing concepts have dramatically changed modular options. Modular construction implements parallel work processes where units are built in a factory while the foundation is laid, so cost and time are saved on the production line. Maceo May's final cost analysis will be included in the cost audit, which occurs after 100% occupancy. The first residents of Maceo May signed leases on March 22, 2023. The developers hope to have the entire property leased by June 2023.

Modular construction also implements a different construction installation process, where finished units, complete with cabinetry, are installed before a building's roof is built. When the severe storm hit, the Maceo May project was at the critical point of its construction timeline where the building's roof was only partially complete. Despite the partial roofing, various temporary protection measures, and round-the-clock staffing to manually remove water from the roof during the storm, almost all areas of the building sustained severe damage from the high volume of water driven by high winds.

Additionally, the Maceo May project started construction during the COVID-19 pandemic, an unprecedented event that caused significant delays to all the City's affordable housing projects that were in construction at the time of the pandemic. This was due to many factors, ranging from material availability, staff shortages, and shipping delays, to the sheer social, psychological, and economic impacts from such a significant worldwide event.

While the pilot program is San Francisco's first foray into modular construction, these three projects alone should not be used to gauge the viability of modular construction techniques. Additional experience and evaluation are needed to determine whether modular should be adopted for future City-sponsored affordable housing projects. MOHCD is continuing to collaborate with industry

experts and project sponsors to monitor the ongoing expansion of the use and quality of modular construction in affordable housing throughout the country and identify opportunities where it can have a positive impact in addressing San Francisco's housing affordability crisis.

Further, while project sponsors can implement mitigation strategies that far exceed industry standards, there is little action that can be taken to prepare for some extraordinary circumstances like the COVID-19 pandemic.