CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST
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Policy Analysis Report

To:	Supervisor Connie Chan
From:	Budget and Legislative Analyst's Office
Re:	Evaluation of Financial Incentives for Housing
Date:	May 5, 2026

Summary of Requested Action

Your office requested that the Budget and Legislative Analyst conduct an analysis of the impact of temporary fee reductions, infrastructure financing districts, and other financial incentives implemented since 2023 to increase housing production in San Francsico.

For further information about this report, contact Nicolas Menard at the Budget and Legislative Analyst's Office.

Executive Summary

The City's Temporary Fee Reduction Program, approved by the Board of Supervisors on September 5, 2023, reduced inclusionary housing requirements and reduced development impact fees assessed on residential development projects in San Francisco. This report evaluates the impact of these and subsequent policy shifts.

- Since 2019, several significant market pressures have affected housing project feasibility and overall housing development activity in San Francisco. Construction costs increased by 53.5 percent between January 2019 and December 2025. During the same period, interest rates rose from 2.7 percent to 4.1 percent. Higher interest rates mean that projects face higher borrowing costs for development loans and must generate higher returns to justify the investment.

- Rents and condo prices have not increased to keep up with rising construction costs and interest rates, which means that housing developers have not been able to charge more to rent or sell their units to offset higher construction costs. Rents in San Francisco, while recovering, remain just below their pre-pandemic peaks as of January 2026. Similarly, condo prices are flat relative to 2019.

- To stimulate housing production, the City has taken actions to relax land use controls, increase density, and is attempting to issue building and planning permits faster (in some cases the timelines and processes are dictated by State law). The City also implemented several initiatives since 2023 to spur housing production, including reductions in inclusionary requirements, reductions in development impact fees, establishment of infrastructure financing districts, and direct City funding for large development projects.

- To assess the impact of these financial incentives, we reviewed changes to the City's housing pipeline since late 2023. In late 2025, there were 18 percent more units in the housing pipeline than there were in late 2023. The data also shows a rise in planning applications alongside a decline in building permit retrieval and units under construction, which suggests expectations of higher rents in the long term, but not in the near term.

- We compared the status of stalled projects in 2023 with their status in 2025. In late 2023, there were 113 projects in the housing pipeline that were stalled (had no activity for over one year). In 2025, 65 of these projects (or 58 percent) were deleted from the pipeline due to inactivity. Of the 48 remaining projects, 18 projects (37.5 percent) moved forward in the development process, 31.3 percent experienced no change in status, and 23 percent were canceled. Five projects (763 units) began construction. Projects within each category did not exhibit consistent characteristics in terms of size, zoning district, or geographic location within the City.

- Overall, our observations show that City's tax and fee incentives have not successfully reversed the decline in building activity since 2022 and have not pushed building activity to return to 2019 levels. However, without the fee waivers, the decline likely would have been worse.

- We also reviewed building permit issuance between 2019 and 2024 for California's ten largest cities. San Francisco issued the lowest number of units issued building permits per 100,000 residents, with just 127 units per 100,000 people in 2024. Most other large cities (except for Anaheim and Fresno) that saw growth in permit activity between 2019 and 2024 also experienced rent increases during this time period, which could explain why developers were more active in those areas. In contrast, San Francisco and Oakland, both of which saw declines in permit activity, experienced rent declines during this period. Other cities may also have lower labor costs, lower fees, and fewer land use regulations that kept development costs lower, which could also explain differences in development activity.

- Our review of other cities found that in 2025, Oakland and San Jose both lowered certain housing related fees. In July 2025, Oakland reduced affordable housing impact fees to zero for a portion of the city through FY 2027-28 due to market conditions. In December 2024, San Jose reduced fees and taxes for projects receiving building permits through February 2027. However, due to the timing of these policy changes, they cannot explain the housing production outcomes discussed above.

- Based on the analysis presented in this report, we do not conclude that the City's fee reduction legislation was sufficient to push a substantial number of housing projects towards feasibility or has resulted in a measurable increase in housing production since 2023. While the 2023 fee reduction legislation and subsequent policy actions may have provided financial relief to some housing projects in the pipeline, these changes were insufficient to offset or counteract broader macroeconomic conditions in San Francisco that are largely outside of the City's control, including high construction costs and interest rates and slow recovery of rents and condo prices.

- Other analysis undertaken by the Planning Department and Controller found that there currently a financial feasibility gap of $80,000 to $308,000 per residential unit in San Francisco, depending on the characteristics of the project. For a sample project analyzed in this report, remaining inclusionary fees accounted for at least $40,000 per unit and remaining development impact fees accounted for $8,041 to $28,918 per unit, depending on the location. Eliminating all inclusionary and development impact fees for that sample project would likely not be sufficient to close the feasibility gap. Similarly, the Planning Department's May 2025 analysis on housing constraints and the April 2026 Triennial Review of the Economic Feasibility of Inclusionary Housing Requirements both showed that most development is not financially feasible even with no inclusionary requirements and certain development impact fees waived, though the reports did not evaluate all area-specific inclusionary and impact fees. However, lowering fees could push more projects into feasibility sooner as home prices recover.

- By waiving impact fees and lowering inclusionary requirements, the legislative changes evaluated in this report reduced both City revenues and the number of inclusionary units constructed for projects that were delivered since 2023 (though some projects may not have moved forward absent the fee waivers). Very recent increases in rents and the increase we observed in pipeline planning applications and approvals between 2023 and 2025 could be early signs of future improvement in the overall housing development market in San Francsico. While it is too early to draw substantial conclusions from these data points, if these trends continue and housing development activity increases in later 2026 and future years, the City would forgo more substantial revenues from inclusionary housing and development impact fees for the remainder of the temporary fee reduction program.

- Additionally, we found that neither the Planning Department nor the Department of Building Inspection (DBI) have tracked and reported to the Board of Supervisors on (a) improvement or lack of improvement in the housing pipeline and housing production resulting from these waivers, or (b) foregone fee revenue since they were implemented. We also found that the lack of a unique identifier that is used consistently across the project and permit databases managed by DBI and the Planning Department made it challenging to track housing project progress in the pipeline, which impacts the City's ability to monitor progress and evaluate whether its policy changes are yielding the intended or desired results.

Policy Options

The Board of Supervisors could:

1. Request that the Controller and Planning Department evaluate <u>all</u> inclusionary and development impact fees, including specific geographic area requirements, to determine the extent to which they restrict housing development, in conjunction with the triennial

evaluation of citywide inclusionary requirements. The analysis should include forecasts for rents and condo prices that would contextualize the benefits and tradeoffs of any additional fee waivers.

2. Request that the Planning Department and DBI report every three years to the Board of Supervisors on the performance and costs of implemented fee waivers, fee reductions, and direct City funding for large projects, including (a) whether these programs have successfully encouraged housing development and met established program goals, and (b) the City's foregone revenue resulting from these programs. The report could also summarize the macroeconomic conditions and development constraints that are impacting housing production.

3. Tie the continuation of future fee reduction programs to the measured, evaluated success of the program, such as an increase in housing production, and include provisions to sunset the program if it has not achieved the anticipated results, so long as the sunset does not worse feasibility of housing development.

4. Request that the Planning Department and DBI establish a unique housing project identifier that allows for easy, accurate tracking of project progress in the housing pipeline across the departments' databases.

5. To ensure that the City's investment in low- and middle-income housing continues, consider policies to generate revenue from alternative sources to compensate for the loss of development impact fee revenue and inclusionary fee revenue to the Citywide Affordable Housing Fund and other funds. These alternative revenue sources could include a sales tax or another tax on a broader tax base. This policy option would shift the burden of generating affordable housing and community development revenues away from housing developers and onto a broader tax base, which would alleviate the fee burden on housing developers while ensuring ongoing revenue generation.

Project Staff: Nicolas Menard, Avalon Bauman, Linden Bairey, and Estefanía Suárez

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Introduction

The City's Temporary Fee Reduction Program, approved by the Board of Supervisors on September 5, 2023, reduced inclusionary housing requirements and reduced development impact fees assessed on residential development projects in San Francisco. This report evaluates the impact of these and subsequent policy shifts by addressing two questions:

- **What were the fees and reductions?** How much were housing developers saving once requirements were loosened?
- **Did lowering the rates make housing projects financially viable?** To what extent did changes in 2023 help housing projects move forward?

This report addresses these questions by reviewing department data and recent permit activity to evaluate the effectiveness of the 2023 policy shifts, finding that while these reductions may have helped make projects viable on the margins, overall project viability remains highly dependent on macroeconomic factors.

Macroeconomic Conditions

Since 2019, several significant market pressures have affected housing project feasibility and overall housing development activity in San Francisco. Rising costs for labor, materials, and interest rates have made housing projects more expensive and created substantial financial hurdles for developers. At the same time, declines in rental rates and condominium prices have reduced potential project revenue. These combined factors have challenged the financial viability of housing projects in San Francisco.

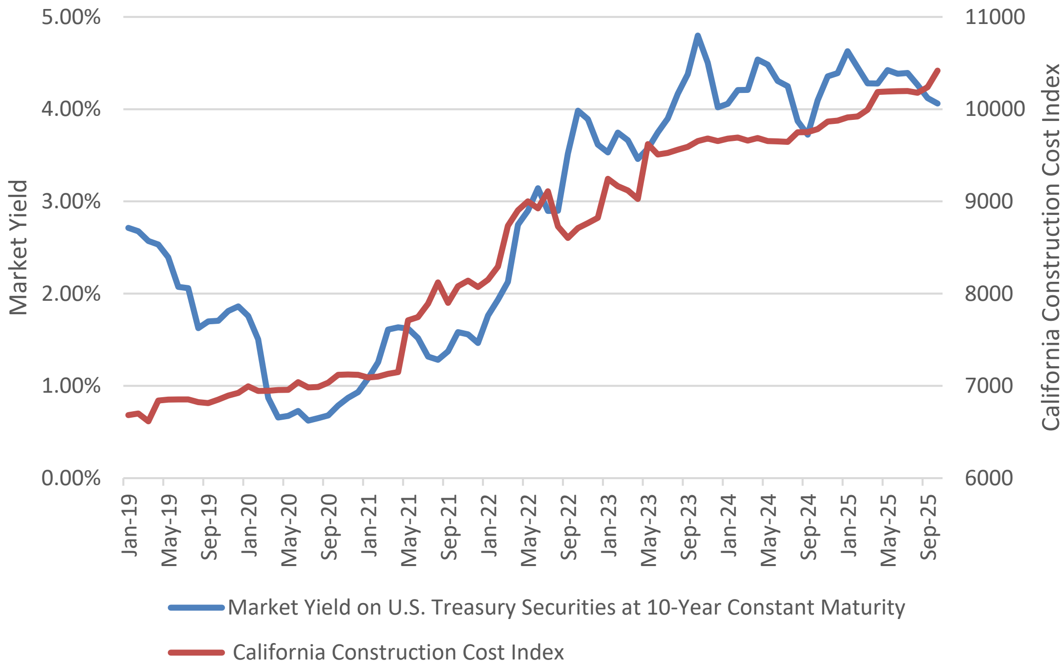
Increases in Development Costs

To begin, Exhibit 1 below shows the California Construction Cost Index (CCCI) and interest rates from January 2019 to December 2025. The CCCI is a weighted average of building costs in San Francisco and Los Angeles and tracks the costs of construction trade labor and materials (such as steel, cement, and lumber). The index rose by 53.5 percent between January 2019 and December 2025, or by 7.6 percent per year, on average.[1]

At the same time, rising interest rates have also increased the total cost of construction. As shown in Exhibit 1 below, the market yield on U.S. Treasury securities at 10-year constant maturity rose from 2.7 percent in January 2019 to 4.1 percent in December 2025. These rising rates, driven by Federal Reserve policy, mean that projects face higher borrowing costs for development loans and must generate higher returns to justify the investment. As a result, many development projects are no longer financial feasible.

[1] California Department of General Services, "DGS California Construction Cost Index CCCI," Real Estate Services Division, last modified March 2026, https://www.dgs.ca.gov/RESD/Resources/Page-Content/Real-Estate-Services-Division-Resources-List-Folder/DGS-California-Construction-Cost-Index-CCCI.

Exhibit 1: California Construction Cost Index vs. Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity* (2019-2025)



Sources: Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis. California Department of General Services.
*Quoted on an investment basis, percent, daily, not seasonally adjusted.

At the same time, there has been a decline in construction sector employees in San Francisco, from 25,000 in 2019 to approximately 21,000 in 2024, which could contribute to higher construction labor prices due to limited supply.[2] Since 2025, a surge in immigration enforcement has likely contributed to a further decline in construction employment.[3]

Similarly, insurance costs have increased for developers. An analysis of federally financed California properties in the Enterprise Community Partners' portfolio found that insurance costs increased for these properties by 142 percent on a per-unit basis from 2019 to 2024. In June 2025, the *San Francisco Chronicle* reported on housing developers experiencing insurance cost increases of up to 500 percent from 2022 to 2024. Jordann Coleman, senior vice president at Walnut Creek-based Heffernan Insurance Brokers, told the *Chronicle* that affordable housing developments have 25 percent higher insurance rates than market rate developments.[4] Condominiums face higher insurance rates than rentals due to construction defect liability laws: according to a report

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[2] San Francisco Office of the Controller and Office of Resilience and Capital Planning, "2026 Annual Infrastructure Construction Cost Inflation Estimate (AICCIE)," PowerPoint presentation, San Francisco, CA, December 1, 2025, https://onesanfrancisco.org/sites/default/files/2025-11/Agenda%20Item%206%20-%202026%20AICCIE%20Presentation%20Dec%202025.pdf
[3] According to the National Association of Home Builders, immigrants accounted for 41 percent of the construction labor force in California in 2023. https://tinyurl.com/3z4zm3jb
[4] Maliya Ellis, "California Insurance Crisis Could Have Dire Consequences for Affordable Housing," *San Francisco Chronicle*, June 22, 2025, https://www.sfchronicle.com/california/article/affordable-housing-insurance-premium-20370849.php.

prepared by Economic & Planning Systems, condominium insurance costs up to four times more per unit than insurance for rental apartments.[5]

Slow Recovery of Rents and Condo Prices

Rents and condo prices have not increased to keep up with rising construction costs and interest rates, which means that housing developers have not been able to charge more to rent or sell their units to offset higher construction costs.

Rents in San Francisco, while recovering, remain below their pre-pandemic peaks. According to data from Apartment List, rent for a one-bedroom apartment in San Francisco dropped from an annual average of $3,212 in 2019 to an annual average of $2,595 in 2021. Although rents have recovered somewhat since 2021, reaching an annual average of $2,995 in 2025 and a monthly average of $3,164 in January 2026, they remain below the 2019 annual average.[6]

Condominium prices increased during 2021 and the first part of 2022, but began to fall during the later part of 2022 and returned to at or below pre-pandemic levels by 2025. According to data reported by the Federal Reserve Bank of Saint Louis, the Condo Price Index, which tracks condo price changes relative to the year 2000, for San Francisco averaged 276.8 in 2019, rose to 300.2 in 2022, and dropped to 277.2 in 2025.[7] As of December 2025, the median listing price per square foot for condos was approximately $945, a drop from the $1,100 and above peaks seen in 2020.[8]

Exhibit 2 below shows trends in rent for a one-bedroom apartment and the Condo Price Index for San Francisco between 2019 and 2025.

[5] William Fulton, "The Financial Impacts of Construction Defect Liability on Housing Development in California," Terner Center for Housing Innovation, September 10, 2025, https://ternercenter.berkeley.edu/research-and-policy/the-financial-impacts-of-construction-defect-liability-on-housing-development-in-california/.

[6] Apartment List Research Team, "Data & Rent Estimates," Apartment List, last modified February 25, 2026, https://www.apartmentlist.com/research/category/data-rent-estimates.

[7] S&P Dow Jones Indices LLC, "Condo Price Index for San Francisco, California [SFXRCSA]," retrieved from FRED, Federal Reserve Bank of St. Louis, last modified February 24, 2026, https://fred.stlouisfed.org/series/SFXRCSA.

[8] Realtor.com, "Housing Inventory: Median Listing Price per Square Feet in San Francisco County/city, CA [MEDLISPRIPERSQUFEE6075]," retrieved from FRED, Federal Reserve Bank of St. Louis, last modified March 6, 2026, https://fred.stlouisfed.org/series/MEDLISPRIPERSQUFEE6075.

Exhibit 2: Median Rent in San Francisco vs. Condo Price Index* 2019-2025

Source: Apartment List, Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis.
*Condo Price Index for San Francisco, California, Index Jan 2000=100, Monthly, Seasonally Adjusted.
Monthly estimates of the median rent paid for new leases.

The rise in costs combined with flat home prices have rendered many developments financially infeasible in San Francisco. According to an analysis undertaken by the Controller's Office, Planning Department, and Inclusionary Housing Technical Advisory Committee of prototype projects in 2026, costs for most residential development exceed current home prices by between $80,000 to $308,000 per unit. For a project to be financially feasible, home prices should exceed development costs by between $60,000 to $70,000 per unit, according to the analysis. The analysis found that the feasibility gap had worsened since 2023 by between $42,000 and $264,000 per unit.[9] Similarly, a May 2025 analysis on housing constraints produced by the Planning Department calculated a feasibility gap of between $80,000 $423,000 per unit, as shown in Appendix A to this report. The analysis showed that improved market conditions, characterized by a three percent decrease in interest rates, a 20 percent increase in rents, and a 10 percent increase in home prices improved feasibility by $66,000 to $230,000 per unit.

City Policy Actions

While housing development is primarily delivered by the private sector, the City has significant influence on market outcomes. The City establishes land use rules, regulates development, and collects fees and taxes at certain development milestones. The City's fees include filing fees to obtain Building and Planning permits, but, more significantly, the City also requires projects with more than ten units to set aside a portion of the units for lower income households or pay an equivalent fee. These inclusionary housing requirements are described below. In addition, the City

[9] "Inclusionary Housing: Triennial Review of Economic Feasibility, 2026." Controller's Office. April 30, 2026.

imposes development impact fees on housing projects to generate revenue for new infrastructure and community facilities to offset the impact of new development.

To stimulate housing production, the City has taken actions to relax land use controls, increase density, and is attempting to issue building and planning permits faster (in some cases the timelines and processes are dictated by State law). The City has also implemented various financial incentives to improve the financial feasibility of residential development.

The following section details financial incentives that City has implemented since 2023 to spur housing production, which include reductions in inclusionary requirements, reductions in development impact fees, establishment of tax increment financing districts, and direct City funding for large development projects.

Temporary Fee Reduction Legislation (2023 to 2026)

In June 2023, the City's Inclusionary Affordable Housing Program's Technical Advisory Committee (TAC),[10] in coordination with the Controller's Office, reported that under then-current market conditions (characterized by high construction costs and increased interest rates) the majority of residential development in San Francisco was not financially feasible.[11] The TAC's 2023 Triennial Economic Feasibility Report recommended reductions in inclusionary requirements, noting that low- and mid-rise projects could become feasible with lower inclusionary requirements and in-lieu fees. The report also stated, however, that in many of its hypothetical development scenarios, development remained infeasible even with all inclusionary requirements removed. In response the TAC's 2023 analysis, in September 2023, the Board of Supervisors approved several measures that temporarily reduced City's inclusionary requirements and development impact fees. Exhibit 3 below shows the timeline of legislative actions taken since 2023 that provide financial incentives to increase housing production.

[10] Resolution 79-16 (File 160166), approved in 2016, establishes that through a public process, a Technical Advisory Committee (TAC) is to evaluate current housing market factors and development costs, no less than every 36 months, to assess the economic feasibility of current inclusionary requirements in an Economic Feasibility Analysis.

[11] Ben Rosenfield and Ted Egan, "Inclusionary Housing: Triennial Review of Economic Feasibility," Memorandum to Mayor London Breed and the Board of Supervisors, Office of the Controller, City and County of San Francisco, June 30, 2023, https://www.sf.gov/sites/default/files/2023-06/Triennial%20Economic%20Feasibilty%20Report%202023.pdf.

Exhibit 3: Select Fee and Tax Incentives 2023-2025

Year	Legislation (Approved Date)	Financial Incentive	Summary
2023	Ord. 187-23 (9/2023)	**Development Impact Fee Discounts**	33% discount on development impact fees (with restrictions) for eligible projects until Nov. 2026
2023	Ord. 187-23 (9/2023)	**Development Impact Fee Deferral**	For eligible projects, defer 80–85% of development impact fee payments from building permit issuance to no later than the first certificate of occupancy
2023	Ord. 193-23 (9/2023)	**Development Impact Fee Indexing**	Replace the existing method of annual fee escalation based on Annual Infrastructure Construction Cost Inflation Estimate (AICCIE) with a flat 2% escalation rate
2023	Ord. 193-23 (9/2023)	**Development Impact Fee Assessment**	Freeze the rates and applicability of development impact fees to the time of project approval
2023	187-23 (9/2023), 201-23 (10/2023)	**Inclusionary Requirements**	- 18% - 20% reduction for pipeline projects 10-24 units - 45% reduction for pipeline projects >25 units - 54% reduction on SUD/Area Plan requirements for pipeline projects - 32% reduction for projects >25 units approved between November 2023 and November 2026 - 68% reduction on SUD/Area Plan requirements for new projects
2024	Proposition C (3/2024)	**Transfer Tax (Commercial-to-Residential)**	Waives the real estate transfer tax for the first sale of buildings converted from non-residential to residential use; capped at 5 million square feet citywide through Dec. 2029
2025	Ord. 020-25 (3/2025)	**Fee Waivers for Commercial-to-Residential**	Waive development and inclusionary housing fees for the first 7 million square feet of residential conversions or redevelopments in downtown C-2 and C-3 zones
2025	Ord. 188-25 (10/2025)	**Market and Octavia Impact Fee Waiver**	Waived development impact fees for pipeline projects in the Market and Octavia Area Plan

Source: Board of Supervisors legislative files.

Changes to Inclusionary Requirements

As shown in Exhibit 3 above, Ordinances 187-23 (File 230769) and 201-23 (File 230855) modified the City's onsite and offsite inclusionary housing rates and fees. These modifications lowered the number of required on-site units, in-lieu fees, and off-site alternatives for housing projects. These changes reduced inclusionary requirements to the bottom of the range recommended by the 2023 TAC report, with different rules implemented depending on the approval date of the project.

Ordinance 187-23 (File 230769), expanded by Ordinance 201-23 (File 230855), reduced inclusionary requirements for "pipeline projects" (projects authorized prior to November 1, 2023 but that had not begun construction) and new projects approved before November 1, 2026, provided they meet specified construction deadlines. The scale of the reductions ranged from 18 percent to 45 percent of Citywide inclusionary fees for pipeline projects. In addition, pipeline projects received a 54.5 percent reduction of additional inclusionary fees imposed within Special Use Districts and/or Area Plans that have those requirements. Projects approved between

November 1, 2023 and November 1, 2026 received a 32 percent discount on Citywide fees for projects with more than 24 units and a 68 percent discount on area-specific inclusionary requirements.

Based on an updated analysis of the housing market, the Controller recommended the City reduce inclusionary requirements to zero at the April 7, 2026 Inclusionary Housing Advisory Committee meeting. The Board of Supervisors will consider changes to inclusionary requirements once the Inclusionary Housing Advisory Committee concludes its triennial evaluation of those fees.

Ordinance 201-23 also modified the City's inclusionary requirements to pause the automatic annual increase to the on-site requirement until 2026. Starting January 1, 2028, onsite requirements will gradually increase by 0.5 percent annually until they reach a cap of 24 percent for rental projects. The annual increases for the off-site and in-lieu fee requirements will continue until they reach a cap of 30 percent.

Exhibit 4 below summarizes the changes to Citywide inclusionary housing requirements for rental housing projects between November 2023 to present. The chart does not include geographic areas with higher requirements, such as the Mission Area Plan and the North of Market Residential Special Use District.

Exhibit 4: Inclusionary Housing Requirement Reductions (Rental Projects)

	Pre-Nov 2023	Pipeline Projects*	New Projects**	Pipeline Change	New Projects Change
On-Site					
10-24 Units	15%	12%	15%	-20%	0%
> 25 Units	22%	12%	15%	-45%	-32%
Off-Site					
10-24 Units	20%	16.4%	20%	-18.0%	0%
> 25 Units	30%	16.4%	20.5%	-45.3%	-31.7%
Fee					
10-24 Units	20%	16.4%	20%	-18.0%	0%
> 25 Units	30%	16.4%	20.5%	-45.3%	-31.7%
Special Use District / Area Plan discount		-54.5%	-68%		

*Development projects that have been Finally Approved prior to November 1, 2023, but have not received a First Construction Document. Projects must obtain their First Construction Document by May 1, 2029.
**For projects 25 units or larger, approved between November 1, 2023 and November 1, 2026, so long as they obtain a first construction document within 30 months.
Source: Ordinances 187-23 (File 230769) and 201-23 (File 230855).

To contextualize the changes to inclusionary housing requirements, consider an example rental project that consists of 80,000 gross square feet and 98 units. If the project opted to pay the inclusionary housing fee in early 2023, the cost would have been $5.99 million or $61,141 per unit. If the project were approved between November 2023 and November 2026, the fee would be $4.1 million or $41,780 per unit, a savings of $1.9 million or $19,361 per unit. If the project were located in Special Use District or Area Plan with their own inclusionary fees, fee costs would be higher.

Changes to Development Impact Fees

As shown in Exhibit 3 earlier in this report, the Board of Supervisors also amended the Planning Code in 2023 to lower development impact fees. Ordinance 187-23 (File 230769) reduced Article 4 development impact fees by 33 percent for eligible projects, and Ordinance 193-23 (File 230764) deferred 80 to 85 percent of development impact fee payments from building permit issuance to no later than the first certificate of occupancy. According to the Department of Building Inspection, the 33 percent discount has resulted in $34.3 million in foregone development impact fee revenue as of April 23, 2026.

Ordinance 193-23 also adjusted development impact fee indexing. Previously, the City used the Annual Infrastructure Construction Cost Inflation Estimate (AICCIE), which estimates annual construction cost inflation, as the index for annual development fee adjustments.[12] This index is based on past construction cost inflation and has ranged from three to six percent per year. To promote financial feasibility of development, this legislation modified the annual indexing of certain development impact fees to replace AICCIE indexing with a flat two percent annual increase.[13] This ordinance also freezes the rates and applicability of development impact fees to the time of project approval.

To illustrate the scale of impact of the 33 percent development impact fee reductions, we calculated the development impact fee discount that would apply to a hypothetical housing development project. The hypothetical project has an assumed 98 units total, is 100 percent residential, is new construction, and is 80,000 gross square feet (816 square feet per unit on average) on a 10,000 square foot lot. Exhibit 5 below outlines the relevant per-unit development impact fees for this hypothetical project across the different Special Use Districts and Area Plans, taking into account the Citywide fees, any applicable area-specific fees, and the corresponding fee discount. We find, as shown in Exhibit 5 below, that these fee discounts can result in a discount of $3,961 to $16,433 per unit, or 0.4 to 1.8 percent of total development costs, with amounts varying depending on the neighborhood and the associated neighborhood fees.

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[12] San Francisco Planning Department and Office of the Controller, "Interagency Plan Implementation Committee Annual Report and FY 2009-10 Development Impact Fee Report," Agenda Packet, File No. 110674, March 12, 2012., https://sfgov.legistar.com/View.ashx?M=F&ID=1821639&GUID=962EEDD6-C1E4-46C9-946C-02F084BC280B.

[13] The Inclusionary Affordable Housing Fee was originally excluded and later added through Ordinance 201-23 (file 230855).

Exhibit 5: 2023 Discount to a Development Impact Fees, Hypothetical Examples

Hypothetical Example Assumptions: 98 units total, residential, 80,000 gross square feet on a 10,000 sq ft lot. New Construction. Fee Tier 1 assumed for Eastern Neighborhoods Fee. Citywide fees calculated to total $12,002 with all required street trees planted but paying the in-lieu fee for 5 bicycle spaces. Assumed $50 million construction cost and $88.2 million total development cost.

Area	Area Fees Per Unit	Total Fees Per Unit	After 33% Discount	Savings Per Unit
Citywide	n/a	$12,002	$8,041	$3,961
Balboa Park	$13,127	$22,843	$15,305	$7,538
Central SOMA	$15,592	$25,308	$16,956	$8,352
Downtown	$5,102	$14,818	$9,928	$4,890
Eastern Neighborhoods	$14,204	$23,920	$16,027	$7,894
Market Octavia	$26,955	$36,671	$24,570	$12,102
Rincon Hill	$33,445	$43,161	$28,918	$14,243
Transit Center District	$9,314	$19,030	$12,750	$6,280
Van Ness & Market*	$40,082	$49,798	$33,364	$16,433
Visitation Valley	$8,122	$17,839	$11,952	$5,887

Notes: Citywide fees include Transportation Sustainability, Childcare, and Bicycle fees.
The figures above exclude In-Lieu Inclusionary Fees. The figures reflect only the 2023 policy change; in October 2025, Market-Octavia development impact fees were waived for pipeline projects.
*Market Octavia fees are reflected in these fees as the Van Ness & Market Special Use District area is located within Market Octavia Area Plan.
Source: BLA analysis of San Francisco Fee Register. Calculations are for illustrative purposes only and do not represent an actual project's real discounts.

Whether the development impact fee discount paired with reduced inclusionary requirements made projects financially viable depends not only on the magnitude of the discount, but also on the land purchase value, the size of the development, construction costs, expected rents/sale prices, and other factors. Nonetheless, the hypothetical example gives a sense of the magnitude of this discount. In the example, the fee reduction amounted to no more than a maximum of $1.6 million total savings, approximately 1.8 percent of a project that could cost more than $88 million to build.[14] This calculation is for illustrative purposes only and does not represent an actual project's discounts.

Waiver of Market and Octavia Development Impact Fees

In addition to the 33 percent reduction in Citywide development impact fees, in October 2025 the Board of Supervisors also approved the elimination of five development impact fees that apply to projects in the Market and Octavia Area Plan for projects that have received Planning and/or Building Inspection authorizations prior to January 1, 2026 but have not received their first construction permit (File 25-0680). The purpose of the fee waivers, which totaled approximately $45 million for pipeline projects, was to improve financial feasibility of projects in the area, which, as shown above, had among the highest development impact fees per unit. Unlike the 2023 reduction in inclusionary requirements, which were based on a consultant's report on market

[14] Assuming average cost of $900k per unit for a 98-unit project.

conditions and validated by the Controller's Office, due to budget constraints, the reduction in Market and Octavia Area Plan fees were initiated by the Office of Economic & Workforce Development based on conversations with developers with projects in the area. And unlike the projects for which the City provided direct funding (described below), there was no independent analysis of any specific project's financial feasibility.

Adaptive Reuse Projects

In March 2025, the Board of Supervisors amended the Planning Code to waive inclusionary requirements and development impact fees for the first seven million square feet of projects downtown that converted buildings or portions of buildings from commercial to residential use, also known as adaptive reuse projects (File 240927). The waivers apply to projects that were approved before January 1, 2025 but have not received a building or site permit.

In addition, in May 2025, Board of Supervisors approved the formation of the Downtown Revitalization District, which redirected the City's share of property taxes back to downtown building owners if they converted their buildings or portions of their buildings from commercial to residential use (File 250423). The financing plan and program guidelines were not finalized until February 2026 (File 251268), so we did not assess the impact of that district on housing production in this report. As part of that initiative, the Office of Economic and Workforce Development commissioned an analysis of market conditions for adaptive reuse in San Francisco and estimated the number of new housing units the district would generate.

Real Estate Transfer Tax Changes

In 2020, voters approved Proposition I, which doubled the real estate transfer tax on property transactions exceeding $10 million.[15] The real estate transfer tax applies when properties change ownership and so impacts the development process at acquisition and when developers sell their ownership interests. The transfer tax has exemptions: including government entities, transactions among married people, inheritance, and if the change in ownership is to avoid a foreclosure (known as deed in-lieu of foreclosure).

In March 2024, voters approved Proposition C, which waived transfer taxes on first-time transfers for the first five million square feet of adaptive reuse projects authorized through December 2029. The purpose of the reduction in these taxes was to improve the financial feasibility of adaptive reuse projects.

File 26-0178 is an ordinance pending Board of Supervisors approval that would reduce transfer taxes to their pre-Proposition I levels. A companion ballot measure, to impose transfer taxes on deed in-lieu of foreclosure transactions, may also be introduced for Board of Supervisors approval consider or directly to voters. We will report on the transfer tax legislation when it is scheduled for a hearing.

[15] The Board of Supervisors has subsequently approved reductions in transfer taxes for affordable housing projects (Files 231007 and 240927), for projects funded by labor pension assets (File 240728), and for certain legacy Port leases (File 241084).

Direct City Funding for Large Development Projects

In addition to tax and fee reductions, the City has provided direct funding for large development projects that include a housing component. Exhibit 6 below summarizes these financial commitments.

Exhibit 6: City Funding for Large Development Project Infrastructure and Affordable Housing

Project	Committed Since 2023	Funding Source
Treasure Island, Infrastructure	$115,000,000	Certificate of Participation
Balboa Reservoir, Infrastructure	$56,400,000	Local Affordable Housing Funds, State Grant
Power Station, Infrastructure & Affordable Housing	$1,643,228,000	Property taxes via EIFD
3333/3700 California, Infrastructure & Affordable Housing	$477,347,000	Property taxes via EIFD
Stonestown, Infrastructure & Affordable Housing	$1,562,121,000	Property taxes via EIFD
Total	**$3,854,096,000**	

Source: Board of Supervisors legislative files.

Note: The EIFDs each have a 100 percent contingency factor that allows double the amount of property tax revenue shown above to be diverted to pay for eligible project costs.

Prior to the Board of Supervisors considering the approval of these investments, in some cases City staff offered limited analysis to support the assertions that the projects were not financially feasible without public financing. In several cases, City staff did not review developer financial data directly, but hired consultants to review and validate developers' project pro-forma financial projections and summarize findings for City staff. In other cases, City staff reviewed the developers' financial data but the review did not result in any work product. In some cases the consultants were paid by the City, though in other cases the developer paid for the consultants. Overall, the supporting analysis was not always available for the Board of Supervisors as it deliberated on these investments.

The City's investments and their impacts are described below.

In 2024, the Board of Supervisors approved $115 million in certificate of participation debt for Treasure Island infrastructure costs to support 1,300 housing units (Files 240198 and 241085). The Treasure Island infrastructure costs were originally planned to be paid for by the project's infrastructure financing district, however the project had stalled due market conditions. In 2025, the Board of Supervisors approved a $56.4 million loan for infrastructure in the Balboa Reservoir project to allow for the construction of 287 affordable housing units. Under the Balboa Reservoir development agreement, infrastructure costs are the responsibility of the developer, however the market rate portion of the project has been paused indefinitely due to market conditions. Both project sponsors are constructing infrastructure since the funding was approved.

In addition, the City has established new infrastructure financing districts to pay for infrastructure and affordable housing for large development projects. The districts use incremental increases in property taxes to fund these costs. The City has established eight such districts, including on Treasure Island, large developments on Port property (Pier 70, Mission Rock), and for three other large development projects (described below). The City's FY 2026-2035 Capital Plan includes a policy to limit debt service of infrastructure financing districts to no more than five percent of citywide property tax revenues. In FY 2025-26, property tax revenues are budgeted at $2.48 billion, so five percent of property tax revenues is approximately $121.8 million. According to Office of Public Finance, the approved infrastructure financing districts are expected to comprise 4.1 percent of citywide property tax revenues once all projects are fully developed and the districts have issued bonds to repay eligible project costs incurred by the developers. The estimated debt service payments diverted from the General Fund are estimated to be at least $4.2 million in FY 2026-27 and in FY 2027-28.

The Board of Supervisors approved the formation of three new enhanced infrastructure financing districts (EIFDs) in 2022 and 2024 for Potrero Power Station, Stonestown, and 3333/3700 California Street, with the financing plans approved for Power Station in March 2024 (File 240139) and for Stonestown and 3333/3700 California Street in February 2026 (Files 251261 and 251262). The financing plans redirect approximately half of future incremental City share of property taxes from the City to developers to repay eligible infrastructure expenses and will fund 14 to 20 percent of total development costs in these three projects. The financing plans may be terminated if no building funded by EIFD revenues has received a certificate of occupancy within ten years of the establishment of the EIFD.

Two of the three new enhanced infrastructure financing districts have resulted in new housing activity. Since the financing plan for Power Station was approved in March 2024, the developer has filed nine building permit requests with the Department of Building Inspection for $1.2 million of construction work to begin site work and construction for the Sophie Maxwell Building, an affordable housing project within the Power Station development area. And since the financing plan for 3333/3700 California was approved in February 2026, the developer has filed three building permits for $88 million of construction for 152 residential units. However, the Stonestown developer has not filed any building permits, as the project remains financially infeasible even with public financing. The Office of Economic and Workforce Development reports that the Stonestown project sponsor is planning to begin infrastructure permitting and subdivision mapping work in the coming months.

Impacts on Housing Development and the Housing Pipeline

Considering the market conditions and macroeconomic factors described earlier in this report, this section evaluates whether the City's temporary fee reduction legislation led to increased development activity. We reviewed trends in applications for Planning Department and Department of Building Inspection (DBI) permits. We also examined the housing pipeline and inventory data and compared the status of stalled projects in 2023 to their status in 2025. These analyses allowed us to see changes in project activity and project status after fee reductions took effect. Planning Department entitlements usually require that projects begin construction within three years, so we would expect to see some movement in the pipeline due to the previously described financial incentives provided by the City, especially for 2023 pipeline projects. However, because the eligibility criteria for the fee waivers is still open, it will not be possible to determine the full impact of these interventions.

The Planning Department reports on housing projects under development in its quarterly Housing Pipeline Report, which documents projects' statuses, such as Planning Filed, Planning Approved, Building Permit Filed, Building Permit Approved, Building Permit Issued, and Construction. The Planning/Building Filed data fields indicate the date that developer submitted permit requests, and the Planning/Building Approved indicate the latest permit approval date. Some projects require multiple permits from the Planning and/or Building Departments and permit review may require developers to revise and clarify their plans during the City review period.

Exhibit 7 shows the pipeline projects in 2023 and 2025 that could have benefited from the fee reductions. This set of projects includes projects with 10 or more units and excludes projects under a development agreement and 100 percent affordable projects. As shown in Exhibit 7, there were 18 percent more projects in the pipeline in 2025 than in 2023. In 2025, there were significantly more units in the Planning Permit Approved and Building Permit Approved stages, while the units in the Building Permit Field, Issued, and Construction stages decreased. The time in the same status changed most significantly for Building Permit Issued, increasing from 1.7 to 2.5 median years from 2023 to 2025. According to City Performance data for the past 12 months, the Planning and Building Departments have meet their goals of reviewing permits between 14 and 30 days, so we assume the time in status is largely driven by developer activity.[16] The rise in planning and building permits applications alongside a decline in building permit retrieval and in construction suggests expectations of higher rents in the long term, but not in the near term.

Exhibit 7: Pipeline Projects Potentially Eligible for Fee Reductions

Current Status	Net Units 2023	Net Units 2025	Percent change	Time in status 2023 (Median Years)	Time in status 2025 (Median Years)	Percent change
Planning Filed	7,072	8,158	15%	2.2	2.5	14%
Planning Approved	2,121	7,711	264%	2.3	1.7	-27%
Building Permit Filed	5,983	3,579	-40%	1.5	1.8	25%
Building Permit Approved	210	684	226%	1.7	1.6	-3%
Building Permit Issued	1,576	420	-73%	1.7	2.5	44%
Construction	1,228	880	-28%	1.4	1.6	12%
Total	**18,190**	**21,432**	**18%**	**1.7**	**1.8**	**9%**

Source: BLA Review of Planning Department Housing Pipeline, 2023 and fourth quarter 2025.
Note: Net number of units (excluding demolitions) for residential projects with 10 or more units. It also excludes the projects under a development agreement and 100 percent affordable projects.

[16] https://www.sf.gov/permit-performance-metrics

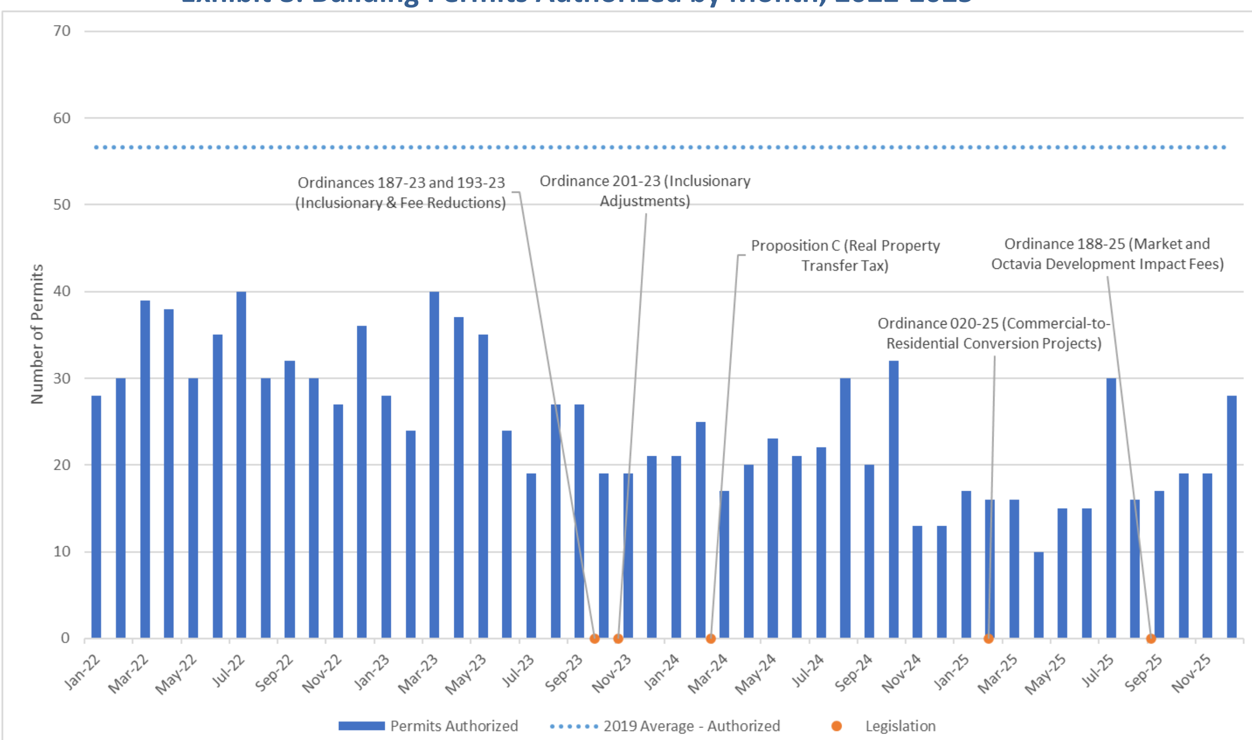
Permit Applications and Authorization Activity

Despite the fee reductions and direct City funding for large projects that have been implemented since 2023, the monthly totals of both building permit applications and building permit authorizations declined between 2022 and 2025 and remain well below 2019 levels.

Exhibit 8 below shows a timeline of (a) the tax and fee changes since 2022 that have impacted residential development,[17] and (b) building permit authorizations by month. The timeline shows that monthly totals of building permit authorizations declined between 2022 and 2025, despite the tax and fee incentives that were implemented.

The Planning Department reports 395 authorizations in 2022, a figure that fell approximately 45 percent to 218 by 2025. Similarly, the Department of Building Inspection reports 557 permits created in 2022, compared to 352 in 2025, a 37 percent decrease.

Exhibit 8: Building Permits Authorized by Month, 2022-2025



Source: San Francisco Planning Department.

Overall, as shown in Exhibit 8, the City's tax and fee incentives have not successfully reversed the decline in housing project activity since 2022 and have not pushed development activity to return to 2019 levels. However, without the fee waivers, the decline would have been likely worse. As previously discussed, the City's Technical Advisory Committee (TAC) report found that onsite inclusionary requirements in the range of 12 percent to 16 percent could render some low- and mid-rise condominium prototypes potentially or marginally feasible. Through the 2023 temporary

[17] We did not include the Downtown Revitalization District on the timeline because it was formed in the summer of 2025 (File 250423) and because the financing plan was approved in February 2026, which is likely too recent to have any impact on housing production.

fee reduction legislation, the City implemented the TAC report's inclusionary recommendation, alongside additional fee reductions, to increase the financial viability of housing projects.[18] These reductions were counterbalanced by the macroeconomic conditions that, in the following years, made development even more challenging.

The slowdown in market-rate housing production resulted in a decline in inclusionary units. Completed inclusionary units declined from 428 in 2022 to 203 in 2023, 109 in 2024, and 104 in 2025. Similarly, the amount of inclusionary fees declined from $31.4 million in FY 2018-19 to $1.5 million in FY 2023-24.

Project Level Analysis

To examine whether the 2023 fee reductions affected stalled housing development projects, we compared the status of stalled projects in 2023 with their status in 2025. We defined stalled projects as any project that remained in the same status for at least one year with no activity. We identified 113 projects that could have been eligible for the fee reductions based on the following criteria: the project had 10 or more units and was neither part of a development agreement nor a 100-percent-affordable project.

Of these 113 projects, 65 projects, or 58 percent, had been aged out by the Planning Department using the following criteria. The 65 projects had 5,380 units.

- Projects whose current status is Planning Filed, Planning Accepted, or Building Permit Filed, with no status change in five years.
- Projects whose current status is Planning Entitled, Building Permit Approved, or Building Permit Issued, with no status change in four years.
- Projects whose current status is Building Permit Construction or Building Permit Partially Completed, with no status change in three years.

Notably, major multiphase projects are not aged out of the pipeline. If a project that has aged out later moves to a new status, is modified, or receives a new inspection, it re-enters the pipeline and its age-out timer resets based on the new status. The Planning Department notes that project sponsors may have opted to let Planning entitlements or building permits expire to design projects that take advantage of State Density Bonus law (which allow projects to exceed zoning if they provide affordable housing and was modified in 2024) and the City's Family Zoning changes, which increased density in many areas of the City and was approved in late 2025.

Of the 48 remaining projects that were not aged out, 37.5 percent moved forward in the development process, and 31.3 percent experienced no change in status, as shown in Exhibit 9. Other projects moved backward in the process (for example, if a permit aged out), or were canceled or withdrawn. In terms of units, 48.7 percent moved forward, 8.6 percent moved

[18] Even with the reductions, the TAC analysis estimated that much development would remain infeasible: all apartment prototypes in the report remained unviable even if land costs were zero. Furthermore, a 100 percent market-rate scenario (with no inclusionary requirements) would only achieve viability for specific low-rise, mid-rise, and certain high-rise condominium projects; it would not restore feasibility for most apartment or larger high-rise developments.

backward, 28.8 percent experienced no change in status, and 13.9 percent were canceled or withdrawn.

Of the projects that moved forward, five reached construction (763 units), six achieved Planning Accepted or Entitled status (1,743 units), and seven progressed to the permitting phase (720 units). Among the projects that moved backward, all reverted to the planning phase (568 units). Meanwhile, most projects that did not change status over the two-year period remained at the Building Permit Filed stage (1,533 out of 1,904 units).

Exhibit 9: Status as of March 2026 for 2023 Stalled Projects Potentially Eligible for Fee Reductions

March 2026 Status	Projects	Percent	Net units	Percent
Backward	***4***	***8.3%***	**568**	**8.6%**
Planning Accepted	4	8.3%	568	8.6%
Forward	***18***	***37.5%***	**3,226**	**48.7%**
Planning Accepted	6	12.5%	1,743	26.3%
Building Permit Filed	2	4.2%	108	1.6%
Building Permit Approved	3	6.3%	567	8.6%
Building Permit Issued	2	4.2%	45	0.7%
Construction	5	10.4%	763	11.5%
No change	***15***	***31.3%***	**1,904**	**28.8%**
Planning Filed	1	2.1%	287	4.3%
Planning Accepted	2	4.2%	47	0.7%
Building Permit Filed	10	20.8%	1,533	23.2%
Building Permit Issued	2	4.2%	37	0.6%
Canceled/Withdrawn	***11***	***22.9%***	**923**	**13.9%**
Total	**48**	**100.0%**	**6,621**	**100.0%**

Source: Planning Department Housing Pipeline, fourth quarter 2023, fourth quarter 2025, and supplemental information provided by Planning Department staff.

Note: The figures above do not include 65 projects that were stalled in 2023 and later removed from the Planning Department's pipeline data due to long-term inactivity.

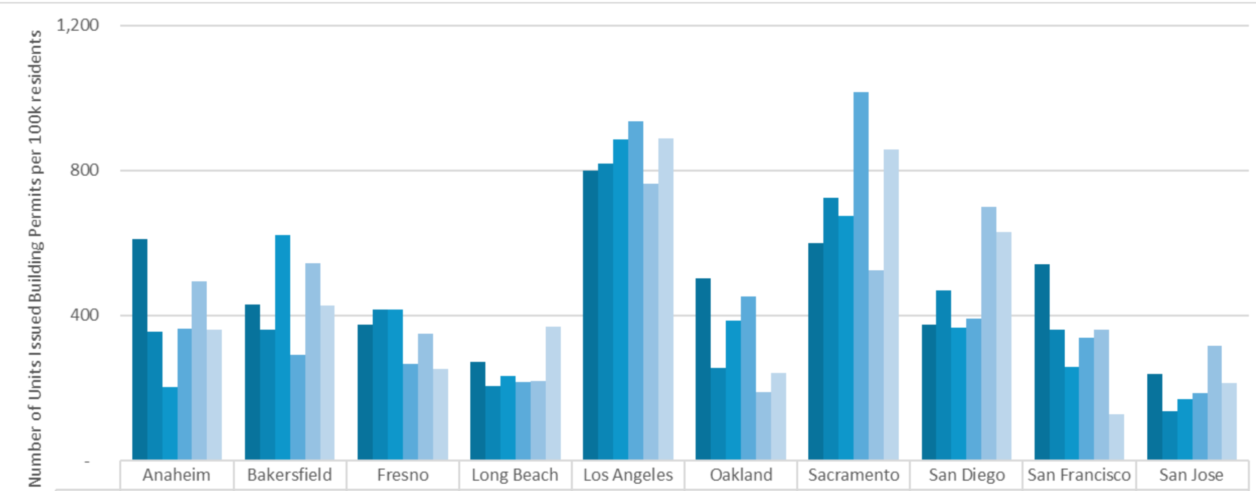
Projects within each category did not exhibit consistent characteristics in terms of size, zoning district, or geographic location within the City. Developments of varying sizes and in different areas progressed, moved backward, remained unchanged, or were canceled or withdrawn.

Because San Francisco's housing pipeline data does not have unique project identifiers and projects age out of the pipeline, it was labor intensive to complete this analysis of the project status over time. To our knowledge, no one in the City has completed such an analysis since the 2023 fee waivers were implemented. As discussed below, as the City implements a new permit tracking system, we recommend that the new system configuration include unique project identifiers to allow an ongoing analysis of project status so that the City can monitor the effectiveness of interventions in the housing market.

Regional Comparison

Each year, cities and counties in California prepare a Housing Element Annual Progress Report (APR) in accordance with Government Code section 65400.[19] The Department of Housing and Community Development (HCD) reports on data collected from the APR, highlighting the progress California jurisdictions are making towards meeting their Regional Housing Needs Allocation goals.[20] Exhibit 10 below shows the number of units issued building permits for the 10 largest cities in California, adjusted for population. Anaheim, Fresno, Oakland, and San Francisco have experienced declines in the number of units issued building permits, while the remaining cities have shown increases. San Francisco provided the lowest number of units issued building permits per 100,000 residents of all the cities we reviewed, with just 127 units per 100,000 people in 2024.

Exhibit 10: Building Permits Issued (Unit Counts) in 10 Largest Cities in California, per 100k Residents, 2019-2024



	Anaheim	Bakersfield	Fresno	Long Beach	Los Angeles	Oakland	Sacramento	San Diego	San Francisco	San Jose
2019	610	429	374	271	799	502	601	376	543	238
2020	356	361	415	205	819	256	723	469	361	136
2021	203	622	417	232	886	387	674	366	259	168
2022	362	293	265	216	934	453	1,015	392	339	185
2023	493	544	348	220	764	188	524	699	360	317
2024	360	429	253	370	889	242	859	630	127	213

Source: Housing Element Annual Progress Report (APR) Data by Jurisdiction and Year, Department of Finance Population and Housing Estimates for Cities.

Most jurisdictions (except for Anaheim and Fresno) that saw growth in building permits experienced rent increases between 2019 and 2024, which could explain why developers were more active in those areas. In contrast, San Francisco and Oakland, both of which saw declines in

[19] California Department of Housing and Community Development, "Housing Element Annual Progress Report (APR) Data by Jurisdiction and Year," California Open Data, last modified March 20, 2026, https://data.ca.gov/dataset/housing-element-annual-progress-report-apr-data-by-jurisdiction-and-year.

[20] Note that this data is not independently verified by the California Department of Housing and Community Development (HCD). This means the raw data will likely contain typos, inconsistencies, and formatting errors.

the number of building permits issued, experienced rent declines during the same period.[21] Other cities may also have lower labor costs, lower fees, and fewer land use regulations that reduce development costs and could also explain differences in development activity.

Given that housing production trends and market conditions vary across California, San Francisco can examine the policies in cities with growth in both building permits and rent to better understand which outcomes are driven by local housing policies and which may be influenced by broader economic forces. Our review of other cities found that in 2025, Oakland and San Jose both lowered certain housing related fees. In July 2025, Oakland reduced affordable housing impact fees to zero for a portion of the city through FY 2027-28 due to market conditions. In December 2024, San Jose reduced fees and taxes for projects receiving building permits through February 2027. However, due to the timing of these policy changes, they cannot explain the housing production outcomes discussed above.

Conclusion

Based on the analysis presented in this report, we do not conclude that the City's fee reduction legislation was sufficient to push a substantial number of housing projects in feasibility or has resulted in a measurable increase in housing production since 2023. The number of building permits authorized by month since the fee reductions took effect has remained well below the 2019 average, and permit authorizations continued to decline between 2023 and 2025. While we observed increases in the numbers of eligible pipeline units seeking Planning entitlements in 2025 compared to 2023, the numbers of units in the seeking and retrieving Building permits phase and the construction phase decreased during this period. Finally, our analysis of stalled 2023 pipeline projects that were eligible for fee reductions showed that more than half of stalled projects were deleted from the pipeline due to inactivity, and of those that remained in the pipeline, only 37.5 percent moved forward between 2023 and 2025. These trends suggest that while there may be increasing interest in housing development due to expectations of higher rents and condo prices in the long term, this interest has not translated to increases in actual project authorizations and construction in the near term, likely because construction costs and interest rates remain high and rents and condo prices have not recovered to pre-pandemic levels. On the other hand, when the City has provided direct funding for large development projects, some of these projects (such as Treasure Island, Potrero Power Station, and 3333/3700 California) have progressed, although others remain financially infeasible even with public financing.

Overall, while the 2023 reductions in inclusionary requirements and development impact fees may have provided financial relief to some housing projects in the pipeline, these changes were insufficient to offset or counteract broader macroeconomic conditions in San Francisco that are largely outside of the City's control, including high construction costs and interest rates and slow recovery of rents and condo prices. It is also likely that due to these macroeconomic conditions, the metrics analyzed in this report would have shown even more substantial declines or lack of progress if the fee reduction legislation had not been implemented.

[21] Apartment List Research Team, "Data & Rent Estimates," Apartment List, last modified February 25, 2026, https://www.apartmentlist.com/research/category/data-rent-estimates.

As noted earlier in this report, in April 2026 the Inclusionary Affordable Housing Program's Technical Advisory Committee reported there is currently a financial feasibility gap of $80,000 to $308,000 per residential unit in San Francisco. For a sample project analyzed in this report, remaining inclusionary fees accounted for at least $40,000 per unit and remaining development impact fees accounted for $8,041 to $28,918 per unit, depending on the location. As shown in Appendix A, a May 2025 analysis on housing constraints produced by the Planning Department also calculated a feasibility gap of between $80,000 $423,000 per unit depending on characteristics of the project. Both the Planning Department's May 2025 analysis on housing constraints and the April 2026 Triennial Review of the Economic Feasibility of Inclusionary Housing Requirements showed that most development is not financially feasible even with no inclusionary requirements and certain development impact fees waived, though the reports did not evaluate all area-specific inclusionary and impact fees. Because each project sponsor has a different cost of capital and risk tolerance, these conditions do not apply to every single development project. Further reductions in fees could push more projects into financial feasibility sooner if economic conditions improve.

By waiving impact fees and lowering inclusionary requirements, the legislative changes evaluated in this report reduced both City revenues and the number of inclusionary units constructed for projects that were delivered since 2023 (though some may not have been built without the fee waivers). Very recent increases in rents and the increase we observed in pipeline planning applications and approvals between 2023 and 2025 could be early signs of future improvement in the overall housing development market in San Francsico. While it is too early to draw substantial conclusions from these data points, if these trends continue and housing development activity increases in later 2026 and future years, the City would forgo more substantial revenues from inclusionary housing and development impact fees for the remainder of the temporary fee reduction program.

Exhibit 11 below summarizes these policies or external factors impacting residential development, as well as our estimate of their magnitude, the impact on development, and policy tradeoffs. As shown below, macroeconomic conditions in the City continue to keep housing development costs high and depress potential developer revenues. The total effect of the temporary fee reduction program and other fee and tax waivers is not yet known because projects will remain eligible for reductions through November 2026 (or through May 2029 for previously approved projects).

Exhibit 11: Forces Impacting Residential Development in San Francisco

Policy or External Factor	Magnitude	Impact on Housing Development	Local Policy Tradeoffs
Status Quo: Feasibility Gap of $80,000 to $308,000 per unit			
Macroeconomic Conditions			
Low rents and condo prices	Substantial: $66,000 to $232,000 per unit	Negative by depressing developer revenues	Outside of City control
High interest rates and construction costs (labor and materials)		Negative by increasing developer costs	Outside of City control
Very recent improvements in rents	Undetermined (too early to evaluate)	Potentially positive (too early to evaluate) by increasing developer revenue	Outside of City control
City Policy			
Development Impact Fees	Marginal: savings of between $3,961 and $16,433 per unit under current policy* An additional $8,041 to $33,364 per unit if all impact fees are waived*	Positive by reducing developer costs	Reduction in Citywide Affordable Housing Fund revenue to support affordable housing development Increase in tax revenue from new development
Inclusionary Requirements	Substantial: Inclusionary requirements are $40,000 to $92,000 per unit under current policy	Positive by reducing developer costs	Reduction in inclusionary units built and/or in-lieu fees paid (see above) Increase in tax revenue from new development
Direct City funding of large development projects	Substantial: 10 to 14% of project costs, including infrastructure and affordable housing	Positive (led to some projects moving forward)	Opportunity cost of funding other City programs and services Increase in tax revenue from new development

Source: BLA, Planning Department's May 2025 Housing Constraints analysis, Controller's April 2026 Inclusionary Housing: Triennial Review of Economic Feasibility
*Based on a hypothetical example project.

In our review of the City's housing development fee and tax waivers, we observed that legislative changes to fee and tax policy were in some cases supported by strong, rigorous analysis and in other cases were not. The 2023 reductions to the City's inclusionary requirements were made based on in-depth economic analysis and recommendations from the Inclusionary Housing

Technical Advisory Committee. On the other hand, the 2025 waiver for selected development impact fees in the Market and Octavia Area Plan (File 25-0680) and the City's direct funding of large development projects were not always supported by comparable rigorous analysis and justification. In addition, the TAC did not assess area-specific inclusionary requirements, did not incorporate forecasts of home prices in its analysis, and did not comprehensively examine development impact fees. Correcting these deficiencies is critical as the interventions evaluated in this report were not sufficient to close the feasibility gap for most development projects and so policy makers will soon consider additional proposals for increased financial incentives for market rate housing.

To ensure all fee and tax waivers are supported by rigorous analysis, the Board of Supervisors could request that the Controller and Planning Department evaluate all inclusionary and development impact fees, including specific geographic area fees, to determine the extent to which they restrict housing development, in conjunction with the triennial evaluation of Citywide inclusionary requirements. As of this writing, neither Department is planning to conduct such an analysis.

The Board of Supervisors could also request that this analysis include forecasts for rents and condo prices that would contextualize the benefits and tradeoffs of additional fee waivers and allow for better informed decision-making. When evaluating whether the City should extend, expand, or eliminate tax and fee waivers and reductions, the Board of Supervisors should consider these <u>comprehensive</u> recommendations from the Inclusionary Housing Technical Advisory Committee regarding inclusionary housing requirements and our proposed analysis regarding development impact fees.

Any decision to extend or increase the temporary fee reduction program should consider the possibility that the recent recovery in rents may be indicative of an overall increase in interest in housing development, and that the City might forgo substantial revenues from inclusionary housing and development impact fees if the program is extended or further reductions are approved. In this scenario, the Board of Supervisors could consider policies to generate revenue from alternative sources to compensate for the loss of development impact fee revenue and inclusionary fee revenue, such as a sales tax or another tax on a broader tax base of payers. This policy option would shift the burden of generating affordable housing and community development revenues away from housing developers and onto a broader tax base, which would alleviate the fee burden on housing developers while ensuring ongoing revenue generation and that the City's investment in low- and middle-income housing continues.

Additionally, we found that neither the Planning Department nor DBI have tracked and reported to the Board of Supervisors on (a) improvement or lack of improvement in the housing pipeline and housing production resulting from these waivers, or (b) foregone fee revenue since they were implemented.[22] We also found that the lack of a unique identifier that is used consistently across the project and permit databases managed by the Building and Planning Departments made it challenging to track housing project progress in the pipeline, which impacts the City's ability to monitor progress and evaluate whether its policy changes are yielding the intended or desired

[22] DBI was able to provide data on the amount of discounted development impact fee revenues, per Ordinance 187-23.

results. To improve the City's ability to evaluate the effectiveness and the costs of fee and tax waivers, the Board of Supervisors could request that the Planning Department and DBI report regularly to the Board on the performance and costs of implemented fee waivers. Future fee reduction programs should be tied to evaluations of their outcomes and overall success, and additional policy changes should be supported by analysis and should require ongoing reporting and evaluation of (a) anticipated results, including monitoring of eligible projects in the pipeline, and (b) forgone revenue and other costs.

Policy Options

Recommendations

The Board of Supervisors could:

1. Request that the Controller and Planning Department evaluate <u>all</u> inclusionary and development impact fees, including specific geographic area requirements, to determine the extent to which they restrict housing development, in conjunction with the triennial evaluation of citywide inclusionary requirements. The analysis should include forecasts for rents and condo prices that would contextualize the benefits and tradeoffs of any additional fee waivers.
2. Request that the Planning Department and DBI report every three years to the Board of Supervisors on the performance and costs of implemented fee waivers, fee reductions, and direct City funding for large projects, including (a) whether these programs have successfully encouraged housing development and met established program goals, and (b) the City's foregone revenue resulting from these programs. The report could also summarize the macroeconomic conditions and development constraints that are impacting housing production.
3. Tie the continuation of future fee reduction programs or waivers to the measured, evaluated success of the program, such as an increase in housing production, and include provisions to sunset the program if it has not achieved the anticipated results, so long as the sunset does not worsen feasibility of housing development.
4. Request that the Planning Department and DBI establish a unique housing project identifier that allows for easy, accurate tracking of project progress in the housing pipeline across the departments' databases.
5. To ensure that the City's investment in low- and middle-income housing continues, consider policies to generate revenue from alternative sources to compensate for the loss of development impact fee revenue and inclusionary fee revenue to the Citywide Affordable Housing Fund and other funds. These alternative revenue sources could include a sales tax or another tax on a broader tax base. This policy option would shift the burden of generating affordable housing and community development revenues away from housing developers and onto a broader tax base, which would alleviate the fee burden on housing developers while ensuring ongoing revenue generation.

Appendix A

An excerpt from the Planning Department's May 2025 analysis on housing constraints is included on the following page.

Exhibit A

Constraints Analysis: Estimated Residual Land Values

Century | Urban

Constraints Analysis - Estimated Residual Land Value

Prototype Scenario Summary

		Prototype						
1.)	Example Prototype	1	2	3	4	5	6	7
2.)	Prototype Density	Form-Based Density	Density-Limited	Form-Based Density	Form-Based Density	Form-Based Density	Form-Based Density	Form-Based Density
3.)	Height	45'	35'	45'	65'	65'	85'	245'
4.)	Lot Size	5,000	20,000	20,000	15,000	15,000	20,000	25,000
5.)	Rental/Sale	Sale	Sale	Sale	Sale	Rental	Rental	Rental
6.)	Submarket Rent/Sale Pricing	Medium	Medium	Medium	High	High	High	High
7.)	Total Units	14	33	53	70	70	131	304
8.)	Affordability	Onsite	Onsite	Onsite	Onsite	Onsite	Onsite	In-lieu Fee
9.)	Onsite Affordable Units	2	5	8	11	11	20	0

	Prototype Scenario	Estimated Residual Land Value Per Unit						
10.)	**Baseline (entitled site or 6 mo. entitlement period)**	($326,000)	($309,000)	($241,000)	($80,000)	($165,000)	($277,000)	($423,000)
11.)	**2-Year Entitlement Period (pre-streamlining)**	($361,000)	($326,000)	($253,000)	($91,000)	($175,000)	($284,000)	($428,000)
	Increase (Decrease) from Baseline	*($35,000)*	*($17,000)*	*($12,000)*	*($11,000)*	*($10,000)*	*($7,000)*	*($5,000)*
12.)	**Hypothetical Improved Market Conditions***	($260,000)	($206,000)	($166,000)	($3,000)	$7,000	($118,000)	($191,000)
	Increase (Decrease) from Baseline	*$66,000*	*$103,000*	*$75,000*	*$77,000*	*$172,000*	*$159,000*	*$232,000*
13.)	**50% Reduced Inclusionary**	($303,000)	($285,000)	($220,000)	($53,000)	($141,000)	($231,000)	($393,000)
	Increase (Decrease) from Baseline	*$23,000*	*$24,000*	*$21,000*	*$27,000*	*$24,000*	*$46,000*	*$30,000*
14.)	**No Inclusionary**	($281,000)	($262,000)	($200,000)	($27,000)	($118,000)	($185,000)	($364,000)
	Increase (Decrease) from Baseline	*$45,000*	*$47,000*	*$41,000*	*$53,000*	*$47,000*	*$92,000*	*$59,000*
15.)	**50% Reduced Impact Fees**	($316,000)	($296,000)	($229,000)	($71,000)	($155,000)	($268,000)	($413,000)
	Increase (Decrease) from Baseline	*$10,000*	*$13,000*	*$12,000*	*$9,000*	*$10,000*	*$9,000*	*$10,000*
16.)	**No Impact Fees**	($307,000)	($282,000)	($218,000)	($61,000)	($146,000)	($259,000)	($403,000)
	Increase (Decrease) from Baseline	*$19,000*	*$27,000*	*$23,000*	*$19,000*	*$19,000*	*$18,000*	*$20,000*

Notes

- See Assumptions page and related memorandum for further background on estimates above.
- Hypothetical improved market condition changes (i.e., 5.25% target return on cost, 5.25% commercial capitalization rate, 5.00% construction financing interest rate, and 20% increases in market rents and 10% increases in sales prices).