

PERFORMANCE OF FINANCIAL INCENTIVES FOR HOUSING

Policy Analysis Report to Supervisor Chan

Presentation to:

BUDGET & APPROPRIATIONS COMMITTEE

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

May 6, 2026

Request

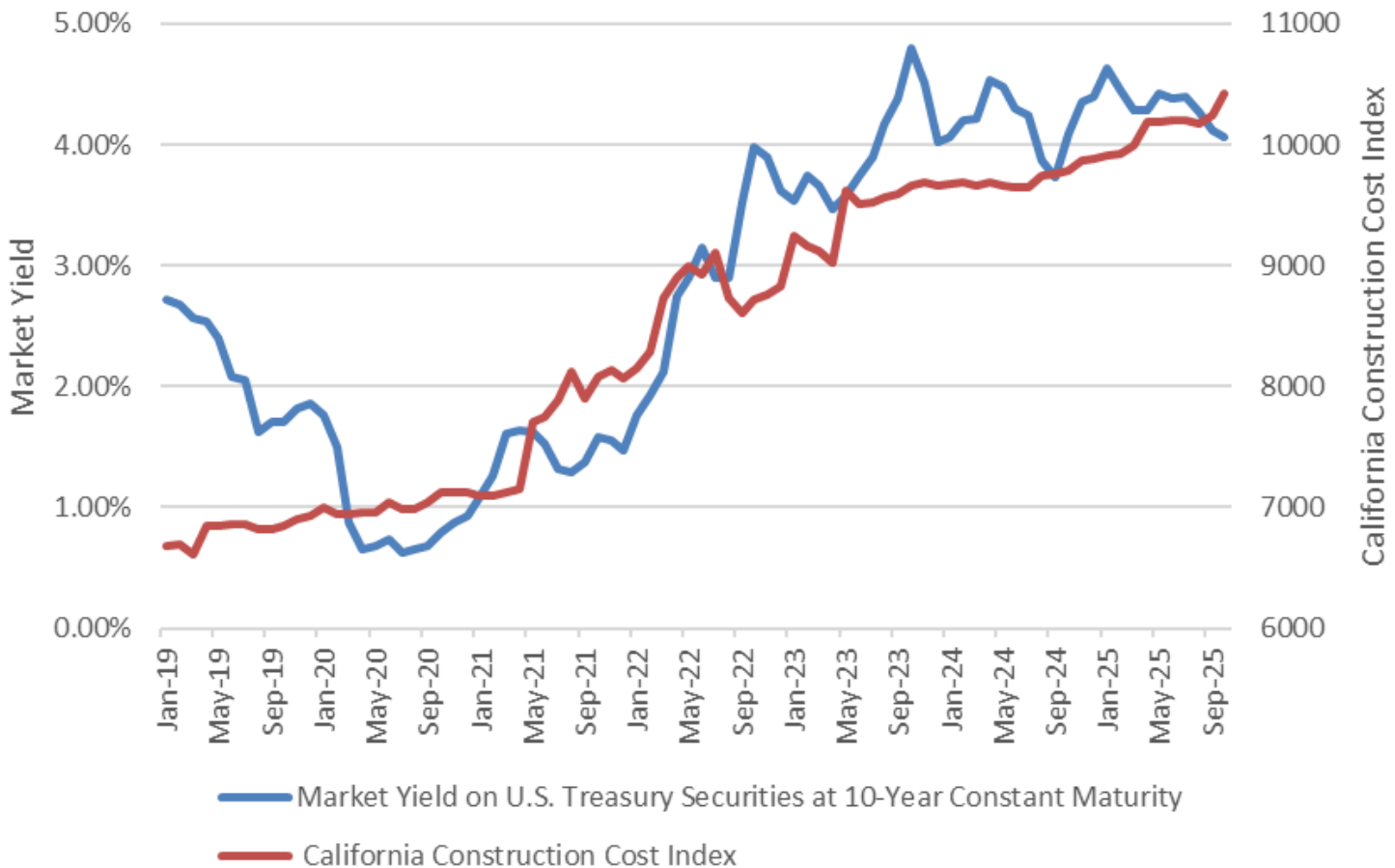
Evaluate the impact of:

- Inclusionary fee reductions,
- Development impact fee reductions
- Infrastructure financing districts, and
- Other financial incentives

Implemented since 2023 to increase housing production in San Francisco.

Macroeconomic Conditions

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



Macroeconomic Conditions

Median Rent in San Francisco vs. Condo Price Index 2019-2025



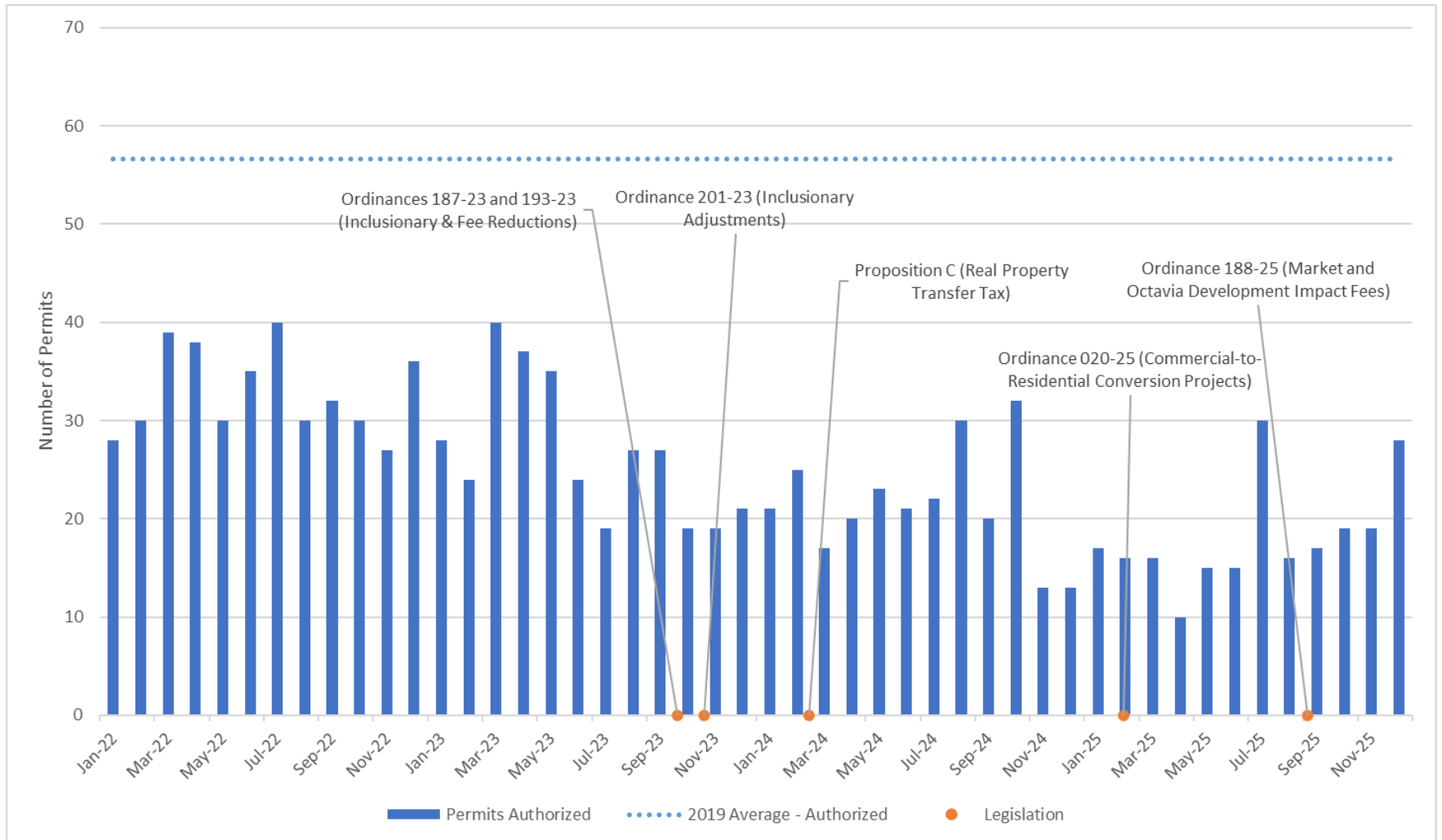
Reduction of Inclusionary Requirements, Development Impact Fees, and Property Taxes for Adaptive Reuse Projects

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	187-23 (9/2023), 201-23 (10/2023)	Inclusionary Requirements	<ul style="list-style-type: none"> - 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

Direct City Funding for Large Development Projects

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	

Building Permits Authorized by Month, 2022-2025



Change in Pipeline

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%

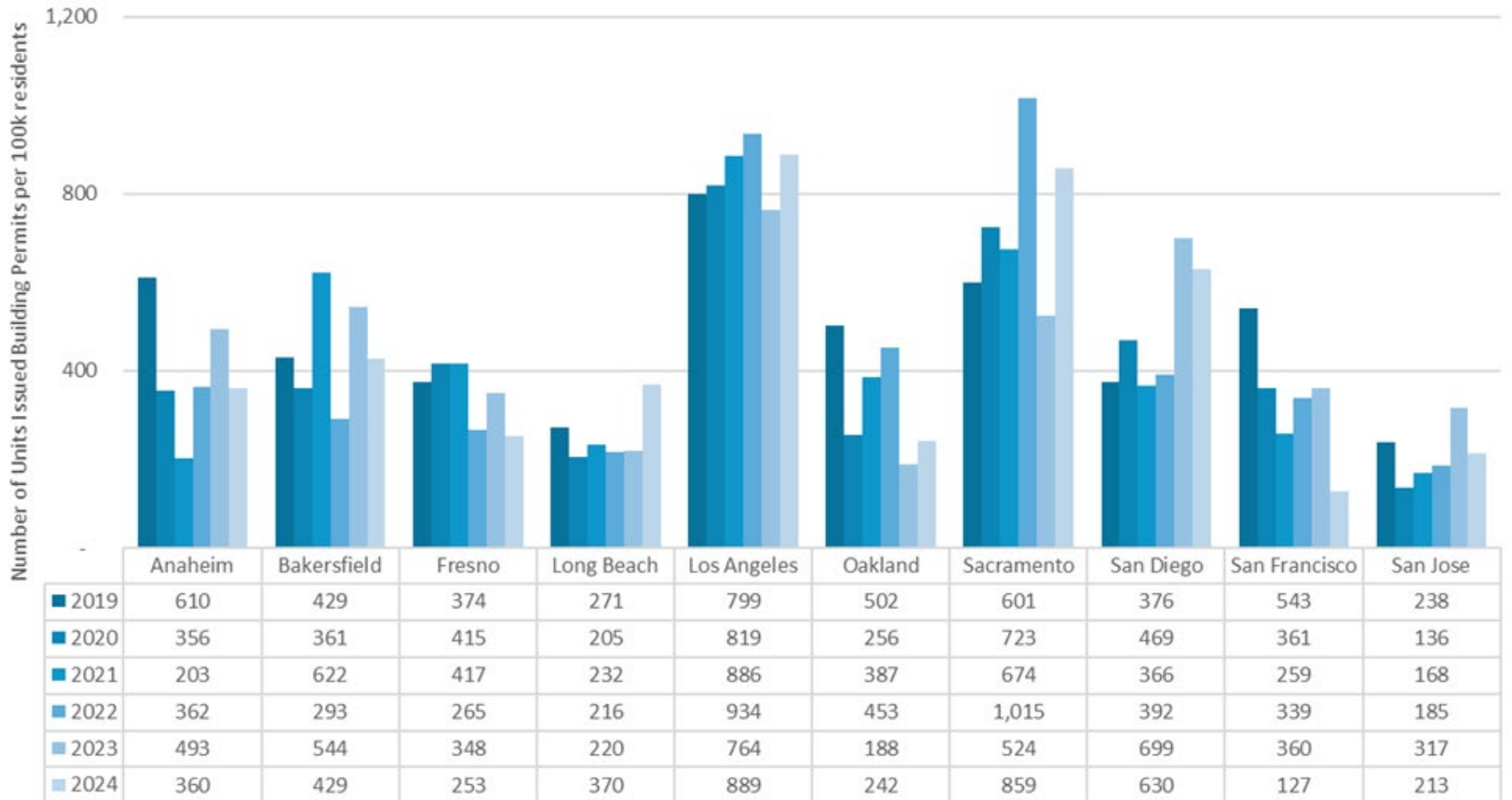
Change in 2023 Stalled Projects

March 2026 Status	Projects	Percent	Net units	Percent
<i>Backward</i>	4	8.3%	568	8.6%
Planning Accepted	4	8.3%	568	8.6%
<i>Forward</i>	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%
<i>No change</i>	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%
<i>Canceled/Withdrawn</i>	11	22.9%	923	13.9%
Total	48	100.0%	6,621	100.0%

Does not include 65 projects (5,380 units) that were deleted due to inactivity

Other Cities

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



Other Research

- ❑ There is currently a financial feasibility gap of \$80,000 to \$308,000 per residential unit in San Francisco
- ❑ 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,
- ❑ Because each project sponsor has a different cost of capital and risk tolerance, these conditions do not apply to every single development project.
- ❑ Other analysis did not evaluate 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.

Problem: Feasibility Gap of \$80,000 - \$308,000 per unit

Policy or External Factor	Magnitude	Impact on Housing Development	Local Policy Tradeoffs
<i>Macroeconomic Conditions</i>			
Low rents and condo prices	Substantial:	Negative by depressing developer revenues	Outside of City control
High interest rates and construction costs (labor and materials)	\$66,000 - \$232,000 per unit	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
<i>City Policy</i>			
Development Impact Fees	Marginal: Savings of between \$3,961 and \$16,433 per unit under current policy*	Positive by reducing developer costs	Reduction in Citywide Affordable Housing Fund revenue to support affordable housing development
	An additional \$8,041 - \$33,364 per unit if all impact fees are waived.*		Increase in tax revenue from new development
Inclusionary Requirements	Substantial: Inclusionary requirements are \$40,000 - \$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

Conclusions

- ❑ Fee reductions **were not sufficient** to accelerate housing production since 2023
- ❑ Broader macroeconomic headwinds — high construction costs, elevated interest rates, slow rent/condo price recovery — outweighed policy relief
- ❑ Fee waivers and lower inclusionary requirements **reduced City revenues** and the number of affordable units delivered (though some projects may not have moved forward without reduced fees)
- ❑ Early positive signals (rising rents, more pipeline applications/approvals since 2023) may indicate a recovering market
- ❑ If development activity picks up going forward, the City stands to **forgo significant revenue** from impact fees and inclusionary housing for the remainder of the program
- ❑ Further reductions in fees could push more projects into financial feasibility sooner if economic conditions improve.

Options

The Board of Supervisors could:

1. Request that the Controller and Planning Department evaluate all 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 and Building Department 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.

Options

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.

Options

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.



Questions and comments

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