



ULI Brownbag Lunch Presentation

June 3, 2010

SF's Local Development Stimulus Legislative Initiative

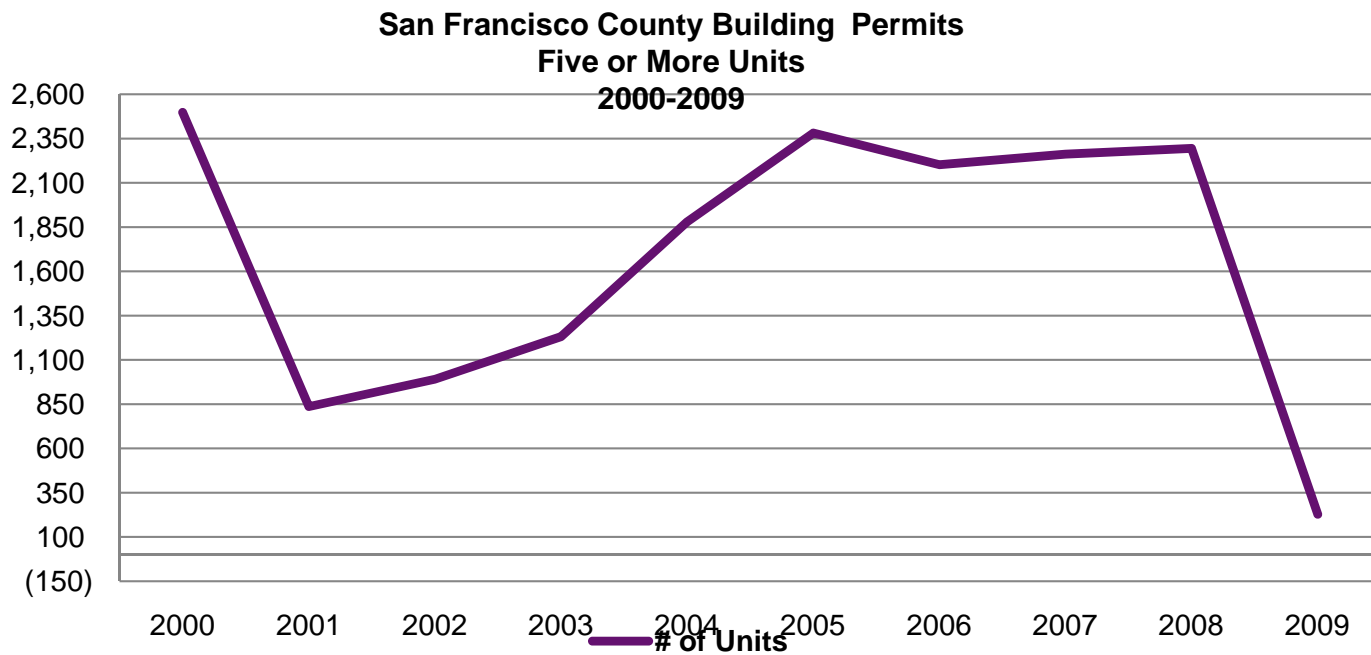


Office of Economic and Workforce Development



San Francisco has seen a dramatic decline in residential development activity over the past year.

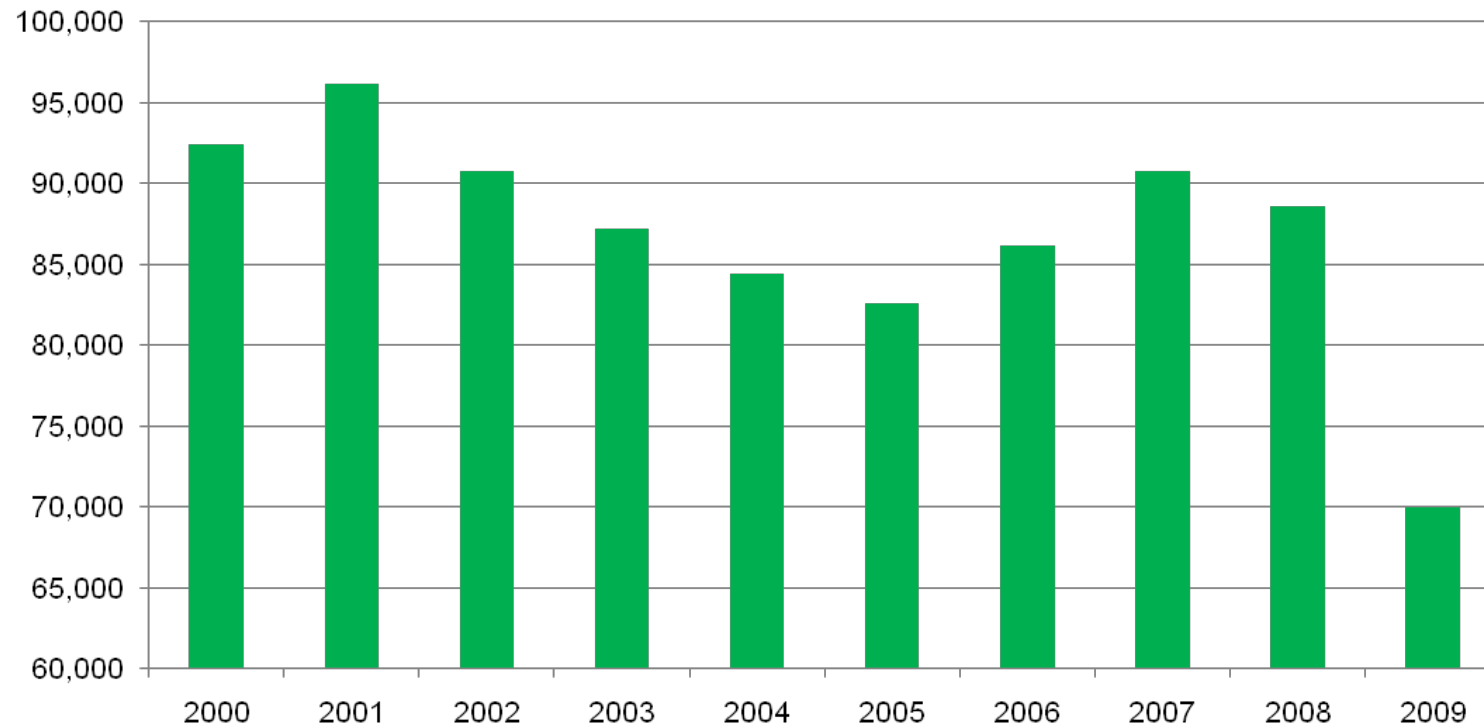
- Decline is due to a “feasibility gap” between current market sales prices & rents and those needed to justify construction based on current development costs.
- Lenders & equity partners are scrutinizing development deals more closely and have tightened underwriting criteria, in many cases requiring up to 40% equity.



Sources: U.S. Census Bureau; and CBRE Consulting.

The decline of housing starts has negatively impacted the construction industry and resulted in significant job loss.

San Francisco MSA Labor Force
Construction Jobs
2000-2009



Sources: State of California Employment Development Department; and CBRE Consulting.

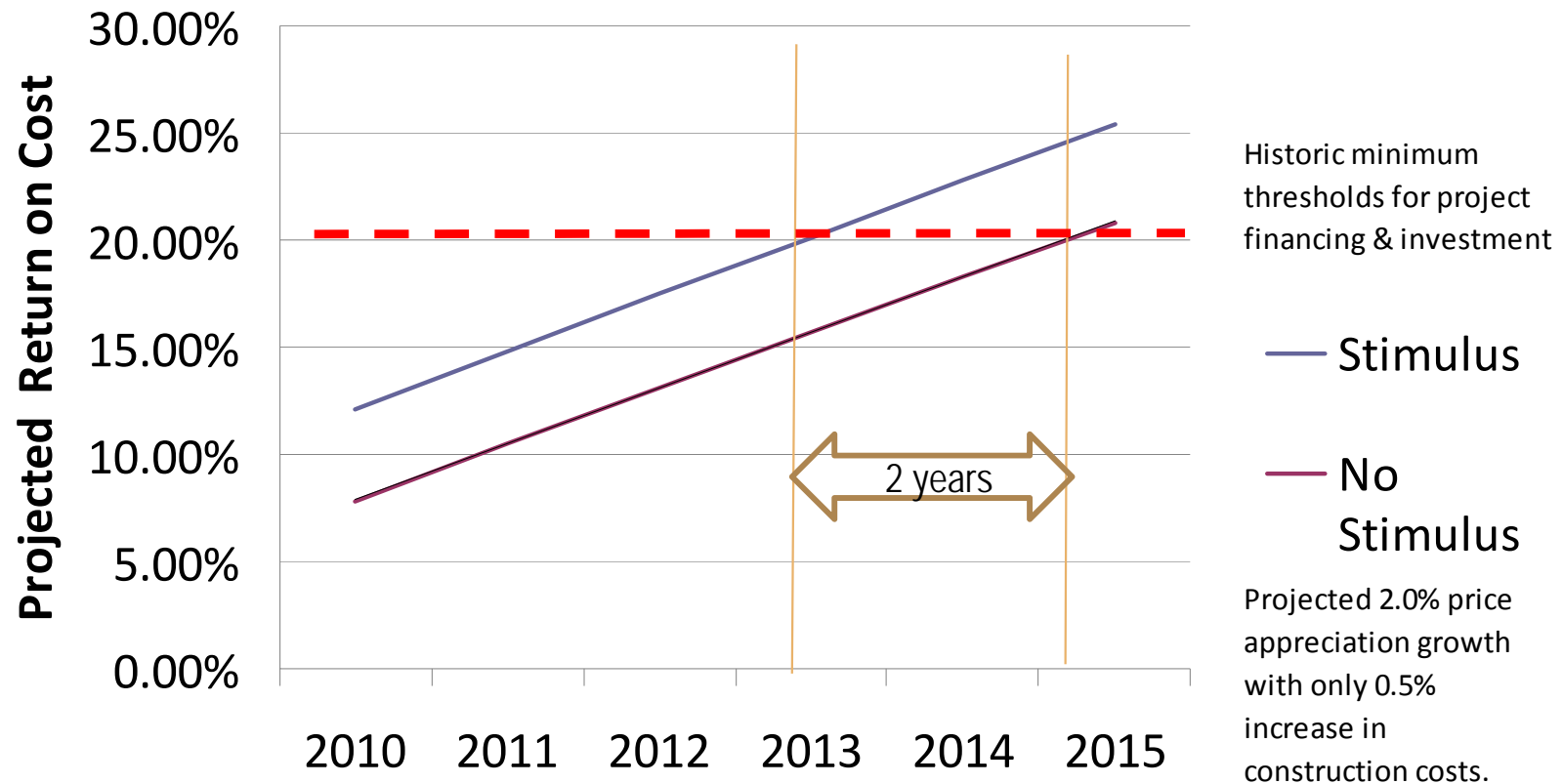


- For residential development to resume **(1) revenue from unit sales or rents must increase** and/or **(2) construction costs must decrease** to generate **a sufficient return on cost** to attract financing and equity.
- Given projected market price appreciation and construction costs, this waiting process may take several years.

A successful stimulus reduces the “waiting time” required for additional market price appreciation, which, in turn, accelerates construction start times sooner than what would occur under normal market conditions.



Time Needed for Additional Price Appreciation Before & After Stimulus



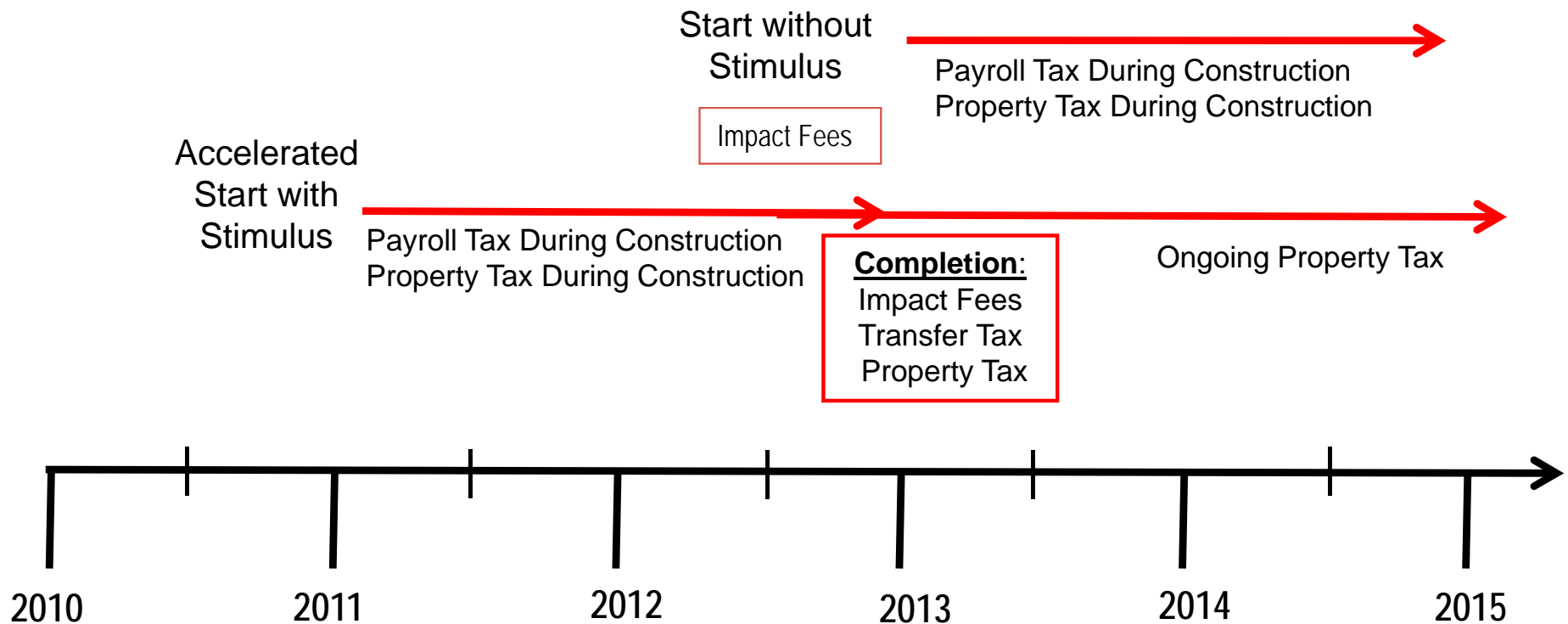
Public benefits of accelerated start times:

- Construction jobs & economic-multipliers sooner.
- Property tax, payroll tax & fees sooner.
- Not just sooner, but more. General Fund revenues from property taxes collected from earlier start & completion of projects can never be recaptured.
- Smooths the residential development cycle & helps mitigate price acceleration caused by boom & bust cycles.



Fiscal Benefits of Accelerated Construction Start Times

How City revenues benefit if development start dates move up by two years.



Key Policy Constraints:

- **Limited local control over bad macroeconomic conditions.**
- **Limited “policy toolbox.”** Few variables that we control:
 - 1) **Speed & certainty of entitlements.**
 - 2) **Cost of local fees – Between \$50K to \$100K/unit**
 - 3) **Some public financing options.**
- **No such thing as a free lunch.** Some short-term sacrifice is required for medium-term gain.



Key Policy Commitments:

- **Make a difference on the margins**; there are no silver-bullets.
- **Make the City more than whole** (strengthen the General Fund).
- **Protect “complete neighborhood” planning**: don’t reduce or weaken impact fees—just rethink how we pay for them.
- **Be creative with nothing.**



Development Impact Fee Reform And Deferral

- Simplifies & strengthens impact fee collection, enforcement & public notice.
- Optional “Fee Deferral Program” - sponsors may defer payment of 80-85% of total impact fees from start of construction to end of construction.
- Deferral period ranges from 10 to 30 months.
- Deferral Surcharge, or interest, is charged at a rate based on the average of the Treasurer’s interest rate and a locally-based construction cost inflation index.



Decreases the amount of up-front costs that need to be financed through debt or equity, in turn reducing the amount of interest paid over the construction period.



For smaller developers that have difficulty attracting equity on the front-end, deferring impact fees to the back-end improves their chance to attract capital.



Affordable Housing Transfer Fee Program

- Optional program to exchange the Inclusionary Housing Requirements (on-site BMR units or in-lieu fee) by 33% for a permanent transfer fee of 1.0% on all future sales.
 - Includes the first sale of the unit from developer to first purchaser.
- ➔ For projects paying an in-lieu fee, reduces up-front project costs and, in turn, the total amount financed by either debt or equity.**
- ➔ For on-site BMR projects, increases the number of market-rate units and thus increases total project revenues.**
- ➔ In general, provides greater stimulative impact than fee deferral.**
- ➔ Generates substantially greater revenue for MOH, diversifies MOH's revenue base and smoothes revenue over time—valuable public benefits irrespective of the policy's stimulus benefits.**



- Transfer Tax-Inclusionary Housing “Grand Compromise”
- Citywide Mello-Roos Community Facilities District (CFD) for financing infrastructure-related impact fees.
- Development Agreement reform.
- LOS-ATG CEQA Transportation Reform
- Streamlining CEQA review procedures – establishment of a CEQA Hearing Officer under the Clerk of the Board.

