

San Francisco: Why does housing cost so much?



2013:

Why can't developers build housing in San Francisco for the people who need it most instead of for the rich?

2014:



\$120,000¹

Land cost per unit of housing



\$240,000

Construction cost per unit (hard costs) at \$300 per square foot



\$48,000

Permits, city fees and professional-services fees at 20% of \$240,000



\$27,000

Subsidy to build affordable below-market rate [BMR] units (12% of total unit count) based on a \$200,000 per unit subsidy times 12, divided by the remaining 88 units



\$34,800

Selling expenses (marketing, legal fees and real estate commissions) at 8%

\$469,800

Total cost per 640-square-foot unit

This is very simplified and does not include construction financing expenses, contingencies or developer's profit, among other things.

from the housing issue of *The Urbanist*, February 2014

What's changed since 2014?

- Developers are paying more for entitled land, in some cases well over \$200,000 per unit in San Francisco.
- Construction costs have risen steeply. \$400/SF (gross) is typical for wood frame over podium construction.
- Sales prices have continued to rise. New condos are selling in the \$1200/SF - \$1400/SF range.

Number of units completed in 2014:
3,454



**Number of units built Q1 2015-Q1 2017:
9,170**



Example:

100 unit market rate multifamily project

Assumes:

50% parking ratio in a one story concrete podium with 4-5 floors of wood construction above.

Located in a central part of San Francisco.

A 640 square foot typical unit.

(800 s.f. was used in calculations to account for 80% building efficiency)

Land cost per unit of housing: **\$150,000**

** land value is residual and this number varies greatly*

Construction cost per unit (hard costs):
\$400×800 s.f.: **\$320,000**

Parking cost per unit @ \$35,000/space
(hard costs): **\$17,500**

Soft costs:

Permits, city fees and professional services fees at 20% of \$337,500:

\$67,500

Total cost so far: **\$555,000**

Selling expenses (marketing, legal fees and real estate commissions) at 8%:

\$44,400

BMR gap funding per market rate unit @
18% ratio: **\$87,805**

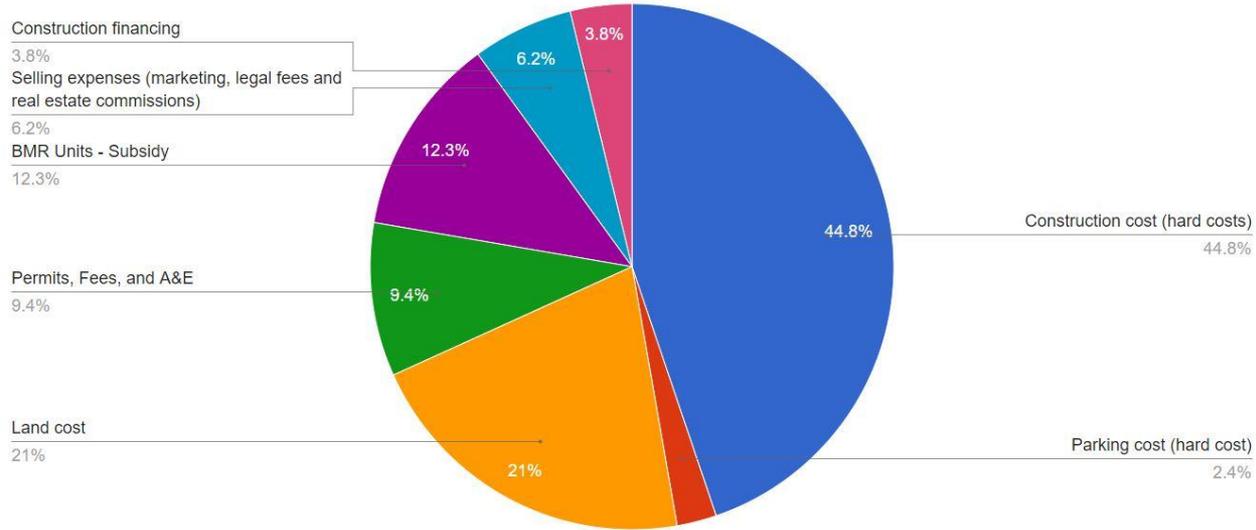
Construction financing at \$34/square foot:
\$27,200

Total cost per unit: **\$714,405**

Total Development Cost
per square foot (gross): **\$893**

Total Development Cost
per square foot (net): **\$1,116**

Construction cost per market rate unit



This is SIMPLIFIED and does not contingencies, project management or developer's profit, among other things. Projects with an extended entitlements process would face additional costs.

Median household income in San Francisco
(2011-15 per U.S. Census Bureau): **\$81,294**

A person or family with an **\$81,294** income qualifies for a **\$354,277** mortgage using conventional financing.

Even with profit and a number of costs taken out of the equation there is a gap of over **\$360,128** between the cost of producing a one bedroom market rate housing unit and what the median household can afford.