Memo to the Planning Commission

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RE: **Economic Trends and the Housing Pipeline**

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BACKGROUND

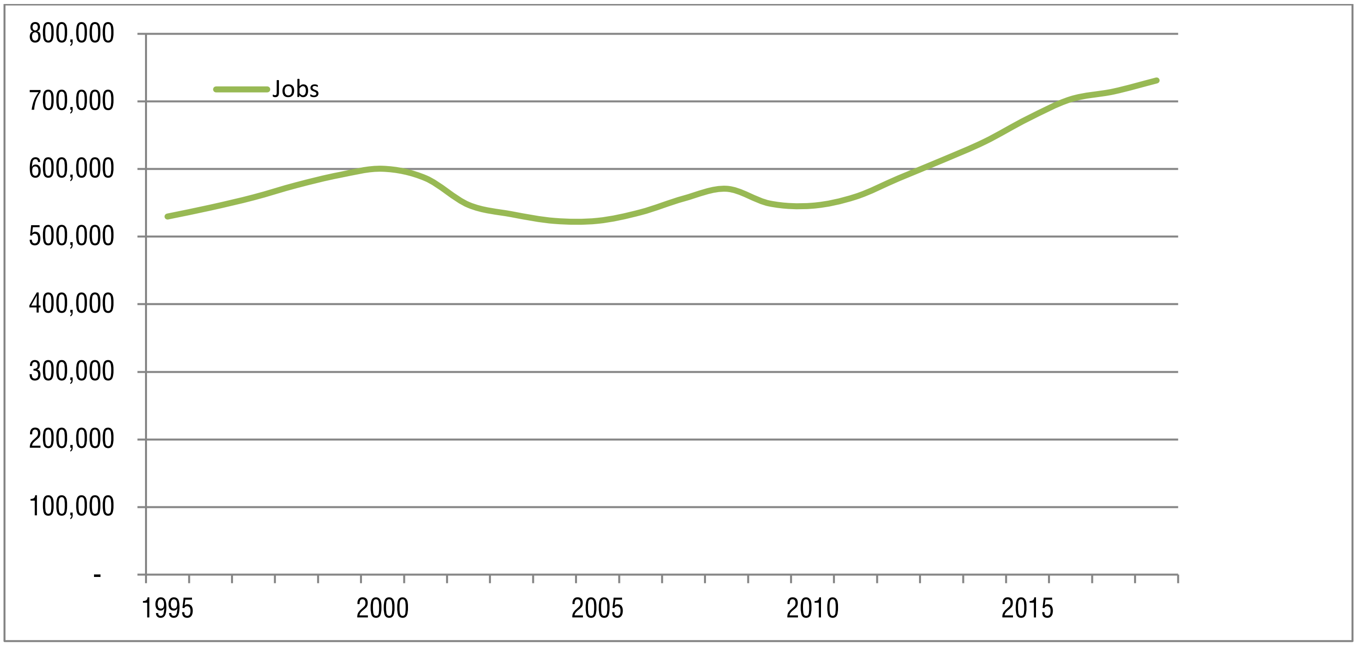
This is the first of two housing briefings in response to several Planning Commission requests. This first briefing, on January 17th, will focus on economic trends and the pipeline of housing projects. This memo summarizes some of the highlights that will be presented in detail before the Planning Commission and will provide a background for a second briefing on January 31st. The second briefing will focus on housing implementation strategies and long-range plans at the city, regional and state levels.

This presentation will present background on the economic trends that have led to up to the current situation, to provide context for the present economic conditions developers are facing and responding to. Then it will cover historic trends on housing production before analyzing the volume and make-up of recent Planning Applications filed. Finally, the memo and presentation will summarize the current Housing Pipeline, including an explanation of how it can help forecast housing production in the short to mid-term range.

EMPLOYMENT AND ECONOMIC TRENDS

The San Francisco economy has experienced major employment growth in this cycle. The city has added almost 170,000 jobs, which is more than double what was added in each of the previous two cycles. In 2017 alone, the city added over 11,000 jobs and the unemployment rate was 2.9% in San Francisco. California and the US have also added jobs and seen major decreases in unemployment. We are likely to retain a strong economy for the following quarter. The city has seen more than nine years of job and revenue growth, which is a long cycle. This growth trend might change in the next two years and is very likely to change in the next five years, according to the City's Office of Economic Analysis.

Chart 1 – San Francisco Employment, 1995 – 2018



Taken together, the San Francisco and San Jose MSAs comprise the third largest economy in the country, as measured by GDP (behind New York and Los Angeles, but ahead of Chicago). The Bay Area's GDP grew 42% from 2012 to 2017, a rate far faster than any of the other top 25 metropolitan areas in the country. [1] San Francisco and the Bay Area continue to be dynamic places that attract national and international businesses.

In San Francisco, job growth has been led by the Information and Professional & Business Services industries, but the local and regional economy benefits substantially from overall economic diversity and labor availability. This diversity includes a substantial employment base and growth in Educational & Health Services and Leisure & Hospitality industries. Industries that have experienced lower or no growth include Manufacturing and Government Services. Employment growth also varies by race. The number of White, Asian and Hispanic San Francisco residents who are employed have all grown since 2010, while the number of Black residents who are employed actually fell, despite record job growth in the city.[2]

Construction is the industry arguably most closely related to housing production. Since 2011, construction jobs in San Francisco have grown by 50%, substantially more than overall job growth. However, construction employment (20,860 jobs in 2017) barely passed the pre-Recession high of 19,630 jobs (2008) in 2016, a much slower recovery than other industries. By comparison, office jobs started rebounding in 2011 and have far surpassed the previous peak, growing to almost 300,000 jobs in 2017.[3] The need for construction workers has been even higher given the number of construction projects fueled by investments and triggered by recent fires and other natural disasters. The shortage of labor has contributed to the increase in construction and housing cost.

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[1] US Department of Commerce, Bureau of Economic Analysis.

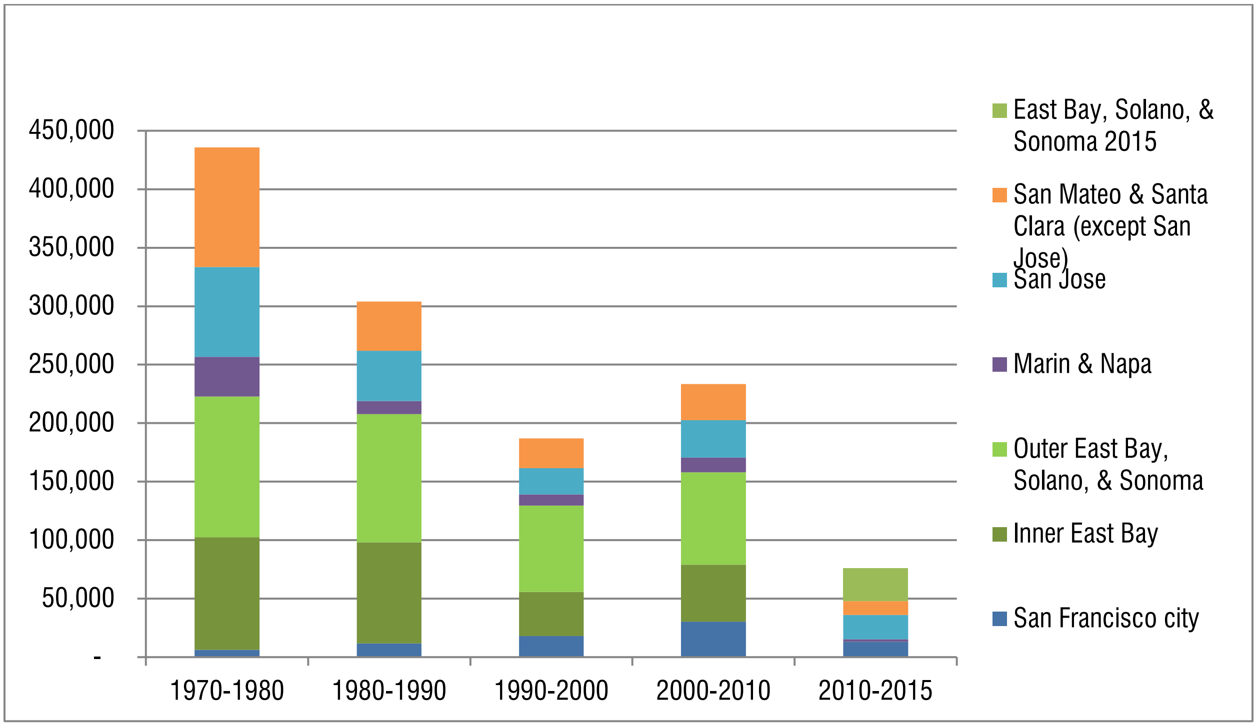
[2] US Census, American Community Survey 2010 and 2017.

[3] California Employment Development Department

POPULATION AND HOUSING GROWTH IN PERSPECTIVE

San Francisco's population fell in the decades following World War II. Starting in the 1980s, San Francisco, like other major US cities, began to add new residents as development patterns and lifestyle preferences shifted from suburban to urban. For many decades, the cost of housing has been a concern in San Francisco, and the city has provided many responses according to the times (e.g. the 1980 San Francisco Housing Strategy, various Housing Elements, Area Plans and Housing Bonds, HOME-SF, etc.). While San Francisco has increased housing production since the 1980s, suburban areas have built less and less housing, even as the regional need for additional homes continues to increase. Infill development, difficult and slow even in San Francisco, has proven even more so in suburban counties.

Chart 2 – Bay Area Housing Growth, 1970 – 2015



Since 1980, the average wage of a San Francisco resident almost doubled, even accounting for inflation. This is the result of new businesses, higher profits and increase in minimum wage. For the past several decades, population, jobs and wages in San Francisco have all increased at a faster rate than housing production. These factors combined put tremendous pressure on housing prices and rents, leading to economic and demographic changes as well as social and cultural changes.

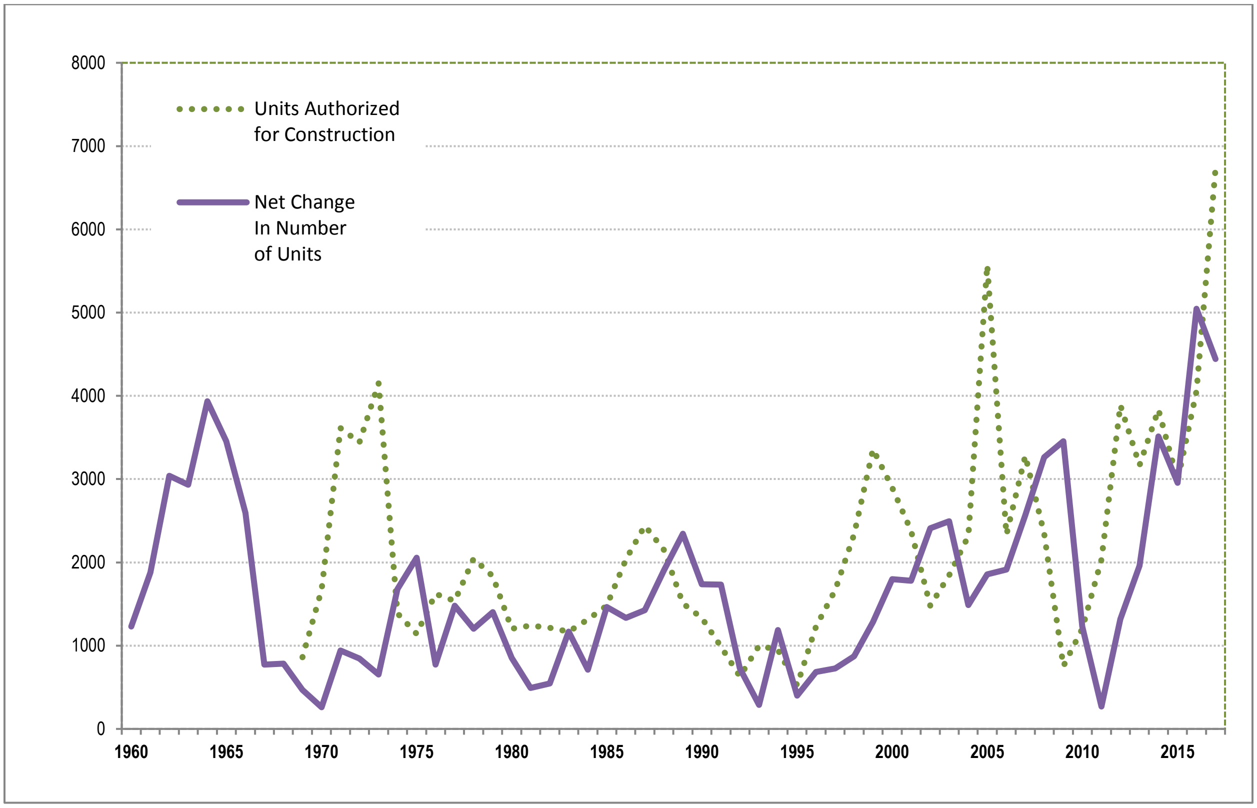
In the 21st Century, the challenge is the scale of the problem and pace at which change is happening. The polarization of the economy and increasing housing costs have led to a higher number of homeless people than prior decades and the displacement of families with children, low and middle-income households, and certain communities of color. Changes in lifestyle preferences are resulting in the need for a diversity of housing types (multi-generational, co-living, group housing, etc). In response, the City is looking to new forms of housing, continued housing production, and additional protection and preservation as potential solutions.

HOUSING PRODUCTION AND PIPELINE

Production Trends. In the last 58 years, the City saw a total of over 98,000 net new units added to its housing stock. The chart below shows the peaks and valleys of housing production over the last six decades. The highest yield was some 5,050 net new units in 2016, while only 260 net new units were added in 1970 and 270 in 2011.

The last 18 years have been the most productive with over 43,750 net new units built. While the 1960s saw even more tremendous growth with new housing construction, demolitions diminished the net addition to the housing stock to an annual average of 2,110. The worst decade for housing production was in the 1990s, when the average annual net unit change was down to about 960 units.

Chart 3 – New Housing Production, Net Units, 1960 – 2017

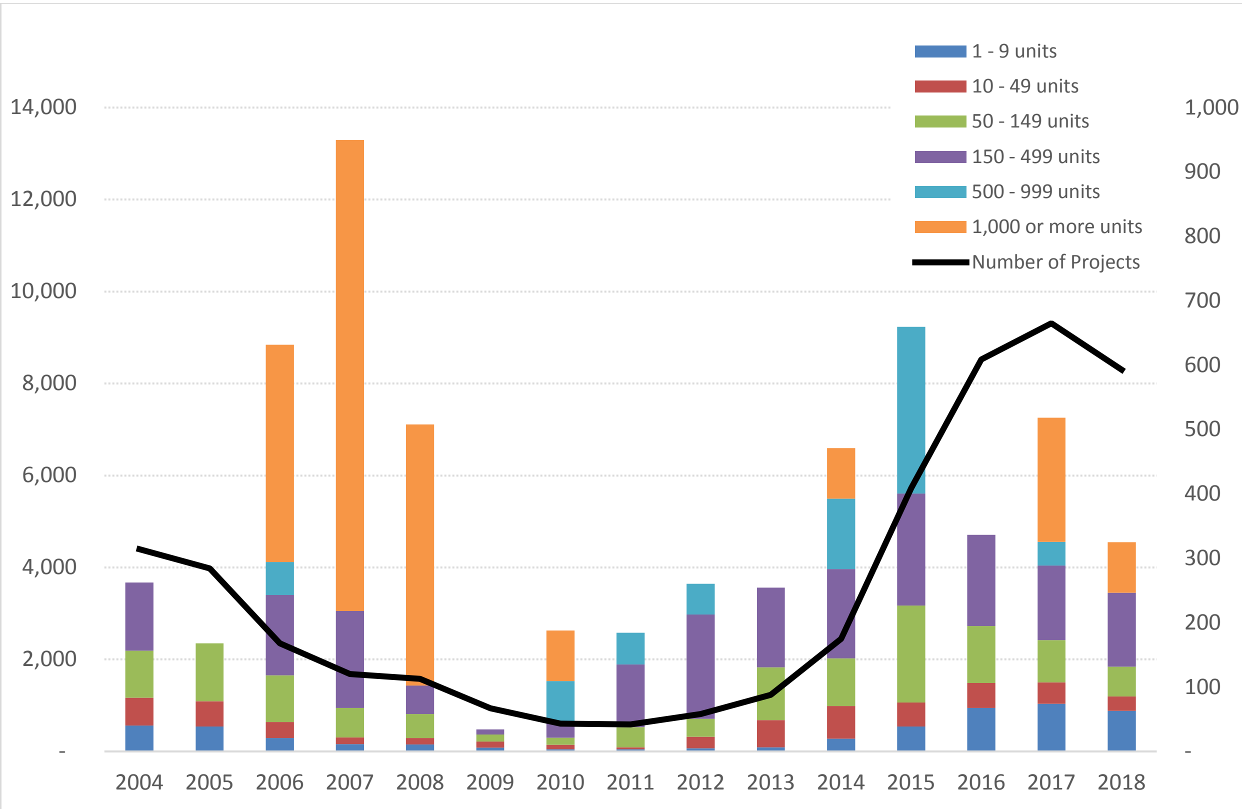


Source: Planning Department, Housing Inventory, 1967 to 2017

Planning Applications Trends. Concerns about a looming economic downturn and the City's ability to contend with the persistent housing crisis inevitably focus on applications submitted for Planning Department review and approval. While this metric gives an indication of what lies ahead in terms of units that can be expected to be built, it does not provide a full picture of the housing development pipeline. Planning applications are more likely telling of the volume and profile of transactions submitted for Planning review. It should also be noted that not all development projects go through the Planning Department entitlement process. Furthermore, some projects, for various reasons, end up with two or more applications before its construction and completion.

The chart below of Planning applications submitted in the last 15 years captures the Great Recession of 2008 and the subsequent market recovery. It also shows what may be an evening or balancing out in the volume and number of units submitted for Planning review. The chart shows both the number of net units (left axis) and the number of applications (right axis).

Chart 4 – Number of Planning Applications and Net Units by Project Size, and Completions, 2004 - 2018



Source: Planning Department, PPTS PRJ applications only

While the chart shows a downward trend in the number of applications in 2005 through 2010, the submission of applications for multi-phased, multi-year project proposals for 4,720 units in 2006 (Executive Park, Hunters Point Naval Shipyard Phase 1, and Trinity Plaza); 10,240 in 2007 (Candlestick Point); 5,680 in 2008 (Parkmerced); and 2,010 in 2010 (Hope SF projects) – a total of 22,650 net units – provided a great boost to the housing development pipeline.

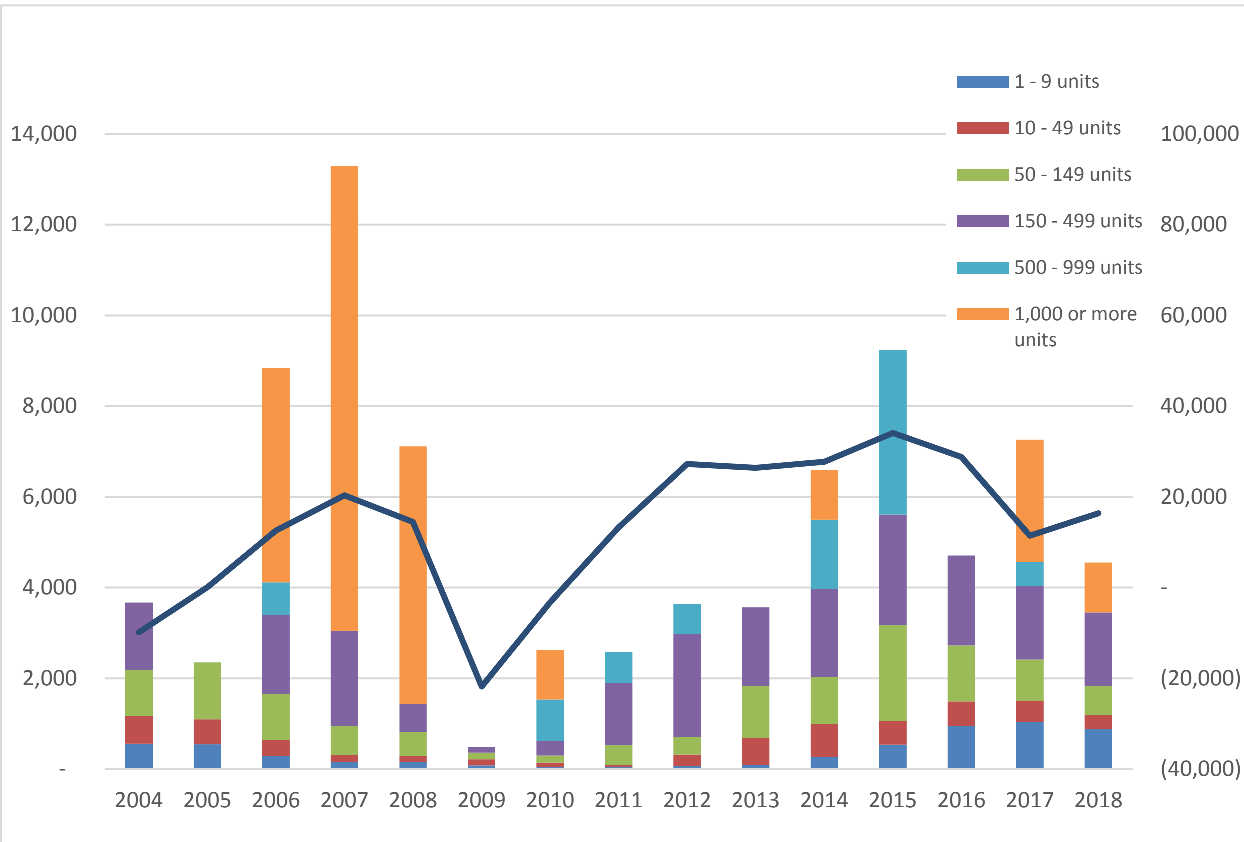
In the following years, applications for projects with 150 to 499 net units made up the bulk of the units. About 40% of the net units in the 2015 peak year were in five very large projects proposing between 500 and 999 net units; another 26% were in nine large projects (proposing 50 to 149 net units).

The trough in this 15-year period occurred in the second year of the Great Recession with applications for 67 projects of only 450 net units. The following year had even fewer (43) but included applications for the Hope SF projects, which made up 2,010 net units of the total 2,620 net units for that year. The least number of project applications – 42 – were for a total of 2,580 net units in 2011.

The chart also shows an increase in applications continued through 2017 although the number of net units dropped in 2016. By 2015, the number of applications for smaller projects, particularly for accessory dwelling units (ADUs), was starting to grow. While such smaller projects make up most of the applications submitted (83% in 2015) to almost all in 2018 (94%), they nevertheless make up a smaller but growing share of the total net units (from 6% in 2015 to 19% in 2018). This recent trend of a growing volume of application submissions and processing does not, however, equate to a similar rate of growth in the number of net units.

The chart below shows the same application data as it tracks against the number of jobs added over the years as a proxy for economic health. While it appears that application submissions for small to mid-size projects seem to follow the economic trail, basic statistical analysis showed there was little correlation between the two.

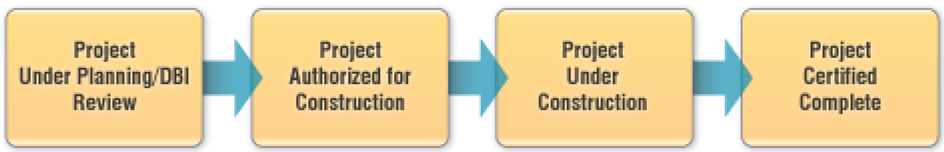
Chart 5 – Number of Planning Applications and Net Units by Project Size, and Jobs Added, 2004 – 2018



Source: Planning Department, PPTS PRJ applications only; EDD employment data

Housing Development Process as Tracked in the Pipeline Dataset. The San Francisco development pipeline dataset consists of applications for development projects that would add residential units or commercial space, and which have been formally submitted to the Planning Department or the Department of Building Inspection (DBI). Projects that do not require Planning or DBI review and authorization are also included in the pipeline when construction commences. These include projects under the jurisdiction of the University of California, San Francisco; the Port of San Francisco; and the federal government, among others.

Pipeline projects are at various stages of development: from applications having been filed to entitlements secured; from building permits approved and issued to projects under construction (see diagram below). The pipeline includes only those projects with a land use or building permit application. It does not include projects undergoing preliminary Planning Department project review or projections based on area plan analysis. Projects vary in size from single units to larger multi-year development programs undergoing environmental review.



Housing Pipeline Trends. Examining the housing development pipeline dataset allows us to forecast housing production in the short, mid- and long-term range. It provides a quarterly snapshot of projects as they progress from application submission and review through Planning and building permit approvals to construction. Once construction is completed, the project is removed from the pipeline.[4]

The most current housing development pipeline totals 70,580 net units, almost three-quarters of which have received land use entitlement. This represents the highest number of units since the Planning Department started tracking the development pipeline over a dozen years ago.

- Some 7,460 net units – or 11% – are under construction. These units are in projects that can be expected to be completed in the next two to three years.
- Another 15% (or 10,740 net units) either have building permits approved or have filed for building permits. These units can be expected to come online within the next two to five years.
- A sizeable bulk of entitled units – almost 30,000 net units – are in eight major multi-phased, multi-year projects that have yet to file for building permits. These projects are expected to be built out in ten to 20 years.

  As phases of these major projects move on to the next development stage such as filing for, and obtaining building permits, this category's total would decrease accordingly, and the phase is accounted for in the appropriate development stage.

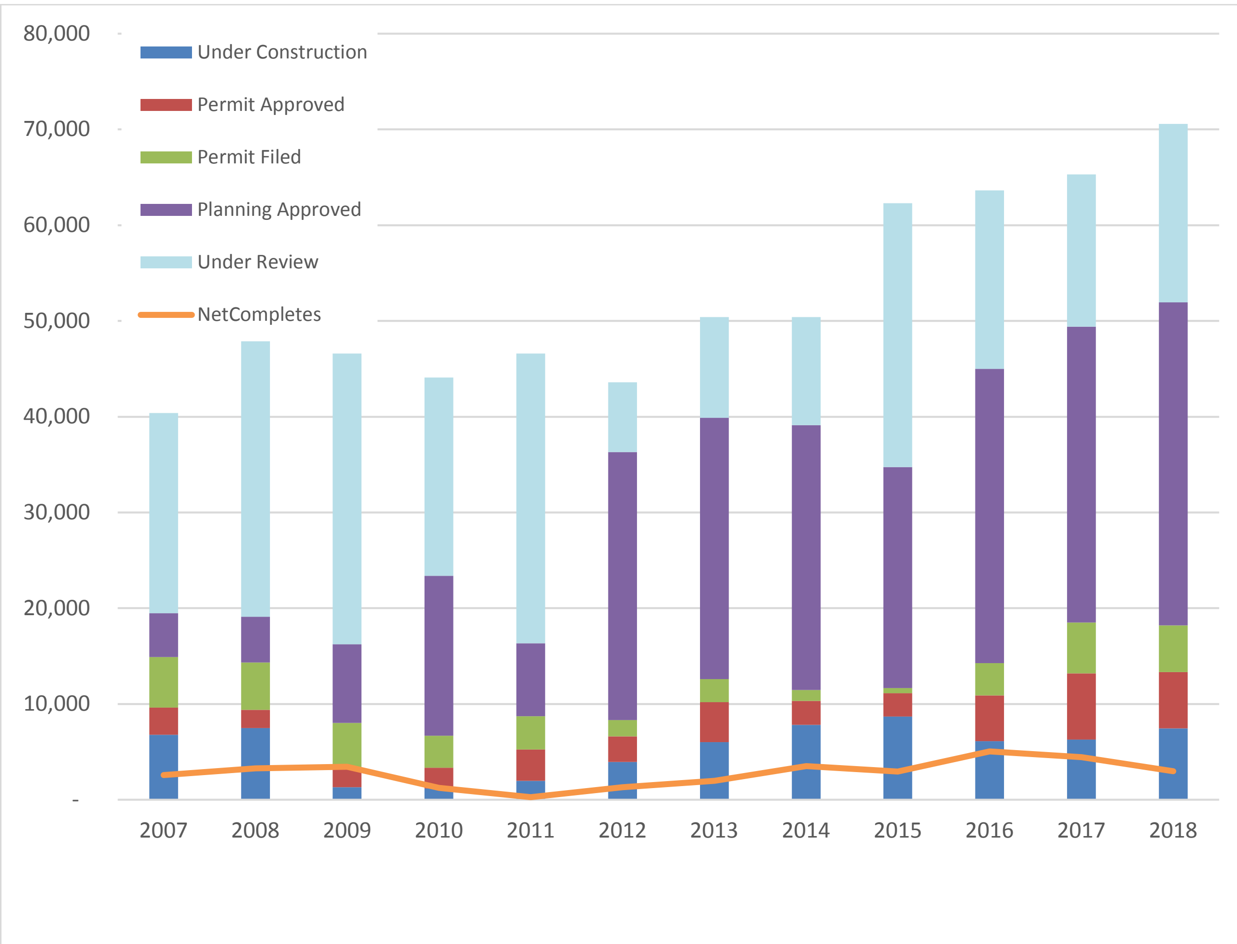
  For example, Phase 1A of the Parkmerced project has commenced, with over 1,000 net units in three buildings having filed for building permits. This phase is counted under "Building Permits Filed."
- An additional 3,760 net units in various sized projects are also entitled and have yet to filed for building permits.

[4] The pipeline dataset also excludes projects that have not progressed to the next development stage after a set period. This "aging out" period depends on the project's development stage.

- The remaining 26% of the pipeline – over 18,620 units – are under review and have not been entitled by Planning. These units are generally expected to be completed within five to seven years. This category, moreover, includes two multi-phased, multi-year projects totaling 4,000 units.

The chart below shows the pipeline over time in the last 12 years. In 2007, the pipeline totaled 40,370 net units; by the 3rd quarter of 2018, it has grown to 70,580 net units. The chart also shows the number of units by development stage.

Chart 6 – Housing Development Pipeline, 2007 – 2018 (Q3)



Source: Planning Department

This chart shows how the number of entitled and unbuilt units has grown over time. This is due to the major multi-phased, multi-year projects that were entitled in the last seven years. These development projects involve a longer timeline than small, mid-sized, or even some large projects that see completion within a few years' time.

The chart also tracks net units completed over the same period, about 32,980 over a 12-year period. This pace has increased in the last few years as large (250 to 499 units) and very large projects (500 to 999 units) projects are completed. Such projects, until a few years ago, were rare. In the 1990s, the few large projects were less than 250 units; in the aughts, only a few projects crossed the 500-unit mark.

To sum up, San Francisco's economic state remains healthy and is not expected to change this year. Applications submitted to the Planning Department appear to be slowing and its make-up changing. There are more applications for ADUs and smaller projects; a few of the major, multi-phased, multi-year development projects have commenced construction and building applications are expected to be submitted to the Department.

Meanwhile, the last 12 years saw growth in the pipeline as construction completion trailed the volume of new projects proposed and approved. If the last five years' average of net units completed (about 3,785 net units) was held constant, there are enough units in the pipeline to keep the construction industry busy for at least 18 years. The task now is to ensure that the already entitled units are built.

Attachments:
Exhibit A: Infographics: 10 Year Housing Production and Housing Development Pipeline, 2018 Q3

10 Year Housing Production

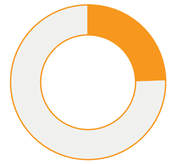
2008 Q4 - 2018 Q3

TOTAL NEW CONSTRUCTION

28,490
net new units

AFFORDABLE UNITS*

7,020
net new units



25%
Affordable

Housing Development Pipeline

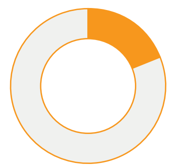
2018 Q3

TOTAL PIPELINE UNITS

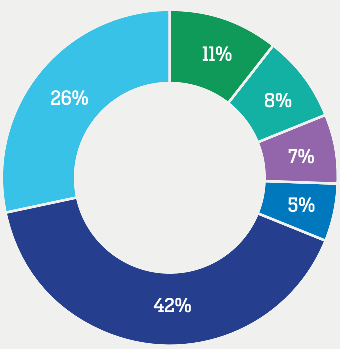
70,580
net new units

AFFORDABLE UNITS **

13,510
net new units



19%
Affordable



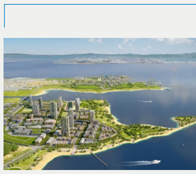
Entitled	Net Units
Under Construction	7,460
Building Permits Approved	5,870
Building Permits Filed	4,870
Building Permits Not Yet Filed	3,760
Major Multi-Phased Projects ***	29,990

Under Review	
Under Review	18,620

* This figure only accounts for net new addition to the affordable housing stock. It does not include existing units preserved under the rehab and acquisition program, Rental Assistance Demonstration (RAD) units, or units acquired under the small site acquisition program.

** Includes only units in projects that have already determined its affordability options (typically at entitlement) and in projects that are 100% affordable. Twenty percent of entitled projects are affordable.

*** Remaining phases of project. This does not include net units in phases that have filed for, or have received, building permits or are under construction.



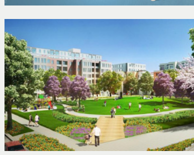
Candlestick Point
9,110

Treasure Island
7,800

Parkmerced
4,670

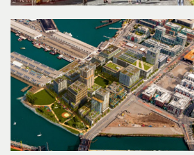
Pier 70
2,150

HopeSF
1,680



Schlage Lock
1,680

India Basin
1,575



Mission Rock
1,330

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