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## City development fees may be altered to kick-start building

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Building in San Francisco means paying money up front to help fund neighborhood services and improvements — a practice that could be altered to help stimulate construction activity.

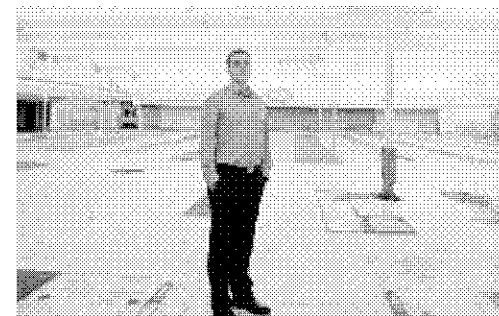
San Francisco levies a wide range of development impact fees, which are in addition to fees charged for permit processing, environmental review and other services provided city officials.

Some fees are universal throughout The City, such as the requirement that money must be paid into an affordable housing fund unless 15 percent of a project's units are sold or rented at below-market levels.

In recent years, other fees have been created for specific areas or neighborhoods. Those areas include the planned Manhattan-style Rincon Hill neighborhood near the Bay Bridge; the area surrounding the intersection of Market and Octavia streets; and 2,200 acres covered by the San Francisco Planning Department's Eastern Neighborhoods Plan.

Area-specific fees are spent on schools, parks, transit and other public services and projects.

Because of the dismal economy, however, city officials are drafting new legislation that could



A screeching halt: Mark Brennan publicly blamed development impact fees, which The City charges developers before construction starts, as a key factor for having to halt the development of the old Cala Foods building on the corner of Haight and Sanyan streets. (Cindy Chew/The

allow the developer fees to be paid after construction finishes instead of before it starts, according to Michael Cohen, Mayor Gavin Newsom's chief economic strategist. (Examiner)

That change could be too late for the handful of housing projects in San Francisco that have been approved for construction by city officials but are stalled for financial reasons.

Developer Mark Brennan publicly blamed development impact fees when he recently announced he was not moving forward with his plan to build 62 units of rental housing at the corner of Haight and Stanyan streets at the site of a shuttered Cala Foods store in the Haight-Ashbury neighborhood.

Brennan would have been required to pay \$5 million to \$6 million in impact fees to start the project, he said.

"The fees are, at this point, too prohibitive," Brennan told The Examiner. "It won't pencil out."

But Brennan acknowledged that the dour economy was also to blame, and he said he could not secure financing for the project.

Even if Brennan could secure the financing, he said that lenders are reluctant to loan money for development impact fees, which adds to the upfront construction costs faced by developers.

Moving forward with a change to how developer fees are paid is a simple matter of math, said Gabriel Metcalf, executive director of the San Francisco Planning and Urban Research Association, a local think tank.

"There's a great misconception that development fees are an ideological question," Metcalf said. "But the truth is, it's just math. You add up the revenue that you will get from renting or selling your units, then you subtract out all the costs to see how much money there is to play with. You can determine if the fees and exactions are greater than the amount of money that's left," Metcalf said.

If total developer fees exceed a project's projected profits, then it's unlikely that the private sector would proceed with such a development.

The talks of developer fees comes amid a downturn in building in San Francisco, though recent changes to building rules within certain neighborhoods means The City could be on the verge of a new building boom once the economy recovers.

Those changes — which were accompanied by increased development impact fees — generally allowed developers to build condos and apartments on land that was formerly zoned for industrial uses, and to build to heights that had previously been outlawed.

Nurturing a new construction boom by lowering fees or allowing their deferred payment could increase the pace with which new housing is built in San Francisco.

But Newsom's economic adviser Cohen said his department has begun preparing a plan that could provide relief to developers to help kickstart their projects, without necessarily reducing the amount of fees that they must pay overall.

"We're working on a series of pieces of legislation that would, in one form or another, defer the time when impact fees have to be paid, without having any adverse impact on The City's budget," Cohen said.

Details of the legislation are sparse, because work on it has only just begun, according to Cohen.

"We haven't vetted the ideas; I haven't even sent a memo into the mayor," Cohen said.

Such relief would be welcomed by builders, but it might not go far enough, according to representatives of the Residential Builders Association of San Francisco and of the Building Owners and Managers Association of San Francisco.

"If you want to stimulate the economy, you should do whatever you can as a city to lower all the fees that are roadblocks to new development," said Ken Cleaveland, director of government and public affairs at BOMA SF. "Impact fees are definitely a part of that equation."

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## **Unproportional building fees may soon stunt city growth**

The fees that developers must pay in order to build in San Francisco do not match the current real estate market and could stifle the recovery of the local building industry when the economy begins to improve, the development industry and some of its observers say.

Construction of housing projects generally cannot begin right now, because banks still are not lending money, according to Gabe Metcalf, of the San Francisco Planning and Urban Research Association, and others.

But, Metcalf said, when lending and economic activity start to be restored across the state and nation, San Francisco's high fees could dampen a potential resurge in development within city limits.

Area-specific development impact fees were set at dollars-per-square-foot rates during a construction and real estate boom that ended abruptly when stressed credit markets froze late last year, triggering an economic malaise.

"We locked in development fees and exactions at boom-time levels — that's the core of the problem," Metcalf said.

Fostering such a boom could also create jobs for construction workers and spur retail activity among building suppliers operating in The City.

Roughly half of all unionized electricians are currently out of work in San Francisco, where the building trades' overall unemployment level is roughly 20 percent, the San Francisco Building and Construction Trades Council said this month.

Home-building and other construction projects, once they are completed, also increase the amount of money The City pulls in annually through property taxes.

But if impact fees are lowered, then planned improvements to essential services such as childcare and education could suffer, because profits would flow away from The City and directly into the bank accounts of developers and property owners.

San Francisco's planning director, John Rahaim, said he thinks it's too early to begin to assess whether the fees are set at appropriate or inappropriate levels. His department is currently evaluating proposed development impact fees in the Japantown neighborhood and around the Transbay Transit Center. "I just think that we don't know enough about where the market is headed right now," Rahaim said.

— John Upton

## Chalking up fees

*Fees on 333 Harrison St. project, a 308-unit rental project proposed in the Rincon Hill neighborhood:*

**\$11.5 million** Affordable housing fee

**\$5 million** Additional development impact fees

**\$700,000** Permit and filing fees

**18 percent** Fees as proportion of total construction costs

*Source: Emerald Fund Inc.*

## Paying to build

*There are newer area-specific fees in The City, such as the Rincon Hill Plan, which was adopted in August 2005.*

**55 acres** Land included within the plan

**2,220** New homes anticipated to be built under relaxed building rules

**\$50 million** Anticipated revenue from development impact fees\*

**\$29 million** Anticipated increase in annual property taxes after housing projects are built

**\$30 per square foot** Additional fee for projects that fail to include below-market-rate housing

\*Does not include fees to fund affordable housing projects

*Source: San Francisco Planning Department*

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