

Perspectives: Practitioners Weigh in on Drivers of Rising Housing Construction Costs in San Francisco

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Introduction

In 2017, San Francisco had the dubious distinction of being the second most expensive city to build in – in the world. Turner and Townsend studied 43 global markets and found that New York and San Francisco topped the list of the most expensive construction markets, costing respectively an average of \$354 and \$330 per square foot to build. Seattle, which faces many of the same labor market and housing supply pressures as San Francisco, came in at \$280 per square foot. San Francisco also ranked second out of the five cities surveyed in the United States in terms of construction cost inflation, with costs rising 4.2 percent in 2016.¹ While these data include non-residential properties, they nevertheless point to the construction price pressures in the city, and anecdotal reports suggest that these numbers may actually underestimate on-the-ground costs.

These construction costs contribute directly to San Francisco’s affordability crisis, and increase the amount of subsidy needed to make affordable housing feasible. To provide just one example from a review of LIHTC cost certifications, in 2000, it cost approximately \$265,000 per unit to build a 100-unit affordable housing building for families in the city, accounting for inflation. In 2016, a similar sized family building cost closer to \$425,000 per unit, not taking into account other development costs (such as fees or the costs of capital) or changes in land values over this time period. As a result of these cost increases, developers need more subsidy for every unit, at a time when public resources for affordable housing have been dwindling.

In this brief, we present findings from interviews and focus groups with developers, general contractors, architects and nonprofits working to build both affordable and market-rate housing in San Francisco. The brief offers insights into four areas many practitioners on the ground see as the key drivers of rising construction costs in San Francisco, and shares their ideas and perceived opportunities for how to improve the city’s processes and policies to address these drivers and bring down the cost of housing. While these are not the only factors influencing the price of housing in the city, making inroads on streamlining inefficient processes and being clear on priorities for housing design could make a significant dent in reducing construction costs.

The Drivers of Construction Costs in San Francisco

Construction costs are just one part of the housing cost equation. Costs layer on top of one another throughout the development process - from planning to construction to inspection - and not all construction costs are in control of local decision-makers. Macroeconomic conditions

¹Turner and Townsend (2017). “International Construction Market Survey 2017,” Turner and Townsend, <http://www.turnerandt Townsend.com/en/insights/international-construction-market-survey-2017/>.