Despite housing crisis, San Francisco's number of new homes plummets in 2018

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This story has been updated with a revised total of new homes for 2018.

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Even though “housing” has become inseparable from “crisis” in San Francisco, the supply of new apartments and condos took a nosedive in 2018.

This year, developers delivered just under 2,263 homes in new multifamily buildings so far this year, according to real estate data company CoStar. That is less than half of what came on the market in 2016 when 4,895 homes were completed and just over half of 2017’s count of 4,270 homes, according to a city report. It's also a far cry from the 5,000-homes-per-year goal that Mayor London Breed recently set.

“2018 will be the slowest year for apartment growth in the (economic) expansion period” that the city has been in since roughly 2012, said Jesse Gundersheim, San Francisco market economist with CoStar.

More than half of the new homes come from just two projects: Hines’ 33 Tehama St. that consists of 403 apartments and Emerald Fund’s 420 apartments at 150 Van Ness St. Construction wrapped up on 90 condos in the Stage 1075 project in Mid-Market and 60 homes in 5050 Mission St. in Mission Terrace.

More than 90 percent of new homes in San Francisco consist of condos and apartment buildings with more than 20 units, according to city data. During the past ten years, the city added an average 2,745 new homes.

Since it takes about two years to build a large housing development, the drop in new home completions can be traced directly to 2016 when construction costs hit a peak, said Eric Tao, head of development firm AGI/Avant Housing, which built 5050 Mission, with ChesHill.

In 2017, the company began leasing up its 263-unit Abaca project in the Dogpatch District at a time when dozens of other developers had thousands of other units on the market.

“We were getting the rents we needed to get to (at Abaca), but it was a lot more work because of the competition,” he said. Many developers had to offer concessions such as free rent for a month or two and throw in multiple perks to convince renters to sign a lease.

This year, with 5050 Mission, “it was suddenly easier to lease units” because renters had fewer options Tao said. “There was noticeable decline in what we had to do to lease up.”

AGI is now pushing the pause button on an approved project, the 299-unit 1270 Mission St., until construction costs level off.

Tao said that even though rents are high in San Francisco, especially for new homes, higher costs are keeping developers on the sidelines.

“In 2016, the spread between costs to build and rents wasn’t wide enough to start construction,” he said.

The pipeline has not completely dried up with more completions anticipated in 2019 and 2020, Gundersheim said. Apartment vacancy is less than 4 percent, a good sign for developers.

“New apartment buildings have leased up quickly due to the markets lack of condo and single-family housing construction,” he said. “Considering the city’s historic imbalance of overall housing supply to demand, developers are betting on continued strength in the apartment market.”

Blanca Torres
Reporter
San Francisco Business Times