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San Francisco Cuts Development Fees To Spur New Projects

By **Charlie Innis**

Law360 (July 29, 2026, 12:55 PM EDT) -- San Francisco city leaders have loosened affordable housing requirements for new projects and trimmed certain development fees in an effort to make building apartments more financially feasible. A land use partner at Allen Matkins Leck Gamble Mallory & Natsis LLP spoke to Law360 Real Estate Authority about the changes.

Caroline Guibert Chase

The San Francisco Board of Supervisors approved a legislative package on July 21 designed to encourage new housing construction by breaking down some of the barriers that real estate developers have cited as too prohibitive.

The legislation amends local building codes to reduce inclusionary affordable housing requirements — also known as below-market-rate requirements — for small-size apartment projects, and to decrease the amount of development impact fees real estate companies are required to pay the city when pursuing new construction, with some exceptions.

The changes within last week's legislative package could go a long way toward making more California housing projects "pencil out" for developers, said Allen Matkins' Caroline Guibert Chase, though developers would need to include even more below-market-rate units in their projects than what the city requires to qualify for additional incentives at the state level.

Chase explained what the recent legislative changes are in an interview with Law360 Real Estate Authority.

This conversation has been edited for length and clarity.

Can you walk me through what the biggest changes are in the legislative package?

I would start with the fact that the legislation provides relief for smaller housing projects, since below-market-rate requirements will no longer apply to projects consisting of fewer than 25 dwelling units. Previously, the threshold began at 10 units, so that is a significant change for smaller housing projects. The legislation also significantly reduces BMR requirements for other projects, in that the default, on-site requirement has been steeply reduced to 5% citywide, with exceptions, of course. For example, in the Mission Area Plan, under the 2023 temporary reductions, that was only reduced to 15%. So steeply reducing to 5% citywide is a significant change.

I do note that the city's new, lower on-site BMR requirement will not match up with the threshold requirements under the state density bonus law. So, project sponsors seeking to take advantage of that law would need to provide additional on-site units to qualify. For example, a rental project would meet city BMR requirements and state density bonus law threshold requirements by designating 10% of the units as low-income. The project would qualify for a 20% density bonus.

So, to illustrate, a project with 100 base units would then be eligible for 20 bonus units, one incentive or concession, and unlimited waivers or reductions in development standards. So, in other words, project sponsors seeking to take advantage of that state law would need to provide a higher percentage of on-site units as compared to the city's reduced requirement under the legislation.

But I will note there is one major benefit for those projects, in that BMR in-lieu fees will no longer be applied to density bonus units authorized under the state density bonus law, which was San Francisco's prior practice. So that cost savings for density bonus projects could be significant.

Why do these changes matter?

The purpose of this legislation is to promote housing development citywide, and this is critical because the changes in the legislation are based on recommendations from the city's 2026 triennial review of economic feasibility, which found that the financial feasibility of market-rate housing development is currently very challenging. That feasibility study also concluded that the city's previous requirements rendered each of the 10 studied multifamily housing development project prototypes economically infeasible.

What has it been like for you working with your clients? Is this legislative package speaking to any concerns you've heard about from clients on the challenges of building housing in the city?

I would say that development impact fees, including BMR requirements, have long been perceived as a barrier to housing development in the city, in part because of rising construction costs. Reducing not only BMR requirements, but also reducing and eliminating other development impact fees, including fees for transit, parks, public infrastructure and art will help facilitate financial feasibility of housing development projects in the city.

Development impact fees under Article 4 of the Planning Code, other than in-lieu fees, will be reduced by 67% at the time of selection. That is also a significant reduction, in addition to reduced BMR requirements.

However, as I noted earlier in our conversation, density bonus projects proposed under the state density bonus law will need to provide additional on-site affordable units to qualify, and most of the projects that I have worked on in San Francisco propose a density bonus under the state density bonus law, not only to obtain increased density, but also to obtain incentives and concessions and waivers or reductions in otherwise applicable development standards for the project.

I think the legislation goes a long way in terms of improving the financial feasibility of housing projects in the city.

Have you heard from any clients who have expressed a bit more interest in building in San Francisco, just in view of this package?

I have not had any discussions with developers specifically about proposed projects taking advantage of this, but I will say that this legislation is in the near term of immediate interest to pipeline projects that have been approved by the city.

Are there any other kinds of housing policy changes under discussion in the city that could be coming up in the near future and are part of this overall effort to build more housing in San Francisco?

The city is in the process of amending local California Environmental Quality Act requirements, and those changes should also benefit housing projects in the city.

Is there anything else you'd like to add on this topic or mention regarding the legislative package that shouldn't be missed?

Project sponsors electing to pay the BMR fee will now see a reduced rate generally at a baseline of 10%, and I say generally because there are exceptions for certain plan areas, etc.

I would say that this legislative package is important and not to be missed because of the significant reductions in not only BMR requirements, but also reductions in other development impact fees, which will, in turn, facilitate the financial feasibility of housing development projects citywide, and housing developers should be mindful of those reductions in their financial pro formas.

--Editing by Haylee Pearl.
