Central SoMa Draft Policy Document

Affordable Housing

November 2014

Introduction

The Land Use chapter (Chapter 2) of the draft Plan states that the Plan should "support development of a diversity of housing, especially below-market rate units" (Principle 3). The discussion below seeks to convey how such units could be provided.

Summary

The Department will attempt to ensure that 33% of new housing enabled by zoning changes in the Plan is affordable to low- and moderate-income households through including below-market rate units in new construction, new construction of 100% affordable housing developments, and preservation of existing naturally affordable units.

Background

Having a diverse population is vital to the social and economic wellbeing of San Francisco. Unfortunately, the cost of housing has risen such that, in many neighborhoods, it is unaffordable to those at low and moderate incomes, putting San Francisco's diversity at risk. The reason is simple – the tremendous demand for living in a world class city like San Francisco greatly outstrips the supply of housing.

To address this issue, San Francisco has instituted a number of policy measures, including 1) rent control and eviction control measures that enable people to stay in place, 2) supporting the development of new market rate units to help the overall imbalance of supply and demand, and 3) the creation of a permanent local funding stream, the Housing Trust Fund, to support construction of affordable housing. The City also has several policies and programs to ensure new development directly supports the development of affordable housing, including 1) requiring that new market rate development build or pay for new below-market rate units (including 12% of units if built on-site, 20% if built off-site, and the equivalent of 20% of units if paid in "in-lieu" fees to the Mayor's Office of Housing and Community Development), and 2) requiring that other kinds of development, including offices, also help pay for new affordable units.

Although these affordable housing strategies are some of the most progressive and comprehensive in the United States, it is clear that additional actions will be necessary. A step towards taking such actions occurred on November 4, 2014, when San Francisco's voters approved Proposition K to establish City policy goals around affordable housing. Many of the policy goals found in Proposition K are relevant to the Central SoMa Plan, including:

- by 2020, the City will help construct or rehabilitate at least 30,000 homes. More than 50% of the housing will be affordable for middle-class households, with at least 33% affordable for low- and moderate-income households;
- the City will attempt to ensure that 33% of new housing in areas that are rezoned to provide more residential development is affordable to low- and moderate-income households;
- the Mayor and Board of Supervisors will create a funding strategy to build new affordable housing, to purchase land for affordable housing, to preserve existing rental units, and to fund public housing rehabilitation;

The policy measures and goals stated above will be applied to the new housing constructed in Central SoMa. The Central SoMa Plan will enable up to 4,200 additional housing units, including:

- 2,900 units in areas where current zoning doesn't allow housing or office (the SLI and SALI zoning districts)
- 600 units in areas that currently don't allow housing but allow office (the WSMUO zoning district)
- 700 units where housing is already permitted but heights are increasing (elsewhere in SoMa).

Maps of where the zoning and/or heights are proposed to change can be found on pages 18-19 and 40-42 of the draft Plan.

Proposal

Per the policy established by Proposition K, the goal of the Central SoMa Plan is for "33% of new housing in areas that are rezoned to provide more residential development (to be) affordable to low- and moderate-income households". The Planning Department is proposing to utilize a number of new and existing tools to help achieve this goal. These tools are described below. It is important to note that many of the details still need to be determined, and will be fleshed out over the coming months.

Increasing Below-Market Rate Units

As discussed above, the City has an existing program that requires market rate housing development to build new below-market (BMR) rate units. The Department is proposing that the percentage of BMR units per be increased in upzoned areas of the Plan from the City's baseline of 12% on-site/20% off-site/20% in-lieu fee. The increase will be tied to the value conveyed by the Plan to the property owner through height increases and/or zoning allowances that permit higher-paying uses. The exact amounts will be based on a financial feasibility analysis that is currently being undertaken by the Planning Department, expected to be completed in early 2015, but the increase from the citywide rate is anticipated to be substantial given that the current industrial zoning restrictions for much of the rezoned area (SLI and SALI) result in comparatively low land value to elsewhere in SoMa.

Modifying How Affordable Housing Fees are Spent

The City collects fees for the development of affordable housing through a number of mechanisms, including:

- In-Lieu fees collected from market rate housing developments (see above),
- The Jobs-Housing Linkage Fee (charged to most non-residential developments), and
- The Eastern Neighborhoods Infrastructure Impact Fee in "Dedicated Affordable Housing Zones", which in SoMa includes the area currently zoned Mixed-Use Residential (MUR), generally bounded by 4th, 6th, Howard and Harrison Streets.

The Department is exploring ways to modify how these affordable housing fees are spent so as to yield more units in the Plan Area. This potentially includes the following strategies:

- Ensuring that a higher percentage of in-lieu fees generated in SoMa are spent for construction of new affordable housing in SoMa. The upside of this strategy is that more affordable units would be built in SoMa than otherwise would occur. The downside is that land costs in SoMa are higher than other parts of the city such that such a strategy likely will yield less overall affordable housing within the city.
- Expanding the mechanisms for paying the BMR program and Jobs-Housing Linkage fee to enable dedication of land to the City for affordable housing. The upside is that this could create opportunities for affordable housing developments from some of SoMa's larger office developments. The downside is similar to the concern above, which is that there would be more "bang-for-the-buck" if the fees were spent elsewhere.
- Expanding the Dedicated Affordable Housing Zones in SoMa beyond the area currently zoned MUR. The upside to this strategy is that more money would be dedicated to affordable housing. The downside is that this money would otherwise have gone to other vital infrastructure, such as transportation and streetscape improvements and parks.

The Planning Department is working with the Mayor's Office of Housing and Community Development and the Office of Economic and Workforce Development to evaluate the feasibility and ramifications of these concepts. A refined proposal will be available in early 2015.

Creating Infrastructure Finance Districts

Infrastructure Finance Districts (IFDs) are areas where a portion of the increases in property tax revenue is spent in that area instead of going to the City's General Fund.

The mechanism is similar to the Tax Increment Financing tool that was utilized by redevelopment agencies before their dissolution in 2012 by the state legislature.

The City is exploring whether it makes sense to develop an IFD in all or a portion of Central SoMa, which could then be used to fund affordable housing. Such an IFD would be in compliance with [the Board of Supervisors Guidelines for adopting IFDs](), given that it would be in a Plan Area where the rezoning is projected to result in a net fiscal benefit to the General Fund. State law adopted in the summer of 2014 allows IFD revenues to be spent on affordable housing, which was not previously the case. Like the potential change to how in-lieu fees could be spent (discussed above), the upside is that more of the wealth generated in the Plan Area would be spent in the Plan Area. The downside is that this revenue would otherwise go into the General Fund for such essential City services as fixing potholes and public health programs.

The Department's hope is that the Central SoMa Plan would generate so much value that there would be both a substantial increase to the General Fund and revenue available for an IFD in Central SoMa. The Planning Department is exploring this possibility with the Mayor's Budget Office, the Controller's Office, and the Office of Economic and Workforce Development, in the hope that this IFD money could go to building new affordable housing and/or acquiring and rehabilitating existing housing in the Plan Area.

Implementing Other Mechanisms

The Planning Department is exploring other mechanisms to increase affordable housing in the Plan Area, as follows:

- Developing affordable housing on City-owned land. This is part of an ongoing conversation about the City's public sites portfolio: http://www.sf-planning.org/index.aspx?page=3913.
- Expanding the off-site option to include acquiring and rehabilitating existing housing, including SoMa's low-income residential hotels.
- Allowing affordable housing developments that do not utilize their full zoned development capacity to sell that unused development capacity, similar to the Transferable Development Right (TDR) program used by historic building, and use that funding gained to support greater affordability within the Plan Area.
- Explore how to apply the State's density bonus law in the Plan Area. This law essentially permits additional development capacity for each additional affordable unit. The City is determining the ramifications in Plan Areas such as Central SoMa where there are no density limits. A proposed strategy is expected in early 2015.