Inclusionary Affordable Housing Program

Section 415 – Proposed Amendments
Informational Hearing
AFFORDABLE HOUSING CONTEXT

INCLUSIONARY HOUSING PROGRAM

ECONOMIC FEASIBILITY STUDY

PROPOSED AMENDMENTS

POLICY CONSIDERATIONS

IMPLEMENTATION CONSIDERATIONS
AFFORDABLE HOUSING CONTEXT

- Affordable Need
- Affordable Production

INCLUSIONARY HOUSING PROGRAM

ECONOMIC FEASIBILITY STUDY

PROPOSED AMENDMENTS

POLICY CONSIDERATIONS

IMPLEMENTATION CONSIDERATIONS
AFFORDABLE HOUSING NEED

WHO IS AFFORDABLE HOUSING FOR?

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Annual Income (Median)</th>
<th>AMI (Area Median Income) Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housekeeping Cleaner</td>
<td>$34,000</td>
<td>50%</td>
</tr>
<tr>
<td>Landscaper or Groundskeeper</td>
<td>$41,000</td>
<td>60%</td>
</tr>
<tr>
<td>Postal Clerk</td>
<td>$54,000</td>
<td>80%</td>
</tr>
<tr>
<td>Post Secondary Teacher</td>
<td>$68,000</td>
<td>100%</td>
</tr>
<tr>
<td>Electrician</td>
<td>$82,000</td>
<td>120%</td>
</tr>
</tbody>
</table>
AFFORDABLE HOUSING NEED

ARE WE MEETING THE NEED?

RHNA Targets and Production 1999-2014

- Very Low: 0-50% AMI
- Low: 50-80% AMI
- Moderate (80-120% AMI)
- Above Moderate (120%+ AMI)

Unmet RHNA
Production in Addition to RHNA
Production Toward RHNA Target
AFFORDABLE HOUSING NEED
WHAT HOUSEHOLDS ARE WE LOSING?

- Above Middle (140%+)
- Middle (120-140%)
- Moderate (80-120%)
- Low (50-80%)
- Very Low (50% or less)
## AFFORDABLE HOUSING PRODUCTION

<table>
<thead>
<tr>
<th>Units Existing Today</th>
<th>Low Income Units (60% AMI or below)</th>
<th>Moderate Income Units (~80-120% AMI)</th>
<th>Middle Income Units (&gt; 120% AMI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOHCD Portfolio</td>
<td>15,732</td>
<td>3,676</td>
<td>0</td>
</tr>
<tr>
<td>Public Housing (RAD &amp; HOPESF Affordable)</td>
<td>6,455</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>MOHCD Small Sites Program</td>
<td>137</td>
<td>137</td>
<td>0</td>
</tr>
<tr>
<td>Inclusionary Units</td>
<td>1,611</td>
<td>1,092</td>
<td>23</td>
</tr>
<tr>
<td>DALP Program</td>
<td>12</td>
<td>298</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23,810</strong></td>
<td><strong>5,203</strong></td>
<td><strong>45</strong></td>
</tr>
<tr>
<td><strong>Percentage</strong></td>
<td>81.9%</td>
<td>17.9%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>
AFFORDABLE HOUSING NEED

LEAST SERVED NEED

MOHCD 100% Affordable Projects and SFHA Public Housing

Least served need
AFFORDABLE HOUSING CONTEXT

INCLUSIONARY HOUSING PROGRAM

- History
- Legal Nexus
- Program Summary

ECONOMIC FEASIBILITY STUDY

PROPOSED AMENDMENTS

POLICY CONSIDERATIONS

IMPLEMENTATION CONSIDERATIONS
INCLUSIONARY PROGRAM

HOW DOES IT FIT IN?

- ≈20% of total funding for low-income affordable housing
- Provides on-site affordable units in real time, helping to create mixed-income neighborhoods
- Flexibility in who it can help – market dollars can be leveraged to fill gaps for households that City cannot fund
- Depends completely on market rate production – if development isn’t feasible, inclusionary units are forgone
INCLUSIONARY PROGRAM

PROGRAM HISTORY

- 2002 – Inclusionary Housing Ordinance
- 2007 – Nexus Study
- 2012 – Affordable Housing Trust Fund
- 2016 – Proposition C, revised Nexus Study
INCLUSIONARY PROGRAM
RESIDENTIAL NEXUS STUDY (2016)

- Establishes a legal nexus between market-rate development and the need for affordable housing

- Maximum legal requirement (2016):
  - Rental: 31.8%
  - Ownership: 37.6%

- Maximum feasible requirement determined by Controller’s Economic Feasibility Study (2016)
AFFORDABLE HOUSING CONTEXT

INCLUSIONARY HOUSING PROGRAM
- History
- Legal Nexus
- Program Summary

ECONOMIC FEASIBILITY STUDY

PROPOSED AMENDMENTS

POLICY CONSIDERATIONS

IMPLEMENTATION CONSIDERATIONS
# INCLUSIONARY PROGRAM - TODAY

## 1. APPLICATION

<table>
<thead>
<tr>
<th>Smaller Projects</th>
<th>Larger Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 – 24 units</td>
<td>25 or more units</td>
</tr>
</tbody>
</table>
# INCLUSIONARY PROGRAM - TODAY

## 2. ALTERNATIVES

<table>
<thead>
<tr>
<th></th>
<th>Smaller Projects</th>
<th>Larger Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable Housing Fee</td>
<td>20% of total units x per unit fee</td>
<td>33% of total units x per unit fee</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Off-Site Alternative</td>
<td>20% off-site (at low-income)</td>
<td>33% off-site (at low/moderate income)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-Site Alternative:</td>
<td>12% on-site (at low-income)</td>
<td>25% on-site (at low/moderate income)</td>
</tr>
</tbody>
</table>
### 3. INCOME LEVELS

<table>
<thead>
<tr>
<th></th>
<th>Smaller Projects</th>
<th>Larger Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low-income tier</strong></td>
<td>55% AMI (rental) / 80% AMI (owner)</td>
<td>55% AMI (rental) / 80% AMI (owner)</td>
</tr>
<tr>
<td><strong>Moderate-income tier</strong></td>
<td>N/A</td>
<td>100% AMI (rental) / 120% AMI (owner)</td>
</tr>
</tbody>
</table>
AFFORDABLE HOUSING CONTEXT

INCLUSIONARY HOUSING PROGRAM

ECONOMIC FEASIBILITY STUDY

Findings and Recommendations

PROPOSED AMENDMENTS

POLICY CONSIDERATIONS

IMPLEMENTATION CONSIDERATIONS
1. **MAXIMUM FEASIBLE REQUIREMENT**

<table>
<thead>
<tr>
<th></th>
<th>Maximum Feasible On-Site</th>
<th>Equivalent Fee or Off-Site</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental Projects</td>
<td>14% to 18%</td>
<td>18% to 23%</td>
</tr>
<tr>
<td>Ownership Projects</td>
<td>17% to 20%</td>
<td>25% to 28%</td>
</tr>
</tbody>
</table>

- Requirements above these amounts would be **not economically feasible** for **typical** projects
ECONOMIC FEASIBILITY STUDY

2. SCHEDULE OF ANNUAL INCREASES

➢ To allow land market to adjust to increased requirement
➢ 0.5% per year, for 15 years

3. AFFORDABLE HOUSING FEE UPDATE

➢ Fee methodology should be revisited to ensure it matches the actual cost to construct affordable units
ECONOMIC FEASIBILITY STUDY

4. STATE DENSITY BONUS LAW

- Use of State Bonus will impact Inclusionary Program
- Recommendations:
  - Cannot assume all projects will use State Bonus
  - Set inclusionary rates to be feasible for projects, assuming no use of State Bonus
  - Direct projects that use State Bonus to pay Affordable Housing Fee on Bonus units
- AFFORDABLE HOUSING CONTEXT
- INCLUSIONARY HOUSING PROGRAM
- ECONOMIC FEASIBILITY STUDY
- PROPOSED AMENDMENTS
- POLICY CONSIDERATIONS
- IMPLEMENTATION CONSIDERATIONS
PROPOSED AMENDMENTS - SUMMARY

- Application – No change
- Inclusionary Requirements
  - Increased on-site, off-site, and fee percentages
  - Different requirements for rental vs ownership
  - Changes to Affordable Housing Fee calculation and application
- Income Levels
  - New definitions of income targets (i.e. “low” “moderate” income)
  - Modified income targets (i.e. AMIs)
- Annual Increases
- State Density Bonus Law provisions
- Unit Mix Requirements
# PROPOSED AMENDMENTS

## 1. ALTERNATIVES

<table>
<thead>
<tr>
<th></th>
<th>Proposal A</th>
<th>Proposal B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Smaller Projects</strong></td>
<td>No change</td>
<td>No change</td>
</tr>
<tr>
<td><strong>Larger Projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affordable Housing Fee/</td>
<td><strong>Rental</strong> 30% (at low/moderate)</td>
<td><strong>Rental</strong> 23% (at average AMI)</td>
</tr>
<tr>
<td>Off-Site Alternative:</td>
<td><strong>Owner</strong> 33% (at low/moderate)</td>
<td><strong>Owner</strong> 28% (at average AMI)</td>
</tr>
<tr>
<td>On-Site Alternative:</td>
<td><strong>Rental</strong> 24% (at low/moderate)</td>
<td><strong>Rental</strong> 18% (at average AMI)</td>
</tr>
<tr>
<td></td>
<td><strong>Owner</strong> 27% (at low/moderate)</td>
<td><strong>Owner</strong> 20% (at average AMI)</td>
</tr>
</tbody>
</table>
## PROPOSED AMENDMENTS

### 2. INCOME LEVELS

<table>
<thead>
<tr>
<th></th>
<th>Proposal A</th>
<th>Proposal B</th>
</tr>
</thead>
</table>
| Smaller Projects: | Required Averages:  
- 55% AMI (rental)  
- 80% AMI (owner) | Requirement:  
- 80% AMI (rental)  
- 120% AMI (owner) |
| Larger Projects: | **Low-income tier:**  
- 55% AMI (rental)  
- 80% AMI (owner)  

*Moderate-income tier:*  
- 100% AMI (rental)  
- 120% AMI (owner) | Required Averages:  
- 80% AMI (rental)  
- 120% AMI (owner) |
### PROPOSED AMENDMENTS

#### 3. AFFORDABLE HOUSING FEE

<table>
<thead>
<tr>
<th></th>
<th>Proposal A</th>
<th>Proposal B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Application of Fee</strong></td>
<td>No change; per unit basis</td>
<td>Fee applied on a <strong>per gross square foot</strong> basis</td>
</tr>
<tr>
<td><strong>Calculation of Fee</strong></td>
<td>Calculate six separate fee amounts for low, mid, and high rise building types, for rental and for owner</td>
<td>Change to allow MOHCD to calculate fee based on actual cost to construct BMR units</td>
</tr>
</tbody>
</table>
## PROPOSED AMENDMENTS

### 4. ANNUAL INCREASES

<table>
<thead>
<tr>
<th>Proposal A</th>
<th>Proposal B</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 0.75% annual increase</td>
<td>• 0.5% annual increase</td>
</tr>
<tr>
<td>• Starting 2018</td>
<td>• Starting 2019</td>
</tr>
<tr>
<td>• Ending at legal nexus:</td>
<td>• Ending at specified maximum rates</td>
</tr>
<tr>
<td>• 31.8% (rental)</td>
<td>• 23% / 28% (rental, on/off-site)</td>
</tr>
<tr>
<td>• 37.6% (owner)</td>
<td>• 25% / 33% (owner, on/off-site)</td>
</tr>
<tr>
<td>• Sunset 2 years after entitlement</td>
<td>• Sunset 3 years after entitlement</td>
</tr>
</tbody>
</table>
## 5. STATE DENSITY BONUS LAW

<table>
<thead>
<tr>
<th>Proposal A</th>
<th>Proposal B</th>
</tr>
</thead>
</table>
| Additional Provisions | • “Reasonable documentation” required from applicants  
• Planning Department required to estimate value of Bonus  
• Planning Department required to produce annual report on use of Bonus. |
| On-Site projects would pay Affordable Housing Fee on Bonus units. |
### PROPOSED AMENDMENTS

#### 6. UNIT MIX REQUIREMENTS

<table>
<thead>
<tr>
<th>Proposal A</th>
<th>Proposal B</th>
</tr>
</thead>
<tbody>
<tr>
<td>For all On-Site Alternative projects:</td>
<td>For all non-Plan Area projects:</td>
</tr>
</tbody>
</table>
| • 40% two-bedrooms AND  
• 20% three-bedrooms | • 25% two-bedrooms OR  
• 10% three-bedrooms |
| of On-Site BMR units | of total units | *new Planning Code Section 207.7*
AFFORDABLE HOUSING CONTEXT

INCLUSIONARY HOUSING PROGRAM

ECONOMIC FEASIBILITY STUDY

PROPOSED AMENDMENTS

POLICY CONSIDERATIONS

IMPLEMENTATION CONSIDERATIONS
## POLICY CONSIDERATIONS

### 1. PROJECT FEASIBILITY

Would either proposal cause typical projects to become economically infeasible?

<table>
<thead>
<tr>
<th></th>
<th>Maximum Feasible</th>
<th>Proposal A*</th>
<th>Proposal B</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Site Alternative</td>
<td>Rental: 14% - 18%</td>
<td>Rental: 24%</td>
<td>Rental: 18%</td>
</tr>
<tr>
<td></td>
<td>Owner: 17% - 20%</td>
<td>Owner: 27%</td>
<td>Owner: 20%</td>
</tr>
<tr>
<td>Fee/Off-Site Alternative</td>
<td>Rental: 18% - 23%</td>
<td>Rental: 30%</td>
<td>Rental: 23%</td>
</tr>
<tr>
<td></td>
<td>Owner: 25% - 28%</td>
<td>Owner: 33%</td>
<td>Owner: 28%</td>
</tr>
</tbody>
</table>

*Proposal A rates require use of State Bonus to maintain feasibility*
# POLICY CONSIDERATIONS

## 2. REQUIREMENT ALTERNATIVES

Would either proposal pose a financial incentive to pay the Affordable Housing Fee vs. On-Site Alternative?

<table>
<thead>
<tr>
<th></th>
<th>Proposal A*</th>
<th>Proposal B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental Projects:</td>
<td>No incentive between 24% on-site or 30% fee</td>
<td>No incentive between 18% on-site or 23% fee</td>
</tr>
<tr>
<td>Owner Projects:</td>
<td>Incentive for 33% fee over 27% on-site</td>
<td>No incentive between 20% on-site or 28% fee</td>
</tr>
</tbody>
</table>

*Proposal A incentives may be impacted by use of State Bonus*
POLICY CONSIDERATIONS

3. HOUSING PRODUCTION & HOUSING COST

How will proposals impact housing production and cost?

- Both proposals: increase in BMRs, but a net decrease in housing production, causing increase in housing costs.

- Proposal A: higher requirements yield greater BMR production, but a larger net decrease in housing production and larger increase in housing costs.
## POLICY CONSIDERATIONS

### 4. HOUSEHOLDS SERVED

<table>
<thead>
<tr>
<th></th>
<th>Proposal A</th>
<th>Proposal B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smaller Projects:</td>
<td>Average Served:</td>
<td>Average Served:</td>
</tr>
<tr>
<td></td>
<td>• 55% AMI (rental)</td>
<td>• 80% AMI (rental)</td>
</tr>
<tr>
<td></td>
<td>• 80% AMI (owner)</td>
<td>• 120% AMI (owner)</td>
</tr>
<tr>
<td>Larger Projects:</td>
<td>Average Served:</td>
<td>Average Served:</td>
</tr>
<tr>
<td></td>
<td>• 72% AMI (rental)</td>
<td>• 80% AMI (rental)</td>
</tr>
<tr>
<td></td>
<td>• 98% AMI (owner)</td>
<td>• 120% AMI (owner)</td>
</tr>
</tbody>
</table>
POLICY CONSIDERATIONS

4. HOUSEHOLDS SERVED

PROPOSAL A SERVES:

- SMALL: 55% AMI
- LARGE: 72% AMI
- SMALL: 80% AMI
- LARGE: 98% AMI

PROPOSAL B SERVES:

- 80% AMI
- 120% AMI

Served by MOHCD 100% Affordable and SFHA Public Housing
Least served need
POLICY CONSIDERATIONS

6. AFFORDABLE HOUSING FEE – APPLICATION

How would the fee be applied to projects?

Proposal A:

- Projects would continue to pay a fee based on unit mix rather than actual unit size.

Proposal B:

- Projects would pay proportionally to actual unit size (gsf).
POLICY CONSIDERATIONS

6. AFFORDABLE HOUSING FEE – CALCULATION

How would the fee be calculated?

Proposal A:

- MOHCD would not be able to calculate the fee as directed.
- Revenue impact not clear.

Proposal B

- Fee to match real cost to construct affordable units
- Would generate greater revenue to Affordable Housing Fund than current method.
POLICY CONSIDERATIONS

7. STATE DENSITY BONUS LAW

Should Inclusionary Program assume that all projects will receive a Density Bonus?

Considerations:

- Construction type
- Environmental review
- Fee or Off-Site Alternatives
- Community context
- Site constraints
- Market absorption
- Few projects to date
POLICY CONSIDERATIONS
7. STATE DENSITY BONUS LAW

Would projects be eligible for the maximum 35% Bonus?

Maximum Bonus Available:

<table>
<thead>
<tr>
<th></th>
<th>Proposal A</th>
<th>Proposal B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rental:</td>
<td>23% - 27.5% max. bonus</td>
<td>23% max. bonus</td>
</tr>
<tr>
<td>Owner:</td>
<td>7% - 14% max. bonus</td>
<td>7% - 8% max. bonus</td>
</tr>
</tbody>
</table>
POLICY CONSIDERATIONS

7. STATE DENSITY BONUS LAW

How would the State Bonus Law impact each proposal?

Proposal A:

- Typical projects must receive maximum Bonus to be economically feasible.

Proposal B:

- Typical projects would be economically feasible, with or without maximum Bonus.
- Bonus projects would provide on-site units and contribute to Affordable Housing Fund.
8. PROPOSED “HOME SF” PROGRAM

How would “HOME SF” interact with each proposal?

Proposal A:

- Relies on State Density Bonus Law to increase density, moderate-income housing, family housing

Proposal B:

- Pairs with “HOME SF” to increase density, moderate-income housing, family housing, with specific provision to moderate building massing
POLICY CONSIDERATIONS

9. UNIT MIX REQUIREMENT

Would proposals produce more family housing?

- Most 2 and 3-bedroom units are not occupied by families
- Larger units are less affordable
- Families often choose smaller units to reduce cost
- Market produces 30% 2-bedrooms, 10% 3+ bedrooms
- Implementation challenges - comparability of units
- Family-friendly features beyond unit size
IMPLEMENTATION CONSIDERATIONS

- Designation of BMR units
  - AMI tiers, averages, and ranges
  - Dwelling mix requirements
- Condo conversion
  - Tracking
  - Conversion fee
- Affordable Housing Fee calculation
- Annual requirement increases
- “Grandfathering” and specific areas (UMUs)
THANK YOU

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