Inclusionary Affordable Housing Program

Section 415 – Proposed Amendments
Adoption Hearing
INCLUSIONARY HOUSING PROGRAM

ECONOMIC FEASIBILITY STUDY

IMPLEMENTATION CONSIDERATIONS

PROPOSED RECOMMENDATIONS
INCLUSIONARY HOUSING PROGRAM

ECONOMIC FEASIBILITY STUDY

IMPLEMENTATION CONSIDERATIONS

PROPOSED RECOMMENDATIONS
INCLUSIONARY PROGRAM

PROGRAM HISTORY

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

UNIT PRODUCTION

Above 60% AMI
- Redevelopment
- Inclusionary (Above 55% AMI)
- Inclusionary (55% AMI)
- RAD & HOPE-SF
- MOHCD Portfolio

Below 60% AMI

27,000 Built BMR Units in SF
INCLUSIONARY PROGRAM

WHO IS AFFORDABLE HOUSING FOR?

Occupation: Housekeeping Cleaner
Annual Income (Median): $40,350
AMI (Area Median Income) Category: 50%

Occupation: Landscaper or Groundskeeper
Annual Income (Median): $48,400
AMI (Area Median Income) Category: 60%

Occupation: Postal Clerk
Annual Income (Median): $64,550
AMI (Area Median Income) Category: 80%

Occupation: Elementary/Secondary School Teacher
Annual Income (Median): $72,650
AMI (Area Median Income) Category: 90%

Occupation: Police, Fire, Ambulance Dispatch
Annual Income (Median): $88,750
AMI (Area Median Income) Category: 110%

Occupation: Electrical Engineer
Annual Income (Median): $113,000
AMI (Area Median Income) Category: 140%
## 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>Low-income tier</td>
<td>55% AMI (rental) / 80% AMI (owner)</td>
<td>55% AMI (rental) / 80% AMI (owner)</td>
</tr>
<tr>
<td>Moderate-income tier</td>
<td>N/A</td>
<td>100% AMI (rental) / 120% AMI (owner)</td>
</tr>
</tbody>
</table>
ECONOMIC FEASIBILITY STUDY

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

- Land market needs time to adjust to increased requirements
- Suggested 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, with or without use of State Bonus

➢ Direct projects that use State Bonus to pay Affordable Housing Fee on Bonus units
PROPOSED AMENDMENTS - SUMMARY

- **Application** – No change (smaller, larger projects)

- **Inclusionary Requirements**
  - Increased fee, on-site, and off-site requirements
  - Rental vs ownership requirements
  - Affordable Housing Fee calculation and application

- **Income Levels**
  - Wider range of incomes served

- **Annual Increases**

- **State Density Bonus Law provisions**

- **Unit Mix Requirements**
IMPLEMENTATION CONSIDERATIONS

- Designation of Inclusionary Units
- Rental to Condominium Conversions
- “Grandfathering” and Area-Specific Requirements
- Schedule of Annual Increase to Requirements
- Affordable Housing Fee application
INCLUSIONARY HOUSING PROGRAM

ECONOMIC FEASIBILITY STUDY

PROPOSED AMENDMENTS

IMPLEMENTATION CONSIDERATIONS

PROPOSED RECOMMENDATIONS
## PROPOSED RECOMMENDATIONS

### 1. INCLUSIONARY REQUIREMENTS

<table>
<thead>
<tr>
<th></th>
<th>Rental</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Smaller Projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee or Off-Site</td>
<td>20% (no change)</td>
<td></td>
</tr>
<tr>
<td>On-Site</td>
<td>12% (no change)</td>
<td></td>
</tr>
<tr>
<td><strong>Larger Projects</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee or Off-Site</td>
<td>23%</td>
<td>28%</td>
</tr>
<tr>
<td>On-Site</td>
<td>18%</td>
<td>20%</td>
</tr>
</tbody>
</table>
PROPOSED RECOMMENDATIONS

2. SCHEDULE OF ANNUAL INCREASES

- Phase in increases to maintain development feasibility
- Apply to both smaller and larger projects
## PROPOSED RECOMMENDATIONS

### 2. SCHEDULE OF ANNUAL INCREASES

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Start Date</strong></td>
<td>24 months after effective date</td>
</tr>
<tr>
<td><strong>Increase Increment</strong></td>
<td>1.0% every two years</td>
</tr>
<tr>
<td><strong>Maximum Requirement</strong></td>
<td><em>Rental</em>: 23% / 28% (on/off-site)</td>
</tr>
<tr>
<td></td>
<td><em>Owner</em>: 25% / 33% (on/off-site)</td>
</tr>
<tr>
<td><strong>Determination and Sunset</strong></td>
<td>• Set at Environmental Application</td>
</tr>
<tr>
<td></td>
<td>• Sunset 3 years after entitlement, if no Construction Document</td>
</tr>
</tbody>
</table>

****
3. INCOME LEVELS

- Apply to the maximum rent or price of the unit
  - Household income eligibility will vary

- Designate units at 3 income tiers

- Target inclusionary units to the least served households
### PROPOSED RECOMMENDATIONS

#### 3. INCOME LEVELS

<table>
<thead>
<tr>
<th></th>
<th>Rental</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Smaller Projects</strong></td>
<td>1 Tier: 80% AMI</td>
<td>1 Tier: 110% AMI</td>
</tr>
<tr>
<td><strong>Larger Projects</strong></td>
<td>3 Tiers: 55%, 80%, 110% AMI</td>
<td>3 Tiers: 90%, 110%, 140% AMI</td>
</tr>
</tbody>
</table>

**Rental:**
- 55% - reinforce existing programs
- 80% - “stepping stone” tier
- 110% - not served by market

**Owner:**
- 90% - lowest feasible for buyers
- 110% - “stepping stone” tier
- 140% - not served by market
PROPOSED RECOMMENDATIONS

3. INCOME LEVELS - RENTAL ELIGIBILITY

- Minimum income: 2 x rent.
  - No imposition of AMI floor, which could deny otherwise-eligible applicants.

- Maximum income: 4 x rent (25% rent burden).
  - Rent burden metric (rather than AMI), avoids over-subsidization

- Result: more flexibility, more households served, and full coverage of the households in need!
PROPOSED RECOMMENDATIONS

55% AMI

35% AMI

55% AMI: Rent set here

25% rent burden

80% AMI

50% AMI

80% AMI: Rent set here

93% AMI, or max
25% rent burden

110% AMI

70% AMI

110% AMI: Rent set here

130% AMI

RENTAL ELIGIBILITY
Ownership eligibility includes applicant’s ability to qualify for a first mortgage and available down payment funds, so more moving parts!

Recommended income tiers – 90%, 110%, and 140% cover full spectrum of households unable to compete in the market

Result: more flexibility, more households served, and full coverage of the households pursuing affordable ownership!
PROPOSED RECOMMENDATIONS

90% AMI

75% AMI

90% AMI:
Sale Price here

100% AMI

110% AMI

140% AMI

110% AMI:
Sale Price here

120% AMI

120% AMI

140% AMI:
Rent set here

OWNERSHIP ELIGIBILITY

150% AMI
## PROPOSED RECOMMENDATIONS

### 4. AFFORDABLE HOUSING FEE

<table>
<thead>
<tr>
<th>Application of Fee</th>
<th>Apply fee on a per gross square foot basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calculation of Fee</td>
<td>Change to allow MOHCD to calculate fee based on actual cost to construct BMR units</td>
</tr>
</tbody>
</table>
PROPOSED RECOMMENDATIONS

4. AFFORDABLE HOUSING FEE

- MOHCD to calculate the fee based upon its costs of construction for typical affordable units in MOHCD’s portfolio

- No distinction in fees for different building types allows MOHCD to lend money cost-effectively and immediately upon receipt

- Fee assessment on a gross square foot basis provides proportionality for different market-rate projects
## PROPOSED RECOMMENDATIONS

### 4. AFFORDABLE HOUSING FEE – Gross Sq Ft Assessment

<table>
<thead>
<tr>
<th>FUNDING SOURCES</th>
<th>COST PER UNIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Total MOHCD Development Cost</td>
<td>$585,000</td>
</tr>
<tr>
<td>Fed/State/Private Funding Sources (avg)</td>
<td>$300,000</td>
</tr>
<tr>
<td><strong>Local Gap - Funding Need</strong></td>
<td><strong>$285,000</strong></td>
</tr>
<tr>
<td>Inclusionary Fee Rate: Ownership</td>
<td>28%</td>
</tr>
<tr>
<td>Fee Per Total Units ($285K x 28%)</td>
<td>$79,800</td>
</tr>
<tr>
<td>Average Market-Rate SF</td>
<td>1,025</td>
</tr>
<tr>
<td><strong>Per SF Inclusionary Cost</strong></td>
<td><strong>$78</strong></td>
</tr>
<tr>
<td><strong>TOTAL FEE, 100 UNITS (typical sf)</strong></td>
<td><strong>$7,995,000</strong></td>
</tr>
</tbody>
</table>
## PROPOSED RECOMMENDATIONS

### 4. AFFORDABLE HOUSING FEE - Gross Sq Ft Assessment

<table>
<thead>
<tr>
<th>%</th>
<th>Project Size</th>
<th>Fee Amount</th>
<th>Fee Basis</th>
<th>Fee Owed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Method</td>
<td>20%</td>
<td>100 Units</td>
<td>$318,000 (Avg/Unit)</td>
<td>Mix of 1-2BR Units</td>
</tr>
<tr>
<td>Proposed Method – Typical Units</td>
<td>28%</td>
<td>100 Units</td>
<td>$78/GSF</td>
<td>Average Unit Construction Size</td>
</tr>
<tr>
<td>Proposed Method – Luxury Units</td>
<td>28%</td>
<td>100 Units</td>
<td>$78/SF</td>
<td>Average 2,000 GSF unit *</td>
</tr>
</tbody>
</table>
PROPOSED RECOMMENDATIONS

5. STATE DENSITY BONUS LAW

- Cannot assume all projects will receive a maximum State Bonus
- Requirement should be feasible regardless of use of State Bonus
- Bonus requests should be tailored to San Francisco through a local program implementing the State Bonus Law
## PROPOSED RECOMMENDATIONS

### 5. STATE DENSITY BONUS LAW

<table>
<thead>
<tr>
<th>Affordable Housing Fee</th>
<th>Affordable Housing Fee should apply to bonus units</th>
</tr>
</thead>
</table>
| Additional Provisions | • Require “reasonable documentation” from applicants, consistent with state law, and local bonus program  
                          • Require Planning Department to present annual report on use of State Bonus. |
6. UNIT MIX REQUIREMENTS

Recommendation:
- Apply to total project units, not only inclusionary units

Considerations:
- Large unit requirement should be economically feasible
- Need for 2-bedroom and 3-bedroom units is supportable
7. “GRANDFATHERING” and AREA REQUIREMENTS

- “Grandfathered” increments should not exceed the feasible level:
  - Maintain on-site increments (i.e. 13%, 13.5%, 14.5%)
  - Remove fee and off-site increments (max: 23% rental, 28% owner)

- Area-specific requirements
  - Remove UMU district increments
  - Retain original UMU requirements, or citywide requirement, whichever is higher (e.g. small project at 17.6%, greater than 12%)

- Grandfathering of other provisions
  - All projects should be subject to provisions of Section 415, as amended, unless already entitled (e.g. AMIs, Conversion fee, etc)
PROPOSED RECOMMENDATIONS

- **Application** – No change (smaller, larger projects)
- **Inclusionary Requirements**
  - Feasible for typical projects
- **Income Levels**
  - Compliment existing programs, expand the reach
- **Annual Increases**
  - Give time to adjust, support increases over time
- **State Density Bonus Law provisions**
  - “Reasonable documentation” and reporting, fee on bonus units
- **Unit Mix Requirements**
  - Total project requirement, feasible and supportable
THANK YOU

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