

Inclusionary Affordable Housing Program

Section 415 – Proposed Amendments
Informational Hearing



SAN FRANCISCO
PLANNING DEPARTMENT

Planning Commission
March 16, 2017

- **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?



Occupation

**HOUSEKEEPING
CLEANER**

Annual Income (Median)

\$34,000

AMI (Area Median Income)
Category

50%



Occupation

**LANDSCAPER
OR GROUNDS-
KEEPER**

Annual Income (Median)

\$41,000

AMI (Area Median Income)
Category

60%



Occupation

**POSTAL
CLERK**

Annual Income (Median)

\$54,000

AMI (Area Median Income)
Category

80%



Occupation

**POST
SECONDARY
TEACHER**

Annual Income (Median)

\$68,000

AMI (Area Median Income)
Category

100%



Occupation

ELECTRICIAN

Annual Income (Median)

\$82,000

AMI (Area Median Income)
Category

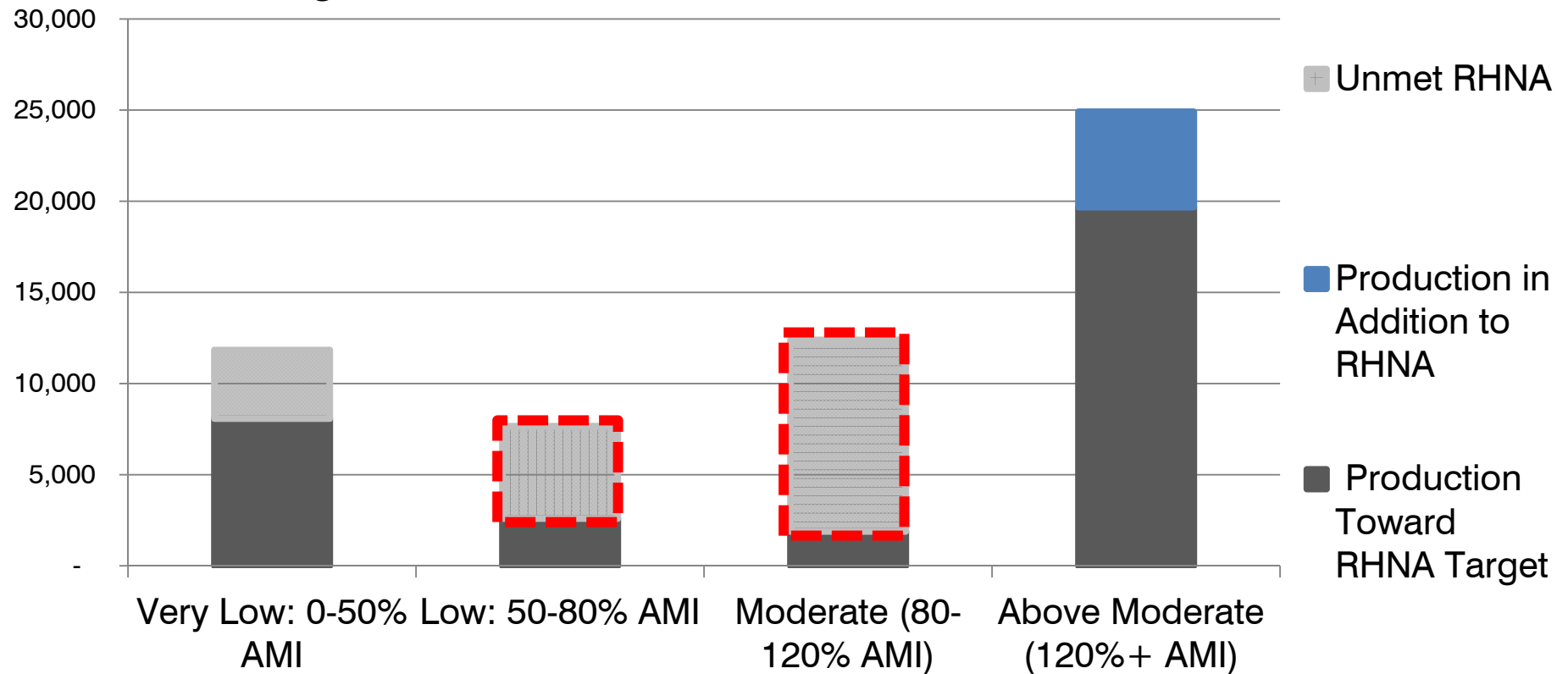
120%



AFFORDABLE HOUSING NEED

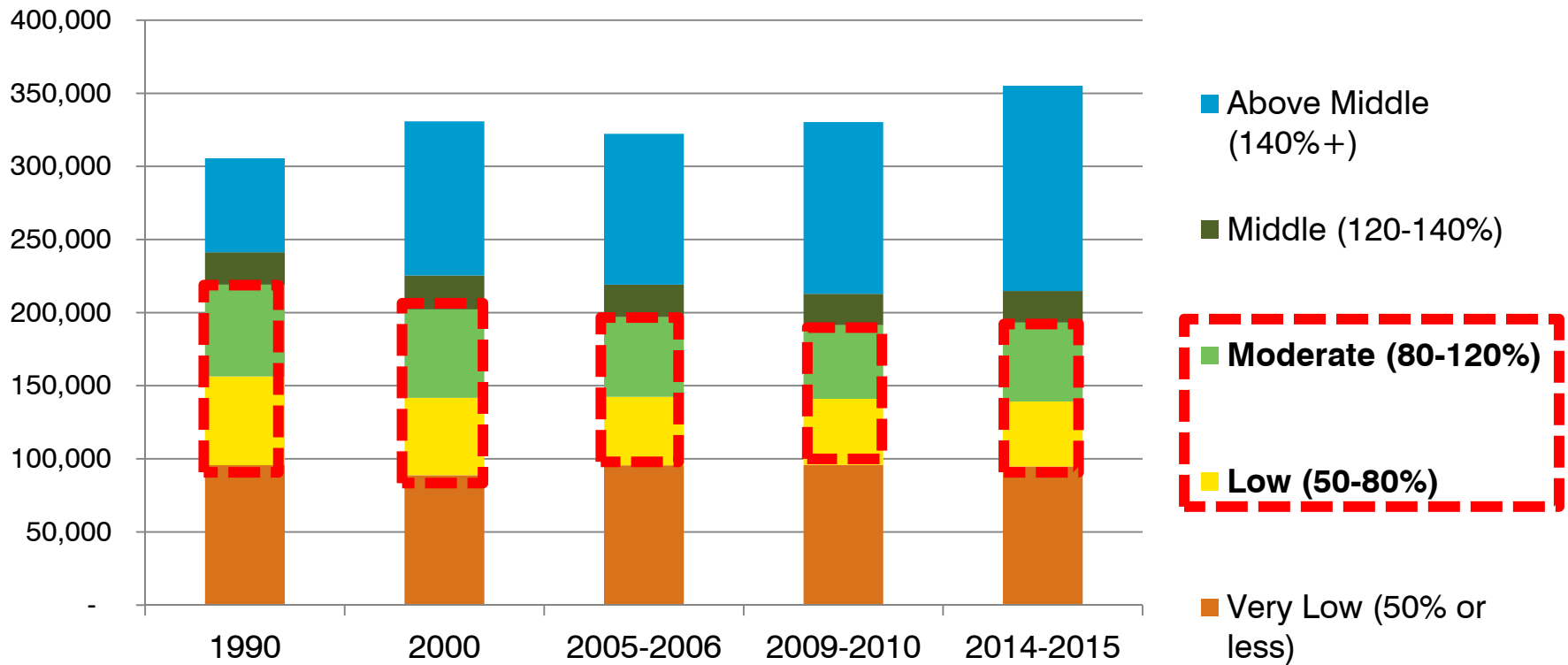
ARE WE MEETING THE NEED?

RHNA Targets and Production 1999-2014



AFFORDABLE HOUSING NEED

WHAT HOUSEHOLDS ARE WE LOSING?



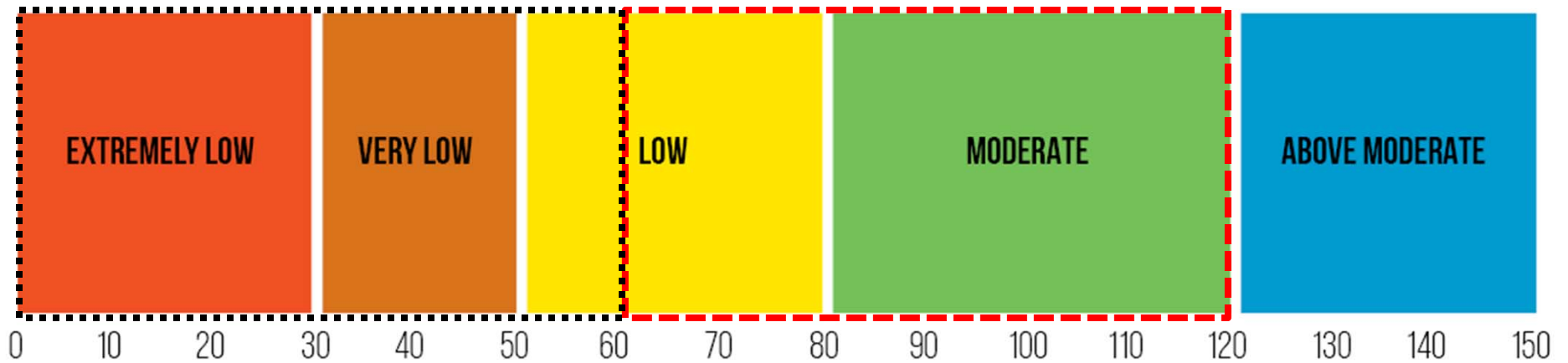
AFFORDABLE HOUSING PRODUCTION

Units Existing Today	Low Income Units (60% AMI or below)	Moderate Income Units (~80-120% AMI)	Middle Income Units (> 120% AMI)
MOHCD Portfolio	15,732	3,676	0
Public Housing (RAD & HOPESF Affordable)	6,455	0	0
MOHCD Small Sites Program		137	0
Inclusionary Units	1,611	1,092	23
DALP Program	12	298	22
Total	23,810	5,203	45
	81.9%	17.9%	0.2%



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
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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	Ownership
31.8%	37.6%

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



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INCLUSIONARY PROGRAM - TODAY

1. APPLICATION

Smaller Projects	Larger Projects
10 – 24 units	25 or more units



INCLUSIONARY PROGRAM - TODAY

2. ALTERNATIVES

	Smaller Projects	Larger Projects
Affordable Housing Fee	20% of total units x per unit fee	33% of total units x per unit fee
Off-Site Alternative	20% off-site (at low-income)	33% off-site (at low/moderate income)
On-Site Alternative:	12% on-site (at low-income)	25% on-site (at low/moderate income)

INCLUSIONARY PROGRAM - TODAY

3. INCOME LEVELS

	Smaller Projects	Larger Projects
Low-income tier	55% AMI (rental) / 80% AMI (owner)	55% AMI (rental) / 80% AMI (owner)
Moderate-income tier	N/A	100% AMI (rental) / 120% AMI (owner)



- AFFORDABLE HOUSING CONTEXT
- INCLUSIONARY HOUSING PROGRAM
- **ECONOMIC FEASIBILITY STUDY**
 - **Findings and Recommendations**
- PROPOSED AMENDMENTS
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ECONOMIC FEASIBILITY STUDY

1. MAXIMUM FEASIBLE REQUIREMENT

	Maximum Feasible On-Site	Equivalent Fee or Off-Site
Rental Projects	14% to 18%	18% to 23%
Ownership Projects	17% to 20%	25% to 28%

➤ *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



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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

	Proposal A	Proposal B
Smaller Projects	No change	No change
Larger Projects		
Affordable Housing Fee/ Off-Site Alternative:	<u>Rental</u> 30% (at low/moderate)	<u>Rental</u> 23% (at average AMI)
	<u>Owner</u> 33% (at low/moderate)	<u>Owner</u> 28% (at average AMI)
On-Site Alternative:	<u>Rental</u> 24% (at low/moderate)	<u>Rental</u> 18% (at average AMI)
	<u>Owner</u> 27% (at low/moderate)	<u>Owner</u> 20% (at average AMI)



PROPOSED AMENDMENTS

2. INCOME LEVELS

	Proposal A	Proposal B
Smaller Projects:	Required Averages: <ul style="list-style-type: none"> • 55% AMI (rental) • 80% AMI (owner) 	Requirement: <ul style="list-style-type: none"> • 80% AMI (rental) • 120% AMI (owner)
Larger Projects:	<i>Low-income tier:</i> <ul style="list-style-type: none"> • 55% AMI (rental) • 80% AMI (owner) <i>Moderate-income tier:</i> <ul style="list-style-type: none"> • 100% AMI (rental) • 120% AMI (owner) 	Required Averages: <ul style="list-style-type: none"> • 80% AMI (rental) • 120% AMI (owner)



PROPOSED AMENDMENTS

3. AFFORDABLE HOUSING FEE

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



PROPOSED AMENDMENTS

4. ANNUAL INCREASES

Proposal A	Proposal B
<ul style="list-style-type: none"> • 0.75% annual increase • Starting 2018 • Ending at legal nexus: <ul style="list-style-type: none"> • 31.8% (rental) • 37.6% (owner) • Sunset 2 years after entitlement 	<ul style="list-style-type: none"> • 0.5% annual increase • Starting 2019 • Ending at specified maximum rates <ul style="list-style-type: none"> • 23% / 28% (rental, on/off-site) • 25% / 33% (owner, on/off-site) • Sunset 3 years after entitlement



PROPOSED AMENDMENTS

5. STATE DENSITY BONUS LAW

	Proposal A	Proposal B
Additional Provisions	<ul style="list-style-type: none"> • “Reasonable documentation” required from applicants • Planning Department required to estimate value of Bonus • Planning Department required to produce annual report on use of Bonus. 	<ul style="list-style-type: none"> • On-Site projects would pay Affordable Housing Fee on Bonus units.



PROPOSED AMENDMENTS

6. UNIT MIX REQUIREMENTS

Proposal A	Proposal B
<p>For all On-Site Alternative projects:</p> <ul style="list-style-type: none">• 40% two-bedrooms AND• 20% three-bedrooms <p>of On-Site BMR units</p>	<p>For all non-Plan Area projects:</p> <ul style="list-style-type: none">• 25% two-bedrooms OR• 10% three-bedrooms <p>of total units</p> <p><i>*new Planning Code Section 207.7</i></p>



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POLICY CONSIDERATIONS

1. PROJECT FEASIBILITY

Would either proposal cause typical projects to become economically infeasible?

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

* 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?

	Proposal A*	Proposal B
Rental Projects:	No incentive between 24% on-site or 30% fee	No incentive between 18% on-site or 23% fee
Owner Projects:	Incentive for 33% fee over 27% on-site	No incentive between 20% on-site or 28% fee

** 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

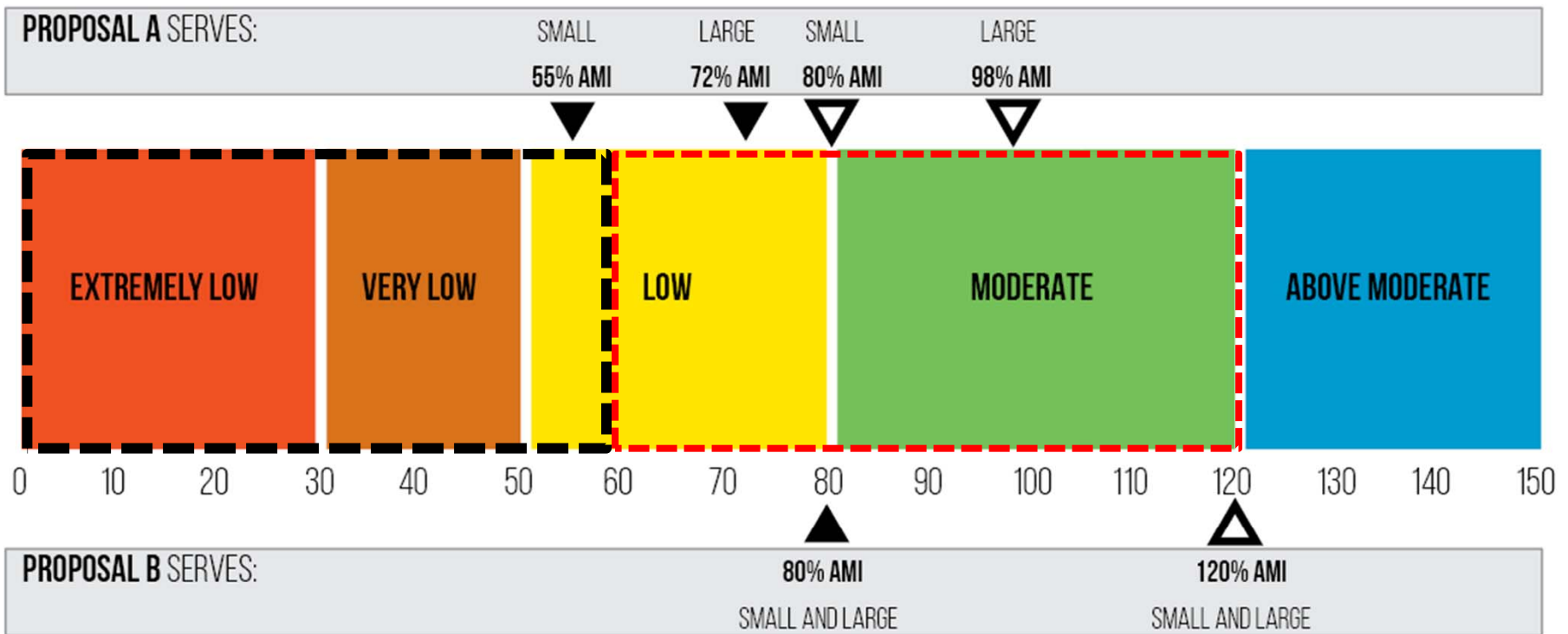
4. HOUSEHOLDS SERVED

	Proposal A	Proposal B
Smaller Projects:	Average Served: <ul style="list-style-type: none"> • 55% AMI (rental) • 80% AMI (owner) 	Average Served: <ul style="list-style-type: none"> • 80% AMI (rental) • 120% AMI (owner)
Larger Projects:	Average Served: <ul style="list-style-type: none"> • 72% AMI (rental) • 98% AMI (owner) 	Average Served: <ul style="list-style-type: none"> • 80% AMI (rental) • 120% AMI (owner)



POLICY CONSIDERATIONS

4. HOUSEHOLDS SERVED



- ▲ RENTAL PROJECTS
- △ OWNERSHIP PROJECTS
- ▤ 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:

	Proposal A	Proposal B
Rental:	23% - 27.5% max. bonus	23% max. bonus
Owner:	7% - 14% max. bonus	7% - 8% max. bonus



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.



POLICY CONSIDERATIONS

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



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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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