

Inclusionary Affordable Housing Program

Section 415 – Proposed Amendments
Adoption Hearing



SAN FRANCISCO
PLANNING DEPARTMENT

Planning Commission
April 27, 2017

- **INCLUSIONARY HOUSING PROGRAM**
- **ECONOMIC FEASIBILITY STUDY**
- **IMPLEMENTATION CONSIDERATIONS**
- **PROPOSED RECOMMENDATIONS**



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INCLUSIONARY PROGRAM

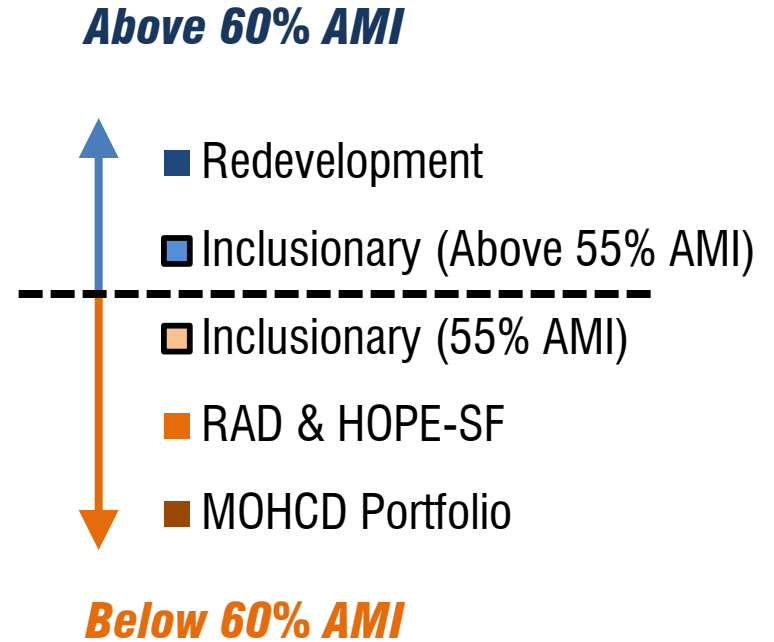
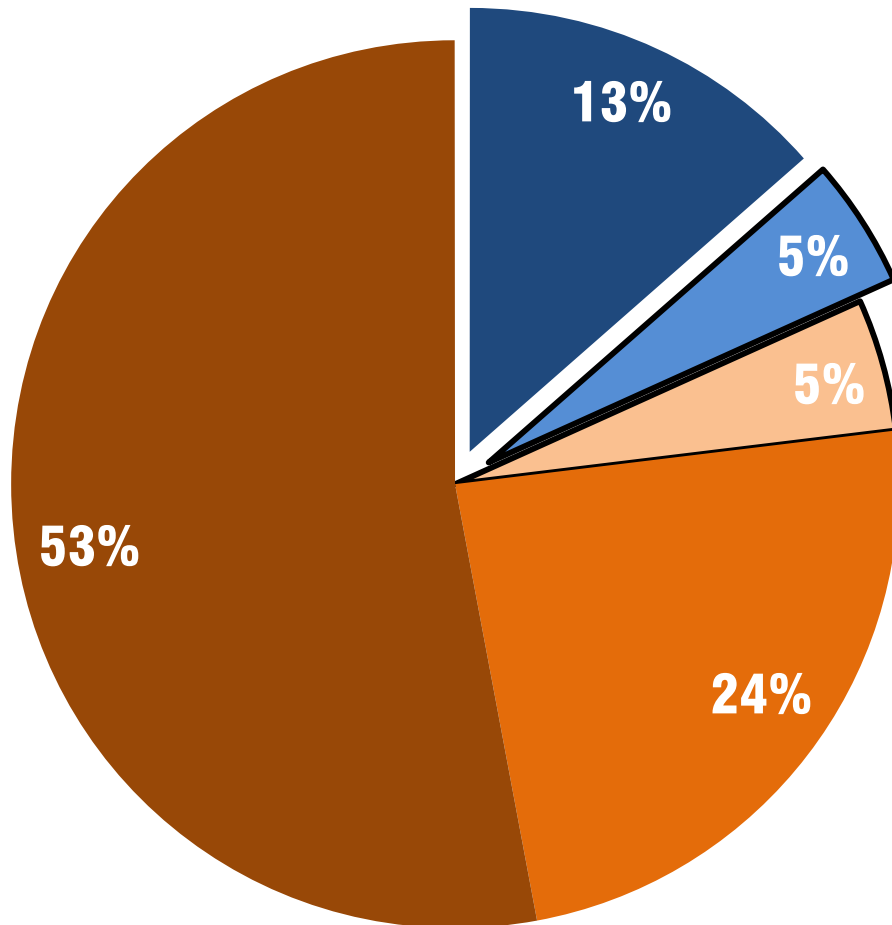
PROGRAM HISTORY

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



INCLUSIONARY PROGRAM

UNIT PRODUCTION



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 GROUNDS-
KEEPER

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

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)



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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

- 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



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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**



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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



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PROPOSED RECOMMENDATIONS

1. INCLUSIONARY REQUIREMENTS

	Rental	Owner
<u>Smaller Projects</u>		
Fee or Off-Site	20% (no change)	
On-Site	12% (no change)	
<u>Larger Projects</u>		
Fee or Off-Site	23%	28%
On-Site	18%	20%



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

Start Date	24 months after effective date
Increase Increment	1.0% every two years
Maximum Requirement	<u>Rental</u> : 23% / 28% (on/off-site) <u>Owner</u> : 25% / 33% (on/off-site)
Determination and Sunset	<ul style="list-style-type: none"> • Set at Environmental Application • Sunset 3 years after entitlement, if no Construction Document



PROPOSED RECOMMENDATIONS

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

	Rental	Owner
Smaller Projects	<u>1 Tier:</u> 80% AMI	<u>1 Tier:</u> 110% AMI
Larger Projects	<u>3 Tiers:</u> 55%, 80%, 110% AMI	<u>3 Tiers:</u> 90%, 110%, 140% AMI

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.

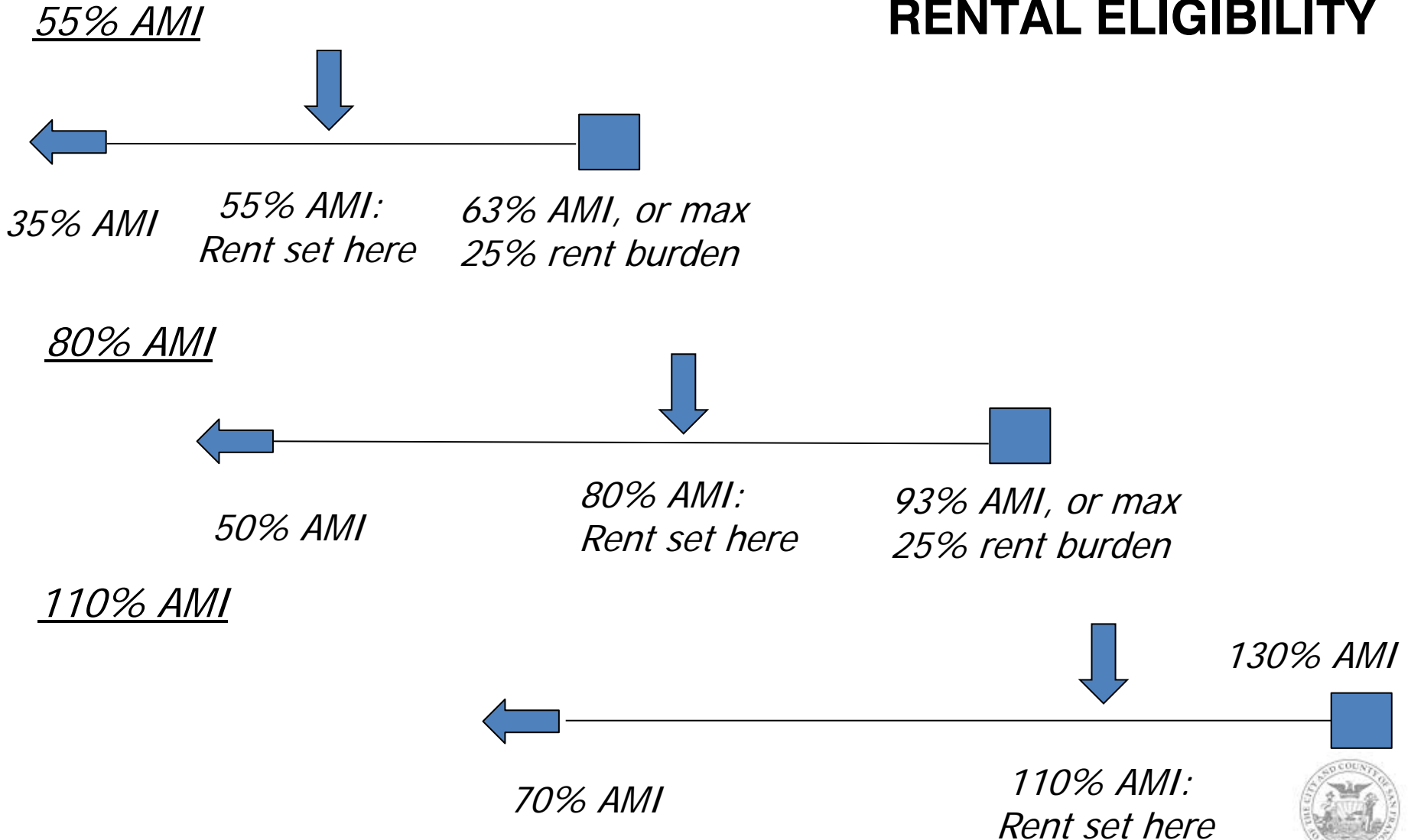
- Maximum income: 4 x rent (25% rent burden).
 - Rent burden metric (rather than AMI), avoids over-subsidization

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



PROPOSED RECOMMENDATIONS

RENTAL ELIGIBILITY



PROPOSED RECOMMENDATIONS

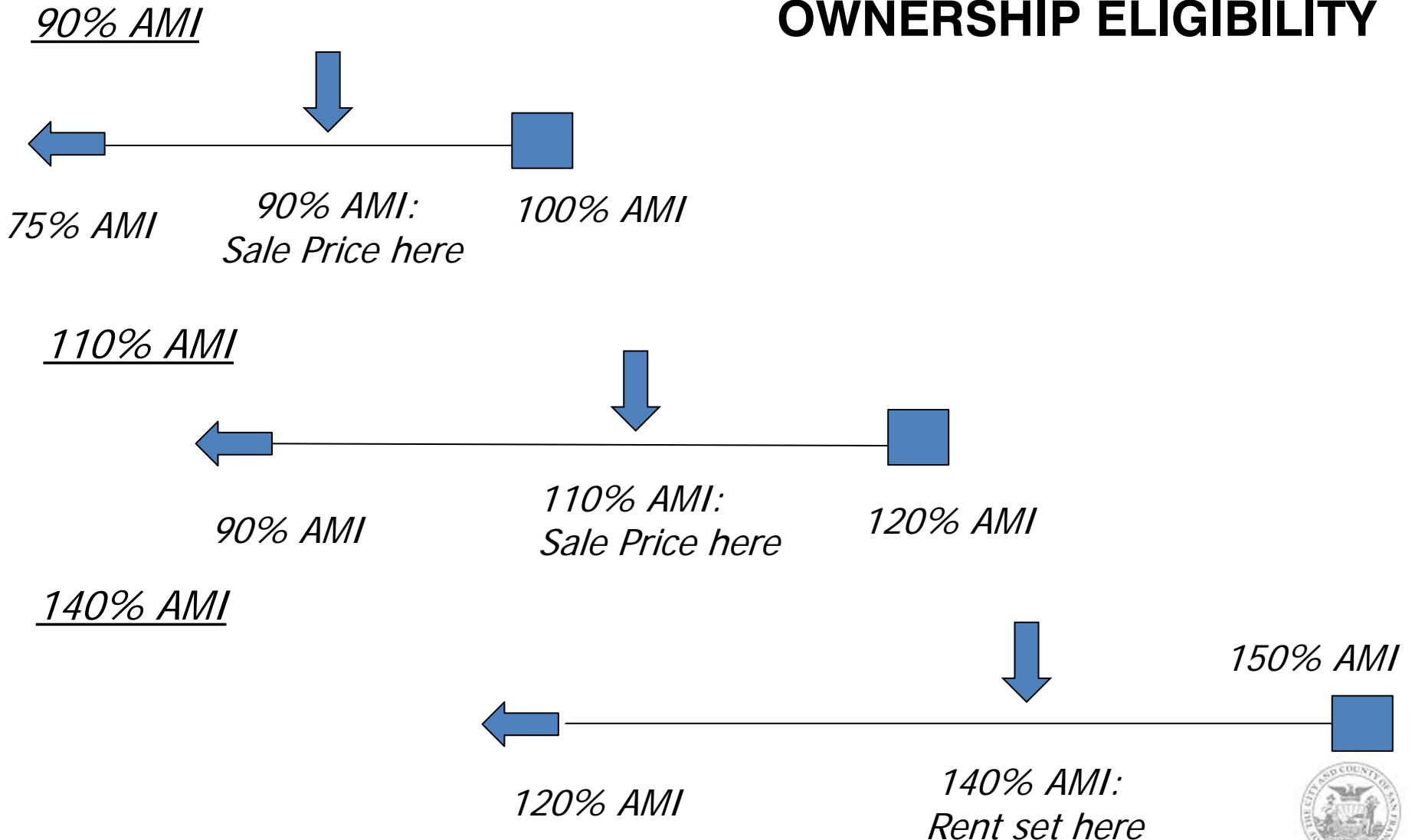
3. INCOME LEVELS - OWNERSHIP ELIGIBILITY

- 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

OWNERSHIP ELIGIBILITY



PROPOSED RECOMMENDATIONS

4. AFFORDABLE HOUSING FEE

Application of Fee	Apply fee on a <u>per gross square foot</u> basis
Calculation of Fee	Change to allow MOHCD to calculate fee based on <u>actual cost to construct</u> BMR units



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

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



PROPOSED RECOMMENDATIONS

4. AFFORDABLE HOUSING FEE - Gross Sq Ft Assessment

	%	Project Size	Fee Amount	Fee Basis	Fee Owed
Current Method	20%	100 Units	\$318,000 (Avg/Unit)	Mix of 1-2BR Units	\$6.36 M
Proposed Method – Typical Units	28%	100 Units	\$78/GSF	Average Unit Construction Size	\$7.995 M
Proposed Method – Luxury Units	28%	100 Units	\$78/SF	Average 2,000 GSF unit *	\$15.6 M



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

Affordable Housing Fee	Affordable Housing Fee should apply to bonus units
Additional Provisions	<ul style="list-style-type: none"> • 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.



PROPOSED RECOMMENDATIONS

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



PROPOSED RECOMMENDATIONS

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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