

THE CITY AND COUNTY OF SAN FRANCISCO
MAYOR EDWIN M. LEE

HOUSING WORK GROUP 2014

FINDINGS & RECOMMENDATIONS





December 10, 2014

To My Fellow San Franciscans:

In January of this year, I set forth a set of principles to guide my administration as we try to address housing affordability in our City. I pledged to protect our residents from eviction and displacement; to stabilize and protect at-risk rent-controlled units; to revitalize and rebuild our public housing; to increase our down payment loan programs and increase homeownership; and to build more housing of all kinds so that we have more housing options, and less competition for those homes.

Over the past six months, several of your fellow San Franciscans – the housing experts who know this issue best – gave their time and energy to translate these principles into a plan of action. Over one hundred of our tenant and housing advocates, affordable and market rate developers, realtors and property owners worked with staff from the Mayor's Office and our City Departments. They set aside divisions and ideologies to work together towards real solutions for housing, and they returned to me with an extensive set of strategies that will enable us to build and preserve 30,000 units by 2020.

These strategies are about preserving the affordability of our at-risk rent control housing and keeping those vulnerable residents in their homes, building or preserving more affordable housing in the next six years than at any point in our recent history, and creating more opportunities for our middle class to find an affordable home than ever before. They are aimed at a broad swath of San Franciscans – everyone from those facing homelessness to those who live in public housing to those middle class families that see too much of their pay check going towards housing costs. We all feel the squeeze of our affordable housing crisis.

The recommendations that follow provide a roadmap forward, but they are not the end of our effort. We need to work together to ensure that we have consensus across the City to turn these ideas into homes, and we need to continue that collaboration to develop even more solutions to housing San Franciscans. I look forward to working with all of San Francisco to meet our affordability challenge and implement these recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Edwin M. Lee".

Edwin M. Lee
Mayor

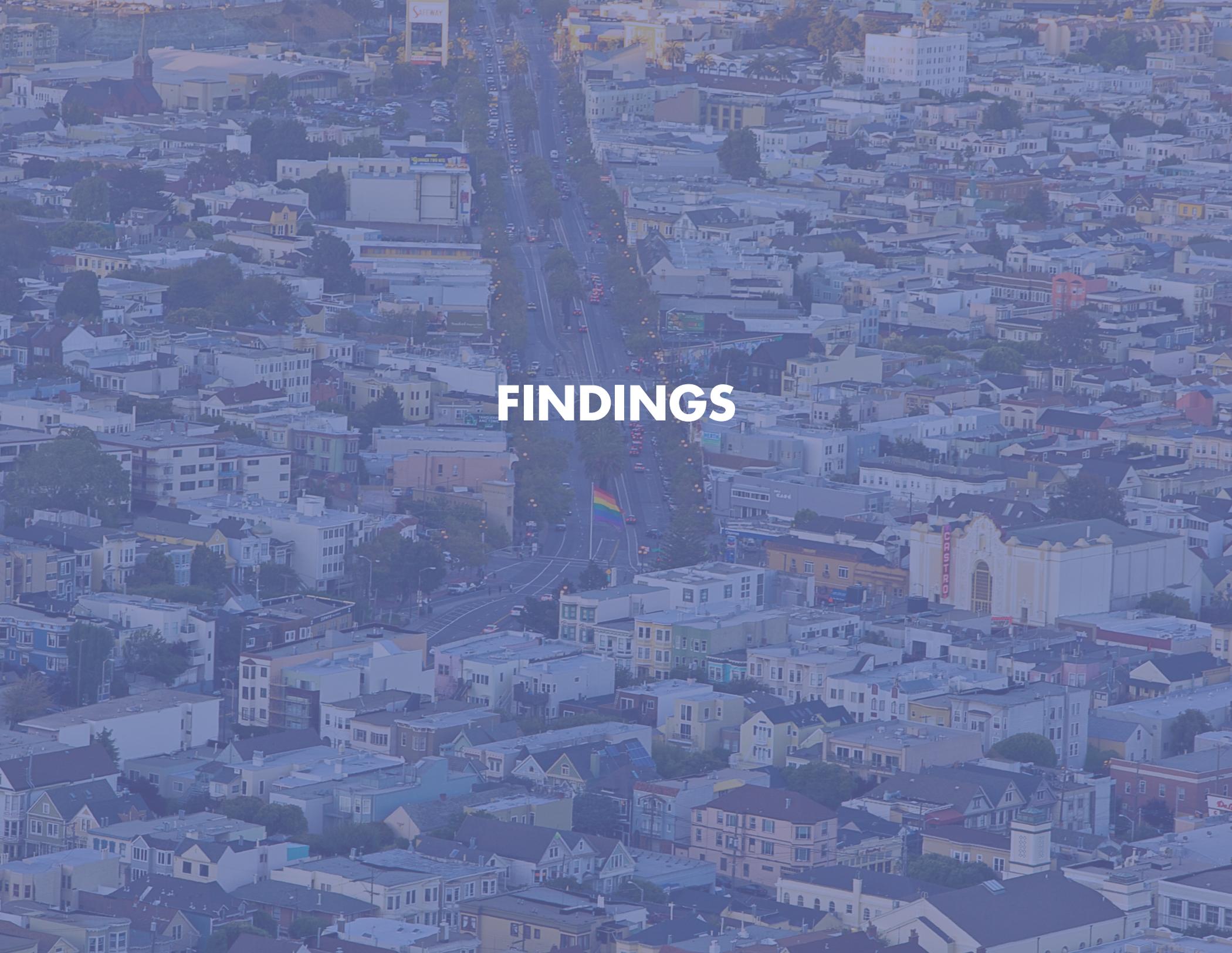
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FINDINGS

THE STATE OF SAN FRANCISCO'S HOUSING MARKET

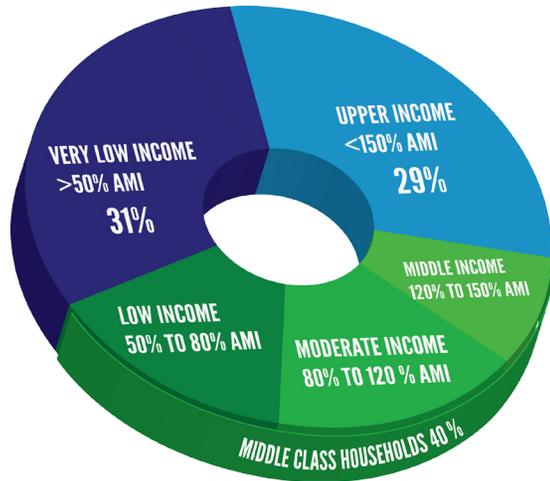
The Mayor's Office of Housing and Community Development (MOHCD) retained Seifel Consulting to analyze demographic and market trends in order to understand the current state of the housing market in San Francisco¹; to clarify the populations most affected by increased home prices and rents; to identify the housing affordability gap for San Francisco households at various income levels; and to better define housing needs and common barriers to all income groups. The analysis placed specific emphasis on the San Francisco middle class - those families who earn between 50-150% of the area median income or about \$44,000 to \$131,000 for a 3-person household (the typical household size for a 2-bedroom unit). Key findings from that analysis were:

- 31% of the City's households are considered very low income, earning less than 50% of the area median income, while 29% of the City's households are considered upper income, earning more than 150% of the area median income. Currently, the San Francisco middle class makes up approximately 40% of San Francisco households.
- These San Francisco middle class households cannot afford to rent or own a home at today's market rate and are also unable to qualify for most of the City's existing affordable housing programs.
- Over the last two decades, the percentage of the San Francisco middle class households has decreased, while those in the very low income (up to 50% AMI) and highest income levels (more than 150% AMI) have increased.
- While low income families earning 50% or less of median income have always found it difficult to afford market rents and have been priced out of homeownership in San Francisco, the rapid increase in rents over the past two years has made it much more difficult for San Francisco middle class households to afford living in the City.
- Yet the City continues to create middle class jobs, further exacerbating the housing shortage for this vital part of the City's economy. The Controller's Office credits the technology industry for creating two jobs in other industries, generally in this middle class income range, for every tech sector job.
- Housing affordability varies across and within neighborhoods, with the Bayview, Excelsior, Visitacion Valley and the Civic Center area currently most affordable. Rents are highest in the northeastern neighborhoods like the Marina, North Beach and the Financial District, while home prices are high across the City.
- San Francisco's current market rents are unaffordable to all households earning up to 120% of median income (AMI), and to larger households up to the 150% AMI category.
- The average rent for a new two-bedroom is \$4214 as of July 2014. Only households earning more than 150% of AMI, or 131,000 annually, can afford this rent.
- Existing public resources to support affordable housing are focused at below 60% of AMI (though in some cases they can extend up to 120% of AMI). Because of the limited ability to leverage funds over 60% of AMI, local sources are rarely focused toward workforce housing.
- San Francisco is currently the most expensive place to buy housing in the Bay Area. In the past two years, home prices in San Francisco have increased by about 31%, or approximately \$200,000, widening the affordability gap for homebuyers.
- The typical price for a 2-bedroom home in San Francisco has increased to \$950,000 as of July 2014. Only households earning \$215,000 (~245% AMI) or above could afford this home.

¹ The full report can be found on the San Francisco Mayor's Office of Housing and Community Development website, at this link:
<http://sf-moh.org/modules/showdocument.aspx?documentid=8295>

SAN FRANCISCO HOUSING GOALS

Given the ever-increasing demand for housing in the City, and the price escalation affecting San Francisco's residents, Mayor Lee set forth ambitious housing targets for 2020:



- Construction of 30,000 new and rehabilitated homes throughout the City;
- At least one-third of those permanently affordable to very low, low and moderate income families; and
- The majority of those within financial reach of working, middle class San Franciscans.

Almost one year in, the City is well on its way to achieving those goals. By September 30th of this year, over 3,500 new units had been completed, with 27% (951 units) constructed as permanently affordable to low income families. Another 265 additional affordable units are expected to come online by the year's end.

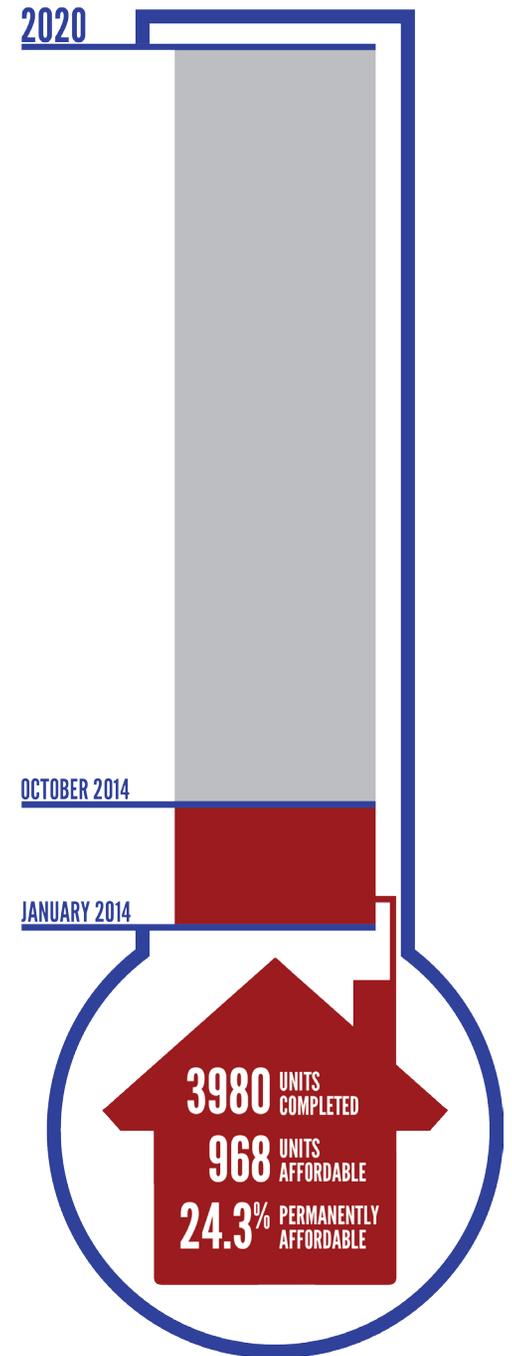
ACHIEVING THE GOALS

Looking ahead, there are already over 30,000 total housing units in the City's pipeline that are likely to be completed by 2020². Over 10,000 of these are already fully approved, and either moving towards construction or under construction. Another 8,500 of these have already achieved planning approval, and are expected to begin construction in the next two years. 12,100 more units are currently pursuing planning approval in order to move forward towards construction.

Many of those planned units will be coming online in lower cost areas of the City, such as the Hunter's Point Shipyard in the Bayview, the Schlage Lock development in Visitacion Valley, and Parkmerced in the Sunset District. Within those three developments alone, the City will see up to 2,500 units affordable to middle class households by 2020.

Thanks in part to the adoption of the Housing Trust Fund in 2012, as well as significant revenue from development fees, the City's General Fund, and various state and federal sources, the City has a funded pipeline of over 6,000 newly constructed affordable units, serving low and moderate income families, as well as over 4,000 rehabilitated public housing units, that will come online by 2020.

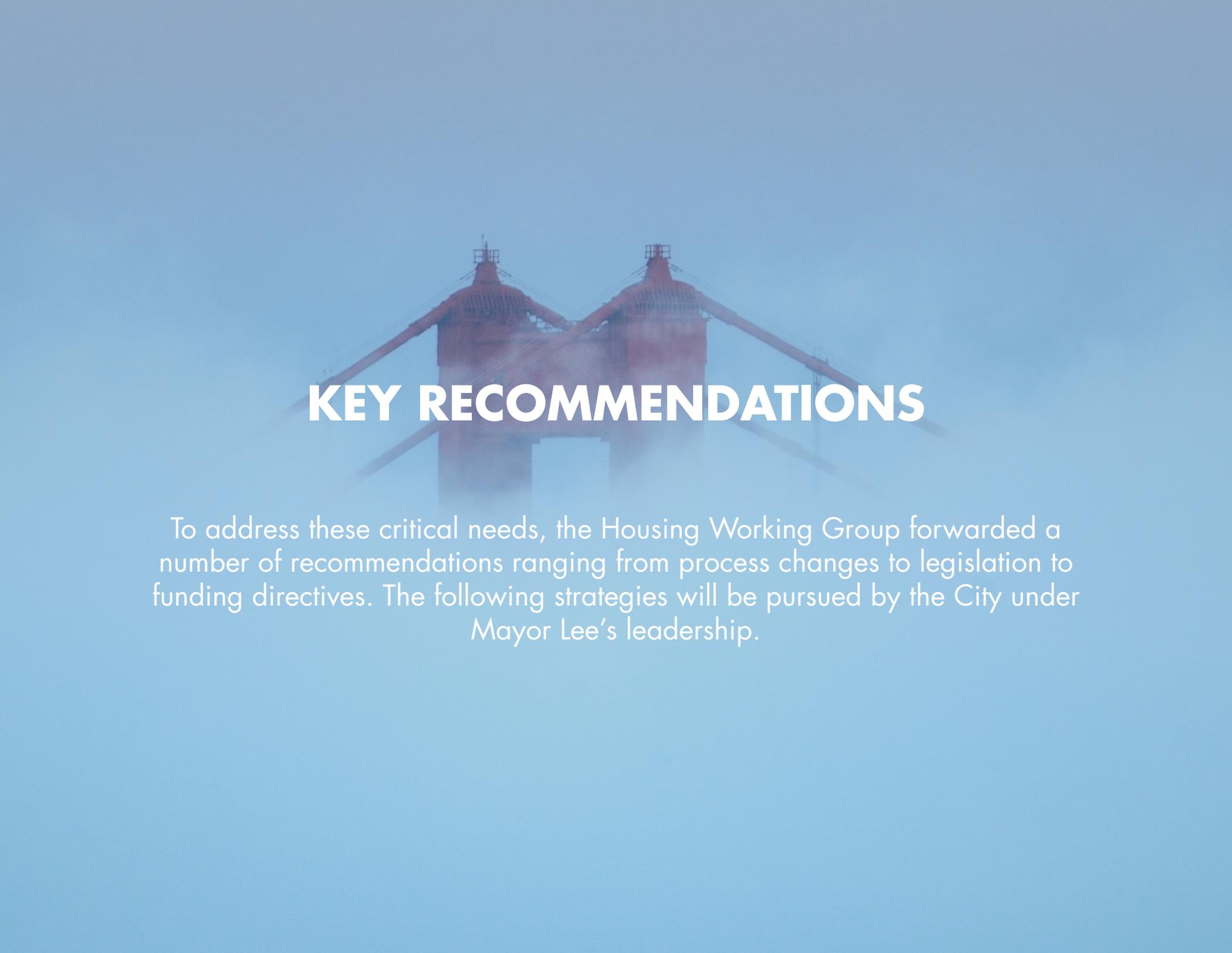
² There are 50,7000 total units in the City's pipeline as of July 2014. However, many of those units are part of multi-year, phased projects such as Parkmerced, Hunter's Point Shipyard, Treasure Island and Schlage Lock, and are expected to come online after 2020.



CRITICAL HOUSING NEEDS

Despite the progress made towards the City's housing goals, far more affordable housing is needed. The Housing Working Group identified the following critical housing needs:

- **Affordable Housing Preservation.** The City has traditionally held a stock of housing that is “naturally affordable” due to rent control, location and other factors. Yet real estate speculation and rising rents have contributed to displacement of households who are unable to afford higher housing costs. By acquiring housing at-risk of conversion from rent control, the City can support the stabilization and preservation of existing affordable housing for a range of incomes from low to moderate income.
- **Increased Low-Income Housing Production.** While the City has a robust pipeline of affordable housing sites and projects, it needs to plan beyond the 2020 targets. Having flexible funding for acquisition of sites for future construction of affordable housing (ranging from family housing to transitional aged youth to supportive housing for the formerly homeless), would enable non-profits to take advantages of downturns in the market, and quickly acquire land when it becomes available, expanding the City's long-term pipeline of low- and moderate-income affordable units.
- **Production of Affordable Workforce Housing.** One of the most difficult types of housing to fund is workforce housing above the 60% AMI level. The Low Income Housing Tax Credit (LIHTC), which can cover up to half of the cost of construction of an affordable unit, cannot be applied to housing above 60% AMI; other subsidies often have similar cut-off levels. That means that the majority of the cost burden of constructing affordable units for higher income households falls on local sources, making them more expensive to construct than units at lower income levels. Yet providing housing affordable to working, moderate and middle income households is critical to retaining San Francisco's economic diversity.
- **Public Housing Rehabilitation:** San Francisco's dilapidated public housing stock, which serves its lowest income and neediest families, is in dire need of significant investment. Given limited federal funding to support public housing, and a commitment to build new affordable housing, the City faces a significant challenge to preserve and rebuild these units.



KEY RECOMMENDATIONS

To address these critical needs, the Housing Working Group forwarded a number of recommendations ranging from process changes to legislation to funding directives. The following strategies will be pursued by the City under Mayor Lee's leadership.

#1 PRESERVE AFFORDABILITY IN OUR NEIGHBORHOODS

Every San Franciscan deserves to be “housing secure”. When people are forced to move frequently, are doubled up for economic reasons, or are overcrowded, their emotional stability, ability to work, and even their health, suffers. And as the value of homes in San Francisco increases, more and more residents fear rent increase or even eviction. The crisis means that we have to take action at the neighborhood level, and protect people’s homes in real time. The Working Group recommends that the City:

- *Create a scaled-up Affordable Housing Preservation/Neighborhood Stabilization Program.* Buildings that are occupied by low to moderate income tenants throughout San Francisco are particularly susceptible to market pressure resulting in property sales, increased evictions and rising tenant rents. Earlier this year, the Mayor’s Office of Housing and Community Development launched a Small Sites Program (SSP), to fund the purchase of already-occupied small rental buildings in order to preserve unit affordability over the long-term. The City should explore increasing both the funding and the parameters of this program, to allow for more buildings to be rehabilitated and permanently stabilized as deed-restricted for households up to 120% of AMI.
- *Encourage new development to preserve buildings with tenants at risk of displacement:* The City’s Inclusionary Housing Program requires developers to contribute to new affordable housing alongside their market-rate development. An option that allows them to acquire existing rent controlled units and convert them to permanently affordable, deed-restricted units would make an immediate impact in the neighborhood, offering tangible benefits to at-risk residents. The City should work with stakeholders to craft a pilot program that would allow acquisition and rehabilitation of existing units as an option for limited trial period, with specific recommendations available in spring 2015.
- *Maintain commitments to rebuild public housing.* While San Francisco has been a leader in preserving and protecting its locally owned subsidized affordable housing, the public housing stock managed by the federal government has not fared so well, and requires our immediate attention. The City is committed to expending public affordable housing dollars to ensure those units serving our neediest families do not fall beyond repair, resulting in an even greater affordable housing need. The City should commit matching dollars to leverage all available state and federal resources to maximize the value of its investment, and ensure no net loss of the public housing stock.

#2 DIRECT MORE FUNDING, FOR THE CONSTRUCTION OF AFFORDABLE HOUSING

When San Franciscans adopted the Housing Trust Fund two years ago, they put in place the most aggressive local funding stream for affordable housing in California. But given the steady decline of federal and state funding for affordable housing, the loss of Redevelopment, and the increasing cost of producing affordable housing, it became clear to Working Group members that our existing funding streams are still not enough. Some ways to increase funding could include:

- *Increase public revenue dedicated to affordable housing:* San Francisco's Housing Trust Fund, adopted by voters in 2012, provides 30 years of direct, consistent and reliable local funding for affordable housing. But given today's housing pressures and rising income disparity, it isn't enough. City offices should explore the most effective local funding tools for affordable housing stabilization and development, including:
 - *General Obligation Bonds:* The Capital Planning and Budget Offices should examine the potential for General Obligation bonds for affordable housing development & rehabilitation over the next several years. Such a mechanism would need to be coordinated with the City's other needs, particularly those slated for near-term GO Bonds, and should be calibrated within the City's current debt limits, so that benefits can be delivered to residents without increasing long-term property tax rates above 2006 levels.
 - *Tax Increment:* The City should examine how best to use tax increment financing to provide affordable housing to a range of income levels, using tools such as the Enhanced Infrastructure Financing District (eIFD) recently enabled by the state as well as further leveraging existing dedicated increments that remain from redevelopment projects.
- *Launch a Housing Affordability Fund, via a public private partnership:* To leverage limited public dollars for housing, the City should pursue the development of an off balance-sheet Housing Affordability Fund that could bring in financial, employer, and other sources of capital as part of a "senior" revolving facility to support efficient and timely site acquisition. Depending on the structure and terms, the Fund could resource 1) preservation of existing at-risk affordable rental buildings, and 2) land acquisition for new affordable housing production. With a seed investment of public and philanthropic funding to provide a "top loss" layer of funding, such a Fund would target leveraging a public and philanthropic investment at a rate of 4:1 or higher, similar to what was achieved by the New York City Housing Acquisition Fund, Los Angeles New Generation Fund, and the Bay Area Transit Oriented Affordable Housing (TOAH) Fund.

#3 ENABLE A WIDER BAND OF HOUSEHOLDS TO BENEFIT FROM AFFORDABLE HOUSING

While the affordability gap in San Francisco continues to grow, resulting in households well above median income unable to afford market rents or home prices, almost all public resources to support affordable housing are focused towards low income households, earning below 60% of median. City agencies should create legislation and programs to expand affordable housing to working, moderate and middle income households.

- *Allow developers to “Dial Up” their inclusionary requirements:* The City’s Inclusionary Program allows developers to provide a percentage of units on-site at rents affordable to fixed income levels: rental units are directed towards households earning 55% of AMI, and ownership units are directed at households earning 90% AM. This leaves out a wide swath of higher income renters and potential homeowners who still cannot afford the market. Staff should develop a new option within the program that allows projects to “dial up” their on-site or off-site inclusionary requirement by providing a greater percentage or number of BMR units at a higher AMI target, with ownership units priced up to 120% of AMI and rental units priced up to 90% of AMI.
- *Pilot a series of experimental Mixed Income Projects:* Currently, the majority of new residential buildings produced provide mostly market rate units, with 12-15% of their units affordable. Expanding this concept of mixed income housing further, by adding a band of moderate or middle income housing, can provide more units for working San Franciscans within a single income-diverse building. Public officials should examine opportunities to use land owned by the City as a laboratory for mixed income projects, leveraging land costs in order to maximize the number of affordable units on the site. A sample mix could include 20% deeply affordable units, 30% moderate income units, and the remainder unrestricted to provide cross-subsidy.
- *Expand the reach of Down Payment Assistance Loan (DALP) Programs:* The majority of the City’s down payment assistance programs are limited to households at or below 120% of the area median, with higher allowances for local teachers and first responders. While a gap to homeownership exists far beyond this income cap, limited public funds have made a broader reaching program difficult. However, these loans have demonstrated strong returns over time, making them a secure investment. Private sector partnership in this revolving loan fund could enable expansion of the Loan Program to more middle class San Franciscans, while providing returns to investors. The City should pursue partnerships with socially motivated investors to enable expansion of the program.

#4 ACHIEVE GREATER AFFORDABILITY IN NEW DEVELOPMENT

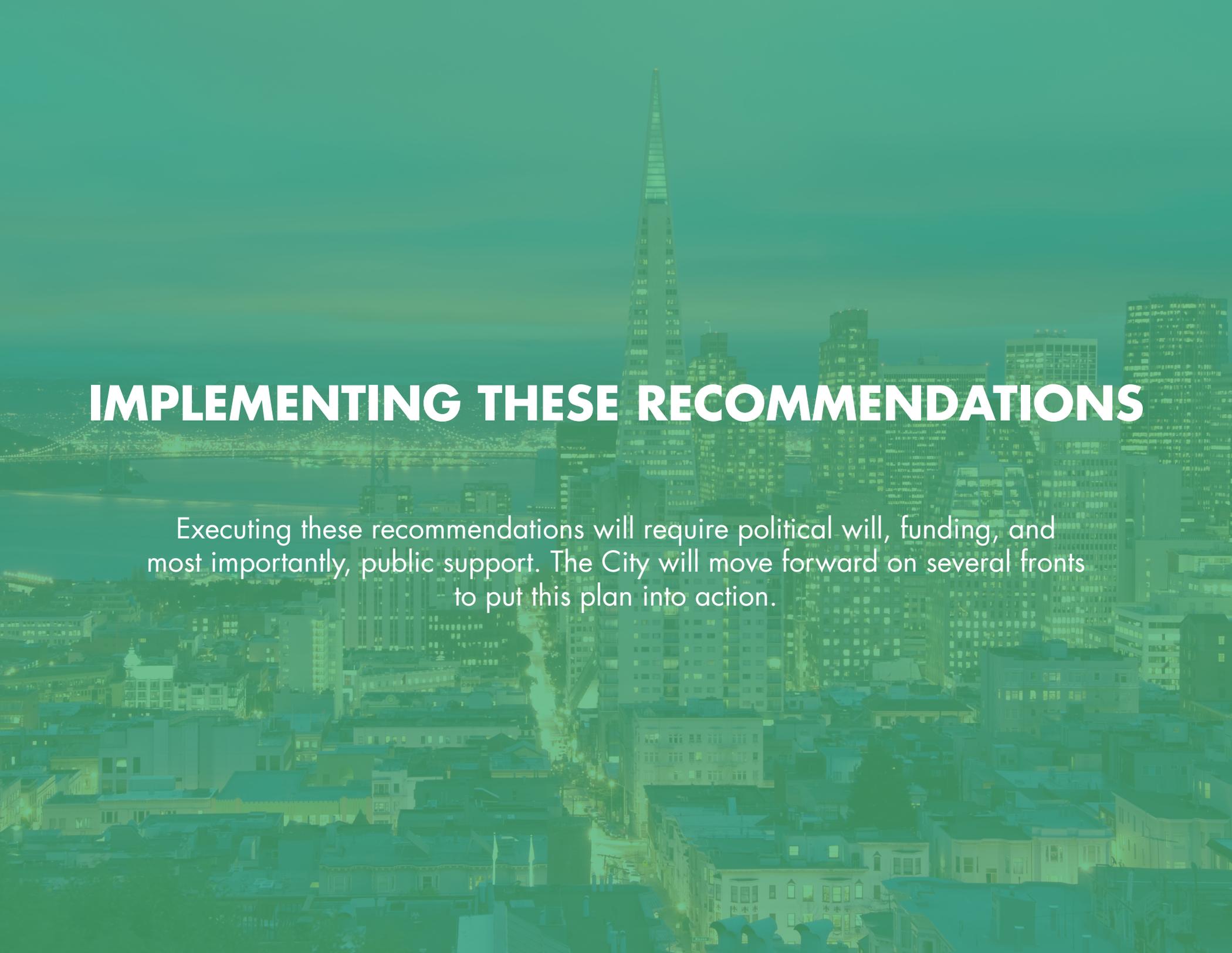
Through its mandatory Inclusionary Housing Program, San Francisco already requires all developers of multifamily housing to include a share of affordable housing in new developments, either through on-site provision, off-site development of affordable housing, or through payment of a fee to the City's Affordable Housing Fund. But we need to find ways to encourage developers to do more – to directly provide a greater number of affordable units in their projects, or to create more affordable options in the neighborhoods they are building in.

- *Create a locally supported Density Bonus Program:* Under state law, housing projects with five or more units that provide onsite affordable housing are eligible for density bonuses and other planning code concessions. After working with the neighborhoods to understand how the state law could best be applied locally, the Planning Department should develop a local version of this density bonus for multifamily neighborhoods to encourage housing projects to build more affordable housing onsite. The program should give credit for production of affordable housing to households up to 120% of AMI, and explore expanding it to households above that level.
- *Use publicly owned sites for affordable and mixed income housing:* Land constraints in San Francisco mean that there are few sites left, with a high price tag attached. We must use our remaining public sites wisely. The City should aggressively pursue a portfolio of public sites for affordable and mixed income housing. In its first phase, the program should identify at least four sites of 50+ units that can be used to develop housing for low, moderate and middle income households, including no less than two sites that would be 100% affordable to households making up to 60% of AMI and at least one site that would include housing affordable to higher income households making up to 120% of area median income, and could serve as a replicable model for mixed income housing.
- *Encourage private developers to provide sites for affordable housing, and help fund their construction:* The off-site development option of the City's Inclusionary Program give developers the option to provide a greater number of affordable units on a nearby site. Yet difficult rules have meant that few have used this option. The City should develop amendments to the program that should enhance the attractiveness of this option, thereby providing more affordable units. Potential changes could allow projects to: (1) dedicate a certain square footage of their principal project rather than a direct unit count requirement; (2) be completed within one to two years of the principal project; and (3) extend beyond the current one mile boundary if within ¼ mile or within the neighborhood, upon review and approval of MOHCD. Off-site units using government financing to build rental units through a non-profit developer would no longer be held to a higher percentage; and certain unit standards, such as those for unit size, could be amended to reflect the standard practices of affordable housing development.
- *Set high targets for affordability with any rezonings.* Public efforts to create more capacity for housing can also be a way to increase the amount of affordable housing provided. The City has a few rezonings already under development; when the City rezones these areas to add additional development potential, it will not only create capacity for needed housing and services, but value for property owners and developers. That value can be harnessed to fund increased affordability, as well as infrastructure or related improvements, in planned areas. The Central SOMA Plan, currently under development and environmental review by the Planning Department, should work to achieve at least thirty-three percent of all new residential units created through changes in zoning, as permanently affordable.

#5 LOOK FOR EFFICIENCIES IN OUR PERMITTING AND APPROVAL SYSTEMS

While opinions on the merits of San Francisco’s rigorous review process for housing vary, most parties agree that it should be equitable, cost effective, and follow the same good government principles that we apply elsewhere in the City. When a project sits unreviewed for great lengths of time, no one benefits– not the community who wants to review it, the builder who wants to begin construction, or the residents who might one day reside in its homes. And when regulations become duplicative or outdated, they eat up staff time without any discernable effect on outcome. That burden on staff time means that needed housing projects, even affordable housing projects, face significant delays that add time and cost. We need to examine how we can be more nimble in producing housing, especially affordable housing, so that we can deliver homes to the households who need them, faster.

- *Make better use of the time a project spends awaiting planner assignment & building review.* Currently, development projects spend time in an increasingly long line before even beginning the approval process at our public agencies. Staff is already placing projects with high affordability at the front of that queue, and assigning project managers to those projects as soon as reasonably possible, to help manage them through the various stages of approval. Staff at permitting departments should also encourage project sponsors to make better use of their time in the queue, by giving them template scopes that enable project sponsors to begin environmental review studies as soon as possible.
- *Reduce redundancies in the development approval process, while still ensuring significant input and deliberate review.* Duplicative processes don’t do anyone any favors- they place extra burdens on staff, add unnecessary time to project approvals, and require extra effort from community members interested in the outcome. To increase efficiencies in approvals, staff should examine where duplicative requirements or analyses take place – for example, when a project is required to hold two publicly noticed hearings on the same topic, or when environmental impacts have already been analyzed through prior planning documents – and suggest changes that maintain thoughtful evaluation of development proposals and the public’s ability to participate in the approval process.
- *Provide real-time approval information to developers and neighbors.* In keeping with the goal of increasing housing, the City’s permitting agencies have committed to tracking and reporting progress of housing projects through the public review and approval process. To provide both internal tracking of progress towards entitlement of housing projects, as well as open information about project’s approval progress to the public, the Planning Department should develop a web-based tool that will convey progress in the number of housing units under review, entitled, permitted and under construction; and combine that with a proactive tracking and management program to ensure approvals are completed in a timely fashion.

An aerial photograph of San Francisco, California, featuring the Transamerica Pyramid and the Golden Gate Bridge. The image is overlaid with a semi-transparent teal color. The text is centered over the image.

IMPLEMENTING THESE RECOMMENDATIONS

Executing these recommendations will require political will, funding, and most importantly, public support. The City will move forward on several fronts to put this plan into action.

LEGISLATION

A number of the recommendations noted above require legislative action to implement. To implement amendments to the City's Inclusionary Program, the proposed Density Bonus, and other legislative amendments, City staff will finalize legislative details with stakeholders to arrive at consensus proposals, initiate public outreach and discussion on those proposals, and introduce legislation in early 2015.

FUNDING

The recommendations above propose potential sources of capital, as well as potential funding vehicles through which these resources could be deployed. Over the next 5 months, City staff will work with the Board of Supervisors, housing advocates and neighborhood representatives to transform these potential sources and uses into a Housing Action and Neighborhood Stabilization Plan that contains specific sources of capital, use priorities for that revenue, and funding vehicles to be pursued, to be completed by March 2015.

CARRYING OUT OUR COMMITMENTS

In November 2014, the San Francisco voters affirmed their commitment to keeping San Francisco affordable, by adopting Proposition K, the "Additional Affordable Housing Policy," which affirmed the Mayor's housing goals. It furthermore committed to City to striving for at least 33% of new housing in areas that are rezoned to provide more residential development is affordable to low- and moderate-income households; to creating a funding strategy for a range of affordability needs, and to reviewing of the ratio of affordable to market-rate housing production as the City grows.

WORKING WITH REGION, STATE AND FEDERAL GOVERNMENT

San Francisco, can, and will, act to create more affordable housing. But we cannot solve the affordability crisis on our own. We need other cities in the Bay Area to step up their efforts towards housing production, and to embrace affordable housing wherever possible. We'll need our partners in Silicon Valley to accept housing growth as well as job growth. And while the state and federal government continue to play a decreasing role in providing resources for affordable housing, we continue to need their support. We will ask our state and federal partners to help us with our efforts by directing needed resources towards our key priorities, such as funding for the Rental Assistance Demonstration Program to rehabilitate public housing.